

# PT PELAT TIMAH NUSANTARA TBK

Initiating Coverage

21 October 2010

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## CODE

### Target Price

Consensus (Bloomberg)  
Current Price  
Upside (downside)

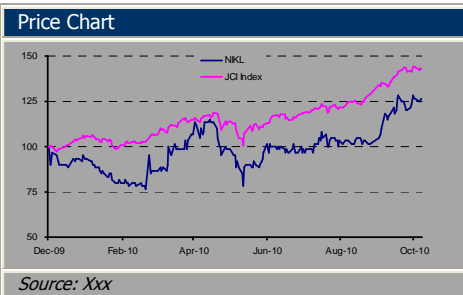
## BUY

**Rp 450**

Rp N/A  
Rp 380  
18.4%

### Share Performance

1M 7.0%  
3M 28.8%  
12M N/A%



Share Data	
Out' shares (b)	2.52
Market Cap (Rp b)	959
Major Shareholders	
Nippon Steel Corp.	35%
PT Krakatau Steel	20.1%
Mitsui & Co., Ltd	10%
Nippon Steel Trading Co., Ltd	5%
Metal One Copr.	5%
PT Baruna Lestari	4.9%
Public	20%
52-WK range (Rp) 230 – 385	
12-m average daily T/O (Rp) 296	

## Going for Better Shape

*We initiate coverage on NIKL with BUY recommendation as it offers 17.6%% potential upside to our target price of Rp 447. Despite of less encouraging sales growth in the past 12 months, we believe there is scope for NIKL share price to move higher as earnings turn back on its ground on 1H10. Rising cost of raw material may reduce profit margin in our view. Nevertheless, we believe the risk to our estimate is on upside.*

### Partnership with the second largest steel producer

Latinusa is the only sole producer of tinplate in Indonesia with a Rp 782 bn market cap. Post the IPO, Latinusa has been sponsored by Nippon Steel Corp (NSC) whose possesses good track record in experience, technology, efficiency, financially and brand image. NSC also guarantees the supply of Tin Mill Black Plate (TMBP) as the main raw material of producing tinplate. Latinusa is expected to increase their capacity by 20% to 160K by 2012. The change of controlling shareholder PT Krakatau Steel (KS) to NSC has benefited Latinusa, in our view. Latinusa has experienced a significant increase sales growth by 27% with current capacity in 1Q10.

### Stiff competition from overseas

Apart from economic of scale given by NSC, there is a threat coming from overseas, especially China. According to WORLDSTEELDYNAMICS, the cost to build steel plants and equipment in China is about 60% lower than elsewhere in the world, hence China may offer competitive price for its tinplate. If quality of China's tinplate can meet the Japanese quality, it may threaten tinplate industry in Indonesia, in our view.

### Need enforcement in packaging regulation

Regulations governing the packaging industry in Indonesia are still relatively minimal. For example, "plastic" is still widely used in Indonesia, although NADFC has warned the potential health effect. This will be the main challenge for Government of Indonesia to enforce these regulations.

### Initiating Coverage with a Buy and TP of IDR 447/share

Our target price derived solely based on DCF valuation model which we expect Latinusa's profit to grow at 24% CAGR 2009A-2013F.

	2007	2008	2009	2010F	2011F
<b>Year End 31 Dec</b>					
Sales	1,465.9	1,180.3	1,393.4	1,561.3	1,843.8
EBITDA	143.0	71.7	117.5	132.1	162.4
Net Income	72.7	42.0	77.4	85.7	99.1
EPS	36.0	16.6	30.7	34.0	39.3
PER (x)	-	15.9	9.9	9.0	7.8
PBV (x)	-	2.6	2.6	2.3	2.1
EV/EBITDA (X)	-	8.1	5.7	5.8	4.7
Dividend Yield	44.0%	40.0%	40.0%	40.0%	40.0%

Source: company, IPS calculation

## Company Profile

PT Pelat Timah Nusantara Tbk 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 main function is to coat the steel with tin through an electrolysis process in the coil form, and Shearing Line where main function is to cut the tinplate into sheets. The Company's manufacturing facility is located in Cilegon, Indonesia, with a production capacity of 130,000 tpy.

Post the IPO, the company makes several changes in the management and operation. Through IPO, a consortium of Japanese company 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 that hold ownership 35%, 5%, 10%, and 5% respectively. Latinusa also shift the "product mix" or customized shapes with thinner gauge (lower thickness) post the IPO. This company focus's on the food and beverage packaging market will be achieved through the revamping project (restore the performance of existing machine and improve the production capacity, efficiency, etc) in order to produce high quality coating tinplates and better suit of packaging design.

Figure 1: Latinusa's Shareholders

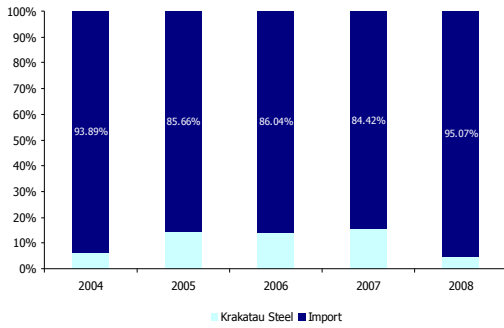
Shareholder	Pre IPO		Post IPO	
	no. of shares (mn)	ownership (%)	no. of shares (mn)	ownership (%)
Nippon Steel Corporation			883.2	35.0%
PT Krakatau Steel	189,493.9	93.9%	507.1	20.1%
Mitsui Co., Ltd			252.3	10.0%
Nippon Steel Trading			126.2	5.0%
Metal One Corporation			126.2	5.0%
PT Baruna Inti Lestari	12,374.1	6.1%	123.7	4.9%
Public			504.7	20.0%
<b>TOTAL</b>	<b>201,868.0</b>	<b>100.0%</b>	<b>2523.4</b>	<b>100.0%</b>

Source: Company reports

### Commitment from Shareholder

With Nippon Steel Consortium as Latinusa's major shareholder, Latinusa is provided with several privileges. Latinusa currently has tinplate capacity of 130K tpy with utilization rate of 69% in 2009 and expected to reach 80% in 2010F. The company anticipates higher utilization rate in 2011F, hence Nippon Steel as Latinusa's major shareholder plans to increase the production capacity to 160K tpy in the early 2012. Most of TMBP are being imported by Latinusa (FY09: 95%) and the rest is supplied by Krakatau Steel. In addition, Nippon Steel also committed in forging tinplate technology to make higher value products amid surging demand which they see a lot of potential in Indonesia (as developing countries) i.e, rising in domestic consumption. The operation of revamping project will commence on July/August 2010 and start the commercial activity in the beginning of 2012. The operation of new machine along with higher technology is expected to greatly alleviate the tinplate imports from foreign countries.

Figure 2: The Supplier Composition of TMBP



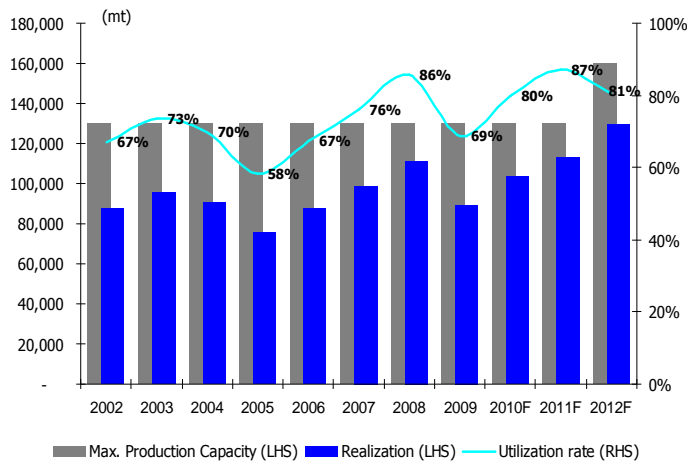
Source: Company reports

Figure 3: The World's 10 Biggest Steel Companies

Company	Country	Crude steel Output (million tonnes)
ArcelorMittal	Luxembourg	101.6
Nippon Steel	Japan	37.5
Baosteel	China	35.4
Hebei Steel	China	33.3
JFE Steel	Japan	32.4
POSCO	South Korea	31.7
Wuhan Steel	China	27.7
Tata Steel	India	24.4
Shandong Steel	China	23.8
US Steel	USA	23.2

Source: Company reports

Figure 4: Latinusa's Production Capacity and Utilization Rate



IPS Comment: Latinusa's real production is likely to be deviated by 5% from its sales realization because most of the sales is done by the work order

Source: Company reports, IPS estimates

### Reputable Group of Management

Latinusa has solid ground work of several key players to manage day to day operation in the company. There are three key persons that have been in the company for years and have gained deep knowledge in the company.

