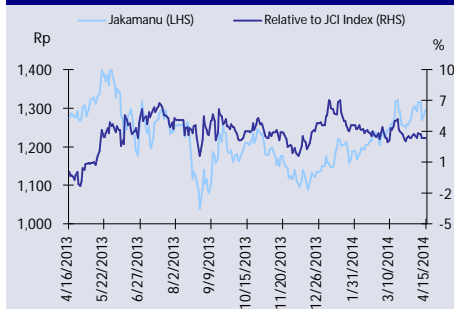
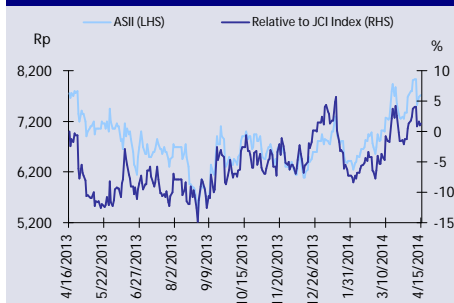
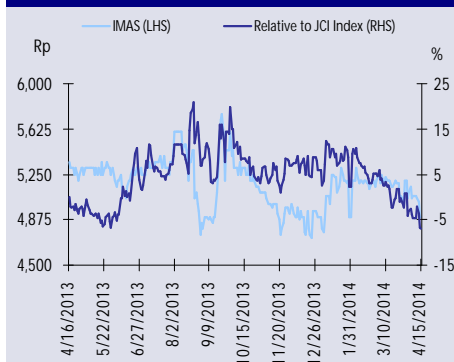


SECTOR UPDATE

NEUTRAL**Automotive Sector****Jakmanu Index relative to JCI Index****ASII relative to JCI Index****IMAS relative to JCI Index****Mobilio is a game changer**

4W demand remains resilient as new product offerings are luring more potential buyers. Honda Mobilio has been a game changer for Honda, putting the car manufacturer into the top three, with sales continuing to escalate. In March, Mobilio sales reached the 10,000 mark, and while still below Avanza's 16,315 units, Avanza's domination is increasingly threatened. LCGC sales weakened in March, however, mainly dragged down by poor Honda Brio Satya sales. LCGC sales accounted for 12% of total 4W sales in March, down from 15% in February. In our view, possible restrictions on the use of subsidized fuel by LCGC may adversely impact future demand. Unlike the solid growth in the 4W market, 2W sales only grew 1% y-y in 1Q14 with sales reaching 1.98m units.

4W demand remains solid

4W sales in March reached 113,079 units, up 1% m-m and 18% y-y, and not far from the all-time high of 115k units reached in September 2013. Sales in March were mainly underpinned by solid sales in the LMPV segment, with Honda Mobilio continuing to enjoy strong demand and Toyota Avanza sales also improving m-m. In the LCGC segment, however, sales were relatively weak in March, down 32% m-m, mainly on poor sales of Honda Brio Satya, which slumped 79% m-m. Cumulatively in 1Q14, total 4W sales climbed 11% y-y to 328,356 units. In first place is still Toyota with market share of 34.6% (vs 35.2% in 1Q13), followed by Daihatsu's 15.7% (14.3%), Suzuki's 12.9% (12.2%) and Honda's 11.0% (9.0%).

Honda Mobilio is advancing strongly

After quadruple m-m sales growth in February, Honda Mobilio continues to show buoyant sales with 10,592 units sold in March. Although Toyota Avanza sales also improved to 16,315 units, Honda Mobilio's strong market reception could lead to erosion in Avanza's market share in the LMPV segment. Daihatsu Xenia sales, meanwhile, dropped 29% m-m to 3,640 units, ranking it third within the LMPV segment followed by Suzuki Ertiga's 3,475 units (+8.0% m-m). For Honda, the launching of Mobilio is definitely a game changer, catapulting Honda into the top three from fifth place in January. Honda Mobilio sales accounted for a whopping 73% of Honda sales in March. However, we believe the sustainability of Mobilio's strong demand remains unclear, since it has largely been driven by large backlog orders.

The LCGC segment weakened in March

LCGC sales sank 32% m-m in March, mainly dragged down by poor sales of Honda Brio Satya which slumped 72% m-m to only 425 units from more than 2,000 units in Jan-Feb 2014. Similarly, Toyota Agya and Daihatsu Ayla sales were also down in March, although not as severely as Honda's. Agya sales reached 6,648 units, down 11% m-m, while Ayla sales fell 6% m-m to 4,333 units. Nonetheless, the Agya and Ayla duo continued to increase their market share to 82% within the LCGC segment. Overall, LCGC accounted for 12% of total 4W sales in March, or down from 15% in February. In our view, possible restrictions on the use of subsidized fuel by LCGC may adversely impact future demand.

