

Krakatau Steel Tbk (KRAS IJ)

A Heavy Dependency on Hard-Self Rebuild

We pencil in that KRAS, in this year, is focusing on a hard-self rebuild as it hardly turns its red-ink grade. Its financial statements, CFO of which is negative and debt restructuring are an onerous rebuild. Indonesian authorities' supportive regulations and KRAS investment in production facilities are expected impetus for leveraging sales and deleveraging production costs

2018: Trapped in Paralysis

KRAS's finished 2018 with a red-ink grade of losses worth USD74.8 million, regardless of its surging revenues of 20% y-y. Despite the improvement, 7-consecutive-year loss lingered still.

1Q19: Dim Industries and Macro Indicators

We pencil in that KRAS's 1Q19 bleaker outlook, dampened by ominous portents as follows 1) Steep slump of 43.94 in Prompt Manufacturing Index of basic metal, i.e. iron and steel (vs. 54.43 in 4Q18). KRAS dominates the steel-industry market shares, the well below numbers from 50 throwing off worrying signals for the basic metal industry. 2) 1Q19 escalating iron and steel imports of 14.7% to USD2.764 million added to the evidence of intense competition between domestic steel with imported steel (vs. USD2,409 million in 1Q18). 3) Prices of iron ore are on a bullish trend.

2019 Performance: A Heavy Dependency on Hard-Self Rebuild

To revive from its paralysis, hard-self rebuild efforts are onerous-yet-requisite. They are 1) Efficient production costs; 2) Cash-flow management, resulting in positive operational activities; 3) Debt restructuring, easing financial expenses.

Banking on Brighter Outlook of II Semester

Prolonged antidumping regulations and revisions to imported iron and steel regulations, increasing protection for domestic iron and steel industries are positive endeavors Indonesian authorities enact to uphold iron and steel industries. Yet, to enjoy the benefits of such regulation requires times, and impacts are likely to prevail in 2Q19 at the soonest. March's declines of USD845 million in imported iron and steel of HS 72 marked the first decrease on annual basis (vs. USD880.4 million in March 2018). From the internal management, KRAS's trial run of blast-furnace production facilities have an objective of slashing production costs, while its Hot Steel Mill #2 is planned to complete in 2Q19.

2019's Outlook

KRAS's 2019 outlook is likely bleak due to I semester losses and profit accumulation; thus it starts to accumulate profits in II semester, we pencil in. It, on an annual basis, still posts smaller portion of losses and begins to secure profits in 2020.

HOLD Recommendation

In light KRAS's current backdrop, we recommend HOLD with the target price of IDR508 on the grounds of the ratio EV/EBITDA valuation at 19.4x. Its price is possible to hike by 10.9% compared with its current price level.

Hold

Dec 2019 TP (IDR)	508
Consensus Price (IDR)	-
TP to Consensus Price	-
vs. Last Price	+10.9%

Shares data

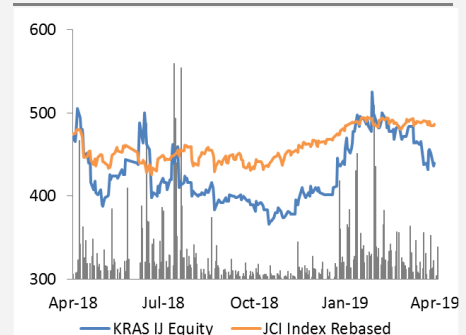
Last Price (IDR)	458
Price date as of	Apr 16, 2019
52 wk range (Hi/Lo)	540/366
Free float (%)	20.00
Outstanding sh.(mn)	19,346
Market Cap (IDR bn)	8,512
Market Cap (USD mn)	604
Avg. Trd Vol - 3M (mn)	15.79
Avg. Trd Val - 3M (bn)	7,635
Foreign Ownership	2.2%

Materials

Iron & Steel

Bloomberg	KRAS IJ
Reuters	KRAS.IK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	9.5%	-6.8%	-3.9%	-7.2%
Rel. Ret.	5.3%	-6.4%	-4.3%	-9.8%

