sekuritas sinarmas

02 July 2012

COMPANY UPDATE

PT UNITED TRACTORS Tbk

PT UNITED TRACTORS Tbk

Challenging Environment But Excellent Long-Term Prospects.

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BUY

Komatsu Sales Target Lowered to 8,500 units

The company lowered its 2012 target for Komatsu sales to 8,500 units from its previous 9,500 units, citing: (1) suppressed coal prices leading to falling orders from coal companies as many companies are delaying expansion in order to salvage whatever profits that they have to weather potential negative cash cost in the near future; (2) As iterated in previous intense competition from other heavy equipment companies in the small-medium type which represents around 80% of its sales volume. The competition is so intense that Komatsu's market share suffered intense blow (as iterated in previous report dated 06 June 2012) that it saw its market share fell from 51% (Jan-May 2011) to 43% within the same period. Slowdown in Chinese economies resulting in excess supply outflow to other Asian countries including Indonesia resulted in intensified competition; (3) implementation of mineral export taxes and coupled with declining prices of mineral ores threatening the profitability of mineral mining companies and thus potential delaying capex for expansion.

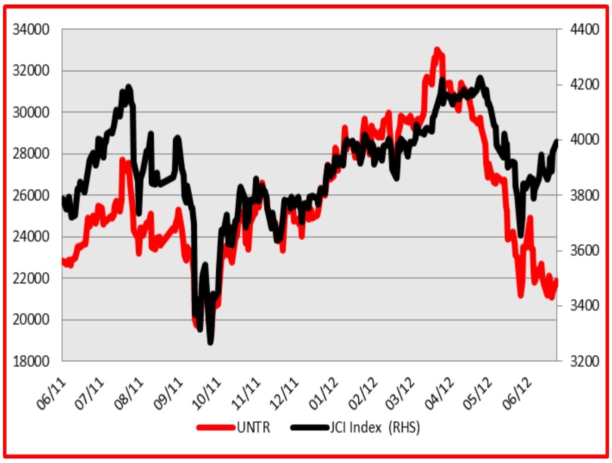
Demand for heavy equipment has been primarily driven by construction and plantation sectors while mining sectors have been dragging down the overall performance of heavy equipment industry in Indonesia leading to lower sales volume of heavy equipment.

Consequently, we lower our Komatsu sales target to 8,215 units to reflect the ongoing slumps in the mining industry and further intensified competition in the medium-sized heavy equipment market. We maintain our margin (as per previous reports dated 06 June 2012) as the company has to come out with some package to entice its customers so as to maintain its target market share at 44-45%.

We maintain **BUY** rating with lower valuation of **IDR27,100** to account for our lower estimate on coal ASP and Komatsu sales. As mentioned in our previous reports, the share price remains under pressure due to the extreme turbulence in the mining market. However, once the storm has passed and the sky clears up, the company has the potential to perform as the industry by itself is the key support to the coal and mining industries which are subjected to macroeconomic cycles. Coal is the crucial energy source that will support the growth engine in the Asia Pacific Emerging Markets. Furthermore, geopolitical tensions in the Middle East will be the key support for prices of crude oils and thus coal.

Stock Data	
Sector	Heavy Equipment
Price (2 July 2012)	IDR 21,850
Target Price 2012	IDR 27,100
12-month Rating	BUY
Prior	BUY (TP IDR 29,100)
Ticker	UNTR.IJ (BBG); UNTR.JK (RIC)
Market Cap	IDR81.5 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%	18.0%	18.4%	18.2%
EBIT Margin%	14.8%	13.8%	13.8%	13.6%	14.0%	13.8%
EBITDA Margin%	21.0%	21.7%	20.1%	19.8%	20.0%	17.8%
EV/EBITDA x			8.8	8.1	6.8	6.4
P/E x			16.4	16.3	13.6	11.4
Net Dividend Yield			2.3%	2.3%	2.8%	3.3%

