

Entering Recession Zone

6 August 2020

Key Takeaways

- ◆ The economy contracted by 5.32% YoY in 2Q20, as Indonesia followed several other countries into technical recession
- ◆ BI cut benchmark rate for the second month in a row by 25bps to 4.00%
- ◆ Indonesia had a deflation of 0.1% in July 2020, which amounted to YoY position at 1.54%
- ◆ Trade activities began to pick up, marked by sharp increases in Non-oil and gas export import
- ◆ JCI continued its rebound since March with a 4.97% monthly gain in July
- ◆ 8 out of 9 sectors increased in July, led by Agriculture and Mining Sectors. While the Property & Construction was the sole loser in the month.
- ◆ Foreign net sell amount slowed down to IDR 3,736 Bn from IDR 4,544 Bn in the previous month
- ◆ BBCA remained the top stock with Net Foreign Buy after posting a relatively solid 2Q20 result. On the other hand, foreign sell-offs continued in TLKM with July net sell of IDR 1,039 Bn

Looking Ahead

- ◆ The Government and Bank Indonesia have entered into a Burden Sharing scheme to finance 2020 budget deficit, estimated at 6.3% of GDP. The scheme will have some positive and negative consequences to the economy.
- ◆ The race for Covid-19 vaccine continues with two dozens candidates entering human trials. Vaccine related progress has proven to have significant effects in the market.
- ◆ China reported an economic growth of 3.2% YoY in 2Q20, which was one of the few positive signals for future recovery as most economies contracted during the period

On our Watchlist

- ◆ Strong 2Q20 Results
KLBF, ASII, SMGR, ERAA
- ◆ Defensive Plays
GGRM, UNVR
- ◆ Mid-caps with Strong Balance Sheet
HOKI, MIKA
- ◆ Opportunities from Sell-offs in Telco
TLKM, EXCL

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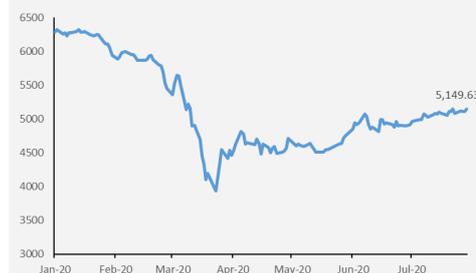
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JCI as of 31 July 2020

Close	5,149
Monthly Change (%)	4.97%
PER (x)	18.01x
Market Cap (Tn)	5.968
Monthly Foreign Trx (Bn)	(3,736)

JCI Movement (YTD)



Indonesia Macroeconomic Data

Indicators	Last	Prev.
Real GDP YoY	-5.32%	2.97%
Current Acc (USD bn)	(3.92)	(8.08)
FDI (USD bn)	4.51	4.60
Cons. Confidence*	83.80	77.80
BI-7 Day Rev Repo Rate	4.00%	4.25%
FX Reserve (USD bn)	131.70	130.50
Trade Balance (USD bn)	1.27	2.09
Inflation YoY	1.96%	2.19%

Indonesia Follows other Countries into Recession Territory

Indonesia economy contracted by 5.32% YoY in 2Q20 or 4.19% QoQ, as the full effects of Covid-19 were felt the most during that period. Globally, several other countries have also reported contractions for 2 consecutive quarters which put them into recession territory. Some of these economies are: United States, Eurozone, Hong Kong, South Korea, and Singapore. However, a more encouraging news came from China which had an economic growth of 3.2% YoY in 2Q20 which marked a successful rebound after the disease started to hit the country in late 2019.

