INDOPREMIER

Astra International

BUY

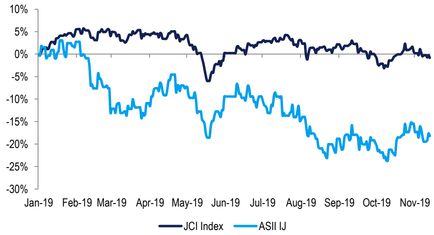
Company Initiation | Automotive | ASII IJ | 13 November 2019

Stock Data

Target price	**Rp8,000**
Prior TP	*N/A*
Current price	Rp6,725
Upside/downside	*+19%*
Shares outstanding (mn)	40,484
Market cap (Rp bn)	272,252
Free float	50%
Avg. 6m daily T/O (Rp bn)	200

Price Performance

	3M	6M	12M
Absolute	0.7%	-3.9%	-15.9%
Relative to JCI	1.9%	-5.1%	-21.2%
52w low/high (Rp)			6,275 - 8,600



Major Shareholders

Jardine Cycle & Carriage Ltd	50.11%
Blackrock Inc	1.84%
Vanguard Group Inc	1.82%

The worst may be behind us

- We expect national/ASII 4W volume growth to recover to 3% in 2020 and 5%/7% in 2021 (-12%/-8% in 2019) amid favourable tailwinds.
- Strong distribution network/brand equity coupled with subsiding competition points to robust market share for ASII and hence margin.
- Growth from auto/financials shall offset weakness in UNTR/AALI. Current valuation has clearly not priced-in any recovery. Initiate with a Buy rating.

The worst is over; positioning for a volume recovery in 2020-21

After a lacklustre volume in 2019 (-12% yoy in 9M19, we expect -12% yoy in FY19), we think the worst is over and conservatively forecast national wholesale 4W volume growth of 3%/5% in 2020/21 (3%/7% for ASII) as we believe demand may improve on the back of new models, pick-up in overall investment (FDI), favourable macro (lower penetration vs. regional peers, especially ex-Jakarta), and political stability (removal of election overhang).

Stable market share points to better margin

ASII's 4W market share improved to 53% in 9M19 from 51% in FY18 amid lacklustre demand for non-ASII brands (-17% yoy in 9M19 vs. ASII's -7% yoy). Its strong brand equity, distribution network, potential new models (low-SUV segment) and subsiding competition (Xpander, the strongest competitor, saw average monthly volume down 11% yoy as it enters its 2nd year) points to robust market share in the medium term – we forecast stable market share of 53-54% in 2020-21. This shall be positive for auto margins (Fig 44).

Better profitability ahead, financials and auto will be the drivers

All-in-all, we expect ASII's net profit to grow of 6-13% p.a. in 2020-21 after a drop in 2019 (-2% yoy vs. consensus' flat yoy) driven by auto segment (+9% CAGR 2018-21) and robust growth from financial services (+9% CAGR 2018-21), offsetting the soft outlook on UNTR (-2% CAGR 2018-21) and AALI (-14% CAGR 2018-21). Upside risk to our net profit forecasts shall come from a recovery in coal/CPO prices.

Re-initiate with a Buy rating, 4W recovery clearly has not been priced-in

Re-initiate coverage with a Buy rating and SOTP-based TP of Rp8,000 (implies a target multiple of 13x 2021 P/E). ASII has been one of the largest underperformers (-19% vs. JCI YTD), now trading at 11.4x 2020 P/E below its 10Y avg of 15x P/E. Based on our analysis, the current price implies that the auto business is being valued at 8% discount to non-auto (vs. 10-year average 27% premium), which suggests that the market has clearly not priced in any volume recovery yet. Risk is worse than expected volume.

Financial summary (Rp bn)	2017A	2018A	2019F	2020F	2021F
Revenue	206,057	239,205	238,799	248,997	262,474
EBITDA	28,192	36,290	34,396	38,143	39,524
Net profit	18,881	21,673	21,161	23,954	25,279
EPS (Rp)	523	592	624	618	719
EPS growth (%)	24.6%	14.8%	-2.4%	13.2%	5.5%
ROE	12.7%	13.1%	11.5%	11.8%	11.2%
PER	14.4	12.6	12.9	11.4	10.8
EV/EBITDA	11.2	9.2	9.6	8.5	8.0
Dividend yield	2.5%	2.8%	3.2%	3.1%	3.5%
IPS vs. consensus			98%	102%	101%

Sources: Company, IndoPremier *Share price closing as of:13 November 2019*

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Positioned for volume recovery in 2020-21

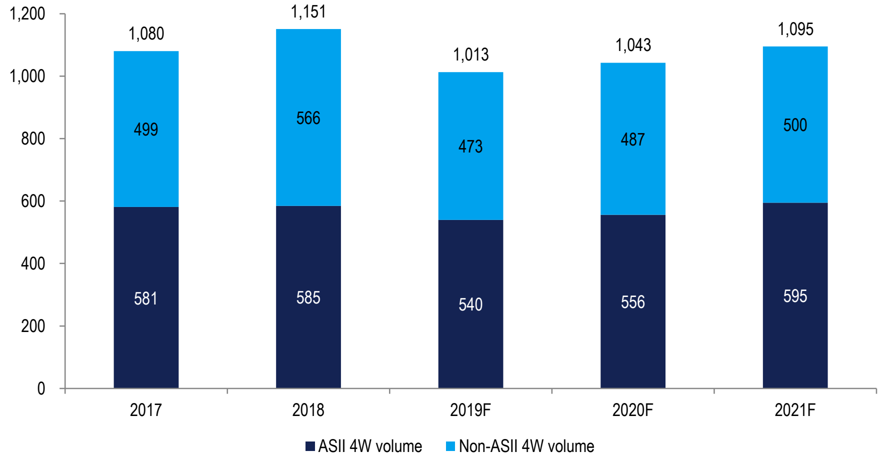
We believe that 4W sales have bottomed in 2019, and are set to see a recovery in 2020/21, as we believe that the recent pick-up in investments and a favourable macro landscape shall translate to better demand in 2020-21. This, coupled with a removal in election overhang (i.e. more political stability) shall point to a volume recovery. *Indeed, volumes have started to show some recovery in 3Q19-Oct19 – both for commercial and passenger vehicles.*

In the long run, we believe that there is still ample potential amid the very low car penetration outside of Jakarta (i.e. other Java provinces and ex-Java), though arguably a pick-up would be contingent on a better GDP per capita for these regions.

As such, **we forecast national 4W wholesale volume growth of 3%/5% in 2020/2021 after bottoming in 2019 (-12% yoy).**

Concurrently, **we expect ASII's to see stronger 4W volume growth than the industry**: **-8% in 2019, +3% yoy in 2020, and +7% yoy in 2021** as *we expect it strong brand equity and (potential) new models, coupled with waning competition, to result in a robust market share.*

Fig. 1: We forecast ASII/national 4W sales growth of 3% in 2020 and 7%/5% in 2021 after a lacklustre 2019 (-12% and -8%, respectively)



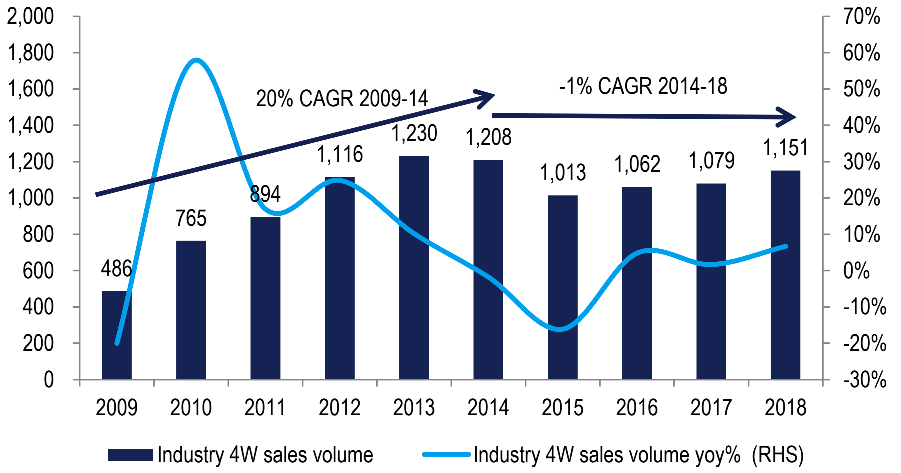
Sources: Gaikindo, IndoPremier

Stagnant auto volume post commodity boom

Indonesia's 4W sales have been quite stagnant over the past 4 years - after robust growth of 20% CAGR 2009-14, 4W sales normalized to -1% CAGR 2014-18 has been stagnant at 1-1.1m units p.a. The normalizing growth for 4W sales was largely caused by several factors:

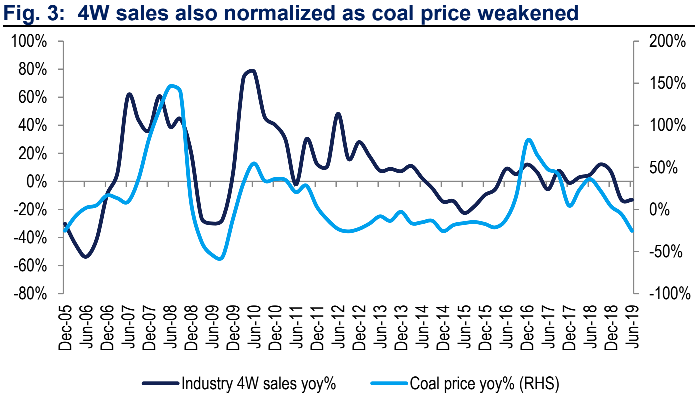
1) **A reversal in commodity prices, especially coal** (coal prices saw a gradual decline its peak of c.US$120-130/tonne in 2011-2012 to a bottom of US$50/tonne in 2015/2016)
2) **Normalizing investment growth** – trajectory of investment growth has greatly normalized: FDI grew only 1% CAGR 2014-18 vs. 118% CAGR 2009-14, while DDI grew 15% CAGR 2014-18 vs. 129% CAGR 2008-14. This subsequently led to lower GDP growth for Indonesia as well

Fig. 2: Industry 4W sales volume – sales growth has normalized significantly post 2014 amid reversal in commodity prices and slowdown in GDP



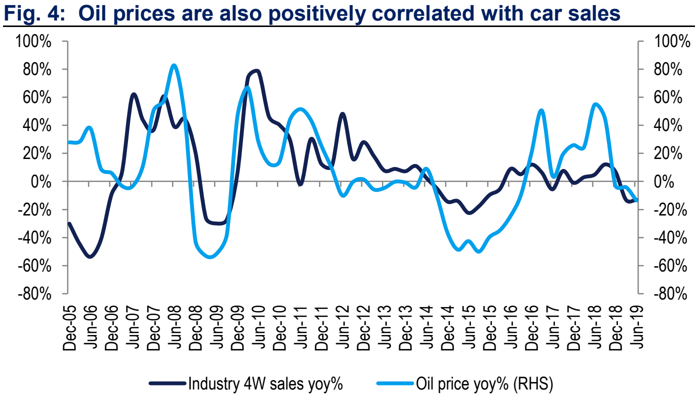
Sources: CEIC, Gaikindo, IndoPremier

Fig. 3: 4W sales also normalized as coal price weakened



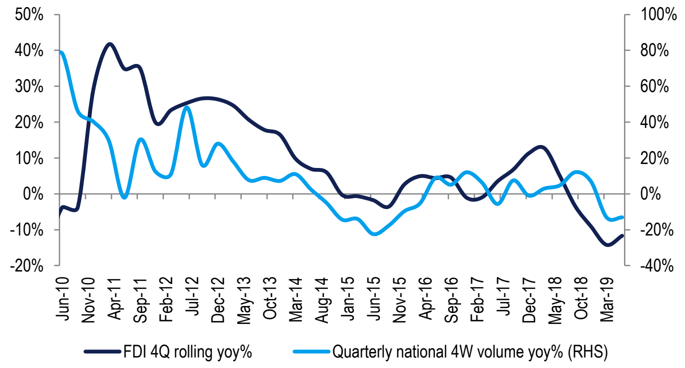
Sources: Bloomberg, Gaikindo, IndoPremier

Fig. 4: Oil prices are also positively correlated with car sales



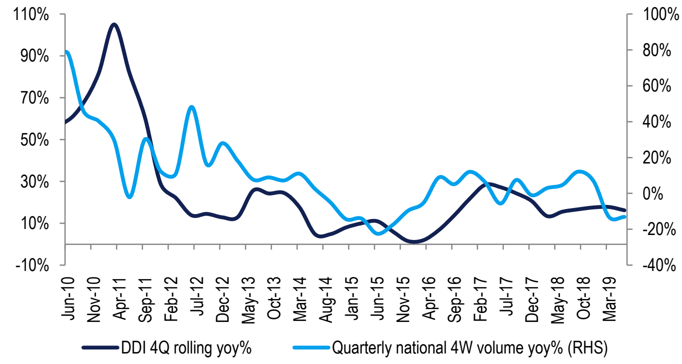
Sources: Bloomberg, Gaikindo, IndoPremier

Fig. 5: FDI yoy vs. 4W volume yoy - normalizing investment growth also led to a lower volume growth



Sources: Bloomberg, Gaikindo, IndoPremier

Fig. 6: DDI vs. 4W volume



Sources: Bloomberg, Gaikindo, IndoPremier

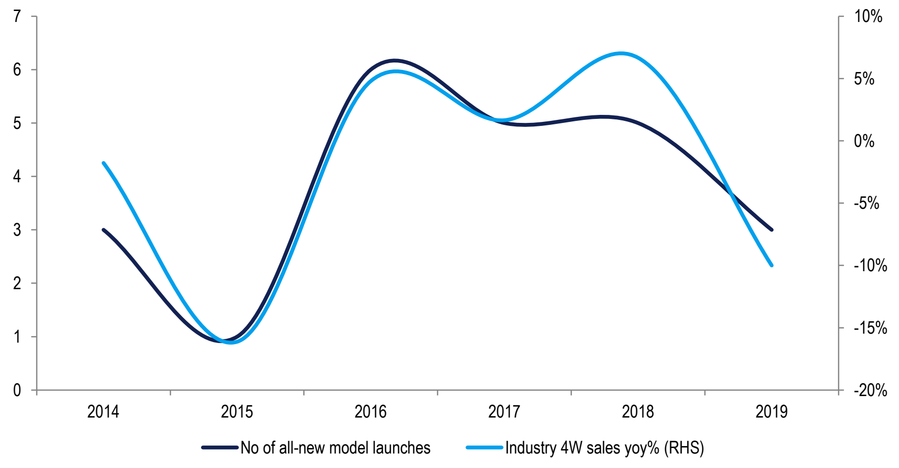
Lack of new products was also a culprit

We believe that the lack of exciting new products is another contributor of the poor new car sales. In 2019, the number of new product launches (i.e. all-new models – excluding facelift) went down to 3 models vs. an average of 5-6 in 2016-18. **Fig 7 shows that the number of new product launches is also highly correlated to the industry's 4W sales growth**.

Along the same line, we think that new product launches by the major brands will be one of the main catalysts for 4W demand. Among the major LMPV models in the market, we also note that Avanza and Xenia was the laggard (last all-new model was introduced in 2019).

Concurrently, more new product launches in 2019-2020 shall help catalyse demand, in our view. **Based on our channel checks, we determine that there are at least another 3-4 new model launches in 4Q19 (on top of the Mitsubishi Xpander cross launched earlier this week) and up to 9 new model launches in 2020.** On the other hand, we also acknowledge that realization of aggressive new model launches might be contingent on a general pick-up in the economy.

