BINAARTHA SEKURITAS

Pandemic Crisis? What Crisis?

MARKET OUTLOOK 2021

Global Economy outlook

Table: Projections world economic growth outlook yoy

Projections World economic growth outlook	2019A	2020F	2021F
World Output	2.8%	-4.4%	5.2%
United States	2.2%	-4.3%	3.1%
United Kingdom	1.5%	-9.8%	5.9%
European Union	1.6%	-7.8%	4.2%
Japan	0.7%	-5.3%	2.3%
China	6.1%	1.9%	8.2%

Source: IMF, European Commision

GLOBAL: Growth to 5.2% in 2021

According to the International Monetary Fund (IMF), the global recession in 2020. is estimated to result in an economic contraction of around 4,4% due to the Covid-19 pandemic. Nevertheless, a combination of vaccines and therapeutic treatments will become widely available in 2021, as well as an improvement in the long term US-China relationship under a Biden administration, thus, there will be a recovery in growth in 2021, which is projected by the IMF to be around 5,2%.

Global Economy outlook

United States: Growth recovery to 3.1% in 2021

- The Federal Reserve sees economic activity recovering but well below the pre-pandemic level. The Covid-19 pandemic will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. Therefore, The Fed would likely continue with its policy on buying bonds and keeping rates low (0-0.25%) in order to help the economy return to normal.
- Under the scenarios for vaccine effectiveness and distribution, much of the economic losses from the pandemic could be recovered in the next year. The 3.1% growth based on the IMF projection, can be achieved with a fiscal package passed in 2021 of at least $1 trillion, aimed at supporting the income losses of households and businesses.

United Kingdom: Growth recovery to 5.9% in 2021

- The government's "Eat Out to Help Out" program to support the hospitality industry, coupled with cuts in the value-added tax (VAT) for the most vulnerable sectors, provided support for the UK economy. However, as with the rest of Europe, the economy was expected to contract again in the fourth quarter as countries imposed tighter restrictions to tackle a spike in infections.
- The Bank of England voted unanimously to maintain their Bank Rate at a record low of 0.1% and the size of its bond-buying program at £875 billion during its December meeting, as policymakers took a wait-and-see approach amid uncertainty surrounding a post-Brexit trade deal and concerns over the Covid-19 situation.
- In 2021, the UK economy is expected to gradually recover to 5.9% growth as restrictions ease and life returns closer to normal.

Japan: Growth recovers to 2.3% in 2021

- Japan was the first developed economy to officially enter a recession in 2020. This was triggered by China's first quarter lockdown and the associated effects on Japan's tourism sectors, which rely heavily on Chinese Lunar New Year tourists.
- Another notable development in 2020 was the resignation of Japan's longest-serving prime minister, Shinzo Abe. Known for the eponymous Abenomics, Abe's tenure was associated with aggressive monetary easing and fiscal stimulus. Abe's successor, Yoshihide Suga, largely represents a continuation of these policies but with renewed focus on the structural reform component to lessen the impact of the Covid-19 pandemic.
- Based on the IMF forecasts, growth in Japan is projected to recover to 2.3% in 2021.

European Union: Growth recovery to 4.2% in 2021

- Economic activity in Europe suffered a severe shock in the first half of the year and rebounded strongly in the third quarter as containment measures were gradually lifted. This recovery, however, looks set to be short-lived, with another spike in virus transmission forcing authorities to retighten restrictions.
- Policy measures taken by Member States, together with initiatives at EU level have helped to cushion the impact of the pandemic on labour markets. The unprecedented scope of measures taken, particularly through short-time work schemes, have allowed the rise in the unemployment rate to remain muted compared to the drop in economic activity.
- In 2021, the EU economic activity is expected to gradually recover as governments gain control over the virus and as an effective vaccine becomes widely available and distributed. In our base case, we expect that growth will be about 4.2% in 2021.

China: Pursuing positive growth in 2020 and accelerating at 8.2% in 2021

- In early 2020, Covid-19 and the Chinese economic effects were mostly seen as problems affecting China alone. Now China has emerged as one of the few countries to successfully contain the virus and the only economy expected to return to pre-COVID trend levels by the end of 2020 because its economic activity normalized faster than expected after most of the country reopened in early April.
- The Chinese economy is expected to rise 8.2% in 2021, supported by the continued recovery in domestic consumption and service sectors, as well as an improving external environment.

Indonesia Economy outlook

Table: Indonesia economic data

	2019A	2020F	2021F	2022F
GDP (%)	5,2	-2,2	4,4	4,8
CPI (%)	2,8	2	2,3	2,8
Current Account Balance (%of GDP)	-2,7	-0,7	-1,4	-2
Government budget Balance	-2,2	-6	-5,5	-4,3

Source: Bank of Indonesia, BPS, Ministry of Finance, World Bank

INDONESIA: Recovery 2021

We expect the Indonesian economy will recovery gradually in 2021 and strengthen faster in 2022 with 4,4% GDP growth in 2021 and 4.8% in 2022. The growth will be driven by a recovery in private consumption in line with an improvement in consumer confidence. This is assuming the vaccine will be widely available and proven to be effective. The government will also continue the national economic program APBN in 2021, with a focus on more optimal spending and a better focus on program implementation priority and results.

Indonesia Economy outlook

Table: Indonesia's Economic Data in 2019 - 2020

	2019				2020		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Household Spending	5,0	5,2	5,0	5,0	2,8	-5,5	-4,0
Government Spending	5,2	8,3	1,0	0,5	3,8	-6,9	9,8
Gross Fixed Capital Formation	5,0	4,6	4,2	4,1	1,7	-8,6	-6,5
GDP	5,1	5,1	5,0	5,0	3,0	-5,3	-3,5

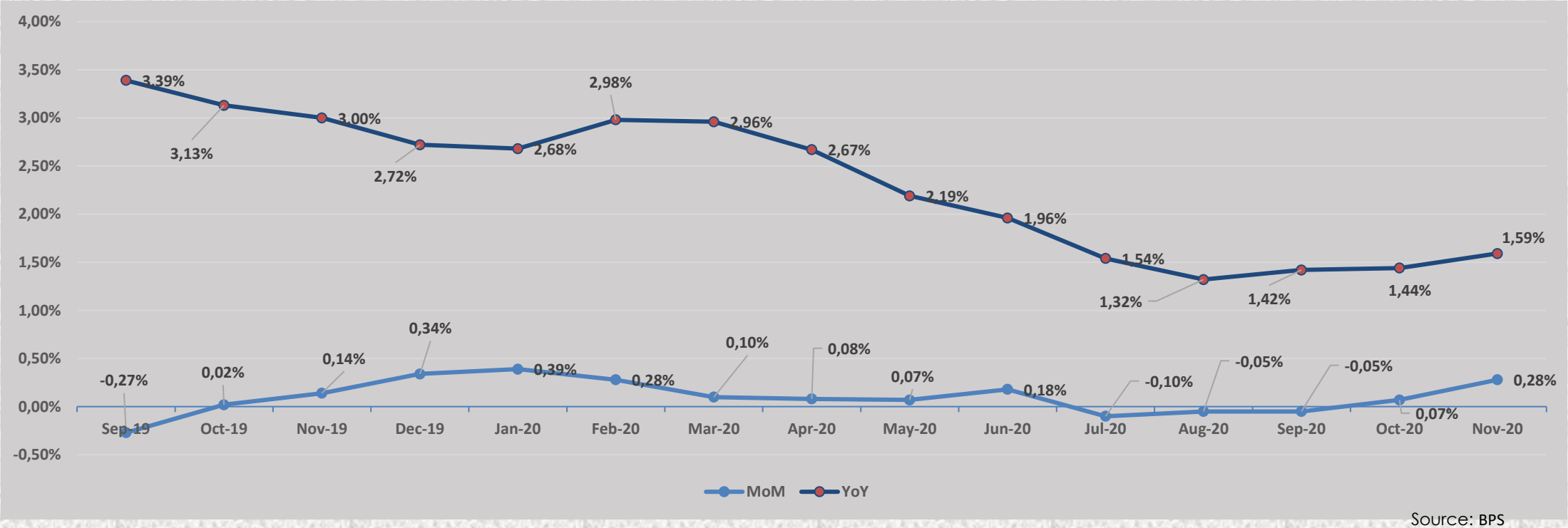
Source: BPS and Ministry of Finance

Improvement in Q3

The economy in Indonesia recovered in the Q3 2020 amid a high number of Covid-19 cases. In Q3 2020, household consumption was better compared to the Q2 2020 but still contracted except for Housing, water, electricity, gas, health and education as work from home was implemented. Meanwhile government consumption increased driven by spending on social assistance and spending on goods and services in the framework of The National Economic Recovery program as a results of the Covid-19 pandemic. Gross fixed capital formation growth was better compared to Q2 2020.

