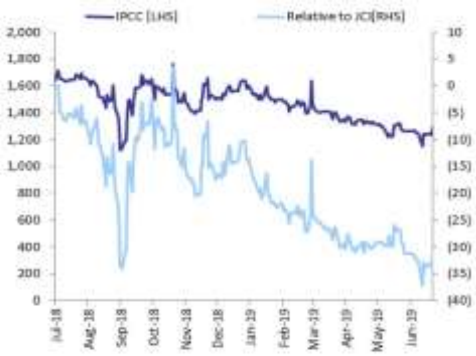
Friday,28 June 2019

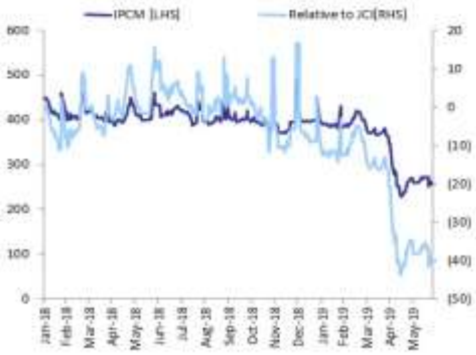
OVERWEIGHT

Initiation

IPCC relative to JCI Index



IPCM relative to JCI Index



Source : Bloomberg

Port

All aboard!

We initiate coverage on Ports, a subsector of the Transportation sector, with an overweight recommendation. We believe the impact from the government's major infrastructure development programs will boost economic activity in the country. Thus, the volume of transportation will increase along with growing demand for goods and greater logistics activity. IPC plans to develop the capacity of its main port, Tanjung Priok, adding new capacity of 4.5 million TEU/year in phase I and 8mn TEU/year in phase 2, allowing VLCS to dock. It also has several other development plans which, we believe, will impact positively on Indonesia Kendaraan Terminal (IPCC), Jasa Armada Indonesia (IPCM) and other IPC subsidiaries.

Bright future for IPCC. As the automotive industry is growing steadily in Indonesia with a growing number of auto manufacturers in Java, IPCC should benefit from the flow of exports and imports of vehicles as well as heavy equipment and its parts. To meet the growing demand, IPCC plans to expand its capacity from 31 ha to 89.5 ha in 2022, expecting the flow of aggregate items (Auto and Heavy equipment) to increase from 700,000 units/year to 2.1mn units/year. As IPCC is currently developing value-added services, terminal capacity and facilities and reducing operating expenses, we forecast better earnings this year. We rate the stock a BUY with a TP of IDR 1,900.

New 2019 contracts to the rescue. After unfavourable results in 2018 due to revenues sharing with its parent company, we believe IPCM will prevail in 2019 after several new contracts were signed. IPCM will also benefit from private ports and other ports that had no vessel services before. IPCM has signed a contract with several oil and gas and power plant companies to render vessel services. All in all, as a boat tugging service for IPC, we believe IPCM will benefit from the development of IPC as the capacity and volume of ports increases. We expect performance to improve in 2019 due to stable shipcalls and new contracts. We recommend a BUY on the stock with a TP of IDR 325.

Stable revenue stream with room of growth. We initiate IPCC and IPCM with BUY for both companies. We are positive with the IPCC due to 1) increasing flow of throughput in 2019 2) expansion of car terminal facility 3) providing new value added services. We still see upbeat in IPCM due to expansion to other private ports and operating income normalization after one off event. However, we still concern as 1) slowdown in shipcalls 2) unfavourable 1Q19 results 3) minimum new contribution from additional business for FY19. We value using DCF with WACC for IPCC and IPCM at 14.1% and respectively, resulting TP of IDR 1,900 for IPCC and TP of IDR 300 IPCM. This imply 20.0x 2019PE for IPCC and 16.3x 2019PE for IPCM. The risks to our call include: 1) Tradewar, 2) Economy slowdown, 3) possible competition with Patimban ports in the long term

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Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x) 2019F	2020F	P/BV (x) 2019F	2020F	ROE (%) 2020F
Indonesia Kendaraan Terminal	IPCC IJ	BUY	1,900	2,345.7	20.0	15.8	3.5	3.3	21.4
Jasa Armada Indonesia	IPCM IJ	BUY	325	1,352.9	16.3	16.2	1.3	1.3	7.9

Key investment highlights – Port Industry:

Captive market. All the activity of ports in southwest Indonesia is handled by Pelindo 2. This brings benefits to its subsidiaries, including IPCC and IPCM. All exports and imports of vehicles, heavy equipment and vehicle parts goes through IPCC's terminal while all ship towing services are rendered by IPCM.

Port development. This is supported by long-term port infrastructure development that will raise the capacity of ports. Phase I and II of IPC development will add an total additional 12.5mn TEU/year while Kijing will have 500,000 TEU with a deeper berthing draft allowing generation 5-6 ships to dock. Port development includes establishing direct access to several industrial estates that will shorten the transportation time and lower transportation costs.

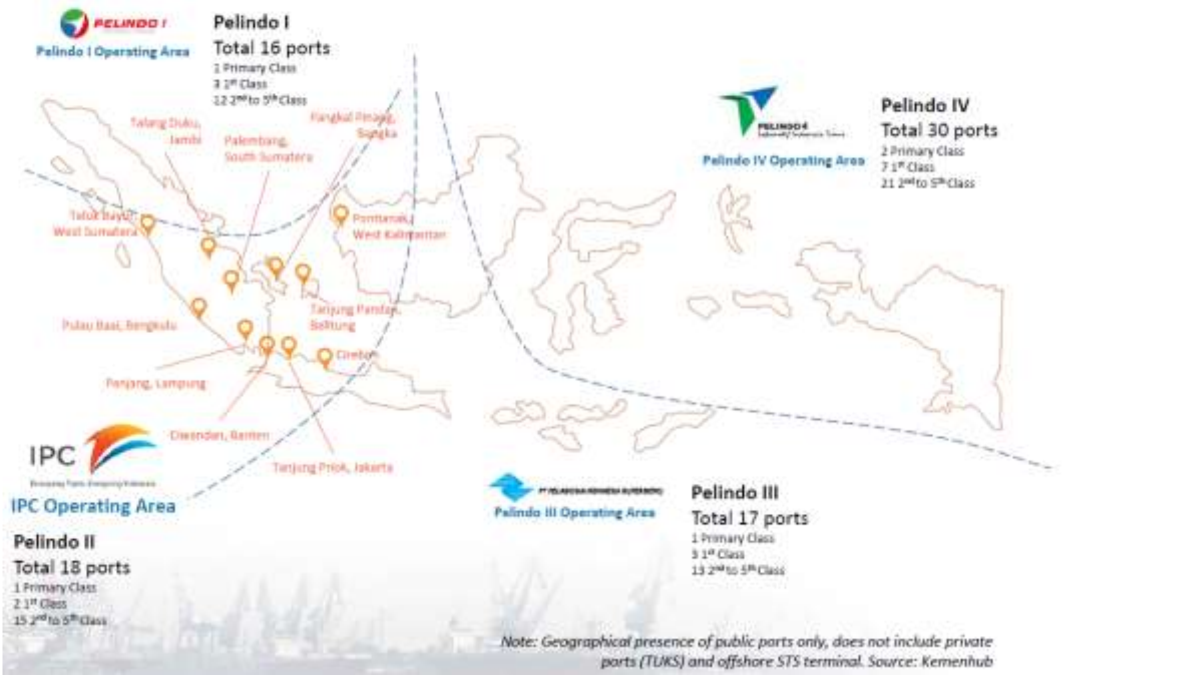
Expecting more exports and imports flow. We estimate both imports and exports will grow with a value of USD 216.3bn and USD 205.7bn in 2019, respectively, which, we believe, will improve port activity that will be beneficial to IPC's subsidiaries including IPCC and IPCM. We expect more ship calls and cargo volume as the result of increasing international and domestic trade flows.

Benefiting from Indonesia's economic growth. Post infrastructure development, we see that Indonesia's economic growth will accelerate, stimulating the domestic and foreign logistics activity. This will positively impact the growth of containers and goods flow which will benefit the IPC group.

Brief overview of the Indonesia Port Company

Indonesia Port Company (IPC) or better known as Pelindo II is a State-owned Enterprise that operates several ports in the south west of Indonesia, running 18 ports. Among three other national port companies (Pelindo I, Pelindo III and Pelindo IV), IPC is the port with the largest capacity. Globally, IPC was ranked 26th in terms of annual throughput in 2017. IPC managed to handle 7.64mn TEU and 61.97mn tons of non container goods with a dwelling time of 2.6-3 days in 2018, growing rapidly in the past 5 years. IPC currently has two subsidiaries that are publicly traded, namely IPCM (as of Dec 17) and IPCC (as of Jul 18).

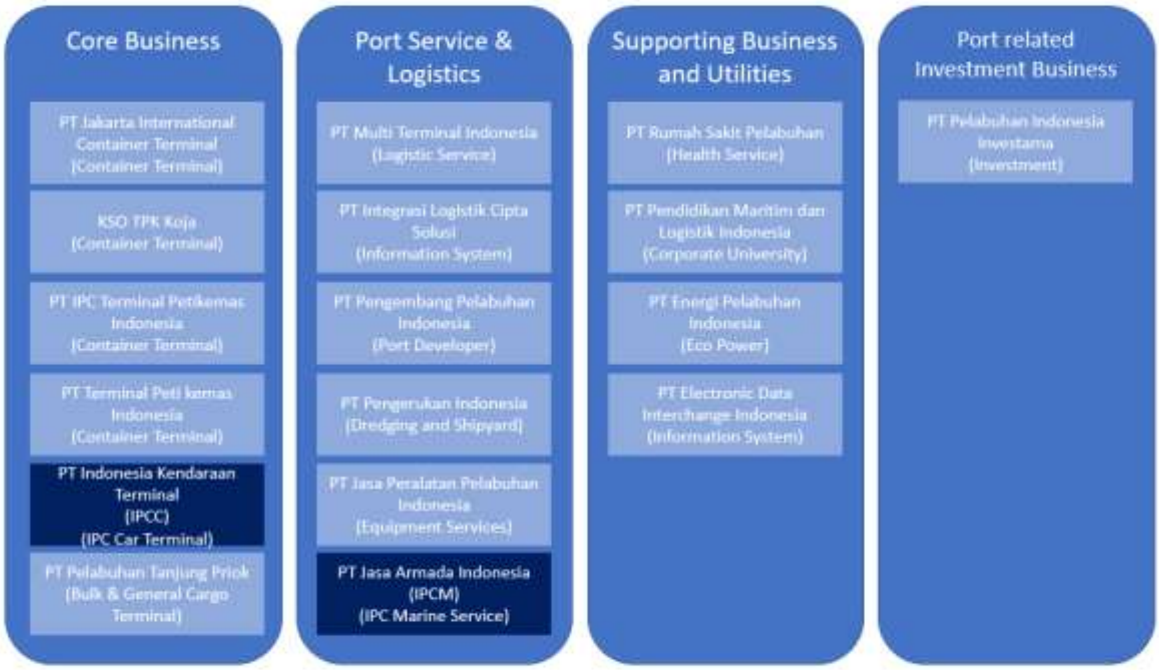
Exhibit 1. IPC operational areas



Source: Company

IPC operations. IPC has four main divisions. The core business mainly handles the goods and container operations, while port services and logistics tend to focus on port equipment, direct supporting activities and port development. IPC's supporting business and utilities are responsible for employee supports and the payments system while IPC's investment division handles the assets of IPC. This integration has helped IPC perform solidly over time.

