

Astra International (ASII)

Standing tall despite challenges

3 August 2022



ASII IJ	BUY
Sector	Automotive
Price at 2 August 2022 (Rp)	6,475
Price target (Rp)	8,500
Upside/Downside (%)	31.3

Stock Information

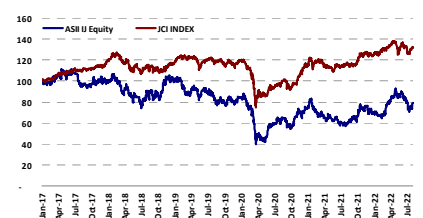
Astra International is the largest diversified conglomerate company in Indonesia focusing on 7 business segments, namely: automotive, financial services, heavy equipment & mining, agribusiness, infrastructure & logistics, IT, as well as property. The company is the leader in automotive industry for 2W and 4W, heavy equipment, as well as mining contracting.

Market cap (Rp bn)	262,131
Shares outstanding (mn)	40,484
52-week range (Rp)	7,700-4,730
3M average daily vol. ('000)	51,655
3M average daily val. (Rp mn)	345,085

Shareholders (%)

Jardine Cycle & Carriage	50.1
Public	49.9

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(0.8)	(14.5)	34.3

- ASII's 1H22 core profit rose 63.8% YoY to Rp14.46tn, representing 58.6% of our FY forecast
- We expect domestic 4W and 2W sales of 960K units and 4.8mn units, respectively in 2022, amid increasing purchasing power, low interest rates, and tax waiver. Astra has raised prices amid soaring raw material costs. Higher amount financed and asset quality will improve financial services, while surging coal and CPO prices will boost HEMCE and agribusiness
- Reiterate BUY with 31.3% upside potential on a 12-month view, backed by 1) economic recovery; 2) well-accepted products; 3) strong commodity prices; 4) infrastructure development; 5) diversification; and 6) robust balance sheet

Exceeding expectations

Excluding fair value gain on investment in GOTO, ASII's net profit surged 63.8% YoY to Rp14.46tn in 1H22, accounting for 58.6%/55.7% of our/consensus FY estimates. This robust result was mainly driven by stellar performance of heavy equipment, mining, construction and energy (HEMCE), automotive, as well as financial services. Net profit of automotive rose 29.0% YoY to Rp4.27tn in 1H22 as Astra's 4W sales escalated 23.4% YoY, while 2W sales declined 13% YoY due to production constraints amid semiconductor shortage. For financial services, net profit went up 36.0% YoY to Rp2.90tn in 1H22 on the back of higher contribution from consumer finance. Furthermore, net profit of HEMCE jumped 131.0% YoY to Rp6.19tn in 1H22, boosted by strong heavy equipment sales, mining contracting, and coal mining in line with soaring coal prices. In terms of agribusiness, net profit increased 24.8% YoY to Rp645bn in 1H22 as average CPO price rose 46% YoY to Rp15,023/kg, despite lower CPO and derivative product sales by 32% YoY to 635K tons, caused by export ban in 2Q22. Moreover, net profit of infrastructure and logistics skyrocketed 287.9% YoY to Rp353bn in 1H22 amid toll road business improvement.

Encouraging signs of auto recovery

ASII's 4W sales increased 23.4% YoY to 258,849 units, compared to 4W sales nationwide that grew 20.8% YoY to 475,321 units in 1H22. As a result, Astra's market share edged up from 53.3% in 1H21 to 54.5% in 1H22. We maintain our domestic 4W sales assumption of 960K units this year, driven by 1) economic recovery; 2) low interest rates; and 3) luxury-goods sales tax exemption. However, we view that headwinds will come from 1) aggressive monetary tightening; 2) Rupiah depreciation; and 3) global supply chain disruption. To anticipate soaring raw material costs, the company has raised selling prices, while conducting cost management optimization. Amid semiconductor shortage, ASII is utilizing multi-sourcing strategy with principal supports. Furthermore, Astra strives to retain at least 50% market share by rolling out new models. Nevertheless, we see that competition will remain intense following the launches of LMPV models from other players. Meanwhile, ASII's 2W sales decreased 13% YoY to 1.6mn units, while domestic 2W sales declined 8% YoY to 2.2mn units in 1H22, mainly caused by microchip shortage. We expect national 2W sales to reach 4.8mn units this year, supported by improving purchasing power and surging commodity prices.