Indonesia Economy outlook

Chart: Inflation YoY vs MoM



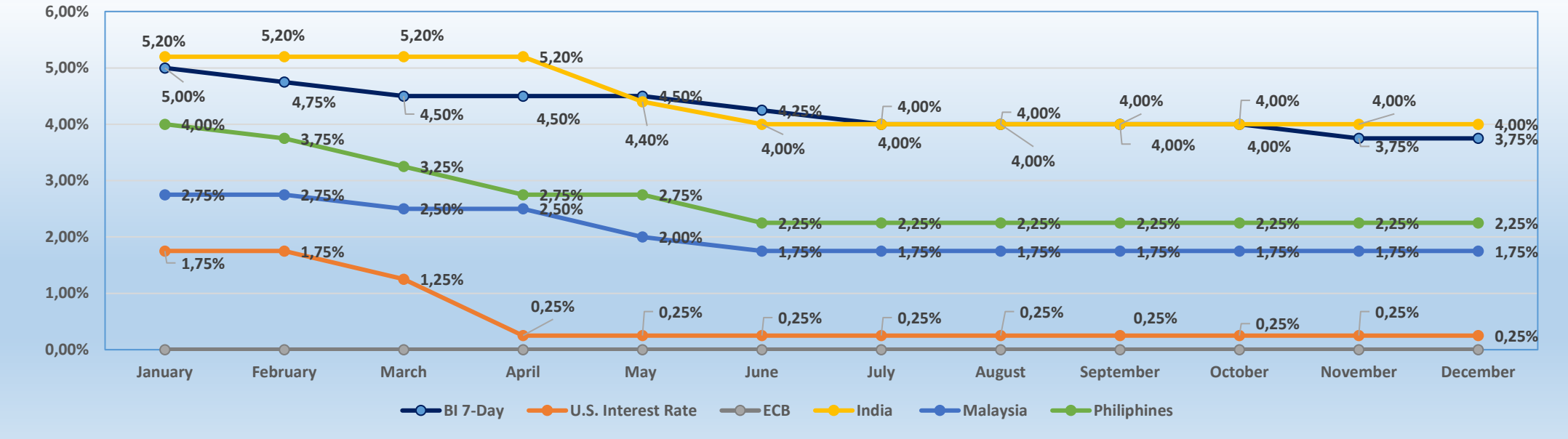
Source: BPS

Inflation

We estimate that inflation in 2021 will reach 3.0%. This is in line with Bank Indonesia's prediction of 3.0%, and the government target of 3.0%. The inflation increase is driven by a private consumption recovery in line with improvement in consumer confidence. Since March Indonesia's inflation is down due to Covid-19 and seasonal factors (Ramadan) but started shown an improvement in October because of the PSBB transition.

Indonesia Economy outlook

Chart: Global Benchmark Rates in 2020



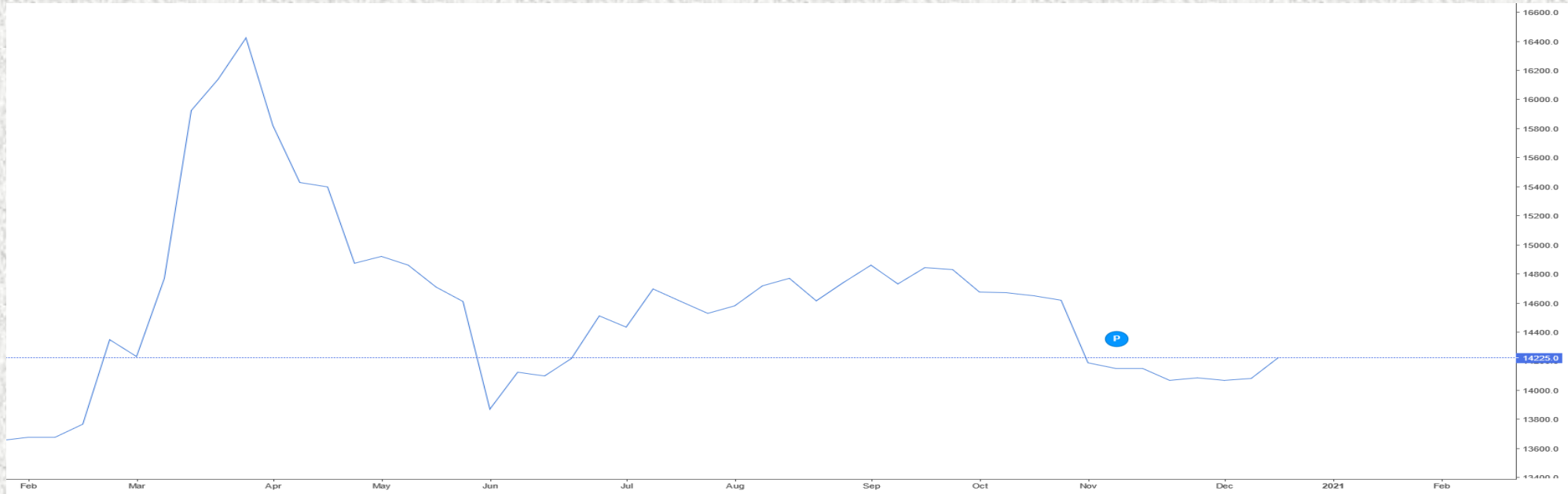
Source: Bloomberg & BI

Bank Indonesia 7-Day (Reverse) Repo Rate – Lower Interest rates

- All major countries in the region faced decreasing economic activity, due to the covid-19 outbreak.
- Central banks worldwide introduced aggressive policies such as cutting interest rates, providing liquidity to the banking system, and purchasing government securities to ease monetary conditions and improve market function. When the covid-19 outbreak started in February –March 2020, most of countries cuts theirs benchmark interest rate.
- Indonesia has lowered the benchmark interest rate five times in a year, following India's 2 times, US 2 times, and the Philippines 3 times.
- The U.S. Federal Reserve (Fed) decreased their policy interest rate in March and April 2020, while the European Central Bank decided to keep its interest rates and coronavirus-stimulus program unchanged.
- For 2021, We estimate most countries will keep theirs lowest interest rates until their economies recover.

