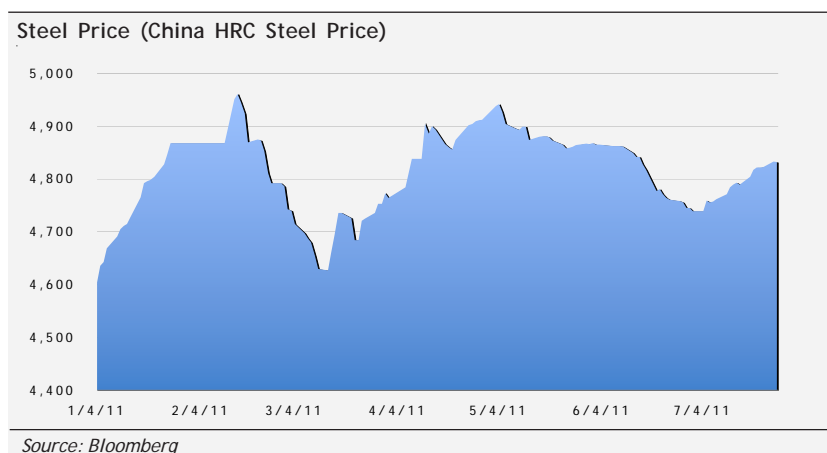


## KRAS: Potential Margin Expansion

### Revenue Down...

KRAS revenue down -1.4% QoQ, reflects 44% of consensus estimate despite the fact that steel sales increases 1.2% QoQ. Steel sales uptrend as market anticipate further increase in the steel price, as shown by 2.0% QoQ increase on HRC Steel Price. Gross profit increase 14% QoQ along with 13% QoQ growth on operating profit.



### ...Along with Weaker Local Demand

To anticipate weaker local demand, management increase export portion to total sales to 4.2% on 2Q11 from 1.1% on 1Q11. Chinese steel competitors, who come with lower price, pose threat on KRAS domestic sales. Government applied Indonesian Product Standard to tame the competition along with 2.5% VAT+ 5% tariff for imported steel and tax holiday plans for local producers.

### ...But Profit Jump on Extraordinary Gain

Profit before tax reaches Rp1.5tr post accounting Rp1.1tr worth of fixed asset transfer gain on KRAS-Posco joint venture. The extraordinary gain translated into Rp1.1tr net profit; represent 75% of consensus estimate

2Q11 result with and without gain on transfer on fixed asset						
(Rpbn)	2Q11	1Q11	QoQg (%)	Qtr Margin (%)	2Q11	1Q11
QoQ Revenue	4,175	4,236	(1.4)			
GP	481	422	14.0	GPM	11.5	10.0
OP	173	153	13.1	OPM	4.1	3.6
NP	980	114	763.1	NPM	23.5	2.7
YTD YoY	2Q11	2Q10	YoYg (%)	YTD Margin (%)	2Q11	2Q10
Revenue	8,411	9,000	-6.5			
GP	904	1,896	-52.3	GPM	10.7	21.1
OP	326	1,216	-73.2	OPM	3.9	13.5
NP	1,093	998	9.6	NPM	13.0	11.1
YoY	2Q11	2Q10	YoYg (%)	YoY Margin (%)	2Q11	2Q10
Revenue	4,175	4,588	-9.0			
GP	481	1,008	-52.2	GPM	11.5	22.0
OP	173	668	-74.1	OPM	4.1	14.6
NP	980	530	85.0	NPM	23.5	11.5
Bloomberg Est			Realization (%)	Margin (%)		
Revenue	19,308		43.6			
OP	1,185		27.5	OPM	6.1	
NP	1,309		83.5	NPM	6.8	

Source: Company, TRIM Research

2Q11 result with and without gain on transfer on fixed asset*						
(Rpbn)	2Q11	1Q11	QoQg (%)	Qtr Margin (%)	2Q11	1Q11
QoQ Revenue	4,175	4,236	(1.4)			
GP	481	422	14.0	GPM	11.5	10.0
OP	173	153	13.1	OPM	4.1	3.6
NP	134	142	(5.2)	NPM	3.2	3.3
YTD YoY	2Q11	2Q10	YoYg (%)	YTD Margin (%)	2Q11	2Q10
Revenue	8,411	9,000	-6.5			
GP	904	1,896	-52.3	GPM	10.7	21.1
OP	326	1,216	-73.2	OPM	3.9	13.5
NP	276	998	-72.3	NPM	3.3	11.1
YoY	2Q11	2Q10	YoYg (%)	YoY Margin (%)	2Q11	2Q10
Revenue	4,175	4,588	-9.0			
GP	481	1,008	-52.2	GPM	11.5	22.0
OP	173	668	-74.1	OPM	4.1	14.6
NP	134	530	-74.6	NPM	3.2	11.5
Bloomberg Est			Realization (%)	Margin (%)		
Revenue	19,308		43.6			
OP	1,185		27.5	OPM	6.1	
NP	1,309		21.1	NPM	6.8	

