

Company Note

I Indonesia

ADD (no change)

Consensus ratings*: Buy 1 Hold 0 Sell 1

Current price:	Rp193.0
Target price:	Rp320.0
Previous target:	Rp165.0
Up/downside:	65.8%
CIMB / Consensus:	na
Reuters:	ASSA.JK
Bloomberg:	ASSA IJ
Market cap:	US\$50.04m
	Rp655,718m
Average daily turnover:	US\$0.10m
	Rp1,375m
Current shares o/s:	7,147m
Free float:	40.0%

* Source: Bloomberg

Key changes in this note

- ▶ FY16F core profit decreased by 14%.
- ▶ FY17F core profit decreased by 4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	69.3	73.9	62.2
Relative (%)	62.4	61	45

Major shareholders	% held
Adi Dinamika Investindo	24.9
Daya Adicipta Mustika	19.2
Theodore Permadi Rahmat	6.0

Analyst(s)



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Adi Sarana

Making a U-Turn

- Having been hit by economic woes and poor used car prices resulting in three years of weak earnings, ASSA is now poised for a recovery.
- Economic growth recovery and lower interest rates should boost auto rental demand; topline growth likely to be sustained at +25% CAGR.
- Base effects and higher prices of new cars may boost used car prices significantly, which might catapult earnings recovery ahead of its topline growth.
- Share price is grossly undervalued at 0.7x FY17 P/BV. A new TP reflects both its undervaluation and growth potential in a recovering growth environment.

Resilient topline growth despite earnings hit

While the resilient revenue growth over the past four years (+25% CAGR) despite the economic slowdown reflected the robust auto rental market and ASSA's management strength, earnings in 2015 were nevertheless slashed to a third of 2013's peak, hit by weak used car prices, losses from mining vehicles and higher funding costs. Meanwhile, cars under management grew 14% yoy over the past year to 18,450 units at end-1H16.

Making a U-Turn

Two quarters of robust earnings recovery resulted in 1H16 core net profit of Rp22bn. Core profit margins rose 10bp qoq to 3% in 2Q16, still below 2013's 9% peak. Improving used car prices and lower ex-mining vehicle stock suggest earnings could rise further in 2H16. Faster economic growth, lower interest rates and higher new car sales prices are catalysts. We project earnings growth of 48% in the next 3 years, assuming annual GDP growth hits 6% in 3 years' time vs. 5% currently.

The structural growth drivers remain

ASSA's business model of tapping into corporate auto rentals remains appealing. That it is still in its infancy in Indonesia and ASSA is a strong #2 behind Astra-owned TRAC suggest that there is plenty of growth potential. The emergence of apps-based car rentals such as Grab Car and Uber are new growth avenues. ASSA has held talks with both, though no agreements have been signed.

Beyond auto rental

Over the past years, ASSA has developed its auto auctioning business, which though small (contributing a mere 0.7% of 1H16 revenue) is strategic in: 1) building a strong brand presence in a largely untapped market; and 2) handling sales of its growing fleet of used cars. Its logistic division which includes a fleet of 1,442 trucks contributes Rp138bn (or 19%) of revenue as of 1H16.

Undervalued and ignored stock

At 0.7x FY17 P/BV and given the improving visibility of a recovery scenario, ASSA is grossly undervalued. While its share price has jumped by some 80% since end-Jun, it is still less than half way to its peak. We revise up our GGM-based TP (ROE 16%, LTG 0% and CoE 14%), implying 15x FY17 P/E and 1.1x FY17 P/BV. We cut EPS to account for the new used car sales margin assumptions and new borrowing costs. Re-rating catalysts include faster-than-expected adjustment in borrowing rates and ROE adjustment. Downside risks could come from lower-than-expected used car sales margin.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (Rpb)	1,140	1,393	1,458	1,670	1,953
Operating EBITDA (Rpb)	480.4	561.5	634.1	723.7	865.1
Net Profit (Rpb)	43.0	34.2	51.6	73.8	108.7
Core EPS (Rp)	12.65	10.06	15.18	21.72	32.00
Core EPS Growth	(53.3%)	(20.4%)	50.9%	43.1%	47.3%
FD Core P/E (x)	15.26	19.19	12.72	8.88	6.03
DPS (Rp)	9.00	5.00	3.36	5.07	7.25
Dividend Yield	4.66%	2.59%	1.74%	2.63%	3.76%
EV/EBITDA (x)	4.35	4.30	3.98	3.96	3.85
P/FCFE (x)	25.0	28.2	38.8	24.4	108.7
Net Gearing	171%	206%	208%	232%	258%
P/BV (x)	0.78	0.77	0.73	0.69	0.63
ROE	5.2%	4.0%	5.9%	8.0%	10.9%
% Change In Core EPS Estimates			(13.6%)	(4.3%)	
CIMB/consensus EPS (x)			0.86	0.96	

