

United Tractors Tbk (UNTR IJ)

Sluggish but Attractive

UNTR's slowdown in 2Q19 was attributable to declines in revenues posted by the construction machinery segment, but its business diversification, the mining contracting and the gold mining segments, supported UNTR stability performance in 2Q19. Thus, its path ahead remains promising.

Inadequate Performance

In 2Q19, UNTR recorded revenues of IDR20.6 trillion (+4% YoY), gross profits of IDR4.9 trillion (+3% YoY), and net profits of IDR2.5 trillion (-14% YoY). Net profits declining sharply was attributable to ballooning finance cost of IDR260 billion (+160% YoY). Sluggish coal industry impacts on the contribution given by the construction machinery segment because 47% of UNTR's heavy equipment is sold to the coal industry.

Pressures on 2Q19 Performance

The construction machinery segment posted revenues of IDR5.6 trillion (-19% YoY), while Komatsu posted sales of 736 units (-40% YoY). We project that in 2019F UNTR will sell 3,900 units with possible revenues of IDR23.6 trillion; that number dropped by 2% to 26% contributed to UNTR's overall revenues. The construction industry through ACSET posted revenues of Rp742 billion (-19% YoY) as several projects are on completion progress without any new additional projects. We estimate that in 2019F ACSET will still be able to book revenues of IDR2.9 trillion; that figure dipped by 1% to 3% contributed to UNTR's total revenues.

PAMA and Agincourt Support 2Q19

The mining contracting segment through PAMA contributed revenues of IDR9.7 trillion (+3% YoY) due to stable coal production. We project that in 2019F coal production will reach 130 million tons, with the OB Removal likely to reach 910 million bcm, driving revenues of IDR48 trillion or a stable contribution of 44% to UNTR's overall revenues. The gold mining segment through Agincourt contributed revenues of IDR1.7 trillion; it was a positive performance achieved by a new business line despite its declining production volume. We estimate that in 2019F Martabe Gold Mine likely hits production volume to 300,000 oz with revenues of IDR7 trillion; that is a 2% hike to 10% in revenues contributed to UNTR.

BUY Rating with the Price Target of IDR28,000

Business diversification is a key to UNTR's long-term business stability; accordingly, we maintain BUY recommendation with the price target of IDR28,000 or a 20.8% potential upside based on the estimate of a forward P/E method at 7.7x (-1 SD). UNTR is currently traded at a 2019F P/E of 10.6x.

United Tractors Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	84,625	86,312	90,845	94,195
Growth (%)	31.1%	2.0%	5.3%	3.7%
EBITDA	21,811	25,413	30,857	27,195
Net Profit	11,126	11,720	13,636	14,092
EPS (IDR)	2,982	3,142	3,656	3,778
Growth (%)	50.3%	5.3%	16.4%	3.3%
P/E	11.2x	10.6x	9.1x	8.8x
P/BV	2.2x	1.9x	1.7x	1.4x
EV/EBITDA	5.7x	5.4x	4.1x	4.6x
ROE (%)	21.3%	19.3%	20.0%	17.7%
DER (%)	18.0%	26.9%	20.5%	15.8%
Net Debt	-3,195	1,721	-5,016	-8,895

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2019 TP (IDR)	28,000
Consensus Price (IDR)	33,326
TP to Consensus Price	16.0%
vs. Last Price	20.8%

Shares data

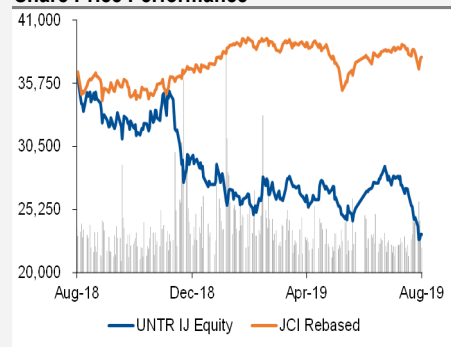
Last Price (IDR)	23,175
Price Date as of	Aug 9, 2019
52 wk Range (Hi/Lo)	37,175 / 22,600
Free Float (%)	40.4
Outstanding sh.(mn)	3,730
Market Cap (IDR bn)	86,446
Market Cap (USD mn)	6,086
Avg. Trd Vol - 3M (mn)	4.12
Avg. Trd Val - 3M (bn)	107.74
Foreign Ownership	17.9%

