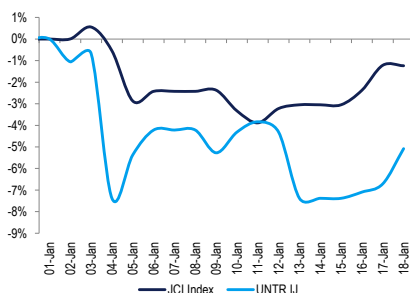


Stock Data

Target price	Rp29,700
Prior TP	Rp30,000
Current price	Rp24,750
Upside/downside	+20%
Shares outstanding (mn)	3,730
Market cap (Rp bn)	92,321
Free float	40%
Avg. 6m daily T/O (Rp bn)	145

Price Performance

	3M	6M	12M
Absolute	-22.7%	-14.9%	4.7%
Relative to JCI	-21.7%	-15.4%	2.4%
52w low/high (Rp)	22,175 – 35,500		



Major Shareholders

Astra International	59.5%
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Soft FY23 coal outlook, but correction seems overdone; upgrade to Buy

- We project lower operating earnings (-14% yoy) from UNTR's coal mining units as we expect Newcastle FY23 coal price to correct to US\$240/t (-33% yoy).
- However we think UNTR's heavy equipment and mining contracting shall remain resilient on still constructive long-term coal outlook.
- We revise our FY23/24F earnings by -12/+5%; upgrade rating to Buy at lower SOTP-based TP of Rp29,700.

Mining: coal ASP decline; gold's production to half

We expect TTA coal sales shall grow (+5% yoy) on the back of improving weather outlook. However, this shall be offset by the decline in thermal/coking coal price to US\$240/260 per mt (-33/27% yoy). We also further cut Martabe mine's gold sales volume in FY23F to 125k oz but raise its FY24F volume to 200k oz as management indicated the additional tailing capacity to be completed by 1Q24.

Pama's resilient volumes and mining fee shall be a boon for earnings

Pama's coal/OB production volume has been historically resilient against coal price downcycle. Nonetheless, we now forecast a more conservative volume of 132Mt/1,029mbcm of coal/OB in FY23F (+5/5% yoy, 4% lower than our previous forecast). We expect Pama's mining fee to be maintained at US\$2.8/bcm (vs. US\$2.6/bcm previously), as its fee structure only sees downside if coal price falls below US\$120/t. We see upside earnings risk if Pama improves production efficiency amid the better weather conditions.

Flat equipment volume and resilient service revenue

We forecast flat yoy Komatsu sales to 5,650 units (vs. our forecast 6,464 units previously) to reflect potential resilient demand from the mining sector (~50% of total sales volume) amid our still constructive view on long-term coal price and easing equipment supply bottleneck from principal Komatsu. We also project steady revenue from parts and services (~50% of HE's revenue) to offer cushion against demand risk if coal price corrects further.

Upgrade rating to Buy post 23% share price correction

We revise our FY23/24F earnings by -12/+5% on lower earnings from mining, partly offset by resilient earnings from Pama and equipment, and lowered our SOTP-based TP to Rp29,700 (from Rp30,000 previously). However, we upgrade our rating to Buy (from Hold previously) on attractive valuation (at 1.6x EV/ EBITDA 64% discount to 10-year mean) post 23% share price correction over the past 3 months.

Financial Summary (Rp bn)	2020A	2021A	2022F	2023F	2024F
Revenue	60,347	79,461	118,377	121,259	124,255
EBITDA	17,524	22,833	35,744	33,791	31,668
Net profit	6,004	10,280	19,787	17,756	17,695
EPS growth	-47%	71%	92%	-10%	0%
ROE	10%	15%	25%	19%	17%
PER (x)	15.4	9.0	4.7	5.2	5.2
EV/EBITDA (x)	4.8	3.0	1.9	1.6	1.7
Dividend yield	2.6%	4.4%	5.0%	9.6%	8.7%
IPS vs. consensus			96%	103%	113%

Source: Company, Indo Premier

Share price closing as of: 18 January 2022

Soft FY23 coal outlook, but correction seems overdone; upgrade to Buy

In our latest [report](#), we discussed the coal market's supply-driven deficit in FY22 will turn into a minor surplus in FY23F, mainly driven by expectation of improving supply from Indonesia and Australia (FY23F: +6/8% yoy) on the back of improving weather outlook. This shall offset projected demand growth of 3% yoy after taking into account the lifting of Australian coal import ban by China. We now forecast FY23F average Newcastle thermal coal price of US\$240/t (-33% yoy), higher than our previous conservative forecast of US\$150/t (FY22A: US\$352/t). While our forecast for Indonesian Coal Index (ICI4) and premium coking coal price is unchanged at US\$75/260 per tonne (-13/27% yoy).

