THEMATIC REPORT

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Indonesia in Post-Jokowi Era; Malaysia's Perspective

KEY HIGHLIGHTS

- **On 14th February 2024, Indonesian will decide its next president. This is the third-largest democracy in the world.**
- **Global economy to expand by +0.013% if Indonesia up by +1.0%. Malaysia is among the top ten countries to be benefit the most, with expansion rate of +0.015%.**
- **CIMB Niaga should benefit from post-election certainty. CIMB (BUY, TP: RM6.62).**
- **Growing poultry-related product demand in Indonesia, driven by population growth. Leong Hup International (BUY, TP: RM0.90) and QL Resources (BUY, TP: RM6.25).**
- **IHH seeking acquisition aligned with Indonesia's policy on healthcare localization. IHH Healthcare (BUY, TP:RM7.08).**
- **Telkom Indonesia commands more than half of the market share, followed by Indosat Ooredoo Huthcison and XL Axiata. Note that XL Axiata is a 66.53%-owned subsidiary of Axiata Group Bhd (Neutral, TP:RM2.42).**
- **With Prabowo Subianto's lead in early polls, this signals an expected assertive shift in Indonesia's palm oil policy post-elections to continue safeguard the local industry. Sime Darby Plantation (NEUTRAL, TP: RM4.10) and Kuala Lumpur Kepong (BUY, TP: RM24.60).**
- **Indonesia's upstream PSC to remain strong for Bumi Armada (BUY, TP:RM0.67).**

ECONOMICS & POLICY

Jokowi to clock-out soon but his legacy may remain. Indonesia's President, Joko Widodo will step down in Oct-24. On the 14th February 2024, Indonesian will decide its next president. This is the third-largest democracy in the world. The system of the election will be an open proportional election where voters cast their presidential votes straight away for the legislative candidates listed on the vote papers. The candidates for the next election are Prabowo Subianto (Gerindra Party), Ganjar Pranowo (Indonesian Democratic Party of Struggle) and Anies Baswedan (Nasdem Party). Jokowi's legacy may remain as the candidate will continue the Nusantara project. Ganjar Pranowo and Prabowo Subianto with his running mate, Gibran Rakabuming Raka the son of the current Indonesia President promised to maintain constructing Indonesia's new capital city on the island of Borneo, as well as developing the downstream economy. Jokowi policies are developing the infrastructure, social welfare program and focus on the economic growth. We believe that the post Jokowi-Era of Indonesia is crucial for Malaysia due to its geographical and economic size factors.

Tight race between Prabowo & Ganjar. Surveys seems to be favouring Prabowo Subianto and Ganjar pranowo. Based on polling results by Indikator Politik Indonesia, candidates from Gerindra Party and Indonesian Democratic Party of Struggle were leading by 40.6% and 27.8%. Tight race shown in other surveys as provided by The Straits Time and Lembaga Survei Indonesia. Even though Anies received the lowest polls result, anything can happen in politics especially with millennials and Gen Z represent more than 50% of the eligible voters.

Table 1: Indonesia's Presidential Election 2024 Candidates

	Prabowo Subianto	Ganjar Pranowo	Anies Baswedan
Political Party	Gerindra Party	Indonesian Democratic Party of Struggle	Nasdem Party
Polls Result:			
The Straits Time (result released: 28 Nov 2023) Polls conduct: Between Oct 27 and Nov 1	39.7%	33.7%	24.4%
Indikator Politik Indonesia	40.6%	27.8%	23.7%

	Prabowo Subianto	Ganjar Pranowo	Anies Baswedan
(result released: 5 Nov 2023) Polls conduct: Between Oct 27 and Nov 1			
Lembaga Survei Indonesia (result released: 12 Oct 2023) Polls conduct: Oct 2-8	37.0%	35.2%	22.7%
Manifesto	Environment for sovereignty: - Aims to turn the country into a renewable energy and bioenergy superpower by continuing the existing early coal retirement plan to reduce its dependency on fossil fuels. - Plan to build new oil refineries, ethanol plants and gas distribution infrastructure under state-owned or private enterprises. - Plan to promote green product certification to ensure sustainable resources management.	Environmental Economy: - Aim to reduce GHG emissions. - Target increasing the share of renewable energy in the national energy mix by up to 30% by 2029. - Encourage the development of community-based renewable energy programs in villages to maintain an independent electricity supply. - Emphasise the development of a blue economy through inclusive and sustainable maritime governance. - **Turn waste into an economically valuable resource for local communities. (social welfare programme)** - Impose a moratorium to halt deforestation.	Climate Justice: - Retire coal-fired power plants early, especially those on Java and Bali, while increasing the share of renewable energy in the national energy mix. - **Promise interesting incentive scheme to encourage community participation in clean electricity generation, on -or off-grid. (social welfare programme)**
	- **Continue construction of Indonesia's new capital city on the island of Borneo and to further develop downstream industries. (project Nusantara)**	- Pledged to create 17 million new jobs.	- Increase job opportunity and better public service offerings.
	- Seek to achieve self-sufficiency in food, water and energy, while establishing a state revenue agency and looking to boost to 23 per cent the ratio of state revenues to gross	- Cheaper and more asymmetric weapons, including anti-ship missiles, coastal artillery, mines and electronic warfare.	**- Lower the cost of staple foods and improve the welfare of farmers and fishermen. (social welfare)**

	Prabowo Subianto	Ganjar Pranowo	Anies Baswedan
	domestic product. (economic growth)		
	- Fully eradicate extreme poverty within the first two years of taking office and modernise military hardware. (economic growth)	- Building a coast guard that will be large enough to defend the country's territorial waters from foreign intervention and illegal and unregulated fishing.	- **Offer better access to education and healthcare. (social welfare)**

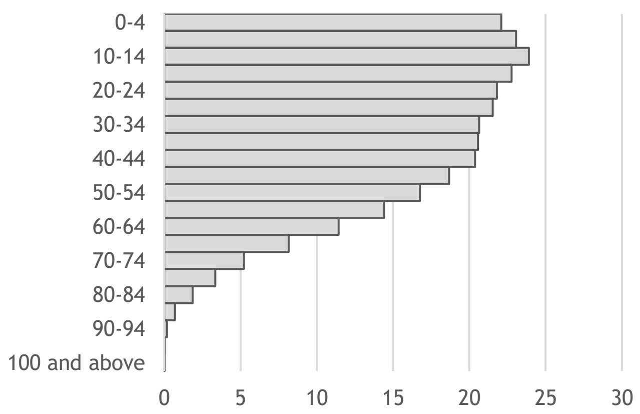
Source: Various, MIDFR

Indonesia: Demography & Income

Larger population with younger demographics. Indonesia is ranked as the 4th most populous nation in the world, which according to the World Bank estimate has reached 278.7m as of 2023 or roughly 3.5% of the world population. The total population in 2023 is nearly +36% more than 205.1m back in 2000, which has been growing at +1.5% annually during the 21-year period. In addition to the large population, the country has a young demography with median age of 29.6 years old (as of 2022), which is relatively younger than 30.2 for the world, 30.3 for Malaysia and 31.6 for Asia. By age group, the working population aged 15-64 accounted slightly more than two-thirds (or 68.8%) of Indonesia's population, higher than 65% for the population.

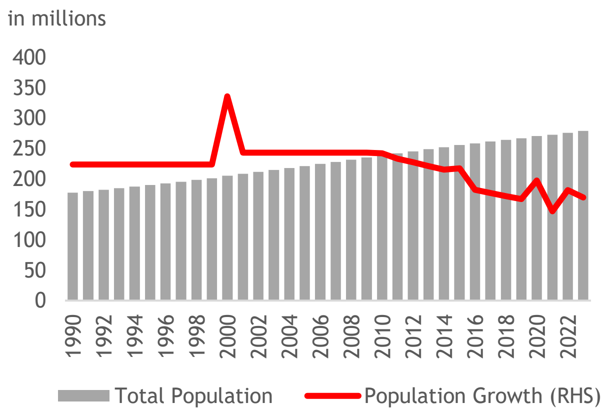
Most Indonesians reside in Java. In terms of the geographical breakdown, Java is the most populous area with estimated 154.3m people (or more than 55% of Indonesia's population) live in 4 major provinces, namely West Java, Central Java, East Java and Banten. This followed by Sumatera and Sulawesi, with total population of 60m and 20.3m, respectively. The least populous areas are Papua (5.6m) and Maluku Islands (3.2m).

