

Indonesia Infrastructure

EQUITY: ENGINEERING & CONSTRUCTION

Marginal infra budget squeeze

Mere 7% cut in the infra budget

The Indonesia government increased the National Economic Recovery (Pemulihan Ekonomi Nasional/PEN) budget by +69% to IDR628tn (3.6% of the GDP) from the initial budget of IDR372tn, surpassing the IDR580tn of realization in 2020. The incremental PEN budget has resulted in market concerns over the budget refocusing and reallocation in some areas, including for the infrastructure sector (in 2021, following the outbreak of the pandemic, the government had cut the infra budget which happened in 2020 by IDR138tn [-33%]).

According to some of the Ministry of Finance (MoF) officials we spoke to, 2021 is going to be different as the government will push for economic growth through social spending and capex. As a result, **despite IDR250tn likely hike in the PEN budget in 2021, the infra budget cut will only be 7% (IDR30tn), still up 38%y-y and flat vs. 2019 level.** Overall, we believe there is a win-win fiscal scenario: more stimulus, minimum debt raising and infra sector budget cut, and more positive impact on economic growth. The market is riding on the current global economic fiscal boost that will have less currency pressure when a decade-long current account deficit turned into a surplus recently, in our view.

We maintain our positive view on Indonesia infra plays (cement and contractors) and maintain our Buy rating for SMGR IJ (Buy), INTP IJ (Buy), ADHI IJ (Buy), WSKT IJ (Buy), WIKA IJ (Buy), PTTP IJ (Buy) as we expect a bigger budget in 2021, with faster realization (see *Bigger Faster*) that is positive for cement demand as well as new contract bookings and cash flow for contractors.

Bigger budget + faster realization

Reallocation and tax expenditure (loss of revenues from incentives) allow for higher PEN budget with constant fiscal deficit. The **infra budget cut is minimum at only IDR30tn (-7%) to IDR387tn from IDR417tn and still +38%y-y or flat vs. 2019 level. At the ministry level (Public Works and Transportation Ministry), the budget reallocation <IDR20tn (-9% cut), and still +70%y-y or +16%y-y higher than 2019 levels.** Importantly, the budget cut will mainly target operational costs (i.e., office, travel, etc.) as the **government capex remains unchanged at IDR247tn (+82%y-y).**

Notwithstanding the significantly bigger budget set for 2021, the government has started spending the budget early from January. As seen in Jan-21, the **government expenditure rose 32%y-y, with notable realization of government capex that grew five-fold (y-y) with 5% realization vs. the usual norm of 1% realization in January.** This shows that early budget acceleration as stated by the government has already begun and is positive for cement demand and early new contracts booking for contractors.

Further capital injection likely for infra-SOEs

Further use of PEN budget will also target for higher capital injection for some state-owned enterprises (SOEs) to accelerate post-pandemic recovery and/or improve its capital structure. In 2020, the government investment reached IDR257tn, a five-fold increase vs. 2019, that includes PEN financing and some investment in pandemic-hit SOEs like Garuda (airplane; unlisted), KAI (train; unlisted), and Krakatau (steel; unlisted). The initial budget for government investment is lowered to IDR185tn for 2021, but given current requirements, the government has a plan to raise this further as the PEN budget is also larger, with a focus on infra-SOEs (i.e. Hutama Karya (unlisted) and other contractors) to accelerate and finish projects on time by 2024.

