

economic

WEEKLY REVIEW SERIES

Facing a Downside Risk Escalation



Photo Illustration by WHO

Indonesia Macro Data Forecast

Macro Indicators	2020	2021F
Real GDP (%YoY)	-2.07	3.76
Average Inflation (%YoY)	2.04	1.87
BI-7 DRR (%)	3.75	3.5
Budget Deficit (%GDP)	6.09	5.42
USD/IDR	14,500	14,400
10 Year Indo GB (%)	5.89	6.45-6.64
JCI	5,979	6,320
EPS Growth (%)	-30	20

Source : BI, MoF, BPS, MNCS Estimate

Weekly Notes :

We see that recent domestic economic data release was supporting the idea of recovery momentum up until 1H21. However we should anticipate further deceleration or possibly a contraction ahead, primarily due to the prolonged emergency public activity restriction as Indonesia has become the epicenter of Covid-19 pandemic.

Improving Business Activity

Domestic business activities continue to improve in 2Q21 as indicated in Bank Indonesia survey. Nealy all indicators for business activities strengthened : 1) increasing production capacity utilization; 2) improving business financial condition and access to credit as well as 3) better labor absorption.

Trade Surplus Continued

Indonesia's trade balance recorded a surplus of USD1.32 bn in June-21, lower than consensus and our estimate (USD2.24 bn vs USD2.09 bn). Exports grew 54.5%YoY to USD18.55 bn and imports rose 60.1%YoY to USD17.23 bn.

Decelerating Foreign Debt

There was a deceleration of Indonesia external debt in May-21. Total external debt grew 3.1%YoY to USD415 bn. The growth was lower than in the previous month of 4.9% YoY. Slowing growth of external debt was driven by government debt payment as well as lower growth in private sector.

Auto Demand Gradual Recovery

Domestic car wholesale and motorcycle distribution figures jumped to 476.1% YoY and 155.1% YoY in June-21 on the back of : 1) low based effect phenomenon; 2) pent up demand as well as accommodative policy through tax relaxation and macroprudential easing.

Expecting Loan Disbursement to Improve in 2Q21

Recent survey conducted by Bank Indonesia indicating demand and supply for new loan disbursement in 2Q21 and June-21 has signaled and acceleration as reflected by weighted net balance of 68.1% for new loans disbursement.

Downside Risk Escalates

Covid-19 cases in Indonesia continue to surge exceeding our modelling dynamic which indicate domestic outbreak condition could be potentially worse than India. Considering the impact of prolonged PPKM Darurat we downgraded our FY21 GDP growth projection to 3.76% YoY from 4.01-4.18% YoY previously.

Digital Economy in Time of Crisis

We expect Indonesia's digital economy to accelerate by 25% driven by increasing E-commerce GMV of 40% this year.

Bukalapak : Much Awaited IPO Debut

Bukalapak has contributed nearly 16.7% of Indonesia's digital economy in 2020. We expect Bukalapak IPO success story will be the benchmark for other domestic Tech Giants aiming to be listed in domestic capital market. The implied IDX Techno market cap weight to JCI market cap will be more than 5% post-Bukalapak IPO.

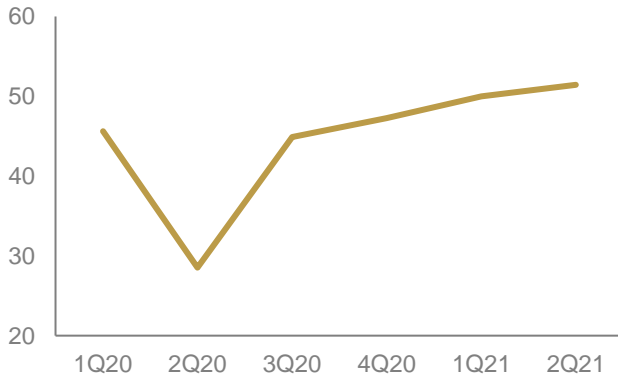


Tirta Widi Gilang Citradi

Economist & Fixed Income Analyst

Weekly Data Snapshot

Exhibit 1. BI Prompt Manufacturing Index (%)



