Outlook 2019
EVERY ROSE HAS ITS THORNS

MEGACAPITAL
Sekuritas

DISCLAIMER

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" Everything that has a beginning has an end, Neo."

Smith

Strength

- Inflation Stability
- Stable Economic Growth
- Less Budget Deficit Target

Weakness

ΔPopulist Policy in Election Year
ΔCentral Bank Hawkish Policy
ΔRupiah Depreciation

Opportunity

- Higher Commodity Price
- Lower Tension of Trade War
- Developing Countries Recovery

Threats

ΔSlower Economic Growth
ΔHigher World Interest rates
ΔVolatility of European Economy
ΔUS Policy Uncertainty

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Exccecutive Summary

Economic Outlook

Domestic

- Indonesia economic growth projection are 5.16%
- Inflation stable at 3.21%
- Rupiah would depreciate to average Rp 14.679 / US Dollar
- BI would hike 7-DRR 3 times to 6.75%

Global

- Fed Funds Rate would reached 3.25%
- World economic growth would be stagnated at 3.7%

Market Outlook

Jakarta Composite Index :

Fundamental **6,685**

Technical **6,380**

Recommended Sector for 2019 :

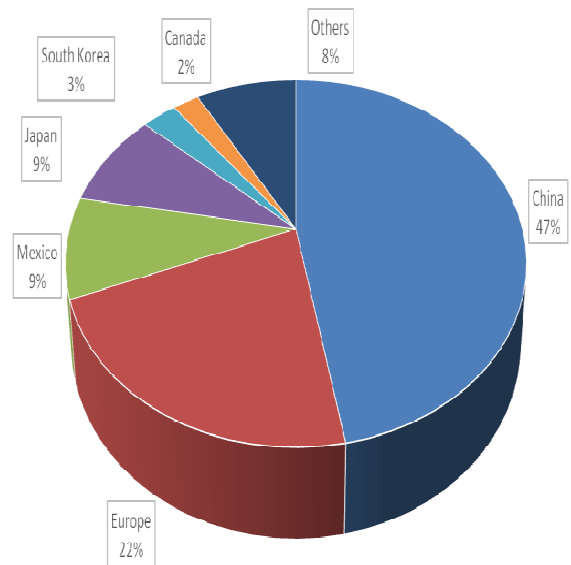Property, Banking, Agriculture, Consumer Goods
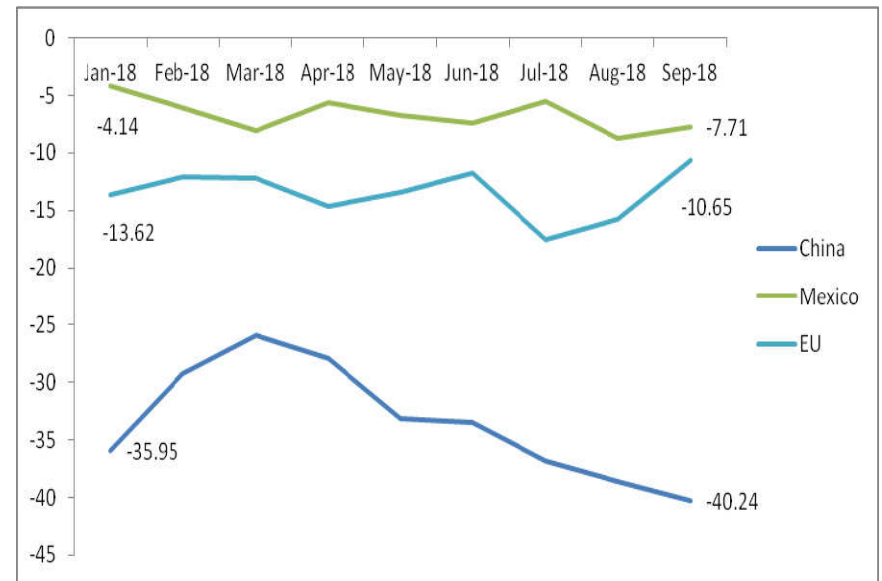
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Kaleidoscope : 2018

Global Trade War

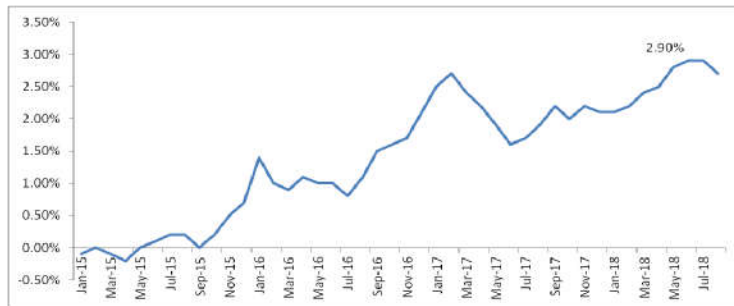## US Trade Deficit Proportion by Country for 2017 (%)

US Trade Deficit by Country in 2018 (USD Billion)

US Government planned to impose tariff because of high trade deficit, especially to China. However, US trade deficit to China tend to widen, even after tariff had been imposed.

Sumber: Census Bureau

The Fed Monetary Policy

US Monthly Inflation 2015 - 2018(%)

US Unemployment Rate 2015 -2018 (%)
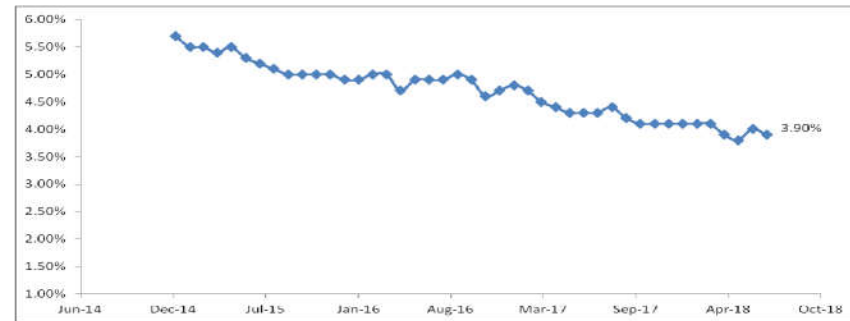
Probability of 4 Times FFR Hike in 2018 (%)

Previously, The Fed had planned to hike FFR 3 times in 2018. However, because of high inflation and low unemployment rate, THE FED revised it to 4 times.

Sumber: CME FedWatchtool & Bloomberg

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Global Currency

Emerging Market Currency Change
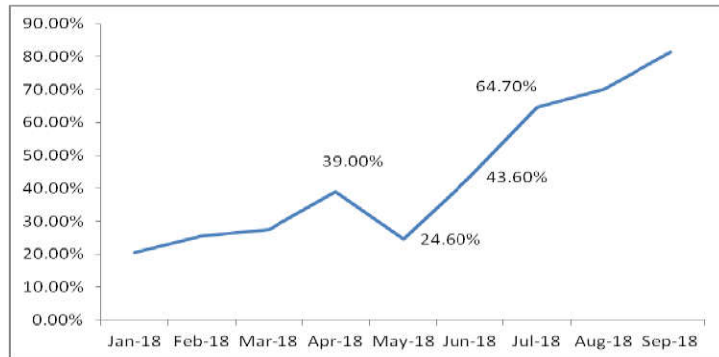2018 (YTD) with Best Performance
(Blue) dan Worst Performance (Red)
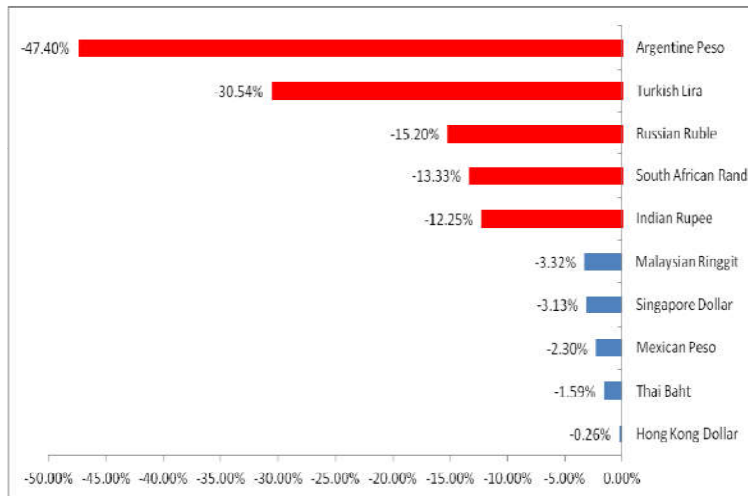
G10 Currency Change 2018 (YTD)
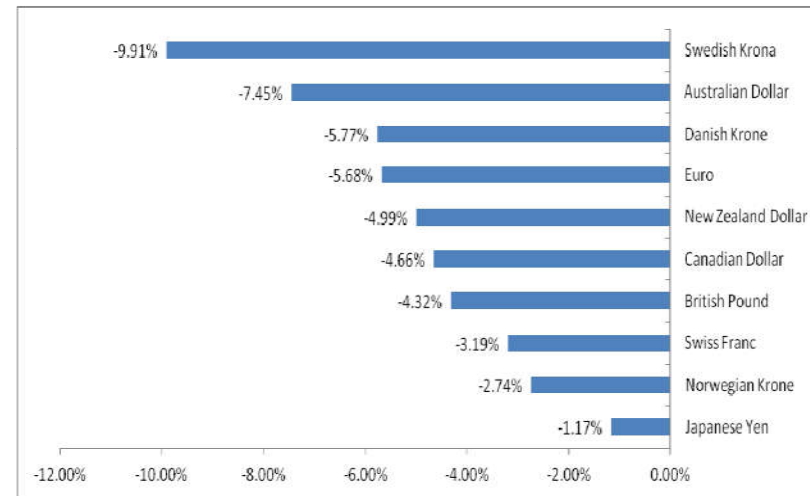
US Dollar were strengthening against almost all basket currency, including developing countries or G10. Some of currency were weak due to crises, such as Argentine Peso, Turkish Lira, and South African Rand

