

SECTOR UPDATE REPORT

MNC Sekuritas Research Division | June 18, 2020



AUTOMOTIVE SECTOR UPDATE

Hitting Rock Bottom

Business Activities are Obstructed by the Outbreak

Vehicle sales and productions are hampered due to the Covid-19 pandemics that caused several factories to cease operations temporarily. This is reflected from the May 2020 4W sales and productions which slumped by 95.78%/97.46% YoY respectively. 2W Sales followed closely by the 78.38% YoY drop in sales as of April 2020. Meanwhile, ASII IJ posted a decrease in revenue by 9.4% YoY to IDR54 trillion in 1Q20 (reaching 26.35% of MNCS Estimates) compared to IDR59.61 trillion in 1Q19. This is due to a decline on goods sales (-10.83% YoY) as well as services and rental (-11.21% YoY) despite the growth in financial services (+7.78% YoY). Thus, net profit recorded at IDR4.81 trillion in 1Q20 which fell by 7.77% YoY and reaching 29.27% of MNCS Estimates. Moreover, ASII's market share fell in May 2020 to 31% from 48% in April 2020. On the other hand, the LCGC market share rose to 69% in May 2020 from 65% in April 2020. We see that despite the market share drop in May, ASII still dominate the market share by average of 54.23% in 5M20. Furthermore, Gaikindo has revised their vehicle sales target from 1.08 million units to 600.000 units in FY20E due to the Covid-19 impact on vehicle demand.

Lower Mobility and Returning to Operation

During the pandemic and the activities restriction, Google has recorded a reduction in mobility towards public places such as retails (-32%), parks (-33%), transit stations (-50%), and workplace (-3%) while traffic towards the residential area increase by 11% as citizens are advised to stay at home. Moreover, mobility towards the grocery and pharmacy decreased by 10% although it began to rise in May 2020. As the government lifts the large scale social restriction (PSBB), Toyota factories has return to operation with health standardization. Meanwhile Honda has temporarily halted production from April 13 due to the Covid-19 outbreak, an adjustment between the current lack of demand and production, and a disruption in the supply of components imported from abroad. Honda stated that the plant will operate later in line with market developments.

Weak Demand due to Low Purchasing Power

The slump on vehicle sales was also caused by the low purchasing power. As the global economic activities are being halted, people are focusing the remaining of their budget for primary needs rather than the tertiary. So this resulted on China's passenger car sales and production which dropped substantially by 89.90%/91.07% YoY respectively, on the peak of the Covid-19 outbreak in February 2020. Nevertheless, with China's reopening and economic recovery, the car production has return to normal operation as it grew by 6.44% YoY in May 2020. Whereas, in Indonesia the pandemic take a longer toll on the economic activity, as reflected by the deep plunge of 16.9% YoY in the April Retail Sales Index, as the sales on vehicle parts and accessories are also tumbled by 30.8% YoY in April 2020. With the lockdown easing and the large scale social restriction (PSBB) re-opening, the market expects a revival on the business activities, but the second wave outbreak becomes a threat as it can further collapse the economic.

NEUTRAL Outlook with Top Pick ASII (BUY; TP: IDR5,500)

We consider that the automotive sector in FY20E will be stagnant, which was based on the impact of global economic instability due to the Covid-19 outbreak that hampered the car sales and production both domestic and globally. However we expects that there will be a recovery as it already happened in China. We recommend **NEUTRAL** for the automotive sector with the stock recommendation of ASII (**BUY, TP: IDR5,500**) due to its resiliency in remaining as the largest market share in Indonesia. ASII will also be distributing dividends amounting to IDR8.66 trillion with dividend per share at IDR214. The interim dividend of IDR57/share has been distributed on October while the remaining IDR157/share will be distributed on July 2020 with dividend yield at the level of 3.16%. ASII is currently traded at -1.62 STD with PE at 9.44x.



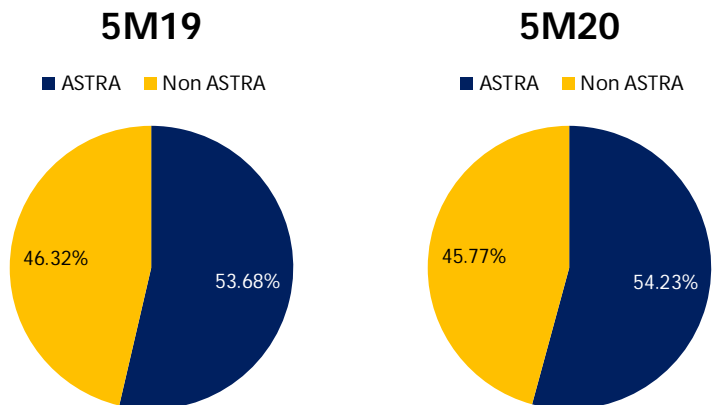
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Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY20E	FY21F	FY20E	FY21F		
ASII IJ	201,203	12.07	9.63	0.99	0.93	BUY	5,500

