



## AUTOMOTIVE SECTOR UPDATE

### Stronger Incumbent Despite Weakening Sales

#### Weak 4W Sales Before the Election

During 4M19, four wheels (4W) sales has weakened by -14.30% YoY to 337,892 units. The weakening sales has happened in both segment, commercial vehicle (CV) and passenger vehicle (PV), by -17.98% YoY and -13.15% YoY, respectively. We see that election year pushed many business performers to hold back their capital expenditure because of the uncertainty of election winner, thus the regulation that will prevail after the election. We see that steady economic growth in 1Q19 at 5.07% and higher vehicle loan interest (+13bps in 2M19 since 5M18) had detained 4W sales.

#### Toyota Avanza is Back to Lead Again

Although LMPV sales in 4M19 was decreased by -14.93% YoY, LMPV sales booked 4.18% YoY growth to 243,723 units during FY18. Toyota Avanza is able to take over the market again with market share at 37% in 4M19 with its new model, after its competitor launched same prototype such as Mitsubishi Xpander and Wuling Confero. New launch of Toyota Avanza and Daihatsu Xenia by PT Astra International Tbk (ASII), could maintain its market share and even boosted Toyota Avanza market share to 37% in 4M19 (vs 31% in 1Q18). We consider that LMPV growth will tend to be stable with intense competition along with economic growth and the rapid growth of online transportation.

#### Commercial Vehicles Improved Along with Logistics Sector Growth

Commercial vehicle sales reached 17.56% YoY to 276,631 units in FY18, which has gradually improved since FY16 where sales only reached 200,742 units, along with Logistic Performance Index (LPI) at 2.98. Infrastructure development has been completed and encouraged national logistics activities, including the commercial vehicles sales, which can be seen from the LPI which increased to the level of 3.15 in FY18. An increase in the performance of the logistics sector can be seen from truck and pick-up sales, which grew by 27.37% YoY and 11.76% YoY in FY18, respectively. We see that commercial vehicles will be helped with logistics potential demand for land lines.

#### Electric Vehicle Progress that Begins to Appear

The Ministry of Industry targets to build the electric vehicle industry in the country by 2022 supported by several programs, such as PT PLN (Persero) whom prepares charging stations as electric vehicles infrastructure, called by Stasiun Pengisian Listrik Umum (SPLU). Automotive companies, such as Toyota, Wuling etc., are preparing for electric vehicle potential demand once the regulation is settled. BYD plans to invest in Indonesia as informed by the news, in order to anticipate electric vehicle demand in Indonesia. We see that the trend of electric vehicles will have a positive effect on the automotive sector along with the development of its infrastructure.

#### Recommendation: Neutral with Top Picks ASII (BUY, TP: IDR8,400)

We consider that the automotive sector in FY19E will grow steadily along with economic growth. We revise passenger vehicles projection to reach ~890,000 units from 900,000 units and commercial vehicles to ~290,000 units with overall growth at ~2.50% YoY in FY19E. We consider that ASII can maintain a market share around 51% in FY19E with new Toyota Avanza and Toyota Rush. We recommend **NEUTRAL** for the automotive sector with **ASII** as stock recommendation (**BUY, TP: IDR8,400**). Rupiah volatility, inflation and rising interest rates will be obstacles for automotive sector.

Ticker	Market Cap (IDR tn)	P/E (x)		PBV (x)		Rec.	Target Price (IDR)
		FY19E	FY20F	FY19E	FY20F		
ASII	290,47	12.02	11.33	1.49	1.35	BUY	8,400

Sources: Bloomberg, MNCS (as of May 27<sup>th</sup> 2019)



