

## Stock Data

Target price	Rp26,500
Prior TP	Rp26,500
Current price	Rp23,775
Upside/downside	+11%
Shares outstanding (mn)	3,730
Market cap (Rp bn)	88,684
Free float	40%
Avg. 6m daily T/O (Rp bn)	77

## Price Performance

	3M	6M	12M
Absolute	55.4%	26.8%	4.3%
Relative to JCI	43.0%	40.2%	20.8%
52w low/high (Rp)	12,600 – 23,800		



## Major Shareholders

Astra International	59.5%
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## Undervalued gold play

- UNTR indicated for downside to its gold production target of 360k oz due to Covid impact, though volume may recover in FY21/22F.
- Current resources/reserves are able to sustain 20 year mine life (vs. 5 for MDKA's TB Oxide). Higher capex beyond FY20F is another positive.
- Assuming similar EV/resource with global average and MDKA (currently 40% discount), our hypothetical TP will be Rp29,200. Maintain Buy.

## Short term challenges on Martabe's production

Our checks suggest that production activities in Martabe have remained sub-optimal with only 50% workers on-site. This was due to heavy involvement of locals in the workforce (75% of workforce – the workers go back to their respective homes in the evening, which means many people go in-and-out of the mining site everyday), which led UNTR to reduce the amount of workforce to mitigate the risks. As such, it hints for downside to its initial gold production target of 360k, though impact is manageable (3% EPS downside for every 10% drop in gold production, all else equal). Our forecast has pencilled-in a conservative volume of 300k oz in FY20F before returning to 360k oz p.a. in FY21-22F.

## Higher capex allocation for Martabe in FY21F

UNTR plans to double its capex for Martabe to US\$100mn in FY21F vs. US\$50mn p.a. in FY19-20F. We think this signals its eagerness to further unlock Martabe's value on the new resource discovery/higher production capacity eventually. Note there is still plenty of untapped potential as UNTR is only mining from three out of six identifiable gold deposits in Martabe (Purnama, Barani, and Ramba Joring). Nonetheless, we estimate that the current gold resources/reserves of 7.8m/4.5m shall be enough to sustain 20 years mine life under a conservative assumption of zero additional resources and 50% resource-to-reserve conversion ratio (vs. 13 years implied by UNTR's current market cap – Fig 4).

## We see ample upside to its gold valuation

Our current target valuation of Rp17.6tr for UNTR's gold asset (based on DCF with WACC of 11.4%, 20 years life-of-mine and long term ASP of US\$1,700/oz – link to our previous report [here](#)) implies an EV/resource of US\$160/oz, still c.40% lower than global peers' average of US\$265/oz and MDKA's gold valuation (TB Oxide + Pani) of US\$275/oz, suggesting ample upside to UNTR's valuation (Fig 7) – our hypothetical TP of Rp29,200.

## Maintain Buy

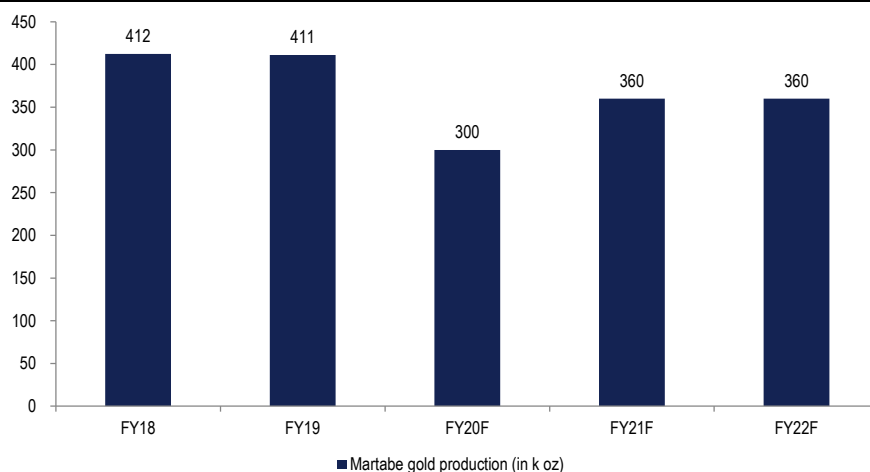
Re-iterate our Buy call as UNTR provides one of the most attractive ways to get gold exposure in Indonesia. Potentially higher coal price from economy re-opening is another catalyst. Risk is drop in gold and coal prices.

