

# Naga Survey 2020

Investor Relations and ESG  
reporting standards among  
IDX-listed companies

MARCH 2020



AWR Lloyd

Dear Esteemed Readers,

These are turbulent times for stock exchange listed companies around the world. The IDX is no exception. But the fundamental long-term Indonesian growth story remains uniquely compelling. Strategically located between Indian and Pacific Ocean trade, with the world's fourth largest population, a young low-cost labor force, high profile tech successes, and major infrastructure growth potential, the big international fund managers cannot afford to ignore IDX companies for long.

To communicate effectively with foreign institutional investors and secure their confidence, IDX companies must continue to strengthen their IR and ESG reporting standards.

Our 'Naga Survey' of IDX-listed companies (conducted end 2019 - early 2020) gives a snapshot of the health of corporate IR & ESG programmes in Indonesia and provides some suggestions for further improvements.

We welcome any feedback or questions you may have. AWR Lloyd has been championing best practice IR in Asia for over 20 years. We have also recently become a leader in ESG performance consulting.

Thank you, and I hope you find this report useful.

A black and white portrait of Herwan Ng, a man with short dark hair, smiling slightly. He is wearing a patterned batik shirt. His arms are crossed. The portrait is partially overlaid by a light pink geometric shape.

*Herwan Ng*

Managing Director  
AWR Lloyd, Indonesia



**1 / Key Takeaways**

2 / Respondent Analysis

3 / ESG Performance

4 / External IR Challenges

5 / Internal IR Challenges

6 / Our Recommendations

# Key takeaways from the Naga Survey 2020

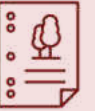
We have identified 5 **key themes**:

- 1 Still behind in ESG<sup>1</sup>**  
Only 6% of respondents have an integrated and structured approach to ESG reporting
- 2 Ineffective storytelling**  
Companies say explaining their strategies and performance in a compelling way is a major challenge
- 3 Poor investor engagement**  
Mid-sized and smaller companies struggle to communicate directly and effectively with fund managers
- 4 Weak IR teams and systems**  
Surprising number of companies still do not have dedicated IR teams with the necessary expertise
- 5 Lack of value monitoring**  
Many respondents are failing to use IR as an effective corporate finance strategy tool and feedback mechanism

How **AWR Lloyd** can help:

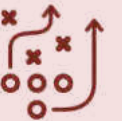
## ESG integration and reporting

Implement best practice ESG reporting, secure rating agency index inclusion, integrate with IR



## Link strategy to IR

Ensure IR materials are communicating clearly the company's core strategic direction



## Systematic IR targeting

Analyze the international equity markets and devise systematic NDR and investor targeting programmes



## Dedicated IR & ESG teams

Establish dedicated IR & ESG teams with the necessary skills, training, and support



## IR Management Reporting

Implement best practice SOPs and reports for analyzing IR feedback and metrics



<sup>1</sup> Environmental, Social, and Governance

# Analysts and investors interview highlights

In addition to getting structured feedback from IDX-listed companies, we also sought perspectives from analysts and investors via interviews. A few takeaway quotes\* below:

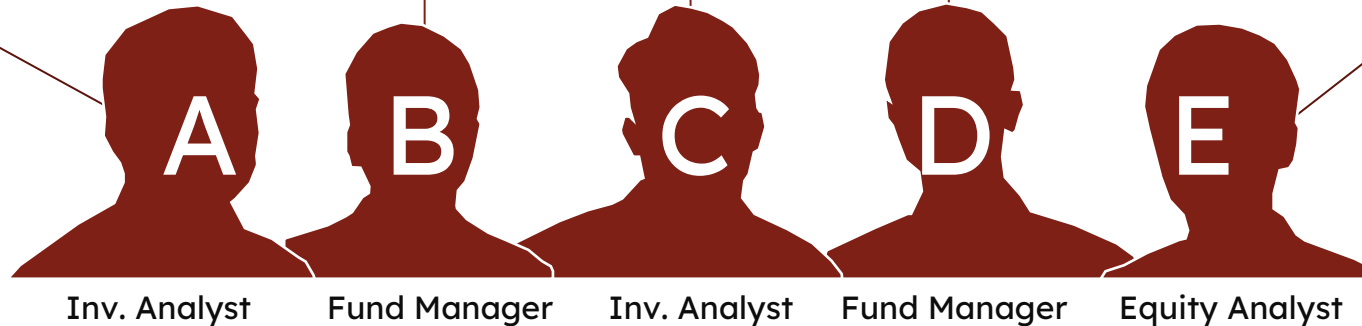
“One of our **foreign investors** has been increasingly strict about **ESG reporting** amongst companies in our portfolio.”

“We appreciate IR executives who are **candid** – who communicate information which is aligned with management strategy.”

“**MiFID II** has forced brokerage firms to focus on covering big companies. As a result, we have become **more proactive** in seeking alpha amongst smaller, uncovered companies.”

“It is unfortunate that we still find IR executives giving too much **trivial information**, instead of focusing on what really matters.”

“**Industry expertise** is very important for IR executives, as it enables them to tell a more **comprehensive story**.”



\*Note: translation and minor editing may mean quotes do not exactly reflect the views expressed



1 / Key Takeaways

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3 / ESG Performance

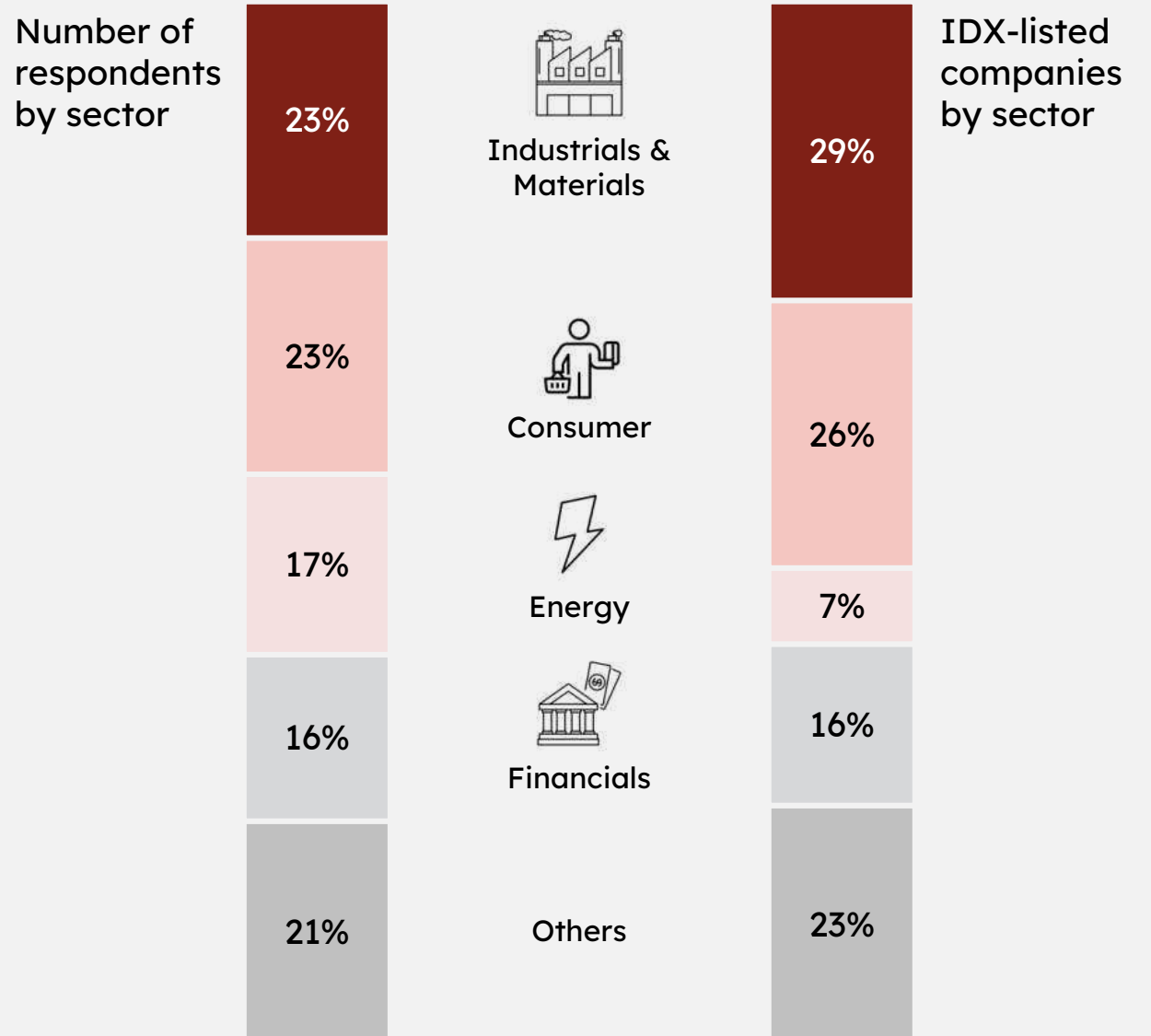
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# The Naga Survey 2020 sample of 77 IDX-listed companies is similar to the sector breakdown of IDX as a whole

