



Ciptadana
Research Report
November 17, 2011

PT United Tractor Tbk
Unleashing Coal Business Potential

PT UNITED TRACTOR - TP 31,150/sh

Unleashing Coal Business Potential

We initiate our coverage on United Tractors (UNTR) with BUY recommendation on the back of 1) solid heavy equipment demand 2) sturdy coal mining activity from increasing production and 3) accelerating contribution from its coal mining business. Our valuation of UNTR is based on DCF valuation method assuming a WACC of 12% and a terminal growth of 3%. We arrive at a target price of Rp31,150, at which UNTR is trading at 20.8X FY11F PF, 16.6X FY12F PE and 13.6X FY13F PE.

Outstanding 2011 Komatsu sales growth which is expected to keep growing

2011 has been an outstanding year for Komatsu heavy equipment sales which grew by 55% yoy as of 9M11 reaching 6,396 units or achieving 80% of UNTR FY11's target. Mining sector was the main growth driver with 73.6% yoy increase followed by Construction sector (+48.6% yoy) and Agro sector (+28.2% yoy). Next year, we expect Komatsu sales volume to grow by 16%, reaching 9,501 units, supported by robust demand from mining, agri, and construction sector.

Tapping the opportunity from Indonesia rising coal production

Indonesia coal production has been growing at 12.5% FY05-10 CAGR and is expected to reach 327mn tons (+19% yoy) this year and 332 mn tons (1.5% yoy) next year according to the energy and mineral resources ministry. Meanwhile, Indonesian Coal Mining Association (APBI) estimates coal production to reach 340mn tons and 370mn tons for FY11 and FY12, an increase by 23.6% yoy and 8.8% yoy respectively. We believe the increase is driven by rising coal demands, both from domestic and export. As the market leader in mining contracting business, UNTR through its subsidiary PT Pamapersada Nusantara (Pama) will benefit from the growing coal production in Indonesia, especially from those of its clients. Thus, we estimate that next year Pama could achieve another 10% and 9% increase for coal production and overburden removal respectively.

More acquisition, more contribution

As of Sept-11, UNTR has about 254-369mn tones of coal reserves and targets to achieve 500mn tons of reserves through acquisition. It recently acquire 60% stake on Duta Sejahtera (DS) at US\$11.5mn with an option to buy 60% stake in Duta Nurcahya mine. Currently, UNTR is eyeing two coal mining concession in its pipeline and is conducting the due diligence process. Therefore, we believe UNTR is on its track to achieve its target of 500mn tons coal reserves and expect the contribution from coal mining business to reach 10% this year; further growing to 14% next year.

Buy with target price of Rp31,150

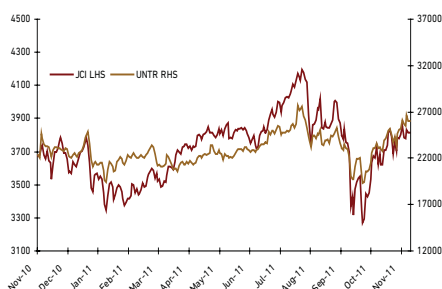
We initiate UNTR with BUY recommendation with a target price of Rp31,150, implying 20.8X FY11F PE, 16.6X FY12F PE and 13.6X FY13F PE; 19.6% upside from yesterday closing price. We value UNTR using DCF valuation method assuming 12% WACC and 3% terminal growth. Risks to our view include: 1) regulatory risk 2) volatility in commodity price 3) fluctuation in exchange rate 4) fierce competition 5) obstacles in acquisition.

Table1. Forecast and Valuation

Year-end 31-Dec	09A	10A	11F	12F	13F
Revenue (Rp bn)	29,242	37,324	51,637	60,257	68,654
EBITDA (Rp bn)	7,470	8,019	10,101	12,340	14,551
Net profit (Rp bn)	3,818	3,873	5,593	7,007	8,528
EPS (Rp/share)	1,147	1,164	1,499	1,879	2,286
DPS (Rp/share)	460	430	600	751	914
ROE (%)	23.9%	27.6%	24.0%	21.4%	22.8%
Dividend yield (%)	-	-	2.3%	2.9%	3.5%
P/E ratio (x)	-	-	17.4	13.9	11.4
EV/EBITDA (x)	-	-	9.5	7.8	6.6

Source : Company & Ciptadana estimates

JCI vs UNTR



source : Bloomberg

Target Price : 31,150/sh
 Recommendation : BUY
 Current price (11/16/2011) : 26,050
 52 Wk high (07/27/2011) : 27,750
 52 Wk low (09/23/2011) : 18,700
 Shares outstanding (mn) : 3,730.135
 Market cap (Rp bn) : 97,170.02
 Bloomberg code : UNTR IJ

source : Bloomberg

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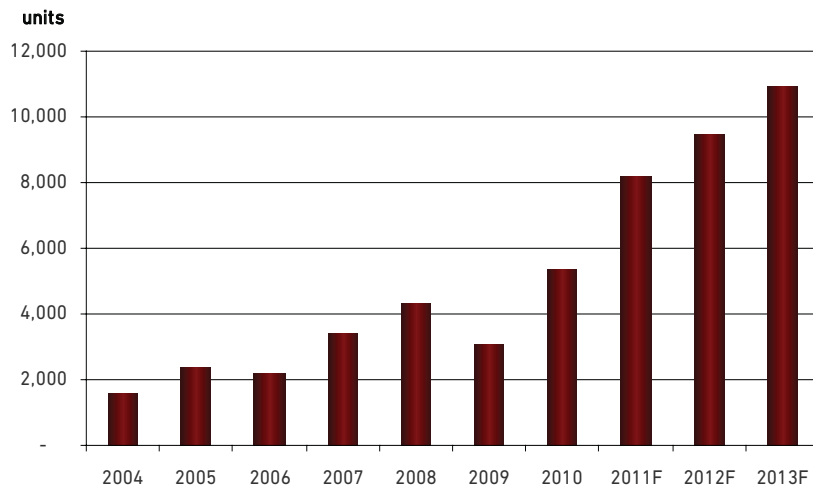
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Investment highlights

