

30 August 2012

PT UNITED TRACTORS Tbk

Heavy Equipment

As expected, July sales were weak but we are particularly disappointed with the dismal figure. It was mere 402 units (-44.8% yoy; -19.9% mom) at market share of 44% (still inline with their target) and we are specifically worried about its ability to reach our target of 7,869 units (to do so, UNTR needs to sell at least 647 units per month with August having shorter than average working days, we expect August figure to be similar or even weaker). 7M2012 sales is 58.9% of our target or 54.5% of the target the firm set (8,500 units and to reach this target, UNTR needs to sell at least 773 units per month). With commodities market, particularly coal, still facing challenging environment, we are less sanguine that reaching the target the firm set is possible and potential downward revision is imminent unless the outlook improves. However, it is still possible that, with best effort, the firm is still able to reach our target and thus we maintain the 2012 target at 7,869 units.

Key upside potential includes: (1) faster than expected recovery in the coal markets prompting many coal mining firms to boost capital expenditure; (2) sustained recovery in the Chinese economy which will drive up demands for construction and heavy equipment resulting in reallocation of assets to other emerging markets by companies; (3) European leaders reach conclusive solutions that will drive market sentiments up and prompt recovery of economy which will drive capex up.

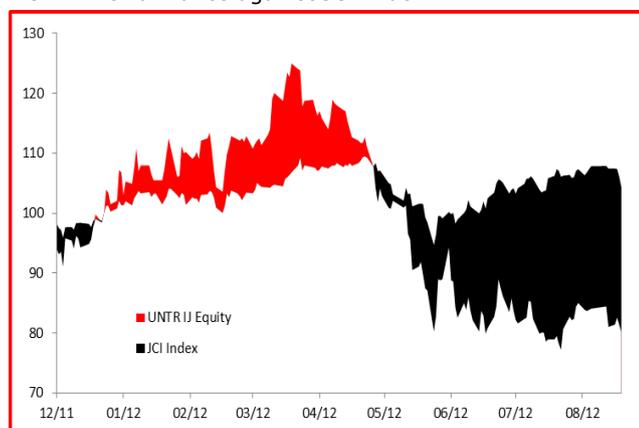
Key risks include: (1) prolonged coal markets rout resulting in delayed capital expenditure/expansions by more mining companies (ITMG has reported a reduction of 36% of its originally planned capex to USD133mn and ADRO has reduced its capex from USD650mn to USD400-500mn and the largest reduction in capex will be for heavy equipment as current ADRO's fleet is enough to provide sufficient capacity to reach their production targets (1H12, ADRO spent USD80mn to purchase 200 and 150 ton hydraulic excavators and dump trucks from Hitachi and Komatsu) and the firm will purchase more equipment to meet its allocation target in 2H12 providing relief to heavy equipment companies); (2) Increasing risk of hard-landing in Chinese economy; (3) New energy source has been identified and its technology is currently under development in Indonesia (for example, Underground Coal Gasification—PT Medco Energi Mining Internasional and Cougar Energy has signed MoU for this project) with potential application in the future; (4) As mentioned in the previous reports, further deterioration in the global economies and mining industry, especially intensification of EU crisis, will prompt more companies to delay capex to preserve cash as buffer for the next storms.

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Stock Data

Sector	Heavy Equipment
Price (30 Aug 2012)	IDR 21,150
Target Price 2012	IDR 20,400
12-month Rating	UNDERWEIGHT
Prior	U/W (TP IDR 20,400)
Ticker	UNTR.IJ (BBG); UNTR.JK (RIC)
Market Cap	IDR78.9 tn
Shares Outstanding	3,730 mn
Free Float	1,511 mn

UNTR Performance against JCI Index



Source: Bloomberg

Profitability	5-year average	2010	2011	2012F	2013F	2014F
Gross Margin%	19.4%	18.2%	18.5%	17.7%	17.2%	18.2%
EBIT Margin%	14.8%	13.8%	13.8%	13.1%	12.9%	13.7%
EBITDA Margin%	21.0%	21.7%	20.1%	19.3%	18.9%	17.7%
EV/EBITDA x				7.6	7.1	6.4
P/E x				12.8	12.0	9.4
Net Dividend Yield				3.1%	3.3%	4.2%

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Mining Contracting

Improving weather conditions should further support improvement in OB removal and coal mined with 7M2012 figures are 55% of our target.