Indonesia Economy outlook

Chart: USD/IDR Movement 2020



Source: Investing

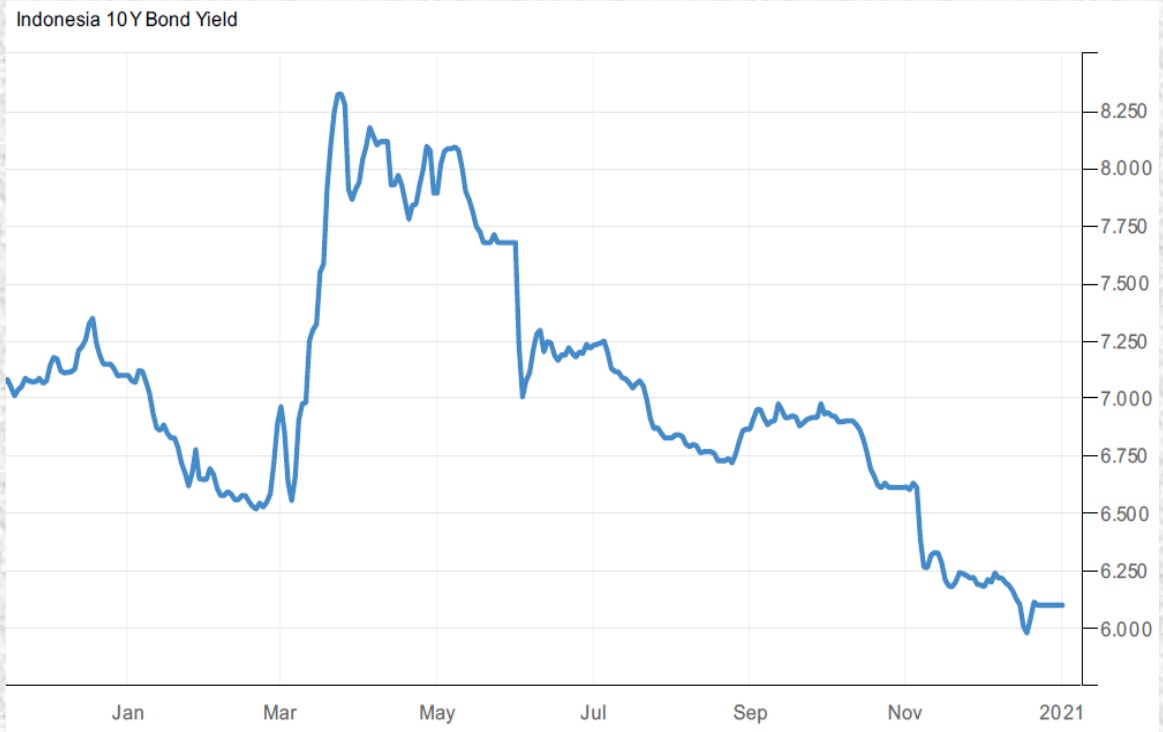
Currency Exchange Rates, IDR to 14,600

- As we expect the Indonesian economy to recover in 2021 this will have the impact of increasing capital inflows and strengthen the Rupiah.
- The Government is targeting the Rupiah against the US dollar to trade around IDR 14,600 per dollar in 2021.

JCI Fundamental outlook

With the estimated limited reduction in interest rates next year after a considerable decline in 2020, we expect the JCI will still have a chance to increase, driven primarily by the contribution of retail investors who currently control transactions in the Indonesian capital markets. This increase is likely limited due to limited interest rate reductions and is still influenced by global pandemic sentiment and the success rate of vaccines in 2021. Some sectors that can still enjoy positive sentiment next year are infrastructure, property, and commodities as China's economic recovery improves. Meanwhile the consumer sector is likely to offer stability. Correlation between the JCI and bond yield can be seen with the decline in bond yields in line with the increase in stocks. Based on EPS growth of 10% in 2021 compared to 2020, we forecast the IHSG to grow to 6372,96 in 2021, with eps 234,98 or trade at PER 27,22x. The JCI closed at the end of Dec 2020 at 5979,07 or a PER of 28x.

Chart: Correlation of 10Y Gov Bond vs Indonesian stock exchange movement



Source: Trading economics.com

Commodity Outlook

COAL

The impact of Covid 19 oun the coal market was caused by Lockdowns in some importing countries, especially India which affected global demand. In terms of the domestic coal industry there was a decrease in coal consumption by PLN due to the decrease in industrial electricity needs. We expect, Indonesian coal selling prices and volumes will improve in 2021, as can be seen starting from early November 2020. Furthermore, most Indonesian coal miners have reduced mining costs in 2020 helped by lower fuel costs, renegotiated contract mining rates and modified mining plans. The lower costs are likely to flow through in 2021, helping earnings. The Energy and Mineral Resources Ministry has set Indonesia's coal production target at 550 million tons for next year, a figure unchanged from this year, due to the pandemic. Amid a so-called ban on Australian coal into China and a diplomatic row, Newcastle coal futures have surged in the last three months, from a low of $56/t in September to $84/t by end -December. The inability of domestic Chinese supply to ramp up sufficiently to compensate for the Australian ban has resulted in strong Chinese imports from suppliers, such as South Africa. At the same time, coal demand has been increasing in other significant coal consumers such as India, Japan and South Korea, which helped to offset the negative impact of China's ban on Australia's coal sales. We expect coal prices in 2021 to be around 70-75 $/ton assuming global demand increases assuming most of the world successfully distributes a COVID-19 vaccine by that time.

Chart: Newcastle Coal Future Price $/t

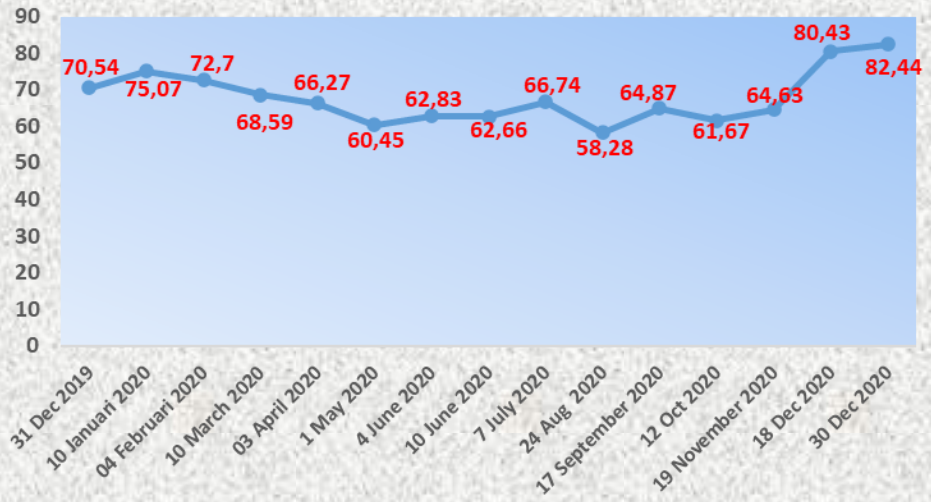
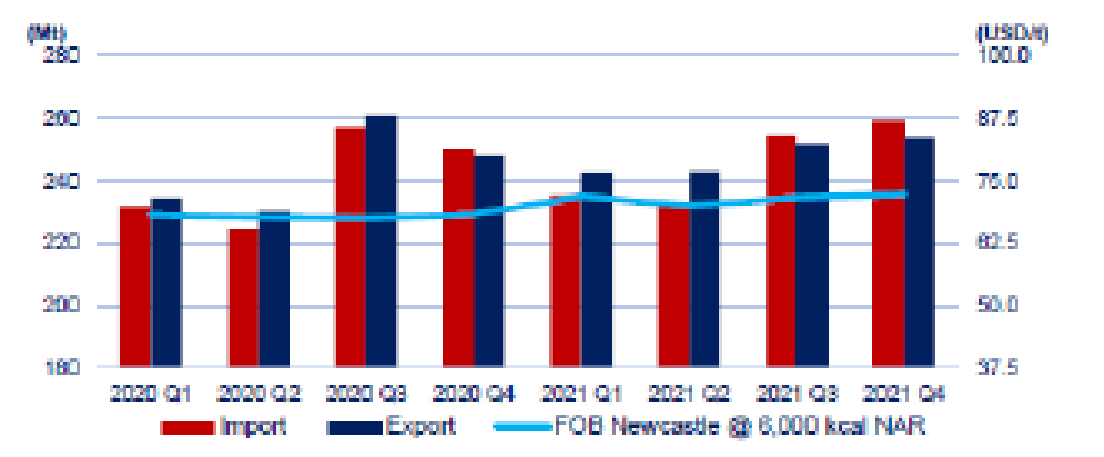


Chart: Demand & Supply of Coal in Mt



Source: Fitch rating, wood mackenzie,ptba

Commodity Outlook

CPO

According to CPOPC report (Council of Palm Oil Producing Countries), the recent CPO price rally since June 2020 was driven by supply disruption after Palm oil output from Indonesia and Malaysia was adversely affected by drought and reduced fertiliser application in 2019 while demand outpaced supply. Moreover, this was compunded by workers shortage and movement restrictions due to the Covid-19 pandemic in 2020. This caused the Bursa Malaysia Drrivatives Exchanges's third-month benchmark price to surpass RM3000 by Mid-Oct, 38% higher yoy. Indonesia and Malaysia produce about 85% of total global palm oil supply. The lower-than-expected supply of other edible oils, particularly sunflower and apeseed oils, had induced the sharp rise in vegetable oil prices, which then had a spill-over effect onto CPO prices. CPOPC estimate CPO prices are likely to stay high in 1H2021. amid lower soybean crushingly in Argentina and rising sunflower oil prices. Another key factor to watch is the weather pattern and the severity of La Nina going forward. Ongoing La Nina heavy ainfall has started to disrupt output in Southeast Asian palm oil producing countries. This will subdue global supply until the first quarter of 2021. Towards the second half of 2021, adequate rainfall and better crop management incentivised by the current high palm prices will significantly boost production.