Strong support from non-auto segments

We believe financial services to improve this year in line with higher amount financed on the back of growing vehicle sales coupled with better asset quality. In the midst of aggressive global interest rate hikes, Astra will manage to maintain CoF by diversifying sources of funding from domestic and overseas. The company will continue to take prudent approach by setting aside sufficient provision to anticipate uncertainties. For HEMCE, we estimate that soaring coal prices amid strong demands due to tight energy supply will boost performance of construction machinery, mining contracting, and coal mining. Furthermore, its diversification to gold mining and infrastructure will help create a more balanced business portfolio. In terms of agribusiness, we view that its outlook will be relatively solid in line with strong CPO prices on the back of rising oil prices and biodiesel policy. However, palm oil export levy waiver until August and export ban lifting will limit further price hikes. Following economic recovery and transformation, ASII will develop new business lines, targeting healthcare, technology, digital banking, renewable energy, and non coal mining segments.

Reiterate BUY on the back of economic recovery and diversification

We maintain our BUY recommendation with a DCF-based price target of Rp8,500 per share. The stock is currently traded at a 2022 PBV of 1.4x and PER of 8.4x, translating into 0.9stdev below its 5-year historical mean, which we consider to be relatively undemanding. We remain buoyant with ASII's outlook, driven by 1) economic recovery along with fiscal stimulus; 2) innovative and well-accepted products; 3) soaring commodity prices; 4) infrastructure acceleration; 5) continued investments in gold mining, digitalization, and renewable energy; as well as 6) solid balance sheet to finance expansions. However, we note several downside risks to our call, namely 1) global economic slowdown; 2) stiff competition in automotive market that may result in market share erosion and margin squeeze; 2) rising inflation, interest rate hikes, Rupiah depreciation, and asset quality deterioration; as well as 3) lower-than-expected coal and CPO prices.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	175,046	233,485	280,400	296,112	309,449
Operating profit (Rp bn)	13,090	25,533	37,663	39,437	40,815
Net profit (Rp bn)	16,164	20,196	31,220	28,605	29,717
EPS (Rp)	399	499	771	707	734
EPS growth (%)	(25.5)	24.9	54.6	(8.4)	3.9
ROAA (%)	4.7	5.7	8.2	7.1	7.1
ROAE (%)	10.7	12.3	17.1	14.2	13.5
PER (x)	16.2	13.0	8.4	9.2	8.8
PBV (x)	1.7	1.5	1.4	1.2	1.1
EV/EBITDA (x)	11.1	7.1	5.3	4.9	4.5
Div Yield (%)	2.8	2.0	4.2	3.8	4.0

Analyst(s)

Budi Rustanto, CFA, FRM

Devi Harjoto

Astra International (ASII)

ASII's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Net revenue	107,395	143,692	33.8%	71,871	71,821	(0.1%)
Cost of revenue	(84,559)	(110,141)		(56,132)	(54,009)	
Gross profit	22,836	33,551	46.9%	15,739	17,812	13.2%
Gross profit margin	21.3%	23.3%		21.9%	24.8%	
Operating expenses	(11,908)	(13,032)		(6,599)	(6,433)	
Operating profit	10,928	20,519	87.8%	9,140	11,379	24.5%
Operating profit margin	10.2%	14.3%		12.7%	15.8%	
Other income/(expenses)	294	4,787		492	4,295	
Share of results of JV & associates	2,769	3,496		1,826	1,670	
Profit before income tax	13,991	28,802	105.9%	11,458	17,344	51.4%
Income tax expenses	(2,848)	(4,885)		(2,186)	(2,699)	
Profit before minority interests	11,143	23,917	114.6%	9,272	14,645	57.9%
Minority interests	(2,312)	(5,743)		(2,413)	(3,330)	
Net profit	8,831	18,174	105.8%	6,859	11,315	65.0%
Core profit	8,831	14,462	63.8%	6,859	7,603	10.8%
Net profit margin	8.2%	10.1%		9.5%	10.6%	

