

Steel Pipe Industry of Indonesia (ISSP IJ)

Going forward with new machines

Basic Industries

Analyst Meeting Note
September 16, 2015

Not rated

Target Price (12M, IDR)	N/A
Share Price (9/15/15, IDR)	141
Expected Return	N/A

Market Cap (IDRbn)	1,013.2
Shares Outstanding (mn)	7,186.0
52-Week Low	112
52-Week High	296

(%)	1M	6M	12M
Absolute	-15.6	-34.4	-48.4
Relative	-10.4	-14.5	-32.8

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The largest steel pipe manufacturer in Indonesia

Spindo or ISSP was established in 1971, with total capacity of 588,600 metric tons per annum. The company operates 6 manufacturing facilities (3 in Surabaya, 1 each in Sidoarjo, Pasuruan and Karawang). The products are broadly used for a number of usages, including construction, water pipeline, oil and gas pipeline, automotive and furniture. ISSP focuses on domestic selling with contribution of 98% total 1H15 revenue. On the supplier side, ISSP does not rely on certain suppliers to increase bargaining power. In 8M15, the largest supply was contributed by Posco (30%), a Korean steel company, followed by JFE (a Japanese steel company) of 22% and PT Krakatau Steel (Persero) Tbk. of 13%. The company is benefited by the government regulation that all of government projects have to use domestic products.

Higher plant yield ratio due to new machines

Since 2007, ISSP has been continuing to expand in existing plant and new locations (Gresik and Sidoarjo) to increase machine capacity and operational efficiency in each plant. New Sidoarjo plant has commenced commercial operation in mid-April 2014. As of August 2015, the plant yield ratio increased to 96.51% from 96.0% at the end of 2014 on the back of the new plant in Sidoarjo. Yield ratio is the ratio of consumed raw materials compared to end products.

Building warehouses for customer approach

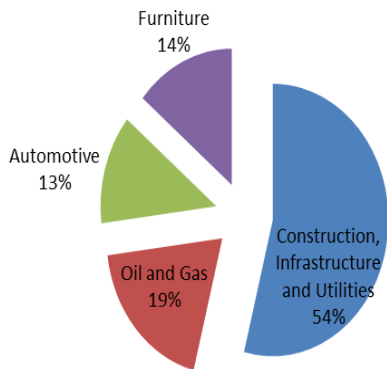
The company is in developing stage 3 warehouses in Tangerang (Banten), Bandung (West Java) and Samarinda (East Kalimantan). There are three objective of building the warehouses: a. getting closer to customers, b. ability to provide small quantity to customers, and c. introducing more ISSP's products to customers. Previously ISSP loose some orders because the company was not able to deliver the products immediately due to long-distance. The company does not only rely on big projects, but also welcomes any small projects.

Declining 1H15 performance on forex loss and finance cost

In 1H15, ISSP recorded slightly revenue improvement by 7% yoy to IDR1.77 trillion, mainly supported by water pipe improvement by 34% yoy to IDR391.2 billion. Gross profit increased significantly by 29% yoy due to declining raw material price (steel) with increasing margins from 16% to 19% in 1H15. Net profit declined substantially 43% yoy to IDR72.5 billion for two main reasons: loss on foreign exchange of IDR66.9 billion in 1H15 compared to gain on foreign exchange of IDR30.1 billion in 1H14 and soaring finance cost by 75% yoy to IDR116.4 billion. In 8M15, the company managed to have revenue of IDR2.4 trillion, improved by 17% yoy. The management expects to have revenue of approximately between IDR3.8-3.9 trillion in FY15.

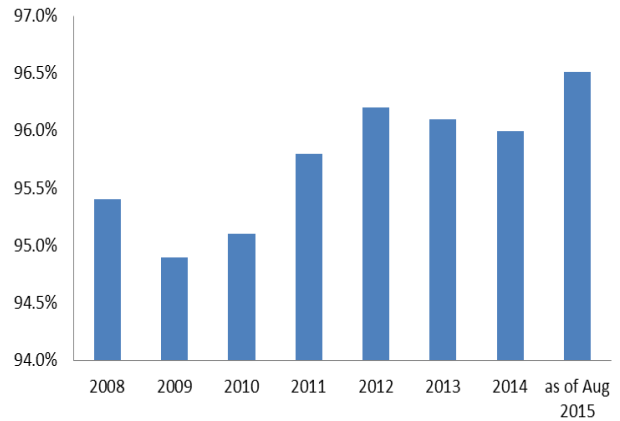
FY (Dec.)	12/10	12/11	12/12	12/13	12/14
Revenue (IDRbn)	1,711	2,577	3,092	3,534	3,368
GP (IDRbn)	238	396	401	605	564
GP Margin (%)	13.91	15.37	12.97	17.12	16.75
NP (IDRbn)	24	110	111	203	215
EPS (IDR)	5.7	25.8	25.9	31.2	29.2
ROE (%)	7.0	20.3	14.5	10.5	9.2
P/E (x)	-	-	-	5.08	7.96
P/B (x)	-	-	-	0.54	0.74

