

6 NOVEMBER 2019

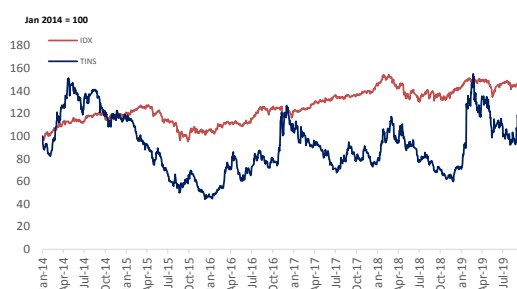
## COMPANY UPDATE

# NEUTRAL

### STOCK INFORMATION

Bloomberg Code	TINS JJ
Sector	Metal Mining
Current Price	Rp 830
Target Price	Rp 900
Upside/Downside	8.0%
Share Out (bn shares)	7.45
Market Cap (Rp bn)	8.863
52 – w range (low-high)	Rp 605 – Rp 1.645
Average daily turnover (Rp bn)	
1 month	Rp 84.7
3 month	Rp 50.8
YTD 2019	Rp 55.4

### PRICE CHART



Source: Bloomberg

### SHAREHOLDER'S INFORMATION

INALUM	65%
Public	35%

Source: Company data

### PE/BAND



Source: Bloomberg

## PT TIMAH TBK

### A gruesome outlook

TINS's 9M19 revenue was great, but its bottom line was below our (and consensus) expectations due to higher operating cost despite strong contribution from tin sales volume. We have more conservative on TINS earnings and cut our FY20-21F EPS by -65.1% and -48.4%, mainly to adjust higher COGS and operating cost. We downgrade rating to neutral recommendation and TP also lowered to Rp 900/share, from previously Rp 1.700/share. Our TP implies 20.0x P/E and 11.1x EV/EBITDA, based on FY20F forecasts.

#### Earnings shocks due to higher than expected cost

In 3Q19, TINS booked higher net losses of Rp 381.1 bn (vs 2Q19 net profit of Rp 96 bn) bringing the 9M19 net loss Rp 175bn (vs 9M18: Rp 255bn). The numbers fell short due to higher-than-expected COGS, amounts to Rp 206 bn in 9M19 (+69% QoQ, +163 YoY). We observed the most significant increase in raw materials of tin ore (+209.2% YoY) and third parties service (+842.1%YoY) as the company used some private smelters to increase production amid regulations in the refined tin industry in Indonesia. Furthermore, the company's performance was depressed from the higher finance cost for bonds and loans + 163.38% YoY, from Rp 124.7 billion to Rp 328.43 billion, and higher interest expenses (+162% YoY). At the top line, TINS managed to booked sales revenue of Rp 14.6 Tn or +114%YoY, representing 76% of our estimates. For quarterly basis lower revenue in 3Q19 was backed by weak ASP (- 13.2%QoQ, to US\$ 17,165 ton) as the average LME tin price declined.

#### Margin squeeze driven by higher cost structure

TINS reported lower profitability margin with GPM and EBIT margin falling by 860bps YoY to 7.3% and 500bps YoY to 0.9% in 9M19, mainly driven by higher raw material costs and third-party service fees. In particular, its inventory as of September 19 remained high at Rp 8.19Tn (vs 9M18: Rp 4.2Tn) that eroded its cash flow and increased its short- term debt. As the result, its interest cost has more than doubled to Rp525bn (vs 9M18: Rp 200bn), which contributed to its net loss in 9M19.

#### Downgrade to neutral with lower TP Rp 900

Responding to the 9M19 result that was below our expectation, we have to revise down our projection. TINS's cost structure is more volatile as companies depends on third party to secure raw materials, which represent ~ 60% of production costs. In this case, TINS must reduce the cost of its material for tin ore and lower costs for third party service as both accounts more than 80% of COGS. Our new TINS's fair value of Rp900/ share. This implies a valuation target P/BV 1.0x and EV/EBITDA 10.27x for FY20F. Based on yesterday's closing price, our TP offers 8.0% upside, NEUTRAL recommendation.