Chart 1: Indonesia's Demography by Age Groups (in millions)



Source: Macrobond, MIDFR

Chart 2: Population Size (in millions) and Growth (%)

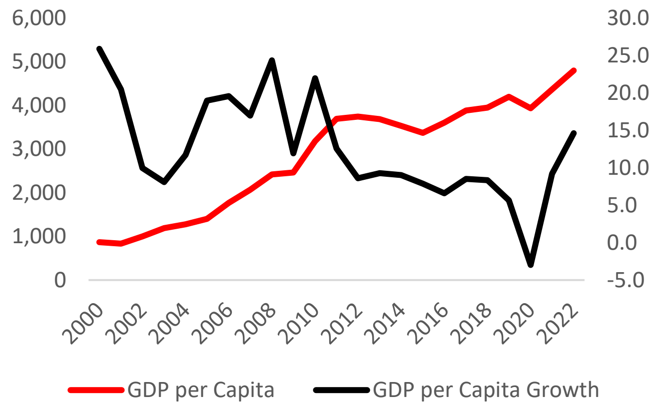


Source: Macrobond, MIDFR

Income per capita has improved in line with economic prosperity. The economic growth has brought prosperity for the people in Indonesia. The GDP per capita has increased to USD4,798 in 2022, or +51% more than USD3,178 in 2010. The increase was more impressive between 2000 to 2010 when the GDP per capita rose by +265%. For 2010-2022, the regions which saw GDP per capita growing strongly were Central Sulawesi (CAGR: +16.6% per annum), North Maluku (+12.7% per annum), and South Sulawesi (+10.8% per annum). The CAGR for GDP per capita in Central Sulawesi is roughly 2 times faster than the +8.3% annual growth at national level. Other areas which recorded per capita GDP growth higher than the national aggregate were Kalimantan, Southeast Sulawesi, Gorontalo, Jakarta, Bengkulu, South Sumatera, Jambi and North Sulawesi. In line with the increased output per person, the per capita income also increased; GNI per capita stood at IDR52,359 in 2022, or +141% increase from IDR21,768 in 2010.

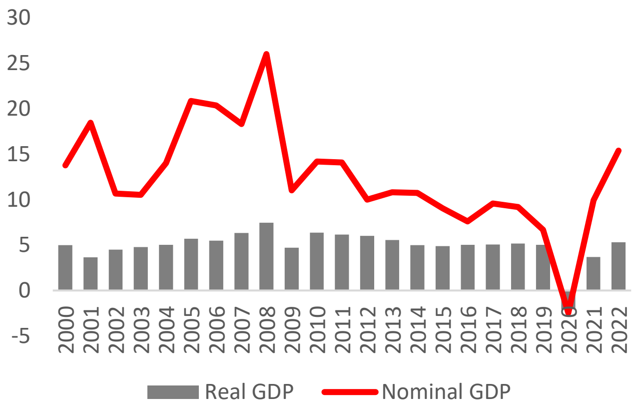
Impressive nominal GDP, thanks to political stability. The strong per capita income growth commensurates with the robust growth in Indonesia's nominal GDP, where the size of the economy rose to USD1.32t in 2022, or +74.6% higher than that in 2010. The nominal GDP growth was much higher at +320.8%, when the economy grew from USD0.18t in 2000 to USD0.76t in 2010. This economic prosperity was achieved facilitated by the political stability when Susilo Bambang Yudhoyono was the President, in the 10-year period until Oct-14. The size of Indonesia's economy first surpassed the USD1t mark in 2017.

Chart 3: GDP per Capita (USD) and GDP per Capita Growth (%)



Source: IMF, MIDFR

Chart 4: Real vs Nominal GDP Growth (%)



Source: Macrobond, MIDFR

Indonesia: Economic Structure

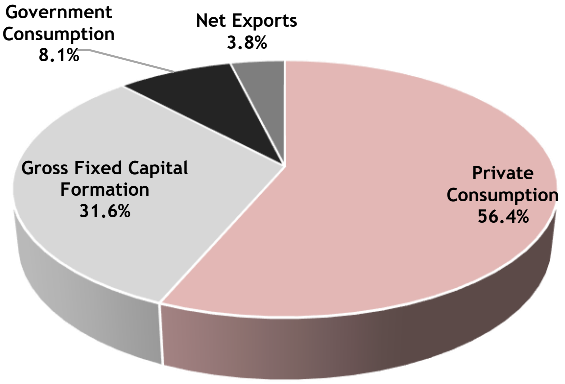
Sustained growth in the economy backed by domestic spending. In terms of the economic structure, by the demand side, domestic spending alone covers approximately 52% of Indonesia's GDP (based on annual data in 2022). The country's economic growth jumped back to above +5.0% in the second year of post-pandemic recovery, growing stronger at +5.3% in 2022 (2021: +3.7%) with private consumption spending growing at +4.9% (2022: +2.0%) which is relatively lower but very close to +5.0% average growth in the pre-pandemic period between 2015-2019. Investment, as measured by the spending on gross fixed capital formation (share: 29.1% of GDP), also contributed to the recovery in 2022. Business activities are still recovering from the effect from the global pandemic, where the pace of growth in investment activities averaged at +3.8% in 2021-2022, not as fast as +5.3% average growth in 2015-2019. We believe business spending was also affected by the rise in production costs as well as the disruptions to the global supply chain.

Services sector benefited from the domestic demand recovery. On the supply side, given the recovery in domestic spending activities, services industry (share: 42.9% of GDP) benefited the most with selected sub-sectors such as transport & storage (+19.9%) and accommodation & food services (+12.0%) recorded double-digit growth. Most other major sectors i.e. mining & quarrying, manufacturing and construction also expanded in 2022 at rates faster than the overall GDP growth of +5.3%. Agriculture sector, on the other hand, only expanded at +4.7% albeit higher than +3.4% in the previous year.

Growth moderated to +4.9%yoy in 3QCY23… Although real GDP growth moderated to +4.9%yoy in 3QCY23 (2QCY23: +5.2%yoy), the quarterly GDP growth has been averaging around +5.2%yoy since 4QCY21. The latest growth was also slightly below the average +5% quarterly annual growth in the pre-pandemic period between 1QCY15 to 4QCY19. Nevertheless, the moderate growth was due to slower growth in the services sector (3QCY23: +5.8%yoy; 2QCY23: +7.1%yoy), while other major sectors all recorded stronger growth during the quarter.

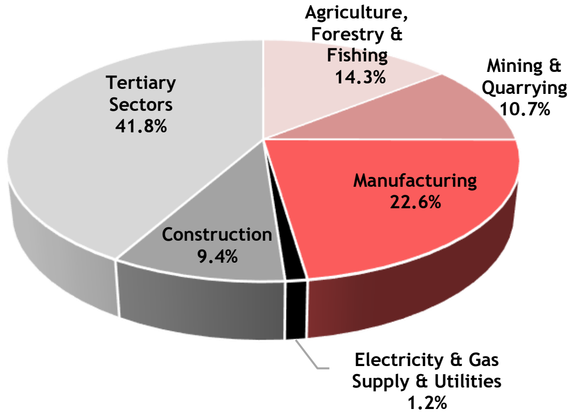
…due to slower growth in services sector and private consumption. From the demand side, the growth in private consumption expenditures moderated slightly to +5.1%yoy (2QCY23: +5.2%yoy) due to moderate growth in spending on clothing and healthcare & education services. In addition, government spending was a drag to the 3QCY23 GDP growth performance as public sector consumption dropped by -3.8%yoy (2QCY23: +10.6%yoy). In contrast, investment spending expanded at faster pace as gross fixed capital formation rose by +5.8%yoy (2QCY23: +4.6%yoy), the strongest growth in 9 quarters. The growth was driven by increased investment on buildings and transportation. Net exports also contributed positively as real trade surplus was +6.1%yoy higher than 3QCY22, mainly because of sharper decline in real imports (-6.2%yoy) vis-à-vis real exports (-4.3%yoy).

