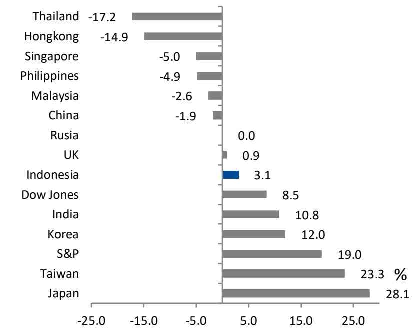
Equity Strategy

FY24 Outlook: The road to JCI 8,000

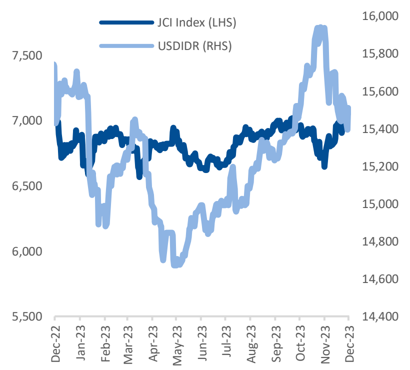
- **JCI's 13x PE implies room for a rerating if growth improves, while Indonesia's resilient economic growth offers downside protection.**
- **Despite our 5% FY24 EPS growth forecast, we see support from more social aid, better liquidity and the next govt's growth policies.**
- **We retain our FY24-end JCI target of 7,830 (+12% upside from the FY23 target); our stock picks are ICBP, MYOR, ISAT, HEAL, BBCA and BMRI.**

Regional Market YTD perf. (%)



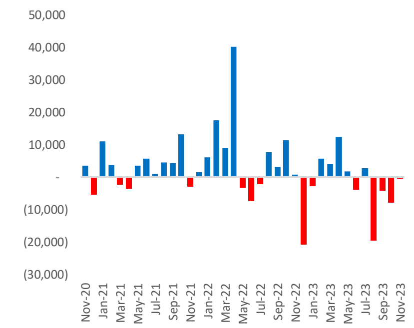
Source: Bloomberg

JCI vs USD



Source: Bloomberg

Equity Net Foreign Flow (Rptr)



Source: Bloomberg

Top down: an attractive risk-reward; rerating hinges on growth recovery
JCI's PE has de-rated to 13x (-2 s.d. from the 10-year mean) following 3% YTD performance, as the market prices in a moderate growth outlook (5-7%) and a higher risk premium (albeit off Nov23's peak). Compared to EM peers, JCI's PE is only fair given its below peers' EPS growth. While rerating hinges on better growth delivery, Indonesia's resilient economic growth outlook and improved CA and trade balance should cushion the downside risk.

Moderate FY24 growth forecast, potential re-acceleration in FY25
BRI Danareksa's Equity Research team forecast 5%/ 7% EPS growth in FY24/ FY25 (14%/13% ex-mining), or similar growth vs. FY23F. We forecast slowing growth for the banking sector, in-line with the historical trend during an election year, but expect growth outperformance from Telcos (+12% yoy). We see upside in our FY25 earnings growth as banks' loans and earnings growth should reaccelerate post-election.

Potential support from higher social aid, govt spending, better liquidity
Despite weak purchasing power and lingering tight liquidity in 4Q23, we see a cushion for FY24's domestic consumption from election spending (1H24), higher social aid (+12% yoy) and room for BI to support liquidity through its macroprudential policy. In our view, the domestic growth outlook beyond FY24 shall be supported by higher govt spending, which we expect will be a likely policy for the new govt's first term, as the presidential candidates aim for >5.5% GDP growth with a strategic priority on social spending and education, and manufacturing sector growth through downstreaming.

Commodities recovery still tentative but downbeat expectations priced in
While the market is now pricing in the expectation of rate cuts (as early as 1Q24), we are of the view that a sustained commodities and EM recovery is still clouded by uncertainties in the US and China and the economic growth scenario. Nonetheless, some Indonesian metals stocks with credible growth projects have priced in pessimistic margin/price assumptions.

Attractive market 12% upside, favoring domestic growth stocks
We retain our FY24-end JCI target of 7,830 (implying 12% upside from our FY23 target), with bear/ bull target cases of 8,240/ 7,520. We favour select domestic-oriented stocks which are positioned to capture downtrading: **ICBP** (TP Rp13,000), **MYOR** (TP Rp3,500); and stocks with sustainable structural growth drivers, **HEAL** (TP Rp1,800), **ISAT** (TP Rp11,100) and **BBCA** (Buy, TP Rp12,100). The post election growth outlook should favour big banks (**BMRI** Buy TP Rp7,300) as we expect brisker loans growth to resume (to 11% yoy in FY25, from an anticipated slowdown to 9% in FY23). While the commodities top-down outlook remains uncertain, we believe MBMA and NCKL have discounted pessimistic margin assumptions.

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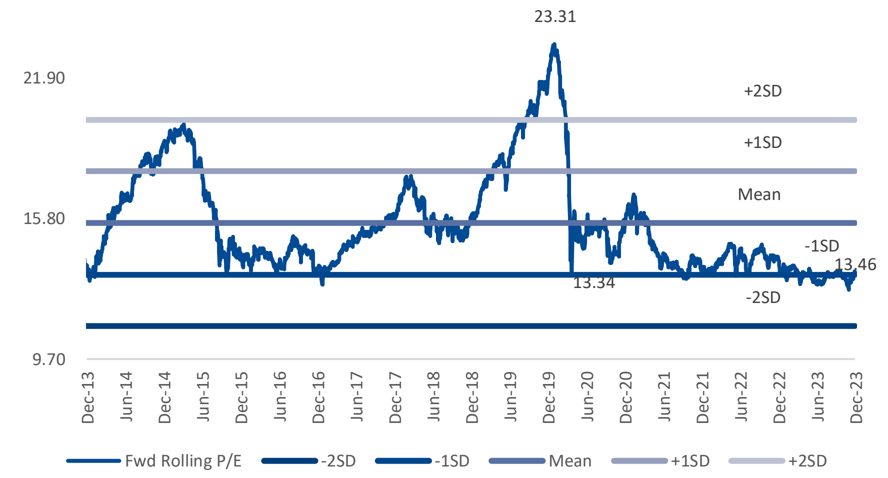
FY24 Outlook: JCI's road to 8,000

Top-down view: an attractive risk-reward proposition

Indonesian equities' performance in 2023 (+3.1% YTD) has translated into another valuation derating (vs. FY22-end of ~14x) on the back of a combination of a higher risk premium and the absence of (strong) earnings growth expectations. At the current 13x PE (-2 s.d. from the 10-year mean), we believe the market is pricing in a combination of a moderate growth outlook (of 5-7%) and a slightly elevated risk premium (albeit already off the Nov23 peak).

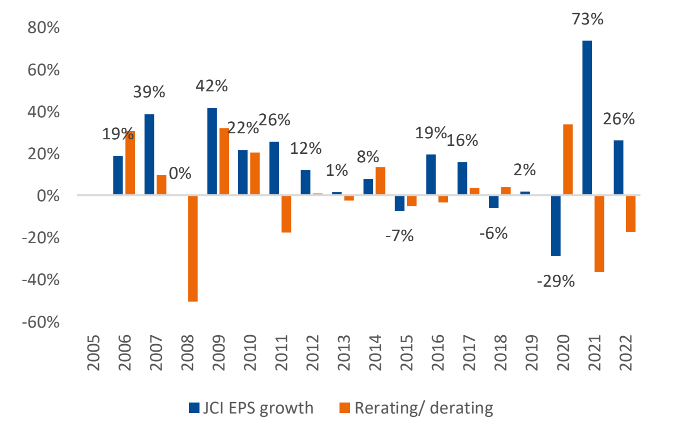
The PE derating in 2023 is consistent with the historical trend whereby the market has never re-rated (and indeed, has de-rated) if it sees "average" or below peers EPS growth (in the past years, JCI's rerating only happened if EPS growth expectations are roughly at 15% or above). The good news for FY24 is that the low valuation level and moderate growth expectation should leave more room for upside if growth surprises.

Exhibit 1. JCI's historical 12-month forward P/E



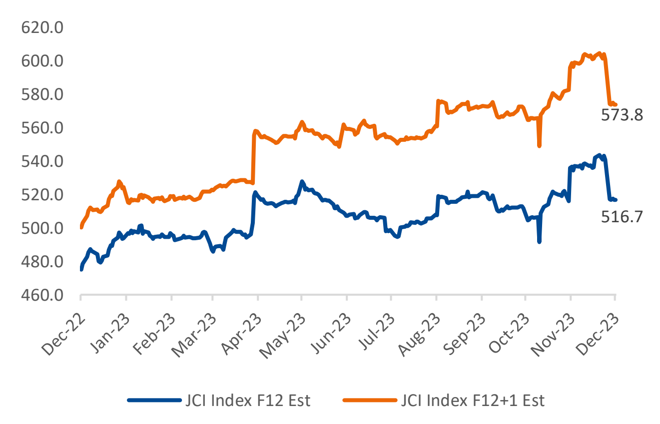
Source: Bloomberg, BRIDS

Exhibit 2. JCI Historical PE Drivers



Source: Bloomberg

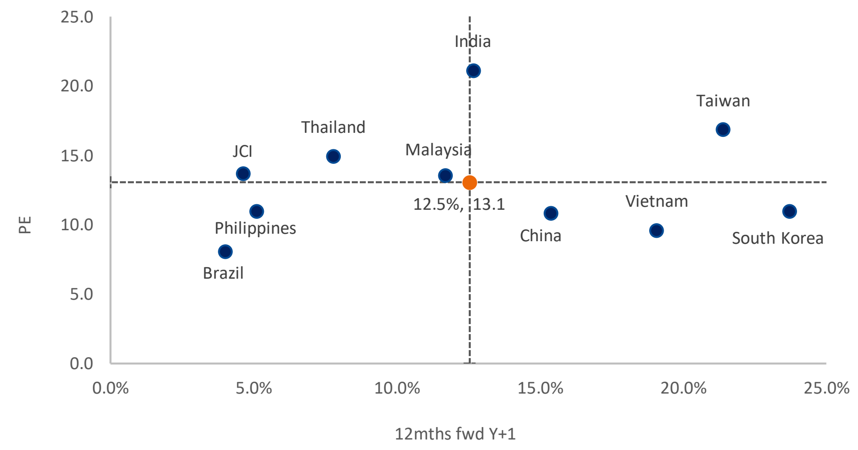
Exhibit 3. Indonesia EPS Growth Expectations



Source: Bloomberg

The delivery of better earnings growth as a key market driver is even more apparent if we compare JCI's valuation and growth metrics with that of EM market peers'. At the current 13x, JCI's PE is only fair given its EPS growth forecast of 5% (vs. EM peers' 13.1x PE and 13% EPS growth).

