

27 November 2012

FLASH UPDATE

PT HEXINDO ADIPERKASA Tbk

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October Sales Figure—in line with estimate

Hitachi Sales

Hexindo managed to sell 1,849 units of heavy equipment (58% of our full-year target of 3,209 units for FY2013 and we expect the firm to sell on average of 272 units per month for the remaining 5 months). October sales figure is at 272 units and excavator with capacity of 10T-80T (or primarily 10T and 20T) dominates the market with 256 units (-22 units mom) and giant excavator (>120T) declined to 1 unit (-2 units mom), implying that mining industry continues to be challenging and the management team is not looking at swift recovery. 6M market share is at 23.7% (up from 23.45% in 4M and 21.34% in FY2012). The firm is targeting to secure market share of 24.6% with our target of around 25% for FY2013.

Conclusion

We maintain **OVERWEIGHT** with target price of IDR 9,400. We favor its more diversified client profiles and its competitive pricing strategy. For medium-sized equipment (30T-40T) where competition tends to intensified from Caterpillar, Komatsu and more importantly, from Kobelco, Hexindo will try to match the offer proposed by its competitors and will provide extra discounts or bonus on spare parts in order to clinch the deals and secure its market share.

Wibowo Ng

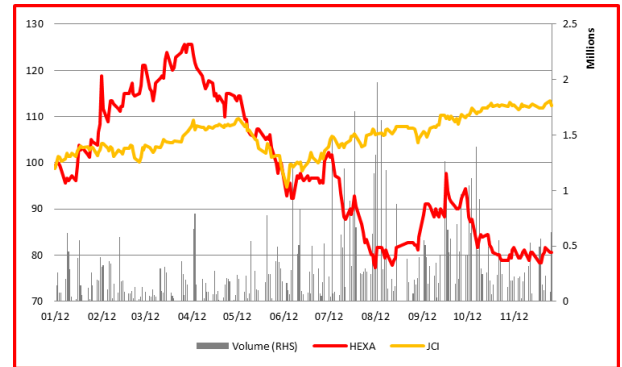
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Stock Data

| | |
|---------------------|------------------------------|
| Sector | Heavy Equipment |
| Price (27 Nov 2012) | IDR 7,250 |
| Target Price 2012 | IDR9,400 |
| 12-month Rating | OVERWEIGHT |
| Prior | OVERWEIGHT (TP: IDR 9,400) |
| Ticker | HEXA.IJ (BBG); HEXA.JK (RIC) |
| Market Cap | IDR 6.09tn |
| Shares Outstanding | 840 mn |
| Free Float | 184.8 mn |

UNTR Performance against JCI Index



Source: Bloomberg (normalized at 03 January 2012 = 100)

| Profitability | 3-year | 03/2012 | 03/2013E | 03/2014F | 03/2015F |
|--------------------|--------|---------|----------|----------|----------|
| Gross Margin% | 21.0% | 21.0% | 19.6% | 20.3% | 20.7% |
| EBIT Margin% | 13.5% | 14.5% | 12.4% | 13.1% | 13.3% |
| EBITDA Margin% | 13.3% | 15.1% | 13.1% | 13.7% | 13.9% |
| EV/EBITDA x | | | 8.7 | 7.1 | 6.1 |
| P/E x | | | 12.8 | 10.4 | 8.8 |
| Net Dividend Yield | | | 5.0% | 4.3% | 5.1% |

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

| | 03/2011 | 03/2012 | 03/2013E | 03/2014F | 03/2015F |
|------------|---------|---------|----------|----------|----------|
| Revenues | 498.61 | 671.72 | 719.53 | 840.08 | 971.06 |
| EBIT | 58.14 | 97.08 | 89.11 | 109.88 | 129.14 |
| Net Income | 43.11 | 72.23 | 64.08 | 79.04 | 92.91 |
| EPS | 0.0513 | 0.0860 | 0.0763 | 0.0941 | 0.1106 |
| Net DPS | 0.0206 | 0.0387 | 0.0343 | 0.0423 | 0.0498 |

Source: Bloomberg, in USD mn except per share data (in USD)

Shares Ownership data

| | |
|--------------------------------|-------|
| Hitachi Construction Machinery | 53.0% |
| Itochu Corporation | 25.0% |
| Institutional Ownership | 9.6% |
| Others | 12.4% |

