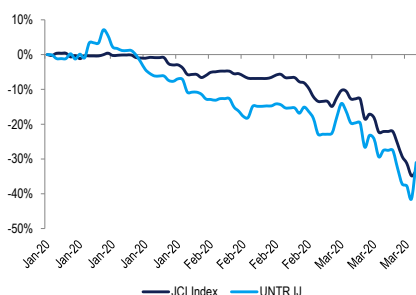


Stock Data

Target price	Rp21,100
Prior TP	Rp21,100
Current price	Rp14,850
Upside/downside	+42%
Shares outstanding (mn)	3,730
Market cap (Rp bn)	55,393
Free float	40%
Avg. 6m daily T/O (Rp bn)	75

Price Performance

	3M	6M	12M
Absolute	-31.6%	-31.7%	-46.6%
Relative to JCI	1.2%	1.1%	-11.1%
52w low/high (Rp)	12,600 – 28,825		



Major Shareholders

Astra International	59.5%
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Resilient earnings despite an outbreak

- Our checks suggest HE sales (especially construction) may be severely impacted by the outbreak - UNTR's HE may down by 24% yoy in 2M20.
- PAMA/mining operations should be less impacted by the outbreak – we see limited downside to its 2020F volume/margin guidance.
- FY20F earnings visibility remained strong (improvement on ACST, lower oil and Rupiah); valuations are compelling as well. Maintain Buy.

Corona to affect HE sales, especially on construction equipment

Our channel checks suggest that Komatsu Feb20 excavator sales dropped 24% yoy (-23% mom) – this brought the cumulative 2M20 excavator sales to 326 units (-24% yoy), note that excavator sales usually make up c.60% of total HE sales. Our discussion with UNTR and checks with other players suggest that HE sales in construction sector may see a severe impact due to the recent corona virus outbreak. While current run-rate suggests that it could meet its target, we expect sales to weaken especially in Mar and 2Q onwards, which may put its target of 2,900 units at risk.

Outbreak impact to PAMA/mining should be minimal

We think that the impact of corona virus to PAMA will be minimal as 1) lockdown has been implemented (i.e. no travelling in/out of the sites – PAMA and all coal miners have already implemented this, based on our checks), and 2) China has recovered from the corona outbreak (number of new cases month-to-date is down 97% vs. Feb20 and so far there have been no major disruption in coal shipments). As such, we don't see much downside to its volume (-5% yoy) and margin guidance (US\$78mn discount 2020F vs. US\$50mn in 2019) – we have priced-in these in our forecasts.

Positive development on ACST

ACST has finally received the Rp5.5tr payment for the Japek Elevated II payment in mid-March 2020. We think this is a positive development as our checks suggest that most of the proceeds shall be used to deleverage (total loan of Rp4tr, consisted of Rp3.2tr shareholder loan and Rp800bn short term bank loan) – note that ACST's losses was primarily caused of interest expense worth of Rp800bn. Despite mild contract target for FY20F, deleveraging shall significantly improve ACST's profitability in FY20F.

Maintain Buy amid resilient EPS outlook and compelling valuations

Maintain Buy on the back of a resilient earnings outlook in FY20F (i.e. less impacted by coronavirus, beneficiary of lower oil price and depreciating Rupiah, while impact of lower HE sales is minimal to EPS), and as recent sell-off has made valuations more compelling – it trades at 5.6x 2020F P/E vs. 10YR avg of 13x P/E. Downside risk is drop in coal price.

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Revenue	84,625	84,430	78,749	79,241	84,915
EBITDA	21,811	23,401	21,665	22,553	23,687
EBITDA growth	50.7%	7.3%	-7.4%	4.1%	5.0%
Net profit	11,126	11,312	9,847	10,367	10,858
EPS (Rp)	2,983	3,033	2,640	2,779	2,911
EPS growth	50.3%	1.7%	-13.0%	5.3%	4.7%
ROE	21%	19%	15%	15%	14%
PER (x)	5.0	4.9	5.6	5.3	5.1
EV/EBITDA (x)	2.4	2.5	2.4	2.1	1.9
Dividend yield	6.0%	8.0%	8.2%	8.9%	9.4%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			96%	97%	96%

Source: Company, Indo Premier

Share price closing as of: 20 March 2020

Corona virus to affect HE sales, especially in the construction sector

Our channel checks suggest that Komatsu Feb20 excavator sales dropped 24% yoy (-23% mom) – this brought the cumulative 2M20 excavator sales to 326 units (-24% yoy) – note that excavator sales usually make up c.60% of total HE sales.

