

PT ASTRA OTOPARTS TBK
COMPANY UPDATE
PT ASTRA OTOPARTS Tbk
HOLD

We reduced our call on AUTO to HOLD based on its limited upside potential while we maintained our rolling 12-month target price at IDR 3,800 (upside potential of 4.8%). AUTO continued to invest via Joint-ventures with renowned overseas automotive component manufacturers to boost its products portfolio. Upside catalysts include AUTO's success in negotiation for better pricings with its OEM clients which will boost its margin for manufacturing division up. We should expect the preliminary results from the negotiation in 3Q2012.

1H2012 results came out mixed with revenue growth of 16.8% slightly below our expectation of 17.8% for full year 2012 but overall operating margin has improved as the firm managed to boost its efficiency in operating expense.

Trading division

Trading division recorded a drop of 3.0% qoq (+14.7% yoy) in revenue but gross margin increased to 18.5% (+218bps qoq; +221bps yoy) with EBIT margin at 9.1% (+164bps qoq; +151bps yoy) due to less spending on advertising and promotions (-50.3% yoy). EBITDA margin increased to 9.3% in 2Q2012 (+165bps qoq; +177bps yoy). Overall, margin increment helped to offset the decline in revenue.

Manufacturing Division

Manufacturing division registered a 20.2% increase in revenue yoy in 2Q2012 but gross margin continued to be under pressure as the firm is still unable to raise its ASP (see reports dated 02 July 2012). We expect the firm to reach some form of negotiation that allows it to increase its ASP slightly to compensate it for rising raw materials (+17.9% yoy; 1H2012 raw materials as % of sales: 42.1% vs 41.7% in 1H2011) and labor costs (+19.9% yoy; 1H2012 labor costs as % of sales: 8.7% vs 8.5% in 1H2011). Gross margin declined to 12.2% in 2Q2012 (-128bps qoq) but EBIT margin only suffered slightly to 7.68% (-23bps qoq) due to efficiency program that the firm embark to strive to boost bottom-line growth amidst declining growth.

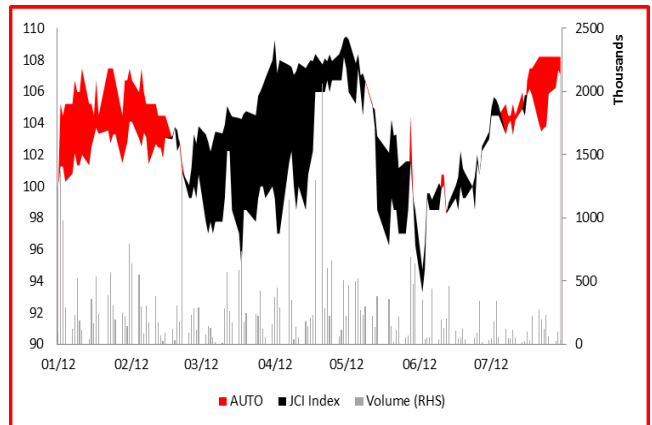
Overall

The firm has embarked on some form of efficiency to reduce operating costs which we expect to see more in the coming quarters and the ongoing negotiation with automotive manufacturers, if successful, will further lift the firm's margin up. Despite this, we maintain our valuation at IDR 3,800 and we will update immediately once the outcome of negotiation has been confirmed. Key risks include the impact of declining domestic 2W and 4W sales, if not offset by exports, will result in decline in productions and thus demands for OEM. Inflation is expected to remain tamed

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

Stock Data

Sector	Automotive Component
Price (31 July 2012)	IDR 3,625
Target Price 2012	IDR 3,800
12-month Rating	HOLD
Prior	BUY (TP IDR 3,800)
Ticker	AUTO.IJ (BBG); AUTO.JK (RIC)
Market Cap	IDR14.0tn
Shares Outstanding	3,855.8 mn
Free Float	167.3 mn

AUTO Performance against JCI Index


Source: Bloomberg

Profitability	2010	2011	2012F	2013F	2014F	2015F
Gross Margin%	18.4%	16.8%	16.3%	16.8%	16.8%	16.9%
EBIT Margin%	9.2%	7.1%	7.5%	8.0%	8.2%	8.3%
EBITDA Margin%	11.2%	9.2%	9.8%	10.5%	10.7%	10.8%
EV/EBITDA x			11.0	8.7	7.1	5.8
P/E x			13.0	11.4	9.7	8.2
Dividend Yield			3.08%	3.49%	4.11%	4.86%