Figure 1: Indonesia Real GDP (% YoY)

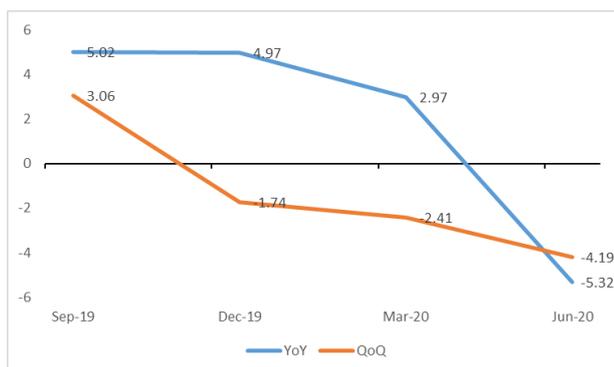
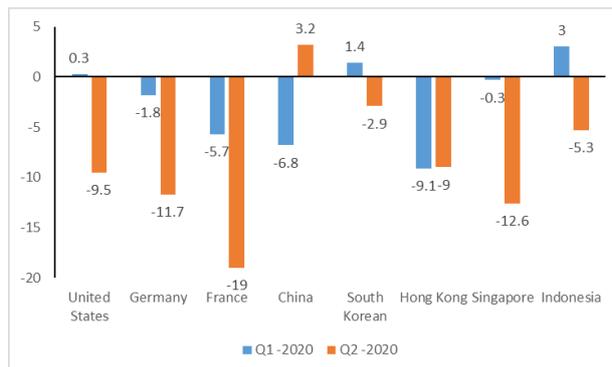


Figure 2: Real GDP by Country



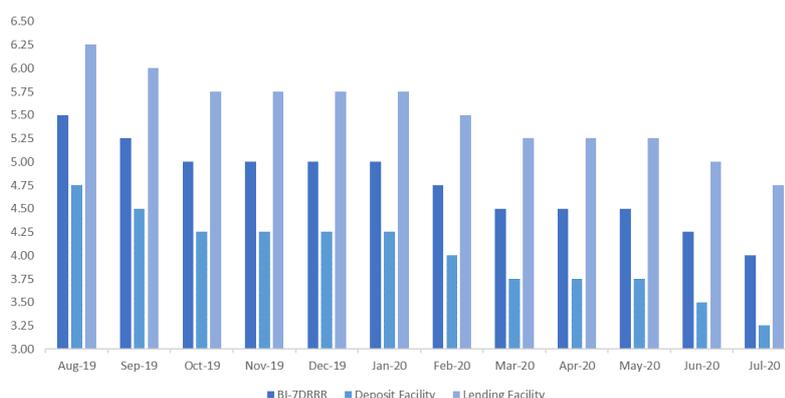
Sources: Bloomberg, NHKSI Research

BI Cut Rates for the fourth time in 2020

After its July Board of Governors meeting, Bank Indonesia once again cut BI-7DRRR by 25bps to 4.00 percent, a second rate cut in as many months and fourth time this year. The slow world economy recovery was one of the deciding factors for the cut. The central bank also predicted low yearly inflation with YoY position of 1.96%, so further steps are needed to direct the inflation number to the set target. In July 2020, Indonesia had a deflation of 0.1% which brought YoY inflation at 1.54%.

Meanwhile, trade activities also picked up in June, denoted by a 15.73% increase in Non-oil and gas export. At the same time, total import also grew by 27.56% MoM, with the largest contributions came from the machinery and mechanical tools of USD432.4 million (up by 33.98% MoM). Throughout 2020, Indonesia has booked total Export and Import of USD 76.41 Bn and USD 70.9 Bn respectively.

Figure 3: BI Benchmark Rates



Source: Bloomberg

JCI Gained as Almost All Sectors Increased

JCI booked a monthly increase of 4.97% to 5,149 in July 2020. The gain was achieved as 8 out the 9 sectors increased, with Agriculture and Mining sectors led the movement with 12.54% and 11.95% respectively. The Property sector was the only segment which booked a lower monthly value with -6.69% decrease.