Outstanding 2011 Komatsu sales growth which is expected to keep growing

Heavy equipment industry will mark year 2011 as another stellar year as national heavy equipment sales volume jumped 44.5% yoy during 9M11; primarily driven by rising mining activities. UNTR, as an exclusive distributor of Komatsu brand benefit as well; growing 55.5% yoy, more than the industry growth due to its larger market share. We believe that UNTR will manage to surpass its Komatsu sales target of 8,000 units this year and we expect Komatsu sales will further grow by 16% next year to 9,501 units on the back of robust demand from mining, agri, and construction sector.

Figure1. Komatsu Sales Volume

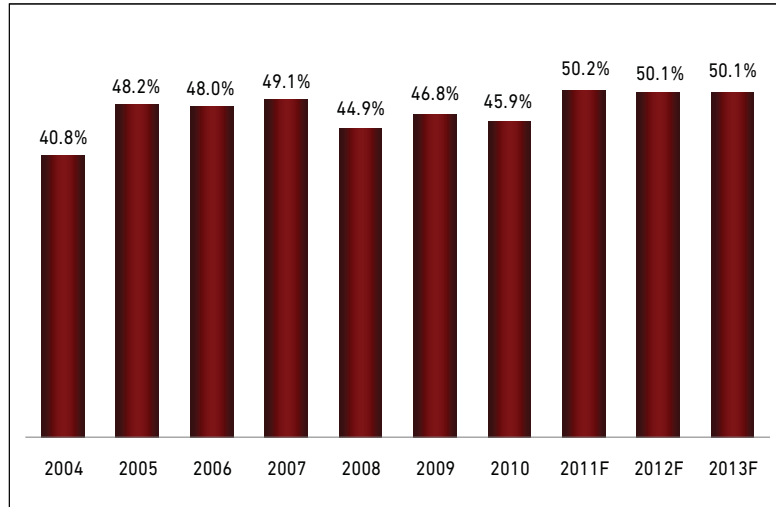


Source : Company & Ciptadana estimates

Dominant heavy equipment player

Komatsu brand has been a dominant player in the heavy equipment market with more than 40% market share in the last nine years; it even reached 50% market share during 9M11 thanks to after sales services and product support availability. With its extensive network of 18 branch offices, 17 site-support offices, and 12 representative offices, combined with its strong relationship with the principal, we believe Komatsu will be able to maintain its market share in the future.

Figure2. Komatsu market share

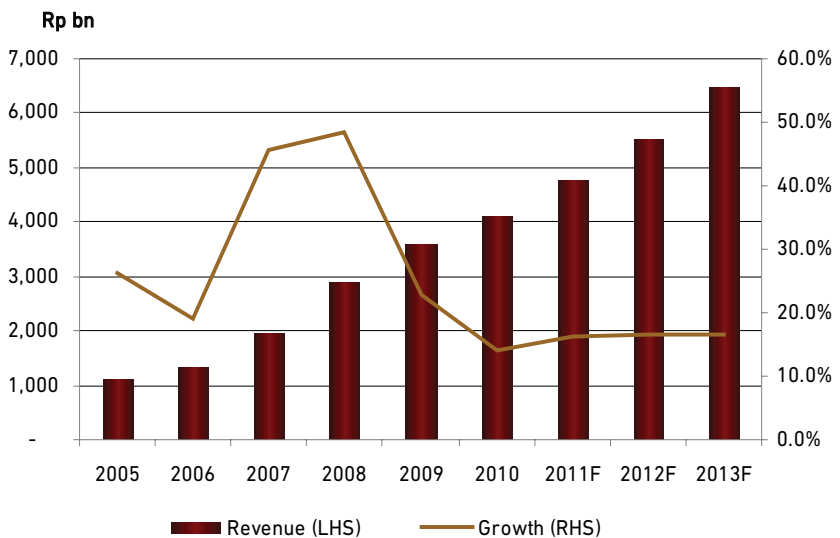


Source : Company & Ciptadana estimates

Promising and resilient parts and services segment

Aside from selling heavy equipment products, UNTR also provides after sales services including spare parts sales, equipment maintenance, and other services. The performance of this segment has shown an excellent record with 29.2% FY05-10 CAGR. Also note that, despite the global economy slowdown which shrank Indonesia GDP growth into 4.6% and decreased Komatsu sales volume by 28.4%, UNTR's parts and services business posted resilient revenue growth of 22.7% during 2009. Hence, we estimate parts and services to maintain its double digit growth by 16.5% from FY12 onwards.

