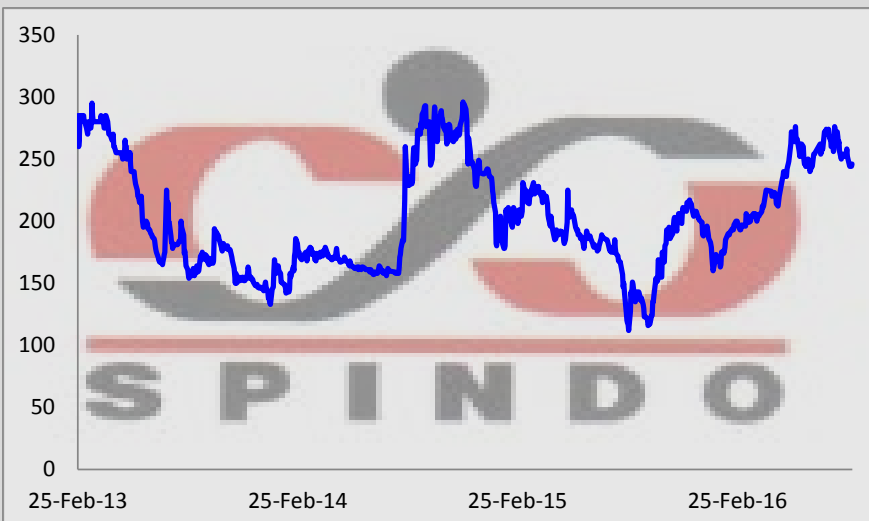



**PT Steel Pipe Industry of Indonesia, Tbk. (ISSP)**
**Recommendation BUY**

**Target Price** 465  
**Last Price (Sept 2, 2016)** 246  
**Upside Potential** 89.2%

**Manufacture; Steel**

Reuters Ticker ISSP.JK  
 Market Cap (IDR bn) 3,334.08  
 Outstanding Share (mn) 7,164.50  
 52 Weeks High Price (IDR) 284  
 52 Weeks Low Price (IDR) 114  
 3m avg daily volume 13,419,803


**Harvesting Last Year Investment**
**Advantage from Commodities Price Upswing**

ISSP savors a quiet good sales margin this year due to commodities price upswing especially steel price. The appreciation of steel price hugely contributes ISSP's pipe price. Steel price for HR Plates product increased up to 36.5% from US\$ 315/tons on early Jan 2016 up to US\$ 430/tons as of August 2016. This uptrend of HR Plates also reflects an increase of ISSP's pipe selling price by 16.5% from IDR 7,862/kg on March 2016 to IDR 9,156/kg as of August 2016.

ISSP gains a good sales margin from this event as they have done their homework by stock piling raw material since last year. We expected that the commodities upswing might still continue till end of this year.

**Looking Good on 1H Performance**

At the top line we see a slight decrease on revenue, down by 10.65% yoy from IDR 1.77 tn on 1H2015 to IDR 1.57 tn on the same period this year. We can't deny that the world economy is still long from recovery, the weak demand effect the supply side significantly.

On the bottom line however, the table turn unexpectedly as ISSP able to book much higher yoy net profit growth. This 1H2016 net profit is at IDR 102.66 bn, grew by 41.61% yoy compare to last 1H2015 number. This achievement was much contributed by higher selling volume, increased by 5.43% yoy from IDR 173.5 ton to IDR 182.91 ton.

**Long Term 2018 Vision**

ISSP plan to increase their installed capacity for over 80% by end of 2018, optimizing their utility rate up to 90% and implementing an old new technology in Indonesia, called Column Pipe. This new technology is mostly use for high rise building development. They are as costly as twice the price but can speed up the development process from 1 year time to only a month.

**Assigning BUY Recommendation with Upgraded Target Price of IDR 465.**

We upgrade ISSP target price from IDR 371 to IDR 465. This number reflects the P/E and PBV ratios respectively 11.54x and 0.96x. These figure is much lower compared to average P/E and PBV of industry and sectoral respectively 17.44x and 1.46x. Thus we concluded that ISSP is undervalued.