Foreign investors continued to pull funds out of the stock market, although their total net sell value had slowed down. In July 2020, foreigners had a net sell of IDR 3,736 Bn or down from June net sell of IDR 4,544 Bn. BBCA still topped the most bought stocks by foreigners with IDR 1,415 Bn. Gold producer MDKA came in at 2nd place amidst its inclusion to the benchmark LQ45 index and rising gold price. On the other hand, TLKM continued to be the most sold off stock with IDR 1,039 Bn in net foreign sell. SOE banks, BBRI and BBNI followed behind in second and third place with IDR 767 Bn and IDR 484 Bn respectively.

Figure 4: Sectoral Movement

Sector	30 June	31 July	Change
Consumer Goods	1800.90	1886.05	4.73%
Mining	1223.95	1370.18	11.95%
Agriculture	1027.52	1156.32	12.54%
Finance	1059.59	1134.93	7.11%
Miscellaneous Industry	867.12	921.73	6.30%
Infrastructure, Utilities, & Transportation	883.18	904.06	2.36%
Basic Industry	721.67	752.08	4.21%
Trade, Services, & Investment	606.14	622.99	2.78%
Construction, Property, & Real Estate	322.04	300.50	-6.69%
JCI	4905.39	5149.63	4.98%

Source: Bloomberg

Figure 5: Monthly Foreign Transactions



Sources: IDX Statistic, NHKSI Research

Figure 6: Top Foreign Transactions July 2020

Net Foreign Buy	
Stock	Value (IDR Mn)
BBCA	1,415,698
MDKA	391,954
BMRI	328,047
UNVR	254,812
CPIN	223,811
ASII	197,535
ICBP	162,209
PTBA	93,165
INCO	67,840
BNLI	55,052

Net Foreign Sell	
Stock	Value (IDR Mn)
TLKM	-1,039,348
BBRI	-767,359
BBNI	-484,544
KLBF	-379,052
MNCN	-357,707
TOWR	-322,546
INTP	-283,378
TKIM	-228,645
BSDE	-219,515
SMRA	-192,741

Source: NHKSI Research

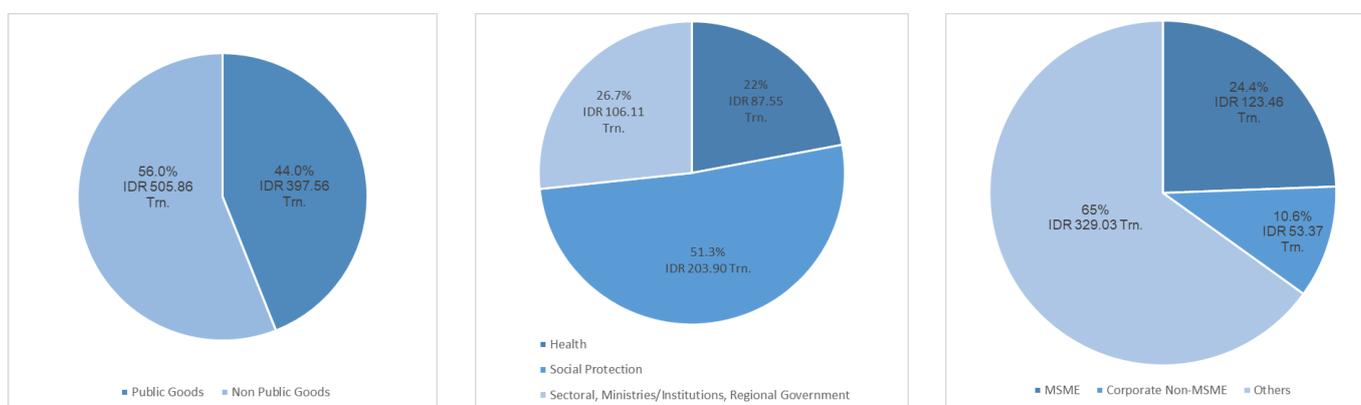
Burden Sharing Scheme : The Pros and Cons

The government and Bank Indonesia have agreed into a burden sharing scheme in order to finance this year's budget deficit which estimated to be 6,3% on GDP. This will also increase the level of government debt to around 35 percent. Under the scheme, BI will bear the interest cost of IDR 397.56 trillion debt for Public Goods financing by purchasing government issued SBN. As for non-Public Goods expenditure (private and MSME), BI will also bear some of the interest cost for the IDR 123.4 Tn debt in the form of bond issuance. On the other hand, the government will assume the rest of the IDR 328.87 Tn budgeted for other non-public goods.