Respondents to our survey conducted end 2019 through early 2020 consisted of nearly one-quarter Industrial & Materials sector companies and nearly one-quarter Consumer sector companies, broadly in line with the IDX as a whole. Energy companies constituted 17% of our survey respondents, higher than the IDX, partly because of AWR Lloyd's historic association with energy. Financial sector companies at 16% matches exactly the IDX. And others at 21% also very close.



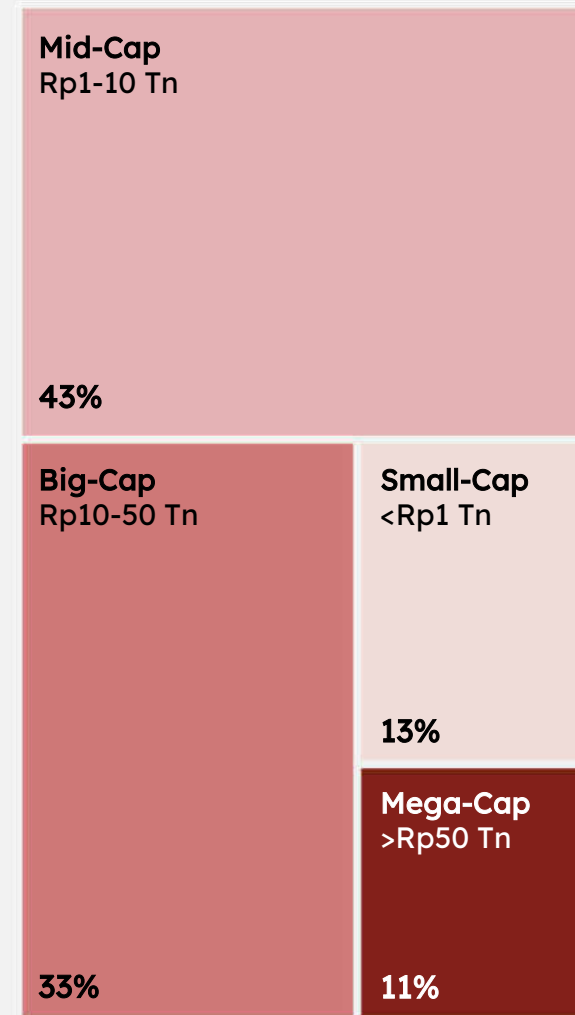
Others include Communication Services, Healthcare, IT, Real Estate, and Utilities

# Our survey is Mega-Cap and Big-Cap ‘heavy’; But as with IDX, our biggest sample group is Mid-Cap

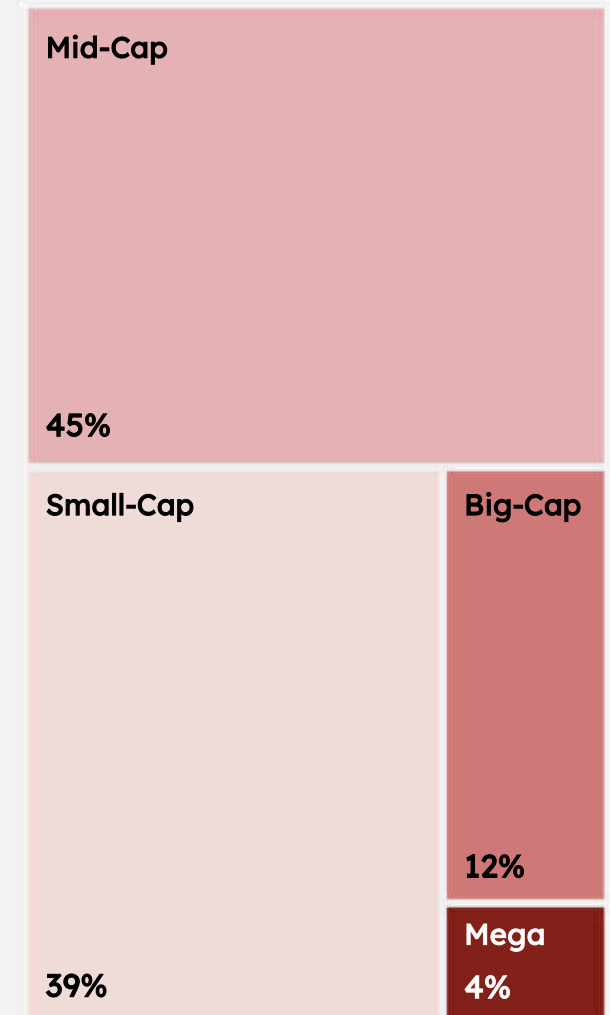
Respondents in the Mid-Cap category constituted the biggest single group in the Naga Survey (43%). A third were Big Cap respondents – and just over 10% were Mega-Cap. The rest were Small Cap (13%). As a whole, Small-Cap companies actually represent 39% of the total number of listed companies on the IDX.

But we were happy to focus more on the Mid-to-Mega categories for our first survey. These are the companies that ‘must’ make best efforts to ensure their IR & ESG program meet international best practice standards.

Survey respondents by market capitalisation



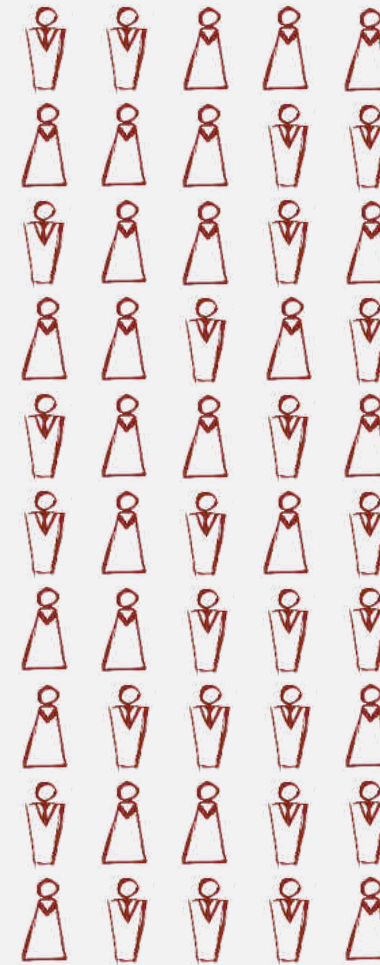
IDX-listed companies by market capitalisation



# Nearly two-thirds of respondents were IR executives. Just over one third were directors

We were able to get feedback both from those who deal with IR issues every day as well as from directors who tackle IR and ESG as one part of their overall responsibilities.

The former were able to give us a more practical perspective while the latter, 80% of whom were CFOs, were often thinking more strategically about their companies' IR and ESG programmes. Our sample was 50% female amongst IR executives and 23% female amongst the director group.