Exhibit 4. JCI vs Peers EM Markets



Source: Bloomberg

FY24 earnings growth outlook

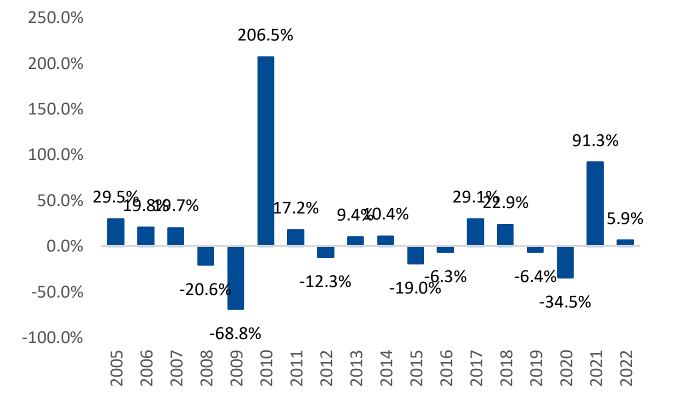
Still a moderate growth profile (+5% yoy) but with room for upside

Earnings growth has been a key driver that remains missing for the market in FY23 (using 9M23 as the latest numbers). Despite consensus expectations of 12-14% EPS growth in early 2023, earnings were flat yoy in 9M23 (although +17% ex-mining sector).

In terms of momentum, the market's overall earnings improved in 3Q23 with operating profit growth rebounding to -4% yoy/+13% yoy ex-mining vs. 2Q23's -6%/+11% yoy. Despite this, the market viewed the growth rebound as lacking quality, as growth in domestic consumer-related sectors (e.g., consumers and cigarettes) has mainly been led by margins expansion (lower raw material prices and the impact of price increases in FY22). Meanwhile, revenue growth for the sectors in 3Q23 (notably ICBP, MYOR and UNVR) has remained weak at 1-3% yoy), which implied soft volume growth across segments. With this performance, we also note a continued trend of consumers downtrading to cheaper and better value hand-rolled cigarettes.

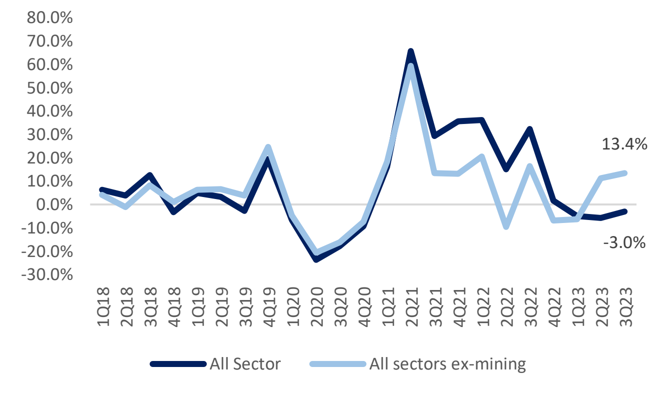
In 9M23, banks remained a consistent growth contributor (9M23 PPOP: +20% yoy), followed by Telcos (OP: +10% yoy, in-line), Consumers (+36% yoy), Healthcare (+24% yoy, in-line). As expected, the mining and tech sectors remained growth detractors in 9M23, which also culminated in disappointment in the earnings of the heavy equipment sector (UNTR).

Exhibit 5. JCI Historical Earnings Growth



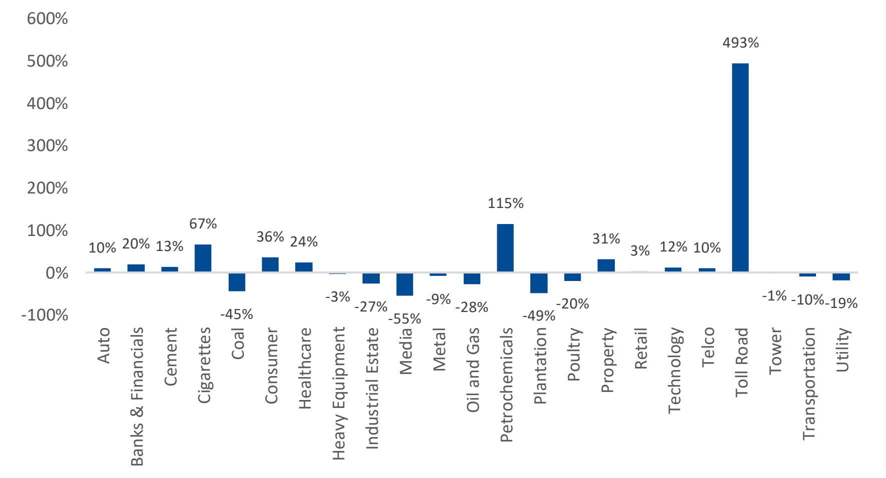
Source: Bloomberg

Exhibit 6. Quarterly YoY Earnings Growth



Source: Bloomberg

Exhibit 7. Sector Earnings Growth in 9M23 (yoy)



Source: Bloomberg, Company, BRIDS

BRI Danareksa's Equity Research team forecast 5%/ 7% EPS growth in FY24/ FY25 (14%/ 13% ex-mining), hence still similar growth to FY23F. We forecast slowing growth for the banking sector, in-line with the historical trend during election years, but expect growth outperformance from Telcos (+12% yoy). We see upside in our FY25 earnings growth as banks' loans and earnings growth should reaccelerate post-election.

Exhibit 8. Earnings growth forecast FY23-FY25

Sector	Core Earning (Rpbn) 2022	2023F	2024F	2025F	Core Earnings Growth (yoy) 2023F	2024F	2025F
Banks & Financials	**99,454**	**121,263**	**132,411**	**144,580**	21.9%	9.2%	9.2%
Commodities	**117,596**	**95,305**	**78,392**	**69,293**	-19.0%	-17.7%	-11.6%
Heavy Equipment	20,995	21,407	17,167	15,173	2.0%	-19.8%	-11.6%
Coal	72,455	50,615	35,905	26,433	-30.1%	-29.1%	-26.4%
Metal	13,781	15,160	17,828	20,566	10.0%	17.6%	15.4%
Oil and Gas	10,364	8,122	7,492	7,120	-21.6%	-7.8%	-5.0%
Non-Commodities	**59,696**	**98,969**	**119,252**	**138,899**	65.8%	20.5%	16.5%
Cement	4,207	5,155	6,049	6,862	22.5%	17.3%	13.4%
Cigarettes	9,113	14,032	15,529	16,743	54.0%	10.7%	7.8%
Consumer	31,664	31,148	32,655	36,087	-1.6%	4.8%	10.5%
Healthcare	2,375	2,952	3,342	3,864	24.3%	13.2%	15.6%
Poultry	4,668	5,514	5,973	6,419	18.1%	8.3%	7.5%
Property	9,594	8,922	9,804	10,022	-7.0%	9.9%	2.2%
Industrial Estate	1,415	1,339	1,353	1,972	-5.4%	1.0%	45.8%
Media	2,903	2,882	2,478	2,491	-0.7%	-14.0%	0.5%
Retail	2,772	2,933	3,130	3,337	5.8%	6.7%	6.6%
Telco	28,426	29,897	33,579	38,030	5.2%	12.3%	13.3%
Tower	6,865	7,549	8,258	9,701	10.0%	9.4%	17.5%
Overall	**276,746**	**315,537**	**330,056**	**352,771**	14.0%	4.6%	6.9%
Banks Only	99,454	121,263	132,411	144,580	21.9%	9.2%	9.2%
Commod's Only	117,596	95,305	78,392	69,293	-19.0%	-17.7%	-11.6%
Overall exc. Commod's	159,150	220,232	251,664	283,478	38.4%	14.3%	12.6%

Source: BRIDS Estimates

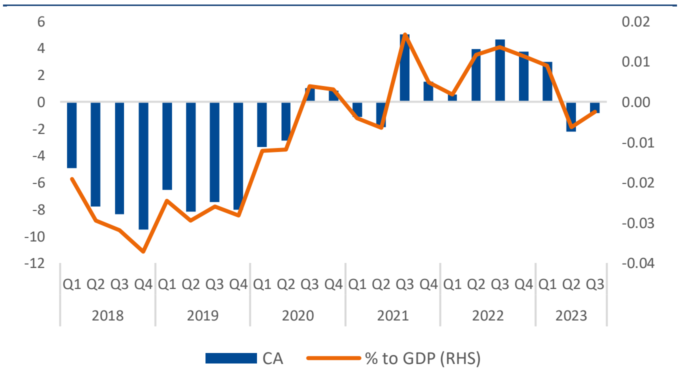
Key Macroeconomic Assumptions

BRI Danareksa's macro team forecast Indonesia's real GDP growth of 5-5.2% in FY24, a steady growth profile compared to FY23F. The team also expects Indonesia's CPI to be well in check at 2.5-3.5%.

Compared to EM peers, Indonesia's macroeconomic picture shall offer comfort for equity investors given a resilient economic growth outlook (vs. the outlook for EM peers which has a weaker outlook compared to six months ago and anticipated global slowdown in global growth).

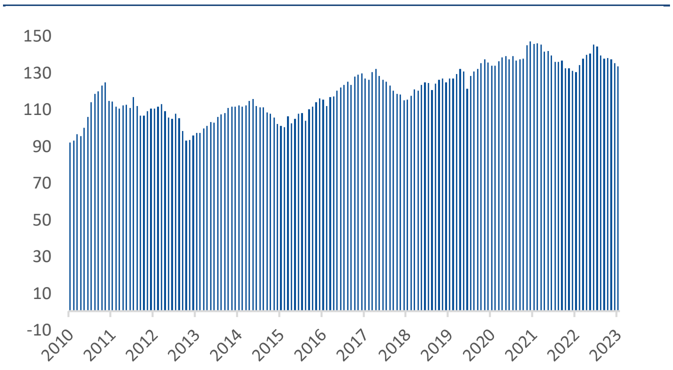
Meanwhile, the improving trade and current positions (vs. pre-2018) has proven to limit Rupiah volatility and should translate to a gradual decline in the market's risk premium.

