Shariah Compliant

27 April 2020

Industrials | Heavy Equipment

United Tractors (UNTR IJ)

Strong March Coal Sales; Reiterate BUY

Buy (Maintained)

Target Price (Return):	IDR21,700 (+34%)
Price:	IDR16,225
Market Cap:	USD3,930m
Avg Daily Turnover (IDR/USD)	73,471m/5.02m

- **Reiterate BUY, IDR21,700 TP, 34% upside and c.7% yield. United Tractors still booked weak heavy equipment (HE) sales in March, from uncertainties related to COVID-19.** However, coal sales continued growing, buffered by stable prices – albeit offset by the soft performance from HE and mining contracting. Although its gold sales growth has been capped during the pandemic, the commodity's price (+14% YTD) should keep this segment afloat in the long run. Key downside risks: further weak HE sales, and an unprecedented downturn in coal prices.
- **Sales of construction machinery (CM) keep decreasing.** Last month, Komatsu's HE sales continued to decline, to 150 units (-31% MoM, -56% YoY), bringing 1Q20 sales to 617 units (+72% QoQ, -48% YoY) – the positive QoQ improvement cannot mitigate the steep YoY fall on this front. 1Q20 sales contributions from mining declined to 36% (1Q19: 48%) while the portion from forestry increased to 26% (1Q19: 13%). The construction and agriculture segments' contributions to group 1Q20 sales remained flat, at 27% and 11%. UNTR's market share fell to 28% last month (February: 36%), and to 33% for 1Q20 (1Q19: 38%). During March, overall national HE sales amounted to 535 units (-10% MoM, -52% YoY), translating into a total of 1,870 units (-5% QoQ, -40% YoY) sold during 2M20.
- **UNTR's mining contracting (MC) short-term improvement.** Pama Persada Nusantara's overburden (OB) removal volume in March was recorded at 74.1m bcm (+8% MoM, -11% YoY), with the 1Q20 OB at 212.2m bcm (-11% QoQ, -9% YoY). During the month, UNTR's coal production came up to 9.7m bcm (+11% MoM, -12% YoY), implying a 7.6x strip ratio (Feb 2020: 7.9x, Mar 2019: 7.6x). This brought 1Q20 coal production to 27.8m tonnes (-20% QoQ, -9% YoY) with a strip ratio at 7.6x (1Q19: 7.7x). We believe the MoM improvement was a result of the beginning of drier weather (in Mar-Apr), which helped boost its operations.
- **Higher coal sales volume should partially offset the lower performance of other segments.** UNTR's March coal sales volume increased to 1.3m tonnes (+16% MoM, +46% YoY), bringing the 1Q20 total to 3.2m tonnes (+58% QOQ, +25% YoY) – enhanced by relatively stable coal prices during the quarter. However, the trend was not sustained for long, as the Newcastle benchmark rate began turning downwards in early April (-11.5%), after hitting a peak of USD69.00/tonne in March. This spells more headwinds in the upcoming quarters, in our view.
- **Although gold production contracted slightly, the commodity's price increase should lift earnings**. UNTR's gold sales volume in March declined to 29,000oz (+0% MoM, -26% YoY), bringing 1Q20 sales volume to 94,000oz (-10% QoQ, -10% YoY). Although its sales softened slightly, we expect this gold mine to remain as a support for UNTR's overall business – especially with the price of gold trending upwards (+14% YTD).

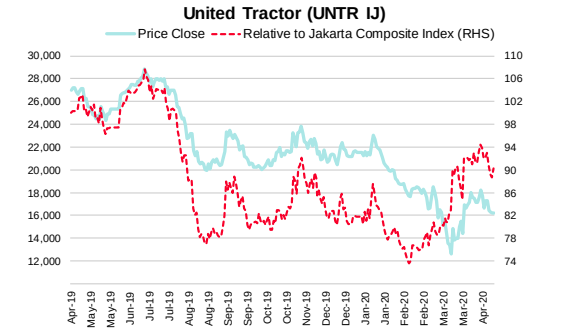
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.6)	16.1	(19.7)	(26.0)	(41.1)
Relative	4.0	1.9	8.3	3.1	(10.8)
52-wk Price low/high (IDR)					12,600 – 28,825



