An update on Corporate Indonesia:

Long way up

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Summary

- The corporate revenue trend is improving, thanks to the recovery in commodity prices and the strong domestic demand. However, concerns over the household sector's purchasing power may slow the recovery in the upcoming quarters.
- The accelerated liabilities growth may not portend a more pressing need for financing, as the favourable financing conditions may provide an opportunity for businesses to hedge their finance.
- The CAPEX spending trend in the SOE sector seems to lag those of the private sector, indicating private companies' increasingly prominent role in supporting the government's investments and infrastructure projects.

- Last week, as we know, was a short one for the Indonesian financial market. Luckily, unlike the period following the Ramadan and Eid break, the landscape in the global financial market does not dramatically shift against Indonesia and other emerging markets. Despite the concerted warnings of a prolonged fight against inflation, FOMC officials' signal that the current monetary policy setting will be enough to put inflation back to the 2% target (albeit for a longer period) seems to calm the market. The absence of surprises during the recent Fedspeak period keeps the benchmark UST yield and the USD index (DXY) dormant, allowing other currencies to appreciate in the past week.
- While the Rupiah recovered some of its value against the USD in the past week, the 0.12% WoW increase is paltry compared to other Asian currencies (such as the PHP, which recorded a 0.75% WoW increase in the past week). Foreign investors continue to besiege the domestic equities market, as indicated by USD 186.61 Mn of capital outflows recorded in the stock market over the short trading week. The continued decline in foreign investors' net cumulative inflows to the stock market (USD 144.0 Mn YTD at the moment, down from USD 1.81 Bn in March 2024) is not too surprising, given the shadowy outlook for Indonesia's corporate sector that complements the equally uncertain global financing condition.

Little steps toward recovery

- The condition in Indonesia's corporate sector is not all doom and gloom. Quite the contrary, the corporate revenue growth trend has started to turn for the better in the past quarter ***(see Chart 1)***. As explained in *the previous report* on the corporate sector, Indonesia's corporate revenue growth is influenced by the fluctuations in the commodity market, affecting even non-extractive industries.
- The reason is that higher commodity prices correlate with increased household revenue and purchasing power, particularly for households outside of Java (provinces in Kalimantan and Sumatra suffered from a steep drop in regional GDP growth amidst periods of declining commodity prices). **The commodity price rally in the first half of the year is therefore positive news for the corporate sector**, leading to some improvement in revenue during the past quarter, albeit with revenue growth still in negative territory.
- **The sizable fiscal handouts and seasonal events complement the improving household income in bolstering the aggregate demand condition in Q1 2024.** The higher demand condition is especially relevant for businesses in consumer durables and retail sectors, which enjoy double-digit revenue growth during the quarter.
- The consumer durable and retail sectors' sterling performance in the past quarter offers some interesting take. First, companies that position themselves in the lower-middle end of the market seem to have performed better than their peers, which is not surprising given that the demand profile is largely skewed towards the lower-income population thanks to the fiscal handouts.
- Second, the double-digit revenue growth enjoyed by companies in the consumer durables and retail sector is not followed by a marked improvement in their margin ***(see Chart 2)***. Quite the contrary, **companies in non-extractive sectors seem to suffer from lower margins during the period; a product of the weakening Rupiah and the ongoing de-stocking efforts in China that translates to higher imported inflation.** Indeed, companies across the consumer durables and retail sector largely attributed their double-digit revenue growth to higher sales volume rather than higher prices, which reflects Indonesia's negative GDP deflator in Q1 2024.

"The uncertain outlook for consumer demand may hamstrung businesses ability to respond to higher prices"

- Alas, there is a question mark on whether this "high volume, lower prices" model will continue to pay dividends for the domestic corporate sector, especially for those in the consumer durables and retail sectors. **Given that the demand profile is skewed towards lower-income consumers, businesses will not be able to counter the higher imported inflation by passing cost to customers**, especially if slowing fiscal spending in upcoming quarters starts to quell the household sector's purchasing power.
- Companies that target the upper segment of the market may thus recover their edge, given that higher inflation may justify them to increase prices. However, this scenario will depend on whether consumers in the middle-

higher income segment are willing to expand their consumption basket, with the high saving rate observed now proving otherwise.