Exhibit 9. Current Account



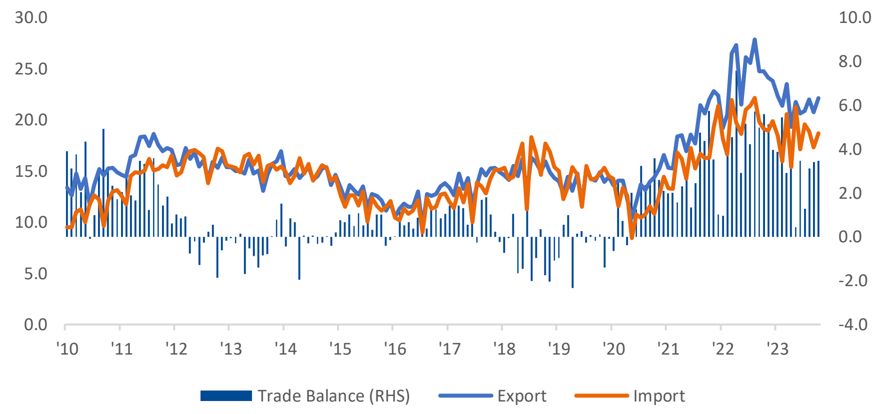
Source: Bloomberg

Exhibit 10. Indonesia FX Reserves (US$ mn)



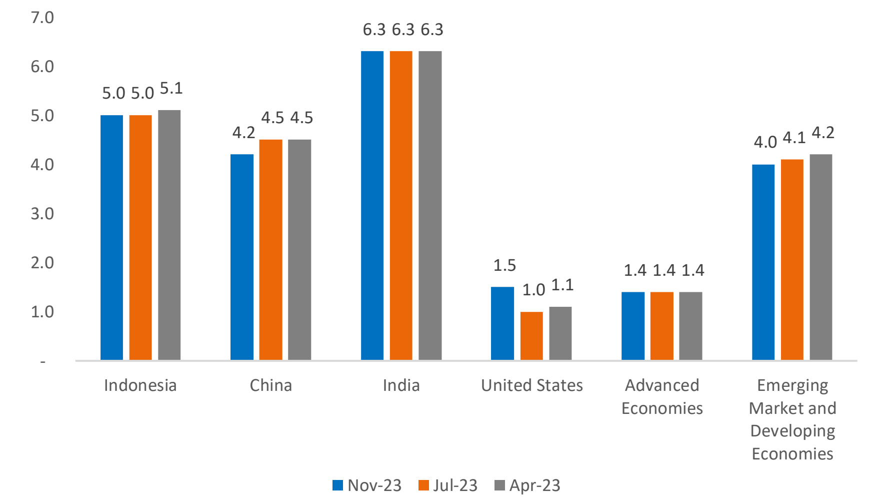
Source: Bloomberg

Exhibit 11. Indonesia Trade Balance



Source: Bloomberg

Exhibit 12. GDP Growth Forecast 2024



Source: IMF

Market Themes in 2024

We expect the following themes to play out in the market, as we navigate the year 2024.

Domestic growth

- Pre-election consumers spending (1H24)
- Post election growth prospects
- Sectors with structural growth drivers

External Themes

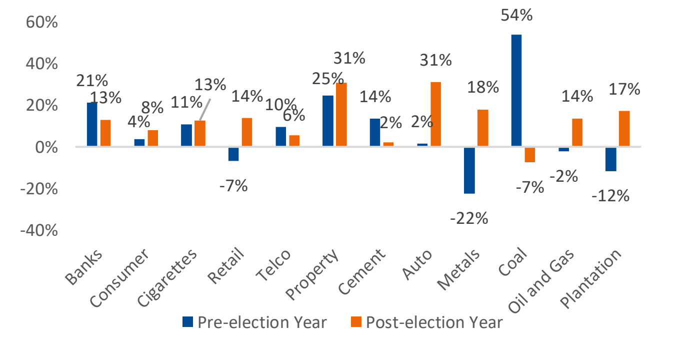
- US growth scenario (soft vs. hard landing)
- China growth recovery prospects
- Commodity price recovery outlook

Domestic growth

Past election years: pre-election growth spurt in consumer spending, but likely to be temporary

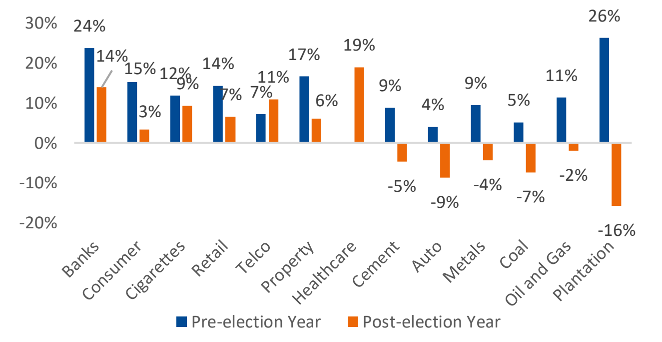
Consensus analysts / investors anticipate a positive impact from the pre-election period, particularly for sectors with domestic growth drivers (i.e., Consumers, Cigarettes, Telcos, Banks) given the expectation of higher money in circulation from campaigning activities. The chart below shows that topline growth (yoy) for these domestic sectors was indeed stronger in the past three election years (2009, 2014, 2019), with share price outperformance of these sectors then following.

Exhibit 13. Sectors' topline growth 2009



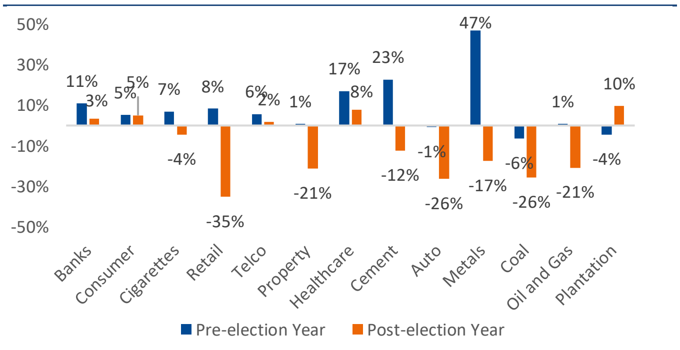
Source: Bloomberg, BRIDS

Exhibit 14. Sectors' topline growth 2014



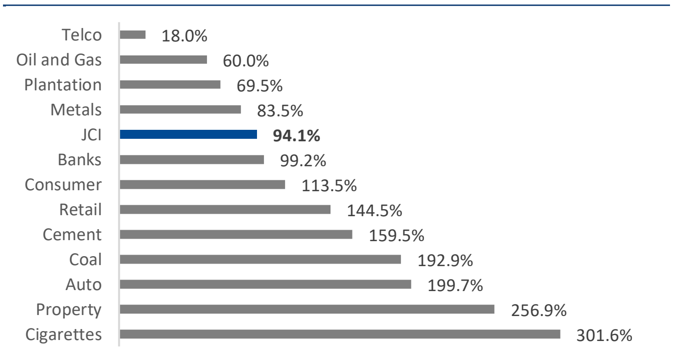
Source: Bloomberg, BRIDS

Exhibit 15. Sectors' topline growth 2019



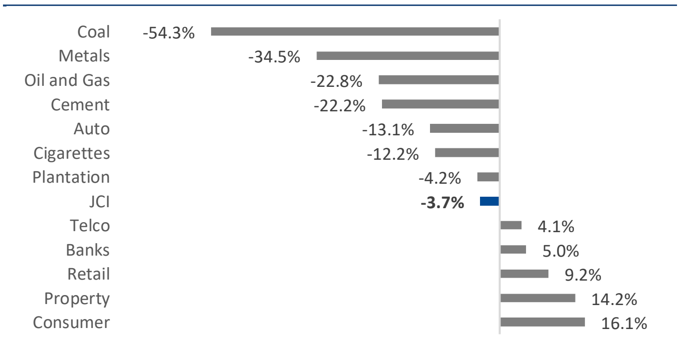
Source: Bloomberg, BRIDS

Exhibit 16. Sector Share Price Performance 2009



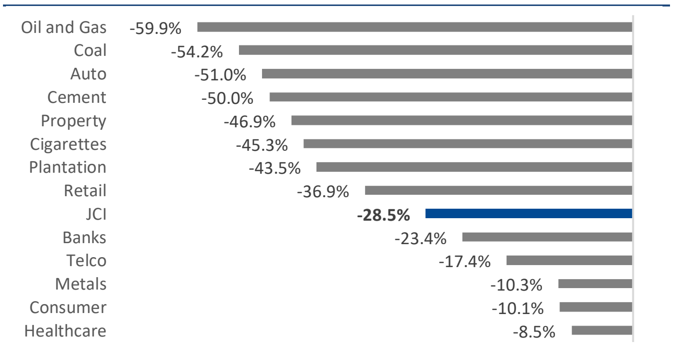
Source: Bloomberg, BRIDS

Exhibit 17. Sector Share Price Performance 2014



Source: Bloomberg, BRIDS

Exhibit 18. Sector Share Price Performance 2019



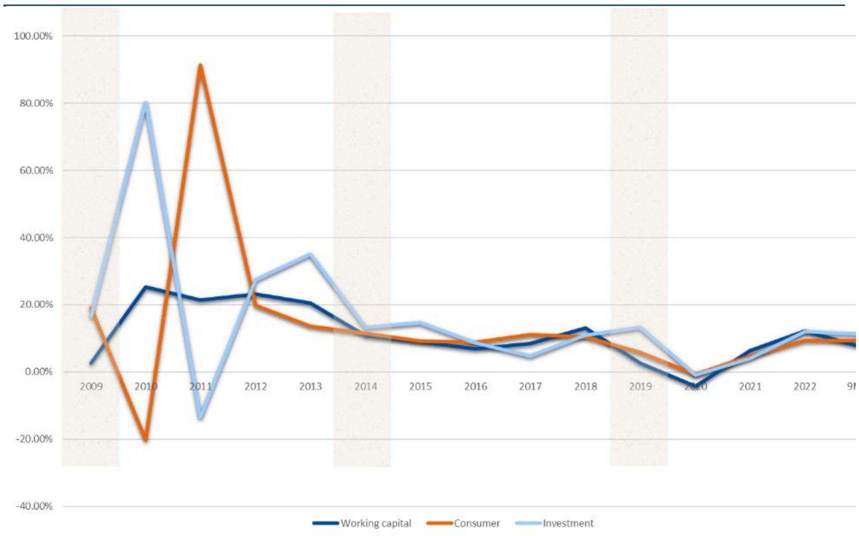
Source: Company, BRIDS Estimates

However, as we look further at the sectors, we note that the stronger topline growth during the pre-election/ campaign period tended to normalize in the coming quarters. This, combined with the impact from external drivers (in 2009, 2019), generally resulted in slowing earnings growth in the election year.

