Q2-2024 update on Corporate Indonesia:

Trapped in a chicken-and-egg paradox

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Summary

- The Indonesian corporate sector continues to record negative revenue growth in Q2-2024, a condition that may persist given the short-lived commodity market rally and the souring domestic demand.
- The CAPEX realisation trend turned red for the first time in the last seven quarters as lower revenue dragged down the appetite to expand.
- The slowing revenue and CAPEX trend mean that the corporate sector leveraging trend is mostly driven by necessity rather than tactical moves to benefit from the prevailing financing condition.

- The US financial market closed last week with another twist. The market has downgraded its July 2024 non-farm payroll forecast from 190k to 175k, yet the number fell much deeper to 114k on the back of slowing employment growth in both the public and private sectors, moving the US unemployment rate to its 32 months high of 4.3%.
- Some analysts are still arguing on how much the Fed should look at the non-farm payroll data as a definite sign of an impending slowdown (given that the lost jobs are mainly part-time, while full-time jobs continue to rise), but the subpar July 2024 non-farm payroll data is convincing enough for the market to double down its FFR cut wager in 2024 from 2-3 rate cuts to 4-5 cuts.
- Despite our concern about the risk of foreign investors' flight to safety amidst the strengthening US and global recession fears, last week was still a good one for the Indonesian financial market. Foreign investors purchased USD 0.63 Bn worth of Rupiah assets throughout the last week, including USD 0.36 Bn inflows to the SBN market that helped to lower the benchmark 10Y SBN yield from 6.93% to 6.83% when the market closed last Friday.
- Other factors explain foreign investors' improving demand for SBN. For one, the plan to limit SBN issuance in 2024 may increase the sense of urgency for foreign investors to return to the SBN market, especially if BI starts to cut its policy rate early in the next year. Meanwhile, **despite the ongoing earnings season, foreign demand for Indonesian stocks remains timid**, as indicated by the low trading volume and the USD 0.14 Bn inflows to the IDX in the past week.

- The ongoing stock market weakness is not unique to Indonesia. The S&P 500 index lost 2.37% of its value throughout the past week, while the Nikkei 225 shredded 10.44% of shareholders' value during the same period.

The 1.77% decline in the JCI is mild compared to the sell-off pressure now wreaking havoc in the US or Japan, but the wrapping up Q2-2024 earnings season still makes the market worthy of some discussion.

A slow and low-conviction incline

- Compared to more intricate theses on the ongoing weakness in the US and global market, **the thesis on the anaemic Indonesian stock market is relatively straightforward: foreign investors are not too keen on the revenue prospect in the domestic corporate sector *(see Chart 1)***. Indonesian corporate revenue may improve from -2.98% YoY in Q1-2024, but the -2.30% YoY revenue growth in Q2-2024 is not something to be cheerful about.

- The meagre improvement in Indonesia's corporate revenue is not too surprising. **Corporate revenues remain dictated by commodity prices**, which are not exactly enjoying their time in the sun in 2024 outside of the limited 12.40% rally between February and May 2024 (Bloomberg commodity index, trough-to-peak). Adding to the concern is that Indonesia's terms-of-trade never really picked up despite the rallying commodity index (Indonesia terms-of-trade only move 0.44% peak-to-trough), which explains the paltry 4.98% QoQ corporate revenue growth in Q2-2024.

- A more micro-level review of the corporate earnings data may reveal a bleaker view ***(see Table 1)***. Sectors such as Consumer discretionary and Healthcare may still benefit from relatively robust and positive revenue growth, but these sectors are unlikely to contribute much to the condition in the wider corporate sector given their relative size. Positive revenue growth in the healthcare sector also appears to be driven by healthcare providers expanding to lower-tier cities, meaning that the higher revenue growth is primarily derived from an aggressive expansionary policy rather than a more organic approach.