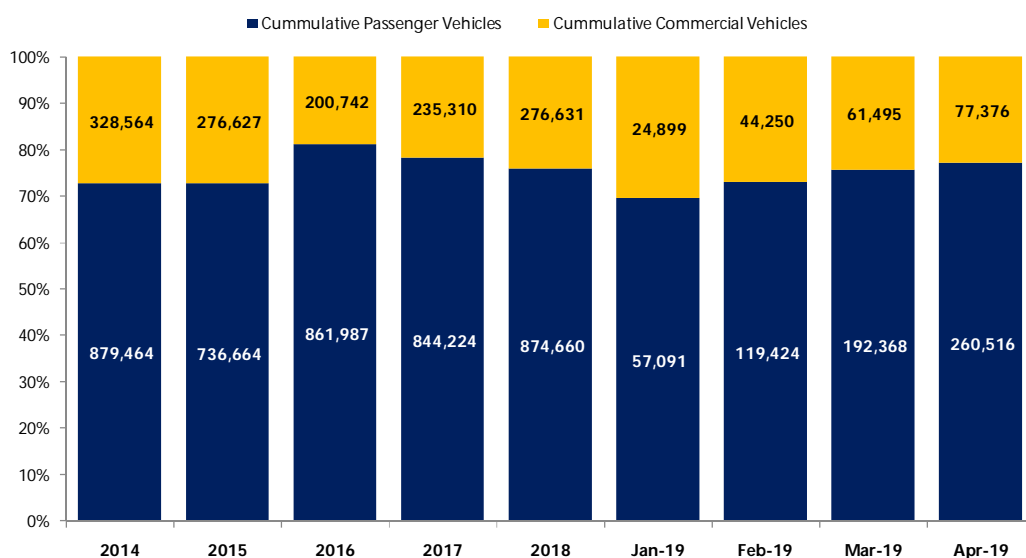
#### Research Analyst

Rr. Nurulita Harwaningrum  
 roro.harwaningrum@mncgroup.com  
 (021) 2980 3111 ext. 52237

## Weak 4W Sales Before the Election

During 4M19, four wheels (4W) sales has weakened by -14.30% YoY to 337,892 units. The weakening sales has happened in both segment, commercial vehicle (CV) and passenger vehicle (PV), by -17.98% YoY and -13.15% YoY, respectively. We see that election year pushed many business performers to hold back their capital expenditure because of the uncertainty of election winner, thus the regulation that will prevail after the election. Commercial vehicle as the driver of 4W sales during FY18, also had been impacted by the uncertainty of election as well as the weakening of commodities prices in 4M19. We see that steady economic growth in 1Q19 at 5.07% and higher vehicle loan interest (+13bps in 2M19 since 5M18) had detained 4W sales.

Exhibit 01. 4W Vehicle Sales



Sources : Gaikindo, MNCS

## Toyota Avanza is Back to Lead Again

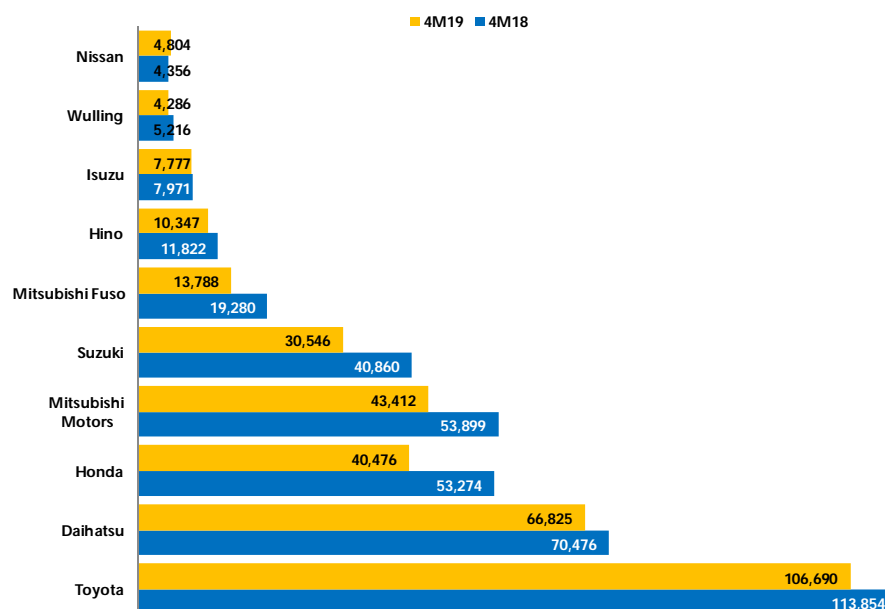
LMPV is still the favorite segment for passenger cars which takes 30% composition of total passenger cars. Although LMPV sales in 4M19 was decreased by -14.93% YoY, LMPV sales booked 4.18% YoY growth to 243,723 units during FY18. Meanwhile, medium MPV also continued to book negative growth since FY18 until 1Q19 with -1.45% YoY growth and had 9% proportion of total passenger cars. New Nissan Livina was the only one that booked positive growth in 4M19 for medium MPV, by 84.92% YoY and reached out 14% of medium MPV market share (vs 8% in 4M18). Toyota Avanza is able to take over the market again with market share at 37% in 4M19 with its new model, after its competitor launched same prototype such as Mitsubishi Xpander and Wuling Confero. New launch of Toyota Avanza and Daihatsu Xenia by PT Astra International Tbk (ASII), could maintain its market share and even boosted Toyota Avanza market share to 37% in 4M19 (vs 31% in 1Q18). We consider that LMPV growth will tend to be stable with intense competition along with economic growth and the rapid growth of online transportation (GoCar and Grab Car). In addition, consumer preferences which is currently shifting to LSUV, becomes one factor that needs attention. Although LSUV sales in 4M19 was decreased by -15.95% YoY with its composition reached out 12% of total passenger cars, Toyota Rush was the only one which could book positive growth at 35.17% YoY in 4M19 and reached 64% market share of LSUV segment (vs 40% in 4M18). Therefore, we see that Toyota Rush will still be the driver of ASII's automotive sales along with the recovery of Toyota Avanza sales.