Figure3. Parts and services revenue and growth

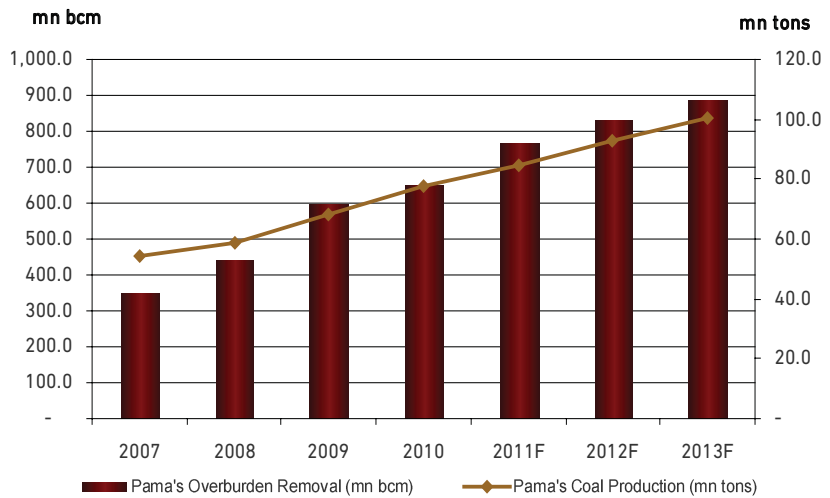


Source : Company & Ciptadana estimates

Tapping the opportunity from Indonesia rising coal production

UNTR, through its subsidiary PT Pamapersada Nusantara (Pama) is the market leader in mining contracting business with 41% market share (according to company internal research) and has major clients such as Adaro Indonesia, Indominco Mandiri, Kideco Jaya Agung, Kaltim Prima Coal, and Jembayan Muarabara. As a result, Pama would benefit from the increasing coal production from its clients. Further, we estimate Pama will deliver another 10% and 9% increase for coal production and overburden removal next year. Indonesia Coal Mining Association (APBI) estimates Indonesia coal production will grow by 23.6% into 340mn tons this year and reach 370 mn tons next year (+8.8%).

Figure4. Pama's coal production and overburden removal



Source : Company & Ciptadana estimates

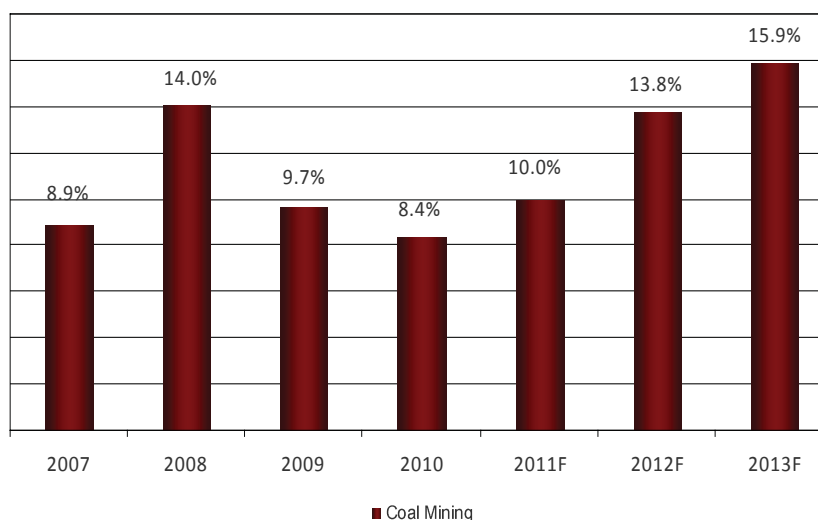
More acquisition, more contribution

This year, UNTR succeeded to acquire two coal mining concession, namely Bukit Enim Energi (BEE) and Duta Sejahtera (DS). UNTR acquired 20% ownership of BEE which has mineable reserves of 110mn tons and 60% share of DS which is estimated to have 25-100mn tons of mineable reserves. The latter acquisition came with an option to acquire 60% share in Duta Nurcahya mine. In total, UNTR now has approximately 254-369mn tons of reserves and we believe UNTR is on track in achieving its target of 500mn tons of reserves. In addition, we expect the contribution from coal mining business would reach 10% and 14% for FY12 and FY13 respectively.

Table2. UNTR coal concession

Concession	UNTR Ownership	Location	Mineable Reserves (mn tons)	Annual Production Capacity (mn tons)	Quality (kcal/kg) adb
Prima Multi Mineral (PMM) - formerly named Dasa Eka Jasatama (DEJ)	100.0%	Rantau, South Kalimantan	14	3	6,700
Tuah Turangga Agung (TTA)	100.0%	Kapuas, Central Kalimantan	36	2.5	6,300
Agung Bara Prima (ABP)	100.0%	Kapuas, Central Kalimantan	9.2	0.5 - 1	6,300
Bukit Enim Energi (BEE)	20.0%	Muara Enim, South Sumatera	110	7	4,500-6,000
Asmin Bara Bronang (ABB) and Asmin Bara Jaan (ABJ)	60.4%	Kapuas and Murung Raya, Central Kalimantan	60 - 100	7	5,800-6,900
Duta Sejahtera (DS)	60.0%	Barito Utara, Central Kalimantan	25 - 100	2	6,000-6,300

Figure5. Coal mining contribution



Source : Company & Ciptadana estimates

Minimal impact from Thailand's flood

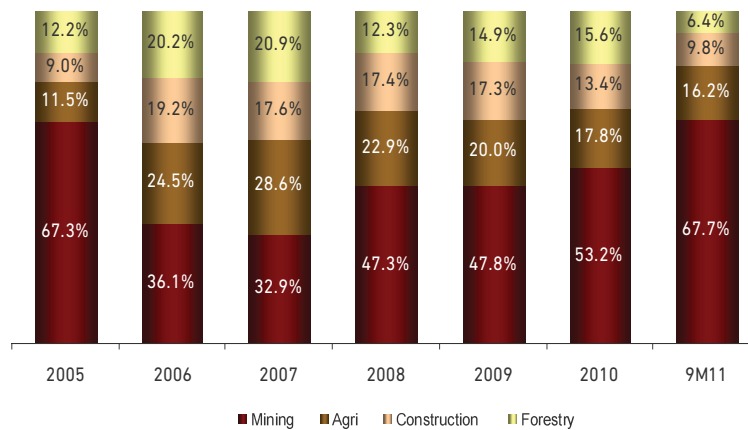
According to the company, Komatsu manufacturing plant in Bangkok was not affected by the flood and operations are running normally. However, Komatsu has not disclosed the road condition connecting to its plant, as well as the condition of its local suppliers. Currently, UNTR imports two types of excavator which totals 280 units per month from Komatsu Bangkok. Nonetheless, we believe that UNTR will be able to obtain those types of excavators from Komatsu facilities in other countries if there is further disruption in delivery from Bangkok, thus minimizing the impact for UNTR.

