Company Focus

United Tractors Tbk

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UNITED TRACTORS

Superior Brand Equity in Heavy Equipment Industry

BUY

We initiate coverage on United Tractors with BUY rating and a 12-month target price of IDR 30,500, implying 9.5% upside potential. United Tractors is the biggest distributor of heavy equipment and mining contractor in Indonesia. It has three divisions – Heavy Machinery Construction, Mining Contracting and Coal Mining. UNTR is the sole agent for Komatsu heavy equipment with market share of 50% in terms of sales in Indonesia. We forecast 2010-13 earnings CAGR of 29.3%. We estimate adjusted 2011 and 2012 ROE of 27.9% and 29.6%, respectively, with ROIC/WACC consistently above 1.3×.

Margin Recovery in 2012

While margin compression is expected in 2011, we estimate that this will not last as this compression is due to increase in the sales volume of large/giant heavy equipment which normally yields lower margin as compared to medium or small-sized heavy equipment. Year 2011 is characterized by significant increase in sales of large-sized heavy equipment and we do not expect this trend to last and we estimate margin to recover in 2013 as companies invest more in medium-sized equipment.

Greenfield Production to begin in 4Q2012

We estimate, based on our discussion with UNTR, that coal production volume to increase to 6.0 MM mT (millions metric tons) in 2012, up 36% from 4.4 MM mT in 2011. UNTR plans to increase its coal production further by actively engaging in acquisition of mining properties and concessions. While we believe that UNTR can synergistically leverage on its expertise in mining contracting, the barrier to entry into mining industry is simply too high as the market is too concentrated with top 5 companies commanding more than 50% market share in coal production volume terms.

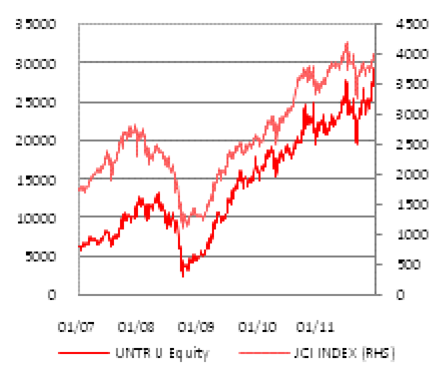
Valuation: initiate coverage with a BUY rating and price target of IDR 30,500

We derive our target price from a DCF-based valuation with a discrete growth rate forecast till FY2017E, followed by a terminal growth rate of 4%. We assume 14.2% WACC. Our target price indicates 2012E and 2013E P/E of 16.3× and 12.4×, respectively, with a 0.6× PEG.

Stock Data

Sector	Heavy Equipment
Price (27 January 2012)	IDR 27,850
Target Price 2012	IDR 30,500
12-month Rating	BUY
Prior	Not Rated
Ticker	UNTR.IJ (BBG); UNTR.JK (RIC)
Market Cap	IDR105 tr
Shares Outstanding (mn	3,730
Free Float (mm)	1,511
Avg. Daily Volume	166,500

UNTR Performance against JCI Index



Source: Bloomberg

	2009	2010	2011E	2012F	2013F
Revenues	29,242	37,324	54,119	62,218	80,664
EBIT	5,266	5,163	7,347	9,456	12,213
Net Income	3,818	3,873	5,418	6,986	9,167
EPS	1,147	1,164	1,453	1,873	2,458
Net DPS	460	441	581	749	983

In bn IDR except per share data; Source: Bloomberg, Company

Profitability	5-year average	2010	2011E	2012F	2013F
Gross Margin%	19.2%	18.2%	18.0%	19.5%	19.4%
EBIT Margin %	13.9%	13.8%	13.6%	15.2%	15.1%
EBITDA Margin %	21.0%	20.9%	19.5%	20.1%	19.6%
EV/EBITDA x			11.1	9.4	7.4
P/E x			21.0	16.3	12.4
Net Dividend Yield			2.0%	2.6%	3.4%

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Company Focus

United Tractors Tbk

Key Catalysts

Expansion in mining industry. Mining industry is poised to expand further and increase its production capacity to meet the domestic and global demand. We expect coal production volume to increase at a rate of 10-15% per annum from 2010-2013F.

Near-term production of Greenfield Mines. The recent acquisitions of coal mines in the last 2 years will start to generate revenue by the end of this year.

Scope for acquisition. United Tractors has assigned USD 250-300 MM for acquisition of mining properties and will spend more should opportunity arise to reach the target reserves of 500 MM mT.

Risks

Adverse Economic Conditions including recessions in the Eurozone countries, possible hard-landing scenario in China and the United States will dampen the mood to invest in capital goods as corporations are trying to conserve capital to weather the crisis. UNTR's sales are highly dependent on macroeconomic conditions.

Declining commodity prices will result in margin compression for commodity producing companies and thus reducing their ability to acquire new lands or engage in capital goods investment. Furthermore, revenue from mining contracting and mining divisions are highly susceptible to volatility in the coal markets as the companies do not hedge their positions.

Intense Competition. The level of industry competition ranges from medium to high and this could limit UNTR's ability to significantly raise its ASP. We expect ASP of heavy equipment to rise with inflation at around 3-4% per annum and this subjects to discussion with supplier and bargaining power of buyer. Furthermore, competition in mining contracting and mining businesses will also limit UNTR's bargaining power.

Execution risk. The ability of the company to maintain cash flow and generate revenue at our projected rate depends on its ability to expand sales, deliver equipment at timely manner, withstand the ongoing uncertainty and cope with extreme weather conditions. Failure to do so will result in slower than expected revenue growth forecast. Furthermore, UNTR, through its subsidiary PAMA, is bound by contractual agreement to perform (to remove certain amount of overburden and mine certain amount of coal). Sub-par performance will result in heavy penalty on PAMA and loss of trust by clients.

Efficiency issue. UNTR has many branches, particularly near the mining area. Inefficiencies stem from miscommunication, lack of in-depth training among all technicians and bureaucracy arises from interaction between divisions/subsidiaries will result in cost redundancies and thus lower-than-expected margin.

Acquisition risk. UNTR has actively engaged in acquisitions of mining properties in the last 4 years and will continue to do so to increase its coal reserves to 500 MM mT through its mining contracting division (PAMA) and its mining division. While this acquisition is expected to lead to expansion in growth and synergistic cost reduction, we believe that UNTR might have paid too much and as such will face difficulty in realizing the positive NPV from previous acquisitions especially during the rising coal prices. Furthermore, due to its gigantic complexities, markets may choose not to price in totally the acquisitions and the market value might not reflect fully the expected synergies.

