Equity Strategy

Attractive Valuation Emerging, Prefer Quality Stocks and USD Hedge Amid Lingering Macro Risks

- **As domestically focused sectors underperformed, we cut our FY24/25 EPS growth est. to 2.4%/9.3% and JCI FY24-end target to 7,448.**
- **Despite still muted growth indicators, we expect seasonal tailwinds to benefit certain sectors (e.g., Retail, Consumer) in 4Q24.**
- **At a forward P/E of 11.9x, JCI valuation is attractive (160bps spread vs. 10-yr yield); amid macro risks, we favor quality stocks and USD hedge.**

Domestic Sectors Dragged Down 3Q24 Earnings; Forecasts Lowered

While 65% of companies under our coverage reported in-line 3Q24 earnings, overall results were still disappointing, especially for domestically focused sectors such as Consumer, Telco, and Cement. Subsequently, BRIDS' analyst forecasts have been lowered, resulting in reduced FY24/FY25 EPS growth projections of 2.4%/9.3% (previously 7%/8%). Declining 3Q24 revenue and operating earnings growth across most domestically focused sectors (exh. 2-13) necessitate price hikes in 4Q24 to recover margins.

4Q24: Seasonal Tailwinds to Offer Potential Support

Despite still muted growth indicators, we expect seasonal tailwinds to benefit certain sectors (e.g., Retail, Consumer discretionary) in 4Q24. Government social aid, regional election spending, and sustained higher CPO prices (based on historical correlations with consumer sector revenue) may boost household consumption growth, in our view.

Mixed Liquidity Signals: Banks' NIM Stability Amidst Tight Conditions

While the strong USD (following Trump's re-election) countered our thesis of easing domestic liquidity, Oct24 saw mom stabilization in some of the big-four banks' NIMs due to rising asset yields. Persistent tight liquidity, however, is evident in banks' high LDRs and slowing deposit growth. Our macro team observes net liquidity injections by Bank Indonesia (BI) as of mid-Nov24, exceeding net SRBI issuance (Exhibit 16-17). If continued, we believe net injections could alleviate liquidity pressures, despite BI maintaining its policy rate.

Valuation Starts to Look Attractive, Though Macro Remain Key Risks

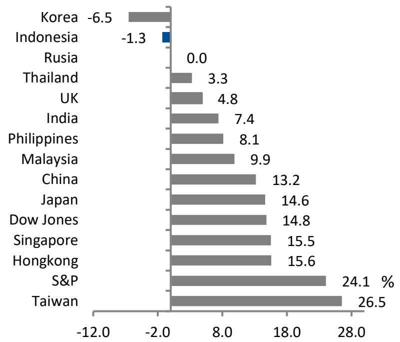
At a forward P/E of 11.9x (8.4% earnings yield), JCI's current valuation appears attractive, offering a 160bps spread over the 10-year bond yield (vs. 3-year average of 71bps and a historical high of 233bps). Assuming a market P/E of 13x (-0.5SD of the five-year mean), JCI's valuation is pricing in an EPS growth rate of 3%. The key risk stems from a potential further widening of the bond yield spread, driven by potential bond outflows and IDR weakness.

Lowering FY24-end target

Reflecting our revised EPS growth outlook, we have lowered our year-end FY24 JCI target price to 7,448, based on a P/E multiple of 13.0x (-0.5SD from 5-year mean), with bull/ bear case targets of 7,700/7,200. Amid uncertainties on the macro front (strong USD, slow growth), we prefer exposure in:

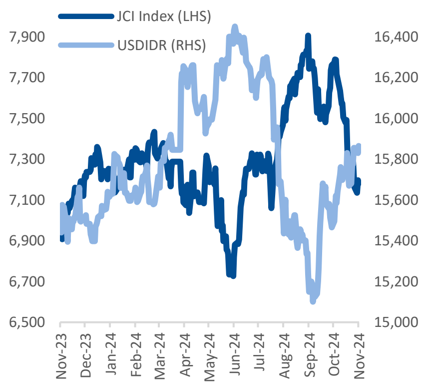
- Defensive and quality sectors: **ICBP** (Buy, TP Rp14,000), **ISAT** (Buy, TP Rp3,800), **MAPI** (Buy, TP Rp2,000), **HEAL** (Buy, TP Rp2,000)
- Companies with earnings improvement: **GOTO** (Buy, TP Rp90)
- USD hedge: **UNTR** (Buy, TP Rp31,000)

