

UBS Investment Research

Barito Pacific

Second-largest petrochemical company in southeast Asia

■ Company background

Barito Pacific was established in 1979 as a timber-based company. It is 52%-owned by Magna Resources, which is controlled by Prajogo Pangestu. At end-2007, Barito Pacific changed its focus from timber to petrochemicals by acquiring Chandra Asri, the only olefin producer in Indonesia, in an intra group transaction. Barito Pacific's core net profit turned positive in Q109 after the company had reported a loss for five consecutive quarters. Management has indicated it expects a continued turnaround in profit for the remainder of 2009. The company has also indicated it expects earnings growth in the medium and long term, driven by 1) switching some of its feedstock from naphtha to LPG to improve its cost structure, and 2) further expanding capacity. Petrochemical product spreads against naphtha have historically contributed significantly to Barito Pacific's profit.

■ Industry trends

Global ethylene margins declined approximately 80% in H208, but have since rebounded. After falling as low as US\$100/t in December 2008, the ethylene-naphtha spread rose to around US\$200/t in H109. The spread further expanded recently to the current level of around US\$400/t.

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Table 1: Basic financials and valuations

FY Dec (Rp bn)	2004	2005	2006	2007	2008
Revenue	1,291	818	451	337	18,322
PBT	(161)	355	16	48	(4,520)
Net income	(154)	686	7	44	(3,400)
EPS	(42)	63	2	15	(487)
DPS	0	NA	0	NA	0
Profitability & valuation					
EBIT margin	-	-	-45.7%	-12.4%	-10.1%
ROIC (EBIT)	-	-	-44.5%	-0.3%	-14.2%
EV/EBITDA	-	-	-9.4x	-2396.1x	-9.0x
PE	NA	6.2x	187.8x	186.7x	-2.7x
Net yield	-	-	NA	NA	NA

Source: Bloomberg

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Table 2: Trading data

Share price (Rp)	1,710
Market cap (US\$ m)	1,181
Av daily t/o (US\$ m-1m)	9.2
YTD performance %	185
1-year forward PE (cons) (x)	N/A
1-year historical P/BV (x)	1.3

Source: Bloomberg

Table 3: Shareholders

Magna Resources Corp	52.00%
Commerzbank Ltd Singapore	7.00%
Eaton Vance Managed Emerging Market	0.08%
Syailendra Capital	0.04%
Fortis Investments	0.03%
Shares outstanding	6.98 bn
Free float (%)	38.9

Source: Bloomberg, KSEI

This report has been prepared by PT UBS Securities Indonesia

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 10.

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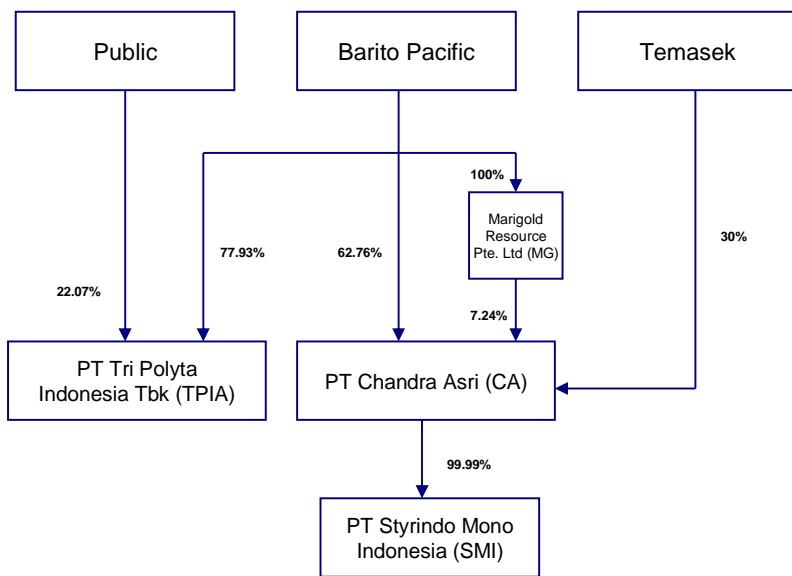
Company background

