PT Mitra Pinasthika Mustika Tbk.

Revving the Engine

BUY (TP: IDR 1,370)

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We re-initiate coverage on PT Mitra Pinasthika Mustika Tbk (MPMX) with BUY rating and end-of-FY18 TP of IDR 1,370, derived from SoTP valuation with 20% illiquidity discount. With implied consolidated FY18F P/E and P/BV of 9.8x and 1.1x respectively, our TP represents an upside potential of 40.5% from current market price (IDR 975). As for the operating segments breakdown, our valuation takes a conservative approach on the multiples and assumes 8.0x FY18F P/E on Distribution, 12.0x FY18F P/E on Consumer Parts, 6.0x FY18F P/E on Auto Services, and 1.0x FY18F P/BV on Financial Services. At the holding level, Distribution and Consumer Parts contribute >90% of the valuation.

Big ticket items saving to lead bottom-line improvement. While top-line is expected to deteriorate stemmed by 1) several Nissan-Datsun dealerships closure and 2) MPMF's change of status from consolidation to investment, efficiency on the business arms played a significant role in leading the company to better margins this year. At a glance, bottom-line may appear to be boosted by the one-off gains from divestment and Sunter land sale, whilst if we look beyond the surface, a hint of recovery is there in the metrics. Meanwhile, we expect ~150 bps saving in CoF from the dual tranche club deal facility of USD 150 mn and IDR 1.25 tn signed in September. As for the group level, we see better solvency as net gearing falls from 1.1x to 0.3x following MPMF divestment.

ROE's to mount above 10% starting FY18F as operating efficiency progresses. We expect the company to book IDR 530 bn FY17E NPAT (IDR 378 bn core business, IDR 152 bn one-offs), implying 9.4% ROE and ~140 bps increase in Net Margin. Moving forward, we believe Mulia's and FKT's strong brand presence will continue to drive MPM's revenue origination with margin improvement in each segment driven by newly added 2W warehouse in East Java and lubricant factory in Cilegon, which we expect a saving of <1% and ~2% in the respective Operating Margin. Meanwhile, we view MPMRent as a business of selling used cars rather than services and MPMInsurance as a business enabler within MPM's Omni-channel. Taking all into account, we see an attractive valuation as the company currently trades at 6.8x P/E and 0.9x P/BV. **As we rollover our valuations to FY18, we rate PT Mitra Pinasthika Mustika Tbk (MPMX) as BUY with 52-week TP of IDR 1,370, implying FY18F P/E and P/BV of 9.8x and 1.1x respectively.**

Highlights (IDR bn)	2015	2016	2017E	2018F	2019F
Revenue (IDR bn)	16,640	17,723	14,420	15,662	17,078
Gross Profit (IDR bn)	2,299	2,631	2,061	2,339	2,639
EBITDA (IDR bn)	1,122	1,249	1,438	1,518	1,714
NPAT (IDR bn)	308	410	530	623	731
NPATMI (IDR bn)	285	361	504	593	698
EBITDA Margin (%)	6.7%	7.1%	10.0%	9.7%	10.0%
Net Margin (%)	1.8%	2.3%	3.7%	4.0%	4.3%
Return on Assets (%)	2.0%	2.4%	4.8%	5.3%	5.8%
Return on Equity (%)	6.2%	7.4%	9.4%	10.3%	11.2%
Net Debt/Equity (X)	1.1	1.1	0.3	0.2	0.1

Stock Information	
Sector	Automotive
Bloomberg Ticker	MPMX IJ
Market Cap. (IDR tn)	4.4
Share Out./Float (mn)	4,463/1,179
Current Price	IDR 975
52-week Target Price	IDR 1,370
Upside (%)	40.5%

