

United Tractors (UNTR)

No such thing as too much (heavy) equipment

Tightness in the global market still favors coal producers

According to a notice issued by the **Shanxi provincial** emergency management office on 28Apr2022, this coal-rich **region in China (representing ~27% of China's coal output)** decided to **carry out coal mine safety checks until the end of Nov2022**, in a bid to crack down illegal and substandard mining activities. Strict checks are expected to ensure a safe production environment ahead of the 20th national congress to be held in 2H22. Considering the current tightness in its domestic coal market (with just ~15 avg. days of burn for its power plant or half of its normal level seen pre-covid 19), we believe that this exercise further complicates China's efforts to strengthen its energy supply guarantee. Meanwhile, **India (the 2nd largest coal consumer in the world) urged its state-owned electricity producers to increase import coal aggressively** until the end of Jun2022 to **avoid severe supply shortages** (currently at just ~8 inventory days) and **power outages**. We believe **these two recent moves by two world's largest coal consumers should support our bullish view on coal-related sectors**.

Surging heavy equipment demand led to strong 1Q22 results

Favorable coal prices environment has incentivized coal miners to spend more capex since mid-2021. This bodes well for UNTR which distributes mining heavy equipment (HE) distributors and provides mining contracting (MC) services. UNTR managed to **record a decade-high quarterly HE sales in 1Q22 with 1,694 units (+146% YoY, as 57% portion came from mining)**. UNTR indicated that the **big HE backlog has already reached mid-2023 for delivery**. This **significant outperformance on HE sales drove UNTR to book record-high earnings of IDR4.3tn (+131% YoY) in 1Q22**, forming 36% of our previous FY22 estimates. Meanwhile, other sectors (i.e. MC, coal & gold mining) operational performance was still within our FY22 estimates. UNTR's 1Q22 GP and OP margins are within our FY22 expectations.

Reiterate BUY with higher TP

Considering the much better HE sales, we **revised up our assumptions on Komatsu sales in FY22 and FY23, resulting in 24%/23% higher earnings estimates for FY22/23F**. Subsequently, **our DCF valuation on UNTR is now uplifted by 25% to IDR37,500/share**, implying 10x FY22F PE (at its 5-year historical average). UNTR currently trades at 8.1x FY22F with an expected avg of ~15% ROE in the next 3 years. Moreover, UNTR has a sizable IDR 29.3tn net cash position which allows them to seek inorganic growth from other minerals or renewable projects when opportunities arise.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	60,347	79,460	94,503	85,957	79,180
GP (IDR bn)	12,989	19,664	23,604	19,666	16,271
OP (IDR bn)	8,294	14,875	18,454	14,552	11,164
NP (IDR bn)	6,003	10,279	13,900	11,134	9,274
EBITDA (IDR bn)	18,240	23,640	25,476	22,026	18,714
Net debt (IDR bn)	(8,017)	(24,135)	(24,884)	(29,178)	(34,411)
OP margin (%)	30.2	29.8	27.0	25.6	23.6
ROE (%)	10.1	16.0	19.1	14.0	11.1
Dividend yield (%)	2.1	4.1	6.2	4.9	4.1
EPS (IDR)	1,609	2,756	3,726	2,985	2,486
chg. (% YoY)	(46.9)	71.2	35.2	(19.9)	(16.7)
BPS (IDR)	16,162	18,380	20,720	21,942	23,003
DPS (IDR)	644	1,240	1,863	1,492	1,243
PE (x)	18.8	11.0	8.1	10.1	12.2
PB (x)	1.9	1.6	1.5	1.4	1.3
EV/EBITDA (x)	5.7	3.7	3.4	3.8	4.2

Company Update

Conglomerates

May 9, 2022

12M rating **BUY (Maintain)**
12M TP **IDR 37,500** (Prev 30,000)
Upside **+24%**

Stock Data

JCI (Apr 28)	7,229
Stock price (Apr 28, IDR)	30,275
Market cap (IDR bn)	112,930
Shares outstanding (mn)	3,730
52-week high/low (IDR)	30,800 / 18,525
6M avg. daily turnover (IDR bn)	116.1
Free float (%)	40.4

