02 July 2012

COMPANY UPDATE

PT ASTRA OTOPARTS Tbk

PT ASTRA OTOPARTS TBK

Declining Sales of 2W components will be offset by margin expansion due to falling commodity prices.

BUY

Wibowo Ng
Research Analyst
Wibowo.ng@sinarmassekuritas.co.id

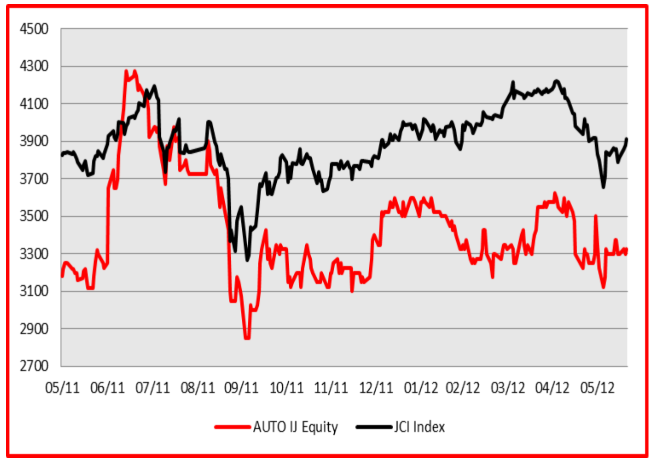
We maintained our BUY rating on PT Astra Otoparts Tbk
The company is currently negotiating with car manufacturers for price increase of its OEM products. Rising labor costs (10% of COGS, +39%yoy) and raw materials (52% of COGS, +25.5%yoy) which are not accompanied by reasonable price increase pose serious threat to its profitability and as such it has to be addressed immediately. We estimate that by 2Q12 or mid 3Q12, the negotiation should have concluded and should there be no reasonable price increase, we will put it under review for potential downgrade.

Capital Gains on sale of PT EDS Manufacturing
We estimate AUTO will record capital gain of IDR21bn, net of tax, or around IDR5.2 per share from its sale of 5% stake in PT EDS Manufacturing for USD3.57mn (IDR32.9bn). This will boost the 2012EPS slightly and the proceeds from the sale can be used to fund its planned capex or service its debt obligations.

Margin Compression continued
Gross margin compression continued to last—overall gross margin fell to 16.0% (-78bps qoq; -154bps yoy); EBITDA margin fell to 8.23% (-259bps qoq; +55bps yoy). Automotive Component Manufacturing Division contributed significant fall in margin (1Q12 gross margin at 13.5%; -289 bps yoy before elimination) while gross margin of trading division increased slightly to 16.33% (+17bps yoy). The firm's lack of bargaining power to demand for price increase, rising raw materials and labor costs led to severe margin compression despite efficiency steps undertook by the firms. According to the firm, ASP for OEM remained relatively stagnant after it acceded to the request from car manufacturers to reduce its ASP by the minimum of 3.5% to help them tide over the rising cost incurred from Thailand's floods and Japanese tsunami. Consequently, we can infer that rising automotive manufacturing revenue (+24.3% yoy) is primarily due to rising sales volume. As of publication, the firm is negotiating for price increase with car manufacturers and we are optimistic that there is high probability they will acquiesce considering the supply chain disruptions of certain materials arose from Thailand's flood which pushed procuring costs to all time high has abated. Should it be successful, we expect significant margin expansion as raw materials prices are declining significantly. This increase in ASP will compensate the expected decline in sales volume due to lower demand for automobiles components amidst uncertainty in the global markets and implementation of down payment rules on 2W and 4W vehicles potentially leading to temporary fall in domestic demand for low-cost 2W and 4W vehicles.

Stock Data	
Sector	Automotive Component
Price (29 June 2012)	IDR 3,425
Target Price 2012	IDR 3,800
12-month Rating	BUY
Prior	BUY (TP IDR 3,800)
Ticker	AUTO.IJ (BBG); AUTO.JK (RIC)
Market Cap	IDR13.2tn
Shares Outstanding	3,855.8 mn
Free Float	167.3 mn

AUTO Performance against JCI Index



Source: Bloomberg

Summary	2010	2011	2012E	2013F
Revenues	6,255,109	7,363,659	8,677,855	10,294,701
EBIT	573,115	519,548	650,145	822,525
Net Income	1,138,182	1,013,219	1,128,066	1,280,005
EPS (IDR)	295	263	293	332
Net DPS (IDR)	118	105	117	133

In mn IDR except per share data; Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Profitability	2010	2011	2012F	2013F
Gross Margin%	18.4%	16.8%	16.3%	16.8%
EBIT Margin%	9.2%	7.1%	7.5%	8.0%
EDBITDA Margin%	11.2%	9.2%	9.8%	10.5%
EV/EBITDA x		13.8	11.0	8.7
P/E x		15.2	13.0	11.4
Net Dividend Yield		3.00%	2.93%	3.33%

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

	Ownership rate
PT Astra International Tbk	95.66%
Institutional Ownership	0.37%
Retail/Others	3.96%

