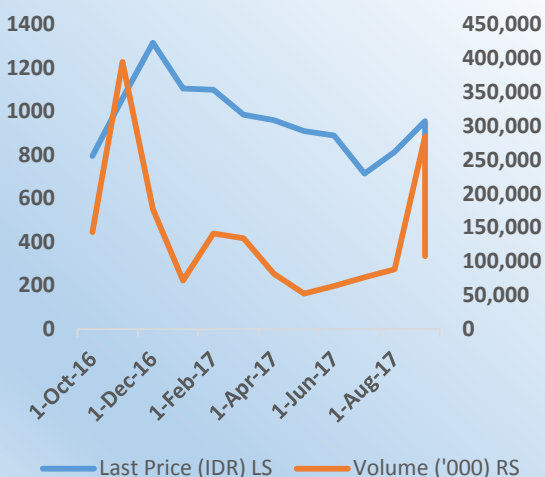


BUY

9 October 2017

Tins mining, Equity

Price IDR. 870
 Target Price IDR. 1120
 JKSE Index 5905.378



Investment Consideration

Expansion to grow production

PT TIMAH (Persero) Tbk (TINS) plans to expand and grow production. The expansion includes adding two new processing technologies, Fuming and Ausmelt. Fuming helps to process tin slag faster, and the capacity of 85 tons per day, will be completed by 1H18. An Ausmelt smelter, which can increase production by processing tin ore with a lower grade below 60% will have production capacity of 45,000 tons pa and is to be completed in 2020. In addition to smelter capacity expansion, TINS will also increase mining capacity by acquiring 2 new cutter suction dredgers in 2017, and opening new inland mining in Bangka. In order to support those plans, TINS has issued Bond I Phase I 2017 amounting to IDR. 1.2 trillion and Sukuk Ijarah I Phase I 2017 with a total of IDR. 300 billion.(KIP), 70% of the proceeds will be used to invest in mining equipment & exploration to increase reserves, 30% will be used to pay off short-term loans. In terms of production for 2017-2018F, we estimate tin production to grow 13% CAGR (2017-2018F) supported by our expectation of favorable tin prices as supply is still limited while demand is still high.

Higher sales from downstream

TINS plans to increase its downstream sales from tin chemical and tin solder to 10-30% from currently below 10%. As of 1H17, the contribution of Tin chemical and tin solder totaled 7% of sales. TINS has signed an agreement to market and sell its products in the US and Europe through Yunnan Tin Group from China, which has taken over as the world's largest tin producer. TINS is expecting this cooperation will help to boost their sales.

Valuation: 29% upside

Based on DCF with WACC 7.9%. we estimate a target price for TINS within one year of IDR. 1120/ shares or trading at 14.2 PER, which gives 29% upside. We recommend to BUY.

Stock Code

Bloomberg code TINS IJ
 Market cap (IDR.bn) 6405.1
 52-Week High (IDR) 1360
 52-Week Low (IDR) 700
 6-m Avg Daily. Val (IDR) 847
 Free Float (%) 35

Major Shareholders (%)

