

United Tractors Tbk (UNTR IJ)

The Prospect of Coal Still Sluggish

Company Update | Oct 01, 2020

SELL

Target Price (IDR)	19,000
Consensus Price (IDR)	25,799
TP to Consensus Price (%)	-26.4
vs. Last Price (%)	-16.7

Shares Data

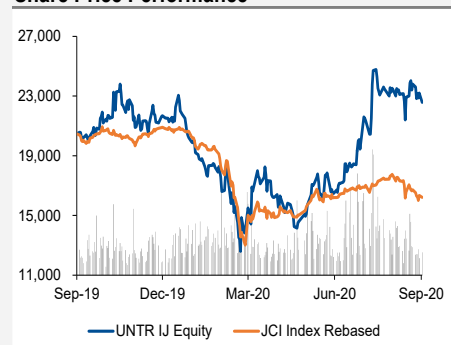
Last Price (IDR)	22,800
Price Date as of	Sep 30, 2020
52 wk Range (Hi/Lo)	25,175/12,000
Free Float (%)	40.2
Outstanding Shares (mn)	3,730
Market Cap (IDR bn)	85,047
Market Cap (USD mn)	5,714
Avg. Trd Vol - 3M (USD mn)	5.1
Avg. Trd Val - 3M (IDR bn)	110.1
Foreign Ownership (%)	16.3

Trade

Heavy Equipment

Bloomberg	UNTR IJ
Reuters	UNTR.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	5.0%	-3.6%	35.2%	10.3%
Rel. Ret.	26.9%	4.6%	35.1%	31.1%



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In 1H20, UNTR's net profit was down 28.3% YoY with lower revenue from construction machinery and mining contraction. Low coal prices and economic slowdown became the main factor of weak 1H20 performance. Pamapersada targets 16% YoY lower coal production for 2020 and we see the coal outlook is still sluggish until the first quarter of 2021. Hence, we downgrade the rating to SELL for UNTR.

Weak Results

UNTR's net profit was down to IDR4.06 trillion (-28.3% YoY) in 1H20, accounting for 57% of our 2020F target. In 1H20, revenue of construction machinery plummeted to IDR7.27 trillion (-39.9% YoY) and revenue of mining contracting decreased to IDR15.06 trillion (-21.9% YoY). The weak results were caused by sluggish demand amid low coal prices and economic slowdown following COVID-19 pandemic. However, the gold mining segment contributed higher profit (+34% YoY) in 1H20.

Coal Production Still Low

In 8M20, coal production declined to 75.8 million tonnes (-9.8% YoY) due to soft coal demand and several coal miners scaled down the coal production as the impact from COVID-19 pandemic. Pamapersada is targeting lower coal production of 110 million tonnes for 2020 (-16% YoY), and so far 8M20's production is within our target. In our opinion, the target is a significant decline compared to last year (131 million tonnes in 2019) plus the potential of lower coal selling prices this year. So, we see the coal outlook still sluggish until the first quarter of 2021, which around 80% of UNTR's businesses are related to coal.

The Increase in Gold Segment is Limited

We change our view for UNTR's gold segment after 1H20 performance. Until year-end, we see that the increase in gold segment is limited as around 80% of its gold sales were hedged at USD1,325/oz. UNTR is also guided for flattish gold production in the next few years without any clear plan to expand its capacity.

Downgrade to SELL with Unchanged TP of IDR19,000

We downgrade our rating to SELL with the same TP considering the sluggish coal industry will impact UNTR's performance and the share price. TP based on forward P/E of 9.1x (-1.1 SD of its 5-year historical mean). UNTR is currently trading at 11x P/E (slightly above of its 5-year historical mean).

United Tractors Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (IDR bn)	84,430	66,586	70,752	75,863
Growth (%)	-0.2	-21.1	6.3	7.2
EBITDA (IDR bn)	25,123	18,939	20,155	22,391
Net Profit (IDR bn)	11,312	7,151	7,802	8,972
EPS (IDR)	3,033	1,917	2,092	2,405
Growth (%)	1.7	-36.8	9.1	15.0
P/E (x)	7.1	9.4	8.6	7.5
P/BV (x)	1.3	1.0	1.0	1.0
EV/EBITDA (x)	3.3	3.3	2.9	2.5
ROE (%)	19.1	11.4	12.0	13.4
DER (%)	82.8	83.1	86.6	89.0
Net Debt (IDR bn)	1,896	-5,784	-8,477	-10,927

