

Thursday, 07 November 2019

**BUY**  
**Maintain**

Last price (IDR) 22,850  
Target Price (IDR) 28,000  
Upside/Downside +22.5%  
Previous Target Price (IDR) 30,000

**Stock Statistics**

Sector Heavy Equipment  
Bloomberg Ticker UNTR IJ  
No of Shrs (mn) 3,730  
Mkt. Cap (IDRbn/USDmn) 85,234/6,078  
Avg. daily T/O (IDRbn/USDmn) 100.6/7.2

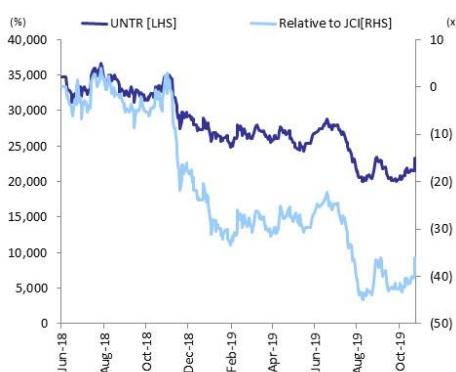
**Major shareholders (%)**

Astra International 59.5  
Estimated free float 40.5

**EPS Consensus (IDR)**

	2019F	2020F	2021F
Danareksa	3,034.3	2,897.4	2,883.8
Consensus	2,985.9	2,992.3	3,115.1
Danareksa/Cons	1.6	(3.2)	(7.4)

**UNTR relative to JCI Index**



Source : Bloomberg



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# United Tractors (UNTR IJ)

## Subdued coal outlook but undemanding valuation

Given the subdued global coal outlook, United Tractors (UNTR) has revised down its Komatsu sales volume estimate to 3,200 units for 2019 and indicated further soft Komatsu sales volume at around 2,900 units for 2020. Also, the coal production under Pama is expected to post flattish growth at best in 2020. We fine tune our earnings estimates to incorporate lower Komatsu volume but a higher gold price assumption. **Maintain BUY with a lower TP of IDR28,000 (based on DCF valuation) as the stock trades at around -1.5SD.**

**Consolidation in the coal price to soften Komatsu sales volume.** UNTR has revised down its Komatsu sales volume target to 3,200 units (from 3,600 units) for 2019 with large-sized machinery making up around 18.8% of the product mix. Given the subdued global outlook for coal and the impact of the nickel-ore export ban, UNTR has indicated lower Komatsu sales volume of around 2,900 units (-9.4% yoy) in 2020 with the product mix lower at around 12.1%. Given that the government continues to encourage the development of infrastructure projects, we expect solid Komatsu sales volume in the construction sector to cushion against a further decline in sales to the mining sector.

**Flattish growth in coal production.** For mining contracting under its subsidiary Pamapersada Nusantara (PAMA), coal production is expected to improve slightly by 2.4% yoy to 128mn tons, with a slight decline in the OB removal. Going into 2020, the management indicates a slight decline with flattish coal production growth at best. Meanwhile, the company is still in discussions with clients regarding the mining rates with the possibility of lowering the stripping ratio or trimming down the hauling distance for OB removal.

**Expect a higher contribution from the non-thermal coal business.** In the long-term, the earnings contribution from UNTR's non-thermal coal business is expected to improve from its current level of around 15%. This will be done strategically through further business diversification into: a) the power business. The company is in the process of completing the construction of 2 coal based power plants, namely: the Pama-1 Phase 2 mine mouth with capacity of 2x15MW and Jawa-4 (Tanjung Jati 5 & 6) with capacity of 2x1,000 MW, in which the company has a 25% interest in this power plant. b) the gold mining business and c) the coking coal business.

**Maintain BUY.** We fine tune our earnings forecast as we lower our Komatsu sales volume estimate but raise our gold price assumption. Hence, we cut our earnings forecasts by 4.3 – 7.0% for 2020 and 2021. **Maintain BUY with a lower target price of IDR28,000 (based on DCF valuation with WACC of 12.1% and long-term growth of 3%) as the stock is currently trading at an undemanding valuation of around -1.5SD. The target price implies 9.7x 2020F PE.**

**Key Financials**

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	64,559	84,625	83,910	80,566	80,032
EBITDA (IDRbn)	13,832	23,296	21,848	21,678	22,043
EBITDA Growth (%)	51.2	68.4	(6.2)	(0.8)	1.7
Net profit (IDRbn)	7,403	11,126	11,318	10,808	10,757
EPS (IDR)	1,984.6	2,982.6	3,034.3	2,897.4	2,883.8
EPS growth (%)	48.0	50.3	1.7	(4.5)	(0.5)
BVPS (IDR)	12,161.1	14,417.5	16,144.8	17,865.1	19,613.8
DPS (IDR)	675.0	960.6	1,199.3	1,197.6	1,157.4
PER (x)	11.5	7.7	7.5	7.9	7.9
PBV (x)	1.9	1.6	1.4	1.3	1.2
Dividend yield (%)	3.0	4.2	5.2	5.2	5.1
EV/EBITDA (x)	5.0	3.5	3.6	3.5	3.3

