

BUY

(unchanged)

TP: IDR400

(from: IDR330)

Adi Sarana Armada

Transportation (Neutral)

PX: IDR280

JCI: **6,361**

TP/consensus: **100%**

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Strong overall trend in 1Q18, reiterate BUY

Summary: Adi Sarana Armada (ASSA IJ) recently released its March 2018 operational results. The overall trends remained positive with increasing rental fleet size, stable used-car prices and a continued improvement in BidWin's car auction volume. Given the cyclical recovery (NPAT growth 28% 2017-19F CAGR) combined with undemanding valuation of 7/6x 2018F/2019F PER, we maintain our BUY call on ASSA with a higher 12-month TP of IDR400 (43% upside from the current price level).

Rental: 1Q18 fleet size grew 7% y-y; Stable utilization rate at 93%: The 4W vehicle rental division reported 1Q18 average fleet size of 20.7k units (-1% q-q, +7% y-y). Furthermore, its average utilization rate remained stable at 93% (4Q17: 93%; 1Q17: 94%). According to management, demand for rental cars in the market has continued to show a positive trend, resulting in sustainable fleet size growth for the company. Looking ahead, we expect the 2018F fleet size to continue growing to 22.9k units (+10% y-y) with utilization rate of 93.5%.

BidWin's 1Q18 auction volume trend remains positive (+51% y-y): ASSA's vehicle auction segment, BidWin, offered 8.3k units for auction in 1Q18 (-11% q-q, +51% y-y) with 4.2k units being sold (+6% q-q, +97% y-y). This translates to a higher 1Q18 auction success rate at c.51% (4Q17: 42%; 1Q17: 39%), which according to the company was primarily supported by more accurate vehicle offering prices due to an improving auction management system. For 2018F, we estimate the total units sold to reach 15k (+35% y-y).

2017 recap: Earnings above estimates driven by 3 key factors: ASSA reported its 4Q17 earnings at IDR30bn, up 15% q-q and up 34% y-y. This brought the 2017 net profit to IDR103bn (+66% y-y), which accounted for 110% and 116% of our and consensus estimates, respectively. The stronger-than-expected earnings performance was primarily driven by 3 key factors, in particular: i) lower net interest expenses (-5% y-y to IDR175bn), ii) improving profitability from used car sales segment (FY2017 segment operating profit: IDR43.1bn, +729% y-y) and iii) solid performance of its auction business BidWin, which reported 2017 segment operating profit of IDR13.1bn, up strongly by 320% y-y. Note that BidWin's contribution to ASSA's total operating profit has increased to 4% in 2017 from just 1% in 2016.

Reiterate BUY call with a higher 12-month TP of IDR400 (43% upside): We reiterate our BUY rating on ASSA and raise our 12-month target price to IDR400, from IDR330, based on a lower target 2018F PER of 10x, from 11.3x, derived from +1SD of its 3-year mean (updated). Key risks to our positive call include lower-than-expected utilization rates, lower rental fleet size and lower used-car ASPs.

Valuation below the past-3-year average PER: ASSA is currently trading at 2018F/2019F PERs of 7/6x, respectively. Note that this is lower than its past-3-year average PER of 7.4x.

Changes in earnings estimates: We revise up our 2018-19F earnings by 0-20%, mainly to adjust for higher used-car ASPs, lower interest expenses and lower revenue contribution from its logistics division, as compared to our previous estimates.

Exhibit 1. Company information

Market cap (IDRtn/USDbn)	:	1.0/0.07
3M avg.daily t.o.(IDRbn/USDmn)	:	0.3/0.02
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
Est. free float (%)	:	41.4

