

# United Tractors Tbk (UNTR IJ)

## Construction Machinery Continues to Weaken

1Q20 result is below our expectation with a decrease in net profit by 40% YoY, which is the result of a 19% YoY decrease in revenue and an increase in forex loss by 418% YoY. We cut our assumptions as follow: 1) Komatsu sales to 2,467 units for 2020F; 2) coal production to 123 million tonnes for 2020F. Revised down our 2020F revenue estimate by 8.7% but we still maintain BUY rating with TP of IDR19,000.

### Below Expectation

In 1Q20, UNTR posted a net profit of IDR1.8 trillion (-40% YoY) due to lower revenue to IDR18.3 trillion (-19% YoY) and an unexpected increase of forex loss to IDR558 billion (+418% YoY). UNTR's revenue is below our expectation (-19.5%) in 1Q20, the lower revenue was caused by weak global coal prices and lack of demand for heavy equipment. We remain optimistic that UNTR is capable of attaining revenue of IDR75.1 trillion (revised estimates) in 2020F, and 1Q20 revenue has reached 24% of our target in this year.

### Construction Machinery and Mining Contracting Still Sluggish

Sluggish mining sector in 1Q20 makes construction machinery and mining contracting segment posted a decline revenue by 36% YoY and 14% YoY, respectively. We believe the condition of mining sector still sluggish this year. So, we cut our Komatsu sales assumption to 2,467 units and our coal production assumption to 123 million tonnes for 2020F.

### Revised Down 2020F Estimates

We slash our estimates for 2020F revenue by 8.7% and net profit by 29.3%, considering: 1) global coal demand which is likely to remain low until 3Q20 because of pandemic conditions; 2) lower business activity of mining and agriculture in 2020 affect Komatsu sales; 3) potential for more forex loss until the end of the year. 2020F ROE is expected to decline to 11.4% (vs. 19.1% in 2019).

### Maintain BUY Rating with Lower TP of IDR19,000

We believe gold mining will become an additional driver to keep UNTR's performance in-line with our expectations until 4Q20, and still maintain BUY recommendation. However, we revised down our TP to IDR19,000 (from previously IDR20,000) because of weak 1Q20 financial performance. Our new TP based on forward P/E of 8.6x (-1.5 SD of its 3-year historical mean) with the potential upside of 21% from the last price, its implying 2020F P/E of 9.8x. UNTR currently is traded at 7.7x P/E (below -2 SD of its 3-year historical mean).

#### United Tractors Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (IDR bn)	84,430	75,110	76,390	77,533
Growth (%)	-0.2	-11.0	1.7	1.5
EBITDA (IDR bn)	25,123	17,397	20,490	22,365
Net Profit (IDR bn)	11,312	7,206	8,203	9,151
EPS (IDR)	3,033	1,932	2,199	2,453
Growth (%)	1.7	-36.3	13.8	11.6
P/E (x)	7.1	9.8	8.6	7.7
P/BV (x)	1.3	1.1	1.0	0.9
EV/EBITDA (x)	3.3	4.1	3.5	3.1
ROE (%)	19.1	11.4	11.9	12.0
DER (%)	82.8	82.6	66.8	55.0
Net Debt (IDR bn)	1,896	676	-417	-1,377

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## Buy

Dec 2020 TP (IDR)	19,000
Consensus Price (IDR)	20,539
TP to Consensus Price (%)	-8.0
vs. Last Price (%)	+21.0

### Shares Data

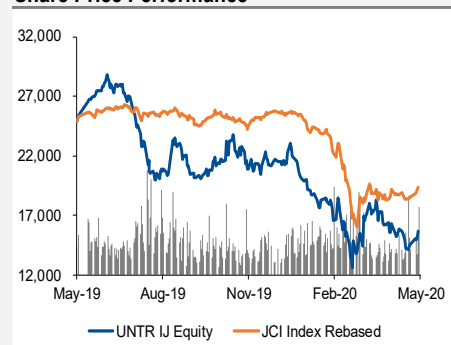
Last Price (IDR)	15,700
Price Date as of	May 29, 2020
52 wk Range (Hi/Lo)	28,900/12,000
Free Float (%)	40.2
Outstanding Shares (mn)	3,730
Market Cap (IDR bn)	58,563
Market Cap (USD mn)	3,988
Avg. Trd Vol - 3M (mn)	4.1
Avg. Trd Val - 3M (bn)	65.5
Foreign Ownership (%)	16.2

