



# INDUSTRY OUTLOOK 2024

January 22, 2024

## INDUSTRY OUTLOOK 2024

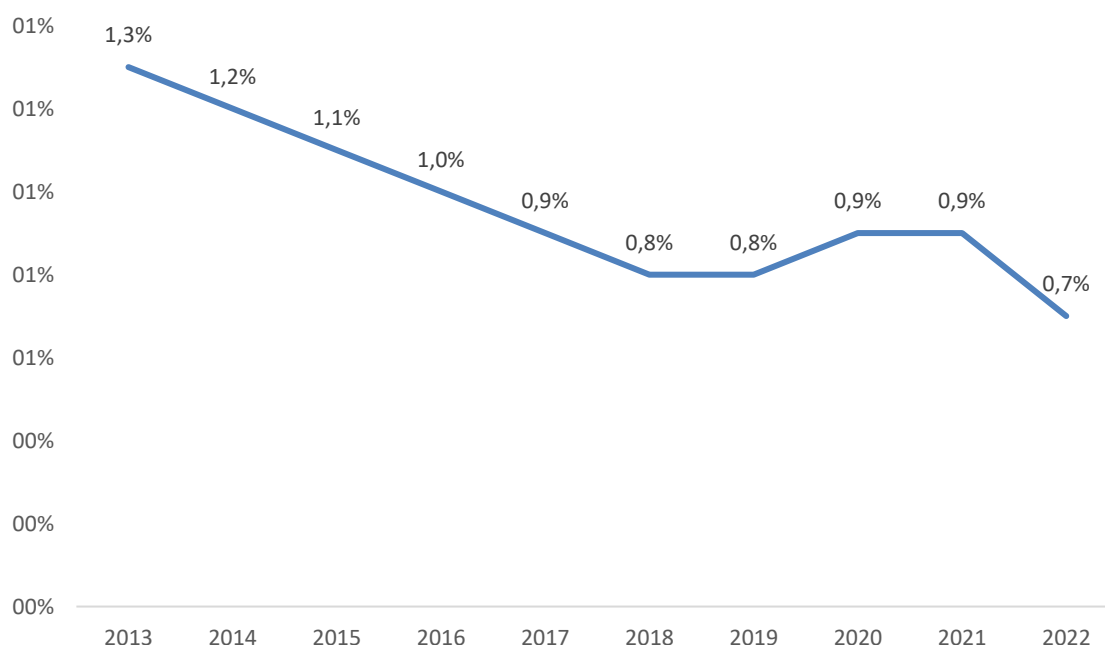
### I. Telecommunication Industry: Higher Tariff and Industry Consolidation to Continue

- **Tariff Continue to Upbeat**

The telecommunication industry has observed a consistent pattern of tariff increase since the beginning of 2023. FREN's recent implementation of 10% nationwide data increase in September exemplifies this trend. While industry stakeholders reassure of a rational pricing approach, the potential for further adjustment remains. PT Indosat Tbk (ISAT) leads the pack in tariff hikes, aiming for IDR 40,000 Average Revenue per User (ARPU) by 2024F, partly through Tri brand price increases supported by improved network quality after the merger.

Telcos have an opportunity to raise prices in Indonesia. Data in Indonesia is cheaper than in comparable countries, and the mobile ARPU as a percentage of GDP is low and declining. It fell from 1.3% in 2013 to 0.68% in 2022, even lower than Malaysia (0.93%), Thailand (0.95%), and India (0.85%). Increasing data consumption fueled by digitalization and stronger monetization strategies can drive ARPU growth.

#### ARPU/GDP Ratio



Source: CEIC

- **Positive Impact from Industry Consolidation**

Merging Indosat with Hutchison in early 2022 sparked faster revenue growth for Indonesian telcos. This, coupled with fewer operators (down from five to four), led to a steady rise in average revenue per user (ARPU) for the top 3 players, exceeding Rp35,000 in the first nine months of 2023. This points to a more favorable pricing environment as consolidation reshapes

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the industry.

A potential merger between PT XL Axiata Tbk (EXCL) and PT Smartfren Tbk (FREN) could further consolidate Indonesia's telecom landscape, echoing the financial gains seen after PT Indosat Ooredoo's merger with PT Hutchinson Three Indonesia. Lower operating expenses and improved EBITDA margins achieved by Indosat suggest similar benefits for EXCL and FREN.

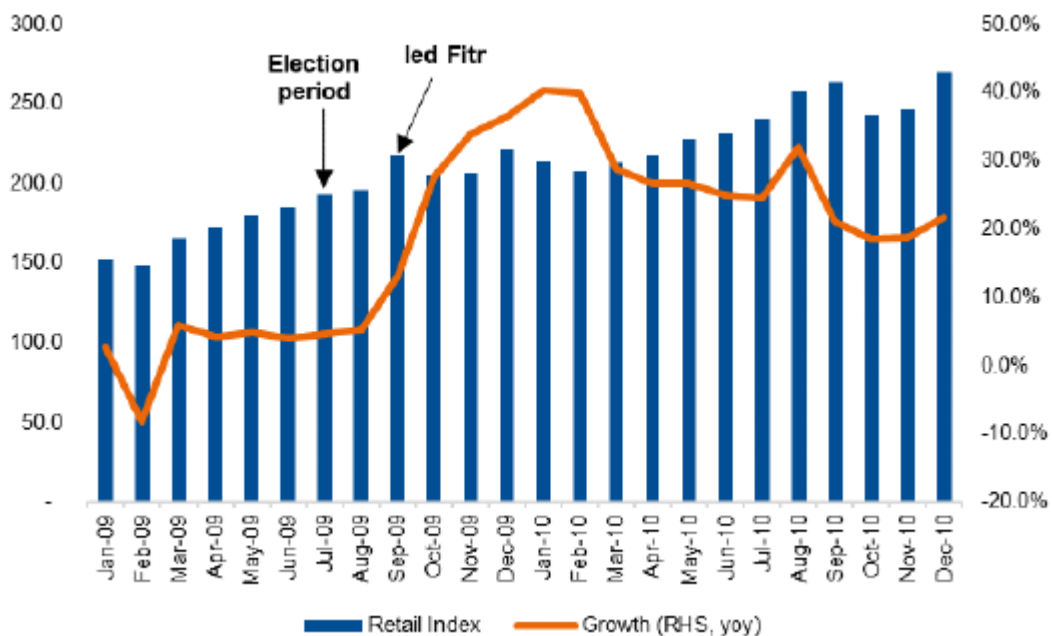
- **Industry Outlook in 2024 : Favorable**

## II. Consumer Goods: Enjoys a Temporarily Growth Spurt from the Election

- **Affected by the Pre-Election Period**

We are of the view that the industry to enjoy a positive impact form the election activities, however only in the pre-election period. Our view is based on the facts that during the past three election years (2009, 2014, and 2019) the growth of retail index increase significantly in the pre-election periods, and normalized in the months post-election.

