An update on Corporate Indonesia:

Whipsawed by prices

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Summary

- Declining commodity prices and consumer downtrading pose a challenge to Indonesia's corporate revenue growth in Q4 2023. Revenue growth may recover in 2024 as these challenges unwind, but the short-lived commodity rally may put a short ceiling on corporate revenue growth.
- The strong correlation between commodity prices and the secondary-tertiary sector's revenue highlights the structural challenge in maintaining domestic consumption growth momentum.
- Still-high and government-driven CAPEX spending amidst the limited outlook for corporate revenue growth may further drive up the demand for loans.

- Developments in the global monetary landscape in the past week largely follow the same pattern as in previous weeks. US economic indicators continue to run hot as expected, with the core PCE number printed at 2.8% YoY in February 2024 (2.7% YoY in the previous month). US personal spending data (0.8% MoM vs. 0.3% MoM expected) highlights the unabating strength of American consumers, further highlighting concerns about the return of inflationary pressures.
- Meanwhile, Fed chair Jerome Powell's assertion on Friday that the Fed will need to see a resumption of a declining inflationary trend and thus not in a rush to cut rates did little to tame the ongoing hawkish swing in FFR expectations. What happened next thus largely follows our scenario laid out in *last week's report:* The USD index (DXY) strengthened to 3.17% YTD by the end of the week, nearing its 2024 peak of 104.96 as shaky macro fundamentals forced other central banks to offer more dovish signals.
- The ongoing global milieu reverberates negatively in the Indonesian financial market. The Rupiah moved to its 2024 low of 15,585 by the end of last week, which the currency did on the back of USD 563.14 Mn of foreign capital outflows from the SBN market. Foreign investors also recorded net selloffs to the tune of USD 124.66 Mn in the stock market, resulting in the biggest weekly capital outflows from the domestic stock and bond market so far in 2024.

Moving lower, rebounding later?

- Now that the curtain has been closed on the Q4-2023 earnings season, it remains to be seen how foreign investors (and their domestic counterparts) would position themselves ahead and following the upcoming dividend dates. Unfortunately, the risk of further capital outflows from the stock market seems to be likely, given the domestic corporate sector's not-so-stellar Q4-2023 financial report.

- The increasingly negative corporate revenue growth in Q4 2023 may have caught some investors on the wrong foot ***(see Chart 1)***. Fiscal expansions since the previous quarter may lead to the expectation that corporate revenue will improve in Q4 2023, especially given the evidence of liquidity flows from the public to the business sector recorded in the past quarter.

- Expectations of stronger revenue growth in the quarter are further amplified by the recovering (albeit still negative) YoY commodity price changes during the quarter. Alas, neither fiscal expansions nor the seemingly recovering commodity prices could stop corporate revenues from moving lower in Q4 2023.

- **A couple of factors may explain the still-going downtrend in corporate revenues. First, the high-base effect from the 2021-2022 episode of commodity supercycle continues to distort the view.** Despite the marked improvement in YoY commodity price changes between Q2-Q4 2023, the lower YoY commodity price changes in Q2 2023 are due to the peaking commodity prices in Q2-2022. **Despite the higher YoY changes, commodity prices in Q4-2023 were still a notch lower than in Q2-2023**, as the Bloomberg commodity price index in 2023 moved to its nadir of 98.83 in December 2023 (and an average of 101.94 in Q4 2023) relative to an average of 104.27 recorded in Q2-Q3 2023.

- Indeed, changes in the global commodity market remain crucial to Indonesia's corporate revenue growth, given Indonesia's commodity-producing economic structure. It is also not surprising that **the corporate revenue trend largely follows the ebb and flow in commodity prices *(see Chart 2)***, given that the Primary sector accounts for 33.6% of the sampled companies' total assets despite only making 22.1% of the sample.

