

Buy

Current Price	8,125
2017E P/E	21.2
Target Price	9,000
2017E P/E	23.4
Current JCI JKSE	5,423

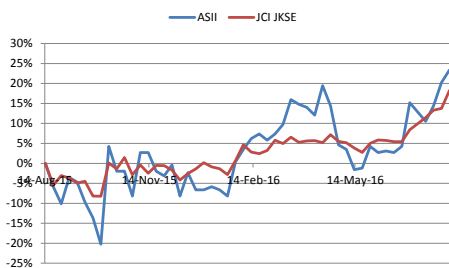
Misc Industry, Automotive

Bloomberg Ticker	ASII IJ
Reuters Ticker	ASII JK
52 week High	8,325
52 week Low	4,975
Market Cap (Rp tn)	329
Market Cap (US\$ bn)	25
USDIDR	13,125
Daily Average Vol ('000 shares)	38,723
Daily Average Val (Rp bn)	273
Daily Average Val (US\$ mn)	20.8

Major Shareholders (%):

Jardine Cycle & Carriage Ltd	50.1
Others under 5%	49.9

Relative Performance vs JCI JKSE:



ASII's price movement is relatively inline with Indonesia Equity Index (JCI, JKSE, IHSG) with 1.4 - 1.6 Beta.

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Expecting automotive market recovery.

1H2016 financial and business performance

Revenue declined 5% to Rp88.2 tn in the 1st semester of this year, from Rp92.5 tn in the year before, as a result of a significant decline in Automotive, Heavy Equipment & Mining, and Agribusiness segments' sales value (*Exhibit 2*). Net profit fall 11% to Rp7.1 tn from Rp8 tn (*Exhibit 3*). Overall these numbers are reflecting 50% of our 2016E target, which is consider in-line.

(Rp bn)	Our Prev Estimate 2016E	Actual 1H 2016	1H 2016 to 2016E	Our New Estimate 2016E	Actual 2015	Change
Revenue	175,925	88,208	50.1%	178,180	184,196	-3.3%
Net Income	14,133	7,116	50.3%	14,386	14,464	-0.5%

"The first half challenges of soft commodity prices, weak heavy equipment demand, declines in mining contracting volumes and increases in non-performing loans at Permata Bank are likely to persist for the remainder of the year. Nevertheless, steady performances are expected from the consumer finance and automotive businesses." as quoted from Mr. Prijono Sugiarto, President Director, in a released statement.

Automotive business which contributed more than 50% to the company's revenue and profit has shown it's resilience this semester, where Astra Group's car and motorcycle sales managed to grew above the market, with 4% and 1.3% growth each respectively, meanwhile the domestic car market only managed to grew slightly 1.3% and motorcycle sales declined 23% (*Exhibit 1*). However, lower commodity prices still hurts Agribusiness and Mining related business where Astra Agro Lestari (AALI) and United Tractors (UNTR) posted a significant decline in revenue (*Exhibit 2*) and profit.

Opportunities and challenges in the future

We expect there will be a continuation of growth in domestic automotive market this year, especially after the launch of several new products by Toyota and Daihatsu, as the market share leaders currently (*Exhibit 4*). We are estimating that there will be 4.5% and 1.3% of growth in car and motorcycle sales for Astra Group this year (*Exhibit 1*).

We also expect more contribution from Astra's new businesses such as insurance (Astra Aviva), toll roads (Semarang-Ungaran-Bawen), construction (Acset Indonusa, ACST), and property (Anandamaya Residence, Astra Tower) segments.

However we also see the rising steel prices could be a downside risk for the company (*Exhibit 2.1*).

Valuation and recommendation

We are upgrading rating to Buy with revised target price at Rp9000. Implying 24.6x of 2017E P/E Ratio. Considering ASII's share price that already increasing more than 30% in the last 3-months, we are recommending to buy on weakness.

Risk to our projection

Rising steel price is still a concern, considering it is the most required raw material for automotive manufacturing.

