

## United Tractors (UNTR IJ)

28 July 2017

## Results Note

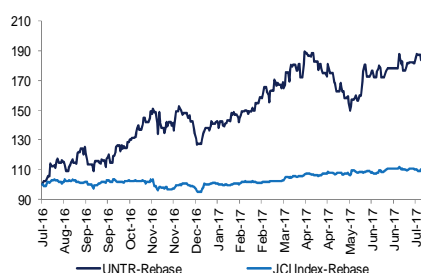
**BUY** (Unchanged)

## Stock Data

Target price (Rp)	Rp32,000
Prior TP (Rp)	Rp32,000
Shareprice (Rp)	Rp28,950
Upside/downside (%)	+10.5
Sharesoutstanding (m)	3,730
Marketcap. (US\$ m)	8,108
Free float (%)	40.5
Avg. 6m dailyT/O (US\$ m)	8.3

## Price Performance

	3M	6M	12M
Absolute (%)	7.6	29.4	77.6
Relative to JCI (%)	5.3	19.6	68.9
52w high/low (Rp)	29,150 - 16,300		



## Major Shareholders

Astra International	59.5%
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## Estimate Change; Vs. Consensus

	2017F	2018F
Latest EPS (Rp)	2,039	2,427
Vs. Prior EPS (%)	(0.9)	(1.5)
Vs. Consensus (%)	12.4	18.0

Source: Bloomberg

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## Strong growth

- Outstanding 2Q17 results owing to strong heavy equipment sales.
- Heavy equip. division posted the highest revenue growth in 1H17.
- PAMA will contribute higher growth in 2H17 as volumes increase.
- Maintain Buy with unchanged TP at Rp32,000 with 10% upside.

**Strong 2Q17 results.** UNTR reported strong net profit of Rp1.92tn (+71% yoy; 28% qoq) in 2Q17 driven by improvement across all divisions. As a result, UNTR's 1H17 earnings grew by 85% yoy to reach Rp3.42tn, accounting for 45% of our FY17F estimates. Meanwhile, overall revenue grew by 33% yoy in 2Q17, bringing the revenue to reach Rp29.4tn (+30% yoy) in 1H17. We notice that UNTR's strong performance in 1H17 was mainly attributed to strong top-line growth notably from its Heavy Equipment division which posted the highest revenue growth of 63% yoy in 1H17.

**Solid performance, thanks to heavy equipment sales.** Heavy equipment / construction machinery division posted robust revenue growth of 63% yoy on the back of higher average selling price combined with improvement in sales volume by 69% as well as higher revenue contribution from parts & services sub-division. In 1H17, construction machinery sales accounted for 38% of total revenue (vs. mining contracting division contribution of 45%), an increase from 30% contribution in 1H16. We see the impact of improvement in construction machinery strong result is highly crucial as this division has been the second largest contributor to UNTR's earnings historically. Note that, in terms of sales, mining contracting division (PAMA) posted mild growth of only 15% yoy in 1H17.

**Upcoming growth contribution from PAMA.** Going forward, we estimate PAMA to contribute stronger growth in 2H17. In 1H17, mining contracting division reported coal mining volumes of 52mn tons (+3.6% yoy) with overburden (OB) removal of 360mn bcm (+5.7% yoy). However, mining contracting revenues increased 15% yoy in the same period, which indicates higher contract price for PAMA during 1H17. Moving ahead, we believe PAMA will serve as catalyst for UNTR's performance as we expect higher coal mining volumes and OB removal in 2H17 on the back of lower precipitation during the period.

**Maintain Buy with 10% potential upside.** We adjust our revenues estimate due to better than expected UNTR's operational performance while maintaining our earnings estimate in FY17F/18F as we adjust our tax rate assumption. We maintain our Buy recommendation for UNTR with unchanged DCF-based (WACC: 12.1%; TG: 3%) target price (TP) of Rp32,000, provides 10% potential upside to our TP. UNTR remains our top pick in the mining sector.