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

	2012E			2013F			2014F		
	Previous	Updated	Δ%	Previous	Updated	Δ%	Previous	Updated	Δ%
Revenue	64,681	60,963	-5.7%	76,517	71,242	-6.9%	92,201	85,595	-7.2%
EBIT	8,953	8,283	-7.5%	10,739	9,991	-7.0%	12,629	11,810	-6.5%
Net Income	6,701	6,206	-7.4%	8,010	7,429	-7.2%	9,514	8,887	-6.6%
EPS	1,796	1,664	-7.4%	2,147	1,992	-7.2%	2,551	2,383	-6.6%
Net DPS	719	665	-7.4%	859	797	-7.2%	1,020	953	-6.6%

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

Bloodbath in Coal Markets

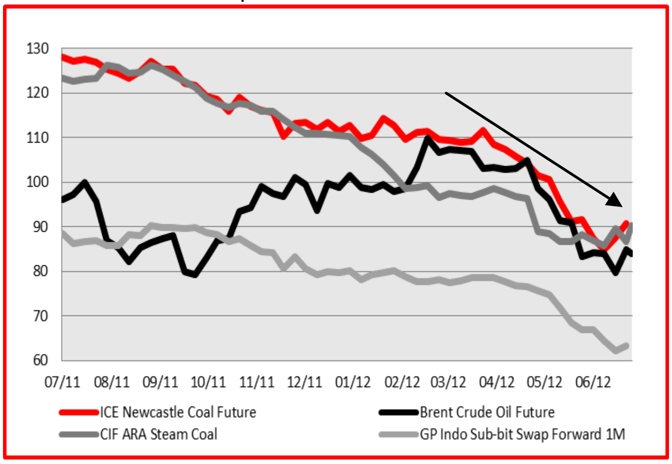
PT UNITED TRACTORS Tbk **COMPANY UPDATE**

Current coal market is characterized by oversupply while demands remains particularly weak as: (1) most countries utilizing coal as main power source such as China and India are in summer period as such power consumption is typically lower than that in winter. Current summer heat is not as intense as that of previous years requiring less air-conditioning; (2) Slowing down of Chinese economies, as shown by the official PMI and HSBC PMI falling below 50, led to lower demand in electricity and thus coal. Some news reports indicated that the ports of Qinhuangdao in China had refused shipment from Indonesia due to lack of storage and the coal as stockpiles of coal rose by 5.7% to 9.33 mn Tons in the week ended June 17 (the highest since November 2008 when it reached 9.34 mn Tons), according to the China Coal Transport and Distribution Association. Benchmark with energy value of 5,500 kcal per kg at the port of Qinhuangdao has dropped 7.2% in the week ended June 24. China's power usage between January and May rose only by 5.8% yoy (vs almost 12% increase within the same period a year ago); (3) Development and the usage of shale gas as substitute for coal and crude oils lead to oversupply of coal in the North America. Outflow of coal into the Pacific further exacerbated coal prices as supply peaks while demand remains relatively flat

The potential ramifications include: (1) smaller mining companies operate below cash cost or even stopped operation/expansion temporarily due to lack of value creation; (2) well-established mining companies are delaying expansion, and thus postponing their orders for heavy equipment; (3) We forecast that mining companies who engaged mining contractors will just produce the minimum amount of coal and remove the minimum OB as stated in the contract, resulting in slower growth of PAMA; (4) Sliding coal prices might potentially reduce the margin for mining division as cash cost for the mining division is in the range of USD70-75.

