Hold

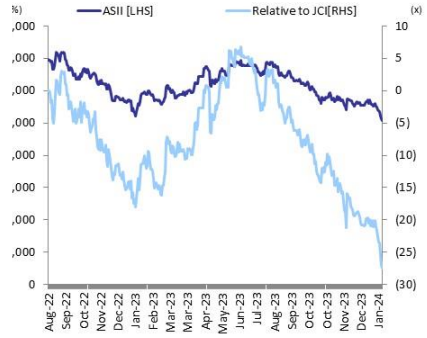
(Reinitiated)

Last Price (Rp)	**5,075**
Target Price (Rp)	**5,700**
Previous Target Price (Rp)	***8,100***
Upside/Downside	**+12.3%**
No. of Shares (mn)	**40,484**
Mkt Cap (Rpbn/US$mn)	**205,454/13,078**
Avg, Daily T/O (Rpbn/US$mn)	**280.7/17.9**
Free Float (%)	**42.3**
Major Shareholder (%)	
Jardine Cycle & Carriage	**50.1**

EPS Consensus (Rp)

	2023F	2024F	2025F
BRIDS	912.7	819.1	831.1
Consensus	792.5	784.3	794.6
BRIDS/Cons (%)	**15.2**	**4.4**	**4.6**

ASII relative to JCI Index



Source: Bloomberg

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Astra Internasional (ASII)

ICE should sustain its dominance in the 4W market, but lacks ST catalysts; reinitiate with a Hold rating

- **Our study concludes that the economic benefit of hybrids/EV in Indonesia is still in question, hence ICE should sustain its dominance.**
- **We forecast ASII's net profit to decline by 10% YoY in FY24F, as we expect recovery in 4W sales to be offset by weaker mining segments.**
- **We have a HOLD rating on ASII with a TP of Rp5,700. While the current valuation prices in earnings downside, ASII lacks ST catalysts**

Expect ICE to sustain market dominance as hybrids/EV economic benefit is unproven. We believe ASII's valuation de-rating over the past 7 months has been partly driven by the EV story as ASII/Toyota is focusing on hybrids (and less on EV). From our proprietary study, we found that the economic benefit of both technologies is not straightforward due to expensive battery cost and significant ASP differences between ICE and hybrid/EV vs the savings obtained by switching away from ICE. Thus, we believe that ASII can maintain 54-55% 4W market share with 4-5% annual volume growth.

Auto (4W/2W): expect sales to recover, GPM/OPM to be maintained in FY24F We expect 4W sales to recover in FY24F (+5.5% YoY) on lower interest rates with little contribution from hybrids. On 2W, we foresee flattish FY24F growth before recovery in FY25F given our view of short-term pressure on the middle/low-end segment's purchasing power. We forecast profit for the auto division to flatten in FY24F, with GPM/OPM maintained at 11%/2%.

Robust financials to offset weaker mining segments. We forecast ASII's FY24F/ FY25F revenues to grow by 2%/ 6% YoY with core net profit growth of -10%/1% YoY. Our FY24F NP forecast is driven by auto/financials/UNTR net profit growth of -1.1%/5.5%/-20%. We expect the financials segment's revenue to track 4W/2W sales, while UNTR's revenue should peak in FY23F before declining 5% in FY24F from further expected coal price normalization.

Reinitiate coverage on ASII with a HOLD rating and SOTP-based TP of Rp5,700 We resume coverage on ASII with a **HOLD** rating and SOTP-based TP of **Rp5,700**. At the current 6.1x PE (-2 SD to 8-years mean), we believe the expected FY24F earnings decline is priced in. However, we think the share price lacks ST catalysts with new EV entrants and there is higher risk if regulations and subsidies continue to favor EV. On the upside, a good hybrid product line-up and new subsidies in this segment would support ASII's 4W sales growth and margins.

Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (Rpbn)	233,485	301,379	309,126	315,187	334,057
EBITDA (Rpbn)	39,681	56,102	60,063	52,946	53,095
EBITDA Growth (%)	61.0	41.4	7.1	(11.9)	0.3
Net Profit (Rpbn)	20,196	30,069	36,950	33,161	33,647
EPS (Rp)	498.9	742.7	912.7	819.1	831.1
EPS Growth (%)	24.9	48.9	22.9	(10.3)	1.5
BVPS (Rp)	4,249.9	4,746.2	5,368.6	5,824.4	6,327.9
DPS (Rp)	175.8	377.8	286.0	363.4	327.6
PER (x)	10.2	6.8	5.6	6.2	6.1
PBV (x)	1.2	1.1	0.9	0.9	0.8
Dividend yield (%)	3.5	7.4	5.6	7.2	6.5
EV/EBITDA	5.4	3.8	3.4	3.7	3.6

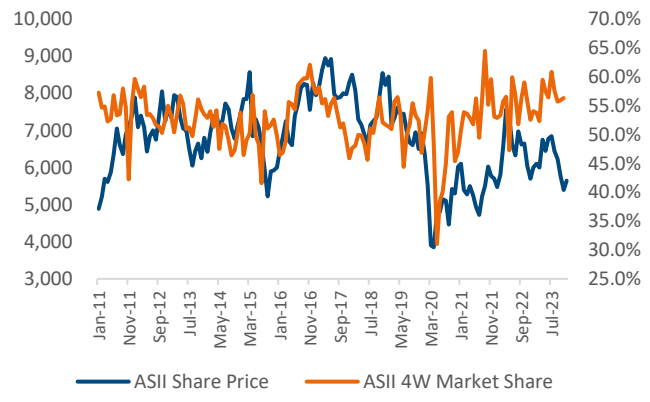
Source: ASII, BRIDS Estimates

ICE should sustain dominance but lacks ST catalysts

4W: Lower interest rates provide some room, HEV and BEV upside are not as attractive as the hype suggests

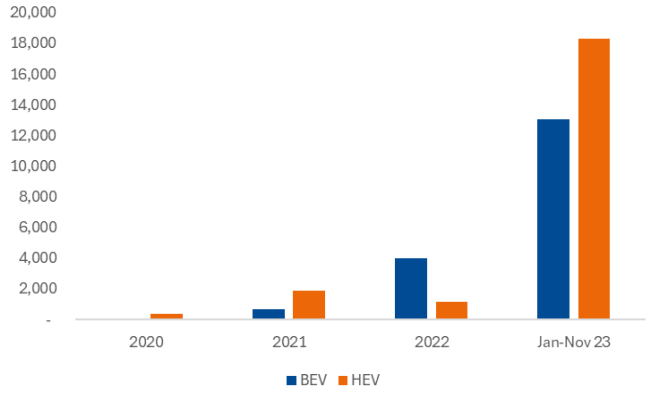
ASII's share price movements have been correlated to its 4W market share for a long time, but a lack of Battery Electric Vehicles (BEV) in ASII's lineup has dented market sentiment even though ASII has sustained market share in the face of stiff competition. In comparison to competitors like Hyundai and Wuling that push their BEV offerings, ASII and Suzuki prefer to offer Hybrid Electric Vehicles (HEV) variants. Despite the BEV hype, industry-wide BEV sales only reached 17k units in 2023 (+65% YoY, 1.7% of total 2023 car sales), with a 50% contribution coming from Hyundai Ioniq 5 variants and 37% from Wuling Air variants. The current BEV penetration in Indonesia is close to Thailand's 8.6%, but still far from China's 23%.

Exhibit 1. ASII's Share Price vs 4W Market Share



Source: Company, Bloomberg

Exhibit 2. Indonesia HEV and BEV Sales Number

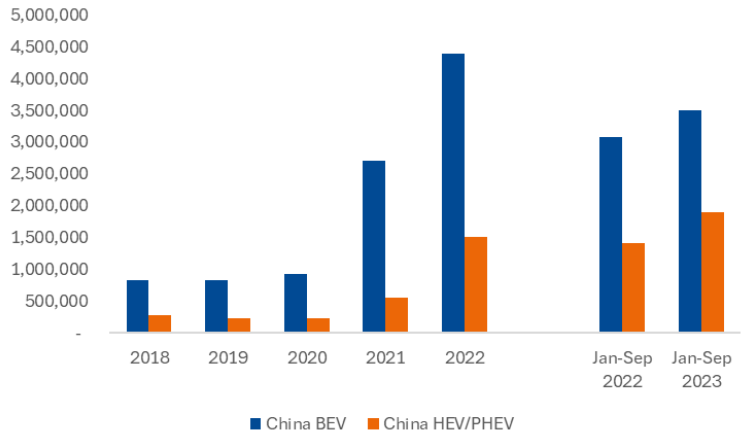


Source: Gaikindo

Meanwhile, HEV outsold BEV at 54.1k units (+423% YoY sales, 5.4% market share), with Suzuki Ertiga, Suzuki XI-7, Yaris Cross, and Innova Zenix as the top sellers. Interestingly, these car types offer both ICE and HEV variants, but the HEV variant was able to outsell ICE variants despite around a Rp 30-60mn price difference. This was the case even though the Suzuki Ertiga and XI-7 variants are typically aimed at budget sensitive consumers (unlike Innova, which targets the upper market).