Fig. 7: Industry's 4W sales also highly correlated with the number of new product launches (excluding facelift)



Sources: Gaikindo, IndoPremier

Fig. 8: Current product offering largely covers cars priced at below Rp300mn, though the lack of product refreshment might a contributor of the poor new sales

Car models	Average price (Rp m/unit)	Last launch/overhaul
Rp100-200mn		
Daihatsu Ayla	125	2017
Daihatsu Sigra	136	2016
Toyota Agya	148	2017
Toyota Calya	151	2016
Wuling Conferro	167	2017
Honda Brio	170	2019
Rp200-300mn		
Toyota Avanza	206	2011
Daihatsu Xenia	208	2011
Suzuki Ignis	209	2017
Honda Mobilio	226	2014
Suzuki Ertiga	229	2018
Daihatsu Terios	230	2018
Nissan Livina	237	2019
Mitsubishi Xpander	238	2017
Wuling Cortez	239	2018
Toyota Rush	255	2018
Toyota Yaris	258	2014
Honda BRV	265	2016
Honda Jazz	265	2014
Toyota Sienta	270	2016
Wuling Almaz	302	2019
Above Rp300mn		
Honda HRV	351	2015
Toyota innova	366	2016
Toyota Fortuner	574	2018
Mitsubishi Pajero	587	2016

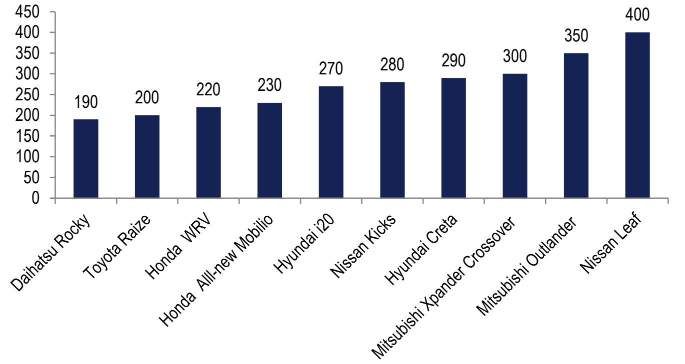
Source: IndoPremier

Fig. 9: Potential new model launches – at least 3-4 more launches in 4Q19 and up to 9 new launches in 2020

Brand	Model	Estimated price point	Estimated release date
Mitsubishi	Xpander Crossover	Rp280-300mn	Nov-19
Hyundai	i20	Rp270mn	Nov-19
DFSK	Glory I-Auto	Unknown	Nov-19
Nissan	Kicks	Rp280mn	Dec-19
Hyundai	Creta	Rp290mn	Dec-19
Mitsubishi	Outlander	Rp350mn	1H20
Honda	WRV	below Rp250mn	2020
Honda	Alll-new Mobilio	Rp200-260mn	2020
Wuling	Baojun	Rp240mn	2020
MG	Unknown	Unknown	2020
Proton	Low SUV model	Unknown	2020
Nissan	Leaf	Rp400mn	2020
Daihatsu	Rocky	Rp190-200mn	Late 2020
Toyota	Raize	Rp200-210mn	Late 2020

Sources: Various sources, IndoPremier

Fig. 10: Distribution of price point for potential new models – ASII's models' pricing shall remain most competitive



Sources: Various sources, IndoPremier

Competition from used car intensified during periods of weak economy

We estimate that used car demand has also been rising in recent years due to weak purchasing power and also the emergence of tech-based platforms, which helps buyers optimize used car purchases. We believe that this might have some adverse impact on new car sales as well.

While there is no definitive research and data on Indonesia's used car market, we gathered several data points and spoke to different sources in an attempt to get some colour on the trend and gauge any potential impact towards the mew car demand.

BPS' data shows that in Indonesia, total car population reached 26m at end of 2018 (i.e. summation of passenger and commercial cars). We make the following assumptions: 1) a car lifespan of 10-years, and 2) a simplified assumption that a car gets sold twice during its lifespan (at 4-years old when the financing term ends, and at 8-years old after another usage cycle).

Based on these assumptions, we inferred that there were c.2m used car transactions in 2018 – about 1.7x new car sales. *What we found was: the multiplier (i.e. used-car transaction / new car sales) have been rising from its bottom of 0.8-0.9x in 2013-2014 to 1.7x in 2018 (Fig 12).*

On an absolute basis, **we estimate that used car sales have grown 7% CAGR 2016-18, outpacing new car sales growth of +4% CAGR 2016-18**.

Data on used and new car financing also supports our thesis – **aggregate used car financing of 5 biggest car financing companies have grown 22% CAGR 2016-18, outpacing new car financing growth of 6% CAGR 2016-18** (note that used car financing also includes working capital loans given with vehicles as collateral, which explains the significantly higher growth vs. our estimate of the used car sales).

Note that the trend on higher used car sales traction was also concurrent with:

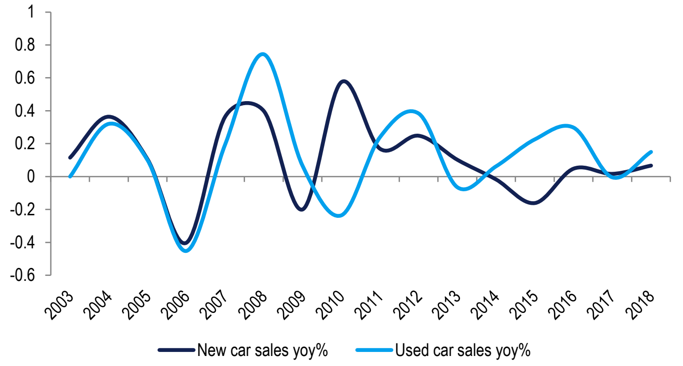
1) **A stagnant GDP, although the shift was more gradual** – weak purchasing power resulted in a shift away from new cars and towards used cars, which are priced lower.

   On the other hand, we also found that the shift from new car to used car during weak purchasing power (2007-2009) have been more gradual, while the return from used car to new cars have been more rapid (2009-2010). We do think this shows the sticky nature of Indonesian car buyers (i.e. perception that buying new cars are most likely better than used cars).
2) **Rising traction from digital platforms** (e.g. Carsome, Belimobilgue, Carmudi, etc), which provides more optimal pricing on used car transactions (i.e. better appraisal value and bypassing dealers) and higher convenience (some websites gives price quotes almost instantly).

   Based on our channel checks, *the combined transactions from a couple of the digital platforms could amount to 100-150k cars/year, which accounts for 10-13% annual car sales and 5-6% of the estimated used car transactions* (note that majority of used car transactions are still done through brick-and-mortar dealers/showrooms. Indeed, figure 14 show that the number of car listings coming from one of the platform has shown robust growth since 2013-2014 especially for used cars.

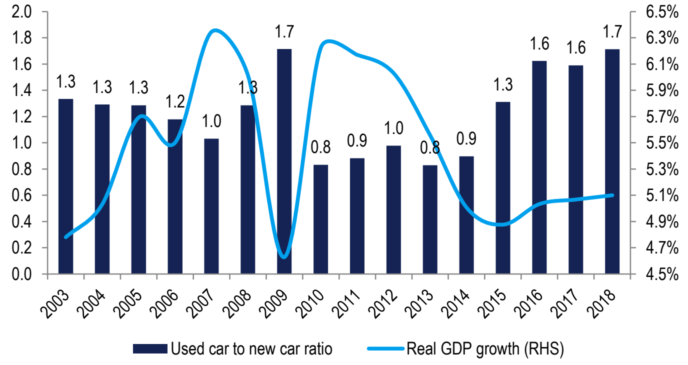
The rising used car traction could be offset by aggressive discounting scheme by the new car distributors/dealers, which may encourage buyers to favour new cars (e.g. narrow the price gap on older models vs. used car, albeit at the expense of lower margins in the short term – _our checks suggest that a Rp20-30mn difference between used and new car prices would still encourage buyers to opt for new cars_).

Fig. 11: We estimate that secondary car sales growth have been outpacing new car sales growth since 2014



Sources: BPS, Gaikindo, IndoPremier

Fig. 12: Used-car-to-new-car ratio has been rising since bottom of 2013-2014 amid stagnant GDP and rise in digital platforms



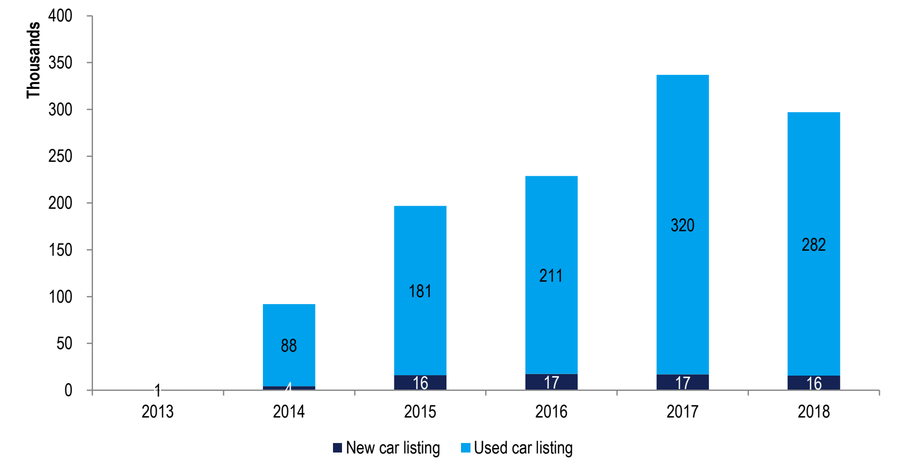
Sources: BPS, CEIC, Gaikindo, IndoPremier

Fig. 13: Car financing from top 5 multi-finance companies – used car financing has been outpacing new car financing in 2016-18

Aggregate top 5 multifinance companies	2014	2015	2016	2017	2018	CAGR 16-18
New car financing	40,646	37,981	48,494	50,915	54,969	6%
yoy%		-7%	28%	5%	8%	
Used car financing	17,818	16,310	16,404	21,578	24,402	22%
yoy%		-8%	1%	32%	13%	
Total	**58,464**	**54,291**	**64,898**	**72,493**	**79,372**	**11%**
yoy%		-7%	20%	12%	9%	

Sources: Company, IndoPremier

Fig. 14: Number of car listings in one of the digital platforms – majority of the listings are on used cars



Source: IndoPremier

Fig. 15: Comparison of used car and new car price – we think discounts given on new car prices should reduce the price gap and encourage buyers to remain engaged with the new car market

	Used price	Year	Price list for new	Discount	Effective new price (ie price list - discount)	Discount as % of price list	Difference effective new price - used price	Difference as % of price list
Avanza	155	2015	211	25	186	12%	32	15%
Xenia	136	2015	207	20	187	10%	51	25%
Rush	234	2018	253	0	253	0%	18	7%
Terios	216	2018	236	0	236	0%	20	8%
Innova	217	2015	366	35	331	10%	114	31%
Fortuner	287	2015	574	50	524	9%	237	41%
Xpander	218	2017	240	10	230	4%	12	5%

Source: IndoPremier

Volumes may have bottomed in 2019

We believe that we have seen the worst in 2019 and believe that the market is positioned to see a recovery in 2020-21.

Volumes have weakened in 2019 despite an upbeat expectation initially. As of 9M19, industry's wholesale 4W sales were down 12% yoy. Retail 4W volumes were also weak at -11% yoy. Our discussions with industry experts suggest that the *lacklustre YTD 4W sales were largely a function of a slowdown in the economy* (weak commodity prices and election overhang).

However, we also noticed a slight pick-up in recent months, especially for ASII. The national wholesale 4W sales in Sep19 were flat yoy but a saw a 3% pick-up mom. *ASII saw positive growth of 3% yoy (first month YTD to post a positive yoy growth) and a significant mom pick-up (+10% mom)* – this outpaces non-ASII sales of -5% yoy (-5% mom).

Among the non-ASII brands, Mitsubishi (-21% yoy/-11% mom) and Suzuki (-9% yoy/-6% mom) saw the weakest wholesale volume in Sep19, while Nissan (+502% yoy/-23% mom), Wuling (+72% yoy/+8% mom) and Honda (+13% yoy/+4% mom) were the strongest. **As such, ASII's market share improved to 53% in 9M19 from 50% in 9M18** – note that this is above its initial guidance of 50% for 2019.

The improvement has continued in Oct19 as well. Wholesale 4W volume was down 9% yoy but picked-up by 3% mom in Oct19. Retail volume (-5% yoy/+8% mom) saw an even more encouraging mom pick-up in Oct19.

Fig. 16: Wholesale 4W volume has seen a recovery in Sep19/3Q19, though we remain cautious going into 4Q as retail sales were weak

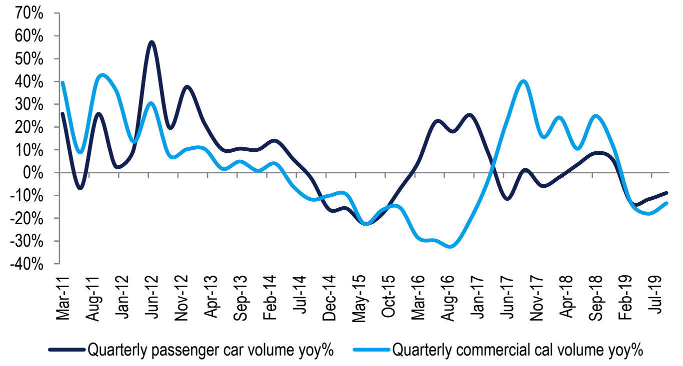
4W wholesale sales (in units)	9M19	9M18	yoy%	3Q19	3Q18	yoy%	2Q19	qoq%	Sep-19	Sep-18	yoy%	Aug-19	mom%
Toyota	244,499	257,400	-5%	90,139	95,954	-6%	77,094	17%	31,831	29,821	7%	28,933	10%
Daihatsu	132,988	147,513	-10%	45,965	52,584	-13%	36,324	27%	17,537	17,110	2%	15,415	14%
Isuzu	17,557	18,480	-5%	6,275	7,186	-13%	5,322	18%	2,077	2,762	-25%	2,360	-12%
UD Trucks	1,910	2,459	-22%	671	857	-22%	578	16%	136	300	-55%	345	-61%
Peugeot	78	88	-11%	33	35	-6%	22	50%	16	5	220%	10	60%
Astra total	**397,032**	**425,940**	**-7%**	**143,083**	**156,616**	**-9%**	**119,340**	**20%**	**51,597**	**49,998**	**3%**	**47,063**	**10%**
Mitsubishi	122,481	152,758	-20%	41,552	52,636	-21%	33,805	23%	12,712	16,156	-21%	14,240	-11%
Suzuki	71,469	91,077	-22%	24,912	30,147	-17%	23,688	5%	8,118	8,880	-9%	8,622	-6%
Nissan	10,526	5,392	95%	3,350	579	479%	3,274	2%	951	158	502%	1,228	-23%
Honda	97,321	117,742	-17%	38,234	41,048	-7%	30,242	26%	12,431	10,960	13%	11,909	4%
Wuling	13,808	12,317	12%	6,041	4,197	44%	5,014	20%	2,000	1,161	72%	1,849	8%
Hino	22,234	27,933	-20%	8,558	11,024	-22%	5,527	55%	3,129	3,888	-20%	2,971	5%
Others	18,806	23,596	-20%	6,726	6,735	0%	6,479	4%	2,005	2,110	-5%	2,521	-20%
Non-Astra total	**356,645**	**430,815**	**-17%**	**129,373**	**146,366**	**-12%**	**108,029**	**20%**	**41,346**	**43,313**	**-5%**	**43,340**	**-5%**
National	**753,677**	**856,755**	**-12%**	**272,456**	**302,982**	**-10%**	**227,369**	**20%**	**92,943**	**93,311**	**0%**	**90,403**	**3%**

4W retail sales (in units)	9M19	9M18	yoy%	4Q18	4Q17	yoy%	3Q18	qoq%	Sep-19	Sep-18	yoy%	Aug-19	mom%
Toyota	239,417	261,801	-9%	82,730	90,182	-8%	80,605	3%	26,529	28,304	-6%	28,022	-5%
Daihatsu	127,639	144,716	-12%	39,613	49,416	-20%	40,536	-2%	13,112	16,190	-19%	13,696	-4%
Isuzu	17,697	17,800	-1%	6,614	7,225	-8%	5,233	26%	2,290	2,787	-18%	2,299	0%
UD Trucks	1,570	2,270	-31%	426	747	-43%	470	-9%	106	295	-64%	194	-45%
Peugeot	78	89	-12%	33	36	-8%	22	50%	16	6	167%	10	60%
Astra total	**386,401**	**426,676**	**-9%**	**129,416**	**147,606**	**-12%**	**126,866**	**2%**	**42,053**	**47,582**	**-12%**	**44,221**	**-5%**
Mitsubishi	121,404	148,225	-18%	39,825	51,963	-23%	37,163	7%	11,943	16,872	-29%	13,730	-13%
Suzuki	74,822	87,675	-15%	26,747	30,199	-11%	24,508	9%	8,326	9,211	-10%	9,114	-9%
Nissan	9,607	5,326	80%	3,614	997	262%	3,304	9%	915	351	161%	1,459	-37%
Honda	109,691	121,873	-10%	38,152	37,422	2%	31,342	22%	12,323	11,424	8%	13,127	-6%
Wuling	15,300	11,500	33%	5,881	3,969	48%	5,384	9%	1,842	1,003	84%	1,973	-7%
Hino	22,261	28,353	-21%	8,246	10,922	-25%	5,583	48%	2,974	3,680	-19%	2,834	5%
Others	19,292	22,047	-12%	7,116	6,769	5%	6,060	17%	2,216	2,232	-1%	2,535	-13%
Non-Astra total	**372,377**	**424,999**	**-12%**	**129,581**	**142,241**	**-9%**	**113,344**	**14%**	**40,539**	**44,773**	**-9%**	**44,772**	**-9%**
National	**758,778**	**851,675**	**-11%**	**258,997**	**289,847**	**-11%**	**240,210**	**8%**	**82,592**	**92,355**	**-11%**	**88,993**	**-7%**

Sources: Gaikindo, IndoPremier

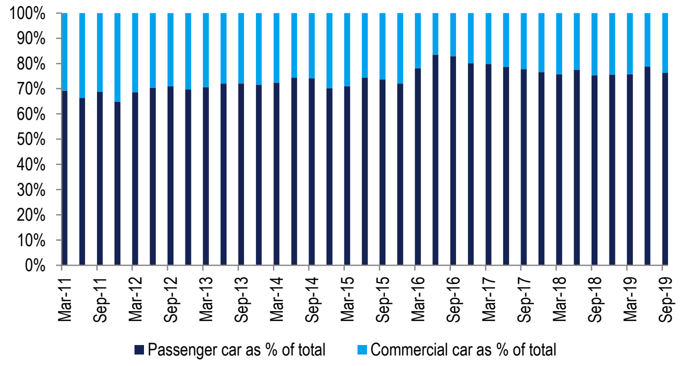
By type, we also see a pick-up in both passenger and commercial vehicles in 3Q19, despite relatively stagnant commodity prices. We believe that this is a positive sign of higher spending enthusiasm from both consumers and businesses.

