Gearing up for growth

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12/11/2017

Gearing up for growth

- **We see risks to the upside:** Indonesia's economic growth has missed market expectations throughout the year. We ascribe the sluggish economic growth print to the persistently low inflation and weaker-than-expected government spending. However, with firming global growth and a broad-based commodity price recovery, we expect to see gradual recovery of inflation and higher government spending in 2018F. We also expect global trade to continue to improve supported by the recovery of the global economic recovery.

  ✓ **Global economic growth is firming:** The global economic activity is strengthening. From a regional perspective, we are witnessing firming growths in emerging markets, which should buffer potential growth deceleration in the developed markets. The strengthening global growth should trigger a broad-based recovery of the global manufacturing, commodity prices as well as global trade.

  ✓ **Indonesia is in the early stage of a cyclical recovery:** In Indonesia, we expect to see growth recoveries in consumption, exports and government spending, which should accelerate growth in 2018F. In particular, we are encouraged by the recent commodity price recovery, which should stimulate inflation (P), going forward. Furthermore, the upcoming presidential/general election and Asian Games are likely to stimulate consumers' spending intentions (Q).

- **Our JCI target for 2018F is 6,795**: We expect firming global growth to support the commodity price recovery – which should fuel Indonesia's economic growth. We also expect to see steady recovery of private consumption in 2018F. All in all, we believe consumption-related industries and miners are best positioned to embrace Indonesia's growth recovery.

Indonesia at a glance

Item	Unit/base	Details
Official name		**Republic of Indonesia**
Area	Sq km	**1,904,569** (World's 15th largest)
Ethnic groups	2010	**Javanese (40.1%)**, Sundanese (15.5%), Malay (3.7%), Batak (3.6%) … **Chinese (1.2%)**
Religion	2010	**Muslim (87.2%)**, Christian (7%), Catholic (2.9%)
Population	Pax, 2016F	**258,316,051** (World's 4th largest)
Median age	Years, 2016F	**29.9** (vs. China 37.1, Korea 41.2)
Population growth	%, 2016F	**0.89** (vs. China 0.43, Korea 0.53)
GDP	USDbn, 2016	**932.3** (vs. Korea 1,411)
GDP growth	%, 2016	5.0 (vs. China 6.7, Korea 2.8)
FX rate (USD/IDR)	IDR, Nov. 17	**13,526**
Policy rate	%, Nov. 17	**4.25**
10y gov. bond yield	%, Nov. 17	**6.52**
JCI Market cap	IDRtr, Nov. 17	**6,442** (vs. KOSPI KRW1,551tr KOSDAQ KRW273tr)
No. of listed stocks	Co., Nov. 17	**564** (KOSPI 763, KOSDAQ 1,241)

Source: CIA World Factbook, Bloomberg, Mirae Asset Securities Research

Indonesia economy review

A year in review and preview

- 2017 Review: A year mixed with hope and disappointment
- 2018 Preview: Growing is firming across the globe

Our key forecasts in hindsight

On December 1, 2016, we published our outlook for Indonesia 2017 (see https://www.miraeasset.co.id/files/bbs/01202/8042_1.pdf). In our 2017F outlook report, we guided GDP growth of 5.1% YoY, FX rate of IDR13,500 and JCI target of 5,963pt.

Item	Mirae forecast	YTD*	Consensus Then**	Consensus Now**
GDP (2017F, %)	**5.1**	**5.1**	5.3	5.1
USD/IDR (Avg. IDR)	**13,500**	**13,365**	13,651	13,350
Inflation (YoY, %)	**5.8**	**3.9**	4.3	3.9
JCI (pt)	**5,963**	**6,031**	N/A	N/A

Key events in 2017

Source: Mirae Asset Sekuritas Research

Note: YTD as of December 8, 2017, Consensus Then as of November 30, 2016, Consensus Now as of December 8, 2017

Indonesia's economy at a glance

			Mirae		Consensus		YTD
	Unit	**2016**	**2017F**	**2018F**	**2017F**	**2018F**	**9M17**
Real GDP growth	**YoY, %**	**5.0**	**5.1**	**5.3**	**5.1**	**5.3**	**5.1**
Private consumption	YoY, %	5.0	5.0	5.2			4.9
Government spending	YoY, %	-0.2	0.2	4.5			-0.9
Investments	YoY, %	4.5	5.1	4.7			5.1
Exports	YoY, %	-1.7	3.1	3.7			4.0
Imports	YoY, %	-2.3	2.1	2.5			3.2
CPI	%, avg.	3.5	4.0	4.5	3.9	3.8	3.9
Current account balance	% of GDP	-1.7	-1.4	-1.2	-1.7	-2.0	N/A
Budget balance	% of GDP	-2.7	-2.6	-2.5	-2.7	-2.5	N/A
Policy rate	End, %	4.75	4.25	4.75	4.20	4.30	4.25
USD/IDR	IDR, avg	13,305	13,400	13,550	13,350	13,500	13,365

Source: Mirae Asset Sekuritas Research
Note: Consensus and year-to-date figures based on Bloomberg (November 29, 2017)

Heat map of Indonesia's economy (expenditure breakdown)

Underlying fundamentals are not as bad as the headline suggests

(YoY, %)	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Real GDP growth	**4.7**	**5.2**	**4.9**	**5.2**	**5.0**	**4.9**	**5.0**	**5.0**	**5.1**
Private consumption (53.8% of 3Q17 GDP)	5.0	4.9	5.0	5.1	5.0	5.0	4.9	5.0	4.9
Government spending (7.6% of 3Q17 GDP)	7.1	7.1	3.4	6.2	-3.0	-4.1	2.7	-1.9	3.5
Investments (32.3% of 3Q17 GDP)	4.8	5.9	4.7	4.2	4.2	4.8	4.8	5.4	7.1
Exports (21.9% of 3Q17 GDP)	-0.9	-6.3	-3.3	-2.2	-5.7	4.2	8.0	3.4	17.3
Imports (19.5% of 3Q17 GDP)	-6.7	-9.0	-5.1	-3.2	-3.7	2.8	5.0	0.6	15.1

Source: BPS, Mirae Asset Sekuritas Indonesia Research

Consumption: Why do we need inflation?

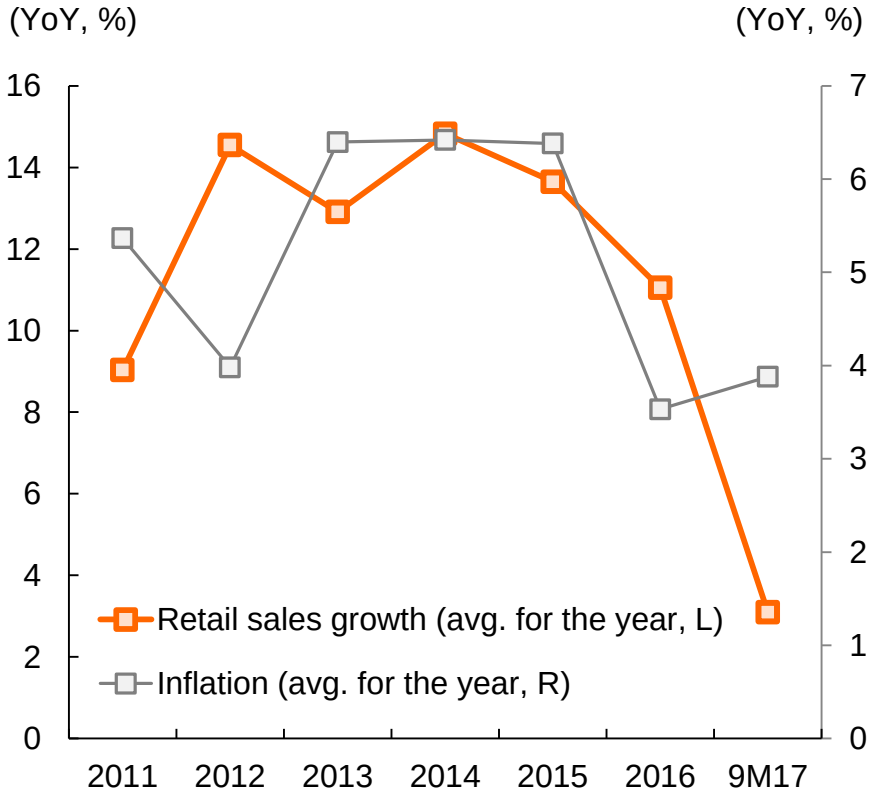
If prices go up tomorrow, you would spend today!

Look back at 2014 when President Jokowi cut fuel subsidies…

Consumption: Purchasing intention remains weak

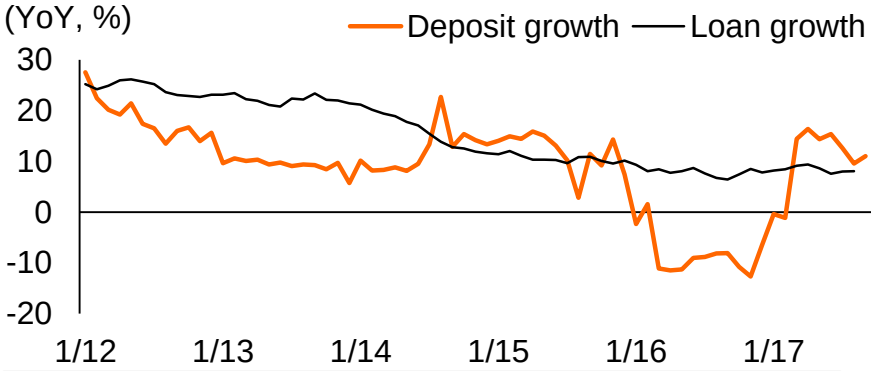
Prolonged low inflation is decentivizing consumers to spend

With inflation low, consumers seem to be sidelined…

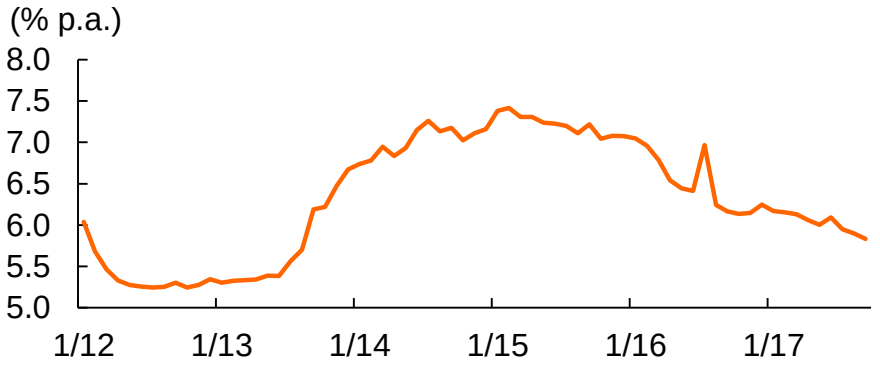


Source: Bloomberg, Mirae Asset Sekuritas Research

…and banks are the key beneficiaries…



…despite deposit yields grinding lower

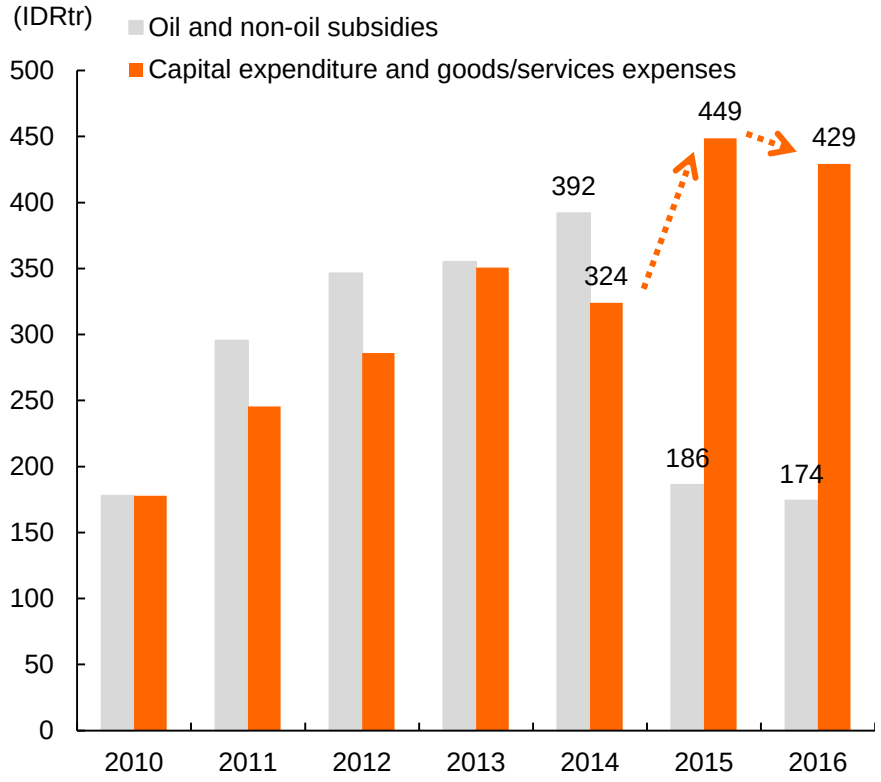


Source: Bank Indonesia, Mirae Asset Sekuritas Research

Government spending: Can government spend?

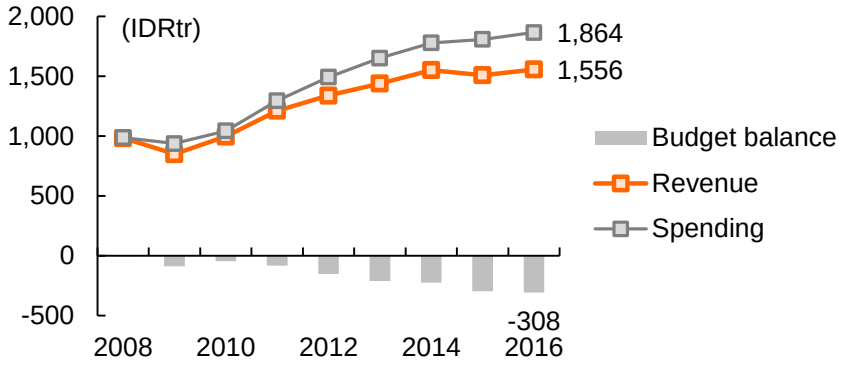
Structural bottlenecks to spending

From unproductive to productive spending



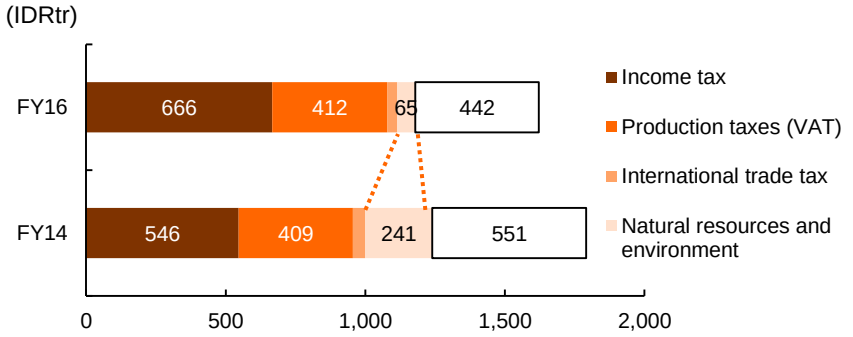
Source: Government, Mirae Asset Sekuritas Research

Budget deficit widening



Source: Government, Mirae Asset Sekuritas Research

State revenue composition FY14 vs. FY16

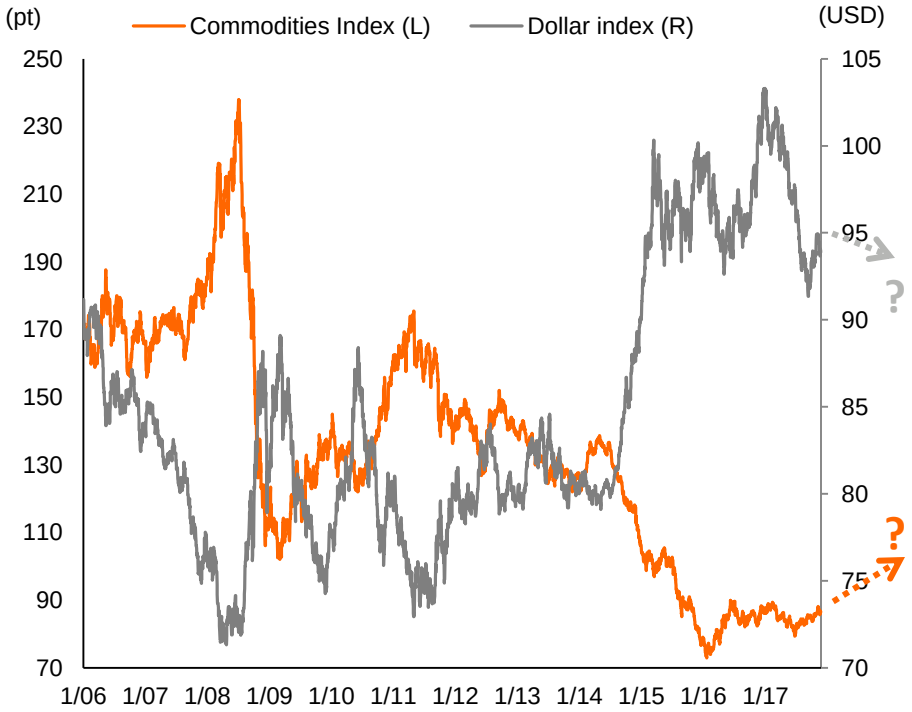


Source: Government, Mirae Asset Sekuritas Research

Government spending: Commodity price rebound is a blessing

Improvement in government spending to accelerate government spending

Due to the commodity price rebound…



Source: Bloomberg, Mirae Asset Sekuritas Research

…Non-tax revenue is improving

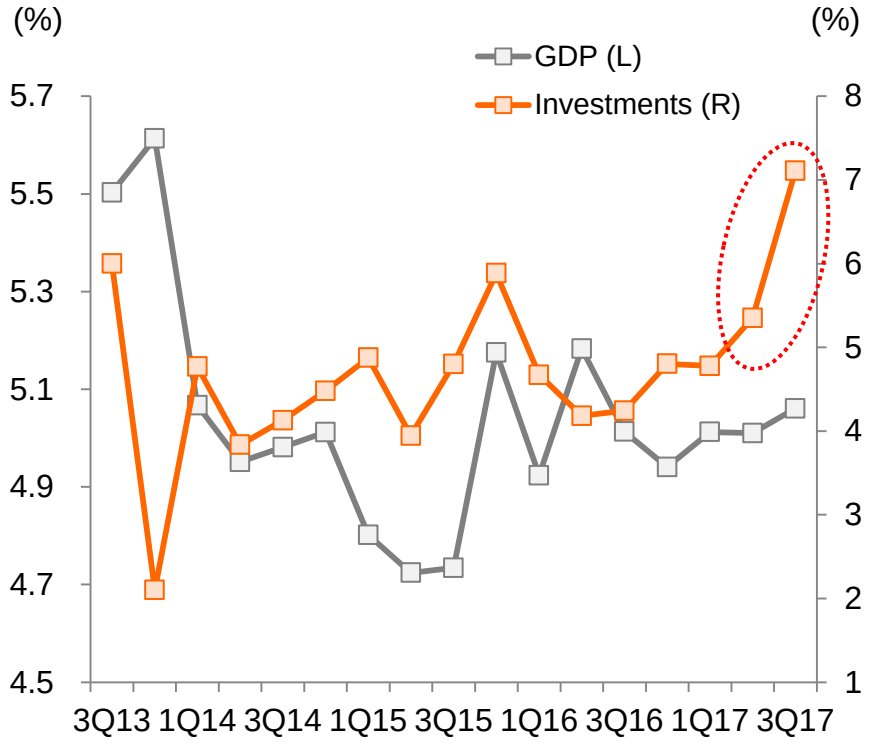
Revenue item (IDRtr)	9M16	9M17	Change
Domestic tax revenue	871.2	850.7	-2.4%
Income tax	501.3	456.5	-8.9%
VAT	270.2	306.9	13.6%
Property tax	15.6	1.9	-87.8%
Excise	78.6	80.6	2.5%
Others	5.5	4.8	-12.7%
Non tax revenue	184.5	219.0	18.7%
Natural resources	37.3	81.3	118.0%
Share of SOEs Profit	32.8	38.9	18.6%
Other non-tax revenue	84.9	65.1	-23.3%
Public Service Board	29.4	33.7	14.6%

