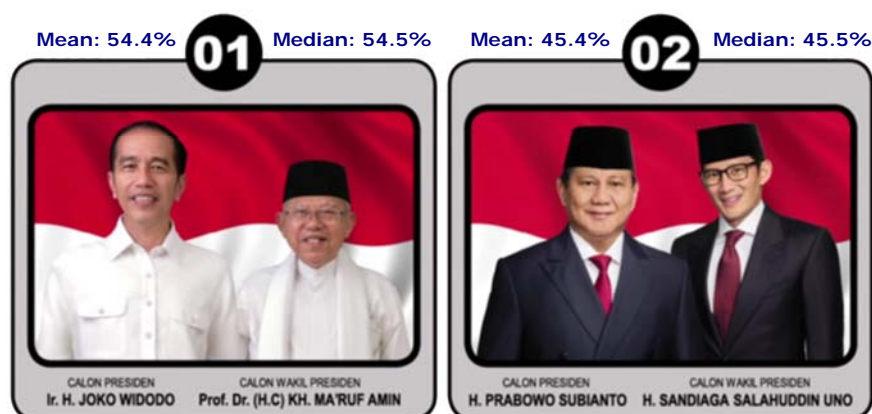


Jokowi to Defend the Throne in 2019 Indonesian Presidential Election

18 April 2019

As of 7:30 A.M. Jakarta time (GMT +7) this morning, 13 listed independent institutions have reported Candidates #01: Joko Widodo and Ma'ruf Amin to win 2019 Indonesian Presidential Election quick count with votes ranging from 52.4% to 55.8% for Jokowi-Amin while their rivals, Prabowo Subianto and Sandiaga Uno, lost by ~900 bps. At the Parliamentary level, Jokowi-Amin coalition parties managed to win 61.5% votes. PDI-P, Golkar, PKB, Nasdem, and PPP secured 19.6%, 11.7%, 9.6%, 8.3%, and 4.5% votes respectively, while the other supporting parties (Perindo, PSI, Hanura, PBB, and PKPI) acquired 7.8% votes altogether. From the opposition party, Gerindra, Demokrat, PKS, PAN, and Partai Berkarya acquired 37.9% votes combined. KPU real count can be monitored via KPU's website while official recapitulation will be announced on 22 May 2019. Though we expect the results will merely serve as confirmation given the 9% gap between the two candidates already leaves sufficient room for discrepancies. Based on previous election, these quick counts could have up to 5% margin of error compared to the actual result.

2019 Indonesian Presidential Election Quick Counts



Source: Various Quick Count Surveys, Sinarmas Investment Research

Given the preliminary result, we view market to be buoyed by election euphoria as quick count outcome was in-line with consensus expectation, which will lead to a buying spree among select big capitalization companies (beneficiaries: **BMRI, ASII, TLKM**). From foreign flow perspective, result is seen to be positive for both equity and bond markets as government budget spending and realization under Jokowi administration proved to be credible and transparent. To add, Indonesia also achieved Investment grade from S&P, Moody's, and Fitch under Jokowi regime. While we reiterate our 9.3% FY19E EPS growth guidance for JCI, we see potential rerating in the near term as foreign flow kicks in. In the meantime, with the incumbent winning the race, we expect smooth transition from current to the new administration, leading to a more productive governmental activities going forward.

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Jokowi-Amin, during their campaign activities, pledged the likelihood to continue what have been started and accomplished during the first Jokowi's presidential term including infrastructure projects (i.e. sea toll, MRT, LRT, ports, etc.). While we see new contract growth for infrastructure projects have peaked, these projects are expected to increase country's attractiveness and attract Foreign Direct Investment as they promote better mobility, cheaper logistic cost, and additional access for industrial estate. **The continuity of infrastructure projects will be a tailwind to Construction and Industrial Estate, though valuations for selected stocks are demanding at this point as they have rallied prior to the election (beneficiaries: WIKA, PTPP, DMAS).**

In addition to previous programs, Jokowi-Amin aim to gradually shift government focus from infra-oriented projects to human capital development. That being said, the new administration plans to launch three special-aid cards; Smart Indonesia card: University, Affordable Staples Foods card, and Pre-employment card to complement the three existing cards (Smart Indonesia card: Elementary-High School, Healthy Indonesia card, Prosperous Family Savings card) launched during the first Jokowi's ruling period. If carried out successfully, we see betterment in lower-end household welfare. **Hence, we favor domestic-based Consumer Staples and Retailers as they will benefit from higher disposable income (beneficiaries: INDF, ICBP, GGRM, HMSP, RALS).** Continuing on lower-end household welfare, while Jokowi-Amin has not mentioned any update on Kredit Usaha Rakyat (KUR) and One Million Housing program, we expect a continuity on both programs as no major changes have been made to this date. **Therefore, we see selected policy banks to benefit from the elected pair (beneficiaries: BBRI, BBTN).**