The scheme has raised several pros and cons regarding its consequences in the future. On one hand, this will create a positive tone that Indonesia will be able to finance its debt through SBN while also reducing supply risks for domestic bond market. However, many are concerns that this policy will inevitably cause inflation to rise as money supply increases. BI has predicted that inflation will increase temporarily in 2021 to between 5.26% - 8.15%. In order to combat the potential reduction in purchasing power, both government and BI will need to take some important measures, such as lowering the prices of fuel and electricity. Another concern is the impact that this scheme will bring to Bank Indonesia's balance sheet. If the deficit runs longer than expected, there are risks that the massive amount of interest payments will put pressure on BI's capital. Others have also raised concerns that should BI needs to sell its SBN holdings, this will in turn create a shock in the market.

Figure 7: Burden Sharing Scheme

Public Goods	100% by BI
Non-Public Goods: MSME	BI 7-DRRR minus 1%
Non-Public Goods: Corporate Non-MSME	BI 7-DRRR
Non-Public Goods: Others	100% by Government



Source: Ministry of Finance

Vaccine Candidates Enter Human Trials

As the number of new Covid-19 cases keep climbing, the race for vaccine also intensifies. The financial market has shown to be very sensitive in responding to any news or progress regarding vaccine development. According to WHO release, more than 140 candidates for Covid-19 vaccine are currently being tracked, with around two dozens of them currently in human clinical trials. Indonesia has recently joined in conducting clinical trials for one of the vaccine candidates being develop by Sinovac Biotech. The phase 3 trial will involve 1,620 volunteers, and if proven successful, the state-owned pharmaceutical company Biofarma is ready to produce 100 million dose per year. However, the timeline of vaccine availability remains varied, with the most optimistic views predict vaccine to be ready by the end of 2020 or early 2021. However, most experts have put on a more reasonable timeline of mid 2021, with distribution to the greater population by the end of 2021.

Figure 8: Leading Covid-19 Vaccine Candidates

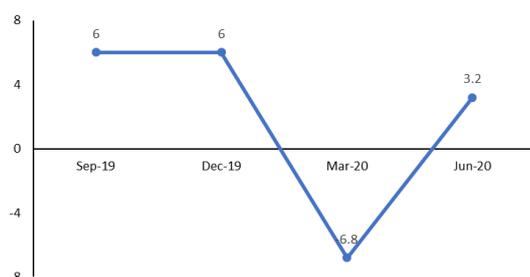
Developer/Manufacturer	Vaccine	Status
University of Oxford	ChAdOx1 NCoV-19	Began testing in April. Early results showed it can produce immune responses
Sinovac	CoronaVac	Final phase of human trials began in July with Brazilian healthcare workers
Moderna	mRNA-1273	Started testing with 30,000 volunteers at the end of July
Sinopharm	Vaccine Candidate	Began testing with its own employees
Pfizer	Vaccine Candidate	Began phase 3 trials in late July

Sources: World Health Organization, CTV News

Rebound in China's Economy brings a Glimmer of Hope

China reported a Real GDP increase of 3.2% yoy in 2Q20, a huge bounce back from the 6.8% contraction in 1Q20. The figure widely beat economist estimates while also meant that China has successfully avoided a technical recession. While the GDP figure denotes a V-shaped trend, a deeper analysis of China's recovery also finds that it was still relatively uneven, with demand still lags behind production. Retail Sales figure was down by 3.9% in 2Q20, while Industrial Production rose by 4.4%. Furthermore, unemployment number improved slightly to 5.7% in June 2020 from 5.9% the previous month. As one of the world's largest economy, China's growth has great impacts to other nations, including Indonesia. China remains the number one export destination which contributes 17.7% of Indonesia's total non- oil & gas exports. For 1H20, total non-oil & gas export to China was recorded at USD 12.825 billion or up 11.95% from USD 11.455 billion during the same period last year.

