

# United Tractors Tbk (UNTR IJ)

## 3Q18 Review: Shrew to Exploit Opportune Backdrop

Company Report | Oct 31, 2018

# Buy

<b>Dec 2019 TP (IDR)</b>	<b>39,550</b>
Consensus Price (IDR)	42,962
TP to Consensus Price	-7.9%
vs. Last Price	+21.7%

### Shares data

Last Price (IDR)	32,500
Price date as of	Oct 30, 2018
52 wk range (Hi/Lo)	40,500 / 29,700
Free float (%)	40.5
Outstanding sh.(mn)	3,730
Market Cap (IDR bn)	122,535
Market Cap (USD mn)	8,049
Avg. Trd Vol - 3M (mn)	3,89
Avg. Trd Val - 3M (bn)	129,58
Foreign Ownership	17.9%

### Trade

#### Heavy Equipment

Bloomberg	UNTR IJ
Reuters	UNTR.JK

### 3Q18 Review: Top and Bottom Lines Fitting into Estimate

In 3Q18, UNTR posted revenue of USD22.1 trillion (+11.3% q-q, +31.8% y-y), heavy machinery sales of IDR7.4 trillion (+7.0% q-q, +19.8% y-y), and mining contracting revenue of IDR11.4 trillion (+21.7% q-q, +44.0% y-y). On a cumulative basis, 9M18's revenue amounted to IDR61.1 trillion and floated at 73.7% of our 2018F estimate or 73.3% of 2018F consensus. Meanwhile, **its net profit settled at IDR3.5 trillion (+21.9% q-q, +62.2% y-y)** a lot higher than our estimate and consensus of IDR2.6 trillion and IDR2.5 trillion, respectively.

### Robust Tailwind of Dry Season and Coal Prices

**Favorable weather and bullish coal prices** during 3Q18 allowed the coal miners to reap buoyant production. The increment in production positively correlated to mining contracting and heavy machinery performances. For example, overburden removal was 271.6 million bcm (+14.2% q-q, +20.9% y-y) and stripping ratio was 8.2x (vs. 7.9x in 2Q18 and 7.4x in 3Q17). Additionally, Komatsu sales were 3,681 units (+4.2% q-q, 29.0% y-y), hitting 96.8% of 2018's target of 3,800 units. At the early of 2018, UNTR estimated Komatsu's sales growth to lag and only float at 9% y-y (vs. 61% y-y in 2017) due to supply setback from Japan, prompting prolonged lead time from 9 months into 12 months. However, **we are sanguine about Komatsu's 2018F sales to hit 4,936 units.**

### Attractive Valuation, Maintaining Buy Recommendation

Overseeing UNTR's stock prices exposed to further depreciation, sparked by global volatility, we throttle the target price to IDR39,550 (vs. prior target price of IDR44,750), with a P/E implication of 8.6x. Key risks arising from our target price: 1) Decrease in global coal prices; 2) Heavy rain fall; 3) Lack of heavy machinery supply.

### United Tractors Tbk | Summary (IDR bn)

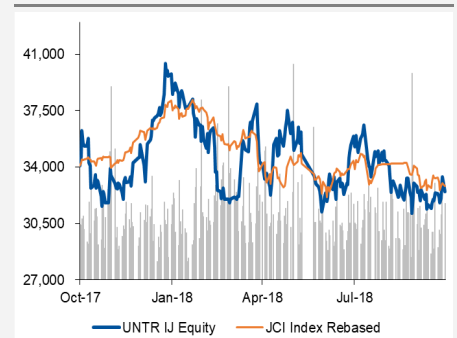
	2017	2018E	2019E	2020E
Sales	64,559	82,932	106,625	117,840
<i>Sales growth</i>	41.8%	28.5%	28.6%	10.5%
EBITDA	14,596	21,427	30,274	36,880
Net Profit	7,403	12,271	17,158	17,924
EPS (IDR)	1,985	3,290	4,600	4,805
<i>EPS growth</i>	47.9%	65.8%	39.8%	4.5%
BVPS (IDR)	12,744	15,463	18,169	20,711
EBITDA margin	22.6%	25.8%	28.4%	31.3%
NPM	11.5%	14.8%	16.1%	15.2%
ROE	16.4%	23.3%	27.4%	24.7%
ROA	10.1%	13.2%	14.7%	13.3%
ROIC	15.0%	19.0%	20.0%	19.5%
P/E	17.8x	10.1x	7.2x	6.9x
P/BV	2.8x	2.2x	1.8x	1.6x
EV/EBITDA	8.0x	5.2x	3.8x	2.9x
DPS (IDR)	611	1,691	2,365	2,470
<i>Dividend yield</i>	1.7%	5.1%	7.1%	7.4%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