"The strong correlation between commodity prices and secondary-tertiary sector's revenue illustrates the significant pass-through effect from commodity prices to household demand"

- However, a more granular study shows that revenues in sectors second or third removed from extraction activities are also highly sensitive to changes in commodity prices ***(see Chart 3)***. **This condition sheds light on the significant pass-through effect from commodity prices to corporate revenues (and eventually households' consumptions), highlighting the structural challenge in maintaining the domestic aggregate demand growth momentum alive amidst the downward trend in commodity prices.**

- **The second factor that explains the continued downturn in corporate revenue is the prevailing trend of consumer downtrading during the period.** Indeed, BCA Big Data noted a widening spread between transaction value and frequency in Q4 2023, while some retailers (and cigarette producers) also reported an increase in sales of lower-segment products amidst the declining sales of their top-of-the-shelf products. It is not surprising, then, that the decline in corporate revenues is again led by the commodity-extracting energy and heavy industry sectors, followed by the consumer staples sector that contributed -0.52% to the -4.55% growth in Q4-2023 corporate revenue ***(see Chart 4).***

- The downward trend in corporate revenue growth between Q2-Q4 2023 may negatively impact investors' expectation of the upcoming dividend payments, reducing their appetite to expand their portfolio of Indonesian stocks. Alas, the hope for a more bountiful dividend plays in 2024 is further dashed by lower margins reported in some sectors. For instance, companies in the coal sector, the quintessential dividend stocks in the Indonesian market, are hit by higher royalty payments in the financial year 2023 and onwards.

- Indonesian consumers' shift towards "higher volume, lower value" consumption patterns also hit businesses in the Tertiary sector, as companies impacted reported a sharp drop in their profit margin. The reported higher logistical costs (especially for companies in the Consumer discretionary sector) further highlight that **the weakening nominal growth momentum recently is more of a product of downtrading, rather than reduced volume.**

- Fortunately, the outlook for the corporate sector's revenue growth may start to improve in 2024. **The earlier trend of decreasing commodity prices and consumer downtrading appears to unwind in Q1 2024**, as indicated by the recent rally in industrial commodity prices and the narrowing gap between BCA's value- and frequency-wise consumer spending index. However, **it may be wise to avoid turning the improving sentiment into euphoria, considering that the commodity price rally has proved to be short-lived** (except for cocoa). At the same time, the hitherto high real interest rate may put a brake on domestic consumption growth, especially in middle-upper-income households.

"Corporate revenue may improve in 2024, albeit the improvement seems to be limited given the short-lived commodity price rally"

- Regardless of the improving prospect for corporate revenues, the negative corporate revenue growth between Q2-Q4 2023 appears to have bogged down businesses' appetite for expansion – as indicated by the slowing CAPEX spending trend in Q4 2023 ***(see Chart 5)***. Indeed, sectors such as Consumer staples (-18.7% YoY Capex growth in Q4 2023), Telecommunication services (-6.8% YoY), and healthcare providers (-3.6% YoY) have cut back on their CAPEX spending, reflecting the anaemic growth in their revenue over the past three quarters before 2024.

- Despite the slowing CAPEX spending trend, we should note that the ongoing CAPEX cycle is still in high gear, although **the drive to spend more on CAPEX seems to be increasingly concentrated in a handful of sectors.** Apart from the Coal sector, sectors such as Construction & Engineering services, Construction machinery, and Real estate continue to record double-digit CAPEX spending growth in Q4-2024, similar to the trend recorded in the previous quarter.

- **The concentrated CAPEX spending trend in the corporate sector reflects the increasing share of government-sponsored infrastructure investments in Indonesia's Q4 2023 GDP's fixed-asset investments component.** Building on *an earlier report*, we argue that infrastructure investments may not positively translate to an improvement in its investors' revenue potential, at least in the short term. Nevertheless, the prevailing CAPEX and investment patterns explain the differing pace between State-owned banks and private commercial banks' loan growth since Q2-2023, as state-owned banks continue to increase lending to the Construction and Real estate sectors, while private commercial banks remain relatively coy with their lending decision.
- The Construction and Real estate sectors are not the only ones that started to add more leverage in the previous quarter. The balance sheet deleveraging trend appears to be slowing down across the Indonesian corporate sector in Q4 2023 ***(see Chart 6)***, driven by the still-high investment appetite, despite the already-negative revenue growth. The corporate balance sheet deleveraging trend may officially flip into a leveraging trend in the coming periods, given the limited improvement in the outlook for corporate revenue growth and several infrastructure (and its concessions) projects to be finished in 2024.
- Ergo, **it appears that the domestic banking sector will continue to face high demand for loans in the upcoming period**, and the artificially low SBN yield would provide no option for banks but to meet the high demand for loans. Alas, such a condition may further strain the liquidity condition within the banking system, potentially pushing the LDR higher from 83.9% recorded in December 2023.
- Unfortunately, the still-mercurial global interest rate expectation limits BI's manoeuvring room to cut rates and improve the liquidity condition within the domestic banking system. However, as we argued *ad nauseam*, a tweak to the macroprudential policy may be enough to improve banks' liquidity condition, either directly by lowering the Reserves Requirement Ratio (RRR) or indirectly through incentive-based schemes (apart from RPIM) that put a discount on the effective RRR. Such a policy tweak may keep the expansionary momentum in the corporate sector alive, especially in several domestic-oriented sectors already discouraged by their slowing revenue growth.