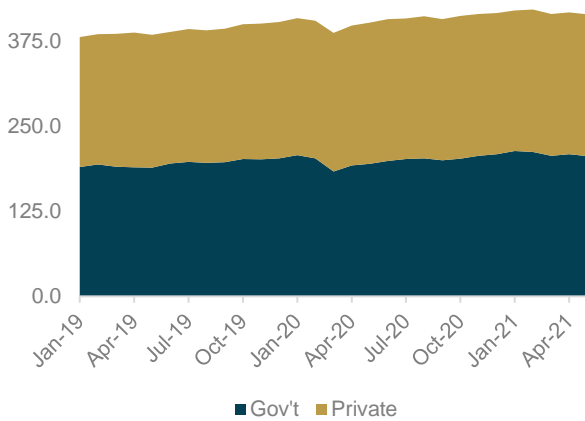
Source : Bank Indonesia

Exhibit 2. June 2021 Trade Data

Trade Indicators	Actual	Forecast
Export Values (USD bn)	18.55	17.83
Import Values (USD bn)	17.23	15.74
Trade Balance (USD bn)	1.32	2.09
Export Growth (%YoY)	54.46	48.47
Import Growth (%YoY)	60.12	46.27

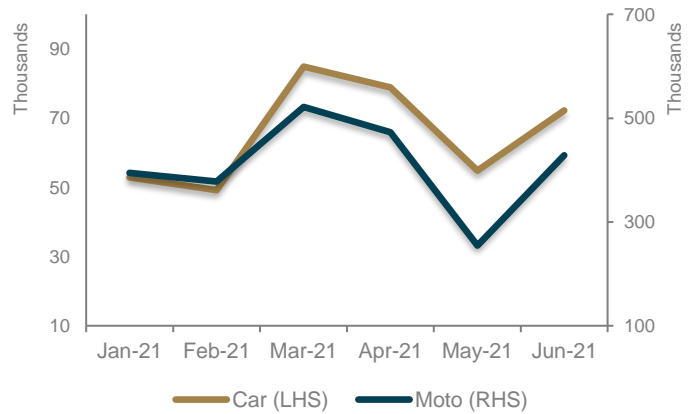
Source : BPS, MNCS Estimate

Exhibit 3. Indo External Debt (USD bn)



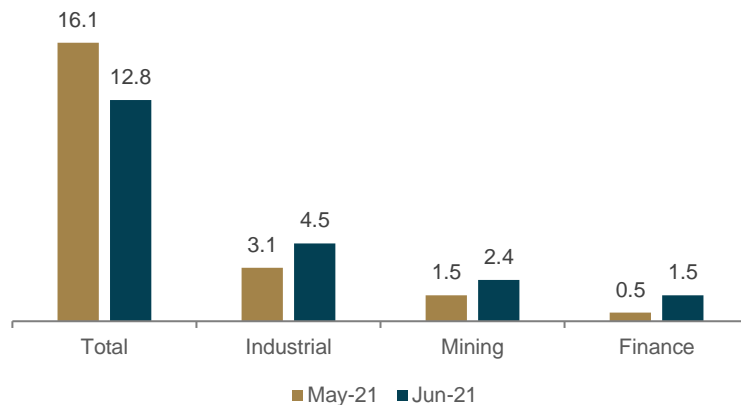
Source : Bank Indonesia

Exhibit 4. Car Wholesale & Moto Distribution (Units)



Source : GAIKINDO & AISI

Exhibit 5. Weighted Net Balance Financing Needs (%)



