

KIWOOM SEKURITAS INDONESIA

Market Outlook 2H26

# From Cheap Valuation to Re-Rating

*The Battle to Win Back Global Capital*

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*“What will determine whether Indonesia’s cheap valuation finally becomes a re-rating?”*

# A fragile ceasefire, a hawkish Fed, and oil still finding its floor

Indicator	Latest (Jun 2026)	2H26 Consensus Range	Key driver
Fed Funds Rate	3.50–3.75%	Hold, hike risk into Dec	Core PCE 3.4% YoY; 9 of 19 FOMC members see hikes
US PCE Inflation (headline)	4.1% YoY	3.8–4.4%	Oil pass-through from Iran war; Fed forecast revised up from 2.7%
US GDP Growth	2.0% (Q1 ann.)	1.8–2.2%	AI capex offsetting tariff- and energy-driven drag
Brent Crude Oil	~US\$74/bbl	US\$70–90/bbl	Ceasefire holding = low end; renewed Hormuz strikes = high end
US Treasury Yield (2Y / 10Y)	4.07% / 4.38%	4.00–4.40% / 4.30–4.70%	Hawkish Fed vs. safe-haven demand if war reignites
Indonesia SBN Yield (2Y / 10Y)	~6.6% / ~7.2%	6.50–7.00% / 7.25–7.60%	BI Rate hiked 100bps to 5.75%; foreign SBN holdings near 2-decade low
USD/IDR	~17,900	17,700–18,200	Broad USD strength + domestic governance concerns

**Geopolitics is the wildcard, not the base case.** The US-Iran ceasefire (signed 17 Jun) remains fragile, with strikes resuming as recently as 28-29 Jun before both sides again agreed to stand down. Russia-Ukraine talks stay stalled, with Moscow rejecting direct dialogue. Oil has eased to ~\$70/bbl from April's \$126 peak, but a single escalation can reverse that fast.

Source: Federal Reserve (Jun 2026 FOMC); CME FedWatch; US Treasury H.15; Bank Indonesia; HSBC AM Mid-Year Outlook (Jun 2026); Reuters, CNN, Al Jazeera, AP (Iran ceasefire, 28-29 Jun 2026)

# Indonesia is cheap. So why hasn't capital come home?

**13.1x**

Market PER, as of last June 2026  
vs 5-yr average ~16x

**-39.1%**

IHSG YTD return, as of 29 Jun  
— worst major index globally

**5.61%**

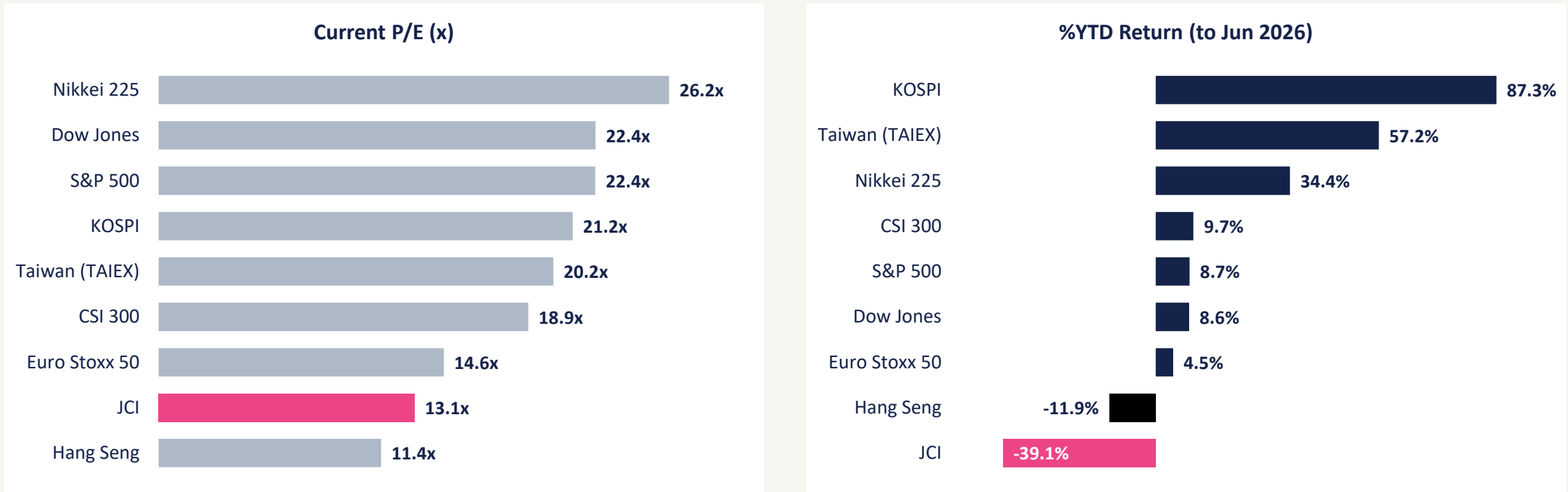
Real GDP growth 1Q26  
still among Asia's fastest

**Today is not about whether the JCI rallies 10% or falls 10% in 2H26.**

The bigger question is structural: what exactly will convert Indonesia's persistent valuation discount into a genuine re-rating — and what happens if it doesn't?

