

Pelat Timah Nusantara

Sector: Tinplate Manufacturing (Neutral)

BUY

(Initial rating)

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Price: IDR245

TP: IDR350

JCI: 2,507

Shining through

Set to grow in 2010

Pelat Timah Nusantara (NIKL), cementing its status as the largest domestic tinplate producer with 55% market share, has emerged with a strong 4Q09 performance and January 2010. While down q-q on seasonality, NIKL booked 4Q09 sales of IDR290b with volumes up 34% y-y on improvement in domestic consumption. In January 2010, the company managed to book top line of IDR117b, up 43% y-y, helped by 82% y-y growth in volume to 9.5k MT. We believe the company is on its way to exceed our revised-up 2010 volumes of 118k MT (+33% y-y) – please see *exhibit 6* for earnings revision details. On the price front, however, we have assumed flat average selling price of tinplate at IDR13.2m per ton (USD1,279/ton), particularly given that YTD steel price has declined –2.2%, to USD559 per ton. Nonetheless, with stronger volume outlook in 2010, we estimate revenue to grow 33% y-y, to IDR1.6t from IDR1.2t in 2009. On the operating front, we expect operating profit to reach IDR121b (+78.7%), translating to higher margin of 7.7% vs. 5.7% in 2009 on the back of increased focus in the food segment which has higher gross margin of 16% compared to non-food segment's 11% margin.

Nippon Steel consortium to support future volume growth

We view the strategic role of the Nippon Steel (NS) consortium to guarantee the supply of NIKL's main raw material, Tin Mill Black Plate (TMBP), as positive. In 2010, NS has committed itself to deliver 80% of the total 40k MT needed for NIKL's production requirement in 1H10 - this is up from 56% in 2008. Securing TMBP is essential in ensuring NIKL's volume growth in 2010 and beyond. It is also worth noting that Mitsui Co. (5% stakes) and Nippon Steel Trading (5% stakes) as parts of the consortium, would also play an integral role in the distribution to new potential customers globally such as Australia and the Middle East. This would allow NIKL to strengthen its export market, which in 2009 only accounted for 1.2% of total sales.

BUY with TP of IDR350

With IDR164b IPO proceed obtained in December 2009, NIKL has allocated IDR75b for the first stage of its production capacity expansion project (second stage another IDR75b would be required in 2011). Currently, a tender process for equipment sourcing is underway with 50% completion expected before end of 2010. The project would raise 2011 production capacity to 160k MT from 130k MT, paving the way for further market share gains for NIKL in the current market size of 180k MT– 200k MT. Furthermore, continued focus in the food segment (70% of total industry usage) will provide a competitive advantage over China's lower quality products, normally used for general can and paint industry (30% of industry usage). Based on DCF using 13% WACC and terminal growth rate of 3%, we initiate coverage with a conservative target price of IDR350, translating to single digit PE of 9.8x and 15% discount to Nippon acquisition price of IDR409. BUY.

Exhibit 1. Key forecasts and valuations

Year to 31 Dec	2008	2009F	2010F	2011F
Revenue	1,466	1,180	1,565	1,756
EBITDA	143	74	132	156
Operating profit	138	67	121	143
Net profit	73	41	93	107
EPS (IDR)	36	20	37	42
YoY chg (%)	36.4	(43.4)	81.2	15.1
PER (x)	6.8	12.0	6.6	5.8
BVPS (IDR)	129	222	200	225
PBV (x)	1.9	1.1	1.2	1.1
EV/EBITDA (x)	5.6	11.8	4.6	4.7
DPS (IDR)	8.0	8.2	14.8	17.0
Div. Yield (%)	3.2	3.3	6.0	6.9
ROA (%)	9.2	4.6	8.6	8.7
ROE (%)	28.0	9.2	18.5	18.9
Net gearing (x)	1.01	NC	0.25	0.32

Exhibit 2. Company information

Share price (2/11/10)	:	245
Share outstanding (m)	:	2,523
Market cap (IDRb/USDm)	:	618/66.0
3M avg.daily t.o.(IDRb/USDm)	:	10.1/1.1
Bloomberg code	:	NIKL JJ