Source : Bank Indonesia

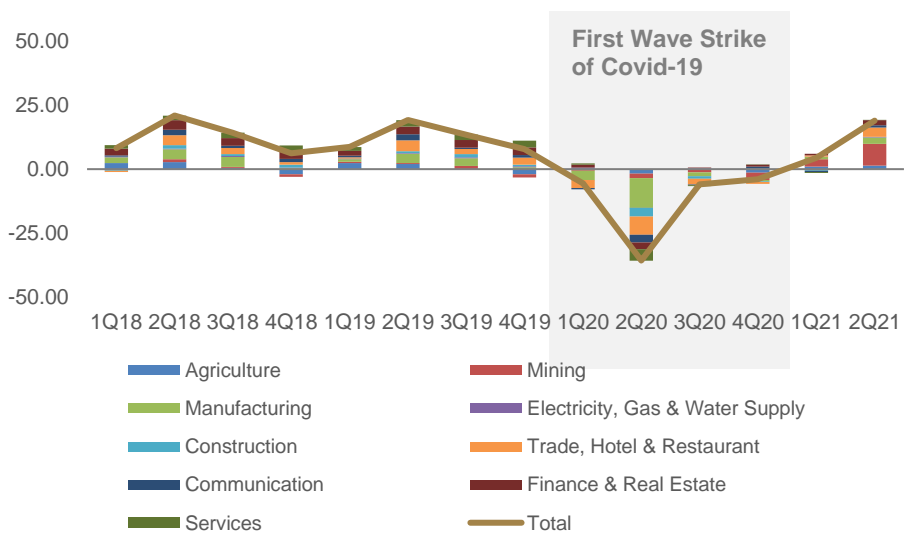
Contents

Improving Business Activity	5
Trade Surplus Continued	6
Decelerating Foreign Debt	7
Auto Demand Gradual Recovery	8
Expecting Loan Disbursement to Improve in 2Q21	9
Downside Risk Escalates	10
Resilient in Time of Crisis	11
Bukalapak: Much Awaited IPO Debut	12

Improving Business Activity

Indonesia business activities strengthened in 2Q21 as it was shown by several indicators surveyed by central banks. Expansionary business activities were reflected by a significant increase in the weighted net balance (WNB) to 18.98% compared with 4.50% in 1Q21. The strengthening of business condition according to BI was driven by expansion recorded in most economic sectors as well as supported by higher demand and production in a seasonal spike of Ramadan and Eid-ul-Fitr festive momentum during April-May 2021.

Exhibit 6. Business Activity by Sectors (%Weighted Net Balance)



In 1H21, business activities recorded an expansion, but emergency public activity restrictions (PPKM) introduced by the government could severely impede business performance in the 3Q21

Source : Bank Indonesia

All other indicators such as production capacity, financial condition & access to credit as well as selling price expectation improved. However due to stricter public activity limitation during second wave outbreak, we believe overall business activities tend to weaken, although the impact differs across sectors with manufacturing & trade that have the largest contribution to economic output will likely to drag down. In addition sectors that have high sensitivity to public mobility such as hotel and restaurants will experience a deeper contraction.

Exhibit 7. Business Activity Indicators

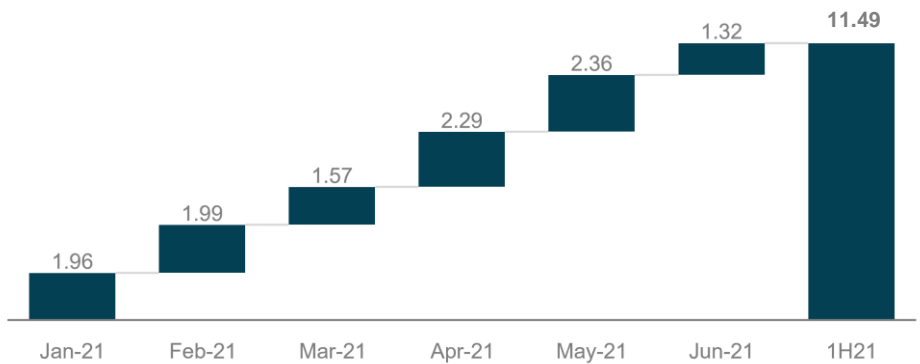
Indicators	Unit	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Production Capacity	%	74.09	69.28	71.77	71.96	73.38	75.33
Business Liquidity	%NB	14.94	-18.13	-2.82	8.59	8.01	9.59
Business Rentability	%NB	11.53	-25.56	-6.34	5.66	4.58	7.71
Access to Credit	%NB	4.17	-9.14	-5.96	-6.07	-3.55	-2.44
Labor Utilisation	%WNB	-1.13	-22.35	-16.47	-10.18	-5.69	-2.18
Selling Prices	%WNB	12.63	-7.16	2.76	1.87	8.00	6.48

Source : Bank Indonesia

Trade Surplus Continued

Indonesia continued to record a trade surplus in June-21. Exports grew 54.46% YoY, meanwhile imports rose 60.12% YoY causing a surplus of USD1.32 bn. Exports, imports and trade surplus figures in the last month were higher than consensus estimate and our projection (see Exhibit 2). During the 1H21, Indonesia international trade surplus was USD11.49 bn.

