

Indicators	Unit	Value
GDP	%YoY	+5.03
CPI	%YoY	+4.33
BI Rate	%	5.75
10yr Yield	%	6.47
USD/IDR	Points	14,742
CCI	Points	126.1
FX Res	USD bn	144.2
PMI	Points	52.7

Sources *: Bloomberg MNCS Research
 GDP Data as of 1Q23
 CPI Data as of Apr-23
 BI Rate as of May-23
 10yr yield as of May 9, 2023
 USD/IDR as of May 9, 2023
 CCI as of Apr-23
 FX Res as of Apr-23
 PMI as of Apr-23

Is the tree shady enough for bird to chirp louder?

Prologue : the chirping bird (1Q23 output growth in-line with our estimate)

Indonesia's 1Q23 GDP expanded +5.03% YoY, slightly in-line and above street view (MNCS/cons : +5.00/+4.95% YoY). Growth has seen across the board (HH consumption +4.54% YoY; non-HH +6.17% YoY; gov't expenditure +3.99% YoY; investment +2.11% YoY; exports +11.68% YoY and imports +2.77% YoY). The end of Covid-19 and government lift off pandemic related measures successfully driving people to commute. The 'bring-back' mobility policy has borne fruit as consumption for transports and communication rose +7.84% YoY, the fastest growing segment in HH consumption. Furthermore, albeit investment posted a marginal growth of +2.11% YoY in the last quarter, vehicles investment jumped +24.09% YoY evidenced by +5.75% YoY higher in automobile production. Indeed, commodity prices tended to soften. However, Indonesia's exports volume grew at the pace of +26.89% YoY resulting in +30.68% YoY higher trade balance surplus, also marking the still external demand even in the midst of recent turbulence.

Conflict 1 : how firm is the branch for bird to perch firmly? (still expansive but with margin squeeze)

With +5.03% YoY growth of the output, 41 large public companies (non-banking) revenue increased by +12.36% YoY. The growth is indeed decelerating, furthermore, margin squeeze has occurred since 3Q22 after recording the highest in 2Q22 (EBITDA margin 24.85%). This may also reflect a condition of higher input cost, in-line with government regulatory adjustment in non-subsidized fuel pricing to relieve the fiscal burden during supply disruption in global energy market. Manufacturing activities remain expansive (>50) backed by higher YoY Capex realization during 1Q23. In spite of still early to conclude that Capex indicates the weakening of economy partly due to 1Q seasonality factors, yet we believe with hostile external macro backdrop combined with lower commodity prices and higher borrowing cost across the globe instill a conservative view this year given slowing revenue growth and lower margin.

Conflict 2 : watchout! a hotter day is coming really soon, prepare enough supplies! (anticipating the event of disruption : El Nino)

After experiencing 2 consecutive years of La Nina, Indonesia is expected to face a dry season starting from Apr-23 in some part of its region (Bali, NTT, NTB and most of East Java regions). The hotter temperature may persist and possibly hitting the peak in Aug-23 due to El Nino. Despite BMKG expect the less severe one, a much anticipated policy is likely to be substantial in averting the worst outcome. Severe drought has shown to deteriorate horticulture productivity and weakening price stability. In the last decade Indonesia has faced 2 El-Nino event (2015 and 2019).

During El-Nino, commodity prices such as shallot, red chili pepper and cayenne pepper which are characterized by its high sensitivity to rainfall tended to fluctuate significantly. Our model showed that in the event of El Nino, shallot and chili prices volatility was 0.74x higher than normal. Indeed, this is lower than in the event of Covid supply disruption as well as La Nina, yet ensuring adequate supply and distribution management could limit volatile food price spike which could dampen lower-class purchasing-power.

