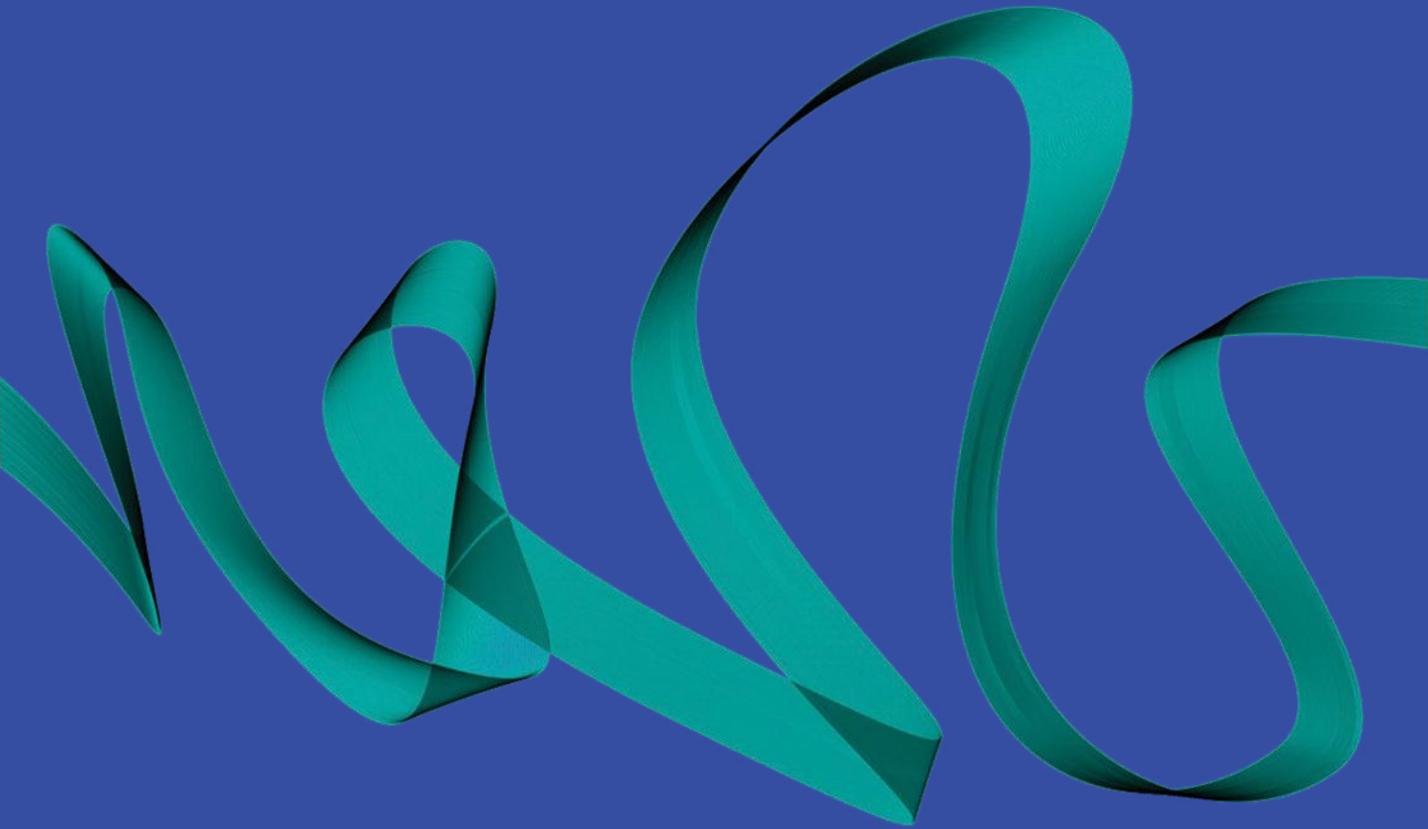




Automotive Parts Industry in Indonesia



Ipsos Business Consulting

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contents

Automotive parts background	3
Indonesia's automotive parts market	3
Indonesia's population pyramid & human development index (HDI)	4
Indonesia's automotive market overview	4
Indonesia's car production and sales	5
Indonesia's motorcycle production and sales	6
Top ten vehicle manufacturers sold in Indonesia for 2012	7
Indonesia's automotive manufacturing production capacity	7
Indonesia's automotive components market overview	8
Indonesia's automotive component industry cluster	9
Indonesia automotive component production	10
Indonesia's automotive component export destinations	10
Indonesia's minimum wage and gross domestic product per capita (PPP)	11
Government policies and regulations regarding the automotive component industry	11
Government investment plan through MP3EI program	12
Government investment plan-infrastructure	13