Chart: Oil palm planting growth in Malaysia

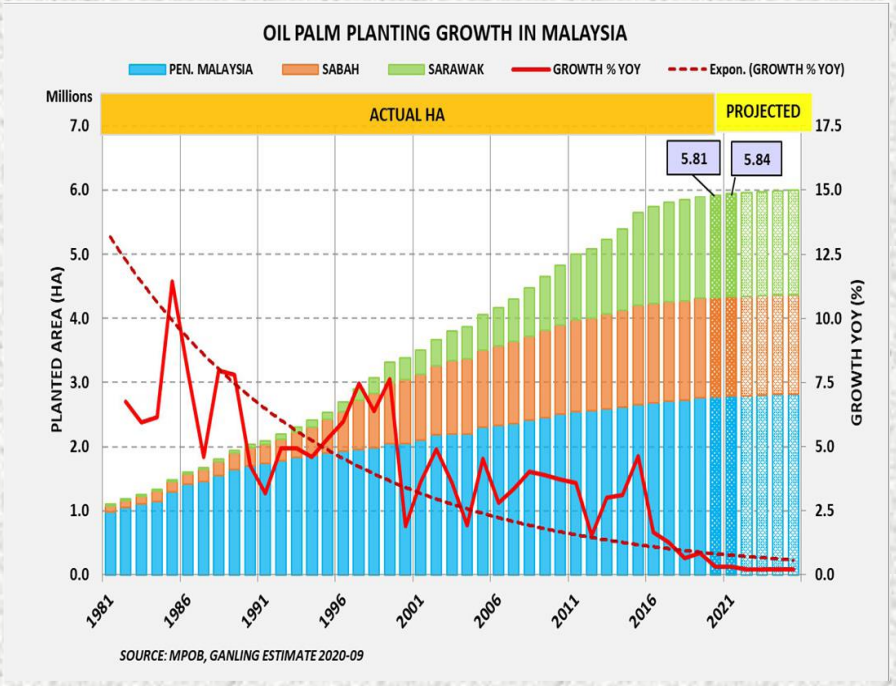
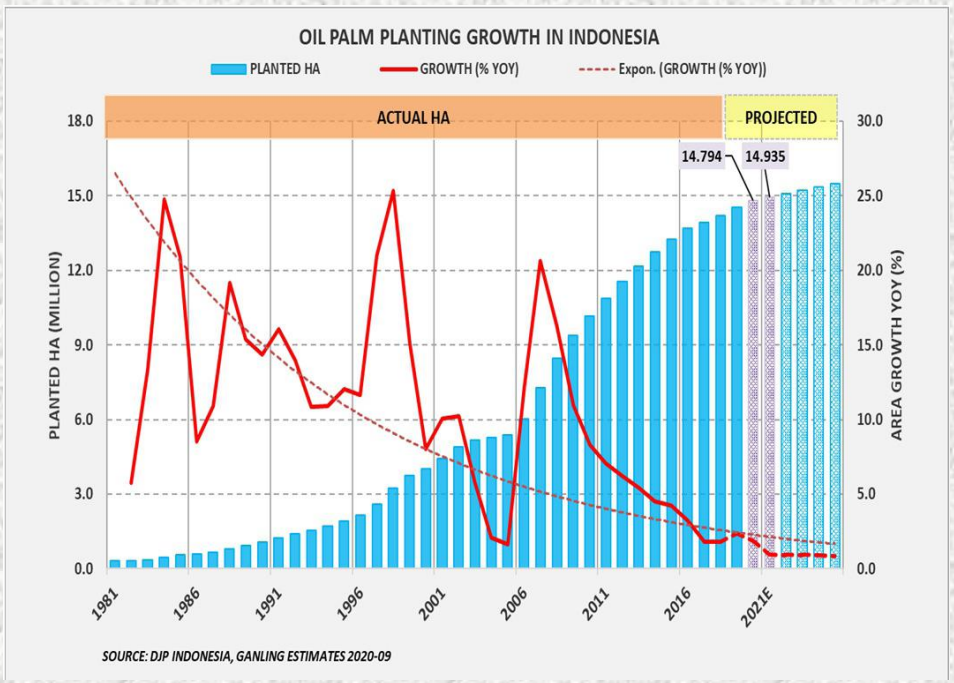


Chart: Oil palm planting growth in Indonesia



Source: CPOPC

Commodity Outlook

OIL

The Organization of Petroleum Exporting Countries or OPEC cut its forecast for world oil demand growth for 2021, citing uncertainty surrounding the impact of COVID-19 to 5,9 millions barrels a day down 350,000 barrels a day from its previous projection. Based on the report, OPEC pegged 2020 oil demand at 89,99 millions barrels a day, a decline of 9,77 millions barrels a day from 2019 and slightly below its previous estimate. Transportation and industrial sectors are projected to lead oil demand growth in 2021. However, uncertaintes remain high, mainly surrounding the development of the COVID-19 pandemic and rollout of vaccines. In term of world oil supply, NON-OPEC production in 2020 is revised down by 0,08 mb/d, mom, contracting by 2,50 mb/day, to average 62,67 mb/d. This is mainly due to downward revisions in Brazil, The US, The UK, and Norway, following lower than expected output in 4Q20. In 2021, Non-OPEC supply is adjusted down by 0,1 mb/d and is now foreccast to grow by 0,85 mb/d to average 63,52 mb/d, mainly due to downward revisions in Russia's output.

Chart: Real GDP Growth for selected countries in 2020-2021

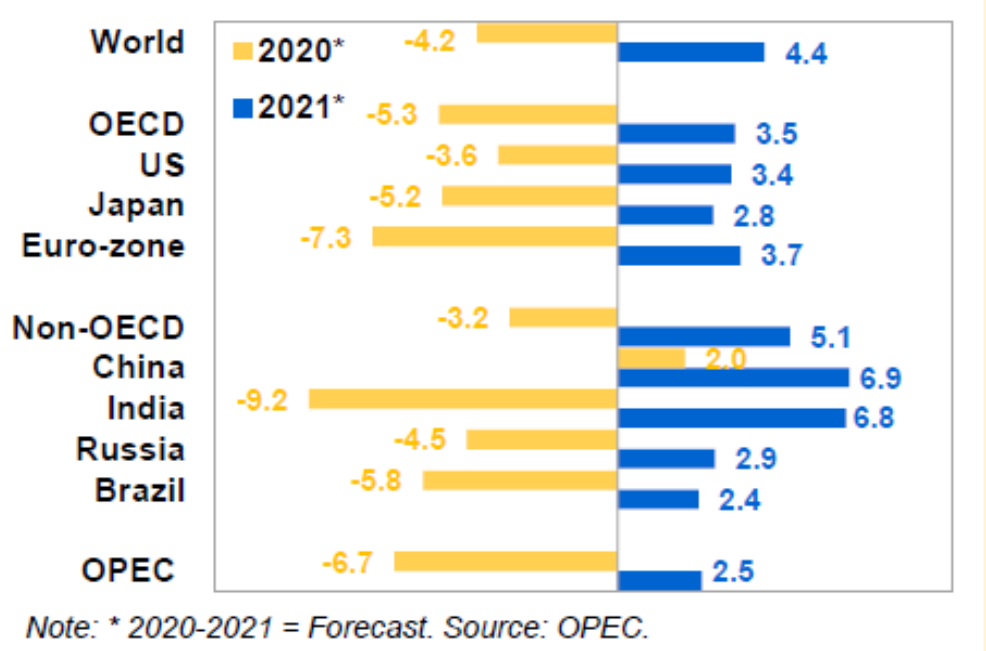
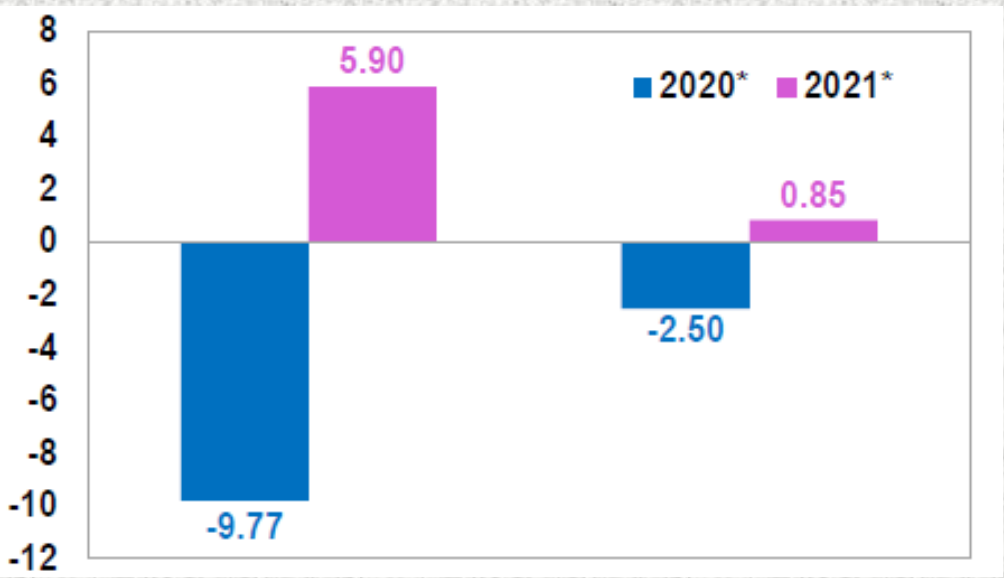