The emergence of hybrids (both HEV, and Plug-In Hybrid Electric Vehicles or PHEV) sales has also been seen in some other countries in recent quarters. In Thailand, HEV sales in Jan-Oct 2023 rose by 42% YoY with 11% market share, while PHEV sales slipped 2% YoY with 0.2% market share. By comparison, BEV took 8.6% market share after sales surged 8x in 10M23. In China, PHEV grew by 72% YoY in Jan-Sep 23 vs 14% YoY for BEV, with PHEV market share at 9% vs BEV at 23%. Sales of HEV, however, declined 15% YoY, with 3% market share. Clearly, despite BEV's hype and most of the incentives given to this segment worldwide, we see that hybrid variants (both HEV and PHEV) are also gaining traction and market perceptions are still quite positive due to the limited infrastructure and some concerns on BEV (even in China and the US which have more developed charging infra and more mature markets). However, if we calculate the benefit of hybrids (and even BEV itself) vs ICE, it is not as straightforward as commonly thought.

Exhibit 3. China HEV/PHEV and BEV Sales Number



Source: IEA, China Association of Automobile Manufacturers

To illustrate this, we have created a scenario and made several assumptions. We assume the car has 75,000km mileage after 5 years of usage (the standard average of Indonesian used cars), and then the battery is replaced at Year 5 (with a 5% battery price increase assumption per year, assuming the battery has to be replaced without warranty). We calculate the fuel cost over 5 years (assuming no change in fuel prices), the difference in fuel spending between ICE and HEV, and whether the fuel saving outweighs ASP difference between HEV and ICE or the battery cost replacement. We use Innova Zenix and Suzuki Ertiga in our sample – both the ICE and HEV variants. We pick both products due to their popularity and the market segment they represent. We use Innova Zenix's fuel usage based on ASII's official claim, while we use auto enthusiast testing results for Suzuki Ertiga (with a mix of toll-road and inner Jakarta traffic). To note, we exempt maintenance and insurance costs.

Exhibit 4. HEV Saving vs Battery Replacement Cost – Assumptions & Calculation

Assumptions

Total distance	75,000	*km*
Fuel price (Pertamax 92)	13,390	*per litre*

	Energy Usage	
Innova Zenix V Gasoline Type	15.0	*km/l*
Innova Zenix V Hybrid Type	21.0	*km/l*
Suzuki Ertiga	14.5	*km/l*
Suzuki Ertiga Hybrid	19.7	*km/l*

Car Types	OTR Price (Jakarta)	ICE vs HEV OTR	Fuel Cost (5 Years)	% HEV Saving vs ICE	HEV Saving vs ICE (Nominal)	Battery Replacement Cost	FV of Battery Replacement Cost (in 5 Years)
Innova Zenix V Gasoline Type	473,600,000		66,950,000				
Innova Zenix V Hybrid Type	535,750,000	(62,150,000)	47,821,429	29%	(19,128,571)	(40,000,000)	(51,051,263)
Suzuki Ertiga	262,800,000		69,258,621				
Suzuki Ertiga Hybrid	295,600,000	(32,800,000)	51,080,875	26%	(18,177,746)	(18,600,000)	(23,738,837)

Source: TAM, Suzuki, detikOto, BRIDS Estimates

In summary, for HEV with 75,000km of mileage over 5 years, the nominal saving between HEV vs ICE obtained is smaller than the HEV vs ICE price difference, and also battery replacement cost. Suzuki Ertiga might stand a little more chance due to the lower battery replacement cost, however. Also bear in mind the scenario might depend on driving style (hence km/litre variations). Higher oil prices would make an HEV purchase more attractive as the nominal amount of savings that can be made would be increased. In our calculation, Suzuki Ertiga would require a 30% hike in the fuel price to make cost savings equal to battery replacement cost, or an 80% fuel price hike to cover the ICE and HEV price difference. Meanwhile, even 100% fuel price hikes do not cover Innova's battery replacement cost aside from the ICE vs HEV price difference. If we stretch our calculation to the battery warranty limit (8 years or 160,000 km for Innova Zenix, and 5 years or 100,000 km for Suzuki Ertiga), only Suzuki Ertiga Hybrid's saving is able to match battery replacement cost but not the HEV vs ICE price difference, while it is still not even near to breakeven for Innova.

Thus, if a car is solely purchased on a rational basis, it is less sensible to purchase an HEV variant vs ICE for economic reasons, as the nominal fuel saving on HEV does not offset gap difference between the HEV and ICE ASP or battery cost replacement. This leads us to believe that the purchase of HEV is done by early adopters and enthusiasts rather than those with economic concerns. Unless there are subsidies from the government or the battery price goes down, we do not think that HEV adoption will grow that much compared to India and China where HEV/PHEV subsidies are provided albeit in lesser amounts than for BEV.

In addition, we also perform calculations for BEV products. Under the same scenario, we use the electricity price instead of the fuel price, and use Toyota BZ4X, Wuling Air EV Standard Range, and Hyundai Ioniq 5 Standard Range for comparison.

Exhibit 5. BEV Saving vs Battery Replacement Cost – Assumptions & Calculation

Assumptions		
Total distance	75,000	*km*
Electricity price/kwh (3,500-5,500 VA)	1,700	per kwh

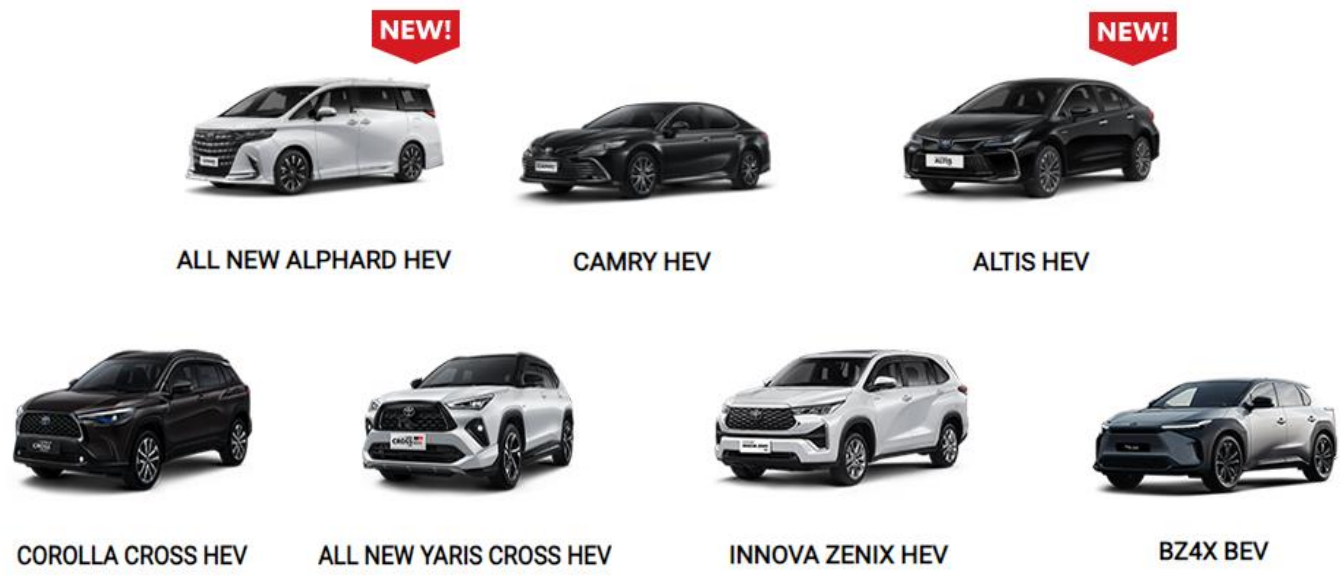
	Energy Usage	
Wuling Air EV Standard Range	11.6	*km/kwH*
Ioniq 5 Prime Reguler	5.8	*km/kwH*
Toyota BZ4X BEV	7.0	*km/kwH*

Car Types	OTR Price (Jakarta)	Fuel Cost (5 Years)	Electricity Cost	% BEV Saving vs Innova	BEV Saving vs Innova Fuel Cost	Battery Replacement Cost (Current)	FV of Battery Replacement Cost
Innova Zenix V Gasoline Type	473,600,000	66,950,000					
Wuling Air EV Standard Range	243,000,000		11,025,636	84%	(55,924,364)	(72,900,000)	(93,040,926)
Toyota BZ4X BEV	1,190,000,000		18,201,859	73%	(48,748,141)	(540,000,000)	(689,192,044)
Ioniq 5 Prime Reguler	782,000,000		21,938,726	67%	(45,011,274)	(300,000,000)	(382,884,469)

