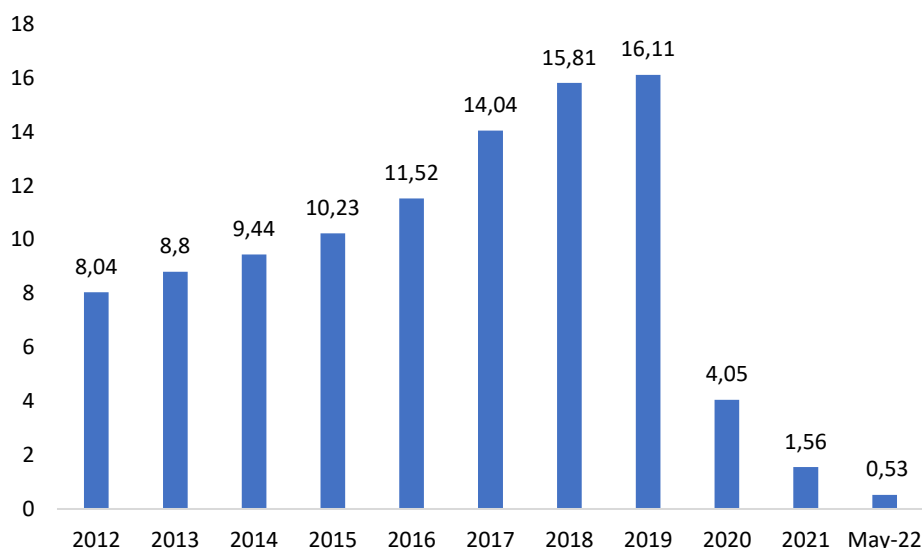


Adapting to Covid-19: Momentum of recovery for Indonesia's travel and tourism sector

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We expect a more stable outlook from the tourism sector following our expectation that the sector will recover as the Covid-19 pandemic gradually subsides. The Covid-19 has hindered various industries on a global scale, with travel and tourism among the sectors severely hit due to the implementation of social and physical distancing in order to contain the spread of the virus. This regulation which includes border restriction, in addition to the weaker global economy because of the pandemic has essentially put a halt on the tourism sector – especially international travel for nearly two years. Number of International Tourist Arrival (ITA) to Indonesia declined by 74.86% in 2020 compared to 2019 while in 2021 the figure declined further by 61.48% because of the emergence of the Delta variant in the middle of the year.

International Tourist Arrival (ITA) to Indonesia (in millions pax)



Source: Statista.com, processed by PEFINDO

This sector started to show its signs of recovery following the availability of vaccines. The first ever jab of Covid-19 vaccine was delivered on December 8, 2020, in the United Kingdom and by July 2022, 69.1% of the world population has received at least one dose of the vaccine. In Indonesia, the second and third dose of vaccine has reached 81.45% and 26.22% of the population, respectively. The vaccination program seems to be a rising solutions to jump-start the tourism sector. A simple vaccination certificate can offer significant health and economic benefit as it allows the vaccinated individual to resume normal socioeconomic activities which includes traveling while still protecting those vulnerable to the spread of the virus until the communities and/or countries reach herd immunity.

Ease in travel restrictions and regulations.

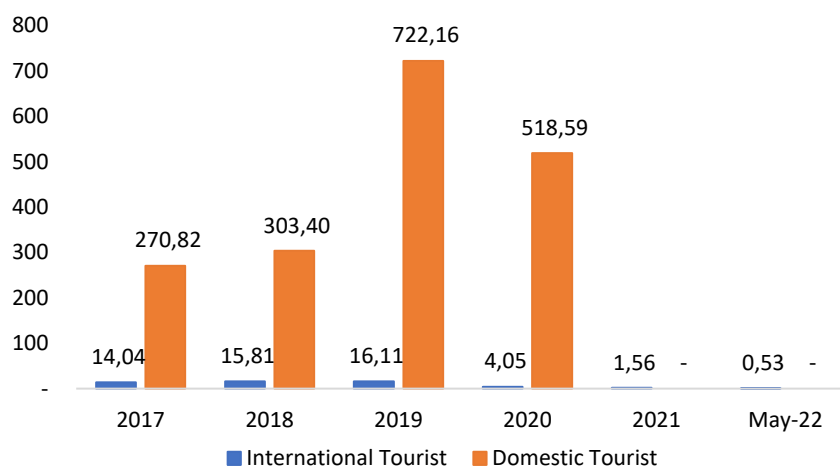
After the emergence of the Omicron variant in the first quarter of 2022, the handling of Covid-19 has been better proven by the significant drop in daily positive cases. The second quarter of 2022 is considered the right momentum for the recovery of the travel and tourism sector in Indonesia. Therefore, the easing of entry restriction for vaccinated visitor has been slowly implemented in various countries. Starting in May 2022, second dose vaccinated traveller is no longer required to show PCR/Antigen test, nor do they have to undergo quarantine when entering Indonesia. Previously, aside from border closure, if travel is permitted, countries (including Indonesia) often require lengthy quarantines. Quarantines requirement highly disincentivize people from traveling for non-essential purpose such as tourism due to its time consuming and costly factors.