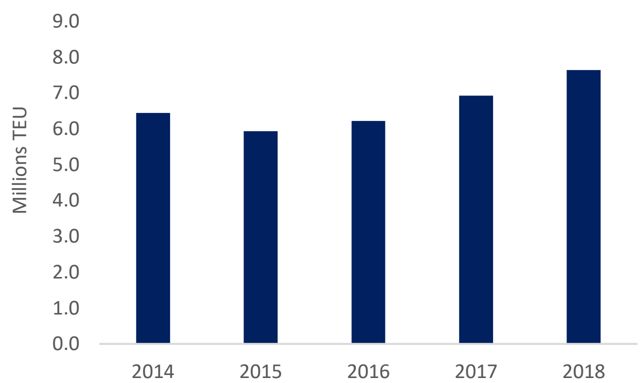
Exhibit 2. IPC Business units



Source: company

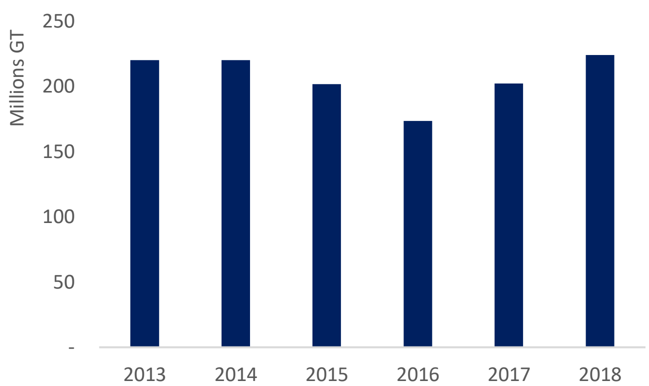
For the past five years, IPC has served shipcalls with most of the shipcalls are from overseas. Revenues wise, the biggest contributors are terminal services, container services and LBWE (Land, Buildings, Water and Electricity) which account for 77% of total revenues. We see flat shipcalls trend, while at the same time, increasing trend of cargo weight which due to the change of the ship size. As the main port of IPC, Tanjung Priok has completed its NPCT 1 project with deeper berthing capability. This allows big ships with capacity of 18,000 TEU to dock in the harbour. We believe that as the development of seaports has been completed, this will allow generation 6 ships (new panama, VLCS, and others) to dock in the future, with more shipcalls and more goods coming to IPC's ports.

Exhibit 3. Containers handled



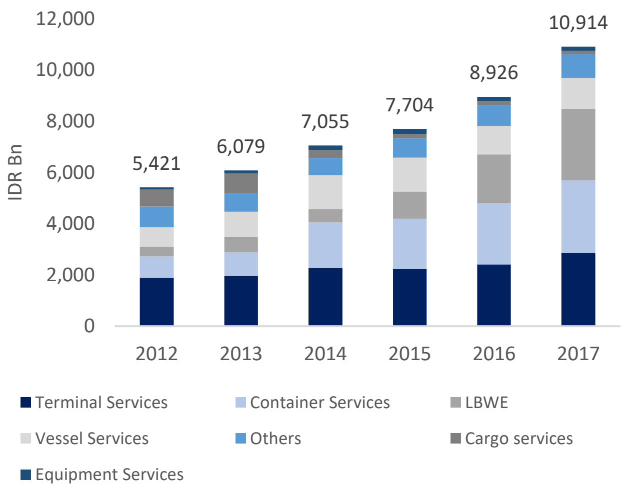
Source: Company

Exhibit 4. Shipcalls in Gross tonnage



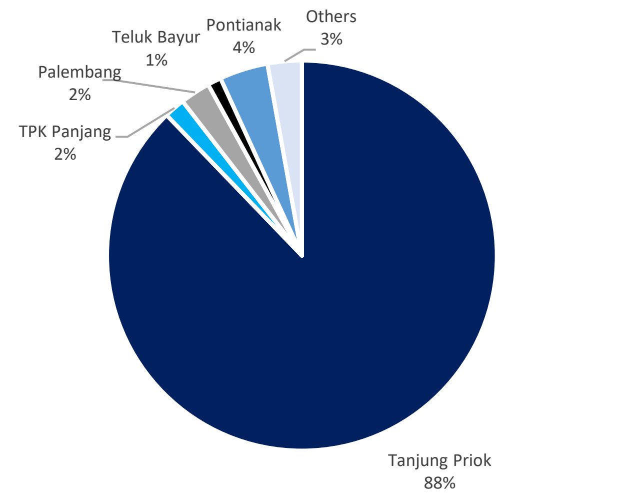
Source: Company

Exhibit 5. IPC's revenue breakdown by operation



Source: Company

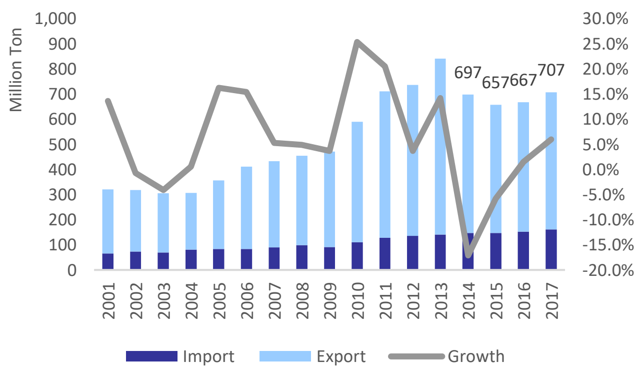
Exhibit 6. Total container handled by area



Source: Company

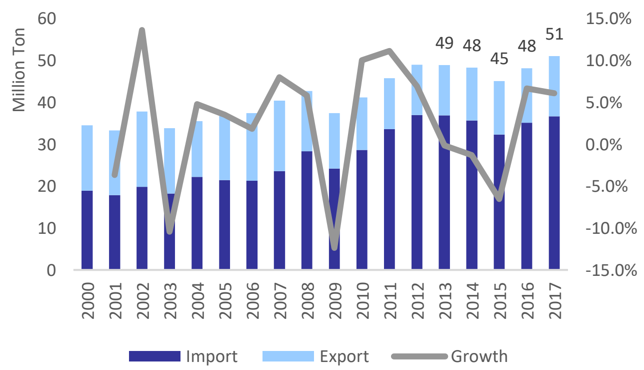
Growth of the ports business tends to be in-line with GDP growth. Generally, ship trade volumes tend to be in-line with economic growth. As a result, the number of ship calls and goods brought by ships is significantly affected by the prevailing economic conditions in the country. As seen in the graph below, Indonesia trade flows move in tandem with Indonesia's GDP growth. However, since FY14, trade flows slowed mainly due to lower commodity prices (coal and CPO), subdued consumer spending and an overall slowdown in the economies of Indonesia's key trading partners.

Exhibit 7. Indonesia Imports and Export Volume in main ports



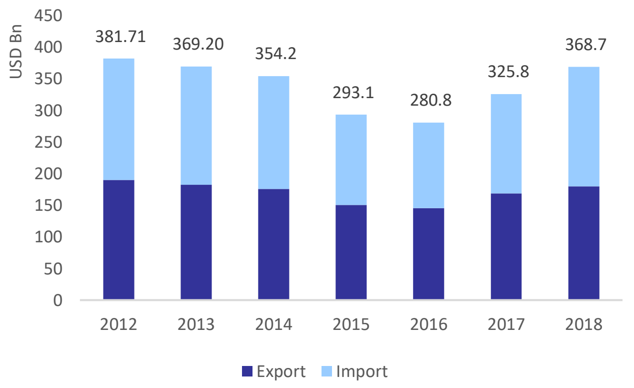
Source: BPS

Exhibit 8. Tanjung Priok Imports and Exports Volume



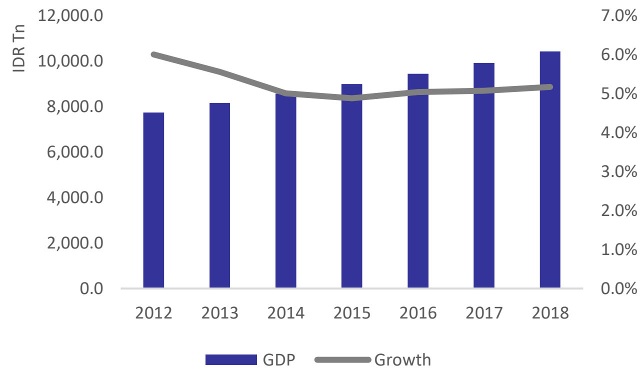
Source: BPS

Exhibit 9. Indonesia trade flows in value



Source: BPS

Exhibit 10. Real GDP and growth



Source: BPS

Infrastructure development and higher consumption will improve the industry outlook. Infrastructure development in Indonesia (including highways, power plants and seaports) and higher government subsidies will help boost Indonesia's economic growth. Since the beginning of President Jokowi's presidency, the main focus of the government has been on the acceleration of infrastructure development and this will likely continue in his second term. Although solid progress has been made, much still needs to be done. As a result of infrastructure improvements, economic bottlenecks should be overcome. This will allow the economy to grow at a faster rate in the future.

In our view, as the government turns the focus toward human development, the outlook for brisker consumption growth is brighter. Possible interest rate cuts may also support the economy. Against this backdrop, trade from export and import activities should increase as well, thereby boding well for brisker port activities.

Ramping up port capacity. In line with the government's focus on infrastructure development, IPC also plans to undertake major expansion to increase the capability and capacity of ports and decrease the dwelling time. Furthermore, IPC is now raising the capacity of its main port, Tanjung Priok, for containers and bulk goods, and deepening the berthing depth to accommodate large ships. IPC plans to ramp up its Tanjung Priok capacity in two phases with total additional capacity of 12.5mn TEU/year according to its masterplan that is expected to be completed in 2024. In accordance with the Committee for the Acceleration of Priority Infrastructure Delivery (KPPIP), IPC also plans to develop several existing ports, new ports and facilities.

Exhibit 11. Tanjung Priok Phase I Development (2012-2019)

Terminal	Type	Capacity	Draft	Length
Container Terminal 1	Container	1,500,000 TEU/year	16.0 m	800m
Container Terminal 2	Container	1,500,000 TEU/year	16.0 m	800m
Container Terminal 3	Container	1,500,000 TEU/year	16.0 m	800m
Product Terminal 1	Petroleum Products	5,000,000 m3/year	16.0 m	800m
Product Terminal 3	Petroleum Products	5,000,000 m3/year	16.0 m	800m

Source: Portdevco

Exhibit 12. Tanjung Priok Phase II Development (2019-2024)

Terminal	Type	Capacity	Draft	Length
Container Terminal 4	Container	2,000,000 TEU/year	16.0 m	1000m
Container Terminal 5	Container	2,000,000 TEU/year	16.0 m	1000m
Container Terminal 6	Container	2,000,000 TEU/year	16.0 m	1000m
Container Terminal 7	Container	2,000,000 TEU/year	16.0 m	1000m