Trade

Heavy Equipment

Bloomberg	UNTR.IJ
Reuters	UNTR.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-15.2%	-16.3%	-11.2%	-36.74%
Rel. Ret.	1.6%	-1.7%	1.3%	3.6%

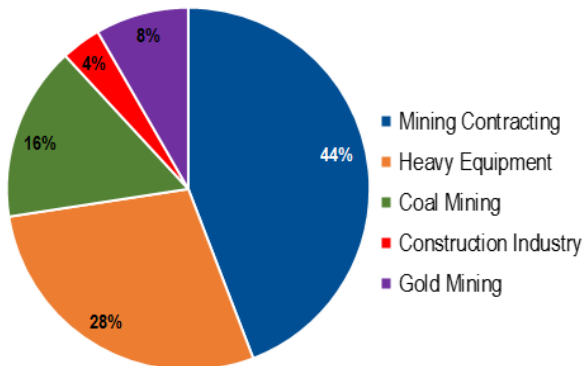
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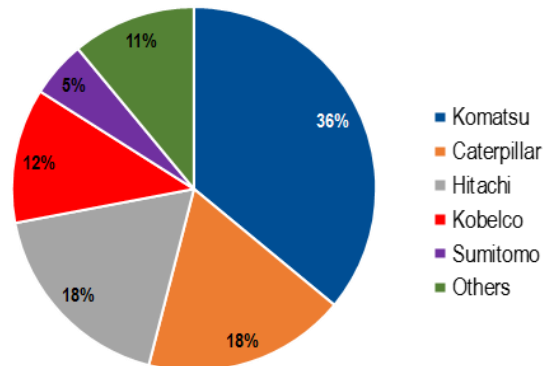
Performance Highlights in Charts