Fig. 1: Coal market balance

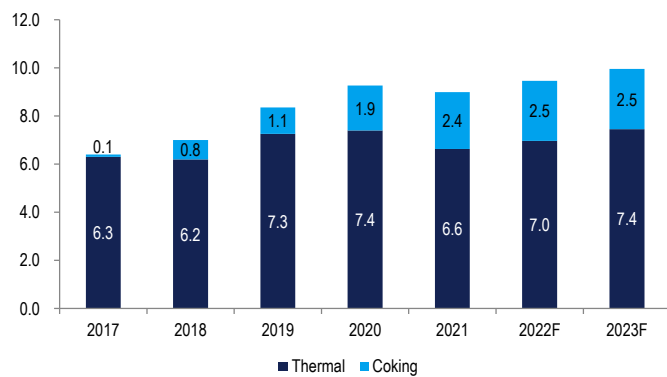
mn tonnes	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Demand									
China	124	119	122	123	132	143	161	177	177
India	152	146	167	187	165	173	105	113	120
Indonesia	311	330	326	306	278	294	294	294	294
ASEAN	69	85	90	127	136	124	136	146	153
EU	115	120	120	88	58	67	98	98	108
Others	63	105	115	129	116	129	155	147	160
Total	834	905	940	960	885	930	949	976	1,013
Supply									
Indonesia	331	287	356	455	332	380	404	428	465
Australia	201	200	208	212	200	203	178	192	200
Russia	144	156	173	181	167	177	93	93	171
Others	189	237	223	191	176	162	281	267	188
Total	865	880	960	1,039	875	922	919	980	1,025
Market balance	31	(25)	20	79	(10)	(8)	(30)	5	12

Source: Bloomberg, Indo Premier

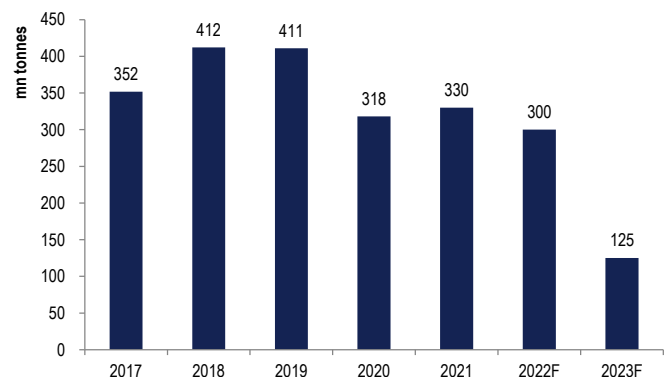
Consequently, this shall negatively impact UNTR's coal mining earnings, though earnings from Komatsu sales and Pama shall remain resilient. Combined with the lower earnings from Martabe gold mine (due to limited tailing facility), we revised down FY23F earnings to Rp17.7tr (-12% vs. our previous forecast).

Mining: coal ASP decline; gold's production to half

We expect TTA coal sales shall grow 5% yoy to 9.9Mt on the back of improving weather outlook (in-line with management guidance of 9.9Mt). However, this shall be offset by the decline in thermal/coking coal price to US\$240/260 per mt (-33/27% yoy). We also further cut Martabe's gold sales volume in FY23F to 125k oz (from 150k oz) but raise its FY24F volume to 200k oz (from 150k oz), as management indicated additional tailing capacity to be completed by 1Q24 (we initially expected completion by end of FY24). Construction has commenced and will take 9-12 months, while environmental permit has also been secured.