Source: Company, KB Valbury Sekuritas

Divisional Net Profit (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Automotive	3,311	4,271	29.0%	2,233	2,038	(8.7%)
Financial services	2,134	2,902	36.0%	1,473	1,429	(3.0%)
Heavy equipment & mining	2,681	6,194	131.0%	2,585	3,609	39.6%
Agribusiness	517	645	24.8%	385	260	(32.5%)
Infrastructure & logistics	91	353	287.9%	118	235	99.2%
Information technology	14	24	71.4%	12	12	0.0%
Property	83	73	(12.0%)	53	20	(62.3%)
Total	8,831	14,462	63.8%	6,859	7,603	10.8%

Source: Company, KB Valbury Sekuritas

Gross Margin Before Elimination (%)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Automotive	11.1	11.8	0.7	11.4	12.3	1.0
Financial services	52.7	55.4	2.7	58.0	53.0	(5.0)
Heavy equipment & mining	21.3	27.3	6.1	25.2	29.2	4.0
Agribusiness	20.4	16.6	(3.8)	15.1	18.9	3.8
Infrastructure & logistics	33.3	33.6	0.3	32.4	34.7	2.3
Information technology	19.7	21.3	1.5	21.4	21.2	(0.2)
Property	47.7	39.2	(8.5)	36.6	44.1	7.5

Source: Company, KB Valbury Sekuritas

Astra International (ASII)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net revenue	175,046	233,485	280,400	296,112	309,449
Revenue growth YoY	(26.2%)	33.4%	20.1%	5.6%	4.5%
Cost of revenue	(136,268)	(182,452)	(216,961)	(229,296)	(239,991)
Gross profit	38,778	51,033	63,440	66,816	69,458
Operating expenses	(25,688)	(25,500)	(25,777)	(27,379)	(28,643)
Operating profit	13,090	25,533	37,663	39,437	40,815
Operating profit growth YoY	(50.0%)	95.1%	47.5%	4.7%	3.5%
EBITDA	26,488	37,828	49,689	51,944	54,034
EBITDA growth YoY	(29.9%)	42.8%	31.4%	4.5%	4.0%
Other income/(expenses)	5,568	353	6,297	2,839	3,168
Share of results of JV & associates	3,083	6,464	6,981	7,330	7,697
Profit before income tax	21,741	32,350	50,941	49,606	51,679
Income tax expenses	(3,170)	(6,764)	(9,875)	(10,372)	(10,805)
Profit before minority interests	18,571	25,586	41,066	39,234	40,874
Minority interests	(2,407)	(5,390)	(9,846)	(10,630)	(11,157)
Net profit	16,164	20,196	31,220	28,605	29,717