On specific domestic sectors, we note the following topline trends/drivers:

- **On banks**, we note loans growth during the past three election years slowed, led by the slowdown in working capital and consumer loans (though investment loans displayed somewhat strong yoy growth during the election year, but its growth normalized in the years after the election).

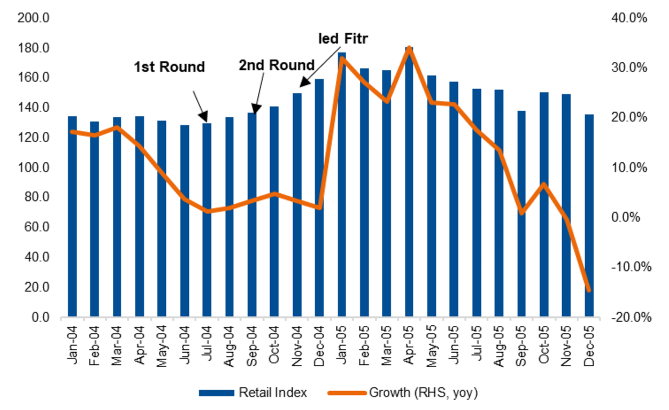
Exhibit 19. Loan growth of the banking industry by type of loan



Source: OJK, BRIDS

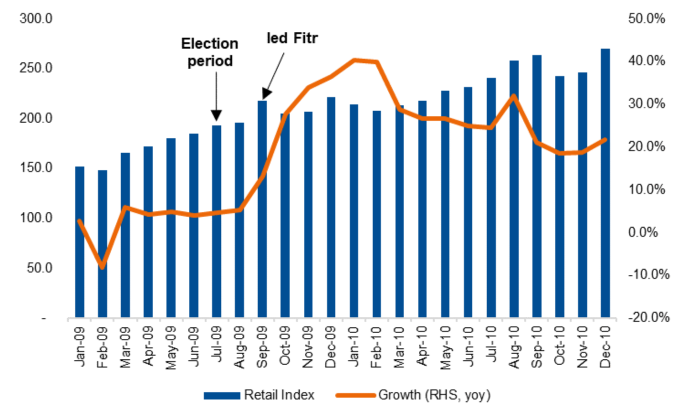
- **Consumers.** Indonesian consumer spending (using the retail index as a proxy) showed a positive trajectory during 4-5 months prior to the elections (i.e., campaigning period), and remained upbeat during the 2nd round elections (in 2004). However, consumption normalized in the months post-election.

Exhibit 20. 2004 Election impact on the Retail Index



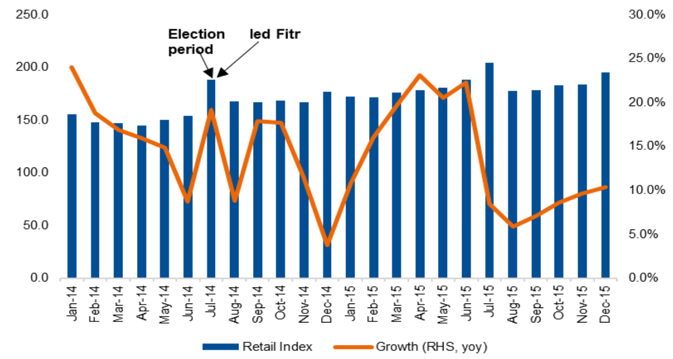
Source: Central Banks

Exhibit 21. 2009 Election impact on the Retail Index



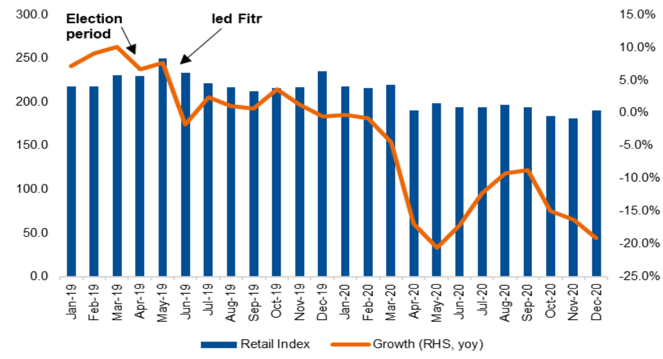
Source: Central Banks

Exhibit 22. 2014 Election impact on the Retail Index



Source: Central Banks

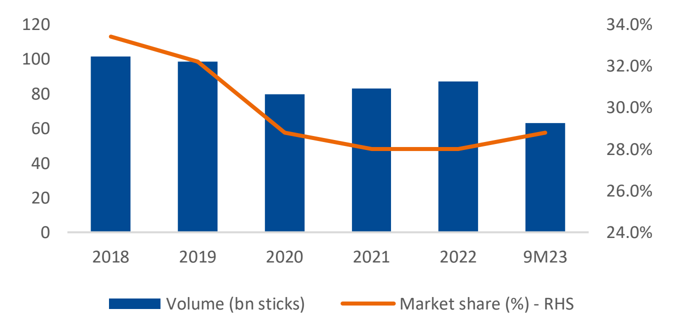
Exhibit 23. 2019 Election impact on the Retail Index



Source: Central Banks

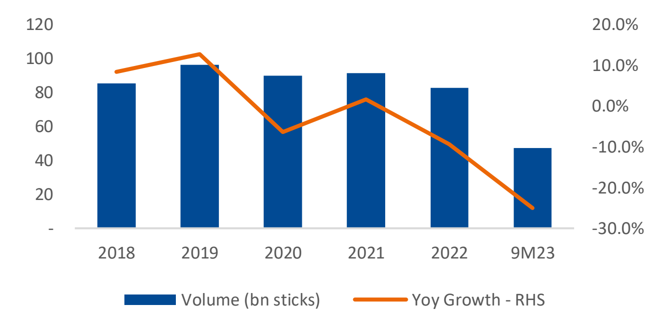
- **Cigarettes**. Despite the popular view of rising cigarette consumption during campaigning periods, the industry volume data in the past three elections shows that the sales volumes for GGRM and HMSP were determined by consumer preferences that prevailed at the time. Thus, in 2014 and 2019, GGRM's volume benefited from consumers switching to full-flavored cigarettes from low-tar/ nicotine ones. The reverse may happen in 2024 as the trend in 9M23 showed more favourable volumes for hand-rolled cigarettes and lower-tier cigarettes as smokers continued to shop for cheaper alternatives amid higher price hikes for the top-tier producers, particularly the machine-rolled cigarettes.

Exhibit 24. HMSP Sales Volume



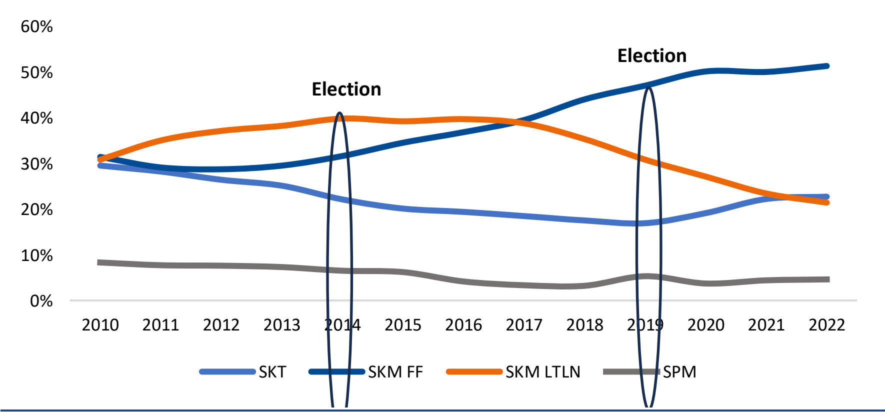
Source: Company

Exhibit 25. GGRM Sales Volume



Source: Company

Exhibit 26. Cigarette Market Share (SKM, SKT)

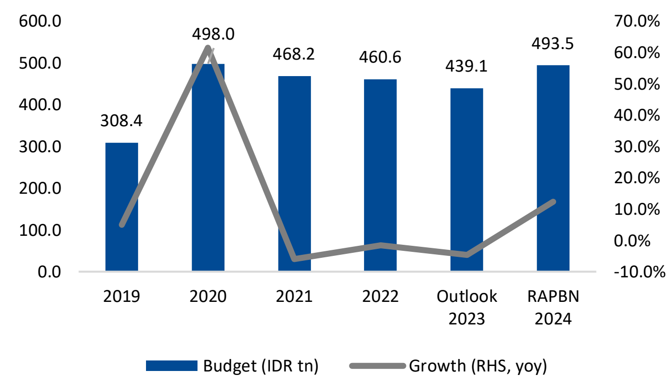


Source: Nielsen, BRIDS

FY24 pre-election outlook: possible support from social aid, though tight liquidity may remain a risk

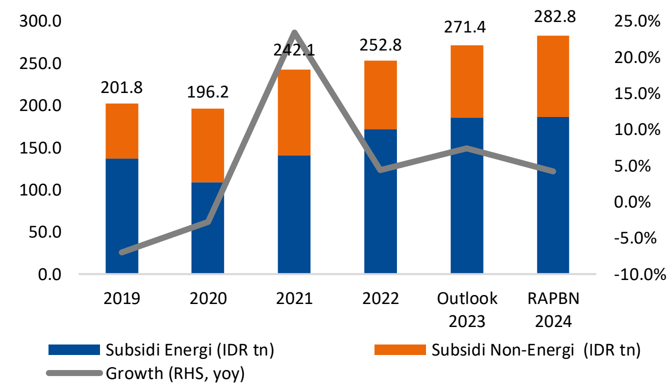
Despite the weak purchasing power evident in 3Q23/ early 4Q23 and disappointing minimum wage (UMP) hikes (3.7% national avg. vs. FY22's 5%), we expect the support from election-related spending to prevail in 1H24, particularly given the combined events of the Presidential and Legislative elections which will take place for the first time in 1Q24. Additionally, we also expect consumer spending to be supported by a higher government budget for social protection (+12% yoy) and a sustained budget for subsidies (+5% yoy) in FY24. We think this shall support purchasing power and benefit the Consumer, Cigarette and Telco sectors.

