Food and Beverage Industry: Opportunities and Challenges in 2025

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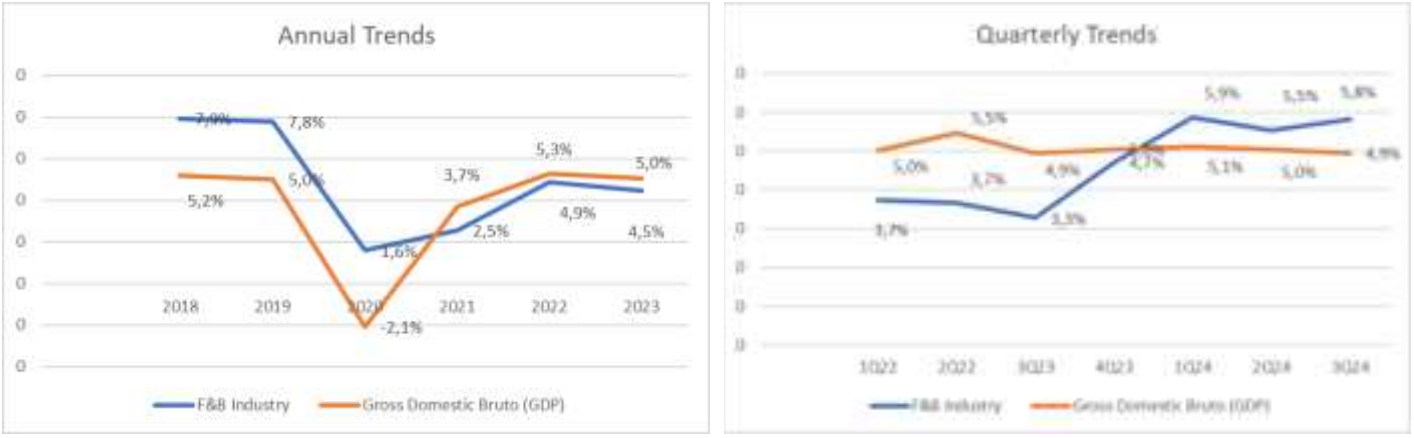
PEFINDO views that Indonesia's food and beverage (F&B) industry has stable outlook in the near to medium term. We are of the view that the profile of the food and beverage industry risk will remain low, as the industry serves the basic needs of society, including daily consumer products, making its demand relatively stable and less affected by weakening purchasing power or economic slowdown. This demand stability is one of the key factors supporting the industry's outlook. However, we also recognize the potential risk of declining consumer spending if the economic slowdown continues. The slowdown in economic growth is reflected in corrections to several economic indicators, such as Gross Domestic Product (GDP), inflation, the Purchasing Managers' Index (PMI), and the Consumer Confidence Index (CCI). This could lead to a shift in consumption patterns, with consumers choosing more affordable alternatives over premium products, especially among segments of the population facing limited purchasing power.

Indonesia's F&B Industry Outpaces GDP Growth

According to data released by Bank Indonesia (BI), the F&B industry recorded a growth of 5.8% year-on-year (YoY) in the third quarter of 2024, which is higher than Indonesia's GDP growth of 4.9% YoY. This stability highlights the industry's role as a key driver of the domestic economy.

Figure 1. Indonesia's GDP and F&B Growth (Constant Price 2010)



Source: Bank Indonesia, processed by PEFINDO

Figure 1 highlights a significant shift in the growth trends between Indonesia's GDP and the F&B industry. Since the first quarter of 2024 (1Q24), the F&B sector outpaced GDP growth, reversing the trend observed since 2021, when the industry's growth had been consistently slower than GDP growth. The slowdown in GDP growth can be attributed to declining investment spending, particularly in government spending and investments in the insurance and banking sectors. In contrast, the F&B industry remains a major contributor to GDP, continuing its upward trajectory even amid broader economic challenges. This growth is largely driven by rising incomes and the expanding middle class.

According to the 2024 Food and Beverage Service Activities Survey by BPS, the food and beverage service sector in Indonesia saw significant expansion, with 4.85 million businesses operating in 2023. This represents a 21.13% increase compared to 2016 when the sector had 4.01 million businesses (as reported in the 2016 Economic Census). This surge in the F&B sector is largely due to shifts in consumer lifestyles, such as less time spent on cooking and declining interest in home-prepared meals, which have fuelled a growing demand for food and beverage services.

