

23 January 2019
Integrated Steel industry, Equity

Price IDR. 464
Target Price IDR. 735
JKSE Index 6448.16



Stock Code
Bloomberg code KRAS IJ
Market cap (IDR.bn) 8860.6
52-Week High (IDR) 570
52-Week Low (IDR) 366
6-m Avg Daily. Val (IDR) 404
Free Float (%) 20

Major Shareholders (%)
Government 80%
Public 20%

USD/IDR-YE
2018FY 14390
2019F(Avg) 14228

Key Indicators 2019F
Debt/ Equity (x) 1.72
Current ratio (x) 0.80

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Investment Consideration

63% increase in Hot steel mill capacity

As of 9M18, development progress of the second Hot Steel Mill 2 (HSM#2) which has a total production capacity of HRC of 1.5 mn tons has reached 86.83% and is expected to be completed by 3Q19. After the expansion, total hot steel mill capacity will be 3.9 mn tons or an increase of 63% and total rolling mill capacity will increase from 3.15mn tons to 4.65mn tons or 48% by 2019. Progress on the new blast furnace complex has reached 99.56% as of 9M18 and operations started in Dec 2018. This blast furnace is targeted to save costs of up to USD. 50/ton. As of 1H18, KRAS market share for HRC was 41%, CRC 267% and WR 7%. These are improvements from our last report. According to Bloomberg, tight regional supply and demand and China reducing its exports will support global steel. In addition, in 2018 government has issued to limit steel imports that come into force starting on January 20, 2019. This regulation is a strong growth catalyst for national steel industry, which KRAS will be the main beneficiary.

Expects better margin

Going forward, KRAS expects better margins from a higher average selling price of all steel products and also through an efficiency program which includes strategic projects like the blast furnace complex where as of 2018FY construction progress has reached 99.56% and which started operating in Dec. Efficiency has also come from the procurement of raw materials and energy at a lower cost, overhead cost efficiency, and a reduced financial expenses program. We are targeting in 2019 the Net profit margin of KRAS will improve to 0.34% compared to a net loss in 2018. The Net loss in 9M18 already declined 35% yoy from USD. (75.0)mn to a net loss of USD. (37.4)mn

Valuation: significant upside

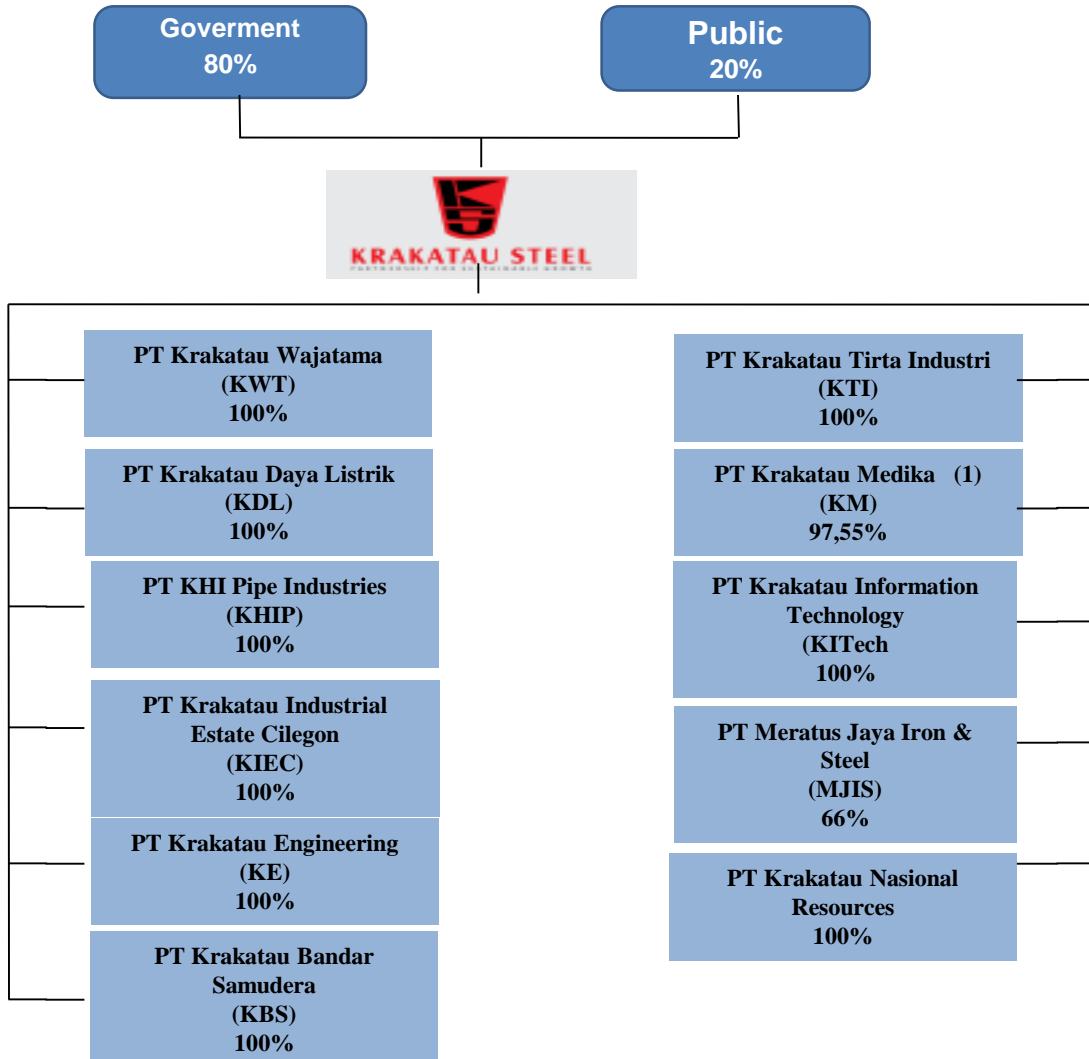
Based on DCF, with expectation of a positive bottom line and WACC at 9.1%, we have a one year KRAS target price of IDR. 735/share or 58% upside potential. We recommend to BUY.