### Share Price Performance



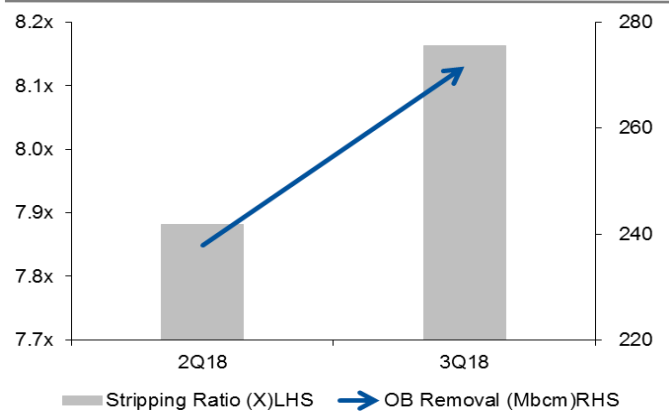
	YTD	1M	3M	12M
Abs. Ret.	-8.2%	-1.5%	-9.5%	-4.7%
Rel. Ret.	1.3%	2.2%	-5.0%	-1.0%

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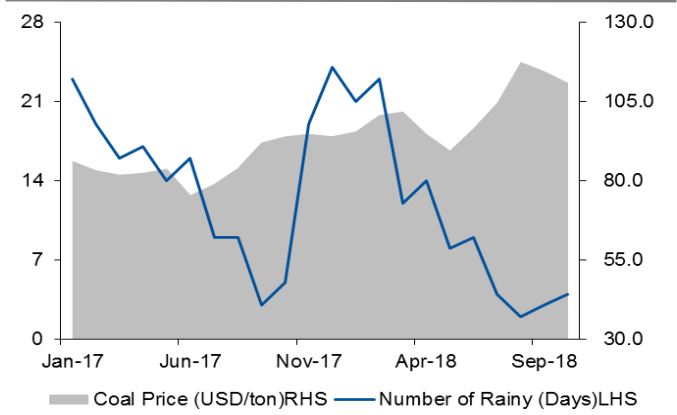
## Performance Highlights

