

4 September 2024

Industrials | Heavy Equipments

United Tractors (UNTR IJ)

Buy (Maintained)

Raising Earnings Estimates On Strong Prospects; BUY

Target Price (Return):	IDR32,000 (15.2%)
Price (Market Cap):	IDR27,775 (USD6,673m)
ESG score:	2.8 (out of 4)
Avg Daily Turnover (IDR/USD)	107,636m/6.71m

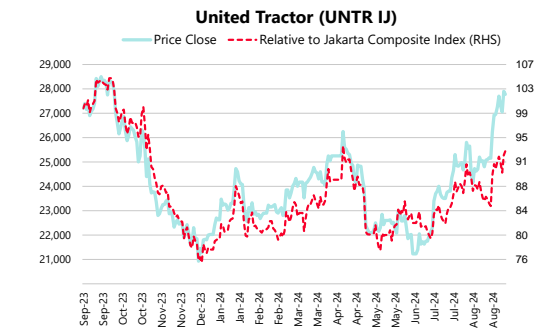
- **Still BUY, new IDR32,000 DCF TP (from IDR28,000), 15% upside, c.7% yield.** We raise FY24-25F earnings by 15% and 29% on expectations of stable heavy equipment (HE) sales (c.4,500 units pa), sustained demand for mining contracting services in line with higher national coal output, and better prospects for United Tractors' gold segment. The market seems to have priced in downside risks related to the normalisation of coal prices. UNTR stands out with better-than-expected earnings (albeit still negative growth).
- **HE sales historically see an upward trajectory in 2H,** supported by improvements in mining activities marked by more favourable weather. UNTR said some of its purchase orders have been fulfilled, securing the sales. Komatsu still holds its strong position in the domestic market (29% share; mining segment accounts for c.65% of Komatsu's total units sold) and aims to maintain this until the end of the year, at c.4,500 units (-15% YoY; c.1,400 units will be supported by high-capacity segment, providing higher margins). Based on the trend for HE sales, UNTR expects the next capex cycle to begin in 2027-2028, while Komatsu sales are likely to remain at the same level as this year, over the next two years.
- **Mining contracting is still the mainstay of UNTR's overall strength** (topline share: c.40%), as evidenced by consistently high overburden (OB) volumes following work plan (RKAB) permits allowing higher coal production nationwide (8M24: 518m tonnes, +3% YoY). Strong demand for this service, coupled with fee rates remaining high (consistent with Newcastle prices, still above USD120/tonne), makes this segment relatively resilient. UNTR has allocated capex of c.USD800m for the segment (72% of its total capex).
- **Coal sales still strong.** UNTR's coal sales are still dominated by its thermal segment (c.77% of total coal production), although there are slight changes with a higher target share for metallurgical coal than previous years. High demand and shifts in seasonality continue to support the segment (FY24F: 13m tonnes; +17% YoY, phasing out production expected in 2040).
- **Gold proxy play.** Despite expectations of lower production from the Martabe mine due to management's focus on sustainability, additional volumes from Sumbawa Jutaraya (SJR) should help UNTR achieve its production target (FY24F: 230k oz; +32% YoY); these factors were included in our previous update. Potential upsides from higher gold prices remain a major factor. Cash cost for the new mine is slightly higher than that of Martabe (USD900-1,000/oz vs SJR's USD1,200). Profit margin from the segment is 20-25%, similar to that of the mining contracting segment.
- **Valuation.** Our DCF calculation includes a c.7x P/E target (currently 5.7x), in line with the 5-year mean. Our TP includes a 4% ESG discount.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	22.8	8.3	20.9	17.1	5.4
Relative	18.1	4.1	12.7	12.9	(3.8)
52-wk Price low/high (IDR)	20,925 – 28,500				



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

E: GOOD

UNTR applies international standard ISO 14001: 2015 for environmental management systems that are certified by an independent certification agency. It also applies the Astra Green Company practices of its parent company as a reference when implementing environmental impact management initiatives.