### Trade

#### Heavy Equipment

Bloomberg	UNTR IJ
Reuters	UNTR.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-27.0%	0.6%	-5.4%	-36.9%
Rel. Ret.	-2.6%	-3.4%	7.4%	-14.8%

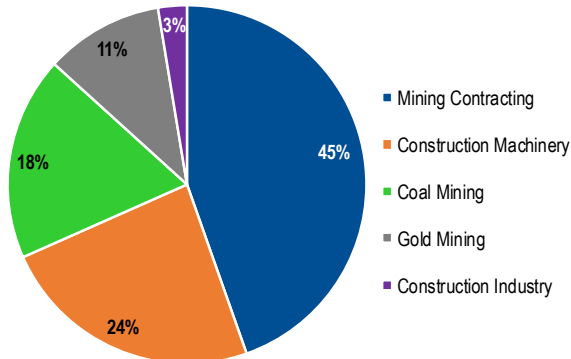


Meilki Darmawan

+6221 5088 9128, meilki.darmawan@nhsec.co.id

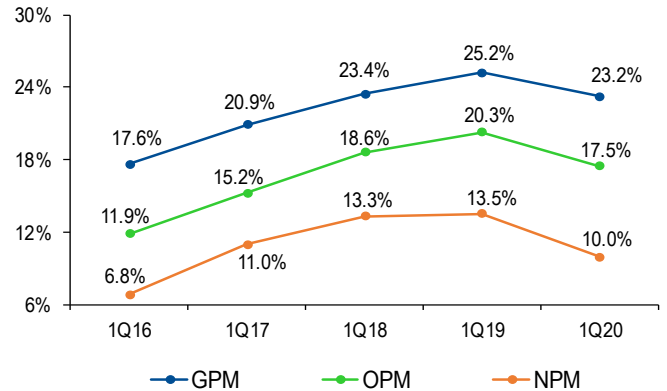
## Performance Highlights in Charts

### 1Q20 Revenue Breakdown



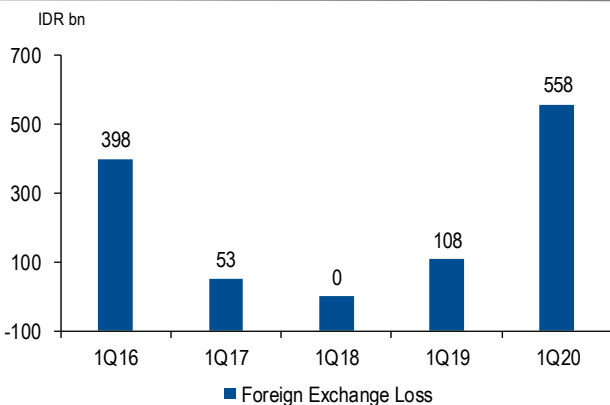
Source: Company Data, NHKSI Research

### Margin Ratios



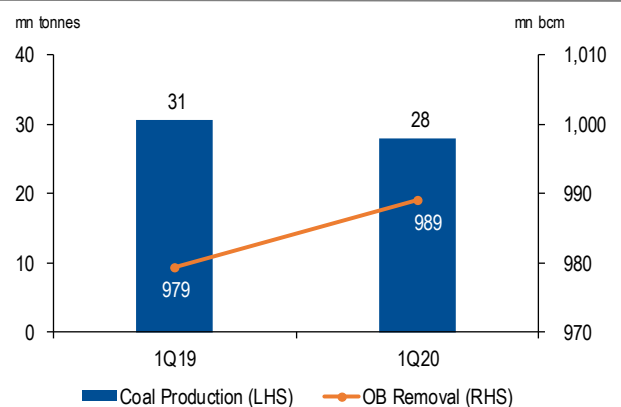
