Automotive Sales: Pressured during Adjustment Period of 2015

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As automotive sales (4-wheeler and 2-wheeler) is one of the leading indicators of economic activity, ICRA Indonesia assesses the dynamics of it along with its relevant issues. In this commentary, the focus will be on 4-wheeler (4W), considering its bigger contribution to total auto sales.

Summary

- As for the latest update, 4W sales experienced a 12% mom recovery in March 2015 to 99,410 units compared to February's 88,741 units. However during the first quarter (Q1) of 2015, total 4W sales dropped 14% to 282,343 units as against Q1 2014 of 328,519 units. Weakening buying power in domestic market, upswing in fuel prices and inflated overall prices contributed to the slow Q1 4W sales.

- The tight loan-to-value (LTV) regulation has proven to suppress non-performing-loan (NPL) or non-performing-financing (NPF) --NPL and NPF are used interchangeably to refer to the same meaning-- for auto credit to be stable at around 1.1% by bank data. However, some listed multifinance companies have had concerns of deteriorating NPF figures, although still manageable at around 1.1% to 1.5%. This might be contributed by lower bookings which amplified any effect of increasing overdues on asset quality indicator.

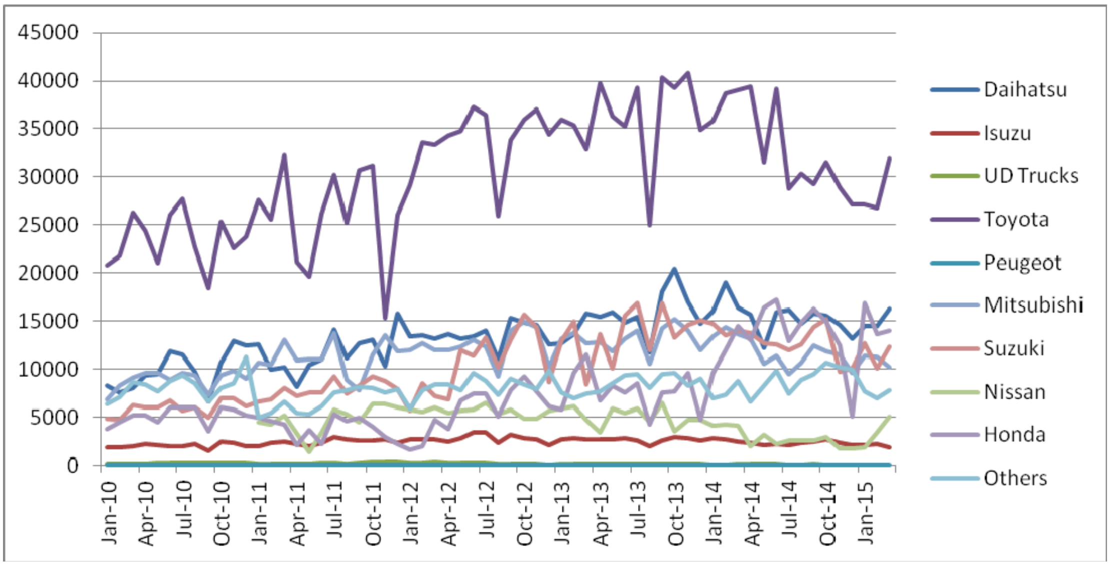
- The regulator has discussed a possibility to relax the LTV policy to spur financing growth. The current regulation is a maximum 70% LTV for non-productive car ownership loans and 80% for productive ones. However, from the perspective of asset quality, such move could backfire the industry, given the economy has not shown durability since the drop in commodity prices at end of 2012.

- In 2015, ICRA Indonesia expects 4W sales to be flat at best relative to previous year, taken into account Q1 performance and various challenges that would end up in affecting purchasing power. However, economy is expected to pick up in second semester, thus compensating the slow sales in early period of this year.