Chart: World oil demand and Non-OPEC supply growth in 2020-2021



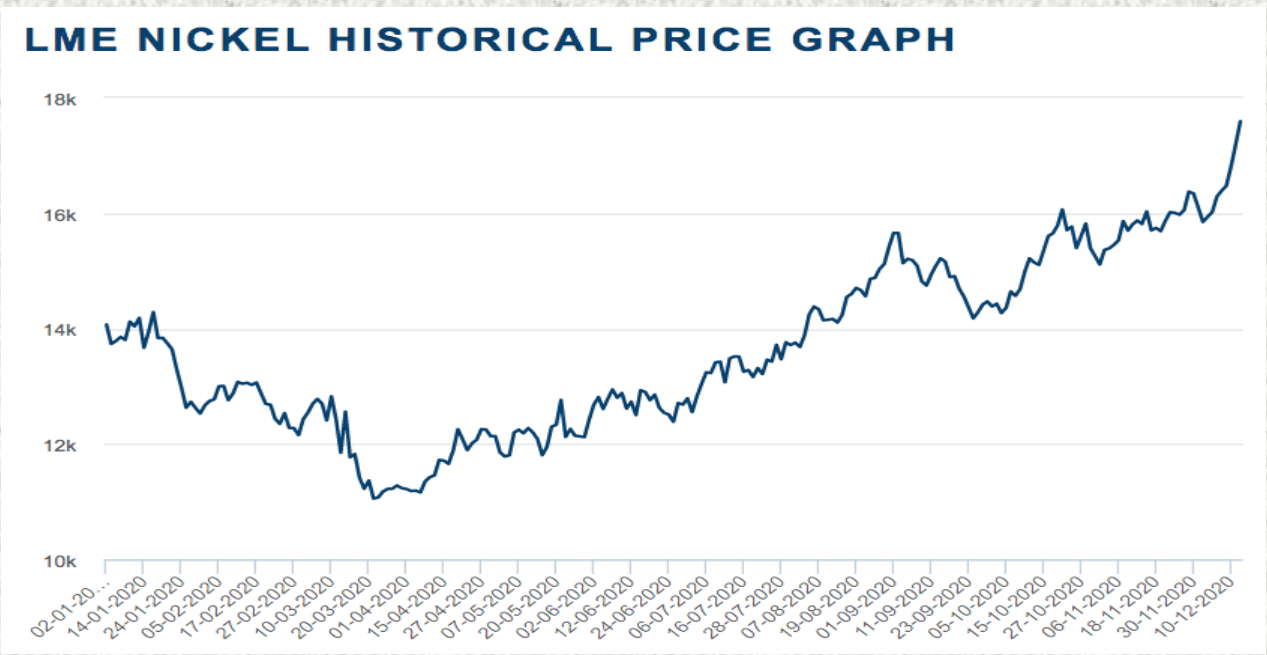
Source: OPEC

Commodity Outlook

NICKLE

Despite uncertainty around COVID-19, nickel rebounded sharply in 2020 from 1Q20 lows of US$11055 per tonne in March. Prices went up driven by the use of nickel in electric vehicle (EV) batteries, which surged. Nickel prices rebound in 2Q20 leading to its highest point on Dec. 20th at US$17738 per tonne. Aside from positive EV sentiment, the rise in nickel price was also due to recovery in Chinese stainless steel demand (accounts fro 50% of global demand) combined with raw material shortage concerns following the Indonesian ore export ban (implemented at the beginning of 2020), with disruptions to ore supply from the Phillipines caused by Covid-19 suspensions and adverse weather. For 2021, based on Wood Mackenzie forecasts, nickel demand will recover to 9-10% to 2,5 millions tons with the stainless steel and battery sectors expected to perform best. We assume the news of the COVID-19 vaccine and the resulting economic recovery will influence prices of nickel in 2021, but with the market expected to be in surplus in 2021, it is likely that prices in 2021 will be below current spot prices.

Chart: LME nickle price MoM during 2020



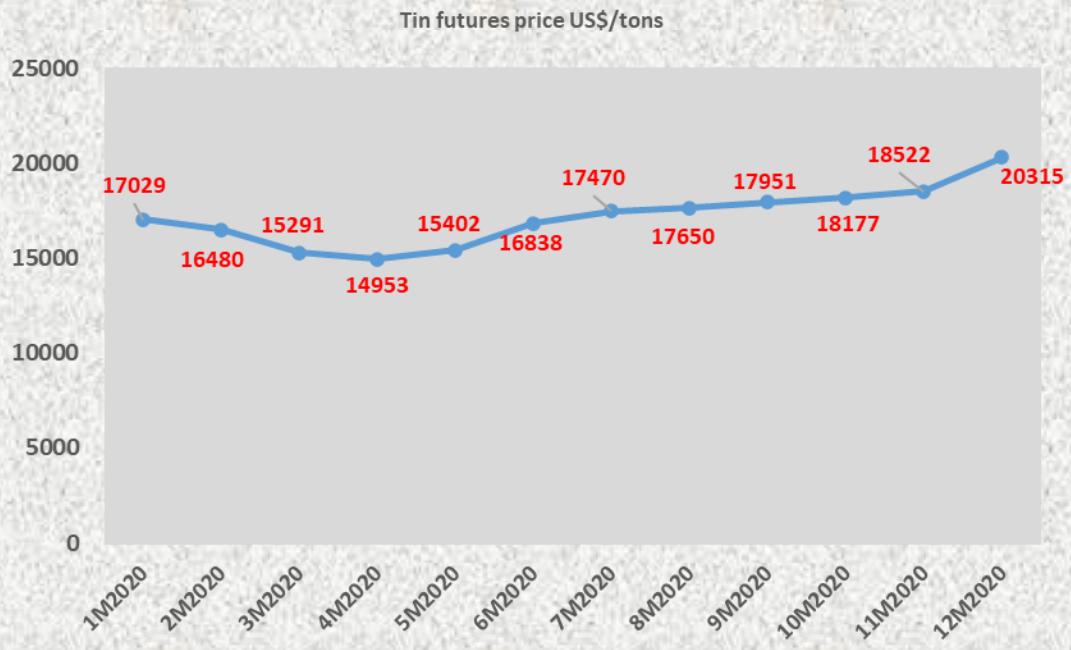
Source: Wood Mackenzie and LME

Commodity Outlook

TIN

The increase in tin prices during 2020 was caused mainly by supply disruptions particularly in 3Q20 as lockdowns impacted mine production in several countries such as Malayasia and Indonesia (and also Bolivia, Myanmar, and Peru). The electronic sectors, which accounts for about half of tin's consumption, has been somewhat resilient, from increases in demand for home electronics as people transitioned to working from home. In addition, China has been stockpiling the metal for its electronic sector. For 2021, Tin prices are forecast to increase by 1% according to the World Bank outlook.

