

Krakatau Steel Tbk (KRAS IJ)

Tergantung pada Keberhasilan Berbenah Diri

Kami melihat KRAS masih akan focus berbenah tahun ini. Prediksi kami KRAS masih sulit membirukan buku rapornya tahun ini. KRAS punya pekerjaan rumah besar membenahi posisi keuangannya dari CFO yang masih negative hingga restrukturisasi hutang. Selagi itu, dukungan pemerintah dan investasi KRAS pada fasilitas produksi diharapkan dapat terlihat hasilnya sehingga KRAS dapat meningkatkan penjualan dan menekan biaya produksi.

2018: Masih belum Sanggup Membalik Keadaan

KRAS menutup 2018 masih dengan rapor merah USD 74,8 juta, sekalipun pendapatan bertumbuh 20% y-y. Sekalipun ada perbaikan, KRAS telah membukukan rugi bersih selama 7 tahun berturut-turut

1Q19: Indikator Industri dan Makro yang Melemah

Kami perkirakan kinerja KRAS 1Q19 masih akan tertekan terlihat dari: 1) Rilis data Prompt Manufacturing Index subsector logam dasar besi dan baja merosot drastis hingga 43.94 (vs 54.43 pada 4Q18). Angka yang jauh dibawah 50 memberikan signal kontraksi pada industri, padahal KRAS market share terbesar industri baja. 2) Persaingan dengan baja impor masih sengit, jumlah impor besi dan baja 1Q19 meningkat 14,7% mencapai USD 2,764 juta (vs USD 2,409 juta pada 1Q18). 3) Harga bahan baku yaitu bijih besi dalam trend bullish.

Kinerja 2019 Tergantung pada Keberhasilan dalam Membenahi Diri

Pekerjaan rumah besar wajib dikerjakan jika KRAS ingin membalik keadaan, diantaranya 1) Efisiensi biaya produksi. 2) Manajemen arus kas agar kas dari kegiatan operasional kembali positif. 3) Restrukturisasi hutang dengan kondisi yang dapat meringankan beban keuangan KRAS.

Mengharapkan Semester 2 yang Lebih Baik

Pemerintah telah membantu industri besi dan baja dengan memperpanjang ketentuan antidumping serta revisi aturan impor besi dan baja menjadi lebih protektif terhadap industri dalam negeri. Namun peraturan tersebut memerlukan waktu sehingga kami perkirakan baru akan terlihat efeknya setidaknya pada 2Q19. Untuk pertama kalinya impor besi dan baja HS 72 bulanen menurun secara y-y yaitu di bulan Maret sebesar USD 845 juta (vs USD 880.4 juta pada Maret 2018).

Dari sisi internal perusahaan, fasilitas produksi blast furnace KRAS yang sudah memasuki tahap uji coba diharapkan dapat menekan biaya produksi, sementara itu Hot Steel Mill #2 direncanakan selesai pembangunannya pada 2Q19.

Prediksi 2019

Kami memprediksi KRAS masih akan membukukan rugi untuk semester 1 dan mulai mengakumulasi laba pada semester 2. Sehingga secara tahunan, kami memprediksi KRAS masih membukukan rugi dengan porsi yang lebih kecil. Kami harapkan KRAS dapat mulai meraup laba sejak 2020.

Rekomendasi HOLD

Dalam situasi ini, kami merekomendasikan HOLD dengan target harga IDR508 berdasarkan valuasi EV/EBITDA rasio sebesar 19.4x. Potensi kenaikan harga sebesar 10.9% dibandingkan level harga saham saat ini.

