Standard Chartered

Indonesia | Support Services - Emerging Companies

16 February 2012

AKR Corporindo

Great business but calling time on the stock

- We downgrade AKR Corporindo (AKR) to In-Line, from Outperform, following the surge in the share price by 65% since its low point in Oct 2011.
- We are raising our EPS for FY12E by ~8% to reflect our lower discount on coal volume sales, and raise our PT to IDR3,800 (from IDR3,050) as we switch to DCF to reflect AKR's long-term structural growth.
- The medium- to long-term outlook remains bullish. We introduce two scenarios to attempt to quantify the potential upside as the fuel market is deregulated.
- However, following a spectacular run, in the very short term the shares are looking somewhat over-extended. Lighten on accelerations, buy back on setbacks.

IN-LINE (from OUTPERFORM)

PRICE as at 15 February 2012	PRICE TARGET
Rp3,750	**Rp3,800**

Bloomberg code	**Reuters code**
AKRA IJ	AKRA.JK
Market cap	**12 month range**
Rp14,331bn (US$1,591m)	Rp1,440 - 3,750

EPS adj est change	2011E	0.1%	2012E	8.3%

AKR Corp is one of our highest conviction stocks in the Asian Emerging companies universe for the medium term. The business is well positioned, management are proven executors and its corporate governance is top class. The challenge is trying to grasp the potential of this business given the size of the opportunity. AKR is growing both vertically and horizontally. It is the leading private distributor in a large, fast-growing fuel market that is starting to liberalise. It has a leading logistics business in a country that is developing fast but has chronic infrastructure. It has developed an advantaged coal supply chain position in Kalimantan that is highly scalable. Five years out, we think AKR is likely to become a far larger business than it is today. Valuing this potential is not easy and too much emphasis on current year earnings almost certainly misses the opportunity. As a result, we introduce two scenarios that try to quantify the potential upside as the Indonesia fuel market is de-regulated.

However, up close the stock is over-extended. After rising 65% following a correction in September, and notwithstanding our positive medium term view, news of price liberalisation in Java-Bali looks in the price, and the stock appears ready for a consolidation. Even for stocks like this, which should be a core holding in an Asian growth portfolio, our recommendation is to add on the setbacks and lighten on the accelerations.

Earnings upgrade. We revise our EPS up by 8% for FY12E and 6% for FY13E as we cut our discount on management's guidance for coal volume from 30% to 10%. Our confidence has increased following a successful first shipment and an off-take contract from an international company that secures 70-80% of AKR's 1m mt target in FY12E.

Year end: December	**2011E**	**2012E**	**2013E**	**2014E**
Sales (Rpbn)	18,870	24,247	28,356	32,730
EBITDA (Rpbn)	826	1,160	1,383	1,624
EBIT (Rpbn)	596	909	1,217	1,412
Pretax profit (Rpbn)	2,347	896	1,132	1,314
Net profit adjusted (Rpbn)	540	717	911	1,051
FCF (Rpbn)	1,337	(389)	(254)	(230)
EPS adjusted (Rp)	142	188	239	276
DPS (Rp)	355	75	96	110
Book value/share (Rp)	831	943	1,086	1,251
EPS growth adj (%)	71.1	32.7	27.1	15.4
DPS growth (%)	1,083.3	-78.8	27.1	15.4
EBITDA margin (%)	4.4	4.8	4.9	5.0
EBIT margin (%)	3.2	3.8	4.3	4.3
Net margin adj (%)	2.9	3.0	3.2	3.2
Div payout (%)	60.5	39.8	39.8	39.8
Net gearing (%)	-15.2	3.0	16.1	26.6
ROE (%)	80.0	21.2	23.5	23.5
ROCE (%)	13.8	17.3	19.5	19.9
EV/Sales (x)	0.7	0.6	0.5	0.5
EV/EBITDA (x)	16.5	12.4	10.8	9.6
PBR (x)	4.5	4.0	3.5	3.0
PER adj (x)	**26.5**	**19.9**	**15.7**	**13.6**
Dividend yield (%)	**9.5**	**2.0**	**2.5**	**2.9**

Source: Company, Standard Chartered Research estimates

Share price performance

Share price (%)	**-1 mth**	**-3 mth**	**-12 mth**
Ordinary shares	12	25	159
Relative to Index	11	21	124
Relative to Sector	-	-	-
Major shareholder			PT Arthakencana Rayatam (59.7%)
Free float			32%
Average turnover (US$)			5,241,766

