15 October 2021

Market Outlook | Market Strategy

Market Strategy

End-2021 Outlook Still Cautious As Risks Remain

- **We maintain our end-2021 JCI target at 6,700 pts, implying 1% upside.** The risk-and-reward profile until the year-end does not look so upbeat, due to some downside risks: Global stagflation from supply bottlenecks, foreign outflows from the materialisation of the US' tightening monetary policy, overhang in the US debt ceiling rule, and domestic resurgence of COVID-19 infections due to a low vaccination rate of 38%. The strong JCI rally over the past month, driven by large-cap undervalued cyclical stocks (see our 31 Aug note), may have partially priced in the recovery as COVID-19 infections decrease, while being buoyed by the commodity super-cycle.
- **We prefer the cyclical sectors** which benefit from the multiplier impact of strong commodities and the economic reopening. We have key OVERWEIGHT ratings on banks, auto, retail, poultry, cement, construction, property, and metal. We recently cut our weighting for coal and healthcare to NEUTRAL, as sector share prices have rallied, driven by the jump in coal prices and the increase in the number of patients during the pandemic's peak. We also downgraded our rating for the consumer staples sector to UNDERWEIGHT, on further margin contraction as commodity prices remain high. Meanwhile, excise tax and Value-Added Tax (VAT) hikes will hinder consumer companies from passing on cost increases to customers.
- **Has the market priced in the reopening of the economy?** The low number of new COVID-19 daily cases in recent weeks have helped to bring back IDR11trn in foreign fund inflows in the last one week (vs IDR29trn YTD), driving up large-cap names and undervalued counters in the bank, auto, telco, consumer and coal sectors. The JCI is trading at a 15x 12-month forward P/E. Sector selection is key in 4Q21. With lesser pandemic concerns, the Government may direct more resources to infrastructure spending. We are optimistic on high-ticket-item sectors benefiting from the multiplier impact of high commodity prices, ie auto and property.
- **Higher income from commodity super-cycle.** Coal contributes 80% of non-oil & gas revenue, and accounts for almost 35% of the GDP of coal-producing provinces. CPO has also played a major role in Indonesia's economy, especially at the grassroots level. These, together with strong metal prices, support exports and the IDR – despite large pandemic-related budget deficits.
- **Easier social distancing measures should boost 4Q21 numbers, but risks still remain.** Indonesia's daily new COVID-19 cases have declined to around 1,000 (from a peak of almost 60,000). The Government has relaxed movement restrictions (PPKM), and is gradually reopening the economy. In August, auto sales rose 25% MoM (+123.5% YoY), while domestic cement demand grew 8.7% MoM (+2.5% YoY). Markit Indonesia Manufacturing PMI also jumped to 52.2 in September (August: 43.7). However, the vaccination rate is still low, so the risk of another wave of COVID-19 infections – which will slow down the economic recovery – remains.

Company Name	Rating	Target (IDR)	% Upside (Downside)	P/E (x) Dec-22F	P/B (x) Dec-22F	ROAE (%) Dec-22F	Yield (%) Dec-22F
Aneka Tambang	Buy	3,450	42.6	23.8	2.6	12.2	0.4
Astra International	Buy	6,900	10.8	13.2	1.4	11.7	4.2
Bank Mandiri	Buy	8,200	14.3	10.8	1.6	15.2	4.4
Bank Rakyat Indonesia	Buy	4,790	12.7	12.4	1.8	15.8	2.5
Ciputra Development	Buy	1,365	24.1	18.4	1.2	7.0	0.4
Japfa Comfeed	Buy	2,750	49.1	10.9	1.5	14.4	2.9
Matahari Putra Prima	Buy	1,750	167.2	na	8.9	(3.6)	-
Mitra Adiperkasa	Buy	880	-	13.1	2.8	18.1	0.4
Pembangunan Perumahan	Buy	1,420	9.7	10.0	0.9	6.8	1.9
Summarecon Agung	Buy	1,300	36.1	20.5	1.6	8.2	1.0

Source: Company data, RHB

Stocks Covered	68
Rating (Buy/Neutral/Sell):	54 / 11 / 3
Last 12m Earnings Revision Trend:	Neutral

Sectors	Sector picks
OVERWEIGHT	
Bank	BMRI, BBRI, BNGA, BTPS
Telco	EXCL
Auto	ASII
Retail	MAPI, MPPA
Poultry	JPFA
Cement	INTP, SMGR
Construction	PTPP, ADHI
Property	CTRA, SMRA
Metal Mining	ANTM, INCO
NEUTRAL	
Coal	UNTR
Plantation	LSIP
Healthcare	HEAL
UNDERWEIGHT	
Consumer Staples	INDF
Tobacco	HMSP

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- *"Sell In May" Potentially Over*

Source: Company data, RHB

Our Top 10 Picks

We have added more cyclical names – Ciputra Development, Summarecon Agung, Pembangunan Perumahan, Japfa Comfeed Indonesia and Aneka Tambang – to our Top 10 picks. They replace United Tractors, Indo Tambangraya, Vale Indonesia, XL Axiata, and Indocement. We believe the cyclical sectors will likely outperform during the economic reopening, as the Government has relaxed movement restrictions in view of the decrease in new daily COVID-19 cases.

Our Top 10 Picks

No	Name	Ticker	Rating	Price (IDR)	TP (IDR)	Upside/ downside (%)	Market cap (USDbn)	2022F EPS growth (%)	P/E (x)	P/BV (x)	PEG (x)	ROE (%)	Yield (%)
1	Bank Rakyat Indonesia	BBRI IJ	BUY	4,250	4,790	12.7	33.8	76.3	12.4	1.8	0.2	15.8	2.5
2	Bank Mandiri	BMRI IJ	BUY	7,175	8,200	14.3	19.3	42.3	10.8	1.6	0.3	15.2	4.4
3	Astra International	ASII IJ	BUY	6,225	6,900	10.8	14.9	10.4	13.2	1.4	1.3	11.7	4.2
4	Aneka Tambang	ANTM IJ	BUY	2,420	3,450	42.6	3.9	5.8	23.8	2.6	4.1	12.2	0.4
5	Japfa Comfeed	JPFA IJ	BUY	1,845	2,750	49.1	1.6	(21.8)	10.9	1.5	N/A	14.4	2.9
6	Ciputra Development	CTRA IJ	BUY	1,100	1,365	24.1	1.4	5.7	18.4	1.2	3.2	7.0	0.4
7	Summarecon	SMRA IJ	BUY	955	1,300	36.1	1.1	(7.3)	20.5	1.6	N/A	8.2	1.0
8	Mitra Adiperkasa	MAPI IJ	BUY	880	880	0.0	0.8	399.7	13.1	2.8	0.0	18.1	0.4
9	Pembangunan Perumahan	PTPP IJ	BUY	1,295	1,420	9.7	0.5	48.4	10.0	0.9	0.2	6.8	1.9
10	Matahari Putra Prima	MPPA IJ	BUY	655	1,750	167.2	0.4	(29.0)	N/A	8.9	N/A	N/A	N/A

Note: Based on closing prices of 14 Oct 2021

Source: Company data, RHB

Astra International (ASII IJ, BUY, TP: IDR6,900). Although auto manufacturing was temporarily impacted by the restrictions on public activities (emergency PPKM), auto demand remained robust. Management guided that manufacturing activity at its Karawang plants in August were back to levels recorded in June. It is also working closely with its principal to launch several Toyota battery electric vehicles (BEV) in 2025. United Tractors (UNTR IJ, BUY, TP: IDR29,400) reduced its discount on coal-mining heavy equipment sales by 65% from strong demand.

Aneka Tambang (ANTM IJ, BUY, TP: IDR3,450). Aneka Tambang's operations should remain on track, as sales should be boosted by the high demand for nickel in the domestic market, and stable export sales for its Fe-Ni product (nickel price supported at c.USD18,000 level until end-FY21). Meanwhile, the stability of gold prices (prices will hover between USD1,700/oz and USD1,800/oz in the medium term) is keeping ANTM's gold business in check. Apart from its healthy operational numbers, the ongoing improvement in its balance sheet (1H21 net gearing: 0.11x vs 1H20's 0.29x) is also a perk for our investment thesis. Its EV/EBITDA target is now at c.18x, close to +1SD from its 5- year forward EV/EBITDA band.

Bank Mandiri (BMRI IJ, BUY, TP: IDR8,200). Bank Mandiri's 1H21 earnings were within our and Street expectations (51-52% of FY21F net profit). With its performance tracking at the upper end of FY21 guidance, management remains confident that targets are within reach – even with a softer 2H21, due to public activity restrictions. A strong ROE recovery to 15.0% in FY23F, we believe, will underpin a share price re-rating.

Bank Rakyat Indonesia (BBRI IJ, BUY, TP: IDR4,790). 2Q21 PPOP rose 4.9% QoQ (+143.7% YoY) – above expectations – driven by lower COF and higher interest income. Despite slower economic growth, micro loans rose 17% YoY. Management guided that a majority of its micro loan borrowers were not significantly impacted by the pandemic. However, 2Q21 NPL lifted slightly to 3.3% (1Q21: 3.1%). Management will be more prudent in managing loan risk amid current uncertainties.

Ciputra Development (CTRA IJ, BUY, TP: IDR1,365). Ciputra's Development's 1H21 performance was in line with our and Street forecasts, with the topline of IDR4.0trn representing 57% and 48% of full-year projections. The addition for 2Q21 improvements amounted to IDR2.1trn (+17.2% QoQ, +67.6 YoY) driven by low interest rates and a good mix of housing segments largely targeted to the mid- to low-income segment products. As of September, marketing sales have reached IDR5trn, which is about 85% of its full-year target. Positive catalysts: A low interest rate environment, diversified housing segments, and favourable incentives for the property market.

Japfa Comfeed Indonesia (JPFA IJ, BUY, TP: IDR2,750). The expected stronger sales volume in 2H21, given the economic reopening, should power up JPFA's performance. We expect 4Q21 volume to jump 30% QoQ, as October 2021F production could point to much stronger demand due to a lower culling rate and stable broiler prices. Higher DOC production should also drive up feed sales volumes, which is the backbone of the company's EBITDA. JPFA should be on track to book record-high earnings in 2021, supported by a demand recovery and better selling prices. It has an attractive market valuation of 8x 2022F P/E.

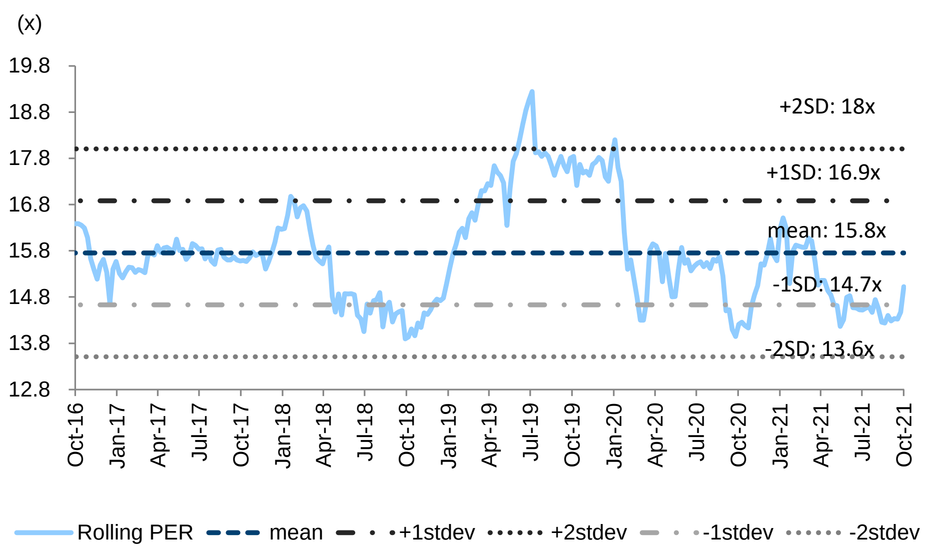
Mitra Adiperkasa (MAPI IJ, BUY, TP: IDR880). MAPI should enjoy sturdy growth in 4Q21, which is generally its strongest quarter of the year – for which we expect c.25% YoY growth. The low number of new COVID-19 cases should lead to a strong traffic recovery, mainly to the shopping malls. This should benefit the company, given its high outlet presence inside shopping malls. High exposure to key cities that have already reached high vaccination rates and a number of new brand openings and launches such as Subway, Index Living and Footlocker should boost its 4Q21 performance.

Matahari Putra Prima (MPPA IJ, BUY, TP: IDR1,750). We believe that the continued low number of new COVID-19 cases and seasonal factors in 4Q21 will bode well for offline retailers in 4Q21, including MPPA. Its online initiatives should continue to gain traction, underpinned by further onboarding in a number of prominent platforms such as HappyFresh, Bukalapak, and Lazada. The planned opening of hybrid offline stores and the acquisition of ex-Giant stores in 4Q21 should support its performance. Its share price also presents an attractive entry point, of about 0.7x 2021 P/S.

Pembangunan Perumahan (PTPP IJ, BUY, TP: IDR1,420). Pembangunan Perumahan's 1H21 EBITDA was in line with our and Street forecasts, at 34% and 39% of full-year projections, on its 2Q21 topline improvement to IDR3.6trn (+27.5% QoQ, +8.55 YoY). The *Lebaran* impact on revenue was minimal, as its largest projects involve toll roads, ports, and smelters. The impact from social restrictions should also be minimal, as PTPP is expanding its smelter projects, which rely more on heavy equipment than labour.

Summarecon Agung (SMRA IJ, BUY, TP: IDR1,300). Summarecon Agung's 9M21 marketing sales have reached 85% of its full-year target, largely driven by housing products in Serpong and Bogor (59% of YTD September marketing sales). SMRA's 1H21 was below our and the Street's forecasted topline of IDR2.5trn – at about 45% of the full-year estimate – but we expect that will improve for FY21. 2Q21 revenue was at IDR1.4trn (+29.6% QoQ+21.5% YoY). Positive catalysts: The affordable housing segments, and the expansion of future projects in Bogor and Bandung.

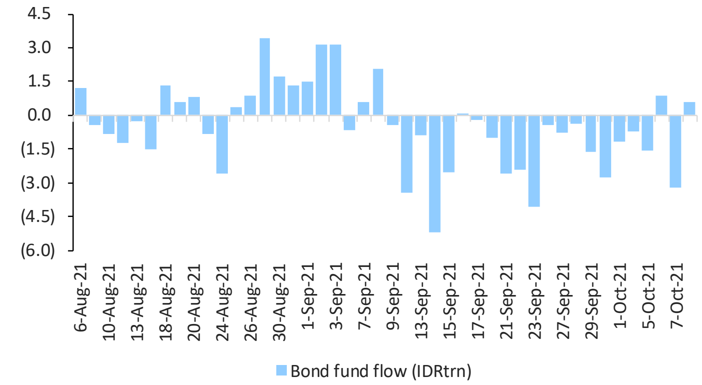
Figure 1: JCI's 12-month forward-rolling P/E band



Source: Company data, RHB

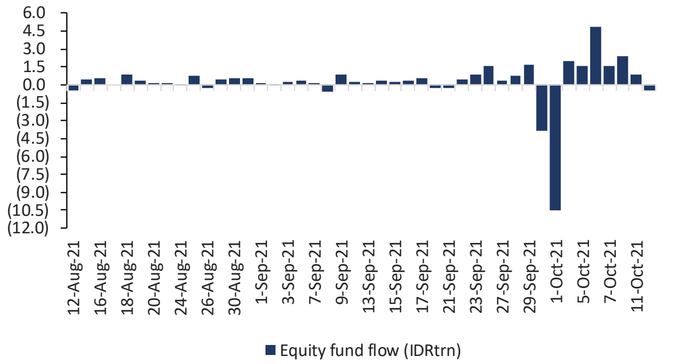
- The JCI is still trading below its 5-year mean P/E (currently at 15.0x) which implies the upside potential for earnings recovery ahead (FY21F: c.50% YoY, FY22F: c.16% YoY)
- Our thesis since the mid-year is on track (from our 2 Jul target JCI revision strategy report), reflecting a cautionary stance against the turbulence risk from the ongoing pandemic – the end-FY21F TP remains at 6,700pts

Figure 2: Bonds – daily foreign flows



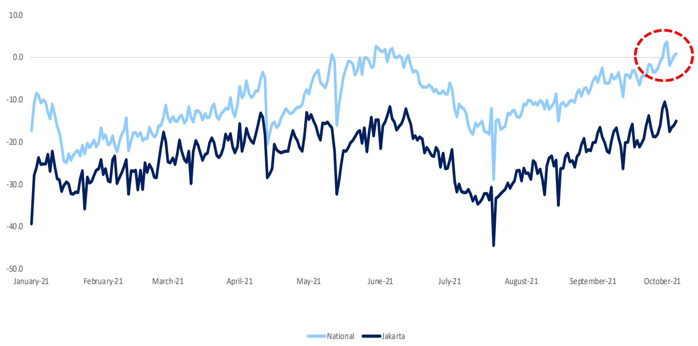
Source: Bloomberg, RHB

Figure 3: Equities – daily foreign flows



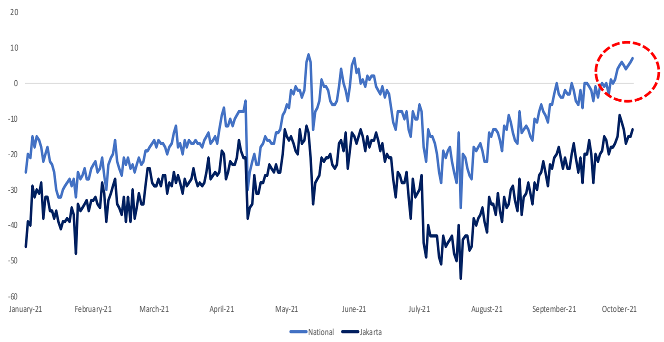
Source: Bloomberg, RHB

Figure 4: Google Mobility Index data has improved, with national traffic having already exceeded pre-pandemic levels, and being even slightly higher than during pre-PPKM levels



