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MARTYN H. SCHOUTEN

President Director/CEO
Rabobank Indonesia



Dear Customers,

In the last three months Rabobank has completed a number of initiatives that are central to our *Banking for Food* global vision and growth strategy. It is our pleasure to share them with you in this issue of RaboNews. These initiatives include research carried-out by Rabobank FAR (Food & Agribusiness Research and Advisory), a division under Rabobank Group which conducts commodities and consumer research around the world including Indonesia.

Rabobank FAR, which has its headquarters in Utrecht, has published a report on Indonesian poultry -- *Indonesian Poultry Business: New Opportunities*, which you will find in this newsletter. Another research publication by FAR on consumer products pricing strategy is *Escaping the Magic Price Trap*. We hope that you will enjoy reading these publications and articles in RaboNews.

The year 2016 will come to a close and we will be welcoming the year 2017. On behalf of Rabobank Indonesia I would like to wish all of you who celebrate a Merry Christmas and a Happy New Year 2017. May this new year bring us happiness and success.

Thank you for your patronage and continued support for Rabobank Indonesia.

Sincerely,

Martyn

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Indonesian Poultry: New Opportunities

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Turning Tide in Indonesian Poultry Sector Creates New Opportunities

The tide is turning for the Indonesian poultry industry, as it recovers from oversupply and sluggish demand, triggering leading companies to consider strategic options both this year and next. One expected response is consolidation, especially among small and mid-sized players. New investment in expansion is another, because although feed remains the most lucrative part in the supply chain, the growth and margins in further processing also provide attractive investment opportunities. Beyond these short-term dynamics, the mid-term outlook remains bright. Given poultry's popularity in Indonesia and the lack of religious impediments for consumers, we expect annual growth at 4-5% through to 2020. This helps make Indonesia attractive to international investors. In the long run, Indonesia could also become an alternative sourcing base for global poultry importers—especially from Japan and the EU for cooked processed products—however investment in the export system and efficiency improvements will be needed to realise this potential.

Industry coming out of prolonged stress period

Poultry meat remains the meat of choice in Indonesia but the industry is coming out of a stressful period due to oversupply and sluggish demand—after expanding at 11% annually between 2008 and 2013, before the 2014-2015 slowdown to a CAGR of 2.9% (see Figure 1). The industry has attracted large investments, which, coupled with the over-importation of grandparent stock, significantly increased broiler supply in the past five years. Investments in supply designed to gain market share resulted in an oversupplied market, which hurt the profitability of poultry companies.

On the demand side, the weak economy and weak rupiah have lowered consumers' purchasing power. The weak rupiah also added more stress to companies with dollar-dominated loans.

