

## Assessing potential Frontier Market reclassification impact

- MSCI plans to assess Indonesia's market accessibility if there no transparency enhancements until May26 semi-annual index review.
- At the worst case scenario, Indonesia could be potentially reclassified from Emerging Market (EM) to Frontier Market (FM).
- JCI declined by -8.3% in two days since the announcement; However, downgrade to FM may require further steps, based on our case study.

### MSCI: transparency concern may lead to frontier market downgrade

On Wednesday (28-Jan), MSCI announced that it will freeze all increases in Foreign Inclusion Factor (FIF) and number of shares (NOS), along with upward size-segment migrations from small-cap to standard-cap index in Feb26 review. This meant there would be no inclusion to MSCI Standard-Cap index in Feb26, but exclusion remains likely. Moreover, should there be no changes in transparency enhancements, MSCI will assess Indonesia's market accessibility and subject to market consultation, there could be weighting reduction in MSCI EM for Indonesian securities along with potential reclassification from EM to frontier market (FM).

### US\$10-11bn outflow likely; high foreign ownership stocks at risk

At the worst-case scenario (i.e. downgrade to FM), we estimate ~US\$10-11bn net outflow from Indonesian market, mostly contributed by 18 companies that are currently a constituent of MSCI Standard Cap index. We think stocks with high foreign ownership could also be prone to further sell-off, as we expect several foreign mutual funds or insurance have the mandate to only invest in EM indices, but not FM. On percentage ownership basis, stocks that have the highest foreign ownership are BBKA, ASII, TLKM, UNTR, BBRI, BMRI, BBNI, INDF, ANTM, JSMR, and ICBP.

### Outflow may not occur in May26 with potential overhang persist

Based on several case studies in the past, we think in order for Indonesia to be downgraded into FM, there would be further consultation with market participants, which meant that US\$10-11bn potential outflow may not occur entirely in May26 – particularly from passive funds, as at this moment, no public consultation was made by MSCI related to potential reclassification for Indonesia from EM to FM. Nevertheless, we have seen active funds made pre-emptive move to frontload their selling shall the worst-scenario materialize, apparent in US\$362mn net outflow on Wednesday, after MSCI announcement was made. Therefore, the uncertainty in regard to whether Indonesia would be downgraded into FM would continue to create an overhang to the market, at least in the near-to-medium term, in our view.

### Past case-studies: no similarity to Indonesia

We have seen that previous EM to FM downgrade in the past (i.e. Peru, Pakistan, etc) often occurs due to inability for such market to fulfil several investability requirements to remain in EM based on MSCI methodology, such as: 1) having at least three companies – i.e. the case of Peru, 2) government's capital control – i.e. Argentina, and/or 3) "floor-price" rule – i.e. Pakistan. After the reclassification to FM, market indices in our case studies have declined by 17-48%, albeit we think the decline was primarily driven by non-MSCI related factors prior to its reclassification, rather than reclassification itself causing the decline in the index value.

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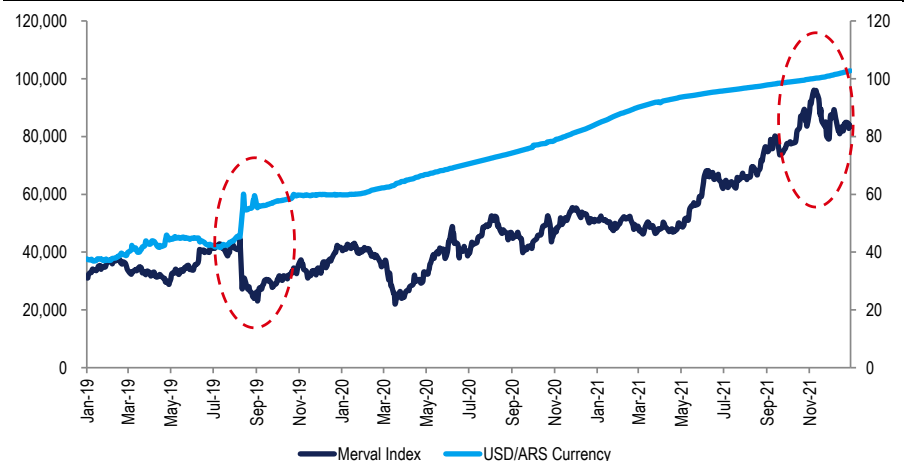
### Argentina: reclassification due to capital or foreign exchange control

