

Indonesia Market Update

June 2017

Welcome to the June 2017 edition of “Indonesia Market Update”. The Indonesian economy is improving with strong consumer confidence and further economic reform. Selamat membaca!

CONSUMER

Indonesia beats China in consumer confidence - benefiting from a recovery in global commodity prices, Indonesia has seen its consumer confidence, which rose at the second fastest rate among emerging markets, surpass China, a survey conducted by Credit Suisse Research Institute (CSRI) shows. In its seventh annual Emerging Consumer Survey conducted jointly with global market research firm Nielsen, the group found that Indonesia was ahead of China in income upgrade and stood just below India, making the three countries the highest ranked among five other emerging markets.

Late night shopping shows RI's economic spirits brightening – the Muslim holy month has ended and how much shopping Indonesians do during Ramadhan is regarded as a reliable sign of the mood in the economy where private consumption accounts for 57 percent of gross domestic product (GDP). There are several signs that the outlook is brightening for Asia's third largest consumer market and the world's largest Muslim population. A survey by Bank Indonesia showed consumer confidence in May was at its highest since 2000.

ECONOMY

WB projects 5.3% economic growth in 2018 - the World Bank has projected that the Indonesian economy would grow at the level of 5.3 percent in 2018, higher than this year's projection of 5.2 percent, according to the Bank's June 2017 Indonesia Economic Quarterly. Private consumption is expected to increase with moderate inflation, stable exchange rate, stronger consumer confidence and low consumer lending rates. In the baseline estimate, investment is expected to strengthen due to continued recovery in commodity prices, increased investor confidence supported by the S&P rating upgrades, and declining commercial lending rates.

Indonesia launches 15th economic policy package – the government launched the 15th economic policy package, which is aimed at improving logistics in the country. The package addressed four main aspects – enhancing the role of transportation insurance, reducing costs for logistic service providers, strengthening the Indonesia National Single Window (INSW) authority and reducing the number of prohibited and restricted goods.

Government set to revise negative investment list again - Indonesia is set to revise the country's negative investment list pending a technical meeting to be organized by the Coordinating Economic Ministry. Regarding the new list, Economic Coordinating Minister Darmin Nasution hinted that there would be no change in the manufacturing sector. Darmin added that the meeting would also further discuss revising the negative investment list in the transportation and pharmaceutical sectors. Under the current list, 35 industrial sectors, including transportation and pharmaceutical sectors have been removed from the list. Transportation Minister Budi Karya Sumadi said he planned to initiate a discussion on revising share ownership in airport management at the meeting. He stressed that opening up the sector to foreign investors was crucial, as it would boost airport management service in Indonesia.

TRADE

RI to boost agricultural trade with PH, Chile - the Agriculture Ministry plans to increase market access for Indonesian agricultural products in Chile and the Philippines in exchange for allowing products from both countries to enter Indonesia. The ministry aims to export a large volume of rice and corn to the Philippines in exchange for Filipino agricultural products entering Indonesia. In agricultural commodities, Indonesia's main export to Philippines was coffee, rubber, cacao, tea and nutmeg, while the largest imports were cheese, milk and tobacco. Separately, the Chilean Ambassador to Indonesia expressed the South American country's intention to export frozen meat to Indonesia.

RETAIL

Fast Food Indonesia to open 30 new KFC outlets - Fast Food Indonesia, the operator of KFC, opened five new outlets in Q1 2017 making a total of 580 KFC outlets across the country. According to Justinus Dalimin Juwono, Director, the

company aims to open 30 new outlets within the next three quarters in regions such as Bengkulu, Sulawesi and Papua. Mr Juwono said opening new outlets is an effective strategy to boost revenue. In Q1 2017, the company's revenue rose 9.3% to around US\$82 million, while net profit rose 348.9% to around US\$2.79 million. Besides opening new outlets, Fast Food also plans to add new food & drink items. Mr Juwono said new food & drink items can boost sales at an outlet by up to 30%. In Q1 2017, the company spent around US\$4.57 million to promote its brand.

7-Eleven sale to CP Indonesia cancelled - Charoen Pokphand (CP) Indonesia's US\$75 million bid to acquire the operator of 7-Eleven convenience stores in Indonesia has been cancelled, leaving the struggling retailer in limbo once again. In a stock exchange filing on June 5, Modern Internasional, the parent company of 7-Eleven franchise operator Modern Sevel Indonesia, said the cancellation was "due to non-agreement of the parties concerned." Modern Sevel Indonesia ran a total of 166 stores as of September 2016, mostly in Jakarta. However, during the year, it closed 25 stores as it struggled to compete with local competitors and has suffered losses in recent years.

Help 'mom-and-pop stores,' govt tells wholesalers - the government will revise the 2007 Presidential Regulation on management and development of traditional markets, shopping centers and modern shops to push wholesalers to provide more assistance to their small counterparts, the mom-and-pop stores. Data from the Indonesian Retailers Association (Aprindo) shows that there are only two big wholesalers operating at present, Indogrosir and South Korea's Lotte. Combined, they own roughly 25 stores across the archipelago. In addition to the partnership between wholesalers and small shops, the upcoming revised presidential regulation will also cover other issues, including operational zones and the allocation of small and medium enterprises' (SMESs) products sold at modern retailers. At the moment, there are more than 27,000 modern retail outlets in Indonesia, as opposed to 9,559 traditional markets.

