

United Tractors Tbk (UNTR)

A Way More Balanced Portfolio

Company Report | Aug 27, 2018

Buy

Dec 2018 TP (IDR)	44,750
Consensus Price (IDR)	43,200
TP to Consensus Price	+3.6%
vs. Last Price	+27.9%

Shares data

Last Price (IDR)	35,000
Price date as of	Aug 23, 2018
52 wk range (Hi/Lo)	40,500/29,700
Free float (%)	40.5
Outstanding sh.(mn)	3,730
Market Cap (IDR bn)	129,342
Market Cap (USD mn)	8,857
Avg. Trd Vol - 3M (mn)	4.13
Avg. Trd Val - 3M (bn)	141.94
Foreign Ownership	17.9%

Trade

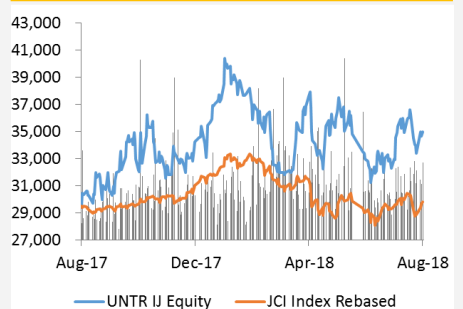
Heavy Equipment

Bloomberg	UNTR IJ
Reuters	UNTR.JK

Firman Hidayat

+62 21 7976202, ext:170
firman@nhsec.co.id

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-1.1%	6.1%	-3.9%	18.6%
Rel. Ret.	4.7%	4.9%	-7.2%	17.5%

1H18's Net Income: Positive Impacts of Recovery in Coal Prices

UNTR posted the net profit of IDR5.74 trillion growing by 60% y-y and 20% q-q. The growth was the positive impacts of the recovery in the global coal prices. Meanwhile, the demand for heavy machinery and mining contractor grew by 24% y-y and 32% y-y, respectively. Furthermore, the sales volume surged 37% y-y inclining from 1,751 units to 2,400 units. Of note, while Komatsu dominates the total sales of heavy machinery in Indonesia by 36%, PAMA dominates market shares by 35%.

Demand: Making Best Use of Momentum

We oversee that in ahead years the prospect of mining contractor and demand for heavy machinery is still promising because of a number of positive catalysts, such as 1) the increment of 100 million tons in coal production by China's authority, 2) the high demand for coal by China and India, 3) a way more conducive weather, 4) trend of dollar appreciation against rupiah, and 5) the trend of rallying coal prices (the average of USD90-USD95 per ton FY18E-FY19E: our estimate).

Martabe: Best Exploration

UNTR acquired Martabe mining worth IDR13.22 trillion or 95% of total share ownership on August 8th, 2018; the acquisition was potential for beefing up UNTR's total assets by 33.1% y-y from IDR93.5 trillion in the FY18E to IDR124.3 trillion in the FY19E. In the end of 2017, Martabe's gold reserves grew by 46.8% y-y inclining from 3.2 million ounces to 4.8 million ounces, while its silver reserves grew by 36.1% y-y hiking from 27.2 million ounces to 36 million ounces or equal to the additional 6 year mining operation.

United Tractors Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	45,539	64,559	78,725	102,945
<i>Sales growth</i>	-7.7%	41.8%	21.9%	30.8%
EBITDA	10,173	14,596	18,931	22,851
Net profit	5,002	7,403	10,821	12,019
EPS (IDR)	1,384	1,984	2,900	3,222
<i>EPS growth</i>	29.8%	47.9%	46.2%	11.1%
BVPS (IDR)	11,426	12,744	14,831	16,388
EBITDA margin	22.3%	22.6%	24.0%	22.2%
NPM	11.0%	11.5%	13.7%	11.7%
ROE	12.2%	16.4%	21.0%	20.6%
ROA	8.0%	10.1%	12.3%	11.0%
ROIC	16.1%	23.3%	27.4%	23.9%
P/E	15.8x	17.8x	11.5x	10.4x
P/BV	1.9x	2.8x	2.3x	2.0x
EV/EBITDA	6.1x	8.1x	6.0x	5.4x
DPS (IDR)	536	893	1,492	1,656
<i>Dividend yield</i>	2.5%	2.5%	4.5%	4.9%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Acquisition: Worth Dowry