- The slow recovery in corporate earnings trend explains the corporate sector's seemingly higher demand for financing, as indicated by the accelerated liabilities growth ***(see Chart 3)***. The accelerating growth in corporate liabilities is further fuelled by increasing competition among banks to expand their loan portfolios, a trend bolstered by Bank Indonesia's decision to strengthen its macroprudential liquidity incentives (KLM) policy. Hence, while the pull factor is certainly there, **it may be best not to label the higher liabilities growth as a sign of the corporate sector's more pressing need for financing**, as the improving domestic financing condition opens the opportunity for corporate treasurers to hedge their finance.

"More favourable financing conditions may explain the accelerated liabilities growth rather than more pressing demand for financing"

- **Another point that should reduce the concern over the corporate sector's higher demand for financing is the slowing CAPEX spending trend *(see Chart 5)***. After all, the current CAPEX cycle has been going on for the past seven quarters (which makes it one of the longest CAPEX cycles recorded in our dataset), and projects that kickstarted this CAPEX cycle should be nearing its completion by now. However, it should be noted that the slowing CAPEX spending growth runs in contrast to the recent strong domestic direct investment (DDI) data, as DDI growth still recorded a robust 29.72% YoY growth in Q1 2024 (29.92% YoY in Q4 2023).

- While the methodology behind Indonesia's investment data should receive more room for discussion, the bifurcation between the CAPEX spending trend in our data and the more official investment data is largely understandable. After all, the CAPEX spending data is just a proxy for investments, while the official investment data captures investments made by unlisted companies. Indeed, DDI in the base metal sector still records a significant 86.22% YoY growth in Q1 2024, a trend that may not be captured in our dataset given the concentration of privately held companies in the sector.

- The government's increasingly visible role in boosting investments, either indirectly through the industrial down-streaming programme or directly through various government-sponsored infrastructure projects, should further reduce the worry that investments (including corporate investments) will contribute less to the GDP growth in the upcoming periods. However, **despite the government's heavy footprint in encouraging investments, it is interesting to note that SOEs' CAPEX spending consistently lags those of privately owned listed companies *(see Chart 6).***

- Indeed, privately owned listed companies seem to be increasingly relied upon to contribute to the government's investment target. For one, the government have always favoured a public-private partnership scheme when planning their investments, although it is often left to the SOE sector to assume more responsibility for projects with lower ROI. Unfortunately, SOEs' ability to shoulder the government's high investment needs may prove to be increasingly limited, given that many SOEs' already highly leveraged position and uncertainty surrounding the upcoming governmental transition seems to have limited some SOEs' access to much-needed financing in recent quarters ***(see Chart 4).***

- Hence, the government's recent policy of including private development projects in the National Strategic Projects (PSN) list could herald a future pattern of public-private partnership schemes. However, this configuration may also mean that the private sector will increasingly bear the burden of some of the government's typically low-ROI projects, a condition that may add concerns to the corporate sector's balance sheet condition in the coming periods.

Chart 1

Slow incline

Corporate revenues are breaking its downward trend as commodity prices start to recover, although the inability to pass on costs may slow the pace of the recovery.

