

We initiate coverage on PT Blue Bird Tbk (BIRD) with BUY recommendation and end-of-FY19 target price of IDR 3,300 which implies 16.8x FY19F PE (-0.5 SD from its 3 years average PE) and potential upside of 26.9%. After years of struggle, we believe the worst has come to an end for BIRD. Diminishing price discount from online ride-hailing, easing competition in the market due to less players, and implementation of extended odd-even plate policy will drive BIRD's utilization rate and earnings recovery.

Post 1H18 result. Despite less active operational fleet due to Lebaran, BIRD still posted a good result with top line grew by 2.6% QoQ. After years of negative growth, we see BIRD's earnings growth is starting to stabilize in 2Q18 on the back of higher utilization rate. Post 1H18, we expect rising utilization rate and average revenue per car to be the main driver for BIRD's positive earnings growth and profitability.

Blessed with plenty of catalysts. We believe the worst has passed for BIRD and recovery is on its way, driven by several factors. 1) Competition with online ride-hailing has begun to subdued. As Go-jek and Grab has started to monetize their position, pricing discount from online ride-hailing has slowly wearing off. 2) Less players in the market. The entry of online ride-hailing in transportation industry has set a new equilibrium, eliminating several small taxi players and other online ride-hailing (Uber). 3) There is a shift in competition with online ride-hailing from Jakarta to outer cities, bringing price wars out of Jakarta. Fortunately, ~80% of BIRD's operation are located in Jabodetabek, benefitted from the competition shift. 4) Implementation of extended odd-even plate policy during Asian Games will boost order booking for BIRD and improve utilization rate. Usage of private cars will be reduced and supply for online ride-hailing services will be halved, resulting in a non equilibrium supply and demand which will drive up the tariff. As tariff becomes less competitive and booking time takes longer due to less incentive for the driver, we believe people will begin to shift back to traditional taxi, raising BIRD's market share and utilization rate.

Attractive valuation. BIRD is currently trading at a 13.0x FY19F PE (-0.7 SD from its 3 years average), a number we once seen in 2016 when ride-hailing first came in to the market and hampered BIRD's market share and performance. Given the gradual recovery of BIRD's utilization rate, profitability and earnings on upcoming quarters, we think at current price BIRD is undervalued and provide attractive valuation.

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Stock Information

Sector	Transportation
Bloomberg Ticker	BIRD IJ
Market Cap. (IDR tn)	6.58
Share Out./Float (mn)	2,502/468
Current Price	IDR 2,620
End-of-FY19 Target Price	IDR 3,300
Upside (%)	26.0%

Share Price Performance

52W High (08/02/17)	5,025
52W Low (07/18/18)	2,380
52W Beta	0.72
YTD Change (%)	-24.0%

Relative Valuations

Trailing P/E	15.5x
Forward P/E	14.5x
P/BV	1.3x
EV/EBITDA	5.9x

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	4,796	4,204	4,210	4,304	4,547
% growth	-12%	-12%	0%	2%	6%
Gross Profit	1,370	1,138	1,185	1,238	1,334
Net Profit	507	425	456	506	563
% growth	-38%	-16%	7%	11%	11%
Gross Margin (%)	31%	29%	27%	28%	29%
Net Margin (%)	15%	11%	10%	11%	12%
Return on Equity (%)	19%	11%	9%	9%	9%
Return on Assets (%)	12%	7%	7%	7%	7%
EPS (IDR)	329	203	170	182	202

Company Background

Leader in the transportation industry. BIRD is a leading integrated land passenger transportation company in Indonesia with the largest market share and a fleet of more than 28,000 units of different variance. They dominate the taxi passenger industry (Blue Bird, Pusaka, Silver Bird) while also serving car rental (Golden Bird) and charter bus service (Big Bird). They have presence in all major cities across Indonesia, though most of their operation are located in Jakarta (~80%). To support their operation, BIRD is also equipped with extensive distribution channel and infrastructure which include 70 vehicle pools & maintenance shop, 600 exclusive taxi stands in high traffic location and 24 hour call center & mobile apps booking system.

