December 6, 2013

Intraco Penta, Tbk

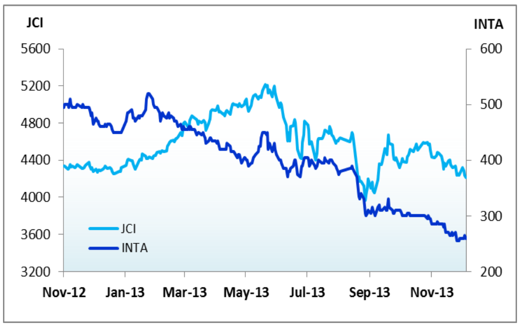
Secondary Report

Target Price

Low	High
350	500

Heavy Equipment

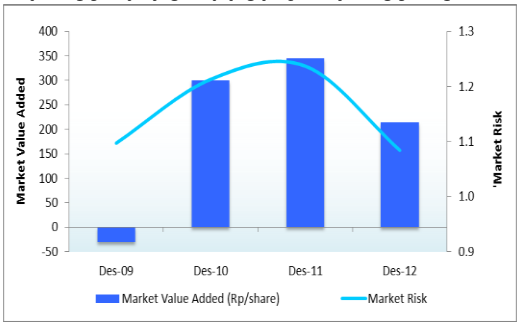
Historical Chart



Source: Bloomberg, Pefindo Equity & Index Valuation Division

Stock Information	IDR
Ticker code	INTA
Market price as of December 5, 2013	260
Market price – 52 week high	520
Market price – 52 week low	255
Market cap – 52 week high (bn)	1,123
Market cap – 52 week low (bn)	551

Market Value Added & Market Risk



Source:PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division

Stock Valuation	Last	Current
High	740	500
Low	520	350

Shareholders	(%)
Westwood Finance Inc.	27.05
Pristine Resources International Pte. Ltd.	18.57
PT Shalumindo Investama	14.73
PT Spallindo Adilong	12.05
Public (each below 5%)	27.59

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PT INTRACO PENTA, Tbk

Synergizing Value Chain in Times of Uncertainty

PT Intraco Penta Tbk (INTA) was established in 1970 as a spare parts trading firm. After listing its shares in the Indonesia Stock Exchange in 1993, it has now become one of the leading heavy equipment companies in Indonesia. The company draws strength from its 40-year business journey, distribution network covering 44 locations across Indonesia and more than 2,200 employees. INTA holds licenses from well-known international heavy equipment brands such as Volvo, Bobcat, Ingersoll-Rand, SDLG, Mahindra and Sinotruk. In addition to its core business of distributing and servicing heavy equipment, INTA also provides financing (including sharia), rental, contracting and engineering solutions services. INTA developed a business concept called Total Solutions Provider, which enables the company to integrate and optimize value chains within the business group to deliver added value to customers.

INVESTMENT PARAMETER

Target Price Adjustment
We have made several adjustments to our previous forecast and adjusted our target price downward to **IDR350–IDR500** per share, based on the following considerations:

