

Stroke by Another Windstorm : We Shall Overcome!



Key Takeaways

- Indonesia's economy grew 5.02% YoY in 4Q21 and 3.69% YoY in FY21 slightly in line with our forecast.
- Indonesia recovered from pandemic with a 'Nike Swoosh' pattern driven by : 1) improving economic activity that boost consumption and 2) higher commodity prices that propelled exports and investment in FY21.
- Indonesia officially stroke by 3rd wave outbreak since the beginning of 2022.
- We built a logistic growth model to depict the trajectory of the 3rd wave using India as the proxy country due to similarities in epidemiologic and demographic data.
- Results from our model : assuming carrying capacity of Covid-19 at 2-2.5% with and without proper intervention, it will take 60-77 days to complete the phase with cumulative cases at 5.24-6.77mn and peak of daily cases in VII/VIII Feb-22 at 42,185-72,133 cases per day.
- Indeed domestic economy to be affected in 1Q22 due to mobility restriction amid tightening. However we still believe that growth story to remain intact as people are more adapted to living with pandemic causing economy to be less sensitive to changing in mobility.

Tirta Widi Gilang Citradi
Economist & Fixed Income Analyst
tirta.citradi@mncgroup.com

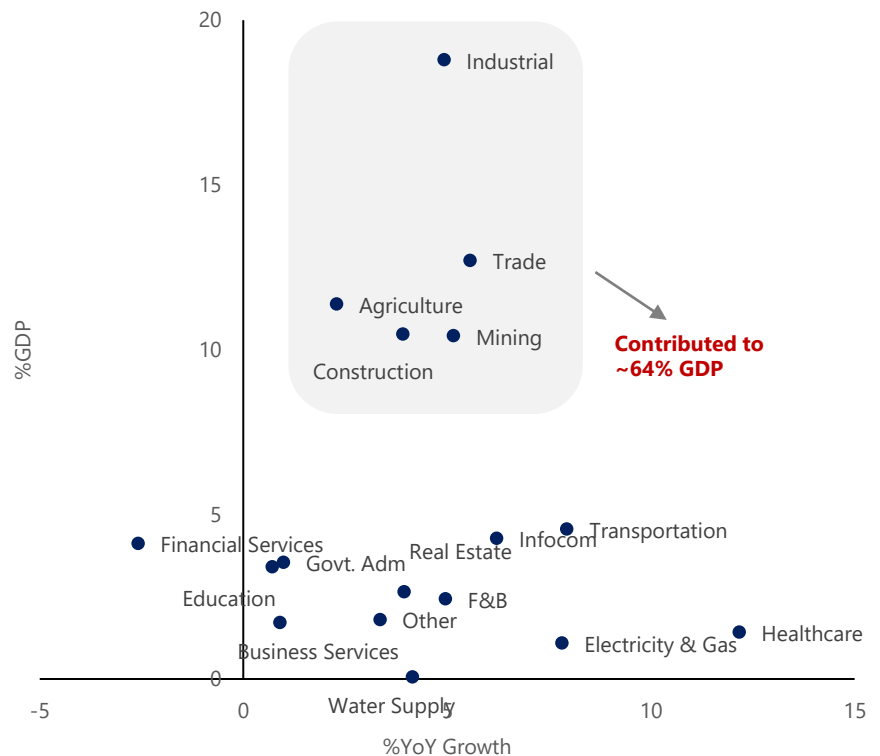
Indonesia's GDP : Slightly in line with Our Expectation

Indonesia's GDP managed to expand 5.02% YoY in 4Q21, above consensus forecast at 4.74% but slightly below our estimate at 5.11% YoY. GDP growth was higher in 4Q21 (vs +3.51% YoY in 3Q21). The decline in daily Covid-19 cases along with improvement in public mobility has helped economy to perform better as it managed to rise by 1.06% QoQ in 4Q21 vs historical contraction in the last quarter.

All sectors but financial services booked a positive growth. The contraction of financial service sector (-2.59% YoY in 4Q21) was due to 1) slowdown in the intermediary function 2) increasing opex and 3) declining insurance income. Sectors that contributed ~64% GDP including industrial, trade, agriculture, construction and mining booked an average growth of 4.36% YoY. Industrial sector which accounted 18.8% GDP expanded by 4.92% YoY in 4Q21. In addition, transportation sector that was previously hardest hit by the pandemic also posted a positive growth even the second highest growth after healthcare services (Exhibit 1).