Chart 5: Breakdown of Economy by Expenditure (% of GDP)



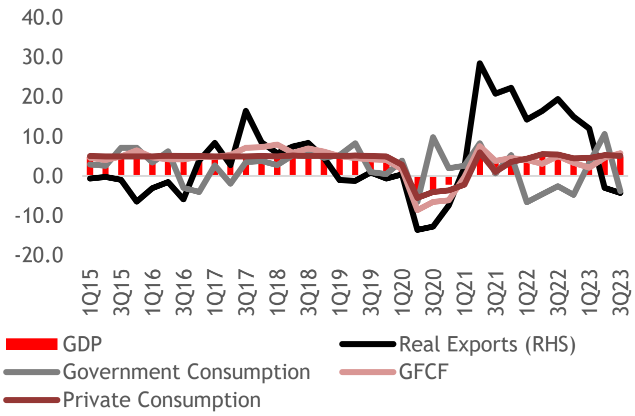
Source: Macrobond, MIDFR

Chart 6: Breakdown of Economy by Sector (% of GDP)



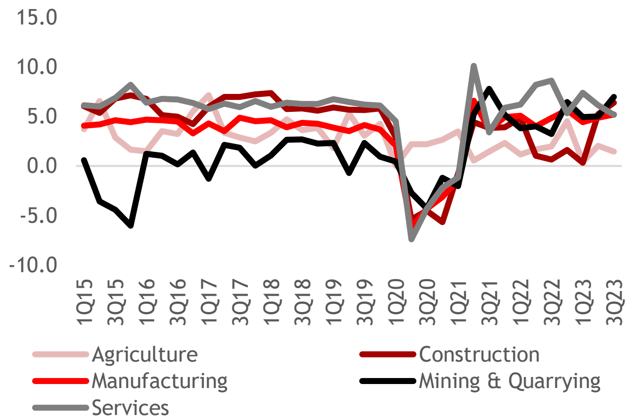
Source: Macrobond, MIDFR

Chart 7: Real GDP Growth by Expenditure (YoY%)



Source: Macrobond, MIDFR

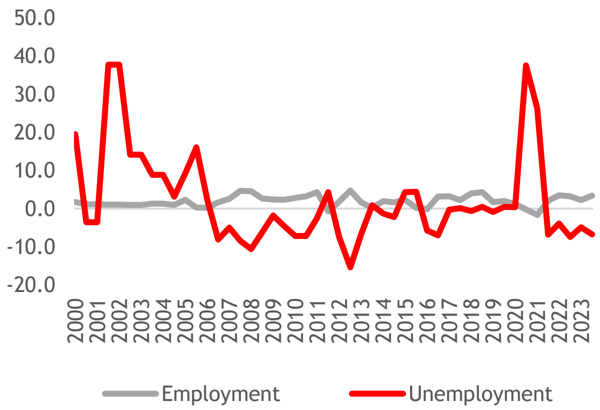
Chart 8: Real GDP by Industry (YoY%)



Source: Macrobond, MIDFR

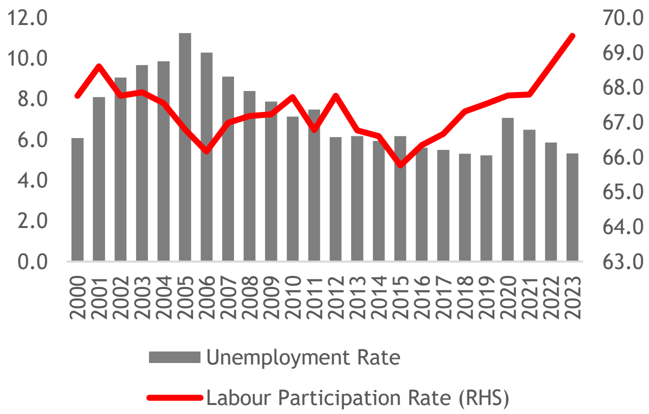
Healthy labour market. With the post-pandemic recovery, labour force participation rate has increased to 69.3% in 2023, back to the same level recorded in 2019. With improving labour demand, unemployment rate has dropped to 5.3% in the quarter to Sep-23, the lowest since 4.9% in 1QCY20 and remained on downtrend from the peak 7.1% in 2QCY23 which was at the height of pandemic-induced economic slowdown. We foresee the healthy labour market conditions will continue to support growing domestic spending activity in Indonesia.

Chart 9: Growth in Employment vs Unemployment (%)



Source: Macrobond, MIDFR

Chart 10: Unemploym. Rate vs. Labor Participation Rate (%)

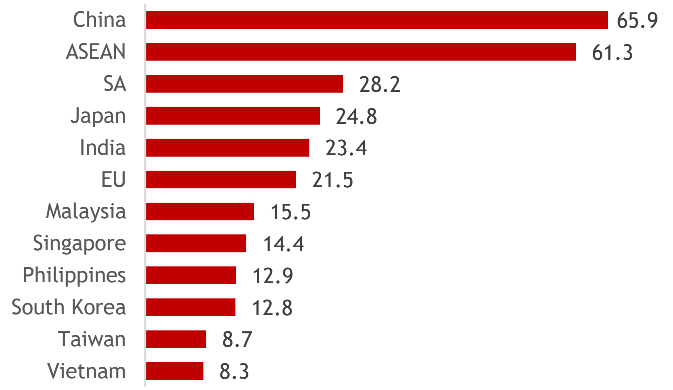


Source: Macrobond, MIDFR

Indonesia: External Trade Structure

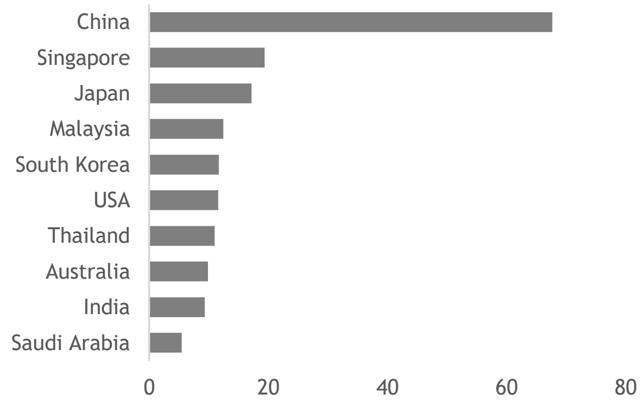
Major trade partners. The top 5 major markets for Indonesia's exports are China, ASEAN, USA, Japan, India and EU. In terms of exports to Southeast Asian countries, approximately 83% of Indonesia's exports to ASEAN were shipped to 4 neighboring countries namely Malaysia, Singapore, the Philippines, and Thailand.

Chart 11: Indonesia's Major Export Markets in 2022 (USD b)



Source: Macrobond, MIDFR

Chart 12: Imports by Major Sources in 2022 (USD b)



Source: Macrobond, MIDFR

Major export products. Around 70.4% of Indonesia's total exports (in 2022) are manufactured goods, such as base metal products, palm oils, textile & textile products, and processed foods. Mining goods exports accounted around one-quarter of Indonesia's exports, where coal alone contributed more than 60% of the mining exports. Exports of oil & gas, including oil products, in particular has shrank to only 5.5% of Indonesia's total exports in 2022 (2010: 17.8% of total exports). This was explained by the lower shipments of crude oil; the amount of crude oil exports valued at USD1.62b in 2022 was -84.5% lower than the amount exported back in 2010. Although gas exports increased by +30.6% in 2022 from the previous year, the value of gas exports was, however, -28.8% smaller than that in 2010. Agriculture exports covered less than 3% of Indonesia's total exports. Top 3 major agricultural products exported by Indonesia are fish & other related produce, shrimp & prawn, and coffee bean.