Chart: LME tin price MoM during 2020



Source: World Bank

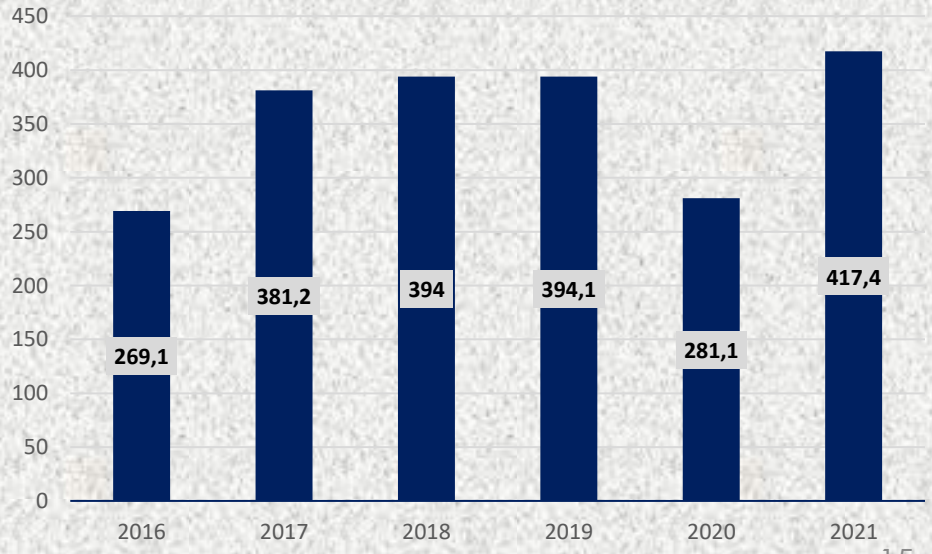
Sector Outlook

INFRASTRUCTURE, CONSTRUCTION, AND PROPERTY

The covid-19 outbreak hit infrastructure, construction, and property sectors hard in 2020. Most private and government infrastructure projects were delayed in 2020 which had an impact to lower revenues, new contracts, and marketing sales. For 2021, The budget for infrastructure development is IDR417.4 trillion or 48.5% growth yoy as the government revised down 2020 infrastructure budget from IDR 419 tn to IDR 281.1 tn. The budget is aimed at accelerating development of infrastructures which include 53 dams (43 on-going & 10 new), 10 airports, 11.8 MWp of solar power plant rooftop and solar power plant cold storage, 26.9 km of bridges, 600 km of irrigation, 3,900 km rehabilitation of irrigation, 446.56 km of railroads, 965.4 km of roads, and a natural Gas network for household. The planned projects will give a positive boost to sentiment for the infrastructure, construction, and property sectors. But we expect slow infrastructure budget realization in 2021, because of high covid-19 cases, until the vaccine is proven effective.

There is positive sentiment from the Omnibus law which benefits the property sector. Foreigners can now own apartments worth IDR 3 bn with KITAS and the omnibus law also requires large manufacturing activities to be located within industrial estates. Because of the economic decline in 2020, Bank of Indonesia set lower interest rates which will be a positive catalyst for the property business. We believe the positive sentiment will boost demand for property and industrial estates in 2021.

Chart: Indonesia Infrastructure Budget YoY



Source: Finance Ministry

Sector Outlook

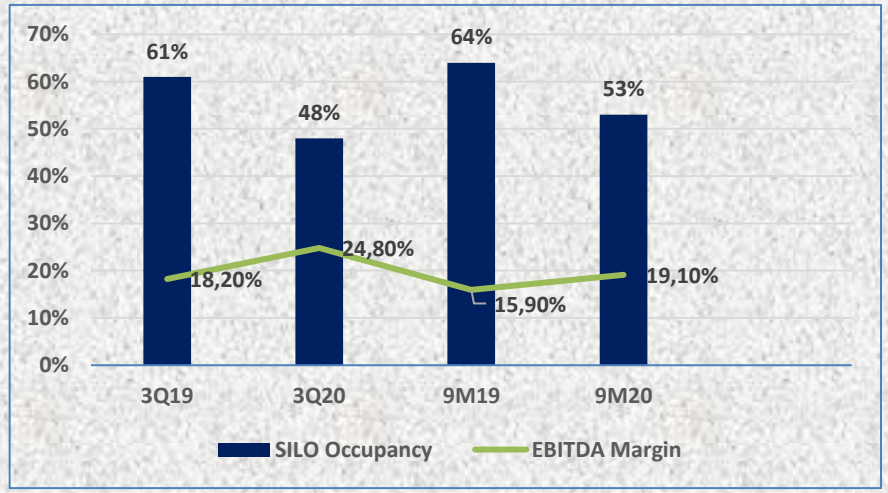
HEALTHCARE AND PHARMACEUTICAL

The healthcare and pharmaceutical services sectors had stable to slightly positive-growth in 2020 and we expect the healthcare and pharmaceutical sectors will keep growing in 2021. The positive growth will be driven by government's stimulus with around IDR 212.5 trillion in 2020 allocated for healthcare. For 2021, the Indonesia government allocates IDR 169.7 trillion or -20.1% YoY because some healthcare equipment that was already purchased in 2020 can still be used in 2021. In 2021, the government is targeting vaccinations for 160 mn people with a budget of IDR 18 tn and additionally to anticipate the implementation of vaccines within the budget of IDR 3.7 tn. The Government is also budgeting IDR 48,8 tn for PBI JKN (recipients of government allowance for Indonesia poor society). For the Pharmaceutical sector, KLBF still recorded positive growth in 9M2020 and margins improved as the nutrition and pharmaceutical businesses increased as demand increased. The hospital sector recorded a decrease in patient volumes but margins improved. SILO recorded a decrease in patient volume (-48%) but margin increased in 3Q2020.

Chart: Indonesia Healthcare Budget

Source: Finance Ministry

Chart: SILO Occupancy vs Ebitda Margin QoQ



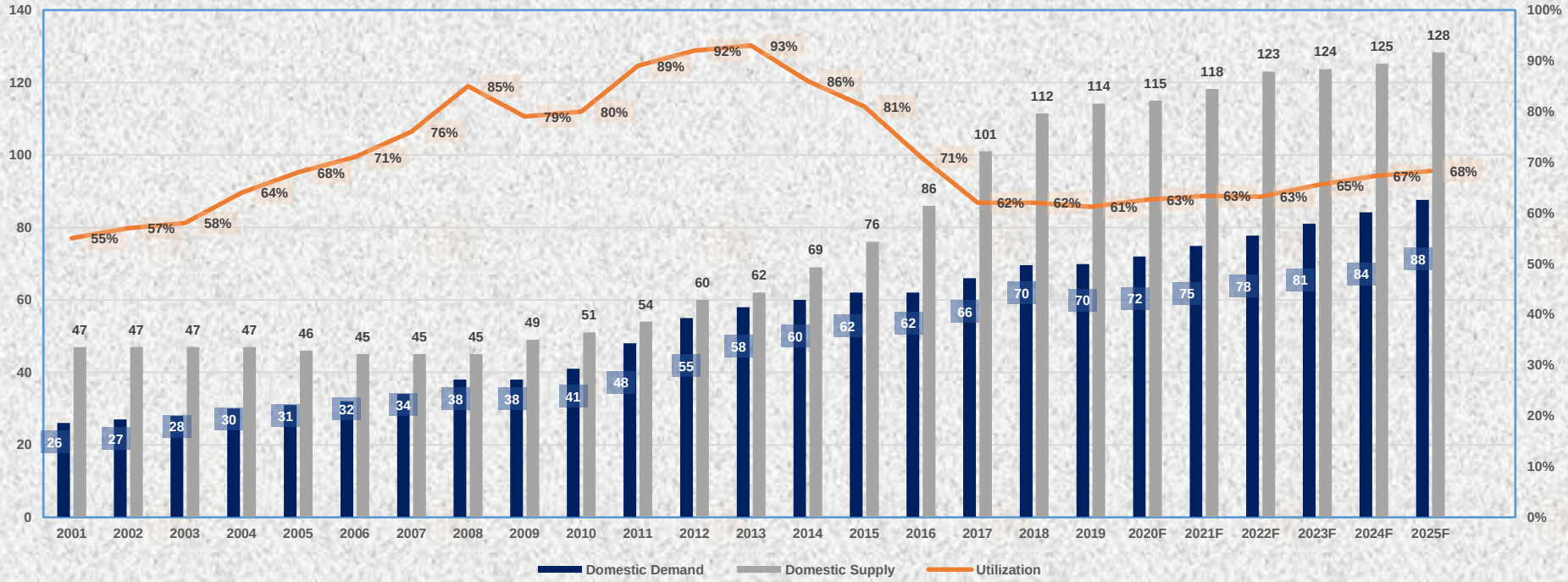
Source: SILO

Sector Outlook

CEMENT

The Covid-19 outbreak and PSBB in 2Q2020, 3Q2020, slowed demand in 4Q2020, because of the slowdown or postponing of infrastructure projects. Coupled with slow demand, oversupply of domestic cement and new players will impact pricing because of tight competition. As we expect an economic recovery from a recovery in the property sector and continuation of Indonesia Government infrastructure projects. We estimate cement demand will increase gradually in 2021.

