

## STRATEGY – INDONESIA

### JCI Could Underperform MXAP In 2023

After the JCI's strong outperformance in 2022, investors believe that the index is likely to underperform in 2023 against the MSCI Asia Pacific. We view 2023 as a stock picking environment for investing in the JCI. The ban on premarital sex is a step back for Indonesia. Investors are intrigued by the potential presidential candidacy of Ganjar Pranowo. We disagree with the hypothesis that China relaxing its zero-COVID policy will cause commodity prices to rise further. Our top five BUYS are BBRI, TLKM, ROTI, SMGR and MAPI. Top SELLS: ADRO and ITMG.

#### WHAT'S NEW

- JCI likely to underperform in 2023 against MSCI Asia Pacific.** Investors are pleased about the JCI's outperformance in 2022. However, most investors believe that although the JCI could record a positive appreciation in 2023, it is likely to underperform the MSCI Asia Pacific (MXAP) index in 2023. If investors want their portfolios to outperform the MXAP in 2023, we recommend investors select favourable sectors and favourable names to invest. We believe that 2023 is a good year for stock picking in Indonesia market.
- The recent ban on premarital sex is a reflection of right wing thinking.** Investors view the recently-approved "no sex before marriage" law as a reflection of the right wing thinking of the Indonesian government. They are also wondering why President Joko Widodo has remained silent on this, and not taken any steps to stop the approval of the law. Investors deem this a step backwards for Indonesia, which has historically been viewed as a moderate Muslim country.
- Interest piqued by potential presidential candidacy of Ganjar Pranowo.** Investors have expressed interest on the potential presidential candidacy of Ganjar Pranowo (Central Java governor), who is leading the poll as we speak. They are pleased to learn that Ganjar Pranowo is very similar to Jokowi and hopes that Jokowi's policies could be continued under the new presidency. There have also been suggestions for Indonesia to give a third term for Jokowi; however, we are not supportive of this as Indonesia already has a good presidential candidate for the next 5-10 years.
- Will China's relaxation of its zero-COVID policy lead to an increase in commodity prices?** No, in our view. Investors have made an interesting hypothesis that commodity price could rise once China relaxes its zero-COVID policy. We disagree with this, because idle capacity is present and producers will be able to ramp up production fast, with the output causing commodity prices to decline. We note that before the pandemic, coal price was below US\$100/tonne with Chinese producers at full capacity.
- JCI year-end target of 8,150.** We forecast the JCI will close at 7,400 at end-22, based on a 12.5% NPAT growth for 2022 and 10% NPAT growth in 2023. Based on bottom-up NPAT growth, 2022 NPAT could rise by 35.5% yoy. For 2023 and 2024, we assume a 10.0% yoy increase each year in the JCI's EPS. Using a PE of 13.8-15.3x, we derive an end-23 index target of 8,150. The PE used is 14.55x, which is the historical 10-year average PE of the JCI.
- Top picks.** Retailers: MAPI, LPPF; Consumer: ROTI, MYOR; Pharmaceutical: KLBFI; Cement: SMGR, INTP; Financial: BBRI, BBNi; Telco: TLKM. Top SELLS: ADRO, ITMG.

#### VALUATION

Company	Ticker	Rec	Price 14 Dec 22 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US\$m)	3M Avg Turnover (US\$m)	PE 2022F (x)	PE 2023F (x)	P/B 2021 (x)	P/B 2022F (x)	ROE 2022 (%)	Net Gearing (%)
Bank Negara Indonesia	BBNI	BUY	9,525	11,200	17.6	11,427	15.4	10.2	8.6	1.4	1.2	9.3	(101)
Bank Rakyat Indonesia	BBRI	BUY	4,980	5,300	6.4	48,557	50.0	15.5	13.6	2.5	2.2	12.8	(15)
Telkom Indonesia	TLKM	BUY	3,750	4,860	29.6	23,899	32.8	14.7	13.4	3.0	2.7	22.1	21
Kalbe Farma	KLBF	BUY	2,120	2,300	8.5	6,393	5.6	28.8	25.2	5.0	4.2	17.2	(28)
Nippon Indosari Corp	ROTI	BUY	1,255	1,800	43.4	499	0.0	21.7	18.3	3.0	2.4	9.3	(8)
Mayora Indah	MYOR	BUY	2,450	2,600	6.1	3,524	1.0	37.9	24.9	4.7	4.0	10.7	19
Semen Indonesia	SMGR	BUY	7,000	10,500	50.0	2,671	5.4	17.3	13.4	1.1	1.0	5.7	33
Indocement	INTP	BUY	9,975	11,500	15.3	2,362	2.2	26.6	18.1	1.8	1.7	8.4	(28)
Mitra Adiperkasa	MAPI	BUY	1,400	1,600	14.3	1,495	1.8	12.1	11.6	3.2	2.5	7.8	27
Matahari Department	LPPF	BUY	5,000	5,500	10.0	761	1.0	10.4	8.9	24.5	6.3	115.0	213
Adaro Energy	ADRO	SELL	3,880	3,300	-14.9	7,984	20.0	3.4	5.1	1.3	1.3	23.8	(10)
Indo Tambangraya	ITMG	SELL	40,500	33,000	-18.5	2,944	9.5	2.7	3.9	1.5	1.8	46.1	(53)