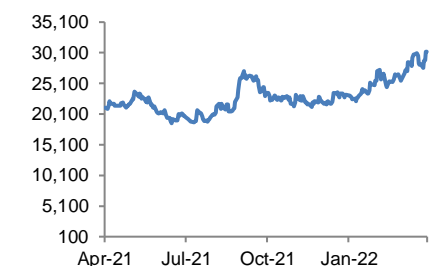
Major shareholders (%)

Astra International Tbk	59.5
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Performance

	1M	6M	12M
Absolute (%)	22.3	32.7	49.4
Relative to JCI (%)	12.8	17.2	17.8

UNTR's share price performance



Source: Bloomberg

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Table 1. UNTR's 1Q22 financial & operational results

1Q22 financial results							% of previous	
	unit	1Q21	4Q21	1Q22	QoQ	YoY	FY22F KISI	% to consensus
Revenue	IDR bn	17,898	21,639	27,979	36%	56%	34%	34%
Gross Profit	IDR bn	3,536	6,143	7,037	28%	99%	33%	36%
Operating Profit	IDR bn	2,542	4,560	5,884	38%	131%	37%	40%
Net Income	IDR bn	1,867	2,462	4,321	31%	131%	36%	37%
GPM		19.8%	28.4%	25.2%				
OPM		14.2%	21.1%	21.0%				
NPM		10.4%	11.4%	15.4%				

1Q22 operational results							% of previous	
Segment	unit	1Q21	4Q21	1Q22	QoQ	YoY	FY22F KISI	
Heavy equipment	units	688	894	1,694	103%	146%	48%	
Coal delivered	mn tonnes	27	29	24	-20%	-12%	20%	
OB removal	mn bcm	191	222	207	-6%	9%	21%	
Stripping ratio	x	7.0	7.7	8.7	17%	24%		
Coal mining	mn tonnes	3.7	1.3	2.9	106%	-21%	29%	
Gold mining	k oz	95	72	74	-10%	-22%	21%	

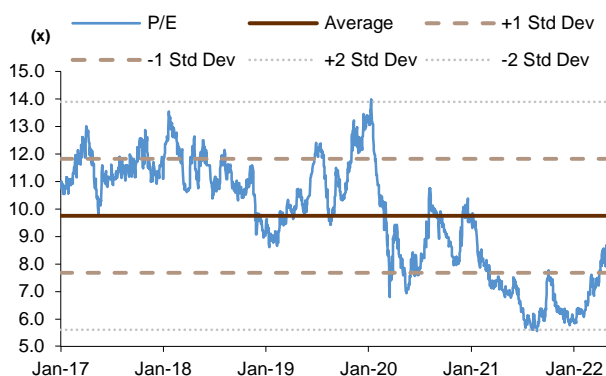
Source: Company's data, KISI

Table 2. Summary of assumptions changes

Assumptions	Unit	Revised			Previous	
		FY22F	FY23F	FY24F	FY22F	FY23F
Komatsu sales	units	4,500	3,375	3,038	3,500	2,400
Change (%)		29%	41%	new		
Coal delivered	mn tonnes	119	123	126	119	123
Change (%)		0%	0%	new		
OB removal	mn bcm	982	980	915	981	980
Change (%)		0%	0%	new		
Coal mining	mn tonnes	11.1	10.4	10.1	10.2	9.9
Change (%)		9%	5%	new		
Gold production	k oz	352	352	352	352	352
Change (%)		0%	0%	new		
Revenue	IDR bn	94,503	85,957	79,180	82,494	77,443
Change (%)		15%	11%	new		
Gross profit	IDR bn	23,604	19,666	16,271	21,105	17,350
Change (%)		12%	13%	new		
EBITDA	IDR bn	25,476	22,026	18,714	22,753	19,647
Change (%)		12%	12%	new		
Net profit	IDR bn	13,900	11,134	9,274	11,229	9,020
Change (%)		24%	23%	new		
Target price	IDR		37,500		30,000	
Change (%)			25%			
Recommendation			BUY		BUY	