Krakatau Steel Tbk | Summary

	2017	2018	2019E	2020E
Revenue	1,449	1,740	1,911	2,126
Growth (%)	7.8%	20.0%	9.9%	11.2%
EBITDA	120	62	121	170
Net Profit	(82)	(75)	(22)	27
EPS (IDR)	(57)	(56)	(16)	21
Growth (%)	52.4%	8.5%	70.1%	222.5%
P/E	-7.4x	-7.2x	-31.0x	24.8x
P/BV	0.3x	0.3x	0.4x	0.3x
EV/EBITDA	17.1x	37.2x	19.4x	13.6x
ROE (%)	-4.4%	-4.1%	-1.2%	1.4%
Debt/equity	93%	108%	106%	102%
Net debt	1,440	1,770	1,646	1,636

Unit: USD mn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Hold

Dec 2019 TP (IDR)	508
Consensus Price (IDR)	-
TP to Consensus Price	-
vs. Last Price	+10.9%

Shares data

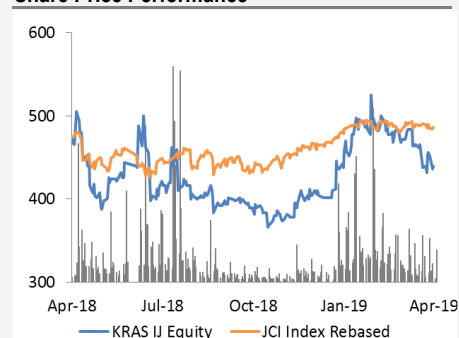
Last Price (IDR)	458
Price date as of	Apr 16, 2019
52 wk range (Hi/Lo)	540/366
Free float (%)	20.00
Outstanding sh.(mn)	19,346
Market Cap (IDR bn)	8,512
Market Cap (USD mn)	604
Avg. Trd Vol - 3M (mn)	15.79
Avg. Trd Val - 3M (bn)	7,635
Foreign Ownership	2.2%

Materials

Iron & Steel

Bloomberg	KRAS IJ
Reuters	KRAS.JK

Share Price Performance



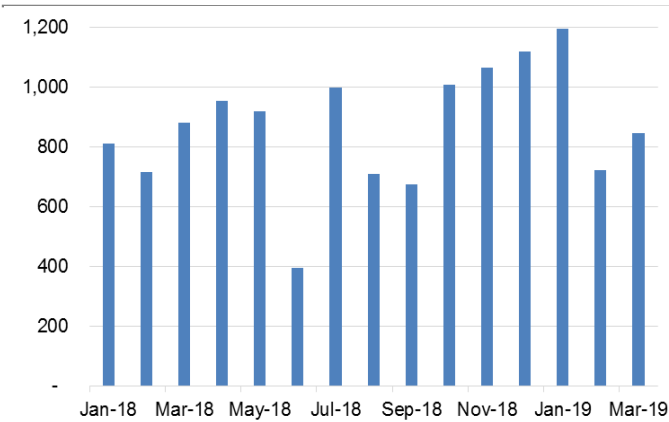
	YTD	1M	3M	12M
Abs. Ret.	9.5%	-6.8%	-3.9%	-7.2%
Rel. Ret.	5.3%	-6.4%	-4.3%	-9.8%

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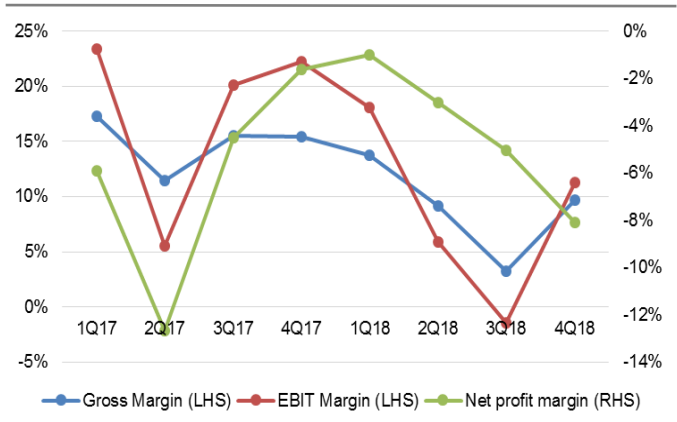
Performance highlights in chart

Import of Iron and Steel (USD mn)



