Indonesia
Giant in the Making

Division

The Economy

The Next China, Only Younger and More Open

- **If China Spurs global Demand, Indonesia supplies global needs**: Indonesia is the second biggest coal exporter after Australia and world biggest suppliers for CPO, nickel and tins
- **Growing from within**: Strong economic growth momentum will likely continue on the back of robust consumer purchasing power and pick up in investment spending. Young and productive demographic structure, coupled with wider middle income class will lead to strong domestic demand. At the same time, soon-to-be-achieved sovereign investment grade rating will drive higher investment spending at lower risk.
- **Better prepared for global uncertainty**: Indonesian economy is better prepared to cope with capital reversal, given stronger economic backdrop, prudent macroeconomic policy, and rising FDI flow. Besides providing financing, strong inflow to Indonesia, especially portfolio investment flow has helped strong corporate earning growth
- **Stable, predictable risks:** Yet, we believe the risk remains on the table given highly subsidized fuel price. Our baseline scenario suggest the inflation could reach 6.4% in 2012 if the government choose only to capped fuel consumption, while 7% if it decided to increase the subsidized fuel price. But the government has also issued a series of investment and fiscal incentives to boost productin capacity

If China spurs global demand, Indonesia supplies global needs

Commodity	2010 (mn metric tons)	% of total world production	Total world production	Note
		Energy		
Gas	73.8	2.6%	2,880.9	2nd biggest producer after Russia (17%)
Oil	47.8	1.2%	3,913.7	20th biggest producer in the world
Coal	305.9	5.0%	7,273.3	5th biggest producer, 2nd biggest coal exportes after Australia(26.5% vs. 24%)
Geothermal (installed capacity in megawatts)	1,189.0	10.9%	10,906.2	3rd biggest in the world after US (28.4%) and Philippines
		Agriculture		
Rice	37.1	8.2%	451.2	3rd biggest world producer after China (30.4%) and India (21.1%)
Oilseed, Copra	1.5	26.1%	5.9	2nd biggest after Philippines (44%)
Oilseed, Palm Kernel	6.3	49.8%	12.7	The biggest in the world
Palm Oil	23.6	49.5%	47.7	The biggest in the world
		Metals		
Nickel	0.2	15.0%	1.6	2nd biggest producer after Russia (17%)
Tin	0.1	23.0%	0.3	2nd biggest producer after China (44%)
Cooper	0.8	5.2%	16.2	5th biggest after Chile, Peru, China, and US

Source: USDA,USGS, BP

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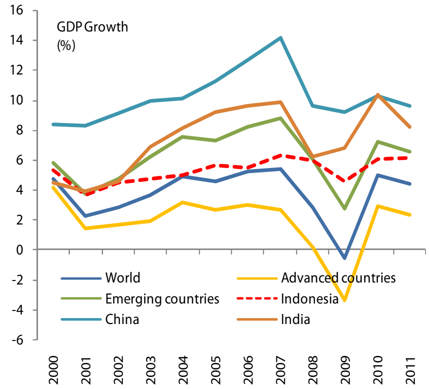
Growing from within (1): Strong domestic consumption supported by rising exports and investment

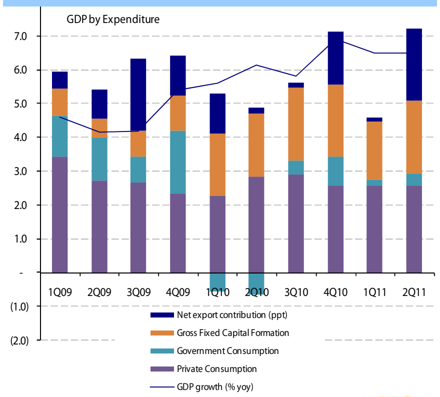
GDP grew 6.5% in 1H11 backed by domestic demand and pick up in exports vs. 5.5% average growth since 2000

Indonesia among few countries that manage to grow amid global financial crisis in 2008



