



# Asian Insights SparX Indonesia Consumption Basket

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Aug 2020

## Insights on COVID-19 pandemic impact: Indonesian Consumer behaviour, basket changes and responses by companies on COVID

The repercussions from the current COVID-19 pandemic has been far reaching and wide. Our **consumer survey** conducted in June/July with Indonesian consumers (~10 weeks from the start of lockdowns) shows **5 key trends strongly emerging**, ranging from changing attitudes on health/ hygiene, meal consumption, grocery shopping and leisure behaviour. Though still early days, these trends are worth noting even though the current situation remains fluid.

On the **macro front**, with the slowdown in the economy and personal income, we expect personal household consumption to shift back towards staple foods and necessities, away from discretionary items and activities such as eating out, leisure, etc. For 2020, we expect to see consumers pivot towards spending more on Food baskets vs Non-Food – a reversal of a notable trend in the past decade, largely with rising incomes.

**Interviews with companies** have shown that most, if not all, are reacting quickly to the changes. The pandemic has forced many to rethink their product, marketing, and channel strategies, among others. There is high level of uncertainty on the pace of recovery, but the common message among Indonesian consumer companies is diversification – sales channels, products, geography, supply chains, etc.



**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

**Shift in consumer behaviour is accelerating**

- Survey shows that the change in consumer behaviour is accelerating since the onset of COVID-19 pandemic
- On macro-level, we expect spending to shift towards Food, away from Non-Food, bucking the trend seen in the last decade
- Indonesian consumer companies seem to be coping well, though commonality is on uncertainty on the future and need for diversification
- Investment outlook likely to remain tepid in the near term; we prefer staple F&B counters

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**The DBS Asian Insights SparX report is a deep dive into thematic angles impacting the longer-term investment thesis for a sector, country or the region. We view this as an ongoing conversation rather than a one-off treatise on the topic, and invite feedback from our readers, and welcome follow on questions worthy of closer examination.**

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## Indonesia Consumer: Implications on behavior and companies due to COVID-19

### EXECUTIVE SUMMARY

**COVID-led economic slowdown in Indonesia.** COVID-19 was declared as a pandemic by WHO on 11 March 2020. In Indonesia, the government has enacted several policies to reduce the spread of the COVID-19 virus such as introducing partial lockdowns or large-scale social restrictions (PSBB) from 31 March 2020. The implications are far reaching, and our economists are expecting Indonesia's GDP to contract by 1% in 2020, from 5% growth previously.

**A viral impact on consumer behaviour and basket spending.** Following the COVID-19 outbreak and its impact on economic activity, we attempt to explore how consumer behaviour is changing, our expectations of consumer spending, as well as response by consumer products companies and resultant impact.

In this report, we address several areas that are invariably related: (i) consumer behaviour via online survey; (ii) implications of personal consumption on basket spending on a macro level; (iii) impact and responses by companies thus far; and, lastly, (iv) our near term view and implications for investors.

#### i) Impact and changes on consumers

**Consumer behaviour is already undergoing changes – moving inward, modern, and online.** Our consumer survey explored consumers' attitude towards health, meal consumption habits, shopping as well as out-of-home activities was conducted for about two weeks from the middle of June. We felt that this length is appropriate to reflect the changing sentiment over the 10 weeks or so since the first infection case was reported in Indonesia in early March, and the PSSB (restricted movement) that followed. The results, while not surprising, astounded us in terms of magnitude.

**3HATS.** Simply put, we summarised the impact using our acronym – 3HATS: Health, Home-ward focused, Home-cook, Accelerated e-commerce, and Traditional grocery no more. Furthermore, given the uncertainty, it seems that the respondents are cautious on their outlook, and are putting more of their income into savings and investments, at least for the next 3-6 months, rather than spending on discretionary items and activities. Please see the section for more detailed findings.

#### ii) Macro level impact and changes

**Impact of COVID-19 on macro level consumption basket.** At the macro level, we had previously observed consumption basket trends over the long term. We now refine and adjust our projections on consumption expenditure and changes within specific consumption baskets at the national level. Last year, we projected food would account for a lower c. 46.7% of the total consumption basket in 2030F (vs. 49.5% in 2018).

**Pivot back towards Food basket in 2020.** With the outbreak of COVID-19, we believe our long-term expectation is intact but expect some changes between 2020-2022F. As a percentage of the total consumption basket, we now project food to be higher at 50.1% in 2020F (vs 49% previously) and gradually decline as the economy recovers in 2021-2022. We also delve further into specific baskets of interest for basics such as Cereals, Prepared Food and Beverage, Cigarettes and Tobacco, Housing and Household Facilities. Details are shared within the specific sections.

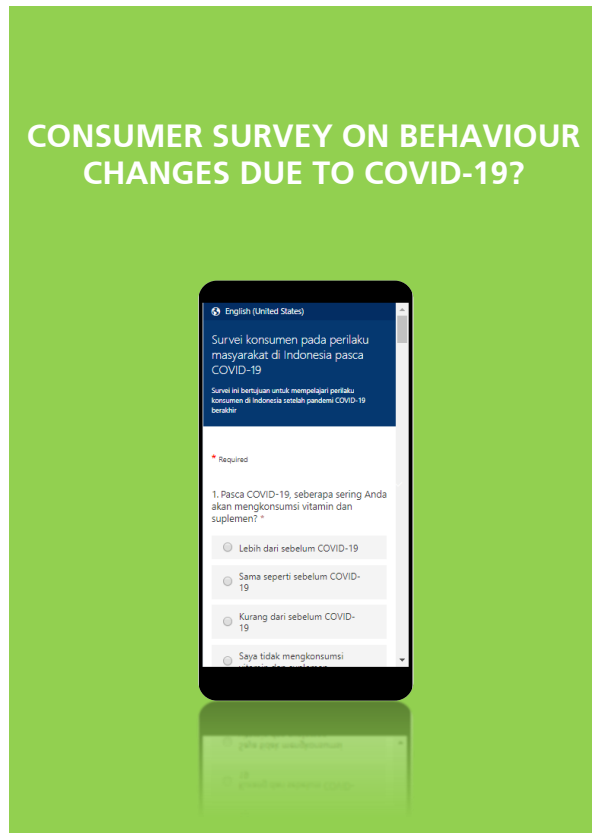
#### iii) Company level impact and changes

**Company interviews and findings.** We also conducted interviews with several consumer companies touching on the impact of this pandemic, how they are readjusting and their views on the outlook. We explore areas such as impact on sales, costs, safety, investments, strategic direction as well as our and their views on recovery and outlook. The companies we spoke to seem to be coping well, though the commonality is uncertainty of what lies ahead, as well as the need to pivot towards diversification, be it product, geography, sales channel etc.

#### iv) Implications for investors

**Preference for staples and value.** Synthesising the various factors, from consumer surveys, macro as well as company level interviews, the immediate outlook is likely to remain murky while consumer sentiment remains tepid. Our preference is on consumer F&B staple plays. For household and personal care products, demand is likely to stay relatively resilient though valuations are not attractive vis-à-vis growth. We would avoid retail and food service for the time being, given the challenges in the immediate term.

## SECTION 1: INDONESIA CONSUMER SURVEY



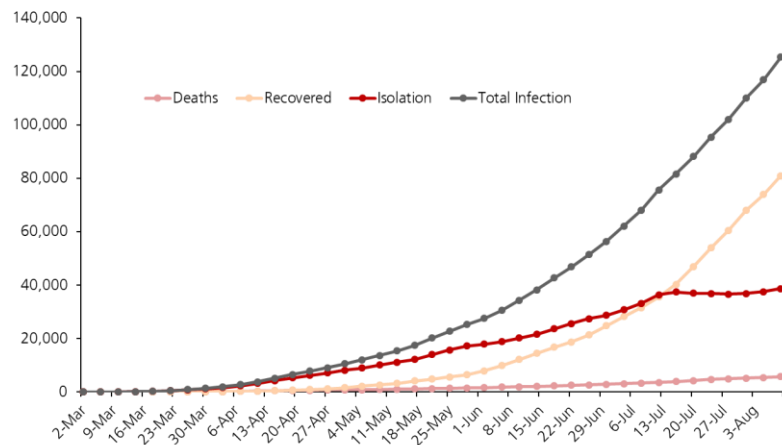
Source: DBSVI, DBS Bank

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**CONSUMER SURVEY KEY FINDINGS**

**Over >500 respondents during two weeks in June.** As COVID-19 moved into the third month in Indonesia, we launched an online survey to gather insights into consumer behavior. Our focus was on areas pertaining to attitudes towards hygiene, meal consumption, shopping habits as well as leisure. Our survey was conducted over two weeks from **mid-June to early July**. This, in our view, was appropriate given it was about 10 weeks into the restricted movement, and respondents would have been reasonably settled into their new routine.

**Total number of COVID-19 infections in 2 Mar to 10 Aug**



Source: <https://covid19.go.id/>

Our survey responses were largely gathered from across the archipelago, with a major skew towards Java and Greater Jakarta, and 13% was from outside of Java island. In terms of age profile, we reached out across various age groups, mirroring the demographic age of the nation. In terms of gender, we had a greater percentage of female respondents at 60% vs male (40%), and over 90% are currently employed.

**Five key findings – 3HATS.** We have summarised the key findings as follows:

- 1) **Health (& Hygiene) is wealth.** There was a large tilt towards consumers perception of health and hygiene. Approximately **54% of respondents** indicated a higher **preference for consumption of vitamins and supplements** post COVID-19, while almost **9 in 10** indicated their personal hygiene has been higher following the COVID-19 outbreak. We have noticed that such products are selling well, and we believe this would continue in the near future at the very least. We also expect greater attention to be paid on nutritional values.
- 2) **Home-cooked meals.** Consumption of home meals surged to 69% (vs. 42% before COVID-19), with a **pivot away from eating out** which dropped to 5% only (vs. 35% before COVID-19), as people stayed home and cared more about food cleanliness. Online food delivery has been a popular choice driven by the popularity of food aggregator apps especially by the younger generation due to its easy and quick services.
- 3) **Home is the new outdoor.** Home becomes the **new place of entertainment** as more people seem to relish their private time and space at home. Around **84% of respondents** would like to spend **at least half** of their working or studying **time at home post COVID-19**. Meanwhile, 72% would spend less time going out and doing activities outside the home, compared to before the pandemic.
- 4) **Accelerating E-commerce adoption.** Shift to **online shopping accelerated** as this channel provided consumers (who stayed home) access to product needs. **E-commerce** as a preferred way to shop **jumped sharply to 66%** after COVID-19 (vs. 24% before), at the expense of **physical stores** (malls) which **declined significantly to 24%** post COVID-19 (vs. 73% before).
- 5) **Traditional grocery channels losing market share.** The rising use of online grocery apps post COVID-19 triggered by limited access to fresh products in wet markets during the PSBB and higher awareness of safety and hygiene. **Online grocery apps** as respondents' preferred place to shop **rose 7x to 21%**

## Indonesia Consumer: Implications on behavior and companies due to COVID-19

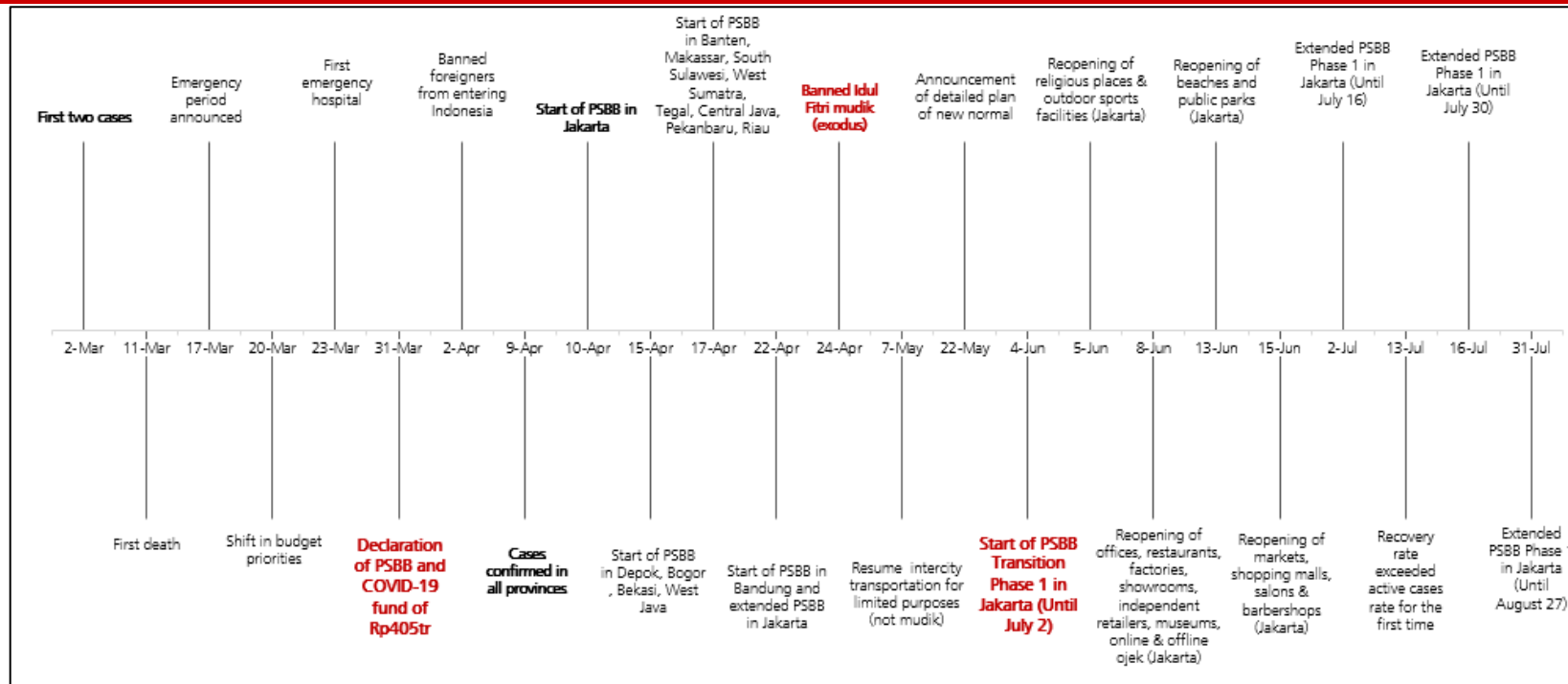
after COVID-19, replacing visits to **wet markets which dropped sharply to 30%** (vs. 52% before COVID-19).

**Implications on companies.** Based on the consumer survey results, we identify opportunities for companies by segregating these into five categories: preventive healthcare, packaged food, omni channel / e-commerce, B2C / delivery apps, and home entertainment.