From the expenditure side, both, household consumption and GCF which contributed to ~83% GDP rose by 3.55% YoY and 4.49% YoY respectively in the last quarter of the year. Furthermore, exports jumped 29.83% YoY on the back of higher commodity prices and demand from major trading partners that also experienced economic acceleration. Meanwhile imports increased 29.6% YoY indicating an improvement in domestic demand.

Exhibit 1. Indonesia's GDP by sector growth and contribution in 4Q21

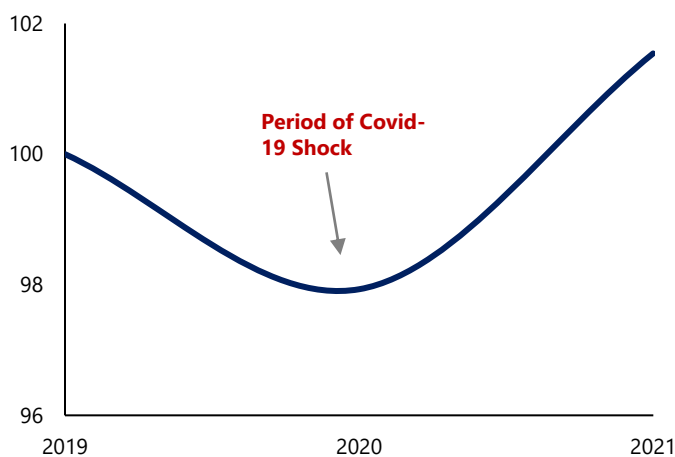


Sources : BPS, MNCS

Cumulatively Indonesia's economy grew 3.69% YoY in FY21, slightly in line with our expectation (MNCS forecast : +3.71% YoY). The domestic output reached pre-pandemic level and shaping a 'Nike Swoosh' recovery pattern (Exhibit 2). Unlike another emerging market and developed world that experienced faster economic recovery along with rising consumer price to decade high, domestic inflation remain benign below and favoring growth and sustainability (Exhibit 3).

Although facing a deceleration in the 3Q21 due to 2nd wave outbreak, domestic economy could withstand the unfavorable condition and managed to bounce back in 4Q21. In addition, Indonesia's GDP/capita also rose by 10.6% YoY to USD4,350, the highest in the decade (Exhibit 4).

Exhibit 2. A 'Nike Swoosh' Shaped (2019=100)



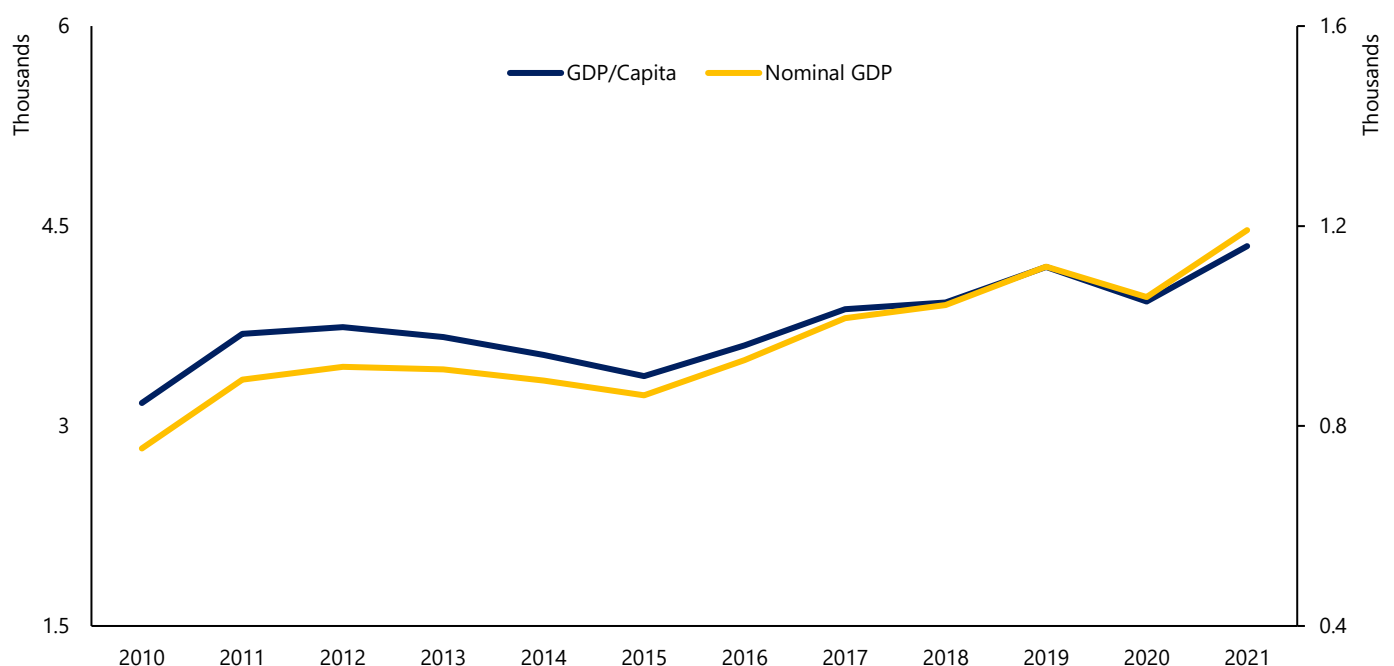
Note : based on real GDP data indexed, Sources : BPS, MNCS