- Barito Pacific owns 70% of petrochemical producer Chandra Asri and Temasek owns the remaining 30%. Chandra Asri began commercial operations in 1995 and uses naphtha as feedstock for its petrochemical production. It imports 1.7m tons of naphtha annually. According to Barito Pacific, Chandra Asri has 600ktpa capacity of ethylene, 280ktpa capacity of propylene, and 300ktpa capacity of polyethylene and it operated at a 90% utilisation rate in 2008. Barito Pacific, through Chandra Asri, is the only ethylene producer in Indonesia.
- Barito Pacific acquired a 78% stake in Tripolyta in June 2008 for Rp1.3trn or US\$130m. According to the company, the replacement cost for 100% of Tripolyta is US\$250m. Management has indicated it believes the acquisition is a strategic move down the value chain, as Tripolyta produces polypropylene with 85% of its feedstock (propylene) sourced from Chandra Asri. With the acquisition of Tripolyta, Barito Pacific became the largest petrochemical company in Indonesia and the second-largest in South East Asia. Tripolyta has an annual polypropylene capacity of 360ktpa, according to Barito Pacific.
- Timber is Barito Pacific's legacy business. According to the company, it still holds 445,296 ha of forest concession rights and 110,321 ha of industrial forest concessions in Indonesia. Timber revenue contributed only 0.6% of Q109 revenue and the company has indicated it does not plan to expand its timber operations.
- Barito Pacific reported net sales of Rp2.6trn in Q109, compared with Rp4.4trn in the same period last year (pro-forma), a 40% YoY reduction. However, the company reported operating profit of Rp366bn in Q109, compared with a Rp67bn operating loss in Q108, as petrochemical spreads improved. The company also reported a core profit of Rp24bn in Q109 compared with a core loss of Rp167bn Q108. After deducting minorities' interest in calculating common equity, net gearing as at Q109 was 0.7x.

Consensus

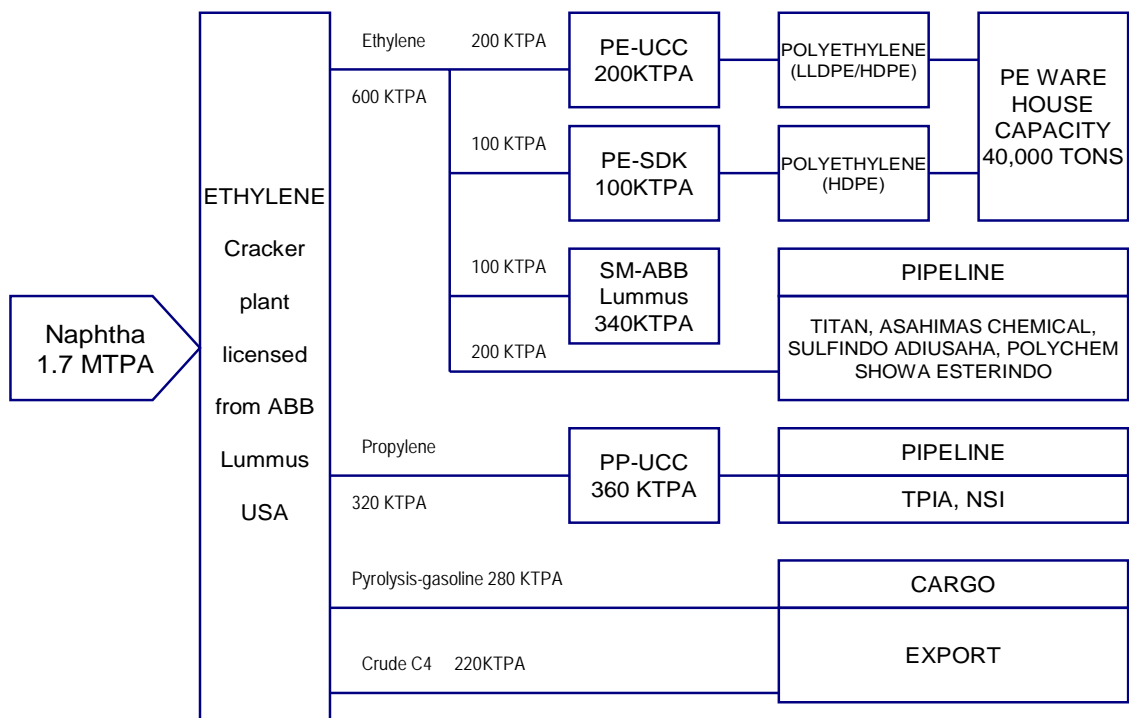
There are only two local brokers covering the stock at present, and there are no consensus earnings estimates.

