



PT Steel Pipe Industry of Indonesia, Tbk

BUY

**Investment Consideration
Heading to double capacity**

ISSP continues to increase its production capacity. Progress of their expansion plans include: in Gresik's plant, the land clearing has reached 85% and 2 machines with the capacity of 15000 and 25000 tons/month will arrive in 4Q16 and 1H17, in Karawang's plant, another machine will start operating in 2H15 (4900 tons /month) and in Sidoarjo, additional 3 more machines with a capacity of 2000 tons/month will start operating during 3Q15-4Q15. ISSP targets its production capacity will reach 89,050 tons/month by the end of 2017F, compared to 49,050 tons/month in 2015F. We estimate ISSP revenue in 2017F will reach IDR. 7,74 trillion in line with the increase in production capacity .

Developing new warehouses

ISSP is developing new warehouses in Tangerang, Bandung, and Samarinda with total capacity of 1000-5000 tons/month during 2015-2016F as part of its strategic plan to expand market share and improve sales services. We expect Government spending on infrastructure will support demand for Infrastructure & construction pipes products while rising consumer spending will increase demand for Furniture and Auto pipe products. We believe, These factors, combined with the new government regulation in Industrial Law No.3, 2014, article 85-86 will support ISSP's target revenue growth.

Valuation: 70%upside

Our one year TP for ISSP is IDR.230 or trade at 6x PER with 70% upside. As actual PER multiple remain low, we expect rooms for ISSP to gain further, BUY.

8 October 2015
Steel Pipe Industry, Equity

Price Rp. 135
Target Rp. 230
JKSE Index 4487.142



Stock code
Bloomberg code ISSP IJ
Market cap (IDR.mn) 970.109
52-week high 298
52-week low 110
6-m avg.dail.val (IDR) 173
Free Float (%) 41.39

Major Share Holders (%)
PT Cakra Bhakti Para Putra 55.94%
Public 41.39%

USD/IDR-YE
2014 12338
2015F (6m-avg) 13547

Key Indicators
ROE (%) 10
Tot.Debt/Tot Equity (x) 1.36
Current ratio (x) 1.23

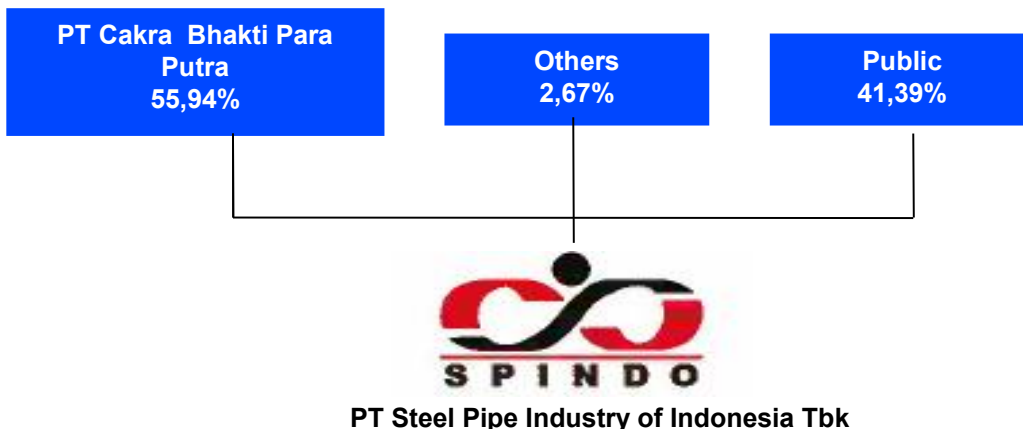
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Profit and Loss (Rp.bn)	2013 A	2014 A	2015 F	2016 F	2017 F
Sales and Service Revenues	3,534	3,368	3,500	4,018	7,736
Cost of goods sold	(2,929)	(2,804)	(2,835)	(3,255)	(6,266)
Gross Profit	605	564	665	763	1,470
Operating expense	(226)	(132)	(140)	(161)	(309)
Operating Profit	379	433	525	603	1,160
Other income	(128)	(171)	(280)	(262)	(505)
Pretax income(PBT)	251	262	245	340	655
taxes	(48)	(47)	(47)	(65)	(131)
Net Profit	204	215	198	276	524
EPS	31.21	29.91	27.62	38.35	72.93
EBITDA	460	446	490	602	990

