

Thursday, 29 November 2018

BUY

Maintain

Last price (IDR) 620
 Target Price (IDR) 900
 Upside/Downside +45.2%
 Previous Target Price (IDR) 1,400

Stock Statistics

Sector Metal Mining
 Bloomberg Ticker TINS IJ
 No of Shrs (mn) 7,448
 Mkt. Cap (IDRbn/USDmn) 4,618/318
 Avg. daily T/O (IDRbn/USDmn) 8.2/0.6

Major shareholders (%)

Government of Indonesia 65.0
 Estimated Free Float 35.0

EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	56.4	58.2	63.9
Consensus	54.2	43.5	53.5
Danareksa/Cons	3.9	33.8	19.5

TINS relative to JCI Index



Source : Bloomberg



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Timah (TINS IJ)

Higher costs dragged down profits

Timah (TINS) reported net profits of IDR85bn in 3Q18 (-26.1% qoq and -43.0% yoy). Cumulatively, net profits reached IDR256bn (+15.0% yoy) in 9M18. The net profit was below our expectations (on lower-than-expected refined tin sales volume and margins) and the consensus estimates. As we cut our earnings forecast by 30 – 37% for 2018 and 2019, we lower our target price to IDR900 (based on DCF valuation with WACC of 12.7%). Maintain BUY.

3Q18: lower ASP and higher costs dragged down net profits. Net profits declined by 26.1% qoq to IDR85bn in 3Q18 mainly due to: a) lower ASP (-7.3% qoq), b) higher operating expenses (+15.9% qoq) mainly from rising selling expenses, c) the absence of other income from gains from revaluation of investment properties of IDR49bn booked in 2Q18 and d) a higher tax rate of 40.5% in 3Q18 (2Q18: 25.4%). The company's ability to improve revenues by 2.7% qoq thanks to 7.1% qoq higher refined tin sales volume helped to prevent a further decline in net profits.

9M18: Weak results. The company booked 15% yoy lower net profits of IDR256bn in 9M18 mainly owing to: a) lower refined tin sales volume (-6.5% yoy), b) higher costs, mainly from higher operating expenses (+20.9% yoy), and c) rising interest expenses (+69.1% yoy). However, solid refined tin ASP and weakening of the rupiah vs. the USD helped the company to post 2.7% yoy higher revenues despite lower refined tin sales volume. With higher costs, the company booked lower gross and operating margins of 15.9% and 5.9% in 9M18 vs. 17.4% and 8.9% in 9M17, respectively.

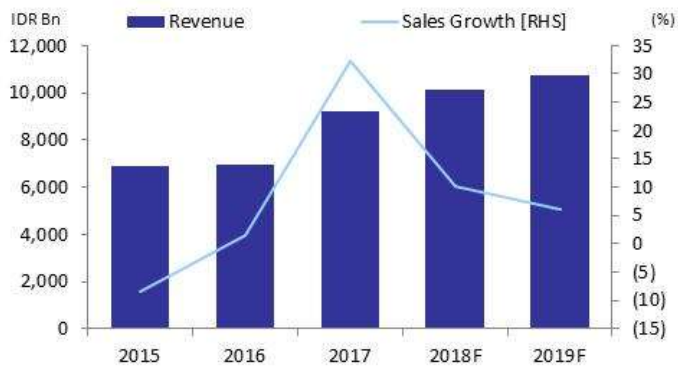
Moderating production growth in 2018. After the company indicated strong growth in refined tin production of around 27.4% yoy to 30,249 tonnes in 2017, the management targets more moderate growth of 7.8% yoy to 32,600 tonnes in 2018, a decline from the initial target of 35,000 tonnes. Given that escalating trade wars might curtail economic growth in China, the world's largest consumer of tin, we apply a more conservative refined tin production growth estimate of only 6.3% yoy to 34,000 tonnes in 2019.

Maintain BUY. Given the weak results and our lower refined tin price assumption, we cut our net profit forecasts by 30 – 37% for 2018 - 2019. As such, we also cut our target price to IDR900 (based on DCF valuation with WACC of 12.7%). We maintain our BUY call, however, as the share price correction provides upside of 45.2% to our target price. The main downside risks are escalating trade wars which might dampen economic growth in China and negatively impact the tin price. Our target price implies 15.5x 2019F PE.

