

Pelat Timah Nusantara

Sector: Tinplate Manufacturing (NEUTRAL)

HOLD

(Unchanged)

Pandu Anugrah

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

Phone: +6221 250 2581 Ext. 3606

Price: IDR390

TP: IDR380 (From IDR410)

TP/consensus: na

JCI: 3,592

Moderating volume; Rising cost

2011: Moderate volume outlook

While recovery on domestic consumption underpinned 2010 tinplate sales volumes to 106k tons (+18.6% y-y), volume achievement was 5% lower than our estimate and pre-crisis level of 111.4k tons. Nevertheless, market share remained stable at 52%, suggesting insignificant impact from stronger penetration of China's low-end tinplate products. Furthermore, with 30% of NIKL's revenue coming from the two largest customers of Frisian Flag and United Can Company, possible capacity expansions would ensure positive outlook in the longer term. In 2011, with one month plant shutdown for revamping project and moderating growth on the consumer sector, we have slightly lowered our volume estimate by 4.9% to 116k (+9.3% y-y) from 122k tons (+8.9% y-y) previously.

4Q10 earnings: 80.8% lower q-q on higher costs

NIKL's 4Q10 results showed cost pressure which is likely to ensue in the following quarters. 4Q10 earnings of IDR3b, down 80.8% q-q or 77.8% y-y, was 77% lower than our estimate, even after NIKL booked other income of IDR14b from the sale of fixed assets. The exclusion of this gain would result in negative net profit of IDR12b in 4Q10. On the top line, NIKL experienced lower 4Q10 revenue of IDR296b (-13.5% q-q) as volumes continued to decelerate for the third consecutive quarters to 22.5k tons, down 11.7% q-q. On the cost front, Tin Mill Black Plate (82% of raw materials costs), rose 51% y-y to IDR292.7b compared to IDR194.4b in 2009. This coupled with limited capability to pass on higher TMBP price deteriorated 4Q10 gross margin to the lowest historical level of 2.8%. Additionally, as 4Q10 G&A expenses grew 14.4% q-q, NIKL booked negative operating profit of IDR18b.

Downgrading earnings; Retain HOLD with lower TP of IDR380

In 2011, we expect short-term steel prices to remain stable on the back of the Japan quake (Japan accounted for 8.1% of 2010 world steel production). However, as Japan rebuilds steel prices could escalate over the medium term to the disadvantage of NIKL. At this stage, we expect modest average tinplate selling price growth of only 3.5% to IDR13.3m/ton (USD1,478/ton). With longer than expected time lag to pass on higher TMBP price, we lowered our 2011 operating profit by 30.3% to IDR90b and by 23.7% to IDR117b in 2012. This translates to 2011-12 operating margin of 5.9% and 6.1% respectively, particularly as we expect NIKL to face difficulties in passing on higher costs due to the presence of cheap Chinese imports on the non-food segment (40% of sales volume). On the bottom line, we cut our 2011 earnings by 30% to IDR67b (-9.6% y-y) and by 25% to IDR86b (+86% y-y) in 2012. If we were to exclude 2010 non-recurring income, our 2011 net profit decline would reverse to 12.5% y-y growth. On the back of NIKL's lower earnings, we cut our DCF-based TP to IDR380, but maintain our HOLD rating as we expect NIKL to experience improved efficiencies and higher volumes in 2012 on increased capacity (160k tons from 130k).

Exhibit 1. Key forecasts and valuations

Year to 31 Dec	2009A	2010A	2011F	2012F
Revenue (IDRb)	1,180	1,362	1,540	1,800
EBIT (IDRb)	67	77	90	117
Net profit (IDRb)	42	75	67	86
Bahana/cns. (%)	na	na	na	na
EPS (IDR)	17	30	27	34
EPS growth (%)	(42.2)	77.6	(9.5)	28.0
EV/EBITDA (x)	15.7	17.0	10.3	7.9
PER (x)	23.4	13.2	14.6	11.4
FCFPS (IDR)	73	(8)	(32)	2
FCF yield (%)	18.7	(2.1)	(8.1)	0.5
BVPS (IDR)	169	193	210	233
PBV (x)	2.3	2.0	1.9	1.7
DPS (IDR)	6	10	11	14
Yield (%)	1.5	2.7	2.7	3.5
ROAA (%)	6.0	9.8	7.0	8.0
ROAE (%)	12.2	16.3	13.3	15.5
EBIT mgn. (%)	5.7	5.7	5.9	6.5
Net gearing (%)	nc	nc	nc	nc