Profit and Loss (US\$.mn)	2015A	2016A	2017A	2018F	2019F
Revenues	1321.82	1344.72	1449.02	1778.49	2412.30
Cost of revenues	(1358.26)	(1189.49)	(1229.90)	(1618.43)	(2098.70)
Gross Profit	(36.43)	155.23	219.12	160.06	313.60
Operating expense	(147.12)	(150.84)	(168.38)	(177.85)	(265.35)
Operating Profit	(183.55)	4.39	50.74	(17.78)	48.25
Other income	(143.91)	(196.09)	(128.68)	(35.57)	(48.25)
Pretax income(PBT)	(327.46)	(191.70)	(77.93)	(53.35)	(0.00)
taxes	0.94	10.98	(8.17)	(0.53)	0.00
Non Controlling Interest	6.49	9.03	4.35	6.05	8.20
Net Profit	(320.03)	(171.69)	(81.75)	(47.84)	8.20
EPS	(0.0203)	(0.0101)	(0.0042)	(0.0025)	0.0004
EBITDA	(109.69)	78.13	119.78	48.49	127.65

Company Profile

PT Krakatau Steel (Persero) Tbk (KRAS) was founded in 1970 with its headquarter located in Cilegon. The company along with its subsidiaries, engages in the production and trading of iron and steel products in Indonesia and in Internationally. KRAS operates in five segments including Steel products, real Estate and Hotels, Engineering and Construction, Port Services, and Other Services. The steel products segment is primarily involved in production and sale of steel products such as HRC (hot rolled coils), CRC (cold rolled coils), Wire Road, Steel Bar, Steel Section, and Steel pipes (Spiral and ERW) as well as the provision of services related to steel, including coating and tolling services. The Real estate and Hotels segment develops and sells industrial estates as well as infrastructure, and hotels. The engineering and Construction segment is involved in the construction, industrial engineering, planning, and contracting of various types of buildings; export and import of goods; and provision of services and software related to the aforementioned activities. The Port Services Provider segment offers pier services for berthing, loading, and unloading goods and containers; and sea port support, warehousing, and transport services. The Other Services segment provides information technology, medical, electricity, and water distribution services for industrial and residence needs. In terms of supply sector projects, KRAS mainly supplies its products to the Infrastructure (Roads & Bridges) and Energy (Gas & oil pipes and electricity towers) sectors.