Source: IMF

Domestic demand continued to be the back bone of the economy in 2Q11



Source: CEIC

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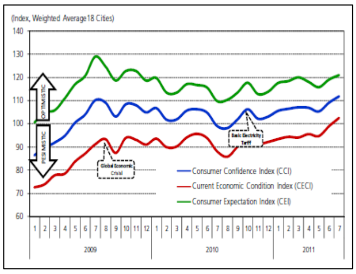
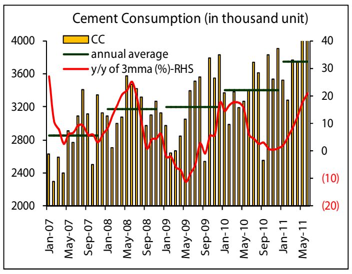
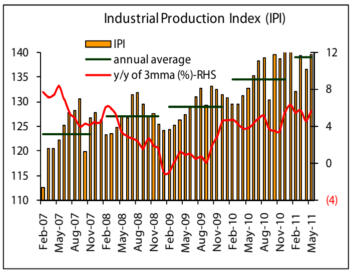
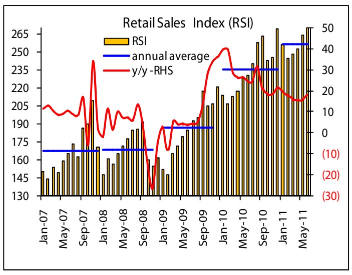
Growing from within (2): Expanding Real Sector









Source: CEIC

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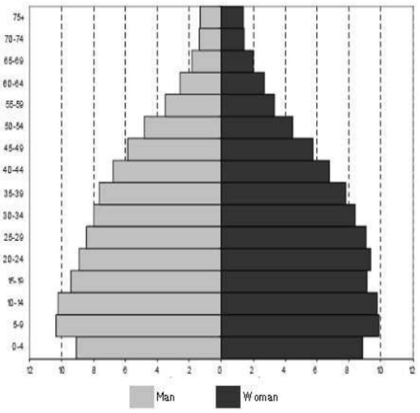
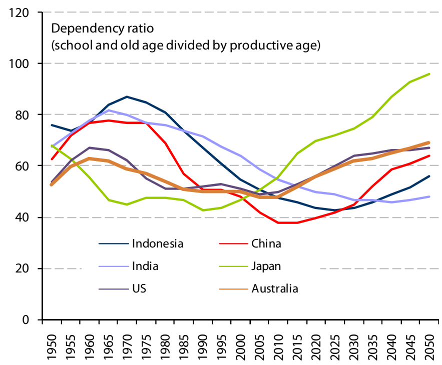
Growing from within (3): Young and spending population

More than 60% of population is in the productive ages with wider middle income class

Around 60% of total population in the age of 15-54



Young demographic structure is forecasted to linger until 2025



Source: CEIC, ADB, UN

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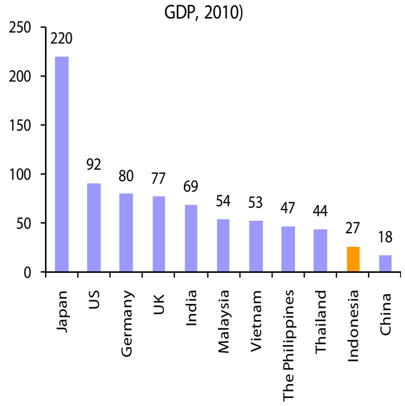
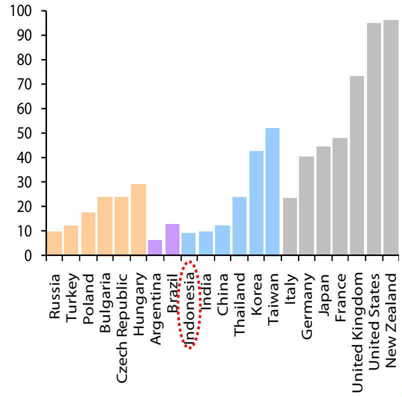
Growing from within (4): One of the most underleveraged among high growth emerging markets

