

Indonesia Autos - Why car sales may fall from 1mn to 0.9mn in 2024F

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Automobiles n Components

Why car sales may fall from 1mn to 0.9mn in 2024F

period of 82k. We estimate annual car sales for FY24F at 900k units vs 1mn units in 2023. We attribute the expected decline in car sales to the declining **middle-income population**. Our channel checks suggest that sales of mid-segment vehicles (priced below IDR400mn) have fallen the most so far in 2024 due to the **increased rejection rate of credit applications** on account of the applicants' weakened purchasing power. Thus, many consumers are opting for a lower-segment car (such as low-cost green cars [LCGC]). As a result, we note some evidence of **downtrading**, from mid-segment cars to LCGC, and from LCGC to used cars and/or higher-segment motorcycles.

Downtrading: Mid-segment car ? LCGC ? used car/motorcycle

As credit is the biggest driver of new car sales (about 75-80% of new car sales are via credit, according to our analysis), the rejection rate plays a crucial role in determining new car sales. Indeed, based on our channel checks, the declining middle-income population in Indonesia is the reason behind the increased rejection of credit applications, specifically for mid-segment cars. Thus, the buyers of the mid-segment cars are downtrading to LCGC, while the buyers of LCGC are shifting to used cars or premium motorcycles (refer to our previous [report](#)), in our view.

Differentiated 2W vs 4W growth

Based on our analysis, 2W 6MMA sales are still growing at +6% y-y, while 4W sales are declining at -15% y-y. However, our channel checks suggest the growing segment within the 2W market is the **high-end motorcycle** (priced between IDR20mn and IDR30mn), not the low-end (priced below IDR20mn). We attribute this to **downtrading** – based on our assumption that customers who wished to purchase LCGC had to experience rejection of their credit applications and thus decided to buy high-end motorcycles instead.

Key potential beneficiaries: ASSA IJ, AUTO IJ, MPMX IJ, and DRMA IJ (all Buys)

In our view, these companies are well-placed to benefit from the evolving market trends. ASSA IJ is likely to benefit, considering its exposure to the increasingly rising second-hand car market, as buyers continue to shift towards buying used cars. AUTO IJ is a potential beneficiary of strong demand for aftermarket spare parts in the growing maintenance of used vehicles — thus their trading segment should benefit. MPMX IJ stands to benefit from more consistent demand for motorcycles, coupled with its position as a strong dividend play given the company is the leading retailer of motorcycles in Indonesia. Lastly, we favor DRMA IJ as it continues to gain market share in the 2W and 4W segments.

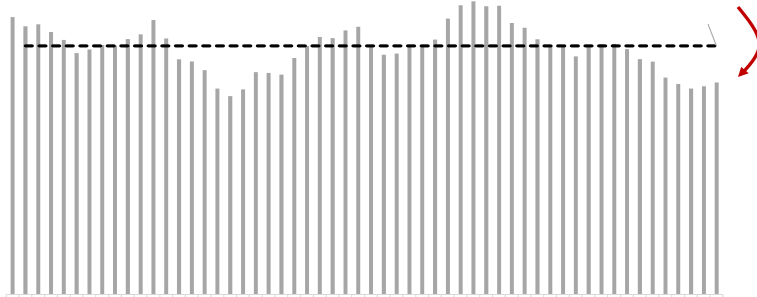
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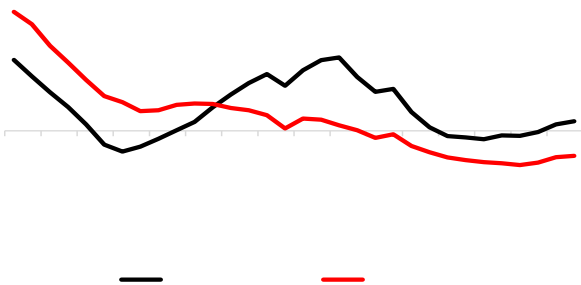
Fig. 1: Total 4W wholesales (k units) — down 15% vs pre-COVID average



Source: Gaikindo, Verdhana research



Fig. 2: Differentiated growth between 2W and 4W — a sign of downtrading, in our view



Source: Gaikindo, AISI, Verdhana research



Fig. 3: Used car market → 3x in the past decade

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