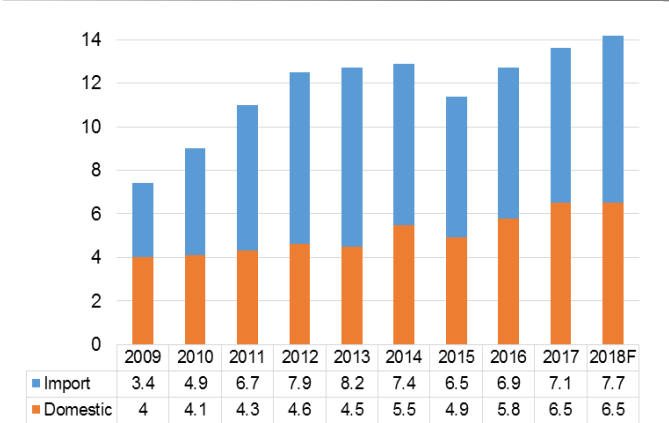
Source: BPS, NHKS Research

Low gross margin draws net profit margin into negative



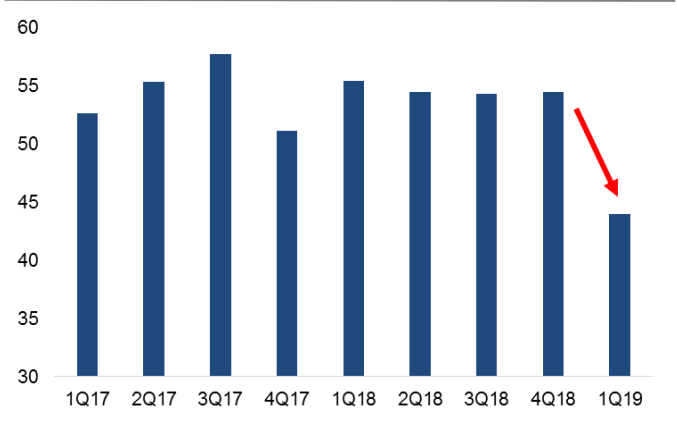
Source: Company Data, NHKS Research

Demand of steel (mn ton) mostly fulfilled by import



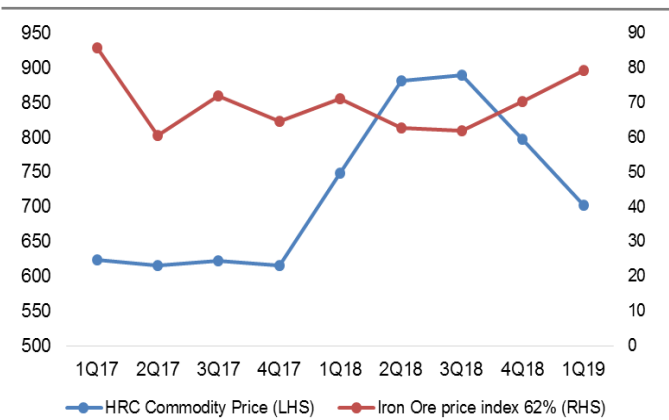
Source: South east Asia Iron&Steel Institute, Company Data, NHKS Research

Prompt Manufacturing Index for Basic Metal : Iron and steel



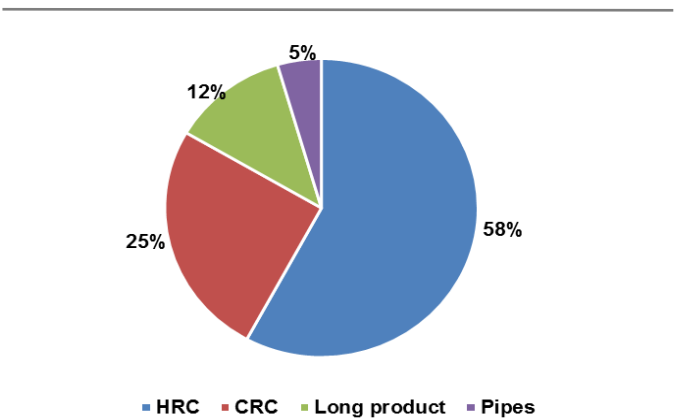
Source: BPS, NHKS Research

Bullish iron ore price but downtrend HRC price (USD/ton)



