

Friday, 25 August 2023

BUY

Initiate

Last price (IDR)	2,940
Target Price (IDR)	3,800
Upside/Downside	+29.3%
Previous Target Price (IDR)	n/a

Stock Statistics

Sector	Oil & Gas
Bloomberg Ticker	HILL JJ
No of Shrs (mn)	2,948
Mkt. Cap (IDRbn/USDmn)	8,668/569
Avg. daily T/O (IDRbn/USDmn)	49.7/3.3

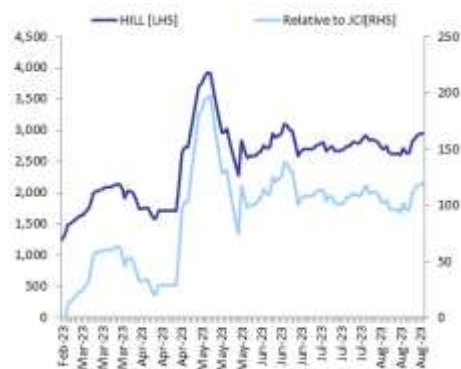
Major shareholders (%)

PT Hillcon	68.9
PT Bukit	16.2
Estimated free float	15.0

EPS Consensus (IDR)

	2023F	2024F	2025F
Danareksa	237.4	339.5	370.4
Consensus	157.0	233.5	278.5
Danareksa/Cons	51.2	45.4	33.0

HILL relative to JCI Index



Source : Bloomberg



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PT Hillcon Tbk(HILL JJ)

One of a kind

Hillcon provides full-service coal & nickel mining contracting services. Given the favorable macro dynamics in Indonesia's nickel mining industry, the company will focus more on being a nickel mining contracting services provider in the future. The company posted strong revenues growth of CAGR 35.6% in 2020 – 2023. We initiate coverage on HILL with a BUY call and target price of IDR3,800.

Fully integrated mining and civil-works provider. The company has two main businesses: mining contracting services and civil construction services. In mining contracting services, the company started to provide these services in 2014 through a subsidiary called Hillconjaya Sakti (HS). The company provides open-pit mining contracting services for both nickel and coal mining from the mine plan, land clearing, overburden removal, waste removal & disposal and hauling & transport. The company also has extensive experience in civil construction services for earthworks, road construction, and river basin construction.

Focusing on expanding more into nickel mining services. Given the favorable macro dynamics in Indonesia's nickel mining industry, the company will focus more on being a nickel mining contracting services provider in the future. HILL secured new projects with a single rate contract for ore-getting from Keinz Ventura (KVA) and Adhi Kartiko Pratama (AKP) in 2023. With these new clients, the company expects to add another 2.2 mn tons of ore-getting in 2024, thereby bringing the total ore-getting volume to 18 mn tons in 2024, up 38% YOY.

Strong revenues growth at 35.6% CAGR in 2020 – 2023. The company posted strong revenues growth of CAGR 35.6% in 2020 – 2023 mainly thanks to: a) Improving OB removal and coal-getting at Sebuiku Tanjung Coal (STC) and the nickel mining services project at Weda Bay Nickel (WBN) which should improve further in the coming years as WBN targets more nickel production in the future.

Initiate coverage with a BUY. Based on the valuation exercises that we have undertaken, we arrive at a target price of IDR3,800 based on relative valuation target PE of 12.4x. We are of the view that HILL warrants a premium valuation compared to its mining service peers as the company's revenues mix is more driven by its nickel segment compared to its coal business.