- ✓ **Preventive healthcare:** Ensure that its products and services are clean and safe; also introduce products that focus on boosting immunity / wellness, hygiene, nutrition or herbal.

- ✓ **Packaged food:** Introduce products and services which makes cooking at home a fun experience, including healthy ready to cook meals or easy to cook packaged foods.
- ✓ **Omni channel / e-commerce:** Accelerate omni-channel strategy and introduce safe, easy and fun experience for shopping online (e.g. virtual try-on tools).
- ✓ **B2C / delivery apps:** Expand companies' access to customers by introducing online food delivery or grocery apps.
- ✓ **Home entertainment:** Develop technology or gadgets to recreate the social experience at home.

### Timeline of restricted movement (PSBB)



Source: <https://covid19.go.id/>

## Consumer Survey: how behavior of Indonesians is changing post COVID-19?

- Online consumer survey conducted with a total of 545 valid responses received
- Time frame: 18 June - 3 July 2020
- Purpose: To gain first insights into consumer behaviour of Indonesians before vs after COVID-19 with easing lockdown measures
- Theme:



Source: DBSVI, DBS Bank



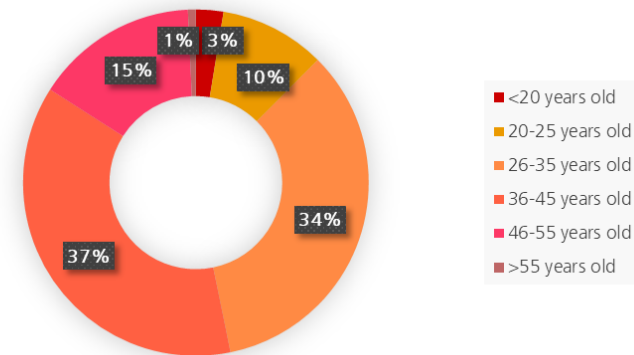
## Indonesia Consumer: Implications on behavior and companies due to COVID-19

### Demographic background of the respondents

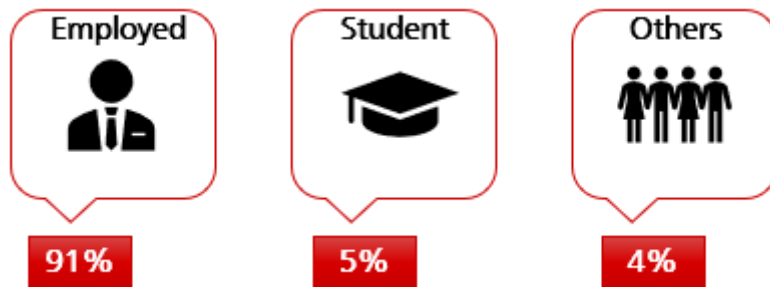
Respondents predominantly from Jakarta, but reaching out to other main islands such as Sumatra, Sulawesi, and Kalimantan



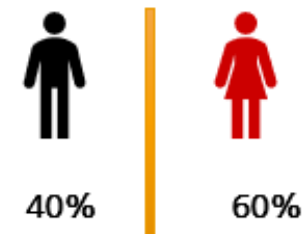
Respondents' average age profile similar to general population



9 in 10 respondents are employed



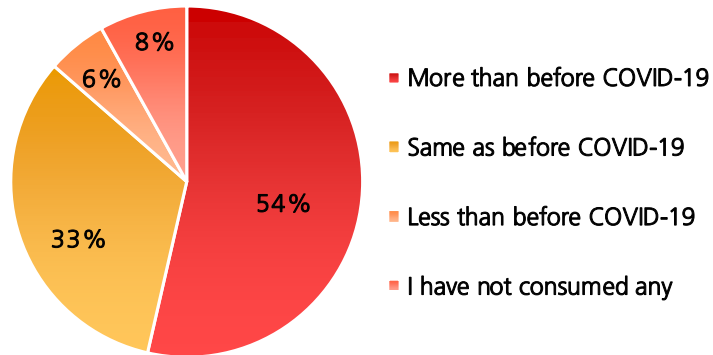
Reached more females respondents



Source: DBS Bank consumer survey

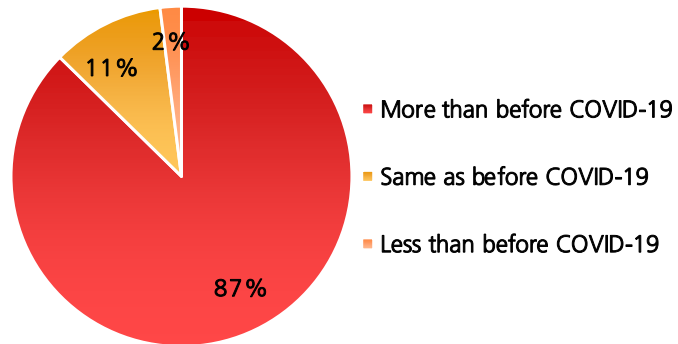
## Theme 1: Health (& Hygiene) is wealth

### Post COVID-19, how often will you consume vitamins and supplements?



- Health and hygiene awareness have skyrocketed.
- (More than 1 in 2) 54% out of 545 respondents said that after COVID-19 ends, they would still **consume more** vitamins and supplements compared to before the pandemic.

### Post COVID-19, how would you expect your level of personal hygiene to be? (e.g. washing of hands more frequently, using hand sanitisers, etc.)

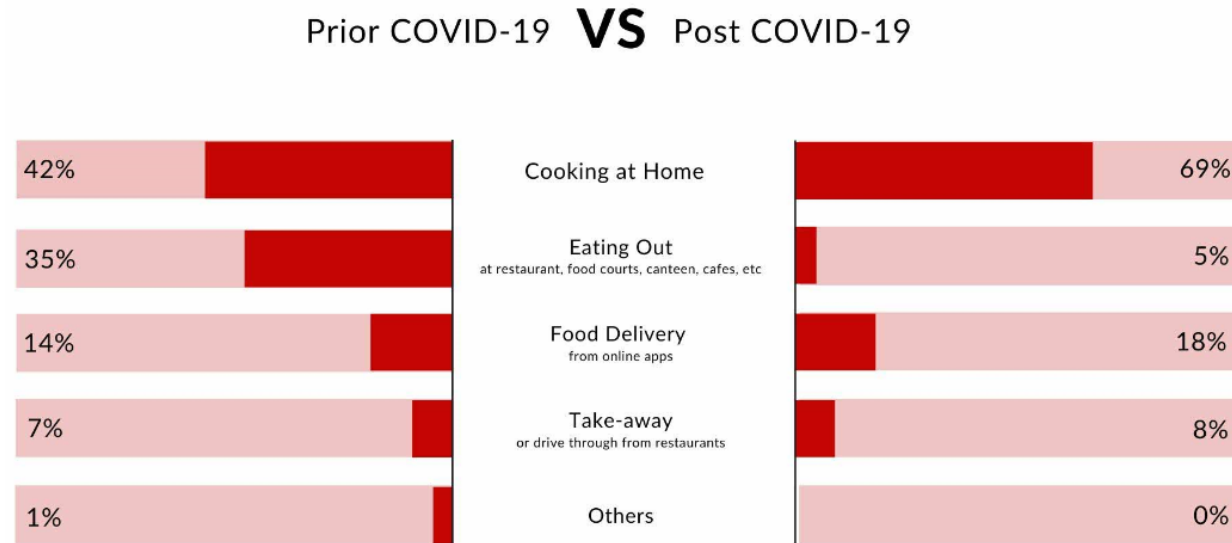


- (Almost 9 in 10) 87% out of 545 respondents said that after COVID-19 ends, they would continue to **pay more attention** on their personal hygiene compared to before the pandemic.
- Products related to health, hygiene have done well, and may **continue to do so**. Furthermore, in our view, consumers may also pay more attention on food nutrition.

Source: DBS Bank consumer survey

## Theme 2: Home cooked meals - Shift from eating out to cooking at home is unreal!

### Meals preference pre vs post COVID-19



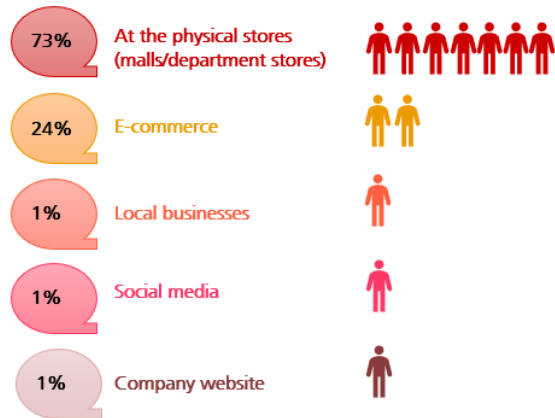
Source: DBS Bank consumer survey

- COVID-19 pandemic has changed lifestyle trends of eating out and consuming meals outside of home.
- From the survey, there is a huge shift of people who preferred to eat out before the pandemic to cooking-at-home post COVID-19.
- **Cooking at home** for meals **jumped to 69%**, from 42% before COVID-19 (4 in 10, to 7 in 10).
- On the other hand, the percentage of respondents who chose **eating out** as their preferred source for meals **dropped significantly** to just 5%, from 35%.
- The respondents who chose **food delivery and take away** as their preferred sources for meals has risen slightly after COVID-19.
- Huge opportunity for food producers and manufacturers to capitalise on these trends - ready-to-cook meals, easy-to-cook meals, menu suggestions, etc.

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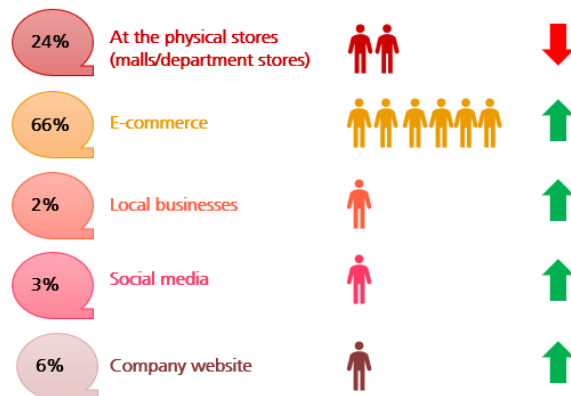
**Theme 3: Accelerated E-commerce**

**Before COVID-19, which was your most common way of shopping for clothes, shoes, beauty, furniture, electronics and other non-food items?**



- COVID-19 pandemic has changed the way Indonesian consumers shop for non-food items such as clothes, shoes, etc. From the survey results, we noted a significant shift from preference to shop at physical stores (before the pandemic) to e-commerce post COVID-19.
- E-commerce as a preferred way to shop jumped sharply from 24% before COVID-19 to 66% after. On the other hand, the numbers of respondents who chose physical stores (malls) as their preferred place to shop declined sharply from 73% before pandemic to 24% post COVID-19.

**After COVID-19 ends, what would be your most preferred way to shop for clothes, shoes, beauty, furniture, electronics and other non-food items?**



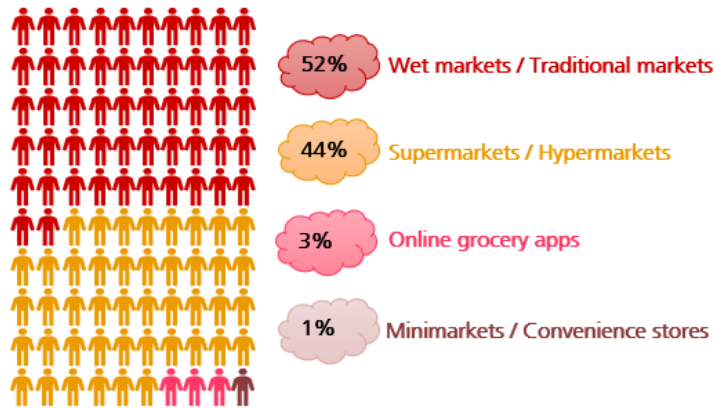
- The number of respondents who chose company websites and social media as their preferred ways to shop increased slightly after COVID-19.
- Thus, companies cannot ignore the competition coming from online. We have seen the importance of e-commerce during the outbreak and expect its contribution to continue growing post COVID-19. We suggest companies accelerate their ante on omni-channel strategy and/or embark on partnerships with established e-commerce platforms.

Source: DBS Bank consumer survey

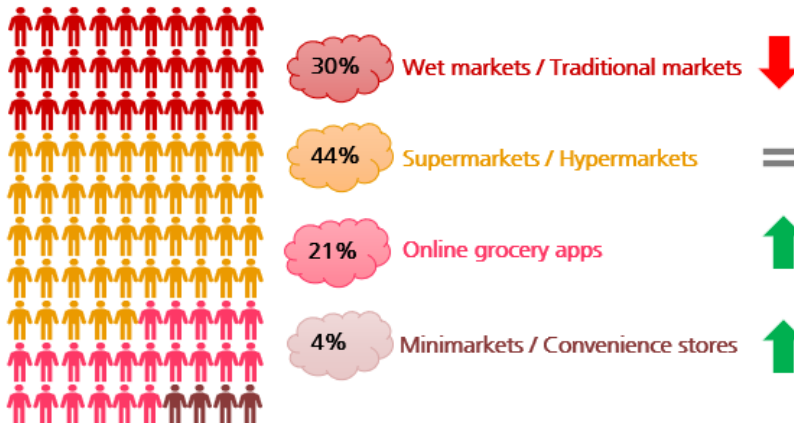
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Theme 4: Traditional not the way for grocery

Before COVID-19, what was your most preferred way of shopping for groceries, meats, fruits, vegetables, and other food items?



After COVID-19 pandemic ends, what would be your most preferred way to shop for groceries, meats, fruits, vegetables, and other food items?



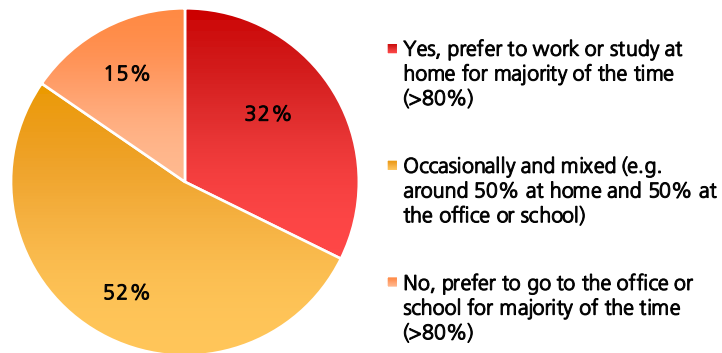
Source: DBS Bank consumer survey

- COVID-19 pandemic has changed the way respondents shop for food items such as groceries, meats, etc., shifting the numbers away from wet markets seen before the pandemic.
- The number of respondents who chose **online grocery apps** as their preferred place to shop **rose 7x** from 3% before COVID-19 to 21% after. On the other hand, the numbers of respondents who chose **wet markets** as their preferred place to shop **fell significantly** from half (52%) before pandemic to 30% post COVID-19.
- The number of respondents who chose **supermarkets and minimarkets** as their preferred places to shop held relatively steady or increased slightly after COVID-19.
- The penetration of online grocery is still relatively low (~2 in 10) now, and we expect it to grow fast going forward, especially with the increase in the numbers of younger consumers and proliferation of mobile devices in Indonesia.
- This trend also highlights the increasing bargaining chip that modern trade channel players, such as supermarkets, minimarket players, have vis-à-vis its suppliers. While we have seen this trend in other more developed and affluent economies, the pandemic has accelerated this trend in Indonesia.

