

19 March 2019

Consumer Cyclical | Auto & Autoparts

Astra International (ASII IJ)

Buy (Maintained)

BUY At Lower TP On Weaker HE Sales

Target Price (Return) IDR9,000 (+22%)
 Price: IDR7,400
 Market Cap: USD21,037m
 Avg Daily Turnover(IDR/USD) 320,753.2m/22.53m

- **Stay BUY with new IDR9,000 TP** from IDR9,300, 22% upside plus 4% FY19F yield. We cut Astra International's earnings estimates driven by lower heavy equipment and overburden sales volumes. We see Auto earnings improving on higher sales volume, lower sales discounts, and no one-off expenses. We raise Bank Permata's valuation, driven by higher demand from potential M&A. Astra, which is attractively trading at 12.1x FY19F rolling P/E, ~1.4SD below its 5-year mean, remains our Country and Sector Top Pick.
- **Auto earnings likely to improve.** In 2019, Astra's auto earnings should improve, driven by higher sales volume, lower sales discounts, and no one-off expenses. Although February 4W sales volume was relatively weak – in line with national sales – we still see promising outlook on Astra's auto sales. March sales are likely to be driven by strong demand for the new *Avanza* model, as sales orders have exceeded 15,000 units, so far. However, there was temporary production constraint in January and February. Our channel checks suggest that the matter has since been resolved. Therefore, a larger supply is expected to be delivered in March. Auto 1Q19 EBIT margin is also likely to improve on the absence of one-off expenses (which it booked in 4Q18), as well as lower sales discounts. We believe the recent strengthening of the IDR should also enable it to manage production costs better.
- **Higher Bank Permata valuation.** We believe that there could be more than one potential buyer for Bank Permata, higher than our initial expectations. Should Bank Permata become a potential M&A target, valuation could be at a premium given its decent size (total asset: IDR156trn), good funding franchise (retail, SME) backed by Astra ecosystem, and limited availability of mid-sized banks. Our TP on Bank Permata implies 1.7x P/BV towards FY19F BVPS, which is still within the average M&A valuation of 1.4-2.3x P/BV for notable mid-sized banks in the past two years. (see [our latest note on Bank Permata](#)).
- **Lower earnings estimate on United Tractors.** Although we cut United Tractors' earnings estimate – due to lower heavy equipment and overburden sales volume – we expect the company to still record strong earnings this year, driven by elevated earnings from its coal-mining business, and higher contributions from Martabe gold mine. We believe the worst is almost over for United Tractors, and see a better outlook ahead. (see [our latest note on United Tractors](#)).
- **Lower TP on Astra.** We reduce FY19F-20F earnings estimates by 2% and 6%, to IDR23-24trn, driven by lower United Tractors' earnings. Also, we cut our SOP-based TP to IDR9,000, 22% upside plus 4% FY19F yield. Our new TP implies 15x-14x FY19F-20F P/E. Key downside risk is intense competition in the domestic auto industry, especially low-MPV segment.

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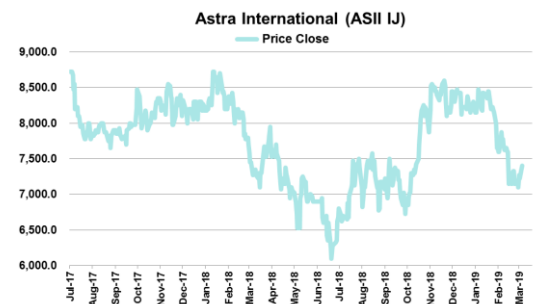


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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|---------------|--------|---------|--------|--------|
| Absolute | (10.03) | (6.03) | (11.64) | 5.34 | (0.67) |
| Relative | (15.11) | (6.21) | (18.67) | (6.67) | (3.91) |
| 52-wk Price low/high (IDR) | 6,100 - 8,775 | | | | |