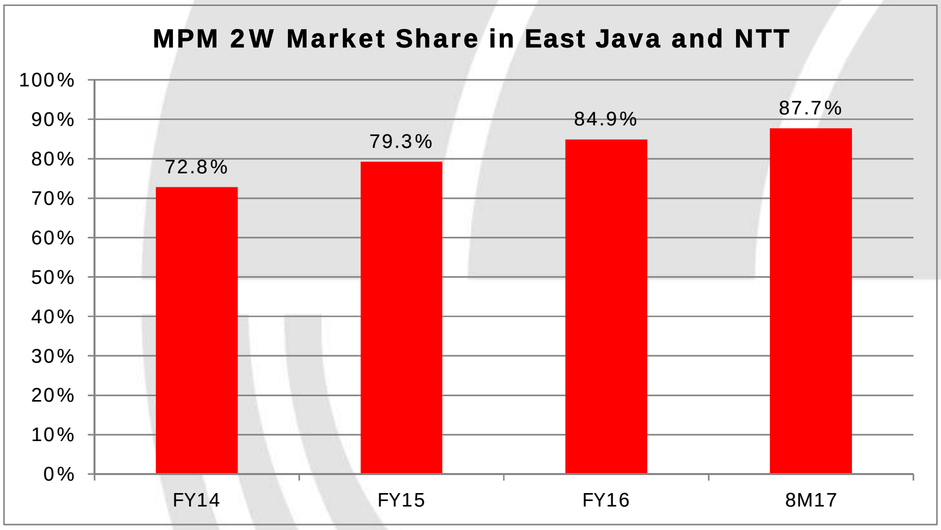
Share Price Performance	
52W High (10/17/17)	1,010
52W Low (11/09/16)	670
YTD Change (%)	18.9%

Relative Valuations	
Trailing P/E	6.8x
Forward P/E	7.0x
Trailing P/BV	0.9x
Forward P/BV	0.8x

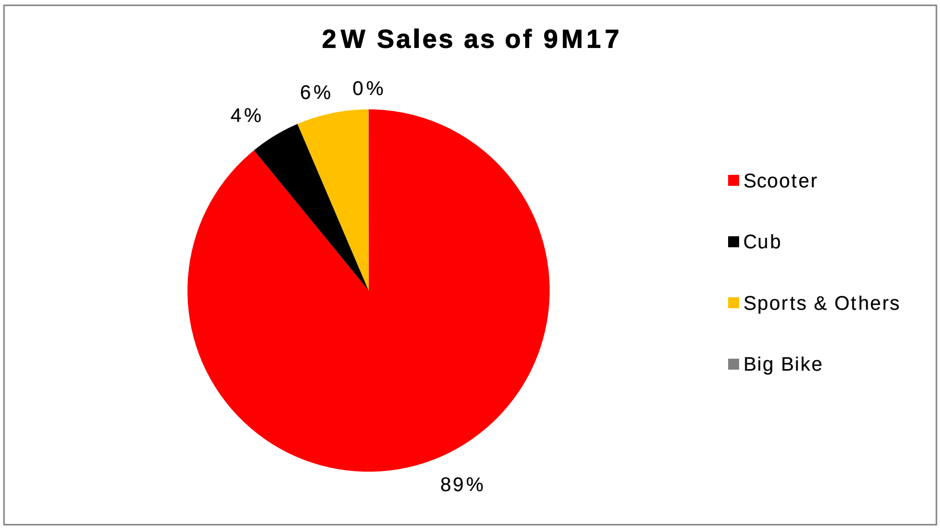
Distribution & Retail

As of September 2017, YTD national sales for 2W came in at 4,340,252 units (-0.3% YoY) whereas 4W came in at 804,167 units (+2.7% YoY). While 2W sales have declined for three consecutive years, we see that it should be bottoming this year as 3Q17 reading has shown a sign of recovery with sales went up by 26.2% QoQ. Sharing the same trend, 4W sales recorded a growth of 8.1% QoQ in 3Q17. From the macro side of things, we believe auto sales to pick up next year on the back of 1) stronger economic condition, 2) low interest rate environment, and 3) stabilizing commodity prices. Meanwhile, monetary aggregates such as M1 and M2 have shown a significant uptick (and widening spread) starting mid 2Q17, sensing the rise of consumer spending. Nonetheless, while we believe spending should improve, we still see a threat coming from the boom of disruptive industries, as they could potentially cannibalize customers' disposable income.