Fig. 17: Both passenger and commercial 4W volumes have started to see a slight pick-up in 3Q19



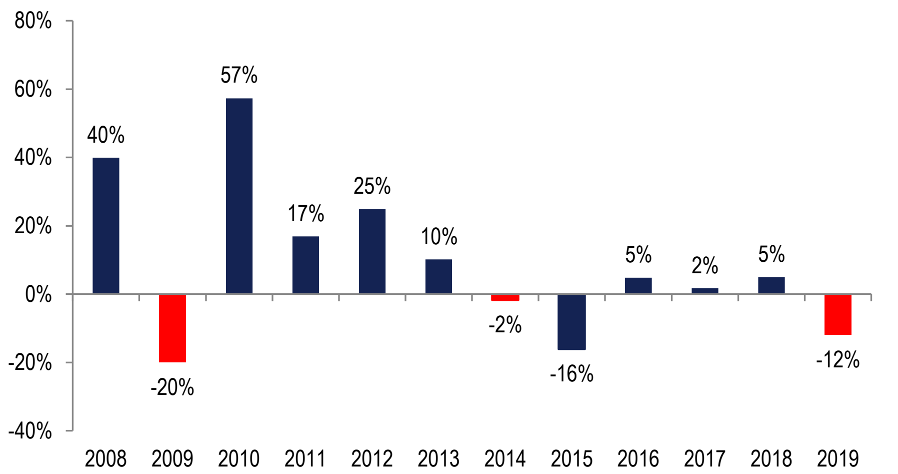
Sources: Gaikindo, IndoPremier

Fig. 18: Commercial cars account for c.24% total 4W volume currently (peak: 35% in 2011)



Sources: Gaikindo, IndoPremier

Fig. 19: Lacklustre volumes around election, though previous instances were exacerbated by weak commodity prices (2014-2015) and crisis (2009)



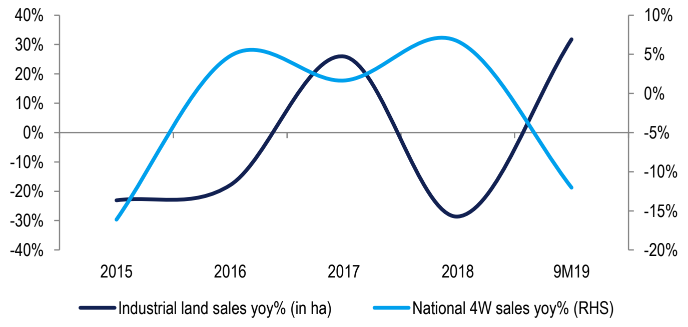
Sources: Gaikindo, IndoPremier

A rosier outlook in 2020-21

We believe that the general economy is set to see an improvement in 2020-21 on the back of 1) recent pick-up in investments, 2) stabilizing commodity prices, and 3) a more stable political environment post the election year.

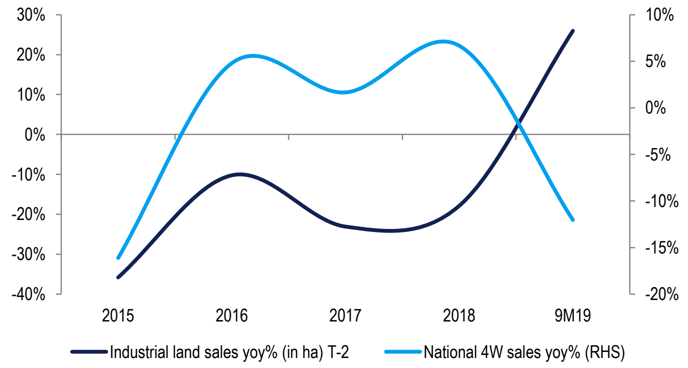
Investment growth has had a strong direct correlation to the 4W sales. Figure 20 and 22 shows the correlation between industrial land sales (which we are using as a proxy for investments) with 4W volume growth – historically the industrial land sales growth (i.e. new investments) clearly serve as a strong leading indicator of 4W sales as well (Fig 21 and 23 show that both variables correlate with an approximately 1-2 year lag). We believe that the correlation still holds. In 2016, industrial land sales dropped 16% yoy – this was followed by lower 4W volume growth of 2% yoy in 2017 (vs. 5% in 2016). In 2017, industrial land sales grew 26% yoy, which was followed by a pick-up in 4W volume to 7% yoy. In 2018, industrial land saw a 28% yoy drop – this was followed by a weak YTD sales in 2019 (-12% yoy as of 9M19). In 9M19, however, industrial land sales had seen a significant pick-up (+32% yoy). We believe these points to a rosier 4W volume outlook in 2020-21.

Fig. 20: 4W sales volume is highly correlated with investment growth (as proxied by industrial land sales), but with a lag



Sources: Company, Gaikindo, IndoPremier

Fig. 21: Industrial land sales growth (T-2) vs. national 4W sales – we think the correlation broke in 2019 due to election (i.e. spending remains weak even though investment has picked up in 2017)

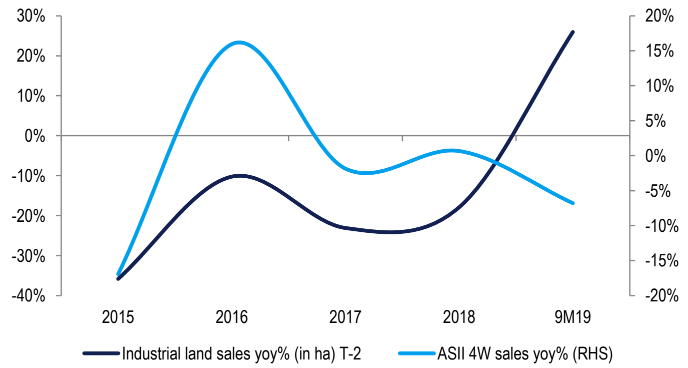


Sources: Company, Gaikindo, IndoPremier

Fig. 22: Industrial land sales vs. ASII's 4W sales

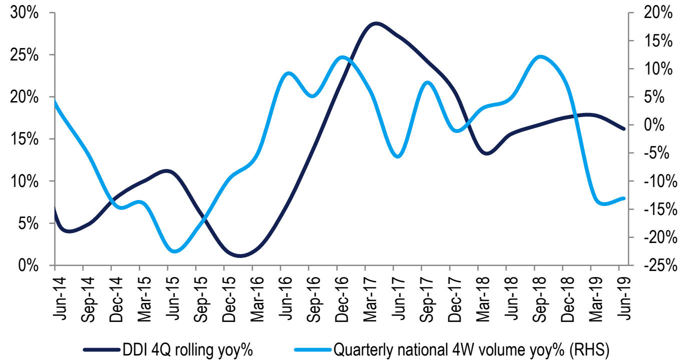
Sources: Company, Gaikindo, IndoPremier

Fig. 23: Industrial land sales growth (T-2) vs. ASII's 4W sales – we think the correlation broke in 2019 due to election (i.e. spending remains weak even though investment has picked up in 2017)



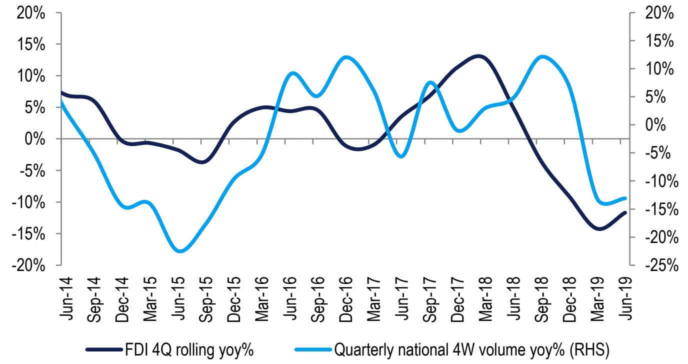
Sources: Company, Gaikindo, IndoPremier

Fig. 24: Domestic investments have remained strong…



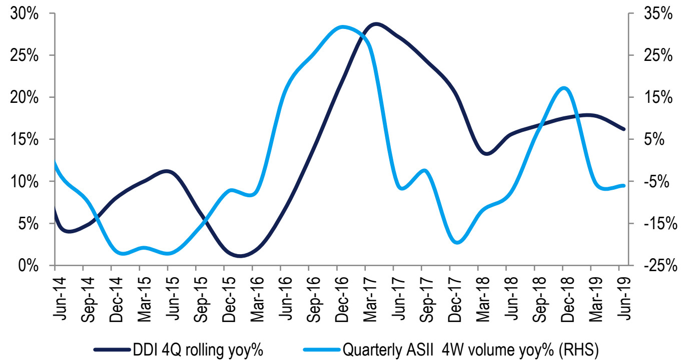
Sources: CEIC, Gaikindo, IndoPremier

Fig. 25: …while foreign investments have just started to pick-up in 2Q19



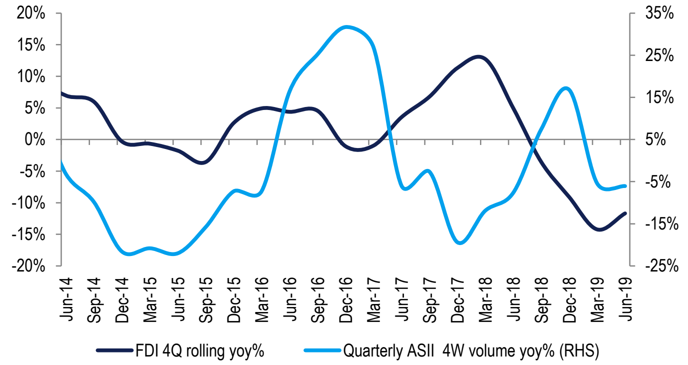
Sources: CEIC, Gaikindo, IndoPremier

Fig. 26: Domestic investment growth vs. ASII's 4W volume growth



Sources: CEIC, Gaikindo, IndoPremier

Fig. 27: Foreign investment growth vs. ASII's 4W volume growth



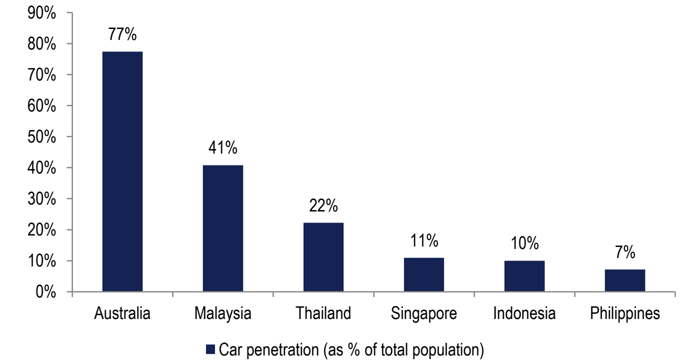
Sources: CEIC, Gaikindo, IndoPremier

Furthermore, we believe that the macro outlook Indonesia also remains supportive of 4W volume in the long term amid the following:

1) **Indonesia has lower 4W sales penetration compared to ASEAN peers, especially ex-Jakarta** – based on our analysis, the rate of car penetration in Indonesia (i.e. number of registered cars as % of population) ranks as one of the lowest 9% vs. its other ASEAN peers such as Thailand (22%), Malaysia (41%), and Australia (77%). We think this implies huge market potential for Indonesia' 4W sales going forward.

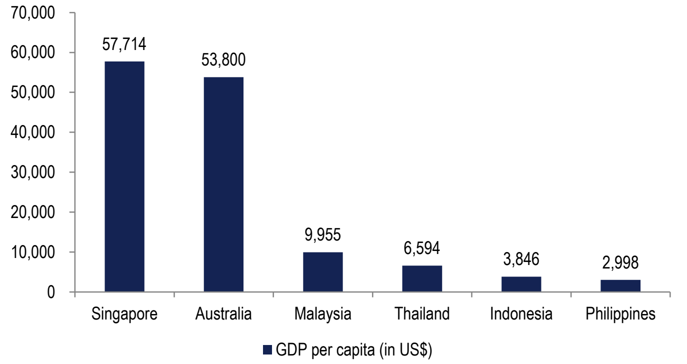
   The caveat lies in the heavy concentration of car ownership in Jakarta, largely in-line the much higher purchasing power in Jakarta. We believe that an increase in car penetration in Indonesia will be contingent in higher purchasing power from other regions, especially other Java regions, which seems to have very low car penetration rates (6% vs. ex-Java's 11%).

Fig. 28: Car penetration (as % of total population) of peer countries – Indonesia's 4W penetration is much lower vs. peers



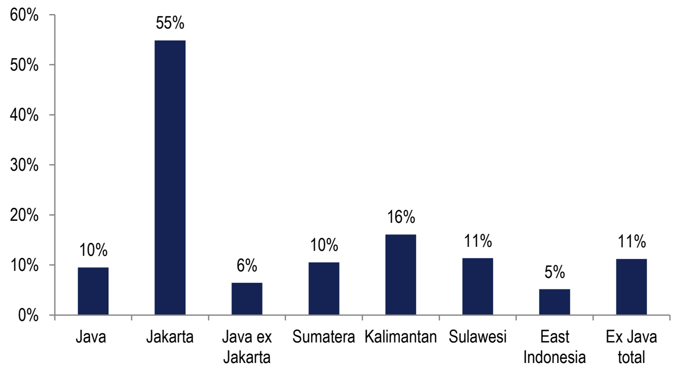
Sources: CEIC, IndoPremier

Fig. 29: GDP per capita of peer countries – Indonesia's low 4W penetration is in-line with significantly lower GDP/capita



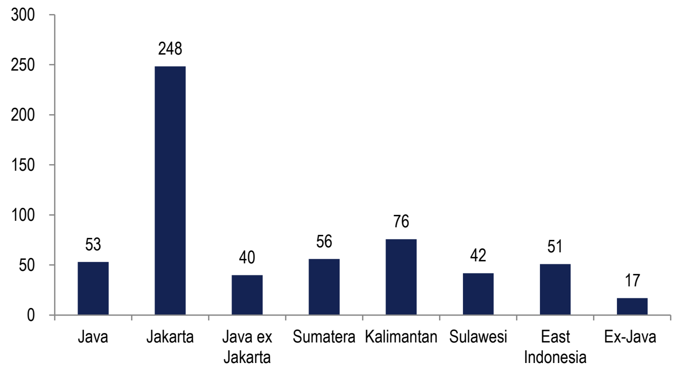
Sources: CEIC, IndoPremier

Fig. 30: Car penetration by region – heavy concentration of car ownership in Jakarta, though still plenty of opportunity in Java



Sources: CEIC, IndoPremier

Fig. 31: Annual GDP per capita by region (in Rp mn) – further increase car penetration will be contingent on a pick-up in regional purchasing power



Sources: CEIC, IndoPremier

2) **Relatively affordable pricing vs. peers** – our analysis suggests that relative to the average worker's income, buying a car in Indonesia (especially Jakarta) is still relatively affordable. Assuming a similar financing scheme (5 year tenor) and applying local interest rates/down payment requirements, the ratio of the monthly instalment for the car relative to each country's GDP/capita remains lower than peers such as Singapore, Malaysia, Thailand, Philippines, and Vietnam. Again, we do think that higher penetration for Indonesia will be contingent on a catch-up in GDP per capita for non-Jakarta regions.

