



## COAL MINING SECTOR UPDATE

### Under Pressure

#### The Bearish Trend of Coal Prices Still Continues

The Newcastle coal prices dropped by 38.34 YoY and -33.43% YTD to USD67.30/mt (as of 17 Oct 2019). The bearish trend is expected to continue due to : 1) Weakening global economy toward recession potentials; 2) Unclearly of Trade War issue which is estimated to spirall into Currency and Technology War; 3) Urgency to reduce air pollution in China and green energy campaign led by European Union (UE); 4) The US plan to retire 10% of their coal based power plant in FY19F and FY20F.

#### China Plays Key Role to Drive the Sector

China led the global coal production by 46% and demand by 51% in FY18. It means that all of policy and economic changes in China will dramatically affect the coal sector outlook in the long run. We highlight some policy such as coal import quota has become a buffer to the fall of coal price for a while. However the urgency to reduce air pollution push the China govt to keep on lowering its coal consumption by 5%-10% across 82 cities in FY20F. Moreover the cloudy outlook for coal sector remains along with the continuing decline of China GDP to 6% yoy in 3Q19, the lowest growth in last 30 years.

#### Coal Price Outlook in 2020 – 2030

The coal price is estimated to descend from average of USD107,25 in FY18 to USD70.00/mt in FY19E along with import caps and global demand slowdowns. Bloomberg consensus projects Newcastle coal price at USD67.67/mt in FY20F. The number will continue to decrease significantly to USD47.7/mt in FY30F, according to World Bank.

#### NEUTRAL Outlook with ADRO as Top Pick

We believe that there are still investment opportunities for the coal sector in Indonesia, wherein the local companies are currently developing a Power Plant Field in their business.

**ADRO (BUY; TP: IDR1,680)** will become a coal company that has a 2,260 MW power plant in FY20F. Overall, MNCS recommends **NEUTRAL** for the coal mining sector.

Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY19E	FY20F	FY19E	FY20F		
ADRO	42,221	7.10	6.39	0.66	0.63	BUY	1,680

Sources: Bloomberg, MNCS (as of October 17, 2019)



#### Research Associate

Catherina Vincentia  
catherina.vincentia@mncgroup.com  
(021) 2980 3111 ext. 52306

## The Bearish Trend of Coal Prices Keeps on Prowling...

Coal prices remained on a bearish trend due to global economic recession. Newcastle coal prices fell to USD67.30/mt (metric ton), dropping -38.34 YoY and -33.43% YTD (as of 17 Oct 2019). The concerns regarding the uncertainty of Trade War between the US and China is one of the factors that drives the weakening of coal prices. Still ongoing for more than a year, the war between two global economic giants has contracted US economy to 2.1% in 8M19 (vs 3.2% in 8M18), followed by Chinese economy to 6.00% in 9M19 (vs 6.50% in 9M18). Concerns regarding recession potentials were also reinforced by the inversion of the US government bond yield curve.

