

## Chemicals

Company Report  
November 1, 2018

(Maintain)	Buy
Target Price (12M, IDR)	2,570
Share Price (10/31/18, IDR)	1,875
Expected Return	37.1%

Consensus OP (18F, USDmn)	656.3
EPS Growth (18F, %)	-36.3
P/E (18F, x)	25.3
Industry P/E (18F, x)	16.3
Benchmark P/E (18F, x)	15.3
Market Cap (IDRbn)	32,647.6
Shares Outstanding (mn)	17,791.6
Free Float (mn)	3,825.4
Institutional Ownership (%)	79.4
Beta (Adjusted, 24M)	1.2
52-Week Low (IDR)	1,510
52-Week High (IDR)	2,720
<b>(%)</b>	<b>1M</b> <b>6M</b> <b>12M</b>
Absolute	2.7   -20.2   -7.2
Relative	4.6   -19.8   -4.3



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# Barito Pacific

(BRPT IJ)

## 3Q18 review: No more deep contraction

### 3Q18 review: Peak-to-trough cycle length to be shortened by Star Energy

For 3Q18, Barito Pacific (BRPT) saw margins deteriorate YoY. However, 9M18 earnings margin improved compared to 1H18, largely due to slower growth of financial expenses. Nevertheless, top-line margin continued to deteriorate on a quarterly and yearly basis, and maintaining top-line margin is getting tougher in 4Q18 due to product spread contraction. In addition, the ongoing revamp of two furnaces (3Q-4Q18) is likely to hurt revenue growth. On a positive note, financial expenses are becoming less of a concern than we had feared (less interest rate burden despite policy rate hike), and we therefore lower our 2018 financial expense assumption by 17%. We maintain our Buy recommendation on BRPT and raise our target price to IDR2,570 (from IDR2,500). Key risks to our call are: 1) an increase in raw material costs and 2) a slowdown of the global and domestic economies, which could hurt overall demand growth in Indonesia.

### Higher product prices, but limited volume growth and spread pressure

In 3Q18, petrochemicals revenue increased 0.5% YoY for local sales and 41.0% YoY for exports. Given healthy demand and an unsaturated market, we expect TPIA's price premium to persist, but higher oil (naphtha) prices should put pressure on TPIA's overall spread. In fact, gross margin from petrochemicals saw negative growth again in 3Q18. Moreover, we believe turnaround maintenance and the revamp of two furnaces led to lower production volume growth in 3Q18, and the ongoing furnace revamp will likely continue to weigh on volume growth in 4Q18.

### Star Energy supporting margins

Again in 3Q18, Star Energy helped support BRPT's overall margins. Although its large interest burden still limits its potential, we see limited risks of policy rate hikes in 2018 adding to the burden. We anticipate a larger contribution from Star Energy in 2018 due to the lower contribution of Salak and Darajat in 2017 (Star Energy acquired the Salak Geothermal Operations and the Darajat Geothermal Operations on March 31, 2017). Given geothermal's stable nature of business, we forecast Star Energy's top-line growth to stabilize in 2019 (after attractive growth in 2018) and remain stable until additional capacity expansions.

### Maintain Buy with TP of IDR2,500

All in all, we believe BRPT's recent negative growth stems from systematic risks about which there is little the firm can do. However, we believe BRPT is well-positioned to endure the current pain. Going forward, BRPT is prepared to add capacity so that it can take full advantage of the next petrochemical industry upcycle, or even buffer bottom-line growth (rather than margin) by boosting volume. We maintain our Buy recommendation with a target price of IDR2,570.