Having observing Martabe's performance from the FY16 to FY17, we project that **Martabe's FY18E and FY19E likely contributes 8.9% and 7.5%, respectively to UNTR's total sales.** Moreover, the gold sales volume was at 351,828 ounces and 387,011 ounces with the average selling price (ASP) at USD1,293/ounce and USD1,288/ounce. Furthermore, the silver sales volume was at 2.39 million/ounce and 2.63 million/ounce with ASP at USD16.35/ounce and USD17.1/ounce.

Alluring Valuation, Target Price of IDR44,750

We oversee that the implementation of diversification strategy with a view to have a way more balanced business portfolio is likely capable of generating a long-term sustainable return. Thus, we recommend Buy with the target price of IDR44,750 in the end of 2018. We use an estimate of forward P/E of 13.9x (+0.15 SD higher than the last 5-year average of 13.4x) as the basis of valuation method. The target price implies a 2018E P/E of 15.4x (vs. the current P/E of 12.1x).

Downside Risk Estimate & Target Price

We oversee that a number of risks impacting on the ahead-year underperformance are 1) Decline in global coal prices, 2) Incorporation of subsidiary in the mining contracting segment by coal companies, 3) Prolonged order time of purchasing heavy machinery (>9 months), 4) Fluctuating rupiah's exchange rate for the U.S. dollar, 5) Heavy rain fall.

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

Indonesia-based heavy machinery developed at advance pace compared to its peers in ASEAN. The advance development is underpinned by the dominance of Indonesia-based coal production capacity compared to its peers in Asia.

UNTR as the market leader of the heavy machinery selling and mining contracting has the biggest market capitalization and total asset compared to its peers in Asia. Indeed, its profitability is quite high with ROE of 20.6% and sales growth of 41.8%. Besides, its P/E ratio of 13.8x makes its valuation attractive.

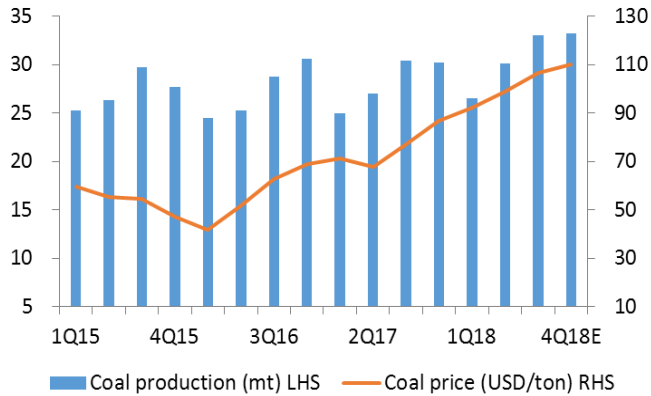
Asia Heavy Equipment Companies

Company	Market Cap (USD mn)	Total Asset (USD mn)	Sales Growth (LTM)	Gross Margin (LTM)	Operating Margin (LTM)	Net Profit Growth (LTM)	ROE (LTM)	P/E (LTM)	Dividend Yield
Indonesia									
UNTR	8,857	6,054	41.8%	22.4%	16.7%	43.9%	20.6%	13.8x	2.6%
DOID	404	946	25.1%	29.4%	22.5%	49.2%	33.6%	7.2x	N/A
HEXA	194	239	14.7%	18.7%	7.1%	117.2%	16.3%	6.6x	6.8%
China									
ZHONGJI INNOLIGHT	3,344	1,200	1724.0%	26.6%	9.9%	5352.6%	19.3%	44.5x	0.1%
Japan									
YAMAZEN	1,008	2,325	11.23%	12.8%	3.1%	26.1%	13.8%	9.9x	2.8%
JCHX MINING	731	866	2.13%	27.2%	12.6%	47.1%	6.7%	19.8x	0.9%
Australia									
MINERAL RESOURCES	2,079	1,542	11.42%	N/A	24.4%	35.3%	22.7%	10.5x	3.8%