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	47,553	63,947	68,198	66,611	65,334
Trade receivables	17,031	21,830	27,719	29,286	30,588
Financing receivables	32,379	34,458	36,214	38,060	39,999
Inventories	17,929	21,815	25,984	27,531	28,839
Other current assets	17,416	18,212	19,651	20,016	20,325
Total current assets	132,308	160,262	177,766	181,503	185,085
Non-current assets					
Financing receivables	30,167	31,242	32,029	33,661	35,376
Investments in JV and associates	33,483	37,794	39,055	42,179	44,288
Fixed assets	59,230	55,349	56,733	59,569	62,548
Mining properties	12,960	11,925	12,044	13,670	15,516
Other non-current assets	70,055	70,739	79,354	81,540	83,119
Total non-current assets	205,895	207,049	219,214	230,619	240,847
Total assets	338,203	367,311	396,980	412,122	425,932
Current liabilities					
Trade payables	16,529	25,149	29,906	31,606	33,080
Short-term debts	37,136	38,667	36,713	31,426	25,365
Other current liabilities	32,071	39,962	44,132	45,376	46,446
Total current liabilities	85,736	103,778	110,750	108,408	104,891
Non-current liabilities					
Long-term debts	42,345	33,819	31,026	26,746	21,785
Other non-current liabilities	14,668	14,099	14,543	15,153	15,769
Total non-current liabilities	57,013	47,918	45,569	41,899	37,555
Minority interests	39,792	43,562	48,315	50,876	53,232
Shareholders' equity	155,662	172,053	192,346	210,939	230,255
Total liabilities and equity	338,203	367,311	396,980	412,122	425,932

Source: Company, KB Valbury Sekuritas

Astra International (ASII)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	16,164	20,196	31,220	28,605	29,717
Depreciation & amortization	13,398	12,295	12,026	12,507	13,219
Changes in working capital	<u>10,363</u>	<u>4,951</u>	<u>(4,326)</u>	<u>(2,380)</u>	<u>(2,316)</u>
CF from operating activities	39,925	37,442	38,920	38,732	40,621
Investment in fixed assets	(8,674)	(6,704)	(11,738)	(13,581)	(14,260)
Investment in mining properties	(261)	(175)	(1,285)	(2,876)	(3,265)
Others	<u>12,542</u>	<u>(6,570)</u>	<u>(11,169)</u>	<u>(7,455)</u>	<u>(5,923)</u>
CF from investing activities	3,607	(13,449)	(24,192)	(23,912)	(23,447)
Debts raised/(repaid)	(12,820)	(6,995)	(4,748)	(9,566)	(11,022)
Dividends paid	(7,449)	(5,344)	(10,927)	(10,012)	(10,401)
Others	<u>(40)</u>	<u>4,740</u>	<u>5,198</u>	<u>3,170</u>	<u>2,973</u>
CF from financing activities	(20,309)	(7,599)	(10,477)	(16,407)	(18,450)
Free cash flows	46,443	25,803	16,398	16,319	18,428
Net cash flows	23,223	16,394	4,251	(1,588)	(1,277)
Cash and cash equivalents, beginning	<u>24,330</u>	<u>47,553</u>	<u>63,947</u>	<u>68,198</u>	<u>66,611</u>
Cash and cash equivalents, ending	47,553	63,947	68,198	66,611	65,334

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	22.2	21.9	22.6	22.6	22.4
Operating profit margin (%)	7.5	10.9	13.4	13.3	13.2
Net profit margin (%)	9.2	8.6	11.1	9.7	9.6
ROAE (%)	10.7	12.3	17.1	14.2	13.5
ROAA (%)	4.7	5.7	8.2	7.1	7.1
DER (x)	0.5	0.4	0.4	0.3	0.2
Net (cash) gearing (x)	0.2	0.0	(0.0)	(0.0)	(0.1)
Interest coverage ratio (x)	3.8	11.2	17.8	20.8	25.7
Sales/Assets (x)	0.5	0.7	0.7	0.7	0.7
Assets/Equity (x)	2.2	2.1	2.1	2.0	1.8
PER (x)	16.2	13.0	8.4	9.2	8.8
PBV (x)	1.7	1.5	1.4	1.2	1.1
EV/EBITDA (x)	11.1	7.1	5.3	4.9	4.5
Dividend Yield (%)	2.8	2.0	4.2	3.8	4.0

Source: Company, KB Valbury Sekuritas

Astra International (ASII)

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will be related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.