Source: Company, FactSet

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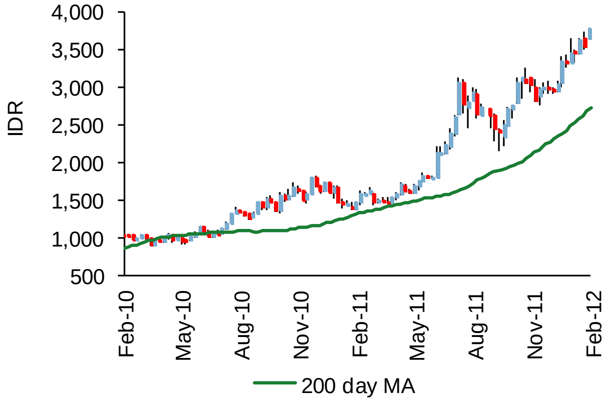
Valuation and recommendation

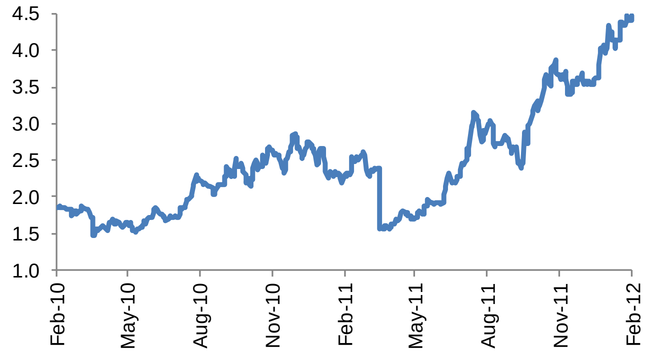
We raise our FY12E EPS by 8% to reflect lower discount on its coal business and raise our price target to IDR3,800/sh (from IDR3,050 previously) as we switch to using DCF as our primary valuation matrix to reflect AKR's long-term structural growth story. However, following a spectacular run, in the very short term the stock appears somewhat over-extended. Our advice to investors is to lighten on the accelerations, buy back on the setbacks.

Fig 1: Share price appears overextended



Source: Company, Bloomberg

Fig 2: Price-to-book



Source: Company, Bloomberg

Earnings upgrade

Raised earnings estimates by 8%

We revised our earnings estimates up by 8% in FY12E and 6% FY13E as we reduce our discount on management's guidance for coal volumes. Our confidence is raised on the back of the successful first delivery of coal and subsequent contract with an international company that secured orders for 70-80% of AKR's 1m mt target for FY12. We reduced the discount to coal target sales volume from 30% to 10%, resulting in a 42% increase in coal sales volume to 1m mt in FY12E and 28% in coal sales volume in FY13E. We maintain our coal selling prices of US75/mt, in line with its contracted selling price and cash cost of US55/mt. In addition, we introduce our FY14E earnings forecasts.

Short-term catalyst

4Q results likely to reaffirm strong earnings momentum

The group guided that AKR could record core net profit (excluding sale of Sorini) that could grow 97% YoY to IDR610bn, 9% above our estimates and 10% above consensus. We believe the potential outperformance in FY11 earnings could be due to continued outperformance of petroleum sales volumes above management's target of 2m mt and reduced finance cost due to the huge one-off cash inflow from the sale of Sorini.

Raising price target

Price target raised to IDR3,800, from IDR3,050.

We are raising our price target to IDR3,800/sh, from IDR3,050 as we switch our primary valuation methodology to a discounted cash flow model (DCF) from the sum-of-parts valuation. This translates to FY12 PER of 20x. We believe the switch to 10-year DCF can better reflect AKR's long-term structural growth potential, which is hard to justify using a 12-month forward valuation matrix.

Our 10-year DCF valuation has been raised to IDR3,800/share from IDR3,400/share, in tandem with the upward revision of our earnings estimates. In addition, we have rolled forward our DCF to FY12E as the group moves into the new financial year. Our secondary SOTP price target increased to IDR3,321/share in tandem with our higher earnings estimates and increased target EV/EBITDA multiple on its trading and distribution business (raised from 9x to 12x FY12 EV/EBITDA) to be in line with the higher peer valuations.

