

BUY

(unchanged)

TP: IDR330

(unchanged)

Adi Sarana Armada

Land Transportation (Neutral)

PX: IDR212

JCI: **6,038**

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Reiterate BUY: 3Q17 Earnings Beat Driven by Rental

What's new? Adi Sarana Armada (ASSA IJ) recently announced 3Q17 results which were above our and consensus estimates. We reiterate our BUY recommendation with an unchanged 12M TP of IDR330, translating to a 56% upside potential. Below are our key takeaways.

3Q17 earnings grew 54% y-y, driven by solid operating performance:

ASSA reported 3Q17 net profit of IDR26.2bn, up 9.4% q-q or up 53.5% y-y, bringing the 9M17 earnings to IDR73.1bn, up 84.5% y-y and accounting for 78%/82% of Bahana/consensus full-year estimates, respectively. Strong earnings growth was largely driven by 1) larger rental fleet size and higher utilization rate, 2) huge improvement in the used-car margin, as well as 3) a higher earnings contribution from its auction business. On the top line, ASSA booked 3Q17 revenue growth of +4.9% q-q or +8.5% y-y to IDR421.2bn, resulting in 9M17 total net revenue of IDR1.2tn, up 8.9% y-y.

Rental (>57% revenue): 3Q17 top line +82% y-y on larger fleet size:

The 4W vehicle rental division booked 3Q17 revenue of IDR398.1bn, +69.5% q-q or +82.4% y-y, translating to 9M17 revenue of IDR864.4bn, +34% y-y. This solid increase in ASSA's car rental sales was supported by the larger fleet size of 20.7k units, up 10% y-y, with higher utilization rates of 93.9% as of 9M17 (up 0.6 ppt from 93.3% in 9M16). Additionally, the 4W vehicle rental segment recorded 3Q17 EBIT of IDR67bn, flat q-q but up 9% y-y, translating to 9M17 EBIT of IDR188.2bn, up 11% y-y.

Used-car division (13% revenue): Huge 3Q17 EBIT improvement:

ASSA's used-car sales reported a huge increase in 3Q17 EBIT to IDR11.5bn, up 118% q-q or up 1,328% y-y, bringing 9M17 EBIT to IDR26.6bn, up 34 times from just IDR0.8bn in 9M16. This mainly resulted from improving 9M17 ASPs in the used-car market (up 8% y-y to IDR99mn) and higher 9M17 sales volume of 1.7k units, up 12.6% y-y. Margin-wise, the used-car 3Q17 EBIT margin rose to 20.7% (2Q17: 12.6%; 3Q16: 1.6%), translating to 9M17 EBIT margin of 16.4%, up a strong 158 ppt from 0.6% in 9M16.

Vehicle auction (1.5% revenue): 3Q17 EBIT doubled y-y to IDR2.8bn:

ASSA's vehicle auction business, BidWin, managed to a record strong increase in 3Q17 revenue to IDR7.9bn, up 51.5% q-q or 118.4% y-y, translating to a 9M17 figure of IDR18.3bn, +108.6% y-y. Volume-wise, the number of vehicles sold reached 7.1k units, up strongly by 81% y-y and surpassing our full-year target of 7k units. On the operating front, the auction business's 3Q17 EBIT rose to IDR2.8bn, up 143.2% q-q or 113.1% y-y, translating to 9M17 EBIT of IDR18.3bn, up 108.6% y-y.

Recommendation: Reiterate BUY with unchanged 12M TP of IDR330

We are rolling over our TP valuation into 2018F EPS from 2017F EPS previously with a lower target PER of 11.3x (from 12x), which is derived from -1SD of its past-3-year mean level (updated). As such, we maintain our BUY recommendation on ASSA with an unchanged 12M TP of IDR330, for a 56% upside potential. Key risks to our positive call include lower-than-expected utilization rates, lower rental fleet size and lower used-car ASPs.

