

FLASH NOTES
Astra International: Financial services boosted quarterly net profits

(ASII IJ. IDR8,375. HOLD. TP IDR9,000)

- Astra International (ASII) reported net profits of IDR5.1tn in 1Q17 (+63.5% yoy, and +31.1% qoq). The 1Q17 revenues and net profits are 27% of our full year forecast and 25% of the consensus – i.e. inline.
- **Recovery in the financial services division boosted quarterly net profits.** While the 1Q17 revenues were flat, the strong net profits growth of 31.1% qoq was mainly attributable to a recovery in the net profits of Bank Permata, which is 44.6% owned by ASII, following a reduction in the bank's gross non-performing loans (NPL) to 6.4% in 1Q17 from 8.8% in 2016. As a result, the equity income rose sharply. Nonetheless, the impact of 4.2% qoq lower ASII car sales and 11.1% qoq lower Honda motorcycle sales volume resulted in 27.8% qoq lower net profits in the automotive division. In addition, the 20.8% qoq lower net profits from the heavy equipment division was due to the unfavourable weather conditions which reduced coal production.
- **Most of the business divisions are set to book yearly net profits growth.** The automotive business reported 44.8% yoy higher net profits in 1Q17 due to strong domestic car sales (up by 26.8% yoy) following the aggressive launch of new popular models in 2016 and 1Q17. The financial services division also showed better net profits (up by 75.4% yoy) thanks to recovery at Bank Permata and in most of the other financing subsidiaries. The recovery in commodity prices also helped to increase net profits in the heavy equipment and mining businesses (+104.1% yoy) and in agribusiness (+91.6% yoy).
- **Maintain HOLD recommendation.** Although ASII will benefit from higher commodity prices (especially coal prices), we maintain our HOLD recommendation with a target price of Rp9,000 based on SOTP valuation as we maintain our conservative forecast for domestic car sales volume growth of only 5.0% yoy in 2017 given only moderate economic growth of an estimated 5.1% yoy which will limit further growth in domestic car sales.

Exhibit 1. 1Q17 earnings – within expectations

(in IDRbn)	1Q16	4Q16	1Q17	QoQ, %	1Q16	1Q17	YoY, %	FY2017	A/F, %
Revenue	41,887	48,790	48,780	(0.0)	41,887	48,780	16.5	202,123	24
Gross profit	7,973	10,695	10,012	(6.4)	7,973	10,012	25.6	42,025	24
Operating income	3,379	5,773	5,073	(12.1)	3,379	5,073	50.1	21,111	24
Other income (expenses)	290	160	398	148.8	290	398	37.2	1,232	32
Equity income	818	18	1,893	10,416.7	818	1,893	131.4	6,092	31
Net income	3,112	3,879	5,087	31.1	3,112	5,087	63.5	18,975	27
Margins, %									
Gross margin	19.0	21.9	20.5		19.0	20.5		20.8	
Operating margin	8.1	11.8	10.4		8.1	10.4		10.4	
EBITDA margin	11.5	15.0	13.4		11.5	13.4		14.3	
Net margin	7.4	8.0	10.4		7.4	10.4		9.4	

Revenue Breakdown

(in IDRbn)	1Q16	4Q16	1Q17	QoQ, %	YoY, %	1Q17	YoY, %	FY2017	A/F, %
Automotive	22,252	25,598	24,227	(5.4)	8.9	24,227	8.9	104,256	23
Financial services	4,244	4,737	4,566	(3.6)	7.6	4,566	7.6	19,969	23
Agribusiness	3,018	4,534	4,491	(0.9)	48.8	4,491	48.8	15,694	29
Information Technology	620	1,009	578	(42.7)	(6.8)	578	(6.8)	2,848	20
Heavy equipment	10,696	11,642	13,679	17.5	27.9	13,679	27.9	54,146	25
Infrastructure and logistic	1,968	2,035	1,957	(3.8)	(0.6)	1,957	(0.6)	8,506	23
Property	8	11	12	9.1	50.0	12	50.0	48	25
%									
Automotive	52.0	51.6	48.9		52.0	48.9			
Financial services	9.9	9.6	9.2		9.9	9.2			
Agribusiness	7.1	9.1	9.1		7.1	9.1			
Information Technology	1.4	2.0	1.2		1.4	1.2			
Heavy equipment	25.0	23.5	27.6		25.0	27.6			
Infrastructure and logistic	4.6	4.1	4.0		4.6	4.0			
Property	0.0	0.0	0.0		0.0	0.0			

Net Income, IDRbn

(in IDRbn)	1Q16	4Q16	1Q17	QoQ, %	1Q16	1Q17	YoY, %
Automotive	1,580	3,171	2,288	(27.8)	1,580	2,288	44.8
Financial services	641	(1,285)	1,124	n.a.	641	1,124	75.4
Agribusiness	333	686	638	(7.0)	333	638	91.6
Information Technology	34	91	26	(71.4)	34	26	(23.5)
Heavy equipment	442	1,139	902	(20.8)	442	902	104.1
Infrastructure and logistic	69	50	67	34.0	69	67	(2.9)
Property	13	27	42	55.6	13	42	223.1
%							
Automotive	50.8	81.7	45.0		50.8	45.0	
Financial services	20.6	(33.1)	22.1		20.6	22.1	
Agribusiness	10.7	17.7	12.5		10.7	12.5	
Information Technology	1.1	2.3	0.5		1.1	0.5	
Heavy equipment	14.2	29.4	17.7		14.2	17.7	
Infrastructure and logistic	2.2	1.3	1.3		2.2	1.3	
Property	0.4	0.7	0.8		0.4	0.8	

Source: Danareksa, Astra International

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