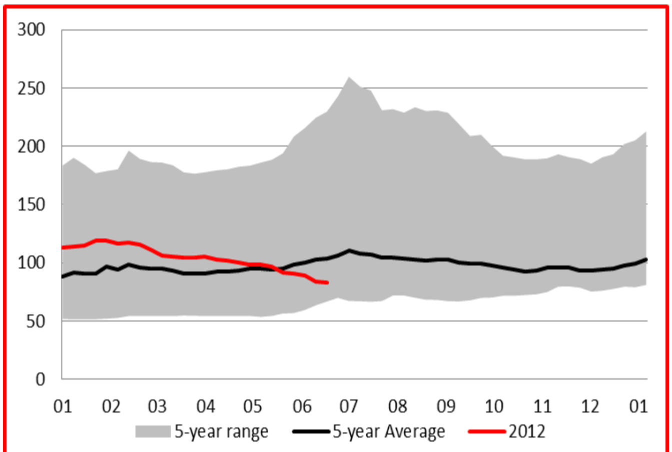
Further deterioration in the coal markets prompt us to downgrade the ASP by 7.1% to IDR 939k (~USD99) from our previous estimate while maintaining the volume of coal produced. The upside potential includes geopolitical tension in the Middle East with possible escalation to the closure of Straits of Hormuz which will drive prices of crude oils (and indirectly coal as energy substitute) up. We maintain our target for mining contracting division and should the current recoveries in the coal prices are not sustained to the point that smaller companies are operating on very lean or even negative margin for prolonged period, we will review UNTR again for further downgrade, especially in the mining contracting division.

Chart 1: Various coal prices and Brent Crude oil



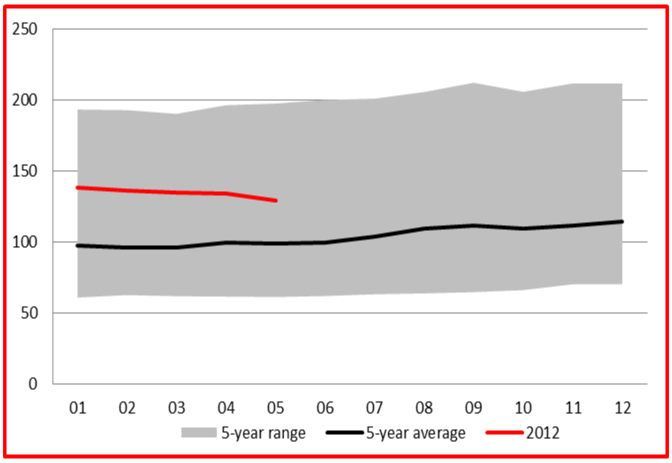
Source: Bloomberg; GP: Ginga Petroleum (Energy broker based in Singapore).

Chart 2: McCloskey Newcastle Steam Coal Spot Price-FOB Newcastle (USD/ton)



Source: McCoskey (accessed via Bloomberg)

Chart 3: McCloskey/Xinhua Infolink's Steam Coal Price—FOB Qinhuangdao (CNY/ton)



Source: McCoskey (accessed via Bloomberg)