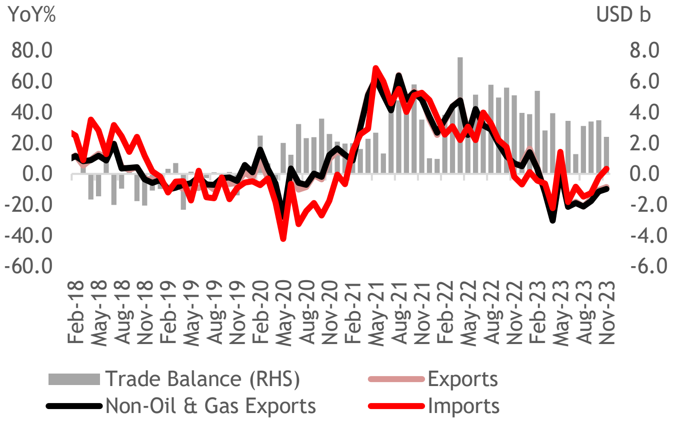
Relatively lower trade openness... The size of total trade (of goods) to Indonesia's economy actually rose to 40.1% of GDP in 2022, level last seen in 2013 and higher than the pre-pandemic average of 32.4 % of GDP between 2015-2019. This shows the economy also benefited from the post-pandemic recovery in global trade activity. Understandably, the level of trade openness is much smaller than Malaysia, which stood at more than 140% of GDP in 2022. This makes Indonesia relatively less vulnerable to global manufacturing (and trade) slowdown. For 2023, the economy is expected to continue growing above +5.0% (official government forecast: +5.1%).

...manufacturing sector not really affected by weak external demand. The latest S&P Global PMI survey also shows Indonesia's manufacturing sector activities continued to expand in Dec-23 for the 28th consecutive month, with turnaround in its export demand. In comparison, manufacturing PMIs for other regional countries like Malaysia, Vietnam, Thailand and Taiwan indicated manufacturing activities contracted in Dec-23 as the indices remained below 50, partly influenced by the continued weakness in foreign demand despite recent signs of recovery.

Trade performance hit by slower global demand. Although exposure to external trade slowdown was not as big as Malaysia, Indonesia's external trade performance also weakened in 2023 as a result of reduced global demand for its commodities. In particular, outward shipments to major destinations, like USA (-19.2%yoy), Malaysia (-17.3%yoy), India (-14.1%yoy), Japan (-13%yoy), Singapore (-11.1%yoy), and the Philippines (-8.6%yoy), declined in first 10 months of 2023. In addition, exports growth to China also moderated significantly to +3.1%yoy (2022: +23.8%). To a certain extent, the positive growth reflected stronger shipment of coals to China, which grew faster at +12.9%yoy in 10MCY23 (2022: +2%yoy).

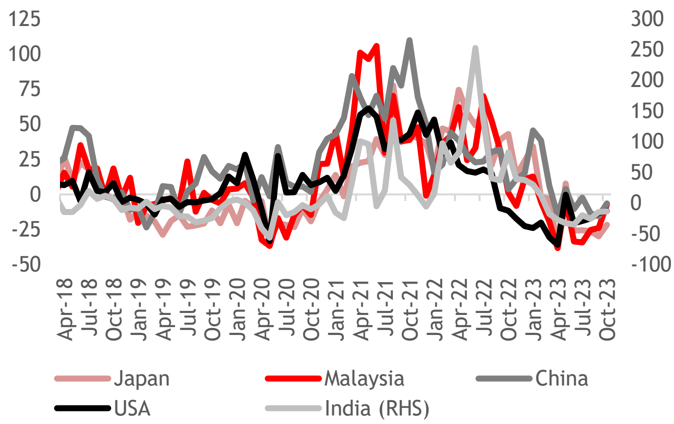
Some resilience in exports of selected commodities. In terms of major commodities, strong demand for palm oils continued to support Indonesia's external trade this year as palm oil exports sustained positive growth of +4.5%yoy in Jan-Oct 2023, albeit slower than +7.6% growth in 2022. Despite the resilience in palm oil exports and oil & gas exports (10MCY23: +2.9%yoy; 2022: +30.6%), overall mining exports dropped by -9.1%yoy during the period (2022: +62.2%yoy), because of weaker exports of other commodities such as natural gas and copper. The decline in overall exports in 2023 was mostly dragged down by lower exports of manufactured goods (10MCY23: -8.8%yoy; 2022: +18.4%), with large drops for products like chemicals (-28.2%yoy), textiles (-15.3%yoy), footwear (-17.8%yoy), processed rubber products (-23.8%yoy) and parts & machines (-13.3%yoy). Additional drag to external trade was from lower agriculture exports (10MCY23: -8.9%yoy; 2022: +10.1%), namely shrimp & prawn (-21.2%yoy) and coffee bean (-12.2%yoy).

Chart 13: Exports and Imports (YoY%)



Source: Macrobond, MIDFR

Chart 14: Exports Performance by Destinations (YoY%)



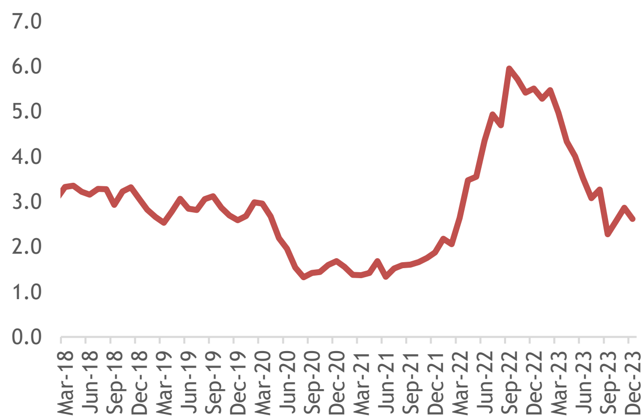
Source: Macrobond, MIDFR

Indonesia: Inflation Trend and Outlook

Indonesia was also hit by rising inflation. Like other countries, inflation in Indonesia went up to nearly 6% in Sep-22. Amid growing demand, the upward price pressures were mainly due to the effect of rising commodity prices triggered by the Ukraine-Russian war which caused the government to remove the cap on fuel prices, as a result fuel prices went up by +30%. Since Bank Indonesia tightened its policy interest rate by +250bps since Aug-22, inflation has dropped to below +4.0% as of Jul-23; which means inflation is now under control, within BI's forecast range of +2.0% to +4.0%.

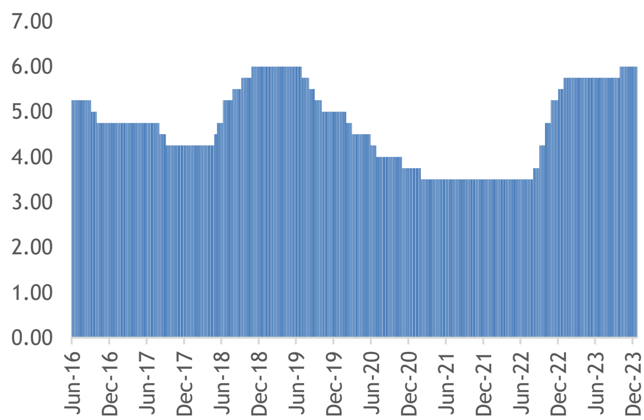
Policy rates may be eased. As inflation has eased and returned to pre-pandemic levels, Bank Indonesia is not expected to pursue policy tightening like before. In fact, expectations now shifted to possible rate cuts in 2HCY24. If inflation remained low and under control, and demand condition weakened further, this will warrant for policy easing. We foresee the policy rate will remain stable, although the central bank may adjust its foreign exchange for rupiah to ensure the currency movement will be in line with the bank's inflation target. Strengthening of rupiah, in anticipation of the weaker dollar as Fed is slated to cut interest rates next year, will also help to keep Indonesia's imported inflation under control. Demand pressures will also ease and contained, as a result of the previous policy tightening. There is possibility that the central bank will cut rates as slowing demand will no longer a very tight policy setting, previously was hiked due to inflation concerns.

