

Economic & Strategy Note

Economic Note

October, 2021

Economic at the expansion path while the JCI is expected to trade at higher valuation band

Maintain dovish tone in monetary policy. The Bank Central of Indonesia maintained its official policy rate unchanged at 3.5% and recall its dovish monetary stance amid the gradual economic recovery. Amid the higher commodity price, positive trend of the trade balance surplus and ample foreign reserve, the central bank of Indonesia would have enough room to keep the rate at the low level without sacrificing the rupiah currency volatility. The manageable inflation at 1.59% is also the supportive argument to keep the rate at the low level. We expect the rate would be maintained until the next year.

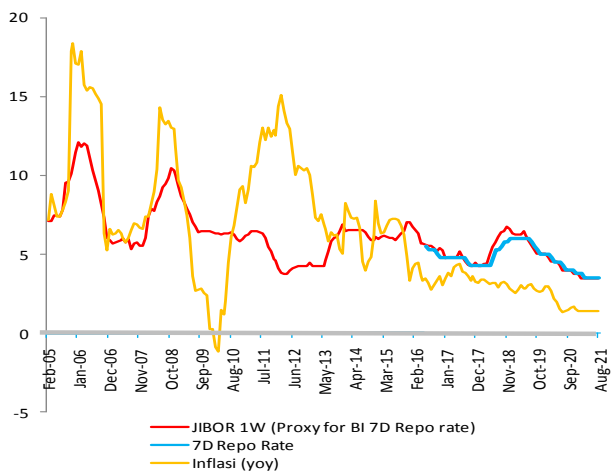
The loosening monetary stance to support the economy is also reflected in several policies. 1) **Continuing the easing of the provisions for advances for credit/motorcycle** financing to a minimum of 0% for all types of new motorized vehicles, to encourage credit growth in the automotive sector that will be effective January 1, 2022 to December 31, 2022. 2) **Continuing to relax the loan to value/financing to value (LTV/FTV) ratio for Property Credit/Financing to a maximum of 100%** for all types of properties (treaded houses, flats, and shop houses/houses), for banks that meet certain NPL/NPF criteria, and abolished the provision for gradual disbursement of indented properties to encourage credit growth in the property sector that will effective in January 1, 2022 until December 31, 2022. 3) **Extend the validity period of the Credit Card policy** with the criteria: 1). The minimum credit card payment limit is 5% of the total bill until June 30, 2022. 2). Decrease in the value of the fine for late credit card payments by 1% of the outstanding or a maximum of Rp.100,000 until June 30, 2022.

The credit growth. The low interest rate and relaxation in the loan term and condition will only effective if the economic and people mobility improves due to the loosening social restriction when the Covid-19 curve could be contained especially for the sector that requires high contact. As of September, the loan has been improved by 0.9% yoy to Rp5,574tn. Currently, the corporate loan and the consumer loan are in the process of consolidation when small fraction is struggling to recover the debt capacity repayment. The expectation of the asset recovery than would be depend on the GDP growth that expected to hover at 4%yoy this year.

Strategy. We highlight several sectors that could be benefited with current economic condition. The property sector and automotive is expected to gain the benefit through the Bank Indonesia loosening policy measure, while banking sector is also would be benefited with the gradual asset recovery. The lower inflation amid the growing economic activity is also supporting positive factor for consumer. We overweight: **BBTN, BBRI, BMRI, BBNI, ICBP, ACES and CPIN** that have decent economic moat. The expectation of credit growth and asset recovery would give a beneficiary for banking sector while the improvement of the economy and manageable inflation would benefit the consumer sector. We also think that the JCI could be fluctuated at the range of 6,800 to 7,100 next year which implying the forward PE Band at 18x to 20x or at between the average to 1+sdv due on the back of the economic recovery. Risk to our call: Third Wave of Covid-19, slower than expected vaccination rate and slower global demand due to prolong energy crisis which could trigger the stagflation.

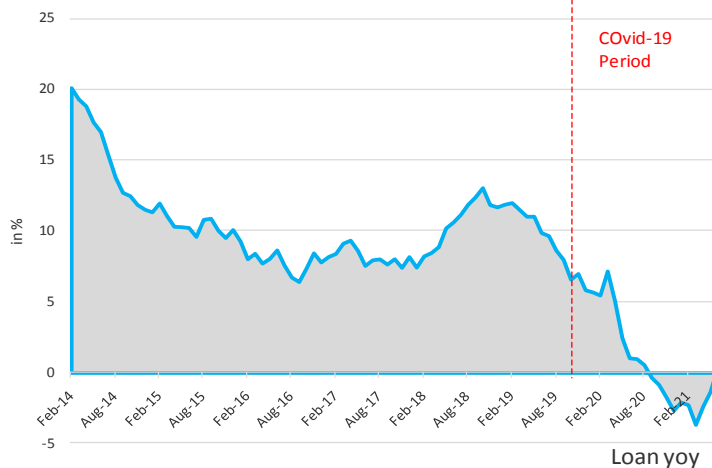
Helmi Therik, FRM
+6221 80869900
helmi.therik@shinhan.com

