Equity Strategy

A Relative Safe Haven Amid Trade War, But Growth Remains a Risk

- **We believe Indonesia's stronger fundamentals should help weather the trade war, though the risk remains on IDR volatility and slowing growth.**
- **The consumer sector is vulnerable to weaker IDR, but the 2018 experience showed companies' ability to sustain margins.**
- **We continue to see the JCI to trade at a range of 5.9-6.7k and advise investors to stick with the defensive names.**

Well-positioned vs. peers amidst trade war, though growth is a concern.
Compared to its EM peers, we believe Indonesia is relatively well-positioned to weather the trade war, given the economy's lesser reliance on exports, which account for only 22% of GDP. While in 2018 IDR, equity, and bonds experienced corrections, we see stronger fundamentals this time from a stronger CAD (0.6% in 2024 vs. 2.9% in 2018), while the external debt-to-GDP ratio remains one of the lowest (at 29% of GDP), with only 30% of it in USD. We think these could prevent the bond yield from widening like in 2018. However, this time around, the main concern is the risk of slowing economic growth, amid a lack of growth catalysts in 2Q25 onwards.

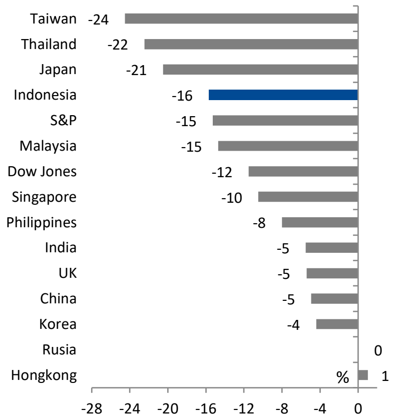
Sectoral view: a more resilient profile
Based on our team's view (please refer to sectoral views on p.2), we see the direct impact of recent Trump tariffs on the sectors under our coverage to be limited, with more direct exposure in the commodities and energy-related sectors (due to a potential slowdown in demand). Meanwhile, although the consumers sector is exposed to IDR weakness risk, the experience in 2018 showed that companies were able to sustain margins.

Consumers: Rupiah risk impact was well managed
Between 2017 and 2019, revenue growth in the consumer sector was supported by social protection programs and increases in the minimum wage. Despite the IDR fluctuations, the consumer sector demonstrated the ability to pass on higher costs resulting from the weaker Rupiah, as reflected in the gradual improvement in gross margins. In addition, lower input prices also supported the sector's profitability. In 2025, however, the risk is that weak purchasing power may limit the ability to pass on higher costs.

Commodities: price risk from possible lower demand
Drawing from the 2018 trade war as a reference, metal prices such as copper, nickel, and gold proved relatively resilient, declining only by -5%/-7%/-1%, respectively. In contrast, the recent pullbacks of -21%/-11%/-7% suggest a more pronounced market reaction this time around. We believe the sharper impact is due to the swift reciprocal tariffs from China in response to the U.S. hikes, intensifying concerns over demand destruction. Moreover, this round of tariffs had been widely anticipated, prompting industry players to front-load inventories ahead of the announcement. As a result, a steeper correction occurred after the U.S. released its exemption list the following day.

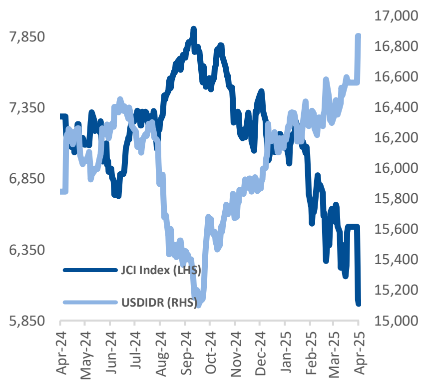
Staying defensive
We continue to see JCI to trade at a range of 5.9-6.7k, based on historical earnings yield spread of 100-240bps (please see our previous Strategy report), and see the main risk for the market from IDR volatility and the widening of bond yields. We believe the market's valuation is cheap at 11.4x (-1.8SD vs. 5-year mean), though the tariff tension may drive a heightened risk premium to persist. Foreign's ownership has declined to 17%, though it remains above the 2020–21 bottom of 12.5%. We continue to advise investors to stick with the defensive and quality names: BBCA, ICBP, GOTO, BRIS, NCKL.

