

Equity Strategy

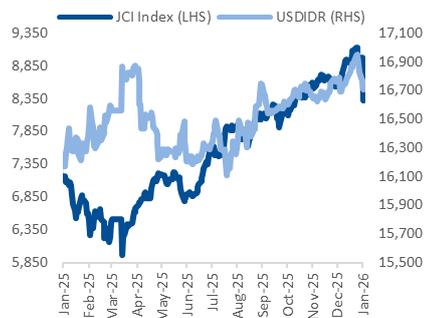
Foreign Flow Overhang from MSCI Review; Maintain Bottom-up Selective Exposure

YTD Regional Market (%)



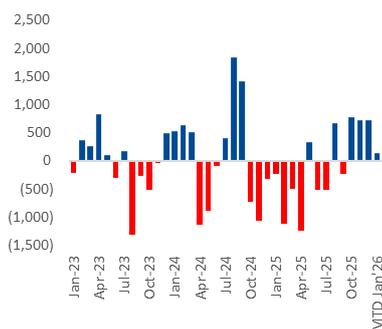
Source: Bloomberg

JCI vs USD



Source: Bloomberg

Net Foreign Flow (US\$m)



Source: Bloomberg

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- Past precedents of MSCI EM downgrade indicated that foreign investors tend to de-risk during review time and ahead of the implementation.
- We maintain our bottom-up view and continue to tilt exposure toward sectors with clearer earnings visibility: Telco, Poultry, Consumers; and momentum in Metals.
- We maintain our FY26-end JCI target of 9,400 but see downside risk to 8,900-9,175 if flow premium is reduced. Our top picks are: ANTM, AADI, ISAT, JPFA, ICBP, BBNI.

Foreign flow risk from MSCI latest announcement

MSCI's 27th Jan26 announcement on Indonesian market has triggered foreign flow risk, as it flagged lingering opacity in free float and ownership structures for Indonesian equities. MSCI further acted by freezing index actions (i.e., capping near-term catalysts such as FIF/ NOS increases, new additions, and upward migration) and highlighted the tail risk that an insufficient transparency progress by May26 could lead to a weighting reduction or even a reclassification for Indonesian market from EM to Frontier market.

Potential impact for the large-cap under worst-case scenario

The obvious near-term impact is the removal of the MSCI inclusion scenario, with the current freeze effectively halting upward migration and additions for index-aspirant/ upgrade candidates. This is already reflected in heavy selling in names like BUMI, PTRO, IMPC, DSSA. Under the worst-case (i.e., downgrade) scenario, the mechanics could create material negative flow: with an estimated over US\$1.4tn benchmarked to MSCI EM and Indonesia's current 1.1% weight, a full removal could imply US\$15-20bn of potential gross outflows, while the Frontier investor base remains structurally too small to offset. Top-10 MSCI heavyweights (accounting for ~80% of Indonesian stocks in the index's market capitalization) would be most exposed under such a rebalancing scenario.

Review period implies de-risking mode until May26

Into May26, we see the market may remain in a de-risking rather than a growth re-rating regime. Past EM downgrade precedents, particularly Argentina's prolonged warning corridor (2019), suggest foreign investors tend to de-risk well ahead of implementation (Sep21) when benchmark uncertainty rises. Today's foreign selling in BBKA, BBRI and BMRI appears consistent with early positioning adjustment. We see IDX's prompt engagement and commitment to enhancing transparency as mitigating factor which may help stabilize sentiment over coming months.

Selective exposure in Telco, Poultry, Consumers

Positioning-wise, we maintain our stance that Indonesia remains a stock picker's market in early part of FY26 until growth visibility improves further, favoring selective tactical exposure. We continue to tilt exposure toward sectors with clearer domestic earnings visibility: Telco, Poultry, and selective Consumers. On Banks, despite our view that earnings downside risk (vs. our forecast) should be limited, the sector remains the most benchmark-heavy and is therefore prone against foreign de-risking into the May26 MSCI review. We see Metals remaining a momentum pocket, though crowded positioning may limit upside.