**Key Risk:** 1) Higher production costs 2) Lower than expected LME tin price 3) Indonesian authorities fail to suppress illegal mining and

### Financial Summary

(Rp billion)	2017A	2018F	2019F	2020F	2021F
Revenue	9,217	11,050	17,192	18,777	19,470
EBITDA	1,247	1,319	850	1,607	1,721
Net profit	502	532	(140)	261	285
EPS (Rp)	67	71	(19)	35	38
PER (x)	12.31	11.63	(44.07)	23.69	21.68
PBV (x)	1.02	0.95	1.01	0.96	0.93
EV/EBITDA (x)	6.83	8.75	17.72	9.65	8.63
Dividend yield (%)	1.22	2.84	3.01	(0.79)	1.48
RoE (%)	8.57	8.45	(2.22)	4.15	4.35

Source: Company data and Lotus Andalan Research

## INTERIM FINANCIAL RESULT

	9M18	9M19	YoY	FY19F	Coverage	2Q19	3Q19	QoQ	Comment
<b>P/L (In Rp billion)</b>									
Revenue	6,802	14,559	114.0%	15,179	95.9%	5,416	4,646	-14.2%	Sales lower in 3Q19 due lower ASP
Cost of revenue	(5,720)	(13,544)	136.8%	(12,504)	108.3%	(5,346)	(4,699)	-12.1%	
Gross profit	1,082	1,065	-1.6%	2,675	39.8%	71	247	248.5%	
Operating expense	(679)	(925)	36.2%	(1,062)	87.1%	(307)	(358)	16.6%	
Operating profit	403	139	-65.5%	1,614	8.6%	(204)	(111)	na	
Net profit	255	(176)	na	1,025	-17.2%	(96)	(381)	na	
<b>Profitability</b>									
Gross margin	15.9%	7.3%		17.6%		1.3%	5.3%		
EBIT margin	5.9%	1.0%		10.6%		-3.8%	-2.4%		Margin squeeze due to higher
Net margin	3.7%	-1.2%		6.8%		-1.8%	-8.2%		Operating structure

Source: Company data and Lotus Andalan Research

## Forecast Changes

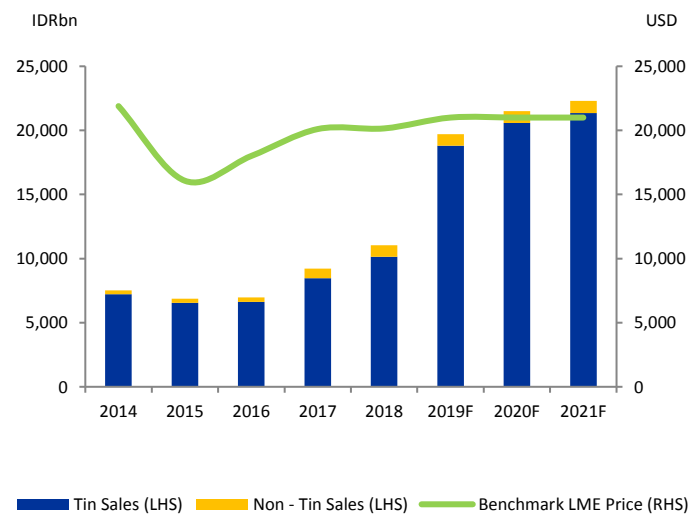
	Previous			New			% change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	15,179	16,470	17,056	17,192	18,777	19,740	13.3%	14.1%	15.7%
Gross Profit	2,675	2,984	3,265	1,006	2,133	2,326	-62.4%	-28.5%	-28.7%
Operating Profit	1,614	1,832	2,096	(197)	820	964	NA	-47.4%	-54.1%
Net Income	1,025	1,167	1,306	(332)	335	443	NA	-71.3%	-66.1%

