

Indonesia Market Update

May 2015

Welcome to the May 2015 edition of “Indonesia Market Update”. The Indonesian Government continues to develop strategies to attract foreign investors to support its large economy and a weakening global market. Selamat membaca!

ECONOMY / INVESTMENT / REGULATIONS

Business Optimism Strong in Q1/2015 - Grant Thornton Indonesia in its International Business Report said that business optimism in Indonesia in Q1/2015 rose to 68 percent UP from 14 percent in Q4/2014. However optimism in Q1/2014 was higher at 78 percent. Business optimism in ASEAN was 40 percent while global average was 33 percent in Q1/2015.

RI's economy slows in Q1-2015 – according to the Central Statistics Agency (BPS), Indonesia's gross domestic product (GDP) grew by 4.71 percent in the first quarter of this year, the lowest GDP growth the country has recorded since 2009. It was caused by slowing demand from major export partners as well as the fall of global oil prices.

RI gets outlook upgrade - International rating agency Standard & Poor's (S&P) upgraded its outlook for Indonesia's sovereign credit rating due to “improved policy credibility” even as the country's economic management was questioned recently due to deteriorating growth. S&P announced it set Indonesia's credit rating at BB+, or one notch below investment grade, but upgraded the outlook of Indonesia's sovereign credit rating to “positive” from “stable”. This positive outlook suggests that Indonesia has a higher probability of getting a rating upgrade within the next 12 months.

Indonesia holds interest rates - Bank Indonesia has decided to keep the interest rate at 7.5 percent, in line with Indonesia's monetary policy to maintain the inflation rate in its 4 plus-or-minus 1 percent target in 2015 and 2016.

BKPM to issue procedures for applying for tax allowances - the new procedures apply to government regulation No. 18/2015 on the granting of tax allowances to investors engaged in certain business fields and/or operating in certain areas and it will replace government regulation No. 52/2011.

US firms still keen on RI - top executives from major US firms met with President Joko “Jokowi” Widodo and assured him that their investment commitments to Indonesia remained intact, even as the economy was growing at a six-year low and some investors had begun to lose faith in the government's ability to deliver reforms.

BKPM, Britcham team up to woo investors - the Investment Coordinating Board (BKPM) will cooperate with the British Chamber of Commerce (Britcham) to attract more investors to Indonesia. The campaign will take place in early June in various regions of the UK. According to an internal survey conducted by Britcham, trust has increased among its corporate members with regard to doing business in Indonesia, with Surabaya among the favorite cities for investment.

RI to resume free trade talks with EU next month - the government is to revive long-delayed negotiations on a comprehensive economic partnership agreement (CEPA) with the European Union to boost trade and investment amid a global economic weakening.

RETAIL

Matahari to spend US\$52 million for outlet expansion - retail giant Matahari Putra Prima (MPPA) will allocate about US\$52 million for its capital expenditure (capex) this year to further strengthen its foothold in the country's retail market. The funds would be partly used to build at least 30 new retail outlets, most of which would be located outside Java. The company will open more than 10 Hypermart outlets, six Foodmart outlets and 21 Boston outlets this year.

Alfamidi posts positive performance in Q1 - Midi's net profit rose 23.4 percent from IDR7.31 billion during January to March last year to reach IDR9.01 billion in the same period this year. Midi has 800 Alfamidi stores and 48 Lawson stores. The firm has allocated IDR720 billion of its capital expenditure to build 180 more stores throughout Indonesia.

Ikea to expand outlets in RI - Ikea, the world's biggest furniture seller, will produce more in Indonesia as it has set its sights on boosting its export value tenfold to US\$1 billion in the long-run. Ikea Indonesia, whose franchise is held by publicly listed retailer PT Hero Supermarket, plans to open two more stores every five years until 2025 as it sought to cater to the nation's rapidly emerging middle class with an increasing purchasing power.

AGRIFOOD

Indofood builds factory in Morocco - Indofood has announced that it will complete construction of its Indomie instant noodle factory in Casablanca (Morocco) by the end of third quarter of this year, making it the world's biggest Indomie factory outside Indonesia.

Indofood sales reach of US\$ 1 billion - leading food manufacturer PT Indofood Sukses Makmur Tbk has booked net sales of US\$1.15 billion in the first quarter of 2015 with Indofood CBP, which manufactures consumer branded goods, contributing 52 percent to sales, Bogasari (25 percent), Agribusiness (15 percent) and distribution (8 percent).

WTO to help settle US, New Zealand farm trade row with Indonesia - the World Trade Organization (WTO) agreed to create a single panel of experts to study complaints from the United States and New Zealand over Indonesia's import rules for agricultural products. Washington and Wellington have accused Indonesia of breaking international trade rules with its wide-ranging import restrictions on farm products like fruits, vegetables, beef and poultry.

F&B Sales Expected to Grow 150% for Ramadan - Food and Beverage Association of Indonesia (GAPMMI) projects sales of food and beverages to grow by 150 percent in the second quarter of 2015 due to the expected surge in demand during the upcoming Ramadhan fasting month and Idul Fitri holiday.