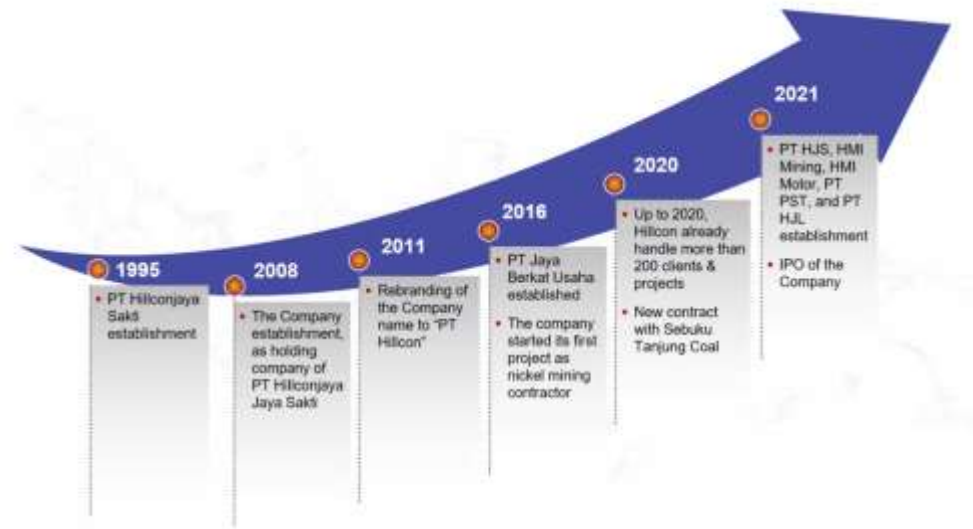
Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDRbn)	1,984	3,266	3,986	4,678	5,099
EBITDA (IDRbn)	764	865	1,008	1,206	1,353
EBITDA Growth (%)	116.6	13.3	16.5	19.7	12.2
Net profit (IDRbn)	404	301	595	851	928
EPS (IDR)	32.2	120.1	237.4	339.5	370.4
EPS growth (%)	367.6	272.8	97.6	43.0	9.1
BVPS (IDR)	37.3	306.6	719.7	988.0	1,256.6
DPS (IDR)	0.0	0.0	60.1	118.7	169.8
PER (x)	91.2	24.5	12.4	8.7	7.9
PBV (x)	78.8	9.6	4.1	3.0	2.3
Dividend yield (%)	0.0	0.0	2.0	4.0	5.8
EV/EBITDA (x)	48.7	9.1	7.8	6.3	5.6

Source : HILL, Danareksa Estimates

A leader in mining and civil-work infrastructure. PT Hillcon Tbk. (Hillcon group – the company/HILL) was formerly established under the name of PT Hillcon Investama in 2008. Prior to the establishment of HILL as the holding company of the group, the group was known through its subsidiary PT Hillconjaya Sakti, established in 1995. This company started to diversify into nickel mining contracting in 2016. The company is currently engaged in mining and civil-works services. As a leader in mining and civil works infrastructure providing construction services to the public and private sector, the company managed to develop a good relationship with clients by providing certainty on delivery with good timeliness execution and superior quality.

Exhibit 1. Key milestones



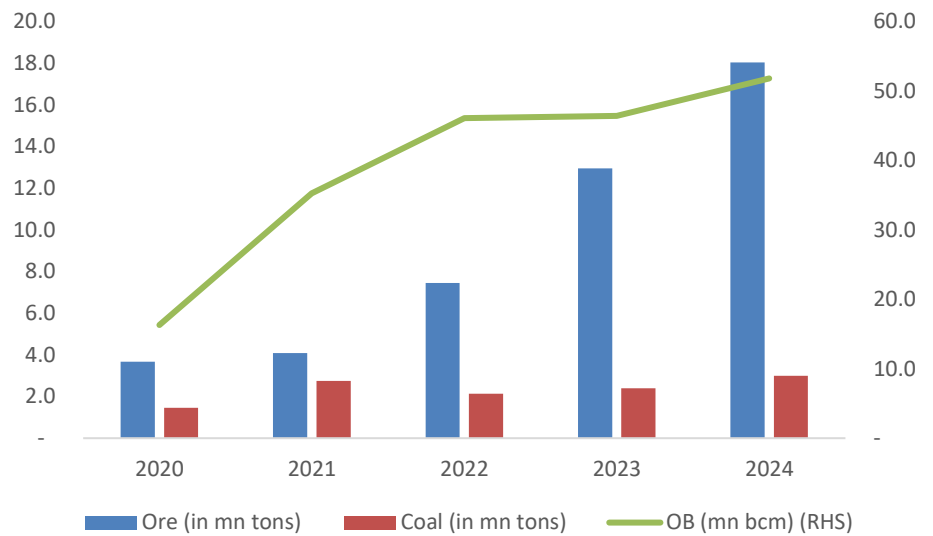
Source: Company

Proven and excellent track record. In the past 20 years, Hillcon has managed to build a track record by providing safe and timely delivery of projects in the areas of coal mining, nickel mining, earthworks, road construction, river basin construction and dam construction. The company takes three important approaches to further improve its performance and to optimize its execution, namely: a) to prioritize a safety culture with good quality human resources, b) to guarantee satisfactory results with the goal of building long-term relationships with the clients and c) to complete projects on-time or ahead of schedule to ensure customer satisfaction.