Exhibit 8. Indonesia Cumulative Trade Surplus in 1H21 (USD bn)

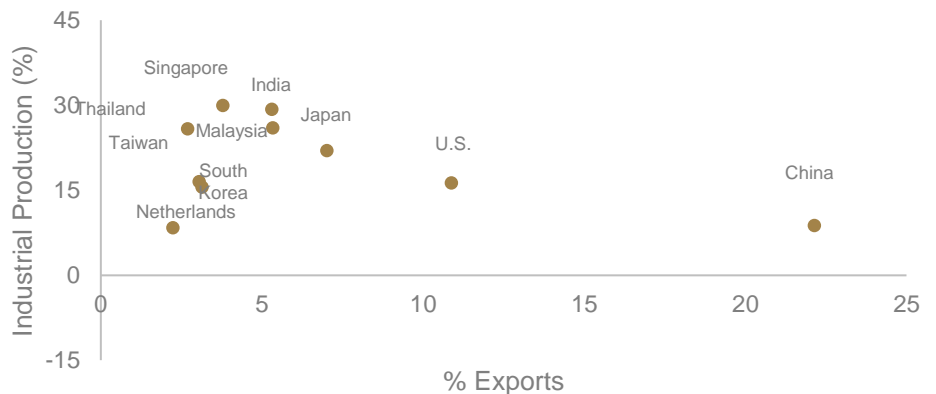


Source : BPS, MNCS Calculation

June-21 exports jump was supported by : 1) higher demand from Indonesia major trading partners along with better economic condition in line with expansive manufacturing sectors in those countries; 2) rising commodity price particularly industrial metals. At the same time, increasing imports were driven by higher demand for auxiliary raw materials indicating that domestic economic condition was on its recovery trajectory. We also can not rule out that low based effect also playing role in the exports & imports surge.

The oil and gas trade deficit remained comparatively stable at USD1.07 bn in June-21 compared with USD1.09 bn in May-21, impacted by solid oil and gas export and import activity. Therefore we believe Indonesia Current Account balance for this year will still manageable on the back of trade surplus. In addition, this condition will also support rupiah's fundamental and stability amid rising concern on negative catalyst triggered by Covid-19 spike.

Exhibit 9. Industrial Activity in Indonesia's Major Trading Partners



Source : BPS, Trading Economics

Ongoing trade surplus contributes to preserving external economic resilience in Indonesia

Decelerating Foreign Debt

Bank Indonesia recorded Indonesia external debt grew 3.1% YoY in May-21 to USD415 bn or equivalent to 36.7% GDP. The latest figure was lower than previous month growth of 4.9% YoY. On a monthly basis the external debt contracted by 0.6% in line with deceleration of private sector debt growth and payment of government debt securities and foreign currency loan maturing in May-21. Government debt contribution was 49% from total outstanding.

Although external debt remained below 50% from total debt. Rising public debt still a major concern for policy makers and market, let alone Indonesia is now experiencing a second wave outbreak of Covid-19. Rising public debt is inevitable due to pandemic driven economic downturn that pushed government spending higher in time of tax revenue short fall. As a consequence Indonesia's government debt to GDP surged from 30.5% in 2019 to 38.5% in the last year.

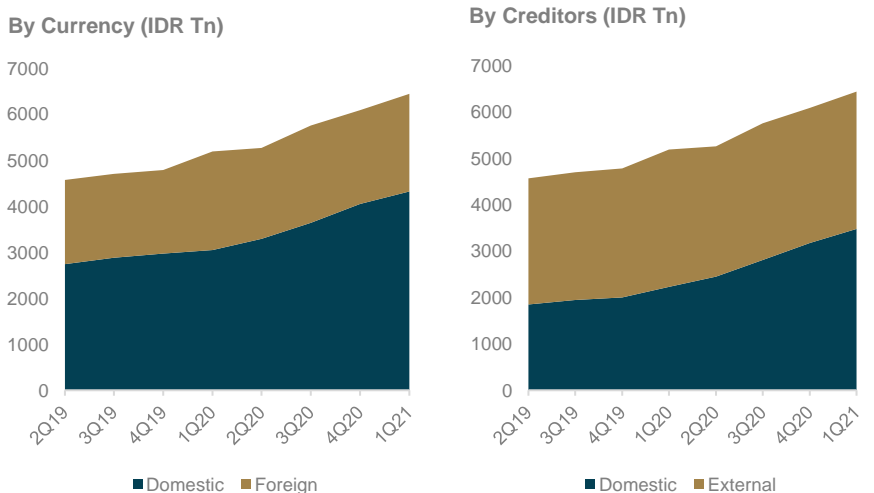
Both domestic and external debt rose significantly. Due to healthcare crises that triggered economic recession total government debt increased by 34.65% only in a year. Domestic currency denominated debt rose 45.5% while foreign currency denominated debt hiked by 16.85%.