Source: Portdevco

Exhibit 13. Port development in KPPIP plan in IPC area

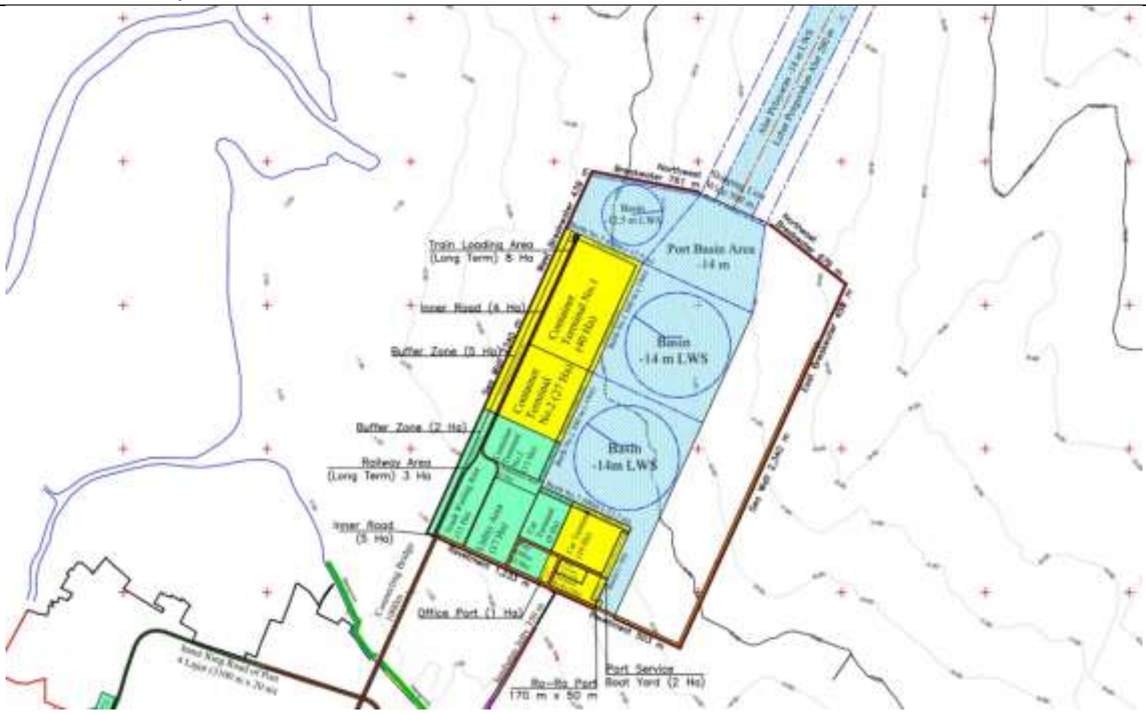
Location	Port/Project name	Additional Capacity/Capability	Operation date
West Kalimantan	Kijing	500,000 TEU and 10mn Ton Bulk	2020
Jakarta	NPCT 2 & 3	Capacity of 3mn TEU/year with draft of 16m allowing VLCS to dock	2020
Jakarta	New Priok Phase Two	Capacity of 8mn TEU/year with draft of 16m allowing VLCS to dock	2023
Cikarang - Bekasi - Tanjung Priok	CBL - Inland Waterways	Utilize the river canal route as an alternative logistics transportation, optimizing off the road area in Tanjung Priok Seaport with hinterland area (Cikarang, Cibitung, Bekasi, Cikampek, Karawang)	2021
West Java	Patimban	Capacity of 7.5 mn TEU/year	2020

Source: KPPIP, Various News, IPC, Danareksa Sekuritas

Patimban – New port on the block, a potential threat? In 2017, the government alongside with contractor consortium started to build Patimban seaport situated close to an industrial area. This port is expected to have capacity of 7.5mn TEU/year. The port building is divided into three phases in which each phase has its own stages. All phases are scheduled to be fully completed in 2027. The first phase that focuses on building a port with capacity of 3.5mn TEU/year and CBU of 600,000 units is expected to be finished and operational in 2020. The contractor consortium for the Patimban project consists of 5 contractors of which 2 are local (WIKA and PTPP) and 3 are from Japan (Penta Ocean Construction, Toa Corporation, and Rinkai Nissan Construction). The operator of Patimban port is still at the tender stage. While the main challenge for Patimban is the shallow draft which surrounds the port, the developer will excavate the soil to allow VLCS (Draft -14m) to be able to dock in the harbour.

As this report was being prepared, the Maritime Minister, Luhut Pandjaitan, stated that Patimban port would be fully managed by private companies and not involve SOEs. We estimate the magnitude of the impact to Tanjung Priok port as the main port of IPC. At first glance, this indicates that it may pose a threat to IPC's major port, Tanjung Priok. However, in the short term, we see that Tanjung Priok faces minimum risk as it currently also expects improvements from NPCT 2 and 3 and its phase two will be completed in 2023 which will ramp up its capacity by a total 11mn TEU.

Exhibit 13. Patimban port details

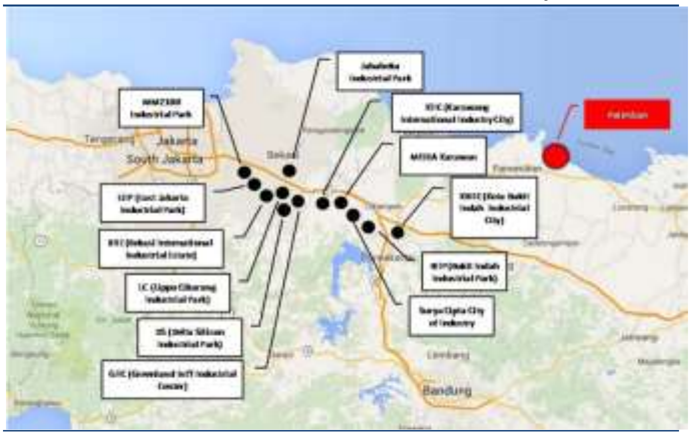


Source: JICA, DGST

Farther, but less congestion. As Patimban is now under construction, the main industrial estates in West Java are located between two main ports with large capacities. Both Tanjung Priok and Patimban will be also equipped with a Car Terminal which allows vehicle manufacturers to ship export products. However, in terms of distance and traveling time, Tanjung Priok is still the closest port in normal traffic. Nonetheless, the roads can be heavily congested to Tanjung Priok which can be inefficient in terms of fuel costs and time wasted leading to higher overall costs. There is less traffic congestion on roads leading to Patimban as the new port and Patimban is located close to potential industrial areas as suggested by the JICA survey. We see this as a long-term play as phase two will be completed in 2027.

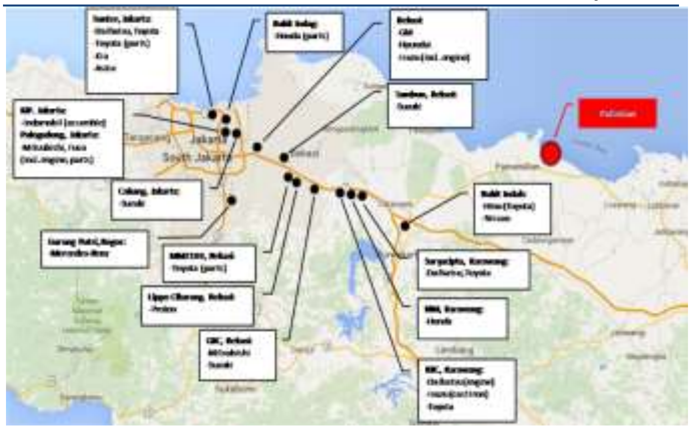
We see the project poses no threat in the short term. However, in the long run, as the infrastructure projects that support industrial estates will have been completed, more manufacturers, factories and other industrial facilities will be built near Patimban, thereby driving activity at the port. However, the port will still find it difficult to compete against Tanjung Priok, given the latter's strategic location in Jakarta, Indonesia's capital city.

Exhibit 14. Industrial estates between Patimban and Tj. Priok



Source: JICA Survey

Exhibit 15. Automotive industries between Patimban and Tj. Priok



Source: JICA Survey

Exhibit 16. Land travel distance between ports

Source: Directorate General Of Sea Transportation

Exhibit 17. Possible Ind. Estate area near patimban

Source: JICA Survey

IPCC – Hidden gems

Captive market. As a subsidiary of IPC, IPCC serves as the operator of the car terminal managing the stevedoring and cargodoring for exports, imports and domestic delivery. All incoming and outgoing autos for trading purposes must be conducted through IPCC, thus making IPCC the sole player in this business.

Additional auto factories nearby. In the past 5 years, several new auto factories were built in the West Java province which is not far from the IPCC area. These new factories were built to meet the rising domestic and international demand.

More expansion to come. IPCC plans to expand its field of operations to manage 2.1mn cars per year and have more focused dedicated areas. This will enable IPCC to serve not only cars, but also heavy equipment and spare parts. Furthermore, IPCC plans to add more supporting facilities to ensure the quality of vehicle and other goods in the service.

Increasing throughput as the capacity increases. We are positive on IPCC due to 1) increasing flow of throughput in 2019, 2) expansion of the car terminal facility, and 3) the provision of new value added services. We recommend buy with TP of IDR1,900, based on DCF valuation (WACC 14.1% and terminal growth 3%).

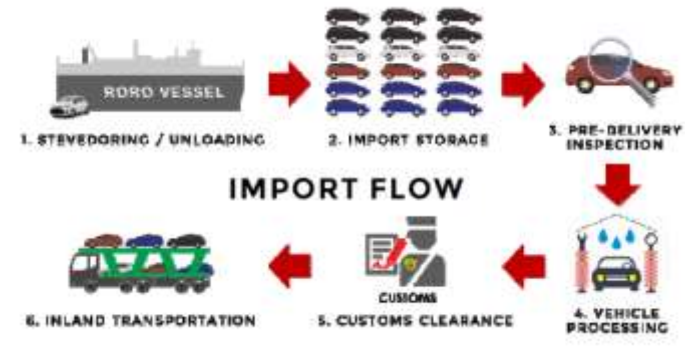
Brief overview

IPCC is the terminal operator that handles stevedoring and cargodoring activity which involves moving vehicles, heavy equipment and spare parts from and to ships. IPCC also provides additional value added services such as vehicle processing, a minor repair central inspection facility, road freight services and port stock. It is supported by 34 ha of land equipped with a terminal building with capacity of 421,277 car flow/year in 2018. IPCC also operates in other cities only as operator. Earlier, IPCC was spun off from IPC in 2012 to become the subsidiary of IPC with its name changed to Indonesia Kendaraan Terminal (IPCC). IPCC is currently 71.3% owned by IPC, 0.7% by Multi Terminal Indonesia and 28% by the public.

Exhibit 18. Exports flow

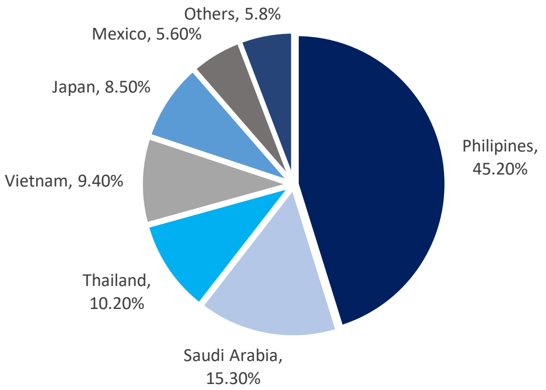
Source: Company

Exhibit 19. Imports flow



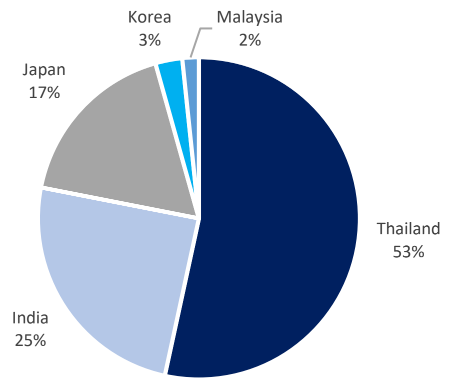
Source: Company

Exhibit 20. 2018 Export destinations



Source: Company

Exhibit 21. 2018 Import origins



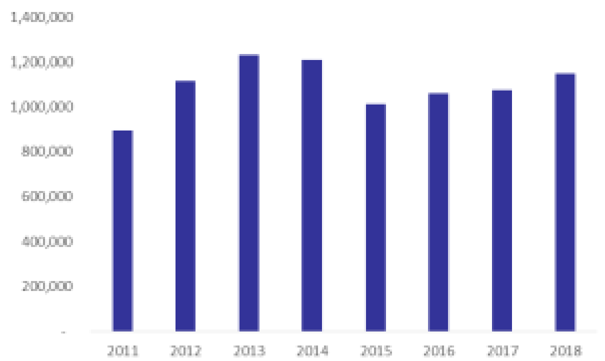
Source: Company

Brief overview of Indonesia's automotive industry

Large automotive market. Indonesia is one of the biggest automotive markets in the world, supported by a population of ~270mn with sound economic grow prospects. In 2018, Indonesia was the world's 17th largest in terms of automobile sales and number 1 in ASEAN. In terms of automobile production, Indonesia is the world's 16th largest and 2nd largest in ASEAN. A large number of road and toll road projects along with possible interest rate cuts this year augur well for the auto industry's outlook going forward.

