Credit Opinion

PT Adira Dinamika Multi Finance Tbk

Sector: Multifinance

Bond Program Rating: idAAA (triple A) by Pefindo

Shelf Registration Bond and Sukuk Adira Finance 2020

Financial Highlights –Dec 2019	
Total Assets (IDR bn)	35,116.9
Net Receivables (IDR bn)	29,915.0
Net Service Assets (IDR bn)	53,373.0
Total Equity (IDR bn)	8,078.8
Net Interest Revenue (IDR bn)	7,253.0
Net Income (IDR bn)	2,108.7
Short-Term Liquidity Ratio (%)	207.3
Cost to Income (%)	49.0
Operating Profit Margin (%)	26.0
ROAE (%)	29.2
ROAA (%)	6.3
Reserves/NSA (%)	2.9
Total Debt/Equity (x)	2.8
Non-Performing Financing (%)	1.6

Shareholders	
Bank Danamon Indonesia (%)	92.1
Public (%)	7.9

Outstanding Bonds & Sukuk (IDR billion)	
Total Bonds	7,838.25
Total Sukuk	632.00

INVESTMENT HIGHLIGHT

- **Strong support from the parent company.** Until the end of 2019, Bank Danamon has a 92.1% shareholding in Adira Finance. As a major subsidiary, Adira Finance contributes around 49% to Bank Danamon's net profit. As a result of its significant contribution, we see that Bank Danamon's support for Adira Finance will continue in the long run. Support is not only carried out during business expansion, but also in a state of financial difficulties. In addition to support from the financing side, Bank Danamon also provides operational support, such as cross selling and implementing risk management policies.

- **Strong market position in the multifinance industry.** Adira Finance is one of the largest multifinance companies in Indonesia with a strong position, especially for vehicle financing. In 2019, Adira Finance had a market share of new car and motorcycle sales of 4.4% and 11.8%, respectively. Until the end of 2019, Adira Finance's total managed receivables reached IDR53.4 trillion, or around 9% of total managed receivables in the multifinance industry in Indonesia.

- **Sound profitability.** Adira Finance recorded a return on average equity (ROAE) ratio of 29.2%, much higher than the ROAE of the multifinance industry in Indonesia, which only stood around 14.28%. This indicates that the company can utilize its capital to generate high net profit. In addition, the company also managed its assets effectively and efficiently. This could be reflected in the ratio of return on average assets (ROAA) which reached 6.3%, higher than the ROAA of the multifinance industry at 4.79%.

- **Stable asset quality.** Company’s asset quality as reflected in non-performing financing (NPF) in 2017 and 2018 reached 1.6% and 1.7%, respectively. The company's NPF figure at the end of 2019 slightly improved to 1.6%. The company sees that the NPF is still at a manageable level. In addition, the NPF recorded by Adira Finance was still lower compared to the NPF of the multifinance industry, which reached 2.4%.

BOND MARKET OVERVIEW

The Indonesian bond market has been overshadowed by negative global sentiment since early 2020, mainly related to the corona virus outbreak which is feared to be able to cause a slowdown in the global economy. Based on IBPA data as of 20-May-2020, the Indonesian Composite Bond Index (ICBI) slightly gained 0.72% (ytd), while the yield on the 10-year IGB soared 48 bps from 7.06% at the end of 2019 to 7.54%. In addition, the Rupiah exchange rate against the US Dollar also depreciated significantly. Since the beginning of the year, the Rupiah has weakened 6.09% to the level of 14,710 per US Dollar. The depreciation of the Rupiah is influenced by high foreign capital outflows from both stock and bond markets.

According to DJPPR's latest report as of 19-May-2020, capital outflow so far this year has reached IDR138 trillion. Foreign ownership in government bonds decreased from IDR1,061.90 trillion to IDR923.8 trillion, or 30.4% of the total tradable IGB. The percentage of foreign ownership in the IGB market dropped significantly from 38.6% at the end of 2019. To reduce market turmoil, Bank Indonesia has intervened, both in the IGB market and the foreign exchange market. The central bank's intervention in the government bond market has reached IDR144.9 trillion (ytd). From the monetary side, BI has also cut its benchmark interest rates by 25 bps in the Governors' meeting in February and March, which aimed to prevent an economic slowdown due to the corona virus outbreak. Amid the high market uncertainty, we estimate the central bank still has room to reduce the benchmark interest rate. Furthermore, other institutional investors such as insurance and mutual funds still recorded a net buy this year, amounting to IDR62.6 trillion and IDR2.15 trillion, respectively. However, the highest net buy is still recorded by local banks. Thier ownership in IGB increased by IDR319 trillion.