Source: Bloomberg, NHKS research

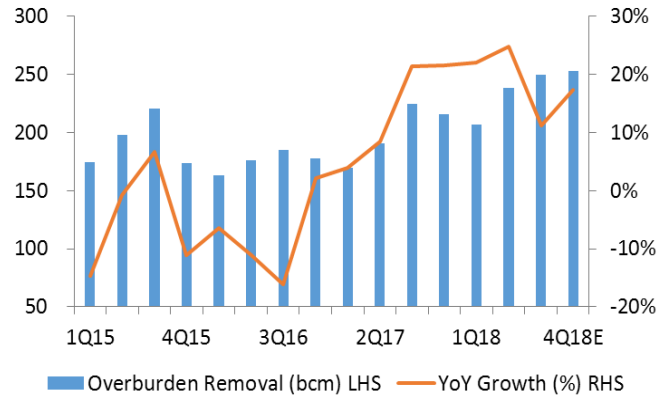
Performance Highlights

Coal Production & Coal Price | 1Q15 - 4Q18E



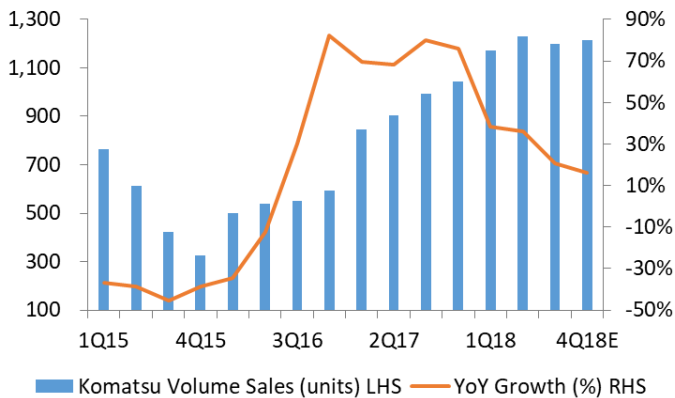
Source: Company, NHKS research

Overburden Removal & YoY Growth | 1Q15 - 1Q18E



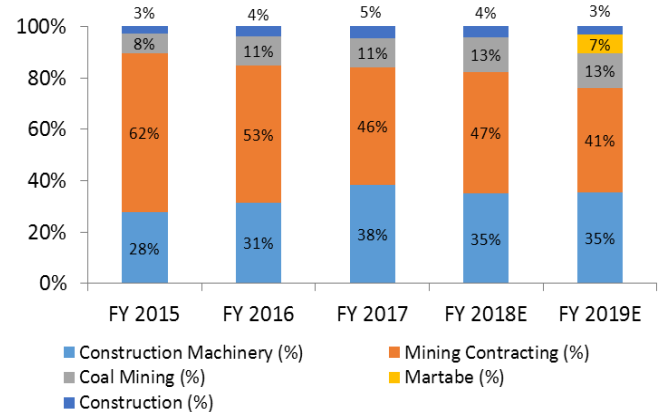
Source: Company, NHKS research