Downside risk to JCI target; picks on selected growth with low foreign flow risk

We maintain our FY26-end JCI target of 9,440 for now but highlight downside risk to 8,900-9,175 if flow premium on the 'conгло' group stocks is reduced. We reiterate our picks on the stocks with attractive total recent upside and better earnings visibility but add an extra filter of low foreign ownership or low outflow risk. Our top picks are: ANTM (Buy, TP Rp4,800), AADI (Buy, TP Rp9,850), ISAT (Buy, TP Rp3,000), ICBP (Buy, TP Rp11,500), JPFA (Buy, TP Rp3,100), BBNI (Buy, TP Rp4,700). Aside from MSCI review and flow risk, key risks for the market are Rupiah weakness and domestic policy uncertainty.

Foreign Flow Overhang from MSCI Review; Maintain Bottom-up Selective Exposure

JCI experienced a sharp 7% correction following MSCI's announcement, which triggered an overhang of foreign flow risk. In its latest statement, MSCI flagged lingering opacity in free float and ownership structures for Indonesian stocks and responded by freezing positive index actions for Indonesia (i.e., removing near-term catalysts such as FIF increases, new additions, and upgrades for Indonesian stocks). The sharper market reaction reflects not just the freeze, but the tail risk highlighted by MSCI that if transparency progress is insufficient by May26, Indonesia could face an EM weight reduction or even an EM-to-Frontier reclassification.

Overall, today's market pullback was driven by higher risk premium and profit-taking in index-heavy names as investors priced in greater structural uncertainty around Indonesia's MSCI positioning.

Potential impact:

Near-term: index inclusion/ upgrade halt

Stocks positioned as index upgrade candidates would lose the MSCI inclusion bid entirely, as the current freeze already caps upward migration and additions. We are already seeing this dynamic play out with sell off in the previously strong inclusion/ upgrade candidate names (i.e., BUMI, PTRO, IMPC, DSSA).

Worst case: downgrade from EM

1. Market reclassification may drive net outflows.

With over **US\$1.4tn of EM funds benchmarked to MSCI EM and Indonesia's weight of 1.1%**, a full removal could translate into **US\$15-20bn of potential gross selling pressure**, even if implementation is ultimately phased. By contrast, the Frontier investor base is structurally much smaller (i.e., MSCI Frontier market cap at ~US\$190bn and with more limited dedicated funds, hence it would likely be insufficient to offset EM-driven outflows.

2. Indonesia may become an outsized weight within Frontier benchmarks.

If reclassified, Indonesia could account for close to **40% of the MSCI Frontier universe** by market cap. Such dominance typically increases concentration risk, forcing Frontier managers into the same handful of liquid large caps and potentially amplifying volatility around index events and liquidity windows.

3. Potentially higher equity risk premium.

Beyond flows, Frontier status implies reduced benchmark relevance, weaker structural sponsorship from global allocators, and higher governance/market-accessibility discounts. This may translate into **de-rating particularly during the transition period**, although valuation could always revert to mean afterward.

4. Large, index-heavy names would be most exposed.

The biggest impact would fall on liquid MSCI constituents with high foreign ownership, where forced EM rebalancing risk is most acute.

Past cases of EM downgrade

MSCI EM downgrades are rare, with Pakistan (to Frontier) and Argentina (to standalone) in 2021 representing the clearest precedents in the past five years.

- MSCI announced Pakistan's downgrade in Sep21, implemented at the Nov21 index review, after the market failed to meet minimum size and liquidity requirements and MSCI had been relying on continuity rules to maintain eligibility. At the time, Pakistan's weight in MSCI EM had already compressed to ~0.02%, implying only modest benchmark-driven outflows, with incremental selling pressure in the tens of millions of dollars. Within the Frontier universe, however, Pakistan became more meaningful, entering MSCI Frontier with an estimated ~2% weight. Indonesia's materially larger EM footprint implies a far more meaningful benchmark reallocation risk than Pakistan faced.
- In Jun21, MSCI reclassified Argentina from Emerging Markets to Standalone status, implemented in Nov21, citing persistent capital controls and repatriation restrictions that undermined market accessibility. Unlike Frontier, Standalone represents an effective exclusion from core benchmark universes, resulting in a sustained loss of institutional sponsorship and a higher long-term equity risk premium.
- Importantly, Argentina's case was preceded by a prolonged warning period: MSCI noted that capital controls imposed since Sep19 had remained unresolved, ultimately breaching EM accessibility standards. In practice, foreign investors de-risked well ahead of implementation, as benchmark uncertainty and investability constraints created asymmetric outflow risk. Indonesia now enters a similar review corridor into May26, with MSCI already freezing positive index actions and explicitly flagging downside scenarios, thereby elevating foreign allocation and risk-premium sensitivity over the coming months.