Source: Bloomberg

Previous reports on United Tractors:
Mixed February Operational Data; Keep BUY
FY19 Earnings Beat Expectations, U/G To BUY
10M19: Strong OB, Coal Offset Low HE Sales
A Robust 3Q19, But Stay NEUTRAL
NEUTRAL: 9M19 Operationally Overall In Line
Indonesia Coal: End of An Era; Sell Now, Buy Later
Stay NEUTRAL On Soft Operational Results
Jul 2019 Operational Results In Line Overall
D/G To NEUTRAL Post Lowered Guidance

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (IDRb)	84,625	84,431	82,111	82,346	80,462
Recurring net profit (IDRb)	11,126	11,312	9,101	8,949	7,963
Recurring net profit growth (%)	50.3	1.7	(19.5)	(1.7)	(11.0)
Recurring P/E (x)	5.44	5.35	6.65	6.76	7.60
P/B (x)	1.1	1.0	1.0	0.9	0.8
P/CF (x)	5.15	20.02	1.83	3.96	4.10
Dividend Yield (%)	8.5	7.0	6.7	6.5	5.8
EV/EBITDA (x)	2.57	2.47	2.28	2.15	2.17
Return on average equity (%)	22.4	19.8	14.7	13.6	11.3
Net debt to equity (%)	net cash	3.2	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Indonesia
Industrials
United Tractors
UNTR IJ
Buy

Valuation basis

9x mid-2020F EPS, over -1SD from its 10-year mean

Key drivers

i. Increase in coal sales volume;
ii. Increase in coal prices;
iii. Increase in coal mining activities.

Key risks

i. Economic downturn;
ii. Decrease in coal prices;
iii. Increase in oil prices.

Company Profile

United Tractors distributes and leases construction machinery including the Komatsu, Nissan Diesel, Scania, Bomag, Valmet, and Tadano brands. The company also provides mining contracting services, and trades and assembles heavy equipment.

Financial summary (IDR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	2,982.63	3,032.62	2,439.74	2,399.21	2,134.81
DPS	1,373.00	1,129.30	1,092.88	1,046.99	946.39
BVPS	14,417.53	16,170.30	17,032.07	18,338.40	19,426.22
Return on average equity (%)	22.4	19.8	14.7	13.6	11.3

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	5.44	5.35	6.65	6.76	7.60
P/B (x)	1.1	1.0	1.0	0.9	0.8
FCF Yield (%)	2.2	(10.3)	40.6	11.3	10.4
Dividend Yield (%)	8.5	7.0	6.7	6.5	5.8
EV/EBITDA (x)	2.57	2.47	2.28	2.15	2.17
EV/EBIT (x)	3.35	3.74	3.11	2.98	3.15

Income statement (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	84,625	84,431	82,111	82,346	80,462
Gross profit	21,110	21,231	19,352	19,397	18,879
EBITDA	21,811	25,123	20,666	20,882	19,829
Depreciation and amortisation	(5,041)	(8,518)	(5,525)	(5,849)	(6,140)
Operating profit	16,770	16,606	15,142	15,032	13,689
Net interest	(673)	(1,717)	(1,641)	(1,504)	(1,380)
Pre-tax profit	15,709	15,477	13,239	13,267	12,048
Taxation	(4,210)	(4,342)	(3,549)	(3,556)	(3,229)
Reported net profit	11,126	11,312	9,101	8,949	7,963
Recurring net profit	11,126	11,312	9,101	8,949	7,963

Cash flow (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(4,568)	(9,181)	9,566	(0)	49
Cash flow from operations	11,757	3,023	33,024	15,295	14,772
Capex	(10,444)	(9,243)	(8,423)	(8,445)	(8,464)
Cash flow from investing activities	(27,731)	(9,758)	(8,423)	(8,445)	(8,464)
Dividends paid	(3,639)	(4,609)	(4,212)	(4,077)	(3,905)
Cash flow from financing activities	8,638	(4,934)	(4,412)	(4,277)	(4,105)
Cash at beginning of period	20,831	13,438	12,091	23,105	25,944
Net change in cash	(7,335)	(11,668)	20,188	2,573	2,203
Ending balance cash	13,753	11,895	23,981	30,318	32,503