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

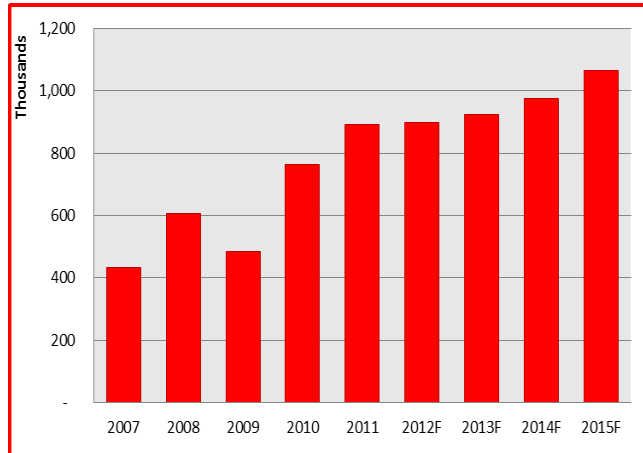
	Ownership rate
PT Astra International Tbk	95.66%
Institutional Ownership	0.37%
Retail/Others	3.96%

Source: Bloomberg (as of 19 June 2012)

	1 Day Change	1 Month Change	YTD Change	Change from YTD High	1 Year Change
Brent Crude Oil	0.02%	7.30%	-2.27%	-16.86%	-10.16%
Polyethylene	1.94%	1.52%	10.08%	-5.57%	-12.09%
Copper	-0.36%	-0.34%	-0.72%	-9.31%	-24.04%
Lead	-1.67%	3.40%	-5.17%	-17.08%	-26.39%
Aluminum	-0.32%	-0.48%	-3.31%	-4.54%	-16.36%
Rubber	0.09%	-11.35%	-13.49%	-34.02%	-43.52%
Tin	-0.95%	-3.73%	-5.59%	-28.93%	-35.49%
Hot-Rolled Coil Steel	0.00%	5.83%	-12.41%	-13.37%	-6.62%
WTI Crude Oil	0.19%	3.85%	-10.73%	-19.62%	-7.02%
Steel	-0.73%	-15.53%	-15.26%	-17.00%	-26.29%

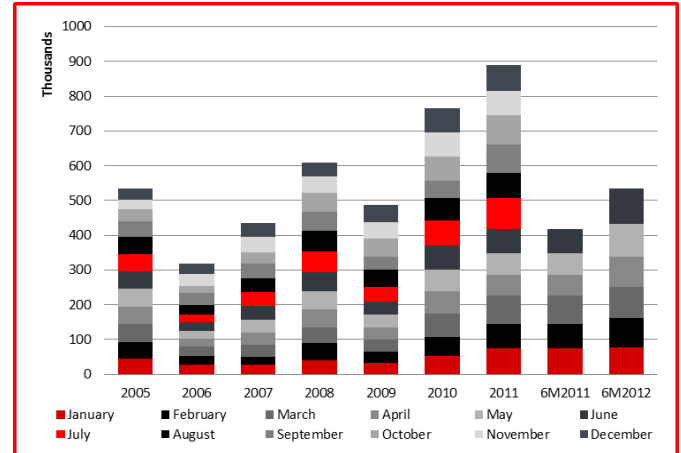
Source: Bloomberg (as of 02 August 2012)

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



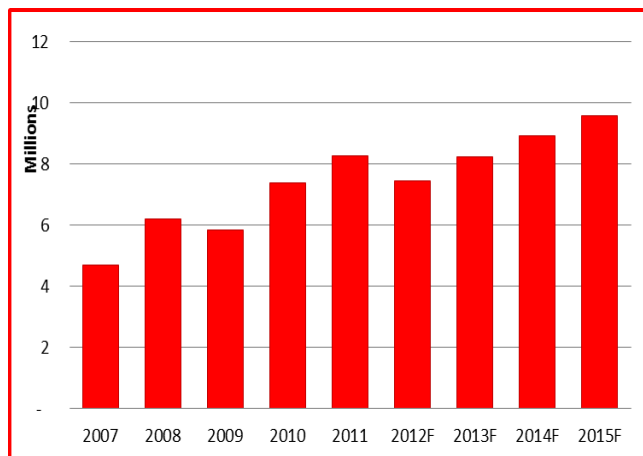
Source: Gaikindo, Sinarmas Sekuritas Research

Chart 3: 4W-Vehicles sales volume rose by 28.1% in 6M12 vs 6M11—Increase was expected as people tend to take advantage of the low DP prior to the implementation.