Company Structure



Source: Company

Chart: HSM capacity yoy capacity (in mn tons)

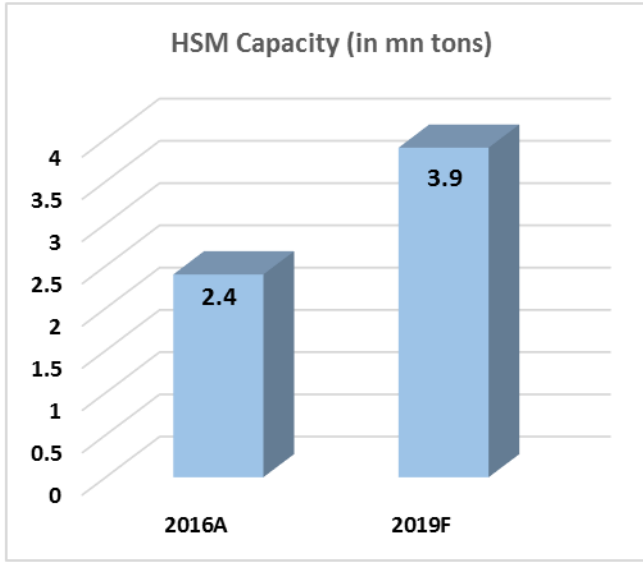


Chart: NPM vs EBITDA margin yoy (%)

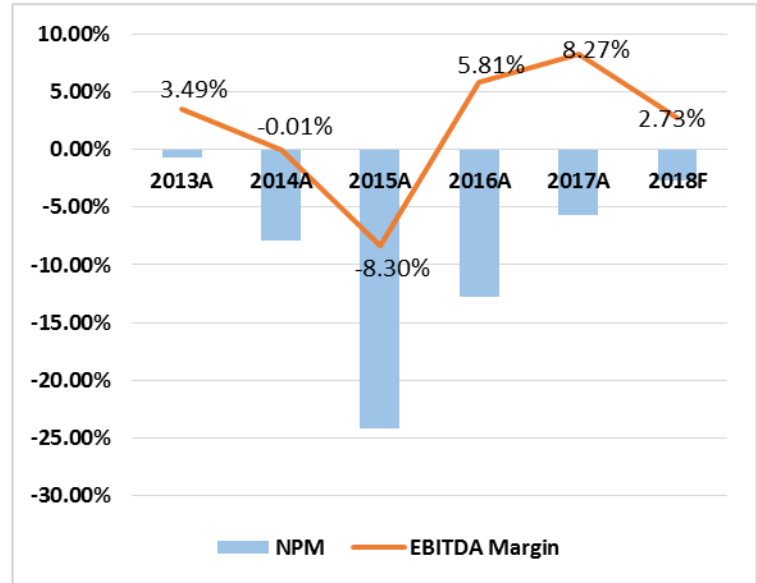


Chart: rolling mill capacity yoy (in mn tons)

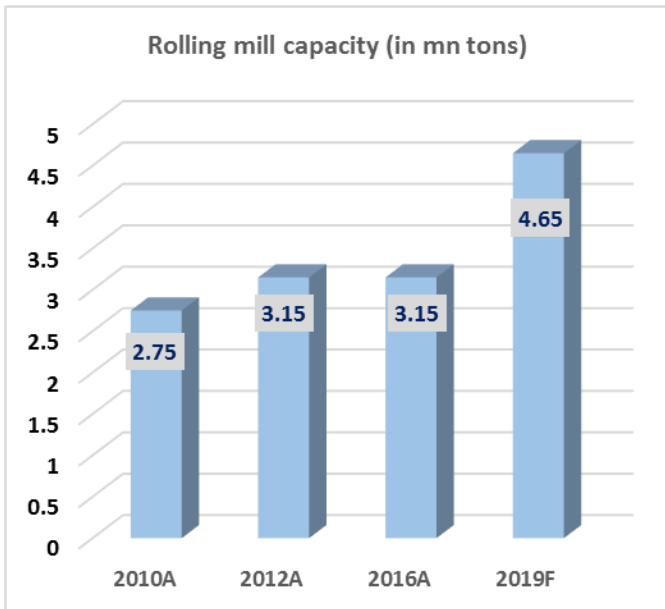
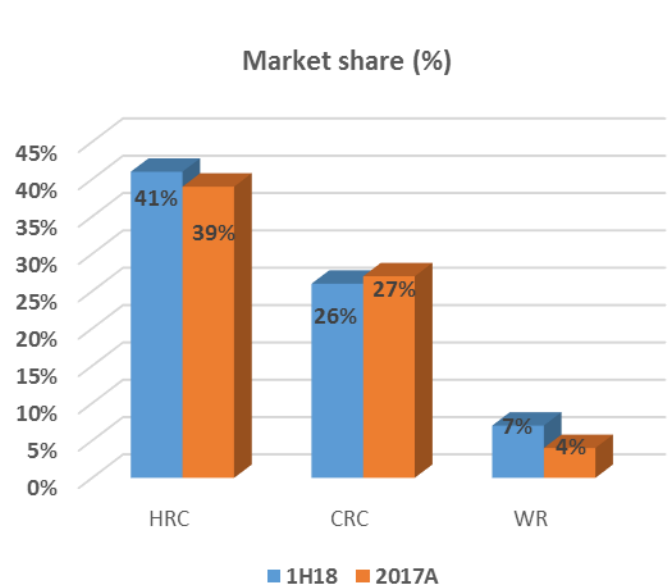