"Indonesia's corporate investments tend to follow rather than anticipate higher revenue growth"

- Meanwhile, the 7.8% YoY revenue growth recorded by the Consumer discretionary sector may seem significant, but it might be better not to take the number as a yardstick to the future condition given that the Q2-2024 revenue number turns out to be below analysts' expectation and the widely expected decline in the domestic aggregate demand condition.

- **The worsening outlook on future demand conditions suppresses businesses' urgency to expand their operation**, which snapped the above-trend CAPEX spending growth according to our estimates ***(see Chart 2)***. Astronomical CAPEX growth in the Chemicals and Paper & Forestry products sector may also need to be taken cautiously, given that companies in this sector tend to be controlled by small numbers of industrial conglomerates (hence, the more concentrated CAPEX cycle).

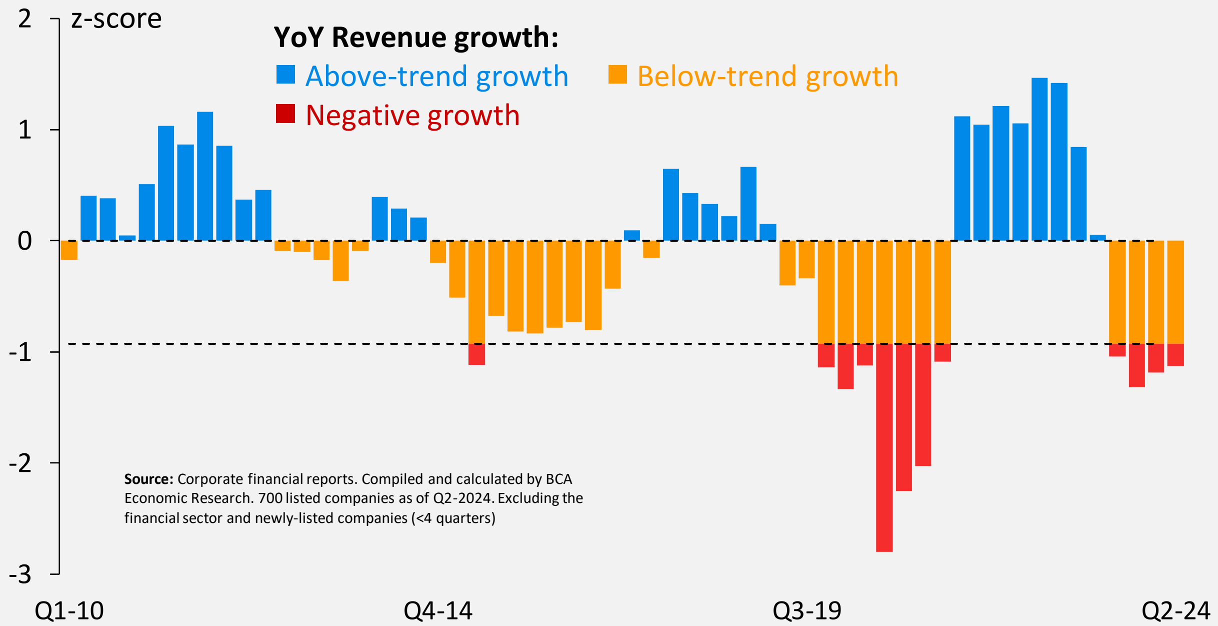
- The cash-rich coal sector also seems to maintain its appetite for CAPEX expansion. However, one should be careful to surmise this still-going CAPEX trend with the promise of more productive output in the future. Coal companies' effort to diversify themselves out of their bread-and-butter is not a secret, and diverging out of one's sectoral domain is not known to be the best way to achieve higher returns on investment. Nevertheless, CAPEX realisation seems to be slowing in any other sectors, while **the contracting manufacturing PMI in July 2024 (its first instance since August 2021) portends a slow period for investments ahead.**
- The apparent end of the post-pandemic CAPEX cycle means that the Indonesian economy may need to wait for some time before the next CAPEX cycle comes swinging again. In the academic realm, one might expect investments to pick up rather sooner, anticipating higher activities and revenue once the business wheel starts to rotate upward again.
- Alas, the condition in Indonesia is a tad peculiar compared to the conventional academic wisdom ***(see Chart 3)***. Statistical exercises on Indonesian corporate data show that increasing revenue *Granger causes* investment, while no relationship in the opposite direction can be found**. The chicken (higher revenue) often comes before the egg (higher investment) in the Indonesian corporate sector**, meaning that another prolonged investment cycle is not to be expected unless a positive revenue shock is expected to hit the Indonesian corporate sector – a shock which is not expected to happen given the souring domestic and global (commodity) demand condition.
- Given the recent development with corporate revenue and investment, we may now move against the argument that the still-strong bank loan growth and corporate bond issuance so far in 2024 is primarily due to the domestic financial market deepening or companies' effervescent confidence of the short-term business outlook. Indeed, **the slowing revenue trend has prompted the Indonesian corporate sector to take out more loans in Q2-2024 due to necessity *(see Chart 4)***, rather than an opportunistic move to seek out financing in the market or even exploit the competition between domestic banks to expand their corporate lending portfolio.
- Given the increasingly pressing condition in the corporate sector, Bank Indonesia's effort to stabilise the Rupiah's value while keeping the domestic financing condition stable seems to have become more urgent. Newsflow has been dominated by accounts of increasingly hard-to-get job opportunities in recent weeks, which may aggravate the general populace's already weak sentiment on the current economic condition. **A looser financing condition is increasingly needed**, but the fog of uncertain global financial market conditions means that BI still need to drive carefully before starting to take the left turn out of the highway of higher-for-longer rates.

