

**Evan Lie Hadiwidjaja**  
Senior Equity Analyst  
evan.hadiwidjaja@sinarmassekuritas.co.id  
(021) 392 5550 ext: 610

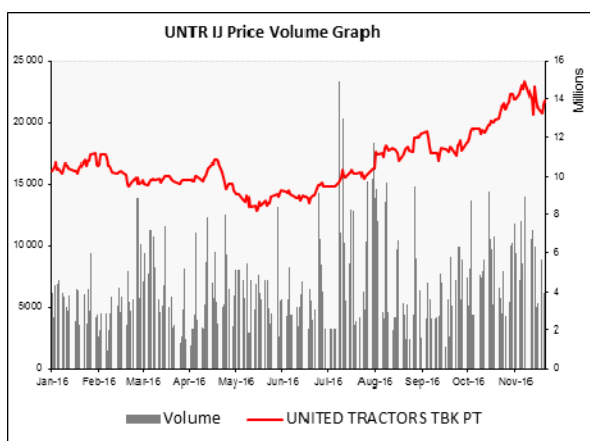


## UNITED TRACTORS

PT United Tractors Tbk distributes and leases construction machineries including Komatsu, UD, and Scania brands. The company also provides mining contracting services, produces coal, and has a subsidiary that operates in construction industry.

**Current Price: IDR 21,425**

**52-Week Target Price: IDR 26,575**



Source: Bloomberg, Sinarmas Investment Research

### Share Price Performance

Price (IDR)	21,425
52-Week High (11/11/16)	23,975
52-Week Low (05/17/16)	12,550
52-Week Beta	1.05
YTD Change/%	+4,775.0/+28.2%

### Stock Information

Market Cap (IDR)	80,102.5 Bn
Shares Out/Float (Mn)	3,730.1/1,510.8

### Re-initiating Coverage

## PT United Tractors Tbk (UNTR)

### A Company With Four Engines of Growth

**BUY**

We re-initiate coverage on PT United Tractors Tbk (UNTR) with BUY rating and 52-week target price of IDR 26,575, deriving via DCF valuation. As an addition to the strong balance sheet (IDR 17.3 Tn cash and 2.9% DER as of September 2016), we like the company as we expect strong revenue streams with margin improvement in FY17F, driven by encouraging commodity prices and strengthening USD. We view all four business lines will deliver strong performances, supported by improving commodity cycle and good brand image of the company along with its associate entity, PT Acset Indonusa Tbk (ACST).

**Heavy equipment:** despite the decrease in HE demand from commodity related industries in the past couple of years, we see a sign of recovery in HE demand as order intake for 1Q17 is already at par with one year production. While this year's sales are still somewhat flat-ish compared to FY15, we expect number of sales to grow by 20% YoY in FY17F to 2,500 units. Nonetheless, we see margin is quite stiff given that biggest contribution is coming from construction sector (lower margin due to competitive pricing from foreign players; Korea and China). Komatsu is the market leader in HE distribution in Indonesia with a total market share of 34% as of June 2016. HE contributes ~30% to the company's top line.

**Mining contracting:** with the rebound in coal prices, company expects coal production to increase by <5% while overburden increases by 5-10% as stripping ratio will depend on the price setting at the time. Nonetheless, PAMA's clients will tend to go after higher stripping ratio with improvement in the spot price. At the same time, we view PAMA has the ability to offer less fee discount, which combined with strengthening USD will result in margin expansion. In mining contracting industry, PAMA is the market leader with 48% of revenue share. PAMA contributes ~50% to the company's top line.

**Coal mining and construction:** also supported by encouraging coal prices, we view coal mined next year will be close to the company's production capacity of 7 million tons. As for construction, acquisition of ACST by UNTR has helped the company's cash flow, which enabled ACST to obtain new contracts more aggressively. Coal mining and ACST altogether contribute ~20% to the company's top line.