Valuation and basis for our target price

Target Price of IDR 30,500, 9.5% above the current value, is derived from a DCF-based valuation with discrete growth forecast till FY2017 and a terminal growth of 4% thereafter. Our target price indicates 16.3× 2012E P/E and 9.4× 2012E EV/EBITDA. We assume 14.2% WACC and around IDR 5.8 tr capital expenditure in 2012 which will grow at CAGR of 6.4% till 2017. The capex growth rate is slightly above inflation as we believe UNTR will continue to engage in acquisition and half of the capex will be used to fund the acquisition of new mining properties while the other half is used for maintenance of existing assets.

Sinarmas Sekuritas versus Consensus

Our EPS estimate for 2012 and 2013 of IDR 1,873 and IDR 2,458 are 3.3% and 11.8%, respectively, higher than the consensus. Our buy rating is in line with consensus (26 BUY, 2 HOLD and 1 SELL).

		2011		2012E		2013E
	SMS Estimate	Consensus	SMS Estimate	Consensus	SMS Estimate	Consensus
Revenue	54,119	50,846	62,218	59,858	80,664	70,715
EBITDA	10,545	10,310	12,476	12,332	15,805	14,583
Operating Profit	7,347	7,178	7,347	8,768	12,213	10,945
Net Income	5,418	5,482	5,418	6,611	9,167	8,080
EPS	1,453	1,537	1,873	1,814	2,458	2,199

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Competitive Strengths

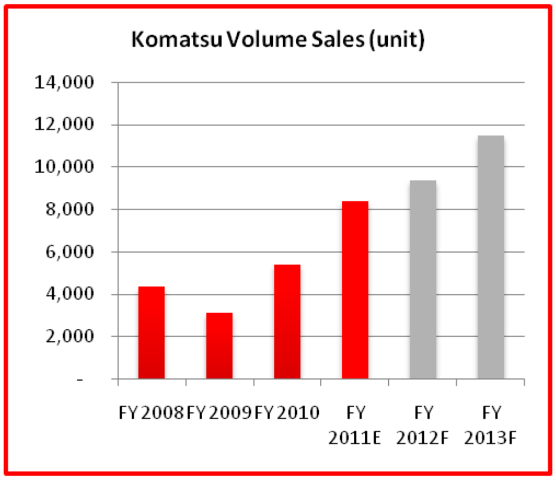
UNTR's brand equity

UNTR has established its brand prominence not only as the sole distributor of Komatsu Heavy Equipment with more than 40% market share consistently throughout the past 5 years, but also as the major mining contractor, commanding more than 30% share in the mining contracting market. UNTR is poised to benefit from the growing investment in the mining and plantation sector as it is the only company that offers sales of heavy equipment and mining contracting services, all in one house, allowing cross-transaction between divisions and comprehensive services to clients.

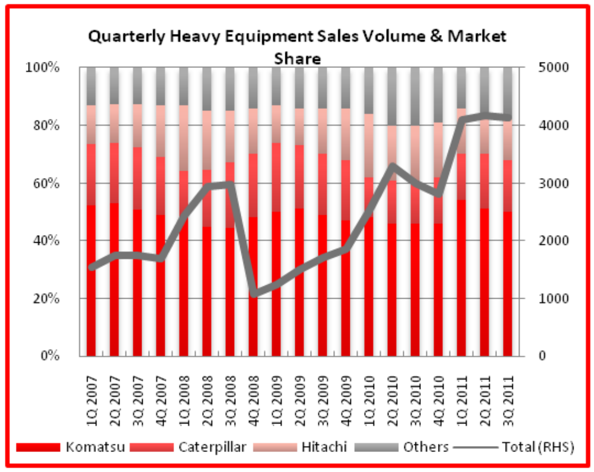
Heavy Machinery Division

UNTR has established itself as the leader in the heavy equipment industry. UNTR, backed by Komatsu, provides comprehensive products and superior services to clients allowing possible customization of products while maintaining competitive pricing. Customization of products is the core advantage of UNTR as unlike its competitors in which pricing and products marketing are controlled by parent manufacturers, UNTR has the flexibility to price, market and thus customize its products following the guidelines set by Komatsu.

Heavy Machinery division is expected to grow 15.8% in 2012F, down from 51.4% in 2011F to account for the uncertainty in the global markets which will deter companies to make commitments in capital goods investment. And that many mining companies have engaged pre-stripping activities in 2011 and thus, there will be less stripping activities expected in 2012. However, we do not expect this to last and we estimate a rebound to 29.9% in 2013. In terms of Komatsu unit sales, we expect significant fall in growth from 55% in 2011 to 11.2% in 2012 and a slight recovery to 23.0% in 2013.