Exhibit 1. Company information

Market cap (IDRtn/USDbn)	:	0.7/0.05
3M avg.daily t.o.(IDRbn/USDmn)	:	0.1/0.01
Bloomberg code	:	ASSA IJ

Source: Bloomberg

Exhibit 2. Shareholders information

PT Adi Dinamika Investindo (%)	:	24.9
PT Daya Adicipta Mustika (%)	:	19.2
Others (%)	:	14.8
Free float (%)	:	41.4

Source: Bloomberg

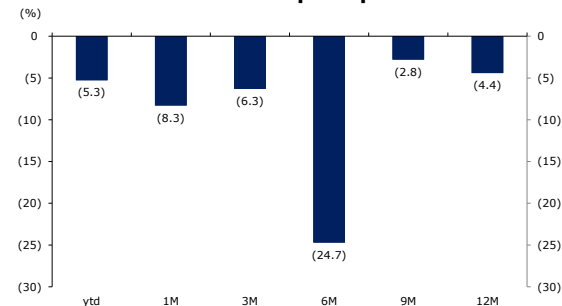
Exhibit 3. Key financial data

Year to 31 Dec	2016	2017F	2018F	2019F
Revenue (IDRbn)	1,570	1,799	1,969	2,202
EBIT (IDRbn)	256	283	328	413
Net profit (IDRbn)	62	94	114	169
Bahana/cons. (%)		106	99	110
EPS (IDR)	18	28	34	50
EPS growth (%)	81.8	51.2	21.9	47.3
EV/EBITDA (x)	4.0	4.0	3.8	3.4
PER (x)	11.6	7.7	6.3	4.3
FCFPS (IDR)	(5)	(56)	(33)	(14)
FCF yield (%)	(3)	(27)	(16)	(7)
BVPS (IDR)	266	283	303	333
PBV (x)	0.8	0.8	0.7	0.6
DPS (IDR)	4	11	13	20
Yield (%)	1.9	5.2	6.3	9.3
ROAA (%)	2.1	2.8	3.2	4.3
ROAE (%)	6.9	9.8	11.1	14.9
EBIT margin (%)	16.3	15.7	16.6	18.8
Net gearing (%)	197.9	210.1	211.3	202.5

Source: Bloomberg, Company

Note: Pricing as of close on 01 November 2017

Exhibit 4. Relative share price performance



Source: Bloomberg, Bahana

Exhibit 5. ASSA IJ 3Q17 results summary

(IDRbn)	3Q16	2Q17	3Q17	q-q (%)	y-y (%)	3Q17/ 3Q17F	9M17	y-y (%)	9M17/ 2017F	9M17/ Cons.
Sales	388.1	401.5	421.2	4.9	8.5	94	1,233.7	8.9	69	69
Gross Profit	108.0	120.8	130.3	7.8	20.6		372.3	17.5		
<i>Operating expenses</i>	(43.6)	(52.4)	(54.8)	4.6	25.7		(158.7)	15.6		
Operating profit	64.5	68.5	75.6	10.3	17.2	106	213.6	19.1	76	70
<i>Net int. income/(expense)</i>	(46.0)	(42.8)	(45.5)	6.4	(1.0)		(130.9)	(5.9)		
<i>Forex gain (expenses)</i>	(0.0)	(0.0)	(0.0)	237.4	6,210.6		(0.0)	(193.6)		
<i>Other income/(expense)</i>	68.0	74.0	80.2	8.3	17.8		226.2	18.4		
Pretax profit	22.1	31.2	34.6	11.0	57.0		95.3	83.4		
<i>Taxation</i>	(5.0)	(7.2)	(8.4)	16.2	68.5		(22.1)	79.8		
<i>Minority Interest</i>	0.0	(0.0)	(0.0)	486.3	na		(0.1)	na		
Net profit	17.1	24.0	26.2	9.4	53.5	114	73.1	84.5	78	82
BS & Ratio analysis	3Q16	2Q17	3Q17				9M17	2016	2017F	2018F
<i>Gross margin (%)</i>	27.8	30.1	30.9				30.2	29.0	28.9	31.2
<i>Operating margin (%)</i>	16.6	17.1	17.9				17.3	16.3	15.7	18.1
<i>Pretax margin (%)</i>	5.7	7.8	8.2				7.7	5.7	6.9	9.5
<i>Net margin (%)</i>	4.4	6.0	6.2				5.9	4.0	5.2	7.2
<i>Inventory days</i>	10.3	5.2	11.7				11.8	10	9	8
<i>Receivable days</i>	50	50	47				48	44	44	44.3
<i>Payable days</i>	19	19	15				15	13	13	13
<i>Total cash (IDRb)</i>	26	44	43				43	40.3	12.0	33.6
<i>Total debt (IDRb)</i>	1,822	1,928	1,980				1,980	1,828	2,028	2,198
<i>Net gearing (%)</i>	208.1	203.4	203.5				203.5	197.9	210.1	206.7