Chart: Market share of HRC, CRC, WR



Balance Sheet (US\$.mn)

Balance sheet (US\$. In mn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F
Cash and cash equivalent	190.23	236.69	132.59	264.95	280.87	192.53	380.72
STI & Restricted cash & time deposits	7.84	20.17	40.10	1.09	1.73	0.00	0.00
Trade Account Receivable	276.17	248.83	211.25	182.54	204.69	213.42	313.60
inventory	519.09	480.87	408.62	473.96	488.50	604.69	820.18
Other current asset	101.90	72.07	99.73	74.79	45.90	120.98	96.49
Current Asset	1095.22	1058.62	892.29	997.32	1021.70	1131.61	1610.99
Net Fixed Asset	857.74	1097.41	2356.41	2454.39	2624.46	2835.72	3072.72
Intangible assets	0.00	0.00	1.23	37.45	34.69	27.58	24.82
Estimated claims for tax refund	54.45	58.42	42.34	32.00	31.74	26.05	26.05
other long term asset	375.80	389.90	409.88	415.55	401.80	426.84	482.46
Total non current Asset	1287.99	1545.73	2809.85	2939.39	3092.69	3316.18	3606.04
Total Asset	2383.21	2604.36	3702.14	3936.71	4114.39	4447.79	5217.04
Trade Account Payable	179.90	202.88	152.06	184.86	251.02	231.20	313.60
Short Term bank loans	800.48	1037.15	1143.89	894.13	923.13	1060.65	1390.65
Other Short term liabilities	157.77	173.26	169.38	145.51	187.76	231.20	313.60
Total current liabilities	1138.15	1413.30	1465.33	1224.50	1361.91	1523.06	2017.85
Long term bank loans	146.03	247.83	405.49	802.29	797.86	859.31	1059.31
Other Long term liabilities	52.06	57.30	43.30	70.25	101.81	160.06	217.11
Total long term/ non current liabilities	198.08	305.13	448.79	872.54	899.67	1019.37	1276.42
Total Liabilities	1336.23	1718.42	1914.12	2097.04	2261.58	2542.43	3294.26
Total Equities	1046.98	885.93	1788.03	1839.68	1852.81	1905.36	1912.77
Total Liabilities and equity	2383.21	2604.36	3702.14	3936.71	4114.39	4447.79	5207.04

Profit and Loss (US\$.mn)

Profit and Loss (US\$.mn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F
Revenues	2,084	1868.85	1321.82	1344.72	1449.02	1778.49	2412.30
Cost of revenues	(1,989)	(1827.51)	(1358.26)	(1189.49)	(1229.90)	(1618.43)	(2098.70)
Gross Profit	96	41.33	(36.43)	155.23	219.12	160.06	313.60
Operating expense	(97)	(112.19)	(147.12)	(150.84)	(168.38)	(177.85)	(265.35)
Operating Profit	(1)	(70.85)	(183.55)	4.39	50.74	(17.78)	48.25
Other income	(14)	(112.13)	(143.91)	(196.09)	(128.68)	(35.57)	(48.25)
Pretax income(PBT)	(15)	(182.99)	(327.46)	(191.70)	(77.93)	(53.35)	(0.00)
taxes	1	28.80	0.94	10.98	(8.17)	(0.53)	0.00
Non Controlling Interest(0.39)		7.07	6.49	9.03	4.35	6.05	8.20
Net Profit	(14)	(147.11)	(320.03)	(171.69)	(81.75)	(47.84)	8.20
EPS	-0.0009	(0.0093)	(0.0203)	(0.0101)	(0.0042)	(0.0025)	0.0004
EBITDA	73	(0.22)	(109.69)	78.13	119.78	48.49	127.65