Balance sheet (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	13,438	12,091	23,105	25,944	28,382
Tangible fixed assets	40,474	41,300	46,768	49,098	51,187
Total investments	4,529	3,370	4,529	4,529	4,529
Total assets	116,281	113,819	126,302	131,835	135,845
Short-term debt	7,021	3,479	6,821	6,721	6,621
Total long-term debt	3,286	10,612	3,086	2,986	2,886
Total liabilities	59,230	50,603	58,441	58,339	57,436
Total equity	57,051	63,215	67,861	73,495	78,409
Total liabilities & equity	116,281	113,819	126,302	131,835	135,845

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	31.1	(0.2)	(2.7)	0.3	(2.3)
Recurrent EPS growth (%)	50.3	1.7	(19.5)	(1.7)	(11.0)
Gross margin (%)	24.9	25.1	23.6	23.6	23.5
Operating EBITDA margin (%)	25.8	29.8	25.2	25.4	24.6
Net profit margin (%)	13.1	13.4	11.1	10.9	9.9
Dividend payout ratio (%)	46.0	37.2	44.8	43.6	44.3
Capex/sales (%)	12.3	10.9	10.3	10.3	10.5
Interest cover (x)	11.7	7.1	6.9	7.0	6.5

Source: Company data, RHB

Figure 1: UNTR's operational statistics in March plus cumulative 1Q20 data

	Mar-19	Feb-20	Mar-20	% MoM	% YoY	1Q19	4Q19	1Q20	QoQ	YoY
UNTR's HE sales (Komatsu)										
Mining	127	89	56	-37%	-56%	572	98	222	127%	-61%
Forestry	58	56	26	-55%	-56%	149	84	162	93%	9%
Construction	103	52	45	-13%	-56%	322	151	165	9%	-49%
Agro	55	19	24	23%	-56%	139	24	69	182%	-51%
Total	**344**	**216**	**150**	**-31%**	**-56%**	**1,181**	**358**	**617**	**72%**	**-48%**
Contribution per sector										
Mining	37%	41%	37%			48%	27%	36%		
Forestry	17%	26%	17%			13%	23%	26%		
Construction	30%	24%	30%			27%	42%	27%		
Agro	16%	9%	16%			12%	7%	11%		
Industry sales volume	1,115	596	535	-10%	-52%	3,108	1,972	1,870	-5%	-40%
UNTR's market share	**31%**	**36%**	**28%**			**38%**	**18%**	**33%**		
Mining contracting (Pama):										
OB removal (m bcm)	83.1	68.3	74.1	8%	-11%	234.3	239.1	212.2	-11%	-9%
Coal production (m tonnes)	11.0	8.7	9.7	11%	-12%	30.6	34.7	27.8	-20%	-9%
Stripping ratio (x)	7.6	7.9	7.6	-3%	1%	7.7	6.9	7.6	11%	0%
Coal mining:										
Coal sales (mn tons)	0.9	1.1	1.3	16%	46%	2.5	2.0	3.2	58%	25%
NEWC coal prices	94.8	67.4	69.7	3%	-26%	96.8	66.9	67.9	1%	-30%
Gold mining:										
Gold sales (k oz)	39	29	29	0%	-26%	104	104	94	-10%	-10%

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-30	Buy	21,700	14,425
2020-02-28	Buy	21,700	16,600
2019-11-26	Neutral	21,700	21,375
2019-11-01	Neutral	21,700	21,500
2019-10-25	Neutral	22,700	21,200
2019-09-25	Neutral	22,700	21,125
2019-08-13	Neutral	22,700	21,225
2019-07-31	Buy	32,500	24,925
2019-07-25	Buy	32,500	26,950

Source: RHB, Bloomberg

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