

United Tractors (UNTR)

Windfall from coal bonanza

2 August 2022



UNITED TRACTORS

UNTR IJ	BUY
Sector	Heavy Eq.
Price at 1 August 2022 (Rp)	32,175
Price target (Rp)	37,000
Upside/Downside (%)	15.0

Stock Information

United Tractors is the largest distributor of heavy equipment in Indonesia with Komatsu as its main brand. It has three major business units known as construction machinery, mining contracting, and mining. Recently, the company diversified into construction and energy which became its fourth and fifth business units.

Market cap (Rp bn)	120,017
Shares outstanding (mn)	3,730
52-week range (Rp)	33,500-18,550
3M average daily vol. ('000)	6,323
3M average daily val. (Rp mn)	189,368

Shareholders (%)

Astra International	59.5
Public	40.5

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	21.4	6.3	64.6

- UNTR's 1H22 net profit rose 129.3% YoY to Rp10.4tn, representing 69.2% of our FY estimate
- Amid surging commodity prices, we expect Komatsu sales of 5,000 units, stable coal production, and overburden removal growth of 10% YoY in 2022. We also estimate coal and gold sales to attain c.9mn tons and 300K ounces, respectively. UNTR is gradually expanding non-coal segments and renewable energy to reduce thermal coal exposure
- Reiterate our BUY call with 15.0% upside potential on a 12-month view, backed by 1) solid outlook of construction machinery, mining contracting, coal and gold mining, construction; 2) further diversification; as well as 3) robust balance sheet

Exceeding expectations

UNTR's net profit surged 129.3% YoY to Rp10.36tn in 1H22, accounting for 69.2%/64.8% of our/consensus FY forecasts. For construction machinery, revenue escalated 85.6% YoY to Rp17.43tn in 1H22 as Komatsu sales jumped 111.1% YoY to 2,873 units, particularly from mining, forestry, agribusiness, and construction in line with strong commodity prices and infrastructure acceleration. Revenue of spare parts and maintenance services also went up 35.7% YoY to Rp4.82tn in 1H22. Meanwhile, mining contracting revenue increased 29.2% YoY to Rp19.96tn in 1H22 as overburden removal grew 6.6% YoY to 436.5mn bcm, while coal production declined 13.1% YoY to 50.4mn tons. With regard to coal mining, revenue skyrocketed 149.2% YoY to Rp18.69tn in 1H22 on the back of higher ASP amid contracted sales volume by 7.6% YoY to 5.81mn tons, caused by export ban in January 2022. In terms of gold mining, revenue was down 10.4% YoY to Rp3.89tn in 1H22 in line with tumbling sales volume by 18.2% YoY to 143.8K ounces due to lower grade extraction, although ASP rose 8.3% YoY to USD1,873/ounce. For construction, revenue fell 25.2% YoY to Rp476bn in 1H22, hampered by delayed projects, with a decreased net loss by 25.5% YoY to Rp114bn in 1H22.

Significant sales growth of heavy equipment

We maintain our Komatsu sales assumption of 5,000 units in 2022, driven by surging commodity prices, boosting investments in mining and agribusiness sectors, as well as infrastructure acceleration. The company is leveraging momentum from strong coal demands due to tight energy market and principal's ability to supply. Furthermore, UNTR plans to raise prices in stages amid intense competition particularly in small and medium heavy equipment segments. The company has also introduced environmentally friendly Komatsu HB365-1 hybrid excavator that is able to save up to 17% of fuel consumption. Moreover, we expect sales of spare parts and maintenance services revenue to grow 15% YoY in 2022. For mining contracting, we anticipate that coal production will be relatively stable this year, while overburden removal to increase 10% YoY. This is due to plans of Pama's clients to ramp up productions to monetize soaring coal prices amid geopolitical tensions. In addition, the company will not provide any discounts should coal prices remain high. We believe that USD appreciation coupled with improving efficiency will lead to margin expansions. Due to logistics issue, we estimate stable coal sales volume YoY at c.9mn tons in 2022.

Focus on non-coal mining and renewable energy

We maintain our gold sales assumption of 300K ounces in 2022, particularly derived from lower grade ores mined in deeper pits. Gold mining remains to be one of the main focuses of UNTR's business expansions due to its nature as a safe haven instrument during economic downturn. For construction, we expect ACST to book higher new contract value this year with focus on toll roads, foundation, and structure works. Meanwhile, UNTR strives to reduce its exposure to thermal coal, while gradually expanding feasible and sizeable non-coal businesses, including gold, copper, nickel, and other minerals. As part of its transition strategies, the company will develop renewable energy. UNTR aims to attain a more balanced business portfolio with non-coal related segments are targeted to contribute 40% of revenues, thus generating more sustainable earnings. In addition, the company will maintain ample liquidity level to anticipate 1) limited financing for coal industry; 2) debt repayments; 3) merger and acquisition; as well as 4) expansion plans.