Exhibit 01. Global Coal Price Movement



Source : Bloomberg, MNCS

## ...Due to the Reduced Coal Import Quota in China...

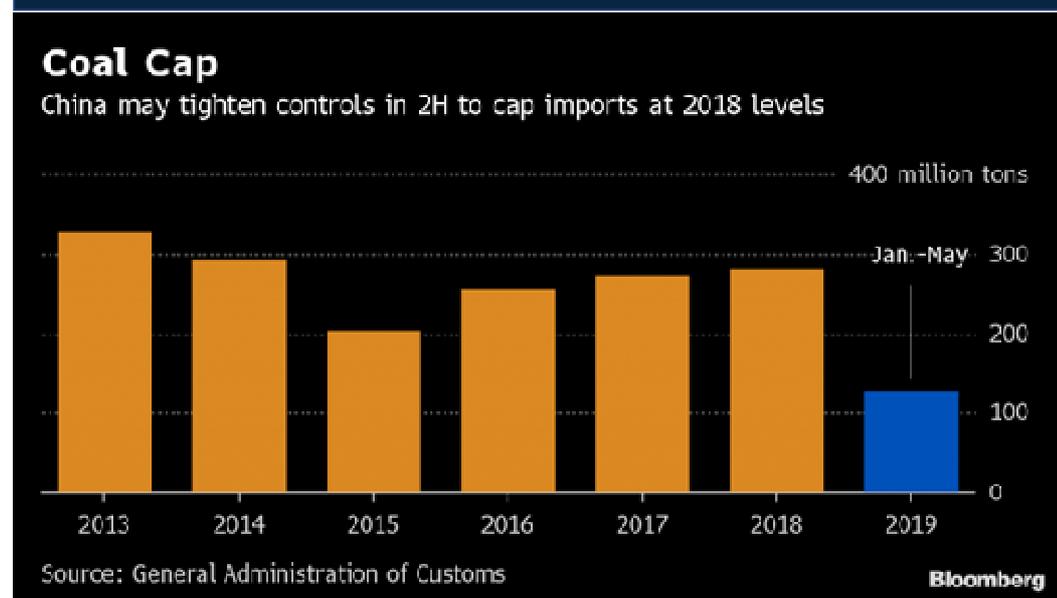
China was still on the lead with 46% of global coal production and 51% of global demand in FY18. Therefore, their policies such as reducing coal import quota affected global coal prices greatly. China is putting a cap on import quota to the same level as last year, or lower than 281 million tones in FY18. The limitation will remain until 2H19, in which national coal production is expected to rise by more than 100 million tones in FY19E. The policy was taken on by the Chinese Government to keep coal prices stable for its own national energy demand. Another negative catalyst for coal prices was the effort to reduce air pollution by using gas and renewable energy. It is believed that China will keep on lowering its coal consumption by 5%-10% across 82 cities in FY20F. The decision will impact countries with the largest coal exports to China such as Australia (28.26 million tones) and Indonesia (35.28 million tones).

## ...And the coal retirement in the US

The US followed China's path to reducing coal as the source of energy along with the failed mission to revive the coal industry. Judging from the cost, coal cannot compete with the cheaper natural gas which provides cleaner energy. Power companies in the US have already started switching coal-fired power plants into affordable renewable energy in a blink. The S&P Platts recorded that around 15% coal-fired power plant has been retired since 2017, while 10% will follow in FY19E and FY20F. This is shown by the 4% YoY decline in the US coal consumption in 2018, while EIA estimates that it will continue to decline for 15% YoY in FY19E and 10% YoY in FY20F.

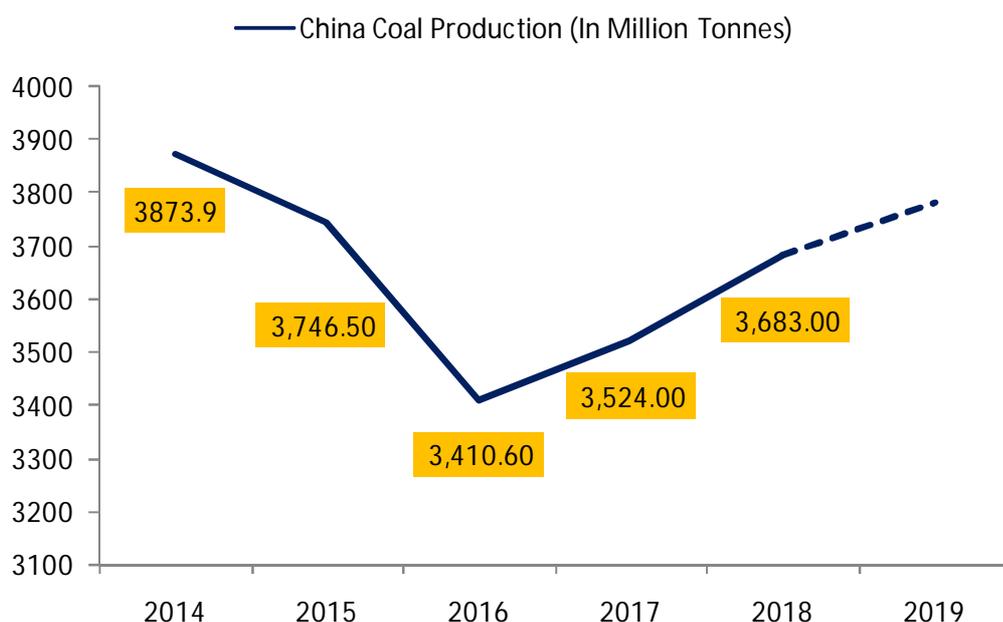
According to EIA, the coal market share is expected to drop by 27% in 10M19 to 22% in FY20F while the renewable energy's market share rise 2% to 19% in FY20F. Meanwhile, US coal production also decreases by 3% YoY in 2018, along with the nation's energy shift. While the local coal companies are on the brink, regions that generate wealth from coal are now devastated. The bad news will also affect the US coal exporters such as Columbia, which contributes 68% to the coal import in 2018, followed by Indonesia (15%) and Canada (13%), as coal import drops by 30% YoY in 2018.