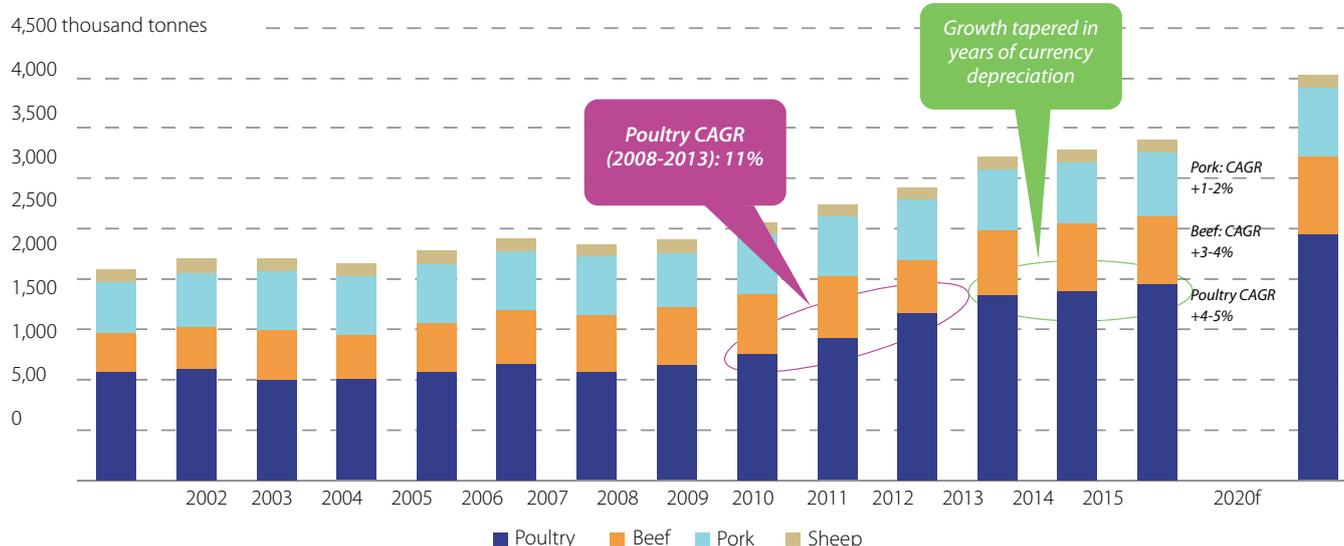
The situation improved after October 2015, when the government and industry started working together to address oversupply, planning to cull up to 6 million breeder birds. The cull was halted halfway in Q1 2016, due to an investigation for chicken price fixing. Considering the historical availability of breeders, industry profitability, and according to the programme, up to another 1 million parent stock birds remain to be culled after 1H 2016 to restore the near-term demand supply balance.

Excess supply could mean consolidation

We believe the industry will move into a consolidation period, following the excess capacity. The drivers for consolidation will be economies of scale, increased market power and better supply/demand management. Domestic and offshore players continue to look for investment along the poultry supply chain, especially in feed. Being the most lucrative part of the chain, with relatively stable margins, feed has attracted large investments, and, as a result, the utilisation rate of feed mills has declined, with some now below 50%. Overcapacity makes acquisition a better strategy for investors in feed than greenfield projects. Despite the fact that integrators will take a higher degree of control of supply chain and production—supporting supply chain modernisation—the process remains slow.

“We believe that, driven by supply control, the near-term outlook is positive for the Indonesian poultry industry, however, new investments in capacity can easily shift the balance.”

Figure 1: Indonesia meat market 2002-2015 and forecast 2020



Source: Food and Agriculture Organization of the United Nations (FAO), USDA, Rabobank estimates 2016

Prospects remain bright despite short-term challenges

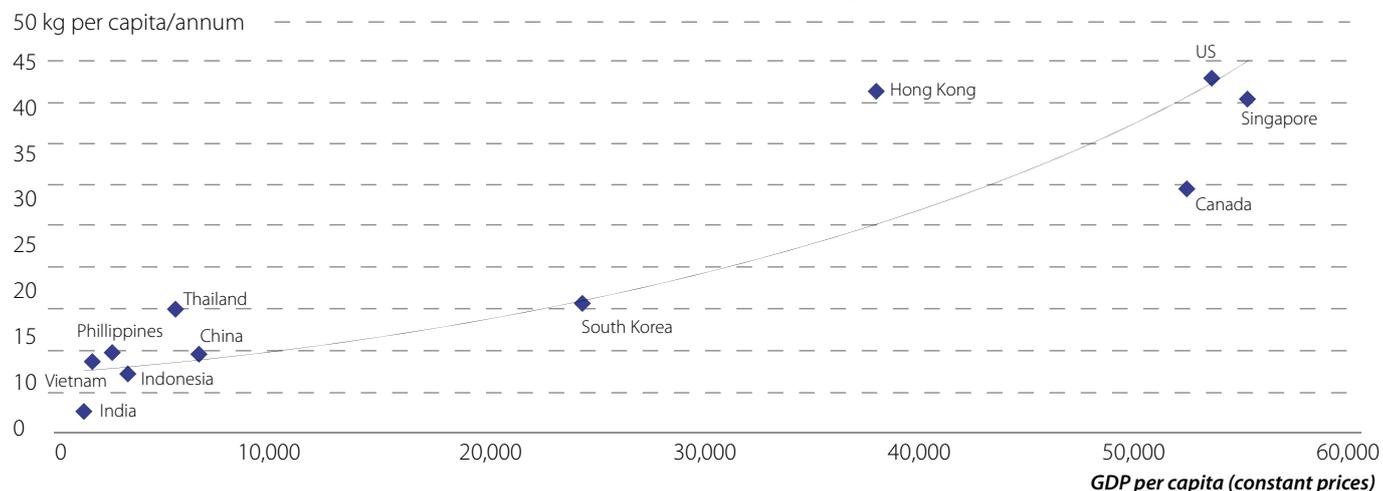
Current poultry consumption levels are low compared to other countries in the region, leaving substantial room for growth in Indonesia (see Figure 2). Consumption is expected to grow with income levels, and thus investments in new capacity are expected in the coming years. Ideally, expansion should maintain the supply-demand balance, as over-investment can easily bring market volatility.