Focusing on nickel mining contracting services going forward. The company's current and ongoing projects are mostly in the mining contracting business as the provider of coal and nickel mining services. Given favorable macro dynamics in the nickel industry, the company will focus more on providing nickel mining contracting services in the future.

Since diversifying into mining contracting in 2016 and with the government imposing a nickel ore export ban since 2014 (permitting exports of lower grade nickel ore with Ni content < 1.7% between 2017 and 2019 but fully implementing an export ban on all nickel ore in early 2020), the company has been able to capture this opportunity and increase the number of contracts as well as volume in undertaking nickel mining contracting services in the past years. Given the favorable macro dynamics in Indonesia's nickel mining industry, the company intends to focus more on providing nickel mining contracting services in the future.

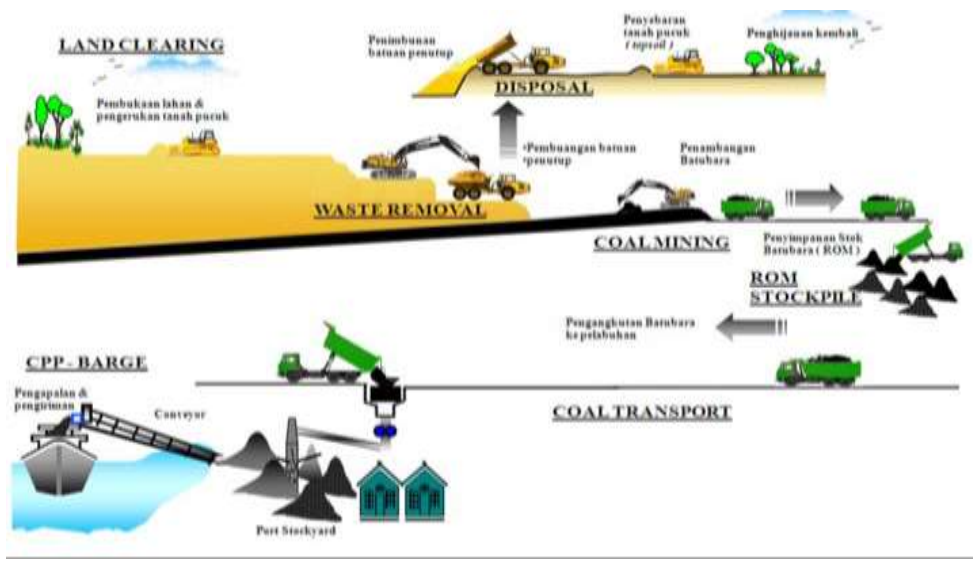
Exhibit 2. Rising number of nickel mining contracting projects in the past five years



Source: Company

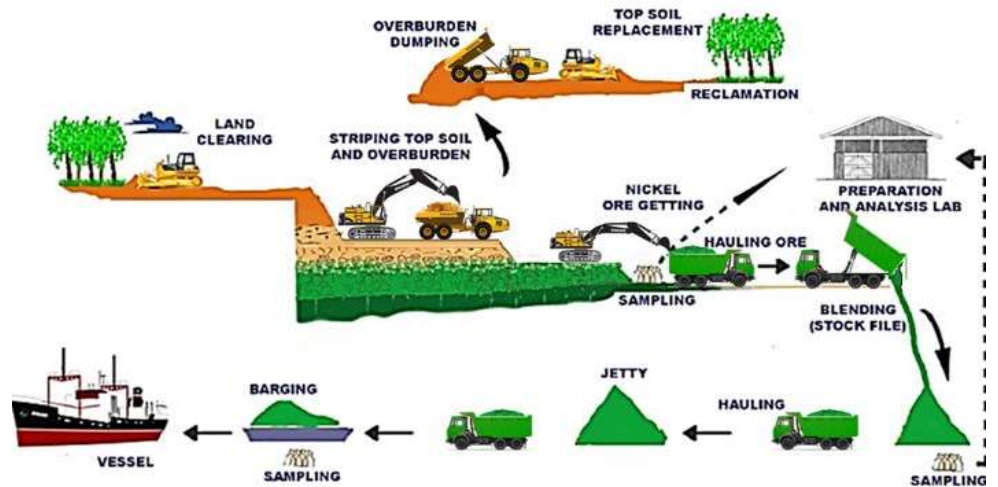
Strong foothold across the archipelago. The company has been trusted to work on more than 240 projects across the archipelago of Indonesia with no dependency on specific customers. This will help the company to discover opportunities to work on various types of projects as well as to alleviate risks and to provide additional financial security and stability. The company is keen to develop strong relationships with customers to further minimize the risks and to provide mutual benefits for all parties.