We think today's selling in large-cap index heavyweights (BBCA, BBRI, BBNI) suggests early foreign de-risking is already underway and could persist into the May-26 review window, consistent with the pattern seen in Argentina's downgrade episode. A near-term mitigating factor is IDX's prompt response, with the exchange signalling its commitment to further enhance free-float transparency and engage with MSCI and global investors. While this does not immediately remove the overhang, clearer regulatory communication and tangible improvements in disclosure could help stabilise sentiment and reduce the probability of a more adverse classification outcome over the coming months.

What to do: positioning into May26

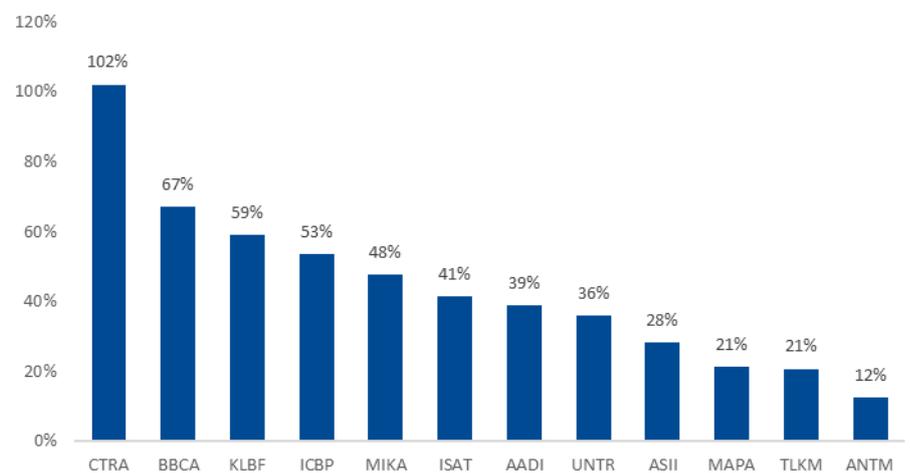
Our latest FY26 Strategy Outlook framed Indonesia as still a stock picker's market amid a gradual growth recovery, with macro supports improving but earnings visibility not yet strong enough for broad beta re-risking (FY26 EPS growth +8% off a low base, with confirmation likely needed into 4Q25–1Q26). Against that backdrop, the market's leadership in FY25 was driven disproportionately by conglomerate and index-aspirant flow themes, where we assumed a continued flow premium into FY26.

MSCI's announcement, however, challenges this pillar of the FY26 playbook. With positive index actions now frozen, the incremental "MSCI inclusion" bid for upgrade-sensitive names is effectively capped near term, and the next three months may remain a foreign de-risking corridor rather than a clean rotation back into growth. As seen in other MSCI review episodes, investors typically demand a higher risk premium until clarity improves, suggesting period until May26 may be less of a single binary date and more a period of heightened sensitivity.

Tactically, we would stay engaged but more selective. In line with our stock-picker stance, we would tilt exposure toward sectors with clearer earnings visibility and domestic support: Telco, Poultry, and selective Consumers. We continue to believe Banks have already priced in subdued growth and offer dividend cushion, but upside may now be constrained by potential foreign de-risking. On Metals, our constructive FY26 growth view (sector EPS +27% driven by volume delivery) and metals price momentum remains intact, but see that a more crowded positioning (domestic and foreign funds) may cap upside.

We reiterate our picks on the stocks with attractive total recent upside and better earnings visibility, but add an extra filter of low foreign ownership or low outflow risk. Our top picks are: ANTM (Buy, TP Rp4,800), AADI (Buy, TP Rp9.850), ISAT (Buy, TP Rp3,000), ICBP (Buy, TP Rp11,500), JPFA (Buy, TP Rp3,100), BBNI (Buy, TP Rp4,700). Aside from MSCI review and flow risk, key risks for the market are Rupiah weakness and domestic policy uncertainty.