Exhibit 27. Social protection budget, 2019-24



Source: Ministry of Finance

Exhibit 28. Subsidy budget, 2019-24



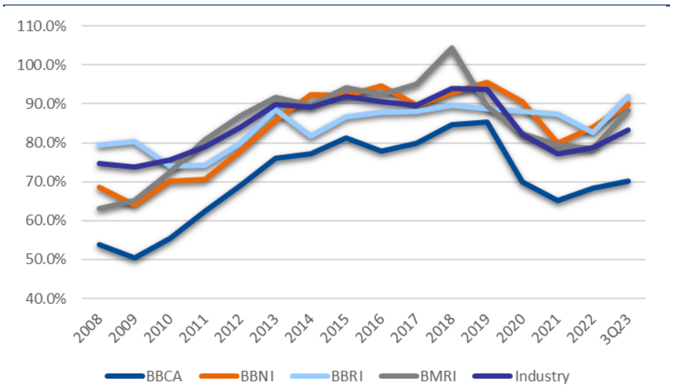
Source: Ministry of Finance

On the banking system liquidity, the latest data shows that money supply (M2) growth has continued to slow to its lowest rate of 3% yoy in Nov23, with banks' LDR already at 83% and the big-4 banks' at 89% (though still below OJK's guidance of 92%). Bank Indonesia has thus far supported liquidity through its macroprudential policy, which resulted in a drop in the RRR for the big banks. Our banks analyst Victor Stefano sees that BI may only adopt a more general liquidity policy (i.e., GWM cut) when loans growth has recorded a substantial slowdown.

Exhibit 29. M2 Liquidity Growth

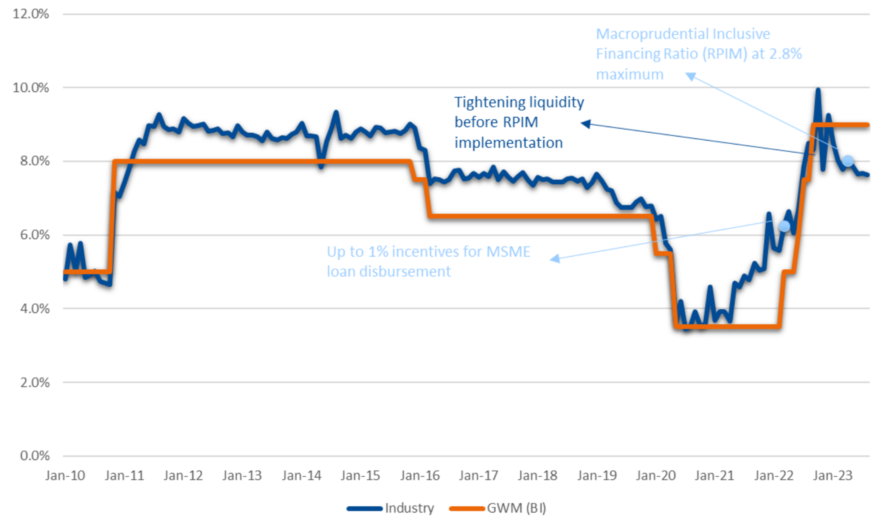
Source: Bloomberg

Exhibit 30. Indonesian banks' LDR



Source: OJK

Exhibit 31. Banks reserve requirement vs. GWM



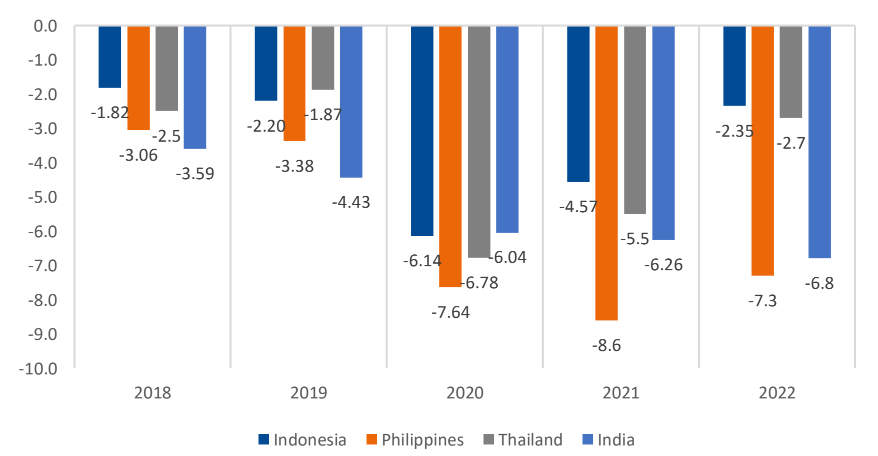
Source: OJK

<u>Post-election growth outlook</u>

We believe that the growth outlook post-election, driven by the new government's development plans and policies is a more important driver for the market in FY24. The visibility on post-election growth still hinges on the outcome of the elections (clearer visibility is only likely after the 2nd round voting in Jun24 and cabinet formation in Oct24). Nonetheless, in our view, the domestic growth outlook beyond FY24 <u>shall be supported by higher govt spending</u>, which we expect to be a likely policy for the new govt's first term, with all candidates citing a target of >5.5% GDP growth with <u>strategic priority spending on social spending and education and manufacturing sector growth through downstreaming</u>.

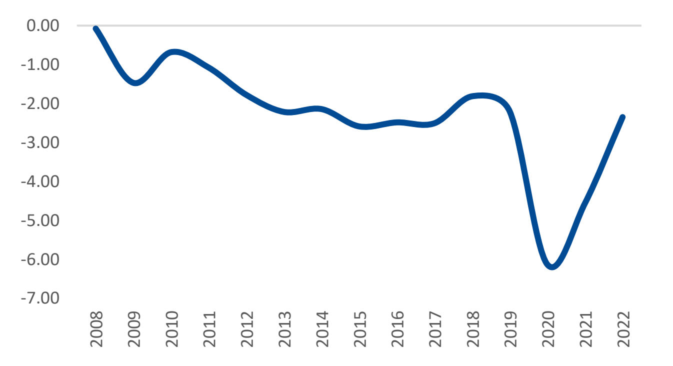
We think the expectation for higher government spending is realistic if we compare the government's budget to Asian EM peers, which demonstrates Indonesia's more conservative spending (versus EM peers) in 2018-2022 (with the 10M23 budget of a slight deficit also likely to be a lot more conservative versus peers).

Exhibit 32. Indonesia budget deficit (as % of GDP) vs. peers



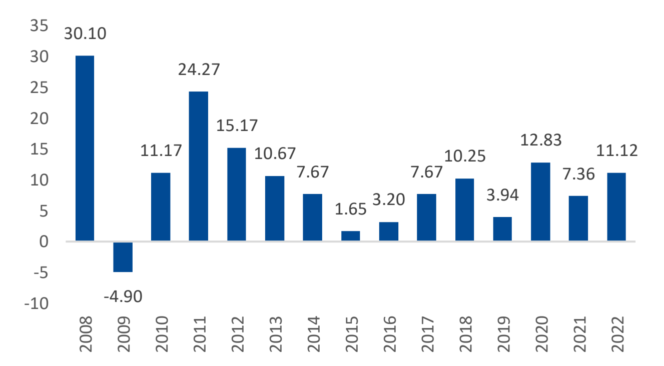
Source: Bloomberg

Exhibit 33. Budget Deficit (as % of GDP)



Source: Bloomberg

Exhibit 34. Government Spending (yoy)



Source: Bloomberg

Exhibit 35. Summary of Presidential candidates' key economic programs

	Anies-Muhaimin	Prabowo-Gibran	Ganjar-Mahfud
Economic Growth	• The presidential candidates share the target to achieve higher economic growth (GDP growth >5.5%). • Focus on human capital upgrading through higher budget allocations on education and health • Seeking to drive growth through the manufacturing sector, mainly through the continuation of downstreaming.		
	Manufacturing: 22-23% contribution to GDP	-	Manufacturing: 7.5-8.0% growth
Fiscal Spending	No specific target range of budget deficit mentioned, but candidates' consensus view on govt spending to sustain social assistance and higher wage hikes for civil servants		
	• Civil servant wage hike of 15% p.a. • 15mn new jobs, including green jobs	• Plan to continue the program of family subsidies (PKH) and cash aid (BLT) • Continuation of energy subsidies	• Plan to continue the program of family subsidies (PKH) and cash aid (BLT) • Target to increase PKH recipients to 15mn families (from current 10mn) • Continuation of energy subsidies
State Revenue	Formation of state revenue collection agency		
	-	Revenue target: 23% of GDP	Target tax ratio increase to 13-16%
Strategic development plan/ focus	• Continuation of downstreaming and value added • Higher research and development budget • SME • Special focus on Papua • Green economy • Blue (maritime) economy • Digital economy • Creative economy		
Infrastructure	Trans Sumatra road	Continuation of development	IKN acceleration
Energy	• Acceleration of geothermal exploration, oil EOR, early retirement of CFPP • EV incentive scheme and development of battery charging infrastructure	-	• Renewables energy contribution up to 25-30% by 2029

Healthcare	• Pushing for preventive healthcare • Mental health service in Puskemas • Enhancing services in Puskesmas	• Free medical checkup for productive ages • Eradication of tuberculosis • Enhancing medical equipment outside tier-1 cities	• One village, one Puskesmas, one doctor program • Hastening of telemedicine services • Utilization of NIK to enhance BPJS serivces

Source: Various

Domestic sectors with structural growth drivers

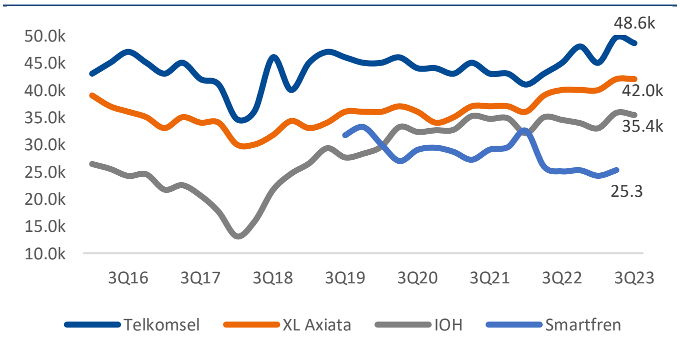
Within the domestic theme, we have identified sectors with structural growth drivers namely industry consolidation in Telcos and cost efficiency in the Healthcare sector. Our sector analysts expect these drivers to continue in FY24-25 and foresee earnings outperformance from these sectors.