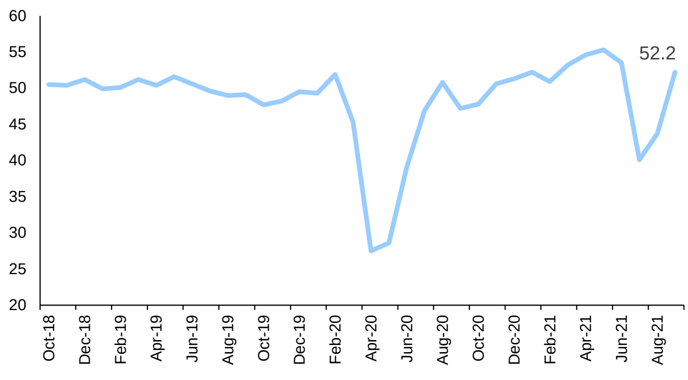
Source: Google, RHB

Figure 5: Similarly, traffic to retail facilities also has picked up, and national mobility has surpassed pre-pandemic levels. It was briefly stronger than levels recorded during the PPKM as well



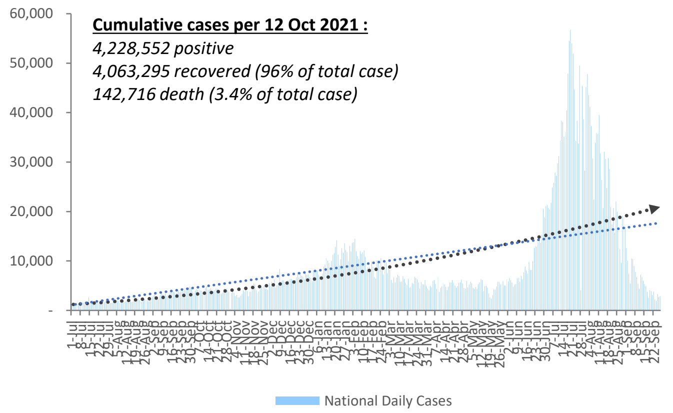
Source: Google , RHB

Figure 6: Markit Indonesia Manufacturing PMI



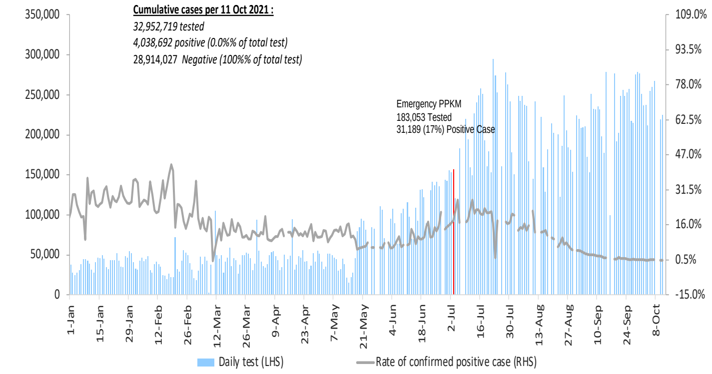
Source: Company data, RHB

Figure 7: Number of daily COVID-19 cases remained low



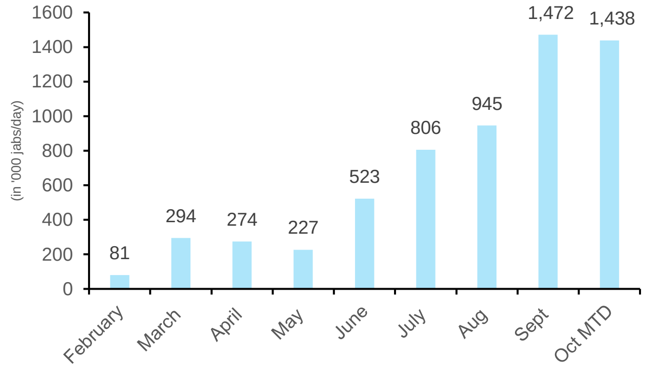
Source: Satgas COVID-19 , RHB

Figure 8: Daily COVID-19 positive case rate is at 0.5-1%



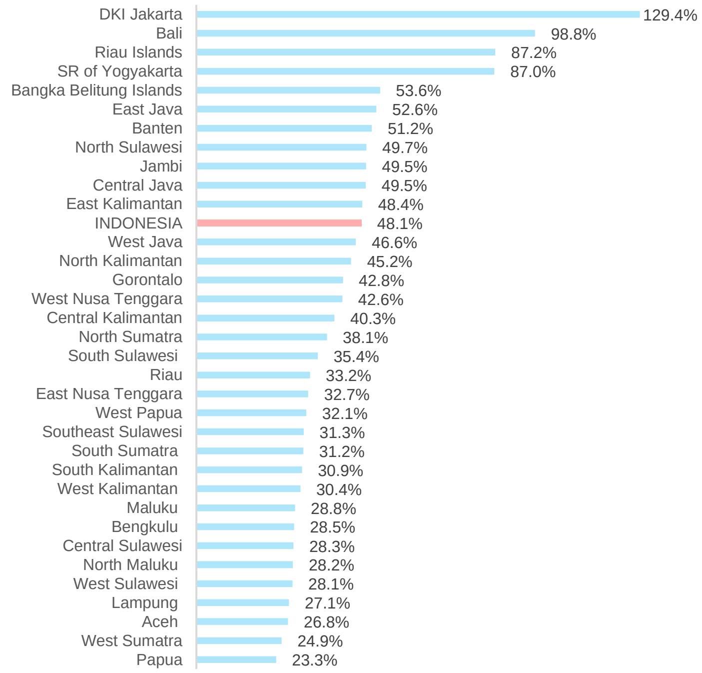
Source: Satgas COVID-19, RHB

Figure 9: Accelerated daily COVID-19 vaccination pace



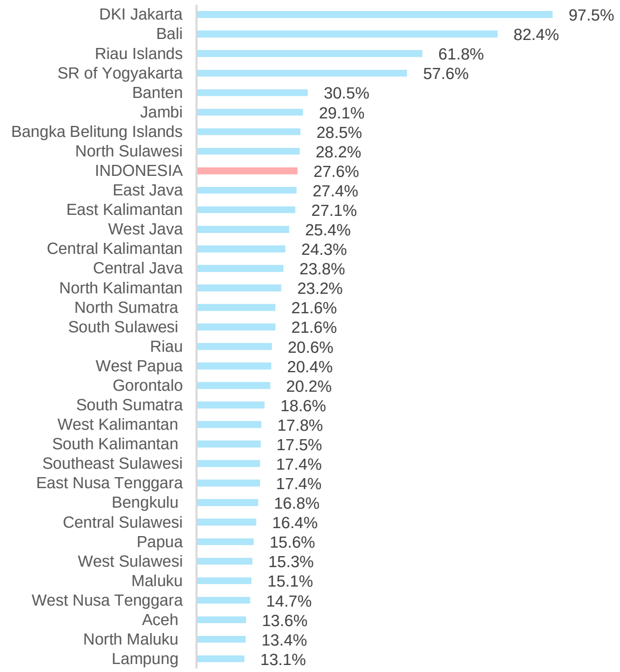
Source: Satgas COVID-19 , RHB

Figure 10: Jakarta and Bali have the highest first dose vaccination rate (% of population)



Source: Ministry of Health, RHB

Figure 11: High vaccination rates in urban areas (% of population)



Source: Ministry of Health , RHB

Sector Outlook

Cyclical sectors likely to outperformed during an economic re-opening. We have OVERWEIGHT ratings on banks, auto, retail, cement, construction, property, and metal mining. We downgraded our weighting on the coal and healthcare sectors to NEUTRAL, as share prices have undergone a rally – driven by the jump in coal prices and high number of patients during the peak of the pandemic. We also downgraded our ratings for the consumer staples and tobacco sectors to UNDERWEIGHT, as the hike in commodity prices may increase production costs. Meanwhile, the increase in excise tax and VAT rates may limit the ability of consumer companies to pass on the hike in production costs to customers.

A summary of our outlook and highlights by sector can be found in the next page.

Figure 12: Sector highlights and outlook

Sector	Rating	Highlight/outlook	Top Picks
Banks	OVERWEIGHT	We believe Indonesian banks are headed for a strong 4Q21, notwithstanding expected weakness in the forthcoming 3Q21 results season. We expect toplines to be buoyed by the country's economic reopening, while lower credit costs should provide an added boost to earnings. The sector's valuation remains compelling at FY22F 2.5x P/BV against ROE of 14.5%, despite the 23% rise in share prices since early Aug 2021.	BMRI, BBRI, BNGA, BTPS
Telco	OVERWEIGHT	Further foreign inflows should continue to support the sector's performance ahead, driven by the realisation of the Indosat (ISAT)-CK Hutchison Holdings merger, attractive EV/EBITDA valuations relative to regional peers, and better data monetisation. Although competition in the low-denomination packages remains intense, Telekomunikasi Indonesia (TLKM) and EXCL continue to raise prices of their more premium packages. We expect improving ARPU in 2H21F with the fair usage policy (FUP) implementation, while fixed broadband continues to drive growth.	EXCL
Auto	OVERWEIGHT	The Finance Ministry has extended the 100% luxury tax (PPnBM) tax incentive to December. This should further boost monthly 4-wheeler vehicle (4W) wholesales – which jumped to 83,319 units (+25% MoM, +123.5% YoY) in August. Meanwhile, the Ministry of Industry has estimated that this extension will boost national sales by another 35,553 units (5% of its FY21F sales).	ASII
Retail	OVERWEIGHT	Recovering economic activities were seen through the higher Google Mobility Index over the past month, especially in retail & recreation, as COVID-19 infection rates decline. These factors should provide stronger catalysts for cyclical growth stocks.	MAPI, MPPA
Poultry	OVERWEIGHT	With COVID-19 cases on a decline, the reopening of the economy should support chicken consumption – potentially reducing the level of culling required by the Government. This should lift day-old chick (DOC), broiler and feed sales volumes. Recent data suggests the DOC price cap should provide investors opportunities to buy on dips. Also, lower soybean prices should offset higher corn prices (now IDR5,500/kg). 4Q21F results are expected to be strong, supported by volume recovery and stable prices.	JPFA
Cement	OVERWEIGHT	We expect infrastructure spending to pick up, as the Indonesian Government has relaxed social restrictions, which should also boost cement demand. Property companies are also recording robust pre-marketing sales. However, rising coal prices may increase cement companies' COGS – but they are likely to pass on the hike to customers. The rising energy costs should be partially offset by higher operating leverage, as cement sales are set to grow.	INTP, SMGR
Construction	OVERWEIGHT	Expect higher infrastructure budget realisation until end-2021. The Ministry of Public Works and Ministry of Transportation have spent 49.8% and 50.3% of their full-year budgets as of YTD-August. The Government is intent on ramping up infrastructure works, and we are optimistic that spending will reach 90% of their full-year budgets by year-end. We are upbeat on the sector, as activities have likely accelerated – as indicated by three straight months of cement sales growth.	PTPP, ADHI
Property	OVERWEIGHT	We expect sector metrics to improve over 4Q21-2Q22 at the least. Low interest rates, supportive industry measures and the relaxation of lockdown restrictions should boost marketing sales in 4Q21. Of our Top Picks, SMRA has a more attractive market valuation, while a positive catalyst should be its Bogor project. CTRA has a stronger balance sheet and greatly diversified landbank.	CTRA, SMRA
Metal mining	OVERWEIGHT	Our focus remains on the nickel industry, given large potential from the utilisation of low-nickel ore (52% of total national proven nickel resources) once development of large scale of HPAL smelters (targeted by 2024-25) will unlock its value and provide a new supply channel for EV battery manufacturing in Indonesia – which should benefit ANTM in the long term. Meanwhile, the uptrend in nickel prices (FY21-22F: USD18-19,5k/tonne) will be maintained from the stable demand for stainless steel.	ANTM, INCO
Coal	NEUTRAL	The uptrend in coal prices throughout the year (Newcastle: +201% YTD, with the highest-ever record price at USD269.50/tonne) has brought back optimism for a recovery in the sector – we expect better 2H21F overall earnings from improved toplines, coupled by a higher seasonal pattern on coal production. However, we see the upside factors thinning, given the potential drawback of coal prices from the peak that will dampen sentiment on stocks going forward.	UNTR
Plantation	NEUTRAL	CPO prices remain buoyant at current levels, due mainly to the still-disappointing production numbers from Malaysia (down 9% YoY in YTD-August). We still maintain that prices are due for a correction in 4Q21F, as supply and demand fundamentals are improving.	LSIP
Healthcare	NEUTRAL	We see soft growth for hospital players and pharmaceutical companies in 4Q21, given the improving COVID-19 situation. Hospital players' QoQ and YoY margins should be under pressure, owing to the anticipated decrease in COVID-19 cases in the last quarter of 2021. Despite rising health awareness – translating to higher demand for health supplements – we expect the impact to be less than the previous quarters for pharmaceutical players. HEAL remains our Top Pick – due to its solid growth profile, undemanding valuation, and nationwide presence.	HEAL
Consumer Staples	UNDERWEIGHT	Expect weaker margins in 2H21F, with soft commodity prices remain high, averaging +3.2% QoQ, +14% YoY. 2Q21 is testament to higher commodity prices impacting margins, as the sector saw an average decline of 1.5 ppts YoY in GPMs. Although it was widely expected, prolonged high commodity prices at this level was a surprise, providing a further downside risk to 2H21F earnings.	MYOR
Tobacco	UNDERWEIGHT	Expected to be announced in October, we estimate a 10-12% excise tariff for Tier-1. These in-line or lower-than-expected rates should provide support to the sector's share price performance, as Hanjaya Mandala Sampoerna (HMSP) and Gudang Garam (GGRM) have underperformed JCI by 27-36% YTD.	HMSP

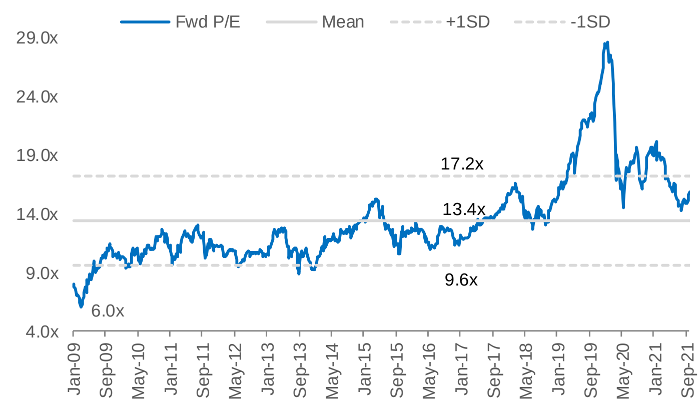
Source: Company data, RHB

Banks (OVERWEIGHT): hopeful of a strong finish

Analysts: Fiona Leong, Indonesia Research Team, Shelly Setiadi

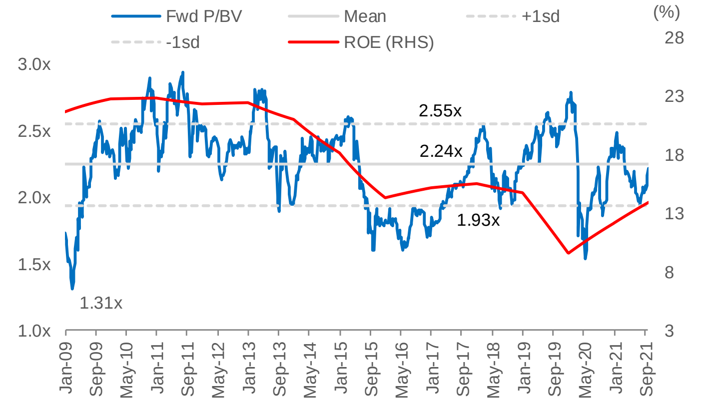
OVERWEIGHT, Top Picks: Bank Mandiri (BMRI), Bank Rakyat Indonesia (BBRI), CIMB Niaga (BNGA) and Bank BTPN Syariah (BTPS). We believe Indonesian banks under our coverage (IND Banks) are headed for a strong 4Q21, notwithstanding expected weakness in the forthcoming 3Q21 results season. We expect toplines to be buoyed by the country's economic reopening, while lower credit costs should provide an added boost to earnings. The sector's valuation remains compelling at FY22F 2.5x P/BV against ROE of 14.5%, despite the 23% rise in share prices since early Aug 2021.

Figure 13: Consensus' large-cap IND Banks' 12-month forward P/E trend



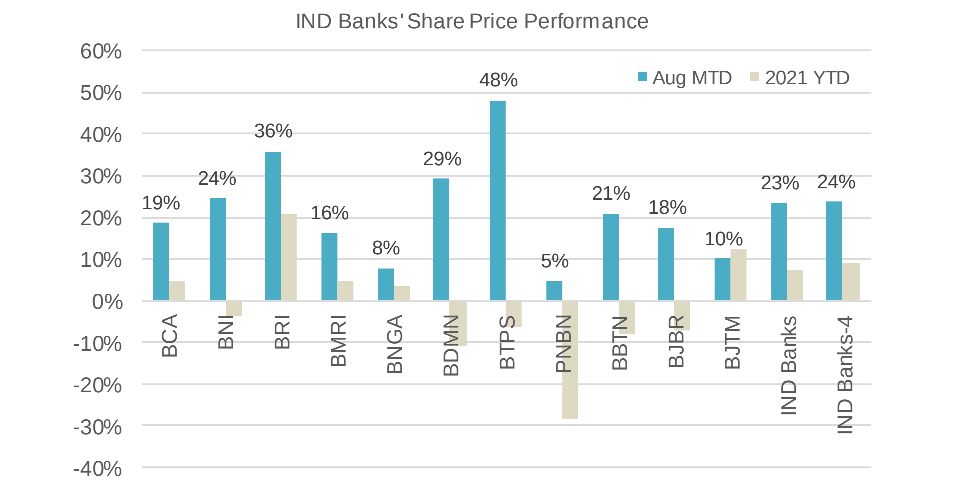
Source: Bloomberg, RHB

Figure 14: Consensus' large-cap IND Banks' 12-month forward P/BV trend



Source: Bloomberg, RHB

Figure 15: IND Banks' share prices have appreciated by 23% since August



Source: Bloomberg, RHB

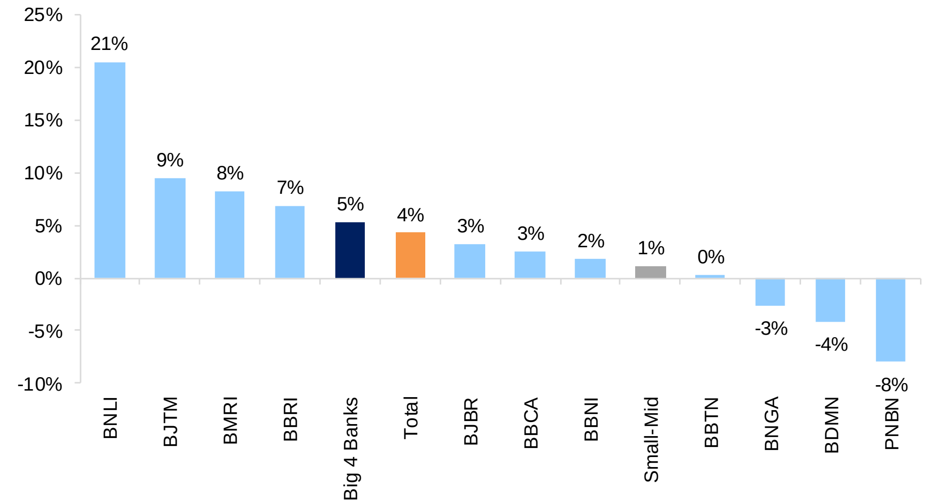
- IND Banks have appreciated 23% MTD since August
- Top performers were BTPS (+48% MTD) and BBRI (+36% MTD)

Economy on a quick rebound. With new COVID-19 cases on the decline, the Government has been able to lift mobility restrictions since Sep 2021. This has had a positive impact on economic activities and consumption spending. We are hopeful that economic growth – seasonally the strongest in the last quarter of the year – will remain a possibility in 4Q21.