2W sales only grew 1% y-y in 1Q14

2W sales improved to 725,629 units in March, up 6.9% m-m and 9.1% y-y. Nonetheless, on a cumulative basis, overall 2W sales in 1Q14 only grew by 1% y-y to 1.98m units, mainly held back by the weak January figure, which showed a 10% y-y decline. Going forward, we believe that demand should continue to improve, although we don't expect full year growth to exceed the 5% level this year. Honda has been able to further increase its market share to 64% in 1Q14 from 62% last year, while Yamaha sales dropped to 31% from 33% last year.



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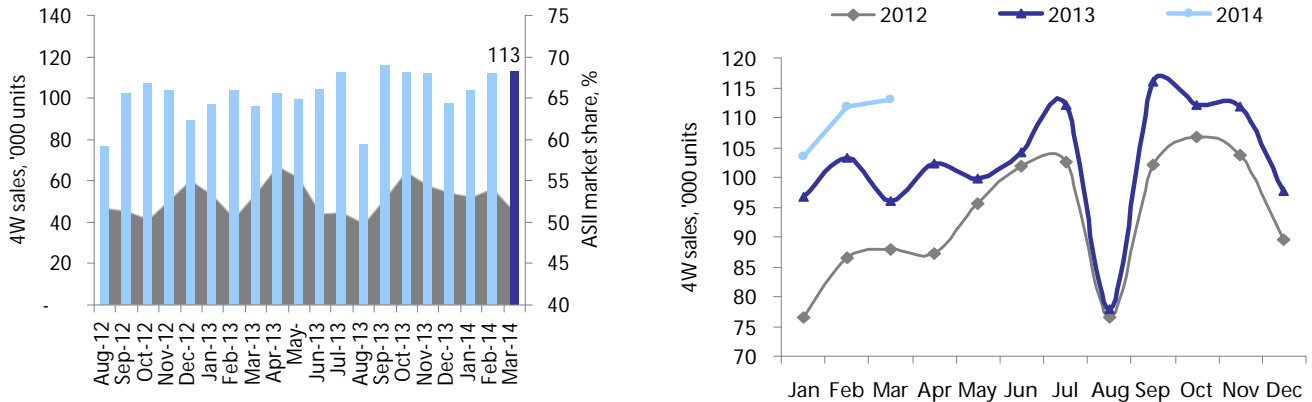
Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

4W demand remains solid, up 11% y-y in 1Q14

New model offerings at attractive prices have been the key development in Indonesia's 4W market. The advent of LCGC last year, supported by the most recent addition to the LMPV segment, the Honda Mobilio, has helped to sustain demand at a high level. As these new products effectively open up new market segments, sales can continue to grow further going forward.

4W sales in March reached 113,079 units, up 1% m-m and 18% y-y, and not far from the all-time high of 115k units reached in September 2013. Sales in March were mainly underpinned by solid sales in the LMPV segment, with Honda Mobilio continuing to enjoy strong demand and Toyota Avanza sales also improving m-m. In the LCGC segment, however, sales were relatively weak in March, down 32% m-m, mainly on poor sales of Honda Brio Satya, which slumped 79% m-m. Cumulatively in 1Q14, total 4W sales climbed 11% y-y to 328,356 units.

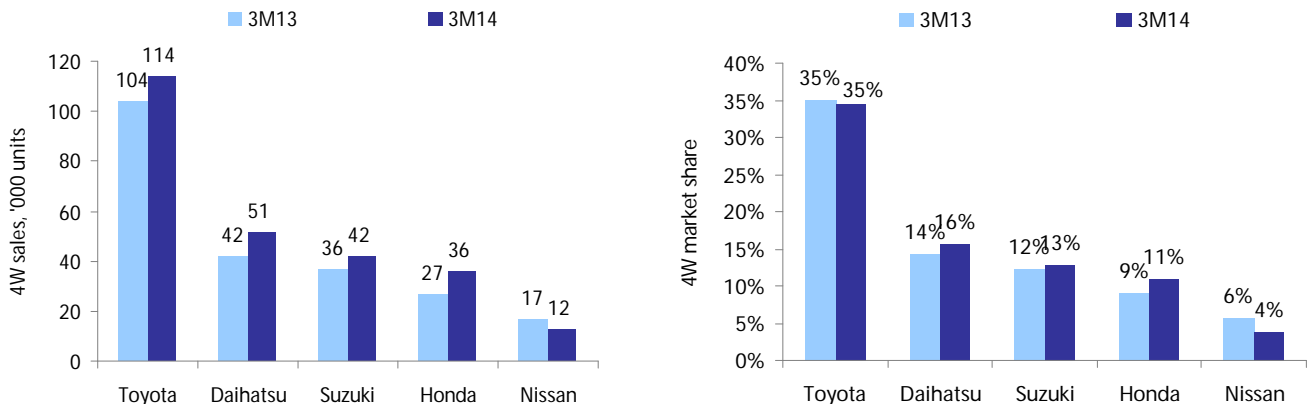
Exhibit 1. 4W sales grew 11% y-y in 1Q14