The return of corporate and leisure traveller

As people slowly adapted to Covid-19 endemic and travel restriction abate, the potential for recovery in traveling activities for both business and leisure deemed to be promising considering that there will be a quite number of local and international traveller who will take *revenge travel* following pen-up demand from two years of limited access to tourism spot. However, we view that business travel recovery might be slower compared to leisure travel segment as companies have adapted to and are more accustomed to on-line and hybrid meetings. Nonetheless, we expect meetings such as leadership meetings, prospects visits, and networking at conferences will likely bounce back to pre-pandemic level as it helps establish and foster client relationships, while internal training will continue to rely heavily on virtual meetings.

The number of domestic trips in Indonesia always far surpasses that of international visitors, even prior to Covid-19. During second half of 2021, before reopening its international border, domestic tourist was the driving wheel of Indonesia’s tourism sector. However, domestic tourists spending on average was around just half of those of international visitors. Thus, the uptake in domestic tourism could not adequately compensate for the losses incurred from the decline in international tourists. For the sector to bounce back to pre-pandemic levels, the stability of international travel must be guaranteed. For 2022, Ministry of Tourism and Creative Economy has targeted around 1.8 – 3.6 million of international visitors with targeted revenue in the range of IDR6.74 - IDR24.40 trillion.

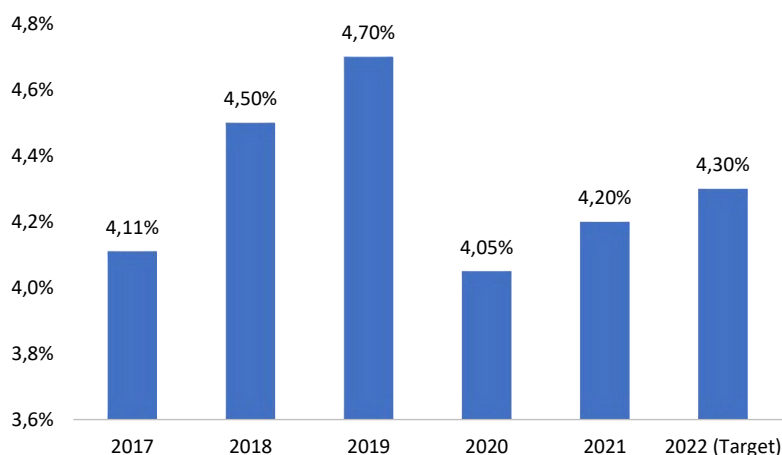
International and domestic tourist (in million pax)



Source: bpd.go.id, processed by PEFINDO. No data available yet for domestic tourist per 2021 and YTD2022.

Government support

Tourism Sector Contribution to GDP



Source: Ministry of Tourism and Creative Economy, processed by PEFINDO

The tourism sector is an important part of Indonesia's economy, contributing almost 5% of its Gross Domestic Product (GDP). As a country that made up from over 17,000 islands, Indonesia offers various tourism destinations that can be a strong pull factor for both domestic and international visitors. Government view that this sector also plays an essential role for economic recovery post pandemic through the stimulation of the creative industry and job creation. Government's effort to restore Indonesia's tourism was reflected in a number of policies and programs, including the provision of incentives. The government also has allocated a budget of IDR4.02 trillion for the Ministry and Tourism and Creative Economy for 2022.