We understand that option to issue foreign debt securities as the alternative financing for government on the back of worldwide low interest rate regimes and global high liquidity after the Fed aggressively cut FFR to a near zero in March-20 and enacting easy policy through QE to calm market turmoil.

The key challenge to maintain debt level sustainably, particularly for soft currency like Indonesia is to bring better fiscal outlook. Recently spreading the deadly virus has threaten fiscal consolidation agenda due to waning recovery momentum. In addition, the future interest rate path also posing another downside risk for financing activities. Elsewhere, financial distressed in some SOE's as well as the level indebtedness also burdening government budget. Although Indonesia sovereign credit rating reaffirmed as investment grade, however the outlook is negative.

However public debt level remained a major concern for policy makers. Keeping debt level sustainably is a challenging task

Exhibit 10. Breakdown of Total Government Debt by Currency & Creditor



Source : DJPPR

Auto Demand Gradual Recovery

Car makers industry association (GAIKINDO) recorded an automobile wholesale of 72,720 units in June-21 (+32.7% MoM and 476.1% YoY). Cumulatively domestic car wholesale or sales from factory to dealer for 1H21 has reached 393,469 units (+50% YoY). Car production in June-21 was recorded at 100,448 units. Cumulatively domestic automobile production has reached 515,883 unit in the 1H21.

In the same period motorcycle distribution which indicated deliveries from factory to dealers increased 155.1% YoY to 428,556 units. In the 1H21 total motorcycle deliveries recorded at 2.45 mn units. Motorcycle deliveries in the 1H21 increased by 30.3% YoY compared to the same period last year figure of 1.88 mn units.

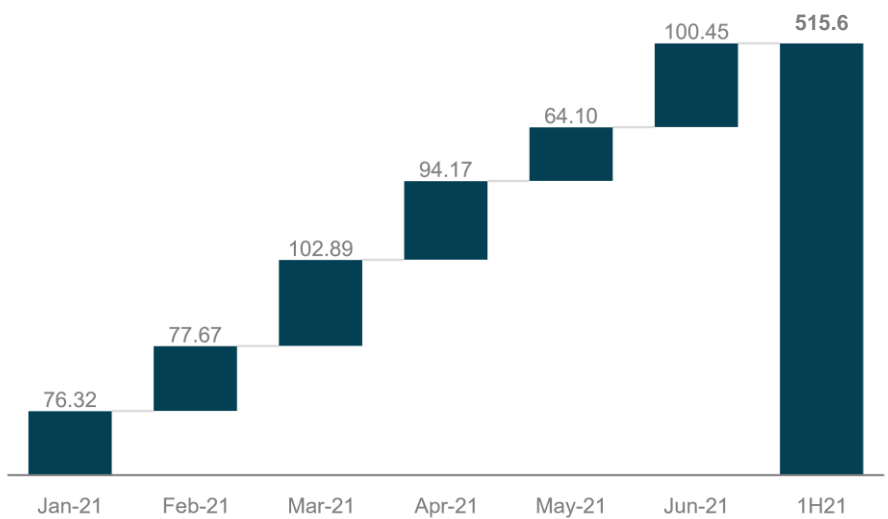
During the same period total motorcycle export was 402,123 units or 52% higher than in the same period last year of 264,450 units motorcycle exported. The figure is in line with the jump of automotive and spare parts exports that increased by double digits indicating better external demand.

The increase of automotive products in June-21 and in 1H21 was driven by : 1) low based effect; 2) pent up demand and 3) government relaxation on car luxury tax (PPnBM) as well as 4) BI policy to ease LTV for vehicle ownership to a minimum of 0%.

However, we expect FY21 car sales to remain below 1 mn units as well as for motorcycle deliveries to stay below 6 mn units. This is in line with limited decrease in interest rate on loan ownership that affect demand and chip shortage for car production components, let alone with the recent implementation of emergency public activity restriction (PPKM Darurat).

