

Hold

Current Price	21,850
2017E P/E	19.0
Target Price	23,000
2017E P/E	20.0

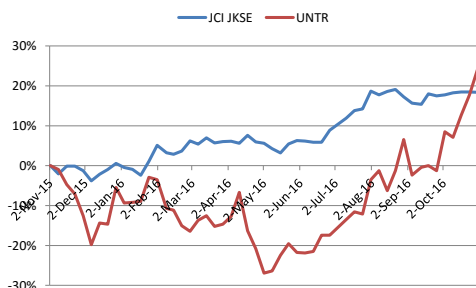
Trade, Heavy Equipment, Mining.

Bloomberg Ticker	UNTR IJ
Reuters Ticker	UNTR JK
52 week High	22,700
52 week Low	12,550
Market Cap (Rp tn)	85.8
Market Cap (US\$ bn)	6.6
USDIDR	13,090
Daily avg vol ('000 shares)	4,577
Daily avg val (Rp bn)	86.3
Daily avg val (US\$ mn)	6.6

Major Shareholders (%):

PT. Astra International, Tbk (ASII)	59.5
Public and others	40.5

Relative performance vs JCI JKSE:



The company is a distributor of Komatsu, Scania, and UD Trucks brand for Indonesia market. UNTR also operates in several other business segments, which are: mining contracting, property construction, and thermal coal mining, with expected addition from coking coal and gold mining in the future.

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Expecting Further Recovery In Coal Industry

9M2016: Revenue declined 11% to Rp33.9 trillion in the first 9-months of this year from Rp38.3 trillion in the same period last year. Lower operational performance and profit margin, particularly in Construction Machinery and Mining Contracting, added with foreign exchange loss, resulted in 44% of decline in net profit to Rp3.1 trillion from Rp5.6 trillion last year.

Net profit achievement representing 79% of our previous estimate for this year which is at Rp3.96 trillion. Therefore we are increasing our estimate for FY2016 net profit to Rp4.08 trillion, which is 6% higher than FY2015 achievement.

Revenue and Net Income from Construction Machinery business segment declined 10% and 12% each, as a result of 37% decrease in sales volume (*Exhibit 1*). Mining Contracting business under PT. Pamapersada Nusantara (Pama) which is currently the largest contributor to the company's sales and profit also weakened. Meanwhile Coal Mining and Construction business segments under PT. Tuah Turangga Agung (TTA) and PT. Acset Indonusa, Tbk (ACST) managed to deliver a better performance with significant growth in sales and profit.

Opportunities and challenges ahead: better coal price, tougher competition in heavy equipment business

As the heavy equipment's market share leader currently (*Exhibit 4 & 5*), UNTR's product Komatsu has encountered a tough challenge from several competitors this year, especially in the property construction segment, which required the company to increase discount. Gross margin for the segment is expected to decline.

However, our view for coal industry is positive, considering the significant increase in coal price recently (*Exhibit 6*). The company is expecting coal price to remain steady at least around US\$ 70 /tonne next year, which will be an advantage for Pama that will have a better bargaining power to lower mining contracting discount. In the same time, TTA will aim to increase coal production and sales, where the company is currently operating 1 (one) coal mining concession under PT. Asmin Bara Bronang (ABB), with the possible addition from PT. Telen Orbit Prima (TOP).

Valuation and recommendation

We are assigning Hold rating with higher Target Price at Rp23000, due to it's significant increase lately. Implied 20x of 2017 P/E Ratio.

Our projection is already considering the possibility of further increase in coal mining sales and profit, and higher gross margin from mining contracting segment. However, possible declining gross margin from heavy equipment segment is still a negative factor.

Risk to our projection

A larger than expected gross margin decline, especially from heavy equipment segment, as a result of possible tougher competition in the property construction machineries segment.