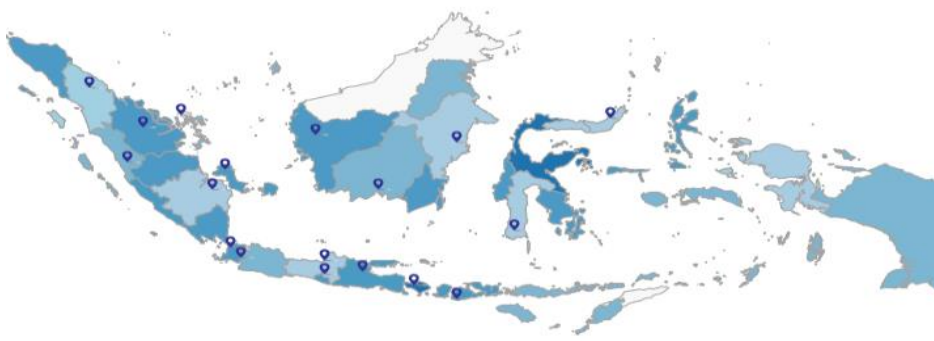
Blue Bird line of business



Source: Company Data, Sinarmas Investment Research

Blue Bird presence in Indonesia

Wilayah Operasional
Operational Areas

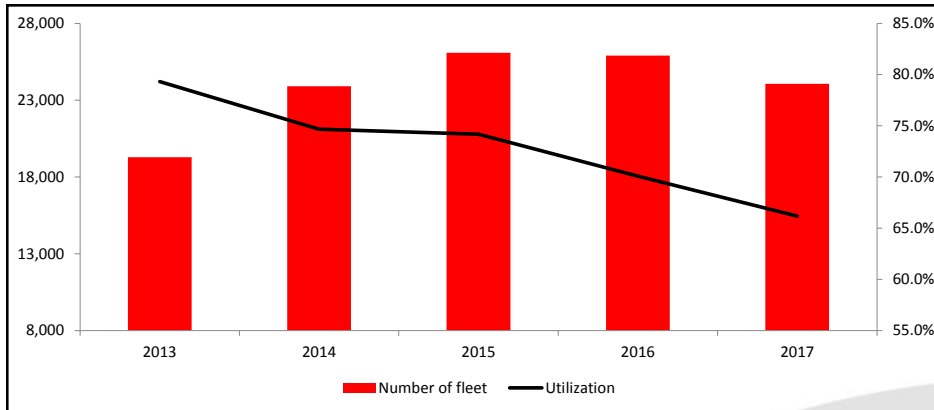


Source: Company Data, Sinarmas Investment Research

Industry Overview

Escalating competition from ride-hailing apps. The adoption of ride-hailing apps such as Go-jek and Grab in Indonesia which first began in early 2016 has hurt taxi service company including BIRD. Big promotion and faster booking time from the new business model has taken big portion of the market share from the taxi industry and significantly reduce order booking from BIRD. As a result, number of fleet and utilization rate has been dropping significantly in the last 2 years.

BIRD fleet number and utilization rate

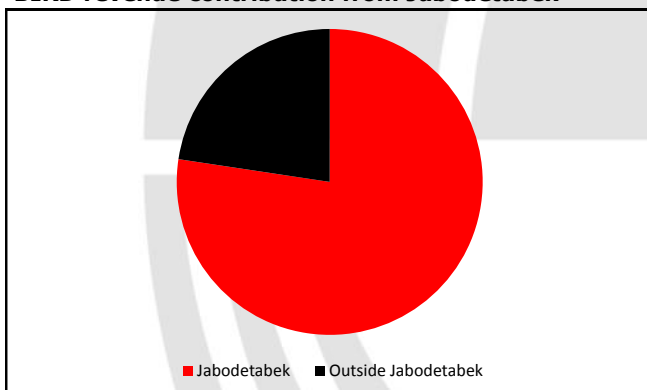


Source: Company Data, Sinarmas Investment Research

The storm has passed. As Go-jek and Grab have started to monetize their solid position, we believe competition has begun to subdue and gradual recovery is expected. Pricing from ride-hailing apps which used to be at a much discount rate compared to normal taxi has slowly wearing off. Government regulation on ride-hailing tariff rule has played a significant role in that regards. Not to mention, during peak hours, tariff from normal taxi could be significantly cheaper compared to ride-hailing. Our channel check indicates demand has slowly shifting back to traditional taxi ride.