Source: Company, TRIM Research

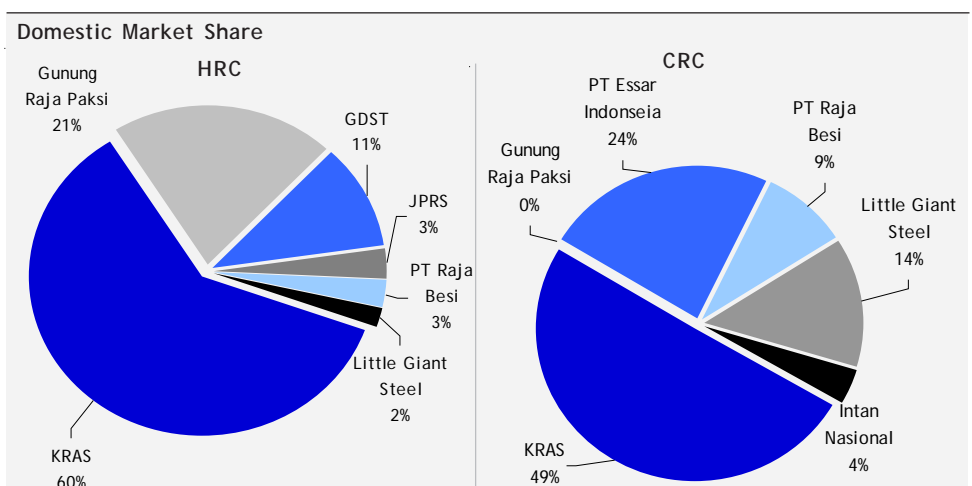
\*) with removal on gain of transfer fixed asset, tax rate stays at 29%, and removal of minority interest on 1Q and 2Q11

### Improving Margin...

Operating profit margin increase 50bps QoQ to 4.1%, while net profit margin decrease 10bps to 3.2% due to decreasing forex gain. We expect further improvement on margin as KRAS was undergone a total shut down of factory since the end of 2010 until Apr'11 due to the capacity expansion of its HRC factory from its rolling mills to add 0.3mn tons capacity to 2.4mn tons. The expected outcome should lower the COGS translated into GPM increase from 10% in 1Q11 to 12% in 2Q11. Going forward, we expect the manufacturing cost will decrease as the production going normal and the impact from the additional capacity will support efficiency.

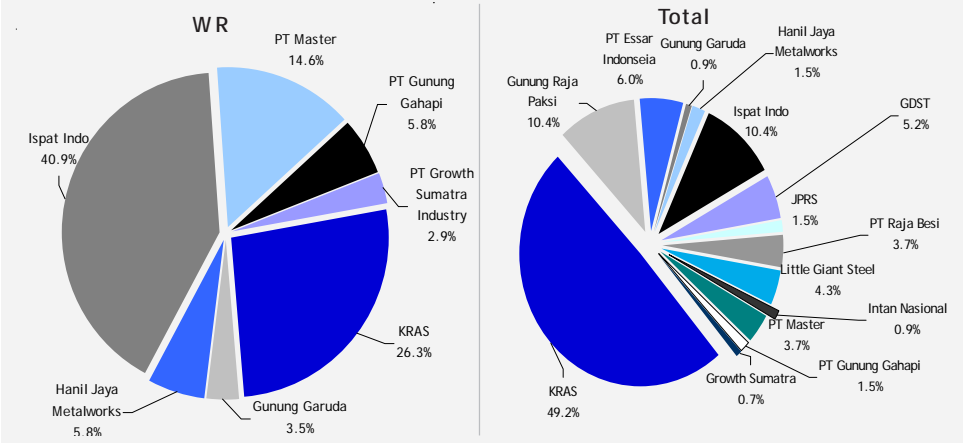
### ...Supported by an Aggressive Plan

KRAS is Indonesian biggest steel producer with 49% market shares that will be the beneficiaries of growing infrastructure and high-rise building development, which absorbs 70% of steel demand. To catch such growth, management plans an aggressive expansion plan with Rp10tr worth of capex to ramp up capacity and revitalization of its production facilities.



Source: Company

## Domestic Market Share



Source: Company

## Capex

Product	Capacity targeted (mn M ton/year)	capacity	due date	Cost Est. (Rpbn)	re-exp. capacity (mn M ton/year)	capex (Rpbn)
Facility Revitalization				2,087.0		
Iron Sponge	1.5	1.74	2012	557.0		
Steel Slab	1.8	2.1	2014	759.0	2.47	
Steel Billet	0.7					
HRC	2.0	2.4	2011	770.0	3.5	1299
CRC	0.9					
Wire Rods	0.5					
Bar steel	0.2					
Profile Steel	0.2					
Steel Pipe	0.1					
located in S Kalimantan		0.315	2011	1,376.0		
located in S Kalimantan		1.2	2014	3,397.0		
located in S Kalimantan	10	14.4	2013	1,276.0		
located in S Kalimantan	400	580	2013			
Water Treatment Dev.	1515	1850	2014	239.0		
Slab & HRC (KRAS-Posco)		3	2013			6

Source: Company

## KRAS-POSCO Update

After the dispute of the 302.7 Ha land in Kubangsari, Cilegon with the district government concerning the land, in Jul'11 there already a groundbreaking in this JV land. The dispute settled after the government agreed to swap the land with the land from other area. Hence KRAS booked the gain of transfer of fixed asset worth Rp1090.29 bn. The capacity added to this JV company is 3mn tons as the first stage in 2014 and planned to be 6mn tons later on. This company will also produce HRC for the shipping in which requires 6 meters height on HRC that currently still being imported as the local steel companies can only make the 3 meters one. Although the agreement only allows KRAS to take 33% of its capacity, there will be transfer of knowledge and product variety sold that expected to increase the margin.

## Valuation

KRAS currently traded at 8.8 x 2012 est P/E , a discount to the JCI index at 15.9 x 2012 est P/E. The revenue expected to stagnate at current level during 3Q11 as there is Ramadan season during Aug'11 that will reduce the demand. However, the demand will back increase in Sept'11 after the holiday. We remain confidence for KRAS medium term growth to improve its margin in the backbone of growing economic and infrastructure projects. We expect a good prospect of long-term growth as the JV factory will generate revenue in 2014 and the end of the de-bottlenecking process.

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