

1 December 2020

Consumer Cyclical | Auto & Autoparts

Astra International (ASII IJ)

Buy (Maintained)

Better Clarity On Auto, Financing Recovery; BUY

Target Price (Return): IDR6,900 (+30%)
Price: IDR5,300
Market Cap: USD15,196m
Avg Daily Turnover (IDR/USD) 235,161m/16.3m

- **BUY, SOP-based IDR6,900 TP, 30% upside with c.5% FY21F yield.** Astra International expects automotive demand to continue recovering, premised on the sturdy MoM sales growth since June, and the anticipated economic recovery next year. Its vehicle inventory days now number less than 30 – which is healthy. Its financial services arm should also pick up, boosted by higher 2-wheeler (2W) sales – c.70% of national 2W purchases are done via financing. ASII is trading at -1SD from its 10-year forward-rolling P/E mean.

- **Sales recovery in 2021.** ASII expects national 2W sales to increase to 4-4.3m units (+8-16% YoY) in 2021, after falling to 3.7m units (-43% YoY) in 2020F. 4-wheeler (4W) domestic wholesales will likely be in line with motorcycle wholesales. Management expects national 4W wholesales to hit 750,000 units (+43% YoY) next year, vs FY20F's 525,000 units (-49% YoY). It also expects 4W and 2W vehicle exports to recover faster than domestic sales. YTD-October, export sales declined by around 30% YoY, which was better than the sharp drop in domestic sales.

- **Inventory at healthy levels, electric vehicle (EV) production is stable.** ASII's 4W inventory days is now less than 30. This is healthy, when compared to the normal c.30-45 days. ASII's non-Java vehicle wholesales contribution in 10M20 increased to 39% of the total (10M19: 35%). This is because its wholesales in Java were greatly impacted by the slowdown in economic activity, when large-scale social distancing measures were imposed. Separately, ASII expects the EV trend to be dominated by hybrid cars in the near future – a plug-in hybrid EV, a battery-powered EV, and eight hybrid EV models are expected to be launched ahead.

- **Low-carbon emission vehicle (LCEV) tax incentive likely to be implemented in 4Q21.** The Government is likely to reduce tax incentives on low-cost green cars (LCGC), and shift them to benefit LCEVs. This policy is likely to increase LCGC prices, thereby slowing down this segment's sales growth. However, we believe the 4W market still has promising potential, as car penetration in Indonesia is low – at just 80-90 cars for every 1,000 persons (vs 200 in Thailand, and 400 in Malaysia).

- **Financing unit recovered in 3Q20,** after hitting its lowest point in 2Q20. Astra Sedaya Finance's debt delinquency ratio has declined: i) >60 days receivable (overdue loans) declined to 1.1% in September, from 1.8% in June; ii) >90 days receivable (overdue loans) declined to 0.5% in September, from 0.9% in June. Management believes that its bad debts provision is sufficient to cover any loss from uncollectible receivables. At the same time, ASII has ramped up its digitalisation process – this helps with financing for vehicles, as credit approvals can now be done through the digital platform. In 2021, financing revenue is likely to recover, in line with the anticipated rebound in vehicle sales.

Analysts

Andrey Wijaya
+6221 5093 9846
andrey.wijaya@rhbgroupp.com

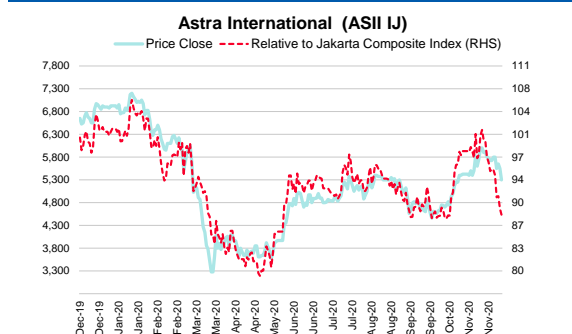


Indonesia Research Team

+6221 5093 9888
rhb.id.research@rhbgroupp.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.5)	(2.3)	(0.5)	11.1	(18.5)
Relative	(12.6)	(11.7)	(5.5)	(7.0)	(11.8)
52-wk Price low/high (IDR)	3,280 – 7,200				