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Global Issues Impact to Indonesia
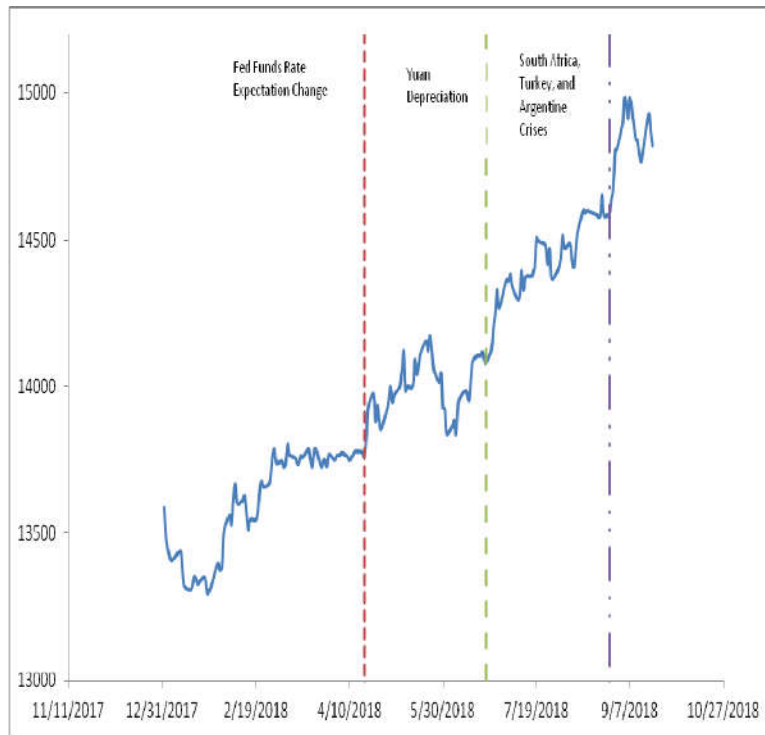
USD/IDR 2018   Jakarta Composite Index 2018
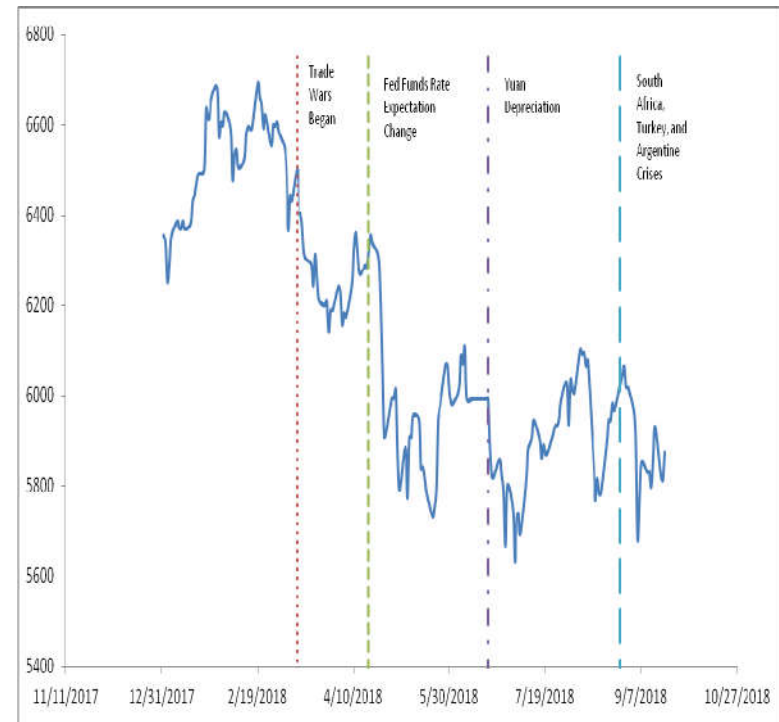
Trade war issues, The Fed monetary policy, and emerging markets crises pushed USD/IDR higher and JCI lower.

Sumber: Bloomberg

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Risk Indicator of Indonesia

Indonesian 10-years Benchmark Bond YTM and Price 2018
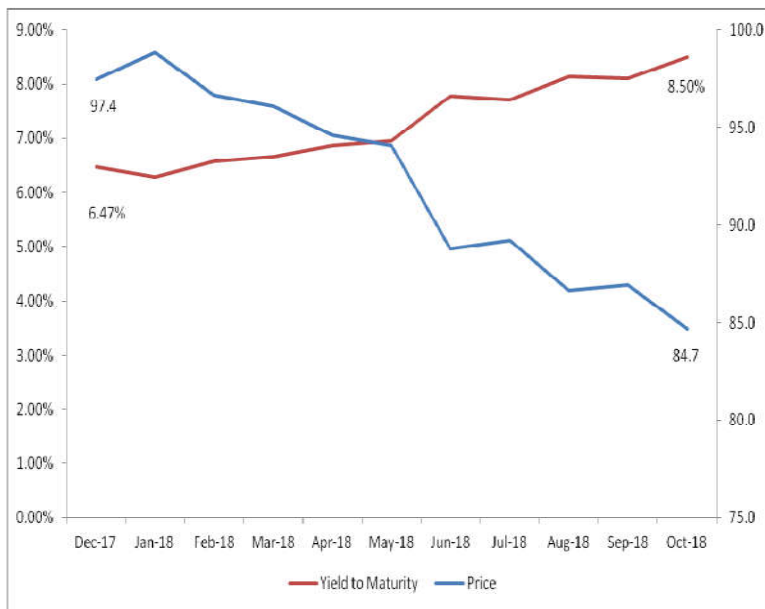
5-years CDS Monthly
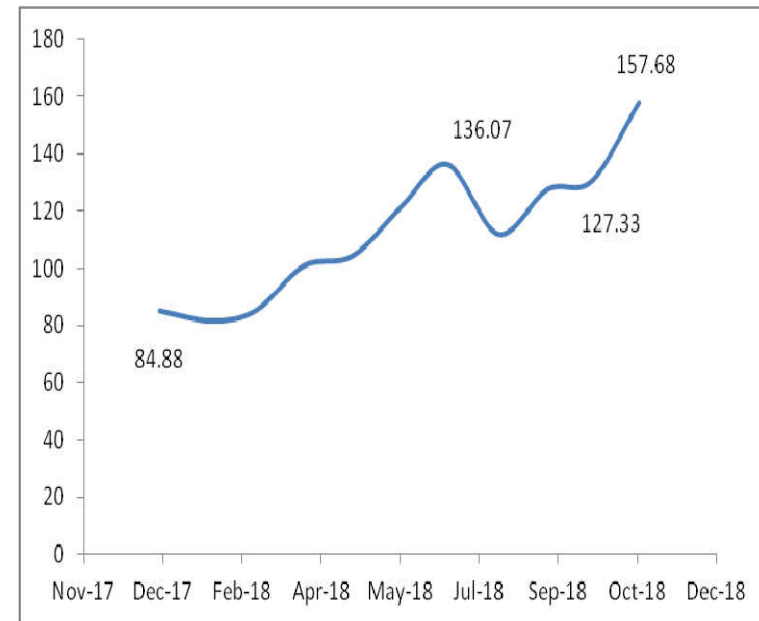
Indonesia risks were significantly higher in 2018, as reflected by higher yield of government securities and 5-year CDS. However, in April, Moody's upgraded Sovereignty rating, from Baa2 to Baa3.

Sumber: Bloomberg

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Economic Outlook 2019

World Economic Growth Projection

World Economic Growth 2014-2019
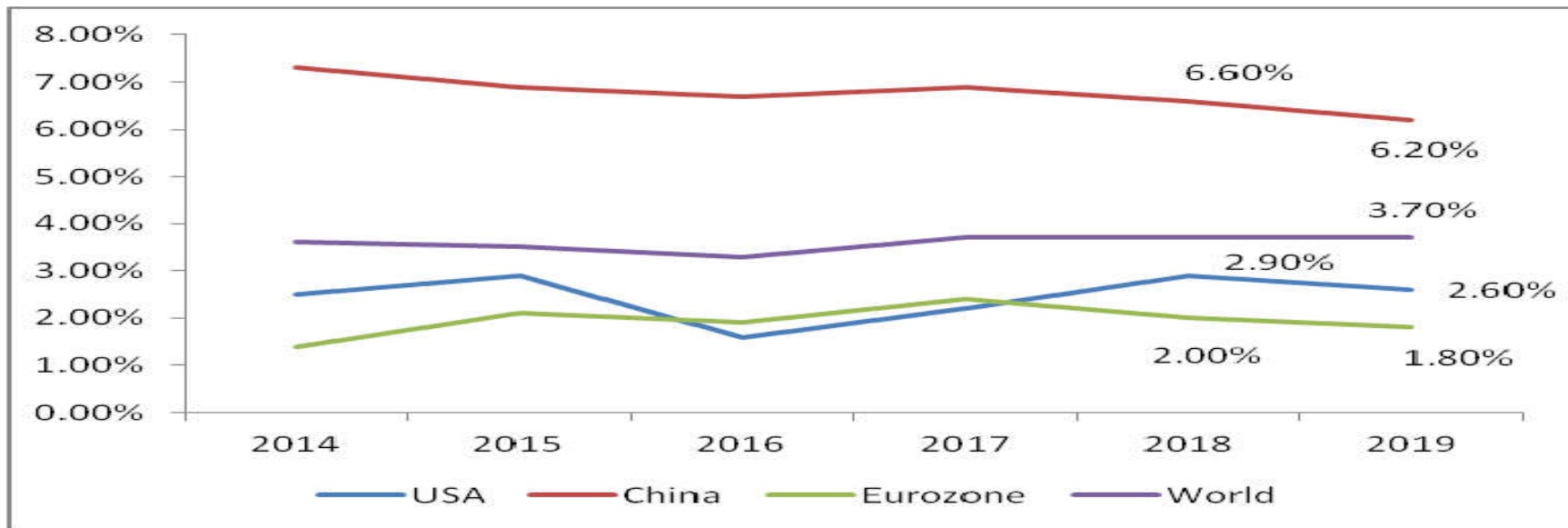
Global economic growth tend to be slower in 2019, as negative impact of trade war would be still rolling.

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The Fed Policy in 2019

The Fed planned to hike its rate 3 times in 2019. The Fed's plan would be implemented if US economic condition do not deviate too far from current condition.