**66%** IR Executives  
Male: 50%  
Female: 50%



**34%** Directors  
Male: 77%  
Female: 23%





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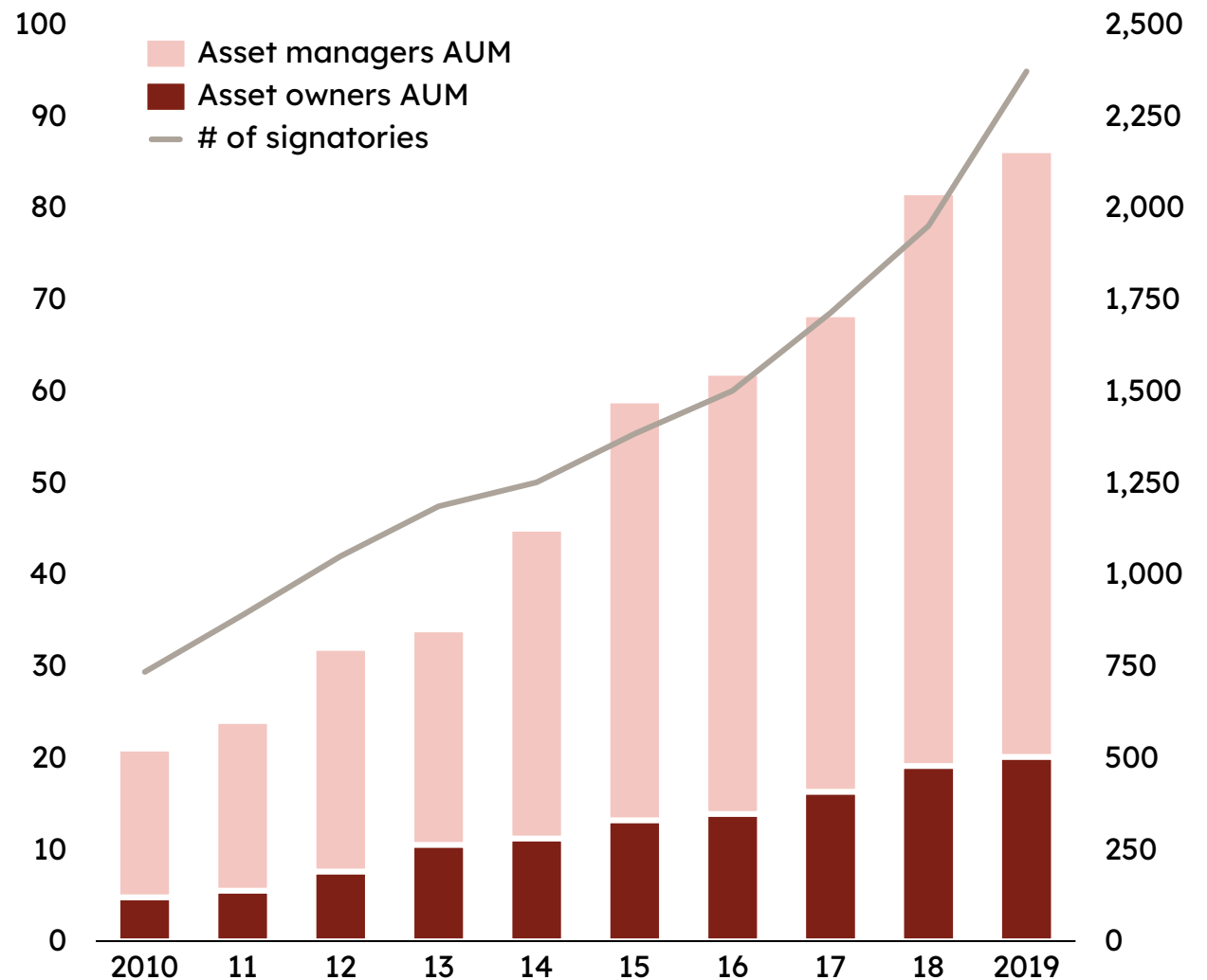
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# The trend towards responsible investing and ESG<sup>1</sup> filtering amongst global asset managers is growing fast

As shown in Exhibit 1, since the formation of the UN's Principles of Responsible Investing (PRI), the total value of assets-under-management (AUM) of signatories has increased by more than 3X to nearly US\$90 trillion. Last year there were almost 2,300 institutions signed up to the PRI.

**Exhibit 1. UN PRI signatories and AUM over time**

Source: UN PRI annual reports / AUM in US\$ Tn (LHS)



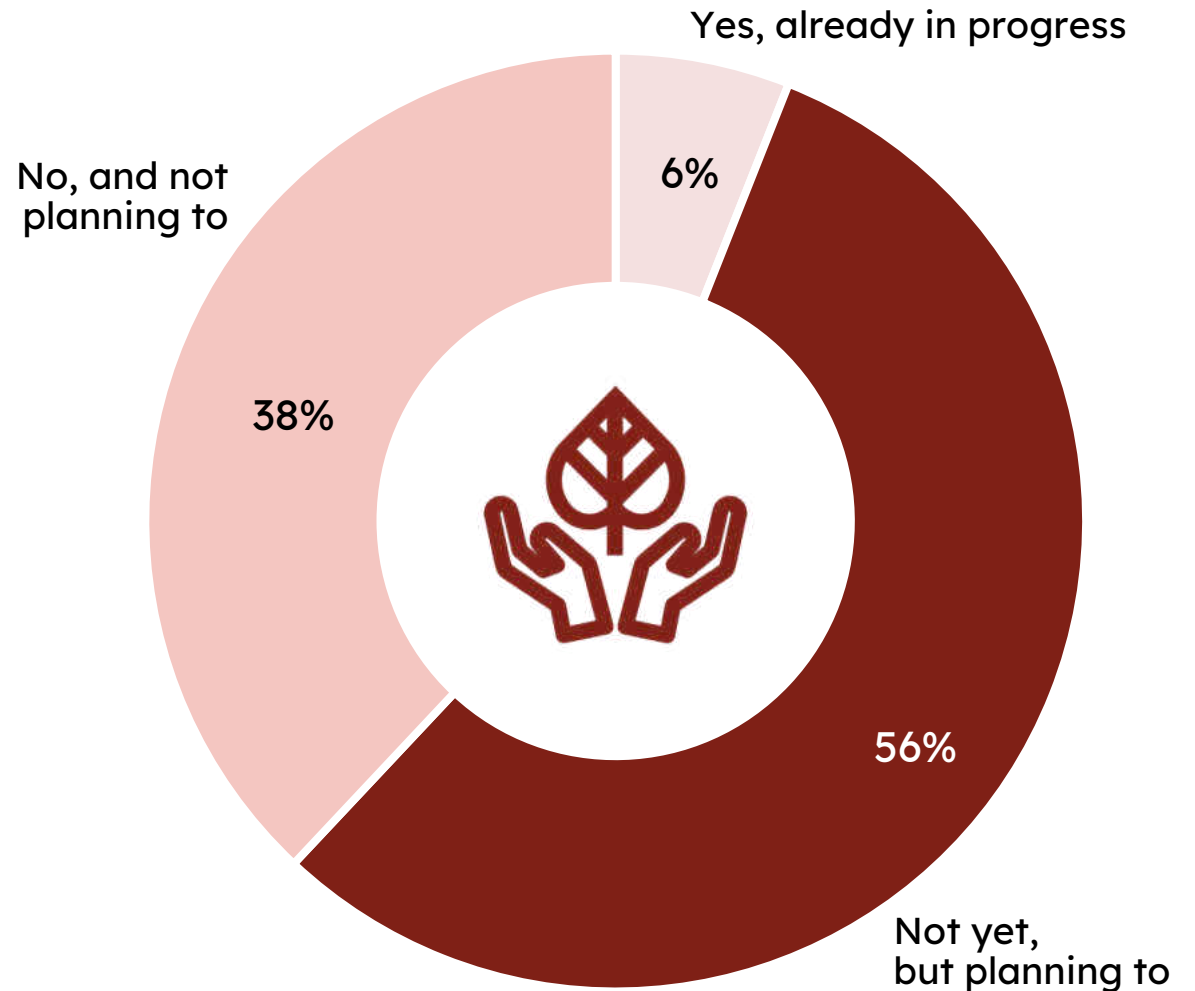
<sup>1</sup> Environmental, Social, and Governance

# But, so far, few respondents to our survey have integrated ESG reporting in their investor communication

As shown in Exhibit 2, only 6% of respondents to the Naga Survey have integrated ESG reporting in their reporting and communication to the international investment community. Perhaps most surprisingly, more than a third said they are still not planning to!