Source: Bloomberg

Previous reports on ASII:

*Higher TP On Expected Wider Auto Margins; BUY
Auto Earnings = Positive, Above Expectations; BUY
Still Upbeat Despite Slow Recovery; Maintain BUY
Gradual Recovery Begins, TP Raised; Keep BUY
Divestment Gains Offset Weak Operational Results
Positive On New Management; BUY
Ample Cash Provides Support; Keep BUY
Lucrative Divestment Deal; Maintain BUY
1Q20 Earnings As Expected; BUY
A Bumpy Road; Still BUY
Analysts Call: Key Highlights; Maintain BUY
Trading At Below -2SD; U/G To BUY
Potential BNLI Gain; Auto Still Challenging
Positive On BNLI Divestment; NEUTRAL*

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (IDRb)	239,205	237,166	169,933	209,586	223,777
Recurring net profit (IDRb)	19,777	19,152	10,362	16,376	19,040
Recurring net profit growth (%)	15.6	(3.2)	(45.9)	58.0	16.3
Recurring P/E (x)	10.85	11.20	20.71	13.10	11.27
P/B (x)	1.6	1.5	1.4	1.3	1.2
P/CF (x)	7.64	13.04	8.61	8.36	6.75
Dividend Yield (%)	4.8	5.5	5.5	5.1	5.1
EV/EBITDA (x)	6.66	6.59	9.03	6.31	5.75
Return on average equity (%)	16.6	15.2	10.4	11.1	11.7
Net debt to equity (%)	34.5	36.0	21.7	15.7	9.6

Source: Company data, RHB

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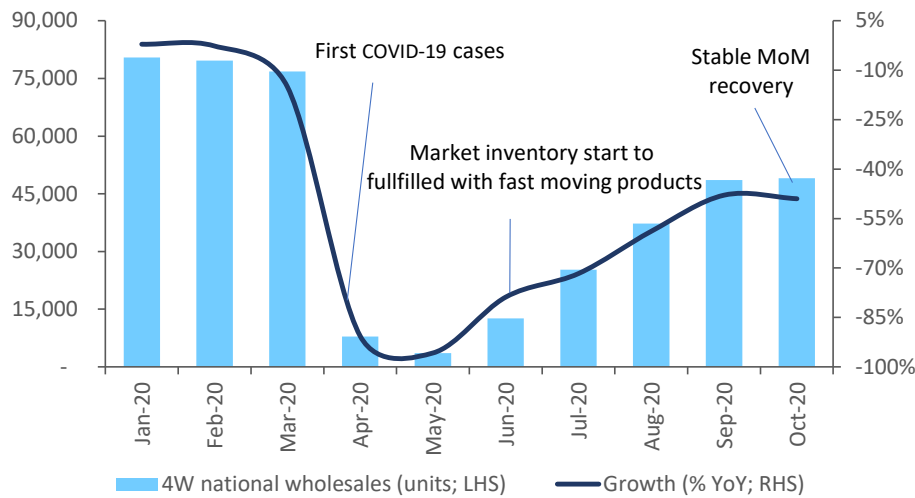
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Financial Exhibits