On SOE Holdings formation, Jokowi-Amin will maintain ongoing effort to form up to 16 SOE holdings in order to trim bureaucracy processes among SOE's. The SOE holdings formation should lead to better operating efficiency, faster budget disbursement, as well as timely execution delivery on government-related projects and programs. At this time being, Ministry of State Owned Enterprises, under Rini Soemarno, has completed two holdings formation (i.e. Mining and Fertilizer) with two others (i.e. Infrastructure and Housing) that are being close to completion. Going forward, the ministry aims to form several more holdings to further improve SOE's performance. SOE holdings formation in the pipeline includes: Financial Services, Energy, Pharmaceutical, and Aviation. **Given the SOE holdings continuation, selected stocks will benefit more than others should the formation succeed (beneficiaries: BBTN, GIAA).**

Regarding the biofuel implementation, Jokowi administration has released strict enforcement on B20 mandate for both PSO and Non-PSO since last year and will continue to strive the biofuel compliance until it reaches B100. This year, Jokowi administration aims to accomplish 6.2 Bn liters of biodiesel production and has started with the B30 pilot project engagement. According to the latest development, the B30 commencement is targeted to come into force in 2020. Be that as it may, the biodiesel mandate is intended to enhance domestic CPO

consumption and reduce the global CPO supply which could lead to healthier CPO prices. **We are of the view that government will closely monitor this issue as CPO is one of the country's key export commodities which strongly relates to small farmers' welfare (beneficiaries: AALI, LSIP).** Key risk to our thesis includes the implementation of Renewable Energy Directive (RED) II in European Union that gradually bans palm oil usage in biofuel, thus disrupt CPO prices.

In terms of illegal business practices, Jokowi has shown satisfactory results in regulating illegal mining activities and reducing corruption during his first presidential term. One of the sectors that was previously exposed to illegal mining activities was the tin industry. Nonetheless, with the enforcement of illegal mine control, PT Timah (Persero) Tbk, as a major tin player in Indonesia, managed to contribute 98% out of Indonesia's total tin export in 1Q19 (vs 33% in 1Q18; +181% YoY). Furthermore, Jokowi has also directed the Minister of Communication and Informatics, Rudiantara, to implement IMEI registration in an effort to control the smartphone black market. **Given his track record and intentions, the enforcement of the above listed initiatives is more likely to continue and remain strict if he continues his presidency (beneficiaries: TINS, ERAA).**

Being known as the country's most senior Islamic cleric, Jokowi's running mate, Ma'ruf Amin, has devoted his campaign to promote Islamic banking and finance (Sharia-compliant financial services) once inaugurated. Having been involved in Islamic institutions while upholding many key roles since early career, Amin aims to raise awareness on Islamic banking and finance. As the most Muslim-populated country, Indonesia's financial inclusion toward Sharia-compliant financial services is considered to be low. According to the latest reading compiled by Otoritas Jasa Keuangan (OJK), Indonesia's market share in global Sharia banking only stood at 8.0% as of FY17, far behind other countries such as Malaysia, UAE, Kuwait, Bahrain, and Saudi Arabia. This figure indicates that Islamic finance market in Indonesia is still underdeveloped. **With close to 90% of Indonesian population being Muslim, Indonesia's Islamic banking and finance has ample room for growth with low-hanging fruits (beneficiaries: BRIS, BTPS).**

In conclusion, with the incumbent's victory in 2019 Presidential Race, we expect minimal changes in the government's direction and policies, leading to stable CCI and FDI. With a consensus outcome, we expect an euphoria to take place and buying action to commence from both domestic and foreign investors. This will benefit big capitalization companies such as **BMRI, ASII, TLKM**. From the continuity of infrastructure development, improvement in lower-end household welfare, SOE holdings formation, biodiesel mandate, strict business regulation, and Sharia financial inclusion, these names will benefit: **WIKA, PTPP, DMAS, INDF, ICBP, GGRM, HMSP, RALS, BBRI, BBTN, GIAA, AALI, LSIP, TINS, ERAA, BRIS, BTPS**. Nevertheless, though we see positive outcome from the election, history has shown that during an incumbent's second term, they are less likely to be reformist compared to the first term, which may convey both positive and negative message to the market.

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