Our discussion with UNTR and checks with other players suggest that HE sales in construction sector could see a severe impact due to the recent corona virus outbreak. While current run-rate suggests that it could meet its target, we expect sales to weaken especially in 2Q, which could put its target of 2,900 units at risk.

Fig. 1: Our checks suggest that Komatsu’s 2M20 excavator sales was down 24% yoy – we think that FY20F target of 2.9k units is at risk

Excavator sales by brand	2M20	2M19	yoy%	Feb-20	Feb-19	yoy%	Jan-20	mom%
Komatsu	326	429	-24%	142	191	-26%	184	-23%
Caterpillar	140	193	-27%	62	115	-46%	78	-21%
Kobelco	188	237	-21%	106	111	-5%	82	29%
Hitachi	397	401	-1%	148	196	-24%	249	-41%

Source: ERG, Indo Premier

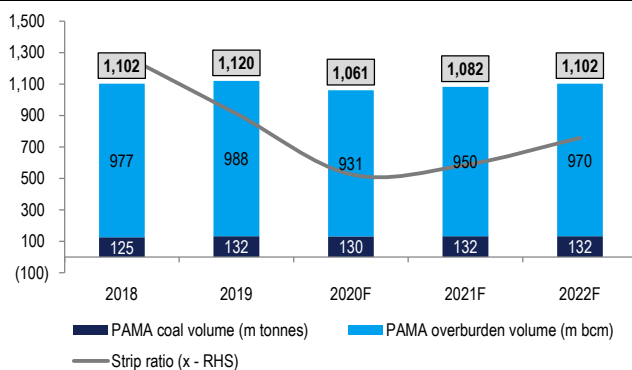
Outbreak impact to PAMA/mining contractor should be minimal

We think that the impact of corona virus to PAMA will be minimal as:

- 1) Lockdown has been implemented (i.e. no travelling in/out of the sites – PAMA and all coal miners have implemented this, based on our checks), and
- 2) China has recovered from the corona outbreak (number of new cases month-to-date is down 97% vs. Feb20 – so far there have been no major disruption in coal shipments).

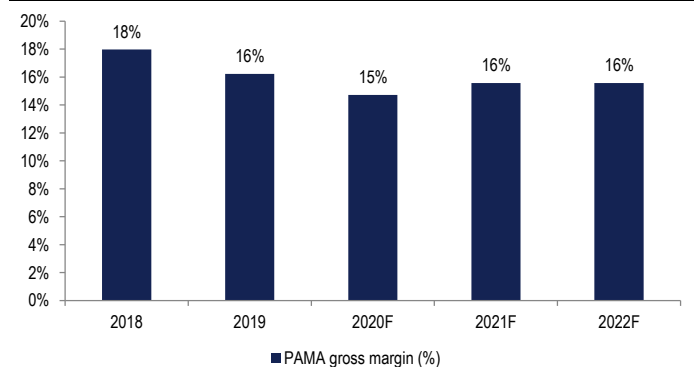
As such, we don’t see much downside to its volume (-5% yoy) and margin guidance (US\$78mn discount 2020F vs. US\$50mn in 2019) – we have priced-in these in our forecasts.