Source: Government, Mirae Asset Sekuritas Research

Investments: Showing signs of confidence

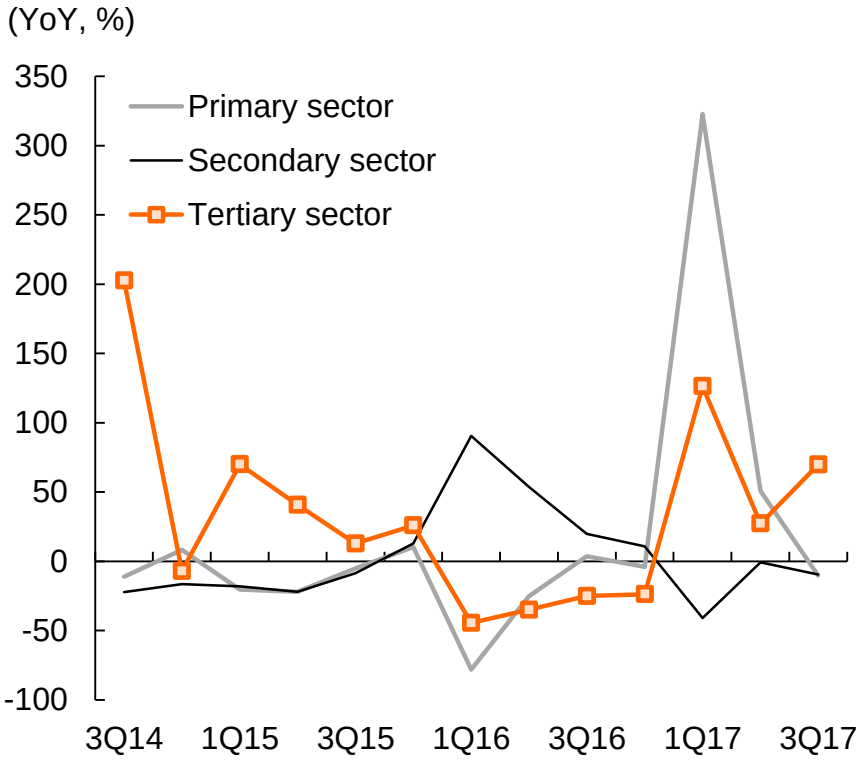
Jokowi's business friendly policies to stimulate appetite for investments

Investment cycle reach the peak since 1Q13



Source: BPS, Mirae Asset Sekuritas Research

FDI investments by sector



Source: BKPM, Mirae Asset Sekuritas Research

Investments: Which sectors are foreigners interested in?

Foreigners seem to be interested in the services sector

FDI investments in detail

(USDmn)

NO.	SEKTOR / *Sector*	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	YoY
I	**SEKTOR PRIMER / *Primary Sector***	**1,779.2**	**1,331.7**	**1,481.1**	**1,644.4**	**390.0**	**996.9**	**1,536.7**	**1,578.3**	**1,648.9**	**1,502.3**	**1,381.0**	**-10.1%**
1	Tanaman Pangan & Perkebunan / *Food Crops & Plantation*	598.4	264.6	558.1	650.9	183.3	230.0	694.4	481.4	450.1	401.9	241.5	-65.2%
2	Peternakan / *Livestock*	2.3	4.1	8.6	60.1	7.9	21.5	9.6	9.9	15.3	68.4	61.9	543.8%
3	Kehutanan / *Forestry*	3.1	7.2	4.6	4.1	8.7	29.1	38.3	2.1	13.7	22.1	4.6	-88.0%
4	Perikanan / *Fishery*	39.8	10.2	2.1	1.0	0.9	1.6	30.3	10.5	4.3	3.6	38.4	26.9%
5	Pertambangan / *Mining*	1,135.6	1,045.7	907.7	928.2	189.2	714.8	764.1	1,074.4	1,165.4	1,006.3	1,034.6	35.4%
					-				-				
II	**SEKTOR SEKUNDER / *Secondary Sector***	**2,867.2**	**2,508.9**	**3,145.5**	**3,241.5**	**5,462.1**	**3,858.7**	**3,772.0**	**3,594.8**	**3,234.5**	**3,830.6**	**3,418.4**	**-9.4%**
					-				-				
6	Industri Makanan / *Food Industry*	533.8	201.2	420.6	365.6	468.9	519.8	632.2	494.1	476.3	705.3	283.8	-55.1%
7	Industri Tekstil / *Textile Industry*	63.0	70.6	135.6	164.2	83.2	96.2	97.5	44.4	108.3	76.1	59.3	-39.2%
8	Ind. Barang Dari Kulit & Alas Kaki / *Leather Goods & Footwear Industry*	11.9	55.4	61.2	33.1	26.7	61.4	44.4	12.0	146.6	40.5	71.8	61.9%
9	Industri Kayu / *Wood Industry*	19.0	12.3	6.4	9.4	21.1	94.2	13.7	138.5	11.9	100.6	272.1	1888.0%
10	Ind. Kertas dan Percetakan/*Paper and Printing Industry*	104.6	134.3	185.9	282.1	1,902.4	450.6	207.8	225.8	116.0	283.9	105.4	-49.3%
11	Ind. Kimia dan Farmasi / *Chemical and Pharmaceutical Industry*	486.3	412.8	578.2	478.4	954.8	591.7	596.8	745.9	484.7	798.9	932.8	56.3%
12	Ind. Karet dan Plastik / *Rubber and Plastic Industry*	144.5	174.4	236.4	139.2	199.6	139.4	139.1	259.2	295.1	137.3	88.1	-36.7%
13	Ind. Mineral Non Logam / *Non Metallic Mineral Industry*	128.9	456.0	255.1	462.8	263.4	504.9	107.1	200.6	232.0	62.7	212.0	97.9%
14	Ind. Logam, Mesin & Elektronik / *Metal, Machinery & Electronic Industry*	765.4	609.9	724.0	993.2	696.9	893.5	1,231.4	1,075.2	838.3	1,131.2	1,166.5	-5.3%
15	Ind. Instru. Kedokteran, Presisi & Optik & Jam/*Medical Preci. & Optical Instru, Watches & Clock Industry*	0.2		0.3	6.4	0.7	8.0	-	0.1	0.2	1.7	0.2	NM
16	Ind. Kendaraan Bermotor & Alat Transportasi Lain/*Motor Vehicles & Other Transport Equip. Industry*	582.1	373.4	526.2	275.6	828.9	475.4	688.4	376.6	503.5	438.0	208.0	-69.8%
17	Industri Lainnya / *Other Industry*	27.5	8.7	15.5	31.5	15.6	23.7	13.6	22.3	21.7	54.4	18.4	35.3%
III	**SEKTOR TERSIER / *Tertiary Sector***	**1,917.1**	**3,532.0**	**2,774.6**	**3,052.8**	**1,064.7**	**2,299.4**	**2,080.8**	**2,329.7**	**2,410.3**	**2,926.9**	**3,532.0**	**69.7%**
					-								
18	Listrik, Gas dan Air / *Electricity, Gas & Water Supply*	442.2	128.6	1,064.9	1,393.2	119.7	493.6	663.9	862.5	706.8	989.6	989.8	49.1%
19	Konstruksi / *Construction*	198.5	631.1	91.6	33.3	18.6	56.7	63.1	48.6	6.8	74.9	27.0	-57.2%
20	Perdagangan & Reparasi / *Trade & Repair*	297.0	173.6	149.0	5.5	103.4	215.6	169.3	182.0	166.6	437.1	425.0	151.0%
21	Hotel & Restoran / *Hotel & Restaurant*	152.3	165.4	224.5	108.0	132.6	414.7	119.3	221.2	394.9	301.5	215.9	81.0%
22	Transportasi, Gudang & Komunikasi/*Transport, Storage & Communication*	282.5	2,160.2	373.8	473.4	91.2	288.0	177.6	193.4	179.7	236.4	455.2	156.3%
23	Perumahan, Kawasan Ind & Perkantoran/*Real Estate, Ind. Estate & Business Activities*	436.8	224.3	820.1	952.4	380.1	564.3	730.0	647.1	779.9	393.7	861.2	18.0%
24	Jasa Lainnya / *Other Services*	107.7	48.9	50.7	87.0	219.1	266.5	157.6	175.0	175.7	493.7	557.9	253.9%
					0				0				
	JUMLAH / *Total*	**6,563.5**	**7,372.6**	**7,401.1**	**7,938.7**	**6,916.8**	**7,155.0**	**7,389.5**	**7,502.8**	**7,293.7**	**8,259.8**	**8,331.4**	**12.7%**

Source: BKPM, Mirae Asset Sekuritas Research

Investments: The three supportive agenda

Investment growth driven by policy settings, credit rating upgrade, and low yields

President maintains favorable policies

Now is time to attract investments: Jokowi

Jakarta Post , August 29, 2017

Ease of doing business (2017)

	MY	CN	Asia	IN	PH
Rank	23	78	-	91	99
Score	78.1	64.3	62.0	61.5	60.4

Ease of doing business (2018)

	MY	IN	CN	Asia	PH
Rank	24	72	78	-	113
Score	78.4	66.5	65.3	62.7	58.7

Source: World Bank, Mirae Asset Sekuritas Research

S&P raised Indonesia's credit rating

	Rating	
Prime	Aaa	AAA
High grade	Aa1	AA+
	Aa2	AA
	Aa3	AA-
Upper medium grade	A1	A+
	A2	A
	A3	A-
Lower medium grade	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-
Non-investable grade speculative	Ba1	BB+
	Ba2	BB
	Ba3	BB-
Highly speculative grade	B1	B+
	B2	B
	B3	B-

Moody's FitchRatings S&P Global

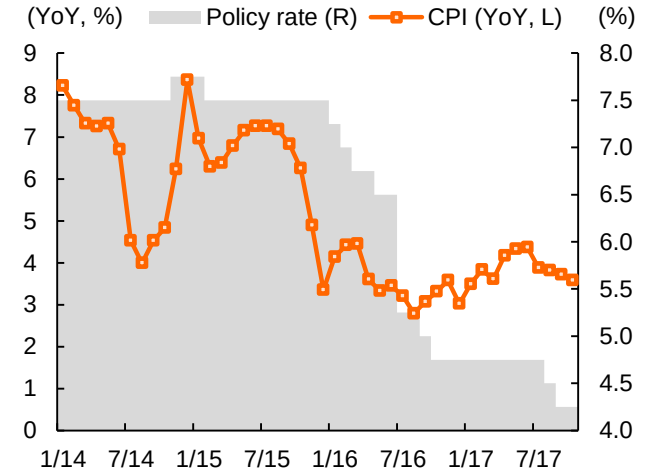
Source: BI, Mirae Asset Sekuritas Research

Attractive rates for leverage

Jokowi Sees Low Inflation Laying Ground for Interest Rate Cuts

By Thomas Kutty Abraham, Rieka Rahadiana and Rosalind Mathieson
2017년 10월 17일 오전 6:00 Updated on 2017년 10월 17일 오후 5:27

- Bank Indonesia is independent, to decide on rates: Jokowi
- Government has managed to cool inflation from a high of 8%

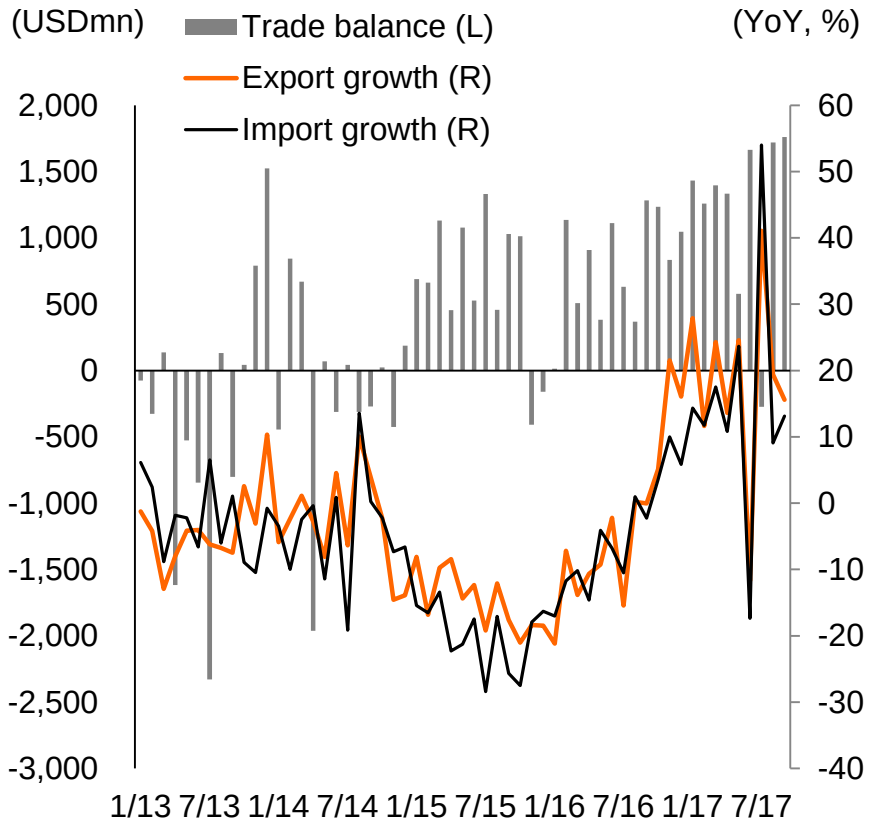


Source: BI, Mirae Asset Sekuritas Research

Trade: Structural virtuous cycle ahead

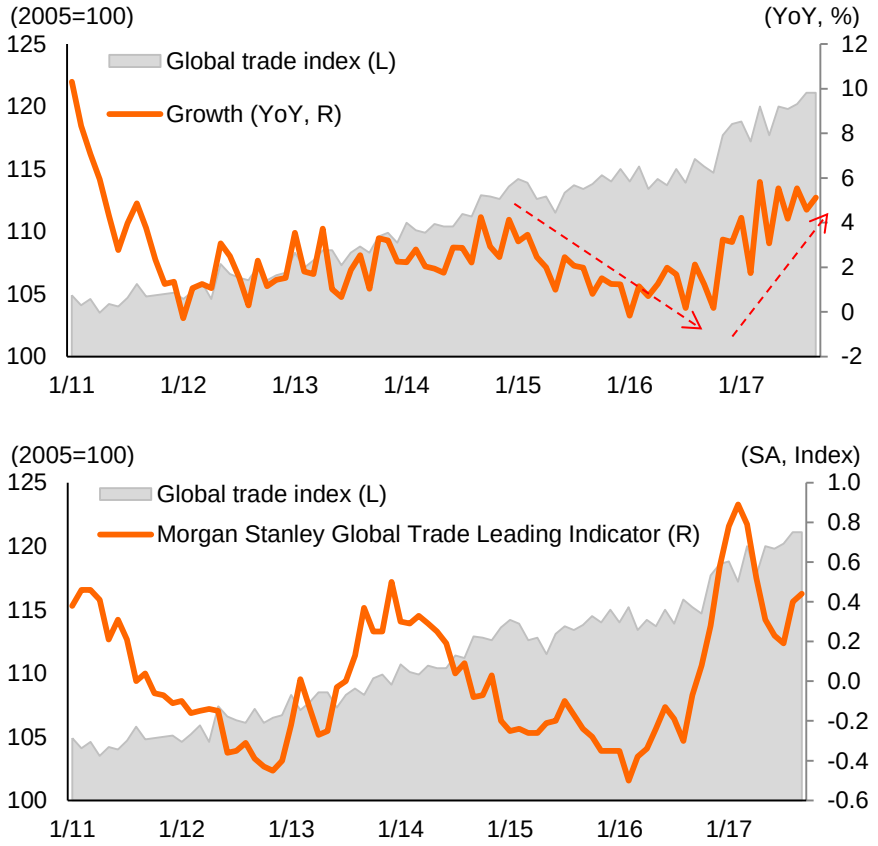
Global trade is showing signs of recovery

Trade balance is improving



Source: BPS, Mirae Asset Sekuritas Research

Although fragile, global trade is marching upwards

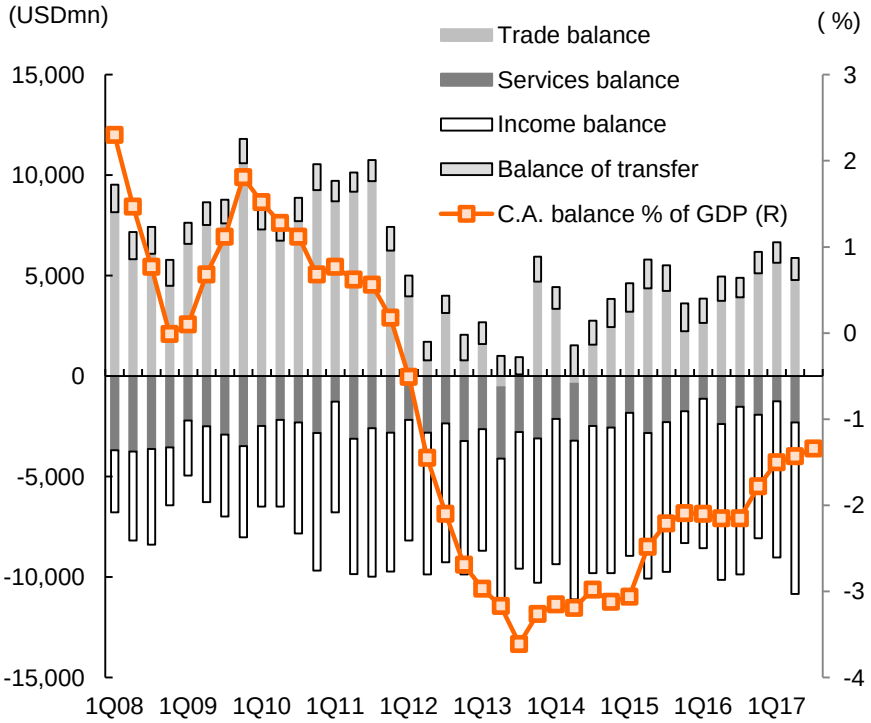


Source: CBP Netherlands Bureau for Economic Policy Analysis, Morgan Stanley, Mirae Asset Sekuritas Research

