

### Lighter Balance Sheet with Divestment of Financial Services Business

Based on recent company visits, we have learned of MPMX's intentions to reduce their ownership stake in their multifinace business, including MPM Finance and MPM Insurance. According to management, MPM's ownership will be reduced from 60% currently to 40% with JACCS set to take over 60% of the company. From a valuation standpoint, we view this as a very positive step taken by MPMX as it will first of all, allow the company to refocus their efforts into improving its 4W Automobile business and secondly remove ~IDR 4trn from MPM's total liabilities. Moving forward, this will allow MPM more freedom to invest into its lubricant and rental business, remembering that unlike the company's automobile business, MPM's lubricant business does not have regional restrictions (4W/2W sales limited to *Nusa Tenggara Timur and Jawa Timur*).

### Profitability of 4W Auto-Dealership Business an Issue

A year and a half into MPM's 4W Auto-dealership business, bottom line earnings remain negative despite total 4W sales of ~5000 units driven in large part by Datsun Go which retail from IDR 108.3 mn/ unit up to IDR 113.8mn/ unit. From total 4W sales, Datsun composes of ~60% from total sales with Nissan X-Trail contributing between 10-15% and Nissan Livina ~doubling total Nissan X-trail sales. From a profitability standpoint, we were informed that Datsun Go gross margin levels would typically range between 3-5% per unit, considerably lower compared to gross margin levels for Nissan Livina ~9 - 11% per unit or Nissan X-Trail at ~7-8% with new Nissan X-Trail's currently retailing at prices beginning from IDR 409.9mn. Furthermore, it must be noted that negative profits for MPM's 4W business comes as no surprise given that the business still remains in the early stages of its CAPEX cycle. As part of their future plans, management informs us that Nissan is likely to launch up to 3 new models this year with Nissan Note, Nissan Kicks and the all new Nissan Micra likely to be launched this year, a welcomed relief given the lack of innovation shown recently by Nissan.

### Honda 2W and FKT (Federal Lubricants) Sales Robust

Honda 2W sales have continued to boost MPMX earnings, as the company was able to reach to sell ~1mn 2W units FY16 in spite of only being allowed to operate within the regions of *Nusa Tenggara Timur and Jawa Timur*. With Honda dominating Indonesia's 2W market share at ~74% nationwide, we were also encouraged by news that 2W sales had already reached 85% penetration in the East Java region. On another note, MPM's FKT business will also be increasing total production capacity from 65mn/liters to 100mn/liters as operations are set to begin in MPM's new factory located in Cilegon, Merak by 2H17. As of 9M16, FKT already had 20% of market share for 2W lubricants with over 1000+ workshops nationwide.

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#### Stock Information

Sector	Automotive
Bloomberg Ticker	MPMX IJ
Market Cap (IDR Tn)	IDR 3.88
Share Out/ Float (M)	4,463/1,184
Current Price	870
52 - Week Target Price	-
Upside (%)	-

#### Share Price Performance

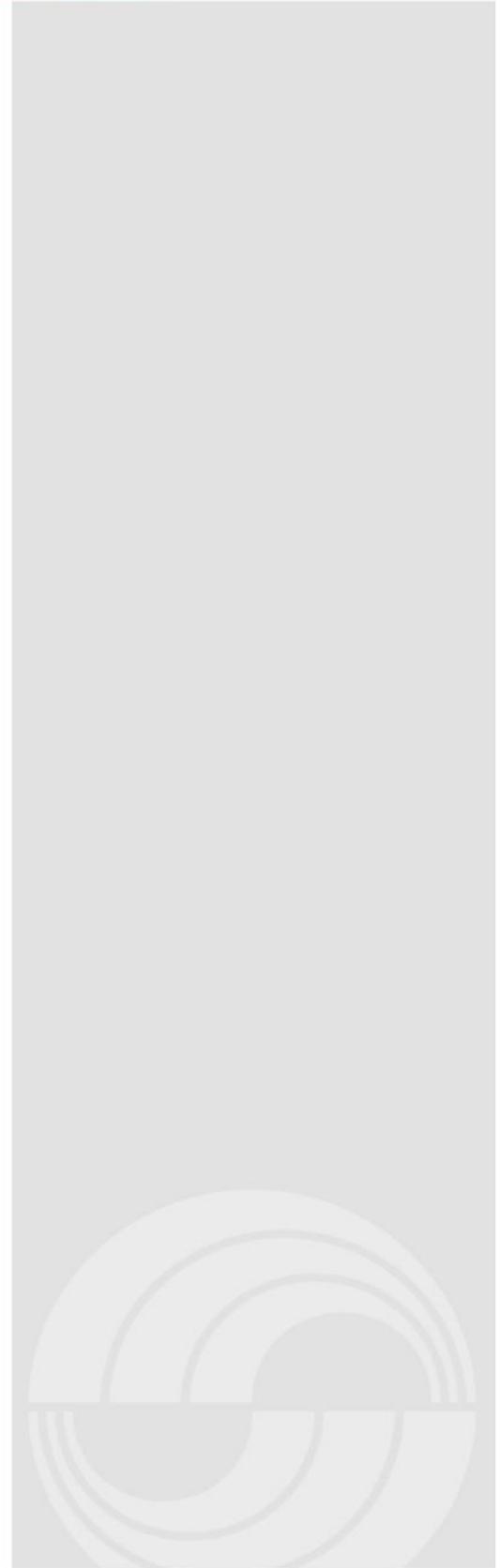
52 W -High (02/06/17)	900
52 W -Low (06/29/16)	424
52 W -Beta	1.275
YTD Change (%)	6.1%

#### Relative Valuations

Trailing P/E	15.5x
Forward P/E	6.43x
P/BV	0.75x
EV/EBITDA	7.89x

### **Our Recommendation**

We view that the stock is still trading at a discount. While cash flow seems to improve after all the impairment and write offs done in the past, we view that by deconsolidating its financial services, the company may rerate to its book value which is equivalent to IDR 1,160 per share, as it will make the company focuses more on its core business, which is distribution and consumer parts. Be that as it may, with one of the ex Saratoga executives recently passed the first round of governor election in DKI Jakarta, it may convey positive message to the market regarding the stock going forward. Nevertheless, we view the share should be priced at its book value at the very least, which offers 33.3% upside potential from the current market price.



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