"Higher demand for corporate loans seems to largely be born out of necessity rather than a strategic move to benefit from the loose financing condition"

Chart 1

Slow climb

Indonesian corporate revenue improves in Q2-2024 as commodity prices are moving northward, but the outlook remains uncertain given the short commodity price rally in 2024.

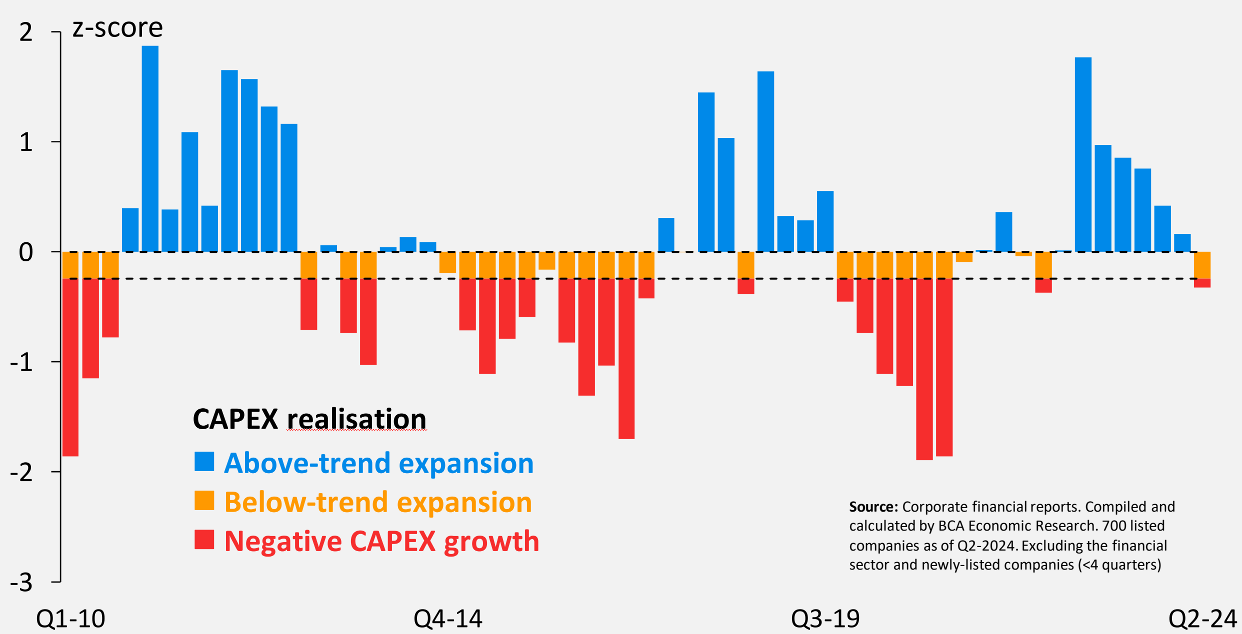


Source: Corporate financial reports. Compiled and calculated by BCA Economic Research. 700 listed companies as of Q2-2024. Excluding the financial sector and newly-listed companies (<4 quarters)

Chart 2

Corporate winter

