PT RELIANCE SECURITIES, Tbk

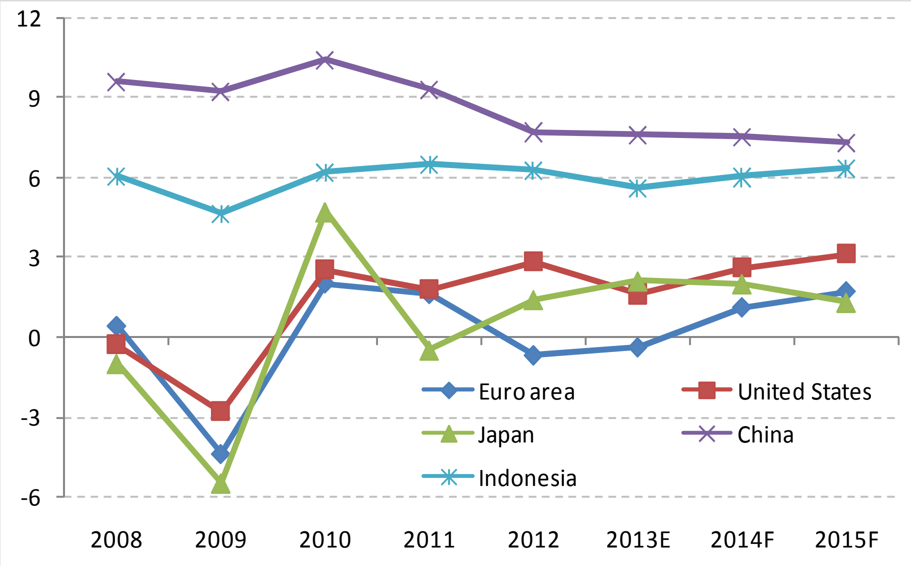
Putting The Brakes On Growth

Economic Outlook 2014

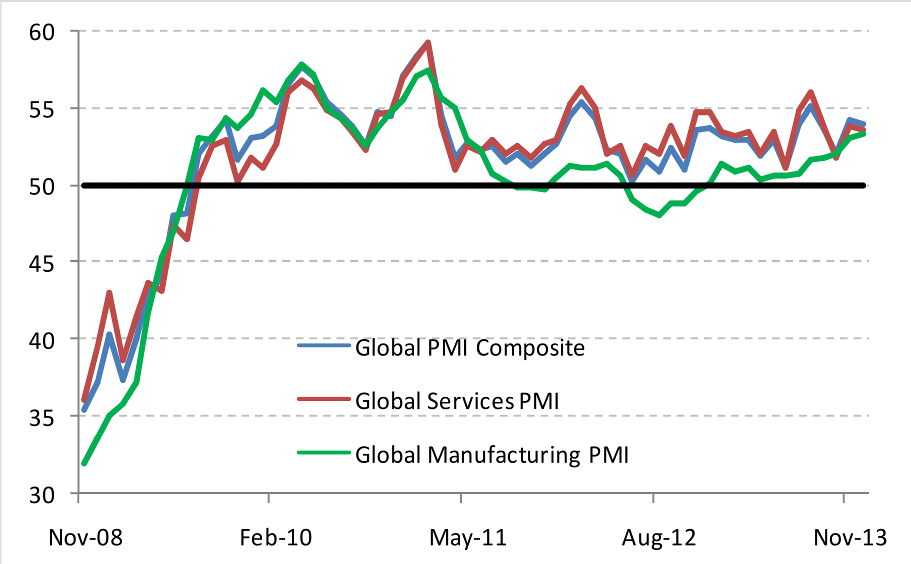
your *reliable* partner

- Indonesia's economy is hunkering down and making adjustments in response to the rebalancing of global economy
  - Growth in advanced economies gradually accelerates while growth in developing economies slows down steadily
  - Upswing in the U.S. economy looks solid and prompts Federal Reserve to scale back its unconventional monetary policy (Quantitative Easing)
- Globally, the manufacturing sector recovers much more fully than the services sector
  - At the end of 2013, growth of the global manufacturing sector rose to a 32 month high

Real GDP Growth (%)



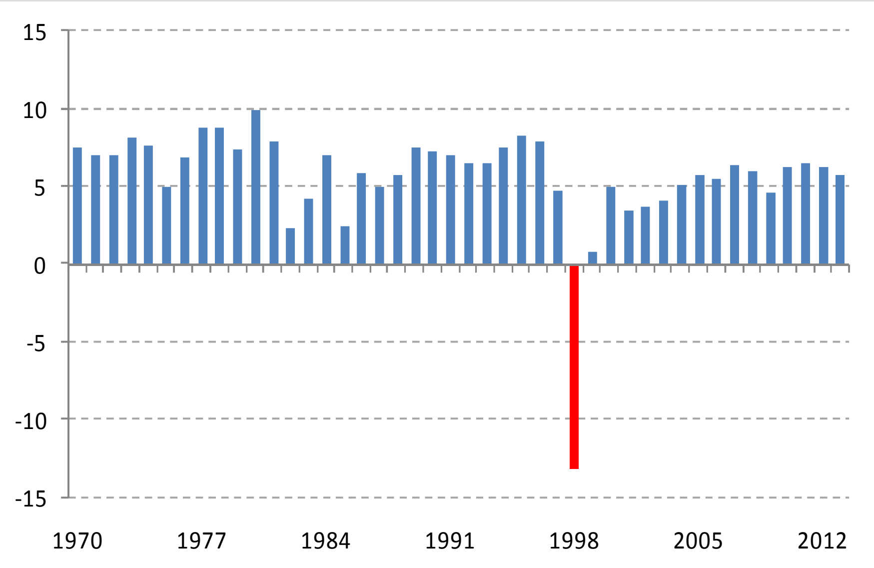
Global Purchasing Managers' Index (PMI)



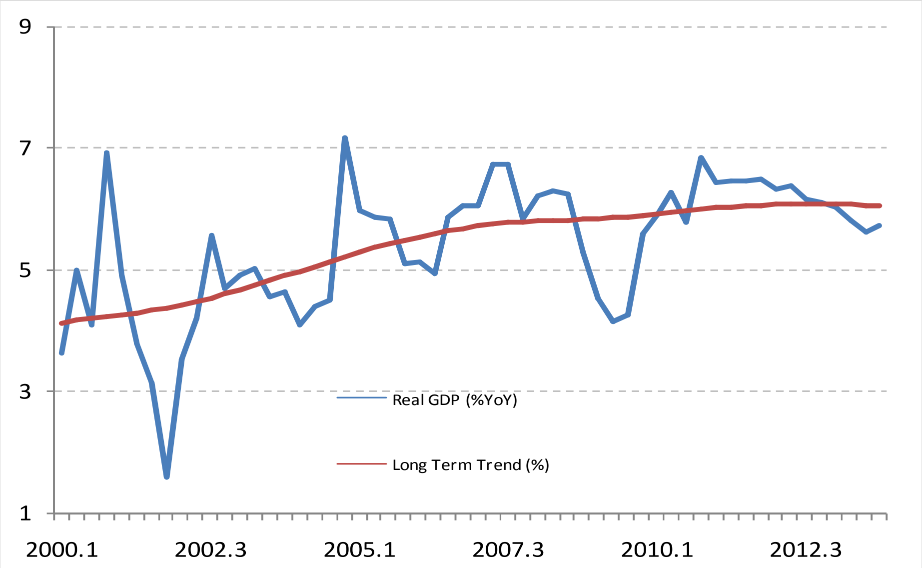
Source: Eurostat, ISM

- Growing, on average, 5% annually in the post 1997-98 Asia financial crisis, Indonesia's economy has experienced a "growth recession" since Q2 2012
  - Struggles to generate or maintain quarterly growth above 6.13% (YOY), its long term trend
  - Grew 5.78% in 2013, the lowest since 2009
- In 2014, we expect the downturn would bottom out. Thus, economy would stabilize and expands in more of the same rate from last year, 5.6% - 6.0%