Economic potential is still huge

General Government Gross Debt (% of GDP, 2010)



Household Credit, End-2008
(in percent of GDP)



Source: IMF

Source: CEIC

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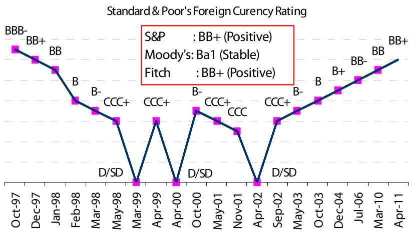
Better preared for Global Uncertainty (1)

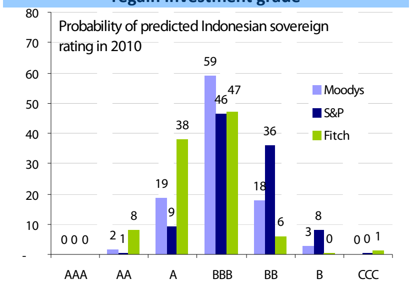
Indonesia sovereign rating soon to be upgraded to investment grade, when others face downgrades

- Macro numbers point that Indonesia deserves the upgrade soon rather than later.. Before yearend

Indonesia debt rating is getting closer to investment grade



Our model suggests that Indonesia deserves to regain investment grade



(%)	1 year average Mean different between pre- and post- upgrade period	Number of obs	Significance (p-value)	2 year average Mean different between pre- and post-upgrade period	Number of obs	Significance (p-value)	Expected sign of the difference
Real interest rate	2.7	46	0.09	3.8	46	0.10	Positive
Short-term yield spread to t-bill	3.7	49	0.04	5.7	49	0.04	Positive
Investment to GDP	(0.7)	35	0.02	(1.0)	35	0.07	Negative
Direct investment to GDP	(0.3)	30	0.35	(1.1)	30	0.08	Negative
Portfolio investment to GDP	0.8	36	0.11	0.9	36	0.03	Negative
FX reserves (mo of imports)	(0.5)	50	0.01	(1.3)	50	0.00	Negative

Source: CEIC, Mandiri Sekuritas, Bloomberg, Moodys

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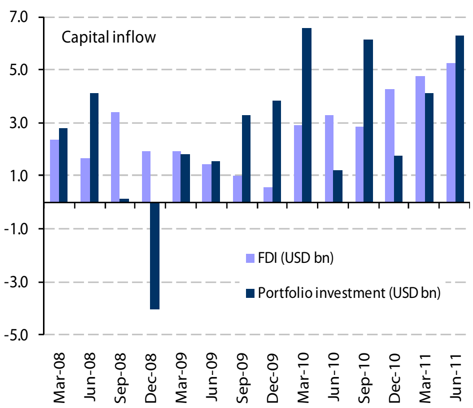
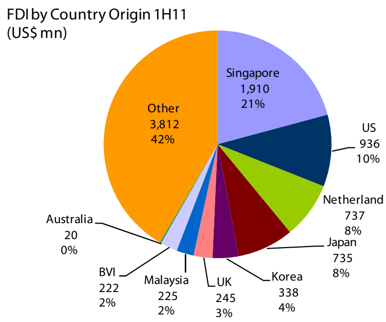
Better preared for Global Uncertainty (2): FDI grows faster than porfolio investment, started in 4Q10

FDI flow reached the highest level at US$5.3bn in the 2Q11



Most of FDI flow is still coming from Asia region



Source: EIU, BKPM, CEIC

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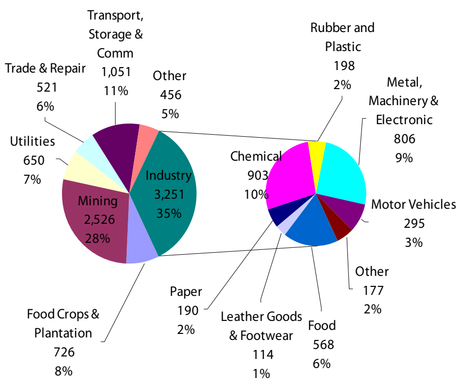
Better preared for Global Uncertainty (2)