Source: *Company data, Sinarmas Sekuritas Research*

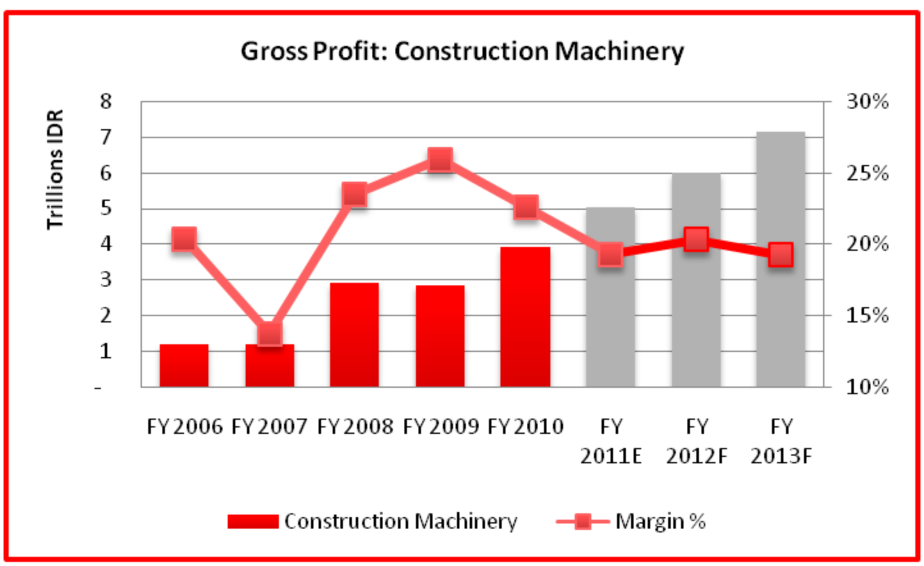


Source: *Company data, Sinarmas Sekuritas Research*

Slight Margin Recovery is expected

Due to increased sales in giant heavy equipment such as giant excavators which normally yields lower gross margin due to its expensive pricings, we expect margin to decrease in 2011. Prior to 2011, the ratio of giant equipment to small and medium sized equipment sold is around 1 to 4 but the ratio changed to 2 to 3 in 2011 due to high demand in giant excavators in the mining industry. However, under normal circumstances, companies usually invest in heavy equipment with the ratio of 1 giant/large excavator to 5 dump-trucks (medium-sized equipment). Since companies have invested heavily in giant excavators in 2011, we expect them to increase their purchase of dump-trucks to complement the performance of giant excavators and to improve efficiency of the transfer of mining products or palm fruits. While we still expect a significant purchase of giant excavators for Greenfield projects, the mix ratio will normalize at around 1 to 3.

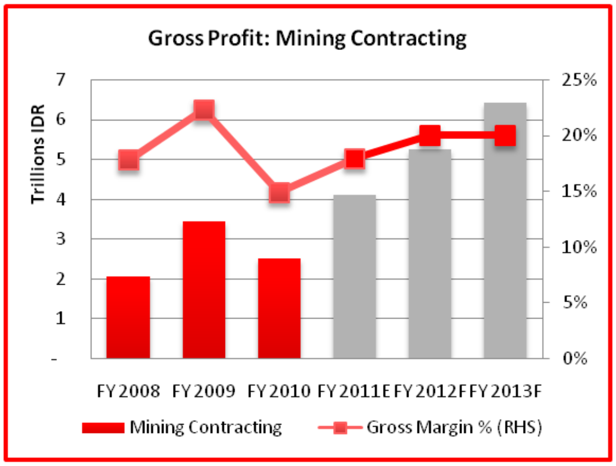
Companies will usually engage authorized dealer (UNTR) to repair, recondition and maintain the machineries to ensure smooth performance and minimize financial loss incurred due to downtime. Consequently, margin for parts & services division will be relatively constant and it tends to be a stable revenue stream for the company.



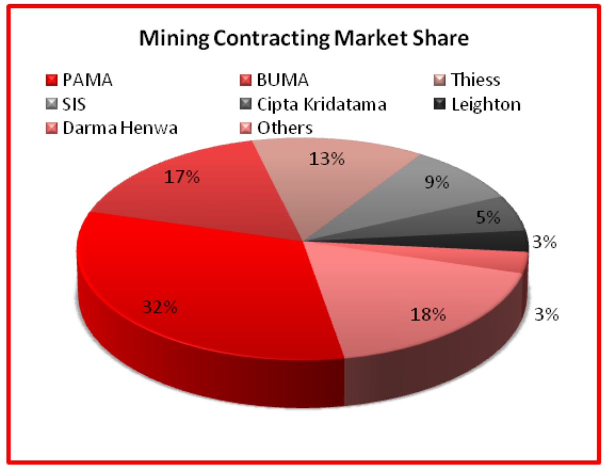
Source: *Company data, Sinarmas Sekuritas Research*

Mining Contracting

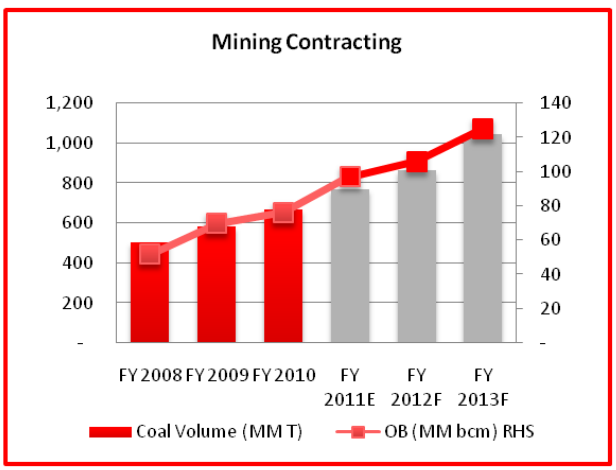
PAMA dominates the mining services industry with 32% market share based on production volume and it is highly experienced in surface mining for coal, quarry mining for limestone, road maintenance in mining site. Its key clients include Adaro, Indominco, Kaltim Prima coal and Kideco. Mining contracting is a relatively stable business as: (1) the contracts are usually long-term (3-5 years) and they include the fixed-fee payment so despite falling coal prices, mining contractor will still be paid the amount as stated in the contract; (2) fuel is a 100% pass-through cost; (3) Cost savings arising from inter-division purchase, purchase of remanufactured but cheaper equipment allow PAMA to have complete fleets of heavy equipment. However, currency mismatch arises from USD-denominated revenue while 40% of the cost is denominated in IDR will depress the margin if USD weaken against IDR. The weather condition, such as heavy rainfall resulting in wet and soft road unsuitable for transporting products plays a vital role in determining the gross margin for mining contracting.



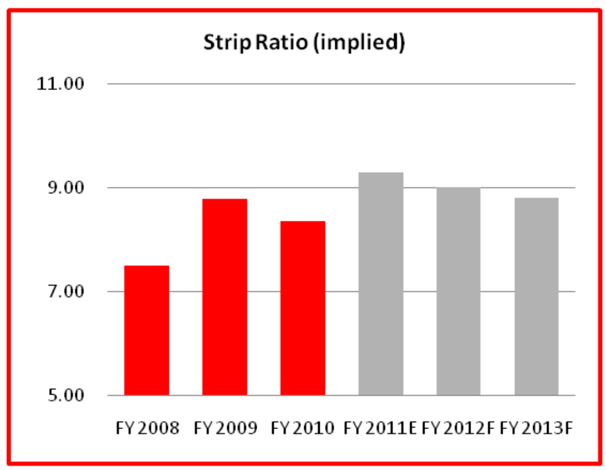
Source: *Company data, Sinarmas Sekuritas Research*