Selvi Ocktaviani, Analyst

(021)797-6202, selvi.oktaviani@nhsec.co.id

Krakatau Steel Tbk | Summary

	2017	2018	2019E	2020E
Revenue	1,449	1,740	1,911	2,126
Growth (%)	7.8%	20.0%	9.9%	11.2%
EBITDA	120	62	121	170
Net Profit	(82)	(75)	(22)	27
EPS (IDR)	(57)	(56)	(16)	21
Growth (%)	52.4%	8.5%	70.1%	222.5%
P/E	-7.4x	-7.2x	-31.0x	24.8x
P/BV	0.3x	0.3x	0.4x	0.3x
EV/EBITDA	17.1x	37.2x	19.4x	13.6x
ROE (%)	-4.4%	-4.1%	-1.2%	1.4%
Debt/equity	93%	108%	106%	102%
Net debt	1,440	1,770	1,646	1,636

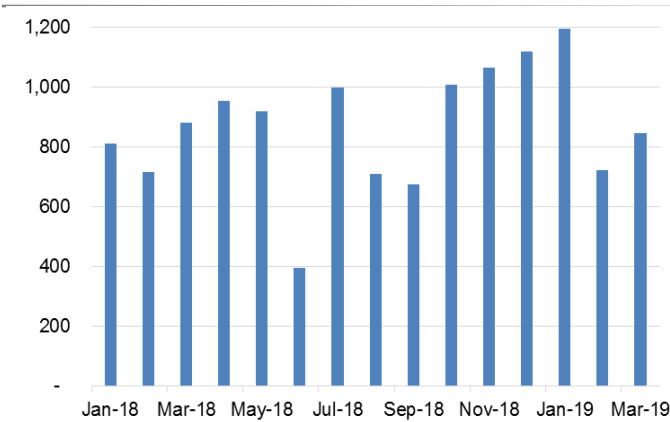
Unit: USD mn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

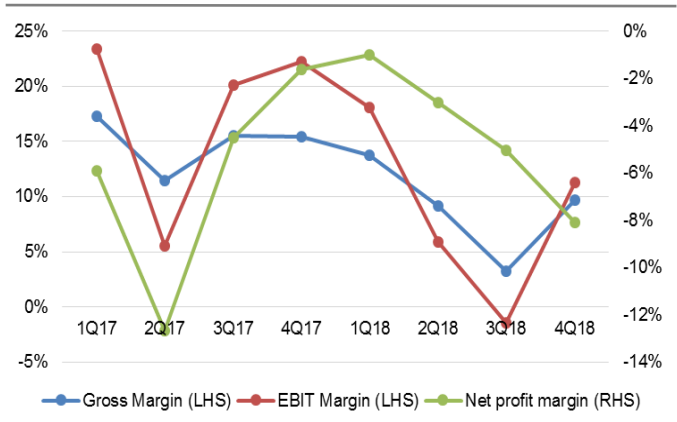
Performance highlights in chart

Import of Iron and Steel (USD mn)