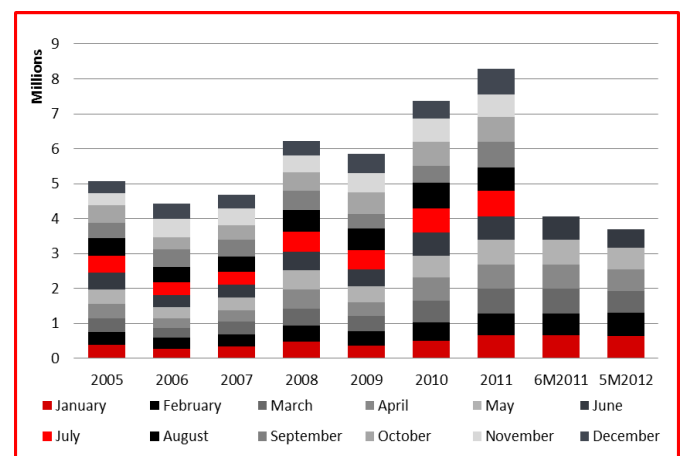
Source: Gaikindo

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



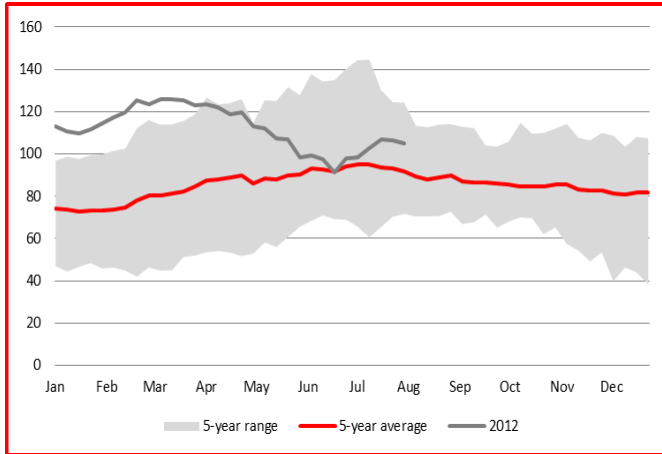
Source: AISI, Sinarmas Sekuritas Research

Chart 5: Disappointing 6M2012 2W-vehicles Sales (-8.7% yoy) will drag down overall annual performance leading us to downgrade our estimate on 2012 2W-vehicles sales due to bleak next Half of 2012.



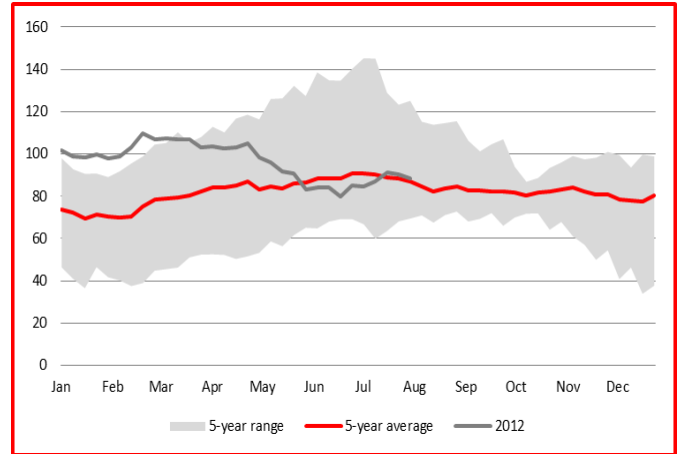
Source: AISI

Chart 6: WTI Crude Oil (USD/barrel)



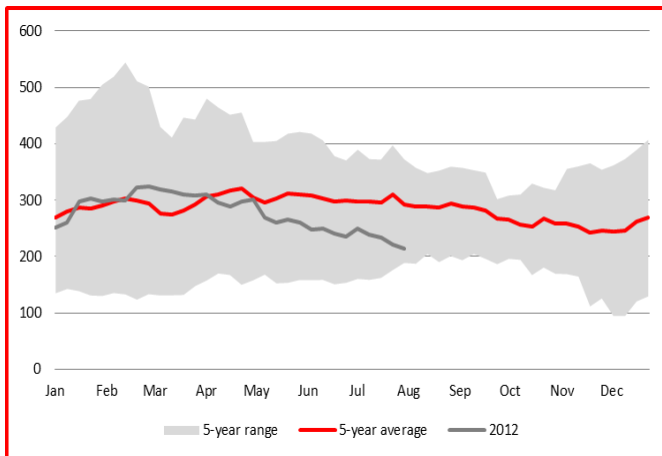
Source: Bloomberg

Chart 7: Brent Crude Oil (USD/barrel)



