

Maritime Indonesia 2008

Cabotage as key to domestic maritime trade

Four Seasons Hotel Jakarta
19 November 2008

Yoga Prakasa

Analyst

PT Danareksa Sekuritas

Cabotage: The regulation

- ▶ Exclusive rights to regulate traffic in one's own territories
- ▶ Reintroduced in Presidential Instruction No. 5 / 2005
- ▶ Instruction for 13 ministry and all municipalities to support cabotage principle
- ▶ Indonesian-flagged vessels exclusivity for:
 - ↳ Trade between domestic ports
 - ↳ Import procurement under state and municipal budget
- ▶ Reinforced in the new Shipping Law No. 17 / 2008

Goods regulated under the cabotage principle

No	Cargo Category	Deadline for Implementation
1	General cargo	18 November 2005
2	Wood and wood products	18 November 2005
3	Rice	18 November 2005
4	Fertilizer	18 November 2005
5	Cement	18 November 2005
6	Crude palm oil	1 January 2008
7	Mine and quarry	1 January 2008
8	Fresh produce	1 January 2008
9	Other grains	1 January 2008
10	Other chemicals	1 January 2009
11	Farming produce	1 January 2009
12	Oil and gas	1 January 2010
13	Coal	1 January 2010

SWOT analysis of the industry

STRENGTHS

- Geographical archipelago
- Capabilities of armada
- Domestic banks relatively shielded from subprime crisis

OPPORTUNITIES

- Resource rich nation
- Infrastructure projects
- Alternative financing → *Sukuk*
- **Cabotage** principle

