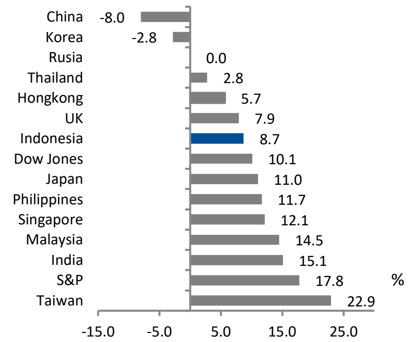
Equity Strategy

Riding the Wave of Earnings Growth, Strong IDR and Liquidity Catalysts

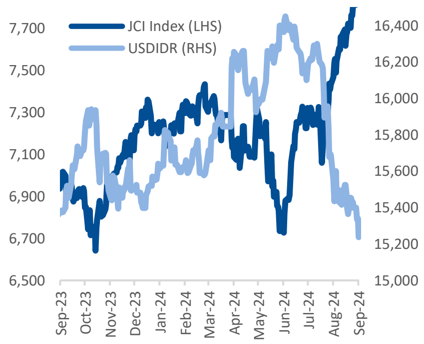
- **If 2007 performance is an indicator, JCI may sustain its short-term performance in the next 3 months post Fed's rate cut.**
- **EPS growth outlook of 7-8% is attractive compared to EM peers, with catalyst for upsides from better liquidity and stronger IDR tailwind.**
- **We raise our FY24-end JCI target to 8,238; our preferred picks are the high beta stocks, namely BBCA, BBNI, ARTO, CTRA, SMRA, ASII, GOTO.**

YTD Regional Market (%)



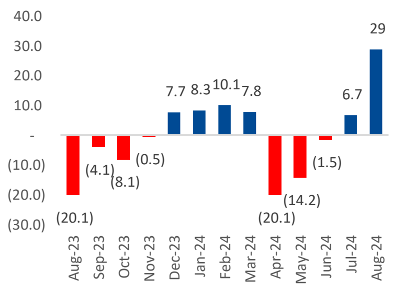
Source: Bloomberg

JCI vs USD



Source: Bloomberg

Net Foreign Flow (Rptr)



Source: Bloomberg

BRI Danareksa Sekuritas Analysts

Erindra Krisnawan, CFA
(62-21) 5091 4100 ext. 3500
erindra.krisnawan@brids.co.id

Wilastita Muthia Sofi
(62-21) 5091 4100 ext. 3509
wilastita.sofi@brids.co.id

Is Fed's 50bps First Rate-cut Bullish or Bearish for JCI?

Prior to this week's 50bps first rate cut, the Fed only had 50bps first rate-cut in 2001 and 2007, which in both cases, were followed by economic recessions and sharp corrections in the US equity markets (SPX Index falling by -13.5% and -23.9% in following 12 months post first rate cut). Similarly, JCI delivered a -6% and -21% 12-month performance post Fed's first rate-cut in 2001 and 2007. In the short-term, however, current market trends suggest the possibility of continued performance, following the pattern seen in 2007. The interest-sensitive sectors (i.e., banks, property) were among those that outperformed pre-rate cut, with continuing outperformance in the 3 months post the first cut.

Steady earnings outlook may continue to support market inflows

We believe that EPS growth will remain a key driver for market flows and performance. In FY01-02, JCI's EPS growth was -12.2% and in FY07-08 was -0.3%, compared to earnings contraction of -22.9% and -30.2% in SPX. At present, JCI's 12-month forward EPS growth (based on Bloomberg consensus) has remained steady at 7%, putting JCI among the attractive markets within EM universe. Despite the still mixed macro outlook, we have also observed that in 7 of past 10 years, consensus EPS estimates for the large-cap stocks were maintained or upgraded in 3Q.