YTD Regional Market (%)



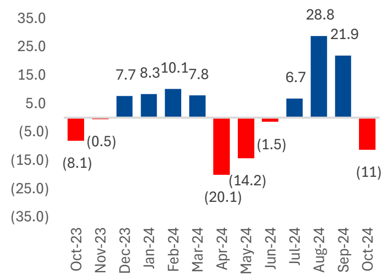
Source: Bloomberg

JCI vs USD



Source: Bloomberg

Net Foreign Flow (Rptr)



Source: Bloomberg

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Attractive Valuation Emerging, Prefer Quality Stocks and USD Hedge Amid Lingering Macro Risks

Re-assessing growth outlook: FY24-25F EPS growth trimmed to 2.4%/ 9.3%

Despite the majority (65%) of companies under our coverage reporting in-line results, 3Q24 earnings still disappointed, particularly for the domestic-focused sectors (i.e., Consumer, Telco, Cement). Our analysts have trimmed their respective earnings forecasts, resulting in lower FY24/25F EPS growth of 2.4%/9.3% (vs. 7.6%/7.9% previously).

Exhibit 1. BRIDS EPS Growth Outlook

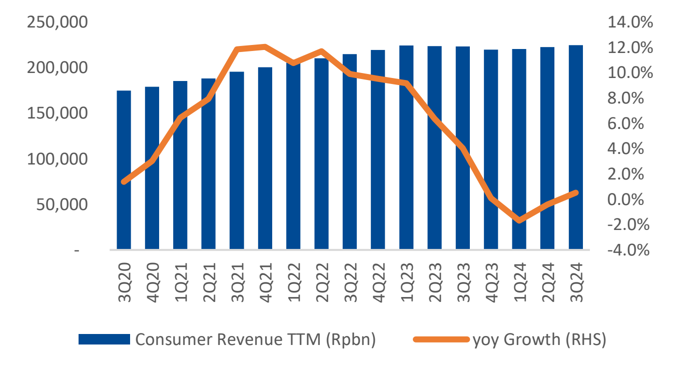
	Core Net Profit				
Sector	**FY23**	**FY24F**	**FY25F**	**Growth 24F**	**Growth 25F**
Banks	**190,992**	**201,874**	**222,562**	**5.7%**	**10.2%**
Commodities	**86,433**	**74,492**	**75,713**	**-13.8%**	**1.6%**
Heavy Equipment	21,262	21,323	21,181	0.3%	-0.7%
Coal	43,678	33,768	27,874	-22.7%	-17.5%
Metal	12,638	11,617	18,754	-8.1%	61.4%
Oil and Gas	8,854	7,784	7,904	-12.1%	1.5%
Non-Commodities	**136,803**	**147,612**	**165,050**	**7.9%**	**11.8%**
Auto	33,009	32,045	32,777	-2.9%	2.3%
Cement	3,977	2,659	3,347	-33.1%	25.9%
Cigarettes	13,416	11,148	11,671	-16.9%	4.7%
Consumer	31,304	31,051	34,011	-0.8%	9.5%
Healthcare	2,992	3,363	3,853	12.4%	14.6%
Industrial Estate	1,415	1,975	2,079	39.6%	5.3%
Infrastructure	2,681	3,258	3,827	21.5%	17.5%
Media	1,236	1,940	2,212	57.0%	14.0%
Poultry	3,389	6,817	7,560	101.1%	10.9%
Property	8,002	10,827	11,629	35.3%	7.4%
Retail	4,671	5,001	5,792	7.1%	15.8%
Technology	(12,911)	(6,453)	(2,348)	50.0%	63.6%
Telco	29,969	29,637	33,122	-1.1%	11.8%
Tower	6,931	7,173	7,627	3.5%	6.3%
Utility	6,723	7,171	7,890	6.7%	10.0%
Overall	**414,228**	**423,978**	**463,325**	**2.4%**	**9.3%**
Banks Only	190,992	201,874	222,562	5.7%	10.2%
Commod's Only	86,433	74,492	75,713	-13.8%	1.6%
Overall exc. Commod's	327,795	349,485	387,612	6.6%	10.9%
Overall exc. Tech	427,139	430,431	465,673	0.8%	8.2%