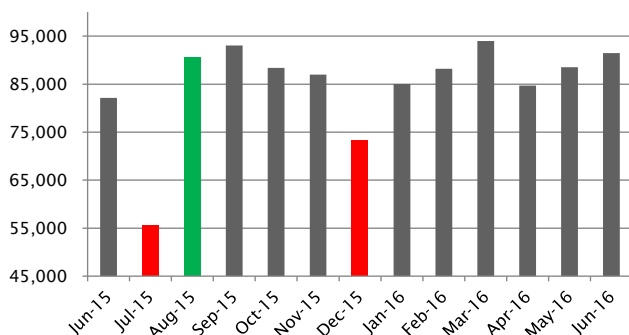
Exhibit 1:

Domestic Car Sales (units)	Jun-16	Jun-15	Chg	Market Share		6M 2016	6M 2015	Chg	Market Share		Our Estimates		
				Jun-16	Jun-15				6M 2016	6M 2015	2016E	2015A	Chg
Toyota	31,644	23,992	32%	35%	29%	175,076	163,165	7%	33%	31%			
Daihatsu	16,728	14,221	18%	18%	17%	89,510	88,879	1%	17%	17%			
Isuzu	1,314	1,494	-12%	1%	2%	8,064	10,656	-24%	2%	2%			
Peugeot	3	3	0%			19	26	-27%					
UD Trucks	142	48				791	48						
Subtotal for Astra	49,831	39,758	25%	54%	48%	273,460	262,774	4.1%	51%	50%	533,247	510,264	4.5%
<i>Astra's LCGC</i>	10,228	8,473	21%	11%	10%	54,390	46,710	16%	10%	9%			
Honda	19,472	15,035	30%	21%	18%	109,662	81,407	35%	21%	15%			
Suzuki	6,633	9,669	-31%	7%	12%	49,683	62,654	-21%	9%	12%			
Mitsubishi	7,433	8,748	-15%	8%	11%	50,996	60,333	-15%	10%	11%			
Nissan	960	2,079	-54%	1%	3%	8,148	15,729	-48%	2%	3%			
Others	7,142	6,850	4%	8%	8%	39,998	42,423	-6%	8%	8%			
Subtotal for Non Astra	41,640	42,381	-2%	46%	52%	258,487	262,546	-1.5%	49%	50%	496,295	502,896	-1.3%
Total Domestic	91,471	82,139	11%			531,947	525,320	1.3%			1,029,542	1,013,160	1.6%
<i>Total Domestic LCGC</i>	19,540	14,571	34%	21%	18%	89,952	82,013	10%	17%	16%			

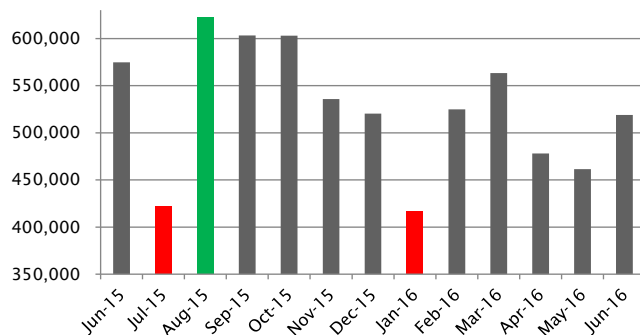
Domestic Motorcycle Sales (units)	Jun-16	Jun-15	Chg	Market Share		6M 2016	6M 2015	Chg	Market Share		Our Estimates		
				Jun-16	Jun-15				6M 2016	6M 2015	2016E	2015A	Chg
Astra Honda	380,019	361,767	5%	73%	63%	2,158,388	2,131,062	1.3%	73%	67%	4,511,031	4,453,888	1.3%
Yamaha	127,224	191,965	-34%	25%	33%	719,302	919,380	-22%	24%	29%			
Suzuki	3,780	12,097	-69%	1%	2%	31,115	59,464	-48%	1%	2%			
Kawasaki	7,708	8,636	-11%	1%	2%	53,051	62,541	-15%	2%	2%			
TVS	147	249	-41%			1,032	1,715	-40%					
Subtotal for Non Astra	138,859	212,947	-35%	27%	37%	804,500	1,043,100	-23%	27%	33%	1,568,775	2,026,267	-22.6%
Total Domestic	518,878	574,714	-10%			2,962,888	3,174,162	-6.7%			6,079,806	6,480,155	-6.2%

Source: Astra, Gaikindo.

