

## Government Spending to Support Recovery

8 September 2020

### Key Takeaways

- ◆ Foreign Reserves reached an all-time high record at USD 137 Billion or equivalent to 9 month import financing.
- ◆ Trade Balance position reported at USD 3.26 Billion as import declined.
- ◆ Manufacturing activities return to expansion mode as Purchasing Managers Index (PMI) for August 2020 increased to a level of 50,8
- ◆ The JCI had a modest monthly gain of 1.73% last month, continuing its rally since March.
- ◆ Financial Services was the biggest winner in August with a 4.42% appreciation. While Infrastructure, Utilities, & Transportation sector had the sharpest decline by -5.22%.
- ◆ Foreign investors had a net sell of IDR 8,466 billion last month, the biggest outflow since April 2020.
- ◆ Amidst massive foreign outflow, BBRI was still being sought after by foreign investors with net buy amount of IDR 329 bn. On the other had, telco stocks TLKM and TOWR topped the Net Foreign Sell list.

### Looking Ahead

- ◆ Government spending allocation is projected to reach IDR 2,747 Trillion in 2021 State Budget with focus on accelerating economy recovery and structural reform. Education, Infrastructure, and Social security are the three main areas with the highest allocation.
- ◆ Utilization of funds under the National Economic Recovery Program had only reached 28% at the end of August. A faster approach needs to be implemented in order to boost economic growth which is projected to still be in the negative for Q3/2020.
- ◆ Sentiments from the United States will influence the financial market for the rest of 2020. This includes: Implementation of Phase I trade deal with China, Market rally fueled by rising tech stocks, Presidential Election, and the Fed's new inflation strategy.

### On our Watchlist

- ◆ Defensive core stocks  
**KLBF, ICBP, ROTI**
- ◆ Telecommunication as a prospective sector  
**TLKM, EXCL, TOWR**
- ◆ Opportunities in Construction sector  
**WIKA, INTIP**
- ◆ Recent surge in commodities for Mining Stocks  
**ANTM, INCO**

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### JCI as of 31 August 2020

<b>Close</b>	<b>5,238</b>
Monthly Change (%)	1.73
PER (x)	10.5
Market Cap (Tn)	6,093
Monthly Foreign Trx (Bn)	(8,466)

### JCI Movement (YTD)



### Indonesia Macroeconomic Data

Indicators	Last	Prev.
Real GDP YoY	-5.32%	2.97%
Current Acc (USD bn)	(2.90)	(8.08)
FDI (USD bn)	4.07	4.60
Cons. Confidence*	86.20	83.80
BI-7 Day Rev Repo Rate	4.00%	4.00%
FX Reserve (USD bn)	137.00	135.10
Trade Balance (USD bn)	3.26	1.27
Inflation YoY	1.32%	1.54%

## Foreign Reserves reach all-time high

As of August 2020, Indonesia foreign reserves reached a new all-time high figure of USD 137 Billion. The amount is equivalent to 9 month worth of Import, which is comfortably beyond the international benchmark threshold of 3 month Import. Global bonds issuance and government debt drawdown were the main factors behind this record. Excess in global liquidity caused by a combination of fiscal stimulus, quantitative easing and low interest rates have been favorable to Indonesia which recently issued a yen-denominated global bonds (samurai bonds) amounting to 100 billion yen.

Moreover, Trade Balance had another surplus USD 3.26 billion in July, which was the third consecutive month where export exceeded import. This was achieved due to increase in Export by 14,33% from previous month, with the biggest contribution from Industrial Goods which made up 82% of total export. Meanwhile Import declined by 2,73% MoM, with consumption goods and raw material both contracted.