Source: Bloomberg (as of 27 November 2012)

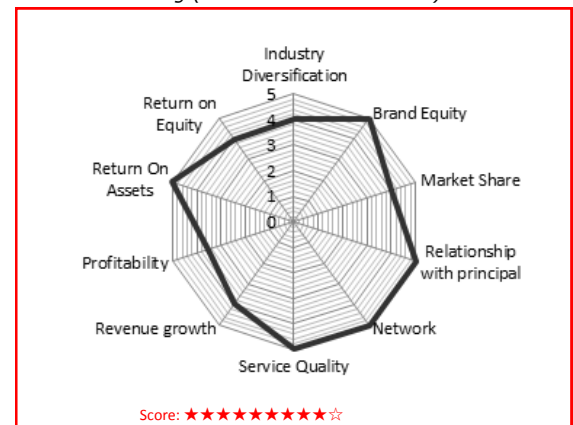
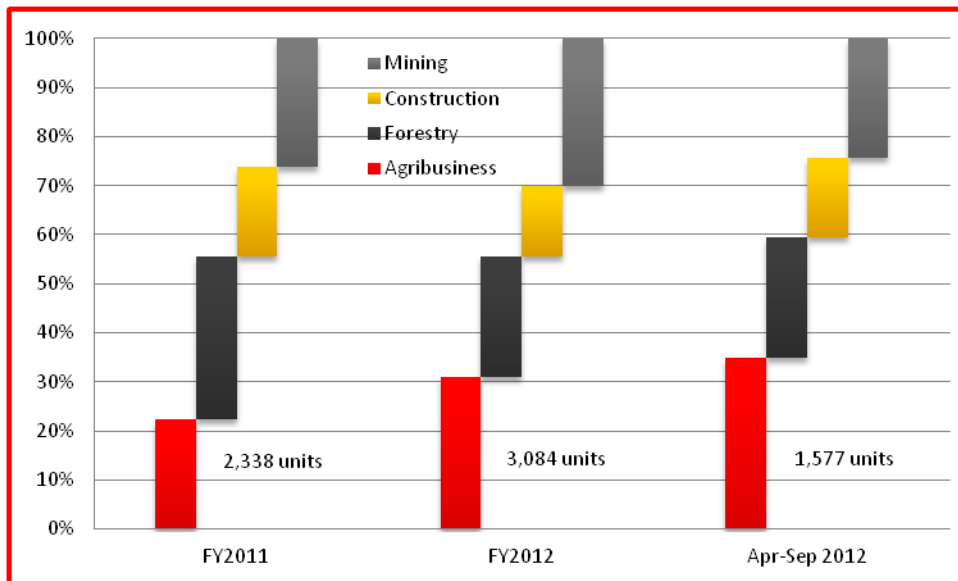


Table 1: HEXA's Heavy equipment sales (breakdown by size)

| | | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Apr-Sep | Apr-Oct |
|------------------------------|---------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| Excavator | Mini (<10T) | 0 | 4 | 3 | 5 | 1 | 3 | 3 | 16 | 19 |
| | 10T-80T | 271 | 260 | 285 | 198 | 156 | 278 | 256 | 1448 | 1704 |
| | Giant (>120T) | 4 | 4 | 15 | 4 | 2 | 3 | 1 | 32 | 33 |
| Rigid Dump Truck | | 1 | 1 | 35 | 2 | 1 | 6 | 4 | 46 | 50 |
| John Deere | | 2 | 0 | 10 | 5 | 3 | 3 | 5 | 23 | 28 |
| Wheel Loader | | 2 | 0 | 6 | 2 | 1 | 1 | 3 | 12 | 15 |
| Total Heavy equipment | | 280 | 269 | 354 | 216 | 164 | 294 | 272 | 1577 | 1849 |