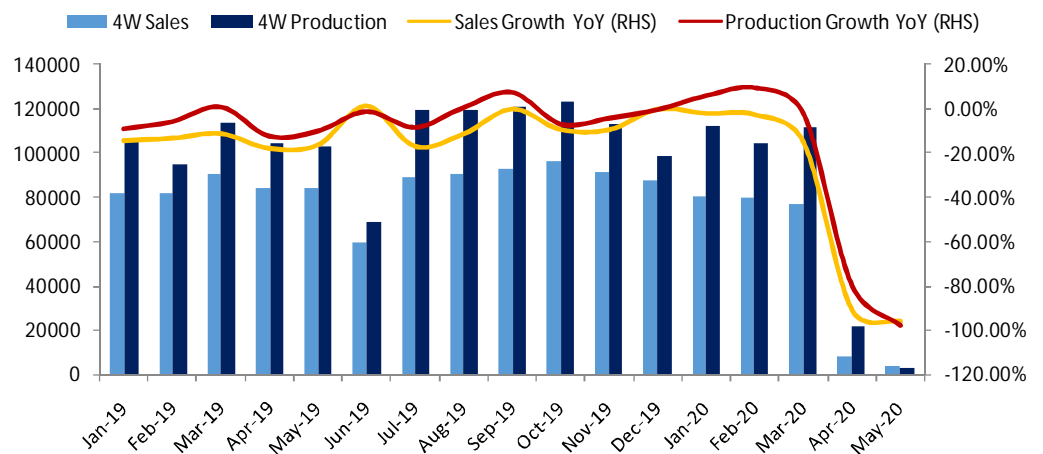
Sources: Bloomberg, MNCS

Exhibit 01. ASII Market Share increase in 5M20



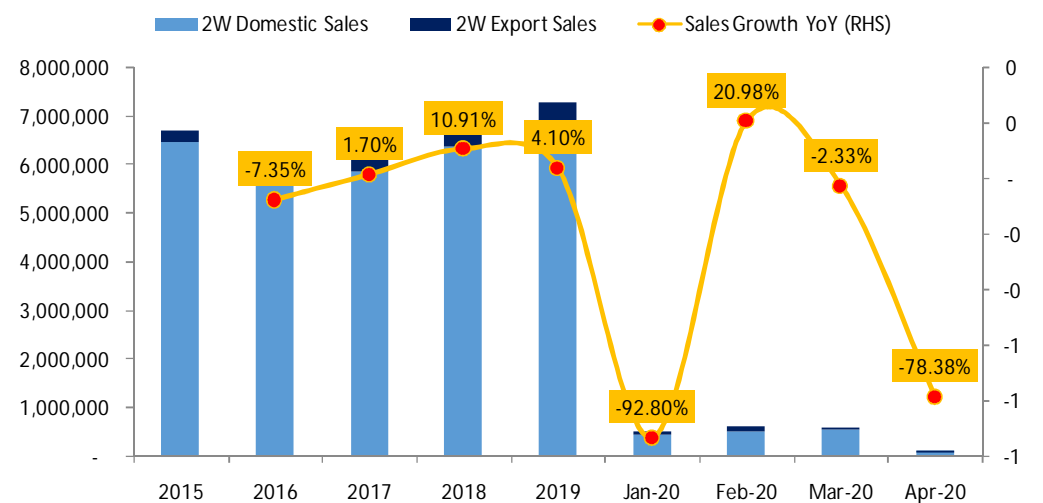
Sources : ASII, MNCS

Exhibit 02. 4W Sales and Production dropped in early FY20E



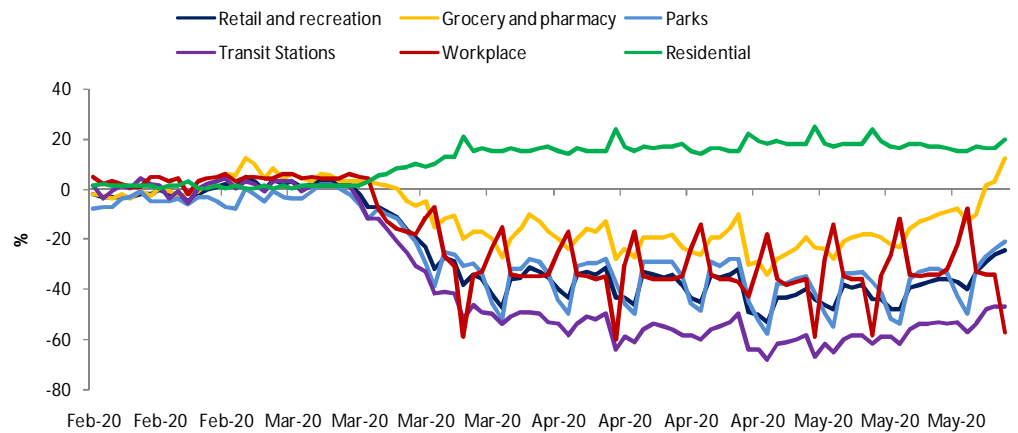
Sources : Gaikindo, MNCS