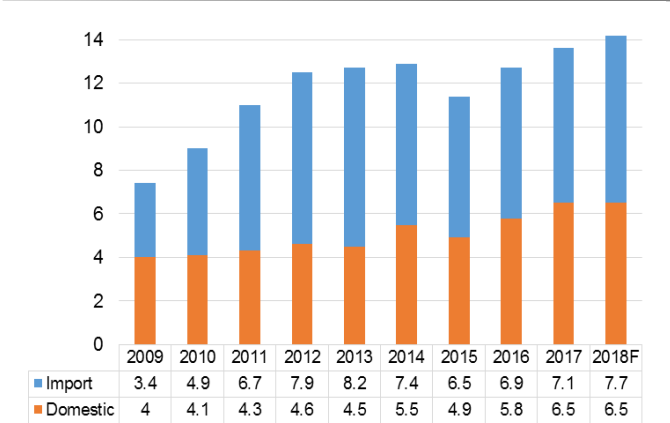
Source: BPS, NHKS Research

Low gross margin draws net profit margin into negative



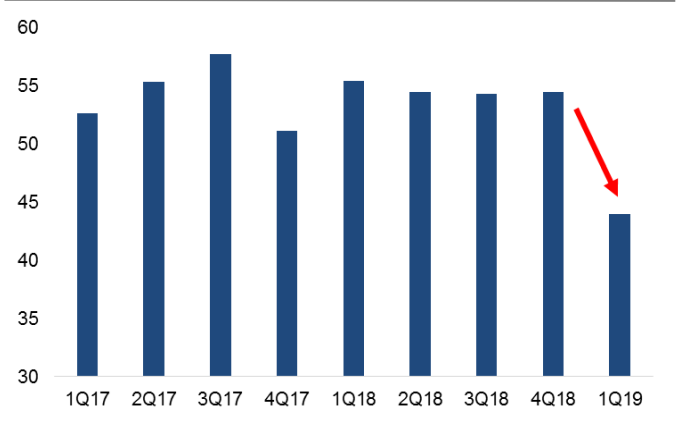
Source: Company Data, NHKS Research

Demand of steel (mn ton) mostly fulfilled by import



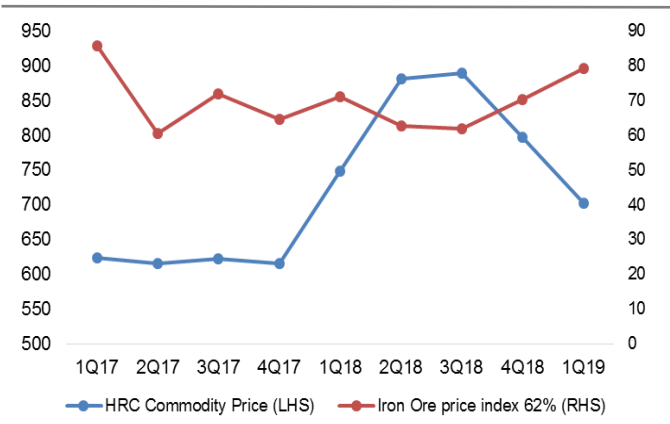
Source: South east Asia Iron&Steel Institute, Company Data, NHKS Research

Prompt Manufacturing Index for Basic Metal : Iron and steel



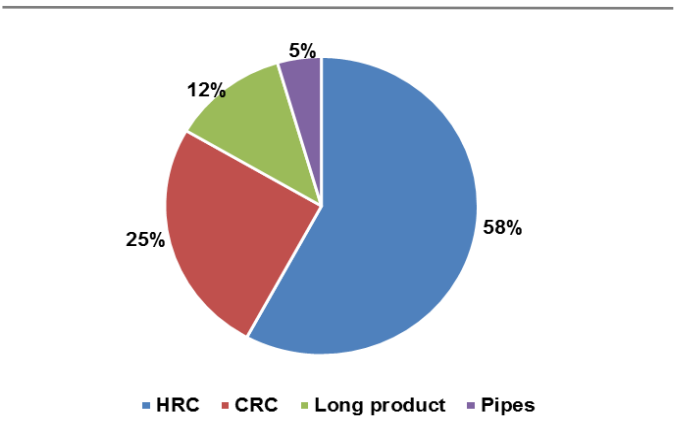
Source: BPS, NHKS Research

Bullish iron ore price but downtrend HRC price (USD/ton)