Highlights (IDR Bn)	2014	2015	2016E	2017F	2018F
Revenue	53,142	49,347	46,062	57,598	64,578
Gross Profit	12,070	11,702	8,269	11,742	13,419
EBITDA	10,216	7,761	8,801	12,424	14,240
% growth		-24%	13%	41%	15%
Pre-Tax Profit	6,507	4,193	5,273	8,512	9,822
Net Profit	4,832	2,792	4,113	6,384	7,367
% growth		-42%	47%	55%	15%
Return on Asset	8.2%	4.6%	6.5%	9.5%	10.1%
Return on Equity	13.0%	7.2%	10.2%	14.8%	15.7%

Source: Company Data, Sinarmas Investment Research

## Investment Theses and Key Risks

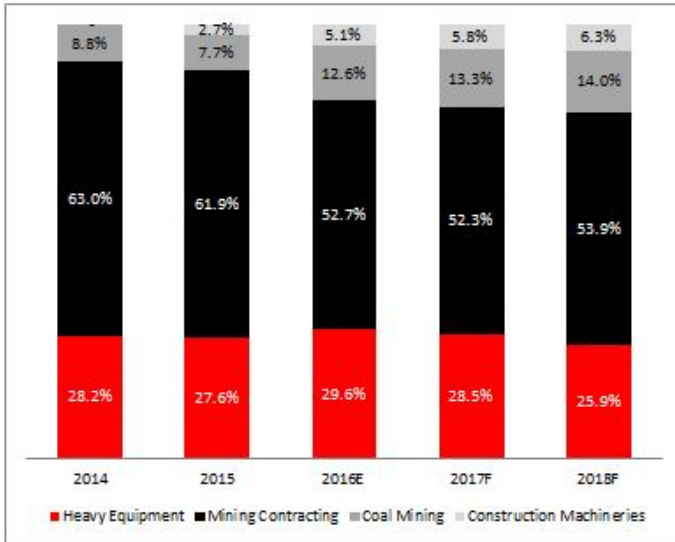
### Investment Theses:

- **Encouraging commodity cycle**—With the supply shock in coal, coal price has surged by more than 100% YTD to \$104.9/Mt as of November 17, 2016. While we see the increase was too fast and may not be sustainable, we expect that it will still be traded at above \$70/Mt for the next couple of years. On our model, we assume average coal price at \$75/Mt for FY17F and this year's average at \$60/Mt due to weak coal prices in 1H16.
- **Strengthening of the mighty USD against EM currencies**—Unlike most companies in JCI, United Tractors is benefited from weakening Rupiah, given that 50% of its revenue streams is coming from PAMA, which records its revenue in USD. Meanwhile, 5-10% of UNTR's heavy equipment sales usually for big machineries, which uses USD for the pricing. Thus, strengthening USD will help the company as it will boost revenue and margins.
- **Four engines of growth**—A combination of rising coal prices and IDR depreciation favors United Tractors; HE, mining contracting, and coal mining. As for the fourth business line, construction, ACST's acquisition by UNTR has helped the company's cash flow, which enabled ACST to obtain new contracts more aggressively. On our model, we project ACST's new contract to grow at 14% CAGR over FY15 to FY20F.
- **Sign of recovery in HE demand**—Despite the decrease in HE demand from commodity related industries in the past couple of years, we see a sign of recovery in HE demand as order intake for 1Q17 is already at par with 1-year production.
- **Higher stripping ratio triggered by coal prices**—We view coal players will take the supply shock condition as a momentum to raise production and overburden removal, which in other words, raising stripping ratio. PAMA's revenue will be boosted by higher stripping ratio, not to mention that PAMA has been giving discount on OB removal, which we believe will be much less during current condition.
- **Strong balance sheet**—The company has a very strong balance sheet with IDR 17.3 Tn of cash as of September 2016 and 2.9% debt-to-equity ratio, which gives United Tractors a huge advantage compared to its competitors.

**Key Risks:**

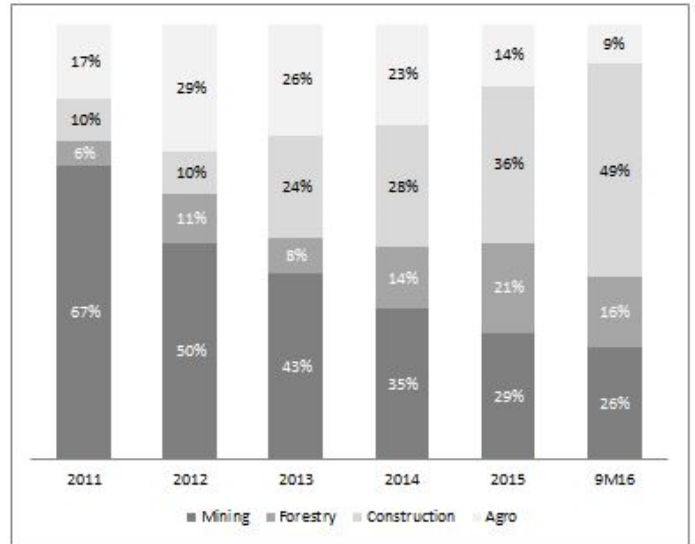
- **Coal price sustainability**—The sustainability of current coal prices still remain uncertain. Thus, any correction on the coal price may directly impact the company's share performance. While we are quite bullish on the company, our view is for long-term investment. We cannot neglect that sharp changes in coal price may put risks on the valuation.
- **Foreign outflow due to weakening currency and rising political tension**—While IDR depreciation can be seen as a catalyst for United Tractor, it serves as a risk at macro level, due to possible foreign outflow from JCI. On the other hand, Indonesia is currently faced with rising political tension, which may cause investors to be risk averse during current condition.