Indonesia Annual GDP Growth (%)



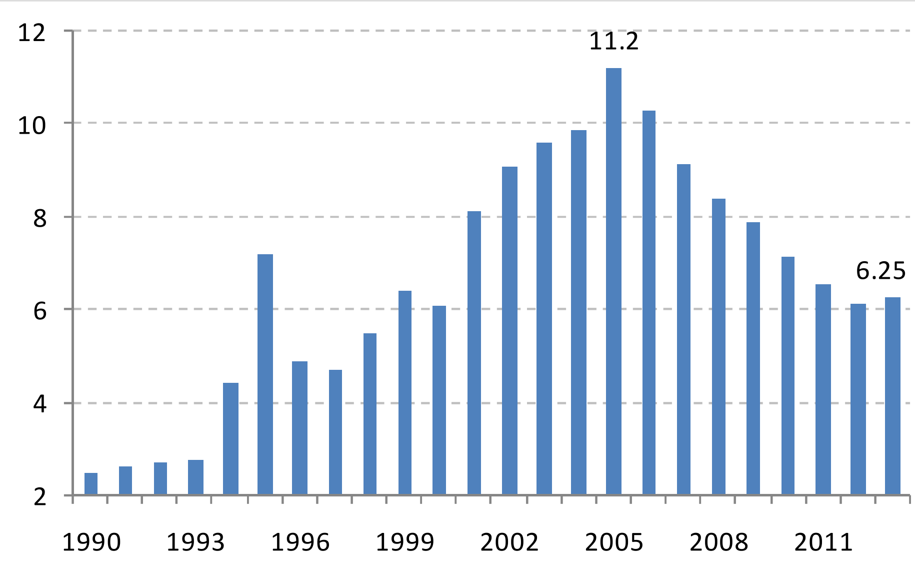
Indonesia Quarterly GDP Growth



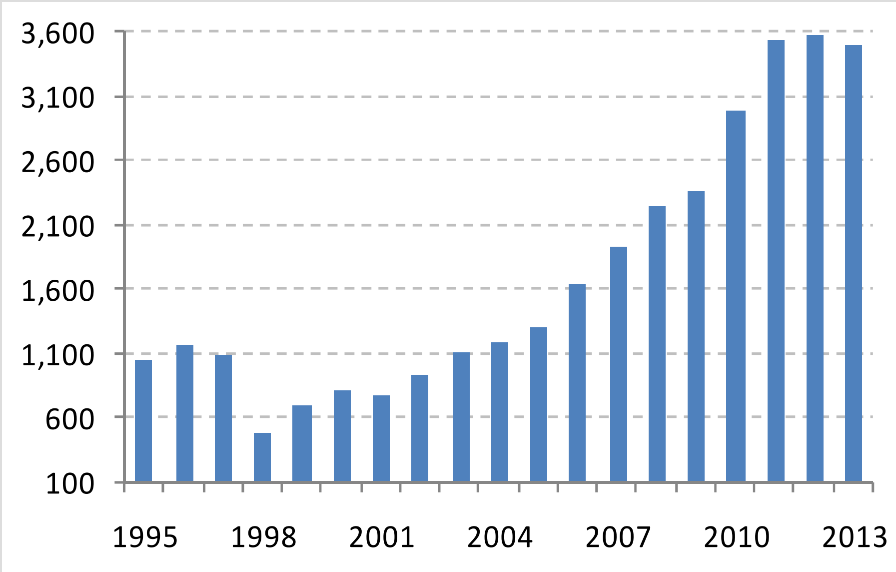
Source: BPS, Reliance Securities estimate

- Sluggish growth has stalled efforts to reduce Unemployment Rate and to spread wealth to wider population
- As of August 2013, Unemployment Rate crept up to 6.25% from 6.1% at the end of 2012
- We believe Unemployment Rate would continue to rise this year as private sector postpones recruitments due to:
  - Weaker demand (domestic and oversea)
  - Higher input costs (wage hike, IDR steep depreciation)
  - Non-expansionary biased policy mix

Open Unemployment Rate (%)



GDP Per Capita (USD)

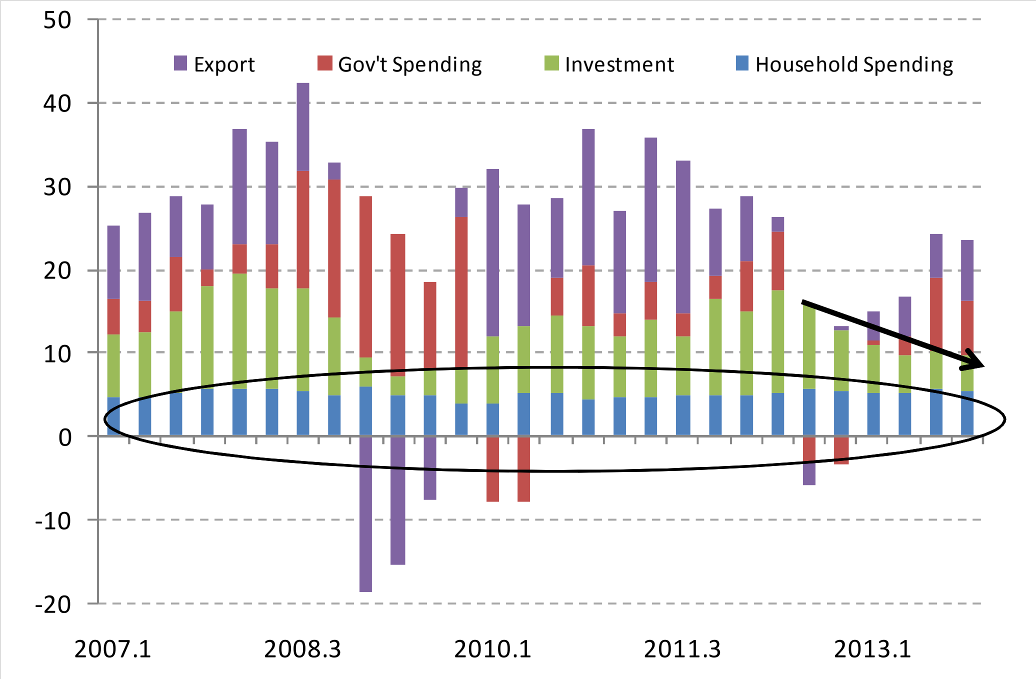


Source: BPS

- Household Spending remains to be Indonesia's primary engine of growth, contributing approximately 55%-60% of the overall economic activities

- Distantly followed by Investment or Gross Fixed Capital Formation (GFCF) which grew in double digit throughout Q4 2011 – Q3 2012. Since then, however, it has registered much weaker growth