Business Outlook

Heavy Equipment

Last year, domestic heavy equipment sales volume jumped 77.3% yoy on extraordinary growth across all sectors with mining sector was the largest contributor (53.2% contribution). As of 9M11, the composition was not much different, led by mining with 67.7% contribution, followed by Agri, Construction, and Forestry sector with 16.2%, 9.8%, and 6.4% respectively.

Figure 6. Sector contribution to domestic heavy equipment sales



Source : Company

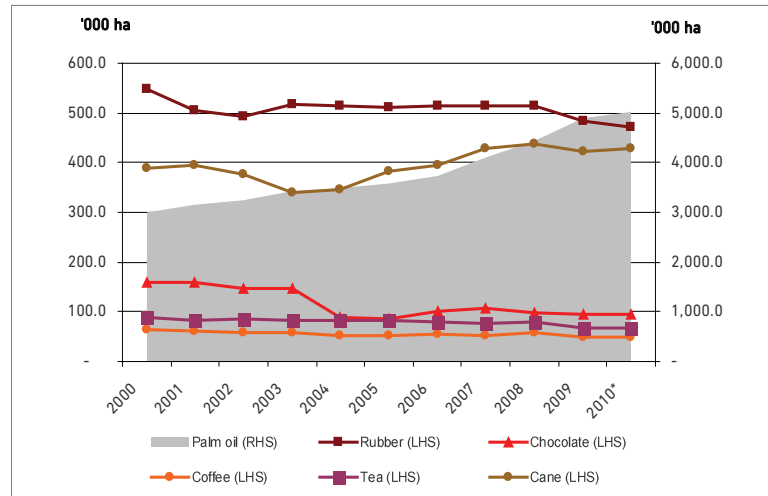
Coal mining drives demand for mining sector

Heavy equipment sales from mining sector have been the biggest contributor to UNTR's Komatsu sales, averaging 54% share for the last seven years. Demand for this sector came from the increasing mining activities especially coal mining in an effort by coal mining companies to raise their production level. Furthermore, attractive commodity prices in the foreseeable future will also encourage demand in this sector.

Palm oil spurs agri sector demand

Palm oil plantation has been the main driver for heavy equipment sales in agri sector as seen by its rising plantation area compared to other plantation in the sector. Palm oil plantation area grew by 5.3% FY00-11 CAGR growth, while other commodities plantation area mostly experienced a negative growth.

Figure7. Plantation area development

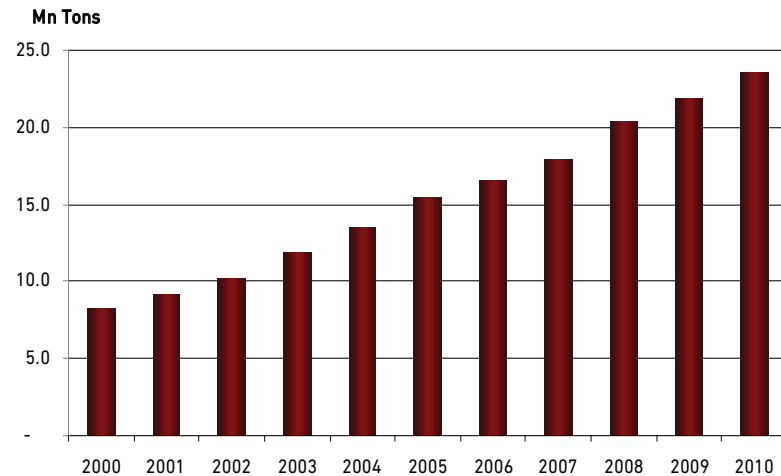


Source : Central Statistical Agency

Doubled CPO production in 2020

The government of Indonesia has been pushing the palm oil industry until it has become the largest palm oil producer in the world as of now. They even target Crude Palm Oil (CPO) production to reach 40mn tons in 2020. Currently, Indonesia CPO production reached 23.6mn tons per year, yielding from approximately 5mn ha of plantation area. With 4 tons/ha of CPO yield assumption, Indonesia would need to exploit another 4mn ha of new plantation area – representing promising demand for heavy equipment from land-clearing activities.

Figure8. Indonesia CPO Production

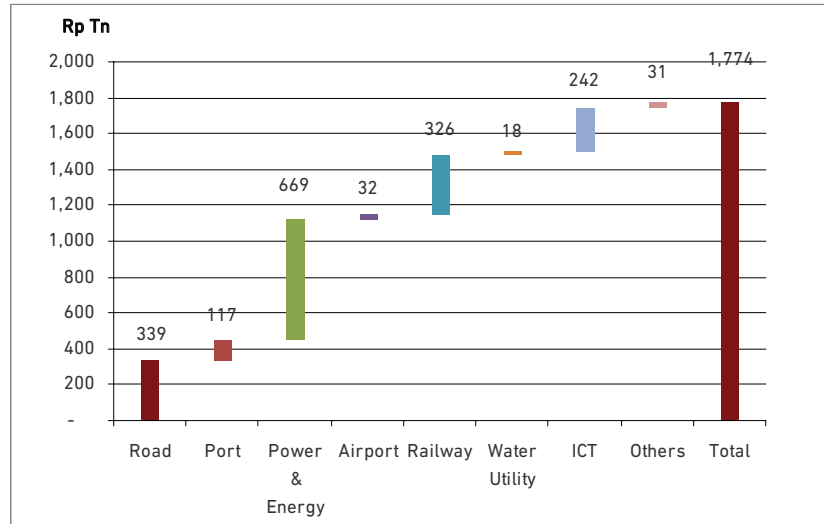


Source : Bloomberg

Construction demand from potential infrastructure development

Although the realization of infrastructure development has not been encouraging, the government of Indonesia has been putting serious effort into it. Government has indicated up to Rp1,774 trillion (around 389 projects) on investment needed for infrastructure development in Indonesia from 2011-2014 as stated in MP3EI (Masterplan of acceleration and expansion of Indonesia’s economy development) which would create potential demand of heavy equipment for the construction sector, in our view. However, government commitment will play an important role here.