Shifting competition from urban to rural area. Based on our discussion with the management, we see a shift in the competition landscape from Jakarta to smaller cities outside Jakarta and Java island. As Go-jek and Grab has established their presence and dominant position in Jakarta, they now began to expand their coverage to other cities. While they increase tariff in Jakarta, they start to give promotion to other cities, bringing price wars out of Jakarta. Fortunately, 80% of BIRD operation are located in Jakarta, benefitting from the shifting competition, despite sacrificing small portion of profit from outside Jakarta.

BIRD revenue contribution from Jabodetabek



Source: Company Data, Sinarmas Investment Research

Odd-even plate policy creates opportunity. The Greater Jakarta Transportation Body (BPTR) has announced the extension of odd-even policy during Asian Games to ensure the smoothness of athlete's traveling times. Under the new regulation, the odd-even policy will be implemented on all major roads across Jakarta from 6 am to 9 pm every day (Monday to Sunday). The regulation has already come into effect on Jl. Sudirman and Jl. MH Thamrin, but the expansion will also affect several other roads such as Jl. S Parman, Jl. Gatot Subroto, Jl. DI Pandjaitan, Jl. Ahmad Yani and Jl. Perintis Kemerdekaan. However, note that the odd-even policy only applies for private cars, but not for public transportation with yellow license plate. As a result, BIRD operation will not be disrupted but Go-jek and Grab will. In short, car supply for Go-jek and Grab will be simply cut in halves due to the odd-even policy, resulting in a non equilibrium demand and supply which will drive up tariff even more. As tariff becomes less competitive and booking process time takes longer, people will start shifting to traditional taxi ride.

Extension of odd-even plate policy



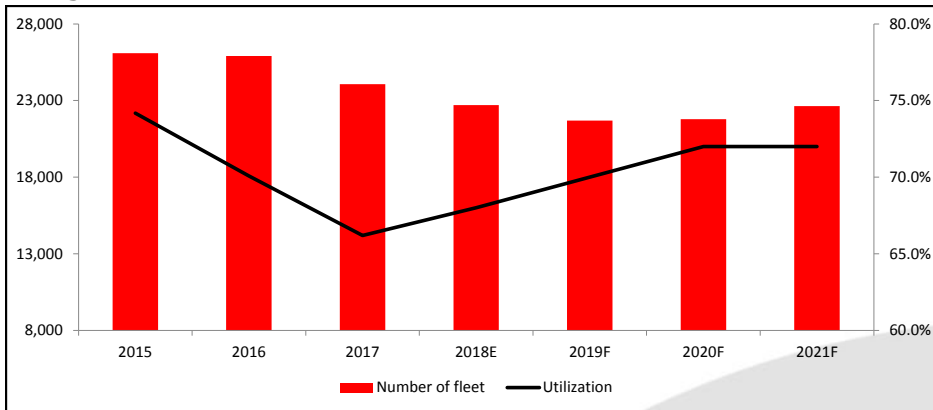
Source: Company Data, Sinarmas Investment Research

Setting a new equilibrium. The arrival of ride-hailing services in Indonesia has set a new equilibrium for taxi industry. The entry of Go-jek and Grab has eliminated small taxi players and other online ride-hailing (Uber), reducing the number of players in the industry. In addition, BIRD biggest rival, PT Express Transindo Utama (TAXI), has reduced its number of fleet by more than 50%, according to our channel check. Going forward, with the help of odd-even plate policy, we believe BIRD will be the main beneficiary of the impact, taking the biggest market share back from the other taxi players and ride-hailing services.