Source: Company, BRIDS Estimates

Earnings growth for the domestic-focused sectors were trending down

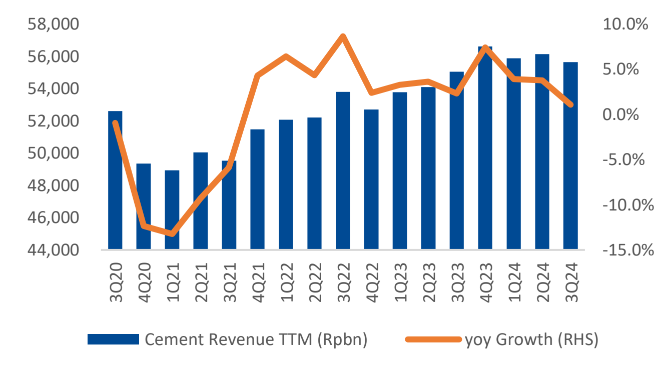
On the revenue front, we noted that growth for sectors focused on the domestic market trended down in 3Q24 (except for the Consumers, whose growth bottomed in 1Q24), based on our analysis using the trailing 12-month numbers (exh. 2-7). At the operating earnings level (exh. 8-13), all domestic sectors' growth also trended down in 3Q24 (except for Retailers and ASII). This implies that consumer companies will need to pass on more price increases in 4Q24 to recover margins.