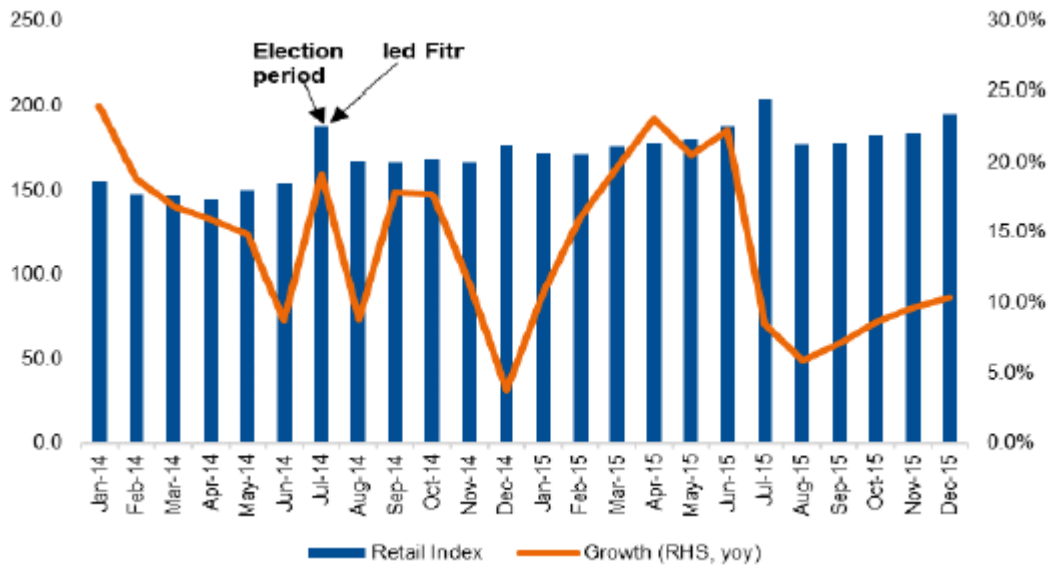
**2009 Election Impact on the Retail Index**



Source: Bank of Indonesia

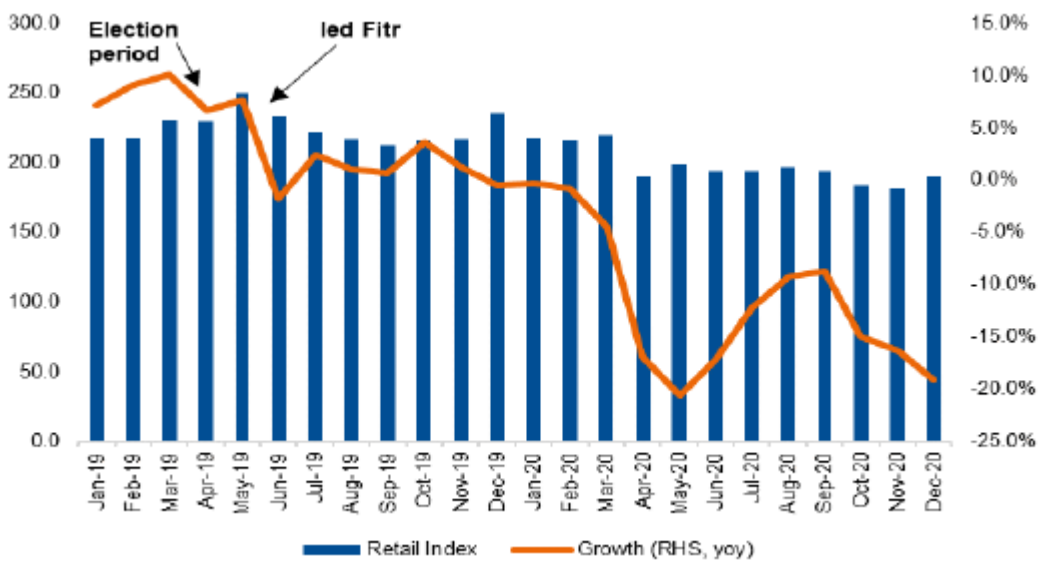
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2014 Election Impact on the Retail Index



Source: Bank of Indonesia

2019 Election Impact on the Retail Index



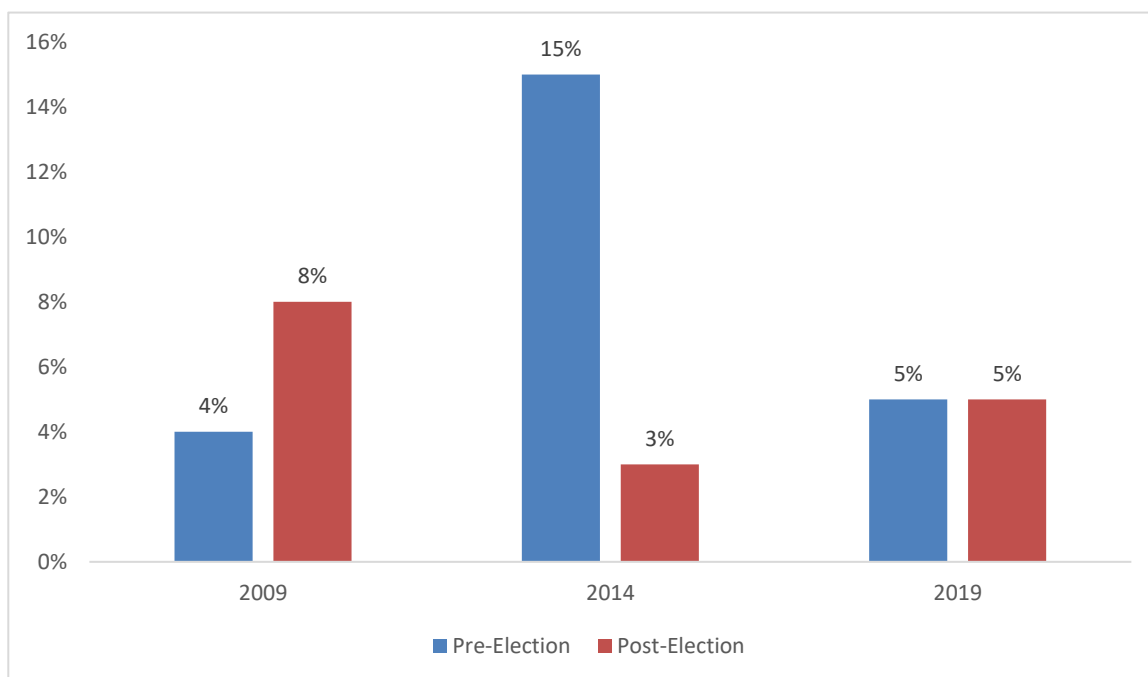
Source: Bank of Indonesia

The consumer goods producers posted a significant growth in the pre-election period, especially in 2014 election with 15% growth. Higher amount of money circulated in order to support the Presidential and Legislative candidates during the pre-election period supported such growth.

