

UBS Investment Research

Barito Pacific

Global Equity Research

Non Covered Stock

Indonesia

Chemicals, Commodity

RIC: BRPT JK BBG: BRPT IJ

The only olefin producer in Indonesia

■ Company background

PT Barito Pacific was established in 1979 as a timber company. It was listed on the Jakarta and Surabaya stock exchanges with 48% free float. After the prolonged decline of its timber business, Barito Pacific switched course at the end of 2007 by acquiring Chandra Asri, the only olefin producer in Indonesia. Barito Pacific started consolidating Chandra Asri in 2008, reporting historical financials that are not representative of the company's current business. Barito Pacific is 52%-owned by Magna Resources, which is controlled by Prajogo Pangestu.

■ Industry trends

The record-high crude oil price is putting pressure on global ethylene margins, especially in Western Europe and Asia. Margins are well below levels typical of times when global operating rates are strong. Companies that have the advantage of feedstock based on long-term fixed prices (gas-based rather than naphtha-based feedstock) are benefiting from record prices for all olefins and polymers.

■ Disclaimer

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Table 43: Share price performance

Share price (local curr)	1,380
Market Cap (US\$m)	1,058
Av daily t/o (US\$m)	5.7
YTD performance %	-52.3
1 yr fwd P/E (cons) (x)	8.2
1 yr hist. PBV (x)	1.0

Source: Bloomberg

Table 42: Basic financials and valuation

FY Dec (Rp m)	2003	2004	2005	2006	2007
Revenue	1,882,925	1,291,645	818,030	451,029	336,850
PBT	135,523	(161,161)	355,163	16,519	48,051
Net income	229,561	(154,874)	686,842	7,191	44,533
EPS	62	(42)	63	2	6
DPS	-	-	-	-	-
Profitability & Valuation					
EBIT margin	-	-	-26.3%	-45.7%	-12.4%
ROIC (EBIT)	-	-	-47.0%	-44.5%	-0.3%
EV/EBITDA	-	-	-6.8x	-9.4x	-2,396.1x
PE	3.1x	-	6.2x	187.8x	216.3x
Net yield	-	-	-	-	-

Source: Bloomberg

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Recent news

- **Tri Polyta asset injection.** Barito Pacific acquired 75.95% of Tri Polyta from its holding company (in an affiliated company transaction) on 23 June and increased its stake to 77.9% after completing the tender offer. Barito bought its 567m shares at Rp2,289/share, or a total value of Rp1.3trn. Tri Polyta recorded 2007 revenue of Rp4.3trn with Rp667 EPS. This is a move down the value chain. Tri Polyta produces polypropylene, which is made from propylene, 84% of which it sources from Chandra Asri.
- **Bond issuance.** Barito issued US\$180m in bonds to Magna Resources, which owns 52% of Barito. The majority of the proceeds (US\$143m) were used to purchase Tri Polyta.
- **Next asset injection.** According to local media reports, including *Bisnis Indonesia*, 17 November 2007, Barito Pacific is in talks to acquire Star Energy, an upstream E&P company, which is also majority-owned by Prajogo Pangestu. Barito Pacific is also reportedly in talks to purchase plantations in eastern Indonesia. Barito Pacific owns 10% of Gozco (GZCO.JK), purchased at Gozco's recent IPO.

Company profile

- Barito Pacific holds 445,296ha of forest concessions and 110,321ha of industrial forest concessions in Indonesia. It operates three timber mills, including one mill in Kalimantan that produces particle board products and two mills in North Maluku that produce plywood and block board products. Sales have declined at a CAGR of -38% in 2004-07.
- PT Chandra Asri was built in 1991 and uses naphtha as feedstock for its petrochemical production. It imports 1.7m tons of naphtha annually. The company has 520ktpa (kilo ton per annum) capacity of ethylene, 280ktpa capacity of propylene, and 300ktpa capacity of polyethylene. These petrochemicals are called olefins, of which Chandra Asri holds approximately 50% of the domestic market. The company's utilisation rate in 2007 was 90%.
- Barito Pacific booked net sales of Rp4.4trn in Q108 compared with Rp109bn in Q107, up 3,893% YoY, as the Chandra Asri acquisition was not reflected in 2007 quarterly numbers. The company recorded an operating loss of Rp161bn in Q108 compared with an Rp18bn operating loss in Q107. The net loss widened to Rp183.2bn in Q108, compared with a Rp9.6bn net loss over the same period in 2007. Net gearing in Q108, before the Tri Polyta acquisition, was only 20%.

