Indonesia
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Strategy

Outlook 2021

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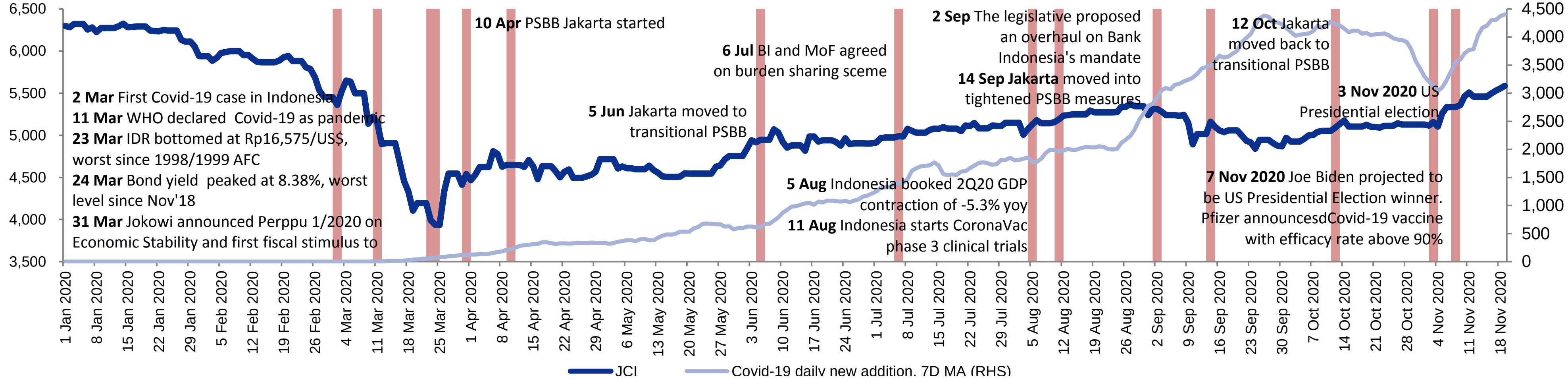
- Stabilising bond yields and greater visibility of vaccine availability should solidify Indonesia's economic recovery going into 2021. A speedier implementation of the Omnibus Law provides an upside risk.
- While our base case remains one where growth is limited by weak consumption and the expiry of relaxation on loan restructuring scheme in Mar 22, the market may choose to project a more optimistic outcome.
- Past economic recoveries have favoured infrastructure and property plays. This may occur again given the regulatory tailwinds and a rebound in government infra spending. Bond proxy is another favoured trade.

Two positives, possibly three

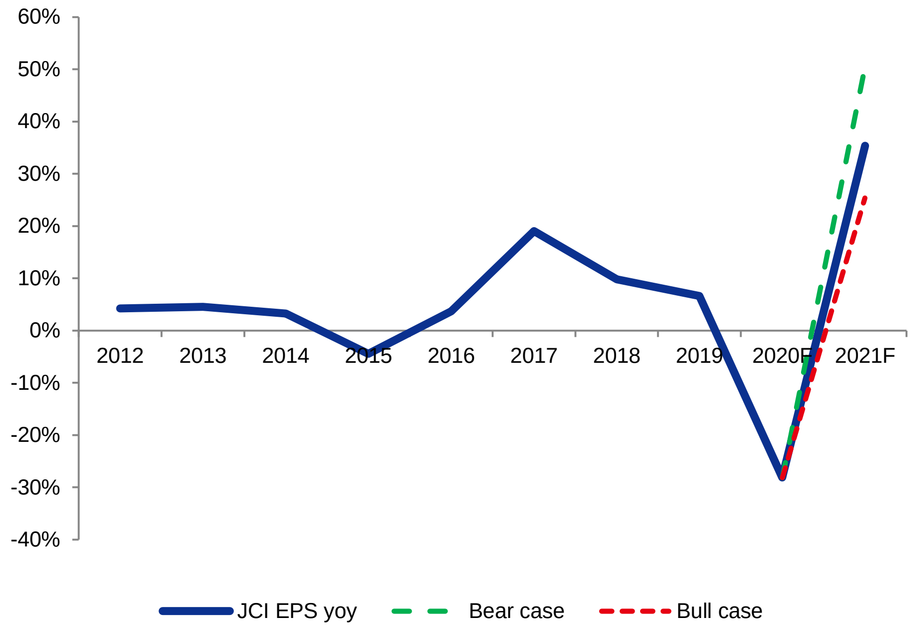
- The conclusion of the US election with Joe Biden likely to become the country's 46th President may see a more consistent foreign flow into IDR bonds, alleviating pressure on Indonesia's budget deficit funding, in turn leading to a more stable IDR. Such a virtuous cycle provides a more conducive backdrop for the economy to recover. The widely-believed more orderly global trade regime under a Biden presidency may also facilitate a smoother global growth recovery, potentially supporting commodity prices and ultimately benefitting Indonesia's terms of trade. Indonesia's vast nickel resources and significant investment in its related supply chain have led to a sharp rise in its export contribution. As Indonesia aggressively pursues to become part of the global EV supply chain, nickel and related products may emerge as key exports if Biden's green investment focus and equally green initiatives by China and the EU materialise. A greater visibility of vaccine availability and the relatively high efficacy of Pfizer and Moderna's vaccines offer upside risk to growth recovery should mass inoculation be implemented by 3Q21.
- Our base case is for earnings growth to remain below trend until FY22 due to several overhangs, chiefly on: a) expiry of the relaxation for loan restructuring in Mar 22 (banks account for c.47% of market earnings in FY21F); b) the expiry of the government's ability to exceed the statutory budget deficit limit of 3% of GDP by 2022; c) mass market consumption may remain fragile given high unemployment, which hit 7.1% based on Aug 20 data release. The speedier execution of the recent Omnibus Law on Job Creation is therefore key to lifting the growth outlook. For now, we do not expect the new law to provide much growth upside in FY21F.
- While we believe the market may remain optimistic on vaccine availability, earnings need to recover and to at least meet expectations next year for a sustained market rally. We like cement, property and construction on higher recovery visibility, backed by valuations. We have a higher conviction on foreign fund inflows to IDR bonds given its attractive spread, supporting a bond proxy trade.



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Base, Bull & Bear cases: JCI range of 5,200-5,900 (YE-2020); 5,800-7,100 (YE-2021)

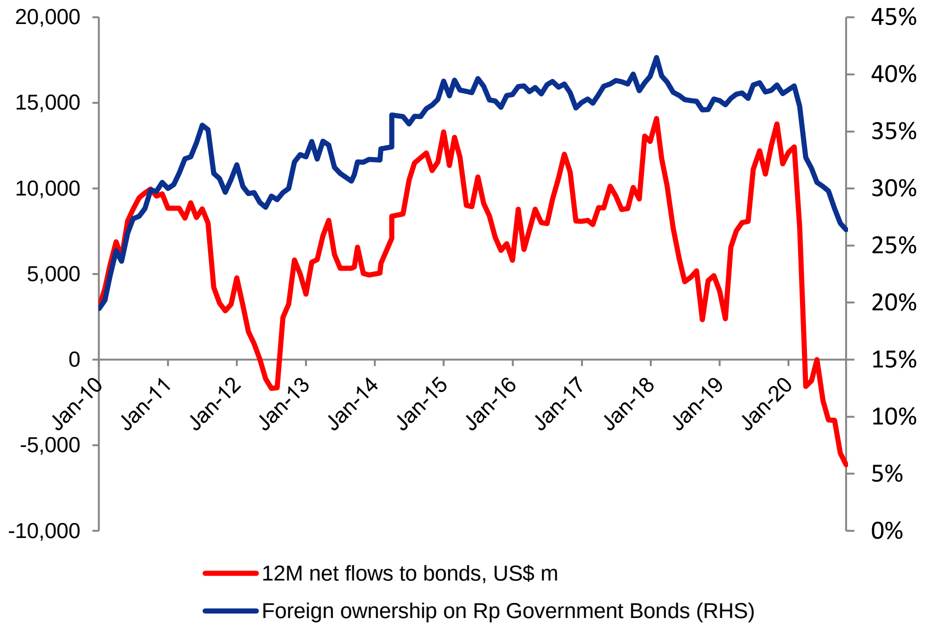
- Base case – JCI target of 6,400: FY20-21F earnings growth of -28% yoy and +35% yoy, with bank tail-risk concern creeping in by 2H21F. This may lead to earnings downward revision cycle. JCI valuation may de-rate consequently, trading at rangebound PER of -1 to -1.5 sd to mean.
- Bull case – JCI target of 7,100: upside to FY21F earnings growth by +10-15% yoy pts, largely driven by consumption recovering faster than expected, which in turn is likely due to: 1) sufficient inoculation occurring before mid-2021 allowing a full celebration of Idul Fitri at midyear; 2) The Omnibus Law bearing fruit sooner, attracting investment commitments, providing uplift to job prospects and consumer confidence. JCI may trade up to mean initially and may test +1 s.d. should banks' tail-end risk be perceived to be benign.
- Bear case – JCI target of 5,800: growth fails to live up, with downgrades prevalent by mid-21, largely due to government spending challenges. Mass inoculation is delayed to YE2021. Consumption fails to recover. IDR may test 15k/US$. JCI valuation could de-rate to -1.5 to -2 s.d.

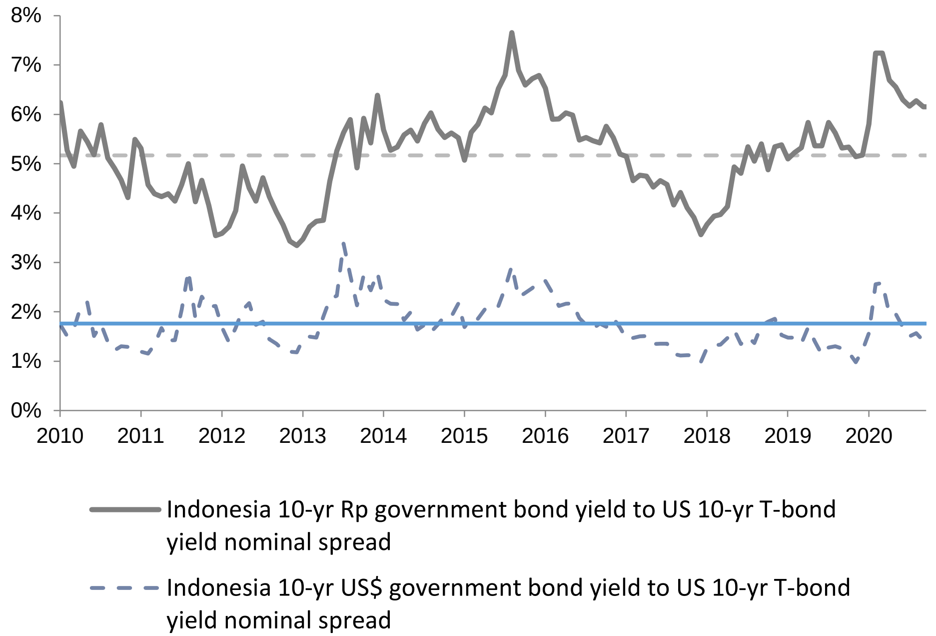


Macroeconomic forecast	Unit	2017	2018	2019	2020F	2021F
Real GDP	**% yoy**	**5.1**	**5.2**	**5.0**	**-2.0**	**5.4**
By expenditure						
Private consumption	% yoy	5.0	5.1	5.2	-2.7	4.0
Household	% yoy	4.9	5.1	5.0	-2.7	4.0
Non-profit institution	% yoy	6.9	9.1	10.6	-3.9	4.2
Public consumption	% yoy	2.1	4.8	3.2	2.9	7.2
Gross fixed capital formation	% yoy	6.2	6.6	4.4	-5.2	6.7
Net exports	% yoy	-	-	-	-	-
Exports	% yoy	8.9	6.5	-0.9	-7.2	4.8
Imports	% yoy	8.1	11.9	-7.7	-15.7	11.3
Headline inflation, average	**%yoy**	**3.8**	**3.2**	**2.8**	**2.0**	**2.6**
Current account	**% of GDP**	**-1.6**	**-2.9**	**-2.7**	**-0.4**	**-1.7**
Rupiah per US dollar, avera(	**Rp/US$**	**13,382**	**14,243**	**14,142**	**14,600**	**13,900**

Post US election impact: alleviating budget funding pressure

- The widened budget deficits in FY20-22F make up c.16% of GDP. This is based on the government's target. Consensus view of potentially revenue shortfalls suggests downside risk to budget deficit. The sharp foreign outflows from govenrment bonds exerted pressure on bond yields and ultimately on the currency. IDR has been one of the worst performing currencies YTD. Consequently, BI and MOF have forged an unorthodox funding scheme which allows BI to buy directly from the government at discounted interest rate. This has led to further fund outflows despite assurances by BI and MOF that such an exercise (of bond purchase) would be a one-off event. Ultimately, this has put the government's ability to fund its budget deficit in doubt given the relatively shallow domestic financial market, which has led to a widened bond yield spread to T-Bill. YTD foreign funds have net sold US$6.5bn of Indonesia government bonds, bringing its ownership down to 26.4%, from a peak of 39.2% in Nov 19.
- The conclusion of the US election may lead to a sustained risk-off trade which could alleviate government funding pressure, on a view that foreigners may start buying Indonesia bonds again. With a nominal yield spread at 6.2% vs. mean of 5.2%, valuations are attractive. A more bullish case is if both Democratic Party candidates win the two runoff senate seats in the US in Jan 21. Such a Blue Wave outcome may see an aggressive US fiscal policy, a weak US dollar and higher growth outlook.

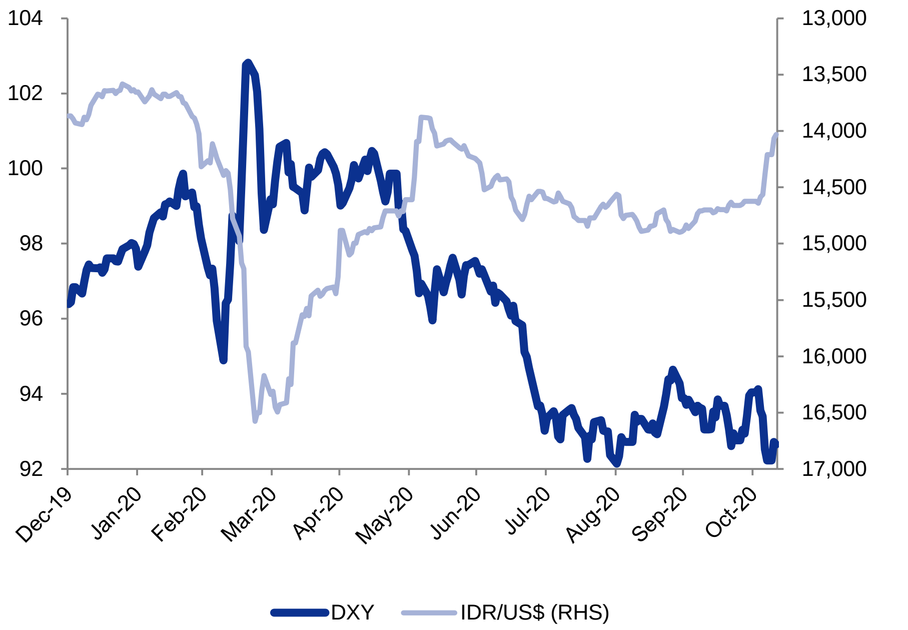


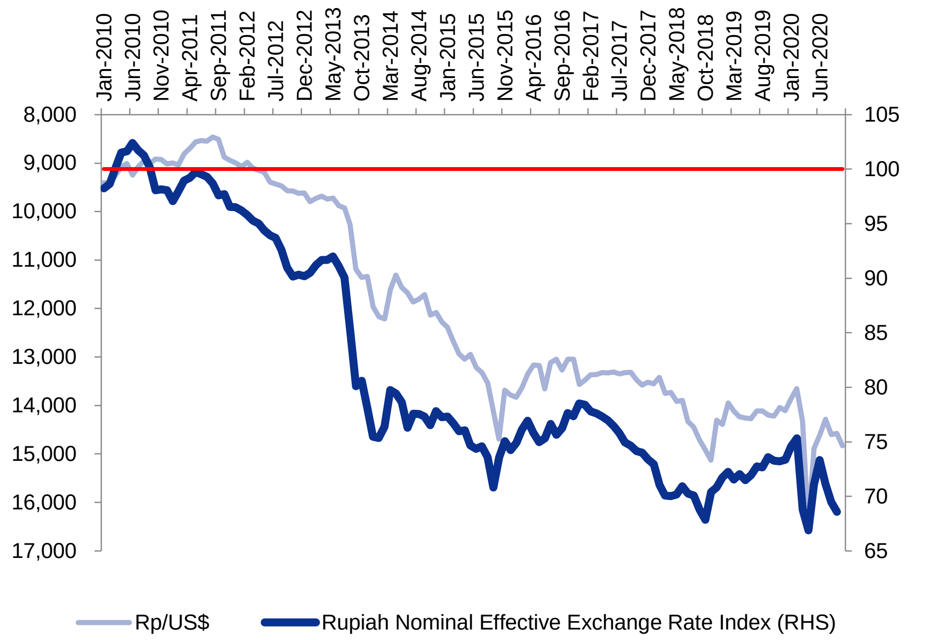


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Rupiah may turn more stable than expected

- The IDR has been hit hard and is at its lowest level of the past 10 years on a NEER basis.
- If the consensus view that the US dollar (as proxied using DXY) remains relatively soft for longer holds true, IDR's high negative correlation to DXY offers room for the IDR to appreciate. A Blue Wave outcome in the US may further cement such a view.
- At the least, a sustained funds inflow should further provide support to the IDR.