S: GOOD

UNTR is actively engaged in CSR activities. In 2020, it received a Padmamitra Award in the Disaster Fields category from the Ministry of Social Affairs and National Social Welfare CSR Forum.

G: GOOD

UNTR regularly conducts shareholder meetings and ensures equal distribution of public information to all stakeholders. It has received numerous awards on governance practices, one of them being Indonesia 2020 Best Rating on Governance Disclosures of Trading Sector, issued by Investor Magazine.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	123,608	128,585	124,934	126,668	127,370
Recurring net profit (IDRb)	21,005	20,612	17,452	17,411	17,818
Recurring net profit growth (%)	104.3	(1.9)	(15.3)	(0.2)	2.3
Recurring P/E (x)	4.93	5.03	5.94	5.95	5.81
P/B (x)	1.3	1.4	1.2	1.1	1.0
P/CF (x)	1.55	1.76	1.76	1.75	1.66
Dividend Yield (%)	24.8	7.7	6.7	6.8	6.5
EV/EBITDA (x)	1.77	2.36	2.55	2.42	2.21
Return on average equity (%)	29.2	26.7	22.0	19.5	17.8
Net debt to equity (%)	net cash	0.3	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	Recurring EPS	5,631.19	5,525.74	4,678.73	4,667.77	4,776.77
Industrials	DPS	6,885.95	2,146.94	1,870.14	1,880.57	1,817.46
United Tractors	BVPS	21,455.75	19,995.32	22,527.12	25,324.75	28,220.94
UNTRI J	Return on average equity (%)	29.2	26.7	22.0	19.5	17.8
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	4.93	5.03	5.94	5.95	5.81
DCF, with a medium-term forecast horizon of four years, combined with forward P/E.	P/B (x)	1.3	1.4	1.2	1.1	1.0
	FCF Yield (%)	56.5	39.1	33.3	37.2	39.2
	Dividend Yield (%)	24.8	7.7	6.7	6.8	6.5
	EV/EBITDA (x)	1.77	2.36	2.55	2.42	2.21
	EV/EBIT (x)	2.28	3.10	3.60	3.58	3.35
Key drivers						
i. Increase in coal sales volumes;						
ii. Increase in coal prices;						
iii. Increase in coal-mining activities;						
iv. Surge in gold prices.						
Key risks						
i. Softening HE sales;						
ii. An unprecedented downturn in coal prices;						
iii. The probability of lower coal demand from renewable energy plants phasing out thermal-powered ones.						
Company Profile						
United Tractors distributes and leases construction machinery from brands like Komatsu, Nissan Diesel, Scania, Bomag, Valmet and Tadano. The company also provides mining contracting services, and trades and assembles heavy equipment.						
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	123,608	128,585	124,934	126,668	127,370
	Gross profit	34,759	35,788	31,523	31,488	31,540
	EBITDA	37,573	38,966	35,848	36,964	39,454
	Depreciation and amortisation	(8,440)	(9,241)	(10,447)	(11,936)	(13,391)
	Operating profit	29,133	29,725	25,401	25,028	26,063
	Net interest	238	(752)	(2,359)	(3,360)	(4,161)
	Pre-tax profit	29,446	28,720	23,460	22,314	22,609
	Taxation	(6,452)	(6,590)	(5,383)	(4,396)	(4,409)
	Reported net profit	21,005	20,612	17,452	17,411	17,818
	Recurring net profit	21,005	20,612	17,452	17,411	17,818
	Cash flow (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	2,400	840	(2,867)	29	2
	Cash flow from operations	66,651	58,810	58,900	59,121	62,479
	Capex	(8,165)	(18,343)	(24,380)	(20,609)	(21,872)
	Cash flow from investing activities	(10,401)	(33,440)	(24,380)	(20,609)	(21,872)
	Dividends paid	(6,365)	(25,001)	(8,008)	(6,976)	(7,015)
	Cash flow from financing activities	(1,817)	(30,982)	8,457	3,424	1,385
	Cash at beginning of period	33,322	38,282	18,597	36,335	49,033
	Net change in cash	54,432	(5,611)	42,977	41,936	41,993
	Ending balance cash	38,282	18,597	36,335	49,033	60,139
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	38,282	18,597	36,335	49,033	60,139
	Tangible fixed assets	35,583	53,847	60,874	69,548	78,028
	Total investments	6,779	16,657	16,657	16,657	16,657
	Total assets	135,813	149,363	178,596	200,519	220,318
	Short-term debt	1,987	1,287	1,187	1,087	987
	Total long-term debt	1,015	17,580	34,146	44,646	53,146
	Total liabilities	50,964	71,091	89,157	100,138	108,752
	Total equity	84,849	78,272	89,439	100,381	111,566
	Total liabilities & equity	135,813	149,363	178,596	200,519	220,318
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	55.6	4.0	(2.8)	1.4	0.6
	Recurrent EPS growth (%)	104.3	(1.9)	(15.3)	(0.2)	2.3
	Gross margin (%)	28.1	27.8	25.2	24.9	24.8
	Operating EBITDA margin (%)	30.4	30.3	28.7	29.2	31.0
	Net profit margin (%)	17.0	16.0	14.0	13.7	14.0
	Dividend payout ratio (%)	122.3	38.9	40.0	40.3	38.0
	Capex/sales (%)	6.6	14.3	19.5	16.3	17.2
	Interest cover (x)	38.3	15.8	7.2	5.5	4.8