The Government of RI 65%
 Public 35%

USD/IDR-YE

2016A 13,436
 2017F (6M Avg) 13,329

Key Indicators

2018F
 DER (x) 0.94
 Debt ratio (x) 0.48
 EBITDA Margin (%) 16.63

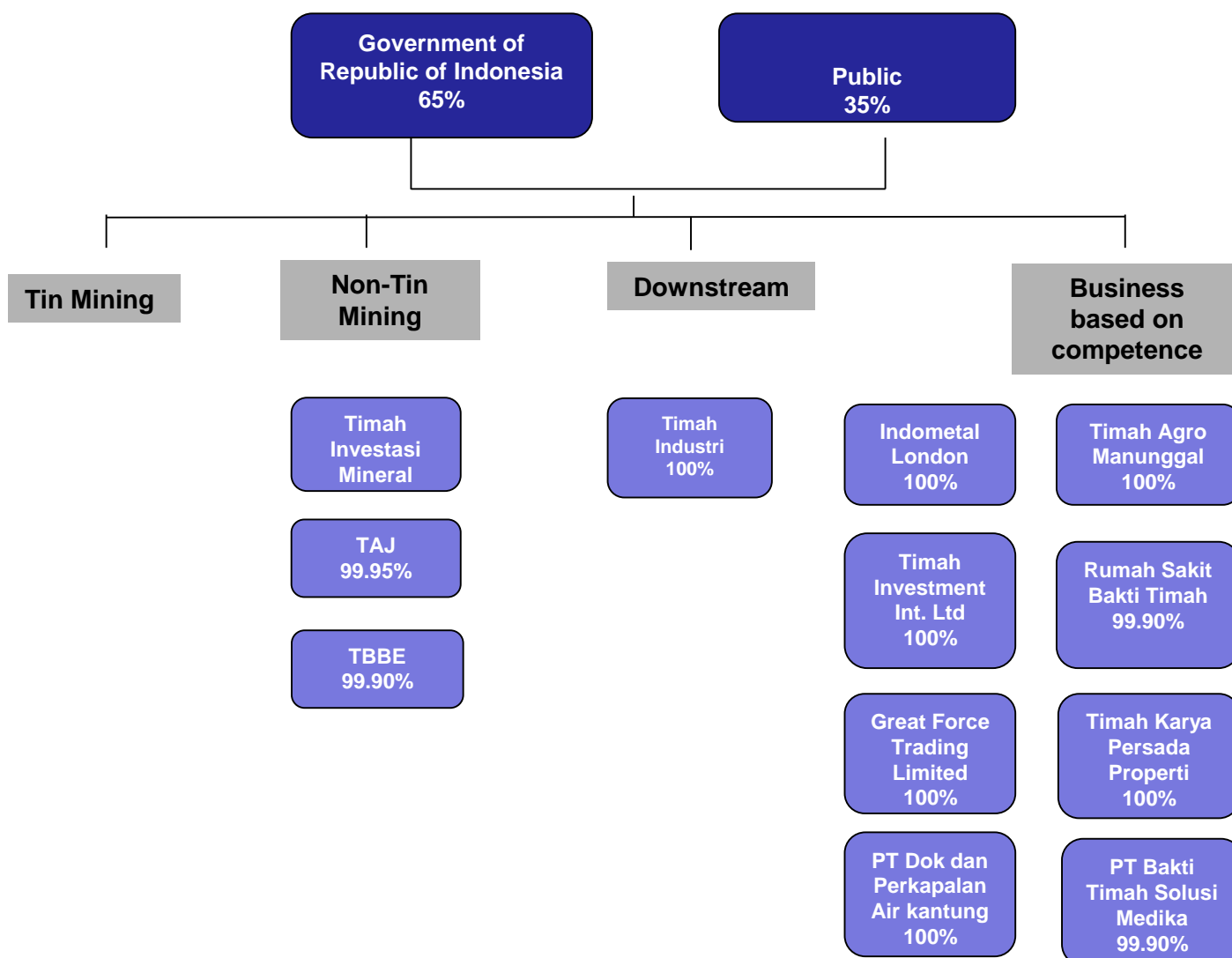
Analyst: Revita Dhiah Anggrainy
 revita.anggrainy@binaartha.com

Profit and Loss (IDR Bn)	2014A	2015A	2016A	2017F	2018F
Revenues	7,518	6,874	6,968	8,856	9,547
Cost of Revenues	(5,903)	(6,188)	(5,873)	(7,516)	(7,908)
Gross Profit	1,615	686	1,095	1,339	1,639
Operating Expenses	(652)	(605)	(597)	(620)	(668)
Operating Income	963	81	498	719	970
Other Income	62	87	(83)	(177)	(191)
Profit Before Tax	1,025	168	415	542	779
Tax Expense	(352)	(67)	(132)	(136)	(195)
NIAT	673	102	283	407	585
Loss after tax from discontinued operations	0	0	(31)	(7)	0
Minority Interest	0.014	0.022	(0.137)	(0.168)	(0.181)
Net Income	673	102	252	399	584
EPS	90	14	34	54	78
EBITDA	1,524	748	1,047	1,199	1,588

Company Profile

PT Timah (Persero) Tbk was established on August 2nd, 1976. It is a state – owned enterprise engaged in tin mining and has been listed on the Indonesian Stock Exchange since 1995. TINS’ scope of activity includes mining, trading, transportations and services. The company’s main activity is as a holding company that performs tin mining, operations, and marketing services for the group. Based on Business pillars, TINS has four business pillars including Tin mining, non tin mining, downstream Tin products and other businesses. The company has several subsidiaries either directly or indirectly engaged in the mining, industry, trading, transportation and services related to the mining business, as well as businesses in the construction sector, property, hospital services and agro-industrial enterprises. The company has diversified its business into non tin mining to maintain the performances of the company during tin business fluctuations. The company is domiciled in Pangkalpinang, Bangka Belitung Province. As of 2016, the company owned 128 IUP mining licenses with a total areas of 473,303 Ha. Tin exploration activity has been conducted for more than 50 years and is now being expanded to increase resources. Around 95% of the company’s sales come from export sales while the rest are from domestic sales. For smelting, the Company operates 6 furnaces located in Kundur, Kepri and Mentok, Bangka. To Support Production, As of 31 December 2016, the Company owned 6 dredgers, 18 cutter suction dredgers and 3 stripping dredgers