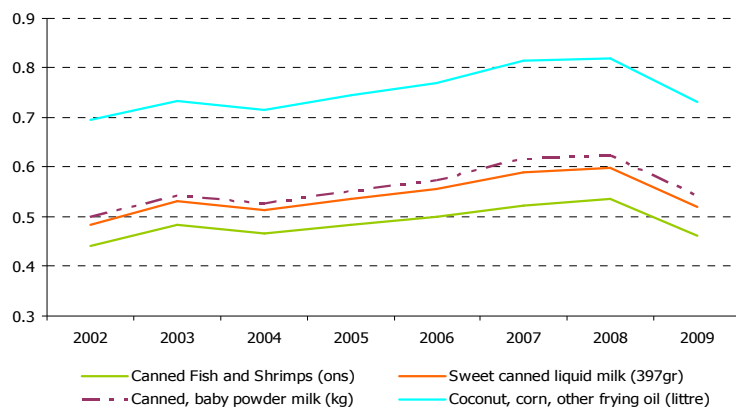
1. Mr. Ardhiman TA (President Director) has acted as the company's commercial director since 2002. He is responsible for the coordination, direction, and supervision for all company activities as well as to ensure and protect all the activities. Prior to his role at Latinusa, he worked as advisor to directors as well as the head of sales division since 2001.
2. Mr. Erwin (Finance Director) is responsible for the development, compilation, and formulation of policies and procedures in Accounting, Finance, Human Resource, and Information System field for both short and long term. Previously, he was graduated from Institute Technology of Bandung and he held a different position in treasury department in Krakatau Steel (Previous Partner of Latinusa) since 2002. He took all responsibility for the finance department of the company after is was acquired by Nippon Steel Corp.
3. Mr. Suprpto Indroprayitno (Commercial Director) is the the key of bottom line or account sales for Latinusa. With deep knowledge of the product, quality control, and marketing with various position in Krakatau Steel, bring him to took over responsibility for all commercial activities for Latinusa.

**Rising demand from domestic, good for Latinusa**

The demand for tinplate is fuelled by consumption of canned food. Rising minimum wages, falling poverty rate and declining unemployment rate in the recent years have been a key for Indonesia’s consumption to grow. Along with growing population and better purchasing power should boost the consumption of canned food in Indonesia. As we can see from the figure below, canned food consumption per capita in Indonesia has been materialized since 2002 and stimulates demand of tinplate. Moreover canned food consumption in Indonesia is still relatively low (under 1 kg per capita) compare to the average tinplate consumption average per capita in the world that reach 2 kg per capita. This suggests that there are still bigger room of opportunities ahead in tinplate industry.

Indonesia itself emerged as one of the rapidly growing food and drinks industry in the South East Asia. Considering growth potential, Latinusa has set up their facilities in a move to penetrate the flourishing market, evidenced by, more production capacity installed in the company and seek funding through IPO. We do expect Indonesia still continuing to bring tinplate from overseas (China, India, Korea) because of the rising demand on the domestic market.

**Figure 5: Some of Canned Food Consumption per Capita in Indonesia**



Source: Statistic Indonesia, BPS

**Grab Potential Customer**

The trend of packaging especially F&B packaging, has been shifting over decades. The converted flexible packaging industry is being challenged by rising material cost and greater demand for product, which require a higher technology and substrate combinations to meet packager needs for freshness. However, Latinusa which currently plans to upgrade production capacity to 160K pty has met functional requirements while reducing costs by thinner gauge materials and increasing processing speeds. As a result, Latinusa with 24 years experience in tinplate business industry in Indonesia is able to grab some big clients that contributing more than 10% to total Latinusa net sales.

**Figure 6: List of Loyalty Customer with more than 10% Contribution to Revenue**

Customer	Production Capacity/ton	Location	Product
PT. Cometa Can	34,500	Tangerang	Pineapples
PT. Frisian Flag Indonesia	12,000	East Jakarta	Milk Powder with Chocolate, Sweet Vanilla, Honey flavor; Full Cream Milk Powder
PT. Jasa Lestari	30,500	Bogor	Various kinds of metal containers
PT United Can	64,000	Medan, Yogyakarta, Bitung, Negara Jembrana, West Jakarta	Soft drink (Coca Cola, Fanta, and Sprite); Healthy drink (Milo, Ovaltine, Promina, and Sun)

Source: Company reports

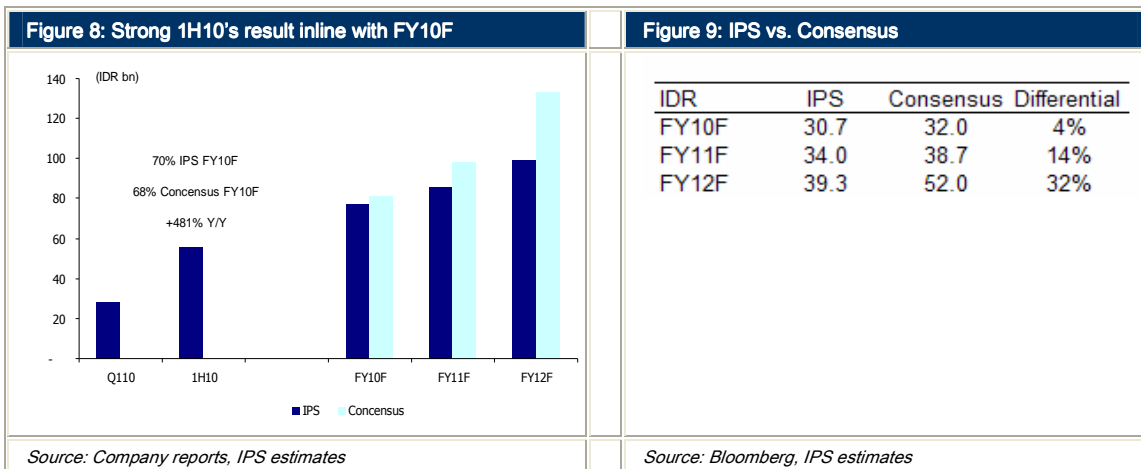
Figure 7: Some of Key Customers' Brand



Source: Company reports

**Rebounded financial performance**

Despite the upside that Latinusa may gain, the packaging industry is also sensitive to economic recession. As the impact of sub prime mortgage, Latinusa's sales revenue has drop by 19.5% Y/Y in 2009 due to low demand of tinplate. Despite a disappointing financial performance in FY09, tinplates' demand is about to turn around this year. The company booked a significant increase in net profit by 580% in 1H10 to IDR 55bn from previous only IDR 9bn in the same period last year. Whereas, the total sales revenue increase by 21% y/y in 1H10, followed increase in the COGS by only 9% y/y. However, the merit of 1H09 financial performance should not judge to be the same in 2H09 financial performance due to Muslim festivities (seasonal demand) will take some weeks off.



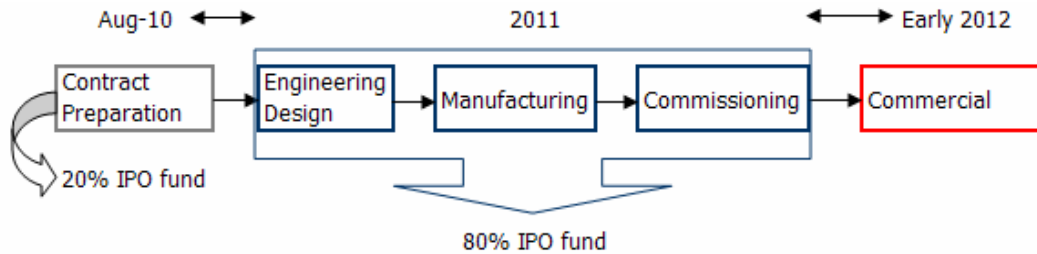
**Net Debt Significantly Cut**

Proceed from IPO has turned Latinusa's leverage into net cash in FY09. Net gearing thus fell from 12% in FY08 to 8% in FY09 with the equity ratio improving from 33% to 70%. Currently, Latinusa has withdrawn cash loan and non cash facility amounted to US\$10mn and US\$ 5mn from the total credit facility of US\$ 77mn.

**De-leverage Balance Sheet and the Impacts**

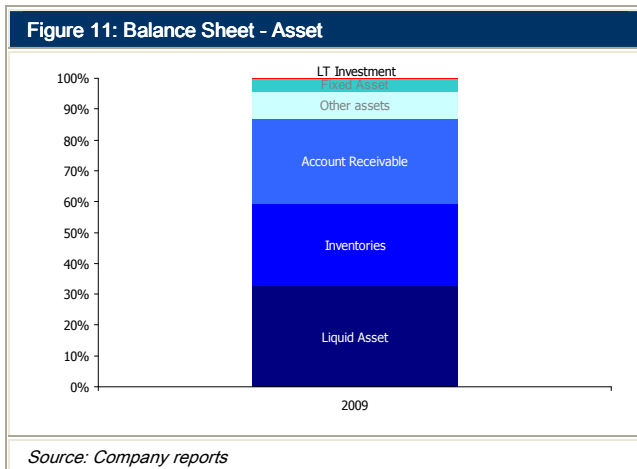
Prior the acquisition of Nippon Steel Corp, Latinusa's total fixed asset accounted around 8% of total asset, reflecting that the company keeps renewing the depreciation life of their fixed asset instead improving the quality of fixed asset. The IPO proceed (Rp157.76bn) will be used to restore the performance of existing machine and improve the production capacity through revamping project. Hence we forecast the net fixed asset will start to increase from 6% in 2010F and 19% in 2011F, in line with the company's schedule on revamping progress.