Consensus

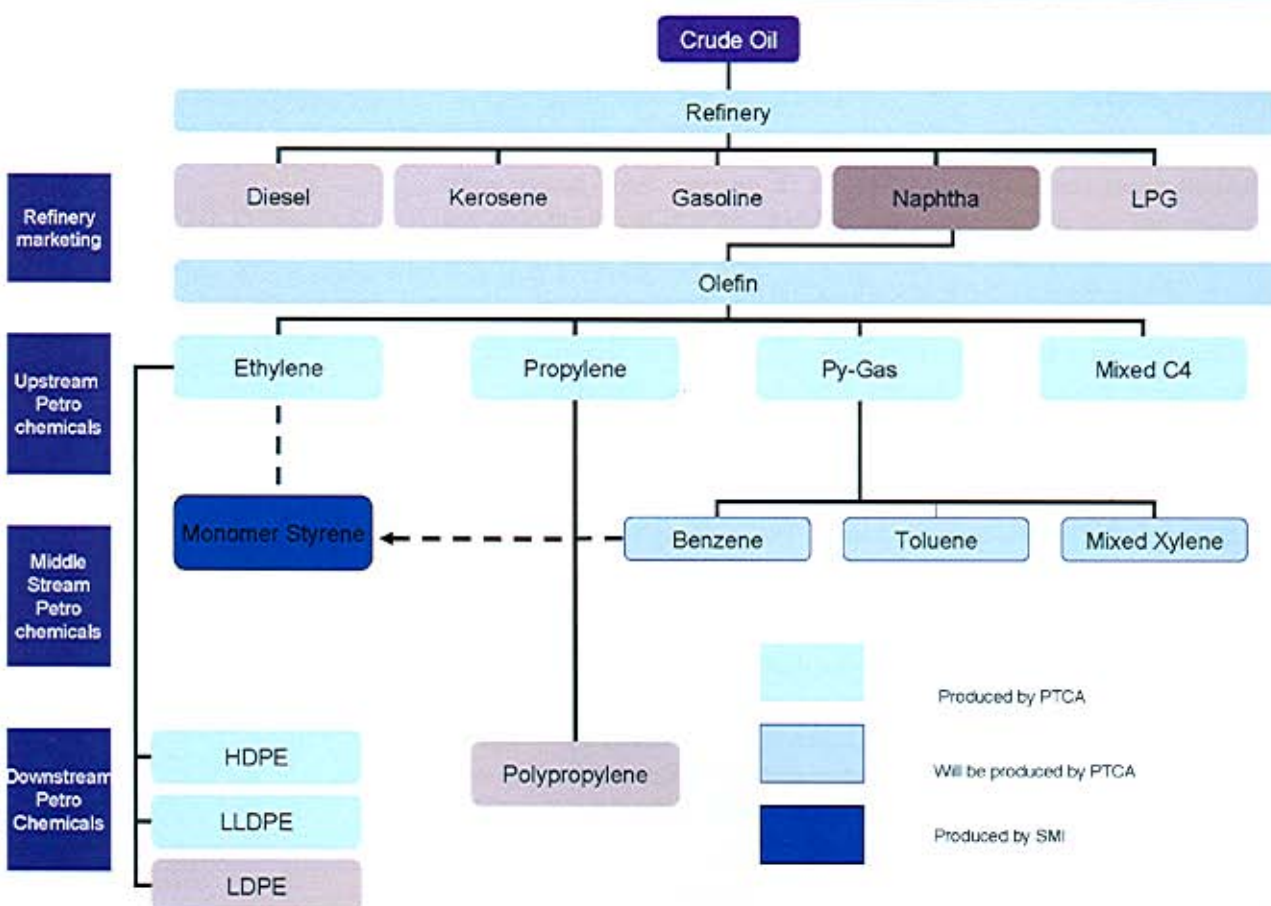
There is only one broker covering the stock, rendering consensus numbers irrelevant.