### Mining contracting indicator rose in 3Q18



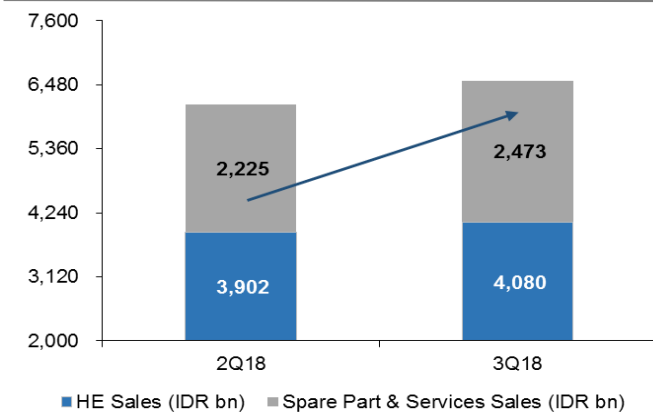
Source: Bloomberg, NHKS Research

### Coal price and good weather become positive factors



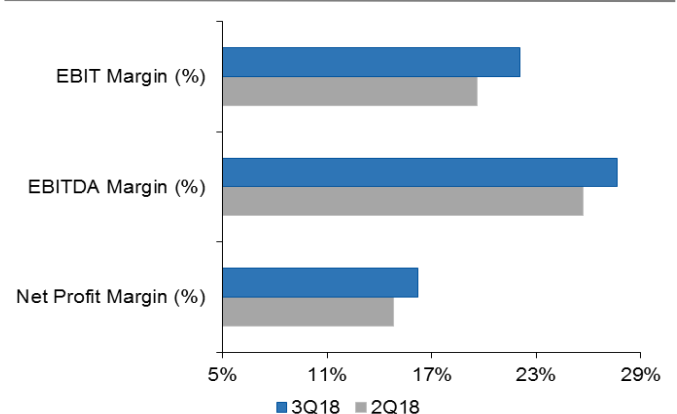
Source: Company Data, NHKS Research

### 3Q18: Spare part & services sales in line with HE sales



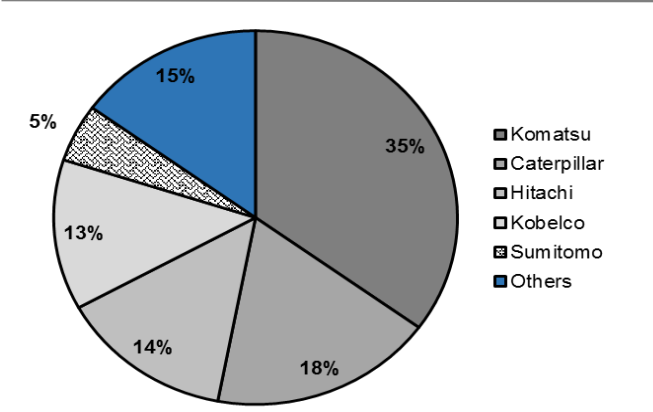
Source: Company Data, NHKS Research

### All margin ratios rose in 3Q18



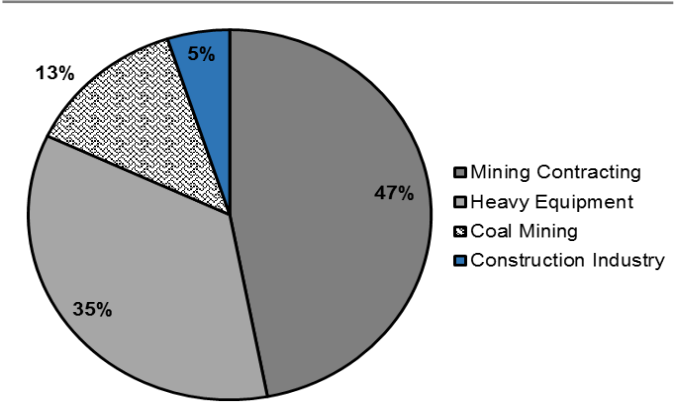
Source: Company Data, NHKS Research

### 9M18: Komatsu domestic market share composition



Source: Company Data, NHKS Research

### Revenue breakdown in 9M18



Source: Company Data, NHKS Research

## 3Q18 review (IDR bn)

	3Q17	4Q17	1Q18	2Q18	3Q18					4Q18E
					Actual	Estimate	y-y	q-q	surprise	
Sales	16,828	18,301	19,011	19,934	22,181	19,554	31.8%	11.3%	13.4%	21,806
Gross Profit	4,190	4,045	4,453	4,809	5,818	4,472	38.9%	21.0%	30.1%	5,490
<i>Gross Margin</i>	24.9%	22.1%	23.4%	24.1%	26.2%	22.9%	1.3%	2.1%	3.4%	25.2%
EBIT	3,287	2,787	3,538	3,914	4,890	3,563	48.8%	24.9%	37.3%	4,544
<i>EBIT Margin</i>	19.5%	15.2%	18.6%	19.6%	22.0%	18.2%	2.5%	2.4%	3.8%	20.8%
EBITDA	4,199	3,845	4,628	5,127	6,127	4,464	45.9%	19.5%	37.2%	5,545
<i>EBIT Margin</i>	25.0%	21.0%	24.3%	25.7%	27.6%	22.8%	2.7%	1.9%	4.8%	25.4%
<b>Net Profit</b>	<b>2,215</b>	<b>1,765</b>	<b>2,531</b>	<b>2,948</b>	<b>3,593</b>	<b>2,623</b>	<b>62.2%</b>	<b>21.9%</b>	<b>37.0%</b>	<b>3,199</b>
<i>Net Margin</i>	13.2%	9.6%	13.3%	14.8%	16.2%	13.4%	3.0%	1.4%	2.8%	14.7%