- More pessimistic outlook for global economic growth, with the International Monetary Fund revising its forecast downward. China and India, the two most important export destinations for Indonesia, also forecasted lower growths by 0.3 and 0.2 percentage points, respectively, for 2013.
- International coal prices have dropped to below USD80 per MT since June to October 2013, a figure almost close to production costs. China's looming low-grade coal import ban uncertainty and the anticipated global coal supply spike, mainly as a result of the success of shale gas in the US may keep coal prices outlook remain poor. However there has been an increasing trend since end of October 2013 where the coal prices back to be at above USD80.
- While demand is declining, the heavy equipment industry is seeing increased used heavy equipment imports. Heavy equipment production also declined 28% along 9M13 and the production is expected to drop 20% for the whole year in line with 25% QtQ dropped in coal production in 3Q13. The hope is coming from the recent increasing coal prices trend and the coming winter in some countries that may drives demand.
- INTA's rental service provides an alternative for business owners, allowing them to anticipate weak business cycles. Hence the business revenue only decline 5.6% during 9M13 far lower than heavy equipment revenue. INTA plans to strengthen its rental business and add about 30-40 units of equipment for rent this year. Meanwhile, its leasing revenue increased 45% in 9M13 after jumping 77% in 2012, and its business contribution rose from only 2.5% in 2011 to 5.3% during 9M13.
- Although revenue declined 14% in 2012 and then by 5% in 9M13, we expect INTA to book a moderate growth of about 6%, considering there have been signs that heavy equipment demand will slightly rebound as well as positive growth in the leasing, spare parts and maintenance business.
- INTA's 9M13 pre-tax margin dropped to -9.8% largely due to its higher interest payments in line with higher debts and the effect of forex loss. However, if we look at to pre-tax profit adjusted to forex effect, INTA was still booked IDR66 billion in 9M13. Although in 9M13 pre-tax profit adjusted to forex effect was declined 12%, as the gross profit expected to boost in this year, INTA estimated to book pre-tax profit adjusted to forex effect of about IDR113 billion or a growth of 8%.
- Risk-free rate, equity premium and beta assumption are 8.8%, 1.7% and 1.1x, respectively.

Business Prospects
The shrinking of global demand and the fall of commodity prices, mainly coal, seems to be running longer than expected. Uncertainty looms over economies and businesses. However, we believe that risks could be embraced as opportunities for companies like INTA by strengthening its capacity to grow in the future during the current circumstances. We see that INTA's strategy to optimize its business value chain has proven to work, with its combination of core and supporting business well-synergized. We believe that demand will continue to grow in line with the country's development and improvement in people's welfare.

Table 1: Performance Summary

	2010	2011	2012	2013P	2014P
Revenue [IDR bn]	1,833	3,000	2,593	2,738	3,158
Pre-tax profit [IDR bn]	118	169	27	(212)	36
Net profit [IDR bn]	86	134	30	(178)	30
EPS [IDR]	200	62	14	(82)	14
EPS growth [%]	107	(69)	(78)	(700)	(117)
P/E [x]	2.5	9.5	32.8	N.A.	18.3*
PBV [x]	0.5	2.4	1.9	1.4*	1.3*

Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division Estimates
**Based on INTA's share price as of December 5, 2013 – IDR260/share*

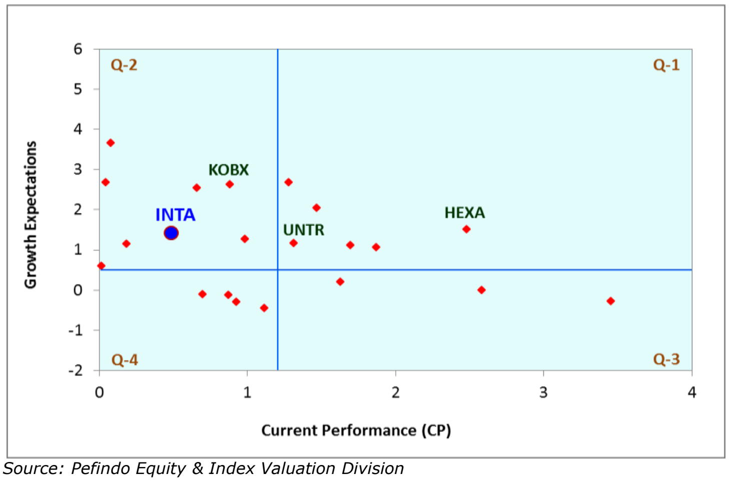
GROWTH-VALUE MAP

The Growth-Value Map gives a visualization of market expectations for the companies listed on the IDX. The Current Performance (CP) metric is a portion of current stock market value that can be linked to the perpetuity of a company's current performance in profitability. The Growth Expectations (GE) metric is the difference between the current stock market value and the value of current performance. Both metrics are normalized by the company's book value.