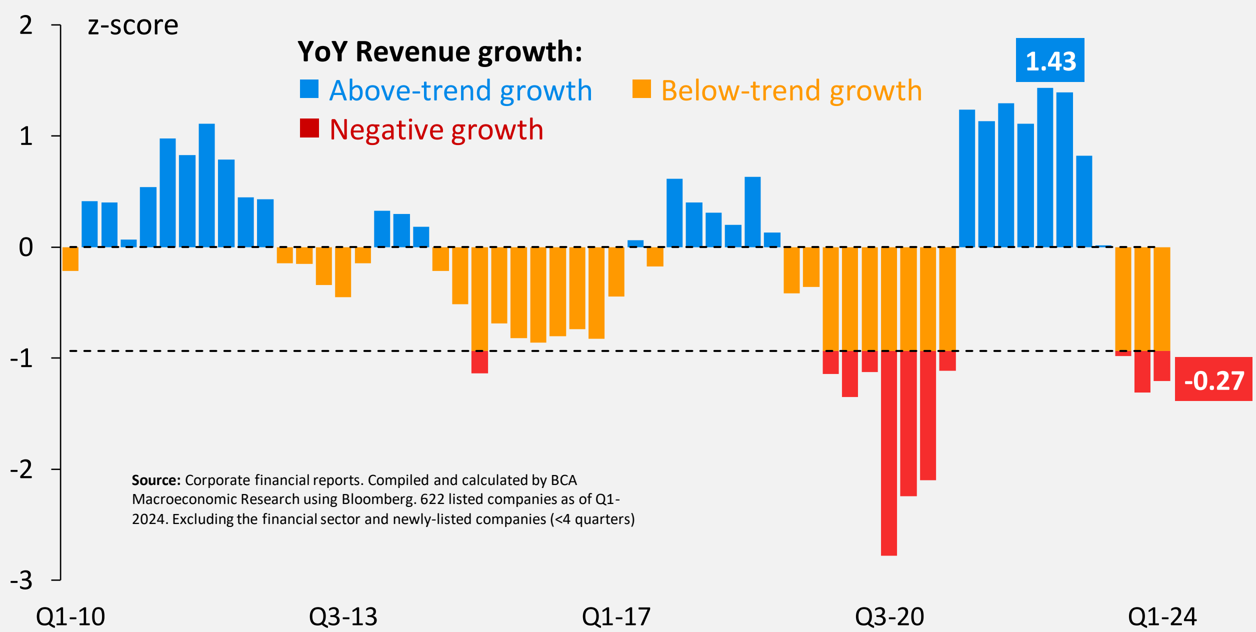


Chart 2

Not one to respond

Businesses in the retail sector suffered from lower margins as the uncertain outlook for household consumption made it difficult for them to adjust prices.

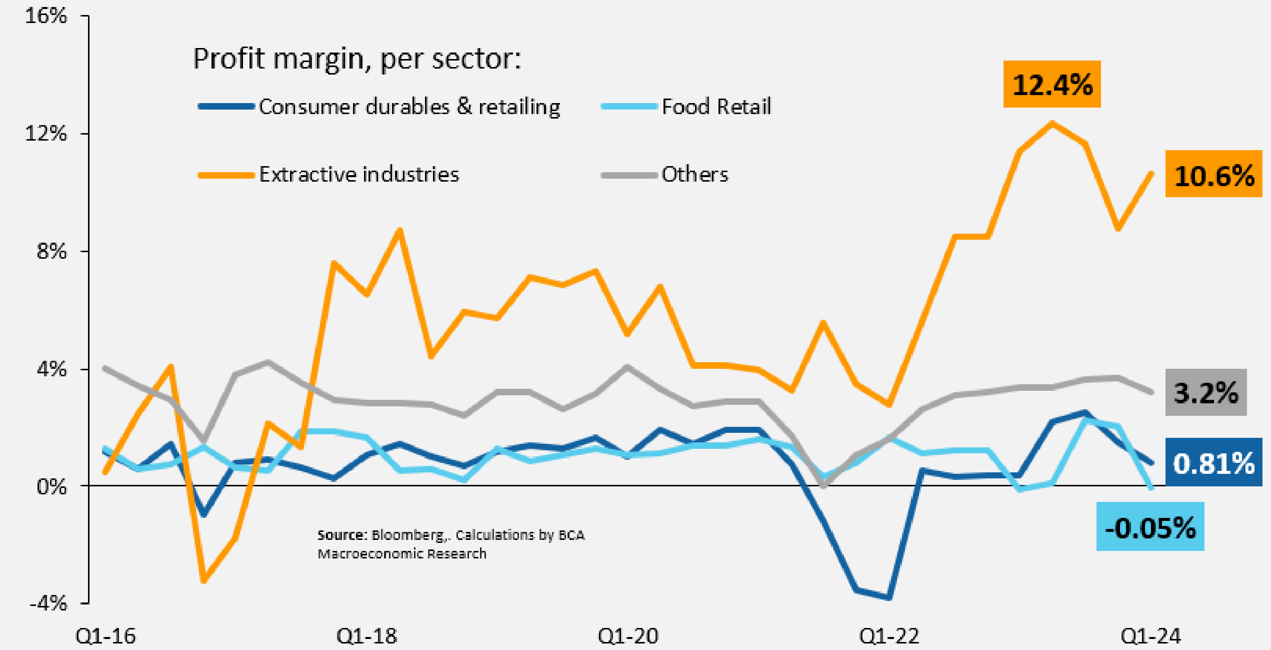


Chart 3

Crafty financing

Greater competition between banks to expand their loan portfolio following the strengthened KLM policy seems to encourage the domestic sector to add more leverage.