Figure 10: Revamping Progress by Period

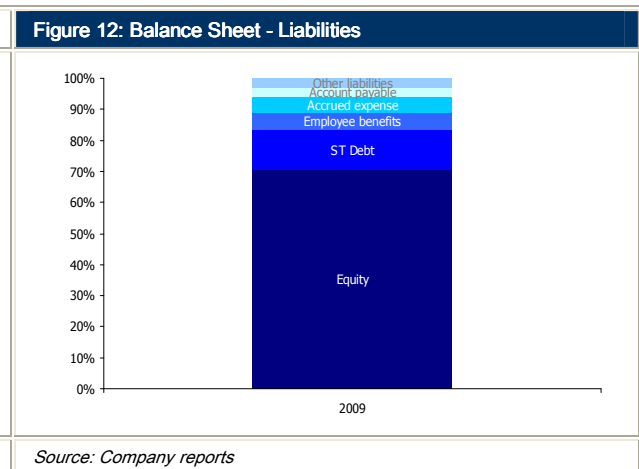


Source: Company data

The revamping project would affect company's cash flow, where we project negative FCF worth IDR 12bn at the end of 2011F and start to generate positive FCF start on 2012F. Although the FCF is negative, the cash flow from operating is large enough to fund the working capital in the company. In 2009, working capital accounted 63% of total assets. Inventories alone account for 27% of total asset, followed by account receivable (27%).

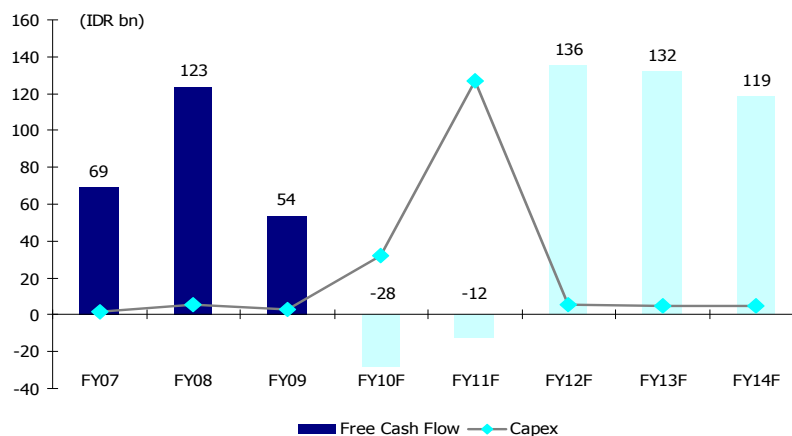


Source: Company reports



Source: Company reports

Figure 13: Free Cash Flow and Capex



Source: IPS estimate

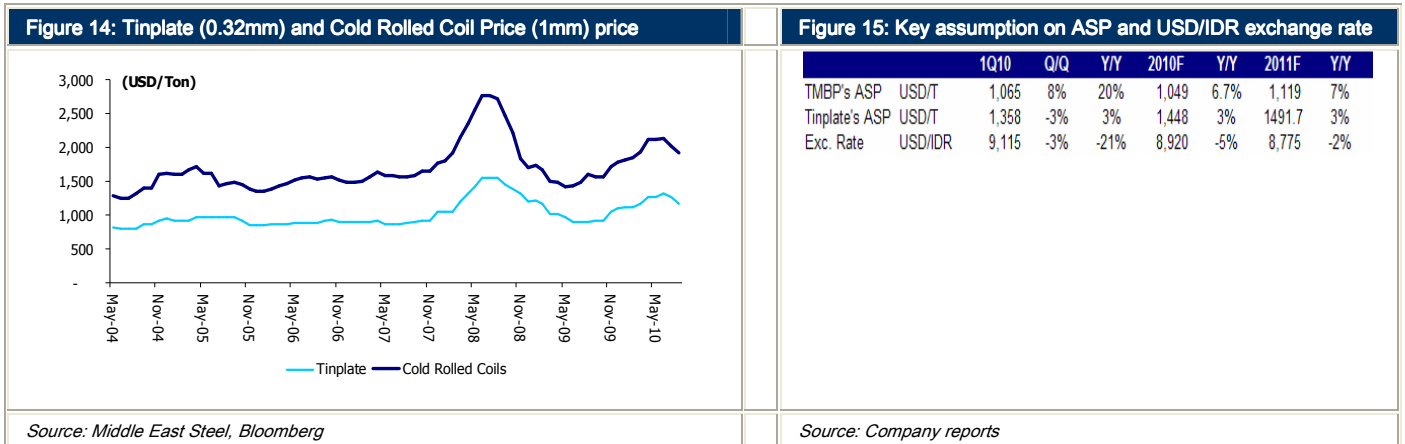
**Better earning, fuelled by higher ASP and demand**

Latinusa has view that domestic tinsplate price is likely to stay bullish, fuelled by high demand and low supply. We see there is a high competition from China's tinsplate which could affect domestic tinsplate price. Historically, the ASP for tinsplate price grew by 3% and 27% and TMBP price grew by 6% and 10% in 2007 and 2008 respectively. However, we view that bullish tinsplate price would continue in moderate manner. We forecast the TMBP and the tinsplate price to stay firm with 3% increase and the tinsplate price will increase up to 5% in 2012 on the back of better quality of tinsplate

after the revamping project. We also positive about domestic demand, where we assumed 16% demand increase in 2010F, 14% increase in 2012F (assuming full capacity). Therefore, we see the bottom line profit to generate 33% CAGR growth in 2009-2012F.

**World tinplate price supports our assumption**

In 1Q10, the Chinese and South-East Asian Tinning lines have agreed about tinplate price, where the new prices agreed are estimated at levels of USD 900 per tonne FOB for TMBP and USD 1,150 per tonne FOB for tinplate. Meanwhile, the Japanese steelmakers also take into account Baosteel's flat tinplate prices as reference in their deals of tinplate exports to Southeast Asia. If a major difference has arisen between Japanese and Chinese tinplate prices, Chinese export will be controlled in order to rule the tinplate price. This condition will support domestic tinplate prices at high level.



**Our forecast estimates that Latinusa would be able to maintain its profitability**

Our assumption would double the EBITDA and EBIT in 2011F from 2009, on the back of:

- Strong market position as the only one tinplate producer in Indonesia, we expect the utilization rate from maximum capacity to be above 80% for 2011F and beyond.
- Assuming that the rebound of tinplate production, Latinusa should be able gain economic of scale after been acquired by Nippon Steel. Personnel expense, Utilization expense should maintain by 4% of total of sales. While the increase of TDL (electricity rate) should give minimal impact to cost of production since Latinusa owns power plant through its subsidiary (PT. Krakatau Daya Listrik).

**Figure 16: Costs and Earnings Trend 2006A - 2012F**

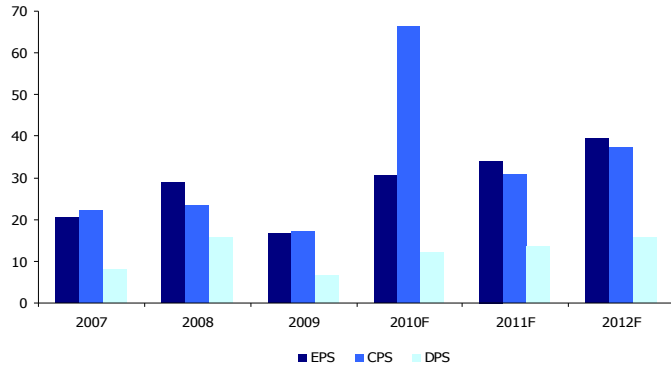
In billions of rupiah	2006	2007	2008	2009	2010F	2011F	2012F
Material expenses	(639.6)	(800.0)	(1,156.7)	(825.9)	(970.6)	(1,112.4)	(1,275.1)
% of sales	-73%	-78%	-79%	-70%	-70%	-71%	-69%
<b>Gross profit</b>	<b>137.1</b>	<b>151.3</b>	<b>222.9</b>	<b>154.0</b>	<b>204.4</b>	<b>229.0</b>	<b>270.4</b>
% of sales	16%	15%	15%	13%	15%	15%	15%
Other operating income	(15.2)	(15.1)	(34.7)	(15.3)	(10.8)	(11.8)	(19.1)
% of sales	-1.7%	-1.5%	-2.4%	-1.3%	-0.8%	-0.8%	-1.0%
Personnel expenses	(40.7)	(39.4)	(51.3)	(44.1)	(54.81)	(58.68)	(68.83)
% of sales	-5%	-4%	-4%	-4%	-4%	-4%	-4%
Utilization expense	(19.7)	(21.9)	(25.3)	(23.6)	(28.2)	(30.8)	(35.6)
% of sales	-2%	-2%	-2%	-2%	-2%	-2%	-2%
Overhead expense	(28.8)	(30.2)	(75.9)	(33.4)	(49.60)	(57.06)	(71.08)
% of sales	-3%	-3%	-5%	-3%	-4%	-4%	-4%
<b>EBITDA</b>	<b>83.0</b>	<b>83.3</b>	<b>143.0</b>	<b>71.7</b>	<b>117.5</b>	<b>132.1</b>	<b>162.4</b>
EBITDA margin	9%	8%	10%	6%	8%	8%	9%
<b>Depreciation</b>	<b>3.9</b>	<b>4.1</b>	<b>4.6</b>	<b>4.8</b>	<b>6.5</b>	<b>8.1</b>	<b>14.4</b>
% of sales	0.4%	0.4%	0.3%	0.4%	0.5%	0.5%	0.8%
<b>EBIT</b>	<b>79.1</b>	<b>79.2</b>	<b>138.5</b>	<b>66.9</b>	<b>111.0</b>	<b>124.0</b>	<b>148.0</b>
EBIT margin	9.0%	7.8%	9.4%	5.7%	8.0%	7.9%	8.0%
YoY	na	-13.9%	21.8%	-40.0%	40.5%	-0.3%	1.1%
<b>EPS</b>	<b>23.8</b>	<b>20.5</b>	<b>28.8</b>	<b>16.6</b>	<b>30.7</b>	<b>34.0</b>	<b>39.3</b>
YoY	na	-14%	40%	-42%	84%	11%	16%

Source: Company reports, IPS estimates

**Growing cash flow**

On our base case scenario, Latinusa has strong operating cash flow that reflects high earnings quality. The company not only allows financing WC requirement but also letting the shareholders to participate in the company's profit. Historically, Latinusa pay out dividend at 43.95% and 30.97% DPR in 2008 and 2007. We assume 40% DPR during 2010F-2012F given stable earning growth. On the other hand based on our estimate Latinusa will generate growing CPS in 2010F and beyond as a result of rising utilization rate. The cash to equity ratio is growing at 11% annually, suggesting that company has extra cash. The company has the capacity to pay out higher dividend or increase capacity, in our view.