The Growth-Value Map divides companies into four clusters:

- **Excellent Value Managers (Q-1)**
  Market expects companies in Q-1 to surpass their benchmark in profitability and growth.
- **Expectation Builders (Q-2)**
  Market has relatively low expectations of profitability from companies in Q-2 in the short term, but has growth expectations exceed the benchmark.
- **Traditionalists (Q-3)**
  Market has low growth expectations of companies in the Q-3, although they showed a good profitability in the short term.
- **Asset-loaded Value Managers (Q-4)**
  Market has low expectations in terms of profitability and growth for companies in Q-4.

Figure 1: Growth-Value Map
(INTA and Wholesale Industry)



Source: Pefindo Equity & Index Valuation Division

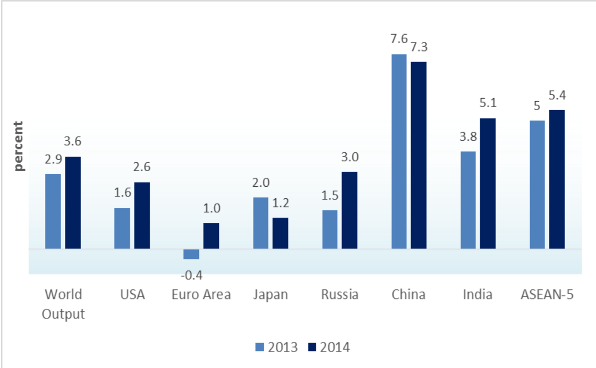
INTA is located in **Expectation Builders (Q-2)** quadrant, which means that its profitability in the short term is below average market expectations, while its future growth opportunity is perceived to be higher than market benchmark. In line with the condition described, we have positive expectations of INTA's future performance, albeit current unfavorable data surrounding the Company's growth and profitability.

BUSINESS INFORMATION

Global Economy: More Pessimism?

Forecasts for global economic growth are more pessimistic, with the International Monetary Fund (IMF) in its October 2013 report revising projections downward from 3.2% to 2.9% in 2013 and 3.8% to 3.6% in 2014 due to slowing domestic demand and credit in main developing markets, protracted recession in the Euro zone, and stronger fiscal contraction in USA. China and India, the two most important countries for Indonesia's exports, also forecasted lower growth, with IMF cutting their forecasts by 0.2 and 1.8 percentage points, respectively, for 2013, then 0.4 and 1.1 percentage points for 2014.

Figure 2: Global Economic Growth



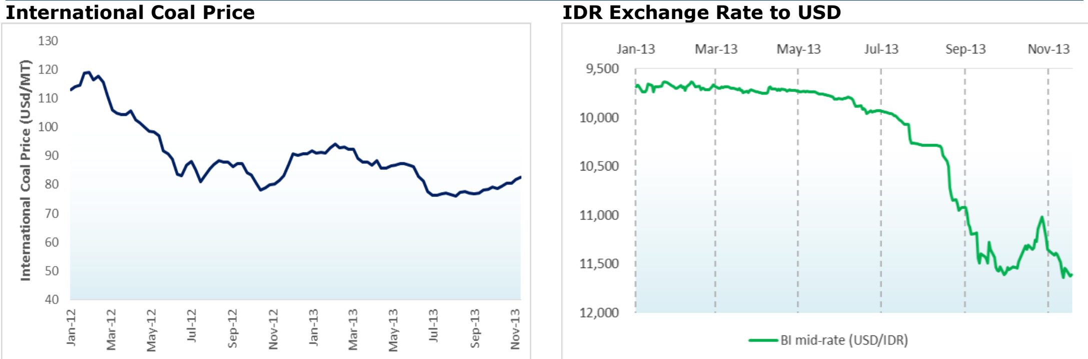
Source: IMF, Pefindo Equity & Index Valuation Division

