

United Tractors (UNTR)

Blessings from surging commodity prices

9 May 2022



UNITED TRACTORS

UNTR IJ	BUY
Sector	Heavy Eq.
Price at 28 April 2022 (Rp)	30,275
Price target (Rp)	34,000
Upside/Downside (%)	12.3

Stock Information

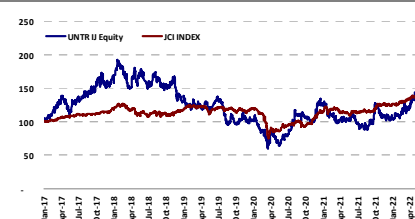
United Tractors is the largest distributor of heavy equipment in Indonesia with Komatsu as its main brand. It has three major business units known as construction machinery, mining contracting, and mining. Recently, the company diversified into construction and energy which became its fourth and fifth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

Market cap (Rp bn)	112,930
Shares outstanding (mn)	3,730
52-week range (Rp)	30,800-18,525
3M average daily vol. ('000)	5,340
3M average daily val. (Rp mn)	139,146

Shareholders (%)

Astra International	59.5
Public	40.5

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	13.8	30.2	41.3

- UNTR's 1Q22 net profit rose 131.5% YoY to Rp4.32tn, representing 34.9% of our FY estimate
- We expect that Komatsu sales will reach 5,000 units in 2022, driven by soaring commodity prices. Furthermore, we anticipate coal production of 123mn tons and overburden removal of 887mn bcm, while coal and gold sales to attain c.9mn tons and 300K ounces, respectively
- Reiterate our BUY call with 12.3% 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 escalated 131.5% YoY to Rp4.32tn in 1Q22, accounting for 34.9%/34.3% of our/consensus FY forecasts. For construction machinery, revenue surged 122.1% YoY to Rp9.66tn in 1Q22 as Komatsu sales rose 146.2% YoY to 1,694 units, particularly from mining, forestry, and construction amid soaring commodity prices especially coal as well as infrastructure development. Revenue of spare parts and maintenance services also went up 48.7% YoY to Rp2.41tn in 1Q22. Meanwhile, mining contracting revenue increased 21.5% YoY to Rp8.47tn in 1Q22 as overburden removal grew 9.0% YoY to 207.3mn bcm, while coal production declined 12.1% YoY to 23.9mn tons. With regard to coal mining, revenue jumped 91.7% YoY to Rp7.59tn in 1Q22 due to higher ASP, despite lower sales volume by 20.6% YoY to 2.95mn tons as coal exports were restricted in January 2022. In terms of gold mining, revenue decreased 11.4% YoY to Rp1.99tn in 1Q22 in line with reduced sales volume by 22.1% YoY to 74K ounces on the back of lower grade extraction, although ASP rose 12.8% YoY to USD1,871/ounce. For construction, revenue fell 27.9% YoY to Rp274bn in 1Q22, hampered by delayed projects during pandemic, with net loss of Rp25bn, declining 68.8% YoY.

Expecting strong demand for heavy machinery

We revise up our assumption of Komatsu sales from 3,700 units to 5,000 units in 2022, driven by soaring commodity prices and infrastructure acceleration. However, surging demand for heavy equipment amid limited supply has resulted in Komatsu backlog until Mid-2023. UNTR plans to raise prices gradually to its customers. Furthermore, we believe that new capital city development will boost sales of construction machinery in the long run. Nevertheless, we see a stiff competition coming from small and medium heavy equipment players. Meanwhile, we expect sales of spare parts and maintenance services revenue to grow 15% YoY in 2022. For mining contracting, we anticipate coal production of 123mn tons and overburden removal of 887mn bcm this year. During strong coal prices, the company does not expect to provide any discounts, while improving efficiency amid inflationary pressures. With regard to coal mining, we forecast stable sales volume YoY at c.9mn tons in 2022 due to logistics challenges.

Aiming for a more sustainable portfolio

We maintain our gold sales assumption of 300K ounces in 2022, particularly derived from lower grade ores mined in deeper pits. Management expects there will be no further capacity increase in Martabe mine for the next two years. Gold mining remains to be one of the primary focuses of UNTR's business expansions due to its nature as a safe haven instrument. For construction, we anticipate ACST to book higher new contract value this year with focus on toll roads, foundation, and structure works, supported by infrastructure acceleration, economic improvement, and stronger balance sheet. Meanwhile, UNTR will reduce its exposure to thermal coal, while expanding to feasible and sizeable non-coal businesses, including gold, copper, nickel, and other minerals. Furthermore, the company will develop renewable energy as a part of its strategic transition plans, namely large-scale hydropower, floating solar PV, geothermal, wind power, and waste-to-energy. UNTR aims to create 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 strong liquidity position to 1) fund its expansion plans and capex as banks tend to reduce coal exposure; 2) repay debts; as well as 3) anticipate possible merger and acquisition.