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December 2013

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Automotive parts background

The automotive industry in Indonesia has suggestively increased during the past several years with more and more people investing in 2 and 4 wheel vehicles used as a primary mode of transportation for many individuals and families in Indonesia. According to the Indonesia Investments website (www.indonesia-investments.com), car sales for the first six months of 2013 have topped the 500,000 sales mark and strong sales numbers are expected for the remainder of 2013.

During the past 5 years, automotive sales totalled a staggering amount of more than 4 million vehicles sold in Indonesia alone. Experts in the automotive sales industry are predicting similar sales numbers for 2014 and beyond. No doubt the automotive parts industry is bound to see significant increases in demands for replacement parts during the next couple of years as older model vehicles begin to show signs of wear and tear.

Indonesia's automotive parts market

During the past several years, the automotive parts market in Indonesia has seen a significant increase in demand due in large part to the rising middle class throughout the entire country. Poor public transportation systems have forced people to invest in their own form of transportation and other market place actions has afforded more and more people the opportunity to own a vehicle. There are some drawbacks to purchasing a newer model automobile in Indonesia which is forcing people to seek out automotive parts to repair older modelled vehicles versus buying a newer modelled vehicle in the marketplace.

Let's take a look at some of the key drivers and major barriers the automotive parts industry may be dealing with in the current Indonesian markets:

Key Driver	Major Barrier
<ul style="list-style-type: none"> Economic improvements in Indonesia are contributing to a rising middle class throughout the entire country. This is allowing more and more people the ability for vehicle ownership. People are looking to invest in their own personal vehicle- either a 2 or 4 wheel vehicle. They are looking to get something of their own due to the lacklustre public transportation systems throughout Indonesia. According to the Ministry of Finance, the MP3EI (master plan of acceleration and expansion of Indonesia's economic development) will reach IDR 546 trillion in 2013. This is allowing for major economic development throughout the entire country with a younger workforce earning larger salaries, allowing for the investment in automobiles. In 2015, the ASEAN economic community will expand its automotive market beyond domestic boundaries for the first time. 	<ul style="list-style-type: none"> As Indonesia's government continues to reduce fuel-subsidy in the state budget, there will continue to be an increase in subsidised fuel prices. In 2012, Central Bank made a decision to set minimum down-payments for vehicles purchased at 30%. The growth for better roadway systems in Indonesia's major cities has been suspended due in large part to worsening traffic conditions. For those working in the genuine automotive parts market sector and the after-market automotive parts sector, there has been a lot of pressure placed on them by counterfeit automotive products coming in from overseas manufacturers.



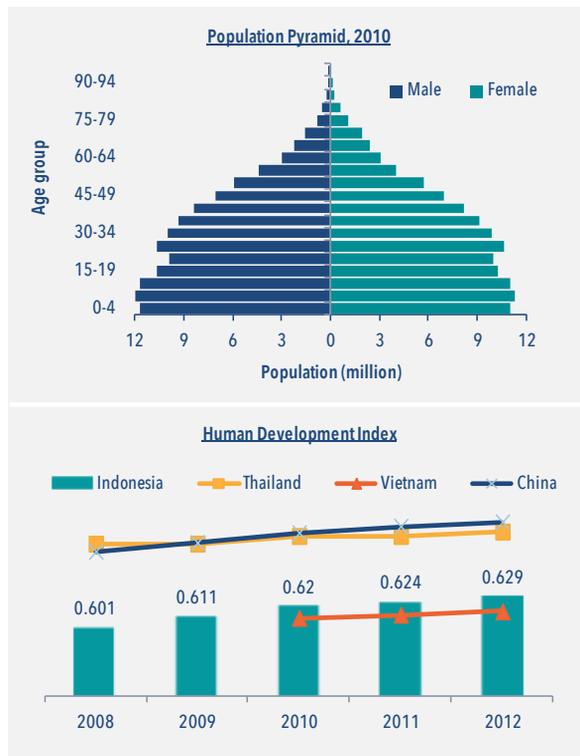
Source: *MP3EI whitepaper: http://www.ekon.go.id/media/filemanager/2011/07/06/m/p/mp3ei-english_final.pdf

