

# Indonesia Market Update

## May 2017

Welcome to the May 2017 edition of “Indonesia Market Update”. Selamat membaca!

### ECONOMY

**Monthly Exports Continue Upward Trend On Commodities** – exports experienced an upward trend in April amid rising commodity prices and improved global demand. Monthly exports rose 12.6 percent year-on-year (yoy) to US\$13.17 billion. Confirming such a trend, exports in the January-April period climbed 18.6 percent to US\$53.86 billion compared to the corresponding period last year.

**Government to develop \$4.3 b geothermal plants** - the govt plans this year to start the process of developing 12 geothermal power plants with a total capacity of 865 megawatts (MW) and combined investment value of around US\$4.3 billion as part of its efforts to make Indonesia the world’s top geothermal electricity producer. To make the geothermal projects more attractive, the government has allocated US\$225 million from the state budget and has been granted \$55.25 million from the World Bank to fund exploration activities for geothermal power plants.

### TRADE

**RI, Taiwan team up for agriculture, fishery projects** – Indonesia and Taiwan are discussing collaboration in the areas agriculture and fisheries, with a pilot project to increase rice and sugarcane productivity in the Southeast Asian country expected to commence this year. The first stage (of the cooperation) will be a government to government (G2G) agriculture development project and after that more investment from Taiwanese private firms are expected in Indonesian agriculture, ship-building and fisheries sectors especially for high valued marine products such as grouper and shrimps.

**Indonesia, Lithuania strengthens cooperation on energy, transportation** - President Joko Widodo and Lithuanian President Dalia Grybauskaitė witnessed the signing of two memorandums of understanding (MoU) at the State Palace in Jakarta this month. The agreements are aimed at improving bilateral cooperation in the energy and transportation sectors.

**Italy to strengthen ties with RI** – Italy has affirmed its strong ties with Indonesia and called for continued efforts to boost trade and economic relations. The Italian Economic Development Minister Carlo Calenda visit to Jakarta with a delegation of 50 leading Italian companies is set to further boost trade ties between the two countries.

**RI, Swedish businesses seek long-term ties** – a Swedish business delegation comprising 60 top executives from 35 companies have introduced their expertise to local business players. The Swedish Trade and Business Council inked a memorandum of understanding (MoU) on partnerships in four priority sectors, namely digital, infrastructure, healthcare and skill development. Around 80 Swedish firms operate in Indonesia, including home furnishing company IKEA, electronic company Electrolux and auto company Volvo. About 95 percent of these companies have plans for long-term expansion in the archipelago, while 88 percent seeks to invest in the next three years.

**Jakarta, Seoul tighten bonds as sister cities** - after being sister cities for decades (since 1984), Jakarta and Seoul tightened their bonds when the Seoul metropolitan government visited the Jakarta administration to discuss cultural exchange programs and to promote tourism in both Seoul and Jakarta.

### INVESTMENT

**Investment grows at slowest rate in Q1** - despite the government’s efforts to improve the business climate in the country, investment grew at its slowest pace in at least six years in the first quarter of the year as the appetite from overseas investors weakened. Realized direct investment, the second biggest contributor to growth in Indonesia, surged by 13.2 percent to Rp165.8 trillion (US\$12.5 billion).

**UAE wants to invest more in Indonesia** – a Middle Eastern country the United Arab Emirates (UAE) wants to invest more in Indonesia. The rich country intends to invest in the areas of solar energy, ports, real estate, oil and gas, food and agriculture. The current investment is US\$2 billion with a potential of new investment up to \$5 billion.

**Seven new companies invest in Palu's special economic zone** - seven new investors – three foreign companies and four domestic ones – signed memorandums of understanding (MoU) to invest in the Palu Special Economic Zone (KEK Palu), PT Bangun Palu Sulawesi Tengah (BPST) director Mulhanan Tombolotutu has said. The companies plan to invest around US\$5 million each on average. Two of the investors are from China -- PT. STM Tunggul Jaya and Tidfore Group – and the third from South Korea -- Korea Western Power. Meanwhile, the four Indonesian investors are PT Pelabuhan Indonesia IV, PT Wika Jabar Power, PT PP Energi and PT Pertamina Niaga. The sectors of investment include infrastructure (electricity, water, transportation and distribution), industrial estates, port services and logistics.

## RETAIL

**Retailers still upbeat about sales target** – despite estimated poor results in the first quarter retailers remain optimistic about achieving double-digit sales growth this year. The retail industry hopes to increase its revenue by 10 percent from last year's US\$14.64 billion as it expects the economy to expand by 5.6 percent, boosting people's purchasing power. Retail sales have likely declined by 8 percent to 12 percent in the first three months of this year from the Rp40 trillion recorded in the corresponding period of last year, according to an estimate by the Association of Indonesian Retailers (Aprindo). "There are around 27 million credit card holders in Indonesia who are the biggest spenders."