Forward-thinking companies can differentiate themselves in the eyes of investors by preparing an ESG performance strategy and securing ESG-index inclusion.

Exhibit 2. Progress in ESG integration in reporting and investor communication



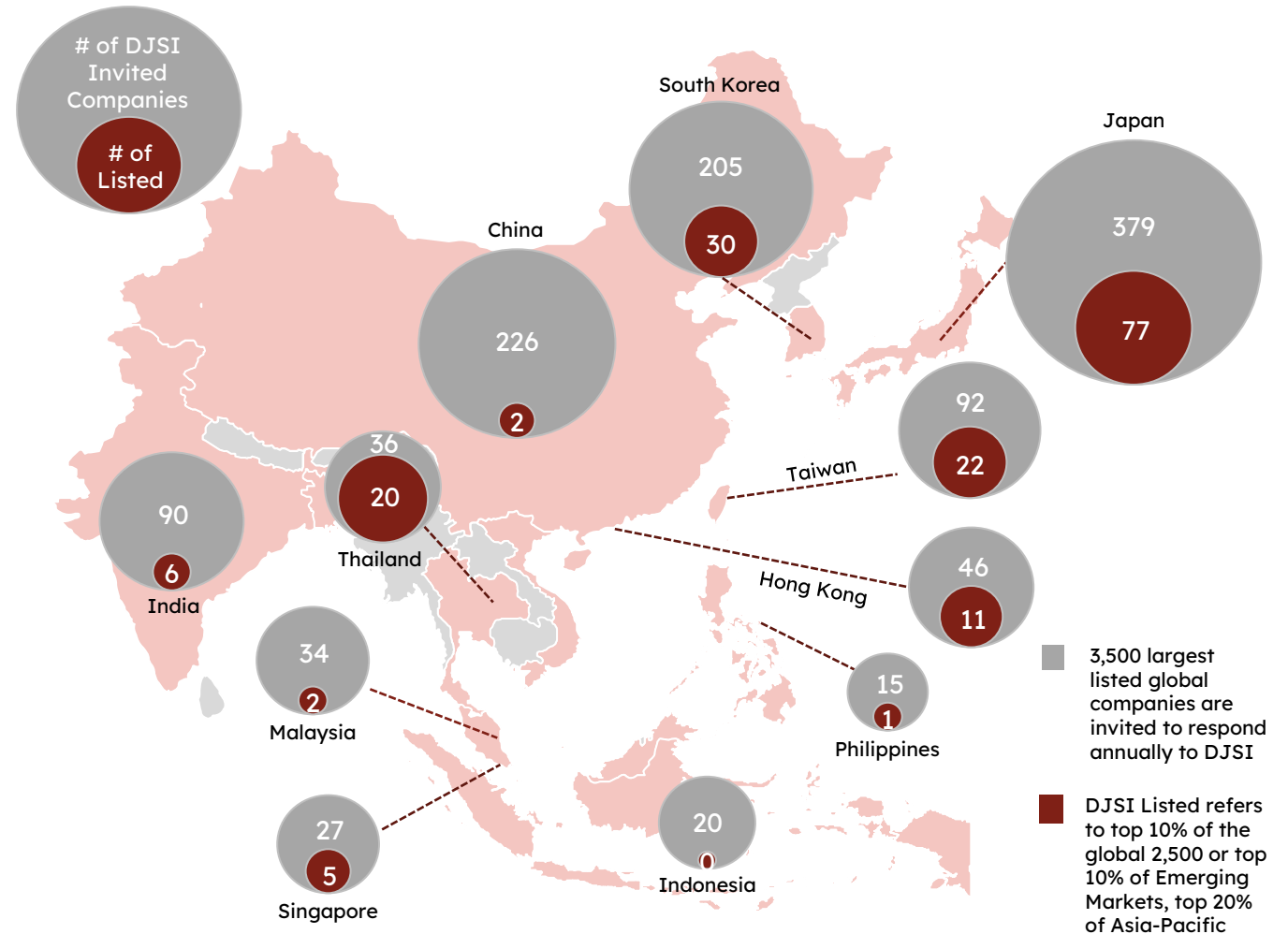
# And no Indonesian companies listed on the DJSI in 2019

The Dow Jones Sustainability Index (DJSI) is the world's most pre-eminent ESG-related performance index. To be incorporated on the DJSI, companies are assessed and selected based on their long-term economic, social and environmental plans and performance.

As shown in Exhibit 3, Indonesia has no companies listed on DJSI despite 20 companies having been invited to participate. To secure capital from international investors and banks going forward, IDX-listed companies will need to take ESG index inclusion more seriously.

**Exhibit 3. DJSI Invited vs. DJSI Listed companies in Asia (2019)**

Source: RobecoSAM, AWR Lloyd analysis



Note: DJSI is the most highly regarded ESG ratings agency based on a 2018 global survey by SustainAbility. The bubble sizes are not to made scale.





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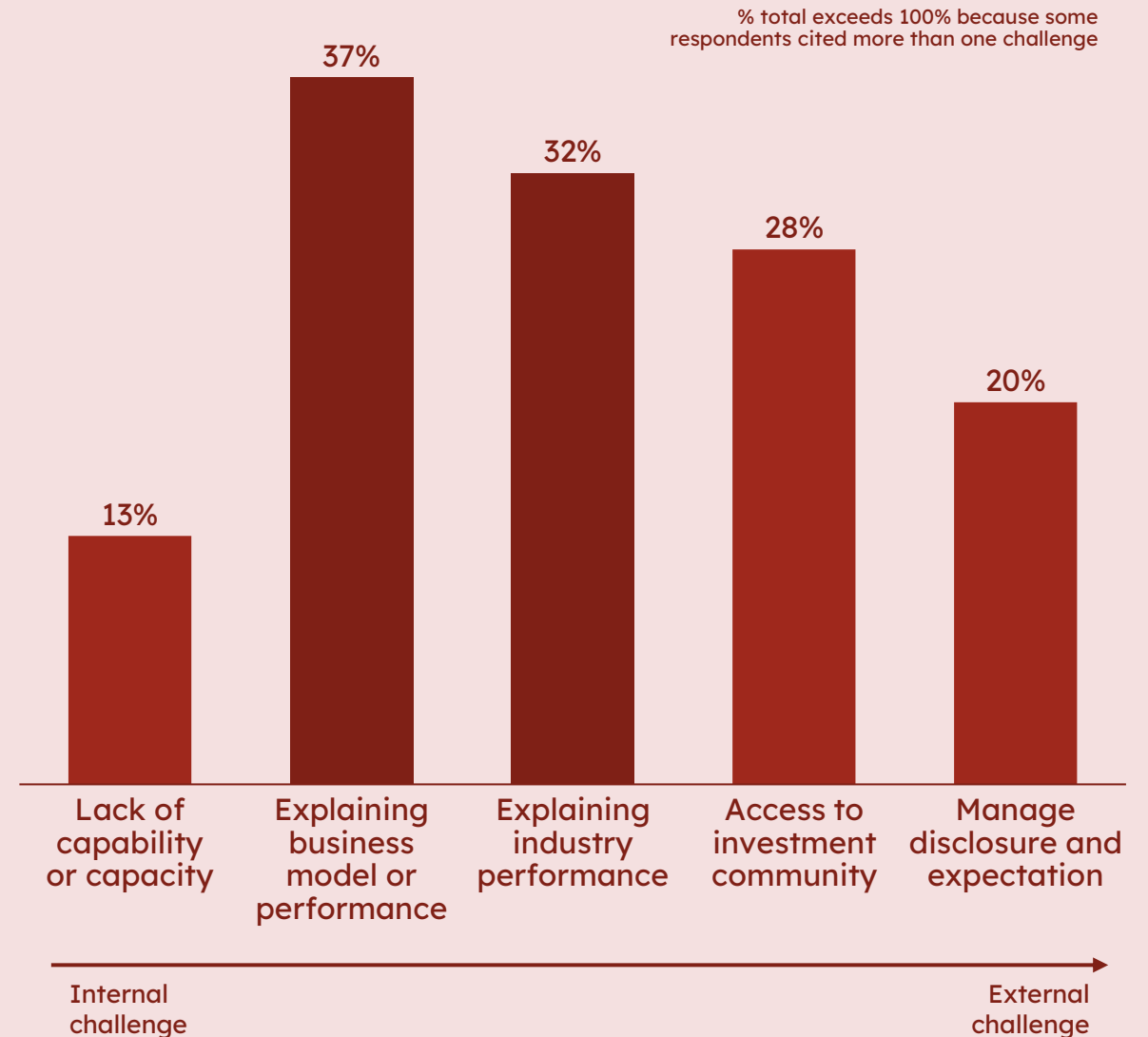
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# Many companies find it challenging to communicate their business model and performance effectively

Four out of five respondents to our survey said they struggle with effective investor communication. Of those, around a third or more found explaining their companies' business model, performance, and industry dynamics a major challenge. Managing expectations, securing the attention of the investment community, and basic communication skills were also considered key challenges.