Indonesia's population pyramid & human development index (HDI)

Indonesia Automotive Parts Market Potential

The younger generation in Indonesia is certainly going to be a major determining factor in helping investors to better understand the full potential of the current and future automotive parts market in Indonesia. With both an increasing youth population in the country and an increasing HDI happening in Indonesia today, this shows that there are signs of significant market potential for the automotive parts industry in Indonesia.

Young population and increasing HDI poses significant market potentials



- The population in Indonesia has grown to more than 250 million people in 2012 and continues to rise at an increasingly rapid rate. Currently more than 50% of that population are between the productive ages of 20-54 years old.
- The larger youth population in Indonesia will more than likely have a larger earning income and thus larger spending habits than other age groups in the country. This trend also reveals their need for a personal vehicle, which significantly increases the potential automotive parts market.
- Another major factor includes the fact that the Human Development Index (HDI) in Indonesia shows that Indonesia's HDI has increased for the past 5 years which points to improvements in the overall condition of the people living in the country. This takes into account factors like life expectancy, educational attainment and income.

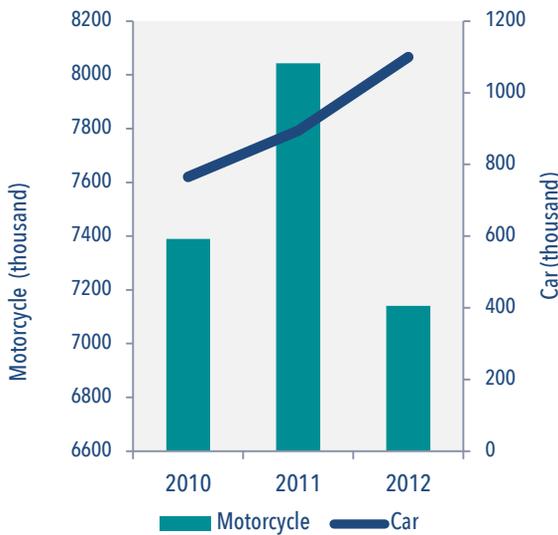
Source: Indonesia's Central Bank, World Bank, Central Bureau of Statistics, Ipsos Analysis

Indonesia's automotive market overview

Indonesia's Vehicle Sales 2012

The automotive industry in Indonesia is growing rapidly, with new vehicle sales numbers from 2012 reaching over 8 million units sold in total. New milestones are currently being set in Indonesia, with the Indonesian automotive market being one of the fastest growing markets in the world! Indonesia is also one of the key production/manufacturing bases for some of the largest auto makers in the world including Honda, Daihatsu and Toyota.

Indonesia's Vehicle Sales



Source: GAIKINDO (Association of Indonesian Automotive Industries), AISI (Indonesia Motorcycle industry association)

- Indonesia's sales volume of new vehicles in 2012 for cars topped 1.1 million whilst motorcycles reached more than 7 million units sold. Indonesia's automotive industry is home to the fastest-growing market in the world. With sales seen so far in 2013, it's on pace for even better numbers than in 2012.
- With more than 1.1 million units sold in 2012, car sales in Indonesia reached a new milestone. Motorcycle sales, however, saw quite a significant drop in sales from 2011 to 2012. This was due in large part to the new regulation set by the central bank for minimum down-payment requirements for the purchase of new vehicles.
- What you may not realise is that Indonesia is also a major production base for international car makers from around the world including some of the worldwide leaders like Honda, Toyota and Daihatsu. It was estimated that in 2012 alone, exports of new automobiles reached nearly 200,000 with expected export volume to reach more than 30% of total production by 2017!