Source: Bloomberg (as of 19 June 2012)

Joint-Ventures to boost Products Offerings.
AUTO signed a joint-venture agreement with the prominent Italian tyre manufacturer, Pirelli & C. SpA, to establish a new 40 Ha tyre-manufacturing facility in Karawang under PT Evoluzione Tyres. AUTO will own 40% of the shares and it is expected to begin operation in 2Q13. By 2Q14, PT Evoluzione Tyres is forecast to produce 2 mn units of conventional 2W tyres p.a. and by 2016, the firms expect operations at full capacity (7mn units of conventional 2W tyres p.a. with 3mn units will be marketed under Astra's own brand, Aspira, while the remaining 4 mn units will be marketed under Pirelli and these are most likely for OEM or export purposes). AUTO's partnership with Pirelli will boost the brand equity of its Aspira in the local markets and it is no longer required to outsource its tyre production. Furthermore, AUTO is able to leverage on its parent's vast and diverse businesses and source its rubber from its sister company, PT Astra Agro Lestari Tbk (AALI), ensuring constant supply of rubber. Availability of its own tyre production plant will allow AUTO to manage its product quality and boost its product portfolio offering comprehensive portfolio to car manufacturers—*one-stop-order*.

Automotive Outlook—Fall in demand for 2W and 4W post implementation of new DP regulation
We downgrade the domestic sales of 2W vehicles to 7.4 mn units on the backdrop of sub-par 5M2012 sales (3.16 mn; -6.97% yoy) and highly negative outlook post-implementation of 25% minimum down payment (DP). Lower income segment represents significant percentage of 2W-vehicles buyer and they tend to purchase on credit with low or even 0% DP. This regulation will lower demand temporarily as they need to save at least 25% of the purchase price. However, considering the fact that 2W-vehicles are basic necessity in core cities in Indonesia, we foresee that the drop will be temporary but the outlook remains negative as lower replacement rate leading to slower growth is expected. Furthermore, the high inflationary pressure will dent sentiment as allocation on food and other basic necessities will trump savings for automotive.

5M12 sales of domestic 4W-vehicles grew 24.7% yoy to 433,421 units and this was due to people taking advantage of lower DP by purchasing car on credit prior to 15th of June 2012. Despite the sterling 5M12 sales performance, we are less rosy on the future and thus we lower our estimate of annual 4W domestic sales to 890k (with 5M12 sales represented 48.7%) from our previous 900k (5M12 sales: 48.2%). MPV with CC<1,500 (4x2 Type), popular car among the middle and lower income, represents more than 50% of total domestic 4W-vehicles sales and this category is estimated to be highly impacted by the regulation. Severe drop in sales volume in this category will lead to significant fall in 4W-vehicles sales volume. The high-end range is expected to be less affected by the regulation as the purchasing power of the high income remains strong and they seldom purchase via auto-loan.

Profitability Improvement
Commodity prices have experienced significant correction recently due to uncertainty in the Eurozone crisis, US fiscal cliff and potential Chinese hard landing. Lower commodity prices benefit AUTO as this boosts its gross margin for automotive component manufacturing, provided it purchases its raw materials inventory at correct timing.

Key Risks: (1) Rising Commodity prices and labor costs that are not accompanied by rising ASP leading to further margin squeeze; (2) More-than-estimated decline in automotive purchases leading to lower demand for automotive components; (3) Rising inflation and implementation of Fuel subsidy cut (with Indonesian Crude Price (ICP) more than 15% for 6 months from the current forecast of USD105 per barrel) further denting domestic automotive sentiment; (4) Intensified competition as government scrapped imports duty (of 0-5%) on raw automotive components leading to over supply of automotive components; (5) Rising consumer financing rate making auto-financing more expensive.

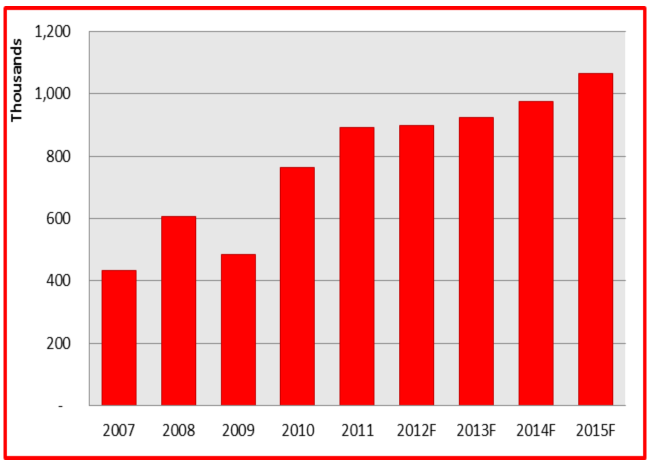
Potential Catalysts: (1) More joint-venture with internationally-renowned automotive component establishment to expand product offerings and technology transfer allowing AUTO to market high quality products at local pricings; (2) Expansion in its higher margin trading sector including 'SHOP & DRIVE'; (3) Declining commodity prices for an extended period allowing AUTO to take more advantage of cheaper raw materials; (4) Intense competition among multi-finance institutions forcing them to find loopholes in the regulation and even coming out with products that allow consumers to pay DP via loan/credit (i.e.: pay DP via credit card with 0% interest rate if the multi-finance institutions collaborate with banking institutions); (5) The loss-making entities currently in their initial stage (Akebono Brake Astra Vietnam, TD Automotive Compressor Indonesia, and PT Astra Visteon Indonesia) start to contribute to the equity in net income of the entities sooner-than-estimated.

