

Pelat Timah Nusantara

Sector: Tinplate Manufacturing (Neutral)

BUY

(Unchanged)

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Price: IDR295

TP: IDR370 (From IDR350)

JCI: 2,877

2010: New record volume on the cards

2Q10 performance: Set to at least equal 1Q10's level

On the back of Indonesia's buoyant domestic economy, Pelat Timah Nusantara (NIKL) is set to book 1H10 sales of around 60k tons (+58% y-y), on target to deliver our 2010 volume forecast of 118k tons, up 33% y-y. This will translate into a new record for the company's annual sales volume (*exhibit 7*). Testimony to this strong local demand was NIKL's lower 1Q10 market share of 51% (from 55% in 2009) on robust tinplate sales of 58k tons (+80% y-y), implying an estimated 2010 volumes of 232k tons, 22% higher than the historical average annual consumption of 190k tons. For NIKL, 2Q10 volume of around 30k tons translates to utilization rate of slightly more than 90%, close to its maximum annual capacity of 130k tons. Thus, NIKL's capacity expansion to 160k tons by 2012 is well placed to ensure continued dominance within Indonesia's domestic tinplate market.

De-bottlenecking plan: On schedule; Support from Nippon Steel

According to the management, NIKL's de-bottlenecking plan to augment production capacity remains on schedule with appointment of contractors to be completed by year end. The process is expected to take around a year to complete and we are optimistic that this revamp will be of the highest quality given full support coming from NIKL's largest shareholder, Nippon Steel (NS). Furthermore, reinforcement from NS has come in the form of better working-capital loan terms and conditions (e.g. no collateral requirement and lower rates from banks). Finally, operating link with NS has enabled the company to sufficiently secure supplies of Tin Mill Black Plate (TMBP), the main raw materials used by NIKL, crucial in guaranteeing that high capacity utilization rates can be maintained during this de-bottlenecking process. Over the longer run, we expect NIKL to obtain prospective new customers such as the Great Giant Pineapple (GGPC), the 3rd largest pineapple producer in the world, based in Sumatra, to ensure growth sustainability in 2012 and beyond.

Raising 2010 earnings; retain BUY with higher TP of IDR370

In 2010, we have decreased our revenue slightly by 3.0% to IDR1.5t (+29% y-y) to account for the stronger IDR against the US dollar. However, our lower top line is offset by the decline in imported raw materials prices. This has resulted in higher 2010 gross margin of 16% from 15% previously. This translates to revised up operating profit to IDR143b (+114% y-y), up 19% from our previous estimate. This reflects 9.4% operating margin this year, before further expanding to 9.7% in 2010-11, still lower than what NIKL managed to book in 1Q10 of 10.5%, suggesting our conservative projections on the company's earnings. On the bottom line, changes in our assumptions have resulted in more than 14% earnings upgrade in 2010-11. In line with increased profitability, we have raised our DCF-based TP to IDR370, translating into an implied 2010 P/E of 9.0x. This, coupled with higher production in the subsequent quarters, means strong sentiment ahead. BUY.

Exhibit 1. Key forecasts and valuations

Year to 31 Dec	2009	2010F	2011F	2012F
Rev. (IDRb)	1,180	1,518	1,705	1,965
EBITDA (IDRb)	71	148	171	196
Op. profit (IDRb)	67	143	166	191
Net profit (IDRb)	42	107	123	143
EPS (IDR)	16.6	42	49	57
YoY chg (%)	(53.8)	154.3	14.8	16.7
PER (x)	17.7	7.0	6.1	5.2
BVPS (IDR)	169	195	224	258
PBV (x)	1.7	1.5	1.3	1.1
EV/EBITDA (x)	12.3	5.4	4.5	4.2
DPS (IDR)	12.7	16.9	19.4	22.7
Div. Yield (%)	4.3	5.7	6.6	7.7
ROA (%)	6.9	14.8	14.8	14.5
ROE (%)	9.8	21.7	21.7	22.0
Net gearing (%)	nc	nc	nc	nc

Exhibit 2. Company information

Share price (7/5/10)	:	295
Share outstanding (m)	:	2,523
Market cap (IDRb/USDm)	:	744/82
3M avg.daily t.o.(IDRb/USDm)	:	4.6/5.1
Bloomberg code	:	NIKL JJ

