

**BUY**  
(unchanged)

**TP: IDR386**  
(from: IDR400)

**Adi Sarana Armada**

Transportation (Neutral)

**PX: IDR268**

JCI: **5,709**

TP/consensus: **100%**

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**In-line 3Q18 results, but less upbeat earnings outlook**

**Summary:** Adi Sarana Armada (ASSA IJ) announced its 3Q18 financial results earlier today, with net profit amounting to IDR31bn (+17% y-y, -11% q-q). This brought the 9M18 earnings to IDR106bn (+46% y-y), which formed 79%/75% of Bahana's previous/consensus' FY2018 earnings estimates, respectively; hence we think this is in-line with market expectations. ASSA's positive performance in 3Q18 was driven by two factors: i) sustainable vehicle rental growth and ii) improving used-car sales. However, going forward we think the earnings momentum in the next 12 months may be slower than we previously forecast given the rising interest-rate environment. Maintain BUY with lower 12M TP of IDR386 (44% upside potential).

**3Q18 total revenue grew to IDR471bn (+12% y-y, +9% q-q)**, which was largely supported by the positive performance of its two business segments: i) the vehicle rental (56% of 3Q18 total revenue) and ii) used vehicle (19% of 3Q18 total revenue) divisions. Vehicle rental revenue continued to grow steadily to IDR262bn (+6% y-y, +5% q-q), on the back of a higher fleet size of 21.8k units (+5% y-y, flat q-q). Meanwhile, ASSA's used vehicle division posted strong 3Q18 total sales of IDR89bn (+61% y-y, +56% q-q), as the number of vehicle disposals jumped to c.1.1k units (+94% y-y, +80% q-q).

**BidWin auction service posted total revenue of IDR12.3bn (+55% y-y, -3% q-q)**. This was driven by higher sold vehicles of 4.3k units (+38% y-y, +9% q-q) and higher auctioned vehicles of 9.7k units (+18% y-y, +10% q-q).

**Earnings estimates and price target changes:** We fine tune our assumptions post the 3Q18 results and revise down our 2019-20F earnings forecasts by 10-20% on the back of: i) a lower fleet size and ii) higher interest expense assumptions.

**Reiterate BUY with lower 12M TP of IDR386 (44% upside potential).** Our new IDR386 target price (down from IDR400) is now based on a 9x target PER (from 10x previously) on our 2019F EPS (from 2018F previously). At the current level, ASSA trades at 2018F/2019F PERs of 7/6x, respectively, which are below its 5-year mean of 10x.

**Key risks to our call:** i) Lower-than-expected fleet utilization rates, ii) lower rental fleet size and iii) lower used-car ASPs.