Fig 3: Discounted cash flow valuation (DCF)

Year-end Dec (IDRbn)	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Total sales	**12195**	**18870**	**24247**	**28356**	**32730**	**37223**	**41690**	**46693**	**52296**	**58571**	**65600**	**73472**
Growth (%)		*55*	*28*	*17*	*15*	*14*	*12*	*12*	*12*	*12*	*12*	*12*
COGS	(11,031)	(17,566)	(22,588)	(26,243)	(30,233)	(34,158)	(38,257)	(41,556)	(46,543)	(51,543)	(57,728)	(64,655)
Gross profit	1,164	1,304	1,659	2,113	2,498	3,066	3,433	5,136	5,753	7,029	7,872	8,817
Gross margin (%)	*10*	*7*	*7*	*7*	*8*	*8*	*8*	*11*	*11*	*12*	*12*	*12*
EBIT	**461**	**600**	**912**	**1,220**	**1,415**	**1,813**	**2,018**	**2,207**	**2,418**	**2,654**	**2,918**	**3,213**
EBIT margin (%)	*3.8*	*3.2*	*3.8*	*4.3*	*4.3*	*4.9*	*4.8*	*4.7*	*4.6*	*4.5*	*4.4*	*4.4*
Income from associates and other	-	-	-	-	-	-	-	-	-	-	-	-
Net interest income/(expenses)	(94)	7	(15)	(88)	(101)	(101)	(15)	13	82	136	198	-
Profit before tax	367	607	896	1,132	1,314	1,712	2,004	2,220	2,500	2,790	3,116	3,213
Taxes and minority interest and discontinued operations	(58)	(67)	(179)	(221)	(263)	(342)	(342)	(362)	(392)	(423)	(460)	-
Net profit	**309**	**540**	**717**	**911**	**1,051**	**1,370**	**1,662**	**1,858**	**2,107**	**2,366**	**2,656**	**3,213**
EBIT	461	600	912	1,220	1,415	1,813	2,018	2,207	2,418	2,654	2,918	3,213
EBIT (1-tax)	369	480	729	976	1,132	1,451	1,615	1,766	1,934	2,123	2,334	2,571
(+) Depreciation and amortisation	26	25	17	21	28	32	36	40	45	50	56	63
(-) Change in working capital	(164)	(105)	(301)	(243)	(252)	(252)	(252)	(252)	(100)	(200)	(200)	(200)
(-) Capital expenditure	(491)	(944)	(970)	(1,134)	(1,309)	(1,489)	(500)	(500)	(500)	(450)	(420)	(300)
Unlevered free cash flow	**(261)**	**(544)**	**(525)**	**(380)**	**(401)**	**(258)**	**899**	**1,054**	**1,379**	**1,523**	**1,770**	**2,134**
Present value of FCF			(481)	(315)	(300)	(175)	550	583	690	689	724	789
Terminal value												**31,378**

	2012E	**WACC assumptions**	
DCF of operations	2,755	Risk-free rate	**7.0%**
NPV of the terminal value	11,603	Cost of debt	7.7%
Total value of the operations	**14,357**	Equity risk premium	6.0%
Add: net cash	353	Tax rate	20.0%
Less: Minority interest	(188)	Target debt to firm value	35.0%
Equity value	**14,522**	Equity beta	1.0
Shares outstanding	3,822	Cost of debt (after tax)	6.2%
Fair value per share (IDR)	**3,800**	Cost of equity	13.0%
		WACC	10.6%
		Terminal growth rate	3.6%

Source: Company, Bloomberg, Standard Chartered Research estimates

Fig 4: Sum-of-the-parts valuation

New format (Valuation of AKR)		IDRbn	Remarks
Trading and distribution		**7271**	
EBITDA (IDR bn)	606		
Target FY12 EV/EBITDA multiple	12x		High end of global O&G and chemical distributors
Manufacturing		**2938**	
EBITDA (IDR bn)	165		
Target FY12 EV/EBITDA multiple	18x		Take-over EV/EBITDA multiple of Sorini
Logistics		**1297**	
EBITDA (IDR bn)	172		
Target FY12 EV/EBITDA multiple	7.5x		High end of logistics peers
Coal		**1,023**	NPV based on 1st concession
Total EV		**12530**	
Add: net cash		353	
Less: minority interest		(188)	
Market cap		**12695**	
Number of shares		**3822**	
Fair value per share		**3321**	

Source: Company, Bloomberg, Standard Chartered Research estimates

Fuel deregulation

Deregulation of fuel distribution is inevitable in the medium term

Fuel deregulation inevitable

The government's stated intention is to move towards full deregulation of the fuel market by 2014. As a net petroleum importer, the current pricing regime is not only a financial burden but a material misallocation of resources in our view. The destination of a largely deregulated market is inevitable for Indonesia although the path is uncertain and heavily debated.

In 2011, RP165tn was spent on fuel subsidies – more than the Rp127tn allocated in the budget. With much of this subsidy being used by private car owners rather than the poor, there is a substantial misallocation of resources in a country with budgetary constraints. Policy makers want to re-direct funds towards more pressing issues such as infrastructure, health and education. Furthermore, artificially suppressing prices leads to inefficient consumption and makes introducing competing fuels such as gas more challenging.