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

We maintain our BUY recommendation with a higher DCF-based price target of Rp34,000 per share. The stock is currently traded at a 2022 PER of 7.5x and PBV of 1.4x. 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, surging 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	100,767	107,091	112,619
Operating profit (Rp bn)	8,294	14,876	19,818	21,143	22,320
Net profit (Rp bn)	6,003	10,280	14,968	16,012	16,986
EPS (Rp)	1,609	2,756	4,013	4,293	4,554
EPS growth (%)	(46.9)	71.2	45.6	7.0	6.1
ROAA (%)	5.7	9.7	12.7	12.5	12.3
ROAE (%)	10.1	16.0	20.3	19.3	18.4
PER (x)	18.8	11.0	7.5	7.1	6.6
PBV (x)	1.9	1.6	1.4	1.3	1.2
EV/EBITDA (x)	6.0	3.9	3.0	2.7	2.4
Div Yield (%)	3.2	2.7	4.3	6.3	6.7

Analyst(s)

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United Tractors (UNTR)

UNTR's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Net revenue	17,898	27,979	56.3%	21,638	27,979	29.3%
Cost of revenue	(14,361)	(20,941)		(15,496)	(20,941)	
Gross profit	3,536	7,037	99.0%	6,143	7,037	14.6%
Gross profit margin	19.8%	25.2%		28.4%	25.2%	
Operating expenses	(994)	(1,153)		(1,583)	(1,153)	
Operating profit	2,542	5,884	131.5%	4,560	5,884	29.0%
Operating profit margin	14.2%	21.0%		21.1%	21.0%	
Other (expenses)/income	(135)	(35)		(811)	(35)	
Share of results of associates & JV	78	172		146	172	
Profit before income tax	2,484	6,022	142.4%	3,895	6,022	54.6%
Income tax expenses	(545)	(1,304)		(1,352)	(1,304)	
Profit before minority interest	1,939	4,718	143.3%	2,542	4,718	85.6%
Minority interest	(72)	(397)		(80)	(397)	
Net profit	1,867	4,321	131.5%	2,462	4,321	75.5%
Net profit margin	10.4%	15.4%		11.4%	15.4%	

Source: Company, KB Valbury Sekuritas

Revenue Breakdown (Rp bn)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Construction machinery	4,349	9,661	122.1%	6,989	9,661	38.2%
Komatsu	1,595	6,147	285.4%	3,571	6,147	72.1%
Scania & UD Trucks	367	234	(36.2%)	177	234	32.2%
Parts & Services	1,622	2,412	48.7%	2,240	2,412	7.7%
Others	765	868	13.5%	1,000	868	(13.2%)
Mining contracting	6,969	8,469	21.5%	8,965	8,469	(5.5%)
Coal mining	3,958	7,587	91.7%	3,449	7,587	120.0%
Gold mining	2,242	1,987	(11.4%)	1,837	1,987	8.2%
Construction industry	380	274	(27.9%)	399	274	(31.3%)
Energy	-	1		-	1	
Total	17,898	27,979	56.3%	21,638	27,979	29.3%

Source: Company, KB Valbury Sekuritas

Operational Performance	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Komatsu sales volume (unit)	688	1,694	146.2%	894	1,694	89.5%
OB removal (mn bcm)	190	207	9.0%	222	207	(6.7%)
Coal production (mn tons)	27	24	(12.1%)	29	24	(17.3%)
Stripping ratio (x)	7.0	8.7		7.7	8.7	
Coal sales volume (K tons)	3,709	2,946	(20.6%)	1,279	2,946	130.3%
Thermal Coal (K tons)	2,860	2,335	(18.4%)	806	2,335	189.7%
Coking Coal (K tons)	849	611	(28.0%)	473	611	29.2%
Gold sales volume (K oz)	95	74	(22.1%)	72	74	3.1%

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	100,767	107,091	112,619
Revenue growth YoY	(28.5%)	31.7%	26.8%	6.3%	5.2%
Cost of revenue	(47,357)	(59,796)	(75,728)	(80,374)	(84,410)
Gross profit	12,989	19,665	25,039	26,717	28,209
Operating expenses	(4,695)	(4,789)	(5,221)	(5,574)	(5,889)
Operating profit	8,294	14,876	19,818	21,143	22,320
Op. profit growth YoY	(50.1%)	79.4%	33.2%	6.7%	5.6%
EBITDA	17,524	22,833	27,235	29,149	31,399
EBITDA growth YoY	(28.3%)	30.3%	19.3%	7.0%	7.7%
Other income/(expenses)	(1,605)	(862)	207	291	423
Share of results of associates & JV	323	449	570	599	628
Profit before income tax	7,011	14,462	20,595	22,032	23,371
Income tax expenses	(1,379)	(3,854)	(4,769)	(5,102)	(5,412)
Profit before minority int.	5,632	10,608	15,826	16,930	17,959
Minority interest	371	(329)	(858)	(918)	(973)
Net profit	6,003	10,280	14,968	16,012	16,986