Telcos: positive impact from industry consolidation, with more upside
Telcos' revenues have grown at a stronger pace in 9M23 post the merger of Indosat with Hutchison in 1Q22. The strong growth has also been reflected in a steady rise in the industry's ARPU to above Rp35k for the top-3 players in 9M23, signaling a more constructive price environment as the number of operators shrunk from five to four.

Our Telcos analyst Niko Margaronis views that the industry consolidation should continue (with the next possible merger of the #4 and #3 players EXCL and FREN), predicated on FREN's balance sheet condition and limited monetization of its 4G network thus far.

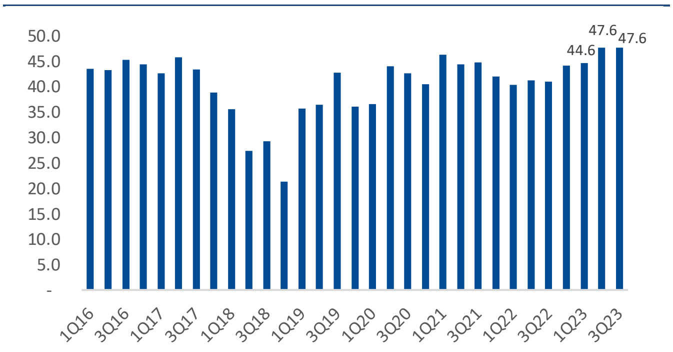
The key beneficiary of the industry consolidation trend was ISAT, which recorded strong revenues growth in 9M23, driven by an increase in ARPU to Rp35k. ISAT has also been benefiting from opex rationalization post-merger, which drove an improvement in its EBITDA margin. We expect further upside in ARPU and cost rationalization to be reflected in FY24, which is expected to drive ISAT's EBITDA growth outperformance (+16% yoy vs. peers' 7%).

Exhibit 36. **Telcos ARPU improvement post merger**



Source: Company, BRIDS

Exhibit 37. **ISAT EBITDA margin (%)**



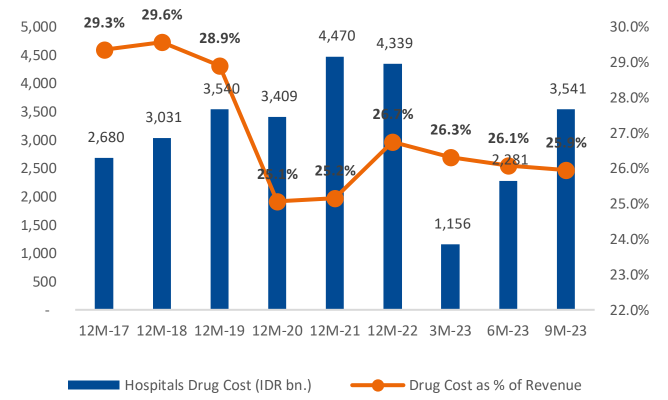
Source: Company, BRIDS

Healthcare: rising volume from UHC/ BPJS + drug cost rationalization
A key trend in the healthcare sector in 9M23 was the shift in the patient payment profile toward more BPJS payers, which our analyst believes was triggered by the weaker purchasing power. While BPJS payers lowered the revenue intensity (30% below regular payers), the trend boosted the volume of patient visits and benefited hospitals that cater to BPJS patients (i.e., HEAL).

To counter the impact of lower revenues intensity, hospital operators have embarked on cost efficiency efforts, which mainly focus on drug rationalization costs. This has the impact of reducing operators' costs (as of 9M23) and supporting the operating margin.

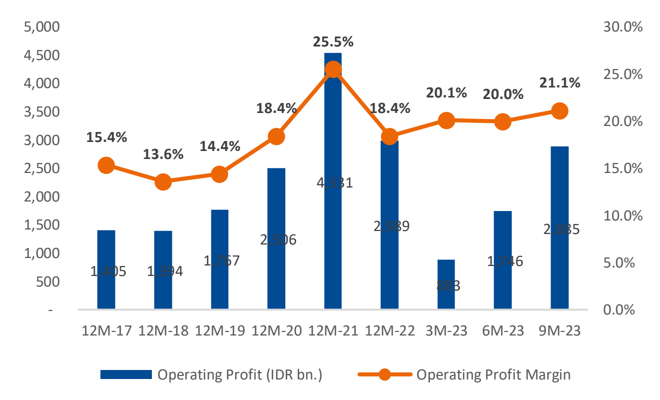
Our healthcare analyst Ismail expects the cost efficiency impact to continue in FY24, which combined with higher volume from BPJS, is projected to drive 13% earnings growth for the sector. We expect HEAL (Buy, TP Rp1,800) to be a key beneficiary with 24% projected FY24 net profit growth and is our top pick in the sector. We also still like SILO (Buy, TP Rp2,900) with the growth driver being improving revenue intensity.

Exhibit 38. Healthcare drug cost rationalization



Source: Company, BRIDS

Exhibit 39. Healthcare operators margin



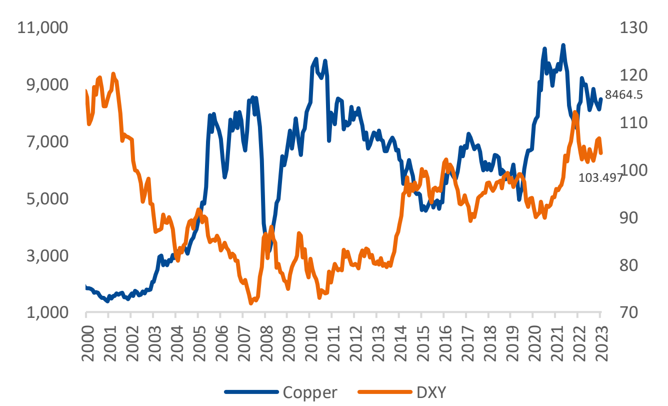
Source: Company, BRIDS

External growth theme

Commodities recovery prospects: growth outlook matters more than rate cuts

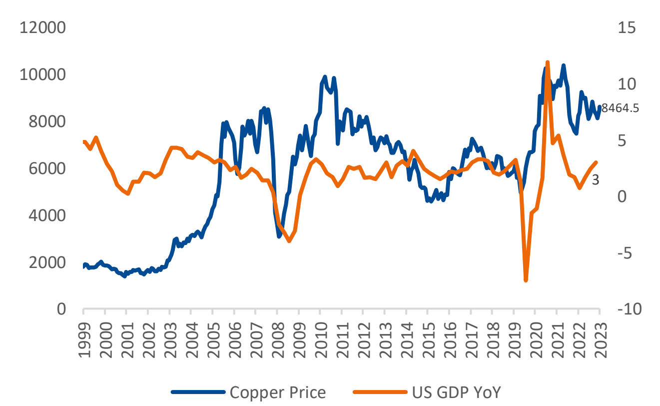
We see that performance of risky assets (e.g., EM equities, commodities) was driven more by the economic growth outlook (commodities and EM performance preceded the bottom of growth (in 2001, 2008-09, 2020 recessions) and also tracked the past peak of GDP growth. In view of the interest rate cut expectations, the assets still delivered positive performance during the period of CB's rate pause (i.e., the period during rate cut expectations) but peaked when rates started to be cut (4Q07, 1Q20), which usually marked the start of growth contraction.

Exhibit 40. Copper Price vs. USD (DXY index)