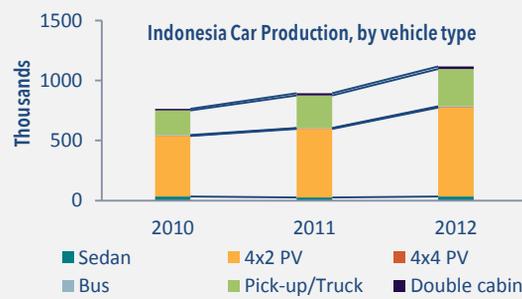
Indonesia's car production and sales

Indonesia's Car Sales by Vehicle Type

The Indonesian automobile industry is dominated mostly by family oriented vehicles. There are other types of vehicles that happen to pique the interest of the Indonesian consumer but as you can see by the charts provided, more of the vehicle types sold in the country are typical 4x2 family friendly vehicles with pick-up trucks coming in second.



- Indonesia's car industry is dominated with the 4x2 family vehicles with more than 66% of consumers investing in this model vehicle whilst 30% of the consumers are investing in the pick-up truck.
- Typically Indonesian consumers are interested in investing in a 4x2 family car which can accommodate seating for 5 or 7 passengers as generally speaking this type of vehicle is more spacious and can easily accommodate consumers that want to travel in larger groups.
- Pick-up trucks are usually used for logistic transportation when the area needed to be reached is inaccessible by larger sized trucks due to road size or some other transportation issues.
- In Indonesia, a sedan is thought of more as a luxury vehicle and the usage of this type of vehicle is limited in major cities and urban areas.
- Most of the 4x2 family vehicles and pick-up trucks are assembled in Indonesia, but sedans and other luxury vehicles are still being imported either CKD (completely knocked-down) or CBU (completely built-up).

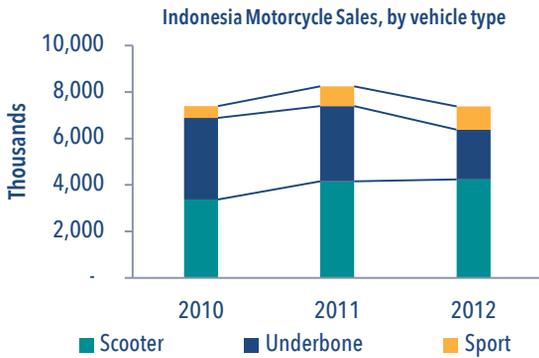


Source: GAIKINDO

Indonesia's motorcycle production and sales

Indonesia's Motorcycle Sales by Vehicle Type

The motorcycle market in Indonesia has noticed a shift in demand since 2010 with the scooter becoming the most popular type of motorcycle vehicle purchased in the country. Overall, the entire motorcycle industry has begun a rapid decline since 2012 with automobiles quickly growing in popularity and affordability.



Source: AISI

- The Indonesian motorcycle market has seen a shift in demand since 2010. In that year the 'underbone' motorcycle type dominated the marketplace with more than 60% of these types of motorcycles being sold on the market that year.
- Starting in 2011, the 'scooter' motorcycle starting to close the gap. In 2012, to a lot of industry leaders' surprise, the 'scooter' surpassed the 'underbone' motorcycle to become the market leader that year.
- Indonesian consumers preferred the 'scooter' as it was easier to handle and they possessed an automatic transmission in comparison the 'underbone' which has a semi-automatic transmission. Another factor for the increased popularity of the 'scooter' includes the increased cost of fuel in Indonesia. Consumers had the perception that the scooter was a more fuel-efficient vehicle.
- The other category shown in the graphic included the 'sport' motorcycle, which also grew in sales numbers in 2012.
- The main factor in this graphic, though, indicates that the sales and production of all motorcycles during 2012 decreased due in large part to the new regulations on minimum down payments that were implemented by the central bank in Indonesia for consumers to purchase automobiles in the country.

Top ten vehicle manufacturers sold in Indonesia for 2012

Cars and Pick-Up Trucks			Motorcycles		
Brand	Sales Volume (unit)	Market Share (%)	Brand	Sales Volume (unit)	Market Share (%)
Toyota	333,991	36.18	Honda	4,092,693	57.31
Daihatsu	135,546	14.68	Yamaha	2,433,354	34.07
Mitsubishi	124,446	13.48	Suzuki	465,630	6.52
Suzuki	103,357	11.21	Kawasaki	131,657	1.84
Nissan	56,667	6.13	TVS	18,252	0.26
Honda	55,550	6.01			
Hino	28,898	3.13			
Isuzu	28,359	3.07			
Kia	10,783	1.16			
Mazda	10,073	1.09			