Komatsu Sold & YoY Growth | 1Q15 - 4Q18E



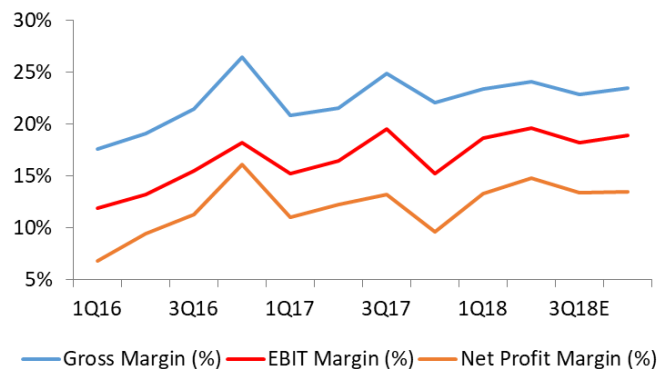
Source: Company, NHKS research

Revenue Composition | 2015 - 2019E



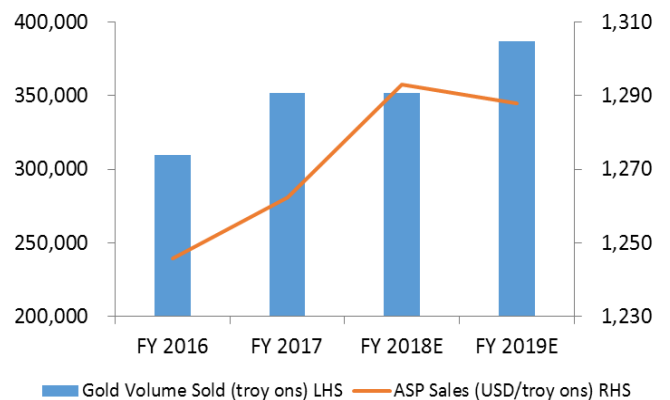
Source: Company, NHKS research

Margin Ratios | 1Q16- 4Q18E



Source: Company, NHKS research

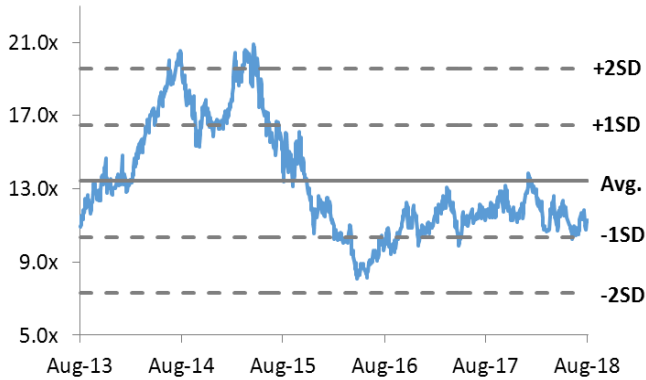
Martabe's Gold Volume Sold & ASP | 2016-2019E



