

## Pelat Timah Nusantara (Latinusa)



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### On Verge of Better Performance

#### Investment Thesis

- For 1Q 2010, Latinusa (NIKL) booked a net profit of Rp28,05 billion due to a stronger operational profit and a lower tax expense, compared to a net loss of Rp1,19 billion in 1Q 2009. In 1Q 2009, the company charged Rp9,39 billion deferred tax expense for inventory obsolescence allowance.
- Gross profit increased 19% due to a lower raw materials price and a stronger demand from customers, representing an increase from the historical gross profit of 15%. Sales in 1Q 2010 achieved Rp366,72 billion, reflecting an increase of 27% y-o-y. Sales volume reached 30.000 tons, or 25% of NIKL's target sales for FY 2010.
- The current economic environment also brings a positive impact for NIKL. Since the consumer (food) industry absorbs 72% of NIKL's can packaging product, we believe that with Indonesia's GDP projected to reach 5,8% in 2010, buying power will accordingly increase strong enough to support NIKL's volume.
- NIKL is currently had production capacity 120.000 tons p.a. and by early 2012, the new extended line will add its production capacity to a total of 160.000 tons p.a. With its position as the only domestic producer in Indonesia, NIKL's management is determined to further grab additional market share in the industry.
- In 2009, NIKL has 55% of the market share with a level of domestic consumption at around 162,477 tons. The remaining portion of domestic needs was fulfilled through imports from China, Malaysia, and Korea, in which the products are at lower cost in line with its lower tinplate quality.
- We recommend a BUY on NIKL with DCF-based target price of Rp400/share, implying 10,6X FY10 PE. Our valuation is based on 13,2% WACC and 2% terminal growth. NIKL is currently trading at undemanding multiples of 7,5X FY10 PE and FY10 ROE of 19,1%

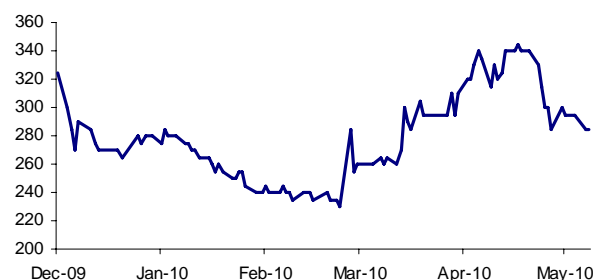
#### Stock Data

Price Rp	285
Target Rp	400
Recommendation	BUY
52-weeks range Rp	230-345
Market Cap (Rp bn)	757
Outstanding shares (mn shares)	2,523
Daily average volume ('000 shares)	20,503
Daily average value (Rp mn)	6,267

#### Shareholders

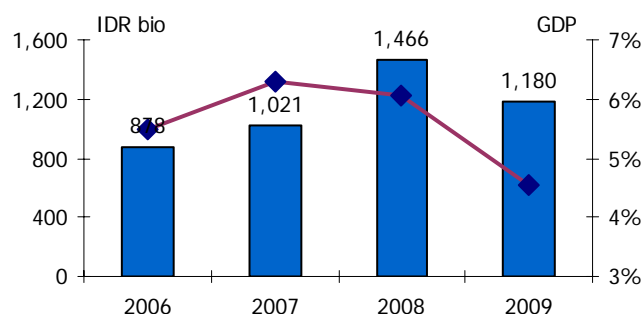
Nippon Steel Corporation	35%
PT Krakatau Steel (Persero)	20%
Mitsui	10%
Nippon Steel Trading, Ltd	5%
Metal One Corporation	5%
PT Baruna Inti Lestari	5%
Public	20%

