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Astra International Survey Reveals Abating Price Discounts

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We conducted a survey on 4W MPVs and LCGCs brands' selling price and cashback/discounts since April' 15 - Dec' 15. Discount level have been relatively healthy in Dec' 15 vs Dec' 14's massive discounts due to mismatch in expectations between 4W wholesalers and dealers.

Methodology

We have been keeping track on 4W prices and the cashback/discounts for MPVs and LCGC brands such as Avanza, Innova, Agya, Ayla, Xenia, Grand Livina, Mobilio, HRV and New Ertiga for the past 9 months. Our on the ground monitoring is conducted throughout Jakarta region.

Findings

Our findings revealed that low MPVs facelifts such as New Avanza & New Ertiga launched back in Aug' 15 have expectation mismatch between manufacturer and dealers shown by immediate price discounts (7%-13% discounts). However from all the 9 models we checked, year-end discounts are relatively more tamed vs last year (Dec' 15 average of 9% vs Dec' 14's >15%). Furthermore, **Honda's anchor brand such as Mobilio (28% of 11M15 Honda sales) have been showing gradual discount hikes over the past 9 months, a precursor for market share hike pressure for Honda, which is a positive for ASII.**

Limitations

Our survey is limited to 20 various dealers throughout Jakarta only. Cash backs/discounts level in different regions may vary.

4W outlook

With expected improved economy for next year amid a less aggressive 4W manufacturing expansion, we expect national 4W manufacturing utilization to pick up above the current ~50% level. This would abate price wars, reduce cannibalization (like what is happening with Honda) and ASII's market share may improve in the next 2-3 years spurred by its MPV segment (eg; Innova and Avanza).

Re-iterate our BUY call

ASII is currently trading at 13.5x/11.9x 2016-17 P/E, -14%/-24% discount vs its 3-years historical forward P/E. The expected fuel price cut in Jan' 16 provides an upside risk to ASII. We maintain our BUY call with the same TP of IDR7,200, providing 12.5% potential upside.



Astra International (ASII) is the top 5 JCI largest company by market cap. Through its subsidiaries, ASII operates in automotive, heavy equipment, financial, plantation and infrastructure sector.

BUY **Rp7,200**

Company Update

Share Price	Rp6,400
Sector	Automotive
Price Target	Rp7,200 (15%)

Stock Data

Reuters Code	ASII.JK
Bloomberg Code	ASII.IJ
Issued Shares	40,484
Mkt Cap. (Rpbn)	259,095
Avg. Value Daily 6 Month (Rpbn)	185.2
52-Wk range	8575 / 4975

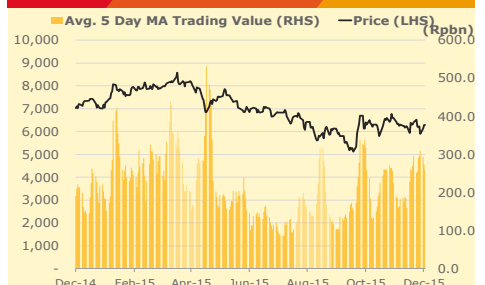
Major Shareholders

Jardine Cycle & Carriage Ltd	50.1%
Public	49.9%

Consensus

Core EPS	15E	16E
Consensus (Rp)	428	472
TRIM vs Cons. (%)	-4.0	0.8

Stock Price



Companies Data

Year end Dec	2013	2014	2015F	2016F	2017F
Revenue (IDRbn)	193,880	201,701	188,248	210,359	244,111
Net Profit (IDRbn)	19,417	19,181	16,658	19,252	21,829
EPS Growth (%)	-0.0	-1.2	-13.2	15.6	13.4
P/E (x)	13.3	13.5	15.6	13.5	11.9
P/BV (x)	3.1	2.7	2.5	2.2	2.0
Div. Yield (%)	3.3	3.4	3.3	2.9	3.3
EV/EBITDA	12.4	11.2	11.3	10.0	9.3

Recap of the price and cash back discounts from Apr' 15-Dec' 15

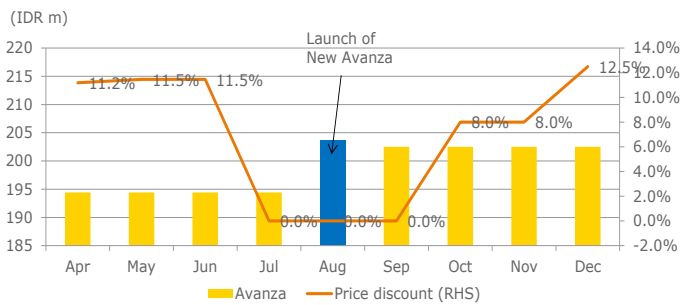
Throughout this year, there were new 3 models launched in 2H15, which are Avanza/Xenia, Ertiga and Innova. Avanza/Xenia have been showing gradual increase in cashback/discounts since the new model launch back in Aug' 15. We think that there was a mismatch of the manufacturers expectations with the actual demand in the fields given the high discrepancy in wholesales and retail sales.