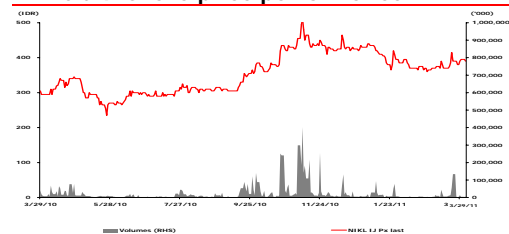
Exhibit 2. Company information

Share price (03/29/11)	:	390
Share outstanding (m)	:	2,523
Mkt cap. (IDRb/USDm)	:	984/113
3-m avg.daily t.o. (IDRb/USDm)	:	5.6/0.6
Bloomberg code	:	NIKL IJ

Exhibit 3. Shareholders information

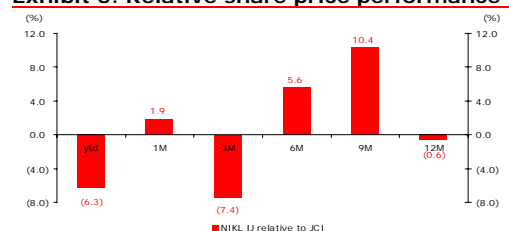
Japan Consortium (%)	:	55.0
Krakatau Steel (%)	:	20.1
Baruna Inti Lestari (%)	:	4.9
Public (%)	:	20.0

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	1,362	1,540	1,800
Gross profit	223	154	185	212	262
EBITDA	143	71	63	95	122
Depreciation	4	4	(14)	4	4
EBIT	138	67	77	90	117
Net interest inc./(expense)	(11)	(4)	1	(2)	(3)
Forex gain/(losses)	(19)	(7)	(0)	1	-
Other income/(expense)	1	2	16	1	2
Pre-tax profit	109	57	94	90	116
Taxes	(36)	(15)	(19)	(22)	(29)
Minority interest	-	-	-	-	-
Extraordinary gain/(losses)	-	-	-	-	-
Net profit	73	42	75	67	87
BALANCE SHEET (IDRb)					
Cash and equivalents	30	198	262	180	186
S-T investments	-	-	-	-	-
Trade receivables	255	165	208	235	275
Inventories	428	163	326	368	427
Fixed assets	27	27	69	171	205
Other assets	53	56	52	57	62
Total assets	792	608	918	1,011	1,154
Interest bearing liabilities	254	113	213	237	264
Trade payables	158	31	180	204	236
Other liabilities	120	37	37	42	65
Total liabilities	533	181	430	482	565
Minority interest	-	-	-	-	-
Shareholders' equity	260	427	487	529	589
CASH FLOW (IDRb)					
EBIT	138	67	77	90	117
Depreciation	4	4	(14)	4	4
Working capital	(1)	151	(63)	(42)	(45)
Other operating items	(44)	(35)	7	(27)	(33)
Operating cash flow	98	187	8	26	44
Net capital expenditure	(6)	(3)	(29)	(105)	(38)
Free cash flow	93	184	(21)	(80)	6
Equity raised/(bought)	-	258	-	-	-
Net borrowings	55	(146)	97	17	19
Other financing	(139)	(128)	(11)	(20)	(18)
Net cash flow	9	168	65	(83)	6
Cash flow at beginning	21	30	198	262	180
Ending cash flow	30	198	262	180	186
RATIOS					
ROAE (%)	31.4	12.2	16.3	13.3	15.5
ROAA (%)	11.3	6.0	9.8	7.0	8.0
EBITDA margin (%)	9.8	9.0	10.1	10.6	10.8
EBIT margin (%)	9.4	5.7	5.7	5.9	6.5
Net margin (%)	5.0	3.6	5.5	4.4	4.8
Payout ratio (%)	35	36	40	40	40
Current ratio (x)	1.4	3.6	2.1	1.8	1.7
Interest coverage (x)	12.1	15.0	nc	nc	nc
Net gearing (%)	nc	nc	nc	nc	nc
Debts to assets (%)	32.1	18.6	23.2	23.4	22.9
Debtor turnover (days)	63	51	56	56	56
Creditor turnover (days)	44	6	49	49	49
Inventory turnover (days)	126	58	101	101	101
MAJOR ASSUMPTIONS					
Sales volumes ('000 Mt)	111	89	106	116	131
ASP (USD/ton)	13.2	13.2	12.9	13.3	13.7