- Fashion retailer **PT Ramayana Lestari Sentosa**, which focuses on the middle-to-low income segment, saw sales shrink slightly by 0.2 percent year-on-year (yoy) to Rp1.48 trillion in the first quarter.
- **PT Matahari Department Store**, Indonesia's largest retailer of apparel, beauty and home products, posted a 0.55 percent decline in revenue yoy to Rp 1.85 trillion over the same period, while its net profit remained unchanged from last year at Rp244 billion. The company said it would open six to eight new department stores across the archipelago this year. The expansion would require capital expenditure of up to Rp450 billion.

## AGRIFOOD

**Greenfields eyes higher share in milk industry with new plant** - Malang, East Java, will see an increased outflow of milk products with the inauguration of dairy producer PT Greenfields Indonesia's 2<sup>nd</sup> milk factory, which is located among the village's rolling hills. The factory, worth US\$25.18 million and built on 7 hectares of land, is expected to run 100 percent of its capacity, producing 70 million liters of milk annually by late 2018. This is in addition to the 40 million liters produced in Greenfields' first factory in Babadan village in the same regency. Greenfields – controlled by Japfa Pte Ltd through AustAsia Dairy Group – expects the two factories to help achieve its target of winning a 12 percent market share in the country by the end of 2018, a significant increase from 5 percent today. To meet this new factory capacity Greenfield is building a second dairy farm on 172 hectares with capacity for 9,500 cows. The first 2,000 cows will arrive from Australia in August 2017. This is in addition to the first farm that has 8,600 cows producing 115 tons of milk daily.

**Capacity building for farmers key to Jokowi's land reform agenda** – many have welcomed President Joko Widodo's ambitious land reform plan, which is believed to help alleviate poverty and inequality. The President's flagship program, however, has also met with criticism, with some saying it may stall unless it is complemented by capacity building programs for farmers and infrastructure improvements. The Jokowi administration has announced that the planned land reform would see a total of 21.7 million hectares of idle land across the nation allocated to groups of people, so that they can improve their welfare and ultimately help reduce economic disparity. According to the Institute for Development of Economics and Finance (INDEF), most farmers in Indonesia still have a low level of knowledge about farming technology, resulting in low productivity.

**Cargill looking to seize momentum, invest more in RI** – United States commodities giant Cargill Inc. has expanded massively in the past few years in Indonesia, one of its top markets in Southeast Asia, by building new facilities, acquisitions and setting up joint ventures in strategic business sectors. It aims to pour in up to US\$1 billion until 2020 as part of its five-year investment plan. Cargill have been in Indonesia since 1974. The company just started a new joint venture for chicken processing with Japfa's subsidiary, So Good Food, last month. A new cocoa processing facility in Gresik (East Java) has opened in 2014. Their biggest business in Indonesia are in the sector of cocoa and chocolate, dairy feed and aqua feed, starches and sweeteners, agriculture supply chain and palm oil.

**Market intervention kicks off to control food prices** - ahead of the fasting month of Ramadhan, which begins on May 27, state logistics agency Bulog began to distribute staple foods to stabilize prices in markets as part of a two-week long market intervention program called the “Food Stabilization Movement.” Bulog has stocked more than 2 million tons of rice, 320,000 tons of sugar, 207,000 liters of vegetable oil, 62 tons of garlic, 60 tons of shallots and 37,500 tons of meats—almost all of which is buffalo meat from India.

**Indonesia aims for zero imports of garlic in 2018** - the government is looking to achieve its goal of zero garlic imports in 2018, following an expansion of garlic farms across the country (aim at 100,000 hectares of garlic farms next year). Annual garlic consumption for household and industrial needs reached 500,000 tons in 2015, but only 20,000 tons of it was planted domestically. The remaining 480,000 tons were imported from China and India.

**Jakarta distributes affordable meat in 74 areas** - the city administration has been distributing affordable beef and chicken to low-income residents since February and aims to reach out to residents living in 74 sub-districts in all five municipalities and Thousand Islands regency until November, an official has said. The prices would start at Rp 39,000 (US\$2.9) per kilogram for beef and Rp 10,000 per kg for chicken. The subsidized food is provided to residents whose children are holders of the Jakarta Smart Card (KJP), Public Facility Maintenance Agency (PPSU) workers and the residents of low-cost apartments.

## MANUFACTURING

**Pan Brothers to build \$30m factories in second half of 2017** – Indonesia’s major textile manufacturer PT Pan Brothers plans to build two factories in an estimated investment worth US\$30 million in the second half of this year to strengthen its foothold both at home and abroad. The new factories will be located either in Central Java or West Java.