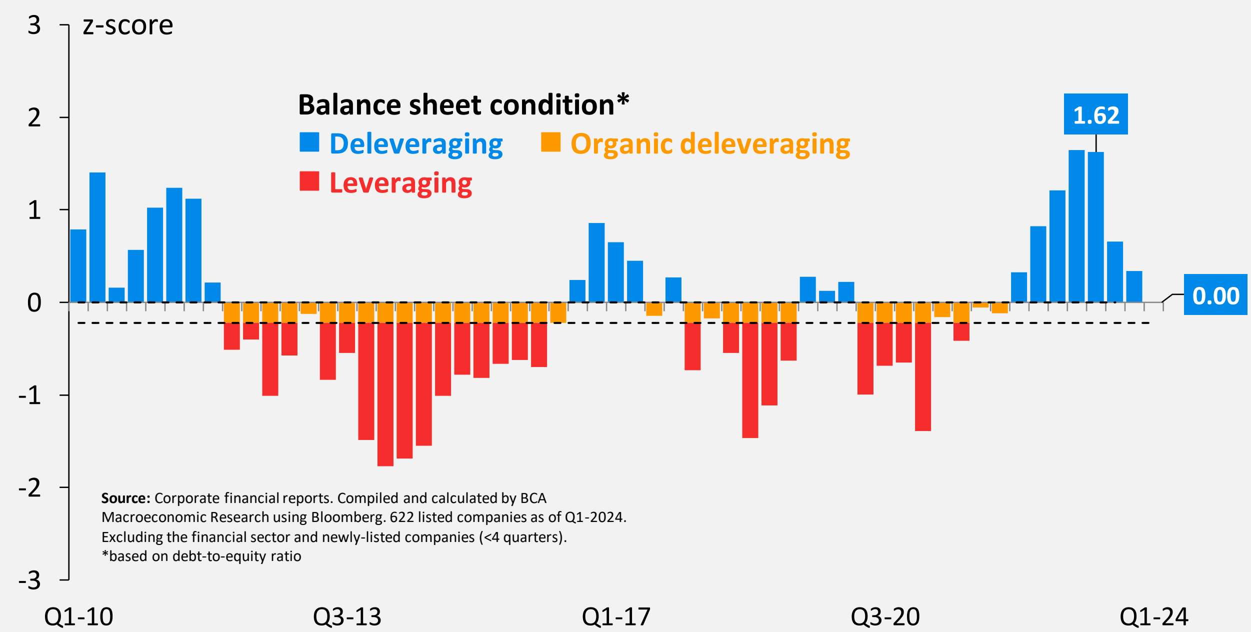


Chart 4

One may not play the game

The leveraging trend is more widespread within private-owned companies while SOEs continue to lower their exposure to debt.