GDP Growth BY Expenditures

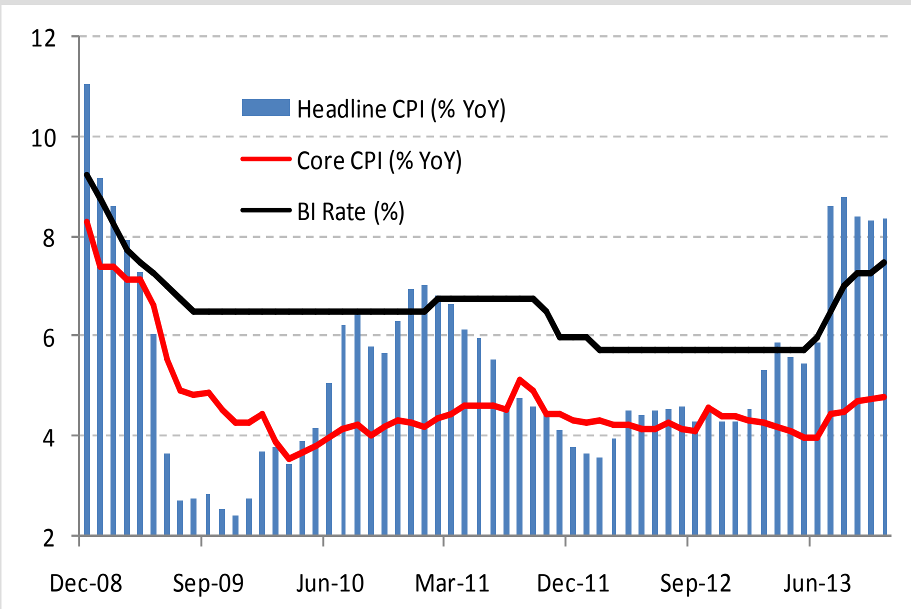


Source: BPS

Reliance Securities

- On fiscal front, the adjustments centered on cutting fiscal deficit by reducing energy subsidies, the first since 2008
- On monetary front, Bank Indonesia (BI) raised policy rate 175 bps (June-December) and narrowed interest corridor, aimed to mitigate second-round effects from fuel price increase
- Both inflationary pressure and tighter monetary condition discouraged household to spend, reflected by the sizable drop in Consumer Confidence Index (CCI)

Consumer Price Index (CPI) & Policy Rate

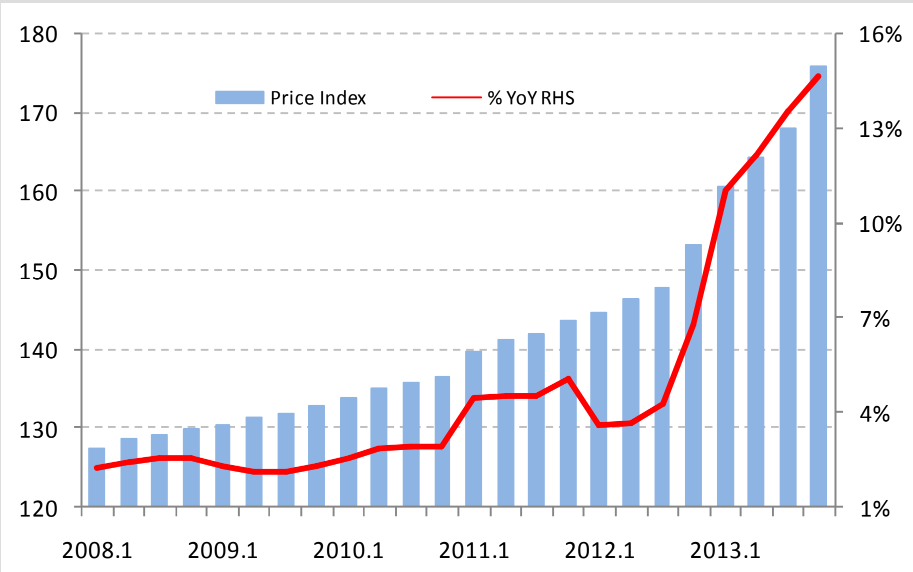


Consumer Confidence Index

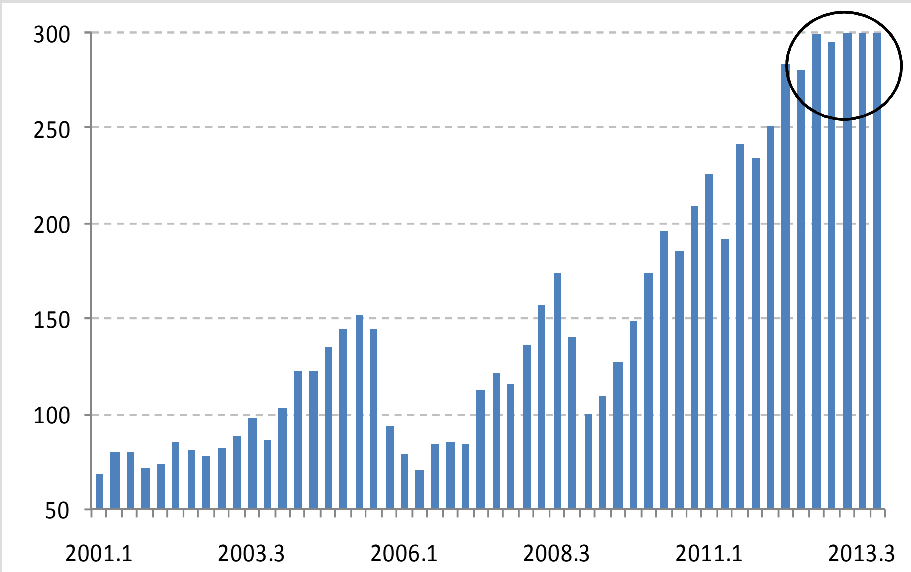
Source: BPS, Bank Indonesia (BI)

- In light of recent increase in policy rate, we anticipate a slight downward adjustment in demand for new residential property, owing to
  - Higher mortgage rate
  - Higher selling price due to exchange rate pass-through in imported construction materials
- Higher interest rate has already adversely affected the domestic automotive industry, with flat quarterly sales in 2013

Price Index Of New Residential Property



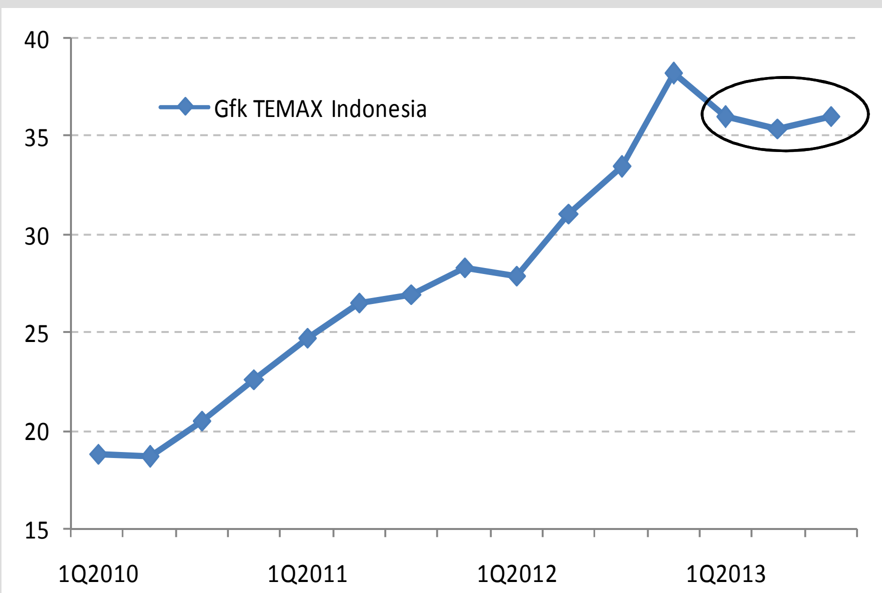
Domestic Car Sales (000 Unit)