IR executives could overcome these challenges by seeking professional support to put in place concise, coherent, and consistent messages in their IR communication materials.

Exhibit 4. Main challenges in communicating with the investment community



# Regular direct engagement with investment community is challenging for Mid-Cap and Small-Cap companies

Not surprisingly for Big-Cap and Mega-Cap companies, Analyst Meetings are seen as the primary focus for investor communication and engagement. Site Visits, Investor Conferences, and Non-Deal Roadshows are also key features of bigger company IR programmes.

Smaller companies rely too much on their websites and social media. Small and Mid-Cap companies need to make greater use of Investor Conferences and Non-Deal Roadshows to secure investor interest in their stocks.

Level of direct engagement

Exhibit 5. IR activities conducted in the past 12 months (responses by market cap category)

	Small	Mid	Big	Mega
Website and Social Media	67%	58%	70%	88%
Site Visit	44%	79%	78%	88%
Analyst Meeting	33%	64%	93%	100%
Investor Conference	22%	52%	67%	88%
Non-Deal Roadshow	22%	45%	78%	75%

The number in each cell represents the % of companies in each category that conducted or participated in respective activities



# Small, Mid, and Big-Cap companies should be more aggressive in securing analyst research coverage

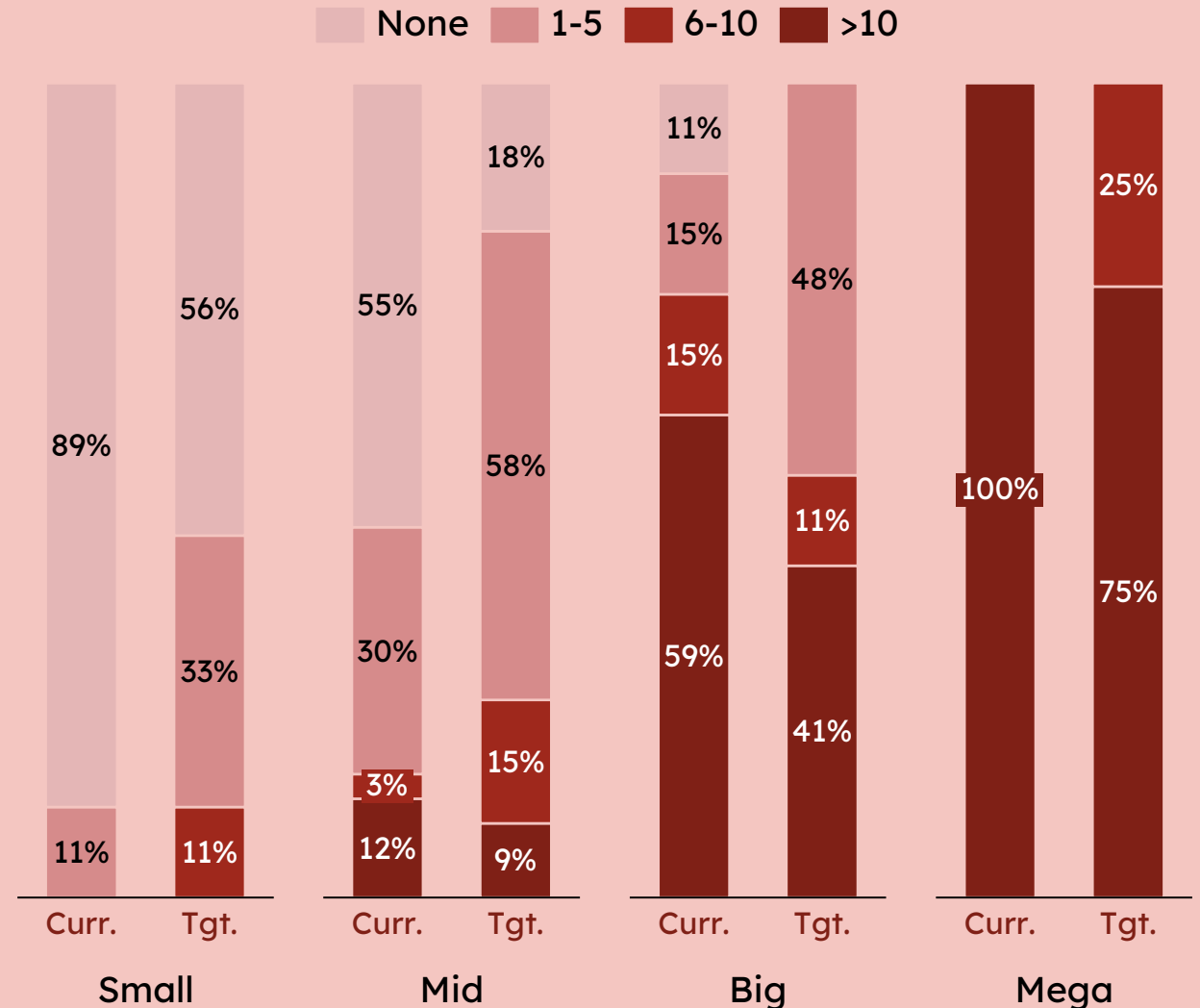
The level of research coverage for Small-Cap and Mid-Cap companies in our survey is woefully low. Despite this, only 10-20% of these companies are aiming for more than 5 analysts to cover their stocks in the year ahead.

Even Big-Cap companies in the Naga Survey seemed surprisingly unambitious in their 12-month targets, actually envisaging a reduction in the number of analysts providing research on their stocks. AWR Lloyd's interviews with investors imply that the optimal dynamic is when a stock has between 6 to 10 analysts providing in-depth research coverage.



