PT KIWOOM SEKURITAS INDONESIA

MARKET OUTLOOK 2H26

From Cheap Valuation to Re-Rating
The Battle to Win Back Global Capital

Institutional Investor Edition

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

2H26 EDITION · JUNE 2026 · FOR INSTITUTIONAL & PROFESSIONAL INVESTORS

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EXECUTIVE SUMMARY

Cheap Is Not Enough

Indonesia enters 2H26 as Asia's cheapest large-cap paradox: among the lowest P/E multiples in the region, yet the world's worst-performing major equity index. This report sets out why — and what would need to change for that valuation gap to close.

13.1x Market P/E, Jun 2026 — vs 5-yr avg. ~16x	**-39.1%** IHSG YTD return — worst major index globally	**5.61%** Real GDP growth, 1Q26 — still among Asia's fastest

Key Findings

- **Capital has rotated, not fled.** Korea, Taiwan, India and China are up double-to-triple digits YTD; Indonesia is the regional outlier, down 39.1%. This is an AI semiconductor supply-chain rally wearing an EM label — Indonesia has almost no exposure to it.
- **Structural de-rating, not cyclical noise.** Foreign ownership of Indonesian government bonds has fallen from >40% (2019) to ~13–14% today; Indonesia's MSCI EM weight has eroded ~85% since 2016, from 2.6% to 0.4%.
- **MSCI has set a hard deadline.** Conditional Emerging Market retention was confirmed 23 June 2026, with a possible Frontier Market reclassification consultation on the table if “sufficient progress” is not evident by the November 2026 Index Review.
- **Competitiveness is sliding, not just valuation.** Indonesia dropped 8 places in the 2026 IMD World Competitiveness Ranking (#40→#48), the sharpest fall in the dataset, now last among six major ASEAN economies tracked.
- **A five-test framework for re-rating:** policy credibility, market accessibility, governance, capital mobility and innovation. Improvement on these five converts cheap into re-rated; absent them, cheap simply stays cheap.
- **Base case JCI year-end 2026 target: 7,250–7,700**, contingent on a technical breakout from the current downtrend channel and no further negative rating-agency commentary.

SECTION I

The World Has Changed

2H26 Macro & Geopolitical Backdrop

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

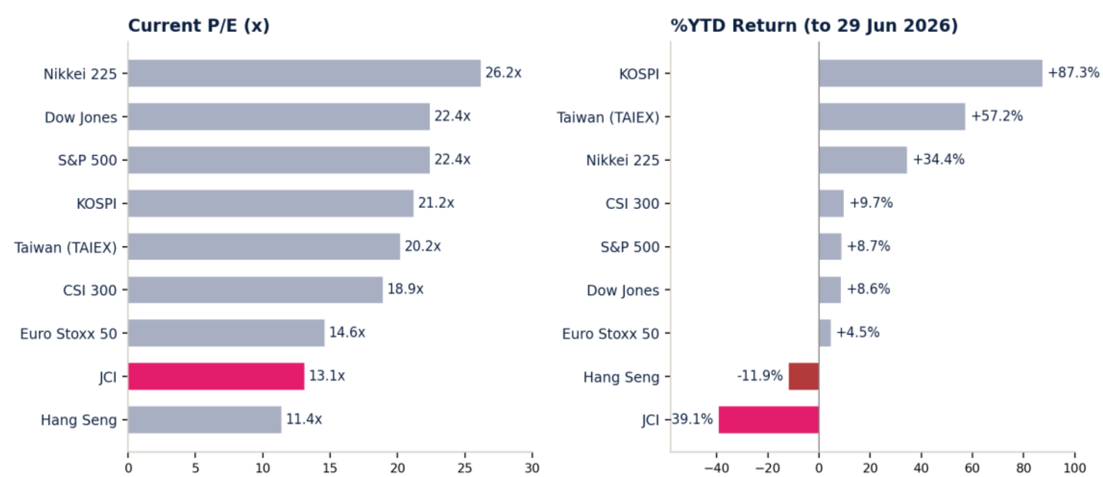
Indicator	Latest (Jun 2026)	2H26 Consensus Range	Key Driver
Fed Funds Rate	3.50–3.75%	Hold; hike risk into Dec	Core PCE 3.4% YoY; 9 of 19 FOMC members see hikes
US PCE Inflation	4.1% YoY	3.8–4.4%	Oil pass-through from Iran war; Fed forecast revised up from 2.7%
US GDP Growth	2.0% (Q1 ann.)	1.8–2.2%	AI 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 10Y Treasury	4.38%	4.30–4.70%	Hawkish Fed vs. safe-haven demand if war reignites
Indonesia 10Y SBN	~7.2%	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

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

Geopolitics is the wildcard, not the base case. The US–Iran ceasefire (signed 17 Jun) remains fragile — strikes resumed as recently as 28–29 Jun before both sides stood down again. Oil has eased to ~$74/bbl from April's $126 peak, but a single escalation can reverse that fast.