6M19 Revenue Breakdown



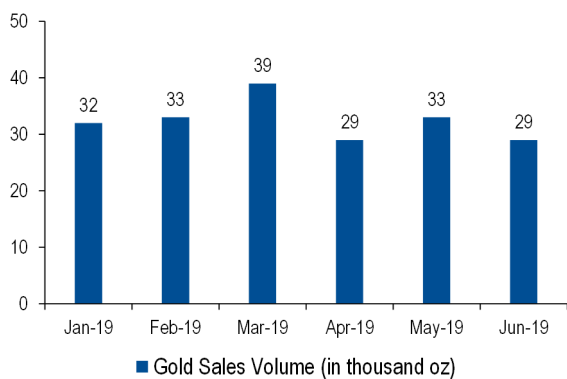
Source: Company Data, NHKS Research

6M19 Heavy Equipment Domestic Shares



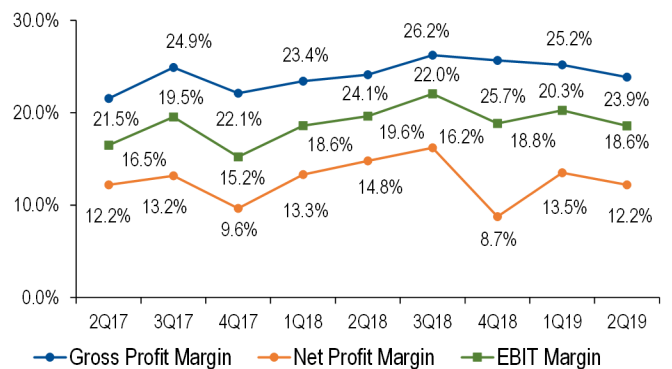
Source: Company Data, NHKS Research

Gold Sales Volume



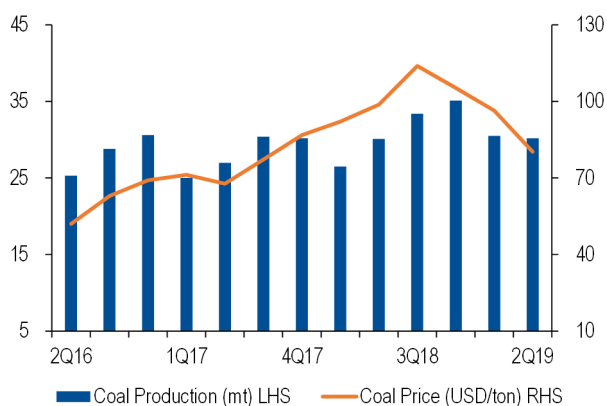
Source: Company Data, NHKS Research

Margin Ratios



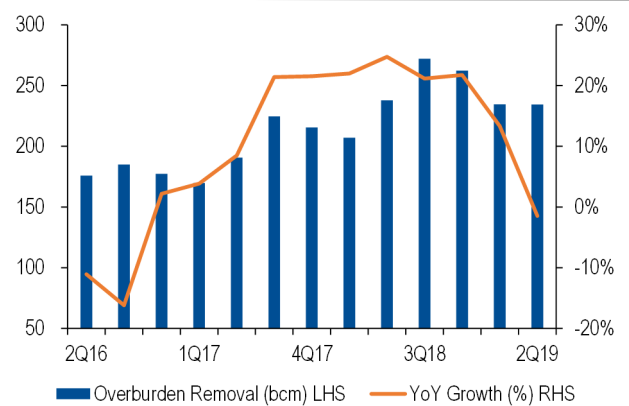
Source: Company Data, NHKS Research

Coal Production & Prices



Source: Company Data, NHKS Research

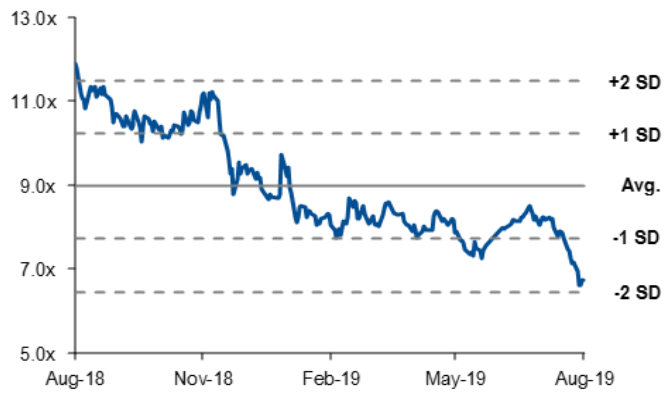
Overburden Removal & YoY Growth



Source: Company Data, NHKS Research

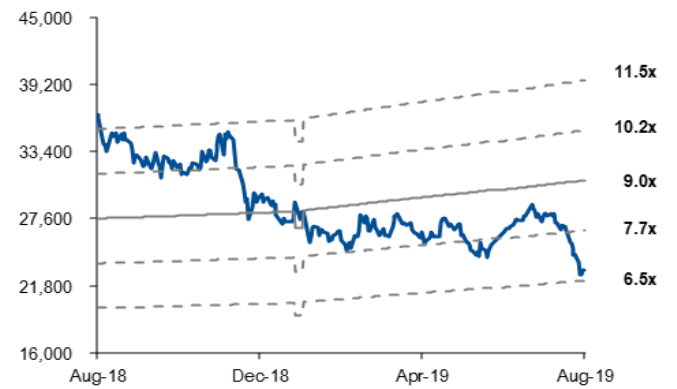
Valuation Highlights in Charts

12-Month Forward P/E Band



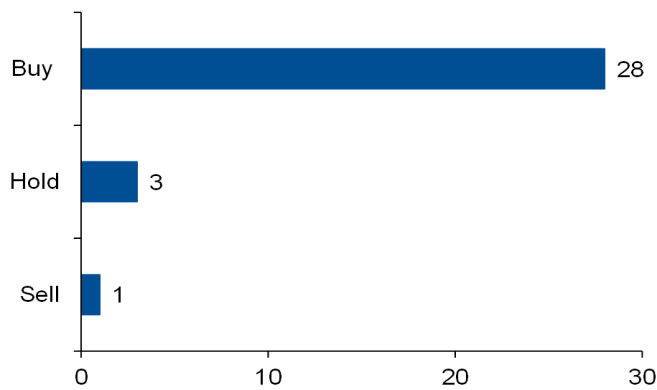
Source: Bloomberg, NHKS Research

12-Month Dynamic Forward P/E Band



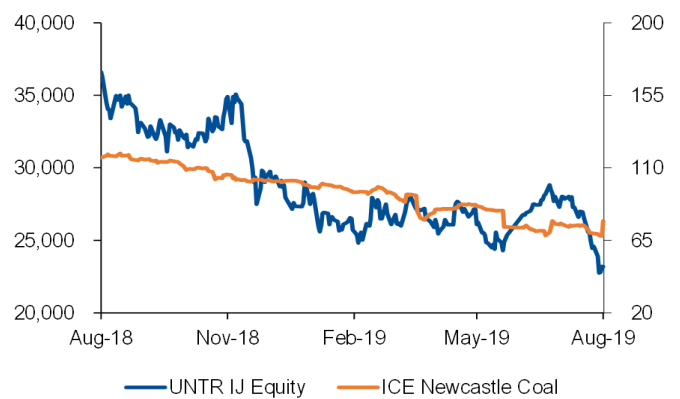
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and Coal Prices Correlated Positively



Source: Bloomberg, NHKS Research

Quarter Review

	2Q18	3Q18	4Q18	1Q19	2Q19			3Q19E	
					Actual	Estimate	Y-Y		Q-Q
Income statement									
Sales	19,934	22,181	23,499	22,621	20,698		3.8%	-8.5%	21,332
Gross Profit	4,809	5,818	6,031	5,700	4,939		2.7%	-13.3%	5,789