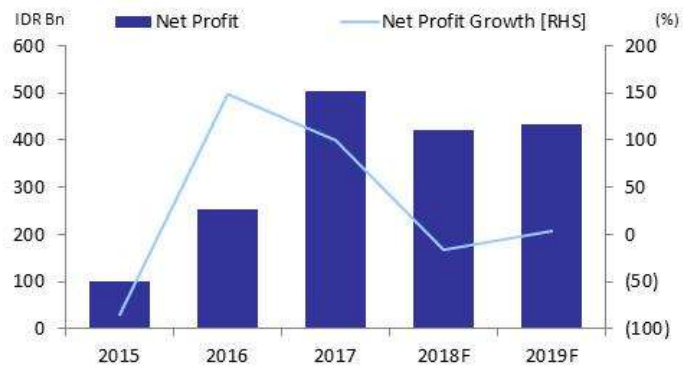
Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	6,968	9,217	10,142	10,745	10,829
EBITDA (IDRbn)	958	943	1,363	1,508	1,578
EBITDA Growth (%)	73.3	(1.6)	44.5	10.7	4.6
Net profit (IDRbn)	252	502	420	433	476
EPS (IDR)	33.8	67.5	56.4	58.2	63.9
EPS growth (%)	147.9	99.5	(16.5)	3.2	9.8
BVPS (IDR)	759.1	813.8	853.9	883.9	918.7
DPS (IDR)	6.8	16.9	33.7	28.2	29.1
PER (x)	18.3	9.2	11.0	10.7	9.7
PBV (x)	0.8	0.8	0.7	0.7	0.7
Dividend yield (%)	1.1	2.7	5.4	4.5	4.7
EV/EBITDA (x)	6.0	7.4	5.2	4.6	4.3

Source : TINS, Danareksa Estimates

Exhibit 1. Revenues and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, Danareksa Sekuritas estimates

Exhibit 5. 9M18 Results – Below Expectation

Operational performance	3Q17	2Q18	3Q18	QoQ,%	YoY,%	9M17	9M18	YoY, %	2018F	A/F, %
Tin metal, tonnes										
Production	7,932	7,005	8,898	27.0	12.2	22,837	21,264	(6.9)	32,000	66
Sales	7,184	6,940	7,433	7.1	3.5	21,588	20,174	(6.5)	32,000	63
Tin ASP, US\$/tonne	20,862	21,321	19,761	(7.3)	(5.3)	20,557	20,789	1.1	20,000	104
Financial performance	3Q17	2Q18	3Q18	QoQ,%	YoY,%	9M17	9M18	YoY, %	2018F	A/F, %
Revenue, IDRbn	2,320	2,342	2,425	3.5	4.5	6,621	6,802	2.7	10,142	67
COGS, IDRbn	(1,798)	(1,951)	(2,017)	3.4	12.2	(5,469)	(5,720)	4.6	(8,505)	67
Gross profit, IDRbn	522	391	407	4.2	(21.9)	1,152	1,082	(6.1)	1,637	66
Operating profit, IDRbn	261	156	135	(13.5)	(48.4)	590	403	(31.7)	789	51
Net profit, IDRbn	150	116	85	(26.1)	(43.0)	301	256	(15.0)	420	61
Gross margin, %	22.5	16.7	16.8	0.1	(5.7)	17.4	15.9	(1.5)	16.1	
Operating margin, %	11.3	6.6	5.6	(1.1)	(5.7)	8.9	5.9	(3.0)	7.8	
Net margin, %	6.5	4.9	3.5	(1.4)	(2.9)	4.5	3.8	(0.8)	4.1	

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Change in our forecasts

	New			Previous			Change (%)		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Sales (tonnes)	32,000	34,000	35,000	33,000	34,000	35,000	(3.0)	0.0	0.0
ASP (USD/tonne)	20,000	20,000	20,000	21,000	22,000	22,500	(4.8)	(9.1)	(11.1)
USD/IDR	14,500	14,300	14,000	13,600	13,300	13,000	6.6	7.5	7.7
Revenue (Rp bn)	10,142	10,745	10,829	10,184	10,910	11,486	(0.4)	(1.5)	(5.7)
EBITDA (Rp bn)	1,363	1,508	1,578	1,618	1,782	1,878	(15.8)	(15.3)	(16.0)
Net Profit (Rp bn)	420	433	476	603	689	778	(30.3)	(37.2)	(38.9)