Fig. 32: Simulation of car affordability – a typical car loan in Indonesia is much more affordable compared to ASEAN peers (for Indonesia, we are using Jakarta's GDP per capita numbers)

Indonesia car loan simulation		Singapore car loan simulation	
Car price - Rp mn (Avanza)	200	Car price - S$ k (Sienta)	89
Downpayment requirement (%)	25%	Downpayment requirement (%)	30%
Downpayment - Rp mn	50	Downpayment - S$ k	26.7
Value of loan taken - Rp mn	**150**	**Value of loan taken - S$ k**	**62.3**
Loan tenor (in years)	5	Loan tenor (in years)	5
Interest rate p.a. (%)	5%	Interest rate p.a. (%)	3%
Future value of loan - Rp mn	**192.5**	**Future value of loan - S$ k**	**71.7**
Monthly instalment - Rp mn/month	**3.2**	**Monthly instalment - S$ k/month**	**1.2**
Annual GDP per capita - Rp mn	248.0	Annual GDP per capita - S$ k	78.5
Monthly GDP per capita - Rp mn	20.7	Monthly GDP per capita - S$ k	6.5
Monthly instalment as % of monthly GDP per capita	**16%**	**Monthly instalment as % of monthly GDP per capita**	**18%**

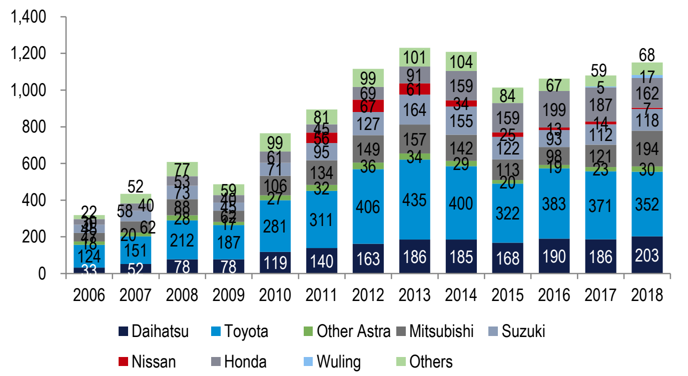
Malaysia car loan simulation		Thailand car loan simulation	
Car price - MYR k (Avanza)	74	Car price - THB k (Avanza)	605
Downpayment requirement (%)	10%	Downpayment requirement (%)	20%
Downpayment - MYR k	7	Downpayment - THB k	121
Value of loan taken - MYR k	**66**	**Value of loan taken - THB k**	**484**
Loan tenor (in years)	5	Loan tenor (in years)	5
Interest rate p.a. (%)	3%	Interest rate p.a. (%)	3%
Future value of loan - MYR k	**78.1**	**Future value of loan - THB k**	**562.2**
Monthly instalment - MYR k/month	**1.3**	**Monthly instalment - THB k/month**	**9.4**
Annual GDP per capita - MYR k	41.3	Annual GDP per capita - THB k	200.0
Monthly GDP per capita - MYR k	3.4	Monthly GDP per capita - THB k	16.7
Monthly instalment as % of monthly GDP per capita	**38%**	**Monthly instalment as % of monthly GDP per capita**	**56%**

Sources: CEIC, various sources, IndoPremier

ASII's market share outlook remains solid

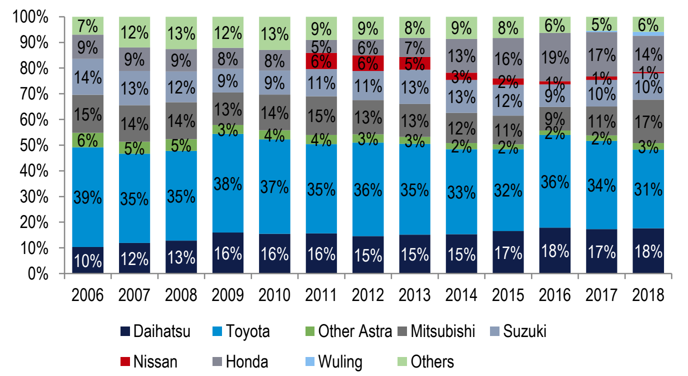
As demand weakened, the industry outlook was further exacerbated by intense competition starting from 2013, especially in LMPV segment. For example, Suzuki launched its Ertiga model in 2013, followed by Honda's Mobilio in 2014, Honda's BRV in 2016, Mitsubishi Xpander in 2017, Wuling in 2018, and Nissan's New Livina in 2019 – all of which goes directly against Toyota and Daihatsu's flagship products: Avanza, Xenia, Rush, and Terios.

Fig. 33: Annual wholesale 4W volume by brand



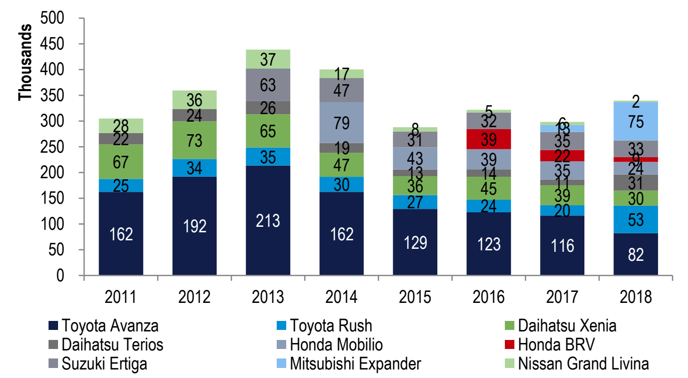
Sources: Gaikindo, IndoPremier

Fig. 34: Wholesale 4W market share trend – competition has been intensifying since 2013



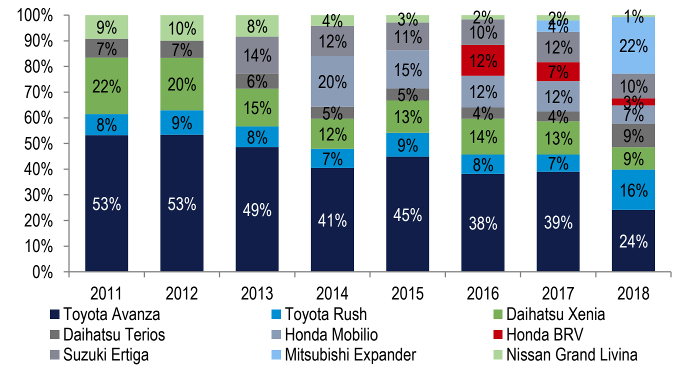
Sources: Gaikindo, IndoPremier

Fig. 35: Annual LMPV sales by model – plenty of new competition coming in since 2013, though Xpander (2017-18) was the fiercest



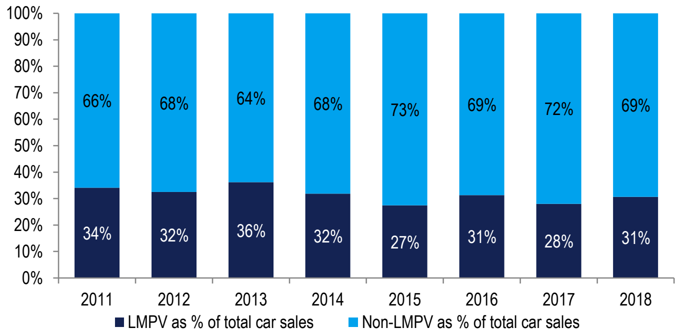
Sources: Gaikindo, IndoPremier

Fig. 36: Market share by model – Xpander's market share rose significantly to 22% in 2018 from 4% in 2017



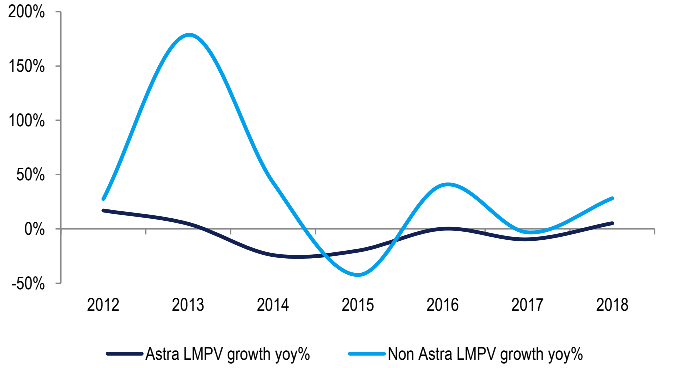
Sources: Gaikindo, IndoPremier

Fig. 37: LMPV accounts for c.30% of Indonesia's total 4W sales



Sources: Gaikindo, IndoPremier

Fig. 38: Since 2012 (except 2015), non-Astra LMPV sales volume growth has outpaced Astra's



Sources: Gaikindo, IndoPremier

It is evident that Mitsubishi's Xpander was by far the biggest contender in the LMPV segment in recent history – Mitsubishi's overall 4W market share saw a surge to c.17-18% in 2018 from a mere 9% in 2016 prior to the launch of Xpander. In the LMPV segment, Xpander's market share rose to 22% in 2018 from only 4% in 2017 during its initial launch.

However, while competition remains present, the magnitude in 2019 was waning down – over the years we observed that sales of new models previously launched (e.g. Mobilio, Ertiga, BRV) tend to normalize significantly after the 12 months.

Following the same trend, we have also started to see Xpander's volumes trending down in 2019 (averagely monthly sales volume down from 6.2k units in 2018 to 5.5k units in 201). We also found that inventory level for Xpander has been rising significantly in the last 2-3 months, which may indicate waning demand, this point to lower wholesale volume in the coming months for Xpander, in our view.

At the same time, ASII's product line-up has remained competitive. The launch of all-new Terios and Rush has been largely successful, while Avanza volumes have remained relatively consistent yoy. Xenia was the only one to see yoy weakness among ASII's main models. We also believe that the new models Daihatsu Rocky and Toyota Raize previously introduced in the 2019 Tokyo Motor Show could also eventually make its way to Indonesia – this will further support ASII's market share, in our view.

Fig. 39: Monthly sales of LMPV – sales of new models tend to normalize significantly after the first year

Average monthly sales	2011	2012	2013	2014	2015	2016	2017	2018	2019
Toyota Avanza	13,531	16,012	17,788	13,506	10,767	10,221	9,693	6,847	6,809
Toyota Rush	2,084	2,836	2,917	2,467	2,237	2,031	1,670	4,429	5,070
Daihatsu Xenia	5,570	6,118	5,384	3,893	3,022	3,727	3,211	2,460	1,996
Daihatsu Terios	1,868	1,996	2,140	1,565	1,115	1,187	945	2,599	1,398
Nissan Grand Livina	2,346	2,993	3,063	1,382	702	443	517	203	867
Suzuki Ertiga	0	0	5,277	3,918	2,580	2,677	2,945	2,716	2,135
Honda Mobilio	0	0	0	6,607	3,578	3,290	2,953	2,031	1,348
Honda BRV	0	0	0	0	0	3,222	1,828	762	298
Mitsubishi Expander	0	0	0	0	0	0	1,089	6,256	5,490
Wuling Conferro	0	0	0	0	0	0	413	922	537
Wuling Cortez	0	0	0	0	0	0	8	488	244
Wuling Almaz	0	0	0	0	0	0	0	0	627
Total LMPV	**25,398**	**29,954**	**36,569**	**33,337**	**24,001**	**26,797**	**25,271**	**29,714**	**26,818**

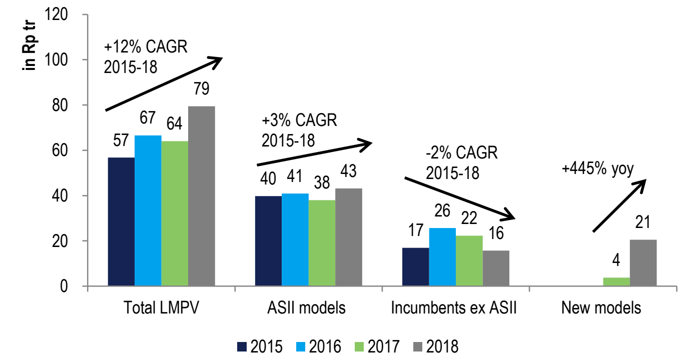
Sources: Gaikindo, IndoPremier

Another angle we explored is to look at the total value of the car sales – despite stagnant car sales volume, we believe that overall value (i.e. in Rp bn) of the 4W market still saw strong growth. **Based on our estimate, the value of national LMPV sales (in Rp bn) still grew 12% CAGR 2015-18 to Rp80tr in 2018 vs. Rp57tr in 2015**, while volume grew 7% CAGR 2015-18 to 360k units in 2018 vs. 290k units in 2015 (Fig 40-43).

ASII's estimated LMPV sales value grew 3% CAGR 2015-2018 vs. volume growth of -2% CAGR 2015-18, which we partly attribute towards the recent shift towards small SUVs (higher proportion of Rush/Terios sales, which has higher ASPs vs. Avanza/Xenia). Accordingly in 2019, we estimate that ASII's LMPV sales value grew 8% yoy in 9M19, besting the industry's -4% yoy. In terms of volume, ASII's LMPV sales grew 4% yoy vs. industry's -8% yoy in 9M19. We conclude the following from this exercise:

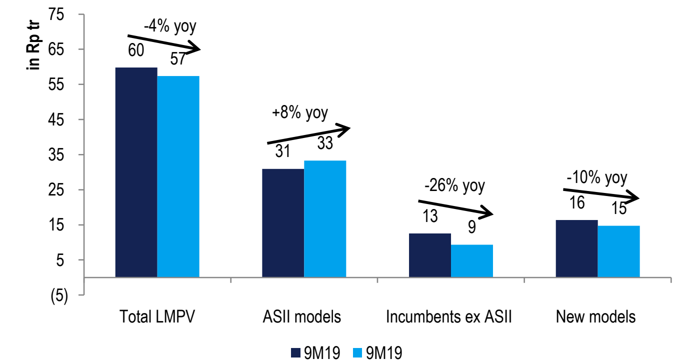
1) **The robust LMPV sales growth in 2018 (+24% yoy in value and +18% yoy in volume) was largely absorbed by new models (+445% yoy in value land +408% yoy in volume)**. *We think this proves the point that new models encourage incremental buyers in the market.*
2) **ASII's brand equity remains strong despite competition from new models** – ASII's LMPV sales still grew in 2018 (+14% yoy in terms of value and +5% yoy in terms of volume), while non-ASII incumbents (i.e. Nissan, Suzuki, Honda) saw lacklustre growth (-29% yoy in terms of value and -31% yoy in terms of volume). This continued in 2019.

Fig. 40: We estimate that national LMPV sales value grew 12% CAGR 2018-21 – ASII's LMPV sales value grew 3% CAGR 2018-21



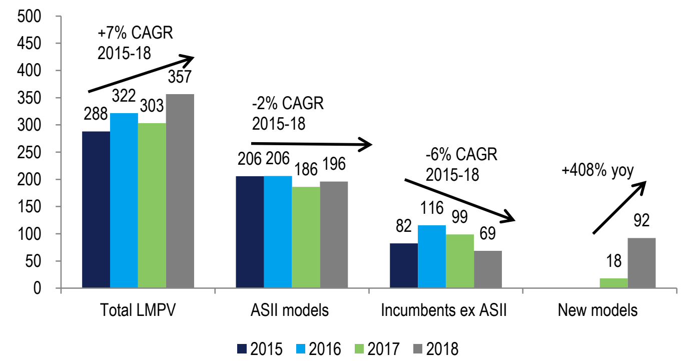
Sources: Gaikindo, IndoPremier

Fig. 41: As of 9M19, we national LMPV sales value fell 5% yoy, while ASII's grew 5% yoy. Sales of new models have declined



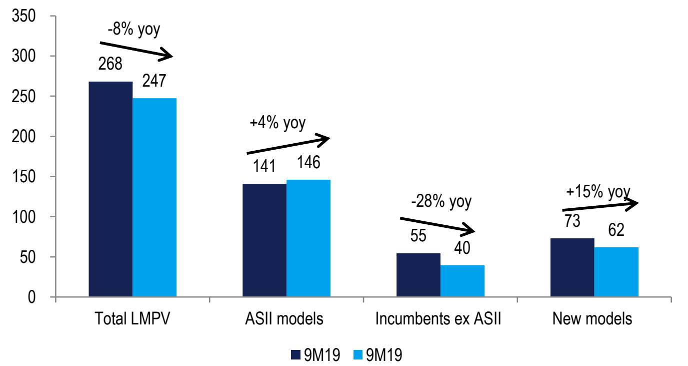
Sources: Gaikindo, IndoPremier

Fig. 42: In terms of units, national LMPV sales grew 7% CAGR 2018-21 – ASII's LMPV sales volume were flattish since 2015



Sources: Gaikindo, IndoPremier

Fig. 43: As of 9M19, national LMPV sales volume fell 8% yoy – ASII LMPV sales volume, however, still grew 4% yoy



Sources: Gaikindo, IndoPremier

Strong market share points to healthy margins

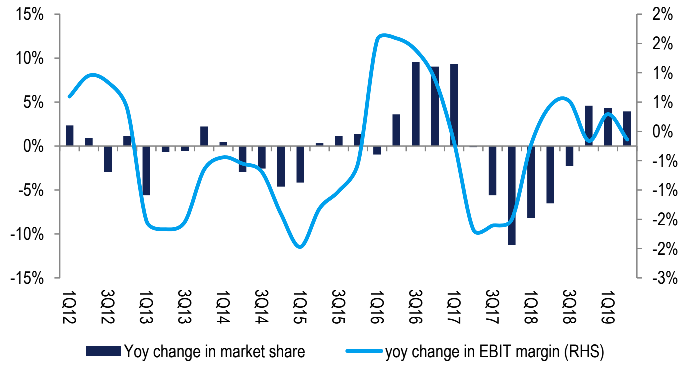
We expect ASII's market share to pick-up to 53-54% in 2020-21 from c.51% in 2019 on the back of its strong distribution network and brand equity, coupled with waning competition. Potential new launches in 2020-21 shall also support a robust market share outlook, in our view. We think this will be positive for its overall margin eventually.

ASII posted a negative auto EBIT margin of 1.6% in 4Q18 – this is only the second time that its auto segment has posted an operating loss – down from the peak of 5% in 4Q13. In 2Q19 EBIT margin also saw a significant drop to 0.1% vs. 1.8% in 1Q19.

