7 October 2019

Oil & Gas | Distribution

AKR Corporindo (AKRA IJ)

Not Rated

Visiting JIIPE, Future Earnings Driver

Target Price (Return)	N/A
Price:	IDR4,090
Market Cap:	USD1,159m
Avg Daily Turnover (IDR/USD)	27.5bn/1.96m

- **A major revenue growth driver.** Our visit to AKR Corporindo's project, Java Integrated Industrial Port Estate (JIIPE), leads us to believe this will be a major revenue growth driver. JIIPE is supported by a huge power plant, deep seaport, and special economic zone. Freeport Indonesia will acquire 100 ha to build a smelter. AKRA has booked marketing sales on 10 ha at JIIPE, and sales should accelerate – especially after the smelter is built, which should attract supply chain companies.
- **Smelter project still going strong.** We learned that Freeport Indonesia will build a smelter at JIIPE a few years ago. Finally, we see there has been some developments in this area. During our visit, we noted that Freeport Indonesia is trying to stabilise the land, so that it is able to support this large smelter, and any auxiliary infrastructure it wants to build. AKRA's management guided that Freeport Indonesia will acquire 100 ha of JIIPE land, over the total 1,200 ha it has already acquired and reclaimed. During our visit, we spoke with Freeport Indonesia staff, and learned that it was working around the clock to achieve targets. The company expects the land to be enhanced and ready for new development in 2020.
- **Marketing sales look fair.** The complex is fully operational, and AKRA's manage said it has sold 10 ha of land already this year. Besides that, there are three manufacturers already operating in JIIPE – Sari Roti, Refina (a salt processing plant), and a CPO processing facility. One gas-powered energy plant is also running. We believe that if we return to JIIPE next year, there will be more factories built and in operation.
- **Deep port is JIIPE's main advantage.** We also visited JIIPE's deep sea port, which it owns. This features a 14-metre clearance in depth – which is much deeper than the ports at Maspion Industrial Park and even Tanjung Perak in Surabaya, which only have a 10-metre depth clearance. AKRA's management said JIIPE's port can facilitate vessels weighing up to 150,000 tonnes. For the port, however, it only owns a 40% stake. The remaining 60% is controlled by state-owned enterprise Indonesia Port Corp (PELINDO). The port itself is already operating and can handle larger loads. In time, AKRA will develop a separate port with the same depth in clearance just to serve Freeport Indonesia cargo, while this present port will cater to public demand.
- **Promising future.** We believe JIIPE will be a major revenue growth driver for AKRA, as it should be able to clock more marketing sales ahead. However, it is too early for a significant major development in this industrial estate as Freeport Indonesia needs to be established to attract the supply chain. Once this is achieved, it should be very attractive, considering facilities like a huge power plant, deep seaport, and special economic zone, and the integrated township developed by sister company AKR Land.
- **AKRA is a solid company** due to its stable business as well as solid strategy to enhance its supply chain, on top of its basic chemicals arm and petroleum business. Its last close was at IDR4,090 and its share price has rallied by 11% over the past week. We do not have a rating on this stock.

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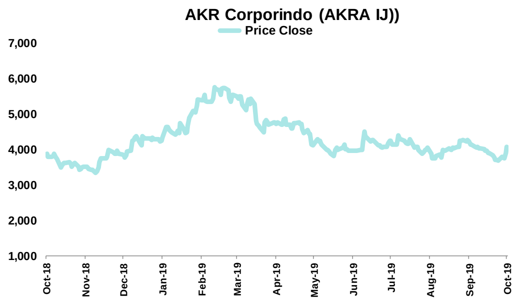
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.7)	(3.3)	(4.0)	(13.7)	5.1
Relative	(2.5)	0.0	0.9	(7.0)	(0.2)
52-wk Price low/high (IDR)					3,290-5,875



Source: RHB, Bloomberg; Note: As at 4 Oct 2019

Figure 1: Freeport project in progress I

Source: RHB

Figure 2: Freeport project in progress II

Source: RHB

Figure 3: The deep sea port is fully operational

Source: RHB

Figure 4: Sari Roti's new factory

Source: RHB

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