Figure9. Indication of Infrastructure investment in MP3EI



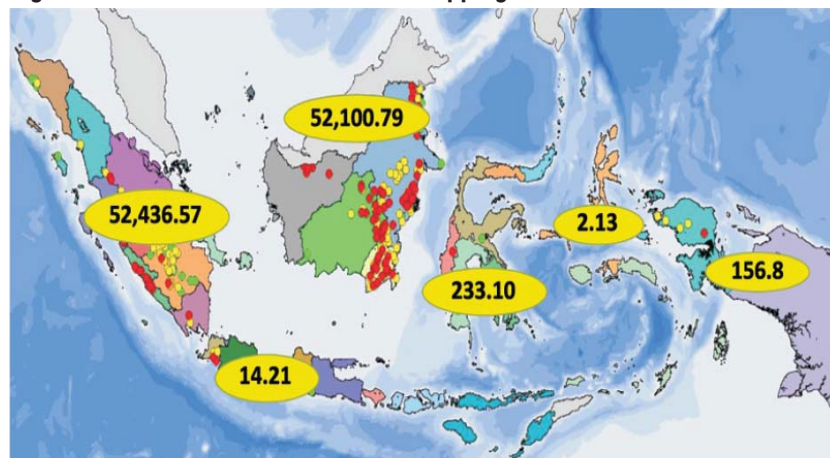
Source : National Development Planning Board

Coal

Abundant reserves for the next 64 years

According to the Geological Agency of Energy and Mineral Ministry, Indonesia had about 21.1bn tons of coal reserves and 104.9bn tons of coal resources by the end of 2010. With annual coal production that has reached 275mn tons during 2010 and is expected to reach 327mn tons this year, Indonesia’s coal reserves could last for another 64 years under current level of production (327mn tons annually).

Figure10. Indonesia Coal Resources Mapping



Coal Resources = 104,943.59 Million Tons

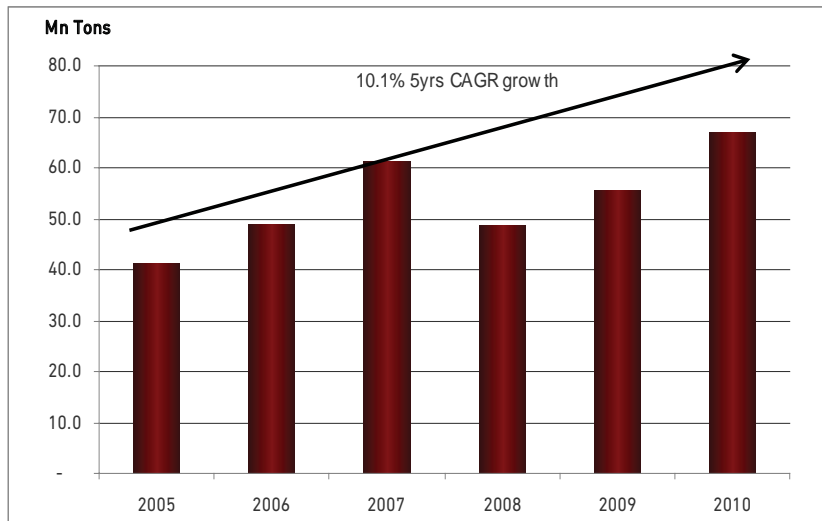
Coal Reserves = 21,131.84 Million Tons

Source : Geological Agency of Energy and Mineral Ministry

Rapid domestic coal consumption and to be a dominant source of energy

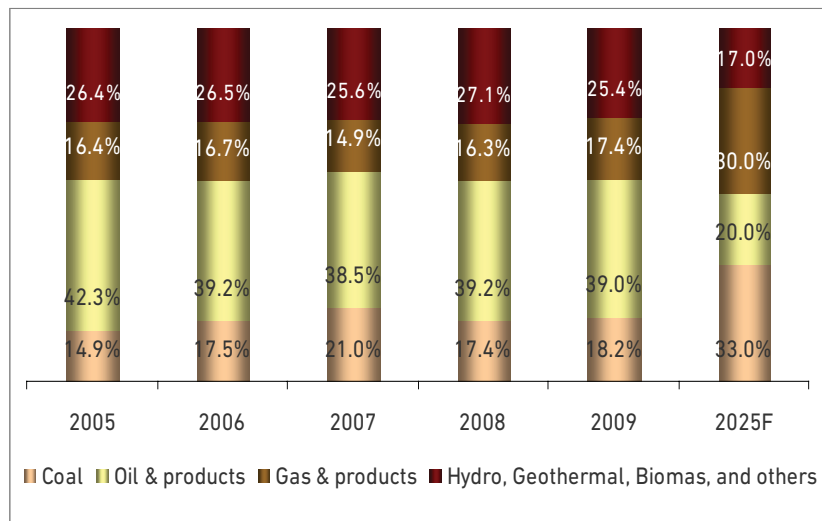
Although Indonesia's domestic coal consumption has grown by 10.1% FY05-10 CAGR, coal still only accounts for 18% of Indonesia total energy supply; oil is still the primary source of energy with 39% contribution. Because of this, the government of Indonesia has been encouraging the use of coal as a source of energy and targets coal contribution to reach 33% from total energy mix by the year 2025.