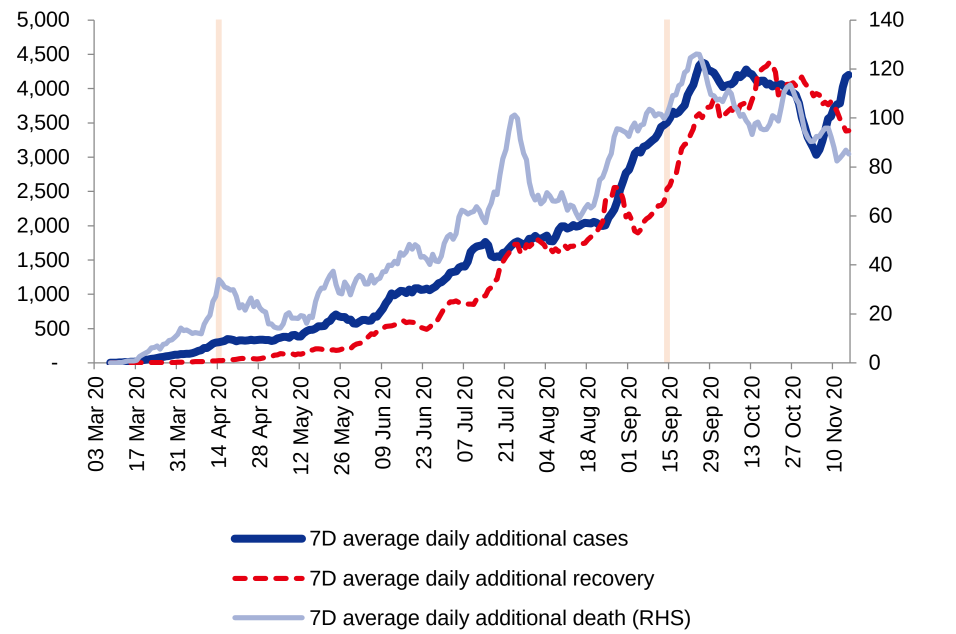


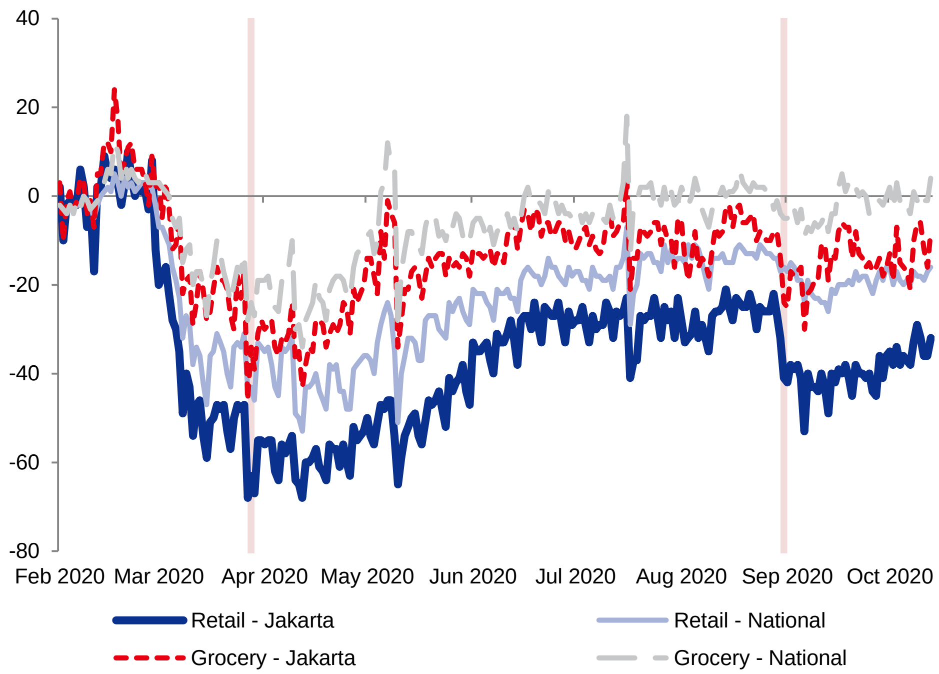


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Vaccine hopes: it could be readily available in 3-6 months

- Indonesia's handling of the Covid-19 outbreak has seen its ups and downs. While recovery rate has consistently surpassed fatality since Oct, the relatively low testing and high (albeit plateauing) daily new cases on high positivity remain a concern. While the government is seemingly reluctant to re-impose another harsh lockdown, mid-Sep's experience suggests that it may have no choice if the number of new Covid-19 cases spike again. This would derail any economic recovery trajectory.
- The greater visibility of vaccine availability, with talks of potentially emergency use allowed by late-2020, may foster greater confidence of an economic recovery in the near future. Indonesia has secured 340m doses of vaccine from Sinovac to be delivered in stages starting in end-Nov 20. Biofarma has also prepared facilities to eventually produce 17m doses per month by FY21F.
- The vaccine's availability should be particularly positive for consumption and substantially lower tail-risk for restructured bank loans.

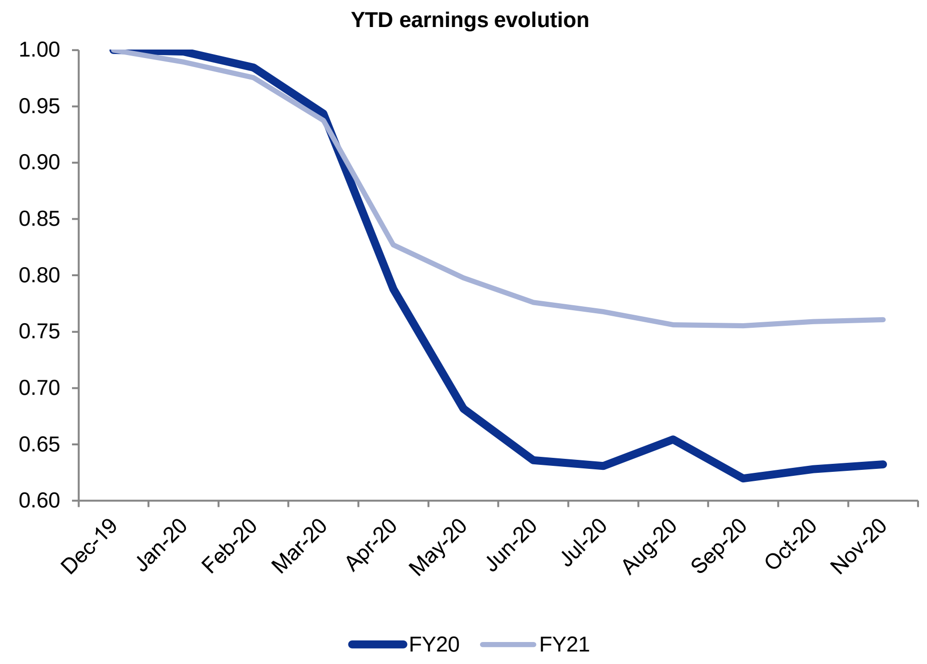


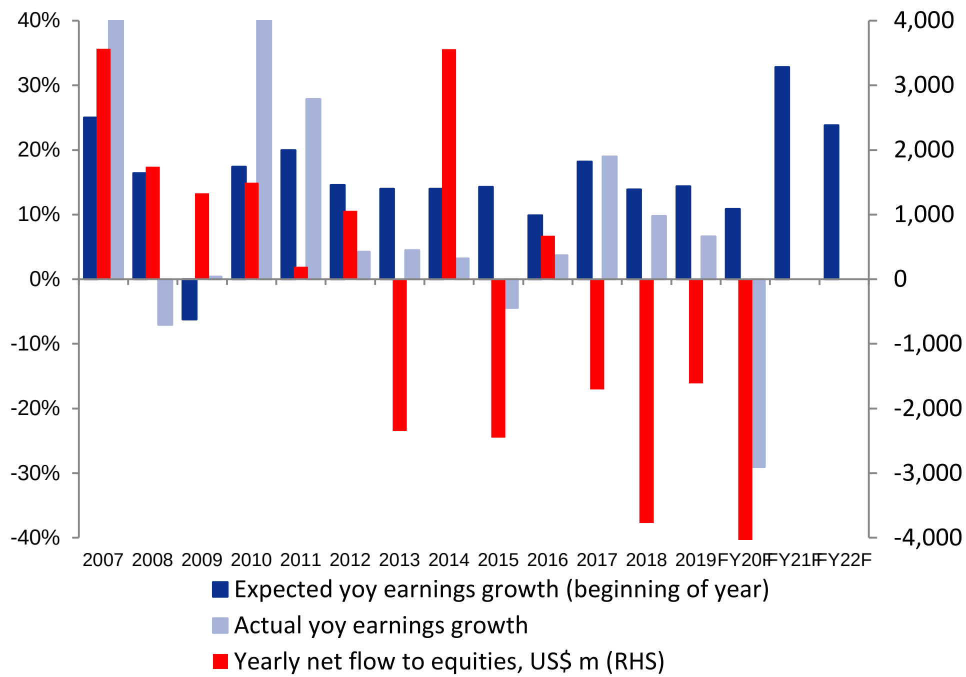


SOURCES: CGS-CIMB RESEARCH, MINISTRY OF HEALTH, GOOGLE

Earnings may not recover to pre-Covid-19 levels until 2022, under our base case

- Market earnings and GDP for FY20 may have bottomed. Market earnings may be more resilient than GDP growth thanks to subdued banks' NPL. On the flipside, banks' tail risk may loom by 2H21F as regulatory loan relaxation policy expires in Mar 22.
- Risk profile may improve if mass inoculations can be initiated sooner, say by 3Q21F. Equally, growth risk could also be mitigated should investments pick up.
- Our base case is for below trend earnings growth until FY22 due to several overhangs, chiefly on banks' earnings, which would in turn be due to tail-end risk on restructured loans. A speedier execution of the Omnibus Law on Job Creation is key to lifting the growth outlook.
- Our analysis of the past 13 years of market performance has shown changing drivers, with growth harder to come by over the past three years, in particular. This has led to a de-rating in valuations and a concentration in defensives. A reset in growth outlook, as the threat of the the pandemic fades and with the Omnibus Law implementation, may restart a secular rotation into cyclicals. Such an investment thesis needs growth recovery to be more entrenched in 2021F, in our view.
- We believe JCI needs foreign fund inflows to perform sustainably – a pattern supported by historical performance. And earnings need to recover and to at least meet expectations for a sustained funds inflow.

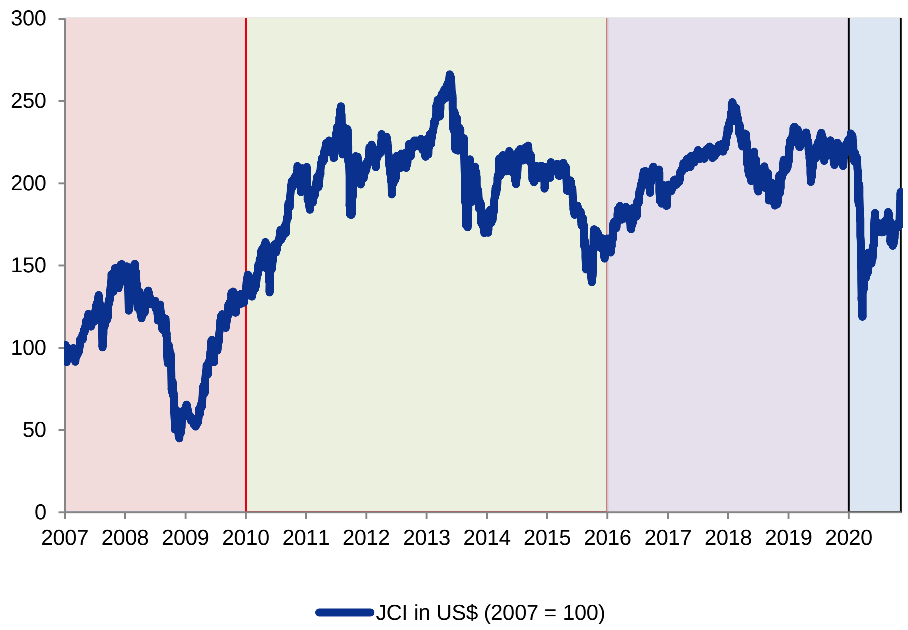


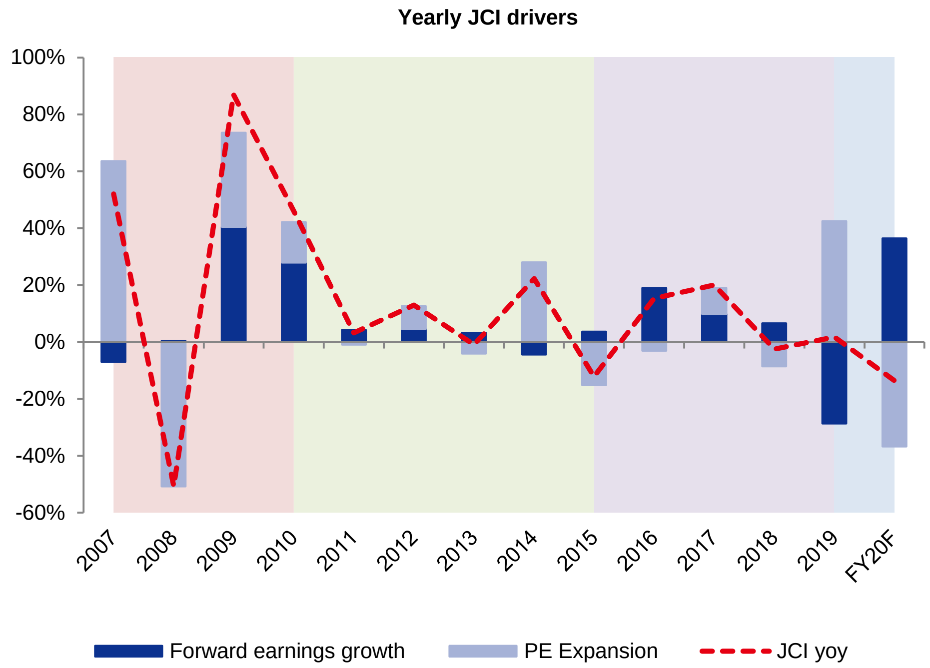


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

What drove the JCI's performance in the past?

- We analyse the JCI's drivers since 2007 to confirm whether it is more earnings growth or valuation expansion-driven, and why they were so.
- We divide the study into three distinct periods: 1) the 2007-2010 period (when JCI gains were contributed by earnings recovery post-Global Financial Crisis), 2) the 2010-15 period (when earnings growth picked up and P/E expanded), and 3) the 2016-19 period (when earnings growth struggled and gains were mostly contributed by P/E expansion).
- We observed that the post-crisis recovery (as in the 2009/10 period) of JCI was driven by both earnings growth and P/E expansion, with the latter firstly and earnings recovery driving the next leg of the market rally. Of note is the fact that the market rally could not be sustained for two consecutive years solely by P/E expansion alone.



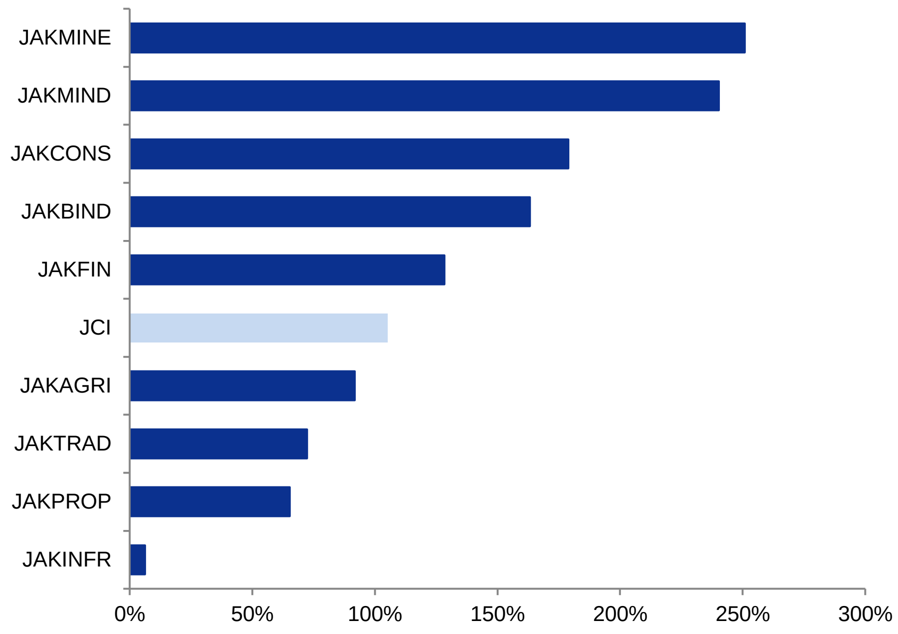


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

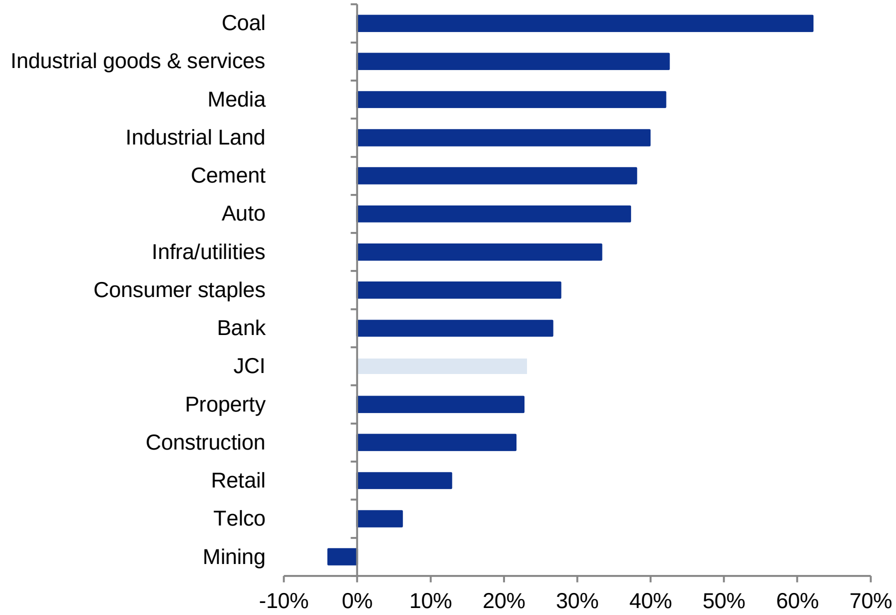
The 2007-10 period: commodity boom led to P/E expansion

- The first part of 2007-2010 started at the beginning of the Global Financial Crisis (GFC), and covers its aftermath. The period was signified by easy money (thanks to the Fed's Quantitative Easing), coinciding with consumption (Indonesia surpassed US$3k/capita in 2010) and investment boom (the first since Asian Financial Crisis in 1998) as well as commodity price rally on the back of Chinese stimulus.
- The JCI movement initially was mostly driven by P/E expansion and later contraction in 2007-2008 as earnings plummeted during 2008's GFC, while post-GFC recovery was driven by both earnings growth and P/E expansion.
- Mining, misc. industries (mostly ASII), and consumer goods led the gains in JCI throughout the period, while infrastructure and utilities, property and construction as well as trading sectors were the worst underperformers.
- Most of the gainers during the period were well justified by their earnings growth. Coal mining, industrial goods and services (mostly UNTR) and media sector led earnings growth during the period, offsetting the earnings drag from the metal mining, telco and retail sectors.