Exhibit 1:

Revenue Contribution (Rp bn)	9M 2016	9M 2015	Change	Contribution
Construction Machinery	14,538	16,113	-10%	37%
Mining Contracting	18,892	24,523	-23%	48%
Coal Mining	4,553	3,965	15%	12%
Construction	1,290	853	51%	3%
Profit Before Tax Contribution (Rp bn)				
Profit Before Tax Contribution (Rp bn)	9M 2016	9M 2015	Change	Contribution
Construction Machinery	639	917	-30%	15%
Mining Contracting	3,269	7,128	-54%	78%
Coal Mining	235	(299)		6%
Construction	43	14	198%	1%

Mining Contracting business segment under PT. Pamapersada Nusantara is currently the largest contributor to the company's sales revenue, meanwhile Coal Mining and Construction managed to increase sales and profit significantly.

Exhibit 2:

Sales & Production Figures	9M 2016	9M 2015	Change
Construction Machinery:			
Komatsu	1,588	1,799	-11.7%
UD Trucks	266	54	392.6%
Scania	330	189	74.6%
Total sales (units)	2,184	2,042	7.0%
Mining Contracting:			
Coal Production (mn tons)	78.6	81.4	-3.4%
Overburden Removal (mn bcm)	524.2	594.7	-11.9%
Mining:			
Coal Sales (mn tons)	5.75	3.95	45.6%

UD Trucks and Scania bus sales has grew significantly thanks to the company's strategy to actively expanding the market. Meanwhile Komatsu sales still soften.

Mining Contracting volume still lower this year, however the recovery of coal price recently has increased Coal Sales volume significantly. Currently the company operates only 1 coal mining concession under PT. Asmin Bara Bronang (ABB). Next year UNTR has prepared to re-operate PT. Telen Orbit Prima (TOP), if coal price remain steady at least at US\$70 per tonne.

Exhibit 3:

Mining Contracting Business			
	Coal Production (mn tons)	Overburden Removal (mn bcm)	Strip Ratio
2010	77.9	651.5	8.4
2011	86.8	796.4	9.2
2012	94.4	855.5	9.1
2013	105.1	844.9	8.0
2014	113.5	806.4	7.1
2015	109.0	766.6	7.0
9M2015	81.4	594.7	7.3
9M2016	78.6	524.2	6.7

Strip Ratio together with Coal Production and Overburden Removal volume still declined, as a result of client's efficiency effort.

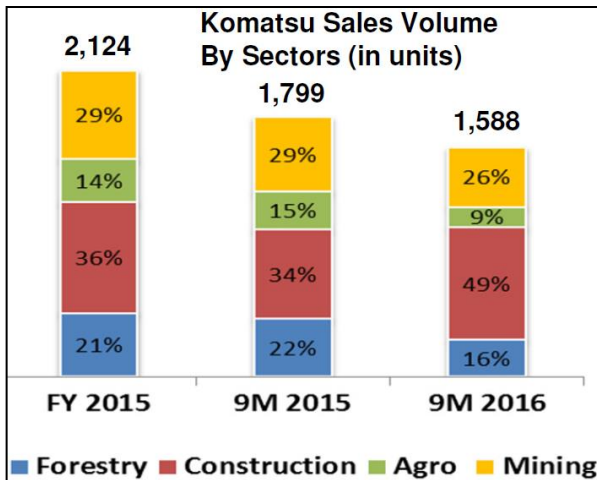


Exhibit 4: Construction machineries segment is now the largest contributor to overall heavy equipment sales volume.