Mining Division

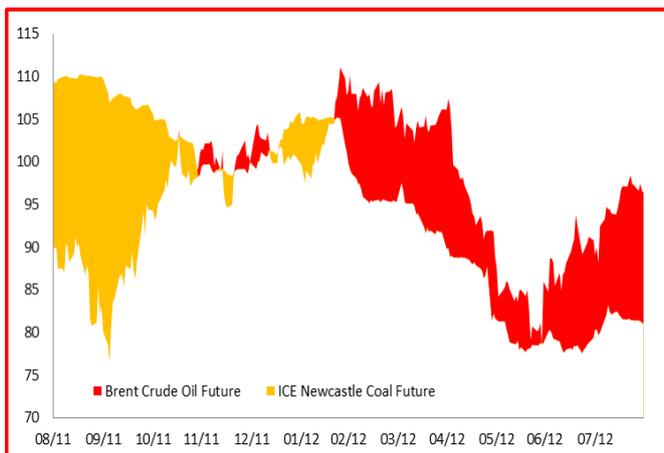
While the performance is relatively inline with our expectation with 7M2012 coal sales volume of around 3.5mn Tons (vs our target of 6.2mn Tons or 57% of our target), the spread between prices of coal and crude oil has once again widened, potentially resulting in margin compression and exacerbating the already dismal outlook and profitability of coal mining division.

Summary

We maintained an UNDERWEIGHT rating on UNTR with Target Price of IDR20,400. While the firm will have to go extra miles to reach the target, we are confident that the firm is managed on good hands. Complacency is definitely not in the management team's vocabulary and we should expect results as they defend Komatsu market share stoutly with all the incentive plans and collaborations with financing arms of Astra in place. The industry is currently facing a challenging environment and Komatsu (and UNTR) will not escape unscathed. Despite our UNDERWEIGHT rating, its share is a good buy for long term investment as once recovery of coal and mining industries gains traction, the share will experience significant rise as it is leveraged to coal/mining markets.

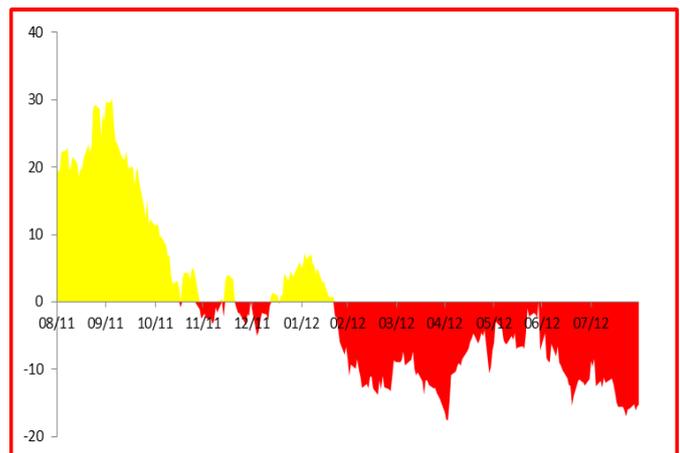
Mining division will still be under pressure as spread between crude oil and coal widens and coal prices are still under pressure due to slowing down of global, particularly Chinese, economy and development of potential new energy source (underground coal gasification, Liquid Thorium Fluoride Reactor (LTFR), shale gas, etc). Despite these, coal still has its future and it will still be main energy source for AxJ unless there is change in plan to shift to greener and more efficient source of energy or a cheaper alternative energy with easy application has been discovered. IDR depreciation against the greenbacks will provide some cushion to the decline in volumes and slight margin expansion for mining contracting and mining divisions as the revenue streams are in USD but costs are mainly in IDR.

Chart 1: ICE Newcastle Coal Future and Brent Crude oil Future



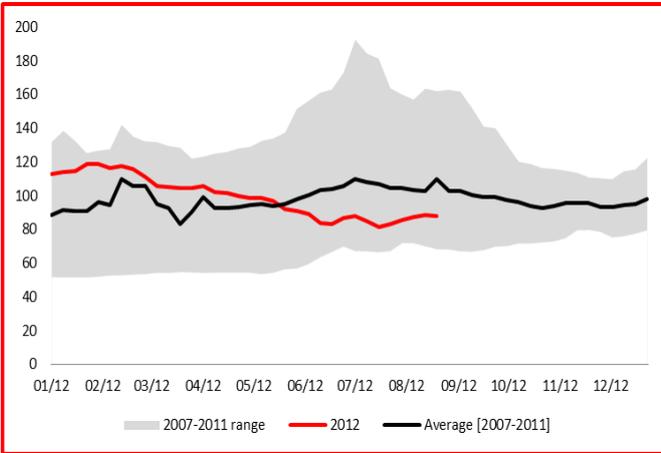
Source: Bloomberg
Normalized at 3/1/2012 = 100