Indonesian corporates continue to cut back on CAPEX realisation in Q2 2024, which portends slowing investments during the quarter.



Source: Corporate financial reports. Compiled and calculated by BCA Economic Research. 700 listed companies as of Q2-2024. Excluding the financial sector and newly-listed companies (<4 quarters)

Chart 3

Capex is as revenue does

Apart from some transforming or cash-rich sectors, revenue growth primarily dictates CAPEX realisation in the corporate sector.

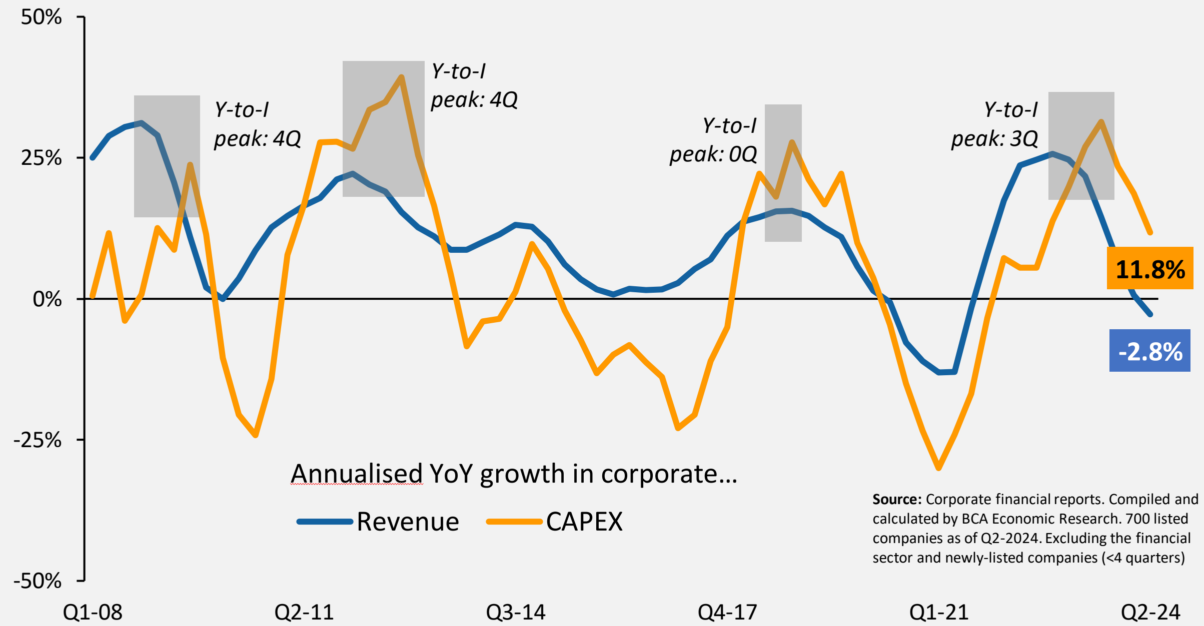


Chart 4

On the lookout for loans

The corporate sector seems to be taking more leverage out of necessity, given the slowing CAPEX trend and anaemic revenue outlook.