The Valuation Scorecard

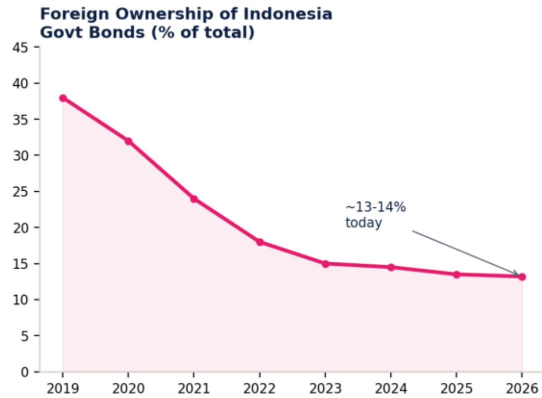
JCI is the second-cheapest major index tracked — at 13.1x P/E, below every peer except Hang Seng — yet posts the worst YTD return in the comparison set, down 39.1% while KOSPI and TAIEX post some of the region's strongest gains. Cheap valuation alone has not brought capital back.



Source: Bloomberg, market data as of 29 Jun 2026.

The ‘Sell Indonesia’ Trade

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



Source: Indonesia Ministry of Finance, Bloomberg; Bloomberg / UOB Kay Hian.

- Foreign holdings of Indonesian government bonds have fallen from above 40% of total outstanding (2019) to roughly 13–14% today — even as total issuance has nearly doubled: outright deleveraging, not just slower growth.
- Indonesia's MSCI EM weight has slid from 2.6% (2016) to just 0.4% now — a structural ~85% erosion.
- Passive funds are mechanically forced to cut exposure as weight shrinks; active managers follow. Lower weight begets lower liquidity, coverage, and attention — a self-reinforcing loop pure GDP growth cannot fix alone.
- “The big trade in Asia is sell Indonesia” — George Boubouras, K2 Asset Management, after exiting all Indonesia positions in 2024.

Global Capital No Longer Buys the Past — It Buys the Future

The Old World (priced in)	The New World (being paid for)
Cheap valuation	AI ecosystem & compute capacity
High headline GDP	Innovation & productivity growth
Commodity exposure	Governance & transparency
Population size	Capital efficiency (ROE / ROIC)
Domestic demand scale	Market accessibility for foreign capital

2026's largest IPOs — SpaceX (~US$75bn raise) and the anticipated Anthropic / OpenAI listings (each privately marked near ~US$1 trillion) — are all AI-native. Nasdaq and KOSPI keep printing record highs on AI-led names. Capital is voting with its feet, and the ballot box is technology.

Five Structural Forces Shaping 2H26 Flows

- **AI supercycle continues** — focus shifts from hype to monetization & earnings; Fed-on-hold yet Nasdaq/KOSPI keep printing records on AI capex.
- **Fragmentation replaces globalization** — capital follows energy security & supply-chain resilience, not just efficiency.
- **Higher-for-longer rates** — Fed holds through 2026, cuts only in H1'27 on the international house view; US 10Y anchored at 4.25–4.50%.
- **Sticky inflation** — US core PCE hit 3.3% YoY in April, highest since late 2023; energy, tariffs and 'techflation' keep prices elevated.
- **Capital becomes more selective** — not leaving risk assets, but concentrating in fewer, better-governed destinations.

Capital Allocation, 2H26: Where Is Global Money Going?

Overweight — where capital is going	Underweight — bypassed by the cycle
US equities — AI capex, broadening earnings	ASEAN equities (incl. Indonesia): structurally Underweight on
Taiwan — AI/semiconductor structural growth	muted earnings growth and low exposure to the AI/tech theme
Korea — memory chip cycle	driving the rest of Asia ex-Japan higher.
China — tech & comms re-rating potential	
India — domestic growth, oil-risk beneficiary	
Gold — preferred diversifier	
EM USD government bonds — carry + Fed-hold	

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

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

An AI Supply-Chain Rally Wearing an EM Label

- Strip out TSMC, Samsung and SK Hynix, and MSCI EM's headline outperformance vs. 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.
- Robotics VC funding hit an all-time high in 1Q26, with deal count also at a record — AI has solved robotics' intelligence bottleneck; 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.