"Limited outlook for revenue growth and still-substantial CAPEX spending may force the corporate sector to add more leverage in 2024"

Chart 1

Drying up

The Indonesian corporate sector continues to record negative growth in Q4-2023, explaining the decline in liquidity conditions during the period.

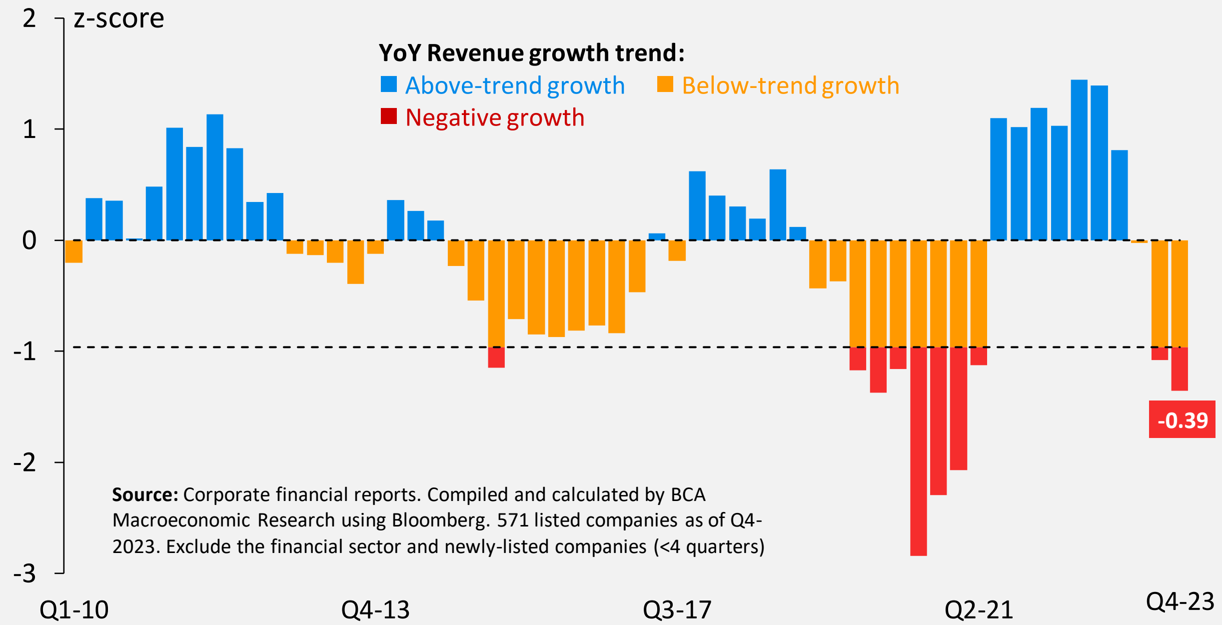


Chart 2

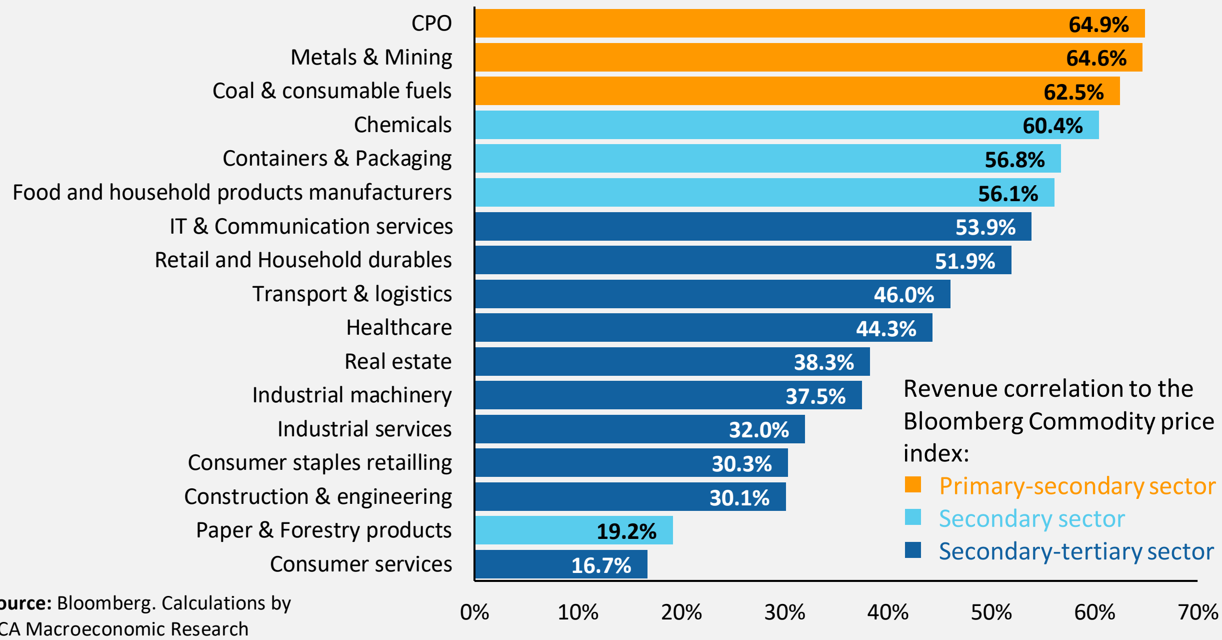
Follow the (commodity) prices

The recovering commodity prices in Q1 2024 portend an improvement in the outlook for corporate revenue. Although the ceiling may be limited given the commodity price rally turns out to be short-lived.

Chart 3

High commodity prices, high demand

The strong correlation between revenue and commodity prices stretches beyond the primary sector, highlighting the pass-through effect from commodity prices to household demand.