Figure 1: Indonesia Foreign Reserves (USD Bn)

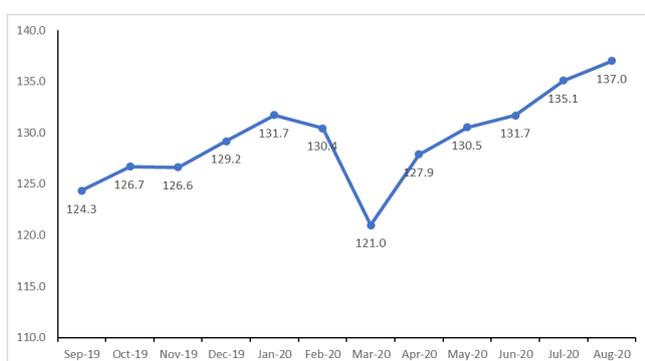
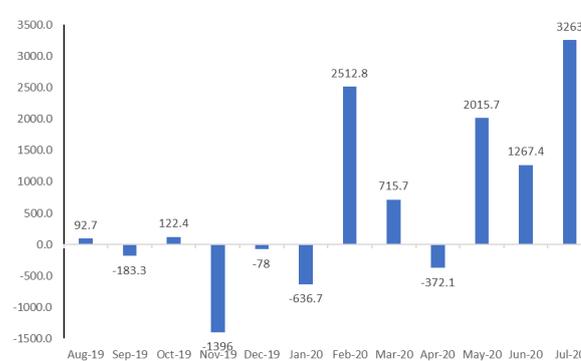


Figure 2: Indonesia Trade Balance (USD Mn)

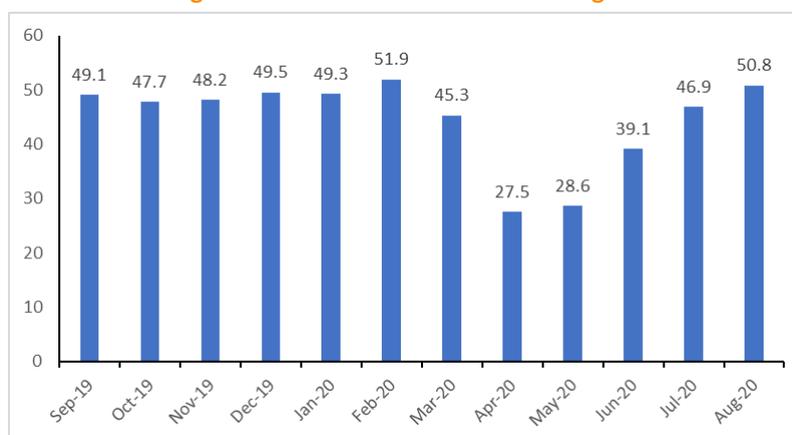


Sources: Bloomberg, NHKSI Research

## Manufacture activities return to expansion zone

For the period August 2020, Indonesia's Purchasing Managers Index (PMI) Manufacture was reported at a level of 50.8, which marked its first return to expansion mode since last February. Production output and new orders both increased at the fastest rate in 6 years, mainly dominated by demands from domestic market. This improvement is a good leading indicator for further economic growth as the average PMI in Q3/2020 now stood at 48.8 or significantly better than Q2/2020 average of 31.7. However, not all were great news as worker layoffs still on the rise and purchasing activities declined.

Figure 3: Indonesia PMI Manufacturing



Source: Bloomberg

## Modest gain in August, JCI rally still unbroken since March

The Jakarta Composite Index (JCI) continued its ongoing rally with a modest 1.73% gain in August. Backed by several positive sentiments such as: Strong economic data releases, Vaccine distribution deals, and Government stimulus to workers; the stock market benchmark upward momentum remained unbroken since March 2020. However, a negative side note still exists as foreign investors booked a Net Sell of IDR 8,466 Bn last month.

