

United Tractors (UNTR IJ; Buy)

Upgrade earnings on recovery signs

- **FY16F earnings to increase in the absence of impairment loss.**
- **Machinery sales to improve on higher demand from mining sector.**
- **PAMA to book higher volumes and margins in FY17F.**
- **Reiterate Buy rating with 19% upside potential to our new TP.**

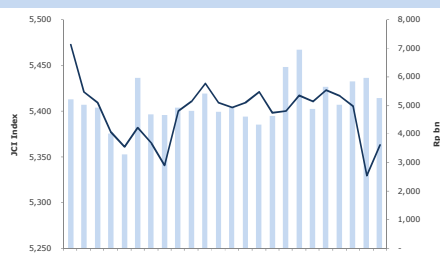
Expectations of FY16F earnings improvement. We expect UNTR's FY16 earnings to increase 35% yoy despite slowing operational performance (FY16F EBIT: -28% yoy) as the company posted impairment loss of Rp5.26tn in FY15, caused by mining assets revaluation. This is a non-cash loss; however, we see that the stock reacted negatively after the earnings announcements in 2015 and 2014. Thus, we expect that, on the flip side, the stock will respond positively when the company reports positive FY16 earnings around 5 months from now, with earnings likely to grow 35% yoy vs. the -44% yoy deterioration in 9M16 as impairment losses (gain) only appear in the audited 4Q results.

Upgrading machinery sales volume and margin estimates. We expect heavy equipment gross margin to expand to 16% in FY17F, from 14% in FY16F as we raise our machinery sales volumes estimates to 2,500 units (from 2,200 units) in FY17F. Heavy equipment orders in the past several months indicate recovery in machinery demand. The inventory of UNTR's big-sized heavy equipment (used mostly in the mining sector) has been fully sold this year and management has stated that machinery orders (from the mining sector) for delivery in 1Q17 already match sales volumes to the mining segment in full-year 2016. Higher sales contribution from big-sized, higher-margin machineries should improve the heavy equipment division's overall margins.

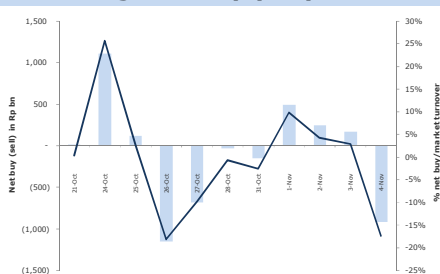
Upgrading PAMA's FY17F top-line and margins. We raise our mining contracting division revenue estimates for FY17 by 6.4% to Rp28.3tn (+11.9% yoy) as we apply slightly higher contract price (+2.5% yoy), higher coal extraction of 110m tons (+5% yoy) and higher OB removal of 750m bcm (+10% yoy). With higher volumes and price, we expect the division's FY17F gross margin to expand to 24.5%, from 23% in FY16F. We view our new assumptions as achievable backed by a higher coal price assumption of US\$65-70 per ton that the coal mining companies apply to their FY17 mining plan. Thus, we expect coal production volumes and SR of PAMA's client to increase in FY17F.

Upgrading earnings and TP; maintain Buy. With our new assumptions, we raise FY16-17F earnings by 7.6% and 28%. Thus, we upgrade our DCF-based (WACC: 12.1%, TG: 3%) target price to Rp26,000. Our new TP implies FY17F P/E of 14.2x and EV/EBITDA of 14.2x. We reiterate our Buy recommendation with 19% upside potential to our new TP. UNTR remains our top pick in the mining sector.

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,363	0.6%	17.4%	16.8%
LQ45	913	0.7%	16.5%	15.3%
DJI	17,888	-0.2%	-0.1%	2.7%
SET	1,486	-0.5%	5.0%	15.3%
HSI	22,643	-0.2%	-1.0%	3.3%
NKY	16,905	-1.3%	-12.3%	-10.2%
FTSE	6,693	-1.4%	5.3%	7.2%
FSSTI	2,789	-0.5%	-7.4%	-3.3%
EIDO	25	-0.2%	20.4%	21.9%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	44.1	-1.3%	-4.9%
CPO/tonne	650.6	-1.4%	15.9%
Soy/bushel	9.7	0.8%	9.3%
Rubber/kg	1.8	0.0%	36.2%
Nickel/tonne	10,419	-0.2%	5.9%
Tins/tonne	21,445	0.8%	43.7%
Copper/tonne	4,978	0.6%	-3.3%
Gold/try.oz (Spot)	1,305	0.1%	19.7%
Coal/tonne	108.7	2.0%	107.7%
Corn/bushel	3.3	-0.5%	-12.8%
Wheat/bushel*	123.2	-3.7%	-24.8%