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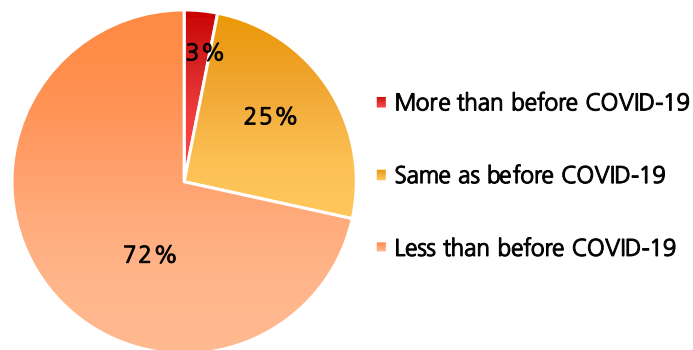
**Theme 5: Home is now the new outdoors**

**Post COVID-19 (when the situation eases and you are allowed to), will you prefer to work or study from home?**



- Due to the outbreak of COVID-19 pandemic, many are now forced to work or study at home. We spend most of our time at home instead of out at the office, schools, or malls. We have to find new ways to entertain ourselves at home given the current restrictions in place.
- 32% out of 545** respondents indicated that after COVID-19 ends, they would still like to **work or study at home**. Meanwhile, **52%** said that after COVID-19 ends, they would like to spend **some or half** of their working or studying time at home.

**After COVID-19 pandemic ends, how often will you go to the malls, cinemas, theme parks, concerts, or travel or do staycations?**



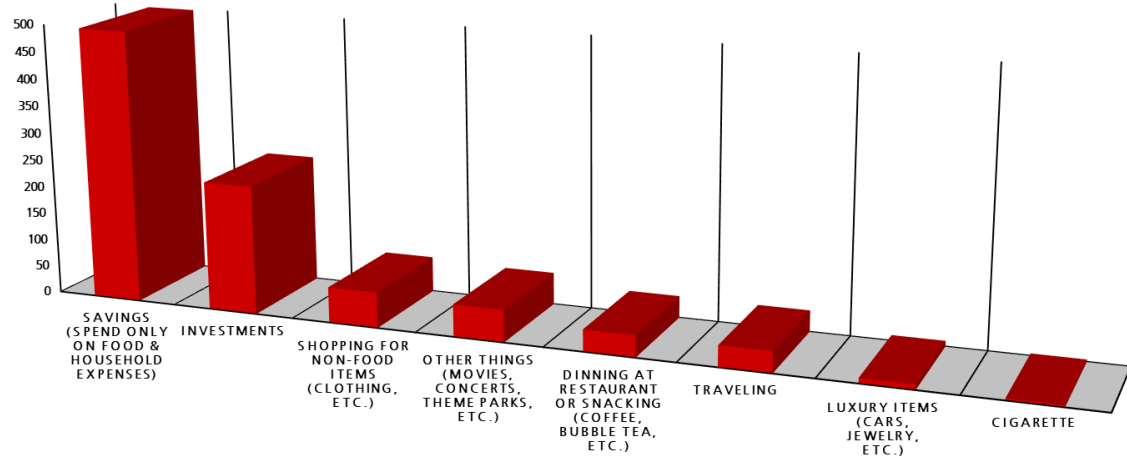
- 72% of** respondents said that after COVID-19 ends, they would **spend less time going out** and do activities outside the home compared to before the pandemic.
- Home entertainment related products and services would still be in demand even after COVID-19 ends.

Source: DBS Bank consumer survey

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**In the near-term, consumers cautious and holding back on spending**

**In the next 3-6 months, how are you going to spend your additional money or income?  
(respondents can choose a maximum of 3 answers)**

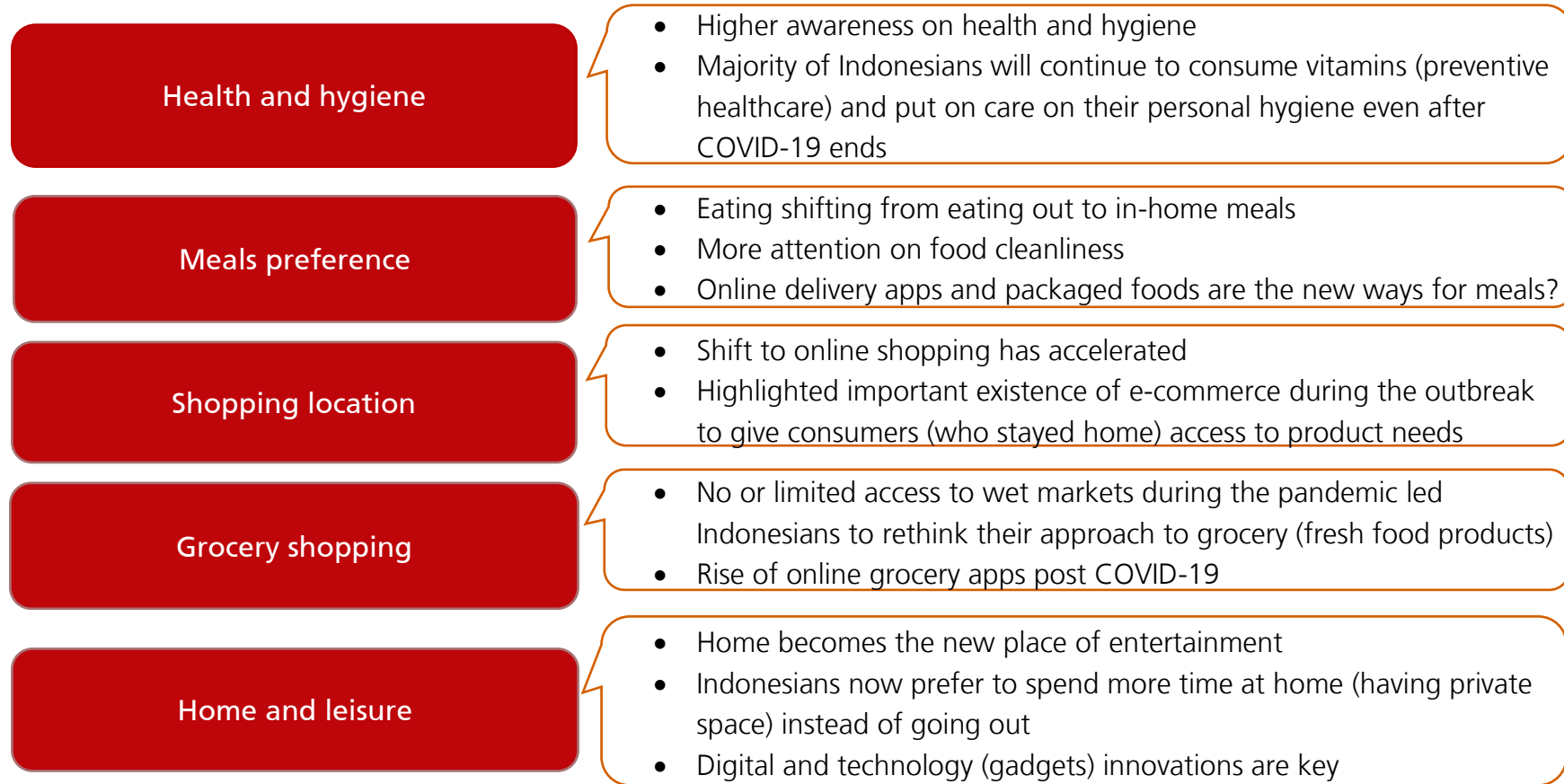


- The economic uncertainty caused by the COVID-19 pandemic clearly has an impact on consumers' confidence, which is demonstrated by their cautious responses on spending.
- Majority of the respondents chose **savings and investments** as ways they would use their additional money or income, at least for the next 3-6 months. We infer that the preferred area of spending would be on basic things such as food and household expenses.
- Consumers could focus on value-for-money options, and necessity over discretionary/leisure items/activities.

Source: DBS Bank consumer survey

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**Conclusion: key findings**



Source: DBSVI, DBS Bank



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**Implications on businesses?**



**PREVENTIVE HEALTHCARE**

- Businesses to address customers' **health and hygiene concerns**
- Companies must ensure their products and services are **clean and safe** (perform sanitation or disinfectant)
- Introduce products focusing on immunity, wellness and hygiene



**PACKAGED FOOD**

- Introduce healthy **ready to cook** meals or **easy to cook** packaged foods
- Produce food **seasonings or sauces** as well as kitchen tools to enhance cooking at home experience
- Higher demand for local products and **value pack size** packaged food with good pricing



**OMNI CHANNEL / E-COMMERCE**

- Ensure customers can access companies' products or services **anytime and anywhere**
- Introduce **safe, easy and fun experience** for shopping online (e.g. virtual try-on)
- Ensure **efficient delivery** and reasonable shipping cost for customers
- Accelerate omni-channel strategy
- Partnership with established e-commerce platforms



**B2C / DELIVERY APPS**

- Enlarge companies' **access to customers**
- F&B business to enter online food delivery apps
- Explore opportunities in online grocery apps
- Ensure freshness of food products, as well as fast delivery



**HOME ENTERTAINMENT**

- Develop technology or gadgets to recreate the **social experience at home**
- Enhance digital presence
- Introduce items to facilitate working / learning from home
- Other home entertainment related products and services (e.g. gaming, social media, website, or apps)

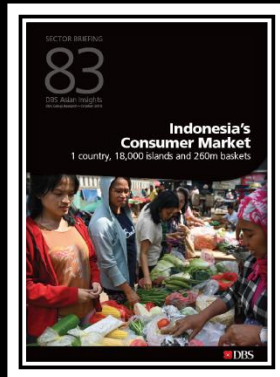
Source: DBSVI, DBS Bank

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**SECTION 2: INDONESIA'S CONSUMPTION BASKET - THEN, NOW AND THE FUTURE**

Summary of our previous work on Indonesia Consumption Basket, which we published on 31 October 2019.

We did a study on how Indonesians consumption basket has changed from 2010 to 2018, and we projected how it would be by 2030F.

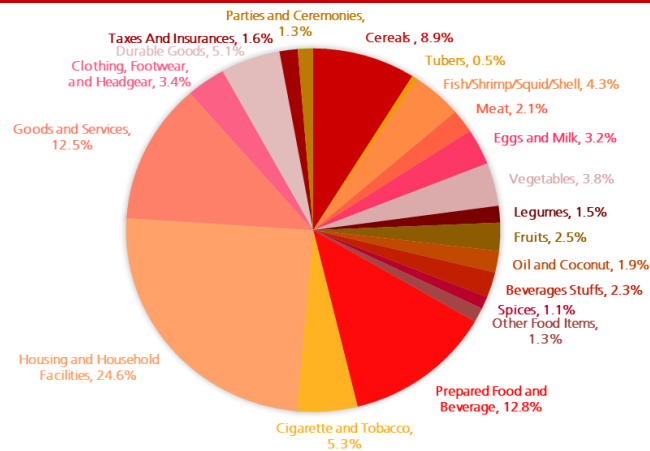


Source: DBSVI, DBS Bank

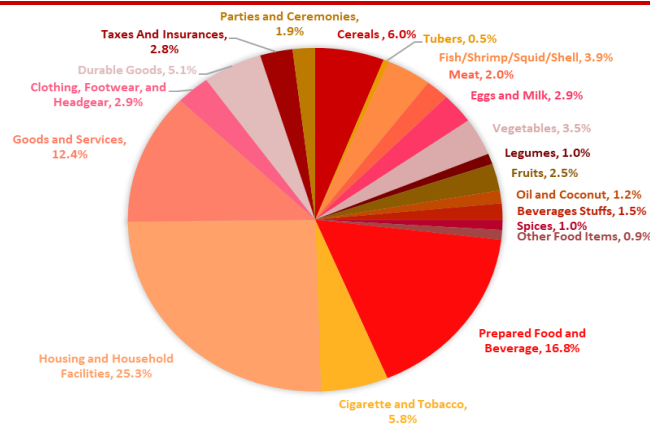
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**Consumption basket shifted towards non-food; mix within food has changed in last decade**

**Indonesia consumption basket 2010**



**Indonesia consumption basket 2018**



Source: BPS, DBSVI, DBS Bank

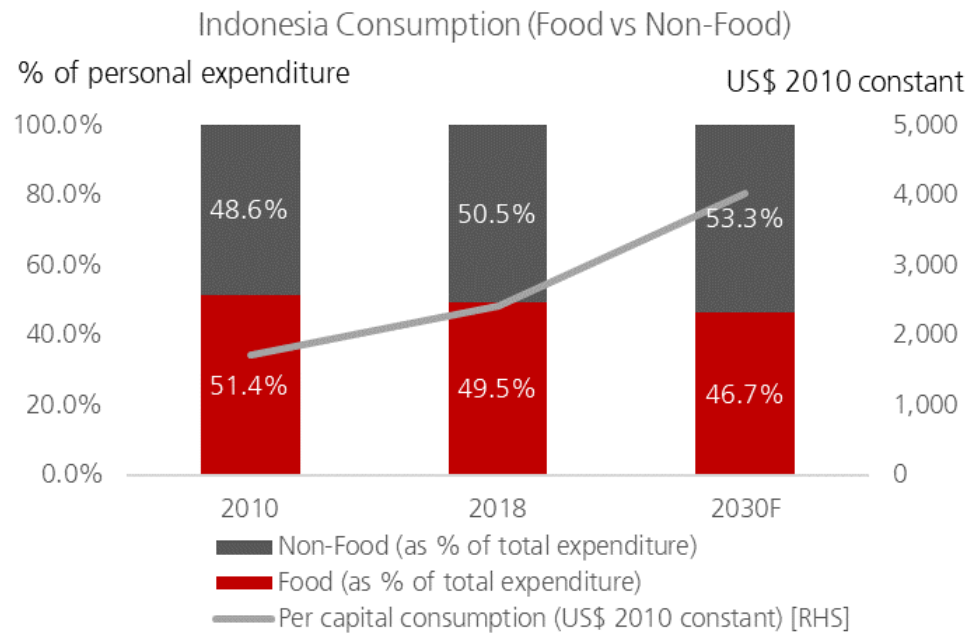
We present our earlier findings on shifts in Indonesians' consumption basket between 2010 - 2018:

- Based on Indonesia's monthly average expenditure per capita in 2018, we noted that **food (excluding Prepared Food and Beverage)** and **clothing categories** accounted for **smaller percentage** at **35.6%** in aggregate, compared to 42.1% in 2010.
- Within the food basket, proportion spent on most of the various food items declined, with Cereals leading the pack, dropping by 2.9ppts over the 8-year period since 2010. This corroborates with the view that income growth leads to shifts in consumption patterns, after necessities are met.
- Interestingly, Prepared Food and Beverage recorded the highest increase in terms of proportion spent (+4ppts), which could be attributed to eating out, as well as packaged food and beverages.
- Expenditure on Housing and Household Facilities as a percentage of total personal consumption increased by 0.7ppts, which we believe was due to increasing urbanisation and a greater desire to improve living conditions.
- On aggregate, the above shows there was a **shift in the consumption basket** towards **non-food** (at 50.5%) in 2018, as compared to food expenditure (51.4%) in 2010.