SOURCE: COMPANY DATA, CIMB FORECASTS

Making a U-Turn

OUTLOOK

The 1H16 results review ►

ASSA booked a Rp22bn core net profit (-27% yoy) in 1H16, making up only 28% of our previous FY16 forecast. While the topline was relatively in-line at Rp745bn (+12% yoy, 48% of our previous FY16 forecast), the overall margin was dragged down by the used car sales segment, which barely broke even with an operating loss of Rp29m.

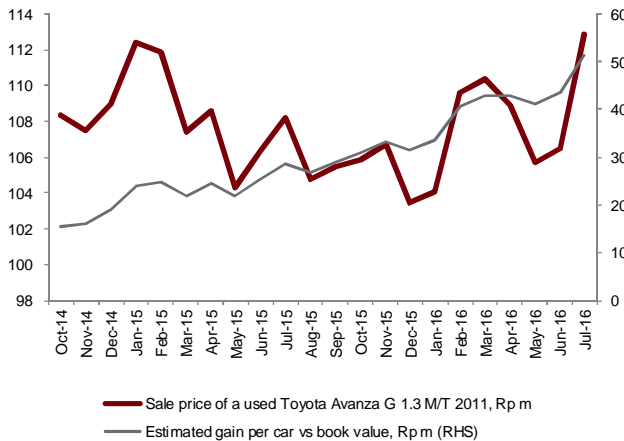
Figure 1: Results Comparison

FYE Dec (Rp bn)	2QFY16	2QFY15	yoy % chg	1QFY16	qoq % chg	2QFY16 Cum	2QFY15 Cum	yoy% chg	Prev. FY16F	
Revenue	380	322	17.9	365	3.9	745	663	12.4	1,554	48% of CIMB forecast
Operating costs	(229)	(190)	20.5	(221)	3.6	(450)	(390)	15.3	(902)	
EBITDA	151	132	14.3	144	4.5	295	273	8.2	652	45% of CIMB forecast
<i>EBITDA margin (%)</i>	40%	41%		40%		40%	41%		42%	
Depn & amort.	91	81	12.3	89	1.5	180	159	13.2	380	
EBIT	60	51	17.5	55	9.2	115	114	1.1	272	42% of CIMB forecast
Interest expense	(46)	(42)	10.3	(48)	(3.4)	(93)	(81)	15.6	(197)	
Interest & invt inc	0	0	46.7	0	(9.4)	0	0	51.9	1	
Others	3	3	(2.6)	5	(44.8)	8	5	55.1	0	
Pretax profit	17	13	37.2	13	33.9	30	38	(22.0)	76	
Tax	(6)	(3)	96.1	(2)	207.2	(7)	(8)	(10.0)	(16)	
Tax rate (%)	32%	23%	0%	14%	0%	25%	21%	0%	21%	
Minority interests	0	0	(38.0)	0	(91.0)	0	0	(51.4)	0	
Net profit	12	10	20.0	11	5.6	23	30	(25.2)	60	In-line, 38% of CIMB forecast
Core net profit	11	9	22.1	10	9.0	22	30	(26.5)	60	Below, 28% of CIMB forecast
EPS (Rp)	2	1	20.0	2	5.6	3	4	(25.2)	8	
Core EPS (Rp)	2	1	22.1	1	9.0	3	4	(26.5)	8	

