

27 January 2021
Steel products, Equity

Price IDR. 655
Target Price IDR. 1120
JKSE Index 6140,17



Stock Code
Bloomberg code KRAS IJ
Market cap (IDR.bn) 14026.1
52-Week High (IDR) 865
52-Week Low (IDR) 124
6-m Avg Daily. Val (IDR) 725
Free Float (%) 20

Major Shareholders (%)
Government 80.00
Public 20.00

USD/IDR-YE
2020A 14050
2021F 14040

Key Indicators 2021F
Total Debt/ Equity (x) 8.84
Current ratio (x) 2.13

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Investment Consideration

Production target 170000 ton/months

The Covid19 pandemic caused steel demand to decline significantly. Steel consumption in Indonesia was 5.9 million tons in H120, a decrease of 18% from 2019 (y-o-y). KRAS's sales decreased in 2Q20 in line with the impact of Covid-19. As of 1Q20, sales increased to 143000 tons/month compared to 2019FY, 127000 tons/month. As of 2Q20, sales realization decreased to 87000 tons/month. As of 3Q20, sales began to recover to 151000 tons/month. KRAS targets steel production in 2021 at 170000/month in line with the government's economic recovery program in 2020 which will begin to see its impact in 2021 if Covid-19 subsides and the vaccine succeed.

Improving operating margin

The Company continues to make efficiencies to improve the operating costs, and 9M20 shows a decrease in opex. As of 9M20, opex compared to 2019FY has decreased by 50%. Operating costs in 9M20 decreased -73%yoy compared to 9M19 so that in 9M20 the OPM was 8% compared to a 9M19 OPM of -9%. We estimate that in 2021, KRAS will continue to show an improved performance in line with the impact of efficiency in the company's operating expenses. We estimate OPM 2020F and 2021F at 5.14% and 6.78% respectively compared to -31.59% in 2019FY.

Progress of strategic projects

The company's strategic project, HSM (Hot Strip Mill) #2 project which will increase HRC production capacity by 1.5 million tons is progressing. Construction is already 100% but commissioning was delayed as the process requires technicians from Germany because HSM#2 uses German technology. The commissioning is now underway and we expect to see results in January 2021 and the first coil production around April 2021. The new Blast Furnace is being discussed with prospective partners. These projects will lead to improvements in technology and improve the competitiveness and performance of Krakatau Steel.

Valuation: 71% upside

Based on EV/EBITDA at 6x, we have a one year target price (TP) for KRAS of IDR 1120 or 71% upside

Profit and Loss (US\$.mn)	2016A	2017A	2018A	2019A	2020F	2021F
Revenues	1.345	1.449	1.742	1.421	1.286	1.498
Cost of revenues	(1.189)	(1.230)	(1.590)	(1.404)	(1.053)	(1.232)
Gross Profit	155	219	152	17	233	266
Operating expense	(151)	(168)	(245)	(466)	(167)	(165)
Operating Profit	4	51	(93)	(449)	66	102
Other income	(196)	(129)	(80)	(82)	(129)	(150)
Pretax income(PBT)	(192)	(78)	(173)	(531)	(63)	(48)
taxes	11	(8)	6	25	4	3
Minority interest in net profit of subsidiaries	9,03	4,35	0,03	1,73	4,37	5,09
Net Profit	(172)	(82)	(168)	(504)	(54)	(40)
EPS	-0,0101	-0,0042	-0,0087	-0,0260	-0,0028	-0,0021
EBITDA	78	120	-34	-384	135	173

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 in Indonesia internationally. KRAS operates through five segments including Steel products, real Estate and Hotels, Engineering and Construction, Port Services Provider, 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 with the infrastructure, and hotels and spot facilities. 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