#### Stock Price



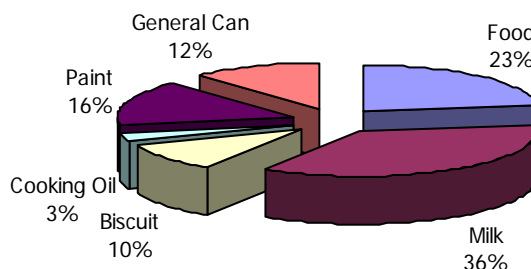
Source: Bloomberg

NIKL revenue Vs GDP



Source: Company, Batavia Prosperindo Sekuritas

NIKL Product Users



## Financial History

- For the 2005 – 2009 periods, NIKL sales volume has steadily increased, with the exception of 2009 due to global financial crisis. Supported by the capability to pass through the increase in raw materials price to customers, NIKL employs a stable gross profit at 15%, which results in an attractive ROE between 25% -33%. However, in 2009 the ROE dropped to 9,82% due to an equity enlargement related to the company's IPO.
- Generally, NIKL's revenue is in Indonesian Rupiah while its production cost is in US dollar as the company imports its raw materials. As such, the company is exposed to foreign exchange volatility. Hence, going forward, NIKL plans to change its sales payment method into US dollar based.

## NIKL 1Q 2010 Financial Highlights

In IDR Billion	1Q 10	1Q 09	+ /(-)	FY 10 (F)	Achieve (%)
Revenue	366.72	288.53	27%	1,482	25%
COGS	296.72	260.35	14%	1,245	24%
Gross Profit	69.99	28.18	148%	237	30%
Operating Profit	38.42	14.24	170%	137	28%
Pre-tax profit	37.02	11.38	225%	127	29%
Net Profit	28.05	(1.19)	2451%	95	29%
Gross Margin	19%	10%			
Operating Margin	10%	5%			
Net Margin	8%	0%			
Volume (ton)	30,000	19,000	58%		
Price (IDR thou/ ton)	12,224	15,186	-20%		

Source : Company, Batavia Prosperindo Sekuritas

## Company Background

- PT Pelat Timah Nusantara Tbk (NIKL) was established in 1982. NIKL is the only tin plate producer in Indonesia, producing high quality tin plate that meets international standards. NIKL was originally a subsidiary of PT Krakatau Steel (Persero) with 93,87% stake, and PT Baruna Inti Lestari with 6,13% stake. On 14 December 2009, NIKL listed 20% of its shares on the Indonesia Stock Exchange.
- Post IPO, the Japanese consortium did a direct placement in NIKL by acquiring majority stake in NIKL from PT Krakatau Steel (Persero). After this action, the composition of the Company's shareholders has been changed to Nippon Steel Consortium with 55% ownership, PT Krakatau Steel (Persero) with 20.1%, PT Baruna Inti Lestari with 4.9%, and the remaining 20% owned by the public
- Nippon Steel Corporation ("NSC") was established on 31 March 1970. For FY 2009, NSC booked net sales of ¥ 4,769,821 million (US\$ 50,96 billion) with ordinary net profit ¥ 336,140 million (US\$3,59 billion). Nippon Steel is the world's second-largest steelmaker.

## Business Process

- NIKL uses tinplate – a derivative product of steel (75%) and tin (25%) as its primary raw materials. By having NSC as the main shareholder, NIKL is able to secure its tinplate supply. The best tinplate quality is only provided by a limited number of producers in the region.
- In 2009, 99% of NIKL sales were from the domestic market. For the next 3 years, the company plans to expand its sales into the regional market as the plant's capacity is extended and newer technology from the Japanese parent shareholder is implemented. NIKL's products are purchased 72% by the food segment, 16% from paint, and 12% from general can.
- At present, the government imposes import duty for imported tinplate. Accordingly, a significant change in government regulations can adversely impact NIKL. However, with support from Nippon Steel Corporation, NIKL is striving to improve its operational efficiency to better compete with other imported products.