A gradual recovery for both supply and demand of Auto, but not yet to fully recover to a pre-pandemic level

Exhibit 11. Domestic Car Sales Production (Thousand Units)



Source : GAIKINDO

Expecting Loan Disbursement to Improve in 2Q21

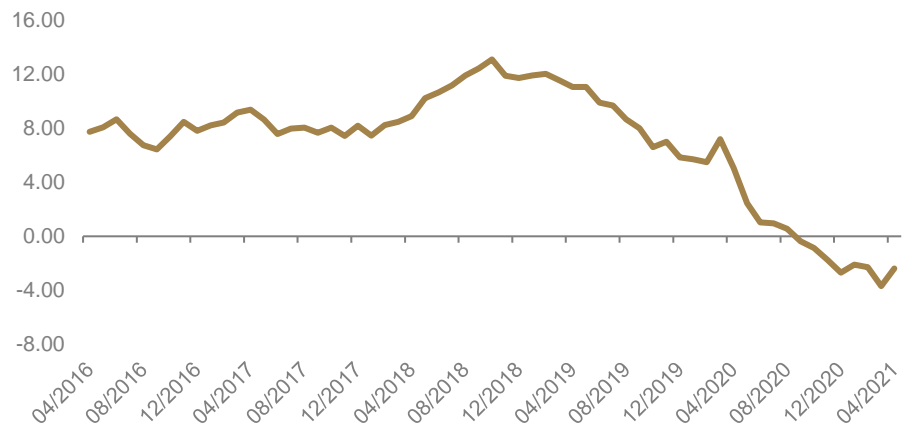
A survey by Bank Indonesia has signaled improving demand and supply for bank's credit disbursement. Respondents expected new loans to accelerate in the second quarter of 2021 as reflected by weighted net balance (WNB) of 68.1% for new loans disbursements. For June-21 respondents expected the new loan disbursement will accelerate compare to previous month.

On the demand side, the survey indicate a slower pace of corporate demand for financing in June 2021, with the weighted net balance (WNB)¹ retreating to 12.8% from 16.1% in May 2021.

However we foresee loan disbursement for FY21 will be limited affected by both limited demand from corporation and households as well as risk management from banks itself that influence supply. Besides that, Indonesia banking sectors remained resilient supported by ample liquidity and strong capital adequacy.

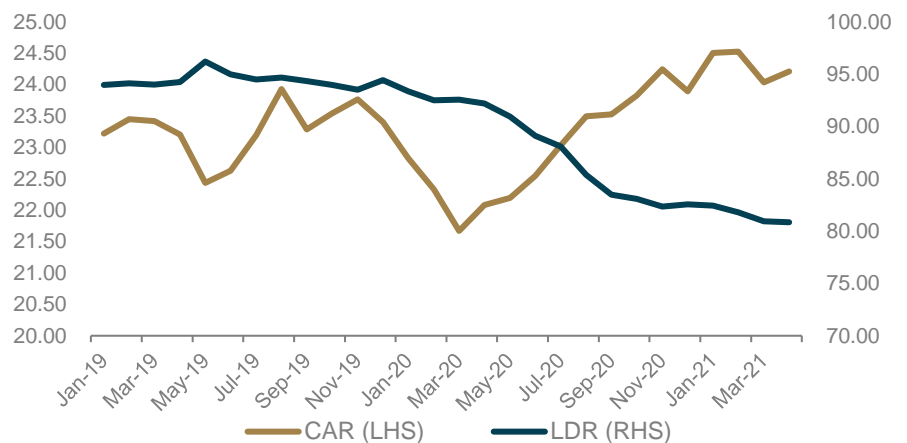
Improving Demand and Supply for Bank's Credit, yet Remained Limited

Exhibit 12. Indonesia Loan Growth (%YoY)