Cash flow (US\$.mn)

Cash Flow (In US\$ mn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F
Current Assets	904.99	821.93	759.70	732.37	740.83	939.08	1230.27
Current Liabilities	1138.15	1413.30	1465.33	1224.50	1361.91	1523.06	2017.85
WC	(233.16)	(591.36)	(705.63)	(492.13)	(621.08)	(583.98)	(787.58)
Cash From Operating Activities	177.96	281.73	(131.90)	(311.45)	116.24	(18.67)	291.20
capex	(182.64)	(310.31)	(1332.86)	(171.73)	(239.10)	(277.53)	(316.40)
Intangible assets	0.00	0.00	(1.23)	(36.23)	2.76	7.12	2.76
Estimated claims for tax refund	(54.45)	(3.98)	16.08	10.34	0.26	5.69	0.00
other long term asset	37.56	(14.10)	(19.98)	(5.67)	13.75	(25.04)	(55.62)
cash from investing activities	(199.53)	(328.38)	(1337.98)	(203.28)	(222.33)	(289.76)	(369.27)
Long term loans	(8.77)	101.80	157.66	396.80	(4.42)	61.44	200.00
other long term liabilities	5.32	5.25	(14.00)	26.95	31.56	58.26	57.04
Equity	(55.02)	(13.93)	1222.13	223.34	94.88	100.39	(0.79)
cash from financing activities	(58.47)	93.12	1365.78	647.09	122.01	220.09	256.25
Net Changes in Cash	(80.04)	46.46	(104.10)	132.37	15.92	(88.34)	178.19
Beginning Balance	270.27	190.23	236.69	132.59	264.95	280.87	192.53
Ending balance	190.23	236.69	132.59	264.95	280.87	192.53	370.72

Ratio Highlights

Ratio Highlights	2013A	2014A	2015A	2016A	2017A	2018F	2019F
Growth (% YoY)							
Sales	-8.9%	-10.3%	-29.3%	1.7%	7.8%	22.7%	35.6%
OP	-106.7%	6540.5%	159.1%	-102.4%	1055.9%	-135.0%	-371.3%
EBITDA	8.8%	-100.3%	50681.0%	-171.2%	53.3%	-59.5%	163.3%
NP	-31.6%	951.9%	117.5%	-46.4%	-52.4%	-41.5%	-117.1%
EPS	-31.6%	951.9%	117.5%	-50.1%	-58.3%	-41.5%	-117.1%
Profitability (%)							
Operating Margin	-0.1%	-3.8%	-13.9%	0.3%	3.5%	-1.0%	2.0%
EBITDA margin	3.5%	0.0%	-8.3%	5.8%	8.3%	2.7%	5.3%
NET Profit margin	-0.7%	-7.9%	-24.2%	-12.8%	-5.6%	-2.7%	0.3%
ROA	-0.6%	-5.6%	-8.6%	-4.4%	-2.0%	-1.1%	0.2%
ROE	-1.3%	-16.6%	-17.9%	-9.3%	-4.4%	-2.5%	0.4%
Solvability							
Debt/ equity (x)	1.28	1.94	1.07	1.14	1.22	1.33	1.72
Debt ratio (x)	0.56	0.66	0.52	0.53	0.55	0.57	0.63
Liquidity							
Current Ratio (X)	0.96	0.75	0.61	0.81	0.75	0.74	0.80
Per Share data (US\$)							
EPS	(0.0009)	(0.0093)	(0.0203)	(0.0101)	(0.0042)	(0.0025)	0.0004
BVS	0.0664	0.0562	0.1133	0.0951	0.0958	0.0985	0.0989

Stock Ratings:

Buy: a recommendation to purchase the security with upside potential of 20% or greater

Hold: a recommendation to neither buy nor sell a security with upside potential of 0-20%.

Sell: a recommendation to close out a long position in a security with upside potential below 0% or negative.

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