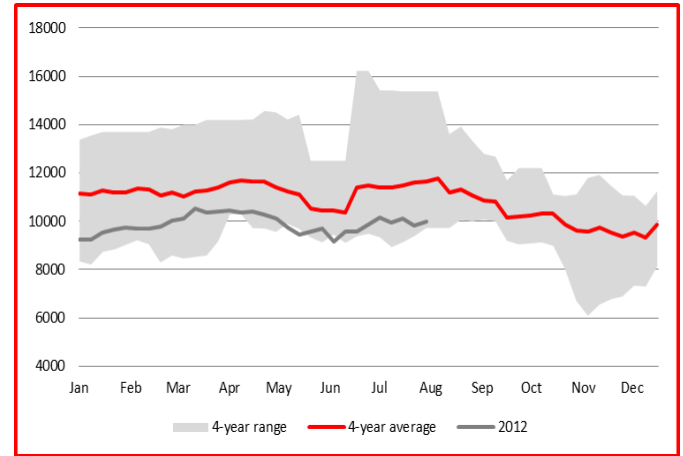
Source: Bloomberg

Chart 8: Rubber (JPY/kg)



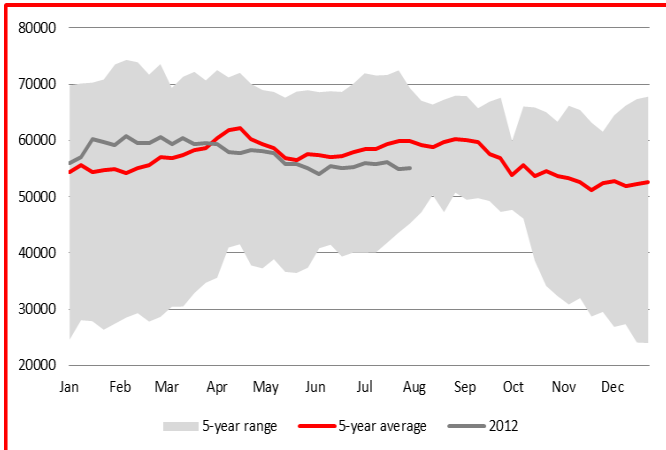
Source: Bloomberg

Chart 9: Polyethylene (CNY/T)



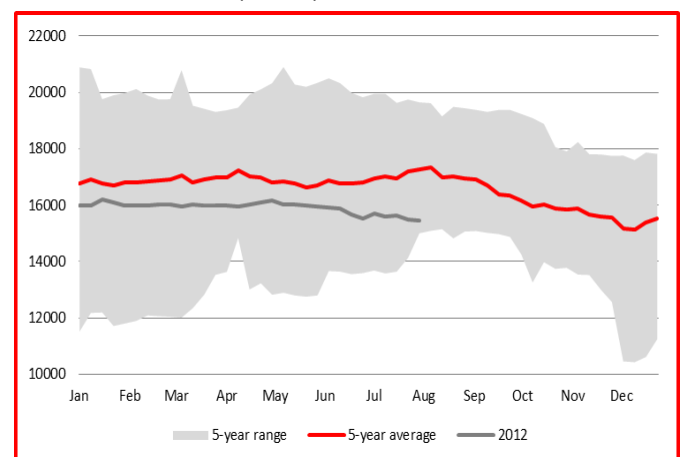
Source: Bloomberg

Chart 9: Copper (CNY/T)



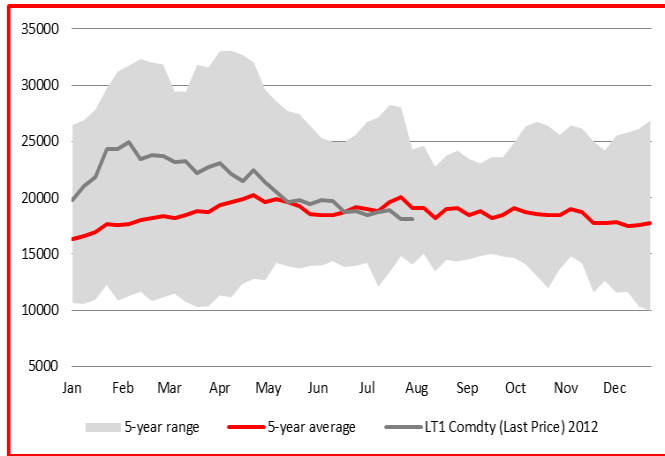
Source: Bloomberg

Chart 10: Aluminum (CNY/T)