Positive on loan demand. The economic reopening should have a positive impact on banks' lending businesses. We expect a healthy pick-up in loan disbursements, which should enable banks get closer to their FY21 loan growth targets. More importantly, we expect the strengthening loan demand to be sustained into 2022.

Tapping the super micro loan segment. Despite the pandemic, in 1H21, super micro loans registered strong growth and an increased number of borrowers. BBRI just completed its rights issuance and created a new holding company – Pegadaian and Permodalan Nasional Madani as the subsidiaries – to penetrate the micro loan segment. This will enable the bank to tap into a new market segment, with smaller ticket sizes of less than IDR5m from 30m potential customers.

Figure 16: Loan growth still a subdued 4% YoY in Aug 2021

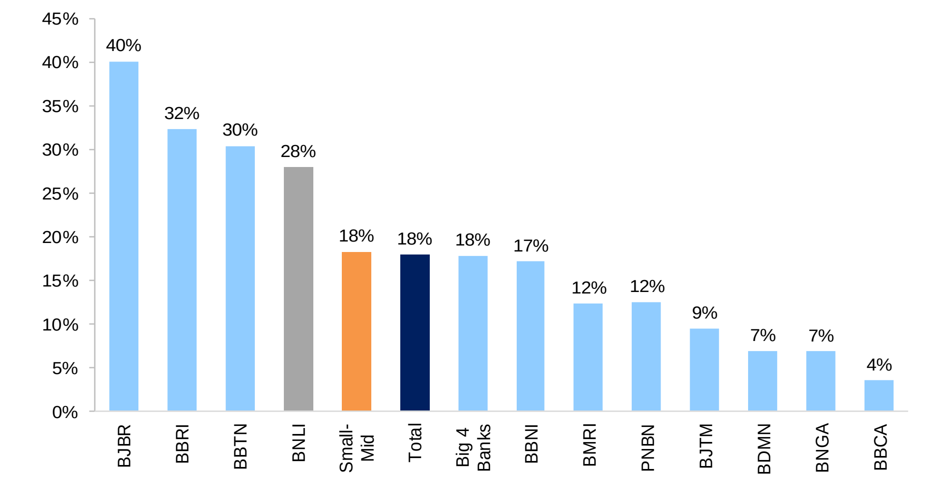


Source: Company data, RHB

- Aggregate loans grew 4% YoY as at end-Aug 2021
- Growth was moderated by contractions at Bank CIMB Niaga (BNGA), Bank Danamon (BDMN) and PNBN
- BMRI and BBRI were large banks that achieved high single-digit loan growth
- We expect a healthy pick-up in loan disbursements in 4Q21, which would see sector loan growth edging closer to our projected increase of 9.6% for FY21

NIM to remain stable. RHB economists expect Bank Indonesia to maintain the 7-day Reverse Repo Rate at 3.50% for the remainder of 2021, before raising it by 25bps to 3.75% in 2H22. This suggests that the NIM recovery seen in 8M21 from efforts to manage funding costs, should stay intact in 4Q21. On the flip side, prospects of stronger net interest income growth from NIM expansion would only be a possibility in 2H22.

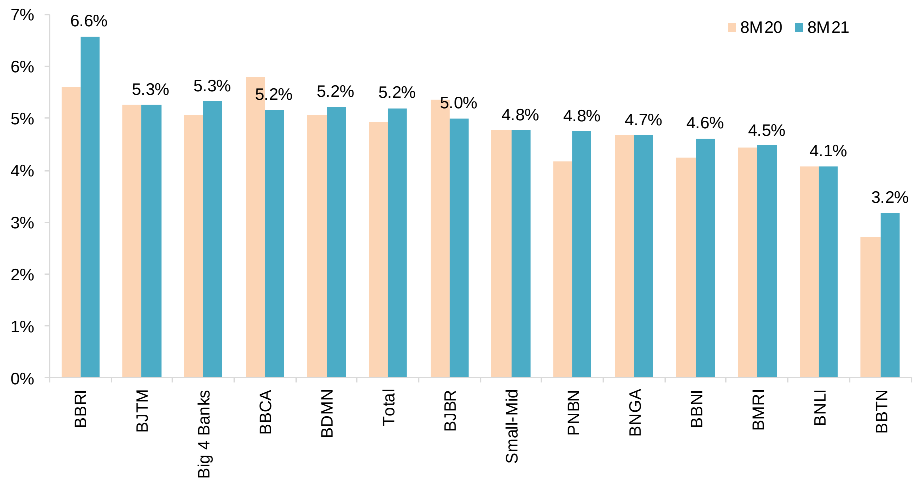
Figure 17: Net interest income grew by a healthy 18% YoY for 8M21



Source: Company data, RHB

- Banks' net interest income (NII) was a higher 18% YoY for 8M21
- For the four large banks, growth was led mainly by BBRI's 32% YoY jump in NII.
- For the small and mid-sized banks, the increase was driven by Bank BJB, Bank Tabungan Negara (BBTN) and Bank Permata (BNLI)

Figure 18: NIM expanded by 27bps YoY for 8M21 due to the active management of funding costs

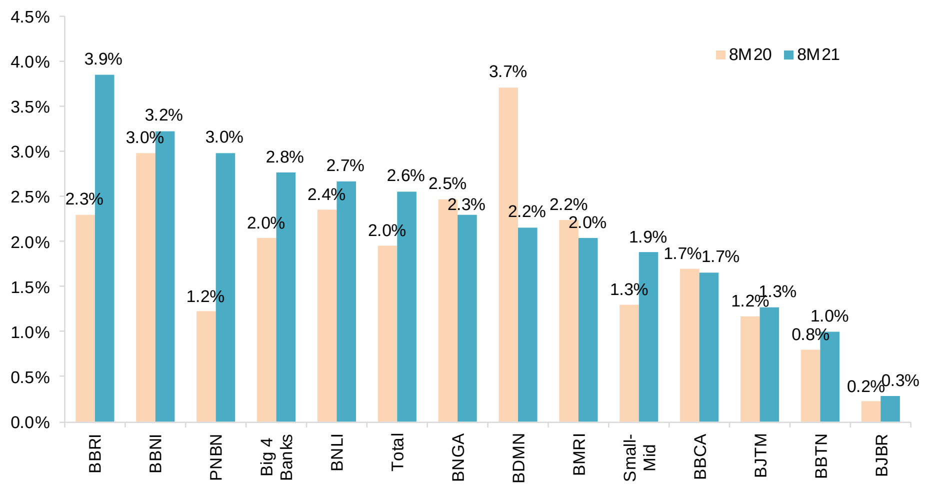


Source: Company data, RHB

- IND Banks' NIM has recovered by a moderate 27bps YoY for 8M21
- The uptick was helped by banks' active accumulation of CASA deposits, and cuts in time deposit rates
- The stable policy rate since Mar 2021 has also helped

Credit cost under control. The mobility restrictions should exert pressure on asset quality, and NPLs would inevitably rise in 3Q21. Still, we believe that proactive efforts by banks to assist affected borrowers coupled with pre-emptive provisions taken since the start of the pandemic, should keep credit costs within banks' guidance for FY21. We expect 4Q21 provisions to be lower QoQ, although FY21 credit cost would still be elevated YoY.

Figure 19: Credit cost increased 61bps YoY to 2.56% in 8M21, led by large banks

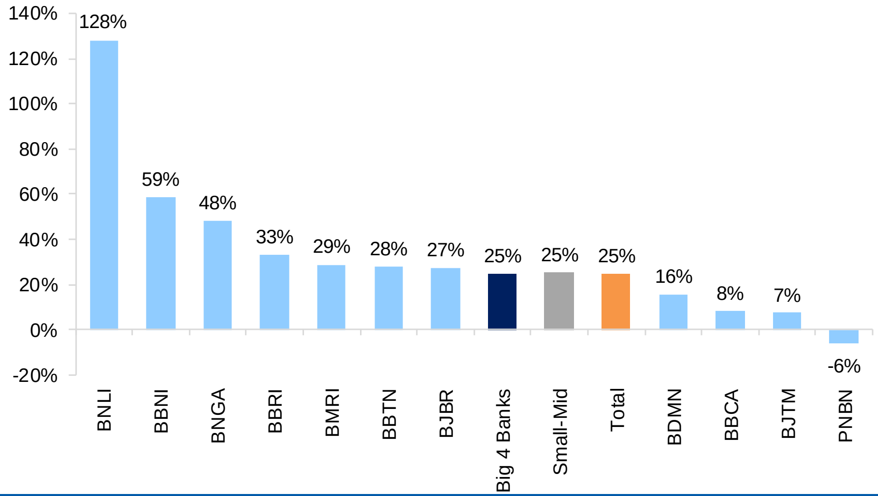


Source: Company data, RHB

- Aggregate provision charges increased 21.3% YoY for 8M21, with large banks reporting a 22% YoY rise while mid-smaller banks posted a smaller increase of 15.5%
- As a result, aggregate credit cost rose 61bps YoY to 2.56% for 8M21
- We believe the higher provisions reflected cautiousness among banks due to the resurgence of COVID-19 cases

Projected 25% YoY recovery in FY21 earnings within reach. Banks reported a 25% YoY rise in 8M21 aggregate net profit. Given our expectations of a stronger 4Q21 performance, we believe that our forecasted 25% YoY rebound in FY21 sector earnings is within reach. Supported by Bank Indonesia's stated priority for "pro-growth" policies, we expect to see sustained bottomline growth in FY22.

Figure 20: Sector earnings grew 25% YoY over 8M21



Source: Company data, RHB

- Banks' aggregate net profit for 8M21 is up 25% YoY. This is in line with our projected IND Banks' earnings growth of 25.2% for FY21
- Among our coverage, Bank Negara Indonesia and BNGA have chalked up the strongest earnings rebound
- On the flip side, net profit improvements at Bank Pan Indonesia (PNBN), Bank Pembangunan Jawa Timur (BJTM) and Bank Central Asia (BBCA) are lagging that of peers

Telco (OVERWEIGHT): Merger signals monetisation

Analysts: Michael Setjoadi, Marco Antonius

OVERWEIGHT; Top Pick: XL Axiata (EXCL). Further foreign inflows should continue to support the sector's performance ahead, driven by the realisation of the Indosat (ISAT) and CK Hutchison Holdings merger, attractive EV/EBITDA valuations relative to regional peers, and better data monetisation. Although competition in the low-denomination packages remains intense, Telekomunikasi Indonesia (TLKM) and EXCL continue to raise prices of their more premium packages. We expect ARPU to improve in 2H21 with the fair usage policy (FUP) implementation, while fixed broadband continues to drive growth.

3Q21 results preview, 4Q21 outlook. Better ARPU supported by mid- to higher-paying subscribers. Digital innovation has enabled operators to roll out targeted promotions to upsell existing subscribers in a bid to improve ARPU. Improving purchasing power, as economic activities recover, should allow for better monetisation – a "more-for-more" strategy – to structurally accustom subscribers to consume larger data packs. The FUP implementation on unlimited packages and price increase initiated by TLKM, was followed by EXCL in August-September. Meanwhile, low denomination packages have undergone intense competition.

Telkomsel initiated price increase for Unlimited plans; recently lowered prices of daily packages… Our ground checks indicate that the data price war has eased in early 3Q21, as the incumbent, Telkomsel, revamped its data packages to be simpler – by merging the Kartu As and Simpati packages. Telkomsel raised prices of its data packages in mid-2021 by 4-9%. Hence, in September, it placed its focus towards daily packages, as the pricing of several of its packages were reduced by 5-10%, but there were no changes to its monthly data packages. On the UnlimitedMAX packages, it decided to increase 33-50% of its base quota with unchanged prices, while still having the FUP on several apps. We believe that the company is currently focusing on acquiring new subscribers, which have hovered at 160-170m over the past three years.

...EXCL followed suit with 2-6% price increases in Sep 2021. EXCL increased its monthly and weekly data packages by 2-6% last month. Note that this is the first time it has increased the pricing of its data packages post the initial launch of the Xtra Combo Plus packages. Despite the price hike, EXCL's monthly packages are still relatively cheaper by 23% vs Telkomsel (Combo Sakti 32GB vs Xtra Combo Reguler 10GB+16GB). We believe the sector itself has been more positive, due to the price adjustment by both players. However, price adjustments were not seen among the other three telco operators in 3Q21.

Figure 21: Indonesia's telco sector offers more attractive valuations, with premium EBITDA margins

	Product	Validity (Days)	Offered Quota (GB)	Jun-21	Jul-21	Aug-21	Sep-21	QTD	MoM
TSEL									
	OMG 7GB	30	7GB	N/A	N/A	66,000	66,000	-	-
	Bundling CloudMAX	30	12GB	N/A	N/A	109,000	109,000	-	-
	OMG Sosmed 9GB	30	9GB	67,000	67,000	67,000	67,000	-	-
	Addicted to By.U	10	10GB	20,000	20,000	20,000	20,000	-	-
	Ketengan Utama 500MB	1	0.5GB	3,200	3,200	3,200	3,500	9.4%	9.4%
	Ketengan Utama 500MB	3	0.5GB	10,200	10,200	10,200	9,200	-9.8%	-9.8%
	Ketengan Utama 20GB	3	20GB	49,200	49,200	49,200	46,200	-6.1%	-6.1%
	Ketengan Utama 500MB	7	0.5GB	19,200	19,200	19,200	18,200	-5.2%	-5.2%
	Ketengan Utama 35GB	7	35GB	67,200	67,200	67,200	62,200	-7.4%	-7.4%
	Internet By.U Get In Love	30	12GB	50,000	50,000	50,000	50,000	-	-
EXCL									
	Xtra Combo Plus VIP 20GB	30	10GB	89,000	89,000	89,000	92,000	3.4%	3.4%
	Xtra Combo Mini 6.5GB	7	6.5GB	19,000	19,000	19,000	19,500	2.6%	2.6%
	Paket Akrab 10GB	30	10GB	55,000	55,000	55,000	55,000	-	-
ISAT									
	Unlimited (Freedom U) Unlimited +7GB	30	7GB	80,000	80,000	80,000	80,000	-	-
	Unlimited (Freedom U) Unlimited + 10GB	30	10GB	100,000	100,000	100,000	100,000	-	-
	Freedom Internet 10GB	30	10GB	50,000	50,000	50,000	50,000	-	-
	Freedom internet 8GB	60	8GB	47,500	47,500	47,500	47,500	-	-
	Freedom Internet 12 GB	90	12GB	67,500	67,500	67,500	67,500	-	-
	New Freedom Combo 8GB	30	8GB	35,000	35,000	35,000	35,000	-	-
	Freedom kuota harian daily quota 1GB	7	7GB	19,900	19,900	19,900	19,900	-	-
FREN									
	Super 4G Kuota/Connex EVO kuota 10GB	30	10GB	30,000	30,000	30,000	30,000	-	-
	Internet Kuota NONSTOP 6GB	28	6GB	30,000	30,000	30,000	30,000	-	-
	Internet Kuota NONSTOP 14GB	28	14GB	N/A	N/A	N/A	45,000	-	-
	ION+ Plan 9GB	30	9GB	35,000	35,000	35,000	35,000	-	-
H3I									
	AlwaysOn AON 6GB	Unlimited	6GB	N/A	N/A	N/A	28,000	-	-
	Happy 12GB	30	12GB	50,000	50,000	50,000	50,000	-	-
	Happy 9GB	10	9GB	30,000	30,000	30,000	30,000	-	-
	Happy 3.5GB	5	3.5GB	14,000	14,000	14,000	14,000	-	-

Note: Pricing as of 5 Oct 2021
Source: Bloomberg, RHB

Attractive valuations vs that of regional peers, favourable to foreign inflows. We believe there will be foreign inflows into emerging markets, especially Indonesia – since China's economic recovery continues to decelerate on tightened policies. The telecommunication sector is favourable, given its defensive nature, attractive valuations, and high liquidity with significant weightage to the JCI. Indonesian telco stocks are trading at 5x 2022F EV/EBITDA, at a 50% discount to the regional peer average. EXCL is our Top Pick, as better monetisation should translate to a better earnings outlook for 2H21 and offer the largest upside to our TP. The ISAT-CK Hutchison merger could take three years for synergy cost savings to kick in, while there are still many overhangs in the process (ie spectrum retention and 5G rollout).