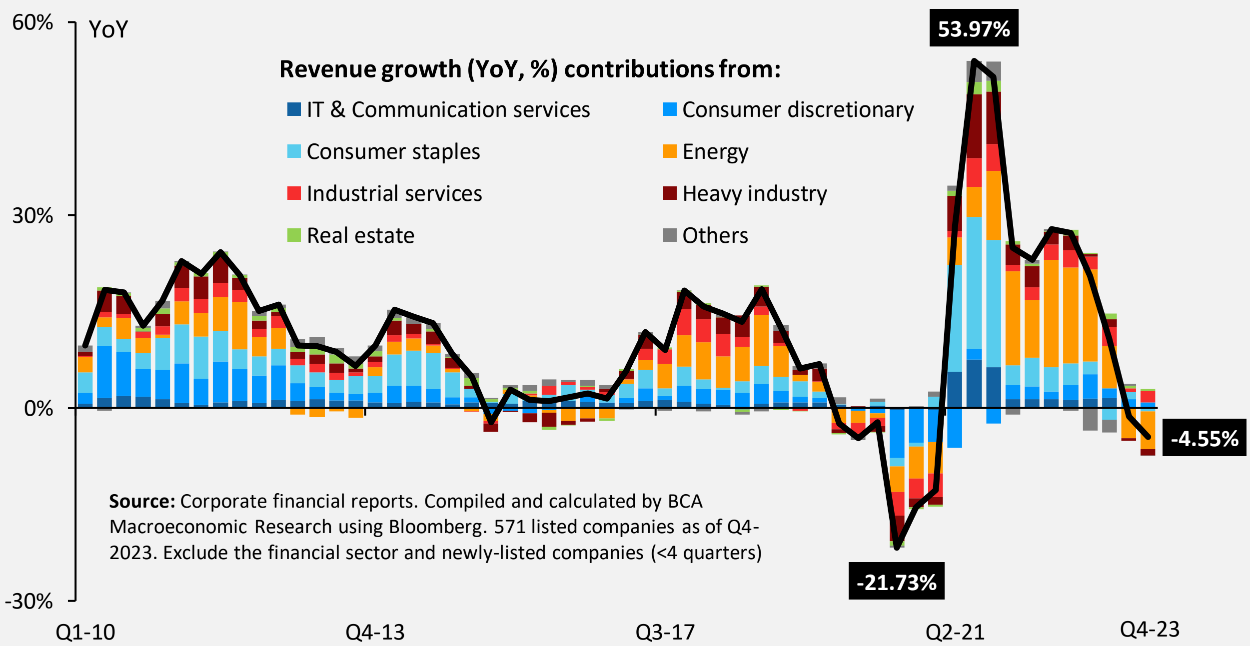


Source: Bloomberg. Calculations by BCA Macroeconomic Research

Chart 4

Low energy vibes

Industrial services and consumer discretionary sectors contribute positively to corporate revenue growth amidst the ongoing downtrend in the energy sector's revenue.

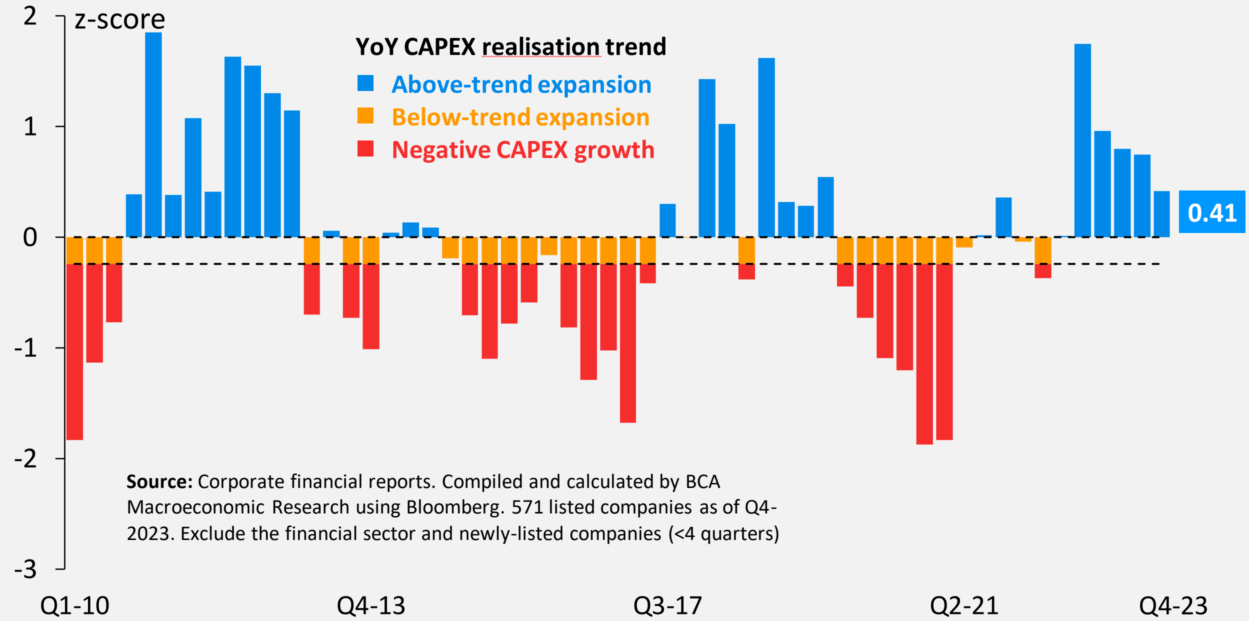


Source: Corporate financial reports. Compiled and calculated by BCA Macroeconomic Research using Bloomberg. 571 listed companies as of Q4-2023. Exclude the financial sector and newly-listed companies (<4 quarters)

Chart 5

Putting on the brake

The ongoing investment cycle appears to be slowing down as some companies in the secondary sector are cutting back on expansion.