Exhibit 1. Ownership of Indonesian Government Bonds

Type of Investors	31-Dec-19	30-Apr-20	19-May-20	Ownership (%)	Net buy (sell) - IDR tn		
					MTD	YTD	FY2019
Banks	581.4	816.3	900.7	29.6%	84.4	319	100
Bank Indonesia	262.5	261.7	297.4	9.78%	35.7	34.9	9.02
Mutual Fund	130.9	132.5	133.0	4.37%	0.48	2.15	12.2
Insurance	215.0	268.0	277.6	9.13%	9.60	62.6	13.4
Foreign Investors	**1,061.9**	**924.8**	**923.8**	**30.4%**	**(1.00)**	**(138)**	**169**
Pension Fund	256.7	228.1	228.2	7.50%	0.06	(28.5)	43.8
Individual Investors	81.18	91.65	95.41	3.14%	3.76	14.2	8.11
Others	163.3	187.7	185.1	6.09%	(2.60)	21.8	29.1
Total	**2,752.74**	**2,910.80**	**3,041.24**	**100.0%**			

Source: DJPPR

During the first quarter of 2020, the total issuance of corporate bonds and sukuk reached IDR19.85 trillion from 17 issuers. This figure was lower than the total emissions in the same period last year of IDR24.07 trillion. In the first quarter of 2018, total bond issuance and corporate sukuk even reached IDR 42.02 trillion. Total corporate bonds maturing in 2020 reached IDR100 trillion. However, amid the high global uncertainty that has caused a significant increase in bond yields, the total issuance of corporate bonds this year is unlikely to exceed 2019 issuances, which reached IDR126 trillion. We estimate that the total issuance of corporate bonds this year will only reach IDR110 trillion. Meanwhile, the total outstanding corporate bonds listed on the Indonesia Stock Exchange (IDX) until the end of March 2020 reached IDR442.84 trillion and US$ 47.5 million from 116 issuers. As for the Government Securities, up to the first quarter of 2020 there were 92 series with nominal values reaching IDR2,812.62 trillion and US$ 400 million. While the Asset Backed Securities (EBA) has 12 emissions with a value of IDR10.62 trillion.

Indonesian bond market will be overshadowed by global negative sentiment until the corona virus pandemic can be addressed. In addition to the pandemic that could cause a global recession, we see that there are several sentiments that could affect the performance of the Indonesian bond market going forward, including:

- Supply of government bonds will increase significantly after the government raises the budget deficit target to 6.27% of Gross Domestic Product (GDP); The government needs relaxation of the budget deficit policy above 3%, but the relaxation of this deficit is only for the next three years including 2020, 2021 and 2022. In addition, the government will also disburse funds of IDR405.1 trillion in the 2020 State Budget in order to handle the spread of the Covid-19 pandemic in Indonesia. The funds will be allocated for health spending of IDR75 trillion, social protection of IDR110 trillion, tax incentives and stimulus for business loans of IDR70.1 trillion, and financing of the national economic recovery program, including credit restructuring and business guarantees and financing worth IDR150 trillion. The widening of the budget deficit makes IGB issuance target likely to be raised. Previously, the Ministry of Finance set a target for issuing (gross) IGB this year to reach IDR735.5 trillion (assuming a budget deficit was 1.76% of GDP). If the budget deficit rises from 1.76% (IDR307.22 trillion) to 6.27% of GDP, the additional funding needed will reach more than IDR618 trillion. The high funding target this year will cause the government to be more aggressive in absorbing auction results, so that IGB yields on the secondary market could increase.

- Badan Pusat Statistik mencatat pertumbuhan ekonomi Indonesia pada kuartal I 2020 sebesar 2,97% (yoy). Pertumbuhan tersebut mengalami kontraksi 2,41% dibandingkan kuartal IV 2019. Pertumbuhan ekonomi sepanjang 2020 diperkirakan akan turun menjadi 1,0% dari 5% pada 2019, sebagai dampak dari pandemi Covid-19 dan potensi resesi global yang menyebabkan melemahnya konsumsi rumah tangga dan investasi. Konsumsi rumah tangga bahkan sudah melemah sebelum pandemi melanda. Konsumsi akan turun lebih jauh, karena upaya 'social distancing' cenderung membatasi aktivitas masyarakat. Namun demikian, stimulus yang diberikan Pemerintah seperti keringanan pajak, dan tunjangan lapangan kerja diharapkan dapat menghambat perlambatan ekonomi lebih lanjut.

- Inflation remains low, thereby supporting economic stability. CPI inflation in April 2020 was recorded at 0.08% (mtm), down from 0.10% (mtm) one month earlier. Inflation remains low due to weak demand caused by COVID-19 together with the adequate supply of goods and a smooth distribution chain, as confirmed by the dynamics of inflation components. Core inflation is lower in line with policy consistency by Bank Indonesia to anchor inflation expectations to the target corridor and fading domestic demand. Moving forward, Bank Indonesia will consistently maintain price stability and strengthen policy coordination with the central and local government to control low and stable inflation within the 3.0% ± 1% target corridor in 2020 and 2021.