SOURCES: CIMB, COMPANY REPORTS

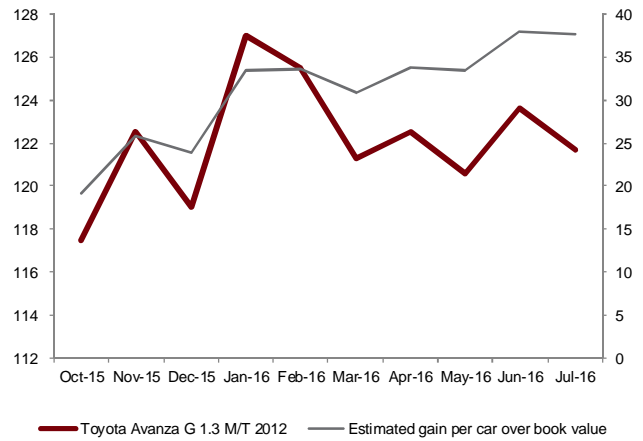
The loss in the used car sales segment was driven by disposals of c.80 units of ex-mining vehicles, for which ASSA booked a loss of c.Rp110m per car before tax, as well as disposals of blind van vehicles of c.260 units at a break-even price. This diluted the improvement in used car sales for its c.600 units of passenger fleet (consisting mostly Toyota Avanza and some Toyota Innova), whose margins have improved of late, averaging c.Rp30m per car for selling its 4-year-old used car.

Figure 2: The sales price of second-hand Toyota Avanza in ASSA's auction house has picked up...



SOURCES: COMPANY REPORTS

Figure 3: ... resulting in better gains, thanks to the improving auto market conditions which lifts up used car prices



SOURCES: COMPANY REPORTS

In 2H16, the company plans to dispose of another c.1,000 units of rental vehicles, which includes disposal of another 40 ex-mining vehicles in the near term. The company indicates that it may dispose of an additional up to 47 ex-mining vehicles if the conditions permit as those vehicles are currently still under lease terms. The rest of the disposed vehicles are passenger cars. We thus have conservatively forecast earnings based on the potential disposals of 87 ex-mining vehicles, with losses of Rp110m per sale. The rest of the vehicles from sales would come from passenger cars.

Given this, combined with the plan for the company to add a net of 1,000 units of rental vehicles by the end of this year (resulting in a total rental fleet of 19,500) and the trend of decreasing costs of borrowing, we expect the company's 2H16 to improve, meeting our new FY16 core earnings forecast of Rp52bn this year.

VALUATION AND RECOMMENDATION

The new earnings forecast ►

We adjust our earnings forecasts: a) taking into account the company's plan to expand its rental fleet to 27,000 units (+11% 3-yr CAGR) by 2019, b) incorporating the assumption of lower cost of borrowing by roughly 75bp this year, and c) incorporating a gradual recovery of used car sales margin. We project earnings growth of 48% over the next 3 years, assuming annual GDP growth shall accelerate to 6% in 3 years' time from sub-5% currently.

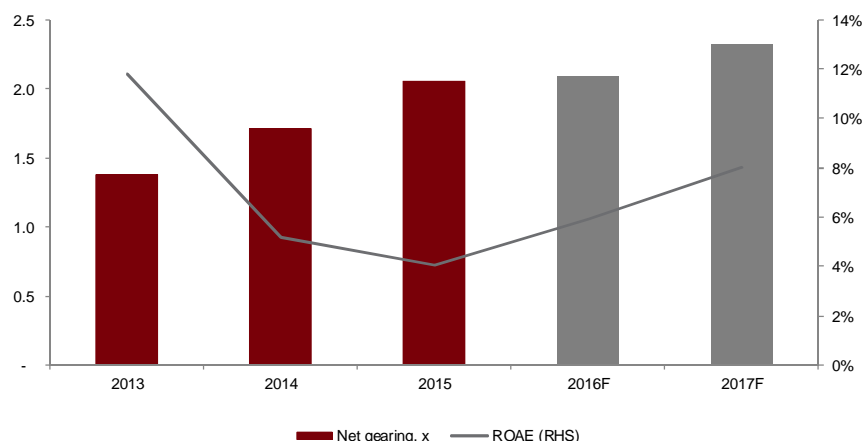
Figure 4: Earnings revision summary

	Previous			Revision			%change		
	2016	2017	2018	2016	2017	2018	2015	2016	2017
Revenue	1,553.91	1,862.62	2,210.18	1,457.8	1,670.1	1,953.1	-6%	-10%	-12%
Gross Profit	456.30	552.33	676.15	442.4	527.1	648.7	-3%	-5%	-4%
Operating profit	272.16	329.51	409.78	245.2	299.0	379.4	-10%	-9%	-7%
Core profit	59.69	77.09	107.94	51.6	73.8	108.7	-14%	-4%	1%
Operational									
Number of fleet, units	19,500	22,000	25,740	19,500	21,734	24,224	0%	-1%	-6%
Utilisation ratio, %	93%	93%	93%	94%	94%	94%	1%	1%	1%
Rental rate	55.7	57.9	60.2	59.7	60.8	64.5	7%	5%	7%
Used car sales volume, units	2,300	2,700	2,919	2,006	2,607	3,318	-13%	-3%	14%
Used car sales margin, Rp m/unit	5.0	5.0	5.0	2.0	8.0	12.0	-60%	60%	140%