Exhibit 1. Expected FY26 Total Shareholder Return



Source: Bloomberg, BRIDS Estimates

Exhibit 2. Top Value Stocks based on P/E

Company	P/E		Earnings Growth (yoy) - Cons.		Domestic Fund Positioning Dec-25	YTD Performance
	Current	Discount (SD)	2026F	2027F		
BBKA	7.2	(28.3)	7.2%	8.9%	-1.4%	-13.0%
ICBP	14.8	(3.4)	9.6%	8.2%	1.0%	-5.2%
CTRA	8.5	(3.1)	5.4%	1.1%	0.2%	-3.0%
INDF	5.1	(2.6)	9.1%	11.3%	0.2%	1.1%
KLBF	5.2	(1.9)	9.0%	9.3%	1.1%	-8.7%
MIKA	13.9	(1.8)	12.9%	14.6%	0.3%	-0.4%
CPIN	24.1	(1.8)	11.6%	14.4%	-0.3%	-3.3%
MIDI	15.5	(1.7)	21.3%	11.5%	0.2%	-21.0%
BBRI	13.0	(1.5)	7.7%	9.5%	-0.1%	-1.9%
SIDO	9.5	(1.5)	5.9%	8.0%	0.0%	-3.7%

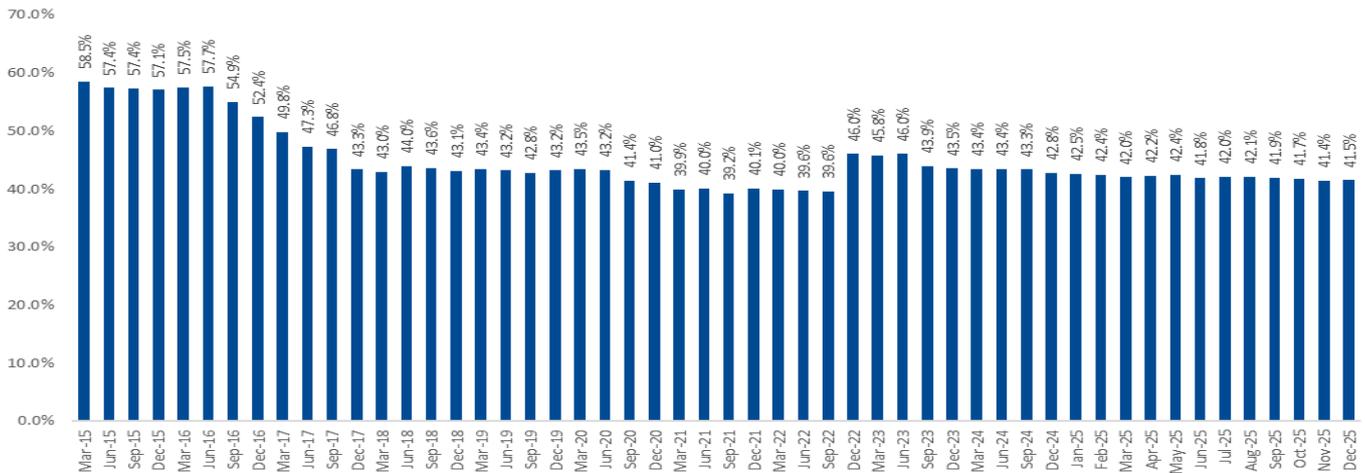
Source: Bloomberg, KSEI, BRIDS Estimates

Exhibit 3. Top Value Stocks based on P/BV

Company	P/BV		Earnings Growth (yoy) - Cons.		Domestic Fund Positioning Dec-25	YTD Performance
	Current	Discount (SD)	2026F	2027F		
ICBP	1.6	(3.6)	9.6%	8.2%	1.0%	-5.2%
BBKA	3.1	(3.2)	5.1%	7.2%	-1.4%	-13.0%
CTRA	0.6	(2.5)	12.3%	5.4%	0.2%	-3.0%
KLBF	2.0	(2.3)	9.1%	9.0%	1.1%	-8.7%
MIKA	4.3	(2.1)	13.7%	12.9%	0.3%	-0.4%
MIDI	2.0	(2.0)	33.4%	21.3%	0.2%	-21.0%
SMRA	0.4	(1.9)	-29.5%	1.8%	0.2%	1.0%
INDF	0.7	(1.8)	23.8%	9.1%	0.2%	1.1%
PWON	0.7	(1.7)	11.8%	5.3%	0.3%	5.9%
MAPI	1.3	(1.6)	11.4%	16.8%	0.4%	0.9%