Company Structure

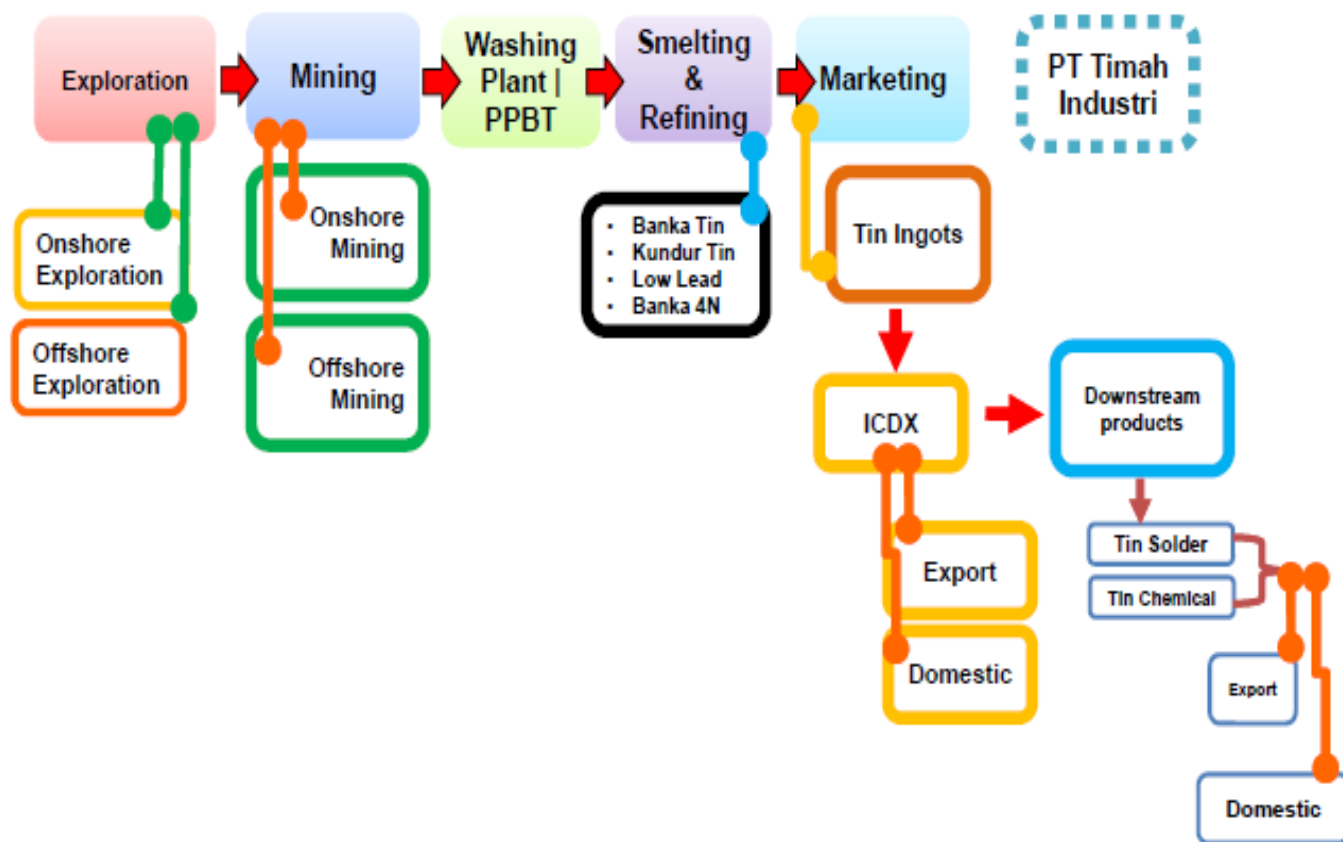


Source: company

Tin regulation in Indonesia

The Minister of Trade has issued an amendment No. 33/M-DAG/PER/5/2015 to regulation No.44/M-DAG/PER/7/2014 on Tin Exports. This new policy is evidence of the Government’s seriousness in handling illegal tin mining as well as protecting tin reserves in the country. Referring to the Minister of Trade regulation No. 33 Year 2015, several tin export rules are tightened including the requirement to have a Clear and Clean (CnC) Certificate in order to export and the requirement to sell through the Indonesian Commodity and Derivatives Exchange (ICDX). As for the non-bar tin export products, solder tin, and non solder tin, the company can export without passing through the futures exchange. In addition, in August 2017, the Bangka Belitung Governor announced a moratorium on tin mining licenses to ease the sector’s environmental impact. During the moratorium, the government will not issue new mining licenses or extend existing licenses. This regulation is expected to curb illegal mining and illegal exports of tin ore. The Bangka Belitung government is currently drafting a new mining regulation related to eco friendly tin mining methods.