YTD Regional Market (%)



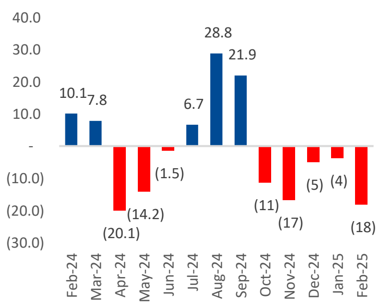
Source: Bloomberg

JCI vs USD



Source: Bloomberg

Net Foreign Flow (Rptr)



Source: Bloomberg

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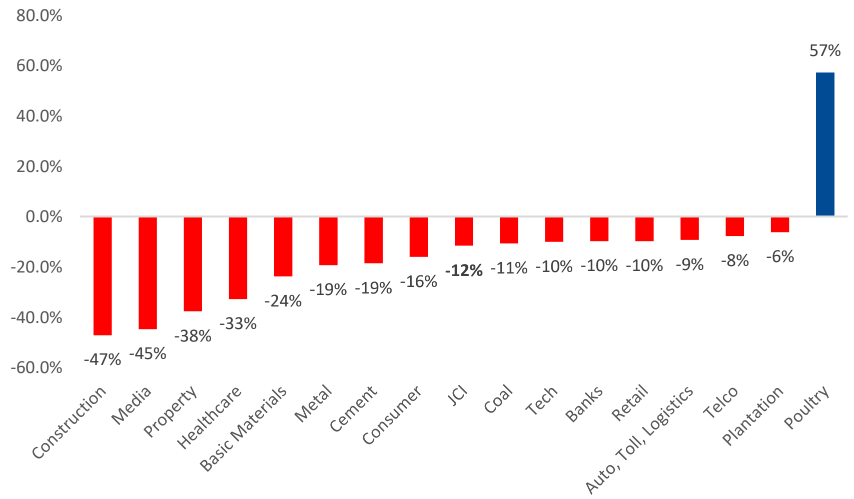
2018 market impact

In the 2018 market correction (trade war 1.0), JCI corrected 16% (peak to trough), underperforming EM peers, with US$3.7bn of outflows. The Indo 10Y bond yield rose to 8.8%, a widening of 280bps, and IDR depreciated 14%. The high beta (Property) and commodities (Metal) sectors were among the hardest hit (-37.7% and -19.3%, respectively), while Telco and Poultry outperformed (-7.7% and +57.1%, respectively).

Exhibit 1. Sectoral performance during trade war 1.0 volatility (Feb–Oct 2018)



Source: Bloomberg, BRIDS

Compared to its EM peers, we believe Indonesia is relatively well-positioned to weather the trade war, given the economy's lesser reliance on exports, which account for only 22% of GDP. While in 2018 IDR, equity, and bonds experienced corrections, we see stronger fundamentals this time from a stronger CAD (0.6% in 2024 vs. 2.9% in 2018), while the external debt-to-GDP ratio remains one of the lowest (at 29% of GDP), with only 30% of it in USD. We think these could prevent the bond yield from widening like in 2018. However, this time around, the main concern is the risk of slowing economic growth, amid a lack of growth catalysts in 2Q25 onwards.

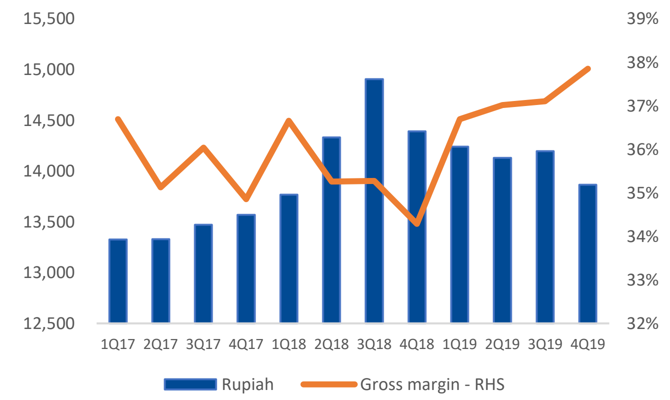
Sectoral views

Consumers

Between 2017 and 2019, revenue growth in the consumer sector was supported by social protection programs and increases in the minimum wage. The Rupiah experienced fluctuations between 1Q18 and 1Q19, ranging from 3% to 11%, which impacted the sector's gross margin—particularly in the following quarters. However, the consumer sector demonstrated the ability to pass on higher costs resulting from the weaker Rupiah, as reflected in the gradual improvement in gross margins. In addition, lower input prices also supported the sector's profitability.