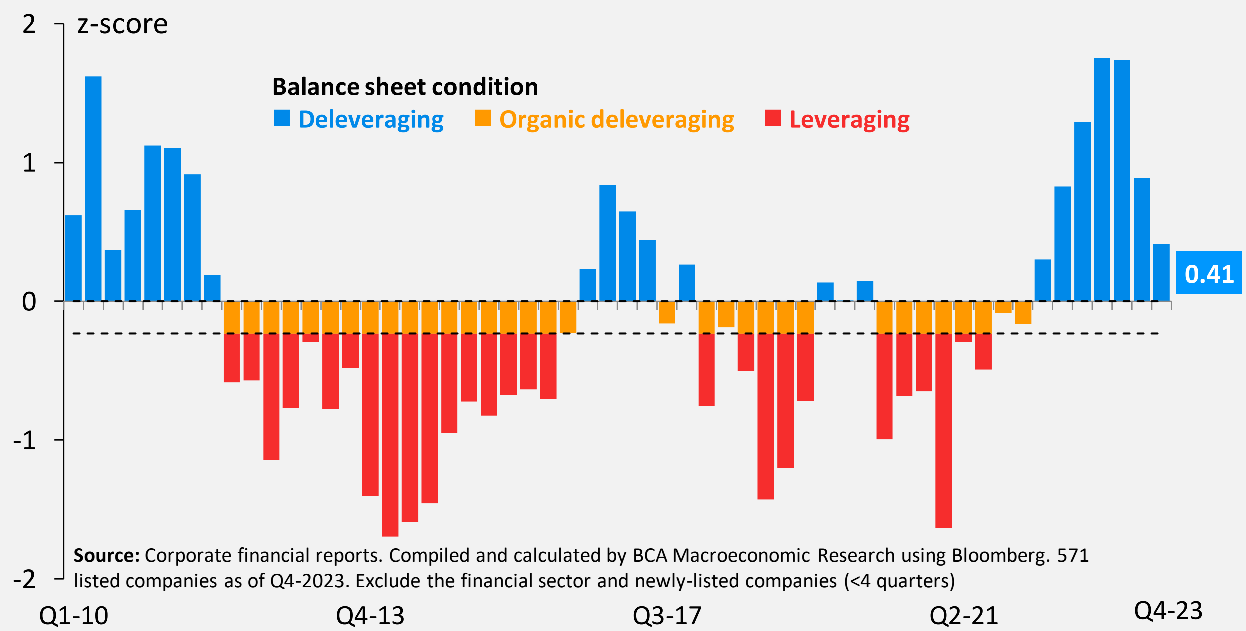


Source: Corporate financial reports. Compiled and calculated by BCA Macroeconomic Research using Bloomberg. 571 listed companies as of Q4-2023. Exclude the financial sector and newly-listed companies (<4 quarters)

Chart 6

Ring a bank

Some segments in the domestic corporate sector continue to add leverage as the declining revenue and still-high investments increase the urgency to seek external financing.



Source: Corporate financial reports. Compiled and calculated by BCA Macroeconomic Research using Bloomberg. 571 listed companies as of Q4-2023. Exclude the financial sector and newly-listed companies (<4 quarters)

Economic Calendar

		Actual	Previous	Forecast*
1 April 2024				
ID	**Inflation rate YoY,** %	**3.05**	**2.75**	**2.9**
ID	S&P Global Manufacturing PMI	54.2	52.7	52.6
CN	Caixin Manufacturing PMI	51.1	50.9	51.0
US	ISM Manufacturing PMI		47.8	48.3
2 April 2024				
US	JOLTs Job Openings (Mn)		8,863	-
4 April 2024				
US	Balance of Trade (USD Bn)		-67.4	-63.5
5 April 2024				
ID	**Foreign Exchange Reserves (USD Bn)**		**144.0**	**135.5**
US	Non-Farm Payroll, (Th)		275	200
US	Unemployment Rate, %		3.9	3.9
8 - 15 April 2024				
ID	Eid Al-Fitr Holiday			
10 April 2024				
US	Inflation rate YoY, %		3.8	3.6
ID	Motorbike Sales YoY, %		-2.9	-
11 April 2024				
CN	Inflation rate YoY, %		0.7	1.2
ID	Consumer Confidence		123.1	123.4
12 April 2024				
ID	Car Sales YoY, %		-18.8	-
CN	Balance of Trade (USD Bn)		125.1	64.0
16 April 2024				
ID	**Balance of Trade (USD Bn)**		**0.87**	**-**
17 April 2024				
ID	Retail Sales YoY, %		1.1	1.2
24 April 2024				
ID	**BI Rate Announcement**, %		**6.0**	**6.0**
ID	Loan Growth YoY, %		11.28	-