Chart 2: Spread between Coal—Crude Oil



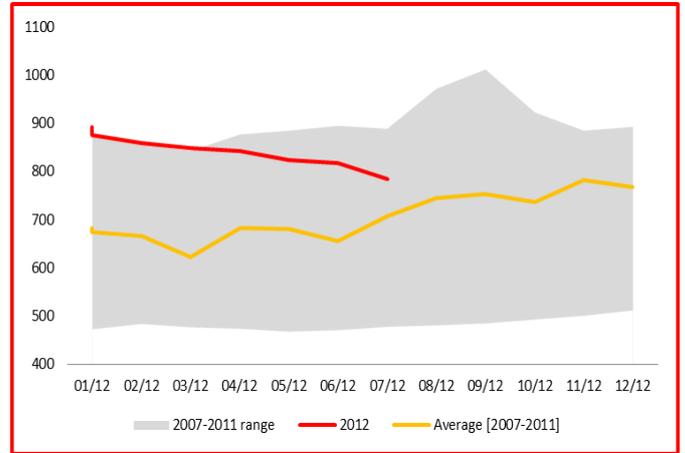
Source: Bloomberg
Spread based on normalized at 3/1/2012 = 100. Prices derived from ICE Coal Future and Brent Crude Oil Future.

Chart 3: McCloskey Newcastle Steam Coal Spot Price-FOB Newcastle (USD/ton)



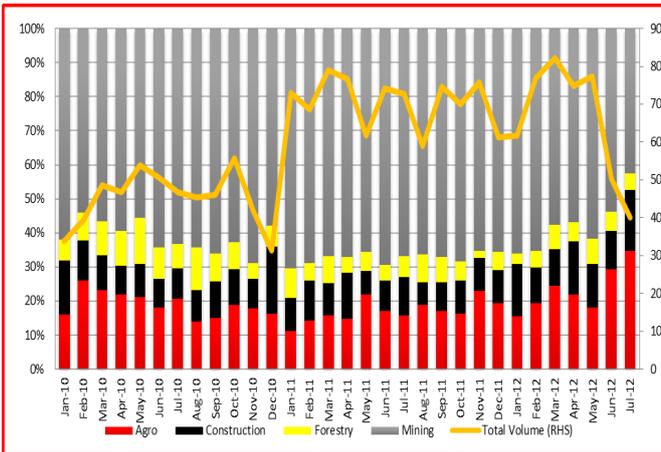
Source: McCloskey (accessed via Bloomberg)

Chart 4: McCloskey/Xinhua Infolink's Steam Coal Price—FOB Qinhuangdao (CNY/ton)



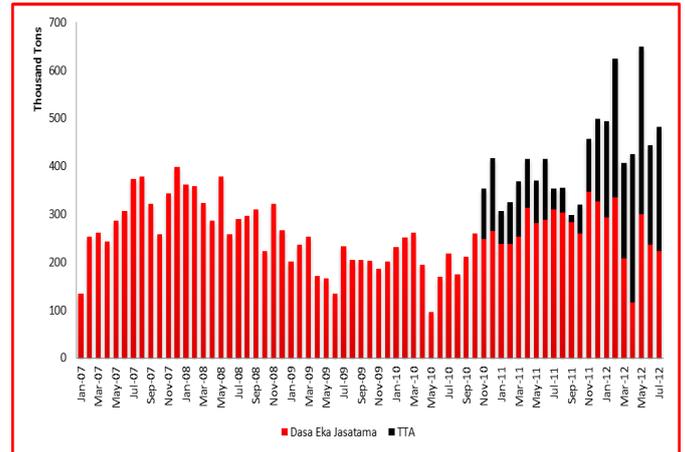
Source: McCloskey (accessed via Bloomberg)