The Vietnam Comparison: AI to Think vs. AI for Tasks

39% Vietnamese knowledge workers as “AI Frontier Professionals” — #1 in SE Asia (vs 16% global avg.)	**76%** of Vietnamese AI users produce work they couldn't a year ago (vs 58% global avg.)	**88%** Indonesian workers use AI — high usage, but no country spotlight on depth of use	**0/10** APAC country spotlights in Microsoft's 2026 Work Trend Index went to Indonesia

- Vietnam's MSCI status: not yet in MSCI EM — remains Frontier-classified, missing MSCI's 2026 watchlist again (23 Jun). Momentum instead sits with FTSE Russell: Vietnam's upgrade to Secondary Emerging Market status takes effect 21 Sep 2026, with the World Bank estimating up to US$25bn in cumulative 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” trade. The more defensible read: Vietnam is building the reform credibility and AI-adoption depth that earns index upgrades and fresh capital, while Indonesia's MSCI weight keeps eroding — a widening competitiveness gap in investor attention.

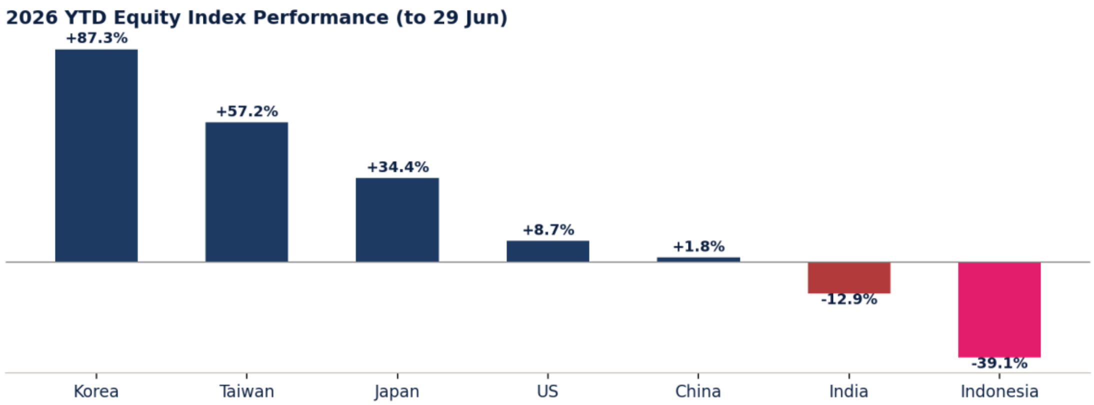
Source: Microsoft Work Trend Index (24 Jun 2026); MSCI 2026 Annual Market Classification Review; FTSE Russell; World Bank, VanEck.

SECTION II

Why Indonesia Missed It

The Performance Gap

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



Source: Bloomberg, 29 Jun 2026.

The 2026 Paradox: Strong Growth, Weak Currency, Weaker Market

Metric	Reading
GDP growth (1Q26)	5.61%, #4 among ASEAN peers
Foreign net sell (equities, YTD 29 Jun)	-Rp86.81tn
Rupiah	All-time low Rp18,190/USD (8 Jun)
JCI / IHSG	-39.1% YTD, sub-6,000 by late June

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.

- **Not only portfolio selling:** Indonesian corporates have been actively deleveraging — repaying foreign debt and trimming offshore deposits, creating structural USD demand independent of equity flows (Danamon research).
- **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.

The Indonesia Consumer Pulse

Consumption holds, but the cushion underneath is thinning.

- **Confidence slipping:** BI Consumer Confidence Index fell to 120.9 in May (from 123.0) — a 5-month low.
- **PMI back to neutral, not strong:** S&P Global Manufacturing PMI recovered to 50.0 in May, but only on domestic orders — exports fell at the sharpest pace since Aug 2021, input costs hit a record high.
- **"Eating the savings":** household saving-to-income ratio fell to 17.5% (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 increasingly funded by drawdown, not income growth.
- **Middle class thinning:** only ~17% of Indonesians sit in the true middle class; ~49% are "aspiring middle class" with thin buffers — this segment drives over 80% of household consumption.
- **Government steps in:** Prabowo's 2H26 stimulus — 30% rail/ferry discounts, food aid for 33.2mn recipients (Jul–Sep), national internship for 150k graduates, 0% import duty on petrochemical inputs.