Figure 17: DPS/EPS/CPS



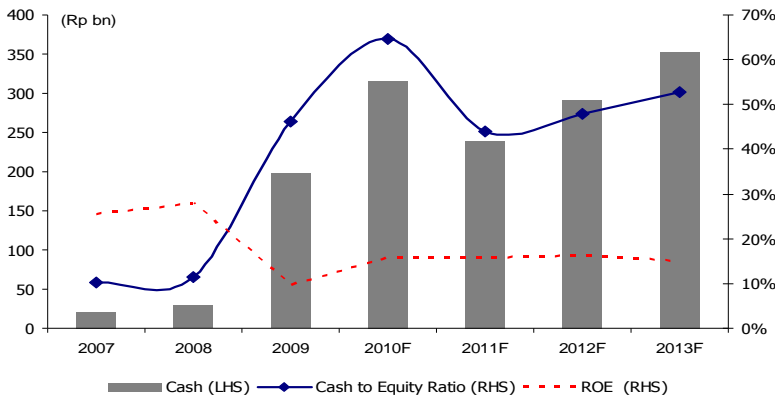
Source: Company reports, IPS estimates

Figure 18: DuPont Analysis (%)

	FY07A	FY08A	FY09A	FY10F	FY11F	FY12F	FY13F
Profit margin	0.05	0.05	0.04	0.06	0.05	0.05	0.05
Asset Turnover	2.09	1.85	1.94	1.70	1.71	1.76	1.69
Equity multiplier	2.41	3.05	1.42	1.68	1.68	1.72	1.67
<b>Return on Equity</b>	<b>26%</b>	<b>28%</b>	<b>10%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>15%</b>

Source: Company reports, IPS estimates

Figure 19: Cash & ROE forecast



Source: Company reports, IPS estimates

**Our Valuation Method gives Intrinsic value of IDR 366-583/share**

We initiate coverage on NIKL with Buy recommendation. The valuation on NIKL is solely based on discounted cash flow (DCF) methodologies. We employed a weighted average cost of capital (WACC) of 12.93% and terminal-growth value of 3% for our base scenario. We are using 9.3% risk free rate and 4.8% equity risk premium and assume beta of 1.3x. The DCF model suggest Latinusa's fair value at IDR 447/share, implying 9.9x P/E 2011F and 2x PBV 2011F.



We also employ sensitivity analysis using 0.5% movement in both risk-free rate, Terminal growth, and WACC indicates Latinusa's value could range from IDR 366-583/share. On the counter, NIKL is trading at 9x forward P/E 2011 after discounted by 43% last year P/E which we think the stock is attractive. On its own trading, NIKL is trading at 17% below its peak of IDR 360/share on April-2010 after the global crisis has eased and only 1% above IPO price of IDR 300/share on Dec-2009.

Figure 20: How we get to Our DCF estimate

(In Billions of Rupiah)	2010F	2011F	2012F	2013F	2014F	Terminal Value
EBIT	111	124	148	147	154	
Interest Income	3	3	3	4	5	
1-Tax Rate	72.0%	72.0%	72.0%	72.0%	72.0%	
(+) Depreciation Expenses & Amortz	6	7	14	14	14	
NOPAT	88	99	122	123	128	
(-) Changes in working capital	84	(15)	(19)	(14)	4	
(-) Capital Expenditure	32	127	6	5	5	
Free Cash Flow	(28)	(12)	136	132	119	1,231
Discount Rate	1.00	1.13	1.28	1.44	1.63	
PV of FCF	(28)	(11)	106	92	73	757
Enterprise Value	989					
Debt Value	(139)					
Equity Value	1,128					
Shares Outstanding	2.523					
<b>Intrinsic Stock Value</b>	<b>447</b>					

Source: IPC Research

Figure 21: Valuation Assumption

WACC	12.93%
Beta	1.3
Risk-Free Rate	9.3000%
Market Risk Premium	4.8%
Cost of Equity	16%
After-tax Cost of Debt	6%
Equity/(equity+debt) (%)	73%
Debt/(equity+net debt) (%)	27%
Perpetual Growth	3.0%

Source: IPS Reseach

Figure 22: Sensivity Analysis on DCF Price Target

(IDR/Share)		Risk Free Rate							
		7.5%	8.0%	8.5%	9.0%	9.3%	9.5%	10.0%	10.5%
Beta	1	583	557	533	511	498	490	472	455
	1.1	558	533	511	491	480	473	455	439
	1.2	534	512	492	473	463	456	440	425
	1.3	513	493	474	457	<b>447</b>	441	426	412
	1.4	494	475	457	441	432	426	412	399
	1.5	475	458	442	427	418	413	400	387
	1.6	459	442	427	413	405	400	388	376
	1.7	443	428	414	401	393	388	377	366

Source: IPS Reseach

Figure 23: NIKL DCF Fair Value Sensitivity

(IDR/Share)	Average WACC (%)				
	12.0	12.4	12.9	13.3	13.8
2.0	454	437	418	403	387
2.5	472	453	432	417	399
TV Growth (%)	3.0	491	<b>447</b>	431	412
	3.5	513	491	466	447
	4.0	538	513	485	465

Source: IPS Reseach

### Risk to Rating and Price Target

In our view, the upside risk for our TP are (1) Government rules and policy of low of import tariff cost goods for metal categorize ,(2) lower of tinplate price, which can bite the portion of Latinusa in domestic market share in tinplate business ,and (3) an increase of innovative other packaging material, which we think is unlikely to replace the thinner gauge of tinplate from Latinusa, given low cost of the production and solid quality of it.

### Notes

Latinusa's affiliation with the second largest steel maker conglomerate, Nippon Steel Corp, generates a significant related party transaction. One of their subsidiaries have business interest on trading in iron and steel, miscellaneous metals, machinary, and metal-based raw materials. Based on the latest audited financial statement on Q110, we notice the related party transaction particularly on liability account have increased to 25% of total liabilities from previously on 7% on the same period. The most important consideration, in our view, is about 94% cash cost involve purchasing raw material from related parties, such as Metal One Corporation, Mitsui & Co, and Nippon Steel Trading.

## SWOT Analysis

### Strengths

**Economic of scale.** Latinusa is the sole and largest tinplate production in Indonesia. After been acquired by Nippon Steel Corp, we can see efficiency of tinplate production cost. The increase in production capacity to 160,000 tpy and guaranteed supply of TMBP secure its position as the leader of tinplate producer.

**Reputable Management.** A strong fundamental from the management with an average of 10 years of experience in steel industry. Aside, the crew also have a strong commitment to good corporate governance in terms of the policies and objective stated by directors.

**Strategic Location & Strong Import tax Barrier.** The production facility is built in west of Java and also located in the central strategic economic in Asia Pacific geographically. The growing of domestic and national demand at the same time allowing Latinusa to be able to compete with China product because of high tariff charged to them. Indonesia also become a freight advantageous zone for Australia, Middle East, and South Asia.

**Short Distribution Network.** As located nearby of the big customers, Latinusa have shorter distribution network. By achieving the distribution side, Latinusa should be able to raise the margin even further.

### Opportunities

**Changes in Demographic Profile.** Started from changing on style of food consumption, the present of supermarket or minimarket in many cities aside java island support the sales of tinplate directly. We note that the turnover of the F&B's product is higher in modern market than traditional market.

**Tapping in Growing Market.** The investment in the new machine and higher technology in the central economic of Asia pacific could translate to higher quality as well as attract the potential big clients such

as Nestle Indonesia, the world's largest food processor. Note that, Nestle Indonesia factory is located nearby latinusa's factory and also produce 64,000 cans pa.

**Unfulfilled Customer Demand.** The tinplate market in Indonesia have a bigger demand than supply. Therefore, there is still many customers import the tinplate from across the country such as China, Korea, and Japan.

### Weakness

**Weak Control from Government.** The implementation regulation regarding of food packaging in Indonesia is still weak in our view. Still many of them use the alternative packaging which is cheaper but also can release contaminants that are dangerous or prejudicial to good health.

**Vulnerable to price intervention.** The Japanese steelmakers admit a certain influence from Baosteel's flat tinplate prices on the price increases the Japanese steelmakers want to achieve in their deals of tinplate exports to Southeast Asia. These are called Chinese behavior that affect the tinplate price.