Integrated Business of Company



Source: company

Operational Area of company

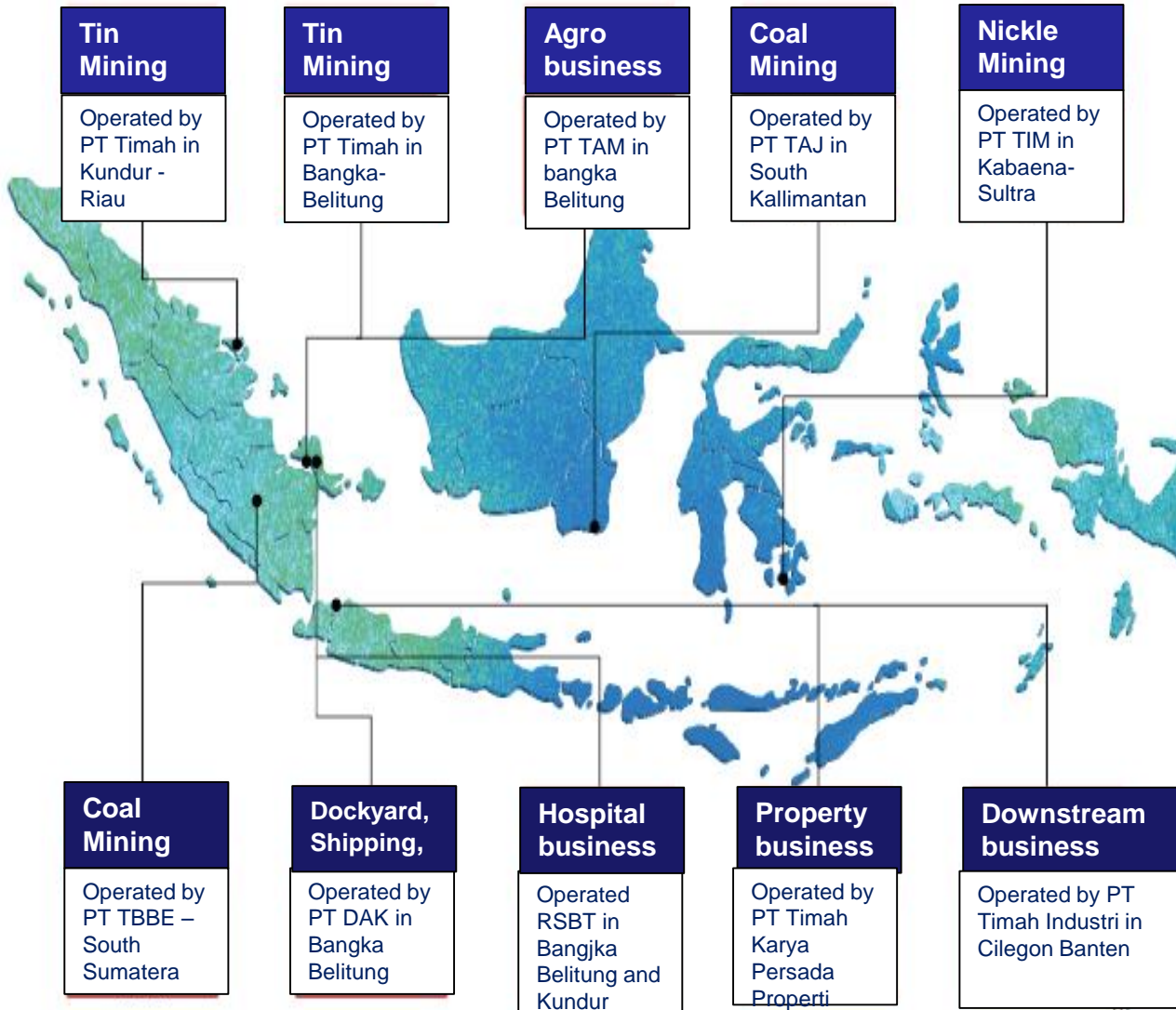


Chart: Global demand compared to supply yoy

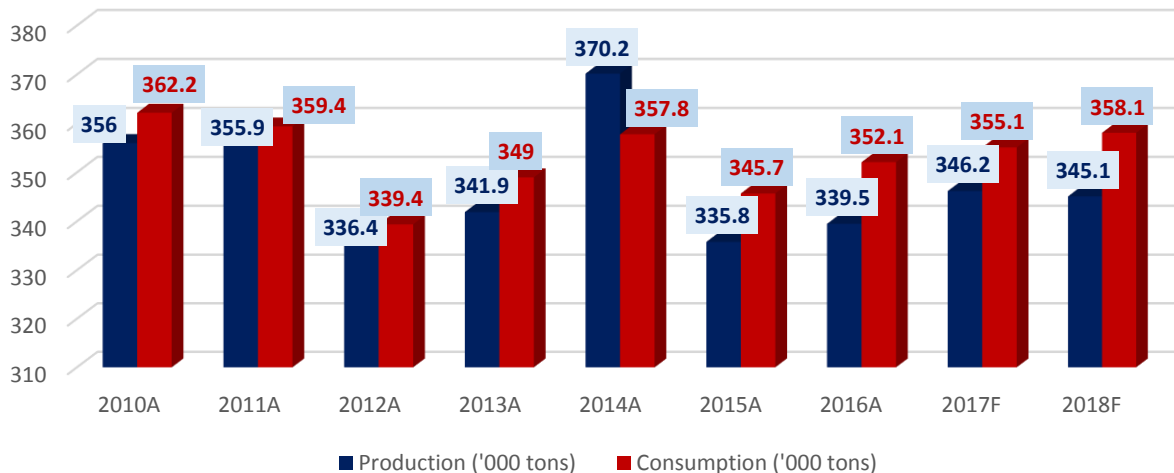


