

Market Update

Sector	Multi	Company	UBS Asia Investment Conference	7-6-2024
Asset class	Equity	Rec	-	Endo Takashi

Update

Keynote speakers

- **Global Equity Strategy:**
 - Artificial Intelligence (AI) is the main reason US equity deliver good performance YTD 2024. Technology, Media and Telecommunication (TMT) estimated to have increased productivity by 2%, if AI can improve productivity by 1% then it is estimated that there is still upside for the equity market. Typically, based on Amara's law, market tends to overestimate the speed of AI adoption. However, AI adoption is estimated to be less capital intensive compared to the adoption of TMT before, and the current infrastructure is in place, hence the implementation should be easier.
 - Inflation concerns seem to be temporary because wage growth has been coming down and reported to be below market expectation. In addition, earnings and PMI are improving.
 - US is estimated to underperform rest of the world: 1) typically when global PMI improves, US will underperform; 2) US growth to slowdown while others are accelerating; 3) US valuation is expensive; 4) earnings are losing momentum.
 - China is estimated to outperform: 1) total social financing (TSF) is estimated to accelerate; 2) valuation is undemanding; 3) improvement in earnings has yet to be priced in; 4) PMI is improving; 5) buybacks are increasing while foreign investors are mostly underweight on China.
- **US Election:**
 - Relocation from China to Southeast Asia (SEA) and other countries are going on but not as easy as it looks because it is hard to relocate the whole ecosystem. Japan has been looking for China+1 but it has not found even after 25 years. Some factory may be relocated to Vietnam, but the scale in China cannot be replaced. Trump trade policies did not change much on the trade balance, it only shifts from China to Mexico and SEA. Indonesia could be a big missing piece for US, it is going to be interesting in the future. SEA countries are pragmatic, hence, whoever wins the election they will be able to adapt.

- Don't think Trump's trial will affect the outcome of the election. The swing states are less educated than other states. They only know that their cost of living are becoming 20% more expensive. It is going to be uphill battle for Biden.
- China is ready to face Trump and they prefer Trump because they believe he is a 'deal' person, hence it could turn out to have win-win deal. Trump is likely to have less focus on Taiwan, which also seems to be preferred by China.
- **E-commerce:**
 - E-commerce selling cheap products are growing, especially during tough economic environment. Specific categories like hobby related products are doing well because they are hard to find, compared to essential daily necessities. SEA market are pretty fragmented e.g. TikTok is doing very well in Indonesia but not so much in Singapore. Price wars are still on going in SEA. In markets where prices are already very low, e-commerce players investing on their own logistics in order to provide better user experience i.e. faster delivery, to differentiate itself from other players.
 - E-commerce platforms that have more manufacturers selling directly at the platform, its path to profitability is easier e.g. Temu. On the other hand, platforms that are still dominated by traders e.g. AliExpress, competition is higher and it takes more time to be profitable.
 - Indonesia cross border is estimated to be at around 20%, compared to previously 70-80% before the ban. However, e-commerce players tried to bypass the law that limits cross border transactions by helping the seller to create local entity.
 - Market positioning:
 - Temu is more successful in developed market because the products there are expensive, hence Temu has the edge by offering cheaper products. Temu is not doing well in SEA because the products offered in the region are already very cheap, hence it is tougher to compete.
 - TikTok Shop is big in Indonesia but it is not profitable yet. Its main income are still coming from US.
 - AliExpress is successful in Korea but dying in other markets.
 - Shein growth is slowing down and it is expanding to offline retail in order to find new source of growth.
- **Artificial Intelligence (AI) development:**
 - The main beneficiaries of AI are still concentrated on tech companies such as Google, OpenAI, Anthropic, Meta. The pace of core technology development is high. For example, NVIDIA A100 used to be the default chip, while at the moment NVIDIA H100 is the default chip, which has 3