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### Revenue Growth of Consumer Goods Producers in the Pre-Election vs Post-Election Period



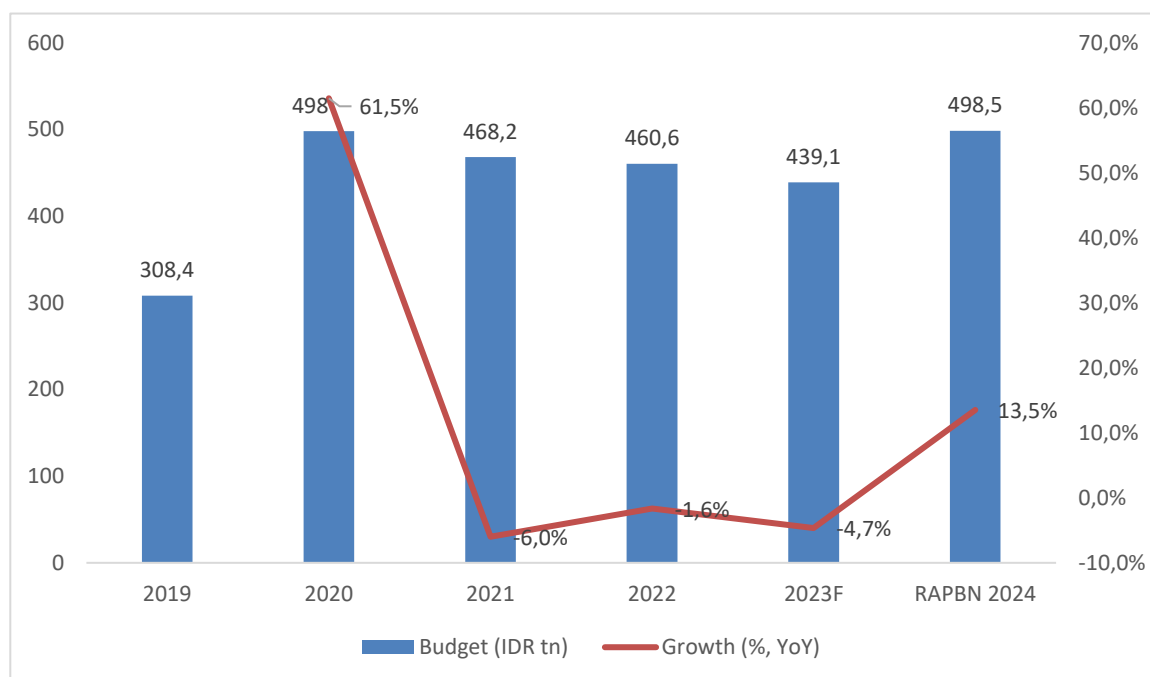
Source: Capital IQ

- **Supported by the Government Social Spending**

Despite lukewarm consumer sentiment in late 2023 and underwhelming minimum wage adjustments (averaging 3.7% nationally compared to 5% in FY22), we foresee a surge in election-related spending in 1H24, amplified by the unprecedented coincidence of Presidential and Legislative elections in Q1. Additionally, a 12% year-on-year increase in the government's social protection budget and a steady 5% yoy allocation for subsidies in FY24 are expected to bolster purchasing power, potentially benefiting the Consumer sector.

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### Social Protection Budget, 2019 - 2024



Source: Ministry of Finance

- **Industry Outlook in 2024 : Favorable**

### III. Coal Mining: Expects Another Market Surplus in 2024

- **Demand to Decrease After the 2023**

Fueled by a 4% increase, global coal demand hit a new peak of 8,415 Mt in 2022. This rise was driven by two main factors: increased reliance on coal in major consumer countries like China and India, and a shift towards coal-fired power generation due to exceptionally high gas prices and weaker output from nuclear and hydropower plants.

China, the undisputed champion of coal consumption, accounted for more than half of the world's demand in 2022. Its appetite grew by 4.6%, reaching a staggering 4,520 Mt, with coal fueling over 60% of its power generation. Meanwhile, India, the world's second-largest coal consumer with roughly 14% of global demand, saw a significant 9% increase to 1,162 Mt.

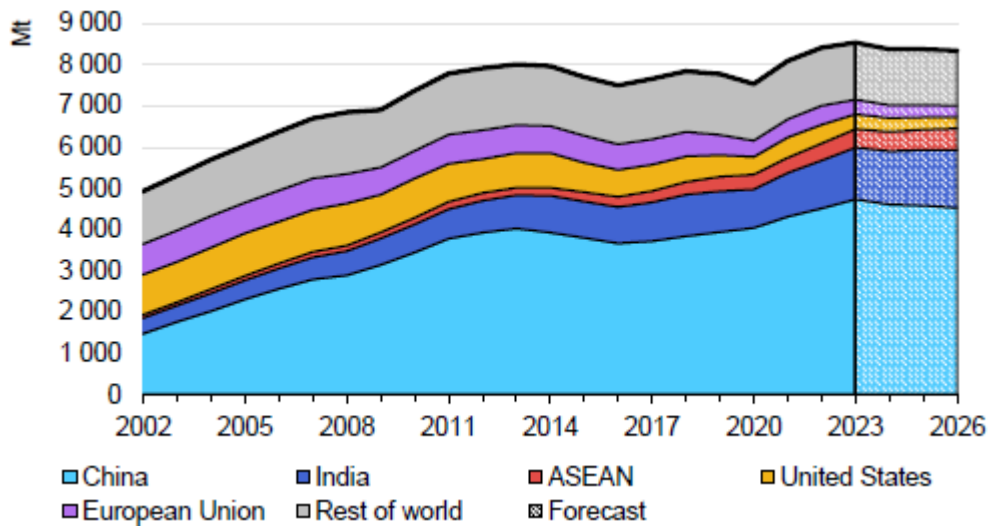
Despite reaching a new all-time high of 8,536 Mt in 2023, global coal demand growth sputtered, registering a mere 1.4% increase. This reflects both lukewarm economic prospects and the fading factors that spurred coal-fired power generation in 2022. Notably, the geographical center of coal consumption continues to move eastward, with China, India, and ASEAN countries now accounting for an astounding 75% of global demand - a significant shift from the earlier dominance of the European Union and the United States, whose combined

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share barely exceeded 35% at the start of the century.

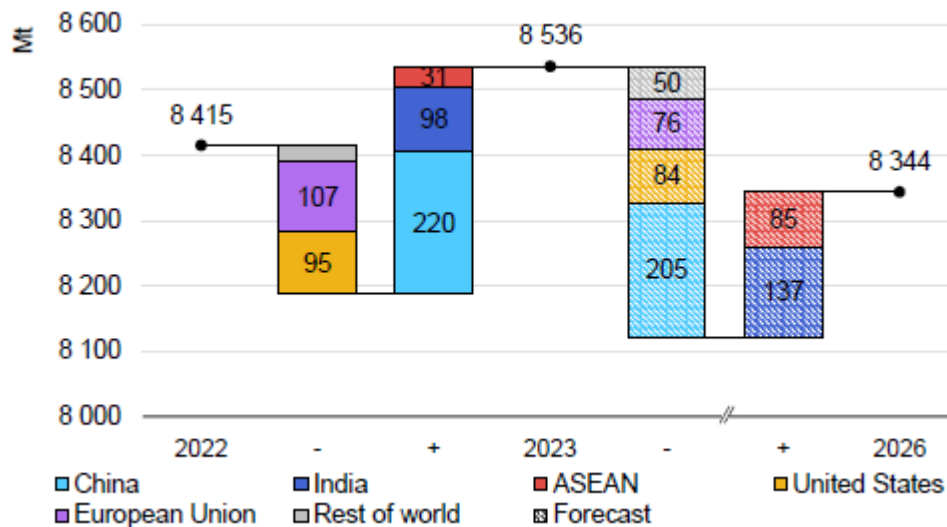
Our forecast paints a picture of receding global coal demand beyond 2023, starting with a decline in 2024. While growth in India and ASEAN may counterbalance decreases in the EU and US, China's trajectory will ultimately determine the pace and direction of global coal consumption. Higher renewable energy growth than overall electricity demand growth is likely to push global coal consumption on a downward trajectory. This would imply that coal is likely to peak in 2023.