Investment Thesis

Rising utilization rate drive recovery progress. As competition starting to ease, we believe BIRD's utilization rate will be back on the rise. Since 2015, we have seen that BIRD's utilization rate has dropped from 74% to 66% and number of fleet also has decreased by more than 16% in the last 2 years. As a result, we have seen BIRD's revenue loss by 23%. However, we think the worst has passed, and recovery is on sight. Implementation of odd-even plate policy and higher tariff for ride-hailing services will drive utilization rate recovery for BIRD. We think utilization will gradually increase over the next three years.

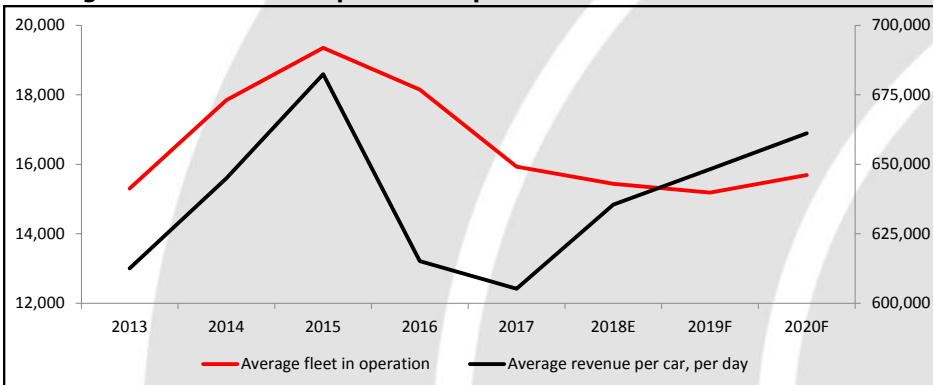
Rising utilization rate



Source: Company Data, Sinarmas Investment Research

Volume decline but revenue per car increase. As company is focusing on efficiency rather than boosting growth, we expect number of fleet will continue to decline this year. On the flip side, utilization rate and average revenue per car in operation will rise, offsetting volume decline and improving profitability. However, we could expect number of fleet will start to rise once utilization and revenue per car has improved in few coming years.

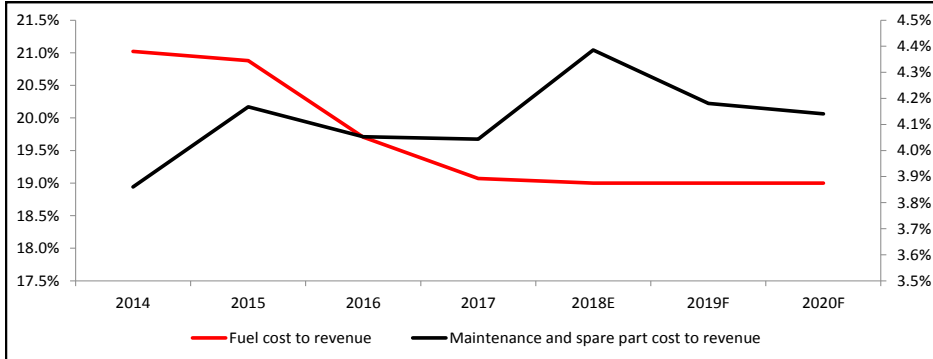
Average fleet and revenue per car in operation



Source: Company Data, Sinarmas Investment Research

Minimal impact from rising fuel price. Despite rising crude price (+15.5% YTD), the government has kept subsidized fuel price flat. Hence, we see minimum impact on rising fuel price for BIRD. However, stronger USD/IDR currency should drive spare part costs slightly higher as most of them are imported by their supplier. Nonetheless, we see rising spare part cost will not impact much on profitability as utilization rate and average revenue per car rises.