**Fluctuation on TMBP price.** Price of TMBP become more volatile as it being influenced by 4 commodity price, ie. Coking Coal, Cold Roll mills, Hot Roll mills, and iron ore. Therefore, Latinusa is hardly maintain the sustainable margin to growth.

### Threats

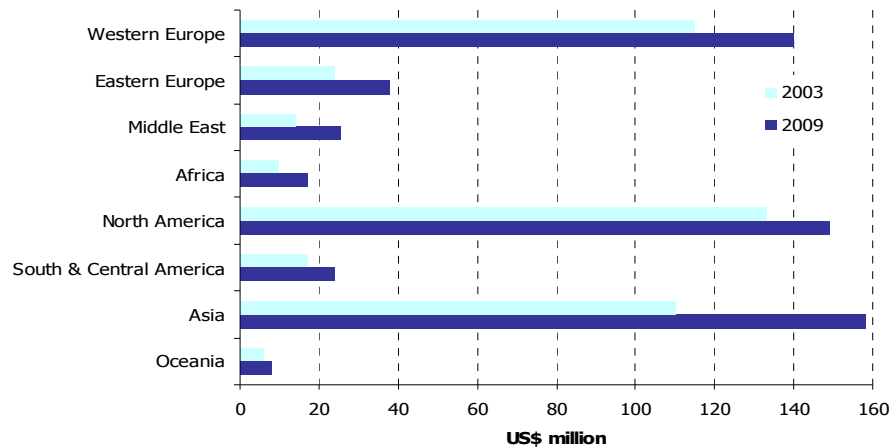
**Innovation in alternative packaging.** The innovation must offer the best environmental solution of the packaging life cycle without hampering the material inside and of course safer to use. HDPE, for instance, a highly density of polyethylene or thermoplastic which is harder, stronger, and can be recycled. In 2007, the global market reached a volume of more than 30 million tons. The materials has benefited form discussions about possible health and environmental problems.

## Industry Outlook

### Demand for Tinplate in Asia Stay Robust

In Asia, there are fairly strong demands for Tin Mill Black Plate (TMBP) and tinplate. In fact, the Japanese steelmakers enjoy all time highs in their negotiated exports of tin mill products to Asian destinations. Japanese steelmaker such as Nippon Steel Corp will spend a total of ¥ 100bn to expand a blast furnace and build a new coke oven this year to meet the growing demand in Asia and overseas markets. Meanwhile the tinplate industry has developed quite rapidly in Indonesia in the past years although was hit by the strike of global economic slowdown in 2008/2009. The rapid growth in agriculture and industry is one important point that fuelled rapid growth in packaging industry boosting the demand for tinplate especially in Indonesia.

Figure 24: World Packaging Consumption by Region, 2003-2009



Source: Pira International Ltd

Producers of tinplate in general are steel company that engaged many applications of tinplate which commonly used in "packaging industry" as well as non-packaging application, such as:

- Automotive components: oil filters, cylinder head gaskets etc
- Building trade: space bars for double glazing, false ceiling rails, light reflectors, radiator fins, reinforced tape etc
- Domestic application: cake tins, gas canister components etc
- Electrical and electronic equipment: batteries, electrical components etc

### Pressure Factors for the Packaging

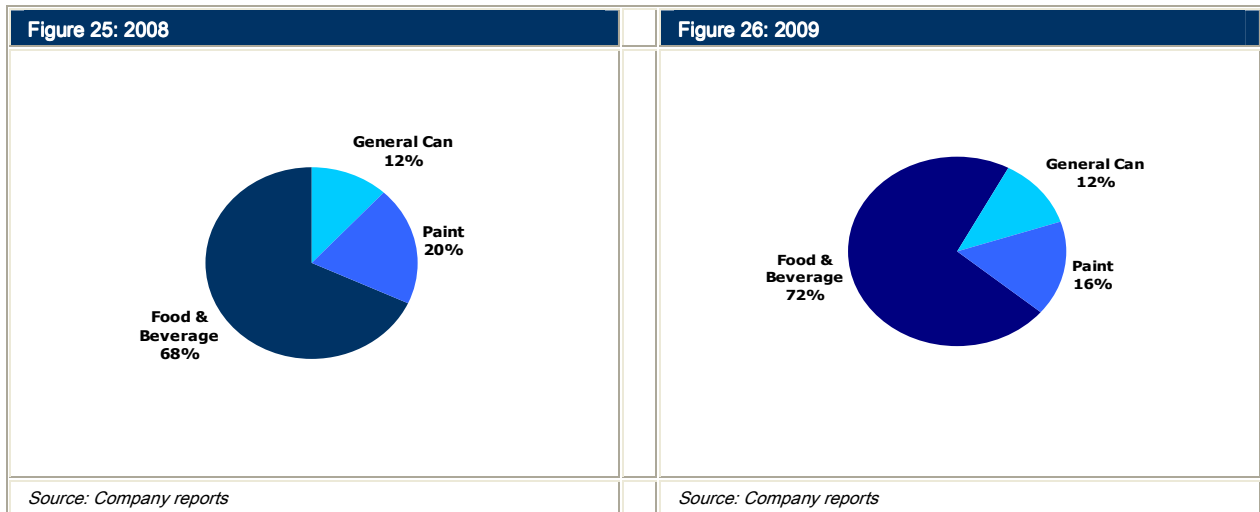
Packaging industry especially in ASEAN is subjected to competitive pressure, environmental pressure, and pressure from new regulation. According to studies made by various resources prepared by countries participants on packaging industries, these are pressure arise:

- *The consumer profile in ASEAN has changed drastically over the years.* ASEAN economic success has brought in more wealth for their people and enhanced their buying power and expectation. Hence, more and more Asian consumers are demanding quality and variety, products safety, hygiene and nutrition.
- *Cost factor.* The packaging material cost, logistic cost, have a great impact to those manufacturer who export their products to faraway distance countries.
- *Environmentalism.* Environmental pressures aimed at the solid waste problem which concerns on: 1) the perceived loss of land fill space and 2) the damage to the ozone layer caused by chlorinated flouro-carbons (CFC's)
- *Law and regulation.* The packaging industries in ASEAN should adhere the packaging legislation in Europe and USA which may forced to change new packaging design in terms of the packaging material, labeling, bar coding, and structure. However, the packaging rules and regulations in ASEAN are still in development stage.

**Important packaging for Export**

The Indonesia government realized the importance of packaging and at the same time has been providing indirect promotion, over the past two decades. Nowadays the packaging consists of traditional bamboo baskets, wood boxes, plastic boxes, and corrugated carton boxes. For this development, the Federation of Packaging Indonesia and the Institute of Packaging Indonesia have been assigned to carry out research and development of export of national food & beverage.

Therefore, the Indonesia steelmaker industry seems to focus more to the food and beverage packaging which mainly concerned with delivery and presentation of food to the customer, after the completion of the food production. In addition, it also offered a greater profit margin for the company. It is proved that the tinsplate is capable or not easily damage when it involves transportation across the island or long distance especially in Indonesia (*comprises of 17,508 islands*). In order to promote Indonesian product overseas (export), there is a need to improve the packaging standard with sufficient protection and meets international market needs and standards.



Note: Food and Beverage include milk, food, biscuit & candy, and cooking oils with an average of 36%, 24%, 10%, and 3% respectively from total tinplate consumption.

Source: Company reports

Figure 27: Geographical Tinplate Consumptions 2005A and 2011F



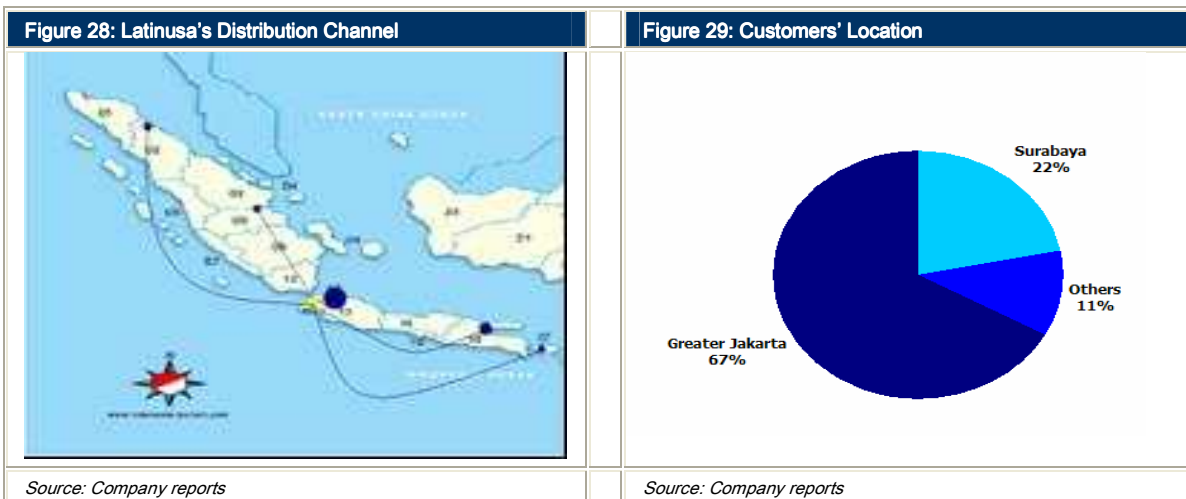
Source: Nippon Steel Corporation, Company reports

**Competition from Close Substitutes**

The usage of a host packaging alternatives such as glass, metal, aluminum, paper & board, tetrapak, plastics, PET (popularly used for mineral water) etc, however, has indirect impact to the packaging industry based on tinplate. The selection of packaging materials depends of its ability to better suit consumer convenience in terms of cost efficiency and environment friendliness. We do believe the packaging market share, especially for tinplate have significant demand as it provide better looking and better quality hygiene.