- Since the beginning of this year, Bank Indonesia has cut its benchmark interest rate by 50 bps in an effort to hamper the economic slowdown due to the Covid-19 pandemic. We estimate that the central bank still has the potential to reduce the benchmark interest rate, due to further weakening of economic growth and in line with the relatively low inflation rate. We estimate that the BI 7-DRRR will be cut by another 50 bps to 75 bps by the end of this year, depending on the severity of the economic slowdown.

COMPANY OVERVIEW

Adira Dinamika Multi Finance (ADMF) was founded in 1990 and began operating in 1991. From the beginning, the company has committed to be the best and leading company in the financing sector. Adira Finance was established based on Notary Deed Misahardi Wilamarta, S.H., No. 131. This deed of establishment was approved by the Minister of Justice of the Republic of Indonesia in Decree No. C2-19.HT.01.01.TH.91 dated January 8, 1991. The company obtained a business license as a finance company from the Minister of Finance in Decree No. 253/KMK.013/1991 dated March 4, 1991. Based on Article 3 of the Company's Articles of Association, the scope of the Company's activities in the field of finance companies includes leasing, factoring, consumer financing and credit card business.

In line with business developments and regulations, the company began to expand the reach of business segments to the financing business beyond motorcycle and car financing by diversifying financing. Based on the Company's Articles of Association, the scope of the company includes business areas: investment financing, working capital financing, multipurpose financing, other financing business activities based on the approval of the Financial Services Authority, as well as operating leases and/or fee-based activities as long as they are not in conflict with the laws and regulations in business service sector.

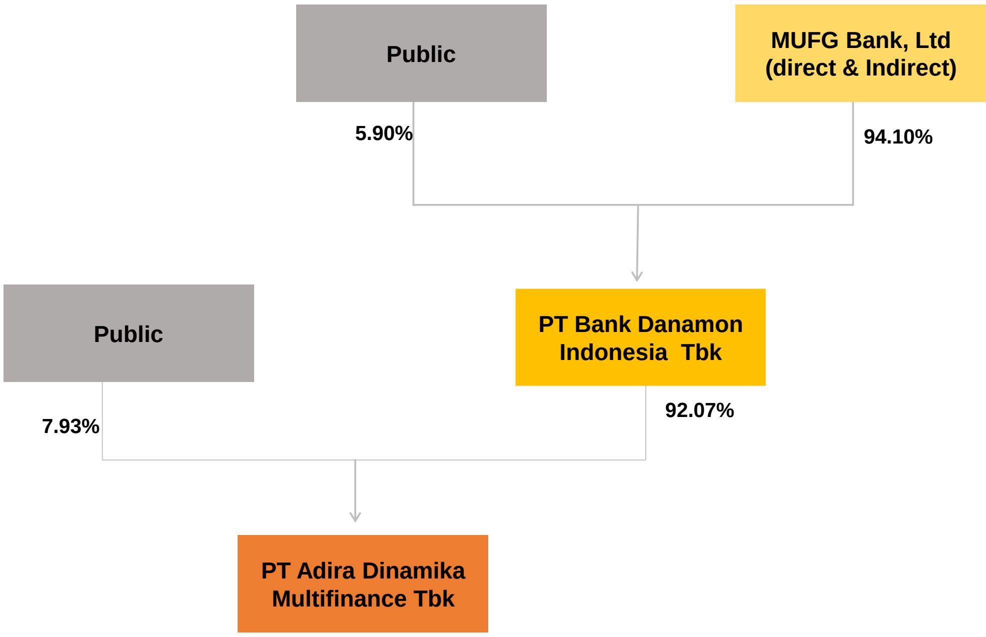
Adira Finance always strives to contribute to Indonesia. Through the identity and promise of "Sahabat Setia Selamanya (Friends of Faithful Forever)", Adira Finance is committed to carrying out the mission that leads to improving the welfare of the people of Indonesia. This is done by providing products and services that vary according to the life cycle of consumers and provide experiences that benefit consumers.

In 2004, PT Bank Danamon Indonesia Tbk became the majority shareholder with a 75% shareholding. Bank Danamon was then a subsidiary of Asia Financial (Indonesia) which the final shareholder was Temasek Holding Pte. Ltd., an investment company based in Singapore and wholly owned by the Singapore government. In 2009, Bank Danamon added 20% of its share ownership, to 95%. In 2018 until 2019, there was a change in the controlling shareholder of Bank Danamon from the previous Temasek Holding Pte. Ltd. became MUFG Bank, Ltd., a subsidiary of Mitsubishi UFJ Financial Group, Inc. Until the end of 2019, Bank Danamon has a 92.1% shareholding in Adira Finance.