### Global Coal Consumption, 2022 – 2026



Source: EIA

### Change in Global Coal Consumption, 2022 – 2026



Source: EIA

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- **Global Coal Supply To Decrease in 2024**

Following a significant rebound in 2021, global coal demand continued its ascent in 2022, pushing coal supply to unprecedented levels of 8,582 Mt, a 7% increase. China spearheaded this growth, boosting domestic production to mitigate vulnerability to hefty import prices and potential supply disruptions. Interestingly, Indonesia surpassed India in terms of production growth and registered a noteworthy rise in exports, capitalizing on an upswing in global demand for thermal coal, fueled by both domestic and international factors.

Despite economic uncertainties and a push towards cleaner energy sources, global coal production continued its upward trend in 2023, reaching a new all-time high of 8,741 million tonnes (Mt), a 1.8% increase from the previous year. This growth was driven primarily by continued production increases in major coal-consuming countries like India, China, and Indonesia, which more than compensated for declines in the United States and the European Union.

While 2023 witnessed another global coal production high of 8,741 Mt, our forecast paints a different picture for the future. A net reduction in global coal production is expected starting in 2024, effectively marking 2023 as the pinnacle of coal's dominance. This mirrors the trajectory of global coal demand, suggesting a turning point in our relationship with this fossil fuel.

Several factors contribute to this anticipated decline:

**Dimming Lights in the West:** Ongoing production drops in the United States and European Union, spurred by environmental regulations and a shift towards renewable energy, will continue to chip away at the global total.

**Shifting Sands in Southeast Asia:** Indonesia, a recent production powerhouse, is likely to see reduced volumes as Chinese demand for its seaborne thermal coal weakens.

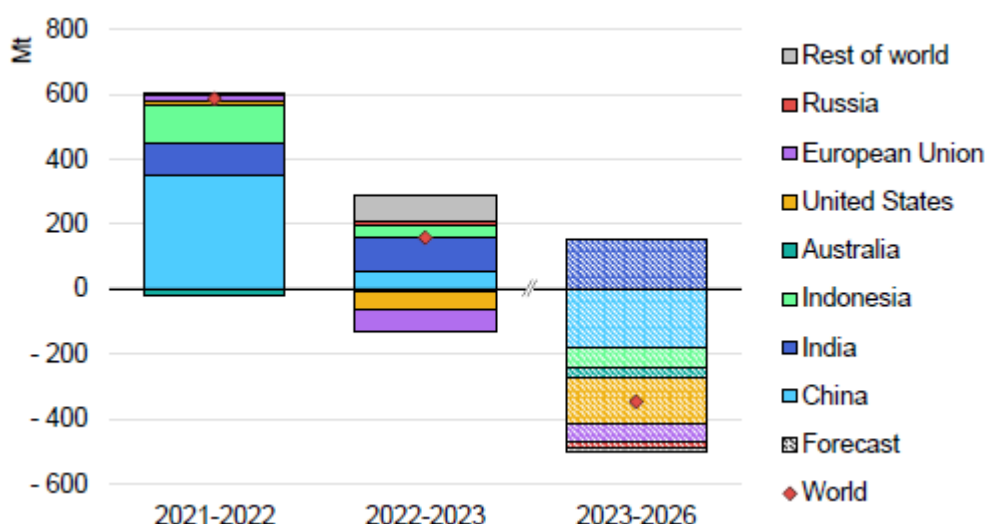
**India's Lonely Soar:** While India, driven by its burgeoning power sector, may remain the last bastion of significant production growth, our model predicts that declines in other countries will ultimately outweigh this rise.

By 2026, we project global coal production to land at 8,394 Mt, a notable decrease from the record high of 2023. This downward trend signals a potential tipping point in the energy landscape, as the world increasingly turns towards cleaner alternatives



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Change in Global Coal Production, 2022 – 2026



Source: EIA

- ### International Coal Prices Remain Well Above Pre-Crisis Levels

2022 saw coal prices shatter all records, caught in a perfect storm of global events and inflexible supply chains. The main culprits? Soaring gas prices, ignited by Russia's invasion of Ukraine, sent shockwaves through energy markets, adding a hefty "war premium" to coal. Adding fuel to the fire, coal supply itself couldn't keep up due to a double whammy:

**Harsh mining conditions:** Adverse weather and unforeseen challenges at mines squeezed production.

**Infrastructure bottlenecks:** Existing transportation networks, already stretched thin, struggled to handle the sudden surge in demand.

While coal supply chains are usually well-oiled machines, they lacked critical spare capacity to absorb the unexpected strain. Meanwhile, demand for coal was booming on multiple fronts:

**Gas alternatives:** With gas prices skyrocketing, many countries turned to coal-fired power for cheaper electricity, particularly as economies rebounded from the pandemic.

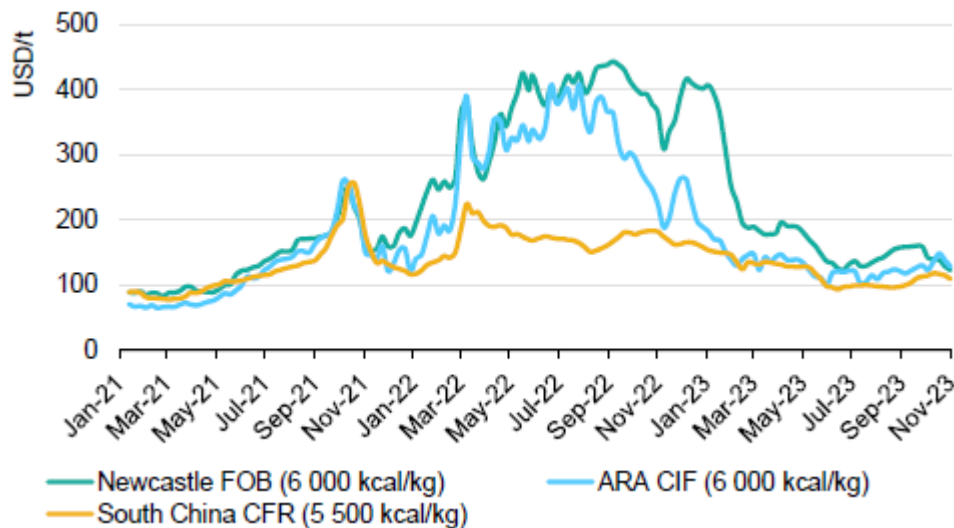
**Australian production hit hard:** La Niña's heavy rains and floods severely hampered coal production in Australia, a major global exporter, further tightening the supply screw.

The result? A record-breaking year for coal prices, reflecting a complex interplay of geopolitical tensions, supply chain limitations, and shifting energy dynamics.

Prices started to decrease in early 2023, after production from Indonesia, China, and India started to increase. Prices stabilised in the second quarter of 2023 at levels above those last observed in early 2021. In the third quarter of 2023, prices for high-CV coal from Australia started to tick up again, driven by increased demand from Japan to replenish coal inventories.