FY (Dec.)	12/14	12/15	12/16	12/17	12/18F	12/19F
Revenue (USDmn)	2,477	1,406	1,961	2,453	3,123	3,410
Gross Profit (USDmn)	110	139	487	540	808	835
Operating profit (USDmn)	32	65	408	445	670	678
Net Profit (USDmn)	-9	-5	132	118	95	105
EPS (IDR)	-8	-5	123	115	73	80
BPS (IDR)	982	1,114	1,349	1,958	2,094	2,213
P/E (x)	N.A	N.A	6.0	19.7	25.3	23.0
P/B (x)	2.2	2.0	0.5	1.2	0.9	0.8
ROE (%)	N.A	N.A	9.1	5.9	3.5	3.6
ROA (%)	N.A	N.A	5.1	3.2	1.3	1.4

Note: Net profit refers to net profit attributable to controlling interests

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Table 1. BRPT's 3Q18 earnings review

(USDm, %)

	3Q17	3Q18	YoY	9M17	9M18	YoY	Mirae%	Consensus%
Net revenue	729.3	807.1	10.7	2,101.1	2,357.5	12.2	75	78
Gross profit	236.4	215.7	-8.8	660.1	661.2	0.2	82	83
Operating profit	201.8	181.1	-10.3	558.5	550.9	-1.4	82	84
Pretax profit	167.7	140.7	-16.1	450.1	391.2	-13.1	103	92
Income tax / benefit	-62.9	-50.7	-19.5	-161.9	-157.2	-2.9		
Others (minority/discontinued operation)	61.8	61.3	-0.7	167.2	163.7	-2.1		
Profit	43.0	28.7	-33.2	121.1	70.4	-41.9	85	62

Source: Company data, Mirae Asset Sekuritas Indonesia Research

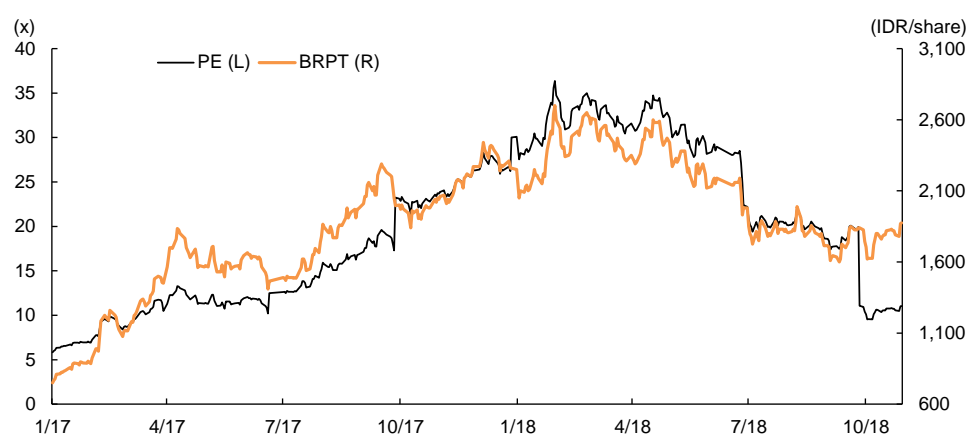
Table 2. BRPT's 3Q18 Revenue by business

(USDm, %)

	3Q17	3Q18	YoY	9M17	9M18	YoY
Total Revenue	729.3	807.1	10.7	2101.1	2357.5	12.2
Petrochemical						
Export	171.2	241.5	41.0	557.6	553.1	-0.8
Local	430.1	432.2	0.5	1234.1	1401.1	13.5
Energy and resources						
Electricity	51.0	57.2	12.2	111.7	168.3	50.6
Energy lease income	37.7	37.4	-0.8	110.7	110.9	0.1
Steam	23.2	25.4	9.4	49.7	79.2	59.3
Finance lease income	10.8	10.9	1.0	21.6	32.8	51.5
Carbon Credit	0.0	0.1	N/A	0.1	0.1	77.4
Others						
Woodworking indu	2.1	0.0	N/A	5.6	1.9	-65.7
Tanks & jetty rent	1.4	2.6	87.0	6.3	8.1	27.7
Rental income	1.9	0.0	N/A	3.7	2.0	-45.5

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 1. Price performance and PE of BRPT