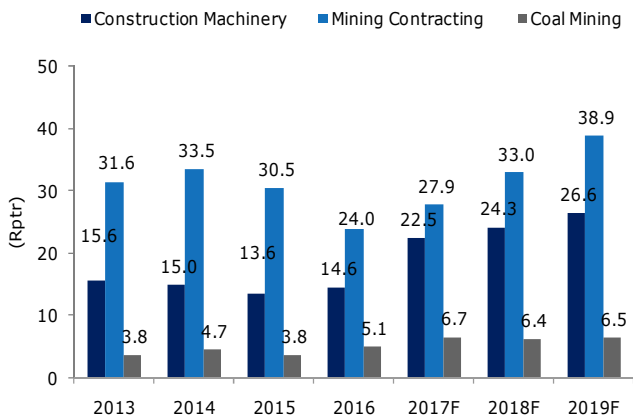
Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	49,347	45,539	59,169	66,009	74,599
EBITDA (RpBn)	5,390	4,387	7,087	8,507	9,914
EBITDA Growth (%)	(12.6)	(18.6)	61.5	20.0	16.5
Net Profit (RpBn)	3,853	5,002	7,604	9,052	9,216
EPS (Rp)	1,033	1,341	2,039	2,427	2,471
EPS Growth (%)	(28.1)	29.8	52.0	19.0	1.8
Net Gearing (%)	(32.6)	(43.0)	(38.1)	(40.0)	(37.5)
PER (x)	28.0	21.6	14.2	11.9	11.7
PBV (x)	2.8	2.5	2.4	2.2	2.0
Dividend Yield (%)	2.8	2.0	2.8	4.2	5.9
EV/EBITDA (x)	17.7	20.4	12.8	10.3	8.9