Source: Bloomberg

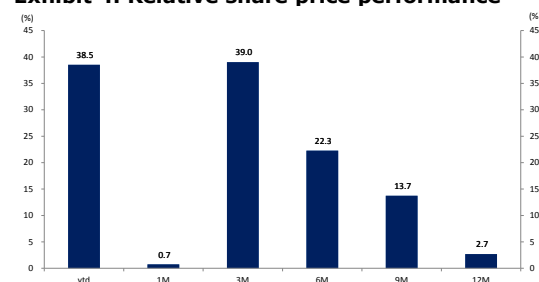
Exhibit 3. Key forecasts and valuations

Year to 31 Dec	2016	2017	2018F	2019F
Revenue (IDRb)	1,570	1,690	1,863	2,006
EBIT (IDRb)	256	296	326	363
Net profit (IDRb)	62	103	137	169
Bahana/cons.(%)			104	99
EPS (IDR)	18	30	40	50
EPS growth (%)	81.8	66.1	33.0	22.9
EV/EBITDA (x)	4.4	4.1	3.9	3.6
P/E (x)	15.3	9.2	6.9	5.6
FCFPS (IDR)	(5)	(32)	(11)	8
FCF yield (%)	(2)	(11)	(4)	3
BVPS (IDR)	266	290	320	357
P/BV (x)	1.1	1.0	0.9	0.8
DPS (IDR)	4	7	10	13
Div. yield (%)	1.4	2.5	3.7	4.6
ROA (%)	2.1	3.1	3.9	4.6
ROE (%)	6.9	10.5	11.9	12.3
Net gearing (%)	197.9	194.5	165.5	134.8

Source: Company, Bahana forecasts

Note: Pricing based on 11 April 2018

Exhibit 4. Relative share price performance



Source: Bloomberg

Exhibit 5. ASSA's 2017 results summary

(IDRbn)	4Q16	3Q17	4Q17	q-q (%)	y-y (%)	12M17	y-y (%)	12M17/ 2017F*	12M17/ Cons.
Sales	437.3	421.2	456.2	8.3	4.3	1,689.8	7.6	94	95
Gross Profit	139.4	130.3	144.6	10.9	3.7	516.8	13.3		
Operating expenses	(62.6)	(54.8)	(62.3)	13.7	(0.5)	(220.9)	10.6		
Operating profit	76.8	75.6	82.3	8.9	7.1	295.9	15.5	104	98
Net int. income/(expense)	(44.9)	(45.5)	(43.9)	(3.5)	(2.2)	(174.8)	(5.0)		
Forex gain (expenses)	0.0	(0.0)	0.0	n.m.	(94.7)	(0.0)	(170.6)		
Other income/(expense)	81.8	80.2	86.8	8.2	6.1	313.0	14.8		
Pretax profit	36.9	34.6	42.9	23.7	16.3	138.2	55.6		
Taxation	(14.4)	(8.4)	(12.8)	52.1	(11.1)	(34.9)	30.8		
Minority Interest	(0.0)	(0.0)	(0.1)	174.1	73.7	(0.1)	216.7		
Net profit	22.5	26.2	30.1	14.6	33.8	103.2	66.1	110	116
BS & Ratio analysis	4Q16	3Q17	4Q17			12M17	2016	2017F*	2018F*
Gross margin (%)	31.9	30.9	31.7			30.6	29.0	28.9	29.7
Operating margin (%)	17.6	17.9	18.0			17.5	16.3	15.7	16.6
Pretax margin (%)	8.4	8.2	9.4			8.2	5.7	7.0	7.8
Net margin (%)	5.1	6.2	6.6			6.1	4.0	5.2	5.8
Inventory days	6	12	8			8	10	9	8
Receivable days	35	47	41			44	44	44	44
Payable days	13	15	8			9	13	13	13
Total cash (IDRb)	28	43	85			43	40.3	11.6	24.0
Total debt (IDRb)	1,784	1,980	2,002			1,980	1,828	2,028	2,198
Net gearing (%)	205.6	203.5	194.5			203.5	197.9	210.1	211.3

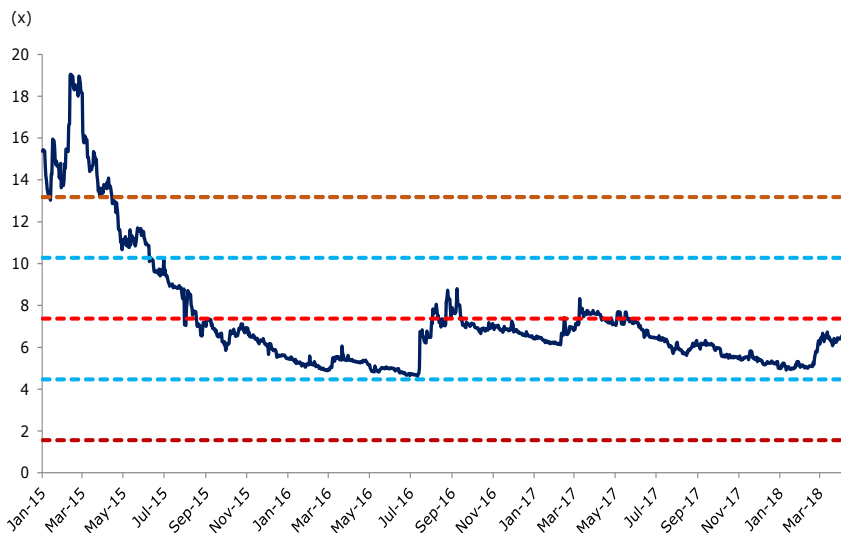
Source: Company, Bloomberg; *Bahana previous estimates