Table 44: Chandra Asri's petrochemical output and use

Product	Intermediate product	Use
Ethylene	Polyethylene	Plastic film, container, coating
	Ethylene Oxide/Ethylene Glycol	Polyester fibre, PET resin, antifreeze
	EDC/PVC	Pipe, home siding, furniture coating, floor coating
	Styrene Monomer/PS	Disposable cups and containers, high-impact plastics such as toys and cassettes
Propylene	Polypropylene	Carpet coating, baggage, bottle, diaper, raffia bags, automotif components
	Acrylonitrile/Nylon	Fibres, tire cord
	Propylene Oxide/Polyols	Polyurethane foam for furniture and isolator, cleaning agents and coating
	Cumene	Dyestuffs
Py-gas	Benzene, Toluene, Xylene	Solvent and high-octane benzene content
Mixed C4	Butadiene, Bulene-1, MTBE	Tyre high-octane benzene content

Source: Company data

Chart 26: Petrochemical production flow

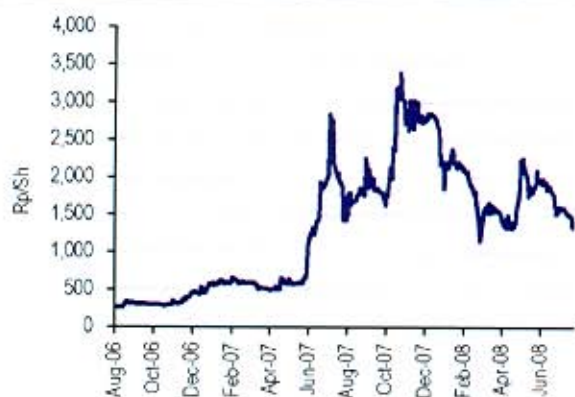


Source: Company data

Key industry issues

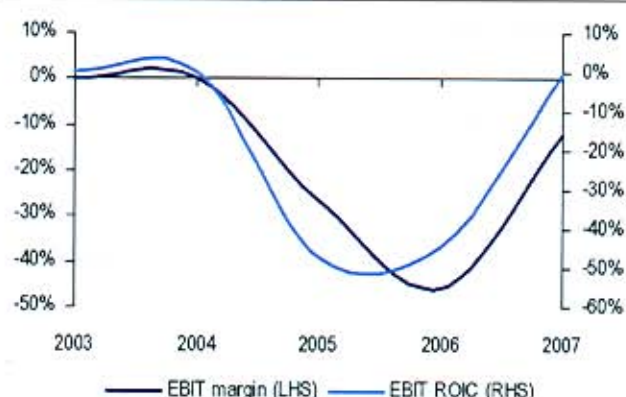
- Record crude oil pricing affecting industry.** The recent run-up in the price of crude oil is having a profound impact on the global ethylene industry. The WTI price recently reached US\$140/bbl, up over 100% YoY. About 60% of global ethylene is produced from oil-based feeds, with Western Europe and Asia being the most exposed regions. Producers' price increases have not been able to keep up with these feedstock cost increases, and naphtha-based crackers are currently at zero or negative margins. Naphtha is a product of crude oil, and its price usually fluctuates along with that of crude oil.
- Going upstream would hedge petrochemical costs.** Rather than switching its feedstock, Barito Pacific management plans to acquire an E&P company to hedge its petrochemical input costs. Star Energy's 31%-owned Kakap PSC produces 8,000bbl of oil per day and 60mmscfd of gas. It also owns a 25% working interest in Banyumas PSC, and 100% of two other PSCs, currently at the exploration stage.