Figure 22: ID Telco offers more attractive valuations with premium EBITDA margins

BBG Ticker	Last Price (LCY)	Rating	TP (LCY)	Upside/ Downside	Market Cap (USDm)	3M AVG daily turnover (USDm)	EBITDA Margin (%) 2022F	ROE (%) 2022F	P/E (x) 2022F	EV/ EBITDA (x) 2022F
TLKM IJ	3,670.0	BUY	3,700.0	0.8%	25,554.1	20.1	52.2	22.6	14.0	5.2
EXCL IJ	2,920.0	BUY	3,400.0	16.4%	2,201.2	4.6	50.3	7.3	21.1	4.3
ISAT IJ	6,400.0	NEUTRAL	7,000.0	9.4%	2,444.4	1.3	44.4	6.8	29.6	3.8
Weighted Average					**30,199.7**		**51.5**	**20.2**	**15.8**	**5.0**
Regional										
T MK	5.73	BUY	7.90	37.9%	5,174.5	4.4	37.1	15.3	24.2	5.8
DIGI MK	4.37	NEUTRAL	4.61	5.5%	8,093.5	2.9	47.1	194.8	29.2	12.6
TDC MK	4.59	NEUTRAL	4.68	2.0%	1,996.5	1.9	46.1	12.8	20.1	11.0
AXIATA MK	3.88	BUY	4.75	22.4%	8,604.6	2.7	44.4	7.3	33.9	4.9
MAXIS MK	4.55	NEUTRAL	4.66	2.4%	8,521.5	1.9	41.9	21.7	23.8	11.0
ADVANC TB	195.00	BUY	205.00	5.1%	17,243.2	46.2	51.1	32.5	21.7	7.2
ST SP	2.46	BUY	3.37	37.0%	29,565.5	48.6	24.9	8.3	24.2	13.0
STH SP	1.23	NEUTRAL	1.35	9.8%	1,556.5	1.1	23.2	28.9	15.5	6.1
Weighted Average					**80,755.9**		**37.8**	**34.4**	**24.9**	**10.0**

Note: Pricing as of 5 Oct 2021
Source: Bloomberg, RHB

Auto (OVERWEIGHT): Tax incentive extension an upside surprise

Analysts: Indonesia Research Team, Ryan Santoso

Maintain OVERWEIGHT; Top Pick Astra International (ASII). The Finance Ministry has extended the PPnBM tax incentive to December. This should further boost monthly 4-wheeler vehicle (4W) wholesales – which jumped to 83,319 units (+25% MoM, +123.5% YoY) in August. Meanwhile, the Ministry of Industry has estimated that this extension will boost national sales by another 35,553 units (5% of its FY21F sales). ASII's market share should stay solid, as interest in low-cost green cars – where it is a major player – should return.

Prolonged government support continues as the 100% PPnBM discount has been extended to the year-end. Previously, the incentive was scheduled to end in August, and the 25% luxury tax discount would be in effect from September to December. The extension is a positive, as this should continue to boost 4W wholesales for the rest of the year. On the other hand, the Association of Indonesia Automotive Industries (GAIKINDO) still maintains its national sales estimate for 2021 at 750,000 units (+41% YoY) – implying sales of a minimum c.52,000 units/month until December (compared to the YTD average of c.67,900 units/month) – which should be more than feasible.

Figure 23: Details on luxury tax (PPnBM) cuts

Engine size and segment	Period	Tax incentives	Luxury tax rate imposed
≤1,500 cc (4x2 and sedans)	March-December	100% discount	0% for 4x2 and sedans
1,501-2,500 cc (4x2)	April-December	50% discount	10% for 4x2
1,501-2,500 cc (4x4)	April-December	25% discount	30% for 4x4

Source: Ministry of Industry, RHB

♦ We hope the implementation of the PPnBM incentive will boost national 4W vehicle sales this year to 750,000 units (+41% YoY)

Figure 24: List of 4W vehicles that are eligible to receive PPnBM discounts (local content ranging 60-70%)

≤ 1,500 cc engine size		
	% market share to sub-segment	% market share to national wholesales
Sedan		
Toyota Vios	21.9%	0.1%
4x2		
Toyota Avanza	13.9%	4.7%
Toyota Rush	10.8%	3.7%
Mitsubishi Xpander	8.3%	2.8%
Mitsubishi Xpander Cross	6.7%	2.3%
Honda HR-V	6.6%	2.2%
Honda Brio RS	5.6%	1.9%
Daihatsu Terios	5.6%	1.9%
Daihatsu Gran Max Minibus	5.2%	1.8%
Suzuki XL7	4.8%	1.6%
Honda Mobilio	3.3%	1.1%
Daihatsu Xenia	3.3%	1.1%
Suzuki Ertiga	2.3%	0.8%
Wuling Confero	1.8%	0.6%
Honda CR-V	1.8%	0.6%
Toyota Yaris	1.4%	0.5%
Honda BRV	0.9%	0.3%
Daihatsu Luxio	0.3%	0.1%
Toyota Sienta	0.2%	0.1%
Nissan Livina	0.1%	0.1%
Toyota Raize	0.1%	0.1%
Daihatsu Rocky	0.1%	0.1%
Honda City Hatchback	0.1%	0.1%

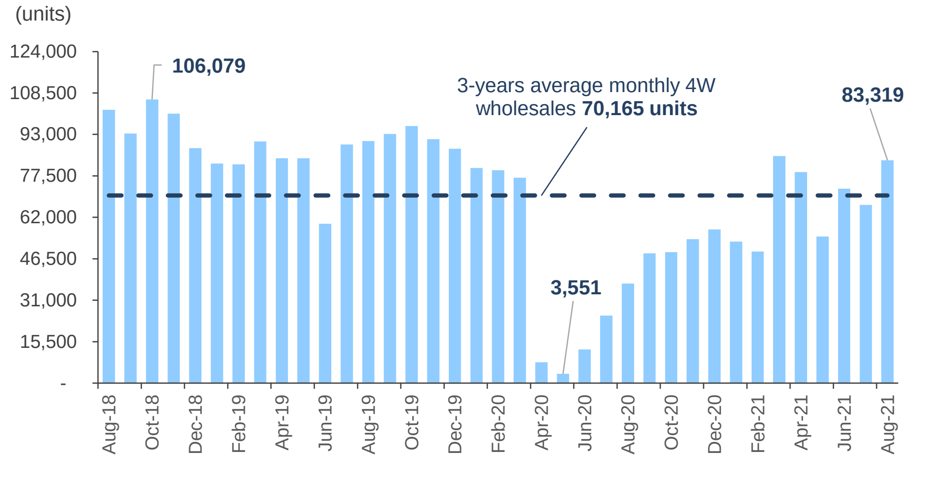
1,501 - 2,500 cc engine size*		
	% market share to sub-segment	% market share to national wholesales
4x2		
Toyota Innova	51.7%	6.4%
Toyota Fortuner	19.2%	2.4%
Honda H-RV	2.2%	0.3%
Honda C-RV	0.3%	0.0%
4x4		
Toyota Fortuner	20.4%	0.1%

*Note 2: *4W list for 1,501-2,500 cc engine size might be subject to further changes from the Government*
Source: GAIKINDO, RHB

- Toyota Astra Motor revealed that the implementation of a lower PPnBM significantly boosted 4W vehicle sales in early March

4W vehicles wholesales likely to accelerate ahead. The Ministry of Industry has estimated that the extension of the luxury tax incentive will boost auto sales by another 35,553 units, which is equivalent to about 5% of its FY21 sales target. As social distancing restrictions have been relaxed, auto and parts makers should be increasing the active workforce at their facilities – which will boost monthly production. For some new models and popular variants (eg Toyota Raize and Daihatsu Rocky), the time between a purchase and delivery of the vehicle itself has been as long as 2-3 months.

Figure 25: Indonesia's 4W sales trend

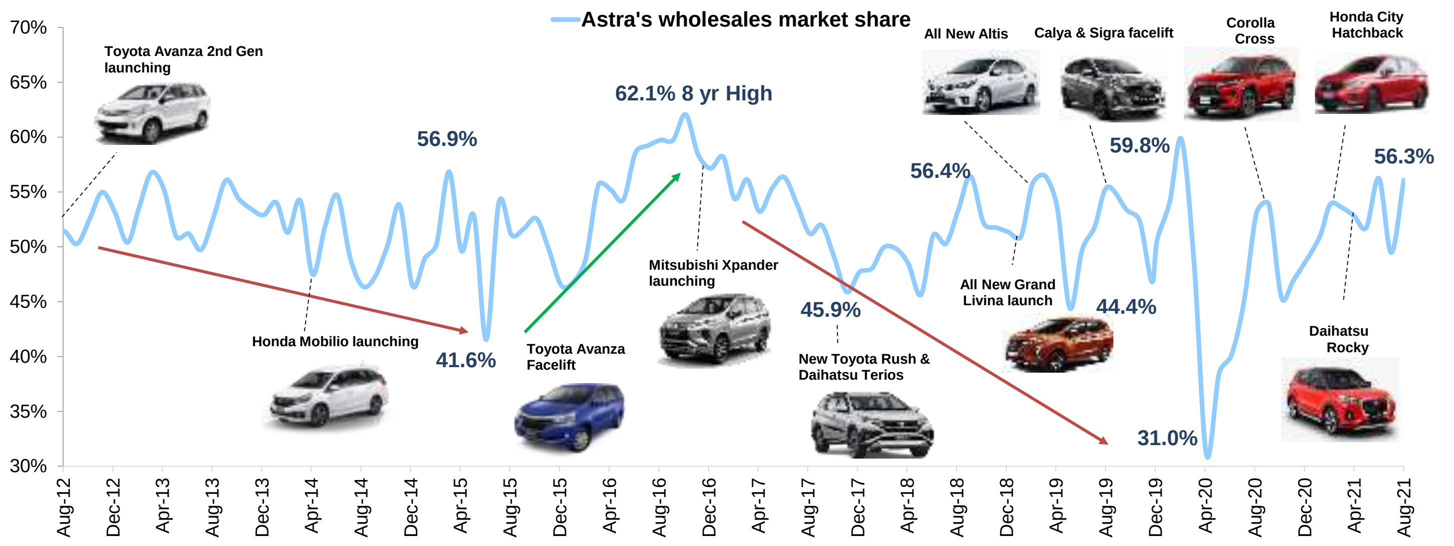


Source: Company data, RHB

- The momentum of 4W vehicle sales growth has been relatively sustained after hitting a high in March – and again in August
- There was a mild MoM correction, due to seasonal factors related to *Ramadan* and strict lockdown measures during July-August – the stimulus measures related to the luxury tax and eased lockdown partly alleviated the negative impact, in our view

ASII's market share will remain strong, as sentiment towards low-cost green cars (where it has booked some of the biggest market share gains) should rebound, thanks to the luxury tax discount exemption. This should offset any negative perceptions from car buyers over the implementation of a new emissions-based tax, which will take effect from 16 Oct onwards. Note that low-cost green cars have been exempted from tax since 2013. Furthermore, ASII's efforts to grow margins by tweaking its product mix towards higher-priced models will be supported by sales of mid-MPVs and SUVs being propped up. Most of ASII's 4x2 1,500cc products (from Toyota and Daihatsu) are eligible for the PPnBM discount. These marques are already enjoying pole positions in their respective auto segments. Such factors should help to secure ASII's market share dominance (8M21: 53.3%). Separately, its management has revealed that its 4W supply is still manageable, and insulated enough from the problem of a global shortage in semiconductor chips for automobiles.

Figure 26: ASII's wholesales market share trend



Source: Company data, RHB

Key downside risks: i) Tougher competition in the MPV and SUV segments; ii) a rise in daily new COVID-19 cases; and iii) new competitors entering the fray, eg Hyundai Motors Indonesia. Positive catalysts for the sector are easier financing (low interest rates) and further benchmark rate cuts.

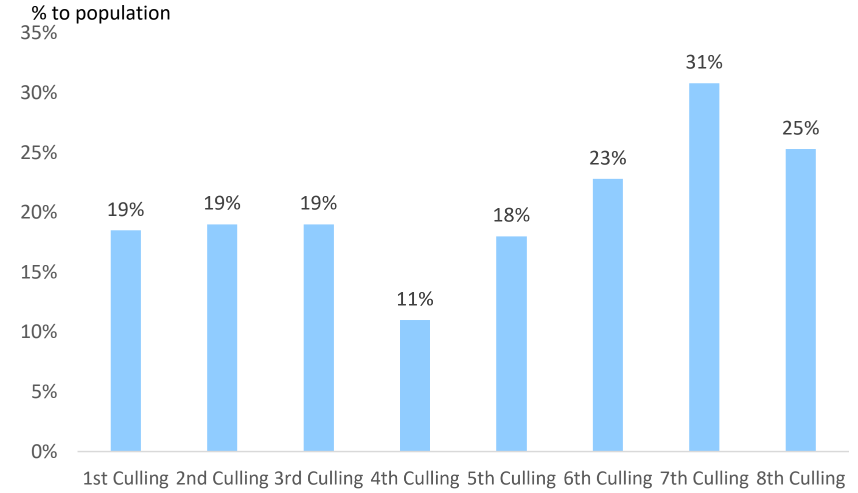
Poultry (OVERWEIGHT): Higher sales volumes

Analysts: Michael Setjoadi, Marco Antonius

Upgraded to OVERWEIGHT from Neutral; Top Pick: Japfa Comfeed (JPFA). With COVID-19 cases on a decline, the reopening of the economy should support chicken consumption – potentially reducing the level of culling required by the Government. This should lift day-old chick (DOC), broiler and feed sales volumes. Recent data suggests the DOC price cap should provide investors opportunities to buy on dips. Also, lower soybean prices should offset higher corn prices (now IDR5,500/kg). 4Q21F results are expected to be strong, supported by volume recovery and stable prices.

Demand spiked up due to September's lower culling rate. Our ground checks indicate that chicken prices rose by 2% MoM – relatively stable despite the Government lowering culling levels for the month (30.8%; Aug 2021: 25.3%). This translated to a 6.6m increase in DOC final stock (FS) MoM, or a 3% MoM increase. If the trend continues, we should see a 20% QoQ growth in DOC and broiler sales volumes, which should also point to higher feed sales volumes.

Figure 27: Lower culling rate post PPKM relaxation



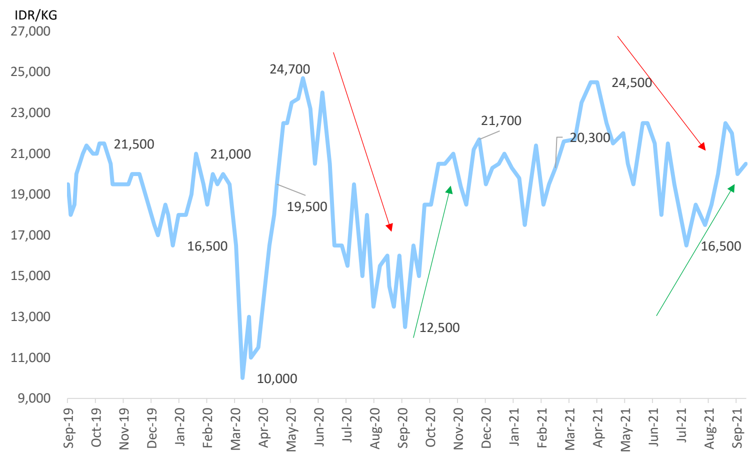
Source: Ministry of Agriculture, RHB

- The culling rate peaked in the seventh round, between 7 Aug and 4 Sep. This was due to soft broiler ASPs
- The culling rate was at its lowest during fourth round (24 Mar-8 May), as broiler prices were at a peak during *Ramadan*

Surging domestic corn prices could be offset by normalising soybean prices. Heavy rainfall – expected in Oct-Nov 2021 – may decrease the corn harvest during the period, thereby keeping its prices buoyed. There has been news about a potential price ceiling on corn prices, but this is only for independent farmers (c.20% of corn feed usage). Corn accounts for c.30% of sector feed production costs (soybean accounts for another 30%). On a brighter note, the price of soybean has come off its peak by 13% since mid-2021. About 40-50% of the poultry sector's raw materials, including soybean, are imported.

Seasonally higher chicken consumption towards the year-end, supported by economic reopening. Based on the latest Google mobility index, the nation's retail activities have recovered over the past month, and are only 4% below pre-pandemic levels. Given the short shelf life of chicken inventories, previous movement control measures significantly lowered broiler farm gate prices, which led to the Government increasing the culling mandate. The reopening of the economy could reduce the culling rate and support broiler prices – which would then widen feed sales volumes (higher absolute EBITDA for feed) and broiler/DOC margins.

Figure 28: Broiler price trend in Java



Source: Arboge, RHB

- Broiler prices began recovering in August, after the Government mandated the highest culling rate in this year, at 45%
- Broiler prices are currently at around IDR20,500/kg

Better earnings visibility ahead, higher inter-segment sales. Inter-segment sales for Charoen Pokphand Indonesia (CPIN) and JPFA grew by 5-7ppts YoY for feed and 9% for DOC in 1H21. This indicates more broiler farmers are seeking to become plasma farmers for security (better fixed margins) amid st highly uncertain conditions – as the imposition of movement restrictions could result in volatile chicken prices. 61% and 70% of CPIN's feed and DOC revenue are generated from inter-segment/plasma farmers (vs 54% and 61% for JPFA). Higher inter-segment sales translate to better earnings visibility, which could warrant a sector P/E rerating, in our view.

Recently, the Trade Ministry asked industry players to cap DOC prices at IDR6,000 for farmers, as broiler prices are still at IDR19,000/kg as guided by the Government. As such, the Government has also discouraged companies from increasing feed prices. This negative sentiment should provide a good entry point, when there is a sell-off in the sector – since the Government's stance on feed prices is only a recommendation, and there will be no penalty given for farmers who lift feed prices. The poultry sector's 2H21 earnings may likely still be supported by higher chicken prices, as economic activities recover.

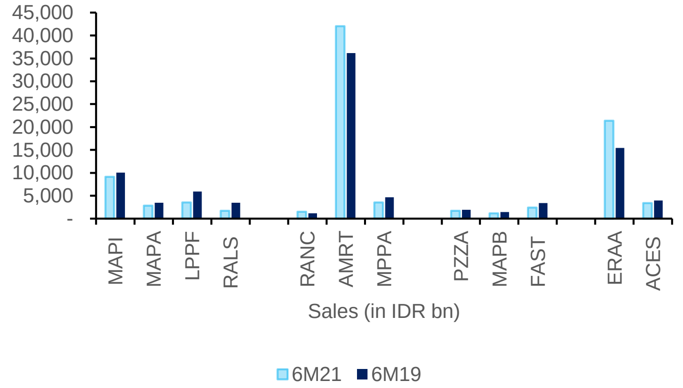
Consumer (NEUTRAL): Procyclical 4Q21 outlook

Analysts: Michael Setjoadi, Indonesia Research Team, Marco Antonius

OVERWEIGHT on Retail, and UNDERWEIGHT on Staples and Tobacco; Top Picks: Matahari Putra Prima (MPPA) on digital collaboration and Mitra Adiperkasa (MAPI) on mall traffic recovery. Recovering economic activities seen through the higher Google Mobility Index over the past month, especially retail & recreation, as COVID-19 rates decline, provide stronger catalysts for cyclical higher-growth stocks. However, the suspension of the Government's cash social assistance (BST) of IDR300,000/month may temporarily weaken demand among the retailers catering to the mid- to low-income segments. Maintain NEUTRAL on the sector overall.

