

Upgrade to ADD with lower TP. We upgrade our recommendation from NEUTRAL to ADD for AKR Corporindo with a TP of IDR 2,900 which derived from SOTP, with DCF-derived valuation for non-JIPE segment and discount to NAV for JIPE. AKRA is now trading at an undemanding 13.9x P/E, -1.5SD to 3Y mean. We believe demand will normalize in 2H20 as a large scale social distancing (PSBB) is slowly eased and the economy activities resume, leading to better earnings performance. The low oil price environment will provide a higher margin to the distribution business while JIPE has a bright future to be the next growth engine of AKRA.

Strong 1Q20 earnings. Overall, AKRA's 1Q20 performance was solid, supported by petroleum sales volume growth and JIPE's bigger revenue contribution. Topline recorded at IDR 6.3tn (+26% YoY), while net profit booked at IDR 228bn (+13% YoY). Revenue in 1Q20 achieved 39%/35% of our/consensus estimate, while NPAT reached 28%/27% of our/consensus estimate. Petroleum sales were up by 36.7% YoY with petrol sales grew 43% YoY. On the other hand, chemical sales decreased by 13% YoY as ASP drop 19% YoY. GPM slightly improved to 8.8% (vs 8.7% in 4Q19, 8.6% in 1Q19) as JIPE has a bigger contribution to the total revenue.

COVID-19 impact. For 2Q20, we expect sales volume to drop as PSBB took effect. However, the management indicates that 5M20 petrol volume was already better than 6M19 figures of 890,000 KL. This is because industry petroleum is more resilient during the COVID-19 situation, while the subsidized petrol distribution grants the company a bigger distribution volume. On the other hand, chemical distribution sales are more negatively impacted driven by slower volume growth and lower ASP. However, as PSBB is slowly lifted in more regions, we are expecting a rebound in distribution volume starting in June onwards.

Industrial estate to be the next growth engine. As of 1Q20, JIPE posted revenue of IDR 140bn, increased by 29x YoY with 5.9ha land sales (IDR 104bn), and PT Freeport Indonesia (PTFI) land rent of IDR 29bn being recorded. Moreover, IE business now helped boost GPM with a contribution of 8.5% to the company's total gross profit. We believe JIPE will be the next growth engine for AKRA. For FY20E, AKRA is still targeting 30ha of land sales, but we are less bullish and only baked in 20ha of land sales. On the other hand, there is a temporary delay in PTFI rental fee payment and progress delay could postpone the laydown area usage to next year. Nevertheless, AKRA is still optimistic for PTFI to continue the progress of the smelter.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	23,548	21,703	16,105	17,918	19,047
growth (%)	28.8%	-7.8%	-25.8%	11.3%	6.3%
Gross profit	1,555	1,892	1,636	1,859	2,054
EBITDA	1,228	1,422	1,415	1,594	1,754
Net profit	1,645	714	807	946	1,075
growth (%)	36.9%	-56.6%	13.1%	17.1%	13.7%
EPS (IDR)	410.6	178.1	201.5	236.0	268.3
Gross margin	6.6%	8.7%	10.2%	10.4%	10.8%
Operating margin	4.0%	5.0%	6.7%	7.0%	7.4%
Net margin	7.0%	3.3%	5.0%	5.3%	5.6%

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Sector	Trade
Bloomberg Ticker	AKRA IJ
Market Cap. (IDR tn)	10.3
Share Out./Float (mn)	4,015/1,595
Current Price	2,570
52-week Target Price	2,900
Upside (%)	12.8%

Share Price Performance

52W High (06/21/19)	4,440
52W Low (03/24/20)	1,405
52W Beta	1.1
YTD Change (%)	-34.9%

Relative Valuations

Trailing P/E	13.9x
Forward P/E	13.2x
P/BV	1.2x

AKRA 1Q20 Earnings summary

IDR bn	1Q19	4Q19	1Q20	QoQ	YoY	3M19	3M20	YoY	% DH	% Cons
Revenue	5,038	6,584	6,345	-3.6%	26.0%	5,038	6,345	26.0%	39.4%	34.8%
Gross profit	433	607	558	-8.2%	28.8%	433	558	28.8%		
Operating profit	257	368	339	-7.9%	31.7%	257	339	31.7%		
Profit before tax	228	215	425	97.9%	86.4%	228	298	30.9%		
Net profit - continued ops.	191	181	367	102.8%	92.7%	191	241	26.3%		
Net profit -total	202	152	354	133.2%	75.8%	202	228	13.0%	28.2%	27.2%
Gross margin	8.6%	9.2%	8.8%			8.6%	8.8%			
Operating margin	5.1%	5.6%	5.3%			5.1%	5.3%			
Net profit margin - continued ops.	3.8%	2.8%	5.8%			3.8%	3.8%			
Net profit margin - total	4.0%	2.3%	5.6%			4.0%	3.6%			

Source: Company data, Sinarmas Investment Research

Cut earnings assumption. We reduce our earnings estimate by 16% for 2020E and 8% for 2021F due to the impact of COVID-19 pandemic with lower oil price and demand. We trimmed our petrol distribution volume to 2,143 thousand KL (+2.0% YoY) and baked in flat chemical volume distribution with lower ASP. For JIPE, we forecast 20ha of land sales in FY20E and lower our estimate on land lease revenue to IDR 82bn.