Company Structure

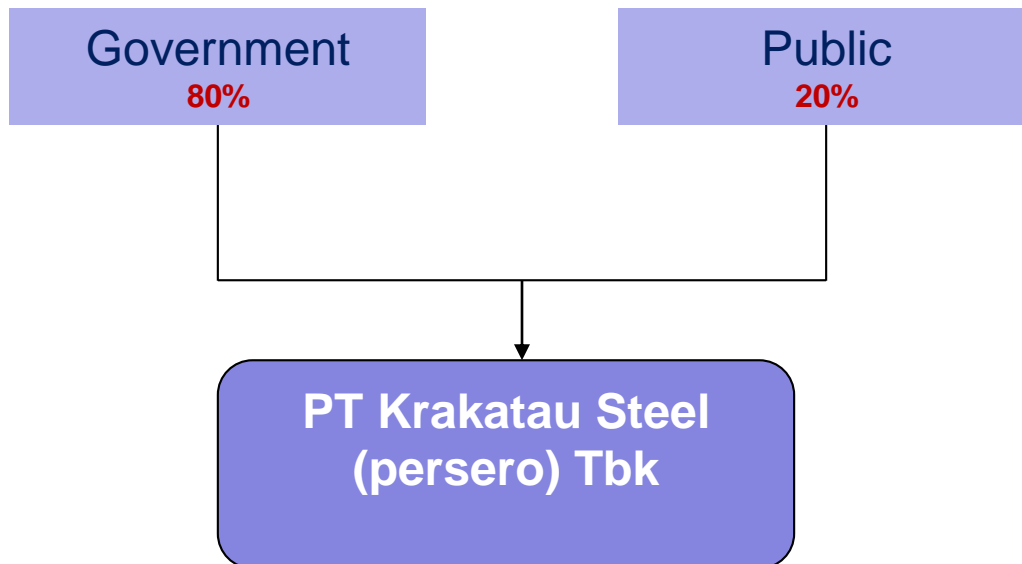


Chart: KRAS sales export vs domestic QoQ in 2020

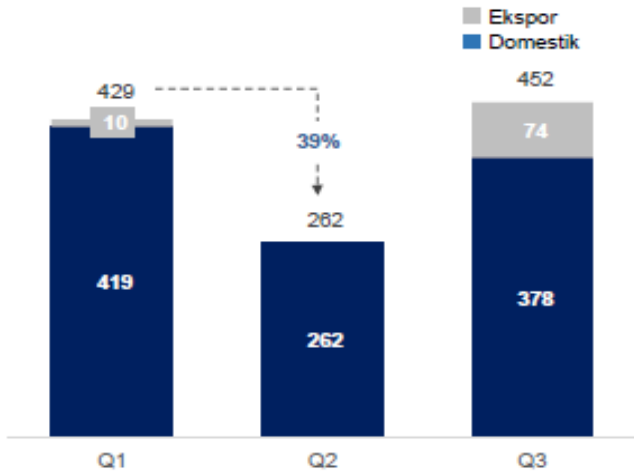


Chart: KRAS Operating expense in USD mn /months (YoY)

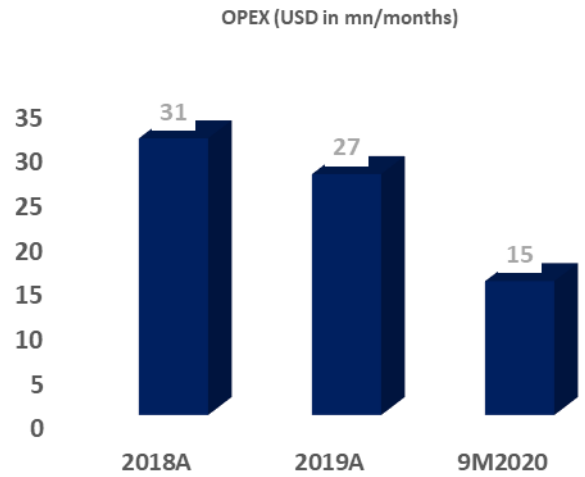


Chart: KRAS production and sales volume (YoY)

