

United Tractors

BUY (unchanged)

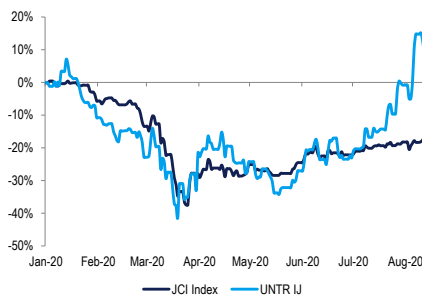
Company Update | Commodities | UNTR IJ | 13 August 2020

Stock Data

Target price	Rp26,500
Prior TP	Rp26,500
Current price	Rp23,300
Upside/downside	+14%
Shares outstanding (mn)	3,730
Market cap (Rp bn)	86,912
Free float	40%
Avg. 6m daily T/O (Rp bn)	84

Price Performance

	3M	6M	12M
Absolute	52.5%	31.6%	8.0%
Relative to JCI	37.5%	43.0%	24.4%
52w low/high (Rp)	12,600 – 24,775		



Major Shareholders

Astra International	59.5%
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Challenging 2H outlook is expected; looking forward for a stronger FY21

- UNTR guides FY20F HE sales volume of 1.4k units (-50% yoy), this was in-line with ours. We see better HE sales volume beyond FY20F.
- PAMA volume set to drop 18% yoy in FY20 with US\$120-140mn discount (vs. our estimate of -14%/US\$150mn); the latter is a positive.
- Gold production will miss target, though we see a volume recovery and higher ASP in FY21F. Maintain Buy.

HE demand remains lacklustre; recovery is slated in FY21-22

UNTR guides for FY20F HE sales of 1,350-1,400 units, down 50% vs. FY19 achievement/previous FY20F target of 2,800-2,900 units largely due to weak demand. The guidance however, was in-line with our FY20F estimates of 1,450 units (all-time low since 2003). We think that this year's weak volumes has been priced-in, and expect HE volumes to recover to 2,300-3,200 units in FY21-22F in-line with improving economy and potential capex windfall (as most miners/contractors defer their capex to FY21).

Steep drop in PAMA volume, though discount is manageable

It guides for a 18% drop in PAMA's FY20F volume (our estimate of -14%) as most coal producers have lowered production target by 15-20%. It also expects US\$120-140mn of discount to be given by PAMA in FY20F (vs. its previous guidance/our estimate of US\$150mn). Despite a bleak volume outlook this year, we believe that its latest discount guidance is a positive surprise. We pencil-in 13-19% revenue growth for PAMA in FY21-22F on the back of 1) volume recovery (7-8% p.a.) driven by higher coal prices (Newcastle price of US\$55/65/70 in FY20/21/22), and 2) minimal discount of US\$20-30mn in FY21-22F.

Plenty of upside to Martabe despite short term challenges

Amid suboptimal production activities in Martabe, UNTR guides for a base case of c.300k oz gold production (vs. initial target of 360k oz) in FY20F before recovering to 350k oz in FY21F though we have pencilled this in our forecast. Going forward, it will be less conservative on its hedging strategy (i.e. use put options instead of fixed forward contracts, lower proportion of volume hedged) in FY21F which shall be positive for ASP. Despite the recent correction to gold price, we still see ample upside to its valuation amid its steep discount vs. peers (link to our previous report [here](#)).

Maintain Buy

Maintain Buy as we believe that the weak FY20F has been largely priced in, while expecting a strong EPS recovery in FY21-22F (+21-45% yoy). It now trades at 8x 2021F P/E. below 10-year average of 13x P/E. Main risk is worsening gold/coal prices.

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Financial Summary	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)	7.8	7.7	11.9	8.2	6.7
EV/EBITDA (x)	3.8	3.8	4.7	3.6	3.0
Dividend yield	3.8%	5.1%	5.2%	3.4%	4.9%
IPS vs. consensus			92%	112%	124%

Source: Company, Indo Premier

Share price closing as of: 13 August 2020

Fig. 1: Summary of UNTR's key drivers in FY20-22F

UNTR key drivers	2018	2019	2020F	2021F	2022F
Komatsu HE sales volume (in units)	4,878	2,925	1,451	2,324	3,203
yoy%	29%	-40%	-50%	60%	38%
PAMA coal volume (m tonnes)	125	132	121	127	133
yoy%	11%	6%	-8%	5%	5%
PAMA OB volume (m bcm)	977	988	842	915	981
yoy%	22%	1%	-15%	9%	7%
Strip ratios (x)	7.8	7.5	7.0	7.2	7.4
yoy%	10%	-4%	-7%	3%	2%
Thermal coal sales volume (m tonnes)	6.2	7.3	7.0	7.7	8.2
yoy%	-2%	17%	-4%	10%	7%
Coking coal sales volume (m tonnes)	0.8	1.1	1.2	1.5	1.8
yoy%	707%	36%	9%	25%	17%
Total coal sales volume (m tonnes)	7.0	8.4	8.2	9.2	10.0
yoy%	9%	19%	-2%	12%	9%
Gold sales volume (k oz)	412	411	300	360	360
yoy%	17%	0%	-27%	20%	0%