Source: Bloomberg, NHKS research

## Earnings revision (IDR bn)

		2018E	2019E	2020E
Sales	-Revised	82,932	106,625	117,840
	-Previous	78,725	103,975	116,032
	-Change	5.3%	2.5%	1.6%
Gross Profit	-Revised	20,569	28,050	29,843
	-Previous	18,486	27,353	29,385
	-Change	11.3%	2.5%	1.6%
Gross Margin	-Revised	24.8%	26.3%	25.3%
	-Previous	23.5%	26.3%	25.3%
EBIT	-Revised	16,887	23,316	24,506
	-Previous	14,845	22,543	23,910
	-Change	13.8%	3.4%	2.5%
EBIT Margin	-Revised	20.4%	21.9%	20.8%
	-Previous	18.9%	21.7%	20.6%
EBITDA	-Revised	21,427	30,274	36,880
	-Previous	18,931	29,251	36,039
	-Change	13.2%	3.5%	2.3%
EBITDA Margin	-Revised	25.8%	28.4%	31.3%
	-Previous	24.0%	28.1%	31.1%
<b>Net Profit</b>	-Revised	<b>12,271</b>	<b>17,158</b>	<b>17,924</b>
	-Previous	10,821	16,627	17,477
	-Change	13.4%	3.2%	2.6%
Net Margin	-Revised	14.8%	16.1%	15.2%
	-Previous	13.7%	16.0%	15.1%

Source: NHKS research

## UNTR at A Glance

PT United Tractors, the subsidiary of Astra International Group runs its business in the coal mining sector. It has three main business portfolios, namely the sale of heavy machinery, mining contractor, and coal mine. UNTR through its subsidiary, namely PAMA assists mine owners to make best use of natural resources from initial stage of feasibility study, infrastructure development, exploration to mine expansion. Meanwhile, UNTR through its subsidiary, TTA holds the ownership of a number of coal mining concession with the estimated total reserves of 400 million tons.

### Heavy Machinery Industry in Asia Markets

Indonesia-based heavy machinery industry outstrips its peers in ASEAN. Its quite highest development is underpinned by the dominance of Indonesia-based coal production capacity among its peers in Asia.

UNTR as the market leader of heavy machinery sale and mining contracting has much the largest market capitalization and total asset among its peers in Asia. Indeed, its profitability is high with ROE of 22.6% and sales growth of 44.2%. Besides, its P/E ratio of 11.2x makes its valuation attractive.

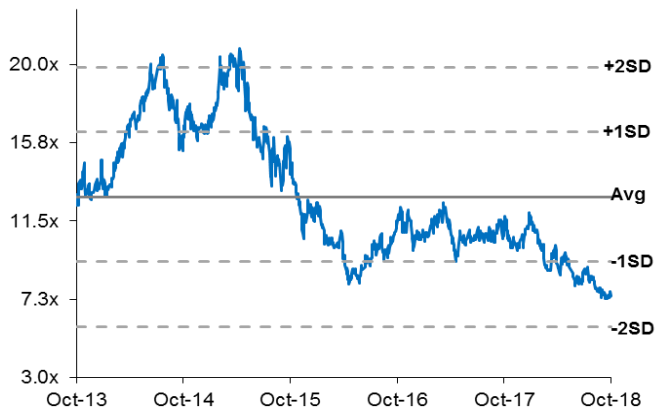
### Asia Heavy Equipment Companies

Company	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
<b>Indonesia</b>									
UNTR	7,989	6,054	5,710	779	44.2%	13.6%	22.6%	11.2x	2.3x
DOID	447	946	844	65	50.2%	7.7%	33.1%	6.9x	2.0x
HEXA	156	283	358	22	4.9%	6.2%	14.6%	7.1x	1.0x
<b>India</b>									
ZHONGJI INNOLIGHT	2,614	1,200	828	79	290.8%	9.6%	19.3%	34.3x	4.0x
<b>Japan</b>									
YAMAZEN	1,023	2,325	4,660	102	26.1%	2.2%	13.8%	10.2x	1.3x
JCHX MINING	671	866	441	40	52.2%	9.1%	6.7%	17.9x	1.2x
<b>Australia</b>									
MINERAL RESOURCES	1,906	1,542	1,259	211	35.3%	16.8%	22.7%	9.9x	2.1x