Chart 1: Barito Pacific's petrochemical business ownership structure



Source: Company data, UBS

Chart 2: Barito Pacific's petrochemical production flow chart



Source: Company data, UBS

Table 4: Chandra Asri's petrochemical output and usage

Product	Intermediate Product	Use
Ethylene	Polyethylene	Plastic film, container, coating
	Ethylene Oxide/Ethylene Glycol	Polyester fibre, PET resin, anti-freeze
	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, bottles, diapers, raffia bags, automotive components
	Acrylonitrile/Nylon	Fibres, tyre cord
	Propylene Oxide/Polyols	Polyurethane foam for furniture and isolators, cleaning agents and coatings
	Cumene	Dyestuffs
Py-gas	Benzene, Toluene, Xylene	Solvent and high-octane benzene content
Mixed C4	Butadiene, Butene-1, MTBE	Tyre high-octane benzene content

Source: Company data

Key industry issues

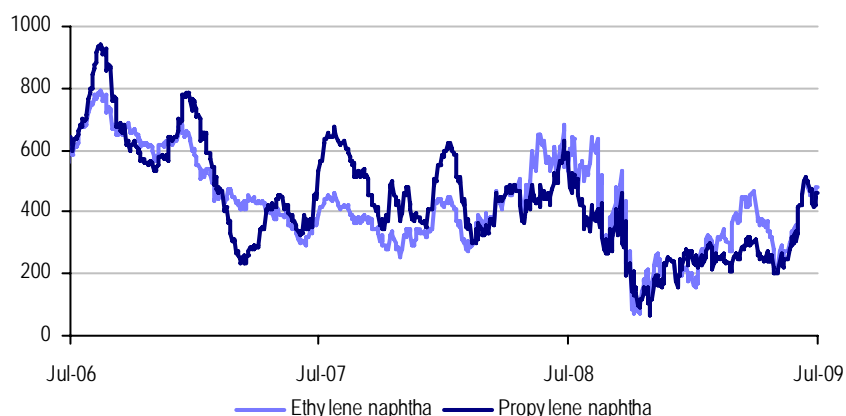
Indonesia still imports 50% of its petrochemical needs. According to Chemical Market Associates, Inc (CMAI) data, domestic ethylene production supplies only half of domestic demand. There is no indication of further domestic investment in ethylene, and CMAI expects consumption to increase along with Indonesia's GDP growth.

Uncertainty on import tariffs. Local production has three main advantages over imports: 1) a direct pipeline connecting petrochemical plants with major domestic customers; 2) none of the shipping costs and time required for imports; and 3) no import tariffs (5% from ASEAN and 10-15% from non-ASEAN countries). Due to the ASEAN free trade agreement, there is a risk the government may lower import tariffs. However there has been no indication yet of such a reduction.

Recent news

Rebounding margins. 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 were operating at zero or negative margins in H208. In H109, margins began to rebound and have continued to pick up recently. According to the company, Barito Pacific began operating with positive margins in Q209. Barito Pacific's Q209 results have not yet been published, pending a full audit.

Chart 3: Ethylene and propylene spread versus naphtha (US\$/ton)



Source: Datastream

Potential asset injection

Reports of possible Star Energy intra group acquisition

Barito Pacific's management has stated that its strategy is to diversify the business into other resource-based industries. Local press has reported that Barito Pacific is in talks to acquire Star Energy, an upstream E&P company that also owns and operates the largest geothermal power plant in Indonesia. Prajogo Pangestu owns approximately 40-70% of Star Energy, so the potential acquisition would be an intra group transaction (as with Barito Pacific's past acquisitions).

According to Barito Pacific, Star Energy's Wayang Windu geothermal plant has recently completed construction of an additional turbine, increasing capacity from 110MW to 220MW. The total cost of construction for the second 110MW turbine is US\$200m, rendering capex per MW of US\$1.8m. Wayang Windu's electricity output is already contracted on a long-term basis to state owned electricity company PLN.