Source: TAM, Wuling, Hyundai, detikOto, BRIDS Estimates

As the calculations show, there are much lower energy costs for BEV (using electricity) for the entire 5 years compared to ICE (and even HEV). However, we draw a similar conclusion as HEV for one major reason: the battery replacement cost. Even for Wuling Air EV, which has the lowest battery cost, its battery replacement cost still outweighs the savings obtained if the battery outside the warranty needs to be replaced

Exhibit 6. BEV and HEV Line-Up of ASII



Source: Toyota Astra

Another concern, in our view, relates to the secondhand selling price as BEV penetration will increase in future years. The data for used BEV in Indonesia is still difficult to find, despite one media claim that used Wuling Air EV and Hyundai Ioniq could be found at a price 45% lower than the OTR unsubsidized price. Nevertheless, to obtain a better understanding, we took a look at the US which has a more mature HEV/BEV market. As of Oct23, based on iSeeCars (one of the used car dealers in the US), the used 4W BEV price declined by 34% YoY vs only 9% YoY for hybrids (HEV/PHEV) and only 5% YoY for all used cars (including ICE). Based on which 4W see the sharpest price declines, the top 5 models were BEV (24-30% YoY declines), but only 2 models were hybrids (19-20% YoY declines). We think this may create a BEV bottleneck as the market begins to mature given that 30-50% of the total cost component of 4W BEV is the battery component (vs 8-10% in HEV), which has a very high depreciation rate.

Exhibit 7. Aggregate Used 4W Prices in US

Type	Average Oct-22	Average Oct-23	yoy change
All used cars	$32,627	$30,972	-5%
EV	$52,821	$34,994	-34%
Hybrids	$34,850	$31,551	-9%

Source: ISeeCars

Exhibit 8. Top 10 Used Cars with Largest Price Drop, Oct-23

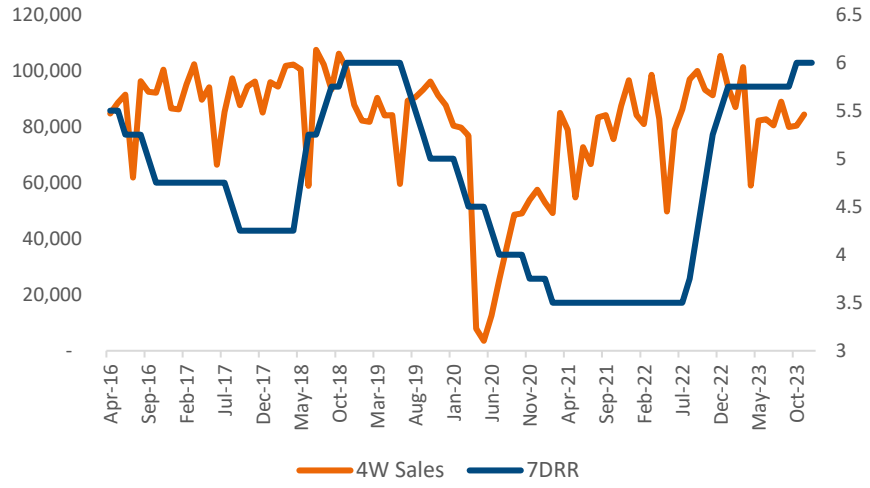
	yoy Used Cars Price
Nissan LEAF	-30.6%
Tesla 3	-30.5%
Chevrolet Bolt EV	-28.7%
Tesla X	-26.2%
Tesla S	-24.7%
Chrysler Pacifica Hybrid	-20.0%
BMW 5 Hybrid	-18.7%
Land Rover Range Rover	-18.3%
Land Rover Discovery	-17.9%
Land Rover Range Rover Velar	-17.7%

Source: ISeeCars

As such, we are not that upbeat on the near-term outlook for HEV and BEV in the Indonesian market. If we had to choose, HEV probably makes better economic sense than BEV for now (which is good for ASII). Furthermore, HEV financing is much easier to obtain as it is treated akin to ICE, whereas it is more tricky for BEV. This is also important as most 4W (~80%) in Indonesia are financed by financing companies.

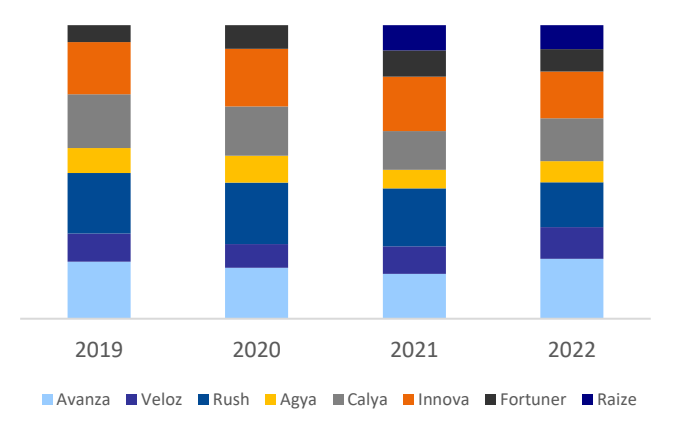
As we are less excited on the short-term outlook for both HEV and BEV, we expect car sales to enjoy a slight recovery (+6% YoY in FY24F to 1.1mn units) on the back of lower expected interest rates, with sales still mostly driven by ICE variants. Historically, 4W sales and interest rates have an inverse correlation; thus, lower interest rates in FY24F could result in some upside for car sales onwards. However, other than that, we see a lack of catalysts for growth in the near-term. The release of All New Variants usually bodes well for 4W sales, yet in 2024F, we heard that the highest probability is for the launch of All New Raize (7-8% of total Toyota Astra sales). Thus, the impact will be smaller compared to the All New Avanza launch in 2021 (boosting Avanza and Veloz sales by 85% YoY, with the two products contributing 22% of total Toyota Astra sales) or All New Calya back in 2022 (boosting Calya sales by 23%, with Calya contributing 13% of total Toyota Astra sales). In addition, we have also heard of plans for a Rush Hybrid and Avanza Hybrid, but we are still not convinced hybrid variants would sell strongly despite pent-up demand in 2023.

Exhibit 9. 4W Sales vs Reference Rate



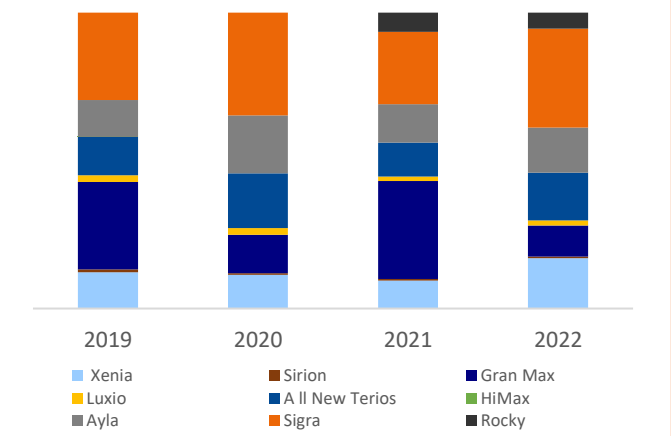
Source: Gaikindo, BI

Exhibit 10. Toyota Sales Mix



Source: Gaikindo

Exhibit 11. Daihatsu Sales Mix



Source: Gaikindo

We think ASII could still maintain its market share at around 54-55%, despite the lack of an HEV push. Indeed, ASII's market share has reached an all-time high despite competition from Hyundai (4%) and Wuling (3%), which are eating into the market share of Mitsubishi (8%) and Isuzu (3%). We think HEV variants may only bring upside if there are significant subsidies provided by the government (which are very minimal for HEV compared to those given for BEV), or if battery costs come down.

Exhibit 12. HEV/PHEV and BEV Incentives in Indonesia

HEV/PHEV	BEV
• Lower luxury tax subsidy (up to 5%), depends on CO2 produced or cylinder capacity	• Exemption from luxury tax and vehicle tax • Exemption for title transfer tax (Jakarta and Bali only) • VAT tax reduction from 11% to 1% in form of subsidy (expired at end of Dec-23) • Exemption from "even-odd" policy in Jakarta • 0% import duty tax and 0% VAT for CBU and CKD EV. Local content requirement for CKD should be 20-40%, and beneficiaries of CBU/CKD relaxation should commit to produce BEV in Indonesia

Source: Multiple sources

Additionally, the availability of more offerings (especially at sub-Rp300m prices, which represent 98% of total 4W Indonesia demand) would help the adoption rate for HEV to increase. Indonesia's BEV market faces a similar challenge. If ASII decides to enter the BEV market, it would need to tread carefully as the competition is not getting easier. BYD (China) will soon enter Indonesia in 1H24F due to relaxation of CBU HEV regulations, and they are planning to launch Dolphin (~Rp 450mn), Atto 3 (~Rp 500mn), and Seal (~Rp 700mn). Price range-wise, this will fill the gap in the current BEV range of options in Indonesia but we still note a lack of <Rp 300mn variants.