The phased removal of fuel subsidies and further opening of the supply chain materially improves economics for private companies in the retail fuel market. The bigger picture is that this is a one-off opportunity for existing players (AKR, Petronas, Shell, Total) and new entrants (other oil companies) to build-out a retail network in a massively under-penetrated and fast growing market. Companies with distribution assets already in place, such as AKR, have a strong head start.

Deregulation of the Indonesian fuel market by 2014?

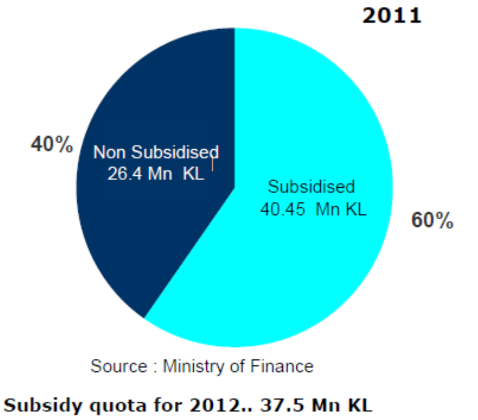
- On 10 October, Indonesia's Finance Minister revealed that the government would lower the 2012 volume of subsidised fuel to 37.8m kl from the 43.7m kl allocated for 2011. This step is in line with SCB economists' views and the government's intentions to gradually phase out subsidies by 2014. It immediately increases the size of the unsubsidized sector by 9%.

- From 2012, the Indonesian government also plans to ban private car owners in certain geographies from using subsidized fuel. This is to address the misallocation of subsidies, whereby 77% subsidies were being used by people in the higher-income group, 8% by middle-income group and 15% by lower-income group. With the new regulation, law no.22 of 2011 of the Indonesian State Budget 2012 mandates limitation of use of subsidized gasoline for private cars. Private car owners in Java and Bali are banned from using subsidized fuel with effect from 1 April 2012.

- Reports suggest that the government may delay cuts in the fuel subsidy pending deliberations over the 2012 budget, according to the *Jakarta Post*, citing Energy and Mineral Resources Minister, Jero Wacik. According to the article, the government is seeking to reduce the subsidy burden through providing direct subsidies to motorcycles and public transport, encouraging conversion to gas and increasing fuel price.

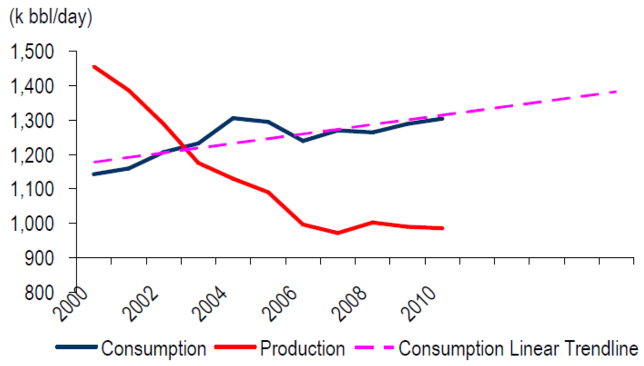
- Indonesia's gasoline costs Rp4,500 per litre, about half the market rate, the lowest in the Asian region, and costs the government approximately US$18bn in annual subsidies. The Indonesian government is considering a move to increase fuel prices by as much as 44% in an effort to divert expenditure to productive investment such as infrastructure construction, according to the deputy energy minister in an interview with Reuters, though concerns persist over parliamentary opposition due to possible inflation and unrest. Increasing fuel prices requires a change in the current law and approval from the President and Parliament.

Fig 5: Indonesian downstream petroleum market



Source: Ministry of Finance

Fig 6: Increase in imports to meet shortfall in domestic production



Source: BP Statistical Review of World Energy 2011

How can AKR benefit?

- **Opportunity for growth in retail sector** – Opening up of the subsidised fuel market adds a new layer of growth to AKR's already robust business in unsubsidised fuel distribution to industrial customers (mining, fishing, agriculture sectors). AKR's unsubsidised fuel volumes grew a 51% CAGR in the last five years and are expected to sustain robust volume growth of 25-30% per year over the next three years.

- **Head start in logistics footprint** – AKR already has the first mover advantage in fuel distribution since entering the market in 2005. Within five years, it established itself as the largest private fuel distributor in Indonesia with 8% market share, making the petroleum distribution business the most profitable and fastest growing segment within the group. This is not possible without its logistics infrastructure footprint that comprises of strategic presence in 18 major sea and river ports in Indonesia, 135 storage tanks with total capacity of 542.650 kl, 2 self propelled oil barges and 247 vehicles. In addition, we view AKR's appointment as the largest private distributor of subsidised fuel distribution in Indonesia alongside state-owned Pertamina as a great endorsement to its resilient logistic infrastructure and petroleum distribution capability.