Exhibit 4. Coal mining contracting services



Source: Company

Exhibit 5. Nickel mining contracting services

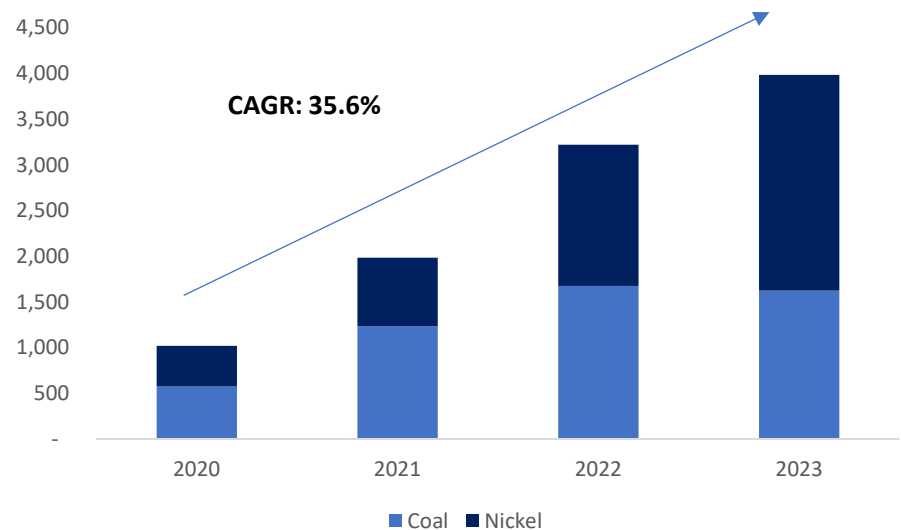


Source: Company

Strong revenues growth at 35.6% CAGR in 2020 – 2023. The company posted strong revenues growth of CAGR 35.6% in 2020 – 2023 mainly thanks to: a) Improving OB removal and coal-getting at Sebuku Tanjung Coal (STC) and the nickel mining services project at Weda Bay Nickel (WBN) since 2021 which should improve further in the coming years as WBN targets more nickel production in the future.

HILL also secured new projects with a single rate contract for ore-getting from Keinz Ventura (KVA) and Adhi Kartiko Pratama (AKP) in 2023. With these new clients, the company expects to add another 2.2 mn tons of ore-getting in 2024, thereby bringing the total ore-getting volume to 18 mn tons in 2024, up 38% yoy.

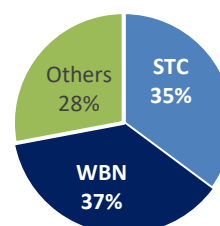
Exhibit 6. Strong sales growth at CAGR 35.6% in 2020 - 2023



Source: Company

HILL's two largest clients accounted for 72% of the total revenues in 2024. HILL currently serves 8 clients, but the company's major clients are STC and WBN which contribute more than 70% of total revenues. WBN's inquiries for ore-getting have improved further from just 119k tons in 2021 to 6 mn tons in 2023. Next year, the company expects ore-getting volume from WBN to increase to 10 mn tons.