Chart 27: Share price performance



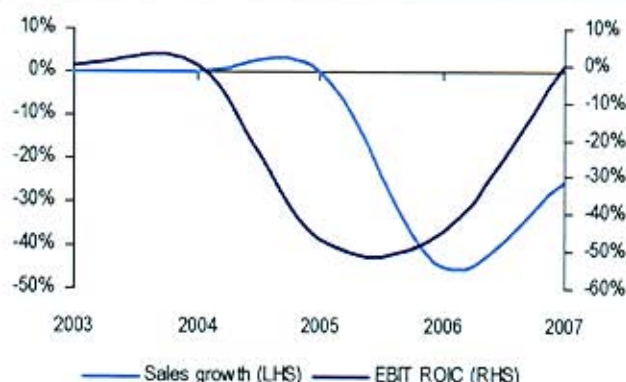
Source: Bloomberg

Chart 28: Profitability



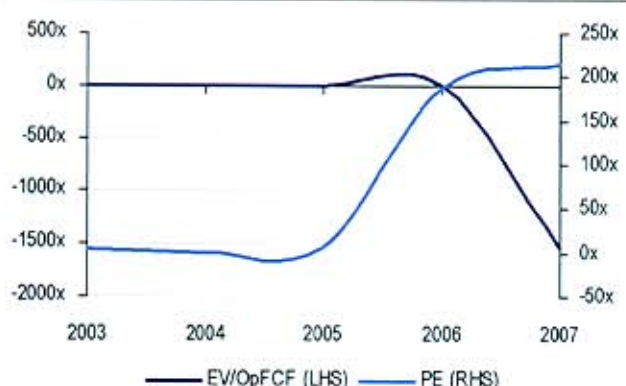
Source: Bloomberg

Chart 29: Momentum



Source: Bloomberg

Chart 30: Value



Source: Bloomberg

Table 45: Historical financials

FY Dec (Rp m)	2003	2004	2005	2006	2007
Per share					
EPS (pre-exceptional)	62	(42)	63	2	6
CEPS	87	(27)	199	12	26
DPS	0	0	0	0	-
BVPS	(117)	(159)	286	288	1,335
Profit & loss					
Sales	1,882,925	1,291,645	818,030	451,029	336,850
EBITDA	(181,212)	94,728	(166,403)	(169,407)	(9,698)
Operating income (EBIT)	(287,641)	39,849	(214,989)	(206,245)	(41,884)
PBT (pre-exceptional)	135,523	(161,161)	355,163	16,519	48,051
Net profit (pre-exceptional)	229,581	(154,874)	686,842	7,191	44,533
Cash flow					
Operating income (EBIT)	(287,641)	39,849	(214,989)	(206,245)	(41,884)
Depreciation & amortisation	106,429	54,879	48,587	36,838	32,186
Net change in working capital	(1,503,597)	256,968	(1,328,454)	123,753	(2,407,911)
Other (operating)	-	-	-	-	0
Operating cash flow	(1,684,809)	351,695	(1,494,857)	(45,654)	(2,417,609)
Tax paid	(32,247)	(9,089)	(12,788)	(5,009)	(4,756)
Capital Expenditure	(34,374)	(14,314)	(1,068)	(1,255)	(5,388)
Net interest	0	0	2,599	3,220	9,758
Dividend Paid	0	0	0	0	0
Net (acquisitions) / disposals	0	0	0	0	0
Other items					
(Increase) decrease in net debt	(1,751,430)	328,292	(1,506,110)	(48,698)	(2,417,995)
Operating free cash flow (OpFCF)					
EBITDA (core)	(181,212)	94,728	(166,403)	(169,407)	(9,698)
Less maintenance capital expenditure	(34,374)	(14,314)	(1,068)	(1,255)	(5,388)
Less maintenance net working capital	0	0	0	0	0
OpFCF	(215,586)	80,414	(167,469)	(170,662)	(15,086)
Balance sheet					
Net tangible fixed assets	1,607,846	1,890,445	541,803	417,424	10,315,670
Net intangible fixed assets	0	0	0	0	1,644,387
Net working capital	17,186	(6,936)	(84,236)	45,675	1,878,581
Total invested capital (IC)	1,625,032	1,883,509	457,568	463,099	13,838,636
Financial & other fixed assets	561,640	521,565	463,985	343,412	10,058,110
Net cash / (debt)	41,725	52,041	741,043	357,153	1,036,106
Provisions					
Minority interests	3,394	1,493	520	0	2,244,740
Shareholders' funds	(426,726)	(563,501)	1,055,184	1,061,855	11,564,570
Profitability					
EBITDA margin	-	-	-20.3%	-37.6%	-2.9%
EBIT margin	-	-	-26.3%	-45.7%	-12.4%
EBIT RoIC	-	-	-47.0%	-44.5%	-0.3%
Net RoE	-	-	NA	1.0%	0.7%
Interest cover (EBIT)	-	-	-82.7x	-64.1x	-4.3x
Dividend cover (net)	-	-	NA	NA	NA
Productivity					
Depreciation % sales	-	-	5.9%	8.2%	9.6%
Capex % sales	-	-	0.1%	0.3%	1.6%
Invested capital turnover	-	-	0.6x	1.0x	41.1x