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**By 2030F, consumption basket to see larger proportion from Non-Food as income grows**

**Food to account for lower % of basket as income grows**



- Indonesia’s personal consumption per capita stood at c.US\$2.4k in 2018 (2010 constant basis), and projected to reach around US\$4k by 2030F, registering a CAGR of over 4%.
- We project **food to account for a lower c. 46.7% of the total consumption basket by 2030F** – similar to trends exhibited in Malaysia and Thailand.
- Proportion of total household consumption expenditure allocated to food tends to decline as income grows, and consumption patterns to shift towards non-food baskets, such as Housing and Household Facilities, as well as Goods and Services.
- Consumption basket to skew towards more discretionary staples with lesser weightage on necessities such as food and clothing.

Source: CEIC, BPS, DBSVI, DBS Bank estimates

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## Snapshot of Indonesia consumer expenditure basket breakdown and changes

	2010		2018		2030F
<b>GDP per capita (US\$ 2010 constant)</b>	US\$3,113		US\$4,326		US\$7,310
<b>Personal Household Consumption Expenditure</b>	US\$1,717		US\$2,411		US\$4,021
<b>Consumption category</b>	<b>% of expenditure</b>	<b>chg</b>	<b>% of expenditure</b>	<b>chg</b>	
Cereals (Rice, others)	8.9%	↘	6.0%	↘	3.3%
Animal protein* (Seafood, Meat, Eggs & Milk)	9.6%	↘	8.8%	↗	8.9%
Prepared Food & Beverages	12.8%	↗	16.8%	↗	19.6%
Cigarette & Tobacco	5.3%	↗	5.8%	↘	5.4%
Others-Food**	14.9%	↘	12.2%	↘	9.4%
<b>Total Food</b>	<b>51.4%</b>	↘	<b>49.5%</b>	↘	<b>46.7%</b>
Housing & Household Facilities	24.6%	↗	25.3%	↗	27.2%
Clothing, Footwear & Headgear (Apparel)	3.4%	↘	2.9%	↘	2.3%
Goods & Services, Durables & Others-Non-Food (Taxes, Insurance, Parties, Ceremonies, etc)	20.5%	↗	22.3%	↗	23.9%
<b>Total Non-Food</b>	<b>48.6%</b>	↗	<b>50.5%</b>	↗	<b>53.3%</b>

Note:

\*Animal Protein includes Fish/ Shrimp/ Squid/ Shellfish, as well as Meat and Eggs & Milk.

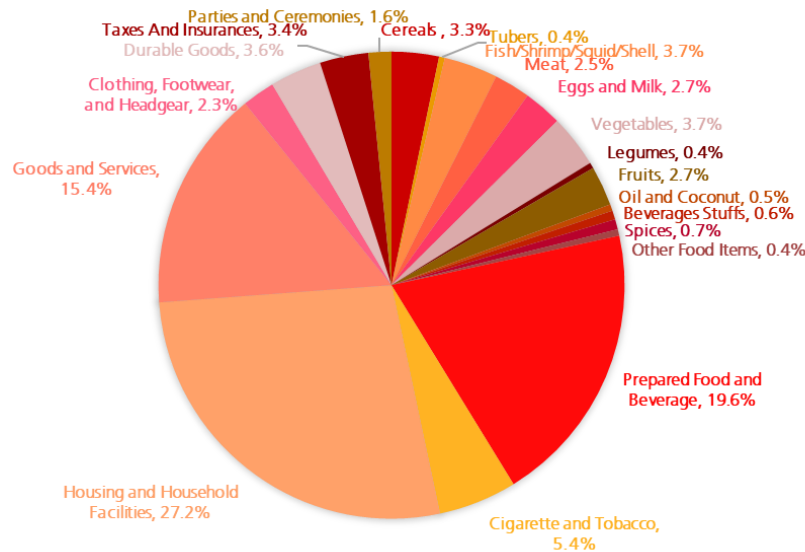
\*\*Others-Food includes Tubers, Vegetables, Legumes, Fruits, Oil and Coconut, Beverage, Spices and other food items.

Source: BPS, CEIC, DBSVI, DBS Bank estimates

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**Our projection: consumption basket in 2030F**

**Indonesia consumption basket 2030F**



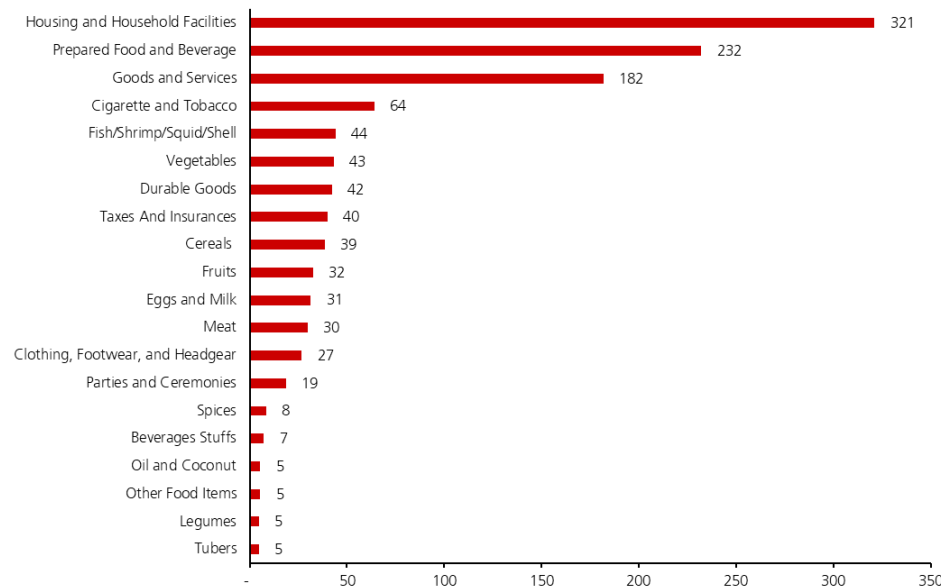
Source: DBSVI, DBS Bank estimates

- In 2030F, we project spending on food (excluding Prepared Food and Beverage) and clothing to shrink to about one-third of the average monthly expenditure (29.3%) - in line with trends observed in countries such as China, Thailand and Malaysia, though at varying degrees.
- Under the food category, we expect to see a continuing trend of higher spending on (i) **Prepared Food and Beverage**, driven by changes in lifestyle (more people eating out), rising incomes, and urbanisation leading to demand for convenience and packaged food and beverages, (ii) **Meat**, as income rises, (iii) **Vegetables and Fruits** as people's health awareness increases.
- Under the non-food category, we forecast that **Housing and Household Facilities**, as well as **Goods and Services** could also post higher growth going forward, on the back of rising income, urbanisation, changes in lifestyle, and improvement in technology.

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

**Spending patterns in 2030F, based on income growth and inference from consumption changes in other countries**

**Projected Indonesia’s total consumption expenditure by product segments in 2030F (US\$ bn)**



Source: DBSVI, DBS Bank estimates

- We project Indonesia’s economy to register growth in GDP per capita of c.4.5% CAGR (2018-2030F), reaching c.US\$7,310 (in 2010 US\$ constant terms) in 2030F.
- With population growth estimated at 0.9%, Indonesia’s economy is projected to reach c.US\$2.15tn (2010 US\$ constant) by 2030F.
- We assume the percentage of personal household expenditure to GDP to be 55% in 2030F remaining constant as per 2018.
- We project that Housing and Household Facilities to represent the largest component in the personal consumption basket in 2030F, followed by Prepared Food and Beverage, and Goods and Services.

### SECTION 3: COVID-19 CAME – IMPACT ON OUR CONSUMPTION BASKET FORECASTS ...

How our previous forecasts have changed due to COVID-19 pandemic?

We have revised projections for 2020-2022F to incorporate COVID-19 impact.

In this section, we illustrate to changes to our assumptions to factor in COVID-19.



Source: DBSVI, DBS Bank



## Indonesia Consumer: Implications on behavior and companies due to COVID-19

### INDONESIA CONSUMPTION BASKET POST COVID-19

**Negative GDP growth assumption in 2020F to -1%.** Our economist has revised Indonesia's GDP growth forecast to -1% in 2020F (vs. +5.3% previously), driven by economic slowdown caused by COVID-19 pandemic as well as higher unemployment rate. Thus, we project Indonesia's economy to reach c.US\$1.20tn (2010 US\$ constant) in 2020F, which is 6.2% lower compared to our previous projection. The decline in Indonesia's overall economy will also lead to lower total expenditure and market size for most product categories within Indonesia's consumption basket.

**Lowered consumption per capita by 4.4% from previous estimate.** With COVID-19, we forecast lower GDP per capita of US\$4,465 in 2020F. Many businesses were forced to temporarily close which led companies to cut their employees' salary or lay off some of them in order to trim costs. Correspondingly, we have lowered personal consumption per capita forecast for 2020F by 4.4% to US\$2,532 in 2020F.

**Changes in consumption basket due to COVID-19.** At the macro level, we refined and adjusted our projections on consumption expenditure and changes within specific consumption baskets at the national level. Last year, we projected food to account for a lower c. 46.7% of the total consumption basket in 2030F (vs. 49.5% in 2018) – similar to trends exhibited in Malaysia and Thailand, when the respective economies were at similar income levels. The proportion of total household consumption expenditure allocated to food tends to decline as income grows, and consumption patterns shift towards non-food

baskets, such as Housing and Household Facilities, as well as Goods and Services.

With the outbreak of COVID-19, we believe that our **long-term expectation is still intact**, but there are some changes between 2020-2022F. We have revised our previous forecasts for 2020-2022F based on the results of the consumer survey we did as well as taking guidance to changes in consumption basket during the financial crisis of 2007–2008. As the result, we now project **food as % of the consumption basket to be higher at 50.1% in 2020F** (vs 49% previously) and gradually decline as the economy recovers in 2021-2022.

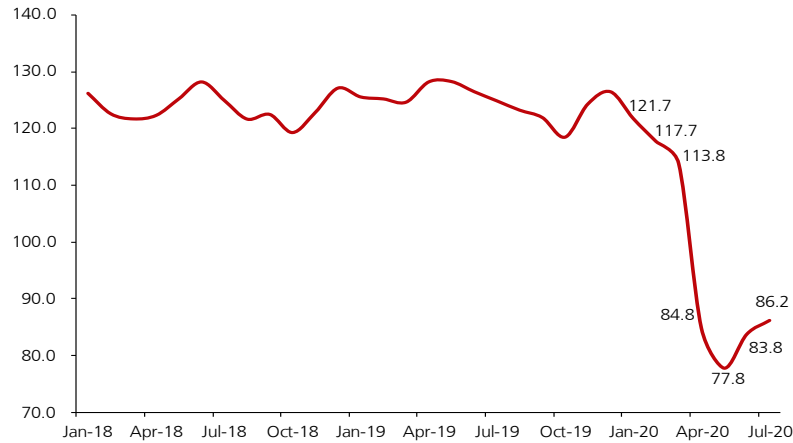
**Expecting consumption basket to skew to food necessities as a result of COVID-19.** Under food category, we expect to witness higher spending on Cereals and other food items excluding Prepared Food and Beverage and Cigarette and Tobacco in 2020F. Given that many Indonesians are studying / working from home instead of in school / office during the COVID-19 situations, meal consumption patterns have shifted from eating / dining out to cooking at home.

Meanwhile under the non-food category, we forecast higher spending on Housing and Household Facilities, but lower spending on other non-food items such as clothing and durable goods. During COVID-19, we believe that consumers are holding back their spending on discretionary products such as clothing and durable goods, driven by economic uncertainty and lower income.

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

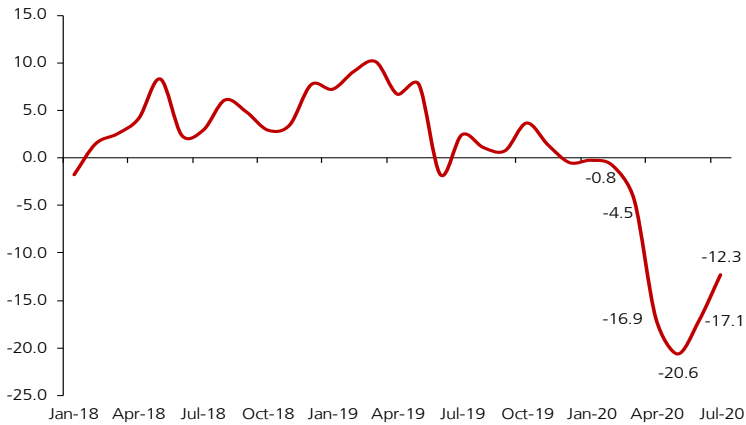
**COVID-19 update: Impact on the Indonesian consumer**

**Indonesia consumer confidence index has dropped below 100**



- Consumer confidence index (CCI)** dropped to the lowest level in May 2020 at 77.8 from 121.7 in January 2020 (before COVID-19 became an issue in Indonesia). CCI started to drop below 100 (optimistic level) in April 2020, when it declined to 84.8 from 113.8 in March 2020. Although CCI has slightly recovered to 86.2 in July 2020, it was still below 100. The weakening consumer sentiment was mainly due to the decline in consumer perceptions of current economic conditions, driven by a steep decline in the current income index and job availability index.