Projection of Fed Funds Rate 2019
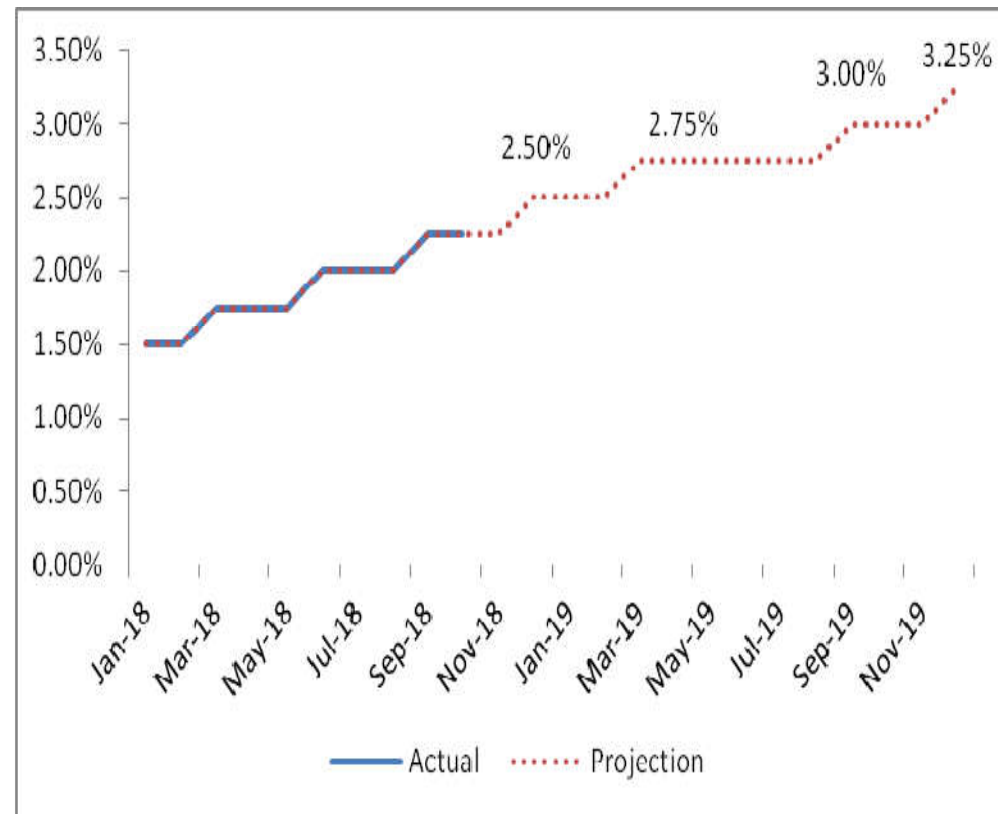
Source: MCS Estimates & Reuters

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Oil Price Projection

World Oil Price Projection 2019
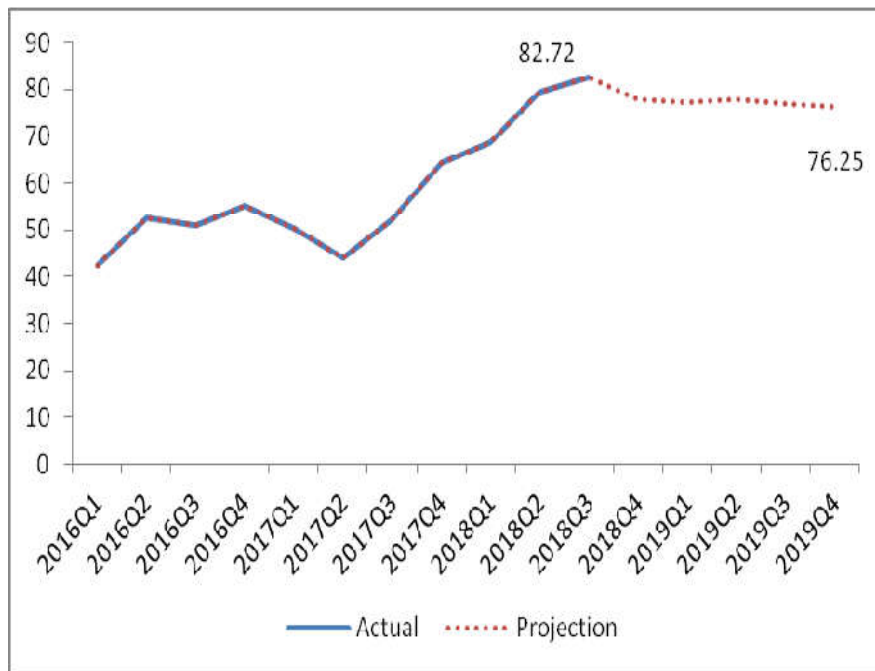
Oil price are projected slightly lower than current level amidst of OPEC high tension.

Source: Bloomberg

Indonesia Economic Growth Projection

Indonesia annual GDP 2019 are projected to be lower than this, due to lower investment. Consumer spending are tend to be slightly higher because of election year.

Annual GDP Growth Projection
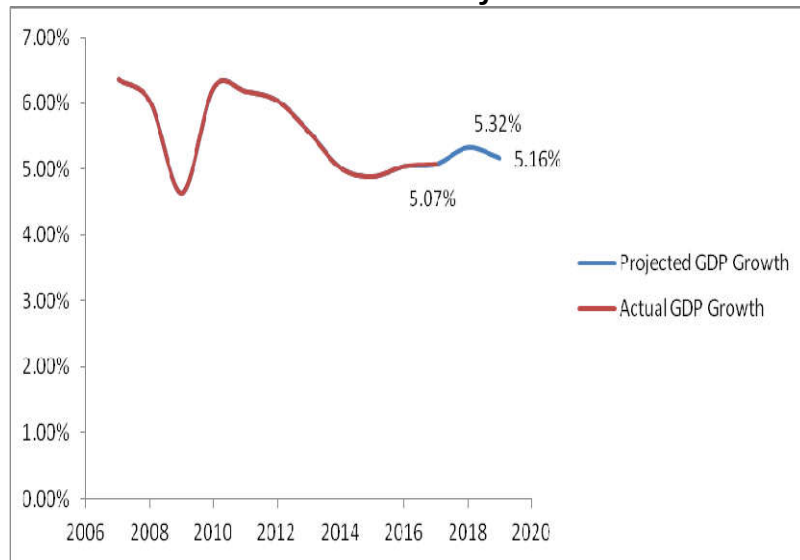
Quarterly GDP Growth Projection
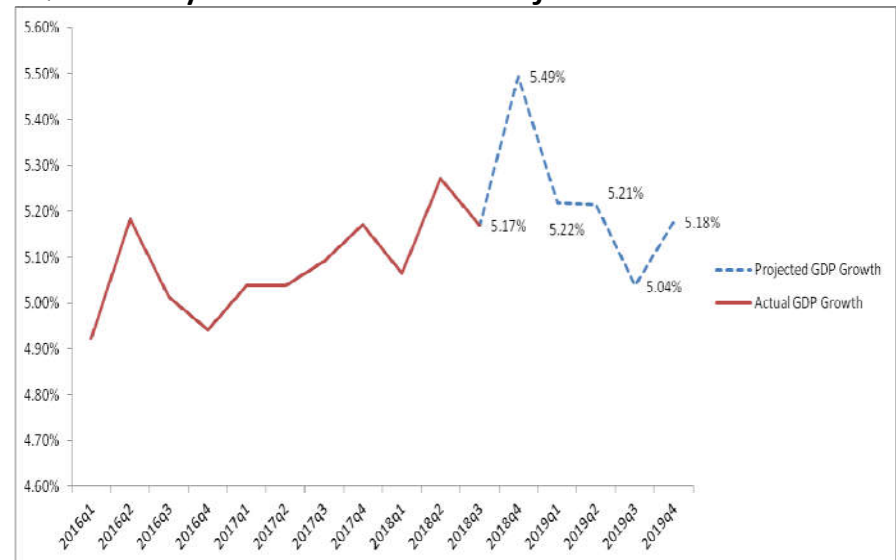
Source: MCS Estimates & BPS

Indonesia Inflation Projection

Indonesia Inflation 2012 - 2019
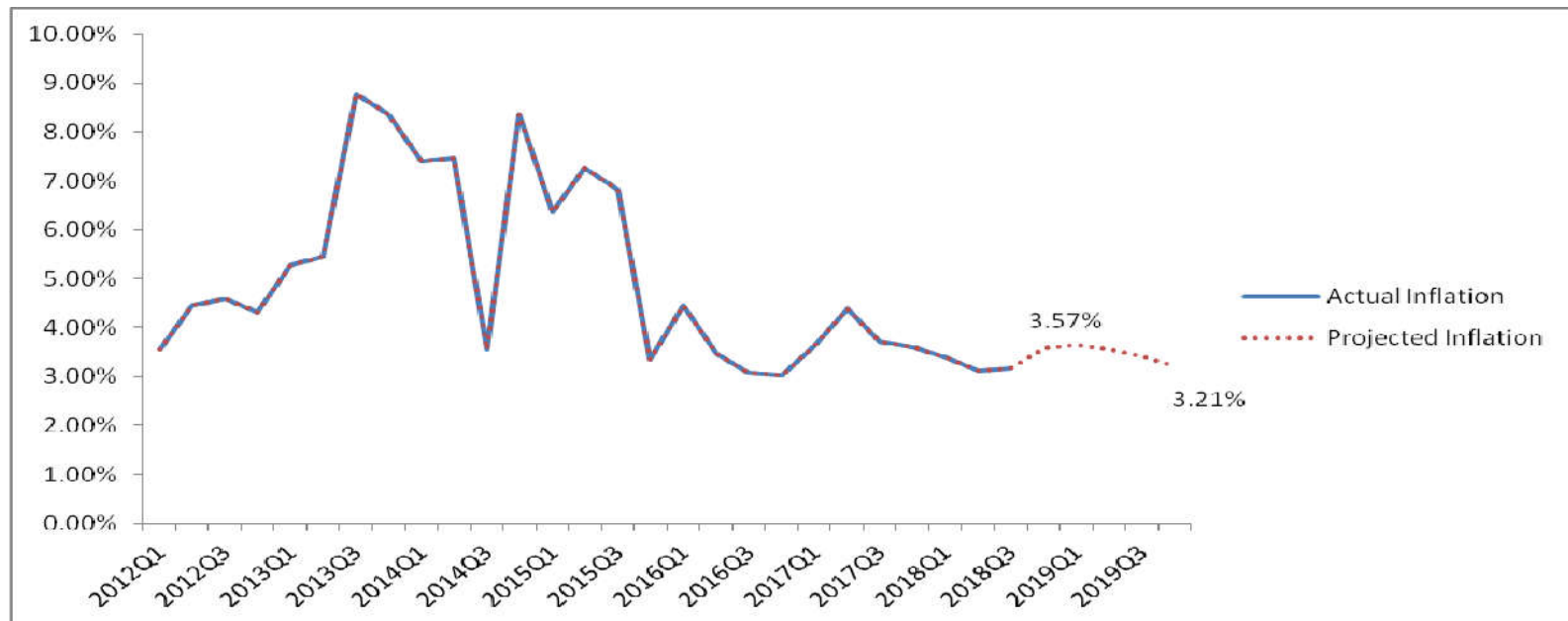
Inflation in 2019 are projected 3.21% , lower than 2018 projection, 3.57%. This level of inflation still in the Bank Indonesia target for 2018 and 2019, 3.5 ± 1 %.