Source: Company Data, NHKSI Research

### Foreign Exchange Loss



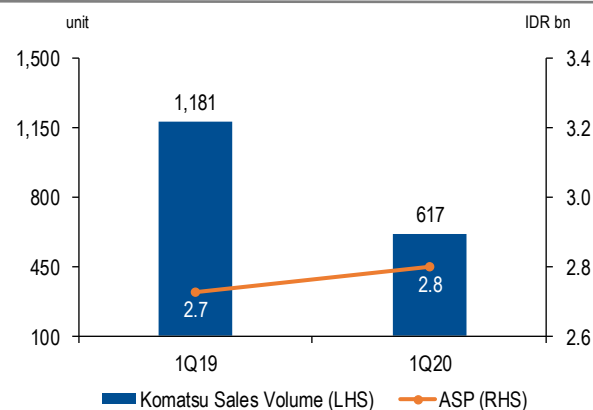
Source: Company Data, NHKSI Research

### Coal Production & OB Removal



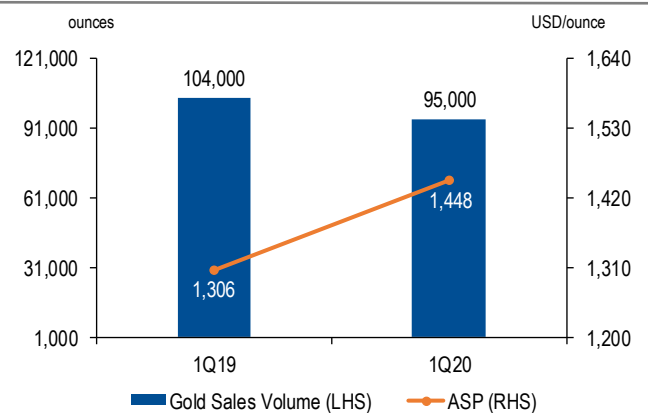
Source: Company Data, NHKSI Research

### Komatsu Sales Volume & ASP



Source: Company Data, NHKSI Research

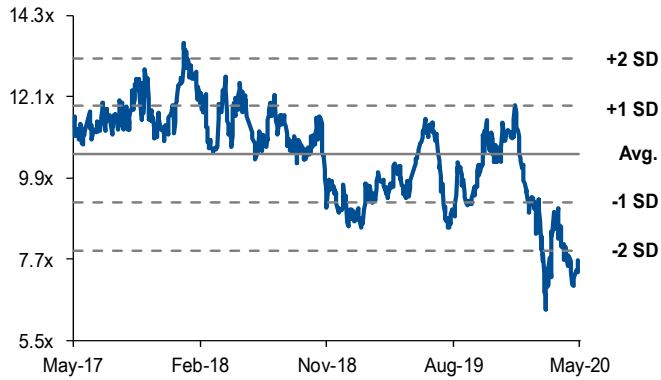
### Gold Sales Volume & ASP



Source: Company Data, NHKSI Research

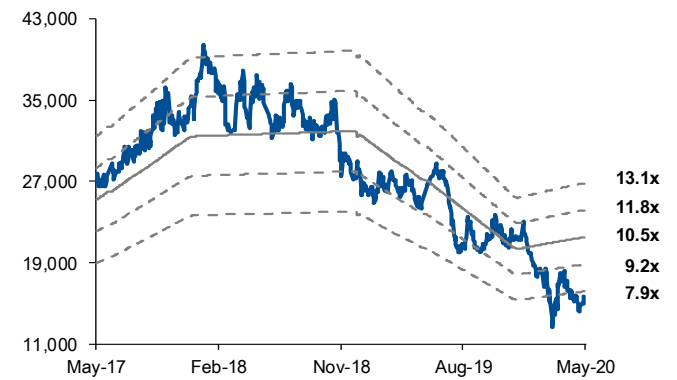
## Valuation & Other Highlights in Charts