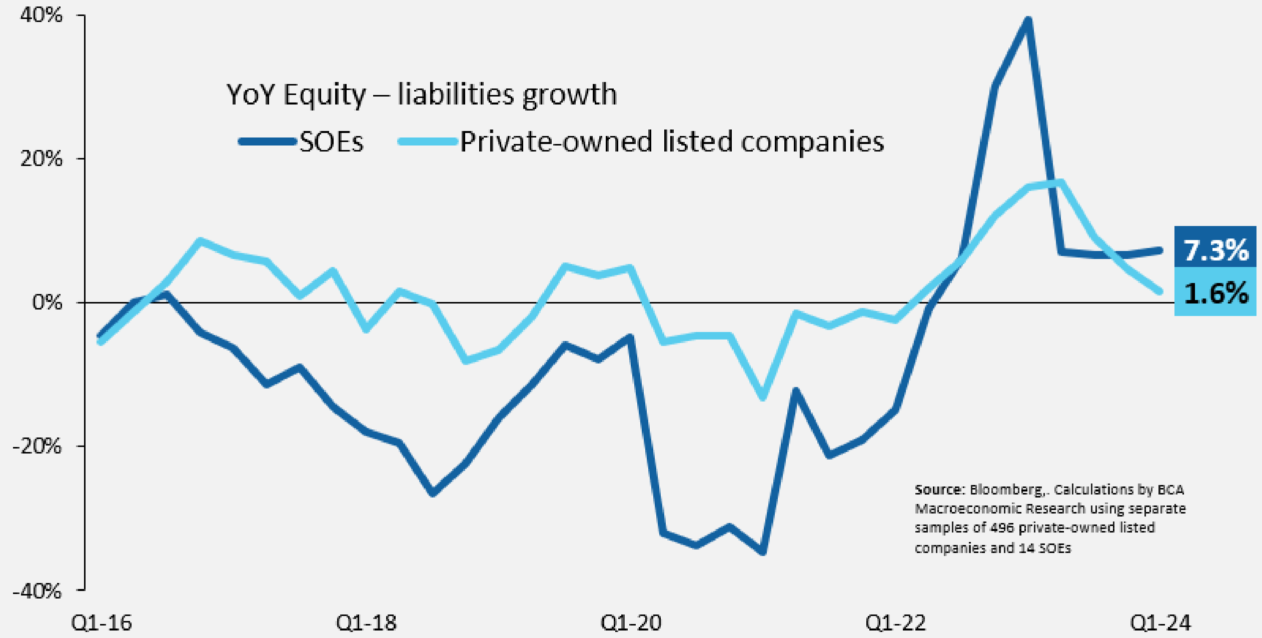


Chart 5

Not as slow as one's think

Capex spending appears to be slowing down as mega-projects in some industries are nearing their completion, although the appetite for investments remains high in other sectors.