Trade: Higher trade activities to narrow the current account deficit

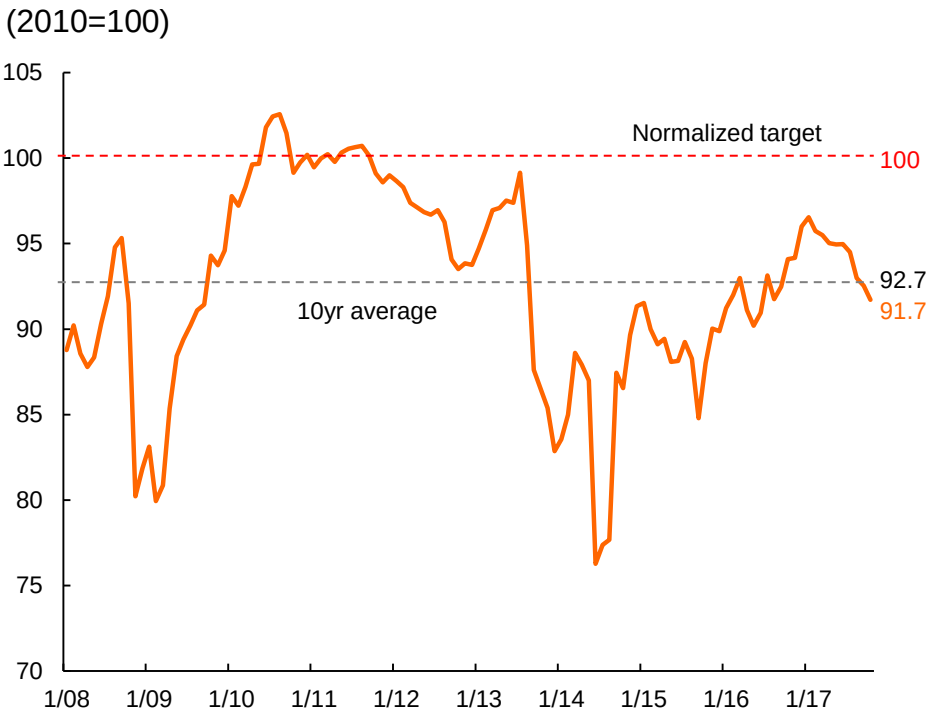
We see limited downside to the local currency

Improving trade balance to stabilize CAD…



Source: BPS, Mirae Asset Sekuritas Research

…and improve the value of the rupiah



Source: BPS, Mirae Asset Sekuritas Research

GDP breakdown by industry

Services industries continue to drive Indonesia's economy

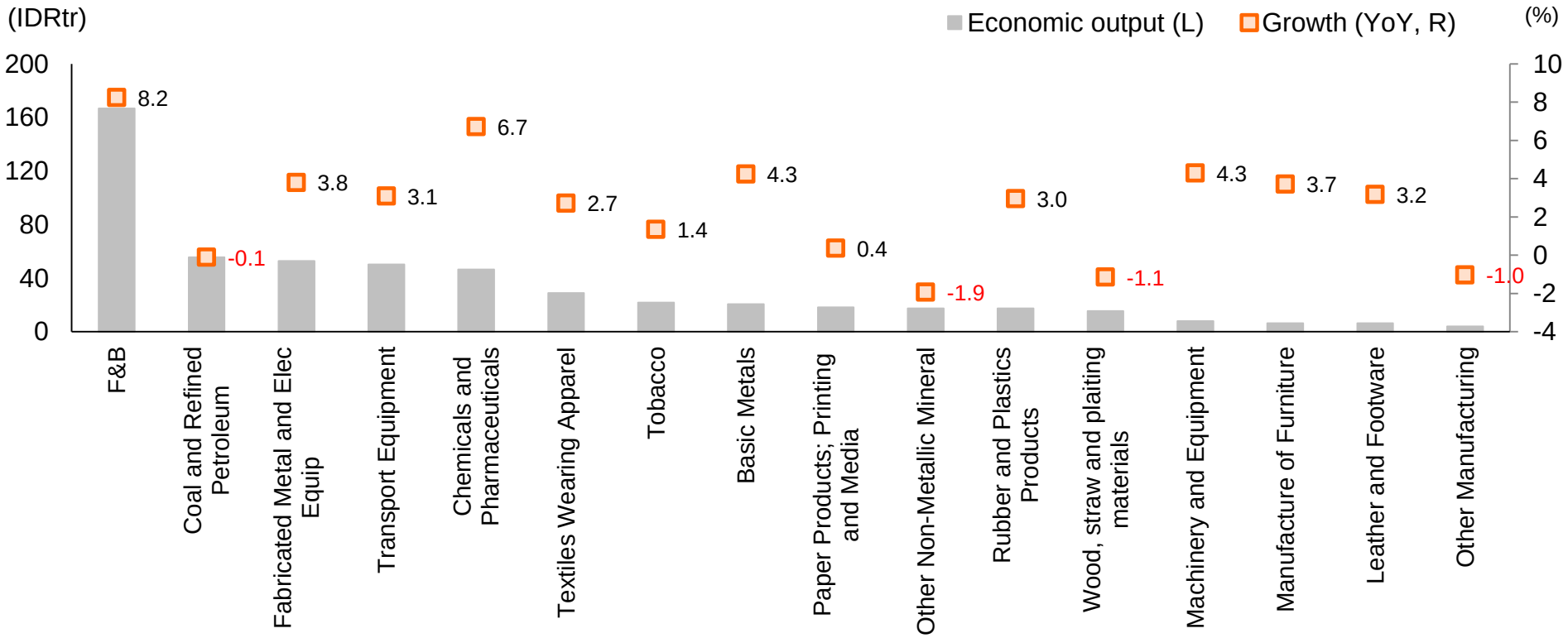
(Constant Prices 2010; IDRtr)	3Q16	4Q16	1Q17	2Q17	3Q17	QoQ (%)	YoY (%)
Gross Domestic Product	**2,428.6**	**2,385.6**	**2,377.6**	**2,472.8**	**2,551.5**	**1.0**	**5.1**
Agriculture	336.7	265.2	306.4	332.4	346.5	4.3	2.9
Mining	192.2	196.4	194.7	195.5	195.6	0.0	1.8
Manufacturing	511.7	508.2	511.0	525.1	536.5	2.2	4.8
Electricity and gas	24.7	25.7	24.8	24.6	25.9	5.3	4.9
Construction	234.7	245.4	233.9	239.8	251.5	4.9	7.1
Wholesale and retail trade	319.3	318.1	318.0	327.1	336.9	3.0	5.5
Transportation and storage	96.7	97.8	96.6	99.5	104.7	5.2	8.3
Accommodation and F&B	70.9	72.2	72.4	73.5	74.4	1.2	5.0
Information and communications	117.0	119.0	119.4	126.2	127.9	1.4	9.3
Financial and insurance	96.5	95.7	97.6	99.5	102.7	3.3	6.4
Real estate	69.9	70.2	71.4	72.2	72.4	0.4	3.6
Business services	40.1	40.7	41.6	42.7	43.8	2.6	9.2
Education services	72.1	79.9	71.6	73.7	74.8	1.5	3.7
Other services	39.4	40.2	41.0	42.0	43.1	2.7	9.4

Source: BPS, Mirae Asset Sekuritas Research

Manufacturing industry growth by sub-sectors

Growth opportunities: F&B, Chemicals, Basic Metals, Machinery, Fab. Metal, Furniture

Manufacturing sub-sector economic output vs. growth (9M17)



Source: BPS, Mirae Asset Sekuritas Research

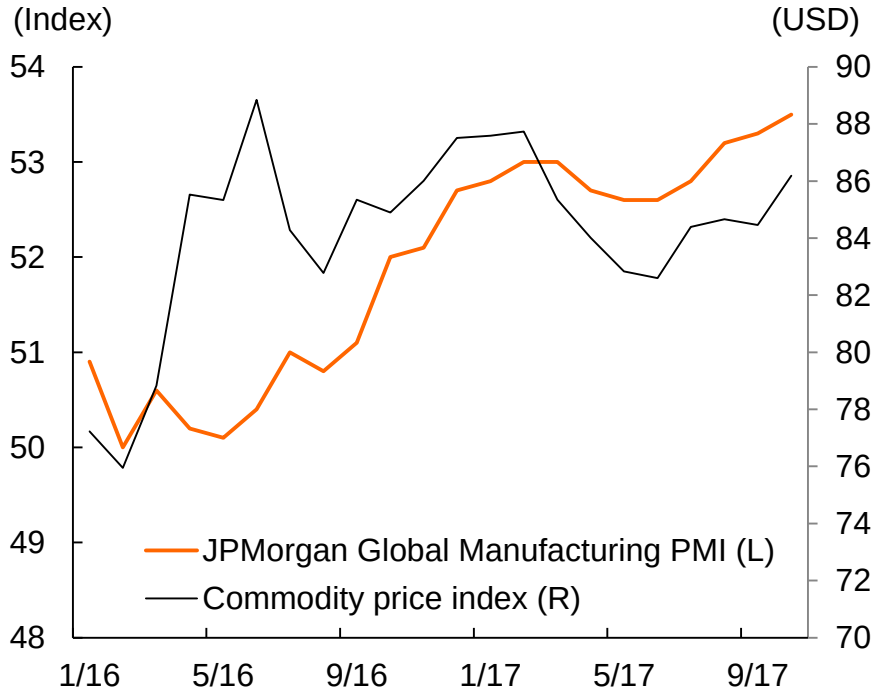
Discussions on key themes in 2018

Theme #1. Improving sentiment to stimulate Q

Global activity is showing signs of improvement

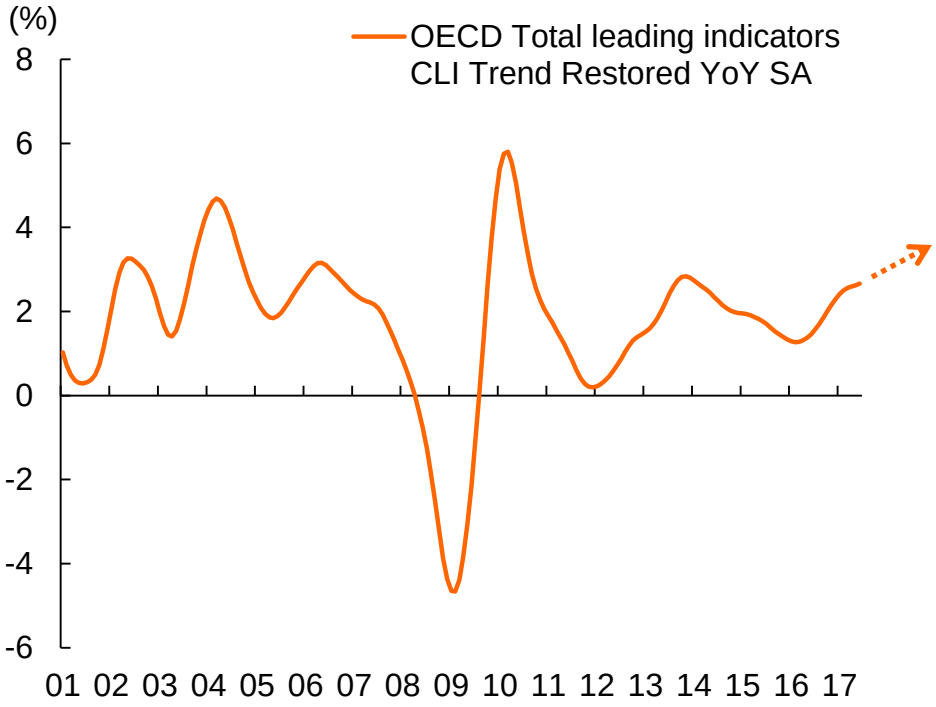
Global economic recovery is firming global domestic demand

Global manufacturing PMI is marching north



Source: Markit, Bloomberg, Mirae Asset Sekuritas Research

Global leading economic indicator is set to improve

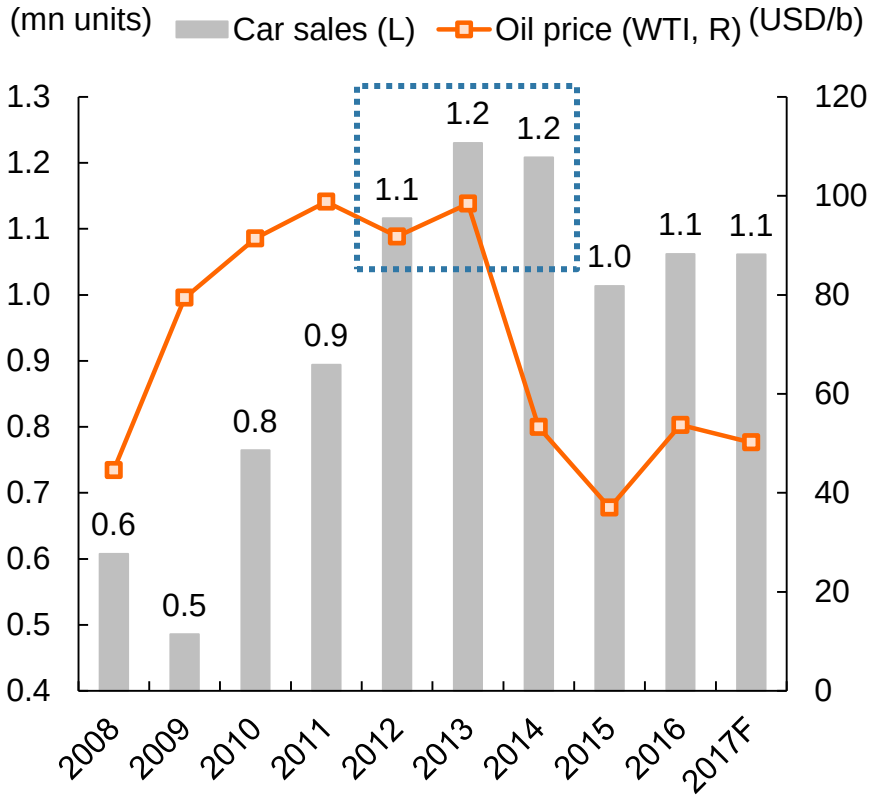


Source: OECD, Mirae Asset Sekuritas Research

When will Indonesian consumers open up their wallets?

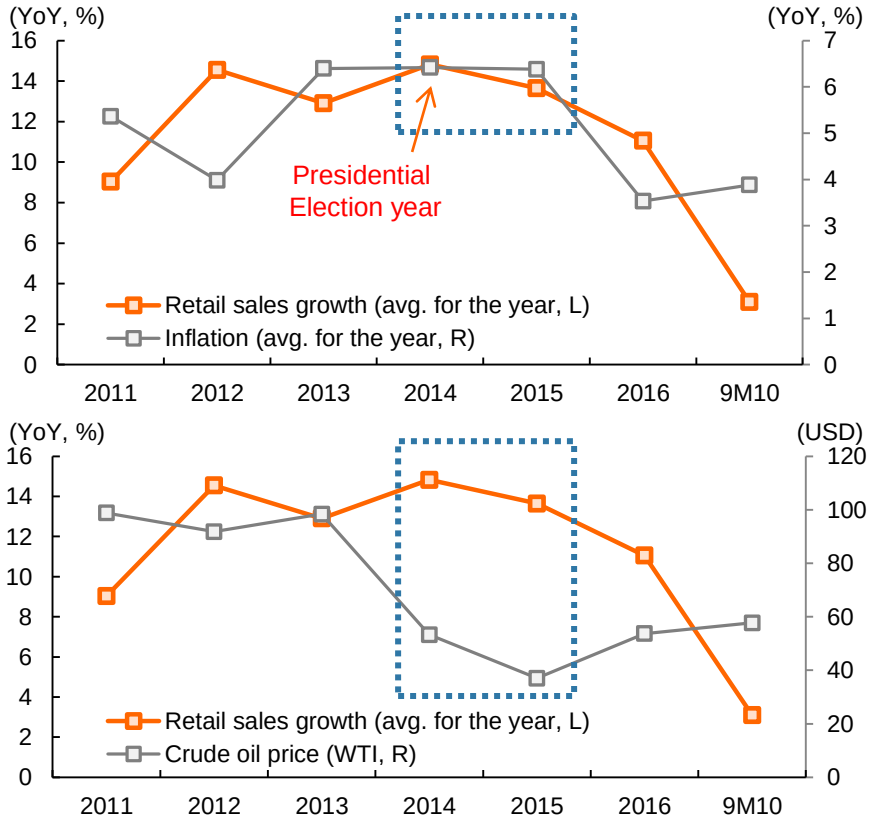
Key drivers are: 1) Higher commodity prices and 2) Growth expectations

Spending to improve on higher commodity prices and expectations for growth (e.g., election)



Source: Gaikindo, Bloomberg, Mirae Asset Sekuritas Research

Presidential election is a key spending driver

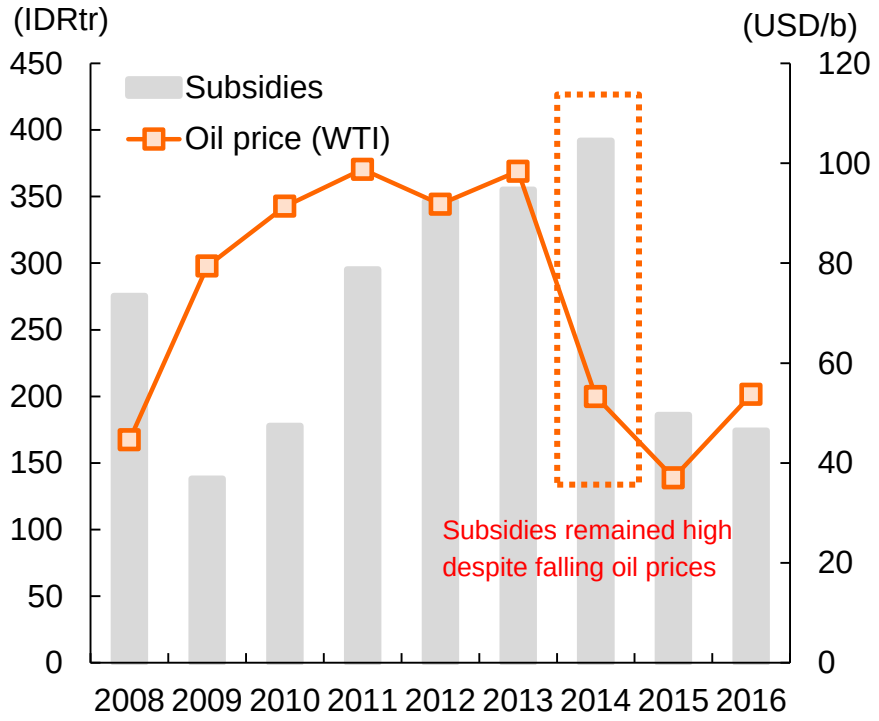


Source: Mirae Asset Sekuritas Research

Presidential election and Asian Games

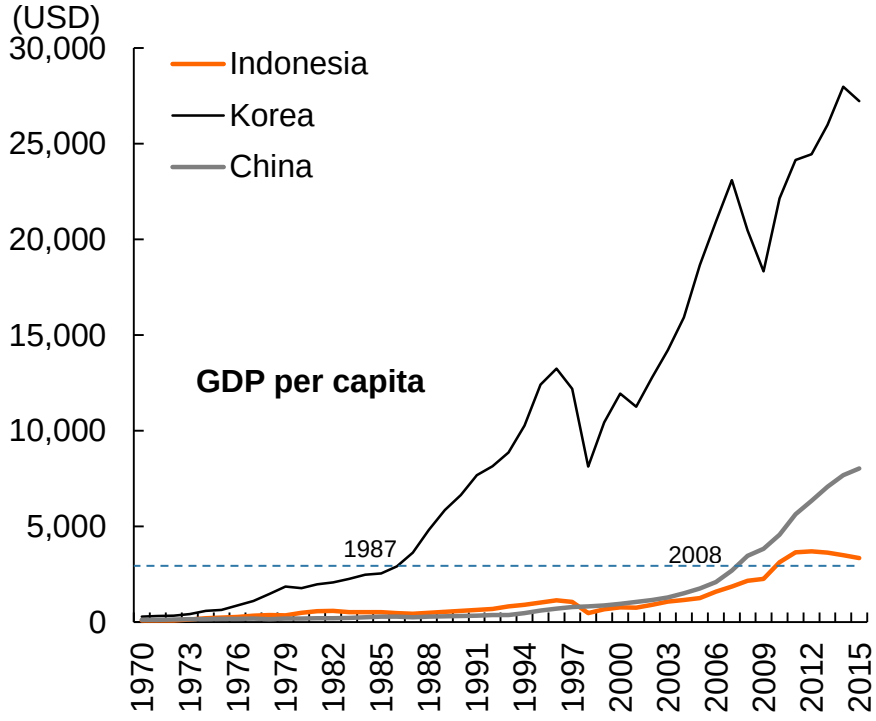
Fiscal support and reinforced growth outlook to stimulate spending