[Largest geothermal power plant in Indonesia](#)

Star Energy also has majority ownership of four oil and gas production sharing contracts (PSC), according to Barito Pacific. One of these is already operating (Kakap PSC) while three others are still at the exploration stage. Kakap PSC produced around 8,000 barrels of oil per day in 2008 and 60mmscfd of gas in 2008. It sells its oil in the global spot market, while it sells its gas on a long-term contract to SembCorp of Singapore as feedstock to Singapore power and petrochemical plants. According to Woods Mackenzie, Kakap PSC's gas price fluctuates according to oil prices, with an average gas selling price of US\$15/mmbtu in 2008 (substantially higher than the Indonesia domestic industrial gas price of US\$5.5/mmbtu).

Q109 net gearing 0.7x

Barito Pacific's Q109 net gearing was 0.7x.

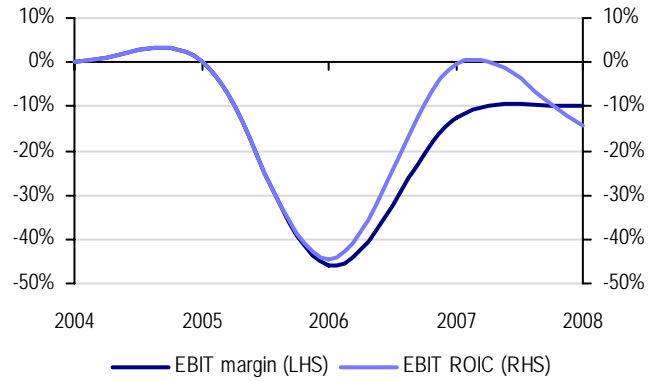
Company activity summary

Chart 4: Share price performance



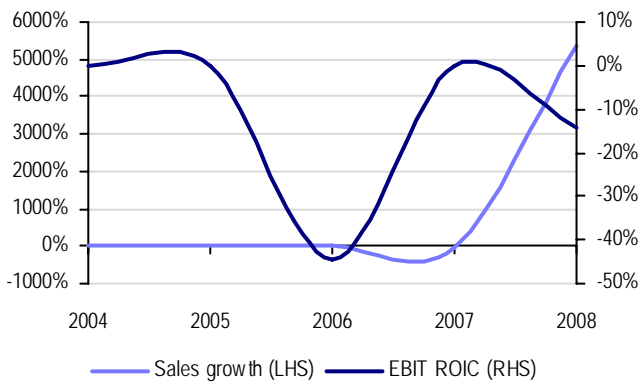
Source: Bloomberg

Chart 5: Profitability



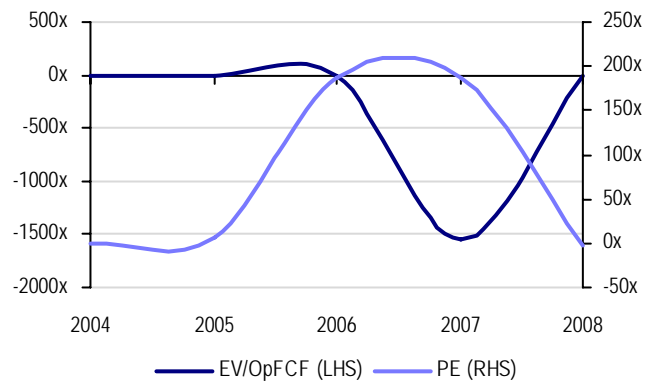
Source: Bloomberg

Chart 6: Momentum



Source: Bloomberg

Chart 7: Value



Source: Bloomberg

Table 5: Detailed Financials

FY Dec (Rp bn)	2003	2004	2005	2006	2007	2008
Per share						
EPS (pre-exceptional)	62	-42	63	2	15	-487
CEPS	87	-27	199	12	26	-390
DPS	0	0	0	0	0	0
BVPS	-117	-159	286	288	1335	978
Profit & loss						
Sales	1,883	1,292	818	451	337	18,323
EBITDA	-181	94	-166	-169	-10	-1,165
Operating income (EBIT)	-288	40	-215	-206	-42	-1,842
PBT (pre-exceptional)	135	-161	355	16	48	-4,520
Net profit (pre-exceptional)	229	-155	687	7	44	-3,400
Cash flow						
Operating income (EBIT)	-288	40	-215	-206	-42	-1,842
Depreciation & amortisation	106	55	49	37	32	677
Net change in working capital	-1,503	257	-1,328	123	-2,408	-370
Other (operating)	-	-	-	-	-	-
Operating cash flow	-1,685	352	-1,495	-46	-2,418	-1,535
Tax paid	-32	-9	-13	-5	-5	-516
Capital Expenditure	-34	-14	-1	-1	-5	-93
Net interest	0	0	2,599	3,220	9,758	-230,381
Dividend Paid	0	0	0	0	0	0
Net (acquisitions) / disposals	0	0	0	0	0	693
Other items						
(Increase) decrease in net debt	-1,751	328	-1,506	-49	-2,418	2,795