Source: Bloomberg

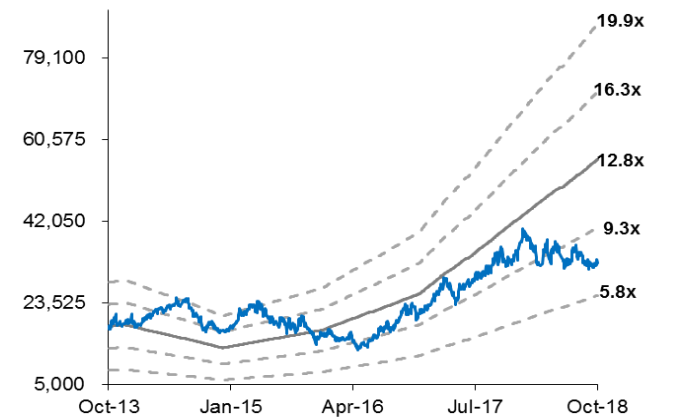
## Multiple Valuation

Forward P/E band | Last 5 years



Source: NHKS research

Dynamic Forward P/E band | Last 5 years



Source: NHKS research

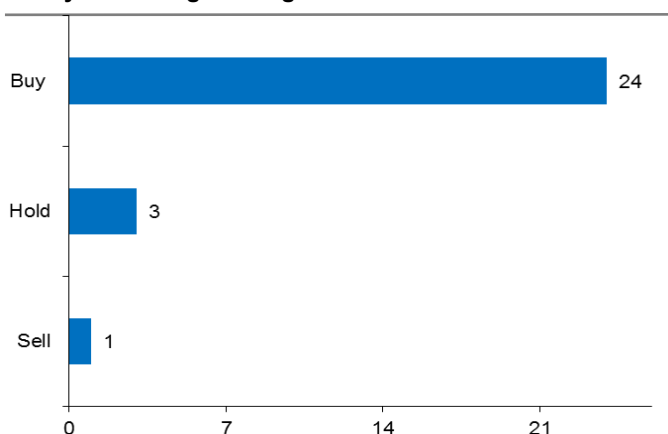
## Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
08/27/2018	Buy	44,750 (Dec 2019)	35,000	43,200	+27.9%	+3.6%
10/31/2018	Buy	39,550 (Dec 2019)	32,500	42,962	+21.7%	-7.9%

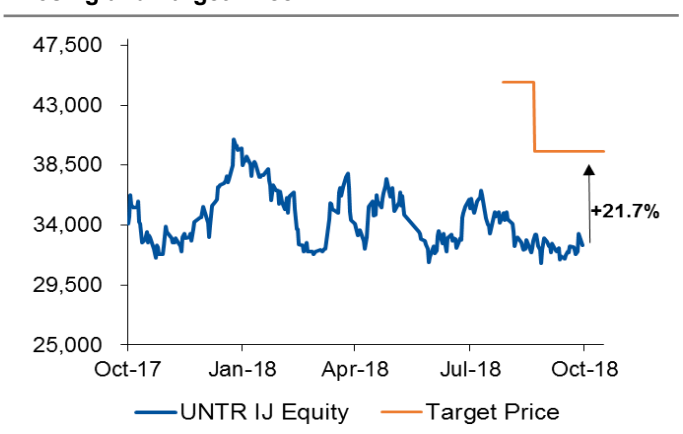
Source: Bloomberg, NHKS research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

### NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
  - Buy : Greater than +15%
  - Hold : -15% to +15%
  - Sell : Less than -15%

## Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E		2017/12A	2018/12E	2019/12E	2020/12E
<b>Sales</b>	<b>64,559</b>	<b>82,932</b>	<b>106,625</b>	<b>117,840</b>	ROE	16.4%	23.3%	27.4%	24.7%
<i>Growth</i>	41.8%	28.5%	28.6%	10.5%	ROA	10.1%	13.2%	14.7%	13.3%
COGS	(50,075)	(62,363)	(78,575)	(87,998)	ROIC	15.0%	19.0%	20.0%	19.5%
<b>Gross Profit</b>	<b>14,484</b>	<b>20,569</b>	<b>28,050</b>	<b>29,843</b>	Cash Dividend (IDR bn)	2,279	6,308	8,820	9,214
<i>Gross Margin</i>	22.4%	24.8%	26.3%	25.3%	Dividend Yield	1.7%	5.1%	7.1%	7.4%
Operating Expenses	(3,727)	(3,682)	(4,734)	(5,337)	Payout Ratio	30.8%	51.4%	51.4%	51.4%
<b>EBIT</b>	<b>10,756</b>	<b>16,887</b>	<b>23,316</b>	<b>24,506</b>	DER	9.8%	14.6%	28.2%	20.0%
<i>EBIT Margin</i>	16.7%	20.4%	21.9%	20.8%	Net Gearing	13.7%	19.8%	35.7%	24.7%
Depreciation	3,839	4,540	6,958	12,374	LT Debt to Equity	5.7%	6.6%	22.2%	13.0%
<b>EBITDA</b>	<b>14,596</b>	<b>21,427</b>	<b>30,274</b>	<b>36,880</b>	Capitalization Ratio	8.9%	12.7%	22.0%	16.7%
<i>EBITDA Margin</i>	22.6%	25.8%	28.4%	31.3%	Equity Ratio	57.8%	55.7%	51.9%	55.7%
Interest Expenses	(159)	(397)	(288)	(326)	Debt Ratio	5.6%	8.1%	14.6%	11.1%
<b>EBT</b>	<b>10,523</b>	<b>17,139</b>	<b>23,827</b>	<b>25,081</b>	Financial Leverage	142.0%	156.4%	165.0%	180.2%
Income Tax	(2,849)	(4,414)	(6,115)	(6,565)	Current Ratio	180.4%	165.3%	166.2%	171.6%
Minority Interest	(270)	(454)	(555)	(591)	Par Value (IDR)	250	250	250	250
<b>Net Profit</b>	<b>7,403</b>	<b>12,271</b>	<b>17,158</b>	<b>17,924</b>	Total Shares (mn)	3,730	3,730	3,730	3,730
<i>Growth</i>	48.0%	65.8%	39.8%	4.5%	Share Price (IDR)	35,400	33,300	33,300	33,300
<i>Net Profit Margin</i>	11.5%	14.8%	16.1%	15.2%	Market Cap (IDR tn)	132.0	124.2	124.2	124.2

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E		2017/12A	2018/12E	2019/12E	2020/12E
Cash	21,229	24,681	29,217	35,106	Price /Earnings	17.8x	10.1x	7.2x	6.9x
Receivables	16,555	19,758	26,375	24,916	Price /Book Value	2.8x	2.2x	1.8x	1.6x
Inventories	7,855	12,351	12,118	15,840	Price/Sales	2.0x	1.5x	1.2x	1.1x
<b>Total Current Assets</b>	<b>51,202</b>	<b>63,369</b>	<b>73,781</b>	<b>82,188</b>	PE/EPS Growth	0.4x	0.2x	0.2x	1.6x
Net Fixed Assets	23,487	30,775	51,086	50,496	EV/EBITDA	8.0x	5.2x	3.8x	2.9x
Other Non Current Asset	7,573	9,337	5,784	5,896	EV/EBIT	10.9x	6.6x	5.0x	4.4x
<b>Total Assets</b>	<b>82,262</b>	<b>103,482</b>	<b>130,651</b>	<b>138,579</b>	EV (IDR bn)	117,210	110,817	116,388	107,147
Payables	20,239	24,515	30,636	31,822	Sales CAGR (3-Yr)	6.7%	18.9%	32.8%	22.2%
ST Bank Loan	1,916	4,592	4,064	5,391	EPS CAGR (3-Yr)	11.4%	47.1%	50.8%	34.3%
LT Debt	2,724	3,824	15,017	10,059	Basic EPS (IDR)	1,985	3,290	4,600	4,805
<b>Total Liabilities</b>	<b>34,724</b>	<b>45,803</b>	<b>62,876</b>	<b>61,323</b>	Diluted EPS (IDR)	1,985	3,290	4,600	4,805
Capital Stock + APIC	10,636	10,636	10,636	10,636	BVPS (IDR)	12,744	15,463	18,169	20,711
Retained Earnings	32,974	41,607	52,454	61,558	Sales PS (IDR)	17,307	22,233	28,585	31,591
<b>Shareholders' Equity</b>	<b>47,538</b>	<b>57,679</b>	<b>67,772</b>	<b>77,253</b>	DPS (IDR)	611	1,691	2,365	2,470

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E	By Geography	% Shareholders	%	
Operating Cash Flow	12,036	13,845	24,827	29,943	Indonesia	79.0	PT Astra International	59.5
Investing Cash Flow	(11,036)	(11,256)	(23,894)	(11,980)	United States	10.8	Frankling Adv. Inc.	1.9
Financing Cash Flow	316	810	3,603	(12,073)	Luxembourg	5.7	Matthews Int.	1.5
<b>Net Changes in Cash</b>	<b>1,316</b>	<b>3,399</b>	<b>4,536</b>	<b>5,889</b>	Ireland	1.3	Vanguard Group Inc.	1.4

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