Valuation
We maintain our target price of IDR3,800, representing 15% upside potential. We derived out PT via SOTP with valuation of parent company via DCF (13% WACC and terminal growth of 3%) with discrete cash-flow forecast till 2025. The valuation of jointly-controlled entities (excluding JV with Pirelli) was carried out via combination of EV/ Book-value and P/E with multiples of 3.2 and 11, respectively and average of the 2 methods is used as valuation for the jointly-controlled entities. Additional value creation from the JV with Pirelli will serve as upside potential for the share price.

	1 Day Change	1 Month Change	YTD Change	Change from YTD High	1 Year Change
Brent Crude Oil	-1.27%	-1.90%	-10.08%	-23.50%	-13.61%
Polyethylene	-0.35%	0.87%	8.43%	-6.99%	-3.20%
Copper	0.86%	-2.21%	-0.38%	-8.99%	-19.59%
Lead	4.83%	-4.32%	-8.29%	-19.81%	-29.54%
Aluminum	0.62%	-2.94%	-2.85%	-4.08%	-9.39%
Rubber	2.67%	-6.92%	-2.22%	-25.42%	-34.68%
Tin	1.46%	-7.06%	-1.93%	-26.18%	-27.14%
Hot-Rolled Coil Steel	0.00%	-9.37%	-17.24%	-18.14%	-17.24%
WTI Crude Oil	-1.12%	0.94%	-15.00%	-23.47%	-11.51%
Steel	2.86%	6.27%	0.32%	-1.74%	-13.74%

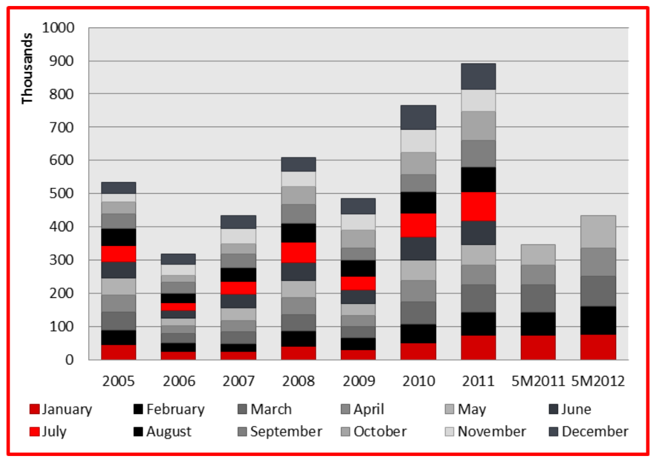
Source: Bloomberg (as of 02 July 2012)

Chart 2: Domestic 4W-vehicles Sales—2012 sales is expected to remain stagnant post implementation of minimum DP.



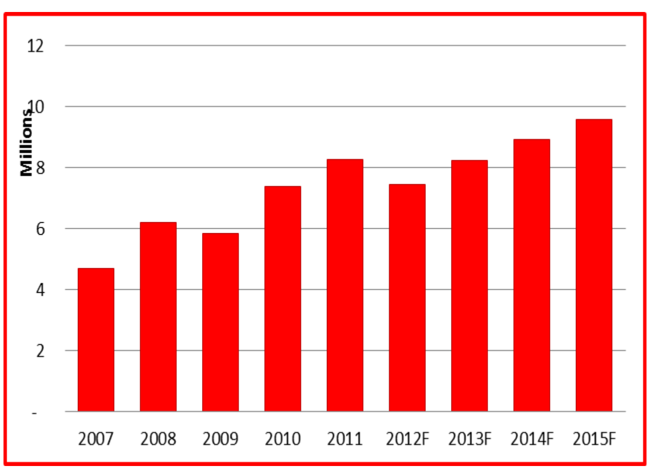
Source: Gaikindo, Sinarmas Sekuritas Research

Chart 3: 4W-Vehicles sales volume rose by 25% in 5M12 vs 5M11—Increase was expected as people tend to take advantage of the low DP prior to the implementation.