Pinning hopes on a strong economic recover. Seasonal factors and the accelerated pace of vaccinations should boost traffic in 4Q21. We believe retailers, especially those with high exposure to the mid- to high-income segments should perform well – given resilient purchasing power, as well as the minor impact of the Government's BST suspension. From our observation, we note that retailers targeting the mid- to high-income segments have shown a faster recovery, with 1H21 sales reaching around 80-90% of 1H19 levels. Also, retailers with solid digitalisation initiatives should continue to gain momentum, as online shopping is expected to remain popular going forward.

Figure 29: Most retailers are already seeing a strong recovery – 1H21 sales reached >70% of pre-pandemic (1H19) levels



Source: Company data, RHB

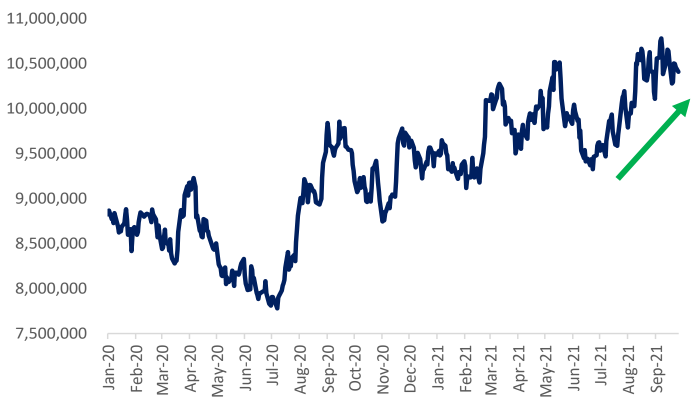
Figure 30: Traffic to retail facilities also has started to pick up

Source: Google , RHB

MAPI and MPPA are our Top Picks in the retailing sector. MAPI should enjoy sturdy growth in 4Q21, which is generally its strongest quarter of the year – we expect c.25% YoY growth. High exposure to key cities that have already achieved high vaccination rates and have a high number of new brand openings and launches such as Subway, Index Living and Footlocker should boost its 4Q21 numbers. MPPA's online initiatives such as further onboarding in HappyFresh, Bukalapak, and Lazada, as well as hybrid offline stores and the acquisition of ex-Giant stores in 4Q21 should be share price catalysts, too.

Staples (UNDERWEIGHT): Expect weaker margins in 2H21, while soft commodity prices remain high, averaging growth of 3.2% QoQ or 14% YoY. 2Q21 is testament to higher commodity prices impacting margins, as the sector saw an average of a 1.5ppt YoY decline in gross margins. Although it was widely expected, prolonged high commodity prices at this level was a surprise, thereby providing a further downside risk to 2H21F earnings. Among the consumer staples stocks under our coverage, Mayora Indah (MYOR) saw the steepest decline in 2Q21 margins.

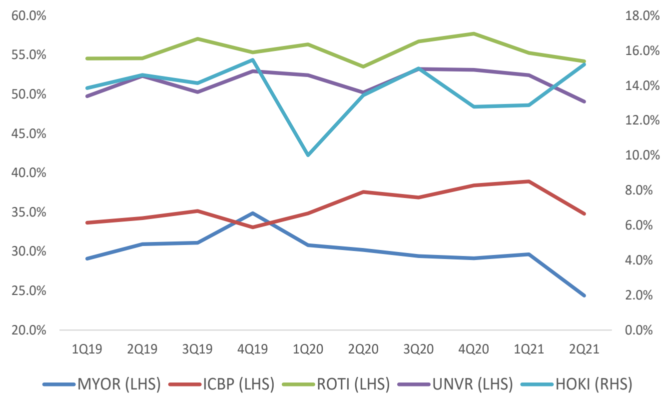
Figure 31: Soft commodity prices remain elevated…



Note: The index is a simple average of spot/contract prices of coffee, wheat, CPO, sugar, cocoa in IDR

Source: Bloomberg, RHB

Figure 32: … and continue to pressure staples margins ahead



Source: Company data, RHB

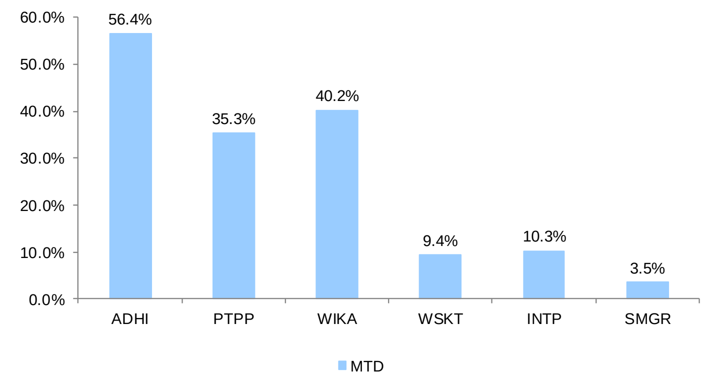
Tobacco: All eyes on 2022F excise tariff announcement. This is expected to be announced in October, for which we estimate a 10-12% excise tariff for Tier-1. These in-line or lower-than-expected rates should provide support to the sector's share price performance, as Hanjaya Mandala Sampoerna (HMSP) and Gudang Garam (GGRM) have underperformed JCI by 27-36% YTD. We prefer HMSP, with a historically low valuation gap compared to GGRM and its 8% dividend yield.

Cement & Construction (OVERWEIGHT): Likely to close 2021 with strong results

Analysts: Ryan Santoso, Indonesia Research Team

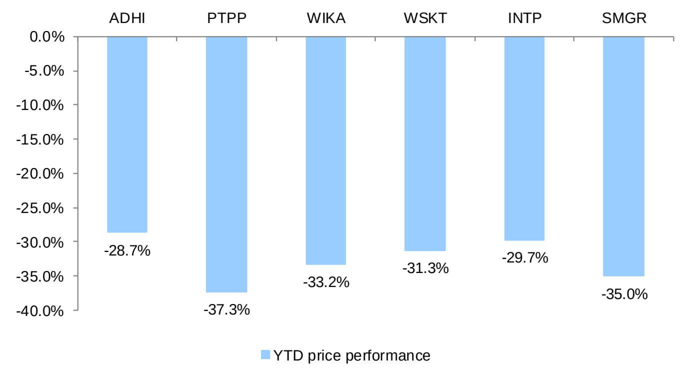
Top Picks are Pembangunan Perumahan, Adhi Karya and Indocement. We expect infrastructure spending to pick up, as the Indonesian Government has relaxed social restrictions, which should also boost cement demand. Property companies are also recording robust pre-marketing sales. However, rising coal prices may increase cement companies' COGS – but they are likely to pass on the hike to customers. The rising energy costs should be partially offset by higher operating leverage, as cement sales are set to grow.

Figure 33: Share price performance since August



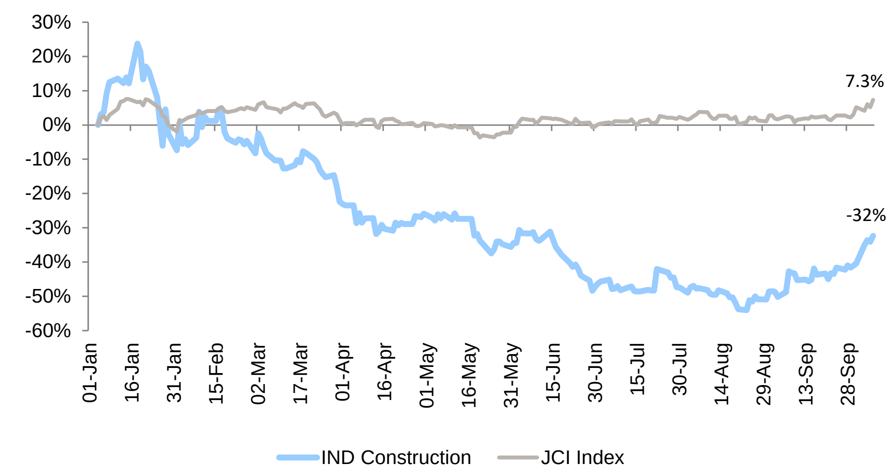
Source: Company data, RHB

Figure 34: YTD share price performance



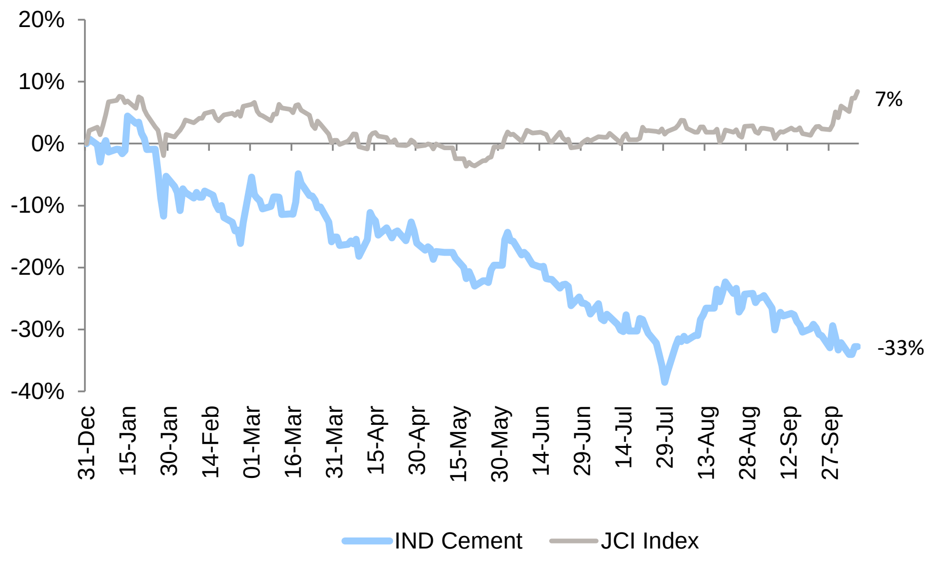
Source: Company data, RHB

Figure 35: Performance of the Indonesian construction sector vs JCI



Source: Company data, RHB

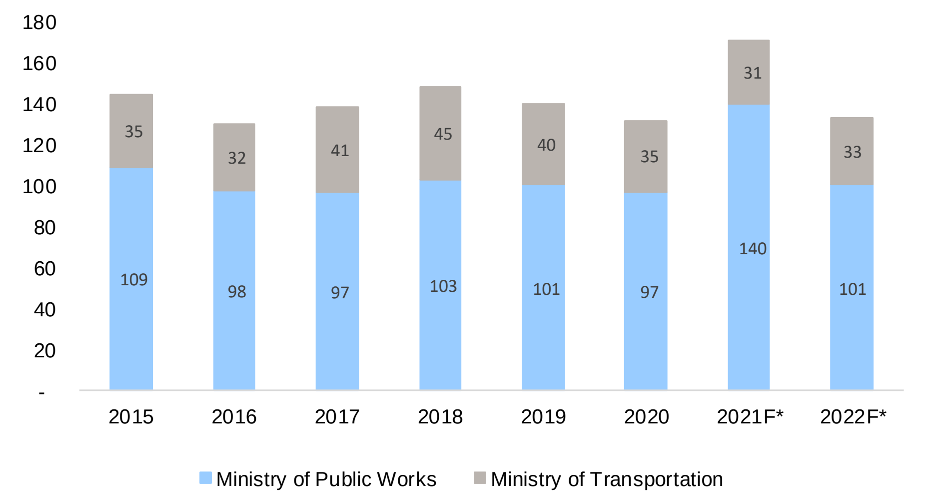
Figure 36: Performance of the Indonesian cement sector vs JCI



Source: Company data, RHB

Expect higher infrastructure budget realisation until end-2021. The Ministry of Public Works and Ministry of Transportation have spent 49.8% and 50.3% (translating to IDR69.6trn and IDR15.8trn) of their full-year budgets as of YTD-August. The Government is intent on ramping up infrastructure works, and we are optimistic that spending will reach 90% of their full-year budgets by year-end. This translates to IDR68.7trn for the construction sector. We are upbeat on the sector, as activities have likely accelerated – as indicated by three straight months of cement sales growth.

Figure 37: State budget realisation (IDRtrn)



**Note: Budget*
Source: Company data, RHB

- Up to August, the Ministries of Public Works and Transporation have spent 49.8% and 50.3% of their 2021 budgets
- Assuming budget realisation reaches 90% at the end of the year, the Ministry of Public Works and Ministry of Transportation will likely spend IDR126trn and IDR28trn
- The budget for the Ministry of Public Works in 2022F has declined to IDR101trn. However, if the amount is spent fully, the impact to the construction sector should be minimal – as we expect private sector job orders to recover

More funds for projects that upgrade infrastructure. The Government has approved a state capital injection of IDR52trn for eight state-owned enterprises. Of this, IDR15.2trn will be allocated to Hutama Karya, to ramp up works on the Trans-Sumatra Toll Road. Adhi Karya is also likely to benefit from these funds, and can expect a minimum of IDR3.1trn for its work on the Sigli-Banda Aceh Toll Road. Meanwhile, about IDR7.9trn will be allocated to Waskita Karya, in order for it to continue working on seven existing toll road projects (one in Sumatra and six in Java).

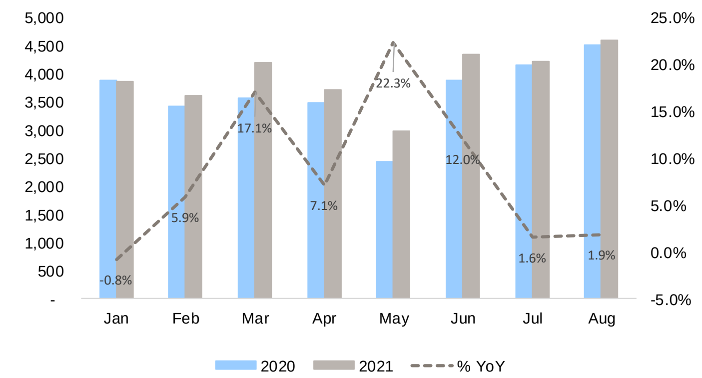
Figure 38: State capital injections in 2021

	SOE	Total (IDRtrn)	Details
Phase 1	Hutama Karya	3.1	Sigli - Banda Aceh
		2.7	Lubuk - Linggau - Curup - Bengkulu
		0.4	Kuala Tanjung - Tebing Tinggi - Parapat
	Pelindo	1.2	Port development
	Pengembangan Pariwisata Indonesia/ Indonesia Tourism Development Corporation (ITDC)	0.5	Basic infrastructure
	Kawasan Industri Wijayakusuma (KIW)	1.0	Industrial estate
	PAL Indonesia	1.3	Submarine
	PLN	5.0	Substation transmission
	Indonesia Fianncial Group (IFG)	20.0	N/A
2021 - Phase 2	Waskita Karya	7.9	Working capital improvement
	Hutama Karya	9.0	Most Trans Sumatra Tollroad
	Total	52.0	

Source: Company data, RHB

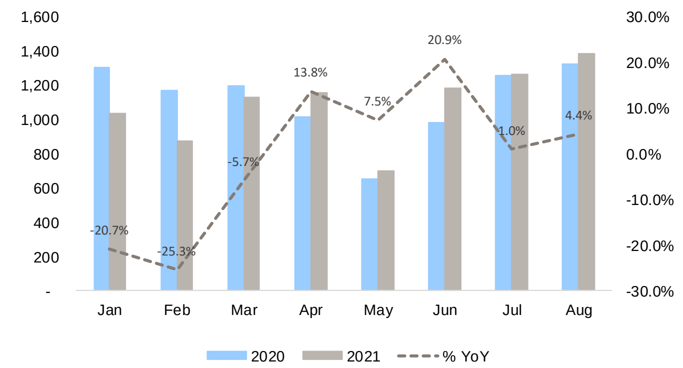
Cement demand likely to accelerate. Property companies' robust pre-marketing sales and the ramp-up in infrastructure spending should boost cement sales as well. The Indonesia Cement Association reported that cement sales for 8M21 picked up after social distancing measures were relaxed. 8M21 domestic cement sales grew 5.7% YoY to 40.5m tonnes. Cement sales in Java rose by only 3.4% YoY due to COVID-19-related restrictions there, but sales in Sumatra increased by 5% YoY. Sales in other parts of Indonesia grew 11.8% YoY in the same period.

Figure 39: Cement bag sales



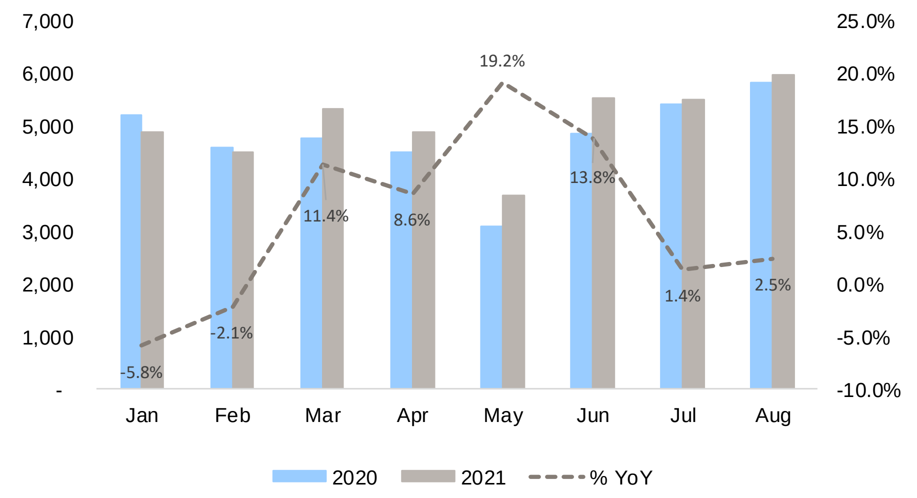
Source: Company data, RHB

Figure 40: Cement bulk sales



Source: Company data, RHB

Figure 41: National cement sales



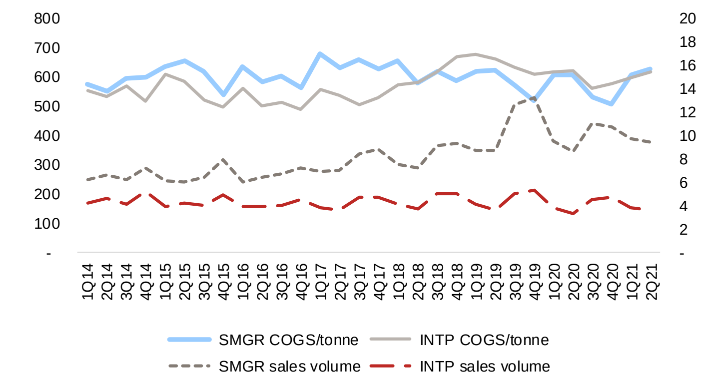
Source: Company data, RHB

Figure 42: 9M21 Marketing sales (IDRbn)

Source: Company data, RHB

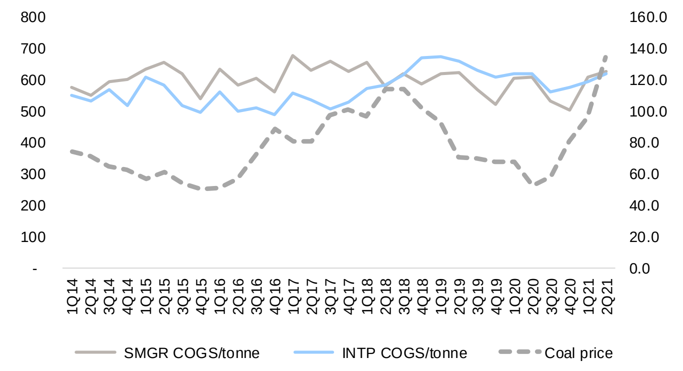
Higher coal prices to be partially offset by better operating leverage. Our FY21F coal ASP is at c.USD125.00/tonne (+108% YoY). However, the impact of demand on ASPs this year should be less severe, because companies are still using coal purchased in older orders. The cement players should be able to keep their rising COGS/tonne under control slightly, if they increase production. That said, the COGS/tonne increase may burden the smaller cement players, which operate at lower efficiency rates vs market leaders Semen Indonesia (SMGR) and Indocement (INTP). In our analysis, every 1% coal price increase may raise INTP's COGS/tonne by 0.2% and SMGR's by 0.3%, *ceteris paribus*.