Not all is bleak on the growth front; tailwinds from liquidity and IDR

Macro indicators in 3Q24 suggested soft growth outlook may persist, as seen in the drop in PMI to sub-50 and soft consumption and capital goods imports. Nonetheless, latest indication from selected consumers and retailers suggests still resilient sales growth in 3Q24 (e.g., MYOR Aug24 sales indication still in line with its 10-12% FY24 yoy growth, SSSG of ACES and MIDI at 7.6-10.4% yoy). On a more positive note, we finally see room for liquidity improvement by end of Sep24, as BI issuance of SRBI has continued to trend down and has been outpaced by the purchase of SBN. This, combined with BI's surprise 25bps rate cut, shall offer the much-awaited liquidity support for the banks. We believe the major tailwind for JCI also comes from the IDR appreciation, which will mainly benefit the consumers sector, based on our observation.

Raise JCI target to 8,238; preferred picks on high beta stocks

We raise our FY24-end JCI target to 8,238 (from 7,680 prev.), based on a higher PE multiple of 15.4x (its 10-year mean, vs. 14.2x prev.), with bull/bear target of 8,395/8,080). While our 12-month forward EPS growth assumption of 8% is unchanged, the higher multiple is predicated on the potential growth upside amid the tailwind from strengthening IDR and falling bond yield. We continue to favour the high-beta stocks, namely banks (top picks: **BBCA** Buy TP Rp12,400, **BBNI** Buy TP Rp7,600, **ARTO** Buy TP Rp3,800), property (**CTRA** Buy TP Rp1,700, **SMRA** Buy TP Rp1,000) and add **ASII** (Buy, TP Rp5,700) and **GOTO** (Buy, TP Rp90) into our stock selections. Aside from the high-beta stocks, we also like **TLKM** (Buy, TP Rp4,250) and **MYOR** (Buy, TP Rp3,350).

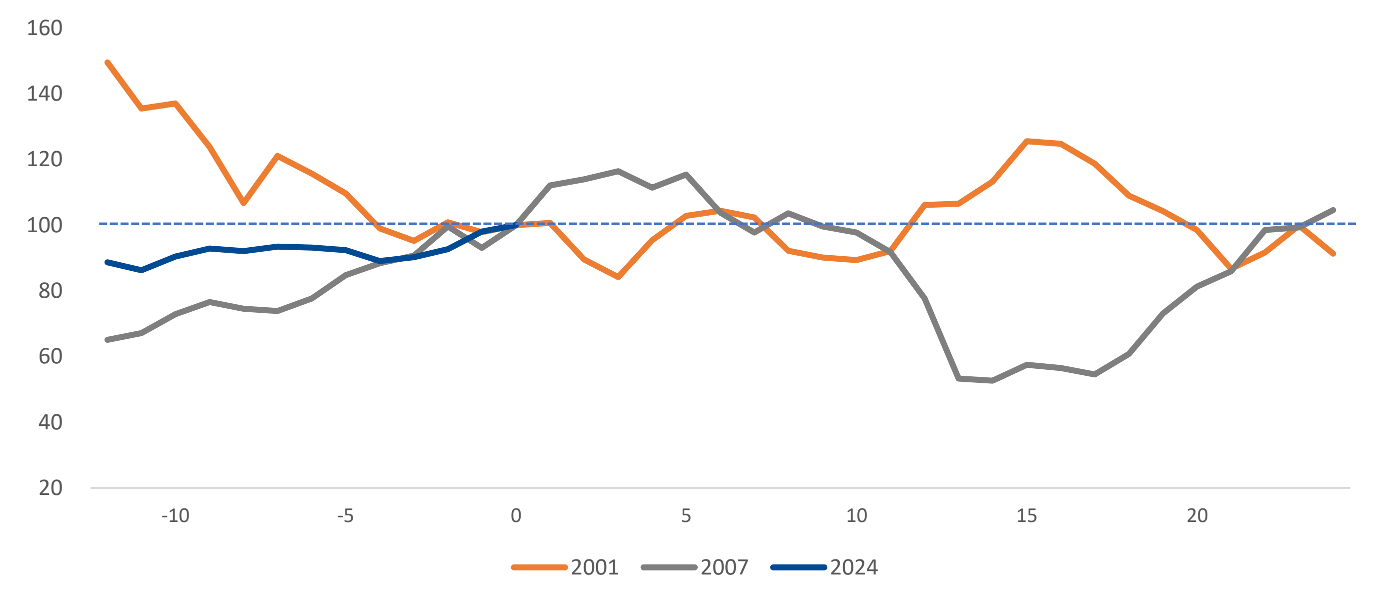
Riding the Wave of Earnings Growth, Strong IDR and Liquidity Catalysts

Is Fed's 50bps First Rate-cut Bullish or Bearish for JCI?