*That is the question this outlook is built to answer — not with a year-end index target, but with a framework.*

# Among the cheapest on P/E. Still the worst performer.



**Jakarta Composite Index (JCI) or Indeks Harga Saham Gabungan (IHSG) is the second cheapest major index in this set** — at 13.1x P/E, below every peer shown except Hang Seng. Yet it scores the biggest negative YTD return, down 39.1% while KOSPI and TAIEX posted some of the region's strongest gains. Cheap valuation alone has not brought capital back.

Source: Bloomberg - Market data as of 29 Jun 2026 (Current P/E; %YTD to current)

# Foreign capital is voting with its feet — in bonds and in benchmarks



***“The big trade in Asia is sell Indonesia” — George Boubouras, K2 Asset Management, after exiting all Indonesia positions in 2024***

Foreign holdings of Indonesian government bonds have fallen from above 40% of total outstanding in 2019 to roughly 13–14% today, even as total issuance has nearly doubled — outright deleveraging, not just slower growth. In parallel, Indonesia’s MSCI EM weight has slid from 2.6% in 2016 to just 0.4% now, a structural ~85% erosion. Passive funds are mechanically forced to cut exposure as the weight shrinks, and active managers follow; lower weight begets lower liquidity, coverage, and attention — a self-reinforcing loop that pure GDP growth cannot fix on its own.

Source: Indonesia Ministry of Finance, Bloomberg (foreign bond ownership); Bloomberg, UOB Kay Hian (MSCI EM weight)

# Global capital no longer buys the past. It buys the future.

## THE OLD WORLD

- Cheap valuation
- High headline GDP
- Commodity exposure
- Population size
- Domestic demand scale

## THE NEW WORLD

- AI ecosystem & compute capacity
- Innovation & productivity growth
- Governance & transparency
- Capital efficiency (ROE/ROIC)
- Market accessibility for foreign capital

**The proof is already trading:** Nasdaq and KOSPI have repeatedly printed record highs on AI-led names (semiconductors, hyperscaler capex), while 2026's largest IPOs — SpaceX (~USD 75bn raise) and the anticipated Anthropic / OpenAI listings (each privately marked near ~USD 1 trillion) — are all AI-native. Capital is voting with its feet, and the ballot box is technology.

# What is shaping where global capital flows in 2H26

01

## AI Supercycle Continues

Focus shifts from hype to monetization & earnings. Fed-on-hold yet Nasdaq/KOSPI keep printing records on AI capex.

02

## Fragmentation Replaces Globalization

Capital follows energy security & supply-chain resilience, not just efficiency — regionalisation over globalisation.

03

## Higher-for-Longer Rates

International house view: Fed holds through 2026, cuts only in H1'27. US 10Y anchored at 4.25–4.50%.

04

## Sticky Inflation

US core PCE hit 3.3% YoY in April — highest since late 2023. Energy, tariffs and 'techflation' keep prices elevated.

05

## Capital Becomes More Selective

Capital isn't leaving risk assets — it is concentrating in fewer, better-governed destinations.

*These are not market “themes” — they are structural forces deciding where global money physically flows. Next: where is it actually going?*

# Where is global money actually going?

## OVERWEIGHT — WHERE CAPITAL IS GOING

- US equities — AI capex, broadening earnings
- Taiwan — AI/semiconductor structural growth
- Korea — memory chip cycle
- China — tech & comms re-rating potential
- India — domestic growth, oil-risk beneficiary
- Gold — preferred diversifier
- EM USD government bonds — carry + Fed-hold