Exhibit 3. Indonesia's Economic Stability and Growth

Key Macro Data	FY20	FY21
Real GDP Growth	-2.07	3.69
HH Consumption	-2.63	2.02
Govt Consumption	1.96	4.17
GCF	-4.96	3.80
Exports	-8.14	24.04
Imports	-16.72	23.31
Headline CPI	1.68	1.87
Core CPI	1.60	1.56

Note : based on YoY change, Sources : BPS, MNCS

Exhibit 4. Indonesia's Nominal GDP (USD Bn) and GDP/Capita (USD)

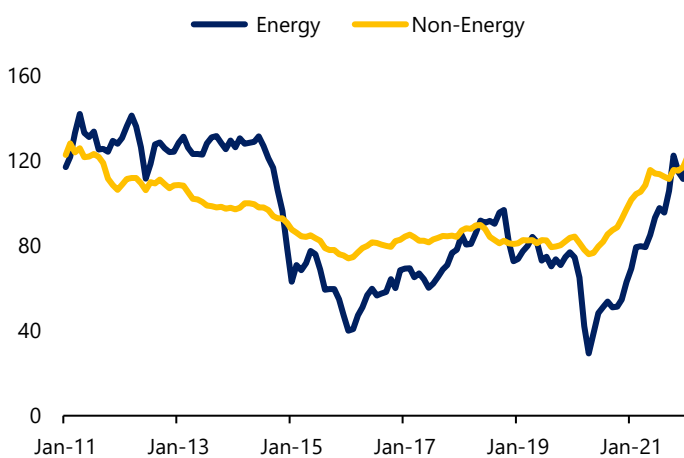


Note : GDP/capita (LHS), Nominal GDP (RHS), Sources : BPS, MNCS

Blessed with Higher Commodity Price

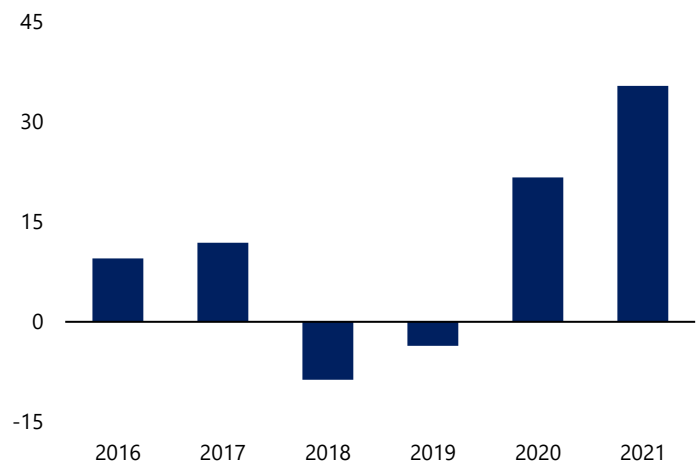
During the onset of pandemic, commodity prices fell significantly with energy price dropping more than 60% and recorded to the lowest level in Apr-20. However, gradual reopening of the economy and in conjunction with improving demand, commodity prices started to recover. Throughout FY21, energy prices soared 91% YoY, while non-energy commodities jumped 26% reflecting a supply shock amid the recovery momentum as well as rising geopolitical tension (Exhibit 5). Unlike other commodity producing countries that impose a tighter lockdown, domestic production was not severely impacted by mobility restriction. This helped Indonesia as commodity exporting countries to strengthen its position in the global market. The combination of higher prices and increasing volume boosted Indonesia's exports performance. On the other hand, limited economic activity also causing slower imports improvement than exports translating into a trade surplus of USD35.34bn in FY21 or increasing 63.5% YoY (Exhibit 6). We also noted that higher commodity prices was also translated to higher government revenue primarily from non-tax revenue as well as boosting direct investment (FDI & DDI). Government tax revenue increased 34% YoY and achieving 152% target (Exhibit 7). Besides that, investment realization, both FDI & DDI in commodity related sector such as mining also grew significantly >80% YoY (Exhibit 8).