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Thermal Coal Prices, 2021 – 2023



Source: EIA

In 2024, China is set to increase its coal supply by approximately 3%, causing a total volume production to grow to 3.9 bn tons. This surge of production is a direct response to the urgent request from local authorities, who aim to prevent a repeat of the energy crisis witnessed in 2022. Further compounded by a projected 5% and 14% increase in Indonesia and India coal production totaling 695 mn tons and 1,017 mn tons, respectively, the coal market is expected to shift from a deficit in 2022 to a surplus in 2024. As such, we anticipate the benchmark coal price of around USD 130/ton in 2024.

- **Industry Outlook in 2024 : Neutral**

## IV. Plantations: Stagnant Supply, while Demand Improves

- **Higher Palm Oil Prices but Still Below 2022 Level**

Palm oil prices are expected to average higher globally in 2024 as a stagnating production in main producers, Indonesia and Malaysia, along with growing demand for its use in making biodiesel will squeeze supply. In 2024, the third-month crude palm oil futures on Malaysia's commodity exchange are expected to average MR4,000/mt (USD856.44/mt), according to the median estimate of 11 markets and government agencies. The benchmark palm oil contract which influences international vegetable oil prices, averaged MR3,798/mt in 2023, still down 23% from 2022 average CPO prices.

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### Palm Oil Price (MYR/Ton)



Source: Tradingeconomics

- ### Biodiesel Forecast Bullish

Growing biodiesel demand in Indonesia – the world’s largest producer and exporter of palm oil – will be one of the main demand drivers in 2024. Indonesia’s use of CPO as a feedstock to make biodiesel is expected to rise to 11 million – 12 million mt, exceeding its domestic food use of around 10 million mt for the first time in 2024. The narrowed spread between palm oil and gasoil prices – known as the POGO spread during 2023 will further incentivize Jakarta’s growing biodiesel blending mandate. In 2023, the average POGO spread was USD39.8 compared with the 2020 – 2022 average of USD279.4.

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### Easing POSO Spread Favorable for Palm Oil Use in Biodiesel



Source: S&P Global Community Insight

- **Production Forecast Unchanged**

Palm oil production from Malaysia and Indonesia, which accounts for about 85% of the world's supply of tropical oil, may register negligible gains in 2024 as dry weather and a lack of new plantations cap chances of supply growth, according to a wide section of the industry. Indonesia's palm oil output will likely remain stable on the year at 48.5 million mt in 2024, while Malaysian production is seen at around 18.5 million mt, also steady from 2023. El Nino weather pattern in 2024 is expected to bring drier weather and lower precipitation in Southeast Asia, which at the end will lower palm oil yields in Indonesia and Malaysia.

- **Outlook : Neutral**

## V. Property:

- **Decelerate During the Pre-Election Period, but Prices Stable**

As the election approaches, it invariably creates an atmosphere of uncertainty, especially with the proliferation of news filled with debates among political parties, future policy plans, and pledges from presidential candidates. The concerns about the pre-election uncertainty also have an impact on the property sector.

The real estate market tends to decelerate before elections, usually starting approximately ten months before the event. This slowdown is characterized by a decrease in transactions, particularly in the commercial property sector. However, despite the market's slowdown, prices

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generally do not decline leading up to the election. Property prices and rental rates may experience corrections due to internal factors within each property sector, such as an oversupply situation. Typically after the election concludes, the property market regains activity.

- **No New Projects for High-Rise Residential and Office Sectors**

Particularly for the high-rise residential and commercial office sectors the sluggish condition is expected to remain. Low property absorption that has been happening since the last two years is expected to continue. This will undoubtedly impact developers' liquidity and consequently their financing capabilities. Given this situation, many developers are limiting the launch of new projects and are solely concentrating on selling existing inventory. For office sector, the excess supply conditions will persist with occupancy rates showing improvement but not to a significant extent. Therefore, the market conditions continue to favor tenants, necessitating building owners to maintain a flexible and accommodating stance towards them.

- **Industrial Estate and Retail Sectors are Not Directly Impacted by the Political Year**

The industrial estate industry is projected to remain quite active in the future supported by the automotive industry, particularly in the electric vehicles sector and data center business. Considerable interest from companies originating from China and other Asian countries in the Q4 2023 are expected to become more active in 2024. Reflecting from the previous political year in 2019 and preceding years, the situation in this industry was relatively conducive. Since the beginning of 2023, industrial land sales have continued, and land prices have remained relatively stable. However, if a business is directly involved in collaborations with the government, such as participating in infrastructure development for government projects, it may be affected. In cases where businesses have direct collaborations with the government, investors are more prone to adopting a "wait and see" approach. Regulatory becomes a key factor in ensuring the continuity of projects.

Such condition is likely to occur also in the retail sector, where expansion initiatives remain unaffected as long as they perceive the location as suitable and promising. Regulation becomes a significant concern for large retailers and foreign retailers planning to enter the Indonesian retail market. As such, retailers are keen on completing their projects before the election and subsequent change in government to ensure project continuity. If they anticipate that a specific project is unlikely to be completed on time, they might temporarily postpone it until after the change of government.

- **New Incentive Launches, but Takes Time To be Effectuated**

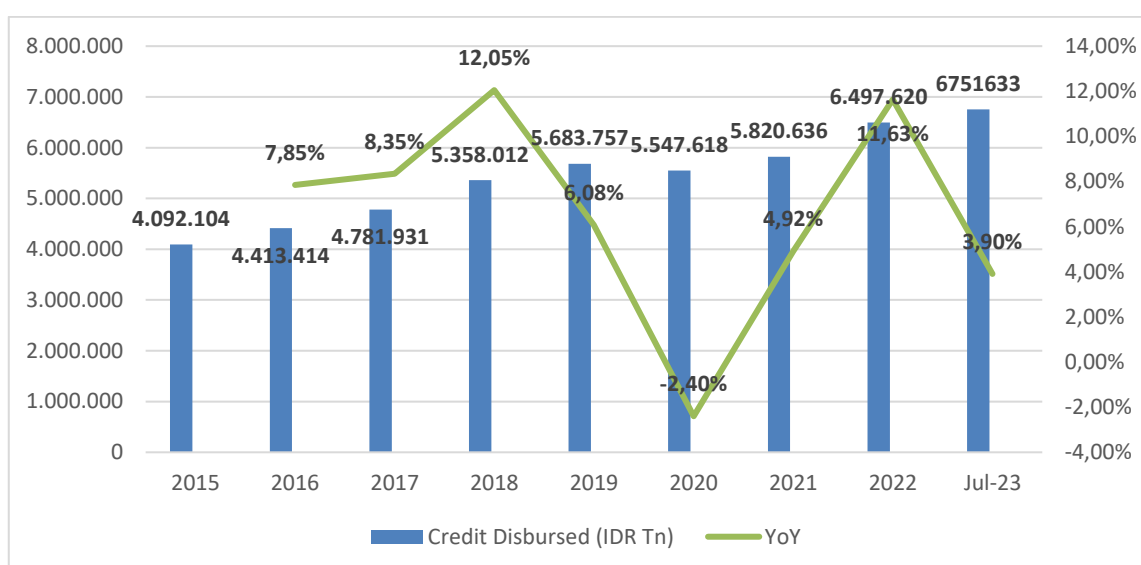
The Government has officially established an incentive for Value Added Tax (VAT) borne by the government (DTP) for the purchase of landed houses and apartments with a maximum price of Rp 5 billion. Such regulation has been implemented since November 2023 with aim to

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boost the national economy and stimulate the domestic market property. However, we see that such incentive will take time to be effected, particularly since many developers or investors prefer to postpone their investments due to the election activities.