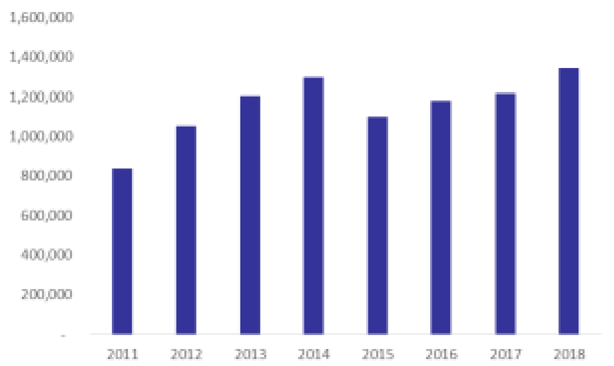
Growing industry. Indonesia's automotive industry has shown steady growth in past years. The wholesales of vehicles grew by 2.5% CAGR in the past 8 years. Along with the increasing demand, the production of vehicles grew by 6.1% CAGR in the past 10 years. Moreover, investments in vehicle manufacturers increased to keep up with the growing national vehicles demand. At the end of the year we projected that auto sales would reach 1.16mn vehicles nationally. Furthermore, the company's management also mentioned that there might be direct vehicle transhipment from Indonesia to Australia.

Exhibit 22. Wholesales of Autos



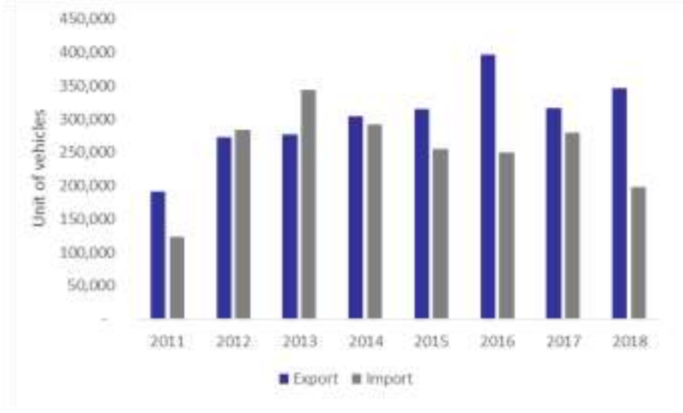
Source: Gaikindo

Exhibit 23. Production of autos



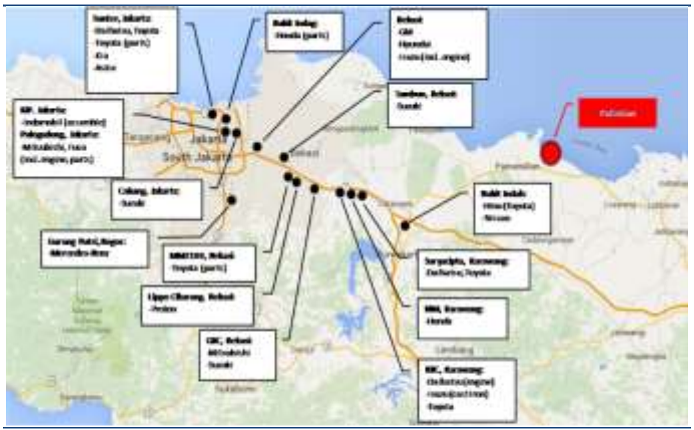
Source: Gaikindo

Exhibit 24. Exports and imports of Autos



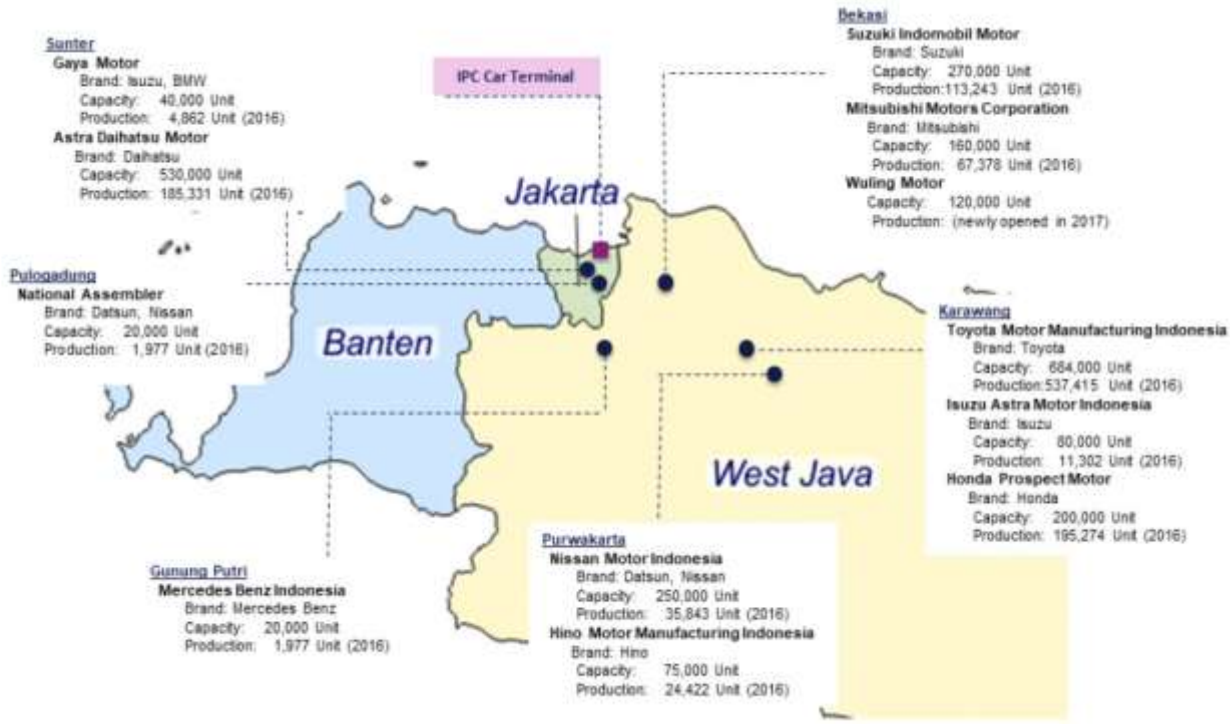
Source: Gaikindo

Exhibit 25. Automotive industries in West Java



Source: JICA Survey

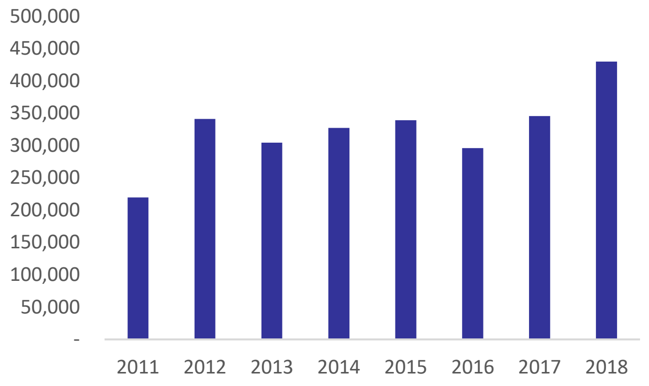
Exhibit 26. Auto manufacturers



Source: company

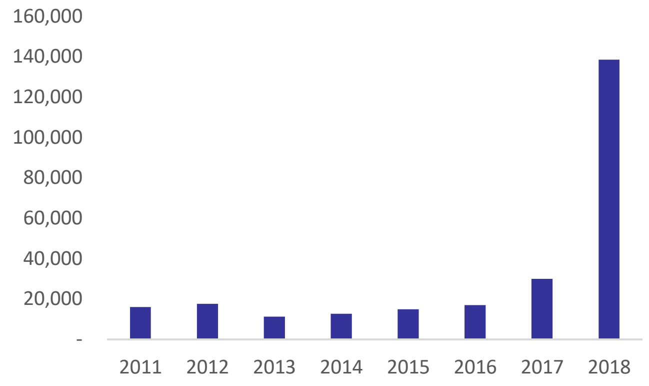
Supportive tailwinds for IPCC. The growing automotive industry, supported by additional vehicle and spare parts factories in West Java, is a positive catalyst for IPCC. After the spin-off by its parent, vehicles growth has steadily increased, leading to a better topline overall. Furthermore, as the capacity of the IPCC terminal has been expanded, IPC has made efforts to tap other vehicle types such as heavy equipment, spare parts and motorcycles.

Exhibit 27. CBU throughput (Unit)



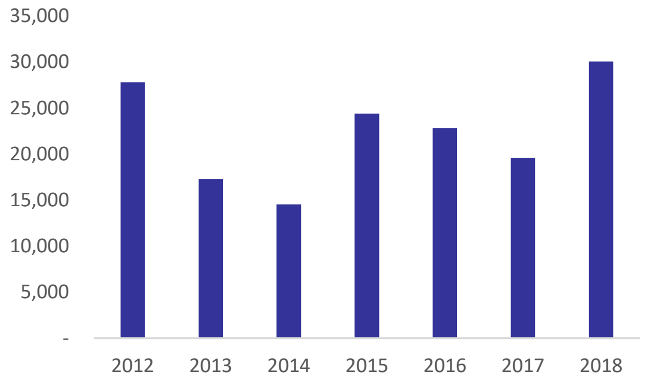
Source: Company

Exhibit 28. Heavy equipment throughput (Unit)



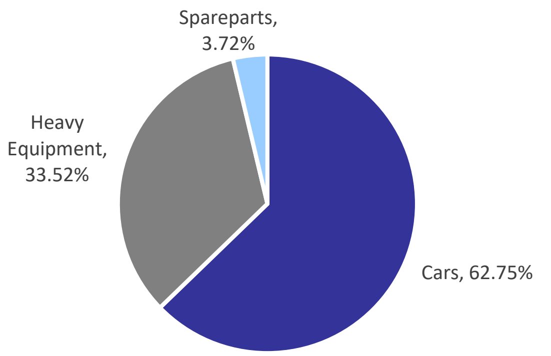
Source: Company

Exhibit 29. Spare parts throughput (M3)



Source: Company

Exhibit 30. Contribution to terminal services revenues

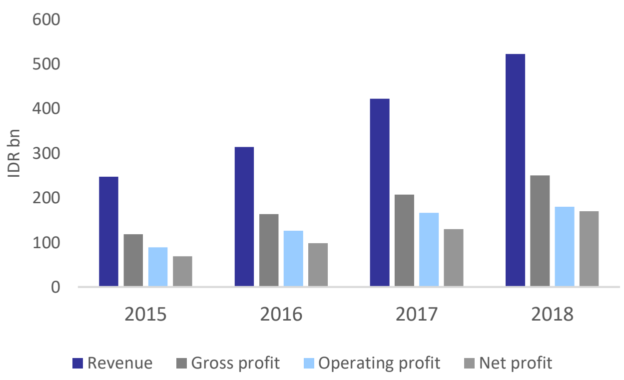


Source: Company

Financial review

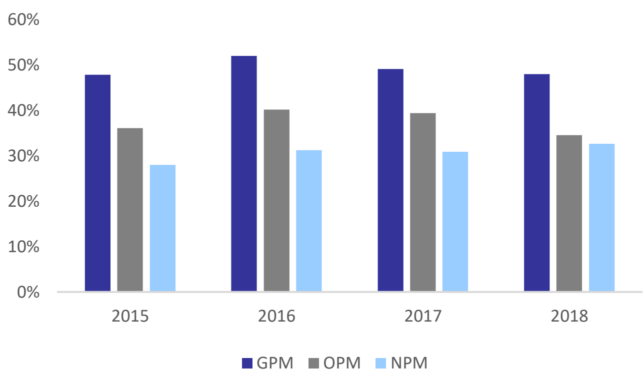
Steady topline growth. The biggest topline contributor of IPCC is coming from terminal service fee, which relies on the flow of vehicles being handled since the port is dedicated for vehicles. Furthermore, the management seek to improve the revenue by expanding to vehicle processing and other value added services. In terms of trend, the total revenue of IPCC increases steadily by CAGR 9.8% since 2015.