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Financial Review

Quarterly Review

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	YoY %	QoQ %	Surprise %	
Income Statement										
Revenue	20,698	22,238	18,823	18,314	14,878	17,357	-28.1	-18.8	-14.3	16,331
Gross Profit	4,939	5,575	5,017	4,258	3,003	3,894	-39.2	-29.5	-22.9	4,055
EBIT	3,846	4,473	3,703	3,199	2,107	2,786	-45.2	-34.1	-24.4	3,091
EBITDA	6,122	6,652	5,487	5,637	4,612	3,867	-24.7	-18.2	19.3	4,129
Net Profit	2,522	3,064	2,673	1,823	2,238	1,827	-11.3	22.8	22.5	1,433
Margin										
Gross Margin	23.9	25.0	26.7	23.1	20.2	22.4	-3.7	-3.1	-2.2	24.8
EBIT Margin	18.6	20.1	19.7	17.5	14.2	16.0	-4.4	-3.3	-1.9	18.9
EBITDA Margin	29.6	29.8	29.2	30.8	31.0	22.3	1.4	0.2	8.7	25.3
Net Profit Margin	12.2	13.7	14.2	10.0	15.0	10.5	2.9	5.1	4.5	8.8

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Earnings Revision

		2020F	2021F	2022F
Income Statement				
Revenue	-Revised	66,586	70,752	75,863
	-Previous	75,110	76,390	77,533
	-Change %	-11.3	-7.4	-2.2
	-Consensus	68,109	74,522	78,439
Gross Profit	-Revised	15,849	17,193	18,814
	-Previous	16,285	17,493	18,453
	-Change %	-2.7	-1.7	2.0
	-Consensus	15,419	17,859	18,974
EBIT	-Revised	11,912	12,877	14,414
	-Previous	11,689	12,834	13,956
	-Change %	+1.9	+0.3	+3.3
	-Consensus	10,997	13,526	14,643
EBITDA	-Revised	18,939	20,155	22,391
	-Previous	17,397	20,490	22,365
	-Change %	+8.9	-1.6	0.1
	-Consensus	18,027	20,649	22,006
Net Profit	-Revised	7,151	7,802	8,972
	-Previous	7,206	8,203	9,151
	-Change %	-0.8	-4.9	-2.0
	-Consensus	7,615	9,558	10,560
Margin				
Gross Margin	-Revised	23.8	24.3	24.8
	-Previous	21.7	22.9	23.8
EBIT Margin	-Revised	17.9	18.2	19.0
	-Previous	15.6	16.8	18.0
EBITDA Margin	-Revised	28.4	28.5	29.5
	-Previous	23.2	26.8	28.8
Net Profit Margin	-Revised	10.7	11.0	11.8
	-Previous	9.6	10.7	11.8

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Financial Summary

INCOME STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Revenue	84,430	66,586	70,752	75,863
<i>Growth</i>	-0.2%	-21.1%	6.3%	7.2%
COGS	(63,200)	(50,737)	(53,560)	(57,049)
Gross Profit	21,231	15,849	17,193	18,814
<i>Gross Margin</i>	25.1%	23.8%	24.3%	24.8%
Operating Expenses	(4,626)	(3,937)	(4,316)	(4,400)
EBIT	16,605	11,912	12,877	14,414
<i>EBIT Margin</i>	19.7%	17.9%	18.2%	19.0%
Depreciation	8,518	7,028	7,278	7,977
EBITDA	25,123	18,939	20,155	22,391
<i>EBITDA Margin</i>	29.8%	28.4%	28.5%	29.5%
Interest Expenses	(762)	(636)	(781)	(696)
EBT	15,477	10,966	11,751	13,341
Income Tax	(4,342)	(3,408)	(3,466)	(3,802)
Minority Interest	177	(408)	(482)	(566)
Net Profit	11,312	7,151	7,802	8,972
<i>Growth</i>	1.7%	-36.8%	9.1%	15.0%
<i>Net Profit Margin</i>	13.4%	10.7%	11.0%	11.8%

PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	19.1%	11.4%	12.0%	13.4%
ROA	9.9%	6.2%	6.5%	7.1%
ROIC	15.9%	10.7%	11.7%	12.9%
Cash Dividend (IDR bn)	4,703	4,703	3,150	3,600
Dividend Yield	5.9%	7.0%	4.7%	5.4%
Dividend Payout Ratio	42.3%	41.6%	44.1%	46.1%
DER	82.8%	83.1%	86.6%	89.0%
Net Gearing	29.1%	25.2%	22.6%	21.1%
LT Debt to Equity	17.2%	14.8%	13.2%	12.5%
Capitalization Ratio	18.6%	16.7%	15.3%	14.5%
Equity Ratio	54.7%	54.6%	53.6%	52.9%
Debt Ratio	12.5%	10.9%	9.6%	9.0%
Financial Leverage	196.8%	178.5%	181.0%	182.8%
Current Ratio	156.0%	158.5%	154.5%	152.5%
Par Value (IDR)	250	250	250	250
Total Shares (mn)	3,730	3,730	3,730	3,730
Share Price (IDR)	21,525	18,000	18,000	18,000
Market Cap (IDR tn)	80.3	67.1	67.1	67.1

BALANCE SHEET

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	12,091	18,591	20,271	22,524
Receivables	19,681	20,290	22,182	23,358
Inventories	11,014	11,984	12,962	14,234
Total Current Assets	50,827	57,498	62,711	68,142
Net Fixed Assets	47,972	46,601	46,228	47,354
Other Non Current Asset	12,914	13,157	13,299	13,401
Total Assets	111,713	117,255	122,238	128,897
Payables	20,909	22,379	23,990	24,149
ST Bank Loan	3,479	3,305	3,145	3,070
LT Debt	10,508	9,502	8,649	8,527
Total Liabilities	50,603	53,223	56,715	60,681
Capital Stock	933	933	933	933
Retained Earnings	47,060	49,836	51,350	54,091
Shareholders' Equity	61,110	64,032	65,523	68,216

VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	7.1x	9.4x	8.6x	7.5x
Price/Book Value	1.3x	1.0x	1.0x	1.0x
Price/Sales	1.0x	1.0x	0.9x	0.9x
PE/EPS Growth	4.2x	-0.3x	0.9x	0.5x
EV/EBITDA	3.3x	3.3x	2.9x	2.5x
EV/EBIT	5.0x	5.2x	4.6x	3.9x
EV (IDR bn)	82,703	62,058	59,323	56,834
Sales CAGR (3-Yr)	22.8%	1.0%	-5.8%	-3.5%
EPS CAGR (3-Yr)	15.2%	-13.7%	-11.6%	7.9%
Basic EPS (IDR)	3,033	1,917	2,092	2,405
Diluted EPS (IDR)	3,033	1,917	2,092	2,405
BVPS (IDR)	16,383	17,166	17,566	18,288
Sales PS (IDR)	22,635	17,851	18,968	20,338
DPS (IDR)	1,261	1,261	844	965

CASH FLOW STATEMENT

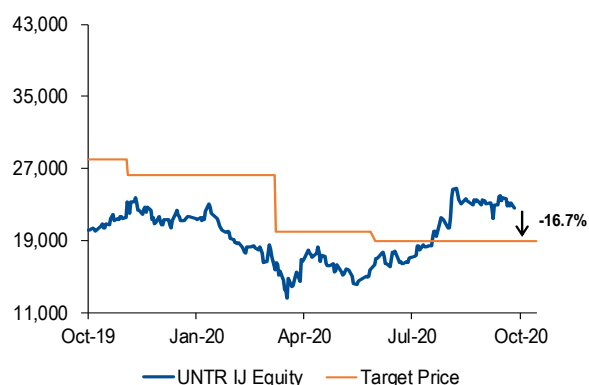
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	9,603	13,947	16,023	17,950
Investing Cash Flow	(9,925)	(3,556)	(8,604)	(9,220)
Financing Cash Flow	(750)	(5,109)	(5,738)	(6,478)
Net Changes in Cash	(1,071)	5,282	1,681	2,253

TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	83.8 Astra International	59.5
United States	10.8 Sun Life Financial	1.8
Luxembourg	2.4 Schroder Investment	1.4
Ireland	0.7 Matthews International	1.4

Source: Company Data, NHKSI Research

Closing & Target Price Update



Source: Bloomberg, NHKSI Research

Rating & Target Price Update

Date	Rating	Target Price	Consensus
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
2019.11.07	Buy	IDR26,300	IDR25,755
2020.03.12	Buy	IDR20,000	IDR23,398
2020.06.02	Buy	IDR19,000	IDR20,539
2020.10.01	Sell	IDR19,000	IDR25,799

Source: NHKSI Research

NHKSI 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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