Exhibit 02. China's Coal Import Restriction



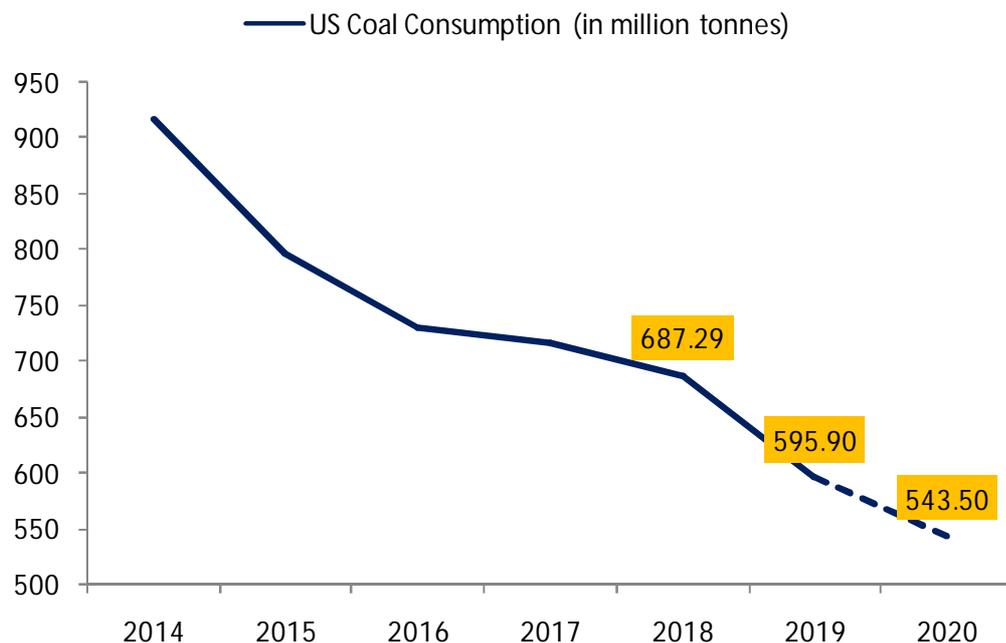
Source : Bloomberg

Exhibit 03. China's Coal Production



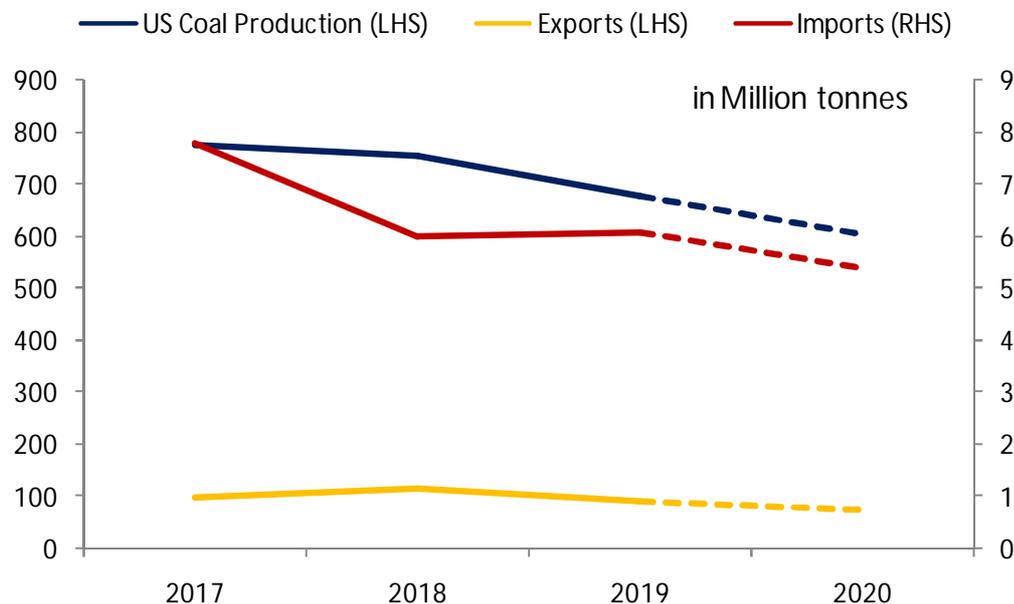
Source : Bloomberg, MNCS

Exhibit 04. US Coal Consumption



Source : Bloomberg, EIA

Exhibit 05. US Coal Production, Imports and Exports



Source : Bloomberg, EIA

### Prediction of Coal Price in 2020–2030

Aside from the US and China, the decrease in market demand for coal also came from India's coal import restraint as well as European Union countries' green energy campaign. While the average coal price in 8M19 reached USD80.84/mt, it is estimated to descend to USD70.00/mt in FY19E along with import caps and demand slowdowns. Bloomberg consensus projects Newcastle coal price at USD67.67/mt in FY20F. The number will continue to drop significantly to USD47.7/mt in FY30F, according to World Bank.