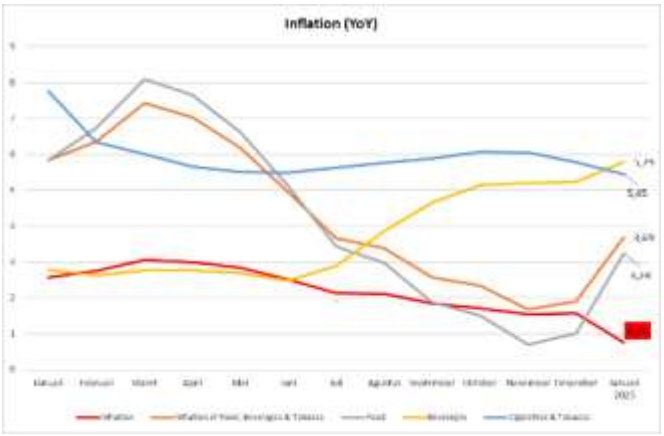
Furthermore, advancements in information technology have made access to a wider variety of food and beverage products more convenient. Improved logistics, storage, and distribution systems, particularly for frozen food, have also played a key role in accelerating the growth of Indonesia's F&B service industry.

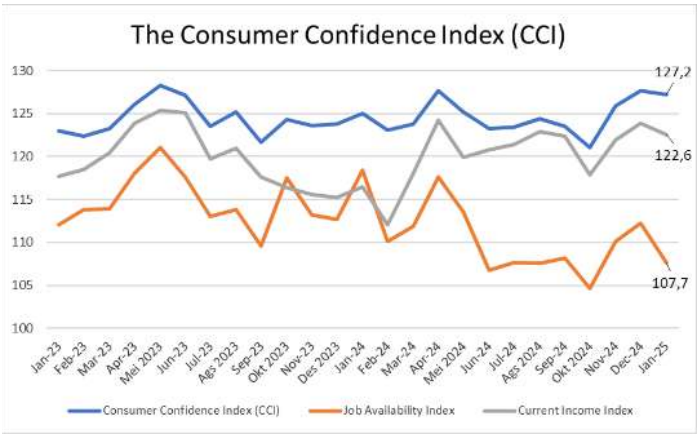
Macroeconomic Trends: Inflation, Deflation, and Consumer Sentiment

Indonesia has experienced a prolonged deflationary trend, with 11 consecutive months of negative inflation from March 2024 to January 2025. In January 2025, year-on-year deflation reached 0.76%, marking the lowest rate since July 2021 and falling below Bank Indonesia's target range of 1.5% to 3.5%. A significant driver of this deflation was a sharp reduction in electricity tariffs. The government's 50% discount for customers with electricity capacity up to 2,200 Volt Amperes (VA) in January 2025 led to a deflation rate of 32.03% in this category, contributing 1.47% to overall deflation.

While overall inflation declined, the food and beverage sector recorded a notable price increase in January 2025, contributing 1.07% to the overall inflation rate. The Consumer Confidence Index (CCI) remained strong at 127.2, slightly lower than in December 2024 due to seasonal spending during the year-end holiday period. Additionally, the Purchasing Managers' Index (PMI) improved to 51.9 in January 2025, marking its highest level since July 2024 and remaining above the expansion threshold (50), signalling continuous economic resilience.

Figure 2. Monthly Inflation in 2024 (YoY) and Consumer Confidence Index (CCI) (YoY)





Source: BPS & Bank Indonesia, processed by PEFINDO

Commodity Fluctuation

Commodity prices have been highly volatile due to geopolitical tensions and extreme weather events. Conflicts, particularly in the Middle East and between Russia and Ukraine, have disrupted supply chains, leading to rising prices for essential commodities like wheat, cocoa, and coffee, mainly due to logistical challenges. Alongside these geopolitical factors, the El Niño phenomenon has intensified the situation, caused crop shortages, and put upward pressure on prices, especially for agricultural raw materials. Looking ahead, the potential onset of La Niña in Indonesia in 2025 could further complicate matters by bringing wetter-than-usual conditions, which may disrupt agriculture through flooding and impact key crops like palm oil and rice, exacerbating commodity price volatility.