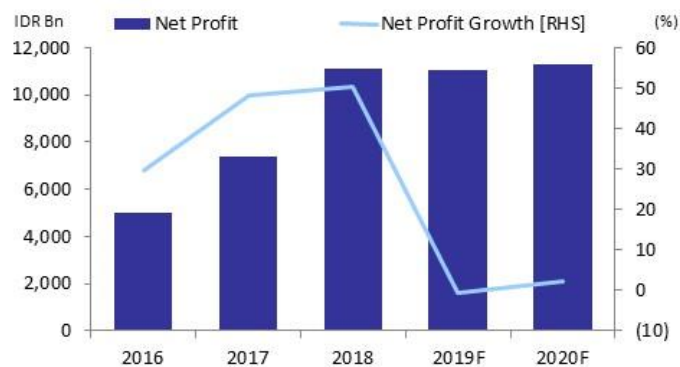
Source : UNTR, Danareksa Estimates

**Exhibit 1. Revenues and Growth**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**



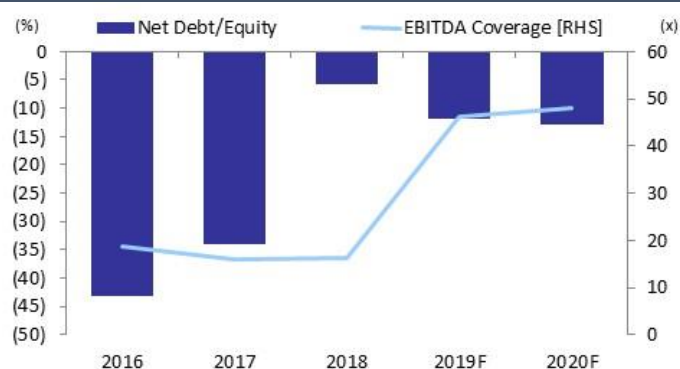
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. UNTR is currently trading at an undemanding valuation of -1.5SD**



Source: Bloomberg, Danareksa Sekuritas estimates

**Exhibit 6. Change in our forecasts**

	New			Previous			Change (%)		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Komatsu (units)	3,200	2,900	2,900	3,600	3,700	3,800	(11.1)	(21.6)	(23.7)
Coal Production (mn tonnes)	128	128	128	123	127	136	4.0	0.7	(5.9)
OB removal	966	898	898	960	993	1,023	0.6	(9.6)	(12.2)
Coal Sales Volume (mn tonnes)	8.8	9.2	9.7	8.8	9.2	9.7	0.0	0.0	0.0
Gold Sales Volume (oz)	400,000	400,000	400,000	400,000	400,000	400,000	0.0	0.0	0.0
Gold ASP (USD/oz)	1,350	1,400	1,450	1,300	1,300	1,300	3.8	7.7	11.5
Revenue (IDR bn)	83,910	80,566	80,032	83,583	84,021	83,880	0.4	(4.1)	(4.6)
EBITDA (IDR bn)	21,848	21,678	22,043	21,473	22,342	23,133	1.7	(3.0)	(4.7)
Net Profit (IDR bn)	11,318	10,808	10,757	11,039	11,295	11,569	2.5	(4.3)	(7.0)