**Revenue contribution—PAMA and Komatsu contribute ~80% of United Tractors' total revenue**



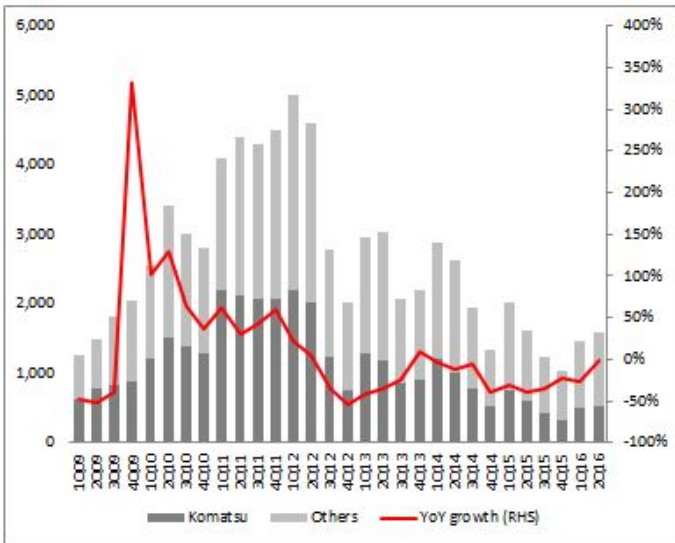
Source: Company Data, Sinarmas Investment Research

**Margin in HE is quite stiff given that biggest contribution is coming from construction sector**



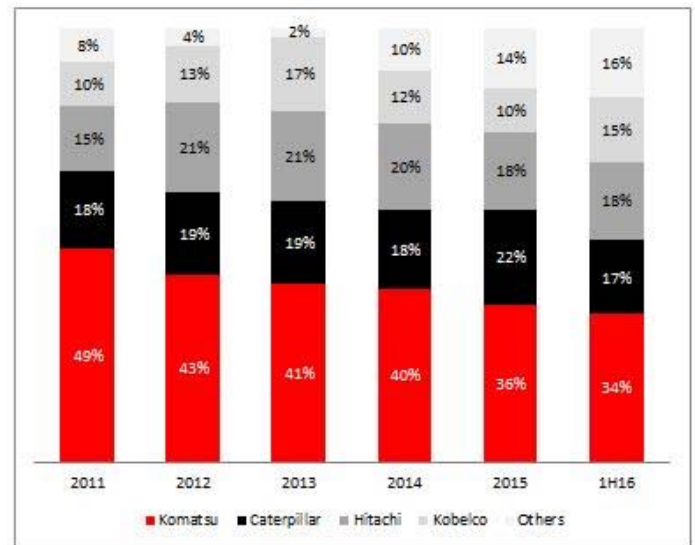
Source: Company Data, Sinarmas Investment Research

**We view rising commodity prices and accelerating infrastructure projects will spur FY17F HE sales**



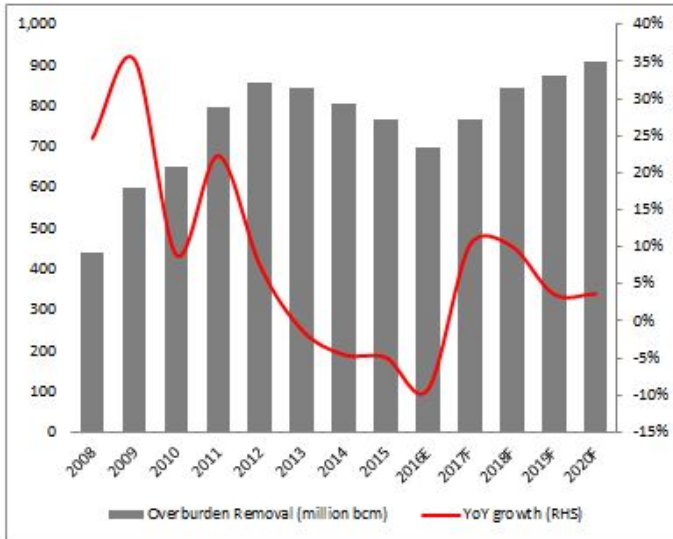
Source: Company Data, Sinarmas Investment Research