Exhibit 5. Commodity prices soared



Sources : World Bank, MNCS

Exhibit 6. Indonesia trade balance surplus to record high in FY21



Note : value in USD Bn, Sources : BPS, MNCS

Exhibit 7. Higher commodity prices helped non-tax revenue to increase

	APBN-21	FY21	FY20	Run Rate	Growth
Revenue	1,744	2,003	1,634	115%	23%
Tax Revenue	1,445	1,547	1,283	107%	21%
Non-Tax Revenue	298	452	339	152%	34%
Expenditure	2,750	2,787	2,590	101%	8%
Central Government	1,955	2,001	1,827	102%	10%
Reg Transfer & Village Fund	795	786	763	99%	3%
Primary Balance	- 633	- 440	- 642	70%	-31%
Budget Balance	- 1,006	- 784	- 956	78%	-18%
%Budget Balance/GDP	- 5.70	- 4.65	- 6.09		
Financing	1,006	869	1,191	86%	-27%

Note : all values are in IDR Tn except for growth and % budget balance Sources : MoF, MNCS

Exhibit 8. FDI & DDI realization during 2021 commodity boom

By Sectors	FDI (USD Bn)				DDI (IDR Tn)			
	FY20	FY21	YoY	CAGR	FY20	FY21	YoY	CAGR
Horticulture	1.18	0.95	-20%	-18%	32.10	29.38	-8%	-2%
Forestry	0.04	0.04	-3%	-1%	1.16	6.86	490%	31%
Fishery	0.05	0.02	-65%	-11%	0.57	1.01	79%	126%
Mining	2.01	3.82	90%	8%	13.76	25.52	86%	-8%
Primary Sector	3.28	4.83	47%	0%	47.58	62.77	32%	-2%
Food	1.59	2.34	47%	21%	27.87	26.52	-5%	-12%
Textile	0.28	0.31	11%	1%	2.10	1.97	-6%	-18%
Leather & Footwear	0.21	0.49	127%	26%	0.40	0.70	77%	35%
Wood	0.09	0.07	-20%	-37%	1.26	1.14	-9%	-9%
Paper & Printing	0.94	0.95	1%	13%	3.75	7.83	109%	39%
Chemical & Pharma	1.74	1.66	-5%	-5%	22.53	23.36	4%	21%
Plastic & Rubber	0.29	0.26	-10%	-16%	4.43	7.80	76%	32%
Non-Metal Mineral	0.25	0.33	32%	-10%	5.86	6.52	11%	13%
Basic Metal	5.97	6.97	17%	46%	8.86	15.66	77%	14%
Electronic & Instrument	0.60	0.68	13%	-20%	1.16	0.54	-54%	-35%
Auto & Transport	0.94	1.50	59%	16%	2.56	1.46	-43%	-7%
Others	0.29	0.25	-16%	12%	2.05	1.19	-42%	18%
Secondary Sector	13.20	15.80	20%	15%	82.82	94.70	14%	4%
Electricity, Gas & Water	4.61	2.94	-36%	-12%	35.52	38.73	9%	1%
Construction	0.19	0.09	-51%	-28%	68.29	39.57	-42%	-4%
Tertiary Sectors	4.80	3.03	-37%	-13%	103.81	78.30	-25%	-2%
Total	21.29	23.66	11%	6%	234.21	235.76	1%	0%