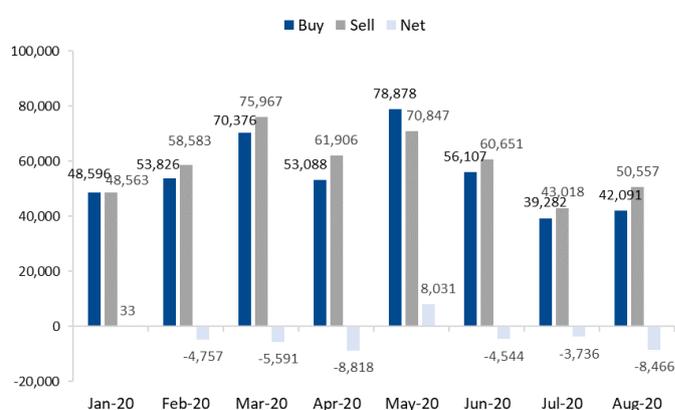
In terms of sectoral breakdown, two sectors performances stood out at each end. The financial services had a monthly gain of 4.42%, with strong gains from SOE-banks BBRI (11.7%) and BBNI (9.2%). On the other hand, Infrastructure, Utilities & Transportation sector was the biggest loser for the month with a -5.22% decline. This was partly contributed by 2 telco stocks TLKM and TOWR, which topped the Net Foreign Sell list in August 2020.

Figure 4: Sectoral Movement

Sector	31 July 2020	31 August 2020	Change
Consumer Goods	1886.05	1933.18	2.50%
Mining	1370.18	1398.81	2.09%
Agriculture	1156.32	1185.13	2.49%
Finance	1134.93	1185.07	4.42%
Miscellaneous Industry	921.73	912.72	-0.98%
Infrastructure, Utilities, & Transportation	904.06	856.87	-5.22%
Basic Industry	752.08	760.26	1.09%
Trade, Services, & Investment	622.99	628.75	0.92%
Construction, Property, & Real Estate	300.50	297.39	-1.03%
JCI	5149.63	5238.49	1.73%

Source: Bloomberg

Figure 5: Monthly Foreign Transactions



Sources: IDX Statistic, NHKSI Research

Figure 6: Top Foreign Transactions August 2020

Net Foreign Buy	
Stock	Value (IDR Mn)
BBRI	328,937
PTBA	184,118
CTRA	110,216
ANTM	91,109
ICBP	67,812
INDF	56,671
INCO	45,582
BBTN	44,774
MEDC	44,721
ADRO	42,445

Net Foreign Sell	
Stock	Value (IDR Mn)
TLKM	-2,118,375
TOWR	-1,623,060
BMRI	-931,565
BBNI	-884,741
FREN	-391,867
GGRM	-311,898
PGAS	-221,759
MNCN	-215,785
SMRA	-199,510
JSMR	-170,741

Source: NHKSI Research

## Government will maintain spending level to boost economy in 2021

During the annual fiscal notes, the government revealed its planned 2021 state budget which largely aimed to boost economy recovery while curbing the negative impacts of Covid-19 pandemic. The government has allocated a total of IDR 2,747 trillions in spending, which is slightly higher than the forecasted 2020 spending of IDR 2,739 trillions. The number represented an estimated of 5.5% deficit from GDP or an improvement from the 6.34% deficit planned for 2020.

Some notable points were raised in response to 2021 state budget. Firstly, the economic growth assumption for 2021 is deemed to be overoptimistic for some observers. The government forecasts a growth of between 4.5% to 5.5% next year. Taking to account that Indonesia is currently under the serious threat of recession, with Q3/2020 projected to still be negative, next year's assumption seems like an overshoot. For this target to be achieved, household consumption and investments need a lot of ground to make up. Secondly, Healthcare allocation amounting to IDR 169,7 trillions or 6.2% of total spending, does not seem adequate in the midst of pandemic. Moreover, the interest rate benchmark which currently uses the 10-year government bond, stood at 7,29%. This is considered very high and not consistent with the current low interest rate regime.