Fuel cost and maintenance & spare part cost to revenue



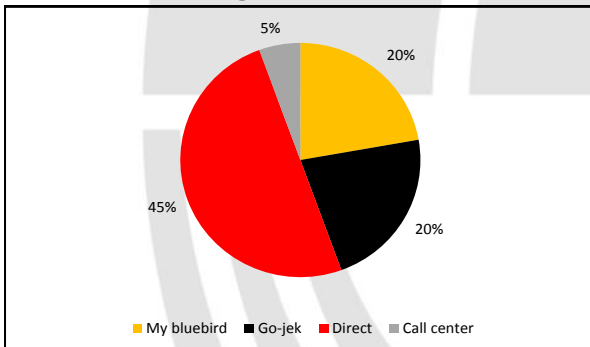
Source: Company Data, Sinarmas Investment Research

Transition to MVP fleet. Beginning early this year, BIRD has been focusing on MPV vehicles (avanza) for replacement and expansion of the fleet. The replacement to MPV fleet brings several benefits: 1) Lower acquisition cost, hence faster payback period. 2) Higher market demand for MPV which increases resale value. 3) Better efficiency in fuel and maintenance which lead to lower costs.

Partnership with Go-jek drive booking volume. Despite losing market share to ride-hailing services since 2015, partnership with Go-jek has help BIRD to improve their order booking. Management mentioned that 20% of BIRD’s total order booking came through Go-jek application. The partnership has initially started in early 2017 and has benefited both parties. Going forward, we think Go-jek and BIRD will keep maintaining their long term partnership. Worth to note, any price subsidy through Go-jek app is paid by Go-jek.

Dual channel booking. As taxi industry has been revolutionized through the adoption of ride-hailing services, people no longer book taxi through call center. The adoption of mobile app booking has never been more important than before. BIRD mobile app has been gaining popularity since their aggressive marketing and promotion campaign early this year, contributing around 20% of total order booking. In addition to 20% order booking from Go-jek, we see mobile app booking will be the main driver for boosting utilization rate this year.

BIRD order booking contribution

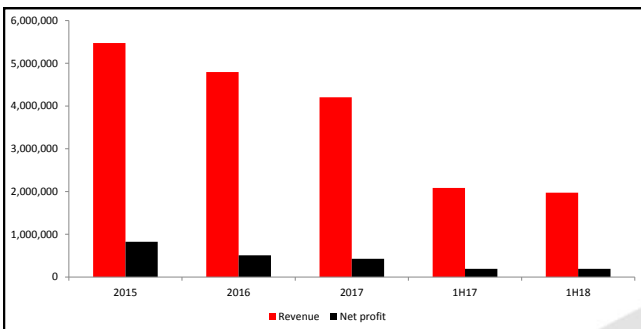


Source: Company Data, Sinarmas Investment Research

Financial Outlook

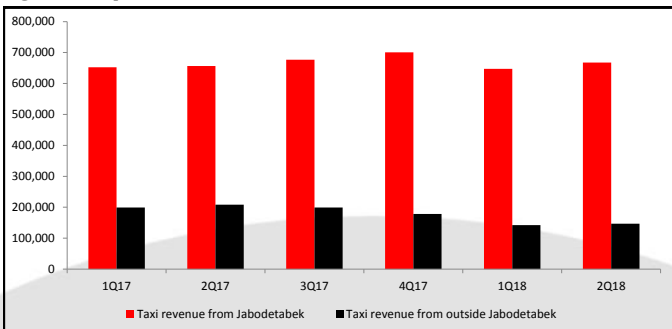
Moderate 1H18 performance. In 1H18, BIRD booked a revenue and net profit of IDR 1.97 tn (-5.3% YoY) and IDR 191.7 bn (-1.3% YoY) respectively. Despite negative YoY growth, we see margin has begun to stabilize on the back of higher efficiency this year (9.7% NPM in 1H18 vs 9.3% in 1H17). Number of fleet was reduced in order to optimize utilization rate and higher average revenue per car. Looking deeper at the number, revenue contribution from Jabodetabek was actually improving in 1H18 (+0.5% YoY). However, as competition has been shifting to outer cities, revenue from outside Jabodetabek went down by 28.9% YoY, contributing to negative YoY revenue growth. Worth to note, revenue from Jabodetabek represent ~80% of BIRD total revenue. Also, note that there is Lebaran in 2Q18, hence fewer working days for BIRD operation.

