



SECTOR REVIEW

MONTHLY MORNING MEETING JANUARY 2012. PRESENTED BY iFAST CAPITAL SDN BHD ©

SOUTH EAST ASIA

INDONESIA – 2.5 STARS (NEUTRAL)

- Bank Indonesia kept the reference interest rate unchanged at 6%
- Dec 11 inflation declined to 3.8% y-o-y, down from 4.2% in Nov 11
- Dec 11 core inflation down marginally to 4.3% y-o-y as compared to 4.4% in Nov 11
- Oct 11 total exports grew slower with 16.7% y-o-y, down 44% in Sep 11
- Oct 11 total imports advanced 29.1% y-o-y
- Nov 11 domestic car sales fell to 67,656 units from 86,346 units in Oct 11

MARKET OUTLOOK

Bank Indonesia maintained the reference interest rate unchanged at 6%, a record low level since 2006, after slashing it by 50 basis points in the last meeting. This decision met market expectations as the inflationary pressure is receding while economic growth momentum is still strong.

December's inflation decelerated to 3.8%, slightly lower than November's 4.2% on a year-on-year basis. December's inflation figure is the lowest inflation level since April 2010. On a year-on-year basis, transport items, food and processed food items grew 1.9%, 3.6% and 4.5% respectively. The easing of inflationary pressure was partly due to the falling of major commodity prices. Removing volatile and administered items, core inflation was down to 4.3%, marginally lower than 4.4% in November. Given the relatively flat core inflation trend, we believe the decision of central bank to hold the key interest rate stable will not increase the risk of propping up the underlying inflation rate in the intermediate term.

Indonesian total exports grew at a slower pace in October at 16.7%, below consensus estimates of 22.7%, and below a rate of 44% in September. Oil and Gas dropped sharply with mere 1.9% growth rate in October as compared to 88.7% in September. October non oil and gas still managed to expand by 20.3% as compared to 34.8% in September. Correspondently, October total imports grew 29.1% with oil and gas, non oil and gas reporting growth of 37.5% and 27.1% respectively. All figures above are expressed on year-on-year basis. October's trade balance narrowed further to 1.15 billion USD from 2.37 billion USD in September. Such a sharp drop in total exports was mainly due to the global effects felt as a result of an escalation in the European sovereign debt crisis and global economic slowdown happened in October.

Indonesian November domestic car sales fell to 67,656 units from October's 86,346 units according to The Association of Indonesia Automotive Industries. Such a fall was widely attributed to the Japanese automakers' supply disruption due to massive flooding in Thailand. Astra International is the sole distributor of Toyota cars in Indonesia. Astra's market share has dropped to 42% in November from 55% in October. The demand for automobiles is still strong as the borrowing cost has been pushed downwards by major lenders in an attempt to boost consumer spending.

Based on our in-house estimates, Jakarta Composite Index (JCI) trades at a forward PE of 13.7X and 12X for 2012 and 2013 respectively. Due to limited upside potential being seen for the next 3 years as compared to other markets, we maintain a neutral rating of 2.5 stars for Indonesia.