In Sep19, Argentinian authorities have announced capital or foreign exchange control, which led to MSCI putting a notice and started market consultation to market participants related to potential reclassification for MSCI Argentina index as capital controls may result in material deterioration of an equity market's accessibility, in accordance to MSCI Market Classification Framework.

In Dec19, MSCI extended their consultation period to further assess market accessibility issue, with the announcement to reclassify Argentina from EM to Standalone markets index (rather than Frontier Market) finally made in Jun21 (effective Nov21 review) or almost 2 years after the initial notice.

**Stock market impact:** During first consultation to the market, Argentina market itself has already declined in Aug19 as its currency, Argentinian Peso significantly weakened by -20% to USD which coincided with Presidential election in the country. Argentinian market also experienced -17% in their stock market index leading up to MSCI effective date/rebalancing in Nov21.

**Fig. 1: Case studies in other Emerging Market (EM) and Frontier Market (FM) Index**



Source: Company, Indo Premier

### Peru: reclassification as only three companies met requirement

In Aug15, MSCI announced the reclassification of MSCI Peru Index from previously being a part of EM index to be a part of Frontier Market. However, unlike Argentina, there were no consultation being made with the market participants, as Peru market were unable to fulfil the relevant investability requirements: i.e. having three companies in MSCI EM, along with lower liquidity in the market. As a result, MSCI made an announcement in Sep15 with an effective date for reclassification in Nov15 index review.

**Stock market impact:** the impact to the market is relatively muted given that only less than three companies were a constituent of MSCI Peru Index at the time.

**Fig. 2: Case studies in other Emerging Market (EM) and Frontier Market (FM) Index**



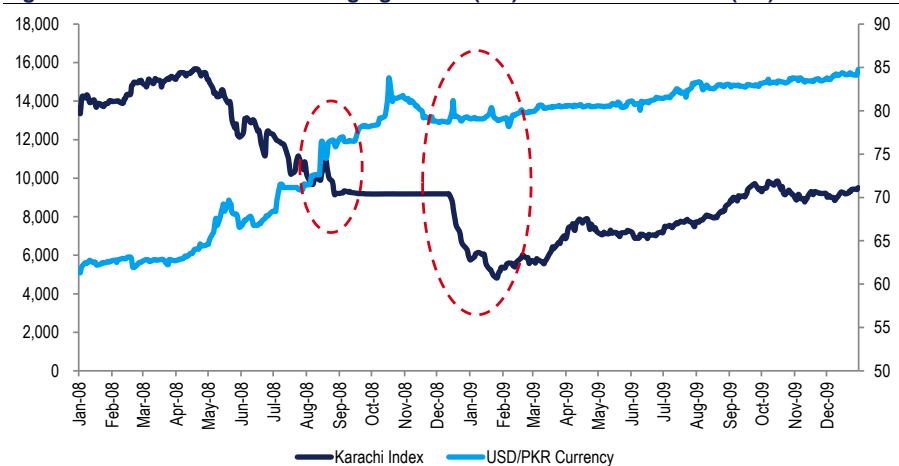
Source: Company, Indo Premier

### Pakistan: reclassification due to floor price rule

During the Global Financial Crisis (GFC) in 2008, Pakistan prevented shares to trade below certain price level (i.e. Floor Rule), which led to limited trading activity as there are no transactions that can be made below certain price level. As a result, MSCI has first put a notice in Sep08, seeking feedback to market participants by Nov08, and eventually reclassify MSCI Pakistan Index out of EM in Dec08.

**Stock market impact:** After the floor-rule was no longer implemented, Karachi stock market declined by -48%, however, this has also coincided with GFC meltdown and pent-up selling pressure.