Lower 2011 earnings on higher costs

Fixed assets to increase upon completion of revamp at end 2011

Remaining IPO proceeds would be used for IDR105b capex in 2011

Higher TMBP cost to suppress margin below 6% in 2011

Slight volume and price increase in 2011

Source: Company, Bahana estimates

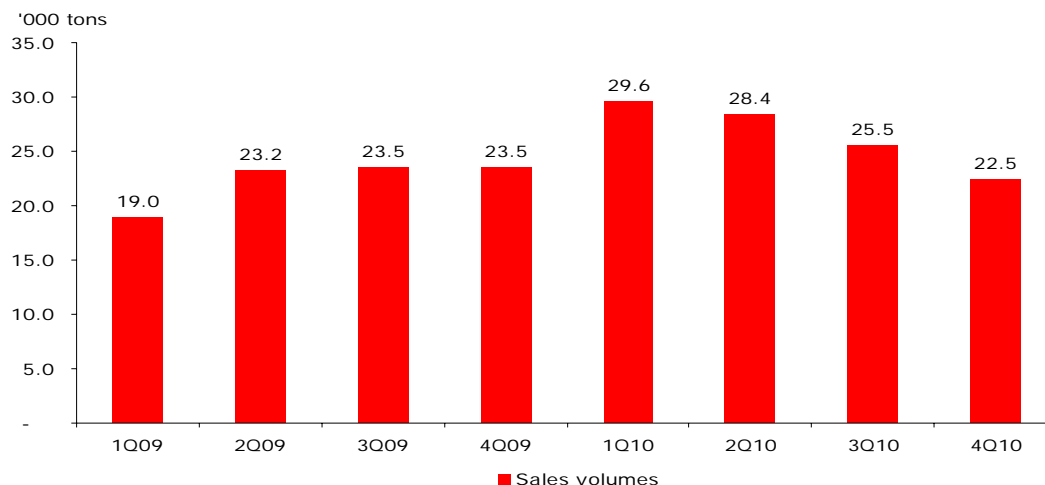
Exhibit 6. Earnings revisions

Year-end 31 Dec	Old			New			Change		
	2010F	2011F	2012F	2010F	2011F	2012F	2010F	2011F	2012F
	(IDRb)	(IDRb)	(IDRb)	(IDRb)	(IDRb)	(IDRb)	(%)	(%)	(%)
Sales	1,433	1,624	1,888	1,362	1,540	1,800	(5.0)	(5.1)	(4.6)
Gross profit	216	242	297	185	212	262	(14.4)	(12.3)	(11.8)
Gross margin (%)	15.1	14.9	15.7	13.6	13.8	14.6			
Operating profit	117	130	154	77	90	117	(34.4)	(30.3)	(23.7)
Op. margin (%)	8.2	8.0	8.2	5.7	5.9	6.5			
Net profit	88	96	115	75	67	86	(14.8)	(29.7)	(25.1)
Net margin (%)	6.1	5.9	6.1	5.5	4.4	4.8			

Source: Company, Bahana estimates

Downgraded 2011-12 earnings by more than 25%

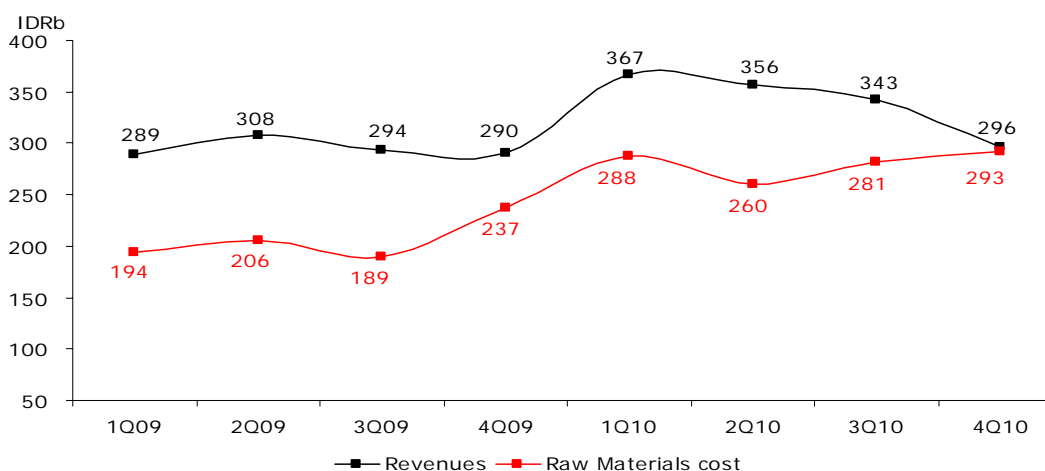
Exhibit 7. Quarterly tinplate sales volumes, 1Q09 – 4Q10