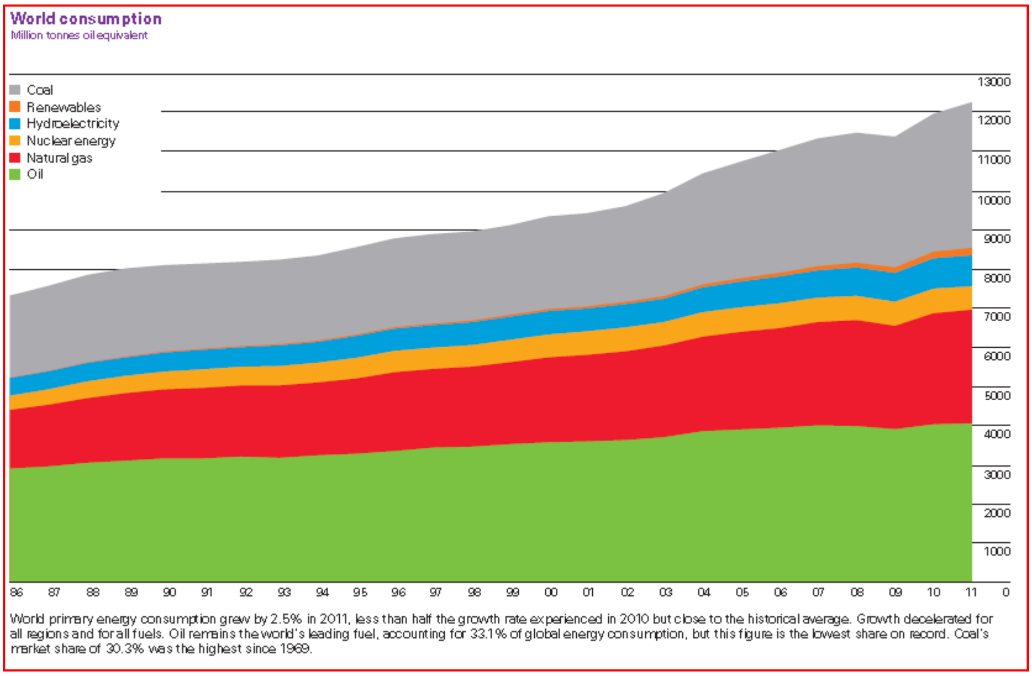
Table 1: Assumption Summary

	2009	2010	2011	2012F	2013F	2014F
Construction Machinery						
Unit of Heavy Equipment Sold	3,111	5,404	8,467	8,215	8,626	9,488
yoy growth rate	*-28%*	*74%*	*57%*	*-3%*	*5%*	*10%*
ASP per unit	2,373.44	2,436.48	2,604.76	2,715.52	2,810.29	2,925.26
yoy growth rate	*9%*	*3%*	*7%*	*4%*	*3%*	*4%*
Parts & Services	3,597,000	4,108,000	5,145,569	6,310,100	7,974,595	9,968,244
yoy growth rate	*23%*	*14%*	*25%*	*23%*	*26%*	*25%*
Mining Contracting						
Overburden Removed	598	651	790	894	1,005	1,155
yoy growth rate	*35%*	*9%*	*21%*	*13%*	*12%*	*15%*
Coal mined	68	78	87	98	112	128
yoy growth rate	*15%*	*15%*	*11%*	*13%*	*14%*	*15%*
Implied Strip Ratio	8.8	8.3	9.1	9.1	9.0	9.0
Mining						
Coal Production volume	2,397,000	2,842,000	4,488,000	6,101,900	9,950,000	12,935,000
yoy growth rate	*-35%*	*19%*	*58%*	*36%*	*63%*	*30%*
ASP	1,185,889	1,098,021	1,210,867	938,999	975,896	1,028,742
yoy growth rate	*0%*	*-7%*	*10%*	*-22%*	*4%*	*5%*