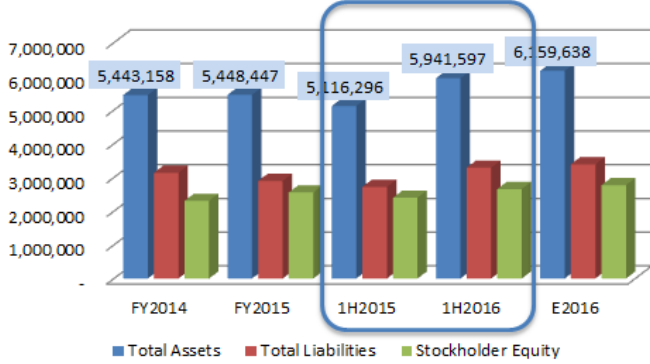
**Key Financial**

(in million rupiah)	FY2015	1H2015	1H2016	E2016
Revenue	3,583,541	1,774,190	1,566,983	3,708,552
EBITDA	590,425	224,746	315,476	586,602
Net Income	159,014	72,496	102,660	230,239
EPS	22.19	10.12	14.33	32.14
NPM (%)	4.44%	4.09%	6.55%	6.21%
EBITDA Margin (%)	16.48%	12.67%	20.13%	15.82%
ROA (%)	2.92%	1.42%	1.73%	3.74%
ROE (%)	6.23%	3.02%	3.87%	8.31%
Gearing Ratio (x)	0.87	1.13	1.24	0.92
PER (x)	8.47	-	-	11.54
PBV (x)	0.53	-	-	0.96

Source : Company & Erdikha estimate.

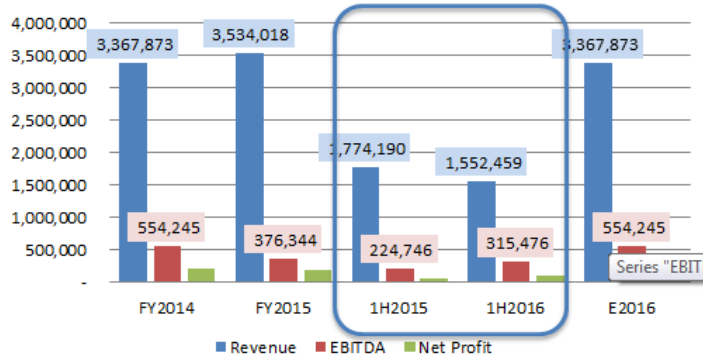


### Balance Sheet



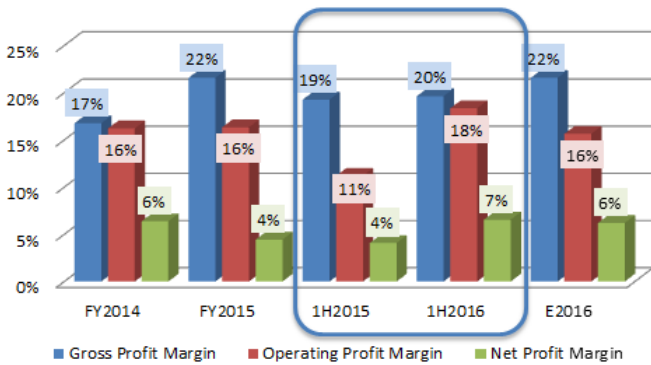
Source: Company, Erdikha estimate

### Income Statement



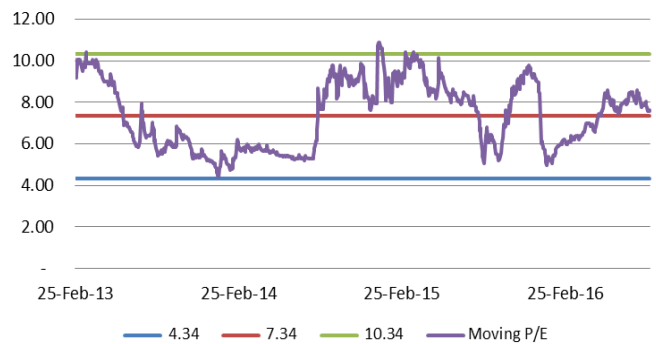
Source: Company, Erdikha estimate

### Margin Performance



Source: Company, Erdikha estimate

### P/E Band (Std Dev 3)



Source: Erdikha estimate

Multiple Comparison	
Average PBV	1.46
Target Price by PBV	566
Average TTM PE	17.44
Target Price by PER	560
Average Analyst Consensus	334
<b>Target Price by multiple &amp; Cons</b>	<b>487</b>

Source: Stockbit, Reuters, Erdikha estimate

DCF Assumption Table	
Risk Free Rate	8.99%
Terminal Growth	8.31%
Beta (x)	0.65
Cost of Equity	13.73%
Cost of Debt	10.75%
WACC	11.69%