Source: *BUMA (based on 2009 production volume)*

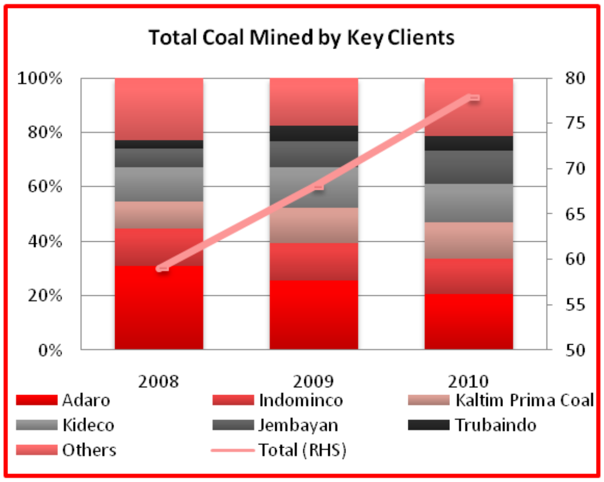


Source: *Company data, Sinarmas Sekuritas Research*

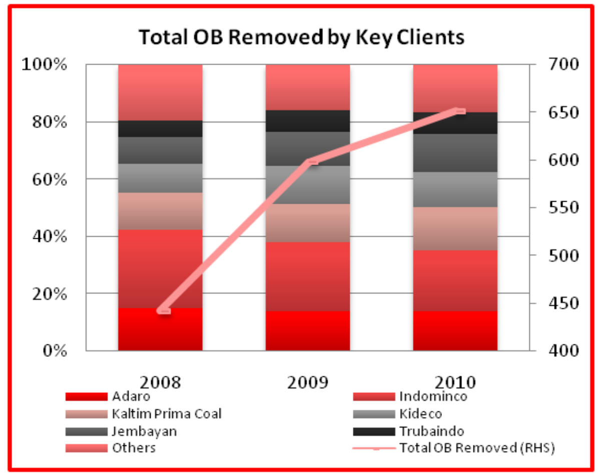


Source: *Company data, Sinarmas Sekuritas Research*

Stripping ratio increased in 2011 due to favorable weather condition for overburden removal and as such many customers request for pre-stripping activities in certain mining sites. This high stripping ratio is not sustainable and we estimate it to fall in 2012 and 2013 as more clients engage in coal mining activities.



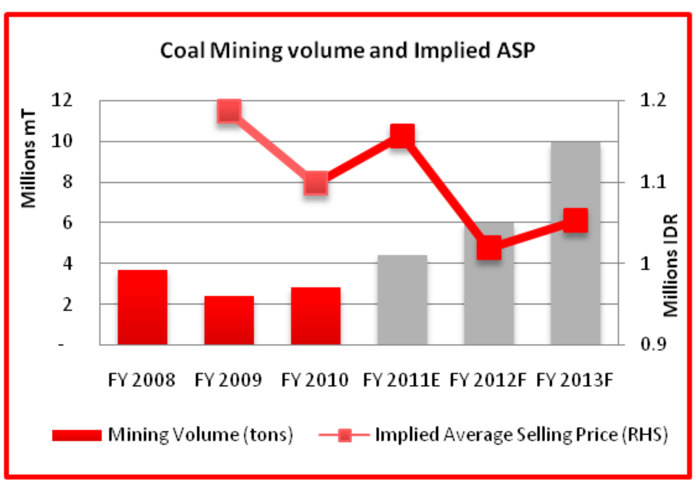
Source: Company data



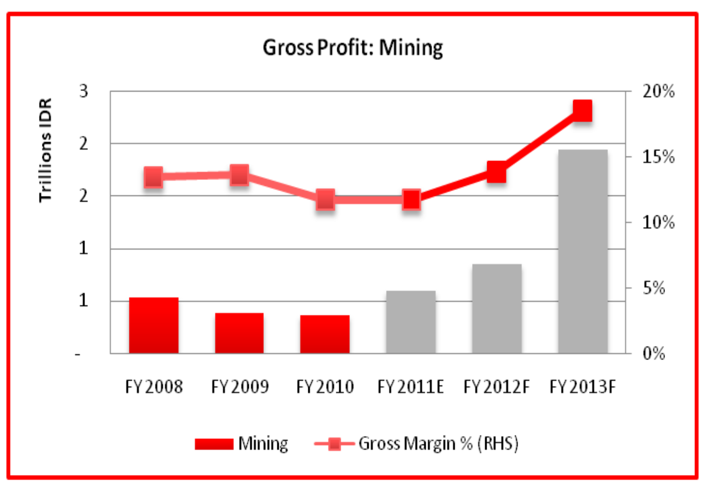
Source: Company data

Mining Division

Through PAMA and TTA, UNTR actively engaged in acquisition of mining properties and concessions and we estimate an increase in coal production volume in 2012 as we expect production from Greenfield mines to begin in 4Q2012. Fall in implied ASP per mT is estimated due to price stabilization of coal prices, lower quality of coal mined and strengthening IDR. We project gross profit margin to increase as initial cost of mining revenue is relatively high as currently there are still large number of Greenfield mines and UNTR is still in the infancy stage in coal extraction and processing, barging and trading. However, when more Greenfield mines start to produce and UNTR has gained more experience, we believe that the gross margin will converge to the level of the current mining companies (around 30%).



Source: Company data, Sinarmas Sekuritas Research



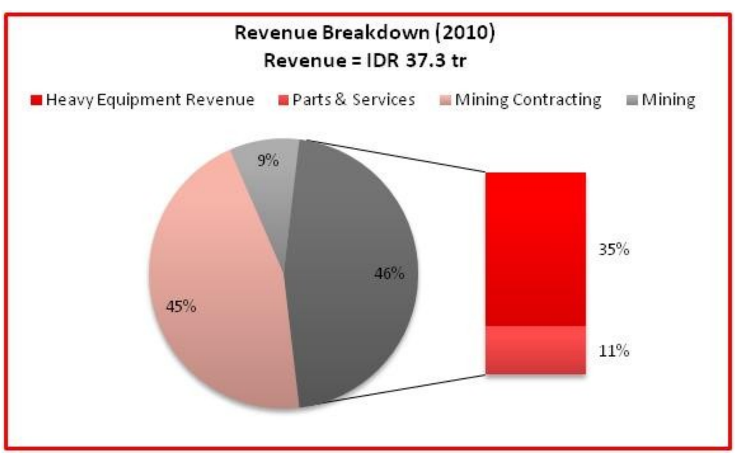
Source: Company data, Sinarmas Sekuritas Research