Table 2: Income Statement Summary

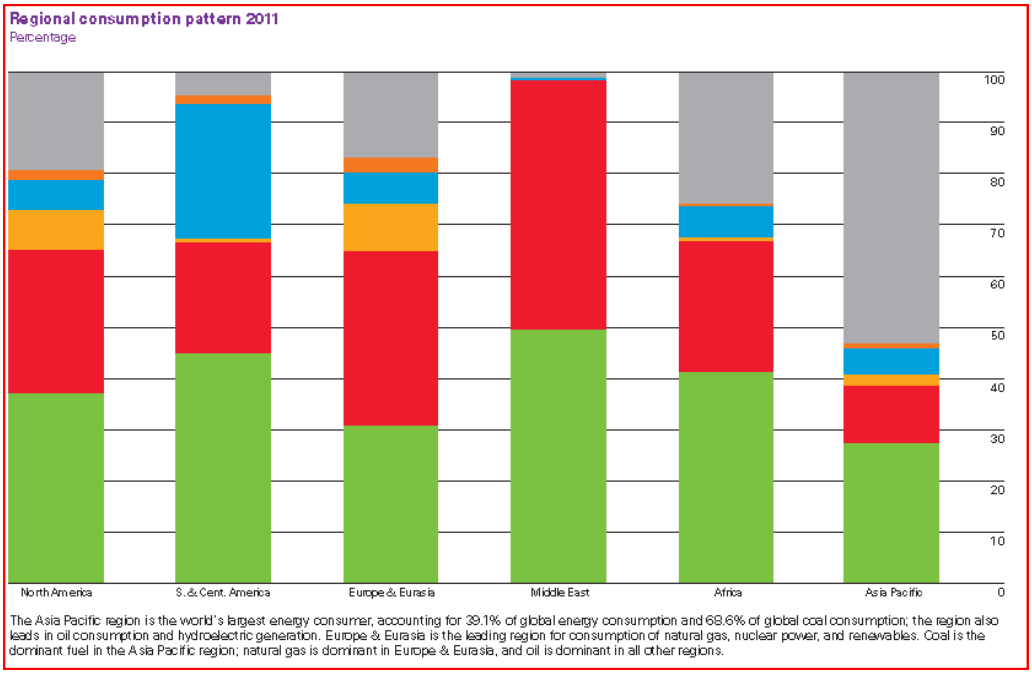
	2010	2011	2012F	2013F	2014F
Revenues	37,323,872	55,052,562	60,962,905	71,241,916	85,594,976
Cost of Revenue	(30,528,174)	(44,859,041)	(49,985,814)	(58,135,459)	(70,006,854)
Gross Profit	6,795,698	10,193,521	10,977,091	13,106,456	15,588,122
SG&A	(1,633,177)	(2,578,423)	(2,694,083)	(3,115,558)	(3,778,583)
EBIT	5,162,521	7,615,098	8,283,008	9,990,899	11,809,539
Other non-operating income	38,939	208,282	379,763	354,427	542,077
interest, net	(140,200)	(38,803)	(51,518)	(127,665)	(11,886)
Profit before tax	5,061,260	7,784,577	8,611,253	10,217,661	12,339,730
Taxation	(1,186,745)	(1,885,071)	(2,068,541)	(2,476,495)	(2,962,253)
Profit after tax	3,874,515	5,899,506	6,542,712	7,741,166	9,377,478
Minorities	(1,584)	1,402	0	0	0
Net Profit	3,872,931	5,900,908	6,542,712	7,741,166	9,377,478
Gross Margin	18.2%	18.5%	18.0%	18.4%	18.2%
EBITDA margin	21.7%	20.1%	19.8%	20.0%	17.8%
EBIT Margin	13.8%	13.8%	13.6%	14.0%	13.8%
NOPAT Margin	10.4%	10.7%	10.7%	10.9%	11.0%
Net Margin	10.4%	10.7%	10.7%	10.9%	11.0%
Revenue Growth	27.6%	47.5%	10.7%	16.9%	20.1%
EBITDA Growth	13.9%	36.1%	9.2%	18.3%	6.8%
EBIT Growth	-2.0%	47.5%	8.8%	20.6%	18.2%
Net Profit Growth	1.5%	52.4%	5.2%	19.7%	19.6%

Chart 4: Coal Energy Demand—One of the energy source with fastest growth rate (besides clean tech) in Global Consumption



Source: BP Statistical Review June 2012

Chart 5: Coal is the major source of energy for APAC (with more than 50% of total energy consumed)