Bulog may import 1,000 tons meat for Idul Fitri - apart from imports of live cattle, the State Logistics Agency (Bulog) says it may import 1,000 tons of frozen meat to meet rising demand during Ramadhan and Idul Fitri. Imported meat might derive from Australia or New Zealand. Recently, the Government issued permits for importers to buy 29,000 feedlot cattle overseas for the upcoming Idul Fitri season, which usually sees peaking consumption. Idul Fitri will fall on July 17-18.

AUTOMOTIVE

Daihatsu Motor to produce 5m cars, new model in 2016 - major automobile manufacturer Astra Daihatsu Motor (ADM) may produce 5 million vehicles next year, a move that would strengthen its position as Daihatsu's biggest production base outside Japan. The group had approved a plan to produce a new model that would be manufactured locally starting from next year to help meet its target, with development cost US\$76.06 million.

Honda, Yamaha see further sales slump in Q1 this year - motorcycle sales have dampened across major producers, with market leader Astra Honda Motor seeing its sales plunge by 25.35 percent to 872,262 units, while rival Yamaha Indonesia Motor Manufacturing recorded a 28.99 percent drop in sales to 436,692 units in the first quarter this year. Inflation triggered by the price fuel increase since late last year had eroded consumers' purchasing power. Buyers of two wheelers are commonly those in the middle and lower classes, thereby more sensitive to any price shocks.

Carmakers lower sales targets on gloomy outlook - according to the Indonesian Automotive Manufacturers Association (Gaikindo), auto manufacturers have scaled back their full-year sales targets to between 1 million and 1.1 million units for the whole of 2015, down by 16.67 percent from the initial target of 1.2 million units.

Toyota's RI unit exporting more vehicles to Middle East - the Indonesian unit of Japan's Toyota Motor booked a sharp increase in exports in the first quarter partly to an increase in demand for its sedan Vios from Middle Eastern countries. Shipment of completely-built units (CBU) rose by 30.3 percent to 44,000 units from January to March 2015.

Piaggio targeting young with new product - amid sluggish motorcycle sales, PT Piaggio Indonesia (PID), the principal and sole agent of Vespa and Piaggio in Indonesia, launched its new Vespa S 125 earmarked for younger consumers. PID is also cooperating with the Goods Dept., a store offering products mainly for the youth market, for the sale of the S 125.

INFRASTRUCTURE

Jokowi launches electricity program – the power generation plan, designed to provide an additional 35,000 MW by 2019, constitutes one of the major programs prepared by the President administration to help boost economic growth.

New seaport projects are a Govt's priority - the construction of seven new seaports across Indonesia will be among the priorities of the government's medium-term infrastructure development plan. The government plans to expand 24 hub seaports, comprising 11 major and feeder ports as well as the remaining 13 to facilitate cargo handling

Developer BSD to spend big for five-year expansion - the country's largest listed developer, Bumi Serpong Damai (BSD), plans to spend US\$1.9 billion over the next five years to support its expansion nationwide.

Mid-range hotel market in Indonesia remains lucrative - despite a flat occupancy rate and increasing supply over the past few years, there is still room for the hotel industry to grow, particularly in mid-scale hotels in Indonesia.

Ascendas lands deal with Metland Cyber City - Singapore-based property developer Ascendas Group has formed a joint venture with PT Metropolitan Karyadeka Development to build a US\$225 million mixed-use complex that will house office and apartment buildings, shops and other facilities inside the huge Metland Cyber City in Tangerang.

Historical Raffles Hotel targets RI luxury market - a number of luxury brands, including Raffles Hotels and Resorts, are opening properties in Indonesia this year due to the country's economic growth and growing number of tourists.

ICT / MEDIA

RI eyes \$300m for cell phones in 2015 - Indonesia expects to realize around US\$300 million in investment in the cell phone industry as part of its goal to produce 35 million cell phones starting in 2017. The majority of the cell phones will be produced by foreign cell phone manufacturers whom are developing local manufacturing facilities.

Global Mediacom to spend big - publicly listed media conglomerate PT Global Mediacom plans to spend US\$100 million on capital expenditure (capex) this year to expand its media businesses, **including** pay TV to Internet broadband.

Telco operators join fray of app stores, target heavy data users - major telecommunications firms in the country are trying their luck to cash in more from the country's growing number of smartphone users by developing application stores, eyeing customers that are hungry for games and other online apps.

China to launch new TV channel in RI next week – the new TV channel, *Hi-Indo!*, a joint product of the China International Television Corporation (CITVC) and PT Elnet Media Bersama, will be in Indonesian, a language. This channel is designed to provide China's TV programs in Bahasa Indonesia to the Indonesian audience.

CONTACT DETAILS

For further information or inquiries about this "Indonesia Market Update", please contact:

Phillip Morey

Director - Morelink Asia Pacific
M + (61) 417 322 190 (Australia)
M + (62) 816 198 0002 (Indonesia)
P + (62 21) 5708086 / 5707209
E phillip@morelink.com.au

Sources: The information in this newsletter is a summary of various articles from Indonesian newspapers, magazines and other media outlets. A copy of any of the articles is available by emailing "Morelink".

Disclaimer: "Indonesian Market Update" is published for the information of readers only. The information in this market update is published with due care and attention to its accuracy, but the authors accept no liability if, for any reason, the information is inaccurate, incomplete or out of date.