Prior to yesterday's 50bps first rate cut, the Federal Reserve had only enacted an initial 50bps reduction in 2001 and 2007. In both cases, these cuts were followed by economic recessions (GDP growth contracted -1.6% in 3Q01 and -2%/ -8.5 in 3Q/ 4Q08) and significant corrections in the U.S. equity markets, with the S&P 500 Index declining by -13.5% and -23.9% over the following 12 months post first rate cut in both years.

JCI's performance during these periods was only slightly better, recording a -6% and -21% performance post Fed's first rate-cut in 2001 and 2007 (see the table below for full performance details). Market's trajectory during these times showed divergence, with JCI outperforming 6-12 months prior to the 2007 rate cut, experiencing short-term underperformance 3-6 months after the cut, and then returning to outperformance 12 months post-cut (2001 was a reverse of 2007's performance pattern). Current market trends suggest the possibility of continued short-term performance, following the pattern seen in 2007. On the sectoral basis, the interest-sensitive sectors (i.e., banks, property) were among those that outperformed during the period prior to rate cut in 2007, with continuing outperformance in 3 months post the first cut.

Exhibit 1. JCI performance (2001, 2007, 2024) vs. Fed rate cut



Source: Bloomberg, BRIDS

Exhibit 2. JCI performance and sectors vs. Fed rate cut (2001, 2007)

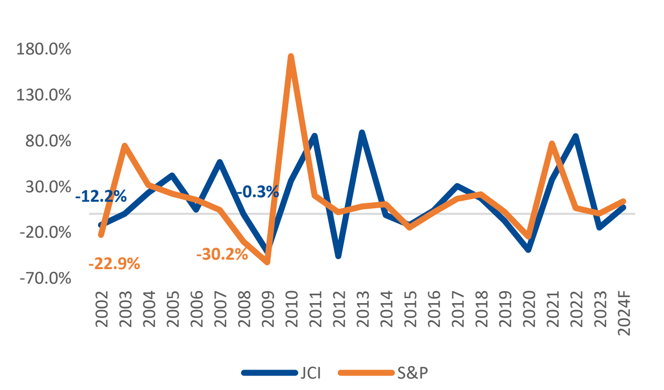
	Year	Before			After		
		12-Month	6-Month	3-Month	3-Month	6-Month	12-Month
JCI	2001	-42.0%	-19.5%	-5.1%	-8.2%	5.6%	-6.0%
	2007	51.9%	26.2%	5.3%	18.1%	4.5%	-21.0%
USDIDR	2001	33.7%	6.2%	8.5%	9.6%	18.9%	8.9%
	2007	3.0%	2.3%	5.0%	0.2%	-1.7%	0.2%
Agriculture	2001	-40.6%	-23.5%	-7.1%	-22.9%	-4.7%	-28.9%
	2007	105.8%	52.4%	2.2%	46.5%	59.3%	-25.8%
Mining	2001	-33.4%	-20.5%	-10.5%	-5.5%	3.9%	-6.6%
	2007	156.0%	45.6%	14.4%	67.7%	49.4%	-7.0%
Consumer	2001	-29.3%	2.4%	12.5%	-5.7%	3.7%	-11.0%
	2007	22.2%	11.6%	-5.7%	1.6%	-2.7%	-9.4%
Property	2001	-51.7%	-30.5%	-14.1%	-11.0%	-6.5%	-0.1%
	2007	193.7%	65.8%	11.9%	6.5%	-16.3%	-39.4%
Finance	2001	-39.4%	-20.8%	-8.3%	-12.9%	-3.3%	3.9%
	2007	39.9%	21.6%	2.2%	7.8%	-7.8%	-13.6%
Infrastructure	2001	-53.6%	-32.0%	-22.5%	11.1%	47.2%	33.5%
	2007	23.1%	14.6%	7.9%	6.5%	-6.5%	-33.1%
Basic Industry	2001	-56.2%	-42.3%	-16.0%	-25.8%	-13.0%	-29.4%
	2007	69.0%	36.1%	14.4%	13.3%	-9.3%	-20.7%
Miscelaneous	2001	-35.1%	-13.8%	-2.6%	-14.9%	-8.8%	-20.0%
	2007	55.5%	37.8%	11.8%	28.4%	12.5%	-8.4%
Trade & Service	2001	-42.9%	-22.2%	-5.8%	-11.7%	1.6%	-12.0%
	2007	48.6%	20.1%	-8.3%	5.5%	-1.9%	-28.8%