Chart 15: Consumer Price Inflation (YoY%)



Source: Macrobond, MIDFR

Chart 16: Bank Indonesia's Policy Interest Rate (%)



Source: Macrobond, MIDFR

Malaysia-Indonesia Relationship

Closer ties between Malaysia and Indonesia. As guided by the Asian Free Trade Agreement (AFTA), the Malaysia-Indonesia trade relationship is largely free of tariffs and non-tariff barriers. The trade relationship was further enhanced with the tariff elimination between ASEAN-6 in 2010, which include Malaysia and Indonesia. The tariff elimination between the ASEAN-6 marked a new free trade area, eliminating import duties for 99% of products in the inclusion list. In addition, both Malaysia and Indonesia are members of the Regional Comprehensive Economic Partnership (RCEP), the largest FTA which accounting for almost 30% of the global trade. These agreements allow broad market access, investment opportunities, encourage tourism activities within the region and mutual recognition of international standards and technical regulations.

Table 2: Foreign Trade Agreement Involving Malaysia and Indonesia

	ASEAN Free Trade Agreement (AFTA)
1993-2010	**Common Effective Preferential Tariff (CEPT) Scheme**: Under AFTA, all members are required to participate in the CEPT Scheme. The Economic Ministry has agreed to eliminate import duties for all products but a small number of sensitive products by 2010 for all participating countries but Cambodia, Lao PDR, Myanmar and Vietnam, where the import duties exclusion was to be implemented by 2015. CEPT covers all manufactured goods with 40% of its content originating from the member states.
Since 2010	**ASEAN Trade in Goods Agreement (ATIGA)**: ATIGA superseded CEPT on 17th May 2010 after it was signed on 26th February 2009. ATIGA introduces new initiatives such as comprehensive coverage in Trade in Goods, full tariff reduction schedules, and non-tariff measures. Through the agreement, participating nations benefit from the minimized barriers and deepen economic linkages, lower business costs, increase trade and investment, and create and maintain a competitive investment area.
Since 2010	**Taarif Elimination Between ASEAN-6:** On 1 January 2010, Malaysia and 5 other ASEAN nations (Brunei, Indonesia, Philippines, Singapore and Thailand) formed a free trade area. Trade between these 5 countries is excluded from import duties on 99% of products in the inclusion list (except items in the Sensitive and Highly Sensitive List). As of today, between the ASEAN-6, 99.20% of tariff lines in the Inclusion List are excluded from import duty as compared to the ASEAN Average of 96.01%.
	Agreements Outside AFTA
Since 2002	**ASEAN Tourism Agreement:** The ASEAN Tourism Agreement aims to facilitate tourism between ASEAN nations by easing travel and visa arrangements. However, the agreement did not mean all countries involved had eliminated visa requirements for each other citizens. However, from 14 September 2022, ASEAN tourists visiting Indonesia are eligible for Visa exemption. Similarly, all ASEAN nationals, except for Myanmar, are exempted from visa requirements for a stay of less than 30 days.
Since 2022	**Regional Comprehensive Economic Partnership (RCEP):** RCEP was materialized on 1 January 2022 for the ten original parties. Malaysia and Indonesia entry forces took place on 18 March 2022 and 2 January 2023, respectively. With the latest participation, the Philippines on 2 June 2023, RCEP is made up of 15 Indo-Pacific countries (ASEAN and China, Japan, South Korea, Australia, and New Zealand), making it the largest FTA by members' GDP and trade value. RCEP brought Asia closer to being a regionwide trading bloc, eliminating tariffs and quotas for over 65% of goods traded. Some tariffs will be immediately abolished, while others will be gradually eliminated.

Source: MITI, ASEAN, ADB, MIDFR

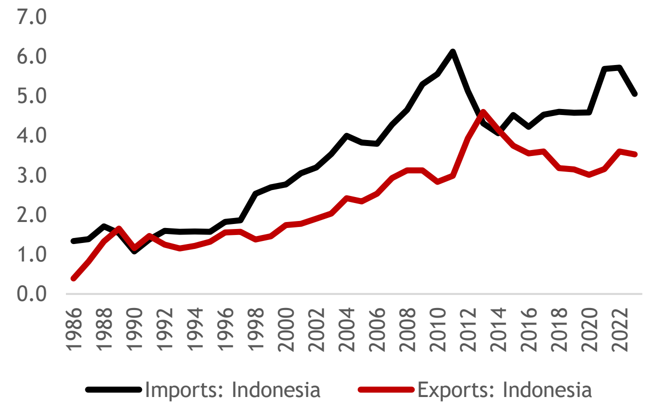
Growing trade with Indonesia. Albeit geographical factor and huge market access, Malaysia's total trade with Indonesia surged to 0.8% in 1986 to 4.2% as of 11MCY23. The highest rate was recorded last year at 4.6%. Imports from Indonesia represent 5.1% of total imports while exports to the neighbouring country constitutes about 3.5% in 11MCY23. Henceforth resulting Malaysia having a trade deficit with Indonesia ever since except in 2013 and 2014. These two years were attributed by the high global oil prices especially Malaysia being a net exporter of petroleum products. By product, Malaysia has trade surplus on two major products namely mineral fuels and machinery & transport equipment. Looking ahead, continuous high global oil prices will benefit Malaysia via the mineral fuels outbound shipment. On top ASEAN Free Trade Agreement (AFTA), the ratification of RCEP in early 2022 will boost international trade relationship between Malaysia and Indonesia. Both can have better market accesses and trade opportunities thru RCEP.

Table 3: Malaysia-Indonesia Trade by Sector

	% of Total Trade				Trade Balance (RM Billion)			
	2019	2020	2022	10M23	2019	2020	2022	10M23
Malaysia-Indonesia Trade	-	-	-	-	(7.6)	(7.1)	(18.2)	(8.9)
Food and Live Animals	7.6	8.0	5.4	6.3	(1.6)	(2.0)	(1.8)	(1.4)
Beverages and Tobacco	1.2	1.0	0.6	0.6	(0.4)	(0.4)	(0.0)	(0.1)
Crude Materials Inedible	4.3	4.4	5.3	4.6	(1.3)	(1.2)	(5.0)	(2.9)
Mineral Fuels	24.4	24.6	37.8	34.1	(3.9)	(3.3)	2.7	0.8
Animal, Vegetable Oils and Fats	5.4	7.3	8.0	6.4	(3.2)	(4.4)	(9.8)	(5.5)
Chemicals	16.5	15.2	14.8	14.7	2.8	1.5	(1.2)	(0.0)
Manufactured Goods	18.7	14.5	13.1	13.8	(2.8)	(2.4)	(5.8)	(3.0)
Machinery and Transport Equipment	17.0	20.9	11.7	15.7	1.8	4.7	2.3	2.9
Miscellaneous Manufactured Articles	4.4	3.8	3.0	3.3	0.7	0.4	0.2	0.2
Others	0.5	0.3	0.3	0.5	0.2	0.1	0.0	0.2

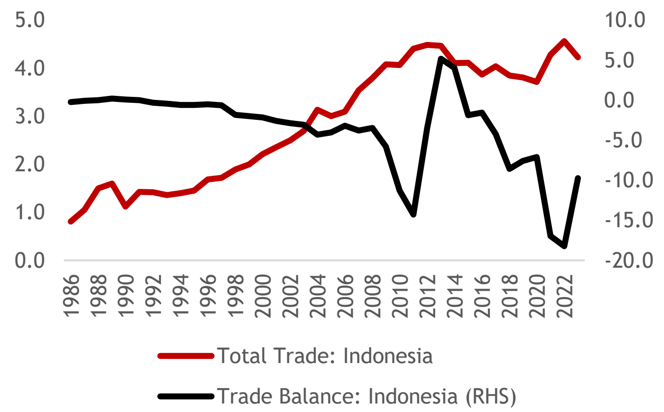
Source: DOSM, MIDFR

Chart 17: Malaysia-Indonesia Trade (% of Imports & Exports)