Company Profile

PT Steel Pipe Industry Tbk (ISSP) was established in 1971 in Surabaya, formerly known as Spindo, is one of the biggest steel pipe players in Indonesia. The company's brands are marketed under the brand of "Spindo" for carbon pipes and "Tetsure" for stainless pipes. The Company applies three welding techniques, including (1) High Frequency Welding (HFW/ERW) that produce black pipes, water pipes, mechanical pipes, furniture pipes, API pipes, steel poles , (2) Spiral Submerged Arc Welding (SSAW) for spiral pipes (API & Non API pipes), and (3) Tungsten Inert Gas (TIG) for industrial and ornament stainless steel pipes. ISSP also provides services related to steel pipe include steel pipe layering (coating), and cut the steel pipe (shearing), slitting, and quality test laboratory services for third parties. ISSP produces its steel pipes in two types, made to stock and made to order (depend on customers specification). Currently, ISSP has 6 plant facilities including, Unit I (Rungkut I has product facilities of 6 HFW), Unit II(Rungkut II has product facilities of 4 HWF & 5 TIG), Unit III (Waragunung has product facilities of 3 HFW), Unit IV (Pasuruan has product facilities of 4 SSAW), Unit V (Parangmulya-Krawang, for automotive, has product facilities of 5 HFW, 1HFW SS), Unit VI (Sidoarjo- has facilities of 2HFW). ISSP plans to built expansion plants in Gresik, or known as Unit VII during 2015-2016 and will have product facilities of 2HFW and API Black Pipes.

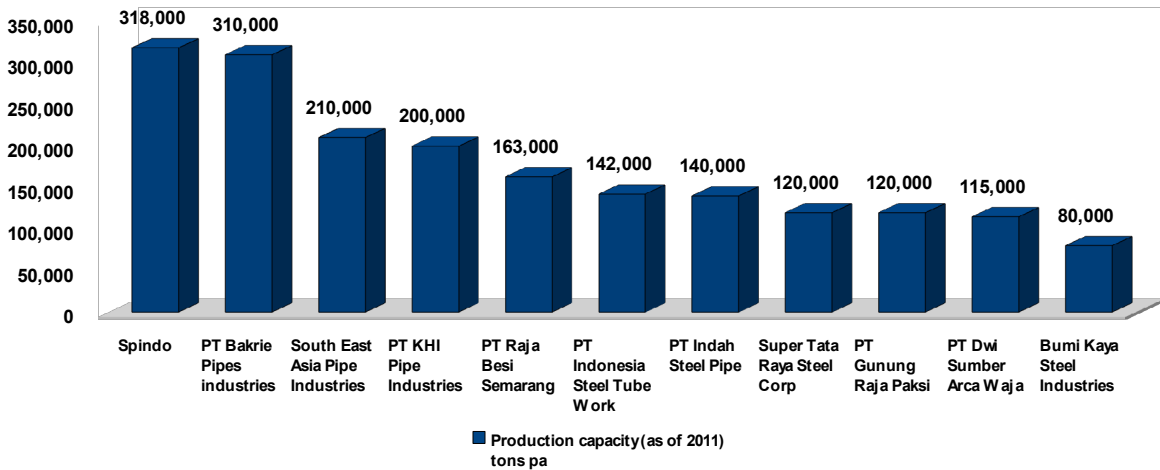
Company Structure



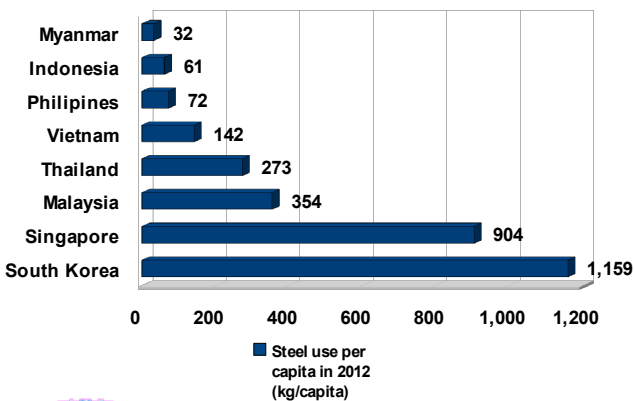
Business Prospect

The level of steel consumption per capita is commonly used as an indicator of the level of prosperity or economic progress of a country. In Indonesia, the national per capita consumption is still relatively very low compared with other countries, even compared with other developing countries. As an illustration, based on the calculation of the WSA (World Steel Association), the average consumption of steel per capita of the world in 2012 has been 216,4 kg (crude steel equivalent), while Indonesia's consumption approximately 61,3 kg which is even far below Vietnam's at 142 kg. The highest consumption per capita achieved by South Korea that has surpassed 1,000 kg. We believe, ISSP as the largest steel pipe production facilities in Indonesia, has a lot of rooms to increase its production and revenue, through many potential growth drivers such as Government projects, especially in gases pipeline in Sumatera-Jawa and Trans-ASEAN gas pipeline, government infrastructure projects, and rising demand for automotive markets.