Financial
Income Statement

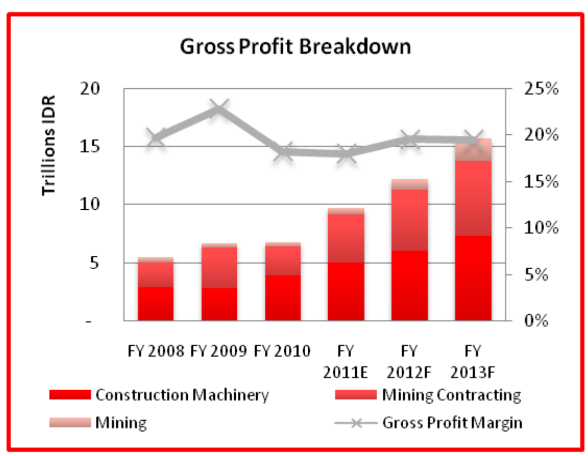
Income Statement Summary					
	2009	2010	2011E	2012F	2013F
Revenues	29,241,883	37,323,872	54,119,337	62,218,332	80,663,829
Cost of Revenue	(22,570,824)	(30,528,174)	(44,380,729)	(50,055,975)	(64,982,232)
Gross Profit	6,671,059	6,795,698	9,738,608	12,162,357	15,681,597
SG&A	(1,404,587)	(1,633,177)	(2,391,552)	(2,706,497)	(3,468,545)
EBIT	5,266,472	5,162,521	7,347,056	9,455,860	12,213,052
Other non-operating income	266,534	38,939	39,738	45,685	59,229
interest, net	(88,768)	(140,200)	(110,622)	(127,890)	28,091
Profit before tax	5,444,238	5,061,260	7,276,172	9,373,655	12,300,373
Taxation	(1,594,543)	(1,186,745)	(1,819,043)	(2,343,414)	(3,075,093)
Profit after tax	3,849,695	3,874,515	5,457,129	7,030,241	9,225,280
Minorities	(32,154)	(1,584)	(38,790)	(44,595)	(57,816)
Net Profit	3,817,541	3,872,931	5,418,339	6,985,647	9,167,464
Gross Margin	22.8%	18.2%	18.0%	19.5%	19.4%
EBITDA margin	24.4%	20.9%	19.5%	20.1%	19.6%
EBIT Margin	18.0%	13.8%	13.6%	15.2%	15.1%
NOPAT Margin	13.2%	10.4%	10.1%	11.3%	11.4%
Net Margin	13.1%	10.4%	10.0%	11.2%	11.4%
Revenue Growth	4.8%	27.6%	45.0%	15.0%	29.6%
EBITDA Growth	29.3%	9.5%	35.2%	18.3%	26.7%
EBIT Growth	26.6%	-2.0%	42.3%	28.7%	29.2%
Net Profit Growth	43.5%	1.5%	39.9%	28.9%	31.2%

Source: Company data, Sinarmas Sekuritas Research

Our forecast of 15% growth in 2012 depends heavily on the assumptions that Greenfield production will begin in 4Q2012 as mining division is projected to grow 19.8% in 2012 while machinery construction and mining contracting divisions are expected to grow at slower pace of 14.2% and 14.7%, respectively. Any delay in Greenfield production in the last quarter of 2012 or any significant events that can affect/slow down the coal production will have significant impact on this growth rate. However, the potential catalysts are: (1) coal prices to continue its upward trend; (2) IDR weakens against USD; (3) the quality of coal mined is of higher quality. These might offset the fallout in the production volume.



Source: Company data, Sinarmas Sekuritas Research



Source: Company data, Sinarmas Sekuritas Research

Major Assumptions

Assumption Summary					
	2009	2010	2011E	2012F	2013F
Construction Machinery					
Unit of Heavy Equipment Sold	3,111	5,404	8,400	9,346	11,495
yoy growth rate	-28%	74%	55%	11%	23%
ASP per unit	2,373	2,436	2,539	2,602	2,705
yoy growth rate	9%	3%	4%	2%	4%
Parts & Services	3,597,000	4,108,000	4,831,560	5,556,294	7,020,437
yoy growth rate	23%	14%	18%	15%	26%
Mining Contracting					
Overburden Removed	598	651	832	908	1,072
yoy growth rate	35%	9%	28%	9%	18%
Coal mined	68.00	78.00	89.45	100.85	121.81
yoy growth rate	15%	15%	15%	13%	21%
Implied Strip Ratio	8.8	8.3	9.3	9.0	8.8
Mining					
Coal Production volume	2,397,000	2,842,000	4,410,000	6,000,000	9,950,000
yoy growth rate	-35%	19%	55%	36%	66%
ASP	1,185,889	1,098,021	1,156,699	1,018,656	1,052,344
yoy growth rate	0%	-7%	5%	-12%	3%

Source: Company data, Sinarmas Sekuritas Research

For Construction Machinery division, we expect a sharp fall in growth rate of both unit volume of heavy equipment sold and ASP while only a slight decrease in Parts & Services division as Parts & Services division tends to be relatively resilient to exogenous factors. We too project a fall in growth rate for OB removed as more clients will engage in the mining process instead of pre-stripping activities in 2012 while a fall in growth rate of coal mined in mining contracting division acts as a buffer for our conservative view on the uncertainties in the global economies.

Balance Sheet

We expect a CAGR of 19% for its fixed assets from 2011 to 2013 as UNTR embarks on its aggressive expansion in the mining division and at the same time, opts to raise capital via debt issuance to take advantage of the current low yield. Consequently, we project UNTR to continue to have net debt position and estimate capex of around IDR 5.8 tr (9% of revenue) to be spent for investment in new manufacturing facilities, new heavy equipment for mining contracting division and mining properties/concessions in 2012 to increase coal reserves.