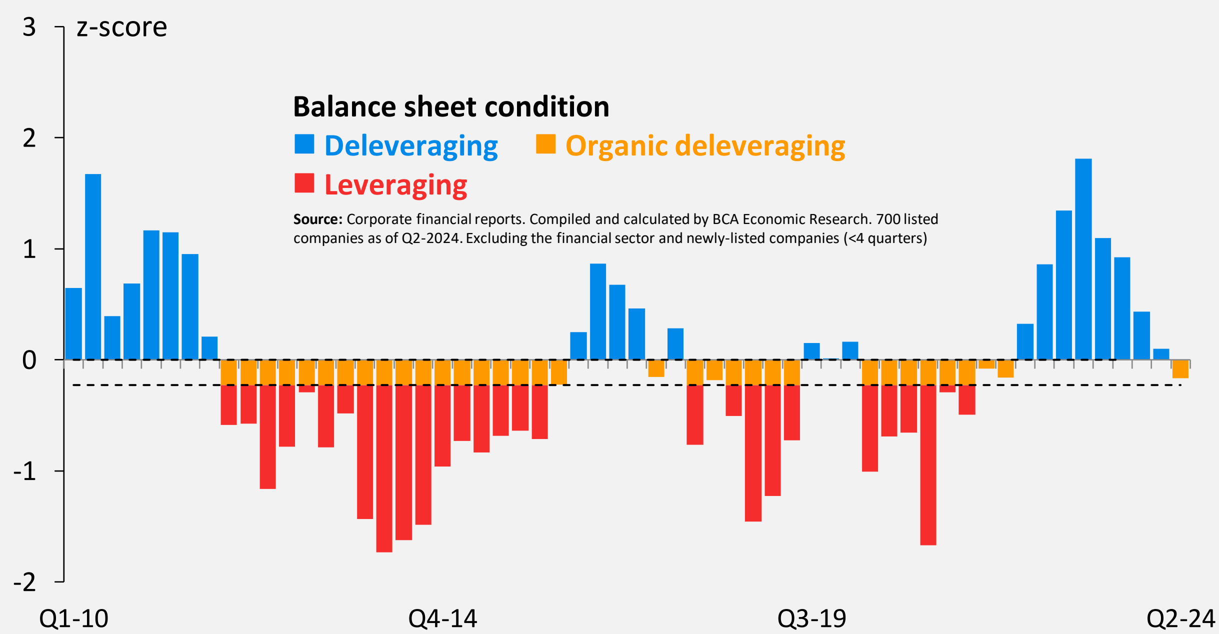


Table 1

Turning red

The corporate revenue and CAPEX trend has weakened across sectors since the post-pandemic heyday in 2022.