Source: Bloomberg, BRIDS

Steady earnings growth outlook may continue to support market inflows

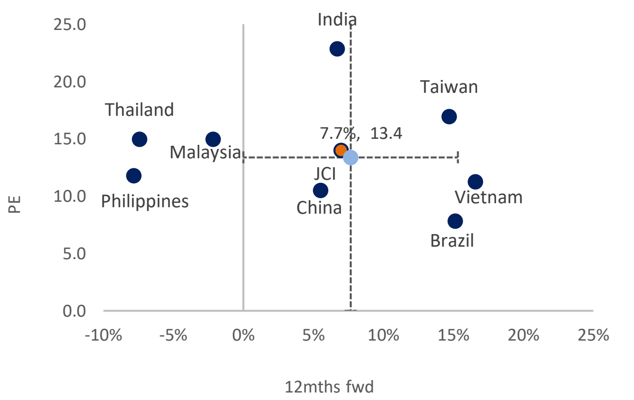
We believe that EPS growth will remain a key driver for market flows and performance. In FY01-02, JCI's EPS growth was -12.2% and in FY07-08 was -0.3%, compared to earnings contraction of -22.9% and -30.2% in SPX. At present, JCI's 12-month forward EPS growth (based on Bloomberg consensus) has remained steady at 7%, putting JCI among the attractive markets within EM universe. Despite the still mixed macro outlook, we have also observed that in 7 of past 10 years, consensus EPS estimates for the large-cap stocks were maintained or upgraded in 3Q.

