

## Astra International

BUY (unchanged)

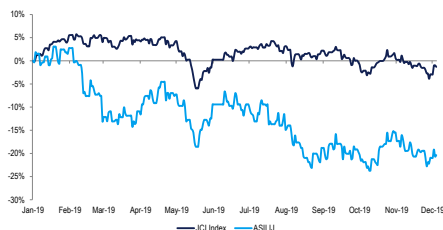
Company Update | Automotive | ASII IJ | 04 December 2019

## Stock Data

|                           |         |
|---------------------------|---------|
| Target price (Rp)         | Rp8,000 |
| Prior TP (Rp)             | Rp8,000 |
| Current price (Rp)        | Rp6,550 |
| Upside/downside           | +22%    |
| Shares outstanding (mn)   | 40,484  |
| Market cap (Rp bn)        | 265,167 |
| Free float                | 50%     |
| Avg. 6m daily T/O (Rp bn) | 192     |

## Price Performance

|                   | 3M            | 6M     | 12M    |
|-------------------|---------------|--------|--------|
| Absolute          | 1.2%          | -12.1% | -23.2% |
| Relative to JCI   | 3.5%          | -10.5% | -22.5% |
| 52w low/high (Rp) | 6,275 – 8,525 |        |        |



## Major Shareholders

|                              |       |
|------------------------------|-------|
| Jardine Cycle & Carriage Ltd | 50.1% |
| Blackrock Inc                | 2.1%  |
| Vanguard Group Inc           | 1.8%  |

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## Strong outlook on financial services

- Our checks with the major 4W financing companies suggest that they still expect 4W financing to still grow c.5-10% in 2020 amid better sentiment.
- Despite weak 4W market in 2019, asset quality remains robust – coupled with lower rates, we think this is supportive for 4W recovery.
- Lower rates shall also be positive for CoF and margin. Further upside might come from provision improvement in TAF. Maintain Buy on ASII.

## A more positive 4W outlook in 2020

Our channel checks with some of the biggest 4W financing companies in Indonesia (Astra Sedaya, Mandiri Tunas, and Toyota Astra Finance) revealed that most players are expecting a recovery 2020 as sentiment improves on the back of better political conditions and accommodative macro policy (i.e. interest rates and currency). For 2020, the financing companies are still expecting c.5-10% growth in 4W financing.

## Asset quality has remained resilient

Despite the sluggish 4W volumes in 2019 (-13% yoy as of 10M19), asset quality has continued improve across the board as origination quality remains robust. Indeed, all three multi-finance companies have maintained NPFs of <1%, still improving yoy - healthy appetite from the financing companies, coupled with lower rates, should provide support to 4W volume as well. Note that bulk of the financing of ASF/MTF/TAF (>80%) are new car purchases.

## Benign CoF outlook in 2020 shall be positive for margins

Amid lower rates (policy rate -100bp YTD) and better liquidity outlook (primary RR -100bp YTD), our checks revealed that the financing companies are also expecting a gradual improvement cost of funds (CoF) going in 2020. We believe that this shall be short-term positive for margins – based on our estimate, a 10bp CoF improvement shall translate to a 0.6% increase in ASII's financial services' 2020F net profit (before accounting impact to BNLI).

## Windfall from normalizing provisions in TAF

TAF's net profit saw a steep drop to Rp18-23bn in 2017-18 from Rp351bn in 2016 largely due to extra provisions booked amid prudent measures taken by the management. Nonetheless, 9M19 provisions has continued to show significant improvement (-57% yoy in 9M19), in-line with its improving asset quality. Our checks suggest that this trend shall continue in 2020.

## Maintain Buy

We maintain our Buy call on ASII as we expect a 4W volume recovery in 2020-21. It now trades at 11x 2020 P/E vs. 10-year average of 15x P/E. Key catalysts are better-than-expected 4W volume and higher commodity price. Risk is an economy slowdown and unfavourable changes in regulations.

| 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                       | 14.0    | 12.2    | 12.5    | 11.1    | 10.5    |
| EV/EBITDA                 | 10.9    | 9.0     | 9.4     | 8.3     | 7.9     |
| Dividend yield            | 2.6%    | 2.8%    | 3.3%    | 3.2%    | 3.6%    |
| IPS vs. consensus         |         |         | 98%     | 104%    | 102%    |

Sources: Company, IndoPremier

Share price closing as of: 04 December 2019

## A more positive 4W outlook in 2020

Our channel checks with some of the biggest 4W financing companies in Indonesia (Astra Sedaya, Mandiri Tunas, and Toyota Astra Finance) revealed that most players are expecting a recovery 2020 as sentiment improves on the back of better political conditions and accommodative macro policy (i.e. interest rates and currency).

For 2020, the financing companies we met are still expecting c.5-10% growth in 4W financing.

**Fig. 1: The 4W financing companies we met are guiding for moderate recovery in 4W financing volume in 2020**

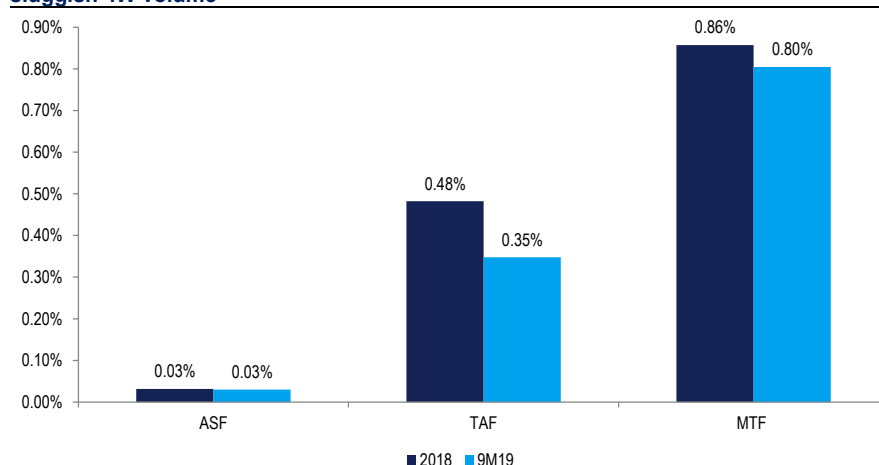
| Car financing<br>(in units - new and used) | 2014    | 2015    | 2016    | 2017    | 2018    | 2019F   | 2020F   |
|--|---------|---------|---------|---------|---------|---------|---------|
| ASF  | 129,809 | 101,415 | 172,341 | 164,155 | 157,985 | 162,725 | 170,861 |
| yoy%                                       | 111%    | -22%    | 70%     | -5%     | -4%     | 3%      | 5%      |
| TAF  | 68,933  | 65,195  | 81,522  | 71,846  | 48,607  | 58,328  | 61,245  |
| yoy%                                       |         | -5%     | 25%     | -12%    | -32%    | 20%     | 10%     |
| MTF  | 99,863  | 105,329 | 98,622  | 108,061 | 112,642 | 118,274 | 124,188 |
| yoy%                                       |         | 5%      | -6%     | 10%     | 4%      | 5%      | 5%      |
| Total                                      | 298,605 | 271,939 | 352,485 | 344,062 | 319,234 | 339,327 | 356,293 |
| yoy%                                       |         | -9%     | 30%     | -2%     | -7%     | 6%      | 5%      |
| * company's guidance                       |         |         |         |         |         |         |         |

Sources: Company, IndoPremier

## Asset quality has remained resilient

Despite the sluggish 4W volumes in 2019 (-13% yoy as of 10M19), asset quality has continued improve across the board as origination quality remains robust. Indeed, all three multi-finance companies have maintained NPFs of <1%, still improving yoy - healthy appetite from the financing companies, coupled with lower rates, should provide support to 4W volume as well. Note that bulk of the financing of ASF/MTF/TAF (>80%) are new car purchases.

**Fig. 2: Asset quality for ASF, TAF, and MTF has remained resilient in 9M19 despite sluggish 4W volume**



Sources: Company, IndoPremier

## Benign CoF outlook in 2020 shall be positive for margins

Amid lower rates (policy rate -100bp YTD) and improving liquidity (primary RR -100bp YTD), our checks revealed that the financing companies are also expecting a gradual improvement cost of funds (CoF) going in 2020.

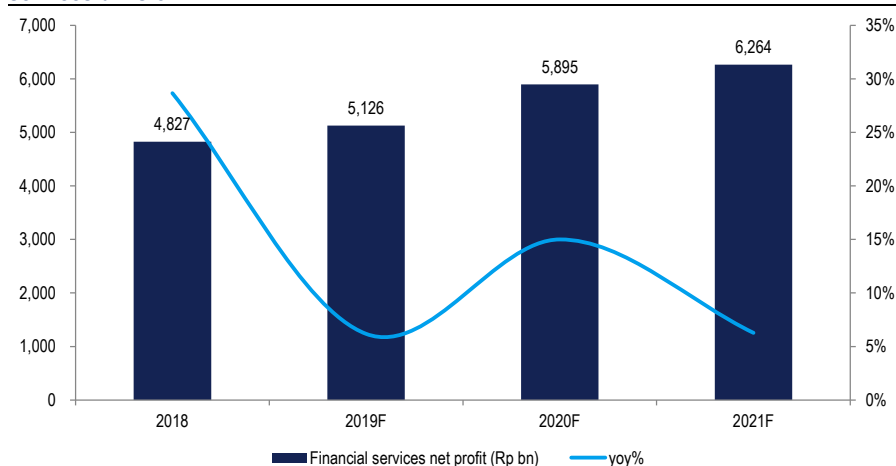
We believe that this shall be short-term positive for margins – based on our estimate, a 10bp CoF improvement shall translate to a 0.6% increase in ASII's financial services' 2020F net profit (before accounting impact to BNLI). Note that our base case assumes a net profit CAGR of 9% in 2018-21 for ASII's financial services division.

**Fig. 3: We estimate that every 10bp improvement in CoF shall translate to c.0.6% improvement in ASII's financial services division's net profit (ex-impact to BNLI)**

| Net profit sensitivity (Rp bn) | Base         | Adjusted     | Change      |
|--------------------------------|--------------|--------------|-------------|
| ASF                            | 1,302        | 1,317        | 1.2%        |
| FIF                            | 2,539        | 2,551        | 0.5%        |
| TAF                            | 361          | 371          | 2.8%        |
| <b>Total</b>                   | <b>4,202</b> | <b>4,239</b> | <b>0.9%</b> |
| ASII's fin serv net profit     | 5,895        | 5,932        | 0.6%        |
| ASII's net profit              | 23,954       | 23,991       | 0.2%        |

Sources: Company, IndoPremier

**Fig. 4: Our base case assumes a net profit CAGR of 9% in 2018-21 for ASII's financial services division.**



Sources: Company, IndoPremier

## Windfall from normalizing provisions in TAF

Previously TAF's net profit saw a steep drop to Rp18-23bn in 2017-18 from Rp351bn in 2016 largely due to extra provisions booked amid prudent measures taken by the management.

Nonetheless, 9M19 provisions has continued to show significant improvement (-57% yoy in 9M19), in-line with its improving asset quality. Our checks suggest that provisions shall continue to improve going forward.

**Fig. 5: TAF's provisioning has started to normalize in 9M19 – we expect this trend to continue going into 2020-21**

| TAF (in Rp bn)             | 2015       | 2016         | 2017         | 2018         | 9M18       | 9M19       | yoy%          |
|----------------------------|------------|--------------|--------------|--------------|------------|------------|---------------|
| Interest income            | 2,052      | 2,463        | 2,967        | 2,586        | 1,964      | 1,811      | -8%           |
| Interest expenses          | (1,185)    | (1,436)      | (1,659)      | (1,430)      | (1,082)    | (961)      | -11%          |
| <b>Net interest income</b> | <b>868</b> | <b>1,027</b> | <b>1,309</b> | <b>1,156</b> | <b>882</b> | <b>850</b> | <b>-4%</b>    |
| Other income               | 121        | 132          | 160          | 129          | 101        | 92         | -8%           |
| <b>Total income</b>        | <b>989</b> | <b>1,158</b> | <b>1,469</b> | <b>1,285</b> | <b>983</b> | <b>943</b> | <b>-4%</b>    |
| Opex                       | (302)      | (336)        | (313)        | (420)        | (297)      | (394)      | 33%           |
| <b>PPOP</b>                | <b>686</b> | <b>822</b>   | <b>1,156</b> | <b>865</b>   | <b>686</b> | <b>549</b> | <b>-20%</b>   |
| Provisions                 | (194)      | (253)        | (1,122)      | (814)        | (503)      | (218)      | -57%          |
| <b>Pre-tax profit</b>      | <b>493</b> | <b>569</b>   | <b>34</b>    | <b>51</b>    | <b>183</b> | <b>331</b> | <b>81%</b>    |
| Others                     | (86)       | (100)        | 0            | 1            | (188)      | (82)       | -56%          |
| Tax expenses               | (101)      | (118)        | (17)         | (29)         | (3)        | (64)       | 1978%         |
| <b>Net income</b>          | <b>306</b> | <b>351</b>   | <b>18</b>    | <b>23</b>    | <b>(8)</b> | <b>185</b> | <b>-2454%</b> |
|                            |            |              |              |              |            |            |               |
| Total financing            | 15,986     | 20,841       | 21,024       | 18,215       | 18,922     | 18,611     |               |
| Total funding              | 14,902     | 18,643       | 19,417       | 16,915       | 18,392     | 16,525     |               |
|                            |            |              |              |              |            |            |               |
| Asset yield                | 13.3%      | 13.4%        | 14.2%        | 13.2%        | 13.1%      | 12.9%      |               |
| CoF                        | 8.3%       | 8.6%         | 8.7%         | 7.9%         | 7.6%       | 7.3%       |               |
| NIM                        | 5.6%       | 5.6%         | 6.3%         | 5.9%         | 5.9%       | 6.0%       |               |
| Credit costs               | 1.3%       | 1.4%         | 5.4%         | 4.1%         | 3.4%       | 1.5%       |               |

Sources: Company, IndoPremier

# Maintain Buy

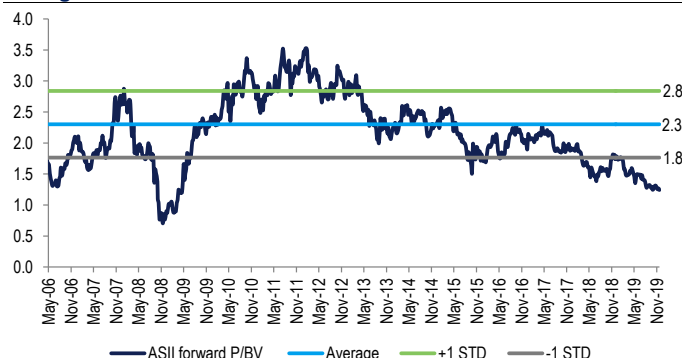
We maintain our Buy call on ASII as we expect a 4W volume recovery in 2020-21. It now trades at 11x 2020 P/E vs. 10-year average of 15x P/E. Key catalysts are better-than-expected 4W volume and higher commodity price. Risk is an economy slowdown and unfavourable changes in regulations.

**Fig. 6: ASII's forward P/E – now trading c.11.1x 2020 P/E vs. 10-year average of c.15x P/E**



Sources: Bloomberg, Company, IndoPremier

**Fig. 7: 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

**Fig. 8: 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. 9: At this price, we estimate that the auto business is valued close to par to the non-auto business (10-yr avg: 27% premium)**



Sources: Bloomberg, Company, IndoPremier

| Income Statement (Rp bn) | 2017A | 2018A | 2019F | 2020F | 2021F |
|--------------------------|-------|-------|-------|-------|-------|
|--------------------------|-------|-------|-------|-------|-------|

|                         |               |               |               |               |               |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenue             | 206,057       | 239,205       | 239,058       | 245,189       | 258,092       |
| Cost of Sales           | (163,689)     | (188,436)     | (189,820)     | (193,350)     | (203,456)     |
| <b>Gross Profit</b>     | <b>42,368</b> | <b>50,769</b> | <b>49,238</b> | <b>51,839</b> | <b>54,636</b> |
| SG&A Expenses           | (22,042)      | (23,901)      | (24,640)      | (25,417)      | (26,971)      |
| <b>Operating Profit</b> | <b>20,326</b> | <b>26,868</b> | <b>24,597</b> | <b>26,422</b> | <b>27,666</b> |
| Net Interest            | (60)          | (1,246)       | (1,242)       | (882)         | (429)         |
| Forex Gain (Loss)       | (9)           | (87)          | 0             | 0             | 0             |
| Others-Net              | 8,939         | 9,460         | 10,600        | 11,030        | 11,806        |
| <b>Pre-Tax Income</b>   | <b>29,196</b> | <b>34,995</b> | <b>33,955</b> | <b>36,570</b> | <b>39,043</b> |
| Income Tax              | (6,031)       | (7,623)       | (7,130)       | (7,680)       | (8,199)       |
| Minorities              | (4,284)       | (5,699)       | (5,695)       | (5,842)       | (6,149)       |
| <b>Net Income</b>       | <b>18,881</b> | <b>21,673</b> | <b>21,129</b> | <b>23,049</b> | <b>24,695</b> |

| Balance Sheet (Rp bn)                 | 2017A          | 2018A          | 2019F          | 2020F          | 2021F          |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Equivalent                     | 31,574         | 25,193         | 38,062         | 30,737         | 38,102         |
| Receivable                            | 25,351         | 31,220         | 25,316         | 32,670         | 28,368         |
| Inventory                             | 19,504         | 26,505         | 19,842         | 27,367         | 22,310         |
| Other Current Assets                  | 45,099         | 50,691         | 50,691         | 50,691         | 50,691         |
| <b>Total Current Assets</b>           | <b>121,528</b> | <b>133,609</b> | <b>133,911</b> | <b>141,465</b> | <b>139,470</b> |
| Fixed Assets - Net                    | 76,488         | 96,558         | 100,674        | 104,704        | 108,844        |
| Goodwill                              | 97,814         | 114,544        | 126,786        | 137,717        | 149,422        |
| <b>Non-Current Assets</b>             | <b>174,302</b> | <b>211,102</b> | <b>227,461</b> | <b>242,421</b> | <b>258,266</b> |
| <b>Total Assets</b>                   | <b>295,830</b> | <b>344,711</b> | <b>361,372</b> | <b>383,885</b> | <b>397,736</b> |
| ST Loans                              | 16,321         | 19,588         | 13,989         | 13,387         | 13,387         |
| Payable                               | 29,468         | 42,263         | 29,995         | 43,607         | 33,842         |
| Other Payables                        | 25,670         | 28,675         | 28,675         | 28,675         | 28,675         |
| <b>Total Current Liab.</b>            | <b>71,459</b>  | <b>90,526</b>  | <b>72,659</b>  | <b>85,669</b>  | <b>75,904</b>  |
| 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         |
| <b>Total Liabilities</b>              | <b>67,866</b>  | <b>79,822</b>  | <b>96,195</b>  | <b>85,260</b>  | <b>87,251</b>  |
| Equity                                | 10,217         | 9,215          | 9,215          | 9,215          | 9,215          |
| Retained Earnings                     | 113,563        | 127,732        | 140,191        | 154,789        | 170,264        |
| Minority Interest                     | 32,725         | 37,416         | 43,111         | 48,953         | 55,102         |
| <b>Total SHE + Minority Int.</b>      | <b>156,505</b> | <b>174,363</b> | <b>192,518</b> | <b>212,957</b> | <b>234,581</b> |
| <b>Total Liabilities &amp; Equity</b> | <b>295,830</b> | <b>344,711</b> | <b>361,372</b> | <b>383,885</b> | <b>397,736</b> |

Source: Company, IndoPremier

| Cash Flow Statement (Rp bn) | 2017A | 2018A | 2019F | 2020F | 2021F |
|-----------------------------|-------|-------|-------|-------|-------|
|-----------------------------|-------|-------|-------|-------|-------|

|                                 |                 |                 |                 |                 |                 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net Income                      | 18,881          | 21,673          | 21,129          | 23,049          | 24,695          |
| Depr. & Amortization            | 7,866           | 9,422           | 9,834           | 10,131          | 10,488          |
| Changes in Working Capital      | (1,737)         | (11,562)        | (3,973)         | (3,865)         | (3,143)         |
| Others                          | (1,725)         | 8,159           | (2,824)         | (2,979)         | (3,338)         |
| <b>Cash Flow From Operating</b> | <b>23,285</b>   | <b>27,692</b>   | <b>24,165</b>   | <b>26,337</b>   | <b>28,702</b>   |
| Capital Expenditure             | (22,836)        | (19,832)        | (13,400)        | (13,674)        | (14,108)        |
| Others                          | 7,895           | (9,899)         | 0               | 0               | 0               |
| <b>Cash Flow From Investing</b> | <b>(14,941)</b> | <b>(29,731)</b> | <b>(13,400)</b> | <b>(13,674)</b> | <b>(14,108)</b> |
| Loans                           | 4,068           | 10,936          | 10,774          | (11,537)        | 1,991           |
| Equity                          |                 |                 |                 |                 |                 |
| Dividends                       | (6,801)         | (7,489)         | (8,669)         | (8,451)         | (9,219)         |
| Others                          | (3,451)         | (8,320)         | 0               | 0               | 0               |
| <b>Cash Flow From Financing</b> | <b>(6,184)</b>  | <b>(4,873)</b>  | <b>2,105</b>    | <b>(19,988)</b> | <b>(7,229)</b>  |
| <b>Changes in Cash</b>          | <b>2,160</b>    | <b>(6,912)</b>  | <b>12,869</b>   | <b>(7,325)</b>  | <b>7,365</b>    |

| Key Ratios                  | 2017A | 2018A | 2019F | 2020F | 2021F |
|-----------------------------|-------|-------|-------|-------|-------|
| Gross Margin                | 20.6% | 21.2% | 20.6% | 21.1% | 21.2% |
| Operating Margin            | 9.9%  | 11.2% | 10.3% | 10.8% | 10.7% |
| Pre-Tax Margin              | 14.2% | 14.6% | 14.2% | 14.9% | 15.1% |
| Net Margin                  | 9.2%  | 9.1%  | 8.8%  | 9.4%  | 9.6%  |
| ROA                         | 6.8%  | 6.8%  | 6.0%  | 6.2%  | 6.3%  |
| ROE                         | 12.7% | 13.1% | 11.5% | 11.4% | 11.0% |
| ROIC                        | 7.4%  | 8.7%  | 7.2%  | 7.2%  | 7.1%  |
| 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  | 11.5  | 13.0  |
| Net Gearing                 | 28%   | 35%   | 30%   | 26%   | 21%   |

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

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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