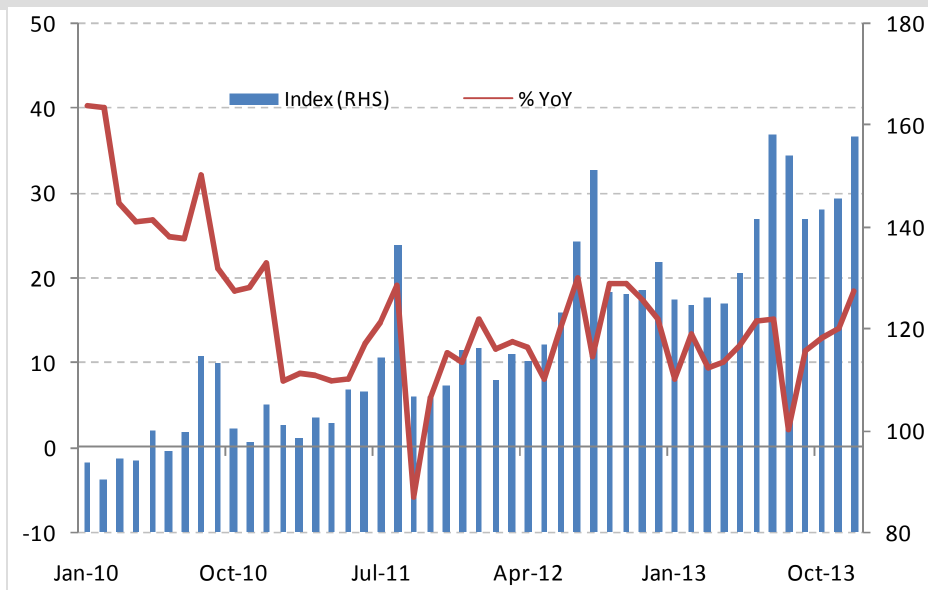
Source: BPS, Bank Indonesia (BI)

- Similarly, other Consumer Cyclical sectors such as Consumer Electronics and Domestic Appliances have also been affected in near term by the tighter monetary policy
- However, we expect the impact would be short-lived.
  - Sales of Consumer Goods ticked up in Q3 2013 after sliding in the H1 2013
  - Retail Sales rebounded in Q4 2013, underpinned by robust sales in F&B sector as well as Information & Communication Technology (ICT) sector.

Gfk TEMAX Indonesia



Retail Sales Index

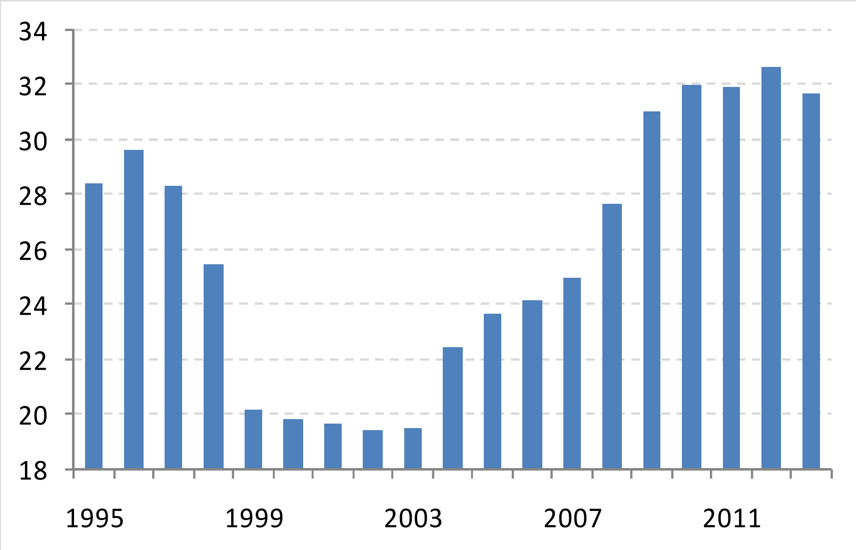


Source: Gfk, Bank Indonesia (BI)

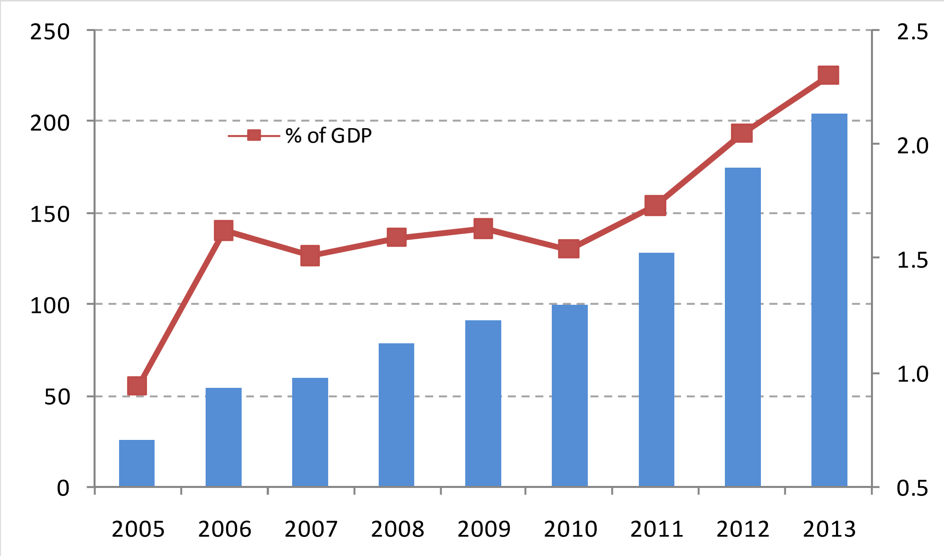
- Neglected during 1999-2003, since 2004 Investment has been at the receiving end of government infrastructure spending spree as it opens its wallet to substitute private spending

- Gross Fixed Capital Formation (GFCF) stood at 31.66% of GDP as of 2013, far above 23.6% in 2005. GFCF could reach 32%-34% of GDP in 2014 and even higher in 2015

Gross Fixed Capital Formation (% of GDP)



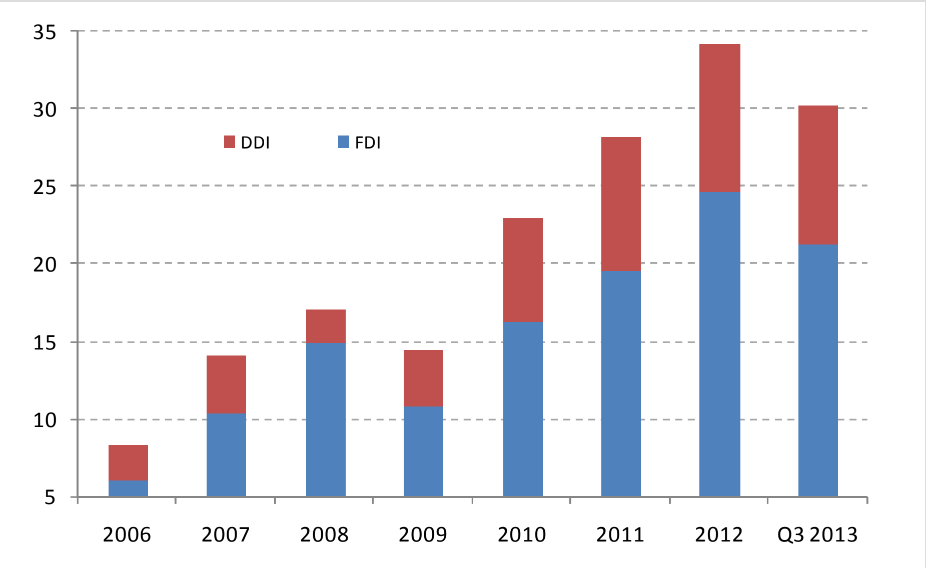
Infrastructure Spending Through State Budget (IDR Trillion)



