

United Tractors

BUY (unchanged)

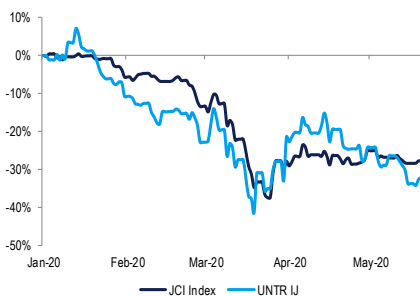
Company Update | Commodities | UNTR IJ | 20 May 2020

Stock Data

Target price	Rp21,100
Prior TP	Rp21,100
Current price	Rp14,600
Upside/downside	+45%
Shares outstanding (mn)	3,730
Market cap (Rp bn)	54,460
Free float	40%
Avg. 6m daily T/O (Rp bn)	71

Price Performance

	3M	6M	12M
Absolute	-20.4%	-35.0%	-41.0%
Relative to JCI	2.3%	-8.9%	-17.3%
52w low/high (Rp)	12,600 – 28,825		



Major Shareholders

Astra International	59.5%
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Channel checks on financing co. suggest a steep revision to HE sales

- One of the major HE financing players has stopped its disbursement since Mar amid rising restructuring requests, mainly from construction.
- It expects to resume financing disbursement only in Jul, though recovery will remain slow, indicating a 60-65% yoy drop in FY20F financing.
- Taking this as proxy, we expect UT's FY20F HE sales at 1-1.2k units (previous target: 2.8k) translating a 10% EPS downside. Maintain Buy.

Halt in financing amid steep increase in restructuring requests

Our discussion with one of the major heavy equipment (HE) financing player (non-related party) revealed that it has stopped new HE financing disbursement since Mar amid a steep increase in restructuring requests (c.35% of total portfolio currently) – majority of the restructuring requests are coming from the construction sector, though it has also seen some requests from the mining sector (smaller coal miners). We believe this shall exacerbate volume as majority of HE purchases (>75%) are made through credit.

Weakening demand, indicative assessment suggests a 60% downside

It expects financing disbursement to only be resumed starting July with a stricter approach vs. normal (i.e. lower LTV of 60-65% vs. 80% for new units under normal condition, along with stricter approval criteria), though recovery in demand is expected to remain very slow. As such, it indicates for a c.60-65% yoy drop in its new financing volume in FY20F, assuming a base case of an easing quarantine measures in June.

Extrapolating the number to UNTR, we see a low since 2003 and 10% downside to FY20F EPS

Using the 60-65% drop as a proxy (note that Komatsu commands one of the largest share of its new financing), it implies Komatsu HE sales volume of 1000-1200 units (1Q20: 617 units) will be the lowest since 2003. Concurrently, we think that the current weakness from the mining sector will also result in much lower realization of big machine sales, which is priced 6-7x higher than the mid-smaller units (sales volume of 570 units in 2019) as well as lower parts and services revenues – Fig 3. All-in-all, we expect a 10% EPS downside to our forecast from the lower HE sales volume alone.

FY20 outlook remains challenging offset by attractive valuation

We believe that FY20F outlook remains challenging especially amid the drop in coal prices (Newcastle at U\$50-55/tonne) and slowing demand – note that management is planning to publish its revised FY20F guidance next week. Main downside risk is worsening coal prices and a prolonged outbreak. For now we maintain our Buy rating amidst attractive valuation.

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
Net profit	11,126	11,328	9,847	10,367	10,858
EPS growth	50%	2%	-13%	5%	5%
ROE	21%	19%	15%	15%	0%
PER	4.9	4.8	5.5	5.3	5.0
EV/EBITDA (x)	2.4	2.5	2.4	2.1	1.9
Dividend yield	6.1%	8.1%	8.3%	9.0%	9.5%
IPS vs. consensus			100%	99%	96%

Source: Company, Indo Premier

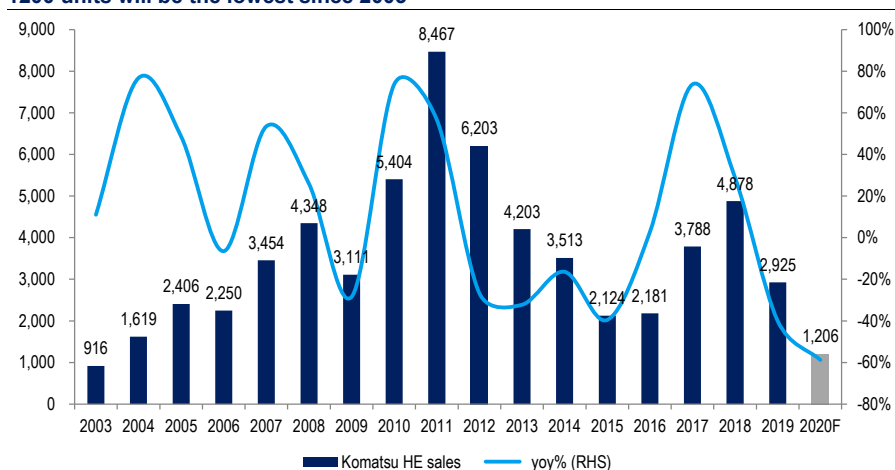
Share price closing as of: 20 May 2020

Fig. 1: Summary of UNTR's HE sales – 1Q20 achievement of 617 units were down 48% yoy. We see further weakness in the coming months