## Financial Ratios

Gross margin	17.6%	18.1%	18.5%	10.3%	12.1%	16.4%
Operating margin	10.6%	11.1%	12.2%	14.6%	14.9%	14.6%
Net margin	6.8%	7.1%	7.7%	1.5%	3.3%	5.7%

Source: Lotus Andalan Research

## TINS Sales and Benchmark LME Price



Source: Company data and Lotus Andalan Research

## Gross Margin and Benchmark LME Price



Source: Company data and Lotus Andalan Research

## FINANCIAL HIGHLIGHTS OF PT TIMAH Tbk

In Rp Billion											
BALANCE SHEET						INCOME STATEMENT					
	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
<b>ASSETS</b>											
Cash & cash equivalents	1,357	785	1,519	1,319	2,223	Revenue	9,217	11,050	17,192	18,777	19,470
Accounts receivable	1,478	1,974	3,071	3,354	3,478	COGS	(7,692)	(9,372)	(15,770)	(16,554)	(17,144)
Inventories - net	2,509	4,262	7,172	7,528	7,246						
	1,652	2,184	1,793	1,876	1,951	Gross profit	1,526	1,678	1,422	2,223	2,326
Other current assets	6,997	9,204	13,615	14,139	14,959						
Total current assets	2,462	3,085	3,277	3,303	2,985	Operating expenses	(795)	(931)	(1,202)	(1,313)	(1,362)
	2,417	2,828	2,722	2,835	2,858	Operating profit	731	747	220	910	964
Fixed assets	4,879	5,914	6,000	6,138	5,842						
Other non current assets	11,876	15,118	19,615	20,277	20,802	EBITDA	1,247	1,319	850	1,607	1,721
Total Non current assets	2,192	4,644	4,876	5,120	5,376	Interest income	25	39	23	46	44
	733	975	1,640	1,722	1,783	Interest expense	(200)	(305)	(662)	(841)	(861)
TOTAL ASSETS	-	-	-	-	-	Other income (expenses)	161	285	290	291	292
<b>LIABILITIES &amp; EQUITY</b>						Total other income/(expenses)	(15)	20	(349)	(504)	(526)
	477	557	557	557	557	Income before tax	716	767	(129)	406	438
	3,403	6,176	7,074	7,399	7,717						
Short term bank loan	1,500	1,500	5,520	5,521	5,520	Tax expense	207	192	(32)	101	110
Accounts payable	912	920	889	907	905						
Current maturities - bank loan	2,412	2,420	6,409	6,428	6,425	Net profit before minority interest	502	767	(129)	406	438
Other payables	372	373	373	373	373						
	5,819	6,174	5,848	6,158	6,352	Minority interest	(0)	(0)	(0)	(0)	(0)
Total Current Liabilities	(130)	(26)	(89)	(81)	(65)						
Bank loan	6,061	6,522	6,132	6,450	6,660	Net profit	502	532	(140)	261	285
Other LTD	11,876	15,118	19,615	20,277	20,802	EPS (Rp)	67	71	(19)	35	38
Total Non Current Liabilities	1,478	1,974	3,071	3,354	3,478						
<b>CASH FLOW STATEMENT</b>						<b>KEY FINANCIAL RATIOS</b>					
	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
						<b>Growth (%)</b>					
EBIT	502	532	(140)	261	285	Sales	32.3	19.9	55.6	9.2	3.7
Depreciation & Amortization	497	562	657	727	789	Gross profit	39.3	10.0	(15.3)	56.3	4.6
Change in WC	(785)	(2,007)	(3,341)	(558)	220	Operating Profit	46.8	2.2	(70.6)	314.2	6.0
Others	(298)	(451)	330	(83)	(75)	EBITDA	22.1	5.8	na	89.1	7.1
Net Operating Cash Flow	(83)	(1,365)	(2,495)	346	1,219	Net Profit	99.2	5.9	na	na	9.2
Change in fixed assets - net	(742)	(1,261)	(925)	(786)	(485)	<b>Profitability (%)</b>					
Others	(324)	(335)	182	(79)	(8)	Gross margin	16.6	15.2	8.3	11.8	11.9
Net Investing Cash Flow	(1,066)	(1,596)	(743)	(865)	(493)	Operating margin	7.1	14.8	14.6	14.9	14.6
						EBITDA margin	13.5	11.9	4.9	8.6	8.8
Change in borrowings - net	1,959	2,452	4,252	245	255	Net Profit margin	5.4	4.8	(0.8)	1.4	1.5
Dividend payment	(75)	(176)	(186)	49	(91)	ROA	4.7	3.9	(0.8)	1.3	1.4
Adjustment	59	112	(94)	26	14	ROE	8.6	8.5	(2.2)	4.1	4.3
Net Financing Cash Flow	1,943	2,388	3,972	320	178						
						<b>Solvency (x)</b>					
Change in cash	794	(573)	734	(200)	904	Current ratio	2.1	1.5	1.9	1.9	1.9
						DER	0.4	0.8	1.4	1.4	1.3
Cash at the beginning period	564	1,357	785	1,519	1,319	Interest coverage	3.6	2.5	0.3	1.1	1.1
Cash at the ending period	1,357	785	1,519	1,319	2,223	Net debt to equity	0.6	0.9	1.0	1.0	0.9