Spindo and peers production capacity in comparison (as of 2011), based on Spindo prospectus



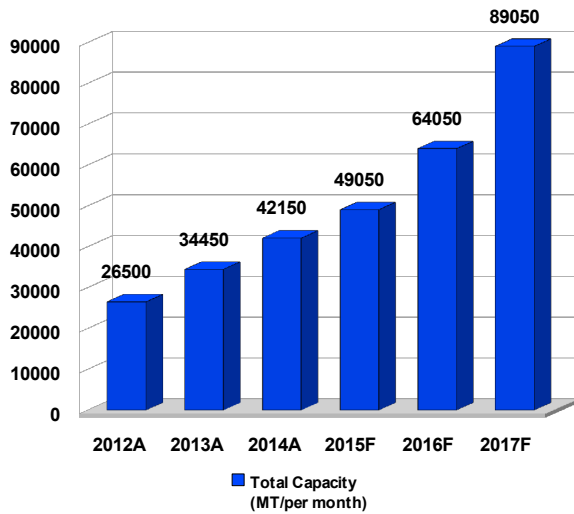
Steel use per capita, Asia in 2012 (Kg/capita)



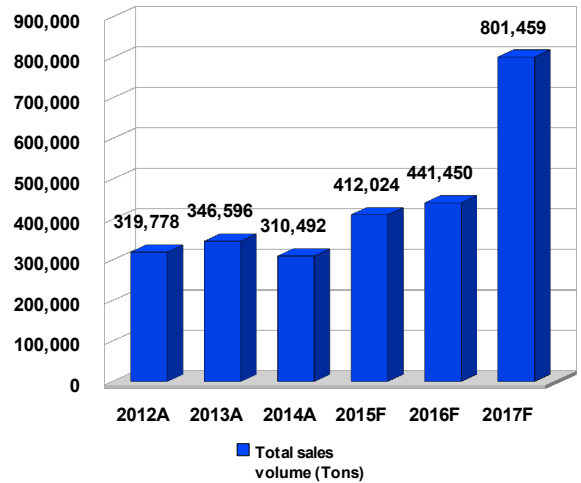
Indonesia Steel use per capita, 2012 (Kg/capita)



I. Total capacity of ISSP yoy (Tons)

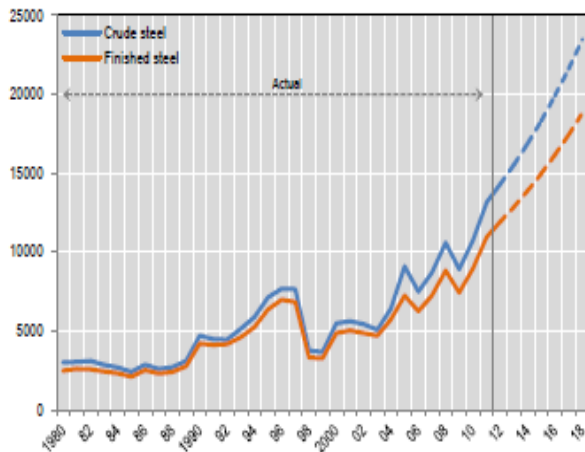


II. Total sales volume of ISSP yoy (Tons)



III. Indonesia's steel consumption scenarios in future (yoy)

Thousand tonnes **Steel consumption scenarios of future in Indonesia**



IV. ISSP's % share of Key end markets to revenue yoy

% of revenue in Key end markets	2012A	2013A	2014A	August 2015
Construction, Infrastructure, utilities, etc	71%	60%	60%	54%
Oil & Gas	6%	18%	11%	19%
Furniture	9%	9%	14%	13%
Automotive	13%	12%	15%	14%

Source: Company and Binaartha



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Ratio Highlight (in IDR)

	2012A	2013A	2014A	2015F	2016F	2017F
Growth (% YoY)						
Sales	20%	14%	-5%	4%	15%	93%
OP	10%	28%	14%	21%	15%	93%
EBITDA	10%	32%	-3%	10%	23%	64%
NP	0.4%	83%	6%	-8%	39%	90%
EPS	0.4%	20%	-4%	-8%	39%	90%
Profitability (%)						
Operating Margin	10%	11%	13%	15%	15%	15%
EBITDA margin	11%	13%	13%	14%	15%	13%
NET Profit margin	4%	6%	6%	6%	7%	7%
ROA	3%	5%	4%	4%	5%	9%
ROE	14%	11%	9%	8%	10%	18%
Stability						
Tot. debt/ Tot. Equity (x)	3.27	1.27	1.34	1.27	1.36	1.41
Liquidity						
Current Ratio (X)	1.12	1.43	1.36	1.4	1.23	1.11
int. & ST debt coverage (x)	0.06	0.05	0.02	0.04	0.04	0.04
Per Share data (IDR)						
EPS	25.94	31.21	29.91	27.62	38.35	72.93
BVS	179.34	269.19	323.66	347.59	369.68	400.37
SPS	721.57	491.79	468.67	487.11	559.18	1,076.59
Ebitda/share	81.39	64.04	62.00	68.22	83.82	137.71

Source: Company and Binaartha



RESEARCH TEAM

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