The Innova launch in Nov' 15 was a display show to gain order books and the actual sales from this will be reflected in 1Q16.

ASII's fiercest competitor, Honda, has shown gradual price discounts on its anchor model (Mobilio) over the past 9 months. This shows that its strong market share in 11M15 is partially driven by price discounts. Also, HRV have shown price discount in December and the Honda BRV launch in Mar-Apr 2016 may emerge partial cannibalization. All in all, we think ASII has a higher visibility in grabbing Honda's market share going forward.

Figure 1: Avanza price and discounts

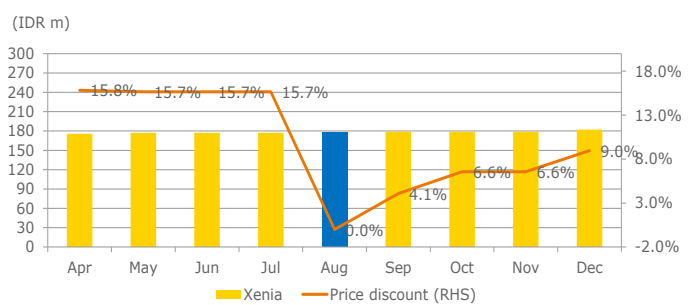
Avanza has been selling discounts immediately post new launch in August ...



Source: Trimegah Research

Figure 2: Xenia price and discounts

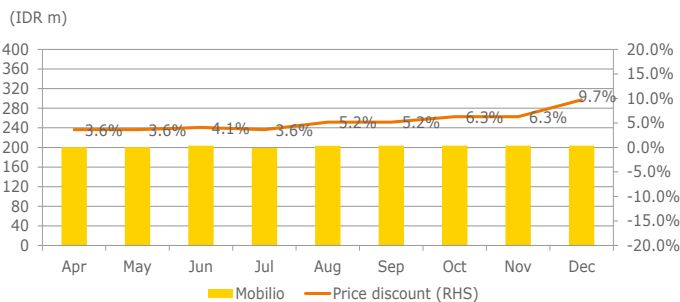
... same goes with Xenia



Source: Trimegah Research

Figure 3: Mobilio price and discounts

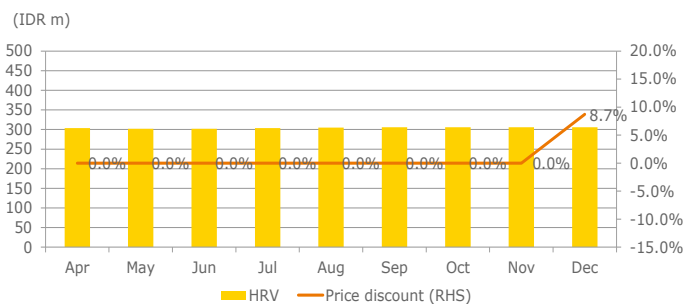
Mobilio has been showing gradual discount hikes over the last 9 months