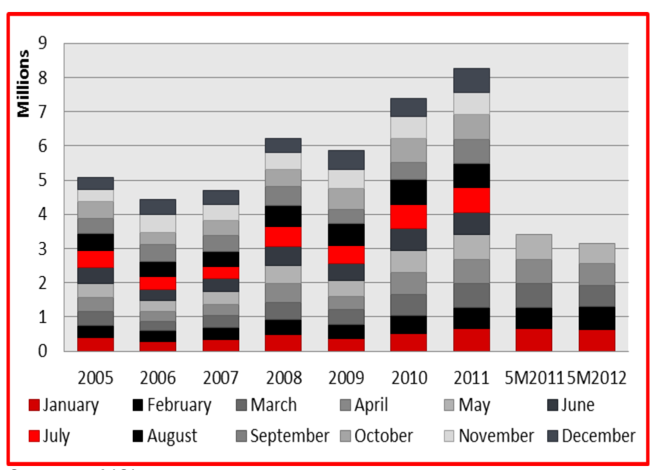
Source: Gaikindo

Chart 4: Domestic 2W-vehicles Sales—new regulation will significantly impact the performance of 2W-vehicles sales



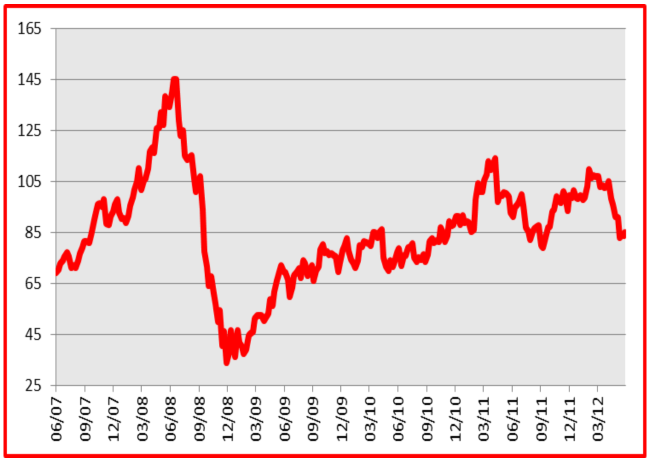
Source: AISI, Sinarmas Sekurtias Research

Chart 5: Disappointing 5M2011 2W-vehicles Sales will drag down overall annual performance leading us to downgrade our estimate on 2012 2W-vehicles sales due to bleak next Half of 2012.



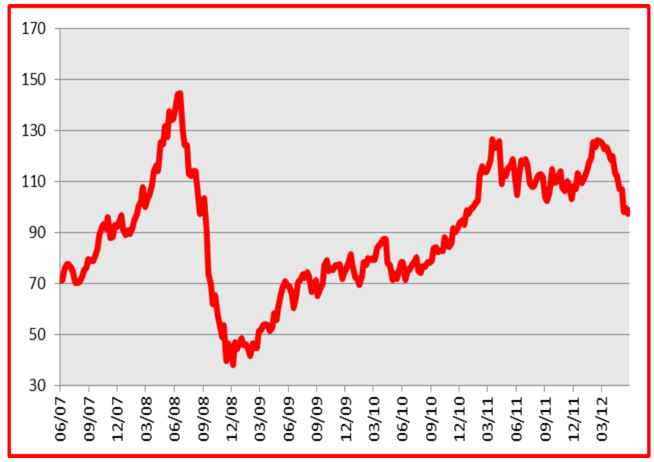
Source: AISI

Chart 6: WTI Crude Oil (USD/barrel)



Source: Bloomberg

Chart 7: Brent Crude Oil (USD/barrel)

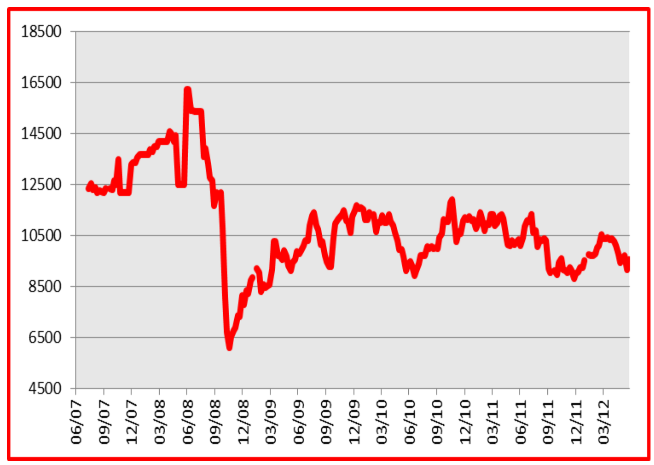


Source: Bloomberg

Chart 8: Rubber (JPY/kg) - Pressure on rubber prices soared amidst expected rising surplus of 402kT in 2H12 vs 134kT deficit in 1H12 and slowing Chinese economy.

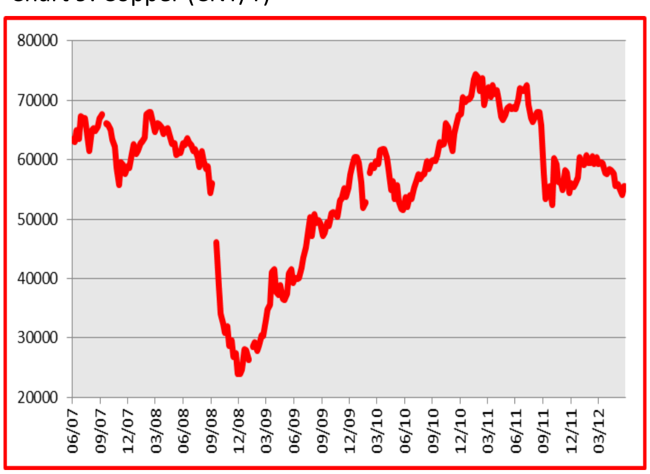
Source: Bloomberg

Chart 9: Polyethylene (CNY/T)