Projected Balance Sheet	2009	2010	2011E	2012F	2013F
Net Tangible fixed assets	11,835,726	13,261,374	15,004,930	17,829,778	18,935,662
Investment/other assets	335,640	488,222	596,653	544,416	734,225
Net Working capital	15,141,462	21,318,074	27,884,151	30,208,990	42,117,100
Net Cash (debt)	(966,851)	(4,337,135)	(3,438,581)	(3,974,845)	(119,944)
Other Liabilities	1,328,559	1,563,698	2,585,449	3,212,520	4,093,007
Total Equity	13,843,710	16,136,338	19,416,370	23,638,980	29,154,921
Minority Interest	107,370	29,068	29,068	29,068	29,068

Source: Company data, Sinarmas Sekuritas Research

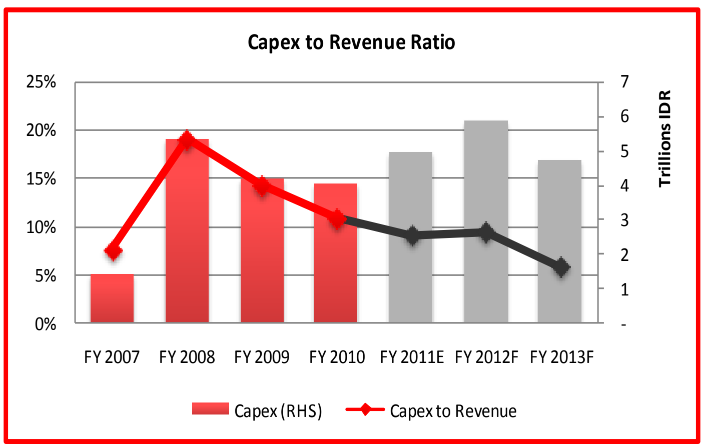
UNTR has cash generation cycle of around 46 to 51 days in the last 3 years and we forecast higher cash generation cycle for 2012 to account for increasingly difficult scenario for UNTR to convert its inventory into cash (especially coal inventory) and possibility of delay in payment from clients/ customers.

Calculation of Net Working Capital	2009	2010	2011E	2012F	2013F
Account Receivables	4,569,998	5,349,688	8,180,146	9,596,520	11,913,834
Inventory	3,966,358	6,931,631	7,998,721	8,613,594	12,040,465
Other Current Assets (ex. Cash)	683,890	1,908,223	1,756,374	2,091,841	2,662,983
Trade Payables	(4,838,529)	(5,783,512)	(7,872,097)	(7,529,742)	(12,464,792)
Other ST Liabilities	(1,082,687)	(1,345,020)	(2,076,814)	(2,377,293)	(3,035,026)
Net Working Capital	15,141,462	21,318,074	27,884,151	30,208,990	42,117,100
Days of Receivables	51	49	46	52	49
Days of Inventory	74	65	61	61	58
Days of Payables	80	63	56	56	56
Net Cash Cycle	46	50	51	57	51

Source: Company data, Sinarmas Sekuritas Research

Cash Flow

Free cash flow is expected to recover in 2011 and we estimate total free cash flow of IDR 13.2 tr for 2011-2013 with total capex of IDR 15.5 tr within the same period. Capex-to-sales ratio is estimated to hover around 9%. While current capex-to-revenue ratio is higher than industry standard, we can account this to UNTR's aggressive acquisition and the current low revenue stream generated from mining division. We expect this to fall to a more sustainable level of 4 -5% for assets maintenance from 2014 onwards. We also assume a dividend payout ratio of 40% throughout our projection period.



Source: Company data, Sinarmas Sekuritas Research

Projected Cash Flow	2009	2010	2011E	2012F	2013F
EBIT	3,849,695	3,874,515	7,347,056	9,455,860	12,213,052
Depreciation	1,857,387	2,634,745	3,198,296	3,020,425	3,591,806
Working Capital (increase)	(277,001)	(2,308,803)	(681,076)	(2,011,784)	(269,889)
Tax paid	(1,594,543)	(1,186,745)	(1,819,043)	(2,343,414)	(3,065,027)
Operational Cashflow	3,835,538	3,013,712	8,045,233	8,121,087	12,469,942
Capex	4,187,865	4,060,393	4,941,852	5,845,273	4,697,690
Increase in other LT assets	(120,786)	(327,109)	(225,482)	(52,368)	(341,131)
Increase in deferred revenue	(22,058)	(81,608)	187,991	34,549	78,686
Dividend Payout	(1,530,360)	(1,466,600)	(2,167,336)	(2,794,259)	(3,654,906)
Increase in debt	(1,128,552)	1,944,317	792,998	918,953	1,233,545
Enterprise Value FCF	(352,327)	(1,046,681)	3,103,381	2,275,814	7,772,253

Source: Company data, Sinarmas Sekuritas Research

ROE Analysis

We estimate a higher return on capital employed (ROCE) at 23%-25% in 2011-2013 as compared to around 20%-22% in 2009 and 2010. As compared to its closer peer, PT Hexindo Adiperkasa Tbk (HEXA), UNTR's ROCE is far below that of HEXA and this can be explained due to UNTR's higher capex from its mining contracting division, PAMA, and mining division. Profitability of UNTR will be more sensitive to falling coal/commodity prices than that of HEXA and thus this result in UNTR having lower ROCE.

Return on Capital Summary

	2009	2010	2011E	2012F	2013F
Asset Turnover	1.2	1.3	1.5	1.5	1.5
EBIT Margin	0.2	0.1	0.1	0.2	0.2
EBIT/Total capital	30%	24%	28%	30%	32%
ROIC	13%	11%	13%	13%	14%
IC as % capital employed	100%	100%	100%	100%	100%
ROCE	22%	20%	23%	24%	25%
Operating Margin	18%	14%	14%	15%	15%
Interest Burden	1.0	1.0	1.0	1.0	1.0
Tax and minorities burden	0.7	0.8	0.7	0.7	0.7
Total Asset Turnover	1.2	1.3	1.5	1.5	1.5
Financial Leverage	1.7	1.8	1.9	1.8	1.9
ROE (DuPont)	27%	24%	28%	30%	31%
ROE	28%	24%	28%	30%	31%

Source: Company data, Sinarmas Sekuritas Research

Ticker	Name	Revenue (bn IDR)	Gross Margin	Op Profit Margin	Profit Margin	ROA	ROE	ROCE
	Average	N/A	18.03	11.00	7.73	13	29	23
UNTR	**UNITED TRACTORS TBK PT**	**37,323.87**	**17.99**	**13.58**	**10.01**	**15**	**28**	**23**
HEXA	HEXINDO ADIPERKASA TBK PT	4,485.24	18.84	11.12	8.65	18	37	36
INTA	INTRACO PENTA TBK PT	1,833.18	17.27	8.28	4.53	6	21	10

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Valuation

Target price was derived via DCF-valuation methodology and we discretely forecast growth rate of each division till 2017 and assume constant long term terminal growth rate of 4%. We believe DCF valuation is appropriate because of the availability and visibility of its revenue and earnings under stable macroeconomic condition and there is a lagging period for the investment in mining concessions/properties to generate revenue and DCF allows us to discretely forecast the revenue generated from the mining division. We estimate a target capital structure or D/E ratio of 0.4 and tax rate of 25% and we calculated WACC to be 14.20%.

