

Facts in favour of Indonesia

- **Indonesian Fundamentals continue to be robust**
- **Coal exports have increased in price this year and demand continues to be strong**
- **Economic growth is likely to continue at above 5 percent**

Frankfurt am Main 26 November 2018 Since the Asian crisis of 1997/1998, investor confidence in Indonesia has been dampened. "However, the general sell-off recently lacked any factual basis," says Thomas Rutz, fund manager of the MainFirst Emerging Markets Corporate Bond Fund Balanced. "Investors are guided by their fears and not by the continued robust fundamentals. In fact, since 2010, the Indonesian economy has enjoyed considerable and continuous growth of around 5 percent per year, which makes it the G20 country with the most stable economic development. Inflation has been fairly stable since 2016, usually at around or below 4 percent. The main reason for this is a strong export business with commodities such as coal, whose prices increased by 6.6 percent in 2018 alone. In the last five years, 15 percent of coal exports went to China, which makes Indonesia one of the largest coal suppliers to a country that continues to use it as its primary energy source. "The coal market is currently under a healthy supply-demand regime and coal prices have recovered significantly since the supply-side reform introduced by the Chinese government in late 2016", explains Rutz.

Interesting relative value opportunities

Coal will continue to be one of the most important sources of energy for China and the emerging markets in the future. So demand is secured for decades to come. Despite this positive industry outlook and improved fundamentals, Indonesian coal mining companies such as ABM Investama & Geo Energy have suffered significantly in recent months. Not least for this reason, Rutz sees considerable potential for investors here: "Since exports of both companies are usually traded in US dollars, they have minimal currency exposure and volatility in the Indonesian Rupiah (IDR) does not affect the companies negatively, but can even have a positive effect on their profit margins as they are actually rising through lower operating costs (which are paid in IDR)." Both companies demonstrate solid performance with increasing EBITDA figures and moderate leverage. "Given the industry outlook and fundamentals of the two companies we expect them to trade 80-100 basis points tighter vs. their peers," adds Thomas Rutz.

Potential for continued growth

The Indonesian economy performed well in the third quarter and is forecasted to continue to grow by a good 5 percent over the next few years. The foreign debt is low and the national debt amounts to only about 29 percent of the gross domestic product (GDP). "With currency reserves of between 115 and 120 billion US dollars, Indonesia is more than well positioned," the fund manager says. In addition, president Widodo plans to support growth further through government spending, increasing it by 10 percent in 2019. "Recently, quasi-sovereign bonds such as IDASAL (Indonesia Asahan Alumini) have become very attractive and we expect more opportunities to emerge. In the course of just one week, its credit spread vs US Treasuries has already narrowed by 64 basis points to 299," explains Thomas Rutz. Fixed investment, supported by higher commodity prices and government consumption, is likely to receive a boost ahead of elections in April next year. At the same time, the additional spending should help to underpin domestic demand. "In the longer term, rising incomes and steady growth of the middle class and population will also contribute to this," says Rutz, giving a positive outlook of the future.

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