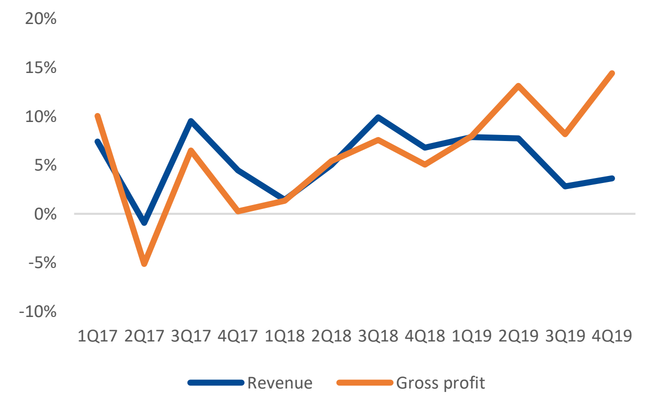
In our view, the recent Rupiah weakening (4.3% YTD) will temporarily affect the revenue and margins of consumer companies. However, the expectation of softer global economic growth—particularly in China—may limit commodity price increases and provide room for consumer companies to maintain their margins. As consumer companies provide staple products, we believe volume growth will be sustained. In the event of rising input costs, consumer companies can mitigate the impact not only by passing on costs to consumers but also by diversifying their product offerings, including launching new products at more accessible price points.

Exhibit 2. Rupiah and Gross margin trend (1Q17-4Q19)



Source: Company, Bloomberg, BRIDS

Exhibit 3. Revenue growth (yoy) vs Gross profit



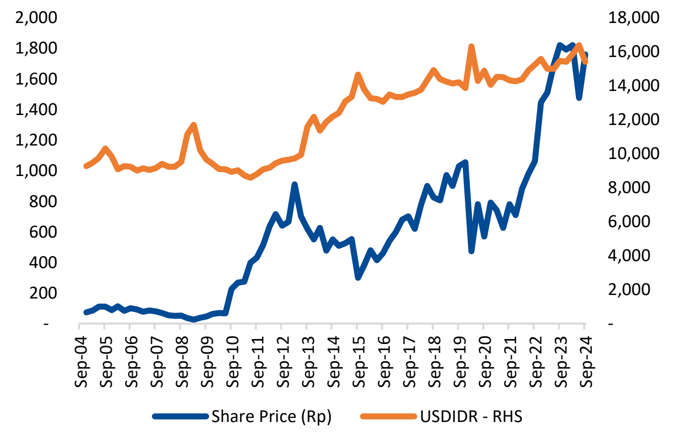
Source: Company, Bloomberg, BRIDS

Retailers

Between 2017 and 2019, the retail sector reported double-digit revenue growth, supported by store expansion and improved productivity. Despite Rupiah fluctuations of 3% to 11% during 2018–2019, the sector maintained a stable gross margin in the 41–42% range. We believe a diverse product mix—targeting the mid-to-low to upper-income segments—contributed to retailers' solid performance. However, the share prices of retail companies were negatively affected by currency depreciation, as a significant portion of their product offerings is imported and costs are USD-linked.

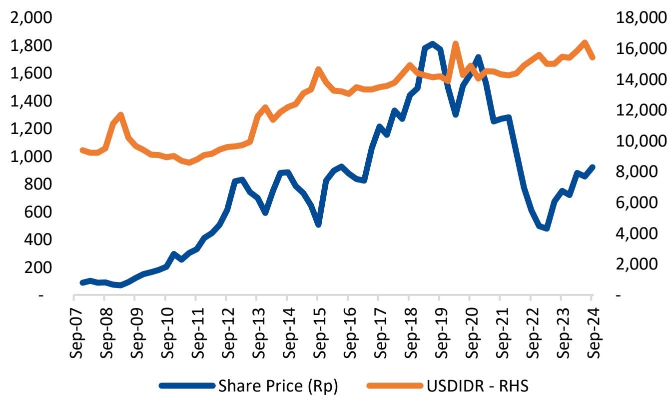
Heading into 2Q25, the combination of a seasonal slowdown, limited catalysts for purchasing power, and a weaker currency is likely to weigh on the share prices of retail companies. Amid soft purchasing power, currency volatility, and mounting pressure from higher living costs, government support—through measures such as social assistance or targeted subsidies—will be crucial to help stabilize consumption and support the broader consumer and retail sectors.