Source: UNTR, IndoPremier

Share Price Closing as of : 27 July 2017

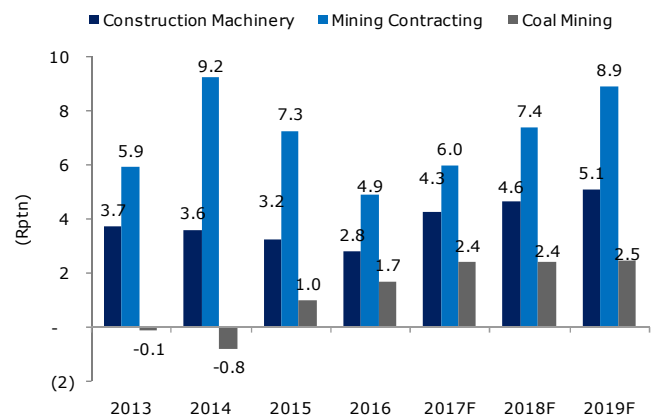
## UNTR Results Note

**Fig. 1: Revenues**



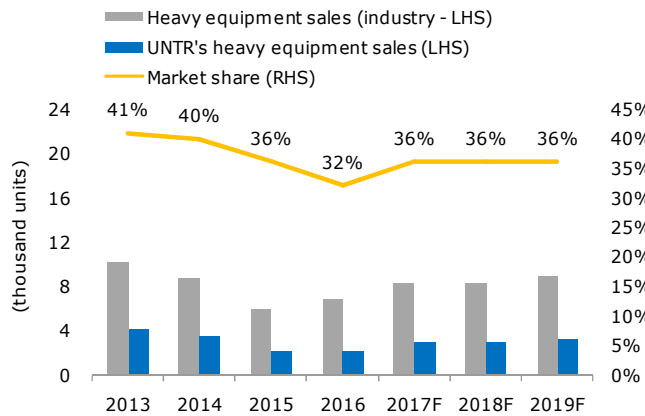
Source: UNTR, IndoPremier

**Fig. 2: Gross profit**



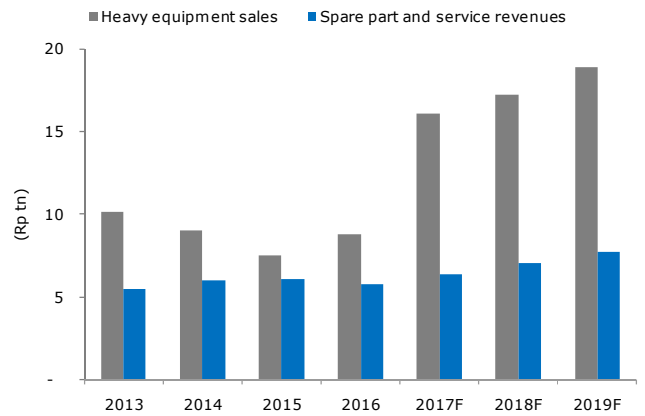
Source: UNTR, IndoPremier

**Fig. 3: Heavy equipment sales volumes**



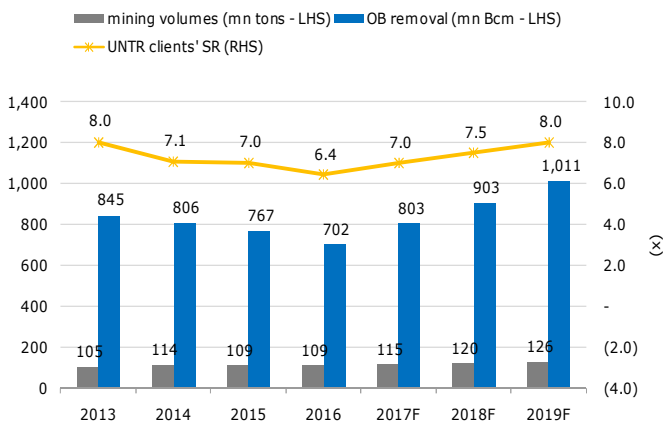
Source: UNTR, IndoPremier

**Fig. 4: Heavy equipment revenues**



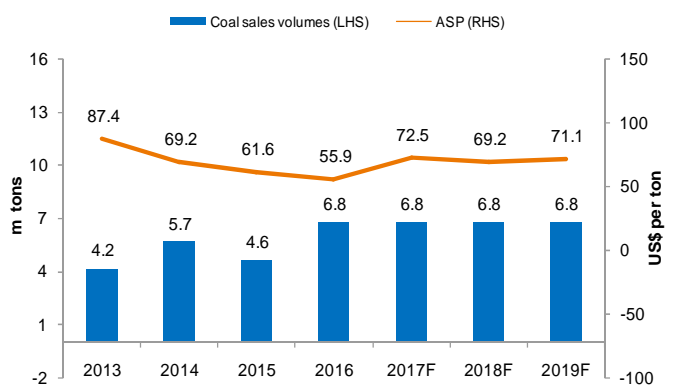
Source: UNTR, IndoPremier

**Fig. 5: Mining contracting volumes**



Source: UNTR, IndoPremier

**Fig. 6: Coal sales volumes and ASP**



Source: UNTR, IndoPremier

## UNTR Results Note

**Fig. 7: 2Q17 results summary**

(RpBn)	1H17	1H16	% Y-Y	2Q17	% Q-Q	% Y-Y	FY17F	1H17 / FY17F
<b>Revenues</b>	<b>29,431</b>	<b>22,564</b>	<b>30.4</b>	<b>15,751</b>	<b>15.1</b>	<b>32.7</b>	<b>59,169</b>	<b>49.7</b>
COGS	23,181	18,413	25.9	12,358	14.2	28.7		
<b>Gross profit</b>	<b>6,249</b>	<b>4,151</b>	<b>50.5</b>	<b>3,393</b>	<b>18.8</b>	<b>49.8</b>	<b>12,996</b>	<b>48.1</b>
G&A expenses	1,217	1,046	16.2	624	5.3	10.8		
Selling expenses	350	272	28.8	171	(4.5)	22.4		
<b>Operating profit</b>	<b>4,683</b>	<b>2,833</b>	<b>65.3</b>	<b>2,598</b>	<b>24.6</b>	<b>66.3</b>	<b>9,157</b>	<b>51.1</b>
Net interest inc. (exp)	96	59	63.2	15	(80.9)	(53.3)		
Forex gain (loss)	(74)	(499)	(85.1)	(21)	(60.5)	(79.2)		
Other	(69)	39	(279.1)	(7)	(89.2)	(51.0)		
Pretax profit	4,635	2,431	90.7	2,585	26.1	74.6	<b>9,144</b>	<b>50.7</b>
Tax	1,059	556	90.6	585	23.6	65.3		
Minority Interest	153	22	611.0	78	4.6	2,263.8		
<b>Net profit</b>	<b>3,423</b>	<b>1,854</b>	<b>84.7</b>	<b>1,922</b>	<b>28.0</b>	<b>71.1</b>	<b>7,604</b>	<b>45.0</b>
GPM (%)	21.2	18.4		21.5			22.0	
OPM (%)	15.9	12.6		16.5			15.5	
Pretax mgn (%)	15.7	10.8		16.4			15.5	
NPM (%)	11.6	8.2		12.2			12.9	

Source: UNTR, IndoPremier

**Fig 8. Earnings revisions**

(RpBn)	FY17F			FY18F		
	old	new	(%) change	old	new	(%) change
Machinery sales (units)	3,000	3,000	-	3,000	3,000	-
OB removal (m bcm)	803	803	-	903	903	-
Coal production (m tons) - PAMA	115	115	-	120	120	-
Revenues (Rp bn)	55,967	59,169	5.7	62,907	66,009	4.9
Gross profit	12,289	12,996	5.8	14,175	14,818	4.5
Operating profit	8,658	9,157	5.8	10,220	10,667	4.4
Pretax profit	8,667	9,144	5.5	10,377	10,800	4.1
Net profit	7,672	7,604	(0.9)	9,186	9,052	(1.5)
<b>Margins (%)</b>						
GPM	22.0	22.0	(0.1)	22.8	22.6	(0.2)
OPM	15.5	15.5	(0.1)	17.0	16.3	(0.7)
Pretax mgn	15.6	15.5	(0.1)	17.5	16.6	(1.0)
NPM	13.8	12.9	(0.9)	14.7	14.7	(0.1)