Exhibit 2. Consumers Sector Revenue Growth



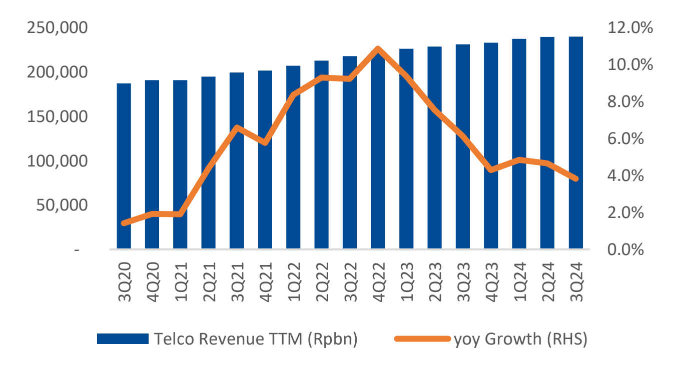
Source: Bloomberg, BRIDS

Exhibit 3. Cement Sector Revenue Growth



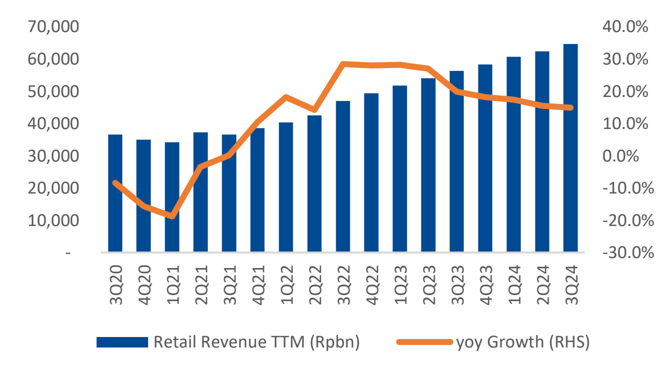
Source: Bloomberg, BRIDS

Exhibit 4. Telco Sector Revenue Growth



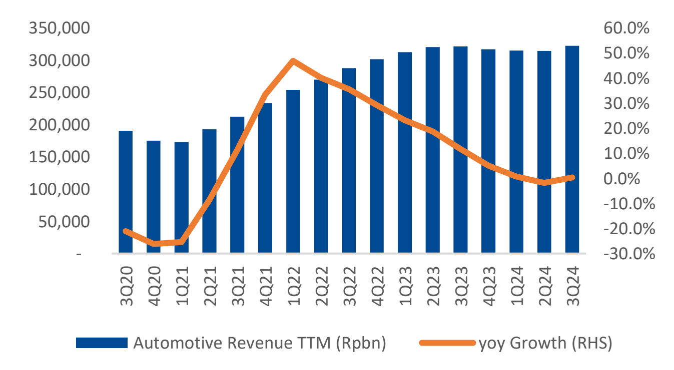
Source: Bloomberg, BRIDS

Exhibit 5. Retail Sector Revenue Growth



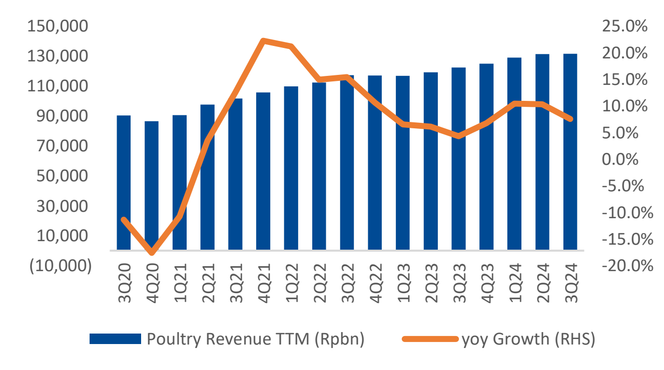
Source: Bloomberg, BRIDS

Exhibit 6. Automotive Sector Revenue Growth



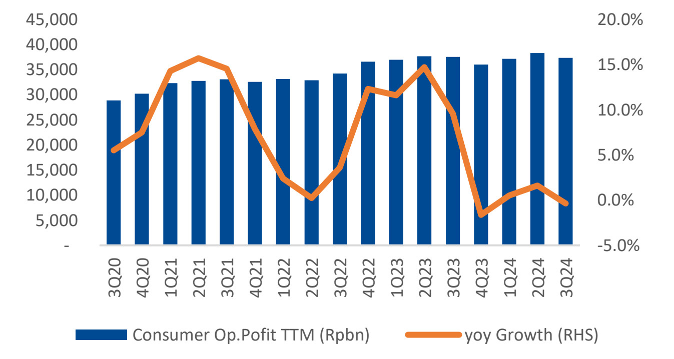
Source: Bloomberg, BRIDS

Exhibit 7. Poultry Sector Revenue Growth



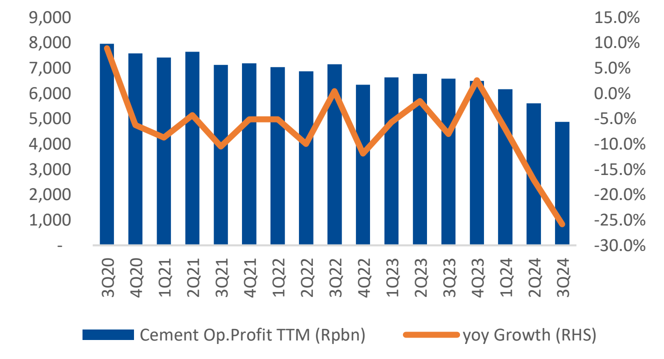
Source: Bloomberg, BRIDS

Exhibit 8. Consumers Sector Operating Profit Growth



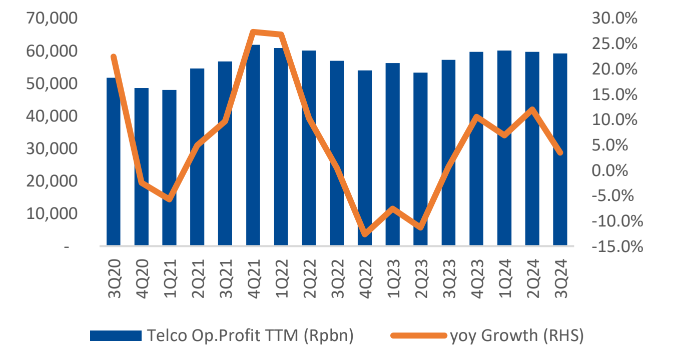
Source: Bloomberg, BRIDS

Exhibit 9. Cement Sector Operating Profit Growth



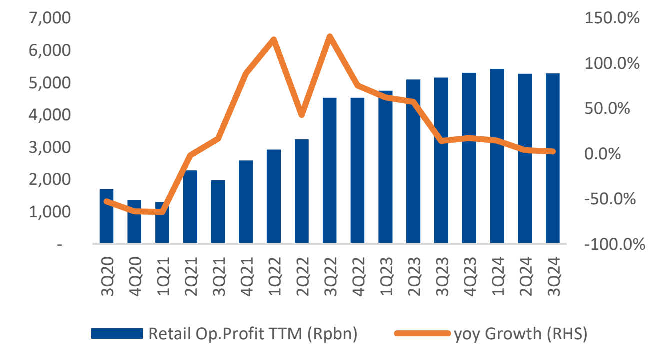
Source: Bloomberg, BRIDS

Exhibit 10. Telco Sector Operating Profit Growth