This should be one of government's top priority given domestic inflation has gradually easing. Note worthy that Apr-23 annual inflation rate at +4.33% (the lowest since Jun-22 and even considered lower monthly inflation during historical Ramadhan and Eid Fitr momentum) largely due to adequate supply (harvest season and fuel price adjustment for Pertamina Turbo -IDR100/l; Pertamina Dex -450 up to -IDR750/l and Dextlite -IDR700/l).

Conflict 3 : the bird is hoping for food supplement (a political year and nexus of consumption boost?)

General election day has been stipulated and to be held in Feb-24, about 2 months earlier than in 2019. We expect there will be ~250k candidates to compete for regional and national legislative body, whereas public seem to anticipate 3 presidential candidates (Ganjar Pranowo : PDI-P, Pabowo Subianto : Gerindra and Anies Baswedan : Nasdem) as they topping electability according to recent poll by different survey houses. Markets expect the political campaign to boost consumption in 2H23.

We estimate there will be +IDR149.3tn (~0.70% FY23E nominal GDP) additional spending from presidential and legislative candidates (excluding logistics budget provided by government). Our estimate showed that consumption boost would be +16.85% higher than in 2019 on the back of higher legislative quota (+356/+1.76%) after adjusting for inflation. Historically, in the last 4 cycles of political contests (2004, 2009, 2014 and 2019) real GDP growth was lower ahead of election and higher post election.

Besides, actors are waiting for clarity around the candidacy and program, we also need take into account external macro event that also affect the output dynamics. For instance in 2004, Indonesia is still poised with commodity boom, in 2009 post GFC, 2014 post taper tantrum and in 2019 overshadowed with US-China trade war and the beginning of Covid pandemic. All in all, we maintain our conservative view that a consumption boost narrative to likely be offset by a 'wait and see' action taken by corporation up until the program is much clearer particularly around the continuity of President Jokowi's national development program.



Economist
 Tirta Citradi
 tirta.citradi@mncgroup.com

Epilogue : the bird may not chirp as loud as we expect (hostile external macro remains key downsides despite Indonesia still in the safe spot at least for now)

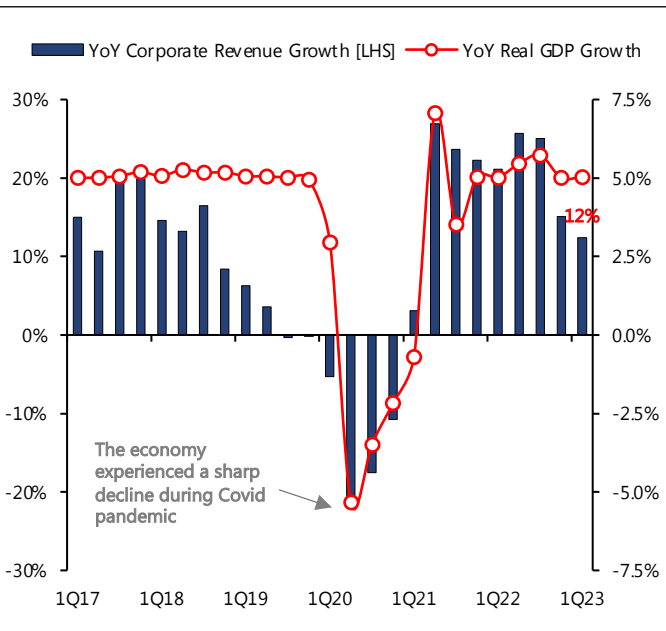
In fact, even during the momentum of higher borrowing cost and US banking turmoil, Indonesia's economy has shown to be resilient enough so far. Liquidity remain adequate in the banking system despite deposit grew slower than loan expansion and higher reserves requirement. Given IDR appreciation driven by massive trade surplus and portfolio inflows to government bond should give BI flexibility in maintaining accommodative stance to promote growth. BI may opt for RR/policy rate cut if domestic macro fundamentals revert substantially, whereas fiscal space could be refocused to uphold consumers purchasing-power in our view. However with weakening sentiment on softening commodity prices, a bleak global prospect we reiterate our conservative view that growth may be lower than 5% YoY this year (+4.87% YoY FY23E) and headline CPI +3.5-4.5%.