4W SALES PERFORMANCE

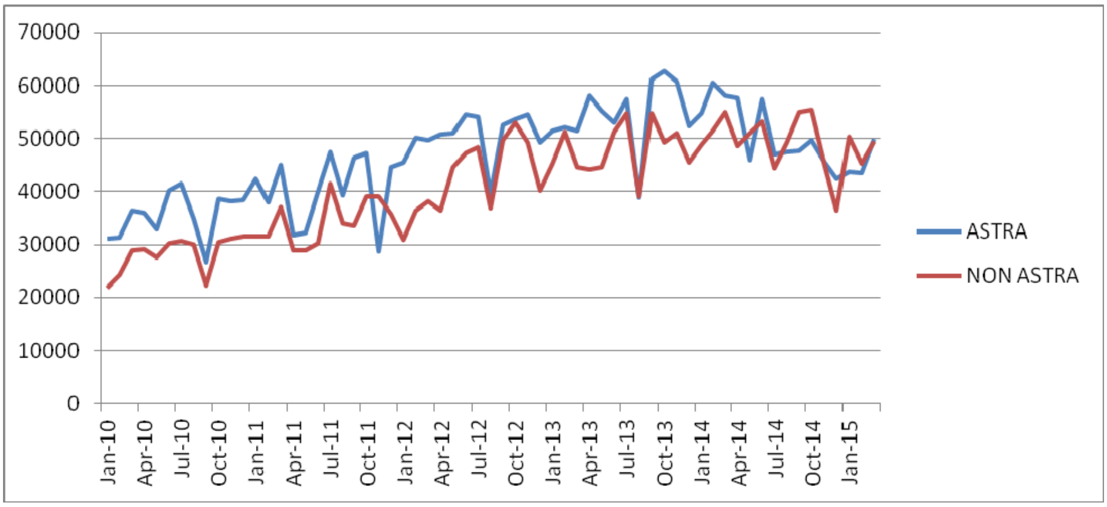
- The 4W contains various segments which divided into two broad perspective, brand-based and type-based.
- Brand-based, the most prominent ones are under Astra Group such as Toyota and Daihatsu (along with others like Isuzu, UD Trucks and Peugeout). Other brands mostly fall under Indomobil Group such as Suzuki and Nissan; Krama Yudha Tiga Berlian for Mitsubishi and Honda Prospect Motor for Honda.
- Throughout the years, Toyota has held the number one position, while Daihatsu --propelled by Xenia series-- tipped Honda to number 2 with Suzuki not far behind after accomodating the market appetite by introducing Swift and more recent Ertiga series.
- In Q1 2015, Toyota remained to dominate with 37% market share. However the second and third places were now jointly occupied by Daihatsu and Honda at 19% each.