- **Outlook: Unfavorable**

## VI. Banking: Steady Progress Amid Economic Stabilization



Graph: Credit Disbursed of Commercial Banks (IDR Tn) and YoY  
Source: OJK

- **Robust credit demand growth and effective recovery measures post COVID-19 pandemic**

In the period leading up to the significant outbreak of COVID-19 in early 2020, the Indonesian banking sector experienced robust growth in credit demand. Between 2015 and 2019, this demand escalated at a compound annual growth rate (CAGR) of 8.4%, surging from IDR 4,000 trillion to IDR 5,516 trillion. The year 2020, however, marked a drastic slowdown with a marginal increase of only 0.4% in credit demand, primarily attributed to the pandemic's economic impact. Nonetheless, as Indonesia implemented effective COVID-19 control measures, the sector began to rebound in 2021, registering a CAGR of 4.92%.

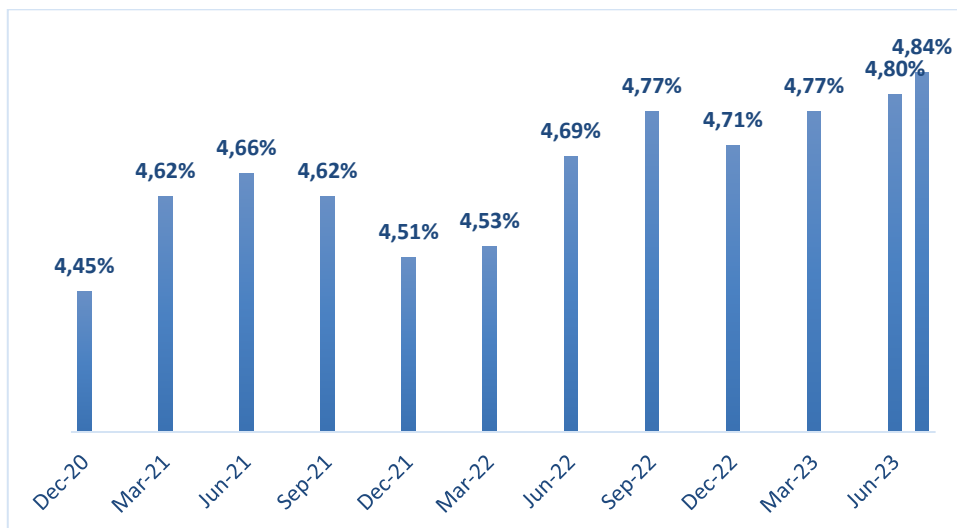
2022 was a pivotal year, marking a significant turnaround in the wake of Indonesia's post-pandemic economic resurgence. The total credit disbursement for the year reached IDR 6.497 trillion, representing an 11.63% year-over-year growth. This trend indicates the Indonesian economy's ongoing recovery phase and underscores substantial growth opportunities for the banking sector. This optimistic trajectory was further evidenced by the credit disbursement figures of July 2023, which stood at IDR 6,751 trillion, an increase of 3.9% year-to-date from December 2022. This data not only reflects the resilience of Indonesia's banking industry but also suggests a potential for continued expansion in the coming years.

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- **Navigating Interest Rate and Liquidity Challenges**

The banking sector's performance in 2024 is expected to be significantly influenced by the Federal Reserve's policy choices, especially regarding interest rates. The sector is poised to encounter varied challenges: continuous high interest rates might pressure liquidity and the quality of assets, while a decline in rates has the potential to affect profit margins. Given the current trend of stabilizing commodity prices and a contraction in global liquidity, banks might find external financing sources less dependable. Therefore, a greater emphasis might be placed on internal liquidity management, potentially leading to a reallocation of public sector liquidity to different economic sectors.

- **Consistent Net Interest Margin Throughout 2023**



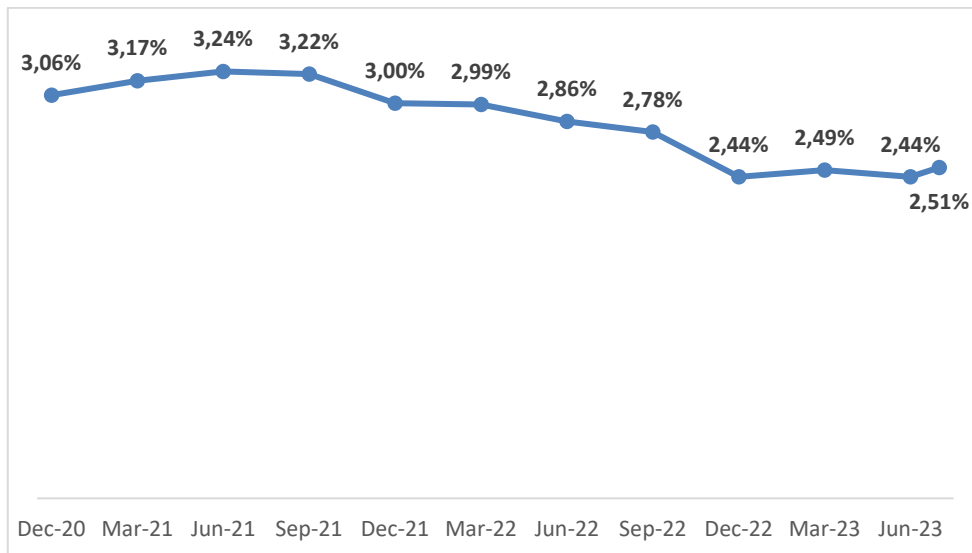
Graph: Net Interest Margin  
Source: OJK

Since 2020, the Net Interest Margin (NIM) has exhibited a downward trend, reaching a low of 4.45% in December 2020. However, there has been a gradual recovery from 2021, with NIM slightly improving to 4.66% in January 2021, alongside a 7.27% increase in Net Interest Income. This upward trend in NIM, albeit gradual, correlates with the improvement in credit quality following the easing of the COVID-19 situation. By April 2022, NIM attained 4.63%, indicating a modest enhancement in banking profitability compared to the 4.53% recorded in March 2022. The upward trajectory continued into 2023, with NIM reaching 4.77% in March, 4.80% in June, and 4.84% in July. This steady increase aligns with the projections of OJK and is supported by the growth and increased efficiency within Indonesia's banking sector.

The financial performance of banks is likely to be influenced by the prospect of decreasing interest rates. Such a development could have a significant effect on the interest income of banks, a key component of their overall profitability. This change in interest rates could alter the landscape of revenue generation for financial institutions, necessitating adjustments in their financial strategies to maintain stable earnings.

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- **Improving Non-Performing Loan Ratio**



Graphs: Non-Performing Loan  
Source: OJK

The economic downturn and limited activities caused by the COVID-19 pandemic led to a notable increase in the NPL ratio, peaking at 3.24% in the second quarter of 2021. However, with effective management of the pandemic in Indonesia, there has been a significant reduction in the NPL ratio throughout 2022. This trend of improvement persisted into 2023, with the NPL ratio in the Indonesian banking sector dropping to 2.44% by June 2023, a year-over-year decrease of 14.7%.