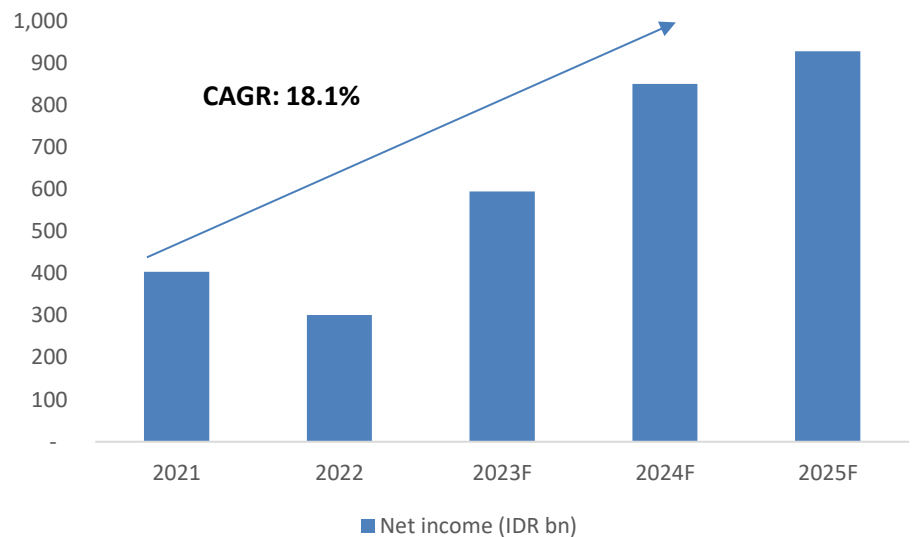
Exhibit 7. 2024 revenues contributors



Source: Company

Strong net profits. With increasing nickel ore getting, we expect HILL's net profits to almost double to IDR595 bn in 2023F. Furthermore, We believe that HILL's net profits will improve further to IDR851 bn in 2024 with WBN's nickel ore getting reaching 10 mn tons.

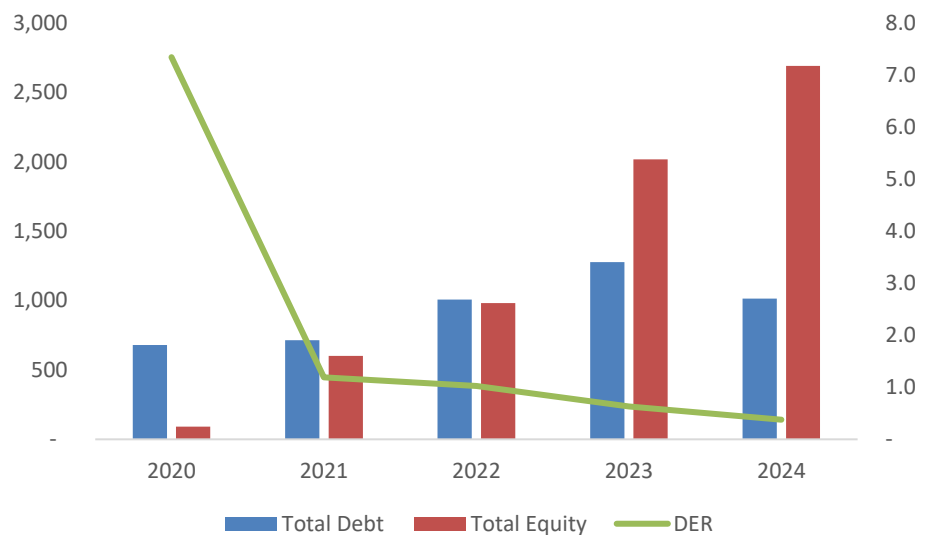
Exhibit 8. Strong net profits outlook



Source: Company

On-track to further strengthen its balance sheet. In 2020, HILL DER ratio was at 7.3x i mainly due to higher financial leases as the company is embarking on new projects, namely: Keins Ventura, Bartra Putera Mulia and Wedabay. In 2021, the DER ratio declined to 1.2x as the company injected share capital of IDR244.1bn in 7M21. We also expect HILL's gearing ratio to decline further as a result of deleveraging from improving profitability in the future.

Exhibit 9. Improving Debt-to-Equity ratio



Source: Company

Valuation

Initiate coverage with a BUY. Based on the valuation exercises that we have undertaken, we arrive at a target price of IDR3,800 based on relative valuation target PE of 12.4x. We are of the view that HILL warrants a premium valuation compared to its mining service peers as the company's revenues mix is more driven by its nickel segment compared to its coal business.

The rationale for using the relative valuation is: 1) it captures the short-term earnings to reflect the company's current performance and economic conditions and 2) it determines the company's position relative to its peers.

Exhibit 10 Valuation matrix

Company	PER (x)		EV/EBITDA (x)		PBV (x)		ROE (%)	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
HE players/mining sector contractor								
United Tractor	5.3	6.2	2.6	2.8	1.3	1.2	22.8	19.2
Komatsu LTD	12.0	10.6	8.1	6.9	1.5	1.3	13.2	13.4
Hitachi Construction	13.1	9.7	8.2	6.8	1.3	1.2	10.7	13.2
Caterpillar Inc	13.9	13.3	9.8	9.4	7.9	6.4	59.2	53.7
Deere & Co	12.0	12.2	8.9	9.2	6.2	5.0	52.3	42.4
Average	11.3	10.4	7.5	7.0	3.7	3.0	31.6	28.4
Metal Mining								
Vale Indonesia	14.3	17.7	7.5	8.9	1.6	1.5	11.6	8.6
Aneka Tambang	9.5	9.5	7.8	7.4	1.8	1.6	20.2	17.8
Merdeka Battery Materials	151.6	26.2	24.5	8.9	2.9	2.4	1.9	9.3
Trimegah Bangun Persada	10.6	7.7	6.3	5.9	2.2	1.9	35.4	31.5
Average	11.5	15.3	11.5	7.8	2.1	1.9	17.3	16.8