**Retail sales index booked negative growth (% y-o-y)**



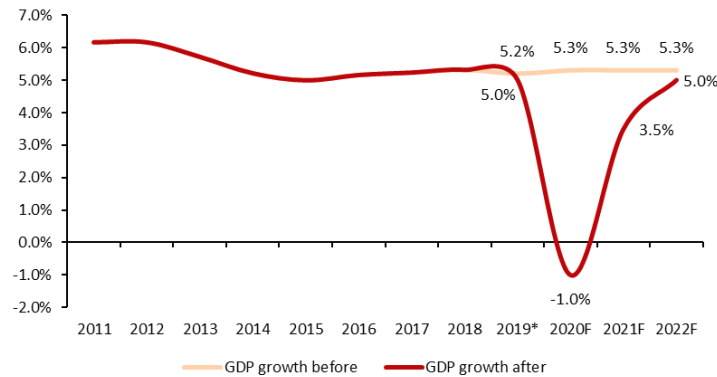
- Retail sales index** booked negative growth of 17.1% y-o-y in June 2020 and is expected to report negative growth of 12.3% in July 2020. The negative index movement in June was caused by slower growth in Clothing (-74% y-o-y), Cultural and Recreation Goods (-45% y-o-y), Motor Vehicles Part and Accessories (-38% y-o-y), Automotive Fuels (-27% y-o-y), Other Household Equipment (-23% y-o-y), Information & Communication Equipment (-16% y-o-y), as well as Food, Beverages, and Tobacco segment (-8% y-o-y).

Source: Bank of Indonesia

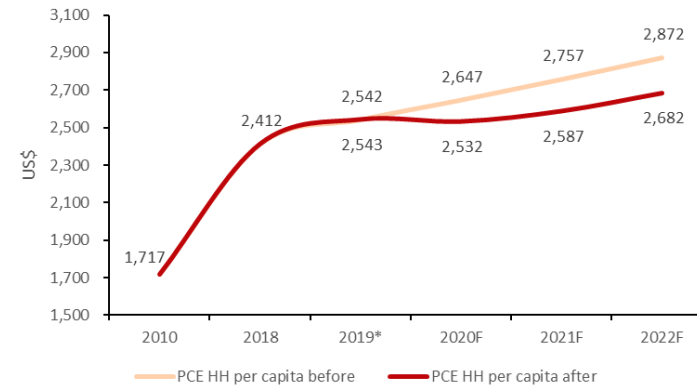
**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

**Our economists have lowered Indonesia's GDP growth assumption to incorporate COVID-19 impact**

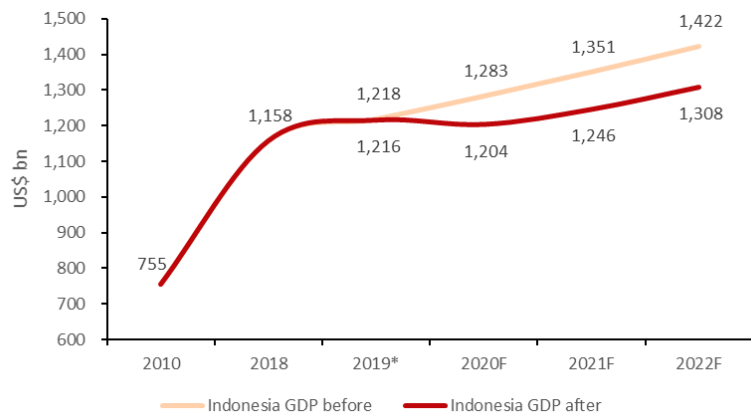
**GDP growth assumption before vs after COVID-19 (in 2010 US\$ constant terms)**



**Indonesia personal consumption per capita before vs after COVID-19 (in 2010 US\$ constant terms)**



**Indonesia GDP before vs after COVID-19 (in 2010 US\$ constant terms)**



- We forecast GDP growth of -1% in 2020F, driven by economic slowdown caused by COVID-19 pandemic as well as higher unemployment rate.
- With our new GDP assumption (vs. +5.3% previously), we project Indonesia's economy to reach c.US\$1.20tn (2010 US\$ constant) in 2020F or 6.2% lower compared to our previous projection.
- With COVID-19, we forecast lower GDP per capita of US\$4,465 in 2020F. Many businesses had to temporary close their operations which led companies to cut their employees' salary or lay off some of them in order to cut costs and stay afloat. Correspondingly, we have lowered personal consumption per capita to US\$ 2,532 in 2020F, which is 4.4% below our previous forecast.

Source: CEIC, BPS, DBSVI, DBS Bank estimates

\*2019: our previous forecasts (before) vs actual numbers (after)

## COVID-19 IMPACT ON CONSUMPTION BASKET

How components within consumption basket are changing due to COVID-19 pandemic?

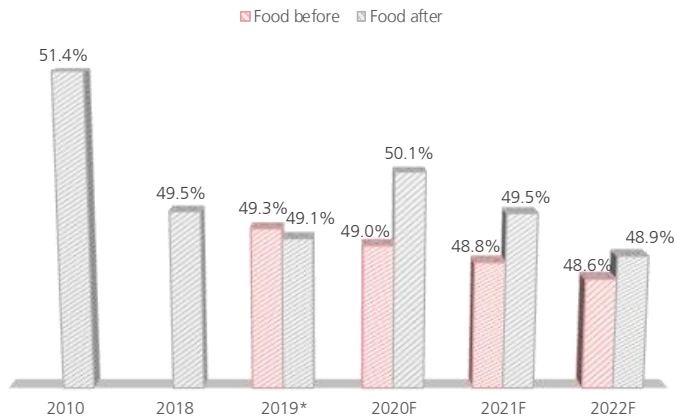
We adjust our 2020-2022F forecasts to incorporate the results of our consumer survey as well as taking reference to changes in consumption basket during the financial crisis of 2007–2008.



Source: DBSVI, DBS Bank

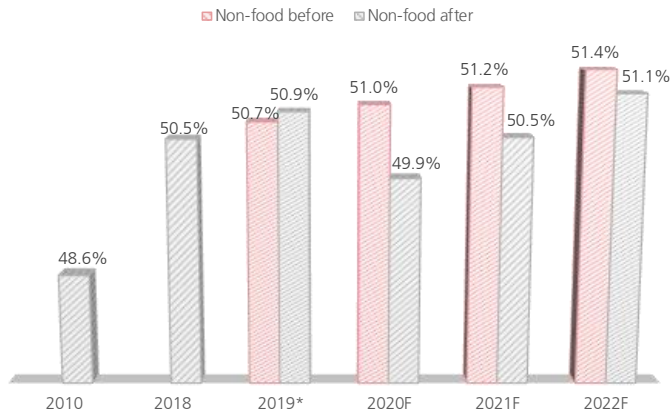
## Consumption basket to see higher spend on food in 2020F

### Food as % of consumption basket: before vs after COVID-19

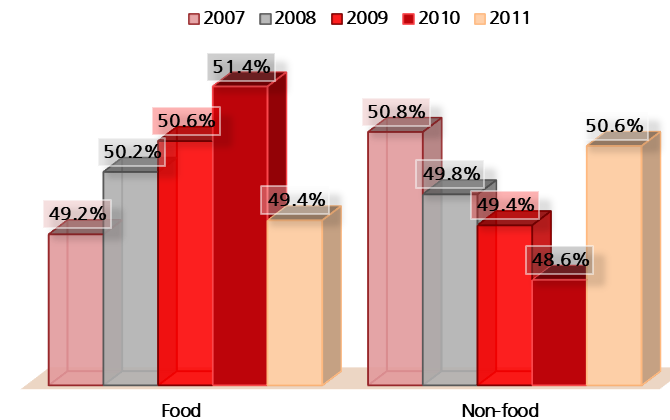


- During an economic slowdown and with higher uncertainty, we believe consumers will hold back spending on discretionary items over necessities such as food items.
- We project food as a percentage of consumption basket to be higher at 50.1% in 2020F (vs 49% previously) and gradually decline as economy recovers in 2021-2022.
- However, our long-term expectation is still intact: as income grows, non-food as a percentage of consumption basket will grow as well. Thus, we expect the percentages to slowly reverse back to our original forecasts after 2022 onwards.

### Non-food as % of consumption basket: before vs after COVID-19



### Looking back to 2007 - 2011...



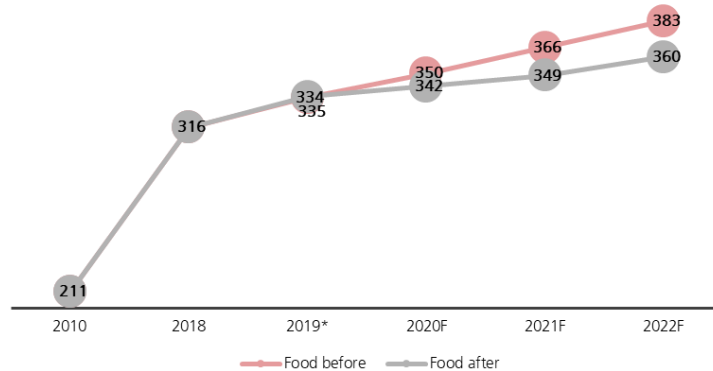
Source: BPS, DBSVI, DBS Bank estimates

\*2019: our previous forecasts (before) vs actual numbers (after)

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

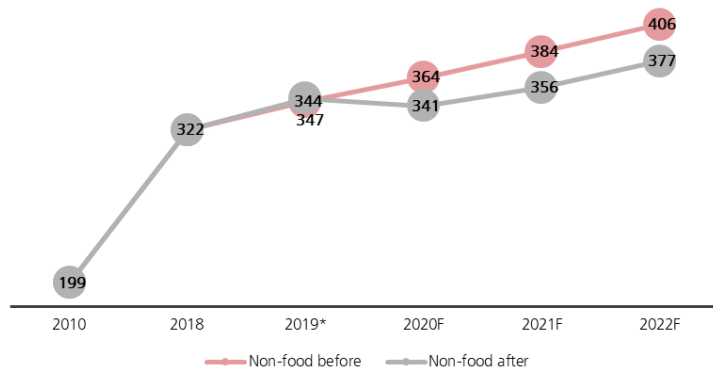
**Lower projected value for Indonesia total consumption expenditure**

**Projected Indonesia’s total food consumption expenditure (US\$ 2010 bn constant) before vs after COVID-19**



- With COVID-19, our projected value for **Indonesia’s total food consumption expenditure** has been lowered compared to our previous estimate. Nonetheless, we project **household food expenditure to still register 2% growth for 2020F to US\$342bn**, compared to 4.7% previously.

**Projected Indonesia’s total non-food consumption expenditure (US\$ 2010 bn constant) before vs after COVID-19**



- Our projected value for **Indonesia total non-food consumption expenditure** for 2020F is 6.3% lower compared to our previous estimate; and expect total expenditure to **decline by 1.7% to US\$341bn**, from our earlier projection of US\$364bn made last year in 2019.

Source: CEIC, BPS, DBSVI, DBS Bank estimates

\*2019: our previous forecasts (before) vs actual numbers (after)

## PRODUCT CATEGORIES STUDY

**BASKETS THAT ARE IMPACTED MORE  
BY COVID-19 PANDEMIC**

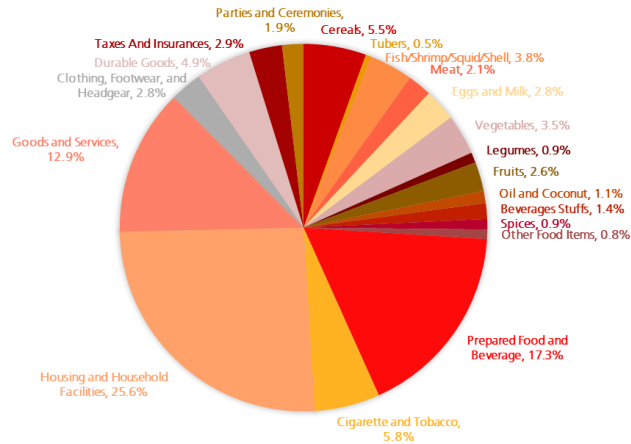


Source: DBSVI, DBS Bank

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

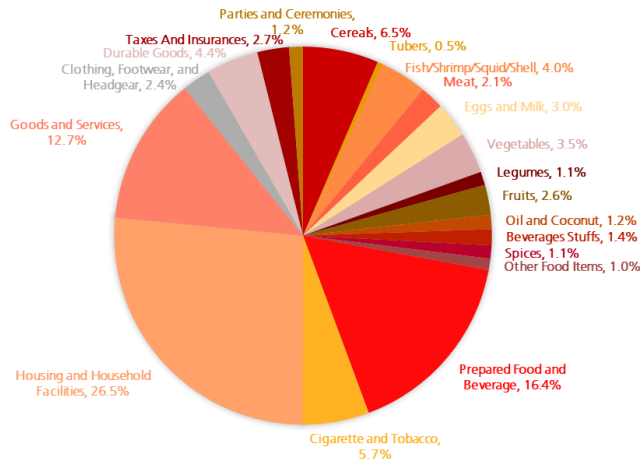
**Our projection: consumption basket will shift towards food in 2020F**

**Indonesia consumption basket 2020F before COVID-19**



- Under food category, we expect to witness **higher spending on Cereals and other food items** excluding Prepared Food and Beverage as well as Cigarette and Tobacco in 2020F.

**Indonesia consumption basket 2020F after COVID-19**



- Under non-food category, we forecast **higher spending on Housing and Household Facilities**, but lower spending on other non-food items such as clothing and durable goods.