**Distribution**

Distribution generally is a constant challenge in Indonesia due to the country’s cast distance, many islands, rather undeveloped transportation infrastructure, and the huge number of consumer living in rural areas far from larger cities and the main island of Java. One of the major complaints among many wholesalers and retailers is the inadequate ports throughout the country, thus requiring the products to be unloaded into the smaller ships so they can be taken to the port. Therefore, tinplate is the best material packaging because it provides excellent barrier for distribution purposes.



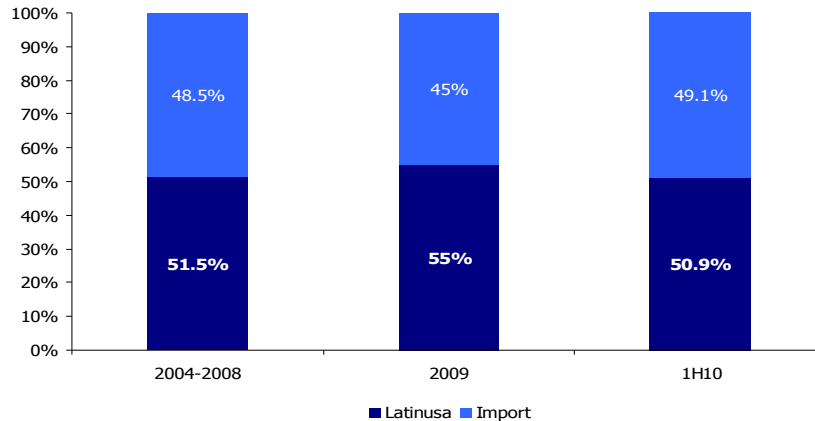
**Threat from China?**

Undoubtedly, we see China as the biggest threat to Indonesia’s tinplate industry since China may offer competitive price. China has marked its footstep in the steel industry in the world through Baosteel, Ansteel, Shougang, and Wugang (big 4 companies). China is able to provide cheap labor and industrial land for industrial & manufacturing investors. According to WORLDSTEELDYNAMICS, the cost to build steel plants and equipment in China is about 60% lower than elsewhere in the world.

China Government has aggressively encouraged restructuring and reform in local steel mills by allows scaled steel mills to issue shares and publicly offered in A-share stock market in China and H-share stock in Hong Kong, hence steel mills have more financial resources to upgrade production facilities. Besides, China Government encourages local steel mills to establish joint venture with foreign steel mills, in order acquire technology and management skills. If the quality offered from China is match the Japanese, then there will be high competition in the industry especially in Indonesia.

Currently, we still do believe that the market segment for tinplate in Indonesia is to be distinguished by the quality of product and the tinplate application. Indonesia’s sole producer of tinplate, Latinusa has higher productivity and higher technology compare to China at this moment, hence different core of competency. However, this can be a risk to Indonesia’s tinplate when the Government of China provides easy access for financing and subsidies to help steel producers to invest on importing latest technology. Nonetheless, the biggest competitive advantage of local companies like Latinusa has well-established distribution network which foreign competitors cannot compete with. Latinusa gains in tinplate market share by stay steadily above 50% although they have to compete from China with several tinplate product, such as general can, paint can, printing can, chemical tank.

Figure 30: Latinusa's Market Share 2004 – 1H10



Source: Company reports

### Effect from ACFTA?

The enactment of the Asean-China Free Trade Association (ACFTA) which is starting on January 2010, normally will face the threat or compete with the Chinese manufacturer. Only certain industries that effected from only cover petrochemicals, textiles, footwear, electronics, ceramics, and food & beverage sector. On the other hand, Latinusa as domestic construction business will benefit as the import tinplate has been taxed from China and Korea with 12.5% and 5% to Asean countries, according to the finance ministry policy of import tariff. As a consequences, the cost of production from Latinusa will be cheaper to domestic market in our view compared from china import.

Though, there are some of the finance ministry rules that could hamper Latinusa sales such as Finance ministry rules no. 176/PMK.011/2009 regarding of import duty exemption for goods and machine materials for the development. The tax exemption enable the company to import the goods from any other countries with zero percent tax under the condition of improvement in capacity production at least 30% and the supplies of the product is not enough to fulfill the domestic demand. It is obvious when increasing the number of the company on the development stage become a substantial risk for Latinusa.

### Need Stronger Regulations Implemented on Packaging

Regulations governing the packaging industry in Indonesia are still relatively minimal and the packaging industry itself is still in an early development stage. As the host of packaging industry becomes more varied over the time, the government has tried to keep up with the introduction of new regulations. However, in August 2008, Indonesia's food and drug administration body, BPOM has introduced a new regulation governing the packaging materials especially for food packaging. The regulation covers which materials are allowed or forbidden as it sound foundation and good environment for guaranteeing food safety. In fact, "plastic" is still widely used in Indonesia, especially for take-away cooked food as it minimized costs although National Agency of Drug and Food Control (NADFC), one of small institution that concern of food safety, has sent a warning regarding of potential health effect. This will be the main challenge for the government to enforce these regulations.

Some of the regulations:

- Law No 7/1996 Food – Outline the basic regulation on food safety and food security issue
- Law No 9/1999 Consumer Protection
- GR No 69/1999 Food Labeling and Advertisement
- GR No 28/2004 Food Safety, Quality, and Nutrition
- Food Safety Standards, etc

### The Emergence of Supermarkets to be key growth driver

The growth of Indonesian's economy has been complemented by a growth in retail and food consumerism, and has correspondingly impacted the packaging industry. As the fourth biggest population in the world (237,6 mio based on Indonesian population census 2010), contribution from retail sector to GDP reached about 20%. Because of major changes in consumption pattern in Indonesia have been accompanied by major changes in retailing, particularly modern retail will create another great boom in the packaging market definitely. We do believe that the presence of modern retail related to psychology of customer, such as product complete & cleanliness, more comfort shopping environment, safety, and also brand image (low price with high quality, prestige, and so on).

Figure 31: Number of Traditional Retail and Modern Retail outlet in Indonesia

	2003	2004	2005	2006	2007
Traditional Store <i>growth</i>	1,694,747	1,745,589 3%	1,787,897 2%	1,846,752 3%	1,900,332 3%
Mini Market <i>growth</i>	4,038	5,604 39%	6,456 15%	7,476 16%	8,889 19%
Supermarket <i>growth</i>	896	956 7%	1,141 19%	1,277 12%	1,379 8%
Hypermarket <i>growth</i>	43	68 58%	83 22%	105 27%	121 15%

*IPS Comment: The data strengthen fact that growth of modern retail is higher than the traditional retail.*

Source: Modern Retailers' Association (APRINDO)

### To be Greatest Sole Producer of Tinplate and Profitable

The threats of new entrants enter to the industry is low in our view as it required high technology and strong financial support. The tinplate production requires high technology or sophisticated machinery which could not be learned within short period of time. In addition, sometimes repairing is time consuming due to the lack of spare parts which need to be imported.



### Company's Key Information

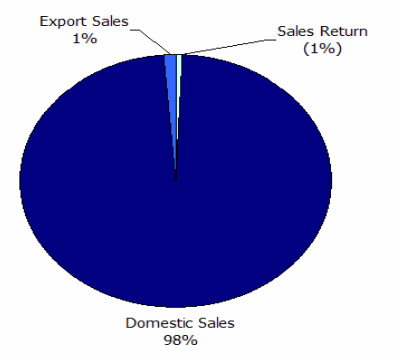
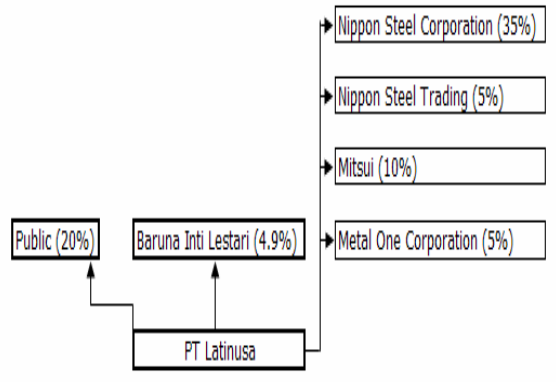
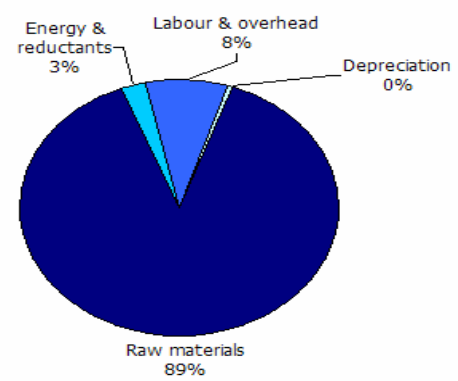
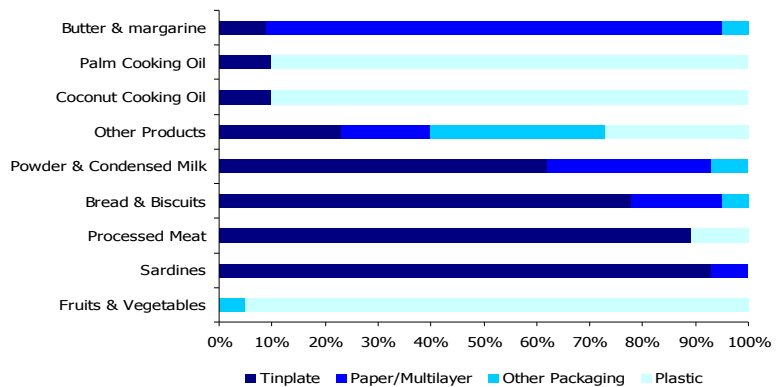
Exhibit 1 : Company Data	Exhibit 2: Sales Revenue Breakdown
<p><b>Company Data</b></p> <p>Industry structure : Competitive</p> <p>Customers : UCC, Cometa Can, Frisian Flag, Jaya Lestari, etc</p> <p>Competitors : Chinese Companies</p> <p>Markets : Mainly domestic (Jakarta &amp; Surabaya)</p> <p>Regulation : Weak (Early Stage)</p>	 <p>A pie chart illustrating the sales revenue breakdown. The largest portion is Domestic Sales at 98%, followed by Export Sales at 1% and Sales Return at 1%.</p>
<p>Source: Company reports, IPS estimates</p>	<p>Source: Company reports</p>