**Fig. 3: Case studies in other Emerging Market (EM) and Frontier Market (FM) Index**



Source: Company, Indo Premier

**Fig. 4: Foreign fund ownership**

Sector	Company	Foreign fund ownership - Foreign fund ownership - Foreign fund ownership -		
		Oct25	Nov25	Dec25
<b>Auto</b>	ASII	46.9%	47.1%	47.2%
<b>Banks</b>	BBCA	48.9%	49.5%	49.1%
	BBRI	39.0%	38.8%	38.6%
	BMRI	36.5%	37.5%	38.3%
	BBNI	32.3%	33.1%	33.7%
	BBTN	15.5%	16.3%	16.8%
	BRIS	4.4%	4.4%	4.4%
	ARTO	2.4%	2.4%	2.4%
<b>Coal</b>	UNTR	39.9%	40.5%	39.8%
	ITMG	23.6%	23.6%	23.0%
	PTBA	16.0%	15.7%	15.6%
	ADRO	5.5%	5.1%	5.2%
	AADI	2.6%	3.8%	3.8%
	INDY	1.5%	1.6%	2.4%
	BUMI	2.0%	2.0%	2.0%
<b>CPO</b>	LSIP	17.3%	17.6%	17.8%
	AALI	14.9%	15.6%	16.3%
	DSNG	4.4%	4.8%	5.0%
<b>Healthcare</b>	MIKA	4.6%	4.6%	4.6%
	HEAL	4.4%	4.4%	4.3%
	SILO	1.4%	1.3%	1.3%
<b>Metals</b>	ANTM	32.8%	31.3%	31.8%
	BRMS	8.3%	9.8%	9.7%
	NCKL	7.5%	6.9%	8.1%
	TINS	6.3%	5.9%	5.9%
	MDKA	4.9%	4.5%	4.6%
	INCO	3.6%	3.6%	3.7%
	HRUM	1.0%	0.9%	0.9%
	ADMR	0.7%	0.7%	0.7%
	MBMA	0.5%	0.6%	0.6%
<b>Oil &amp; Gas</b>	PGAS	26.8%	26.8%	27.7%
	AKRA	24.6%	24.7%	25.1%
	MEDC	4.7%	4.7%	4.8%
	PGEO	1.5%	1.2%	1.1%
<b>Poultry</b>	CPIN	14.5%	14.7%	14.8%
	JPFA	7.5%	8.4%	8.8%
<b>Property</b>	CTRA	18.9%	19.0%	20.1%
	PWON	14.8%	14.7%	14.0%
	BSDE	6.9%	6.9%	7.0%
	SMRA	4.2%	3.9%	3.9%
<b>Retailer</b>	MAPI	22.3%	22.5%	22.6%
	AMRT	19.3%	19.3%	19.3%
	ERAA	12.4%	11.9%	10.9%
	ACES	8.0%	6.8%	7.0%
	RALS	4.7%	4.9%	4.9%
	LPPF	2.4%	2.4%	3.0%
	CNMA	1.6%	1.5%	1.5%
	ERAL	0.7%	0.7%	0.7%
<b>Consumer</b>	ICBP	34.2%	28.0%	29.8%
	UNVR	29.7%	29.9%	29.5%
	KLBF	13.3%	10.7%	11.0%
	SIDO	7.4%	7.5%	7.5%
<b>Telco</b>	TLKM	45.5%	46.6%	46.2%
	ISAT	7.8%	7.8%	7.8%
	EXCL	4.3%	3.9%	3.1%
<b>Tobacco</b>	GGRM	11.2%	11.2%	12.1%
	HMSF	1.6%	1.7%	1.9%
<b>Toll-road</b>	JSMR	30.0%	30.4%	30.7%
<b>Towers</b>	TOWR	16.4%	16.6%	17.2%
	MTEL	6.1%	6.2%	6.2%
	TBIG	0.5%	0.5%	0.5%

Source: Company, Indo Premier

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