Source: Bloomberg, NHKS Research

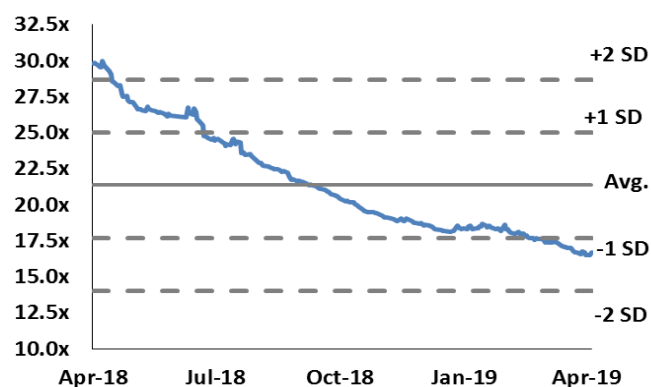
FY 2018 steel revenue breakdown



Source: Company Data, NHKS Research

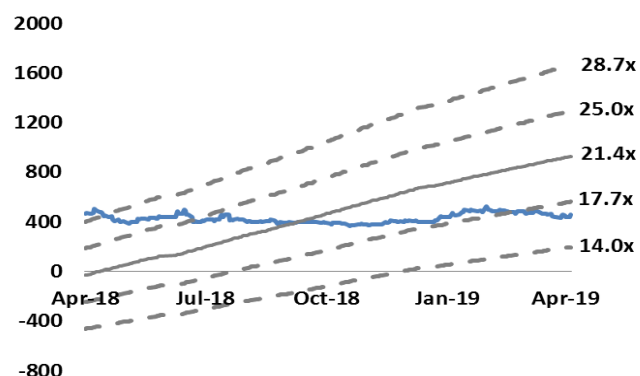
Valuation highlights in chart

1-year forward EV/EBITDA band



Source: Company Data, NHKS Research

1-year dynamic forward EV/EBITDA band



Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2019.04.18	Hold	IDR508	-

Source: NHKS Research

Quarterly review

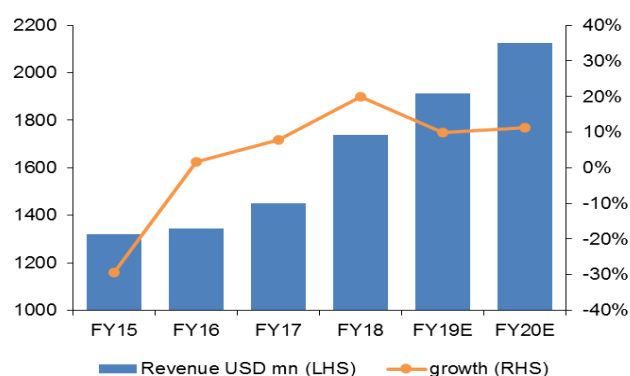
	4Q17	1Q18	2Q18	3Q18	4Q18			1Q19E
					Actual	Estimate	Y-Y	
Income statement (USD mn)								
Revenue	409	486	368	422	463	13%	10%	482
Gross Profit	63	67	34	14	45	-29%	224%	45
EBIT	28	21	(12)	(20)	7	-73%	-137%	10
EBITDA	45	39	4	(4)	23	-48%	-715%	26
Net Profit	(7)	(5)	(11)	(21)	(37)	-459%	75%	(14)
Margin (%)								
Gross Margin	15%	14%	9%	3%	10%	-38%	195%	9%
EBIT Margin	7%	4%	-3%	-5%	2%	-76%	134%	2%
EBITDA Margin	11%	8%	1%	-1%	5%	-54%	660%	5%
Net Profit Margin	-2%	-1%	-3%	-5%	-8%	-594%	59%	-3%