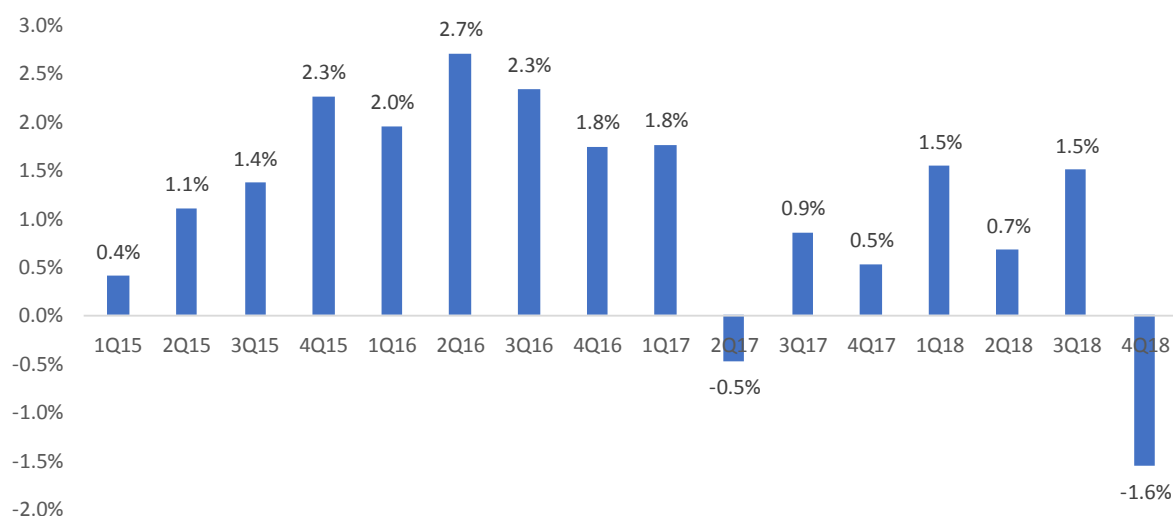


Source: Bloomberg

| Forecasts and Valuation | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total turnover (IDRb) | 206,057 | 239,205 | 248,670 | 268,607 | 289,760 |
| Reported net profit (IDRb) | 18,847 | 21,673 | 24,818 | 26,740 | 29,567 |
| Reported net profit growth (%) | 23.0 | 15.0 | 14.5 | 7.7 | 10.6 |
| EPS (IDR) | 466 | 535 | 613 | 661 | 730 |
| P/E (x) | 15.9 | 13.8 | 12.1 | 11.2 | 10.1 |
| P/B (x) | 2.4 | 2.2 | 2.0 | 1.9 | 1.7 |
| Dividend Yield (%) | 2.9 | 3.5 | 4.2 | 4.6 | 5.0 |
| EV/EBITDA (x) | 29.1 | 24.2 | 20.1 | 16.9 | 20.1 |
| Return on average equity (%) | 16.0 | 14.5 | 17.5 | 17.3 | 17.6 |