Figure 9: China GDP YoY



Source: Bloomberg

Figure 10: Indonesia non Oil & Gas Export to China

May-20	Jun-20	Change	1H 2019	1 H 2020	Change
2216.5	2434.2	9.82%	11455.8	12825.2	11.95%

Source: Central Bureau of Statistics

On our Watchlist

◆ Companies with Solid Q2 Financial Performance

With Q2 earnings season underway, we look at companies that posted strong results despite the effects of pandemic. Pharmaceutical company **KLBF** was still able to book a YoY revenue increase of 3.76% and remained as our top pick with demands for health products will continue to be a priority. Meanwhile, the sale of Bank Permata has helped **ASII**'s bottom line in 2Q20 whilst National Car Sales fell significantly. We are optimistic that car sales will slowly pick up for the rest of the year. The state-owned cement producer **SMGR** has also successfully booked a jump in 2Q net profit to IDR 606 Bn from IDR 481 Bn last year. Efficiencies in both COGS and Financial Costs have helped the company to offset revenue stagnancy. Furthermore, retailer **ERAA** also unexpectedly booked a stable net income despite the closing of several shopping centers during the large-scale social distancing period. Online sales and COGS efficiency were key factors in ERAA solid results.

◆ Defensive Picks

Big names in consumer goods remain the core of our watchlist. Cigarette maker **GGRM** has increase its market share while maintaining solid sales. The stock is still attractive after previously been battered by free float rules and excise tax sentiments. On the other hand, we also recommend **UNVR** as one of the stocks that are relatively unaffected during economic downturn.

◆ Medium Cap Stocks with Strong Balance Sheet

We also look at medium size companies with healthy balance sheet and low debt level. Despite booking a net income decline of 57.72%, the food producer **HOKI** remains as an attractive option as the business is relatively stable. Moreover, **MIKA**'s inclusion to the benchmark index LQ-45 is a positive catalyst for the future of its stock performance.

◆ Opportunities from Sell-offs in Telecommunication Sector

Recent sell-offs by foreign investors have caused stock prices of network providers **TLKM** and **EXCL** to slump. We see this as a good mid to long term investment opportunities as the telecommunication sector is one of the least affected industries in this pandemic era. Social distancing measures have led to increasing demand for internet data access.

Figure 11: Stock Watchlist August 2020

Key Fundamental Statistics (as of 5 Aug 2020)

Stock	Market Cap (IDR Mn)	P/E (x)	P/B (x)	GPM (%)	OPM (%)	NPM (%)	ROE (%)	DER (%)	Net Debt (IDR Mn)
KLBF	75,703,322	28.72	4.63	45.37	15.52	12.36	17.00	9.85	Net Cash
ASII	204,441,943	8.78	1.34	22.59	5.81	18.35	15.94	45.44	44,386,998
SMGR	56,052,864	22.26	1.71	28.31	12.79	2.23	8.00	75.13	22,424,462
ERAA	4,832,850	16.18	0.98	8.35	1.34	0.16	6.26	22.63	445,311
GGRM	97,551,262	9.36	1.78	14.09	7.20	5.21	21.02	15.50	232,369
UNVR	314,737,500	42.96	35.73	50.25	22.15	16.55	105.38	10.79	Net Cash
HOKI	1,515,304	21.32	2.27	10.02	5.86	3.05	14.88	26.21	170,258
MIKA	34,191,239	51.38	8.02	41.73	17.32	15.88	15.54	0.00	Net Cash
TLKM	299,167,894	16.35	2.81	N/A	34.29	17.14	17.30	47.75	35,141,000
EXCL	26,550,911	12.20	1.29	N/A	32.77	23.39	11.14	163.01	30,675,201

Sources: Bloomberg

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