Fig. 2: We think there is limited downside to its FY20F volume guidance (-5% yoy with strip ratio of c.7.2x)



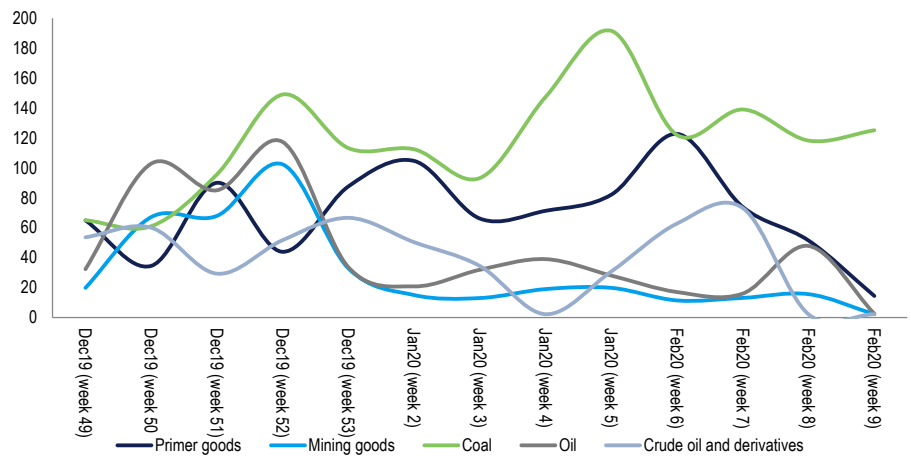
Source: Company, Indo Premier

Fig. 3: It guides for higher discount to be given in 2020F (US\$78mn vs. US\$50mn in 2019) – we have priced this in our estimate



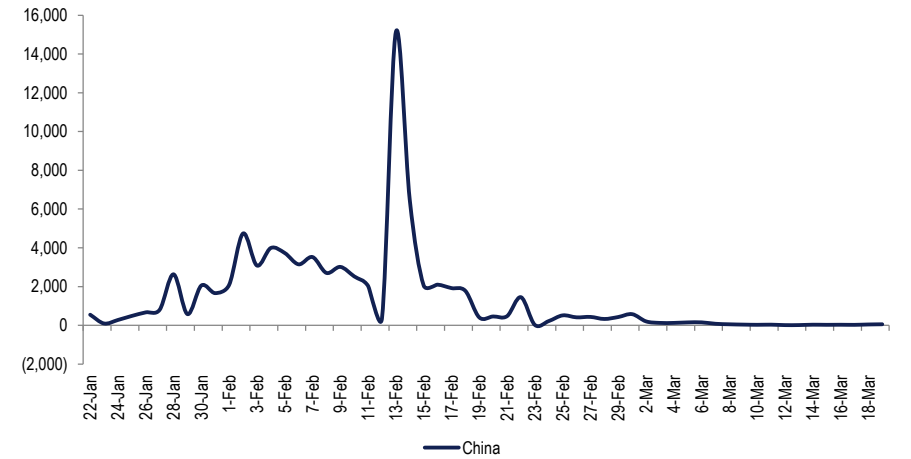
Source: Company, Indo Premier

Fig. 4: Coal exports to China has remained strong as of Feb20 (in US\$ mn)



Source: BPS, CEIC, Indo Premier

Fig. 5: Number of new cases in China has significantly subsided starting end of Feb20



Source: CSSE JHU, Indo Premier

Maintain Buy amid robust EPS outlook and compelling valuations

Maintain Buy on the back of a resilient earnings outlook in FY20F (i.e. less impacted by coronavirus, benefitting from lower oil price/depreciating Rp, while impact of lower HE sales is minimal to EPS), and as recent sell-off has made valuations more compelling – it trades at 5.6x 2020F P/E vs. 10YR avg of 13x P/E. Downside risk is collapse in coal prices and worsening outbreak.