JCI gains by sector, 2007 - 2010



Earnings growth CAGR, 2007-2010

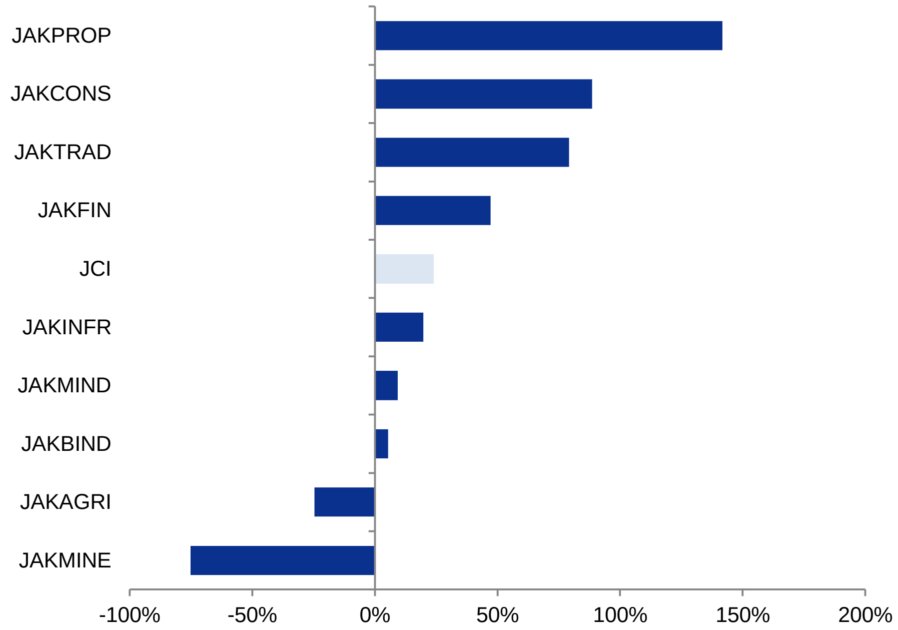


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

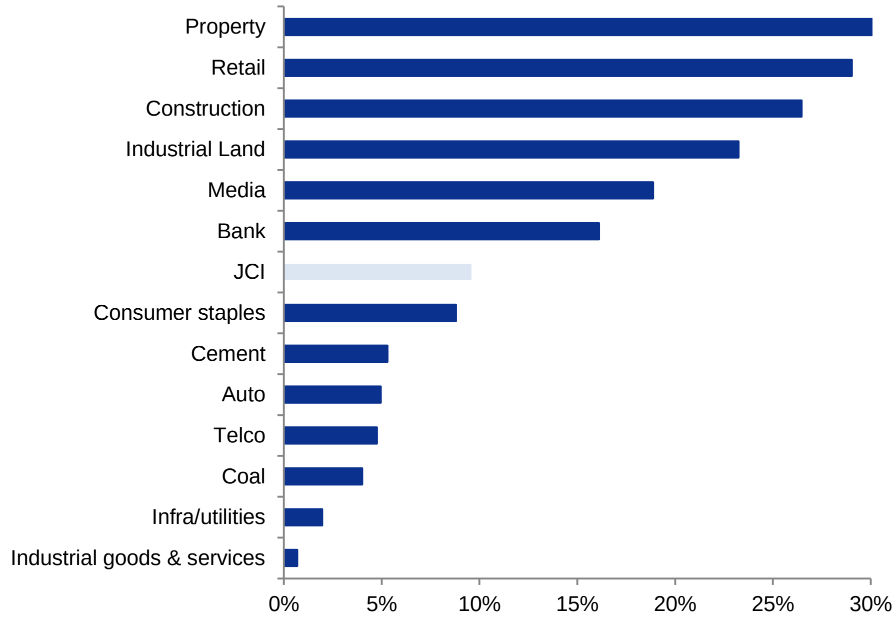
The 2010-15 period: consumption driven growth and Jokowi effect

- The 2010-15 period kicked off with Indonesia obtaining investment grade status from rating agencies. This was also the beginning of the persistent current account deficit challenge, and marred by slowing economic growth, IDR volatility following Fed's Taper Tantrum in 2013 and Rmb devaluation in 2015. Jokowi became President in 2014 and immediately embarked on an aggressive infrastructure drive.
- Property and construction (boosted by Jokowi effect), consumer goods and trading sector thrived during this period, while commodities-related sectors (mining and agriculture) slumped. Basic industries underperformed, no thanks to the government's attempt to control SOE cement sales prices in 2015 and an influx of new capacities from new players.
- The sectoral gains and outperformers were supported by earnings growth seen during the period, with the exception of consumer staples (whose earnings growth was lacklustre but outperformed nevertheless, suggesting P/E expansion). Commodity-related stocks' earnings contracted (and turned negative), driven by commodity price declines, and valuations de-rated consequently. The momentum of the past period, however, carried over and boosted property and discretionary spending as shown in stellar earnings growth in both sectors.

JCI gains by sector, 2011 - 2015



Earnings growth CAGR, 2011-2015

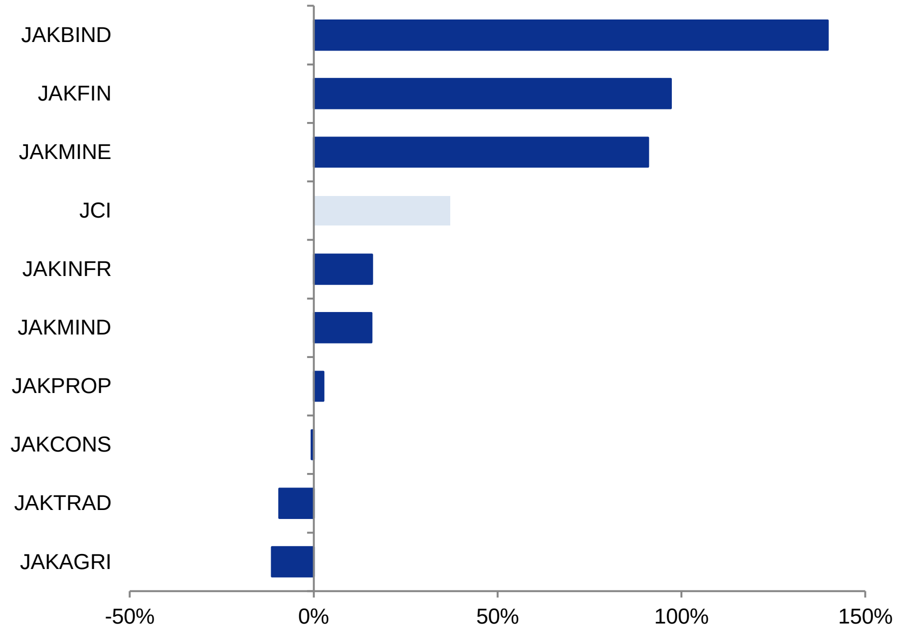


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

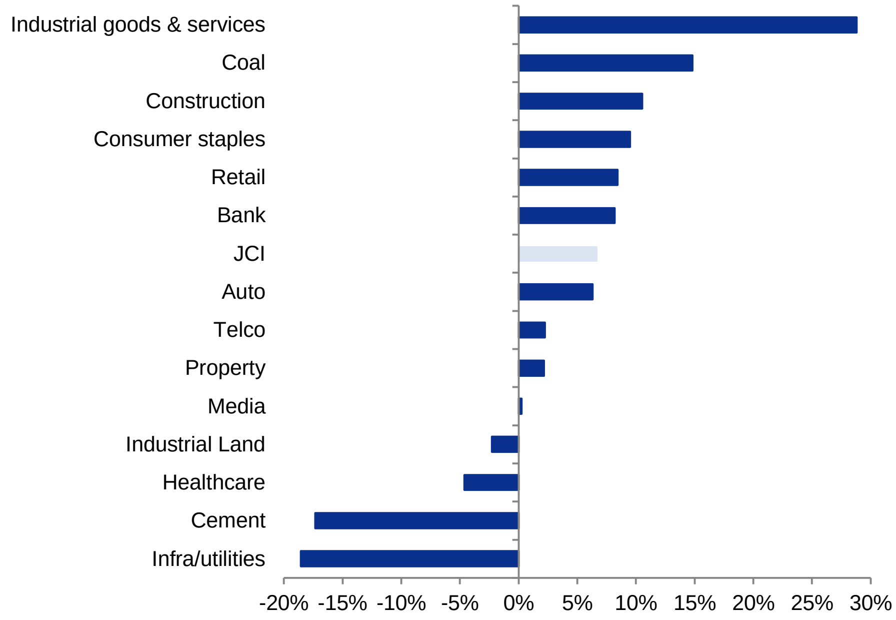
The 2016-19 period: growth slowed, volatility picked up, defensives overtook cyclicals

- The 2016-2019 period began with banks' credit cycle, rising interest rate and liquidity withdrawal externally, amid declining inflation rate domestically as the government's management of fuel and food price fluctuations started to bear fruit. GDP growth managed to recover from the decade low's 4.9% yoy in FY15, but was stuck at c.5% yoy level. This was below Jokowi's campaign promise of a 7% average. The rising Fed Fund Rate in 2017/18 (and Bank Indonesia's decision not to follow suit initially), followed by the US-China Trade War in 2018/19 resulted in increasing market volatility. Several major political events signified this period: Brexit, Donald Trump's rise to become US President, Jakarta's bitter gubernatorial election in 2016 and ending with Jokowi's re-election in 2019 after a tense contest.
- Financial and mining sector led the gains during the period, supported by earnings recovery. Agriculture, trading and consumer goods underperformed. Basic industries outperformed during this period, supported by gains in petrochemical as well as pulp and paper stocks. Gains in industrial goods and services and coal sector were well supported by the earnings growth as commodity prices recovered, while construction sector de-rated despite the strong earnings growth as investors grew wary of their balance sheet risks.

JCI gains by sector, 2016 - 2019



Earnings growth CAGR, 2016-2019

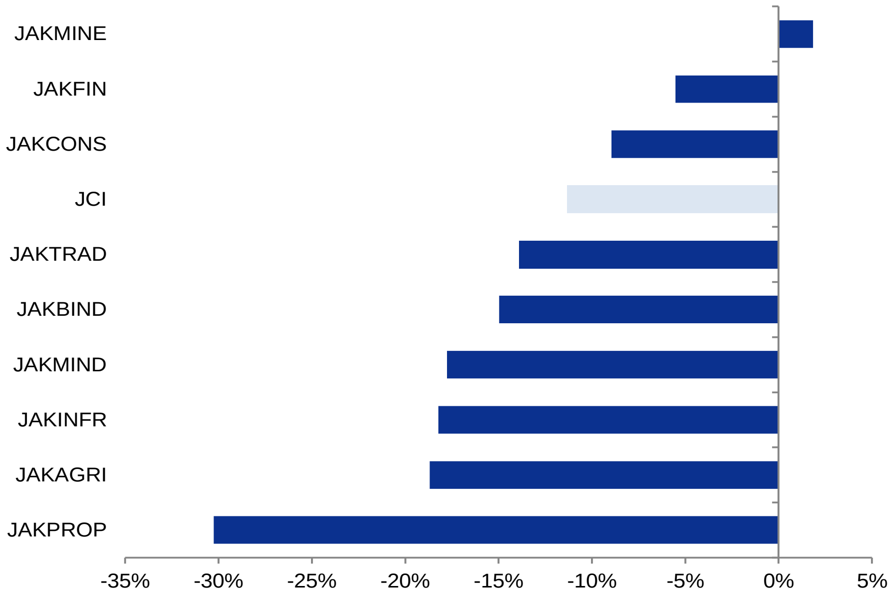


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

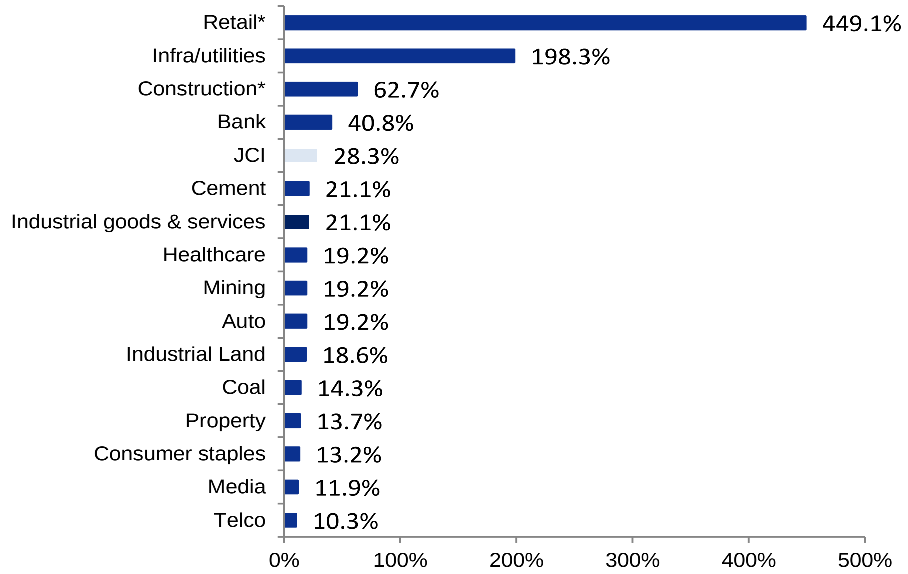
The present: drive for reforms, pandemic and a big reset

- In YTD 2020, mining (mostly metals on EV sentiment, but not coal), consumer goods, financial and trading sectors outperformed JCI, while property and construction, infra and utilities and basic industries underperformed. For the most part, this was risk-on sentiment, where investors sold perceived "riskier" sectors in favour of safer ones. Small caps underperformed massively.
- Banks performed relatively well compared to the rest of the market, in part due to their bigger market caps and hence better liquidity, but also bolstered by credit restructuring relaxation. The trading sector gains were largely supported by media and UNTR, but not retail stocks which underperformed. The infrastructure and utilities sectors' declines were mostly dragged down by PGAS, toll roads and telco operator companies, offsetting gains from the telco tower operators. The defensive sectors' outperformance so far are well justified by the more resilient earnings growth, as defensive sectors' earnings estimates in FY20-22F are expected to outperform cyclical sectors' earnings.
- We think the market has yet to fully price in a return to a more normal world, post pandemic. Equally, the market has yet to fully appreciate the benefits and reforms under the Omnibus Law. 2020 would likely be remembered as a big reset, a bottoming of growth (in fact a big negative growth) and a recovery which may potentially morph into the beginning of a cyclically high-growth period.
- P/E may expand firstly from the bottom, and if earnings recover to exceed estimates, the market would then be driven by both P/E expansion and earnings.

JCI gains by sector, early 2020 - now



Earnings growth CAGR, 2021-2022

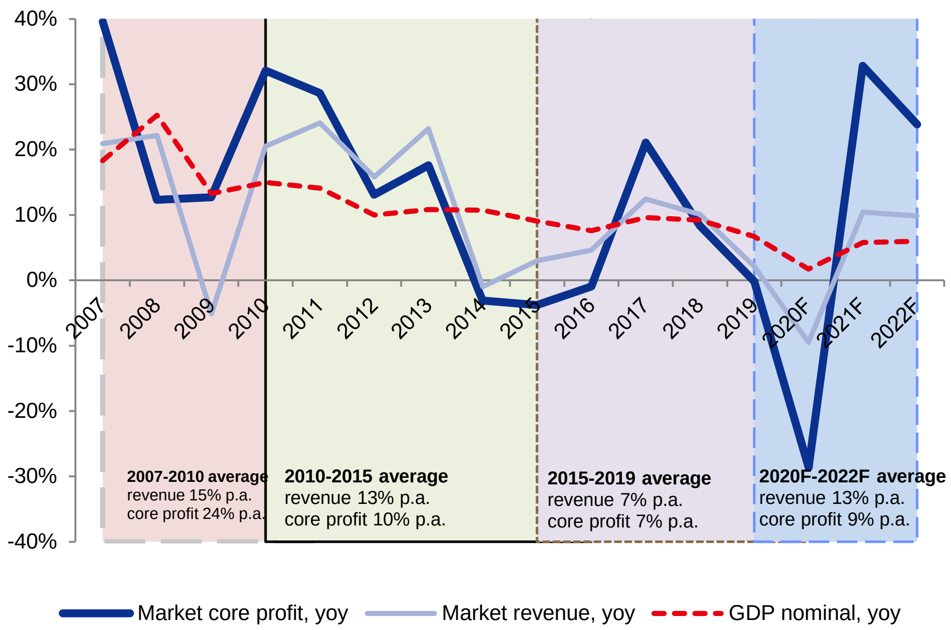


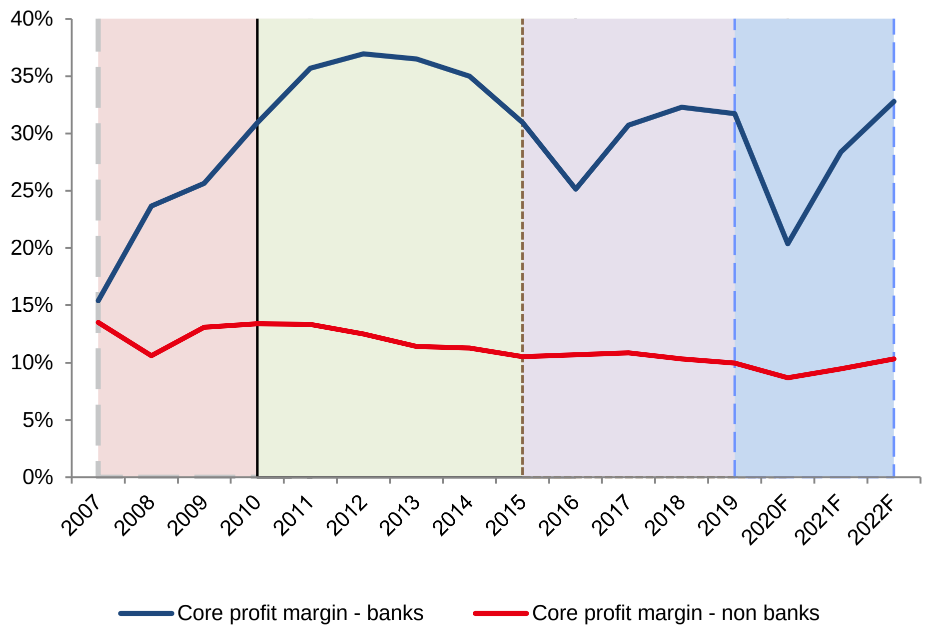
**adjusted CAGR growth for sectors expected post net losses in FY20*

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

GDP vs. market earnings growth: turnover & banks' margin to drive the recovery

- While the market's sales and core profits tracked GDP growth, the former has been more volatile in part due to heavier exposure to banks.
- FY20F core profit is expected to see the worst contraction in over 13 years, at -29% yoy, and projected to rebound by +35% yoy in FY21F. The nominal earnings of companies are not expected to return to 2019's level until FY22F.
- Core profit margins are expected to contract 3% yoy to 8.7% in FY20F, before expanding by 160bps throughout FY21-22F. Much of the margin recovery is expected to be driven by the banking sector (+12.4% throughout FY20-22F), while non-banking sectors are expected to recover by +1.6% throughout the period (mainly driven by margin recoveries in construction, retail and infra/utilities companies).

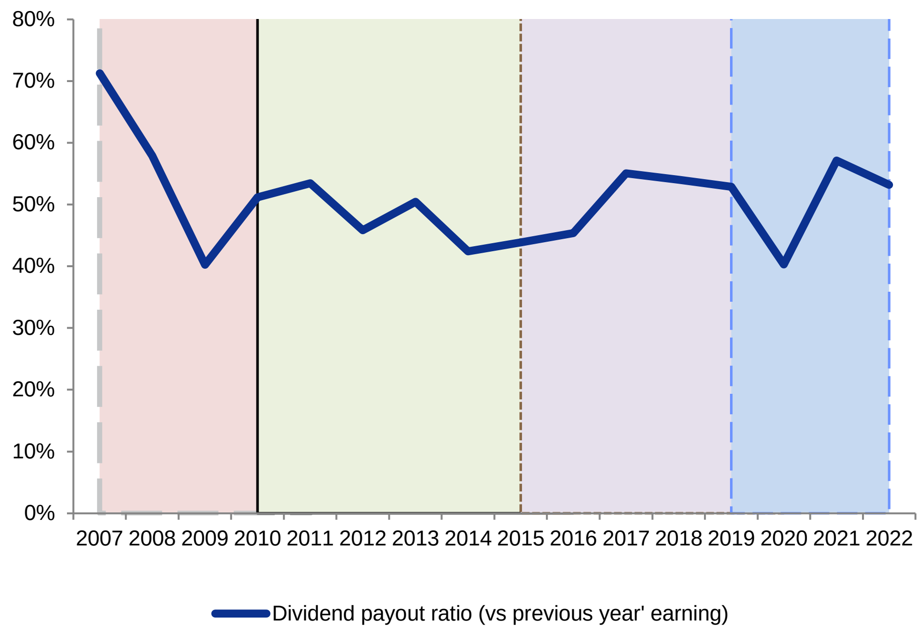


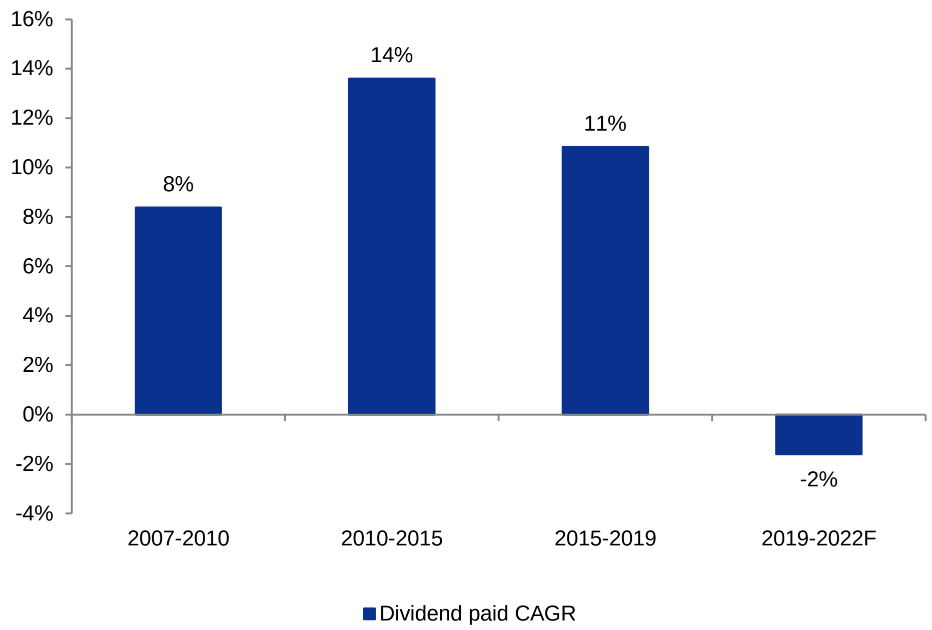


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Dividend: payout would fall and may recover at less the rate projected

- Dividend payout is expected to decline from 53% in FY19 to an average of 40% in FY20F. This is similar to what happened during the GFC in 2008 when payout ratio declined for two consecutive years from 2007's peak level of 70% to 40% by 2009, eventually stabilising at between 40% and 50% throughout the past decade.
- Should the 2008/09 post-crisis dividend payout decline scenario be repeated, the FY21F payout ratio rebound to 57% may look too optimistic. The nominal dividend paid is expected to contract by 2% CAGR throughout 2019-22F.