Operating free cash flow (OpFCF)						
EBITDA (core)	-181	95	-166	-169	-10	-1,165
Less maintenance capital expenditure	-34	-14	-1	-1	-5	-93
Less maintenance net working capital	0	0	0	0	0	0
OpFCF	-216	80	-167	-171	-15	-1,258
Balance sheet						
Net tangible fixed assets	1,808	1,890	542	417	10,315	11,869
Net intangible fixed assets	0	0	0	0	1,644	NA
Net working capital	17	-7	-84	46	1,879	1,066
Total invested capital (IC)	1,825	1,883	458	463	13,839	12,936
Financial & other fixed assets	562	522	464	343	10,058	11,808
Net cash / (debt)	41	52	741	357	1,036	1,570
Provisions						
Minority interests	3	1	0.520	0	2,244	2,109
Shareholders' funds	-427	-583	1,055	1,062	11,565	8,934
Profitability						
EBITDA margin	-	-	-20.30%	-37.60%	-2.90%	-6.36%
EBIT margin	-	-	-26.30%	-45.70%	-12.40%	-10.05%
EBIT RoIC	-	-	-47.00%	-44.50%	-0.30%	-14.24%
Net RoE	-	-	NA	1.00%	0.70%	NA
Interest cover (EBIT)	-	-	-82.7x	-64.1x	-4.3x	8.0x
Dividend cover (net)	-	-	NA	NA	NA	NA
Productivity						
Depreciation % sales	-	-	5.90%	8.20%	9.60%	3.69%
Capex % sales	-	-	0.10%	0.30%	1.60%	0.51%
Invested capital turnover	-	-	0.6x	1.0x	41.1x	0.71x
Tax rate	-	-	-5.90%	-2.40%	-11.40%	28.01%
Net debt / total equity	-	-	net cash	net cash	12.50%	47.50%
Momentum						
Sales growth	-	-	NA	-44.90%	-25.30%	5339.48%
EBIT growth (EBITDA growth)	-	-	NA	-1.80%	94.30%	-11911.85%
Net earnings growth	-	-	NA	-99.00%	519.30%	NA
Dividend growth						
Value						
Market capitalisation	707	1,178	1,440	1,675	19,544	4,188
Plus: Core net debt / (cash)	2,261	2,328	-304	-85	1,449	4,244
Plus: Pension provisions	-	-	-	-	-	-
Plus: Buy out of minorities	-	-	520	-	2,245	2,109
Less: Non-core assets						
Enterprise value	2,967	3,506	1,135	1,590	23,238	10,541
EV / Sales (core)	-	-	1.4x	3.5x	69.0x	0.58x
EV / EBITDA (core)	-	-	-6.8x	-9.4x	-2396.1x	-9.05x
EV / EBIT (core)	-	-	-5.3x	-7.7x	-554.8x	-5.72x
EV / OpFCF	-	-	-6.8x	-9.3x	-1540.4x	-8.38x
EV / Invested capital	-	-	2.5x	3.4x	1.7x	0.8x
P / CE	-	13.0x	-	-	-	-
P / E	3.1x	-	6.2x	187.8x	186.7x	NA
Dividend yield (net)	-	-	NA	NA	NA	NA
P / BV (average)	-	-	1.4x	1.6x	2.1x	0.6x

Source: Bloomberg

Appendix: Global ethylene prices and margins

Table 6: World Ethylene ('000-metric tons)