Asia	Financial summary (IDR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Indonesia	Recurring EPS	488.52	473.07	255.96	404.51	470.30
Consumer Cyclical	DPS	251.88	289.80	290.26	271.70	268.48
Astra International	BVPS	3,382.78	3,652.03	3,818.03	4,209.64	4,586.00
ASII IJ	Return on average equity (%)	16.6	15.2	10.4	11.1	11.7
Buy						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
In our SOP valuation:	Recurring P/E (x)	10.85	11.20	20.71	13.10	11.27
i. We valued Astra's automotive division based on DCF and DDM, assuming a WACC of 8.6%, CoE of 12.8%, and a terminal growth rate of 2%;	P/B (x)	1.6	1.5	1.4	1.3	1.2
ii. The valuations of its heavy equipment, agribusiness, auto parts divisions are based on our TPs for the stocks: United Tractors (UNTR IJ, BUY, TP: IDR27,500), Astra Agro Lestari (AALI IJ, BUY, TP: IDR10,600), and Astra Otoparts (AUTO IJ, BUY, TP: IDR1,170).	FCF Yield (%)	6.9	2.1	4.6	5.0	5.5
	Dividend Yield (%)	4.8	5.5	5.5	5.1	5.1
	EV/EBITDA (x)	6.66	6.59	9.03	6.31	5.75
	EV/EBIT (x)	8.63	9.02	13.77	9.76	8.45
Key drivers	Income statement (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Recovery of vehicles sales;	Total turnover	239,205	237,166	169,933	209,586	223,777
ii. Higher CPO price and sales volume;	Gross profit	50,769	50,239	30,949	39,667	43,878
iii. Higher coal prices.	EBITDA	34,832	35,834	26,301	38,384	42,419
	Depreciation and amortisation	(7,964)	(9,650)	(9,046)	(13,560)	(13,560)
	Operating profit	26,868	26,184	17,254	24,825	28,859
	Net interest	(1,246)	(2,429)	588	1,519	2,582
	Pre-tax profit	34,995	34,054	29,938	34,732	40,046
	Taxation	(7,623)	(7,433)	(8,360)	(9,817)	(11,438)
	Reported net profit	21,673	21,707	15,713	18,115	20,771
	Recurring net profit	19,777	19,152	10,362	16,376	19,040
Key risks	Cash flow (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Weakened consumer spending;	Change in working capital	(20,268)	(26,578)	(10,526)	(21,346)	(18,681)
ii. Depreciation of the IDR against the USD;	Cash flow from operations	28,082	16,453	24,913	25,652	31,793
iii. Higher non-performing loans (NPL) of financing companies.	Capex	(13,378)	(11,864)	(15,000)	(15,000)	(20,000)
	Cash flow from investing activities	(29,731)	(14,186)	(11,953)	(15,000)	(15,000)
	Dividends paid	(10,197)	(11,230)	(11,751)	(10,999)	(10,869)
	Cash flow from financing activities	(4,621)	(5,414)	(983)	(4,199)	(3,032)
	Cash at beginning of period	31,574	25,193	24,330	50,387	59,002
	Net change in cash	(6,270)	(3,147)	11,977	6,453	13,760
	Ending balance cash	25,583	21,608	36,307	56,840	72,763
Company Profile	Balance sheet (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Astra International is a conglomerate with businesses in the automotive, heavy equipment, agribusiness, financial services, information technology and infrastructure sectors.	Total cash and equivalents	25,784	24,730	50,978	59,593	71,293
	Tangible fixed assets	88,054	92,669	98,623	106,187	113,751
	Total investments	51,130	58,424	51,130	51,130	51,130
	Total assets	344,711	353,039	368,071	393,553	415,982
	Short-term debt	45,529	41,752	27,990	27,990	27,990
	Total long-term debt	40,385	50,549	67,230	67,230	67,230
	Total liabilities	170,348	165,195	163,820	166,648	166,004
	Total equity	174,363	187,844	204,251	226,906	249,979
	Total liabilities & equity	344,711	353,039	368,071	393,553	415,982
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	16.1	(0.9)	(28.3)	23.3	6.8
	Recurrent EPS growth (%)	15.6	(3.2)	(45.9)	58.0	16.3
	Gross margin (%)	21.2	21.2	18.2	18.9	19.6
	Operating EBITDA margin (%)	14.6	15.1	15.5	18.3	19.0
	Net profit margin (%)	9.1	9.2	9.2	8.6	9.3
	Capex/sales (%)	5.6	5.0	8.8	7.2	8.9
	Interest cover (x)	8.65	5.98	5.86	8.48	9.85