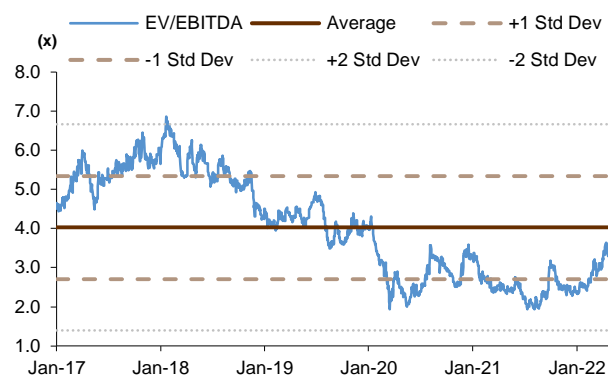
Source: KISI

Fig 1. UNTR's PE band



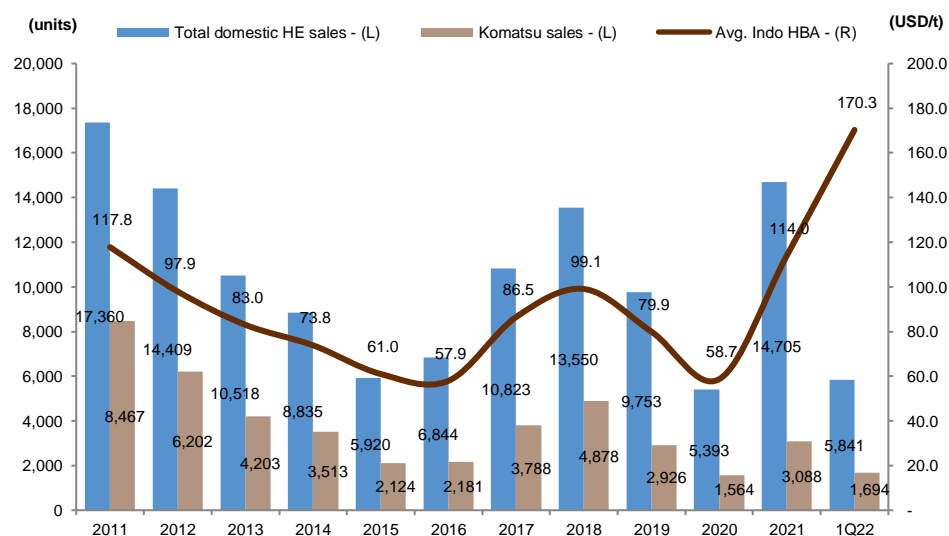
Source: Bloomberg, KISI

Fig 2. UNTR's EV/EBITDA band



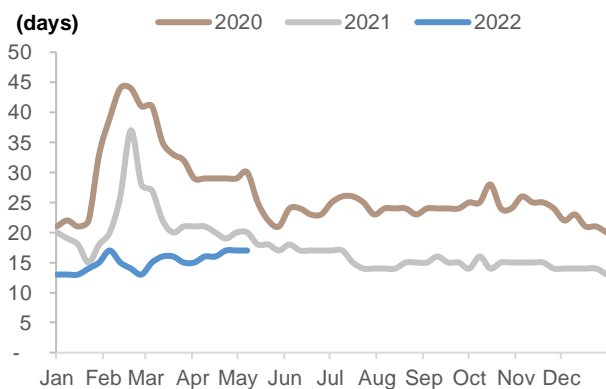
Source: Bloomberg, KISI

Fig 3. HE sales vs. Indonesia coal reference price (HBA) trend



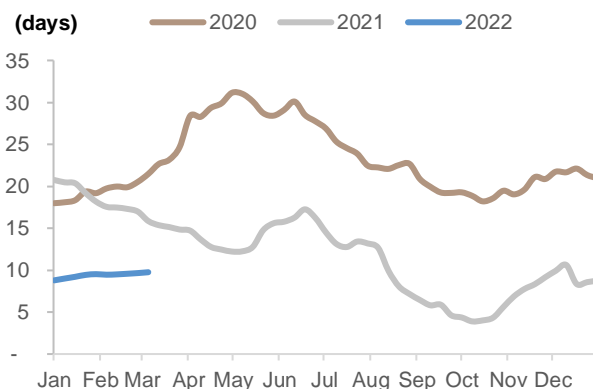
Source: Bloomberg, Indonesia heavy equipment association (Hinabi), Company, KISI