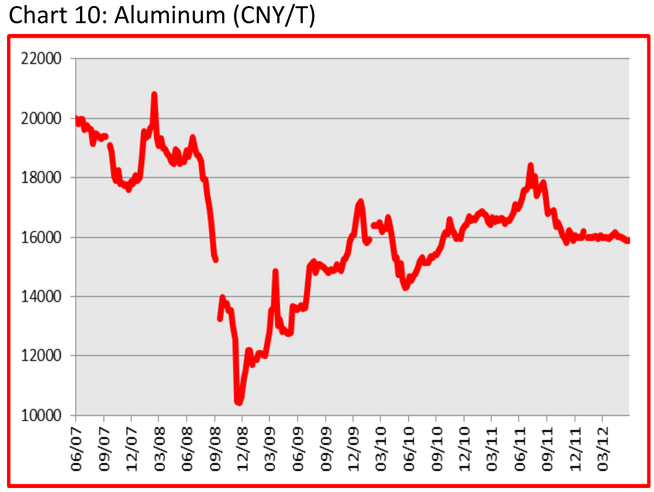
Source: Bloomberg

Chart 9: Copper (CNY/T)



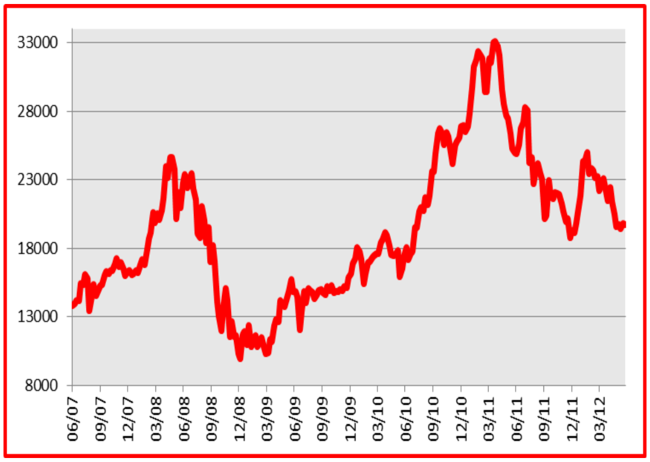
Source: Bloomberg

Chart 10: Aluminum (CNY/T)



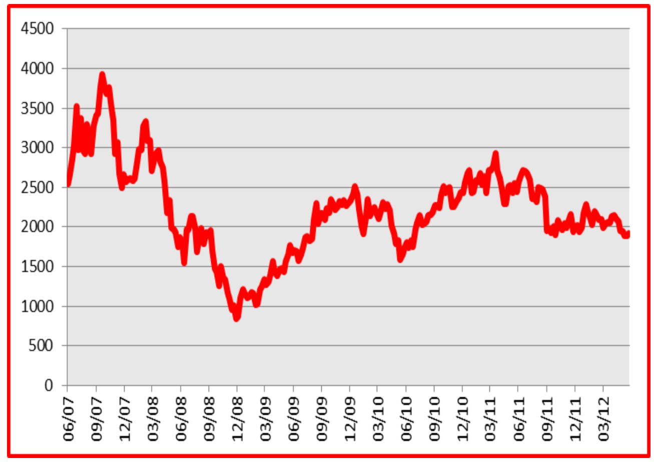
Source: Bloomberg

Chart 11: Tin (USD/T)



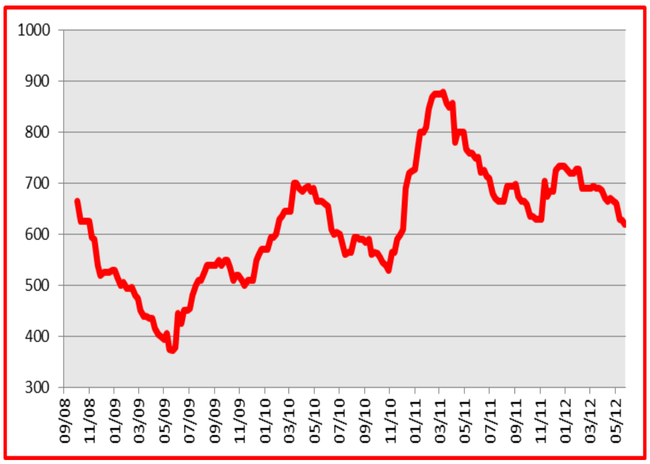
Source: Bloomberg

Chart 12: Lead (USD/T)



