

Tuesday, 14 June 2005

CONGLOMERATE / UPDATE

Buy

Rp115

Reuters Code	BNBR.JK
Bloomberg Code	BNBR IJ
No. of shares (mn)	26,970.28
Market cap (Rp bn)	3,101.58
(US\$ mn)	322.24
Weight in JCI (%)	0.42
3m Avg. daily T/O (US\$ mn)	2.64

Price	(Rp)
12 mos Hi/Lo	230/105

Core PER - 2005F	(x)
12 mos Hi/Lo	243.0/110.9

EV/EBITDA - 2005F	(x)
12 mos Hi/Lo	11.1/5.3

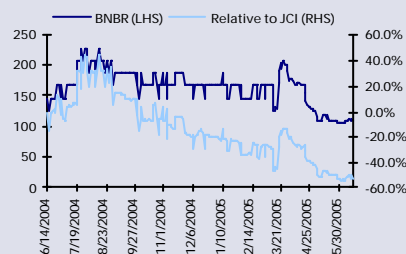
PBV - 2005F	(x)
	1.3/0.6

Key Financial	05F/06F
Net gearing, %	4.0/18.3
ROE, %	17/1
ROA, %	9.7/0.7

Price Relative to JCI	(%)
1 mo	-7.8
3 mos	-12.2
6 mos	-42.4
12 mos	-50.3

USD/IDR - YE	(Rp)
2004	9,290
2005F	9,598

Major shareholders (Pre-rights)	(%)
CMA	15.9
Omni Capital	9.7
Bakrie family	1.7
Est. free float	59.9



Erwan Teguh
(62-21) 350 9888 ext.3500
erwan@danareksa.com

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Bakrie & Brothers

The next chapter

The success of the Rp1.92t rights issue lowers BNBR's balance sheet risk tremendously, and the subsequent use of the proceeds to buyback debt at an average 55% discount should leave the company with only a small net gearing of 6% or so by YE05, in our estimate. Such is the basis for our recommendation change to BUY. Having said that, we maintain our view that earnings visibility remains poor and its infrastructure division is the main earnings catalyst. The share target price is revised to Rp125, some 20% discount from our DCF derived fair valuation, implying EV/FY06EBITDA of over 7.6x, some 0.7x PBV.

Balance sheet risk down after the Rp1.92t rights issue

The completion of the Rp1.92t rights issue last week should bring down gross gearing from 124% to 24%. 42% of the proceeds will be used to buy back debt of its infrastructure division at an average 55% discount. Consequently, BNBR should book extraordinary gains from the debt buyback of some Rp800b, probably reflected in the 3Q05 financials. Additionally, net gearing should fall from 118% at YE04 to about 6% by YE05, in our estimate.

Recommendation upgrade to BUY from Spec BUY

The much-improved balance sheet should allow BNBR to improve its credit ratings and hence give it easier access to capital, which should lower its cost of funds. Therefore, its growth initiatives into the Consumer Division, the telecommunication sector in particular, should be more secure in terms of funding availability. We have reflected the improved risk rating in our valuation, lowering our WACC from 15.6% to 13.4% (17% cost of equity and 14% cost of debt). This is the main reason for our recommendation upgrade to BUY.

The earnings visibility is poor, the catalyst remains the Infrastructure Division

Earnings visibility is still relatively poor, in our view. The Consumer Division offers better earnings stability, but in general, the company is a relatively smaller player compared to its peers, and may soak up significant capex over the next three years, in particular the telco unit. The main earnings catalyst remains the Infrastructure Division: being a major player in the steel pipes, construction engineering and transport infrastructure, suggests it will be a major beneficiary from the government infrastructure initiatives. Unfortunately, these are projects-driven and though upside potential is huge, given a high operating leverage driven by low capacity utilization, there is insignificant capex requirement to crank up production, the management says.

Year to Dec	2003	2004	2005F	2006F	2007F
Sales, Rp bn	1,041.9	1,229.3	2,846.8	3,495.7	4,283.5
EBITDA, Rp bn	112.8	98.6	411.2	544.3	687.2
EBITDA growth, %	(55)	(13)	317	32	26
Net profit, Rp bn	22.7	(266.1)	565.2	49.1	65.4
EPS, Rp	3	(34)	30	2	2
EPS growth, %	(230)	(1,274)	(187)	(94)	33
Core EPS, Rp	(24)	(39)	1	2	2
Core EPS growth, %	(11)	66	(106)	181	32
DPS, Rp	-	-	-	-	-
PER, x	39.3	na	3.9	63.1	47.5
Core PER, x	na	na	121.5	61.6	46.6
Yield, %	-	-	-	-	-
P/B, x	0.4	0.4	0.7	0.6	0.6
EV/EBITDA, x	26.0	32.3	5.8	7.3	6.4

Target price at Rp125 per share

Our lower WACC has improved our DCF derived EV by some 10%, including some adjustments made. Incorporating the much stronger balance sheet, post debt repayment, our equity fair value estimate is Rp4.21t. Given poor returns for now, admittedly due in part to our incorporating what we perceive as relatively poor earnings visibility, we believe BNBR must be at a discount to our DCF valuation. We have placed a 20-25% discount range, which incorporated should lift the adjusted ROCE to a more reasonable value. Such is the basis for our new target price of Rp125 per share, implying valuations of 7.6x EV/FY06EBITDA, some 0.7x PBV.