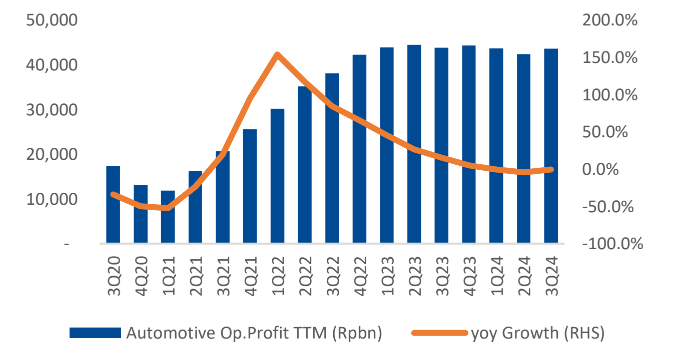
Source: Bloomberg, BRIDS

Exhibit 11. Retail Sector Operating Profit Growth



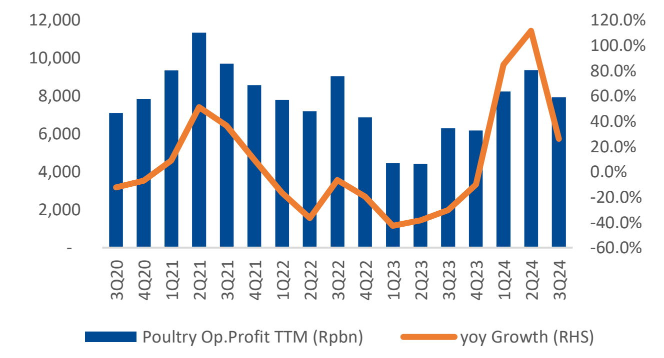
Source: Bloomberg, BRIDS

Exhibit 12. Automotive Sector Operating Profit Growth



Source: Bloomberg, BRIDS

Exhibit 13. Poultry Sector Operating Profit Growth

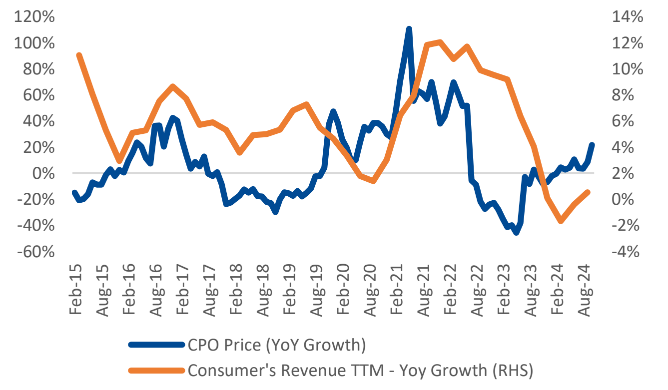


Source: Bloomberg, BRIDS

4Q24 Growth Outlook: better seasonality and potential support from commodities

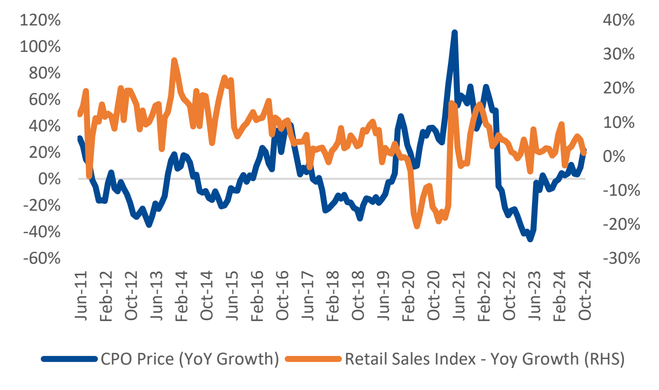
While the monthly growth indicators are at best still mixed in Oct24, we see seasonality factor supporting some sectors (e.g., retailers, consumers) in 2H24. We believe household consumption, which grew at a disappointing 4.91% yoy in 3Q24, may also continue to benefit from the govt's social protection budget and spending from regional election. Additionally, stronger CPO price (if sustained) may also add support to consumption, judging from the past relationship with consumers sectors' revenue (exh. 14).