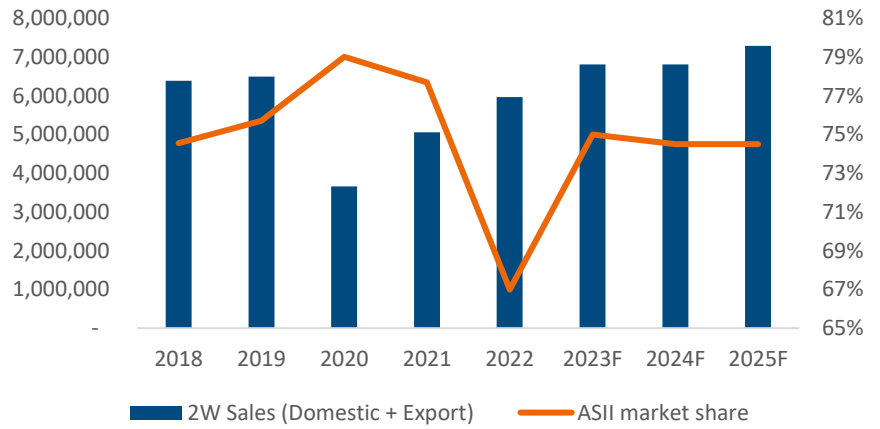
We do not completely rule out the possibility that HEV/BEV are the future of the automobile, and not having such products in the pipeline is behind the curve. However, we do not think they pose a major threat to ASII in the short term given their high prices. The future of HEV/BEV is highly dependent on the global push to tackle environmental concerns, and how far each government wants HEV/BEV adoption to increase (hence regulations and subsidies). Based on IESR analysis, BEV 4W subsidies in Indonesia only cover 10% of the ASP (which just expired in Dec23) vs other markets such as Singapore (24% ASP reduction), India (23%), and Thailand (15%, but set to be lower given new regulation).

On the safety issue, ASII's management stated that there is no risk to Indonesia's production; thus, so far we have not included such risk in our projection. We also think an increase in ownership tax would not have a significant impact on 4W sales.

2W: Weaker low/middle-end purchasing power could spell some problems, 2W BEV penetration might take longer

After strong domestic 2W sales of 6.2mn units (vs AISI's target of 6.1mn for FY23E) - 6.8mn if we include exported units - we expect flat 2W volume sales growth in FY24E (inline with AISI's lower-end guidance), as we have not seen a noticeable recovery in the middle/low-end segment's purchasing power that could play a vital role in pushing 2W sales. Our consumer analyst, Natalia Sutanto, expects middle/upper-end consumers to fare better compared to middle/low-end consumers, as downtrading in the consumer segment is still evident. We understand the impact could be cushioned by Rp 493tr (+12% YoY) of social assistance from the FY24F government budget and election spending, yet we also worry that the impact will be temporary and outweighed by low minimum wage adjustments of 3.9% YoY in FY24F (vs 7% in FY23).

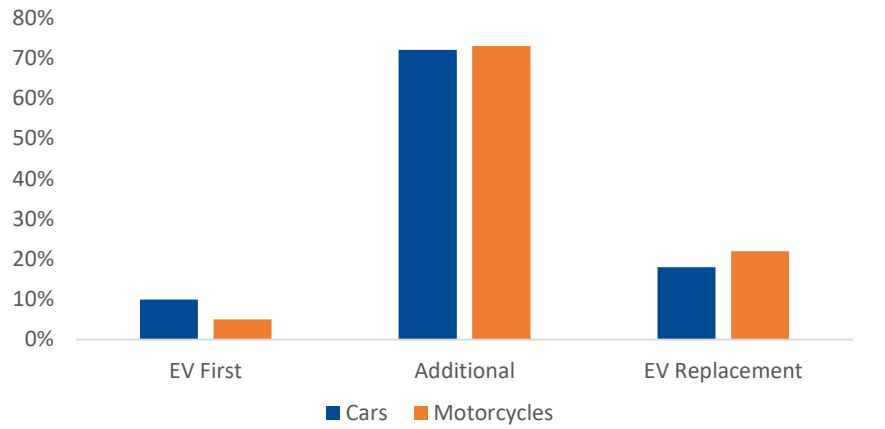
Exhibit 13. Domestic 2W Sales and ASII 2W Market Share



Source: Company, AISI

On market share, we still believe ASII will maintain ~75% share in the 2W market despite the rising popularity of BEV 2W while ASII has a less convincing BEV lineup. Market interest in 2W BEV seems to be rising based on an Indonesia Electric Vehicle Consumer Survey by PwC in Sep23, as more than 30% of respondents are willing to purchase a BEV 2W over the next 1 year rather than ICE or HEV variants.

Exhibit 14. PwC Survey on Electric Vehicle Ownership.



Source: PWC

Nevertheless, the survey also emphasis that 72% of respondents are more willing to have 2W BEV as their second 2W unit rather than first unit purchase (similar for 4W), indicating purchases are still conducted on a "trial-and-error" basis. This was reflected in the sluggish 2W BEV sales that were <50k units as of Dec23 (vs the government's target of 200k in FY23), only contributing 0.8% to total 2W sales in FY23. This is far lower than Indonesia's peers, such as India, with 2W BEV enjoying 4-5% market share and China with 45-50% market share. This is surprising as the current Rp7mn unit subsidy is able to cut the 2W BEV purchase price by 25-50%.

We think this condition owes to several factors :

1. **The availability of infrastructure**. SWAP Energi Indonesia, for example, provides many of the battery swap stations with 1,300+ stations across Indonesia, but still heavily concentrated in tier-1 and tier-2 cities in Java and Sumatra. Furthermore, swapping the battery is inconvenient due to its weight (up to 12kgs). Charging stations are also not yet widely available, with 88% of the infrastructure located in Java and Bali, per PLN data. This compares unfavorably to peer countries like India;
2. **Charging duration**. Based on our data compiled, charging duration on average could reach 1.5-6 hours, depending on normal/fast charging mode, with different watt requirements;
3. **Mileage per charge**. On average, the one-time full charge can only reach on average ~60km, with only a few variants able to reach >100km vs ~160km for ICE full tank.

Exhibit 15. BEV 2W Types, Mileage, and Charging Duration

Type	Price (Rp) - after subsidy	Battery (V)	Battery Capacity (Ah)	Charging time (hours)	Mileage (km)	Battery Technology
Smoot Tempur	11,500,000	64	21.5	Swap Battery	60	LFP Lithium-ion
Smoot Zuzu	12,900,000	64	21.5	Swap Battery	60	LFP Lithium-ion
Polytron PEV 30M1 A/T	13,500,000	72	52	4.5 - 5	130	LFP Lithium
Selis EMAX - Single Lithium	13,500,000	60	25	5	60	Lithium Iron Phosphate (LiFeP04) battery
Selis Agats	21,790,000	72	23	5	65	Lithium
Alva One (ACC-BN A/T)	29,490,000	Dual 60	Dual 45	4	140	Lithium ion
United T1800 A/T	23,500,000	60	28	Fast charging 1.5 hours	65	Lithium ion
United TX1800 A/T	26,900,000	60	28	Fast charging 1.5 hours	65	Lithium
United TX3000 A/T	42,900,000	Dual 60	Dual 28	Fast charging 4 hours	120	Lithium
Viar New Q1	14,520,000	60	12	4-5	60	Lithium ion
Volta 401	9,950,000	60	23	6-8 (SGB station)	60	lifepo4 battery
Gesits G1 A/T	21,970,000	72	20	Fast charging 3 hours	50	Lithium ion
Gesits Raya G	20,990,000	72	20	3	60	Lithium ion
Yadea E8S Pro	16,900,000	72	38	6	150	Graphene
Yadea T9	14,500,000	72	39	6	100	Graphene
Alva Cervo ADC-BP A/T	35,750,000	Dual 73.8	Dual 24	4	125	Lithium

Source: Multiple sources, BRIDS

Exhibit 16. Charging Station Across Countries

		2018	2019	2020	2021	2022
China	Fast charging	110,000	210,000	310,000	470,000	760,000
	Slow charging	160,000	300,000	500,000	680,000	1,000,000
India	Fast charging	25	25	25	32	4,100
	Slow charging	330	330	330	910	6,800
Indonesia	Fast charging			51	130	130
	Slow charging			50	54	580
Thailand	Fast charging	8	69	710	770	1,300
	Slow charging	88	750	1,200	1,500	2,400
US	Fast charging	4,200	13,000	17,000	22,000	28,000
	Slow charging	50,000	64,000	82,000	92,000	100,000