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

## Barito Pacific (BRPT IJ/Buy/TP IDR2,570)

**Comprehensive Income Statement (Summarized)**

Year end Dec 31 (USD mn)	2016	2017	2018F	2019F
Revenue	1,961.3	2,452.8	3,122.7	3,409.7
Cost of goods sold	-1,473.9	-1,913.2	-2,315.1	-2,575.1
<b>Gross profit</b>	<b>487.5</b>	<b>539.6</b>	<b>807.6</b>	<b>834.6</b>
SG&A	-79.2	-94.6	-137.9	-156.4
EBIT (Adj.)	408.2	445.0	669.7	678.2
EBIT	408.2	445.0	669.7	678.2
Net interest income (loss)	-38.2	-59.7	-251.2	-295.4
Income (loss) from associates	-5.4	-8.5	-10.3	-10.3
Others	15.4	8.6	23.5	26.0
<b>Recurring profit</b>	<b>380.0</b>	<b>385.4</b>	<b>248.4</b>	<b>262.8</b>
Income tax	-100.2	-105.5	-183.4	-135.7
<b>Net profit</b>	<b>279.8</b>	<b>279.9</b>	<b>237.0</b>	<b>262.8</b>
<b>Net profit (Controlling Int.)</b>	<b>131.7</b>	<b>118.1</b>	<b>94.8</b>	<b>105.1</b>
<b>Growth &amp; margins</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>
Revenue growth	39.5	25.1	27.3	9.2
Gross profit growth	250.4	10.7	21.0	11.2
EBIT growth	531.9	9.0	50.5	1.3
Net profit growth	N.A	-10.3	-19.7	10.9
EPS growth	N.A	-6.5	-36.3	10.1
Gross margin	24.9	22.0	25.9	24.5
EBIT margin	20.8	18.1	21.4	19.9
Net profit margin	6.7	4.8	3.0	3.1

**Statement of Financial Condition (Summarized)**

Year end Dec 31 (USD mn)	2016	2017	2018F	2019F
<b>Current assets</b>				
Cash & equivalents	306	881	747	804
Short-term financial asset	15	43	164	164
Account receivable	148	217	246	269
Inventory	202	242	315	350
Other current assets	57	122	256	138
<b>Non-current assets</b>				
Net fixed assets	1,585	1,705	2,589	3,078
Investment	1	1	34	34
Other long-term assets	256	432	2,680	2,711
<b>Total assets</b>	<b>2,571</b>	<b>3,643</b>	<b>7,030</b>	<b>7,548</b>
<b>Current liabilities</b>				
Account payable	367	499	556	643
Short-term debt	133	341	174	456
Other current liabilities	44	33	214	125
<b>Non-current liabilities</b>				
Long-term debt	404	572	2,606	2,842
Other long-term liabilities	174	181	709	584
<b>Total liabilities</b>	<b>1,122</b>	<b>1,626</b>	<b>4,260</b>	<b>4,650</b>
Controlling interests	842	1,410	1,290	1,338
Non-controlling Interest	607	607	1,471	1,563
<b>Shareholder's equity</b>	<b>1,448</b>	<b>2,017</b>	<b>2,761</b>	<b>2,901</b>
BVPS (IDR)	1,349	1,958	2,087	2,179

**Cash Flows (Summarized)**

Year end Dec 31 (USD mn)	2016	2017	2018F	2019F
<b>Cash flow from operations</b>				
Net profit	132	118	95	105
Depr. & amortization	-2	92	132	160
Others	60	-104	8	2
Change in working capital	-4	24	108	8
<b>Cash flow from investing</b>				
Capital expenditure	5	-213	-595	-650
Others	-40	-177	230	-31
<b>Cash flow from financing</b>				
Dividends	-3	-12	-19	-21
Increase in equity	125	451	-26	92
Increase in debt	-67	376	151	519
Others	-4	19	-243	-126
Beginning cash	105	306	906	747
Ending cash	306	881	747	804

Source: Company data, Mirae Asset Sekuritas Research estimates

**Forecasts/Valuations (Summarized)**

Year end Dec 31	2016	2017	2018F	2019F
ROE (%)	9.1	5.9	3.5	3.6
ROA (%)	5.1	3.2	1.3	1.4
Inventory days	50.1	46.1	49.6	49.6
Receivables days	27.6	32.3	28.8	28.8
Payable days	90.9	95.3	90.2	91.2
Net debt/equity (x)	0.2	0.0	0.7	0.9
Interest cover (x)	10.7	7.5	2.7	2.3

# APPENDIX 1

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