As a major subsidiary, Adira Finance contributes 49% to Bank Danamon's net profit. As a result of its significant contribution, we see that Bank Danamon's support for Adira Finance will continue in the long run. Support is not only carried out during business expansion, but also in a state of financial difficulties.

Until the end of 2019, Adira Finance managed to own and operate a total of 453 business networks throughout Indonesia, including 40 Sharia Branch Offices, supported by more than 17 thousand employees, to serve 2.9 million consumers with the amount of receivables managed is more than Rp53.4 trillion. In addition, the Company also continues to carry out business transformation and service innovation in meeting market demands. For this reason, Adira Finance has digital-based services in order to meet the needs of consumers in making transactions with the convenience of services that are more practical, fast, precise and efficient through the internet-based customer service application, AdiraKu.

Exhibit 2. Major and Controlling Shareholders (as of March 2020)



Source: Company

Adira Finance received strong support from Bank Danamon as a Parent company and MUFG Bank, which not only provided access to funding facilities, but also joint financing cooperation with the company. Throughout 2019, the portion of joint financing of managed receivables reached 43%.

Adira Finance obtained a corporate credit rating of "idAAA" from Pemeringkat Efek Indonesia (Pefindo) on the basis of very strong synergy and mutually beneficial relationships between Adira Finance and its parent company, PT Bank Danamon Indonesia Tbk (Bank Danamon, idAAA/Stable outlook), A very strong company's market share in the automotive financing industry, and a well diversified business portfolio. Adira Finance is supported by Bank Danamon as the parent company and member of the Mitsubishi UFJ Financial Group (MUFG). In particular, at the beginning of 2019, Adira Finance managed to obtain an international grade (investment grade), Baa2 and BBB, respectively from Moody's and Fitch, a rating equivalent to Indonesia's sovereign rating. This achievement enables the Company to take advantage of the global capital market and provide a strong profit for the Company compared to other similar companies.

Adira Finance is one of the largest multifinance companies in Indonesia with a fairly strong position in the Indonesian finance industry, specifically for vehicle financing. In 2019, Adira Finance had a market share of new car sales of 4.4% and 11.8% in new motorcycle sales. Until the end of 2019, Adira Finance's Adira Finance's total managed receivables reached IDR53.4 trillion, or around 9% of total managed receivables in the multifinance industry in Indonesia. With a strong network and spread in almost all regions of Indonesia, it makes it easy for Adira Finance to reach its consumers. As a dominant company in the financing industry, it brings benefits for companies to determine prices to consumers, especially in areas where there are not many competitors.

BUSINESS PROSPECT

In general, the Company's growth will be greatly influenced by how Indonesia's economic performance will be in 2020. Trade tensions between the US and China and the Covid-19 pandemic contribute to increasing global uncertainty. In addition, weakening commodity prices could also cause Indonesia's GDP growth to fall below the 5% level in 2020 due to some of these negative sentiments.

Although the first case of the corona virus in Indonesia emerged in early March 2020, the multifinance business can still grow. But at the end of March 2020, multifinance companies began processing the proposed restructuring of financing affected by Covid-19. This is increasingly put pressure to the multifinance business. Based on the OJK report, receivables of multifinance companies slowed slightly but still grew by 2.49% (yoy) until March 2020, lower than the previous quarter which grew 3.66% (yoy). The Indonesian Financial Services Association (APPI) also changed the outlook for multifiannce financing business throughout 2020. Initially, the association estimated that multifinance companies could grow 4% this year. But due to corona virus pandemic, multifinance business is predicted to grow only 1% or even less than that. To anticipate the prolonged impact, APPI hopes that debtors who still have jobs can pay off loans so that finance companies can pay loans to banks. If this is not the case, then the cycle of financial turnover in the community is not running.

In facing the Covid-19 pandemic that could cause a global economic recession, the Financial Services Authority (OJK) has launched a credit restructuring program for customers of multifinance companies affected by the pandemic. This has been regulated in OJK Regulation No. 14/POJK.05/2020 regarding Countercyclical Policy on the Impact of Covid-19 Disease for Non-bank Financial Services Institutions. In the purchase, the multifinance companies can restructure debtors affected by Covid-19. OJK recorded the number of customers in multifinance restructuring program affected by Covid-19 had reached IDR44.61 trillion as of mid-May 2020. The total restructuring came from 180 multifinance companies. Submission of multifinance loan restructuring is expected to increase due to the spread of the corona virus. Specifically, for customers who cannot repay their interest and principal because their business has been affected by Covid-19. In general, restructuring cannot be automatically granted because it must be submitted in advance by the debtor. In addition, restructuring is provided to debtors with a maximum loan value of IDR10 billion. Finance companies will provide the program to debtors who have good credit quality with a maximum term of one year. The relaxation policy for credit restructuring not only provides good incentives for debtors by obtaining relief in paying their obligations, but also OJK in providing relaxation for banks and multifinance companies. Thus, multifinance companies are not burdened in making additional credit reserves because restructured loans can be categorized as performing immediately, and are expected to not erode their capital.