Notes : CAGR since 2018, Sources : Ministry of Investment (BKPM), MNCS

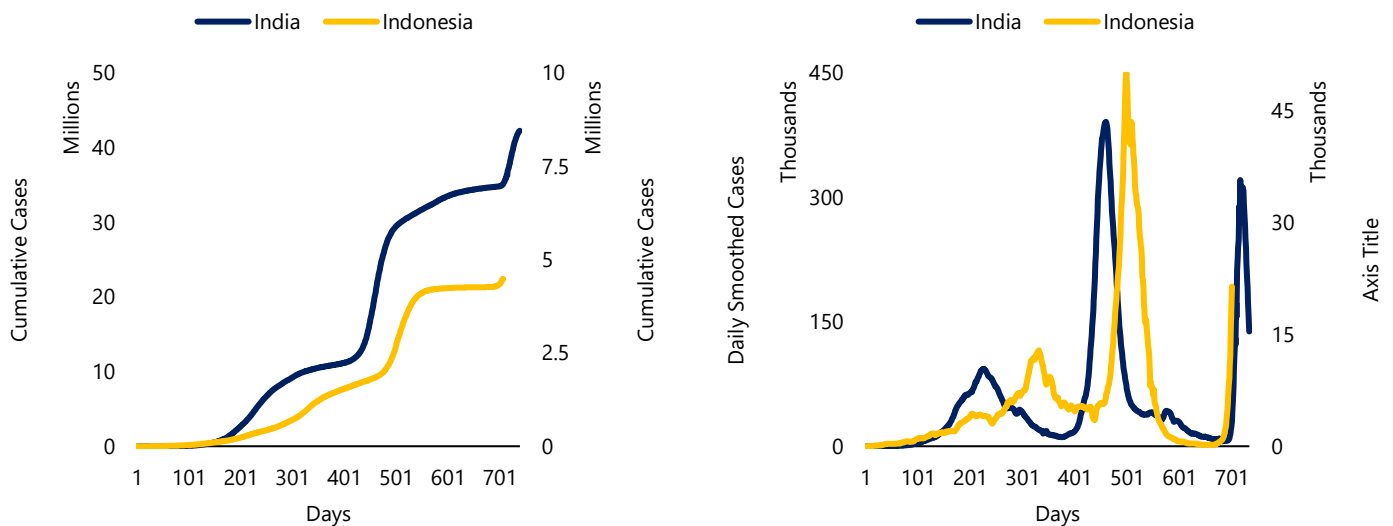
Stroke by Another Windstorm : 3rd Wave Outbreak, How Long it Will Last?

Daily Covid-19 cases steeply rise since the beginning of 2022. Widespread Omicron variant due to imported case and local transmission has triggered an exponential infections. Daily cases mounted nearly 100x year to date (ytd) leading to a worsening epidemiologic indicator. Hospital Bed Occupancy Rate (BOR) surged to >30% given the incremental cases reported recently. Under this unfavorable circumstance, we tried to address two things in this report. First, how long it will last and what is the impact for domestic economy? Does the growth story remain intact?

In order to answer the first question, we tried to build a model that may depict how the pandemic curve would look like amid 3rd wave Omicron threat. Initially, we sought a country's proxy model and found that India may be the best case to inform domestic outbreak trajectory. In our view Indonesia and India shared some similarities on notable epidemiologic and demographic characteristics. Based on historical perspective, Indonesia Covid-19 development shared some common characteristics with India such as daily cases pattern, steepness of the curve, number of infection wave and proportion of vaccinated people just to name a view (Exhibit 9). In addition, from demographic perspective, Indonesia and India have some similarities on population structure (median age and adults population), life expectancy and Human Development Index. We then tried to calculate the likelihood of Covid-19 trajectory in Indonesia using simple logistic growth model after taking consideration on the previous wave in both countries as well as the 3rd wave striking India.