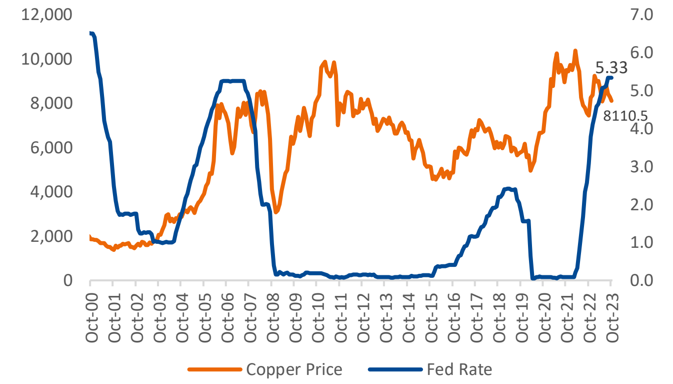
Source: Bloomberg

Exhibit 41. Commodities vs. US GDP Growth



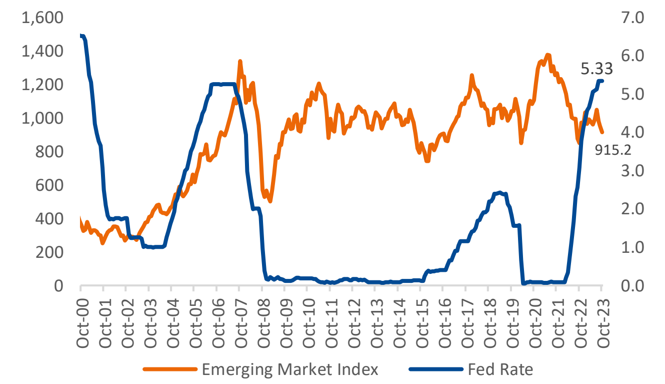
Source: Bloomberg

Exhibit 42. FED Rate vs. Copper Price



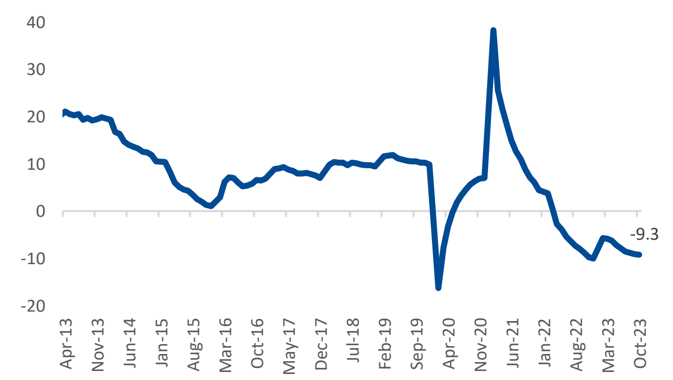
Source: Bloomberg

Exhibit 43. FED Rate vs. Emerging Market Index



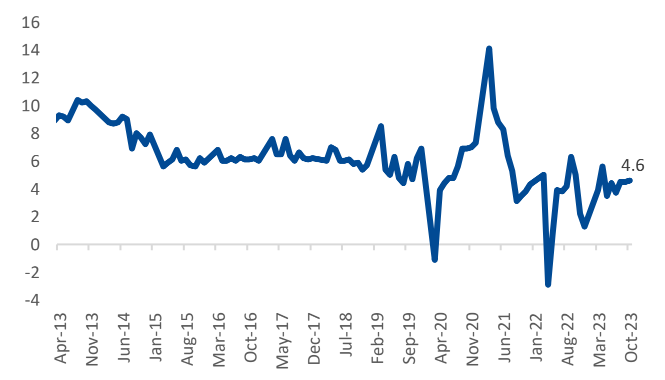
Source: Bloomberg

Exhibit 44. China Property Investment



Source: Bloomberg

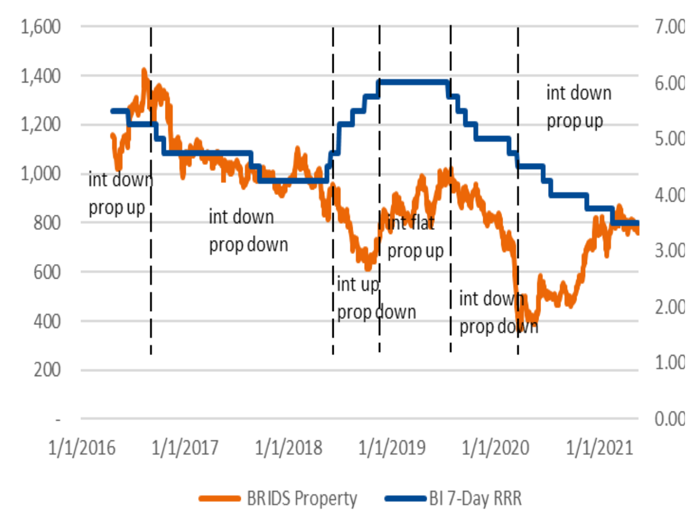
Exhibit 45. China Industrial Production (yoy)



Source: Bloomberg

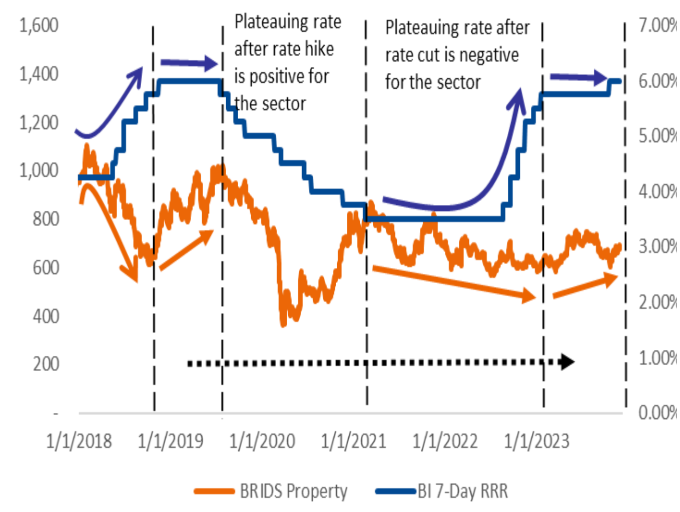
Looking at the domestic sectors that are perceived as beneficiaries of rate cuts (e.g., property), we note similar observations as the above, where share prices tend to perform better during the time when the BI rate is on pause.

Exhibit 46. Property sector share price vs. BI rate



Source: Bloomberg

Exhibit 47. Property sector share price vs. BI 7D RR



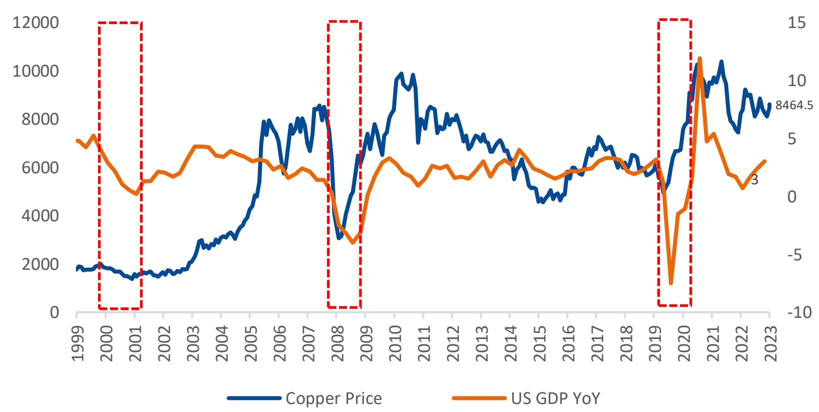
Source: Bloomberg

Thus, in FY24 we see global growth expectations to be the bigger driver for EM equities including Indonesia. We believe the question remains centred on the outlook for a US economic growth correction in 2024 and the lingering uncertainty growth recovery in China (as the largest consumers of key industrial metals).

What is priced in?
Using copper (as a proxy of commodities), we look at the recent recessions in the US namely in 1990, 2000, 2008 and 2020 and the movement in prices. While copper drops always precede US economic recession, we found that the price correction (from peak to bottom) and length of correction varies. On average, copper and EM prices corrected 39% for an average length of 6.8 months (though if we exclude the correction during the longest recession in 2008- 09 GFC, the average correction was 29% for an average period of 6 months).

If the US were to see a mild contraction in 2024 (i.e, unlike in GFC), then copper price recovery in 4Q23 may have priced in the downside and justify the path of recovery. Conversely, if the US were to see a recession, then we may still see correction in the copper price.

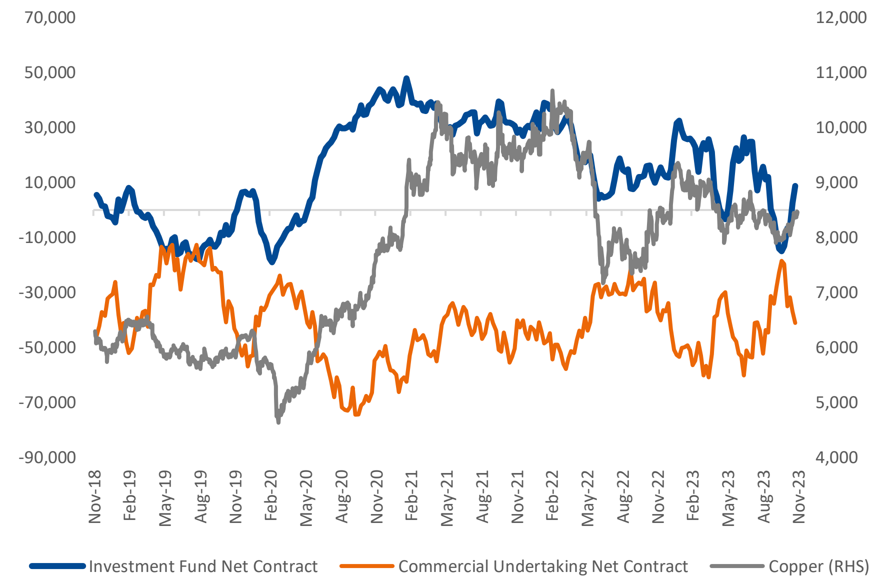
Exhibit 48. Copper Price vs. US Growth/Recession



Source: Bloomberg

Looking at the latest positioning in LME for copper, we note that copper prices' recent rally (from bottom in Oct23 of around US$7900/t) has been mainly supported by short covering from the investment funds (hedge funds) group, while the more influential producers/ wholesaler group have raised short positions (as a hedge of their physical inventory). This indicates that the producers remained unconvinced on the ST growth recovery prospects.

Exhibit 49. Copper Price vs. Buyer Positioning in LME



Source: Bloomberg

For Indonesia's metals sector specifically, the growth drivers have been centred on the resource monetization/ unlocking through growth projects. While the sector's outlook will remain dependent on the top-down view (i.e., commodities price outlook), we believe the current share prices for some metal stocks prices in a pessimistic margin outlook (e.g., US$500-600/t for MBMA's NPI). Thus, we think some stocks within the sector may offer an attractive risk-reward profile, particularly given the expected progress on the respective growth projects.

Exhibit 50. DCF-based TP for Metal Stock, margin assumption and project drivers

Company	Current Share Price	DCF – Based TP	Cash Margin Assumption for key products (US$/t)	Key growth projects, expected contribution
MBMA	Rp605	Rp960	NPI: US$2,268/t Matte: US$2,863/t	AIM (Acid 1.2 mn t, steam 1.36 mn t, precious metals) FY24F HPAL 1 (120k t) FY26F HPAL 2 (120k t) FY27F SCM (3.5 mn t saprolite, 8 mn t limonite) FY24F
NCKL	Rp1,055	Rp1,400	FeNi: US$3,763/t MHP: US$8,330/t	KPS (FeNi 185 k t) FY26F
INCO	Rp4,400	Rp6,500	Matte: US$4,608	HPAL Pomalaa (120 kt) FY26F HPAL Soroako (60 kt) FY27F
ANTM	Rp1,705	Rp1,960	FeNi: US$1,015/t	FeNi Halmahera (13.5kt) FY24F

Source: Company, BRIDS Estimates

JCI Target and Stock top picks

We retain our FY24-end JCI target of 7,830, implying 12% upside from our FY23-end target of 7,000. Our base-case index target is predicated on our 5% EPS growth forecast and expectation of normalizing risk premium to lead to PE rerating to 14.5x. Our bull/ bear target case is 8,240/ 7,520, which are based on EPS growth of 4%/ 8% and PE targets of 14.2x/ 14.7x.

Our stock picks for 2024 comprise of names to play the different market themes.

- We favour select domestic-oriented stocks that may potentially benefit from election spending and downtrading (a likely play in 1H24): **ICBP** (TP Rp13,000), **MYOR** (TP Rp3,500), **HEAL** (TP Rp1,800), **ISAT** (TP Rp11,100) – the latter two also represent sectors with sustainable structural growth drivers.

- The post election growth continuation theme should mainly favour banks (top picks **BBCA** - Buy, TP12,100, **BMRI** - Buy, TP7,300) as we expect brisker loans growth to resume (at 11% yoy in FY25, following an anticipated temporary slowdown to 9% in FY24).