Figure11. Indonesia's domestic coal consumption



Source : Energy and Mineral Resources Ministry

Figure12. Energy supply contribution trend



Source : Energy and Mineral Resources Ministry

Power plants to lead domestic consumption

Energy and mineral resources ministry estimates the coal domestic consumption to grow by 18% yoy and 4% yoy for FY11 and FY12, with coal-fired power plant as the major consumer with 84% and 85% share respectively. Power plants have always been the largest domestic coal consumer and we expect coal demand for power plant will continue to rise in the future driven by the first phase completion of the 10,000 MW all coal-fired power plant development program by the government.

Table3. Estimated coal domestic consumption in FY11 and FY12

Indonesia domestic coal demand (mn tons)	FY11	FY12
Power plant		
PLN	55.82	57.20
Others	10.46	12.32
Cement	8.86	8.40
Pulp	0.60	0.60
Metallurgy	0.34	0.32
Others	2.89	3.23
Total	78.97	82.07

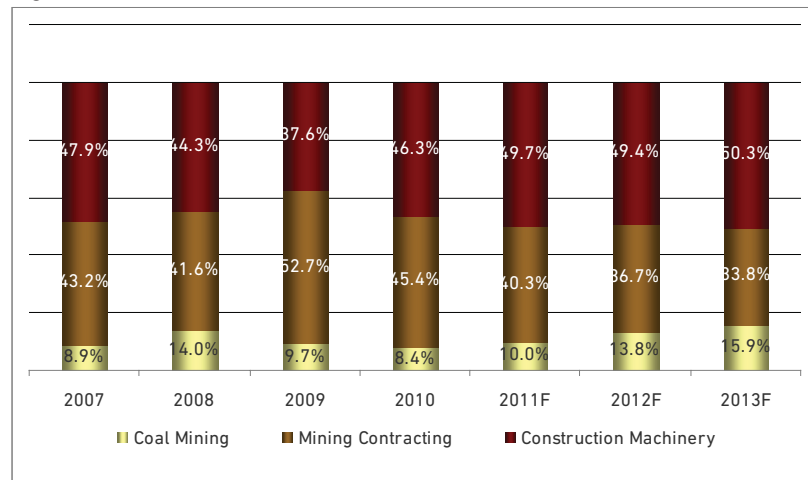
Source : Energy and Mineral Resources Ministry

Financial Highlight

Revenue to grow at 22.5% FY10-13 CAGR

UNTR's revenue has been growing at 27.1% CAGR over the last three years into Rp37 trillion in FY10, and we expect its revenue will still grow at 22.5% CAGR over the next three years driven by strong heavy equipment demand as well as promising coal business. Revenue from construction machinery will remain the major contributor, followed by mining contracting, and coal mining business. We foresee contribution from coal mining business to increase with three new mining concessions (Agung Bara Prima, Asmin Bara, and Duta Sejahtera) that is expected to operate next year.

Figure13. Revenue contribution

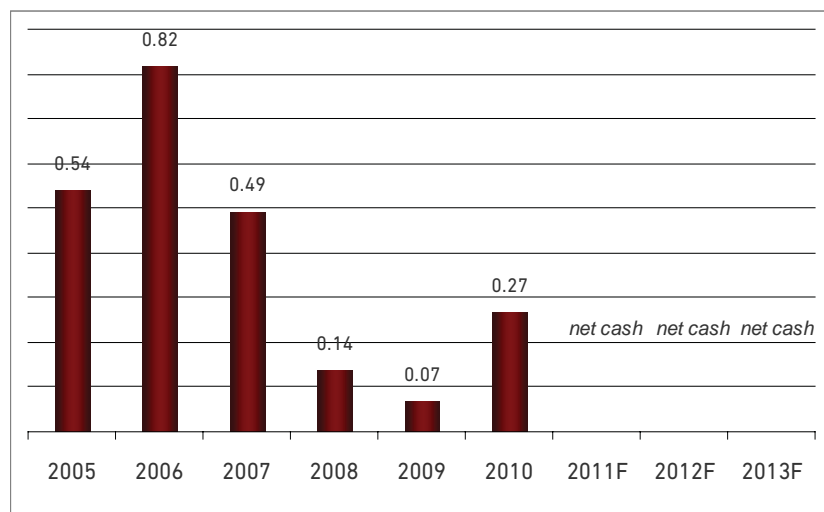


Source : Company & Ciptadana estimates

Sound balance sheet

In the last 6 years, UNTR's net gearing ratio reached its peak in FY06 when it hit 0.82X, it then gradually declined in the following years and stood at 0.27X by the end of FY10. It is even sitting at a net cash position at the end of 9M11; reflecting a solid balance sheet. Given the expectation of robust operational and financial result, we estimate UNTR will be able to maintain its net cash position going forward.