Exhibit 3. EPS growth differential JCI, US FY02, FY08, FY24



Source: Bloomberg, BRIDS

Exhibit 4. JCI vs. EM peers



Source: Bloomberg, BRIDS

**Based on Bloomberg Earnings & Estimates EPS before XO, Positive*

Exhibit 5. BRIDS 24-25F EPS Growth Outlook

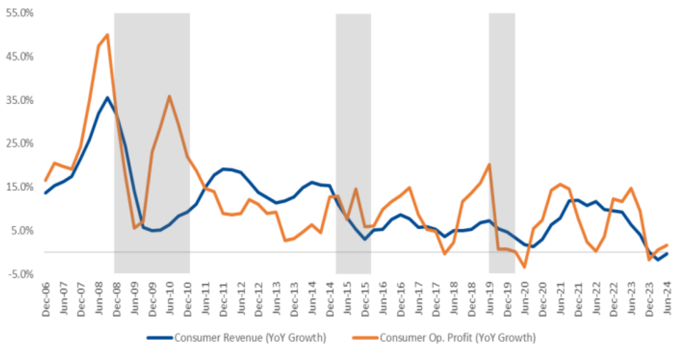
	Core Net Profit				
Sector	FY23	FY24F	FY25F	Growth 24F	Growth 25F
Banks	**189,911**	**198,940**	**219,370**	**4.8%**	**10.3%**
Commodities	**79,694**	**86,243**	**84,434**	**8.2%**	**-2.1%**
Heavy Equipment	21,262	19,573	18,527	-7.9%	-5.3%
Coal	43,685	33,763	27,879	-22.7%	-17.4%
Metal	5,893	24,716	29,893	319.4%	20.9%
Oil and Gas	8,854	8,191	8,134	-7.5%	-0.7%
Non-Commodities	**135,477**	**150,817**	**166,540**	**11.3%**	**10.4%**
Auto	33,009	29,425	29,660	-10.9%	0.8%
Cement	3,977	3,192	3,830	-19.7%	20.0%
Cigarettes	13,416	12,196	12,951	-9.1%	6.2%
Consumer	30,180	33,224	35,541	10.1%	7.0%
Healthcare	2,992	3,793	4,488	26.8%	18.3%
Industrial Estate	1,349	1,166	1,577	-13.6%	35.3%
Infrastructure	2,471	3,160	4,206	27.9%	33.1%
Media	1,236	1,940	2,212	57.0%	14.0%
Poultry	3,449	5,900	6,700	71.0%	13.5%
Property	8,002	10,827	11,629	35.3%	7.4%
Retail	4,664	4,876	5,735	4.5%	17.6%
Technology	(12,911)	(6,453)	(2,348)	50.0%	63.6%
Telco	29,969	33,261	35,065	11.0%	5.4%
Tower	6,951	7,138	7,404	2.7%	3.7%
Utility	6,723	7,171	7,890	6.7%	10.0%
Overall	**405,083**	**436,000**	**470,344**	**7.6%**	**7.9%**
Banks Only	189,911	198,940	219,370	4.8%	10.3%
Commod's Only	79,694	86,243	84,434	8.2%	-2.1%
Overall exc. Commod's	325,389	349,757	385,910	7.5%	10.3%
Overall exc. Tech	417,994	442,453	472,692	5.9%	6.8%

Source: BRIDS Estimates

Not all is bleak on the growth front; tailwinds from liquidity and IDR

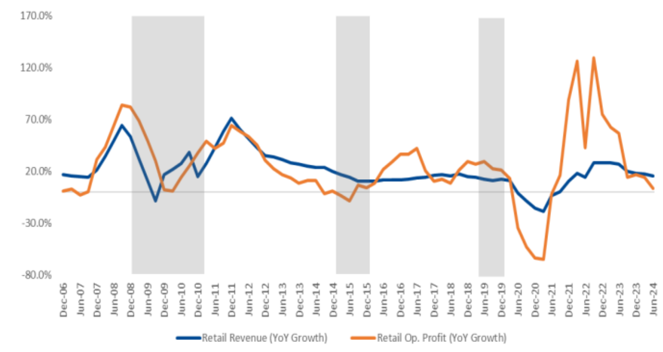
Macro indicators in 3Q24 suggested soft growth outlook may persist, as seen in the drop in PMI to sub-50 and soft consumption and capital goods imports. Nonetheless, latest indication from selected consumers and retailers suggests still resilient sales growth in 3Q24 (e.g., MYOR Aug24 sales indication still in line with its 10-12% FY24 yoy growth, SSSG of ACES and MIDI at 7.6-10.4% yoy). On a more positive note, we finally see room for liquidity improvement by end of Sep24, as BI issuance of SRBI has continued to trend down and has been outpaced by the purchase of SBN. This, combined with BI's surprise 25bps rate cut, shall offer the much-awaited liquidity support for the banks. We believe the major tailwind for JCI also comes from the IDR appreciation, which will mainly benefit the consumers sector, based on our observation.

Exhibit 6. Consumer Sector Revenue and Op. Profit Growth during IDR Strengthening