Source: DOSM, MIDFR

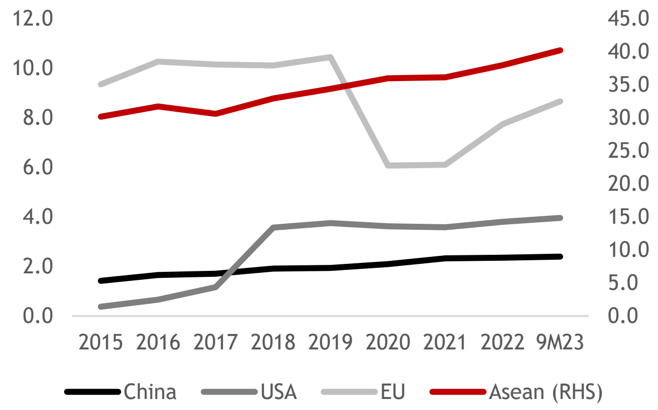
Chart 18: Malaysia-Indonesia Trade (% of Trade & Trade Balance, RM Billion)



Source: DOSM, MIDFR

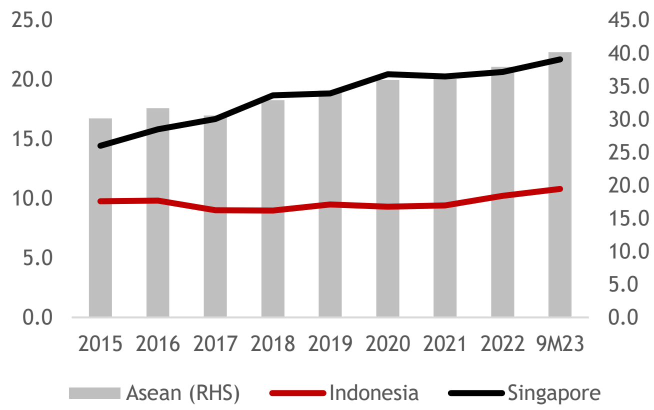
Malaysia's direct investment in Indonesia increased steadily. Since 2015, Malaysia's overseas investments shifted more towards ASEAN than Europe. Direct investment in China and the US to total DIA ratio improved slightly to 2.4% (2015: 1.4%) and 4.0% in 9MCY23 (2015: 0.4%). ASEAN took a larger share from 30.2% in 2015 to 40.2% after almost a decade . Zooming into ASEAN, Singapore and Indonesia dominate the most. As of 9MCY23, 10.8% of Malaysia's DIA landed in Indonesia. We believe the DIA are invested across mining, agriculture, manufacturing and services including finance, insurance and real estate.

Chart 19: Malaysia's Direct Investment Abroad (% of DIA by Region)



Source: DOSM, MIDFR

Chart 20: Malaysia's DIA by ASEAN (Share %)



Source: DOSM, MIDFR

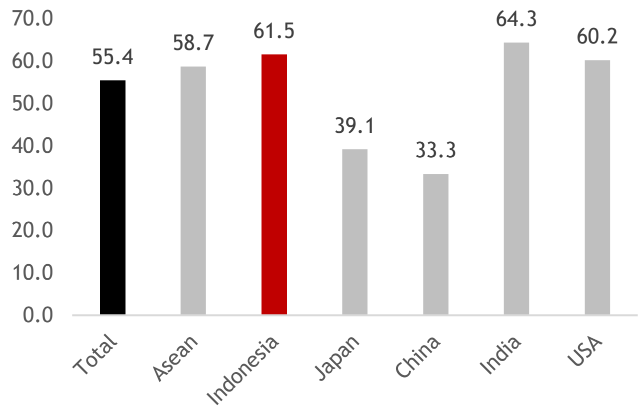
Roughly 15% of tourists from Indonesia. 2.2 million Indonesians visited Malaysia as of 9MCY23, 61.5% of 2019 level. The recovery rate is way better than those of ASEAN and total tourist. Over the years, Indonesian tourists share to total tourist arrivals rose from 3.9% in 1999 to 13.9% after 20-year. By average annual growth rate, the tourist arrival from Indonesia grew by +4.6% per annum during 2001~2019 against total arrival increased marginally by +1.1% per annum. After 2010 till 2019, the expansion rate much faster at +11.9% per annum by Indonesian whereas overall tourists rose by only +5.9% per annum. The ratification of ASEAN Tourism Agreement 2002 which included visa-free for ASEAN members and improving socioeconomic development of Indonesia were among upside factors boosting tourism activities in the region including Malaysia.

Table 4: Malaysia's Tourist Arrivals by Selected Country (Million Persons)

Million Persons	2019	2020	2021	2022	9M23	% of 2019
Total	26.1	4.3	0.1	10.1	14.5	**55.4**
America	0.4	0.1	0.0	0.1	0.2	**59.7**
Oceania	0.4	0.1	0.0	0.2	0.3	**64.2**
Japan	0.4	0.1	0.0	0.1	0.2	**39.1**
China	3.1	0.4	0.0	0.2	1.0	**33.3**
India	0.7	0.2	0.0	0.3	0.5	**64.3**
USA	0.3	0.0	0.0	0.1	0.2	**60.2**
ASEAN;	17.9	2.9	0.1	8.1	10.5	**58.7**
Indonesia	3.6	0.7	0.0	1.5	2.2	**61.5**
Singapore	10.2	1.5	0.0	5.2	5.9	**58.0**
Thailand	1.9	0.4	0.1	0.7	1.2	**61.2**

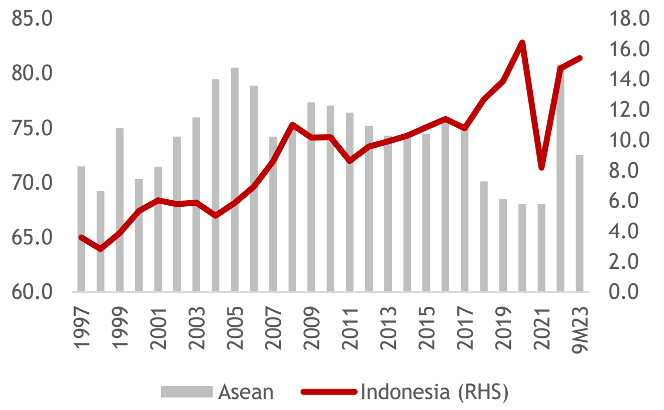
Source: Tourism Malaysia, MIDFR

Chart 21: 9MCY23 Malaysia's Tourist Arrivals by Selected Country (% of 2019 Levels)



Source: Tourism Malaysia, MIDFR

Chart 22: Malaysia's Tourist Arrivals by ASEAN & Indonesia (% of Total Tourists)

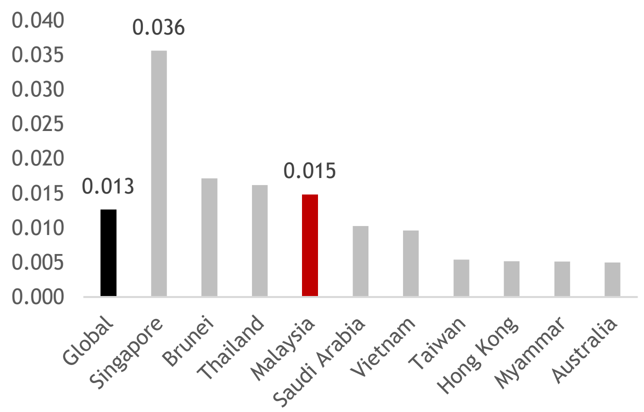


Source: Tourism Malaysia, MIDFR

Indonesia contributed about 1.3% to global value-added. Based on our global-linked model, Indonesia contributed about 1.3% to global output. Among ASEAN peers, Indonesia has higher contribution rate as compared to Malaysia (+0.4%), Singapore (+0.4%), Thailand (+0.6%) and Vietnam (+0.3%). This could be attributed by its huge population size and natural resources. By sector, Indonesia biggest contribution is 9.3% of global's Fishing & Aquaculture. Indonesia also plays critical role in sectors such as (ii) Mining; Non-energy, (iii) Air Transport, (iv) Agriculture, Hunting & Forestry, (v) Textiles, Leather & Footwear and (vi) Food, Beverages & Tobacco.