Exhibit 1. Indonesia's GDP grew +5.03% YoY in 1Q23 driven by still rising consumption and export driven

GDP Component	1Q22	4Q22	1Q23	%QoQ	%YoY
Household	1,513,457	1,578,262	1,582,137	0.25%	4.54%
Non-Household	33,298	35,701	35,354	-0.97%	6.17%
Government	152,963	291,220	159,073	-45.38%	3.99%
Investment	910,125	965,191	929,315	-3.72%	2.11%
Exports	641,634	757,494	716,587	-5.40%	11.68%
Imports	565,295	624,376	580,967	-6.95%	2.77%
Real GDP	2,819,330	2,988,637	2,961,191	-0.92%	5.03%

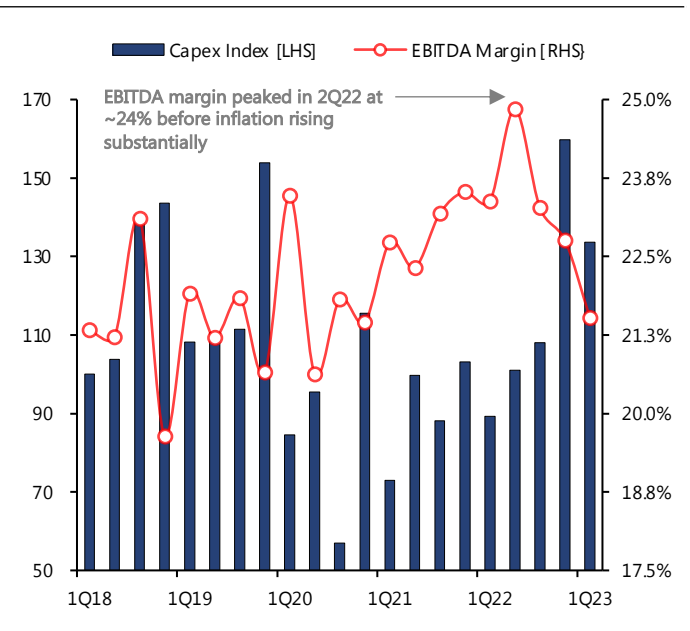
Notes : all values in IDR bn. Sources : Statistics Indonesia, MNCS Research

Exhibit 2. Corporate revenue slowing since 3Q22

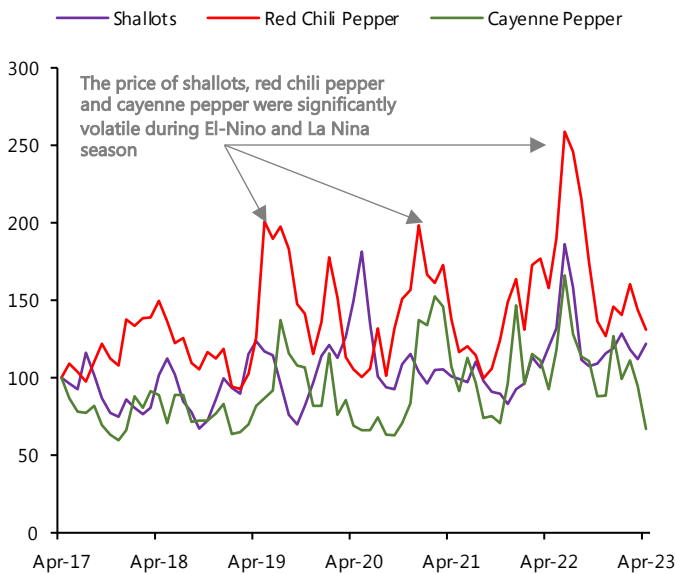


Notes : based on 41 public companies (non-bank) under MNCS universe. Sources : Bloomberg, MNCS Research