During the first nine months of 2017, MPM Mulia and MPM Motor sold 629,308 units of motorcycle (-7.0% YoY), with ~89% of total sales are still coming from Scooter. In-line with the industry, 3Q17 reported a 7.4% increase on a quarterly basis. We see that 9M17 sales underperformed due to the geographical locations of MPM's dealerships as Mulia and Motor are only selling Honda motorcycles in East Java and NTT. Taking that into account, East Java is an agricultural province where 2W sales are highly dependent on the harvest season (muted impact from coal price rally). On the other hand, despite the stable 2W sales in NTT, contribution is still minimum compared to East Java. Nonetheless, undeterred by the negative growth reported, MPM strengthened its position in East Java and NTT as their market share climbed to 88% from 85% in FY16. In the mean time, MPM added a new warehouse in Jombang this year to further minimize operating costs. As a distributor, big ticket items at the operating level are logistic and warehouse, besides advertisement which is much needed for auto industry. More warehouse could interpret to less time and less cost in the logistic. Including Jombang, MPM has three warehouses for the 2W distribution business. We expect Jombang to save logistic cost by 10-15% as it is geographically strategic. Going forward, company expects that Jombang could give further positive contributions to sales from quicker absorption once retail demand picks up. During 1H17, MPM launched 6 new 2W models and revamped 11 2W models.

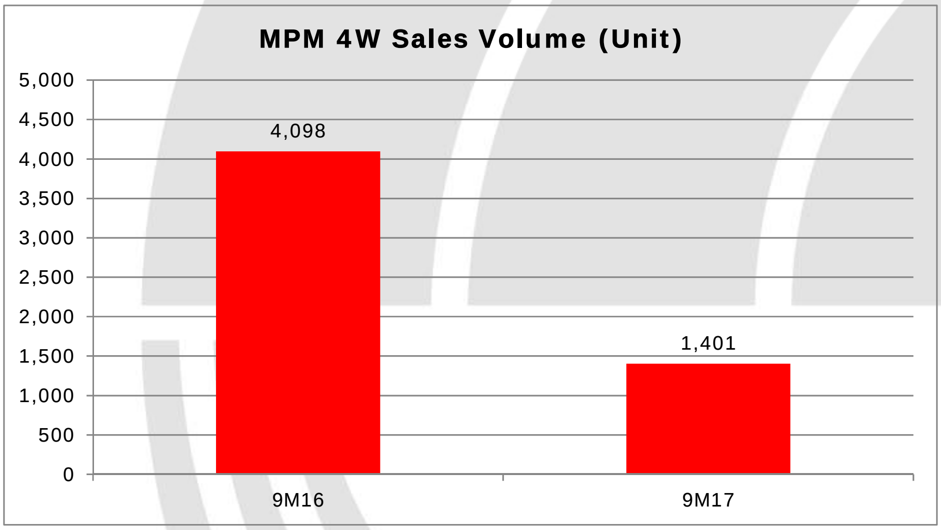


Source: Company Data, Sinarmas Investment Research



Source: Company Data, Sinarmas Investment Research

As for 4W businesses, MPMAuto had closed five dealerships this year as sales were disappointing, leaving five dealerships for both Nissan and Datsun. We view this to be a positive step as there were still no indications that Nissan would release a new MPV model that could grab market's attention, while on the other hand, bottom-line loss should minimize as there are less dealerships (less cost). As of today, Nissan's best seller model is still Livina, which was firstly introduced in 2007. Year-to-date, company sold 1,401 units of Nissan and Datsun combined, which went down by 65.8% compared to the previous year. With an average of 156 cars per month, company is still loss making due to high operating cost in the dealership level (depreciation expense, floor plan financing, etc.). We view that MPMAuto is the weak link within MPM group as it drags down consolidated bottom-line. Nonetheless, company plans to go multi-brand through its Bid Box initiative to improve Auto performance. The difference between Bid Box and other online leasing platform is the fact that it offers a combination of sale and leaseback with 3-yr financing package. To mitigate the risk, Bid Box applies a more stringent underwriting model; KYC and no LCGC. Even though we are less pessimistic on the Auto division, we view that bottom-line loss should minimize this year primarily due to less overhead cost from five dealerships closure.