More money means more spending



Source: Government, Bloomberg, Mirae Asset Sekuritas Research

Seoul Olympics (1988) and Beijing Olympics (2008)

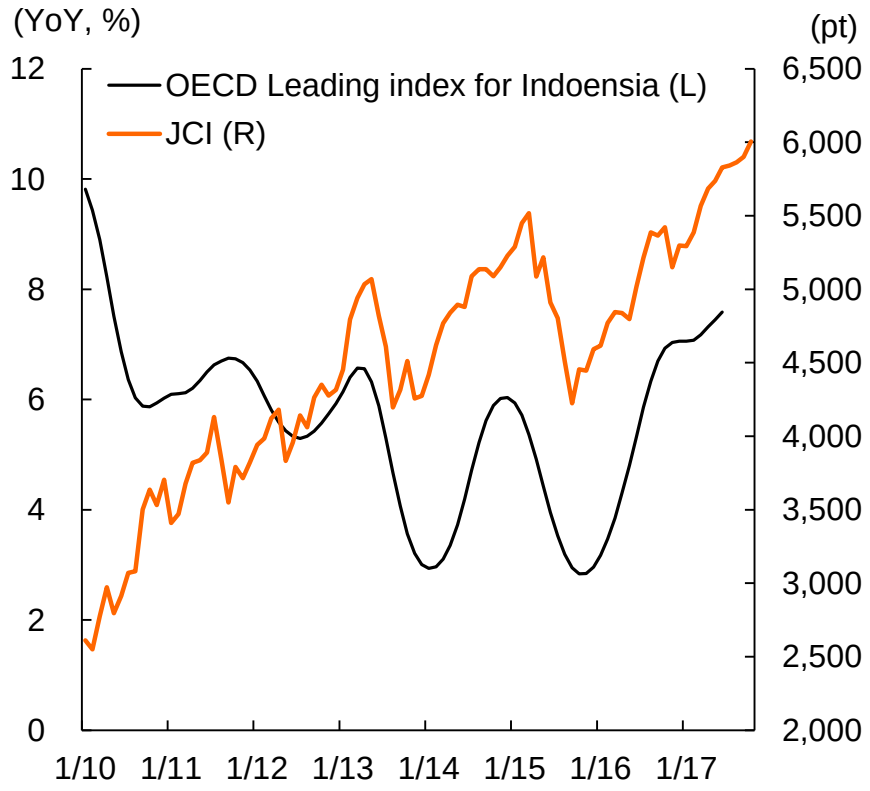


Source: Bloomberg, Mirae Asset Sekuritas Research

Should we be concerned about the health of Indonesia's economy?

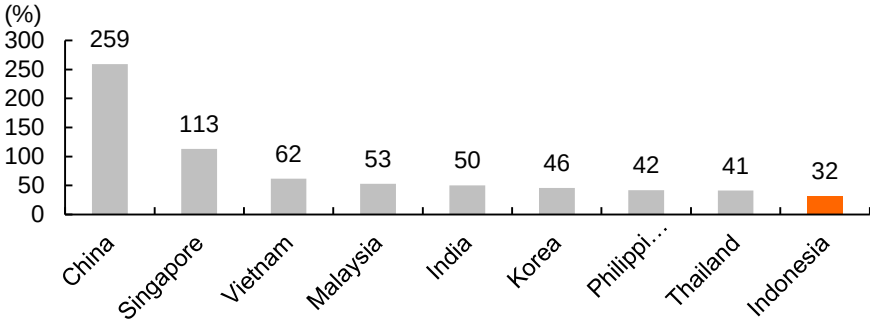
- Over investment, high-gearing of leverage, and surging prices are key drivers of economic collapse…
- …however, we see no imminent risks that could derail Indonesia's growth path

Economic cycle is on track to a recovery



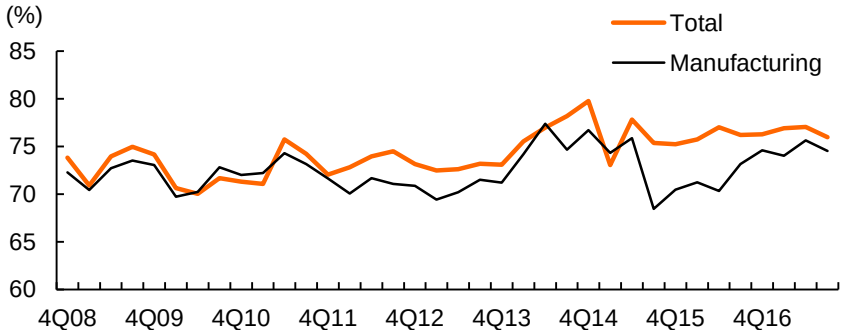
Source: OECD, Mirae Asset Sekuritas Research

Debt to GDP ratio remains low within the region



Source: CIA, Mirae Asset Sekuritas Research

Prudent management of production utilization rate



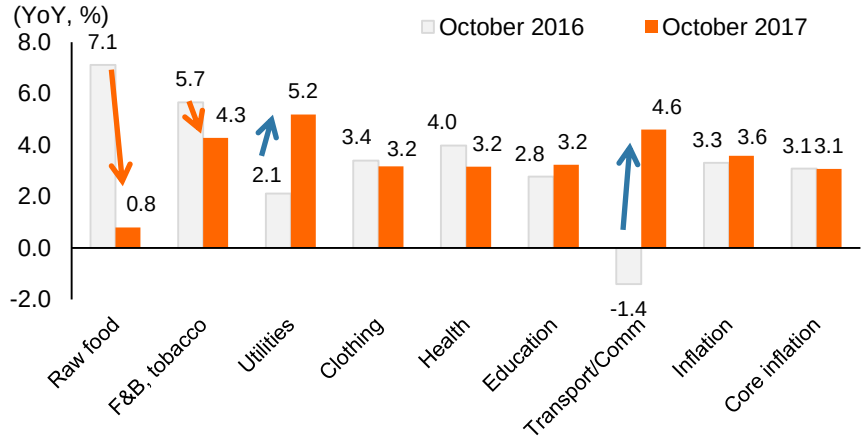
Source: BI, Mirae Asset Sekuritas Research

Theme #2. The rise of P (Price)

Government intervention has kept inflation on a tight leash

The administration needs to keep Indonesia happy

Prices are being controlled by the government



Cost plus margin?

No More Electricity **Tariff Hike** This Year, Minister Says
Tempo.co - Jun 21, 2017

Source: BI, Press reports, Mirae Asset Sekuritas Research

Central Bank is downplaying inflation expectations

Sementara secara tahunan (year on year) inflasi Oktober akan berada pada level 3,61%. "Secara yoy 3,61%. Kami melihat inflasi sesuai target, bahkan 2018 dan 2019 mengarah pada titik tengah rata-rata," ujarnya.

October 6, 2017

Source: Kontan (Click), Mirae Asset Sekuritas Research

We see further pressures building in 2018

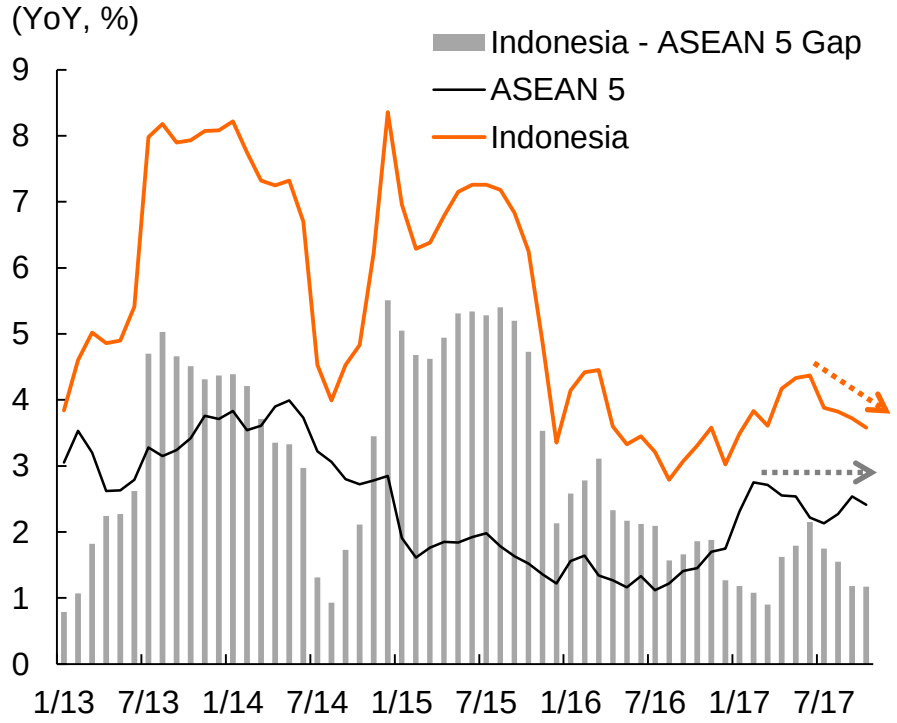
Year	Gov.	BI	Consensus	Mirae	CPI (YTD)
2017F	4.0%	3.7~ 3.8%	3.9%	3.9%	3.9%
2018F	**3.5%**	**3.5% +/- 1%**	3.8%	4.0%	N/A

Source: Government, BI, Bloomberg, Mirae Asset Sekuritas Indonesia
Note 1: Consensus based on Bloomberg consensus
Note 2: Government's 2017F inflation target (*Click*), 2018F inflation target (*Click*)
Note 3: BI's inflation target is based on a recent press report. Also, in a recent interview with the press, BI Deputy Senior Governor stated that "inflation (in 2017) is very likely to come close to 3.5 percent" (*Click*)

A fragile environment for prices

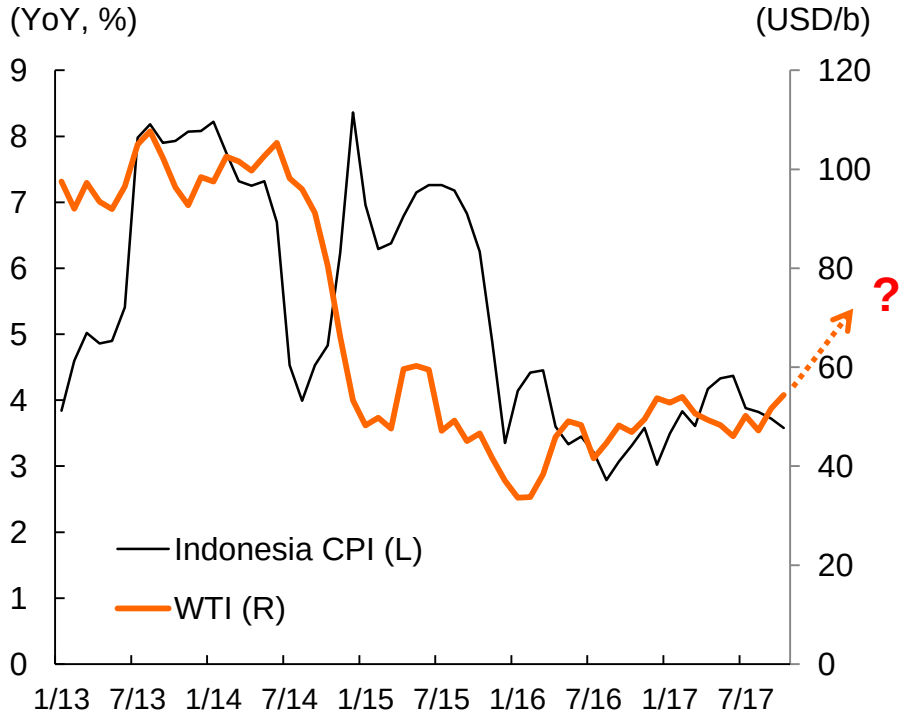
A sudden spike in oil price could push inflation faster-than-expected

Inflation Gap btwn ASEAN and Indonesia has narrowed



Source: Bloomberg, BPS, Mirae Asset Sekuritas Research

What would happen if oil price picked up?

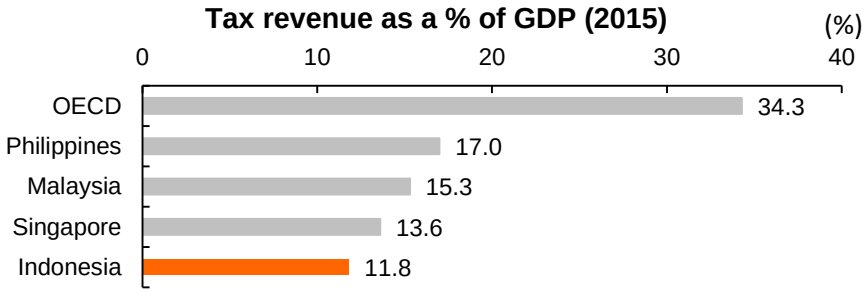


Source: Bloomberg, BPS, Mirae Asset Sekuritas Research

Higher customs/tax will be passed onto end users

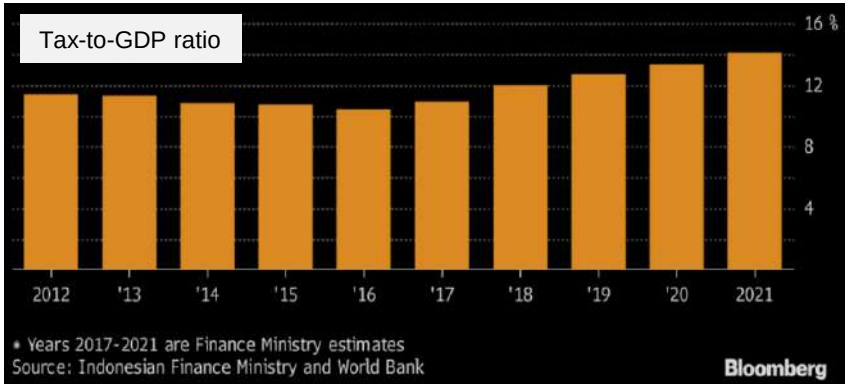
Higher import duties and newly introduced tax on e-commerce outlets to stimulate prices

Indonesia's tax collection is the lowest in SEA



Source: OECD, Bloomberg, Mirae Asset Sekuritas Research

Indonesia is aiming to boost tax to GDP ratio to 14%



Source: OECD, Bloomberg, Mirae Asset Sekuritas Research

Customs officers at work

Source: Biro KLI, Mirae Asset Sekuritas Research

Potential taxation on e-commerce to be passed on

Source: Internet, Mirae Asset Sekuritas Research

Impact of one-off spending (tax amnesty) to fade out

Revenue growth remains sluggish driven by 1) weak economic activity (VAT) and 2) soft commodity prices…

(IDRbn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	YoY
Income and expenditure	**981,609**	**848,763**	**995,272**	**1,210,600**	**1,338,110**	**1,438,891**	**1,550,491**	**1,508,020**	**1,555,934**	**3.2%**
1 Domestic revenue	979,305	847,097	992,249	1,205,346	1,332,323	1,432,059	1,545,456	1,496,047	1,546,946	3.4%
A Tax revenue gross	658,701	619,922	723,307	873,874	980,518	1,077,307	1,146,866	1,240,419	1,284,970	3.6%
a Domestic tax	622,359	601,252	694,392	819,753	930,862	1,029,850	1,103,218	1,205,479	1,249,499	3.7%
i Income tax	327,498	317,615	357,046	431,122	465,070	506,443	546,181	602,308	666,213	10.6%
ii Production taxes (VAT)	209,647	193,068	230,605	277,800	337,585	384,714	409,182	423,711	412,213	-2.7%
iii Land and building tax	25,354	24,270	28,581	29,893	28,969	25,305	23,476	29,250	19,443	-33.5%
iv Duties on property transfers	5,573	6,465	8,026	-1	0	0	0	0	0	N/A
v Excise duties	51,252	56,719	66,166	77,010	95,028	108,452	118,086	144,641	143,525	-0.8%
vi Other taxes	3,034	3,116	3,969	3,928	4,211	4,937	6,293	5,568	8,105	45.6%
b International trade tax	36,342	18,670	28,915	54,122	49,656	47,457	43,648	34,940	35,471	1.5%
B Non-tax revenue	320,605	227,174	268,942	331,472	351,805	354,752	398,591	255,628	261,976	2.5%
a Natural resources and environment	224,463	138,959	168,825	213,823	225,844	226,406	240,848	100,972	64,902	-35.7%
e Profit transfers from SOEs	29,088	26,050	30,097	28,184	30,798	34,026	40,314	37,644	37,133	-1.4%
f Other non-tax revenue	63,319	53,796	59,429	69,361	73,459	69,672	87,747	81,697	117,995	44.4%
2 Grants	2,304	1,667	3,023	5,254	5,787	6,833	5,035	11,973	8,988	-24.9%

As we have continuously argued, general income level of Indonesian corporates/ households have improved

Indeed, private consumption remains weak evident by the weak VAT revenue

Given prolonged weakness in commodity prices, government revenue is likely to remain squeezed

Tax amnesty redemption fees?