The rising penetration of modern retail and foodservice will continue to drive the growth of further-processed chicken, which has seen average annual growth of 10%-15% for the past five years. Indonesia has a longer-term opportunity to become an important exporter of processed cooked chicken products, competing with China and Thailand.

Many global traders have become overly dependent on Thai imports for labour-intensive poultry products and are looking for alternatives. Private investors, with support from the government (on sanitary and veterinary requirements), are key to developing a successful export-driven industry.

The key risk to industry growth remains the outbreak of avian influenza. Recent outbreaks, such as the Jakarta cases in early 2016, will push further restrictions on live bird slaughtering at private places and wet markets. This in turn promotes more modern processing, with central slaughter places and specialised processing.

Figure 2: As poultry consumption increases with income, Indonesia has room to grow



Source: IMF, Food and Agriculture Organization of the United Nations (FAO), USDA 2016

Takeaways:

- The poultry industry is set to recover from a depressed period with consolidation and supply reduction efforts delivering a positive near-term outlook.
- Despite challenges, the long-term potential is positive and will continue to drive investment by domestic and foreign companies. There is room for growth as incomes rise.
- Integrated poultry companies will push supply chain modernisation in the long run.
- Investment in further processing is expected to increase with growth in food service. This will help Indonesia increase poultry exports, but improvement in export standards is still needed.

RaboResearch Food & Agribusiness Research and Advisory

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Farmer-to-Farmer: From Dutch Farmers to Indonesian Farmers

Interview: Retno Jayanti, Assistant Program Manager, Rabobank Foundation



The lack of interest shown by the children of dairy farmers in continuing to manage their parents' dairy farm is happening in many areas of Indonesia such as Sumedang, West Java. They prefer to migrate to larger cities and seek other jobs instead of becoming dairy farmers. To them, large cities provide more opportunities and offer a more interesting lifestyle, and it is for these reasons that such living area attract the younger age demographics.

Farmer-to-Farmer, is Rabobank Foundation Indonesia's program that invites farmers from the Netherlands to share their knowledge to Indonesian farmers. This program aims to assist the regeneration of dairy farmers in Indonesia. One of the initiators of the program is Retno Jayanti, Assistant Program Manager Rabobank Foundation, who joined Rabobank Indonesia in 2011.

"I have been interested in agriculture and community development since my college years," said Retno who has a dual degree in management economics, and international business from Trisakti University, Jakarta, and Hogeschool Utrecht, the Netherlands. Having such interests and background, she completed her internship at Rabobank Foundation in Utrecht. Retno then decided to join Rabobank Indonesia in Jakarta. "This is a perfect fit to what I have always wanted. Furthermore, Rabobank Indonesia's Banking for Food growth strategy is focused on the food and agribusiness sector including the development of farmers and livestock farmers through cooperatives".