Chart: Tin metal production vs sales metal (ton) yoy

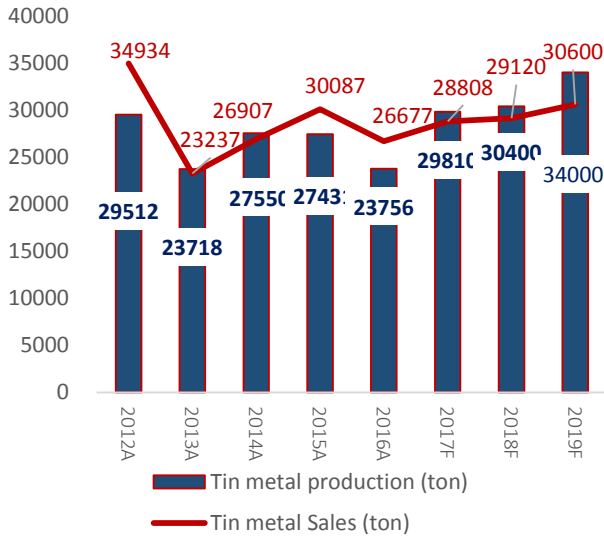


Chart: Tin production of offshore vs onshore (ton) yoy

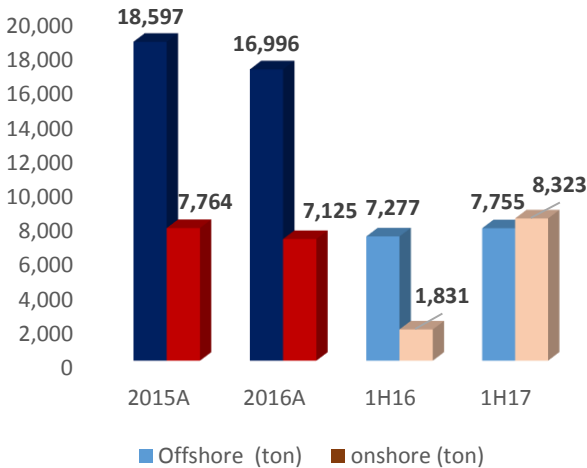
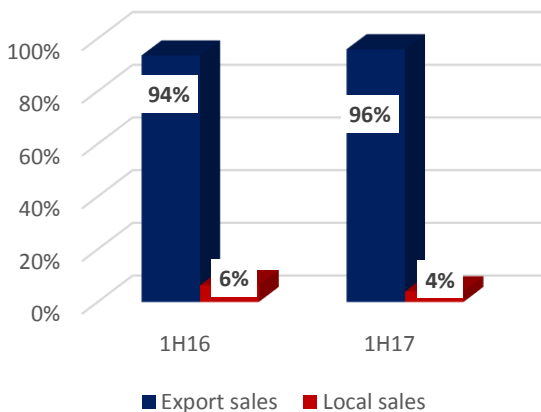