Source: Erdikha estimate



## Peer to Peer Analysis Table

Current Valuation	Industry	Sector	ISSP	WTON	NIKL
Current PE Ratio (Annualised)	19.77	12.94	8.54	37.06	85.73
Current PBV	1.97	1.61	0.66	3.58	3.31
EV/EBIT (TTM)	1.94	12.88	8.83	26.04	-63.62
M Cap (IDR bio)	2669	3814	1753	8105	1665
GPM (quarter)	18.70%	20.00%	25.30%	14.00%	5.70%
OPM (quarter)	11.30%	11.40%	20.00%	11.00%	-2.10%
NPM (quarter)	6.40%	6.80%	8.50%	7.50%	-0.40%
ROA (TTM)	2.40%	3.40%	3.20%	5.30%	-3.30%
ROE (TTM)	4.50%	7.40%	7.10%	10.20%	-9.30%
Current Ratio (quarter)	124.00%	135.00%	128.00%	144.00%	118.00%
DER (quarter)	0.7	0.66	1.04	0.27	1.17
Financial Leverage (quarter)	2.09	2.12	2.24	1.9	2.8
Interest Coverage (TTM)	1.39	3.37	1.89	3.95	-2.14
Revenue Growth (qoq)	-11.80%	1.80%	-23.40%	69.50%	-20.90%
EPS Growth (qoq)	87.70%	67.70%	54.30%	61.80%	85.10%
Stock Price Performance	Industry	Sector	ISSP	WTON	NIKL
1 Month Price Returns	39.30%	-0.30%	-10.30%	-11.40%	17.90%
3 Month Price Returns	63.00%	16.70%	-8.30%	1.10%	182.10%
6 Month Price Returns	124.30%	23.40%	24.50%	-1.60%	704.90%
1 Year Price Returns	139.10%	57.60%	63.80%	-1.10%	1000.00%
3 Year Price Returns	36.50%	22.80%	54.40%	n/a	2.882
Year to Date Price Returns	139.50%	37.50%	25.80%	16.30%	1220.00%
52 Week High	731	1086	284	1090	990
52 Week Low	255	494	114	765	50

Source: stockbit

## 1H2016 Performance

1H2016 Result						
(in million rupiah)	1H2015	1H2016	Yoy	1Q2016	2Q2016	Qoq
Balance Sheet						
Total Assets	5,116,296	5,941,597	16.13%	5,787,921	5,941,597	2.66%
Total Liabilities	2,717,835	3,285,462	20.89%	3,198,528	3,285,462	2.72%
Shareholders Equity	2,398,461	2,656,135	10.74%	2,589,393	2,656,135	2.58%
Profit and Loss						
Revenues						
Local	1,737,408	1,552,459	-10.65%	777,571	774,888	-0.35%
Export	36,782	14,524	-60.51%	3,842	10,682	178.03%
Total	1,774,190	1,566,983	-11.68%	781,413	785,570	0.53%
COGS	(1,432,488)	(1,259,470)	-12.08%	(672,876)	(586,594)	-12.82%
Gross Profit	341,702	307,513	-10.01%	108,537	198,976	83.33%
Operating Profit	198,675	287,528	44.72%	124,369	163,159	31.19%
EBT	89,274	125,525	40.61%	43,765	81,760	86.82%
Net Profit	72,496	102,660	41.61%	35,918	66,742	85.82%
EPS	10.12	14.33	41.61%	5.01	9.32	85.82%
Ratios						
Gross Profit Margin (%)	19.26%	19.62%		13.89%	25.33%	
Operating Profit Margin (%)	11.20%	18.35%		15.92%	20.77%	
Net Profit Margin (%)	4.09%	6.55%		4.60%	8.50%	
ROA (%)	1.42%	1.73%		0.62%	1.12%	
ROE (%)	3.02%	3.87%		1.39%	2.51%	
DER (x)	1.13	1.24		1.24	1.24	