While abnormally low margins in 4Q18 and 2Q19 were partly attributed towards one-off items (e.g. relocation of training facilities, one-off opex expenses related to CSR and sponsorship), we found that the **loss in market share also contributed to this trend** (*especially in 4Q18 as ASII raised the discounts given on Avanza/Xenia by up to 50% per car per unit due to competition and ahead of new facelift in Jan19, based on our estimates*). Fig 44 clearly shows the correlation between market share and auto margins.

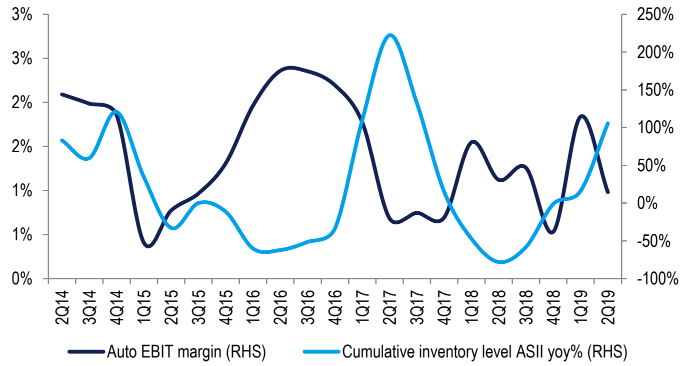
We view that the downside to ASP/margins are limited currently amid improving market share and waning competition. *ASII's relatively new-line up (i.e. Rush/Terios launched in 2018, Avanza/Xenia just had its facelift in Jan19) should also limit the probability of heavy discounting*. Biggest risk to auto margins would be worsening competition/retail demand, which shall lead to heavy discounting.

Fig. 44: Changes in market share are highly correlated with changes in auto EBIT margin



Sources: Company, Gaikindo, IndoPremier

Fig. 45: Higher inventory level might cause higher discounting, which shall be adverse for margins



Sources: Company, Gaikindo, IndoPremier

Risks from regulation changes, a shift towards EV?

Government is having talks of changing the scheme for luxury tax on cars from cylinder-based to fuel-efficiency based (i.e. higher taxes for less efficient cars). Our preliminary estimates suggest that the implementation on of such taxes would lead to c.8-13% price increase for current LMPV models, though the regulation will only be effective in 2020-21. Furthermore, government also plans to implement a 3% tax on the LCGC models.

We expect ASII's LMPV models to see c.8% increase in effective pricing, which is similar to its peers except for Xpander (we expect a higher price increase of 13% due to slightly worse fuel efficiency). While the higher price might adversely impact overall volume, we think overall market share will be relatively unchanged as most models will see a uniform increase in prices.

Fig. 46: New luxury tax (PPnBm) scheme – now based on fuel efficiency (i.e. lower tax rates for more efficient cars)

		Current tax scheme (based on cc)					Proposed tax cheme (based on fuel efficiency)			
Type	Category	Cc	Type	Gasoline	Diesel	Tax rate (%)	Cc	Gasoline consumption (km/l)	Diesel consumption (km/l)	Tax rate (%)
Passenger Vehicle	<10 passengers	up to 1500	Non-sedan/station wagon	All	All	10%	up to 1500	<9.3 9.3-11.5 11.6-15.4 >15.5	<10.5 10.5-13 13.1-174.4 >17.5	40% 25% 20% 15%
		1500-2500	Non-sedan/station wagon	All	All	20%	1500-3000	<9.3 9.3-11.5 11.6-15.4 >15.5	<10.5 10.5-13 13.1-174.4 >17.5	40% 25% 20% 15%
		up to 1500	Sedan/station wagon	All	All	30%				
		2500-3000	Non-sedan/station wagon	All	All	40%				
		1500-3000	Sedan/station wagon	All	All	40%				
		>3000	All	All	All	125%				
Commercial	Double Cabin	All	All	All	All	20%	up to 1500	<11.6 11.6-15.5 >15.5	<13.1 13.1-17.4 >17.5	15% 10% 5%
		All	All	All	All	20%	1500-3000	<11.6 11.6-15.5 >15.5	<13.1 13.1-17.4 >17.5	15% 10% 5%
		All	All	All	All	20%	>3000	<11.6 11.6-15.5 >15.5	<13.1 13.1-17.4 >17.5	15% 10% 5%
	Freight	All	All	All	All	0%	All	All	All	0%

Sources: Various sources, Ministry of Finance, IndoPremier

Fig. 47: Our preliminary estimate on the impact of the new carbon based tax scheme – the LMPV models should see a 8-13% increase in pricing due to the new tax scheme

Models	PPn%	Current PPnBM	Current price (Rp m/unit)	Fuel efficiency (km/litre)	Proposed PPnBM	Base price	New price (Rp m/unit)	Price difference (Rp m/unit)	Price difference)
Avanza	10%	10%	194	11.6-15.5	20%	162	210	16	8%
	10%	10%	221		20%	184	239	18	8%
Xenia	10%	10%	187	11.6-15.5	20%	156	203	16	8%
	10%	10%	218		20%	182	236	18	8%
Rush	10%	10%	244	11.6-15.5	20%	203	264	20	8%
	10%	10%	265		20%	221	287	22	8%
Terios	10%	10%	202	11.6-15.5	20%	168	219	17	8%
	10%	10%	255		20%	213	276	21	8%
Ertiga	10%	10%	196	11.6-15.5	20%	163	212	16	8%
	10%	10%	242		20%	202	262	20	8%
Livina	10%	10%	199	11.6-15.5	20%	166	216	17	8%
	10%	10%	262		20%	218	284	22	8%
Mobilio	10%	10%	195	11.6-15.5	20%	163	211	16	8%
	10%	10%	247		20%	206	268	21	8%
Xpander	10%	10%	206	9.3-11.5	25%	172	232	26	13%
	10%	10%	261		25%	218	294	33	13%

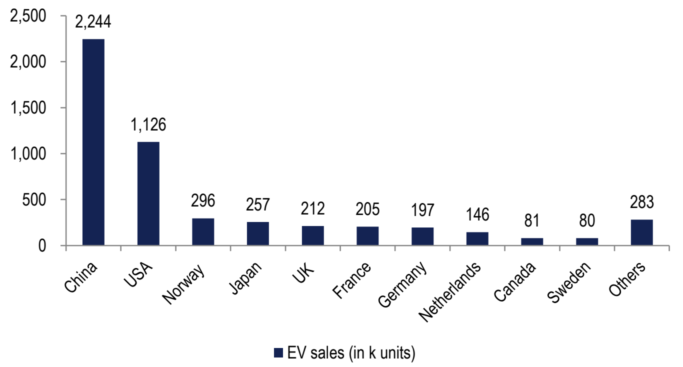
Sources: IndoPremier

The new regulation draft clearly shows that the government is slowly shifting towards environmentally-friendly technologies. Previously, media reports quoted the government's plan to implement 0% luxury tax rates on electric cars to make it more affordable.

Our checks with several sources also suggest that the introduction of electric vehicles might come sooner than expected – one of the prominent brands in the field is already making progress to introduce electric motorcycles to Indonesia. The general concern would be price and key issue, both of which seem addressable.

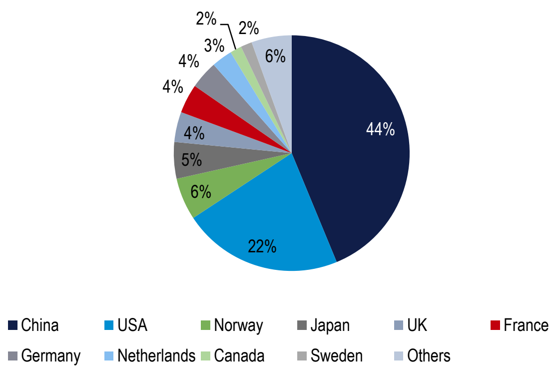
We think that EV's traction in Indonesia still might take quite some time as price would remain the key issue. Even in the United States (2nd largest consumer of EVs), price of full EVs are still twice as high as the hybrid/internal combustion based vehicles. Furthermore, we think the lack of assurance on resale value and infrastructure (i.e. charging stations, affordable battery replacement, etc) might further deter traction in the initial years of its introduction.

Fig. 48: Estimate of global EV sales in 2018 – China (2.2m units) saw the most EV unit sales in 2018, followed by USA (1.1m units)



Sources: Various sources, IndoPremier

Fig. 49: By country, China and USA account for c.66% of global EV sales



Sources: Various sources, IndoPremier

Fig. 50: EV, hybrid, and non-EV price comparison in USA – even in USA where EV is much more common, the price gap is still significant vs. non-EV cars

Hybrid and non-EV car price comparison in USA	Non-EV	Hybrid	Difference
Toyota Camry	24,295	28,400	17%
Toyota Corolla	19,600	23,100	18%
Honda Accord	23,720	25,320	7%
Average	**22,538**	**25,607**	**14%**

EV, Hybrid, and non-EV car price comparison in USA	
Average EV price	61,074
Average Hybrid car price	29,123
Average non-EV car price	21,031
EV premium to hybrid	110%
EV premium to non-EV	190%

Sources: Various sources, IndoPremier

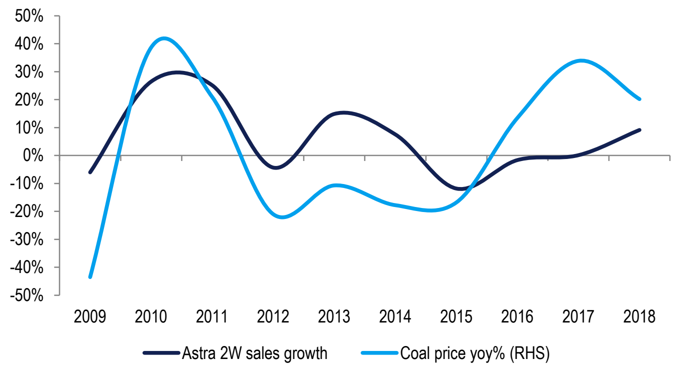
Pick-up in 2W sales contingent on better commodity prices, budget is unfavourable

The industry 2W sales posted robust growth of 8% yoy in 2018, a rebound after -9% CAGR 2014-17. Weak growth in 2014-17 was largely in-line with the decline in commodity prices. As commodity prices picked up in 2017, especially coal, 2W sales also started to pick-up.

Our analysis showed that commodity prices (especially coal and CPO) were some of the biggest drivers for 2W sales in Indonesia. Government spending (especially subsidy) seems to have a pretty tight correlation as well with overall 2W sales growth. For ASII 2W market share has been strong. Its market share in the 2W segment rose to 75% in 2018 from 46% in 2009, and we expect this trend to continue.

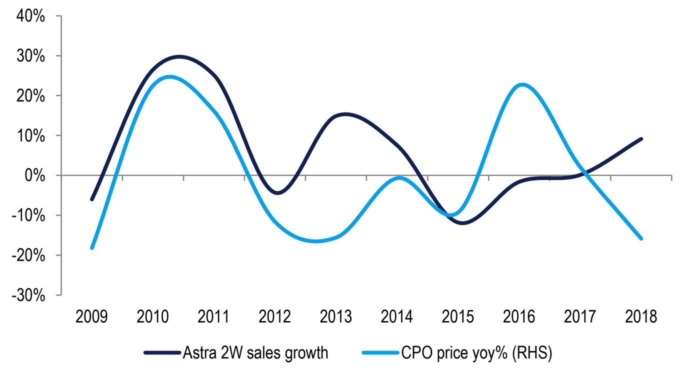
CPO prices might have recovered YTD, although we think that coal price will continue its weakness in the medium term. As such, we believe that the industry 2W volume will continue to normalize in 2019-21, which means a relatively flattish CAGR in 2018-21.

Fig. 51: 2W sales highly correlated with commodity prices such as coal price..



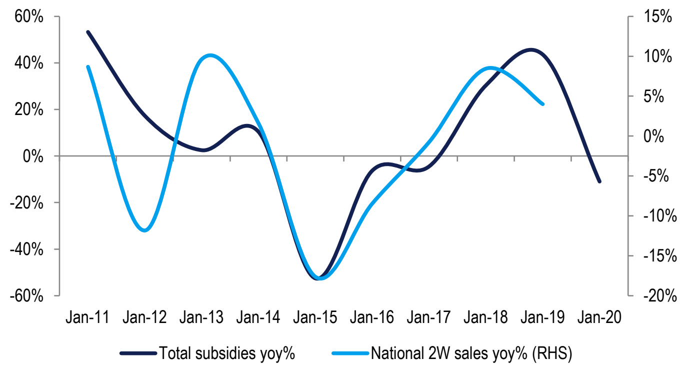
Sources: AISI, Bloomberg, Company, IndoPremier

Fig. 52: …as well as CPO prices



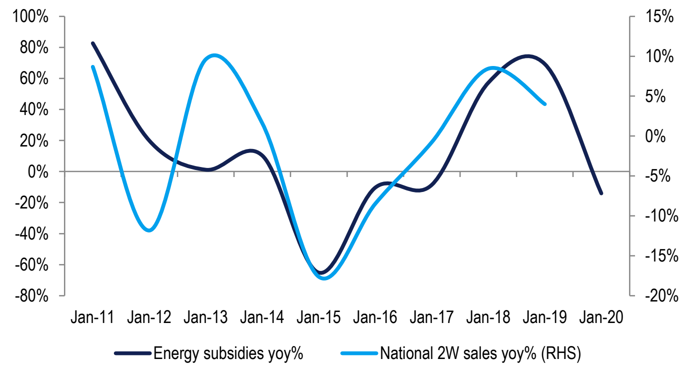
Sources: AISI, Bloomberg, Company, IndoPremier

Fig. 53: Changes in subsidies greatly affect 2W sales growth…



Sources: AISI, Bloomberg, MoF, IndoPremier

Fig. 54: …especially energy subsidies – lower subsidies in 2020 might suggest lower 2W sales in 2020



Sources: AISI, Bloomberg, MoF, IndoPremier

Robust growth from financial services

Financial services division posted a net profit of Rp4.8tr in 2018, accounting for c.28% of ASII's net income. The core of financial services division mainly support the group's main business (4W and 2W), such as FIF (2W financing), Astra Sedaya Finance (4W Financing), SAN and Komatsu Finance (HE financing), and Asuransi Astra Buana (AAB – insurance for 2W and 4W).

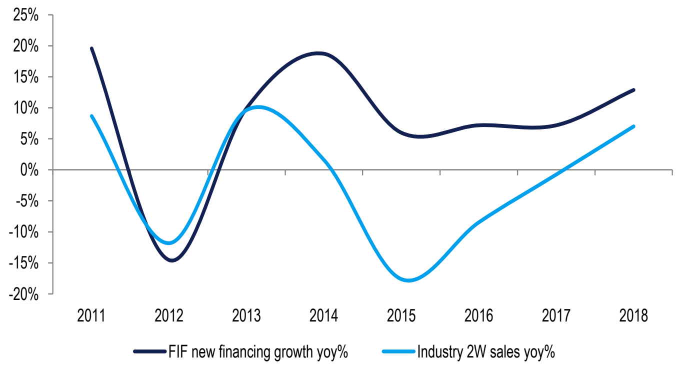
FIF the largest contributor for the segment (Rp2.3tr net profit in 2018 – 48% of total division's net income) followed by Asuransi Astra Buana (Rp1tr – 22% of total) and Astra Sedaya Finance (Rp910bn – 19% of total). In 2018, the financial services division posted a 28% increase in net income. FIF was the largest contributor (+7% yoy), largely driven by 13% increase in new financing and lower cost of funds (from 9.7% in 2017 to 8.9% in 2018).

Astra Sedaya Finance posted 11% net profit growth in 2018, supported by decent growth in 4W market – overall financing grew 7% yoy. Net interest margin fell slightly to 12.3% in 2018 vs. 12.4% in 2017. Bulk of the net profit growth was driven by lower provisions (-14% yoy) as credit costs improved to 3.9% in 2018 from 4.6% in 2017.

Asuransi Astra Buana (AAB) is next – in 2018, it posted a net profit of Rp965bn (+4% yoy). For AAB, re-insuring of auto business is the largest driver (c.60% of total premiums written). We expect gross written premium growth to be modest (+1% yoy) as we expect flattish growth in the 4W market. Concurrently, net profit growth in 2019 is expected to be muted as well (+1% yoy).

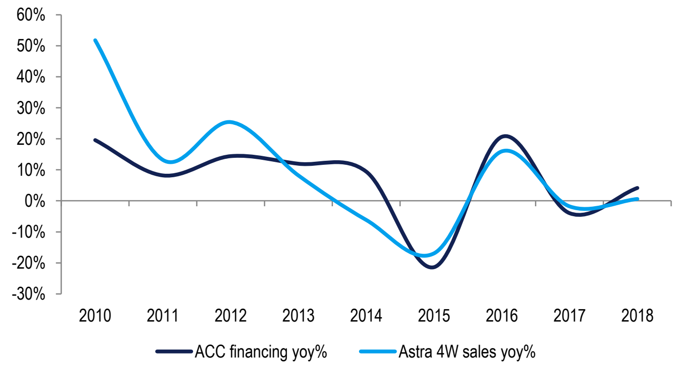
We expect net profit from the financial services to grow 9% CAGR 2018-21. The growth is largely driven by a 4% CAGR 2018-21 in financing and higher NIMs for ACC and FIF (due to lower cost of funds) as we believe that the lower rate environment shall be positive for margins.