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Revenue	84,625	84,430	62,816	73,667	84,632
EBITDA	21,811	23,401	17,916	22,656	26,334
Net profit	11,126	11,328	7,318	10,639	12,921
EPS growth	50%	2%	-35%	45%	21%
ROE	21%	19%	12%	16%	17%
PER (x)	8.0	7.8	12.1	8.3	6.9
EV/EBITDA (x)	3.9	3.9	4.8	3.7	3.1
Dividend yield	3.8%	5.0%	5.1%	3.3%	4.8%
IPS vs. consensus			91%	112%	125%

Source: Company, Indo Premier

Share price closing as of: 06 August 2020

**Fig. 1: UNTR's gold production might see downside to its initial target of 360k oz in FY20F – we pencil in a conservative gold production of 300k oz in FY20F**



Source: Company, Indo Premier

**Fig. 2: Summary of Martabe's gold resources (based on 2016 statement) – Purnama pit still accounts for majority of Martabe's resources**

Resource (2016 statement)	Contained gold (m oz)	% of total
Purnama	4.4	59%
Ramba Joring	1.2	16%
Barani	0.4	5%
Tor Uluala	0.9	12%
Horas	0.4	5%
Uluala Hulu	0.2	2%
<b>Total</b>	<b>7.5</b>	<b>100%</b>

Source: Company, Indo Premier

**Fig. 3: Ore mining activities have been concentrated in Purnama pit**

Ore mining (m tonnes)	2018	2019	% of total (2019)
Purnama	4.8	4.9	83%
Barani	0.8	0.8	14%
Joring	0.0	0.2	3%
<b>Total</b>	<b>5.7</b>	<b>5.9</b>	<b>100%</b>

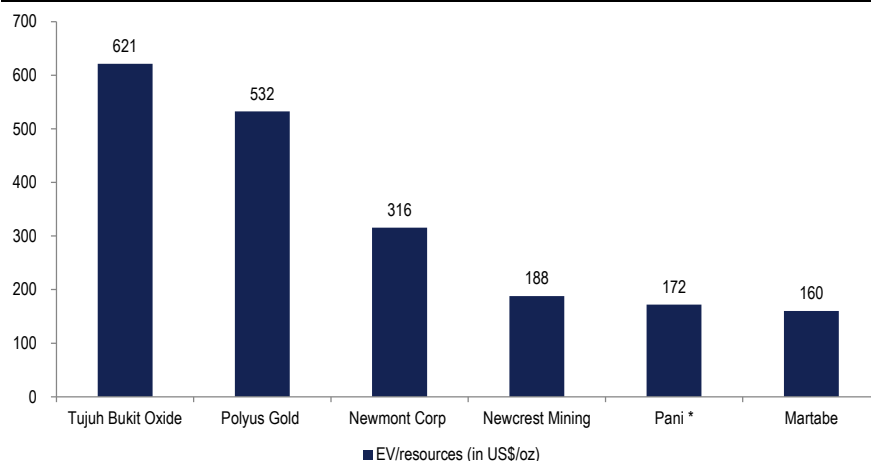
Source: Company, Indo Premier

**Fig. 4: Valuation breakdown – at UNTR's current market cap, we estimate that the market is pricing-in a long-term gold price assumption of US\$1,700/oz (in-line with our long term assumption) but only 13-year life of mine for Martabe**

Valuation breakdown	Rp tr	Remarks
UNTR's current market cap	88.7	Based on 6 August's closing share price of Rp23,775
HE + PAMA valuation	65.9	DCF (WACC: 13.2%, LTG: 5%) - implying target multiple of 9.6x 2021F P/E
Coal mining valuation	11.0	DCF (WACC: 11.4%, LTG 0%) - implying target multiple of 2.2x 202F EBITDA
Net cash (2Q20 position)	4.3	
<b>Implied gold valuation</b>	<b>7.5</b>	<b>Implies 1) long-term gold price of c.US\$1,700/oz, and 2) 13 years life of mine</b>

Source: Company, Indo Premier

**Fig. 5: EV/resources of gold players – Martabe's implied EV/resource of US\$160/oz (based on our target valuation) implied a 40% discount to peers' average of US\$265**



Source: Bloomberg, Company, Indo Premier

\* Pani is scheduled to start operations only in 2023

**Fig. 6: Breakdown of our estimate valuation for MDKA – we estimate that MDKA's pure gold projects (TB Oxide + Pani) are being valued at US\$275/oz**