Figure14. Net gearing ratio

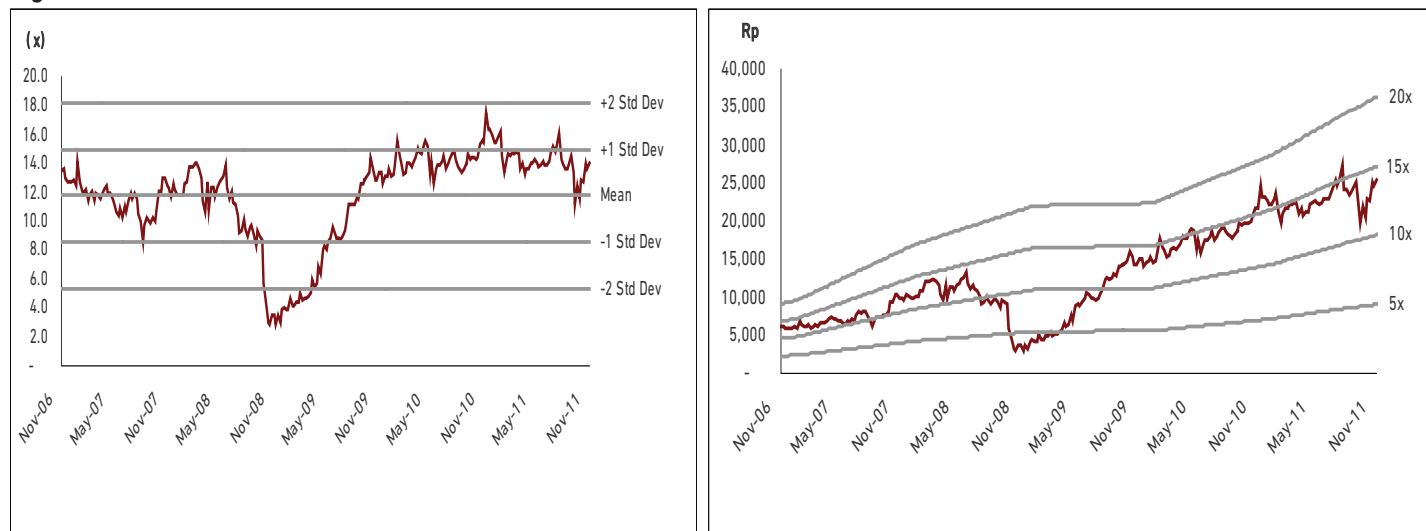


Source : Company & Ciptadana estimates

Valuation

We initiate our coverage on UNTR with BUY recommendation and a target price of Rp31,150. It is now trading at 17.4X FY11F PE and 13.9X FY12F PE, and above its industry peers average which we think is justifiable given its excellent corporate governance, larger market cap, and solid management execution. We derived our target price based on DCF valuation using a WACC of 12% and a terminal growth of 3%.

Figure15. PE Band



Source : Bloomberg, Company & Ciptadana estimates

Table4. Peers comparison

Company	Ticker	Country	Market Cap (Mn USD)	PE (X)		ROE (%)	
				2011F	2012F	2011F	2012F
Domestic - Heavy Equipment Distributor and Mining Contractor							
HEXINDO ADIPERKASA TBK PT	HEXA IJ Equity	INDONESIA	776	12.8	10.2	34.4	33.3
INTRACO PENTA TBK PT	INTA IJ Equity	INDONESIA	153	9.3	7.3	28.3	24.8
DELTA DUNIA MAKMUR TBK PT	DOID IJ Equity	INDONESIA	586	21.2	10.7	1.1	27.9
UNITED TRACTORS TBK PT	UNTR IJ Equity	INDONESIA	10,755	17.4	13.9	24.0	21.4
Simple Average				15.2	10.5	22.0	26.9

Source : Company & Ciptadana estimates

Risk to our view

Regulatory risk

Coal mining business in Indonesia is exposed to several government law such as mining, forestry, and environmental regulation. Therefore any changes in government regulation will impact the industry.

Volatility in commodity prices

Given its strong dependency to commodity, especially coal, any volatility in the commodity prices will affect UNTR.

Fluctuation in exchange rate

All of UNTR's revenue is denominated in USD and its financial is reported using IDR base, so any fluctuation in the currency will affect UNTR's financial results.

Fierce competition from other heavy equipment brands

The growing demand for heavy equipment in Indonesia could invite other heavy equipment brands to enter the market. The aggressive pricing strategy that might be implemented from some Chinese brands could affect Komatsu's market share.

Obstacle in acquiring new coal mines

The sustainability of UNTR's coal mining business will depend on its ability to acquire new coal mining concession, thus UNTR will pose with risks for any difficulty in acquiring new mines in the future.

Company Background

Established in 1972 as a sole distributor of Komatsu heavy equipment in Indonesia, UNTR has now emerged as one of the leading public-listed company in Indonesia with about US\$10,755mn of market capitalization. It is owned by the largest listed holding company, Astra International, through 59.5% ownership. Nowadays, UNTR is engaged in three main segments, namely Construction Machinery, Mining Contracting, and Coal Mining business.

Construction Machinery

In construction machinery business, UNTR acts as a sole distributor of several heavy equipment brands i.e. Komatsu, Nissan Diesel and Scania. Aside from being an exclusive distributor, this segment also provides after sales services including spare parts sales, equipment maintenance and other services.

Mining Contracting

UNTR's second biggest division is Mining Contracting, in which UNTR, through its subsidiary PT Pamapersada Nusantara (Pama) offers mining activity services such as mine design, exploration, extraction, hauling, barging and loading. Its major clients includes several leading coal mining companies in Indonesia like PT Adaro Indonesia, PT Kaltim Prima Coal, PT Indominco Mandiri, PT Kideco Jaya Agung, and PT Jembayan Muarabara. With about 41% market share, Pama is known as the largest coal mining contractor in Indonesia.

Coal Mining

UNTR re-enter the coal mining business in 2007 (previously divested 60% ownership in PT Berau Coal in 2003) through the acquisition of Dasa Eka Jasatama (DEJ) mines (now called Prima Multi Mineral/PMM) located in South Kalimantan. Following its subsequent acquisitions, UNTR currently has 6 coal concessions with up to 269 million tons of mineable coal reserves. It targets to acquire more mines and expect to reach 500 million tons of reserves in the coming years.