Figure 3. Commodity Prices (USD)*)

Source: BPS & Bank Indonesia, processed by PEFINDO
**Palm oil (Myr)*

Government Stimulus and Policies

In early 2025, the Indonesian government introduced several measures to support household spending, including a 50% electricity tariff reduction for lower-capacity users and a 10% cut in airline ticket prices. Additionally, VAT adjustments under the HPP Law set luxury goods at 12%, while the effective VAT rate for non-luxury goods is set at 11% by applying a value factor of 11/12. This approach aims to balance revenue generation with economic conditions, ensuring that tax burdens on essential goods remain manageable.

While basic food items remain VAT-exempt, the F&B industry may still face higher costs due to increased VAT on raw materials, packaging, and logistics. However, lower electricity costs could help sustain consumer spending, partially offsetting inflationary pressures. Mid-to-premium F&B producers may experience challenges as consumers shift toward more affordable alternatives.

Stable Credit Quality of F&B Companies Under PEFINDO Coverage

In 2024, PEFINDO rated and published two F&B companies, PT Indofood Sukses Makmur Tbk (INDF, $_{id}$AA+/Stable) and PT Mayora Indah Tbk (MYOR, $_{id}$AA/Stable). The stable outlook indicates that the ratings will likely remain unchanged over the next 12 months, given Indonesia's vast population base and the strong market position of the companies under our portfolio. We also believe that product diversification, market penetration, and effective marketing strategy will contribute to sustaining sales growth.

The decline in consumer purchasing power throughout 2024 has not had a significant impact on the revenues of the rated entities. However, pressure on margins due to commodity price fluctuations remains a challenge. In Q3 2024, MYOR saw a significant 12% YoY revenue growth, up from 3% in the previous period, while INDF maintained a steady 4% YoY growth.

In terms of profitability, margins are under pressure. MYOR's EBITDA grew by only 1% YoY, affected by increased costs of essential raw materials such as coffee beans and cocoa. INDF posted a 13% YoY EBITDA growth, improving from an 11% decline in 2023 due to wheat shortages. However, this remains below the pre-2023 EBITDA growth average of over 20%. This highlights that, despite industry growth, global uncertainties continue to affect profitability.

Capital Expenditure Trends and Loan Profile: Refinancing and Liquidity Risks

Given the current economic challenges, including weakening purchasing power, declining inflation, and commodity price volatility, F&B companies should focus on cost optimization and efficiency improvements. Companies can explore hedging strategies to manage commodity price fluctuations and minimize margin pressures. Expanding their value-oriented product lines, focusing on affordable yet quality options, will cater to the increasing demand for budget-friendly products. Additionally, enhancing digital marketing strategies and increasing their presence in online sales channels can help tap into the growing e-commerce market. This approach aligns with both the current financial conditions and potential challenges in the coming year.

To maintain profit margins amid economic challenges, F&B companies should focus on cost efficiency through optimized production processes, supply chain improvements, and waste reduction. Product diversification, particularly into value-added or premium products, can cater to evolving consumer preferences and support sales growth. Adopting strategic pricing, such as value-based pricing or targeted promotions, can balance affordability with profitability. Strengthening supplier relationships, locking in contracts, and hedging against commodity price fluctuations will help mitigate raw material cost risks. Additionally, expanding market reach, leveraging economies of scale, enhancing e-commerce presence, and improving productivity through training and efficient labor use can further sustain profitability in 2025.

Figure 4. Financial Highlight MYOR & INDF

Financial Highlight (MYOR)	9M24	9M23	9M22	9M21	9M20
[IDR Bn] Total Adjusted Assets	30.326,8	23.420,1	22.497,5	20.130,7	37.551,8
[IDR Bn] Total Adjusted Debt	9.280,3	4.604,6	6.664,9	5.223,4	9.554,6
[IDR Bn] Total Adjusted Equity	16.083,0	14.093,2	11.939,1	11.067,4	5.586,7
[IDR Bn] Total Adjusted Sales	25.639,5	22.893,7	22.229,9	19.887,8	8.539,9
[IDR Bn] Net Income After MI	2.044,7	2.026,2	1.084,7	977,9	15,4
[IDR Bn] FFO	2.843,7	2.766,6	1.610,4	1.607,3	0,8
[IDR Bn] EBITDA	3.497,5	3.471,2	2.166,7	2.127,6	796,8
[IDR Bn] EBIT	2.734,7	2.794,8	1.465,9	1.442,0	664,2
[IDR Bn] Operating Cash Flow	(1.757,9)	3.439,3	355,3	953,0	855,6
[IDR Bn] Cash & Equivalent	4.527,8	3.237,2	3.487,3	3.346,2	2.046,0

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