## NIKL Tinplate Products



Source : Company

<b>Income Statement</b>					
<b>(in IDR billion)</b>					
	<b>2006 A</b>	<b>2007 A</b>	<b>2008 A</b>	<b>2009 A</b>	<b>2010 F</b>
Revenue	878	1,021	1,466	1,180	1,482
COGS	741	870	1,243	1,026	1,245
<b>Gross Profit</b>	<b>137</b>	<b>151</b>	<b>223</b>	<b>154</b>	<b>237</b>
Selling	17	19	23	21	26
General and administrative	41	53	62	66	74
Total Operating Expenses	58	72	84	87	100
<b>Operating Income</b>	<b>79</b>	<b>79</b>	<b>138</b>	<b>67</b>	<b>137</b>
Gain on sale of fixed and other assets	23	3	0	0	0
Interest income	2	2	2	2	3
Gain (loss) on foreign exchange	1	-3	-19	-7	0
Interest expenses	-15	-11	-14	-7	-9
Bank charges	-2	-3	-4	-4	-4
Gain (loss) on sale of scraps	2	3	0	0	0
Others	-2	5	5	5	0
Total Other Income	8	-4	-30	-10	-10
<b>Pre-Tax Income</b>	<b>87</b>	<b>75</b>	<b>109</b>	<b>57</b>	<b>127</b>
Tax Expense	-27	-23	-36	-15	-32
<b>Net Income</b>	<b>60</b>	<b>52</b>	<b>73</b>	<b>42</b>	<b>95</b>
<b>Balance Sheet</b>					
<b>(in IDR billion)</b>					
	<b>2006 A</b>	<b>2007 A</b>	<b>2008 A</b>	<b>2009 A</b>	<b>2010 F</b>
Cash and cash equivalent	21	21	30	198	214
Receivables	199	172	255	165	198
Inventories	190	225	428	163	192
Prepaid tax	2	1	0	0	0
Advances and prepaid expenses	1	0	2	2	2
<b>Total Current Assets</b>	<b>412</b>	<b>419</b>	<b>714</b>	<b>528</b>	<b>606</b>
Investment in shares of stock	1	1	1	1	1
Deferred tax assets,	7	7	17	9	9
Net Fixed Assets	28	26	27	27	83
Est. Claims for income tax refund	0	0	0	11	0
Restricted time deposits	27	27	27	27	27
Other Assets	11	8	6	4	5
<b>Total Non-Current Assets</b>	<b>74</b>	<b>70</b>	<b>79</b>	<b>80</b>	<b>125</b>
<b>Total Assets</b>	<b>487</b>	<b>489</b>	<b>792</b>	<b>608</b>	<b>731</b>
Short-term bank loans	123	153	223	77	85
Trade payables	98	64	220	18	73
Taxes, Accrued & Other Payables	29	29	58	49	32
Current maturities of long-term loan	19	14	0	0	0
<b>Total Current Liabilities</b>	<b>269</b>	<b>260</b>	<b>501</b>	<b>145</b>	<b>191</b>
Estimated liabilities for employee benefits	22	27	32	36	41
Long-term loan, net of current maturities	14	0	0	0	0
<b>Total Non-Current Liabilities</b>	<b>36</b>	<b>27</b>	<b>32</b>	<b>36</b>	<b>41</b>
<b>Total Liabilities</b>	<b>305</b>	<b>286</b>	<b>533</b>	<b>181</b>	<b>232</b>
<b>Total Equity</b>	<b>182</b>	<b>203</b>	<b>260</b>	<b>427</b>	<b>499</b>
<b>Total Liabilities &amp; Equity</b>	<b>487</b>	<b>489</b>	<b>792</b>	<b>608</b>	<b>731</b>
<b>Cash Flow</b>					
<b>(in IDR billion)</b>					
	<b>2006 A</b>	<b>2007 A</b>	<b>2008 A</b>	<b>2009 A</b>	<b>2010 F</b>
Net Income	60	52	73	42	95
Add depreciation	3	4	4	4	3
Net working capital	0	-41	-100	143	-12
non cash items - net	0	24	99	-55	0
<b>CFO</b>	<b>-64</b>	<b>38</b>	<b>77</b>	<b>134</b>	<b>87</b>
Increase in other investing activities - net	0	2	2	2	0
Capex	0	2	-1	0	-60
Others	0	15	20	-1	0
<b>CFI</b>	<b>35</b>	<b>20</b>	<b>21</b>	<b>1</b>	<b>-60</b>
Changes in debt	0	-19	-14	0	0
Short term borrowing	0	30	70	-146	8
Equity issuance	0	0	0	161	0
Dividend cash	0	-31	-16	-32	-24
Others	0	-37	-123	52	5
<b>CFF</b>	<b>-21</b>	<b>-57</b>	<b>-84</b>	<b>36</b>	<b>-10</b>



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