Table5. Forecast and Valuation

Year-end 31-Dec	09A	10A	11F	12F	13F
Revenue (Rp bn)	29,242	37,324	51,637	60,257	68,654
EBITDA (Rp bn)	7,470	8,019	10,101	12,340	14,551
Net profit (Rp bn)	3,818	3,873	5,593	7,007	8,528
EPS (Rp/share)	1,147	1,164	1,499	1,879	2,286
DPS (Rp/share)	460	430	600	751	914
ROE (%)	23.9%	27.6%	24.0%	21.4%	22.8%
Dividend yield (%)	-	-	2.3%	2.9%	3.5%
P/E ratio (x)	-	-	17.4	13.9	11.4
EV/EBITDA (x)	-	-	9.5	7.8	6.6

Table6. Income Statement

Year-end 31-Dec (Rp bn)	09A	10A	11F	12F	13F
Revenue	29,242	37,324	51,637	60,257	68,654
COGS	(22,571)	(30,528)	(42,357)	(48,854)	(55,008)
Gross Profit	6,671	6,796	9,280	11,403	13,646
Opex	(1,405)	(1,633)	(2,197)	(2,564)	(2,916)
Operating Profit	5,266	5,163	7,082	8,840	10,730
Other income/(expenses)	169	(124)	(80)	(69)	(59)
Profit before income tax	5,444	5,061	7,012	8,781	10,683
Income tax expenses	(1,595)	(1,187)	(1,402)	(1,756)	(2,137)
Minority interests	(32)	(2)	(17)	(18)	(19)
Net profit	3,818	3,873	5,593	7,007	8,528
EBITDA	7,470	8,019	10,101	12,340	14,551

Source : Company & Ciptadana estimates

Table7. Balance Sheet

As at 31-Dec (Rp bn)	09A	10A	11F	12F	13F
Assets					
Cash and equivalents	2,769	1,343	6,729	7,421	10,389
Receivables	4,463	5,215	6,710	7,996	9,298
Inventories	3,966	6,932	9,378	11,191	12,970
Others	791	2,043	2,074	2,421	2,758
Total current assets	11,989	15,533	24,892	29,029	35,415
Fixed assets - net	11,836	13,261	14,930	15,926	16,410
Long term investments	306	443	445	447	450
Others	273	464	508	645	732
Total non-current assets	12,415	14,168	15,884	17,018	17,591
Total assets	24,405	29,701	40,776	46,047	53,007
Liabilities and equity					
Short-term bank loans and current maturities	1,369	2,982	3,073	3,206	3,333
Trade payables	4,164	5,531	5,447	5,345	6,018
Others current liabilities	1,673	1,355	1,851	2,143	2,421
Total current liabilities	7,206	9,868	10,371	10,694	11,772
Long term debt	2,367	2,699	2,953	3,104	3,247
Others	880	969	1,283	1,480	1,666
Total non-current liabilities	3,248	3,668	4,236	4,584	4,914
Total liabilities	10,454	13,536	14,606	15,278	16,686
Minority interests	107	29	68	49	58

Table8. Cash Flow

Year-end 31-Dec (Rp bn)	09A	10A	11F	12F	13F
CF from operation					
Net profit	3,818	3,873	5,593	7,007	8,528
Depreciation/amortization	1,857	2,635	3,019	3,501	3,821
Change in working capitals	86	(2,350)	(4,027)	(3,200)	(2,408)
Others	(659)	(1,733)	467	(109)	(66)
CF from operation	5,101	2,424	5,052	7,200	9,875
CF from Investments					
Net capex	(4,188)	(4,060)	(4,688)	(4,496)	(4,305)
Others	1,127	431	(48)	(85)	(83)
CF from investments	(3,060)	(3,629)	(4,736)	(4,581)	(4,388)
CF from financing activity					
Increase/(decrease) in debt	(1,124)	1,944	345	285	270
Increase/(decrease) in equity	-	-	6,023	-	-
Dividend payments	(1,164)	(1,630)	(1,588)	(2,388)	(2,985)
Others	80	(404)	290	177	196
CF from financing activity	(2,208)	(90)	5,070	(1,926)	(2,519)
Net changes in cash	(168)	(1,295)	5,386	693	2,967

Source : Company & Ciptadana estimates

Table9. Key Ratio

Year-end 31-Dec	09A	10A	11F	12F	13F
Growth (%)					
Revenue	4.8%	27.6%	38.3%	16.7%	13.9%
EBITDA	26.6%	7.3%	26.0%	22.2%	17.9%
Net profit	43.5%	1.5%	44.4%	25.3%	21.7%
Profitability (%)					
Gross margin	19.7%	22.8%	18.2%	18.0%	18.9%
Operating margin	14.9%	18.0%	13.8%	13.7%	14.7%
EBITDA margin	25.5%	21.5%	19.6%	20.5%	21.2%
Net margin	9.5%	13.1%	10.4%	10.8%	11.6%
ROE	23.9%	27.6%	24.0%	21.4%	22.8%
ROA	11.6%	15.6%	13.0%	13.7%	15.2%
Leverage (X)					
Current ratio	1.7	1.6	2.4	2.7	3.0
Quick ratio	1.1	0.9	1.5	1.7	1.9
Debt to equity	0.3	0.4	0.2	0.2	0.2
Net debt to equity	0.1	0.3	net cash	net cash	net cash
Interest coverage	27.9	24.9	27.3	32.4	37.6

Table10. Key Assumption

Year-end 31-Dec	09A	10A	11F	12F	13F
Construction machinery					
Komatsu sales volume (units)	3,111	5,404	8,221	9,501	10,956
Mining Contracting					
Coal production (mn tons)	67.9	77.9	84.4	92.7	100.5
Overburden removal (mn bcm)	597.9	651.5	765.9	831.6	889.9
Coal Mining					
Coal sales volume (000 tons)	2,398	3,053	4,500	7,000	8,750

Source : Company & Ciptadana estimates

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