**Exhibit 5. ASSA's 3Q18 results summary**

(IDRbn)	3Q17	2Q18	3Q18	q-q (%)	y-y (%)	9M18	y-y (%)	9M18/2018F*	9M18/Cons.
<b>Sales</b>	<b>421.2</b>	<b>433.9</b>	<b>470.6</b>	<b>8.5</b>	<b>11.7</b>	<b>1,355.3</b>	<b>9.9</b>	<b>73</b>	<b>73</b>
<b>Gross Profit</b>	<b>130.3</b>	<b>142.5</b>	<b>147.8</b>	<b>3.7</b>	<b>13.4</b>	<b>435.7</b>	<b>17.0</b>		
Operating expenses	(54.8)	(60.4)	(66.7)	10.3	21.8	(184.8)	16.5		
<b>Operating profit</b>	<b>75.6</b>	<b>82.0</b>	<b>81.1</b>	<b>(1.2)</b>	<b>7.3</b>	<b>250.9</b>	<b>17.4</b>	<b>77</b>	<b>67</b>
Net int. income/(expense)	(45.5)	(41.1)	(45.3)	10.1	(0.5)	(126.4)	(3.5)		
Forex gain (expenses)	(0.0)	0.0	0.3	n.m.	n.m.	0.3	n.m.		
Other income/(expense)	80.2	85.7	85.1	(0.7)	6.1	263.1	16.3		
<b>Pretax profit</b>	<b>34.6</b>	<b>44.6</b>	<b>40.1</b>	<b>(10.0)</b>	<b>15.8</b>	<b>137.0</b>	<b>43.8</b>		
Taxation	(8.4)	(10.0)	(9.4)	(6.1)	11.7	(30.6)	38.1		
Minority Interest	(0.0)	(0.0)	0.0	(144.3)	(184.9)	(0.1)	21.0		
<b>Net profit</b>	<b>26.2</b>	<b>34.5</b>	<b>30.8</b>	<b>(11.0)</b>	<b>17.2</b>	<b>106.4</b>	<b>45.5</b>	<b>79</b>	<b>75</b>
<b>BS &amp; Ratio analysis</b>	<b>3Q17</b>	<b>2Q18</b>	<b>3Q18</b>			<b>9M18</b>	<b>2017</b>	<b>2018F*</b>	<b>2019F*</b>
Gross margin (%)	30.9	32.8	31.4			32.1	30.6	30.5	31.1
Operating margin (%)	17.9	18.9	17.2			18.5	17.5	17.5	18.1
Pretax margin (%)	8.2	10.3	8.5			10.1	8.2	9.7	10.8
Net margin (%)	6.2	8.0	6.5			7.9	6.1	7.3	8.1
Inventory days	12	11	16			16	8	7	7
Receivable days	47	51	41			43	44	44	44
Payable days	15	11	25			26	9	9	9
Total cash (IDRb)	43	65	183			183	84.9	30.8	25.3
Total debt (IDRb)	1,980	2,047	2,217			2,217	2,002	2,022	2,042
Net gearing (%)	203.5	194.5	193.7			193.7	194.5	183.4	167.2

Source: Company, Bloomberg, \*Bahana previous forecasts

**Exhibit 1. Company information**

Market cap (IDRtn/USDbn)	: 0.9/0.06
3M avg.daily t.o.(IDRbn/USDmn)	: 0.4/0.03
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

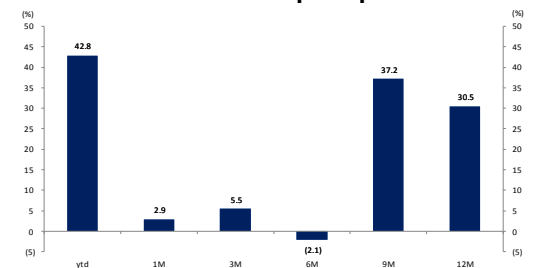
**Exhibit 3. Key forecasts and valuations**

Year to 31 Dec	2017	2018F	2019F	2020F
Revenue (IDRb)	1,690	1,897	2,007	2,104
EBIT (IDRb)	296	335	365	389
Net profit (IDRb)	103	136	146	155
EPS (IDR)	30	40	43	46
EPS growth (%)	66.1	31.9	7.1	6.3
EV/EBITDA (x)	4.1	3.8	3.5	3.3
P/E (x)	8.8	6.7	6.2	5.9
BVPS (IDR)	(32)	(0)	23	25
P/BV (x)	(12)	(0)	9	9
DPS (IDR)	290	318	344	372
Div. yield (%)	0.9	0.8	0.8	0.7
ROA (%)	7	12	17	18
ROE (%)	2.6	4.5	6.3	6.7
Net gearing (%)	3.1	3.7	3.8	4.0