Tax rate	-	-	-5.9%	-2.4%	-11.4%
Net debt / total equity	-	-	net cash	net cash	12.5%
Momentum					
Sales growth	-	-	NA	-44.9%	-25.3%
EBIT growth (EBITDA growth)	-	-	NA	-1.8%	94.3%
Net earnings growth	-	-	NA	-99.0%	519.3%
Dividend growth					
Value					
Market capitalisation	706,714	1,177,857	1,439,603	1,675,174	19,543,700
Plus: Core net debt / (cash)	2,260,861	2,327,986	(304,604)	(84,860)	1,449,316
Plus: Pension provisions	-	-	-	-	-
Plus: Buy out of minorities	-	-	520	-	2,244,740
Less: Non-core assets	-	-	-	-	-
Enterprise value	2,967,575	3,505,843	1,135,519	1,590,314	23,237,756
EV / Sales (core)	-	-	1.4x	3.5x	69.0x
EV / EBITDA (core)	-	-	-6.8x	-9.4x	-2396.1x
EV / EBIT (core)	-	-	-5.3x	-7.7x	-554.8x
EV / OpFCF	-	-	-6.8x	-9.3x	-1540.4x
EV / Invested capital	-	-	2.5x	3.4x	1.7x
P / CE	-	13.0x	-	-	-
P / E	3.1x	-	6.2x	187.8x	216.3x
Dividend yield (net)	-	-	NA	NA	NA
P / BV (average)	-	-	1.4x	1.6x	2.1x

Source: Bloomberg

■ Statement of Risk

Oil companies are exposed to the following risk factors: (1) fluctuation in oil and gas prices; (2) operational risks in exploration activities and in developing existing reserves; and (3) failure to finalise gas contracts. E&P activities usually involve large capital expenditure, which entails financing risks. We assign the following risk factors to the oil downstream distribution business: (1) regulatory changes, (2) defaulting counter party; (3) removal of port licenses. We assign the following risk factors to oil and gas infrastructure: (1) lower-than-expected increases in gas prices, which could have a large impact on our margin expectations; (2) longer delays in completion of transmission and customers' pipelines; and (3) failure to maintain and obtain existing and future gas supply.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	57%	38%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	8%	29%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	31%
Sell	Sell	less than 1%	38%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :

Buy: Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
AKR Corporindo	AKRA.JK	Not Rated	N/A	Rp990	19 Aug 2008
Barito Pacific ^{2, 4, 5}	BRPT.JK	Not Rated	N/A	Rp1,360	19 Aug 2008
Energi Mega Persada	ENRG.JK	Sell	N/A	Rp700	19 Aug 2008
Medco Energi Internasional ^{1, 5}	MEDC.JK	Buy	N/A	Rp4,100	19 Aug 2008
Perusahaan Gas Negara	PGAS.JK	Buy	N/A	Rp2,350	19 Aug 2008

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

AKR Corporindo (Rp)



Source: UBS, as of 19 Aug 2008

Barito Pacific (Rp)



Source: UBS, as of 19 Aug 2008

Energi Mega Persada (Rp)



Source: UBS, as of 19 Aug 2008