Source: GAIKINDO, AISI

Indonesia's automotive manufacturing production capacity

Cars and Pick-Up Trucks		Motorcycles	
Company	Production capacity, 2012	Brand	Production capacity, 2012
Astra Daihatsu Motor	330,000	Honda	4,800,000
Suzuki Indomobil	140,000	Yamaha	3,700,000
Toyota Motor Mfg	120,000	Suzuki	1,000,000
Krama Yuda Tiga berlian (Mitsubishi)	120,000	Kawasaki	100,000
Honda Prospect Motor	72,000	TVS	300,000
Isuzu Astra Motor	51,000		
General Motors Indonesia*	40,000		
Nissan Motors Indonesia	35,000		
Hyundai Indonesia	27,000		

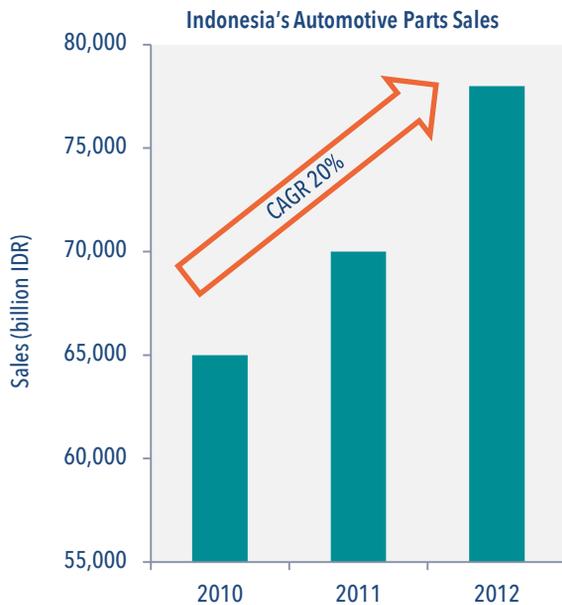
Note: * GM factory starts production in 2H 2013

Source: GAIKINDO, AISI

Indonesia's automotive components market overview

Indonesia's Automotive Parts Sales Potential

The automotive industry in Indonesia is going to continue to grow over the next couple of years. The evidence that the younger generation will continue to invest in vehicles is overwhelming and the need for automotive parts in the region will continue to increase over the next couple of years. As vehicles get older, routine maintenance and mandatory repairs will become necessary for vehicles to remain in drivable conditions.



Source: GIAMM (Association of Automotive Part and Component Industries)

- As the automotive industry in Indonesia continues to grow, there will be a direct impact on other supporting industries in the country including the automotive components industry which provides auto makers with the necessary components to assemble vehicles.
- By the end of 2012 it was estimated that the automotive components industry market totalled a combined \$8.2 billion USD or IDR 78 trillion.
- Major sub-components for the automotive component industry include:
 - Chassis and body assembly
 - Engine block and transmission assembly
 - Fast moving spare parts which includes brakes and clutch systems, batteries, filters, etc.
- The current conditions in Indonesia show that growth will remain strong with the automotive industry despite there being some potential barriers such as:
 - Price hikes in electricity
 - Government to cut/reduce fuel subsidy
 - Minimum wage increases

