

Pelat Timah Nusantara

Sector: Tinplate Manufacturing (NEUTRAL)

REDUCE

(From HOLD)

Pandu Anugrah

E-mail: pandu.anugrah@bahana.co.id

Phone: +6221 250 2581 Ext. 3606

Price: IDR480

TP: IDR400 (From IDR370)

TP/consensus: 97%

JCI: 3,738

Beyond its fundamentals

Trading at 2011 double digit PE; cut to REDUCE with higher TP of 400

Buoyed by the recent listing of Krakatau Steel (KRAS), Pelat Timah Nusantara (NIKL) share price has appreciated 81% ytd, outperforming the market by 33%. We believe that recent share price rally has moved NIKL beyond its fundamentals, particularly given our recent downgrades on lower than expected 3Q10 results (please see our last report "Fully valued" on 25 October 2010). Furthermore, the company is currently trading on 2011 PE of 11.4X, just a 30% discount to the market and a 15% premium to the global steel industry PE of 10x. With only USD123m (IDR1,098b) in market capitalization, we believe that a higher discount to the market and industry PE should be applied. Thus, while we raise our DCF-based TP to IDR400, on the back of lower 10-year risk free rate of 7.4% vs. 9% previously, we cut our rating on NIKL to REDUCE. At this stage of the cycle, we believe that investors should utilize NIKL's recent spike in price as an exit mechanism.

Volumes: Downside risks from plant closure & Chinese competition

Following our downward revisions on NIKL's volumes in 3Q10 by 6%, 10M10 tinplate volumes of around 92k MT is now on target to reach our new full-year target of 112k MT (+25% y-y). Over the medium term, however, we continue to see potential downside risk on NIKL's volumes on the back of tighter competition coming from China's tinplate, particularly in the non-food segment (some 40% of volumes), which normally require less quality product. For now, however, we remain moderately positive on the outlook for Indonesia's tinplate consumption with 2011 sales volume estimate of 124k MT (+10% y-y) for NIKL. Our sensitivity analysis suggests that every 5% lower sales volumes would increase/decrease earnings by 4.5%. It is also worth pointing out that during the installment of new equipment as part of its revamping program, NIKL plans to shut down production for one month in 2011, resulting in lower volumes. On a more positive note, we have learned that NIKL's major customer in the food segment, Frisian Flag (18% of 9M10 revenues), plans to invest USD15m-USD20m in the next several years for higher production capacity, supporting NIKL's strategic focus in the food segment for volume growth. Frisian Flags predict that Indonesia's 2010 national milk consumption will reach 11l per capita, up 10% y-y.

Margins to normalize; Worse case = 14% lower 2011 earnings

On the margin front, NIKL expects 2010-11 operating margin to be sustainable at around the 7-9% level (seven-year average: 9.1%). With the Worldsteel association expecting moderate 2011 world steel demand growth of 5.3% y-y, we expect NIKL's margin to reach 8.2% in 2010 and 8.5% in 2011. Note that under our worse case scenario of 7% margin guidance, the company would register 14% lower 2011 earnings. This possible condition may unfold if the company is unable to pass on higher raw materials prices. Note that ytd, steel prices have increased 22.1% to USD667/MT, compared to our average 2011 steel price estimate of USD731/MT.

Exhibit 1. Key forecasts and valuations

Year to 31 Dec	2009A	2010F	2011F	2012F
Revenue (IDRb)	1,180	1,433	1,653	1,923
EBIT (IDRb)	67	117	140	167
Net profit (IDRb)	42	88	104	126
Bahana/cns. (%)	-	106	109	104
EPS (IDR)	17	35	41	50
EPS growth (%)	(42.2)	108.4	18.4	21.4
EV/EBITDA (x)	18.9	10.6	8.6	7.6
PER (x)	28.8	13.8	11.7	9.6
FCFPS (IDR)	37	73	(12)	(7)
FCF yield (%)	7.7	15.2	(2.5)	(1.4)
BVPS (IDR)	169	198	226	261
PBV (x)	2.8	2.4	2.1	1.8
DPS (IDR)	13	6	13	15
Yield (%)	2.6	1.3	2.6	3.1
ROAA (%)	6.0	13.1	13.3	13.7
ROAE (%)	12.2	18.9	19.4	20.4
EBIT mgn. (%)	5.7	8.2	8.5	8.7
Net gearing (%)	nc	nc	nc	nc