Shopping centers hold bright prospect – the property sector, particularly the shopping center segment, posted a good performance up to the first quarter of 2017. Indonesia's increasing income per capita reflects a growing public purchasing power. Combined with a high proportion of productive-age people, which has reached 66 percent of the population, the purchasing power has spurred the growth of the retail business. To accommodate these needs, many developers have launched new shopping centers, or malls, especially in the Greater Jakarta area. Indonesia, as a country with the fourth-largest population in the world, is a magnet for retailers, both domestic and foreign. The potential for Indonesia's retail market is vast. Based on the Global Retail Development Index (GRDI) released by AT Kearney, Indonesia is among the top 10 retail markets with the most potential of 30 developing countries in the world.

AGRIFOOD

Dharma Jaya to develop beef cattle farm in East Nusa Tenggara - the Jakarta government-owned company Dharma Jaya plans to invest US\$2.77 million to develop a beef cattle farm in East Nusa Tenggara, Indonesia. Marina Ratna Dwi Kusumajati, President Director said the project is expected to start next year. The farm, which will fatten 2,000 heads of beef cattle, will supply quality beef to Jakarta which needs around 60 tonnes of beef per day. Last year, Dharma Jaya was asked to ensure supply of beef in Jakarta as well as to stabilise the price.

Stagnant dairy cattle farming business - dairy cattle farming business in Indonesia is relatively stagnant, according to Meddy Wijaya, Manager of Agri Servis Sakti, representative of DeLaval in Indonesia. In the past few years, he has seen that some medium-scale dairy cattle farming businesses (100-200 heads) collapsed. "Poor milk prices and internal management problems were the causes," he said. While small-scale farmers, he said, still survive because they do not add labour cost into their production costs. Mr Wijaya hopes the government can intervene on the price of fresh milk. "If the price of fresh milk is US\$ 0.45 per litre, farmers can expand their business. Their average production cost is US\$0.37 per litre."

DGLAHS: sufficient beef stock - Indonesia's Directorate General of Livestock & Animal Health Services (DGLAHS) has prepared 157,000 heads of ready-to-slaughter cattle (equivalent to 33,000 tonnes of beef) to meet demand during Ramadhan and Ied Fitr. I Ketut Diarmita, DGLAH Director General said beef demand during the religious festivals usually increase 15%. "We have anticipated this. Bulog [Indonesia's State Logistics Agency] has 40,000 tonnes of buffalo meat and plans to realise their buffalo meat import recommendation of 51,000 tonnes. So, the supply is more than

enough,” he said. The price of beef and buffalo meat is expected to stay within US\$8.98 and US\$5.98 per kg during the period.

Indian buffalo meat eats into local farmers’ market share - beef cattle farming in Indonesia are not promising anymore. The entry of frozen buffalo meat from India has taken about 50% of local beef cattle farmers’ market share, said Ferry Kusmawan, a feedlot businessman. He said to reach a break-even point, farmers must sell their live cattle at US\$3.46 per kg, but buyers only pay US\$3.07 per kg. Mr Kusmawan said the only thing farmers can count on is the Ied Adha religious festival where Muslims sacrifice cattle, goats and sheep. During this period, the price of live cattle is expected to touch US\$3.84 per kg.

RI to better distribute farmers’ subsidy - the government expects to maximize the impacts of its agricultural subsidies through the introduction of a multipurpose card that allows registered farmers to buy subsidized goods with e-money. The Farmers Card, bearing the name of its holder and linked to the holder’s bank account, will function at the same time as an ATM card and ID, allowing the government to better analyze farmers’ consumption for future subsidy policies. Indonesia has allocated Rp31.3 trillion (US\$2.3 billion) to subsidize 9.5 million tons of fertilizer this year. The ministry aims to distribute the cards to all crops (paddy, corn and soybean) farmers in Java this year and to 10 million farmers outside the island next year.

Greater food purchases spur rise of imports in May – monthly imports climbed significantly in May as local manufacturers and retailers stockpiled raw food and food products to meet rising demand during Ramadhan and the subsequent Idul Fitri festivities. Indonesia, the world’s most populous Muslim-majority country, normally sees consumption peak during the holy season as people are willing to spend more on food. Imports climbed markedly by 15.67 percent to US\$13.82 billion from April to May, primarily driven by overseas purchases of raw food and processed food, said the Central Statistics Agency (BPS). Among the commodities the import of which surged significantly are corn, garlic, flour, beef, and processed food, as well as beverages.