Exhibit 02. Nissan Livina 2019



Sources : autonetmagz.net

Exhibit 03. Top 10 Automotive Brands



Sources : Gaikindo, MNCS

### Appetite Shifting from LMPV to LSUV FY18

Rush, LSUV from Toyota, which was commercialized at the beginning of the year FY18 and Daihatsu Terios which was launched at the end of 2017, managed to get a good response from consumers. This can be seen from the sales of Toyota Rush which grew 293.99% YoY to 71,655 units and Daihatsu Terios was able to grow 179.88% YoY in FY18. Even though LSUV sales in 1Q19 was decreased as well as all passenger vehicle segment, Toyota Rush and Daihatsu Terios could beat Honda HRV and BRV in 1Q19, with its market share reached 66% and 26%, respectively. However, Toyota Rush is the only LSUV that booked positive growth with 35.17% YoY in 4M19. Meanwhile, both LSUV by Honda lost its market share tremendously, from 32% in 4M18 to just 11% in 4M19. Overall, it appears that consumer appetite changes to LSUV as indicated by LSUV sales growth as a whole reaching 63.90% in FY18 and we see the SUV segment will be increasingly crowded with the latest SUV to be launched by Wuling, namely Almaz.

Exhibit 04. Wuling Almaz

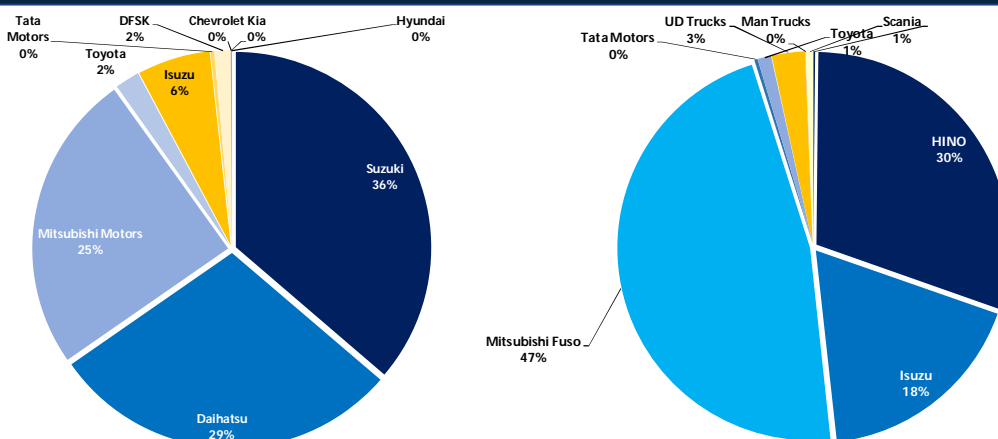


Source : autonetmagz.net

**Commercial Vehicles Improved Along with Logistics Sector Growth**

Commercial vehicle sales reached 17.56% YoY to 276,631 units in FY18, which has gradually improved since FY16 where sales only reached 200,742 units, along with Logistic Performance Index (LPI) at 2.98. Infrastructure development has been completed and encouraged national logistics activities, including the commercial vehicles sales, which can be seen from the LPI which increased to the level of 3.15 in FY18. Therefore, an increase in the performance of the logistics sector can be seen from truck and pick-up sales, which grew by 27.37% YoY and 11.76% YoY, respectively. Commercial vehicles growth can be seen from the logistics companies performance, such as PT Indomobil Multi Jasa Tbk (IMJS) and PT Adi Sarana Armada Tbk (ASSA), which its revenue grew by 24.79% YoY and 10.24% YoY in FY18, respectively. On the other hand, cost from airline logistics has increased due to increased cargo rates by airlines. Seeing the land transportation routes (toll roads and flyovers) that have been developed, as seen from the addition of 4 toll roads that have operated through PT Jasamarga (Persero) Tbk (JSMR) from 2016 to 2018, we see opportunities for logistics by land will experience improvement especially for one island region. Cargo delivery speed as indicated by the timeliness indicator of LPI, indicates that there was an improvement in the FY18 at 3.67 (vs. 3.46 in FY16) along with the improvement in infrastructure quality at the level of 2.90 in FY18 (vs. 2.65 in FY16). Even though, commercial vehicle drop by 17.98% YoY in 4M19 because of weakening commodities prices and election day in Apr-19, we see that demand for commercial vehicles will be helped with logistics potential demand for land lines.