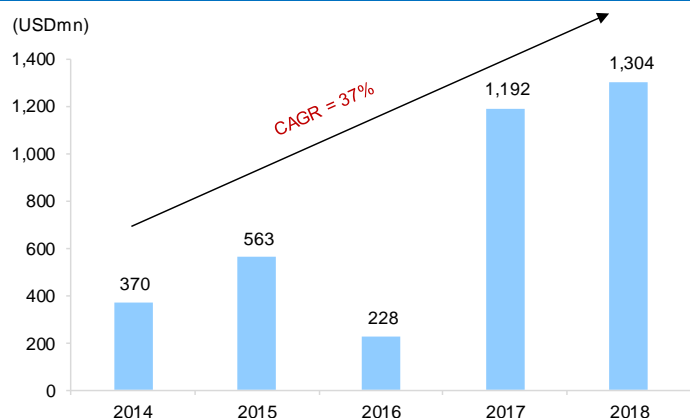
Source: Company data, RHB

Figure 1: Astra's Auto EBIT margin



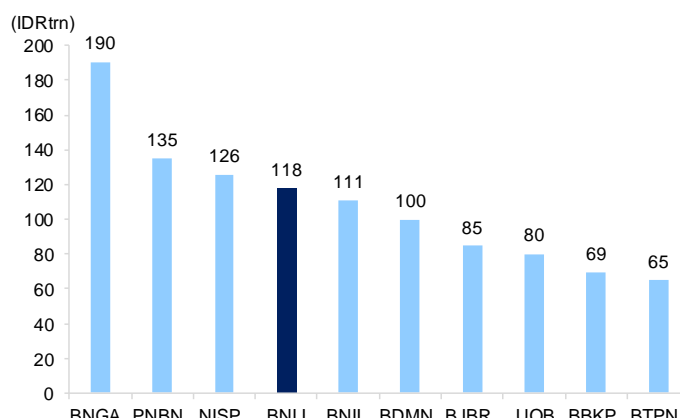
Note: In 4Q18, Astra's auto arm recorded a IDR400bn one-off expense for its CSR program (donation to Astra Polytechnic). In our calculation, if we excluded the one-off expense, its auto 4Q18 EBIT margin should be -0.1%
 Source: Company data, RHB

Figure 2: Indonesian banks' M&A deal value



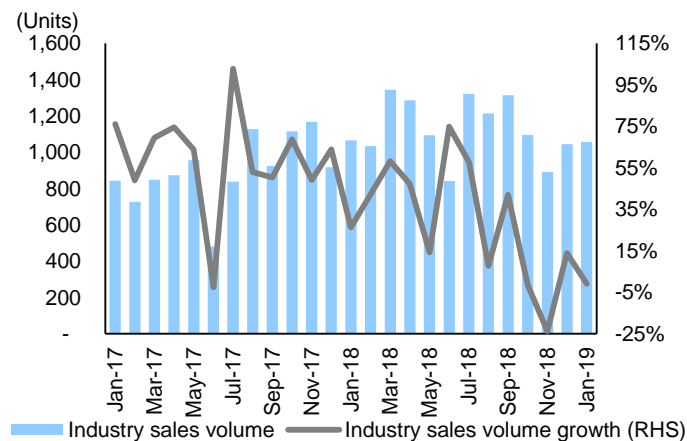
Source: Bloomberg, RHB

Figure 3: Small-mid banks total deposits comparison



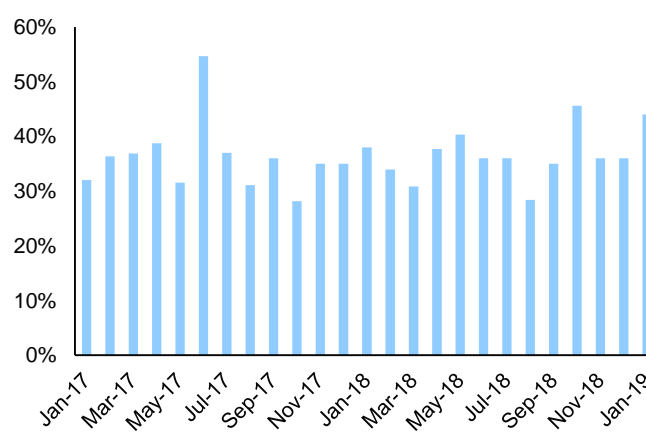
Source: Company data, RHB

Figure 4: Industry HE sales volumes vs YoY growth



Source: Company data, RHB

Figure 5: Komatsu HE's monthly market share



Source: Company data, RHB

Figure 6: Astra is currently trading at 12.1x FY19F P/E, ~1.4SD below its 5-year mean



