CLSA
ASIA-PACIFIC MARKETS

Ancora Indonesia

Rp340 -

Snoopin around
Small-caps research

Update

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Indonesia
Materials

Reuters	OKAS.JK
Bloomberg	OKAS IJ

Priced on 21 September 2010
Jakarta Comp @ 3,365.0

12M hi/lo Rp592/Rp295

12M price target
±% potential
Target set on

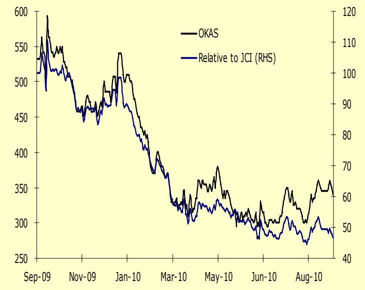
Shares in issue	1,765m
Free float (est.)	20.9%
Market cap	US$66m

3M average daily volume
Rp654m (US$0.1m)

Major shareholders
Ancora Resources (60.24%)

Stock performance (%)

	1M	3M	12M
Absolute	9.7	13.3	(36.1)
Relative	1.7	(1.0)	(73.0)
Abs (US$)	9.7	13.9	(30.9)



Source: Bloomberg

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A sweet spot for explosives

Indonesia is a key market for global Ammonia Nitrate (AN) producers. It is estimated to be a 420-430ktpa AN market, growing at 8-12% pa. Demand is driven by feverish growth of the country's coal and base-metal industries, which have grown at a rate of 12% CAGR over the past 5 years. This is unlikely to slow, judging by the aggressive pace at which current coal and mining producers are ramping up production. Ancora Indonesia is a local alternative to global producers; liquidity and the company's small market capitalisation will be a barrier to investors.

An explosive market
Indonesian demand for explosives is growing fast, underpinned by the feverish demand for resources. The Indonesian explosives market is tightly controlled with market licenses limited to local distributors who act as channel partners for producers. The largest local distributor is MNK, which has a 45% share of the market (8% if excluding third-party sales), followed by Trifeta and Armindo. Ancora Indonesia is the controlling shareholder (50%) of MNK.

OKAS is the silver lining
Ancora Indonesia is the sole local AN producer as well as the largest distributor in the country. It is well-positioned to seize market share from the global producers going forward, particularly with the completion of its new 100ktpa AN plant by May 2011, which will boost production capacity by 270% to 137ktpa from currently 37ktpa. Construction is now 50% complete, with low financing risk after US$37m (65% of the total investment) loans secured earlier in April this year.

Plant expansion will drive earnings
The new 100ktpa plant will be a major growth driver for OKAS in coming years. The AN manufacturing revenue only generated ~20% of FY09 revenue as the bulk of its revenue has been coming from its AN distribution business, but manufacturing contributes ~60% of gross profit. It offers a potent mix of volume and margin expansion.

Rights issue planned?
OKAS is majority controlled by Ancora Resources, in turn owned by a local private equity house. As such, OKAS is considered the listed vehicle for Ancora's primary resource assets. The company is also understood it hopes to acquire some upstream coal assets. If this was to occur, a rights issue will be needed as gearing is high and this is squeezing profitability. Liquidity remains problematic and the company's small market capitalisation will be a barrier to investors.

Financials

Year to 31 Dec	05A	06A	07A	08A	09A
Revenue (Rpbn)	5.6	11.6	627.9	1,037	1,237
Net profit (Rpbn)	0.2	0.9	2.9	16.2	18.7
EPS (Rp)	4.0	5.0	16.2	31.3	11.8
EPS growth (% YoY)	-	25.0	224.0	93.0	(62.3)
PE (x)	-	32.4	15.7	4.4	45.8
Dividend	-	-	-	-	4.8
ROAE (%)	2.3	4.7	2.6	12.8	13.4
ROA (x)	1.6	4.3	0.8	2.5	1.9
Net gearing (%)	29	-	3	3	204

Source: CLSA Asia-Pacific Markets

ey to CLSA investment rankings: **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).