

Pelat Timah Nusantara

Sector: Tinplate Manufacturing (Neutral)

HOLD

(Unchanged)

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Price: IDR380

TP: IDR380 (Unchanged)

TP/consensus: 84%

JCI: 4,131

2Q11 performance

- NIKL reported significantly lower 2Q11 earnings of IDR1b (-78% q-q and -98% y-y, bringing 1H11 earnings to just IDR3b, down 94% y-y, accounting for just 5% of our and consensus forecasts.
- Disappointing earnings mainly stemmed from weak sales volumes and continued high raw material prices of TMBP. Note that strong penetration of China's tinplate products has prevented NIKL to pass on higher TMBP prices. While 2Q11 gross margin improved slightly to 6.9% from 6.5% in 1Q11, it is still much lower than 1Q10's achievement of 17.6%.
- At the operating front, NIKL booked IDR1b operating loss, raising 1H11 operating loss to IDR2.3b, much lower than our and consensus forecasts.

Outlook

We expect NIKL's tinplate sales volumes (on seasonality factor) and selling prices to gradually improve in the subsequent quarters; however, we will revise down our numbers significantly on the back of continued rising raw material price of TMBP coupled with intense competition from imported Chinese tinplates.

Recommendation and valuation

Based on our unrevised earnings, we have a DCF-based target price (TP) of IDR380. At this stage of the cycle, NIKL is a HOLD at best, particularly given high 2011 PE of 14.2x. Thus, we expect continued market underperformance to persist as sentiment remains weak on poor growth this year, particularly as challenges in the form of imported products from China could intensify as the Chinese government attempts to cool off its economy. In 2012, however, we expect some earnings improvements to unfold upon completion of the company's de-bottlenecking/ capacity expansion project.

Exhibit 5. Result summary

End of 30 June 2011				q-q	y-y			y-y	1H11/	1H11/
(IDRb)	2Q10	1Q11	2Q11	(%)	(%)	1H11	(%)	2011F	2011F	Cons.
Sales	356	306	325	6.2	(8.7)	631	(12.7)	41.0	41.0	42.2
Gross profit	63	20	22	13.0	(64.3)	42	(68.2)	19.9	19.9	
Operating expense	(26)	(22)	(23)	6.3	(11.8)	(44)	(22.7)	36.7	36.7	
Operating profit	37	(2)	(1)	68.5	na	(2)	na	na	na	na
Net interest inc./(expenses)	(1)	(1)	(1)	63	106	(2)	na	84	84	
Forex gain (expenses)	0	3	0	(91.7)	(41.7)	3	na	562.3	562.3	
Other income/(expenses)	(0)	3	2	(53.2)	na	5	Na	424.2	424.2	
Pretax profit	36	4	0	(96.1)	(99.5)	4	(94.1)	4.8	4.8	4.5
Taxation	(9)	(1)	0	na	na	(1)	(94.4)	4.4	4.4	
Net profit	27	3	1	(78.4)	(97.8)	3	(94.0)	4.9	4.9	4.6
Balance sheet & ratio analysis	2Q10	1Q11	2Q11			1H10	1H11	2011F		
Gross margin (%)	17.6	6.5	6.9			18.3	6.7	13.8		
Operating margin (%)	10.3	(0.6)	(0.2)			10.4	(0.4)	5.9		
Pretax margin (%)	10.1	1.4	0.0			10.1	0.7	5.8		
Net margin (%)	7.6	0.9	0.2			7.6	0.5	4.4		
Inventory Days	79	98	107			78.3	110	95		
Receivable Days	52	69	64			51.0	66	53		
Payable Days	29	50	43			29.0	44	50		
Total cash (IDRb)	203	294	204			203	204	180		
Total debt (IDRb)	38	209	288			38	288	191		
Net gearing (%)	nc	nc	18.0			nc	18.0	2.2		

Source: Company, Bloomberg, Bahana estimates

Exhibit 1. Company information

Mkt cap. (IDRb/USDm)	: 959/113
3-m avg.daily t.o.(IDRb/USDm)	: 100.0/11.8
Bloomberg code	: NIKL IJ

Exhibit 2. Shareholders information

Japan Consortium (%)	: 55.1
Krakatau Steel (%)	: 20.0
Public (%)	: 24.9

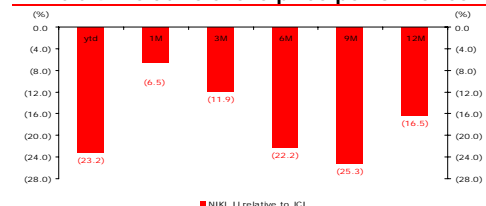
Source: Company

Exhibit 3. Key forecasts and valuations

	2010	2011F	2012F
Sales (IDRb)	1,362	1,540	1,800
Net profit (IDRb)	75	67	86
EPS (IDR)	30	27	34
EPS growth (%)	77.6	(9.5)	28.0
EV/EBITDA (x)	16.6	10.0	7.7
P/E (x)	12.9	14.2	11.1
BVPS (IDR)	193	210	233
PBV (x)	2.0	1.8	1.6
DPS (IDR)	10	11	14
Yield (%)	2.6	2.6	3.4

Source: Company, Bahana estimates

Exhibit 4. Relative share price performance



Source: Bloomberg

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