Source: Company, NHKS research

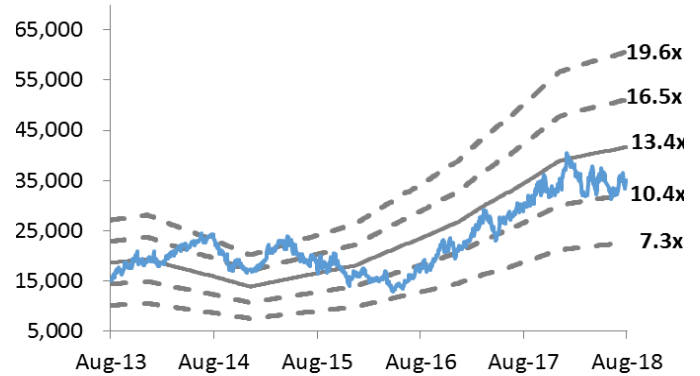
Multiple Valuation

Forward P/E band | Last 5 years



Source: NHKS research

Dynamic Forward P/E band | Last 5 years



Source: NHKS research

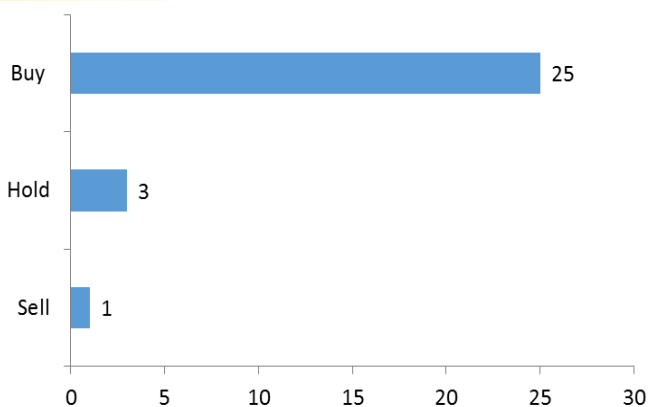
Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
11/13/2017	Buy	39,425 (Dec 2018)	32,875	37,127	+19.9%	+6.2%
03/13/2018	Buy	39,350 (Dec.2018)	34,900	36,475	+21.3%	+16.1%
08/27/2018	Buy	44,750 (Dec.2018)	35,000	43,200	+27.9%	+3.6%

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

UNTR Summary		
Last Price (IDR)	August 23, 2018	35,000
Target Price (IDR)	Dec 2018	44,750
Analyst: Firman Hidayat	Rating:	Buy

INCOME STATEMENT

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	45,539	64,559	78,725	102,945
Growth (% y/y)	-7.7%	41.8%	21.9%	30.8%
COGS	(35,878)	(50,075)	(60,238)	(82,039)
Gross Profit	9,661	14,484	18,486	20,905
Gross Margin	21.2%	22.4%	23.5%	20.3%
Operating Expenses	(2,955)	(3,727)	(3,642)	(4,762)
EBIT	6,706	10,756	14,845	16,143
EBIT Margin	14.7%	16.7%	18.9%	15.7%
Depreciation	3,467	3,839	4,086	6,708
EBITDA	10,173	14,596	18,931	22,851
EBITDA Margin	22.3%	22.6%	24.0%	22.2%
Interest Expenses	(80)	(159)	(257)	(200)
EBT	6,730	10,523	15,167	16,715
Income Tax	(1,626)	(2,849)	(3,832)	(4,262)
Minority Interest	(102)	(270)	(514)	(433)
Net Profit	5,002	7,403	10,821	12,019
Growth (% y/y)	29.8%	48.0%	46.2%	11.1%
Net Profit Margin	11.0%	11.5%	13.7%	11.7%

BALANCE SHEET

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	20,310	21,229	20,327	22,253
Receivables	11,042	16,555	17,310	26,835
Inventories	7,108	7,855	11,025	14,088
Other Current Assets	3,738	5,563	6,191	5,877
Total Current Assets	42,197	51,202	54,854	69,053
Net Fixed Assets	17,352	23,487	30,067	49,517
Other Non Current Assets	4,442	7,573	8,529	5,784
Total Assets	63,991	82,262	93,450	124,354
Payables	14,119	20,239	21,067	35,206
ST Debt	1,028	1,916	2,484	2,604
Other Current Liab.	3,208	6,221	7,583	6,899
LT Debt	65	2,724	3,359	15,060
Other Non Current Liab.	2,948	3,623	3,633	3,454
Total Liabilities	21,369	34,724	38,127	63,224
Shareholders' Equity	42,622	47,538	55,323	61,131

CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	5,002	7,403	10,821	12,019
Deprec & Amortization	3,467	3,839	4,086	6,708
Chg. In Working Capital	1,570	794	(2,395)	1,183
CFO	10,039	12,036	12,512	19,910
Capex	(2,542)	(6,586)	(9,707)	(26,158)
CFI	(2,555)	(11,036)	(9,817)	(23,592)
Dividends Paid	(2,134)	(2,528)	(2,278)	(3,881)
Net Borrowing (PMT)	(1,145)	2,843	577	11,820
CFF	(3,279)	316	(3,384)	5,608
Net Changes in Cash	4,205	1,316	(689)	1,926