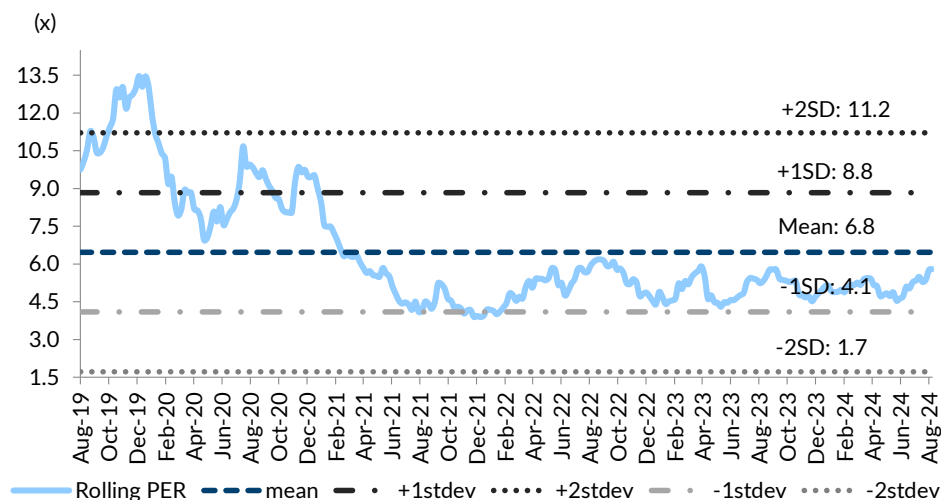
Source: Company data, RHB

Still a decent choice for the sector

UNTR's stock price has recently increased (+30% since the trough in June) and is in line with our initial TP expectations early this year (+23% YTD). Our discussions with clients have largely highlighted the company's resilience in mitigating the anticipated risks of volatile coal prices, positioning the stock as one of the Top Picks in the sector.

UNTR will continue to focus on achieving diversification towards non-coal contributions over the next few years. This will be partly supported by initiatives such as: i) Exploration for new gold mines (in existing sites, SJR, and others), ii) increasing renewable capacity (from mini-hydro, geothermal, solar PV), iii) development of nickel smelters (combined with JV contribution from Nickel Industries, currently at 20% ownership). With the said expansions (annual capex will remain at c.USD1bn), UNTR's balance sheet is still prudent (latest net cash position still robust at c.IDR4trn).