Japan’s Pokka Starts Making Soft Drinks in Indonesia - Pokka Sapporo Food & Beverage is ramping up Indonesian operations in soft drinks, switching to local production to strengthen its market foothold and save on costs. The Japanese beverage maker set up a production facility through a joint venture with local distributor Dima Indonesia and began shipments in late April. Pokka aims to sell 1.4 million cases in the first year. Since predecessor Pokka Corp. set up shop in Southeast Asia back in 1977, Pokka has become well-known in the region for its green tea, mainly in Singapore. The company has also shipped drinks produced in Singapore to Indonesia for sale. The first products coming out of the Indonesian plant include bottled jasmine green tea and lemon black tea. Pokka’s drinks are a little pricier than rival brands, costing the equivalent of 40 yen to 70 yen (36 cents to 63 cents) more per bottle. The company plans to use sales channels of Dima and expand sales through supermarkets and other volume retailers.

Malindo to expand processed foods division - publicly listed poultry firm PT Malindo Feedmill has set as its priority the expansion of its processed foods division as it sees huge potential demand in that area amid the present challenges in the poultry industry. Currently, the consumption of processed food in Indonesia is very low, particularly for chicken meat. In Indonesia, chicken meat consumption only amounts to 10 kilograms per capita per year, far below neighboring countries like Malaysia with 45 kg per capita per year, and Singapore with 40 kg per capita per year. Malindo has allocated US\$50 million in capital expenditure (capex) this year, 33 percent higher than last year. Part of its capex will be used to build corn dryers, while the remainder is for investment in poultry farms and other production facilities.

AUTOMOTIVE

Indonesia May motorbike sales up 15.2% yoy - motorcycle sales in Indonesia rose 15.2% in May from a year earlier, data from an industry association. These sales are also the highest growth rate since August 2014. Sales stood at 531,496 motorbikes in May, up from 461,506 sold in the year-ago period. It was also higher than the 388,045 bikes sold in April. Motorbikes are hugely popular in Southeast Asia’s biggest economy and their sales are a key indicator of consumption. Sales in May were led by Honda Motor, Yamaha Motor Co Ltd and Suzuki, data showed.

Astra Honda Motor to sell electric motorcycles in 2018 – motorcycle manufacturer and distributor PT Astra Honda Motor hopes to begin selling electronic motorcycles in Indonesia next year, as the government expects to see millions of battery-powered two-wheelers on the road by 2025. Astra Honda Motor marketing director Thomas Wijaya said its parent company Honda was currently carrying out studies on engine technology and battery waste management, before kicking off production. Honda, however, has yet to determine the country that will serve as its production center. Indonesia hopes to see 2.1 million electric motorcycles and 2,200 hybrid or electric cars hit the roads by 2025, as mandated by Presidential Regulation No. 22/2017 on energy planning. The motorcycle industry expects to sell between 5.8 million and million units in 2017, which would be in line with the 5.9 million motorcycles sold nationwide last year.

Honda posts lower sales in Jan – May – automotive firm PT Honda Prospect Motor (HPM) , a subsidiary of major Japanese carmaker Honda Motor Co. Ltd sold 84,419 cars during the five-month period this year, a 6.4 percent decline compared to the same period last year. The firm sees the Gaikindo Indonesia International Auto Show 2017, an annual auto show organized by the Association of Indonesian Automotive Manufacturers (Gaikindo), and the end-of-the-year peak season as chances to boost sales in the domestic market. The low multipurpose vehicle (LMPV) is a main contributor to the HPM’s sales, with its product – Mobilio- contributing to almost 26 percent of HPM’s sales in 2017. On its segments, Mobilio gains 19 percent market share with 21,771 units sold.

Mercedes Benz targeting Indonesia’s young billionaires - amid a fluctuating automotive market, German car manufacturer Mercedes-Benz hopes to penetrate into the Indonesian young executives market by launching a new version of its GLA-type luxury car. The new GLA 200 AMG line, set to be sold for Rp739 million (US\$55,572) each, was designed to lure in the “youngsters” segment, or those aged between 25 and 35 years, Mercedes-Benz Indonesia deputy director for marketing communication Hari Arifianto said. Mercedes Benz is trying to defend its position as the leader of the premium car segment. Data from the Association of Indonesian Automotive Manufacturers (Gaikindo) shows that as of March 2017, the company controls a 56.8 percent share of Indonesia’s premium car market.

ICT / MEDIA

Airbnb eyes expansion in Indonesia - global hospitality marketplace Airbnb will expand its business in Indonesia as it considers the country to be one of the most important markets in the Asia-Pacific. Airbnb’s country manager for Southeast Asia, Hong Kong, and Taiwan, Robin Kwok, said that Indonesia is one of the fastest growing countries in terms of inbound travel, with nearly 38,000 local homes currently listed on its rental website. Kwok said her company had developed teams to educate local hosts on how to use the app. She said her team had also discussed with government officials about how the company could help the government gain a better understanding of the services required by visitors to Indonesia. Airbnb also looks forward to cooperating with local partners, Kwok said, adding that her company had high expectations for the potential partners to boost brand awareness of the company. Founded in 2008, Airbnb is currently present in 65,000 cities in 191 countries across the world, with 160 million guest arrivals, according to the company’s data.

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