Indonesia's automotive component industry cluster

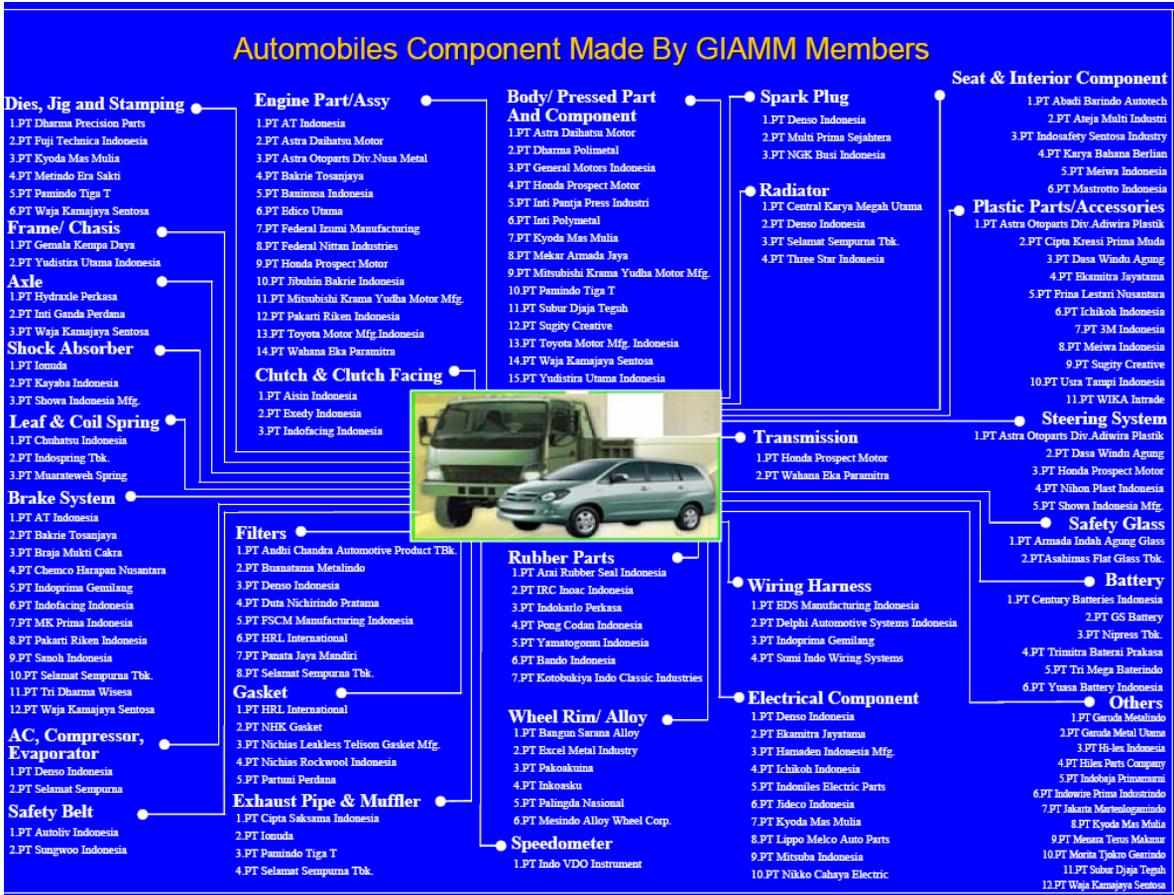
The automotive industry in Indonesia is centred on the West Java Region which consists of Banten, Jakarta and West Java provinces. However, there are a small number of other companies located in both Central and East Java.



Province	Banten	Jakarta	West Java	Central Java	East Java
Foreign Company	16	20	45	0	5
Domestic company	9	23	16	2	8
TOTAL	25	43	61	2	13

Source: Indonesia Investment Coordinating Board, GAIKINDO, AISI, GIAMM

Indonesia automotive component production



Note: GIAMM: Gabungan Industri Alat Mobil dan Motor, Association of car and motorcycle components producer

Indonesia's automotive component export destinations



Country	Value (USD)*
Thailand	466,074
Japan	451,950
Philippines	382,332
Saudi Arabia	378,708
Malaysia	284,401
Others	1,364,783

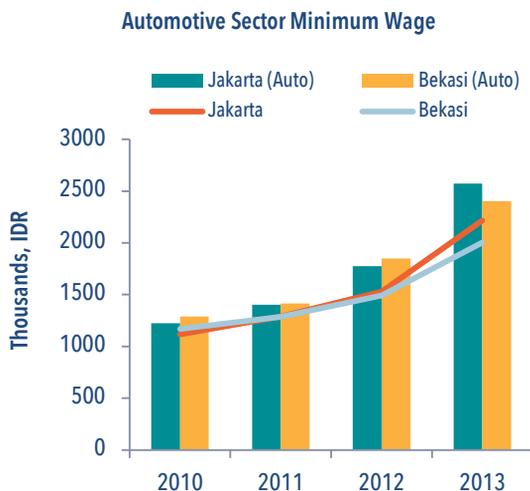
Note: * value based on 2011 data
Source: ITC Trade map, Ministry of Trade

(USD Thousand)