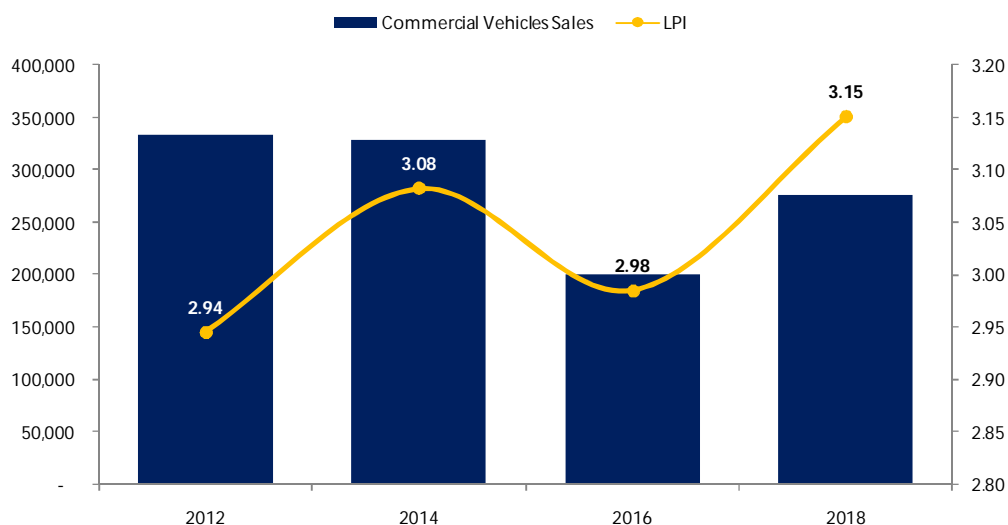
Exhibit 05. Pick-Up (Left) and Truck (right) Market Share 4M19



Source : Gaikindo, MNCS



Exhibit 06. Logistic Performance Index (LPI) and Commercial Vehicles Sales



Sources : Gaikindo, MNCS

### Electric Vehicle Progress that Begins to Appear

The Ministry of Industry targets to build the electric vehicle industry in the country by 2022, in order to expand the export market of electric vehicles and aim for the electric cars operation in Indonesia to reach 20% by 2025. The program is supported by several parties, such as PT PLN (Persero) whom prepares charging stations as electric vehicles infrastructure, called by Stasiun Pengisian Listrik Umum (SPLU). Recently, PT PLN Distribusi Jakarta Raya (Disjaya) is designing a fast charging infrastructure in addition to 1000 established of standard charging for two wheelers (2W), to facilitate the energy needs of electric vehicles. The government also collaborates with China, Japan, and local companies in building raw material factories for electric vehicle batteries. Automotive companies, such as Toyota, Wuling etc., are preparing for electric vehicle potential demand once the regulation is settled. The well known China electric vehicle manufacturer, BYD, plans to invest in Indonesia as informed by the news, in order to anticipate electric vehicle demand in Indonesia. Currently, PT Blue Bird Tbk (BIRD) uses electric vehicles for taxis from BYD. We see that the trend of electric vehicles will have a positive effect on the automotive sector along with the development of its infrastructure.

Exhibit 07. Blue Bird's Electric Taxis



Sources : OJK, MNCS

## Exhibit 08. Electric Online Transportation



Sources : Google

Domestic 4W sales in 4M19 decreased by -14.30% YoY to 337,892 units. The decline in sales at the beginning of the year was a cycle as happened in FY15 and FY16, where 4W sales in FY16 scored positive growth (4.88% YoY) driven by passenger vehicles along with FY16 GDP which reached 5.01% (vs 4.88% in FY15). We consider this decline in sales as also a decline in the performance of the automotive sector which had experienced improvement in the past two years. In addition, the volatility of the Rupiah exchange rate will still be seen in 2019 as trade war tension is increasing, which can affect the cost of production for passenger and commercial vehicles. This can be seen from the Rupiah exchange rate at the level of Rp14,463 (May 23<sup>rd</sup>, 2019). In addition, the increasing vehicle interest loan could also be an obstacle to passenger vehicles demand, where ~ 70% of passenger vehicle sales are carried out on loan.

