

Adi Sarana Armada

Sector: Land Transportation (Underweight)

BUY

(Unchanged)
Rating momentum*: ↔

Gregorius Gary

E-mail: gregorius@bahana.co.id
Phone: +6221 250 5081 ext. 3604

PX:IDR195-TP:IDR290 (from: IDR220)
TP/consensus: 102%; TP momentum*: ↑
JCI: 5,406

On its way up

- Improving rentals with high utilization at 93% in 2017F:** During 9M16, ASSA experienced improvement in its rental business, displayed by its higher total rental fleet of 18,764 units with an improved utilization rate of 93.3%, compared to 17,991 units and a 92.6% utilization rate the previous year. In addition, the rental segment experienced a stable gross margin at 34%. This suggests higher sustainability for the rental business, particularly given ASSA's majority customer profile on long-term corporate rent contracts. We expect ASSA to expand its fleet size to 22k in 2017 (exhibit 6) and sustain its high utilization rate at 93%.
- BidWin on track to reach 15k target:** ASSA's car auction business, BidWin, has continued to post strong performance since its debut in late 2014. Started with just 2 auction branches in Jakarta and Surabaya, with only 100 units offered monthly, BidWin now holds auctions in 10 cities with weekly events in Jakarta offering 2,000 cars per month (exhibit 7). This major expansion has resulted in strong performance, as BidWin has auctioned more than 11k units ytd, on track to achieve its full-year target of 15k units. Thus, we expect BidWin to continue its solid performance in 2017.
- Stabilized secondary car market prices:** According to management, secondary prices on Toyota Avanza have recently recovered by c.4% from the lowest level of IDR120mn in June 2016 to IDR125mn in September 2016 (exhibit 8), which confirms our view on stabilized secondary car market prices and improved Avanza's used prices post ASII's 7-seater LCGC product launches, the Toyota Calya and Daihatsu SigrA. A stabilized secondary car market should support higher earnings for ASSA on fleet disposal.

Rating: Reiterate BUY with higher TP of IDR290

Due to the improving rental segments and stabilized secondary car market prices, particularly for the Toyota Avanza, we expect ASSA to sustain its market outperformance of 77.3% ytd. Hence, we raise our 2016-18 earnings estimates by 8-43%, resulting in our higher 12M TP of IDR290, based on a 2017F PE of 12.8x, slightly below its regional peers. Risks to our call include lower utilization rates, lower-than-expected secondary market prices and slower fleet expansion.

Exhibit 1. Company information

Market cap (IDRb/USDm)	: 662.5/50.7
3M avg.daily t.o.(IDRb/USDm)	: 2.1/0.2
Bloomberg code	: ASSA JJ

Source: Bloomberg

Exhibit 2. Shareholders information

Adi Dinamika Investindo (%)	: 24.94
Daya Adicipta Mustika (%)	: 19.17
Others (%)	: 18.45
Free float (%)	: 37.44

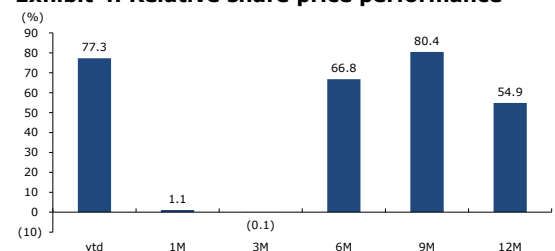
Source: Bloomberg

Exhibit 3. Key forecasts and valuations

Year to 31 Dec	2015	2016F	2017F	2018F
Revenue (IDRbn)	1,393	1,516	1,752	2,083
EBIT (IDRbn)	213	232	282	403
Net profit (IDRbn)	34	54	77	146
Bahana/cns. (%)	-	55	75	111
EPS (IDR)	10	16	23	43
EPS growth (%)	(20.5)	56.7	44.4	89.0
EV/EBITDA (x)	4.4	3.9	4.0	3.4
PER (x)	19.4	12.4	8.6	4.5
FCFPS (IDR)	(89)	14	(78)	(51)
FCF yield (%)	(46)	7	(40)	(26)
BVPS (IDR)	251	263	280	310
PBV (x)	0.8	0.7	0.7	0.6
DPS (IDR)	5	5	7	13
Yield (%)	2.6	2.4	3.5	6.6
ROAA (%)	1.2	1.8	2.3	3.8
ROAE (%)	4.0	6.0	8.1	13.9
EBIT margin (%)	15.3	15.3	16.1	19.4
Net gearing (%)	205.6	192.8	211.7	211.2