Source: IEA

Additionally, we also found that the availability of 2W BEV financing is not as good as for ICE variants, as it is only available at Himbara and a few non-Himbara institutions for now. Furthermore, some consumers are probably waiting for 2W EV to have a track record, considering the technology is quite new and since most of the 2W EV sold are of relatively less known brands. We also think the standardization of charging technology (between plug-in charging and battery swap, and even among battery swap standards) is important to reduce confusion among consumers and make infrastructure construction more efficient. As such, we think more incentives (fiscal and non-fiscal) are needed to promote and boost 2W BEV sales. Interestingly enough, despite slow absorption in 2023, the government decided to reduce the 2W subsidy quota from 200k units to 50k units

Exhibit 17. Example of 2W BEV Financing

Source: BFI Finance

In the short-term, we do not see immediate risk for ASII given a lack of 2W HEV/BEV in its line-up (only PCX eHEV and EM1e) and the rapid conversion from 2W ICE to BEV. ASII itself has been preparing 2 more BEV models for FY24F, and 3 more models for FY25F-FY30F despite no clarity on prices and type. ASII needs to find a better pricing point, considering the high price point of their current line up (starting from Rp40mn vs models starting at sub-Rp 15mn for its peers for the unsubsidized price).

Exhibit 18a. Honda PCX eHEV

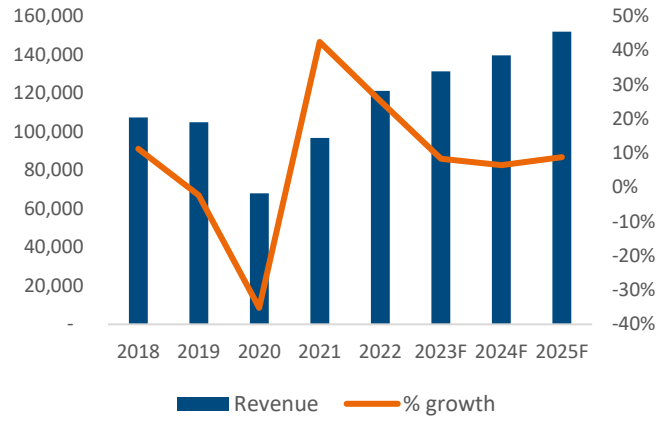
Source: Wahana Honda

Exhibit 18b. Honda EM1e

Source: AHM

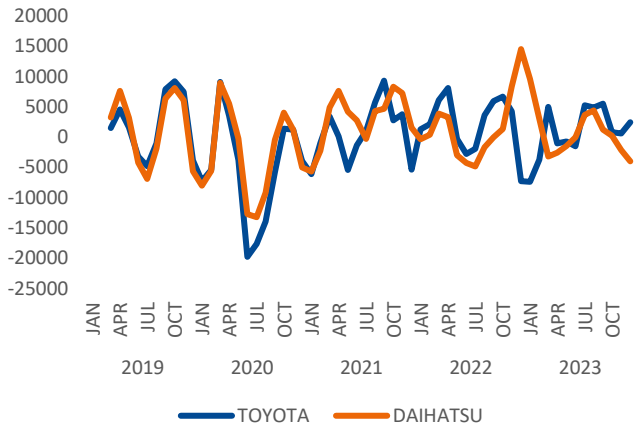
In summary, we expect auto segment revenues to grow by 8%/6%/9% YoY in FY23F/FY24F/FY25F, with 2W as the driver in FY23F due to strong 2W sales, while 4W might show better growth in FY24F/FY25F as the impact of lower interest rates kicks in. We expect the auto segment GPM to be maintained at ~11% in FY24F due to normalization of component prices, and a healthy level of inventory for Toyota and Daihatsu for 4W.

Exhibit 19. ASII's Automotive Segment Revenue



Source: Company, BRIDS Estimates

Exhibit 20. Toyota and Daihatsu Inventory Estimation



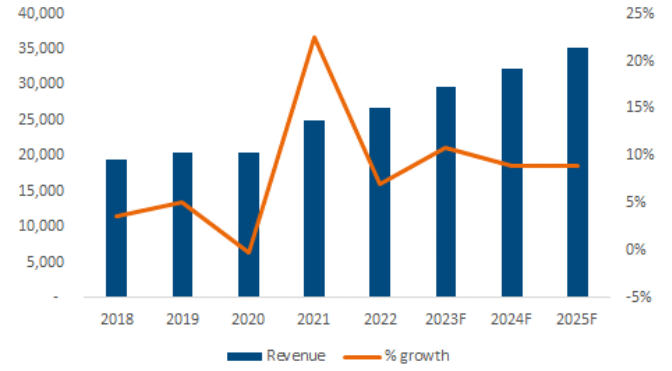
Source: Gaikindo

Financial: Inline with the 2W/4W trend, lower provisions and lower interest rates to boost earnings

We expect the financial segment to grow inline with the 2W/4W sales trend, as we expect 11%/9%/9% YoY revenue growth for FY23E/FY24E/FY25E, fueled by solid 2W growth for FY23E that will offset weaker 4W growth, while we expect better 4W growth in FY24E/FY25E.

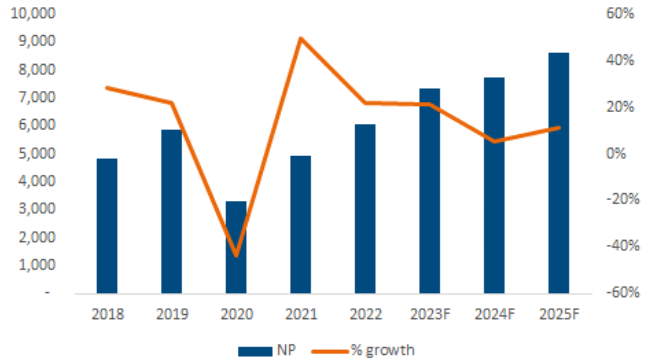
Additionally, we estimate a lower cost of funds given the expectation of lower interest rates that will help to boost profitability although the full impact will only be reflected in FY25E. We also think provisions will continue to decline, as the current provisions already adequately cover NPF (>700% NPL coverage ratio) despite a spike in FIF's NPF to 1.6% in 1H23 from 0.9% in 1H22 and the recent NPF increases on a multi-finance industry-level. Meanwhile, ASDF's 1H23 NPF was relatively stable at 0.6% vs 0.65% in 1H22, showing a continuous improvement after being hit during the pandemic. Given the impact of lower provisions and a lower cost of funds, our NP growth estimates are 21%/5%/11% YoY for FY23E/FY24E/FY25E.

Exhibit 21a. ASII's Financial Segment Revenue



Source: Company, BRIDS Estimates

Exhibit 21b. ASII's Financial Segment Net Profit

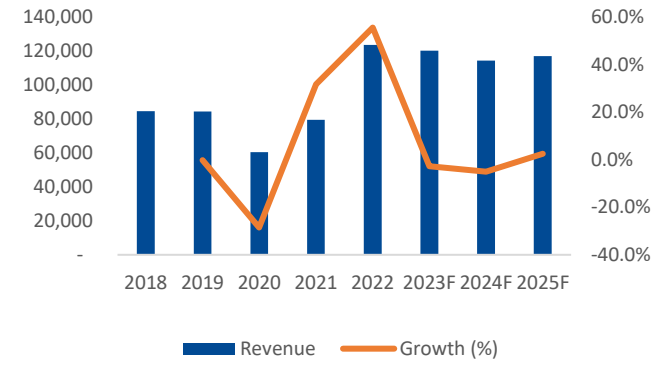


Source: Company, BRIDS Estimates

UNTR: Expect earnings to peak in FY23F on a softer FY24F outlook

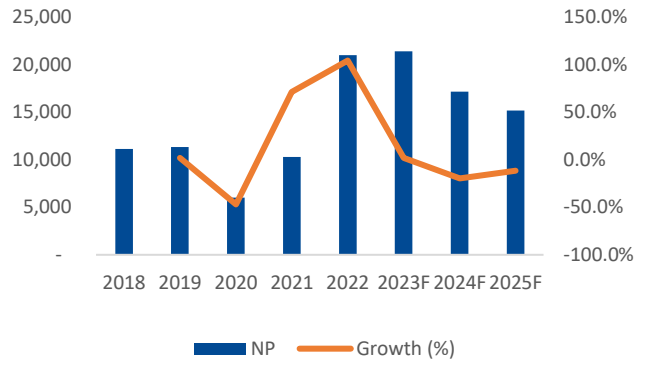
Our coal sector analyst, Erindra Krisnawan, expects that FY23E will be the peak for UNTR's earnings, given: 1) UNTR's management has a 25% lower sales target for FY24F; 2) A lower coal price with a Newcastle coal price at US$130/t for FY24F and US$100/t for FY25F; 3) Normalization of equipment orders backlog to 1-3 months (small-medium sized equipment) and 5-6 months (large sized equipment). Thus, UNTR's earnings are expected to contract by 19% YoY in FY23F and by 5% YoY in FY24F and FY25F, with the expectation that earnings decline in all segments (heavy equipment, Pama, and mining), while margins begin to normalize.