Source: Bloomberg, UOB Kay Hian

#### TOP PICKS

Ticker	Rec	Price 14-Dec-22 (Rp)	Target Price (Rp)	Potential Upside (%)
BBNI	BUY	9,525	11,200	17.6
BBRI	BUY	4,980	5,300	6.4
TLKM	BUY	3,750	4,860	29.6
KLBFI	BUY	2,120	2,300	8.5
ROTI	BUY	1,255	1,800	43.4
MYOR	BUY	2,450	2,600	6.1
SMGR	BUY	7,000	10,500	50.0
INTP	BUY	9,975	11,500	15.3
MAPI	BUY	1,400	1,600	14.3
LPPF	BUY	5,000	5,500	10.0
ADRO	SELL	3,880	3,300	-14.9
ITMG	SELL	40,500	33,000	-18.5

Source: Bloomberg, UOB Kay Hian

#### SECTOR RATINGS

Sector	UOBKH Rating
Automobile	MARKET WEIGHT
Banking	OVERWEIGHT
Cement	OVERWEIGHT
Coal	UNDERWEIGHT
Construction	MARKET WEIGHT
Consumer	OVERWEIGHT
Healthcare	OVERWEIGHT
Oil & Gas	MARKET WEIGHT
Plantation	UNDERWEIGHT
Property	OVERWEIGHT
Retail	OVERWEIGHT
Technology	OVERWEIGHT
Telecommunications	OVERWEIGHT

Source: UOB Kay Hian

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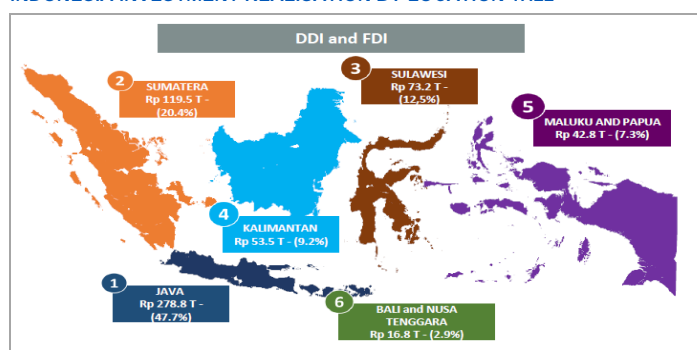
- In 1H22, FDI and DDI rose 32% yoy with Java and Sumatra still receiving the majority of the investments. Investment into Indonesia (FDI+DDI) increased by 42.5% yoy from US\$8b in 2Q21 to US\$11.4b in 2Q22. For 1H22, total FD and DDI came in at Rp584.6b, rising 32% yoy from Rp442.8t in 1H21. We believe this can support job creations in 2023 as investment realisation is recorded, while it will take about 12 months for companies to perform hiring.
- Java received Rp278.8t of investment in 1H22, followed by Sumatra with Rp199.5t, Kalimantan with Rp53.5t, Bali and NTB with Rp16.8t, Sulawesi with Rp73.6t and Maluku & Papua with Rp42.8t. Most of the investments are still allocated to Java and Sumatra where majority of the population lives. Thus, majority of the population should benefit from the increased investment in their localities.

#### INDONESIA INVESTMENT REALISATION TREND



Source: Indonesia Investment Coordinating Board, UOB Kay Hian

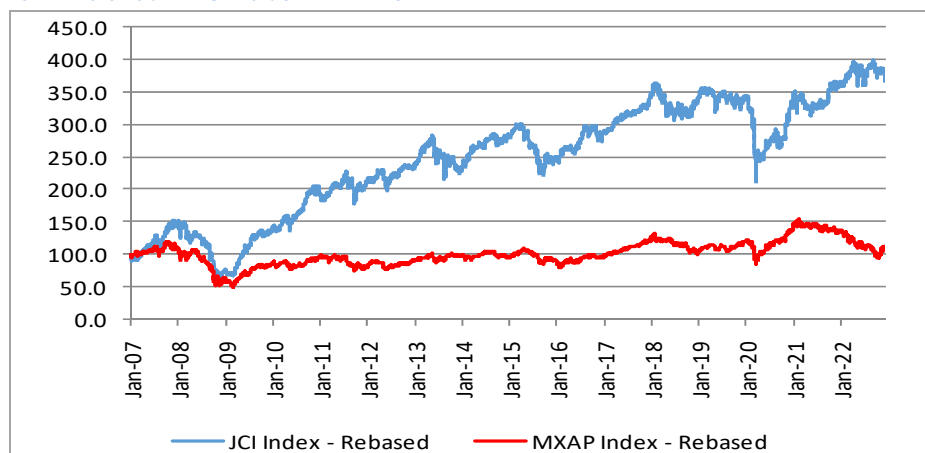
#### INDONESIA INVESTMENT REALISATION BY LOCATION 1H22



Source: Indonesia Investment Coordinating Board, UOB Kay Hian

- Long-term investors should continue to be bullish on Indonesia. Over the past 15 years, the JCI has delivered a 210.45% return in US dollar terms, while MSCI Asia Pacific delivered a 76.8% return.

#### 15 YEARS OF JCI RETURNS COMPARED TO MXAP



Source: Bloomberg, UOB Kay Hian

- Investors agree on sector picks of cement, consumer and retail. Most investors agree with our sector picks of cement, consumer and retail. They also have no objection to our view on commodity price. These are also the sectors that tend to outperform during rate hikes cycle, while banks and property are likely to decline.

#### SECTORAL PERFORMANCE DURING RATE HIKE CYCLES

	Property	Automobile	Telecommunication
2008	Outperform	Underperform	Outperform
2014	Underperform	Outperform	Underperform
2018	Underperform	Outperform	Outperform
	Cement	Consumer	Retail
2008	Outperform	Outperform	Outperform
2014	Underperform	Outperform	Underperform
2018	Outperform	Underperform	Outperform

Source: Bloomberg, UOB Kay Hian

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