**Exhibit 6.** Research coverage comparison between current and 12-month target (responses by market cap category)

Source: Bloomberg, AWR Lloyd analysis





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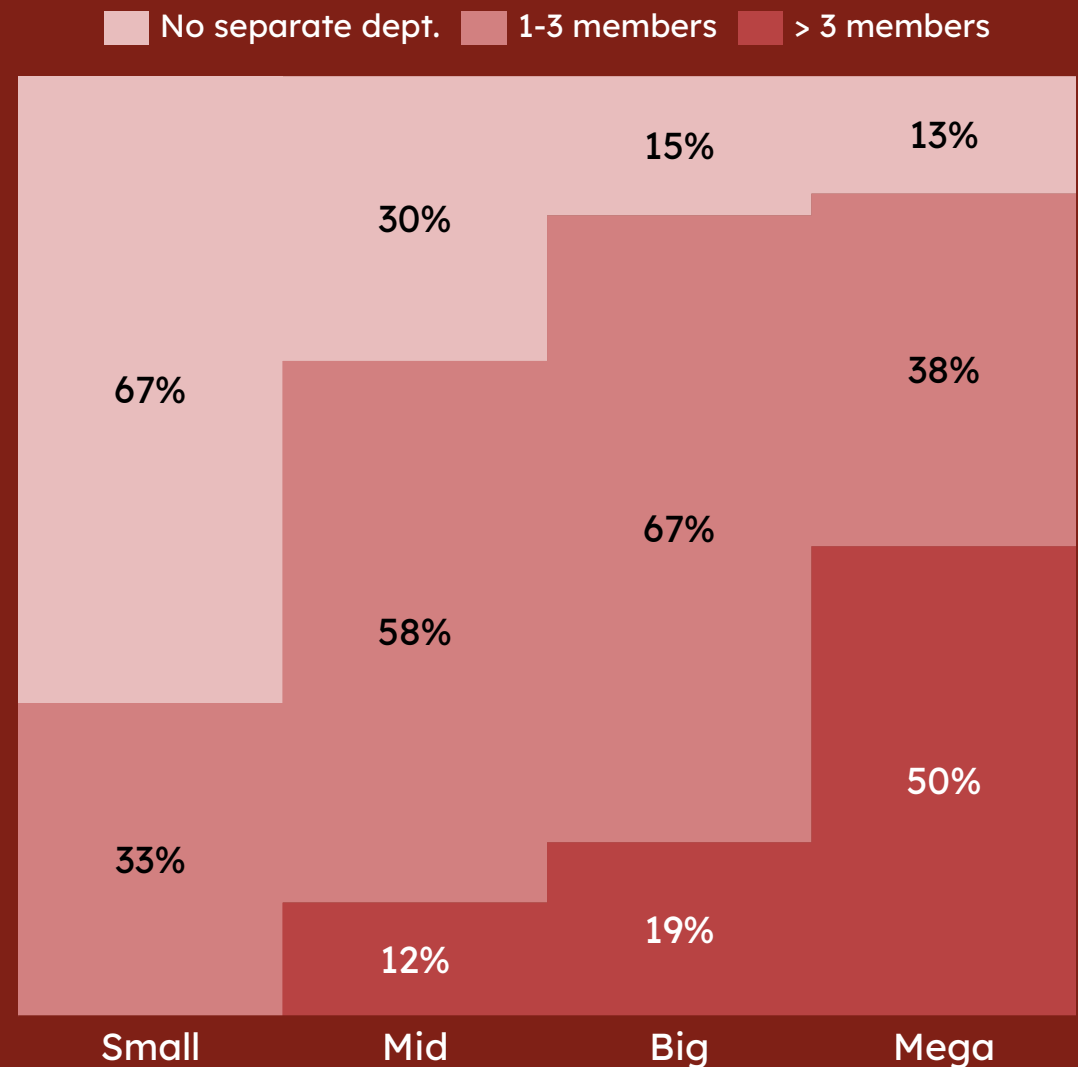
# Nearly 30% of IDX companies surveyed had no separate IR department

As many as two-thirds of all Small-Cap respondents and nearly a third of Mid-Cap respondents have no separate IR department.

This represents a major impediment to ensuring a regular and effective investor relations programme. Even for Big-Cap companies, fewer than 20% of surveyed companies have IR teams >3 people.

Fund managers and analysts expect all listed companies to have IR teams capable of responding to questions and pro-actively providing regular, comprehensive and transparent information about their company's strategy and performance.

Exhibit 7. Size of the IR department (responses by market cap category)

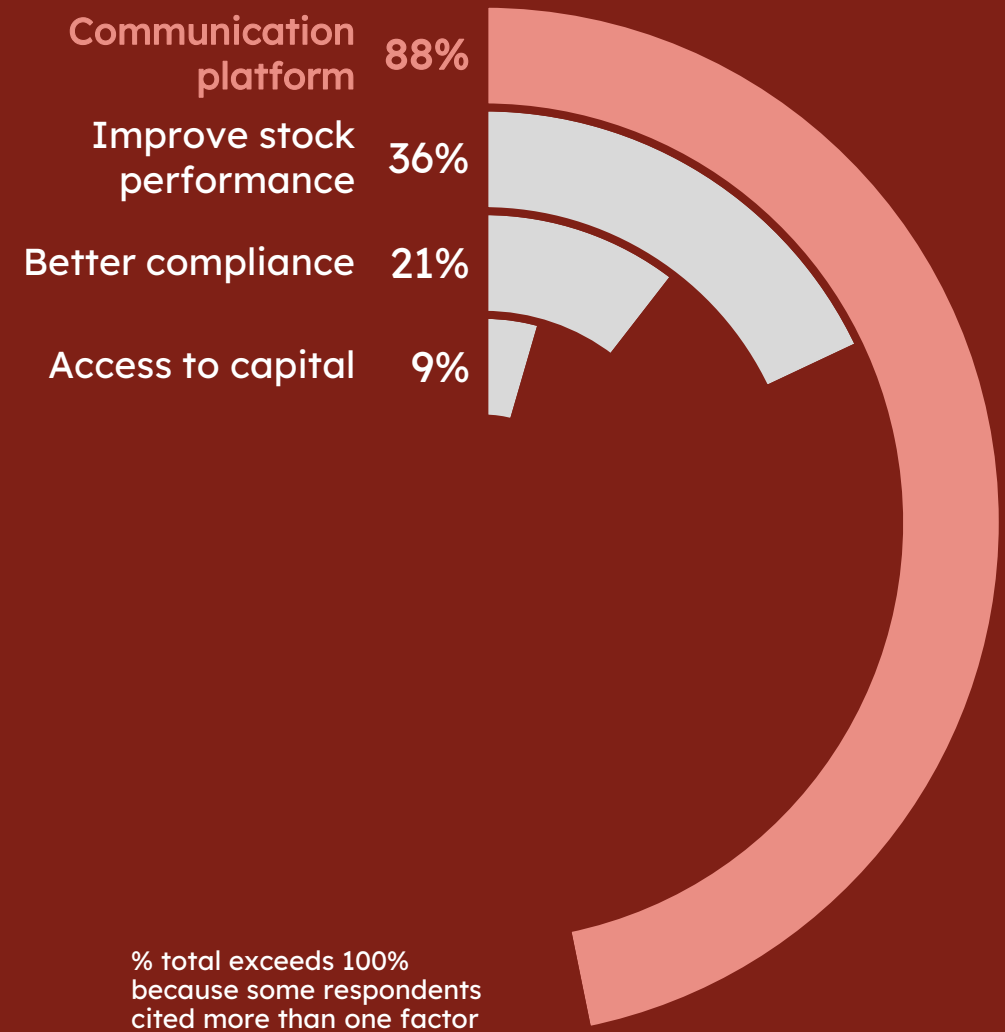


# Few companies in Naga Survey see IR function as more than just a communication platform

As shown in Exhibit 8, 88% of respondents feel the main IR objective is to provide a platform for communication with the investment community. Improving stock price performance and compliance were also mentioned. Surprisingly less than one in ten thought ensuring good access to new equity capital was important.

We would add: ensuring a company's share price consistently reflects fair value, ensuring immediate disclosure of all information likely to have a material impact on the value of the company and ensuring good share trading liquidity.