Source : OJK

Exhibit 13. Banking Sectors CAR & LDR



Source : OJK

Downside Risk Escalates

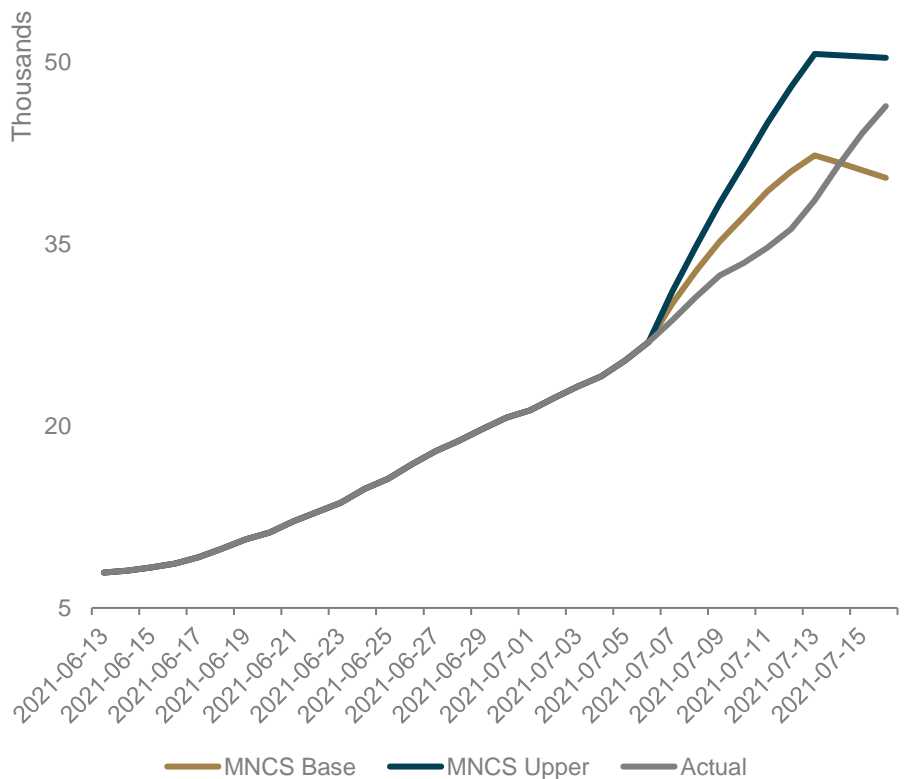
Indonesia has become the epicenter of Covid-19 outbreak in Asia recently. Total cumulative cases reached 2.83 mn as of July 16, 2021. Total active cases have surpassed 500 thousands overwhelming healthcare system. New daily cases exceeded 50 thousands as of July 13, 2021.

Daily cases surge has a faster growth than our Covid-19 modelling for base case scenario which indicate that the outbreak could potentially much worse than what had India experienced as positivity rates remain above 20% with lower testing capacity than India. In addition vaccination rate that stayed below government target also marking another challenge for Indonesia to flatten the curve.

These facts have forced government to impose stricter public activity limitation. We believe that the expansion of impacted area for this policy measures as well as prolonging duration until the end of July-21 will have a significant downside risk for Indonesia's economic condition, particularly in 3Q21. Considering the impact of PPKM Darurat we downgraded our FY21 GDP growth projection to 3.76% YoY from 4.01-4.18% YoY.

Covid-19 is still the single biggest risk for Indonesia's economy

Exhibit 14. Tracking Covid-19 in Indonesia Actual vs Our Model Daily Cases



Source : Our World in Data, MNCS Calculation

Resilient in Time of Crisis

We know that the old economy has suffered during Covid-19 crisis. However the pandemic has brought some consequences, one is fostering digital economy growth. Although relatively new, the share of digital economy especially in Indonesia has risen from 3.57% in 2019 to 4.16% in 2020.

This new economy successfully recorded a double digit growth of 11% YoY from USD40 bn in 2019 to USD44 bn in the last year. Increasing Gross Merchandise Value (GMV) of e-commerce were the major driving force.