Exhibit 3. Shareholders information

Nippon Steel consortium (%)	:	55.0
PT Krakatau Steel (%)	:	20.1
Public (%)	:	20.0
PT Baruna Inti Lestari	:	4.9

Exhibit 4. Share price performance

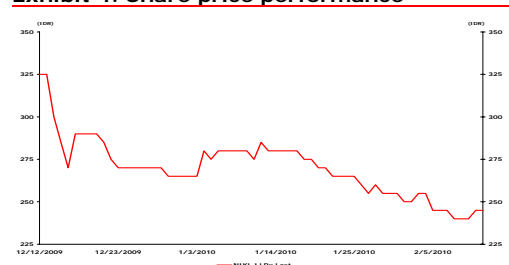
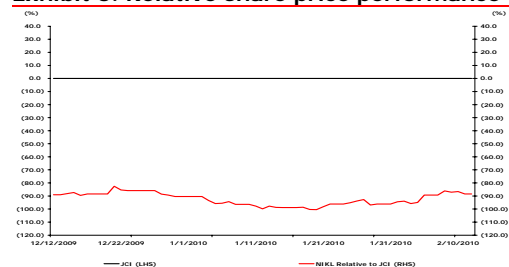


Exhibit 5. Relative share price performance



PROFIT & LOSS

Year to 31 Dec (IDRb)	2008	2009F	2010F	2011F
Total Sales	1,466	1,180	1,565	1,756
Cost of goods sold	1,243	1,017	1,336	1,493
Gross Profit	223	163	228	264
SG&A expenses	84	95	107	121
EBITDA	143	74	132	156
Operating Profit	138	67	121	143
Interest income	2	11	15	16
Interest expense	(14)	(16)	(15)	(18)
Gain (loss) on forex - net	(19)	0	3	-
Bank charges	(4)	(5)	(2)	(3)
Others (net)	5	(1)	8	10
Earnings before taxes	109	57	129	149
Income taxes	(36)	(16)	(36)	(42)
Net Profit	73	41	93	107

BALANCE SHEET

As at 31 Dec (IDRb)	2008	2009F	2010F	2011F
Cash & equivalents	30	262	197	204
Accounts receivable	255	205	272	305
Inventories	428	350	460	514
Other current assets	2	9	14	7
Total current assets	714	825	943	1,030
PP&E - net	27	26	89	150
Investment	1	1	1	1
Deferred tax assets	17	18	19	21
Restricted time deposit	27	27	27	27
Total non-current	79	78	143	206
Total assets	792	903	1,086	1,236
Short term borrowings	223	178	231	278
Accounts payable	158	129	170	190
Current maturities	-	-	-	-
Other current liabilities	120	112	140	153
Total current liabilities	501	419	541	620
Non-current liabilities	32	36	41	47
Long-term maturities	-	-	-	-
Shareholders' equity	260	448	504	569
Total liab. & equity	792	903	1,086	1,236

KEY RATIOS

Year to 31 Dec (IDRb)	2008	2009F	2010F	2011F
ROA (%)	9.2	4.6	8.6	8.7
ROE (%)	28.0	9.2	18.5	18.9
Gross margin	15.2	13.8	14.6	15.0
Operating margin	9.4	5.7	7.7	8.2
EBITDA margin	9.8	6.3	8.5	8.9
Pretax margin	7.4	4.8	8.3	8.5
Net margin	5.0	3.5	6.0	6.1
Net debt/equity	101.0	NC	24.2	30.7
Inter. Coverage (x)	10.3	4.5	9.0	8.5
Current ratio	1.4	2.0	1.7	1.7
Quick ratio	0.6	1.1	0.9	0.8

KEY ASSUMPTIONS

Year to 31 Dec	2008	2009F	2010F	2011F
Production Volumes (k Mt)	112.5	81.0	121.5	139.8
Sales volumes (k Mt)	111.4	89.5	118.4	127.8
ASP (IDR/ton)	13.2	13.2	13.2	13.7