Chart 5: UNTR Monthly Heavy Equipment Sales



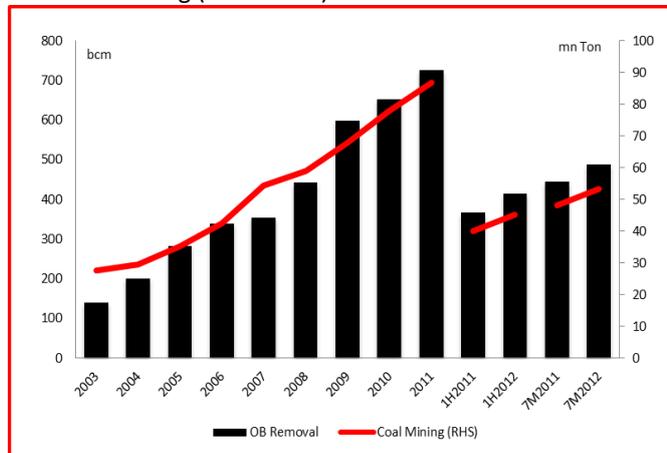
Source: Company data

Chart 6: Coal Monthly Sales Volume



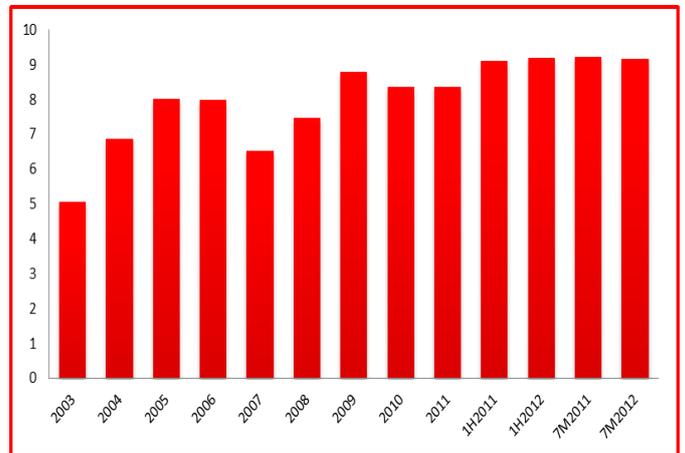
Source: Company data

Chart 7: Mining Contracting OB Removal (in mn bcm) and Coal mining (in mn tons)



Source: Company data

Chart 8: Implied Stripping ratio



Source: Company data

Fiscal Year End

Income Statement (IDR mn)	2010	2011	2012E	2013F	2014F
Sales Revenue	37,323,872	55,052,562	60,840,408	66,599,635	78,709,244
Gross Profit	6,795,698	10,193,521	10,790,787	11,435,045	14,329,754
Operating Income	5,162,521	7,615,098	7,981,809	8,570,834	10,777,228
Depreciation & Amortization	2,952,125	3,428,272	3,772,105	3,995,978	3,148,370
EBITDA	8,114,646	11,043,370	11,753,914	12,566,812	13,925,598
Other non-operating income	38,939	208,282	42,588	39,960	47,226
Net Interest Income (expense)	-140,200	-38,803	-52,989	-122,823	-44,761
Profit before tax	5,061,260	7,784,577	7,971,408	8,487,971	10,779,693
Tax expenses	-1,186,745	-1,885,071	-1,992,852	-2,121,993	-2,694,923
Profit after tax	3,874,515	5,899,506	5,978,556	6,365,978	8,084,770
Minority Interests	-1,584	1,402	0	0	0
Net Profit	3,872,931	5,900,908	5,978,556	6,365,978	8,084,770
Cash Flow (IDR mn)					
Operating Cash Flow	2,423,881	9,947,819	11,583,940	6,461,555	13,122,735
Capex	3,357,689	5,258,071	6,250,000	5,626,136	6,076,227
Free Cash Flow	-933,808	4,689,748	5,333,940	835,419	7,046,508
Dividends Received from Investments	23,550	17,939	0	0	0
Dividends Paid	-1,629,228	-1,697,214	-2,391,422	-2,546,391	-3,233,908
Debt Issuance (redemption)	1,539,128	-1,493,506	2,359,769	833,841	1,106,136
Share Capital increase	0	602,318	0	0	0
Net debt (cash)	3,879,249	-3,065,384	-5,720,313	-4,269,551	-8,436,443
Balance Sheet (IDR mn)					
Cash & cash equivalents	1,343,220	7,135,386	11,981,640	11,125,465	16,086,162
Account Receivables	5,349,688	9,969,714	6,930,399	11,569,499	10,294,180
Inventories	6,931,631	7,129,459	7,820,253	8,619,467	10,059,295
Other Current assets	1,908,223	1,391,019	1,519,134	1,655,010	1,988,270
Net fixed assets	13,261,374	19,395,857	17,617,665	19,247,823	22,175,680
Other non-current assets	906,778	1,418,627	4,148,710	3,709,084	3,416,613
Total Assets	29,700,914	46,440,062	50,017,802	55,926,349	64,020,200
Short term Liabilities	9,919,225	14,930,069	14,532,542	16,123,467	18,513,297
Long term Liabilities	3,616,283	4,006,045	4,376,950	4,856,886	5,691,034
Total Liabilities	13,535,508	18,936,114	18,909,492	20,980,353	24,204,331
Shareholders' Equity	16,136,338	26,320,449	29,924,811	33,762,496	38,632,370
Minority Interest	29,068	1,183,499	1,183,499	1,183,499	1,183,499
Total Equity & Liabilities	29,700,914	46,440,062	50,017,802	55,926,349	64,020,200
Key Ratio					
Revenue Growth (%)	27.64%	47.50%	10.51%	9.47%	18.18%
EPS Growth (%)	1.45%	42.30%	-3.24%	6.48%	27.00%
EBITDA Margin (%)	21.74%	20.06%	19.32%	18.87%	17.69%
Payout Ratio (%)	37.87%	40.00%	40.00%	40.00%	40.00%
ROE (%)	24.00%	22.42%	19.98%	18.86%	20.93%
Quick Ratio (x)	0.87	1.24	1.41	1.51	1.53
Debt/Equity (%)	35.20%	17.87%	23.60%	23.39%	23.30%

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