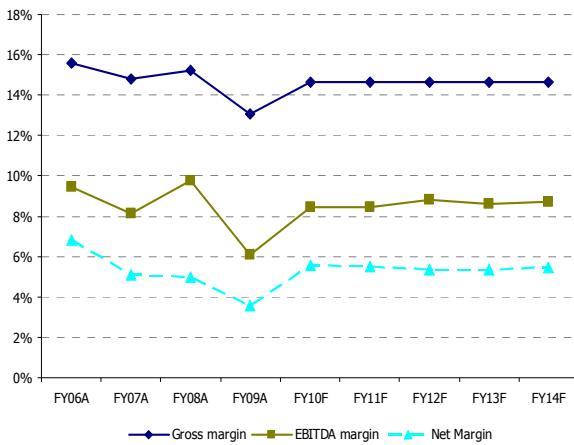
Exhibit 3 : Ownership Structure – October 2010	Exhibit 4: Cost Structure
 <p>A hierarchical ownership structure diagram. At the top is PT Latinusa. Below it are Public (20%) and Baruna Inti Lestari (4.9%). Further down, PT Latinusa is owned by Nippon Steel Corporation (35%), Nippon Steel Trading (5%), Mitsui (10%), and Metal One Corporation (5%).</p>	 <p>A pie chart illustrating the cost structure. Raw materials account for 89%, Labour &amp; overhead for 8%, Energy &amp; reductants for 3%, and Depreciation for 0%.</p>
<p>Source: Company reports</p>	<p>Source: Company reports</p>

### Exhibit 5: Tinplate Consumption Relative to Segments



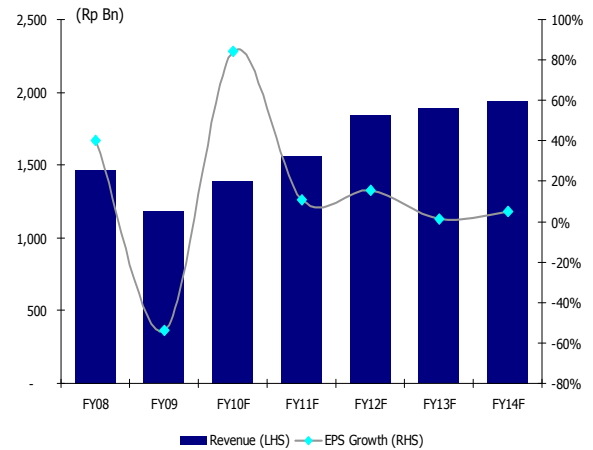
Source: Company data

Exhibit 6 : Revenue margin



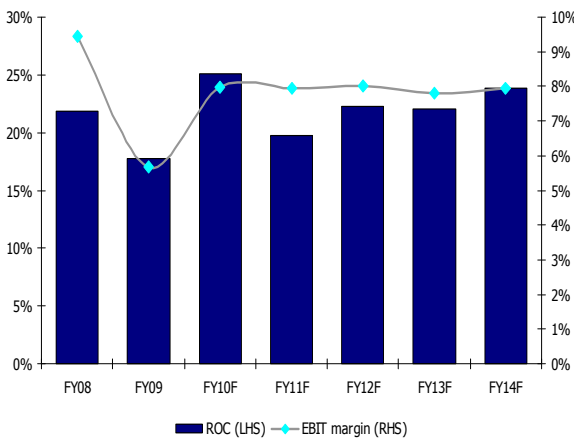
Source: Company reports

Exhibit 7: Revenue vs EPS Growth



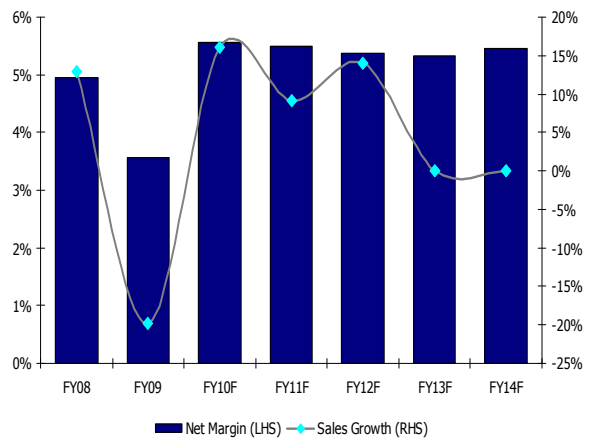
Source: Company reports

Exhibit 8 : Profitability Ratio



Source: Company reports

Exhibit 9: Profitability Ratio



Source: Company reports

Exhibit 10 :

**The Major Crude Steel Producing Countries**

1998, output in '000 tonnes

China	114,588
USA	98,658
Japan	93,548
Germany	44,046
Russia	43,822
South Korea	39,896
Brazil	25,760
Italy	25,714
Ukraine	24,445
India	23,480

Source: IISI

Exhibit 11:

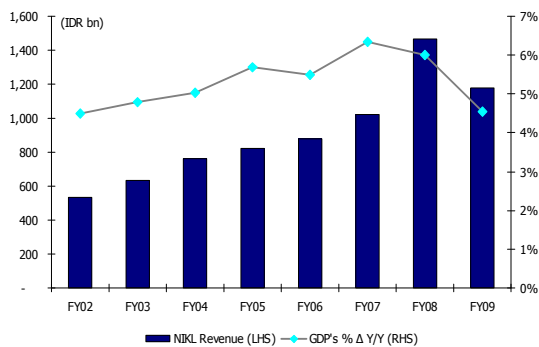
**The Major Crude Steel Producing Countries**

2008, output in '000 tonnes

China	500,488
Japan	118,738
USA	91,490
Russia	68,500
India	55,050
South Korea	53,833
Germany	45,833
Ukraine	37,100
Brazil	33,713