Source: MCS Estimates & BPS

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Indonesia Currency Projection

Quarterly Average USD/IDR 2015 - 2019

Average USD/IDR are projected to be deppreciated to IDR 14,737 / USD Dollars. Those deppreciation mainly because of global pressure from The Fed monetary policy
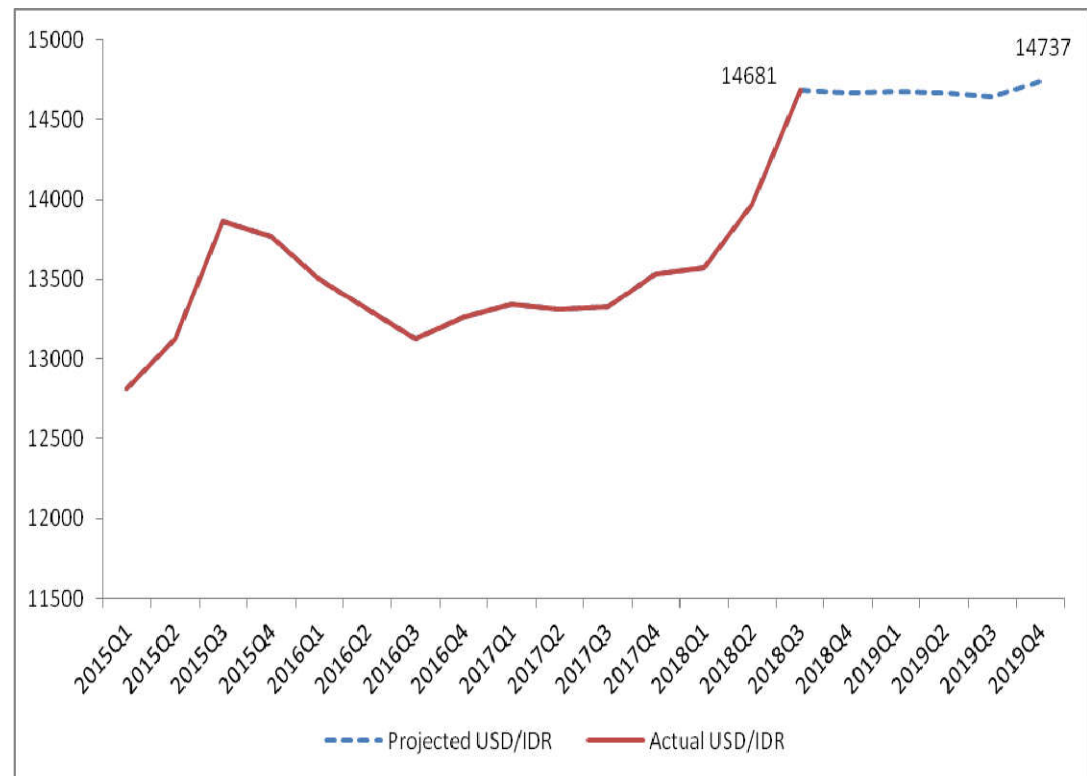
Source: MCS Estimates & Bloomberg

7-DRR Projection

Indonesia 7-DRR 2011-2019

Spread of 7-DRR and Fed Funds Rate
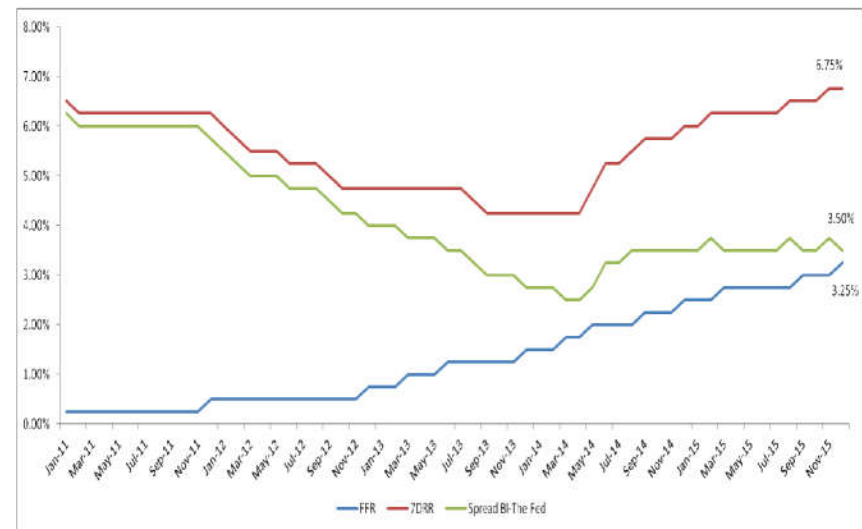
Bank Indonesia are likely to stay hawkish in 2019. They would try to follow The Fed direction to maintain currency.

Source: MCS Estimates

2019 State Budget

State Budget 2018 & 2019 (in Rp trillion)

Item	2018	2019	Change (%)
State Revenue	1903.03	2142.52	12.58%
Tax Revenue	1897.64	2142.09	12.88%
Non-Tax Revenue	1548.49	1781	15.02%
Grant	5383.2	435.3	-91.91%
State Expenditure	2217.25	2439.69	10.03%
Regional Transfer	763.62	823.35	7.82%
State Employee Expenditure	342.48	368.59	7.62%
Goods Expenditure	319.56	319.34	-0.07%
Capital Expenditure	193.69	211.86	9.38%
Debt Payment	249.41	275.42	10.43%
Subsidy	228.15	220.88	-3.19%
Grant Expenditure	1.46	1.94	32.88%
Social Aid	80.25	103.24	28.65%
Other	38.64	106.07	174.51%
Budget Deficit/Surplus	-314.22	-297.17	
Percentage Deficit/Surplus to GDP	**2.12%**	**1.84%**	

Infrastructure Budget 2018 & 2019 (in Rp trillion)

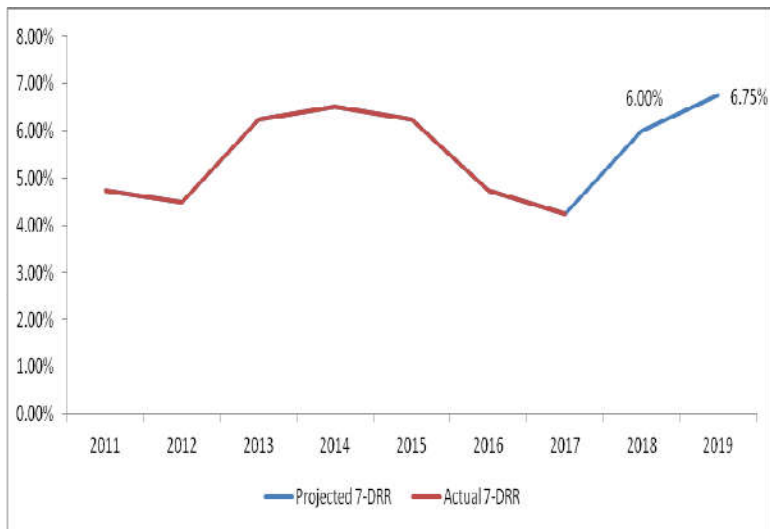| Item	2018	2019	Change (%)
Economic Infrastructure	396.5	404.6	2.04%
Social Infrastructure	8.9	10.7	20.22%
Other	5	5.2	4.00%
Total	**410.4**	**420.5**	**2.46%**

In the next year, budget deficit tend to more populist as social aid budget increase more than infrastructure expenditure and even capital expenditure.

Source: Ministry of Finance

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Capital Market Outlook 2019

Jakarta Composite Index 2019
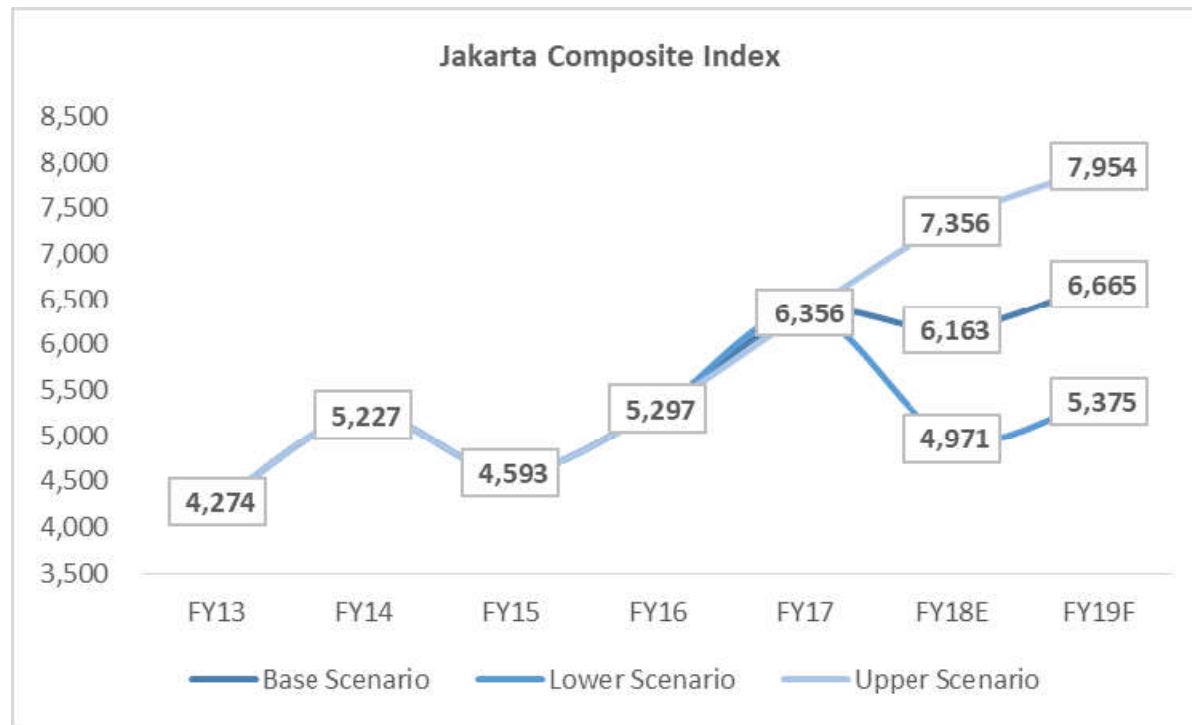
Our Baseline Scenario for JCI 2019 : **6,665**. Implying a 8% YoY growth

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Jakarta Composite Index - Assumptions

Jakarta Composite Index

JCI PE Band
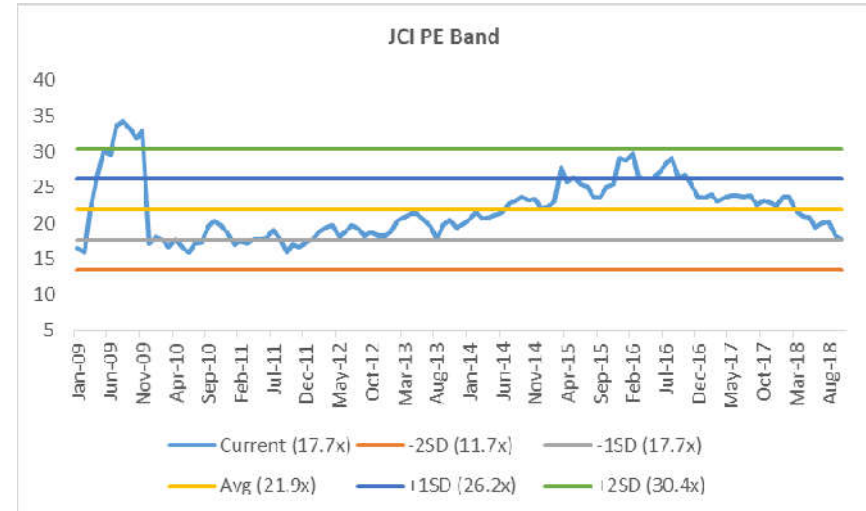
We estimate JCI Earnings to grow 8% YoY in 2019.