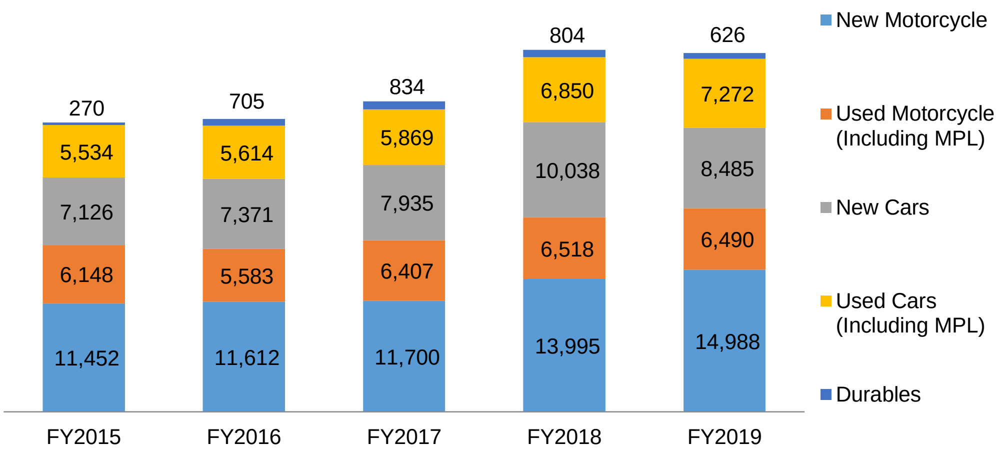
We expect this outbreak to have a manageable impact to Adira Finance’s credit profile, mainly supported by the Company’s strong competitive edge with shareholding links to Bank Danamon and MUFG Bank, Ltd., providing a stable funding access. Adira Finance is also applying stronger underwriting criteria and intensifying its collection efforts as supported by its strong IT infrastruc ture. This should offset the concern of potential business downturn given that 54% of its financing portfolio is generated from Java, areas that are significantly impacted by the outbreak, and may become more so, as some people are contemplating to go back to their home cities earlier than usually scheduled for fear of more tightly social distancing measures.

FINANCIAL OVERVIEW

Until now, the motorcycle market is still the biggest contributor to the distribution of Adira Finance financing. The motorcycle market is more dominant than the car because the price is more affordable for all levels of society. However, in recent years, motorcycle sales have continued to experience more pressure. In 2019, the market for new motorcycle sales in Indonesia edged up by 1.6% to 6.5 million units from 6.4 million units in 2018. For the company, this condition is a challenge as well as an opportunity to improve business performance.

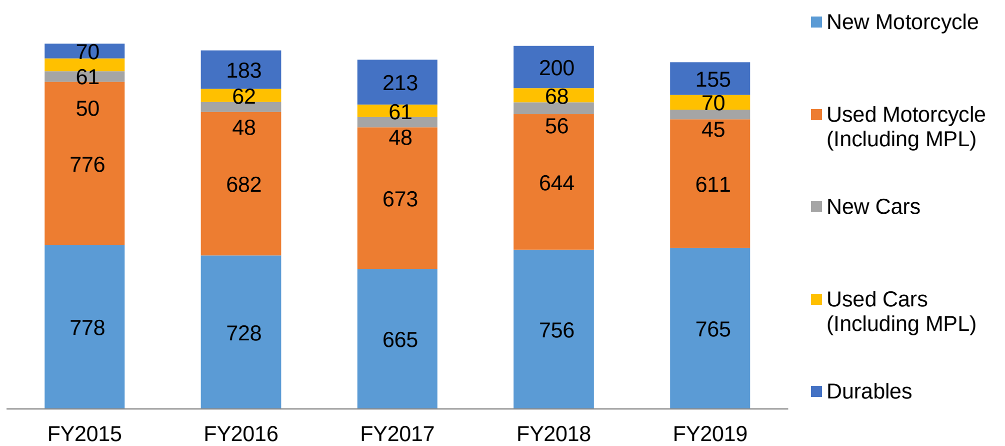
Meanwhile, until the end of 2019, the company has disbursed IDR37.9 trillion in new financing, down slightly by 0.8% compared to the achievements in the same period the previous year. Of the total financing disbursed, the new motorcycle segment is still the largest contributor to the total new financing with a contribution of IDR15.0 trillion. Then, followed by a new car segment with financing of IDR8.5 trillion, used motorcycle financing of IDR6.5 trillion, used car financing of IDR7.3 trillion and durables financing of IDR0.6 trillion. Throughout 2020, the company is targeting financing growth in the range of 4% to 7% when compared to the achievements of the previous year. The projection was made before Indonesia was struck by the Covid-19 pandemic which hampered the pace of economic growth. The high uncertainty of the global economy also had an impact on pressures in the multifinance industry, although total new financing in this industry still grew 2.49% in the first quarter this year.