Figure 1: UNTR's 5-year average P/E band



- ◆ UNTR is trading at around its 5-year forward P/E mean – this still implies some upside to our valuation
- ◆ Risks are softer HE sales and an unprecedented downturn in coal prices. The main ESG-related risk is the probability of lower coal demand due to RE plants phasing out thermal-powered ones. Our TP includes a 4% ESG discount based on UNTR's 2.8 ESG score (below the country median)

Source: Company data, RHB

Figure 2: RHB vs Street estimates

(IDRbn)	RHB (new)			RHB (old)			Change			Street			RHB vs Street		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Revenue	124,934	126,668	127,370	105,225	98,544	100,892	18.7%	28.5%	26.2%	124,803	123,694	127,191	0.1%	2.4%	0.1%
Gross profit	31,523	31,488	31,540	25,167	23,475	23,469	25.3%	34.1%	34.4%	31,741	30,912	31,157	-0.7%	1.9%	1.2%
Operating profit	25,401	25,028	26,063	20,221	17,759	17,668	25.6%	40.9%	47.5%	25,181	24,212	24,557	0.9%	3.4%	6.1%
Net profit	17,452	17,411	17,818	15,129	13,541	13,044	15.4%	28.6%	36.6%	18,034	17,718	18,096	-3.2%	-1.7%	-1.5%
Margin															
Gross	25.2%	24.9%	24.8%	23.9%	23.8%	23.8%				25.4%	25.0%	24.5%			
EBIT	20.3%	19.8%	20.5%	19.2%	18.0%	18.0%				20.2%	19.6%	19.3%			
NPM	14.2%	13.9%	14.1%	14.4%	13.7%	13.7%				14.4%	14.3%	14.2%			

Source: Company data, RHB

Figure 3: Changes in key assumptions

	RHB (new)			RHB (old)			Change		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Komatsu heavy equipment sales (units)	4,500	4,275	4,574	4,000	3,800	3,838	12.5%	12.5%	19.2%
OB removal volume (m bcm)	1,167	1,212	1,272	1,160	1,183	1,200	0.6%	2.4%	6.0%
Coal production volume (m tonnes)	133	138	145	135	138	136	-1.7%	0.1%	6.3%
Coal mining - sales volume (m tonnes)	14.0	14.3	14.6	12.0	12.2	13.3	16.6%	16.6%	9.4%
Coal ASP target (USD/tonne)	128.3	123.5	104.5	109.3	72.0	85.0	17.4%	71.5%	22.9%
Gold volume (k oz)	235	223	221	237	225	220	-0.7%	-0.7%	0.5%
Gold ASP (USD/oz)	2,331	2,378	2,425	1,982	2,144	2,050	17.6%	10.9%	18.3%

Source: Company data, RHB

Figure 4: TP calculation

DCF calculation (IDRbn)	2024F	2025F	2026F	2027F	2028F
EBIT	25,401	25,028	26,063	24,172	25,390
EBIT (1-t)	18,797	18,521	19,287	17,887	18,789
Depreciation & amortisation	10,447	11,936	13,391	14,755	16,106
Changes in working capital	5,137	1,210	527	362	(152)
Capex	(24,380)	(20,609)	(21,872)	(22,698)	(23,983)
Free cash flow	10,001	9,877	10,808	10,306	10,760
Discounted FCF	10,001	9,028	9,031	7,871	7,512
Terminal Value					120,940
Terminal growth	3.0%				
WACC	9.4%				
Total discounted firm value	127,880				
Debt	35,333				
Cash	36,335				
Minority interest	5,410				
Equity value	123,473				
Issued shares (bn)	3.7				
Equity value per share	33,200				
Discount ESG	-4%				
TP	32,000				

◆ The profit projection implies a hefty correction in coal prices (full-year average estimates are as follows – FY23: USD180 per tonne, FY24F: USD135 per tonne), and a conservative target for HE sales (but stable) in the years ahead. Nevertheless, this scenario still provides decent upside for UNTR's fair value from its stable cash flow – although this excludes other potential businesses (upcoming nickel smelters)

◆ We have a medium-term view for our DCF scenario due to fluctuations in commodity prices. The terminal growth represents the projected pace of national coal output going forward (coal is still the main upside for UNTR's mining contracting business)

Source: Company data, RHB

Emissions And ESG

Trend analysis

Despite fluctuations in recorded emissions in the past years (due to higher mining services activity and coal production), management remains positive about achieving a 30% GHG reduction by 2030.