**As of June 2016, Komatsu is still the market leader with 34% market share in the industry**



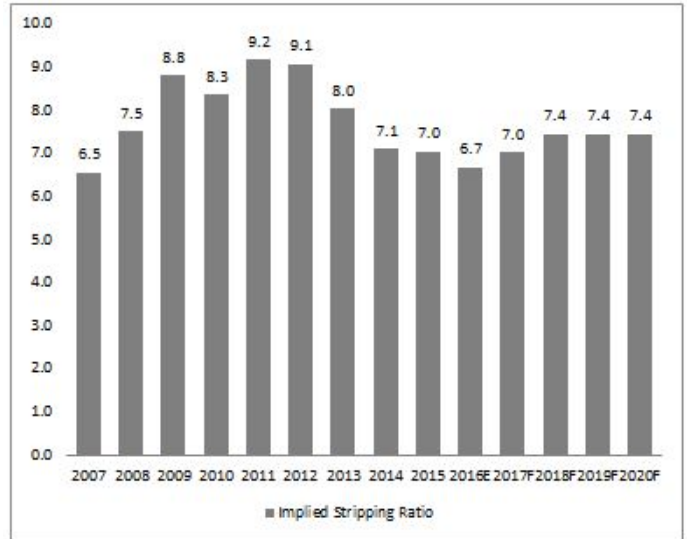
Source: Company Data, Sinarmas Investment Research

**With the rebound in coal prices, company expects OB removal to increase by 5-10% in FY17F**



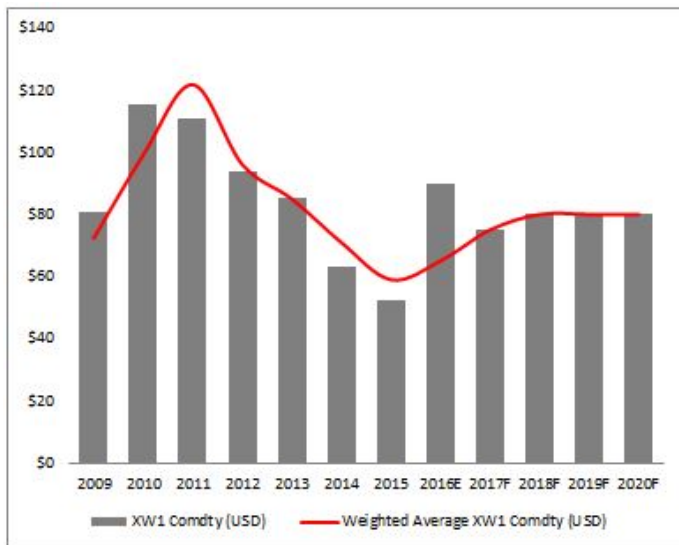
Source: Company Data, Sinarmas Investment Research

**Inline with the increase in OB removal projected for next year, we view coal players will seek higher stripping ratio**



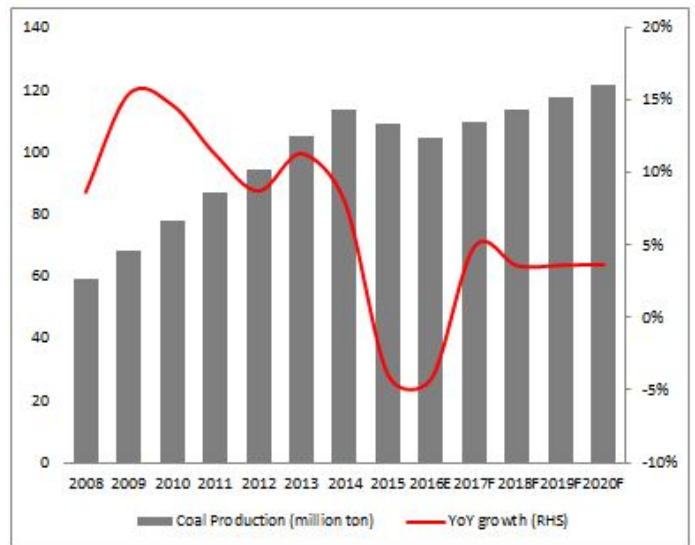
Source: Company Data, Sinarmas Investment Research