Source: Bloomberg, Bahana estimates
Note: Pricing as of close on 2 November 2016

Exhibit 4. Relative share price performance



Source: Bloomberg, Bahana

Exhibit 5. Earnings revisions

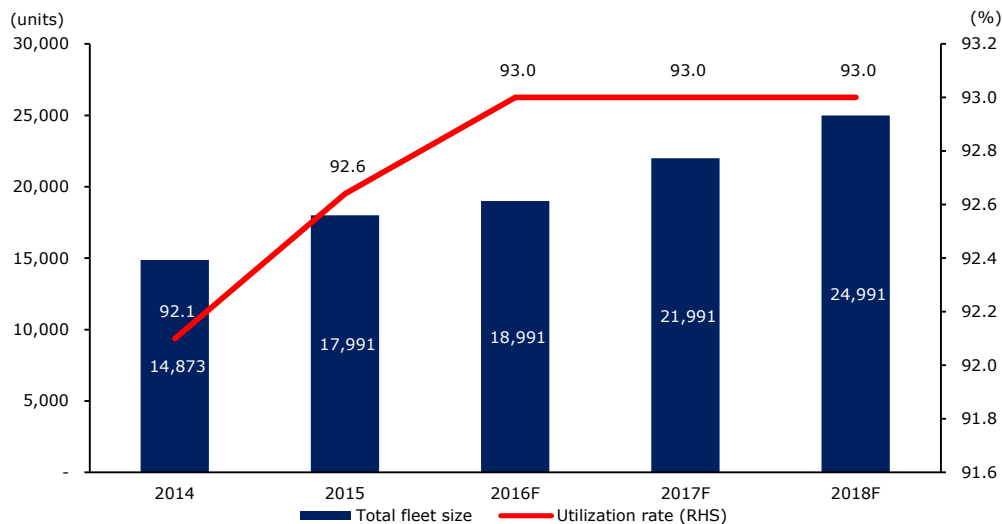
(IDRbn)	Old			New			Change (%)		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Revenue	1,576	1,826	2092	1,516	1,752	2,083	(3.8)	(4.0)	(0.4)
Gross profit	441	512	594	445	529	697	1.0	3.3	17.3
Gross profit margin (%)	28	28	28.4	29.4	30.2	33.5			
Operating profit	228	265	311	232	282	403	1.6	6.4	29.7
Operating margin (%)	14.4	14.5	14.8	15.3	16.1	19.4			
Net profit	37	72	114	54	77	146	44.7	7.3	28.1
Net margin (%)	2.4	3.9	5.4	3.5	4.4	7.0			
EPS (IDR)	11	21	33	16	23	43	43.2	8.3	30.3

Source: Bahana

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*Based on consensus' recent changes ↑ (up), ↓ (down), ↔ (unchanged)

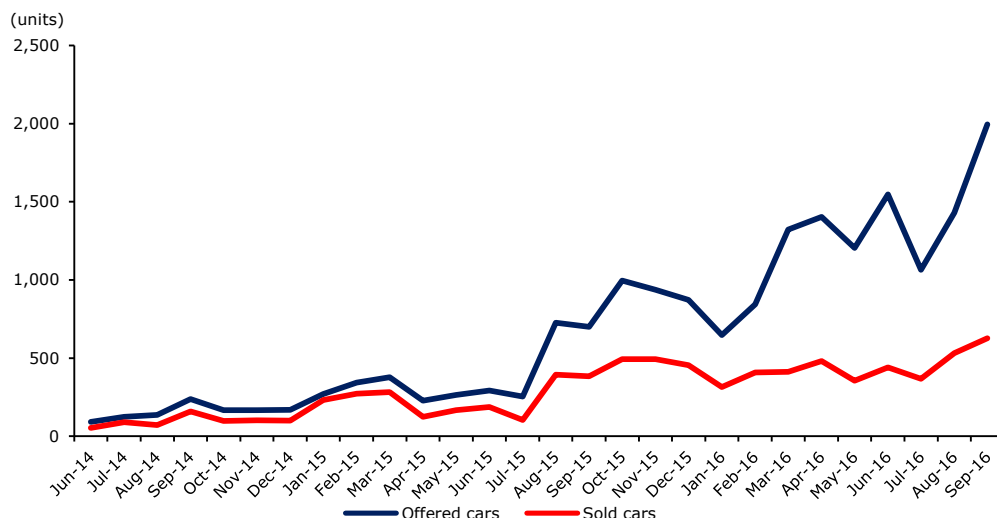
Exhibit 6. ASSA's total fleet size and utilization rates, 2014-2018F