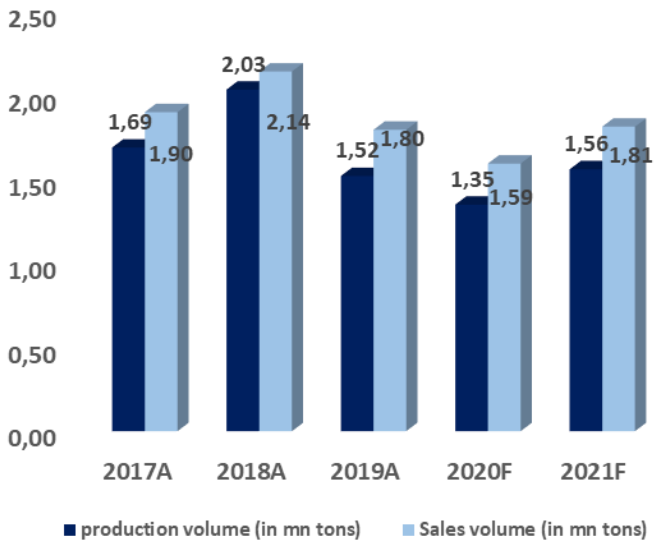
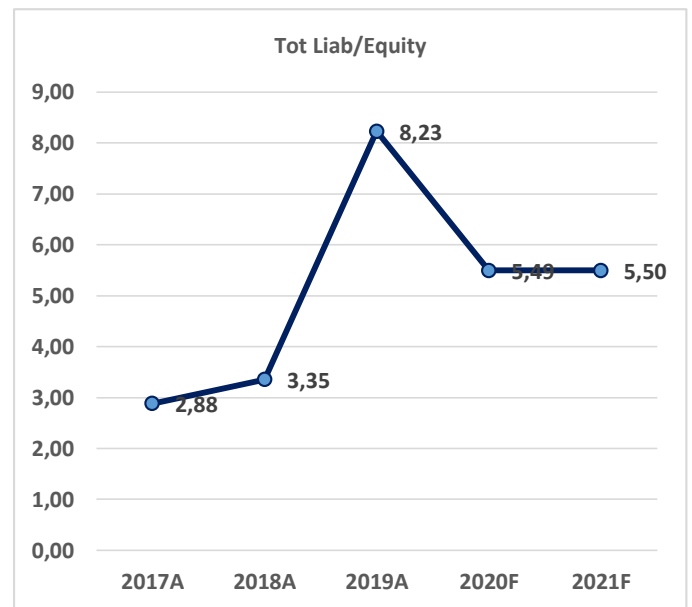


Chart: KRAS total debt/equity ratio (YoY)



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Balance Sheet (US\$.mn)

Balance sheet (US\$. In mn)	2016A	2017A	2018A	2019A	2020F	2021F	2022F
Cash and cash equivalent	264,95	280,87	173,29	130,25	107,47	343,77	230,63
ST Investment & Restricted cash and time deposits	1,09	5,76	4,47	50,12	2,31	2,70	3,41
Trade Account Receivable	182,54	204,69	221,96	201,84	169,08	205,24	259,76
inventory	473,96	477,09	514,52	260,15	196,08	337,50	445,17
Other current asset	74,79	40,15	46,84	48,25	90,00	104,88	132,74
Current Asset	997,32	1008,56	961,07	690,61	564,94	994,08	1071,71
Net Fixed Asset	2454,39	1968,21	2162,26	2124,20	2302,99	2487,67	2687,16
Intangible assets	37,45	1,31	0,26	1,31	2,91	2,62	2,36
Estimated claims for tax refund	32,00	31,74	25,39	15,04	19,56	19,56	19,56
other long term asset	415,55	431,84	432,21	455,57	398,57	464,46	587,83
Total non current Asset	2939,39	2433,11	2620,12	2596,12	2724,04	2974,31	3296,91
Total Asset	3936,71	3441,67	3581,19	3286,72	3288,98	3968,40	4368,62
Trade Account Payable	184,86	251,02	221,54	232,09	173,01	202,50	267,10
Short Term bank loans	894,13	923,13	1131,19	168,26	166,50	236,50	286,50
Other Short term liabilities	145,51	329,17	430,33	2093,09	835,72	988,85	1365,28
Total current liabilities	1224,50	1503,31	1783,06	2493,43	1175,23	1427,85	1918,88
Long term bank loans	802,29	797,86	811,71	185,25	1487,72	1637,72	1687,72
Other Long term liabilities bonds	70,25	254,58	163,65	252,04	119,57	134,84	170,66
						157,00	57,00
Total long term/ non current liabilities	872,54	1052,45	975,36	437,29	1607,29	1929,56	1915,38
Total Liabilities	2097,04	2555,76	2758,42	2930,72	2782,52	3357,41	3834,26
Total Equities	1839,68	885,91	822,77	356,01	506,46	610,99	534,36
Total Liabilities and equity	3936,71	3441,67	3581,19	3286,72	3288,98	3968,40	4368,62