In the Farmer-to-Farmer program, Retno invited two dairy farmers from the Netherlands, Petra Verluise and Tijmen van Zessen to the Tandangsari Cooperative in Sumedang. Petra and Tijmen are successful dairy farmers who each own more than 100 dairy cows in the Netherlands. Their task was to address the challenge the Cooperative has been facing- the regeneration of dairy farmers from the lack of interest from the children of dairy farmers to continue managing their parents' dairy farms.

"There are two important things done at the Tandangsari Cooperative. The first initiative is to train young dairy farmers, children of dairy farmers, and members of the Tandangsari Cooperative. The second

initiative is to share the knowledge on growing and nurturing calves to farmers who received calves from the cooperative in a profit-sharing scheme," said Retno. The training was conducted by Petra and Tijman from 14th November until 26th November 2016. Petra explained how dairy farming was conducted in the Netherlands and the technology used to facilitate their farming practices. As a successful female dairy farmer, she is an inspiration to the wives of the dairy farmers who help to clean the barn, milk, care and feed the cattle.

Entrepreneurship training was also conducted to around 30 dairy farmers' children. The training was focused on business opportunities and understanding the concept of receiving higher profits by way of increasing income and reducing costs. They were also trained on managing the dairy farm business. We hope that this training will motivate them to become dairy farmers. In addition to their training, these dairy farmer children also visited a modern dairy farm owned by a successful farmer who supplies milk to a leading milk factory.

Approximately 50 dairy farmers who are members of the Tandangsari Cooperative were given training on how to nurture the new-born calves into cows that produce good milk in quantity and quality. "It is crucial that new-born calves are given colostrum right after they are born. Growing up, it is important that they are given fodder in the right composition," said Retno.

"The strong enthusiasm demonstrated by the young dairy farmers as well as the children of the dairy farmers during the Farmer-to-Farmer program was unexpected. It turned out that they learned something new and very inspiring," said Retno. Hopefully this will encourage the next generation of dairy farmers.

Currently Rabobank Foundation is in partnership with 35 partners in 39 projects in Java, Sumatra, Sulawesi, Bali and Nusa Tenggara Timur. It aims to improve the welfare of farmers, livestock farmers and micro business owners in the food and agribusiness sector. Assistance are provided by means of access to working capital, training, and technical assistance.

Rabobank Global Farmers Master Class

Sharing the world's best practices



In November 2016, 35 participants from around the world gathered in Australia and New Zealand for a Rabobank-hosted master class.

The fourth Rabobank Global Farmers Master Class took place in Australia and New Zealand in November 2016 where 35 participants from North America, South America, Europe, Africa, New Zealand and Australia spent ten days in Australia and New Zealand. Participants include cattle, corn and soybean producer from Brazil, a leading cattle farmer from the U.S, a berry producer and cattle producer from Australia.

The Global Farmers Master Class was initiated in the Netherlands in 2012 and aims to provide participants with the opportunity to network, exchange knowledge and ideas with farmers from other countries as well as with the business and government sectors.

The 2016 Global Farmers Master Class focused on the role of innovation and agri technology in future farming. Topics covered include global supply chain trends, succession planning, sustainability, and the evolving model of the family farm. Exchange of knowledge was delivered through a mix of farm visits, best-practice demonstrations, and key note presentations by companies from different countries.

The 2016 Global Farmers Master Class was considered by participants as a platform to share knowledge, experience, and cultures where farmers were willing to share and exchange knowledge in an open environment. Participants of the Master Class also attended the Farm

2Fork Summit held on November 3 at Sydney's Cockatoo Island where Rabobank Group Executive Board Member Berry Marttin spoke about new technologies and investing in innovation to be able to feed the world's growing population.

The Farm2Fork Summit brought together around 1200 farmers and food and agribusiness stakeholders, including industry leaders, food and agri start-ups, technology innovators, investors and researchers.

Rabobank Global Farmers Master Class is one of Rabobank's global platforms for networking and exchanging ideas and knowledge. Rabobank, with its headquarters in Utrecht, started as a farmers' cooperative in the Netherlands in 1898. Today Rabobank is globally recognized as an expert and leader in financing the food and agribusiness sector.