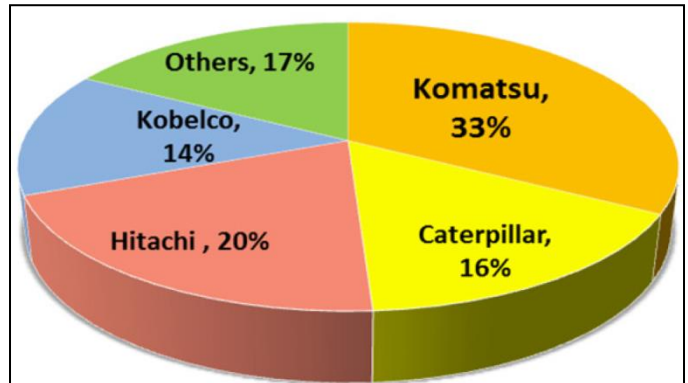


Exhibit 5: Komatsu is still the market leader for domestic Heavy Equipment sales in the first 9 months of this year, according to internal research from UNTR.

However, gross margin is expected to be lower next year due to intense competition in the Construction segment, which require larger discount.

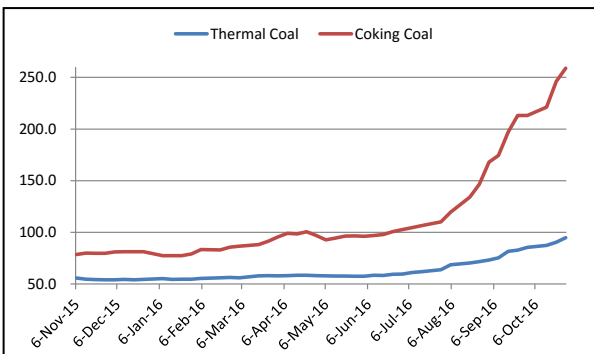



Exhibit 6: The price of thermal and coking coal in several ports in China has increased to US\$100 and US\$250 per tonne each respectively. This is certainly a great opportunity for UNTR to improve revenue next year. The company is targeting thermal coal price to remain steady at least at US\$70 per tonne.



Exhibit 7: So far this year the company has delivered 56 units of Scania buses to TransJakarta, and expected to deliver 100 units more until the end of this year.


Other than TransJakarta, Mayasari Bakti and other private companies operating inter-city road transportation are also starting to use Scania.

Growing market is expected to increase recurring income from spare parts sales and services in the future.




PT. Suprabari Mapanindo Mineral (SMM)

Exhibit 8: UNTR through PT Buah Turangga Agung (TTA), its subsidiary, has acquired PT Suprabari Mapanindo Mineral (SMM), a coking coal producer, in a transaction valued at Rp600 billion (\$45.72 million). SMM has not been producing yet. It is in preparation to start next year, when it will produce maximum 1 million tonnes of coals per year. Gradually it will reach its full capacity of 4 million tonnes per year.



Tanjung Jati B Power Plant Unit 5 & 6

Exhibit 9: The company together with Sumitomo Corp and Kansai Electric Power will develop Tanjung Jati B coal-fired power plant Unit 5 & 6 Expansion Project, located near Jepara, Central Java, and expected to start operating at the end of 2019.



PT. Sumbawa Juta Raya

Exhibit 10: UNTR's subsidiary in gold mining, PT. Sumbawa Juta Raya (SJR) has finished exploration and found more than 350,000 ounce of gold deposit. It is expected to start contributing in late 2017, or early 2018, with 50,000 - 60,000 of production capacity annually.