We use PE 21.9x as our baseline assumption; which a 5 year average.

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Sectoral Earnings Estimate 2019

Earnings Growth

Sector	Growth
Prop	12.2%
Fin	10.7%
Agri	9.1%
M.Ind	8.7%
Cons	8.4%
JCI	8.1%
Infr	7.8%
B.Ind	7.0%
Trad	6.5%
Mine	6.1%

Property would has the highest growth in 2019; followed by Finance & Agriculture.

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Techincal Analysis

Realistic Assumption
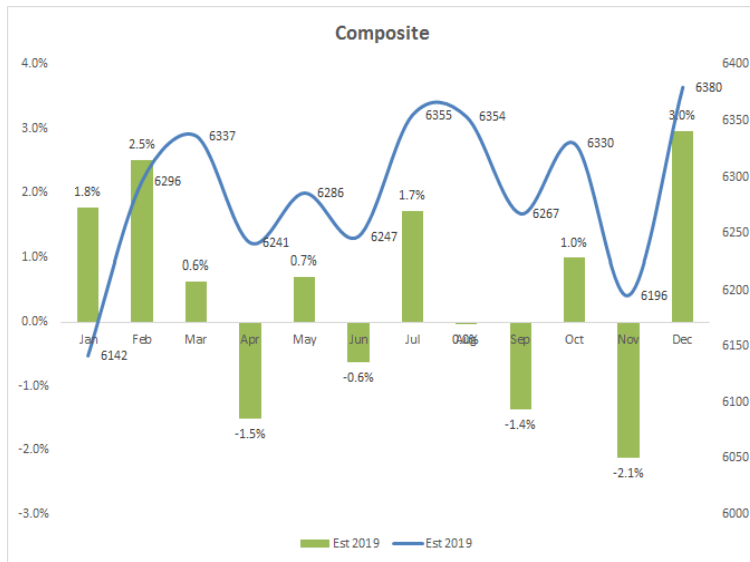
Optimistic Assumption
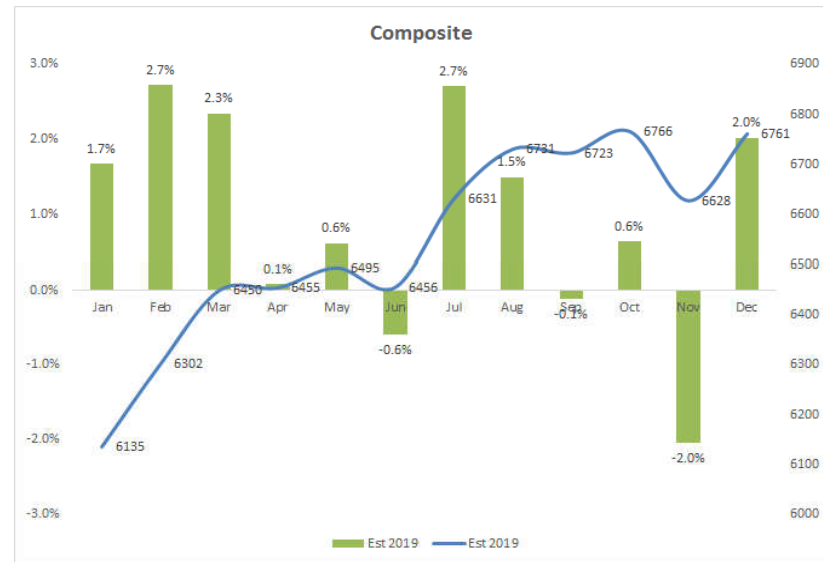
Sectors Outlook 2019

Consumer Goods

Food & Beverages Growth Rate
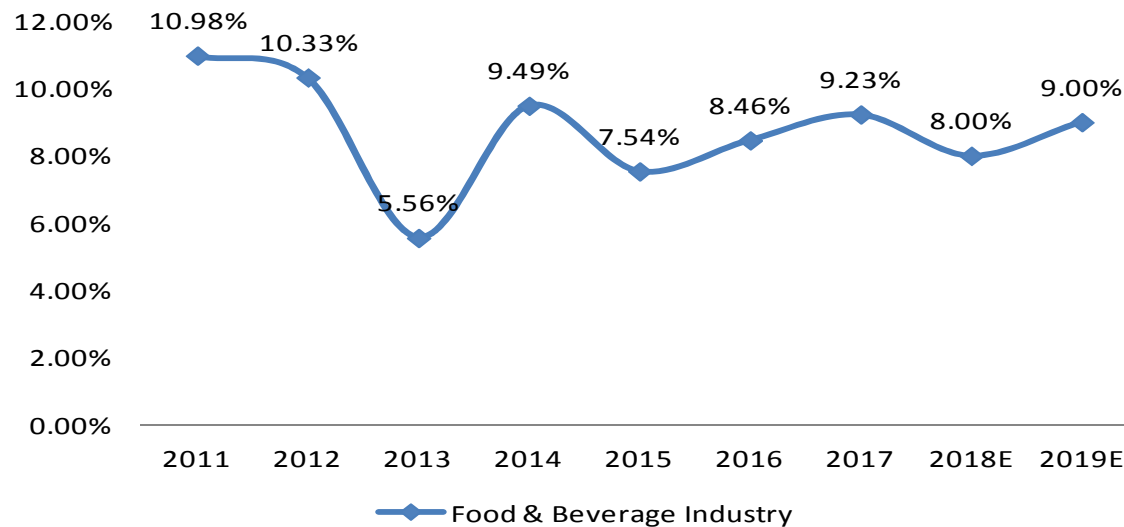
Source: Various Sources

Indonesia's economy is largely driven by household consumption, and one industry that thrives on this like no other is that of food and beverages. Sales growth is fuelled by rising incomes and increased spending on food and drink, especially from the growing number of middle class consumers.

Consumer Goods

Indonesia's Middle-class and Affluent Consumers (MACs)
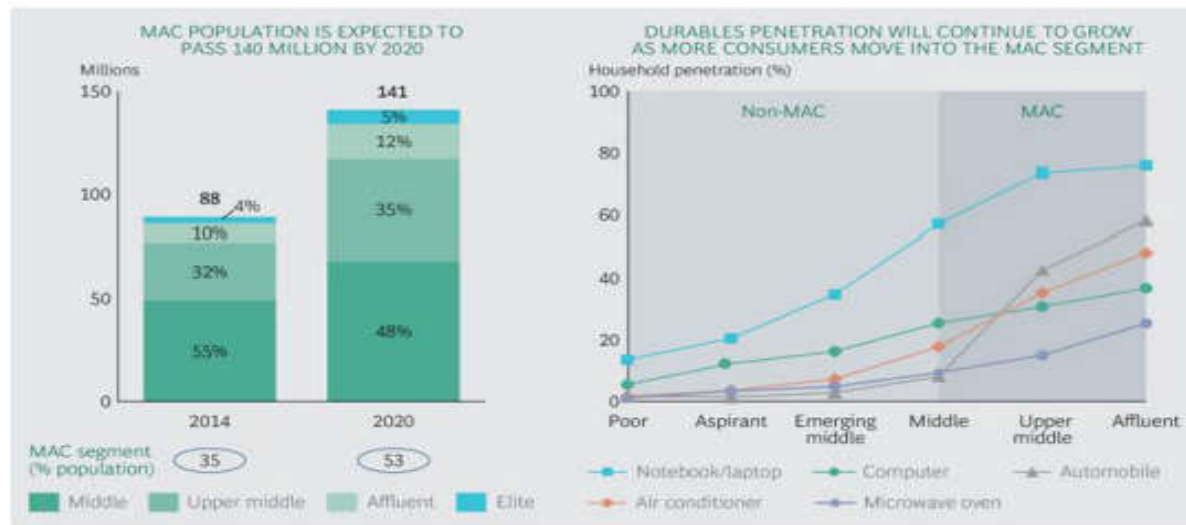
Source: BCG

Indonesia is the world's fourth-largest consumer market in terms of population size. In a recent Boston Consulting Group (BCG) survey, 88 million people – some 35% of the population – were designated as middle-class, affluent consumers.

Consumer Goods

Instant Noodles Consumption
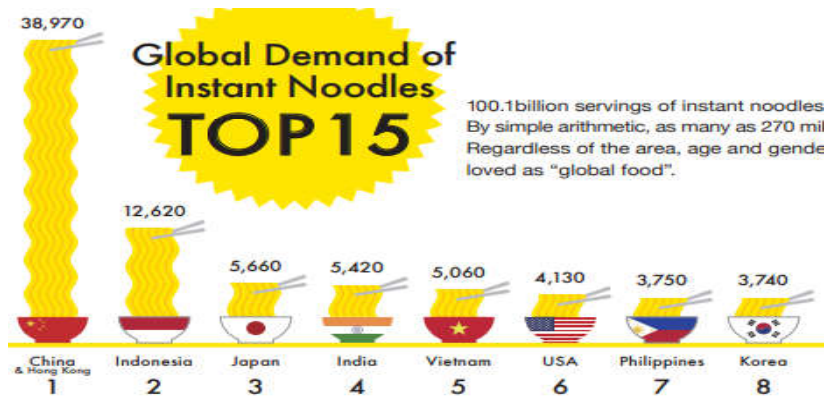
Source: WINA

Indonesia is the world's second-largest consumer of instant noodles in 2017.