Exhibit 14. CPO Price vs. Consumers Sector Revenue Growth



Source: Bloomberg, BRIDS

Exhibit 15. CPO Price vs. Retail Sales Index Growth

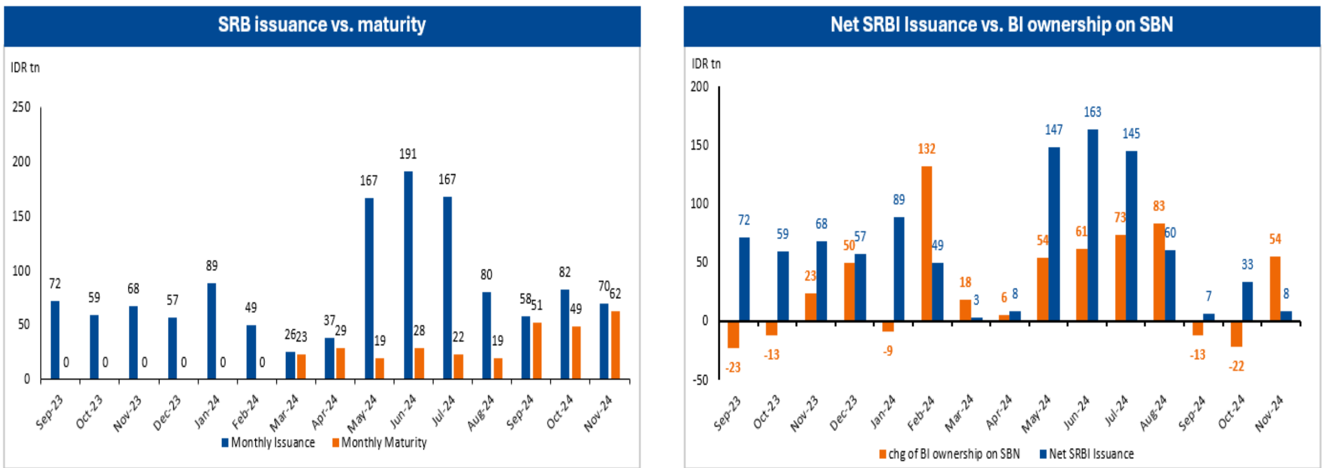


Source: Bloomberg, Bank Indonesia, BRIDS

Mixed Liquidity Signals: NIM Stability Amidst Tight Conditions

While the strong USD (following Trump's re-election) countered our thesis of easing domestic liquidity, Oct24 saw mom stabilization in some of the big-four banks' NIMs due to rising asset yields. Persistent tight liquidity, however, is evident in banks' high LDRs and slowing deposit growth. Our macro team observes net liquidity injections by Bank Indonesia (BI) as of mid-Nov24, exceeding net SRBI issuance (exhibit 16-17). If continued, we believe net injections could alleviate liquidity pressures, despite BI maintaining its policy rate.