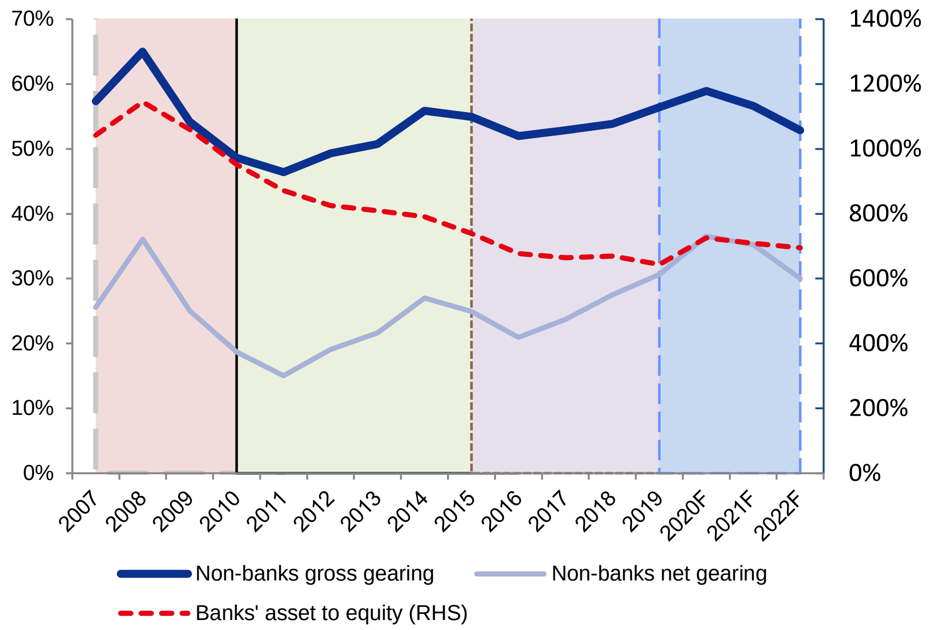


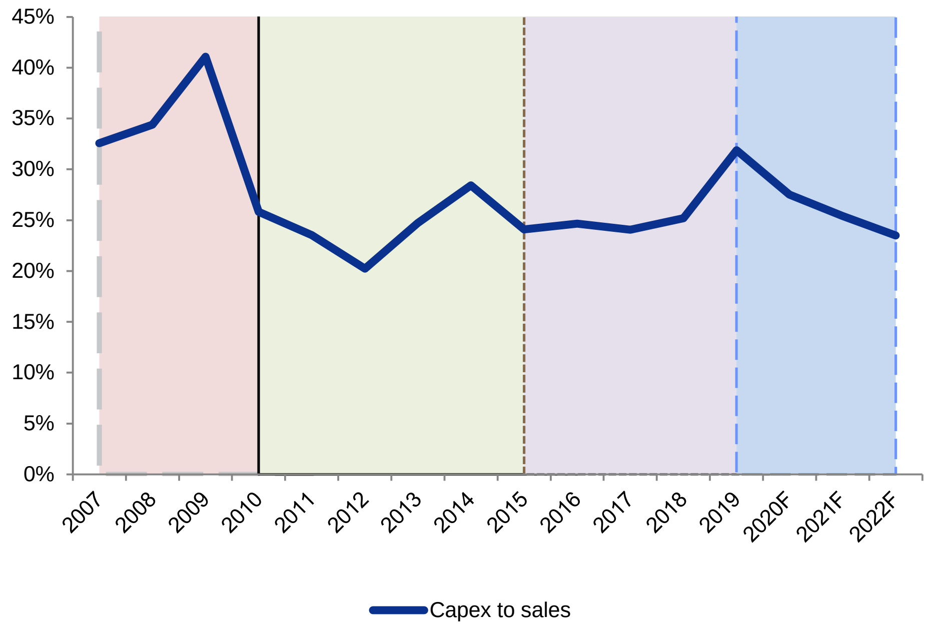


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Gearing may have peaked in FY20F, while capex bottomed

- Gross gearing level of non-bank companies peaked during the 2008 GFC driven by coal and consumer staples companies before deleveraging throughout 2009/10. As companies entered the expansion cycle during 2010-15, gearing picked up before subsiding in 2015-19 as capex spending flattened (as of % of revenue), which could perhaps further fuel a struggling economic growth period.
- Capex to revenue is expected to decline to 24% by FY22F from 32% in FY19 driven by a decline in consumer goods' and construction spending. As nominal capex spending is expected to decline by 1% p.a. throughout FY19-22F, gross gearing level is expected to decline from 56% in FY19 to 53% in FY22F. We think this has room for upside if: 1) the government's development spending is as targeted in FY21F; 2) a vaccine is widely available by 3Q21F; and 3) the Omnibus Law starts to provide investment impetus by 2H21F.

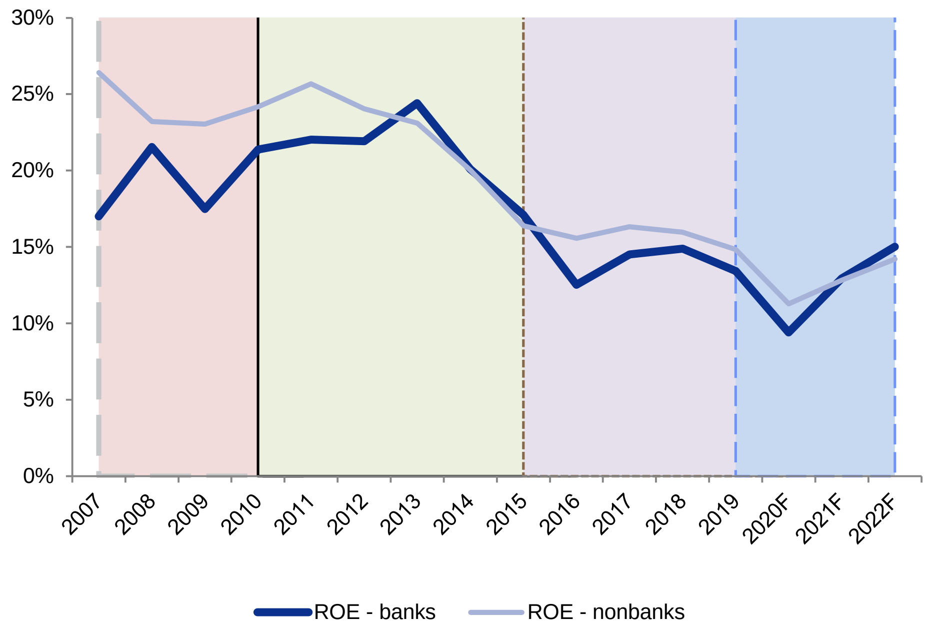


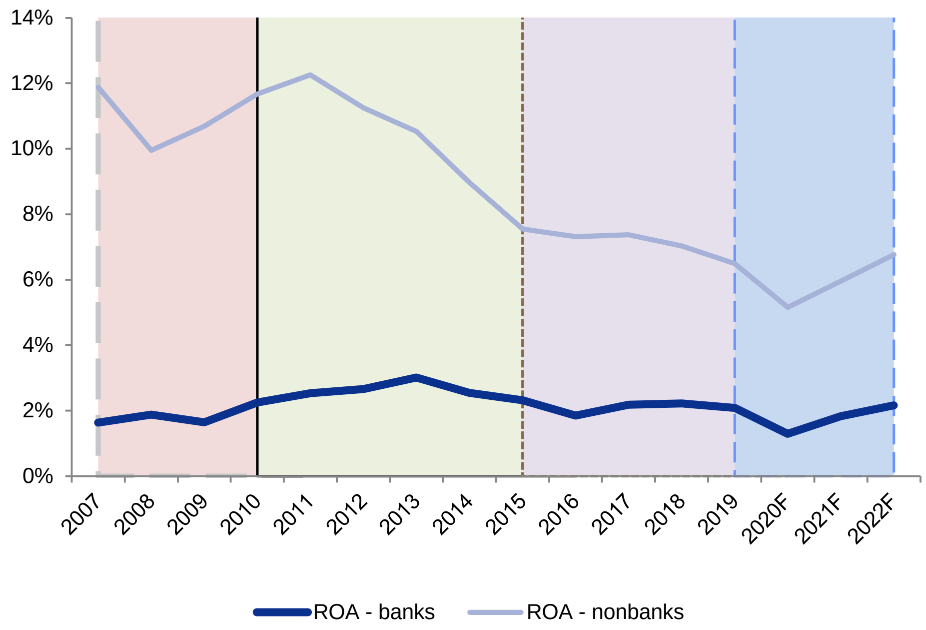


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ROE has bottomed, with near-term recovery driven by higher asset turnover

- Market ROE has been on a declining trend since peaking in FY13 at 23.6%, to 14.2% in FY18. The ROE decline was mainly driven by sharp contractions in consumer goods and banks' ROE throughout FY13-15, and later on by cement, telco and retail companies throughout FY16-19. We had previously argued that ROE should rebound to c.16% before the pandemic hit.
- ROE is expected to recover from a 13-year bottom of 10.5% in FY20F to 14.6% by FY22F, to be led by ROE recovery in banks, retail and construction sectors. Much of the recovery during this period is expected to come from improving asset turnover, less so from net margin improvements, while leverage is expected to decline, hence also a drag to ROE.
- For the above reasons, ROE may recover to higher-than-projected numbers if consumption picks up sooner (due to vaccine availability and Omnibus Law) and banks' tail-end risk staying more benign (mostly if a vaccine is widely available sooner than expected).

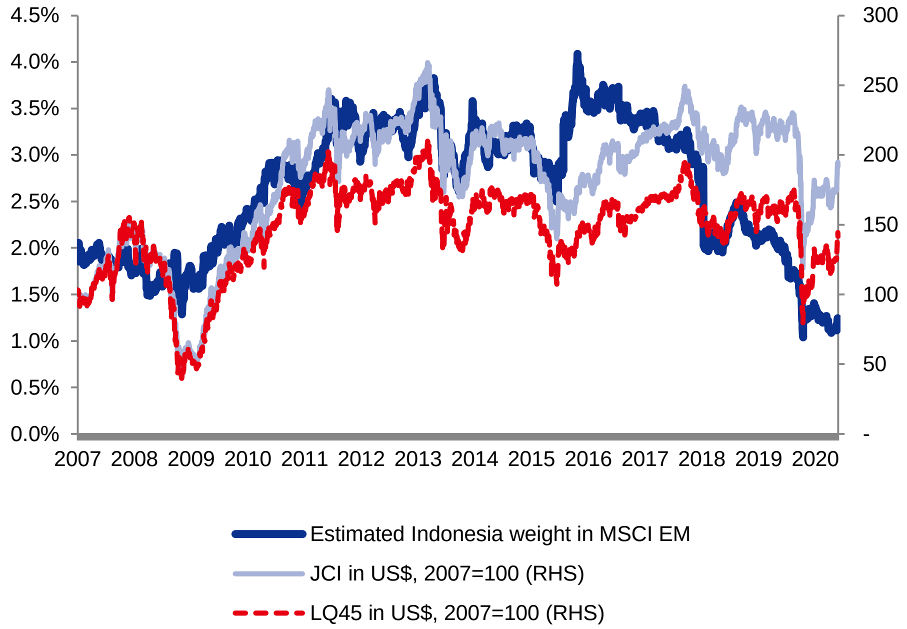


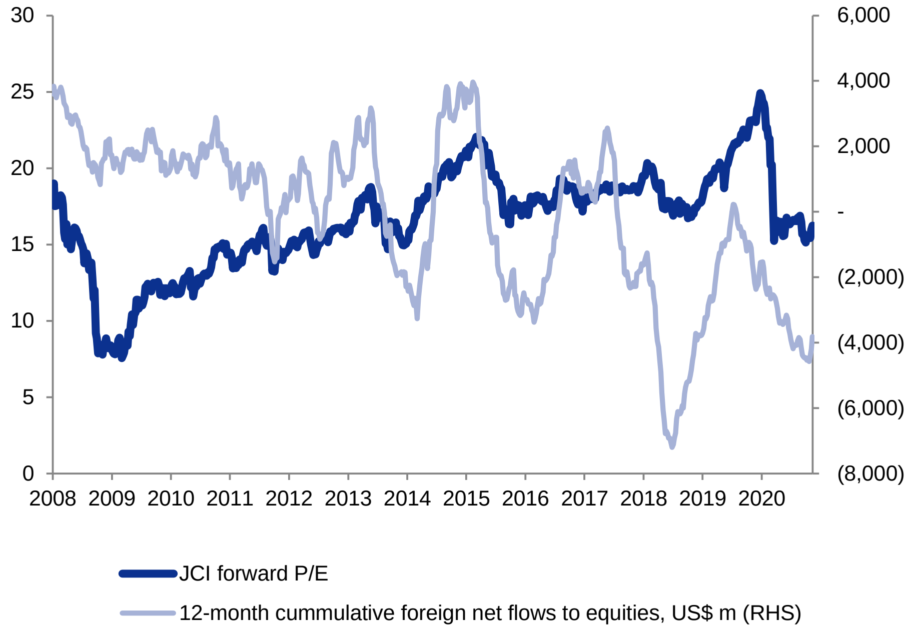


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

JCI is now a rounding error in MSCI weighting: given substantial outflow, more of an upside risk?

- JCI's weighting on MSCI EM has declined to 1.2% from a peak of c.4% over the past 10 years, mostly due to China's massive inclusion in the index. Despite cumulative foreign net outflows of US$8.9bn since 2010, both JCI and LQ45 gained +92% and +42%, respectively, over the period in US$, supported by the rise of domestic investors' investment pool and increasing appetite for equity. Consequently, valuations have been less sensitive to foreign selling. Barring another bout of further weight reduction, Indonesia's weight allocation in the MSCI EM index should be more stable and hence be less at risk from more passive outflows. The generally more positive view on EM may in fact see a return of inflows.
- That said, the economy must recover more convincingly for domestic funds (retail and institution alike) to rotate into equity. Equity looks attractive relative to bonds, in particular given the significant amount of bonds that the government will issue to fund the budget deficit in FY20-22. For this reason, we think a net foreign inflow into equities should spark a market rally that may overlook growth risks in FY22F for now. For a market rally to sustain, we think earnings recovery need to materialise going into 1H21F, in particular for active investors to take a stronger view on JCI.

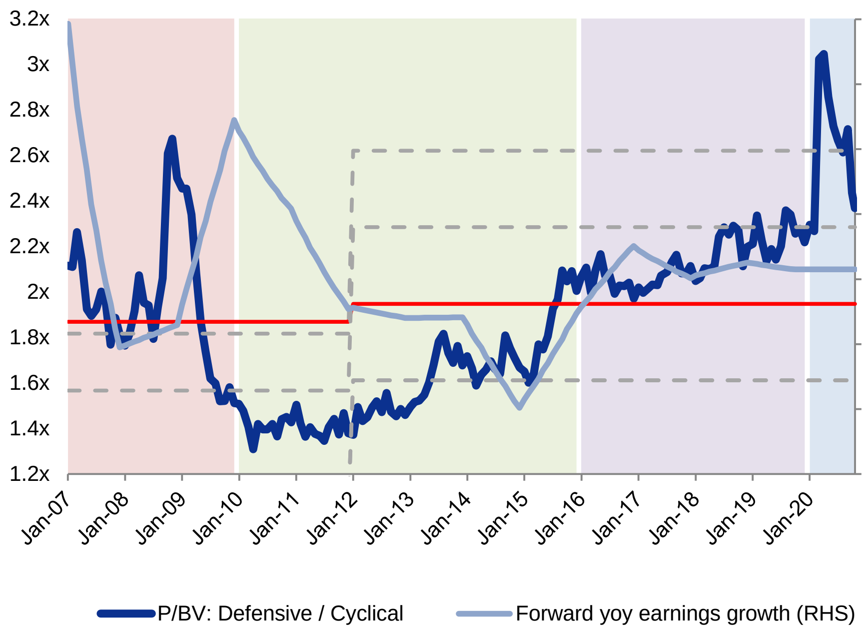




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Rotation into cyclicals: valuations and post-crisis patterns support such a view

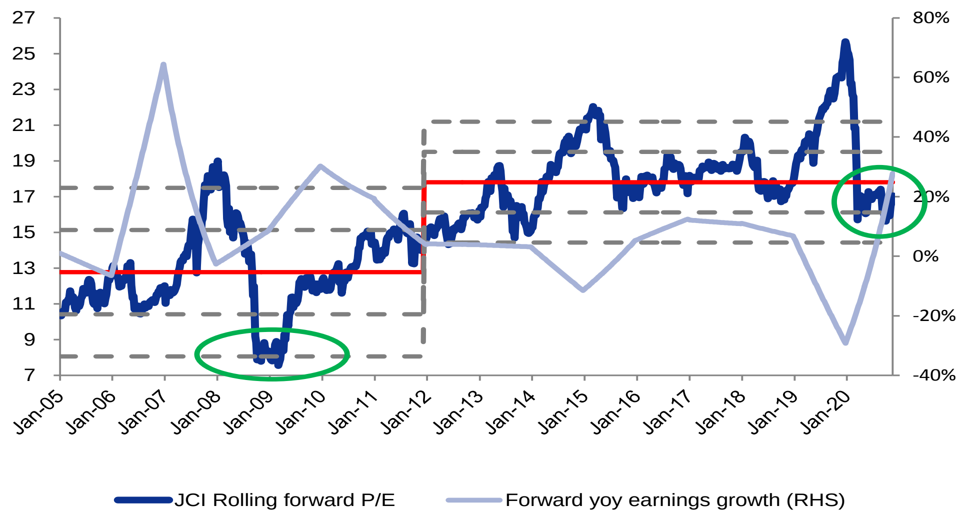
- While defensive to cyclicals P/E has started to come off from +2 s.d., it remains high. The P/BV ratio looks more subdued, largely as banks' valuations have de-rated sharply.
- History suggests that a rotation to cyclical/recovery plays from defensives is a winning formula, such as the case of 2008/09.
- Barring any significant external shocks (i.e. during 2012's Grexit episode and 2013's Taper Tantrum and 2015's EM fear), cyclical stocks should have both valuations and history on their side.
- A return to normalcy with the availability of a Covid-19 vaccine should catalyse a further rotation into cyclicals/recovery from defensive plays.