Sector	Metrics	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
Communication services	Revenue Growth	10.1%	9.0%	14.5%	5.2%	-1.1%	2.9%	-4.6%	0.7%
	CAPEX Growth	-16.3%	80.9%	-20.9%	10.3%	5.8%	-7.3%	9.9%	-22.5%
	Margin	5.5%	6.7%	4.8%	7.9%	12.5%	9.0%	5.6%	10.5%
Consumer discretionary	Revenue Growth	10.6%	23.9%	26.3%	13.6%	14.3%	7.6%	3.6%	7.8%
	CAPEX Growth	9.8%	21.6%	43.4%	35.1%	18.3%	52.9%	18.3%	-9.7%
	Margin	-6.3%	-6.0%	-5.9%	1.2%	2.0%	0.7%	0.5%	2.1%
Consumer staples	Revenue Growth	12.4%	11.5%	7.1%	5.2%	2.5%	-2.9%	1.8%	3.2%
	CAPEX Growth	-2.5%	25.8%	44.9%	22.0%	30.1%	2.2%	-6.1%	-8.1%
	Margin	4.3%	4.4%	4.3%	4.1%	3.4%	3.6%	3.3%	3.4%
Agriculture products and services	Revenue Growth	8.3%	7.4%	11.1%	-4.6%	11.4%	3.9%	8.7%	6.1%
	CAPEX Growth	24.3%	0.0%	12.9%	8.6%	-0.7%	24.7%	1.1%	-4.8%
	Margin	10.2%	10.2%	14.9%	14.9%	9.6%	11.6%	4.2%	3.6%
Mineral fuels	Revenue Growth	116.0%	91.8%	60.4%	41.1%	-19.0%	-24.0%	-19.8%	-18.5%
	CAPEX Growth	36.7%	108.7%	126.7%	45.8%	90.1%	36.3%	24.8%	6.8%
	Margin	8.3%	8.1%	8.1%	9.1%	11.5%	8.6%	13.1%	11.7%
Healthcare	Revenue Growth	-0.6%	-12.4%	-7.5%	4.7%	11.3%	4.5%	6.0%	11.4%
	CAPEX Growth	117.8%	56.4%	46.7%	-0.3%	-26.9%	7.7%	-47.6%	48.0%
	Margin	8.8%	8.8%	8.8%	6.3%	4.7%	4.9%	3.2%	5.2%
Industrial services	Revenue Growth	34.5%	38.2%	36.8%	13.2%	8.9%	23.8%	12.9%	-3.7%
	CAPEX Growth	0.3%	-29.1%	161.2%	68.5%	70.5%	142.1%	-23.0%	-48.2%
	Margin	2.3%	2.1%	3.3%	5.2%	3.9%	5.6%	5.3%	5.5%
Chemicals and Pharmaceuticals	Revenue Growth	5.1%	3.4%	-9.9%	-8.1%	-4.0%	-2.0%	2.2%	0.9%
	CAPEX Growth	124.4%	-36.1%	-7.3%	-35.3%	-57.5%	-4.8%	23.5%	153.9%
	Margin	4.1%	4.4%	5.3%	5.5%	4.5%	5.1%	3.1%	5.0%
Paper & Forestry products	Revenue Growth	7.9%	6.3%	3.1%	2.0%	-7.4%	-11.6%	-7.3%	-4.6%
	CAPEX Growth	1.7%	28.8%	101.5%	93.6%	56.9%	222.3%	85.2%	135.1%
	Margin	3.9%	4.4%	3.9%	5.8%	3.8%	4.7%	3.7%	2.2%
Metals & Mining	Revenue Growth	18.4%	19.6%	3.6%	-0.3%	0.4%	-7.9%	0.5%	3.7%
	CAPEX Growth	61.5%	217.3%	97.0%	90.6%	29.5%	-17.0%	-11.6%	-24.8%
	Margin	4.1%	4.1%	6.1%	7.7%	6.1%	2.3%	0.8%	2.7%
Real estate	Revenue Growth	7.6%	32.4%	8.4%	13.9%	19.1%	10.8%	19.5%	8.9%
	CAPEX Growth	-12.3%	13.1%	41.3%	20.5%	15.3%	22.5%	20.1%	11.0%
	Margin	-1.6%	-1.6%	-0.9%	-0.4%	5.7%	0.0%	6.2%	5.7%

Source: Corporate financial reports. Compiled and calculated by BCA Economic Research. 700 listed companies as of Q2-2024. Excluding the financial sector and newly listed companies (<4 quarters). Colours highlight YoY changes relative to the trend. Growth reflects YoY growth.

Economic Calendar

		Actual	Previous	Forecast*
1 August 2024				
ID	**CPI Inflation YoY, %**	**2.13**	**2.51**	**2.17**
US	**FOMC meeting, %**	**5.5**	**5.5**	**5.5**
UK	BoE meeting, %	5.00	5.25	5.00
02 August 2024				
US	Non Farm Payrolls	114	179	4.1
US	Unemployment Rate, %	4.3	4.1	4.1
05 August 2024				
ID	**GDP Growth Rate, %**	**5.05**	**5.11**	**4.5**
06 August 2024				
US	Balance of Trade, Bn		-75.1	-72
07 August 2024				
ID	**Foreign Exchange Reserves, Bn**		**140.2**	**-**
CN	Foreign Exchange Reserves, Tn		3.222	3.2
08 August 2024				
CN	Balance of Trade, Bn		99.05	90
ID	Consumer Confidance		123.3	122
09 August 2024				
CN	Inflation Rate YoY, %		0.02	0.3
ID	Retail Sales YoY, %		2.1	1.7
ID	Car Sales YoY, %		-11.8	-
ID	Motorbike Sales YoY, %		3.5	-
15 August 2024				
ID	**Balance of Trade, Bn**		**2.39**	**-**
CN	Retail Sales YoY, %		2	3.0
16 August 2024				
US	Foreign Bond Investment, Bn		45.9B	-
21 August 2024				
ID	**Interest Rate Decision, %**		**6.25**	**-**