AKRA earnings revision

IDR bn	Old		New		Change	
	2020E	2021F	2020E	2021F	2020E	2021F
Revenue	22,081	23,110	16,105	17,918	-27.1%	-22.5%
Gross profit	2,045	2,145	1,636	1,859	-20.0%	-13.3%
GPM	9.3%	9.3%	10.2%	10.4%		
Operating profit	1,309	1,391	1,082	1,258	-17.3%	-9.6%
OPM	5.9%	6.0%	6.7%	7.0%		
Profit before tax	1,256	1,341	1,020	1,196	-18.8%	-10.8%
Net profit	961	1,026	807	946	-16.0%	-7.8%
NPM	4.4%	4.4%	5.0%	5.3%		

Source: Company data, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	23,548	21,703	16,105	17,918	19,047
Cost of revenues	(21,994)	(19,811)	(14,469)	(16,058)	(16,993)
Gross profit	1,555	1,892	1,636	1,859	2,054
Operating expenses	(639)	(798)	(551)	(600)	(639)
Operating profit	936	1,095	1,082	1,258	1,413
EBITDA	1,228	1,422	1,415	1,594	1,754
Interest expense	(86)	(110)	(103)	(103)	(92)
Interest & investment income	44	38	38	38	38
Other income (expense)	(4)	(124)	3	3	4
Profit before tax	890	899	1,020	1,196	1,362
Tax	(205)	(166)	(183)	(214)	(243)
Net profit	1,597	703	807	946	1,075
Minority interest	(48)	(14)	0	0	0
Attributable net profit	1,645	714	807	946	1,075
Earnings per share (Rp.)	411	178	202	236	268

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash & equivalents	2,171	1,861	2,617	2,857	2,864
Trade receivables	4,405	4,321	2,868	3,370	3,589
Inventories	4,107	4,091	3,694	3,989	4,287
Advances	72	65	72	59	65
Others	513	440	359	392	406
Current assets	11,269	10,778	9,610	10,666	11,211
Fixed assets	4,922	5,325	5,208	5,030	4,866
Long-term trade receivables	716	748	555	617	656
IE Land for development	1,830	2,179	2,396	2,558	2,737
Other long-term assets	1,205	2,379	1,212	1,293	1,320
Total assets	19,941	21,409	18,981	20,165	20,790
Payables	4,997	5,835	4,262	4,730	5,005
Short-term debt	2,427	2,141	1,693	2,100	1,682
Advances received	28	114	54	53	60
Others short-term liabilities	612	623	370	386	441
Total current liabilities	8,063	8,713	6,379	7,268	7,188
Long-term debt	1,803	2,469	2,458	2,040	2,040
Other liabilities	148	160	118	130	135
Total Liabilities	10,014	11,342	8,956	9,438	9,362
Capital stock	401	401	401	401	401
Additional paid in capital	1,287	1,287	1,287	1,287	1,287
Retained earnings	6,410	6,401	6,852	7,394	7,996
Equity attributable to owners	8,371	8,336	8,741	9,298	9,909
Minority interest	1,556	1,731	1,284	1,429	1,519
Shareholder's equity	9,927	10,067	10,025	10,727	11,428

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net profit	1,645	714	807	946	1,075
Depreciation	(253)	306	333	337	341
Changes in net working capital	891	(1,117)	(38)	334	199
Operating cash flow	552	2,145	1,261	891	1,225
Changes in fixed asset	454	710	215	159	177
Changes in long-term assets	9	1,565	(1,060)	248	252
Changes in long-term liabilities	2	12	(42)	12	5
Investing cash flow	(462)	(2,262)	803	(396)	(425)
Changes in equity	52	0	0	0	0
Changes in short-term loans	1,472	(286)	(448)	407	(419)
Changes in long-term loans	(415)	666	(11)	(419)	0
Dividend	860	723	357	404	473
Financing cash flow	309	(193)	(1,308)	(255)	(792)
Net Cashflow	400	(310)	756	240	8
Beginning of Cash	1,771	2,171	1,861	2,617	2,857
Ending Cash	2,171	1,861	2,617	2,857	2,864

Ratio Analysis (IDR Bn)	2018	2019	2020E	2021F	2022F
Gross profit margin	6.6%	8.7%	10.2%	10.4%	10.8%
Operating margin	4.0%	5.0%	6.7%	7.0%	7.4%
EBITDA margin	5.2%	6.6%	8.8%	8.9%	9.2%
Net margin	7.0%	3.3%	5.0%	5.3%	5.6%
ROA	8.2%	3.3%	4.3%	4.7%	5.2%
ROE	16.6%	7.1%	8.1%	8.8%	9.4%
Interest cover (x)	14.2	13.0	13.7	15.5	19.0
Debt to equity (x)	0.4	0.5	0.4	0.4	0.3
Net debt to equity (x)	0.2	0.3	0.2	0.1	0.1
Current ratio (x)	1.4	1.2	1.5	1.5	1.6
PER (x)	7.1	16.3	14.4	12.3	10.8
PBV (x)	1.4	1.4	1.3	1.3	1.2

Assumptions	2018	2019	2020E	2021F	2022F
Volume Growth					
Petroleum	7.6%	-2.2%	2.0%	6.6%	5.4%
Chemicals	-4.9%	3.0%	1.0%	3.0%	4.0%
IE Land sales (Ha)	0.0	11.0	20.0	25.0	30.0

Source: Company data, Sinarmas Investment Research

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