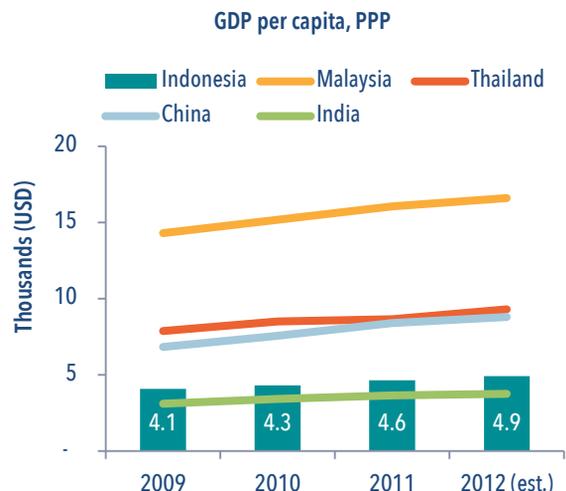
Indonesia's minimum wage and gross domestic product per capita (PPP)

Indonesia's Automotive Sector- Minimum Wage

The minimum wage factor for Indonesia's automotive industry is a very important factor to consider for those contemplating entering into the automotive parts industry in the country. Let's take a look at some key insights for both the automotive minimum wage sector and the key insights for the GDP per capita in Indonesia as well.



Source: Municipal government decree, Ministry of labor



Source: World Bank, IMF

Key Insights	Key Insights
<ul style="list-style-type: none"> ▪ The automotive sector in Indonesia is one of the few sectors regulated for minimum wages in each region of the country. ▪ On average, the automotive sector offers workers 15% higher wages than regular minimum wages that are set by municipal/ provincial government. ▪ The minimum wages of the automotive industry saw significant increases in 2013 with raises of 45% in Jakarta and 30% in Bekasi respectively. 	<ul style="list-style-type: none"> ▪ The GDP per capita (PPP, purchasing power parity) is a good method to compare generalised differences in living standards on the whole between nations. ▪ Indonesia offers investors one of the lowest GDP per capita compared to other countries, with the exclusion of India. ▪ This would indicate that Indonesia has one of the lowest costs of living in the world, but that would not be entirely accurate.

Government policies and regulations regarding the automotive component industry

- The regulation of the President of The Republic of Indonesia No. 28 Year 2008 Concerning National Industrial Policy
- The Government Regulation of the Republic of Indonesia No. 41 Year 2013 concerning "Low cost green car (LCGC)" which will regulate, among other things, the low cost green car to benefit the 0% luxury good VAT. LCGC is defined by the government as a spark-ignited motor vehicle with less than a 1200cc cylinder capacity with fuel consumption of 20 km per litre or more or a compression-ignited motor vehicle with less than 1500cc cylinder capacity with fuel consumption of 20 km per litre or more.

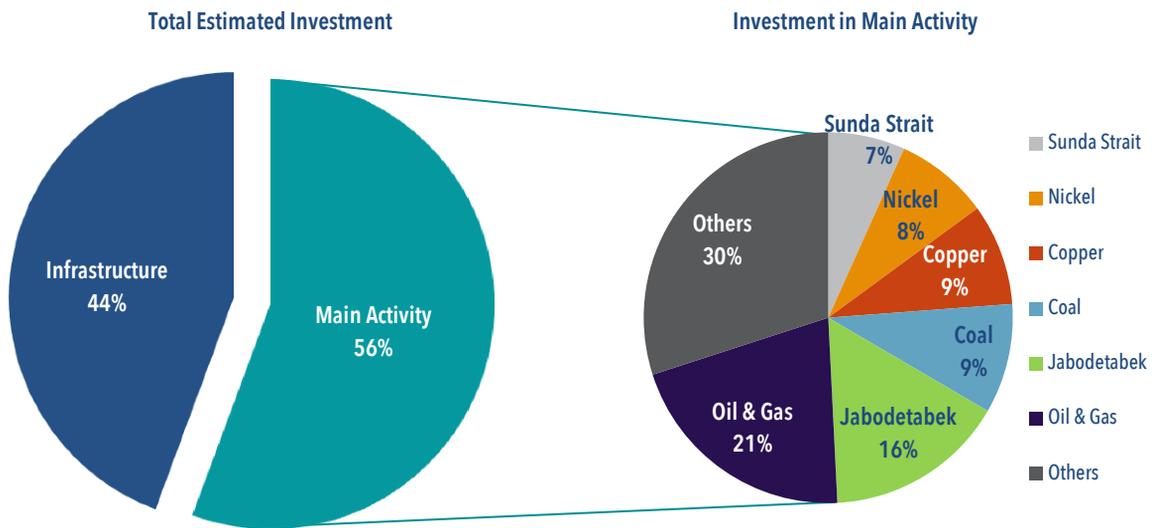
Further technical requirements will be released by the Ministry of Industrial Affairs.