Source: Gaikindo

Sales of the duo brands under Astra, Toyota and Daihatsu, continued to dominate the market. In the 4W segment, the number one player is still Toyota with market share of 34.6% (vs 35.2% in 1Q13), followed by Daihatsu's 15.7% (14.3%), Suzuki's 12.9% (12.2%) and Honda's 11.0% (9.0%). For Honda, its market share has improved significantly lately, and in March, it ranked third, with sales underpinned by the extraordinary success of Mobilio.

Exhibit 2. Mobilio has helped Honda to improved its rank



Source: Gaikindo

Honda Mobilio is advancing strongly

The battle is definitely on in the Low MPV segment with Honda Mobilio's sales breaking through the crucial 10,000 units level. After quadruple m-m sales growth in February, Honda Mobilio continues to show buoyant sales with 10,592 units sold in March. Although Toyota Avanza sales also improved to 16,315 units, Honda Mobilio's strong market reception could lead to erosion in Avanza's market share in the LMPV segment. Daihatsu Xenia sales, meanwhile, dropped 29% m-m to 3,640 units, ranking it third within the LMPV segment followed by Suzuki Ertiga's 3,475 units (+8.0% m-m).

For Honda, the launching of Mobilio is definitely a game changer, catapulting Honda into the top three from fifth place in January. Honda Mobilio sales accounted for a whopping 73% of Honda sales in March. However, we believe the sustainability of Mobilio's strong demand remains unclear, since it has largely been driven by large backlog orders.