Exhibit 6. Earnings changes

(IDRbn)	Old		New		Change (%)	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	1,969	2,202	1,863	2,006	(5)	(9)
Gross profit	585	700	569	624	(3)	(11)
Gross profit margin (%)	29.7	31.8	30.5	31.1		
Operating profit	328	413	326	363	(1)	(12)
Operating margin (%)	16.7	18.8	17.5	18.1		
Net profit	114	169	137	169	20	(0)
Net margin (%)	5.8	7.7	7.4	8.4		
EPS (IDR)	34	50	40	50	20	(0)

Source: Bahana forecasts

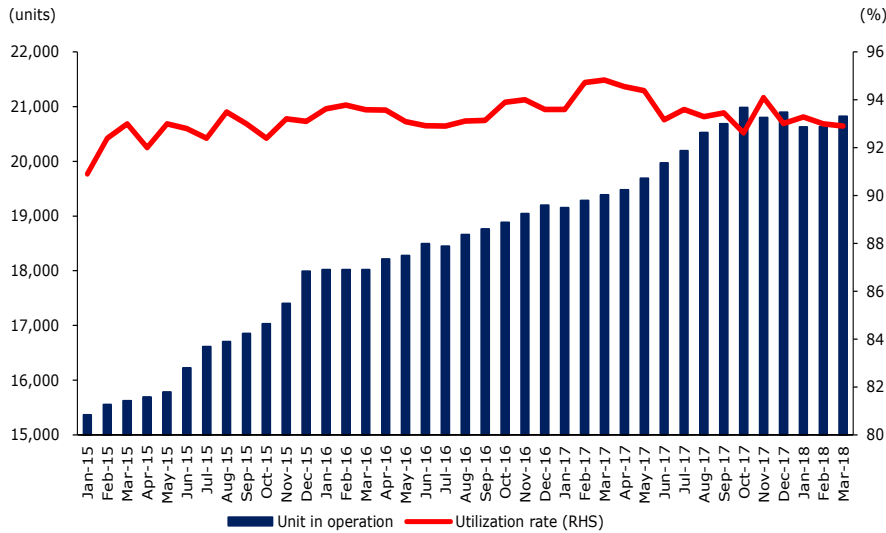
Exhibit 7. ASSA's PER band, Jan 15-ytd



ASSA is currently trading below its past-3-year average PER of 7.4x

Source: Bloomberg, Bahana forecasts

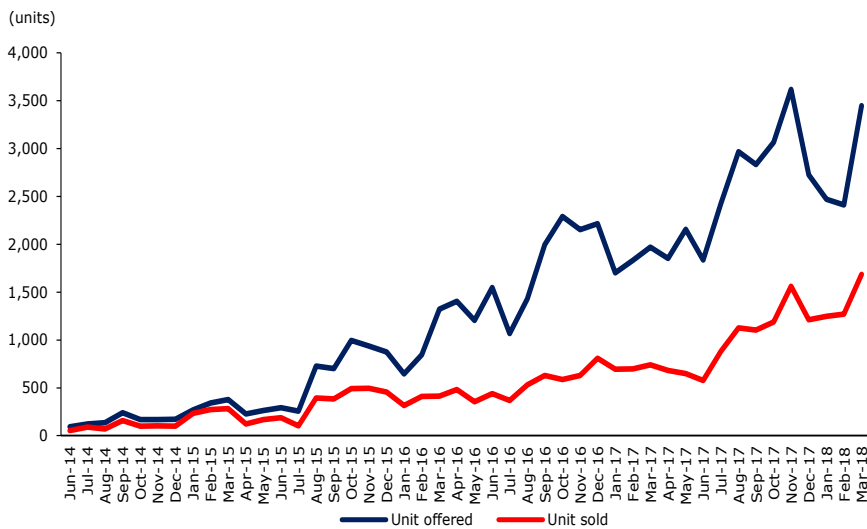
Exhibit 8. ASSA's rental unit in operation and utilization rate