## AUTOMOTIVE

**Car sales up by 5.6 percent yoy in April** – sales of cars from factories to dealers increased by 5.6 percent to 89,588 units in April from 84,770 units in the same month last year. Cumulatively, sales for the January to April period were up by 6.05 percent to 373,407 units from 352,072 in the same period in 2016. Gaikindo targets an increase in car sales by roughly 5 percent to 1.1 million units by year-end from 1.06 million units last year.

**Car manufacturers eye higher exports** – carmakers are eyeing higher exports this year as they set their sights on Southeast Asian and Middle Eastern markets. The Association of Indonesian Automotive Manufacturers (Gaikindo) acknowledges the potential offered by the Middle Eastern markets and encourages more carmakers to venture into the region. Gaikindo chairman Johannes Nangoi said without deeper penetration in the Middle East, this year’s export volume would hover at around the same level as last year with CBUs at 194,397 and CKD units at 202,626.

## ICT / MEDIA

**Grab aims to work with 5 million micro-entrepreneurs next year** - regional ride-hailing app Grab aims to get 5 million Indonesian micro-entrepreneurs to partner with the platform by next year, as part of the next phase of its Grab 4 Indonesia initiative. In its Grab 4 Indonesia master plan, Grab plans to invest US\$700 million within the next four years. Grab revealed that within the last three months, it had conducted its first phase of investment by finalizing its integration with Indonesian startup Kudo and opening a new research and development center in Jakarta. It is its sixth research and development center in the world, with other centers located in Beijing and Seattle, among others. The center will house 200 engineers by the end of 2017.

**Unilever anchor store added to Blibli.com** - consumer goods firm PT Unilever Indonesia has increased its cooperation with e-commerce platform Blibli.com by placing a Unilever Anchor Store feature on the online shopping website to improve services for customers. All of the company’s products are featured in a store on the website, Unilever Indonesia e-commerce head Hira Triadi told reporters on Wednesday. With the anchor store, all Unilever products, including ice cream, can now be bought through the website, she added. Hira said her company expected to reach more customers, especially millennials and those who are social media savvy.

**Southeast Asia's internet economy tops US\$50 billion: Report** - as the number of digital consumers in Southeast Asia rose by 50 percent to 200 million last year, the region's internet economy has been valued at US\$50 billion, a report shows. With the sizable value, the market now serves as a major battleground for global industrial players aiming to tap into potentials in the lucrative market, management consulting firm Bain & Company stated in its latest report. Travel and tourism account for the largest digital market with a value of \$22 billion, followed by e-commerce with \$15 billion.

**RI tops digital market in Southeast Asia: Bain & Co** – leading the digital market in Southeast Asia by contributing 41 percent to the region's 200 million digital consumers in 2017, Indonesia is still not fully digitalized in terms of payment systems, according to the latest report by management consulting firm Bain & Company.

## INFRASTRUCTURE

**Lippo 'rides' China's speed train, to sink \$21b nearby** – diversified conglomerate Lippo Group has joined the country's infrastructure craze by riding opportunities to develop an integrated city, located near the planned, China-built high-speed railway project connecting Jakarta-Bandung. Lippo's top management said that it was currently working on a mixed-used development property worth US\$ 21 billion called "Meikarta", located around 60 km southeast of Jakarta, targeting middle-income consumers and diverse industries. Meikarta will include office buildings, apartments, five-star hotels, shopping malls, hospitals and universities. The area is surrounded by industrial areas such as Jababeka and MM2100, creating a new city that the company claimed will be the "Shenzhen of Indonesia".

**Sinarmas Land begins construction of digital hub** – property developer Sinarmas Land began construction worth US\$524.89 million for an integrated smart digital hub in Bumi Serpong Damai (BSD), South Tangerang, Banten with the aim to connect startups, technology leaders and digital communities. The construction is the first phase in the establishment of the digital hub, which is later expected to create an information technology (IT) and digital technology ecosystem in Indonesia. Some multinational firms have joined in the digital hub, including technology giant Apple, ITC solutions provider Huawei and IT services firm Dimension Data.

**Siloam spends \$9.7 m to acquire hospital** – publicly listed hospital operator PT Siloam International Hospitals, part of the Lippo Group diversified conglomerate, announced its plan to acquire a major private hospital in West Java. The full acquisition of the 105 bed Putera Bahagia General Hospital (RSUPB), located in Cirebon will cost US\$9.7 million. The takeover will strengthen Siloam's presence in West Java as the most populated province in the country, with a population of 47 million. The company currently runs nine hospitals in the province.

**Jakartans to see more urban farming** - Jakartans will have a greener city soon as the city administration is promoting urban farming in the capital by introducing "green aisle" program in 75 areas to grow vegetables, medicinal plants and potted fruit plants this year, aiming at not only beautifying the city but also to ensure food security.

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