Exhibit 3. Shareholders information

Nippon Steel Corp (%)	:	35.0
Krakatau Steel (%)	:	20.1
Mitsui & Co Ltd (%)	:	10.0
Nippon Steel Trading (%)	:	5.0
Metal One Corp (%)	:	5.0
Est. free float (%)	:	24.9

Exhibit 4. Share price performance

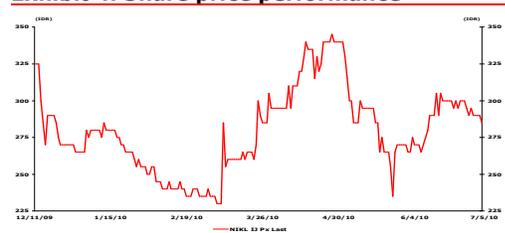
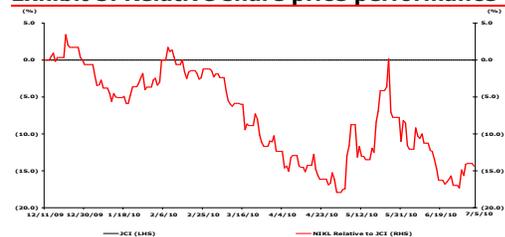


Exhibit 5. Relative share price performance



PROFIT & LOSS

Year to 31 Dec (IDRb)	2009	2010F	2011F	2012F
Total Sales	1,180	1,518	1,705	1,965
Cost of goods sold	1,026	1,270	1,423	1,638
Gross Profit	154	248	281	327
SG&A expenses	87	105	116	136
EBITDA	71	148	171	196
Operating Profit	67	143	166	191
Interest income	2	5	4	7
Interest expense	(7)	(3)	(4)	(5)
Gain (loss) on forex - net	(7)	(1)	-	-
Bank charges	(4)	(2)	(3)	(2)
Others (net)	5	(0)	0	0
Earnings before taxes	57	142	164	191
Income taxes	(15)	(36)	(41)	(48)
Net Profit	42	107	123	143
Growth (y-y)	(42.2)	154.3	14.8	16.7

BALANCE SHEET

As at 31 Dec (IDRb)	2009	2010F	2011F	2012F
Cash & equivalents	198	153	141	218
Accounts receivable	165	212	238	275
Inventories	163	202	226	260
Other current assets	2	2	3	3
Total current assets	528	570	608	756
PP&E - net	27	95	162	160
Investment	1	1	1	1
Deferred tax assets	9	10	11	12
Restricted time deposit	27	27	27	27
Total non-current	80	151	221	233
Total assets	608	721	829	990
Short term borrowings	77	100	120	138
Accounts payable	31	38	42	49
Current maturities	-	-	-	-
Other current liabilities	37	50	53	95
Total current liabilities	145	188	216	282
Non-current liabilities	36	41	48	57
Long-term maturities	-	-	-	-
Shareholders' equity	427	492	565	651
Total liab. & equity	608	721	829	990

KEY RATIOS

Year to 31 Dec (IDRb)	2009	2010F	2011F	2012F
ROA (%)	6.9	14.8	14.8	14.5
ROE (%)	9.8	21.7	21.7	22.0
Gross margin	13.0	16.3	16.5	16.6
Operating margin	5.7	9.4	9.7	9.7
EBITDA margin	6.0	9.8	10.0	10.0
Pretax margin	4.8	9.4	9.6	9.7
Net margin	3.6	7.0	7.2	7.3
Net debt/equity	nc	nc	nc	nc
Inter. Coverage (x)	10.5	49.3	43.7	41.1
Current ratio	3.6	3.0	2.8	2.7
Quick ratio	2.5	2.0	1.8	1.8

KEY ASSUMPTIONS

Year to 31 Dec	2009	2010F	2011F	2012F
Production Volumes (k Mt)	81.0	121.5	127.6	142.9
Sales volumes (k Mt)	89.3	118.4	127.8	143.1
ASP (IDR/ton)	13.2	13.0	13.3	13.7