Source: Company, Indo Premier

Fig. 2: Summary of UNTR's guidance vs. our forecast

UNTR key drivers	1H20	1H19	yoy%	UNTR's FY20F guidance	% of target	IPS FY20F estimate	% of IPS
Komatsu HE sales volume (in units)	853	1,917	-56%	1,400	61%	1,450	59%
PAMA coal volume (m tonnes)	56	61	-8%	110	51%	121	46%
PAMA OB volume (m bcm)	421	469	-10%	810	52%	842	50%
Strip ratios (x)	7.6	7.7		7.4		7.0	
Thermal coal sales volume (m tonnes)	4.8	4.2	12%	6.7	71%	7.0	68%
Coking coal sales volume (m tonnes)	0.9	0.7	29%	1.2	72%	1.2	72%
Total coal sales volume (m tonnes)	5.6	4.9	14%	7.9	71%	8.2	69%
Gold sales volume (k oz)	184	195	-6%	300	61%	300	61%

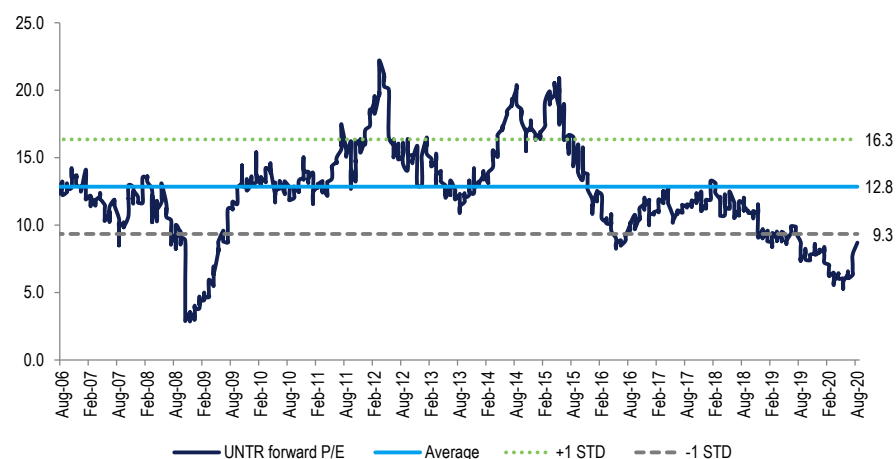
Source: Company, Indo Premier

Fig. 3: 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
Asset value (Rp bn)	93,898	98,906	104,561	110,216
Cash (Rp bn)	15,084	15,084	15,084	15,084
Debt (Rp bn)	10,579	10,579	10,579	10,579
Equity value (Rp bn)	98,402	103,411	109,066	114,721
No of shares (in bn)	3.7	3.7	3.7	3.7
Target price (Rp/sh)	26,500	27,700	29,200	30,800
<i>Upside to our base case TP</i>		<i>5%</i>	<i>10%</i>	<i>16%</i>

Source: Company, Indo Premier

Fig. 4: UNTR's forward P/E – now trading at 11.9x 2021F P/E vs. 10-year average of 12.8x 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)
Gross profit	21,110	21,231	15,439	19,729	23,120
SG&A Expenses	(4,339)	(4,626)	(4,083)	(4,420)	(5,078)
Operating profit	16,771	16,605	11,356	15,309	18,042
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
Pre-tax income	15,709	15,493	9,737	14,056	17,044
Income tax	(4,210)	(4,342)	(2,142)	(3,092)	(3,750)
Minority interest	(373)	177	(277)	(325)	(373)
Net income	11,126	11,328	7,318	10,639	12,921

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
Total current assets	55,652	50,827	47,357	50,643	61,712
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
Total non-current assets	60,629	60,886	60,406	65,190	68,771
Total assets	116,281	111,713	107,764	115,833	130,482
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
Total current liab.	48,786	32,586	23,673	26,707	32,317
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	43,590	43,624	49,234
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
Total SHE + minority int.	57,051	61,110	64,174	72,210	81,248
Total liabilities & equity	116,281	111,713	107,764	115,833	130,482

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)
Cash flow from operating	18,960	9,436	18,708	16,158	18,347
Capital expenditure	(26,566)	(8,663)	(7,226)	(10,801)	(10,880)
Others	(1,165)	(1,094)	(931)	(966)	(992)
Cash flow from investing	(27,731)	(9,758)	(8,157)	(11,767)	(11,872)
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
Cash flow from financing	1,121	(831)	(5,828)	(5,927)	(4,256)
Changes in cash	(7,650)	(1,152)	4,724	(1,535)	2,220

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

ANALYSTS CERTIFICATION

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