Source: Bloomberg, BRIDS

Exhibit 7. Retail Sector Revenue and Op. Profit Growth during IDR Strengthening



Source: Bloomberg, BRIDS

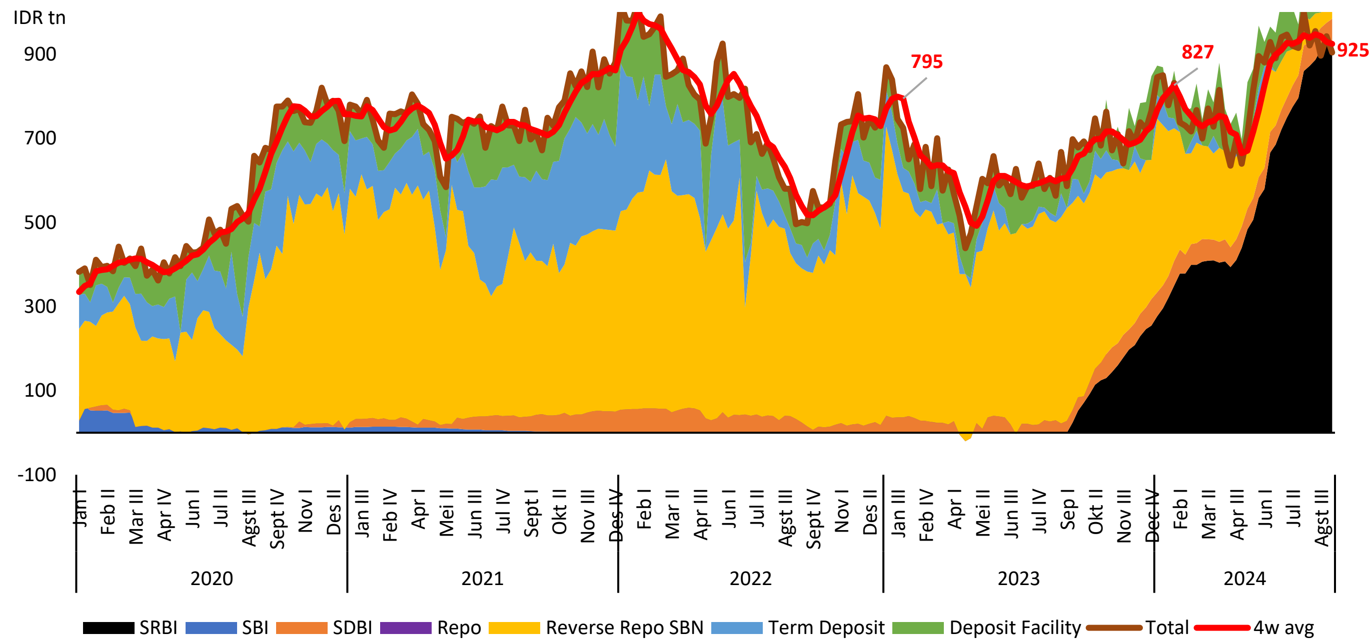
Exhibit 8. SRBI Issuance vs SBN Purchase (Rptr)

Source: Bank Indonesia

Exhibit 9. SRBI Cumulative Trend (Rptr)

Source: Bank Indonesia

Exhibit 10. Monetary Operations Outstanding (Rptr)