Fig. 55: FIF new financing growth vs. industry 2W sales volume growth yoy%



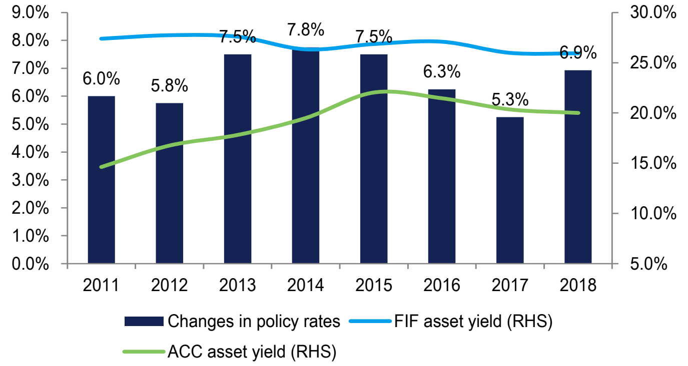
Sources: AISI, Company, IndoPremier

Fig. 56: ACC new financing growth vs. industry 4W sales volume growth yoy%



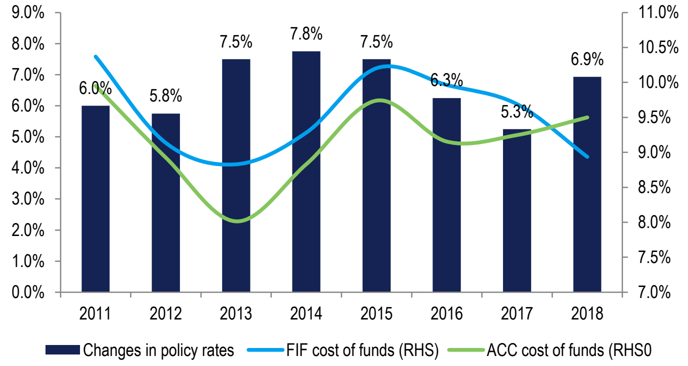
Sources: Company, Gaikindo, IndoPremier

Fig. 57: 12-month BI rate vs. FIF and ACC asset yield – asset yield relatively more resilient towards changes in policy rates



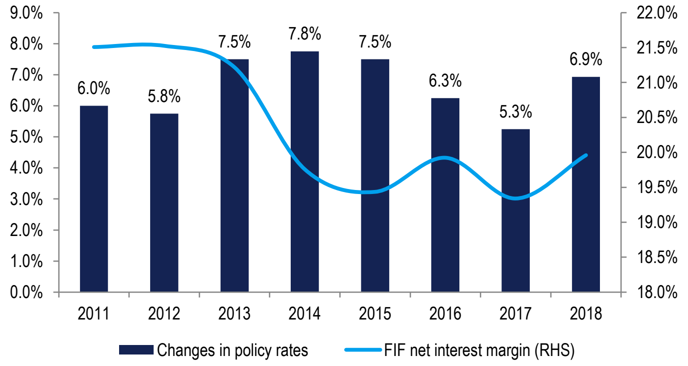
Sources: Bank Indonesia, Company, IndoPremier

Fig. 58: 12-month BI rate vs. FIF and ACC cost of funds – cost of funds is more highly correlated with changes in policy rates



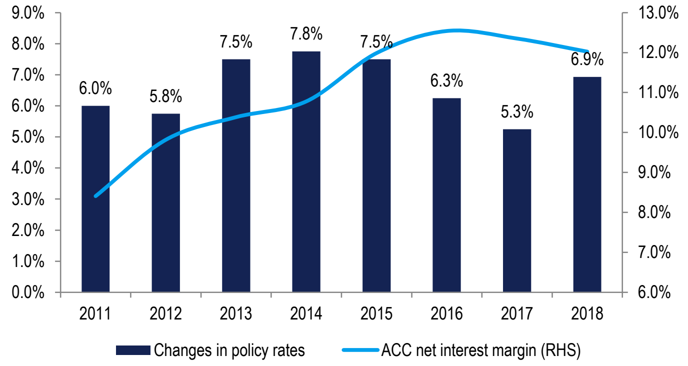
Sources: Bank Indonesia, Company, IndoPremier

Fig. 59: 12-month BI rate vs. FIF's NIM – NIM tend to contract during higher rates (i.e. higher CoF) and vice versa



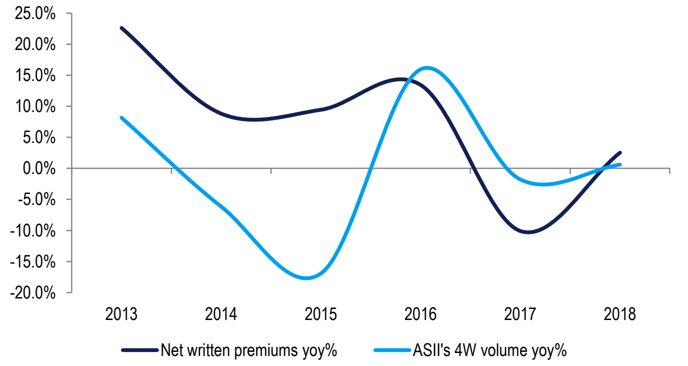
Sources: Bank Indonesia, Company, IndoPremier

Fig. 60: 12-month BI rate vs. ACC's NIM



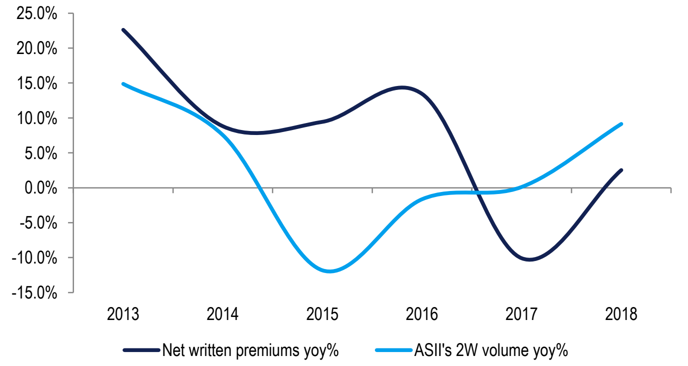
Sources: Bank Indonesia, Company, IndoPremier

Fig. 61: AAB's net written premium growth is highly correlated with car sales



Sources: Company, IndoPremier

Fig. 62: AAB's net written premium yoy% vs. 2W sales



Sources: Company, IndoPremier

Fig. 63: NIM and net profit sensitivity of ACC and FIF towards lower cost of funds

-10bp in CoF	Base			Adjusted			Changes		
NIM sensitivity	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**
ACC	12.6%	12.6%	12.7%	12.6%	12.7%	12.8%	8	8	8
FIF	20.3%	20.0%	20.1%	20.4%	20.1%	20.1%	7	7	7

-10bp in CoF	Base			Adjusted			Changes		
Net profit sensitivity	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**
ACC	1,241	1,302	1,369	1,255	1,317	1,384	1.1%	1.1%	1.1%
FIF	2,471	2,539	2,675	2,483	2,551	2,688	0.5%	0.5%	0.5%
Total	3,712	3,841	4,043	3,737	3,868	4,072	0.7%	0.7%	0.7%

Sources: Company, IndoPremier

UNTR: lacking foreseeable catalysts

We believe that the outlook for 2020-121 remains weak as we expect coal price to remain soft, while competition on HE might also exacerbate its sales outlook (link to our initiation report here).

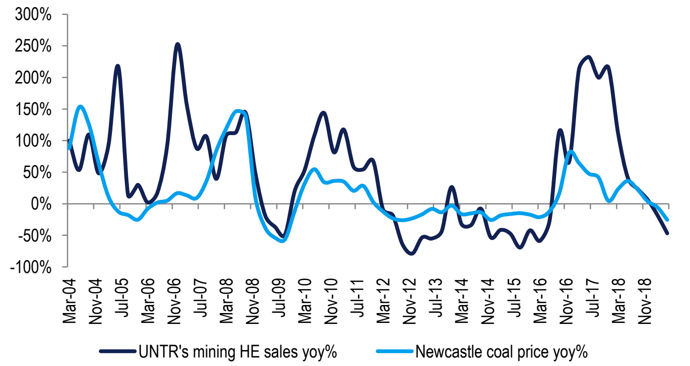
Post 3Q19 results, management is now guiding for 2019 HE sales achievement of 3.2k units (previous guidance was already revised down to 3.6k units from 4k units at the beginning of the year). This miss was largely due to worse-than-expected weakening in the mining sector (both coal and nickel). Coupled with a normalizing infra budget growth, this leads to a weak HE sales outlook in 2019-21, in our view. We remain conservative and forecasts HE sales of 3.3-3.4k p.a. in 2019-21. We think the medium-term outlook remains weak amid lack of foreseeable recovery in the coal price, as well as heightening competition from 2nd tier brands such as SANY.

Despite better-than-expected results for PAMA in 3Q19 (link to our 3Q19 results note here), we also expect normalizing strip ratios and margins beyond 2019. Historically, lower mining costs have been a key driver of efficiency for miners during periods of commodity slump amid its high contribution to overall COGS (50-55% of total COGS – this includes payment to contractors). We believe that barring any recovery in coal prices, PAMA will also have to increase mining fee discounts to ensure sustainability of production. We are forecasting strip ratio to normalize to 7.2-7.4x in 2020-21 from 7.5-7.7x in 2019, and for PAMA gross margin to decline to 16-17% in 2020-21 vs. 18% in 2019.

Coal sales are expected to remain positive (+4% CAGR 2018-21) on the back of robust volume growth, especially for coking coal, which bears a more resilient pricing. While we see some downside risk to 2019 coal sales delivery (due to extremely weather in Kalimantan in Jul-Sep19), we believe that volume should be able to pick-up from 4Q onwards on the back of improving weather.

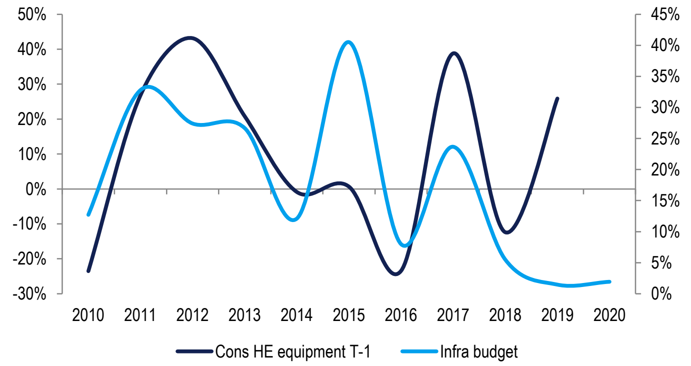
Management guides for lower gold sales volume of 360-370k oz in 2020-21 from c.400k in 2019 due to lower grade of ore being mined beyond 2020. Nonetheless, we think this could be offset by a stronger ASP – note that while 80% of Martabe's sales volume are hedged, only 40% are hedged using fixed contract (at US$1,325/oz). Another 20% are hedged using a call option spread (with floor of US$1,300/oz and ceiling of US$1,450-1,550/oz) and another 20% using a put option (with floor of US$1,300/oz).

Fig. 64: UNTR's mining HE sales yoy% vs. Newcastle coal price yoy% - bleak outlook on coal price points to weak mining HE sales



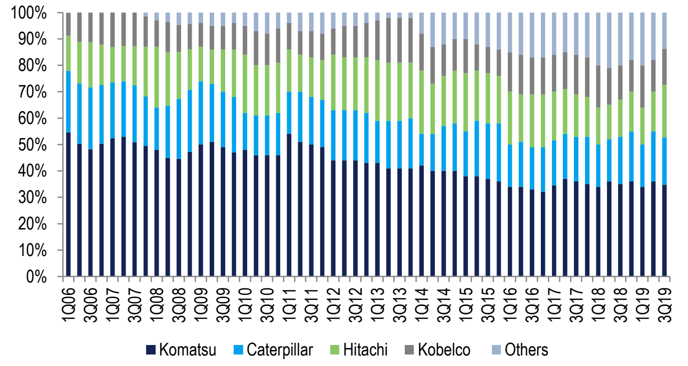
Sources: Bloomberg, IndoPremier

Fig. 65: Minimal growth in infra budget in 2020 also points to weak construction HE sales outlook



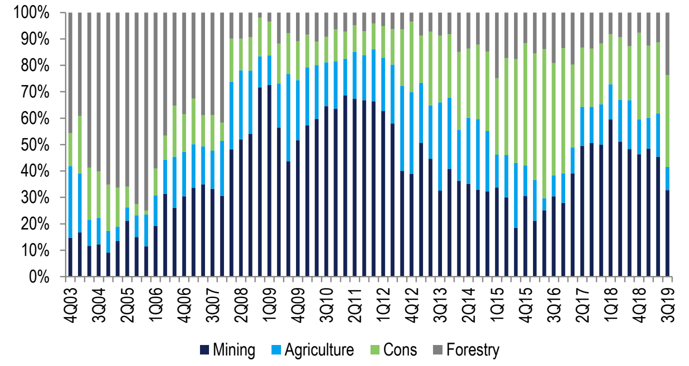
Sources: Company, IndoPremier

Fig. 66: HE market share by brand – Komatsu getting more exposed to competition….



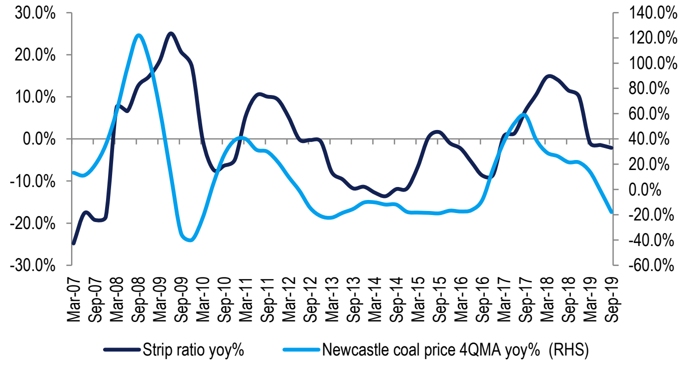
Sources: Company, IndoPremier

Fig. 67: …largely due to lower demand from the mining sector



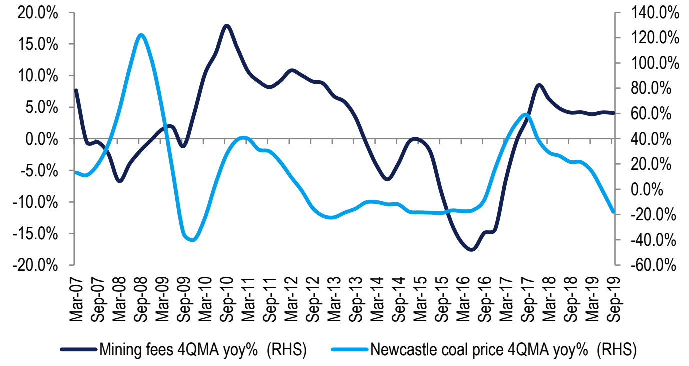
Sources: Company, IndoPremier

Fig. 68: Strip ratios largely correlated with changes in the coal price



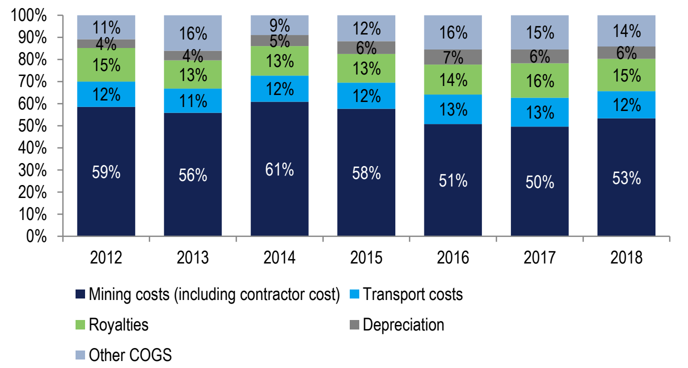
Sources: Bloomberg, Company, IndoPremier

Fig. 69: Mining fees also largely correlated with changes in the coal price



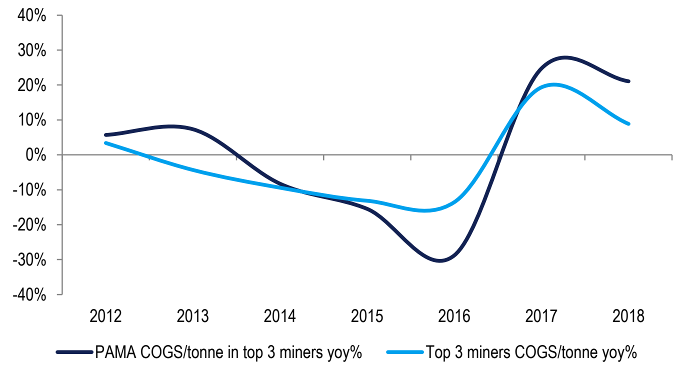
Sources: Bloomberg, Company, IndoPremier

Fig. 70: Big 3 miners' cost breakdown – mining costs (including contractor costs) are the largest cost components for miners



Sources: Company, IndoPremier

Fig. 71: During previous periods of cost efficiency (2013-2016), contractor cost (i.e. PAMA) saw a steeper decline vs. other costs



Sources: Company, IndoPremier

Fig. 72: UNTR should still be able to see some upside to ASP despite having most of its volume hedged

Case 1		
Benchmark gold price (US$/oz)		1,400
Forward (fixed at US$1,325/oz)	40%	1,325
Call option with ceiling at US$1450-1550/oz	20%	1,400
Put option - floor at US$1300/oz	20%	1,400
Spot (US$/oz)	20%	1,400
Weighted average (US$/oz)		**1,370**
Discount to benchmark		-2.1%

Case 2		
Benchmark gold price (US$/oz)		1,450
Forward (fixed at US$1,325/oz)	40%	1,325
Call option with ceiling at US$1450-1550/oz	20%	1,450
Put option - floor at US$1300/oz	20%	1,450
Spot (US$/oz)	20%	1,450
Weighted average (US$/oz)		**1,400**
Discount to benchmark		-3.4%

Case 3		
Benchmark gold price (US$/oz)		1,500
Forward (fixed at US$1,325/oz)	40%	1,325
Call option with ceiling at US$1450-1550/oz	20%	1,500
Put option - floor at US$1300/oz	20%	1,500
Spot (US$/oz)	20%	1,500
Weighted average (US$/oz)		**1,430**
Discount to benchmark		-4.7%

Case 4		
Benchmark gold price (US$/oz)		1,550
Forward (fixed at US$1,325/oz)	40%	1,325
Call option with ceiling at US$1450-1550/oz	20%	1,500
Put option - floor at US$1300/oz	20%	1,550
Spot (US$/oz)	20%	1,550
Weighted average (US$/oz)		**1,450**
Discount to benchmark		-6.5%

Sources: Bloomberg, IndoPremier

Better auto/financial services performance may offset weak commodity business

We forecast ASII's revenue growth to bottom in 2019 (flat yoy) before improving to 4% yoy in 2020 and 5% yoy in 2021.