* : 1 month change

Source : Bloomberg

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	53,142	49,347	45,089	51,385	58,438
EBITDA(RpBn)	6,167	5,390	3,978	5,693	7,688
EBITDA Growth (%)	83.1	(12.6)	(26.2)	43.1	35.0
Net Profit(RpBn)	5,362	3,853	5,206	6,822	8,609
EPS (Rp)	1,437	1,033	1,396	1,829	2,308
EPS Growth (%)	10.9	(28.1)	35.1	31.1	26.2
Net Gearing (%)	(17.2)	(32.6)	(34.0)	(35.9)	(38.1)
PER (x)	15.2	21.2	15.7	11.9	9.5
PBV (x)	2.1	2.1	2.0	1.8	1.7
Dividend Yield (%)	2.4	3.7	2.8	3.8	5.0
EV/EBITDA (x)	12.1	12.7	17	11.5	8.2

Source: UNTR, IndoPremier

Share Price Closing as of : 3 November 2016

News & Analysis

Corporates

AUTO: Astra Otoparts (AUTO IJ; Rp2,200; Buy) has budgeted capex of Rp700bn for FY17, which will be used for maintenance and product improvement. This number is lower than last year's capex of Rp900bn. Some of the capex will be allocated to add 5-10 new outlets (Shop n Drive) that add up to the current 360 outlets across Indonesia. AUTO aims to complete a JV with Bridgestone to manufacture anti vibration tires in 2017 with a capacity of 5mn unit and to be upgraded to 9mn units in FY18. (Investor Daily)

Comment: We think that Astra Otoparts has reached its peak of capex which will be good for its cash flow. Nevertheless some new manufacturing JVs are still in construction and yet to contribute to revenue in FY17-18.

ASII: Astra International (ASII IJ; Rp8,125; Buy) aims to increase its toll road concession to 350km up to 2020 from currently 226km. Although, the company did not disclosed which toll roads are in the bidding process. Moreover, the company indicated to aims for both green field and brown field projects since some SOE are possibly to divest stake in several toll road to raise fresh capital. Astra is participating in the bidding process of Jakarta Cikampek II. (Kontan)

Comment: Astra International is still very conservative in adding new toll roads, we doubt that there will be significant increase in toll road business in the near future.

UNTR: United Tractors (UNTR IJ; Rp21,850; Buy) participates in the bidding process of three power plant projects in Bangka, East Kalimantan and South Kalimantan. Each power plant will have the capacity of 300MW. The company set the budget for capex of \$240m in 2017, which will be used for the expansion in the coal related business (80% of total budget) and expansion in the construction segment (20%). UNTR's construction subsidiary Acset Indonusa (ACST IJ; Rp3,040; Not Rated) is currently constructing Mojokerto-Kertasono toll road project (owned by ASII) and constructing the expansion of Tangerang-Merak toll road. ACST also participates in bidding of the construction of Jakarta-Cikampek elevated toll road project. UNTR targets contribution of non-coal related segments will reach 40% of total revenues. (Bisnis Indonesia, Investor Daily)

Comment: We maintain our Buy recommendation on UNTR and the company remains our top-pick in the mining sector.

WIKA: Wijaya Karya (WIKA IJ; Rp2,580; Buy) has set right issue price at Rp2,180/share. Company will publish 31% from enlarged capital and expect to get Rp6.1tn from the right issue. PT Bahana Securities, PT Danareksa Sekuritas and PT Mandiri Sekuritas will act as underwriters for the action. (Investor Daily)

Comment: the right issue price is 11% to Friday's closing price at Rp2,440/share. The right issue will strengthen WIKA's capital to finance more projects.

WSKT: Waskita Karya (WSKT IJ; Rp2,510; Buy) targets earnings of Rp2.7tn and revenue of Rp35tn in FY17. Company also aims for Rp20n of asset in FY17 which will be achieve through increase in equity or funding. (Bisnis Indonesia)

Comment: company expectation for FY17's earnings was slightly above our estimate of Rp2.6tn in FY17. Company's solid new contract of Rp59tn until 9M16 should also ensure earnings visibility for next 2 years. Maintain Buy on WSKT.

Economic

Consumer confidence: Indonesian consumer confidence index (CCI) rose to 116.8 in Oct16 (vs 110 in Sep16), reaching a record high in 19 months. The increase was due to better perception in current economic condition as well as future expectation, each recorded 103.2 and 130.4, respectively (vs 96 and 124). All components under the two current and future indicators rose within a range 1.6-9.8 points. In addition, consumers also expect price pressure to moderate in Jan16. (Bank Indonesia, Jakarta Globe)

Comment: As CCI represents more confidence in the economy, the increase in CCI should be positive. With this data, we should expect consumers to be more eager to spend money in general, but notably on durable goods.

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

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