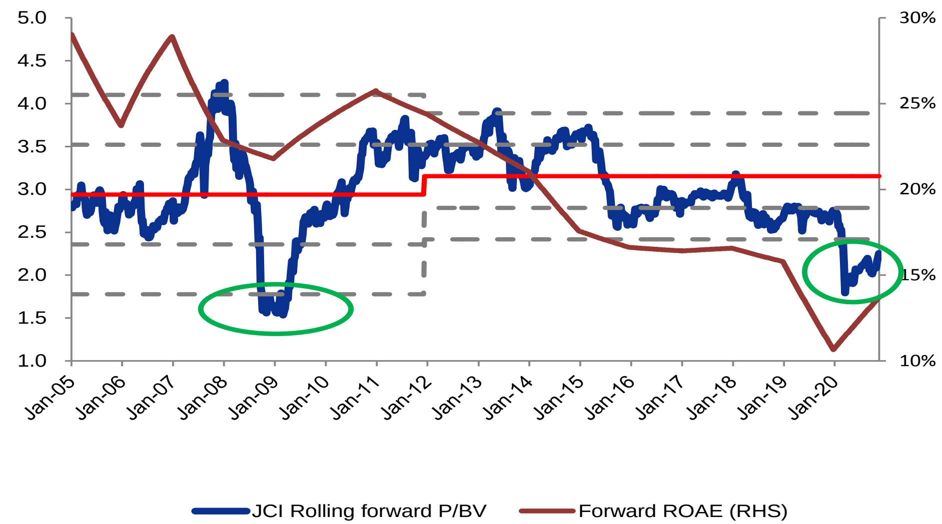


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Two themes: bond proxy and investment upcycle

- Our base case is for earnings growth to stay on low side vs. historical average until FY22 amid several overhangs: 1) expiry of the relaxation for banks to restructure their troubled loans; 2) weak consumption; 3) FY22 will be the last year for government to be able to exceed the statutory limit budget deficit of 3% of GDP, providing insufficient runway for the economy to pick up. The expiry of relaxation terms is a risk to banking earnings which account for c.47% of the market's FY21F's earnings, while mass market consumption may remain fragile unless both the vaccine and investment surprise on the upside.
- Market valuations, after testing -2 s.d., may have bottomed. This is supported by already rallying bonds, whose 10Y benchmark rate is now at new lows (lowest since Jan 18) at 6.2%. A more stable IDR would further cement the valuations rebound. On the view that foreigners may continue to buy IDR bonds on their attractive spread to T-Bills, the bond proxy theme is now our high conviction theme. This favours BBCA, TLKM and JSMR.
- While we think it is too early to bet on the Omnibus Law providing upside to investment, we think the government infra spending in FY21F would not be derailed by a tax revenue shortfall if its deficit funding is not at risk. We hence believe sectors that benefit from state spending on infra, such as cement and construction, carry earnings upside risk. Property would likely ride on these regulatory tailwinds - cyclical bottoming of prices and low bank deposit rates. These favour SMGR, INTP, PWON, BSDE, JSMR, PTPP, WSKT and SSIA.

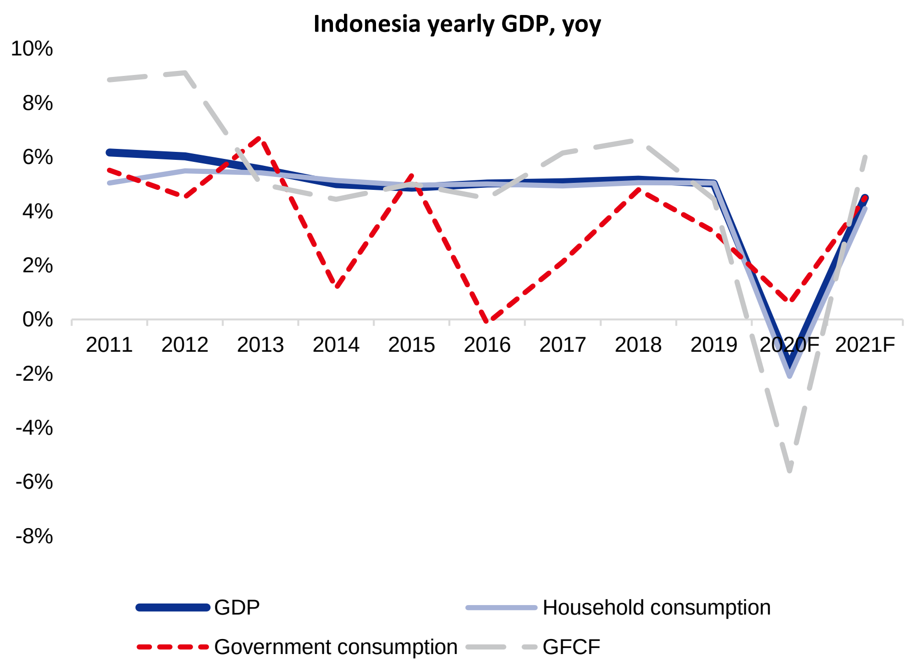




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

GDP growth by demand

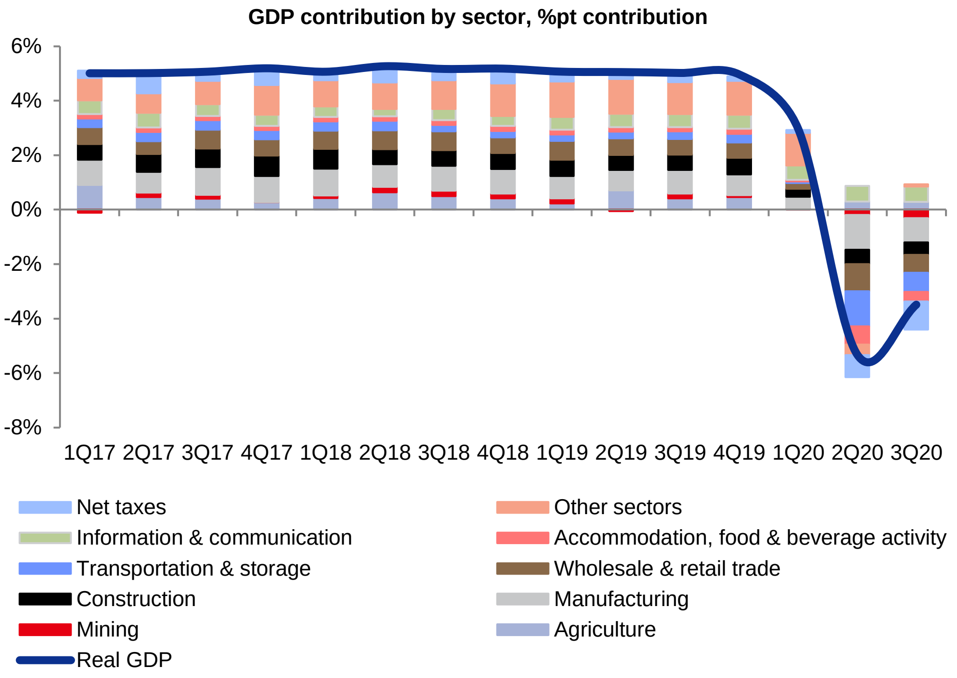
- The GDP contraction of 3.5% yoy in 3Q20 was worse than expected. Surging public consumption from accelerated fiscal disbursement was insufficient to offset declines in household consumption and investment activity.
- The government expects FY20F GDP to contract by -0.6% to -1.7% yoy (which is more optimistic than consensus), before rebounding by 4.5% to 5.5% yoy in 2021F (which is in line with consensus's median estimates of +5.5% yoy in 2021F).

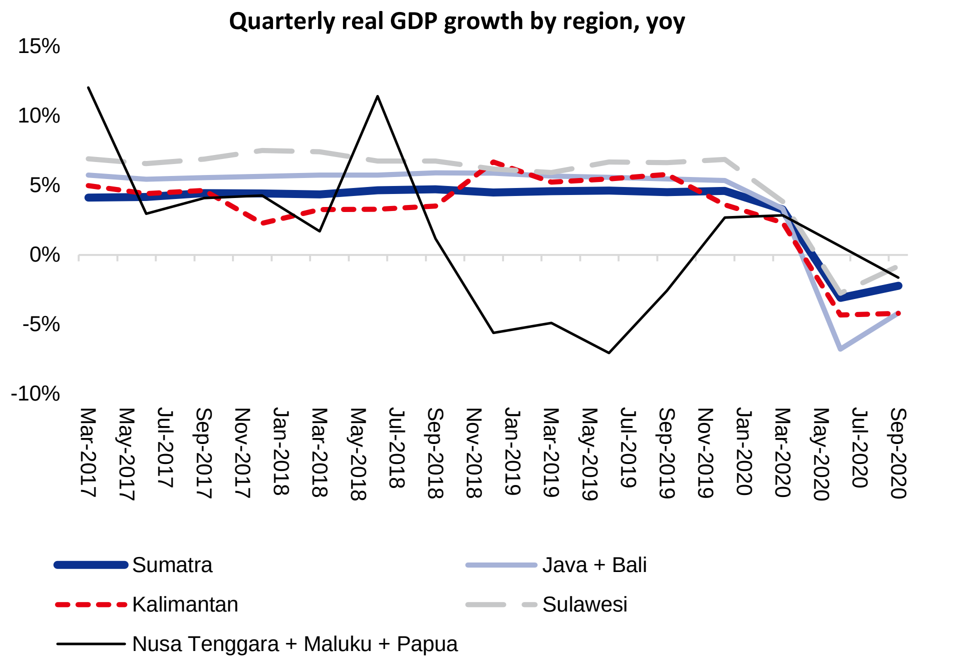


SOURCES: CGS-CIMB RESEARCH, BPS, CEIC

GDP growth by sector and region

- All sectors were hit during the pandemic, with transportation and travel-related sectors continuing to suffer the most during 3Q20, while information and communication, and utilities sectors were more resilient.
- Java + Bali region GDP (more reliant on services) were the hardest hit, while Eastern Indonesia (Nusa Tenggara + Maluku + Papua) was relatively more resilient than other regions.

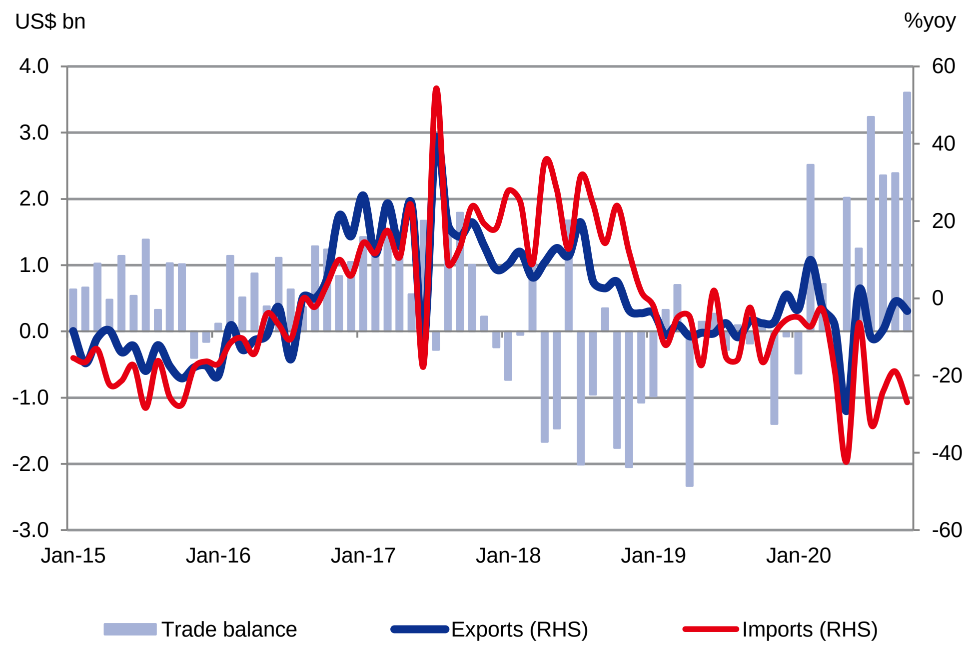


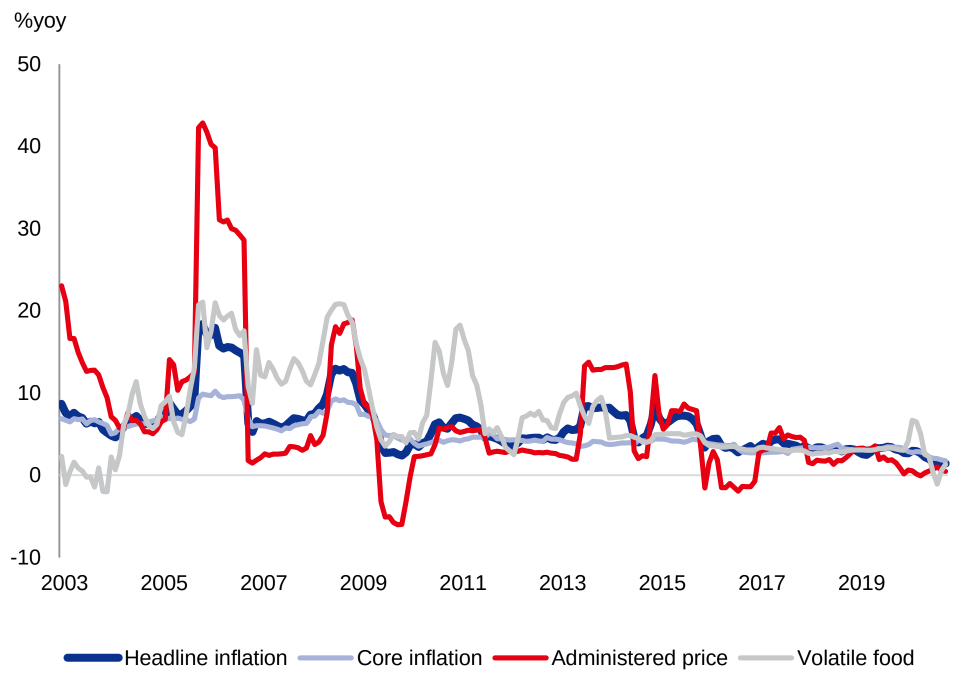


SOURCES: CGS-CIMB RESEARCH, BPS, CEIC

Trade and inflation

- Trade contraction in Sep was milder than expected, with exports falling 0.5% yoy (-8.2% yoy in Aug) and imports declining 18.9% yoy (-24.2% yoy in Aug). The trade surplus was steady at US$2.4bn in Sep, contributed by a US$2.9bn surplus in the non-O&G segment (+US$2.7bn in Aug) and a US$0.5bn deficit in the O&G segment (-US$0.4bn in Aug). Trade surplus improved further in Oct to US$3.6bn.
- Indonesia's inflationary pressure remained subdued in Oct 2020, with the Consumer Price Index (CPI) rising by only 1.4% yoy and 0.1% mom, broadly in line with expectations. Further moderations in core inflation from 1.9% yoy and 0.1% mom in Sep, to 1.7% yoy and no change mom in Oct, reflected soft domestic demand and the reluctance to spend among higher-income earners.
- With both 2Q20 and 3Q20 GDP data consistently falling short of official expectations, Bank Indonesia expectedly lowered the policy rate by 25bp to 3.75% on 19 Nov. We expect this to have been the last cut for the year.

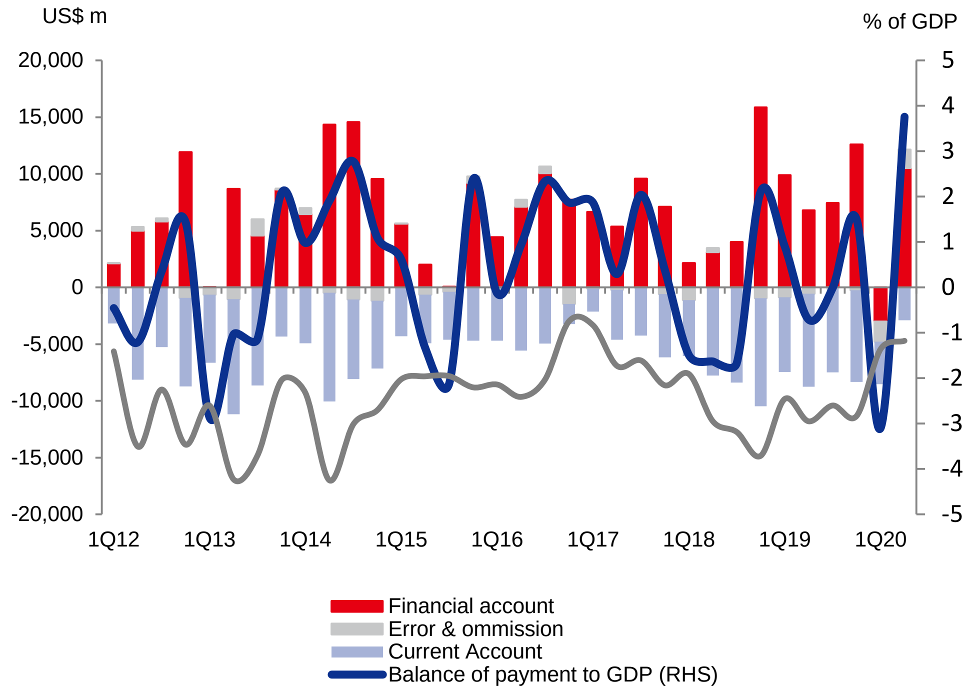


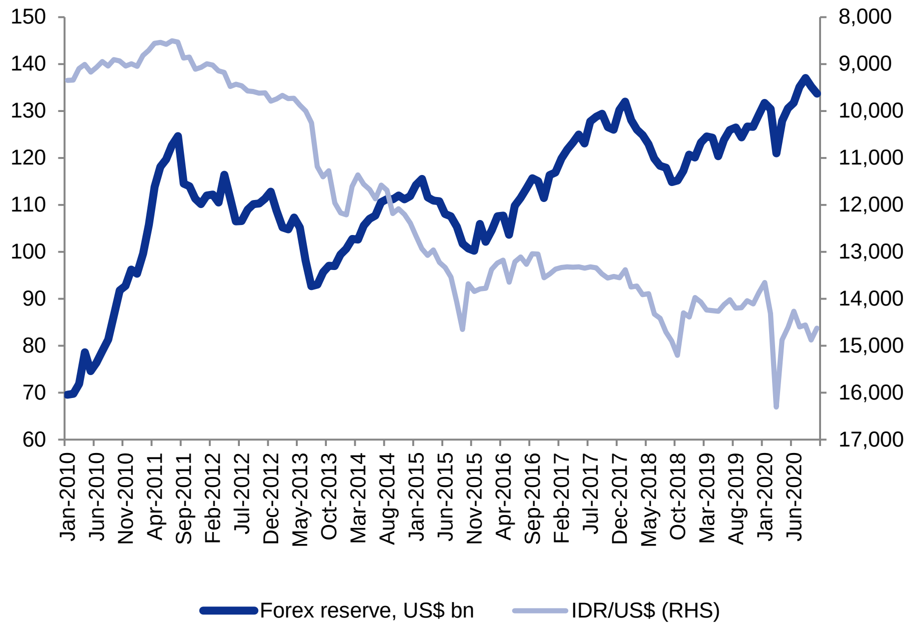


SOURCES: CGS-CIMB RESEARCH, BPS, CEIC

Current account, balance of payment and forex reserves

- A narrower current account deficit at 1.2% of GDP (reflecting weaker economy activities) and net inflows in financial account (boosted by net debt securities issuances) contributed to a surplus in the balance of payments in 2Q20.
- Forex reserves in Oct stood at US$134bn (+US$4.5bn YTD), among the highest levels in the past 10 years, which earlier in Aug hit US$137bn, but has declined since, mostly due to BI intervention in the market and external debts payments. On the other hand, the rupiah has recovered from its YTD peak of Rp16,575/US$, currently at Rp14,070/US$, or -1.0% YTD. The rebound in rupiah is in line with US$ weakness, where the DXY index has depreciated by 4% YTD to 92.3.