We believe that auto segment will see a gradual pick-up in revenue growth to 4-9% yoy in 2020-21 after bottoming at -1% in 2019, while financial services division will continue to be robust, posting 4-7% yoy revenue growth in 2019-21. On the other hand, commodity-related divisions are expected to remain weak – we are forecasting revenue growth of 1-5% CAGR 2018-21 for both UNTR and AALI as we pencil in a conservative outlook on coal and CPO prices.

On the operating level, we believe that auto EBIT should post a robust growth of 57% CAGR 2018-21, attributed to 1) a low base in 2018 (i.e. one-off expenses in 2018), and 2) improvement in auto margins, in-line with better market share (ASII's market share has bottomed at 51% in 2018). Financial services should also continue to see robust EBIT growth on the back of robust financing growth and higher margins, while commodity related business should continue to see some weakness.

Concurrently, we forecast ASII's net profit to grow 5% CAGR in 2018-21. Growth from auto (+9% CAGR 2018-21) and financial services (+9% CAGR 2018-21) should more than offset the decline in UNTR (-2% CAGR 2018-21) and plantation (-14% CAGR 2018-21).

Fig. 73: Breakdown of ASII's revenues, EBIT and net profit by segment

Revenues (before elimination)	2014	2015	2016	2017	2018	2019F	2020F	2021F	18-21 CAGR
Auto	108,635	96,792	96,062	96,477	107,322	106,552	111,155	120,664	4%
Financial services	15,788	17,281	17,869	18,768	19,446	20,673	22,017	22,950	6%
Heavy equipment and mining	53,142	49,347	45,539	64,559	84,625	85,312	85,274	86,783	1%
Plantation	16,306	13,059	14,121	17,306	19,084	17,052	20,818	21,902	5%
IT and others	11,067	10,557	10,776	11,607	11,700	12,187	12,797	13,437	5%
Total	**204,938**	**187,036**	**184,367**	**208,717**	**242,177**	**241,776**	**252,061**	**265,736**	**3%**

EBIT (before elimination)	2014	2015	2016	2017	2018	2019F	2020F	2021F	18-21 CAGR
Auto	2,017	1,267	2,108	668	569	1,645	1,827	2,216	57%
Financial services	3,760	3,723	4,041	3,852	4,987	5,401	6,274	6,620	10%
Heavy equipment and mining	8,855	8,586	6,706	10,700	16,735	15,735	16,108	16,221	-1%
Plantation	3,723	1,853	2,659	3,051	2,326	171	1,955	2,050	-4%
IT and others	1,282	1,211	1,228	1,410	1,649	839	881	925	-18%
Total	**19,637**	**16,640**	**16,742**	**19,681**	**26,266**	**23,791**	**27,046**	**28,032**	**2%**

Net profit	2014	2015	2016	2017	2018	2019F	2020F	2021F	18-21 CAGR
Auto	8,491	7,464	9,166	8,868	8,485	9,171	10,182	11,112	9%
Financial services	4,750	3,555	789	3,752	4,827	5,126	5,895	6,264	9%
Heavy equipment and mining	3,263	2,342	3,032	4,469	6,647	6,126	6,407	6,343	-2%
Plantation	1,996	493	1,599	1,602	1,149	63	697	730	-14%
IT and others	691	610	570	190	565	675	774	829	14%
Total	**19,191**	**14,464**	**15,156**	**18,881**	**21,673**	**21,161**	**23,954**	**25,279**	**5%**

EBIT margin	2014	2015	2016	2017	2018	2019F	2020F	2021F
Auto	1.9%	1.3%	2.2%	0.7%	0.5%	1.5%	1.6%	1.8%
Financial services	23.8%	21.5%	22.6%	20.5%	25.6%	26.1%	28.5%	28.8%
Heavy equipment and mining	16.7%	17.4%	14.7%	16.6%	19.8%	18.4%	18.9%	18.7%
Plantation	22.8%	14.2%	18.8%	17.6%	12.2%	1.0%	9.4%	9.4%
IT and others	11.6%	11.5%	11.4%	12.1%	14.1%	6.9%	6.9%	6.9%
Total	**9.6%**	**8.9%**	**9.1%**	**9.4%**	**10.8%**	**9.8%**	**10.7%**	**10.5%**

Net profit margin	2014	2015	2016	2017	2018	2019F	2020F	2021F
Auto	7.8%	7.7%	9.5%	9.2%	7.9%	8.6%	9.2%	9.2%
Financial services	30.1%	20.6%	4.4%	20.0%	24.8%	24.8%	26.8%	27.3%
Heavy equipment and mining	6.1%	4.7%	6.7%	6.9%	7.9%	7.2%	7.5%	7.3%
Plantation	12.2%	3.8%	11.3%	9.3%	6.0%	0.4%	3.3%	3.3%
IT and others	6.2%	5.8%	5.3%	1.6%	4.8%	5.5%	6.0%	6.2%
Total	**9.4%**	**7.7%**	**8.2%**	**9.0%**	**8.9%**	**8.8%**	**9.5%**	**9.5%**

Sources: Company, IndoPremier

Fig. 74: Summary of ASII's income statement

Income statement (Rp bn)	2015	2016	2017	2018	2019F	2020F	2021F
Revenues	184,196	181,084	206,057	239,205	238,799	248,997	262,474
COGS	(147,486)	(144,652)	(163,689)	(188,436)	(189,700)	(195,550)	(206,604)
Gross profit	**36,710**	**36,432**	**42,368**	**50,769**	**49,099**	**53,447**	**55,870**
Gross profit margin	19.9%	20.1%	20.6%	21.2%	20.6%	21.5%	21.3%
Opex	(19,498)	(18,898)	(22,042)	(23,901)	(24,523)	(25,574)	(26,999)
EBIT	**17,212**	**17,534**	**20,326**	**26,868**	**24,576**	**27,874**	**28,871**
EBIT margin	9.3%	9.7%	9.9%	11.2%	10.3%	11.2%	11.0%
Depreciation and amortization	7,870	7,542	7,866	9,422	9,821	10,269	10,653
EBITDA	**25,082**	**25,076**	**28,192**	**36,290**	**34,396**	**38,143**	**39,524**
EBITDA margin (%)	13.6%	13.8%	13.7%	15.2%	14.4%	15.3%	15.1%
Interest income	1,515	1,699	1,982	1,859	2,100	2,100	2,100
Interest expenses	(1,370)	(1,745)	(2,042)	(3,105)	(3,342)	(3,182)	(2,929)
Income from JV and associates	4,467	3,349	6,694	7,036	8,028	8,425	9,116
Forex gain/loss	(291)	(155)	(9)	(87)	0	0	0
Others	(1,903)	1,571	2,245	2,424	2,627	2,614	2,756
Operating profit	**19,630**	**22,253**	**29,196**	**34,995**	**33,988**	**37,831**	**39,915**
Operating profit margin	10.7%	12.3%	14.2%	14.6%	14.2%	15.2%	15.2%
Tax expenses	(4,017)	(3,951)	(6,031)	(7,623)	(7,137)	(7,945)	(8,382)
Tax rates	20.5%	17.8%	20.7%	21.8%	21.0%	21.0%	21.0%
Extraordinary items	0	0	0	0	0	0	0
Minority interests	(1,149)	(3,146)	(4,284)	(5,699)	(5,689)	(5,932)	(6,253)
Net profit growth (%)	**14,464**	**15,156**	**18,881**	**21,673**	**21,161**	**23,954**	**25,279**
Net profit margin	7.9%	8.4%	9.2%	9.1%	8.9%	9.6%	9.6%
yoy net profit growth	-24.6%	4.8%	24.6%	14.8%	-2.4%	13.2%	5.5%
Core profit	**18,937**	**15,280**	**18,888**	**21,743**	**21,161**	**23,954**	**25,279**
Core profit margin	10.3%	8.4%	9.2%	9.1%	8.9%	9.6%	9.6%
yoy core profit growth	-11.7%	-19.3%	23.6%	15.1%	-2.7%	13.2%	5.5%

Sources: Company, IndoPremier

No recovery has been priced-in

We re-initiate our coverage on ASII with a Buy rating and a SOTP-based TP of Rp8,000/share, a 19% upside from current share price and implying target multiple of 13x 2021 P/E, still below its 10-year average of 15x P/E. *We believe that the expected recovery in 2020-21 has clearly not been priced in at the current valuation*.

Note that ASII's valuations has de-rated significantly to 11.4x 2020 P/E currently, 40-45% below its peak of 18-19x P/E in 3Q16/4Q16. This is also below its 10-year average of 15x P/E and already near the 10-year low of 11x P/E.

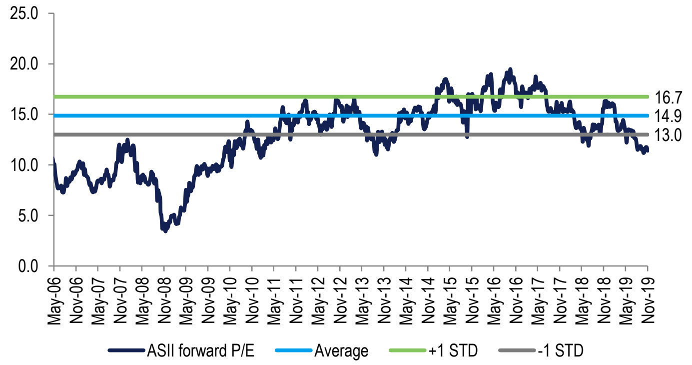
Fig. 75: ASII's target price summary – we assign a SOTP-based TP of Rp8,000/share, implying 13x 2021 P/E

Valuation summary	Valuation method	2021F net profit (Rp bn) *	Target market cap (Rp bn)	Target/implied P/E (x)	Remarks
Automotive	P/E	11,112	188,910	17.0	17x P/E (in-line with 10-year average)
Heavy equipment	SOTP	6,343	49,691	7.8	SOTP based TP - implied 2020 P/E of 8.2x
Financial services	SOTP	6,264	110,145	17.6	BNLI's valuation based on IPS estimate (GGM), target P/E of 15x for others (using ASII's 10-year average)
Plantation	Market value	730	16,490	23	Valuation on current market cap
Infra and others	P/E	829	12,430	15.0	Target P/E of 15x (using ASII's 10-year average)
Total asset value (Rp bn)		**25,279**	**377,666**	**14.9**	
Cash (Rp bn - 2021)			32,757		
Debt (Rp bn - 2021)			85,151		
Total equity value (Rp bn)		**25,279**	**325,272**	**12.9**	
No of shares (in bn)			40		
Target price per share (Rp/share)			**8,000**		
Implied 2021 P/E (x)			12.9		
Current share price (Rp/share)			6,725		
Upside from current price			**19%**		

**) 2021 net profit already adjusted for ownership*

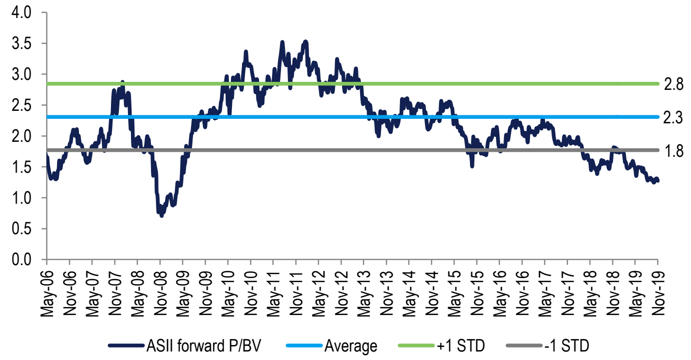
Sources: Company, IndoPremier

Fig. 76: ASII's forward P/E – now trading c.11.4x 2020 P/E vs. 10-year average of c.15x P/E



Sources: Bloomberg, Company, IndoPremier

Fig. 77: ASII's forward P/BV – now trading 1.3x 2020 P/BV vs. 10-year average of 2.3x P/BV



Sources: Bloomberg, Company, IndoPremier

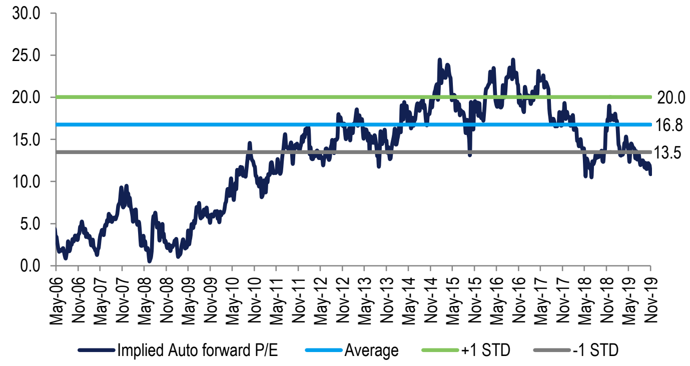
We determined that auto segment's performance remains one of the key drivers of ASII's valuations, as shown by figure 80-83 (auto's net profit contribution, net profit margin, and market share has very strong correlations to ASII's P/E).

At the same time, the implied auto P/E has de-rated from recent peak of 18-19x P/E (in Nov18-Jan19) to only 11x 2020 P/E currently, which we think is due to lacklustre 4W sales YTD. This is in-line with previous lows of

11-13x P/E (which occurred in 2013, 2015, and 2018), suggesting minimal downside from this point on.

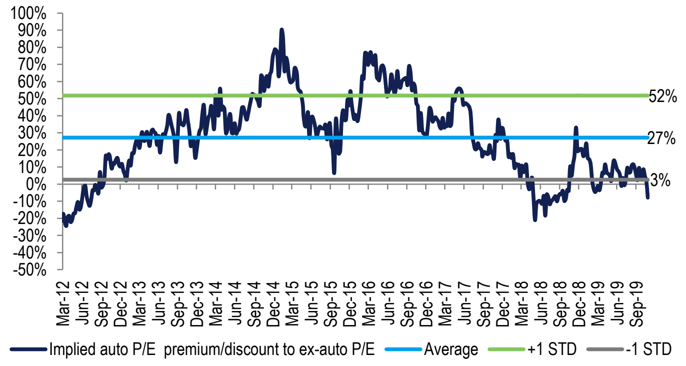
At this valuation, we estimate that the auto segment is being valued at c.8% discount vs. the non-auto segment (below -1 STD vs. its historical average of 27% premium), *which suggests that the market clearly has not priced in any volume recovery for the auto segment yet in 2020-21*. We think this should point to a positively asymmetrical risk reward profile going forward, in our view.