Reiterate BUY on the back of improving economy and strong commodity prices

We maintain our BUY recommendation with a higher DCF-based price target of Rp37,000 per share. The stock is currently traded at a 2022 PER of 6.6x and PBV of 1.5x. We remain sanguine on UNTR's outlook, driven by 1) solid performance of construction machinery, mining contracting, coal and gold mining, as well as construction following economic recovery, soaring commodity prices, and infrastructure development; 2) diversification to gold, coking coal, infrastructure, and energy that will reduce its reliance on thermal coal; 3) robust balance sheet with net cash position and prudent financial management; as well as 4) digital initiatives to improve efficiency and operational excellence. However, we note several downside risks to our recommendation, namely 1) lower-than-expected coal and gold prices as well as infrastructure spending; and 2) Rupiah appreciation.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	60,347	79,461	110,801	117,695	123,755
Operating profit (Rp bn)	8,294	14,876	25,041	25,887	26,471
Net profit (Rp bn)	6,003	10,280	18,216	18,906	19,484
EPS (Rp)	1,609	2,756	4,884	5,068	5,223
EPS growth (%)	(46.9)	71.2	77.2	3.8	3.1
ROAA (%)	5.7	9.7	14.9	13.8	13.0
ROAE (%)	10.1	16.0	24.2	21.6	19.6
PER (x)	20.0	11.7	6.6	6.3	6.2
PBV (x)	2.0	1.8	1.5	1.3	1.1
EV/EBITDA (x)	6.4	4.2	2.6	2.4	2.1
Div Yield (%)	3.0	2.5	4.1	6.2	6.4

Analyst(s)

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United Tractors (UNTR)

UNTR's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Net revenue	37,311	60,447	62.0%	27,979	32,468	16.0%
Cost of revenue	(29,286)	(43,936)		(20,941)	(22,994)	
Gross profit	8,024	16,511	105.8%	7,037	9,474	34.6%
Gross profit margin	21.5%	27.3%		25.2%	29.2%	
Operating expenses	(1,988)	(2,290)		(1,153)	(1,136)	
Operating profit	6,037	14,221	135.6%	5,884	8,338	41.7%
Operating profit margin	16.2%	23.5%		21.0%	25.7%	
Other (expenses)/income	(19)	65		(35)	100	
Share of results of associates & JV	177	354		172	182	
Profit before income tax	6,195	14,640	136.3%	6,022	8,619	43.1%
Income tax expenses	(1,506)	(3,168)		(1,304)	(1,865)	
Profit before minority interest	4,689	11,472	144.7%	4,718	6,754	43.2%
Minority interest	(173)	(1,116)		(397)	(718)	
Net profit	4,516	10,357	129.3%	4,321	6,036	39.7%
Net profit margin	12.1%	17.1%		15.4%	18.6%	

Source: Company, KB Valbury Sekuritas

Revenue Breakdown (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Construction machinery	9,390	17,426	85.6%	9,661	7,765	(19.6%)
Komatsu	3,380	10,413	208.1%	6,147	4,266	(30.6%)
Scania & UD Trucks	903	438	(51.5%)	234	204	(12.8%)
Parts & Services	3,553	4,821	35.7%	2,412	2,409	(0.1%)
Others	1,555	1,753	12.7%	868	885	2.0%
Mining contracting	15,443	19,957	29.2%	8,469	11,488	35.6%
Coal mining	7,499	18,686	149.2%	7,587	11,099	46.3%
Gold mining	4,342	3,889	(10.4%)	1,987	1,902	(4.3%)
Construction industry	636	476	(25.2%)	274	202	(26.3%)
Energy	-	13		1	12	1,100.0%
Total	37,311	60,447	62.0%	27,979	32,468	16.0%

Source: Company, KB Valbury Sekuritas

Operational Performance	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Komatsu sales volume (unit)	1,361	2,873	111.1%	1,694	1,179	(30.4%)
OB removal (mn bcm)	410	437	6.6%	207	229	10.6%
Coal production (mn tons)	58	50	(13.1%)	24	27	10.9%
Stripping ratio (x)	7.1	8.7		8.7	8.6	
Coal sales volume (K tons)	6,283	5,808	(7.6%)	2,946	2,862	(2.9%)
Thermal Coal (K tons)	4,837	4,540	(6.1%)	2,335	2,205	(5.6%)
Coking Coal (K tons)	1,446	1,268	(12.3%)	611	657	7.5%
Gold sales volume (K oz)	176	144	(18.2%)	74	70	(5.7%)