EBIT	3,914	4,890	4,428	4,584	3,846		-1.7%	-16.1%	4,700
EBITDA	5,127	6,126	5,930	6,862	6,122		19.4%	-10.8%	6,092
Net Profit	2,948	3,593	2,054	3,053	2,522		-14.4%	-17.4%	2,432
Margin									
Gross Margin	24.1%	26.2%	25.7%	25.2%	23.9%		-0.3%	-1.3%	27.1%
EBIT Margin	19.6%	22.0%	18.8%	20.3%	18.6%		-1.1%	-1.7%	22.0%
EBITDA Margin	25.7%	27.6%	25.2%	30.3%	29.6%		3.9%	-0.8%	28.6%
Net Profit Margin	14.8%	16.2%	8.7%	13.5%	12.2%		-2.6%	-1.3%	11.4%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	86,312	90,845	94,195
	-Previous	109,946	121,427	
	-Change	-21.5%	-25.2%	
Gross Profit	-Revised	22,323	23,973	24,541
	-Previous	28,924	30,751	
	-Change	-22.8%	-22.0%	
EBIT	-Revised	17,901	19,318	19,619
	-Previous	23,286	24,400	
	-Change	-23.1%	-20.8%	
EBITDA	-Revised	25,413	30,857	27,195
	-Previous	35,562	40,742	
	-Change	-28.5%	-24.3%	
Net Profit	-Revised	11,720	13,639	14,094
	-Previous	17,050	17,731	
	-Change	-31.1%	-23.1%	
Margin				
Gross Margin	-Revised	25.9%	26.4%	26.1%
	-Previous	26.3%	25.3%	
EBIT Margin	-Revised	20.7%	21.3%	20.8%
	-Previous	21.2%	20.1%	
EBITDA Margin	-Revised	29.4%	34.0%	28.9%
	-Previous	32.3%	33.6%	
Net Profit Margin	-Revised	12.8%	15.0%	15.0%
	-Previous	15.5%	14.6%	