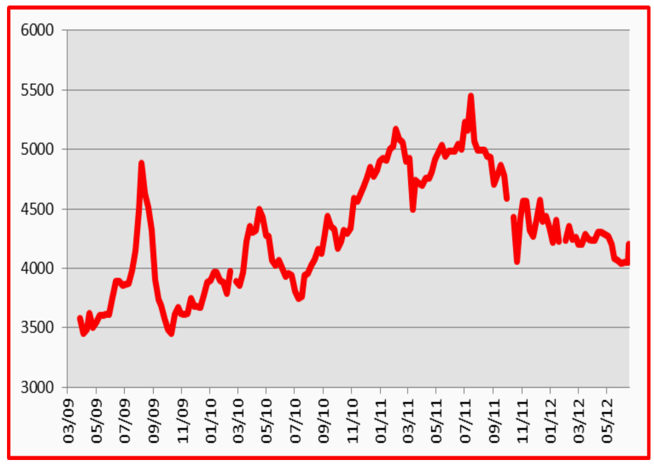
Source: Bloomberg

Chart 13: Hot-Rolled Coil Steel (USD/T)



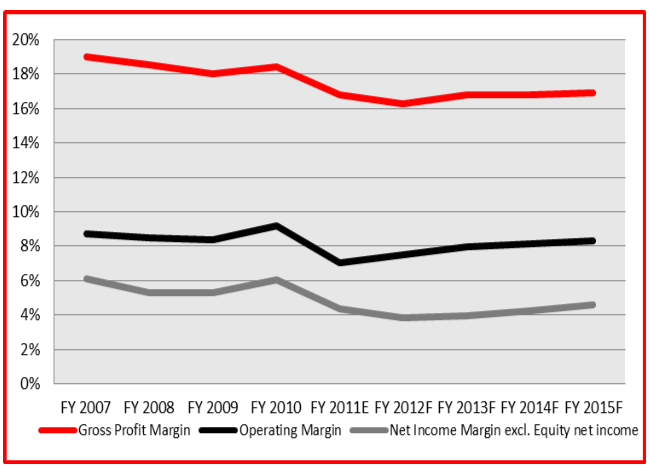
Source: Bloomberg

Chart 14: Steel (USD/T)



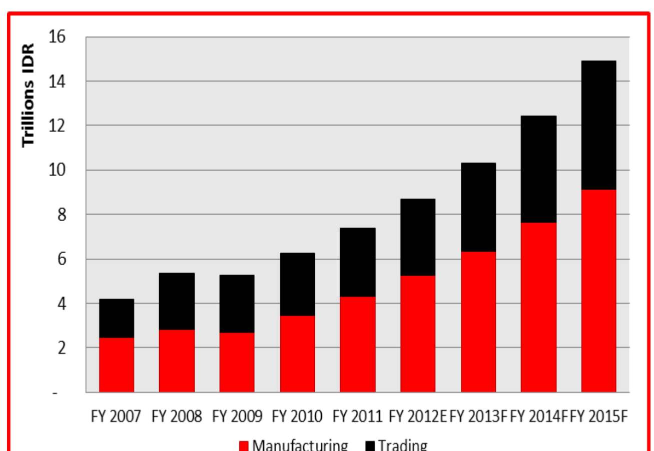
Source: Bloomberg

Chart 15: Margin Comparison-we are concerned with AUTO's lack of bargaining power and should it fail to demand for price increase, margin will deteriorate further threatening its overall profitability.



Source: Company data, Sinarmas Sekuritas Research

Chart 16: Revenue Breakdown-the low margin manufacturing will still dominate while the firm expands its trading and retails division through expansion of 'Shop & Drive'.