Sales volumes had gradually fallen since 1Q10

Source: Company

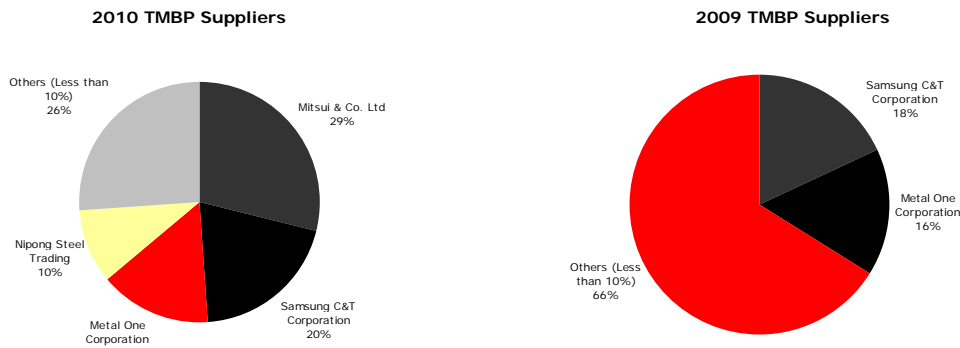
Exhibit 8. Revenues and raw materials cost, 1Q09-4Q10



Margin contraction due to higher TMBP costs, lower volumes, and flat price

Source: Company

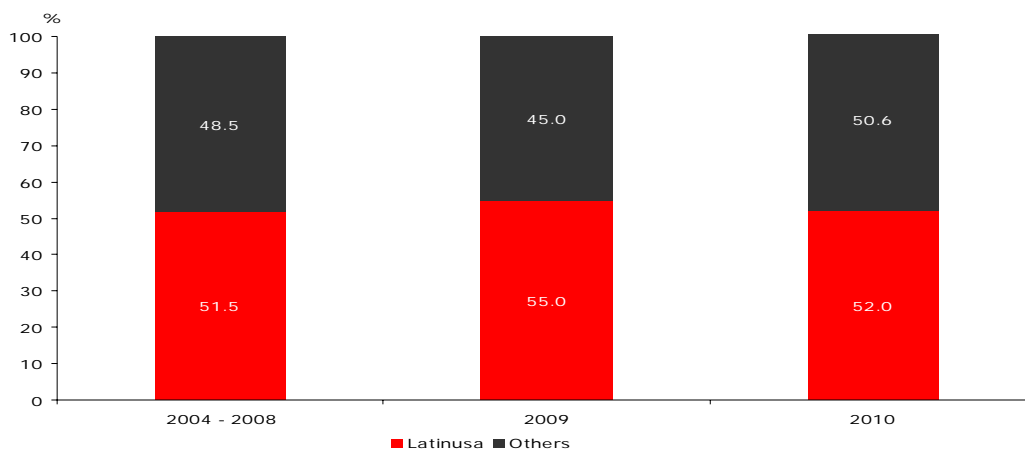
Exhibit 9. NIKL main raw material suppliers