Source : Company & Erdikha estimate



## Financial Highlight

<b>Balance Sheet</b>							
<i>(in million rupiah)</i>	FY2015	E2016	E2017	E2018	E2019	E2020	E2021
Cash & Equivalent	24,585	480,247	957,906	631,347	245,608	162,671	162,989
Inventory	2,061,815	1,988,335	1,737,767	1,699,317	1,723,833	2,075,371	2,561,444
AR	664,315	618,092	634,881	768,792	813,448	979,081	1,212,481
Others	242,722	123,977	141,870	208,074	230,810	255,148	314,842
<b>Total Current Assets</b>	<b>2,993,437</b>	<b>3,210,650</b>	<b>3,472,424</b>	<b>3,307,530</b>	<b>3,013,699</b>	<b>3,472,271</b>	<b>4,251,755</b>
Fixed Assets nett	1,873,458	2,334,500	2,920,303	3,948,786	5,337,238	6,131,890	7,045,740
Investment	25,186	-	-	-	-	-	-
Other Long Term Assets	551,643	609,292	652,842	702,797	756,548	813,201	885,559
<b>Total Non-Current Assets</b>	<b>2,455,010</b>	<b>2,948,988</b>	<b>3,578,859</b>	<b>4,657,869</b>	<b>6,100,700</b>	<b>6,952,698</b>	<b>7,939,666</b>
<b>Total Assets</b>	<b>5,448,447</b>	<b>6,159,638</b>	<b>7,051,283</b>	<b>7,965,399</b>	<b>9,114,399</b>	<b>10,424,968</b>	<b>12,191,421</b>
AP	259,145	392,540	469,091	472,033	544,368	622,611	768,433
Accrued Exp	17,728	21,192	23,501	29,799	35,610	43,268	53,156
Short-Term Bank Loan	1,844,368	2,121,023	2,333,126	2,566,438	2,823,082	3,105,390	3,415,929
Other Current Liabilities	207,019	239,391	261,468	303,263	341,165	384,148	442,596
<b>Total Current Liabilities</b>	<b>2,328,260</b>	<b>2,774,147</b>	<b>3,087,186</b>	<b>3,371,532</b>	<b>3,744,224</b>	<b>4,155,417</b>	<b>4,680,115</b>
Deferred tax liabilities	180,855	187,147	223,643	273,368	332,775	400,637	494,470
Long-Term Bank Loan	291,977	335,774	352,562	361,376	361,376	343,307	326,142
Other Non-Current Liabilities	93,217	92,238	112,840	136,277	166,847	200,278	247,568
<b>Total Non-Current Liabilities</b>	<b>566,712</b>	<b>615,158</b>	<b>739,045</b>	<b>821,021</b>	<b>910,998</b>	<b>994,222</b>	<b>1,118,180</b>
<b>Total Liabilities</b>	<b>2,894,972</b>	<b>3,389,304</b>	<b>3,826,231</b>	<b>4,192,554</b>	<b>4,655,222</b>	<b>5,149,639</b>	<b>5,798,295</b>
<b>Shareholders Equity</b>	<b>2,553,475</b>	<b>2,770,334</b>	<b>3,225,052</b>	<b>3,772,846</b>	<b>4,459,177</b>	<b>5,275,329</b>	<b>6,393,127</b>
<b>Profit and Loss</b>							
<i>(in million rupiah)</i>	FY2015	E2016	E2017	E2018	E2019	E2020	E2021
Revenue	3,583,541	3,708,552	4,444,169	5,381,544	6,507,583	7,832,648	9,699,844
COGS	2,810,585	2,908,362	3,475,534	4,248,293	5,171,498	6,226,112	7,684,331
<b>Gross Profit</b>	<b>772,956</b>	<b>800,190</b>	<b>968,634</b>	<b>1,133,251</b>	<b>1,336,084</b>	<b>1,606,536</b>	<b>2,015,513</b>
Selling and distribution expenses	(159,767)	(132,272)	(158,509)	(191,943)	(232,105)	(279,366)	(345,963)
General and administrative expenses	(106,259)	(87,973)	(105,423)	(127,659)	(154,370)	(185,803)	(230,095)
<b>EBITDA</b>	<b>590,425</b>	<b>586,602</b>	<b>713,024</b>	<b>824,884</b>	<b>964,775</b>	<b>1,158,808</b>	<b>1,459,512</b>
Operating Expenses	(187,878)	(220,245)	(263,932)	(319,601)	(386,475)	(465,169)	(576,058)
<b>Operating Profit</b>	<b>579,945</b>	<b>704,702</b>	<b>813,650</b>	<b>949,609</b>	<b>1,141,368</b>	<b>1,439,455</b>	<b>-</b>
<b>EBT</b>	<b>194,905</b>	<b>267,394</b>	<b>351,628</b>	<b>459,940</b>	<b>548,116</b>	<b>687,955</b>	<b>912,726</b>
Interest Expense	(239,138)	(174,502)	(208,532)	(212,415)	(258,575)	(311,306)	(384,217)
Tax Income(expense)	(35,906)	(37,159)	(44,529)	(53,921)	(65,204)	(78,481)	(97,190)
<b>Net Profit</b>	<b>159,014</b>	<b>230,239</b>	<b>307,104</b>	<b>406,024</b>	<b>482,919</b>	<b>609,483</b>	<b>815,548</b>
EPS	22.19	32.14	42.86	56.67	67.40	85.07	113.83



