

**Heavy equipment backlog rose from six months to one year.** As of 1H18, Komatsu sales grew by 37% to 2,400 units (50% of our FY18 estimate). Meanwhile, due to higher contribution from the mining sector, demand for big machineries almost doubled compared to the previous year. We expect UNTR to record 1,300 of big machineries sales this year, accounted for 27% of total FY18E heavy equipment sales. Given the strong demand, management stated that the order backlog has increased from the average of six months in the previous year to one year. This should secure revenue booking from Komatsu for the next twelve months. Moreover, as coal price rally continues, heavy equipment and spare part demand will remain resilient as coal players attempt to ramp up production.

**DMO regulation to encourage higher coal production for PAMA.** As coal price remains high, coal players tend to increase stripping ratio and hauling distance to uphold coal reserve, adding more volume for PAMA as the biggest mining contractor and additional revenue stream from the hauling services which can offset rising fuel prices. Meanwhile, DMO regulation encourages higher coal production inquiry to offset lower margin associated with the price cap. On another note, before the introduction of DMO regulation coal players have to comply with the production quota set by the government, now coal players who fulfill DMO proportion have the ability to surpass the quota (10% additional production). This should reward PAMA with additional contract given limited heavy equipment availability and expertise from other mining contractor.

**We reiterate our BUY call on PT United Tractors Tbk. (UNTR IJ) with FY19 target price of IDR 43,750.** This implies a 26% upside potential derived from DCF valuation. We see coal price outlook will remain stable this year on the back off supportive demand and supply dynamics in both China and India as they are the biggest consumer of Indonesia's coal. Given the positive outlook for the coal sector, we expect demand for heavy equipment especially for mining related business and mining contracts for PAMA will continue to rise in the next foreseeable future. From valuation perspective, UNTR is currently trading at 12x FY19F PE, -0.6SD from its 5 years average PE.

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[richard.suherman@sinarmassekuritas.co.id](mailto:richard.suherman@sinarmassekuritas.co.id)**Stock Information**

Sector	Coal Mining
Bloomberg Ticker	UNTR IJ
Market Cap. (IDR tn)	129.5
Share Out./Float (mn)	3,730/1,510
Current Price	IDR 34,725
52-week Target Price	IDR 43,750
Upside (%)	26.0%

**Share Price Performance**

52W High (01/24/18)	40,500
52W Low (08/21/17)	28,750
52W Beta	0.75
YTD Change (%)	-1.9%

**Relative Valuations**

Trailing P/E	17.2x
Forward P/E	12.0x
P/BV	2.6x
EV/EBITDA	6.6x

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	45,539	64,559	85,351	92,461	103,253
Gross Profit	9,661	14,484	22,205	23,785	27,039
EBITDA	9,761	13,715	20,840	22,451	25,568
% growth	25.8%	40.5%	52.0%	7.7%	13.9%
Pre-Tax Profit	6,730	10,523	14,032	15,297	17,503
Net Profit	5,002	7,403	9,872	10,762	12,314
% growth	29.8%	48.0%	33.3%	9.0%	14.4%
Return on Asset	8.1%	10.5%	11.5%	11.1%	11.4%
Return on Equity	12.5%	17.0%	20.1%	19.4%	20.0%
EPS	1,368	2,057	2,743	2,990	3,422