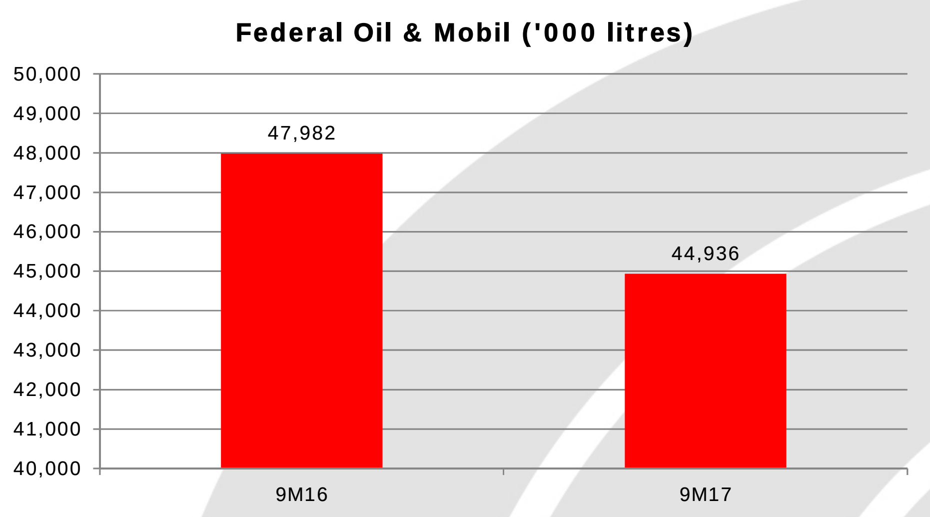


Source: Company Data, Sinarmas Investment Research

Consumer Parts

In the nine months of 2017, FKT managed to sell 44.9 mn litres of oil lubricant (-6.3% YoY or 70.9% of FY16 sales). As for this year, sales were dampened by promotions from other oil players. Nevertheless, based on our discussion with management, FKT still has the biggest market share amongst its competitors in 2W aftermarket at above 20%. When we conducted a ground check, we see that Federal Oil and Mobil has a consistent shelf penetration rate of ~20% in local workshops and ~45% in Federal-branded shops. We believe that FKT will continue to be the main engine of MPM group as it has a very solid brand presence and strong distribution networks. As of 1H17, there are 47 FKT distributors for Federal Oil and Federal Mobil. As of 1H17, FKT contributed 12.2% of total revenue and 47.2% of total net profit.

Aside from the strong business model and lucrative bottom-line margin, FKT has recently moved its oil plant to Cilegon, a 20,000 sqm factory that doubled the previous existing factory capacity and could carry through oil production from the initial step of additive-base oil blending to the very last step, which is packaging. With the more modern blending system, company expects to potentially save CoGS by 10-15%. At the operating level, logistic cost will be cheaper as distance to the nearest port is closer.



Source: Company Data, Sinarmas Investment Research

Old Plant	
Location:	Kawasan Industri Pulogadung, Jawa Timur
Land Size:	4,500 sqm (Rawa Gelam) + 5,500 sqm (Rawa Bali)
Distance to the Closest Port:	~40 km
Total Capacity:	~45 mn litres annually
New Plant	
Location:	Krakatau Industrial Estate Cilegon, Banten
Land Size:	20,000 sqm
Distance to the Closest Port:	~10 km
Total Capacity:	~100 mn litres annually
Remarks:	- More modern blending system
	- Lower reliance on third party blender
	- 20-30% less workforce required
	- Better access to raw materials (base oil and additive)

Source: Company Data, Sinarmas Investment Research

New Lubricant Factory in Cilegon

Source: Company Site Visit

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Distribution & Retail	2015	2016	2017E	2018F	2019F
Revenue	12,485	13,399	12,642	13,800	15,015
Cost of Revenue	11,795	12,650	11,913	12,962	14,074
Gross Profit	690	749	729	837	941
Other Operating Expense (Income)	425	445	366	391	415
Operating Profit	264	304	363	446	526
Net Profit	183	226	276	353	423
*ROA**	*5.8%*	*7.8%*	*9.2%*	*11.4%*	*13.2%*
*ROE**	*19.1%*	*22.1%*	*26.2%*	*32.5%*	*37.6%*