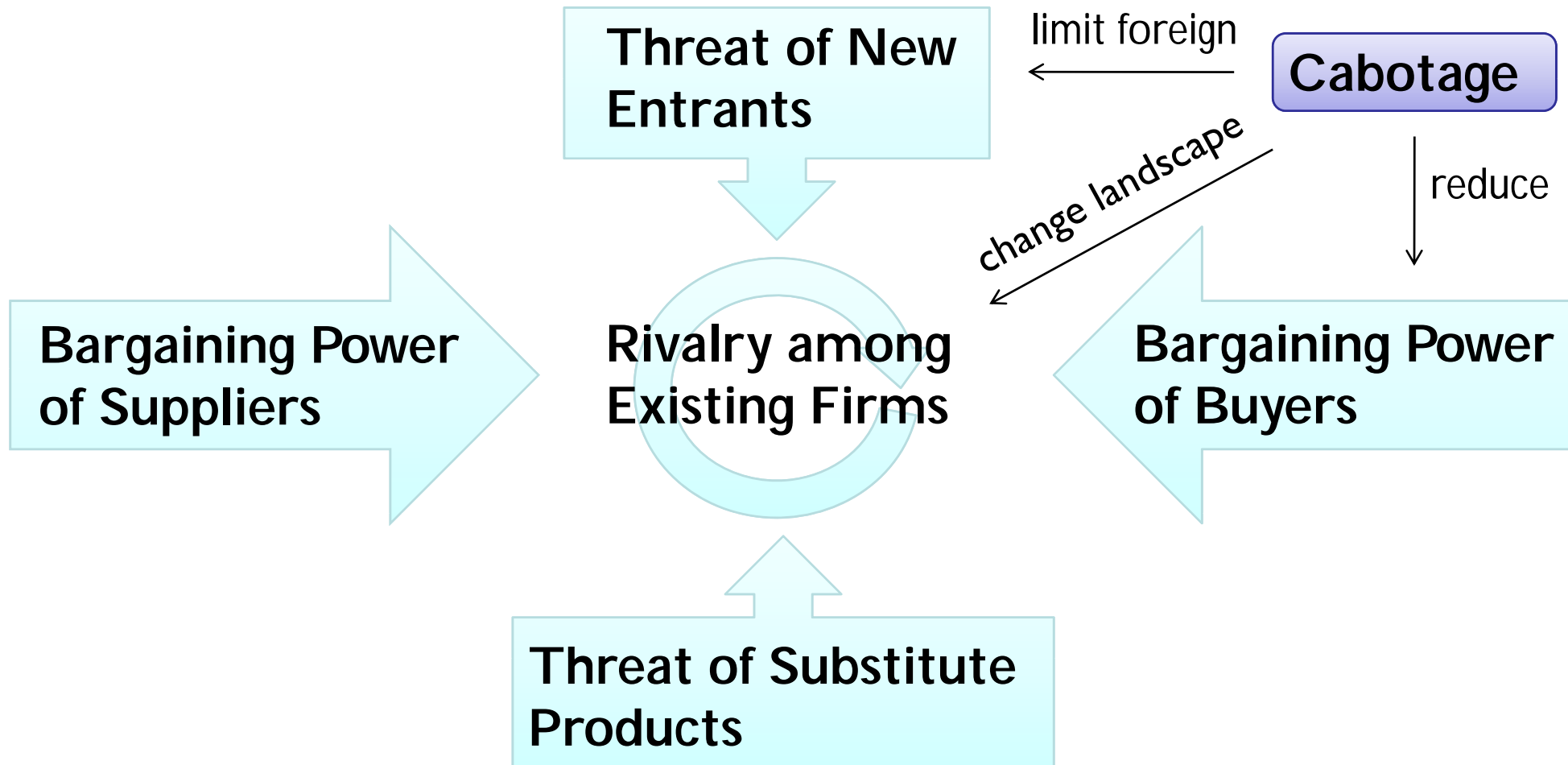
WEAKNESSES

- Fleet size
- Risk-return expectation from ship financing
- Higher bargaining power of consumers / charterers

THREATS

- Continued tight liquidity
- Not enough time → cabotage waiver
- Tightening human resources