Difficult Challenges for Coal Producers

International coal prices have dropped to below USD80 per MT since June to October 2013, a figure almost close to production costs. China's looming low-grade coal import ban uncertainty and the anticipated global coal supply spike, mainly as a result of the success of shale gas in the US may keep coal prices outlook remain poor. However there has been an increasing trend since end of October 2013 where the coal prices back to be at slightly above USD80. Meanwhile, in the domestic business environment, the trade deficit that has emerged since in the last year is putting pressure on the country's fiscal health, leading to the rupiah's depreciation. The government policy to raise fuel prices to reduce the fiscal and trade deficit did not effectively affect the currency, as the market reacted excessively to the US central bank announcement that it would reduce its monetary stimulus. The fuel price hike drove inflation up in August to 8.8% YoY, the highest since 2008, following a BI rate increase of 7.5% in November 2013. With higher costs and lower selling prices, tough challenges will continue to overshadow coal producers and related industries.

Figure 3: International Coal Price and Exchange Rate Movement

International Coal Price **IDR Exchange Rate to USD**

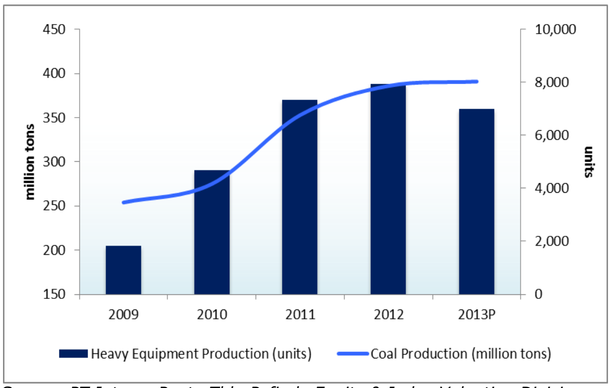


Source: Bloomberg, Bank Indonesia, Pefindo Equity & Index Valuation Division

Industry Remain Gloomy

While demand is declining, the heavy equipment industry is also facing increasing used heavy equipment imports. Data shows that construction equipment imported during 1H13 has already reached 63% of the total imported in 2012. These has pulled down the sales of heavy equipment. For instance, Komatsu sales dropped 42% YoY and INTA's declined 14% YoY during 1H13. With regard to leased heavy equipment, units leased and its financing amount are expected to decrease 10%-15% compared to 14,000 units and IDR105.1 trillion figures in 2012, continuing the trend since beginning of the year. Heavy equipment production also declined 28% along 9M13 and the production is expected to drop 20% for the whole year in line with 25% QtQ dropped in coal production in 3Q13. The hope is coming from the recent increasing coal prices trend and the coming winter in some countries that may drives demand.