## UNDERWEIGHT — BYPASSED BY THE CYCLE

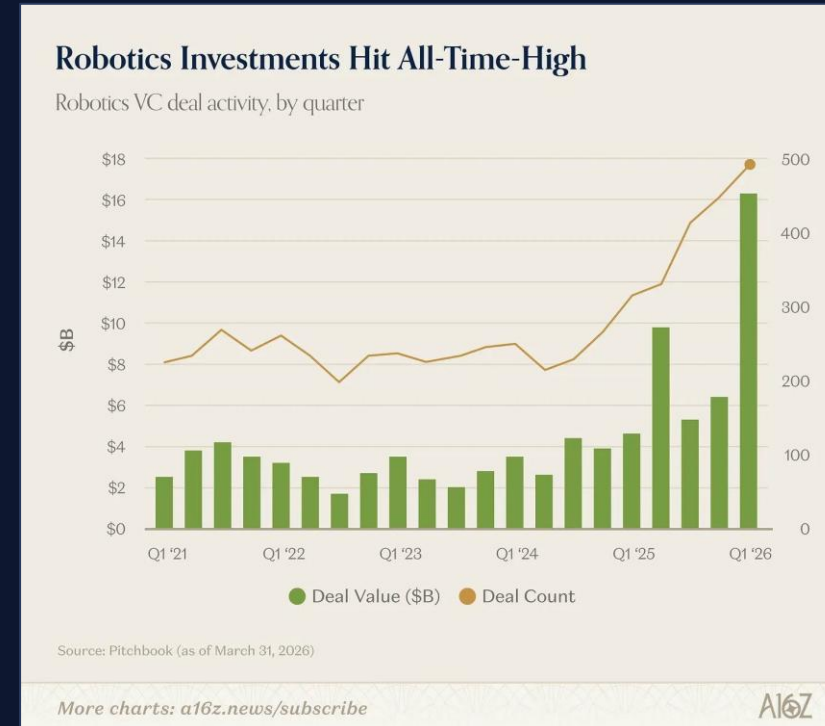
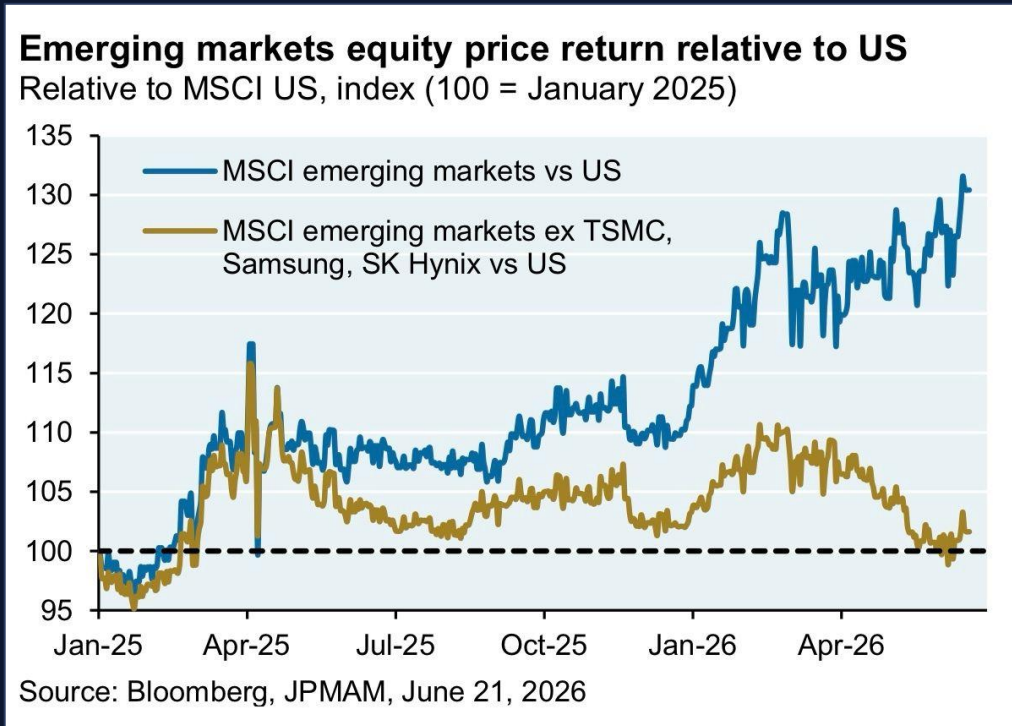
### ASEAN equities

International house view rates ASEAN — including Indonesia — as structurally Underweight: muted earnings growth, low exposure to the AI/tech theme driving the rest of Asia ex-Japan higher.

**The pattern:** foreign capital is not fleeing Emerging Markets — it is rotating within them. Korea, Taiwan, India and China are all up double digits to triple digits YTD. Indonesia is the outlier left behind.

Source: Standard Chartered Global Market Outlook H2 2026, Foundation tactical asset allocation

# An AI supply-chain rally wearing an EM label



**Two themes are absorbing the world's capital — and Indonesia has almost no exposure to either.** Strip out TSMC, Samsung, and SK Hynix, and MSCI EM's headline outperformance versus the US since Jan-2025 (~130 indexed) collapses to barely above 100 — this is an AI semiconductor supply-chain rally wearing an EM label, not a broad emerging-markets comeback. At the same time, robotics VC funding hit an all-time high in 1Q26, with deal count also at a record — AI has solved robotics' intelligence bottleneck, and capital is rotating into the next infrastructure theme.

*Indonesia's listed market remains dominated by banks, commodities, consumer names, and conglomerates — structurally absent from both the AI semiconductor supply chain and the emerging robotics buildout.*

Source: Bloomberg, JPMAM (Jun 21, 2026); PitchBook (as of Mar 31, 2026), via a16z

# Vietnam uses AI to think. Indonesia uses AI for tasks.

**39%**

of Vietnamese knowledge workers are “AI Frontier Professionals” — vs. 16% global average. #1 in SE Asia.

**76%**

of Vietnamese AI users produce work they couldn’t a year ago — vs. 58% global average

**88%**

of Indonesian company workers use AI — high usage, but Indonesia received no country spotlight on depth of use

**0 of 10**

APAC country spotlights in Microsoft’s 2026 Work Trend Index went to Indonesia, out of 10 markets surveyed (20,000 workers). Singapore, Malaysia, and Vietnam each got one.

**“Organisational culture, manager support, and talent practices account for more than twice the AI impact of individual mindset and usage.”**