Cash flow (US\$.mn)

Cash Flow (USD.mn)	2016A	2017A	2018A	2019A	2020F	2021F
+ Net Income	(171,69)	(81,75)	(167,50)	(503,66)	(54,38)	(40,27)
Depreciation	73,74	69,03	59,20	64,29	69,37	71,39
- Change in WC	(213,50)	283,49	219,66	937,79	225,62	59,78
Cash From Operating Activities	(311,45)	270,78	111,36	498,42	240,61	90,90
capex	(171,73)	417,15	(253,25)	(26,23)	(248,17)	(256,07)
Intangible assets	(36,23)	36,14	1,06	(1,05)	(1,61)	0,29
Estimated claims for tax refund	10,34	0,26	6,35	10,35	(4,52)	0,00
other long term asset	(5,67)	(16,29)	(0,37)	(23,36)	57,00	(65,89)
cash from investing activities	(203,28)	437,25	(246,21)	(40,29)	(197,30)	(321,67)
Long term loans	396,80	(4,42)	13,84	(626,46)	1302,47	150,00
other long term liabilities	26,95	184,33	(90,93)	88,39	(132,46)	15,27
bonds	0,00	0,00	0,00	0,00	0,00	157,00
Equity	223,34	(872,02)	104,36	36,90	204,83	144,79
cash from financing activities	647,09	(692,11)	27,27	(501,18)	1374,84	310,07
Net Changes in Cash	132,37	15,92	(107,58)	(43,04)	(22,78)	236,30
Beginning Balance	132,59	264,95	280,87	173,29	130,25	107,47
Ending balance	264,95	280,87	173,29	130,25	107,47	343,77

Ratio Highlights

Ratio Highlights	2016 A	2017 A	2018 A	2019 A	2020 F	2021 F
Growth (% YoY)						
Sales	1,73%	7,76%	20,21%	-18,45%	-9,49%	16,53%
OP	-102,39%	1055,90%	-283,49%	381,97%	-114,72%	53,73%
EBITDA	-171,23%	53,30%	-128,31%	1033,91%	-135,23%	27,70%
NP	-46,35%	-52,39%	104,91%	200,69%	-89,20%	-25,95%
EPS	-50,06%	-58,29%	104,91%	200,69%	-89,20%	-25,95%
Profitability						
Operating Margin(%)	0,33%	3,50%	-5,35%	-31,59%	5,14%	6,78%
EBITDA margin(%)	5,81%	8,27%	-1,95%	-27,07%	10,53%	11,54%
NET Profit margin(%)	-12,77%	-5,64%	-9,62%	-35,46%	-4,23%	-2,69%
ROA(%)	-4361,3%	-2375,2%	-4677,2%	-15324,0%	-1653,4%	-1014,8%
ROE(%)	-9,33%	-9,23%	-20,36%	-141,47%	-10,74%	-6,59%
Liquidity						
Current ratio (X)	0,81	0,67	0,54	0,28	0,48	0,70
cash ratio (x)	0,22	0,19	0,10	0,05	0,09	0,24
Solvability						
Tot debt/ Equity	1,14	2,88	3,35	8,23	5,49	5,50
Debt ratio	0,53	0,74	0,77	0,89	0,85	0,85
Per Share data (Rp)						
EPS	(141,8)	(59,2)	(121,2)	(364,5)	(39,4)	(29,1)
BVS	1.331,3	641,1	595,4	257,6	366,5	442,1

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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