### 3-Year Forward P/E Band



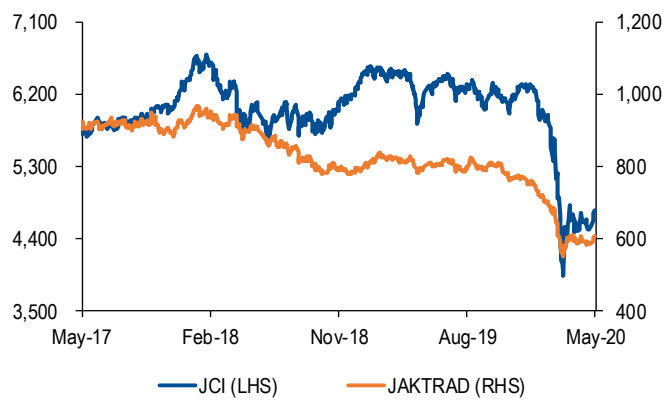
Source: Bloomberg, NHKSI Research

### 3-Year Dynamic Forward P/E Band



Source: Bloomberg, NHKSI Research

### JCI & JAKTRAD Movement



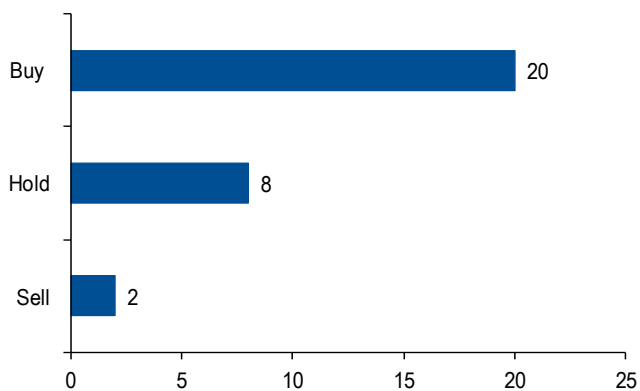
Source: Bloomberg, NHKSI Research

### UNTR & Coal Prices Movement



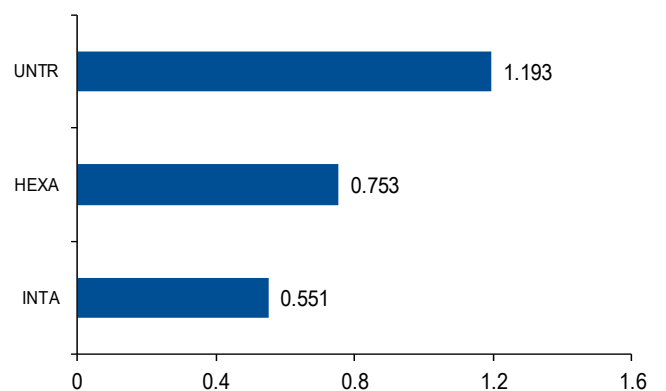
Source: Bloomberg, NHKSI Research

### Recommendation by Analysts



Source: Bloomberg, NHKSI Research

### Beta Comparison with Competitors



Source: Bloomberg, NHKSI Research

## Financial Review

## Quarterly Review

	1Q19	2Q19	3Q19	4Q19	1Q20					2Q20E
					Actual	Estimate	YoY %	QoQ %	Surprise %	
<b>Income Statement</b>										
Revenue	22,621	20,698	22,238	18,823	18,314	22,764	-19.0	-2.7	-19.5	17,357
Gross Profit	5,700	4,939	5,575	5,017	4,258	6,325	-25.3	-15.1	-32.7	3,894
EBIT	4,584	3,846	4,473	3,703	3,199	4,967	-30.2	-13.6	-35.6	2,786
EBITDA	6,862	6,122	6,652	5,487	5,637	6,593	-17.9	2.7	-14.5	3,867
Net Profit	3,053	2,522	3,064	2,673	1,823	3,461	-40.3	-31.8	-47.3	1,827
<b>Margin</b>										
Gross Margin	25.2	23.9	25.0	26.7	23.1	27.8	-1.9	-3.4	-4.5	22.4
EBIT Margin	20.3	18.6	20.1	19.7	17.5	21.8	-2.8	-2.2	-4.4	16.0
EBITDA Margin	30.3	29.6	29.8	29.2	30.8	29.0	0.4	1.6	1.8	22.3
Net Profit Margin	13.5	12.2	13.7	14.2	10.0	15.2	-3.5	-4.2	-5.2	10.5