We consider that the automotive sector in FY19E will grow steadily along with economic growth. We revise passenger vehicles projection to reach ~890,000 units from 900,000 units and commercial vehicles to ~290,000 units with overall growth at ~2.50% YoY in FY19E. Passenger vehicles is driven by online transportation, as well as policy easing for 0% down payment set by the regulator. Whereas commercial vehicles will grow along with logistic and infrastructure. We consider that ASII can maintain a market share around 51% in FY19E with the launch of the new Toyota Avanza and Daihatsu Xenia, as well as the still high consumer appetite for LSUV, especially for Toyota Rush. We recommend NEUTRAL for the automotive sector with ASII as stock recommendation (BUY, TP: IDR8,400). Rupiah exchange rate volatility, inflation and rising interest rates will be obstacles for automotive sector.

**Risk of the Automotive Sector: Slowing Economic Growth, Exchange Rates and Interest Rates**

**Recommendation: Neutral with Top Picks ASII (BUY, TP: IDR8,400)**

## MNC SEKURITAS RESEARCH TEAM

### Thendra Crisnanda

Head of Institutional Research, Strategy  
thendra.crisnanda@mncgroup.com  
(021) 2980 3111 ext. 52162

### Victoria Venny

Telco, Consumer, Poultry, Small-Mid Cap  
victoria.nawang@mncgroup.com  
(021) 2980 3111 ext. 52236

### Rr. Nurulita Harwaningrum

Banking, Auto, Heavy Equipment, Plantation  
roro.harwaningrum@mncgroup.com  
(021) 2980 3111 ext. 52237

### Muhamad Rudy Setiawan

Research Associate, Property, Construction  
muhamad.setiawan@mncgroup.com  
(021) 2980 3111 ext. 52317

### I Made Adi Saputra

Head of Fixed Income Research  
imade.saputra@mncgroup.com  
(021) 2980 3111 ext. 52117

### Ikhsan Hadi Santoso

Junior Analyst of Fixed Income  
ikhsan.santoso@mncgroup.com  
(021) 2980 3111 ext. 52235

### Krestanti Nugrahane Widhi

Research Associate, Consumer, Plantation, Mining, Coal  
krestanti.widhi@mncgroup.com  
(021) 2980 3111 ext. 52166

### Edwin J. Sebayang

Head of Retail Research, Technical  
edwin.sebayang@mncgroup.com  
(021) 2980 3111 ext. 52233

### Khazar Srikandi

Research Associate  
khazar.srikandi@mncgroup.com  
(021) 2980 3111 ext. 52313

### T. Herditya Wicaksana

Technical Specialist  
Herditya.wicaksana@mncgroup.com  
(021) 2980 3150 ext. 52150

## MNC SEKURITAS EQUITY SALES TEAM

### Andi Abidin

Head of Institution & High Network  
hedy.arifien@mncgroup.com  
(021) 2980 3111 ext. 52170

### Harun Nurrosyid

Senior Equity Institutional Sales  
harun.nurrosyid@mncgroup.com  
(021) 2980 3111 ext. 52187

### Agus Eko Santoso

Senior Equity Institutional Sales  
agus.santoso@mncgroup.com  
(021) 2980 3111 ext. 52185

### Okhy Ibrahim

Senior Equity Institutional Sales  
okhy.ibrahim@mncgroup.com  
(021) 2980 3111 ext. 52180

### Ibnu Ramadhan

Senior Equity Institutional Sales  
ibnu.ramadhan@mncgroup.com  
(021) 2980 3111 ext. 52178

### Gina Purnama Sari

Junior Equity Sales  
gina.purnamasari@mncgroup.com  
(021) 2980 3111 ext. 52181

### Nesya Kharismawati

Senior Equity Institutional Sales  
nesya.kharismawati@mncgroup.com  
(021) 2980 3111 ext. 52182

### Iman Hadimulya, ST

Senior Equity Institutional Sales  
iman.hadimulya@mncgroup.com  
(021) 2980 3111 ext. 52174

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**BUY** : Share price may exceed 10% over the next 12 months

**HOLD** : Share price may fall within the range of +/- 10% of the next 12 months

**SELL** : Share price may fall by more than 10% over the next 12 months

**Not Rated** : Stock is not within regular research coverage

### PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16  
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340  
Telp : (021) 2980 3111  
Fax : (021) 3983 6899  
Call Center : 1500 899

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