Source: BPS, BAPPENAS

- Foreign investors are drawn to Indonesia largely due to:
  - Abundant natural resources
  - Fourth largest population in the world
  - Burgeoning middle income class
  - Rising young and dynamic population
- Direct Investment by both domestic and foreign investors continues on the uptrend, supporting economic growth at a time of slowing down exports

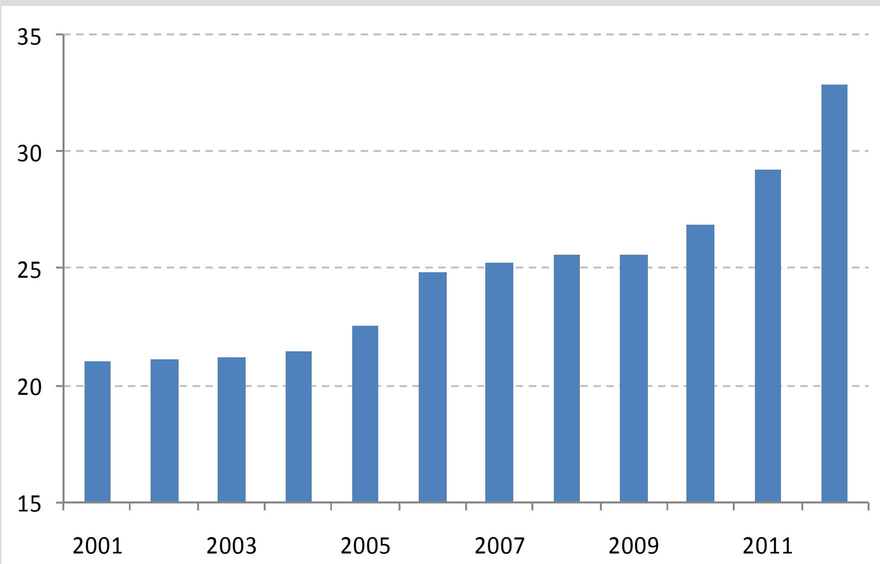
Direct Investment Realization (USD Billions)



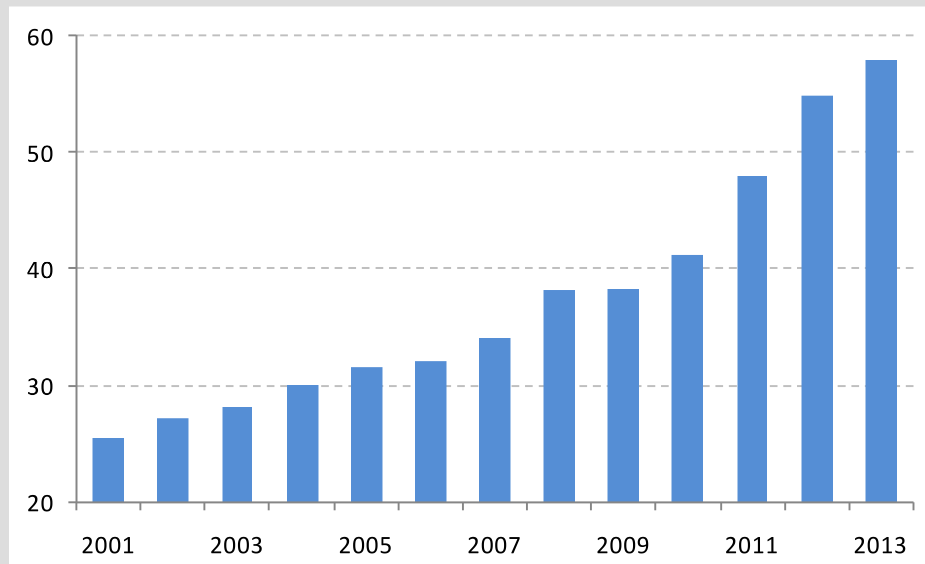
Source: BKPM

- Resilient domestic demand coupled with rapid industrialization as well as substantial infrastructure upgrade have bolstered demand for electricity power and cement

Installed Electricity Capacity (000 MW)



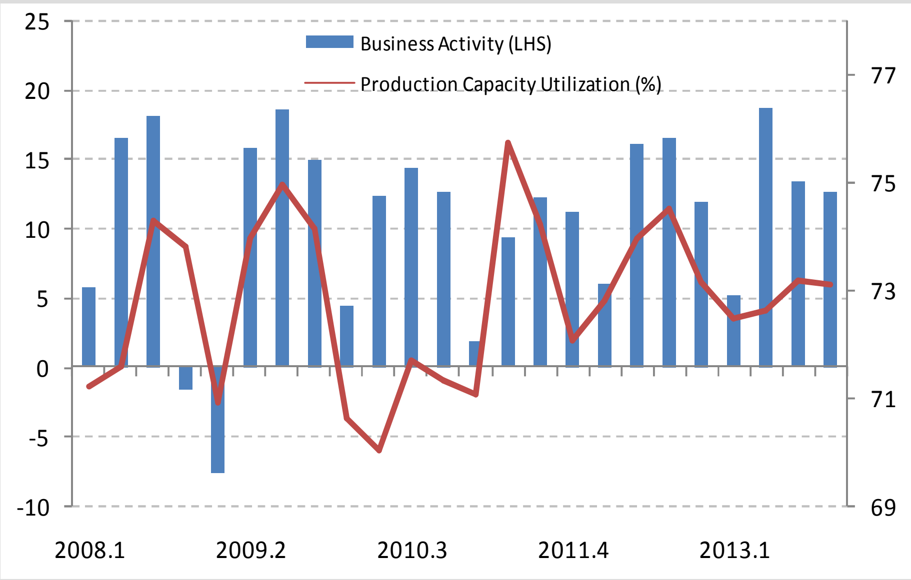
Cement Consumption (Million Ton)



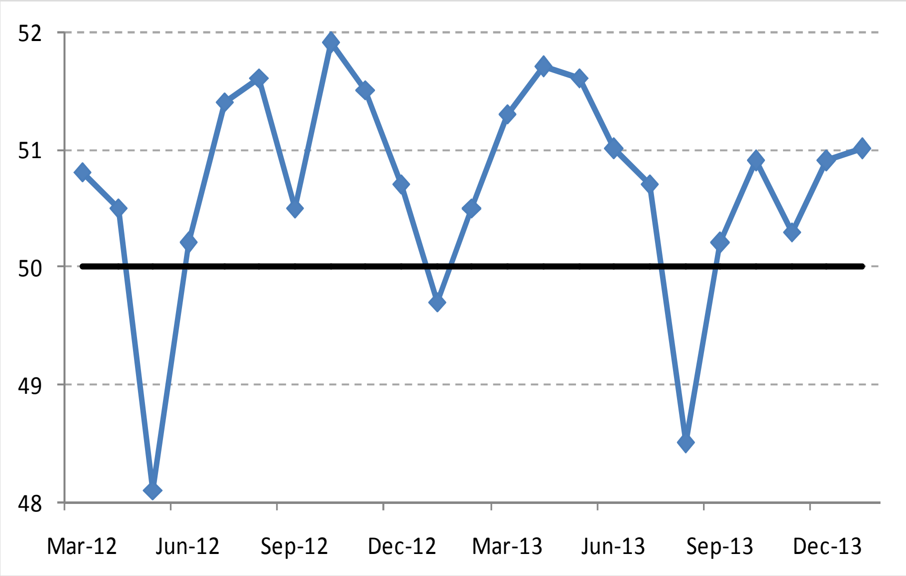
Source: PLN, ASI

- Business activities slowed down in H2 2013 as the economy went through rough patch
- The deterioration in business activities stemmed from fuel price increase, extreme weather condition and IDR depreciation in addition to difficult access to bank loans
- The Production Capacity Utilization Rate slightly dropped to 73.10% in Q3 2013 from 73.18% in previous quarter. Cement industry registered the highest Capacity Utilization Rate (79.2%)
- AS the year 2013 drew to a close, marginal improvement in manufacturing sector took hold
  - HSBC Indonesia Manufacturing PMI remained above 50 in the last 5 month