Income Statement (Rp bn)					Balance Sheet (Rp bn)				
	2015E	2016E	2017E	2018E		2015E	2016E	2017E	2018E
Revenue	49,347	45,226	47,488	49,981	Cash and equivalents	15,413	18,026	20,521	22,954
COGS	(37,645)	(35,995)	(37,782)	(39,779)	Trade receivables	11,480	11,898	12,493	13,118
Gross Profit	11,702	9,232	9,705	10,202	Non-trade / other receivables	690	918	964	1,013
EBT	4,193	5,889	6,193	6,485	Inventories	8,328	6,625	6,956	7,304
Tax	(1,400)	(1,649)	(1,734)	(1,815)	Prepaid taxes	1,866	1,737	1,824	1,915
EAT	2,792	4,240	4,460	4,670	Advances & prepaids	470	594	623	655
NC Interest	1,061	(158)	(166)	(174)	Other investments	1,012	1,391	1,461	1,534
Net Income	3,853	4,083	4,294	4,496	Total current assets	39,260	41,190	44,843	48,492
Shares Outstanding (bn shares)	3.73	3.73	3.73	3.73	Restricted cash	263	263	276	290
EPS (Rp full amount)	1,033	1,095	1,151	1,205	Advances	184	147	154	162
					Investments in associates & joints	499	483	507	532
Current Price			21,850		Other investments	1,878	1,131	1,187	1,247
P/E			19.0		Fixed assets	12,660	11,524	10,559	9,757
Target Price			23,000		Mining properties	4,859	4,560	4,788	5,027
P/E			20.0		Investment property	53	53	55	58
Market Cap (Rp tn)			85.8		Dfrd explrtn&devlpmnt expndtrs	377	458	481	505
Market Cap (US\$ bn)			6.6		Production Mining Assets	298	264	277	291
					Deferred charges	146	438	460	482
Ratios & Margins:	2015E	2016E	2017E	2018E	Deferred tax assets	1,151	1,262	1,325	1,391
Revenue growth	-7%	-8%	5%	5%	Non trade receivables	89	292	307	322
Gross Profit margin	24%	20%	20%	20%	Total non-current assets	22,456	20,874	20,376	20,065
Net Profit margin	8%	9%	9%	9%	Total Assets	61,715	62,064	65,220	68,557
Net Profit growth	-28%	6%	5%	5%	Trade payables	13,407	11,951	12,250	12,556
ROA	6%	7%	7%	7%	Non-trade payables	480	736	791	850
ROE	10%	10%	10%	10%	Taxes payable	897	266	289	313
Total Debt	1,052	343	357	373	Accruals	1,368	1,884	2,025	2,177
Cash	15,413	18,026	20,521	22,954	Customer deposits	540	655	714	778
Net Debt (Cash)	(14,361)	(17,683)	(20,164)	(22,581)	Defered revenue	245	325	351	379
DER	-37%	-43%	-46%	-49%	Short-term employee benefit	174	508	549	593
DPS	796	569	600	628	Short-term bank loan	24	277	298	321
DPR	55%	55%	55%	55%	Current portion of long-term debt	1,145	782	704	634
					Bank loans	586	-	-	-
Equity					Finance leases	402	747	672	605
Share Capital	933	933	933	933	Other borrowings	157	36	32	29
Additional paid in capital	9,704	9,704	9,704	9,704	Derivative Financial Instrument	-	20	22	23
Retained earnings	25,248	27,266	29,323	31,477	Total current liabilities	18,280	17,404	17,992	18,624
Appropriated	187	187	187	187	Deferred tax liabilities	1,029	974	1,047	1,126
Unappropriated	25,061	27,080	29,136	31,290	Provision	89	101	109	117
Hedging reserve	0	(0)	(0)	(0)	Long-term employee benefit	1,560	2,014	2,175	2,349
Investment fair value reserve	101	147	160	175	Long-term debt	1,147	103	93	84
Exchange difference	2,283	2,059	2,223	2,401	Bank loans	228	-	-	-
Difference due to acquisition	(348)	(350)	(350)	(350)	Finance leases	863	73	66	59
Sub Total Equity	37,920	39,758	41,993	44,339	Other long-term financial liabilities	359	314	337	363
Non controlling interest	1,331	1,395	1,474	1,556	Total non-current liabilities	4,185	3,506	3,761	4,038
Total Equity	39,250	41,154	43,467	45,895	Total Liabilities	22,465	20,910	21,753	22,662
9M	2015	2016							
Revenue	38,295	33,897							
growth		-11%							
Gross Profit	8,931	6,580							
margin	23%	19%							
Net Profit	5,572	3,127							
margin	15%	9%							
growth		-44%							

Source: financial report, Reliance Research estimates.

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