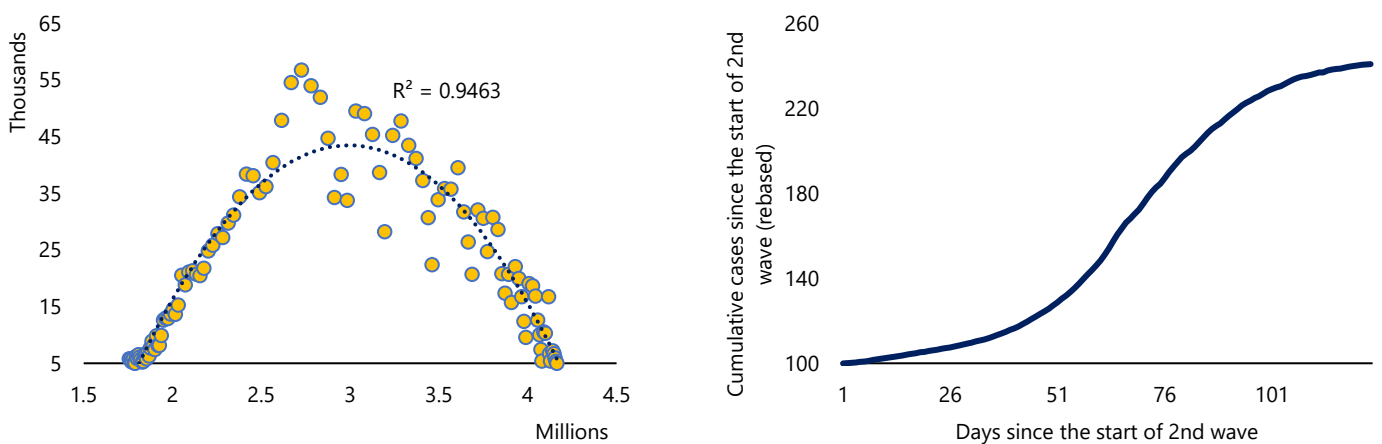
Based on our calculation, India took 117 days for the country to complete the 2nd wave while Indonesia needs 4 days longer or equivalent to 123 days since the early exponential phase of infection. Under our logistic growth model, we use India as a benchmark to predict maximum of people infected with Covid-19 or simply say viral carrying capacity (K). Assuming that Indonesia will follow India to have at least 2-2.5% of population is infected with the deadly virus and Omicron is spreading 1.2-1.5x faster than Delta variant so it will take 60-77 days for Indonesia to complete the 3rd wave outbreak. Given the start of 3rd wave started in early Jan-22 so it means the curve will flatten either in the 1st week or 3rd week of Mar-22. Under this model daily cases to peak in 2nd or 3rd week of Feb-22 with the maximum 42,785 – 72,133 cases/day. Cumulatively confirmed cases would reach 5.42-6.77mn (Exhibit 10).

Exhibit 9. Some similarities between Covid-19 in India and Indonesia



Sources : Our World in Data, MNCS

Exhibit 10. MNCS Logistic Growth Model of 3rd Wave Covid-19



Sources : Our World in Data, MNCS

Logistic Growth Model Equation

$$\frac{dN}{dt} = rN\left(\frac{K - N}{K}\right)$$

$$Nt = \frac{K}{1 + \left[\frac{K}{N_0} - 1\right] e^{-rt}}$$

$$Nt = \frac{K}{1 + Ae^{-rt}}$$

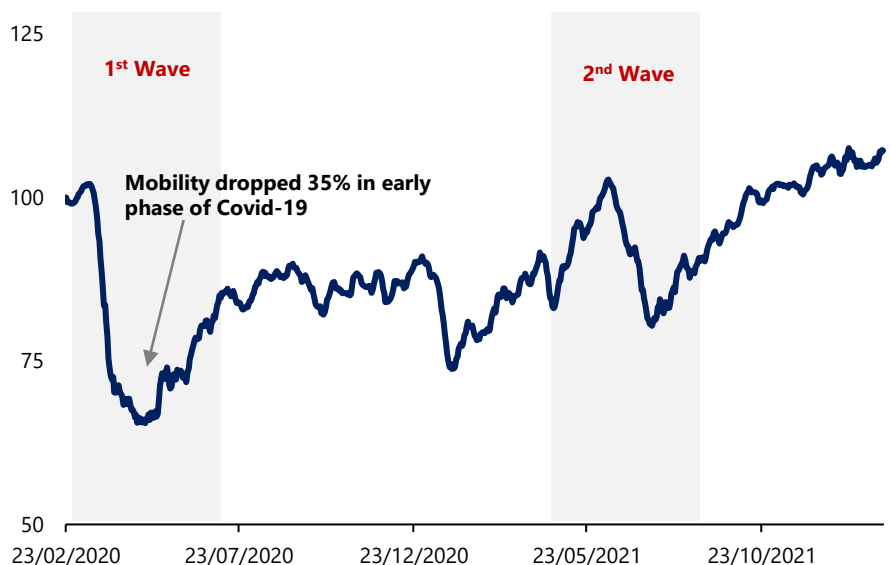
Assumption	+Proper Intervention	-Proper Intervention
Carrying Capacity	2% Pop	2.5% Pop
Omicron/Delta Rate	1.2-1.5x faster	
Results		
Implied time needed	60 days	77 days
Peak Cases	W2 Feb-22	W3 Feb-22
Daily Peak Cases	42,785	72,133
Curve Flattened	W1 Mar-22	W3 Mar-22