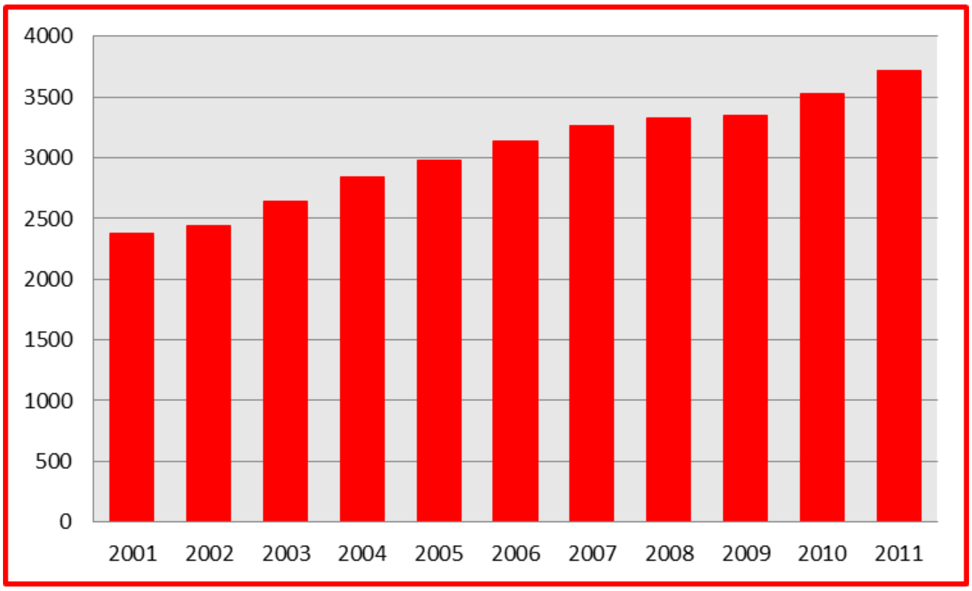


Source: BP Statistical Review June 2012

While current coal prices are at a very disadvantaged position due to severe decline in prices of other energy commodities such as natural gas and crude oil, we feel that coal will still has its value especially in the emerging markets in APAC. While natural gas is considerably cheap, the infrastructure to transport/export the gas is still not feasible and to build trans-oceanic LNG pipes underwater requires significant investment that many emerging markets are unwilling to invest or just simply could not afford unless subsidies are provided. Current natural gas produced in North America is landlocked and it is expected to remain so until trans-oceanic infrastructure facilities are built so that it can be exported across the ocean.

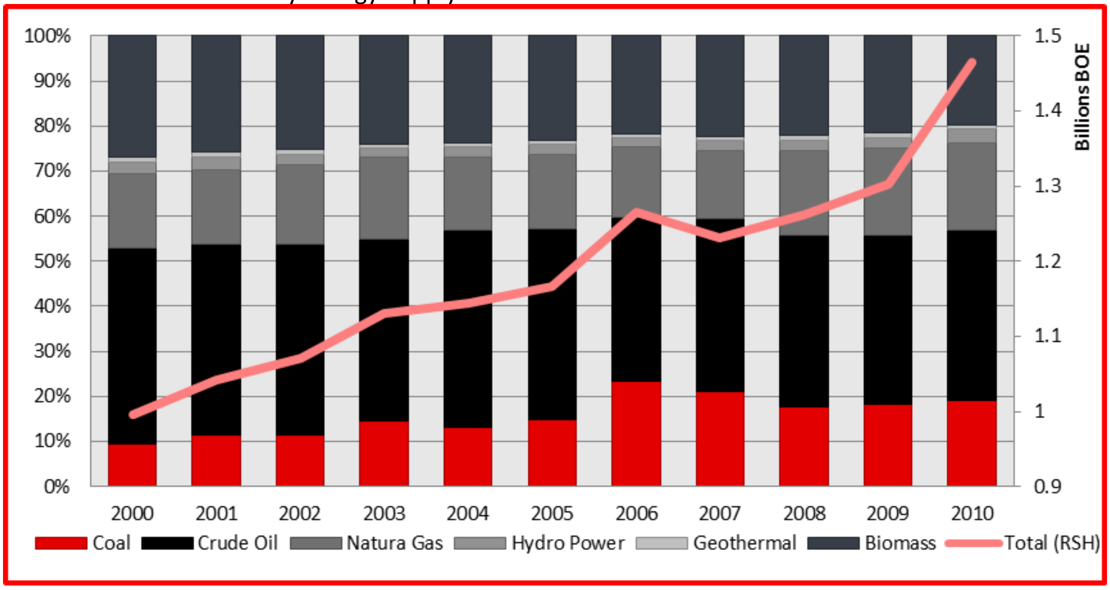
Furthermore, global coal consumption in million tonnes of oil equivalent (mtoe) has increased at 2001-2011 CAGR of 4.6% and it is ranked second after clean-tech/renewables as the source of energy that registered the fastest growth rate by British Petroleum and there is no sign of slowing down, especially with the current growth rate of emerging economies and urbanization rate. Hence, Coal will remain the main source of energy for APAC emerging countries and will remain so due to its abundance and cheaper pricings relative to other sources.