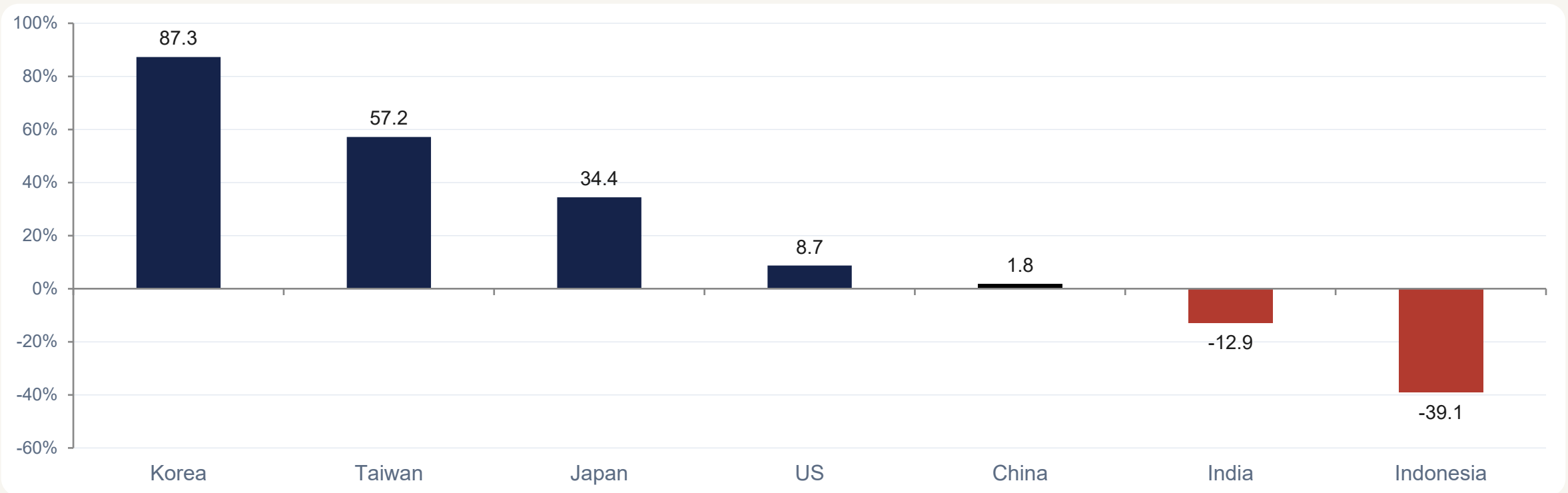
— Microsoft Work Trend Index, June 24, 2026. Vietnam’s 39% did not happen because workers are more capable; it happened because organisations were built to expect AI-level thinking, not just AI-level speed.

## Why this matters for capital, not just productivity

Indonesia’s MSCI EM weight has fallen from 2.6% in 2016 to 0.4% today (see p.04). Vietnam, meanwhile, is not yet in MSCI EM at all — it remains Frontier Market-classified, missing MSCI’s 2026 watchlist again on 23 Jun. The momentum sits with FTSE Russell instead: Vietnam’s upgrade to Secondary Emerging Market status takes effect 21 Sep 2026, with the World Bank estimating up to USD 25bn in cumulative foreign inflows by 2030 if a future MSCI upgrade follows.

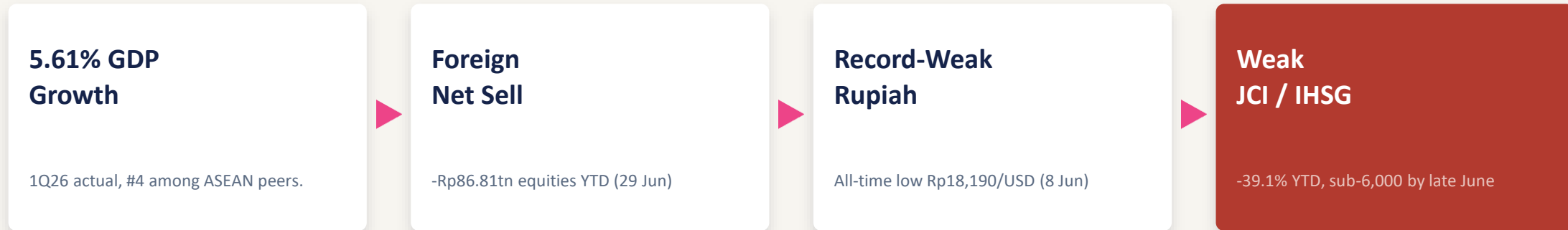
**The two countries sit in different index categories today, so this is not a direct “capital rotated from Indonesia into Vietnam within MSCI” trade. The more defensible read: Vietnam is building the reform credibility and AI-adoption depth that earns index upgrades and fresh foreign capital, while Indonesia’s MSCI weight keeps eroding — a widening competitiveness gap in investor attention, even before either country’s benchmark status fully converges.**

# While Asia rallied, Indonesia became the world's outlier



**Indonesia is not merely underperforming** — it is the worst-performing major index tracked across global comparison set, the only market posting a near-40% decline while almost every other major Asian benchmark is positive.

# Strong growth. Weak currency. Weaker market. Why?



If GDP alone determined capital allocation, foreign investors would be buying — not selling. They are not. That gap is the entire thesis of this outlook.

## IT'S NOT ONLY PORTFOLIO SELLING

Indonesian corporates have been actively deleveraging — repaying foreign debt and trimming offshore deposits. This creates structural USD demand independent of equity flows, per Danamon research, making Rupiah stabilization harder even before portfolio inflows return.

## BI'S DEFENSE: +100BPS IN SIX WEEKS

Bank Indonesia hiked the policy rate three times — May (+50bp), 9 Jun emergency (+25bp), 18 Jun scheduled (+25bp) — to 5.75%, the highest since April 2025, explicitly to defend the Rupiah and re-attract portfolio yield-seekers.