Source: Company data, RHB

Figure 7: Astra's revised earnings estimates

| (IDRbn) | FY19F | | Change (%) | FY20F | | Change (%) | FY21F | | Change (%) |
|----------------------|---------|-----------|------------|---------|-----------|------------|---------|-----------|------------|
| | Revised | FY19F Old | | Revised | FY20F Old | | Revised | FY21F Old | |
| Sales | 248,670 | 243,706 | 2.0% | 268,607 | 268,980 | -0.1% | 289,760 | 293,037 | -1.1% |
| Gross profit | 47,593 | 47,662 | -0.1% | 52,142 | 53,947 | -3.3% | 57,914 | 60,553 | -4.4% |
| Operating profit | 26,695 | 27,073 | -1.4% | 29,510 | 31,202 | -5.4% | 33,318 | 35,855 | -7.1% |
| Reported net profit | 24,818 | 25,364 | -2.2% | 26,740 | 28,425 | -5.9% | 29,567 | 31,849 | -7.2% |
| Recurring net profit | 22,573 | 23,119 | -2.4% | 24,495 | 26,180 | -6.4% | 27,322 | 29,604 | -7.7% |
| Reported EPS | 613 | 627 | -2.2% | 661 | 702 | -5.9% | 730 | 787 | -7.2% |
| Recurring EPS | 558 | 571 | -2.4% | 605 | 647 | -6.4% | 675 | 731 | -7.7% |
| Margin | | | | | | | | | |
| Gross margin | 19.1% | 19.6% | | 19.4% | 20.1% | | 20.0% | 20.7% | |
| Operating margin | 10.7% | 11.1% | | 11.0% | 11.6% | | 11.5% | 12.2% | |
| Reported net margin | 10.0% | 10.4% | | 10.0% | 10.6% | | 10.2% | 10.9% | |
| Recurring net margin | 9.1% | 9.5% | | 9.1% | 9.7% | | 9.4% | 10.1% | |

Source: Company data, RHB

Figure 8: Astra's SOP valuation

| Division | Equity value, (IDR bn) | Equity value attributed to Astra, IDR bn | Contribution to total value, % | Remarks |
|-------------------------------|------------------------|--|--------------------------------|---|
| Automotive | | | | |
| Astra parent company | 88,507 | 88,507 | 24.3 | DCF (WACC 9%, TG 2%) |
| Astra Honda Motor | 196,504 | 98,252 | 27.0 | DDM (Cost of equity 11.5%, TG 2%) |
| Astra Otoparts | 10,121 | 8,097 | 2.2 | TP IDR2,100/share |
| Sub-total | | 194,857 | 53.6 | |
| Heavy equipment | | | | |
| United Tractors | 121,228 | 72,131 | 19.8 | TP IDR32,500/share |
| Sub-total | | 72,131 | 19.8 | |
| Agribusiness | | | | |
| Astra Agro Lestari | 21,864 | 17,422 | 4.8 | TP IDR11,360/share |
| Sub-total | | 17,422 | 4.8 | |
| Financial services | | | | |
| Bank Permata | 39,260 | 17,510 | 4.8 | TP IDR1,400/share (implies P/BV: 1.7x) |
| Astra Sedaya Finance | 8,673 | 8,673 | 2.4 | Target P/BV: 1.5x |
| Federal International Finance | 7,433 | 7,433 | 2.0 | Target P/BV: 1.5x |
| Sub-total | | 33,616 | 9.2 | |
| Others | | | | |
| Astra Graphia | 1,949 | 1,498 | 0.4 | MV, closing price on 18-Mar-19 |
| Equity income & others | 44,184 | 44,184 | 12.1 | FCFE valuation (Cost of equity 11.5%, TV growth 2%) |
| Sub-total | | 45,682 | 12.6 | |
| Total equity value | | 363,707 | 100.0 | |
| Shares (m) | | 40,484 | | |
| NAV/share, IDR | | 8,984 | | |

Source: Company data, RHB

Figure 9: Astra's equity value - DCF sensitivity analysis

| WACC | Terminal value of growth | | | | | | |
|------|--------------------------|-------|-------|-------|-------|--------|--------|
| | 0.5% | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% | 3.5% |
| 8.3% | 8,991 | 9,155 | 9,340 | 9,548 | 9,787 | 10,063 | 10,386 |
| 8.5% | 8,827 | 8,979 | 9,151 | 9,344 | 9,564 | 9,815 | 10,108 |
| 8.8% | 8,675 | 8,818 | 8,977 | 9,157 | 9,359 | 9,590 | 9,858 |
| 9.0% | 8,534 | 8,668 | 8,817 | 8,984 | 9,173 | 9,386 | 9,632 |
| 9.3% | 8,403 | 8,530 | 8,670 | 8,827 | 9,002 | 9,200 | 9,427 |
| 9.5% | 8,281 | 8,401 | 8,534 | 8,681 | 8,845 | 9,031 | 9,241 |
| 9.8% | 8,168 | 8,281 | 8,406 | 8,546 | 8,700 | 8,875 | 9,071 |

Source: Company data, RHB

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| | |
|---------------------|--|
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| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
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