**On our model, we assume coal price to stabilize at \$75/Mt in FY17F, while this year's average at \$60/Mt**



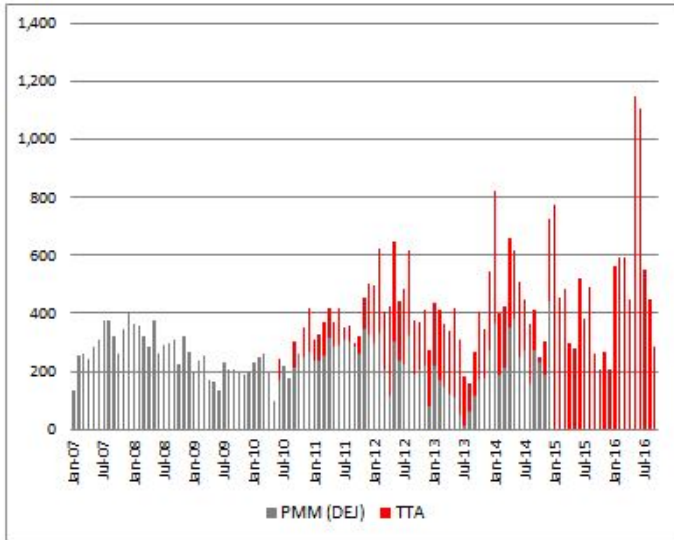
Source: Company Data, Sinarmas Investment Research

**Management states that there is a possibility of ~5% increase in coal production by PAMA clients in FY17F**



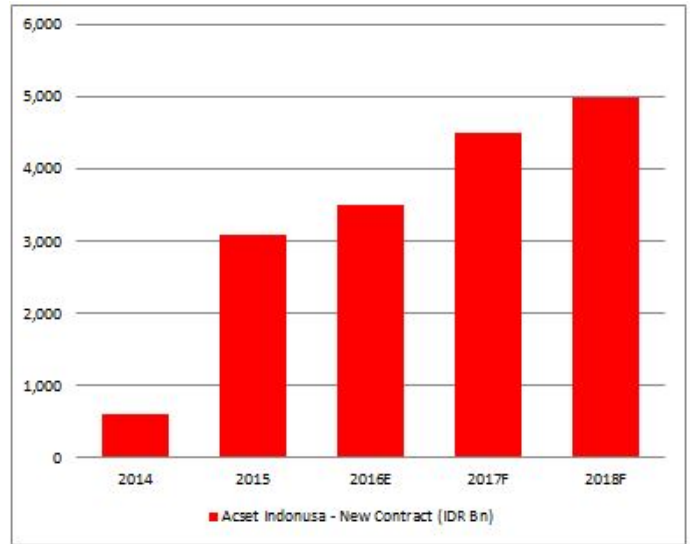
Source: Company Data, Sinarmas Investment Research

Also supported by encouraging coal prices, we view coal mined by TTA next year to be close to the production capacity



Source: Company Data, Sinarmas Investment Research

As of 9M16, ACST had achieved new contract of IDR 2.5 Tn, meanwhile, the company targets IDR 4.5 Tn for FY17F



Source: Company Data, Sinarmas Investment Research

**Valuations and Forecasts**

<b>Assumptions</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
USD/IDR	12,440	13,795	13,500	13,800	13,800
Coal Price (\$/Mt)	63.0	52.4	90.0	75.0	80.0
Average Coal Price (\$/Mt)	71.1	59.0	60.0	75.0	80.0
Komatsu Sales (Unit)	3,513	2,124	2,100	2,500	2,625
PAMA Coal Production (Mn Tons)	113.5	109.0	104.4	109.5	113.4
PAMA OB Removal (Mn Tons)	806.4	766.6	695.8	767.3	844.7
TTM Coal Production (Mn Tons)	5.9	4.6	6.7	7.0	7.7
ACST - New Contract (IDR Bn)	607	3,100	3,500	4,500	5,000
ACST - Burn Rate (%)	47%	55%	55%	53%	53%