Business Confident Index



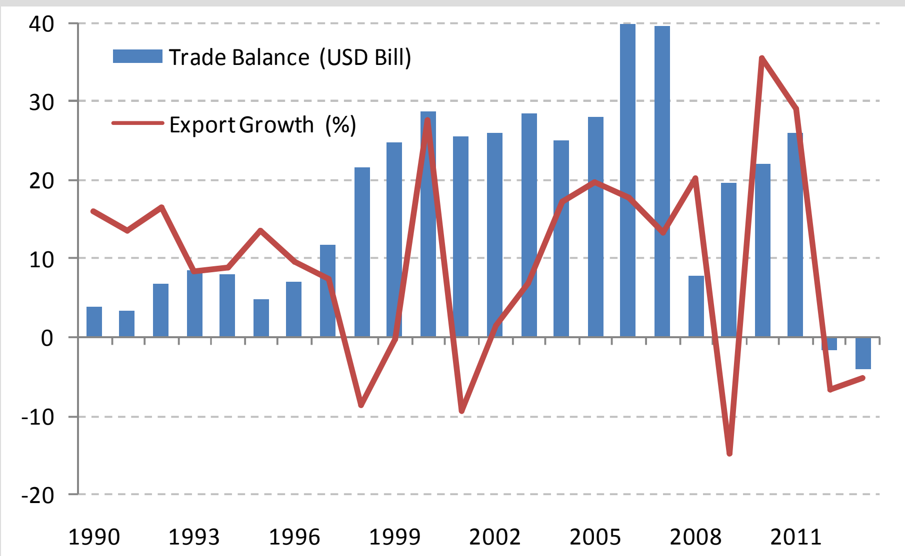
HSBC Indonesia Manufacturing PMI



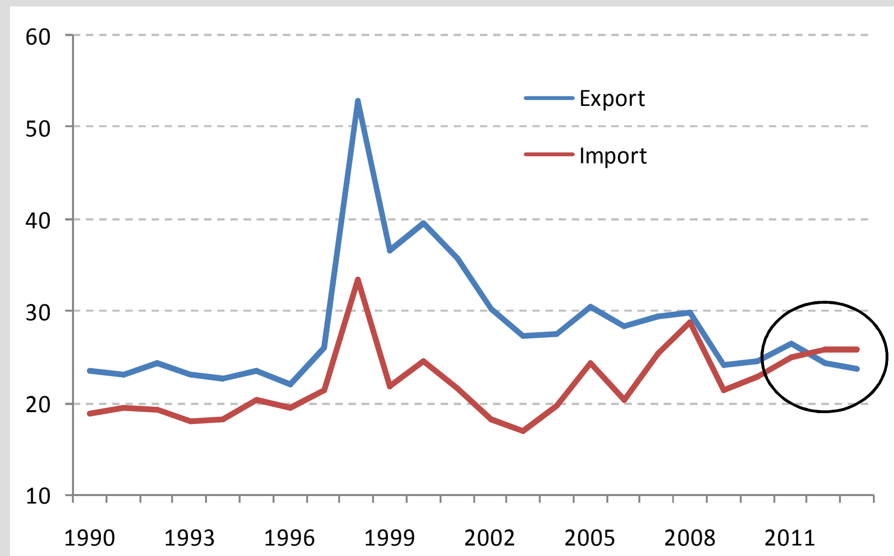
Source: BPS, BAPPENAS

- Indonesia recorded a widening Trade Balance deficit in 2013, making it two consecutive years of deteriorating external balance
- Last year, export fell 3.92%, thanks to softer commodity prices and weaker demand from Indonesia's main trading partners.
- Simultaneously, import dropped 2.64%.
- As % of GDP, import has steadily accelerated on the back of demand-led economic growth
  - Surge in both fuel import and Consumption Goods import

External Balance



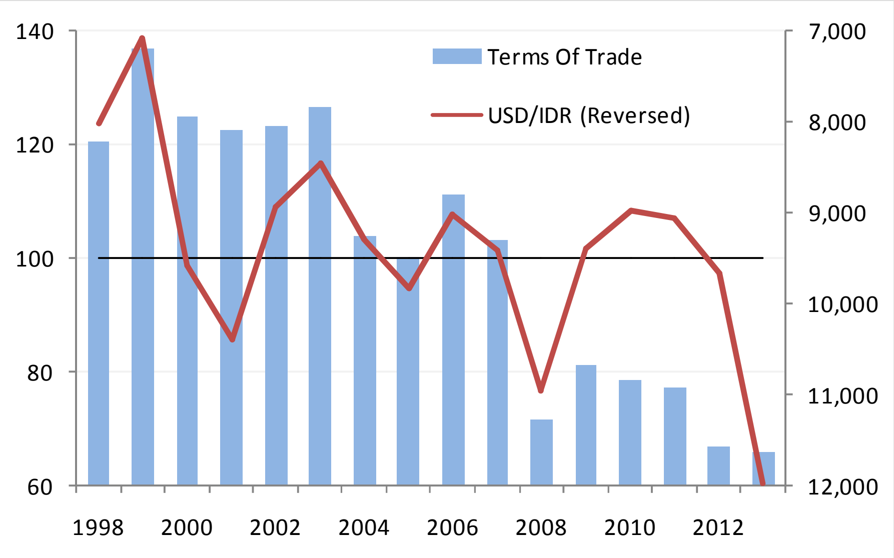
Export & Import (As % of GDP)



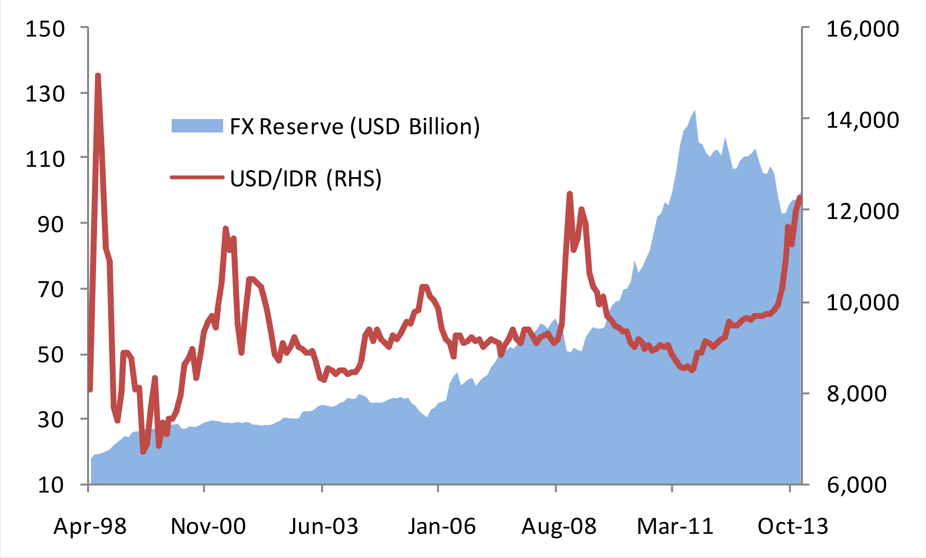
Source: BPS

- Indonesia's Terms Of Trade (TOT) turned unfavorable in 2008 as the bubble in commodity prices burst.
- TOT eroded during the course of 2012-2013 as Trade Balance registered a ballooning deficit, coupled with significant depreciation in USD/IDR caused by a sudden reversal in foreign capital flow
- To smooth USD/IDR volatility, Bank Indonesia (BI) has utilized FX Reserve to intervene in FX market
  - FX Reserve in December 2013 would cover 5.4 months of import and external debt repayment, down from 6.1 month in 2012 year end

