

Indonesia Morning Cuppa

Top Story

Market Strategy

Small Cap Corporate Access 2024 – Key Takeaways

Indonesia Strategy

SCCA 2024. Our fourth instalment of RHB Small Cap Corporate Access (SCCA 2024) was held on 30 Jan 2024. The event featured 16 corporations from Indonesia, Malaysia, Singapore, and Thailand. About 158 fund managers and analysts across the region attended the event to gain insights and obtain a deeper understanding of the latest developments from these corporations. We note that market sentiment and activities have picked up of late, thanks to renewed investor confidence on the global economy, the more dovish tone in the US monetary policy, China's economic recovery, improvement in emerging market trade activities and bottom-up company-specific catalysts.

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Bulletins

STOCK/SECTOR	NEWS	COMMENT	RATING
Telkom Indonesia (TLKM IJ)	Telkom Indonesia (TLKM) continues to seek a strategic partner to divest its ownership in Finnet Indonesia. <i>(Bisnis, Bloomberg)</i>	<p>Finnet is 60% indirectly owned by TLKM through its wholly-owned subsidiary Multimedia Nusantara. As of 2021, Finnet recorded IDR17.7trn revenue and net income of IDR111bn, while the value of the company is c.USD100-150m. Despite being a profitable business unit, TLKM is still considering to divest it to a strategic partner that is an expert in the industry and could financially support the business. The cash from the divestment would not significantly impact TLKM, but with the presence experienced strategic partner, Finnet is expected to record strong growth and contribute other income to further support TLKM's bottomline.</p> <p>We maintain our recommendations for TLKM.</p>	BUY, TP: IDR5,030
Kalbe Farma (KLBF IJ)	Kalbe Farma (KLBF), through its subsidiary Global Onkolab Farma (GOF), conducted the groundbreaking ceremony yesterday for the construction of a radioisotope and radiopharmaceutical production facility. This project involves IDR150-200bn investment, aimed at supporting the early detection of cancer. <i>(Kontan)</i>	<p>This should be positive to sustain KLBF's growth, especially to treat cancer, which is seeing a rise in Indonesia. Based on Riskesdas data, the prevalence of tumours/cancer in Indonesia shows an increase from 1.4 per 1000 population in 2013 to 1.79 in 2018. Furthermore, as cited in the <i>Straits Times</i>, the number of new cancer cases will rise to more than 35m in 2050 – 77% higher than 2022. The World Health Organisation's (WHO) International Agency for Research on Cancer (IARC) on Feb 1 cited tobacco, alcohol, obesity, and air pollution as key factors in the estimated rise.</p> <p>We keep our recommendations for KLBF.</p>	BUY, TP: IDR1,930

<p>Bank Indonesia (BRIS IJ)</p>	<p>Syariah</p> <p>Key takeaways from Bank Syariah Indonesia's (BRIS) earnings call: FY23 earnings jumped 33.88% YoY to IDR5.7trn, exceeding expectations and accounting for 105% of full-year consensus estimates. Its earnings growth is likely to be the fastest in the Indonesian banking industry, driven by lower cost of credit (CoC) (FY23: 1.14%, FY22: 1.97%) and strong financing growth (+15.7% YoY). Non-performing financing (NPF) fell to 2.08% in FY23 from 2.42% in FY22. Third-party funds increased 12.35% YoY, with the CASA ratio slightly declining to 60.57% at the end of 2023, down from 61.57% at end-2022.</p> <p>In 2024, BRIS set four major goals to improve banking capabilities: i) Maintain a proven unique <i>shariah</i> business model, ii) close the gap by focusing on digital and transaction banking infrastructure, iii) strengthen IT infrastructure and place a greater emphasis on business efficiency, and iv) maintain discipline and prudent risk governance. BRIS also intends to expand its physical presence by increasing the number of its ATMs and branches, and also the network and accessibility of banking facilities.</p> <p>2024 guidance: Financing growth: +/- 15%. (FY23 guidance: 13-15%; FY23: 15.7%.) Third-party fund growth ranges from 8.5-10%. (FY23 guidance: 7-9%; FY23: 12.35%). NIM: 5.5-5.86% (FY23 guidance: 5.7%-6%, FY23: 5.82%). NPF: Less than 2% (FY23 guidance: 2.1-2.3%; FY23: 2.08%). Cash coverage: approximately 200%. (FY23 guidance: c.190%; FY23: 194.35%). Profit after tax: IDR6.3trn-6.5trn (FY23 guidance: IDR5trn-5.5trn; FY23: IDR5.7trn). (Company)</p>	<p>We see significant growth potential for the <i>shariah</i> banking industry in Indonesia, as its market share is only 7% of the industry's total – lower than many Muslim-majority countries ie Malaysia (30%), Saudi Arabia (63%), Qatar (27%), and the UAE (24%). Indonesia has the largest Muslim population and the highest proportion of unbanked people (48% of the total population). BRIS intends to capitalise on this by increasing product penetration, thereby growing its 19.65m customer-base. BRIS intends to achieve a higher product holding ratio to increase digital involvement.</p> <p>Following the merger, BRIS achieved a new level of profitability – driven by improved asset quality and cost efficiencies. CoC fell to 1.14% in FY23 (FY22: 1.97%) as a strict risk policy combined with the right business model resulted in a strong new booking quality. CIR also decreased from 51.01% in FY22 to 49.86% in FY23. According to consensus estimates, BRIS is trading at 2.4x-2.1x FY24-25F P/BV, offering 16.0%-16.7% FY24-25F ROE.</p> <p>We do not cover this stock.</p>	<p>NOT RATED</p>
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Top BUYs

