Batavia Stock Focus

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Bumi Resources

BATAVIA PROSPERINDO SEKURITAS

Yusuf Ade Winoto, CFA
yusuf@bps.co.id
62-21 5207374

Heavy debt burden

- **Huge interest expenses drags earnings down**

BUMI's 2Q10 net profit was down 61% q-o-q to US$38mn and came in below our expectation. Increases in other non-operating expense and tax expense outpaced the acceleration in gross profit, thus lowering the bottom line results. Total revenue did manage to edge up by 10% q-o-q to US$1,122mnl, largely driven by a higher sales volume and an improving selling price. As such, gross profit also managed to improve by 29% q-o-q to US$790mn..

- **Debt reduction program facing serious challenges**

BUMI's huge debt outstanding is indeed a concern as the company will bear a large amount of interest expense. As of June 2010, BUMI's total debt reached US$4,1bn with its short term maturity portion of US$665mn. With the net gearing ratio of 2.44x, it is key for the company to reduce its debt position. The company is planning to reduce its debt by undertaking several steps (non pre-emptive rights issue and subsidiary IPO). However, we view that the execution risk remains high at the moment. We believe that any postponement or cancellation of these plans will negatively impact the share price.

- **Adjusting our earnings estimate**

Following the 1H10 financial results, we lower our profit estimates for 2010 and 2011 by 20% and 18% each, respectively, notably on the basis of production cost and tax expense. As such, we also lower our target price to Rp2,250 based on DCF valuation with an assumed WACC of 12.2%, implying a 2011F PE of 10.2x. We are retaining our BUY recommendation on the counter, owing to the attractive upside potential.

Financial Highlights

In US$ million	2007A	2008A	2009A	2010F	2011F
Revenue	2,265	3,378	3,219	4,227	4,972
Gross Profit	754	1,613	1,104	1,976	2,531
Operating Profit	406	1,102	638	1,529	2,005
Net Profit	789	372	190	301	477
EPS	383	180	92	140	222

Key Ratios

	2007A	2008A	2009A	2010F	2011F
P/E (X)	4.4	9.4	18.4	12.1	7.6
P/BV (X)	3.1	3.0	2.4	1.9	1.6
ROA	29.6%	9.2%	3.0%	4.0%	6.2%
ROAE	106.5%	32.5%	14.4%	18.0%	23.0%
Net gearing (X)	cash	0.8	2.2	1.9	1.7

Key Assumptions

	2007A	2008A	2009A	2010F	2011F
Sales Volume - mn tons	54.2	55.1	60.7	68.0	74.1
Sales Price - US$/ton	44.0	75.0	62.9	69.1	75.0
Production Cost - US$/ton	25.9	34.0	28.0	28.7	28.5

Source: Company, Batavia Prosperindo Sekuritas

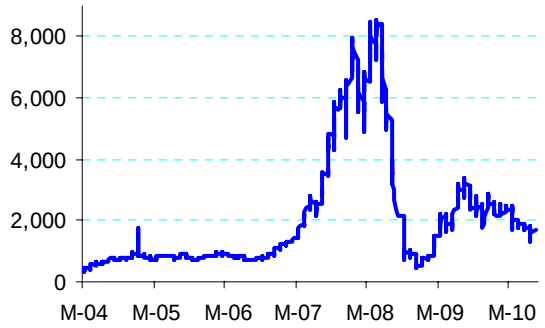
Stock Data

Price Rp	1,700
Target Rp	2,250
Recommendation	BUY
52-weeks range Rp	1,280 - 3,475
Market Cap - Rp bn	32,987
Outstanding shares (mn shares)	19,404
Daily average volume ('000 shares)	156,608
Daily average value (Rp mn)	277,993

Major shareholder

Bakrie & Brothers	5.26%
Others	94.74%

Stock price chart



Source : Bloomberg

1H2010 Financial Highlight

FYE Dec (US$m)	1Q10	2Q10	Chg qoq	6M09	6M10	Chg yoy	FY10F	Dev
Revenues	1,017	1,122	10%	1,535	2,139	39%	4,227	51%
COGS	672	676	1%	(815)	(1,348)	65%	(2,187)	62%
Gross Profit	345	446	29%	720	790	10%	2,040	39%
Operating Income	219	313	43%	506	532	5%	1,593	33%
Total other non operating	10	(85)	-970%	(62)	(75)	23%	(525)	14%
Pretax Income	229	228	0%	444	456	3%	1,068	43%
Tax	(87)	(135)	54%	(87)	(222)	155%	(427)	52%
Net Profit	97	38	-61%	252	135	-47%	374	36%
Gross Margin	34%	40%		47%	37%			
Operating Margin	63%	70%		70%	67%			
Net Profit Margin	10%	3%		16%	6%			

Source : Company, Batavia Prosperindo Sekuritas

Earning Revision

In US$ million	FY10 Old	FY10 New	Chg (%)	FH11 Old	FH11 New	Chg (%)
Revenue	4,227	4,227	0.0%	4,972	4,972	0.0%
Production Cost	(2,180)	(2,251)	3.3%	(2,366)	(2,441)	3.2%
Gross Profit	2,047	1,976	-3.5%	2,606	2,531	-2.9%
Operating Income	1,600	1,529	-4.5%	2,080	2,005	-3.6%
Pretax Profit	1,075	1,004	-6.6%	1,664	1,589	-4.5%
Net Profit	376	301	-19.9%	582	477	-18.1%