Source: Company, Bahana forecasts

Note: Pricing based on 24 October 2018

**Exhibit 4. Relative share price performance**



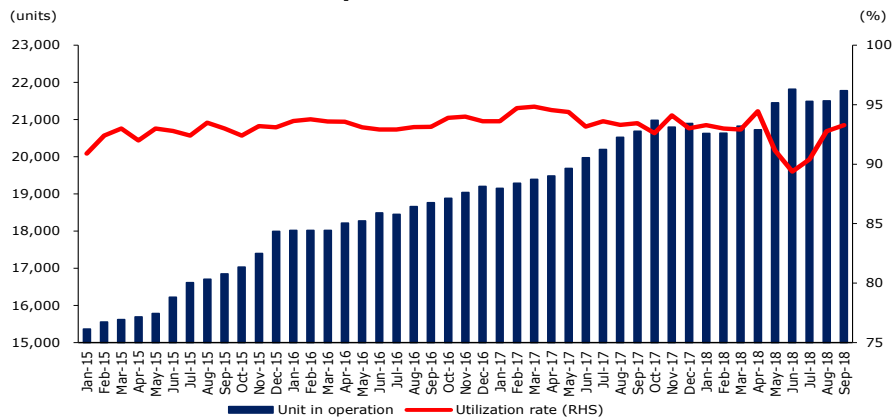
Source: Bloomberg

**Exhibit 6. ASSA's 3Q18 results summary**

(IDRbn)	Old			New			Change (%)		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
<b>Revenue</b>	<b>1,863</b>	<b>2,006</b>	<b>2,153</b>	<b>1,897</b>	<b>2,007</b>	<b>2,104</b>	2	0	(2)
<b>Gross profit</b>	<b>569</b>	<b>624</b>	<b>684</b>	<b>582</b>	<b>627</b>	<b>662</b>	2	0	(3)
<i>Gross profit margin (%)</i>	<i>30.5</i>	<i>31.1</i>	<i>31.7</i>	<i>30.7</i>	<i>31.2</i>	<i>31.5</i>			
<b>Operating profit</b>	<b>326</b>	<b>363</b>	<b>404</b>	<b>335</b>	<b>365</b>	<b>389</b>	3	1	(4)
<i>Operating margin (%)</i>	<i>17.5</i>	<i>18.1</i>	<i>18.8</i>	<i>17.7</i>	<i>18.2</i>	<i>18.5</i>			
<b>Net profit</b>	<b>135</b>	<b>162</b>	<b>193</b>	<b>136</b>	<b>146</b>	<b>155</b>	1	(10)	(20)
<i>Net margin (%)</i>	<i>7.3</i>	<i>8.1</i>	<i>9.0</i>	<i>7.2</i>	<i>7.3</i>	<i>7.4</i>			
<b>EPS (IDR)</b>	<b>40</b>	<b>48</b>	<b>57</b>	<b>40</b>	<b>43</b>	<b>46</b>	1	(10)	(20)

Source: Bahana estimates

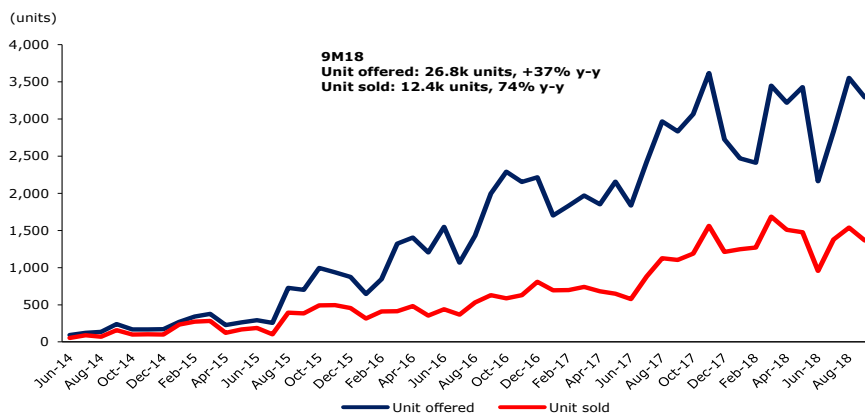
**Exhibit 7. Rental fleet in operation and utilization rates**