Total fleet to reach 22k in 2017F with 93% utilization rate

Source: Company, Bahana

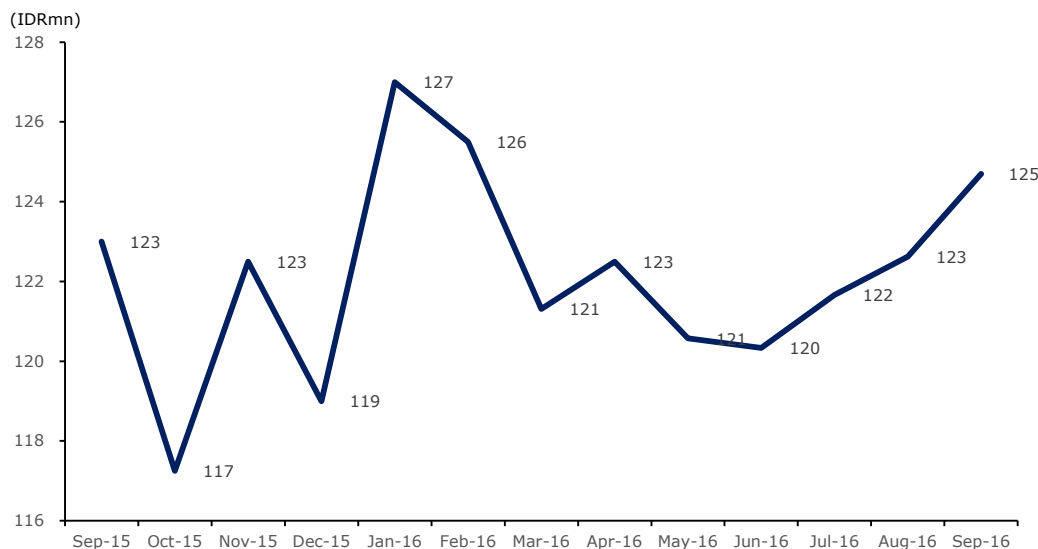
Exhibit 7. Number of BidWin's offered and sold cars, June 2014 – September 2016



Number of offered cars rose sharply from 100 cars in June 2014 to almost 2,000 cars in September 2016

Source: Company, Bahana

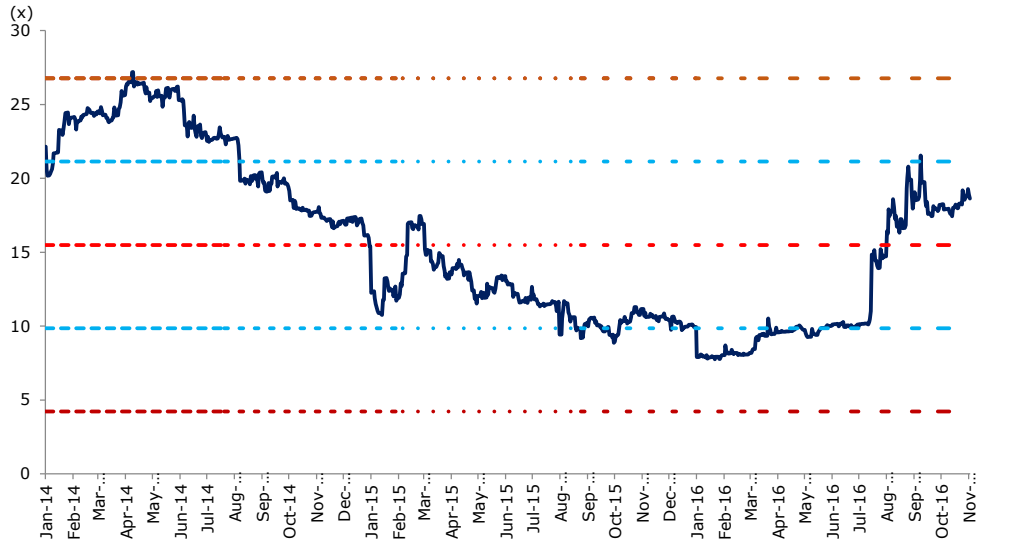
Exhibit 8. 2012 Toyota Avanza 1.3 G M/T selling price, Sep 2015 – Sep 2016