- **Boosting capacity** – Going forward, it plans to add 76,900 KL of tank storage capacity for FY12, which could boost the storage capacity of in-house distribution of petroleum by 14%. Beyond 2012, the group entered into a JV with Royal Vopak (AKR has 51% stake) to establish the Jakarta Tank Terminal (JTT) to boost storage capacity by 51% from 543,135kl to 820,035kl. According to management, each storage tank could facilitate 12 turns per year at the optimal level of utilisation.

- **A prized strategic asset** – AKR is the third largest retail station operator in Indonesia with 31 retail stations, after Pertamina (4,509 gas stations) and Shell (RDSA LN, NR, EUR2301) (40 gas stations). Other players such as Petronas and Total S.A (TOT US, NR, USD53.62) are lagging with 19 and 13 petrol stations, respectively. The opportunity is huge, considering there are only 4,700 petrol stations in Indonesia – SE Asia's most populous country versus 97,000 in China. With more global oil majors (including Shell, Petronas, Total and others) entering the market on the fuel market liberalisation in Indonesia, we believe AKR's fuel distribution business stands out as a prize strategic asset**.**

- **Third party fees could be substantial** – Further upside to AKR's earnings stems from providing value-added terminal and haulier facilities to third parties, in exchange for recurring third party fees. Falling back to its established and expanding logistics infrastructure across Indonesia, AKR could provide immediate third party support for new entrants as the petroleum market opens up.

The upside

- First, we show our base case on AKR's fuel forecast. We assume AKR's sales volume of petroleum would growth 25-30% in FY12E, in line with management's target to reach 2.6m kl for the year. Subsequently, we expect volumes to grow at 10-12% pa. We expect fuel prices to grow at a CAGR of 4% over FY11-FY15E, in line with the forecast of SCB commodities research.

- We expect the petroleum market in Indonesia to grow at 3-5% pa over the next five years, in line with BMI forecasts of oil consumption to increase by 20.7% to 1.6mn b/d between 2011 and 2020. We believe fuel demand will be well supported by the Indonesia government estimates that US$1,429trn is needed for infrastructure development to achieve 5-7% economic growth during 2010-14.

Fig 7: The base case

Petroleum deregulation by 2015 Indonesia downstream petroleum market	2010	2011	2012	2013	2014	2015
Non subsidised market (million KL)	26.4	26.4	27.2	28.0	28.8	29.7
Subsidised market (million KL)	38.6	40.45	40.9	42.1	43.4	44.7
Total (million KL)	65	66.85	68.9	70.9	73.0	75.2
Growth (%)		3%	3%	4%	4%	4%
Weightage (%)						
Non subsidised market	41%	41%	41%	41%	41%	41%
Subsidised market	59%	59%	59%	59%	59%	59%
AKR's market share						
Non subsidised	7.6%	8.0%	9.6%	10.1%	10.7%	11.3%
Subsidised	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
AKR's volume from petroleum						
Non subsidised	2.0	2.1	2.6	2.8	3.1	3.3
Subsidised	0.12	0.12	0.12	0.12	0.12	0.12
Oil price (Brent) - USD/t (SCB global research forecasts)	82	111	117	120	127	130
Growth (%)		36%	5%	3%	6%	2%
Gross profit margin	3.6%	3.6%	4.0%	4.0%	4.0%	4.0%
Revenue (IDR billion)	12195	18870	25063	28356	32730	37223
EPS (IDR)	82	142	188	233	276	359
PE multiple (x)	**44**	**25**	**19**	**15**	**13**	**10**

Source: Company, Bloomberg, Standard Chartered Research estimates

- Our upside scenario factors in a 5% expansion in the unsubsidised fuel market every year until 2015 and AKR gradually increasing its market share to 10% of the unsubsidised fuel market. We estimate a 5-10% upside to EPS every year from FY13- FY15E. Ascribing a PER multiple of 20x (as what our DCF valuation translates to), we derive a 12-month price target of IDR3,800/share, similar to our revised price target. Looking forward into FY15, the stock could double from its current levels by FY15.