Source: Bloomberg, NHKS Research

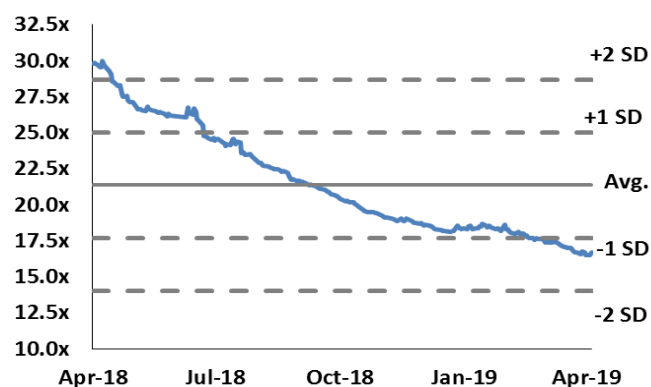
FY 2018 steel revenue breakdown



Source: Company Data, NHKS Research

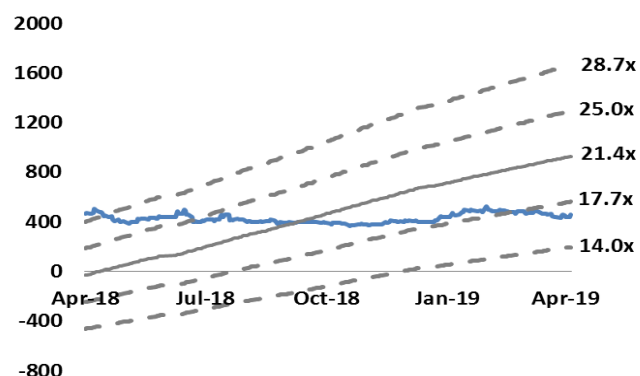
Valuation highlights in chart

1-year forward EV/EBITDA band



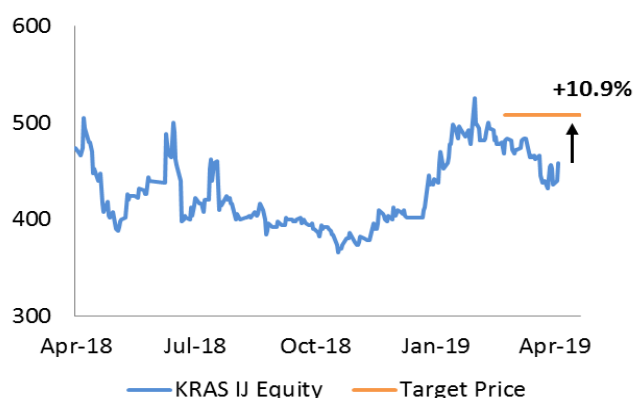
Source: Company Data, NHKS Research

1-year dynamic forward EV/EBITDA band



Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2019.04.18	Hold	IDR508	-

Source: NHKS Research

Quarterly review

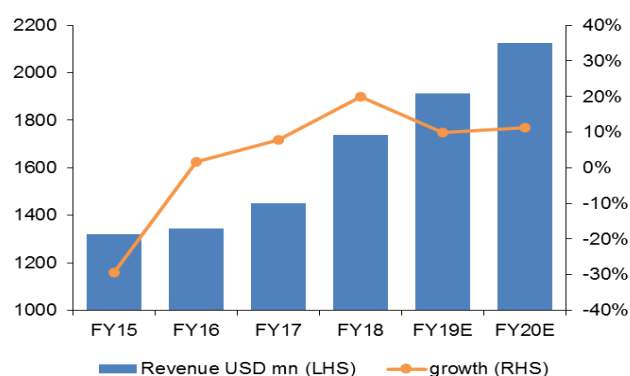
	4Q17	1Q18	2Q18	3Q18	4Q18			1Q19E
					Actual	Estimate	Y-Y	
Income statement (USD mn)								
Revenue	409	486	368	422	463	13%	10%	482
Gross Profit	63	67	34	14	45	-29%	224%	45
EBIT	28	21	(12)	(20)	7	-73%	-137%	10
EBITDA	45	39	4	(4)	23	-48%	-715%	26
Net Profit	(7)	(5)	(11)	(21)	(37)	-459%	75%	(14)
Margin (%)								
Gross Margin	15%	14%	9%	3%	10%	-38%	195%	9%
EBIT Margin	7%	4%	-3%	-5%	2%	-76%	134%	2%
EBITDA Margin	11%	8%	1%	-1%	5%	-54%	660%	5%
Net Profit Margin	-2%	-1%	-3%	-5%	-8%	-594%	59%	-3%