Source: Company, Danareksa Sekuritas estimates

Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Revenue	6,968	9,217	10,142	10,745	10,829
COGS	(5,873)	(7,692)	(8,505)	(8,970)	(8,991)
Gross profit	1,095	1,526	1,637	1,774	1,837
EBITDA	958	943	1,363	1,508	1,578
Oper. profit	498	731	789	901	952
Interest income	10	25	31	14	13
Interest expense	(118)	(200)	(242)	(257)	(233)
Forex Gain/(Loss)	(16)	0	0	(11)	(23)
Income From Assoc. Co's	3	12	0	0	0
Other Income (Expenses)	6	143	49	0	0
Pre-tax profit	384	710	627	646	710
Income tax	(132)	(207)	(207)	(213)	(234)
Minority interest	0	0	0	0	0
Net profit	252	502	420	433	476
Core Net Profit	238	404	371	444	498

Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	564	1,357	566	647	592
Receivables	883	1,514	1,427	1,512	1,523
Inventory	2,309	2,509	3,379	3,564	3,572
Other Curr. Asset	1,476	1,614	1,690	1,719	1,710
Fixed assets - Net	2,221	2,462	2,553	2,610	2,650
Other non-curr.asset	2,090	2,417	2,001	1,984	1,979
Total asset	9,549	11,876	11,615	12,035	12,026
ST Debt	1,733	2,192	1,500	1,500	1,500
Payables	661	733	862	983	985
Other Curr. Liabilities	667	477	517	547	548
Long Term Debt	0	1,500	1,500	1,500	1,200
Other LT. Liabilities	834	912	876	921	950
Total Liabilities	3,895	5,815	5,255	5,452	5,183
Shareholder's Funds	5,653	6,061	6,360	6,583	6,842
Minority interests	0	0	0	0	0
Total Equity & Liabilities	9,549	11,876	11,615	12,035	12,026

Exhibit 9. Cash Flow

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Net income	252	502	420	433	476
Depreciation and Amort.	457	206	566	599	617
Change in Working Capital	562	(1,060)	(372)	(147)	(8)
Other Oper. Cash Flow	(295)	500	559	269	217
Operating Cash Flow	977	148	1,173	1,153	1,302
Capex	(535)	(780)	(650)	(650)	(650)
Others Inv. Cash Flow	154	(257)	(130)	45	42
Investing Cash Flow	(381)	(1,037)	(780)	(605)	(608)
Net change in debt	(381)	1,959	(692)	0	(300)
New Capital	0	0	0	0	0
Dividend payment	(30)	(76)	(251)	(210)	(217)
Other Fin. Cash Flow	(118)	(200)	(242)	(257)	(233)
Financing Cash Flow	(530)	1,683	(1,185)	(467)	(749)
Net Change in Cash	66	794	(792)	81	(55)
Cash - begin of the year	497	564	1,357	566	647
Cash - end of the year	564	1,357	566	647	592

Exhibit 10. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Growth (%)					
Sales	1.4	32.3	10.0	5.9	0.8
EBITDA	73.3	(1.6)	44.5	10.7	4.6
Operating profit	510.8	46.8	7.9	14.2	5.7
Net profit	147.9	99.5	(16.5)	3.2	9.8
Profitability (%)					
Gross margin	15.7	16.6	16.1	16.5	17.0
EBITDA margin	13.8	10.2	13.4	14.0	14.6
Operating margin	7.1	7.9	7.8	8.4	8.8
Net margin	3.6	5.5	4.1	4.0	4.4
ROAA	2.7	4.7	3.6	3.7	4.0
ROAE	4.6	8.6	6.8	6.7	7.1
Leverage					
Net Gearing (x)	0.2	0.4	0.4	0.4	0.3
Interest Coverage (x)	4.2	3.6	3.3	3.5	4.1

Source : TINS, Danareksa Estimates

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