Exhibit 31. Revenue, gross profit, operating profit net profit



Source: Company

Exhibit 32. Margins

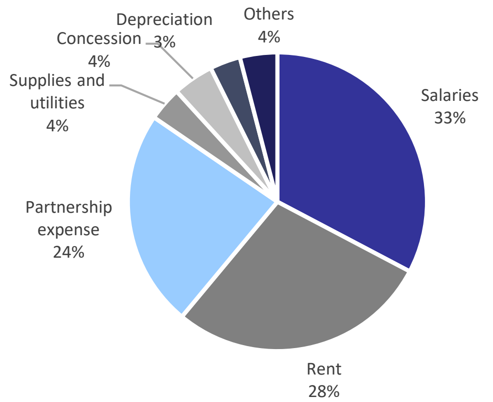


Source: Company

Exhibit 33. Revenue breakdown

Source: Company

Exhibit 34. FY18 Cost structure

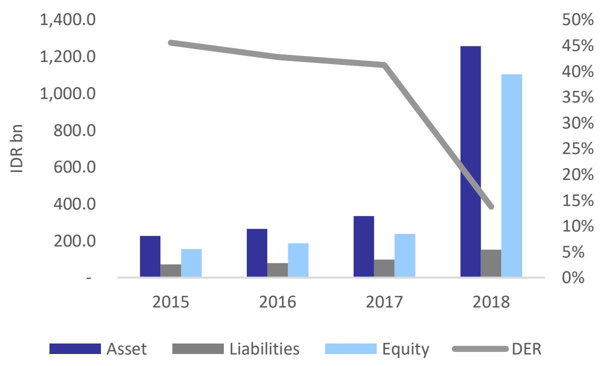


Source: Company

Stable margin, supported by cost reduction effort and clean balance sheet. IPCC provides stable margins in the past four with improving net profit margins, as they have paid long term rent to its parent, IPC. IPCC plans to make efficiency effort by reducing the operating costs, targeting NPM to 35-40% in FY19. We believe IPCC will maintain the current level of margin and improve it as proven in 1Q19 where the NPM hits 41% higher than previous year (1Q18). IPCC also has no interest bearing debt, which makes the company having net cash position.

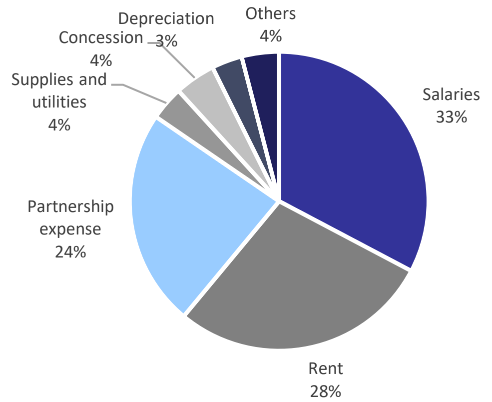
Solid balance sheet. IPCC is now in the net cash position and does not have any interest bearing debt. Debt-to-equity declined sharply to 45.5% in 2017 from 13.8% in 2016. This was mainly due to: a) the USD8350mn of funds raised from the IPO which were reflected in the 218.7% yoy increase in cash and 365.5% yoy increase in equity and b) the 55.3% yoy higher total debt. The company plans to use 61.% for payment of land rent, paid in advance for 5 years, capex for facilities by 37.7% and working capital of 1.27%.

Exhibit 35. Balance sheet



Source: Company

Exhibit 36. IPO proceeed



Source: Company

Ramping up facility capacity. IPCC expansion plan involves ramping up capacity of car terminal from 31ha to become 89.5ha which then transform IPCC to be 5th largests car terminal in the world. This will enable IPCC to increase its throughput by 59% from 700,000 units to 2,1mn units. IPCC also plans to expand its business to operate car terminal in other cities that possess highest throughput which mainly big main cities in Indonesia. In 2019, IPCC will spend approximately IDR 335-340bn for capacity expansion and acquire supporting facility equipment. IPCC also plans to improve value added service which will increase the growth of VPC & EPC and Port stock to achieve 25% and 30% CAGR from 2019 respectively by 2022.

Exhibit 37. Development of IPCC

Source: company

Pose threat from Patimban? As Patimban also build car terminal facility, the new facility seems threatening the existence of IPCC. However, as shown by exhibit 16 and the management explanation, the current operational vehicle manufacturers only Hino and Nissan which only accounts ~1% of total IPCC flow. Furthermore, currently there are several infrastructure project related to toll road that may decrease the congestion from the factory location to Tanjung Priok. Therefore, we only see minimum risk for this case in short term.

IPCM – New expansions to the rescue

Captive market. As a subsidiary of IPC, IPCM is the only towage and pilotage company serving the busiest port in Indonesia. Every boat with certain size is obliged to use the service for safety purpose.

Additional operational area. IPCM is expanding outside IPC operational areas into several prospective private port areas. IPCM has already obtained several contracts since it went public. Aside from pilotage & towage business in its captive market and private terminals, JAI also provides similar services for VIP/special services, river transport as well as off-shore activities.

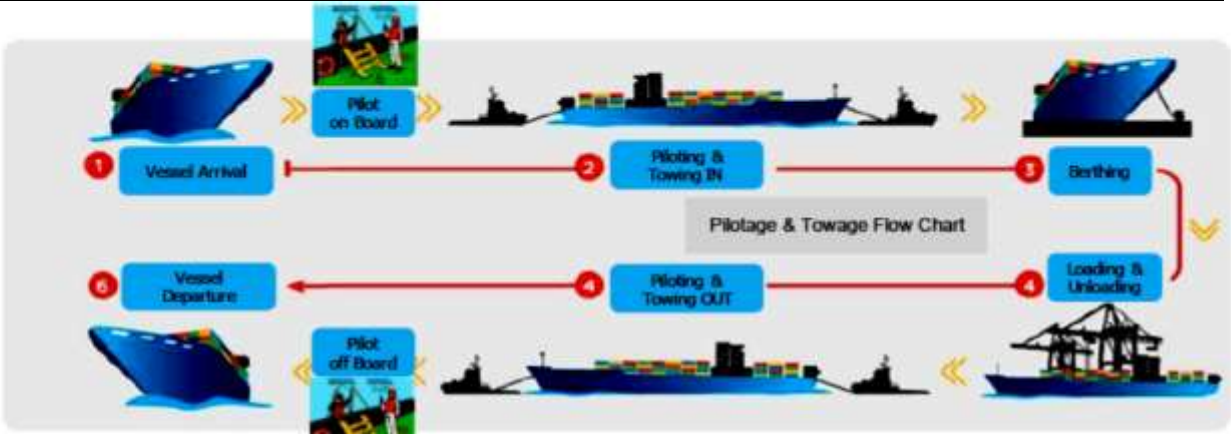
Normalization of top and bottomline. In 2018, the topline was down due to new revenue sharing of 15% with its parent, IPC. We believe that vessel services and the freight business of IPCC may start to pick up in 2019, especially with additional operational area. Omitting one off expenses, we also see that the operating margin will improve.

A GDP play. We arrive at our TP of IDR 325 which is based on DCF valuation (WACC 12.9% and terminal growth 3%). We are positive on IPCM given: 1) positive economic growth supported by infrastructure development, 2) port expansion to accommodate bigger ships, and 3) the government's focus on improving the trade balance.

Brief Overview

Largest towage & pilotage company in Indonesia. Jasa Armada Indonesia (JAI) is the largest pilotage & towage ship management service provider in Indonesia, serving both international and domestic vessels on a daily basis. It has a total of 76 vessels under management, of which 23 are owned, while the remaining 53 are leased to assist with the shipping services. Of the 76 vessels, 37 are tug boats, 30 are pilot boats, 2 are bulk carriers and the remaining 5 are mooring boats. JAI operates in 11 IPC ports (with Tanjung Priok being the largest port) and in more than 50 private terminals (TUKS) and with Ship-to-Ship businesses. The company has secured 100% market share in Pelindo II ports, its captive market, 100% market share in Musi River and over 10% ship-to-ship market share. In 2013, IPC span off Jasa Armada Indonesia as a subsidiary. IPC is currently owned by IPC (76.9%), Pelabuhan Indonesia Investama (6.2%) and the public (16.6%).

Exhibit 38. Pilotage and towing flow chart



Source: company

Exhibit 39. IPCM boat details

Type of Fleet	Owned	Leased	Total
Tug boat 1200 HP		12	12
Tug boat 2200 HP		2	2
Tug boat 2400 HP	3	11	14
Tug boat 3200 HP	9	2	11
Pilot Boat	9	21	30
Mooring Boat	2	3	5
Bulk Carrier		2	2
Total	**23**	**53**	**76**

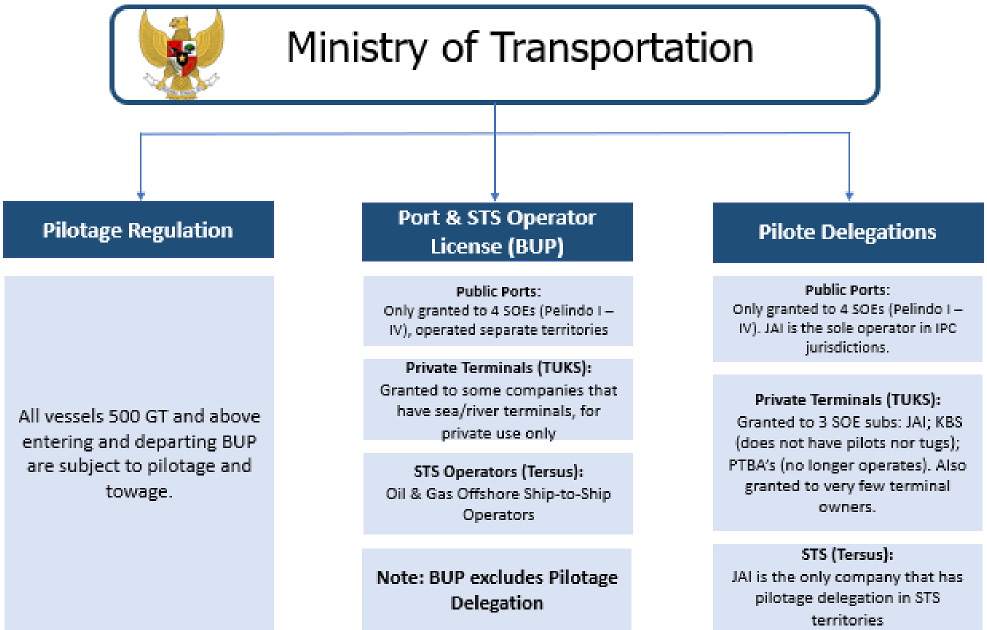
Source: Company

Exhibit 40. IPCM business segment

Source: Company

Highly regulated business. In our view, the highly regulated nature of the business, with most of the commercial aspects being under the direct supervision of the Ministry of Transportation, ensures smooth operations. This is in the best interests of JAI. For example, UU No.17/2008 requires public ports in Indonesia to be handled exclusively by Pelindo I, II, III and IV, according to each of their territories, thereby creating a captive market for each of the Pelindo companies.