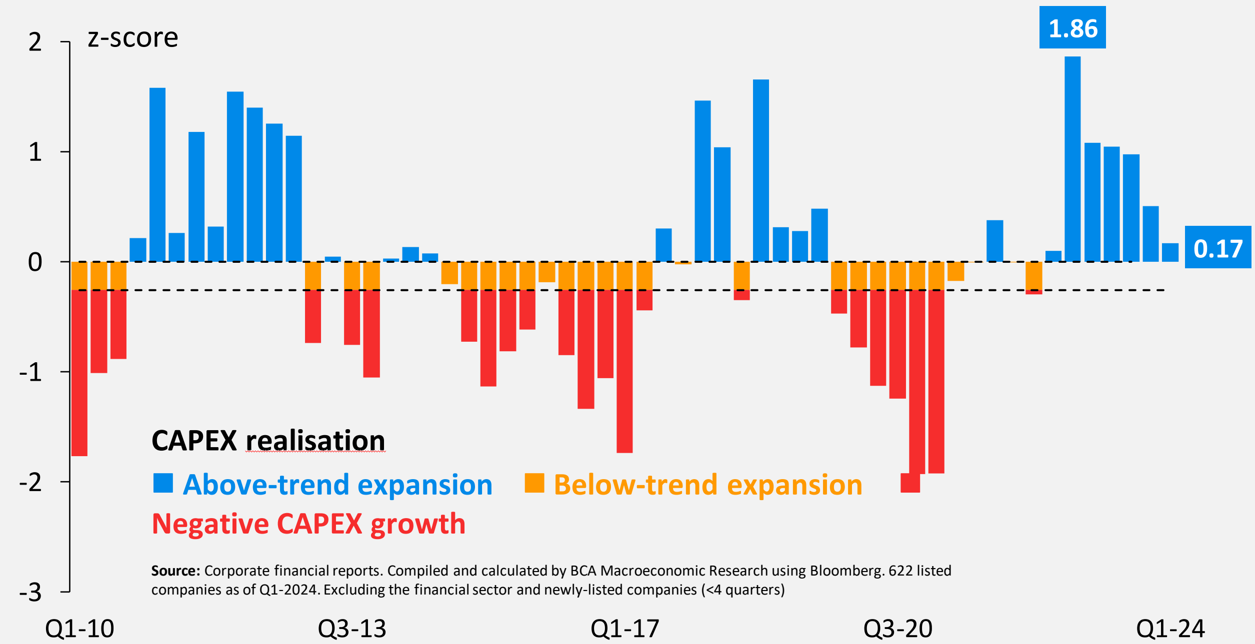
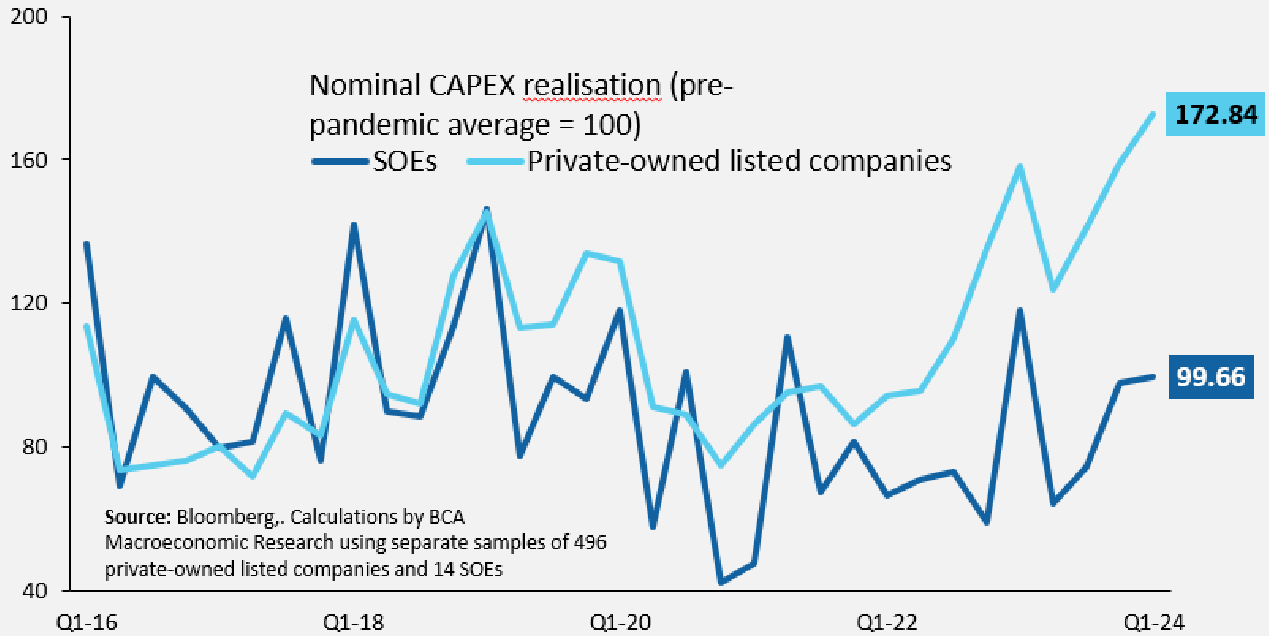


Chart 6

Public-private partnerships

The private sector is at the forefront of the current CAPEX cycle despite the government's increasingly active role in boosting investments.



Economic Calendar

		Actual	Previous	Forecast*
1 Mei 2024				
US	ISM Manufacturing PMI	49.2	50.3	49.9
US	JOLTs Job Openings (Mn)	8.48	8.81	8.70
2 Mei 2024				
US	**Fed Interest Rate Decision, %**	**5.5**	**5.5**	**5.5**
ID	**Inflation rate YoY,** %	**3**	**3.05**	**2.9**
ID	S&P Global Manufacturing PMI	52.9	54.2	54.1
US	Balance of Trade (USD Bn)	-69.4	-69.5	-69.0
3 Mei 2024				
US	Non-Farm Payroll, (Th)	175	315	238
US	Unemployment Rate, %	3.9	3.4	3.8
6 Mei 2024				
ID	**GDP Growth YoY**, %	**5.11**	**5.04**	**5.08**
7 Mei 2024				
CN	Foreign Exchange Reserves (USD Bn)	3201	3246	3300
8 Mei 2024				
ID	**Foreign Exchange Reserves (USD Bn)**	**136.2**	**140.4**	**138.0**
ID	Motorbike Sales YoY, %		-7.8	-
9 Mei 2024				
ID	Motorbike Sales YoY, %	18.3	-7.8	-
13 Mei 2024				
ID	Consumer Confidence	127.7	123.8	123.1
14 Mei 2024				
ID	Retail Sales YoY, %		-7.8	-
15 Mei 2024				
ID	**Balance of Trade (USD Bn)**		**4.47**	**3.9**
US	Inflation rate YoY, %		3.8	-
20 Mei 2024				
ID	Car Sales YoY, %		-26.2	-
22 Mei 2024				
ID	**Interest Rate Decision**		**6.25**	**6.25**
ID	Loan Growth YoY		12.4	-