Exhibit 22a. UNTR Revenue



Source: Company, BRIDS Estimates

Exhibit 22b. UNTR Net Profit



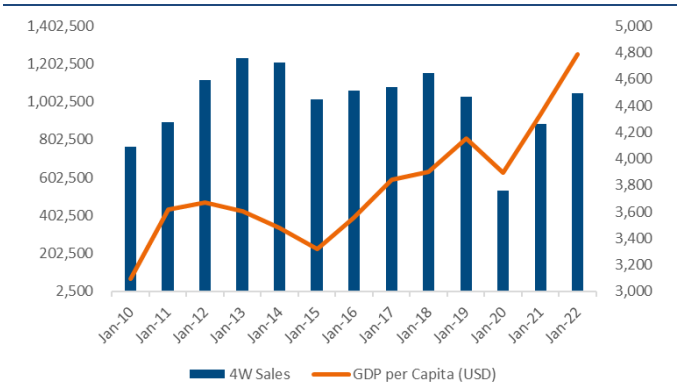
Source: Company, BRIDS Estimates

Reinitiate coverage with a HOLD rating and SOTP-based TP of Rp5,700: an undemanding valuation but lacking ST catalysts

ASII's ROE has been declining over the past few years, especially since 2013 driven by falling annual car sales growth. This is linked to Indonesia's lower GDP per capita growth since 2013 (around 3.2% CAGR from 2013-2022 vs 16.6% from 2005-2012), which led to the collapse of 4W sales growth from double-digit growth per year pre-2013 (with the exception of 2009) to single digit growth per year (with the exception of 2021/2 due to Covid-19 recovery).

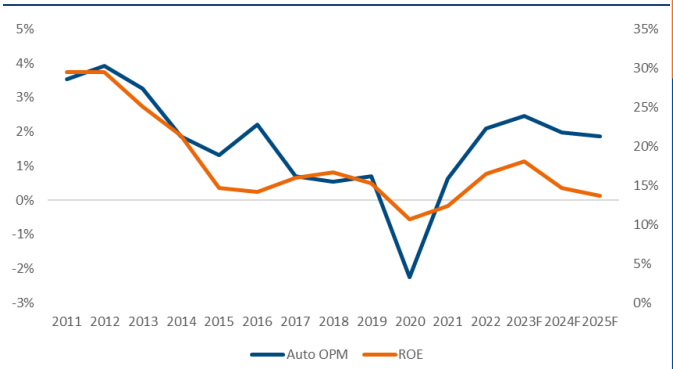
We think this played a role in ASII's valuation de-rating, as lower 4W sales led to a lower automotive GPM from an average of 11.7% in 2005-2012 to an average of 10.6% in 2013-2022. The biggest impact was on operating margins: from an average 3.9% operating margin in 2005-2012 (with the exception of 2010) to just 1.1% on average in 2013-2022. Against this backdrop, the automotive net profit contribution was diluted drastically from 30% in 2012 to sub-20% in 2019-22, eclipsed by the financial contribution (on average around 22%) and UNTR (albeit highly dependent on commodity prices). As such, ASII has much to do in order to improve its ROE before a sustainable valuation re-rating can take place.

Exhibit 23. Indonesia GDP per Capita vs Car Sales



Source: World Bank, Gaikindo

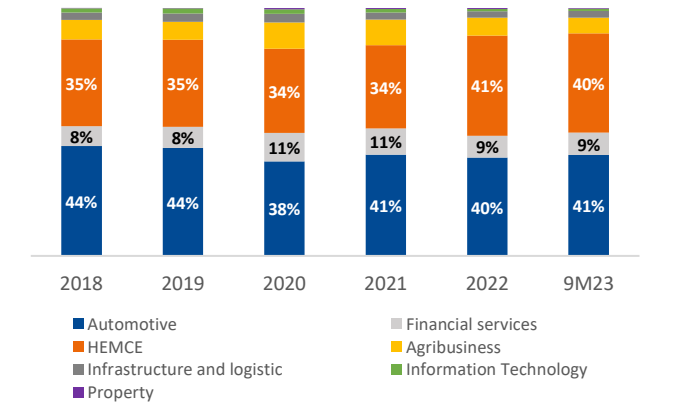
Exhibit 24. ASII ROE vs Automotive Operating Margin



Source: Company, BRIDS Estimates

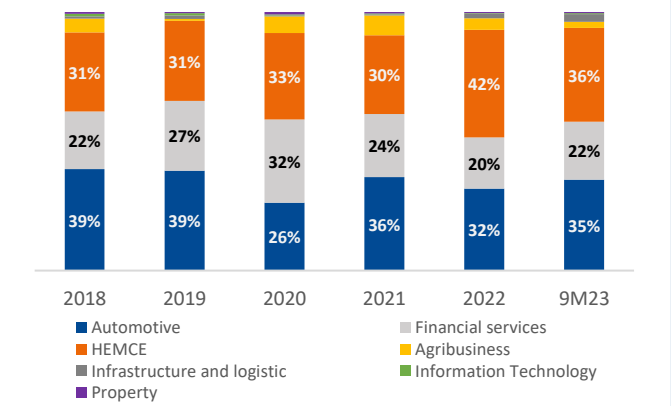
We resume our coverage on ASII with a **Hold** rating, and our SOTP-based TP of **Rp5,700** (risk free rate 6.5%, CoE 12.4%). We forecast ASII revenue to grow by 3%/2%/6% YoY in FY23F/FY24F/FY25F, and project core NP growth of 20%/-10%/1% YoY in FY23F/FY24F/FY25F.

Exhibit 25a. ASII Revenue Breakdown



Source: Company

Exhibit 25b. ASII Net Profit Breakdown



Source: Company

Despite currently trading at an undemanding valuation of PER 6.1x (-2 standard deviation of its 8-year average), we see a lack of catalysts for short-term upside due to flattish expected 2W growth, with 4W's All New Variants only coming from Raize that contributes <10% of 4W sales, and its focus on 4W HEV that lacks regulatory support/ subsidies from the government. This is besides concerns over product recall (though the impact on Indonesia's production remains to be seen) and higher progressive tax on auto ownership. As such, despite our expectation of resilient ICE 4W and 2W (we still expect ~5% volume growth for ASII 4W and 2W that will mostly come from ICE variants), we also think ASII needs to have a better product strategy if the market continues to embrace BEV.

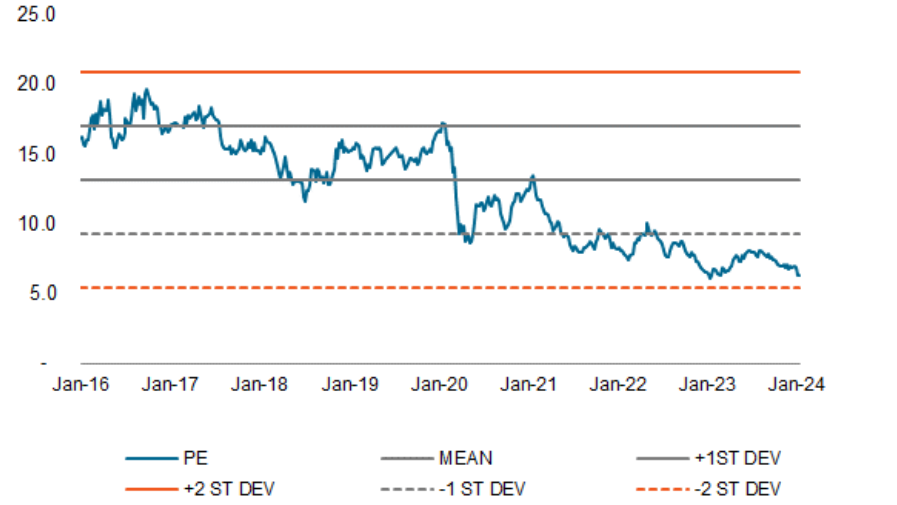
As ASII is trading at an undemanding valuation, several factors may create positive sentiment on the valuation**: 1) Subsidies on HEV, which would make HEV purchases more economical; 2) Lower battery costs; 3) Affordable BEV introduction by ASII, which could raise BEV industry-wide adoption especially given ASII's strong brands; 4) Incentives to encourage more middle segment consumers to purchase 4W products**. We think upside for ASII's earnings may also come from: 1) Rising commodity prices; 2) Faster recovery in the low/middle income segments; and 3) Faster GDP per capita growth. By contrast, downside may come from: 1) The inability to sustain margins in the automotive segment due to heightened competition and discounts; 2) Adjustments to GoTo's investment value; and 3) Significant spike in NPF in the Financial segment for an extended period.