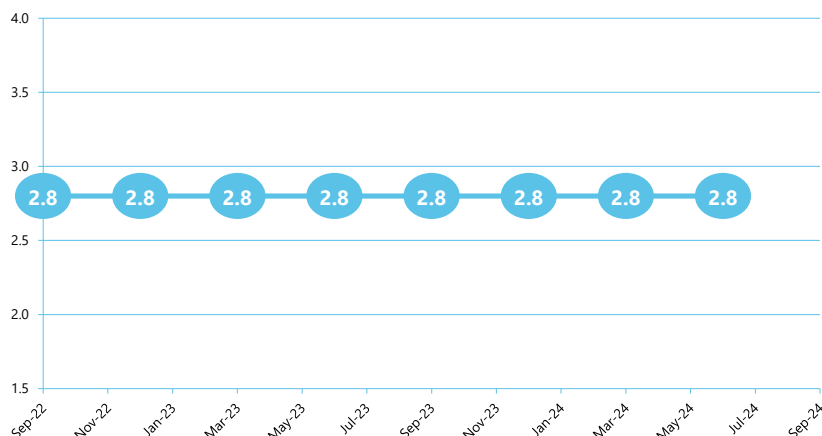
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	2,451,872	2,940,924	na
Scope 2	245,529	278,615	na
Scope 3	na	na	na
Total emissions	2,697,401	3,219,538	na

Source: Company data, RHB

Latest ESG-Related Developments

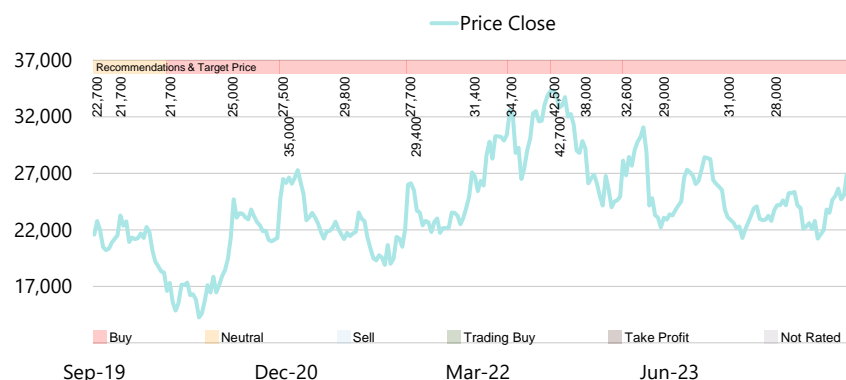
- In 2022, UNTR – via Energia Prima Nusantara (EPN) – UNTR secured commitment to install rooftop solar photovoltaic cells. EPN is also developing a mini-hydropower plant in the Lampung province.
- As part of its move to increase its supply of renewable energy in Indonesia, EPN acquired a 31.49% share of Arkora Hydro (ARKO IJ, NR) which indirectly added to UNTR's RE business portfolio, with two operating hydropower plants (Cikopo and Tomasa).

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-28	Buy	28,000	23,850
2024-02-22	Buy	28,000	23,125
2023-11-16	Buy	31,000	23,450
2023-11-01	Buy	31,000	24,100
2023-05-30	Buy	29,000	22,500
2023-02-28	Buy	32,600	27,900
2022-11-23	Buy	38,000	29,625
2022-09-22	Buy	42,700	35,100
2022-09-08	Buy	42,500	34,400
2022-05-27	Buy	34,700	30,400
2022-03-01	Buy	31,400	24,850
2021-10-12	Buy	29,400	26,275
2021-09-27	Buy	27,700	22,875
2021-04-22	Buy	29,800	21,550
2021-02-26	Buy	35,000	22,550

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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