Source: Ministry of Finance DJPPR, IDX trade data, Bank Indonesia, Danamon research, Kompas.id reporting (Jun 2026)

# Consumption holds, but the cushion underneath is thinning

01

## Confidence Slipping

BI Consumer Confidence Index fell to 120.9 in May (from 123.0) — a 5-month low. Current economic conditions sub-index dropped 4.3pts

02

## PMI: Back to Neutral

S&P Global Manufacturing PMI recovered to 50.0 in May (from a 10-month low of 49.1) — but only on domestic orders. Exports fell at the sharpest pace since Aug 2021, and input costs hit a record high

03

## "Eating the Savings"

Households' saving-to-income ratio fell to 17.5% in May 2026 from 19.4% pre-pandemic. Savers under Rp100mn now hold just 11.5% of total bank deposits, down from 14.2% in 2019 — consumption is increasingly funded by drawdown, not income growth

04

## Middle Class Thinning

Only ~17% of Indonesians sit in the true middle class; ~49% are "aspiring middle class" with thin economic buffers. This segment drives over 80% of household consumption — the main engine behind GDP growth is also the most fragile

05

## Government Steps In

Prabowo's 2H26 stimulus package: 30% rail/ferry discounts, food aid for 33.2mn recipients (Jul-Sep), national internship for 150k graduates, and 0% import duty on petrochemical inputs — a direct response to the consumption-fragility signals above

**5.61% headline growth masks a consumption base that is getting thinner.** Fiscal stimulus can bridge the gap short-term, but real wage growth and middle-class income resilience are what determine if consumption stays a tailwind into 2027.

Source: Bank Indonesia Consumer Survey (May 2026); S&P Global PMI Indonesia (May 2026); BI/Tempo savings-to-income analysis (Jun 2026); LPS deposit distribution; Mandiri Institute; Bakom RI / IDXChannel (29 Jun 2026)

# MSCI just gave Indonesia a deadline

27 JAN

**MSCI freezes Indonesia index changes**

FIF weighting frozen; zero new additions to IMI

29 MAY

**19 companies removed, zero added**

~USD 1.8bn (Rp31.5tn) estimated passive outflow

23 JUN

**Conditional retention as Emerging Market**

“Consultation on reclassification to Frontier” explicitly on the table

NOV '26

**The deadline**

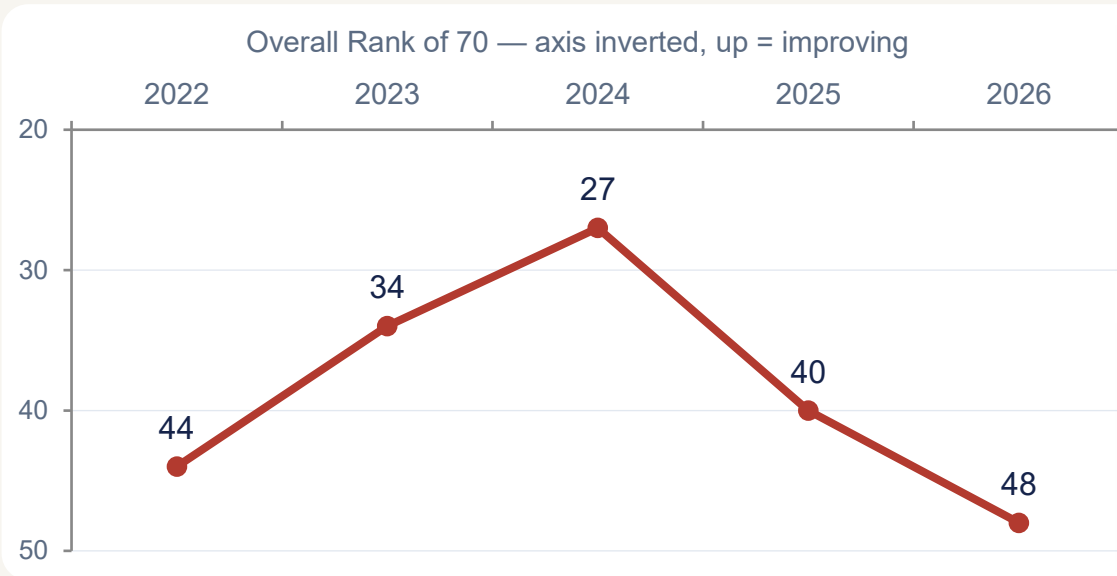
Next MSCI Index Review — the single most important date of 2H26

*“Should sufficient progress not be evident by the time of the November 2026 MSCI Index Review, MSCI will consider a range of options for the appropriate treatment for the Indonesia market, potentially including a consultation on the reclassification of Indonesia from Emerging Markets to Frontier Markets.”*

— MSCI 2026 Market Classification Review, 23 June 2026

*Reading isn't binary: this is not a downgrade. It is a conditional reprieve with a verification clause — and verification clauses are exactly what re-rating is made of.*

# IMD World Competitiveness Ranking 2026: the verdict



**-8 PLACES**

Sharpest single-year drop in the dataset — #40 (2025) to #48 (2026)