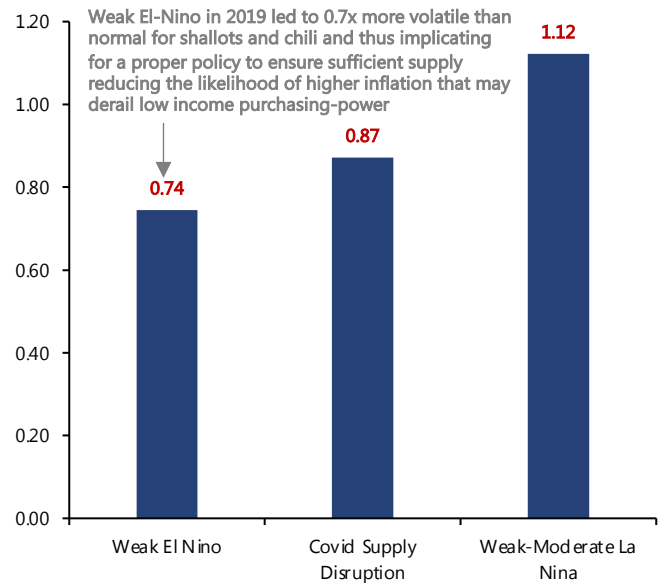
Exhibit 3. Capex seems slowing amidst margin squeeze



Notes : based on 41 public companies (non-bank) under MNCS universe. Sources : Bloomberg, MNCS Research

Exhibit 4. El Nino & La Nina impacts on prices were substantial


Notes : monthly prices were rebased to 100 in Apr-22.
Sources : PIHPS Nasional, MNCS Research

Exhibit 5. Shallots and chili prices were 0.7x volatile in El-Nino


Notes : the value indicates a volatility score compared to normal.
Sources : PIHPS Nasional, MNCS Research

Exhibit 6. Assuming +356 legislatives quota and possibility of 3 presidential candidates, the impact is estimated to be equal to 0.70% GDP

Details of MNCS Estimates	2019 Election					2024 Election				
	Candidates	Quota	C/Q Ratio	Avg Spending	Total Spending	Candidates	Quota	C/Q Ratio	Avg Spending	Total Spending
National Parliament	7,968	575	14	2.89	23,028	8,037	580	14	3.28	26,401
Regional Parliament I	28,691	2,207	13	1.02	29,136	30,836	2,372	13	1.15	35,592
Regional Parliament 2	208,080	17,340	12	0.36	74,249	210,120	17,510	12	0.41	85,219
Regional Representative Council	807	136	6	0.69	554	902	152	6	0.78	703
Estimates of Legislatives	245,546	20,258	11	1.24	126,966	249,895	20,614	11	1.41	147,915
Presidential Election	2	1	2	409.50	819	3	1	3	465.44	1,396
Executives	2	1	2	409.50	819	3	1	3	465	1,396
Grand Total	245,548				127,785	249,898				149,311

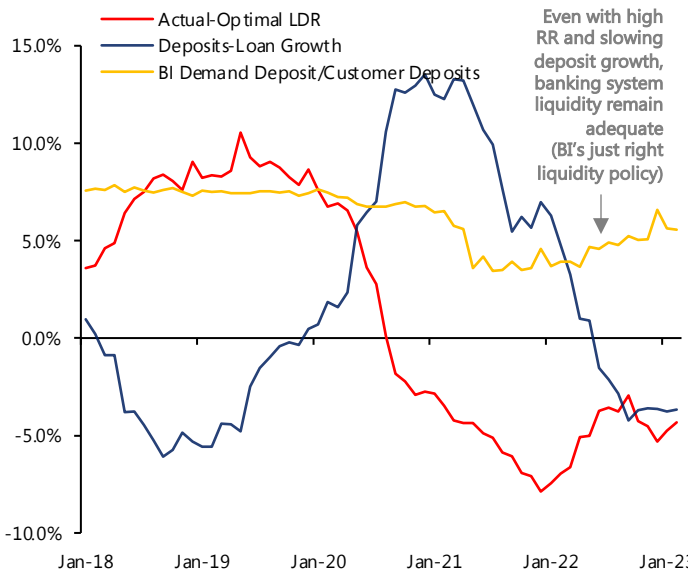
Notes : avg and total spending are in IDR bn. Sources : KPU, Bawaslu, DPR, MNCS Research