Exhibit 3. New Financing Volume (IDR Billion)



Source: Company

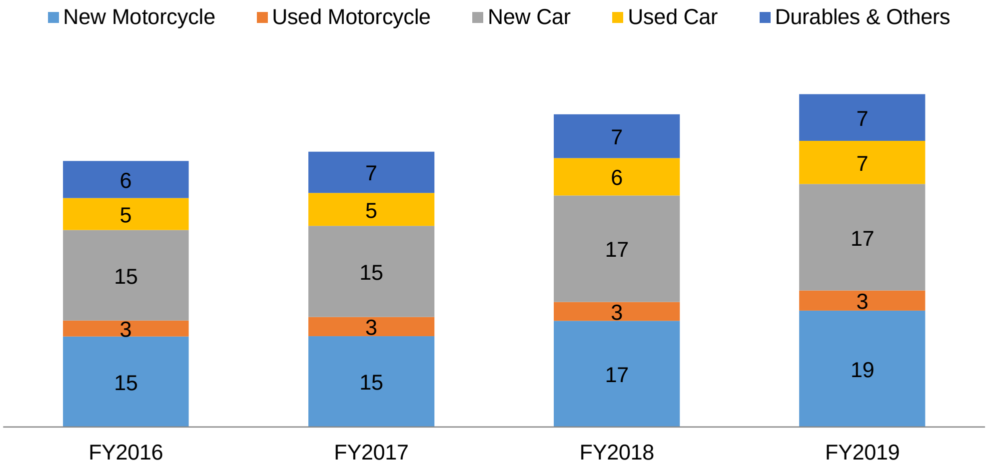
Exhibit 4. New Financing Units (Thousand Units)



Source: Company

Financing receivables (net) managed by Adira Finance until the end of 2019 reached IDR53.4 trillion. This value increased by 6% from the same period in the previous year of IDR50.2 trillion. The increase was in line with the increase in finance industry financing receivables as a whole by 2.7% to IDR620.4 trillion. Financing receivables, not including the portion of joint financing, contributed 76.3% of the company's total assets, where this contribution was more than twice the minimum regulation of the financing to asset ratio of 40%. Financing activities tend to decrease in line with the people's purchasing power which has been under pressure in recent years.

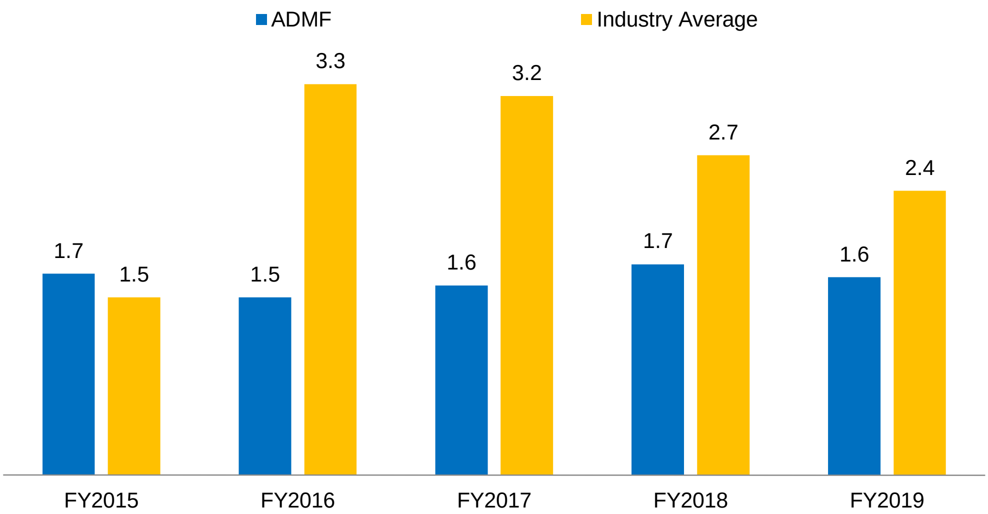
Exhibit 5. Net Managed Financing Receivables (IDR Trillion)



Source: Company

The quality of financing receivables can be seen from the company's relatively low and manageable Non-Performing Financing (NPF). The company's NPF in 2016 and 2017 respectively reached 1.5% and 1.6%. The NPF figure increased at the end of 2018 to 1.7% due to the economic slowdown which caused a decline in the ability to pay credit. However, the company sees that the NPF is still at a controlled level as seen from the NPF decline in 2019 to 1.6%. In addition, the NPF recorded by Adira Finance over the past year was also still far lower compared to the NPF of the multifinance industry which reached 2.4%. This shows a high commitment from the company to maintain asset quality.