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
<b>Net Revenue</b>	<b>45,539</b>	<b>64,559</b>	<b>85,351</b>	<b>92,461</b>	<b>103,253</b>
- Heavy Equipment	14,618	24,711	31,678	35,788	40,119
- Mining Contracting	24,003	29,637	38,151	41,545	46,594
- Coal Mining	5,124	7,181	11,455	9,737	10,224
- Construction	1,794	3,031	4,067	5,391	6,316
<b>Cost of Revenue</b>	<b>35,878</b>	<b>50,075</b>	<b>63,145</b>	<b>68,676</b>	<b>76,213</b>
- Heavy Equipment	11,825	19,793	23,907	26,484	29,056
- Mining Contracting	19,110	24,519	30,870	33,403	37,383
- Coal Mining	3,428	3,215	4,977	4,269	4,473
- Construction	1,514	2,549	3,391	4,520	5,301
<b>Gross Profit</b>	<b>9,661</b>	<b>14,484</b>	<b>22,205</b>	<b>23,785</b>	<b>27,039</b>
Selling Expenses	634	1,029	1,360	1,474	1,645
G&A Expenses	2,321	2,699	3,568	3,865	4,316
Other Operating Expenses	742	733	969	1,049	1,172
Other Operating Income	509	186	247	267	298
<b>Operating Profit</b>	<b>6,473</b>	<b>10,210</b>	<b>16,555</b>	<b>17,664</b>	<b>20,204</b>
<b>EBITDA</b>	<b>9,761</b>	<b>13,715</b>	<b>20,840</b>	<b>22,451</b>	<b>25,568</b>
Finance Income	682	1,016	1,088	1,121	1,276
Finance Cost	491	874	3,837	3,733	4,251
Share of Profit of Associates	66	171	226	245	273
Income Before Tax Expenses	6,730	10,523	14,032	15,297	17,503
<b>Net Income</b>	<b>5,104</b>	<b>7,673</b>	<b>10,232</b>	<b>11,155</b>	<b>12,764</b>

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Equivalents	19,461	20,831	21,476	24,447	28,589
Trade Receivables	11,042	16,555	21,887	23,710	26,478
Inventories	7,108	7,855	9,905	10,773	11,955
Fixed Assets	12,072	16,375	19,082	20,101	21,311
Mining Properties	4,613	5,877	5,709	5,541	5,571
<b>Total Assets</b>	<b>63,991</b>	<b>82,262</b>	<b>95,810</b>	<b>105,792</b>	<b>118,129</b>
Trade Payables	14,119	20,239	25,522	27,757	30,804
Accruals	1,305	2,431	2,553	2,680	2,814
Short-term Bank Loans	304	1,193	1,193	1,193	1,193
Current Portion of LT Borrowings	724	723	298	762	1,442
LT Borrowings, Net of Current Portion	85	2,763	2,901	3,046	3,199
<b>Total Liabilities</b>	<b>21,369</b>	<b>34,724</b>	<b>41,370</b>	<b>45,406</b>	<b>50,604</b>
<b>Total Equity</b>	<b>42,622</b>	<b>47,538</b>	<b>54,440</b>	<b>60,386</b>	<b>67,525</b>

Ratios	2016	2017	2018E	2019F	2020F
<b>Profitability</b>					
Return on Asset (%)	8.12	10.49	11.49	11.07	11.40
Return on Equity (%)	12.47	17.02	20.07	19.43	19.96
Gross Margin (%)	21.21	22.44	26.02	25.72	26.19
Operating Margin (%)	14.21	15.82	19.40	19.10	19.57
EBITDA Margin (%)	21.43	21.24	24.42	24.28	24.76
Net Margin (%)	11.21	11.89	11.99	12.06	12.36
<b>Liquidity</b>					
Current Ratio (X)	2.30	1.80	1.77	1.80	1.82
Quick Ratio (X)	1.91	1.53	1.48	1.51	1.53
<b>Solvency</b>					
Debt/Equity (X)	0.03	0.10	0.08	0.08	0.09
Debt/Assets (X)	0.02	0.06	0.05	0.05	0.05
<b>Valuations</b>					
P/E (X)	31.97	21.27	15.95	14.63	12.79
P/BV (X)	3.99	3.60	3.14	2.83	2.53

Assumptions	2016	2017	2018E	2019F	2020F
USD/IDR	13,436	13,548	14,400	14,400	14,400
Coal Price (\$/Mt)	88.9	88.3	105.0	85.0	85.0
Average Coal Price (\$/Mt)	67.3	88.3	105.0	85.0	85.0
Komatsu Sales (Unit)	2,181	3,788	4,800	5,040	5,292
PAMA Coal Production (Mn Tons)	109.2	112.6	120.0	127.9	136.6
PAMA Overburden Removal (Mn Tons)	701.5	800.8	923.7	957.9	1,023.2
TTM Coal Production (Mn Tons)	6.8	6.3	8.0	8.4	8.8
Acset Indonusa - New Contract (IDR Bn)	3,773	8,441	8,500	8,500	8,500
Acset Indonusa - Burn Rate (%)	43%	41%	30%	30%	30%

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