High direct investment interests in Indonesia

FDI plans in Indonesia 2011-2014

Investors	Country	Sector	Amount US$mn
Tata Motors Group, GVK Biosciences, Reliance India,	India	Infrastructure	15,000
Kuwait Petroleum Company	Kuwait	Energy	8,000
NEC Corporation	Japan	IT, electronics	5,200
Arcelor Mittal	India	Steel	5,000
GVK & GMR Group	India	Infrastructure	5,000
Lotte	Japan-South Korea		5,000
Hanhwa Group	South Korea	South Korea	5,000
Essar Group	India	Infrastructure	5,000
Anhui Conch Cement	China	Cement	2,350
Hangzhou Steel	China	Infrastructure	2,000
Hankook Tire	South Korea	Automotives	1,100
Guo Feng Iron and Steel	China	Infrastructure	1,000
Suzuki	Japan	Automotives	800
La Farge	France	Cement	575
Coca Cola	US	Food &	500
Daihatsu	Japan	Automotives	400
China Triumph International Engineering Co Ltd	China	Cement	350
Metro AG	Germany	Retail	350
State Development and Investment Corporation of	China	Cement	300
Mandan Steel	China	Steel	220
Sany Heavy Industry	China	Heavy	200
Tianjin Julong Group	China	CPO	200
Nestle	Switzerland	Food &	200
Epson	Japan	Electronics	150
Suntory Beverages and Food	Japan	Beverages	120
P&G	US	FMCG	100
Sumitomo Construction Machinery Indonesia	Japan	Heavy equipment	100

FDI by Sectors 1H11 (US$ bn)



10 Source: BKPM, Media, Mandiri

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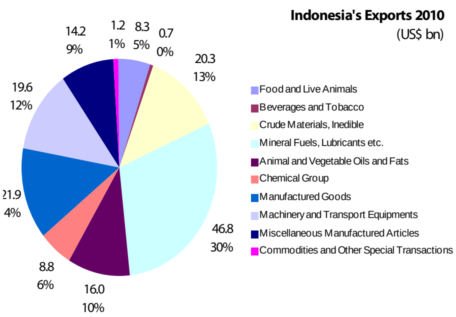
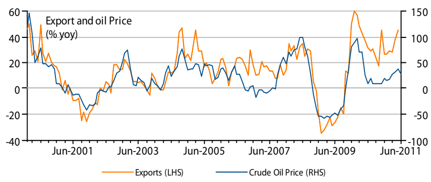
Better prepared for Global Uncertainty (3): Commodity exports combined forces with Intra regional trades between ASEAN and Asian countries

More than half of Indonesian total exports are raw commodities. Processing industries soon to pick up

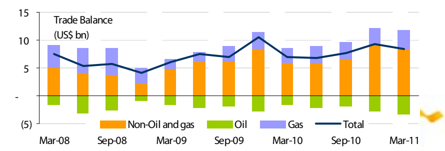
Raw commodities dominated Indonesian exports



Increase in commodity prices will also support Indonesian exports



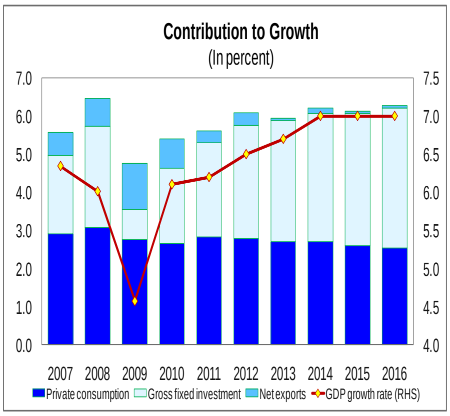
Oil trade deficit will be offset by surplus gas and non-oil and gas trade