Source: Company Data, NHKS Research

Company Overview

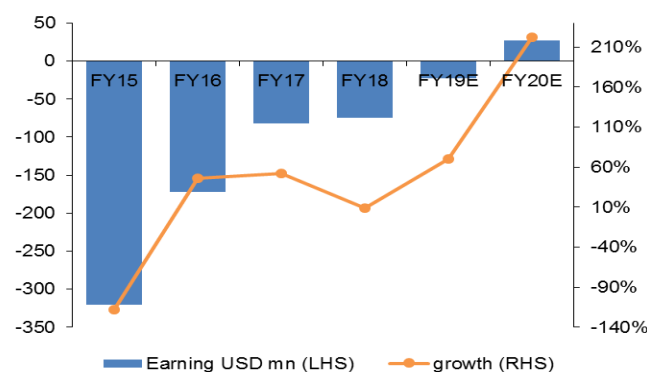
- PT Krakatau Steel (Persero) Tbk (KRAS IJ) is a state-owned steel manufacture, incorporated since 1970
- KRAS’s major business is an integrated steel industry, producing various-typed steel, i.e. hot-rolled coil and sheets; cold-rolled coil and sheets; wire rods. At the end of 2018, its production capacities were at 3.15 million ton per year.
- KRAS dominated 2018’s biggest sales market shares of 39%, 25%, and 6% for hot-rolled coils and sheets, cold-rolled coils and sheets, and wired rod, respectively.
- KRAS is leveraging its production capacities by construction Hot Stell Mill #2 with capacities of 1.5 million tons per year, predicted to be settled in 2Q19. Besides, its blast furnace complex project for producing 1.2-million-per-year hot metal has been in a trial phase. This project is expected to deleverage electricity consumption in future years; accordingly lower production costs are achievable.

Revenue and growth movement



Source: Company Data, NHKS Research

Earnings and growth movement



Source: Company Data, NHKS Research

Asia steel companies peers analysis

Company	Market Cap (USD mn)	Total Asset (USD mn)	EBITDA Growth	Debt/Equity	ROE	EV/EBITDA	P/BV	P/E	Net Profit Growth
Indonesia									
Krakatau Steel	604	4,298	-48.0%	115%	-4.1%	36.7x	0.3x	N/A	8.5%
Thailand									
Tata Steel thailand	196	406	11.5%	0.192	-0.6%	N/A	0.7x	N/A	-0.21%
Posco-Thainox	221	397	26.0%	0.0%	6.1%	4.4x	0.7x	12.5x	78.0%
India									
JSW Steel LTD	10,177	14,126	21.5%	143.1%	24.5%	7.2x	2.5x	11.3x	76.4%
Tata Steel Ltd	9,079	32,201	28.6%	149.1%	26.9%	6.3x	1.1x	4.3x	N/A
Steel Authority of India	3,506	17,722	6809.5%	113.7%	-0.8%	15.3x	0.7x	N/A	89.8%
Vietnam									
Vietnam Steel Corp	237	639	-8.5%	38.8%	9.2%	8.0x	0.7x	8.1x	-10.0%
Bangladesh									
BSRM Steels Ltd	261	545	N/A	173.1%	16.0%	N/A	1.7x	11.1x	85.4%
China									
Baoshan Iron & Steel CO-A	24,970	53,827	35.2%	62.3%	14.2%	N/A	1.0x	7.1x	57.3%
Angang Steel CO LTD-A	5,988	13,088	37.5%	40.2%	15.3%	N/A	0.8x	5.2x	19.8%
Taiwan									
China Steel Corp	12,821	22,038	13.7%	67.0%	7.9%	8.9x	1.2x	15.9x	44.7%

Unit: IDR bn, %, X

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(USD mn)	2017/12A	2018/12A	2019/12E	2020/12E		2017/12A	2018/12A	2019/12E	2020/12E
Revenue	1,449	1,740	1,911	2,126	ROE	-4.4%	-4.1%	-1.2%	1.4%
<i>Growth</i>	7.8%	20.0%	9.9%	11.2%	ROA	-2.0%	-1.8%	-0.5%	0.6%
COGS	(1,230)	(1,581)	(1,707)	(1,861)	ROIC	1.6%	-0.1%	1.4%	2.3%
Gross Profit	219	159	204	264	Cash Dividend(IDR bn)	-	-	-	-
<i>Gross Margin</i>	15.1%	9.1%	10.7%	12.4%	Dividend Yield	N/A	N/A	N/A	N/A
Operating Expenses	(168)	(162)	(146)	(158)	Payout Ratio	0%	0%	0%	0%
EBIT	51	(3)	58	106	DER	92.9%	107.9%	106.2%	101.8%
<i>EBIT Margin</i>	3.5%	-0.2%	3.0%	5.0%	Net Gearing	448%	621%	675%	623%
Depreciation	69	65	63	64	LT Debt to Equity	43.1%	45.1%	49.9%	52.9%
EBITDA	120	62	121	170	Capitalization Ratio	48.2%	51.9%	51.5%	50.4%
<i>EBITDA Margin</i>	8.3%	6.9%	6.3%	8.0%	Equity Ratio	45.0%	41.9%	41.3%	41.8%
Interest Expenses	(99)	(112)	(125)	(119)	Debt Ratio	41.8%	45.2%	43.9%	42.5%
EBT	(78)	(78)	(27)	30	Financial Leverage	218.0%	230.3%	240.3%	240.6%
Income Tax	(8.2)	1.1	2.0	(5.0)	Current Ratio	33.0%	29.9%	33.5%	37.4%
Minority Interest	4.4	2.3	2.9	2.0	Par Value (IDR)	500	500	500	500
Net Profit	(82)	(75)	(22)	27	Total Shares (mn)	19,346	19,346	19,346	19,346
<i>Growth</i>	52.4%	8.5%	70.1%	222.5%	Share Price (IDR)	424	402	508	508
<i>Net Profit Margin</i>	-5.6%	-4.3%	-1.2%	1.3%	Market Cap (IDR tn)	8,203	7,777	9,828	9,828