Exhibit 7. Historically, Indonesia's GDP slowing ahead of election and rising post election, but global macro context need to be taken into account

General Election	Months	Quarter	During	-2Q	-1Q	+1Q	+2Q	Key Event
2004	Jul-Sep	3	5.47%	4.89%	5.17%	8.36%	6.86%	Commodity Boom
2009	Jul	3	4.57%	5.00%	4.54%	5.92%	6.25%	GFC
2014	Jul	3	4.93%	5.54%	4.94%	5.05%	4.83%	Post-Taper Tantrum
2019	Apr	2	5.05%	5.18%	5.06%	5.01%	4.96%	US-China Trade War & Covid
Average			5.01%	5.15%	4.93%	6.09%	5.73%	
Median			4.99%	5.09%	5.00%	5.49%	5.61%	

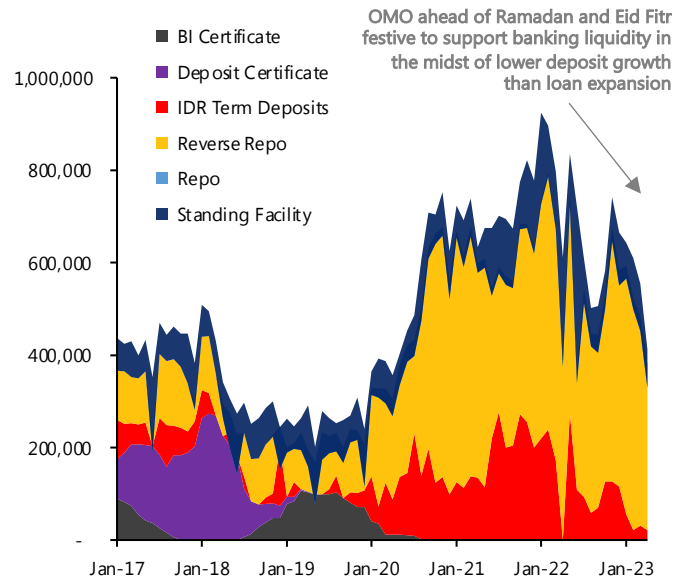
Notes : avg and total spending are in IDR bn. Sources : KPU, Bawaslu, DPR, MNCS Research

Exhibit 8. Banking liquidity is still better than previous tightening



Notes : data processed on YoY basis for deposit-loan growth, assuming optimal LDR at 80-85%.
Sources : Bank Indonesia, MNCS Research

Exhibit 9. Another BI's 'just right liquidity' measures



Notes : all the values above are in IDR bn basis and the data is from BI's Conventional Open Market Operation (OMO)
Sources : Bank Indonesia, MNCS Research

Exhibit 10. Maintain our forecast for FY23E, with bond markets & ER tended to move in our bullish scenario

Macro Indicators	Unit	FY22	FY23E		
			Best	Base	Worst
Real GDP	%YoY	5.31	5.12	4.90	4.78
CPI	%YoY	5.51	3.50	4.53	5.06
7-day reverse repo	%	5.50	5.50	5.75	6.00
IDR	Points	15,658	14,750	15,125	15,500
Risk free rate	%	7.04	6.50	7.09	7.68
JCI	Points	6,851	7,818	7,425	6,615
Implied EPS Growth	%YoY	20-30	12	8	-2
Implied P/E	X	14	15	14	13

Sources : Bank Indonesia, MoF, Bloomberg, MNCS Research

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.