Consumer Parts	2015	2016	2017E	2018F	2019F
Revenue	1,631	1,960	1,960	2,109	2,378
Cost of Revenue	1,019	1,070	1,161	1,207	1,349
Gross Profit	535	616	616	705	807
Other Operating Expense (Income)	163	269	269	268	303
Operating Profit	372	347	347	437	505
Net Profit	302	270	282	353	407
*ROA**	*28.2%*	*21.3%*	*19.9%*	*21.2%*	*21.7%*
*ROE**	*37.2%*	*28.7%*	*26.8%*	*28.5%*	*29.2%*

Auto Services	2015	2016	2017E	2018F	2019F
Revenue	1,123	1,095	1,091	1,109	1,139
Cost of Revenue	826	808	738	732	740
Gross Profit	296	287	353	377	399
Other Operating Expense (Income)	161	109	126	122	125
Operating Profit	135	178	228	255	274
Net Profit	(37)	2	49	70	84
*ROA**	*-1.0%*	*0.1%*	*1.6%*	*2.2%*	*2.7%*
*ROE**	*-2.7%*	*0.2%*	*3.7%*	*5.2%*	*6.2%*

Financial Services	2015	2016	2017E	2018F	2019F
Revenue	1,209	1,259	200	230	259
Cost of Revenue	464	321	10	12	14
Gross Profit	746	938	190	218	245
Other Operating Expense (Income)	690	809	129	148	166
Operating Profit	56	129	61	70	79
Net Profit	59	122	60	69	78
*ROA**	*1.0%*	*1.9%*	*8.3%*	*8.3%*	*8.3%*
*ROE**	*3.2%*	*6.4%*	*24.2%*	*23.6%*	*23.2%*

Source: Company Data, Sinarmas Investment Research

**Note: ROA and ROE are estimates as company no longer disclose operating segments' balance sheet*

Assumptions	2015	2016	2017E	2018F	2019F
USD/IDR	13,795	13,436	13,500	13,500	13,500
MPM 2W Sales Volume (Unit)	902,434	912,132	852,843	891,677	929,196
MPM 4W Sales Volume (Unit)	3,680	4,760	1,865	1,912	1,959
Federal Oil Sales Volume ('000 litres)	59,200	63,342	63,342	66,509	73,160
Federal Oil Production Capacity ('000 litres)	40,000	40,000	70,000	100,000	100,000
MPMRent Total Available Fleets (Unit)	13,935	14,146	13,200	13,326	13,240
MPMRent Utilization Rate (%)	88.6%	86.0%	88.0%	90.0%	90.0%

Balance Sheet (IDR bn)	2015	2016	2017E	2018F	2019F
Cash and Equivalents	1,484	1,285	1,647	2,185	2,736
Trade Receivables	874	744	605	657	717
Consumer Financing Receivables	1,905	1,725	-	-	-
Finance Lease Receivables	680	614	-	-	-
Non-trade Receivables	356	291	237	257	280
Inventories	745	710	577	627	684
Total Current Assets	**6,454**	**5,719**	**3,418**	**4,081**	**4,773**
LT Consumer Financing Receivables	1,412	1,939	-	-	-
LT Finance Lease Receivables	674	953	-	-	-
Fixed Assets	3,351	3,521	3,339	3,561	3,771
Total Non-current Assets	**8,026**	**9,208**	**7,051**	**7,122**	**7,261**
Total Assets	**14,480**	**14,926**	**10,469**	**11,202**	**12,034**
Bank Loans	503	547	383	402	422
Trade Payables	1,022	962	788	849	920
Other Payables	379	363	298	321	348
Current Portion of LT Borrowings	1,764	2,135	489	514	540
Total Current Liabilities	**4,049**	**4,428**	**2,386**	**2,564**	**2,764**
LT Borrowings	2,071	1,612	612	642	674
Bonds Payable	2,754	2,696	1,696	1,781	1,870
Total Non-current Liabilities	**5,092**	**4,851**	**2,575**	**2,717**	**2,867**
Total Liabilities	**9,140**	**9,279**	**4,961**	**5,281**	**5,631**
Total Equity	**5,340**	**5,647**	**5,508**	**5,922**	**6,403**