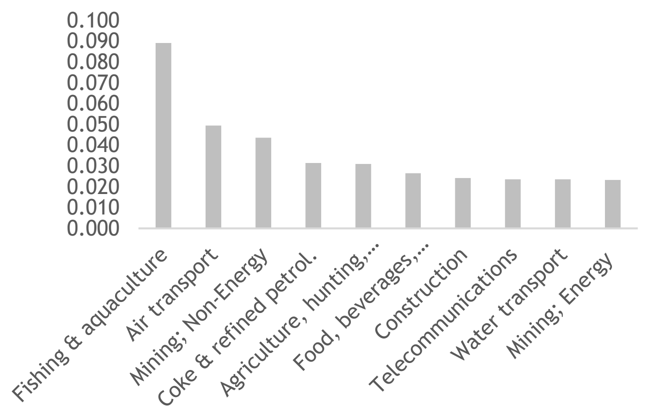
Global economy to expand by +0.013% if Indonesia up by +1.0%. As Indonesian economy is predicted to remain on steady expansion pace, we simulate +1% increase of the GDP impact towards global economy. Based on our in-house model, global output to improve by +0.013% and Singapore is the largest beneficiary of +0.036% economic expansion. Malaysia is among the top ten countries to be benefit the most, with expansion rate of +0.015%. Expansion of Indonesia is seen impactful to ASEAN and some Asian countries.

Chart 23: Global Output Change if Indonesia up by 1% (Change %)



Source: OECD, MIDFR

Chart 24: Top Ten Sectoral Beneficiary if Indonesia up by 1% (Change %)



Source: OECD, MIDFR

Downstream and upstream mining products to benefit the most. In the event of Indonesia increase by +1.0, Malaysia's output predicted to gain among others by (i) Chemicals products, (ii) Coke & refined petroleum products, (iii) Mining; Energy-producing products, (iv) Mining; Support services and (v) Basic Metals. The direct and indirect factors cause the various sectors to be impacted especially with Malaysia and Indonesia involve heavily in regional supply chain of upstream and downstream of mining sector particularly oil & gas. As one of mining producing countries, Malaysia's production and outbound shipment of mining products to benefit amid steady expansion of Indonesian economy and better recovery in China and other major Asian countries.

Table 5: Malaysia's Sectoral Impacts if Indonesia up by 1%

Sector	Change %
Chemical products	0.047
Coke & refined petroleum products	0.047
Mining; energy producing products	0.041
Mining support services	0.037
Basic metals	0.033
Machinery equipment	0.033
Rubber & plastics products	0.024
Textiles, leather & footwear	0.023
Fabricated metal products	0.021
Land transport	0.021
Air transport	0.020
Water transport	0.020
Distributive trade	0.019
Pharmaceuticals & botanical products	0.018
Warehousing services	0.016
Repair & installation of machinery and equipment	0.014
Printing & Paper products	0.014
Electrical equipment	0.014
Food, beverages & tobacco	0.014
Professional, scientific & technical	0.014
Other services	0.013
Electricity, gas, steam and air conditioning supply	0.013
Accommodation & food services	0.013
Publishing & broadcasting activities	0.012
Agriculture, hunting, forestry	0.012
Mining; non-energy producing products	0.012
Wood products	0.012
Administrative services	0.011
Financial & insurance	0.011
Other transport equipment	0.011
Other non-metallic mineral products	0.010
Postal activities	0.010
Computer, electronic & optical equipment	0.010
Water supply activities	0.009
Motor vehicles, trailers & semi-trailers	0.008
Entertainment & recreation	0.008
IT & information services	0.007
Fishing & aquaculture	0.006
Telecommunications	0.005
Real estate	0.005
Construction	0.002
Health & social	0.002
Education	0.001
Public administration & defence	0.000
Households Activities	0.000

Source: OECD, MIDFR

EQUITY

BANKING………Maintain POSITIVE

CIMB Niaga should benefit from post-election certainty. CIMB Niaga remains a core earnings driver for CIMB Group, providing 26% of the Group's PBT in 9M23. In FY23, it reported its highest ever earnings in three consecutive quarters, each time topping previous results. CIMB Niaga is still expected to provide strong loan and deposit growth for the Group, given Indonesia's largely untapped potential: ROE and growth far outstrips CIMB's Malaysian figures. We expect a post-election boost to provide some uplift to business loans, given higher economic certainty and the potential of large-scale infrastructure projects. To reiterate, **CIMB (BUY, TP: RM6.62)** remains one of our top picks. (In contrast, Maybank's Indonesian venture is nowhere as successful).

CONSUMER………Maintain NEUTRAL

Growing poultry-related product demand in Indonesia, driven by population growth. Indonesia is the 4th most populous nation in the world, with a population standing at 278.7m in 2023, nearly 8x greater than Malaysia's population of 33.9m. Despite this, we observed that Indonesia's poultry consumption per capita in 2022 was only 8.21kg, significantly lower than Malaysia's 50.2kg. This highlights an underserved market, providing an opportunity for existing Malaysian poultry players to capitalize on mid-to-long term demand growth. Besides, with Indonesia's improving income per capita and a young demographic with a median age of 29.6 years, we reckon that the demand for affordable animal protein will remain strong going forward. This benefits the poultry industry, given that poultry-related products are the cheapest alternative compared to beef, goat, mutton, and dairy products. As such, we anticipate that the increasing demand for poultry-related products will be advantageous for poultry players under our coverage with exposure to the Indonesian market, allowing them to capture a market share. This includes companies like **Leong Hup International (BUY, TP: RM0.90)** and **QL Resources (BUY, TP: RM6.25).**

Indonesian poultry players heavily rely on locally sourced feed corn. The poultry feed contributes, on average, 60% to the total production cost for all poultry players in Indonesia (including DOC and commercial farms), with key raw materials being corn and soybean meals. While soybean meals are globally imported, the feed corn is locally sourced in Indonesia. We understand that the feedmill business in Indonesia is similar to Malaysia, implying a cost-plus pricing model. Note that Indonesia ceased corn imports for feedmills (excluding industries) and mandated the local sourcing of corn since 2017. This initiative is part of a self-sufficiency campaign introduced by the current Indonesia President Joko Widodo to support domestic corn producers and regulate domestic corn prices. The state procurement agency, National Logistics Agency (BULOG), is only authorized to import feed corn through the instruction of the National Food Agency ("NFA") when local corn prices reach exceptionally high levels, and there is an inadequate supply for smallholder poultry farmers. Therefore, the post-Jokowi era in Indonesia is crucial, considering the current locally sourced feed corn policy introduced by the current Indonesia President. Hence, we are concerned about the potential cost dynamics for chicken feed going forward, considering the three potential presidential candidates with different manifestos.

Culling program measure introduced to control poultry prices. Indonesia's government manages poultry product supply and demand imbalances through culling programs to control poultry prices, raise profitability, and support local farmers. This diverges from Malaysia's implementation of price ceilings and subsidies to ensure sufficient supply and affordability of poultry products for consumers, as well as to support farmers against higher production costs. The culling program was initiated after the current Indonesian President (Jojo Widodo) targeted food self-sufficiency to protect smaller farmers/breeders since 2015. This, in turn, caused an oversupply of poultry products that triggered a price war within the poultry industry, impacting smaller breeders the most. While culling impacts larger players and incurs some losses, the effect of the culling program eventually benefits the poultry players as it raises the selling prices, improves margins, and hence the earnings. Looking forward, we anticipate that the continuation of the culling program in the post-Jokowi era will be a key concern for the poultry industry going forward.

Financial backbone for Leong Hup International via PT Malindo. Leong Hup International is exposed to the Indonesian presidential election through its operations via PT Malindo in Indonesia. The Indonesian operation stands as the largest revenue contributor, accounting for 36.4% of total FY22 revenue. The business covers the entire poultry value chain, including feedmill, DOC producers, commercial broiler chicken farms, food processing products, and a fast-growing chain of quick-service restaurants (Sunny Chick in Indonesia). Based on Frost & Sullivan Analysis, PT Malindo is the 3rd largest poultry feed producer (7% market share) and the 4th DOC producer in 2021 (7% market share). Looking forward, we remain optimistic that the Indonesia operation will continue to be significant for the group, considering the growing demand for poultry-related products in Indonesia and the potential to expand market share.