Source: BPS, DBSVI, DBS Bank estimates



**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

**Change in product categories (after-before COVID-19)**



*Note:*

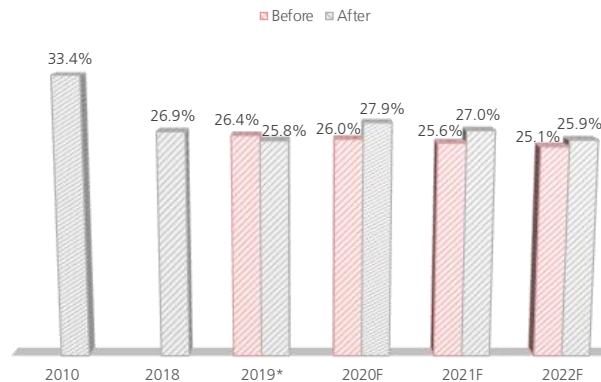
- *Cereals includes rice*
- *Animal Protein includes fish/ shrimp/ squid/ shellfish, as well as meat and eggs & milk*
- *Others-Food includes tubers, vegetables, legumes, fruits, oil and coconut, beverage, spices and other food items*
- *Prepared Food and Beverage includes eating out (rice dishes, noodles, etc.), packaged food and drink (snacks, chips, processed meat, etc.), bread, ice cream, alcoholic beverages*
- *Housing and Household Facilities includes house rent and maintenance, electricity, water, internet, phone bills, gasoline*
- *Others-Non-Food includes goods and services, clothing, footwear, and headgear, durable goods, taxes and insurances, parties and ceremonies*

*Source: DBSVI, DBS Bank estimates*

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

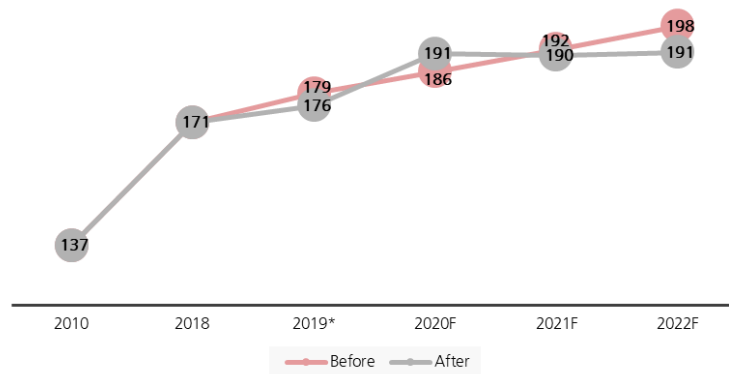
**Spend on Cereals, Animal Protein, Others-Food expected to jump as more people cook at home**

**% of total consumption basket on Cereals, Animal Protein & Other Food\* before vs after COVID-19**



- As many Indonesians are now studying / working from home instead of in school / office during the COVID-19 situation, meal consumption patterns have shifted from eating / dining out to cooking at home, takeaway or delivery services.
- As consumers now place greater emphasis on the cleanliness of food, we believe that more will choose to cook at home instead of buying prepared foods from restaurants. Furthermore, with online connectivity, it is easier to search online for food recipes, and with more time home spent at home, we believe more Indonesians would take to learning to cook by themselves at home.
- Thus, we forecast higher percentage of the total consumption basket will be spent on cereals, animal protein and other food items in 2020-2022F.
- However, we expect minimal difference in terms of value compared to our previous forecasts. Total expenditure on cereals, animal protein and other food items is projected to be slightly higher in 2020F, but lower in 2021-2022F due to lower income growth projection as a result of the economic slowdown.

**Total expenditure on Cereals, Animal Protein & Other Food (US\$ bn, 2010 constant) before vs after COVID-19**



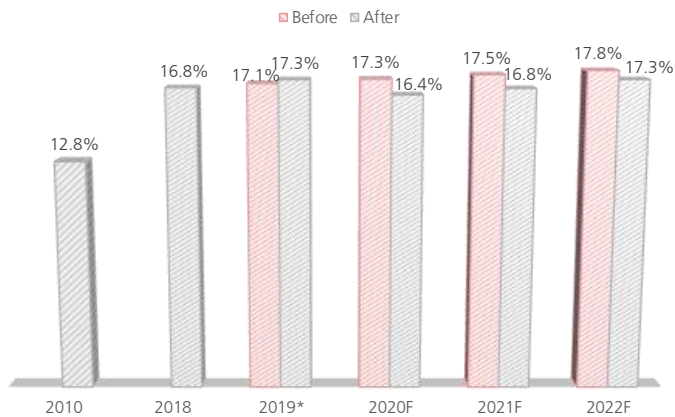
[\*Cereals includes rice; Animal Protein includes fish/ shrimp/ squid/ shellfish, as well as meat and eggs & milk; Others-Food includes tubers, vegetables, legumes, fruits, oil and coconut, beverage, spices and other food items]

Source: CEIC, BPS, DBSVI, DBS Bank estimates  
 \*2019: our previous forecasts (before) vs actual numbers (after)

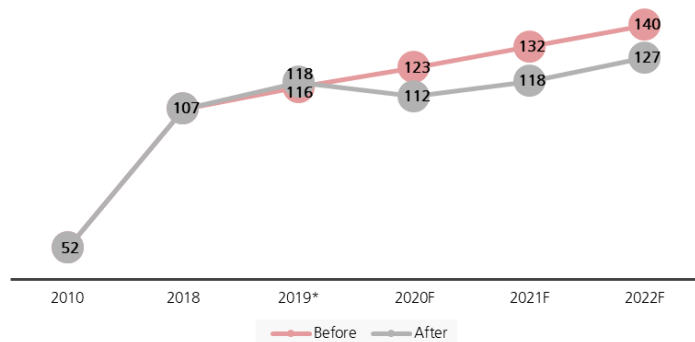
**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

**Spend on Prepared Food and Beverage expected to drop as consumers dine out less**

**% of total consumption basket on Prepared F&B\* before vs after COVID-19**



**Total expenditure on Prepared F&B (US\$ bn, 2010 constant) before vs after COVID-19**



- We were earlier more optimistic on increasing in spending on Prepared Food & Beverage. **COVID-19 pandemic had forced physical/social distancing measures to be implemented** including dine-in restrictions starting in March until early June 2020. Restaurants were only open for take away or online delivery.
- Although the government has eased certain social distancing restrictions in June, we believe that some consumers would still refrain or may be reluctant to dine out due the number of new COVID-19 cases, which is still increasing in Indonesia (at time of writing).
- Expect spending in this segment to be substituted and replaced by other food categories, namely Cereals (as mentioned earlier).
- We forecast a lower percentage of the consumption basket will be spent on Prepared Food and Beverage in 2020-2022F.
- In terms of value, we also project lower total expenditure on Prepared Food and Beverage compared to our previous forecasts.

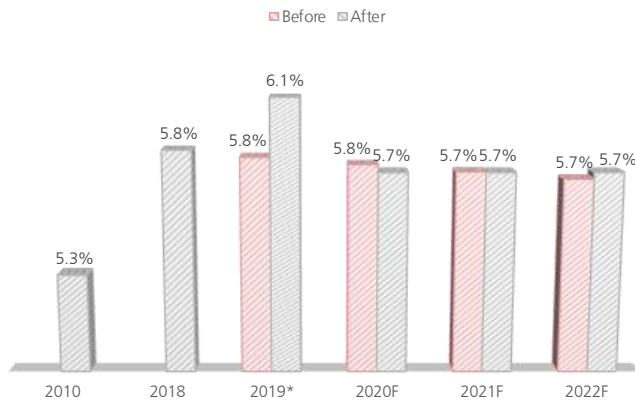
[\*Prepared Food and Beverage includes eating out (rice dishes, noodles, etc.), packaged food and drink (snacks, chips, processed meat, etc.), bread, ice cream, alcoholic beverages]

Source: CEIC, BPS, DBSVI, DBS Bank estimates  
 \*2019: our previous forecasts (before) vs actual numbers (after)

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

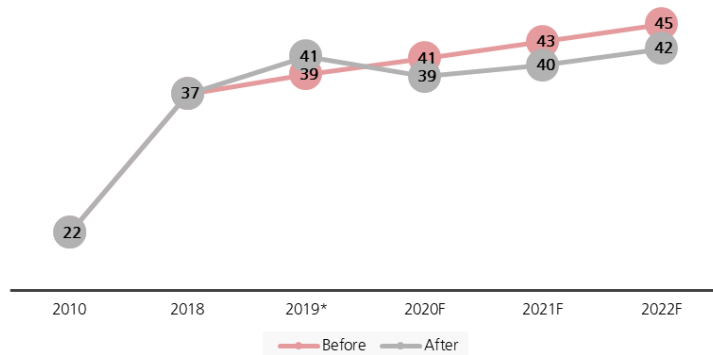
**Spend on Cigarette and Tobacco expected to drop as incomes fall**

**% of total consumption basket on Cigarettes & Tobacco before vs after COVID-19**



- **Tobacco** has been and remains the key contender of Indonesian’s share of wallet as we believe that demand for Cigarette and Tobacco is price inelastic.
- However, we are seeing **higher selling price** due to an **increase in excise taxes** earlier this year by an average of c.22%.
- Furthermore, the COVID-19 pandemic may lower Cigarette and Tobacco’s consumption by lower-income consumers arising from impact on purchasing power due to economic slowdown. As a result, consumers may cut back spending on Cigarette and Tobacco in 2020F.
- Thus, we forecast lower percentage of the consumption basket to be spent on Cigarette and Tobacco in 2020F.
- We project **total expenditure on Cigarettes and Tobacco to be slightly lower in 2020F – 2022F**, but on percentage-wise, spent to stay relatively flat at 5.7% of total household expenditure in 2021-2022 (due to lower total household expenditure).

**Total expenditure on Cigarettes & Tobacco (US\$ bn, 2010 constant) before vs after COVID-19**



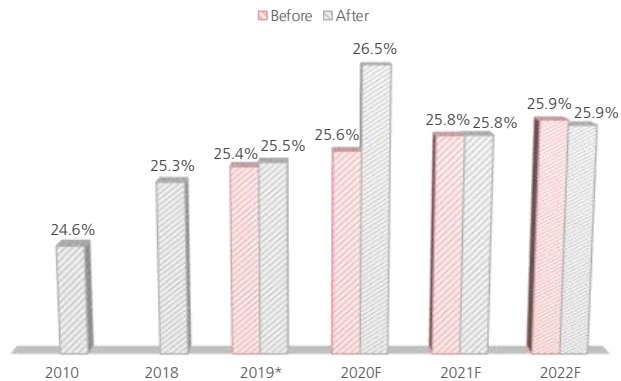
Source: CEIC, BPS, DBSVI, DBS Bank estimates

\*2019: our previous forecasts (before) vs actual/forecast numbers (after)

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

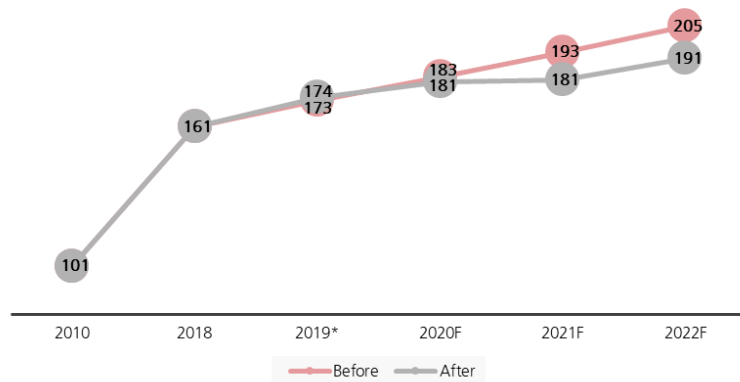
**Spend on Housing and Household Facilities expected to increase as more people stay home**

**% of total consumption basket on Housing & Household Facilities\* before vs after COVID-19**



- As Indonesians spend more time at home, there will be an increase in their household spending such as electricity, water, internet, phone bills, and other maintenance fees.
- Thus, we forecast higher percentage of their consumption basket will be spent on Housing and Household Facilities in 2020F but should normalise by 2021-2022F as people are back to work or school.
- However, in terms of value, total expenditure on Housing and Household Facilities is projected to be slightly lower than our previous forecasts in 2020-2022F due to lower income growth projection as a result of the economic slowdown.

**Total expenditure on Housing & Household Facilities (US\$ bn, 2010 constant) before vs after COVID-19**



[\*Housing & Household Facilities includes house rent and maintenance, electricity, water, internet, phone bills, gasoline]

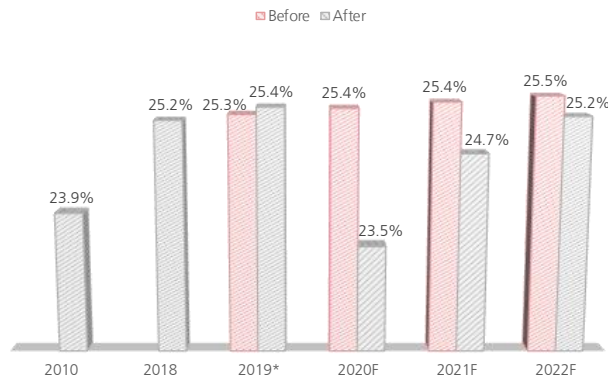
Source: CEIC, BPS, DBSVI, DBS Bank estimates

\*2019: our previous forecasts (before) vs actual/forecast numbers (after)

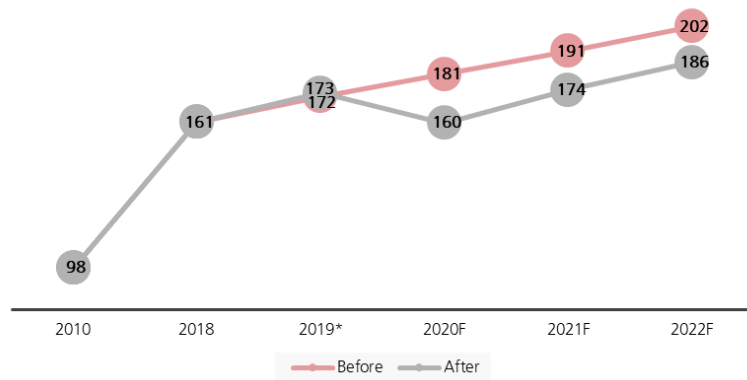
**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

**Spend on Others - Non-Food expected to decline**

**% of total consumption basket on Other-Non Food\* items before vs after COVID-19**



**Total expenditure on Other-Non Food items (US\$ bn, 2010 constant) before vs after COVID-19**



- During COVID-19 situation, we believe that people are holding back their spending on discretionary products such as clothing and durable goods.
- Due to social distancing, consumers are unable or afraid to travel, watch movies in the cinema, throw a party, and perform other leisure activities.
- Thus, we forecast a sharp drop in percentage spent on other non-food items versus total consumption basket in 2020F but expect this to gradually recover by 2021-2022F, as the COVID-19 situation improves along with the consumers' perception that it will be safer by then.
- In terms of value, we also project lower total expenditure on other non-food items compared to our previous forecasts.

[\*Others-Non-Food includes goods and services, clothing, footwear, and headgear, durable goods, taxes and insurances, parties and ceremonies]

Source: CEIC, BPS, DBSVI, DBS Bank estimates

\*2019: our previous forecasts (before) vs actual/forecast numbers (after)

## SECTION 4: WHAT ARE THE COMPANIES' THOUGHTS?

How has COVID-19 impacted consumer companies? How will businesses adapt to the changes caused by the outbreak?

We talked to a couple of consumer companies (ranging from consumer staples, poultry, retail, grocery and F&B sectors) to understand the impact of COVID-19 pandemic on their businesses and operations. We also touched on how the pandemic has changed their strategy of doing business going forward.