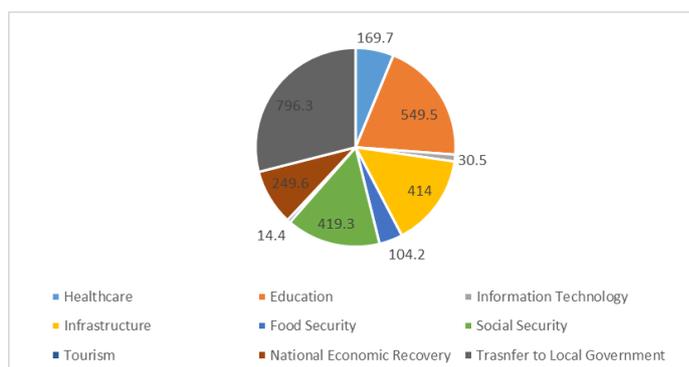
The big winner from 2021 state budget is Infrastructure with total allocation of IDR 414 trillions. The government will continue some projects that currently being delayed by the pandemic. Emphasis will also be put for digital infrastructure, industrial estates, and basic infrastructure. We see this as a positive catalyst for several State-owned Enterprises in Infrastructure, Construction, and Telecommunications.

Figure 7: Basic Macroeconomic Assumption for 2021

Indicator	Unit	2020 Outlook	2021 Budget
Economic Growth	% YoY	(1.1) - 0.2	4.5 - 5.5
Inflation	% YoY	2.0 - 4.0	3.0
Benchmark Rate	%	3.0 - 4.0	7.29
Exchange Rate	IDR / USD	14,400 - 14,800	14,600
Crude Oil Price	USD / barrel	35 - 40	45

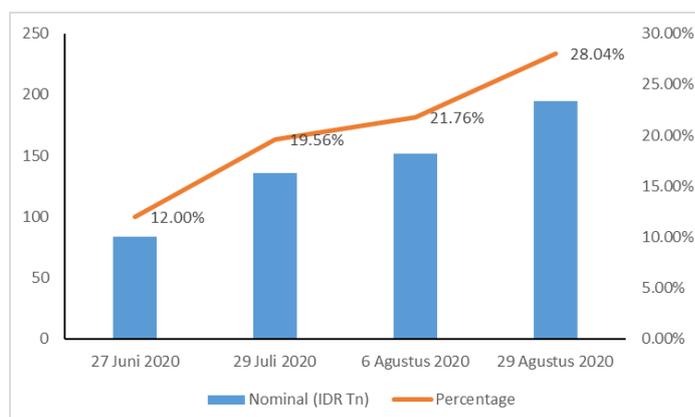
Source: Ministry of Finance

Figure 8: Government Spending Allocation in 2021



Meanwhile, the utilization of National Economic Recovery (PEN) fund has reached 28% at the end of August. While this realization is still less than desirable, we note the improvement that has been made since the start of Q3/2020. With more disbursements still to come, we see this as a key catalyst to boost the overall economy which in turn will positively affect the financial markets.

Figure 9: Realization of National Economic Recovery (PEN) Program



Sources: Various Sources, NHKSI Research

## Sentiments from the US: From rising tech stocks to Presidential Election

For the remainder of 2020, we see that these key events from the US will act as the main catalysts for global stock markets.

### Rising technology stocks

The recent surges in technology stock prices have played an important role in delivering benchmark indices S&P 500 and Nasdaq to new all-time highs, gaining back all the losses caused by the pandemic. Big market cap stocks such as Amazon (+74% ytd) and Apple (61% ytd) were the outright winners, while relatively newcomers such as Zoom Video (+443% ytd) also benefit. Services provided by these companies are very compatible to the new social distancing measures. However, concerns have been raised as we are reminded to the tech stock bubble from the early 2000s.

### Ongoing tensions with China

Relationship between the US and China has been recently tested with events such as: South China Sea crisis, the closures of several diplomatic consulates, and the banning of several Chinese intellectual properties and social medias by the United States government. These have posed as threats to the first phase of trade deal which was signed at the start of the year. While officials from both countries have reaffirmed their commitment to the deal, investors should keep monitoring this development as any setbacks involving these two giants can have serious impact to the global economy.

### New inflation strategy

During the Jackson Hole conference, the Federal Reserve revealed its latest average inflation strategy, which allows inflation to moderately run above its targeted 2% for some time. One of the outcome expected from this move is to achieve a maximum employment level. With inflation overshooting and lower level of unemployment on sight, this makes it unlikely for the Federal Reserve to raise its benchmark interest rate in the near future.