Figure 1: Brand comparison



Source: Astra International

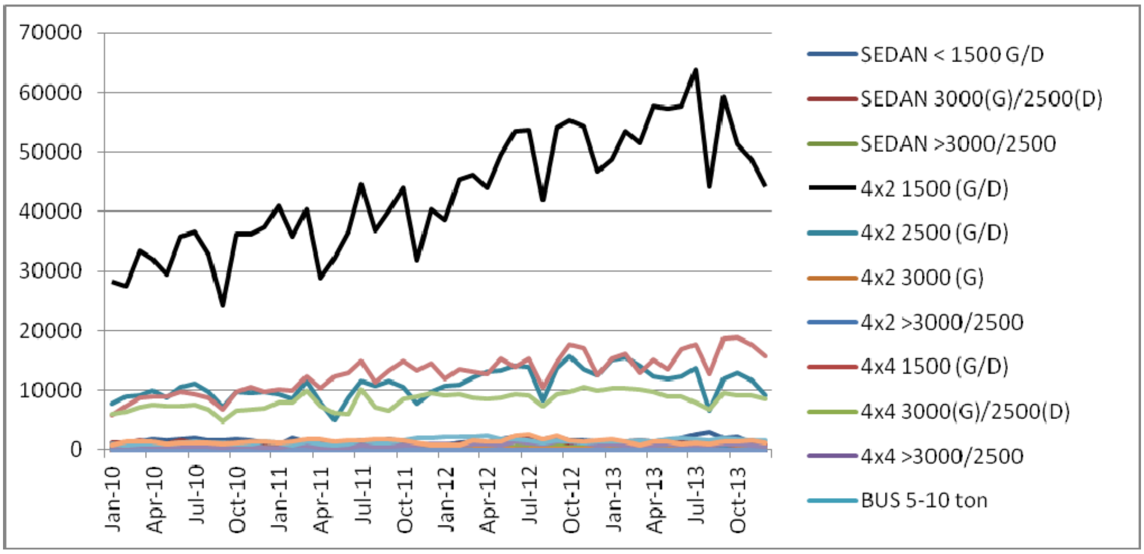
Figure 2: Brand agent comparison



Source: Astra International

- Based on type, it is 4x2 under 1500cc that consistently topples the competition, bearing in mind that this class has the most edge to capture demographic advantage. This also appeals first time buyers as it held a market share of 42.9 in January 2015 (42.9-52.2% during the last five years) with 5-year CAGR of 8.6%. In this class, every top brand has its own marquee model, namely Avanza for Toyota, Xenia for Daihatsu (those two even shares the similar under the hood specification), Ertiga for Suzuki and Jazz for Honda (the latest happens to be more expensive and of higher profile).
- Distant runner-up position was held by pickup/truck under 5 tonnes, contributed by the likes of Suzuki Carry, Daihatsu Zebra, Toyota Kijang, Mitsubishi L300 and Colt, Isuzu ELF and Isuzu Panther.

Figure 3: Sales by class of 4W



Source: Gaikindo

FACTORS AFFECTING 4W SALES

- We see the affecting factors are interconnecting. Car sales have proven to be a leading economic indicator in developed countries, taken into consideration that it is the second biggest consumer expense after housing.
- In bank loan portion, car ownership constituted around 3.2-4.8% of total loans, with manageable NPL, ultimately since the introduction of LTV regulation in 2013. However, because of that regulation, the loan contribution also experienced a decline, going to 3.2% in 2013 from 3.6% previously. Yet, NPL showed an improvement to 0.81% from 1.1% in the same period. The car purchases through financing represent around 70% of total sales.

Table 1: Bank loan to vehicles ownership

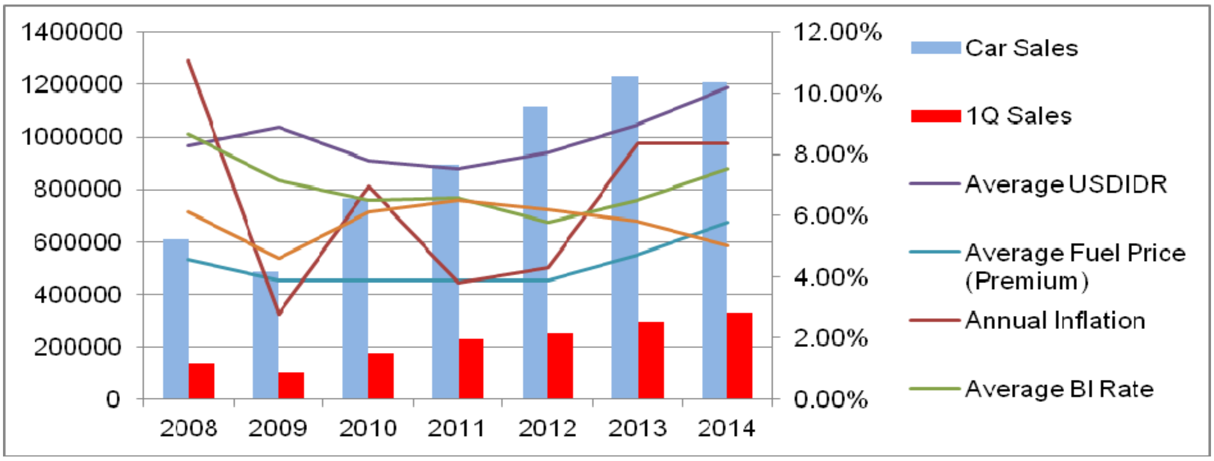
Bank Loan to Vehicles Ownership	2011	2012	2013	2014
Total amount (Rp trillion)	105.7	98.7	104.5	123.2
% to total loan	4.8%	3.6%	3.2%	3.7%
NPL to its own loan	0.94%	1.10%	0.81%	1.07%
NPL to total loan	0.05%	0.04%	0.03%	0.04%

Source: Bank Indonesia

Purchasing power is paramount to a sustainable car sales turnout. We have witnessed that non-mass transportation industry has picked up with taxi business is doing quite well.