Fig. 6: Sensitivity of UNTR's earnings to changes in key assumptions – lower HE sales will have minimal impact to EPS, while weaker Rp and lower oil are both highly accretive

Earnings sensitivity	2020F	2021F	2022F
Base	9,847	10,367	10,858
Heavy equipment sales -10%	9,787	10,237	10,653
change %	-0.6%	-1.3%	-1.9%
Coal price -10%	9,641	9,936	10,384
change %	-2.1%	-4.2%	-4.4%
Strip ratio -10%	9,498	9,983	10,494
change %	-3.5%	-3.7%	-3.4%
Mining fees -1%	9,593	10,100	10,585
change %	-2.6%	-2.6%	-2.5%
Thermal coal sales volume -10%	9,617	10,164	10,621
change %	-2.3%	-2.0%	-2.2%
Coking coal sales volume -10%	9,732	10,237	10,728
change %	-1.2%	-1.3%	-1.2%
Gold mine sales volume -10%	9,613	10,133	10,589
change %	-2.4%	-2.3%	-2.5%
Rupiah depreciate 10% vs. US\$	11,385	12,087	12,637
change %	15.6%	16.6%	16.4%
Oil price -10%	10,333	10,839	11,348
change %	4.9%	4.6%	4.5%

Source: Company, Indo Premier

Fig. 7: Our SOTP-based TP of Rp21,100/sh implies a target multiple of 8x 2020 P/E (42% upside from last closing price)

	Rp bn		Rp bn	x
Profit after tax minority	2020	Valuation method	Market cap	Implied/target P/E
HE + mining contracting	6,631	DCF - WACC 11.6%	57,166	8.6
Mining (coal + gold)	3,316	DCF - WACC 12.8%	19,338	5.8
Total	9,847		75,507	7.7
Cash			16,941	
Debt			13,579	
Equity value	9,847		78,869	8.0
No of shares (bn shares)			3.7	
Target price (Rp/share)			21,100	8.0
Current price			14,850	
Upside/(downside)			42%	

Source: Company, Indo Premier

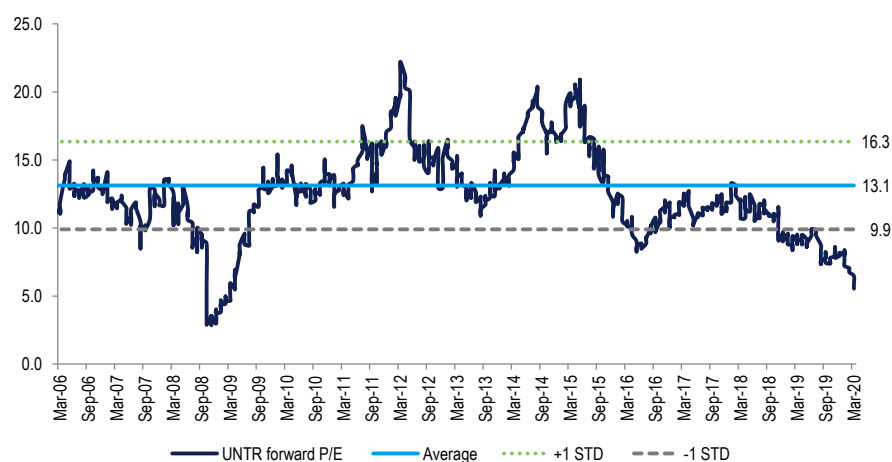
Fig. 8: Using a range of 7-9x P/E, we see 25-76% upside to UNTR's share price – we

think the risk-reward is compelling considering its resilient FY20F earnings outlook

	FY20F	FY21F	FY22F
Current market cap (Rp bn)	55,390	55,390	55,390
Net profit (Rp bn)	9,847	10,367	10,858
Current P/E multiple (x)	5.6	5.3	5.1
Target P/E multiple (x)	7	8	9
Target market cap (Rp bn)	68,930	82,939	97,723
Target share price (Rp/sh)	18,500	22,200	26,200
Upside from current share price	25%	49%	76%

Source: Company, Indo Premier

Fig. 9: UNTR now trades at 5.6x 2020F P/E, below 10-year average of 13.1x P/E



Source: Bloomberg, Company, Indo Premier

Income Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net revenue	84,625	84,430	78,749	79,241	84,915
Cost of sales	(63,515)	(63,200)	(59,323)	(59,558)	(63,196)
Gross profit	21,110	21,231	19,425	19,683	21,719
SG&A Expenses	(4,339)	(4,626)	(4,314)	(4,341)	(5,944)
Operating profit	16,771	16,605	15,111	15,342	15,775
Net interest	(673)	(1,717)	(1,919)	(1,454)	(1,199)
Forex gain (loss)	(127)	0	0	0	0
Others	(261)	589	400	400	400
Pre-tax income	15,709	15,477	13,592	14,289	14,976
Income tax	(4,210)	(4,342)	(3,398)	(3,572)	(3,744)
Minority interest	(373)	177	(347)	(349)	(374)
Net income	11,126	11,312	9,847	10,367	10,858