Figure 1. Revenue contribution



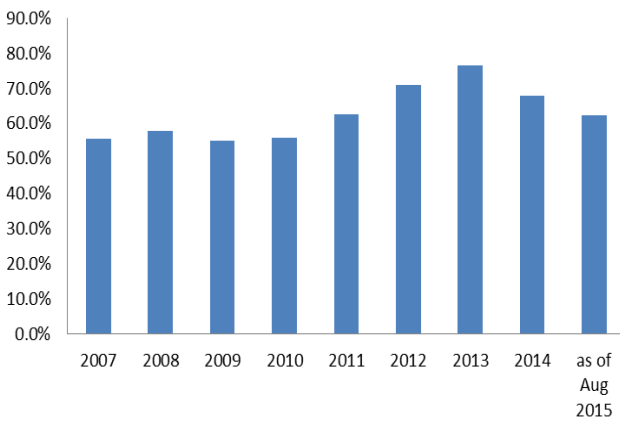
Source: Company data, KDB Daewoo Securities Research

Figure 2. All plant yield ratio



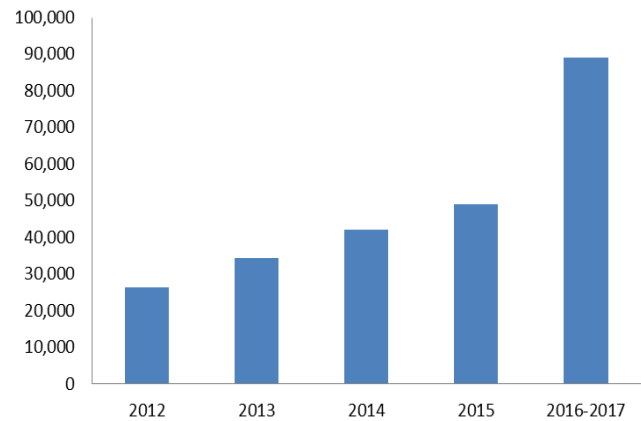
Source: Company, KDB Daewoo Securities Research

Figure 3. All plant utilization rate



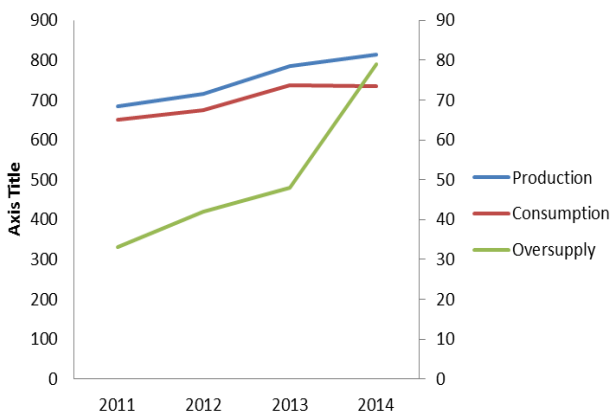
Source: Company data, KDB Daewoo Securities Research

Figure 4. Production capacity (tons per annum)



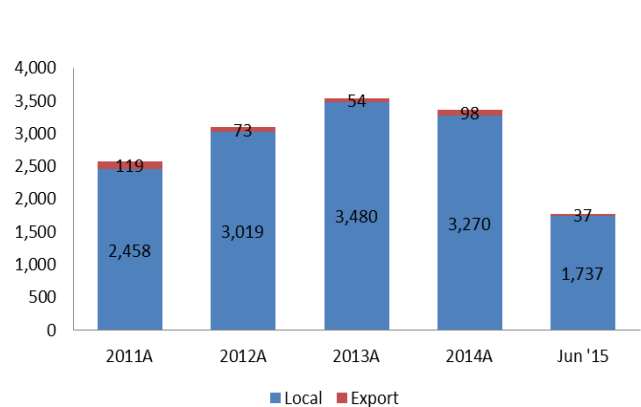
Source: Company data, KDB Daewoo Securities Research

Figure 5. China over capacity (million tons)



Source: Company data, KDB Daewoo Securities Research

Figure 6. Local vs export destination



Source: Company data, KDB Daewoo Securities Research

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