

Thursday, 21 February 2019

**BUY**  
**Maintain**

Last price (IDR)	26,000
Target Price (IDR)	36,000
Upside/Downside	+38.5%
Previous Target Price (IDR)	36,000

#### Stock Statistics

Sector	Heavy Equipment
Bloomberg Ticker	UNTR JJ
No of Shrs (mn)	3,730
Mkt. Cap (IDRbn/USDmn)	96,984/6,906
Avg. daily T/O (IDRbn/USDmn)	168.8/12.0

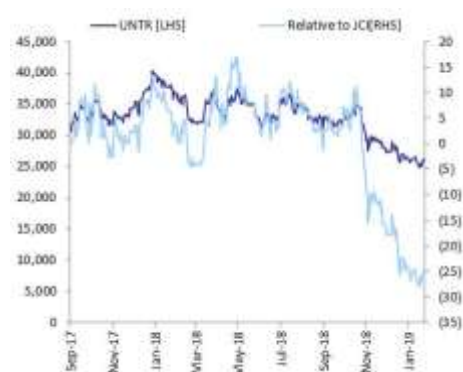
#### Major shareholders (%)

Astra International	59.5
Estimated free float	40.5

#### EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	3,116.2	3,262.0	3,516.3
Consensus	2,931.3	3,169.5	3,297.7
Danareksa/Cons	6.3	2.9	6.6

#### UNTR relative to JCI Index



Source : Bloomberg



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## United Tractors (UNTR JJ)

### Recovery in Dec 18's Komatsu sales volume

**United Tractors (UNTR) reported Komatsu sales volume of 376 units (+17.1% mom and +17.1% yoy) in Dec 2018. Despite the weak Komatsu sales volume in the last two months of 2018, the sales volume in 2018 rose by 28.8% yoy to 4,878 units. While we expect soft earnings in 4Q18 on the back of lower operational volume, we believe the company will book solid earnings in 2018. Maintain BUY with a target price of IDR36,000.**

**Slight recovery in Komatsu sales volume in Dec 2018.** After Komatsu sales volume declined significantly to 321 units in Nov 2018 (-35.8% mom), its sales volume recovered by 17.1% mom to 376 units in Dec 2018. In 2018, the impact of solid coal prices in the beginning of the year resulted in higher Komatsu sales volume (+28.8% yoy to 4,878 units). This number was within our expectations and the management's estimates. Given the widening price gap between low and high CV coal, some of UNTR's clients have taken a wait-and-see stance. As such, UNTR expects Komatsu sales volume to decline to 4,000 units in 2019.

**Favorable weather in 2H18 boosted coal production.** The subsidiary in the mining contracting (MC) division, Pamapersada Nusantara (PAMA) managed to increase its coal production by 11.1% yoy to 125.1mn tons with OB removal up by 22.3% yoy to 979.4mn bcm. This translated into a stripping ratio of 7.8x in 2018 (2017: 7.1x). The number was within our expectations. For 2019, UNTR maintains its coal production target of 126mn tonnes and OB removal target of 950 – 980mn bcm even though PAMA has OB removal capacity of 1.0bn bcm.

**4Q18 preview: expect soft earnings, but sturdy earnings in 2018.** We expect soft quarterly earnings in 4Q18 on: a) a decline in Komatsu sales volume (-6.6% qoq) with a lower contribution from the mining sector of 46.4% in 4Q18 (3Q18: 48.3%). And b) a lower stripping ratio of 7.6x in 4Q18 (3Q18: 8.0x) amid higher coal production (+2.1% qoq) and strengthening of the rupiah vs. the US Dollar in 4Q18 to impact on MC's earnings. However, for the full year of 2018, we expect solid earnings for UNTR backed by higher operational volume. In 2019, we believe the completion of the recent acquisition of Martabe gold mining company at the end of December 2018 can sustain the company's earnings amid the expectation of lower Komatsu sales volume.

**Maintain BUY** with a target price of IDR36,000 (based on DCF valuation with WACC of 12.8% and long-term growth of 3%). The stock is trading below -1SD. Our new TP implies 11.0x 2019F PE. While we expect coal price consolidation going forward, upside potential may come from the recent narrowing of the gap between low CV and Newcastle coal prices which would help to improve Komatsu sales volume from customers who have postponed purchases of heavy equipment.

#### Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	45,539	64,559	82,054	83,696	85,812
EBITDA (IDRbn)	9,150	13,832	21,207	22,410	24,310
EBITDA Growth (%)	(26.2)	51.2	53.3	5.7	8.5
Net profit (IDRbn)	5,002	7,403	11,624	12,168	13,116
EPS (IDR)	1,341.0	1,984.6	3,116.2	3,262.0	3,516.3
EPS growth (%)	29.8	48.0	57.0	4.7	7.8
BVPS (IDR)	10,954.0	12,161.1	14,299.2	16,293.6	18,478.5
DPS (IDR)	583.0	675.0	976.3	1,263.7	1,334.6
PER (x)	19.4	13.1	8.3	8.0	7.4
PBV (x)	2.4	2.1	1.8	1.6	1.4
Dividend yield (%)	2.2	2.6	3.8	4.9	5.1
EV/EBITDA (x)	8.6	5.8	3.7	3.3	2.8

Source : UNTR, Danareksa Estimates

**Exhibit 1. Revenues and Growth**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**



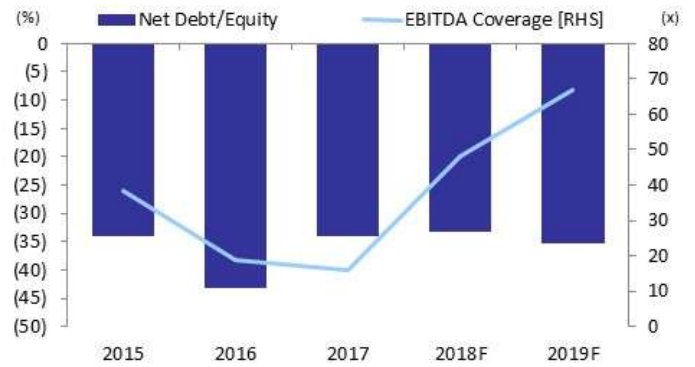
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**



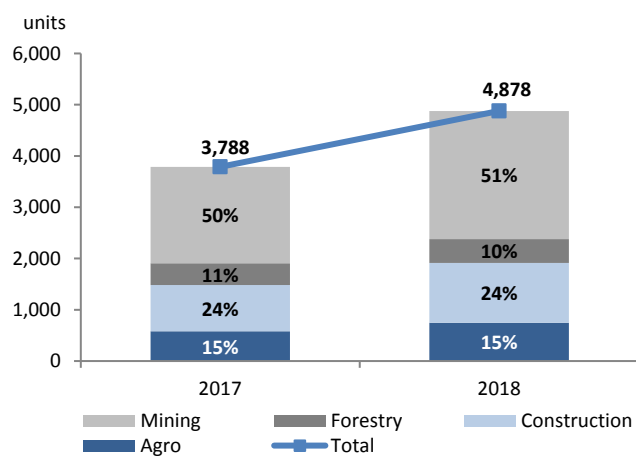
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**



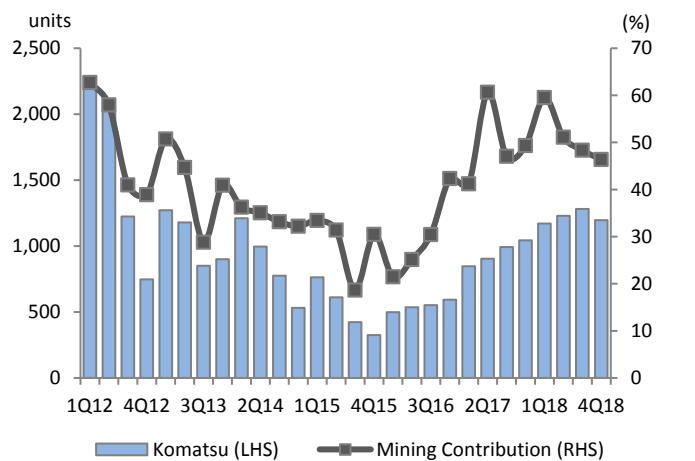
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. Strong Komatsu sales volume**