Source: IndoPremier

## UNTR Results Note

Year To 31 Dec (RpBn)	2015A	2016A	2017F	2018F	2019F
<b>Income Statement</b>					
Net Revenue	49,347	45,539	59,169	66,009	74,599
Cost of Sales	(37,645)	(35,878)	(46,173)	(51,191)	(57,729)
Gross Profit	11,702	9,661	12,996	14,818	16,870
SG&A Expenses	(3,116)	(2,955)	(3,839)	(4,151)	(4,691)
Operating Profit	8,586	6,706	9,157	10,667	12,179
Net Interest	72	191	96	198	109
Forex Gain (Loss)	564	(149)	(51)	0	0
Others-Net	(5,030)	(19)	(58)	(64)	(76)
Pre-Tax Income	4,193	6,730	9,144	10,800	12,213
Income Tax	(1,400)	(1,626)	(2,103)	(2,419)	(2,809)
Minorities	1,061	(102)	563	670	(188)
Net Income	3,853	5,002	7,604	9,052	9,216
<b>Balance Sheet</b>					
Cash & Equivalent	15,413	19,461	18,459	21,221	21,191
Receivable	12,170	12,115	14,531	16,211	18,321
Inventory	8,328	7,108	8,600	9,595	10,843
Other Current Assets	3,349	3,514	2,745	3,062	3,461
Total Current Assets	39,260	42,197	44,336	50,089	53,815
Fixed Assets - Net	17,519	16,685	17,415	18,255	19,990
Goodwill	0	0	0	0	0
Non Current Assets	3,000	3,804	2,818	3,144	3,553
Total Assets	61,715	63,991	65,939	72,926	78,869
ST Loans	1,169	1,028	1,079	1,133	1,190
Payable	13,407	14,119	0	13,692	15,474
Other Payables	3,704	3,208	3,499	3,903	4,411
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	18,280	18,356	16,852	18,729	21,076
Long Term Loans	1,453	85	94	103	113
Other LT Liab.	2,732	2,732	3,679	4,104	4,638
Total Liabilities	22,465	21,173	20,624	22,936	25,827
Equity	12,672	12,658	11,088	11,123	11,168
Retained Earnings	25,248	28,202	32,805	37,294	40,173
Minority Interest	1,331	1,762	1,422	1,572	1,700
Total SHE + Minority Int.	39,250	42,622	45,314	49,989	53,041
Total Liabilities & Equity	61,715	63,795	65,939	72,926	78,869

Source: UNTR, IndoPremier

## UNTR Results Note

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Cash Flow</b>					
Net Income (Excl.Extraordinary&Min.Int)	3,853	5,002	7,604	9,052	9,216
Depr. & Amortization	3,893	3,467	2,820	2,944	3,085
Changes in Working Capital	(3,697)	(2,862)	(3,642)	(3,876)	(1,380)
Others	7,990	4,398	(1,442)	2,157	428
Cash Flow From Operating	12,039	10,005	5,340	10,276	11,349
Capital Expenditure	(3,399)	(2,817)	(2,800)	(3,000)	(4,000)
Others	(408)	331	325	367	421
Cash Flow From Investing	(3,807)	(2,485)	(2,475)	(2,633)	(3,579)
Loans	(807)	(1,509)	60	63	67
Equity	0	0	0	0	0
Dividends	(2,988)	(2,195)	(3,001)	(4,563)	(6,336)
Others	6	676	(348)	262	(802)
Cash Flow From Financing	(3,789)	(3,028)	(3,289)	(4,237)	(7,071)
Changes in Cash	5,353	4,048	(1,002)	2,762	(30)
<b>Financial Ratios</b>					
Gross Margin (%)	23.7	21.2	22.0	22.4	22.6
Operating Margin (%)	17.4	14.7	15.5	16.2	16.3
Pre-Tax Margin (%)	8.5	14.8	15.5	16.4	16.4
Net Margin (%)	7.8	11.0	12.9	13.7	12.4
ROA (%)	6.3	8.0	11.7	13.0	12.1
ROE (%)	9.9	12.2	17.3	19.0	17.9
ROIC (%)	10.5	13.8	18.3	19.9	18.8
Acct. Receivables TO (days)	90.9	90.3	76.3	80.2	79.7
Acct. Receivables - Other TO (days)	4.3	7.1	5.9	4.8	4.8
Inventory TO (days)	4.7	4.6	5.9	5.6	5.6
Payable TO (days)	123.0	140.0	104.3	92.6	92.2
Acct. Payables - Other TO (days)	5.5	4.9	4.1	4.2	4.2
Debt to Equity (%)	6.7	2.6	2.6	2.5	2.5
Interest Coverage Ratio (x)	0.0	0.1	0.0	0.0	0.0
Net Gearing (%)	(32.6)	(43.0)	(38.1)	(40.0)	(37.5)

Source: UNTR, IndoPremier

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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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