- Despite our view on the still tentative commodities price recovery, our external growth theme favours Indonesian metals stocks with credible growth projects: **MBMA** (Buy, TP Rp970) and **NCKL** (Buy, TP Rp1,400), as we believe current share prices have discounted conservative nickel prices/ margin assumptions.

Exhibit 51. Valuation Table for Stock

Ticker	Share Price	Target Price	PE		EV/EBITDA		Dividend Yield (%)	3yr EPS Growth (%)
			FY23	FY24	FY23	FY24	FY24	
ICBP	10,525	13,000	13.3	11.5	9.3	8.4	3.4	20.1
MYOR	2,520	3,500	19.7	18.2	18.8	15.7	2.9	22.7
ISAT	9,575	11,100	27.6	19.7	5.3	4.7	2.5	51.8*
HEAL	1,460	1,800	45.0	36.4	16.7	14.4	0.7	32.6
MBMA	605	970	266.9	18.2	47.7	8.5	0.0	114.2
NCKL	1,055	1,400	12.5	6.8	7.3	4.4	0.0	33.7

** Adj Net Profit*

Ticker	Share Price	Target Price	PE		PBV		Dividend Yield (%)	3yr EPS Growth (%)
			FY23	FY24	FY23	FY24	FY24	
BBCA	8,950	12,100	22.2	20.1	4.5	4.1	3.3	13.6
BMRI	5,900	7,300	10.8	10.0	2.2	2.0	6.0	13.4

Source: BRIDS Estimates

FY24 outlook summary for key sectors

Exhibit 52. FY24 key sectors outlook summary

Banks (Overweight)	**Moderating FY24 growth, but intact fundamentals shall support high growth to resume in FY25** • We expect a temporary deceleration in banks' FY24 earnings growth, driven by slower loan growth, in-line with past trend in election year. • With NIM, CIR and CoC remain in check, and healthy asset quality, we expect big-4 banks' to resume robust net profit growth in FY25. • We reinitiate the banking sector coverage with Overweight rating and BBCA as our top pick in FY24, followed by BMRI. *BRI Danareksa Analysts:* ***Victor Stefano,*** *Naura Muchlis*
Telecommunication (Overweight)	**Solid FY24 growth outlook with possibility for further industry consolidation** • We forecast the mobile industry revenue to grow by 5%+ yoy in FY24, fueled by market pricing adjustments, new FMC offerings, with network improvements from new spectrum to kick in 2H24. • Upside from a new merger between no.3 and no.4 telcos will notably boost their scale and profitability, and reduce market competition intensity (evidenced by higher ARPU post-IOH merger). • Telcos are set to further leverage their 4G networks to improve margins and absorb new spectrum fees, potentially allowing the sector to reach 12% FY24 projected net profit growth *BRI Danareksa Analyst:* ***Niko Margaronis***
Consumer Staples (Overweight)	**Festive events in 1H24 and higher social aid to cushion soft recovery in FY24** • We expect more provision for social aid and the festive events in 1H24 to cushion soft purchasing power recovery amid modest wage hikes. • We forecast FY24 net profit growth for the sector of 10.6% yoy (core profits: +5% yoy) supported by sales volume recovery (3-9%). • We maintain sector OW rating and expect ICBP (TP Rp13,000) and MYOR (TP Rp3,500) to fare better under soft recovery scenario. *BRI Danareksa Analysts:* ***Natalia Sutanto****, Sabela Amalina*
Cigarettes (Overweight)	**Attractive value proposition despite lingering regulatory headwinds and continued downtrading** • FY24 excise revenue target growth of 5% yoy and 10% avg. tariff growth implies negative industry volume growth will continue. • Tepid 4% growth in 2024 minimum wages may lead to further downtrading; we expect the SKT category to continue gaining share. • We maintain OW rating as the sector's 10.8x FY24F PE (24% disc. to avg 3yr PE) has priced in the downside, with cushion from 6-10% div. yield. *BRI Danareksa Analysts:* ***Natalia Sutanto*** *Sabela Amalina*
Healthcare (Overweight)	**Cost efficiency to drive earnings growth amid continued consumers' shift to BPJS** • We expect the sector's earnings in FY24 to hinge on cost efficiency, as top line growth will still depend on the shift towards more BPJS volume. • Healthcare has historically benefited from election spending; we expect next govt to sustain healthcare budget allocation at 5-6% to APBN. • We maintain OW rating as we expect sector to sustain earnings growth at 13.2% in FY24F while valuation is at discount to regional peers *BRI Danareksa Analyst:* ***Ismail Suweleh***

<table>
<tr><td>Metals Mining
(Overweight)</td><td>Nickel oversupply persists, but expect supply cut to support NPI price in FY24
Still-rising Indonesian output and the launch of new Class 1 capacities in China and Indonesia have further contributed to the growth in supply (FY24F surplus of >200k tons).
For NPI, we think price is already at a level near to the break-even level of more than 30% of NPI smelters globally and thus, expects supply cuts to support prices.
We maintain our OW rating on view of stabilizing nickel prices and margins and prefer nickel players with volume growth drivers namely MBMA (Buy, TP Rp970) and NCKL (Buy, TP Rp1,400).
BRI Danareksa Analysts: Hasan Barakwan, Christian Sitorus</td></tr>
<tr><td>Telco Tower
(Overweight)</td><td>Stabilizing organic growth, with plenty of inorganic opportunities in FY24
We expect tower sector revenue to grow by 5%+ yoy in FY24, driven by organic increases in tower tenancies and the expansion of fiber networks, responding to the increasing demand for infrastructure, especially in ex-Java.
Tower cos are presented with a number of M&A opportunities, which will potentially support double-digit earnings growth outlook in the next 2 years. Mitratel is potential winner in this space due to its lower leverage.
Tower companies will be affected in the event of a new telco merger. We maintain a preference for Mitratel due to its comparatively lower exposure to potential disruptions and their comparative geographic advantage in ex-Java.
BRI Danareksa Analysts: Niko Margaronis</td></tr>
<tr><td>E-commerce/ Tech
(Overweight)</td><td>Robust GMV growth outlook in FY24 with incumbents to be key beneficiaries
We expect Indonesia's internet economy robust growth to continue in FY24, with players embracing partnerships for sustainable development.
As e-commerce transformation trend continues (e.g., social media integration), the sector is open for new collaborations and investment opportunities
We maintain OW rating on robust GMV growth outlook and like GOTO (Buy, TP Under Review) as we see potential to regain its GMV share.
BRI Danareksa Analysts: Niko Margaronis, Sabela Amalina</td></tr>
<tr><td>Coal Mining
(Neutral)</td><td>Expect further coal price normalization as supply growth will lead to another market surplus in FY24
Demand growth from China and India came short of expectations in FY23, driven by stronger growth in domestic production, which may continue in FY23.
We expect more supply growth from Indonesia and Australia to drive market into another surplus and push coal prices to normalize further in FY24.
We maintain sector Neutral rating on coal price and earnings decline, but cushioned by dividend yield of 8-10%.
BRI Danareksa Analysts: Erindra Krisnawan, CFA; Christian Sitorus</td></tr>
</table>

Source: BRIDS Estimates

Fund Flows

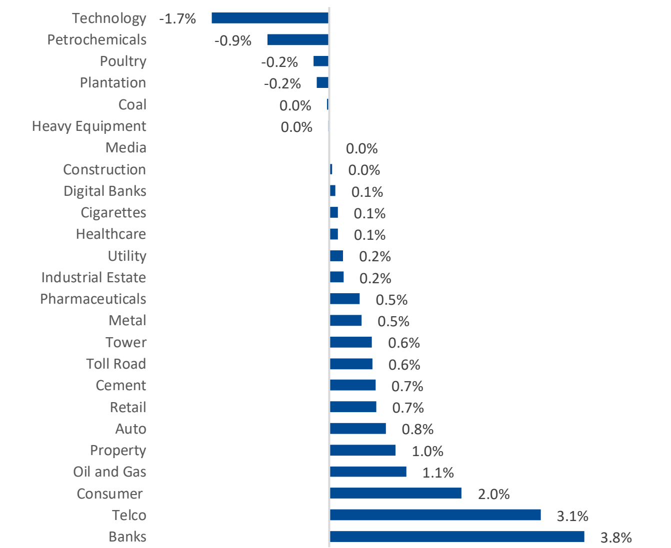
Domestic Funds Positioning (Nov23)

As of Nov23 domestic funds were generally overweight in JCI's key sectors namely Banks, Telco, and Consumers. During Nov23, domestic funds added exposure in Banks (largely in BBRI), Tower and Property sectors which we think clearly reflect positioning amid rising interest rates cut expectation.

Within the domestic sectors, funds only had overweight position in Consumers, but largely remain neutral/ slight overweight in Auto, Retailers, Property, Cigarette and Healthcare. We think this reflects investors' view that pre-election spending may be short-lived.

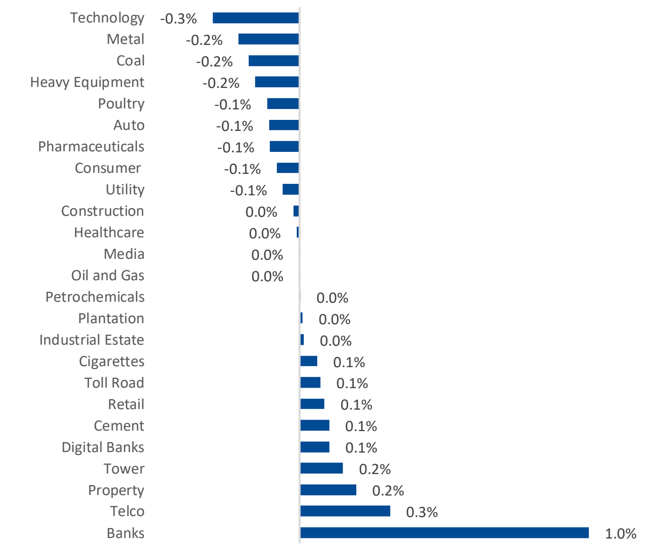
In the commodities space, investors have maintained bearish view in both Metals (reduced exposure in Nov23) and Coal, though somewhat kept a slight overweight in Oil & Gas (though largely through AKRA).

Exhibit 53. Fund Sector Positioning Nov23



Source: Bloomberg, KSEI

Exhibit 54. Fund Sector Positioning – Nov23 changes (mom)



Source: Bloomber, KSEI

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INVESTMENT RATING	
BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period