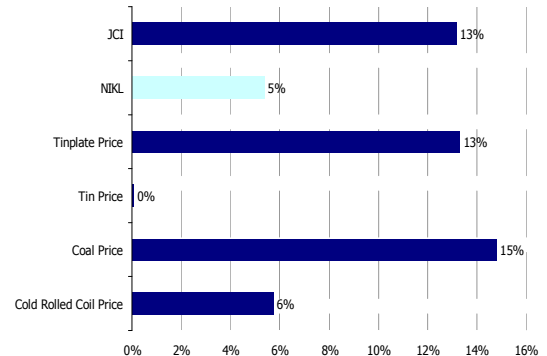
Source: IISI

**Exhibit 12: NIKL's Revenue correlated with % change of GDP Indonesia**



Source: Company reports, Statistic Indonesia

**Exhibit 13: Stock Price Performance (Six-months)**



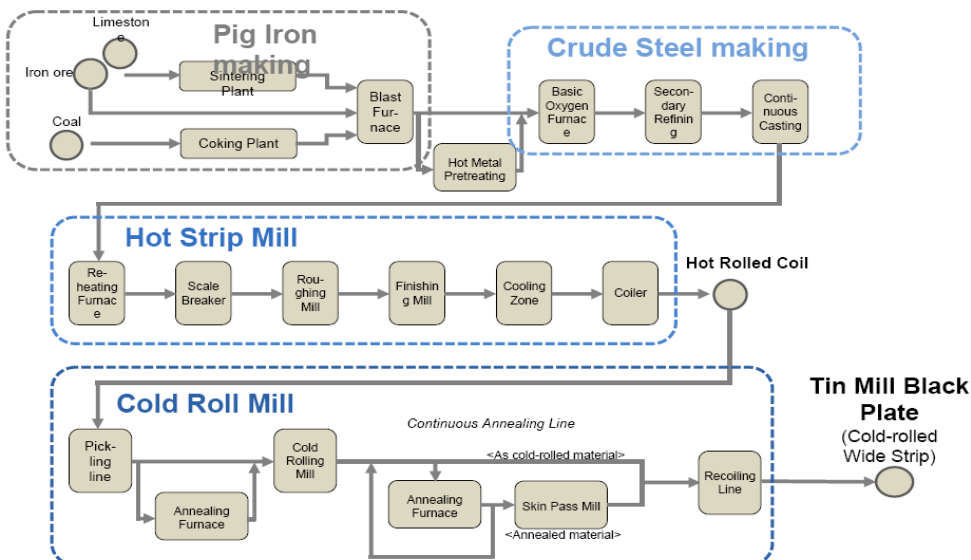
Source: Company reports

**Exhibit 14: Major Nations' Tinplate Statistic ('000 tonne)**

		2008	2009	January-10	February-10	March-10	April-10	
US	Tinplate	Production	1,778	1,441	138	139	191	-
		% YoY change	0.5%	-19.0%	34.2%	46.8%	78.1%	-
		Consumption	1,830	1,514	155	153	206	-
		% YoY change	-10.7%	-17.3%	46.5%	71.1%	90.9%	-
Japan	Tinplate	Production	1,115	915	81	82	101	93
		% YoY change	12.10%	-17.90%	27.90%	34.70%	53.10%	44.20%
		Consumption	491	403	34	35	57	-
		% YoY change	-3.0%	-17.9%	114.3%	13.4%	130.8%	-
Taiwan	Tinplate	Production	216	185	19	15	19	-
		% YoY change	5.4%	-14.2%	69.2%	6.4%	35.4%	-
		Consumption	141	90	13	-	-	-
		% YoY change	13.7%	-36.3%	171.3%	-	-	-
South Korea	Tinplate	Production	628	547	58	58	65	63
		% YoY change	-2.3%	-8.5%	57.2%	37.8%	24.5%	17.7%
		Consumption	245	314	22	25	-	-
		% YoY change	49.1%	28.2%	210.9%	188.8%	-	-

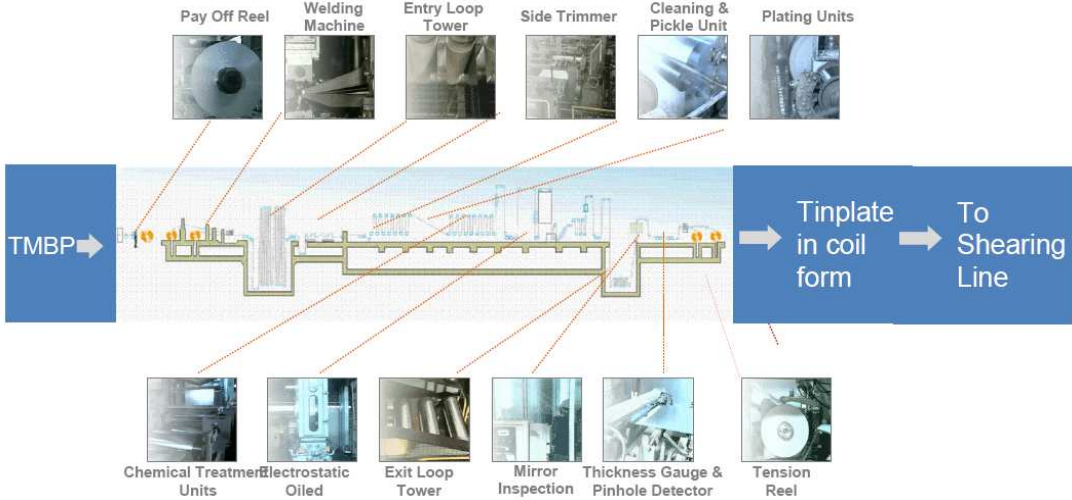
Source: AISI, Stats Canada, JISF, KOSA, TSIAA, ISSB, IBS

**Exhibit 15: TMBP Production Process in Nippon Steel Corp (Japan)**



Source: Company reports

Exhibit 16: Value Chain in Tinplate Production



Source: Company reports

Income statement	2008	2009	2010F	2011F	2012F
<b>Year-end 31 Dec (Rp Bn)</b>					
<b>Sales</b>	<b>1,465.9</b>	<b>1,180.3</b>	<b>1,393.4</b>	<b>1,561.3</b>	<b>1,843.8</b>
COGS	(1,243.0)	(1,026.3)	(1,189.0)	(1,332.3)	(1,573.3)
Gross profit	222.9	154.0	204.4	229.0	270.4
<b>EBITDA</b>	<b>143.0</b>	<b>71.7</b>	<b>117.5</b>	<b>132.1</b>	<b>162.4</b>
Operating expense	(84.4)	(87.0)	(93.3)	(105.0)	(122.4)
<b>Operating profit</b>	<b>138.5</b>	<b>66.9</b>	<b>111.0</b>	<b>124.0</b>	<b>148.0</b>
Pre-tax profit	108.6	57.0	107.4	119.0	137.6
Income tax - net	(35.9)	(15.1)	(30.1)	(33.3)	(38.5)
Minority interest	-	-	-	-	-
<b>Net profit</b>	<b>72.7</b>	<b>42.0</b>	<b>77.4</b>	<b>85.7</b>	<b>99.1</b>
EPS (Rp)	36	17	31	34	39

\*) after adjusting quasi reorganization

Balance sheet	2008	2009	2010F	2011F	2012F
<b>As at 31 Dec (Rp Bn)</b>					
<b>Assets</b>					
Cash and equiv	29.6	197.8	315.4	239.1	291.1
Receivables	254.7	165.0	194.8	218.3	257.8
Inventories	427.9	163.1	192.5	215.8	254.8
Prepaid exp	1.5	2.3	2.5	2.3	2.9
<b>Total current assets</b>	<b>713.7</b>	<b>528.2</b>	<b>705.3</b>	<b>675.5</b>	<b>806.6</b>
Net fixed assets	27.1	26.7	52.8	172.1	164.0
Other assets	50.2	52.2	59.8	63.8	74.8
<b>Total assets</b>	<b>792.2</b>	<b>608.3</b>	<b>819.1</b>	<b>912.6</b>	<b>1,046.6</b>
<b>Liabilities and equities</b>					
Payables	150.5	17.4	20.5	23.0	27.1
ST. debt and curr. maturity	222.6	77.0	176.5	197.8	233.5
Other current liabilities	98.6	19.4	62.6	65.7	78.6
Accrued Exp	29.2	31.1	29.1	33.5	40.8
Est liab for employee benefits	31.7	36.0	42.4	49.9	58.9
<b>Total Liabilities</b>	<b>532.5</b>	<b>180.8</b>	<b>331.0</b>	<b>369.7</b>	<b>439.0</b>
<b>Minority Interest</b>					
<b>Shareholders' equity</b>	<b>259.7</b>	<b>427.5</b>	<b>488.1</b>	<b>542.8</b>	<b>607.6</b>
BVPS (Rp)	-	103	169	193	215

Cashflow analysis	2008	2009	2010F	2011F	2012F
<b>Year-end 31 Dec (Rp Bn)</b>					
<b>CFs from operation</b>					
Net profit	72.7	42.0	77.4	85.7	99.1
Depreciation/amortz.	4.5	3.6	5.7	7.3	13.6
Change in working capitals	(30.2)	(2.3)	84.3	(15.2)	(18.9)
<b>CFs from operation</b>	<b>47.0</b>	<b>43.3</b>	<b>167.4</b>	<b>77.8</b>	<b>93.8</b>
<b>CFs from investments</b>					
	<b>(12.7)</b>	<b>(5.2)</b>	<b>(39.4)</b>	<b>(130.6)</b>	<b>(16.5)</b>
<b>CFs from financing activ.</b>					
	<b>(25.2)</b>	<b>130.1</b>	<b>(10.4)</b>	<b>(23.5)</b>	<b>(25.2)</b>
<b>Net inc/(dec) in cash</b>	<b>9.0</b>	<b>168.2</b>	<b>117.6</b>	<b>(76.3)</b>	<b>52.0</b>
<b>Cash at end period</b>	<b>29.6</b>	<b>197.8</b>	<b>315.4</b>	<b>239.1</b>	<b>291.1</b>
DPS (Rp)	15.8	6.7	12.3	13.6	15.7

Key ratio analysis	2008	2009	2010F	2011F	2012F
<b>Year-end 31 Dec</b>					
<b>Profitability</b>					
Gross Margin	15.2%	13.0%	14.7%	14.7%	14.7%
EBIT margin	9.4%	5.7%	8.0%	7.9%	8.0%
EBITDA margin	9.8%	6.1%	8.4%	8.5%	8.8%
Pre-tax Margin	7.4%	4.8%	7.7%	7.6%	7.5%
Net Income margin	5.0%	3.6%	5.6%	5.5%	5.4%
ROE (%)	28.0%	9.8%	15.9%	15.8%	16.3%
ROA (%)	9.2%	6.9%	9.4%	9.4%	9.5%
<b>Growth</b>					
Revenue	43.5%	-19.5%	18.1%	12.1%	18.1%
Operating Profit	74.9%	-51.7%	65.8%	11.7%	19.3%
EBITDA	71.7%	-49.9%	63.9%	12.4%	22.9%
Net Income	40.3%	-42.2%	84.2%	10.8%	15.6%
<b>Solvability</b>					
Current ratio (x)	1.4	3.6	2.4	2.1	2.1
Quick ratio (x)	0.9	0.2	0.4	0.4	0.4
Debt to equity (x)	7.8	6.4	12.5	9.5	9.8
Interest cov. (x)	12%	8%	9%	9%	10%

# PT INDO PREMIER SECURITIES

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