Chart: Domestic Cement Industry Supply and Demand YoY in Million Tons



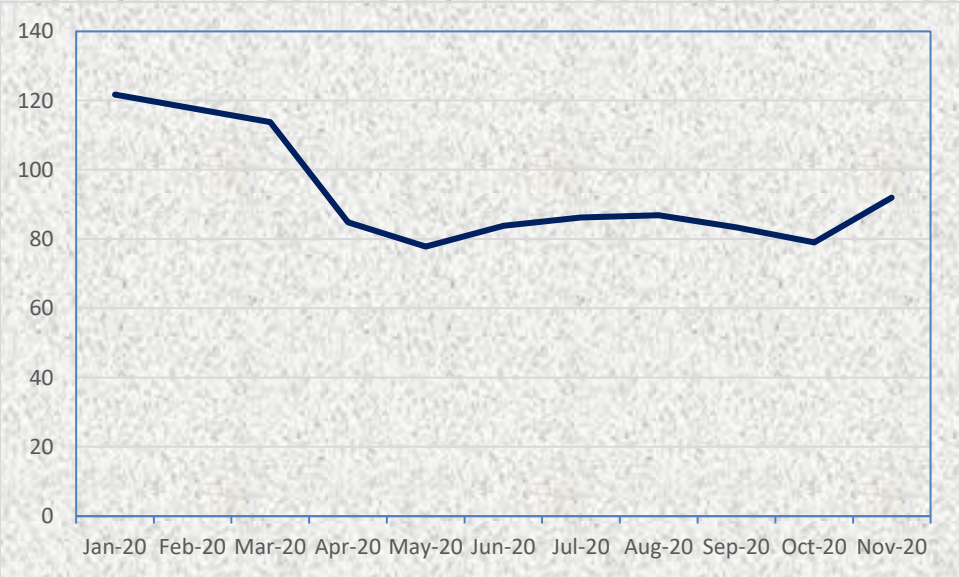
Source: ASI & INTP

Sector Outlook

CONSUMER

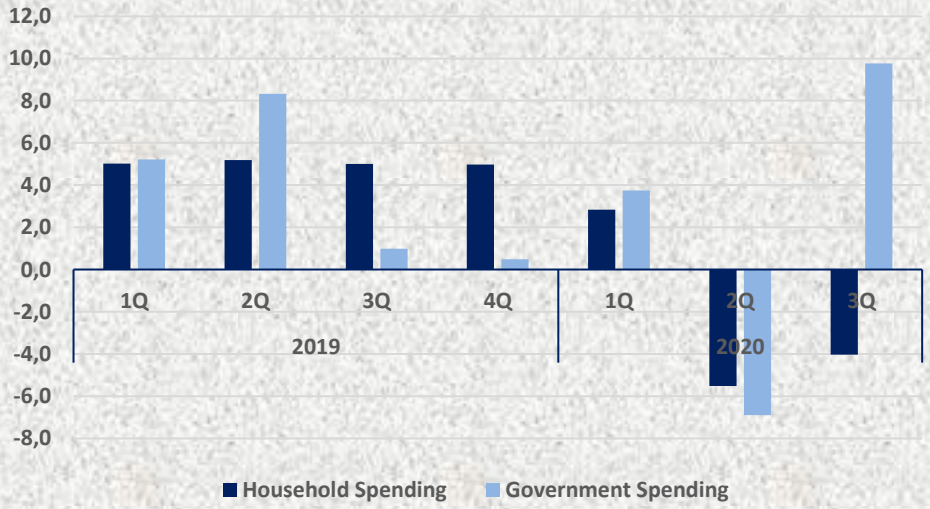
In 2020 the consumer sector contracted but gradually recovered. Indonesia's consumer confidence index in November increased amid hopes of an effective Covid-19 vaccine. Based on BPS data, household consumption during Q3 2020 was better compared to Q2 2020, inline with government spending which grew in Q3 2020. We believe demand and purchasing power will increase in 2021, as we expect the Indonesia economy will gradually recover in 2021, helping consumer companies to enjoy a better performances.

Chart: Indonesia's Consumer Confident Index 2020



Source: Bank Indonesia

Chart: Indonesia's Household and Government Spending



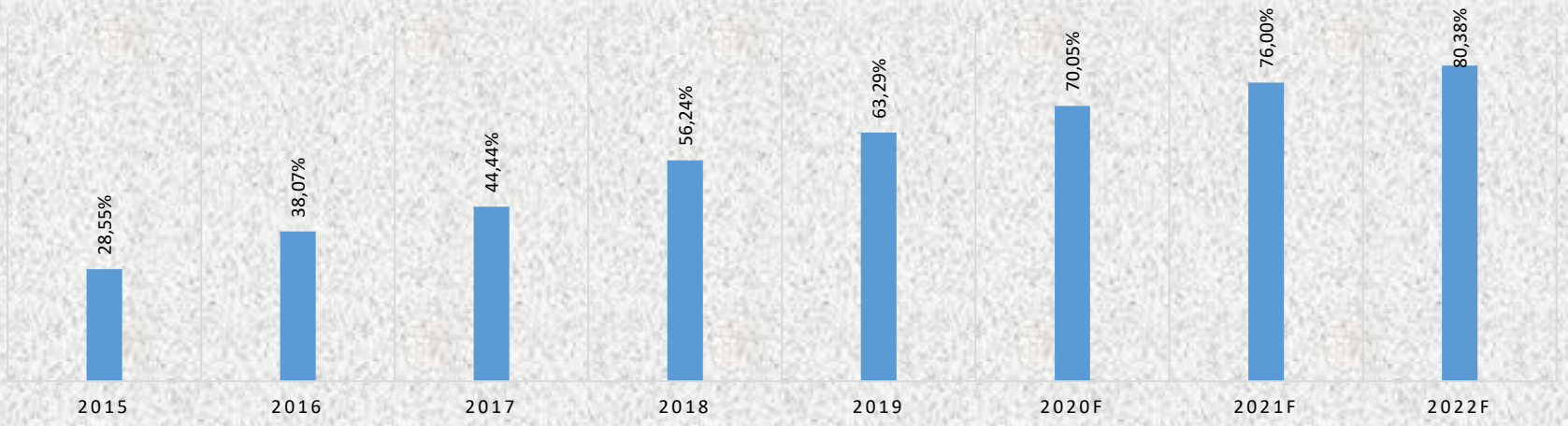
Source: BPS

Sector Outlook

TELECOMMUNICATION

The Covid-19 outbreak turned most activities online and the demand for Data Centers, Cloud, Application services and Fixed Broadband increased In 2020 in line with the rising trend of digital businesses. To meet the needs of costumers, Telecommunication companies continue to prioritize data packages, with a strategy to show improvements in network quality, while maintaining stability in capital spending. The government has started a tender process for 30mhz spectrum in the 2360-2390 range in the 2.3Ghz band and 5G rollout .Launching a 5G network in Indonesia may take years to materialize. There are many things that must be prepared, including network design and architecture, technological aspects, infrastructure improvement, use case development, and regulatory issues. 5G rollout will require a wide spectrum, ranging from low, medium and high spectrum to achieve a balance of capacity and coverage. In 2021F, cost control is an important driver of generating cash flow for telecommunications companies to maintain stable capital expenditure. We are still positive on the long term prospect of the telco sector because of the growing data traffic as well as a growing number of mobile and digital costumers.