Source: Company Data, NHKS Research

Company Overview

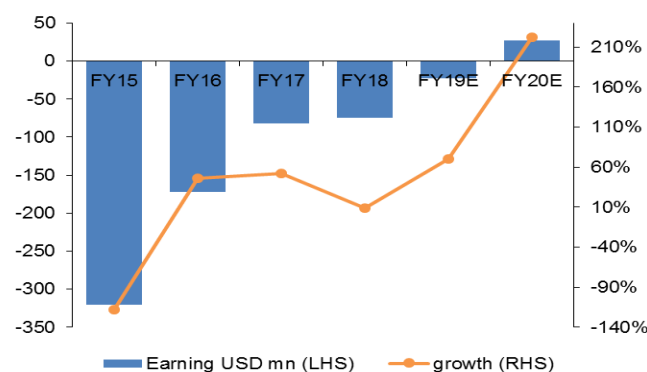
- PT Krakatau Steel (Persero) Tbk (KRAS IJ) adalah perusahaan BUMN yang didirikan sejak tahun 1970
- Bidang usaha utama KRAS melingkupi industri baja terpadu yang memproduksi berbagai jenis baja, diantaranya baja lembaran panas, baja lembaran dingin dan baja batang kawat. Hingga akhir 2018, kapasitas produksi KRAS mencapai 3,15 juta ton per tahun.
- KRAS menduduki pangsa pasar terbesar untuk penjualan baja lembaran panas hingga 39% pada tahun 2018, sementara untuk baja lembaran dingin sebesar 25% dan batang kawat sebesar 6%.
- KRAS tengah meningkatkan kapasitas produksinya, pembangunan Hot Steel Mill #2 dengan kapasitas 1,5 juta ton per tahun diprediksi akan selesai pada 2Q19. Selain itu proyek blast furnace complex untuk memproduksi hot metal 1,2 juta ton per tahun telah memasuki tahap uji coba, nantinya proyek ini diharapkan dapat menurunkan konsumsi listrik sehingga biaya produksi dapat menurun.

Revenue and growth movement



Source: Company Data, NHKS Research

Earnings and growth movement



Source: Company Data, NHKS Research

Asia steel companies peers analysis

Company	Market Cap (USD mn)	Total Asset (USD mn)	EBITDA Growth	Debt/Equity	ROE	EV/EBITDA	P/BV	P/E	Net Profit Growth
Indonesia									
Krakatau Steel	604	4,298	-48.0%	115%	-4.1%	36.7x	0.3x	N/A	8.5%
Thailand									
Tata Steel thailand	196	406	11.5%	0.192	-0.6%	N/A	0.7x	N/A	-0.21%
Posco-Thainox	221	397	26.0%	0.0%	6.1%	4.4x	0.7x	12.5x	78.0%
India									
JSW Steel LTD	10,177	14,126	21.5%	143.1%	24.5%	7.2x	2.5x	11.3x	76.4%
Tata Steel Ltd	9,079	32,201	28.6%	149.1%	26.9%	6.3x	1.1x	4.3x	N/A
Steel Authority of India	3,506	17,722	6809.5%	113.7%	-0.8%	15.3x	0.7x	N/A	89.8%
Vietnam									
Vietnam Steel Corp	237	639	-8.5%	38.8%	9.2%	8.0x	0.7x	8.1x	-10.0%
Bangladesh									
BSRM Steels Ltd	261	545	N/A	173.1%	16.0%	N/A	1.7x	11.1x	85.4%
China									
Baoshan Iron & Steel CO-A	24,970	53,827	35.2%	62.3%	14.2%	N/A	1.0x	7.1x	57.3%
Angang Steel CO LTD-A	5,988	13,088	37.5%	40.2%	15.3%	N/A	0.8x	5.2x	19.8%
Taiwan									
China Steel Corp	12,821	22,038	13.7%	67.0%	7.9%	8.9x	1.2x	15.9x	44.7%