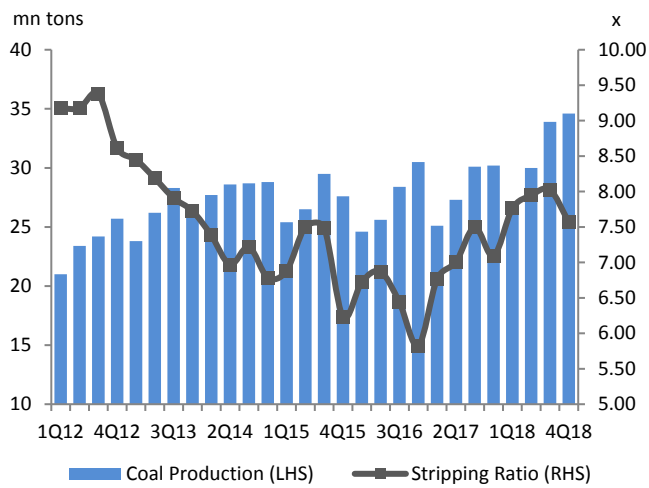


Source: Company

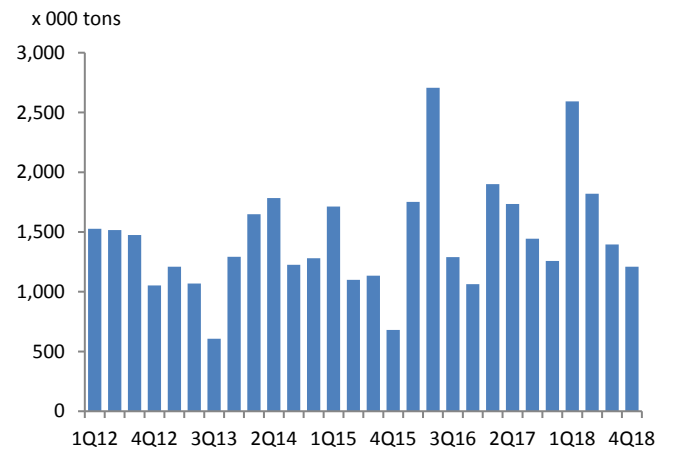
**Exhibit 6. Mining was the largest contributor to Komatsu sales**



Source: Company

**Exhibit 7. Favorable weather conditions boosted coal production**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 8. Lower coal sales volume in 4Q18**


Source: Company, Danareksa Sekuritas estimates

### Exhibit 9. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
<b>Revenue</b>	<b>45,539</b>	<b>64,559</b>	<b>82,054</b>	<b>83,696</b>	<b>85,812</b>
COGS	(35,878)	(50,075)	(61,621)	(62,697)	(63,455)
<b>Gross profit</b>	<b>9,661</b>	<b>14,484</b>	<b>20,433</b>	<b>20,999</b>	<b>22,356</b>
<b>EBITDA</b>	<b>9,150</b>	<b>13,832</b>	<b>21,207</b>	<b>22,410</b>	<b>24,310</b>
<b>Oper. profit</b>	<b>6,706</b>	<b>10,756</b>	<b>16,137</b>	<b>16,548</b>	<b>17,733</b>
Interest income	682	1,016	409	486	591
Interest expense	(491)	(874)	(442)	(336)	(339)
Forex Gain/(Loss)	(349)	0	0	37	14
Income From Assoc. Co's	66	171	108	115	131
Other Income (Expenses)	115	(546)	(100)	0	0
<b>Pre-tax profit</b>	<b>6,730</b>	<b>10,523</b>	<b>16,112</b>	<b>16,850</b>	<b>18,131</b>
Income tax	(1,626)	(2,849)	(4,028)	(4,213)	(4,533)
Minority interest	(102)	(270)	(461)	(470)	(482)
<b>Net profit</b>	<b>5,002</b>	<b>7,403</b>	<b>11,624</b>	<b>12,168</b>	<b>13,116</b>
<b>Core Net Profit</b>	<b>5,351</b>	<b>7,403</b>	<b>11,624</b>	<b>12,131</b>	<b>13,102</b>

