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Indonesian economic outlook brightens

Indonesia, hit recently by multiple earthquakes as well as widespread floods in the capital, Jakarta, is showing more positive signs on the economic front.

Economic report card	2004	2005	2006
GDP growth (%)	5.1	5.6	5.5
Inflation (%)	6.4	17.1	6.6
Bank Indonesia policy rates (%) - year end	7.43	12.75	9.75
US$/IDR - year end	9,290	9,830	9,020
Ratings	B+/B2	B+/B2	BB-/B1

Source: Bank Indonesia, The Economist, Moody's, S&P

The economy expanded by 5.6% and 5.5% in 2005 and 2006 respectively, and grew by 6.1% year-on-year in the fourth quarter of 2006, a two-year high. Inflation is back to less than 7% in recent months from double-digit rates due to the jump in fuel prices in late 2005. Benchmark BI rate has been cut nine times within a year, down from 12.75% in April 2006 to 9.00% in March 2007 which should give a boost to private consumption and investment. The stock market has already benefited from the optimism with the key composite index racing ahead by 55% last year. There are also interests from private equity players (e.g. Emerging Markets Partnership, as well as Texas Pacific Group through its local subsidiary, Northstar Equity Partners) to launch funds focusing on the Indonesian market.

To date, the Indonesian government has a mixed record in implementing economic reforms and will need to improve to further enhance the economic environment and attract substantial foreign investment. In March last year, it managed to resolve a long-running dispute with ExxonMobil over the development of the Cepu oil field, a protracted case which many believe to be a stumbling block in attracting more foreign investments. It also weathered discontentment over a fuel price adjustment in 2005 when fuel subsidies were sharply reduced. The government still faces delay in implementing legislation, including a revised tax law that remain blocked in the House of Representatives. The investment law despite being proposed two years ago initially was only approved lately amid strong resistance. Labour market reforms were scuttled by strong union opposition, while a push to promote private infrastructure investments through conferences which showcased major projects has yet to yield significant results.

Multi-sourcing – geopolitical and data security issues outsourcing industry

There is a growing appreciation that companies need to diversify their delivery locations to "de-risk" their outsourcing programme so that services would not be seriously disrupted by a crisis in any location. Incidents such as strikes and riots, as well as data privacy and security issues for example are some of the major concerns. As a consequence, both outsourcing service providers and customers are looking increasingly to "multi-sourcing", whereby outsourcing is provided from multiple locations for risk diversification reason.

Diamond Cluster's study in 2006 showed that more organisations (77% of survey participants) are worried about negative geopolitical conditions than any other issue. Multiple facilities in different geographical locations reduce the overall geopolitical risks in comparison to a single-country operation. Critical functions may even be located only in places with much lower geopolitical and data security risks. Service providers have acknowledged these trends and have opted to establish multiple centres; some are even pushing ahead with a global service delivery model.

Although India will remain a favourable location, its share of worldwide outsourcing revenue is likely to decline partly due to concerns on geopolitical conditions and the issue of data security. Countries such as Philippines, Malaysia and Singapore have benefited from the shift towards multi-sourcing. Malaysia and Philippines have gained popularity as alternative locations to India. Philippines is often chosen when clients require Indian service providers to maintain an offshore backup location. On the other hand, Singapore has captured a bigger slice of high-end business process outsourcing work among financial institutions. Credit Suisse, Merrill Lynch, Citigroup and Barclays are among players that have expanded significantly their back office operations there.

Mobile advertising – the next frontier

With the proliferation of mobile devices, mobile media campaigns are seen as an exciting medium for advertisers to reach out to customers. There are more than 2 billion mobile users worldwide, as compared to 1.4 billion TVs and 1 billion PCs. IDC expects the mobile advertising market to grow from US$160 million in 2006 to US$4 billion in 2011; Informa Telecoms & Media takes an even more favourable view and anticipates the market to reach US$11 billion by 2011.

OWW's investee, BuzzCity started offering mobile advertising services to its fast growing mobile community, myGamma (www.mygamma.com) in 2006 and has since opened up the service to independent third party mobile internet publishers. Monthly page views have exceeded 50 million in early 2007 with ever growing demand from advertisers.

Mobile advertising can come in various forms, including sms, banners, textlinks, video ads and search. There are also emerging business models such as ad-funded downloads of games, contents, mobile TV services or even location-based services. Mobile advertising has the unique advantage of a wide audience, coupled with the precision of direct marketing and the tracking potential of the internet.

Many network operators and online giants have jumped into the fray and hope to secure a leading position in this segment. For example, Vodafone has tied up with eBay, MySpace and YouTube, while Yahoo! has allied with advertisers including Intel, Singapore Airlines, PepsiCo, Nissan Motor and Procter & Gamble Asia Pacific to deliver mobile ads.

Investee profile – Taiwan IC Packaging Corporation ("TICP")

TICP, headquartered in Kaohsiung, Taiwan, provides semiconductor packaging and testing services to fabless semiconductor design houses in Taiwan, US and Japan. The company was listed on TAISDAQ (stock code: 3372) in December 2005 and its market capitalisation has tripped to NT$6.1 billion currently. It has sales offices in Tokyo, Japan and Fremont, the US.

TICP has recorded annual revenue and profit growth of 30% and 51% respectively for the past 3 years. Its products are used in PCs, communication/wireless devices and consumer products. Its three main products are:

- Traditional packages including Small Outline Packages and Quad Flat Packages – audio chips, power ICs, micro-controllers, etc.;
- CMOS Image Sensor – mobile phones, digital cameras and optical mice.; and
- Ultra Thin Packages – new generation of consumer electronic devices.

According to statistics from Dataquest and Industrial Technology Research Institute of Taiwan (台湾工业技术研究院), Taiwan is a leading player in semiconductor packaging and testing services in the world with a market share of 43%, followed by the US with 15%.

About OWW

OWW Capital Partners Pte Ltd ("OWW") (www.oww.com.sg), formerly known as OCBC, Wearnes & Walden Management (Singapore) Pte Ltd, was established by OCBC Bank, WBL Corporation and Walden International in 1991. In October 2006, the management team of OWW acquired WBL Corporation's interests and the company assumed its current name.

OWW focuses on expansion stage companies in the enterprise and consumer services sectors within the South East Asia and North Asia regions.

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