Exhibit 03. 2W Sales is showing a downtrend



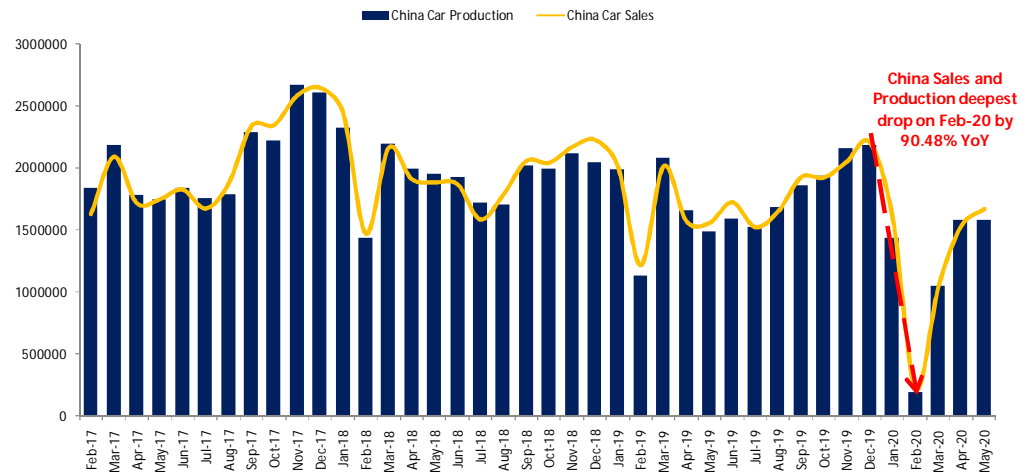
Sources : AISI, MNCS

Exhibit 04. Google Mobility Trend is showing an increase towards Residential



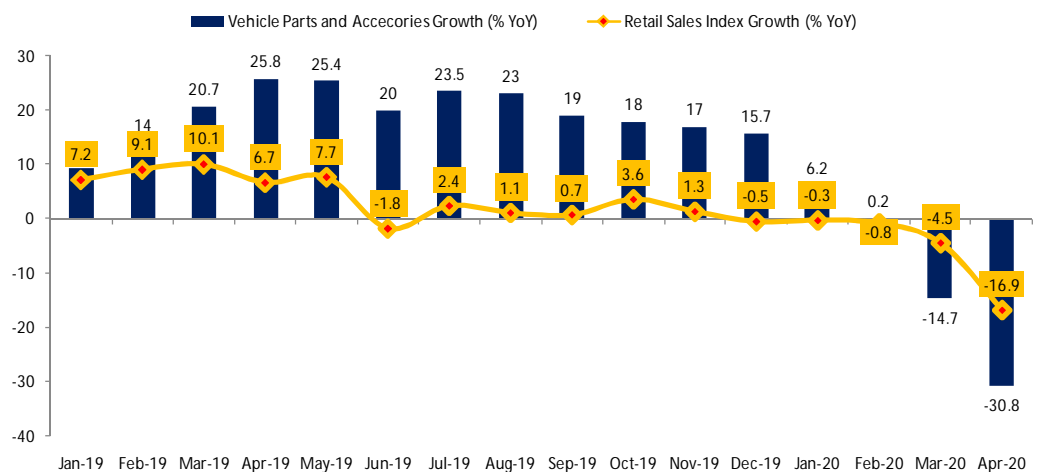
Sources : Google, MNCS

Exhibit 05. China Passenger Car Sales and Production have recovered after a deep plunge



