

PELAT TIMAH NUSANTARA (NIKL IJ)

TP (12-mth): Rp 600 - BUY

More than meets the eye

“BUY” with 12-month target price (TP) of Rp.600/share

Our 12-month target price of Rp.600 is based on a DCF valuation model which assumes net income growth of 16% CAGR 2009A-2013F, dividend payout ratio of 30%, sales growth of 12%, and cost of capital at 13%.

High ROE/low debt play:

The counter offers a good structural 2011F ROE (18%) play from low net gearing (0.56x) at competitive valuation trading at multiples of PER2011F (14x) & PBV2011F (2.7x). Higher pricing power, lack of new players and asset turnover may be key drivers to further propel ROE in the future.

Growing further in 2011 (expanding capacity)

We predict 2011F capital expenditure (capex) rising 43% to spur sales growth by 10% and earnings growth by 14% respectively.

Riding the economic cycle (domestic demand theme)

The counter rides the domestic demand theme driven by the current economic environment cycle. A robust economic growth (6.5%) in 2011F, stronger currency, & rising spending power (consumer confidence) has a positive impact to support volume, since the consumer sector, particularly the food industries' 70% tinplate packaging needs are supplied by NIKL.

Key Ratios

	2008	2009	2010F	2011F	2012F
Net Profit (Rp bn)	72.7	42.0	91.6	102.6	114.9
EPS (Rp)	71.0	28.0	36.3	40.7	45.5
ROE (%)	28.0	9.8	18.6	18.2	17.8
PE (x)	42.0	16.6	16.3	14.6	13.0
PBV (x)	5.8	3.5	3.0	2.7	2.3
Yield (%)	0.5	2.1	1.8	2.1	2.3

Source: Company, HD Capital Estimates

Comparison

	PER		PBV		Dividend Yield	
	2010F	2011F	2010F	2011F	2010F	2011F
NIKL	16.3	14.6	3.0	2.7	1.8	2.1
Consumer*	24.9	21.1	5.0	4.4	-1%	-1%

Source: Company, HD Capital Estimate and Consensus*

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29 November 2010

Indonesia Equity Research Manufacture (Metal)

Reuters NIKL.JK
 Bloomberg NIKL IJ

Priced by 26th November 2010
 JCI @ 3,642.50

12M hi/lo Rp530/230

12M potential target Rp600
 ±% potential +38%
 Target set on 26 Nov 10

Shares issued 2,523mn
 Free float (est.) 20.00%

Market cap Rp1,085bn

3M average daily volume
 58.558.200

Major shareholders

Nippon Steel Corp. 35.0%
 Krakatau Steel 20.1%

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Business summary:

PT Pelat Timah Nusantara Tbk (NIKL) or Latinusa is an Indonesia-based company engaged in manufacturing of tinplates since 1986. Initially, it was formed by joint venture between Tambang Timah (currently named TINS) and Krakatau Steel. The Company's products are used as raw materials in manufacturing food cans, milk cans and paint cans. Its products are divided into two production lines: Electrolytic Tinning Line (ETL) where the main function is to coat the steel with tin through an electrolysis process in the coil form, and Shearing Line cutting the tinplate into sheets. The Company's manufacturing facility is located in Cilegon, Indonesia, with a production capacity of 130,000 ton per year.

Post IPO, the company has made several managerial and operational changes. Through IPO process, a Japanese consortium came in as strategic alliance partner to PT Krakatau Steel, which comprises of Nippon Steel Corporation, Nippon Steel Trading, Mitsui Co, and Metal One Corporation holding ownership of: 35%, 5%, 10%, and 5% respectively. Latinusa also plans in shifting the "product mix" or customized shapes with thinner gauging (lower thickness) post the IPO. The company's focus on the food and beverage packaging market may be achieved through the revamping project (restoration of the performance of existing machinery and improvement of the production capability, efficiency, etc) in order to produce high quality coating tinplates which are better suited to packaging design.

Shareholder	Ownership (%)	
	Pre IPO	Post IPO
Nippon Steel Corp.		35.0
PT Krakatau Steel	93.9	20.1
Mitsui Co., Ltd		10.0
Nippon Steel Trading		5.0
Metal One Corp.		5.0
PT Baruna Inti Lestari	6.1	4.9
Public		20.0
Total	100	100

source: Company

NIKL uses tinplate – Specifically tin mill black plate and tin as components in its primary raw materials. By having NSC as the main shareholder, NIKL is able to secure its tinplate supply for the foreseeable future. The best tinplate quality is only provided by a limited number of producers in the region.

