

BUY
(unchanged)

TP: IDR400
(unchanged)

Adi Sarana Armada

Transportation (Neutral)

PX: IDR266

JCI: 5,932

TP/consensus: 99%

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2Q18 results: Strong used car sales drive earnings beat, BUY

Summary: Adi Sarana Armada (ASSA IJ) reported 2Q18 net profit of IDR35bn (-16% q-q, +44% y-y). The 6M18 net profit reached IDR76bn (+61% y-y) and translates to 56%/53% of our/consensus 2018 estimates, hence we think this is slightly above consensus expectations. Given the solid 2Q18 results and its undemanding valuation of 7/6x 2018F/2019F PERs, we continue to like ASSA and maintain our BUY rating with an unchanged 12M TP of IDR400, translating to 50% upside potential from the current price level.

2Q18 revenue grew 8% y-y driven by rental and used car businesses.

ASSA booked 2Q18 revenue of IDR434bn (-4% q-q, +8% y-y). The y-y increase was primarily driven by higher sales from ASSA's two key segments, in particular: i) used car sales (IDR57bn, -33% q-q, +37% y-y) and ii) vehicle rental business (IDR249bn, 0% q-q, +6% y-y).

Fleet in operation increased to 21.8k units in Jun-18. This was a 9% growth from 20k units in Jun-17 (Bahana FY2018: 22.8k units, +10% y-y). Additionally, ASSA's 2Q18 utilization rate declined slightly to c.92% vs. 93% in 1Q18 and 94% in 2Q17, which we think was largely attributable to shorter working days in June due to Lebaran holidays.

BidWin sustained its solid top line growth (+21% q-q, +143% y-y): We noted ASSA's vehicle auction division (BidWin) revenue grew strongly to IDR23bn (+21% q-q, +143% y-y). This was supported by higher auctioned-vehicle volumes of 8.8k units (+6% q-q, +51% y-y) and higher auction success rate of 45% vs. 2017 average of 38%. Further, BidWin reported 2Q18 segment operating profit of IDR4.2bn (-5% q-q, +272% y-y), which implies 2Q18 operating profit margin of 29% (1Q18: 35%, 2Q17: 17%).

Reiterate BUY rating with an unchanged target price of IDR400 (50% upside potential). Our target price is based on an unchanged 2018F PER of 10x, which we derived from its past-5-year mean. At the current price level, ASSA is trading at 2018F/2019F PERs of 7/6x, respectively, which is near -1SD of its 5-year average PER.

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 2Q18 results summary

(IDRbn)	2Q17	1Q18	2Q18	q-q (%)	y-y (%)	6M18	y-y (%)	6M18/2018F	6M18/Cons.
Sales	401.5	450.8	433.9	(3.8)	8.1	884.8	8.9	47	47
Gross Profit	120.8	145.4	142.5	(2.0)	17.9	287.9	19.0		
Operating expenses	(52.4)	(57.6)	(60.4)	4.9	15.5	(118.1)	13.6		
Operating profit	68.5	87.7	82.0	(6.5)	19.8	169.8	23.0	52	45
Net int. income/(expense)	(42.8)	(40.0)	(41.1)	2.9	(3.9)	(81.1)	(5.0)		
Forex gain (expenses)	(0.0)	(0.0)	0.0	n.m.	n.m.	(0.0)	570.7		
Other income/(expense)	74.0	92.3	85.7	(7.2)	15.8	178.0	21.9		
Pretax profit	31.2	52.3	44.6	(14.9)	42.8	96.9	59.7		
Taxation	(7.2)	(11.2)	(10.0)	(11.0)	38.3	(21.2)	54.2		
Minority Interest	(0.0)	(0.0)	(0.0)	(7.6)	1,022.4	(0.1)	150.1		
Net profit	24.0	41.1	34.5	(15.9)	44.1	75.6	61.3	56	53
BS & Ratio analysis	2Q17	1Q18	2Q18			6M18	2017	2018F	2019F
Gross margin (%)	30.1	32.2	32.8			32.5	30.6	30.5	31.1
Operating margin (%)	17.1	19.5	18.9			19.2	17.5	17.5	18.1
Pretax margin (%)	7.8	11.6	10.3			11.0	8.2	9.7	10.8
Net margin (%)	6.0	9.1	8.0			8.5	6.1	7.3	8.1
Inventory days	5	9	11			5	8	7	7
Receivable days	50	44	51			25	44	44	44
Payable days	19	11	11			6	9	9	9
Total cash (IDRb)	44	72	65			65	84.9	30.8	25.3
Total debt (IDRb)	1,928	1,965	2,047			2,047	2,002	2,022	2,042
Net gearing (%)	203.4	184.5	194.5			194.5	194.5	183.4	167.2