Unit: IDR bn, %, X

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(USD mn)	2017/12A	2018/12A	2019/12E	2020/12E		2017/12A	2018/12A	2019/12E	2020/12E
Revenue	1,449	1,740	1,911	2,126	ROE	-4.4%	-4.1%	-1.2%	1.4%
<i>Growth</i>	7.8%	20.0%	9.9%	11.2%	ROA	-2.0%	-1.8%	-0.5%	0.6%
COGS	(1,230)	(1,581)	(1,707)	(1,861)	ROIC	1.6%	-0.1%	1.4%	2.3%
Gross Profit	219	159	204	264	Cash Dividend(IDR bn)	-	-	-	-
<i>Gross Margin</i>	15.1%	9.1%	10.7%	12.4%	Dividend Yield	N/A	N/A	N/A	N/A
Operating Expenses	(168)	(162)	(146)	(158)	Payout Ratio	0%	0%	0%	0%
EBIT	51	(3)	58	106	DER	92.9%	107.9%	106.2%	101.8%
<i>EBIT Margin</i>	3.5%	-0.2%	3.0%	5.0%	Net Gearing	448%	621%	675%	623%
Depreciation	69	65	63	64	LT Debt to Equity	43.1%	45.1%	49.9%	52.9%
EBITDA	120	62	121	170	Capitalization Ratio	48.2%	51.9%	51.5%	50.4%
<i>EBITDA Margin</i>	8.3%	6.9%	6.3%	8.0%	Equity Ratio	45.0%	41.9%	41.3%	41.8%
Interest Expenses	(99)	(112)	(125)	(119)	Debt Ratio	41.8%	45.2%	43.9%	42.5%
EBT	(78)	(78)	(27)	30	Financial Leverage	218.0%	230.3%	240.3%	240.6%
Income Tax	(8.2)	1.1	2.0	(5.0)	Current Ratio	33.0%	29.9%	33.5%	37.4%
Minority Interest	4.4	2.3	2.9	2.0	Par Value (IDR)	500	500	500	500
Net Profit	(82)	(75)	(22)	27	Total Shares (mn)	19,346	19,346	19,346	19,346
<i>Growth</i>	52.4%	8.5%	70.1%	222.5%	Share Price (IDR)	424	402	508	508
<i>Net Profit Margin</i>	-5.6%	-4.3%	-1.2%	1.3%	Market Cap (IDR tn)	8,203	7,777	9,828	9,828

BALANCE SHEET					VALUATION INDEX				
(USD mn)	2017/12A	2018/12A	2019/12E	2020/12E		2017/12A	2018/12A	2019/12E	2020/12E
Cash	281	173	316	346	Price/Earnings	-7.4x	-7.2x	-31.0x	24.8x
Receivables	205	220	241	271	Price/Book Value	0.3x	0.3x	0.4x	0.3x
Inventories	489	535	494	577	Price/Sales	0.4x	0.3x	0.4x	0.3x
Total Current Assets	1,022	990	1,120	1,269	PE/EPS Growth	-0.1x	-0.8x	-0.4x	0.1x
Net Fixed Assets	2,624	2,851	2,886	2,920	EV/EBITDA	17.1x	37.2x	19.4x	13.6x
Other Non Current Assets	468	457	463	472	EV/EBIT	40.3x	-695.2x	40.1x	21.8x
Total Assets	4,114	4,298	4,469	4,661	EV (IDR bn)	27,714	33,403	33,203	33,544
Payables	251	222	284	298	Sales CAGR (3-Yr)	-8.1%	9.6%	12.4%	13.6%
ST Debt	923	1,131	1,040	951	EPS CAGR (3-Yr)	76.8%	57.6%	50.7%	69.4%
LT Debt	798	812	922	1,030	Basic EPS (IDR)	(57)	(56)	(16)	21
Total Liabilities	2,262	2,498	2,621	2,715	Diluted EPS (IDR)	(57)	(56)	(16)	21
Capital Stock + APIC	1,110	1,110	1,110	1,110	BVPS (IDR)	1,297	1,347	1,356	1,459
Retained Earnings	(603)	(675)	(697)	(670)	Sales PS (IDR)	1,015	1,302	1,403	1,593
Shareholders' Equity	1,853	1,800	1,848	1,947	DPS (IDR)	N/A	N/A	N/A	N/A

CASH FLOW STATEMENT					OWNERSHIP			
(USD mn)	2017/12A	2018/12A	2019/12E	2020/12E	By Geography	% Shareholders	%	
Operating Cash Flow	204	(80)	141	29	Indonesia	97.76	Republic of Indonesia	80.0
Investing Cash Flow	(152)	(274)	(88)	(90)	United States	2.16	Dimensional Fund	0.7
Financing Cash Flow	(39)	242	89	91	Ireland	0.04	Vanguard	0.6
Net Changes in Cash	13	(112)	142	30	United Kingdom	0.02	Blackrock	0.5

Source: Company data, NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
 - Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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