Exhibit 3. Full monthly breakdown of LMPV sales

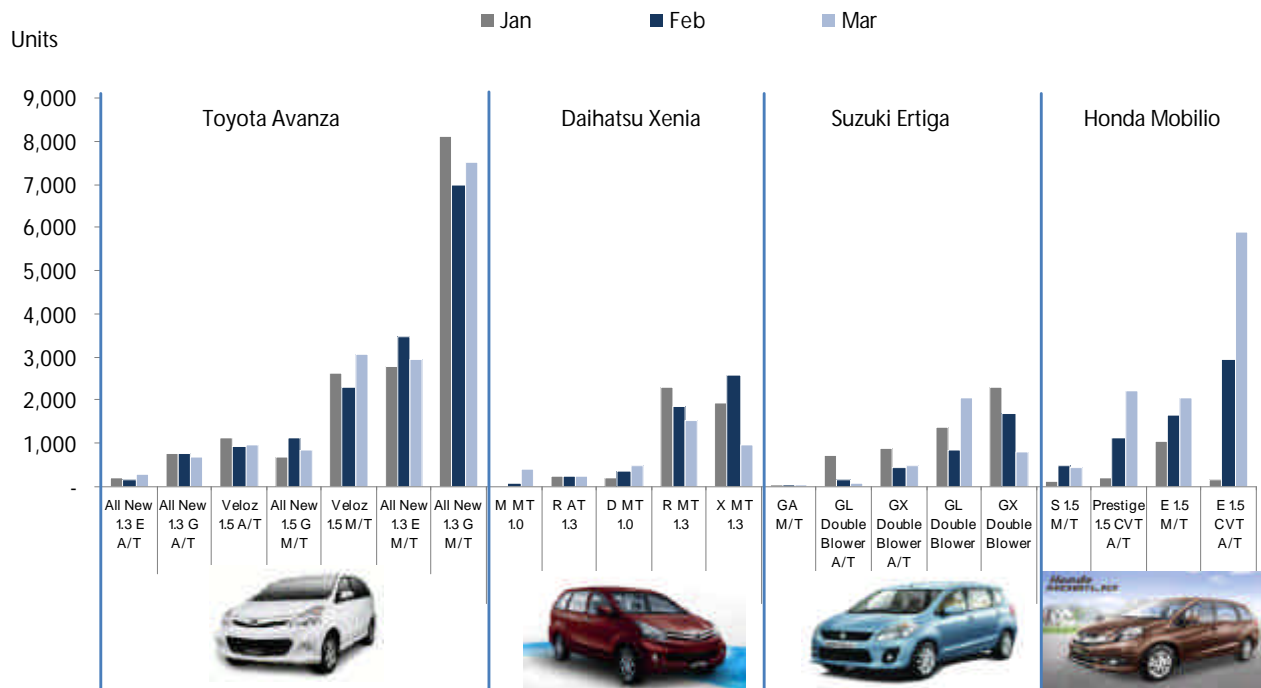
2013															
	Type	Price (Rp mn)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Toyota Avanza	All New 1.3 E M/T	163.2	2,394	3,344	2,059	1,993	1,882	1,626	1,894	1,395	3,938	1,969	2,256	2,671	27,421
	All New 1.3 E A/T	173.7	208	196	249	335	230	166	241	173	405	194	195	320	2,912
	All New 1.3 G M/T	179.1	10,938	9,569	8,122	12,039	9,313	11,014	12,299	8,446	9,451	10,464	11,440	8,922	122,017
	All New 1.5 G M/T	186.1	581	342	546	345	165	485	648	334	586	320	446	481	5,279
	All New 1.3 G A/T	189.8	619	517	707	719	828	684	927	609	952	968	899	845	9,274
	Veloz 1.5 M/T	192.2	2,062	2,240	1,795	3,250	3,052	2,891	3,494	2,427	3,654	2,843	3,054	3,027	33,789
	Veloz 1.5 A/T	203.7	669	552	855	1,117	1,563	1,228	1,803	971	1,079	1,051	723	1,153	12,764
	Total Avanza		17,471	16,760	14,333	19,798	17,033	18,094	21,306	14,355	20,065	17,809	19,013	17,419	213,456
Daihatsu Xenia	D MT 1.0	144.1	298	496	459	373	302	587	426	491	854	712	343	206	5,547
	M MT 1.0	148.1	837	557	822	559	353	345	415	396	861	800	426	347	6,718
	X MT 1.3	158.7	1,443	1,604	2,181	1,477	2,251	1,874	1,971	1,260	1,707	1,225	1,096	769	18,858
	R MT 1.3	162.7	2,975	3,427	3,456	2,999	3,204	2,844	3,181	2,667	1,282	2,935	1,244	571	30,785
	R AT 1.3	185.6	352	199	223	252	253	295	258	147	296	246	152	30	2,703
	Total Xenia		5,905	6,283	7,141	5,660	6,363	5,945	6,251	4,961	5,000	5,918	3,261	1,923	64,611
Suzuki Ertiga	GA M/T	151.3	56	32	26	42	42	48	30	37	85	16	22	23	459
	GL Double Blower	167.3	2,177	3,095	1,774	2,599	1,601	2,037	2,423	2,034	2,192	1,489	991	2,248	24,660
	GX Double Blower	179.3	3,234	3,657	1,902	3,095	1,734	2,148	2,307	2,266	2,355	2,037	779	2,046	27,560
	GL Double Blower A/T	178.3	-	-	-	131	270	1,146	1,034	481	444	189	115	479	4,289
	GX Double Blower A/T	190.4	-	-	-	50	375	1,176	1,040	809	934	659	703	603	6,349
	GX M/T Elegant Plus	196.7	-	-	-	-	-	-	-	-	-	-	-	-	-
	GX A/T Elegant Plus	207.8	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total Ertiga		5,467	6,784	3,702	5,917	4,022	6,555	6,834	5,627	6,010	4,390	2,610	5,399	63,317
Honda Mobilio	S 1.5 M/T	159.5	-	-	-	-	-	-	-	-	-	-	-	-	-
	E 1.5 M/T	179	-	-	-	-	-	-	-	-	-	-	-	-	-
	E 1.5 CVT A/T	189.5	-	-	-	-	-	-	-	-	-	-	-	-	-
	Prestige 1.5 CVT A/T	198	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total Mobilio		-	-	-	-	-	-	-	-	-	-	-	-	-