Source: Trimegah Research

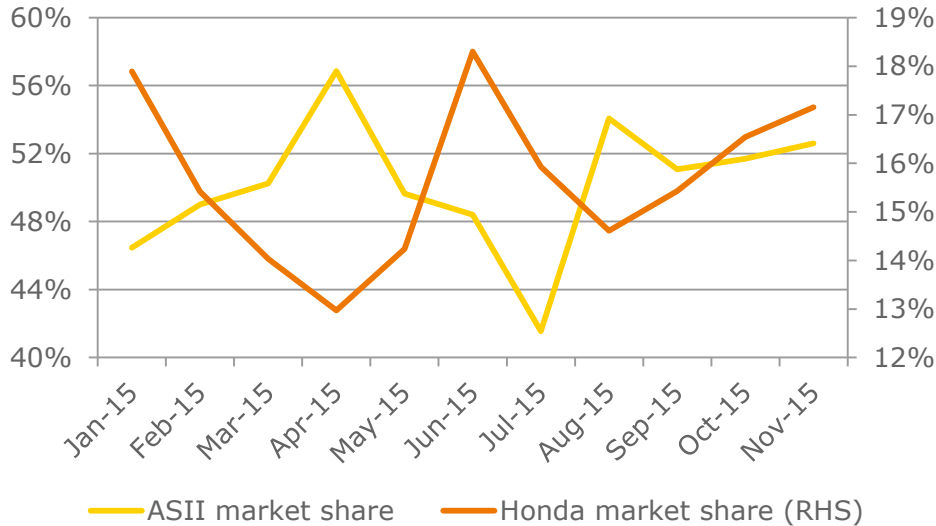
Figure 4: HRV price and discounts

Finally HRV ends the year with a sale!



Source: Trimegah Research

Figure 5: ASII and Honda market share, ytd 2015

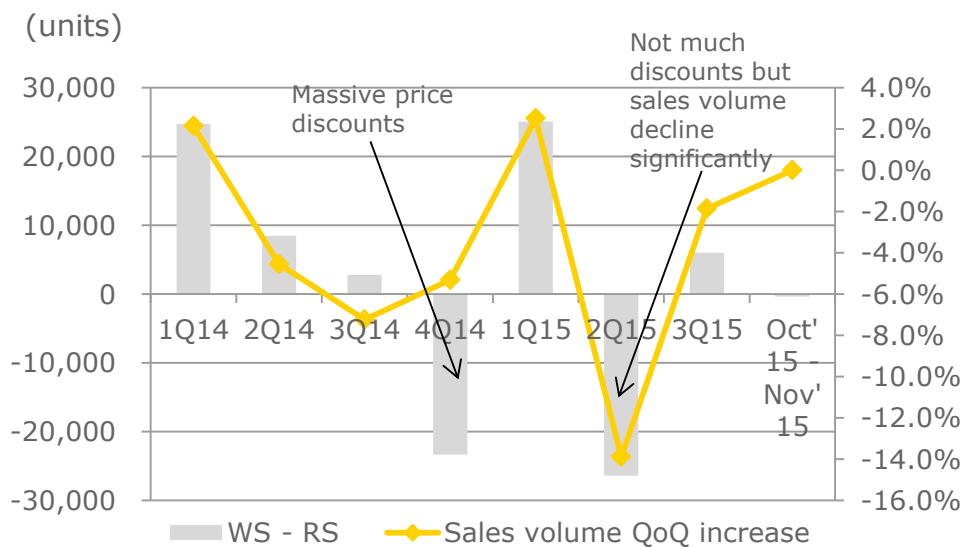


Source: Gaikindo

Abating price discounts

In the past 2 years, there was 2x quarterly events where the retail sales (RS) significantly exceeds the wholesales (WS) level which are in 4Q14 and 2Q15. Back in 4Q14, RS exceeds WS due to massive discounts on the dealer level to clear out inventory piles. Whereas in 2Q15, WS was very weak due to lower consumer confidence. With Gaikindo’s more conservative target of ~1m 4W sales units this year (~ -15% YoY) and ~1.07m 4W units for 2016 (~ +7% YoY) which are reasonable in our view, inventory management should be healthier and price wars/discounts should be more tamed in our view.

Figure 6: Quarterly retail sales significantly exceeds wholesales level in 4Q14 and 2Q15



Source: Gaikindo, various sources, Trimegah Research

Income Statement (IDRbn)

Year end Dec	2013	2014	2015F	2016F	2017F
Revenue	193,880	201,701	188,248	210,359	244,111
Revenue growth	3.1%	4.0%	-6.7%	11.7%	16.0%
Gross Profit	35,311	38,809	36,036	40,957	46,007
Opr. Profit	18,603	20,163	18,264	20,987	22,796
EBITDA	24,666	27,588	26,139	29,442	31,887
EBITDA growth	-0.5%	11.8%	-5.3%	12.6%	8.3%
Net int. inc./(exp)	25	151	216	131	151
Gain/(loss) Forex	-751	-126	-268	-104	-13
Assoc. earnings	6,297	6,218	5,796	6,141	6,961
Other inc./(exp.)	3,349	946	360	693	1,434
Pre-tax profit	27,523	27,352	24,368	27,847	31,329
Pre-tax growth	-1.3%	-0.6%	-10.9%	14.3%	12.5%
Tax	5,226	5,227	5,103	5,754	6,415
Minority Int.	2,880	2,944	2,607	2,841	3,085
Extra. items	-	-	-	-	-
Net profit	19,417	19,181	16,658	19,252	21,829
Net profit growth	0.0%	-1.2%	-13.2%	15.6%	13.4%