In 2009, 99% of NIKL sales were generated 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 its' Japanese parent shareholder is implemented. NIKL's products are supplied to the food segment (72%), to paint industries (16%), and to general product cannery (12%).

Currently the government imposes an import duty for imported tinplate. A significant change in government regulations may 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.

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Earnings and valuations (small cap consumer sector play)

Our EPS forecast robust earnings growth 16% in 2011, which is in-line with analyst consensus estimates of consumer sector of 16.4% (if one would treat the counter as a small cap consumer proxy play).

Valuation-wise if one should compared into the consumer sector, NIKL looks cheap, trading at PER 14.6x & PBV 2.0x 2011, supported by 18% ROE, versus & consensus estimates at PER 21.1x && PBV. 4.4x 2011.

We believe that valuations in the consumer sphere undergoing a structural re-rating with Indonesia's risk premium declining on credit –rating upgrades. Consumer discretionary & staples are trading 40% above Asian peers. However valuations in this sector remain sustainable supported by higher growth, given that Indonesia is at the beginning of a consumer boom.

With most of the sector trading at a premium, investors may start opting for NIKL as an attractively-valued consumer proxy.

NIKL (Rp Mn)	2008	2009	2010F	2011F	2012F
Cash and cash equivalent	29,612	197,818	214,465	202,711	252,052
Trade receivable	254,748	165,032	234,447	262,581	294,091
Inventories	427,853	163,099	366,608	442,185	495,248
Advances and prepaid expense	1,504	2,277	2,369	2,654	2,972
Investment in shares of stock	1,200	1,200	1,200	1,200	1,200
Deferred tax assets	16,994	9,152	15,179	17,000	19,041
Fixed assets net	27,146	26,725	44,096	72,759	73,626
Estimated claims for income tax refund	-	11,367	24,332	27,252	30,523
Restricted time deposits	27,176	27,176	27,176	27,176	27,176
Other assets	5,990	4,485	3,353	2,507	1,874
Total Assets	792,222	608,332	933,227	1,058,026	1,197,802
Short-term bank loans	222,571	77,009	66,095	74,027	82,910
Trade payable	150,507	17,355	264,382	296,108	331,641
Due to related parties	69,252	1,035	1,159	1,298	1,454
Other payable	7,413	13,160	33,048	37,013	41,455
Tax payable	21,892	5,200	15,276	17,110	19,163
Accrued Expenses	29,182	31,074	27,522	30,824	34,523
Estimated liabilities for employee benefits	31,700	36,000	34,132	38,228	42,816
Total Liabilities	532,517	180,833	441,615	494,609	553,962
Capital stock	101,868	252,335	252,335	252,335	252,335
Add PIC	-	107,289	107,289	107,289	107,289
Retained earnings	157,837	67,875	131,987	203,793	284,216
Shareholders' Equity	259,705	427,499	491,612	563,417	643,840

NIKL (Rp Mn)	2008	2009	2010F	2011F	2012F
Net sales	1,465,900	1,180,276	1,321,909	1,480,538	1,658,203
Cost of Good Sold	(1,243,042)	(1,026,291)	(1,128,024)	(1,263,387)	(1,414,993)
Gross Profit	222,858	153,985	193,885	217,151	243,210
Selling	(22,695)	(21,348)	(23,639)	(26,476)	(29,653)
General and Administrative	(61,708)	(65,695)	(64,920)	(72,711)	(81,436)
Operating Income	138,455	66,942	105,326	117,965	132,121
Interest Income	2,426	2,250	2,397	2,685	3,007
Loss on forex, net	(19,433)	(7,074)	7,905	8,853	9,916
Interest expense	(13,894)	(6,702)	6,534	7,319	8,197
Bank charges	(3,837)	(3,756)	(3,765)	(4,217)	(4,723)
Gain (loss) on scraps sales	262	(97)	486	545	610
Other, net	4,610	5,485	3,236	3,624	4,059
Income Before Tax Benefit (Expense)	108,589	57,048	122,119	136,773	153,186
Tax Benefit (Expense)	(35,870)	(15,051)	(30,530)	(34,193)	(38,296)
Net Income	72,719	41,997	91,589	102,580	114,889

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