OWNERSHIP

By Geography	% Shareholders	%	
Indonesia	81.2	PT Astra International	59.5
United States	10.2	Frankling Adv. Inc.	1.9
Luxembourg	3.8	Matthews Int.	1.5
Ireland	1.2	Vanguard Group Inc.	1.4

PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	12.2%	16.4%	21.0%	20.6%
ROA	8.0%	10.1%	12.3%	11.0%
ROIC	16.1%	23.3%	27.4%	23.9%
EBITDA/Equity	24.9%	32.4%	36.8%	39.2%
EBITDA/Assets	16.2%	20.0%	21.5%	21.0%
Cash Dividend (IDR bn)	1,999	3,331	5,564	6,179
Dividend Yield (%)	2.5%	2.5%	4.5%	4.9%
Payout Ratio (%)	40.0%	45.0%	51.4%	51.4%
DER	2.6%	9.8%	10.6%	28.9%
Net Gearing	3.8%	13.7%	14.3%	37.6%
LT Debt to Equity	0.2%	5.7%	6.1%	24.6%
Capitalization Ratio	2.5%	8.9%	9.6%	22.4%
Equity Ratio	66.6%	57.8%	59.2%	49.2%
Debt Ratio	1.7%	5.6%	6.3%	14.2%
Financial Leverage	157.2%	150.1%	173.0%	168.9%
Current Ratio	229.9%	180.4%	176.2%	154.4%
Quick Ratio	170.8%	133.2%	120.9%	109.8%
Cash Ratio	110.6%	74.8%	65.3%	49.8%
Cash Conversion Cycle	28.8	7.3	10.6	8.9
Par Value (IDR)	250	250	250	250
Total Shares (mn)	3,730	3,730	3,730	3,730
Share Price (IDR)	21,250	35,400	33,500	33,500
Market Cap (IDR tn)	79	132	125	125

VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	15.8x	17.8x	11.5x	10.4x
Price /Book Value	1.9x	2.8x	2.3x	2.0x
Price/Sales	1.7x	2.0x	1.6x	1.2x
PE/EPS Growth	0.5x	0.4x	0.3x	0.9x
EV/EBITDA	6.1x	8.1x	6.0x	5.4x
EV/EBIT	9.2x	10.9x	7.6x	7.6x
EV (IDR bn)	61,810	117,633	112,904	122,672
Sales CAGR (3-Yr)	-3.7%	6.7%	16.8%	31.2%
EPS CAGR (3-Yr)	1.1%	11.4%	41.1%	33.9%
Basic EPS (IDR)	1,341	1,985	2,901	3,222
Diluted EPS (IDR)	1,341	1,985	2,901	3,222
BVPS (IDR)	11,426	12,744	14,831	16,388
Sales PS (IDR)	12,208	17,307	21,105	27,598
DPS (IDR)	536	893	1,492	1,656

DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	6,843	11,149	15,549	16,705
+Depr./Amor.	3,467	3,839	4,086	6,708
-CAPEX	(2,542)	(6,586)	(9,707)	(26,158)
-Incr. (Decr.) in Working Cap.	1,570	794	(2,395)	1,183
(Unlevered) FCFE	9,338	9,196	7,533	(1,562)
WACC				
Cost of Debt (Tax Adj.)	7.3%	5.9%	7.0%	7.7%
Cost of Equity (COE)	10.3%	10.7%	10.0%	10.4%
WACC (%)	10.3%	10.5%	9.9%	10.1%
RIM				
Spread (FROE-COE) (%)	2.4%	6.7%	12.7%	11.3%
Residual Income (IDR bn)	951	2,858	6,056	6,269
Equity Charge	4,051	4,545	4,765	5,750
EVA				
Invested Capital (IDR bn)	41,478	43,715	52,178	61,167
ROIC-WACC (%)	6.2%	15.0%	19.9%	17.3%
EVA (USD mn)	2,580	6,558	10,389	10,553

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