Porter's five forces with cabotage introduced



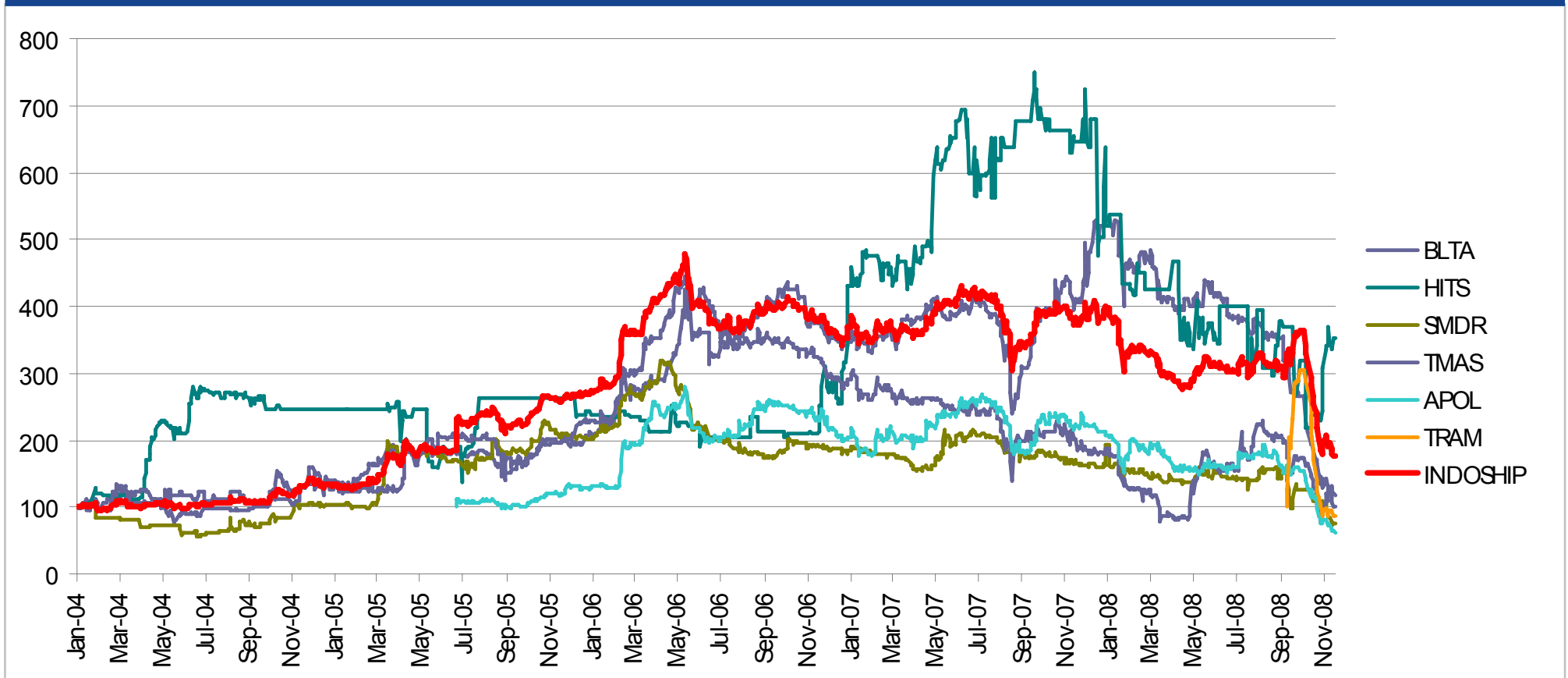
What the government can do to help

- ▶ **Encourage capital investment through policies:**
 - ↪ Streamlining ship registration
 - ↪ Provides tax incentives for lenders
 - ↪ Provides legal assurance in the event of asset execution
 - ↪ Provides incentives for long-term contract transactions

- ▶ **Temporary subsidies:**
 - ↪ Directly to shipping industry
 - ↪ Indirectly to industries impacted by higher transportation costs

Measuring shipping sector's listed companies (1/3)

Shipping sector hypothetical index against its constituents



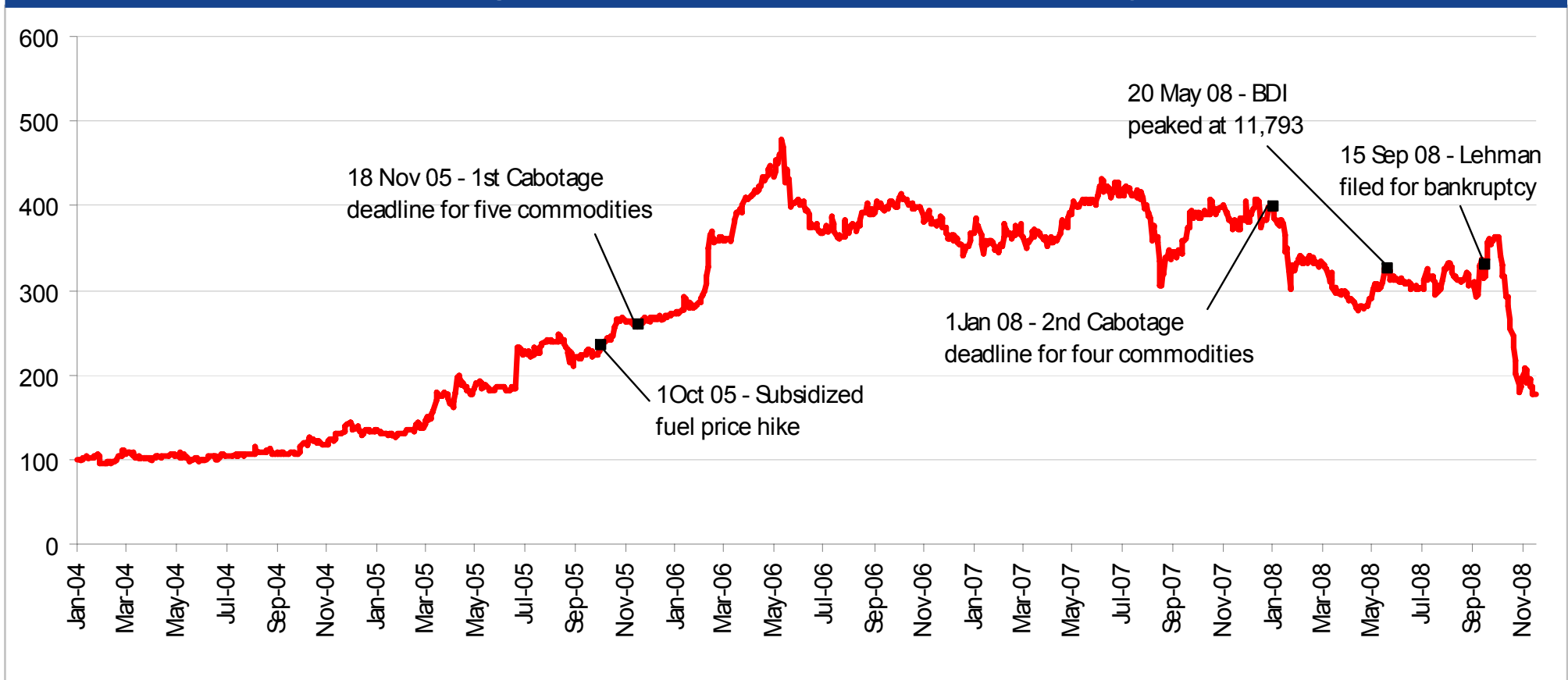
Source: Bloomberg

Measuring shipping sector's listed companies (2/3)