Balance is as of 5/21/2009	Actual					Forecast					
	2003	2004	2005	2006	2007	2008	2009F	2010F	2011F	2012F	2013F
Capacity											
Nameplate Capacity	110540	111224	115576	120324	125061	129695	135924	145928	151953	154733	157178
Hypo (Rationalized) Capacity	0	0	0	0	0	0	-1515	-6330	-9110	-9110	-9110
Total Capacity	110540	111224	115576	120324	125061	129695	134409	139598	142843	145623	148068
Oper. Rate	88.5	93.4	91.3	90.8	91.5	85.9	83.1	82.5	83.9	87.1	90.8
Supply											
Ethane	24998	28406	28137	31443	32901	33177	34565	37260	38640	41051	43483
Propane	7838	7490	8014	8421	8878	8697	9713	9986	10368	11037	11865
Butane	3957	3849	4037	4317	4611	4601	4510	4503	5332	5584	5926
Naphtha	53574	56211	57705	57384	60924	58284	55729	55882	57648	60949	64696
Gas Oil	5403	5822	5424	5381	4825	4545	4742	5004	5335	5553	5750
Others	2102	2130	2247	2279	2317	2146	2440	2485	2588	2677	2719
Production	97872	103908	105564	109224	114457	111451	111699	115119	119911	126851	134439
Imports	0	0	0	0	0	0	0	0	0	0	0
Total Supply	97872	103908	105564	109224	114457	111451	111699	115119	119911	126851	134439
Demand											
Alpha Olefins	3209	3378	3386	3357	3538	3300	3442	3903	4109	4234	4239
Ethylbenzene	6985	7307	7276	7375	7845	7764	7382	7539	7722	7978	8264
EDC	12477	13088	13125	13273	13465	12926	12912	13293	13628	14258	14876
Ethylene Oxide	13007	13873	14092	14862	15976	15958	15901	16430	17183	18203	19258
HDPE	26194	27961	28061	29757	31651	30521	30800	31568	33297	35740	38561
LDPE	17141	17582	17428	17951	18412	17553	18049	18547	18888	19613	20518
LLDPE	14692	15918	15823	16926	18041	17365	17520	17914	18845	20306	21962
Vinyl Acetate	1307	1435	1354	1424	1486	1481	1466	1513	1575	1576	1640
Others	4093	4207	3944	3939	4203	4121	4227	4412	4664	4943	5120
Domestic Demand	99105	104750	104489	108863	114617	110988	111700	115119	119911	126851	134439
Exports	0	0	0	0	0	0	0	0	0	0	0
Total Demand	99105	104750	104489	108863	114617	110988	111700	115119	119911	126851	134439

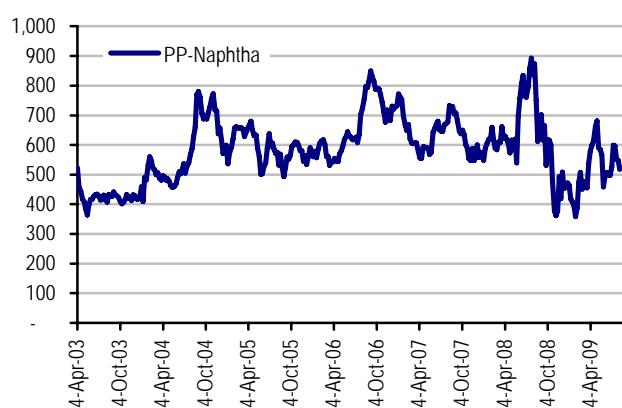
Source: Chemical Market Associates Inc. (CMAI)

Table 7: World High Density Polyethylene ('000-metric tons)