Chart: Tin export sales vs local sales



Expansion to grow production

PT Timah (Persero) Tbk (TINS) plans to expand in order to grow production. The expansion includes developing new technologies for processing and refining Tin facilities such as a Fuming and Ausmelt plant. The Fuming plant which can process tin slag with a capacity of 85 tons per day, is to be completed by 1H18. The Ausmelt plant that can process tin ore with low grades below 60%, is to be completed in 2020. The Ausmelt plant has a capacity of 45,000 tons pa. TINS has allocated IDR 61 billion for the Fuming plant & USD 56 million for the Ausmelt. TINS is investing to develop Fuming and Ausmelt because tin reserves from alluvial mining are estimated to run out within the next 10 years with resources estimated to be enough for 20 years. Using existing technologies, only lower grade Tin will be able to be excavated from core rock (primary rock), and smelting will be uneconomical. Therefore, the company is investing in new technology that can use lower grade tin ore in its smelter. However, before installing the Ausmelt technology, the company will install a Fuming plant first which can process tin residue or slag. In addition, TINS also will acquire 2 cutter suction dredgers in 2017, open new inland mining in Bangka, and even explore tin business outside Indonesia. In order to support these plans, TINS is issuing Bond I Phase I 2017 amounting to IDR. 1.2 trillion and Sukuk Ijarah I Phase I 2017 with a total of IDR. 300 billion). Around 70% of proceeds will be use to invest in mining and smelting while the rest, 30% will be used to pay off short-term loans. In terms of production for 2017-2018F, we estimate tin production growth will be 13% CAGR (2017-2018F) supported by prices as supply is still limited while demand is still high based on ITRI research shown in the chart above.

Higher sales from downstream

TINS plans to increase the sales of its downstream products tin chemical and tin solder to 10-30% in from the current level below 10%. As of 1H17, the contribution of Tin chemical and tin solder was 7%. TINS has signed a cooperation with Yunnan Tin, the world's largest tin producer from China to improve sales of TINS downstream products through Yunan's existing market share in the US and Europe. TINS expects this cooperation will increase sales. In terms of non core business such as hospitals and propert. These contribute a small portion and TINS remains focused on tin production. For property, TINS is targeting to booked IDR. 200 billion sales for 2017.

Chart: Tin chemical production and tin solder production (ton) yoy

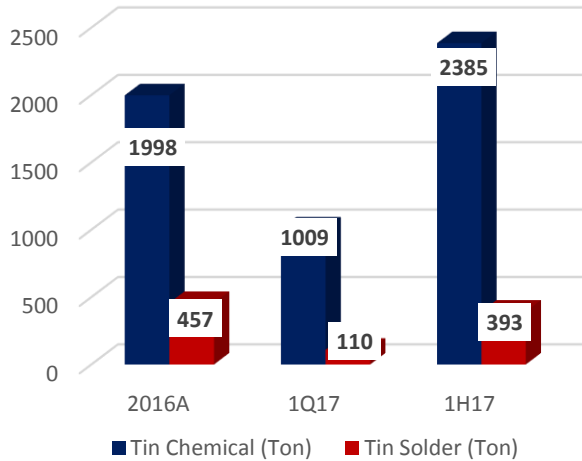
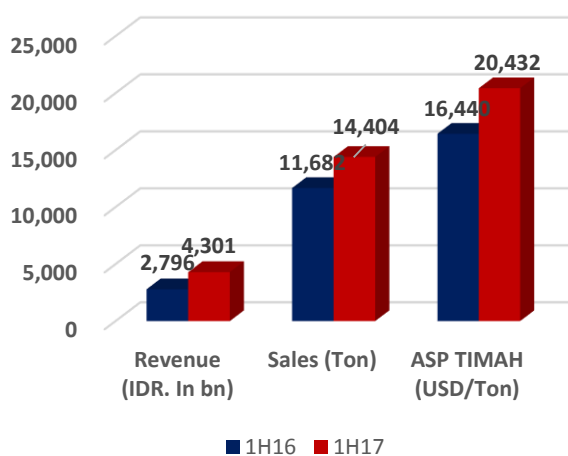