Figure 10: S&P 500 Movement (YtD)

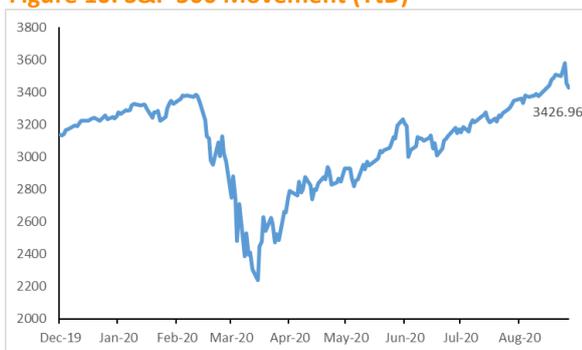


Figure 11: US CPI (YoY)



Source: Bloomberg

### 2020 Presidential Election

With the 2020 US Election in November fast approaching, the world will be closely monitoring the progress leading up to this event. For the financial markets, each candidate should have different impacts at least in the short-run. A change in administration should temporarily harm earnings, as Democrats traditionally will raise corporate taxes when elected. However, in the long-run as tax revenue increases, government spending will follow, which is favorable for the economy. On the other hand, should the Trump Administration remain in power, the global financial markets should brace for more volatility as seen in the past 4 years. It should also be noted that, under the Trump administration, the US stock markets have repeatedly reached new all-time highs.

## On our Watchlist

Our defensive stock watchlist is still headlined by **KLBF**, which currently targeting distribution for Covid-19 vaccine next year, contingent to the successful clinical trials. Meanwhile, the official takeover of Pinehill and loan securement for the transaction have give more assurance to the future of **ICBP**, as we raised our TP accordingly. For second liner pick in Consumer Goods sector, we see potential upside in bread producer **ROTI**.

We include stocks from the mining sector in this month's watchlist as metal prices improved. The state-owned miner **ANTM** is our first choice due to recent surge in gold prices. Moreover, the successful divestment of 20% shares in **INCO** to the government via MIND ID, will be beneficial for the company as it continued to outperform during the pandemic.

We also reaffirm our view for telecommunication as one of prospective sectors. Current pressures on the share prices of **TLKM**, **EXCL**, **TOWR** have provided buying opportunities for long-term investments.

Lastly, as the government allocation for Infrastructure increased rapidly in the 2021 state budget, we look back at State-owned construction companies which have been battered in recent times, with **WIKA** as our top pick. Furthermore, as the demand for cement improves, we recommend **INTP** to round up our watchlist.

Figure 11: Stock Watchlist August 2020

### Key Fundamental Statistics (as of 7 September 2020)

Stock	Market Cap (IDR Mn)	P/E (x)	P/B (x)	GPM (%)	OPM (%)	NPM (%)	ROE (%)	DER (%)	Net Gearing (%)
ICBP	120,700,748	20.66	4.20	37.57	19.53	12.64	22.68	9.38	Net Cash
KLBF	74,297,069	28.18	4.55	45.37	15.52	12.36	17.00	9.85	Net Cash
ROTI	7,423,787	25.21	2.48	53.53	1.82	1.79	10.23	43.32	2.25
ANTM	19,825,381	-227.67	1.10	18.57	7.80	9.11	-0.46	45.53	28.92
INCO	38,751,721	19.18	1.31	10.82	13.02	13.01	7.10	0.02	Net Cash
TLKM	284,308,562	15.31	2.96	11.30	10.70	14.7	2.66	58.33	32.06
EXCL	24,088,528	11.07	1.17	24.10	15.23	13.4	11.10	158.04	137.21
TOWR	53,310,283	19.85	5.69	69.73	58.40	41.94	31.13	207.95	193.20
WIKA	11,212,439	6.82	0.82	5.49	30.06	5.15	11.30	125.60	82.03
INTP	43,898,688	26.36	1.87	28.99	-0.31	2.47	7.34	0.48	Net Cash

Sources: Bloomberg, NHKSI Research

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