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash & equivalent	13,438	12,091	16,941	17,931	21,016
Receivable	20,610	19,681	19,687	19,810	22,647
Inventory	13,618	11,014	13,183	13,235	14,852
Other current assets	7,985	8,042	5,266	5,296	5,296
Total current assets	55,652	50,827	55,078	56,273	63,811
Fixed assets	45,766	46,212	47,682	49,372	50,577
Other non-current assets	14,863	14,674	13,133	13,150	13,150
Total non-current assets	60,629	60,886	60,816	62,522	63,727
Total assets	116,281	111,713	115,894	118,795	127,539
ST loans	6,857	818	818	818	818
Payable	32,691	20,909	21,972	22,058	24,754
Other payables	9,074	7,662	6,408	6,430	6,430
Current portion of LT loans	164	3,196	0	0	0
Total current liab.	48,786	32,586	29,198	29,306	32,001
Long term loans	2,896	10,612	12,511	9,511	9,511
Other LT liab.	7,548	7,406	7,406	7,406	7,406
Total liabilities	59,230	50,603	49,114	46,223	48,918
Equity	13,258	11,152	11,152	11,152	11,152
Retained earnings	40,522	47,060	52,382	57,826	63,500
Minority interest	3,271	2,898	3,245	3,594	3,968
Total SHE + minority int.	57,051	61,110	66,779	72,572	78,621
Total liabilities & equity	116,281	111,713	115,894	118,795	127,539

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net income	11,126	11,312	9,847	10,367	10,858
Depr. & amortization	5,041	6,796	6,554	7,211	7,913
Changes in working capital	12,452	(11,782)	1,063	87	2,695
Others	(9,659)	3,110	1,233	149	(4,080)
Cash flow from operating	18,960	9,436	18,697	17,814	17,386
Capital expenditure	(26,566)	(8,663)	(7,069)	(7,932)	(8,111)
Others	(1,165)	(1,094)	(955)	(969)	(1,006)
Cash flow from investing	(27,731)	(9,758)	(8,024)	(8,901)	(9,117)
Loans	5,603	4,633	(1,297)	(3,000)	0
Equity	0	0	0	0	0
Dividends	(3,883)	4,899	(4,525)	(4,924)	(5,184)
Others	(599)	(10,363)	0	0	0
Cash flow from financing	1,121	(831)	(5,822)	(7,924)	(5,184)
Changes in cash	(7,650)	(1,152)	4,851	990	3,085

Key Ratios	2018A	2019A	2020F	2021F	2022F
Gross margin	24.9%	25.1%	24.7%	24.8%	25.6%
Operating margin	19.8%	19.7%	19.2%	19.4%	18.6%
Pre-tax margin	18.6%	18.3%	17.3%	18.0%	17.6%
Net margin	13.1%	13.4%	12.5%	13.1%	12.8%
ROA	11.2%	9.9%	8.7%	8.8%	8.8%
ROE	21.3%	19.1%	15.4%	14.9%	14.4%
ROIC	28.1%	23.2%	19.3%	18.8%	18.3%
Acct. receivables TO (days)	4.6	4.2	4.0	4.0	4.0
Inventory TO (days)	5.9	5.1	4.5	4.5	4.5
Payable TO (days)	2.4	2.4	2.7	2.7	2.7
Debt to equity	18.0%	24.3%	20.3%	14.6%	13.5%
Interest coverage ratio (x)	15.2	10.0	9.0	11.0	13.2
Net gearing	-5.6%	4.6%	-5.0%	-10.1%	-13.3%

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

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