<b>Income Statement (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
<b>Net Revenue</b>	<b>53,142</b>	<b>49,347</b>	<b>46,062</b>	<b>57,598</b>	<b>64,578</b>
- Heavy Equipment	14,983	13,629	13,620	16,419	16,695
- Mining Contracting	33,493	30,545	24,296	30,127	34,825
- Coal Mining	4,666	3,817	5,811	7,685	9,017
- Construction	0	1,357	2,335	3,366	4,042
<b>Cost of Revenue</b>	<b>41,071</b>	<b>37,645</b>	<b>37,794</b>	<b>45,856</b>	<b>51,159</b>
- Heavy Equipment	11,378	10,399	11,297	13,326	13,444
- Mining Contracting	24,256	23,293	19,847	23,581	27,156
- Coal Mining	5,438	2,821	4,739	6,203	7,241
- Construction	0	1,132	1,911	2,747	3,319
<b>Gross Profit</b>	<b>12,070</b>	<b>11,702</b>	<b>8,269</b>	<b>11,742</b>	<b>13,419</b>
Selling Expenses	649	558	555	864	969
G&A Expenses	2,566	2,558	2,136	2,880	3,229
Impairment Loss on Mining Prop.	2,744	5,255	0	0	0
Other Operating Expenses	148	314	921	288	323
Other Operating Income	334	1,015	213	266	298
<b>Operating Profit</b>	<b>6,297</b>	<b>4,033</b>	<b>4,869</b>	<b>7,976</b>	<b>9,197</b>
<b>EBITDA</b>	<b>10,216</b>	<b>7,761</b>	<b>8,801</b>	<b>12,424</b>	<b>14,240</b>
Finance Income	432	396	607	671	725
Finance Cost	278	324	285	237	215
Share of Profit of Associates	55	87	82	102	114
Income Before Tax Expenses	6,507	4,193	5,273	8,512	9,822
<b>Net Income</b>	<b>4,832</b>	<b>2,792</b>	<b>4,113</b>	<b>6,384</b>	<b>7,367</b>

Source: Company Data, Sinarmas Investment Research



<b>Balance Sheet (IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Cash and Equivalents	10,060	15,413	17,049	18,426	20,490
Trade Receivables	13,113	11,480	10,716	12,800	14,351
Inventories	7,770	8,328	8,361	8,652	9,653
Fixed Assets	13,625	12,660	13,608	14,444	15,429
Mining Properties	9,149	4,859	4,972	4,891	4,610
<b>Total Assets</b>	<b>60,307</b>	<b>61,715</b>	<b>64,869</b>	<b>69,884</b>	<b>76,472</b>
Trade Payables	11,965	13,407	13,460	13,487	15,047
Accruals	1,008	1,368	2,009	2,310	2,657
Short-term Bank Loans	23	24	175	184	193
Current Portion of LT Borrowings	1,255	1,112	932	574	575
LT Borrowings, Net of Current Portion	1,319	1,147	1,262	1,388	1,527
<b>Total Liabilities</b>	<b>21,777</b>	<b>22,465</b>	<b>23,661</b>	<b>24,714</b>	<b>27,763</b>
<b>Total Equity</b>	<b>38,530</b>	<b>39,250</b>	<b>41,208</b>	<b>45,170</b>	<b>48,709</b>

<b>Ratios</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
<b>Profitability</b>					
Return on Asset (%)	8.21	4.58	6.50	9.48	10.07
Return on Equity (%)	13.03	7.18	10.22	14.78	15.69
Gross Margin (%)	22.71	23.71	17.95	20.39	20.78
Operating Margin (%)	11.85	8.17	10.57	13.85	14.24
EBITDA Margin (%)	19.22	15.73	19.11	21.57	22.05
Net Margin (%)	9.09	5.66	8.93	11.08	11.41
<b>Liquidity</b>					
Current Ratio (X)	2.06	2.15	2.16	2.34	2.36
Quick Ratio (X)	1.58	1.69	1.72	1.89	1.91
<b>Solvency</b>					
Debt/Equity (X)	0.07	0.06	0.06	0.05	0.05
Debt/Assets (X)	0.04	0.04	0.04	0.03	0.03
<b>Valuations</b>					
P/E (X)	13.39	22.64	22.54	15.53	13.46
P/BV (X)	1.77	1.67	2.33	2.27	2.11

Source: Company Data, Sinarmas Investment Research



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