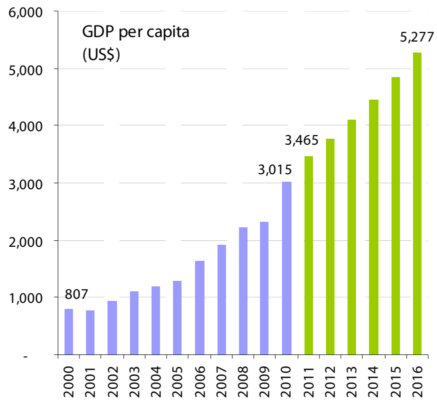
Source: Bloomberg, CEIC

Stable, predictable: As economy on track for 7% growth, Income per capita rises sharply

Indonesian economy is on track to achieve 7% growth in 2014



Robust economic growth will translate into healthy purchasing power. GDP per capita to exceed 5,000 in 2016



Source: IMF

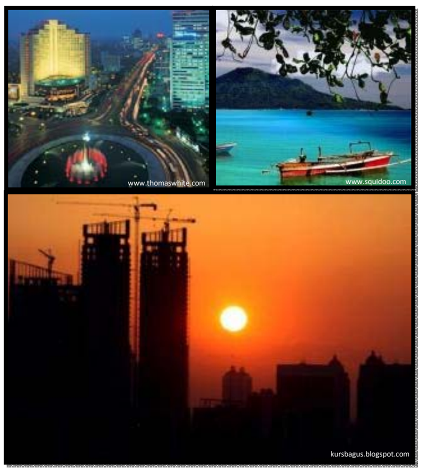
Against global trend: The other "Lucky Country"

Lucks amid challenging time

- Domestic solid footing for strong and long-term growth: consumption, exports and investment
- Strong corporate and individual income, despite early development
- Awaiting investment grade

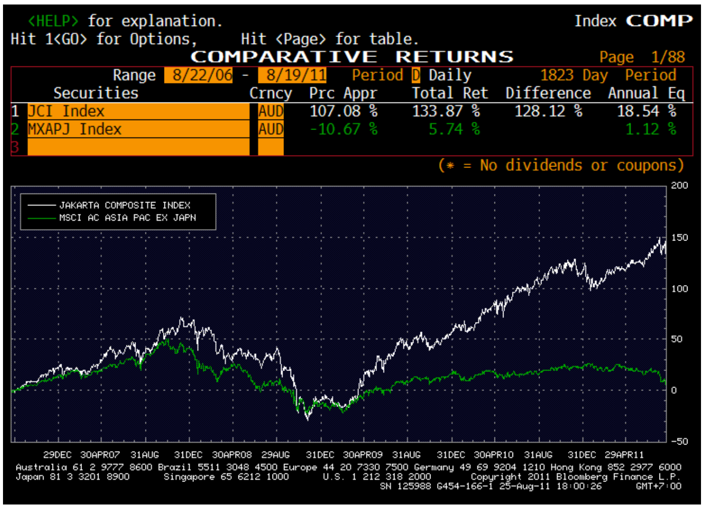
Investing in Indonesian Capital Market

- Consumers related sectors
- Natural resources related sectors
- Infrastructure related sectors
- Secondary board is growing as attractive as the main board
- More to come after investment grade upgrade



Increasingly decoupled from the old economic structure (before 1998) and from the current global trend

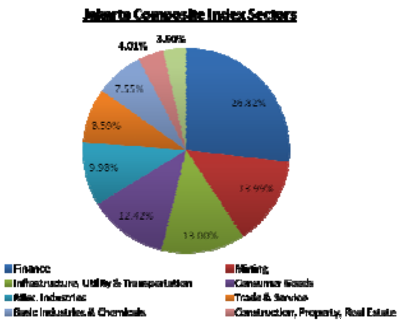
JCI & All Ordinaries Index

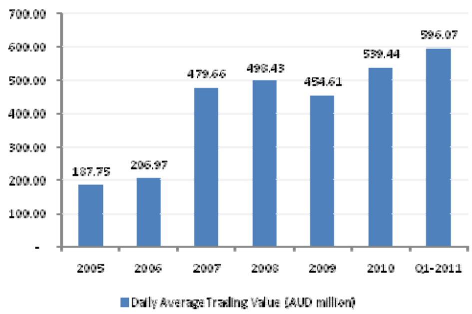


Source: Bloomberg

Trading volume jumps

Indonesia Stock Exchange





<u>Total Market Cap</u>

Rp. 3,294.00 Trillion (AUD 370.11 Billion)