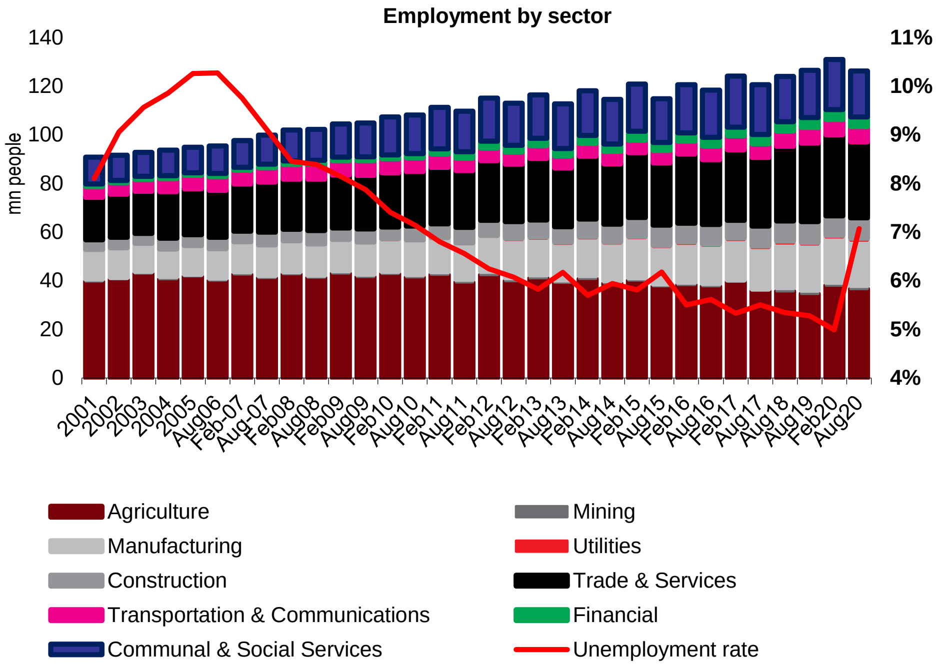


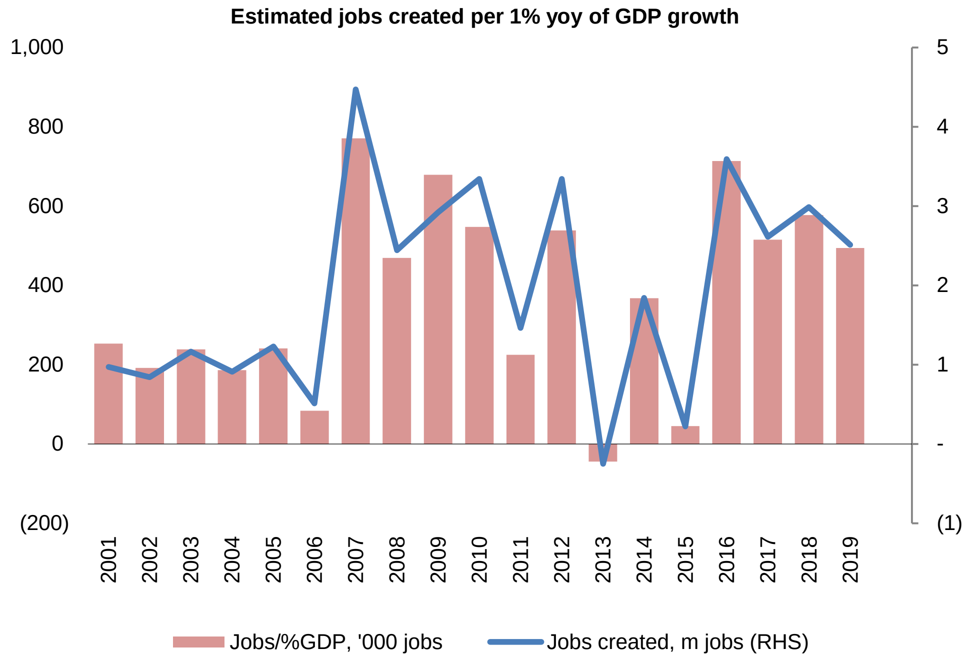


SOURCES: CGS-CIMB RESEARCH, BPS, CEIC, BLOOMBERG

Unemployment rates

- The Statistics Agency (BPS) reported that the Covid-19 pandemic had affected as many as 29.1m people in the labour market, with the unemployment rate rising to a 10-year high of 7.1% in Aug 2020. Full-time employment fell by 9.5m jobs and the share of informal employment rose to 60.5% in Aug 2020 (vs. 55.9% in Aug 2019).
- The government expects the unemployment rate to further increase to 8.1-9.2% in 2021, as a result of the fallout from Covid-19 pandemic. Indonesia's job creation rate per 1% of GDP growth has declined from 713k in 2016 to 494k in 2019, meaning it needs at least 5% growth to absorb just the c.2.5m new job seekers every year.
- The recent passing of the Omnibus Law on Job Creation could stimulate investments in labour-intensive industries and support job creation in the long run.

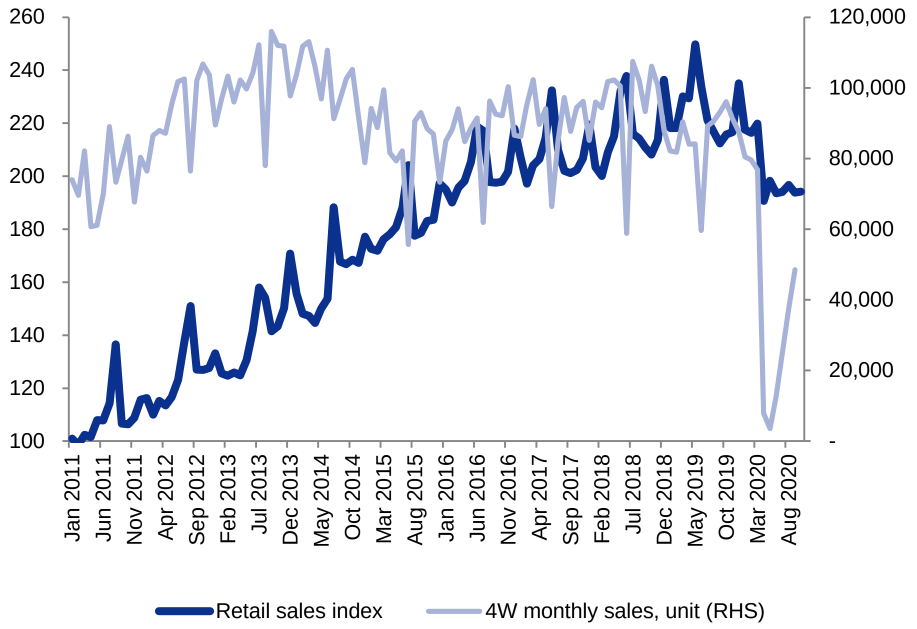


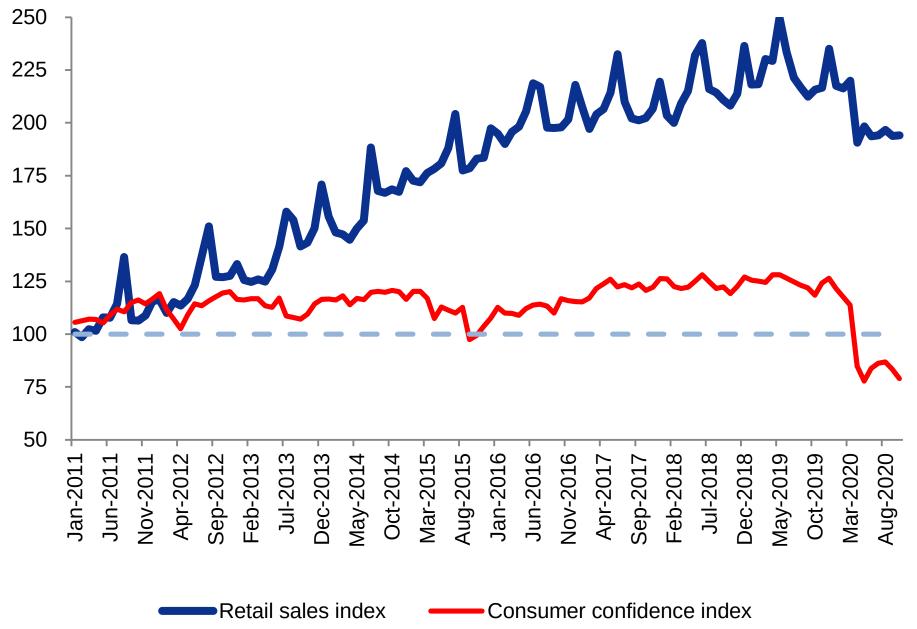


SOURCES: CGS-CIMB RESEARCH, BPS

Consumer confidence, retail and auto sales, PMI

- Consumer confidence fell to a 10-year low in May, and have been treading below 100 since, suggesting that consumers are generally pessimistic about both current and future conditions.
- Fast-moving data, i.e. retail sales index and auto sales, suggest a gradual recovery in 3Q20 vs. 2Q20 as cities transition from implementing strict large-scale social distancing (PSBB) orders to looser mobility control.
- PMI recovering to near-50 level in Aug-Oct suggests that manufacturing activities have also started to recover after plummeting in 2Q20, in sync with a generally recovering global economy.

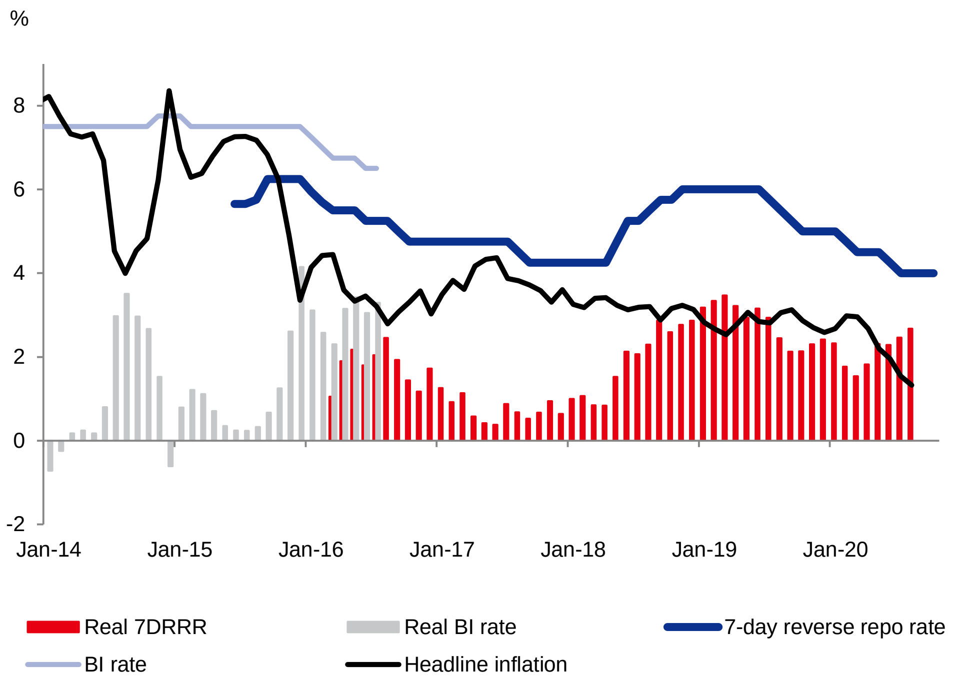


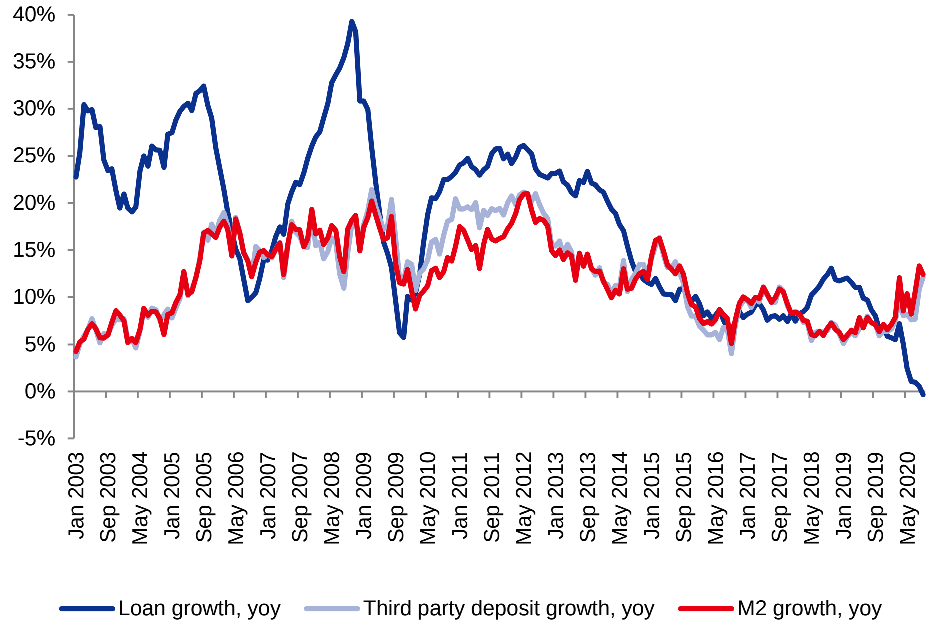


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Interest rates, loan and deposit growth

- BI cut the 7DRRR by 25bp in 3Q20, followed by another 25bp cut in Nov, resulting in a YTD cut of 125bps to 3.75%. Reserve requirement was cut by 200bp for conventional banks and 50bp for sharia banks in May. BI paused rate cuts since Jul, triggered by concerns over rupiah volatility despite the lacklustre growth recovery and below-trend inflation. BI only resumed monetary easing with another cut in Nov on stabilising IDR and still sluggish growth. We do not expect further cuts for the rest of the year.
- In aggregate, banks' NIMs continued to show sequential improvements since Apr, and Aug saw some 42bp increase mom on the back of stabilising yield and still falling funding cost. Deposit growth in Sep continued to picked up at 12% yoy and 3% mom. Meanwhile, system loan growth contracted -0.4% yoy as at Sep, first yoy contraction since 2003.

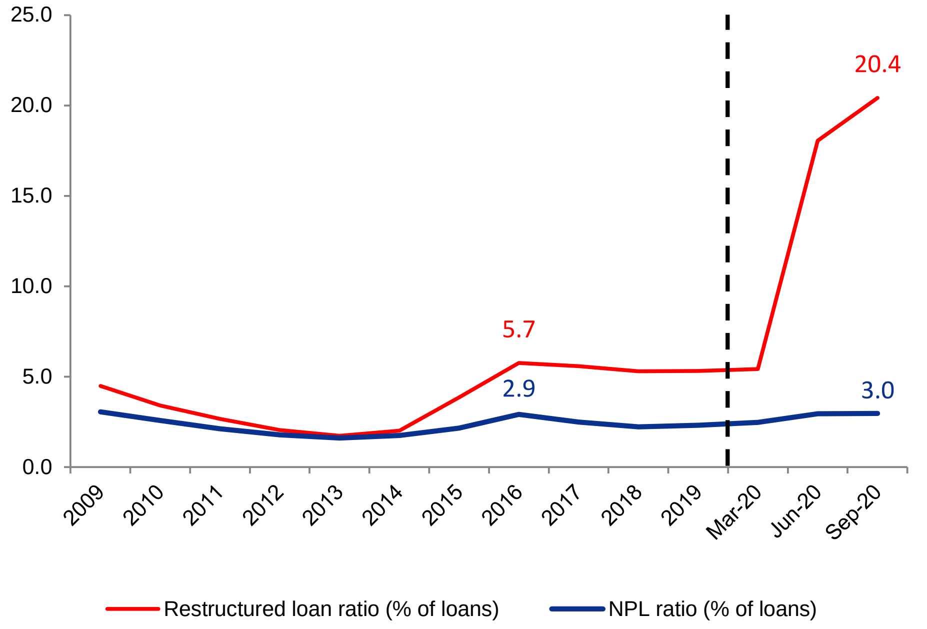


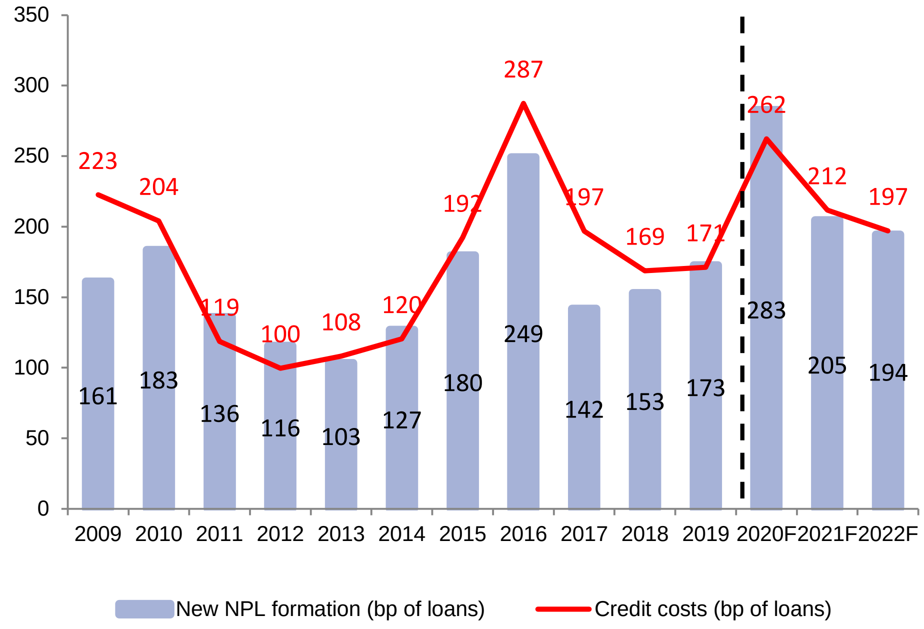


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Restructured loans

- With the support of the financial services authority (OJK) on easing NPL recognition, loans being restructured rose to c.20% of total loans in 3Q20. This was lower than the initial expectation of 30-40% of loans that may need to be restructured. OJK extended the looser term regulations for loans restructuring until Mar 22. NPL rose to 3.0% (vs. 2.3% in end-2019), which is about the similar level to the peak of the last credit cycle in 2016.
- We project NPL formation to peak in 2020F, though credit cost may remain elevated through 2022F.