Recovered Avanza selling prices since June 2016

Source: Company

Exhibit 9. ASSA's 3-year PE band, 2014–ytd



ASSA is currently trading above its 3-year average PE of 15.5x

Source: Bloomberg, Bahana estimates

Exhibit 10. Regional peers

	Market cap (USD\$b)	PER (x)		PBV (x)		EV/EBITDA (x)		ROE (%)		EPS Growth	
		2016F	2017F	2016F	2017F	2016F	2017F	2016F	2017F	2016F	2017F
Regional	7.8	13.7	13.3	1.2	1.2	6.9	6.7	9.4	9.3	4.4	2.3
CABCHARGE AUSTRALIA LTD	0.3	9.3	11.6	1.1	1.1	7.9	9.6	11.4	9.6	(19.1)	(20.4)
NIPPON EXPRESS CO LTD	5.1	15.4	14.5	1.0	1.0	7.3	7.1	6.7	7.0	8.2	6.0
IMPERIAL HOLDINGS LTD	2.4	10.8	11.1	1.6	1.6	6.0	5.6	15.1	14.3	(0.6)	(2.7)
Indonesia	0.9	9.8	9.1	1.3	1.1	5.3	4.7	14.0	14.0	(14.3)	17.1
MITRA PINASTHIKA MSTK TBK PT	0.2	5.2	4.5	0.6	0.5	5.4	4.3	11.6	11.8	17.6	15.2
BLUE BIRD TBK PT*	0.6	11.4	9.5	1.6	1.4	5.4	4.9	16.0	15.6	(26.1)	20.2
EXPRESS TRANSINDO UTAMA TBK*	0.0	na	42.0	na	na	4.6	4.3	(3.9)	1.0	(155.8)	(123.5)
ADI SARANA ARMADA TBK PT*	0.1	12.3	8.5	0.7	0.7	3.9	4.0	6.0	8.1	56.7	44.4
Weighted Average	8.7	13.3	12.9	1.2	1.2	6.7	6.5	9.9	9.8	2.6	3.8

Source: Bloomberg, *Bahana; based on prices as of 2 Nov 2016

Adi Sarana Armada

Year to 31 December	2014	2015	2016F	2017F	2018F
PROFIT & LOSS (IDRbn)					
Sales	1,140	1,393	1,516	1,752	2,083
Gross profit	349	415	445	529	697
EBITDA	471	548	608	671	844
Depreciation	287	336	377	389	440
EBIT	184	213	232	282	403
Net interest inc./ (expense)	(139)	(171)	(171)	(187)	(210)
Forex gain/ (losses)	0	(0)	-	-	-
Other income/ (expense)	11	15	15	16	16
Pre-tax profit	56	57	77	110	209
Taxes	13	23	23	33	63
Minority interest	0	0	0	0	1
Net profit	43	34	54	77	146

Lower interest cost at 9.75% in 2017F

BALANCE SHEET (IDRbn)

Cash and equivalents	22	28	61	53	38
Trade receivables	131	168	183	211	251
Inventories	26	20	20	20	20
Fixed assets	2,193	2,538	2,543	2,896	3,251
Other assets	136	140	141	170	246
Total assets	2,507	2,893	2,948	3,351	3,807
Interest bearing liabilities	1,456	1,784	1,784	2,064	2,264
Trade payables	57	44	49	55	63
Other liabilities	157	210	221	281	425
Total liabilities	1,669	2,038	2,054	2,401	2,752
Minority interest	0	0	0	0	0
Shareholders' equity	838	854	894	950	1,054

Higher debt levels ...

CASH FLOW (IDRbn)

EBIT	184	213	232	282	403
Depreciation	287	336	377	389	440
Working capital	(6)	(50)	(9)	(17)	(26)
Other operating items	(166)	(124)	(171)	(177)	(196)
Operating cash flow	299	375	429	477	621
Net capital expenditure	(566)	(679)	(379)	(741)	(793)
Free cash flow	(267)	(304)	49	(264)	(172)
Equity raised/ (bought)	-	-	-	-	-
Net borrowings	295	329	0	280	200
Other financing	(32)	(19)	(16)	(23)	(44)
Net cash flow	(4)	6	33	(8)	(15)
Cash flow at beginning	26	22	28	61	53
Cash flow at end	22	28	61	53	38

... to finance fleet expansion

RATIOS

ROAE (%)	5.1	4.0	6.0	8.1	13.9
ROAA (%)	1.7	1.2	1.8	2.3	3.8
Gross margin (%)	30.6	29.8	29.4	30.2	33.5
EBITDA margin (%)	41.3	39.4	40.1	38.3	40.5
EBIT margin (%)	16.2	15.3	15.3	16.1	19.4
Net margin (%)	3.8	2.5	3.5	4.4	7.0
Payout ratio (%)	71.1	49.7	30.0	30.0	30.0
Current ratio (x)	0.4	0.4	0.5	0.5	0.5
Interest coverage (x)	0.8	0.8	0.7	0.7	0.5
Net gearing (%)	171.1	205.6	192.8	211.7	211.2
Debts to assets (%)	58.1	61.7	60.5	61.6	59.5
Debtor turnover (days)	41.3	43.4	43.4	43.4	43.4
Creditor turnover (days)	25.7	16.3	16.3	16.3	16.3
Inventory turnover (days)	11.6	7.3	6.7	5.8	5.2