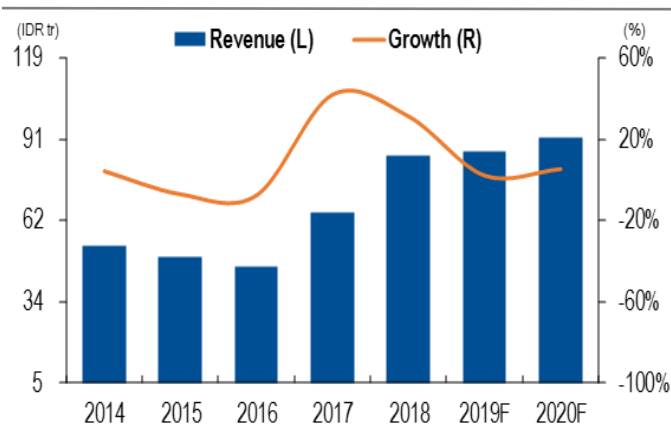
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

- PT United Tractors Tbk is a private company whose business lines covers Construction Machinery, Mining Contracting, Mining, Construction Industry and Energy. It was established on October 13, 1972, in Jakarta and went public in 1989, with PT Astra International Tbk as its major shareholder.
- The Construction Machinery business segment is a sole distributor in Indonesia for Komatsu, UD Trucks, Scania, Bogmag, Tadano and Komatsu Forest products used for mining, plantation, building construction and forestry industries.
- The Mining Contracting business segment provides mining services through PT Pamapersada Nusantara with reputable expertise in fields of mine design, exploration, extracting, hauling, barging, and transporting commodities.
- The Coal Mining Business Unit is operated through its subsidiary of PT Buah Turangga Agung having several coal mine concessions with the total reserve of 400 million tons of medium up to high coal quality.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE (LTM)	P/E LTM	P/BV
Indonesia									
UNITED TRACTORS TBK	5,980	8,060	6,162	777	18.6%	12.6%	21.6%	7.6x	1.6x
HEXINDO ADIPERKASA TBK	195	346	461	38	66.7%	8.2%	23.5%	5.2x	1.2x
DELTA DUNIA MAKMUR TBK	253	1,184	943	62	9.8%	6.6%	29.5%	4.3x	1.0x
India									
ZHONGJI INNOLIGHT CO LTD	3,892	1,175	689	86	83.2%	12.4%	10.8%	43.0x	4.3x
Japan									
YAMAZEN CORP	870	2,217	4,748	110	19.3%	2.3%	13.7%	7.5x	1.0x
JCHX MINING MANAGEMENT CO LTD	694	912	469	44	29.5%	9.4%	7.4%	16.6x	1.2x
Australia									
MINERAL RESOURCES LTD	1,831	1,542	990	92	-45.5%	9.2%	10.0%	22.2x	2.2x

Unit: IDR bn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Sales	84,625	86,312	90,845	94,195
<i>Growth</i>	31.1%	2.0%	5.3%	3.7%
COGS	(63,515)	(63,988)	(66,872)	(69,653)
Gross Profit	21,110	22,323	23,973	24,541
<i>Gross Margin</i>	24.9%	25.9%	26.4%	26.1%
Operating Expenses	(4,339)	(4,422)	(4,655)	(4,923)
EBIT	16,770	17,901	19,318	19,619
<i>EBIT Margin</i>	19.8%	20.7%	21.3%	20.8%
Depreciation	5,041	7,513	11,538	7,576
EBITDA	21,811	25,413	30,857	27,195
<i>EBITDA Margin</i>	25.8%	29.4%	34.0%	28.9%
Interest Expenses	(475)	(889)	(802)	(345)
EBT	15,709	16,250	19,197	19,995
Income Tax	(4,210)	(4,489)	(5,215)	(5,541)
Minority Interest	(373)	(42)	(343)	(362)
Net Profit	11,126	11,720	13,639	14,092
<i>Growth</i>	50.3%	5.3%	16.4%	3.3%
<i>Net Profit Margin</i>	13.1%	13.6%	15.0%	15.0%

PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	21.3%	19.3%	20.0%	17.7%
ROA	11.2%	9.7%	10.5%	10.4%
ROIC	18.2%	15.9%	16.1%	14.1%
Cash Dividend (IDR bn)	3,088	1,425	1,668	1,724
Dividend Yield	2.5%	1.1%	1.3%	1.4%
Payout Ratio	27.8%	12.2%	12.2%	12.2%
DER	18.0%	26.9%	20.5%	15.8%
Net Gearing	24.7%	34.5%	23.8%	18.4%
LT Debt to Equity	5.6%	19.7%	10.8%	7.3%
Capitalization Ratio	15.2%	21.2%	17.0%	13.7%
Equity Ratio	49.1%	50.9%	53.8%	63.4%
Debt Ratio	8.8%	13.7%	11.0%	10.0%
Financial Leverage	157.3%	191.8%	184.6%	169.1%
Current Ratio	114.1%	133.9%	130.5%	146.9%
Par Value (IDR)	250	250	250	250
Total Shares (mn)	3,730	3,730	3,730	3,730
Share Price (IDR)	33,300	33,300	33,300	33,300
Market Cap (IDR tn)	124.2	124.2	124.2	124.2

BALANCE SHEET

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	13,438	15,574	19,870	22,624
Receivables	20,610	23,656	21,336	18,732
Inventories	13,618	7,011	12,636	8,824
Total Current Assets	55,652	56,032	62,731	55,742
Net Fixed Assets	47,444	56,991	61,789	71,153
Other Non Current Asset	13,186	13,034	9,984	10,076
Total Assets	116,281	126,057	134,504	136,970
Payables	32,691	20,634	26,243	27,193
ST Bank Loan	7,021	4,641	7,063	7,375
LT Debt	3,223	12,654	7,792	6,354
Total Liabilities	59,230	61,835	62,189	50,171
Capital Stock	933	933	933	933
Retained Earnings	40,522	49,155	61,369	73,793
Shareholders' Equity	57,051	64,221	72,315	86,799

VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	11.2x	10.6x	9.1x	8.8x
Price/Book Value	2.2x	1.9x	1.7x	1.4x
Price/Sales	1.5x	1.4x	1.4x	1.3x
PE/EPS Growth	0.2x	2.0x	0.6x	2.7x
EV/EBITDA	5.7x	5.4x	4.1x	4.6x
EV/EBIT	7.4x	7.6x	6.5x	6.3x
EV (IDR bn)	123,640	136,792	125,937	124,117
Sales CAGR (3-Yr)	19.7%	23.8%	12.1%	3.6%
EPS CAGR (3-Yr)	30.5%	16.6%	7.0%	6.3%
Basic EPS (IDR)	2,983	3,142	3,656	3,778
Diluted EPS (IDR)	2,983	3,142	3,656	3,778
BVPS (IDR)	15,295	17,217	19,387	23,270
Sales PS (IDR)	22,687	23,139	24,354	25,252
DPS (IDR)	828	382	447	462

CASH FLOW STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	19,139	15,238	26,577	20,968
Investing Cash Flow	(27,910)	(16,952)	(14,296)	(17,481)
Financing Cash Flow	1,316	4,053	(7,986)	(734)
Net Changes in Cash	(7,455)	2,339	4,296	2,753

TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	84.0	Astra International 59.5
United States	9.6	Vanguard Group 1.5
Luxembourg	2.3	Schroder Investment 1.4
Ireland	0.9	Matthew International 1.3

Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2017.11.16	Buy	IDR39,425	IDR33,884
2018.01.13	Buy	IDR42,350	IDR36,475
2018.08.27	Buy	IDR44,750	IDR43,200
2018.10.31	Buy	IDR39,550	IDR42,962
2019.08.09	Buy	IDR28,000	IDR33,326

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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