*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	2.50
UK	5.00	Aug-23	3.00
EU	4.25	Jul-23	1.65
Japan	-0.10	Jan-16	-2.90
China (lending)	2.30	Aug-23	4.15
Korea	3.50	Jan-23	0.90
India	6.50	Feb-23	1.42
Indonesia	6.25	Apr-24	4.12

Money Mkt Rates	2-Aug	-1 mth	Chg (bps)
SPN (1M)	5.88	5.80	7.6
SUN (10Y)	6.83	7.10	-27.5
INDONIA (O/N, Rp)	6.23	6.17	6.7
JIBOR 1M (Rp)	6.90	6.90	0.0

Bank Rates (Rp)	May	Apr	Chg (bps)
Lending (WC)	8.86	8.85	1.37
Deposit 1M	4.68	4.65	2.54
Savings	0.67	0.68	-1.07

Currency/USD	2-Aug	-1 mth	Chg (%)
UK Pound	0.781	0.788	0.91
Euro	0.917	0.931	1.54
Japanese Yen	146.5	161.4	10.18
Chinese RMB	7.172	7.271	1.38
Indonesia Rupiah	16,200	16,395	1.20

Capital Mkt	2-Aug	-1 mth	Chg (%)
JCI	7,308.1	7,125.1	2.57
DJIA	39,737.3	39,331.9	1.03
FTSE	8,174.7	8,121.2	0.66
Nikkei 225	35,909.7	40,074.7	-10.39
Hang Seng	16,945.5	17,769.1	-4.64

Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)
Stock	3,273.1	3,115.0	158.05
Govt. Bond	808.1	807.0	1.12
Corp. Bond	8.2	8.2	-0.06

Trade & Commodities	2-Aug	-1 mth	Chg (%)
Baltic Dry Index	1,675.0	2,179.0	-23.1
S&P GSCI Index	533.1	584.5	-8.8
Oil (Brent, $/brl)	76.8	86.2	-10.9
Coal ($/MT)	146.9	136.8	7.4
Gas ($/MMBtu)	1.89	2.06	-8.3
Gold ($/oz.)	2,443.2	2,329.5	4.9
Copper ($/MT)	8,933.9	9,527.2	-6.2
Nickel ($/MT)	16,012.7	16,740.9	-4.3
CPO ($/MT)	898.3	867.7	3.5
Rubber ($/kg)	1.73	1.68	3.0

External Sector	Jun	May	Chg (%)
Export ($ bn)	20.84	22.32	-6.65
Import ($ bn)	18.45	19.40	-4.89
Trade bal. ($ bn)	2.39	2.92	-18.30
Central bank reserves ($ bn)*	140.2	139.0	0.87

Prompt Indicators	Jun	May	Apr
Consumer confidence index (CCI)	123.3	125.2	127.7
Car sales (%YoY)	-11.8	-13.2	-17.4
Motorcycle sales (%YoY)	3.5	-4.5	18.3

Manufacturing PMI	Jul	Jun	Chg (bps)
USA	49.6	51.6	-200
Eurozone	45.8	45.8	0
Japan	49.1	50.0	-90
China	49.8	51.8	-200
Korea	51.4	52.0	-60
Indonesia	49.3	50.7	-140

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	2.87
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	16,172
Trade Balance (US$ 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

*Estimation of the Rupiah's fundamental exchange rate

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