Figure 4: Heavy Equipment and Coal Production



Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division

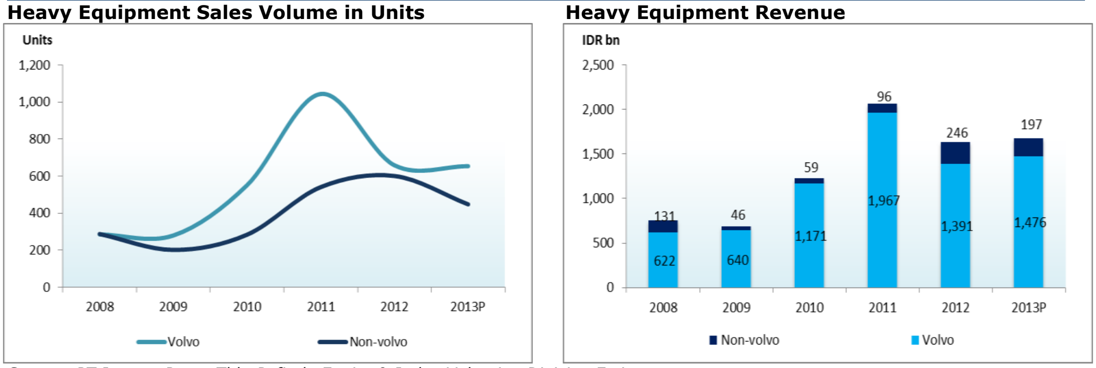
FINANCE

Slight Growth in Heavy Equipment Sales

We expect the decline in INTA's heavy equipment sales to decelerate, considering that 9M13 heave equipment revenue fell by only 12% compared to 21% in 2012. Volvo will continue to dominate heavy equipment sales led by articulated dump trucks (ADT) and excavators. We also see that Sinotruk will remain contribute significantly to heavy equipment business particularly for non-Volvo product segment. The wide industry application, such as for cement industry, chemical industry, bulk-material and inter-city transportation, makes Sinotruk, one of INTA's flagship brand that can counterbalance the Company's dependency on the mining industry.

Figure 5: Heavy Equipment Sales Volume and Revenue

Heavy Equipment Sales Volume in Units | **Heavy Equipment Revenue**



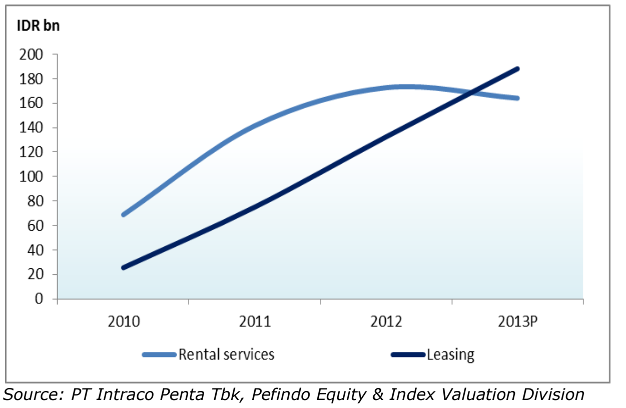
Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division Estimates

Total Solutions Provider Model Working Effectively

INTA's rental service provides an alternative for business owners, allowing them to anticipate weak business cycles. Hence the business revenue only decline 5.6% during 9M13 far lower than heavy equipment revenue. INTA plans to strengthen its rental business and add about 30-40 units of equipment for rent this year. INTA's satisfied customers tend to keep on renewing their rental contracts, such as what PT Aneka Tambang Tbk did recently. INTA also provides rental services with a buy option as part of its marketing initiatives and efforts to improve its services.

Meanwhile, its leasing revenue increased 45% in 9M13 after jumping 77% in 2012, and its business contribution rose from only 2.5% in 2011 to 5.3% during 9M13. Looking at both business performance and the maintenance business that continues to book positive growth, we believe INTA's Total Solutions Provider model has been working effectively, allowing the Company to weather the current hard times in the industry.

Figure 6: Rental Service and Leasing Revenue



Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division

Revenue Expected to Grow Moderately

INTA's revenue has been on a downward trend. A 14% decline in 2012 was followed by a 5% drop in 9M13, mainly due to a slump in heavy equipment sales. However, we believe INTA will book a moderate positive growth of about 6%, considering that there have been indications that heavy equipment demand will rebound slightly and that there is positive growth in the leasing, spare parts and maintenance business. To support its growth, in spite of uncertainty in the mining industry, INTA continues to expand by opening two new branch offices in Makassar (March 2013) and Banjarmasin (May 2013). Each office is equipped with a service center, workshop, display units and warehouse.