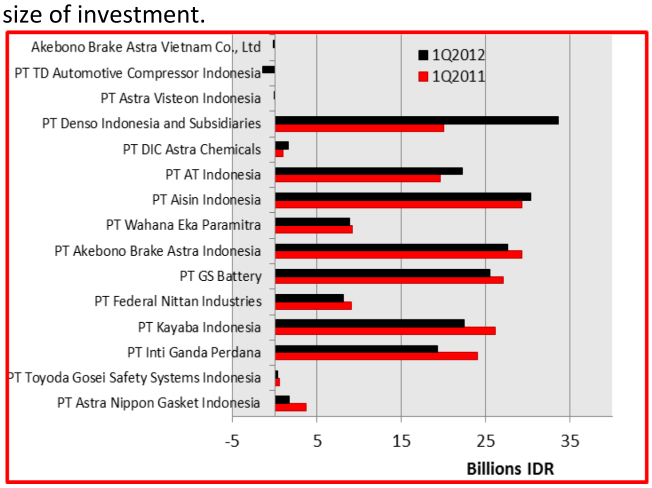
Source: Bloomberg

Table 2: Income Statement Summary

	2009	2010	2011	2012E	2013F	2014F	2015F
Revenues	5,265,798	6,255,109	7,363,659	8,677,855	10,294,701	12,432,417	14,918,900
Cost of Revenue	4,317,181	5,102,483	6,126,058	7,263,364	8,565,191	10,343,771	12,397,606
Gross Profit	948,617	1,152,626	1,237,601	1,414,490	1,729,510	2,088,646	2,521,294
SG&A	508,626	579,511	718,053	764,345	906,984	1,074,171	1,284,321
EBIT	439,991	573,115	519,548	650,145	822,525	1,014,475	1,236,973
Other non-operating income	56,242	32,108	38,090	46,000	55,200	65,173	76,981
interest, net	-14,493	-109,038	-133,693	-132,607	-107,972	-102,242	-74,402
Equity linked, net income	509,774	761,161	693,786	793,535	872,888	977,635	1,094,951
Profit before tax	967,001	1,391,264	1,255,083	1,394,447	1,599,811	1,905,502	2,279,152
Taxation	-137,046	-168,956	-153,500	-162,246	-196,269	-250,524	-319,734
Profit after tax	829,955	1,222,308	1,101,583	1,232,200	1,403,541	1,654,978	1,959,418
Minorities	-41,690	-84,126	-88,364	-104,134	-123,536	-149,189	-179,027
Net Profit	788,265	1,138,182	1,013,219	1,128,066	1,280,005	1,505,789	1,780,391
Gross Margin	18.01%	18.43%	16.81%	16.30%	16.80%	16.80%	16.90%
EBITDA margin	10.14%	11.19%	9.20%	9.79%	10.49%	10.66%	10.79%
EBIT Margin	8.36%	9.16%	7.06%	7.49%	7.99%	8.16%	8.29%
NOPAT Margin	5.85%	6.71%	5.13%	5.47%	5.83%	0.00%	0.00%
Net Margin	5.29%	6.03%	4.34%	3.86%	3.95%	4.25%	4.59%
Revenue Growth	-1.35%	18.79%	17.72%	17.85%	18.63%	20.77%	20.00%
EBITDA Growth	0.35%	31.07%	-3.22%	25.46%	27.09%	22.72%	21.48%
EBIT Growth	-2.63%	30.26%	-9.35%	25.14%	26.51%	23.34%	21.93%
Net Profit Growth	39.26%	44.39%	-10.98%	11.33%	13.47%	17.64%	18.24%

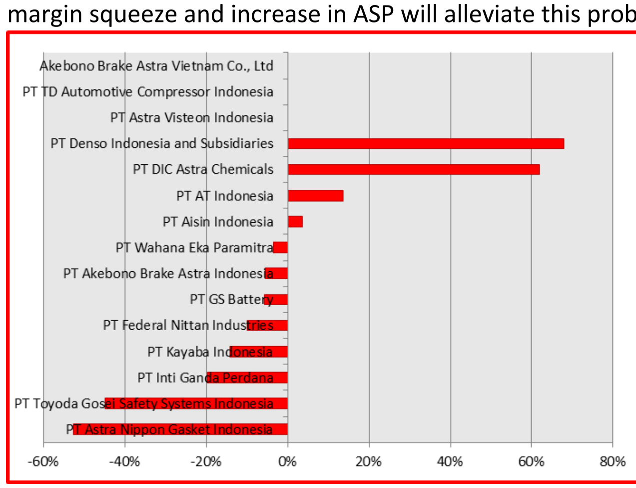
Source: Company data, Sinarmas Sekuritas

Chart 17: Net Income in Jointly Controlled Entities—overall remained stagnant with new investments registering net loss. We foresee PT Evoluzione Tyres will register significant loss too in the coming quarter due to the sheer size of investment.



Source: Company data

Chart 18: Net Income in Jointly Controlled Entities (yoy growth) - Negative growth for some entities were due to margin squeeze and increase in ASP will alleviate this problem.