Balance Sheet (IDRbn)

Year end Dec	2013	2014	2015F	2016F	2017F
Cash	18,557	20,902	21,175	7,865	5,899
Receivables - net	51,645	54,759	51,109	57,112	66,275
Inventory	14,433	16,986	15,855	17,646	20,636
Other curr asset	3,717	4,594	4,594	4,594	4,594
Current assets	88,352	97,241	92,733	87,217	97,404
Net fixed asset	58,844	61,336	62,360	63,805	65,614
Other non curr. asset	66,798	77,452	77,476	83,342	91,250
Non-current assets	125,642	138,788	139,836	147,147	156,865
Total asset	213,994	236,029	232,569	234,363	254,269
ST debt	37,403	37,421	25,000	10,000	10,000
Other curr liab	33,736	36,102	34,962	36,961	40,298
Current liabilities	71,139	73,523	59,962	46,961	50,298
LT debt	27,120	32,651	32,651	32,651	32,651
Other LT Liab	9,547	9,531	9,531	9,531	9,531
Non-current liab.	36,667	42,182	42,182	42,182	42,182
Total liabilities	107,806	115,705	102,144	89,143	92,480
Minority interest	22,250	24,713	26,788	29,826	33,229
Shareholder's equity	83,938	95,611	103,638	115,394	128,559
Total liab. & equity	213,994	236,029	232,569	234,363	254,269

Cash Flow (IDRbn)

Year end Dec	2013	2014	2015F	2016F	2017F
Net profit	19,417	19,181	16,658	19,252	21,829
Depr. / amort.	6,063	7,425	7,876	8,456	9,091
Chg in working cap	1,300	-4,178	3,641	-5,795	-8,816
Others	-5,530	-7,465	2,091	-3,625	-5,533
CF operations	21,250	14,963	30,265	18,288	16,571
Capex	-12,096	-9,917	-8,900	-9,900	-10,900
Others	3,790	353	-2,114	-2,241	-2,376
CF investing	-8,306	-9,564	-11,014	-12,141	-13,276
Net change in debt	3,579	5,675	-12,421	-15,000	0
Equity raised	15,498	17,697	0	0	0
Dividends	-8,659	-8,739	-8,631	-7,496	-8,664
Others	-17,083	-18,678	2,249	3,039	3,403
CF financing	-6,665	-4,045	-18,803	-19,457	-5,261
Net cash flow	6,279	1,354	448	-13,310	-1,966
Others	1,464	994	0	0	0
Cash at BoY	10,815	18,555	20,728	21,175	7,865
Cash at EoY	18,557	20,902	21,175	7,865	5,899

Key Ratio Analysis

Year end Dec	2013	2014	2015F	2016F	2017F
Profitability					
Gross Margin (%)	18.2	19.2	19.1	19.5	18.8
Opr Margin (%)	9.6	10.0	9.7	10.0	9.3
EBITDA Margin (%)	12.7	13.7	13.9	14.0	13.1
Net Margin (%)	10.0	9.5	8.8	9.2	8.9
ROAE (%)	25.0	21.4	16.7	17.6	17.9
ROAA (%)	9.8	8.5	7.1	8.2	8.9
Stability					
Current ratio (x)	1.2	1.3	1.5	1.9	1.9
Net Debt to Equity (x)	0.5	0.5	0.4	0.3	0.3
Net Debt to EBITDA (x)	1.9	1.8	1.4	1.2	1.2
Interest Coverage (x)	16.8	14.7	13.1	14.3	15.0
Efficiency					
Receivables (days)	34	37	40	37	36
Inventory (days)	34	35	39	36	35
A/P (days)	34	40	44	40	39

Interim results

Year end Dec	3Q14	4Q14	1Q15	2Q15	3Q15
Sales	49,054	51,119	45,187	47,318	45,672
Gross Profit	9,643	10,022	8,561	9,357	9,345
Opr. Profit	5,633	7,000	4,524	4,953	5,260
Net profit	4,679	7,426	3,992	4,060	3,945
Gross Margins (%)	19.7%	19.6%	18.9%	19.8%	20.5%
Opr. Margins (%)	11.5%	13.7%	10.0%	10.5%	11.5%
Net Margins (%)	9.5%	14.5%	8.8%	8.6%	8.6%

Capital History

Date	
4-Apr-90	IPO price @ IDR14,850
16-Dec-93	1:5 rights @ IDR13,850
5-Jun-12	1:10 stock split

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