…limiting government spending ability *(subsidies cut were unable to fully compensate for the infra and natural spending growths)*

http://www.kemenkeu.go.id/Page/laporan-keuangan-pemeri	2008	2009	2010	2011	2012	2013	2014	2015	2016	YoY
Central government expenditure	693,356	628,812	697,406	883,722	1,010,558	1,137,163	1,203,577	1,183,304	1,154,018	-2.5%
Personnel expenditure	112,830	127,670	148,078	175,738	197,864	221,689	243,720	281,143	305,142	8.5%
Goods & Service Expenditure	55,963	80,668	97,597	127,639	140,885	169,723	176,622	233,281	259,647	11.3%
Capital Expenditure	72,772	75,871	80,287	117,855	145,104	180,864	147,348	215,434	169,474	-21.3%
Interest payment (D.2.6. or F.2.6.)	88,430	93,782	88,383	93,262	100,516	113,035	133,441	156,010	182,761	17.1%
Subsidies (D.2.7. or F.2.7.)	275,291	138,075	177,892	295,358	346,420	355,045	391,963	185,971	174,227	-6.3%
- Oil Subsidies	139,107	45,039	82,351	165,161	211,896	210,000	239,994	60,759	43,687	-28.1%
- Non-oil Subsidies	133,515	90,626	93,344	126,840	131,482	142,399	147,123	120,068	121,774	1.4%
- Others	2,668	2,409	2,197	3,357	3,042	2,646	4,845	5,144	8,766	70.4%
Grants	0	0	70	300	75	1,303	908	4,262	7,130	67.3%
Social Benefits	57,741	73,814	68,611	71,104	75,621	92,136	97,925	97,151	49,614	-48.9%
Other Expenditure	30,328	38,926	21,673	5,465	4,073	3,367	11,651	10,052	6,024	-40.1%
Regional transfers	292,433	308,585	344,728	411,325	480,645	513,260	573,703	623,140	710,267	14.0%
Suspended state budget	-59	-16	-17	-48	207	140	-97	72	0	-100.0%
Total	985,730	937,381	1,042,117	1,294,999	1,491,410	1,650,564	1,777,183	1,806,515	1,864,285	3.2%

Government spending exhibited negative growth due to revenue constraints

Public goods spending showed solid growth…

…which was offset by the sharp cut in capex spending

We remain concerned that the sharp reduction on social benefits may continue to hinder private consumers' appetite for spending

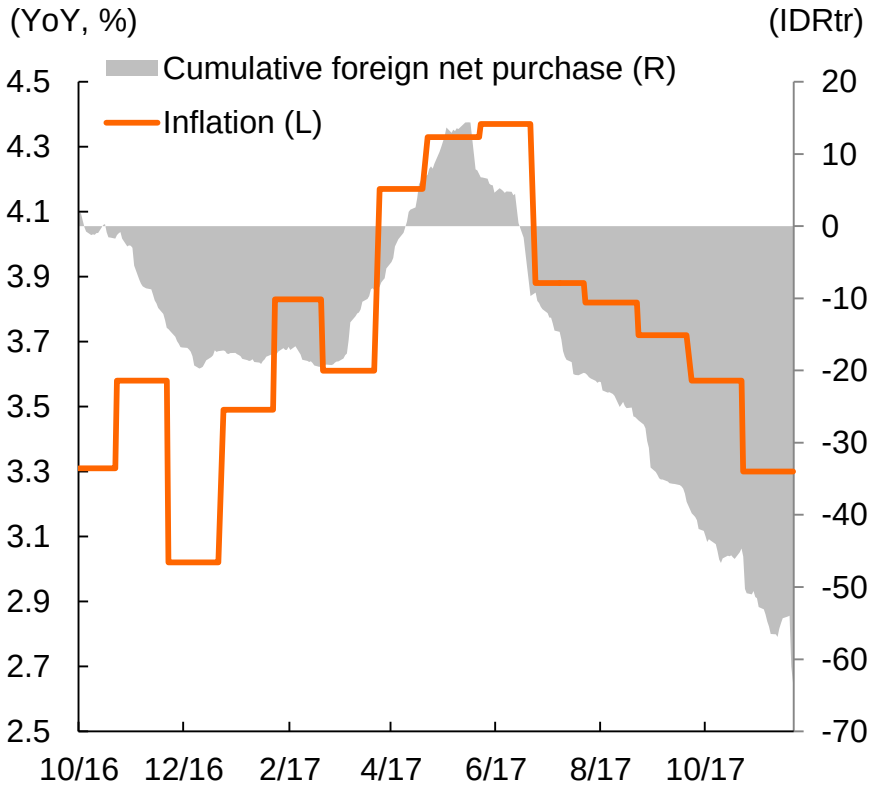
Source: Government, Mirae Asset Sekuritas Research

Theme #3. Foreign investors to come back to Indonesia

Foreigners are focused on inflation

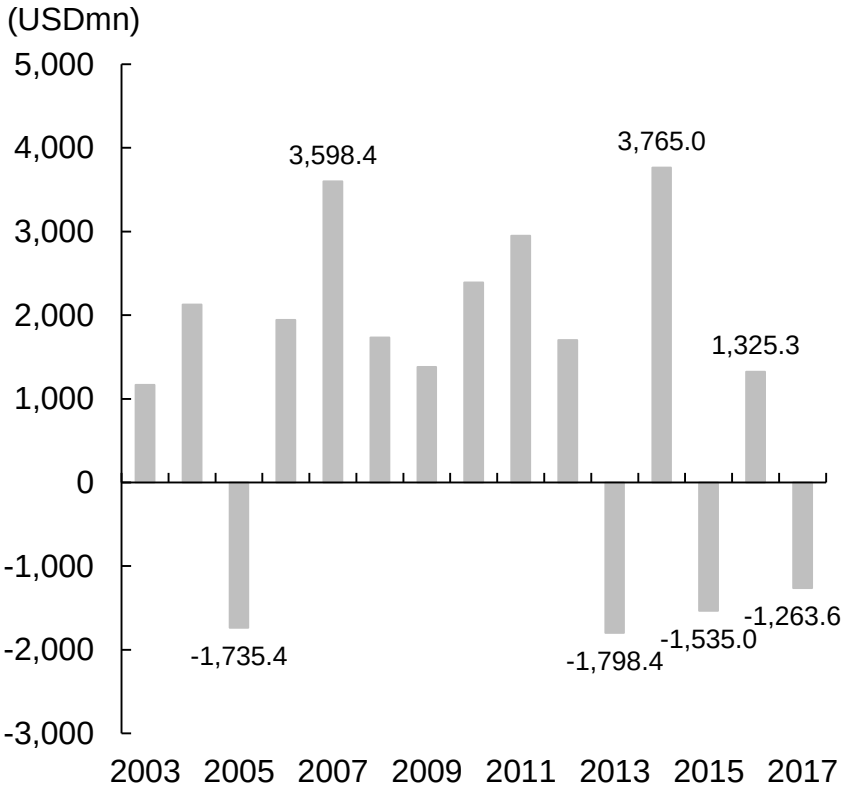
Stubbornly low inflation has pushed foreigners out of Indonesian market

Foreign net selling vs. inflation



Source: BI, Mirae Asset Sekuritas Research

Foreigners tend to turn to net buyers after a sell-off

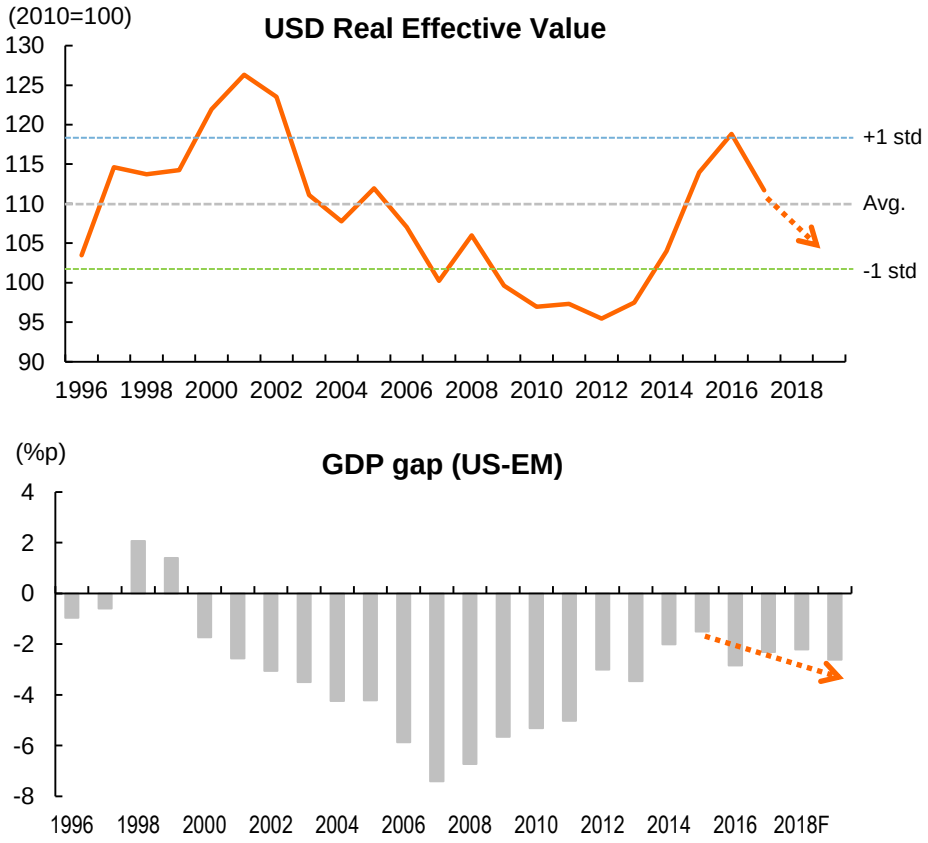


Source: Mirae Asset Sekuritas Research

We expect a cyclical weakness of the greenback

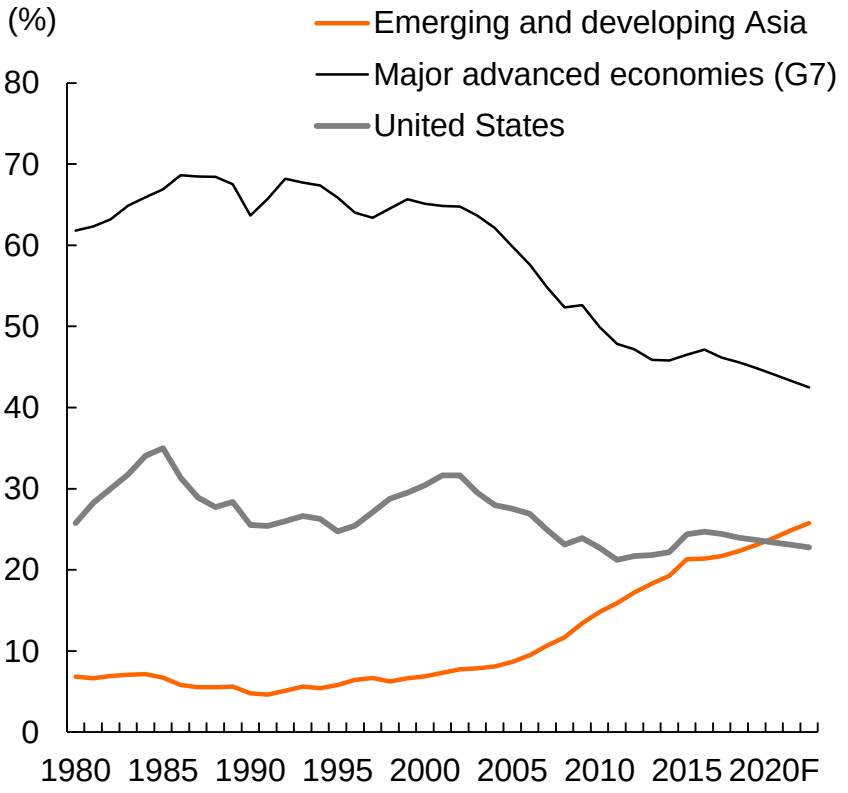
US is not the growth driver of the world economy

The relative strength of US growth has peaked out



Source: IMF, Bloomberg, Mirae Asset Sekuritas Research

EM is likely to be the growth driver of the world

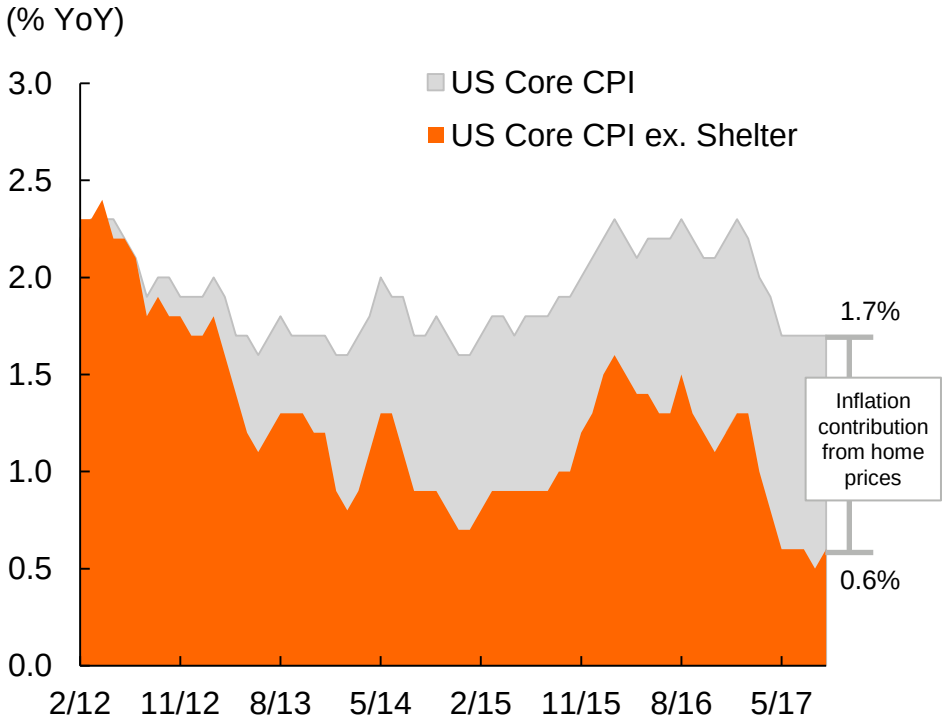


Source: IMF/World Bank, Mirae Asset Sekuritas Research
Note: Nominal GDP in current USD (not adjusted for inflation)

Fed to maintain its accommodative policy throughout 2018

Stubbornly low inflation has pushed foreigners out of Indonesian market

Stripping away the home prices, where is the inflation?



Source: Bloomberg, Mirae Asset Sekuritas Research

E-commerce continues to erode consumer prices

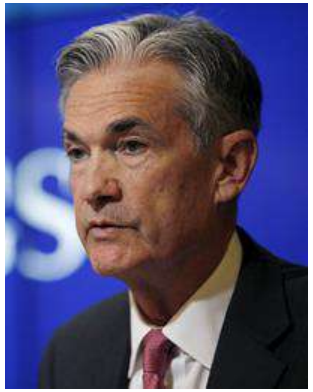
Segment	Weight in e-commerce	Item	Sept. '17 YoY (%)	Sept. '16 YoY (%)
Computer/ Electronics	21.5%	Mobile phones PC and gadgets Software	-11.7 -3.6 -3.9	-2.4 -7.6 -7.6
Apparel	17.0%	Men Women	-1.6 -0.3	-0.3 0.0
Automobile	10.3%	Used car/ Trucks	-3.7	-4.1
Home appliance	9.1%	Washing machine Clocks/Interior	-4.3 -13.1	-7.9 -5.2
Media	6.5%	Books Video TV Audio	-3.8 -4.7 -8.4 -6.1	-2.3 -6.3 -22.0 -7.7
Healthcare	5.5%	Healthcare	1.0	5.2
Toys/ Hobbies	3.9%	Toys Sports	-9.3 -1.7	-8.8 -2.2

Source: E-Marketer, Mirae Asset Sekuritas Research

YOU'RE HIRED! New Fed chief on board

Mr. Jerome Powell to continue Yellen's legacy

Federal Reserve Governor Jerome Powell (2012~)



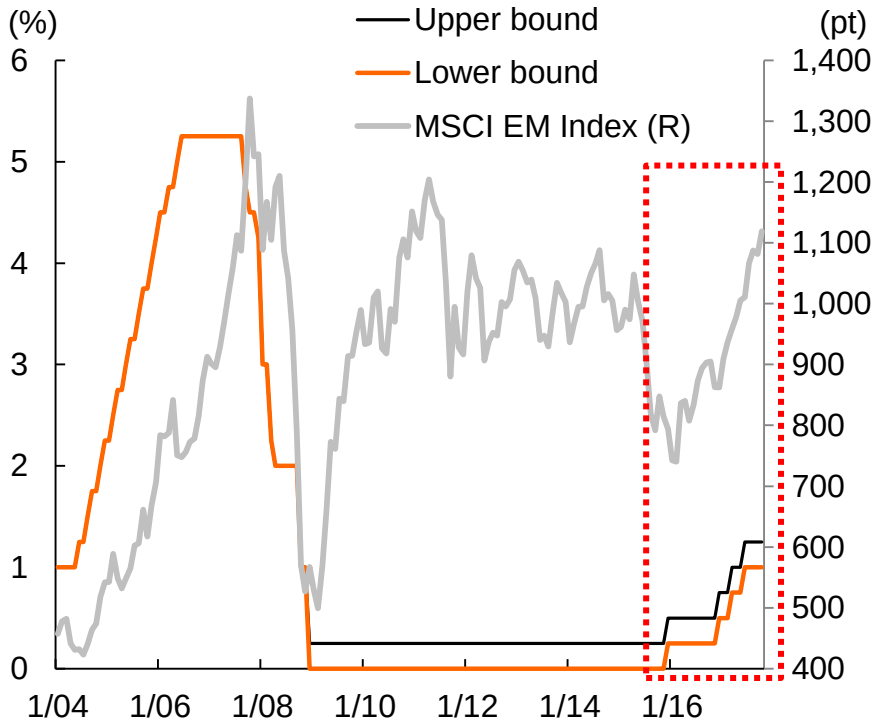
Biography:

- Born Feb. 4, 1953
- Education:: Princeton, George town
- Politics: Republican
- Career: US Dept. Treasury (90~ 93), Under Secretary of the Treasury (92-93), Bankers Trust (93), Dilon, Read % Co. (95), Carlyle Group (97~ 05), Global Environment Fund (08), Visiting Scholar at Bipartisan Policy Center (10~ 12), Member of the Federal Reserve Board of Governors (12~)

Market views

- "We suspect that a Powell-led Fed would not be a large step away from a Yellen-led Fed and would thus represent policy continuity for markets" DB
- "Powell and Yellen would be competent continuity" UBS
- "Powell would likely guide the board in a similar direction to the current and former Chair focusing on a commitment to a symmetric inflation goal", "Powell would also favor a strong risk management approach and clear separation between monetary policy and macro prudential tools", "With respect to the political economy and fiscal policy, he would likely have a slightly higher tolerance than the current chair, but would not sacrifice price stability for short-term growth objectives" BBVA

Fed's rate normalization means good news for EM



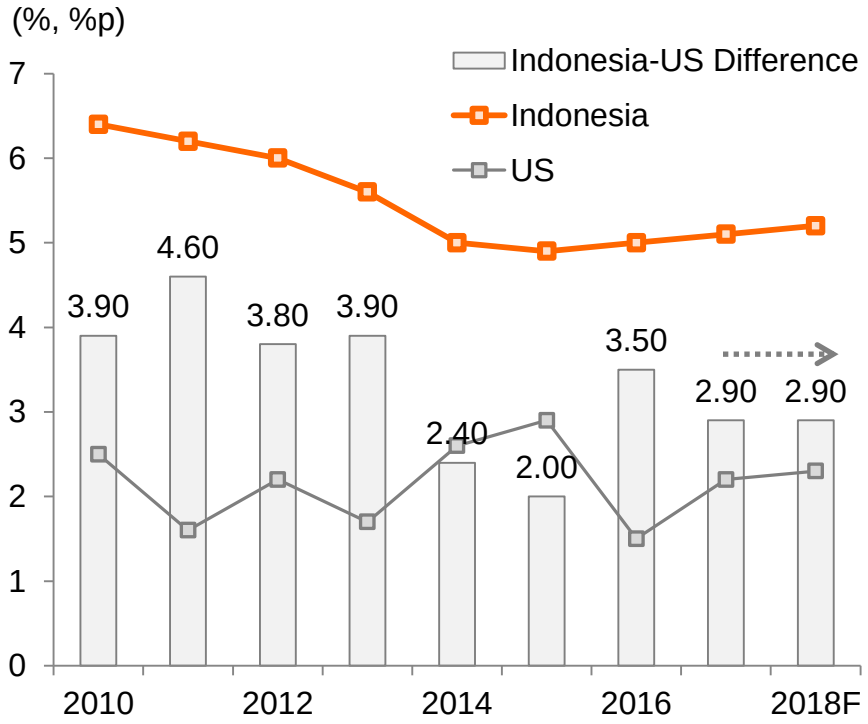
Source: Bloomberg, Mirae Asset Sekuritas Research