Figure 43: Sales volume vs COGS/tonne



Source: Company data, RHB

Figure 44: Coal price vs COGS/tonne



Source: Company data, RHB

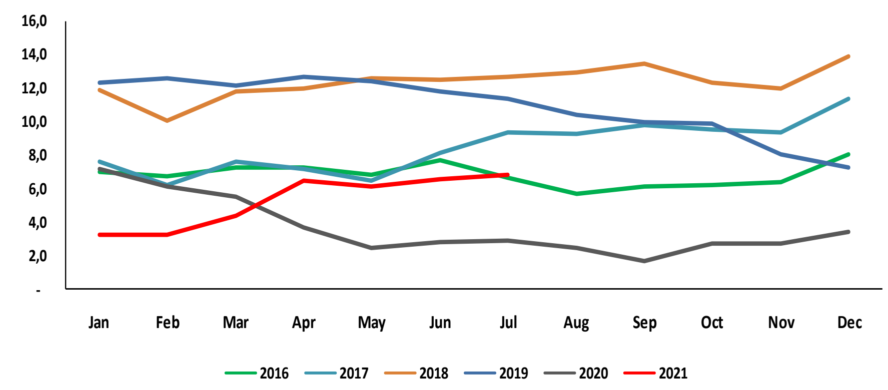
Property (OVERWEIGHT): 4Q21 marketing sales are on the mend

Analysts: Indonesia Research Team, Shelly Setiadi

OVERWEIGHT, Top Picks: Ciputra Development (CTRA) and Summarecon Agung (SMRA). We expect sector metrics to improve over 4Q21-2Q22, at the least. Low interest rates, supportive industry measures and the relaxation of lockdown restrictions should boost marketing sales in 4Q21. Of our Top Picks, SMRA has a more attractive market valuation, while a positive catalyst should be its Bogor project. Meanwhile, CTRA has a stronger balance sheet and greatly diversified landbank. Downside risks: Faster-than-expected rate hikes and a worsening COVID-19 situation.

Low interest environment and supportive policies. Over the past three years, Bank Indonesia has embarked on an expansionary policy and decreased the benchmark interest rate, to encourage economic growth and make housing more affordable. Since hitting a peak of 6% in 2018, the benchmark rate has been reduced to 3.5%. As such, the low interest rate environment should provide a major support for the property industry, as it will help mortgage-type home buyers. To increase mortgage loan growth, the Government has also issued several policy packages that cover measures regarding a value-added tax (VAT), a luxury tax, and the relaxation of requirements for foreign ownership of real estate.

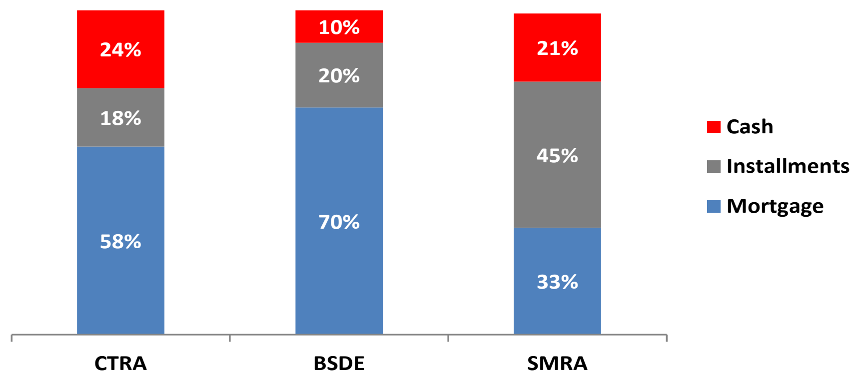
Figure 45: Growth trend of mortgage loans



Source: Bank Indonesia

- Mortgage loan growth in 1H12 was bolstered by favourable low interest rates, supportive incentives for the property sector, and the relaxation of social distancing measures. We expect this growth to continue for the rest of the year, at least

Figure 46: Payments for property purchases according to type

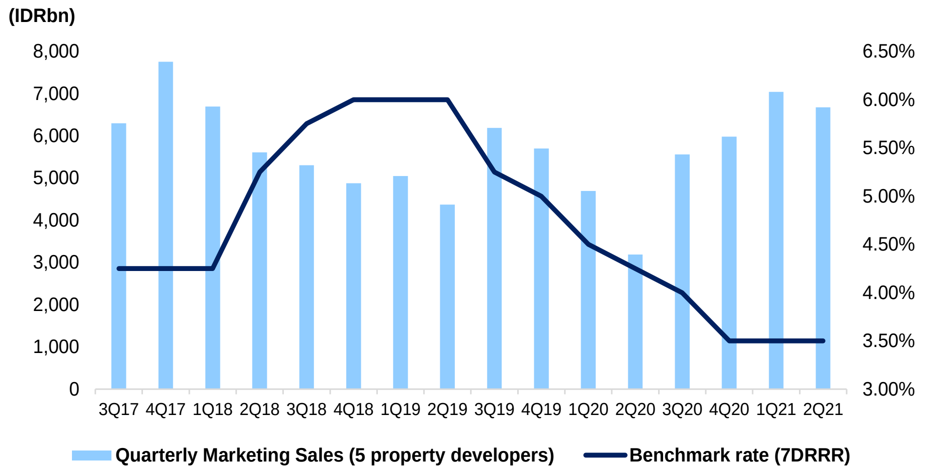


Source: Company data, RHB

- Payments were largely dominated by mortgage and instalment formats, and were relatively sensitive to interest rate conditions

Marketing sales to further improve in 4Q21. After the Delta variant began its rampage across the world, new COVID-19 infections peaked in July. In response, the Indonesian Government tightened social distancing and movement restrictions. That said, we expect sector marketing sales to gradually improve from early 4Q21 onwards, with landed homes' prices being at IDR1-2bn. At present, the property companies under our coverage have achieved 72% of their full-year marketing sales targets, on average.

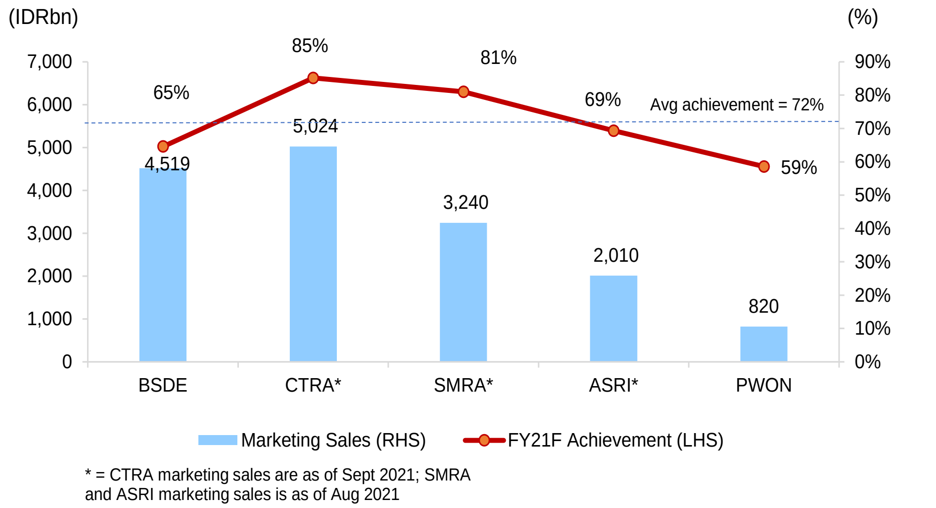
Figure 47: Marketing sales trend vs benchmark rate



Source: Company data, RHB

- Marketing sales improved for the last four quarters after the COVID-19 pandemic began, due to the low benchmark interest rate
- Marketing sales began slowing down when Indonesia went through the second wave of COVID-19 infections
- Marketing sales are expected to improve in 3Q21 and 4Q21

Figure 48: Marketing sales vs FY21 targets

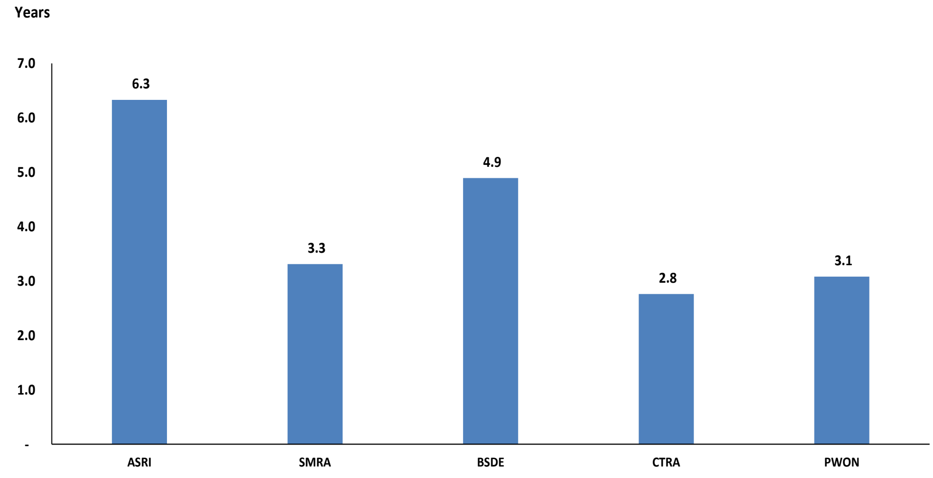


Source: Company data, RHB

- On average, marketing sales (as of Sep 2021) of the five companies under our coverage accounted for 72% of the collective FY21 marketing sales target

Landed residential properties over high-rise units. Demand for housing will still be dominated by landed houses, with that from end-user buyers remaining resilient. Demand from investor buyers should be stagnant – just like in 2020. The preferred price range is about IDR1-2bn for landed houses in Greater Jakarta, and up to IDR2bn for small condominiums near Jakarta's central business district. Property developers have mentioned that they have either limited or even stopped new high-rise launches for 2021.

Figure 49: Inventory turnover for property companies

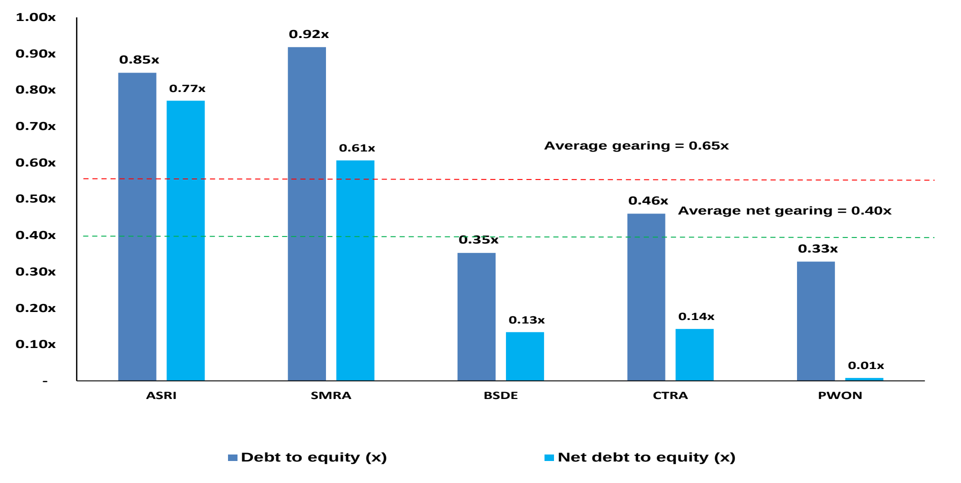


Source: Company data, RHB

- SMRA and CTRA have among the fastest inventory turnover, for the real estate developers under our coverage

Positive sales growth momentum to continue. As the rate of COVID-19 infections has become more manageable in 2H21, we expect sector marketing sales to pick up over the remainder of the year. While we acknowledge that interest rates may rise, this increase should only kick in come 2H22. Catalysts for both CTRA and SMRA should stem from strong marketing sales, supported by affordable housing products.

Figure 50: Property companies' leverage positions



Source: Company data, RHB

- CTRA, Bumi Serpong Damai (BSDE) and Pakuwon Jati (PWON) have a much stronger leverage position

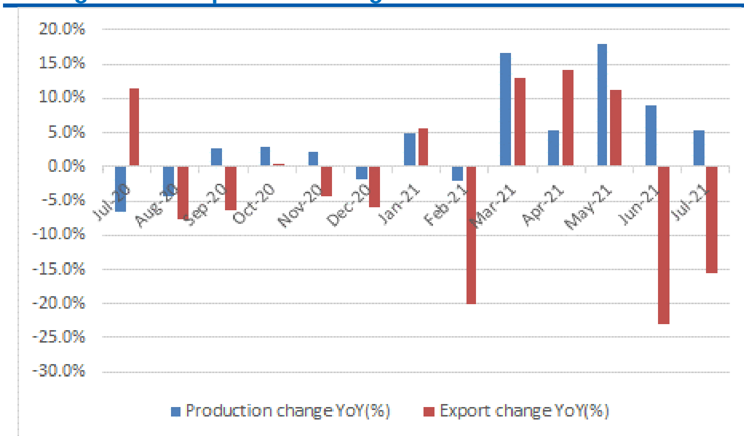
Plantation (NEUTRAL): Focus is on normalised future earnings

Analyst: Hoe Lee Leng

CPO prices remain buoyant at current levels, due mainly to the still-disappointing production numbers from Malaysia (down 9% YoY in YTD-August). We still maintain that prices are due for a correction in 4Q21F, as supply and demand fundamentals are improving.

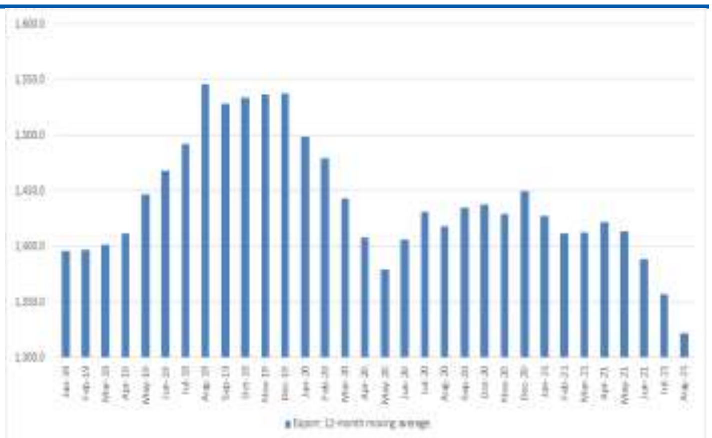
First, we note that despite the weak production in Malaysia, exports were down by a larger 13.7% YoY in YTD-August. This indicates that export growth is still not back to pre-pandemic levels, given the continued impact of COVID-19 on the hotel, restaurant and café (HORECA) sector globally, as well as the impact of the reduction in demand for discretionary biodiesel. Monthly exports of palm oil from Malaysia as well as Indonesia are still 10% lower than pre-COVID-19 levels currently. This reduction in demand led to stock/usage ratios recovering to the 18-year historical average of 9.8% in August – indicating that we are no longer in a tight stock situation in Malaysia.

Figure 51: Malaysia and Indonesia PO output vs export change YoY – Exports declining at a faster rate



Source: MPOB, Indonesian Palm Oil Association (GAPKI)

Figure 52: Malaysia monthly exports – Lower than pre-COVID levels



Source: MPOB

Second, we stress that production in Indonesia in YTD-July was strong (+15.6% YoY), while exports rose by just 1.2% YoY in the same period. Stock/usage ratios in Indonesia are also currently above the 3-year historical average, at 2% (vs the average of 1.9%). The continued strong output from Indonesia is expected to more than offset the shortfall in Malaysia, with global palm oil stock/usage ratios projected by Oil World to rise to 16.7% in 2021F (from 16.5% in 2020), then to 17.4% in 2022F.

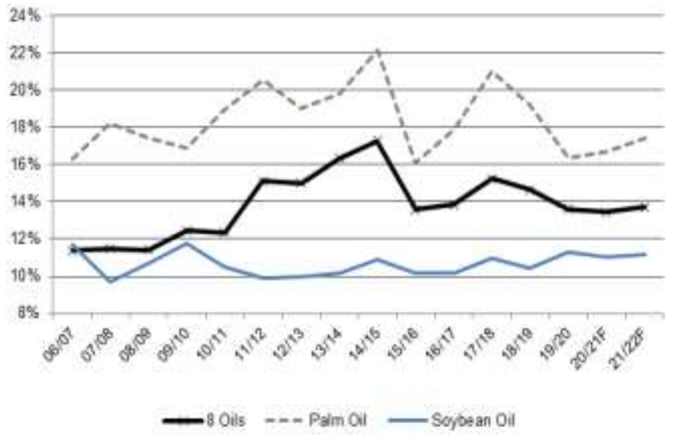
Figure 53: Palm oil stock/usage ratio is rising

PALM OIL : World Supply & Demand (Mn T)

	Forecast	October/September			
	21/22F	20/21	19/20	18/19	17/18
Op'g stocks	12.67*	12.63	14.91	14.62	11.70
Production	79.76*	75.83*	74.16	77.99	73.68
Imports.	52.72*	50.88*	50.74	55.35	50.50
Exports	53.03*	50.69*	50.78	55.25	51.47
Consumption . . .	78.45*	75.98*	76.38	77.81	69.78
End stocks	13.66*	12.67*	12.63	14.91	14.62
Stocks/usage	*17.4%*	*16.7%*	*16.5%*	*19.2%*	*21.0%*

Source: Oil World

Figure 54: Stock/usage ratio is rising for the 8-vegetable oil composite



Source: Oil World

Third, we highlight that recent revisions to soybean production forecasts by Oil World and the US Department of Agriculture have been upward in nature, with higher output coming from both the US and South America. Oil World now expects global soybean output to be at 359.55m tonnes in 2021 (revised up by 1.4% from March), before further increasing by 4.7% YoY in 2022F to 376.5m tonnes. Stock/usage ratios for soybean are, therefore, expected to rise in 2022 to 26.6% (from 26.5% in 2021F). With this improvement in soybean output projections, soybean prices have retreated significantly (down 25% in four months) and the price gap between CPO and soyoil is now back to "normal" levels of USD153.00 per tonne, indicating that CPO no longer has a price advantage over soyoil.