Source: Company data, RHB

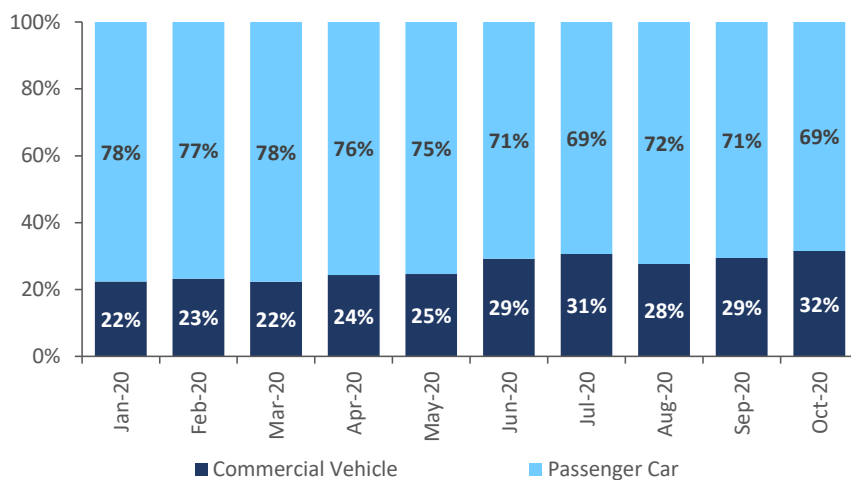
Figure 1: 4W wholesales YTD trend



♦ The constructive trend for 4W wholesales is reflected by the stable MoM recovery in the past five months

Source: Company data, RHB

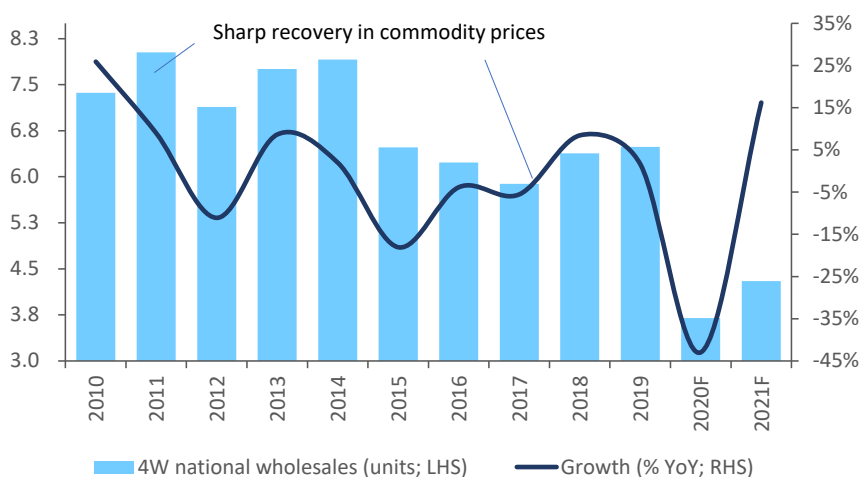
Figure 2: 4W commercial and passenger car sales (Jan-Oct 2020)



♦ Commercial vehicle sales growth has been muted throughout the year

Source: Company data, RHB

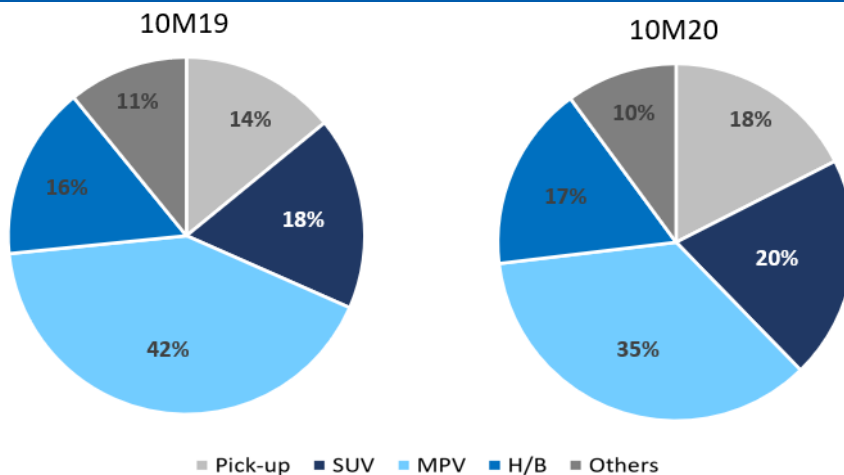
Figure 3: 2W wholesales trend (2010-2021F)