Domestic Car Sales (units)



Domestic Motorcycle Sales (units)



Astra Group's car and motorcycle sales managed to grow above the market, with 4% and 1.3% growth each respectively, meanwhile the domestic car market only managed to grow slightly 1.3% and motorcycle sales declined 23%.

Revenue Contribution by Segment (Rp bn)	1H2016	1H2015	Change	Contribution
Automotive	47,133	48,475	-2.8%	52.4%
Financial Services	8,593	8,584	0.10%	9.6%
Heavy Equipment and Mining	22,564	24,949	-9.6%	25.1%
Agribusiness	6,344	7,229	-12.2%	7.1%
Infrastructure logistics and others	4,085	3,712	10.0%	4.5%
Information technology	1,213	957	26.8%	1.3%

Exhibit 2:

Net Income Contribution by Segment (Rp bn)	1H2016	1H2015	Change	Contribution	Net Profit Margin	
					1H2016	1H2015
Automotive	3,864	3,422	12.9%	54.3%	8.2%	7.1%
Financial Services	1,253	2,085	-39.9%	17.6%	14.6%	24.3%
Heavy Equipment and Mining	1,121	2,048	-45.3%	15.8%	5.0%	8.2%
Agribusiness	631	354	78.2%	8.9%	9.9%	4.9%
Infrastructure logistics and others	174	68	155.9%	2.4%	4.3%	1.8%
Information technology	73	75	-2.7%	1.0%	6.0%	7.8%

Source: Company's financial report.

More than 50% of the company's revenue and net income is still contributed by automotive related segment. We expect improved profit margin for this sector will remain positive in the future.

Hot-Rolled Coil Steel Price US\$ per 20 short tons

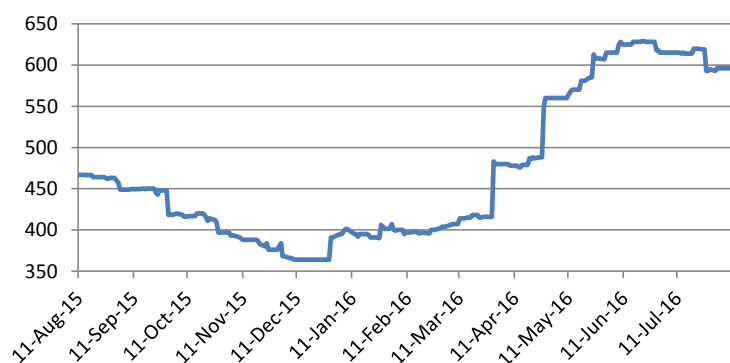


Exhibit 2.1:

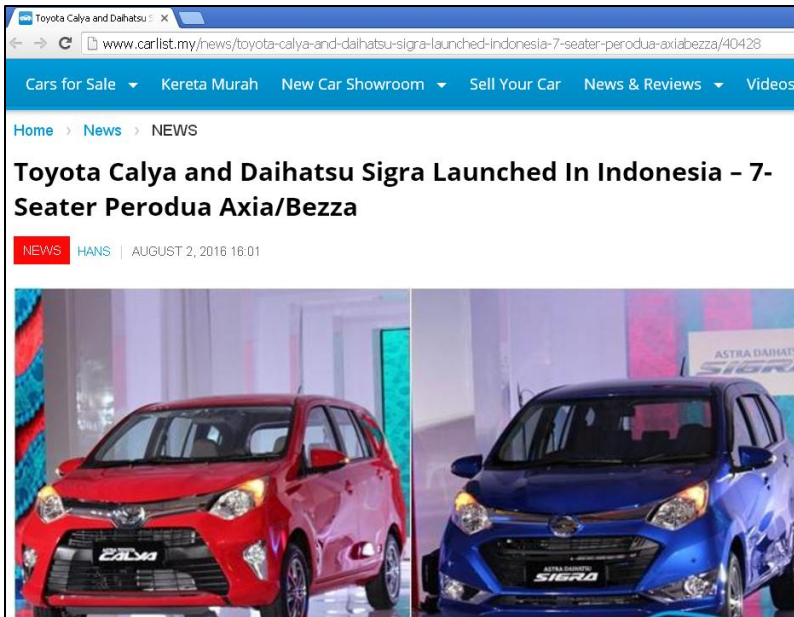
Steel price has rallied more than 50% ytd.