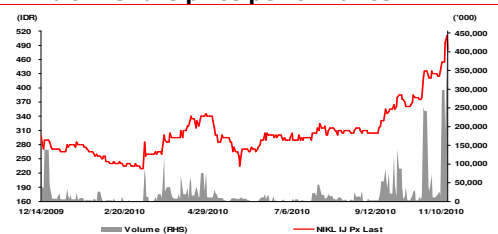
Exhibit 2. Company information

Share price (11/10/10)	:	480
Share outstanding (m)	:	2,523
Mkt cap. (IDRb/USDm)	:	1,211/136
3-m avg.daily t.o.(IDRb/USDm)	:	20.4/2.3
Bloomberg code	:	NIKL IJ

Exhibit 3. Shareholders information

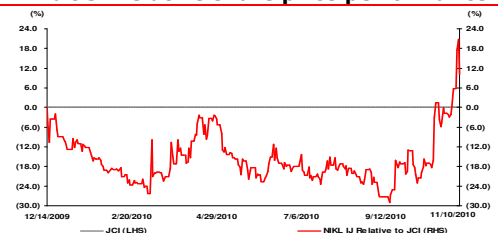
Japan Consortium (%)	:	55.0
Krakatau Steel (%)	:	20.1
Baruna Inti Lestari (%)	:	4.9
Public (%)	:	20.0

Exhibit 4. Share price performance



Source: Bloomberg

Exhibit 5. Relative share price performance



Source: Bloomberg

Pelat Timah Nusantara

Year to 31 December	2008	2009	2010F	2011F	2012F
PROFIT & LOSS (IDRb)					
Sales	1,466	1,180	1,433	1,653	1,923
Gross profit	223	154	216	260	319
EBITDA	143	71	122	145	173
Depreciation	4	4	5	5	5
EBIT	138	67	117	140	167
Net interest inc./ (expense)	(11)	(4)	2	1	2
Forex gain/ (losses)	(19)	(7)	(2)	-	-
Other income/ (expense)	1	2	(2)	(2)	(2)
Pre-tax profit	109	57	117	138	168
Taxes	(36)	(15)	(29)	(35)	(42)
Minority interest	-	-	-	-	-
Extraordinary gain/ (losses)	-	-	-	-	-
Net profit	73	42	88	104	126

2010 net profit to more than double in 2010

BALANCE SHEET (IDRb)

Cash and equivalents	30	198	180	158	237
S-T investments	-	-	-	-	-
Trade receivables	255	165	200	231	269
Inventories	428	163	193	221	255
Fixed assets	27	27	95	162	160
Other assets	53	56	58	61	76
Total assets	792	608	727	834	997
Interest bearing liabilities	254	113	142	168	195
Trade payables	158	31	36	41	48
Other liabilities	120	37	50	53	95
Total liabilities	533	181	228	263	337
Minority interest	-	-	-	-	-
Shareholders' equity	260	427	500	571	659

Liabilities consist mainly of pension funds

CASH FLOW (IDRb)

EBIT	138	67	117	140	167
Depreciation	4	4	5	5	5
Working capital	(1)	151	(48)	(51)	(25)
Other operating items	(44)	(35)	(31)	(38)	(55)
Operating cash flow	98	187	42	56	93
Net capital expenditure	(6)	(3)	(73)	(72)	(3)
Free cash flow	93	184	(31)	(17)	90
Equity raised/ (bought)	-	258	-	-	-
Net borrowings	55	(146)	23	20	18
Other financing	(139)	(128)	(10)	(26)	(29)
Net cash flow	9	168	(18)	(22)	79
Cash flow at beginning	21	30	198	180	158
Ending cash flow	30	198	180	158	237