Appendix. Rupiah vs. US Dollar

We expect marginal weakness of the rupiah in 2018F

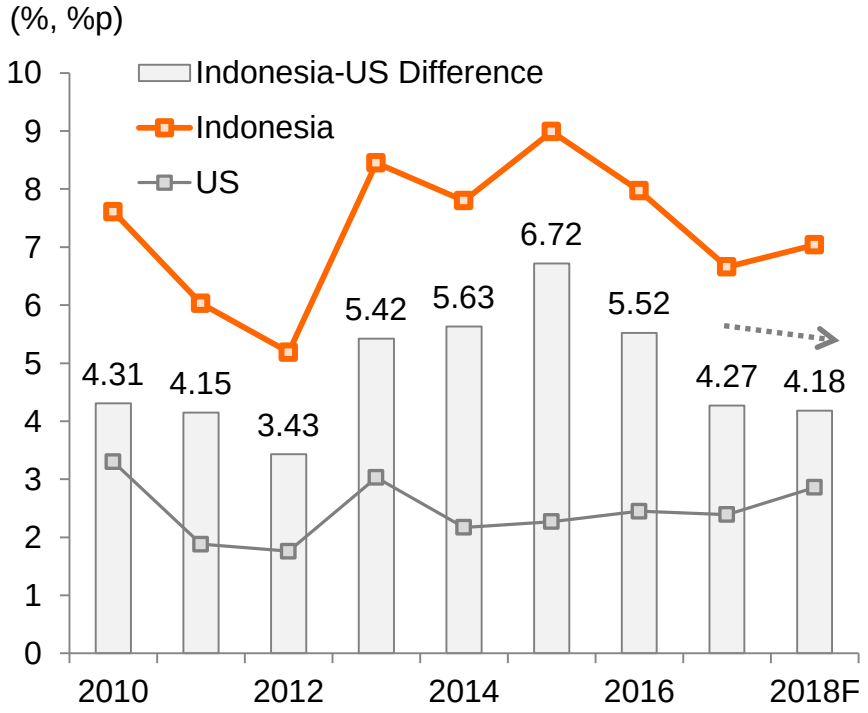
Our average forecast for the rupiah is IDR13,550 per USD

GDP gap is flattening…



Source: Bloomberg, Mirae Asset Sekuritas Research
Note: We use consensus estimates for our gap analysis

…and yield (10yr) gap should moderately narrow



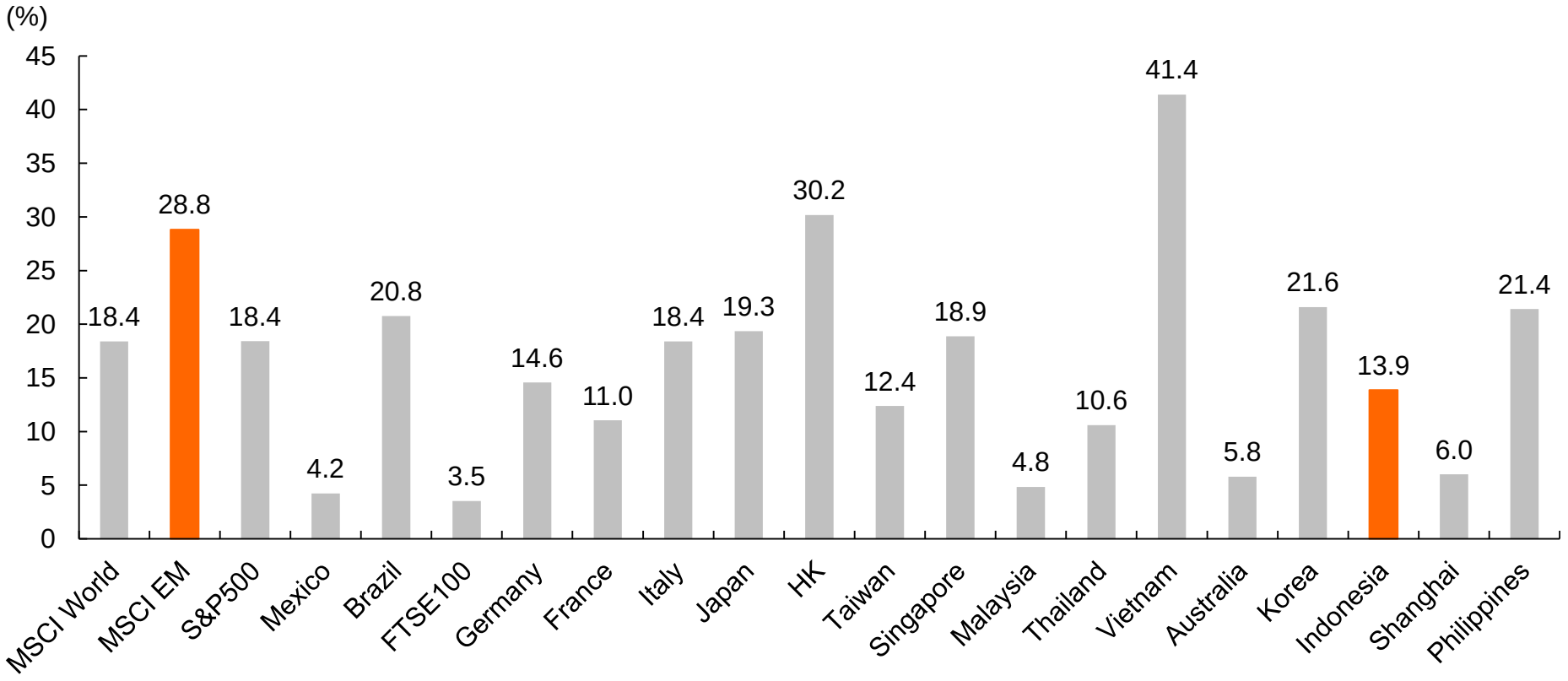
Source: Bloomberg, Mirae Asset Sekuritas Research
Note: We use consensus estimates for our gap analysis

Investment strategy: Back in the spotlight

Global index performance

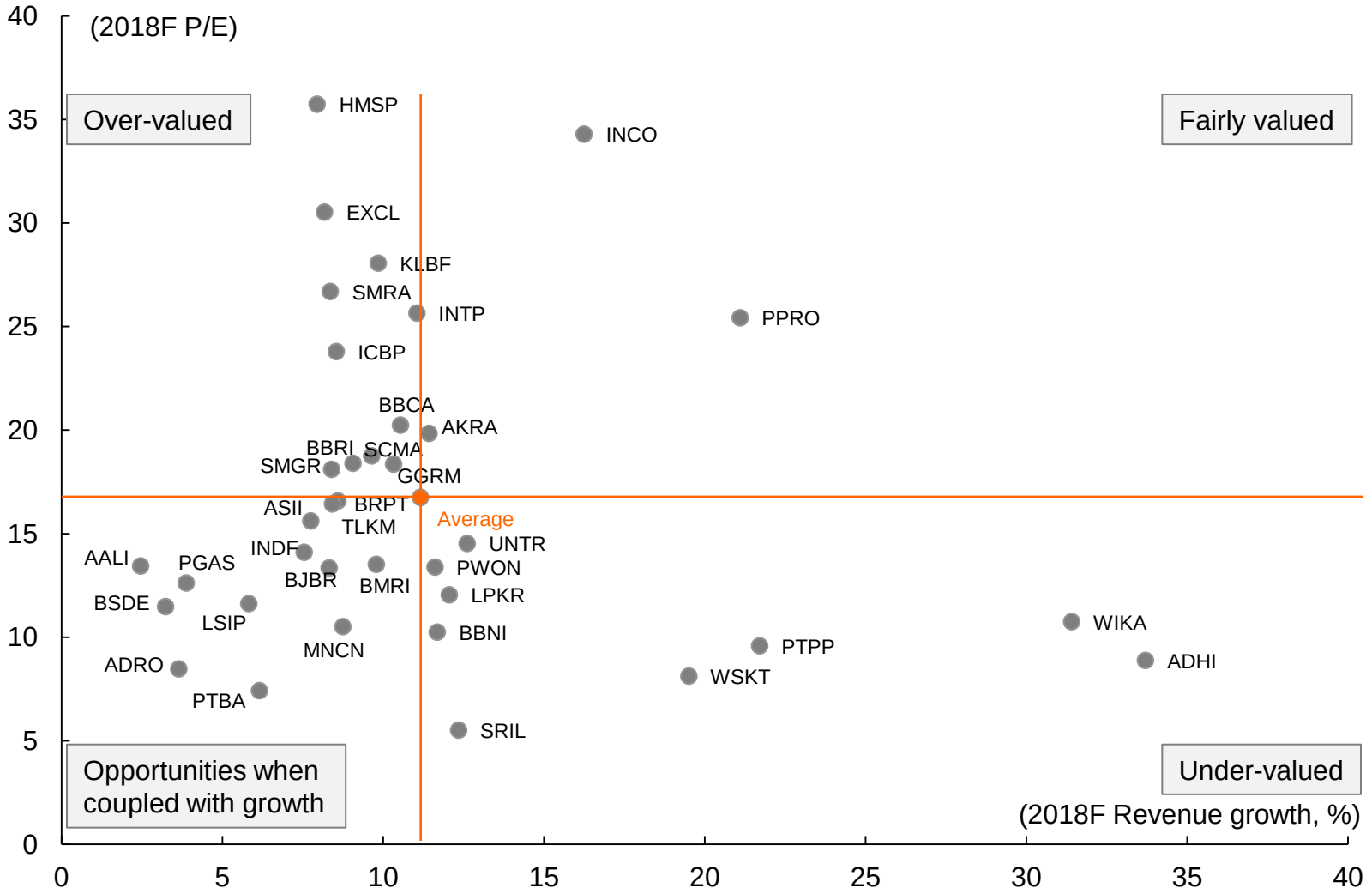
Indonesia's lackluster performance YTD chiefly due to lackluster economic growth

Index performance as of December 8 (local currency)



Source: Bloomberg, Mirae Asset Sekuritas Research

LQ45 Revenue growth – Valuation scatter plot



Ticker	Rev. growth (18F, %)	'18F P/E (x)
BBCA	10.5	20.2
HMSP	8.0	35.7
TLKM	8.6	16.6
BBRI	9.1	18.4
BMRI	9.8	13.5
ASII	7.8	15.6
BBNI	11.7	10.2
GGRM	10.3	18.4
UNTR	12.6	14.5
ICBP	8.5	23.8
KLBF	9.9	28.1
INTP	11.1	25.7
INDF	7.5	14.1
SMGR	8.4	18.1
ADRO	3.6	8.5
JSMR	58.7	20.7
PGAS	3.9	12.6
SCMA	9.6	18.8
BSDE	3.2	11.5
EXCL	8.2	30.5
BRPT	8.4	16.4
PWON	11.6	13.4
WSKT	19.5	8.1
INCO	16.2	34.3
AALI	2.5	13.4
AKRA	11.4	19.8
PTBA	6.2	7.4
BJBR	8.3	13.4
MNCN	8.8	10.5
PTPP	21.7	9.6
WIKA	31.4	10.8
LPKR	12.1	12.0
SSMS	40.3	13.9
SMRA	8.4	26.7
PPRO	21.1	25.4
LSIP	5.8	11.6
ADHI	33.7	8.9
SRIL	12.3	5.5
BBTN	14.4	9.5
LPPF	9.1	14.9
Avg.	**13.2**	**16.8**

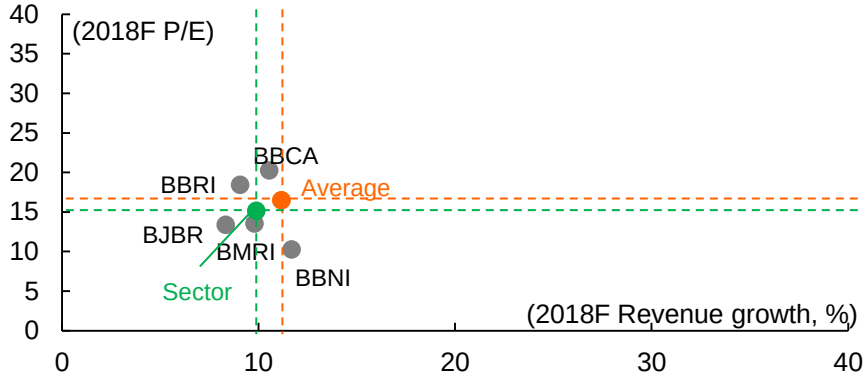
* Avg. excludes JSMR and SSMS

Source: Bloomberg, Mirae Asset Sekuritas Research
Note: Excluding UNVR, BUMI, ANTM, BMTR, and MYRX

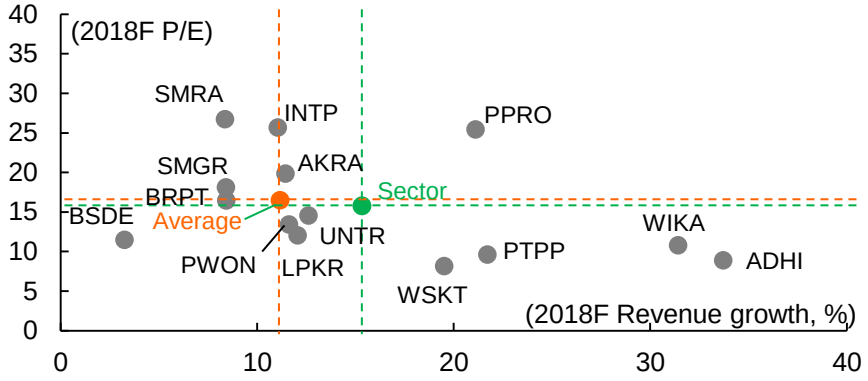
Scatter plot by sectors

Undervalued sectors are financials and commodities

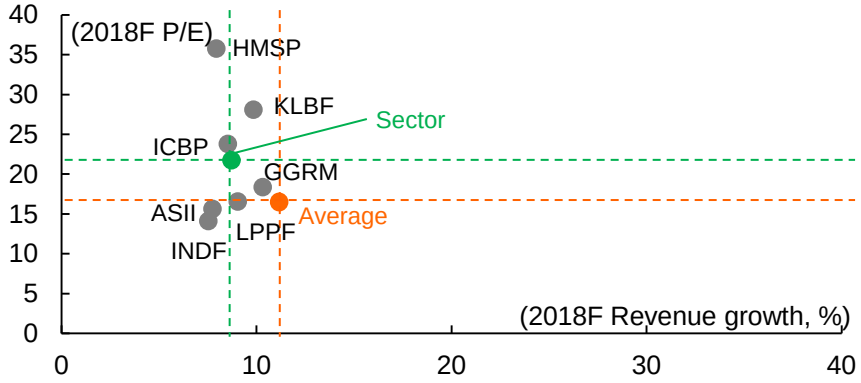
Financials



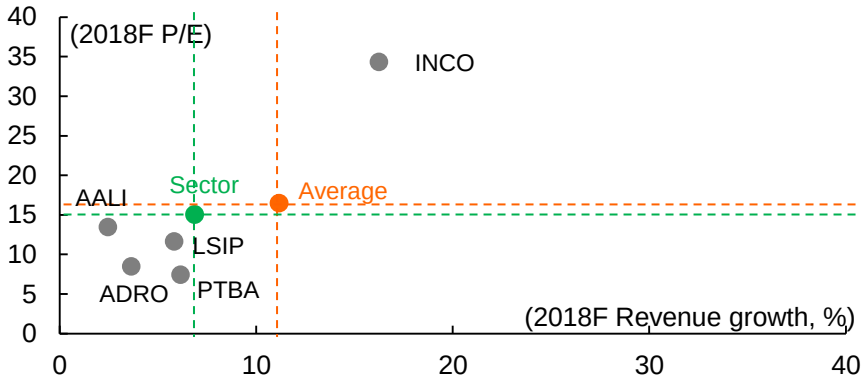
Property and industrial



Consumers



Commodities



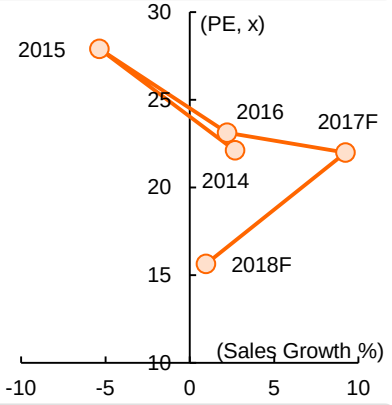
Source: Bloomberg, Mirae Asset Sekuritas Research

Source: Bloomberg, Mirae Asset Sekuritas Research

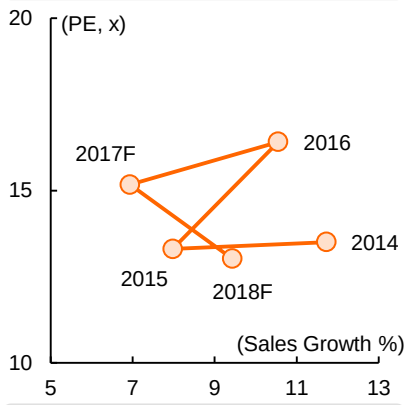
Market and sector outlook

Our preferred sectors are: Consumers, Mining, and Misc. Industry

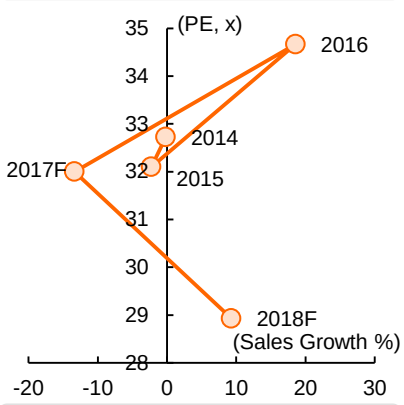
JCI (R ↓ / NP ↑)



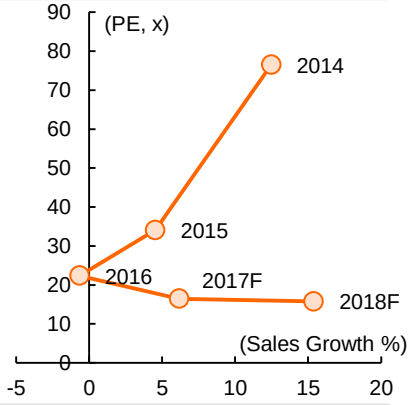
Financials (R ↑ / NP ↑)