Bottled Water Consumption

	bn liters
US	39.0
Mexico	28.7
China	27.0
Indonesia	16.0
Germany	12.0
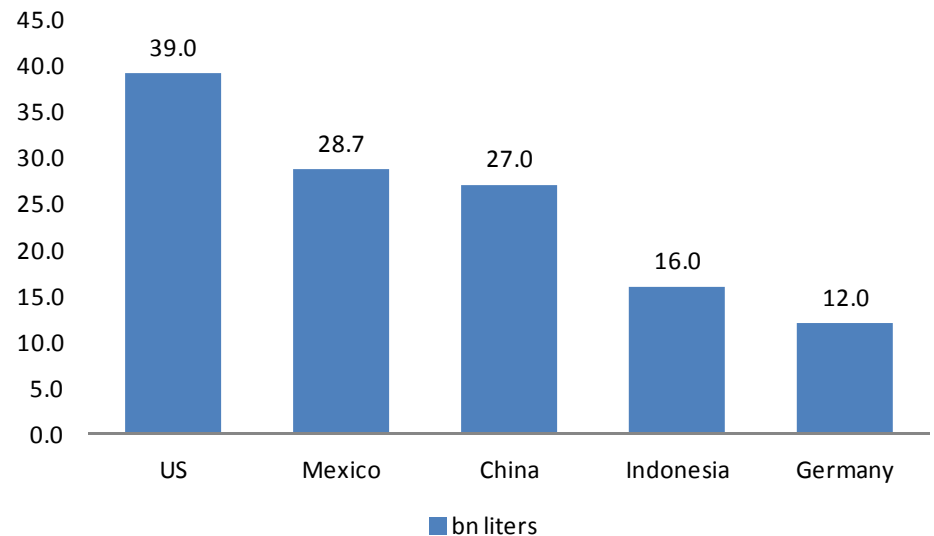
Source: Various Sources

Indonesia is the world's fourth largest consumer of bottled water in 2017, fueled by factors such as urbanization and a growing population rate.

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Consumer Goods

Indonesia Cigarette Production

bn sticks

Year	Value
2005	223
2006	217
2007	237
2008	266
2009	281
2010	292
2011	318
2012	326
2013	346
2014	345
2015	348
2016	342
2017	336
2018E	322

Male Smoking Rate

Country	Rate
Pakistan	42%
Philippines	43%
Malaysia	43%
Cambodia	44%
Vietnam	47%
China	48%
South Korea	50%
Laos	57%
Indonesia	76%
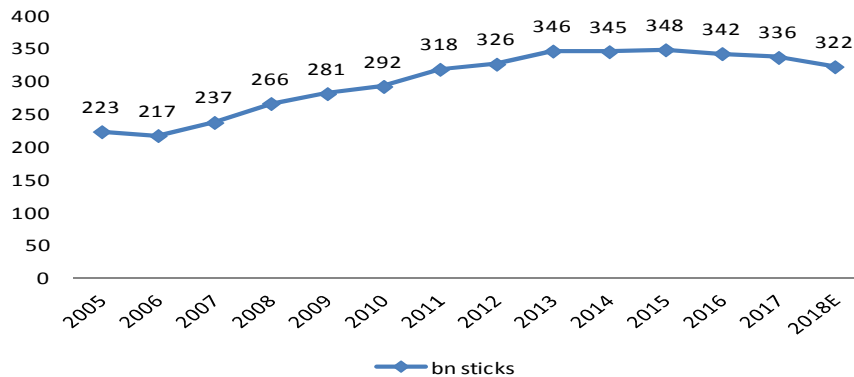
Source: World Bank

Indonesia is the second largest cigarette market in the world by retail volume.
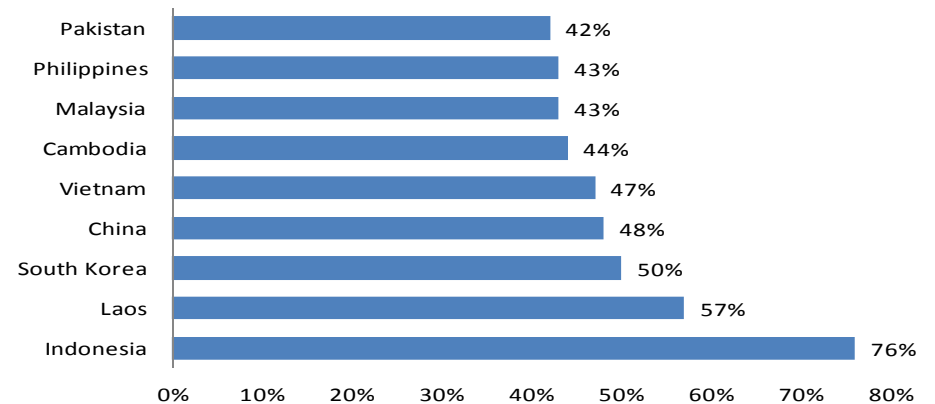
Male smoking rate is high in Asian countries, with Indonesian men ranked the world's top smokers as 76% of them smoke.

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Consumer Goods

Target Price

Company	2019 Estimates		TP
	Revenue (IDR bn)	Net Income (IDR bn)	(IDR)
UNVR	47,438	8,232	46,000
GGRM	98,623	9,039	87,000
HMSP	111,297	14,310	4,100
ICBP	43,713	4,521	9,800
INDF	79,261	4,299	8,000
KLBF	23,505	2,710	1,700

Retail

Indonesia's Retail Sales
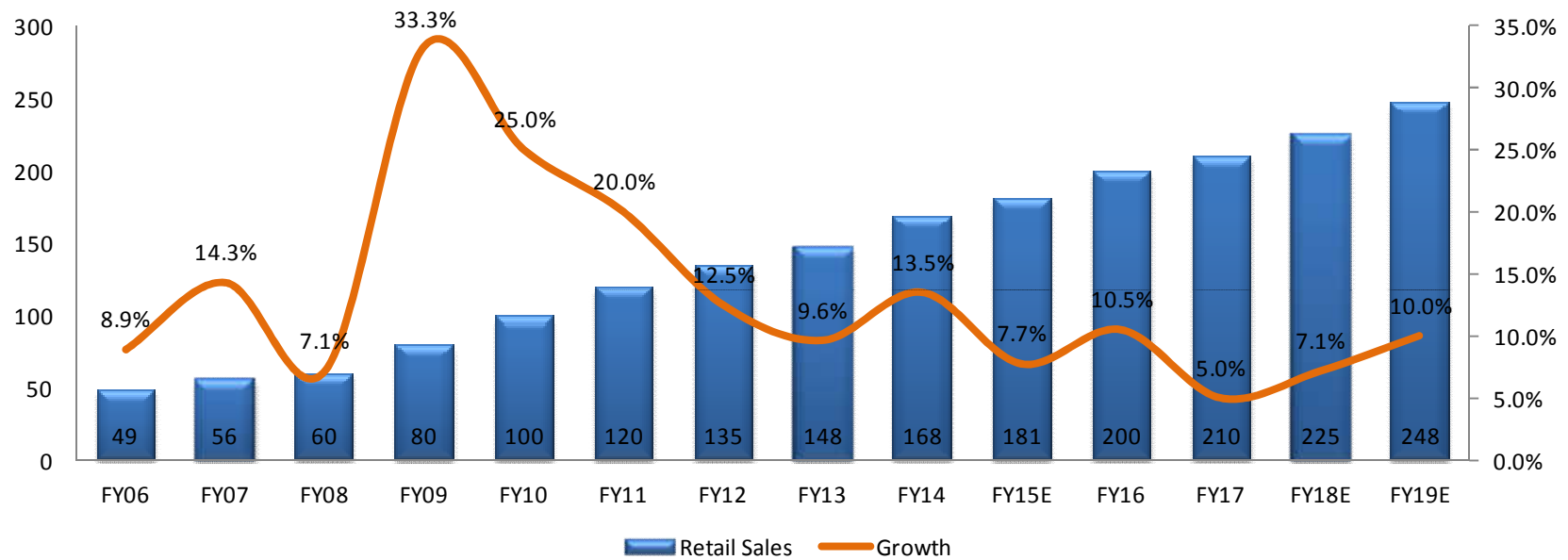
Source: Various Sources

Despite the sluggish economic growth, Indonesia's retail sector is still promising on the back of its large population and growing middle class with higher purchasing power and increasingly modern spending habits.

Retail

Indonesia's Sales of Grocery Retailers
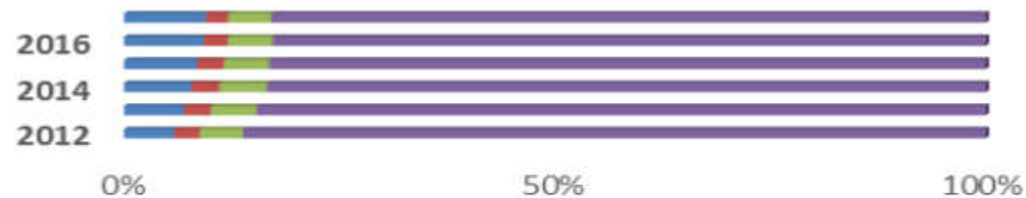
	2012	2013	2014	2015	2016	2017
Convenience Store/Minimarket	6.26	7.29	7.76	8.05	9.51	10.38
Hypermarket	3.24	3.26	3.22	2.94	2.87	2.81
Supermarket	5.43	5.57	5.46	5.04	5.32	5.45
Traditional	93.24	88.72	83.02	79.14	85.05	90.48

Source: USDA

Traditional retail channels, including mom-and-pop stores (warungs) and wet markets, still dominate the retail landscape in Indonesia, but modern trade's share continues to rise, led by the growth of convenience stores.