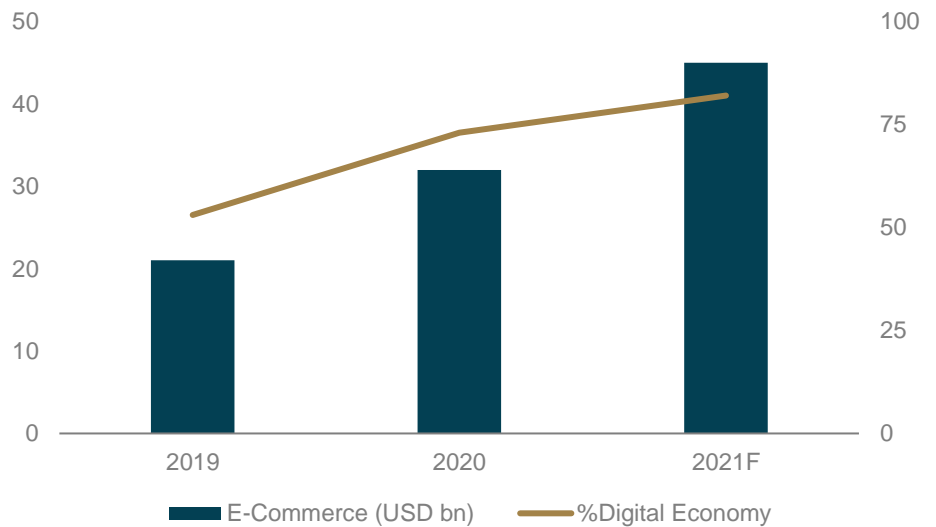
According to Google, Temasek, Bain & Company report, in 2019 total domestic e-commerce GMV was equivalent to USD21 bn. The GMV rose 52.4% YoY in 2020 to USD32 bn. During the same period, Online Travel Agent (OTA) GMV growth contracted by 65% YoY, transport & food deliveries GMV dropped 16.7% YoY, while Online Media GMV jumped 25.7% YoY.

Shifting consumer behavior to online shopping in order to minimize direct contact has benefitted e-commerce players. Although e-commerce economy still relatively small compared to total economic output (<5% GDP), the ongoing double digits acceleration indicating that the slice of economic cake is becoming larger.

We expect e-commerce GMV would rise 40% this year to a nearly USD45 bn, therefore contributing to nearly 82% of total internet economy that is expected to grow by 25% in the same period.

E-commerce, the new economy with high resiliency in time of crisis

Exhibit 15. E-Commerce GMV



Source : Google, Temasek, Bain & Company, MNCS Estimate

Bukalapak: Much Awaited IPO Debut

One of Indonesian startup backed by Emtek Group (EMTK) Bukalapak will be the first unicorn to be listed in domestic capital market by early August. The e-commerce startup founded by Achmad Zaky is offering nearly 25.8 bn of its share worth of IDR 750-850/share.

Target fund raised from this IPO debut was IDR 19.32-21.9 tn. The indicative market cap post-IPO would be IDR 72.4-82.1 tn or equivalent to USD5.03-5.7 bn. Therefore Bukalapak will be joining the top-20 public company largest market cap in Indonesia.

Bukalapak Total Processing Value (TPV) has grown 200% in the last two year from IDR28.3 tn in 2018 to IDR85.1 tn in 2020. During the same period total registered users increased 3.2x from 32.4 mn to 104.9 mn. Meanwhile Bukalapak business partners (Mitra) has grown nearly 5.3x from 1.3 mn to 6.9 mn.

We estimated that Bukalapak has contributed nearly 16.7% to Indonesia’s digital economy or equivalent to 0.69% to total economic output in terms of GMV in 2020. Although Bukalapak market share is smaller than its competitors such as Shopee and Tokopedia that contributed >60% from total market value, we are bullish on the success of much awaited IPO as the tech startup has first mover advantage.

The success story of this debut will be the benchmark for Indonesia’s next tech giants IPO. Also worth to be noted that Bukalapak status to be public company will also change domestic capital market landscape. IDXTechno market cap will surge to a more than 5% weight of JCI market cap after Bukalapak IPO. Combined with GoTo IPO, IDXTechno will likely to have nearly 12% of JCI market cap weight. This will translate into a more vibrant domestic capital market on the back of tech boom and rapid growth of Indonesia digital economy.

We expect that the success story of Bukalapak IPO will be the benchmark for others startups aiming to be listed in domestic capital market

Exhibit 16. Growth Story of Bukalapak

	2019	2020	Growth
%Digital Economy	12.7	16.7	+400 bps
%GDP	0.50	0.69	+19 bps
TPV (IDR tn)	57.39	85.08	CAGR 2018-20 +44.26%
Registered Users (mn)	84.3	104.9	CAGR 2018-20 +47.94%
Registered Mitra (mn)	1.3	6.9	CAGR 2018-20 +74.44%

Source : Bukalapak Prospectus, MNCS Estimate

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16

Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340

Telp : (021) 2980 3111

Fax : (021) 3983 6899

Call Center : 1500 899

Disclaimer

This research report has been issued by PT MNC Sekuritas, It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discusses herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.