**Fleet size reached 21.8k units as of June 2018, +5% y-y**

Source: Company

**Exhibit 8. BidWin's unit offered and unit sold**



**BidWin booked total units sold of 12.4k units in 9M18, in-line with our FY2018 target of 15k units**

Source: Company

**Exhibit 9. ASSA PER band**



**ASSA is currently trading near -1SD of its 5-year average PER of 10x**

Source: Bloomberg, Bahana estimates

**Adi Sarana Armada**

Year to 31 December	2016	2017	2018F	2019F	2020F
<b>PROFIT &amp; LOSS (IDRbn)</b>					
<b>Sales</b>	<b>1,570</b>	<b>1,690</b>	<b>1,897</b>	<b>2,007</b>	<b>2,104</b>
<b>Gross profit</b>	<b>456</b>	<b>517</b>	<b>582</b>	<b>627</b>	<b>662</b>
<b>EBITDA</b>	<b>625</b>	<b>695</b>	<b>764</b>	<b>818</b>	<b>859</b>
Depreciation	369	400	429	453	470
<b>EBIT</b>	<b>256</b>	<b>296</b>	<b>335</b>	<b>365</b>	<b>389</b>
Net interest inc./ (expense)	(184)	(175)	(170)	(187)	(198)
Forex gain/ (losses)	0	(0)	-	-	-
Other income/ (expense)	17	17	17	17	17
<b>Pre-tax profit</b>	<b>89</b>	<b>138</b>	<b>182</b>	<b>195</b>	<b>207</b>
Taxes	27	35	46	49	52
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>62</b>	<b>103</b>	<b>136</b>	<b>146</b>	<b>155</b>

**BALANCE SHEET (IDRbn)**

Cash and equivalents	40	85	258	278	301
Trade receivables	193	208	233	247	258
Inventories	31	27	27	27	27
Fixed assets	2,631	2,765	2,922	2,991	3,063
Other assets	134	223	244	253	262
<b>Total assets</b>	<b>3,030</b>	<b>3,307</b>	<b>3,683</b>	<b>3,795</b>	<b>3,911</b>
Interest bearing liabilities	1,828	2,002	2,217	2,217	2,217
Trade payables	39	28	31	33	34
Other liabilities	259	292	354	376	397
<b>Total liabilities</b>	<b>2,126</b>	<b>2,322</b>	<b>2,602</b>	<b>2,626</b>	<b>2,648</b>
<b>Minority interest</b>	<b>0.1</b>	<b>0.2</b>	<b>0.4</b>	<b>0.5</b>	<b>0.7</b>
<b>Shareholders' equity</b>	<b>904</b>	<b>986</b>	<b>1,081</b>	<b>1,169</b>	<b>1,263</b>

**CASH FLOW (IDRbn)**

EBIT	256	296	335	365	389
Depreciation	369	400	429	453	470
Working capital	(14)	(37)	(19)	(11)	(9)
Other operating items	(182)	(154)	(186)	(214)	(228)
<b>Operating cash flow</b>	<b>430</b>	<b>504</b>	<b>558</b>	<b>594</b>	<b>621</b>
Net capital expenditure	(448)	(612)	(560)	(516)	(537)
<b>Free cash flow</b>	<b>(18)</b>	<b>(108)</b>	<b>(1)</b>	<b>78</b>	<b>85</b>
Equity raised/ (bought)	-	-	-	-	-
Net borrowings	44	174	215	-	-
Other financing	(13)	(21)	(41)	(57)	(61)
<b>Net cash flow</b>	<b>12</b>	<b>45</b>	<b>173</b>	<b>20</b>	<b>23</b>
Cash flow at beginning	28	40	85	258	278
<b>Cash flow at end</b>	<b>40</b>	<b>85</b>	<b>258</b>	<b>278</b>	<b>301</b>

**RATIOS**

ROE (%)	6.9	10.5	12.6	12.5	12.3
ROA (%)	2.1	3.1	3.7	3.8	4.0
Gross margin (%)	29.0	30.6	30.7	31.2	31.5
EBITDA margin (%)	39.8	41.2	40.3	40.8	40.8
EBIT margin (%)	16.3	17.5	17.7	18.2	18.5
Net margin (%)	4.0	6.1	7.2	7.3	7.4
Payout ratio (%)	21.9	23.0	29.9	39.5	39.5
Current ratio (x)	0.5	0.4	0.6	0.6	0.6
Interest coverage (x)	0.7	0.6	0.5	0.5	0.5
Net gearing (%)	197.9	194.5	181.2	165.8	151.7
Debts to assets (%)	60.3	60.5	60.2	58.4	56.7
Debtor turnover (days)	44.3	44.2	44.2	44.2	44.2
Creditor turnover (days)	12.6	8.6	8.6	8.6	8.6
Inventory turnover (days)	10.1	8.2	7.4	7.0	6.8

**MAJOR ASSUMPTIONS**

Fleet unit (units)	19,199	20,898	22,398	23,398	24,398
Utilization rate (%)	93.4	93.8	92.5	92.5	92.5
Used car ASP (IDRmn)	2,284	2,521	3,500	3,500	3,500

Source: Company, Bahana estimates

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