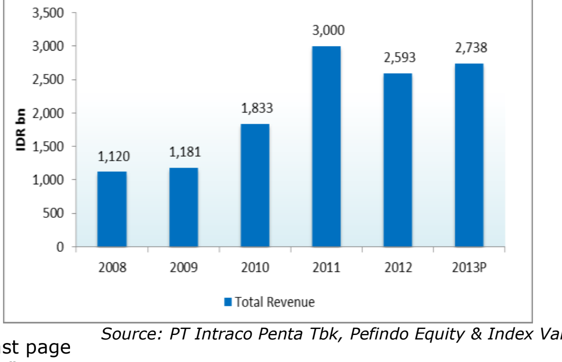
Increasing Gross Profit

Despite the revenue slow down, INTA's gross margin jumped to 22.2% in 2012 and an even higher 24.1% in 9M13 compared to 17.5% in 2011. This was a result of INTA's decision to temporarily freeze its mining service business, including selling its business assets. The decision was taken as the business continued to record losses and the mining industry remained unfavorable. On the other hand, INTA's 9M13 pre-tax margin dropped to -9.8% largely due to its higher interest payments in line with higher debts and the effect of forex loss. Management said that they need more bank loans to pay maturing letters of credit (L/C). Its finance cost and sharia profit sharing grew 77% and 38%, respectively, from 9M12, while its bank loans rose 23% from its position at the end 2012 and 167% at the end of 2011. Rupiah depreciation boost forex loss to record IDR259 billion during 9M13 compared to only IDR34 billion during 9M12.

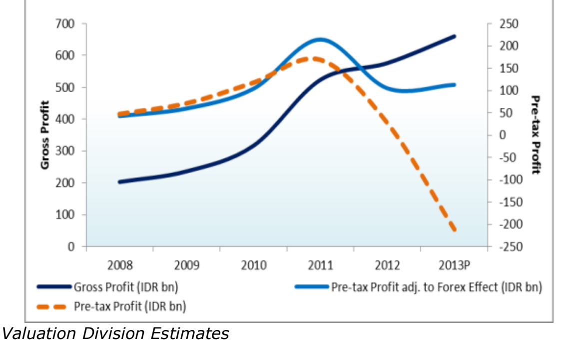
However, if we look at to pre-tax profit adjusted to forex effect, INTA was still booked IDR66 billion in 9M13 compared to minus IDR192 billion of pre-tax profit. Although in 9M13 pre-tax profit adjusted to forex effect was declined 12%, as the gross profit expected to boost in this year, INTA estimated to book pre-tax profit adjusted to forex effect of about IDR113 billion or a growth of 8%.

Figure 7: Total Revenue and Profits

Total Revenue



Profits



Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division Estimates

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INDUSTRY COMPARISON

Table 2: INTA and Its Peers Performance Summary as of Sep-13

	INTA	UNTR	KOBX*	HEXA**
Revenue [IDR bn]	1,962	37,305	67,167	132,429
Gross profit [IDR bn]	474	6,791	14,285	23,300
Pretax profit [IDR bn]	(192)	4,545	329	11,842
Net profit [IDR bn]	(165)	3,379	106	8,883
Total asset [IDR bn]	4,814	56,619	111,595	430,800
Total liabilities [IDR bn]	4,442	22,769	72,347	203,907
Total equity [IDR bn]	372	33,850	39,248	226,893
Growth [YoY]				
Revenue [%]	(5.3)	(15.5)	(36.3)	(38.7)
Gross profit [%]	12.5	(17.4)	(37.3)	(43.8)
Pretax profit [%]	NA	(21.7)	(96.0)	(60.7)
Net profit [%]	NA	(24.4)	(98.3)	(60.6)
Profitability				
Gross margin [%]	24.1	18.2	21.3	17.6
Pretax margin [%]	(9.8)	12.2	0.5	8.9
Net margin [%]	(8.4)	9.1	0.2	6.7
ROA [%]***	(4.6)	8.0	0.1	4.1
ROE [%]***	(5.0)	19.8	0.2	8.7
Leverage				
Debt to assets [x]	0.9	0.4	0.6	0.5
Debt to equity [x]	11.9	0.7	1.8	0.9

Source: BEI, Pefindo Equity & Index Valuation Division
** in USD '000*
*** in USD '000 and as of June 2013*
**** annualized*

TARGET PRICE

VALUATION

- **Methodology**

We applied the Discounted Cash Flow (DCF) method as the main valuation approach considering that income growth is a value driver instead of asset growth.

Furthermore, we also applied the Guideline Company Method (GCM) as comparison method.