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	35,942	37,987	40,966
Trade receivables	10,024	12,152	15,745	16,999	17,876
Inventories	8,002	9,454	9,964	10,716	11,255
Other current assets	5,671	5,677	6,420	6,815	7,159
Total current assets	44,196	60,604	68,071	72,517	77,257
Non-current assets					
Fixed assets	24,319	20,457	20,968	23,799	27,012
Mining properties	12,960	11,925	12,104	13,738	15,593
Other non-current assets	18,326	19,575	22,201	22,991	23,693
Total non-current assets	55,605	51,957	55,273	60,528	66,297
Total assets	99,801	112,561	123,344	133,044	143,554
Current liabilities					
Trade payables	10,273	14,518	16,427	17,064	17,921
Short-term debts	4,045	6,205	3,017	2,643	2,346
Other current liabilities	6,626	9,766	11,577	12,202	12,823
Total current liabilities	20,944	30,489	31,020	31,910	33,091
Non-current liabilities					
Long-term debts	8,436	2,982	2,552	2,159	1,854
Other non-current liabilities	7,274	7,268	7,490	7,537	7,552
Total non-current liabilities	15,710	10,249	10,042	9,697	9,406
Minority interest	2,861	3,263	3,625	3,861	4,082
Shareholders' equity	60,286	68,560	78,657	87,577	96,975
Total liabilities and equity	99,801	112,561	123,344	133,044	143,554

Source: Company, KB Valbury Sekuritas

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	6,003	10,280	14,968	16,012	16,986
Depreciation	9,230	7,958	7,417	8,006	9,078
Changes in working capital	<u>2,831</u>	<u>3,800</u>	<u>(1,127)</u>	<u>(1,137)</u>	<u>(283)</u>
CF from operating activities	18,064	22,037	21,258	22,881	25,781
Investment in fixed assets	(4,948)	(2,885)	(6,761)	(9,580)	(10,865)
Investment in mining properties	(262)	(175)	(1,347)	(2,890)	(3,280)
Others	<u>1,261</u>	<u>(1,250)</u>	<u>(2,625)</u>	<u>(790)</u>	<u>(702)</u>
CF from investing activities	(3,949)	(4,310)	(10,733)	(13,260)	(14,848)
Debts raised/(repaid)	(1,609)	(3,294)	(3,619)	(766)	(602)
Dividends paid	(3,641)	(3,014)	(4,871)	(7,093)	(7,588)
Others	<u>(457)</u>	<u>1,404</u>	<u>585</u>	<u>283</u>	<u>235</u>
CF from financing activities	(5,707)	(4,905)	(7,905)	(7,576)	(7,954)
Free cash flows	15,352	18,281	10,979	9,939	11,210
Net cash flows	8,408	12,823	2,620	2,045	2,980
Cash and cash equivalents, beginning	<u>12,091</u>	<u>20,499</u>	<u>33,322</u>	<u>35,942</u>	<u>37,987</u>
Cash and cash equivalents, ending	20,499	33,322	35,942	37,987	40,966

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	21.5	24.7	24.8	24.9	25.0
Operating profit margin (%)	13.7	18.7	19.7	19.7	19.8
Net profit margin (%)	9.9	12.9	14.9	15.0	15.1
ROAE (%)	10.1	16.0	20.3	19.3	18.4
ROAA (%)	5.7	9.7	12.7	12.5	12.3
DER (%)	20.7	13.4	7.1	5.5	4.3
Net (cash) gearing (%)	(13.3)	(35.2)	(38.6)	(37.9)	(37.9)
Interest coverage ratio (x)	5.4	19.7	33.6	51.0	62.0
Sales/Assets (x)	0.6	0.7	0.9	0.8	0.8
Assets/Equity (x)	1.7	1.6	1.6	1.5	1.5
PER (x)	18.8	11.0	7.5	7.1	6.6
PBV (x)	1.9	1.6	1.4	1.3	1.2
EV/EBITDA (x)	6.0	3.9	3.0	2.7	2.4
Dividend Yield (%)	3.2	2.7	4.3	6.3	6.7

Source: Company, KB Valbury Sekuritas

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