Fig 4. China's power plant avg. days of burn



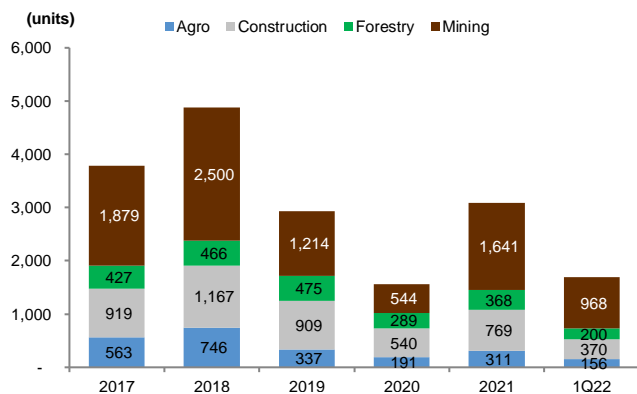
Source: Bloomberg, KISI

Fig 5. India's coal inventory days



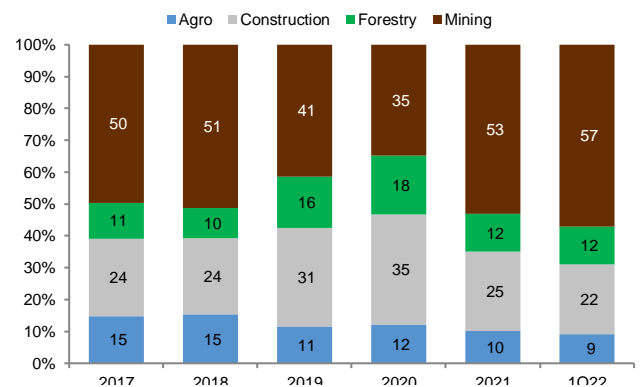
Source: Bloomberg, KISI

Fig 6. UNTR's HE sales breakdown per sector



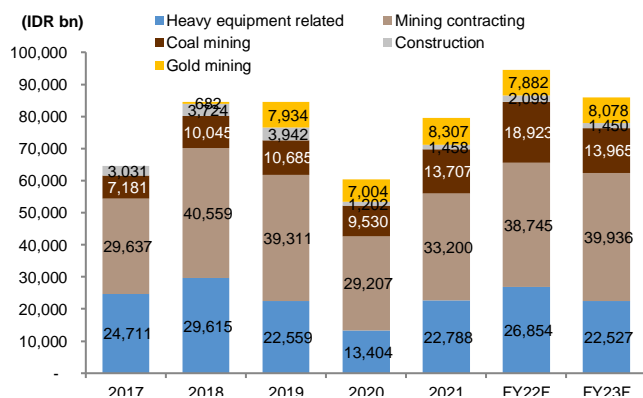
Source: Company's data, KISI

Fig 7. UNTR's HE sales contribution per sector



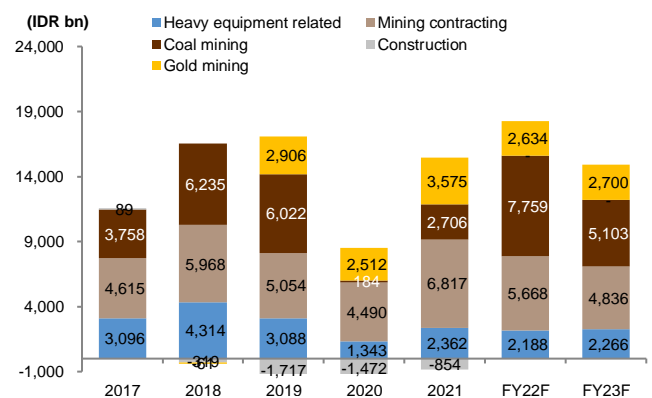
Source: Company's data, KISI

Fig 8. UNTR's revenue breakdown



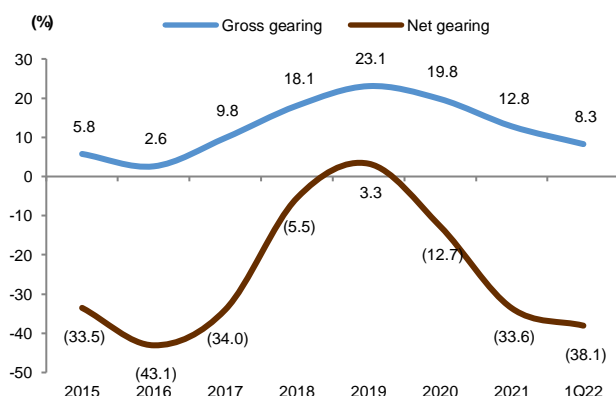
Source: Company's data, KISI

Fig 9. UNTR's op. profit breakdown



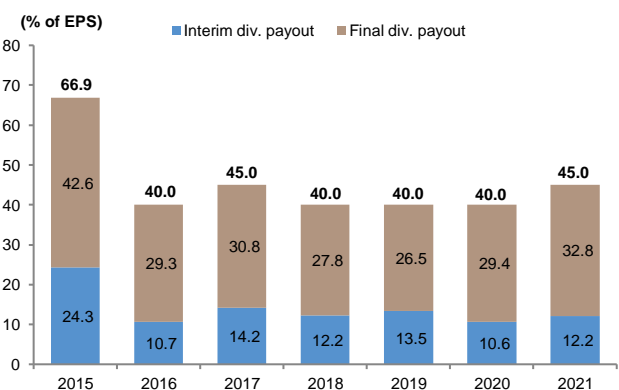
Source: Company's data, KISI

Fig 10. UNTR's gearing trend



Source: Company's data, KISI

Fig 11. UNTR's div. payout trend

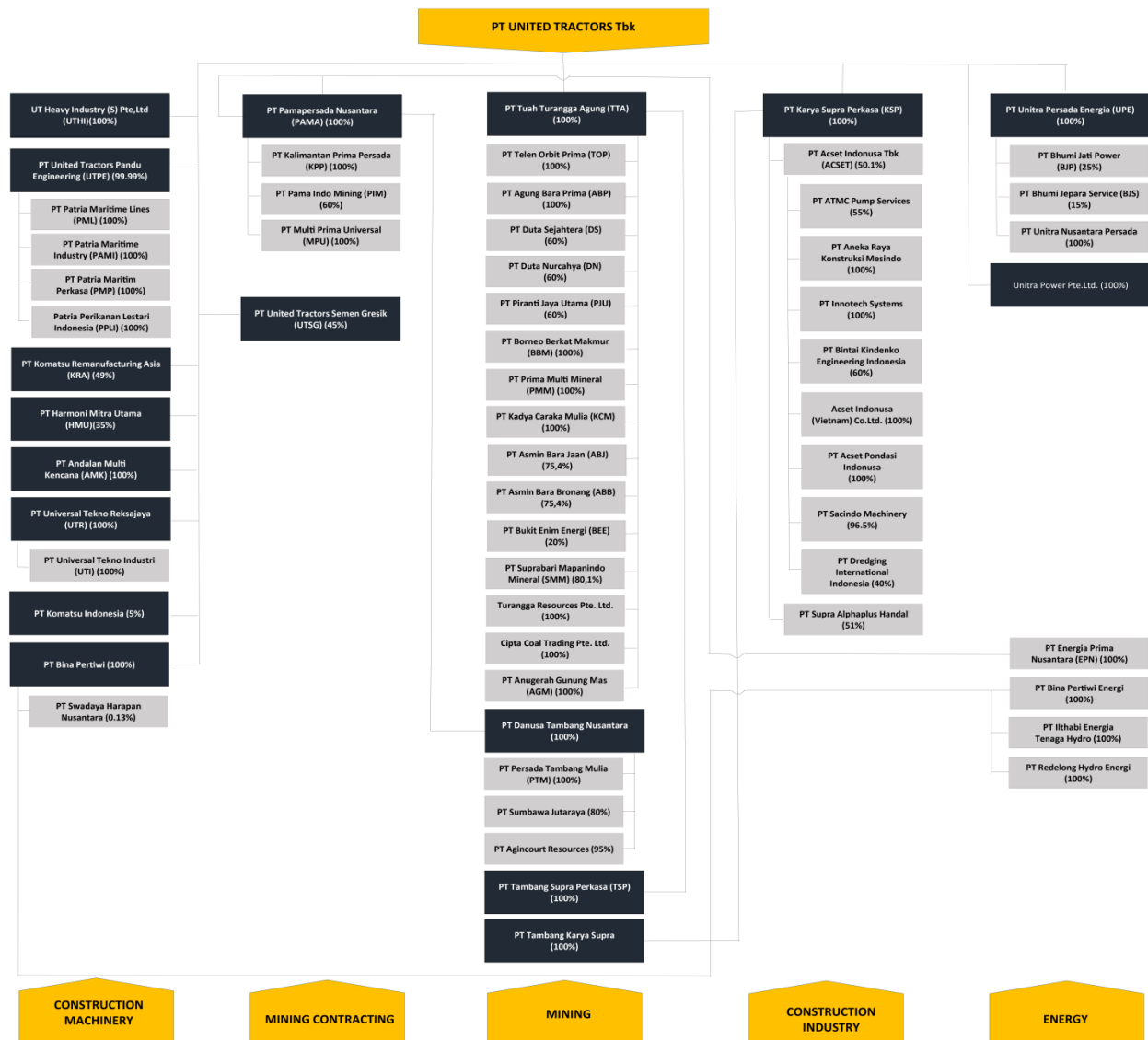


Source: Company's data, KISI

Company Overview