Retail

E-commerce Sales

5.8 (2016), 7.06 (2017), 8.59 (2018), 10.37 (2019), 12.34 (2020), 14.42 (2021), 16.48 (2022)

■ E-Commerce Sales (USD bn)
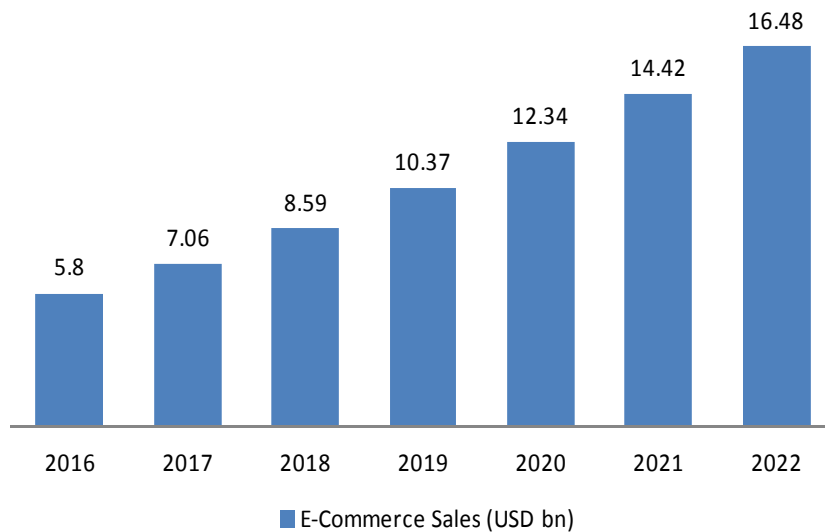
Source: Various Sources

Devices Used to Access Internet

■ Use of computer or tablet
■ Equal use of smartphone and computer or tablet
■ Use of smartphone

THAILAND: 5%, 17%, 71%
VIETNAM: 6%, 19%, 71%
PHILIPPINES: 16%, 21%, 41%
MALAYSIA: 6%, 19%, 71%
SINGAPORE: 8%, 55%, 34%
INDONESIA: 7%, 10%, 70%
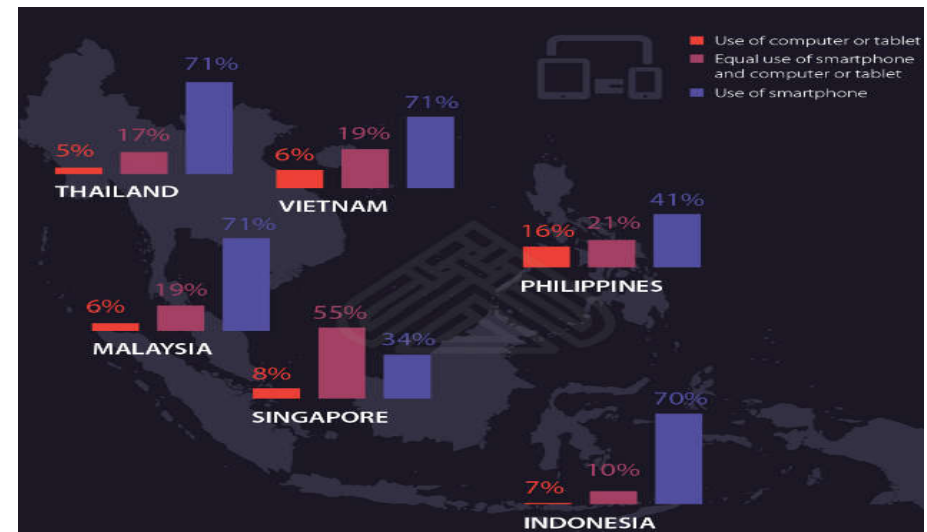
Source: We are Social Digital in 2017

Indonesia has more than 130 million internet users. The rising penetration of internet has given strong support to the blossoming of business-to-consumer (B2C) e-commerce and the relevant supporting services.

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Retail

Target Price

Company	2019 Estimates		TP
	Revenue (IDR bn)	Net Income (ID	(IDR)
ACES	7,144	923	1,700
MAPI	19,946	587	1,000
LPPF	10,815	2,047	7,500
RALS	6,185	527	1,600

Poultry

Animal Feed Consumption
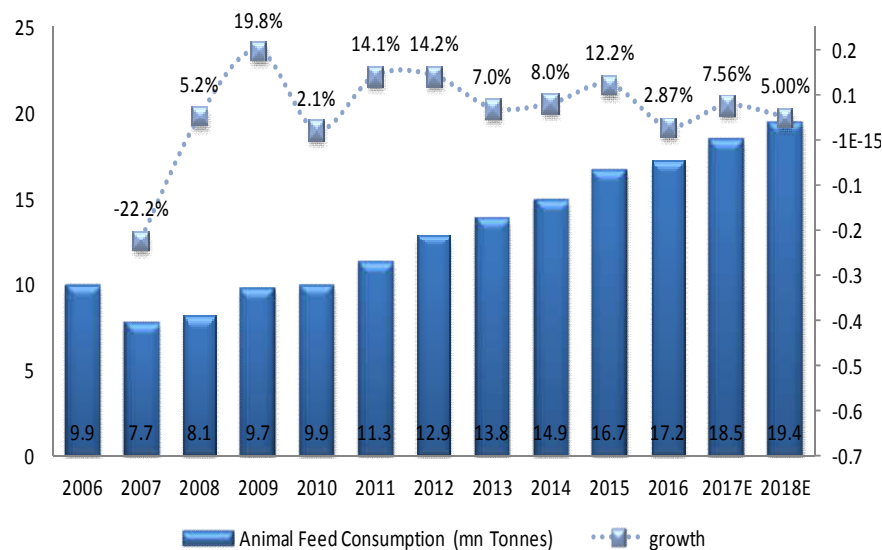
Source: GPMT

Broiler Meat (Poultry) Production

Source: USDA

With a population of 260 million people, Indonesia is the largest market for protein consumption in Southeast Asia, and the demand for animal proteins in Indonesia will continue to grow due to rising incomes, population growth and changes in dietary preferences.

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Poultry

Target Price

Company	2019 Estimates		TP
	Revenue (IDR bn)	Net Income (IDR bn)	(IDR)
CPIN	58,287	4,889	6,000
JPFA	35,272	2,009	2,700
MAIN	6,705	254	1,700

Agriculture Sector

New Renewable Energy Contribution to Total Energy Supplies 2016—2050
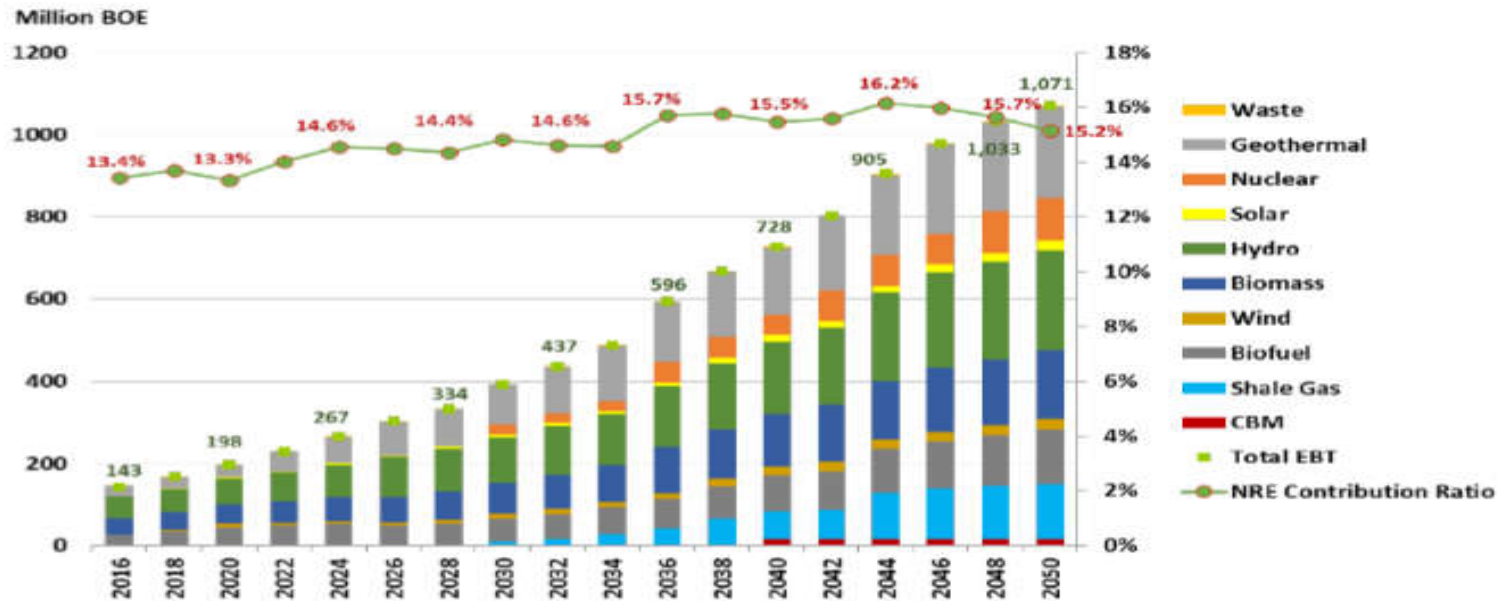
Source: BPPT

Along with the increasing demand, renewable energy is set to be grow at a growth rate of 6.1% which dominated by hydro, geothermal, biofuels, biomass, and shale gas in up to 2050, with the contribution from biofuels set to be around 2% from total energy supplies by that year.