Notes : Nt max people infected with threshold of 95% based on historical observation; r for growth rates, K carrying capacity, N_0 initial cases in the beginning and t for time needed to complete the 3rd wave outbreak. Sources : MNCS Logistic Growth Model

Does the Growth Story Remain Intact?

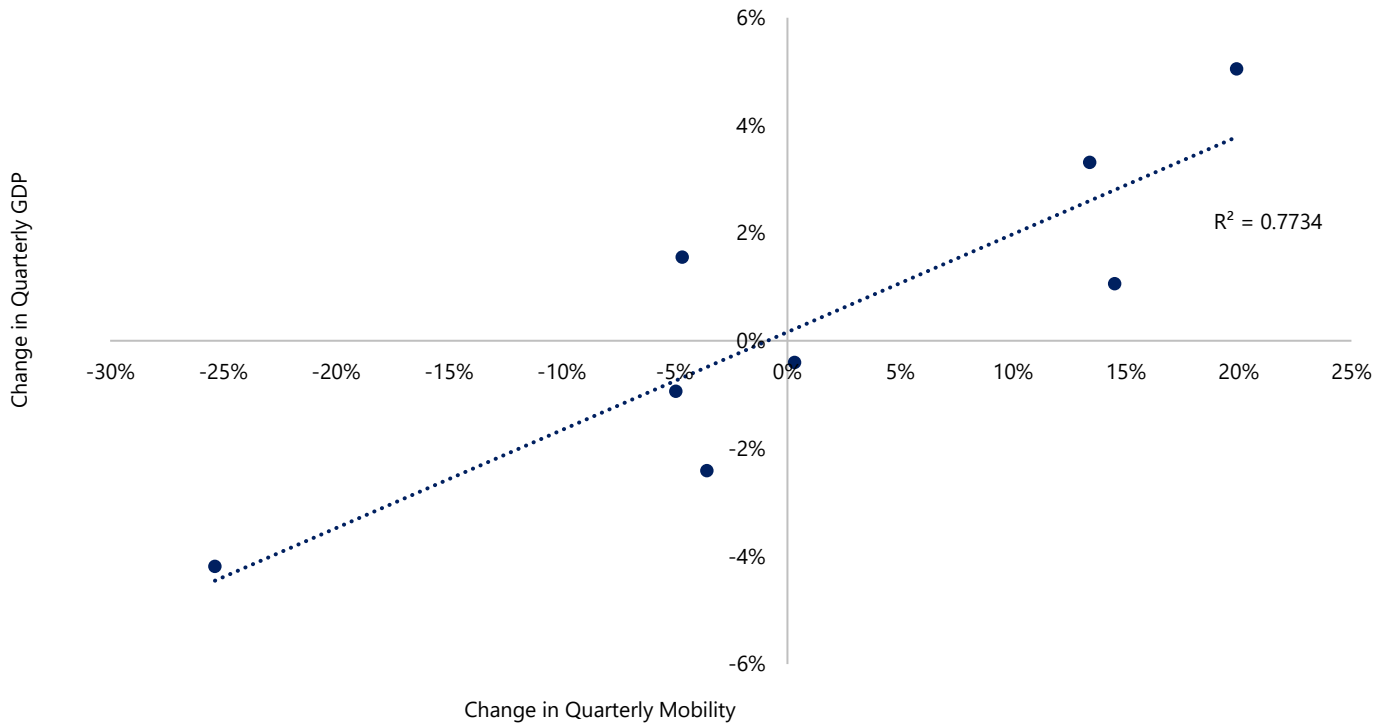
We then came to our next question whether 3rd wave outbreak could deteriorate domestic economy. Recently government decided to tighten the policy in response to worsening Covid-19 development particularly in Greater Jakarta Area. We assume that either it is mandatory or voluntary, this will impact public mobility that has already recovered in 4Q21 (Exhibit 11). We understand that decreasing mobility means declining economic activity that will hinder output to reach its potential. At least historical data has proven this premise (Exhibit 12). However, Indonesia's economy is gradually to be less sensitive to mobility (Exhibit 13) as measured by quarterly real GDP performance vs quarterly change in public mobility. We assume that people are more adapted to live under this unfavorable circumstance. Furthermore, adoption in digital economy by society, firms and government could help the economy to withstand this condition. In addition we also believe that government has learned to formulate proper policy given the success in containing the previous outbreak during July-Sep 2021. Therefore, we believe that the shock would not significantly affecting domestic economy to a magnitude we saw in 2Q20. Indeed the economy to remain affected at least in the 1Q22 yet all in all we still believe that the growth story to remain intact for Indonesia in FY22.