Balance is as of 3/2/2009	Actual					Forecast					
	2003	2004	2005	2006	2007	2008	2009F	2010F	2011F	2012F	2013F
Capacity											
Nameplate Capacity	29846	30754	32127	33645	34816	35074	38076	41850	44527	45927	46564
Hypothetical Add'l Capacity	0	0	0	0	0	0	-200	-895	-1895	-2290	-1940
Total Capacity	29846	30754	32127	33645	34816	35074	37876	40955	42632	43637	44624
Operating Rate, %	85.7	88.8	85.4	86.8	89.3	85.1	79.6	75.5	76.5	80.2	84.6
Production											
Imports	0	0	0	0	0	0	0	0	0	0	0
Total Supply	25571	27311	27439	29212	31074	29855	30140	30910	32603	35002	37753
Demand											
Film & Sheet	6222	6779	7004	7337	7868	7780	7866	8082	8582	9287	10116
Injection Molding	4944	5316	5506	5703	6094	5901	5924	6064	6413	6876	7412
Pipe & Extrusion	2884	3184	3421	3761	3950	3892	3941	4059	4289	4616	4972
Extrusion Coating	0	0	0	0	0	0	0	0	0	0	0
Blow Molding	7114	7569	7546	7824	8114	7774	7802	7982	8370	8920	9541
Wire & Cable	292	295	310	321	330	330	330	335	342	350	362
Rotomolding	243	274	285	310	309	318	320	326	337	353	372
Fibre	403	418	443	465	490	486	491	501	537	589	662
Raffia	804	838	943	989	1137	1067	1084	1123	1196	1304	1430
Other	2308	2474	2496	2731	2634	2387	2381	2438	2536	2707	2886
Domestic Demand	25213	27147	27955	29453	30925	29936	30140	30910	32603	35002	37753
Exports	0	0	0	0	0	0	0	0	0	0	0
Total Demand	25213	27147	27955	29453	30925	29936	30140	30910	32603	35002	37753

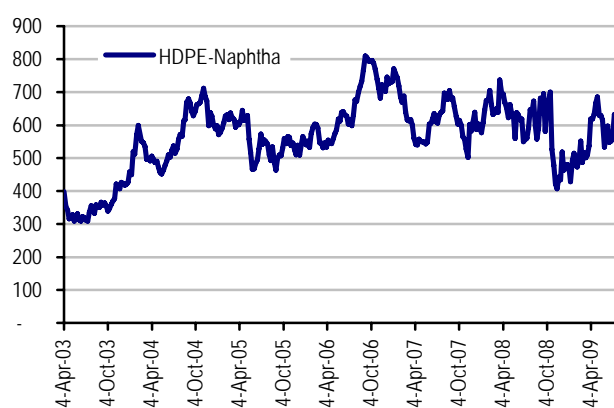
Source: Chemical Market Associates Inc. (CMAI)

Chart 8:PP Naphtha



Source: Datastream, Bloomberg

Chart 9:HDPE-Naphtha



Source: Datastream, Bloomberg

We would like to thank Saket Ganerwal for his assistance

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Buy	Buy	44%	38%
Neutral	Hold/Neutral	39%	36%
Sell	Sell	17%	25%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	33%

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 2009.

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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.
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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.

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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).

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Company Disclosures

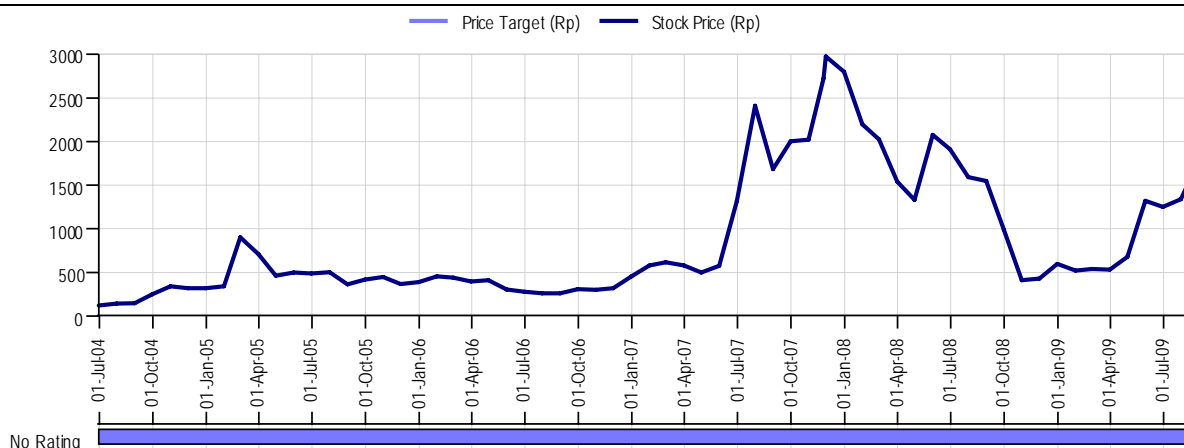
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Barito Pacific	BRPT.JK	Not Rated	N/A	Rp1,710	26 Aug 2009

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

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

Barito Pacific (Rp)



Source: UBS; as of 26 Aug 2009

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