Fig. 2: TTA sales volume


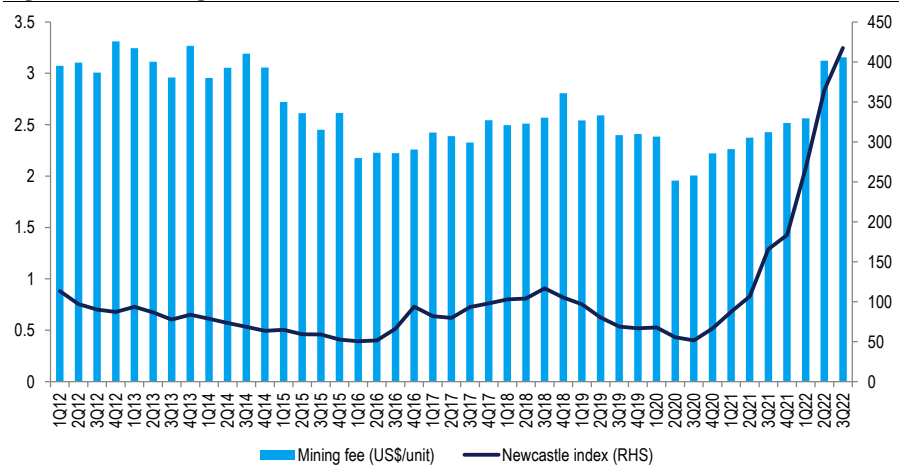
Source: Company, Indo Premier

Fig. 3: Martabe sales volume


Source: Company, Indo Premier

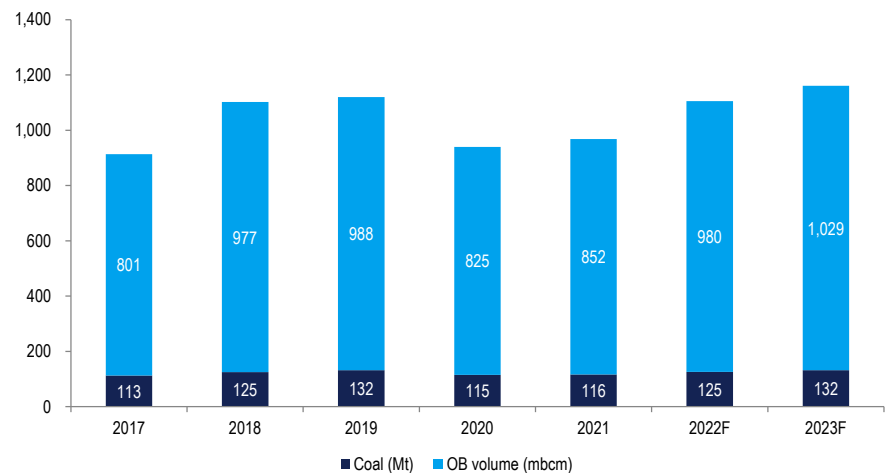
Pama's resilient volumes and mining fee shall be a boon for earnings

Pama's coal/OB production volume has been historically resilient against coal price downcycle. Nonetheless, we now forecast a more conservative volume of 132Mt/1,029mbcm of coal/OB in FY23F (+5/5% yoy, 4% lower than our previous forecast). We expect Pama's mining fee to be maintained at US\$2.8/bcm (vs. US\$2.6 previously), as its fee structure only sees downside if coal price falls below US\$120/t. We see upside earnings risk if Pama improves production efficiency amid the better weather conditions.

Fig. 4: Pama mining fee vs. Newcastle


Source: Company, Indo Premier

Fig. 5: Annual Pama volume

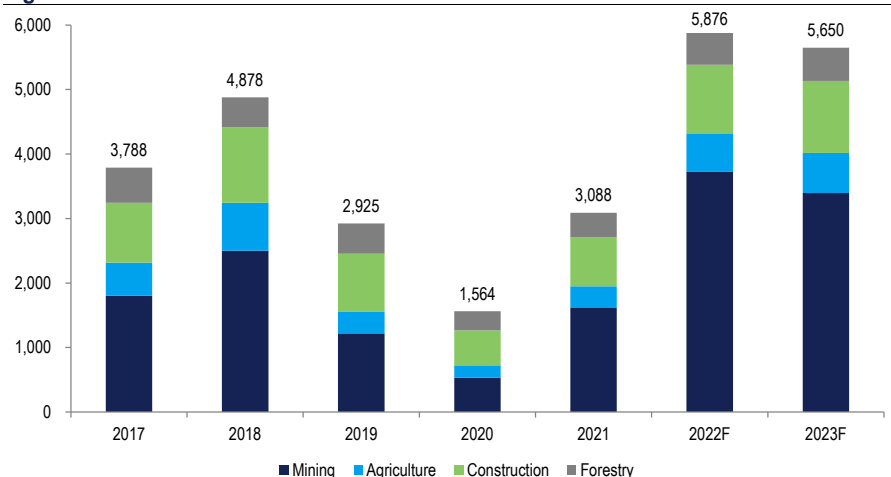


Source: Company, Indo Premier

Flat equipment volume and resilient service revenue

We forecast flat Komatsu sales to 5,650 units (vs. our forecast 6,464 units previously) to reflect potential resilient demand from the mining sector (~50% of total sales volume) amid our still constructive view on long-term coal price and easing equipment supply bottleneck from principal Komatsu. We also project steady revenue from parts and services (~50% of HE's revenue) to offer cushion against equipment demand risk if coal price corrects further.