SOURCES: CIMB

By 2018, we project that gross leverage would increase to 2.3x from 2.1x in 2015, while at the same time ROAE will recover to 8% by then. This still leaves much room to expand up to 4x, which is the management's long-term target gearing. The ROAE should hit c.16% in the long-term, provided that the company maxes out its leverage to 4x.

Figure 5: ROE is projected to recover following lower borrowing costs, recovery in used car sales prices and the company leveraging up



SOURCES: CIMB

Sensitivity analysis ▶

We note that ASSA's forecasts are sensitive to these key items: a) borrowing costs and b) used car price margin. Our sensitivity analysis suggests that every 25bp lower borrowing costs shall result in a 9% increase to our FY16 core earnings forecast.

Figure 6: Sensitivity analysis - borrowing rate

	FY16 core profit	% deviation
+50bp change in borrowing rate	43.8	-15.0%
+25bp change in borrowing rate	47.7	-7.5%
No change in assumed borrowing rate	51.6	0.0%
-25bp change in borrowing rate	55.4	7.5%
-50bp change in borrowing rate	59.3	15.0%

SOURCES: CIMB

On the other hand, our sensitivity analysis finds that every 5% drop in used car price could decrease ASSA's core profit by 8%, all else being equal.

Figure 7: Sensitivity analysis - used car prices margin

	FY16 core profit	% deviation
+10% of used car price	64.4	24.9%
+5% of used car price	55.7	8.0%
No change in used car price assumptions	51.6	0.0%
-5% of used car price	47.4	-8.0%
-10% of used car price	43.3	-16.1%

SOURCES: CIMB

Maintain ADD with higher GGM-based valuation of Rp320 ➤

We are using a GGM valuation with a long-term ROE assumption of 16%, LTG of 0% and a cost of equity of 14% (vs previously ROE of 14% and COE of 16%). The change in assumptions is consistent with our positive outlook on the economy and manageable inflation, which all should translate into a) lower borrowing costs (with 10-yr bond yield having fallen by 260bp off its peak in Sep-15), b) recovery in the auto market, and c) improving demand for car rental.

We derive a higher target price of Rp320/share (vs. previously Rp165), representing 66% upside from the current price, implying 15x FY17 P/E and 1.1x FY17 P/E. Catalysts could come faster-than-expected adjustment in borrowing rates and ROE appreciation.

Figure 8: GGM valuation assumptions

Beta	1.0
Risk premium	7.0%
Risk free rate	7.0%
Cost of equity	14.0%
Sustainable growth rate	0.0%
Long term ROE	16.0%

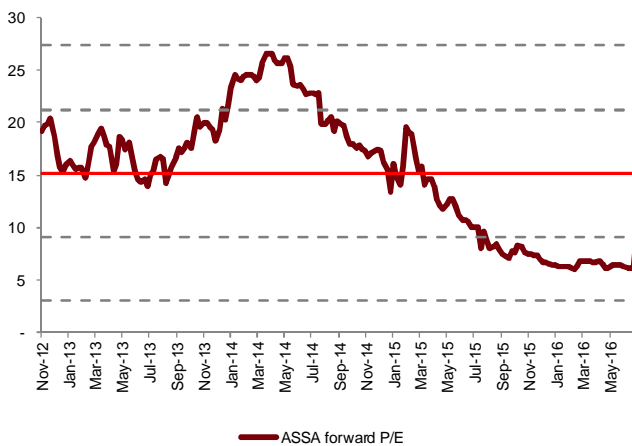
SOURCES: CIMB

Figure 9: Sensitivity of valuations

Long-term ROE	Sustainable growth rate			
	0.0%	0.5%	1.0%	
15.0%	300	301	302	
15.5%	310	311	312	
16.0%	320	321	323	
16.5%	330	332	334	
17.0%	340	342	345	