Exhibit 6. Non-Performing Financing (%)



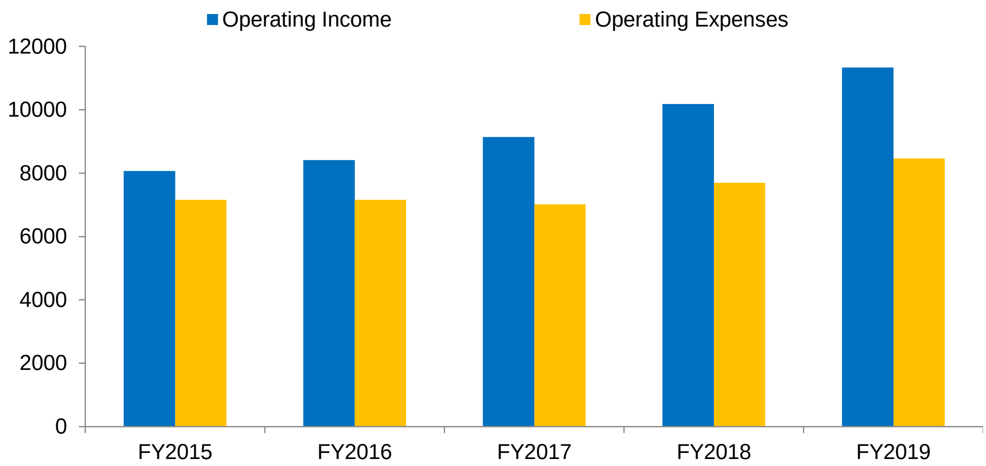
Source: Company, OJK

Throughout 2019, the Company proactively manages operational expenses and funding costs to compensate for the slow growth of receivables. As a result, the Company was able to increase operating income by 11.2% (yoy) from IDR7.5 trillion to IDR8.3 trillion with net profit growth above the market of 16.2% (yoy) or IDR2.1 trillion in 2019.

In line with this achievement in 2019, the Company's operational expenses rose 7.9% (yoy) to IDR3.7 trillion. This increase is lower than the growth in operating costs in 2018 of 13.2% (yoy). The main components of improvement are wage adjustments and adjustments to HR requirements, including training that runs as needed.

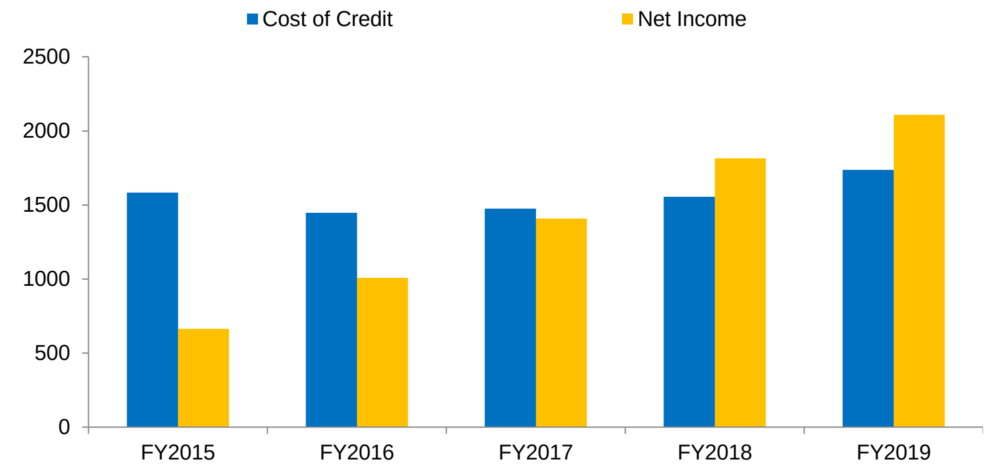
The level of funding costs in 2019 edged up by 10 basis points from the total interest cost to 9.1%, higher than the level of funding costs by 9.0% in 2018, in line with the increase in interest rates that took place since the second semester of 2018. By therefore, net interest income increased by 8.5% (yoy) to IDR7.2 trillion in 2019. The Company incurred an interest expense of IDR4.8 trillion in 2019 compared to IDR4.2 trillion in 2018. Meanwhile, interest income reached IDR12.0 trillion in 2019 compared to IDR10.9 trillion in the previous year. On the other hand, credit costs increased by 11.8% (yoy) to reach IDR1.7 trillion in 2019.