Agriculture Sector

Indonesian Palm Oil Production 2016-2018
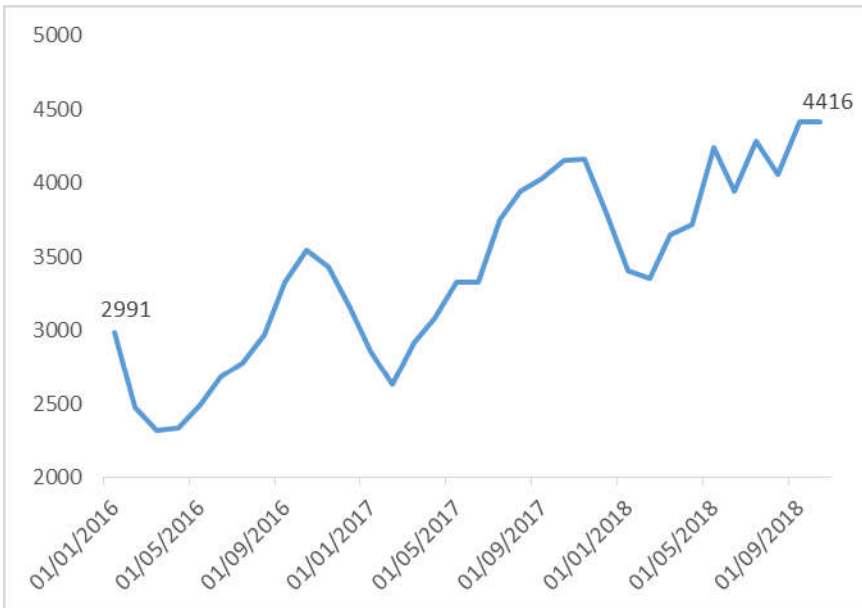
Source: Bloomberg, GAPKI, MCS Research

Generic Palm Oil Price 2016-2018
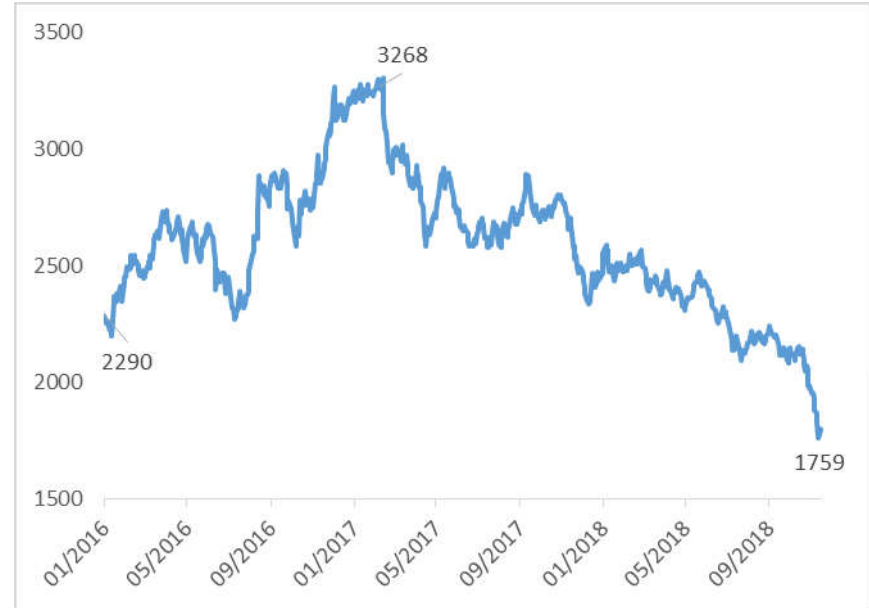
Source: Bloomberg, MCS Research

From 2016, Indonesian CPO Production has been increased by 47.64%. However, the price trend has been negative since early 2017.

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Agriculture Sector

Target Price

Company	2019 Estimates		Target Price
	Revenue (IDR bn)	Net Income (IDR bn)	(IDR)
AALI	17,723.85	1,753.75	14375
LSIP	4,600.55	663.11	1485
SIMP	13,426.38	432.64	500
SSMS	4,383.85	1,099.50	1600

Source: Bloomberg, MCS Research

Property Sector

House Mortgage Loan 2013-2017
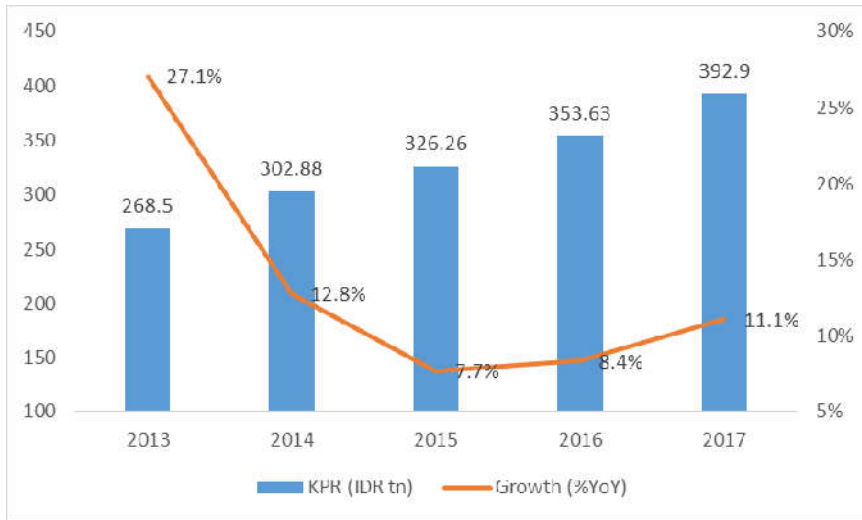
Source: Bloomberg, MCS Research

Apartment Mortgage Loan 2013-2017

Source: Bloomberg, MCS Research

While the landed house mortgage loan trend still slowed down, apartment performed better

Property Sector

Loan To Value Newest Regulation (20/8/PBI)

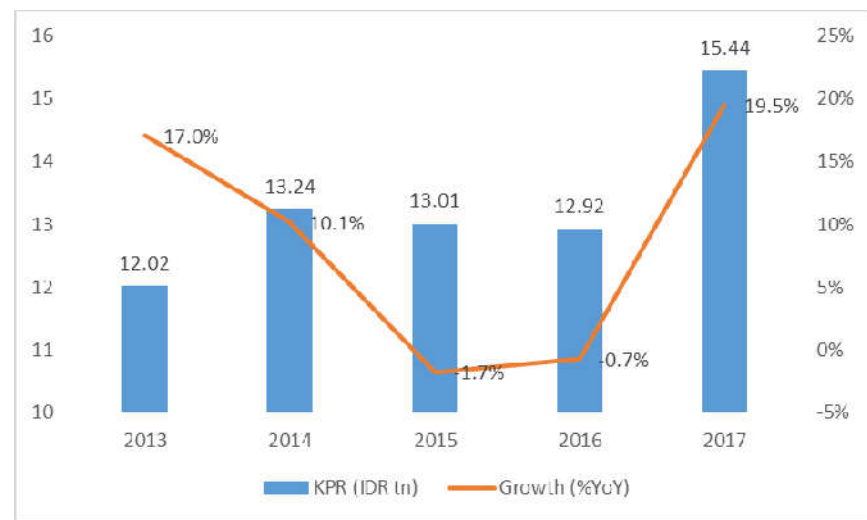| Property Type	Previous Regulation			Current Regulation	
	1st Mortgage	2nd Mortgage	3rd Mortgage etc	1st Mortgage	2nd Mortgage etc
Landed House					
Land size >70 sqm	85%	80%	75%	Not specified	80%
Land size 22-70 sqm	Not specified	85%	80%	Not specified	85%
Land size <=21 sqm	Not specified	Not specified	Not specified	Not specified	Not specified
Strata title					
Building size >70 sqm	85%	80%	75%	Not specified	80%
Building size 22-70 sqm	90%	85%	80%	Not specified	85%
Building size <=21 sqm	Not specified	85%	80%	Not specified	85%
Shop/office house	Not specified	85%	80%	Not specified	85%

Source: Bank Indonesia, MCS Research

With the newest update on loan to value (LTV) regulation, hopefully we expect the property demand will increase

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Property Sector

Target Price

Company	2019 Estimates		Target Price (IDR)
	Revenue (IDR bn)	Net Income (IDR bn)	
ASRI	4,086	1,358	332
BSDE	8,040	2,594	1,565
CTRA	7,736	1,089	1,170
PWON	6,986	2,512	670
SMRA	6,081	421	840

Source: Bloomberg, MCS Research

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Construction Sector

Infrastructure Development Plan
RPJMN 2015 - 2019

Road and Toll	Airport	Port and Ship	Railway	Ferry Crossing	Public Transports
•New Road : 2,650 km •Toll Road : 1,000 km •Road Maintenance : 46,770 km	•Construction of 15 New Airports •Procurement of 20 Pioneer Aircrafts •Airport Development for Air Cargo Services in Six Locations	•Construction of 24 New Ports •Procurement of 26 Pioneer Cargo Ships •Procurement of two livestock vessels •Procurement of 500 units of people's vessels (Pelra)	•Construction of the 3,258 km railway line in Java, Sumatra and Kalimantan consists of 2,159 km intercity trains and 1,099 km of urban trains	•Construction of Ferry Ports in 60 Locations •Procurement of 50 Ferry Ships (Mainly Pioneers)	•Bus Rapid Transport (BRT) Development in 29 Cities •Construction of Rapid Mass Transit in Urban Areas (6 Metropolitan Cities, 17 Major Cities)

Source: Bappenas, MCS Research

Approaching end of the timeline, we expect the government will fully committed in completing their mid term development targets.

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Construction Sector

Government Infrastructure Spending 2015-2019
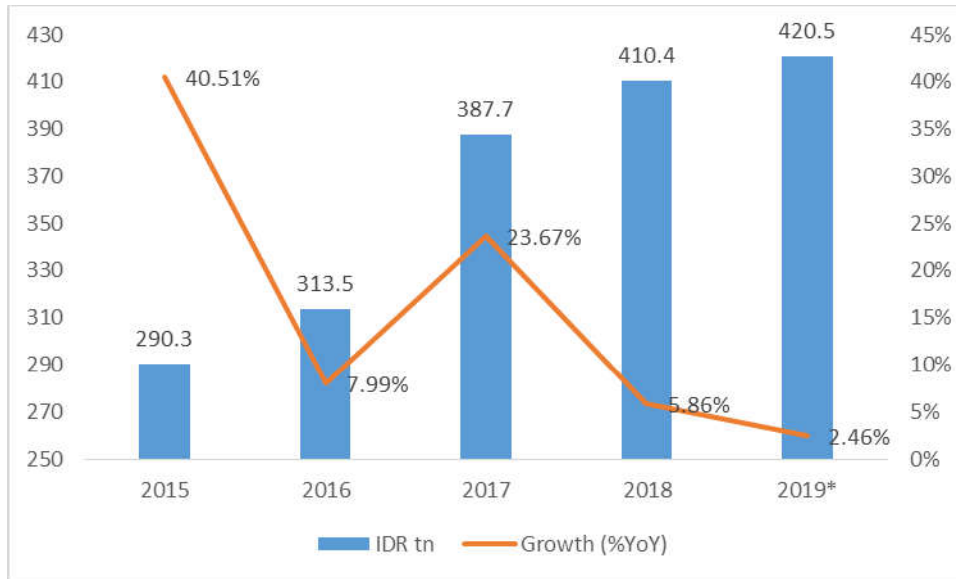
*planned

Source: Ministry of Finance, MCS Research

However, with the slowing down on government infrastructure spending next year. Government would be unlikely to fully accomplish the target.

Construction Sector

Target Price

Company	2019 Estimates		Target Price (IDR)
	Revenue (IDR bn)	Net Income (IDR bn)	
ADHI	20,385.00	1,043.28	2,090
PTPP	31,722.53	2,048.19	2,820
WIKA	39,762.70	1,855.84	2,050
WSKT	56,109.83	4,557.84	2,400

Source: Bloomberg, MCS Research

Your Trusted Professional

THANK YOU