Looking ahead to 2024, there is a cautious optimism regarding the trajectory of the Non-Performing Loan (NPL) ratio in Indonesia's banking sector. With ongoing measures to address the residual impacts of the COVID-19 pandemic and the gradual stabilization of the economy, it is foreseeable that NPL levels may continue to see some moderation.

- **Outlook: Favorable**

## VII. Life Insurance: Growth Potential Amidst Market Pressures

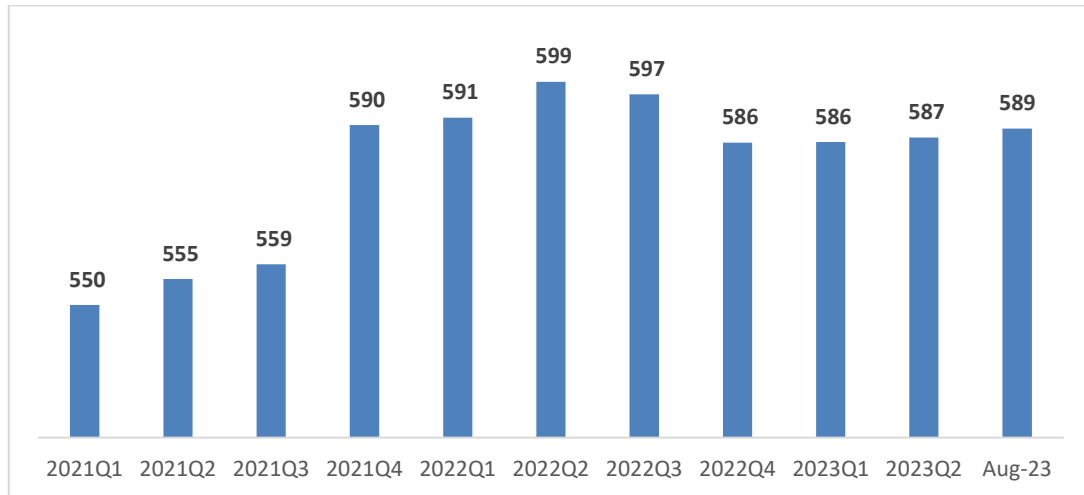
- **Potential asset growth despite stagnancy in 2023**

In the period from December 2021 to December 2022, the total assets of life insurance companies in Indonesia experienced a modest decline, decreasing from IDR 590 trillion to IDR 856 trillion, marking a 0.68% year-over-year loss. The outlook for investment returns in the current year appears favorable, thanks to improving control over the pandemic situation, which has led to increased economic activity. However, the overall asset growth of the life insurance sector in 2023 has been sluggish, with minimal increases over the past two quarters (less than 1% year-to-date). These numbers still fall below previous performance levels, with a 2023Q1 year-over-year decline of -0.8% and a -2% decline for 2023Q2. Notably, there was a turnaround in August 2023, with a 0.5% year-over-year increase in assets.



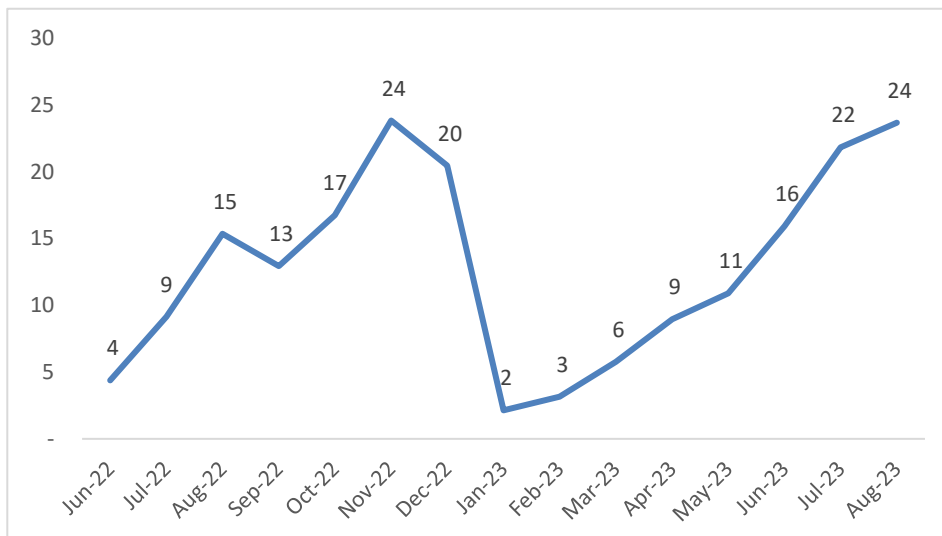
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Achieving sustained growth in 2024 will depend on various factors, including economic stability, regulatory developments, and the ability to adapt to changing market conditions.



Graph: Total Assets (In IDR Tn)  
Source: OJK

- **Resilience and Growth Prospects: Life Insurance Investments in 2024**



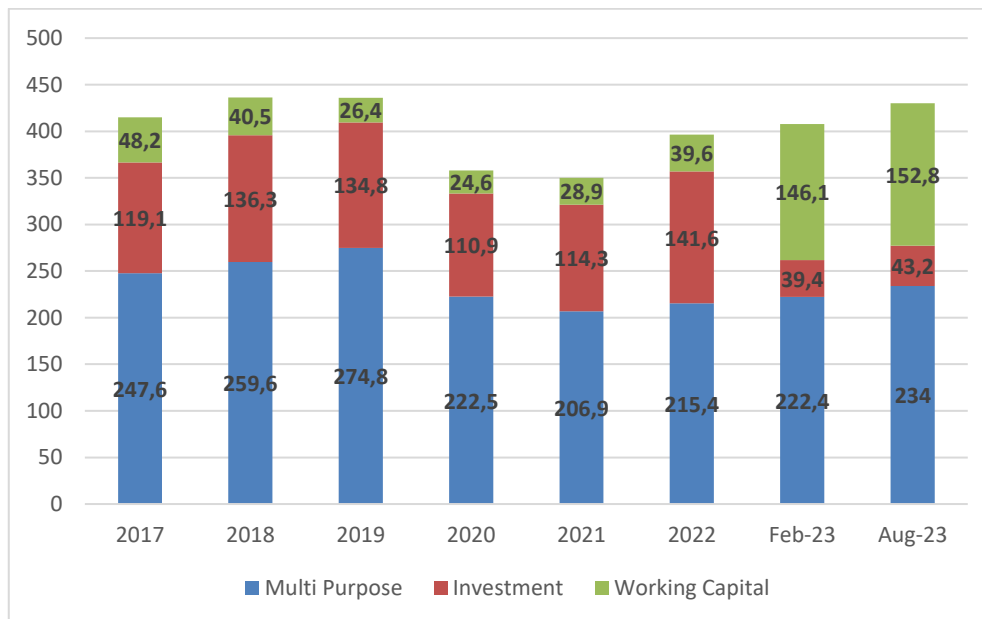
Graph: Investment Yield (In IDR Tn)  
Source: OJK

Despite the initial challenges posed by the pandemic, the life insurance industry has showcased resilience in its investment performance. In early 2022, there was a temporary dip in investments, which subsequently rebounded to IDR 20 trillion by December 2022, although slightly lower than the previous year's figure.

Looking ahead to 2024, there is a cautiously optimistic outlook for continued growth in investment yields. The positive momentum observed in 2023, with significant year-over-year increases, is expected to persist. Factors such as economic stability and evolving market conditions will play a pivotal role in determining the extent of this growth. The industry will remain vigilant in adapting to changes and seizing opportunities to maintain and potentially enhance investment returns.