Source: Bloomberg

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Growth driver (1): young, productive, rising income, tech savvy consumers

Jakarta consumers buying latest tablet computer

http://fullerton.creativepreviews.com/_img/dsp200908_f008001.jpg

- **In 2005, only 20% had mobile phone. At the moment only 15 percent do not have**
- **3rd largest middle income consumers in Asia, population 4x since 2003, now > 100m**
- **Rapidly modernizing: shift to modern retail, at 39.5mil No.2 Facebook account users in the world**
- **Immune from global turmoil: uniquely resilient in 2008-9 crisis, <u>not</u> commodity dependent**

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Growth driver (2): Bankable small and medium entrepreneurs, previously in the informal sector

Microbanking officer serving traditional market via EDP system

http://fullerton.creativepreviews.com/_img/dsp200908_f008001.jpg

- **Credit penetration at 28% of GDP (below China 50% and Brazil 47%)**
- **Far from crisis – NPL very low and manageable**
- **Strong multiplier effect for employement growth, adding strenght to already strong consumption**
- **Renowned global brands entering Indonesia's second tier cities even remote areas**
- **Healthy competition between local and foreign brands**

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Indonesia Bonds Market

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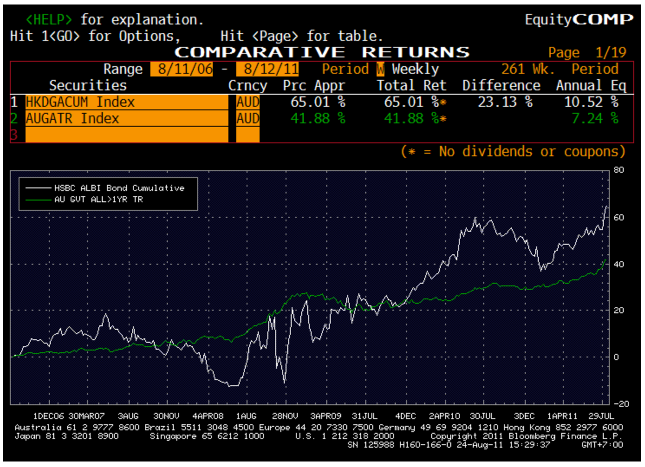
Historical 5-Year Performance

IDR Government Bond Performance

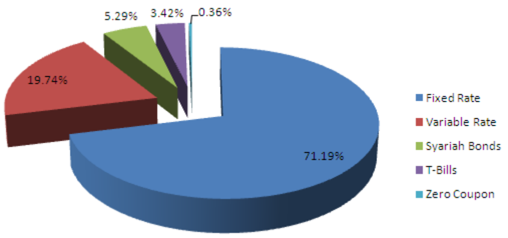


Source: Bloomberg

Total Market Capitalization

IDR Indonesian Government Bonds as of July 2011

Fixed Rate Series make up IDR 491.95 Trillion (*AUD 55.27 Billion*)
or
71.19% of total outstanding bond IDR 691.03 Trillion (*AUD 77.64 Billion*)