Exhibit 3:

Income Statement (bn Rp)						Balance Sheet (bn Rp)					
	2015	2016E	2017E	2018E	2019E		2015	2016E	2017E	2018E	2019E
Revenue	184,196	178,180	186,198	195,043	204,795	Assets					
Gross Profit	36,710	35,636	38,171	40,959	44,031	Cash	27,102	31,025	39,614	49,494	60,268
EBT	19,630	19,956	21,566	23,347	25,318	Other Investments	484	674	685	695	705
EAT	15,613	16,165	17,469	18,911	20,507	Receivables	17,776	18,748	18,560	18,375	18,191
Net Income	14,464	14,386	15,547	16,831	18,252	Financing Receivables	31,728	32,957	33,451	33,953	34,462
EPS	357	355	384	416	451	Other Receivables	3,501	3,919	3,977	4,037	4,098
						Inventories	18,337	15,864	16,102	16,343	16,589
Current Price			8,125			Prepaid taxes	4,729	4,930	5,004	5,079	5,155
P/E			21.2			Other prepayments	1,504	1,974	2,004	2,034	2,064
Target Price			9,000			Total Current Assets	105,161	110,090	119,397	130,010	141,532
P/E			23.4			Financing Receivables	28,377	29,771	29,473	29,178	28,887
Market Cap (Rp tn)			328.9			Other Receivables	4,865	1,962	1,982	2,002	2,022
Market Cap (US\$ bn)			25.1			Investment in assc & joints	29,640	32,396	32,720	33,047	33,377
						Other investments	5,320	5,982	5,922	5,863	5,805
Ratios & Margins:						Deferred tax assets	3,043	3,254	3,287	3,320	3,353
Revenue growth	-8.7%	-3.3%	4.5%	4.8%	5.0%	Investment properties	3,493	3,969	4,009	4,049	4,090
Gross Profit margin	19.9%	20.0%	20.5%	21.0%	21.5%	Plantations	6,686	7,031	7,101	7,172	7,244
Net Profit margin	7.9%	8.1%	8.3%	8.6%	8.9%	Fixed Assets	41,702	41,474	41,235	40,986	40,727
Net Profit growth	-24.6%	-0.5%	8.1%	8.3%	8.4%	Mining properties	4,859	4,546	4,501	4,456	4,411
DPR (as paid)	60.5%	60.5%	60.5%	60.5%	60.5%	Concession/ Joint operation	5,298	5,677	5,734	5,791	5,849
DPS (as paid)	216	215	232	251	273	Goodwill	1,974	1,974	1,994	2,014	2,034
BVPS	3,126	3,289	3,502	3,735	3,990	Other intangible assets	2,039	2,055	2,076	2,097	2,118
ROA	5.9%	5.7%	5.9%	6.2%	6.4%	Other assets	2,978	3,154	3,186	3,218	3,250
ROE	11.4%	10.8%	11.0%	11.1%	11.3%	Total Non Current Assets	140,274	143,246	143,219	143,192	143,165
Total Debt	69,323	70,394	70,155	70,404	70,669	Total Assets	245,435	253,336	262,616	273,202	284,697
Net Debt (Cash)	42,221	39,369	30,541	20,910	10,402	Liabilities					
DER	33.4%	29.6%	21.5%	13.8%	6.4%	Short term borrowings	11,975	15,516	15,827	16,143	16,466
DPS (as paid)	216	215	232	251	273	Payables	20,557	19,894	20,292	20,698	21,112
DPR (as paid)	60.5%	60.5%	60.5%	60.5%	60.5%	Other liabilities	7,076	6,820	6,956	7,095	7,237
						Taxes payable	2,142	1,377	1,405	1,433	1,462
Cash Flows						Accruals	5,621	7,580	7,732	7,886	8,044
Chg in work cap	(801)	(3,873)	(124)	(156)	(165)	Employee ben obligations	451	438	447	456	465
Net income	14,464	14,386	15,547	16,831	18,252	Unearned income	4,170	4,127	4,210	4,294	4,380
Depreciation	5,367	3,306	3,240	3,175	3,112	Current portion of LT debt	24,227	24,739	24,492	24,247	24,004