Fig 8: Scenario 1

+5% in subsidised market every year Indonesia downstream petroleum market	2010	2011	2012	2013	2014	2015
Non subsidised market (million KL)	26.4	26.4	30.5	35.2	40.2	45.6
Subsidised market (million KL)	38.6	40.45	37.8	35.7	33.4	30.8
Total (million KL)	65	66.85	69.5	72.3	75.2	78.2
Growth (%)		3%	3%	4%	4%	4%
Weightage (%)						
Non subsidised market	41%	41%	46%	51%	56%	61%
Subsidised market	59%	59%	54%	49%	44%	39%
AKR's market share						
Non subsidised	7.6%	8.0%	8.5%	9.0%	9.5%	10.0%
Subsidised	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
AKR's volume from petroleum (million KL)						
Non subsidised	2.0	2.1	2.6	3.2	3.8	4.6
Subsidised	0.12	0.12	0.11	0.11	0.10	0.09
Oil price (Brent) - USD/t (SCB global research forecasts)	82	111	117	120	127	130
Growth (%)		36%	5%	3%	6%	2%
Gross profit margin	3.6%	3.6%	4.0%	4.0%	4.0%	4.0%
Revenue (IDR billion)	12,195	18,870	25,795	31,827	39,640	48,267
upside (%)	0.0%	0.0%	2.9%	12.2%	21.1%	29.7%
EPS (IDR)	82	142	190	244	298	396
upside (%)	0.0%	0.0%	1.3%	4.7%	8.1%	10.2%
PE multiple (x)	**44**	**25**	**19**	**15**	**12**	**9**
Target PE multiple (x)	**20**	**20**	**20**	**19**	**18**	**17**
Price target (IDR)	1648	2834	3802	4635	5363	6728

Source: Company, Bloomberg, Standard Chartered Research estimates

- Our second upside scenario is more aggressive, assuming that Indonesian government meets its plan to fully deregulate the market by 2014. However, we remain prudent and assume full deregulation of fuel subsidies by 2015. We assume AKR to gain market share gradually to 10% by 2015. In addition, we assume better economies of scale on the huge volume upsurge and expect administrative cost and selling expenses to decline to 1.3% of sales (from 1.6% in FY10) and 0.5% (from 0.8% in FY10) respectively. The results show a 59% upside to FY15E EPS. Ascribing a diminishing PER multiple to reflect diminishing earnings expectations, the stock could still triple from its current levels.

Fig 9: Scenario 2

Petroleum deregulation by 2015 Indonesia downstream petroleum market	2010	2011	2012	2013	2014	2015
Non subsidised market (million KL)	26.4	26.4	29.2	41.3	53.2	73.0
Subsidised market (million KL)	38.6	40.45	38.8	28.4	18.3	0.0
Total (million KL)	65	66.85	68.9	70.9	73.0	75.2
Growth (%)		3%	3%	4%	4%	4%
Weightage (%)						
Non subsidised market	41%	41%	44%	60%	75%	100%
Subsidised market	59%	59%	56%	40%	25%	0%
AKR's market share						
Non subsidised	7.6%	8.0%	8.5%	9.0%	9.5%	10.0%
Subsidised	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
AKR's volume from petroleum						
Non subsidised	2.0	2.1	2.9	4.1	5.3	7.3
Subsidised	0.12	0.12	0.12	0.09	0.05	0.00
Oil price (Brent) - USD/t (SCB global research forecasts)	82	111	117	120	127	130
Growth (%)		36%	5%	3%	6%	2%
Gross profit margin	3.6%	3.6%	4.0%	4.0%	4.0%	4.0%
Revenue (IDR billion)	12,195	18,870	25,795	36,365	50,552	73,154
upside (%)	0.0%	0.0%	2.9%	28.2%	54.5%	96.5%
EPS (IDR)	82	142	190	258	333	571
upside (%)	0.0%	0.0%	1.3%	10.9%	20.9%	58.9%
PE multiple (x)	**44**	**25**	**19**	**14**	**11**	**6**
Target PE multiple (x)	**20**	**20**	**20**	**18**	**17**	**16**
Price target (IDR)	1648	2834	3802	4650	5665	9130

Source: Company, Bloomberg, Standard Chartered Research estimates

Coal

The group is consistently expanding its coal logistics infrastructure in Indonesia. It currently operates one coal concession (through PT Anugrah Karya Raya acquired in 2009), two Indonesian coal terminals (one commissioned in 2011 and the other expected to be complete by 2012), China Guigang terminals, as well as hauling roads and coal ports.