Exhibit 1. Use of rights proceeds

Use of proceeds	Rp bn	% to total
Total proceeds	1,922.0	
Refinancing debt for BSP acquisition	364.0	18.9%
Debt buyback	808.0	42.0%
BPI	743.0	38.7%
SEAPI	65.0	3.4%
Investment in BT	550.0	28.6%
W/C	200.0	10.4%

Source : Company

Exhibit 2. Gross gearing to drop significantly

Gross debt - Dec04	2,418.72
In US\$m	260.55
Cash - Dec04	112.68
In US\$m	12.14
Equity - Dec04	1,948.07
Gross gearing	124%
Net gearing	118%
Ex-rights	
Gross debt , US\$m	96.55
In Rp bn	917.26
Cash, US\$m	71.23
In Rp bn	676.70
Equity, Rp bn	3,870.09
Gross gearing	23.7%
Net gearing	6.2%

Source : Company & Danareksa

Exhibit 3. A significant player in the pipe industry

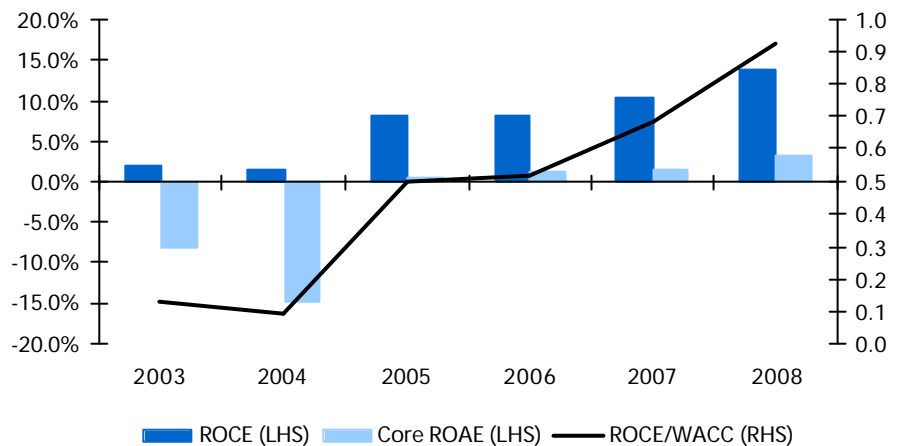
	Cap in tons	
BB Group	517,000	28.7%
BPI	200,000	11.1%
SEAPI	150,000	8.3%
Seamless Pipe	167,000	9.3%
KHI Pipe	120,000	6.7%
Indal Steel	133,000	7.4%
Bumi Kaya	98,500	5.5%
Steel Pipe	126,000	7.0%
Citra Turbindo	<u>100,000</u>	5.6%
Key players' cap	1,094,500	60.8%
Total industry	1,800,000	100.0%

Source : Company

Exhibit 4. DCF derived valuation at Rp156 per share. Target price at Rp125/share

Subsidiary	BNBR's Stake	Enterprise value, Rpbn	BNBR's Portion, Rp bn	Contribution to EV
Bakrie Telecom	93.80%	1,804	1,692.6	38.5%
Bakrie Communications	96.80%	98	94.9	2.2%
Bakrie Sumatera Plantation	55.76%	1,424	793.7	18.0%
Bakrie Pipe Industries	99.96%	1,118	1,117.6	25.4%
South East Asia Pipe Industries	99.90%	109	109.3	2.5%
Bakrie Tosanjaya	99.99%	202	202.0	4.6%
Bakrie Building Industries	96.80%	226	219.0	5.0%
Trans Bakrie	51.00%	121	61.8	1.4%
Bakrie Corrugated Metal Industries	99.80%	108	108.3	2.5%
Enterprise value, Rp bn			4,399.2	100.0%
Cash (YE05F), Rp bn			818.7	
Debt (YE05F), Rp bn			(1,008.5)	
Equity value, Rp bn			4,209.3	
Rp/share			156	

Source : Danareksa Sekuritas

Exhibit 5. Value creation should improve over time

Source : Danareksa Sekuritas

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