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SECTOR REVIEW

MONTHLY MORNING MEETING MAR 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

SOUTH EAST ASIA

INDONESIA – 3.5 STARS (ATTRACTIVE)

- Inflation gained 3.7% y-o-y in Jan 10 on rising food prices
- Consumer confidence further advanced to 110.5 point in Jan 10 on strengthening currency and benign inflation rate
- Better-than expected of 4Q GDP growth of 5.4% y-o-y was boosted by strong domestic consumption, high government expenditure and rebound in exports
- Exports in Dec 09 grew by 49.8% y-o-y on higher commodities sales

MARKET OUTLOOK

Inflation gained 3.7% year-on-year in January 2010 after posting a 2.8% increase in December 2009. The higher inflation is mainly due to rising in food prices. The cost of rice, the staple food for Indonesian, rose 2.6% month-on-month in January 2010. Finance Minister said that while the government was aware of the risks posed by rising food prices, they are confident that inflation in 2010 would come in between 4% to 6%. The Bank of Indonesia has maintained its benchmark rate at 6.5% in February's monetary policy review. Consumer confidence index rose by 1.8 points to 110.5 in January 2010. Strengthening rupiah against USD and relatively lower inflation rate (compared to its previous double-digit inflation rate) are boosting consumer confidence.

Indonesia economy grew at a faster than expected pace, with a 5.4% year-on-year growth recorded in 4Q 2009. The annual GDP stood at 4.5% year-on-year, better than the government's forecast of 4.2%. The 5.4% growth is supported by growth in utilities (+14.0% y-o-y), transportation (+12.2% y-o-y) and construction (+8.0% y-o-y) sectors as the government commits to boosting infrastructure investment in the country.

The country fared better than its regional peers during the global recession as it was less reliant on exports. The growth was also supported by strong government consumption which increased 17.0% year-on-year and private consumption which increased 4.0% year-on-year. In addition, the better than expected GDP growth was also helped by a strong rebound in exports. Indonesia exports turned positive in October 2009 after almost a year of decline. In December 2009 alone, Indonesia exports surged 49.8% from a year ago on higher commodities sales such as palm oil and coal.

Consensus earnings growth estimates for Indonesia market are 20.1%, and 18.0% for 2010 and 2011 respectively, which translate to a PE ratio of 13.9X, and 11.8X for 2010 and 2011 (as at 25 February 2010) respectively. We are maintaining a 3.5 stars rating on Indonesia market.