**Diversification to Power  
Plant Business as a Solution  
for Domestic Coal  
Companies**

We believe that investment opportunities in the coal sector in Indonesia are still open, specifically for listed companies that have consistently diversified its business into the Power Plant field. The electricity that is generated from coal is lower in cost for developing countries like Indonesia. **ADRO (BUY; TP: IDR1,680)** will become one of the coal company that has a 2,260 MW power plant in FY20F. The 2x30 MW air power plant has begun operating, while the 2x100 MW and the 2x1,000 MW air power plants are estimated to operate in FY19E and FY20F respectively. ADRO managed to record net profit growth of 51.94% YoY to USD296.86 million in 1H19, whereas this achievement outperforms the industry. Overall, MNCS recommends **NEUTRAL** for the coal mining sector.

## MNC SEKURITAS RESEARCH TEAM

### Thendra Crisnanda

Head of Institutional Research, Strategy  
thendra.crisnanda@mncgroup.com  
(021) 2980 3111 ext. 52162

### Victoria Venny

Banking, Small-Mid Cap, Telco  
victoria.nawang@mncgroup.com  
(021) 2980 3111 ext. 52236

### Jessica Sukimaja

Consumer, Plantation, Property  
jessica.sukimaja@mncgroup.com  
(021) 2980 3111 ext. 52307

### I Made Adi Saputra

Head of Fixed Income Research  
imade.saputra@mncgroup.com  
(021) 2980 3111 ext. 52117

### Muhamad Rudy Setiawan

Construction, Oil & Gas, Property  
muhamad.setiawan@mncgroup.com  
(021) 2980 3111 ext. 52317

### Catherina Vincentia

Automotive, Coal Mining, Metal Mining  
catherina.vincentia@mncgroup.com  
(021) 2980 3111 ext. 52306

### Edwin J. Sebayang

Head of Retail Research, Technical  
edwin.sebayang@mncgroup.com  
(021) 2980 3111 ext. 52233

### Atikah Yusriyah

Research Associate  
atikah.yusriyah@mncgroup.com  
(021) 2980 3111 ext. 52313

### T. Herditya Wicaksana

Technical Specialist, Cement  
Herditya.wicaksana@mncgroup.com  
(021) 2980 3150 ext. 52150

## MNC SEKURITAS EQUITY SALES TEAM

### Andi Abidin

Associate Director Institution & High Network  
andi.abidin@mncgroup.com  
(021) 2980 3111 ext. 52170

### Harun Nurrosyid

Manager Equity Institution  
harun.nurrosyid@mncgroup.com  
(021) 2980 3111 ext. 52187

### Agus Eko Santoso

Manager Equity Institution  
agus.santoso@mncgroup.com  
(021) 2980 3111 ext. 52185

### Wesly Andri Rajaguguk

Head of Institutional Equity Sales  
wesly.rajaguguk@mncgroup.com  
(021) 2980 3111 ext. 52341

### Ibnu Ramadhan

Institutional Equity Sales  
ibnu.ramadhan@mncgroup.com  
(021) 2980 3111 ext. 52178

### Nesya Kharismawati

Manager Equity Institution  
nesya.kharismawati@mncgroup.com  
(021) 2980 3111 ext. 52182

### Okhy Ibrahim

Manager Equity Institution  
okhy.ibrahim@mncgroup.com  
(021) 2980 3111 ext. 52180

### MNC Research Investment Ratings Guidance

**BUY** : Share price may exceed 10% over the next 12 months

**HOLD** : Share price may fall within the range of +/- 10% of the next 12 months

**SELL** : Share price may fall by more than 10% over the next 12 months

**Not Rated** : Stock is not within regular research coverage

### PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16  
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340  
Telp : (021) 2980 3111  
Fax : (021) 3983 6899  
Call Center : 1500 899

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