Chart: comparison of revenue, sales volume and ASP 1H16 vs 1H17



Target CAGR 17% growth in revenue

We are targeting revenue in 2017-2018 to grow 16.5% as we believe tin prices will remain in an uptrend and sales from downstream tin chemical and tin solder will improve. Although tin prices fluctuate, the uptrend is based on a gap between consumption and production as shown in the ITRI research chart above. As of 1H17, TINS revenue increased 54% yoy with significant growth coming from higher tin sales by 55% yoy and tin chemicals by 57% yoy. Average selling price (ASP) as of 1H17 increased 24% compared to 1H16.

Valuation: 29% upside

We believe the company's plan to invest to support future growth in production through expansion and exploration. Based on a DCF with WACC 7.9%, we have a target price for TINS within one of IDR. 1120/ shares or 14.2 PER. With 29% upside, we give recommendation to BUY.

Profit and Loss (IDR. Bn)

Profit and Loss (IDR Bn)	2012A	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Revenues	7,823	5,852	7,518	6,874	6,968	8,856	9,547	10,267
Cost of Revenues	(6,499)	(4,409)	(5,903)	(6,188)	(5,873)	(7,516)	(7,908)	(8,310)
Gross Profit	1,324	1,444	1,615	686	1,095	1,339	1,639	1,957
Operating Expenses	(641)	(615)	(652)	(605)	(597)	(620)	(668)	(719)
Operating Income	683	829	963	81	498	719	970	1,238
Other Income	(36)	38	62	87	(83)	(177)	(191)	(205)
Profit Before Tax	647	867	1,025	168	415	542	779	1,033
Tax Expense	(215)	(257)	(352)	(67)	(132)	(136)	(195)	(258)
Loss after tax from discontinued operations	0	(29)	0	0	(31)	(7)	0	0
Minority Interest	(0.014)	(0.026)	0.014	0.022	(0.137)	(0.168)	(0.181)	(0.195)
Net Income	432	581	673	102	252	399	584	774
EPS	86	115	90	14	34	54	78	104
EBITDA	1,078	1,221	1,524	748	1,047	1,199	1,588	2,030

Balance Sheet (IDR.bn)	2012A	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Cash and cash equivalent	670.4	613.7	346.5	497.5	563.8	1735.8	1276.8	952.4
Trade Account Receivable	470.6	1076.9	1477.2	465.6	838.6	832.8	897.7	965.5
inventory	1617.4	2344.5	3384.0	3102.4	2309.2	2781.1	2926.0	3074.8
Other current asset	1171.3	948.6	1059.6	1378.7	1164.9	1505.5	1622.9	1745.4
asset classified as held for sale		265.2	230.2	0.0	361.4	362.4	367.4	372.4
Current Asset	3929.7	5248.8	6497.5	5444.2	5237.9	7217.6	7091.0	7110.6
Fixed Asset	1722.8	2005.3	2017.1	2224.4	2224.4	2736.0	3365.2	4139.3
other long term asset	448.5	989.9	1329.2	1611.1	2086.4	2214.0	2386.7	2566.8
Total non current Asset	2171.3	2995.2	3346.3	3835.5	4310.7	4949.9	5751.9	6706.0
Total Asset	6101.0	8244.0	9843.8	9279.7	9548.6	12167.5	12842.9	13816.6
Trade Account Payable	307.8	404.5	851.1	583.2	661.4	840.6	906.1	974.5
Short Term bank loans	263.6	1354.8	2334.2	2114.5	1733.3	2060.9	1960.9	1960.9
liabilities directly associated with assets classified for sale	0.0	44.4	54.5	0.0	99.8	99.4	99.0	98.5
Other short term liabilities	388.4	636.0	274.9	301.2	566.7	554.1	597.4	642.5
Total current liabilities	959.8	2439.6	3514.7	2999.0	3061.2	3555.1	3563.5	3676.4
bond	0.0	0.0	0.0	0.0	0.0	1200.0	1200.0	1200.0
sukuk ijarah	0.0	0.0	0.0	0.0	0.0	300.0	300.0	300.0
other long term liabilities	583.0	551.6	1829.3	909.7	833.7	1059.5	1142.2	1228.4
Total long term/ non current liabilities	583.0	551.6	1829.3	909.7	833.7	2559.5	2642.2	2728.4
Total Liabilities	1542.8	2991.2	5344.0	3908.6	3894.9	6114.6	6205.7	6404.8
non controlling interest	0.349	0.112	0.098	0.076	0.213	0.271	0.286	0.308
Total Equities	4,557.9	5,252.7	4,499.7	5,371.0	5,653.5	6,052.6	6,637.0	7,411.5
Total Liabilities & Equity	6,101.0	8,244.0	9,843.8	9,279.7	9,548.6	12,167.5	12,842.9	13,816.6