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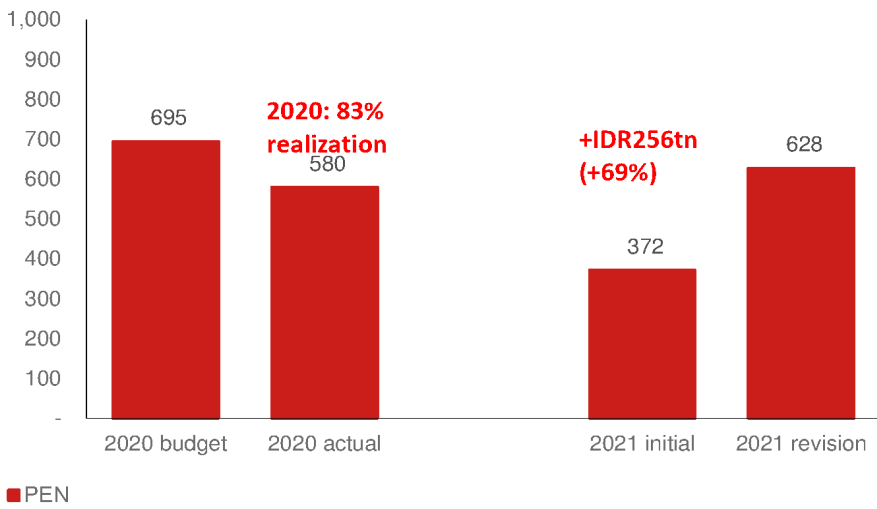
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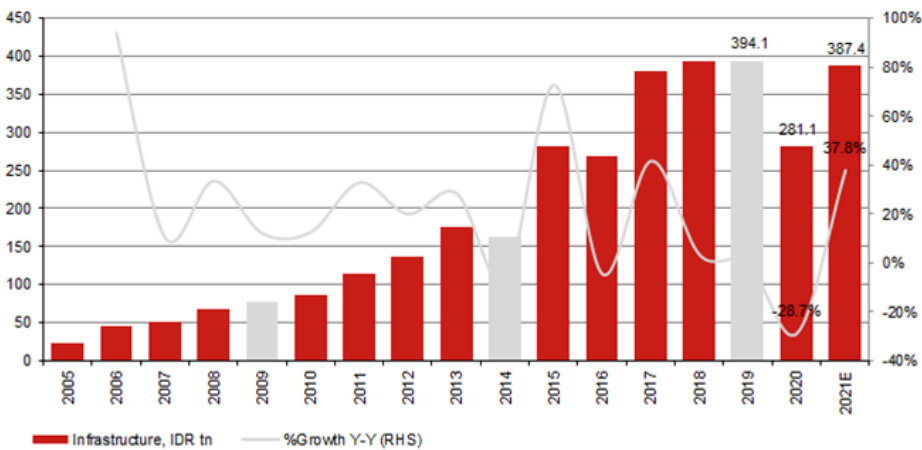
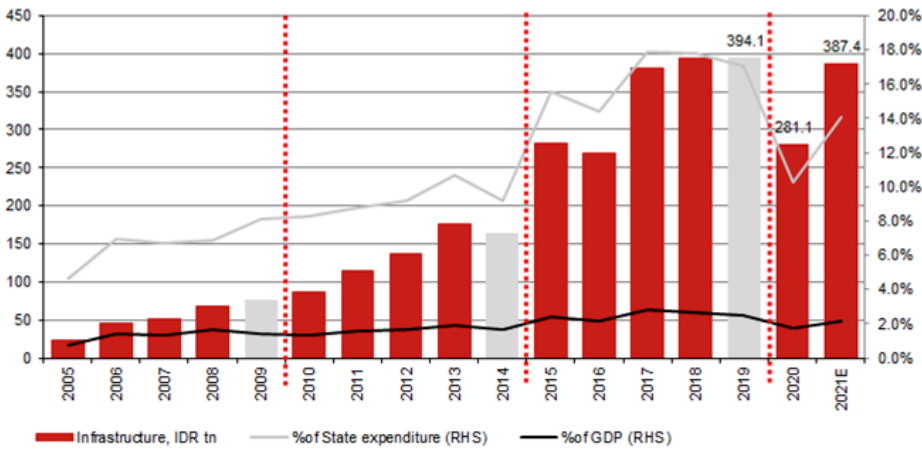
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Fig. 1: PEN budget in 2021F will increase by 69%, surpassing 2020 level