This valuation is based 100% on share price as of December 5, 2013, and Financial Report as of September 30, 2013 as the basis for the fundamental analysis.

- **Value Estimation**

We used a cost of capital of 9.4% and cost of equity of 10.6% based on the following assumptions:

Table 3: Assumption

Risk free rate [%]*	8.8
Risk premium [%]*	1.7
Beta [x]**	1.1
Cost of Equity [%]	10.6
Marginal tax rate [%]	25.0
WACC [%]	**9.4**

Source: Bloomberg, Pefindo Equity & Index Valuation Division Estimates
** as of December 5, 2013*
*** Pefindo Beta as of December 5, 2013*

Target price for 12 months based on the valuation as per December 5, 2013, is as follows:

- ❖ Using the DCF method with a discount rate assumption 9.4% is IDR373–IDR546 per share.
- ❖ Using the GCM method (P/EBITDA 3.9x and P/BV 1.6x) is IDR296–IDR393 per share.

In order to obtain a value that represents both value indications, we have weighted both DCF and GCM methods by 70%:30%.

Based on the above calculation, target price of INTA for 12 month is **IDR350–IDR500** per share.

Table 4: Summary of DCF Method Valuation

	Conservative	Moderate	Optimist
PV of Free Cash Flows [IDR bn]	238	251	264
PV of Terminal Value [IDR bn]	3,327	3,503	3,678
Non-Operating Assets [IDR bn]	102	102	102
Debt [IDR bn]	(2,863)	(2,863)	(2,863)
Number of Share [mn shares]	2,160	2,160	2,160
Fair Value per Share [IDR]	**373**	**460**	**546**

Source: Pefindo Equity & Index Valuation Division Estimates

Table 5: GCM Comparison

	INTA	UNTR	KOBX	HEXA	Average
P/EBITDA [x]	0.7	4.8	5.9	4.2	**3.9**
P/BV [x]	1.7	2.2	1.5	1.1	**1.6**

Source: Bloomberg, Pefindo Equity & Index Valuation Division

Table 6: Summary of GCM Method Valuation

	Multiple [x]	Est. EPS [Rp]	Est. BV/share [Rp]	Value [Rp]
P/EBITDA	3.9	101	-	**393**
P/BV	1.6	-	184	**296**

Source: Bloomberg, Pefindo Equity & Index Valuation Division Estimates

Table 7: Fair Value Reconciliation

	Fair Value per Share [Rp]		
	DCF	**GCM**	**Average**
Upper limit	546	393	**500**
Bottom limit	373	296	**350**
Weight	70%	30%	

Source: Pefindo Equity & Index Valuation Division Estimates
Note: average price is rounded according to the fractional price prevailing on the IDX

Table 8: Consolidated Statement of Comprehensive Income

IDR bn	2010	2011	2012	2013P	2014P
Revenue	1,833	3,000	2,593	2,738	3,158
Cost of revenue	(1,517)	(2,477)	(2,017)	(2,078)	(2,394)
Gross profit	**317**	**524**	**576**	**660**	**763**
Operating expense	(199)	(355)	(550)	(873)	(728)
EBITDA	233	352	301	137	424
Pre-tax profit	**118**	**169**	**27**	**(213)**	**36**
Tax	(33)	(49)	(14)	15	(2)
Net profit	**86**	**134**	**30**	**(179)**	**30**

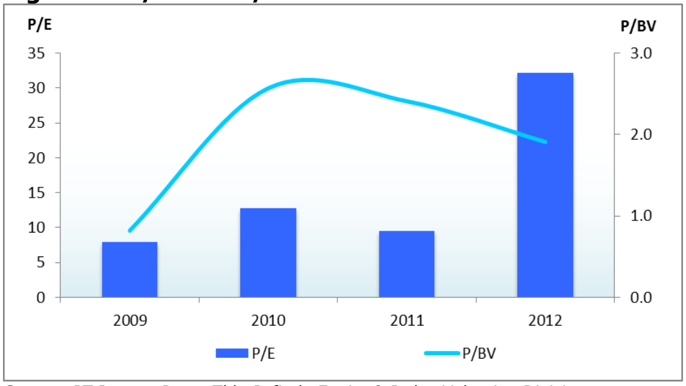
Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division Estimates