BI, 7D reverse Repo Rate, inflation and JIBOR 1W



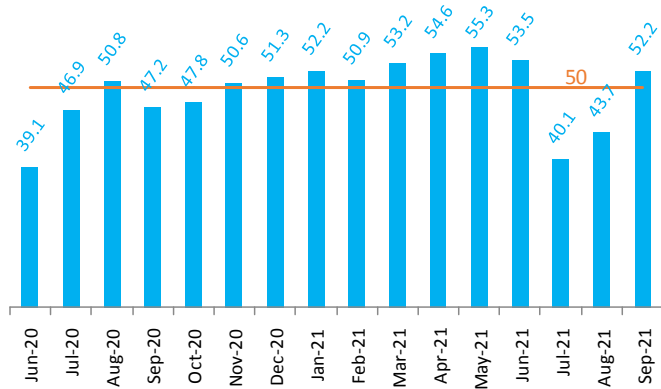
Source: Bloomberg, Shinhan Sekuritas Indonesia

Loan growth has been recover despite at the low level



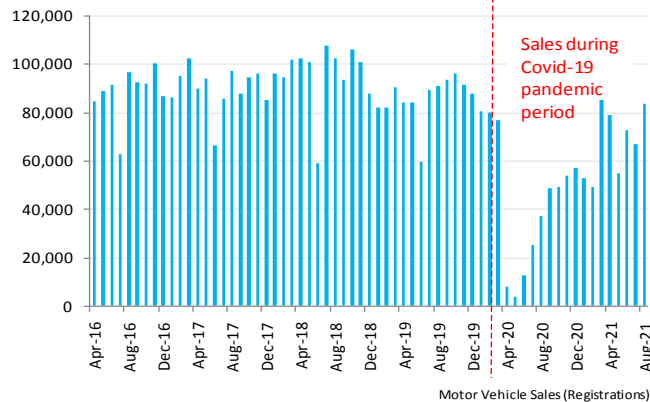
Source: Bloomberg, Shinhan Sekuritas Indonesia

PMI at expansion path or above 50



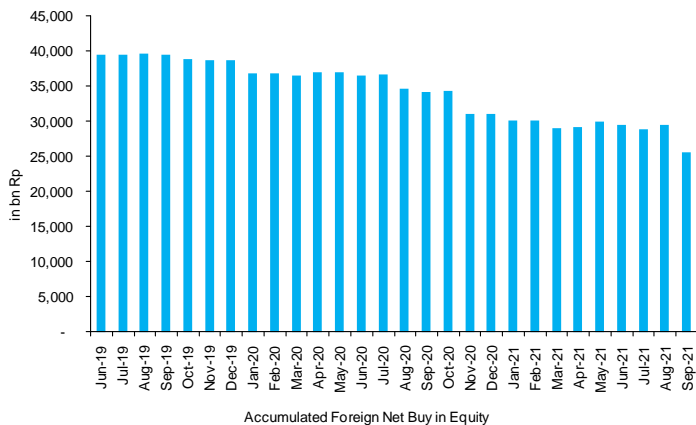
Source: Bloomberg, Shinhan Sekuritas Indonesia

Motorcycle sales continue to grow up along with the



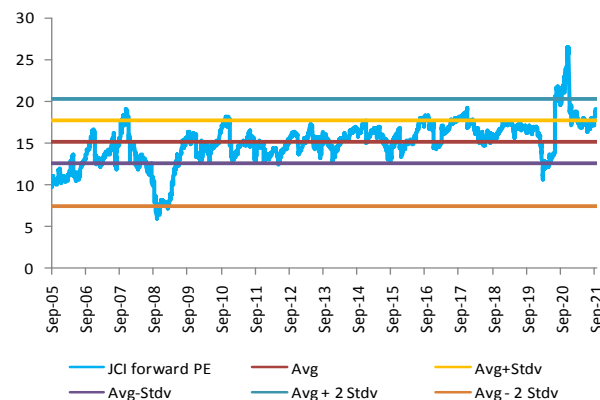
Source: Bloomberg, Shinhan Sekuritas Indonesia

Accumulative Foreign flow in equity still weak, while the domestic retail investor is crawling up



Source: Bloomberg, Shinhan Sekuritas Indonesia

JCI PE Band



Source: Bloomberg, Shinhan Sekuritas Indonesia



Research Team		
Helmi Therik, FRM	Head of Research	helmi.therik@shinhan.com
Billy Ibrahim Djaya	Research Analyst	billy.ibrahim@shinhan.com

Office
<p style="text-align: center;">PT. Shinhan Sekuritas Indonesia Member of Indonesia Stock Exchange</p>
<p style="text-align: center;">Head Office: Equity Tower Floor. 50 Sudirman Central Business District Lot 9 Jl. Jend. Sudirman Kav. 52-53 Senayan Jakarta 12920 Indonesia Telp.: (+62-21) 80869900 Fax: (+62-21) 51402372</p>

Disclaimer: All opinions and estimates included in this report constitute our judgments as of the date of this report and are subject to changes without notice. This information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. Clients should consider whether it is suitable for their particular circumstances before acting on any opinions and recommendations in this report. This report is distributed to our clients only, and any unauthorized use, duplication, or redistribution of this report is prohibited.