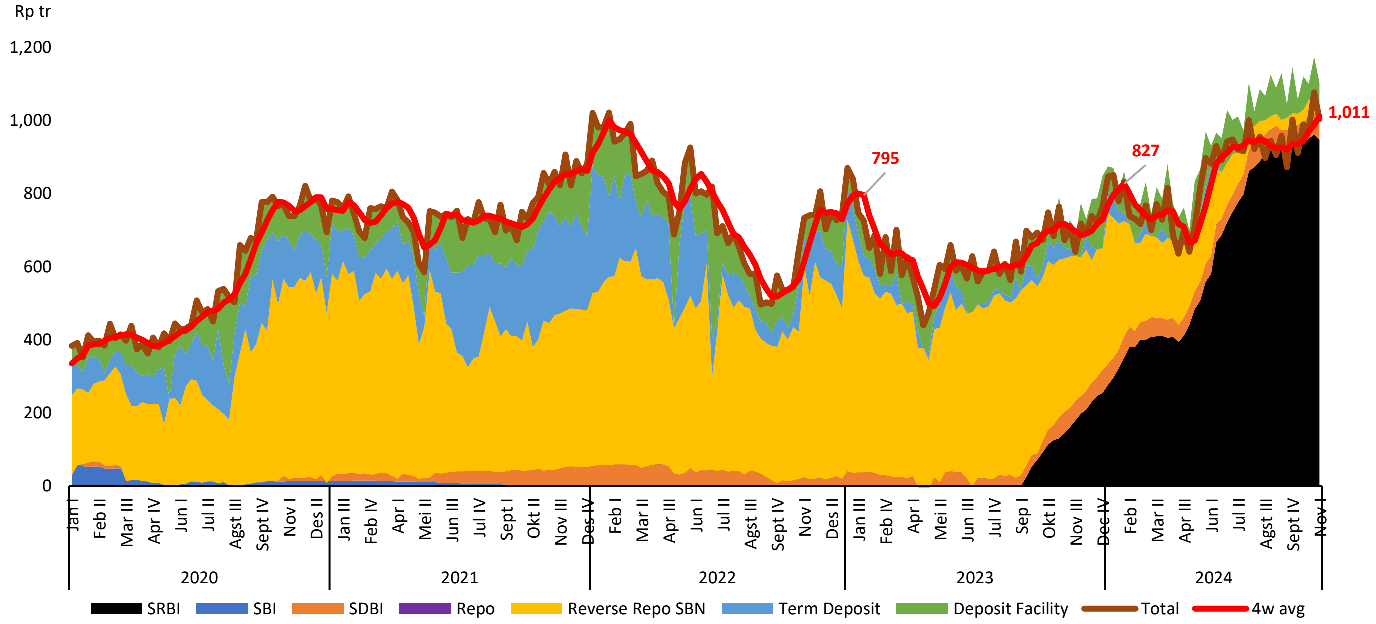
Exhibit 16. BI Recent Intervention to SBN Secondary Market Signals Net Injections



*SBN ownership as of 13-Nov-24, Net SRBI issuance as of 15-Nov-24

Source: BI, Kemenkeu, BRIDS

Exhibit 17. Monetary Operations Outstanding



Source: Bank Indonesia, BRIDS

JCI Valuation Starts to Look Attractive

We believe JCI's current valuation is attractive at 11.9x forward P/E (8.4% earnings yield), which implies a 160bps spread over 10-year bond yield (vs. 3-year average spread of 71bps, and highest spread of 233bps). Furthermore, assuming a market P/E of 13x (around -0.5SD of 5-year mean), current JCI P/E is pricing in EPS growth of c.3%. The key risk, in our view, lies in the scenario of further widening of the bond yield, which may be driven by outflows from bonds and weaker IDR.