Net CF From Operation	19,030	13,820	18,663	19,850	21,198	Bank loan	16,437	15,795	15,637	15,481	15,326
Capex	(5,819)	(3,078)	(3,001)	(2,926)	(2,853)	Debt securities	7,357	8,642	8,555	8,470	8,385
Net CF From Investing	(5,819)	(3,078)	(3,001)	(2,926)	(2,853)	Finance lease	433	302	299	296	293
Loans and Debts	577	679	(248)	258	275	Total Current Liabilities	76,242	80,574	81,444	82,338	83,257
Employee Benefit Liabs	667	287	71	93	95	Other Liabilities	574	696	689	703	717
Non Ctrlng Int	(223)	1,278	1,674	1,826	1,995	Unearned income	1,694	1,769	1,796	1,778	1,760
Chg in Equity	902	(366)	829	953	1,096	Deferred tax liabilities	1,796	1,653	1,637	1,620	1,604
Dividend	(8,744)	(8,697)	(9,399)	(10,175)	(11,034)	Provisions	293	281	285	291	297
Net CF From Financing	(7,011)	(6,819)	(7,072)	(7,044)	(7,572)	Employee ben obligations	3,856	4,155	4,218	4,302	4,388
						Long term debt	34,447	31,073	30,762	30,949	31,144
Equities						Bank loan	18,315	14,430	14,286	14,143	14,002
Issued & fully paid capital	2,024	2,024	2,024	2,024	2,024	Debt securities	15,239	16,010	15,850	16,167	16,491
Additional paid in capital	1,139	1,139	1,139	1,139	1,139	Finance lease	893	633	626	639	652
Retained earning	92,989	98,678	104,827	111,483	118,700	Total Non Current Liabs	42,660	39,628	39,387	39,643	39,910
Appropriated	425	425	425	425	425	Total Liabilities	118,902	120,202	120,830	121,981	123,167
Unappropriated	92,564	98,253	104,402	111,058	118,275						
Other rsv, equity chg	5,891	5,525	6,354	7,307	8,403						
Minority Interest	24,490	25,768	27,442	29,268	31,264						
Total Equity	126,533	133,134	141,786	151,221	161,530						
						Revenue		1H 2016	1H 2015		
						growth		88,208	92,505		
						Gross Profit				16,847	17,918
						margin				-4.6%	19.4%
						EBT				10,232	12,073
						margin				11.6%	13.1%
						Net Income				7,116	8,052
						growth				-11.6%	
						margin				8.1%	8.7%

Source: financial report, Reliance Research estimates.

Exhibit 4:



The Official announcement of TMMIN Karawang Engine Plant # 3 was successfully held on Monday, March 7, 2016.

This Toyota's engine plant is the first plant in the world that adopts "Through Line" which in the concept of the whole process of production machinery consists of casting , machining and assembling assembly under one roof. With this concept will certainly shorten the production process and reducing the inventory in production.

Located in 150 hectares area on Industrial Estate in Karawang, West Java, the engine plant is scheduled to produce 216,000 R-NR aluminum engine every year after starting operations in early 2016. The plant, machinery, and new export activities are part of the Toyota commitment to continue on contributing to the development of the automotive industry in Indonesia particularly, and the Indonesian economy in general.

Source: toyotaindonesiamanufacturing.co.id

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