In this section, we present their consolidated responses.



*Source: DBSVI, DBS Bank*

## Indonesia Consumer: Implications on behavior and companies due to COVID-19

### COMPANY SURVEY KEY FINDINGS

**Companies interviews and findings.** We conducted interviews with 10 consumer companies to discuss the impact of this pandemic, how they are re-adjusting, and their views on the outlook.

We summarised the key findings below:

**Lower sales expectations the norm.** All consumer companies regardless of subsectors (consumer staples, retailers, grocery or poultry) has been impacted by COVID-19, especially with respect to sales. They expect to record lower top line growth compared to their initial guidance at the beginning of the year before the COVID-19 outbreak. Some (20% of respondents) expect sales to drop in 2020F compared to 2019.

**Cost control on operations, though spending up on additional measures.** Companies are trying to control costs as efficiently as possible during this COVID-19 period especially operating expenses such as salary, rental as well as advertisement and promotion (A&P) costs. Therefore, **30% of respondents have projected lower costs in 2020F compared to last year.** However, COVID-19 has also imposed costs like (i) additional measures related to COVID-19 including sanitisation, disinfectant, cleaning, and testing for staffs, and (ii) increase in commission fees for third party online platforms (food aggregator or e-commerce). As a result, another 30% of respondents project higher costs in 2020F compared to last year.

**More prudent capex.** Most (80% of respondents) have taken the option to freeze unnecessary capex, and instead spend only on maintenance to minimise cash outflow and conserve cash during this pandemic. The companies would continue to complete the projects that have started, while taking a more judicious approach for new ones that have yet to commence. For store

expansion, the companies have delayed most of their new contracts; furthermore, they have become more selective in terms of location. This, in our view, pertains to the high level of uncertainty the respondents have with respect to the outlook, particularly on the gradient and time period of recovery.

**Mix feelings on recovery phase, dependent on infection rates.** Around **40% of respondents** were more optimistic than the others and envisaged **recovery before the end of 2020.** Half of the respondents were still unsure on when their respective operating performance will revert back to pre-COVID-19 levels. In their views, the recovery pace really depends on when the COVID-19 ends as well as improvement in purchasing power and consumer sentiment.

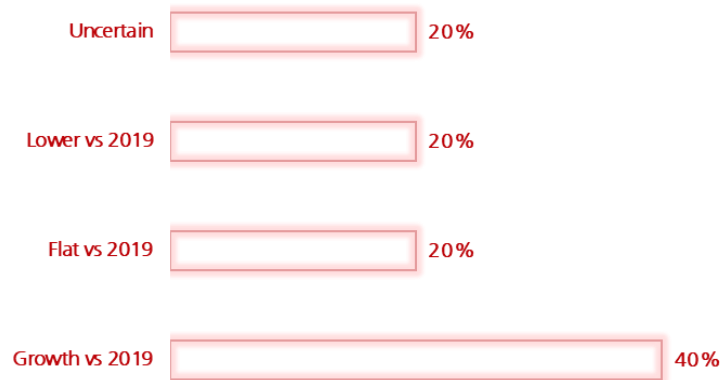
**Concerns caused by COVID-19.** Sales disruption due to social distancing measures and weak consumer demand are considered top concerns for the companies during the COVID-19 period. Staff well-being and safety is another concern for the management during the outbreak.

**Major strategy pivots towards diversification of sales channel, geography and product.** With COVID-19, the companies are forced to rethink their management strategy, with acceleration of some strategies compared to earlier targets. For instance, **diversification of sales channels** especially online sales or B2C are now the main focus areas. Others include **geographical diversification** (expansion to outside Java), **product diversification** (have the right products at the right time), and **operational flexibility.** It is very crucial for companies to be able to react quickly to the current economic situation, new regulations, and shift in consumer behaviour.



## 2020 Sales projections greatly reduced from earlier expectations due to COVID-19

### Companies' expectations of revenue in 2020 following COVID-19

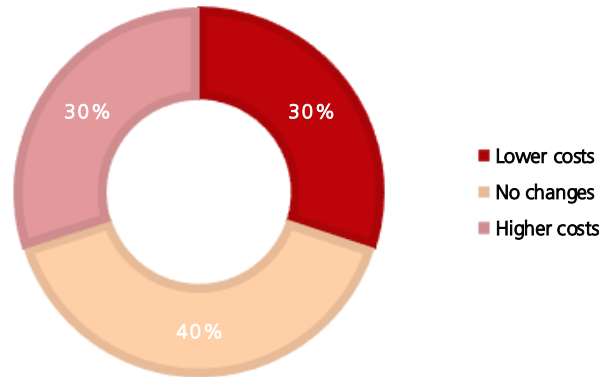


Source: Company, DBSVI, DBS Bank

- Optimistic start to 2020, previously expecting top line growth over 2019. At the start of the year, prior to the first outbreak of COVID-19, all Indonesian consumer companies that we spoke with had expected sales to grow in 2020 compared to 2019. The companies hoped for a better economic outlook with the new government in place as well as improving consumer sentiment in 2020. Some even expected double-digit growth for top line in 2020.
- These expectations changed after the COVID-19 outbreak became a national issue in Indonesia. With the current impact of COVID-19, only **40%** of the total companies we spoke to still expect **higher revenue growth** in 2020, although the percentage of growth is lower compared to their initial estimation. These companies are mostly in **consumer staples** and **grocery sectors**.
- 20%** of companies expected **flat or lower revenue growth** in 2020. The reasons behind the lower expectations are: (i) social distancing measures or partial lockdown in most regions in Indonesia causing stores or businesses to temporarily close, (ii) lower purchasing power due to lower income or higher unemployment rate, (iii) no Lebaran effect this year, and (iv) delay in expansion plans.
- 20%** of the companies are still **uncertain** on how COVID-19 would impact their top line growth due to uncertainty on the recovery phase and how long COVID-19 situation will last.

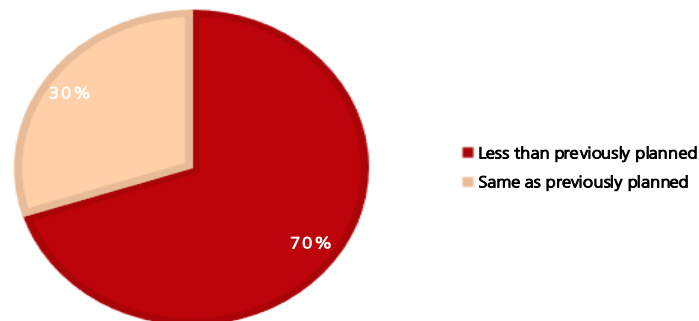
## Cost impact due to COVID varied, but A&P crimped the most

### Impact on costs of doing business due to COVID-19 outbreak



- For costs, there were varying degrees of changes. Based on the current COVID-19 situation, **40%** of the total companies we spoke to expect **no changes in costs** of doing business in 2020.
- 30%** of companies project **lower costs**, driven by (i) better efficiency and productivity, (ii) lower raw materials costs, (iii) lower operating expenses such as salary (pay cuts or non-renewal of contract staff), rental (discounts from landlords especially during partial lockdown period), and business travel.
- 30%** of responses project **higher costs**, caused by (i) rupiah depreciation, (ii) additional measures related to COVID-19 such as sanitisation, disinfectant, cleaning, and testing for staff, (iii) supply shortages for some materials, (iv) increase in commission fees for third party online platforms (food aggregator or e-commerce).

### Change in A&P allocation plan due to COVID-19 outbreak



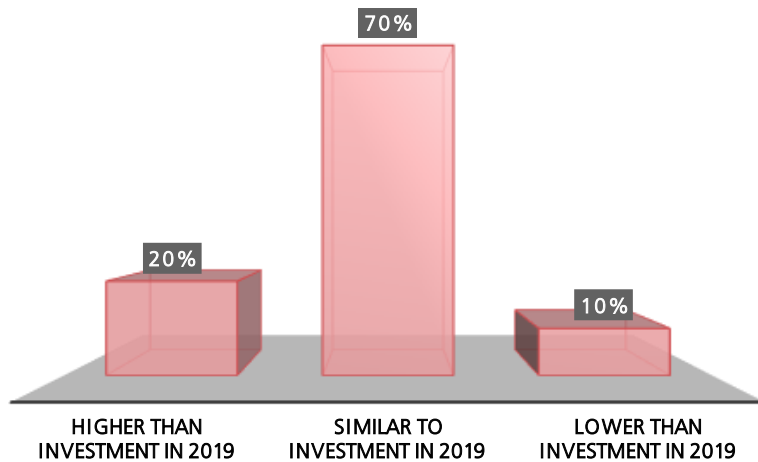
- For advertisement and promotion (A&P) costs, **70%** of companies would spend **less than previously planned**. The reasons behind this are (i) decrease in consumers' purchasing power, (ii) lower spot rate for TV commercials, (iii) less promotional events, (iv) cutting unnecessary expenses to survive.
- Most of the companies are switching to **online or digital marketing** such as social media. Some highlighted that they have given aggressive discounts in order to push sales during the partial lockdown.

Source: Company, DBSVI, DBS Bank

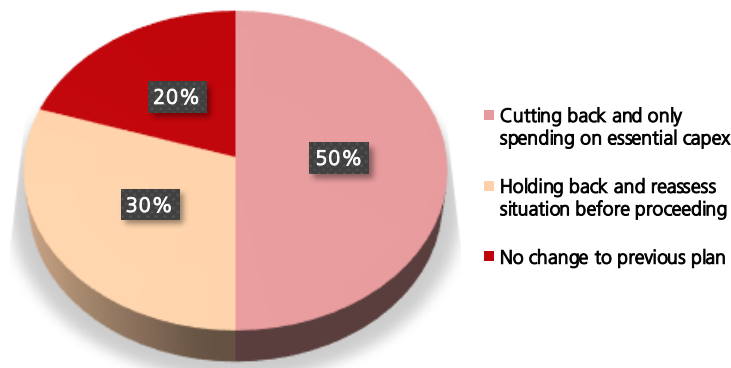
**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

**Capital expenditure/ expansion curtailed**

Initial capex plan for 2020 before COVID-19



Current capex outlook for 2020 with COVID-19 issue



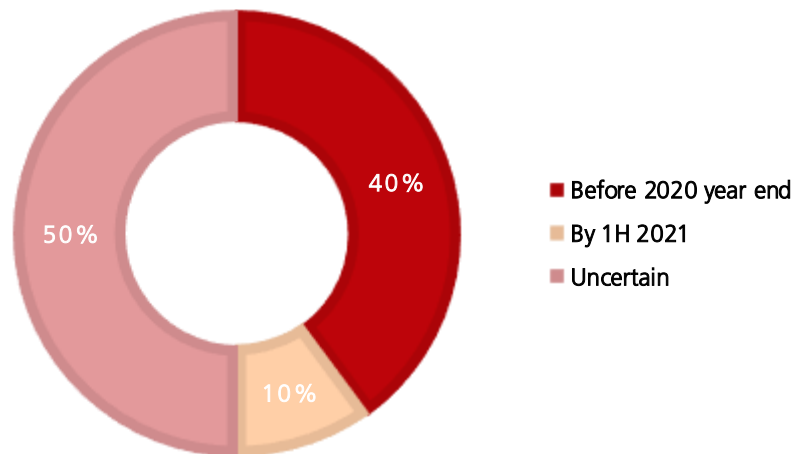
- At the start of the year, prior to the first outbreak of COVID-19, **70%** of responses expected to spend the same level of capex as 2019's. Most of the capex was allocated for store expansion, capacity increase, purchasing fixed assets, or building plants.
- These expectations changed along with the COVID-19 outbreak. Based on the current COVID-19 situation, only **20%** of the total companies are still **maintaining** their original expansion plans.
- 80%** of the respondents anticipate **lower capex** in 2020. They are either cutting back and only spending on essential capex or they are holding back and reassessing the situation before proceeding.
- Companies have indicated that they will continue to complete projects that have started, while taking a more judicious approach towards new ones yet to commence. For store expansion, companies indicated that they will delay most of the contracts, if possible; they are also more selective in terms of location. They will/ have stopped less essential capex and will spend only maintenance capex as they prefer to shore up their cash positions.

Source: Company, DBSVI, DBS Bank

## Indonesia Consumer: Implications on behavior and companies due to COVID-19

### High level of uncertainty on expectations of recovery and pace

#### Current expectations on the pace of recovery for operating performance to revert to pre COVID-19 levels



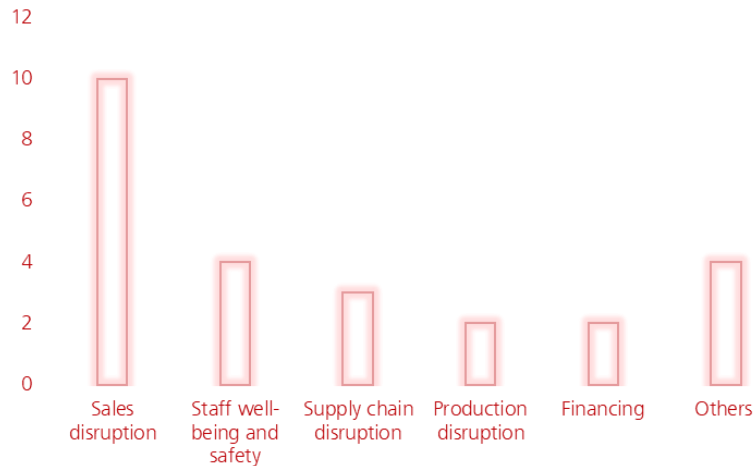
Source: Company, DBSVI, DBS Bank

- Half of the companies (**50%**) remain unsure on when will their operating performance fully recover from the impact of COVID-19. In their view, the recovery pace really depends on when COVID-19 ends as well as improvement in purchasing power and consumer sentiment.
- **40%** of companies anticipate recovery to be **before the end of 2020**. After the government eased social distancing restrictions in mid-June and businesses started to reopen, these companies have seen some improvement in demand or sales, although not back to pre COVID-19 levels yet. Some companies shared that sales improvement in June and July look promising.
- In addition, most of the companies have adjusted to the change in consumer behaviour, as well as provided more products and services which are currently trending. This will also help improving their sales.