- The first shipment of coal was delivered to the buyer from Muara Tewe Por on 21 December 2011. The group expect to sell 1m-1.2m mt of coal in FY12, of which 75% is committed to an international buyer at US$75/mt. The improved demand visibility of its coal business, smooth progress of expansion of its coal logistics infrastructure and exports to China are expected to commence in 2012. All these raise our confidence about the group's execution of its coal business. As such, we lower the discount on its coal sales target to 10% from 30% previously. The group has a long-term target to deliver 5m mt of coal and reduce its cash cost by 10-15% by 2015. The reduction in discount to sales volume translates to an 8% increase to our earnings estimates.
- AKR recently purchased a 33.5% stake in coal logistics company – Jabal Nor – in South Kalimantan for Rp24bn (US$2.7m). It intends to raise this stake to 60% by 1QFY12 through a further injection of US$20m. Jabal Nor plans to construct a 28km haul road and 25mt inland coal terminal for third party coal logistics in the next two years. AKR plans to spend a further US$35-40m on developing the coal logistics infrastructure in Jabal Nor, which is likely to be funded by a bank loan. The group estimates it would be able to charge an indicative US$8/t usage fee and believes it could achieve payback within three years.
- With over 50% of the FOB cost of coal mined in Kalimantan being from logistics, third party fees from coal logistics could potentially offer a substantial upside for AKR.

Fig 10: Fully integrated coal logistics

Source: Company

Income statement (Rpbn)					
Year end: Dec	2010	2011E	2012E	2013E	2014E
Sales	12,195	18,870	24,247	28,356	32,730
Gross profit	960	1,078	1,510	1,922	2,245
SG&A	(499)	(481)	(601)	(705)	(834)
Other income	0	0	0	0	0
Other expenses	0	0	0	0	0
EBIT	**461**	**596**	**909**	**1,217**	**1,412**
Net interest	(94)	7	(15)	(88)	(101)
Associates	0	0	0	0	0
Other non operational	53	58	2	3	4
Exceptional items	0	1,685	0	0	0
Pretax profit	**420**	**2,347**	**896**	**1,132**	**1,314**
Taxation	(81)	(132)	(179)	(221)	(263)
Minority interests	(28)	11	0	0	0
Exceptional items after tax	0	0	0	0	0
Net profit	**311**	**2,225**	**717**	**911**	**1,051**
Net profit adj	**311**	**540**	**717**	**911**	**1,051**
EBITDA	**628**	**826**	**1,160**	**1,383**	**1,624**
EPS (Rp)	83	587	189	240	277
EPS adj (Rp)	83	142	188	239	276
DPS (Rp)	30	355	75	96	110
Avg fully diluted shares (m)	3,754	3,812	3,812	3,812	3,812

Cash flow statement (Rpbn)					
Year end: Dec	2010	2011E	2012E	2013E	2014E
EBIT	461	596	909	1,217	1,412
Depreciation & amortisation	167	230	251	165	212
Net interest	(91)	7	(15)	(88)	(101)
Tax paid	(433)	(132)	(179)	(221)	(263)
Changes in working capital	(164)	(105)	(301)	(243)	(252)
Others	488	1,684	(83)	50	72
Cash flow from operations	**428**	**2,280**	**581**	**880**	**1,080**
Capex	(491)	(944)	(970)	(1,134)	(1,309)
Acquisitions	0	0	0	0	0
Disposals	5	2,202	0	0	0
Others	(13)	0	0	0	0
Cash flow from investing	**(499)**	**1,259**	**(970)**	**(1,134)**	**(1,309)**
Dividends	(247)	(1,357)	(287)	(365)	(422)
Issue of shares	532	0	0	0	0
Change in debt	167	(1,118)	500	500	0
Other financing cash flow	0	0	0	0	0
Cash flow from financing	**452**	**(2,475)**	**213**	**135**	**(422)**
Change in cash	**381**	**1,064**	**(176)**	**(119)**	**(651)**
Exchange rate effect	38	0	0	0	0
Free cash flow	**(63)**	**1,337**	**(389)**	**(254)**	**(230)**

Balance sheet (Rpbn)					
Year end: Dec	2010	2011E	2012E	2013E	2014E
Cash	692	1,756	1,580	1,460	809
Short term investments	27	27	27	27	27
Accounts receivable	1,607	2,326	2,989	3,496	4,035
Inventory	1,425	2,166	2,785	3,235	3,727
Other current assets	279	200	200	200	200
Total current assets	**4,028**	**6,474**	**7,580**	**8,418**	**8,798**
PP&E	3,038	1,528	2,333	3,255	4,284
Intangible assets	58	58	58	58	58
Associates and JVs	0	0	0	0	0
Other long term assets	542	542	542	542	542
Total long term assets	**3,637**	**2,128**	**2,932**	**3,854**	**4,883**
Total assets	**7,666**	**8,602**	**10,512**	**12,272**	**13,681**
Short term debt	1,441	123	123	123	123
Accounts payable	1,967	3,432	4,413	5,127	5,906
Other current liabilities	436	248	248	248	248
Total current liabilities	**3,844**	**3,803**	**4,784**	**5,498**	**6,277**
Long term debt	880	1,080	1,580	2,080	2,080
Convertible bonds	0	0	0	0	0
Deferred tax	10	10	10	10	10
Other long term liabilities	73	73	73	73	73
Total long term liabilities	**963**	**1,163**	**1,663**	**2,163**	**2,163**
Total liabilities	**4,807**	**4,965**	**6,446**	**7,660**	**8,440**
Shareholders' funds	2,386	3,175	3,604	4,150	4,780
Minority interests	472	462	462	462	462
Total equity	**2,859**	**3,636**	**4,066**	**4,612**	**5,241**
Total liabilities and equity	**7,666**	**8,602**	**10,512**	**12,272**	**13,681**
Net debt (cash)	1,630	(552)	124	743	1,394
Year end shares (m)	3,793	3,822	3,822	3,822	3,822