Exhibit 41. Regulations in the towing and piloting industry



Source: Company

Benefiting from being a licensed company to perform piloting and towage services. The Ministry of Transportation requires the piloting and towage business to be provided only by the company that has the exclusive license (BUP) to operate in each port, as stated in the letter CIM.003/40/19/DJPL-17. As such, any unlicensed companies will be prohibited from undertaking any piloting and towage business, while, at the same time, IPCM will have the opportunity to tap into those markets as one of the licensed companies.

Customer profile. Major customers of harbor towage services are ship owners, ship managers/operators, agents/brokers, terminal operators and port authorities. JAI customers can be divided into 2 types: 1) captive customers and 2) non-captive customers.

1) Captive customers. Captive customers refer to those served under the operating area of Pelindo II ports. These include vessels docking in the IPC controlled ports, covering the western part of Sumatra, Kalimantan and Java. As of FY18, 85.9% of revenues came from Pelindo II, demonstrating the captive nature of the business.
2) Non-captive customers. Non-captive customers refer to those served outside the operating area of Pelindo II ports, for instance private terminals (TUKS). As of FY18, 14.1% of total revenues came from private terminals (TUKS) – non-captive customers.

GDP play. IPC ports are the main areas where IPCM operates. Thus, the performance of IPCM depends on the flow of ships that is mainly driven by economic activity in Indonesia. IPCM has been showing improving performance since it was spun off in 2012. IPCM mainly operates in IPC ports, private ports and at ship-to-ship points. IPCM is the only vessel service that has been granted a sole operational permit in an IPC area, which makes the company the only vessel service company in an IPC operational area.

Larger ships coming through. For vessel services, the income per service depends on these variables: ship calls, gross tonnage, and service hours. Therefore, the revenues of IPCM depend on the ship visits and size of the ships. As can be seen in IPC's ship visits, it has started to decline. However, the gross tonnage is increasing year-by-year. This indicates that the size of ships visiting IPC ports has increased, helped by infrastructure development which allows bigger ships to dock in the harbor.

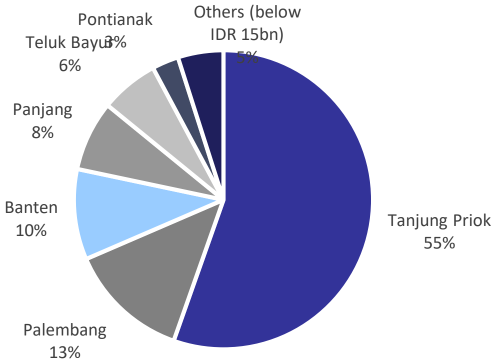
In 2017, piloting revenues and costs from IPC ports have been transferred to its parent reducing the topline and cost of vessel service. This narrowed IPCM's focus to be a vessel service company, expanding its business to non-IPC ports. In 2017, IPC also imposed 15% revenue sharing in exchange for exclusive permits to operate in IPC ports and use tug boats owned by IPC.

Stable industry with new opportunities. Towing and piloting is usually done in port areas to maintain or manage the movement of big ships as they have limited manoeuvring capability. As the ships coming to Indonesia are mostly generation 5 to 6 ships (with capacity of 5,000 – 14,500 TEU), the demand for tug boats to assist manoeuvring has increased. Moreover, this service is also necessary for ships that go through shallow draft to dock at certain ports, especially in rivers. Only well-trained pilots with powerful tug boats can dock the ship safely. We see more improvement in vessel service revenues as IPCM plans to expand the business outside IPC.

Growth Strategy: Expanding outside IPC areas

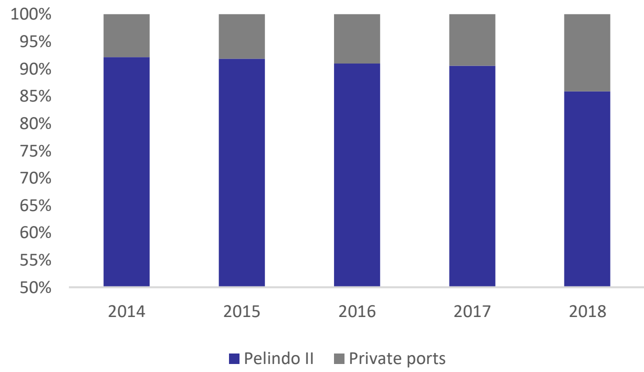
Expansion outside IPC areas. To seek more growth, IPCM is expanding outside IPC operational areas into several prospective private port areas. IPCM has already obtained several contracts since it went public. The new contracts were conservatively estimated at IDR 40bn in 1H19, lifting the revenues from vessel and freight services. The management estimates that the new expansion will contribute 5% to revenues.

Exhibit 42. Revenues contribution by port



Source: Company

Exhibit 43. Revenues contribution from other ports

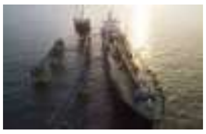


Source: Company

Exhibit 44. Operational area of IPCM outside IPC

Service: Cargo Shipping
Customer: PT Pupuk Sriwijaya
Location: Palembang
Start Operation: February 2018

Service: Pilotage And Towage
Customer: Cemindo Gemilang
Location: Bayah, Banten
Start Operation: April 2018



Service: Pilotage and Towage
Customer: Petrochina
Location: Tanjung Jabung, Jambi
Start Operation: June 2018

Service: Pilotage, Towage, and STS Operation
Customer: Coal Miners Along Musi River
Location: Ambang Luar Sungai Musi, Palembang
Start Operation: March 2019

Service: Pilotage, Towage, and STS Operation
Customer: ExxonMobil Oil Terminal
Location: Lamongan Jawa Timur
Start Operation: On progress

Source: company

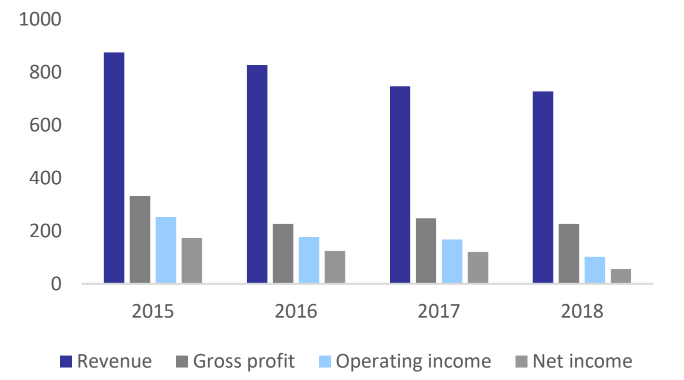
Adding 4 more tug boats in 2019. To meet the demand in its new area of operations, IPCM added 4 more tug boats with 2 x 22,000 HP with a contract value of IDR 223.85bn. As per June 2019, IPCM operates 76 boats with two boats obtained in 1H19.

Other services. Aside from pilotage & towage business in its captive market and private terminals, JAI also provides similar services for VIP/special services, river transport as well as off-shore activities, namely: 1) off-shore drilling and trans-shipment/ ship-to-ship. In general, lots of ship-to-ship pilotage & towage activities are being conducted illegally. This gives opportunities to JAI, which has the appropriate permit (BUP) to conduct the activities. Moreover, the company has also entered the dedicated cargo shipping business, where it engages in cargo handling for other State-Owned Enterprises.

Financial performance

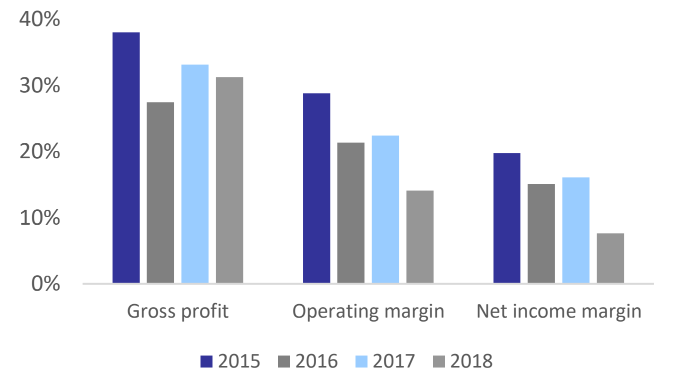
Expecting recovery in 2019. IPCM has booked falling revenues since 2016. In 2017, the pilotage activity in Tanjung Priok Port was transferred to IPC reducing revenues. In 2018, IPCM booked a lower top and bottomline due to revenues sharing of 15% with IPC. Furthermore, in 2018 the operating margin was lower due to the settlement of the underpayment of corporate income tax, which put pressure on the net profit margin as well.

Exhibit 45. Revenue, gross profit, net income



Source: Company

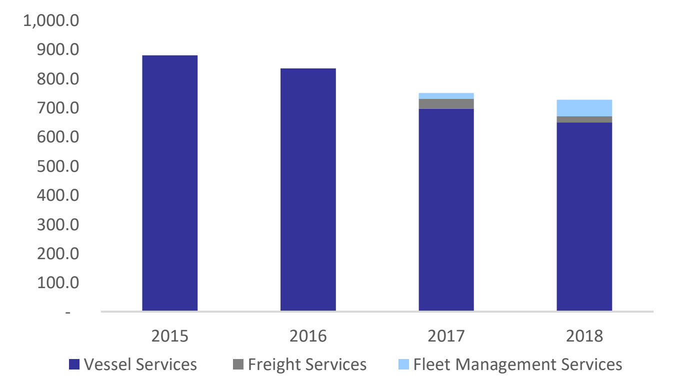
Exhibit 46. Margins



Source: Company

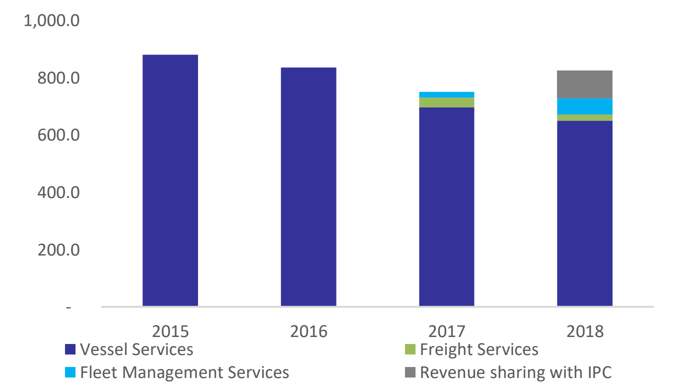
Better topline expected in FY19. In 2018, IPCM booked lower top and bottom lines due to revenue sharing of 15% with its parent, IPC. If the revenue sharing is excluded, then the performance of IPC improved. The 1Q19 financial performance was also affected by the revenue sharing, dragging down the revenue and bottomline. We see that the financial performance will improve after new clients have been acquired. We believe that vessel services and the freight business of IPCC may start to pick up in 2019. Omitting one off expenses, we also see that the operating margin will improve. However, the company still recorded lower revenues in 1Q19 compared to the previous year.