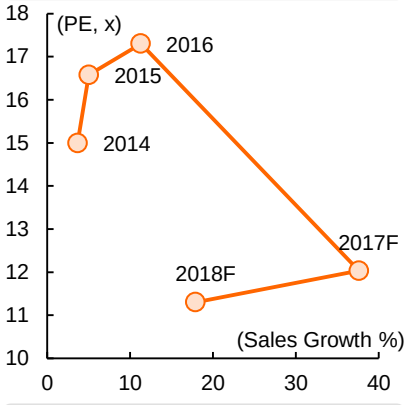
Consumer (R ↑ / NP ↑)



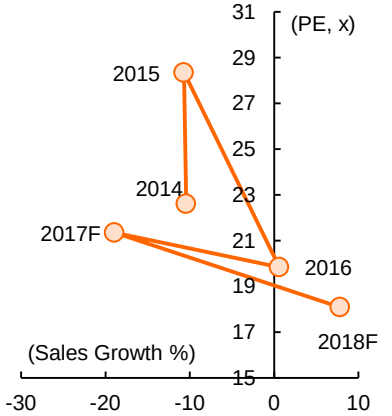
Utilities (R ↑ / NP →)



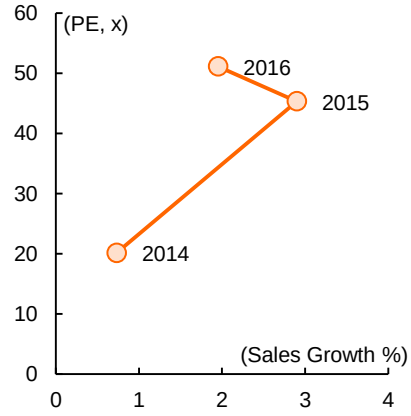
Property (R ↓ / NP →)



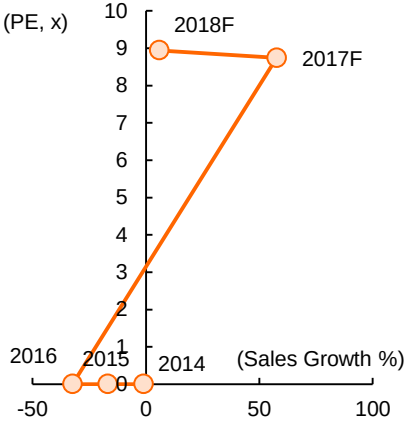
Basic Industries (R ↑ / NP ↑)



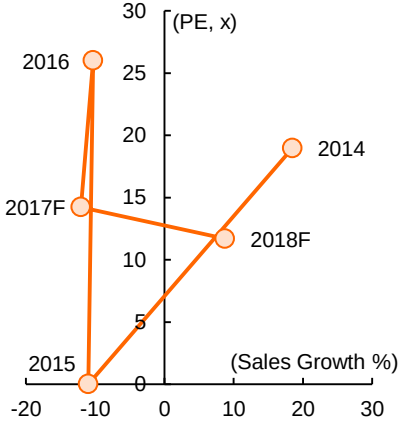
Trade (N/A)



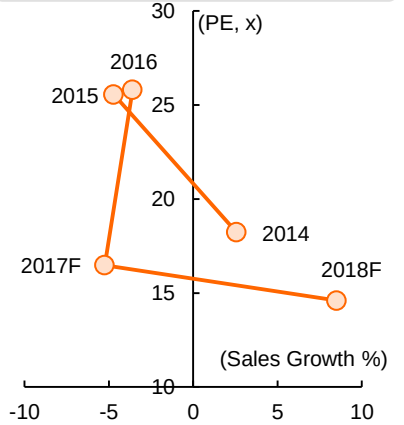
Mining (R ↓ / NP →)



Agriculture (R ↑ / NP →)



Misc Industries (R ↑ / NP →)

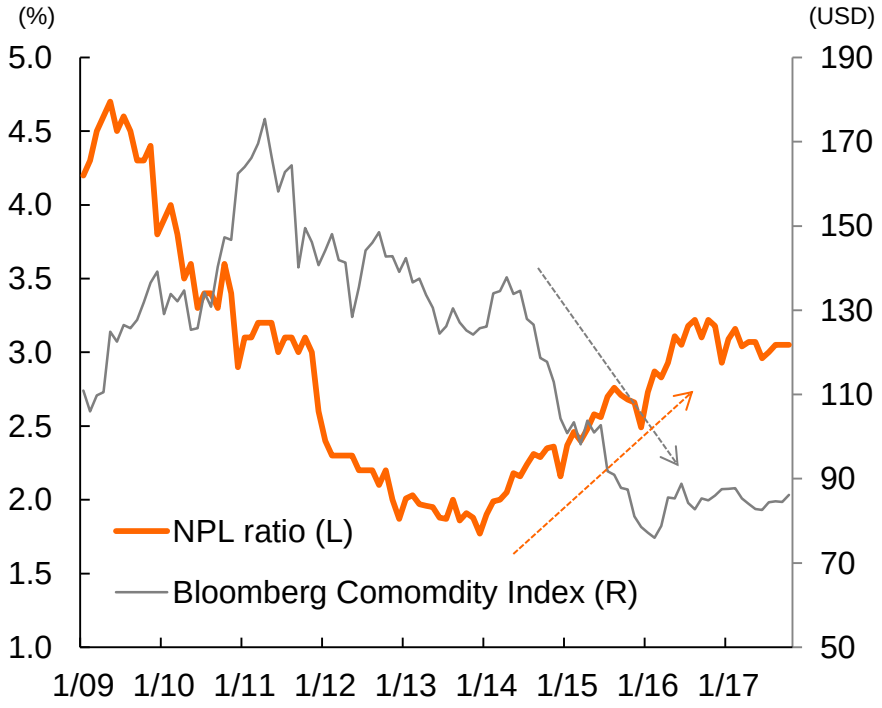


Source: Based on Bloomberg consensus, Mirae Asset Sekuritas Research

Financials: Classic bottom line recovery

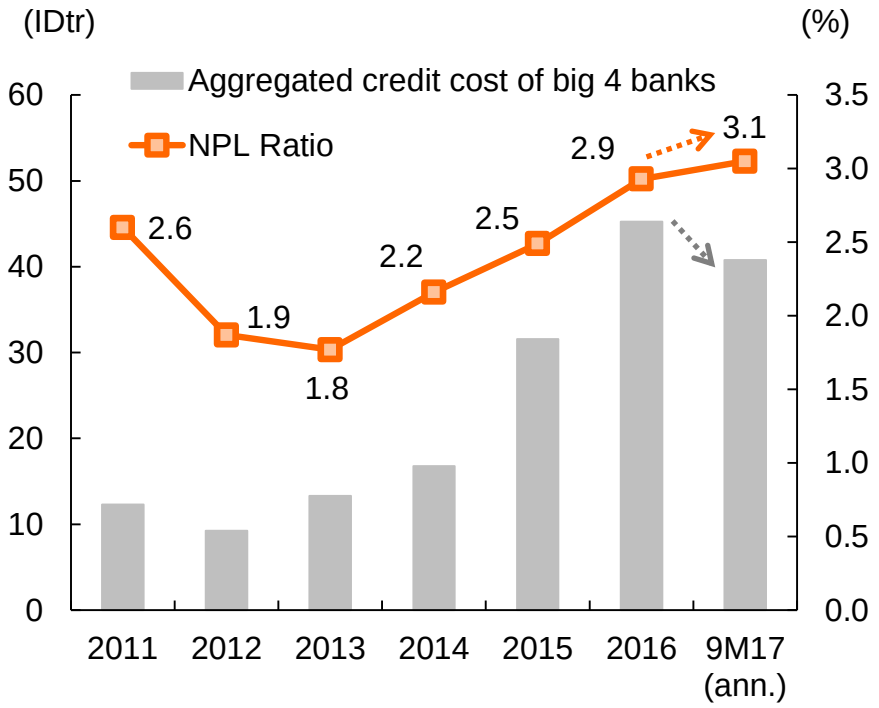
The unfolding of a benign credit cycle

Banks' credit cycle vs. commodity prices



Source: BI, Bloomberg, Mirae Asset Sekuritas Research

Troubled loans are legacy assets (and provided for)

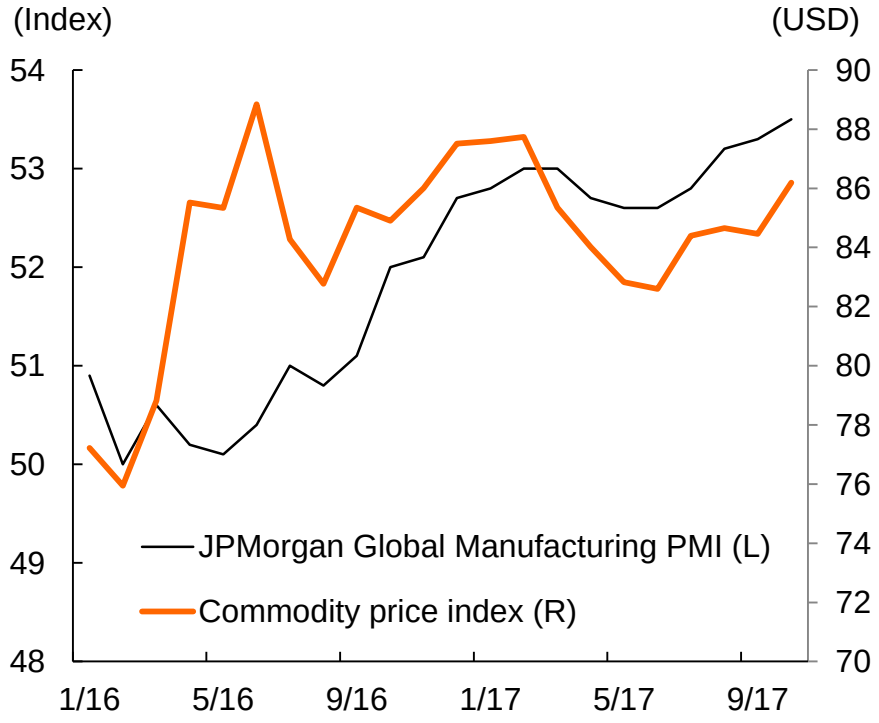


Source: Bloomberg, Mirae Asset Sekuritas Research

Commodities: When growth meets low dollar

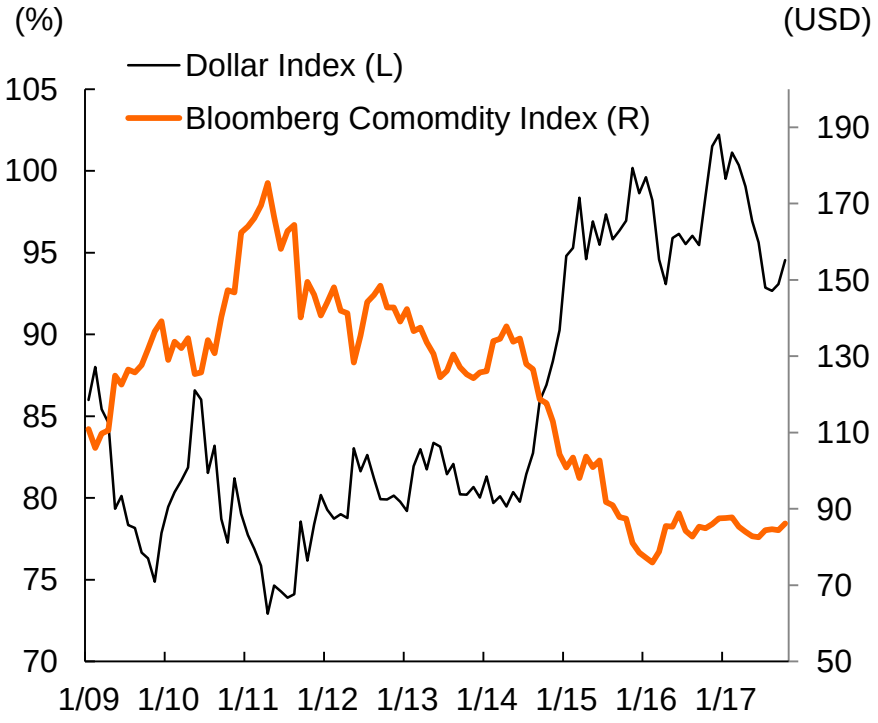
Fundamentally driven economic growth to boost commodity prices higher

Commodity prices are fundamentally driven



Source: Bloomberg, Mirae Asset Sekuritas Research

Commodity prices show inverse relationship to USD

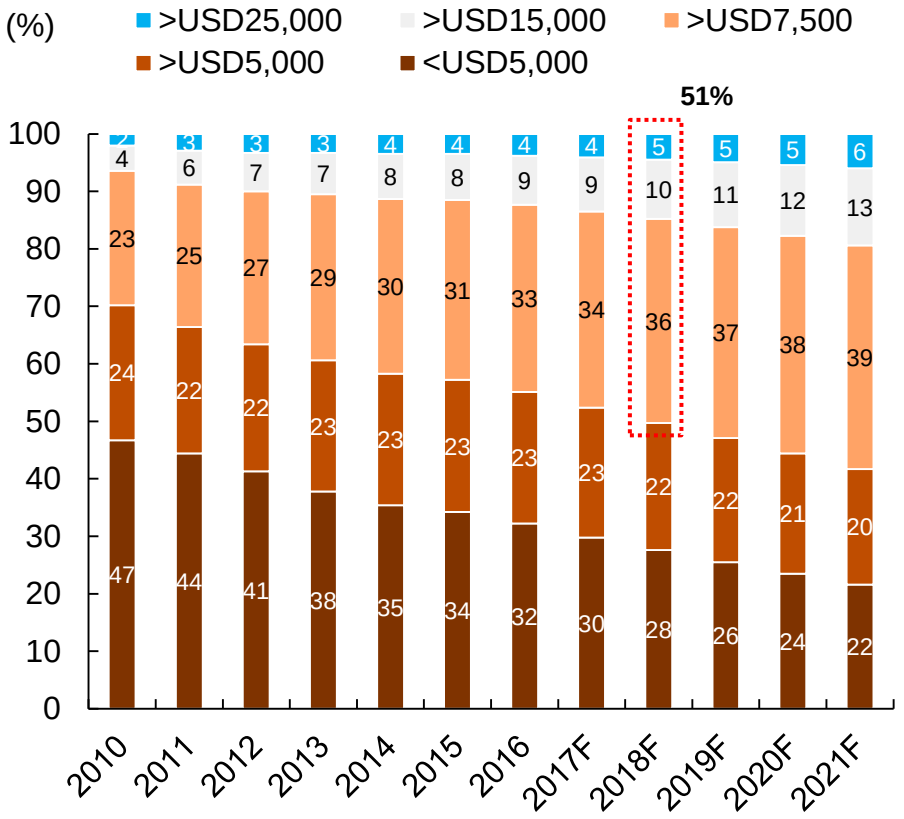


Source: Bloomberg, Mirae Asset Sekuritas Research

Consumers: Welcome back, Q and P

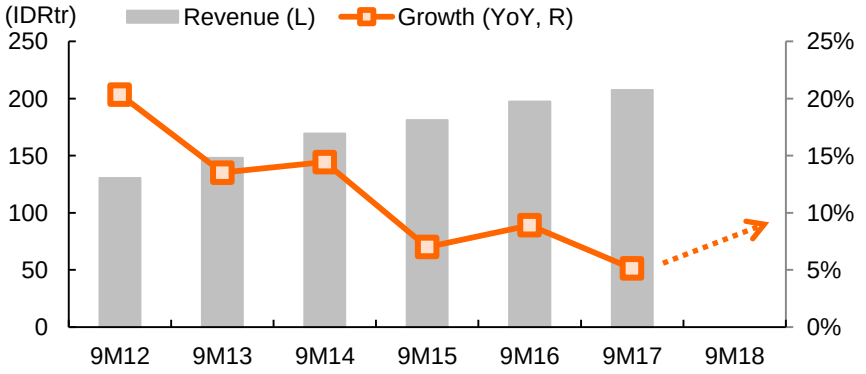
Strong pocket situation offset low household's willingness to spend in 2017

51% of households will earn USD7,500+ in 18F

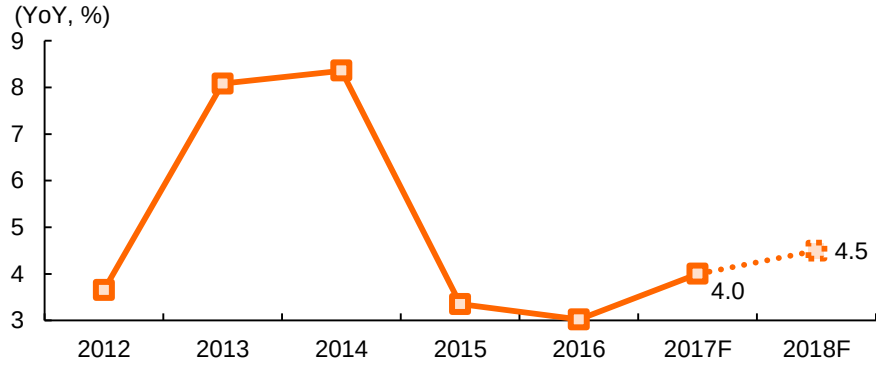


Source: Bloomberg, Mirae Asset Sekuritas Research

Consumer revenue to bounce off from the bottom



Inflation is expected to rebound

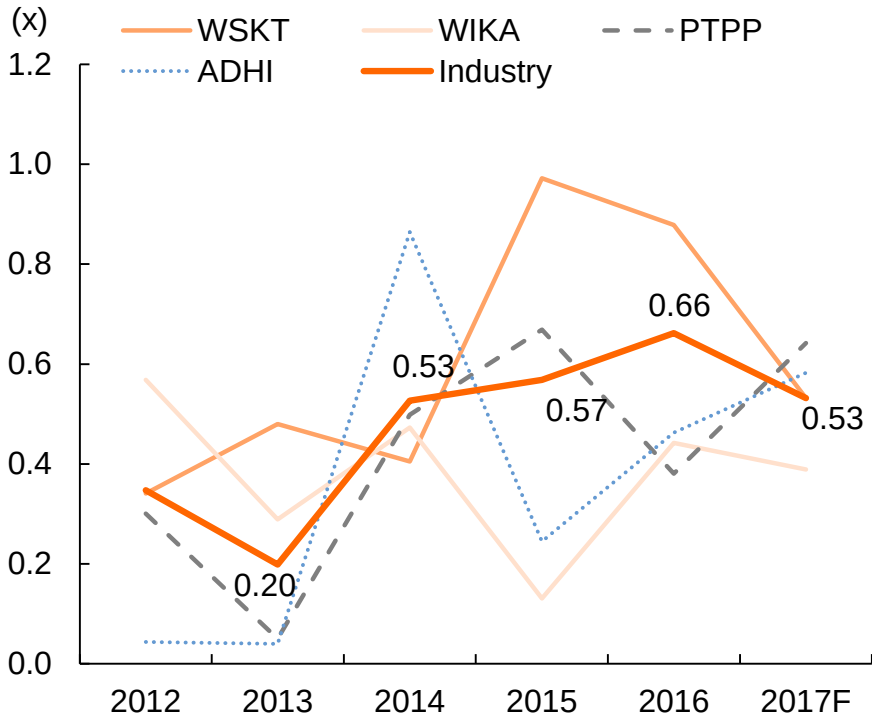


Source: Bloomberg, Mirae Asset Sekuritas Research
Note: 9M revenue of HMSP, GGRM, ICBP, KLBF and UNVR