Unit: IDR bn, %

Source: Company Data, NHKSI Research

## Earnings Revision

		2020F	2021F	2022F
<b>Income Statement</b>				
Revenue	-Revised	75,110	76,390	77,533
	-Previous	82,253	83,259	84,529
	-Change %	-8.7	-8.2	-8.3
	-Consensus	77,486	80,307	84,397
Gross Profit	-Revised	16,285	17,493	18,453
	-Previous	20,155	20,482	21,048
	-Change %	-19.2	-14.6	-12.3
	-Consensus	18,285	19,104	20,106
EBIT	-Revised	11,689	12,834	13,956
	-Previous	15,021	15,403	16,145
	-Change %	-22.2	-16.7	-13.6
	-Consensus	14,089	14,897	16,036
EBITDA	-Revised	17,397	20,490	22,365
	-Previous	21,651	22,529	23,376
	-Change %	-19.6	-9.0	-4.3
	-Consensus	20,738	21,928	21,699
Net Profit	-Revised	7,206	8,203	9,151
	-Previous	10,197	10,564	11,193
	-Change %	-29.3	-22.4	-18.2
	-Consensus	9,229	10,054	10,893
<b>Margin</b>				
Gross Margin	-Revised	21.7	22.9	23.8
	-Previous	24.5	24.6	24.9
EBIT Margin	-Revised	15.6	16.8	18.0
	-Previous	18.3	18.5	19.1
EBITDA Margin	-Revised	23.2	26.8	28.8
	-Previous	26.3	27.1	27.7
Net Profit Margin	-Revised	9.6	10.7	11.8
	-Previous	12.4	12.7	13.2

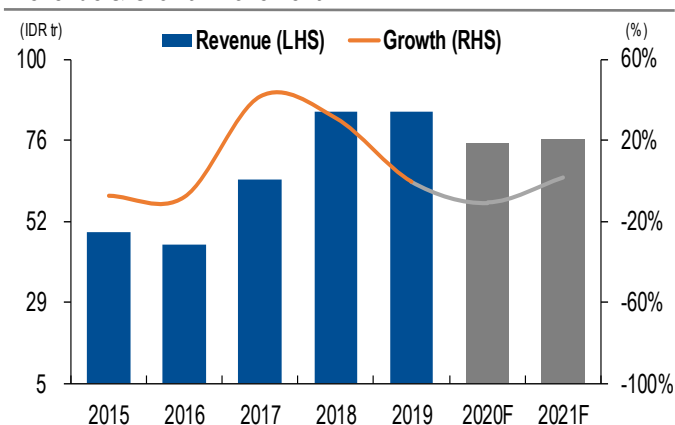
Unit: IDR bn, %

Source: Company Data, NHKSI Research

## Company Overview

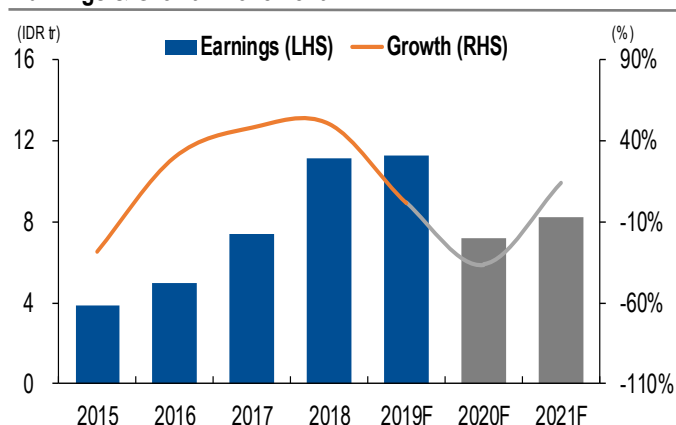
PT United Tractors Tbk (UNTR) is a private company whose business lines cover construction machinery, mining contracting, mining, construction industry, and energy. It was established on October 13, 1972, in Jakarta and went public in 1989, with PT Astra International Tbk as its major shareholder. The construction machinery business is a sole distributor for Komatsu, UD Trucks, Scania, Bogmag, Tadano and Komatsu Forest products used for mining, plantation, and building construction as well as the forestry industry. The mining contracting business provides mining services through PT Pamapersada Nusantara with reputable expertise in fields of mine design, exploration, extracting, hauling, barging, and transporting commodities. The coal mining business is operated through its subsidiary, namely PT Tuah Turangga Agung having several coal mine concessions with the total reserves of 400 million tons of medium up to high coal quality.