Exhibit 8. Objectives of the IR department

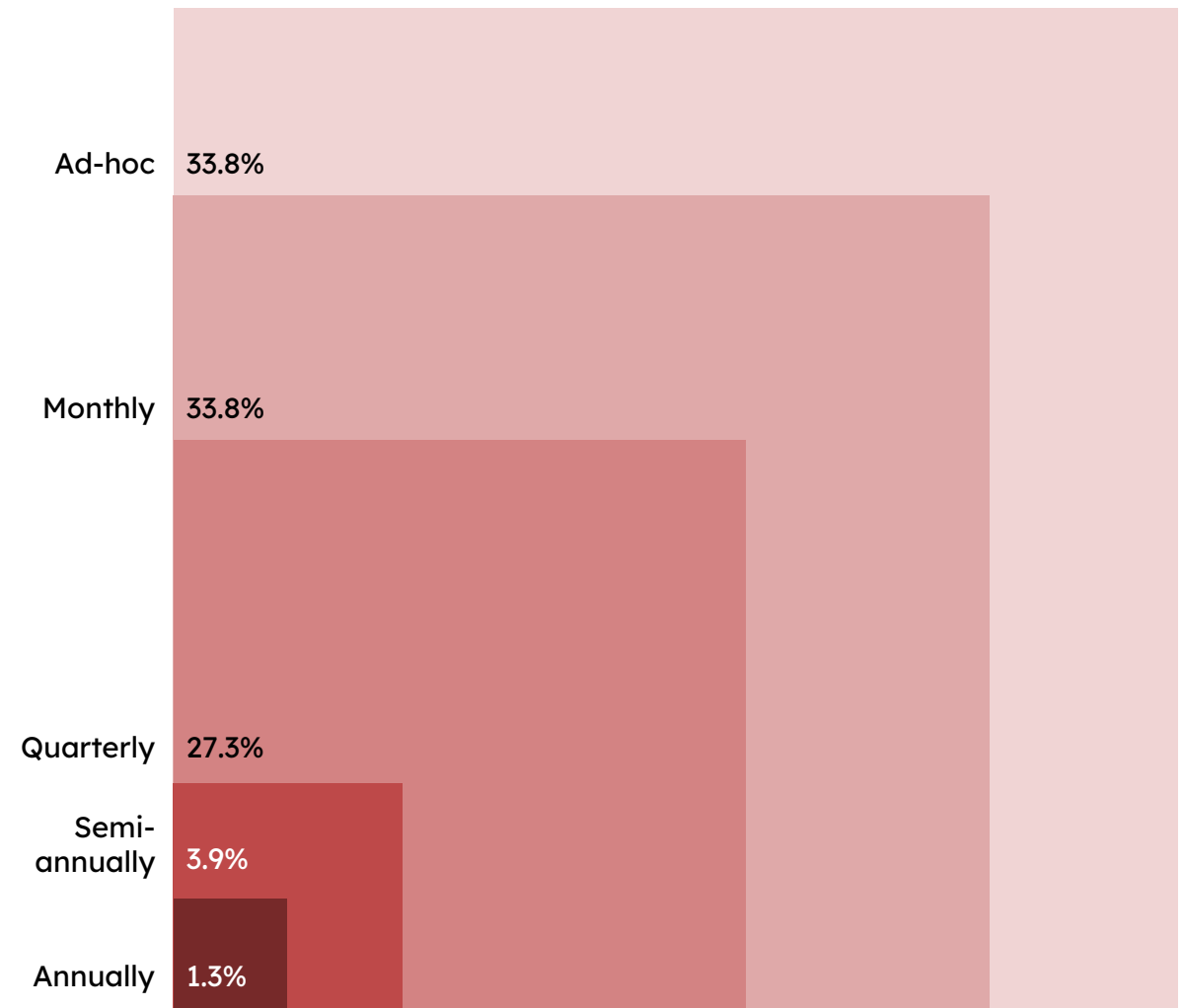


# Directors of around 40% IDX-listed companies don't have enough engagement with their IR programmes

As shown in Exhibit 9, the IR function at around 34% of respondent companies only interact with their Board of Directors on an ad-hoc basis. And another 5% meet only annually or semi-annually.

Conducting quarterly or monthly IR Management Reporting meetings is essential to ensure alignment between Board strategy and investor communication. It also provides a regular feedback mechanism for Boards to understand investment community responses to a company's performance and strategic decisions.

Exhibit 9. Frequency of IR meetings with the BoD in a year



# Understanding key drivers of share price performance scored low as a director focus

As shown in Exhibit 10, the boards at bigger surveyed companies are focused on more fundamental topics such as share price performance, peer comparisons and research coverage in their IR focused meetings. This make sense. But understanding core ‘share price drivers’ scored surprisingly low amongst all companies, with ≤31% of boards seeing this as an important topic for conversation at Small-Cap, Mid-Cap and even Big-Cap companies.

Interestingly smaller companies seem more interested in their shareholder structures than Big and Mega-Cap companies. Understanding changes in shareholder structure is important for all companies, including bigger cap companies.

**Exhibit 10.** Main topics discussed in IR meetings with the BoD (responses by market cap category)

	Small	Mid	Big	Mega
Research coverage	11%	53%	73%	75%
Share price performance	22%	50%	54%	63%
Peer comparison	11%	50%	69%	50%
Share price key drivers	11%	31%	27%	50%
Press coverage	44%	50%	27%	25%
Regulatory updates	44%	44%	38%	25%
Shareholders structure	33%	44%	27%	25%
Share trading liquidity	11%	44%	31%	25%
Others	33%	19%	12%	38%

The number in each cell represents the % of companies with discussions on respective topics with the BoD.

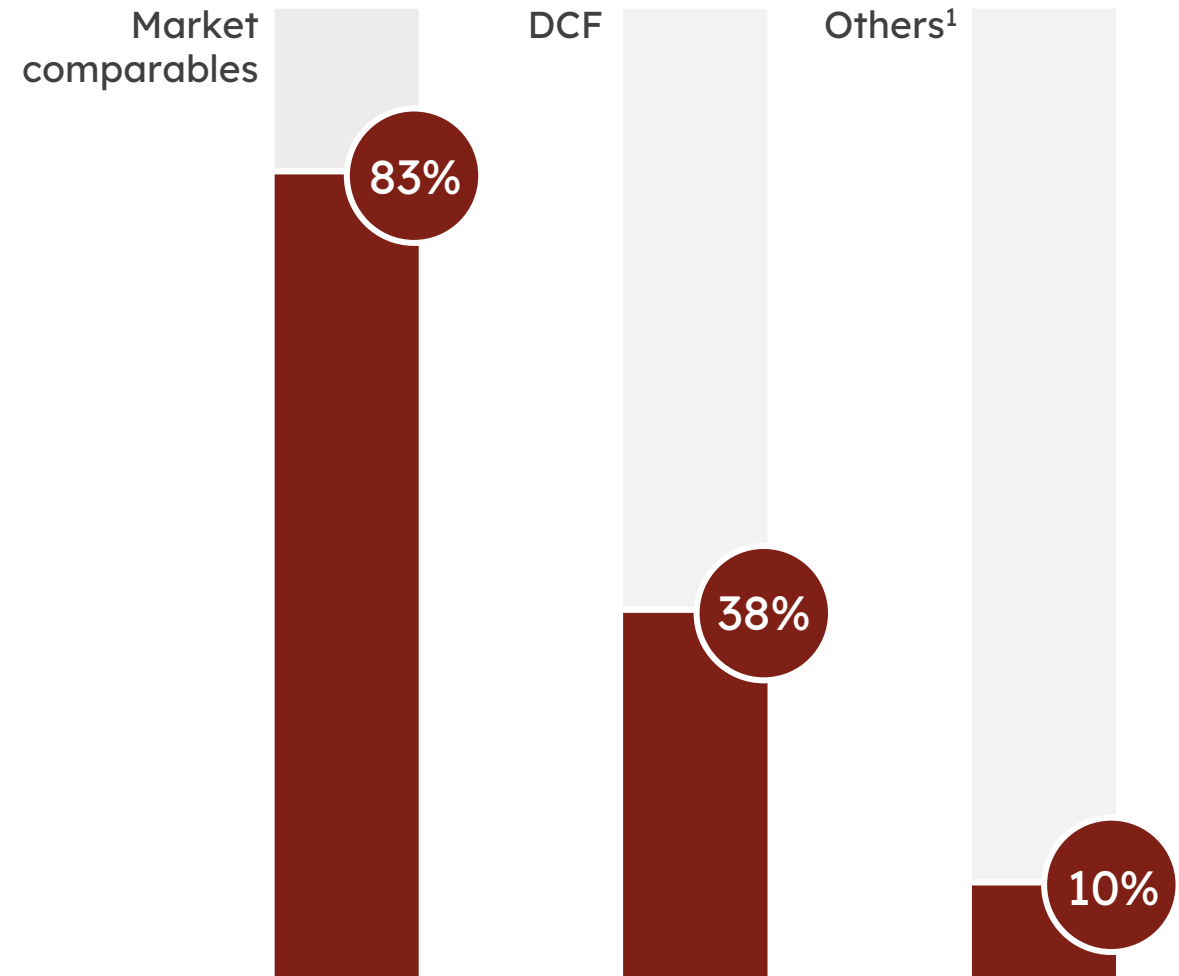


# Only one in four companies surveyed have their own in-house DCF models

Only 60% of respondents have their own in-house valuation systems. Of those that do, as shown in Exhibit 11, most focus on market multiples. Fewer than 40% of those with valuation systems maintain their own discounted cashflow (DCF) models.