- ▶ **INDOSHIP**, a portfolio basket consisting of six shipping company shares
 - BLTA, HITS, SMDR, TMAS, APOL, and TRAM
- ▶ It is equally weighted
 - and simulation goes back to 1 Jan 2004
- ▶ Until 17 Nov 2008, **INDOSHIP** grew 73%
 - or some 15% annualized return

Measuring shipping sector's listed companies (3/3)

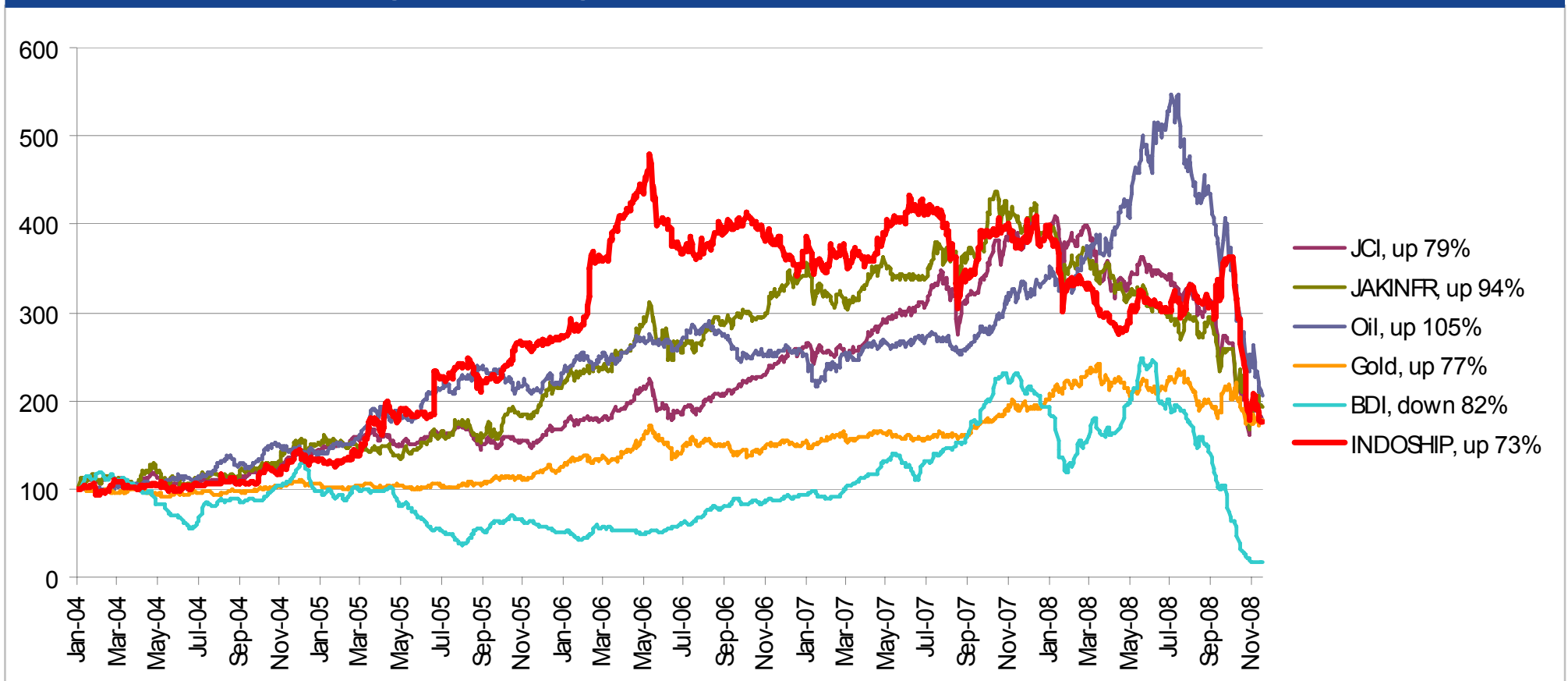
Shipping index movements in the past 4 years