PT United Tractors Tbk (“UNTR”) was established in 1972 in Jakarta as a heavy equipment distributor and reached an important milestone on 19 Sep 1989 by listing its shares on the Indonesia Stock Exchange. The Company is a subsidiary of PT Astra International Tbk (“ASII”) and has expanded its business to mining contracting, mining, general contracting services, and power plant. The Company’s head office is located in Jakarta with 20 branches, 38 site supports, 25 representative offices, and other service points in various strategic provinces and cities around Indonesia.

Fig 12. UNTR’s group structure



Source: Company annual report, KISI

Balance sheet (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets	44,196	60,604	73,832	73,141	75,737
Cash & cash equivalent	20,499	33,322	31,571	33,871	38,786
Accounts & other receivables	10,138	12,207	23,302	21,195	19,524
Inventories	8,197	9,660	13,597	12,713	12,065
Others	5,362	5,415	5,362	5,362	5,362
Non-current assets	55,605	51,957	54,686	56,948	57,323
Fixed assets	37,280	32,382	35,110	37,373	37,747
Other non-current assets	18,326	19,575	19,575	19,575	19,575
Total assets	99,801	112,561	128,517	130,089	133,059
Current liabilities	20,944	30,489	37,486	34,408	33,000
Accounts & other payables	10,273	14,518	24,280	22,702	21,544
ST debt	4,045	6,205	4,205	2,705	2,455
Current portion of LT debt					
Others	6,626	9,766	9,000	9,000	9,000
Non-current liabilities	15,710	10,249	9,749	9,267	9,267
LT debt & financial liabilities	8,436	2,982	2,482	2,000	2,000
Employee benefits liability					
Other non-current liabilities	7,274	7,268	7,268	7,268	7,268
Total liabilities	36,654	40,739	47,235	43,675	42,267
Controlling interest					
Capital stock	933	933	933	933	933
Additional paid-in capital	9,704	9,704	9,704	9,704	9,704
Other Reserves	156	1,250	1,332	1,332	1,332
Retained earnings	49,493	56,673	65,320	69,866	73,761
Minority interest	2,861	3,263	3,994	4,580	5,064
Shareholders' equity	63,147	71,823	81,283	86,414	90,793