Fig. 6: Annual Komatsu volume



Source: Company, Indo Premier

Upgrade rating to Buy post 23% share price correction

We revise our FY23/24F earnings by -12/+5% on lower earnings from mining, partly offset by resilient earnings from Pama and equipment, and lowered our SOTP-based TP to Rp29,700 (from Rp30,000 previously).

UNTR's share price has experienced a sharp correction, down 23% over the past three months and underperforming its peers in the coal sector. We think the underperformance was driven by a combination of softer coal

price, UNTR's slowing earnings outlook and negative sentiment over its acquisition plan on nickel assets ([link to our note](#)). Post the recent correction, UNTR trades at attractive valuation (at 1.6x EV/EBITDA 64% discount to 10-year mean). We think the recent correction seems overdone and thus, upgrade our rating to Buy (from Hold previously).

Fig. 7: Forecast changes summary

Forecast changes (Rp bn)	Previous		New		Changes	
	2023F	2024F	2023F	2024F	2023F	2024F
Net revenue	118,874	125,837	121,259	124,255	2%	-1%
Cost of sales	85,556	96,738	91,188	97,160	7%	0%
Gross profit	33,318	29,099	30,072	27,095	-10%	-7%
SG&A Expenses	(5,013)	(5,306)	(5,113)	(5,239)	2%	-1%
Operating profit	28,306	23,793	24,959	21,855	-12%	-8%
Net interest	371	555	571	524	54%	-6%
Others	(645)	(639)	(639)	100	-1%	-116%
Pre-tax income	28,032	23,709	24,891	22,480	-11%	-5%
Income tax	(7,470)	(6,318)	(6,633)	(4,271)	-11%	-32%
Minority interest	(492)	(520)	(501)	(514)	2%	-1%
Net income	20,070	16,871	17,756	17,695	-12%	5%

Source: Company, Indo Premier

Fig. 8: SOTP valuation

Valuation summary	Rp tr Valuation methodology
Coal related	71.0 Implied target of 8.5x FY22F P/E
HE + PAMA	42.4 DCF (LTG: 0%, WACC: 11% - implies target FY22F P/E of 9.6x
Thermal + coking coal	28.5 DCF (LTG: 0%, WACC: 11%) - implied target FY22F P/E of 8x
Gold	14.5 DCF (LTG: 0%, WACC 11%) - implied target EV/resource of US\$250/oz
Construction	0.2 Target 1x P/BV
Asset value	85.7
Cash	34.3
Debt	9.2
Equity value	110.7
No of shares (in bn)	3.7
SOTP-based TP (Rp/sh)	29,700
Current share price	24,750
Upside	20%