As a direct instruction from the president, The Ministry of Tourism and Creative Economy/Agency for Tourism and Creative Economy continues to focus on developing five Super Priority Tourism Destinations (DPSP) in Indonesia that has potential to be "the new Bali", namely Lake Toba in North Sumatra; Borobudur, Magelang in Central Java; Mandalika in West Nusa Tenggara; Labuan Bajo in East Nusa Tenggara; and Likupang in North Sulawesi. To support the development of these five DPSPs, government ensure provision of proper infrastructure that includes structuring the area (e.g. arrangement of beach area at Malayang, Likupang), creation/maintenance of roads (e.g. road preservation in Pringsurat-Secan-Keprekan, Borobudur), supply of clean water (e.g. optimization of the Wastewater Management Installation, Labuan Bajo), managing waste and destination, and improves people's housing (e.g. Self-help Housing Stimulant Assistance (BSPS) program for tourist cottages, Lake Toba) through 108 infrastructure plans valued at around IDR4.01 trillion. Aside from infrastructure, one of Indonesia's main strategies in restoring the tourism sector is gaining travellers' trust through adaptation, innovation, collaboration between sectors, and creating sustainable tourism. The acceleration of vaccination, easing of travel regulations, travel bubble, and the implementation of CHSE (cleanliness, health, safety, and environmental sustainability) program in every tourism destination are also adapted to support recovery.

Back in October 2021, President Jokowi established PT Aviassi Pariwisata Indonesia (Persero), also known as Indonesian Journey (InJourney), as the holding SOEs for tourism and supporting sectors. Its members consist of state airport operators: PT Angkasa Pura I and PT Angkasa Pura II; state hotel operator PT Hotel Indonesia Natour; and state tourism and retail management: PT Pengembangan Pariwisata Indonesia or Indonesia Tourism Development Corporation (ITDC), PT Taman Wisata Candi Borobudur, Prambanan and Ratu Boko, and PT Sarinah. InJourney is aimed to accelerate the recovery, and, to a large extent, elevate the country's

tourism industry through showcasing the country's cultural rich values and hospitality as the nation's identity to the world.

Indonesia for G20 presidency

Indonesia is currently being eyed by the global community since being entrusted as Presidency Group of Twenty (G20) for the first time ever. As an international forum that focuses on policy in economic and development fields, G20 represents the world's economic and political power, with its member comprising 19 countries and 1 region representing 80% of the world's GDP, 75% of global exports and 60% of the global population. This presidency period will last for a year from December 1st 2021 – November 30th 2022.

We strongly believe with Indonesia holding G20 presidency, will bring positive effect for the country's tourism over the near to medium term. Aside from peak event namely Heads of State and Government Summit that will take place at November 2022 in Bali, Ministry of Tourism and Creative Economy will carry out G20 side events that will focus on promoting Indonesia's tourism. The G20 side events must showcase of a positive image of progress and Indonesian culture. The holding of side events is expected to be an opportunity to promote culture, investment, and tourism in Indonesia. Based on the G20 side events agenda that has been scheduled, 121 side events will take place across various locations in Indonesia, including five DPSPs mentioned earlier.

Previously, government has successfully held international event namely MotoGP that takes place in Pertamina Mandalika International Circuit in Lombok, NTB in March 2022. The event has contributed IDR4.5 trillion to the country's income and increase 1,46% of West Nusa Tenggara's gross regional domestic income (YoY basis). We believe with the success story of the MotoGP Mandalika and being elected Presidency G20, will raise Indonesia's reputation in organizing world-class events and inevitably boost its tourism sector.

Financial Highlights and Conclusion

In 1Q2022, PT Panorama Sentrawisata Tbk (PANR) and PT Bayu Buana Tbk (BAYU) as two publicly listed tourism companies have showed improvement in their financial performance as per table below (note that 1Q2022 performance still majorly diluted by Omicron variant):

Sales (IDR Mn)	1Q2022	1Q2021	2021	2020	2019	2018
PANR	51,238	17,607	101,574	793,212	1,951,162	2,037,941
BAYU	216,148	68,751	491,021	551,589	2,406,293	2,089,224
GPM (%)	1Q2022	1Q2021	2021	2020	2019	2018
PANR	23%	-3539%	10%	8%	18%	18%
BAYU	6%	9%	10%	10%	7%	7%

Source: IDX, processed by PEFINDO

Though we expect a better recovery from the sector in the second half of 2022, many challenges and uncertainties still hover ahead, from the trajectory of the war between Russian and Ukraine, the possibility of China reopening its borders after a zero Covid policy, to the emergence of more Covid-19 variants. A return to travel will not be a simple return to normal. In an effort to recover the tourism sector, Indonesia faces various challenges among other things, there is still a need to improve the consistency of the application of health, safety, and environmental sustainability standards by all levels of society, as well as the limited activities

of the world of tourism. Sustained low infection rates remain the top factor that will trigger an increase in trips, and the persistence of travel-related restrictions continues to be the biggest drag on travel. Government remained the key decision makers around international mobility restriction and provision of safe tourism experience continue to have direct effect on traveling activities.

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