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**

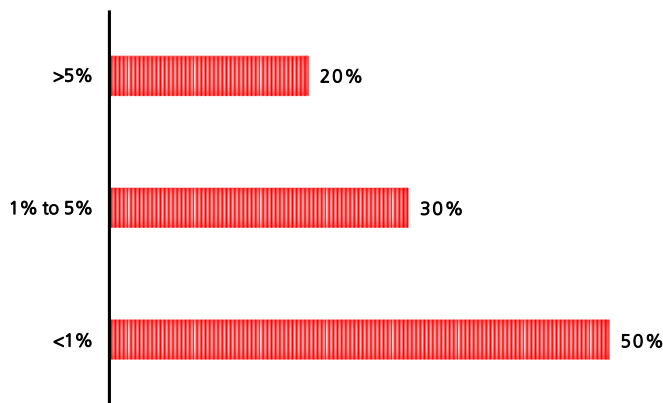
**Sales disruption, staff well-being and safety are top concerns...**

**Companies' top concerns during the pandemic**



- **Sales disruption** was ranked as the top concern for companies during the COVID-19 period. Decline in sales and demand due to social distancing measures, store closures and low purchasing power are of utmost concern. Lower sales may also lead to operating deleveraging.
- **Online sales still relatively small.** Another issue for the companies is little access to their customers during the partial lockdown period. As more people stay home and are afraid to go out, they rely more on online shopping or home delivery. Meanwhile, percentage of online sales to these companies' total sales prior to COVID-19 was relatively small. About **50%** of the total companies we spoke had **less than 1%** from online sales prior to COVID-19.

**Percentage of online sales prior to COVID-19**

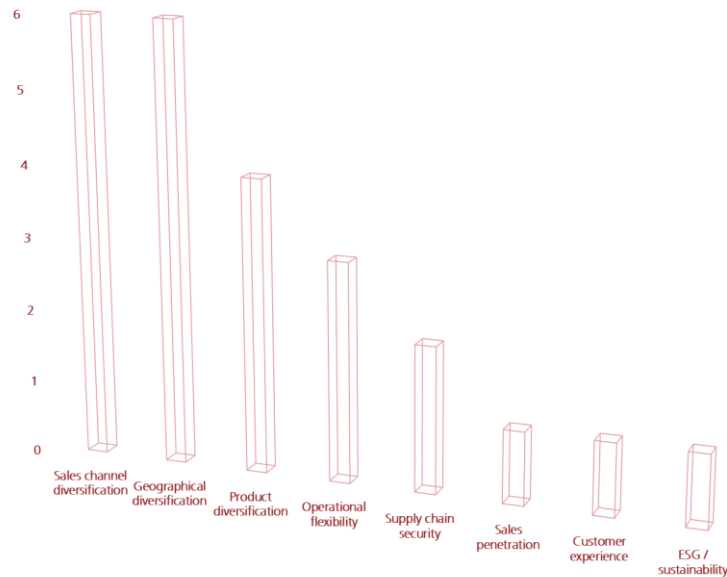


- **Staff well-being and safety** is another concern for the management during the outbreak. Most of the companies had implemented new health and social distancing protocols in their operations (such as working from home, rotation, disinfectant, regularly checking staff temperature, etc.) to ensure their employees are healthy.
- Other concerns are supply chain disruption, production disruption, and financing (cashflow, working capital or leverage).

Source: Company, DBSVI, DBS Bank

## How has COVID-19 made management rethink on their business strategy?

### Top priorities for the companies to work on going forward



Source: Company, DBSVI, DBS Bank

- Sales channel diversification** is the main focus for companies going forward, especially online sales. All companies would be looking to expand online or B2C sales channels post COVID-19, supported by leveraging on third party platforms as well as enhancing their own online platforms. Furthermore, the companies will utilise more digital or technology initiatives to improve customer shopping experience offline and online.
- Geographical diversification** is another area the companies will work on including expanding their presence outside Java with higher growth potential, although they are still cautious on expansion plans and locations.
- Product diversification** is another focus area for management. The companies must adapt quickly to the changing consumer behaviour and produce more products and services which are currently in high demand such as consumer or processed foods, personal care or hygiene products, and health related products. They should undertake portfolio or adjustments regularly to make sure they have the right products at the right time.
- Operational flexibility** is also important in order to quickly react to the current economic situation, new regulations, and shift in consumer behaviour.
- Supply chain security, sales penetration, customer experience and ESG (sustainability) are other areas to focus on.

## Indonesia Consumer: Implications on behavior and companies due to COVID-19

## SECTION 5: INDONESIA CONSUMER COMPANIES

Company	Last price (local curr.)	TP	Rating	Upside/ downside	Market cap (USD mn)	PE 20F (x)	PE 21F (x)	EV/EBITDA 20F (x)	EV/EBITDA 21F (x)	ROE 20F (%)	ROE 21F (%)	P/B (x)	P/S (x)	Div yield (%)	Net debt/ equity (%)
<b>Indonesia - Home and Personal Care (HPC)</b>															
Unilever Indonesia	8,200	7,000	FV	-15%	21,194	41.3	39.3	28.0	26.6	138.7	136.1	57.3	7.0	2.4	29.0
Kino Indonesia	3,180	3,300	H	4%	308	16.5	14.5	9.9	8.8	10.0	10.5	1.6	0.9	3.0	24.0
<i>Simple avg.</i>						<b>28.9</b>	<b>26.9</b>	<b>19.0</b>	<b>17.7</b>	<b>74.3</b>	<b>73.3</b>	<b>29.5</b>	<b>4.0</b>	<b>2.7</b>	<b>26.5</b>
<b>Indonesia - Food and Beverage</b>															
Indofood CBP Sukses Makmur	10,100	11,600	B	15%	7,980	19.9	18.6	11.3	10.1	20.1	18.7	4.0	2.6	1.8	NC
Indofood Sukses Makmur	7,200	9,800	B	36%	4,283	12.1	11.1	6.4	5.9	12.9	13.2	1.6	0.8	4.1	13.2
Mayora Indah	2,250	-	NR	-	3,408	22.4	21.4	13.5	12.5	21.4	19.4	4.7	2.1	1.4	28.5
Delfi Ltd	0.72	0.98	B	36%	321	16.4	12.9	6.1	5.1	8.5	10.4	1.4	0.8	4.5	NC
<i>Simple avg.</i>						<b>17.7</b>	<b>16.0</b>	<b>9.3</b>	<b>8.4</b>	<b>15.7</b>	<b>15.4</b>	<b>2.9</b>	<b>1.6</b>	<b>3.0</b>	<b>20.9</b>
<b>Indonesia - Poultry</b>															
Charoen Pokphand Indonesia	6,225	3,800	FV	-39%	6,916	36.7	24.3	21.2	15.4	12.8	17.6	4.6	1.8	1.5	9.5
Japfa Comfeed Indonesia	1,115	1,200	H	8%	886	12.4	7.3	6.7	4.9	9.4	14.6	1.1	0.4	1.8	35.6
Malindo Feedmill	620	-	NR	-	94	22.1	10.1	8.0	5.9	3.0	6.3	0.7	0.2	1.3	86.6
Japfa Ltd	0.62	0.82	B	32%	934	10.6	8.1	6.0	5.0	9.2	10.8	0.9	0.2	1.6	43.1
<i>Simple avg.</i>						<b>20.5</b>	<b>12.5</b>	<b>10.5</b>	<b>7.8</b>	<b>8.6</b>	<b>12.3</b>	<b>1.8</b>	<b>0.7</b>	<b>1.6</b>	<b>43.7</b>
<b>Indonesia - Retailers</b>															
Matahari Department Store	1,285	1,460	H	14%	229	nm	5.9	8.1	1.6	nm	31.2	2.2	0.9	-	NC
Mitra Adi Perkasa	690	750	H	9%	776	nm	27.3	4.6	3.1	nm	6.5	1.9	0.7	-	3.5
Ace Hardware Indonesia	1,615	-	NR	-	1,877	32.7	25.2	24.3	18.7	17.2	19.7	5.5	3.8	1.6	NC
Ramayana Lestari Sentosa	650	-	NR	-	312	34.9	13.1	5.9	3.8	3.1	8.1	1.1	1.2	5.5	NC
Erajaya Swasembada	1,765	-	NR	-	381	24.1	14.0	9.0	6.6	4.8	7.5	1.1	0.2	1.4	42.8
Sumber Alfaria Trijaya	720	-	NR	-	2,026	27.3	22.2	9.5	8.9	14.8	18.5	4.5	0.4	0.6	15.2
Sarimelati Kencana	645	-	NR	-	132	31.7	10.7	7.3	4.2	4.6	14.3	1.5	0.5	5.0	NC
<i>Simple avg.</i>						<b>30.1</b>	<b>16.9</b>	<b>9.8</b>	<b>6.7</b>	<b>8.9</b>	<b>15.1</b>	<b>2.5</b>	<b>1.1</b>	<b>2.0</b>	<b>20.5</b>
<i>Indonesia avg.</i>						<b>24.1</b>	<b>16.8</b>	<b>10.9</b>	<b>8.6</b>	<b>19.4</b>	<b>21.4</b>	<b>5.6</b>	<b>1.4</b>	<b>2.2</b>	<b>30.1</b>

Source: Bloomberg Finance L.P., DBSVI, DBS Bank (data as of 19 Aug 2020)

## Rating

B : BUY  
H : HOLD  
FV : FULLY VALUED

## Indonesia Consumer: Implications on behavior and companies due to COVID-19

### Investment Strategy

#### Preference for staples and value amid murky outlook, tepid sentiment.

Synthesising the various factors, ranging from consumer surveys, macro as well as company level interviews, the immediate outlook is likely to remain murky and consumer sentiment tepid. We prefer consumer F&B staple plays. For household and personal care products, demand is likely to stay relatively resilient though valuations are not attractive vis-à-vis growth. We would avoid retail and food service companies for time being, given the challenges in the immediate term.

**Stock picks.** Our picks currently are within the F&B staple plays, which we believe offers earnings stability, coupled with reasonable valuation. We like both **Indofood Sukses Makmur (INDF)** and **Indofood CBP Sukses Makmur (ICBP)** on this theme. For pure branded consumer play, ICBP is preferred, though on a valuation perspective, INDF offers better value at 12x FY20F PE. Currently, its holding company discount is at 40%, close to its 5-year historical low. Given its pure play quality, ICBP is generally preferred, but we urge investors to look at INDF as a proxy when holdco discount is beyond 40%. We also like **Delfi Ltd (DELFI)**, listed in Singapore, for its attractive valuation.

#### DBS Coverage Indonesia Consumer sector valuation



Source: Bloomberg Finance L.P., DBSVI, DBS Bank estimates

#### Stocks

**Indofood CBP Sukses Makmur [ICBP IJ, BUY; TP: Rp11,600].** We expect the company to continue to deliver a strong operational performance in 2H20 despite challenges caused by the COVID-19 pandemic. Robust demand for instant noodles and food seasonings products, as more people stay home, will offset weaknesses in other segments. Furthermore, we expect margin expansion to continue in 2H20, given ICBP's market leadership in the instant noodles segment and lower material costs. Valuations are attractive at c.18x FY21F price-to-earnings (PE), which is below its 10-year historical mean PE of 22x, providing investors an opportunity to accumulate.

*Link to report: [Indofood CBP Sukses Makmur: Buoyed by robust demand amid COVID-19](#) (4 Aug 2020)*

**Indofood Sukses Makmur [INDF IJ, BUY; TP: Rp9,800].** INDF offers exposure to ICBP at attractive valuation. The company's shares are now trading at c.11x FY20/21F price-to-earnings (PE) which looks very attractive. This is below its 10-year historical mean PE of 16x; and at a c.40% discount to its SOP valuation. ICBP contributes c. 90% to INDF's SOP value. Despite the volatility of its agribusiness, it only accounts for c.2% of our SOP valuation for INDF.

*Link to report: [Indofood Sukses Makmur: Better play with cheaper valuation](#) (5 Aug 2020)*

**Delfi Limited [DELFI SP, BUY; TP: S\$0.98].** Despite the COVID-19 pandemic, which led to lower than expected 1H20 earnings, Delfi's outlook remains positive with growth drivers intact led by its premiumisation strategy along with rejuvenation of the Van Houten brand. Although Indonesia's lockdown has resulted in substantially weaker y-o-y sales in April and May, we believe the worst is likely over as lockdown measures ease, barring a second wave of infections. Delfi's valuations are attractive at 13.2x FY21F PE, which is -1.5 SD below its 4-year historical mean and a discount to its Indonesian-focused peers' c.18-21x FY21F PE.

*Link to report: [Delfi Ltd: The deal remains sweet](#) (13 Aug 2020)*



## Indonesia Consumer: Implications on behavior and companies due to COVID-19

### Summary of sub-sector view

Sub-sector	DBS comments	Stocks	Link to reports
<b>Home and Personal Care</b>	Neutral Demand for hygiene and personal care products bodes well, though valuation for Unilever does not look attractive vis-à-vis growth.	UNVR IJ (FV) KINO IJ (HOLD)	<a href="#">Unilever Indonesia: Impacted by COVID-19</a> (1 Aug 2020) <a href="#">Kino Indonesia: Gradual recovery expected</a> (28 Jul 2020)
<b>Food and Beverage</b>	Overweight Stable earnings profile, reasonable valuation and low gearing/ net cash. Top pick is INDF given its holdco discount, and a cheaper proxy into ICBP.	INDF IJ (BUY) ICBP IJ (BUY) DELFI SP (BUY)	<a href="#">Indofood CBP Sukses Makmur: Buoyed by robust demand amid COVID-19</a> (4 Aug 2020) <a href="#">Indofood Sukses Makmur: Better play with cheaper valuation</a> (5 Aug 2020) <a href="#">Delfi Ltd: The deal remains sweet</a> (13 Aug 2020)
<b>Poultry</b>	Neutral Broiler and DOC prices are volatile. Broiler price has retreated further to about Rp16,000/kg in mid Aug, from about Rp18,500/kg in July, after touching a high of Rp23,500/kg in June. That said, we do not envisage a weak quarter like that seen in 2Q20, but stable prices would provide more certainty. Our pick is Japfa Ltd.	CPIN IJ (FV) JPFA IJ (HOLD) JAP SP (BUY)	<a href="#">Charoen Pokphand Indonesia: Lifted by stable margins</a> (3 Aug 2020) <a href="#">Japfa Comfeed Indonesia: 2Q20 swings into the red</a> (30 Jul 2020) <a href="#">Japfa Ltd: Buoyed by swine and dairy operations</a> (30 Jul 2020)
<b>Retail</b>	Underweight While retailers have corrected and we should have seen the worst quarter due to the lockdown in 2Q, the recovery pace is likely patchy at this juncture. We continue to be cautious.	LPPF IJ (HOLD) MAPI IJ (HOLD)	<a href="#">Matahari Department Store: No Lebaran boost this year</a> (3 Aug 2020) <a href="#">Mitra Adiperkasa: Turnaround may take time</a> (7 Aug 2020)

Source: DBSVI, DBS Bank estimates

**Indonesia Consumer: Implications on behavior and companies due to COVID-19**
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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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