Exhibit 47. Revenue breakdown



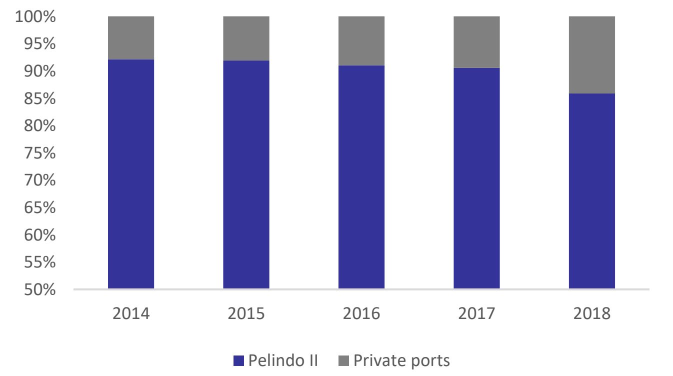
Source: Company

Exhibit 48. Revenue without revenue sharing



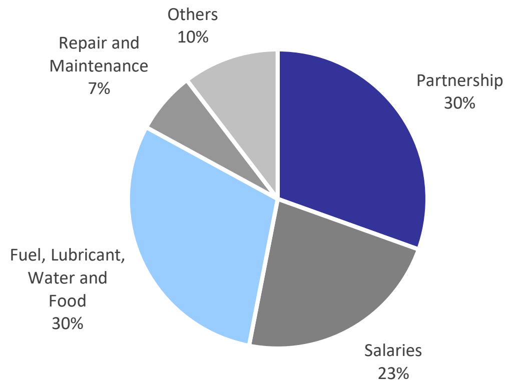
Source: Company

Exhibit 49. Revenue sources



Source: Company, Danareksa sekuritas estimate

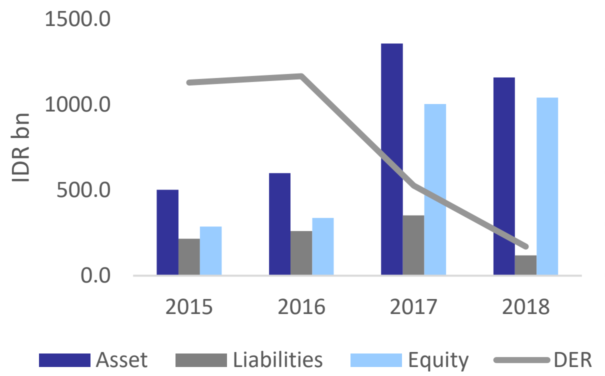
Exhibit 50. Cost Structure



Source: Company

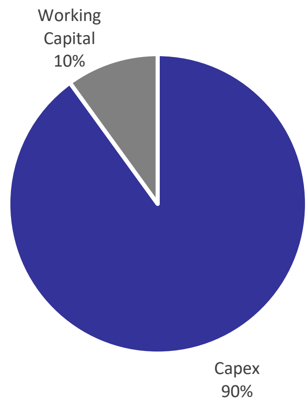
Clean balance sheet. IPCM does not have any interest bearing debt at the moment. The debt to equity ratio declined sharply to 35.1% in 2017 from 77.7% in 2016. This was mainly due to: a) the IDR 461.9bn of funds raised from the IPO which were reflected in the 8x increase in cash and 3x increase in equity at the end of 2017. 90% of the IPO proceeds will be used for capex to acquire additional ships to expand its business with the rest allocated for working capital. IPCM acquired four towage ships of 2x2200hp and one engine at the price of IDR 223.8bn.

Exhibit 51. Balance sheet structure



Source: Company, Danareksa sekuritas estimate

Exhibit 52. IPO proceeds usage



Source: Company

Paying generous dividends. The management of IPCC plans to pay dividends of IDR 6.8/share or equal to IDR 35.93bn which accounts for 49.3% of its net profits. This translates into a dividend yield of 2.5%.

Valuation and stock pick

We justify our valuation given: 1) positive economic growth supported by infrastructure development, 2) port expansion to accommodate bigger ships, and 3) the government's focus on improving the trade balance. These factors will positively impact both IPCC and IPCM. However, we still see risks which include: 1) trade wars which heighten global economic uncertainty, 2) global economic slowdown, and 3) possible competition with Patimban port over the long term. All in all, we are still positive on the outlook for the industry.

IPCC: Our TP of IDR1,900 is based on DCF valuation (WACC 14.1% and terminal growth 3%). We are positive on IPCC due to 1) increasing flow of throughput in 2019, 2) expansion of the car terminal facility, and 3) the provision of new value added services.

IPCM: We arrive at our TP of IDR 300 which is based on DCF valuation (WACC 12.9% and terminal growth 3%). We are positive on IPCM given: 1) positive economic growth supported by infrastructure development, 2) port expansion to accommodate bigger ships, and 3) the government's focus on improving the trade balance.

However, we still see risks which include: 1) trade wars which heighten global economic uncertainty, 2) global economic slowdown, and 3) possible competition with Patimban port over the long term. All in all, we are still positive on the outlook for the industry.

Exhibit 53. Peers comparison

Country	Ticker	Price 26-Jun-19 (LC)	Market Cap (US$m)	---- PE ---- 2018 (x)	2019 (x)	2020 (x)	EV/EBITDA 2018 (x)	2019 (x)	2020 (x)	---- PB ---- 2018 (x)	2019 (x)	2020 (x)	ROE 2020 (%)
Hongkong	144 HK	13	5,596	8.8	7.3	8.0	15.2	13.9	16.6	0.6	0.5	0.5	10.7
Malaysia	WPRTS MK	4	3,255	25.5	22.2	20.3	15.1	13.4	12.7	5.6	5.1	4.6	22.7
China	600018 CH	7	23,039	15.1	15.5	14.2	14.6	14.0	12.8	2.0	1.9	1.8	13.8
India	ADSEZ IN	415	12,420	22.1	22.3	18.6	15.0	15.6	13.3	4.0	3.6	3.1	19.2
Indonesia	**IPCC IJ**	**1,235**	**159**	**24.7**	**20.0**	**15.8**	**21.6**	**15.6**	**11.9**	**3.8**	**3.5**	**3.3**	**21.4**
Indonesia	**IPCM IJ**	**258**	**96**	**25.7**	**16.3**	**16.2**	**8.5**	**6.0**	**5.6**	**1.4**	**1.3**	**1.3**	**7.9**
				17.9	**16.8**	**15.3**	**15.0**	**14.3**	**13.9**	**3.0**	**2.8**	**2.5**	

Source: Bloomberg, Danareksa Sekuritas

As there are no listed port operator players in Indonesia, for company purposes, we use listed regional port operators considering that these companies have common services that IPCC and IPCM offer. By using listed regional port operators, we arrive at an average regional port operator multiples valuation.

Our top pick: IPCC. We prefer IPCC over IPCM due to the expectation of an increasing flow of vehicles and its expansion plans. Indonesia is a growing market for the automotive industry and most destinations for IPCC are located in ASEAN where economic growth is still strong. In terms of financial performance, IPCC provides better performance metrics than IPCM with higher margins and stronger growth. As IPCC expands its terminal capacity, we believe the vehicles turnover can increase and the dwelling time can be reduced. This will then help to boost revenues. Growth would also benefit from transhipments to Australia.

We remain positive on IPCM due to: 1) normalization of revenues and net profits and 2) expansion of service areas. However, we still see concerns over IPCM due to: 1) a possible decline in shipcalls due to larger ships coming to the ports, replacing small vessels which previously induced more shipcalls and 2) slowdown of the global economy which affects the outgoing and incoming ships. The expansion plans will take time to materialise. For 2019, the management expects the 2019 expansion to only account for 5% of IPCM's total revenues. The expansion plans may only be fully felt in 2020.

Equity Research
Initiation

Friday,28 June 2019

BUY

Initiation

Indonesia Kendaraan Terminal(IPCC IJ)

Anticipating more throughput

Last price (IDR)	1,290
Target Price (IDR)	**1,900**
Upside/Downside	**+47.3%**
Previous Target Price (IDR)	*1,900*

Stock Statistics

Sector	Port
Bloomberg Ticker	IPCC IJ
No of Shrs (mn)	2,273
Mkt. Cap (IDRbn/USDmn)	2,932/207
Avg. daily T/O (IDRbn/USDmn)	0.5/0.0

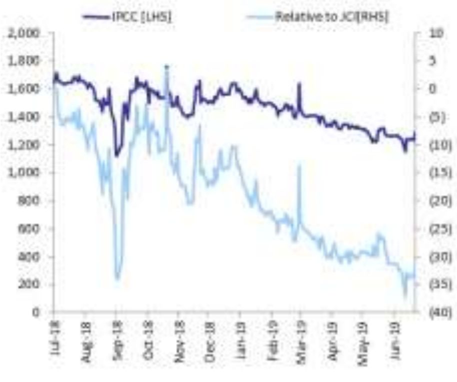
Major shareholders (%)

Pelindo II	71.3
Others	5.8
Estimated free float	22.9

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	115.3	145.7	179.1
Consensus	n/a	n/a	n/a
Danareksa/Cons	xxxxxx	xxxxxx	xxxxxx

IPCC relative to JCI Index



Source : Bloomberg

We initiate Indonesia Kendaraan Terminal (IPCC), a terminal operator that handles stevedoring and cargodoring activity, with BUY recommendation. We see that the performance of IPCC solid overtime supported by one of large automotive markets in the world. As subsidiary of IPC, it allows IPCC to capture captive market. We recommend buy with TP of IDR1,900, based on DCF valuation (WACC 14.1% and terminal growth 3%).

Captive market. As a subsidiary of IPC, IPCC serves as the operator of the car terminal managing the stevedoring and cargodoring for exports, imports and domestic delivery. All incoming and outgoing autos for trading purposes must be conducted through IPCC, thus making IPCC the sole player in this business.

Supported by large automotive market. Indonesia is one of the biggest automotive markets in the world, supported by a population of ~270mn with sound economic grow prospects. In 2018, Indonesia was the world's 17th largest in terms of automobile sales and number 1 in ASEAN. In terms of automobile production, Indonesia is the world's 16th largest and 2nd largest in ASEAN. A large number of road and toll road projects along with possible interest rate cuts this year augur well for the auto industry's outlook going forward. Furthermore, In the past 5 years, several new auto factories were built in the West Java province which is not far from the IPCC area. These new factories were built to meet the rising domestic and international demand.

More expansion to come. IPCC plans to expand its field of operations to manage 2.1mn cars per year and have more focused dedicated areas. This will enable IPCC to serve not only cars, but also heavy equipment and spare parts. Furthermore, IPCC plans to add more supporting facilities to ensure the quality of vehicle and other goods in the service.

Increasing throughput as the capacity increases. We are positive on IPCC due to 1) increasing flow of throughput in 2019, 2) expansion of the car terminal facility, and 3) the provision of new value added services. We recommend buy with TP of IDR1,900, based on DCF valuation (WACC 14.1% and terminal growth 3%) which implies 20x 2019PE and 15.8x 2020PE.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	422	522	643	796	985
EBITDA (IDRbn)	175	194	269	353	447
EBITDA Growth (%)	31.4	10.8	38.6	31.2	26.5
Net profit (IDRbn)	130	170	210	265	326
EPS (IDR)	130,155.0	93.6	115.3	145.7	179.1
EPS growth (%)	32.3	(99.9)	23.2	26.4	22.9
BVPS (IDR)	237,047.7	606.8	651.6	708.1	777.6
DPS (IDR)	78,686.0	57.3	70.5	89.1	109.6
PER (x)	0.0	13.8	11.2	8.9	7.2
PBV (x)	0.0	2.1	2.0	1.8	1.7
Dividend yield (%)	6,099.7	4.4	5.5	6.9	8.5
EV/EBITDA (x)	(1.0)	9.2	5.9	4.5	3.6

Source : IPCC, Danareksa Estimates

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ignatius.prayoga@danareksa.co.id

Exhibit 1. Revenues and Growth

Source: Company, Danareksa Sekuritas estimates

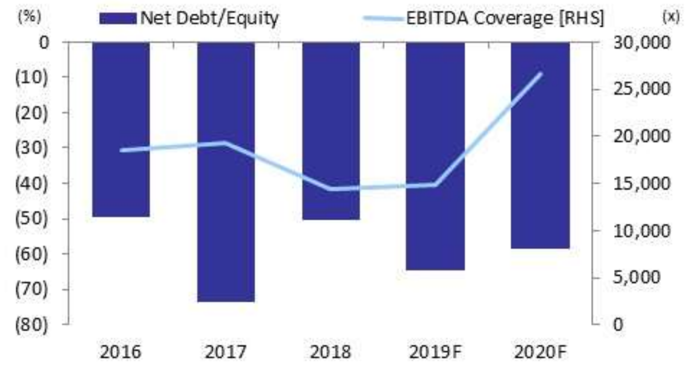
Exhibit 2. Net Profits and Growth

Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins

Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



Source: Company, Danareksa Sekuritas estimates

Exhibit X. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	**422**	**522**	**643**	**796**	**985**
COGS	(215)	(272)	(335)	(415)	(513)
Gross profit	**207**	**250**	**308**	**381**	**472**
EBITDA	**175**	**194**	**269**	**353**	**447**
Oper. profit	**166**	**180**	**249**	**313**	**392**
Interest income	9	40	22	31	30
Pre-tax profit	**175**	**221**	**272**	**343**	**422**
Income tax	(45)	(50)	(62)	(78)	(96)
Net profit	**130**	**170**	**210**	**265**	**326**
Core Net Profit	**130**	**170**	**210**	**265**	**326**