Comparables

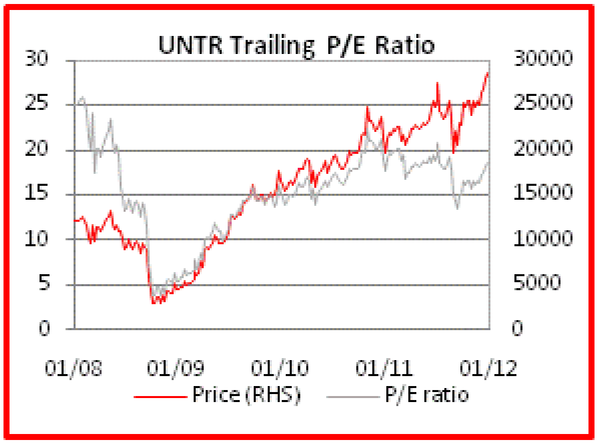
Domestic Peers	EV/EBITDA		P/E		PEG	
	2011	2012	2011	2012	2011	2012
Intraco Penta	N/A	N/A	8.86	6.97	N/A	N/A
Hexindo Adiperkasa	13.27	9.46	19.96	14.02	0.61	0.43
Adaro Energy	5.97	4.73	12.06	8.97	0.39	0.29
Delta Dunia Makmur	5.55	4.50	30.89	12.73	0.57	0.23
Bumi Resources	6.70	5.46	12.20	8.25	0.22	0.15
Bayan Resources Group	17.55	13.61	27.43	19.74	0.20	0.14
Harum Energy	8.06	5.74	12.00	8.27	0.43	0.30
Simple Average	8.38	7.56	18.06	11.91	0.45	0.30
United Tractors	11.08	9.40	21.00	16.27	0.72	0.56

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Company Focus

United Tractors Tbk

Our target price implies a P/E multiple of 21.0 for 2011E, 16.3 for 2012F and 12.4 for 2013F. While this is higher than average comparables, we believe it is justified as there is a growth potential for UNTR especially in its mining division. Furthermore, its PEG is higher than the average which supports our view that UNTR should trade at premium.



Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Appendix
Company Background

United Tractors was founded on 13 October 1972 as sole distributor of Komatsu heavy equipment in Indonesia. UNTR is currently the leading distributor of heavy equipment in Indonesia. The company has three business divisions: Construction Machinery, Mining Contracting and Mining.

Construction Machinery Division

Construction Machinery division serves as sole distributor of Komatsu, Nissan Diesel, Scania, Bomag, Valmet and Tadano. With wide range of products offered, the company is able to meet demand for heavy equipment from major sectors that include mining, plantation/agribusiness, construction, and forestry. After-sales service is available for all domestic customers through a wide distribution: network in 18 branch offices, 17 site-support offices and 12 representative offices. Subsidiaries (PT United Tractors Pandu Engineering (UTPE), UT Heavy Industries Pte. Ltd. (UTHI), PT Komatsu Remanufacturing Asia (KRA), PT Bina Pertiwi (BP), PT Multi Prima Universal (MPU) and PT Andalan Multi Kencana (AMK)) support this division by offering related products and services that complement to the core business.

Mining Contracting Division

Mining Contracting division is managed by PT Pamapersada Nusantara (PAMA). PAMA is established in 1988 and with its 3 subsidiaries, PT Pama Indo Mining (PIM), PT Kalimantan Prima Persada (KPP) and PT Prima Multi Mineral (PMM), PAMA offer superior mining services covering mining design, exploration, infrastructure construction, mining transportation, barging and loading. Due to its extensive network and business in prime coal mining areas, PAMA is known to be the largest and most trusted mining contractor in Indonesia.

Mining Division

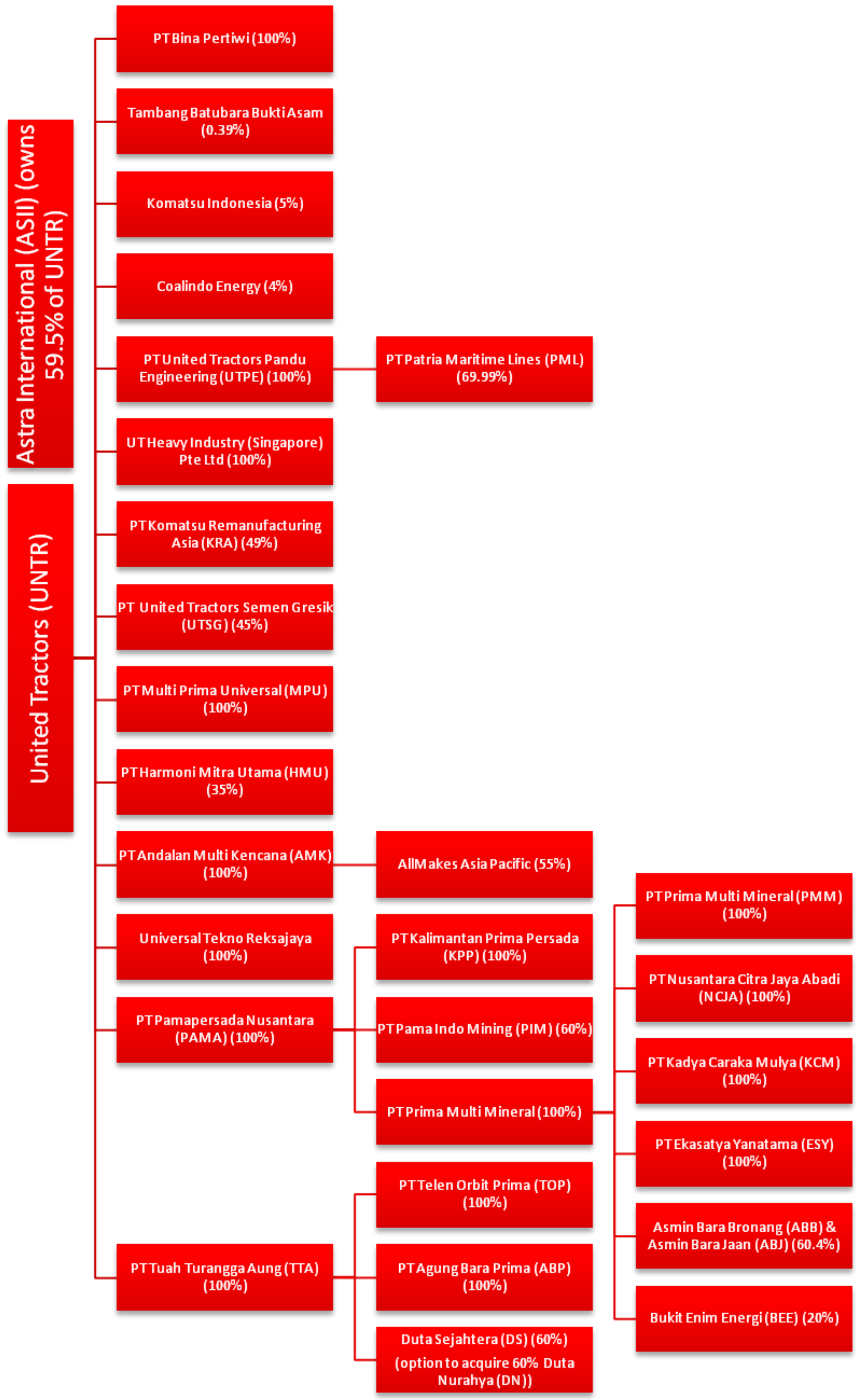
This division is related to UNTR's activity as coal mining operator through Dasa Eka Jasatama (DEJ) mines, a subsidiary of PAMA. DEJ is located in Rantau, South Kalimantan and it possesses high quality coal with calorie content of 6,700 kcal and production capacity of 2.5 MM mT per year. Besides DEJ, UNTR stepped up the mining division by acquiring PT Tuah Turangga Agung (TTA) which is located in Kapuas Regency, Central Kalimantan.