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 determine if consumption stays a tailwind into 2027.

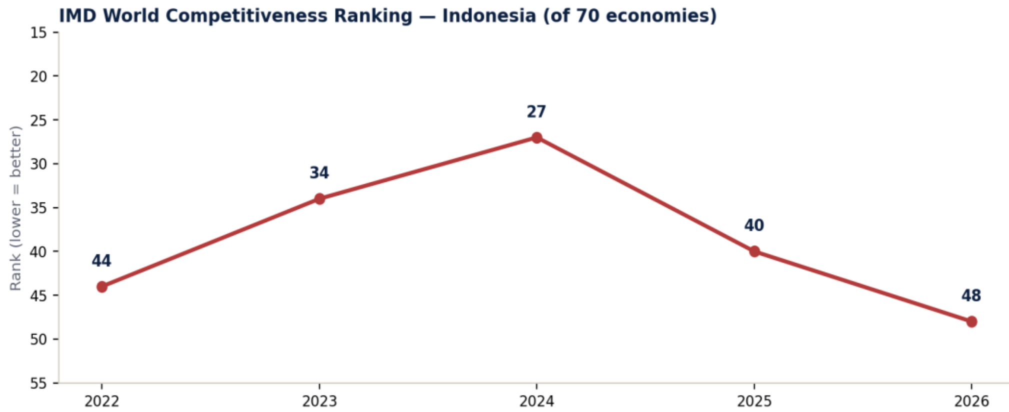
The Battle for Trust: MSCI's Deadline

Date	Event
27 Jan 2026	MSCI freezes Indonesia index changes — FIF weighting frozen, zero new additions to IMI
29 May 2026	19 companies removed, zero added — ~US$1.8bn (Rp31.5tn) estimated passive outflow
23 Jun 2026	Conditional retention as Emerging Market — "consultation on reclassification to Frontier" explicitly on the table
Nov 2026	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... 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.

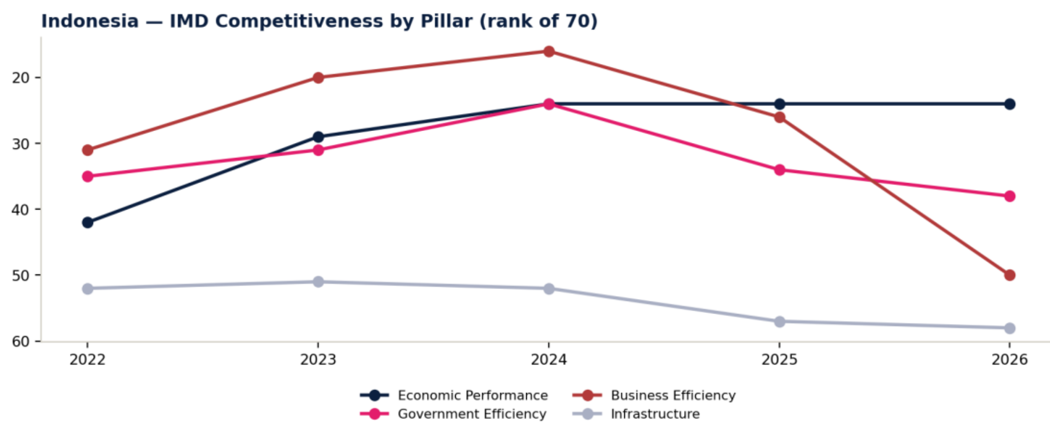
Why GDP Is No Longer Enough: IMD Competitiveness



- **-8 places** — sharpest single-year drop in the dataset, #40 (2025) to #48 (2026, of 70 economies).
- **Overtaken** by the Philippines (#47, up 4) — Indonesia is now last among six 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, pp. 64–67.

Diagnosing the Drop: Where Is Indonesia Bleeding Competitiveness?



- **Business Efficiency: #14 → #50** — the steepest fall of all four pillars in just two years; productivity, labor market and management practices all eroding.
- IMD's own 2026 verdict: 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, 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, pp. 84–116.