Source: Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>64,559</b>	<b>84,625</b>	<b>83,910</b>	<b>80,566</b>	<b>80,032</b>
COGS	(50,075)	(63,515)	(63,599)	(61,108)	(60,788)
<b>Gross profit</b>	<b>14,484</b>	<b>21,110</b>	<b>20,311</b>	<b>19,458</b>	<b>19,244</b>
<b>EBITDA</b>	<b>13,832</b>	<b>23,296</b>	<b>21,848</b>	<b>21,678</b>	<b>22,043</b>
<b>Oper. profit</b>	<b>10,756</b>	<b>16,770</b>	<b>15,849</b>	<b>15,013</b>	<b>14,715</b>
Interest income	1,016	764	212	239	322
Interest expense	(874)	(1,438)	(465)	(459)	(458)
Forex Gain/(Loss)	(4)	(127)	243	301	427
Income From Assoc. Co's	171	307	181	220	236
Other Income (Expenses)	(542)	(568)	(300)	(300)	(300)
<b>Pre-tax profit</b>	<b>10,523</b>	<b>15,709</b>	<b>15,719</b>	<b>15,013</b>	<b>14,942</b>
Income tax	(2,849)	(4,210)	(3,930)	(3,753)	(3,735)
Minority interest	(270)	(373)	(471)	(452)	(449)
<b>Net profit</b>	<b>7,403</b>	<b>11,126</b>	<b>11,318</b>	<b>10,808</b>	<b>10,757</b>
<b>Core Net Profit</b>	<b>7,407</b>	<b>11,253</b>	<b>11,075</b>	<b>10,507</b>	<b>10,330</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	20,831	13,438	10,581	11,941	16,121
Receivables	18,188	22,574	22,637	21,735	21,591
Inventory	7,855	13,618	10,495	10,465	10,435
Other Curr. Asset	4,328	6,022	5,842	5,647	5,681
Fixed assets - Net	22,251	40,474	44,475	46,809	48,481
Other non-curr.asset	8,808	20,156	18,522	18,127	18,064
<b>Total asset</b>	<b>82,262</b>	<b>116,281</b>	<b>112,551</b>	<b>114,724</b>	<b>120,372</b>
ST Debt	1,876	6,966	383	368	368
Payables	21,110	33,170	32,734	29,201	28,312
Other Curr. Liabilities	5,390	8,650	7,312	7,173	7,135
Long Term Debt	2,724	3,223	2,543	2,524	2,520
Other LT. Liabilities	3,623	7,222	5,360	4,982	5,064
<b>Total Liabilities</b>	<b>34,724</b>	<b>59,230</b>	<b>48,333</b>	<b>44,248</b>	<b>43,399</b>
Shareholder's Funds	45,362	53,779	60,222	66,639	73,162
Minority interests	2,175	3,271	3,996	3,836	3,811
<b>Total Equity &amp; Liabilities</b>	<b>82,262</b>	<b>116,281</b>	<b>112,551</b>	<b>114,724</b>	<b>120,372</b>

### Exhibit 9. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	7,403	11,126	11,318	10,808	10,757
Depreciation and Amort.	3,076	6,526	5,999	6,666	7,328
Change in Working Capital	1,427	3,094	1,434	(2,542)	(785)
Other Oper. Cash Flow	(115)	(887)	66	(35)	237
<b>Operating Cash Flow</b>	<b>11,791</b>	<b>19,859</b>	<b>18,818</b>	<b>14,896</b>	<b>17,537</b>
Capex	(8,052)	(18,833)	(10,000)	(9,000)	(9,000)
Others Inv. Cash Flow	74	(8,115)	995	355	341
<b>Investing Cash Flow</b>	<b>(7,978)</b>	<b>(26,948)</b>	<b>(9,005)</b>	<b>(8,645)</b>	<b>(8,659)</b>
Net change in debt	4,077	5,631	(7,770)	(7)	(1)
New Capital	0	0	0	0	0
Dividend payment	(2,518)	(3,884)	(4,473)	(4,467)	(4,317)
Other Fin. Cash Flow	(4,001)	(2,052)	(426)	(459)	(458)
<b>Financing Cash Flow</b>	<b>(2,442)</b>	<b>(304)</b>	<b>(12,670)</b>	<b>(4,933)</b>	<b>(4,776)</b>
<b>Net Change in Cash</b>	<b>1,371</b>	<b>(7,393)</b>	<b>(2,857)</b>	<b>1,318</b>	<b>4,102</b>
Cash - begin of the year	19,461	20,831	13,438	10,581	11,941
Cash - end of the year	20,831	13,438	10,581	11,941	16,121

### Exhibit 10. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	41.8	31.1	(0.8)	(4.0)	(0.7)
EBITDA	51.2	68.4	(6.2)	(0.8)	1.7
Operating profit	60.4	55.9	(5.5)	(5.3)	(2.0)
Net profit	48.0	50.3	1.7	(4.5)	(0.5)
<b>Profitability (%)</b>					
Gross margin	22.4	24.9	24.2	24.2	24.0
EBITDA margin	21.4	27.5	26.0	26.9	27.5
Operating margin	16.7	19.8	18.9	18.6	18.4
Net margin	11.5	13.1	13.5	13.4	13.4
ROAA	10.1	11.2	9.9	9.5	9.2
ROAE	17.2	22.4	19.9	17.0	15.4
<b>Leverage</b>					
Net Gearing (x)	(0.3)	(0.1)	(0.1)	(0.1)	(0.2)
Interest Coverage (x)	12.3	11.7	34.1	32.7	32.1

Source : UNTR, Danareksa Estimates

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