Summary of Mine Ownerships:

Concession	% Ownership	Location	Mineable Reserves (in MM mT)	Quality (kcal)
PMM Mines	100%*	Rantau, South Kalimantan	14	6700
Tuah Turangga Agung Mine	100%	Kapuas, Central Kalimantan	36	6300
Agung Bara Prima (ABP) Mine	100%**	Kapuas, Central Kalimantan	9.2	6300
Bukit Enim Energi (BEE) Mine	20%*	Muara Enim, South Sumatra	110	4500-6000
Asmin Bara Bronang (ABB) and Asmin Bara Jaan (ABJ)	60.4%*	Kapuas & Murung Raya, Central Kalimantan	60-100	5800-6900
Duta Sejahtera (DS) Mine	60%**	Bario Utara, Central Kalimantan	25-100	6000-6300
Combined Reserves			254-369	
***: Owned by PAMA**				
****: Acquired via TTA**				

Source: Company data

Corporate Structure



Source: Company data, Sinarmas Sekuritas Research

Company Focus

United Tractors Tbk

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Fiscal Year End	2009	2010	2011E	2012F	2013F
Income Statement (IDR bn)					
Sales Revenue	29,242	37,324	54,119	62,218	80,664
Gross Profit	6,671	6,796	9,739	12,162	15,682
Operating Income	5,266	5,163	7,347	9,456	12,213
Depreciation & Amortization	1,857	2,635	3,198	3,219	3,757
EBITDA	**7,124**	**7,797**	**10,545**	**12,841**	**16,354**
EPS (IDR)	**1,147**	**1,164**	**1,453**	**1,907**	**2,522**
Net Interest Income (Expenses)	(89)	(140)	(111)	(128)	28
Other Income (Expenses)	266	39	40	46	59
Extraordinary items	0	0	0	0	0
Minority Interests	32	2	39	45	58
Pretax Income	5,444	5,061	7,276	9,374	12,300
Income Tax Expense	1,594	1,187	1,819	2,343	3,075
Net Income	**3,818**	**3,873**	**5,418**	**6,986**	**9,167**

Cash Flow (IDR bn)					
Operating Cash Flow	**3,836**	**3,014**	**8,045**	**8,121**	**12,456**
Capex	4,188	4,060	4,942	5,845	4,698
Free Cash Flow	**(352)**	**(1,047)**	**3,103**	**2,276**	**7,772**
Dividends paid	1,530	1,467	2,167	2,794	3,655
Equity Raised (Buy Back)	0	0	0	0	0
Net Cash (Debt)	(967)	(4,337)	(3,439)	(3,859)	(857)
Debt Issuance (Retirement)	(1,129)	1,944	793	952	1,261
Net Cash Flow	**(3,154)**	**(978)**	**1,691**	**383**	**5,088**

Balance Sheet (IDR bn)					
Cash & Cash Equivalents	2,769	1,343	3,035	3,417	8,506
Account Receivables	4,570	5,350	8,180	9,596	11,914
Inventories	3,966	6,932	7,999	8,614	12,040
Other Current Assets	684	1,908	1,756	1,237	2,757
Net Fixed Assets	11,834	13,261	15,005	17,830	18,936
Other Non-current Assets	580	907	1,132	1,185	1,526
Total Assets	**24,405**	**29,701**	**37,107**	**42,734**	**55,585**
Short-term Liabilities	7,259	9,919	12,984	13,339	19,384
Long-term Liabilities	3,195	3,616	4,678	5,723	7,016
Total Liabilities	**10,454**	**13,535**	**17,662**	**19,062**	**26,400**
Shareholder's Equity	13,844	16,136	19,416	23,639	29,155
Minority Interest	107	29	29	29	29
Total Equity & Liabilities	**24,405**	**29,701**	**37,107**	**42,734**	**55,585**

KEY RATIO					
Sales Growth (%)	4.8	27.6	45.0	18.1	31.1%
EPS Growth (%)	29.8	1.5	24.8	31.3	32.2
EBITDA Margin (%)	24.4	20.9	19.5	20.1	19.6%
Payout Ratio (%)	40.1	37.9	40.0	40.0	40.0
ROE (%)	28	24	28	30	31
Quick Ratio (x)	1.1	0.9	1.0	1.1	1.2
Debt/Equity (%)	0.27	0.35	0.33	0.31	0.30
EV/EBITDA			11.1	9.4	7.4
P/E (x)			21.0	16.3	12.4

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Company Focus

United Tractors Tbk

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