CAPITAL HISTORY

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

CASH FLOW

As at 31 Dec (IDRb)	2008	2009F	2010F	2011F
Net profit	73	41	93	107
Depreciation &	4	7	12	13
Chg in working capital	(1)	83	(116)	(49)
Operating cash flow	77	131	(11)	72
Capital expenditures	(6)	(6)	(75)	(74)
Other - net	27	0	(1)	(1)
Investing cash flow	21	(6)	(75)	(75)
Bank loan	55	(45)	53	46
Change in capital	-	164	-	-
Others	(118)	4	5	6
Dividend	(16)	(16)	(37)	(43)
Chg in forex	(5)	-	-	-
Financing cash flow	(84)	107	21	10
Change In Cash	9	232	(64)	7
Beginning cash balance	21	30	262	197
Ending Cash Balance	30	262	197	204

INTERIM

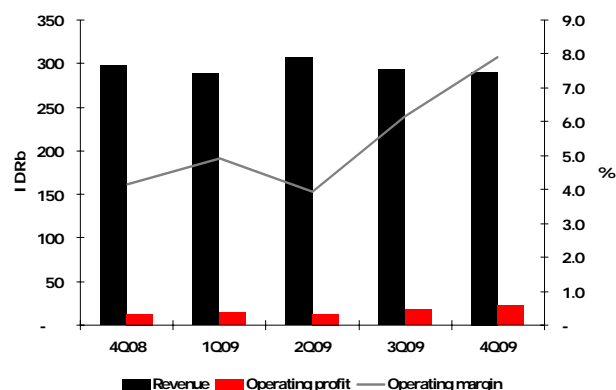
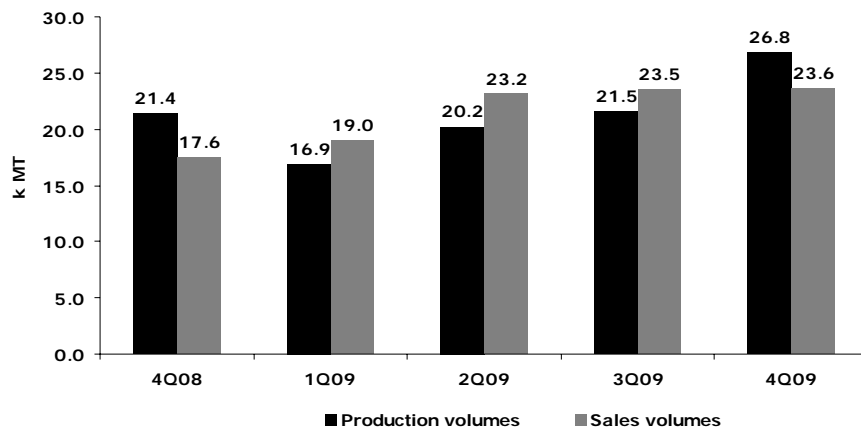


Exhibit 6. Forecast revisions

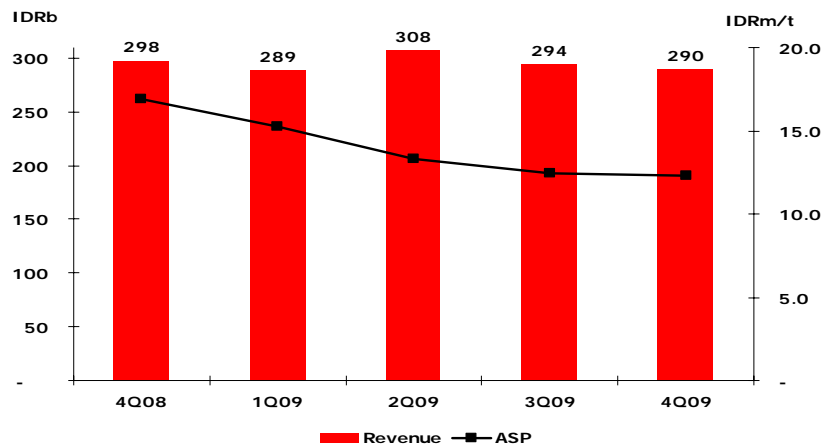
Year-end Dec 31	Old			New			Change		
	2009F (IDRb)	2010F (IDRb)	2011F (IDRb)	2009F (IDRb)	2010F (IDRb)	2011F (IDRb)	2009F (%)	2010F (%)	2011F (%)
Total Sales	1,052	1,432	1,682	1,180	1,565	1,756	12.2	9.2	4.4
Gross Profit	128	197	244	163	228	264	27.2	15.9	8.3
Gross margin (%)	15.2	15.2	15.2	13.8	14.6	15.0			
Operating Profit	51	106	136	67	121	143	31.6	14.3	5.1
Operating margin (%)	4.9	7.4	8.1	5.7	7.7	8.2			
Net profit	31	84	102	41	93	107	31.0	11.4	4.8
Net margin (%)	3.0	5.8	6.1	3.5	6.0	6.1			