Source: Bank Indonesia, BRIDS

Exhibit 11. Macroeconomic monthly indicators

Indonesia	Unit	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
Consumer Confidence	Index	125.2	121.7	124.3	123.6	123.8	125.0	123.1	123.8	127.7	125.2	123.3	123.4	124.4
Current Economic Condition	Index	115.5	112.2	114.4	113.0	113.6	115.6	110.9	113.8	119.4	115.4	112.9	113.5	114.0
Retail Index	%yoy	1.1	1.5	2.4	2.1	0.2	1.1	6.4	9.3	-2.7	2.1	2.7	4.5	5.8
Manufacturing PMI	Index	53.9	52.3	51.5	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3	48.9
Consumer Price Index	%yoy	3.3	2.3	2.6	2.9	2.6	2.6	2.8	3.1	3.0	2.8	2.5	2.1	2.12
BI Policy Rate	%	5.8	5.8	6.0	6.0	6.0	6.0	6.0	6.0	6.3	6.3	6.3	6.3	6.0
Nominal exports	%yoy	-21.2	-16.2	-10.4	-8.6	-5.8	-8.1	-9.6	-4.2	1.7	2.9	1.2	6.5	7.1
Trade Balance	US$bn	3.1	3.4	3.5	2.4	3.3	2.0	0.8	4.5	2.7	2.9	2.4	0.5	2.9
Government Revenue*	%yoy	-3.0	1.6	-1.1	13.4	25.3	-7.2	-1.4	-3.5	-13.7	-7.1	-6.2	-4.3	
Fiscal Surplus/deficit*	% of GDP	0.7	0.3	0.0	-0.2	-1.7	0.1	0.1	0.0	0.3	-0.1	-0.3	-0.4	
Loan Growth	%yoy	8.9	8.7	8.7	9.7	10.3	11.5	11.0	11.9	12.3	11.4	11.4	11.6	11.4
Investment Loan Growth	%yoy	10.0	9.8	9.4	9.4	11.1	12.8	11.3	14.0	14.6	13.8	13.8	14	13.08
SRBI Issuance	Rptr		71.5	58.7	67.5	56.8	95.6	49.4	25.6	37.4	166.6	191.0	167.0	79.71
SRBI Yield	%		6.4	6.5	6.9	6.8	6.8	6.8	6.8	7.0	7.4	7.3	7.4	7.19
Equity Foreign Flow	Rptr	(20.1)	(4.1)	(8.1)	(0.5)	7.7	8.3	10.1	7.8	(20.1)	(14.2)	(1.5)	6.7	29
Bonds Foreign Flow	Rptr	(8.9)	(23.3)	(12.6)	23.5	8.8	(0.7)	(4.8)	(26.4)	(20.8)	17.1	1.1	5.0	39.24

Cummulative month

Sector	Unit	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
Automotive														
4W Wholesale - 3mo. rolling	Index (base:2019)	97.6	96.5	96.5	94.7	96.8	92.7	87.4	83.3	75.2	75.5	75.4	85.2	87.2
Motorcycle Distribution - 3mo. rolling	Index (base:2019)	92.2	93.2	95.7	98.0	92.9	97.6	96.8	106.4	95.7	92.5	88.0	99.0	103.2
Cement														
Volume - 3mo. Rolling	Index (base:2019)	104.6	108.2	108.5	108.7	108.8	103.4	94.6	89.0	77.2	82.3	83.4	99.9	101.8
Banks														
Loan growth	%yoy	11.1	12.1	11.7	12.5	13.2	15.0	14.7	15.3	16.3	15.2	15.2	14.7	
NIM	%	6.4	6.3	6.0	5.9	6.0	6.0	5.7	6.1	5.7	5.9	5.9	6.0	
CoC	%	1.4	1.4	0.8	1.0	0.1	1.0	2.5	1.2	1.4	1.4	0.2	1.2	
Coal														
ICI 3	US$/ton	70.77	73.36	80.91	79.71	79.64	79.40	78.96	78.22	72.50	73.56	72.73	71.54	72.10
ICI 4	US$/ton	50.85	52.76	60.07	58.35	58.28	57.54	56.95	57.20	54.51	55.93	54.43	52.72	51.20
Nickel														
NPI	US$/ton	13,685	13,943	13,365	12,144	11,167	11,242	11,427	11,620	11,543	11,743	11,803	11,687	12,294

Source: Various sources, BRIDS

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We raise our FY24-end JCI target to 8,238 (from 7,680 prev.), based on a higher PE multiple of 15.4x (based on 10-year mean, vs. 14.2x prev.), with bull/bear target of 8,395/8,080). While our 12-month forward EPS growth assumption of 8% is unchanged, our higher multiple is predicated on the back of the improving growth outlook amid the tailwind from strengthening IDR and falling bond yield. We continue to favour the high-beta stocks, namely banks and digital banks (top picks: **BBCA** Buy TP Rp12,400, **BBNI** Buy TP Rp7,600, **ARTO** Buy TP Rp3,800), property (**CTRA** Buy TP Rp1,700, **SMRA,** Buy TP RP1,000) and add **ASII** (Buy TP Rp5,700) and **GOTO** (Buy TP Rp90) into our stock selections. We also add two low-beta stocks, namely **TLKM** (Buy, TP Rp4,250) and **MYOR** (Buy, TP Rp3,350).

Please see Victor Stefano's latest report on banks and Ismail Suweleh's on property sectors outlook.