BALANCE SHEET					VALUATION INDEX				
(USD mn)	2017/12A	2018/12A	2019/12E	2020/12E		2017/12A	2018/12A	2019/12E	2020/12E
Cash	281	173	316	346	Price/Earnings	-7.4x	-7.2x	-31.0x	24.8x
Receivables	205	220	241	271	Price/Book Value	0.3x	0.3x	0.4x	0.3x
Inventories	489	535	494	577	Price/Sales	0.4x	0.3x	0.4x	0.3x
Total Current Assets	1,022	990	1,120	1,269	PE/EPS Growth	-0.1x	-0.8x	-0.4x	0.1x
Net Fixed Assets	2,624	2,851	2,886	2,920	EV/EBITDA	17.1x	37.2x	19.4x	13.6x
Other Non Current Assets	468	457	463	472	EV/EBIT	40.3x	-695.2x	40.1x	21.8x
Total Assets	4,114	4,298	4,469	4,661	EV (IDR bn)	27,714	33,403	33,203	33,544
Payables	251	222	284	298	Sales CAGR (3-Yr)	-8.1%	9.6%	12.4%	13.6%
ST Debt	923	1,131	1,040	951	EPS CAGR (3-Yr)	76.8%	57.6%	50.7%	69.4%
LT Debt	798	812	922	1,030	Basic EPS (IDR)	(57)	(56)	(16)	21
Total Liabilities	2,262	2,498	2,621	2,715	Diluted EPS (IDR)	(57)	(56)	(16)	21
Capital Stock + APIC	1,110	1,110	1,110	1,110	BVPS (IDR)	1,297	1,347	1,356	1,459
Retained Earnings	(603)	(675)	(697)	(670)	Sales PS (IDR)	1,015	1,302	1,403	1,593
Shareholders' Equity	1,853	1,800	1,848	1,947	DPS (IDR)	N/A	N/A	N/A	N/A

CASH FLOW STATEMENT					OWNERSHIP			
(USD mn)	2017/12A	2018/12A	2019/12E	2020/12E	By Geography	% Shareholders	%	
Operating Cash Flow	204	(80)	141	29	Indonesia	97.76	Republic of Indonesia	80.0
Investing Cash Flow	(152)	(274)	(88)	(90)	United States	2.16	Dimensional Fund	0.7
Financing Cash Flow	(39)	242	89	91	Ireland	0.04	Vanguard	0.6
Net Changes in Cash	13	(112)	142	30	United Kingdom	0.02	Blackrock	0.5

Source: Company data, NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
 - Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
 - This document is strictly confidential and is being supplied to you solely for your information. The recipients of this report must make their own independent decisions regarding any securities or financial instruments mentioned herein. This document may not be quoted, reproduced, exhibited, redistributed, transmitted, edited, translated, or published, in whole or in part, for any purpose without notice. Any failure to comply with this restriction may constitute a violation of civil or criminal laws.
-

DISCLAIMER

This report and any electronic access hereto are restricted and intended only for the clients and related entities of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not be suitable for all investors. Although the information hereof is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, and agents are held harmless from any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents are liable for errors, omissions, misstatements, negligence, inaccuracy contained herein. All rights reserved by PT NH Korindo Sekuritas Indonesia.