2nd largest revenue contributor for QL Resources. QL Resources has exposure to the upcoming presidential election in Indonesia, yet manageable. Given that the overall revenue contribution from Indonesia's operation was 18% in FY23, the second-largest contributor, following the Malaysian operation (66.8%). In particular, Indonesian operations within the Palm Oil and Clean Energy segment (44.1%) held the highest revenue exposure in FY23, followed by the Integrated Livestock Farming segment (21%) and Marine Product Manufacturing (11.6%). As such, we believe that the post-Jokowi era could hold some insights for QL Resources in determining its forward-looking business strategy. Nevertheless, we maintain a positive view on the long-term business prospects in Indonesia. The group is committed to increasing egg production in the Indonesian unit over the next 3 years and expanding broiler and DOC production. Additionally, QL is in the process of commissioning a surimi-based products factory in Surabaya, with a target completion date in 4QFY24. This strategic move aligns with the company's continued efforts to capitalize on opportunities in Indonesia's dynamic market.

Maintain NEUTRAL. Overall, we anticipate that the post-Jokowi era to impact **Leong Hup International (BUY, TP: RM0.90) and QL Resources (BUY, TP: RM6.25)** due to their revenue exposure in Indonesia. On a positive note, the low per capita consumption of poultry products in Indonesia positions the country as an attractive market for business expansion and market share capture by LHI and QL Resources. This is expected to bolster their revenue base, leading to increased earnings going forward. However, considering the diverse manifestos presented by the three potential presidential candidates, we foresee varying mid-to-long-term effects on the poultry industry in Indonesia depending on the ruling government ahead. Overall, we maintain **NEUTRAL** on consumer sector. We continue to prefer consumer staples over discretionary options, with our top picks being **QL Resources (BUY, TP: RM6.25) and F&N (BUY, TP: RM33.50).**

HEALTHCARE..Maintain POSITIVE

IHH seeking acquisition aligned with Indonesia's policy on healthcare localization. Indonesia had been one of the contributors to medical tourism in Malaysia since the mid-2000s. However, the Indonesian government had been increasing its medical infrastructure and we opine that the new government is likely to continue this. Nevertheless, the impact of any policy changes may not be substantial to our local healthcare service providers as Indonesia remained to be the major contributor to medical tourism. As of 2019, Indonesia contributed about 66% of the total health tourism revenue and 47% of the Indonesian medical tourist sought frontend services i.e. health screening, which is often affordable and widely available. Additionally, private healthcare service providers with international footprints had been eyeing acquisitions in Indonesia, including **IHH Healthcare (BUY, TP:RM7.08)**. IHH had been seeking a market in Indonesia, following a turnaround in China, following Indonesia's strong healthcare market and growing demand for private healthcare. We believe that with IHH's goal to add another 4,000 new beds across Malaysia and its international operations, setting foot on Indonesia's healthcare sector would be beneficiary to the company and its Indonesian customers, as well as adhering to Indonesia's aspiration to localize its healthcare operations.

TELECOMMUNICATION..Maintain NEUTRAL

Opportunity abound… As corroborated earlier, Indonesia is one of the most the populous and young nation in the world. We believes that this provides a conducive business environment for the telecommunications industry to thrive. There is a vast pool of prospective subscriber for the telecommunication companies (telcos) to onboard as well as the opportunity to increase the average revenue per user (ARPU) by providing in-demand telecommunication services. The latter would be also supported by: i) the improving purchasing power led by the commendable economic growth in the last two decades, ii) normalising inflationary pressure; and iii) improving labour market where unemployment rate remains on a declining trend.

The outlook of the industry is further bouyed by the Covid-19 pandemic which accelerate Indonesia towards a digital-centric lifestyle. Coupled with the push towards 4G and 5G, these should translates into a big boost in data comnsumption. On another note, given the Indonesia's telecommunication market is predominantly prepaid at more than 95%, there is ample rooms for the telcos to drive up the migration to postpaid.

...but not without challenges. The Indonesian telecommunication market was distinguisehd by intense competition and a concentrated landscape where the top three telcos command at least 90% of the market. For context, using revenue as as yardstick, Telkom Indonesia commands more than half of the market share, followed by Indosat Ooredoo Huthcison and XL Axiata. Note that XL Axiata is a 66.53%-owned subsidiary of **Axiata Group Bhd (Neutral, TP:RM2.42)**.

Meanwhile, Indonesia is a vast archipelago with some 17,000 islands. While it represents opportunity to penetrate into villages and rural communities, we view that building the telecommunication network into remote parts would represents a challenge, be it phsycially or financially. On this note, Link Net who provides cable television and high speed broadband internet services, of which Axiata and XL Axiata owned a combined 66.03% stake, is currently seeking capital injection of about USD500 to 600m to fund its next phase of growth.

PLANTATION..Maintain NEUTRAL

Indonesia PO Policy. With Prabowo Subianto's lead in early polls, this signals an expected assertive shift in Indonesia's palm oil policy post-elections to continue safeguard the local industry. According to media reports, the frontrunner remarked that the country doesn't "really need Europe anymore," slamming the bloc's embargo on some Indonesian imports and suggested that his country should align more closely with other Asian states. Statistically, Indonesia PO policy has shifted more towards domestic agenda recent years, as seen by the implementation of Domestic Market Obligation (DMO) and Biofuel mandatory program. Which resulting, its PO exports appear to be declining, falling from 70% to 54% from CY18 to 10M23, weighed down by the bulk of processed CPO exports, which notable fell from 46% to 29%, indicating a government push for prioritizing local needs given a substantial domestic consumer base.

On this note, we believe due to that **Sime Darby Plantation (NEUTRAL, TP: RM4.10)** and **Kuala Lumpur Kepong (BUY, TP: RM24.60)** appears to kept on tapping the country for an expansion in downstream subsegment (Link to previous report: Sime Plant & KLK). Since the demand is definitely there – CPO usage for local food production has the biggest weightage in domestic usage c.50-60%) as opposed in EU market, its oils and fats market remains steadfast and its consumption in increasing trend among 275m of Indonesia population. Therefore, we believe in a long run, Sime Plant and KLK downstream division will indirectly benefited from the changes policy while banking on its vast oils and fats market segment.

OIL & GAS...Maintain POSITIVE

Indonesia's upstream PSC to remain strong for Bumi Armada. Indonesia had been focused on its production sharing contracts (PSC) on the upstream operations of its state-owned reserve blocks since the 1960s, and had updated its PSC policies over the years, with the recent agreement was on a gross split PSC that adjusted the contractor's share in 2017, which gives a better structure in progressivity. The basis of Indonesian PSC has been adopted by Malaysia; however, Indonesia had seen a slow growth in investment due to its PSC having higher risks and longer payback. We opine that the upcoming Indonesian government would be more interested to implement a new cost recovery to see better investments and subsequently, better royalty payments from its upstream operations. Nevertheless, we believe the change in its PSC policies would not immediately affect Malaysian companies involved in the PSCs. Additionally, Malaysia continued to support Indonesia's PSCs with the recent 20-year extension for Ketapang PSC in offshore Indonesia for PETRONAS Carigali which has an 80% stake in the project. Under our coverage, **Bumi Armada (BUY, TP:RM0.67)**, as part of its future endeavors, had signed a PSC for Akia exploration block in North Kalimantan, Indonesia, with the Ministry of Energy and Mineral Resources. Bumi Armada will be the operator of the block with 51% stake and moving forward will deploy its FPSO and FLNG vessels for production. We are expecting a long-term contract for Bumi Armada with this PSC, give and take 5 years or more, after the commencement of the 3D seismic exploration in 1Q/2QCY24. We opine that this would bode well for the company, given its consistent track record in its upstream operations, and will be another stable revenue stream for the group's FPSO and FLNG operations.

DISCLOSURES AND DISCLAIMER

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology