

Astra International Tbk (ASII)

Relays on Diversification of Non-Automotive Business

Automotive Business: Performance Bolster

The improving performance of the financial segment and 2017's hiking commodities prices empower ASII to post the positive performance amid the decline in 4W sales volume. **The low growth of 0.4% y-y into IDR96.5 trillion in revenue posted by the automotive segment** was offset by the hike of **42% into IDR64.6 trillion in revenue posted by the mining and heavy machinery segment**.

Based on the bottom line outlook, the improvement in BNLI's performance empowered **the financial segment to post the surge of 376% y-y** into IDR3.7 trillion in net profit. The fantastic surge offset the decline of 3% y-y into IDR8.8 trillion in net profit posted by the automotive segment.

Challenge of Automotive Competition

The 4W automotive segment contributing 30% to ASII's overall revenue **posted the decline of 1.7% into 579,114 units in sales volume amid the industrial increment of 1.7%. The launch of Mitsubishi Xpander and Wuling Confero as the new players in LMPV products heightening 4W competition** is the potent driver for the decline in sales volume posted by the 4W automotive segment.

In 2018, the aggressive expansion of LMPV products launched by Mitsubishi dan Wuling will narrow the market shares for Avanza/Xenia. However, it is immature to conclude the success of Mitsubishi and Wuling as their LMPV products are still in the introduction stage. Besides, **the launch of Rush and Terios with the revamp model** is expected to offset the decline in sales of LMPV's products whose selling price is nearly similar to the selling price of Mitsubishi Xpander.

Astra International, Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Revenue	181,084	206,057	220,354	232,693
<i>Revenue growth</i>	-1.7%	13.8%	6.9%	5.6%
EBITDA	24,219	27,293	31,077	33,911
Net profit	15,156	18,881	20,003	21,415
EPS (IDR)	374	466	494	529
<i>EPS growth</i>	4.8%	24.6%	5.9%	7.1%
BVPS (IDR)	3,456	3,862	4,044	4,382
EBITDA margin	13.4%	13.2%	14.1%	14.6%
NPM	8.4%	9.2%	9.1%	9.2%
ROE	11.4%	12.7%	12.5%	12.6%
ROA	6.0%	6.8%	6.7%	6.8%
ROIC	7.1%	7.3%	7.7%	7.9%
P/E	16.0x	17.3x	16.3x	15.2x
P/BV	1.7x	2.1x	2.0x	1.8x
EV/EBITDA	12.9x	14.7x	12.6x	11.4x
DPS (IDR)	168	168	207	222
<i>Dividend yield</i>	2.8%	2.1%	2.6%	2.8%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2018 TP (IDR)	9,300
Consensus Price (IDR)	9,020
TP to Consensus Price	+3.1%
vs. Last Price	+15.5%

Shares data

Last Price (IDR)	8,050
Price date as of	Mar 06, 2018
52 wk range (Hi/Lo)	9,350 / 7,625
Free float	49.8%
Outstanding sh.(mn)	40,484
Market Cap (IDR bn)	325,892
Market Cap (USD mn)	23,601
Avg. Trd Vol - 3M (mn)	29.443
Avg. Trd Val - 3M (bn)	242.878
Foreign Ownership	99.9%

Misc Industries

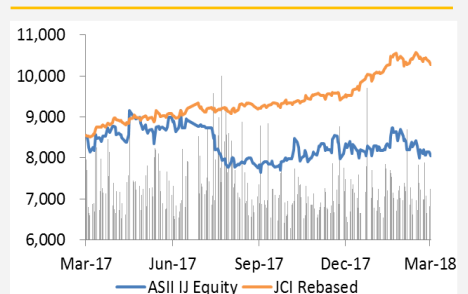
Automotive

Bloomberg	ASII.IJ
Reuters	ASII.JK

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Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-3.0%	-4.5%	-3.6%	-5.8%
Rel. Ret.	-5.3%	-4.8%	-11.3%	-26.0%

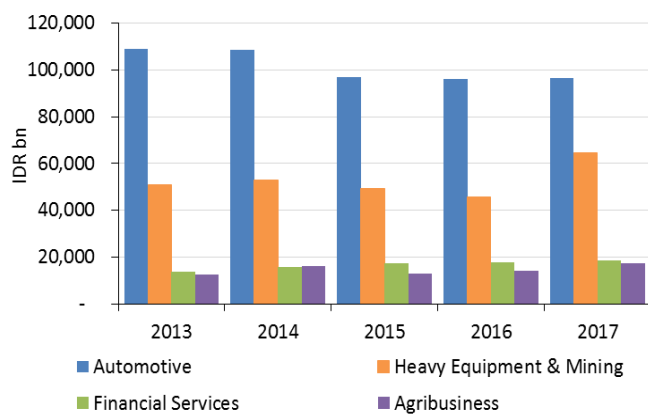
Indonesia Automotive Association (Gaikindo) targets **2018's increase of 1.9% into 1.1 million units in 4W sales**, but its target does not yet return to 2013's sales record of 1.2 million. The positive economic growth estimated to hit 5.5% in 2019 allows the automotive sector to have promising prospects. Besides, **ASII management is optimistic about the 4W long-term prospects as the 4W penetration in Indonesia's market share is lower than the 4W penetration in ASEAN's countries.**

Meanwhile, ASII targets the growth of 1%-3% in sales of 2W segment because of the **relatively higher 2W penetration in Indonesia's market share.** The target is realistic due to the improvement in 2018's purchasing power to be boosted by the improvement in commodities prices, particularly outside Java Island.

Target Price of IDR9,300

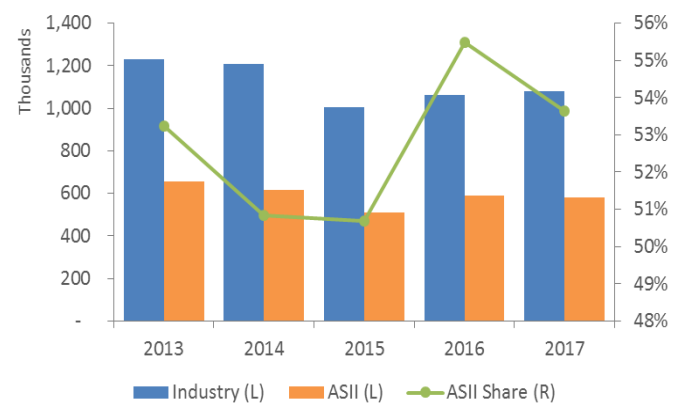
We recommend Buy with the target price of IDR9,300 in December 2018. The target price uses the estimate of forward PE of 17.6x (the 3-year average). The target price implies a 2017 PE of 18.8x.

Revenue Trend | FY13 - FY17



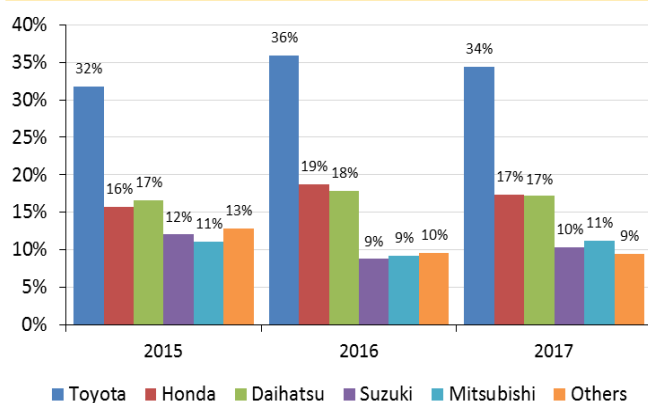
Source: Company

4W Sales (Units) & Market Share | FY13 - FY17



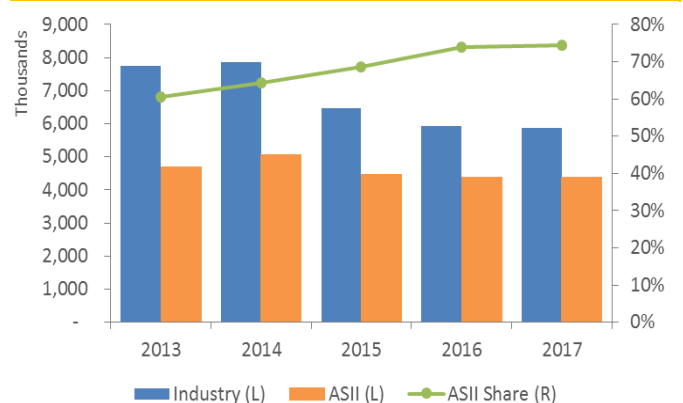
Source: Company, NHKS research

4W Market Share by Brand | 2015 - 2017



Source: Gaikindo

2W Sales (Units) & Market Share | FY13 - FY17



Source: Company

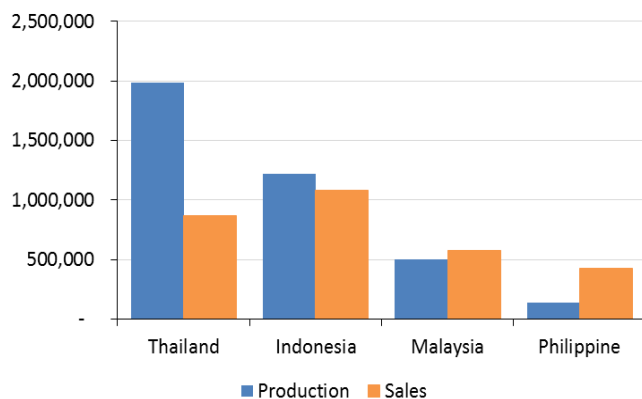
A Glance of ASII

ASII is a conglomerate company whose the business sectors cover automotive, mining, financial, CPO, property, infrastructure and logistic, and information technology sectors. As of note, the automotive business gives the biggest contribution of 47% to ASII's overall revenue. It is the 4W sole agent for brands such as Toyota, Daihatsu, Isuzu, and the 2W sole agent for Honda brand.

Indonesia's Automotive in ASEAN

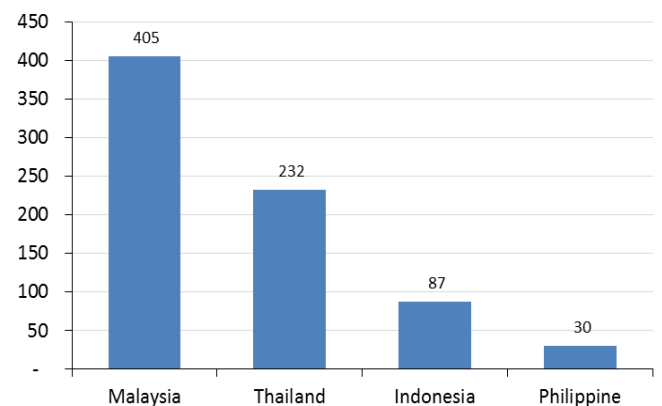
Indonesia as the country with the biggest population in ASEAN has the potential for the promising automotive sales due to the low 4W penetration. Besides, the plan of new regulation enactment of reduction in value added tax for luxury goods of sedan is estimated to boost the increment in export market. Now, the new 4W production utilization reaches 55% because many investors increases the production capacity as the strategy for anticipating the surging demand in the next couple of years.

ASEAN Automotive 4W | 2017



Source: AAF

Car Density (Per 1000 population) | 2017



Source: Gaikindo

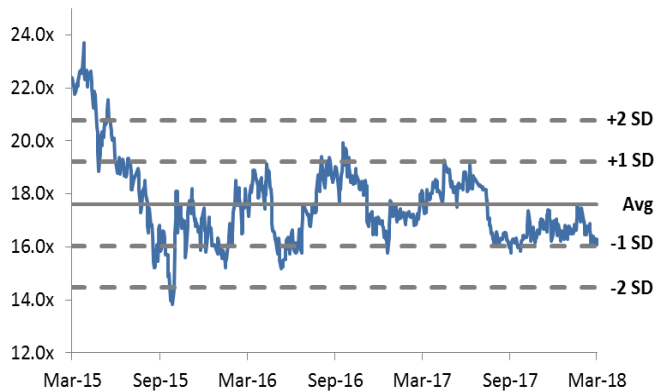
ASEAN Automotive Comparables

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit-Growth	Revenue Growth	Debt/Equity	ROE	P/E	P/BV	Dividend Yield
ASII	22,699	21,758	24.6%	13.8%	48%	16%	16.5x	2.5x	2.2%
Thailand									
Thai Stanly Electric	611	442	5.7%	3.3%	0%	10.6%	13.3x	1.4x	2.0%
PCS Machine Group	364	170	67.9%	5.9%	0%	12.9%	17.6x	2.0x	3.8%
AAPICO Hitech PCL	347	452	113.2%	8.2%	69%	17.8%	9.3x	1.6x	3.5%
Somboon Advance	276	294	33.5%	5.2%	19%	13.2%	10.6x	1.3x	4.4%
Malaysia									
MBM Resources Bhd	246	511	N/A	3.7%	17%	-9.8%	N/A	0.7x	1.2%
APM Automotive Bhd	173	405	-19.5%	-3.9%	5%	3.2%	17.3%	0.5x	4.2%

Source: Bloomberg, NHKS research

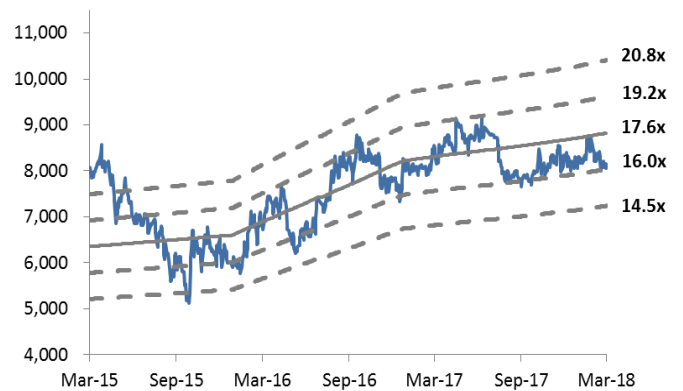
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



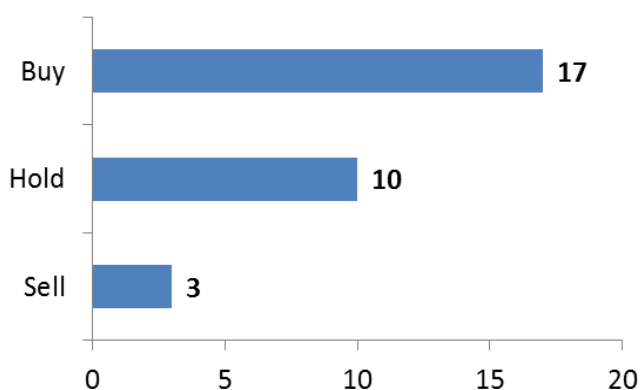
Source: NHKS research

Rating and target price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
4/10/2017	Buy	10,200	8,775	9,138	16.2%	11.6%
5/29/2017	Buy	10,200	8,700	9,393	17.2%	8.6%
10/11/2017	Buy	9,300	7,975	9,056	16.6%	2.7%
3/9/2018	Buy	9,300	8,050	9,020	15.5%	3.1%

Source: Bloomberg, NHKS research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

ASII Summary		
Last Price (IDR)	March 6, 2018	8,050
Target Price (IDR)	Dec 2018	9,300
Analyst: Arnold Sampeliling	Rating:	Buy

INCOME STATEMENT

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Sales	181,084	206,057	220,354	232,693
Growth (% y/y)	-1.7%	13.8%	6.9%	5.6%
COGS	(144,652)	(163,689)	(175,268)	(184,059)
Gross Profit	36,432	42,368	45,086	48,635
Gross Margin	20.1%	20.6%	20.5%	20.9%
Operating Expenses	(18,898)	(22,042)	(21,967)	(23,583)
EBIT	17,534	20,326	23,119	25,051
EBIT Margin	9.7%	9.9%	10.5%	10.8%
Depreciation	6,685	6,967	7,959	8,860
EBITDA	24,219	27,293	31,077	33,911
EBITDA Margin	13.4%	13.2%	14.1%	14.6%
Interest Expense	(1,745)	(2,042)	(1,769)	(1,951)
EBT	22,253	29,196	31,527	33,383
Income Tax	(3,951)	(6,031)	(6,678)	(7,668)
Minority Interest	(3,146)	(4,284)	(4,846)	(4,299)
Net Profit	15,156	18,881	20,003	21,415
Growth (% y/y)	4.8%	24.6%	5.9%	7.1%
Net Profit Margin	8.4%	9.2%	9.1%	9.2%

BALANCE SHEET

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	29,357	31,574	42,956	53,500
Other Current Assets	81,046	89,719	89,450	96,956
Total Current Assets	110,403	121,293	132,406	150,456
Net Fixed Assets	43,237	48,402	52,909	57,521
LT Investments	46,542	59,398	49,923	53,724
Other Non Current Assets	61,673	66,553	65,629	68,190
Total Assets	261,855	295,646	300,867	329,892
Payables	22,489	29,468	24,427	33,084
Curr Maturities of LT Debt	27,056	27,263	29,286	31,865
ST borrowings	18,764	16,321	17,543	20,121
Total Current Liabilities	89,079	98,722	94,475	109,515
LT Debt	25,090	31,394	33,916	34,302
Other Non Current Liab.	7,780	9,201	8,770	8,683
Total Liabilities	121,949	139,317	137,161	152,500
Shareholders' Equity	139,906	156,329	163,706	177,393

CASH FLOW STATEMENT

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	15,156	19,809	20,003	21,415
Deprec & Amortization	6,685	6,967	7,959	8,860
Chg. In Working Capital	(2,434)	(3,492)	(6,925)	2,227
CFO	19,407	23,285	21,037	32,502
Capex	(10,408)	(12,211)	(13,751)	(14,500)
CFI	(10,798)	(14,941)	(2,795)	(19,772)
Dividends Paid	(6,801)	(6,801)	(8,364)	(9,001)
Net Borrowing (PMT)	261	7,533	5,767	5,543
CFB	(5,888)	(6,184)	(6,859)	(2,186)
Net Changes in Cash	2,721	2,160	11,382	10,544

OWNERSHIP

By Geography	% Shareholders	%
Singapore	71.6	Jardine Cycle & C 50.1
United States	15.3	Standard Life Aberdeen 2.0
Luxembourg	4.4	Vanguard Group 1.7
United Kingdom	1.9	Blackrock 1.7

PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	11.4%	12.7%	12.5%	12.6%
ROA	6.0%	6.8%	6.7%	6.8%
ROIC	7.1%	7.3%	7.7%	7.9%
EBITDA/Equity	18.2%	18.4%	19.4%	19.9%
EBITDA/Assets	9.5%	9.8%	10.4%	10.8%
Cash Dividend (IDR bn)	6,801	6,801	8,364	9,001
Dividend Yield (%)	2.8%	2.1%	2.6%	2.8%
Payout Ratio (%)	47.0%	44.0%	45.0%	45.0%
DER	51%	48%	49%	49%
Net Gearing	2242%	2370%	2553%	2728%
LT Debt to Equity	37%	38%	39%	37%
Capitalization Ratio	34%	32%	33%	33%
Equity Ratio	53%	53%	54%	54%
Debt Ratio	27%	25%	27%	26%
Financial Leverage	190%	188%	186%	185%
Current Ratio	124%	123%	140%	137%
Quick Ratio	104%	103%	117%	119%
Cash Ratio	33%	32%	45%	49%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	40,484	40,484	40,484	40,484
Share Price (IDR)	6,000	8,050	8,050	8,050
Market Cap (IDR tn)	242.9	325.9	325.9	325.9

VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price/Earnings	16.0x	17.3x	16.3x	15.2x
Price/Book Value	1.7x	2.1x	2.0x	1.8x
Price/Sales	1.3x	1.6x	1.5x	1.4x
PE/EPS Growth	3.3x	0.7x	2.7x	2.2x
EV/EBITDA	12.9x	14.7x	12.6x	11.4x
EV/EBIT	17.8x	19.8x	16.9x	15.5x
EV (IDR bn)	311,513	401,679	391,459	387,902
Sales CAGR (3-Yr)	-2.3%	0.7%	6.2%	8.7%
EPS CAGR (3-Yr)	-7.9%	-0.5%	11.4%	12.2%
Basic EPS (IDR)	374	466	494	529
Diluted EPS (IDR)	374	466	494	529
BVPS (IDR)	3,456	3,862	4,044	4,382
Sales PS (IDR)	4,473	5,090	5,443	5,748
DPS (IDR)	168.0	168.0	206.6	222.3

DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	14,421	16,127	18,222	19,297
+Depr./Amor.	6,685	6,967	7,959	8,860
-CAPEX	(10,408)	(12,211)	(13,751)	(14,500)
-Incr. (Decr.) in Working Cap.	(2,434)	(3,492)	(6,925)	2,227
(Unlevered) FCFE	8,264	7,392	5,505	15,884
WACC				
Cost of Debt (Tax Adj.)	8.9%	6.2%	6.6%	6.7%
Cost of Equity (COE)	10.5%	11.5%	10.7%	11.6%
WACC (%)	10.2%	10.6%	9.9%	10.6%
RIM				
Spread (FROE-COE) (%)	1.4%	2.0%	2.1%	1.5%
Residual Income (IDR)	1,834	2,734	3,241	2,426
Equity Charge	13,322	16,147	16,762	18,990
EVA				
Invested Capital (IDR bn)	197,182	210,816	231,307	244,451
ROIC-WACC (%)	-2.8%	-2.9%	-2.0%	-2.7%
EVA (IDR bn)	(5,606)	(6,116)	(4,707)	(6,563)

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