Summary of MDKA's project valuation	Rp bn	US\$ mn	Resources	EV/resources	Stage
	Target market cap	Target market cap			
Tujuh Bukit Poryphyry	20,148	1,390	5.6	248	PFS
Tujuh Bukit Oxide	12,610	870	1.4	621	Production
Wetar (Copper)	2,986	206	0.3	710	Production
Pani	11,716	808	4.7	172	PFS
<b>MDKA total (project basis)</b>	<b>40,427</b>	<b>1,884</b>	<b>6.4</b>	<b>295</b>	
Total gold projects (TB Oxide + Pani)	24,326	1,678	6.1	275	

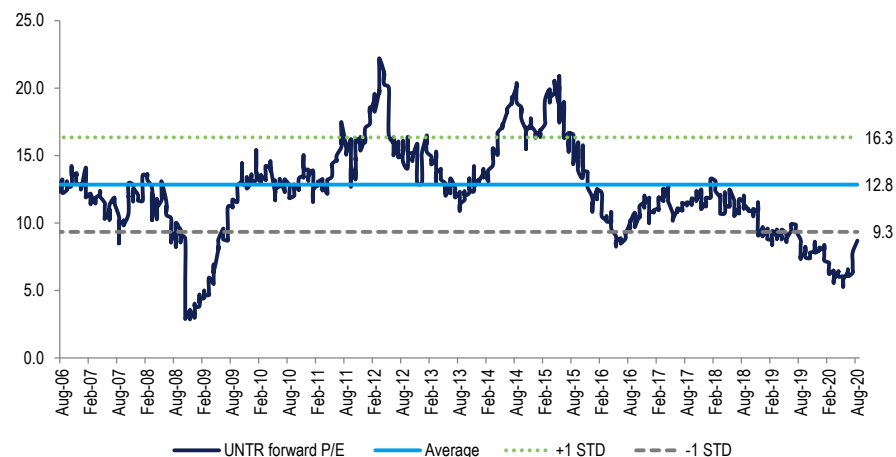
Source: Company, Indo Premier

**Fig. 7: Valuation sensitivity – assuming higher EV/resource valuation of US\$200-300/oz for Martabe, we see 5-15% upside to our base case TP of Rp26,500/sh**

Valuation sensitivity to different gold assumptions	IPS base case forecast	Case 1	Case 2	Case 3
HE + PAMA valuation (Rp bn)	65,428	65,428	65,428	65,428
Coal mining valuation (Rp bn)	10,858	10,858	10,858	10,858
<i>EV/resources</i>	<i>156</i>	<i>200</i>	<i>250</i>	<i>300</i>
<i>Martabe resources</i>	<i>7.8</i>	<i>7.8</i>	<i>7.8</i>	<i>7.8</i>
Gold valuation (Rp bn)	17,612	22,620	28,275	33,930
<b>Asset value (Rp bn)</b>	<b>93,898</b>	<b>98,906</b>	<b>104,561</b>	<b>110,216</b>
Cash (Rp bn)	15,084	15,084	15,084	15,084
Debt (Rp bn)	10,579	10,579	10,579	10,579
<b>Equity value (Rp bn)</b>	<b>98,402</b>	<b>103,411</b>	<b>109,066</b>	<b>114,721</b>
No of shares (in bn)	3.7	3.7	3.7	3.7
<b>Target price (Rp/sh)</b>	<b>26,500</b>	<b>27,700</b>	<b>29,200</b>	<b>30,800</b>
<i>Upside to our base case TP</i>		<i>5%</i>	<i>10%</i>	<i>16%</i>

Source: Company, Indo Premier

**Fig. 8: UNTR's forward P/E – now trading at 8.3x 2021F 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	62,816	73,667	84,632
Cost of sales	(63,515)	(63,200)	(47,378)	(53,937)	(61,511)
<b>Gross profit</b>	<b>21,110</b>	<b>21,231</b>	<b>15,439</b>	<b>19,729</b>	<b>23,120</b>
SG&A Expenses	(4,339)	(4,626)	(4,083)	(4,420)	(5,078)
<b>Operating profit</b>	<b>16,771</b>	<b>16,605</b>	<b>11,356</b>	<b>15,309</b>	<b>18,042</b>
Net interest	(673)	(1,717)	(1,919)	(1,554)	(1,299)
Forex gain (loss)	(127)	0	0	0	0
Others	(261)	605	300	300	300
<b>Pre-tax income</b>	<b>15,709</b>	<b>15,493</b>	<b>9,737</b>	<b>14,056</b>	<b>17,044</b>
Income tax	(4,210)	(4,342)	(2,142)	(3,092)	(3,750)
Minority interest	(373)	177	(277)	(325)	(373)
<b>Net income</b>	<b>11,126</b>	<b>11,328</b>	<b>7,318</b>	<b>10,639</b>	<b>12,921</b>