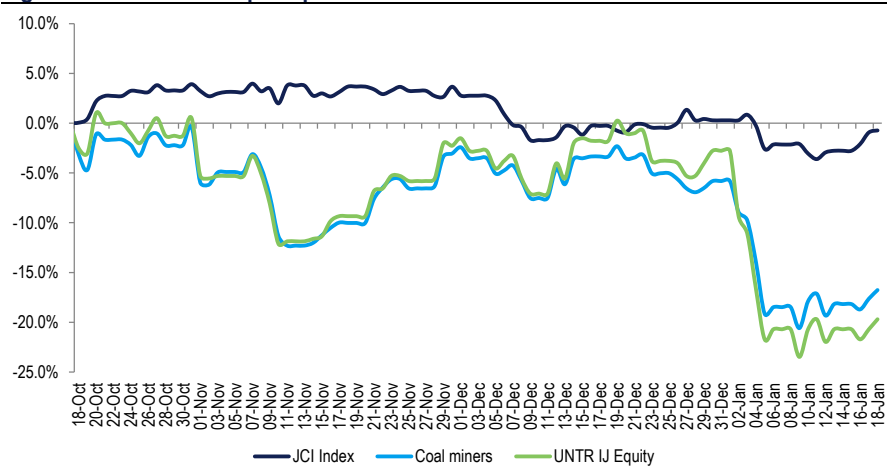
Source: Company, Indo Premier

Fig. 9: UNTR EV/EBITDA



Source: Bloomberg, Indo Premier

Fig. 10: UNTR 3M share price performance vs. JCI and coal miners



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net revenue	60,347	79,461	118,377	121,259	124,255
Cost of sales	(47,357)	(59,796)	(85,467)	(91,188)	(97,160)
Gross profit	12,990	19,665	32,910	30,072	27,095
SG&A Expenses	(4,695)	(4,789)	(4,992)	(5,113)	(5,239)
Operating profit	8,294	14,876	27,918	24,959	21,855
Net interest	(781)	118	369	571	524
Forex gain (loss)	(88)	0	0	0	0
Others	(413)	(531)	(645)	(639)	100
Pre-tax income	7,012	14,462	27,642	24,891	22,480
Income tax	(1,379)	(3,854)	(7,366)	(6,633)	(4,271)
Minority interest	371	(329)	(490)	(501)	(514)
Net income	6,004	10,280	19,787	17,756	17,695

Balance Sheet (Rp bn)	2020A	2021A	2022F	2023F	2024F
Cash & equivalent	20,499	33,322	34,260	46,386	48,730
Receivable	10,024	12,152	20,885	12,956	21,721
Inventory	8,002	9,454	15,496	11,124	17,240
Other current assets	5,671	5,677	5,677	5,677	5,677
Total current assets	44,196	60,604	76,318	76,143	93,367
Fixed assets	42,209	37,060	35,728	42,873	44,215
Other non-current assets	13,396	14,897	22,593	20,746	18,900
Total non-current assets	55,605	51,957	58,322	63,619	63,115
Total assets	99,801	112,561	134,639	139,762	156,482

ST loans	696	175	205	0	0
Payable	10,273	14,518	20,915	16,890	23,391
Other payables	6,366	9,733	9,733	9,733	9,733
Current portion of LT loans	3,609	6,063	6,063	6,063	6,063
Total current liab.	20,944	30,489	36,917	32,686	39,188
Long term loans	7,758	2,497	2,497	2,497	2,497
Other LT liab.	7,952	7,752	7,752	7,752	7,752
Total liabilities	36,654	40,739	47,166	42,936	49,437

Equity	10,794	11,887	11,887	11,887	11,887
Retained earnings	49,492	56,673	71,834	80,686	90,390
Minority interest	2,861	3,263	3,752	4,254	4,768
Total SHE + minority int.	63,147	71,823	87,473	96,827	107,045
Total liabilities & equity	99,801	112,561	134,639	139,762	156,482

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net income	6,004	10,280	19,787	17,756	17,695
Depr. & amortization	9,230	7,958	7,825	8,832	9,813
Changes in working capital	(10,636)	4,245	6,397	(4,026)	6,502
Others	13,960	802	(14,286)	12,802	(14,367)
Cash flow from operating	18,557	23,285	19,723	35,365	19,643
Capital expenditure	(7,204)	(4,439)	(9,196)	(13,415)	(8,594)
Others	4,609	1,280	(4,994)	(715)	(715)
Cash flow from investing	(2,594)	(3,159)	(14,190)	(14,130)	(9,309)
Loans	(2,186)	(3,493)	30	(205)	0
Equity	0	0	0	0	0
Dividends	(3,838)	(3,252)	(4,626)	(8,904)	(7,990)
Others	(1,810)	(674)	0	0	0
Cash flow from financing	(7,834)	(7,420)	(4,596)	(9,109)	(7,990)
Changes in cash	8,129	12,706	938	12,127	2,344

Key Ratios	2020A	2021A	2022F	2023F	2024F
Gross margin	21.5%	24.7%	27.8%	24.8%	21.8%
Operating margin	13.7%	18.7%	23.6%	20.6%	17.6%
Pre-tax margin	11.6%	18.2%	23.4%	20.5%	18.1%
Net margin	9.9%	12.9%	16.7%	14.6%	14.2%
ROA	5.7%	9.7%	16.0%	12.9%	11.9%
ROE	9.7%	15.2%	24.8%	19.3%	17.4%
ROIC	10.9%	19.0%	31.4%	24.6%	19.7%
Acct. receivables TO (days)	4.1	7.2	7.2	7.2	7.2
Inventory TO (days)	5.0	6.9	6.9	6.9	6.9
Payable TO (days)	3.0	4.8	4.8	4.8	4.8
Debt to equity	20.1%	12.8%	10.5%	9.3%	8.4%
Interest coverage ratio (x)	11.4	30.3	55.4	52.9	35.1
Net gearing	-12.4%	-33.6%	-28.6%	-38.6%	-37.1%

Source: Company, Indo Premier

INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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