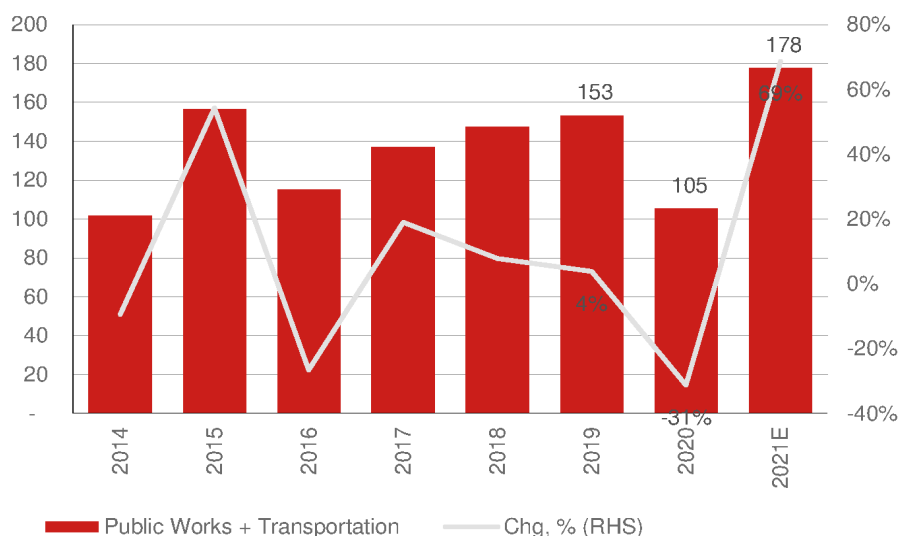
Source: Ministry of Finance

Fig. 2: Mere infra budget cut by only 7%, still up 38% and flat to 2019



Source: Ministry of Finance

Fig. 3: Ministry of Public Works and Ministry of Transportation budget still up significantly in 2021



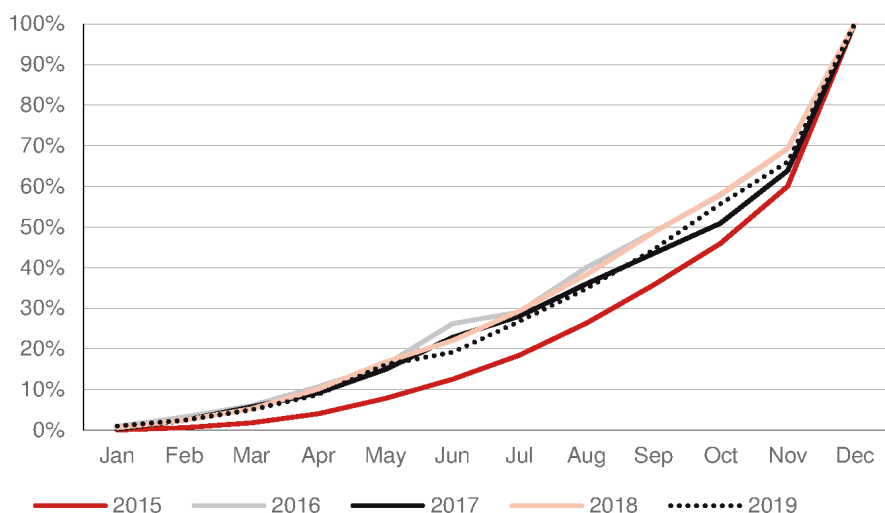
Source: Ministry of Finance

Fig. 4: Government spending acceleration begun early in Jan-21 with five-fold capex growth...

	Jan-20	%FY20	Jan-21	%FY21E	y-y, %
Gov't expenditures	140	5.1	146	5.3	4.2
Central gov't expenditures	72	3.6	95	4.7	32.4
Ministry	31	3.7	48	4.7	55.6
Personnel	13	4.9	13	4.7	0.8
Goods	3	1.2	4	1.0	7.2
Capex	2	1.4	12	4.8	539.4
Social	13	7.7	20	12.8	51.4
Non-Ministry	41	3.6	47	5.1	14.8

Source: Ministry of Finance

Fig. 5: Government capex already at 5% realization in Jan-21 vs. usual norm of only 1%



Source: Ministry of Finance

Fig. 6: Higher government capital injection likely in 2021, especially for infra companies

Government investment and capital injection, IDR tn	2016	2017	2018	2019	2020	2021E
Capital injection (PMN) to SOE	50.5	6.4	3.6	17.8	31.5	37.4
Sarana Multigriya Finansial	1.0	1.0	-	0.8	1.8	2.3
Hutama Karya	2.0	-	-	10.5	11.0	6.2
PLN	23.6	-	-	6.5	5.0	5.0
Pelindo III	-	-	-	-	-	1.2
Kawasan Industri Wijayakusuma	-	-	-	-	-	1.0
Others	23.9	5.4	3.6	-	13.7	21.7
Investment in Other Institutions/BLU	41.4	53.4	57.5	34.4	49.7	66.6
Land Bank (LMAN)	16.0	32.1	31.2	12.0	-	11.1
Government Investment					19.7	10.0
Garuda Indonesia					8.5	
Kereta Api Indonesia					3.5	
Perum Perumnas					0.7	
PTPN III					4.0	
Krakatau Steel					3.0	
PEN regional debt						10.0
Other Investment					160.3	70.4
Financing for PEN					113.9	33.0
Financing for Education					46.4	37.4
TOTAL INVESTMENT	91.9	59.8	61.1	49.4	257.1	184.5

Source: Ministry of Finance

Appendix A-1

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