Source: Bahana estimate

Exhibit 7. Production and sales volumes, 4Q08 – 4Q09


Volumes improvement started in 2Q09

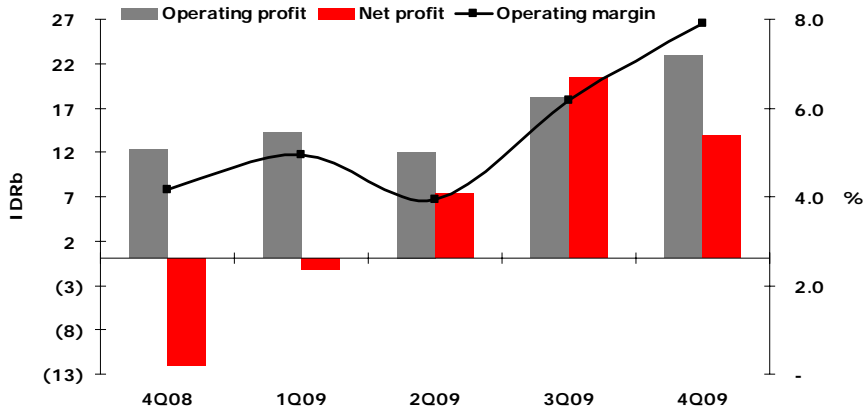
Source: Company

Exhibit 8. Revenues vs. ASP, 4Q08 – 4Q09


Despite downtrend in ASP, revenue remained stable in the past five quarters

Source: Company

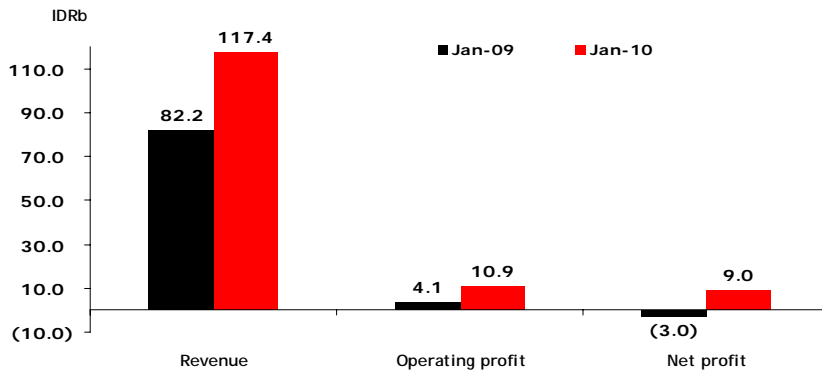
Exhibit 9. Operating performance and net profit, 4Q08-4Q09



Despite flat revenue, operating margin gradually increased to 7.9% in 4Q09

Source: Company

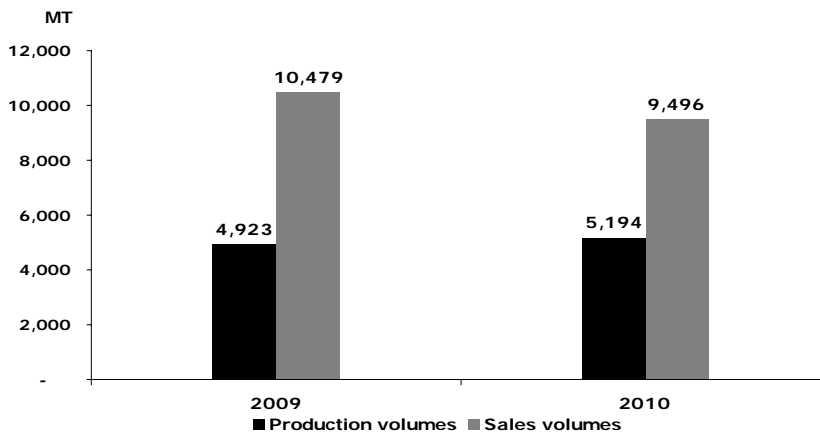
Exhibit 10. January performance, 1M09 vs. 1M08