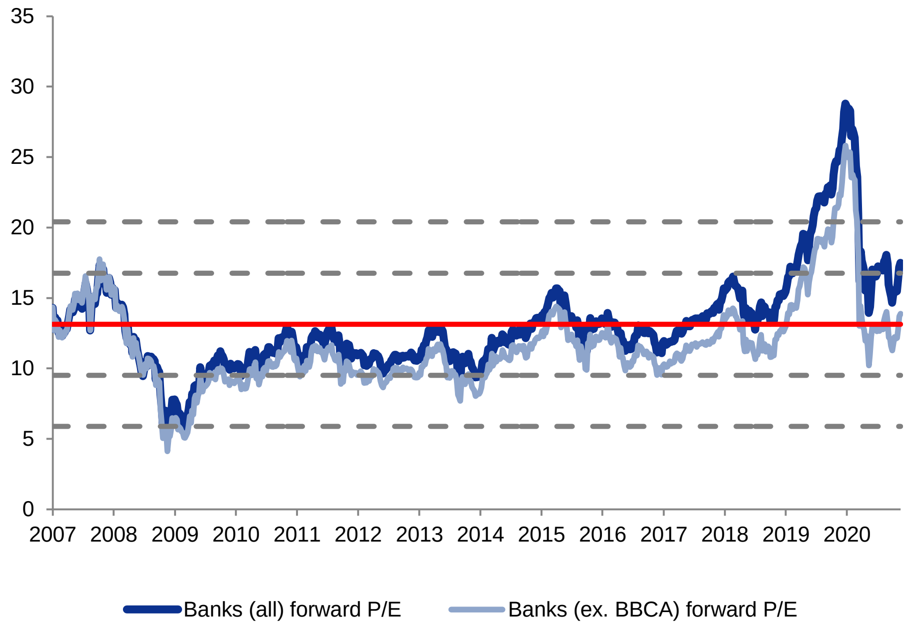


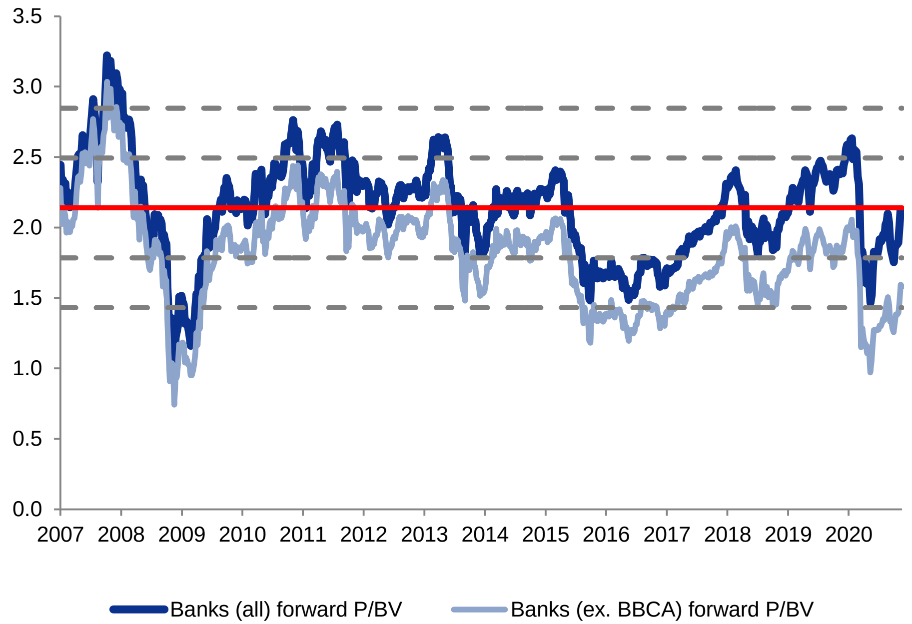


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Banks: Overweight

- The 3Q20 results and developments, like the recent news of a breakthrough in Covid-19 vaccine development, reinforced our positive view on the sector.
- Despite Indonesian banks' outperformance relative to the JCI so far (5% YTD, 29% in past 6M, 8% in past 1M), there is still plenty of upside potential, in our view.
- We have a sector Overweight call on banks, with BCA as our top pick, followed by BBRI and BMRI. The successful development of a Covid-19 vaccine could catalyse banks' share prices. M&A noises and slower-than-expected economic recovery are downside risks.

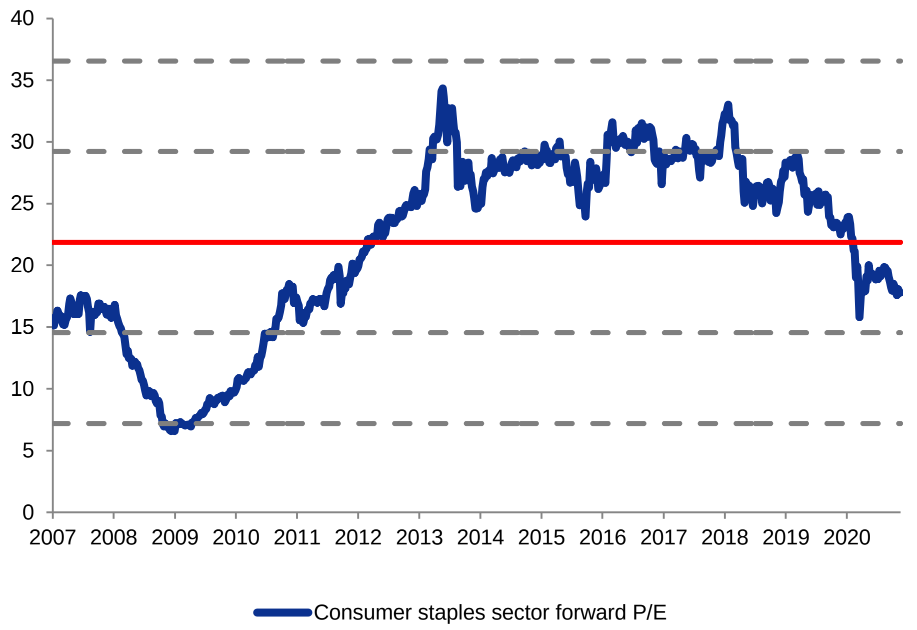


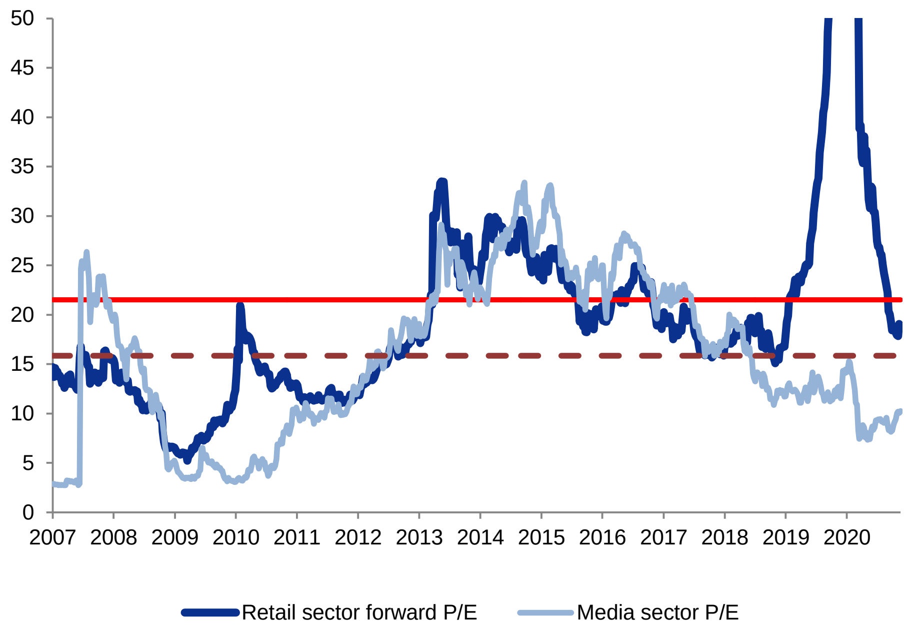


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Neutral on consumption

- We have a Neutral call on the consumer staples sector, as the consumption weakness is expected to persist throughout FY21F as consumers cope with reduced disposable income during the pandemic, while minimum wage increase next year is minimal. We project consumption recovery by FY22F. Our top pick within the sector is MYOR, given its diversified sales profile (40% exports and 60% domestic), strong brand and tested management.
- For retailers, we are most positive on RALS, as the company requires the least SSSG rebound within the retail space in order to break even. Additionally, RALS could take advantage of the tax-free dividend under the Omnibus Law. MAPI could see faster demand recovery due to pent-up demand in its target mid-to-high income segment. Key catalyst is retail traffic recovery. Downside risk is a delay in vaccine availability.
- We have an Overweight call on the media sector and prefer SCMA over MNCN. Key catalyst for the sector is the resumption of rate card hikes (possibly in FY21F); downside risks include the return of stringent and longer-than-expected lockdowns, further weakening ad spend.

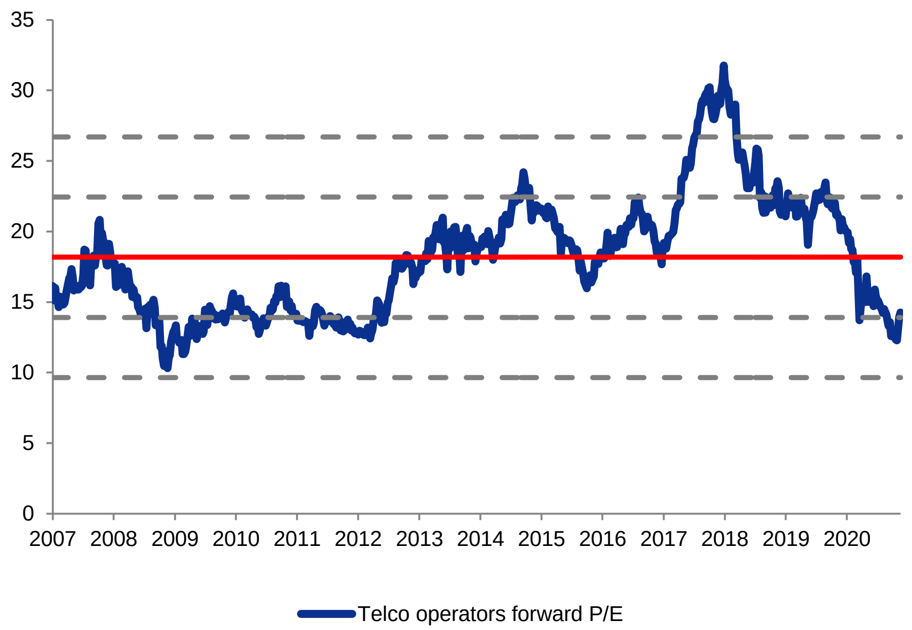


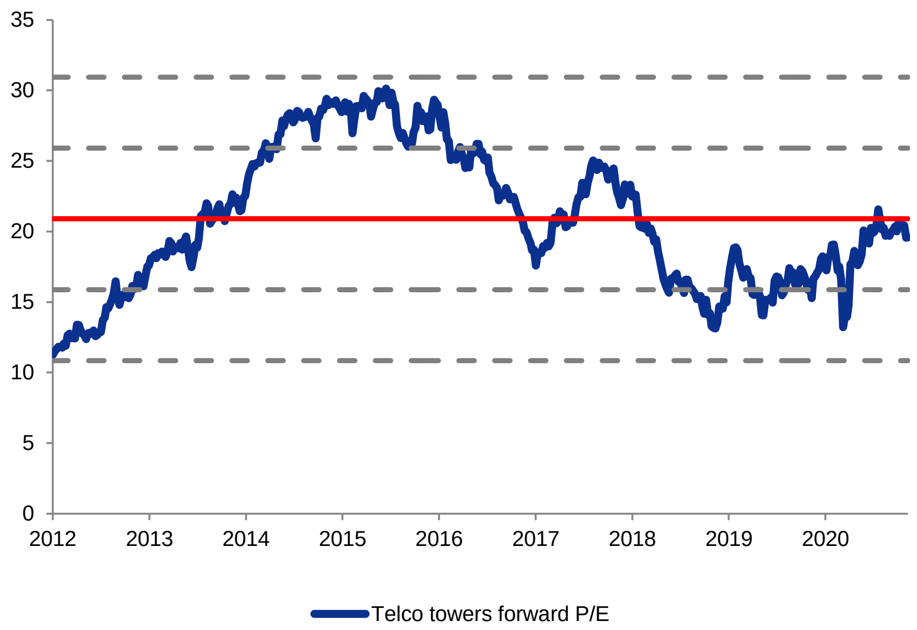


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Overweight on telcos

- We are Overweight on telco operators as we are positive on the market's longer-run growth outlook (underpinned by strong data demand). A potential re-rating catalyst is stabilisation of market competition and delivery of healthy earnings growth. Downside risk: escalation of price competition. EXCL is our top pick within the sector.
- While telco operators have been subject to competition, telco towers have been shielded from the negative impact of the Covid-19 outbreak. Additionally, we think there is a higher probability for M&As within the sector thanks to the new positive investment list in the Omnibus Law. This could attract foreign investors, translating to upside risk to valuations. We have an Overweight rating on the telco tower sector and prefer TOWR to TBIG.

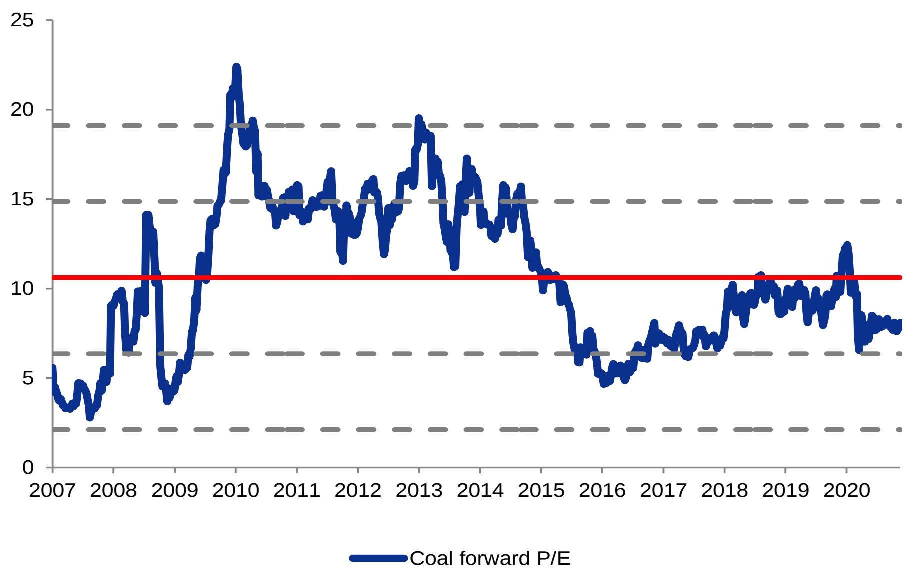


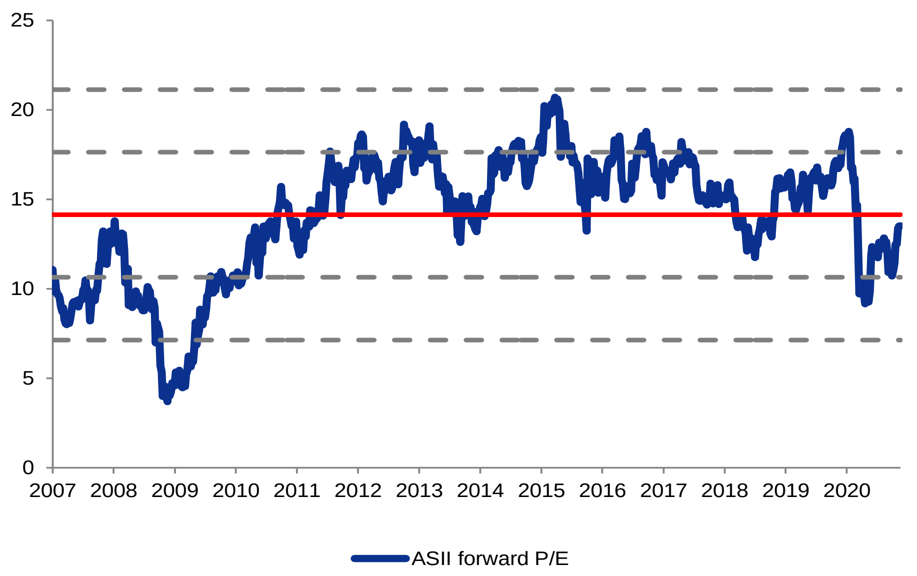


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Attractive valuations on coal sector and ASII

- Coal stocks have been underperforming JCI this year dragged down by the decline in export coal prices to US$62/tonne (after hitting YTD bottom of US$49/tonne in Sep vs. end-19 of US$67/tonne). A more generous China import policy could trigger a positive catalyst for the sector; while slower-than-expected economy recovery could pose mid-term risk on demand. PTBA's exposure to domestic coal demand should well buffer the company from export demand uncertainties, while ADRO's diversified earnings (from mining activities, contracting, coking coal as well as power plant projects) should prove beneficial during uncertain times. On the other hand, ITMG looks less attractive compared to its peers given its persistent high costs, depleting reserves and declining dividend payout. UNTR's exposures to gold, a strong balance sheet and valuations are its virtues.
- ASII has declined 16% YTD to Rp5,800, after recovering by +77% following its drop from YTD peak to bottom of -54%. As the stock has been a favourite among foreign institutional investors as a cyclical proxy for Indonesia, the strong performance of the stock vs. JCI since mid-Oct has been apparently driven by expectations of a V-shaped recovery of the economy as well as improving balance sheet following BNLI's stake sale. The stock is trading at a forward P/E of 13.1x (-0.3 s.d. since 2007), based on consensus earnings, and 1.4x P/BV. Positive catalyst: strong rebounds in coal and CPO prices are positive for heavy equipment and plantation divisions; negative catalyst: rising competition in automotive industry.

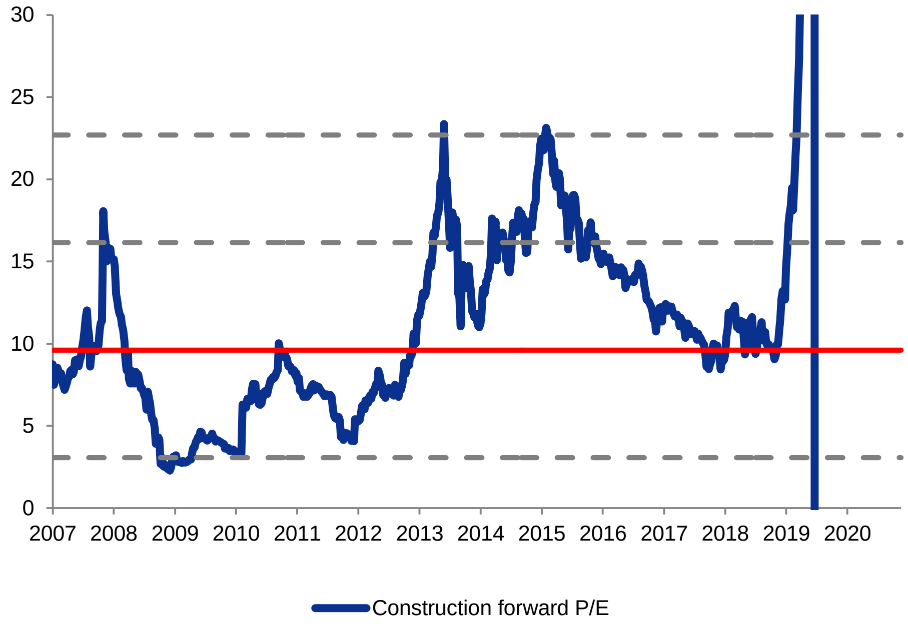


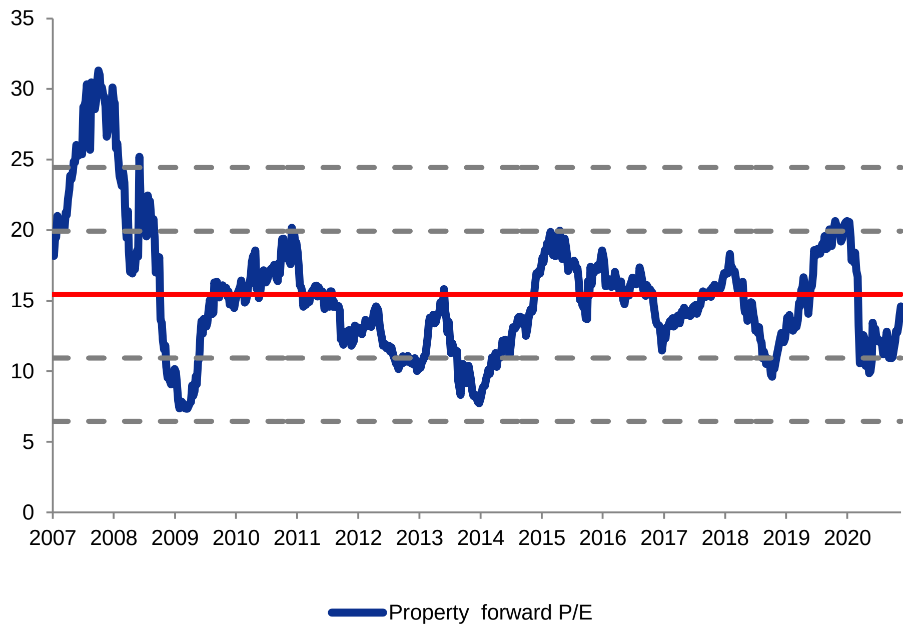


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Contractor & property: Overweight

- We are Overweight on the construction sector as infra remains a key development priority for Jokowi's second term, and construction could help drive an economic recovery. We estimate the sector to have tighter liquidity but remain solvent. Our top picks are PTPP and WSKT.
- Property developers' share prices have been under pressure as investors initially rotated from cyclicals to defensive stocks during the beginning of the pandemic in Mar. The sector has recovered since, on the back of expectations of economic improvements as well as resilient marketing sales. Project delay is the main risk for the sector, while recurring income from malls could continue to see pressure from the prolonged large-scale social distancing orders.
- We have Underweight calls on the industrial estate sector. The listed industrial estate players under our coverage are trading at similar valuations to their regional peers while offering lower core EPS growth outlook in FY20-21F. Nevertheless, we believe the longer-term outlook is positive due to the country's vast resources and population and as the investment cycle picks up eventually, beyond the Chinese factory relocation theme. We prefer SSIA to DMAS, as SSIA has an increasingly visible catalyst from the launch of its Subang industrial estate development.