## OVERTAKEN

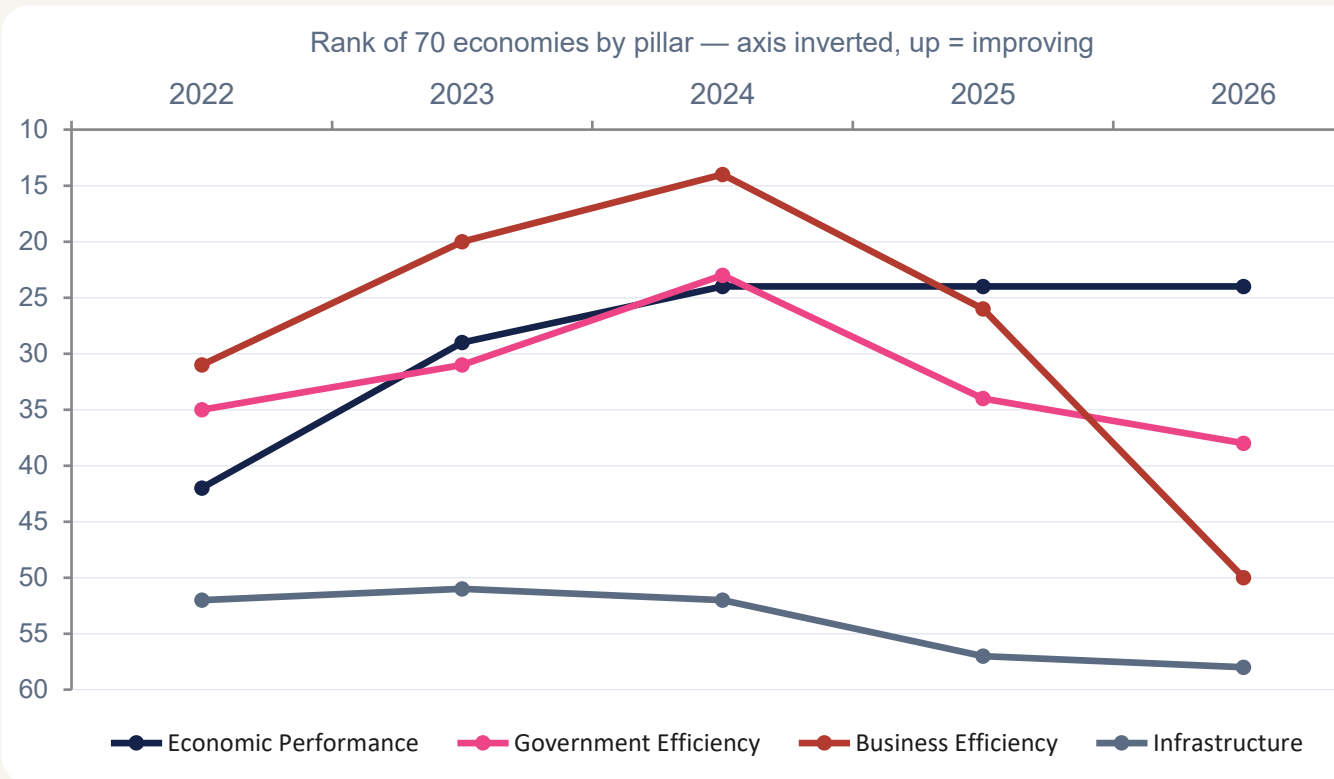
by the Philippines (#47, up 4) — Indonesia is now LAST among 6 major ASEAN economies tracked

Singapore #1 · Malaysia #15 · Thailand #26 · Vietnam #27 · Philippines #47 · Indonesia #48

**Vietnam, with a fraction of Indonesia's economy, ranks 21 places ahead.** Market size alone no longer buys a premium — serious capital now prices in institutions, human capital, and policy predictability.

Source: IMD World Competitiveness Yearbook 2026, pages 64–67

# Where exactly is Indonesia bleeding competitiveness?



**BUSINESS EFFICIENCY: #14 → #50**

Steepest fall of all four pillars in just 2 years — productivity, labor market & management practices all eroding

- IMD'S OWN 2026 VERDICT ON INDONESIA**
- Energy security threatened by global confrontation
  - Fairly stagnant economic growth
  - Government budget realignment
  - Inadequate infrastructure & human capital
  - Limited financing availability

**The weakest links sit inside Infrastructure:** Health & Environment ranks #65 of 70, and Education #63 of 70 — these are multi-year fixes, not quarterly ones.

Source: IMD World Competitiveness Yearbook 2026, Indonesia country profile & 5-year factor rankings, pages 84–116

# Indonesia still grows. What matters now is how.

## STRUCTURAL ENGINES

- ✓ Household consumption
- ✓ Private investment
- ✓ Productivity growth

*These compound — a durable, re-ratable story capital can underwrite for years, not quarters.*

## CYCLICAL STABILIZERS

- Government spending
- Fiscal stimulus (MBG etc.)
- Temporary liquidity injections

*These cushion downturns, but cannot be the basis for a re-rating thesis on their own.*

**The diagnosis:** an increasing share of recent Indonesian growth has leaned on the right-hand column. Fiscal support is the right call during uncertainty — but sustainable re-rating ultimately requires the left-hand column to do more of the work.

# The Five Tests for Re-Rating

**01****Policy Credibility**

Consistent, predictable rules —  
not announcement-by-  
announcement governance

**02****Market Accessibility**

Free float, ownership  
transparency, FX liquidity —  
directly what MSCI is auditing

**03****Governance**

Verified, not promised —  
disclosure standards matching  
global norms

**04****Capital Mobility**

Frictionless in and out for foreign  
portfolio and direct investment

**05****Innovation**

A credible stake in the  
AI/productivity story the rest of  
Asia is being paid for

**If these five improve, re-rating follows. If they don't, cheap simply stays cheap — indefinitely.**

# Can Danantara change the story?

*Can a sovereign-linked institution be the solution — if sovereign risk itself is part of the concern?*