Heavy equipment sales (in units)	1Q20	1Q19	yoy%	4Q19	qoq%	Mar-20	Mar-19	yoy%	Feb-20	mom%
Mining	222	572	-61%	99	125%	56	127	-56%	89	-37%
Agri	69	139	-51%	25	170%	24	55	-56%	19	23%
Construction	165	322	-49%	151	9%	45	103	-56%	52	-13%
Forestry	162	149	9%	83	95%	26	58	-56%	56	-55%
Heavy equipment sales	617	1,181	-48%	358	72%	150	344	-56%	216	-31%

Source: Company, Indo Premier

Fig. 2: Historical trend – assuming a 60% yoy drop, Komatsu FY20F HE sales volume of 1200 units will be the lowest since 2003



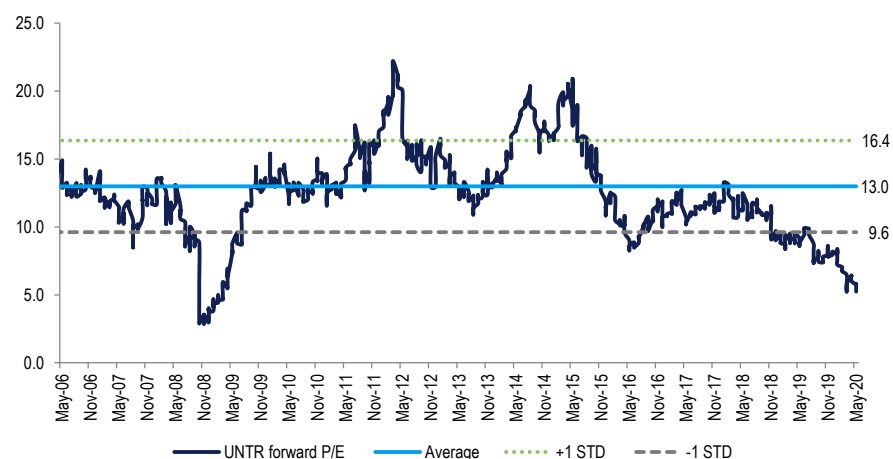
Source: Company, Indo Premier

Fig. 3: Simulation of lower HE sales impact to earnings – we see a 10% EPS downside alone from lower HE sales achievement (taking into account lower big machine and parts/services)

Simulation of lower HE sales	Base	Adjusted	Changes
Komatsu HE sales (units)	2,391	1,206	-50%
Big machine sales (units)	600	50	-92%
Small/mid machine sales (units)	1,791	1,156	-35%
Komatsu revenues (Rp bn)	7,491	2,090	-72%
Parts and services revenues (Rp bn)	8,742	7,725	-12%
Other HE revenues (Rp bn)	5,624	5,403	-4%
Total HE revenues (Rp bn)	21,857	15,219	-30%
Total HE gross profit (Rp bn)	4,988	3,554	-29%
HE GPM (%)	23%	23%	
UNTR net profit (Rp bn)	9,847	8,900	-10%

Source: Company, Indo Premier

Fig. 4: UNTR's forward P/E – now trading at 5.5x 2020F P/E vs. 10-year average of 13x 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)	605	400	400	400
Pre-tax income	15,709	15,493	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	11,328	9,847	10,367	10,858

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash & equivalent	13,438	12,091	16,935	17,925	21,010
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	55,072	56,266	63,805
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	115,887	118,789	127,532
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	52,376	57,820	63,494
Minority interest	3,271	2,898	3,245	3,594	3,968
Total SHE + minority int.	57,051	61,110	66,773	72,566	78,614
Total liabilities & equity	116,281	111,713	115,887	118,789	127,532

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net income	11,126	11,328	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)	3,095	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	(4,531)	(4,924)	(5,184)
Others	(599)	(10,363)	0	0	0
Cash flow from financing	1,121	(831)	(5,828)	(7,924)	(5,184)
Changes in cash	(7,650)	(1,152)	4,844	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%	0.0%
ROE	21.3%	19.2%	15.4%	14.9%	0.0%
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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