Terms OF Trade And USD/IDR



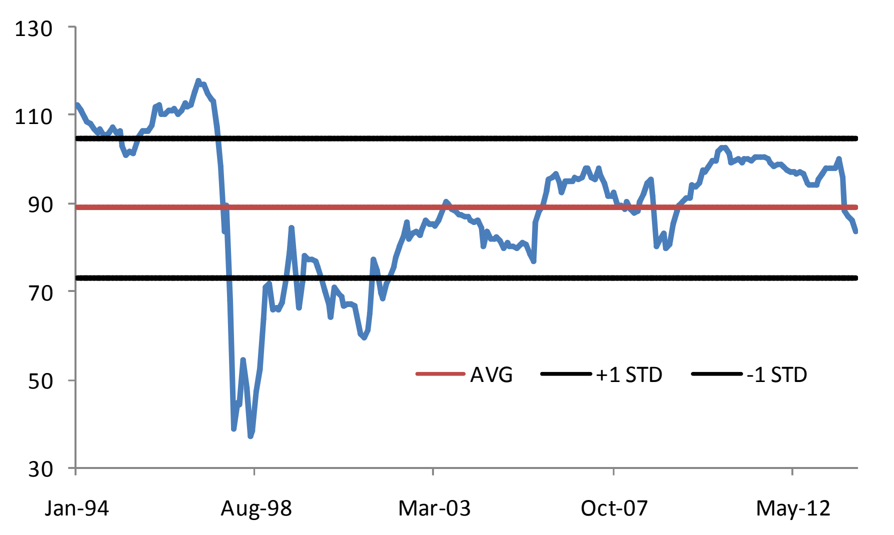
FX Reserve And USD/IDR



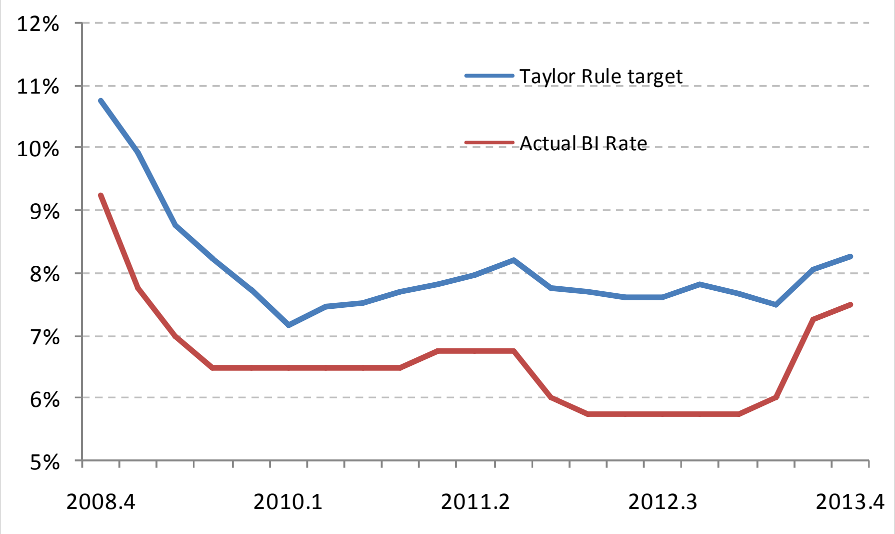
Source: BPS, BI

- In view of its below long term historical average Real Effective Exchange Rate (REER), we believe IDR is fundamentally undervalued
- With respect to monetary stance, Bank Indonesia has promised to keep a tight monetary policy.
- According to our calculation (based on Taylor rule), 8.25% is most appropriate rate for BI Rate
- BI still has ample space to tighten monetary condition in the event of unexpectedly higher inflationary pressure or asset (notably property) price bubble

IDR Real Effective Exchange Rate



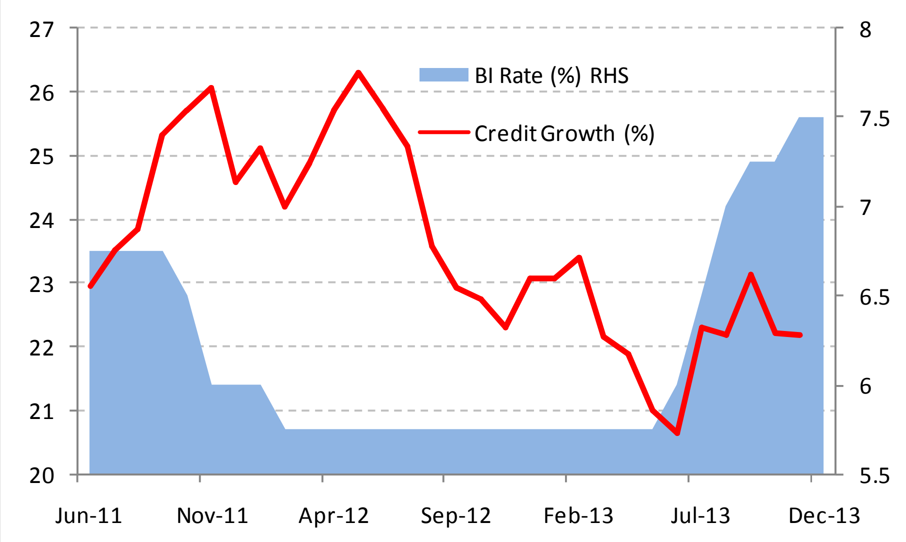
Monetary Stance



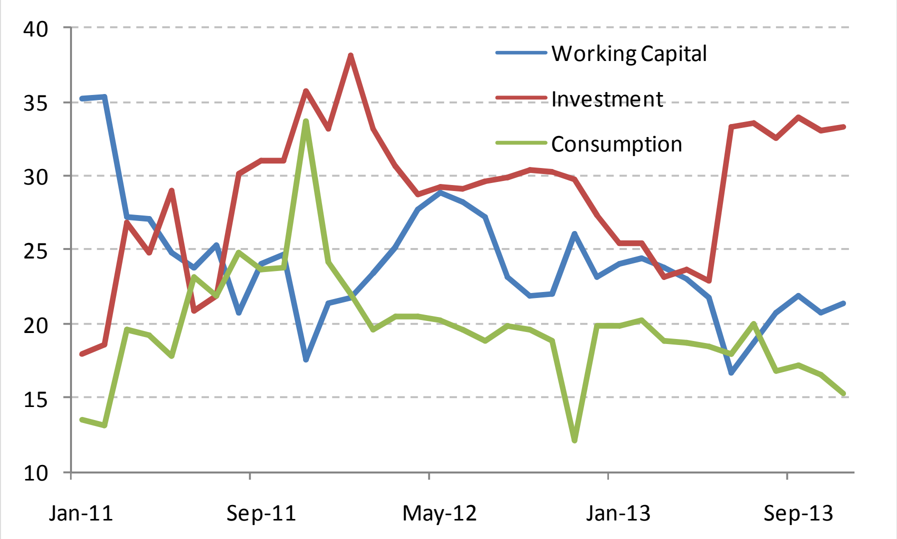
Source: BPS, BI, BIS

- Loan growth was on decline at the time when BI held policy rate at record low 5.75% from early 2012 to mid 2013, another indication that economy was in a gradual slump
- Investment Loans (including loans for imports purposes) remained persistently high despite higher interest rate
- Setting its sights on 15% - 18% Loan growth in 2014, BI would likely to maintain tightening bias in its forward guidance