## THE BULL CASE

- + USD 1.5bn debut bond (5y+10y), Baa2 rated by Moody's — aligned to sovereign rating
- + Catalyst for renewable energy, JETP, AI fund roadmap (2027–29)
- + Oracle MOU on AI/data sovereignty; PP 19/2026 widens mandate for direct SOE restructuring
- + Seeded with stakes in 7 major SOEs incl. Pertamina, PLN

## THE BEAR CASE

- Moody's outlook on that Baa2 rating: NEGATIVE — mirrors Indonesia's own fiscal pressure
- Patriot Bonds priced at just 2% coupon, well below market — Bloomberg (25 Jun 2026): law shields buyers from criminal, tax, and civil scrutiny on fund origin, prompting "dirty money" headlines
- Law 4/2026 (Art. 50A), passed 4 Jun, codifies that immunity — CELIOS calls it "laden with the interests of...financial criminals"; Rupiah weakened on the news
- Zero published financial track record since inception

*We take no position here. The point is that Danantara is now a genuine, two-sided swing factor in the Indonesia investment case — not a footnote. Let the evidence accumulate before forming a house view.*

*Source: Moody's Ratings (3 Jun 2026), Bloomberg (25 Jun 2026), Indonesia Investments, IEEFA, Global SWF, CELIOS*

# The market no longer buys headlines. It buys delivery.

Program / Initiative	Announced	Status, mid-2026
MBG (Free Nutritious Meals)	Flagship national rollout	Trimming another >USD 2bn to protect fiscal discipline, budget slashed to USD ~12.8bn.
Danantara reforms	USD 900bn AUM, AI fund, JETP	USD 172bn independently verified; no audited track record yet
MSCI free-float roadmap	Min. free float → 15%	Acknowledged by MSCI, but “not yet sufficient evidence”
P2SK capital market law	Strengthen market structure	Implementation pace under scrutiny ahead of Nov review

## THE DSI WILD CARD: A NEW ANNOUNCEMENT ALREADY UNDER STRESS-TEST

**Effective 1 Jun 2026, all coal, CPO, and ferroalloy exports route through PT Danantara Sumberdaya Indonesia (DSI) — a Danantara-controlled single gate.**

### WHAT IT DOES

- Phased: reporting-only Jun–Aug 2026; DSI becomes sole buyer/exporter from 1 Jan 2027
- Goal: stop under-invoicing/transfer pricing — Prabowo cites USD 908bn lost over 34 years
- Oil & gas exempted (already under SKK Migas) — coal, CPO, ferroalloys are not

### WHY IT'S CONTESTED

- State-monopoly structure cuts against OECD competitive-neutrality rules — complicates Indonesia's Jul 2026 OECD accession push
- Apindo, Indonesian Mining Association, and Gapki have flagged margin compression, monopoly risk, legal certainty
- Fitch warns of receivables/pricing risk for exporters; final operating rules largely undefined ahead of 2027

## PERCEPTION DASHBOARD

*What investors actually watch — not headlines*

- ▶ MSCI / FTSE classification
- ▶ Sovereign CDS spread
- ▶ Govt bond spread vs UST
- ▶ Foreign portfolio flow
- ▶ Credit rating outlooks
- ▶ Global fund manager surveys
- ▶ Policy predictability — fewer unforced blunders, less surprise rule-changes / state commentaries

*Institutions don't buy press releases. They buy perception change, verified across all seven.*

Rule-of-law optics now in the mix too: foreign desks flag Tom Lembong (abolisi after conviction) and Nadiem Makarim (10y, 30 Jun) as cases where clean operators got convicted — a selective-justice signal as much as a deterrence one.

Source: Company/government disclosures, Moody's, MSCI, Bisnis.com, Indonesia Investments (compiled Jun 2026); DSI: Government Regulation No. 24/2026, Asia Times (26 May 2026), ChemAnalyst, Fitch Ratings, ANTARA, Tempo

# Scenarios & Strategy

	BEAR	BASE	BULL
MSCI (Nov '26)	FM consultation opens	EM retained, watch extends	Reforms verified, outlook clears
Foreign flow	Outflow continues	Stabilizes, two-way	Net inflow resumes
Rupiah	>18,200/USD	17,700–18,200	<17,000/USD
Oil (WTI)	>85/bbl	70–80/bbl	<70/bbl
Fed	Hikes resume	Holds to 2026-end	Cuts begin early