Exhibit X. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	175	557	768	756	747
Receivables	62	95	123	153	189
Other Curr. Asset	8	65	42	47	54
Fixed assets - Net	76	252	352	457	582
Other non-curr.asset	14	287	11	11	12
Total asset	**335**	**1,255**	**1,296**	**1,424**	**1,583**
Payables	48	74	81	100	124
Other Curr. Liabilities	49	77	30	36	45
Total Liabilities	**98**	**152**	**111**	**137**	**169**
Shareholder'sFunds	237	1,103	1,185	1,288	1,414
Total Equity & Liabilities	**335**	**1,255**	**1,296**	**1,424**	**1,583**

Exhibit X. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	130	170	210	265	326
Depreciation and Amort.	10	14	20	41	55
Change in Working Capital	52	(10)	(12)	(10)	(13)
OtherOper. Cash Flow	(11)	(339)	217	(33)	(31)
Operating Cash Flow	**182**	**(165)**	**435**	**263**	**337**
Capex	(27)	(187)	(130)	(147)	(182)
Others Inv. Cash Flow	9	40	22	31	30
Investing Cash Flow	**(18)**	**(147)**	**(108)**	**(117)**	**(152)**
Dividend payment	(79)	(104)	128	162	199
Other Fin. Cash Flow	0	800	0	0	0
Financing Cash Flow	**(79)**	**696**	**128**	**162**	**199**
Net Change in Cash	**85**	**384**	**455**	**308**	**385**
Cash - begin of the year	92	175	557	768	756
Cash - end of the year	175	557	768	756	747

Exhibit X. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	34.3	23.6	23.3	23.7	23.7
EBITDA	31.4	10.8	38.6	31.2	26.5
Operating profit	31.5	8.8	38.4	25.3	25.3
Net profit	32.3	30.8	23.2	26.4	22.9
Profitability (%)					
Gross margin	49.0	47.9	47.9	47.9	47.9
EBITDA margin	41.6	37.2	41.9	44.4	45.4
Operating margin	39.3	34.6	38.8	39.3	39.8
Net margin	30.8	32.6	32.6	33.3	33.1
ROAA	43.4	21.4	16.4	19.5	21.7
ROAE	61.6	25.4	18.3	21.4	24.1

Source : IPCC, Danareksa Estimates

Friday,28 June 2019

BUY

Initiation

Jasa Armada Indonesia(IPCM IJ)

Expanding beyond

Last price (IDR)	256
Target Price (IDR)	**325**
Upside/Downside	**+27.0%**
Previous Target Price (IDR)	*325*

Stock Statistics

Sector	PORT
Bloomberg Ticker	IPCM IJ
No of Shrs (mn)	5,285
Mkt. Cap (IDRbn/USDmn)	1,353/96
Avg. daily T/O (IDRbn/USDmn)	0.6/0.0

Major shareholders (%)

Pelindo II	76.9
Others	0.1
Estimated free float	23.0

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	16.5	16.6	17.0
Consensus	n/a	n/a	n/a
Danareksa/Cons	xxxxxx	xxxxxx	xxxxxx

IPCM relative to JCI Index

Source : Bloomberg

We initiate, Jasa Armada Indonesia (IPCM), the largest pilotage & towage ship management service provider in Indonesia, with BUY recommendation. We see that as IPC group grows in terms of facility, supported by expected better growth of Indonesia economy as infrastructure programs have made impacts, IPCM may grow as the activity of international and domestic trade increases. Moreover, IPCM will tap marine service business to company outside IPC which will provide more upside. We recommend BUY with TP of IDR 300 which is based on DCF valuation (WACC 12.9% and terminal growth 3%)

Captive market. As a subsidiary of IPC, IPCM is the only towage and pilotage company serving the busiest port in Indonesia. Every boat with certain size is obliged to use the service for safety purpose. The Ministry of Transportation requires the piloting and towage business to be provided only by the company that has the exclusive license (BUP) to operate in each port. IPCM will have the opportunity to tap into those markets as one of the licensed companies

Expansion to the rescue. IPCM is expanding outside IPC operational areas into several prospective private port areas. IPCM has already obtained several contracts since it went public. Aside from pilotage & towage business in its captive market and private terminals, JAI also provides similar services for VIP/special services, river transport as well as off-shore activities.

Normalization of top and bottomline. In 2018, the topline was down due to new revenue sharing of 15% with its parent, IPC. We believe that vessel services and the freight business of IPCC may start to pick up in 2019, especially with additional operational area. Omitting one off expenses, we also see that the operating margin will improve. We recommend buy with TP of IDR300, based on DCF valuation (WACC 14.1% and terminal growth 3%) implying 16.3x 2019PE and 16.2x 2020PE.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	747	727	734	742	749
EBITDA (IDRbn)	160	77	95	97	96
EBITDA Growth (%)	(7.8)	(52.1)	24.3	1.5	(0.2)
Net profit (IDRbn)	120	55	87	88	90
EPS (IDR)	22.7	10.5	16.5	16.6	17.0
EPS growth (%)	(3.5)	(53.8)	57.4	0.7	2.0
BVPS (IDR)	190.0	197.0	207.2	213.9	220.9
DPS (IDR)	0.0	52.2	6.3	9.9	10.0
PER (x)	11.3	24.4	15.5	15.4	15.1
PBV (x)	1.3	1.3	1.2	1.2	1.2
Dividend yield (%)	0.0	20.4	2.5	3.9	3.9
EV/EBITDA (x)	5.4	13.3	8.5	8.0	7.5

Source : IPCM, Danareksa Estimates

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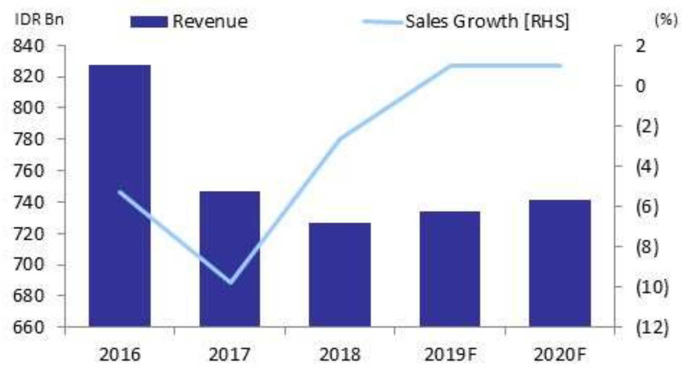
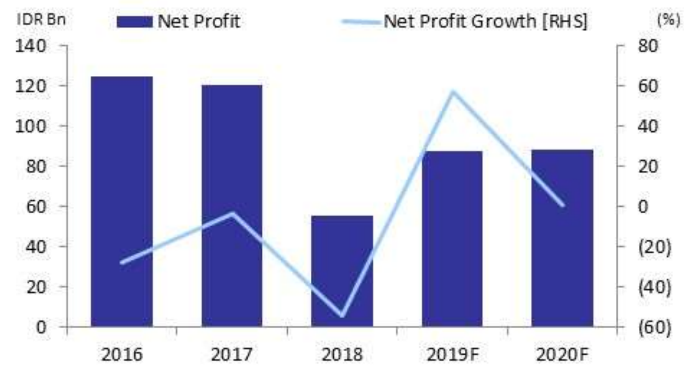
Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth

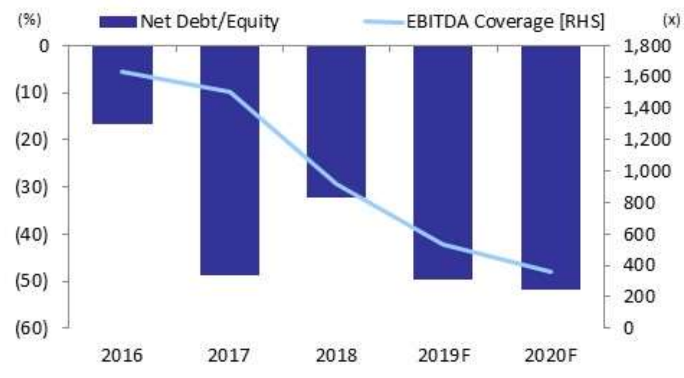


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins

Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



Source: Company, Danareksa Sekuritas estimates

Exhibit 5. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	**747**	**727**	**734**	**742**	**749**
COGS	(499)	(500)	(499)	(489)	(479)
Gross profit	**247**	**227**	**235**	**252**	**270**
EBITDA	**160**	**77**	**95**	**97**	**96**
Oper. profit	**167**	**102**	**121**	**123**	**124**
Interest income	1	1	4	3	5
Pre-tax profit	**168**	**103**	**125**	**126**	**128**
Income tax	(48)	(48)	(37)	(38)	(38)
Net profit	**120**	**55**	**87**	**88**	**90**
Core Net Profit	**120**	**55**	**87**	**88**	**90**

Exhibit 6. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	489	335	543	584	627
Receivables	352	274	294	297	300
Inventory	0	3	3	3	3
Other Curr. Asset	88	130	53	53	54
Fixed assets - Net	367	373	339	327	315
Other non-curr.asset	62	45	45	45	45
Total asset	**1,356**	**1,159**	**1,276**	**1,309**	**1,343**
Payables	8	31	55	54	53
Other Curr. Liabilities	345	87	126	125	123
Total Liabilities	**352**	**118**	**181**	**178**	**176**
Shareholder'sFunds	1,004	1,041	1,095	1,131	1,168
Total Equity & Liabilities	**1,356**	**1,159**	**1,276**	**1,309**	**1,343**

Exhibit 7. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	120	55	87	88	90
Depreciation and Amort.	7	26	26	26	27
Change in Working Capital	(46)	82	4	(4)	(4)
OtherOper. Cash Flow	153	(266)	116	(2)	(2)
Operating Cash Flow	**234**	**(103)**	**233**	**108**	**111**
Capex	0	(32)	8	(15)	(15)
Others Inv. Cash Flow	0	0	0	0	0
Investing Cash Flow	**0**	**(32)**	**8**	**(15)**	**(15)**
Net change in debt	0	0	0	0	0
New Capital	198	258	0	0	0
Dividend payment	0	(276)	(33)	(52)	(53)
Other Fin. Cash Flow	0	0	0	0	0
Financing Cash Flow	**198**	**(18)**	**(33)**	**(53)**	**(53)**
Net Change in Cash	**432**	**(154)**	**208**	**41**	**43**
Cash - begin of the year	56	489	335	543	584
Cash - end of the year	489	335	543	584	627

Exhibit 8. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	(9.8)	(2.6)	1.0	1.0	1.0
EBITDA	(7.8)	(52.1)	24.3	1.5	(0.2)
Operating profit	(5.3)	(38.7)	17.9	1.9	0.6
Net profit	(3.5)	(53.8)	57.4	0.7	2.0
Profitability (%)					
Gross margin	33.1	31.3	32.0	34.0	36.0
EBITDA margin	21.4	10.5	13.0	13.0	12.9
Operating margin	22.4	14.1	16.4	16.6	16.5
Net margin	16.1	7.6	11.9	11.9	12.0
ROAA	12.3	4.4	7.2	6.8	6.8
ROAE	17.9	5.4	8.2	7.9	7.8

Source : IPCM, Danareksa Estimates