2014															
	Type	Price (Rp mn)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Toyota Avanza	All New 1.3 E M/T	163.2	2,791	3,484	2,948	-	-	-	-	-	-	-	-	-	9,223
	All New 1.3 E A/T	173.7	209	154	281	-	-	-	-	-	-	-	-	-	644
	All New 1.3 G M/T	179.1	8,113	6,991	7,521	-	-	-	-	-	-	-	-	-	22,625
	All New 1.5 G M/T	186.1	683	1,120	858	-	-	-	-	-	-	-	-	-	2,661
	All New 1.3 G A/T	189.8	751	757	679	-	-	-	-	-	-	-	-	-	2,187
	Veloz 1.5 M/T	192.2	2,627	2,289	3,075	-	-	-	-	-	-	-	-	-	7,991
	Veloz 1.5 A/T	203.7	1,138	913	953	-	-	-	-	-	-	-	-	-	3,004
	Total Avanza		16,312	15,708	16,315	-	-	-	-	-	-	-	-	-	48,335
Daihatsu Xenia	D MT 1.0	144.1	192	369	494	-	-	-	-	-	-	-	-	-	1,055
	M MT 1.0	148.1	1	85	417	-	-	-	-	-	-	-	-	-	503
	X MT 1.3	158.7	1,919	2,575	970	-	-	-	-	-	-	-	-	-	5,464
	R MT 1.3	162.7	2,284	1,847	1,531	-	-	-	-	-	-	-	-	-	5,662
	R AT 1.3	185.6	240	261	228	-	-	-	-	-	-	-	-	-	729
	Total Xenia		4,636	5,137	3,640	-	-	-	-	-	-	-	-	-	13,413
Suzuki Ertiga	GA M/T	151.3	43	29	51	-	-	-	-	-	-	-	-	-	123
	GL Double Blower	167.3	1,391	843	2,046	-	-	-	-	-	-	-	-	-	4,280
	GX Double Blower	179.3	2,315	1,715	791	-	-	-	-	-	-	-	-	-	4,821
	GL Double Blower A/T	178.3	723	165	84	-	-	-	-	-	-	-	-	-	972
	GX Double Blower A/T	190.4	906	464	503	-	-	-	-	-	-	-	-	-	1,873
	GX M/T Elegant Plus	196.7	-	-	-	-	-	-	-	-	-	-	-	-	-
	GX A/T Elegant Plus	207.8	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total Ertiga		5,378	3,216	3,475	-	-	-	-	-	-	-	-	-	12,069
Honda Mobilio	S 1.5 M/T	159.5	105	504	450	-	-	-	-	-	-	-	-	-	1,059
	E 1.5 M/T	179	1,043	1,646	2,042	-	-	-	-	-	-	-	-	-	4,731
	E 1.5 CVT A/T	189.5	167	2,952	5,897	-	-	-	-	-	-	-	-	-	9,016
	Prestige 1.5 CVT A/T	198	193	1,139	2,203	-	-	-	-	-	-	-	-	-	3,535
	Total Mobilio		1,508	6,241	10,592	-	-	-	-	-	-	-	-	-	18,341

Source: Gaikindo

Mobilio's best-selling models are the more expensive ones: the E1.5 CVT with automatic transmission and a price tag of Rp189.5m/unit, accounting for more than half of Mobilio's sales in March. We have been of the view that Honda's market segmentation is rather different than that of Toyota/Daihatsu. In Honda's case, the company targets the upper end of its market segments - as we can see in LCGC as well as LMPV. Unlike Honda, however, the bestselling models of both Toyota and Avanza are in the mid segment and only have manual transmission, making them the typical entry car or operational car for corporates. The Toyota Avanza 1.3G with manual transmission has consistently been the bestselling Avanza (at Rp179.1m/unit), while the Daihatsu Xenia 1.3 X and 1.3R (Rp158.7 – 162.7m/unit) have been the bestselling Xenia models. Given this, we believe that the market segmentation for Honda Mobilio is slightly different and that the car is more targeted toward the premium segment within the LMPV market, or similar to Honda's overall strategy in the LCGC segment.

Exhibit 4. Mobilio's best-selling model is the more expensive one



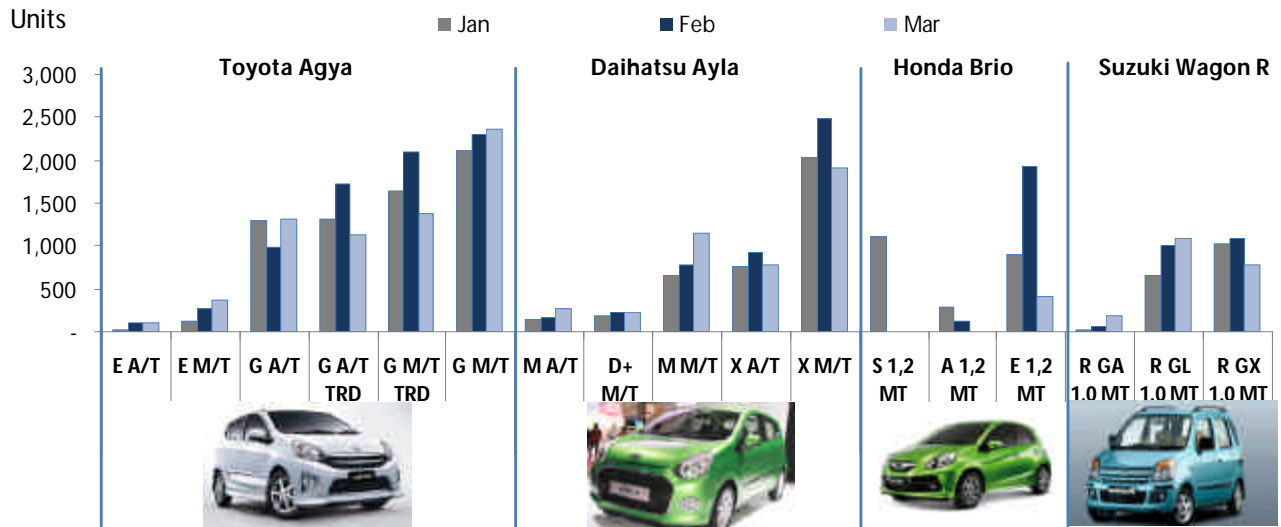
Source: Gaikindo

With the huge improvement in Mobilio sales in March, LMPV accounted for 33% of the total 4W sales in Indonesia, or up from 29.8% in January-February. This partly dispels concerns that LCGC will further dilute market share of LMPV.