*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	Jul-23	2.00
UK	5.25	Aug-23	2.05
EU	4.50	Jul-23	2.10
Japan	-0.10	Jan-16	-2.80
China (lending)	2.50	Aug-23	4.05
Korea	3.50	Jan-23	0.60
India	6.50	Feb-23	1.65
Indonesia	6.25	Apr-24	3.25

Money Mkt Rates	8-May	-1 mth	Chg (bps)
SPN (1M)	5.88	5.80	7.6
SUN (10Y)	6.95	6.65	29.2
INDONIA (O/N, Rp)	6.40	6.19	20.7
JIBOR 1M (Rp)	6.90	6.65	24.7

Bank Rates (Rp)	Feb	Jan	Chg (bps)
Lending (WC)	8.84	8.87	-3.03
Deposit 1M	4.62	4.68	-5.80
Savings	0.67	0.68	-0.11

Currency/USD	8-May	-1 mth	Chg (%)
UK Pound	0.800	0.791	-1.11
Euro	0.930	0.923	-0.82
Japanese Yen	155.5	151.6	-2.51
Chinese RMB	7.225	7.233	0.12
Indonesia Rupiah	16,045	15,845	-1.25

Capital Mkt	8-May	-1 mth	Chg (%)
JCI	7,088.8	7,286.9	-2.72
DJIA	39,056.4	38,904.0	0.39
FTSE	8,354.1	7,911.2	5.60
Nikkei 225	38,202.4	38,992.1	-2.03
Hang Seng	18,313.9	16,723.9	9.51

Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)
Stock	3,294.9	3,226.6	68.31
Govt. Bond	791.0	810.7	-19.68
Corp. Bond	8.4	9.4	-0.97

Trade & Commodities	8-May	-1 mth	Chg (%)
Baltic Dry Index	2,203.0	1,628.0	35.3
S&P GSCI Index	577.3	601.9	-4.1
Oil (Brent, $/brl)	83.6	91.2	-8.3
Coal ($/MT)	145.4	131.6	10.5
Gas ($/MMBtu)	2.01	1.57	28.0
Gold ($/oz.)	2,308.9	2,329.8	-0.9
Copper ($/MT)	9,767.4	9,208.5	6.1
Nickel ($/MT)	18,696.8	17,637.9	6.0
CPO ($/MT)	831.8	950.4	-12.5
Rubber ($/kg)	1.62	1.60	1.3

External Sector	Mar	Feb	Chg (%)
Export ($ bn)	22.43	19.27	16.40
Import ($ bn)	17.96	18.44	-2.60
Trade bal. ($ bn)	4.47	0.83	436.66
Central bank reserves ($ bn)*	140.4	144.0	-2.53

Prompt Indicators	Mar	Feb	Jan
Consumer confidence index (CCI)	123.8	123.1	125.0
Car sales (%YoY)	-26.2	-18.8	-26.1
Motorcycle sales (%YoY)	-7.8	-2.9	-3.7

Manufacturing PMI	Apr	Mar	Chg (bps)
USA	50.0	51.9	-190
Eurozone	45.7	46.1	-40
Japan	49.6	48.2	140
China	51.4	51.1	30
Korea	49.4	49.8	-40
Indonesia	52.9	54.2	-130

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.50
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	16.119
Trade Balance (US$ 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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