

ANALISA SAHAM INDONESIA

August 24, 2020

- * **The JCI trading range: 5,225pt - 5,375pt (Wednesday close: 5,273pt)**
- * **Wall Street closed higher on improving the US manufacturing and services IHS index**
- * **The JCI is expected to fluctuate but supported by stable oil and USDIDR close**

Morning,

The Jakarta Composite Index (JCI) today (24/8) is expected to be positive within the range of 5,225pt – 5,375pt by support of stable USDIDR and oil close. Meanwhile Friday last week (21/8) in Wall Street the DJIA ended lower by 191 points or 0.7% at 27,930pt, while the S&P500 and the Nasdaq both closed higher by 0.3% and 0.4%, respectively. Wall Street responded positively on data of the United States manufacturing activity from the IHS Market that hit its highest level in 19 months in August, while services were at their highest level in 17 months.

Indonesia consumer sector

is listening to the vibes of gold

- ***Maintain our BUY call on United Tractor with a 12M-TP of IDR 31,000***

We maintain the investment recommendation of United Tractors (UNTR) as BUY, given the latest progress of the company, with a 12-TP of IDR31,000/share, or representing a prospect of annual capital gain of 31% against last close of IDR23,475 (19/8). At the appointed target price, derived from an annualized FY20 estimate of this year's earnings, UNTR is trading at 14 x earnings which is below its historical peaks of 17x earnings and below the current weighted-average of Jakarta stock market universe of 28.0 x earnings.

The risks to our valuation approach is mitigated from the following factors. 1) bottoming coal price, 2) limited downside from current earnings multiple, 3) increasing gold prices.

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Timely investments in gold mining

UNTR finalized its purchase of gold mining of Martabe, in south Tapanuli in North Sumatera at end of December 2018. UNTR consolidated the 95% owned Agincourt Resources the right-holder to explore, mine, and process gold from the mine. As at end of 2018, the gold mine sold 35k ounces of gold (1Q19:97k oz, FY19: 410k oz). Last year, revenue from gold mining contributed 9% to total consolidated one at IDR7.9tr. Meanwhile, until end of June this year, gold mining sold 186k of gold (1H19: 195k oz), decreased by 4% YoY because of less mining activities due to the limited-lock down condition. Nevertheless, the lower volume was being offset by higher gold prices and led to a 11% YoY growth of revenue to IDR4tr. Gold mining contributed 12% to total consolidated revenue. This year, UNTR expect to sell 360k oz of gold.

Gold mining division is expected to provide support during the declining trend of coal price and trigger leverage during the reversal. Last coal price of coal was at USD49/tonne last week (December 2019: USD68/tonne). Current declining trend is limited, as slowing down of exploration would lead to less supply in the immediate short term, in our note. This implies, investor may bet nice surprise from higher coal price. Higher coal price will impact positively to the other divisions of the company, namely, Construction Machinery, Mining Contracting, and Mining.

As at end of June this year, Construction Machinery, Mining Contracting, Mining, Gold Mining, and Contruction Industry accounted for 22%, 46%, 18%, 12%, 2%, respectively, to total consolidated revenue of UNTR of IDR33.2tr (2019: IDR84.4tr, 1H19:IDR43.4tr).

The company has a strong balance, at net cash in June 2020 which composed of interest-bearing debt of IDR11.6tr while cash of IDR16.9tr. At the other end, last December, the net gearing stood at 1%, while gross gearing at a moderate 21%.

At the other end, Friday last week the WTI price closed lower by 1.1% at USD42.3/barrel demand worries. Meanwhile the USDIDR closed at IDR14.786 vs. IDR14.907 the previous one.

We advise the following recommendations, for both trading and longer-time investment purpose. **AALI, LSIP (sector of Agri, allocation suggestion Underweight), UNTR, ITMG, ADRO, PTBA (sector of Coal Mining, allocation suggestion Market-weight), GGRM, UNVR, ICBP (sector of Consumer, allocation suggestion Overweight), ASII (sector of Automative, allocation suggestion Market-weight), and ACES, SCMA, MAPI (sector of Trade, allocation suggestion Overweight),and TKIM (sector of Basic Industry, allocation suggestion Market-weight).**

Cheers,

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