Exhibit 4. MAPI share price vs USDIDR



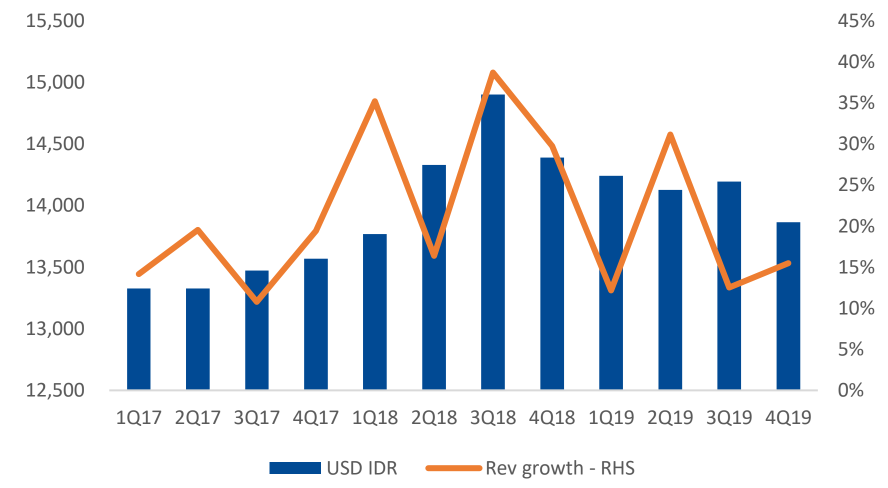
Source: Bloomberg, BRIDS

Exhibit 5. ACES share price vs USDIDR



Source: Bloomberg, BRIDS

Exhibit 6. Retail sector revenue growth vs USDIDR



Source: Bloomberg, BRIDS

Automotive

We expect the tariff to have a greater impact on auto component exports than on fully built 4W/2W vehicles. In 2024, Indonesia's total auto component exports reached US$2.4 million, with approximately 10% shipped to the U.S. As such, the tariffs are likely to weigh more heavily on local autoparts producers such as AUTO and DRMA.

Meanwhile, the depreciation of the IDR against the USD will raise import costs for fully built 4W/2W vehicles. If distributors are unable to fully pass on these cost increases—especially in the midst of a weak consumption cycle—margins may come under pressure.

Cement

We expect trade tensions to impact the sector primarily through USD-linked costs, particularly energy (coal-linked, ~30% of total cost) and imported materials such as packaging and gypsum. Our sensitivity analysis suggests that a 1% IDR depreciation could reduce earnings by 2–5%. Given the current supply glut and weak demand, raising ASPs will be challenging, putting margins at risk.

Commodities
Based on the exemption list released following the tariff announcement, nearly all forms of ferroalloys, precious metals (gold, silver, platinum), minor metals, and most base metals (including nickel, copper, zinc, tin, and cobalt), were excluded from the new tariffs, reflecting their critical role in U.S. manufacturing. However, aluminum was notably not exempt. In contrast to the first trade war in 2018, when aluminum faced a 10% tariff, the rate was raised to 25% in February 2025, signaling a more aggressive stance this time around.

Drawing from the 2018 trade war as a reference, metal prices such as copper, nickel, and gold proved relatively resilient, declining only by -5%/-7%/-1%, respectively. In contrast, the recent pullbacks of -21%/-11%/-7% suggest a more pronounced market reaction this time around. We believe the sharper impact is due to the swift reciprocal tariffs from China in response to the U.S. hikes, intensifying concerns over demand destruction. Moreover, this round of tariffs had been widely anticipated, prompting industry players to front-load inventories ahead of the announcement. As a result, a steeper correction occurred after the U.S. released its exemption list the following day.