### Revenue & Growth Movement



Source: Company Data, NHKSI Research

### Earnings & Growth Movement



Source: Company Data, NHKSI Research

### Asia Pacific Peers Comparison

	Market Cap (USD mn)	Total Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM (%)	Net Profit Margin (%)	ROE LTM (%)	P/E LTM (x)	P/BV (x)
<b>Indonesia</b>									
UNITED TRACTORS TBK	3,988	8,068	5,659	712	-13.4	12.6	16.9	5.8	0.9
HEXINDO ADIPERKASA TBK	163	346	466	47	53.3	10.2	28.8	3.5	0.9
INTRACO PENTA TBK	59	347	152	-17	39.9	-11.3	N/A	N/A	N/A
KOBEXINDO TRACTORS TBK	14	112	71	0	-96.6	0.1	7.6	158.9	0.4
<b>China</b>									
ZHONGJI INNOLIGHT CO LTD	5,695	1,507	748	82	-1.3	10.9	8.4	62.7	5.7
<b>Japan</b>									
WAKITA & CO LTD	498	1,275	755	33	-13.8	4.4	3.8	14.9	0.6
RASA CORPORATION	108	282	269	16	5.6	5.8	10.4	6.2	0.6
MAEDA SEISAKUSHO	70	273	341	12	35.5	3.4	10.8	5.9	0.6
<b>Australia</b>									
SEVEN GROUP HOLDING	3,659	4,379	3,004	136	-34.6	4.5	6.9	28.3	2.0

Source: Bloomberg, NHKSI Research

## Financial Summary

### INCOME STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
<b>Revenue</b>	<b>84,430</b>	<b>75,110</b>	<b>76,390</b>	<b>77,533</b>
<i>Growth</i>	-0.2%	-11.0%	1.7%	1.5%
COGS	(63,200)	(58,824)	(58,897)	(59,080)
<b>Gross Profit</b>	<b>21,231</b>	<b>16,285</b>	<b>17,493</b>	<b>18,453</b>
<i>Gross Margin</i>	25.1%	21.7%	22.9%	23.8%
Operating Expenses	(4,626)	(4,597)	(4,660)	(4,497)
<b>EBIT</b>	<b>16,605</b>	<b>11,689</b>	<b>12,834</b>	<b>13,956</b>
<i>EBIT Margin</i>	19.7%	15.6%	16.8%	18.0%
Depreciation	8,518	5,709	7,657	8,409
<b>EBITDA</b>	<b>25,123</b>	<b>17,397</b>	<b>20,490</b>	<b>22,365</b>
<i>EBITDA Margin</i>	29.8%	23.2%	26.8%	28.8%
Interest Expenses	(762)	(722)	(886)	(853)
<b>EBT</b>	<b>15,477</b>	<b>10,449</b>	<b>11,410</b>	<b>12,546</b>
Income Tax	(4,342)	(3,383)	(3,366)	(3,576)
Minority Interest	177	139	159	180
<b>Net Profit</b>	<b>11,312</b>	<b>7,206</b>	<b>8,203</b>	<b>9,151</b>
<i>Growth</i>	1.7%	-36.3%	13.8%	11.6%
<i>Net Profit Margin</i>	13.4%	9.6%	10.7%	11.8%

### PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	19.1%	11.4%	11.9%	12.0%
ROA	9.9%	6.2%	6.7%	7.2%
ROIC	15.9%	9.9%	10.4%	10.4%
Cash Dividend (IDR bn)	3,300	2,750	3,000	3,366
Dividend Yield	4.1%	3.9%	4.2%	4.7%
Dividend Payout Ratio	29.2%	38.2%	36.6%	36.8%
DER	82.8%	82.6%	72.3%	60.0%
Net Gearing	29.1%	28.0%	24.5%	24.0%
LT Debt to Equity	17.2%	16.9%	14.4%	14.9%
Capitalization Ratio	18.6%	18.2%	16.7%	16.7%
Equity Ratio	54.7%	54.8%	58.0%	62.5%
Debt Ratio	12.5%	12.2%	11.6%	12.5%
Financial Leverage	196.8%	176.6%	173.5%	163.3%
Current Ratio	156.0%	155.0%	170.0%	214.6%
Par Value (IDR)	250	250	250	250
Total Shares (mn)	3,730	3,730	3,730	3,730
Share Price (IDR)	21,525	19,000	19,000	19,000
Market Cap (IDR tn)	80.3	70.9	70.9	70.9