Chart: Smartphone Penetration In Indonesia



Sourced By: Statista

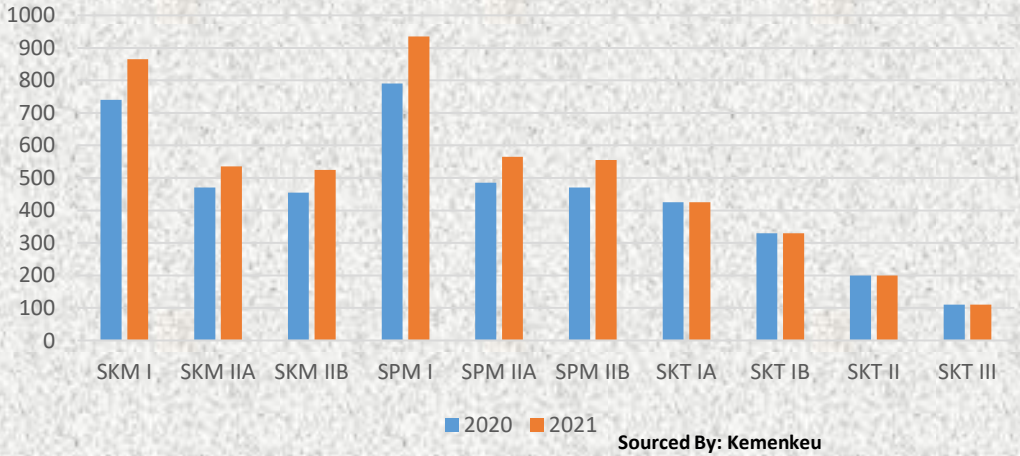
Sector Outlook

CIGARETTES

The Minister of Finance (MoF) announced an increase in tobacco excise by 12.5% in 10 December 2020. These excise tax increases included an increase in the SKM Tier 1 rate by 16.9%, SPM Tier 1 increased by 18.4%, and there was no change in the SKT excise tax. We view that this new excise structure will have a negative impact on Tier 1 players as price gaps widen and downward trading will continue. In addition, Tier 1 player margins will be at risk due to competition and a lack of pricing power in the industry. Margin contraction will continue as cigarette makers struggle with sharp tax increases, intense competition and weak purchasing power due to the ongoing pandemic.

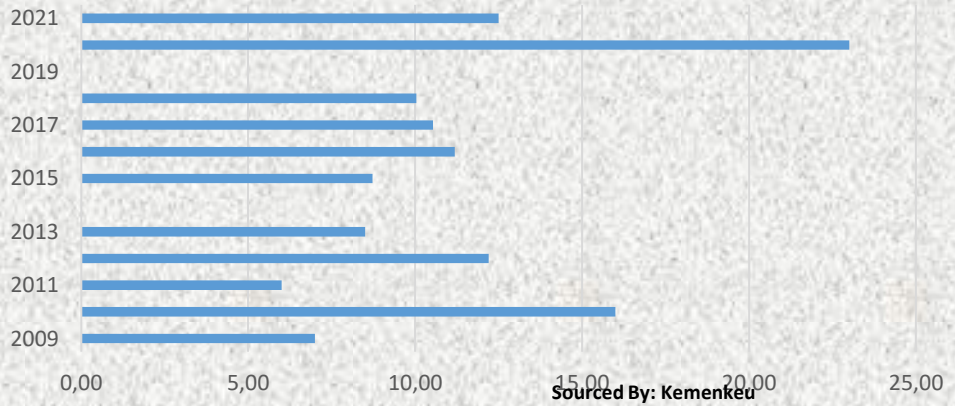
In 2021F, We see the government will continue to enforce excise tax increases to reduce prevalence by encouraging SKM and SPM Tier II B, we see margin contraction will continue and competition is getting tighter and weak purchasing power due to the ongoing pandemic.

Chart: Tobacco Excise Tariffs Per Type



Sourced By: Kemenkeu

Chart: Increase in Cigarette Excise



Sourced By: Kemenkeu

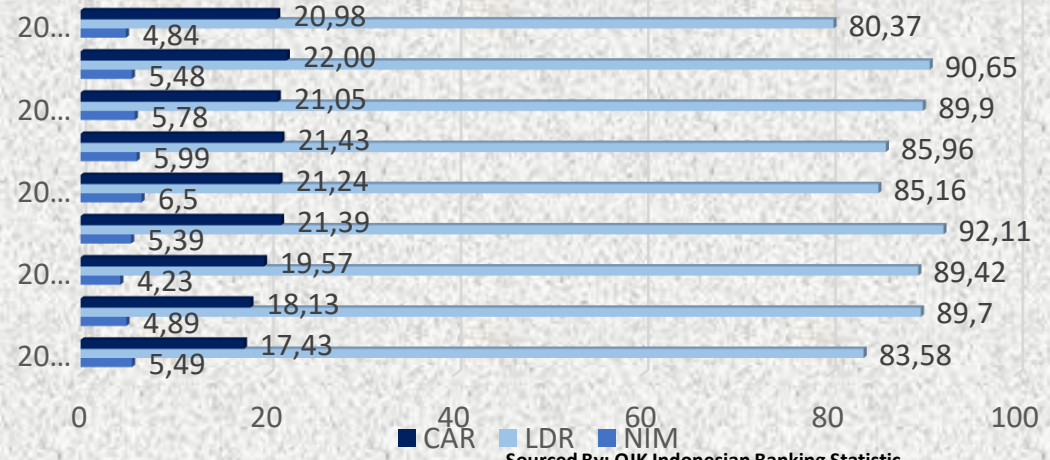
Sector Outlook

BANKING

The banking industry was hit hard by the Covid-19 pandemic in 2020 with loan growth touching its lowest level. The slowdown in credit growth originated primarily from working capital and consumer loans, while investment loans have been the main support for loan growth. Working capital lending is slowing down because many borrowers limit operations so that they do not take advantage of loan facilities from banks. Bank NIMs continued to show sequential increases since April, and August saw an increase of 42 Bps due to stabilizing yields and still lower funding costs. Deposit growth in September continues to increase at 12% yoy. In 2021F, we see the business gradually returning to normal, and loan demand will also increase, especially in the consumer credit segment. NIM is expected to rebound given the lower cost of funds, although it will not be as big as before the pandemic.

April-May 2020 saw the largest loan restructurings, which then began to decline from July. The bank has calculated the measurement of loan losses based on the restructured loan book, with the criteria for losses remaining conservative despite relaxation of asset quality from OJK. For 2021F, we still see restructuring, especially in the corporate segment, which has a longer processing period.

Chart: Bank Performance YoY



Sourced By: OJK Indonesian Banking Statistic

Chart: BI Rate

Sourced By: OJK Indonesian Banking Statistic

Indonesia Bond Outlook

The prospect of investment in the bond market in 2021 is expected to remain attractive. While the potential for a rate cut will be limited next year after considerable declines so far this year, the bond market is still likely to continue to rise. This is because foreign investors are still comfortable with the Indonesian bond market. Currently the share of foreign investors is around 38%-40% in the bond market, compared to the beginning of the pandemic, when their holdings of Indonesian bonds was below 30%. Bonds are the only investment instruments that have shown resilience in the midst of the crisis caused by global panic after the Covid-19 pandemic. The yield on Government bond (SUN) bonds continues to strengthen, with the current 10-year tenor at 6.1%-6.2%, after weakening in the early days of the pandemic.

Chart: Indonesia Government bond yield and forecast of 20Y Gov Bond

Source: www.worldgovernmentbonds.com

IDX30 STOCKS RECOMMENDATION

STOCK	Recommendation	Target Price(s)
ADRO	HOLD	1715
ASII	ACCUMULATE	6100 & 6800
BBCA	ACCUMULATE	37600 & 39050
BBNI	MAINTAIN BUY	7950
BBRI	HOLD	4640 & 4760
BMRI	MAINTAIN BUY	7550, 7850, & 8050
CPIN	ACCUMULATE	7475
GGRM	ACCUMULATE	66125
HMSP	ACCUMULATE	2550
INDF	ACCUMULATE	8275
INTP	ACCUMULATE	19625
KLBF	ACCUMULATE	1850
PGAS	ACCUMULATE	1800 & 2460
PTBA	ACCUMULATE	4350
TLKM	ACCUMULATE	4540
UNTR	MAINTAIN BUY	30250 & 34500

Thank You

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