Source: Company Data, Sinarmas Investment Research

Income Statement (IDR bn)	2015	2016	2017E	2018F	2019F
Revenue	**16,640**	**17,723**	**14,420**	**15,662**	**17,078**
- Distribution & Retail	*12,485*	*13,399*	*12,642*	*13,800*	*15,015*
- Consumer Parts	*1,631*	*1,960*	*1,960*	*2,109*	*2,378*
- Auto Services	*1,123*	*1,095*	*1,091*	*1,109*	*1,139*
- Financial Services	*1,209*	*1,259*	*200*	*230*	*259*
Cost of Revenue	**14,341**	**15,092**	**12,358**	**13,324**	**14,439**
Gross Profit	**2,299**	**2,631**	**2,061**	**2,339**	**2,639**
Other Operating Expense (Income)	1,586	1,794	968	1,187	1,314
Operating Profit	**713**	**837**	**1,094**	**1,151**	**1,326**
EBITDA	**1,122**	**1,249**	**1,438**	**1,518**	**1,714**
Net Finance Cost	625	631	595	457	474
Share of Profit of Associates	4	5	105	108	110
Income Before Tax Expenses	501	623	948	1,168	1,350
Net Profit	**308**	**410**	**530**	**623**	**731**
NPATMI	**285**	**361**	**504**	**593**	**698**

Ratios	2015	2016	2017E	2018F	2019F
Profitability					
Return on Asset (%)	1.97	2.42	4.82	5.30	5.80
Return on Equity (%)	6.21	7.40	9.40	10.31	11.23
Gross Margin (%)	13.81	14.85	14.30	14.93	15.46
Operating Margin (%)	4.28	4.72	7.58	7.35	7.76
EBITDA Margin (%)	6.74	7.05	9.97	9.69	10.04
Net Margin (%)	1.85	2.32	3.68	3.98	4.28
Liquidity					
Current Ratio (X)	1.59	1.29	1.43	1.59	1.73
Quick Ratio (X)	1.41	1.13	1.19	1.35	1.48
Solvency					
Debt/Equity (X)	1.33	1.29	0.58	0.56	0.55
Debt/Assets (X)	0.49	0.49	0.30	0.30	0.29
Valuations					
P/E (X)	19.87	14.90	11.53	9.81	8.36
P/BV (X)	1.33	1.25	1.14	1.06	0.98

Source: Company Data, Sinarmas Investment Research

Operating Segments	Multiple	(X)	Ownership (%)	FY18F NPAT (IDR bn)	FY18F Equity* (IDR bn)	Fair Value (IDR bn)
Distribution & Retail	P/E	8.0	99.99	353		2,825
Consumer Parts	P/E	12.0	100.00	353		4,236
Auto Services	P/E	6.0	99.99	70		420
Financial Services	P/BV	1.0	56.87		292	166
Total Fair Value (IDR bn)						**7,647**
Shares Outstanding (bn)						4.5
- Illiquidity Discount (%)						*20%*
Fair Value per Share (IDR)						**1,370**

Key Takeaways: we view that Consumer Parts and 2W Distribution to continue to revv up MPM's engine with their strong brand presences and distribution networks. We see several initiatives have done in each segment in order to aim for bottom-line improvement. Simultaneously, despite the lack of new models in 4W, bottom-line loss should minimize as company had closed five dealerships this year. As for Auto Services, we see that it is more of a business of selling used cars, which there are three dominant factors to the bottom-line: acquisition, service, and disposal. In terms of services, pricing is very competitive. Nonetheless, company has done initiatives in the procurement and disposal stages as well as reduced slow-moving vehicles. As for the operating segments breakdown, our valuation takes a conservative approach on the multiples and assumes 8.0x FY18F P/E on Distribution, 12.0x FY18F P/E on Consumer Parts, 6.0x FY18F P/E on Auto Services, and 1.0x FY18F P/BV on Financial Services. **As we rollover our valuations to FY18, we rate PT Mitra Pinasthika Mustika Tbk (MPMX) as BUY with 52-week TP of IDR 1,370, implying FY18F P/E and P/BV of 9.8x and 1.1x respectively.**

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