Lowering FY24-end target

Reflecting our revised EPS growth outlook, we have lowered our year-end FY24 JCI target price to 7,448, based on a P/E multiple of 13.0x (-0.5SD from 5-year mean), with bull/ bear case targets of 7,700/7,200. Amid uncertainties on the macro front (strong USD, slow growth), we prefer exposure in:

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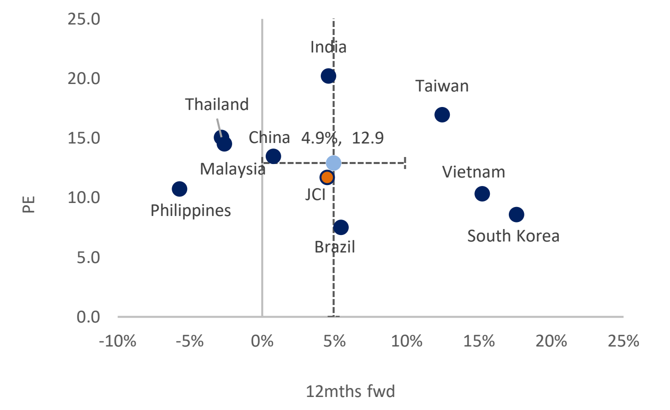
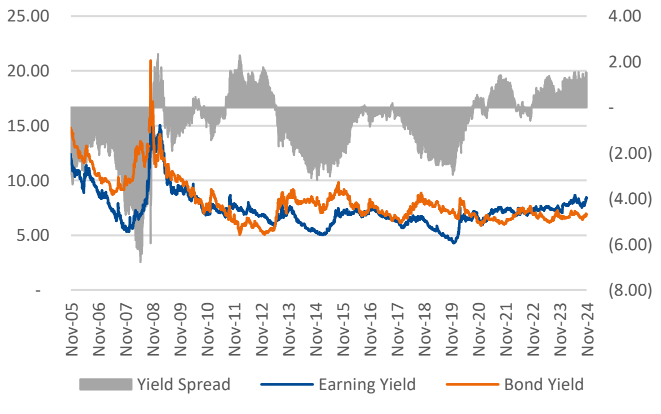
Exhibit 18. JCI vs EM Peers



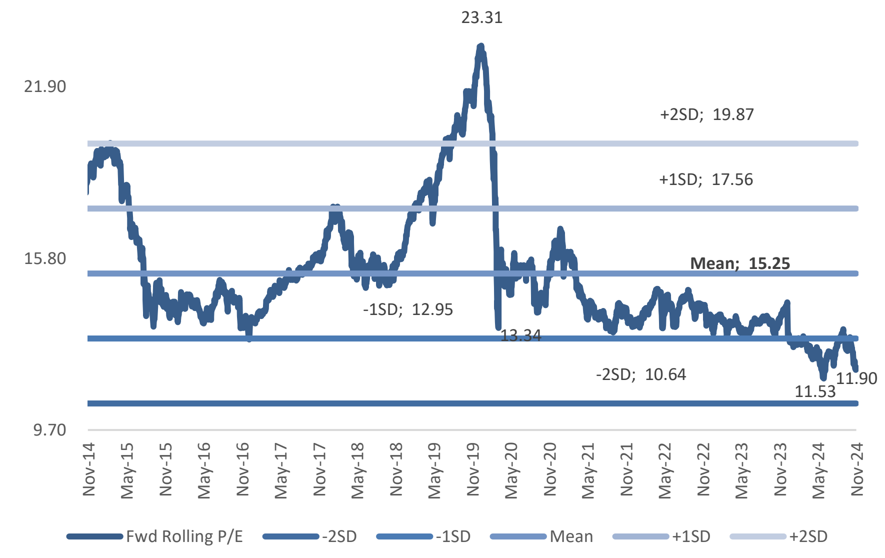
Source: Bloomberg, BRIDS

Exhibit 19. Earnings Yield vs. Bonds Yield



Source: Bloomberg, BRIDS Estimates

Exhibit 20. JCI Forward PE



Source: Bloomberg, BRIDS Estimates

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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