The LCGC segment weakened in March

In contrast to the improvement in LMPV, we have started to notice some weakness in LCGC demand. LCGC sales sank 32% m-m in March, mainly dragged down by poor sales of Honda Brio Satya which slumped 72% m-m to only 425 units from more than 2,000 units in Jan-Feb 2014. Similarly, Toyota Agya and Daihatsu Ayla sales were also down in March, although not as severely as Honda's. Agya sales reached 6,648 units, down 11% m-m, while Ayla sales fell 6% m-m to 4,333 units. Nonetheless, the Agya and Ayla duo continued to increase their market share to 82% within the LCGC segment. Overall, LCGC accounted for 12% of total 4W sales in March, or down from 15% in February.

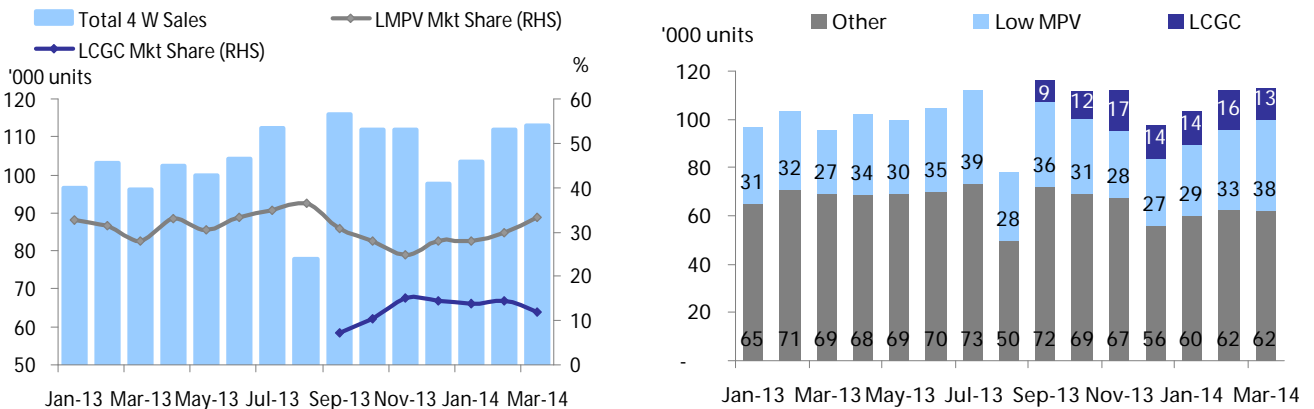
Exhibit 5. Agya and Ayla still dominates the LCGC segment



Source: Gaikindo

In our view, possible restrictions on the use of subsidized fuel by LCGC may adversely impact future demand. As such, the LMPV and city cars (above 1,300 cc) are likely to benefit from a possible shift in demand from LCGC. Nonetheless, as the fuel consumption of LCGC is much lower due to smaller engine sizes, the overall operational cost with non subsidized fuel should not be that much different compared to LMPV/city cars with subsidized fuel. LCGC fuel efficiency can reach 22km per liter vs 10-15km per liter for LMPV.

Exhibit 6. LCGC and Low MPV market share



Source: Gaikindo

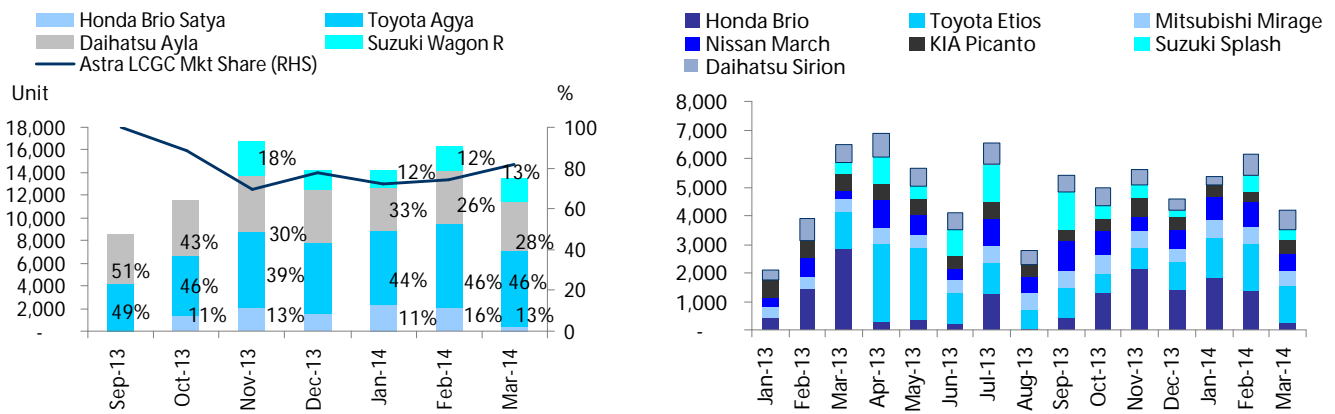
Exhibit 7. LCGC monthly sales (Unit)