1M10 robust growth should be seen as a precursor of better things to come

Source: Company

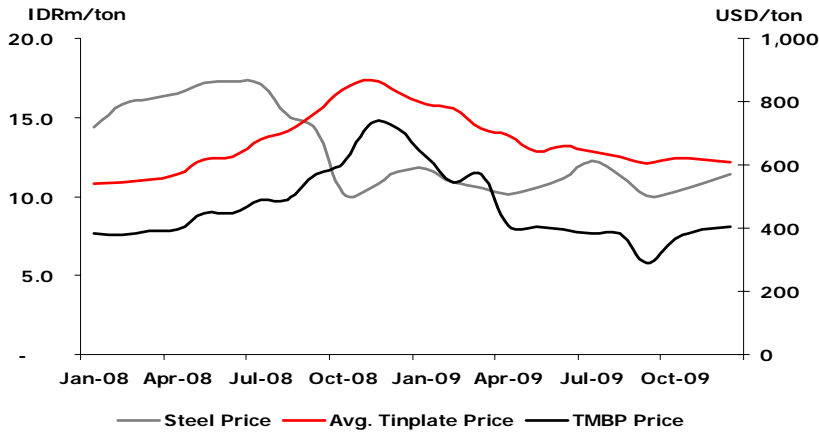
Exhibit 11. Sales Volumes, 4Q08 – 4Q09



Sales volumes in 1M10 jumped 83% y-y

Source: Company

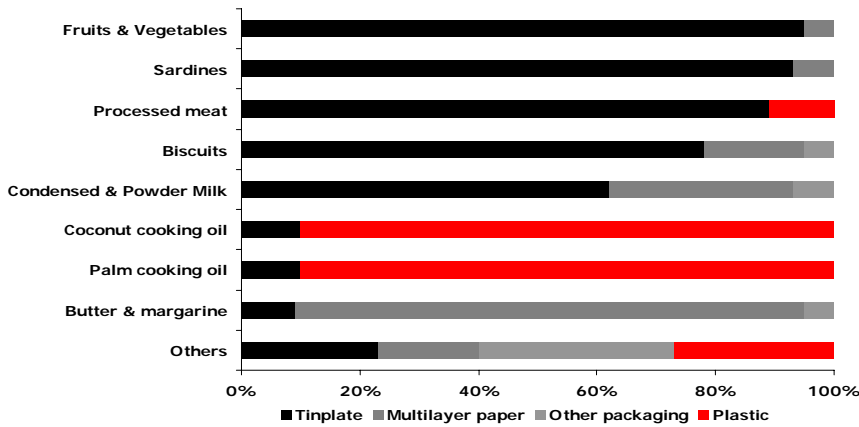
Exhibit 12. Average selling price VS. TMBP price



Steel price declined just 2% ytd to USD558/ ton

Source: Company

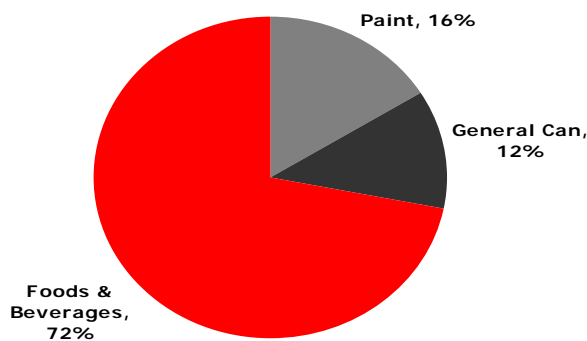
Exhibit 13. Tinplate usage relative to other packaging products



Tinplate is heavily applied in the food & milk sector

Source: Company

Exhibit 14. 2009 Volumes, by industry segment



NIKL to focus on the F&B sector, accounting for 72% of total tinplate consumption

Source: Company

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