

11th October 2011

PT Indo Straits Tbk

Winning Over a Leading Competitor

BUY

First Semester Results on Track with Our Expectation.

PTIS net profit declined by 29.3% YoY to US\$1.9 million from US\$2.8 million. Declined in net profit is as a result of lower realization of new contracts which results in revenue declining slightly to US\$21.2 million in 1H2011 from US\$21.7 million 1H2010. In addition, the rising cost of revenue during 1H2011 also contributed to lower profitability, with gross margin down from 25% to 21.3% YoY. Upon the recently awarded transshipping deal, we upgrade our previous FY2011 estimates on revenue by 1.1 mil USD, and net profits, by 500k USD.

A Sizeable Transshipping Deal was Awarded.

PTIS accepted a transshipping project from PT. Arutmin Indonesia, a subsidiary of PT BUMI Resources TBK, for a minimum quantity of 2.4 mil ton of coal over an initial period of 6 months with an option to extend for another 6 months starting in September 2011. The six-month contract will bring an estimated 5.8 mil USD of revenue. For the rest of the year, the contract will result in additional 500k in net profit. By winning this bid over a leading competitor, PTIS has made its name out to the coal industry. For a long time, Arutmin has been a customer of its Civil Marine Engineering (CME) division. This shows the ability of PTIS to leverage its reputation as a CME contractor to get existing clientele into its coal barging and transshipping business.

Expansion in Transshipping Business Continues.

In line with the vision and mission at the time of the IPO, the company is ordering another Floating Crane or transshipping and is projected to be in operation early August 2012. The price tag for this unit is 19 mil USD, with 4.6 mil USD in cash from IPO proceed and the other part by bank financing. PTIS is looking to purchase up to three floating crane units within the next two to three years as well as the more sets of tug & barge units every year to capitalize on the fast growing coal mining industry.

Our Valuation for PTIS is Set at IDR 1,020.

At least for the time being, with the potential global recession going into 2012, we do not expect yet any slow down in the overall businesses. From our discussion with management and ground checks shows that we believe coal orders will remain strong at least through Jan 2012. Based on our DCF valuation, with WACC of 13% and long term growth rate of 4%, we have derived PTIS' valuation at IDR 1,020 for 2012F. Our valuation includes a discount of 20% due to lack of trading liquidity.

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Stock Data

	Engineering & Transportation
Sector	Engineering & Transportation
Price (IDR) - 11 Oct 2011	540
Target Price 2012	1,020
EPS 2011E—post IPO (IDR)	74
EPS 2012F (IDR)	119
Market Cap (IDR billion)	330
Issued Shares (mil) - Post IPO	550.17
Avg Daily Volume (mil)	0.241
PE2011E	7.3
PE2012F	4.5
Five Years Averages	
Sales Growth (%)	44.7
EPS Growth (%)	91.3
ROE (%)	14.9
Payout Ratio (%)	-
Shareholders— Post IPO %	
Straits Corporation Pte Ltd	77.73
PT Tiayanda Utama Mandiri	4.09
MESA	1.82
Public	16.36

REVENUE FORECAST	2011E	2012F	2013F
Revenue (US\$ million)	47.4	59.0	73.5
Gross Margin (%)	27	28	30
Revenue Growth (%)	12	25	25

<i>Fiscal Year End</i>	2009A	2010A	2011E	2012F	2013F	2014F
Income Statement (US\$ million)						
Sales Revenue	40.9	42.4	47.4	59.0	73.5	85.8
Cost of Goods Sold	(32.7)	(31.6)	(34.6)	(42.5)	(51.4)	(58.2)
Gross Profit	8.2	10.8	12.8	16.5	22.1	27.6
Operating Expenses	(3.6)	(5.6)	(6.4)	(6.3)	(6.9)	(7.6)
Operating Income	4.6	5.2	6.4	10.2	15.2	20.0
EPS (US\$)			0.01	0.01	0.02	0.03
Other Income (Expenses)	(0.9)	0.3	(1.1)	(1.2)	(0.8)	(0.3)
Income Before Tax	3.7	5.5	5.3	8.9	14.4	19.7
Income Tax Expense	(1.1)	(1.2)	(0.8)	(1.6)	(2.5)	(3.3)
Minority Interest	-	-	-	-	-	-
Net Income	2.6	4.3	4.5	7.3	11.9	16.4
Balance Sheet (US\$ million)						
Cash & Cash Equivalents	3.2	6.6	4.3	6.1	11.4	21.2
Account Receivables	1.5	4.7	7.8	9.7	12.1	14.2
Inventories	0.2	0.3	0.7	0.9	0.9	1.0
Other Current Assets	7.4	7.7	3.9	3.7	4.4	5.1
Net Fixed Assets	10.1	35.9	53.0	60.8	60.9	58.6
Total Non-Current Assets	11.1	36.4	58.6	66.2	66.6	64.5
Total Assets	23.3	55.6	75.4	86.6	95.4	105.9
Current Liabilities	12.8	13.5	17.0	24.8	26.1	33.6
Long-Term Liabilities	0.5	10.8	16.4	14.1	12.0	1.9
Total Liabilities	13.3	24.3	33.4	38.8	38.1	35.5
Shareholder's Equity	10.0	31.3	42.0	47.8	57.3	70.4
Minority Interest	-	-	-	-	-	-
Total Equity & Liabilities	23.3	55.6	75.4	86.6	95.4	105.9
Cash Flow (US\$ million)						
Operating Cash flow	11.7	(2.0)	7.8	11.3	16.4	21.8
Net Capex	(11.4)	(12.3)	(20.0)	(6.0)	(7.0)	(5.0)
Other Investing Items	-	0.0	(5.0)	-	-	-
Free Cash Flow	0.3	(14.3)	(17.2)	5.3	9.4	16.8
Dividends paid	-	-	(0.8)	(0.9)	(1.5)	(2.4)
Other financing items	(2.9)	17.7	15.7	(2.6)	(2.6)	(4.6)
Net Cash Flow	(2.6)	3.4	(2.3)	1.8	5.3	9.8
KEY RATIO						
Sales Growth (%)	21	4	12	25	25	17
Net Profit Growth (%)	35	67	4	61	63	38
Operating Margin (%)	11	12	14	17	21	23
Payout Ratio (%)	-	-	19	20	21	20
Acid-Test Ratio	0.37	1.16	0.7	0.6	0.9	1.1
ROE (%)	30	21	12	16	23	26
ROA (%)	10	11	7	9	13	16
EBITDA Margin (%)	16.7	15.7	21	28	30	32

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