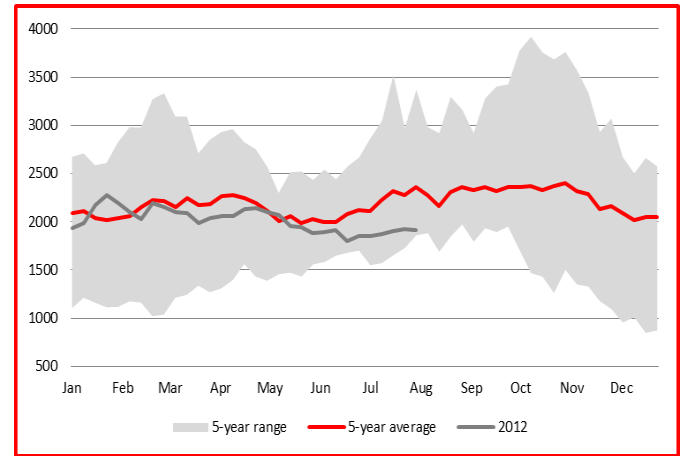
Source: Bloomberg

Chart 11: Tin (USD/T)



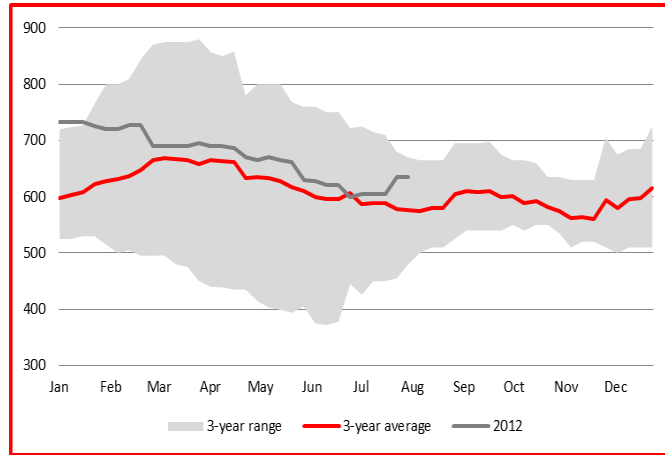
Source: Bloomberg

Chart 12: Lead (USD/T)



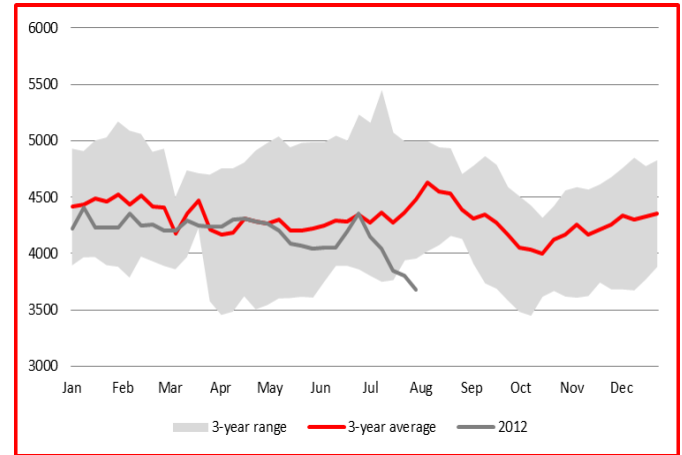
Source: Bloomberg

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



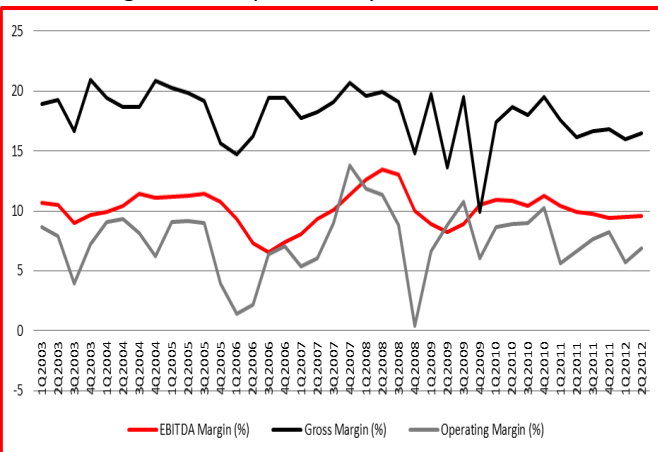
Source: Bloomberg

Chart 14: Steel (USD/T)