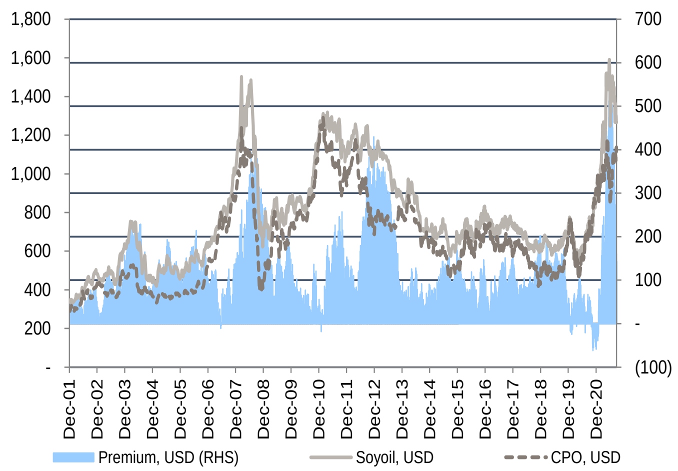
Figure 55: Soybean stock/usage ratio is improving

SOYBEANS : World Supply and Demand (Mn T)

	21/22F	20/21	19/20	18/19
Opening stocks	95.71*	97.21	111.78	94.00
Production	376.45*	359.55	339.65	361.81
N. Hemisphere	*166.71**	*161.58*	*144.57*	*169.60*
EU-27	2.87*	2.63	2.75	2.85
Russia	4.57*	4.52*	4.50*	4.03
Ukraine	3.28*	3.10*	4.70*	4.80*
Canada	5.89	6.36	6.15	7.42
U.S.A.	119.04*	112.55	96.67	120.51
China, P.R.	15.61*	17.85	15.97	14.34
India.	9.80*	9.30*	8.50*	10.50*
S. Hemisphere	*209.74**	*197.97*	*195.08*	*192.21*
Argentina	46.50*	43.80*	49.40*	54.30*
Brazil	144.50*	137.20*	128.40*	121.60*
Paraguay	10.70*	9.30*	10.24	8.52
Uruguay.	2.56*	2.06*	2.25*	2.98*
Total supply	*472.16**	*456.76*	*451.43*	*455.81*
Crush (Sept/Aug) .	326.72*	316.20*	310.73	301.95
Other use	46.14*	44.85*	43.49	42.08
Ending stocks	99.30*	95.71*	97.21	111.78
U.S.A. Aug 31	6.50*	4.90*	14.28	24.74
Argentina Aug 31	34.28*	34.20*	32.94*	32.90*
Brazil Aug 31	33.64*	32.20*	24.82*	37.56*
Other countries	24.88*	24.41*	25.17*	16.58*
Stocks/usage	26.6%	26.5%	27.4%	32.5%

Source: Oil World

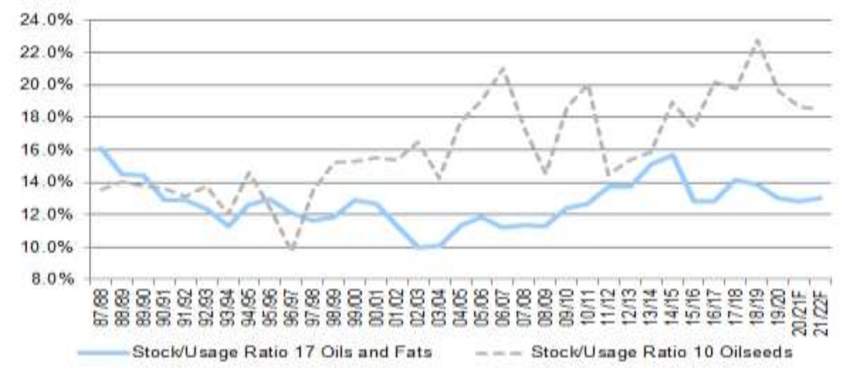
Figure 56: Palm oil is trading at a discount of USD153.00/tonne to soybean oil (from USD327.00/tonne discount last month)



Source: Bloomberg

Fourth, we note that stock/usage ratios for the 17 Oils and Fats are now above historical averages. On a combined basis, the 17 Oils and Fats composite output is, therefore, expected to improve by 1.1% YoY in 2021, then by a further 3.7% YoY in 2022F. This will bring stock/usage ratios to 12.8% in 2021F and 13% in 2022F. This is higher than the 30-year average of 12.6%. Based on these factors above, we believe the fundamental factors are pointing to a weaker year for prices in 2022, with a moderation to start from 4Q21, which coincides with the peak oil palm output season as well as the US soybean crop harvest and the Indian *kharif* crop harvest.

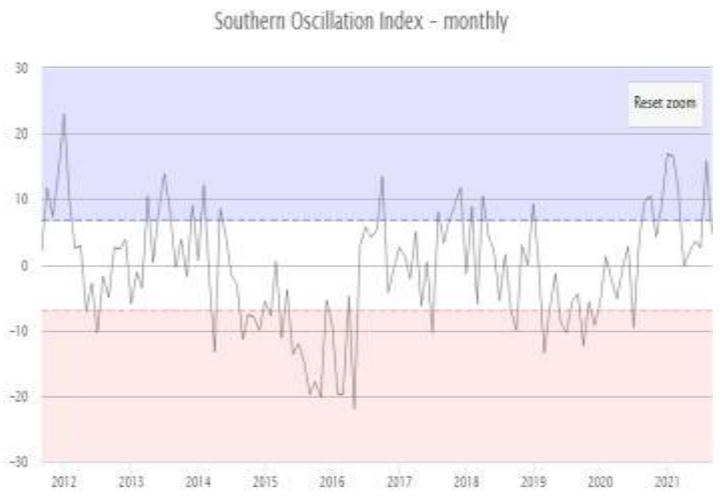
Figure 57: Stock/usage ratio of 17 Oils and Fats is above historical averages



Source: Oil World

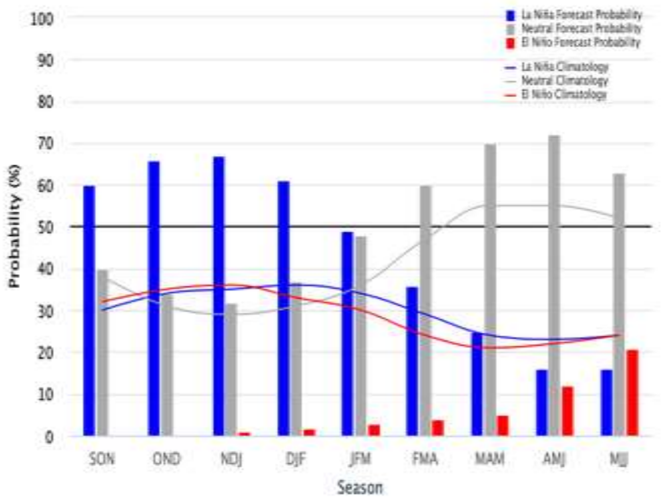
Largest risk is weather – as a *La Nina* watch has been triggered recently, with a 67% probability of *La Nina* occurring over Nov 2021-Jan 2022. Some of these models predict that a *La Nina*, if it emerges, could persist through to Feb-Apr 2022. Should this occur, it could have a damaging effect on crops in the Northern Hemisphere – particularly on the soybean planting season in South America, which starts in November. This could also have a positive impact on soybean prices, which could in turn influence other vegetable oils.

Figure 58: Southern Oscillation Index is in neutral zone



Source: Australian Bureau of Meteorology

Figure 59: Probability of *La Nina* occuring in Nov 2021-Jan 2022 is at 67%



Source: University of Columbia

We maintain our NEUTRAL call on the Indonesian planters. In the short term, with share prices finally moving on the back of high CPO prices, we would continue to ride the rally and find a good opportuniry to lock down some profits. In the medium term, we believe that ESG concerns will continue to weigh on sector share prices, while investors will continue to ignore the current supernormal earnings, focusing instead on “normalised” future earnings. In Indonesia, we like London Sumatra (LSIP IJ, BUY, TP: IDR1,530) over Astra Agro Lestari (AALI IJ, NEUTRAL, TP: IDR8,800), due to its younger age profile, lower cost structure and relatively inexpensive valuations. Upside risks include better-than-expected weather conditions, a beneficial reversal of the crude oil price trend, Malaysian labour shortages being solved quicker than expected, and ESG concerns toning down.

Healthcare (NEUTRAL): Weighting cut due to subsiding COVID-19 cases

Analysts: Indonesia Research Team, Michael Setjoadi

NEUTRAL; Top Pick: Medikaloka Hermina (HEAL). We see soft growth for hospital players and pharmaceutical companies in 4Q21, given the improving COVID-19 situation. Hospital players' QoQ and YoY margins should be under pressure, owing to the anticipated decrease in COVID-19 cases in the last quarter of 2021. Despite rising health awareness – translating to higher demand for health supplements – we expect the impact to be less than the previous quarters for pharmaceutical players. We also see possible USD/IDR depreciation towards end-2021. HEAL remains our Top Pick due to its solid growth profile, undemanding valuation, and nationwide presence.

More manageable COVID-19 situation to pressure hospital players' earnings. MTD October numbers show that the number of daily cases stood at 1,000-2,000 (with 0.5-1% positivity rate), which is much lower than 3Q21 and 4Q20 levels of c.20,000 and 4,000-5,000. We expect the number of cases to remain low in 4Q21, partly due to the pick-up in the vaccination rate. Currently, Indonesia's daily vaccinations are at 1.4-1.5m jabs per day – much higher than previous months. This translates to about 35% and 20% of the population receiving first and second jabs. While we think the recovery of non-COVID-19 patients remains apparent in 4Q21, it may be challenging to offset the high profitability from COVID-19 cases. As such we expect hospital players' income to be lower QoQ and YoY.

HEAL remains our Top Pick due to its strong EBITDA growth for 2021, and strong private and Social Security Administrator for Health (BPJS Kesehatan) patient base, given its massive nationwide footprint. HEAL operates over 40 hospitals, with 5,400 beds. This is much higher than Mitra Keluarga Karyasehat (MIKA), which has c.3,200 operational beds across its 26 hospitals. If there is a pick-up in COVID-19 cases, we think the increase will be outside key cities, especially in ex-Java areas, given the low vaccination rate outside Java. All MIKA's hospitals are located within Java, while HEAL has 11 hospitals outside Java. That said, we think HEAL will be able to seize the opportunity, if there is a slight increase in COVID-19 cases outside Java. As of 1H21, ex-Java hospitals made up 12-14% of total revenue.

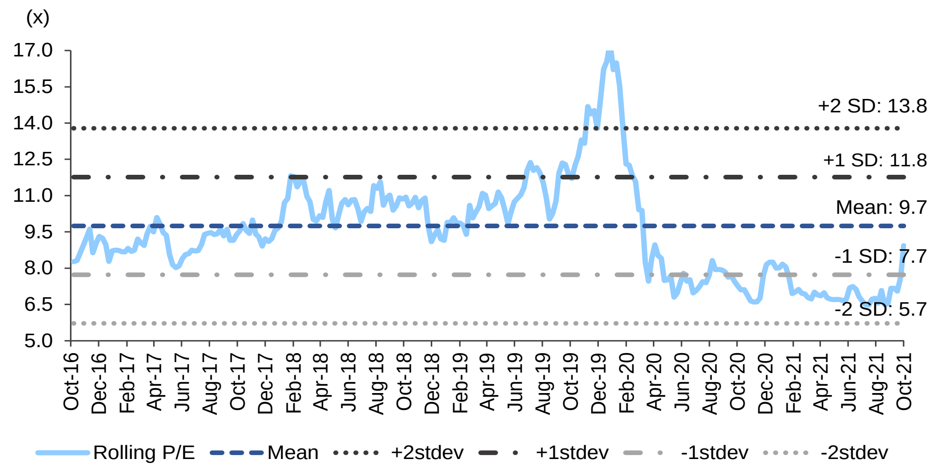
With a possible tapering towards end-2021, we are concerned about the impact and possible depreciation of the USD/IDR. In our view, pharmaceutical players such as Kalbe Farma should feel more of a pinch, as a large portion of its costs are in USD. Amid purchasing power challenges, we think the company's ability to increase prices, in order to pass on possible cost increases, would also be limited in the near term. We learn that its costs are mostly related to the pharmaceutical raw materials, which are largely imported. KLBF noted that c.60% of its COGS is USD-related. The impact should be minimal for hospital players, as their USD costs are for medical equipment, which are generally locked in earlier, and depreciates over the years.

Coal (NEUTRAL): Uncertainty remains, stay cautious

Analysts: Indonesia Research Team

Downgraded to NEUTRAL, Top Pick: United Tractors. The uptrend in coal prices throughout the year (Newcastle: +201% YTD, with the highest-ever record price at USD269.50/tonne) has brought back optimism for a recovery in the sector – we expect better 2H21F overall earnings from improved toplines, coupled by a higher seasonal pattern in coal production. However, we see the upside factors watering down, given the potential drawback of coal prices from the peak that will dampen sentiment on the share price trend going forward.

Figure 60: Coal sector P/E trend

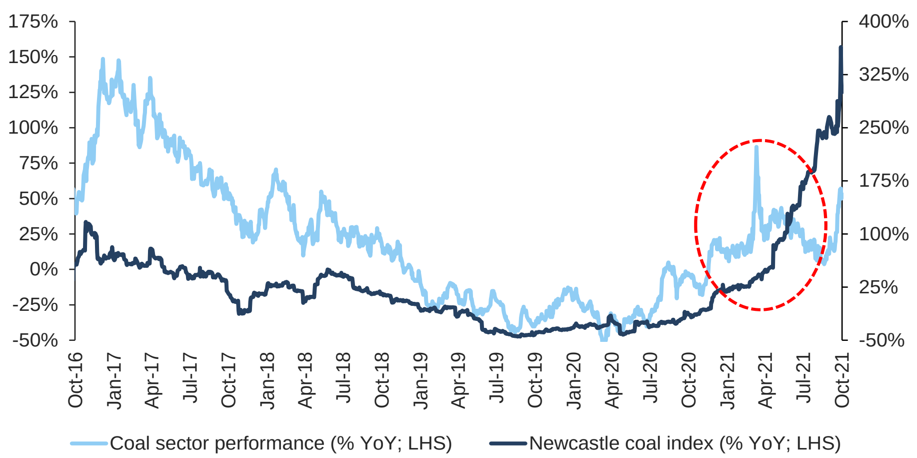


Source: Bloomberg, RHB

- Most of the coal stocks under our coverage have moved closer to their fair values. We should remain cautious on any turbulence, which would stem from the uncertainty in the commodity outlook going forward

The higher-than-expected rebound in coal prices has supported our thesis on a retrieval in the coal sector since early this year,given the low base from the trough last year. However, several issues including the prolonged rainy season that halted most mining activity, the second wave of COVID-19 infections coming in during the mid-year, and higher awareness of ESG issues briefly hampered the fundamental correlation between share prices and commodity trends (Figure 61). Both trends were soon aligned, but the heightened reaction from the markets (seen in September as coal prices were at record highs) prematurely pushed share prices towards their fair values (Figure 60) and forced pricing in the expectation of a full-year sector earnings recovery. As such, we expect a healthy correction ahead.