Source: Company data

Chart 1: Breakdown of heavy equipment sales by industry



Source: Company data

| Fiscal Year End | | | | | | | |
|-------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Income Statement (USD mn) | FY 10/11 | FY 11/12 | 03/2013E | 03/2014F | 03/2015F | 03/2016F | 03/2017F |
| Sales Revenue | 498.6 | 671.7 | 719.5 | 840.1 | 971.1 | 1,129.4 | 1,202.9 |
| Gross Profit | 93.9 | 141.4 | 141.1 | 170.8 | 200.9 | 234.5 | 243.3 |
| Operating Income | 55.5 | 97.1 | 89.1 | 109.9 | 129.1 | 151.7 | 154.9 |
| Depreciation & Amortization | 2.5 | 4.1 | 5.0 | 5.5 | 6.3 | 7.3 | 7.8 |
| EBITDA | 58.0 | 101.2 | 94.1 | 115.3 | 135.5 | 159.1 | 162.7 |
| Other non-operating income | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Net Interest Income (expense) | (0.0) | (0.0) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) |
| Profit before tax | 55.5 | 97.0 | 89.0 | 109.8 | 129.0 | 151.6 | 154.8 |
| Tax expenses | (15.0) | (24.8) | (24.9) | (30.7) | (36.1) | (42.5) | (43.3) |
| Profit after tax | 40.5 | 72.2 | 64.1 | 79.0 | 92.9 | 109.2 | 111.5 |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Profit | 40.5 | 72.2 | 64.1 | 79.0 | 92.9 | 109.2 | 111.5 |
| Cash Flow (USD mn) | | | | | | | |
| Operating Cash Flow | 10.4 | 17.3 | 53.2 | 58.8 | 44.6 | 101.0 | 141.7 |
| Capex | 1.6 | 7.7 | 22.0 | 20.1 | 21.0 | 19.4 | 22.6 |
| Free Cash Flow | 8.8 | 9.6 | 31.2 | 38.6 | 23.6 | 81.6 | 119.1 |
| Dividends Paid | 17.3 | 32.5 | 28.8 | 35.6 | 41.8 | 49.1 | 50.2 |
| Debt Issuance (redemption) | (4.1) | 32.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt (cash) | (22.4) | 18.2 | (1.0) | (3.5) | 15.4 | (16.3) | (84.9) |
| Balance Sheet (USD mn) | | | | | | | |
| Cash & cash equivalents | 24.9 | 16.8 | 36.0 | 38.5 | 19.6 | 51.3 | 119.9 |
| Account Receivables | 77.5 | 107.1 | 106.0 | 139.0 | 140.7 | 180.5 | 158.3 |
| Inventories | 104.7 | 234.0 | 269.0 | 313.0 | 356.8 | 421.3 | 378.3 |
| Other Current assets | 3.4 | 7.8 | 5.5 | 6.4 | 7.4 | 8.6 | 9.1 |
| Net fixed assets | 30.5 | 34.1 | 51.1 | 65.8 | 80.4 | 92.5 | 107.3 |
| Other non-current assets | 12.0 | 13.4 | 13.1 | 13.7 | 14.4 | 15.2 | 15.6 |
| Total Assets | 253.0 | 413.2 | 480.7 | 576.4 | 619.4 | 769.4 | 788.5 |
| Short term Liabilities | 117.1 | 221.3 | 236.8 | 288.9 | 280.7 | 370.6 | 328.3 |
| Long term Liabilities | 4.2 | 5.2 | 21.9 | 22.0 | 22.1 | 22.2 | 22.3 |
| Total Liabilities | 121.2 | 226.5 | 258.7 | 310.9 | 302.8 | 392.8 | 350.6 |
| Shareholders' Equity | 131.8 | 186.7 | 222.0 | 265.5 | 316.6 | 376.6 | 437.9 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Equity & Liabilities | 253.0 | 413.2 | 480.7 | 576.3 | 619.4 | 769.4 | 788.5 |
| Key Ratio | | | | | | | |
| Revenue Growth (%) | 46.1% | 34.7% | 7.1% | 16.8% | 15.6% | 16.3% | 6.5% |
| EPS Growth (%) | 26.7% | 78.5% | -11.3% | 23.3% | 17.5% | 17.5% | 2.1% |
| EBITDA Margin (%) | 11.6% | 15.1% | 13.1% | 13.7% | 13.9% | 14.1% | 13.5% |
| Payout Ratio (%) | 35.8% | 40.0% | 45.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| ROE (%) | 30.7% | 38.7% | 28.9% | 29.8% | 29.4% | 29.0% | 25.5% |
| Quick Ratio (x) | 0.87 | 0.56 | 0.60 | 0.61 | 0.57 | 0.63 | 0.85 |
| Debt/Equity (%) | 1.9% | 18.7% | 15.8% | 13.2% | 11.1% | 9.3% | 8.0% |

Source: Company data, Sinarmas Sekuritas research

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