CAPITAL HISTORY

	Type of action	Term	Adj factor
Dec-09	IPO at IDR325 per share	-	-

CASH FLOW

As at 31 Dec (IDRb)	2009	2010F	2011F	2012F
Net profit	42	107	123	143
Dep. & amortization	4	5	5	5
Chg in working capital	151	(67)	(43)	(24)
Operating cash flow	197	45	84	124
Capital expenditures	(3)	(73)	(72)	(3)
Other - net	(10)	(2)	(2)	(14)
Investing cash flow	(13)	(75)	(74)	(16)
Bank loan	(146)	23	20	18
Change in capital	258	-	-	-
Others	4	5	6	9
Dividend	(32)	(43)	(49)	(57)
Chg in forex	(100)	-	-	-
Financing cash flow	(15)	(14)	(23)	(30)
Change In Cash	168	(44)	(13)	78
Beginning cash balance	30	198	153	141
Ending Cash Balance	198	153	141	218

INTERIM

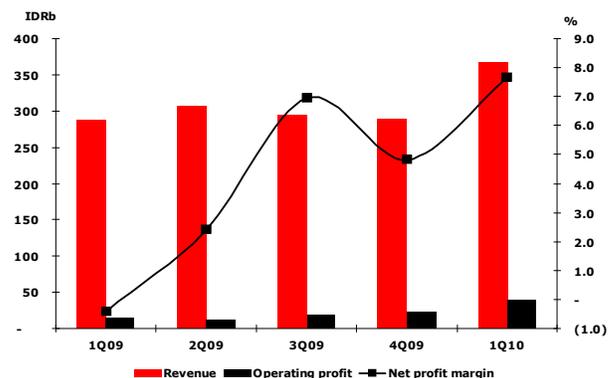


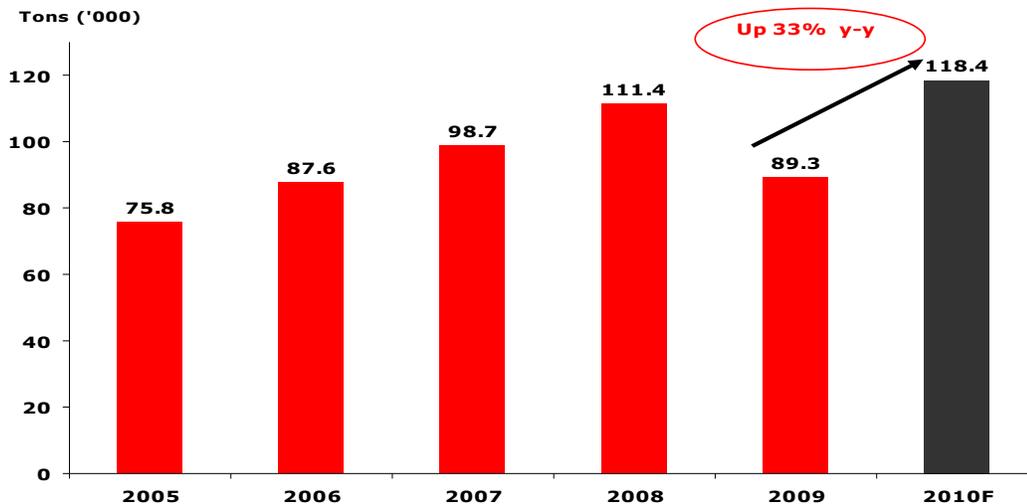
Exhibit 6. Forecast revisions

Year-end Dec 31	Old			New			Change		
	2010F (IDRb)	2011F (IDRb)	2012F (IDRb)	2010F (IDRb)	2011F (IDRb)	2012F (IDRb)	2010F (%)	2011F (%)	2012F (%)
Total Sales	1,565	1,756	1,965	1,518	1,705	1,965	(3.0)	(3.0)	-
Gross Profit	228	264	327	248	281	327	8.7	6.6	-
Gross margin (%)	14.6	15.0	16.6	16.3	16.5	16.6			-
Operating Profit	121	143	191	143	166	191	18.9	15.7	-
Op. margin (%)	7.7	8.2	9.7	9.4	9.7	9.7			-
Net profit	93	107	143	107	123	143	14.6	14.4	-
Net margin (%)	6.0	6.1	7.3	7.0	7.2	7.3			-