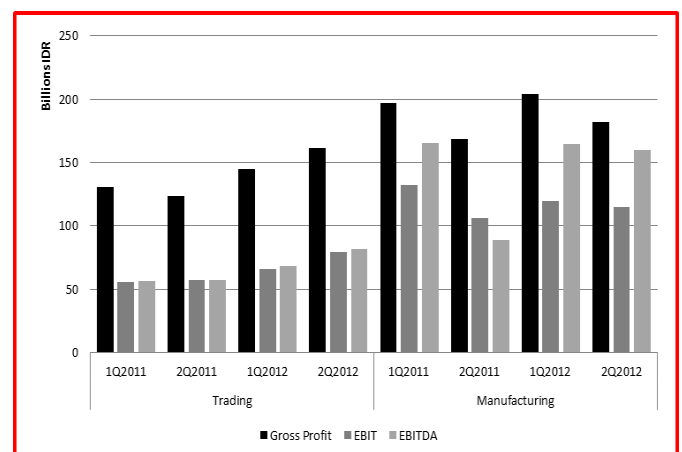
Source: Bloomberg

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: Gross Profit, EBIT and EBITDA breakdown



Source: Bloomberg



Income Statement Summary

	2009	2010	2011	1H2012E	1H2012E as % of 2012E	2012E	2013F	2014F	2015F
Revenues	5,265,798	6,255,109	7,363,659	4,161,580	48%	8,677,855	10,294,701	12,432,417	14,918,900
Cost of Revenue	4,317,181	5,102,483	6,126,058	3,485,651	48%	7,263,364	8,565,191	10,343,771	12,397,606
Gross Profit	948,617	1,152,626	1,237,601	675,929	48%	1,414,490	1,729,510	2,088,646	2,521,294
SG&A	508,626	579,511	718,053	413,607	54%	764,345	906,984	1,074,171	1,284,321
EBIT	439,991	573,115	519,548	262,322	40%	650,145	822,525	1,014,475	1,236,973
Other non-operating income	56,242	32,108	38,090	43,919		46,000	55,200	65,173	76,981
interest, net	-14,493	-109,038	-133,693	(28,971)		-132,607	-107,972	-102,242	-74,402
Equity linked, net income	509,774	761,161	693,786	370,619	47%	793,535	872,888	977,635	1,094,951
Profit before tax	967,001	1,391,264	1,255,083	647,889	46%	1,394,447	1,599,811	1,905,502	2,279,152
Taxation	-137,046	-168,956	-153,500	(73,707)		-162,246	-196,269	-250,524	-319,734
Profit after tax	829,955	1,222,308	1,101,583	574,182	47%	1,232,200	1,403,541	1,654,978	1,959,418
Minorities	-41,690	-84,126	-88,364	(46,278)		-104,134	-123,536	-149,189	-179,027
Net Profit	788,265	1,138,182	1,013,219	527,904	47%	1,128,066	1,280,005	1,505,789	1,780,391
Gross Margin	18.0%	18.4%	16.8%	16.2%		16.3%	16.8%	16.8%	16.9%
EBITDA margin	10.1%	11.2%	9.2%	8.7%		9.8%	10.5%	10.7%	10.8%
EBIT Margin	8.4%	9.2%	7.1%	6.3%		7.5%	8.0%	8.2%	8.3%
NOPAT Margin	5.9%	6.7%	5.1%	4.7%		5.5%	5.8%	0.0%	0.0%
Net Margin	5.3%	6.0%	4.3%	3.8%		3.9%	4.0%	4.2%	4.6%
Revenue Growth	-1.3%	18.8%	17.7%	16.8%		17.8%	18.6%	20.8%	20.0%
EBITDA Growth	0.4%	31.1%	-3.2%	-3.0%		25.5%	27.1%	22.7%	21.5%
EBIT Growth	-2.6%	30.3%	-9.3%	22.4%		25.1%	26.5%	23.3%	21.9%
Net Profit Growth	39.3%	44.4%	-11.0%	9.9%		11.3%	13.5%	17.6%	18.2%
Equity linked net income Growth	80.0%	49.3%	-8.9%	6.9%		11.3%	13.5%	17.6%	18.2%

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

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