Fig. 78: ASII's implied auto forward P/E – now trading at c.11x 2020 P/E, below 10-year average of 17x P/E



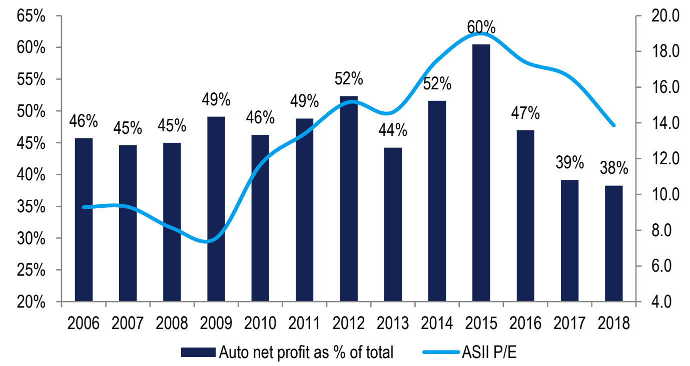
Sources: Bloomberg, Company, IndoPremier

Fig. 79: We estimate that auto segment is being valued at 8% discount vs. non-auto business (10-year average: 27% premium); volume recovery clearly has not been priced in



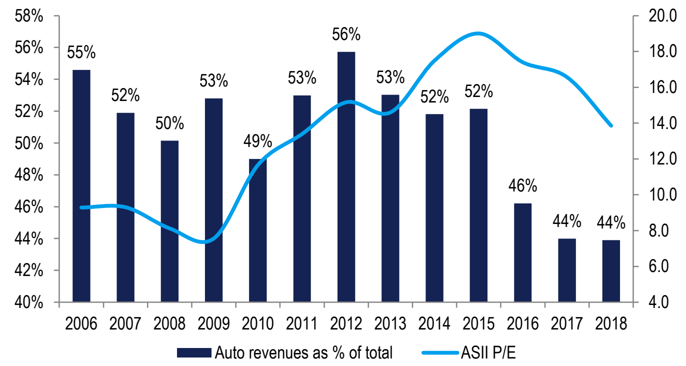
Sources: Bloomberg, Company, IndoPremier

Fig. 80: ASII's P/E vs. auto net profit contribution



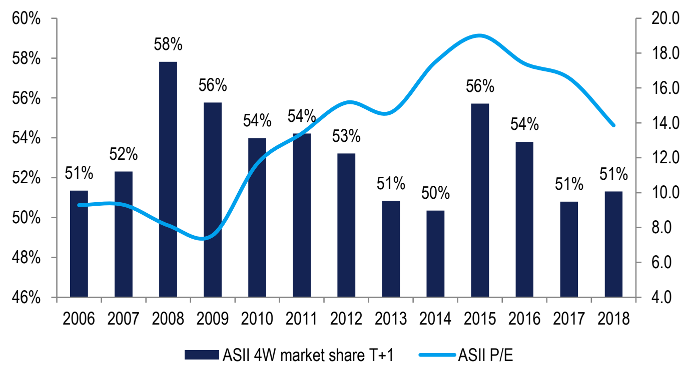
Sources: Company, IndoPremier

Fig. 81: ASII's forward P/E vs. auto revenue contribution



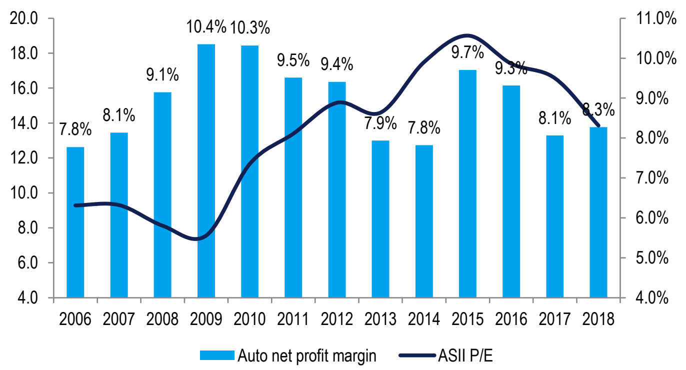
Sources: Company, IndoPremier

Fig. 82: ASII's forward P/E vs. market share (T+1)



Sources: Company, IndoPremier

Fig. 83: ASII's forward P/E vs. auto net profit margin



Sources: Company, IndoPremier

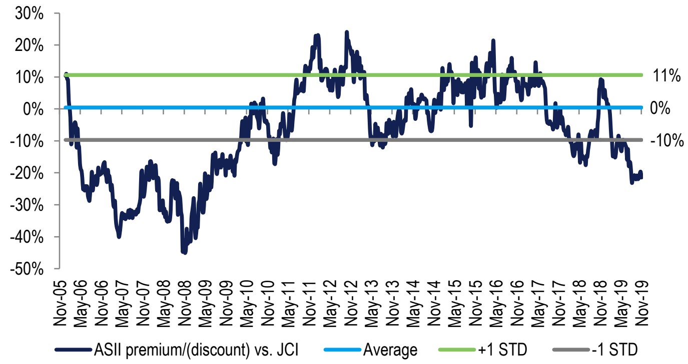
We also look at its relatively valuations to support our view that ASII is currently undervalued.

<u>Currently it trades at c.20% discount to JCI's forward P/E</u>, which we think might be attributed towards a higher EPS growth projected for the index (consensus still forecasting an EPS CAGR of 15% in 2019-21 vs. our estimate of 9% CAGR 2019-21 for ASII, though we are of the view that consensus' estimate on JCI's EPS CAGR is too high).

UNTR has been one of the major reasons for ASII's de-rating from 2014 (Fig 85 shows that UNTR now trades at c.30% discount to ASII's valuation ex-UNTR) vs. its 10-year average of 8% discount. We believe this is largely caused by the normalizing coal prices.

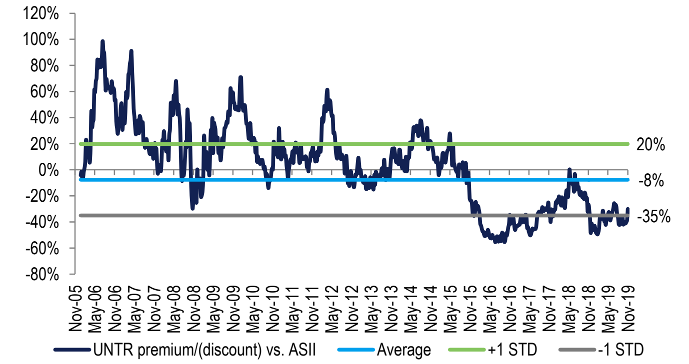
On the other hand, we think the risk of further de-rating for UNTR seems minimal (UNTR's P/E is now trading at an all-time low post 2009 crisis; its discount relative to ASII is also already at -1 STD) which should provide some buffer for ASII's valuation as well.

Fig. 84: ASII's forward P/E now trades at a 20% discount to JCI's forward P/E (10-year low) vs. 10-year average of par



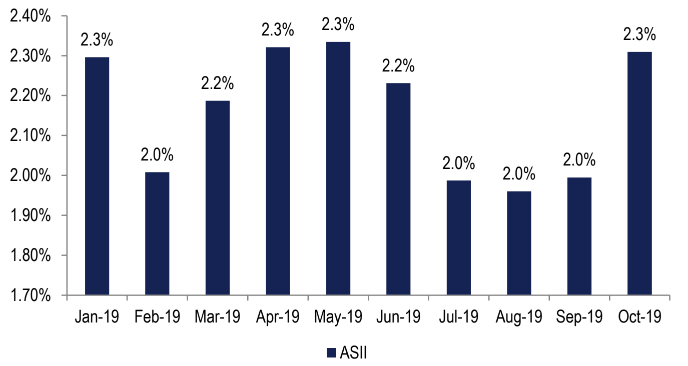
Sources: Bloomberg, Company, IndoPremier

Fig. 85: The significant discount is partly caused by UNTR's significant P/E de-rating – now trading at 30% discount to ASII's P/E



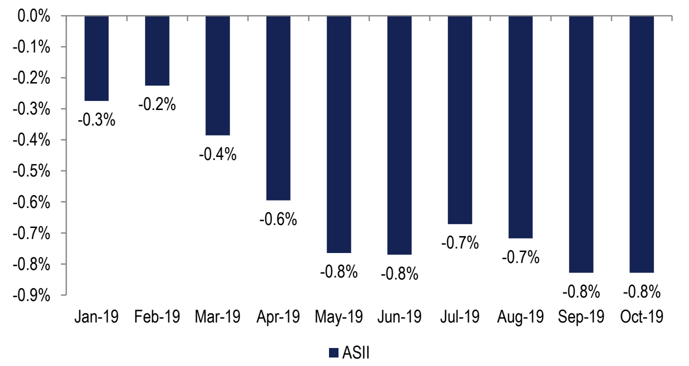
Sources: Bloomberg, Company, IndoPremier

Fig. 86: Local fund weight on ASII vs. JCI



Sources: Bloomberg, Company, IndoPremier

Fig. 87: Foreign fund weight on ASII vs. MSCI



Sources: Bloomberg, Company, IndoPremier

Fig. 88: Regional auto peer comparison

Name	Ticker	Market cap (in US$ mn)	Forward P/E 2019	Forward P/E 2020	Forward P/E 2021	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021	Dividend yield (LC) 2019	Dividend yield (LC) 2020	Dividend yield (LC) 2021
Astra International	ASII IJ EQUITY	19,173	12.9	11.4	10.8	9.6	8.5	8.0	3.2%	3.1%	3.5%
Toyota Motor Corp	7203 JP EQUITY	227,422	10.6	9.4	9.0	12.0	11.7	11.3	3.0%	3.1%	3.3%
Honda Motor Co	7267 JP EQUITY	49,399	7.2	8.1	7.5	9.1	8.6	8.0	3.5%	3.7%	4.0%
Isuzu Motors Ltd	7202 JP EQUITY	9,821	9.2	8.4	7.9	5.8	5.4	5.1	2.9%	3.1%	3.2%
Suzuki Motor Corp	7269 JP EQUITY	23,892	11.8	15.1	13.3	6.2	5.5	5.0	1.5%	1.6%	1.7%
Subaru Corporation	7270 JP EQUITY	22,165	16.1	10.8	10.0	4.4	4.0	3.9	4.7%	4.8%	4.7%
Mitsubishi Motors	7211 JP EQUITY	6,823	6.7	12.7	11.2	4.3	3.7	3.2	4.0%	4.1%	4.2%
Mazda Motor Corp	7261 JP EQUITY	5,791	10.8	11.8	10.3	4.1	3.8	3.3	3.5%	3.6%	3.9%
Nissan Motor	7201 JP EQUITY	27,130	8.2	18.6	9.7	4.1	3.4	2.3	4.8%	5.0%	5.3%
Japanese auto aggregate		**372,442**	**10.3**	**10.4**	**9.2**	**9.8**	**9.4**	**8.9**	**3.2%**	**3.4%**	**3.5%**
Hyundai Motor Co	005380 KS EQUITY	22,830	12.5	10.2	7.8	11.1	9.5	9.0	3.3%	3.5%	3.6%
Kia Motors Corp	000270 KS EQUITY	14,845	11.5	8.5	7.6	4.1	3.8	3.5	2.3%	2.6%	2.8%
Korean auto aggregate		**37,676**	**12.1**	**9.5**	**7.7**	**8.3**	**7.2**	**6.8**	**2.9%**	**3.1%**	**3.3%**
Maruti Suzuki	MSIL IN EQUITY	31,798	30.1	34.1	28.1	23.7	19.2	19.5	1.0%	1.1%	1.2%
Eicher Motors	EIM IN EQUITY	8,361	25.7	28.6	25.5	21.9	19.4	16.9	0.6%	0.7%	0.8%
Mahindra & Mahindra	MM IN EQUITY	10,259	13.6	14.3	14.3	8.8	8.5	6.9	1.6%	1.6%	1.8%
Bajaj Auto	BJAUT IN EQUITY	13,095	20.6	18.7	17.2	17.7	16.1	16.2	2.1%	2.2%	2.4%
India auto aggregate		**63,513**	**24.9**	**27.0**	**23.3**	**19.8**	**16.9**	**16.4**	**1.2%**	**1.3%**	**1.5%**
Geely auto	175 HK EQUITY	17,727	10.3	14.0	11.1	8.1	6.9	6.3	1.7%	2.1%	2.4%
BYD	1211 HK EQUITY	15,636	33.0	40.6	33.3	13.5	12.3	11.1	0.4%	0.5%	0.6%
China auto aggregate		**33,363**	**21.0**	**26.5**	**21.5**	**10.6**	**9.4**	**8.6**	**1.1%**	**1.4%**	**1.5%**

Sources: Company, IndoPremier

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Revenue	206,057	239,205	238,799	248,997	262,474
Cost of Sales	(163,689)	(188,436)	(189,700)	(195,550)	(206,604)
Gross Profit	**42,368**	**50,769**	**49,099**	**53,447**	**55,870**
SG&A Expenses	(22,042)	(23,901)	(24,523)	(25,574)	(26,999)
Operating Profit	**20,326**	**26,868**	**24,576**	**27,874**	**28,871**
Net Interest	(60)	(1,246)	(1,242)	(1,082)	(829)
Forex Gain (Loss)	(9)	(87)	0	0	0
Others-Net	8,939	9,460	10,655	11,040	11,872
Pre-Tax Income	**29,196**	**34,995**	**33,988**	**37,831**	**39,915**
Income Tax	(6,031)	(7,623)	(7,137)	(7,945)	(8,382)
Minorities	(4,284)	(5,699)	(5,689)	(5,932)	(6,253)
Net Income	**18,881**	**21,673**	**21,161**	**23,954**	**25,279**

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & Equivalent	31,574	25,193	39,095	32,757	41,768
Receivable	25,351	31,220	25,255	33,632	28,442
Inventory	19,504	26,505	19,813	27,933	22,512
Other Current Assets	45,099	50,691	50,691	50,691	50,691
Total Current Assets	**121,528**	**133,609**	**134,854**	**145,013**	**143,413**
Fixed Assets - Net	76,488	96,558	100,669	104,942	109,379
Goodwill	97,814	114,544	125,829	135,823	146,595
Non-Current Assets	**174,302**	**211,102**	**226,499**	**240,765**	**255,975**
Total Assets	**295,830**	**344,711**	**361,352**	**385,779**	**399,387**
ST Loans	16,321	19,588	13,989	13,387	13,387
Payable	29,468	42,263	29,949	44,490	34,157
Other Payables	25,670	28,675	28,675	28,675	28,675
Total Current Liab.	**71,459**	**90,526**	**72,613**	**86,552**	**76,219**
Long Term Loans	58,657	66,326	82,699	71,764	73,755
Other LT Liab.	9,209	13,496	13,496	13,496	13,496
Total Liabilities	**67,866**	**79,822**	**96,195**	**85,260**	**87,251**
Equity	10,217	9,215	9,215	9,215	9,215
Retained Earnings	113,563	127,732	140,224	155,714	171,411
Minority Interest	32,725	37,416	43,105	49,038	55,291
Total SHE + Minority Int.	**156,505**	**174,363**	**192,544**	**213,966**	**235,917**
Total Liabilities & Equity	**295,830**	**344,711**	**361,352**	**385,779**	**399,387**

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Income	18,881	21,673	21,161	23,954	25,279
Depr. & Amortization	7,866	9,422	9,821	10,269	10,653
Changes in Working Capital	(1,737)	(11,562)	(2,914)	(3,526)	(1,377)
Others	(1,725)	8,159	(2,875)	(3,111)	(3,527)
Cash Flow From Operating	**23,285**	**27,692**	**25,193**	**27,586**	**31,027**
Capital Expenditure	(22,836)	(19,832)	(13,395)	(13,923)	(14,425)
Others	7,895	(9,899)	0	0	0
Cash Flow From Investing	**(14,941)**	**(29,731)**	**(13,395)**	**(13,923)**	**(14,425)**
Loans	4,068	10,936	10,774	(11,537)	1,991
Equity					
Dividends	(6,801)	(7,489)	(8,669)	(8,464)	(9,582)
Others	(3,451)	(8,320)	0	0	0
Cash Flow From Financing	**(6,184)**	**(4,873)**	**2,105**	**(20,001)**	**(7,591)**
Changes in Cash	2,160	(6,912)	13,902	(6,338)	9,011

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross Margin	20.6%	21.2%	20.6%	21.5%	21.3%
Operating Margin	9.9%	11.2%	10.3%	11.2%	11.0%
Pre-Tax Margin	14.2%	14.6%	14.2%	15.2%	15.2%
Net Margin	9.2%	9.1%	8.9%	9.6%	9.6%
ROA	6.8%	6.8%	6.0%	6.4%	6.4%
ROE	12.7%	13.1%	11.5%	11.8%	11.2%
ROIC	7.4%	8.7%	7.2%	7.6%	7.4%
Acct. Receivables TO (days)	39.2	43.2	43.2	43.2	43.2
Inventory TO (days)	41.6	44.6	44.6	44.6	44.6
Payable TO (days)	57.9	69.5	69.5	69.5	69.5
Debt to Equity	48%	49%	50%	40%	37%
Interest Coverage Ratio (x)	13.8	11.7	10.3	12.0	13.5
Net Gearing	28%	35%	30%	24%	19%

Sources: Company, IndoPremier

INVESTMENT RATINGS

BUY	:	Expected total return of 10% or more within a 12-month period
HOLD	:	Expected total return between -10% and 10% within a 12-month period
SELL	:	Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

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