Credit Growth (% YOY) vs BI Rate



Credit Growth By Type Of Use



Source: BI,

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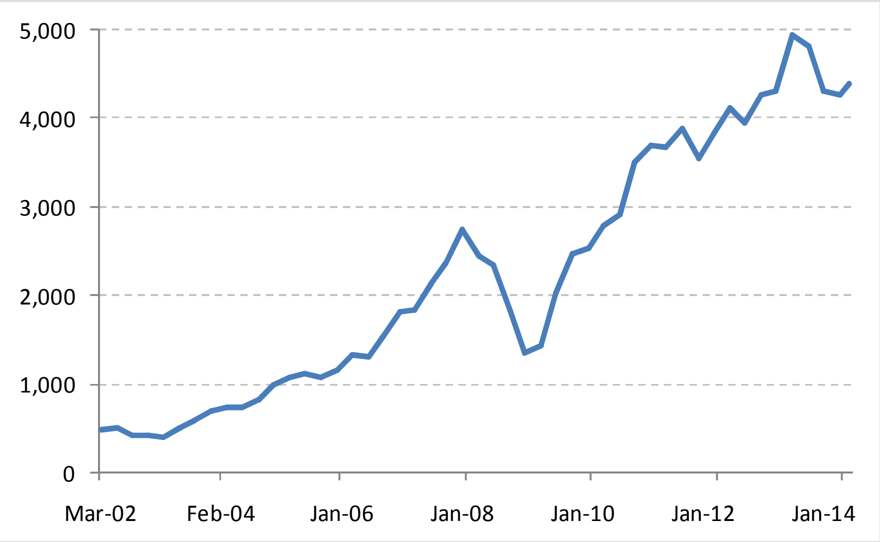
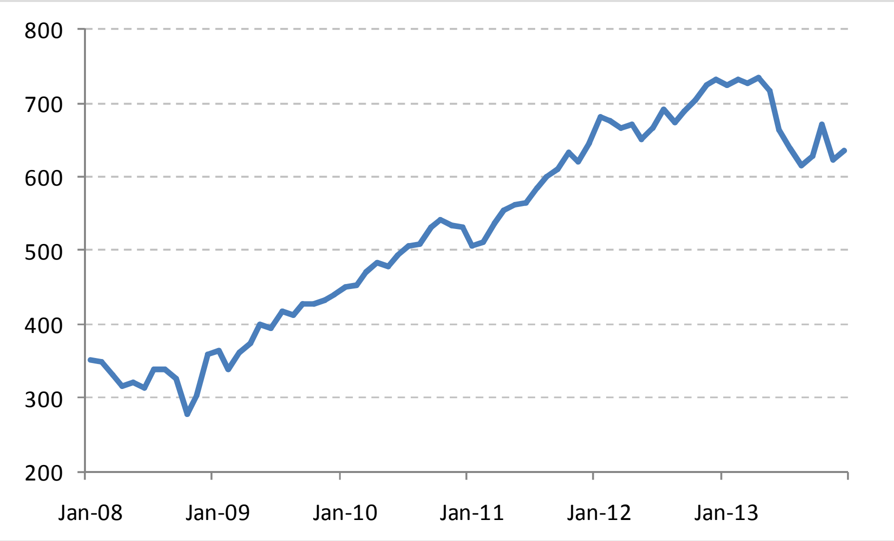
CAPITAL MARKET

- 2013 was a turbulent year for Indonesia's capital market as growth moderated while adjustment in USD/IDR and interest rate took hold
- Bond market return plunged 13.2%, stoked by a sudden shift in global investor sentiment toward emerging markets

Jakarta Composite Index (JCI)



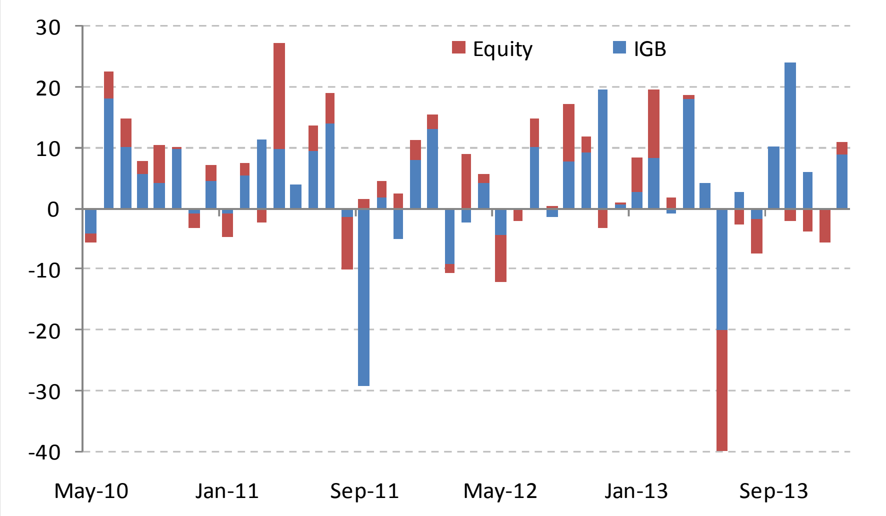
HSBC Indonesia LCY Bond Return Index



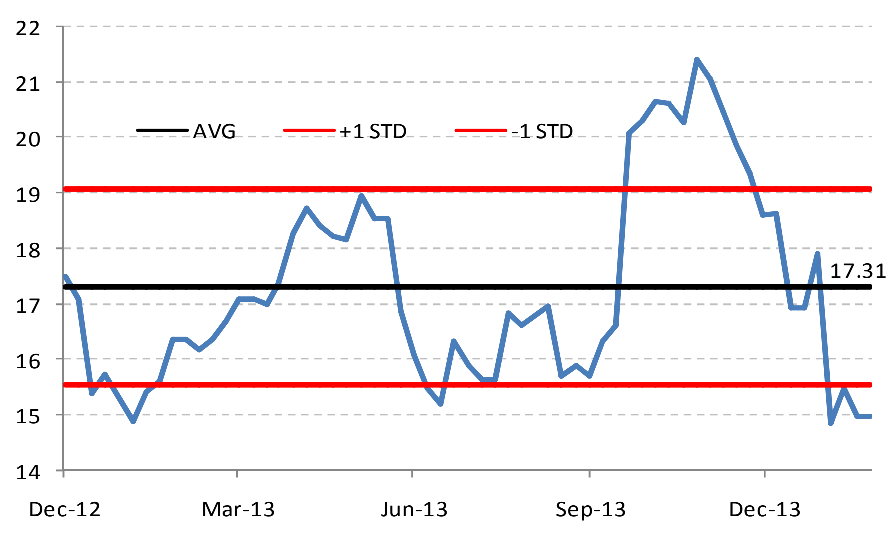
Source: IDX, ADB

- Lately, foreign capital has return to Indonesia's capital market
- In fact, foreign investor had never really got out of the government bond market. Foreign ownership was steady between 30% - 33% of total tradable government securities
- In January 2014, foreign investors started doing more buying than selling in equity market as data pointed to a cheap valuation

Foreign Capital Flow



JCI Historical P/E Band



Source: IDX, BI,

HOUSE VIEW

	2014
Real GDP (%)	5.6 - 6.0
Consumer Price Index (%)	5.0 - 6.0
USD/IDR	9.850 - 10.300
BI Rate (%)	7.5 - 8.25
Jakarta Composite Index	4775 - 5251

Source: Reliance Securities estimate

End Of Presentation

Thank You