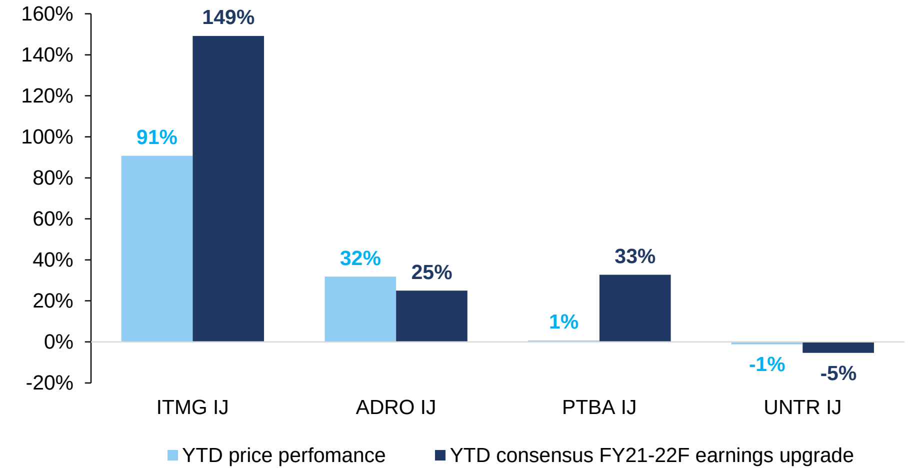
Figure 61: Newcastle trend vs Indonesia's coal sector performance



Note: Coal performance is market weighted
Source: Bloomberg, RHB

- Brief correction happened earlier this year, as the second wave of COVID-19 infections and heightened awareness towards ESG issues dampened sentiment
- Coal stocks remained in a lull in April-July, up until coal supply issues surfaced and caused the electricity crunch in Europe and China simultaneously – markets then reacted rigorously, as coal prices hit record highs in September
- As a result, the volatility in coal prices drove share prices – exceeding the fundamental timeline, in our view

Figure 62: Consensus earnings estimate changes vs share price performance

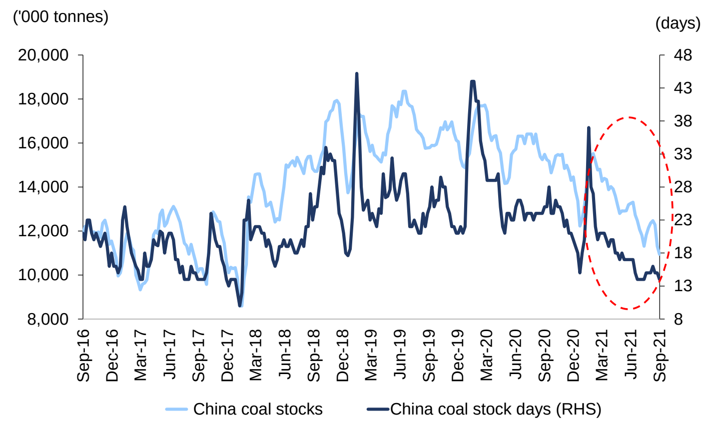


Source: Bloomberg, RHB

- Strong revival on the coal sector was partly in line with Street expectations. ITMG in this case was deemed to have received the most benefit, thanks to its large exposure towards exports (better ASP) while riding the strong tailwinds of higher coal prices
- However, the surge in share prices (c.38% jump within a month) has exhausted the availability of the upside gap for now – we expect a slight correction going forward

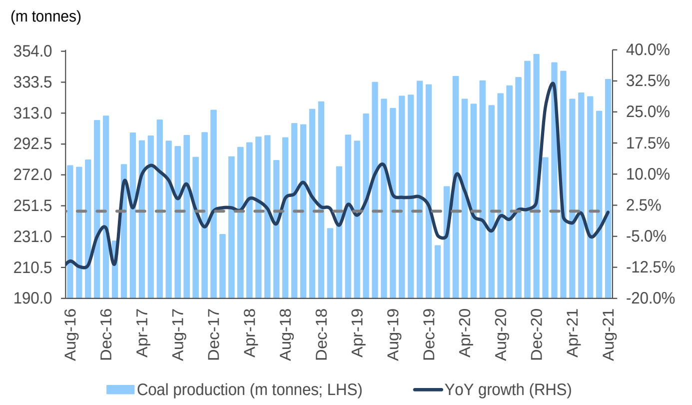
Uncertainty from high coal prices should remain a major risk, even though sentiment is likely to remain buoyed on the back of rising demand amid limited coal supplies (eg China; Figures 63 & 64) causing a severe global energy shortage (India, China, and Europe). This ongoing issue has pushed coal prices beyond the fundamental value (ranging USD120.00-135.00/tonne). However, we see some gradual normalisation in coal prices post winter season (from early 2Q22 onwards) from seasonally eased demand, which should give time for supply to balance out – this may pose a challenge for sentiment towards share prices early next year, in our view.

Figure 63: China's coal stocks at six major power plants



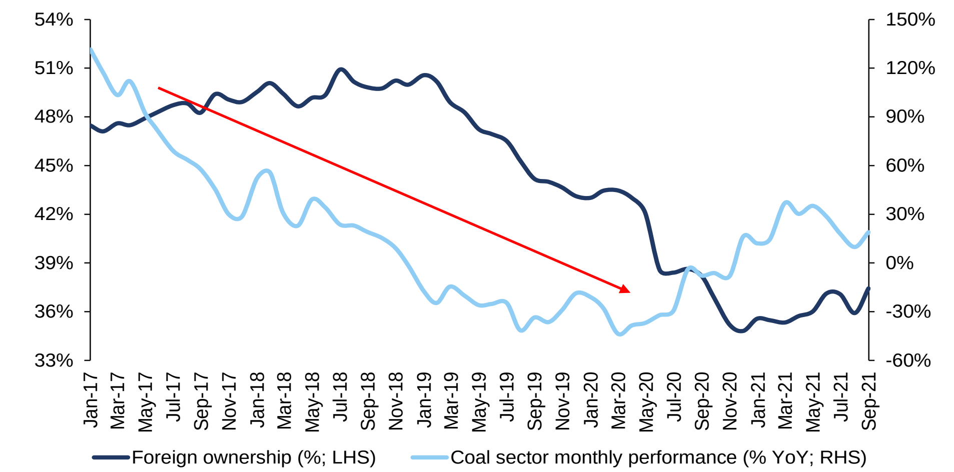
Source: Bloomberg, RHB

Figure 64: China's monthly coal output



Source: National Bureau of Statistics of China, RHB

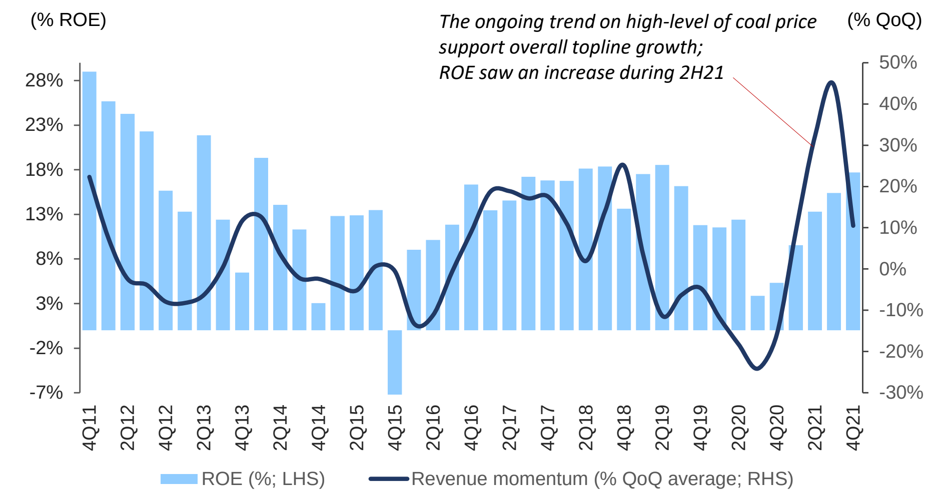
Figure 65: Trend of foreign ownership vs coal sector performance



Source: KSEI, Bloomberg, RHB

- Investment restrictions related to ESG requirements put pressure on fund flow, particularly on foreign funds
- The correlation of the decrease in large funds was partly due to the share price performance trend of the coal sector – apart from the fluctuation in coal prices

Figure 66: Coal sector historical ROE vs revenue momentum



Source: Company data, Bloomberg, RHB

- Brighter outlook from stronger topline is expected in 2H, marking a rebound from the trough last year

Downgrade to NEUTRAL – UNTR is our Top Pick as the only BUY call under our sector coverage, with the upside focused on the positive trajectory for FY21F EPS. Key risks for the sector are coal price volatility, regulatory uncertainties, and investment restrictions related to ESG considerations.

Metal mining (OVERWEIGHT): Long-term potential from stable demand

Analysts: Indonesia Research Team

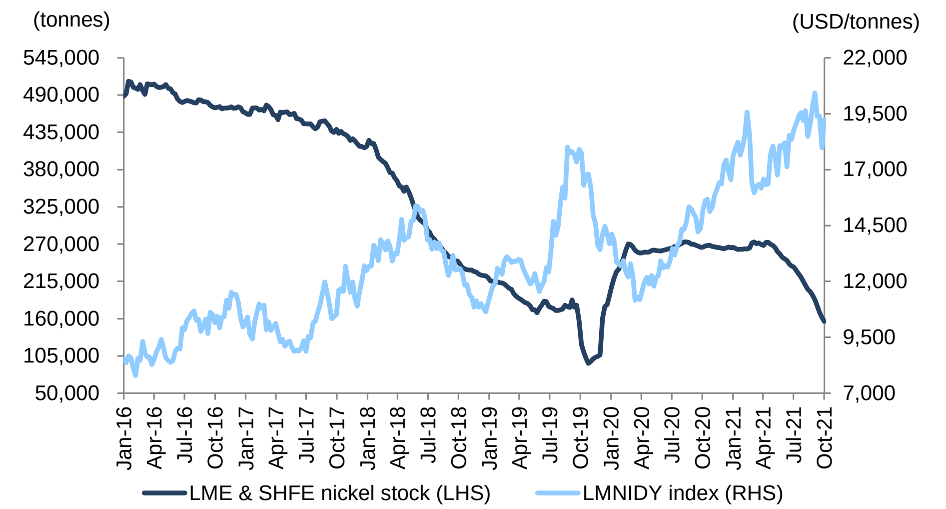
OVERWEIGHT; Top Pick: Aneka Tambang (ANTM IJ). We believe operational improvements of nickel players in Indonesia are on track, given the steady pace of their output (Class II product, 3-years CAGR: Nickel pig iron (NPI) +41%, Fe-Ni +54%, matte +6%), nurtured by stable demand from the stainless steel industry. Further out, commodity prices should remain elevated (FY21-22F RHB: USD18-19.5k/tonne), due to low inventory levels (Figure 67) that may continue in the years ahead. This would be on the back of accelerated EV battery development, which will spike up demand ahead (currently accounting for 5% of total nickel demand, vs stainless steel's 70%). This should gradually outpace additional nickel supply, in our view.

From the domestic side, nickel ore utilisation towards Class II products will remain a focus for the medium term (2-3 years), as the development of an rotary kiln-electric furnace (RKEF) smelter is ongoing, with 33 units already operational. At present, the export ban policy for raw nickel material has been enforced since Jan 2020 – although an enhanced process required, with the final product containing no less than c.20% of nickel portion.

We also see how the long-term catalysts have played out for our top sector pick. ANTM's involvement in government mining holdings (MIND-ID) will benefit the company in the future, given the national initiative towards EV development. This will make ANTM a major supplier of the material. Meanwhile, the company should still benefit from its current Class II nickel business and domestic ore sales (c.25% topline contribution combined). ANTM's main segment in gold (c.70%) should remain stable, given the steady selling price of the material (FY21-22F; c.USD1,800/oz) and output, but this faces the risk of margin contraction due to rising costs and expensive raw materials. This should be the main risk for its margins – not that NPMs for nickel is c.40%, while that of gold is at c.7%

Related risks for the sector are weaker selling prices stemming from an increase in global inventory and disrupted demand, especially in relation to the power crunch in China and Europe. The short-term risks from ESG-related issues are high emissions from increased fossil fuel consumption and environmental exploitation.

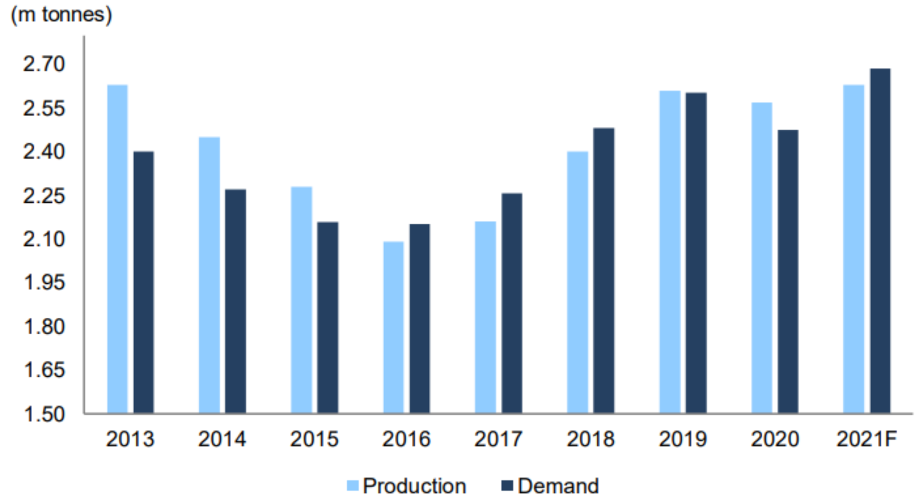
Figure 67: Trend on nickel price vs inventory



Source: Bloomberg, RHB

- Nickel demand is set to surpass supply, due to the gradual recovery of the stainless steel industry, and rising sentiment over the development and production of EV batteries

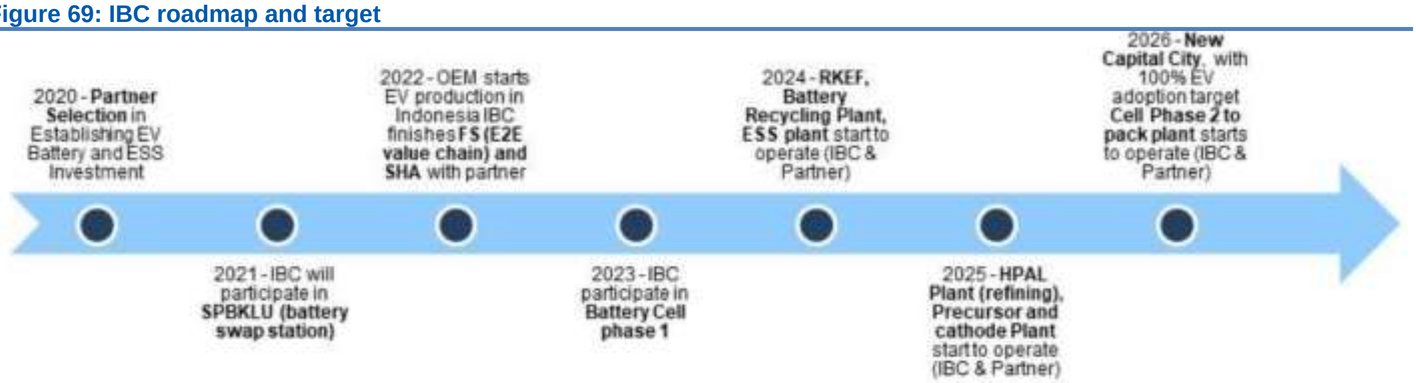
Figure 68: Trend of nickel price vs inventory



Source: Bloomberg, RHB

- At the current rate of global nickel production (our FY21 projection: 2.63m tonnes, +2.3% YoY), we expect to see a sensible deficit this year (c.60k tonnes) due to the higher pace of demand (our FY21 estimate: 2.69m tonnes, +8.5% YoY)

Figure 69: IBC roadmap and target



Source: Bloomberg, RHB

Economic Outlook

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Post 3Q21 lockdown disruptions, growth is expected to improve in 4Q21 on the continued economic reopening, following the steady pace of vaccinations. We see 2021 growth at 4.0% YoY. In 2022, the economy should expand at 5.5% as decreasing COVID-19 risks allow the Government to continue reducing restrictive measures.

Private consumption should accelerate onwards. Consumer spending fell in June following containment measures amidst surging COVID-19 cases. However, higher frequency data is pointing to a recovery ahead. The mobility index as of end-September indicates that consumers are returning to normal activity, although they remain fairly cautious – with the index still below the pre-pandemic level. Several other indicators also point towards improvement – the Purchasing Managers' Index for September has risen to 52.2, representing a return to expansion for the industrial sector, after two straight months of contraction. Retail sales for August also point towards some nascent rebound, aided by government measures to reopen retail malls. Further adding to the recovery will be the continued support to auto sales as the Government has extended the tax discount on motor vehicles to Dec 2021. For next year, consumption will also be aided by higher incomes, as coal and palm oil prices are projected to remain elevated, at least until the early part of 2022. Meanwhile, some support measures given during the pandemic, including various tax breaks, will continue – which should further help businesses recover.

Tax cuts and economic rebound will spur private investment. Several efforts have been made recently to improve the investment environment. The Government has now opened the majority of business sectors that can apply for full foreign investor ownership as part of its latest omnibus law measures. This is on top of the expected reduction of the corporate income tax rate to 20% in 2022, from 22% this year. These, alongside several other measures to ease red tape, are expected to see an improvement in the investment environment. Data-wise, capacity utilisation continued to trend higher, with 2Q21 at 75.3%. While a slight decline is expected due to the July lockdown, we expect recovery to be swift, and should overall point higher in 3Q21. With elevated capacity utilisation, businesses are more likely to invest in new capacity.

Public investment spending expected to moderate. Budget 2022 indicates that infrastructure spending will fall by 7.8% to IDR385trn; this is after a record allocation of IDR417trn in 2021. The lower spending reflects the limited fiscal space as well as Government pricing in possible health protocols in place, thereby limiting its spending ability. To address this, the Government will put more emphasis on creative financing schemes, especially to increase the role of the private sector. So far, much of the public spending will be targeted towards the acceleration of infrastructure development, including basic services, connectivity, food, energy and information & communication technology.

High commodity prices will keep exports elevated in early 2022. The recent spike in coal prices amidst sharply rising global demand is a boon to exports. So far, coal prices have risen by 94% YTD, and market players already expect prices to remain elevated until at least 1Q22. Similarly, palm oil prices remain persistently high, with 19% growth YTD amidst strong demand. This would mean that Indonesia's external sector will be performing relatively well going into early 2022, driven by higher prices as well as volume.

We expect inflation to average 2.2% YoY in 2022 vs 1.5% this year. The current demand-pull inflation remains weak given modest consumption, causing headline and core CPI to trend lower. However, recent improvements in consumer spending have shown some preliminary advances in price trends. In addition, cost-push pressures are rising with the increase in energy prices, as indicated by the rising producer price index, which at some point may pass through from producers to consumers. Offsetting this, the Government is keeping subsidised domestic fuel prices stable, which somewhat limits the upside risks to higher inflation.

2022 fiscal deficit likely to improve to 4.7% of GDP, from the 5.6% estimated for this year. This compares to the Government's guidance of 4.9% for 2022 and 5.7% for 2021. We believe revenue will be slightly on the higher side next year, as expectations of persistently high commodity prices will benefit revenue collection. As a partial offset, some of the gains will be channelled towards higher subsidies and more economic support. In terms of this year's fiscal performance, the budget realisation as of August remains ahead on the revenue side amidst higher-than-expected commodity prices, while expenditure remains on track. We project that the Government will still be able to meet its high capital spending allocation goals this year despite the lockdown interruptions.

Current account (CA) to weaken to -1.7% in 2022 from -0.8% this year. We suspect next year's CA deficit will be a balance of two opposing factors. On one side, the continued economic reopening next year is expected to spur consumption and investment growth which will lead to rising imports. On the other hand, elevated commodity prices are likely to provide an offset. As we move towards the latter part of next year, imports are expected to normalise as "revenge spending" subsides, while commodity prices will moderate as supply adjusts to demand. On a net basis, the CA balance is projected to gravitate towards a 2% deficit by the end of 2022.

We see the policy rate remaining on hold until late 2022. Bank Indonesia has reiterated that it will maintain its "pro-growth" policies in the wake of a possible tapering by the US Fed and its risks to the market and IDR volatility. Given such assurance, we see little reason for any monetary policy changes in the near term, unless growth concerns arise. At the moment, we are pricing in at least one hike in late 2022, assuming that recovery would be entrenched enough to warrant a start to rate normalisation.

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