### Exhibit 10. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	19,461	20,831	20,454	24,292	29,564
Receivables	12,115	18,188	22,307	22,754	23,329
Inventory	7,108	7,855	9,323	9,044	9,212
Other Curr. Asset	3,514	4,328	4,103	4,038	4,215
Fixed assets - Net	16,685	22,251	29,181	33,319	35,742
Other non-curr.asset	5,109	8,808	8,310	8,389	8,491
<b>Total asset</b>	<b>63,991</b>	<b>82,262</b>	<b>93,679</b>	<b>101,837</b>	<b>110,553</b>
ST Debt	992	1,876	376	378	380
Payables	14,605	21,110	24,906	25,341	25,647
Other Curr. Liabilities	2,759	5,390	4,542	4,941	5,057
Long Term Debt	65	2,724	1,023	1,036	1,044
Other LT. Liabilities	2,948	3,623	5,586	5,378	5,411
<b>Total Liabilities</b>	<b>21,369</b>	<b>34,724</b>	<b>36,433</b>	<b>37,074</b>	<b>37,539</b>
Shareholder's Funds	40,860	45,362	53,338	60,777	68,927
Minority interests	1,762	2,175	3,907	3,986	4,086
<b>Total Equity &amp; Liabilities</b>	<b>63,991</b>	<b>82,262</b>	<b>93,679</b>	<b>101,837</b>	<b>110,553</b>

### Exhibit 11. Cash Flow

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Net income	5,002	7,403	11,624	12,168	13,116
Depreciation and Amort.	2,444	3,076	5,070	5,862	6,578
Change in Working Capital	1,347	1,427	(2,573)	724	(503)
Other Oper. Cash Flow	(727)	(115)	2,143	(412)	(286)
<b>Operating Cash Flow</b>	<b>8,066</b>	<b>11,791</b>	<b>16,264</b>	<b>18,341</b>	<b>18,906</b>
Capex	(2,703)	(8,052)	(12,000)	(10,000)	(9,000)
Others Inv. Cash Flow	3,005	74	2,196	533	651
<b>Investing Cash Flow</b>	<b>303</b>	<b>(7,978)</b>	<b>(9,804)</b>	<b>(9,467)</b>	<b>(8,349)</b>
Net change in debt	(669)	4,077	(3,594)	14	10
New Capital	0	0	0	0	0
Dividend payment	(2,175)	(2,518)	(3,642)	(4,714)	(4,978)
Other Fin. Cash Flow	(1,477)	(4,001)	399	(336)	(339)
<b>Financing Cash Flow</b>	<b>(4,321)</b>	<b>(2,442)</b>	<b>(6,837)</b>	<b>(5,035)</b>	<b>(5,307)</b>
<b>Net Change in Cash</b>	<b>4,048</b>	<b>1,371</b>	<b>(378)</b>	<b>3,838</b>	<b>5,250</b>
Cash - begin of the year	15,413	19,461	20,831	20,454	24,292
Cash - end of the year	19,461	20,831	20,454	24,292	29,564

### Exhibit 12. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
<b>Growth (%)</b>					
Sales	(7.7)	41.8	27.1	2.0	2.5
EBITDA	(26.2)	51.2	53.3	5.7	8.5
Operating profit	(21.9)	60.4	50.0	2.5	7.2
Net profit	29.8	48.0	57.0	4.7	7.8
<b>Profitability (%)</b>					
Gross margin	21.2	22.4	24.9	25.1	26.1
EBITDA margin	20.1	21.4	25.8	26.8	28.3
Operating margin	14.7	16.7	19.7	19.8	20.7
Net margin	11.0	11.5	14.2	14.5	15.3
ROAA	8.0	10.1	13.2	12.4	12.4
ROAE	12.7	17.2	23.6	21.3	20.2
<b>Leverage</b>					
Net Gearing (x)	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Interest Coverage (x)	13.7	12.3	36.5	49.3	52.3

Source : UNTR, Danareksa Estimates

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