Source : Batavia Prosperindo Sekuritas

Balance Sheet

In US million	2007A	2008A	2009A	2010F	2011F
Total assets	**2,819**	**5,235**	**7,411**	**7,554**	**7,841**
Current assets	1,204	1,633	2,052	1,578	1,357
Cash and Bank	144	172	60	(469)	(773)
Short term investment	124	299	229	240	252
Trade receivable	209	251	266	314	369
Inventory	94	153	199	195	211
Others	633	758	1,297	1,297	1,297
Non current assets	1,615	3,602	5,359	5,976	6,484
Restricted cash & bond sinkin fund	-	-	-	-	-
LT investments	-	232	857	857	857
Net fixed assets	779	1,164	1,473	1,938	2,287
Others	836	2,206	3,030	3,182	3,341
Total liabilities	**1,418**	**3,716**	**5,814**	**5,553**	**5,439**
Current liabilities	850	2,103	2,115	1,982	1,995
Trade payable	92	115	280	147	159
ST borrowings & current dues	33	445	515	515	515
Others	724	1,543	1,321	1,321	1,321
Long-term liabilities	568	1,614	3,699	3,571	3,444
Long-term debts	217	1,233	3,258	3,108	2,958
Others	351	381	441	463	486
Minority interest	280	353	126	126	126
Shareholder's equity	**1,122**	**1,165**	**1,471**	**1,875**	**2,277**
Paid-in capital	1,401	1,401	1,401	1,401	1,401
Additional paid in capital	222	123	71	222	222
Retained earnings	747	877	970	1,224	1,625
Others	(1,248)	(1,235)	(971)	(971)	(971)

Income Statement

In US million	2007A	2008A	2009A	2010F	2011F
Revenues	2,265	3,378	3,219	4,227	4,972
COGS	1,511	1,766	2,116	2,251	2,441
Operating expense	348	511	465	447	526
Operating Profit	**406**	**1,102**	**638**	**1,529**	**2,005**
Net interest	(39)	(40)	(181)	(634)	(544)
Interest income	-	-	-	-	63
Interest expense	(39)	(40)	(181)	(634)	(608)
Forex gain (loss)	(2)	(7)	57	-	-
Gain (loss) on sale of assets	472	-	88	-	-
Other non operating income (expenses)	16	(29)	(168)	-	-
Equity income from assoc coys	3	7	83	109	128
Pretax income	**855**	**1,033**	**518**	**1,004**	**1,589**
Income taxes	(15)	(489)	(234)	(452)	(715)
Profit from normal activities	840	544	284	552	874
Extraordinary loss (gain) net of tax	-	-	-	-	-
Minority Interest	(51)	(172)	(93)	(251)	(397)
Net profit	**789**	**372**	**190**	**301**	**477**

Cash Flow Statement

In US million	2007A	2008A	2009A	2010F	2011F
Operating cash flow	190	959	246	248	556
Net Profit	789	372	190	301	477
Depreciation & amortisation	106	119	114	134	151
Change in working capital	16	(252)	173	(188)	(71)
Others	(721)	721	(232)	-	-
Investment cash flow	674	(1,688)	(1,597)	(752)	(659)
Net capex	(238)	(1,432)	(1,377)	(600)	(500)
Change in LT investment	(118)	(222)	67	-	-
Change in other assets	1,030	(35)	(286)	(152)	(159)
Cash flow after invt.	864	(729)	(1,351)	(504)	(103)
Financing cash flow	(771)	758	1,239	(25)	(202)
Change in share capital	-	(99)	(52)	151	-
Cash dividend paid	(164)	(81)	(97)	(48)	(75)
Net change in debt	(574)	1,050	1,388	(150)	(150)
Change in other LT liab.	(34)	(212)	-	22	23
Net cash flow	92	28	(112)	(528)	(305)

Head Office
Chase Plaza, 12th Floor
Jl.Jend.Sudirman Kav 21, Jakarta 12920
Tel : +62-21 520 7374
Fax : +62-21 2598 9821
www.bps.co.id

Research Team

Yusuf Ade Winoto	Head of Research Strategy, Banking, Coal	yusuf@bps.co.id
Hendrik	Cement, Construction	hendrik@bps.co.id
Jap Harry Wijaya	Consumer	harry@bps.co.id
Wilim Hadiwijaya	Plantation	wilim@bps.co.id

Branches

Jakarta	Rukan Grand Puri Niaga Jl. Puri Kencana Blok K6 No.2P Tel: +62-21 5835 1562 Fax: +62-21 5835 1563
Bandung	Jl.Jend Gatot Subroto No.47 C, Bandung 40262 Tel : +62-22 8734 0273 Fax : +62-22 8734 0274
Medan	Jl.Ir Djuanda No.16-J, Medan 20157 Tel : +62-61 456 2262 Fax : +62-61 452 3013
Surabaya	Jl.Sulawesi No.56, Surabaya 60281 Tel : +62-31 504 8889 Fax : +62-31 505 3989
Malang	Jl.Kahuripan No.5, Malang 65119 Tel : +62-341 358 889 Fax : +62-341 353 797
Palembang	Jl.Rajawali No. 1174 D - Palembang Tel : +62-711 375 600 (hunting) Fax : +62-711 376 855
Yogyakarta	Jl Magelang No 91 - Yogyakarta
Makassar	Ruko Ruby No.9 Jl. Boulevard Panakukang - Makasar

Batavia Prosperindo Sekuritas Investment Ratings: BUY – expected total return of 10% or more; HOLD – expected total return of -10% to 10%; SELL – expected total return of -10% or more. Expected total return is defined as 12-month total return (including dividends).

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