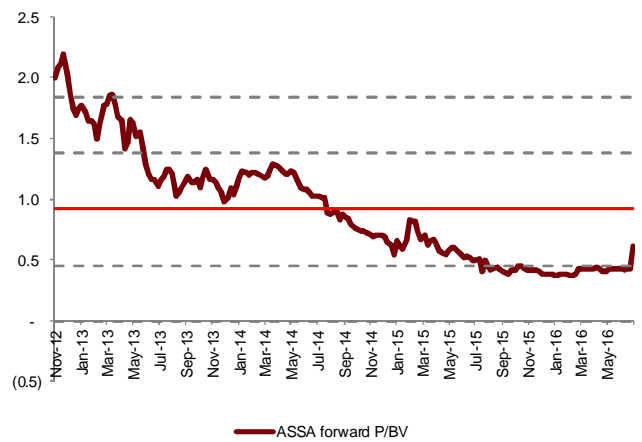
SOURCES: CIMB

Figure 10: ASSA forward P/E - currently at 10.3x



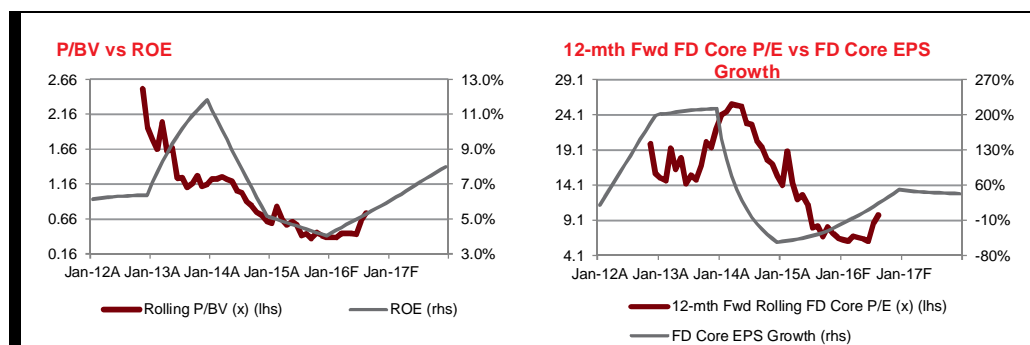
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 11: ASSA forward P/BV – currently at 0.7x



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rpb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	1,140	1,393	1,458	1,670	1,953
Gross Profit	627	741	822	941	1,121
Operating EBITDA	480	562	634	724	865
Depreciation And Amortisation	(285)	(334)	(389)	(425)	(486)
Operating EBIT	196	228	245	299	379
Financial Income/(Expense)	(139)	(171)	(180)	(206)	(242)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	56	57	65	93	138
Exceptional Items	0	0	0	0	0
Pre-tax Profit	56	57	65	93	138
Taxation	(13)	(23)	(14)	(20)	(29)
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	43	34	52	74	109
Minority Interests	0	0	0	0	(0)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax	0	0	0	0	0
Other Adjustments - post-tax	0	0	0	0	0
Net Profit	43	34	52	74	109
Recurring Net Profit	43	34	52	74	109
Fully Diluted Recurring Net Profit	43	34	52	74	109

Cash Flow

(Rpb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	480.4	561.5	634.1	723.7	865.1
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0	0.0
Change In Working Capital	(7.2)	(31.5)	(2.6)	(18.6)	(16.4)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	(418.9)	(429.9)	(512.3)	(781.5)	(994.8)
Net Interest (Paid)/Received	(139.3)	(170.9)	(179.9)	(205.6)	(241.8)
Tax Paid	(13.4)	(22.7)	(13.7)	(19.6)	(28.9)
Cashflow From Operations	(98.4)	(93.5)	(74.4)	(301.6)	(416.8)
Capex	(57.1)	(45.3)	(22.7)	(23.6)	(24.6)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0	0.0
Cash Flow From Investing	(57.1)	(45.3)	(22.7)	(23.6)	(24.6)
Debt Raised/(repaid)	181.7	162.0	114.0	352.1	447.4
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	2.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(30.6)	(17.0)	(11.4)	(17.2)	(24.6)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
Cash Flow From Financing	151.1	145.0	102.6	334.9	424.8
Total Cash Generated	(4.4)	6.3	5.5	9.7	(16.6)
Free Cashflow To Equity	26.2	23.3	16.9	26.9	6.0
Free Cashflow To Firm	(15.5)	33.0	83.8	(118.4)	(198.5)