Exhibit 12. Stock Pick Valuation

Company	Rating	Market Cap (Rpbn)	Current Price (Rp/share)	Target Price (Rp/share)	P/E (x) 24F	P/E (x) 25F	EPS Growth 25F	Comment
BBCA	Buy	1,343,698.0	10,900	12,400	25.37	23.19	9.4%	Potential beneficiary of BI rate cut and foreign fund inflow
BBNI	Buy	217,256.8	5,825	7,600	10.02	8.93	12.3%	Potential beneficiary of BI rate cut
ARTO	Buy	43,508.6	3,140	3,800	348.51	234.96	48.3%	High-beta pick; potential beneficiary of BI rate cut
CTRA	Buy	24,559.8	1,325	1,700	10.7	9.0	19.1%	Potential positive sentiment from BI rate cut
SMRA	Buy	11,556.0	700	1,000	13.4	13.1	2.6%	Potential positive sentiment from BI rate cut
ASII	Buy	213,550.7	5,275	5,700	7.06	7.06	-0.1%	Potential positive sentiment from BI rate cut
GOTO	Buy	75,702.8	63	90	n.m	n.m	-16.3%	High-beta pick; improving earnings momentum
TLKM	Buy	311,055.4	3,140	4,250	12.9	11.9	8.6%	Potential beneficiary of foreign fund inflow; improving earnings momentum
MYOR	Buy	62,157.2	2,780	3,350	18.7	16.8	11.3%	Potential beneficiary of strong IDR

Source: Bloomberg, BRIDS Estimates

BRI Danareksa Equity Research Team		
Erindra Krisnawan, CFA	Head of Equity Research, Strategy, Coal	erindra.krisnawan@brids.co.id
Natalia Sutanto	Consumer, Cigarettes, Pharmaceuticals, Retail	natalia.sutanto@brids.co.id
Niko Margaronis	Telco, Tower, Technology, Media	niko.margaronis@brids.co.id
Timothy Wijaya	Metal, Oil and Gas	timothy.wijaya@brids.co.id
Victor Stefano	Banks, Poultry	victor.stefano@brids.co.id
Ismail Fakhri Suweleh	Healthcare, Property, Industrial Estate	ismail.suweleh@brids.co.id
Richard Jerry, CFA	Automotive, Cement, Infrastructure	richard.jerry@brids.co.id
Ni Putu Wilastita Muthia Sofi	Research Associate	wilastita.sofi@brids.co.id
Naura Reyhan Muchlis	Research Associate	naura.muchlis@brids.co.id
Sabela Nur Amalina	Research Associate	sabela.amalina@brids.co.id
Christian Immanuel Sitorus	Research Associate	christian.sitorus@brids.co.id

BRI Danareksa Economic Research Team		
Helmy Kristanto	Chief Economist, Macro Strategy	helmy.kristanto@brids.co.id
Dr. Telisa Aulia Falianty	Senior Advisor	telisa.falianty@brids.co.id
Kefas Sidauruk	Economist	kefas.sidauruk@brids.co.id

BRI Danareksa Institutional Equity Sales Team		
Yofi Lasini	Head of Institutional Sales and Dealing	yofi.lasini@brids.co.id
Novrita Endah Putrianti	Institutional Sales Unit Head	novrita.putrianti@brids.co.id
Ehrliech Suhartono	Institutional Sales Associate	ehrliech@brids.co.id
Yunita Nababan	Institutional Sales Associate	yunita@brids.co.id
Adeline Solaiman	Institutional Sales Associate	adeline.solaiman@brids.co.id
Andreas Kenny	Institutional Sales Associate	andreas.kenny@brids.co.id
Christy Halim	Institutional Sales Associate	christy.halim@brids.co.id
Jason Joseph	Institutional Sales Associate	Jason.joseph@brids.co.id

BRI Danareksa Sales Traders		
Mitcha Sondakh	Head of Sales Trader	mitcha.sondakh@brids.co.id
Suryanti Salim	Sales Trader	suryanti.salim@brids.co.id

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