Source: Company data

sekuritas sinarmas

COMPANY UPDATE

PT ASTRA OTOPARTS Tbk

Fiscal Year End						
Income Statement (IDR mn)	2010	2011	2012E	2013F	2014F	2015F
Sales Revenue	6,255,109	7,363,659	8,677,855	10,294,701	12,432,417	14,918,900
Gross Profit	1,152,626	1,237,601	1,414,490	1,729,510	2,088,646	2,521,294
Operating Income	573,115	519,548	650,145	822,525	1,014,475	1,236,973
Depreciation & Amortization	2,952,125	2,952,126	2,952,127	2,952,128	2,952,129	2,952,130
EBITDA	699,832	677,293	849,736	1,079,893	1,325,285	1,609,946
Other non-operating income	32,108	38,090	46,000	55,200	65,173	76,981
Net Interest Income (expense)	-109,038	-133,693	-132,607	-107,972	-102,242	-74,402
Equity linked, net income	761,161	693,786	793,535	872,888	977,635	1,094,951
Profit before tax	1,391,264	1,255,083	1,394,447	1,599,811	1,905,502	2,279,152
Tax expenses	-168,956	-153,500	-162,246	-196,269	-250,524	-319,734
Profit after tax	1,222,308	1,101,583	1,232,200	1,403,541	1,654,978	1,959,418
Minority Interests	-84,126	-88,364	-104,134	-123,536	-149,189	-179,027
Net Profit	1,138,182	1,013,219	1,128,066	1,280,005	1,505,789	1,780,391
Cash Flow (IDR mn)						
Operating Cash Flow	399,127	258,576	778,898	829,302	772,917	1,136,989
Capex	409,006	773,467	1,232,300	1,029,470	497,297	372,973
Investments in Associates & Jointly Controlled Entities	0	64,405	450,000	100,000	0	0
Free Cash Flow	-9,879	-579,296	-903,402	-300,168	275,621	764,016
Dividends Received from Investments	223,250	441,016	353,929	389,322	428,255	471,080
Dividends Paid	456,525	488,202	451,226	512,002	602,316	712,156
Debt Issuance (redemption)	-20,552	561,321	1,189,572	336,569	129,391	-161,621
Net debt (cash)	-203,122	365,399	554,272	467,994	698,945	1,060,263
Balance Sheet (IDR mn)						
Cash & cash equivalents	485,564	365,399	554,272	467,994	698,945	1,060,263
Account Receivables	849,087	1,017,494	1,193,424	1,412,829	1,714,823	2,062,114
Inventories	708,322	955,369	1,117,441	1,259,587	1,521,143	1,823,177
Other Current assets	156,752	226,193	246,568	294,215	361,384	442,258
Net fixed assets	985,029	1,547,831	2,544,521	3,330,203	3,505,174	3,503,235
Investment in Jointly Controlled Entities	2,154,640	2,475,031	2,722,534	2,994,788	3,294,266	3,623,693
Other non-current assets	246,458	376,910	893,481	875,381	1,240,727	1,151,272
Total Assets	**5,585,852**	**6,964,227**	**9,272,241**	**10,634,996**	**12,336,462**	**13,666,013**
Short term Liabilities	1,251,731	1,892,818	3,179,937	3,533,344	4,078,385	4,266,087
Long term Liabilities	230,974	348,515	633,483	802,987	969,729	939,891
Total Liabilities	1,482,705	2,241,333	3,813,420	4,336,331	5,048,114	5,205,978
Shareholders' Equity	3,860,827	4,423,554	5,099,613	5,867,616	6,771,089	7,839,324
Minority Interest	242,320	299,340	359,208	431,050	517,260	620,711
Total Equity & Liabilities	**5,585,852**	**6,964,227**	**9,272,241**	**10,634,996**	**12,336,462**	**13,666,013**
Key Ratio						
Revenue Growth (%)	18.8%	17.7%	17.8%	18.6%	20.8%	20.0%
EPS Growth (%)	44.4%	-11.0%	11.3%	13.5%	17.6%	18.2%
EBITDA Margin (%)	11.2%	9.2%	9.8%	10.5%	10.7%	10.8%
Payout Ratio (%)	40.1%	40.0%	40.0%	40.0%	40.0%	40.0%
ROE (%)	29.5%	22.9%	22.1%	21.8%	22.2%	22.7%
Quick Ratio (x)	1.19	0.85	0.63	0.62	0.68	0.84
Debt/Equity (%)	0.07	0.20	0.41	0.41	0.38	0.30

*: Adjusted for stock split

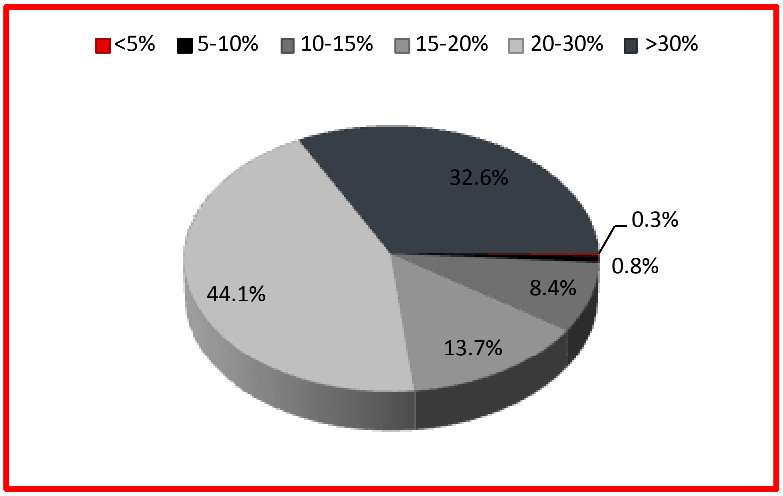
Appendix

Down Payment Regulation

According to the data from Gaikindo, prior to the implementation of down payment regulation in June 2012, around 75% of 4W purchases via auto-loan (from January-September 2011) were transacted with DP of more than 20% indicating that even before the implementation, auto-finance companies have exercised extreme prudence by requiring customers to have higher DP. However, we are more concerned with 2W-vehicles as statistics showed that only 36.3% of transactions via auto-loan were done with DP higher than 20% and sales of 2W-vehiclels will be seriously impacted by the regulation.

However, the silver lining will be lower interest payment on the loan which will encourage savings and/or spendings. With the higher down payment, auto-finance companies are no longer able to demand stratospheric interest rate, as opposed to interest rate charged on customer with dubious credit worthiness who purchased 2W -vehicles with low or near zero DP.

Chart 19: Breakdown of Down Payment on 4W vehicles purchased via auto-financing.



Source: Gaikindo, Bisnis Indonesia.

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.
Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.