BY THE NUMBERS

Balance Sheet

(Rpb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	22	28	33	43	26
Total Debtors	136	179	187	215	251
Inventories	26	20	18	24	23
Total Other Current Assets	33	39	41	47	55
Total Current Assets	216	266	280	329	355
Fixed Assets	2,193	2,538	2,684	3,064	3,598
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	99	89	89	89	89
Total Non-current Assets	2,292	2,627	2,773	3,154	3,688
Short-term Debt	23	28	8	8	8
Current Portion of Long-Term Debt	387	456	553	656	787
Total Creditors	87	86	90	102	117
Other Current Liabilities	41	54	57	65	76
Total Current Liabilities	538	625	708	831	989
Total Long-term Debt	1,046	1,300	1,337	1,587	1,903
Hybrid Debt - Debt Component	0	0	0	0	0
Total Other Non-Current Liabilities	86	114	114	114	114
Total Non-current Liabilities	1,132	1,413	1,451	1,700	2,017
Total Provisions	0	0	0	0	0
Total Liabilities	1,670	2,038	2,159	2,531	3,005
Shareholders' Equity	837	854	895	951	1,037
Minority Interests	0	0	0	0	0
Total Equity	837	855	895	951	1,037

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	11.9%	22.1%	4.7%	14.6%	16.9%
Operating EBITDA Growth	3.4%	16.9%	12.9%	14.1%	19.5%
Operating EBITDA Margin	42.1%	40.3%	43.5%	43.3%	44.3%
Net Cash Per Share (Rp)	(422.0)	(517.0)	(549.0)	(649.7)	(786.3)
BVPS (Rp)	246.5	251.5	263.3	280.0	305.3
Gross Interest Cover	1.40	1.33	1.36	1.45	1.56
Effective Tax Rate	23.7%	39.9%	21.0%	21.0%	21.0%
Net Dividend Payout Ratio	71.2%	49.7%	22.1%	23.3%	22.7%
Accounts Receivables Days	37.85	39.13	43.15	41.22	40.83
Inventory Days	20.63	12.69	10.96	10.63	10.35
Accounts Payables Days	32.85	28.26	26.02	24.49	24.35
ROIC (%)	7.71%	7.73%	7.20%	8.32%	9.28%
ROCE (%)	9.2%	9.3%	9.1%	10.0%	11.0%
Return On Average Assets	6.60%	6.33%	6.57%	7.29%	8.03%

SOURCE: CIMB RESEARCH, COMPANY DATA

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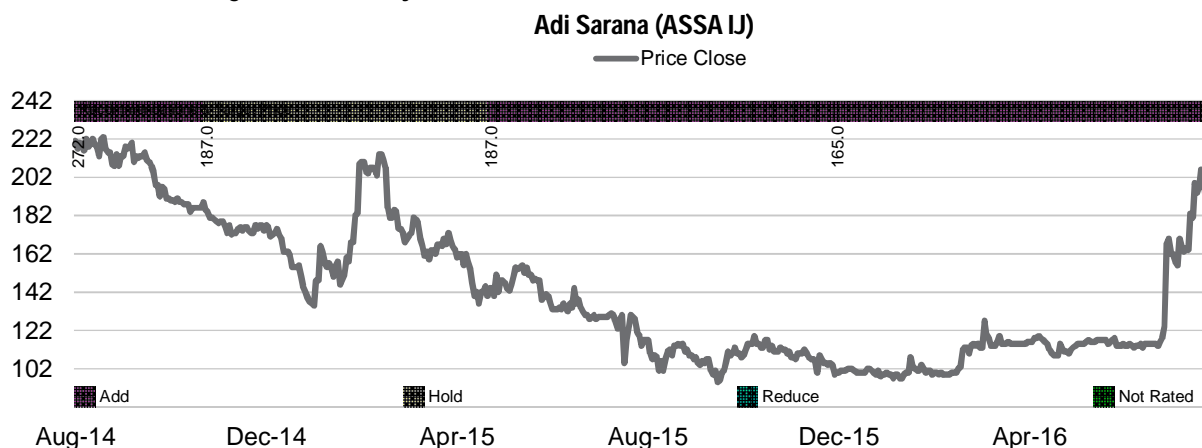
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Add	56.5%	7.1%
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Reduce	9.8%	0.6%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

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