Quality Over Quantity: Indonesia Still Grows — What Matters Now Is How

Structural Engines (compound, re-ratable)	Cyclical Stabilizers (cushion, not thesis)
Household consumption	Government spending
Private investment	Fiscal stimulus (MBG, etc.)
Productivity growth	Temporary liquidity injections

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

SECTION III

The Path Back

The Five Tests for Re-Rating

- **Policy credibility** — consistent, predictable rules, not announcement-by-announcement governance.
- **Market accessibility** — free float, ownership transparency, FX liquidity: directly what MSCI is auditing.
- **Governance** — verified, not promised: disclosure standards matching global norms.
- **Capital mobility** — frictionless in-and-out for foreign portfolio and direct investment.
- **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.

The Sovereign Wealth Question: 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	The Bear Case
US$1.5bn debut bond (5y+10y), Baa2-rated by Moody's, aligned to sovereign rating	Moody's outlook on that Baa2 rating: NEGATIVE — mirrors Indonesia's own fiscal pressure
Catalyst for renewable energy, JETP, AI fund roadmap (2027–29)	Patriot Bonds priced at just 2% coupon, well below market; law shields buyers from criminal, tax, civil scrutiny on fund origin — prompting “dirty money” headlines
Oracle MOU on AI/data sovereignty; PP 19/2026 widens mandate for direct SOE restructuring	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
Seeded with stakes in 7 major SOEs incl. Pertamina, PLN	Zero published financial track record since inception

We take no position here. 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.

Execution Over Announcement: The Market Buys Delivery

Program / Initiative	Announced	Status, Mid-2026
MBG (Free Nutritious Meals)	Flagship national rollout	Trimming another >US$2bn to protect fiscal discipline; budget slashed to ~US$12.8bn
Danantara reforms	US$900bn AUM, AI fund, JETP	US$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

Effective 1 Jun 2026, all coal, CPO and ferroalloy exports route through PT Danantara Sumberdaya Indonesia (DSI) — a Danantara-controlled single export 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 US$908bn lost over 34 years). Oil & gas exempted (already under SKK Migas).
- **Why it's contested:** state-monopoly structure cuts against OECD competitive-neutrality rules, complicating Indonesia's Jul 2026 OECD accession push. Apindo, the Indonesian Mining Association and Gapki have flagged margin compression, monopoly risk and legal certainty concerns. Fitch warns of receivables/pricing risk; final operating rules largely undefined ahead of 2027.

Perception Dashboard: What Investors Actually Watch

- 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)

> Institutions don't buy press releases. They buy perception change, verified across all seven. Rule-of-law optics are now in the mix too: foreign desks flag the Tom Lembong (abolisi after conviction) and Nadiem Makarim (10y, 30 Jun) cases as a selective-justice signal as much as a deterrence one.

Source: Company/government disclosures, Moody's, MSCI, Bisnis.com, Indonesia Investments; PP 24/2026; Asia Times; ChemAnalyst; Fitch Ratings; ANTARA; Tempo.

SECTION IV

Positioning for 2H26

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)	> US$85/bbl	US$70–80/bbl	< US$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 without 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 Year-End Target

TARGET JCI YEAR-END 2026: 7,250–7,700

- Assumes a breakout from the current 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.

Kiwoom 2H26 Stock Picks — Nine Names to Own Into the Re-Rating

Ticker	TP (Rp)	Upside	Thesis
INCO	6,300	+43%	Resilient global nickel tailwind; HPAL smelter completions at Morowali & Pomalaa due this year
ANTM	4,800	+76%	Stronger 1Q26 ASP across gold/nickel/bauxite; gold remains key earnings driver; high dividend payout
PANI	9,925	+65%	NICE convention center utilisation ramp-up; premium landbank; Hilton Hotel opening targeted 2027
BBRI	3,600	+29%	Rp500bn buyback signals undervaluation; strong UMKM/CASA leadership; credit growth to accelerate 2H26
MTEL	705	+44%	PST–UMT merger expands into ISP/IoT/digital infra; Rp2.98tn buyback signals management confidence
JSMR	3,850	+41%	Valuation below historical PBV/EV-EBITDA average; share price at long-term support; defensive cash flow
JPFA	3,140	+60%	Volume growth and improving margins; live bird price stabilising; limited soybean meal import impact
KLBF	970	+24%	Resilient distribution/consumer health/nutrition growth; new principals & export catalysts; P/E 9.4x vs –1SD of 16x
BBNI	4,100	+26%	Solid credit growth, rising loan yield; NIM guided 3.5–3.8% for 2026; LDR 83.5%, stable cost of funds

Source: Kiwoom Sekuritas Indonesia estimates. Target prices are year-end 2026; upside vs. closing prices on 29 Jun 2026.

Disclosures & Disclaimer

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