*Forecasts of some indicators are simply based on market consensus
Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.50	Dec-23	2.30
UK	5.25	Dec-23	1.85
EU	4.50	Dec-23	1.90
Japan	-0.10	Jan-16	-2.90
China (lending)	2.50	Dec-23	3.65
Korea	3.50	Nov-23	0.40
India	6.50	Dec-23	1.41
Indonesia	6.00	Nov-23	2.95

Money Mkt Rates	28-Mar	-1 mth	Chg (bps)
SPN (1M)	5.88	5.80	7.6
SUN (10Y)	6.69	6.56	12.9
INDONIA (O/N, Rp)	5.91	5.96	-5.2
JIBOR 1M (Rp)	6.65	6.64	0.8

Bank Rates (Rp)	Dec	Nov	Chg (bps)
Lending (WC)	8.86	8.91	-4.93
Deposit 1M	4.76	4.52	24.61
Savings	0.69	0.67	1.94

Currency/USD	28-Mar	-1 mth	Chg (%)
UK Pound	0.792	0.788	-0.48
Euro	0.927	0.922	-0.57
Japanese Yen	151.4	150.7	-0.45
Chinese RMB	7.227	7.198	-0.40
Indonesia Rupiah	15,855	15,630	-1.42

Capital Mkt	28-Mar	-1 mth	Chg (%)
JCI	7,288.8	7,283.8	0.07
DJIA	39,807.4	39,069.2	1.89
FTSE	7,952.6	7,684.3	3.49
Nikkei 225	40,168.1	39,233.7	2.38
Hang Seng	16,541.4	16,634.7	-0.56

Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)
Stock	3,236.2	3,115.8	120.46
Govt. Bond	837.1	841.9	-4.76
Corp. Bond	9.5	10.4	-0.89

Trade & Commodities	28-Mar	-1 mth	Chg (%)
Baltic Dry Index	1,821.0	1,871.0	-2.7
S&P GSCI Index	582.5	555.9	4.8
Oil (Brent, $/brl)	87.5	82.5	6.0
Coal ($/MT)	132.0	128.5	2.7
Gas ($/MMBtu)	1.54	1.65	-6.7
Gold ($/oz.)	2,229.9	2,031.2	9.8
Copper ($/MT)	8,766.5	8,361.5	4.8
Nickel ($/MT)	16,568.0	16,930.8	-2.1
CPO ($/MT)	905.2	834.2	8.5
Rubber ($/kg)	1.60	1.58	1.3

External Sector	Feb	Jan	Chg (%)
Export ($ bn)	19.31	20.49	-5.79
Import ($ bn)	18.44	18.49	-0.29
Trade bal. ($ bn)	0.87	2.00	-56.64
Central bank reserves ($ bn)*	144.0	145.1	-0.72

Prompt Indicators	Feb	Jan	Nov
Consumer confidence index (CCI)	123.1	125.0	123.6
Car sales (%YoY)	-18.8	-26.1	-7.5
Motorcycle sales (%YoY)	-2.9	-3.7	-2.8

Manufacturing PMI	Feb	Jan	Chg (bps)
USA	52.2	50.7	150
Eurozone	46.5	46.6	-10
Japan	47.2	48.0	-80
China	50.9	50.8	10
Korea	50.7	51.2	-50
Indonesia	52.7	52.9	-20

Source: Bloomberg, BI, BPS
Notes:
*Data from an earlier period
For changes in currency: **Black indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwise

Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	16.037
Trade Balance (US$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

*Actual number

** Estimation of the Rupiah's fundamental exchange rate

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