## Financial Highlight

Cash Flow							
(in million rupiah)	FY2015	E2016	E2017	E2018	E2019	E2020	E2021
<b>CFO</b>	94,847	629,215	642,196	326,726	552,816	257,583	325,734
Net Profit	159,014	230,239	307,104	406,024	482,919	609,483	815,548
PPE Depreciation	5,347	6,657	8,321	11,234	15,166	17,441	20,057
Change in working capital	(69,514)	392,319	326,771	(90,532)	54,731	(369,341)	(509,870)
Others	-	-	-	-	-	-	-
<b>CFI</b>	(581,096)	(493,337)	(616,480)	(1,063,569)	(1,429,077)	(839,282)	(962,958)
Net Capex	(317,680)	(467,700)	(594,124)	(1,039,717)	(1,403,618)	(812,093)	(933,907)
Change in LT investment	(29,426)	1,763	(7,027)	(7,730)	(8,503)	(9,353)	(10,288)
Change in other assets	(288,254)	(469,462)	(587,097)	(1,031,987)	(1,395,115)	(802,740)	(923,619)
<b>CFF</b>	313,058	319,783	451,943	410,284	490,521	498,762	637,542
Dividend	(35,822)	-	(30,710)	(40,602)	(48,292)	(60,948)	(81,555)
Change in LT Debt	46,235	58,151	21,623	11,766	(105)	(23,646)	(22,537)
Change in Debt & Other	302,645	261,633	461,030	439,121	538,918	583,357	741,634
Free Cash Flow	(486,249)	135,878	25,716	(736,843)	(876,261)	(581,699)	(637,223)
<b>Net Cash Flow</b>	<b>(173,191)</b>	<b>455,662</b>	<b>477,659</b>	<b>(326,558)</b>	<b>(385,740)</b>	<b>(82,937)</b>	<b>319</b>
Key Ratios	FY2015	E2016	E2017	E2018	E2019	E2020	E2021
Net Profit Growth (%YoY)	-26.00%	44.79%	33.38%	32.21%	18.94%	26.21%	33.81%
Sales Growth (%YoY)	6.40%	3.49%	19.84%	21.09%	20.92%	20.36%	23.84%
Net Worth Growth (%YoY)	10.79%	8.49%	16.41%	16.99%	18.19%	18.30%	21.19%
EV/EBITDA (x)	2.73	4.28	2.88	2.90	2.88	2.45	1.93
GPM (%)	21.57%	21.58%	21.80%	21.06%	20.53%	20.51%	20.78%
OPM (%)	16.33%	15.64%	15.86%	15.12%	14.59%	14.57%	14.84%
NPM (%)	4.44%	6.21%	6.91%	7.54%	7.42%	7.78%	8.41%
EBITDA Margin (%)	16.48%	15.82%	16.04%	15.33%	14.83%	14.79%	15.05%
Asset Turnover (X)	0.66	0.60	0.63	0.68	0.71	0.75	0.80
ROE (%)	6.23%	8.31%	9.52%	10.76%	10.83%	11.55%	12.76%
ROA (%)	2.92%	3.74%	4.36%	5.10%	5.30%	5.85%	6.69%
Current Ratio (X)	1.29	1.16	1.12	0.98	0.80	0.84	0.91
Cash Conversion Cycle (days)	302	261	185	158	129	131	131
Gearing Ratio (x)	0.87	0.92	0.87	0.81	0.74	0.67	0.60
D/C Ratio (x)	0.18	0.18	0.19	0.18	0.17	0.16	0.15
Equity Turnover Ratio (x)	1.40	1.34	1.38	1.43	1.46	1.48	1.52
Interest Coverage (x)	1.82	2.53	2.69	3.17	3.12	3.21	3.38
PER (x)	8.47	11.54	8.66	6.55	5.50	4.36	3.26
PBV (x)	0.53	0.96	0.82	0.70	0.60	0.50	0.42
Market Cap/EBITDA	2.28	4.53	3.73	3.22	2.76	2.29	1.82
DPS	5.00	-	4.29	5.67	6.74	8.51	11.38
DPR	23%	0%	10%	10%	10%	10%	10%

Source : Company & Erdikha estimate



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