Source: Bloomberg

Measuring against the benchmarks (1/2)

Shipping sector against commodities and market indices



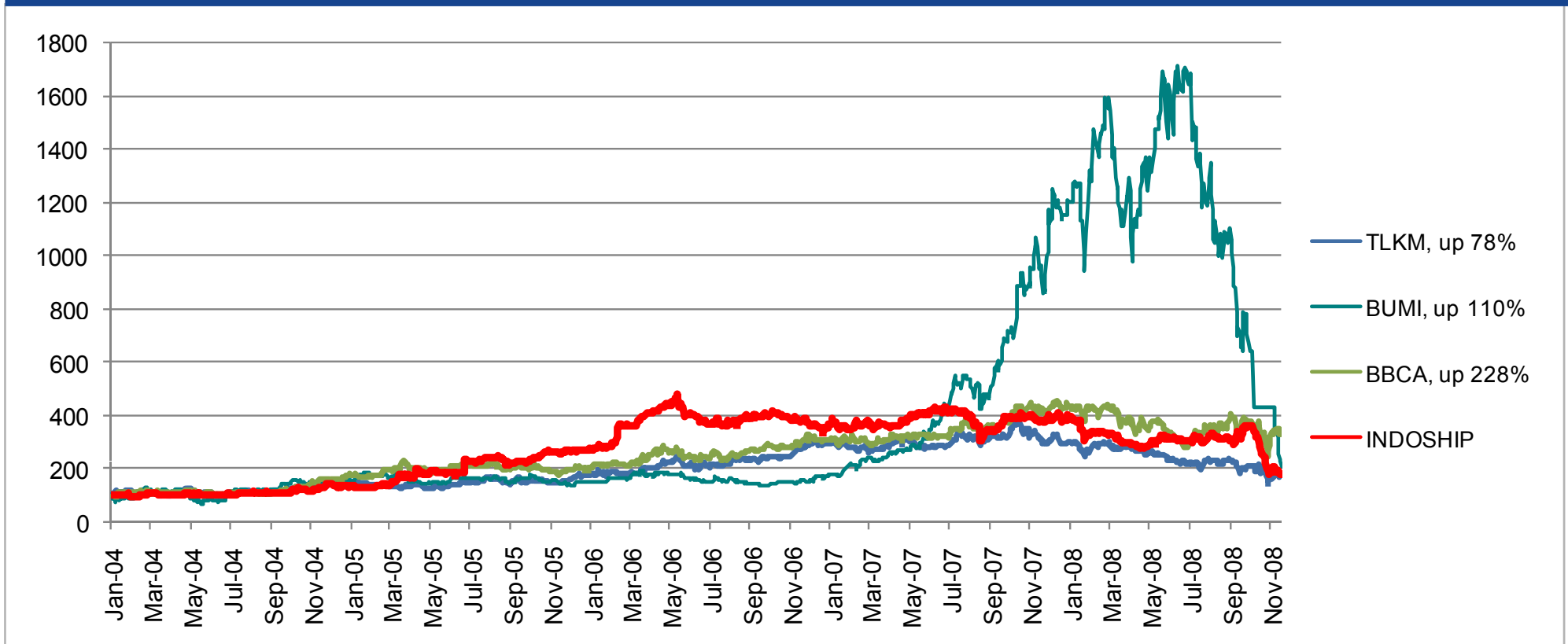
Source: Bloomberg

Measuring against the benchmarks (2/2)

- ▶ As of 17 Nov 08 data, INDOSHIP was up 73%
- ▶ The proxy scored close to overall market (JCI, 79%)
 - ↳ though underperformed its benchmark (JAKINFR, 94%)
- ▶ Still trailing oil (105%)
 - ↳ and slightly outperformed by gold (77%)
- ▶ High correlation with broader market (JCI, 0.70)
 - ↳ Low correlation with commodities (Oil, 0.66 and Coal, 0.18) and even global freight rate (BDI, 0.25)
- ▶ Low volatility as shown by Beta of 0.58 against JCI

And you think BDI is volatile?

Shipping sector against blue chips in telco, coal, and bank



Source: Bloomberg

Thank
you

PT Danareksa Sekuritas
Gedung Danareksa
Jl. Medan Merdeka Selatan No. 14
Jakarta 10110
+62 21 350 9777, 9888
 www.danareksa.com

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