Exhibit 11. People's Mobility during Covid-19



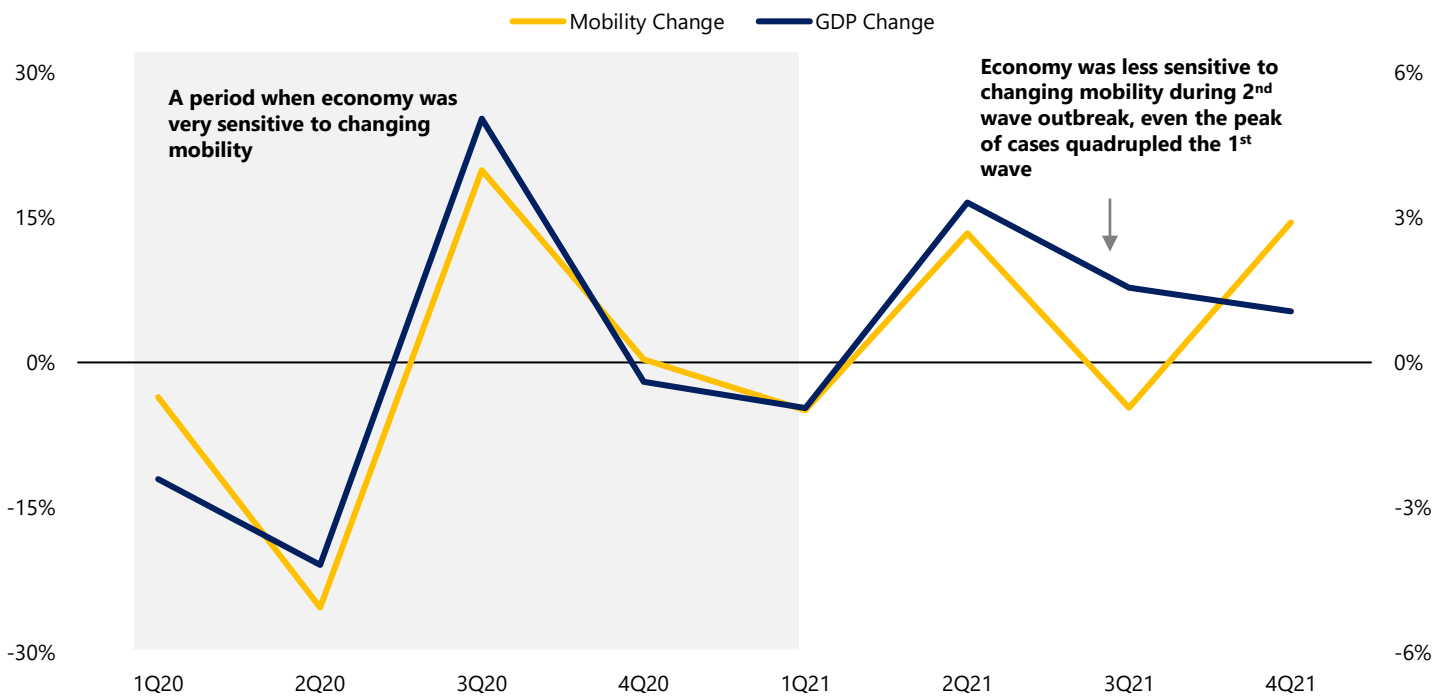
Sources : Google Community Mobility, MNCS

Exhibit 12. Mobility affected economic activity and performance....



Sources : Google Community Mobility, BPS, MNCS

Exhibit 13. However, as time goes on with people more adapted to living with pandemic, domestic economy is less sensitive to changing mobility



Sources : Google Community Mobility, BPS, MNCS

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

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