Exhibit 26. ASII's SOTP Valuation

	Number of shares (mn)	Price	Market Cap (mn)	ASII's stake	ASII's value	Contribution
AUTOMOTIVE						
ASII parent company	9,431	6.1	57,527,424	100.0%	57,527,424	22.4%
AUTO	1,360	6.5	8,770,519	80.0%	7,016,415	2.7%
HEAVY EQUIPMENT						
UNTR	3,730	24,900	92,877,000	59.5%	55,261,815	21.5%
AGRI BUSINESS						
AALI	1,925	7,600	14,627,631	79.7%	11,655,297	4.5%
FINANCIAL SERVICES						
ASDF	11,081,690	2.7	29,579,536	86.1%	25,479,812	9.9%
FIFA	9,664,907	4.2	40,607,683	100.0%	40,607,683	15.8%
OTHERS						
ASGR	1,349	910	1,227,390	76.9%	943,495	0.4%
Others			58,837,010	100.0%	58,837,010	22.9%
Total equity value (Rpmn)	**257,328,951**					
Shares (mn)	40,484					
NAV/share, Rp	**5,700**					

Source: Company, BRIDS Estimates

Exhibit 27. ASII's PER Band



Source: Company, BRIDS

Exhibit 28. Peers Comparison

Bloomberg Code	Company Name	CCY	Last Price	Market Cap (in USD mn)	PER (x)			CCY	EPS		Dividend Yield
					Current	2023F	2024F		2023F	2024F	(%)
IMAS IJ Equity	Indomobil Sukses Internasional Tbk PT	IDR	1,655	421	13.3	n/a	n/a	IDR	n/a	n/a	0.6
LI US Equity	Li Auto Inc	USD	31.7	33,581	38.3	33.1	21.0	USD	6.9	10.8	n/a
005380 KS Equity	Hyundai Motor Co	KRW	187,800	30,102	4.3	3.7	4.1	KRW	50,125.2	46,004.3	1.6
000270 KS Equity	Kia Corp	KRW	90,100	27,449	3.9	3.9	4.0	KRW	23,394.7	22,278.0	3.9
7203 JP Equity	Toyota Motor Corp	JPY	2,857	321,196	10.0	9.1	9.1	JPY	313.2	313.2	2.3
7267 JP Equity	Honda Motor Co Ltd	JPY	1,563	58,529	8.4	7.7	7.1	JPY	203.7	221.7	3.1
7201 JP Equity	Nissan Motor Co Ltd	JPY	569.3	15,730	4.9	5.5	5.0	JPY	104.4	113.7	1.8
2333 HK Equity	Great Wall Motor Co Ltd	HKD	9.6	23,078	14.4	11.0	8.4	HKD	0.8	1.0	3.4
2238 HK Equity	Guangzhou Automobile Group Co Ltd	HKD	3.5	10,137	7.3	5.9	5.1	HKD	0.5	0.6	7.3
200625 CH Equity	Chongqing Changan Automobile Co Ltd	CNY	4.2	19,664	3.5	3.6	4.3	CNY	1.1	0.9	6.1
002594 CH Equity	BYD Co Ltd	CNY	195.0	78,617	19.7	18.6	13.9	CNY	10.5	14.0	0.6
600104 CH Equity	SAIC Motor Corp Ltd	CNY	13.4	21,592	10.4	10.2	9.3	CNY	1.3	1.4	2.5
MSIL IN Equity	Maruti Suzuki India Ltd	INR	9,965.7	37,825	36.8	25.4	22.5	INR	391.6	443.7	0.9
TTMT IN Equity	Tata Motors Ltd	INR	816.5	36,091	129.3	16.8	14.0	INR	48.5	58.1	0.2

Source: Bloomberg

Company Profile

An Indonesian conglomerate focused on Automotive, Financial Services and Mining

PT Astra International Tbk (ASII) and its subsidiaries operate in the automotive, financial services, heavy equipment, mining, construction, energy, agriculture, infrastructure and logistics, information technology, and property businesses in Indonesia. ASII was incorporated in 1957 by Tjia Kian Tie, the Soeryadjaya family, and E. Hadirman, and is currently majority owned by the Jardine Group (through Jardine Cycle & Carriage with 50% ownership).

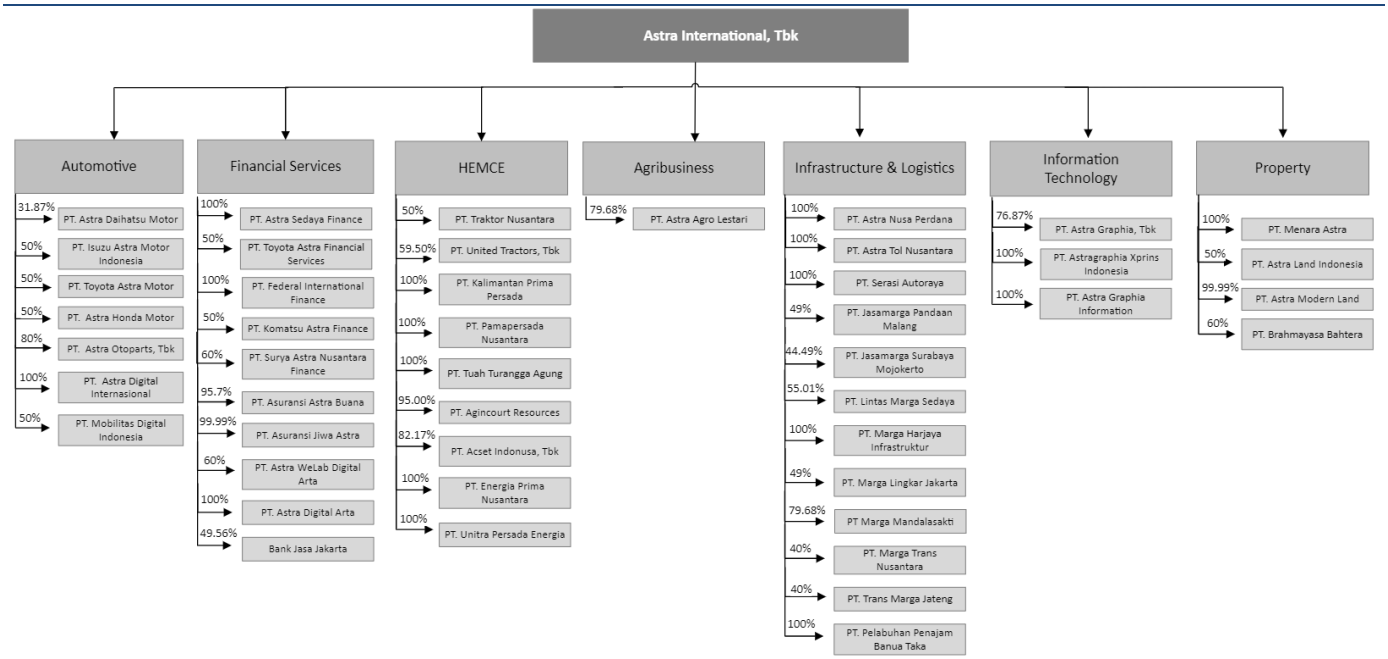
In the automotive segment, ASII offers cars (Toyota, Daihatsu, Isuzu, Peugeot), trucks, and motorcycles (Honda); manufactures and sells automotive components to the original equipment for manufacturers and replacement markets, as well as provides consultation services to its customers. It also offers financing for cars, motorcycles, and heavy equipment (Astra Sedaya and Federal Internasional); life, vehicle, and health insurance, as well as other insurance for commercial business; and various services.

ASII also distributes heavy equipment machinery (Komatsu); provides coal mining contracting services; operates coal and gold mines through its subsidiary UNTR (59% owned), which recently acquired nickel mining and geothermal resources. ASII produces crude palm oil through AALI (79% owned).

ASII is also involved in the operation of toll roads; the rental of vehicles; sale of used cars; and provision of logistics and warehousing services, as well as freight forwarding service through ground, sea, and air transportation. It also offers various information technology business solutions based on document, office, and information technology.