Revenue and net profit has stabilize



Source: Company Data, Sinarmas Investment Research

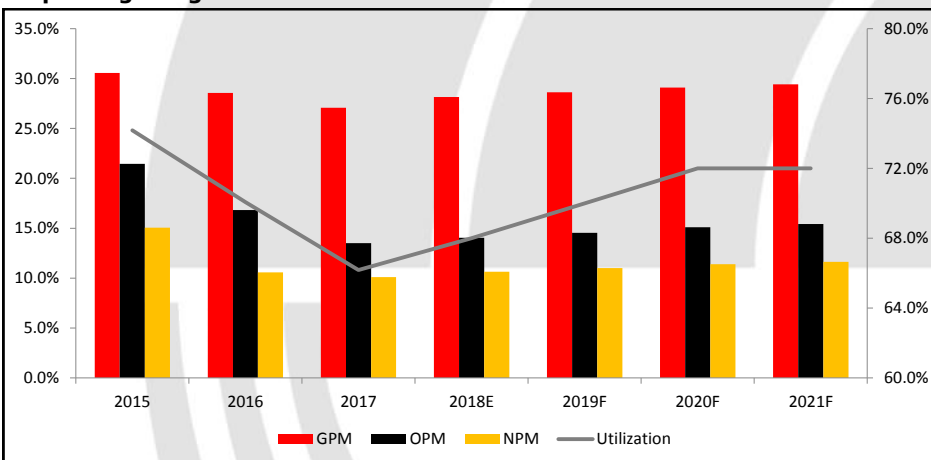
Quarterly revenue contribution based on area



Source: Company Data, Sinarmas Investment Research

Rising utilization rate drives earnings growth and profitability. With the implementation of odd-even plate policy as well as easing competition with online ride-hailing services in the upcoming quarters will significantly drive up BIRD's utilization rate, leading to higher earnings growth and profitability. Not to mention, average revenue per car for BIRD has started to rise in 2Q18, beating 1Q18 and FY17 numbers, which we expect the trend to continue in the upcoming quarters. As a result, despite negative YoY growth in 1H18, we estimate revenue growth this year to be slightly positive driven by strong performance in 2H18. On the margin side, we expect better profitability in the second half on the back off higher utilization rate.

Improving margin

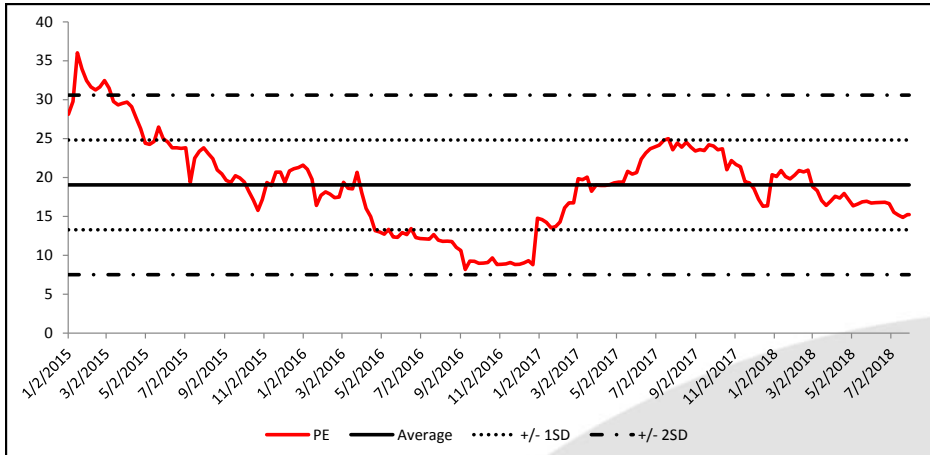


Source: Company Data, Sinarmas Investment Research

Valuation

Bottoming valuation. BIRD is currently trading at a 13.0x FY19F PE (-0.7 SD from its 3 years average), a number we once seen in 2016 when ride-hailing first came in the market and hampered BIRD's market share and performance. Given the gradual recovery of BIRD's utilization rate, profitability and earnings on upcoming quarters, we think at current price BIRD is undervalued and provide attractive valuation. We initiate coverage on BIRD with a BUY recommendation and end-of-FY19 TP at IDR 3,300. Our TP represent a 26.9% potential upside from current price which implies PE multiples at 16.8x (-0.5 SD from its 3 years average).