Source: Company, Bloomberg, Bahana forecasts

Exhibit 1. Company information

Market cap (IDRtn/USDbn)	: 0.9/0.06
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

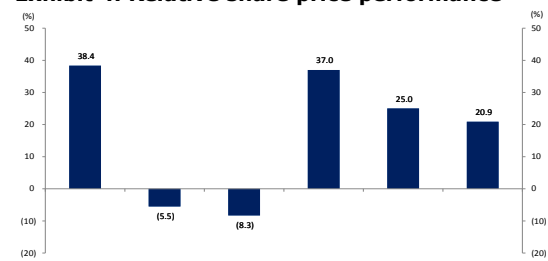
Exhibit 3. Key forecasts and valuations

Year to 31 Dec	2017	2018F	2019F	2020F
Revenue (IDRb)	1,690	1,863	2,006	2,153
EBIT (IDRb)	296	326	363	404
Net profit (IDRb)	103	135	162	193
EPS (IDR)	30	40	48	57
EPS growth (%)	66.1	31.0	19.7	19.1
EV/EBITDA (x)	4.1	3.8	3.5	3.2
P/E (x)	8.8	6.7	5.6	4.7
BVPS (IDR)	290	320	355	397
P/BV (x)	0.9	0.8	0.7	0.7
DPS (IDR)	7	10	12	15
Div. yield (%)	2.6	3.9	4.6	5.5
ROA (%)	3.1	3.9	4.4	5.0
ROE (%)	10.5	12.4	13.4	14.3
Net gearing (%)	194.5	183.4	167.2	146.7

Source: Company, Bahana forecasts

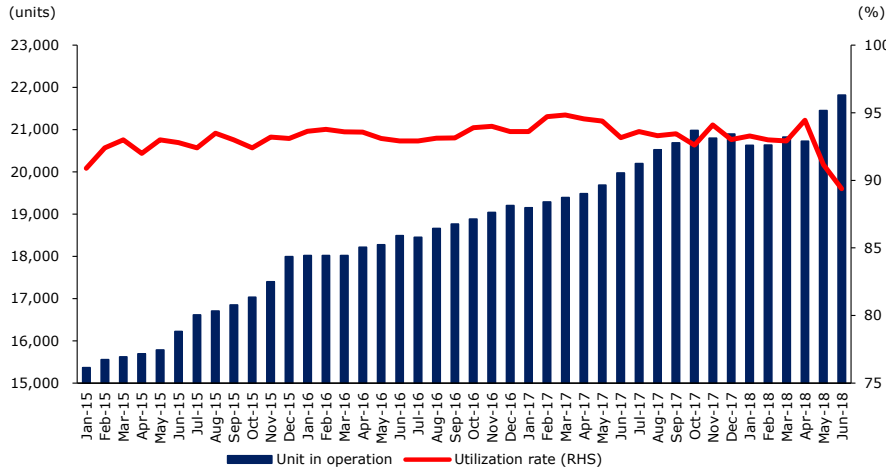
Note: Pricing based on 24 July 2018

Exhibit 4. Relative share price performance



Source: Bloomberg

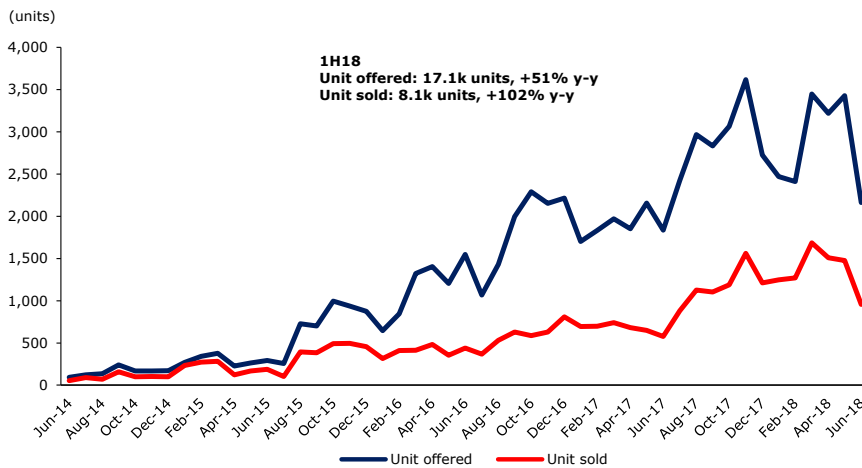
Exhibit 6. Rental fleet in operation and utilization rates