Higher gross margin at 30.2% in 2017F

MAJOR ASSUMPTIONS

Fleet size (units)	14,873	17,991	18,991	21,991	24,991
Utilization rate (%)	92.1	92.6	93.0	93.0	93.0
Unit of disposal (units)	1,793	2,337	2,500	3,000	3,000
ASP used cars (IDRmn)	96.9	92.2	96.8	101.6	106.7

Total fleet disposal of 3,000 units in 2017-18F

Source: Company, Bahana estimates

Gregorius Gary (gregorius@bahana.co.id) +6221 250 5081 ext. 3604

Research: +62 21 250 5081

 Harry Su harry.su@bahana.co.id Senior Associate Director Head of Strategy & Research ext 3600 Direct: +62 21 250 5728	 Handi Huta Jaya handi@bahana.co.id Strategist and Product Head ext 3610	 Leonardo Henry Gavaza, CFA leonardo@bahana.co.id Senior Research Manager Auto, Telco, Infrastructure ext 3608	 Fakhrul Fulvan fakhrul.fulvan@bahana.co.id Equity Analyst ext 3602
 Sanni Sabrio Dwi Utomo sanni@bahana.co.id Research Analyst Industrial, Energy, Property ext 3611	 Renaldi Effendy renaldi@bahana.co.id Research Analyst Consumer, Healthcare ext 3608	 Michael W Setjoadi michael@bahana.co.id Research Analyst Consumer, Equity ext 3603	 Gregorius Gary gregorius@bahana.co.id Research Analyst Transportation, Peripherals ext 3604
 Muhammad Wafi wafi@bahana.co.id Technical Analyst ext 3609	 Hardy Gramah Alhusnah hardy@bahana.co.id Research Analyst Small Caps ext 3621	 Gilang Purnama gilang.purnama@bahana.co.id Research Analyst Industrials ext 3601	 Andrew Franklin Notama andrew.franlin@bahana.co.id Research Analyst Coal, Metals, Oil & Gas ext 3613
 Sarah Jessica Hutapea sarah.jessica@bahana.co.id Macro & Fixed Income Associate ext 3603	 Fikri Dzikri Anvillah fikri@bahana.co.id Research Associate ext 3623	 Fauzan Luthfi Djamil fauzan@bahana.co.id Research Associate ext 3612	 Made Ayu Wijayati made.ayu@bahana.co.id Research Executive ext 3607
 Zefanya Halim zefanya@bahana.co.id CA Manager ext 3612	 Novianty Permata Sari novianty@bahana.co.id CA ext 3618		

Dealing Room: +62 21 527 0808

 Natalie Surjodipone natalie@bahana.co.id Director of Sales & Client Relationship Management ext 2390	 Kertika Sutandi, CPA kertika.sutandi@bahana.co.id Head of Equity Institutional Sales ext 2390	 Ashish Agrawal ashish@bahana.co.id Vice President Institutional Equity Sales ext 2390 / 2392	 Yohanes Adhi Handoko yohanes@bahana.co.id Manager, Surabaya Branch ext 2390
 Alvin Gunawan alvin.gunawan@bahana.co.id Institutional Equity Sales ext 2391	 Bram Taarca bram@bahana.co.id Institutional Equity Sales ext 2324	 Suwardi Widjaja suwardi@bahana.co.id Institutional Equity Sales ext 2348	 John M. Dasaad dasaad@bahana.co.id Institutional Equity Sales ext 2348
 Naarah Joesof narah.joesof@bahana.co.id Institutional Equity Sales ext 2392	 Hanna Marlonda hanna@bahana.co.id Sales Trader ext 2323	 Adriana Kosasih adriana@bahana.co.id Sales Executive ext 2341	

+62 31 535 2788 (Surabaya Branch)

Head Office

Graha Niaga, 19th Floor
Jl. Jend. Sudirman Kav. 58
Jakarta 12190
Indonesia
Tel. 62 21 250 5081
Fax. 62 21 522 6049



PT Bahana Securities

<http://www.bahana.co.id>

Surabaya Branch

Wisma BII, Ground Floor
Jl. Pemuda 60-70
Surabaya 60271
Indonesia
Tel. 62 31 535 2788
Fax. 62 31 546 1157

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