Cash flow (IDR bn)

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
C/F from operating	18,557	23,285	16,385	20,594	18,389
Net profit	6,003	10,279	13,900	11,121	9,195
Depreciation	9,946	8,765	7,022	7,475	7,549
Net incr. in W/C	1,723	713	(5,269)	1,413	1,161
Others	885	3,528	732	585	484
C/F from investing	(2,594)	(3,159)	(10,382)	(9,737)	(7,924)
CAPEX	(2,824)	(3,061)	(10,382)	(9,737)	(7,924)
Others	229	(98)	-	-	-
C/F from financing	(7,834)	(7,420)	(7,753)	(8,557)	(5,550)
Incr. in equity	-	-	-	-	-
Incr. in debts	(1,609)	(2,500)	(2,500)	(1,982)	(250)
Dividends	(3,639)	(3,013)	(5,253)	(6,575)	(5,300)
Others	(2,586)	(1,907)	-	-	-
C/F from others					
Increase in cash	8,129	12,706	(1,751)	2,300	4,915

Income statement (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	60,347	79,460	94,503	85,957	79,180
COGS	(47,357)	(59,796)	(70,899)	(66,291)	(62,909)
Gross profit	12,989	19,664	23,604	19,666	16,271
SG&A expense	(4,695)	(4,789)	(5,150)	(5,114)	(5,107)
Operating profit	8,294	14,875	18,454	14,552	11,164
Financial income					
Interest income	759	872	898	990	1,065
Financial expense					
Interest expense	(1,540)	(754)	(556)	(399)	(321)
Other non-operating profit	(824)	(980)	(738)	(735)	-
Income from JVs, associates, subsidiaries	323	449	700	600	500
Earnings before tax	7,011	14,462	18,759	15,008	12,409
Income taxes	(1,379)	(3,854)	(4,127)	(3,302)	(2,730)
Net profit	6,003	10,279	13,900	11,121	9,195
Non-controlling interest	371	(329)	(732)	(585)	(484)
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	18,240	23,640	25,476	22,026	18,714

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	1,609	2,756	3,726	2,981	2,465
BPS	16,162	18,380	20,720	21,939	22,983
DPS	644	1,240	1,863	1,491	1,232
Growth (%)					
Sales growth	(28.5)	31.7	18.9	(9.0)	(7.9)
OP growth	(50.1)	79.3	24.1	(21.1)	(23.3)
NP growth	(46.9)	71.2	35.2	(20.0)	(17.3)
EBITDA growth	(27.4)	29.6	7.8	(13.5)	(15.0)
Profitability (%)					
OP margin	13.7	18.7	19.5	16.9	14.1
NP margin	9.9	12.9	14.7	12.9	11.6
EBITDA margin	30.2	29.8	27.0	25.6	23.6
ROA	5.4	10.3	12.3	8.7	7.1
ROE	10.1	16.0	19.1	14.0	11.0
Dividend yield	2.1	4.1	6.2	4.9	4.1
Dividend payout ratio	40.0	45.0	50.0	50.0	50.0
Stability					
Net debt (IDR bn)	(8,017)	(24,135)	(24,884)	(29,166)	(34,331)
Int.-bearing debt/equity (%)	19.8	12.8	8.2	5.4	4.9
Valuation (X)					
PE	18.8	11.0	8.1	10.2	12.3
PB	1.9	1.6	1.5	1.4	1.3
EV/EBITDA	5.7	3.7	3.4	3.8	4.2

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