BIRD PE band trailing



Source: Bloomberg, Sinarmas Investment Research

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	4,796	4,204	4,210	4,304	4,547
Direct cost	3,426	3,066	3,025	3,066	3,213
Gross Profit	1,370	1,138	1,185	1,238	1,334
Operating Expense	563	570	593	603	633
Gain on disposals of fixed assets	32	47	38	42	43
Penalties and claims	21	17	18	18	19
Other Income/Expense	37	42	41	42	44
EBIT	896	673	688	737	807
EBITDA	1,143	857	860	906	979
Net Financing	(203)	(111)	(77)	(58)	(51)
EBT	692	562	611	679	756
Tax	182	135	153	170	189
Non controlling interest	3	3	3	3	3
Net Profit	507	425	456	506	563

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash & equivalents	592	474	802	1,053	1,309
Trade receivables	262	256	234	251	265
Other CA	28	40	32	33	35
Total current assets	882	771	1,069	1,337	1,609
Fixed assets	6,185	5,606	5,389	5,313	5,373
Other LT Assets	233	140	218	259	305
Total Assets	7,301	6,516	6,675	6,910	7,286
Trade payables	70	68	82	83	87
ST loans	658	269	210	172	159
Other CL	86	98	99	101	107
Total Current Liabilities	814	436	392	357	353
LT loans	1,186	495	421	344	318
Other	638	655	632	647	683
Total Liabilities	2,638	1,586	1,445	1,348	1,355
Share & APIC	2,763	2,763	2,763	2,763	2,763
Retained Earnings	1,826	2,092	2,389	2,718	3,084
NCI	74	75	78	81	85
Total Equity	4,663	4,931	5,230	5,562	5,932
Total Equity & Liabilities	7,301	6,516	6,675	6,910	7,286

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	507	425	456	506	563
Depreciation	247	184	172	168	172
Chg. in NWC	(116)	4	45	(14)	(6)
CF from Operating	638	613	672	661	729
Capital Expenditure	(236)	396	45	(93)	(231)
Chg. in LT Assets	158	93	(78)	(41)	(46)
Chg in LT Liabilities	59	17	(23)	14	36
CF from Investing	(19)	506	(56)	(120)	(241)
Chg. in Share & APIC	-	-	-	-	-
Chg. in ST Loans	(30)	(389)	(59)	(38)	(13)
Chg. in LT Loans	(95)	(691)	(74)	(77)	(26)
Dividends Paid	(174)	(158)	(159)	(177)	(197)
Others	2	2	3	3	3
CF from Financing	(298)	(1,236)	(289)	(289)	(233)
Beginning Cash	271	592	474	802	1,053
Change in Cash	320	(118)	328	252	255
Ending Cash	592	474	802	1,053	1,309

Financial Ratio & Key Assumptions	2016	2017	2018E	2019F	2020F
Profitability					
ROE	19.0%	10.9%	8.6%	8.7%	9.1%
ROA	11.5%	6.9%	6.5%	6.8%	7.3%
Gross Margin	28.6%	27.1%	28.1%	28.8%	29.3%
Operating Margin	16.8%	13.5%	14.0%	14.8%	15.4%
Net Profit Margin	10.6%	10.1%	10.8%	11.8%	12.4%
Liquidity					
Current Ratio	1.1	1.8	2.7	3.7	4.6
Solvency					
Debt to Equity	0.4	0.2	0.1	0.1	0.1
Debt to Assets	0.3	0.1	0.1	0.1	0.1
Valuation					
Price to Earning (PE)	14.8	20.4	18.1	16.3	14.7
Price to Book (PBV)	1.0	1.3	1.2	1.2	1.1
Key Assumptions					
Utilization rate	70%	66%	68%	70%	72%
Average fleet in operation	18,149	15,927	15,434	15,330	15,996
Average revenue per car per day	615,145	605,225	626,408	645,200	658,104

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