2013		2013							2014				
Type	Price (Rp mn)	Sep	Oct	Nov	Dec	Total 2013	Share %	Jan	Feb	Mar	Total 1Q14	Share %	
Toyota Agya	E M/T	99.9	326	382	325	289	1,322	5.91	118	267	372	757	3.67
	E A/T	110.25	168	128	86	72	454	2.03	24	99	94	217	1.05
	G M/T	106.65	1,622	1,790	2,304	2,240	7,961	35.58	2,113	2,296	2,364	6,773	32.83
	G A/T	116.25	580	1,092	1,567	1,042	4,284	19.15	1,297	994	1,307	3,598	17.44
	G M/T TRD	111.15	802	903	1,080	1,568	4,353	19.45	1,650	2,086	1,376	5,112	24.78
	G A/T TRD	120.75	625	1,048	1,230	1,099	4,002	17.89	1,320	1,719	1,135	4,174	20.23
	Total Agya		4,123	5,343	6,592	6,310	22,376	100	6,522	7,461	6,648	20,631	100.00
Daihatsu Ayla	D M/T	76.5	51	104	5	-	160	0.84	-	-	-	-	0.00
	D+ M/T	85.9	70	103	231	216	620	3.24	178	219	223	620	4.88
	M M/T	90.95	1,237	1,235	842	1,084	4,398	22.98	649	787	1,154	2,590	20.40
	M A/T	99.95	243	248	200	157	848	4.43	143	165	264	572	4.51
	X M/T	97.95	1,847	2,156	2,661	2,385	9,049	47.28	2,038	2,488	1,907	6,433	50.67
	X A/T	107	929	1,083	1,159	895	4,066	21.24	766	931	785	2,482	19.55
	X ELEGANT AT	114.15	-	-	-	-	-	0.00	-	-	-	-	0.00
	Total Ayla		4,377	4,929	5,098	4,737	19,141	100.00	3,774	4,590	4,333	12,697	100.00
Honda Brio Satya	A 1,2 MT	106.6	-	270	138	33	441	8.89	280	122	2	404	8.45
	S 1,2 MT	111.6	-	1,050	339	438	1,827	36.85	1,106	10	2	1,118	23.37
	E 1,2 MT	117.6	-	-	1,633	1,056	2,690	54.26	911	1,929	421	3,261	68.18
Total Brio Satya			1,320	2,110	1,527	4,958	100.00	2,297	2,061	425	4,783	100.00	
Suzuki Wagon R	R GA 1.0 MT	78.7	-	-	145	59	204	4.34	21	62	180	263	4.47
	R GL 1.0 MT	91.7	-	-	1,242	608	1,850	39.32	648	1,010	1,080	2,738	46.50
	R GX 1.0 MT	101.7	-	-	1,628	1,023	2,651	56.34	1,024	1,086	777	2,887	49.03
Total Wagon R				3,015	1,690	4,705	100.00	1,693	2,158	2,037	5,888	100.00	

Source: Gaikindo

The launch of Datsun Go has been anticipated this year, especially as it offers larger seating capacity. We believe that the competitive landscape in the LCGC segment will get more intense, but we also believe that both Toyota and Daihatsu will be able to maintain their dominance.