Source: Bahana estimates

Raising 2010F-11F earnings by more than 14%

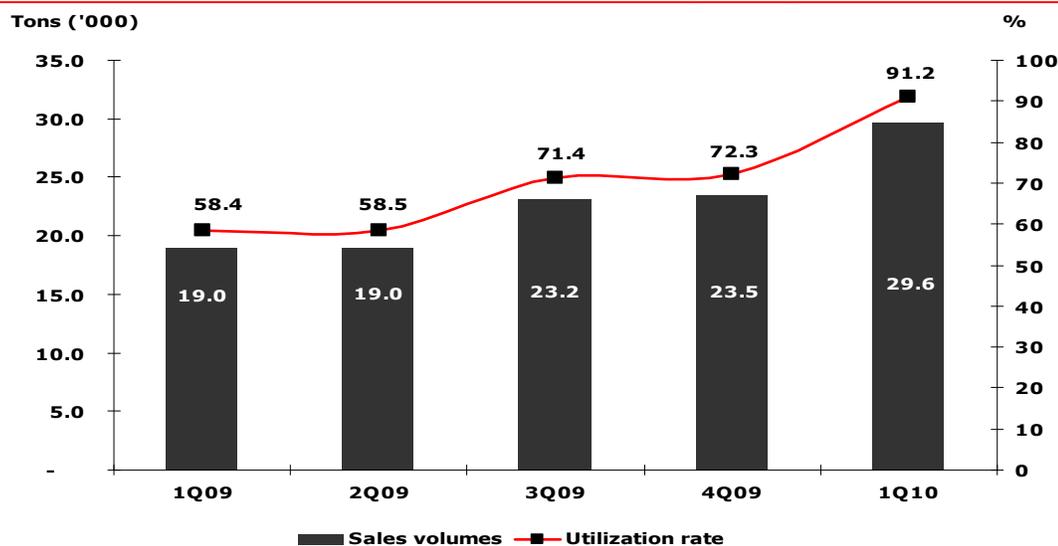
Exhibit 7. Annual sales volumes, 2005 – 2010F



On target to achieve new record high in 2010

Source: Company, Bahana estimate

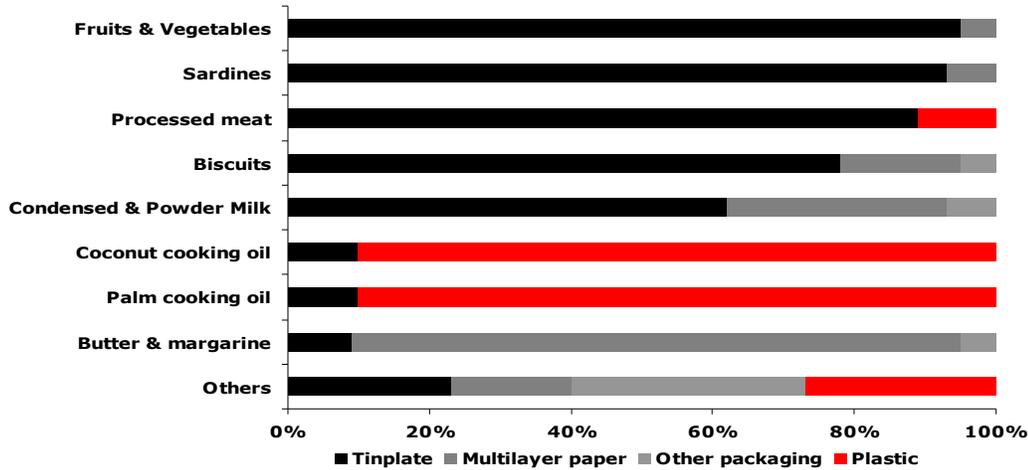
Exhibit 8. Tinplate sales volumes & utilization rates, 1Q09 – 1Q10



1Q10 volume reached 29.6k tons, up 57% y-y

Source: Company

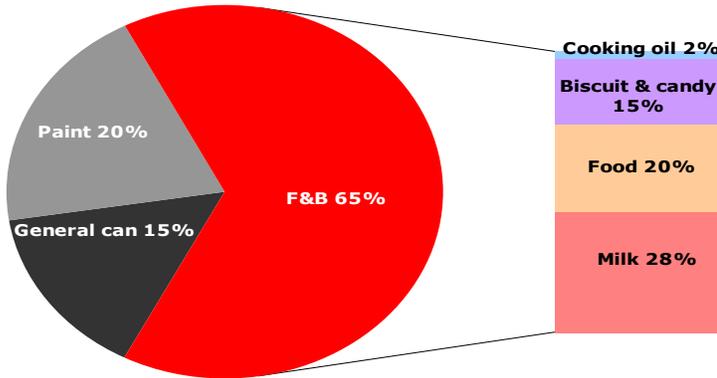
Exhibit 9. Tinplate usage relative to other packaging products



With 95% tinplate contribution in fruit & vegetable markets, ...