## QUALITY FIRST

**Banks · Telco · Consumer**  
**Energy · Infrastructure**

## AVOID

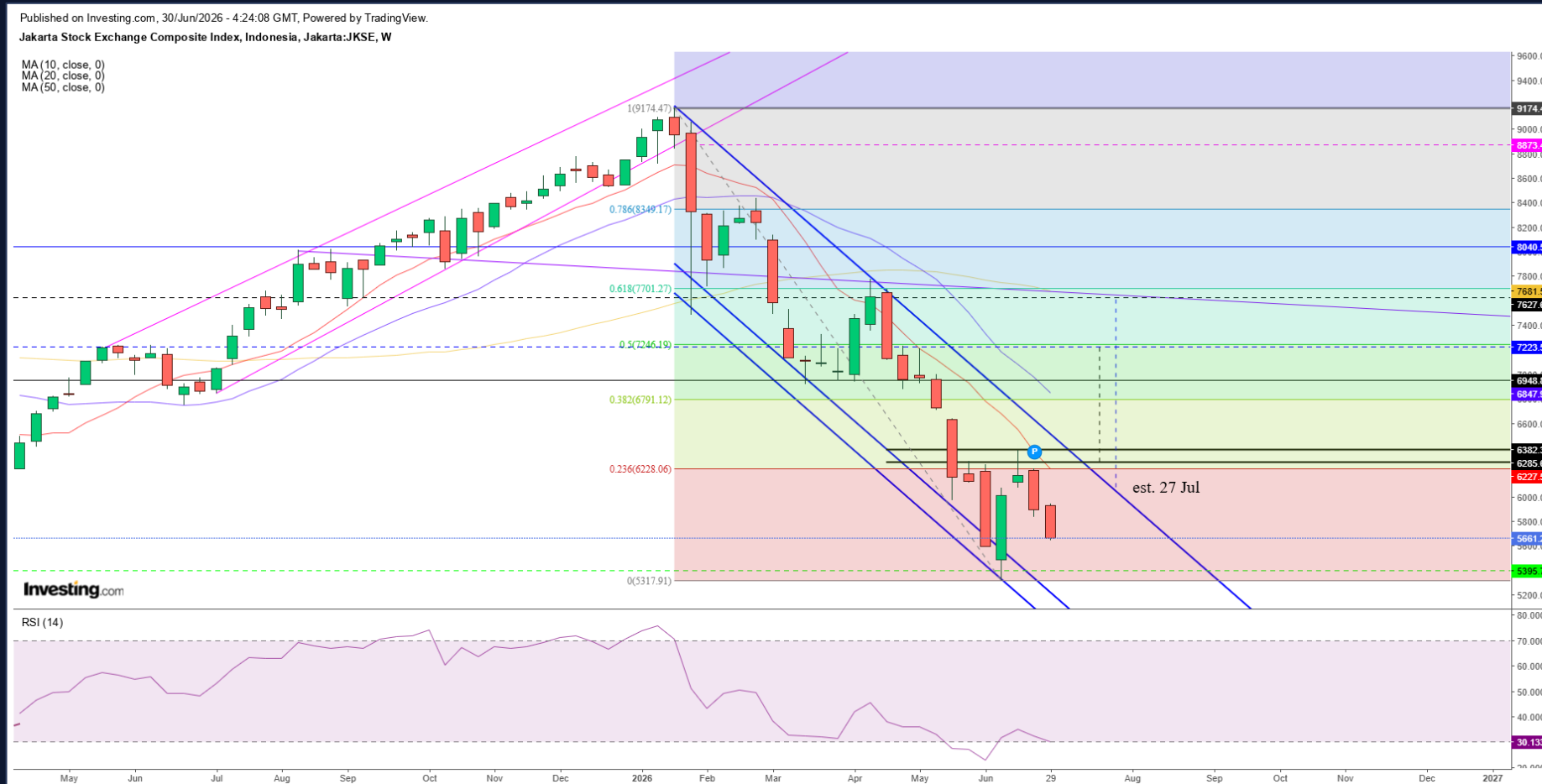
Highly leveraged names  
 Low free float  
 Weak governance  
 Small caps w/o earnings

**The defining question for Indonesia in 2H26 is no longer whether the economy can grow.**

Growth has never been Indonesia's biggest problem. The real challenge is whether Indonesia can convince global investors that its growth is investable. In today's world, capital no longer rewards growth alone — it rewards countries that combine growth with innovation, transparency, policy credibility, and execution.

*Indonesia already has the first ingredient. The next chapter depends on the other four.*

# JCI / IHSG: charting the path to re-rating



**TARGET JCI YEAR-END 2026: 7,250–7,700** — assuming a breakout from the downtrend channel around late July, supported by July's historically positive seasonality for JCI and the absence so far of negative commentary from international rating agencies such as S&P Global on Indonesia. *Caution warranted:* 14 presidential addresses are scheduled in July, and the market has historically softened around each one.

## Nine names to own into the re-rating

### INCO TP Rp 6,300 **+43%**

- Resilient global nickel price tailwind
- HPAL smelter completions at Morowali & Pomalaa due this year

### ANTM TP Rp 4,800 **+76%**

- Stronger 1Q26 ASP across gold, nickel, bauxite
- Gold remains the key earnings driver
- Relatively high dividend payout

### PANI TP Rp 9,925 **+65%**

- NICE convention center utilisation ramp-up
- Large, premium-valued landbank
- Strong marketing sales track record
- Hilton Hotel opening targeted 2027

### BBRI TP Rp 3,600 **+29%**

- Rp500bn buyback signals undervaluation
- Strong UMKM leadership, CASA, capital
- Credit growth set to accelerate in 2H26

### MTEL TP Rp 705 **+44%**

- PST-UMT merger expands into ISP, IoT, digital infra
- Rp2.98tn buyback signals management confidence

### JSMR TP Rp 3,850 **+41%**

- Valuation below historical PBV / EV-EBITDA average
- Share price at long-term support
- Defensive fundamentals, stable cash flow

### JPFA TP Rp 3,140 **+60%**

- Volume growth and improving margins
- Live bird price stabilising
- Soybean meal import impact seen limited

### KLBF TP Rp 970 **+24%**

- Resilient growth: distribution, consumer health, nutrition
- New principals and export growth as catalysts
- P/E 9.4x vs. -1SD of 16x

### BBNI TP Rp 4,100 **+26%**

- Solid credit growth, rising loan yield
- NIM guided at 3.5–3.8% for 2026
- LDR 83.5%, stable cost of funds

Target prices are year-end 2026. Upside is calculated against closing prices on 29 Jun 2026.



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