Year-End Season's Greetings Package

The end of the year could be even merrier for you and your family! Get yourself a Year-End Season's Greetings Package (Bahasa Indonesia: Paket Semarak Akhir Tahun) which is available until December 31, 2016 and a special time deposit rate, shopping vouchers up to Rp1,500,000, and Gamma Points could all be yours.

All you need to do is to place fresh funds (funds should not come from your Rabobank Indonesia accounts) in a Rupiah Time Deposit and Gamma Savings account.

We have four packages for funds placements between Rp50,000,000 and Rp500,000,000 for you to choose from. Please refer to the following table for information on the rewards and benefits of this program:



Type of Package	Fund Placement	Rewards and Benefits
Package 1 Total placement (Gamma Savings + Rupiah Time Deposit) of Rp 50,000,000	<ul style="list-style-type: none"> Gamma Savings Rp15,000,000 Rupiah Time Deposit Rp 35,000,000 	<ul style="list-style-type: none"> Rupiah Time Deposit special interest rate of 6.00% Rp150,000 Indomaret shopping voucher Gamma Points
Package 2 Total placement (Gamma Savings + Rupiah Time Deposit) of Rp 100,000,000	<ul style="list-style-type: none"> Gamma Savings Rp35,000,000 Rupiah Time Deposit Rp 65,000,000 	<ul style="list-style-type: none"> Rupiah Time Deposit special interest rate of 6.25% Rp300,000 Indomaret shopping voucher Gamma Points
Package 3 Total placement (Gamma Savings + Rupiah Time Deposit) of Rp 200,000,000	<ul style="list-style-type: none"> Gamma Savings Rp 75,000,000 Rupiah Time Deposit Rp 125,000,000 	<ul style="list-style-type: none"> Rupiah Time Deposit special interest rate of 6.50% Rp 600,000 MAP shopping voucher Gamma Points
Package 4 Total placement (Gamma Savings + Rupiah Time Deposit) of Rp 500,000,000	<ul style="list-style-type: none"> Gamma Savings Rp 200,000,000 Rupiah Time Deposit Rp 300,000,000 	<ul style="list-style-type: none"> Rupiah Time Deposit special interest rate of 6.75% Rp1,500,000 MAP shopping voucher Gamma Points

Please ensure that you contact your Relationship Manager or our 24-hour Rabo Access Center at 1500080 for program details and terms and conditions. We look forward to hearing from you!

Nata Suprantio: From local passion to Russia



It all started from his passion for good tea. Nata Suprantio, founder and owner of PT Bangun Sukses, successfully turned his passion into a business. His hard work, ability to build strong business relationships and his capability to see opportunities made him a very successful tea business owner.

"All this had a simple start. I like drinking tea, so why not turn it into a business. As a tea lover, I have a good understanding on the different tastes and types of tea," said Pak (Mr.) Nata starting the interview with RaboNews. He started the tea business with a few friends in Jakarta in 1975. They bought tea from different sources and later sold it. In the nineties, they started importing tea. They imported tea from India and Vietnam and would blend them with locally grown teas before being packaged and sold to buyers.

The next step to owning his own business was materialized in 2006 by establishing PT Bangun Sukses. He started banking with Rabobank Indonesia's Krekot branch and was granted a loan which he used to grow his tea trading business. "Rabobank delivers good and fast service. I often need to make payments in foreign currency and this can be done easily at Rabobank," he said.

When asked about the key to his success in the tea business, Pak Nata explained that seeking opportunities is very important. "We need to be good at seeing opportunities. Russians love tea and on average consume 2 kilograms of tea per capita per year. However, due to the Chernobyl case, Russian tea plantations do not produce enough tea yet. This can be seen as an opportunity." In comparison, annual tea consumption per capita in Indonesia is 700 grams. Besides to Russia, he also exports tea to Europe, USA, and China. Having good relationship with buyers, especially in the domestic market, is also very important.