Exhibit 7. Operating Income & Expenses (IDR Billion)



Source: Company

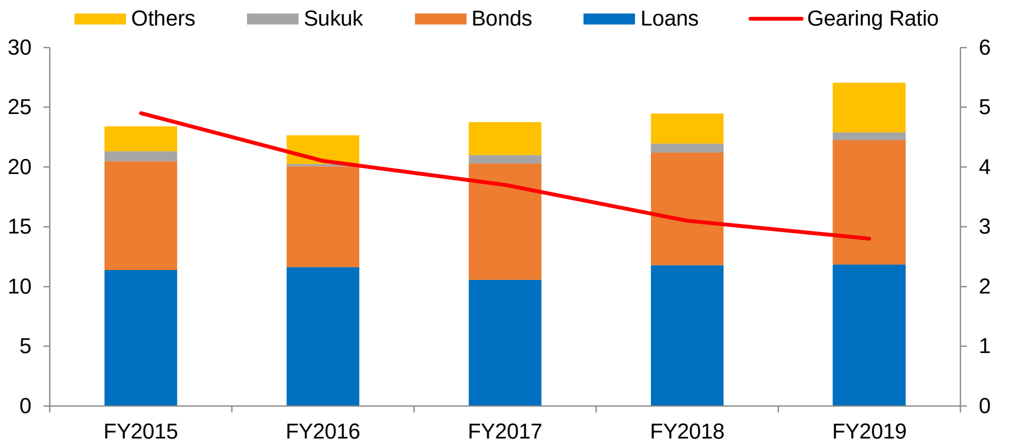
Exhibit 8. Cost of Credit and Net Income (IDR Billion)



Source: Company

The total liabilities of the Company at the end of 2019 reached IDR27.0 trillion, or 10.5% (yoy) higher compared to the position in 2018 of IDR24.5 trillion. The increase in total liabilities was mainly due to an increase in bond debt and other debts, each of which amounted to 10.4% and 124.2% in order to support the activities of financing distribution. The company continues to diversify funding sources through 57% of its own funding and joint financing with Bank Danamon (43%). The company's total debt increased by 4.2% to IDR22.9 trillion, with loans received up 0.6% to IDR11.9 trillion, and bonds and mudharabah debt increased 8.3% to IDR11.0 trillion. With total debt at the end of 2019 reaching IDR22.9 trillion, followed by an increase in equity to a level of IDR8.08 trillion, an increase of 15% over the previous year, the debt-to-equity ratio reached 2.8 times. This condition is still lower from the maximum gearing ratio of 10 times, as required by the Financial Services Authority (OJK)

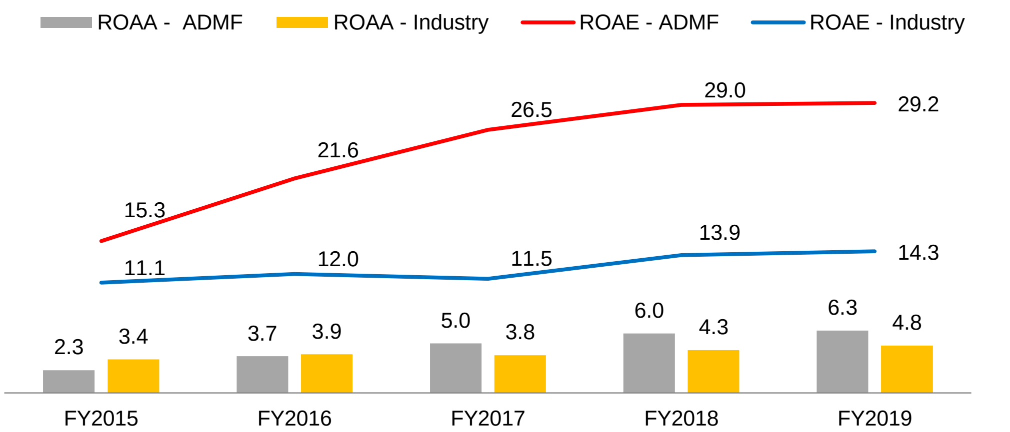
Exhibit 9. Total Liabilities (IDR Trillion) & Gearing Ratio (x)



Source: Company

The company's performance in terms of profitability is excellent. As of December 31 2019, Adira Finance recorded a return on average equity (ROAE) ratio of 29.2%, higher than the ROAE of the multifinance industry in Indonesia, which was only around 14.3%. This indicates that the company can utilize its capital to generate higher net profit. In addition, the company also manages its assets effectively and efficiently. This is reflected in the ratio of return on average assets (ROAA) which reached 6.3%, higher than the ROAA of the finance industry at 4.79%.

Exhibit 10. ROAE & ROAA (%)



Source: Company

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