Source: Company data and Lotus Andalan Research

## Notes:

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **NEUTRAL** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

# PT Lotus Andalan Sekuritas

The City Tower Lantai 7  
Jl. MH. Thamrin No. 81  
Jakarta Pusat 10310  
Tel : (021) 2395 1000  
Fax : (021) 2395 1099

## BRANCH OFFICE

### Pluit

Kawasan CBD Pluit Blok A No.20  
Jl. Pluit Selatan Raya No.1  
Jakarta 14440  
Tel : +6221 66675345  
Fax : +6221 66675234

### Kelapa Gading

Sentra Bisnis Artha Gading  
Jl. Boulevard Artha Gading Blok A6B No. 7  
Jakarta Utara 14240  
Tel : +6221 45856402  
Fax : +6221 45873961

### Bandung

Komplek Paskal Hyper Square Blok C No. 15  
Jl. Pasir Kaliki No. 25 - 27  
Bandung 40181  
Tel : +6222 86061027  
Fax : +6222 86060684

### Puri

Rukan Grand Taman Aries Niaga  
Jl. Taman Aries – Kembangan Blok G 1 No. 1 I  
Jakarta Barat 11620  
Tel : +6221 2931 9515  
Fax : +6221 2931 9516

### Surabaya

Ruko Permata Bintoro  
Jl Ketampon Kav 1-2  
Surabaya  
Tel : +6231 562 2555  
Fax : +6231 567 1398

### Medan

Jalan Kartini No.5  
Medan 20152  
Tel : +6261 451 8855  
Fax : +6261 451 6836

### Medan

Kampus STMIK-STIE MIKROSKILL  
Jl. Thamrin No 140

---

## DISCLAIMER

This report has been prepared by PT. Lotus Andalan Sekuritas on behalf of itself and its affiliated companies and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. This report has been produced independently and the forecasts, opinions, and expectations contained herein are entirely those of PT. Lotus Andalan Sekuritas.

While all reasonable care has been taken to ensure that information contained herein is not untrue or misleading at the time of publication, PT. Lotus Andalan Sekuritas makes no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of clients of PT. Lotus Andalan Sekuritas who are expected to make their own investment decisions without reliance on this report. Neither PT Lotus Andalan Sekuritas nor any officer or employee of PT Lotus Andalan Sekuritas accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. PT Lotus Andalan Sekuritas and/or persons connected with it may have acted upon or used the information herein contained, or the research or analysis on which it is based, before publication.