Higher contribution from Nipon consortium on TMBP supplies

Source: Companies, Bahana estimates

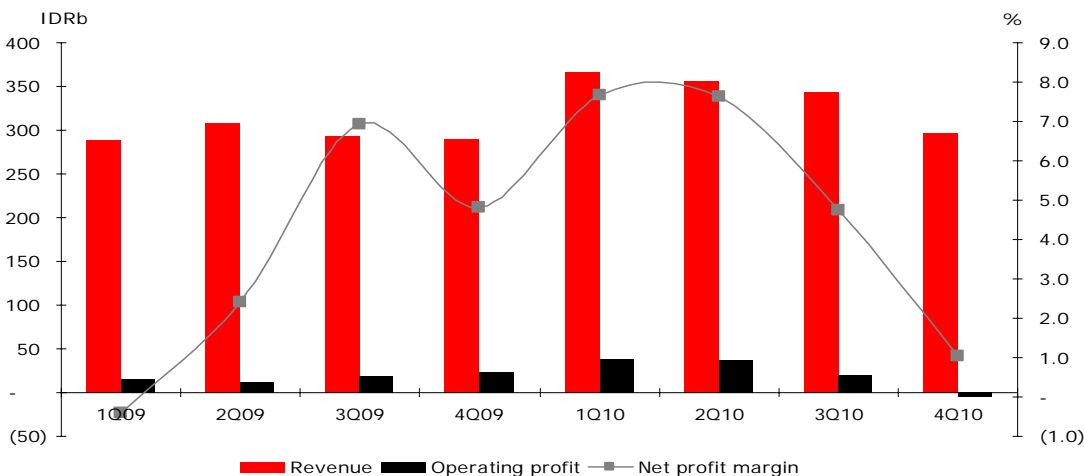
Exhibit 10. NIKL market share, 2004-2009 average and 2009 - 2010



Stable market amid higher competition from China

Source: Company

Exhibit 11. Revenue, operating profit and net profit margin, 1Q09 – 4Q10



Downtrend in operating performance, bottoming in 4Q10 with negative operating profit

Source: Company

Exhibit 12. 4Q10 results

(IDRb)	4Q09	3Q10	4Q10	q-q (%)	y-y (%)	2010A	y-y % chg.	2010A/2010F	2010A/Cons.
Sales	290	343	296	(13.5)	2.1	1,362	15.4	95	na
Gross profit	47	44	8	(81.0)	(82.3)	185	20.1	86	
Selling expense	(7)	(7)	(6)	(8.0)	(8.7)	(28)	30.8	96	
G&A expense	(21)	(17)	(20)	14.4	(5.8)	(80)	21.9	115	
Operating profit	23	20	(18)	(189.9)	(177.8)	77	15.0	66	na
Net interest income/(expenses)	1	1	1	(11.8)	(17.5)	1	na	56	
Forex gain/(loss)	(1)	0	1	125.1	(166.7)	(0)	(93.7)	27	
Other income/(expenses)	1	0	16	6,518.8	2,124.8	16	863.1	na	
Pretax profit	23	21	(0)	(101.8)	(101.7)	94	64.2	80	na
Taxation	(8)	(5)	3	(172.3)	(143.9)	(19)	26.7	65	
Minority interest	na	na	na	na	na	na	na	na	
Net profit	14	16	3	(80.8)	(77.8)	75	77.6	85	na
Total cash	198	209	262		198	262	180		
Total debt	78	51	174		78	174	101		
End of 31 December									
Ratio analysis (IDRb)	4Q09	3Q10	4Q10		2009A	2010A	2010F		
Gross margin (%)	16.3	12.9	2.8		13.0	13.6	15.1		
Operating margin (%)	7.9	5.8	(6.0)		5.7	5.7	8.2		
Pretax margin (%)	7.8	6.1	(0.1)		4.8	6.9	8.1		
Net margin (%)	4.8	4.7	1.0		3.6	5.5	6.1		
Inventory Days	84	72	76		105	76	53		
Receivable Days	69	55	57		65	50.0	47		
Payable Days	15	43	29		34	29	10		
Net gearing (%)	nc	nc	nc		nc	nc	nc		

Source: Company, Bloomberg, 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



Arga Samudro
arga@bahana.co.id
Economist
ext 3602



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



Chandra Widjanarka
chandra.widjanarka@bahana.co.id
Technical Analyst
ext 3609



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



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



Leonardo Henry Gavaza
leonardo@bahana.co.id
Research Analyst
Plantations
ext 3608



Isna Alfiathi
isna.alfiathi@bahana.co.id
Research Executive
ext 3607



Rendy Suryagama
rendy@bahana.co.id
Research Associate
ext 3604



Giovanni Aristo
giovanni@bahana.co.id
Research Assistant
ext 3604



Salman Fajari Alamsyah
salman@bahana.co.id
Research Assistant
ext 3605

Dealing Room: +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



Suwardi Widjaja
Suwardi@bahana.co.id
Equity Sales
ext 2548



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 B11, 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 there from 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 regards 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.