Table 9: Consolidated Statement of Financial Position

IDR bn	2010	2011	2012	2013P	2014P
Assets					
Cash and cash equivalents	65	331	113	101	109
Trade accounts receivable	222	515	421	586	672
Net investments in finance lease	151	212	339	479	553
Inventories	408	765	1,186	983	1,128
Other current assets	102	178	278	401	458
Total current assets	948	2,001	2,337	2,550	2,921
Net investments in finance lease	114	197	329	411	474
Property, plant, and equipment	157	365	320	296	297
Property and equipment for lease	153	291	342	437	478
Assets for Ijarah and Ijarah Muntahiyah Bittamlik	156	684	817	943	1,043
Other noncurrent assets	107	199	125	143	165
Total assets	**1,635**	**3,738**	**4,269**	**4,779**	**5,378**
Liabilities and equity					
Trade accounts payable	324	1,462	832	1,217	1,404
Short-term debt	438	660	1,539	1,529	1,709
Other short-term liabilities	108	261	327	401	463
Long-term debt	272	775	1,022	1,169	1,301
Other long-term liabilities	56	43	48	65	78
Total liabilities	**1,198**	**3,201**	**3,768**	**4,381**	**4,954**
Total equity	**437**	**537**	**501**	**398**	**424**

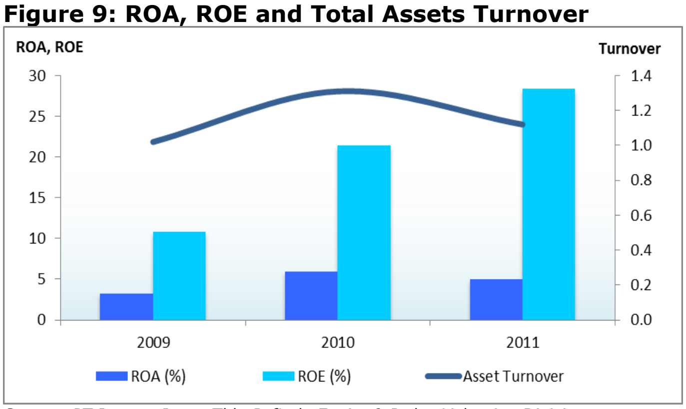
Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division Estimates

Figure 8: P/E dan P/BV



Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division

Figure 9: ROA, ROE and Total Assets Turnover



Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division

Table 10: Key Ratios

	2010	2011	2012	2013P	2014P
Growth [%]					
Revenue	55.2	63.7	(13.6)	5.6	15.3
Pre-tax profit	65.5	43.6	(84.3)	(903.7)	(116.7)
EBITDA	17.4	51.4	(14.5)	(54.4)	208.8
Net profit	107.5	54.9	(77.8)	(700.2)	(117.3)
Profitability [%]					
Gross margin	17.3	17.5	22.2	24.1	24.2
Pre-tax margin	6.4	5.6	1.0	(7.8)	1.1
EBITDA margin	12.7	11.7	11.6	5.0	13.4
Net margin	4.7	4.5	1.1	(6.5)	1.0
ROA	5.3	3.6	0.7	(3.7)	0.6
ROE	19.7	24.9	5.9	(44.6)	7.2
Solvability [x]					
Debt to equity	2.7	6.0	7.5	11.0	11.7
Debt to asset	0.7	0.9	0.9	0.9	0.9
Liquidity [x]					
Current Ratio	1.7	2.2	1.3	1.3	1.3
Quick Ratio	1.0	1.3	0.6	0.8	0.8

Source: PT Intraco Penta Tbk, Pefindo Equity & Index Valuation Division Estimates

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