Pak Nata is very optimistic about the future of the tea business. "In the domestic market, despite that there are many players there are also a lot of opportunities. This is because tea is a very popular beverage in Indonesia and there are many market segments in Indonesia. Demands for high, medium, and low quality tea creates many opportunities," he said closing the interview.

Thank you Pak Nata. We wish you great success and hope that Indonesian tea will become even more popular!

Escaping the Magic Price Trap

In Asian developing countries, such as Indonesia, Vietnam, the Philippines, and India, traditional markets still play an important role in the sales of packaged food and beverage products. Products purchased through this channel are sold at a low price point due to low consumer buying power. Sachets and single-serving products are a popular way of reaching this market segment and improving volumes.

Unique pricing strategy

This situation gave rise to a unique pricing strategy called 'magic price points.' In Indonesia, IDR 500, IDR 1000 and IDR 2000 are the magic price points, whereas in India, the magic price points are INR 2, INR 5 and INR 10. Products sold outside this magic price point will face problems in the market because retailers are reluctant to provide small coinage as change and it is becoming harder to get small denominations.

However, this magic price point can also be a trap, because when facing margin pressure, companies tend to maintain the magic price point. This means the only way to keep the margin is through cost cutting. Once the cost reaches its lowest point, the company has no other choice but to increase the price. This means moving up to the next price point—twice the current price—while the product does not merit a doubling in price.

Avoiding the trap

Another trap awaits when the government phases out the lowest coinage. As shown in figure 1, in the past 10 years, the availability of the IDR 100 coin, IDR 500 coin and IDR 1,000 note in Indonesia have dropped significantly to give way to the IDR 1000 coin and IDR 2000 note. However, many snacks, biscuits and beverage brands, still maintain their product price at IDR 500 though the product size has been reduced significantly. Companies that fail to anticipate the trap will be in trouble because if the only strategy is to raise the price to IDR 1,000, they are facing competition from better products that are originally designed to be sold at IDR 1,000.

To mitigate this risk, several strategies can be applied. From a tactical, short-term approach to a more strategic, long term shift:



Haris Fajar Rahmanto
Food and Agribusiness Research Analyst
Rabobank Indonesia

1. Reformulate the same product and relaunch at the new price point

This is an immediate strategy in which the company abandons the old price point. The benefit is that the consumers still have a strong familiarity with the product. However, price-sensitive consumers will potentially shift to competitors that maintained the old price point.

2. Prepare a pipeline of products priced at several price points

The company maintains the product with the old price point but also prepares new successors at the new price points. The old product will phase out gradually and will be replaced by the new products. The potential risk is that the new products will not be as successful as the old product.

3. Refocus the target market to less price-sensitive consumers

This approach requires the company to serve a new segment. The rising middle class population in many Asian developing countries provides enough scale for a balance of volume and premium product portfolio. However, if the company is well-known for its price point products, it will be harder to leverage the brand name to serve higher class consumers.

What is the pricing strategy of your company? It would be great to hear from you. Please share your pricing strategy with us in 100-200 words, include the line of business, and name of your company. A total of five notebooks will be given to the first five Rabobank Indonesia customers who send their strategy to herlina.siringoringo@rabobank.com by January 31, 2017 the latest. Please also provide your name, the name of the Rabobank branch where you first opened the account, and mailing address to deliver the notebook if you are one of the winners.