	TP (IDR)	Upside (%)	Catalysts
Bank Rakyat Indonesia (BBRI IJ)	6,450	12.2	<ul style="list-style-type: none"> With the election year approaching, BBRI expects time deposit rates to fall – alleviating cost of funds (CoF) as liquidity improves cyclically 1Q23 earnings exceeded expectations, increasing 26.9% YoY (+28.1% QoQ) on higher NIM, lower operational expenses, and lower CoC Despite slightly lower 1Q23 loan growth of 9.7% YoY, BBRI remains optimistic on meeting its FY23 loan growth target of 10-12% YoY Despite a higher CoF, 1Q23 NIM rose slightly to 7.82% (1Q22: 7.72%)
Bank Central Asia (BBCA IJ)	10,700	10.3	<ul style="list-style-type: none"> BBCA is poised for healthy business growth – underpinned by its superior transaction franchise and solid balance sheet. Its robust capital and provision buffers also support the above-trend P/BV 1Q23 results were within expectations, with robust NII growth and lower provisions being key earnings drivers. Net profit of IDR11.53trn (-2% QoQ, +43% YoY) accounted for 25% of our and Street's FY23F earnings At the bank level, ROE rose to 22.3% (FY22: 21.7%) while the capital adequacy ratio was a solid 28.9% (4Q22: 25.8%)
Indofood CBP (ICBP IJ)	14,300	23.5	<ul style="list-style-type: none"> We believe earnings will be supported by solid domestic growth, limited impacts from <i>Ramadan</i> and <i>Lebaran</i> (revenue usually dips only c.1-2% during the <i>Lebaran</i> quarter), and IDR appreciation Margins should also expand, mainly from the noodle division, which makes up 80-90% of EBIT Noodle products' margins should expand, w3510ith its affiliate company Bogasari Flour Mills adjusting flour prices down 4-5% YTD and stable CPO prices Challenges may come from its dairy products segment (15-20% of revenue) due to decreasing volumes and rising sugar prices Valuation remains undemanding as the counter is still trading at c.15x 2023F P/E, or around +1SD from its 5-year mean
AKR Corporindo (AKRA IJ)	1,970	22.4	<ul style="list-style-type: none"> AKRA will likely benefit from its chemical distribution business, in our view, due to the rapid development of new smelters – leading to higher demand for certain chemicals The company's recurring revenue from the industrial business should also see growth from emerging green industries
Astra Otoparts (AUTO IJ)	3,510	57.4	<ul style="list-style-type: none"> AUTO's 1Q23 earnings jumped to IDR433bn (-12.5% QoQ, +92.1% YoY), driven by a wider GPM and higher share of income from its associate & JV businesses – exceeding expectations Despite last year's higher numbers, AUTO still managed to record an increase in GPM, likely due to: i) Higher production capacity utilisation that lowered fixed costs per unit (a stronger IDR also partly boosted 1Q23 GPM to 16.1% (4Q22: 15.2%, 1Q22: 12.5%) and ii) a significant increase in associate and JV income to IDR241bn (+35.9% QoQ, +41% YoY). The QoQ decline in profit was due to cyclical factors

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Not Rated:	Stock is not within regular research coverage

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