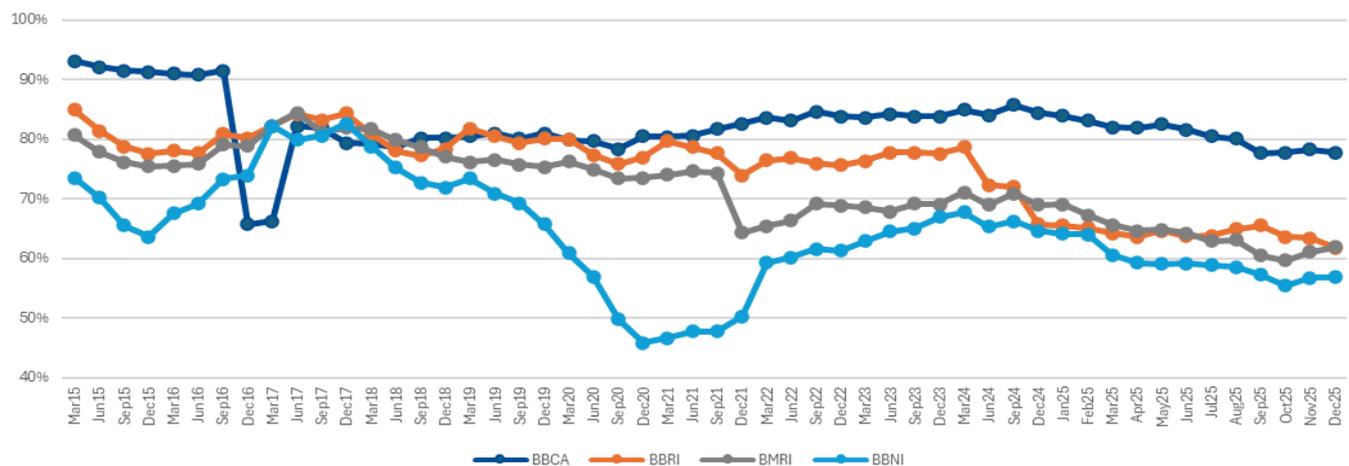
Source: Bloomberg, KSEI, BRIDS Estimates

Exhibit 4. JCI Foreign Ownership (excludes Corporate)