Fleet utilization rate remained stable at c.93% in 1Q18

Source: Company

Exhibit 9. BidWin's car auction volume



Continued improvement in BidWin's car auction volume on the back of increasing auction schedule and auction locations

Source: Company

Adi Sarana Armada

Year to 31 December	2015	2016	2017	2018F	2019F
PROFIT & LOSS (IDRbn)					
Revenue	1,393	1,570	1,690	1,863	2,006
Gross profit	415	456	517	569	624
EBITDA	548	625	695	755	826
Depreciation	336	369	400	429	463
EBIT	213	256	296	326	363
Net interest inc./(expense)	(171)	(184)	(175)	(159)	(154)
Forex gain/ (losses)	(0)	0	(0)	-	-
Other income/ (expense)	15	17	17	17	17
Pre-tax profit	57	89	138	184	226
Taxes	23	27	35	46	57
Minority interest	0	0	0	0	0
Net profit	34	62	103	137	169

2018F revenue to grow 10% y-y on the back of higher revenue from ASSA's vehicle-rental and auction businesses

BALANCE SHEET (IDRbn)

Cash and equivalents	28	40	85	35	35
Trade receivables	168	193	208	229	246
Inventories	20	31	27	27	27
Fixed assets	2,538	2,631	2,765	2,960	3,117
Other assets	140	134	223	244	268
Total assets	2,893	3,030	3,307	3,494	3,693
Interest bearing liabilities	1,784	1,828	2,002	1,952	1,882
Trade payables	44	39	28	31	33
Other liabilities	210	259	292	353	407
Total liabilities	2,038	2,126	2,322	2,335	2,321
Minority interest	0.1	0.1	0.2	0.4	0.6
Shareholders' equity	854	904	986	1,158	1,371

Lower debt level in 2018-19F driven by ...

CASH FLOW (IDRbn)

EBIT	213	256	296	326	363
Depreciation	336	369	400	429	463
Working capital	(50)	(14)	(37)	(16)	(14)
Other operating items	(162)	(182)	(154)	(177)	(183)
Operating cash flow	336	430	504	562	629
Net capital expenditure	(641)	(448)	(612)	(597)	(603)
Free cash flow	(305)	(18)	(108)	(36)	26
Equity raised/(bought)	-	-	-	-	-
Net borrowings	329	44	174	(50)	(70)
Other financing	(18)	(13)	(21)	36	44
Net cash flow	6	12	45	(50)	0
Cash flow at beginning	22	28	40	85	35
Cash flow at end	28	40	85	35	35

... strong operating cash flows

RATIOS

ROE (%)	4.0	6.9	10.5	11.9	12.3
ROA (%)	1.2	2.1	3.1	3.9	4.6
Gross margin (%)	29.8	29.0	30.6	30.5	31.1
EBITDA margin (%)	39.4	39.8	41.2	40.5	41.2
EBIT margin (%)	15.3	16.3	17.5	17.5	18.1
Net margin (%)	2.5	4.0	6.1	7.4	8.4
Payout ratio (%)	49.7	21.9	23.0	25.8	25.8
Current ratio (x)	0.4	0.5	0.4	0.4	0.5
Interest coverage (x)	0.8	0.7	0.6	0.5	0.4
Net gearing (%)	205.6	197.9	194.5	165.5	134.8
Debts to assets (%)	61.7	60.3	60.5	55.9	51.0
Debtor turnover (days)	43.4	44.3	44.2	44.2	44.2
Creditor turnover (days)	16.3	12.6	8.6	8.6	8.6
Inventory turnover (days)	7.3	10.1	8.2	7.5	7.0

Margin improvements in 2018-19F

MAJOR ASSUMPTIONS

Fleet size (units)	17,991	19,199	20,898	22,898	24,898
Utilization rate (%)	92.6	93.4	93.8	93.5	93.5
Disposed fleet (units)	2,337	2,284	2,521	3,000	3,000
Used car ASP (IDRmn)	92.2	88.1	97.6	102.5	107.6

Higher fleet size and improved used-car ASPs in 2018-19F

Source: Company, Bahana forecasts

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"Buy": the price of the security is expected to increase by 10% or more.

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