### BALANCE SHEET

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	12,091	13,851	14,876	17,430
Receivables	19,681	19,829	20,354	20,430
Inventories	11,014	12,977	14,454	13,710
<b>Total Current Assets</b>	<b>50,827</b>	<b>54,088</b>	<b>57,858</b>	<b>60,561</b>
Net Fixed Assets	47,972	51,609	53,119	54,014
Other Non Current Asset	12,914	13,784	13,582	13,855
<b>Total Assets</b>	<b>111,713</b>	<b>119,481</b>	<b>124,559</b>	<b>128,430</b>
Payables	20,909	14,967	27,310	15,098
ST Bank Loan	3,479	3,502	4,048	4,093
LT Debt	10,508	11,025	10,410	11,959
<b>Total Liabilities</b>	<b>50,603</b>	<b>54,059</b>	<b>52,266</b>	<b>48,167</b>
Capital Stock	933	933	933	933
Retained Earnings	47,060	50,970	58,073	65,972
<b>Total Equity</b>	<b>61,110</b>	<b>65,422</b>	<b>72,293</b>	<b>80,263</b>

### VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	7.1x	9.8x	8.6x	7.7x
Price/Book Value	1.3x	1.1x	1.0x	0.9x
Price/Sales	1.0x	0.9x	0.9x	0.9x
PE/EPS Growth	4.2x	-0.3x	0.6x	0.7x
EV/EBITDA	3.3x	4.1x	3.5x	3.1x
EV/EBIT	5.0x	6.2x	5.5x	5.0x
EV (IDR bn)	82,703	72,064	70,940	69,951
Sales CAGR (3-Yr)	22.8%	5.2%	-3.4%	-2.8%
EPS CAGR (3-Yr)	15.2%	-13.5%	-10.2%	8.3%
Basic EPS (IDR)	3,033	1,932	2,199	2,453
Diluted EPS (IDR)	3,033	1,932	2,199	2,453
BVPS (IDR)	16,383	17,539	19,381	21,517
Sales PS (IDR)	22,635	20,136	20,479	20,785
DPS (IDR)	885	737	804	902

### CASH FLOW STATEMENT

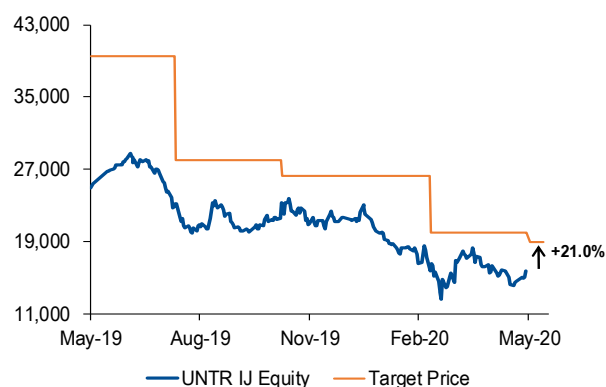
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	9,603	14,554	11,704	11,560
Investing Cash Flow	(9,925)	(4,611)	(9,280)	(9,419)
Financing Cash Flow	(750)	(6,384)	(1,400)	413
<b>Net Changes in Cash</b>	<b>(1,071)</b>	<b>3,559</b>	<b>1,024</b>	<b>2,554</b>

### TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	83.8	Astra International 59.5
United States	10.8	Sun Life Financial 1.8
Luxembourg	2.4	Schroder Investment 1.4
Ireland	0.7	Matthews International 1.4

Source: Company Data, NHKSI Research

## Closing &amp; Target Price Update



Source: Bloomberg, NHKSI Research

## Rating &amp; Target Price Update

Date	Rating	Target Price	Consensus
2017.11.16	Buy	IDR39,425	IDR33,884
2018.01.13	Buy	IDR42,350	IDR36,475
2018.08.27	Buy	IDR44,750	IDR43,200
2018.10.31	Buy	IDR39,550	IDR42,962
2019.08.09	Buy	IDR28,000	IDR33,326
2019.11.07	Buy	IDR26,300	IDR25,755
2020.03.12	Buy	IDR20,000	IDR23,398
2020.06.02	Buy	IDR19,000	IDR20,539

Source: NHKSI Research

## NHKSI 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%.
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