Understanding if a company's share price reflects fair value, and if not, why not, is fundamental to best practice investor relations. All listed companies should have in-house DCF models with which they can analyse sensitivities and scenarios. DCF models should then be supported with carefully tailored multiples-based analysis such as adjusted attributable enterprise value to forward EBITDA<sup>1</sup> calculations and other metrics.

Exhibit 11. Valuation method(s) used by respondents who have internal valuation systems



<sup>1</sup>) Other valuation methods mainly consist of Net Asset Value ('NAV') or public appraisal; both commonly used by real estate companies



<sup>1</sup> Earnings before interest, tax, depreciation and amortization



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# Our recommendations

Our Naga Survey 2020 provides a representative snapshot of the health of IR and ESG performance amongst IDX-listed companies. It highlights the need for extensive improvements to achieve international best practice standards.

The international equity capital markets and debt markets have increasingly stringent expectations in relation to the breadth, depth, and integrity of corporate IR and ESG disclosure and transparency. Without best practice IR and ESG programmes, listed companies will struggle to achieve fair value share price growth, share trading liquidity, and access to capital when they need it.

AWR Lloyd recommends:

- An integrated approach to IR & ESG reporting
- A dedicated IR & ESG team with the necessary skills, training, and support

- Systematic investor and ESG rating agency targeting analysis (incl. index inclusion strategies)
- Integrating TCFD<sup>1</sup> analysis as part of a broader corporate strategic scenario-based planning approach which can form the basis for best practice IR & ESG reporting (incl. Climate Change Strategy reports)
- Establishing IR and ESG management systems and SOPs which link board decisions and corporate strategy to a two-way process of communication with the financial community

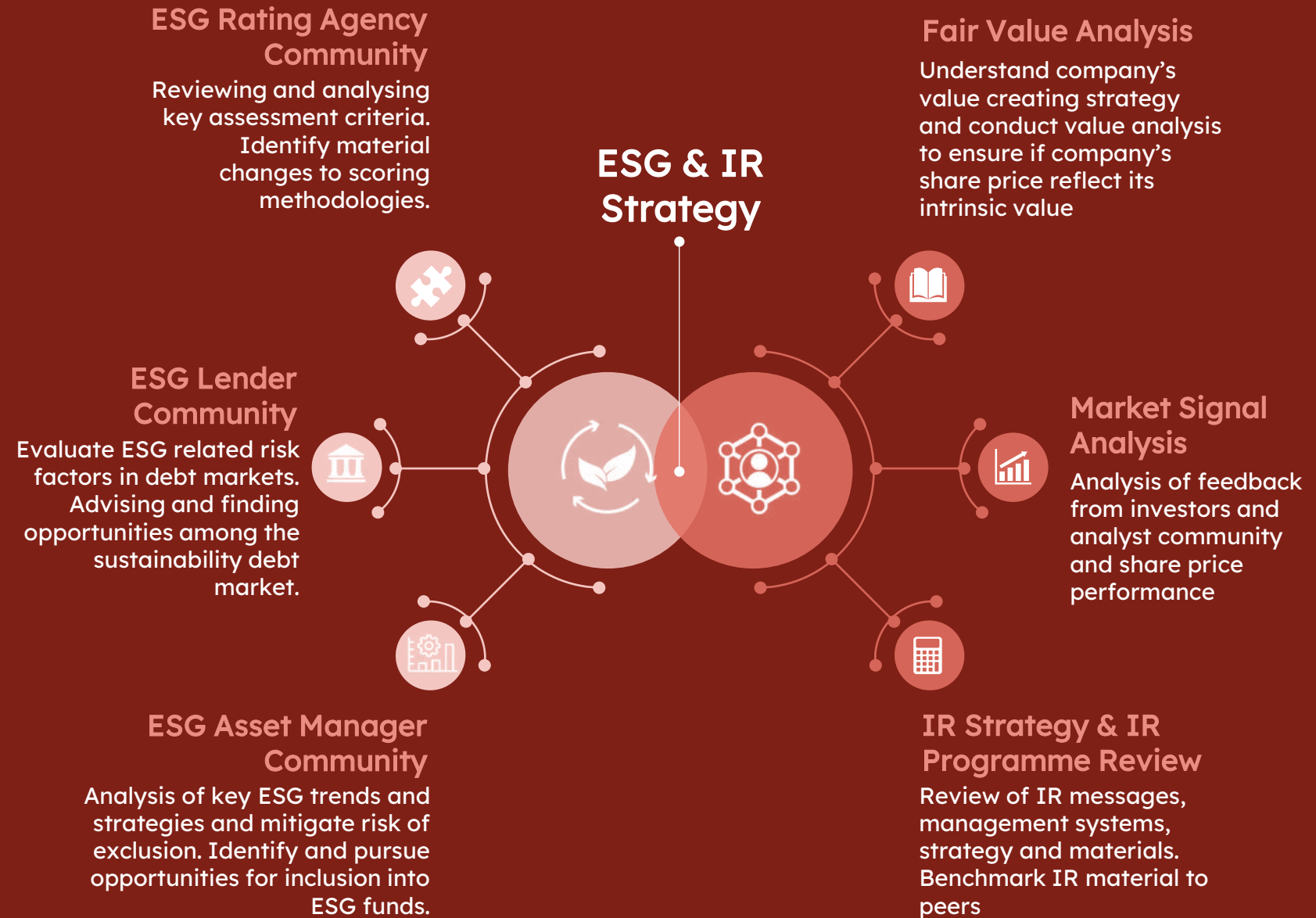
We will continue to monitor the development of IR & ESG performance in Indonesia and will aim to update our Naga Survey every 2 years. We welcome any feedback and inquiries.



<sup>1</sup>Task Force on Climate-Related Financial Disclosure

# AWR Lloyd's Fair Value IR & ESG strategy service module

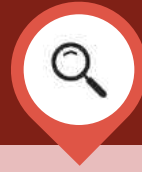
AWR Lloyd provides an integrated Fair Value IR & ESG strategy service designed to ensure that listed companies achieve fair value share price growth and secure optimal access to the financial markets



# Focus on AWR Lloyd's Fair Value IR service

The IR component of our Fair Value IR & ESG strategy service normally comprises three initial tracks followed by on-going implementation support

## PHASE 1.1



### FAIR VALUE ANALYSIS & INITIAL STRATEGIC REVIEW

- Understand the Client's **value creation strategy** by conducting an analysis of the Client's **business units** and **growth strategies**
- We will then conduct valuation analysis to ensure that the Client's share price **reflects its intrinsic value** based on the Client's current assets and future growth plans
- We use both **internal** (e.g. management interviews) and **external** (e.g. peers benchmarking analysis, equity analysts) data



Fair Value Analysis & Initial Strategic Review

## PHASE 1.2



### MARKET SIGNALS ANALYSIS

- Assess the **perceptions of the investment community** on the Client's corporate strategy, structure, valuation, and IR program
- We assess perceptions through **independent interviews** with fund managers and sell-side analysts to get **in-depth feedback**
- We also assess the Client's **share price performance, total shareholder returns, and share liquidity**, relative to its domestic, regional, and international peers



Market Signals Analysis

## PHASE 1.3



### IR PROGRAM & IR STRATEGY REVIEW

- Review existing **IR messages, IR feedback, and IR management reporting ('IRMR') systems**
- Benchmark existing **IR materials** against international best practice
- Review **roadshows, results, and investment community targeting strategies**
- Assess the **capacity** of IR team and senior management to **address key challenges** when interacting with the investment community



IR Review, IR Strategy, Message & IR Management Reporting Recommendations

## PHASE 2



### IR PROGRAM & IR STRATEGY IMPLEMENTATION

- End-to-end implementation support in the **development of an IR team** at two levels: Senior management and Core IR team
- On-going, hands-on advisory service for CF & IR team, incl. development and maintenance of **IR audience database, IRMR, and IR materials**
- We could also work together with the Client in planning and managing **domestic and international roadshows**; from presentation preparation to feedback analysis





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