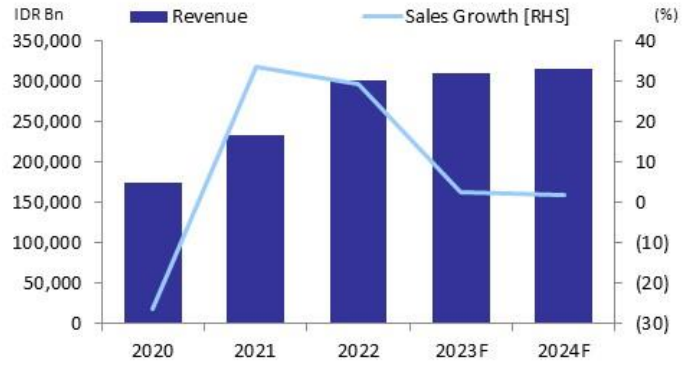
ASII's strategy has continued to focus on growth and in recent years the company has invested in Healthcare through a 7% investment in Hermina hospital, further in the mining and renewable sectors (geothermal, hydro) through UNTR, digital banking through the acquisition of Bank Jasa Jakarta (49% ownership), and ownership in GoTo.

Exhibit 29. ASII Structure



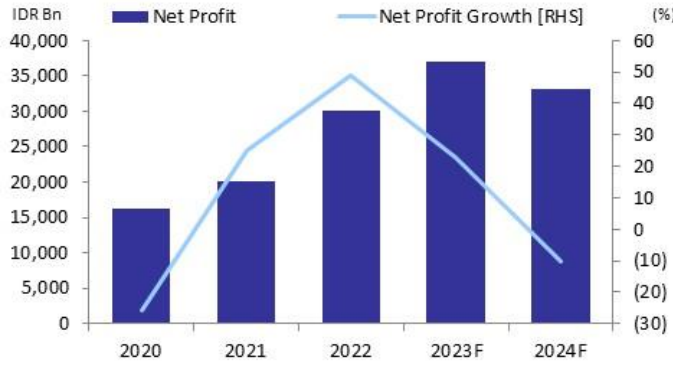
Source: Company

Exhibit 30. Revenue and Growth



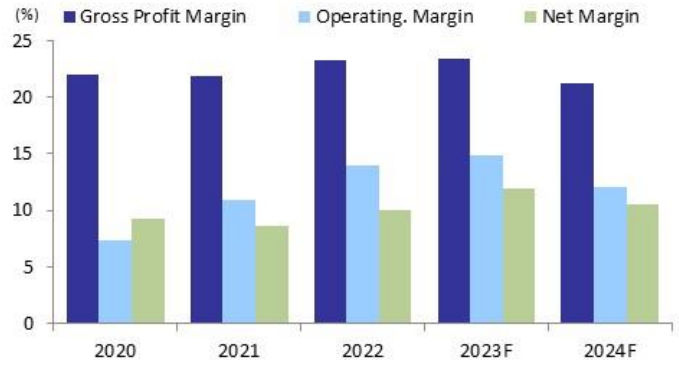
Source: Company, BRIDS Estimates

Exhibit 31. Net Profit and Growth



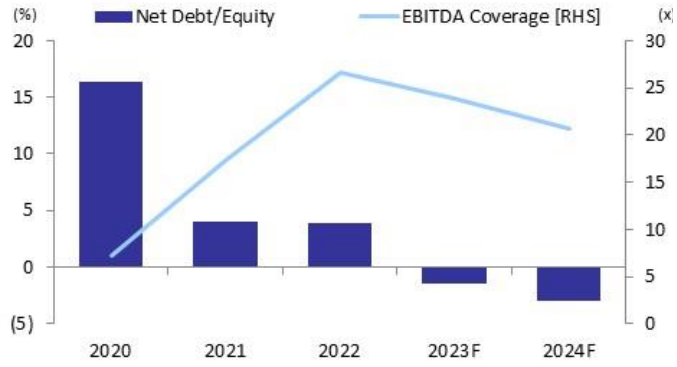
Source: Company, BRIDS Estimates

Exhibit 32. Margins



Source: Company, BRIDS Estimates

Exhibit 33. Gearing Level



Source: Company, BRIDS Estimates

Exhibit 34. Income Statement

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Revenue	**233,485**	**301,379**	**309,126**	**315,187**	**334,057**
COGS	(182,452)	(231,291)	(236,792)	(248,242)	(265,508)
Gross profit	**51,033**	**70,088**	**72,334**	**66,945**	**68,548**
EBITDA	**39,681**	**56,102**	**60,063**	**52,946**	**53,095**
Oper. profit	**25,533**	**42,201**	**45,828**	**38,176**	**36,769**
Interest income	2,553	2,535	3,923	4,457	4,476
Interest expense	(2,288)	(2,107)	(2,520)	(2,561)	(2,344)
Forex Gain/(Loss)	57	188	0	0	0
Income From Assoc. Co's	6,464	8,231	10,907	11,344	12,220
Other Income (Expenses)	31	467	467	467	467
Pre-tax profit	**32,350**	**51,515**	**58,605**	**51,882**	**51,587**
Income tax	(6,764)	(9,970)	(11,561)	(10,265)	(10,207)
Minority interest	(5,390)	(11,476)	(10,094)	(8,456)	(7,733)
Net profit	**20,196**	**30,069**	**36,950**	**33,161**	**33,647**
Core Net Profit	**20,139**	**29,881**	**36,950**	**33,161**	**33,647**

Exhibit 35. Balance Sheet

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	63,947	61,295	90,952	96,249	100,037
Receivables	60,761	71,839	76,973	82,825	90,697
Inventory	21,815	32,323	30,041	31,822	34,386
Other Curr. Asset	13,088	14,075	16,390	16,711	17,712
Fixed assets - Net	89,890	94,752	99,677	104,425	108,730
Other non-curr.asset	117,159	138,727	159,297	170,700	183,049
Total asset	**367,311**	**413,297**	**473,616**	**503,018**	**534,896**
ST Debt	38,667	34,669	47,594	45,482	45,482
Payables	41,414	54,063	51,584	54,079	57,840
Other Curr. Liabilities	23,697	30,466	30,466	30,466	30,466
Long Term Debt	33,819	36,052	39,205	41,317	41,317
Other LT. Liabilities	14,099	14,327	14,327	14,327	14,327
Total Liabilities	**151,696**	**169,577**	**183,176**	**185,671**	**189,432**
Shareholder'sFunds	172,053	192,142	217,342	235,792	256,175
Minority interests	43,562	51,578	73,098	81,554	89,288
Total Equity & Liabilities	**367,311**	**413,297**	**473,616**	**503,017**	**534,894**

Exhibit 36. Cash Flow

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Net income	20,196	30,069	36,950	33,161	33,647
Depreciation and Amort.	8,916	9,496	14,235	14,770	16,326
Change in Working Capital	8,216	(2,790)	(7,646)	(5,458)	(7,674)
OtherOper. Cash Flow	(3,603)	(10,082)	(5,992)	(6,837)	(7,654)
Operating Cash Flow	**33,725**	**26,693**	**37,547**	**35,636**	**34,646**
Capex	(3,678)	(14,358)	(19,160)	(19,518)	(20,631)
Others Inv. Cash Flow	(3,766)	(9,379)	(12,058)	(2,006)	(2,352)
Investing Cash Flow	**(7,444)**	**(23,737)**	**(31,218)**	**(21,523)**	**(22,983)**
Net change in debt	(6,995)	(1,765)	16,078	0	0
New Capital	0	0	0	0	0
Dividend payment	(7,119)	(15,295)	(11,578)	(14,711)	(13,264)
Other Fin. Cash Flow	4,227	12,577	19,000	5,896	5,390
Financing Cash Flow	**(9,887)**	**(4,483)**	**23,500**	**(8,815)**	**(7,875)**
Net Change in Cash	**16,394**	**(1,527)**	**29,829**	**5,297**	**3,788**
Cash - begin of the year	47,553	63,947	61,295	90,952	96,249
Cash - end of the year	63,947	61,295	90,952	96,249	100,037

Exhibit 37. Key Ratio

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Growth (%)					
Sales	33.4	29.1	2.6	2.0	6.0
EBITDA	61.0	41.4	7.1	(11.9)	0.3
Operating profit	98.4	65.3	8.6	(16.7)	(3.7)
Net profit	24.9	48.9	22.9	(10.3)	1.5
Profitability (%)					
Gross margin	21.9	23.3	23.4	21.2	20.5
EBITDA margin	17.0	18.6	19.4	16.8	15.9
Operating margin	10.9	14.0	14.8	12.1	11.0
Net margin	8.6	10.0	12.0	10.5	10.1
ROAA	5.7	7.7	8.3	6.8	6.5
ROAE	12.3	16.5	18.0	14.6	13.7
Leverage					
Net Gearing (x)	0.04	0.04	(0.01)	(0.03)	(0.04)
Interest Coverage (x)	11.2	20.0	18.2	14.9	15.7

Source : ASII, BRIDS Estimates

Equity Research – Company Update

Thursday, 25 January 2024

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INVESTMENT RATING	
BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period