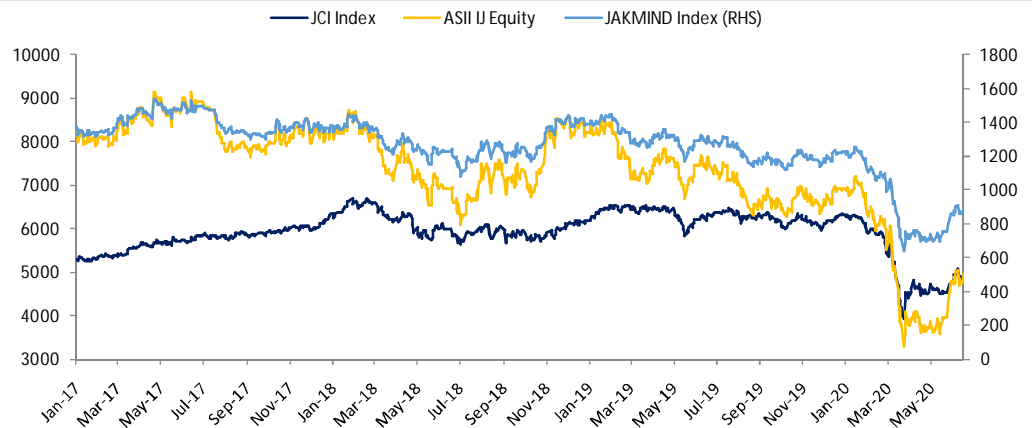
Sources : Bloomberg, MNCS

Exhibit 06. Retail Sales Index and Vehicle Sales recorded their lowest numbers in history



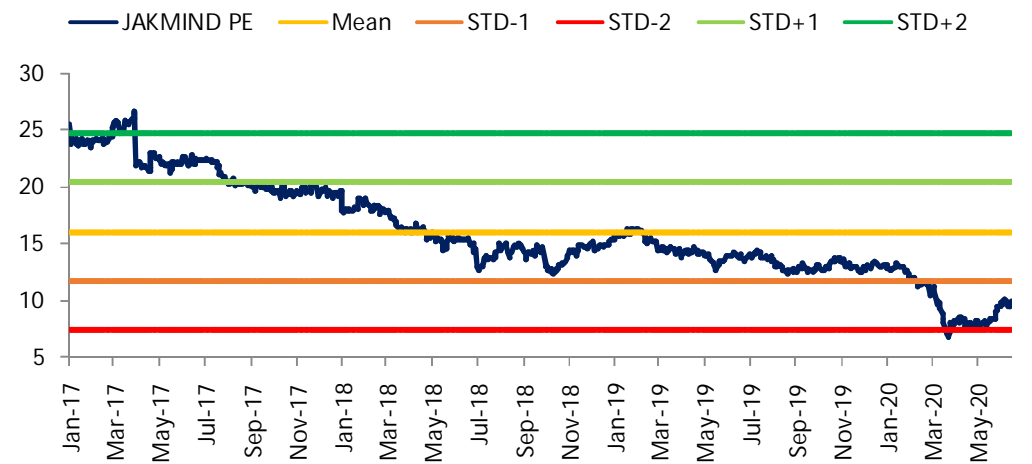
Sources : BI, MNCS

Exhibit 07. JCI Index vs JAKMIND Index vs ASII



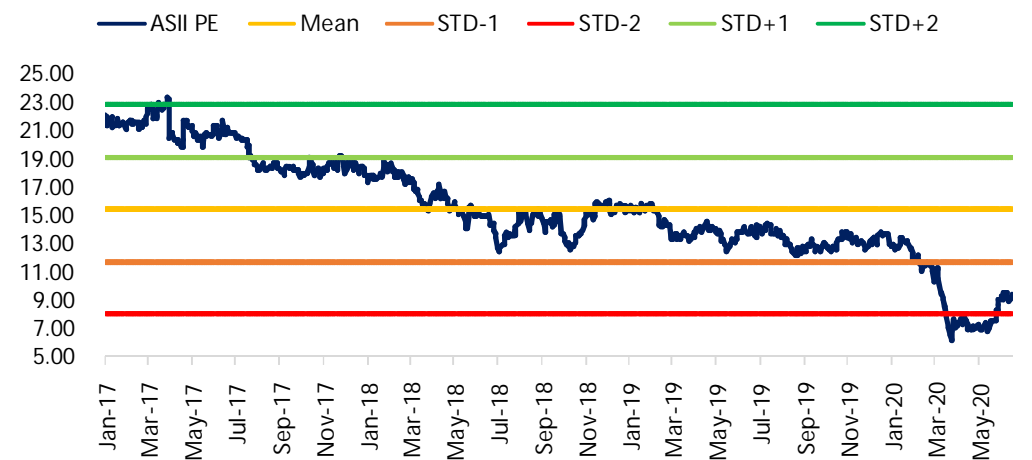
Sources : Bloomberg, MNCS

Exhibit 08. JAKMIND is currently traded at -1.42 STD (3-year Average) with PE at 9.95x



Sources : Bloomberg, MNCS

Exhibit 09. ASII is currently traded at -1.62 STD (3-year Average) with PE at 9.44x



Sources : Bloomberg, MNCS

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MNC Research Investment Ratings Guidance

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

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