	PE 2024F	Weight	Weighted Average
Mining service	10	60%	
Nickel	15	40%	12.4

Average earnings 2024-2026 (IDR bn)	908
PE	12.4
Equity value (IDR bn)	11,211
os shares (in mn shares)	2,948
Target price (IDR/sh)	3,803
Rounding (IDR/sh)	3,800

Source: Company

Exhibit 11. Income Statement

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Revenue	1,984	3,266	3,986	4,678	5,099
COGS	(1,170)	(2,404)	(2,935)	(3,444)	(3,754)
Gross profit	814	861	1,051	1,234	1,345
EBITDA	764	865	1,008	1,206	1,353
Oper. profit	690	676	825	968	1,055
Interest income	0	0	0	0	0
Interest expense	(103)	(179)	(108)	(33)	(35)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(16)	(58)	0	0	0
Pre-tax profit	572	439	717	935	1,020
Income tax	(65)	(58)	(122)	(84)	(92)
Minority interest	(103)	(80)	0	0	0
Net profit	404	301	595	851	928
Core Net Profit	404	301	595	851	928

Exhibit 12. Balance Sheet

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	12	73	363	325	410
Receivables	595	914	942	970	1,164
Inventory	58	77	57	64	66
Other Curr. Asset	230	263	529	635	760
Fixed assets - Net	1,464	2,007	2,482	2,923	3,253
Other non-curr.asset	45	123	206	201	207
Total asset	2,404	3,458	4,578	5,117	5,859
ST Debt	267	432	701	434	489
Payables	735	735	586	685	669
Other Curr. Liabilities	319	688	647	678	705
Long Term Debt	117	140	130	120	110
Other LT. Liabilities	366	484	500	514	526
Total Liabilities	1,804	2,478	2,563	2,430	2,499
Shareholder's Funds	468	768	1,804	2,476	3,149
Minority interests	132	212	212	212	212
Total Equity & Liabilities	2,404	3,458	4,578	5,117	5,859

Exhibit 13. Cash Flow

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Net income	404	301	595	851	928
Depreciation and Amort.	74	190	183	238	298
Change in Working Capital	395	60	(211)	94	(180)
Other Oper. Cash Flow	(187)	(63)	(252)	(105)	(130)
Operating Cash Flow	685	487	316	1,078	916
Capex	(836)	(732)	(658)	(679)	(628)
Others Inv. Cash Flow	33	(78)	(83)	5	(6)
Investing Cash Flow	(803)	(810)	(741)	(674)	(634)
Net change in debt	19	305	275	(263)	58
New Capital	103	79	529	0	0
Dividend payment	0	(88)	(178)	(255)	(278)
Other Fin. Cash Flow	0	88	90	77	23
Financing Cash Flow	122	385	715	(442)	(197)
Net Change in Cash	4	61	290	(38)	85
Cash - begin of the year	8	12	73	363	325
Cash - end of the year	12	73	363	325	410

Exhibit 14. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Growth (%)					
Sales	94.3	64.6	22.1	17.4	9.0
EBITDA	116.6	13.3	16.5	19.7	12.2
Operating profit	173.7	(2.1)	22.1	17.4	9.0
Net profit	367.6	(25.4)	97.6	43.0	9.1
Profitability (%)					
Gross margin	41.0	26.4	26.4	26.4	26.4
EBITDA margin	38.5	26.5	25.3	25.8	26.5
Operating margin	34.8	20.7	20.7	20.7	20.7
Net margin	20.4	9.2	14.9	18.2	18.2
ROAA	21.9	10.3	14.8	17.6	16.9
ROAE	152.0	48.7	46.3	39.8	33.0
Leverage					
Net Gearing (x)	0.6	0.5	0.2	0.1	0.1
Interest Coverage (x)	6.7	3.8	7.6	29.4	30.3

Source : HILL, Danareksa Estimates

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