- times the performance than before. However, the adaption of AI by the enterprise is still slow because of the legal risk and companies tend to be more conservative.
- Google has abundant of data from its users and the infrastructure are robust, hence AI adaption and development are more feasible. In comparison to Apple, its focus on device and data privacy together with less robust infrastructure compared to Google, putting Apple behind in the AI space. It is likely that Apple partners with other AI companies instead of developing on its own.
 - Demand for hardware i.e. Laptop/mobile devices could increase as AI becomes incrementally as new features in new products. Pricing for these features is typically higher than their standard offerings. In addition, it is coming closer to the replacement cycle as we are 4-5 years past Covid pandemic. However, it is estimated the tipping point to upgrade devices with AI features is when AI is able to make independent decisions for the user, otherwise AI would act like 'enhanced-Siri' and its adoption will likely be in-line with the normal replacement cycle.
 - One of the risks on AI includes over complexity. Just like in robotics, humanoid are created with overly complex technology to complete simple tasks that could be easily solved with much simpler robots, despite the technological breakthrough. Some companies may claim it is AI-enabled to drive its valuation up, but it might be faux science that it might not perform like one.
- **India retail equity market:**
 - India has more than 100mn investors now, compared to pre-covid of 25mn, as covid speeds up digitalization and financial literacy. The younger generations are investing more than before. As a frame of reference, India market cap is around USD5tn, its retail and household accounts for USD3tn. As a result, it also helps India's market stability as it becomes less volatile/disrupted when there is foreign outflow.
 - Systematic Investment Plan (SIP) is an investment plan in India where portion of household income (usually around \$10-20/month) is allocated to mutual fund, and currently contributes around USD24bn annually. Even though India's GDP/capita is not high, but they invest more.

Companies

- **ISAT:**
 - Indonesia is one of the key focus market for NVIDIA because of the population and economic growth. Based on discussion with ISAT, some of the companies are approaching ISAT for solution services after NVIDIA signed partnership with ISAT. With this contribution, together with Fixed Broadband services and Mobile services, ISAT targets to double its EBITDA by 2028. One of the

reasons why ISAT chose Hutch as merging partner because of their complimentary network, hence the speed of integration.

- ISAT did not raise price during Lebaran period because they believe it would lose customers' trust to ride on the momentum. ISAT plans to do another price increase during 3Q24 if the situation allows as it would require other players to increase their prices too.

- **KakaoPay:**

- KakaoPay is expanding to offline presence from online as they attempt to target the 3mn mom and pops stores in Korea. Prior to partnering with Samsung Pay, KakaoPay exposures in offline stores was around 600k. Post collaboration with Samsung Pay, it has covered all 3mn offline stores. KakaoPay charges around 0.7-0.8% take rate from the offline merchants, with blended total take rate of around 1-2%.
- KakaoPay operating margin is around 10% but other subsidiaries i.e. investment brokerage, insurance, etc. are still in loss.
- KakaoPay total MAU is around 24mn, with 15mn of the users agreed to share their personal data, which can be sold to other financial institutions or ecommerce to provide personalized offerings.

- **BMW:**

- BMW sales growth are coming from Europe to support the slowing China sales. Currently, Europe accounts for 35%, China 30%, US 20%, and 15% rest of the world. BMW believes that BEV is the LT car to go, even though currently it accounts for around 15% of BMW sales. There will be more than 15 BEV models in 2024. Despite BEV is margin dilutive when compared to ICE sales, BMW still maintain its EBIT margin of 8-10% as its long term target. BMW budget around 6% capex and 5% for research and development in 2024, which will be the peak spending (as percentage of sales) for investment. By the end of 2025, BMW will introduce new type of vehicle that focuses on 3 key points: fully electric, digital features (software), and sustainability (recycled materials).
- LFP battery is used only in entry level BEV, while for bigger and performance BMW vehicles use NCM battery, including plug-in hybrid. According to BMW engineers, LFP battery does not have the characteristics to support bigger or high performance BEV. On BEV, BMW believes that it has the edge on packaging and software development, while for battery manufacturing are done by their suppliers.

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