Exhibit 8. LCGC and city car monthly sales

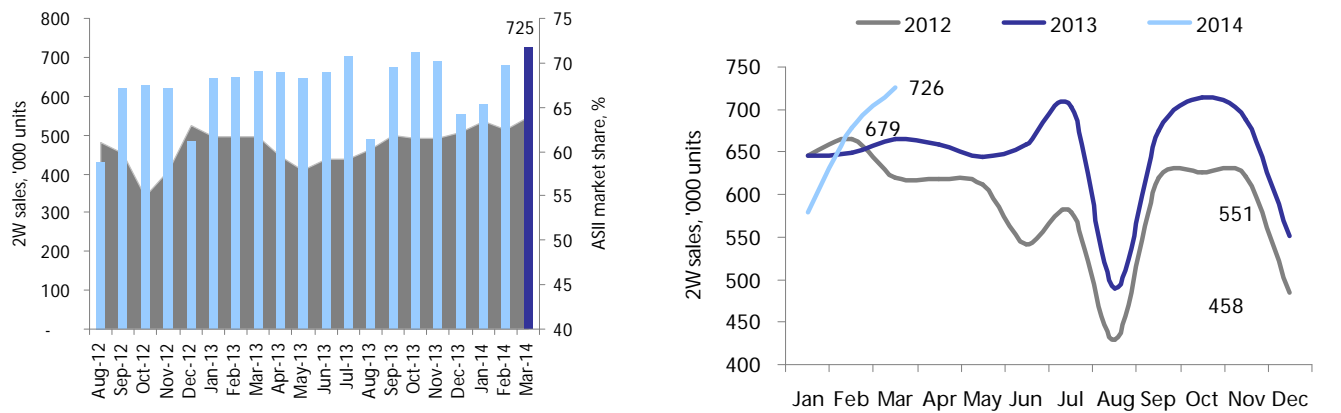


Source: Gaikindo

2W sales only grew 1% y-y in 1Q14

2W sales improved to 725,629 units in March, up 6.9% m-m and 9.1% y-y. Nonetheless, on a cumulative basis, overall 2W sales in 1Q14 only grew by 1% y-y to 1.98m units, mainly held back by the weak January figure, which showed a 10% y-y decline. Going forward, we believe that demand should continue to improve, although we don't expect full year growth to exceed the 5% level this year.

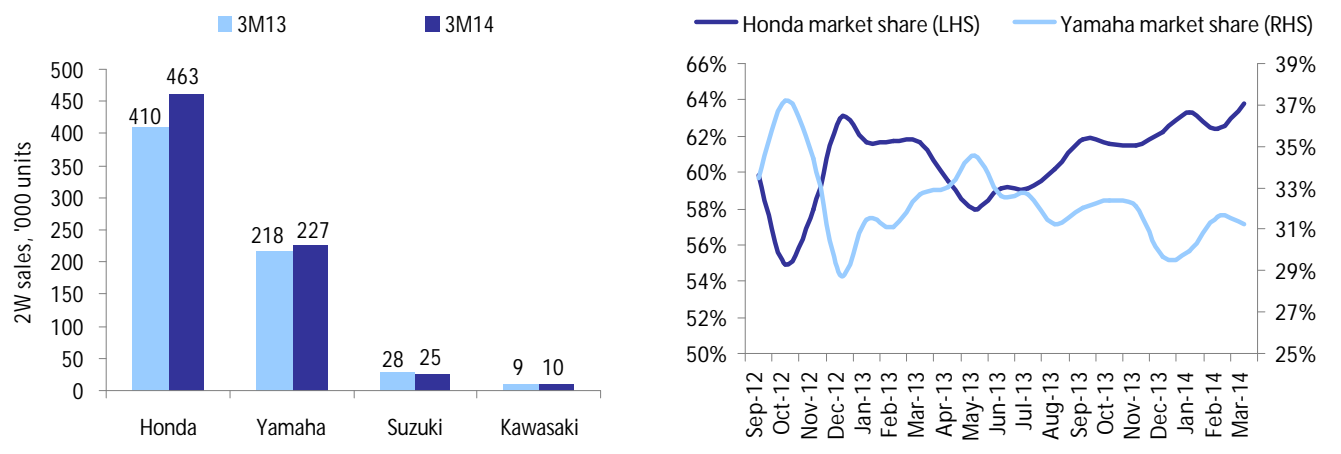
Exhibit 9. Flat growth in 2W sales



Source: Gaikindo

Competition is not as lively in the 2W market as it is in the 4W market. Honda has been able to dominate the market, and this should remain the case in the medium term. In fact, Honda has been able to further increase its market share to 64% in 1Q14 from 62% last year, while Yamaha's sales have slipped to 31% from 33% last year.

Exhibit 10. Further improvement on Honda market share



Source: Gaikindo

Given the potential slowdown in economic growth and the higher interest rates environment, we expect overall 4W and 2W demand growth to slow to 3.3% and 4.5%, respectively. Nonetheless, any faster-than-expected improvement in macro-economic conditions would offer upside potential to our conservative estimates for 2014. So far this year, the 4W demand shows some resiliency, suggesting we are rather too conservative at this stage. We maintain our BUY call on Astra International with a TP of Rp 8,050. Note, however, that we have recently removed Astra from our list of top picks given less potential upside following stellar share price performance in 1Q13. We also believe that if Jokowi does become president of Indonesia, then some new regulations might be issued which could adversely impact the 4W sector. Recently, the government indicated that it might forbid the use of subsidized fuel by LCGC.

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