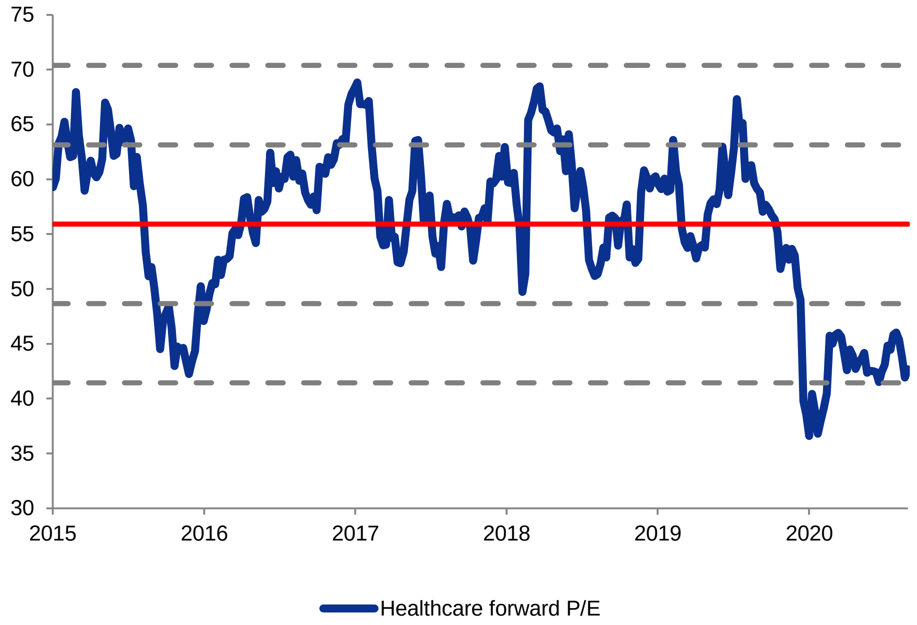




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Healthcare: Overweight

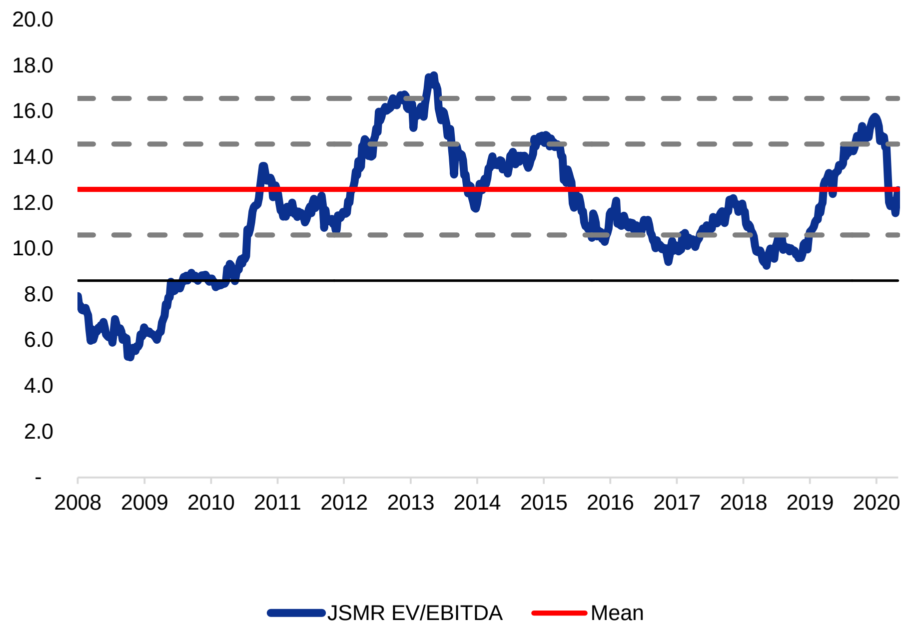
- Hospitals' 3Q20 earnings came largely above our initial expectations, supported by improving traffic and profitability. We expect patient volumes to recover, with the reopening of the economy and pent-up demand.
- On the other hand, KLBF's businesses has been under pressure due to the pandemic as its pharma sales fell on slower hospital traffic, distribution sales fell no thanks to sluggish medical device distribution, while consumer health sales and nutritionals sales were flat. The company is partnering with Genexine to develop a Covid-19 vaccine and targets commercialisation for emergency use in mid-2021F. The company is targeting out-of-pocket consumers and not the government's programme (due to insufficient scale).

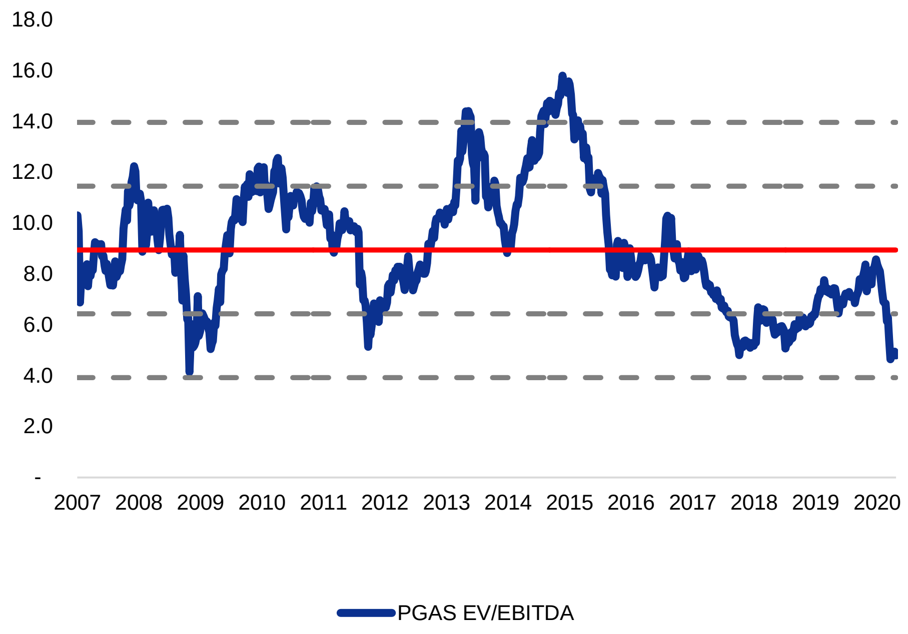


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

JSMR & PGAS: both Add calls

- We have an Add call on PGAS given its deep discount deep discount to its gas pipeline replacement cost, with risks of further downside on margin having already been priced in. Positive catalyst is upside on margins should the company receive compensation from the Ministry of Energy and Mineral Resources in view of its lower gas price policy. Downside risk is more unfavourable government intervention.
- We are positive on JSMR as it trades at a deep discount relative to its toll road replacement cost. We think the company could be a beneficiary of the lower interest rate environment. Re-rating catalyst include the realisation of the second tariff integration for the Jakarta-Cikampek toll road by the end of 2020F, which could pose upside risks to earnings. Key downside risk is unfavourable government policy and intervention.

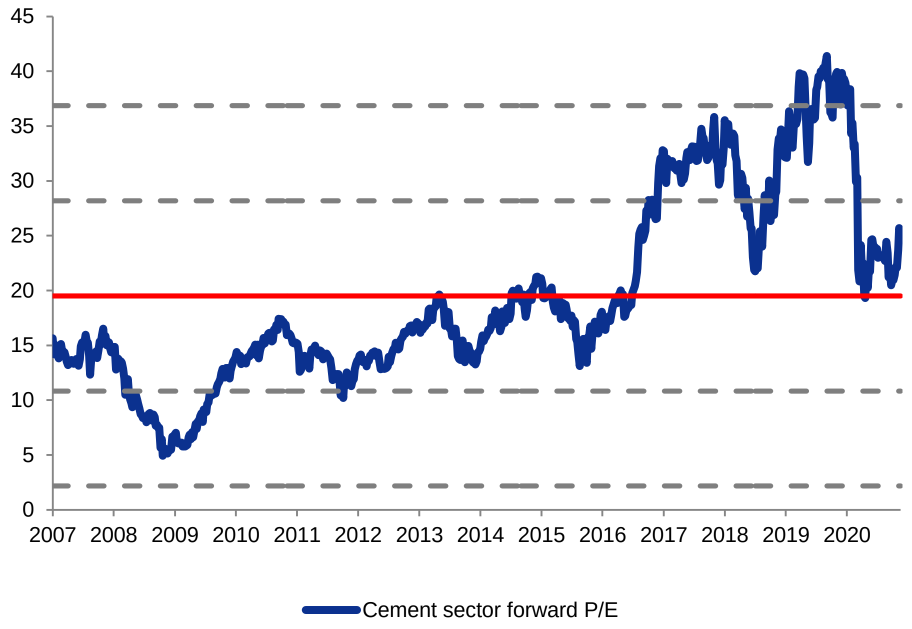


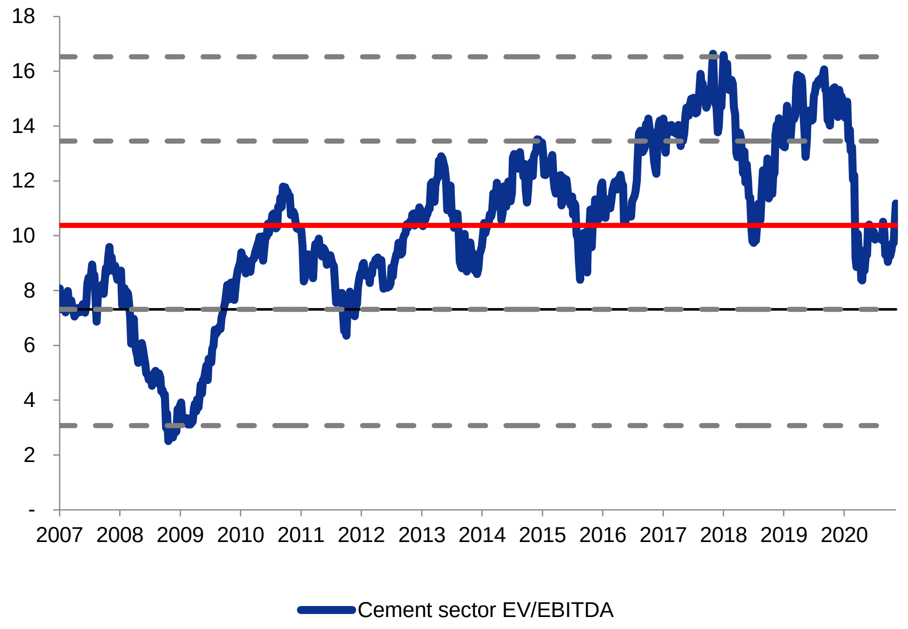


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Cement: Overweight

- Our structural bullish view on Indonesia's cement sector is underpinned by: 1) a more benign competitive landscape ahead, and 2) improving industry supply and demand dynamics.
- The sector top pick is SMGR as we believe the company's earnings growth will continue to outpace INTP's, while also trading at a more attractive valuation vs. INTP.





SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

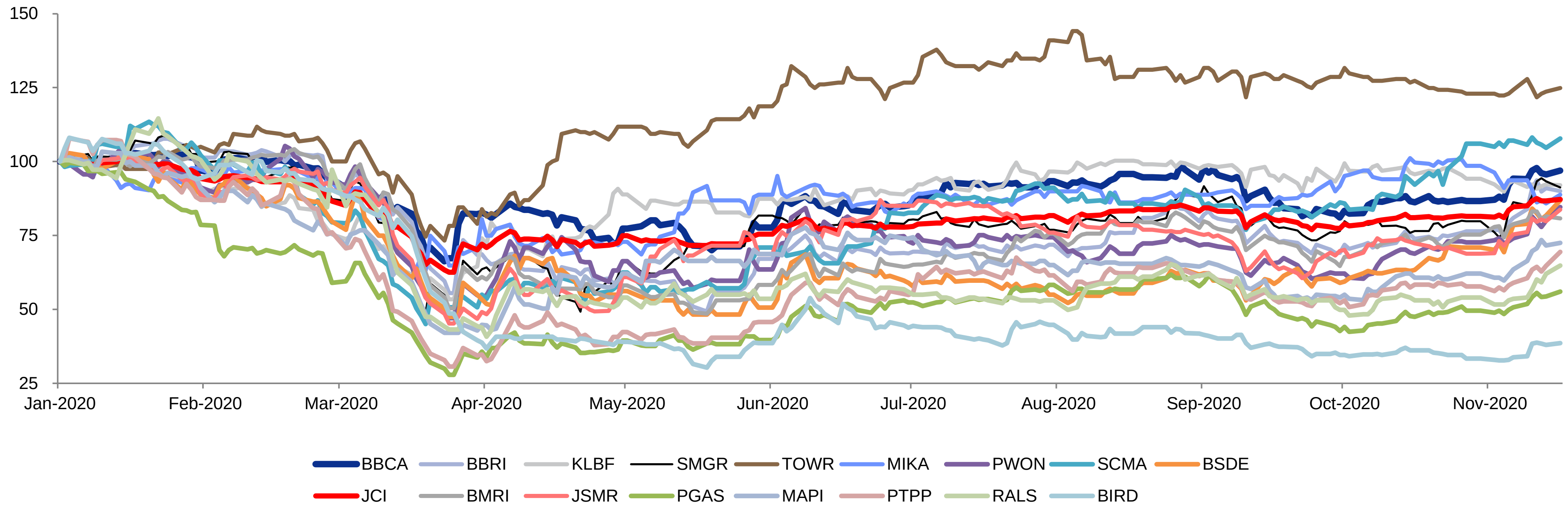
Key stock picks

- Our top picks revolve around two major themes: a) an investment upcycle, and b) higher conviction in bond proxies. We expect government spending and Omnibus Law to be the key economic growth recovery drivers in FY21-22F, overshadowing household consumption, which will likely be plagued by weak disposable income. Foreign fund inflows to bonds would support the bond proxy theme, in our view.
- We project a defensive-to-cyclical rotation as the world returns to normalcy, benefitting deep cyclical names, such as RALS, MAPI and BIRD.

Company	Bberg. ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Average daily turnover (US$ '000)	Core P/E (x)		2-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		PEG	Dividend Yield (%)	
							CY20	CY21		CY20	CY21	CY20	CY21	CY21	CY20	CY21
Bank Central Asia	BBCA IJ	ADD	32,850	38,300	57,563	6,217.1	34.2	26.3	2.8%	4.60	4.03	13.9%	16.3%	1.0	0.7%	0.9%
Bank Rakyat Indonesia	BBRI IJ	ADD	4,040	3,900	35,417	5,228.2	23.9	16.0	-4.5%	2.64	2.36	10.7%	15.6%	0.3	1.7%	2.5%
Bank Mandiri	BMRI IJ	ADD	6,350	7,400	21,061	2,472.4	17.4	10.8	-1.7%	1.57	1.44	8.9%	14.0%	0.2	3.4%	5.6%
Kalbe Farma	KLBF IJ	ADD	1,505	1,980	5,014	113.5	26.0	24.2	6.1%	3.98	3.60	16.6%	15.6%	5.4	1.3%	1.5%
Semen Indonesia	SMGR IJ	ADD	11,150	15,900	4,701	75.7	27.5	20.9	12.5%	1.96	1.84	7.5%	9.1%	0.8	1.4%	1.5%
Sarana Menara Nusantara	TOWR IJ	ADD	1,035	1,350	3,753	286.2	20.6	18.4	6.8%	5.00	4.34	27.3%	25.2%	2.1	2.3%	2.4%
Mitra Keluarga Karyasehat	MIKA IJ	ADD	2,460	3,000	2,491	16.1	50.7	44.5	2.1%	7.49	6.80	15.9%	16.0%	4.1	0.9%	0.9%
Perusahaan Gas Negara	PGAS IJ	ADD	1,365	1,300	2,352	1,704.3	110.9	27.2	-19.7%	0.96	0.95	0.8%	3.5%	0.1	0.9%	0.3%
Jasa Marga	JSMR IJ	ADD	4,410	5,600	2,275	42.1	90.8	40.0	-34.4%	1.69	1.63	1.9%	4.1%	0.3	0.3%	0.1%
Pakuw on Jati	PWON IJ	ADD	494.0	700.0	1,691	104.8	10.2	8.5	9.8%	1.45	1.27	15.0%	15.9%	0.4	2.1%	2.0%
Bumi Serpong Damai	BSDE IJ	ADD	1,075	1,700	1,618	51.9	10.6	9.5	-9.1%	0.68	0.64	6.6%	6.9%	0.8	1.3%	0.9%
Surya Citra Media	SCMA IJ	ADD	1,510	2,000	1,586	0.9	18.9	18.0	8.3%	3.87	3.47	22.6%	20.4%	7.1	1.7%	2.7%
Mitra Adi Perkasa	MAPI IJ	ADD	775.0	900.0	914	10.8	na	18.1	-14.7%	2.20	1.96	-5.8%	11.4%	-0.1	0.0%	0.0%
Pembangunan Perumahan	PTPP IJ	ADD	1,150	1,200	507	182.7	50.1	10.7	-20.4%	0.69	0.66	1.2%	6.3%	0.0	2.6%	0.0%
Ramayana Lestari	RALS IJ	ADD	750.0	700.0	378	100.7	na	17.2	-33.9%	1.32	1.32	-1.5%	7.7%	0.0	6.7%	6.0%
Blue Bird	BIRD IJ	ADD	1,140	1,200	203	42.6	na	41.7	-47.5%	0.56	0.54	-4.5%	1.3%	-0.3	0.0%	0.0%
							26.3	**18.2**	**-1.7%**	**2.64**	**2.39**	**10.1%**	**13.8%**	**0.4**	**1.5%**	**2.1%**

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

YTD share performances of our key picks



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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2020		
795 companies under coverage for quarter ended on 30 September 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	63.0%	0.5%
Hold	25.2%	0.1%
Reduce	11.8%	0.3%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHAYO** - Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** –

Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TNR** – Very Good, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)
2 AGM Level 2018 from Thai Investors Association
3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:
companies that have declared their intention to join CAC, and companies certified by CAC.
4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:
SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)
SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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