Source: Company, KB Valbury Sekuritas

United Tractors (UNTR)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net revenue	60,347	79,461	110,801	117,695	123,755
Revenue growth YoY	(28.5%)	31.7%	39.4%	6.2%	5.1%
Cost of revenue	(47,357)	(59,796)	(81,718)	(87,744)	(93,252)
Gross profit	12,989	19,665	29,083	29,951	30,503
Operating expenses	(4,695)	(4,789)	(4,042)	(4,064)	(4,032)
Operating profit	8,294	14,876	25,041	25,887	26,471
Op. profit growth YoY	(50.1%)	79.4%	68.3%	3.4%	2.3%
EBITDA	17,524	22,833	32,562	34,114	35,802
EBITDA growth YoY	(28.3%)	30.3%	42.6%	4.8%	4.9%
Other income/(expenses)	(1,605)	(862)	418	527	737
Share of results of associates & JV	323	449	676	709	745
Profit before income tax	7,011	14,462	26,134	27,123	27,953
Income tax expenses	(1,379)	(3,854)	(6,052)	(6,281)	(6,473)
Profit before minority int.	5,632	10,608	20,082	20,842	21,480
Minority interest	371	(329)	(1,866)	(1,937)	(1,996)
Net profit	6,003	10,280	18,216	18,906	19,484

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	20,499	33,322	39,830	43,627	48,298
Trade receivables	10,024	12,152	17,313	18,682	19,961
Inventories	8,002	9,454	11,194	12,187	13,134
Other current assets	5,671	5,677	6,131	6,503	6,829
Total current assets	44,196	60,604	74,468	80,998	88,222
Non-current assets					
Fixed assets	24,319	20,457	21,684	24,611	27,934
Mining properties	12,960	11,925	12,045	13,671	15,516
Other non-current assets	18,326	19,575	23,145	23,951	24,656
Total non-current assets	55,605	51,957	56,874	62,233	68,106
Total assets	99,801	112,561	131,342	143,231	156,328
Current liabilities					
Trade payables	10,273	14,518	19,143	20,085	20,868
Short-term debts	4,045	6,205	3,573	2,270	2,075
Other current liabilities	6,626	9,766	13,136	13,755	14,374
Total current liabilities	20,944	30,489	35,852	36,110	37,316
Non-current liabilities					
Long-term debts	8,436	2,982	1,741	1,517	1,349
Other non-current liabilities	7,274	7,268	7,650	7,716	7,744
Total non-current liabilities	15,710	10,249	9,391	9,233	9,093
Minority interest	2,861	3,263	4,194	4,501	4,753
Shareholders' equity	60,286	68,560	81,905	93,387	105,166
Total liabilities and equity	99,801	112,561	131,342	143,231	156,328

Source: Company, KB Valbury Sekuritas

United Tractors (UNTR)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	6,003	10,280	18,216	18,906	19,484
Depreciation	9,230	7,958	7,521	8,227	9,330
Changes in working capital	<u>2,831</u>	<u>3,800</u>	<u>640</u>	<u>(1,173)</u>	<u>(1,152)</u>
CF from operating activities	18,064	22,037	26,378	25,960	27,663
Investment in fixed assets	(4,948)	(2,885)	(7,583)	(9,905)	(11,234)
Investment in mining properties	(262)	(175)	(1,284)	(2,876)	(3,264)
Others	<u>1,261</u>	<u>(1,250)</u>	<u>(3,570)</u>	<u>(806)</u>	<u>(705)</u>
CF from investing activities	(3,949)	(4,310)	(12,438)	(13,587)	(15,203)
Debts raised/(repaid)	(1,609)	(3,294)	(3,873)	(1,527)	(363)
Dividends paid	(3,641)	(3,014)	(4,871)	(7,424)	(7,705)
Others	<u>(457)</u>	<u>1,404</u>	<u>1,313</u>	<u>374</u>	<u>280</u>
CF from financing activities	(5,707)	(4,905)	(7,431)	(8,577)	(7,788)
Free cash flows	15,352	18,281	14,413	12,671	12,695
Net cash flows	8,408	12,823	6,508	3,796	4,672
Cash and cash equivalents, beginning	<u>12,091</u>	<u>20,499</u>	<u>33,322</u>	<u>39,830</u>	<u>43,627</u>
Cash and cash equivalents, ending	20,499	33,322	39,830	43,627	48,298

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	21.5	24.7	26.2	25.4	24.6
Operating profit margin (%)	13.7	18.7	22.6	22.0	21.4
Net profit margin (%)	9.9	12.9	16.4	16.1	15.7
ROAE (%)	10.1	16.0	24.2	21.6	19.6
ROAA (%)	5.7	9.7	14.9	13.8	13.0
DER (%)	20.7	13.4	6.5	4.1	3.3
Net (cash) gearing (%)	(13.3)	(35.2)	(42.1)	(42.7)	(42.7)
Interest coverage ratio (x)	5.4	19.7	40.6	66.9	86.4
Sales/Assets (x)	0.6	0.7	0.9	0.9	0.8
Assets/Equity (x)	1.7	1.6	1.6	1.5	1.5
PER (x)	20.0	11.7	6.6	6.3	6.2
PBV (x)	2.0	1.8	1.5	1.3	1.1
EV/EBITDA (x)	6.4	4.2	2.6	2.4	2.1
Dividend Yield (%)	3.0	2.5	4.1	6.2	6.4

Source: Company, KB Valbury Sekuritas

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