Source: Company, Bloomberg, Bahana estimates

Exhibit 6. ASSA's 3-year PER band, 2014-ytd



Source: Company, Bahana estimates

ASSA is currently trading below its -1 SD of 3-year average PER at 9.6x

Adi Sarana Armada

Year to 31 December	2015	2016	2017F	2018F	2019F
PROFIT & LOSS (IDRbn)					
Sales	1,393	1,570	1,799	1,969	2,202
Gross profit	415	456	519	585	700
EBITDA	548	625	679	767	893
Depreciation	336	369	395	440	480
EBIT	213	256	283	328	413
Net interest inc./ (expense)	(171)	(184)	(175)	(192)	(205)
Forex gain/ (losses)	(0)	0	-	-	-
Other income/ (expense)	15	17	17	17	17
Pre-tax profit	57	89	125	153	225
Taxes	23	27	31	38	56
Minority interest	0	0	0	0	0
Net profit	34	62	94	114	169

BALANCE SHEET (IDRbn)

Cash and equivalents	28	40	12	24	29
Trade receivables	168	193	221	242	271
Inventories	20	31	31	32	32
Fixed assets	2,538	2,631	2,923	3,158	3,397
Other assets	140	134	147	167	220
Total assets	2,893	3,030	3,335	3,623	3,948
Interest bearing liabilities	1,784	1,828	2,028	2,198	2,318
Trade payables	44	39	45	49	53
Other liabilities	210	259	301	347	446
Total liabilities	2,038	2,126	2,375	2,593	2,817
Minority interest	0.1	0.1	0.2	0.2	0.3
Shareholders' equity	854	904	960	1,029	1,131

CASH FLOW (IDRbn)

EBIT	213	256	283	328	413
Depreciation	336	369	395	440	480
Working capital	(50)	(14)	(15)	(13)	(18)
Other operating items	(162)	(182)	(184)	(208)	(234)
Operating cash flow	336	430	480	546	641
Net capital expenditure	(641)	(448)	(672)	(658)	(689)
Free cash flow	(305)	(18)	(191)	(112)	(48)
Equity raised/(bought)	-	-	-	-	-
Net borrowings	329	44	200	170	120
Other financing	(18)	(13)	(37)	(45)	(67)
Net cash flow	6	12	(29)	12	5
Cash flow at beginning					
Cash flow at end					

RATIOS

ROAE (%)	4.0	6.9	9.8	11.1	14.9
ROAA (%)	1.2	2.1	2.8	3.2	4.3
Gross margin (%)	29.8	29.0	28.9	29.7	31.8
EBITDA margin (%)	39.4	39.8	37.7	39.0	40.6
EBIT margin (%)	15.3	16.3	15.7	16.6	18.8
Net margin (%)	2.5	4.0	5.2	5.8	7.7
Payout ratio (%)	49.7	21.9	39.8	39.8	39.8
Current ratio (x)	0.4	0.5	0.5	0.5	0.6
Interest coverage (x)	0.8	0.7	0.6	0.6	0.5
Net gearing (%)	205.6	197.9	210.1	211.3	202.5
Debts to assets (%)	61.7	60.3	60.8	60.7	58.7
Debtor turnover (days)	43.4	44.3	44.3	44.3	44.3
Creditor turnover (days)	16.3	12.6	12.6	12.6	12.6
Inventory turnover (days)	7.3	10.1	8.8	8.2	7.6

MAJOR ASSUMPTIONS

Fleet unit (units)	17,991	19,199	21,000	22,500	24,000
Utilization rate (%)	92.6	93.4	93.4	93.4	93.4
Used car ASP (IDRmn)	92.2	88.1	88.9	89.8	90.7

Source: Company, Bahana estimates

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"Neutral": neither positive nor negative fundamentals for the sector.

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Ownership of Securities

For "Ownership of Securities" information, please visit BlueMatrix disclosure Link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action> .

Investment Banking Relationships

For "Investment Banking Relationship", please visit BlueMatrix disclosure Link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action> .

Relevant Relationships (Bahana Sekuritas)

Bahana Sekuritas may from time to time have an individual employed by or associated with it serves as an officer of any of the companies under its research coverage.

Bahana Sekuritas market making

Bahana Sekuritas may from time to time make a market in securities covered by this research.

Additional information may be available upon request.

Japan - additional notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

*The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name: Daiwa Securities Co. Ltd.

Memberships: Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
Japan Securities Dealers Association, Financial Futures Association of Japan
Japan Securities Investment Advisers Association
Type II Financial Instruments Firms Association