Financial ratios and other					
Year end: Dec	2010	2011E	2012E	2013E	2014E
Operating ratios					
EBITDA margin (%)	5.2	4.4	4.8	4.9	5.0
EBIT margin (%)	3.8	3.2	3.8	4.3	4.3
Net margin adj (%)	2.5	2.9	3.0	3.2	3.2
Effective tax rate (%)	19.3	5.6	20.0	19.5	20.0
Sales growth (%)	36.1	54.7	28.5	16.9	15.4
Net income growth (%)	13.2	615.6	-67.8	27.1	15.4
EPS growth (%)	-3.1	604.5	-67.8	27.1	15.4
EPS growth adj (%)	-3.3	71.1	32.7	27.1	15.4
DPS growth (%)	20.0	1,083.3	-78.8	27.1	15.4
Efficiency ratios					
ROE (%)	15.1	80.0	21.2	23.5	23.5
ROCE (%)	13.0	13.8	17.3	19.5	19.9
Asset turnover (x)	1.8	2.3	2.5	2.5	2.5
Op cash / EBIT (x)	0.9	3.8	0.6	0.7	0.8
Depreciation / CAPEX (x)	0.3	0.2	0.3	0.1	0.2
Inventory days	34.7	36.8	39.7	41.6	41.7
Accounts receivable days	43.5	38.0	40.0	41.7	42.0
Accounts payable days	50.0	55.4	63.0	65.9	66.1
Leverage ratios					
Net gearing (%)	57.0	-15.2	3.0	16.1	26.6
Debt/capital (%)	60.7	25.1	29.7	32.5	29.8
Interest cover (x)	4.4	19.1	11.9	13.8	13.9
Debt/EBITDA (x)	3.6	2.1	1.3	1.4	1.4
Current ratio (x)	1.0	1.7	1.6	1.5	1.4
Valuation					
EV/Sales (x)	0.5	0.7	0.6	0.5	0.5
EV/EBITDA (x)	10.1	16.5	12.4	10.8	9.6
EV/EBIT (x)	13.8	22.9	15.8	12.3	11.1
PER (x)	14.8	6.4	19.8	15.6	13.5
PER adj (x)	14.8	26.5	19.9	15.7	13.6
PBR (x)	2.7	4.5	4.0	3.5	3.0
Dividend yield (%)	2.4	9.5	2.0	2.5	2.9
Other					
Trading and distribution	9,412	17,438	22,207	25,313	29,111
Manufacturing	2,397	741	801	885	944
Logistic services	386	498	573	658	757
Coal	0	194	666	1,498	1,918

Source: Company, Standard Chartered Research estimates

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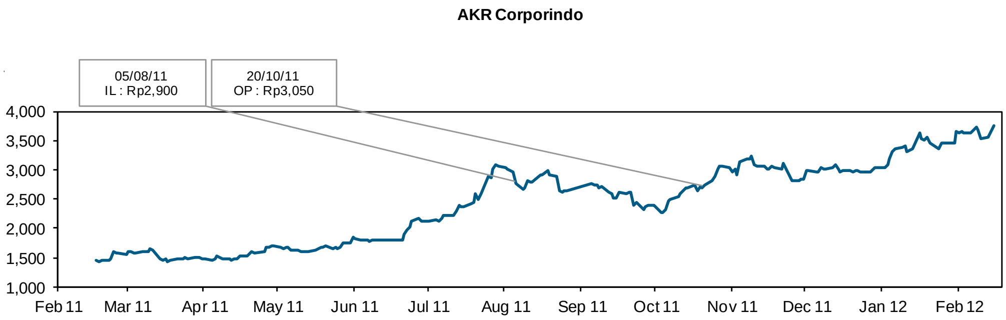

Source: FactSet prices / SCB ratings and price targets

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As of 31 December 2011

Research Recommendation

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