Property: Brace for rising interest rates

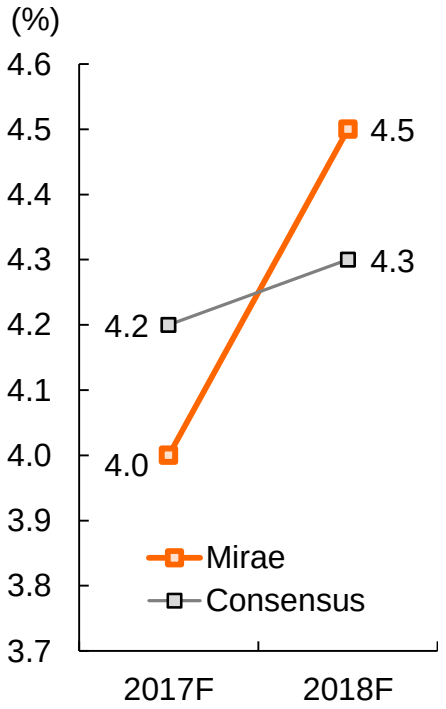
- Construction: Robust headline earnings mean little economic value as they are only accrual figures
- Developers: “A fool **to use** leverage in stock investment” vs. “A fool **not to use** leverage in buying a house”

Builders’ accrual ratio stand at 0.53x

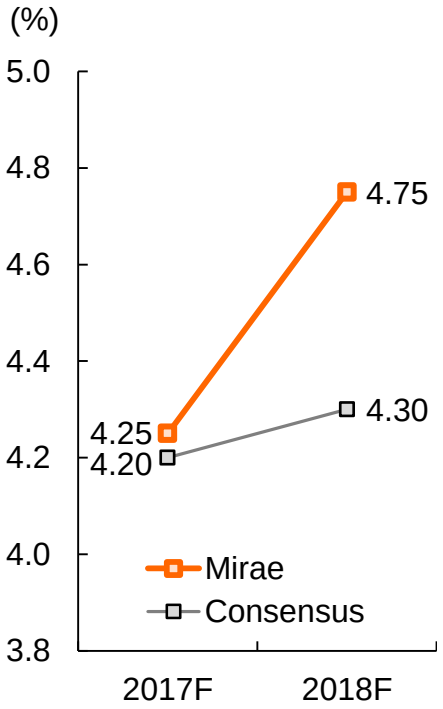


Source: Company data, Mirae Asset Sekuritas Research
Note: 0 indicates 100% cash basis and 1 is 100% accrual basis

Inflation outlook



Policy rate outlook

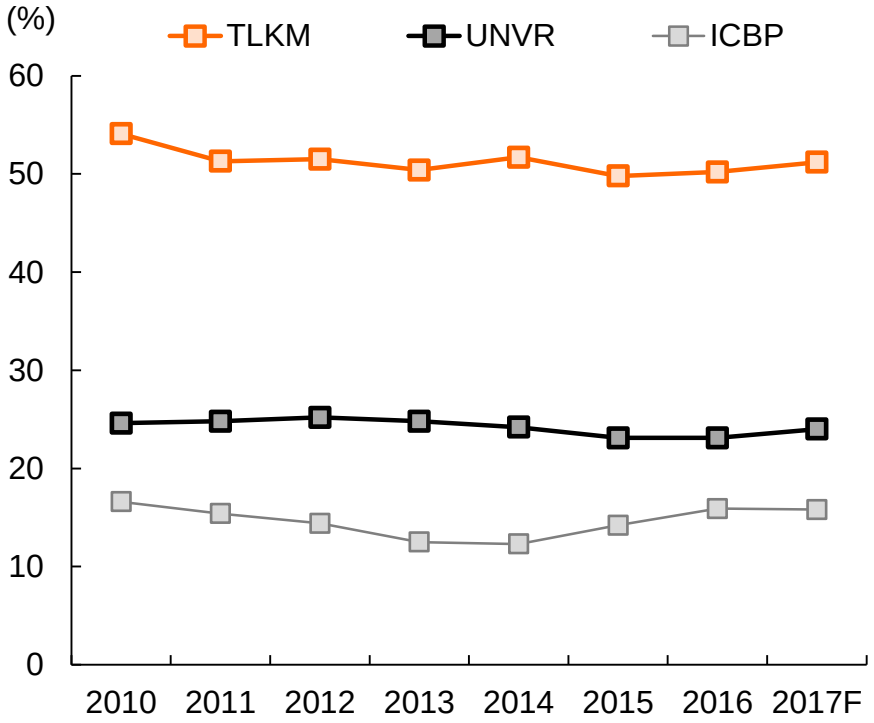


Source: Bloomberg, Mirae Asset Sekuritas Research

Utilities/Infrastructure: It’s a seller’s market

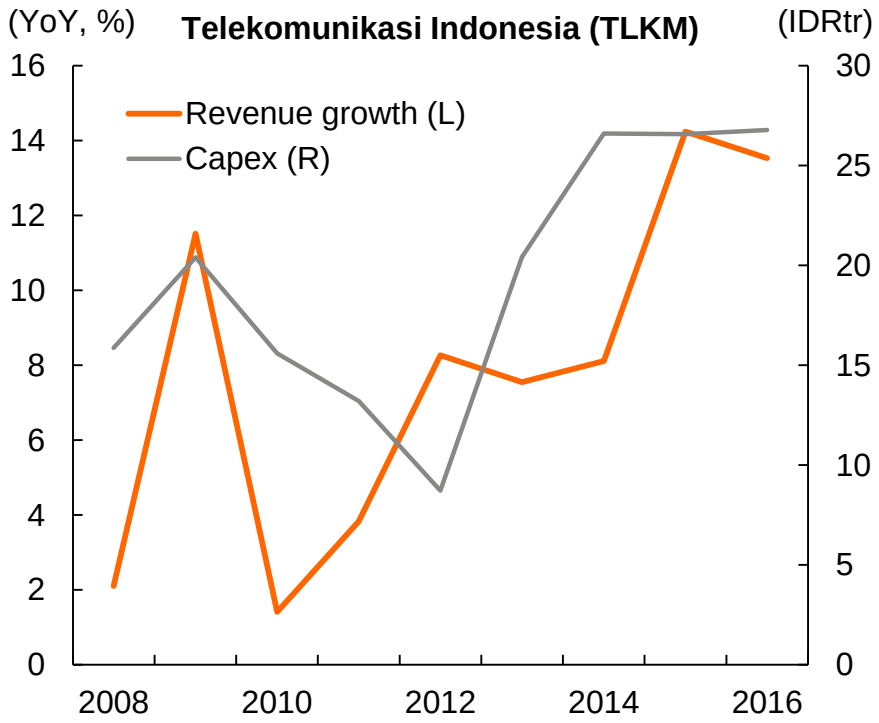
Utility operators have strong bargaining power (Inflation is not the key pricing factor)

Utility operators have higher margins



Source: Bloomberg, Mirae Asset Sekuritas Research

Expansion drives revenue higher (monopoly)

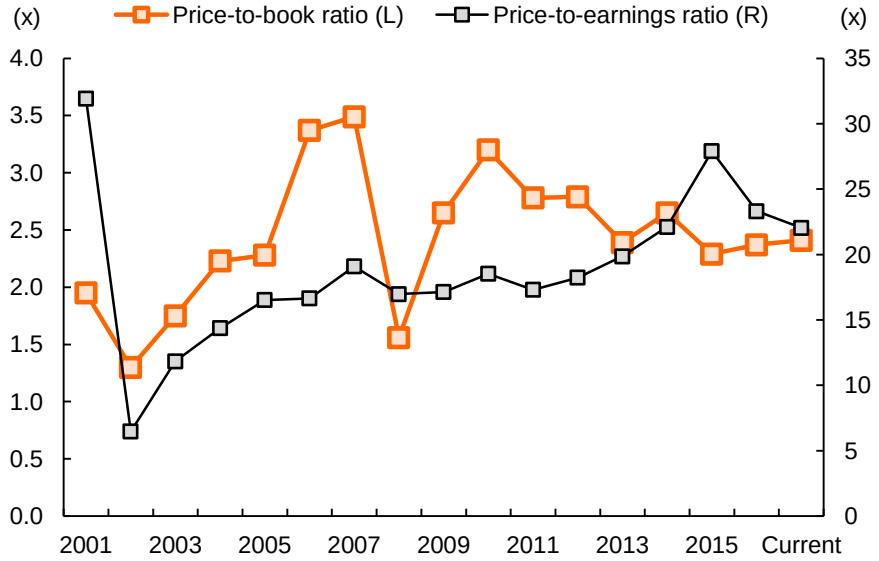


Source: Bloomberg, Mirae Asset Sekuritas Research

Valuations

We also disagree with valuations being stretched

Valuations are trending higher…



…and Indonesia is one of the most expensive market

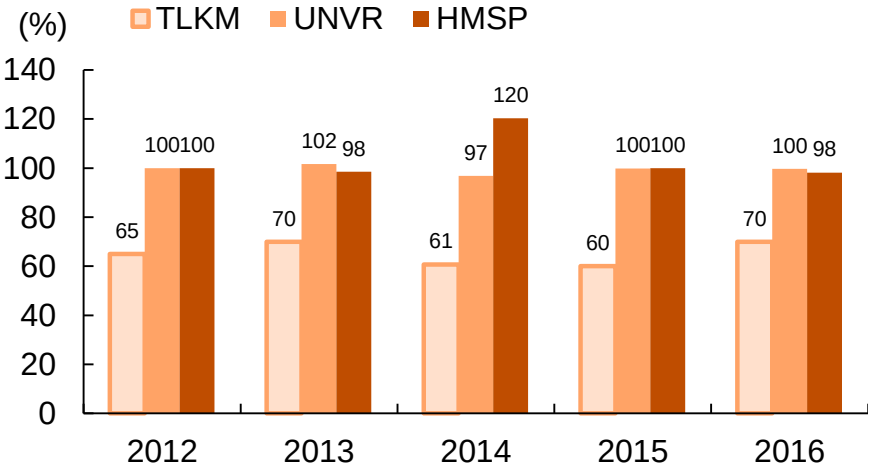
Trailing	MSCI EM	China	Korea	Taiwan	Malaysia	Thailand	Indonesia
P/E (x)	15.3	16.6	13.4	15.3	15.5	17.8	**22.0**
P/B (X)	1.7	1.8	1.1	1.7	1.6	2.0	**2.4**

Source: Bloomberg, Mirae Asset Sekuritas Research
Note: Price as of December 8, 2017

Three methods of utilizing free cash

Bonus payout	Investment (Capex)	Dividend payout
Objective: Share profit and retain talent	Objective: Foundation for future cash flow	Objective: Share value w/ stakeholders

Dividend payout ratio for 3 large-cap companies



Source: Company data, Mirae Asset Sekuritas Research

Mirae Asset Sekuritas Indonesia model portfolio

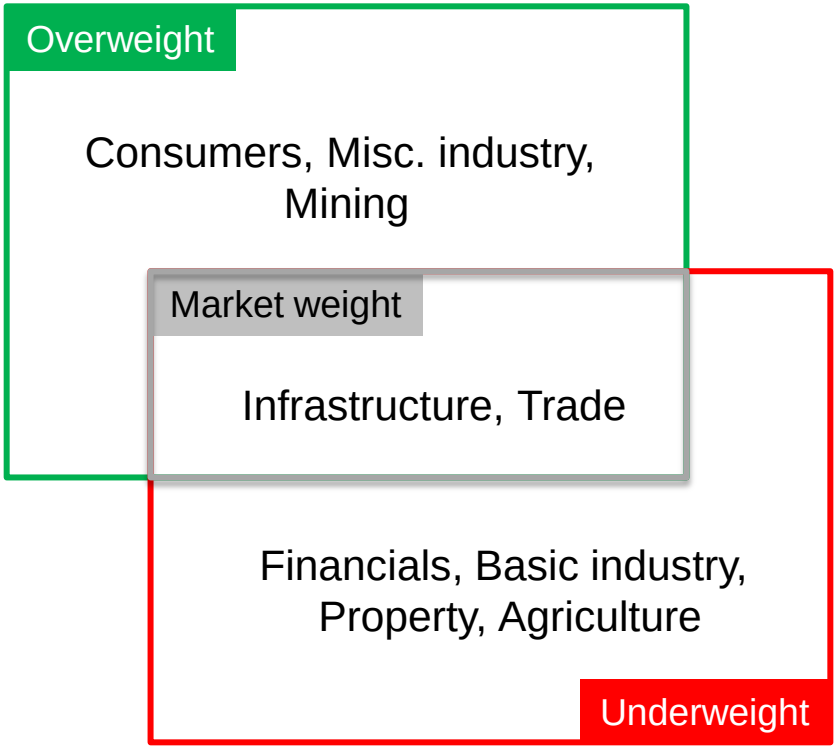
- OW: Consumers, Misc. industry, Mining / MW: Infrastructure, Trade
- UW: Financials, Basic industry, property, agriculture

Weight recommendation by sectors

Industry	Mirae (A)	Market (B)	(A) – (B)
Financials	27.0	29.7	-2.7
Consumers	24.0	22.6	1.4
Infrastructure	12.0	11.7	0.3
Trade/Services	10.0	10.0	0.1
Basic industry	6.5	7.4	-0.9
Property	4.0	6.1	-2.1
Misc. industry	8.5	6.1	2.4
Mining	8.0	5.0	3.0
Agriculture	0.0	1.6	-1.6
Total	100.0	100.0	0.0

Source: Mirae Asset Sekuritas Indonesia Research

Expansion drives revenue higher (monopoly)



Mirae Asset Sekuritas Indonesia model portfolio

- Remove/ Reduce: BBCA, BSDE, ISAT, PTBA, LSIP
- New/ Add: BMRI, BBNI, GGRM, KLBF, RALS, SCMA, ANTM

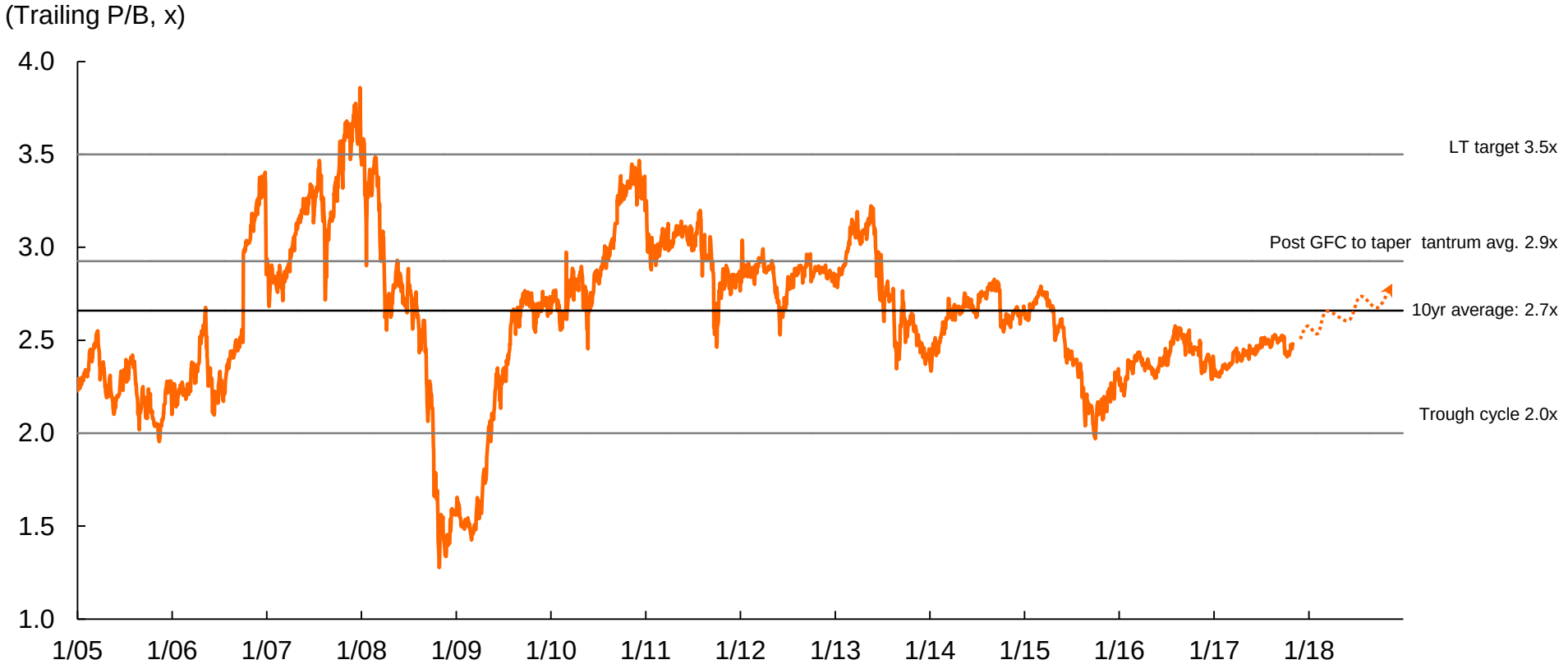
Industry	Name	Ticker	Weight (%)	Acquisition (IDR)	Last price (IDR)	Return (%)	18F P/E (x)	18F ROE (x)
Financials	Bank Central Asia	BBCA	12.0	14,300	21,125	47.7	20.10	18.38
Financials	Bank Mandiri	BMRI	10.0	6,821	7,475	9.6	13.60	14.30
Financials	Bank Negara Indonesia	BBNI	5.0	8,850	8,850	0.0	10.76	15.08
Consumer	Indofood CBP	ICBP	8.5	8,650	8,775	1.4	24.04	20.41
Consumer	Gudang Garam	GGRM	5.0	70,447	80,575	14.4	18.52	18.17
Consumer	Kalbe Farma	KLBF	10.5	1,539	1,675	8.8	28.66	18.25
Property	Wijaya Karya	WIKA	2.0	2,260	1,610	-28.8	9.62	11.09
Property	Bumi Serpong Damai	BSDE	2.0	1,830	1,630	-10.9	10.95	11.08
Infrastructure	Telekomunikasi Indonesia	TLKM	3.0	4,110	4,140	0.7	16.20	24.79
Infrastructure	Jasa Marga	JSMR	9.0	4,740	6,425	35.5	20.70	13.59
Trade	Ramayana Lestari Sentosa	RALS	5.0	1,015	1,015	0.0	15.25	12.56
Trade	Surya Citra Media	SCMA	5.0	2,450	2,450	0.0	19.98	42.93
Basic Industry	Barito Pacific	BRPT	4.5	1,290	2,390	85.3	17.63	10.83
Basic Industry	Indah Kiat Pulp & Paper	INKP	2.0	3,200	4,930	54.1	N/A	N/A
Mining	Tambang Batubara Bukit	PTBA	4.0	11,275	11,050	-2.0	7.46	23.29
Mining	Aneka Tambang	ANTM	4.0	625	625	0.0	93.45	0.90
Misc. Industry	Astra International	ASII	5.5	8,125	8,250	1.5	15.38	15.89
Misc. Industry	Sri Rejeki Isman	SRIL	3.0	360	368	2.2	5.43	19.53

Source: Bloomberg estimates, Mirae Asset Sekuritas Indonesia Research
Note 1: Last price as of December 8, 2017 / Note 2: P/E and RoE based on Bloomberg consensus

JCI Target: 6,795pt by 2018F

Our target of 6,795pt is derived by applying a P/B multiple of 2.8x

Trailing P/B trend



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