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash & equivalent	13,438	12,091	16,814	15,279	17,499
Receivable	20,610	19,681	15,704	18,417	23,899
Inventory	13,618	11,014	10,528	11,986	15,352
Other current assets	7,985	8,042	4,310	4,961	4,961
<b>Total current assets</b>	<b>55,652</b>	<b>50,827</b>	<b>47,357</b>	<b>50,643</b>	<b>61,712</b>
Fixed assets	45,766	46,212	47,809	52,228	55,808
Other non-current assets	14,863	14,674	12,598	12,963	12,963
<b>Total non-current assets</b>	<b>60,629</b>	<b>60,886</b>	<b>60,406</b>	<b>65,190</b>	<b>68,771</b>
<b>Total assets</b>	<b>116,281</b>	<b>111,713</b>	<b>107,764</b>	<b>115,833</b>	<b>130,482</b>
ST loans	6,857	818	818	818	818
Payable	32,691	20,909	17,547	19,977	25,587
Other payables	9,074	7,662	5,308	5,912	5,912
Current portion of LT loans	164	3,196	0	0	0
<b>Total current liab.</b>	<b>48,786</b>	<b>32,586</b>	<b>23,673</b>	<b>26,707</b>	<b>32,317</b>
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
<b>Total liabilities</b>	<b>59,230</b>	<b>50,603</b>	<b>43,590</b>	<b>43,624</b>	<b>49,234</b>
Equity	13,258	11,152	11,152	11,152	11,152
Retained earnings	40,522	47,060	49,847	57,558	66,224
Minority interest	3,271	2,898	3,175	3,499	3,872
<b>Total SHE + minority int.</b>	<b>57,051</b>	<b>61,110</b>	<b>64,174</b>	<b>72,210</b>	<b>81,248</b>
<b>Total liabilities &amp; equity</b>	<b>116,281</b>	<b>111,713</b>	<b>107,764</b>	<b>115,833</b>	<b>130,482</b>

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net income	11,126	11,328	7,318	10,639	12,921
Depr. & amortization	5,041	6,796	6,560	7,347	8,292
Changes in working capital	12,452	(11,782)	(3,362)	2,430	5,610
Others	(9,659)	3,095	8,192	(4,257)	(8,476)
<b>Cash flow from operating</b>	<b>18,960</b>	<b>9,436</b>	<b>18,708</b>	<b>16,158</b>	<b>18,347</b>
Capital expenditure	(26,566)	(8,663)	(7,226)	(10,801)	(10,880)
Others	(1,165)	(1,094)	(931)	(966)	(992)
<b>Cash flow from investing</b>	<b>(27,731)</b>	<b>(9,758)</b>	<b>(8,157)</b>	<b>(11,767)</b>	<b>(11,872)</b>
Loans	5,603	4,633	(1,297)	(3,000)	0
Equity	0	0	0	0	0
Dividends	(3,883)	4,899	(4,531)	(2,927)	(4,256)
Others	(599)	(10,363)	0	0	0
<b>Cash flow from financing</b>	<b>1,121</b>	<b>(831)</b>	<b>(5,828)</b>	<b>(5,927)</b>	<b>(4,256)</b>
<b>Changes in cash</b>	<b>(7,650)</b>	<b>(1,152)</b>	<b>4,724</b>	<b>(1,535)</b>	<b>2,220</b>

Key Ratios	2018A	2019A	2020F	2021F	2022F
Gross margin	24.9%	25.1%	24.6%	26.8%	27.3%
Operating margin	19.8%	19.7%	18.1%	20.8%	21.3%
Pre-tax margin	18.6%	18.3%	15.5%	19.1%	20.1%
Net margin	13.1%	13.4%	11.6%	14.4%	15.3%
ROA	11.2%	9.9%	6.7%	9.5%	10.5%
ROE	21.3%	19.2%	11.7%	15.6%	16.8%
ROIC	28.1%	23.2%	14.8%	19.1%	20.7%
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%	21.2%	14.7%	13.0%
Interest coverage ratio (x)	15.2	10.0	7.4	11.0	14.6
Net gearing	-5.6%	4.6%	-5.0%	-6.5%	-8.5%

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

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