Capex relates to construction on revamping plan

RATIOS

ROAE (%)	31.4	12.2	18.9	19.4	20.4
ROAA (%)	11.3	6.0	13.1	13.3	13.7
EBITDA margin (%)	9.8	9.0	10.1	10.6	10.8
EBIT margin (%)	9.4	5.7	8.2	8.5	8.7
Net margin (%)	5.0	6.1	6.3	6.6	6.8
Payout ratio (%)	50.0	30.1	44.0	36.5	36.5
Current ratio (x)	1.4	3.6	3.1	2.9	2.7
Interest coverage (x)	10.0	10.0	39.9	36.1	35.4
Net gearing (%)	nc	nc	nc	nc	nc
Debts to assets (%)	32.1	18.6	19.5	20.1	19.5
Debtor turnover (days)	63	51	51	51	51
Creditor turnover (days)	44	45	45	46	46
Inventory turnover (days)	126	58	58	58	58

Margin sustainability hinges on relatively stable steel prices

MAJOR ASSUMPTIONS

Sales volumes ('000 Mt)	111.4	89.3	111.8	124.0	140.0
ASP (USD/ton)	1,349	1,299	1,409	1,403	1,446

Expansion capacity plan of Frisian Flags to benefit volumes

Source: Company, Bahana estimates

Research: +62 21 250 5081



Harry Su
harry.su@bahana.co.id
Head of Research
Strategy, Telcos, Consumer
ext 3600
direct: +62 21 250 5735



Teguh Hartanto
teguh.hartanto@bahana.co.id
Deputy Head of Research
Banks, Cement
ext 3610



Andry Asmoro
andry@bahana.co.id
Economist
ext 3605



Pandu Anugrah
pandu.anugrah@bahana.co.id
Analyst
Toll road, Auto, Heavy
Equipment, Construction
ext 3606



Surabhi Chopra
surabhi@bahana.co.id
Analyst
Coal, Metals, Telcos
ext 3603



Natalia Sutanto
natalia.sutanto@bahana.co.id
Analyst
Property
ext 3601



Alfi Fadhliah
alfi.fadhliah@bahana.co.id
Analyst
Plantations
ext 3608



Arga Samudro
arga@bahana.co.id
Analyst
Fixed Income
ext 3602



Willinoy Mangaratua Sitorus
willinoy@bahana.co.id
Assistant
ext 3604



Angky Amarylis
angky.amarylis@bahana.co.id
Assistant
ext 3607



Rendy Suryagama
rendy@bahana.co.id
Assistant
ext 3604



Isna Alfiathi
isna.alfiathi@bahana.co.id
Assistant
ext 3607

Equity Desk: +62 21 250 5508



Benny Soebagjo
bennybs@bahana.co.id
Head of Equity
ext 2545



Afifa
afifa@bahana.co.id
Equity Sales
ext 2546



Tjokro Wongso
tjokro@bahana.co.id
Equity Sales
ext 2547



Haselinda Rifman
haselinda@bahana.co.id
Equity Sales
ext 2524



John M. Dasaad
dasaad@bahana.co.id
Equity Sales
ext 2549



Yohanes Adhi Handoko
yohanes@bahana.co.id
Manager, Surabaya Branch
ext 7250

Head Office

Graha Niaga, 19th Floor
Jl. Jend. Sudirman Kav. 58
Jakarta 12190
Indonesia
Tel. 62 21 250 5081
Fax. 62 21 522 6049



<http://www.bahana.co.id>

Surabaya Branch

Wisma BII, Ground Floor
Jl. Pemuda 60-70
Surabaya 60271
Indonesia
Tel. 62 31 535 2788
Fax. 62 31 546 1157

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Bahana Securities and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. We expressly disclaim any responsibility or liability (express or implied) of P.T. Bahana Securities, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Bahana Securities, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed. The information contained in this report is not taken as any recommendation made by P.T. Bahana Securities or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.