- The automotive industry has reacted positively to the new regulations, stating that the incentives will help boost sales of motor vehicles in Indonesia.
- The government Regulation of the Republic of Indonesia No. 62 Year 2008 concerning the income tax exemption for investment for selected sectors and/or in certain regions.
- The Regulation of the Minister of Finance No. 107/PMK.011/2011 concerning Government-Exempted Tariffs on the Import of Goods and Materials for the Manufacture of Motor Vehicle Components Fiscal Year 2011
- Regulation of the Director General of Industry, Transportation Equipment and Telecommunications and Informatics No. 12/IATT/PER/03/2009 concerning The Procedure of Authorisation Stamping and the Allocation of Government-exempted Import Tariff on the Importation of Goods and Materials of Manufactured of Motor Vehicle Components, Manufacture of Electronic Components, Manufacture of Fibre Optic Cables and/or Telecommunications Equipment and the Manufacture and/or Maintenance of Ships.

Government investment plan through MP3EI program

The Government plan for Investments worth \$421.1 billion USD of which 44% will go to infrastructure projects in Indonesia

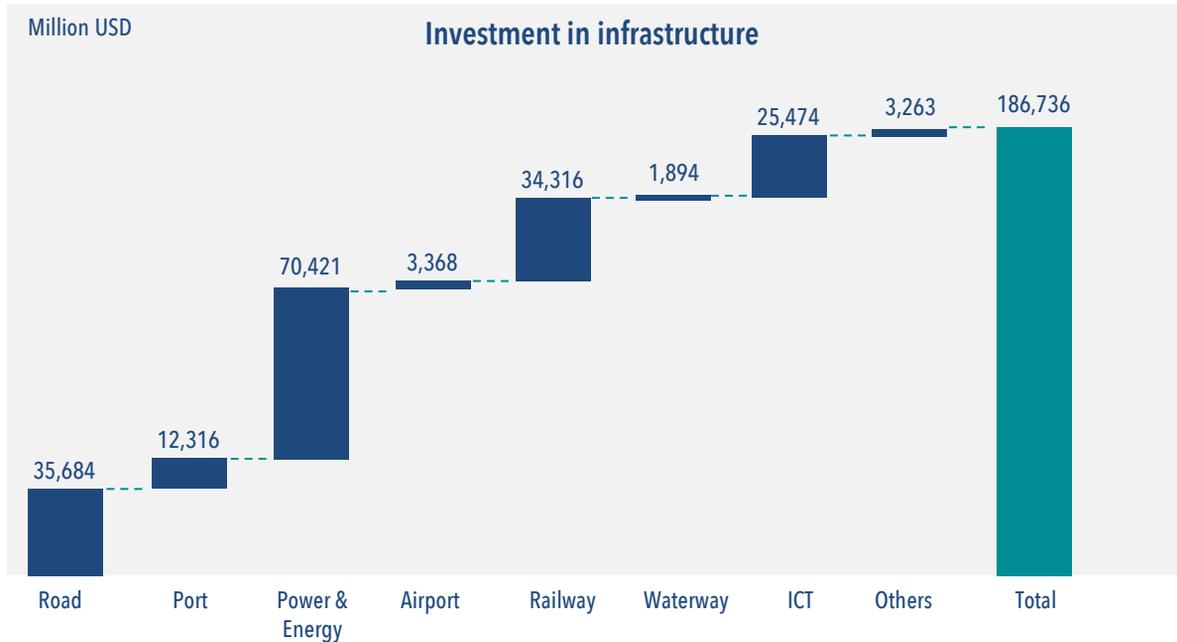
Indication of Investment



Source: Indonesia's Coordinating Ministry for Economic Affairs

Government investment plan-infrastructure

More than \$186 billion USD is planned for infrastructure projects in Indonesia with a major share going to the development of Power and Energy.



Source: Indonesia's Coordinating Ministry for Economic Affairs

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