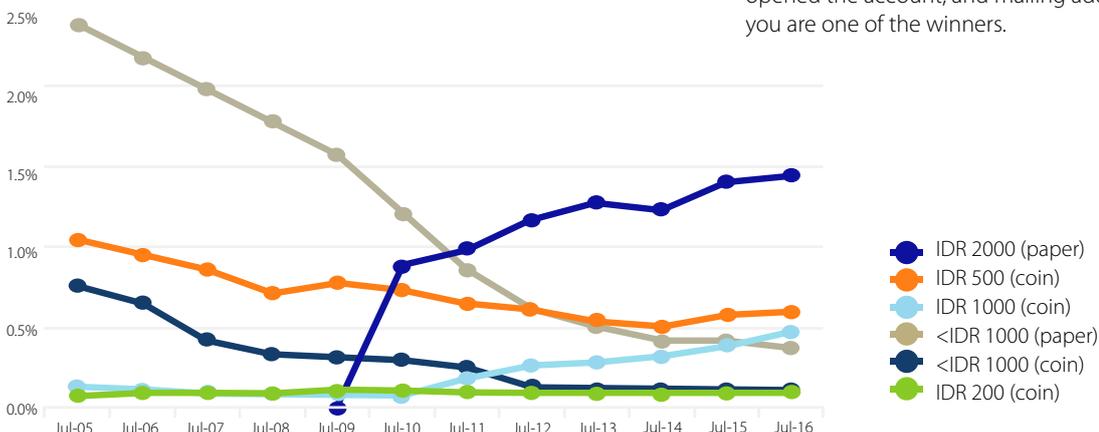


Figure 1: Small denominations dropped significantly in the past 10 years (Source: Bank Indonesia, 2016)

Rabobank Malang Branch's new office on Jl. Semeru 52



The Malang Branch of Rabobank Indonesia has been relocated from Pasar Besar to a strategic location on Jl. Semeru No. 52 since September 20, 2016. As the branch relocates to a new office, the name has been officially changed from Malang Pasar Besar Branch to Malang Semeru Branch. The branch was designed to be functional and modern, with the customer's comfort and convenience in mind.

With Rabobank Indonesia's Banking for Food growth strategy, the Malang Semeru Branch will support the food and agribusiness sector in Malang and East Java by providing entrepreneurs in this sector with access to finance, knowledge, and Rabobank's network.

With its headquarters in Utrecht, the Netherlands, Rabobank is recognised as one of the world's leading banks in food and agribusiness.

Banking for Food is Rabobank's global vision to contribute to the world's efforts to provide enough food sustainably for a growing population by providing access to finance, access to knowledge, and access to Rabobank's network in 40 countries.

Malang and East Java hold great business opportunities for Rabobank Indonesia. East Java is Indonesia's largest producer of rice, corn, beef, chicken, aquaculture, and generates the second highest GRP. East Java produces 41.3% of Indonesia's aquaculture, 31.2% of its corn, 17.4% of its rice as well as 12.4% of its chicken and 7.9% of its beef.

In East Java, Rabobank Indonesia currently has branches in Surabaya, Malang, and Jember. We look forward to welcoming you at Rabobank Malang Semeru Branch.

Rabo Events

Rabobank Indonesia events that were held in Jakarta, Bandung, Karawang, Medan, Bandar Lampung, Makassar.



1. President Director/CEO Rabobank Indonesia Martyn H. Schouten spoke at a seminar on urban farming held at the Embassy of the Netherlands. Urban farming is an initiative to grow food in gardens, roof-tops, or gardens managed by the community. Currently, food for around 500 million of the world's population is grown in urban areas (23/10).



2. Rabobank Indonesia hosted a seminar on the opportunities and challenges in the cassava business for customers in Lampung. Prof. Fakhri Udin, a well-known cassava expert from Lampung University, was the speaker for this seminar held at Sheraton Lampung (29/10).



3. The Rabobank Karawang branch team went to Pasar Baru Karawang traditional market to promote banking products. This CSR activity also supports OJK's (Otoritas Jasa Keuangan, or Financial Services Authority) financial literacy program (8/11).



4. A seminar on the consumption trends of bread and cake by Haris Rahmanto (Rabobank Food and Agribusiness Analyst) at Hotel Aryaduta, Bandung, was attended by leading bakery owners (24/10).



5. Wibowo (Chairman of the Association Processors and Marketers Fishery Products) shared his knowledge on developing a sustainable aquaculture industry at a customer gathering held for customers in Makassar (23/11)



6. Rabobank Medan branch hosted a seminar for customers at Novotel Medan. In this seminar, Haris Rahmanto (Rabobank Food and Agribusiness Research Analyst) presented the coffee consumer trend in Asia (29/10).