♦ 2W wholesales trend is one of the best indicators of the recovery in consumer purchasing power

Source: Company data, RHB

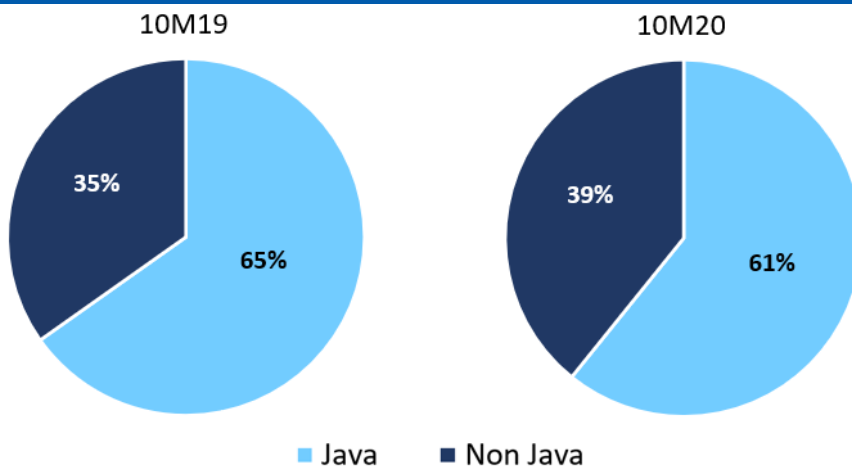
Figure 4: Proportion of 4W vehicle sales according to type



◆ SUV and pick-up sales have improved over 10M20 – this may mean that Indonesia's economic downturn may not be as severe as expected

Source: Company data, RHB

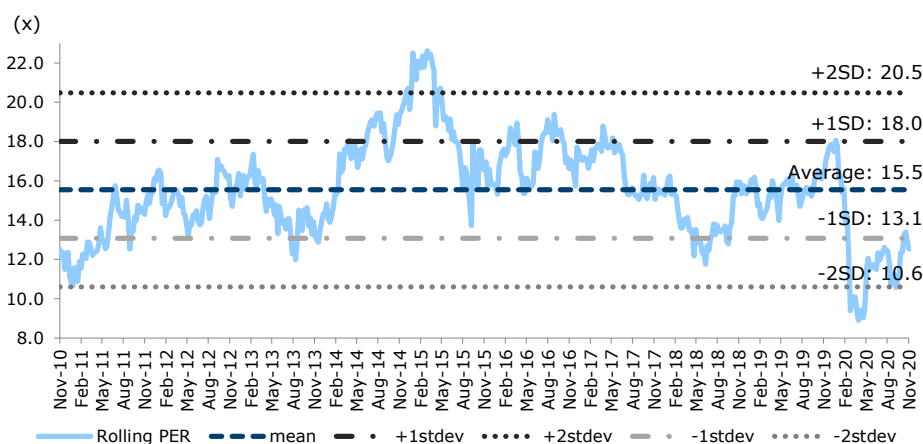
Figure 5: 4W vehicle sales – Java vs non-Java



◆ The proportion of sales recorded in areas other than Java were higher. This was due to the early implementation of large-scale social distancing measures in Java

Source: Company data, RHB

Figure 6: ASII's 10-year average P/E band



◆ ASII is trading at around -1SD from its 10-year forward-rolling P/E band, vs the mean of 15.5x

Source: Company data, RHB

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-19	Buy	6,900	5,725
2020-10-11	Buy	6,000	4,740
2020-08-13	Buy	6,200	5,400
2020-06-01	Buy	5,250	4,770
2020-04-28	Buy	4,600	3,740
2020-04-19	Buy	4,700	3,800
2020-02-28	Buy	6,700	5,525
2020-01-02	Neutral	6,700	6,875
2019-09-18	Neutral	6,650	6,700
2019-08-05	Neutral	6,950	6,925
2019-07-31	Buy	9,000	7,000

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Analyst	Company
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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)

90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531