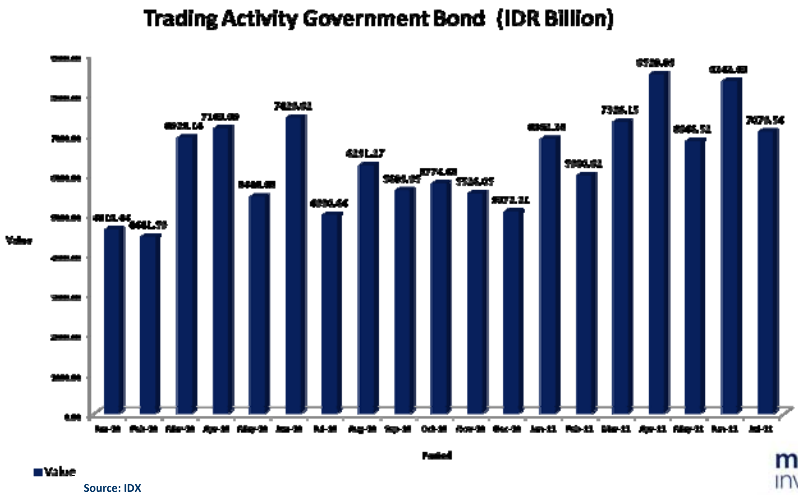


Bond Type	Outstanding (IDR trillion)	Percentage
Fixed Rate	491.95	71.19%
Variable Rate	136.41	19.74%
Syariah Bonds	36.56	5.29%
T-Bills	23.60	3.42%
Zero Coupon	2.51	0.36%

Source: DMO

Liquidity is increasing

Daily average trading from January 2010 until December 2010 reached IDR 5,768.24 Billion (*AUD 648.11 Million*).
Daily average trading from January 2011 until July 2011 reach IDR 7,284.06 Billion (*AUD 818.43 Million*).



Source: IDX

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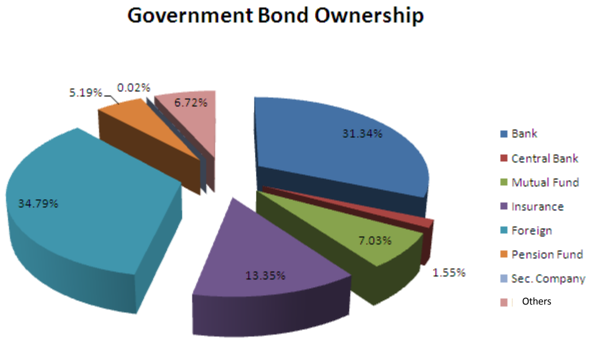
IDR Government Bond Investors



Sector	Vol (IDR trillion)	Percentage
Banks	219.09	31.34%
Central Bank	10.84	1.55%
Mutual Fund	49.15	7.03%
Insurance	93.34	13.35%
Foreign	243.19	34.79%
Pension Fund	36.28	5.19%
Sec. Company	0.14	0.02%
Others	46.97	6.72%

Source: Dirjen Pajak & DMO

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Factors to watch

- Sovereign Risk
- Foreign holdings on Government Bonds until IDR 243.19 Trillion (*AUD27.32* Billion), 34.8% of total outstanding as of August 10th 2011.

Sector	28-Jan-11	25-Feb-11	25-Mar-11	29-Apr-11	27-May-11	24-Jun-11	29-Jul-11	5-Aug-11	%
0-1	21.2	21.2	23.7	28.7	26.4	28.7	30.5	28.9	11.6%
>1-2	7.6	9.0	12.1	12.5	13.2	17.5	16.7	17.1	6.9%
>2-5	34.4	35.2	32.8	35.1	42.2	40.2	42.3	42.2	16.9%
>5-10	40.6	42.4	44.6	44.4	38.9	50.1	61.5	63.0	25.2%
>10-15	53.7	55.7	55.8	57.1	59.4	50.7	44.8	44.4	17.8%
>15-20	26.1	26.7	27.1	28.7	29.5	30.8	46.5	46.7	18.7%
>20	11.1	11.7	13.1	14.9	14.5	16.2	6.6	7.2	2.9%
SUM	**194.6**	**201.9**	**209.0**	**221.4**	**224.0**	**234.2**	**248.9**	**249.6**	
OUTS	**650.0**	**660.2**	**674.9**	**679.0**	**687.4**	**692.1**	**701.2**	**699.0**	

- Exchange rate volatility.

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Growth driver (3): a working government

Beyond the headlines, we have come a long way

Indonesia's law enforcement on the streets

www.pollsb.com

- **Democratization, decentralization and deregulation at the same time = we have come a long way**
- **Infrastructure progress under-appreciated**
- **Increasing trust from domestic and international public towards the government**

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thank you

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