Fleet size reached 21.8k units as of Jun-18, +9% y-y

Source: Company

Exhibit 7. BidWin's units offered and units sold



BidWin booked total units offered of 17.1k in 1H18, in-line with our FY2018 target of 15k units

Source: Company

Exhibit 8. 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
PROFIT & LOSS (IDRbn)					
Sales	1,570	1,690	1,863	2,006	2,153
Gross profit	456	517	569	624	684
EBITDA	625	695	755	826	902
Depreciation	369	400	429	463	498
EBIT	256	296	326	363	404
Net interest inc./ (expense)	(184)	(175)	(162)	(164)	(163)
Forex gain/ (losses)	0	(0)	-	-	-
Other income/ (expense)	17	17	17	17	17
Pre-tax profit	89	138	181	217	258
Taxes	27	35	46	55	65
Minority interest	0	0	0	0	0
Net profit	62	103	135	162	193

BALANCE SHEET (IDRbn)

Cash and equivalents	40	85	31	25	33
Trade receivables	193	208	229	246	264
Inventories	31	27	27	27	27
Fixed assets	2,631	2,765	2,960	3,117	3,236
Other assets	134	223	243	263	287
Total assets	3,030	3,307	3,489	3,679	3,847
Interest bearing liabilities	1,828	2,002	2,022	2,042	2,012
Trade payables	39	28	31	33	35
Other liabilities	259	292	350	397	451
Total liabilities	2,126	2,322	2,403	2,472	2,498
Minority interest	0.1	0.2	0.4	0.5	0.7
Shareholders' equity	904	986	1,086	1,206	1,349

CASH FLOW (IDRbn)

EBIT	256	296	326	363	404
Depreciation	369	400	429	463	498
Working capital	(14)	(37)	(16)	(14)	(14)
Other operating items	(182)	(154)	(179)	(191)	(201)
Operating cash flow	430	504	559	621	688
Net capital expenditure	(448)	(612)	(599)	(605)	(601)
Free cash flow	(18)	(108)	(39)	16	87
Equity raised/(bought)	-	-	-	-	-
Net borrowings	44	174	20	20	(30)
Other financing	(13)	(21)	(35)	(42)	(50)
Net cash flow	12	45	(54)	(6)	7
Cash flow at beginning	28	40	85	31	25
Cash flow at end	40	85	31	25	33

RATIOS

ROE (%)	6.9	10.5	12.4	13.4	14.3
ROA (%)	2.1	3.1	3.9	4.4	5.0
Gross margin (%)	29.0	30.6	30.5	31.1	31.7
EBITDA margin (%)	39.8	41.2	40.5	41.2	41.9
EBIT margin (%)	16.3	17.5	17.5	18.1	18.8
Net margin (%)	4.0	6.1	7.3	8.1	9.0
Payout ratio (%)	21.9	23.0	25.8	25.8	25.8
Current ratio (x)	0.5	0.4	0.4	0.4	0.4
Interest coverage (x)	0.7	0.6	0.5	0.5	0.4
Net gearing (%)	197.9	194.5	183.4	167.2	146.7
Debts to assets (%)	60.3	60.5	58.0	55.5	52.3
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	7.5	7.0	6.6

MAJOR ASSUMPTIONS

Fleet unit (units)	19,199	20,898	22,898	24,898	26,898
Utilization rate (%)	93.4	93.8	93.5	93.5	93.5
Used car ASP (IDRmn)	2,284	2,521	3,000	3,000	3,000

Source: Company, Bahana estimates

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- 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.

Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, Financial Futures Association of Japan

Japan Securities Investment Advisers Association