Source: Company

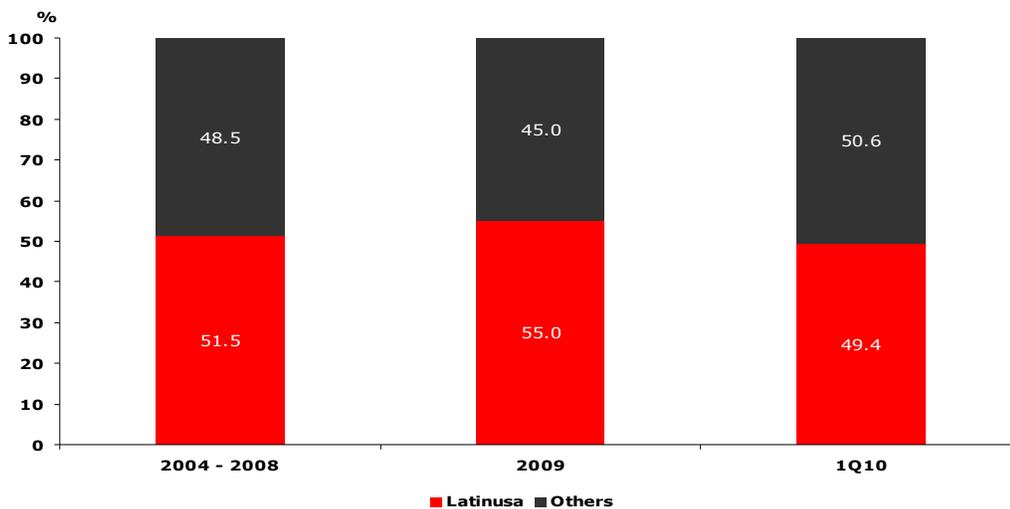
Exhibit 10. Sales volumes, by industry segment



... NIKL aims to secure new orders from the Great Giant Pineapple (GGPC), the world's 3rd largest pineapple producer

Source: Company

Exhibit 11. Market share, 2004-1Q10



Lower 1Q10 market share due to capacity constraint

Source: Company

Exhibit 11. NIKL's 1Q10 results

End of 31 March (IDR b)	1Q09	4Q09	1Q10	q-q (%)	y-y (%)	2010F	y-y % chg.	1Q10/ 2010F	1Q10/ Cons
Revenue	289	290	367	26	27	1,518	29	24	na
COGS	(260)	-	(297)	na	14	(1,270)	24	23	
Gross profit	28	-	70	na	148	248	61	28	
Operating expenses									
Selling Expenses	(4)	-	(7)	na	85	(31)	na	24	
General & Administrative	(10)	-	(24)	na	143	(74)	12	33	
Total operating expenses	(14)	-	(32)	na	126	(105)	20	30	
Operating profit	14	23	38	68	170	143	114	27	na
Other Income									
Interest Income	0	-	2	na	285	4.6	105	37	
Interest Expenses	(3)	-	(1)	na	(66)	(3.0)	na	34	
FX gain (loss)	(3)	-	(2)	na	(48)	(1.1)	na	164	
Other Income (expenses)	3	-	(0)	na	na	(1.5)	(192)	21	
Total other income	(3)	-	(1)	na	(51)	(1)	(90)	142	
Profit before tax	11	23	37	62	225	142	150	26	na
Tax	(9)	-	(9)	na	na	(35.6)	na	25	
Minority and others	(3)	-	-	na	na	na	na	na	
Net Profit	(1)	14	28	100	na	107	154	26	na
End of 31 March (IDR b)	1Q09	4Q09	1Q10		2009A	2010F			
Others									
Gross margin (%)	9.8	na	19.1		13.0	16.3			
Operating margin (%)	4.9	7.9	10.5		5.7	9.4			
Net margin (%)	na	4.8	7.6		3.6	7.0			
Turnover days									
Inventory Days	84		73		31	58			
Receivable Days	69		54		16	51			
Payable Days	15		13		11	6			
Balance Sheet Highlights									
Total cash	34		165		198	153			
Total debt	185		79		77	101			
Net gearing (%)	34.2		nc		nc	nc			

Source: Company, Bloomberg, Bahana estimates

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