However, the car purchase made by this industry is still far outgrown by individual end-user purchasers.

Figure 4: Interconnecting factors



- It seems in the expansion period (related to commodity boom) in 2010, the natural inflation indicated a positive sign as sales grew by 57.3%. However as the economy was heated with less headroom for growth --lost opportunity prior to commodity bust at the end of 2012--, car sales also got affected. After recording 24.8% growth in 2012, it slowed down to 10.2% in 2013 and further experienced de-growth of -1.8% in 2014.
- The first round effect of higher fuel price (premium) is subject to the magnitude and, historically, a fuel price hike impacted the sales only in the short term. This was evident in two times price hike in 2005. The 32.6% fuel price increase to Rp 2,400/lt in March 2005 had affected the sales by 2.9% in the following month only. However the subsequent 87.5% increase in October same year had hit the sales hard, by 20-26% mom for the following two months. Another increase of 33.3% in May 2008 did not affect the car sales that much, congruent with condition in March 2005.
- The increase of fuel price on June 22, 2013, by 44.4% to Rp 6,500/lt compounded the already weak economy and boosted the inflation, leaving central bank with no choice but to increase the interest rate gradually to 7.5% in November 2013 from5.75% in May 2013. This too had not impacted the sales significantly, although year 2013 has halved the growth to 10.2% from 24.8%. At a larger picture, in fact the 2013 sales managed to pass the 1.2 million unit mark at 1,229,936 units, the highest ever so far.
- Historically, the average Q1 contribution is around 20% to 25%. Out-of-ordinary 27.2% in 2014 reflects that the year endured an anaemic post Q1 due to major political events. This was also coupled with high inflation triggered by rise in fuel price at the end of that year. Rising USD currency and interest rates also gave additional burden.

Table 2: Sales growth statistics

	Growth	YOY Growth in Q1	% of Q1 to total
2010	57.3%	73.6%	22.8%
2011	16.9%	29.7%	25.2%
2012	24.8%	11.1%	22.5%
2013	10.2%	18.0%	24.1%
2014	-1.8%	11.0%	27.2%
2015		-14.1%	

Source: Bank Indonesia

EXPECTATIONS FOR 2015

- We can now remove the political factor out of the broad equation, as the new government has been put in place. However, new government also entails new risks, especially in regulatory side such as new fuel price setting mechanism.
- Fuel price wise, we expect second round effect to be more impactful than direct effect. Historically, it pushed inflation and eroded purchasing power, thus putting additional consideration in purchasing large ticket household expenditure.
- The proposed relaxation of LTV regulation could be the cushioning factor. However, it can pose a risk of increasing NPL for the financing companies. Currently, the LTV for car purchase is at 70% for non-productive purpose and 80% for productive one (the latter must be proposed with business permit attached).
- As of now, the NPL in car ownership loan showed a figure of 1.08% and 1.09% in January and February 2015, still in benign development, as opposed to 1.07% at the end of 2014. NPL of below 2% can be considered small, and relaxation of LTV can give additional incentive to car purchases. However, if this LTV regulation tinkering does not get supported by real macroeconomic robustness, the negative effect could spill in form of collection overdues which will ultimately lead to increasing NPL, especially since most of the purchases were for non-productive (consumption) purposes.
- Comparing to 2014, we expect the car sales to remain flat at best in 2015. There is a notable possibility of downturn given the Q1 result and the period of adjustment to the new administration. However, economy is expected to pick in the second half of 2015 as period of adjustments effect has tempered down along with the coming of new infrastructure projects that can spur economic growth and further trickle down to purchasing power resilience.