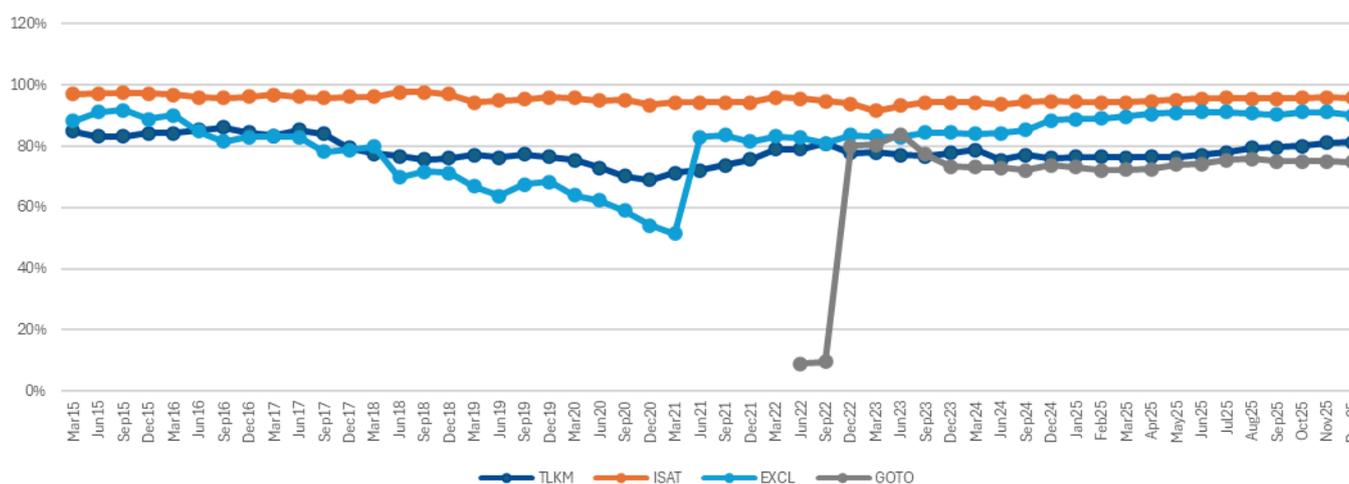
Source: KSEI, BRIDS

Exhibit 5. Foreign Ownership – Big-4 Banks



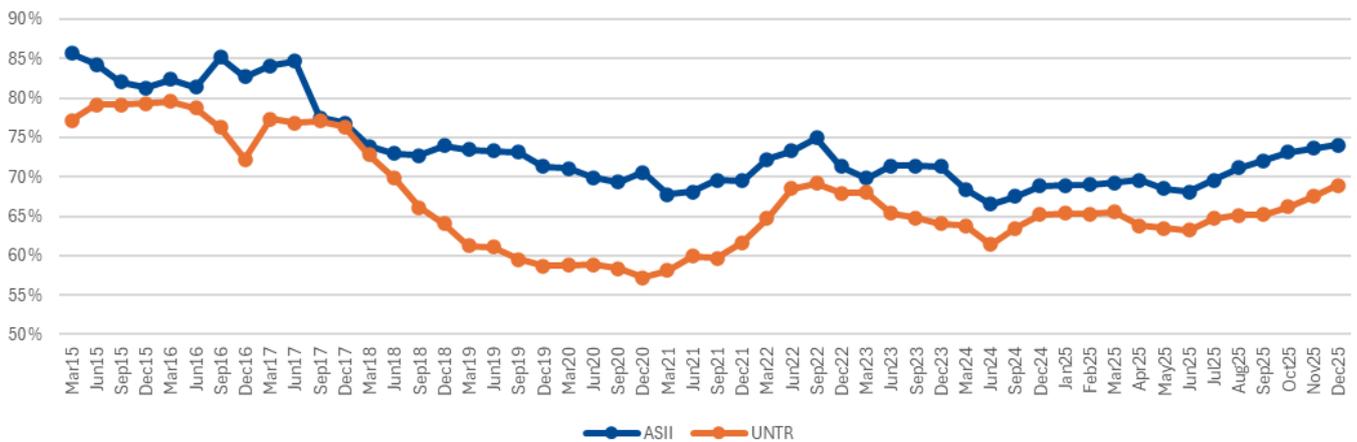
Source: KSEI, BRIDS

Exhibit 6. Foreign Ownership – Telco and GOTO



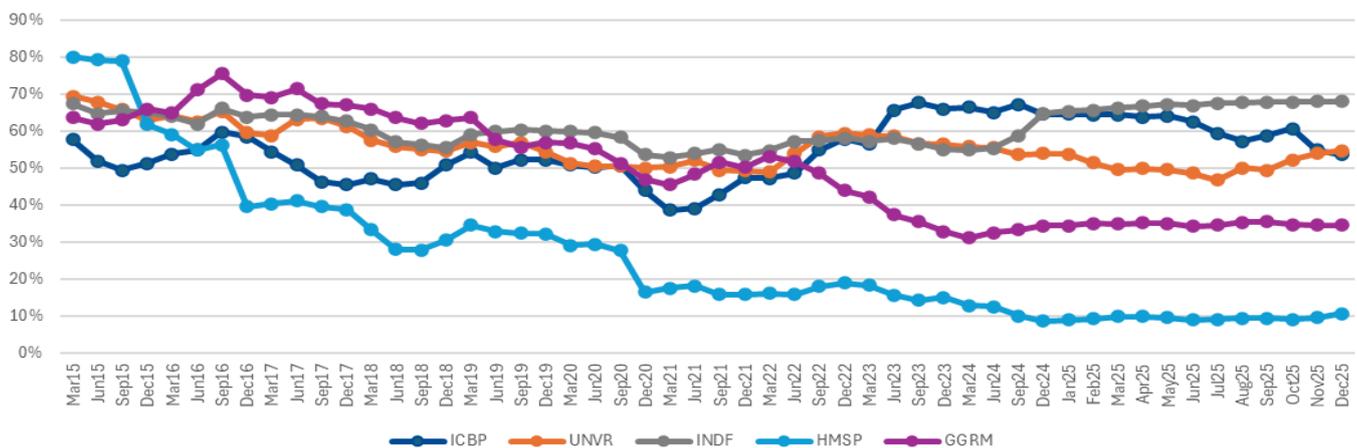
Source: KSEI, BRIDS

Exhibit 7. Foreign Ownership – Automotive and Heavy Equipment



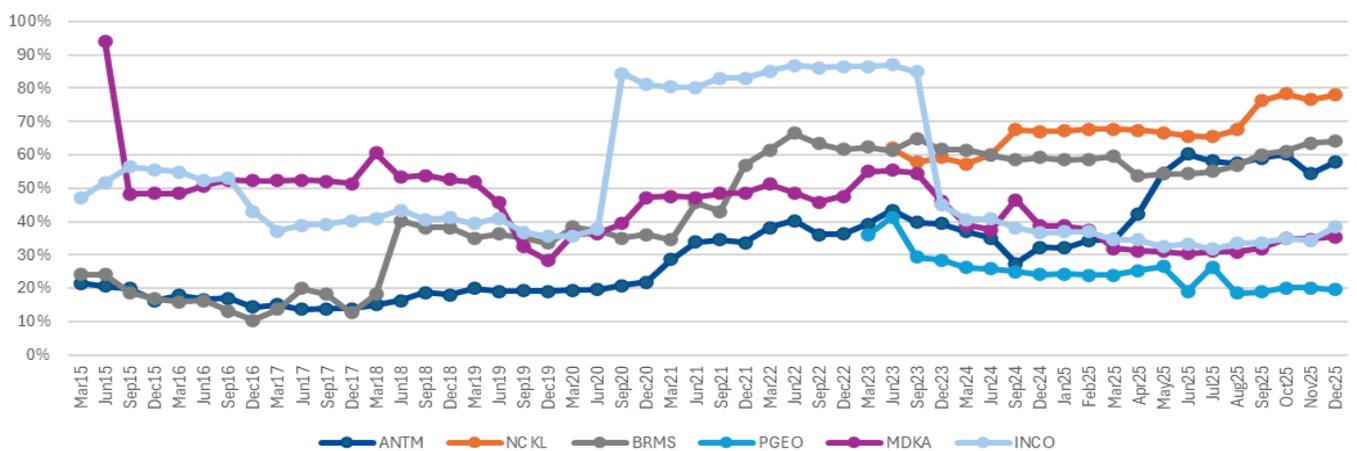
Source: KSEI, BRIDS

Exhibit 8. Foreign Ownership – Consumer and Cigarettes



Source: KSEI, BRIDS

Exhibit 9. Foreign Ownership – Commodities



Source: KSEI, BRIDS

Exhibit 10. BRIDS Top Pick Valuation

Company	Rating	Target Price (Rp/share)	Market Cap (Rpbn)	P/E (x)		P/BV (x)		EV/EBITDA (x)		ROE (%)	
				25F	26F	25F	26F	25F	26F	25F	26F
ANTM	BUY	4,800	106,216	13.1	10.9	3.0	2.6	8.4	6.8	24.0	25.1
AADI	BUY	9,850	59,959	5.2	5.0	1.1	1.0	2.9	2.6	22.6	21.2
ISAT	BUY	3,000	70,952	14.1	12.7	2.0	1.9	4.3	3.8	14.5	15.2
ICBP	BUY	11,500	90,671	9.7	8.7	1.8	1.6	6.0	5.4	19.4	19.5
JPFA	BUY	3,100	32,248	8.5	8.4	1.9	1.9	5.5	5.5	23.8	22.8
BBNI	BUY	4,700	165,600	8.3	8.1	1.0	0.9	N/A	N/A	12.1	11.8

Source: 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

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