Cash Flow (IDR. Bn)

Cash Flow (IDR. in bn)	2012A	2013A	2014A	2015A	2016A	2017F	2018F	2019F
+ Net Income	431.6	580.5	673.0	101.6	251.8	399.2	584.3	774.5
+Depreciation	389.9	322.6	381.0	442.2	507.9	511.6	629.3	774.0
- Change in WC	203.7	103.9	(440.8)	688.5	334.9	(313.9)	(323.9)	(231.0)
Cash From Operating Activities	1025.1	1007.1	613.2	1232.3	1094.7	596.9	889.7	1317.5
capex	(576.1)	(1146.5)	(732.1)	(931.4)	(983.2)	(1150.8)	(1431.3)	(1728.1)
cash from investing activities	(576.1)	(1146.5)	(732.1)	(931.4)	(983.2)	(1150.8)	(1431.3)	(1728.1)
bond	0.0	0.0	0.0	0.0	0.0	1200.0	0.0	0.0
sukuk ijarah	0.0	0.0	0.0	0.0	0.0	300.0	0.0	0.0
other long term liabilities	33.0	(31.4)	1277.7	(919.6)	(75.9)	225.8	82.7	86.2
Equity	(471.2)	114.1	(1426.0)	769.7	30.8	0.1	0.0	0.0
cash from financing activities	(438.2)	82.7	(148.3)	(150.0)	(45.2)	1725.9	82.7	86.2
Net Changes in Cash	10.8	(56.7)	(267.2)	151.0	66.3	1172.0	(458.9)	(324.4)
Beginning Balance	659.6	670.4	613.7	346.5	497.5	563.8	1735.8	1276.8
Ending balance	670.4	613.7	346.5	497.5	563.8	1735.8	1276.8	952.4

Ratio Highlights

Growth (% YoY)	2012A	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Revenues		-25.18%	28.46%	-8.56%	1.37%	27.09%	7.80%	7.55%
OP		21.38%	16.15%	-91.54%	510.80%	44.53%	34.87%	27.62%
EBITDA		13.26%	24.89%	-50.90%	39.86%	14.50%	32.49%	27.84%
Net profit		34.52%	15.93%	-84.91%	147.91%	58.50%	46.39%	32.54%
EPS		34.52%	-21.66%	-84.91%	147.91%	58.50%	46.39%	32.54%
Profitability (%)								
Operating Margin	8.73%	14.17%	12.81%	1.19%	7.14%	8.12%	10.16%	12.06%
EBITDA margin	13.78%	20.86%	20.28%	10.89%	15.02%	13.53%	16.63%	19.77%
NET Profit margin	5.52%	9.92%	8.95%	1.48%	3.61%	4.51%	6.12%	7.54%
ROA	7.07%	7.04%	6.84%	1.09%	2.64%	3.28%	4.55%	5.61%
ROE	9.47%	11.05%	14.96%	1.89%	4.45%	6.59%	8.80%	10.45%
Liquidity								
Current Ratio (X)	4.09	2.15	1.85	1.82	1.71	2.03	1.99	1.93
Cash Ratio	0.70	0.25	0.10	0.17	0.18	0.49	0.36	0.26
Solvability								
Total debt/ Total equity (x)	0.34	0.57	1.19	0.73	0.69	1.01	0.94	0.86
Int. Coverage (x)	21.34	24.89	9.15	1.30	3.51	3.90	4.49	4.75
Debt Ratio	0.25	0.36	0.54	0.42	0.41	0.50	0.48	0.46
Per Share data (Rp)								
EPS	85.75	115.35	90.36	13.64	33.81	53.59	78.46	103.99
BVPS	905.59	1043.65	604.17	721.16	759.08	812.68	891.14	995.13
EV/Ebitda	3.57	4.09	5.43	10.57	7.13	6.77	5.34	4.34

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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