- **Outlook: Neutral**

## VIII. Multifinance: Stability and recovery, marked by prudent risk management and a positive trend in key metrics



Graph: Financing amount (In IDR Tn)  
Source: Otoritas Jasa Keuangan (2023)

- **Modest financing growth in 2023, aligned with economic recovery**

Indonesia's total financing disbursed by the multifinance sector stood at IDR 430.54 trillion as of August 2023, marking a modest increase of 0.4% from the figure of IDR 428.4 trillion recorded in February 2023. The primary contributors to this credit disbursement were multipurpose financing at IDR 234 trillion, followed by working capital financing at IDR 152.8 trillion, and investment financing at IDR 43.2 trillion.

During the pandemic, the annual financing growth exhibited a declining trend, starting from -0.1% in 2019 and further declining to -17.9% and -2.2% year-over-year in 2020 and 2021, respectively. Banks, which serve as the primary source of funding for multi-finance institutions, remained cautious about disbursing funds during the pandemic, primarily due to concerns related to risk and liquidity.

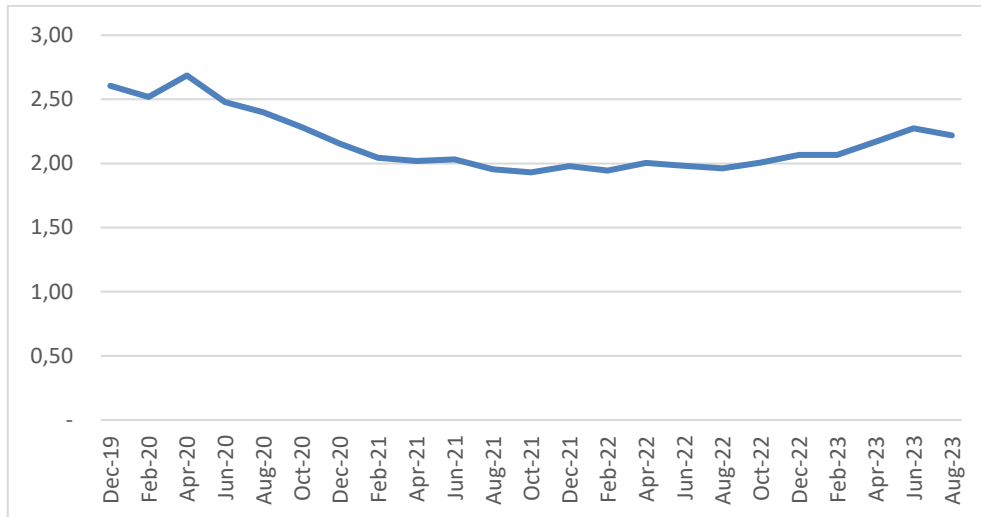
In response to the improved macroeconomic conditions in post-COVID-19 Indonesia, there has been a significant and positive upturn in both February 2023 and August 2023. Financing growth for both months reached 3% and 15.6% year-over-year, respectively.

The outlook for 2024 hinges on several factors, including sustained macroeconomic stability, prudent risk management by banks, and the evolving economic landscape. It is crucial for banks to maintain a cautious approach while disbursing funds to multi-finance institutions, ensuring sound lending practices.

Overall, the easing of economic challenges, coupled with improved mobility and market conditions, is likely to support continued growth in credit disbursement in the financing sector throughout 2024.

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- **Stable gearing Level post pandemic**



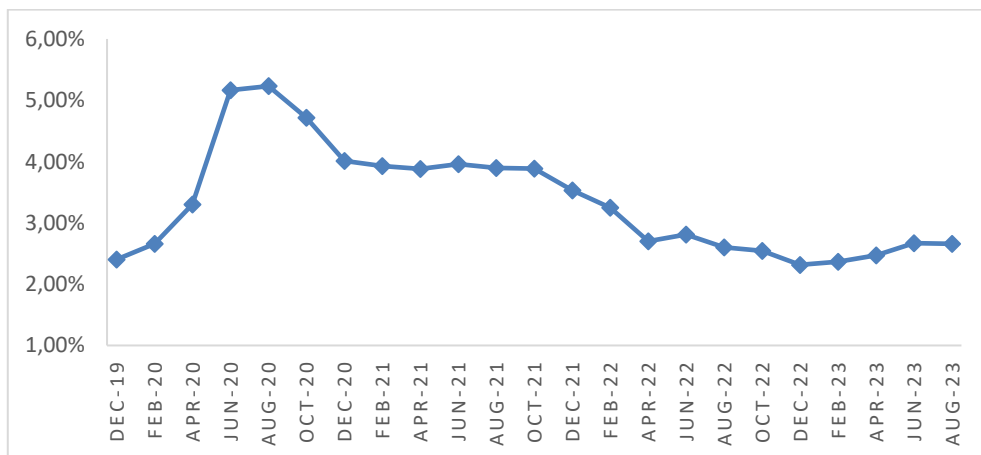
Source: Otoritas Jasa Keuangan (2023)

The Gearing Ratio has exhibited a declining trend even predating the COVID-19 pandemic. However, it experienced a significant increase in March 2020, surging by 2.7 times due to the freezing of loans by banks during the pandemic. Multi-finance institutions grappled with credit restructuring and rescheduling during this period. The current focus is on debt collection to uphold revenue and profitability, aiming to keep the gearing ratio at a low level.

As of February 2022, the Gearing Ratio stood at 1.94 times, still notably below the OJK regulation's maximum limit of 10 times. This stable trend persisted throughout 2023, with the latest data indicating a gearing ratio of 2.07 in February 2023. The ratio remained stable until August 2023 when it saw a slight increase to 2.22.

As we look ahead to 2024, the Gearing Ratio in Indonesia's multi-finance sector is anticipated to maintain its stability. The focus on debt collection and prudent financial management is expected to persist, with the aim of keeping the gearing ratio within acceptable limits.

- **Non-Performing Financing**



Source: Otoritas Jasa Keuangan (2023)

The Non-Performing Financing (NPF) ratio remained stable until the onset of the pandemic, which had an adverse impact, leading to a peak in July 2020 at just above 5.6%. This increase was primarily attributed to reduced repayment capacity among borrowers during

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the pandemic. The NPF surge was further exacerbated by a significant decrease in new bookings due to lower financing demand. Concurrently, multi-finance institutions exercised caution and prudence in loan disbursements during the pandemic.

The NPF ratio reached its highest point in May 2021 at 4.05%, but subsequently declined to 3.53% in December 2021, further dropping to 3.25% in February 2022. In the post-pandemic period, the NPF ratio experienced a decline in the second and third quarters of 2022, with the most significant drop occurring in April, August, and December 2022, stabilizing at 2.32%.

In the latest available data as of August 2023, the NPF level stands at 2.66%, representing a slight increase from the figure of 2.36% recorded in February 2023.

The focus for 2024 will continue to be on maintaining and further improving the NPF ratio. Multi-finance institutions are expected to remain vigilant in their credit risk assessment and management practices to mitigate potential challenges. Economic stability, regulatory developments, and the ability to adapt to changing market conditions will play pivotal roles in shaping the NPF outlook for the year.

- **Outlook: Neutral**