Chart 6: Global Coal Consumption in Mtoe (Million Tonnes of Oil Equivalent)



Source: BP Statistical Review

Chart 7: Indonesia Primary Energy Supply



Source: 2011 Handbook of Energy & Economic Statistics of Indonesia (Ministry of Energy and Mineral Resources);
BoE: barrel of oil equivalent

Fiscal Year End					
Income Statement (IDR mn)	**2010**	**2011**	**2012E**	**2013F**	**2014F**
Sales Revenue	37,323,872	55,052,562	61,084,258	71,374,432	85,746,721
Gross Profit	6,795,698	10,193,521	10,997,582	13,127,659	15,613,160
Operating Income	5,162,521	7,615,098	8,298,799	10,006,674	11,828,351
Depreciation & Amortization	2,952,125	3,428,272	3,787,224	4,282,466	3,429,869
EBITDA	8,114,646	11,043,370	12,086,023	14,289,140	15,258,220
Other non-operating income	38,939	208,282	42,759	42,825	51,448
Net Interest Income (expense)	-140,200	-38,803	-52,005	-126,873	-11,702
Profit before tax	5,061,260	7,784,577	8,289,553	9,922,626	11,868,097
Tax expenses	-1,186,745	-1,885,071	-2,072,388	-2,480,657	-2,967,024
Profit after tax	3,874,515	5,899,506	6,217,165	7,441,970	8,901,073
Minority Interests	-1,584	1,402	0	0	0
Net Profit	3,872,931	5,900,908	6,217,165	7,441,970	8,901,073
Cash Flow (IDR mn)					
Operating Cash Flow	2,423,881	9,947,819	11,718,278	6,782,234	14,809,536
Capex	3,357,689	5,258,071	6,250,000	5,626,136	6,076,227
Free Cash Flow	-933,808	4,689,748	5,468,278	1,156,098	8,733,309
Dividends Received from Investments	23,550	17,939	0	0	0
Dividends Paid	-1,629,228	-1,697,214	-2,486,866	-2,976,788	-3,560,429
Debt Issuance (redemption)	1,539,128	-1,493,506	2,364,554	922,759	1,150,540
Share Capital increase	0	6023188	0	0	0
Net debt (cash)	3,879,249	-3,065,384	-5,760,053	-4,215,273	-9,750,285
Balance Sheet (IDR mn)					
Cash & cash equivalents	1,343,220	7,135,386	12,026,165	11,164,891	17,538,113
Account Receivables	5,349,688	9,969,714	6,998,135	12,828,096	10,990,438
Inventories	6,931,631	7,129,459	7,826,043	9,101,058	10,958,369
Other Current assets	1,908,223	1,391,019	1,540,554	1,809,906	2,174,098
Net fixed assets	13,261,374	19,395,857	17,602,547	18,946,217	21,592,575
Other non-current assets	906,778	1,418,627	4,177,713	3,821,901	3,527,641
Total Assets	29,700,914	46,440,062	50,171,158	57,672,068	66,781,232
Short term Liabilities	9,919,225	14,930,069	14,509,254	16,857,331	19,759,516
Long term Liabilities	3,616,283	4,006,045	4,410,429	5,079,982	5,927,306
Total Liabilities	13,535,508	18,936,114	18,919,682	21,937,313	25,686,821
Shareholders' Equity	16,136,338	26,320,449	30,067,976	34,551,256	39,910,912
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	50,171,158	57,672,068	66,781,232
Key Ratio					
Revenue Growth (%)	27.64%	47.50%	10.96%	16.85%	20.14%
EPS Growth (%)	1.45%	42.30%	0.62%	19.70%	19.61%
EBITDA Margin (%)	21.74%	20.06%	19.79%	20.02%	17.79%
Payout Ratio (%)	37.87%	40.00%	40.00%	40.00%	40.00%
ROE (%)	24.00%	22.42%	20.68%	21.54%	22.30%
Quick Ratio (×)	0.87	1.24	1.42	1.53	1.55
Debt/Equity (%)	35.20%	17.87%	23.51%	23.13%	22.90%

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