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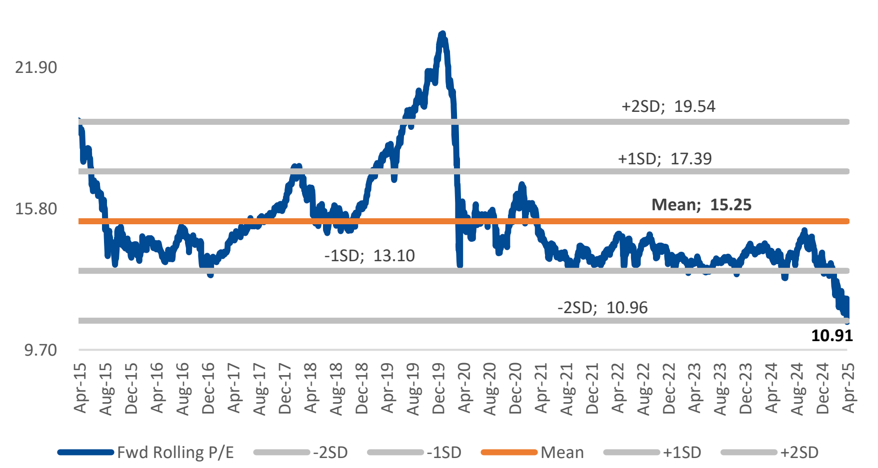
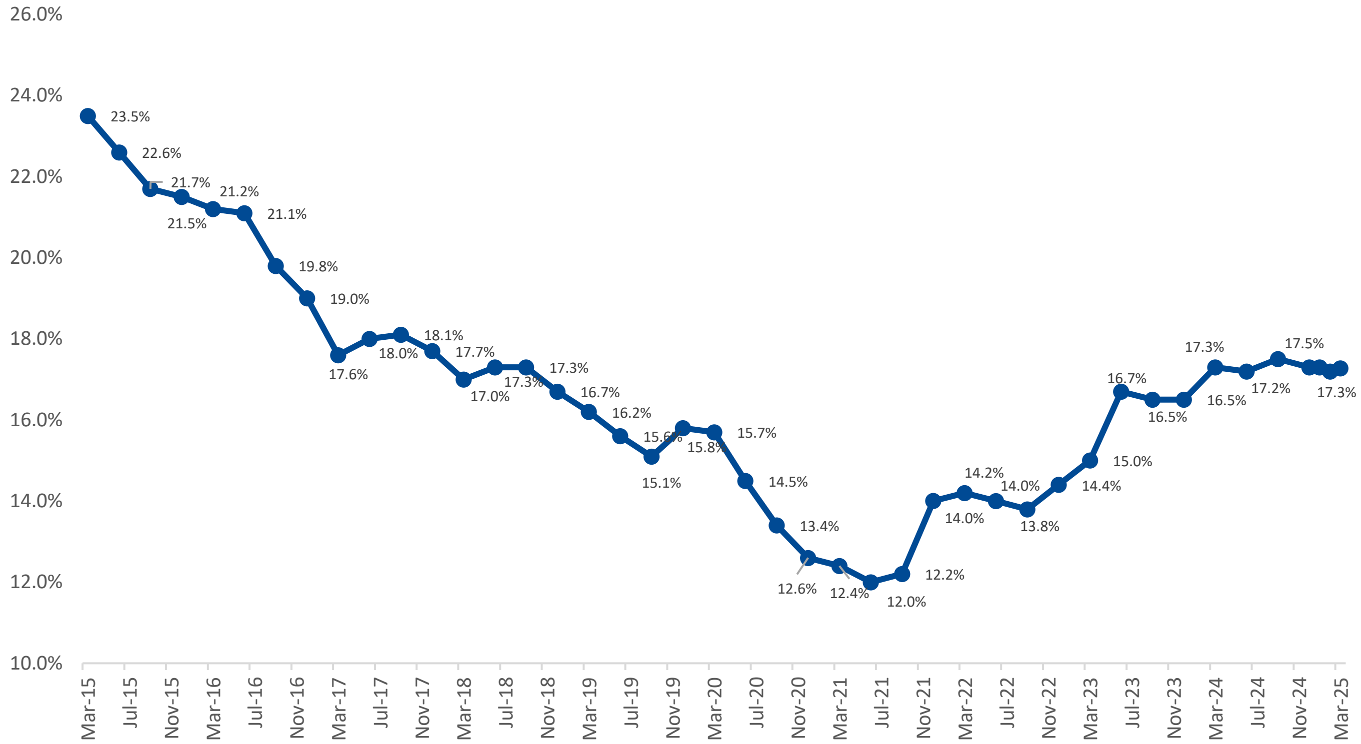
Exhibit 7. P/E Band JCI



Source: Bloomberg, BRIDS

Exhibit 8. JCI Foreign Ownership (based on Free Float)



Source: KSEI, BRIDS

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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