

# SECTOR UPDATE REPORT

MNC Sekuritas Research Division | October 26, 2020



## COAL MINING SECTOR UPDATE

### Paying the Price for the Future Value

#### Omnibus Law: Opportunity or the Opposite?

Another turmoil was triggered by the Government through the newly passed Omnibus Law. Changes regarding the coal mining sector are as follows: 1) Imposition of 10% Value Added Tax (VAT) to coal commodity; 2) 0% Royalties for coal companies that has done a downstreaming (exhibit 05). The true purpose of this is to increase the value of the commodity, rather than solely exporting raw coal, which will be of advantage in the future by escalating state revenue from both non-tax and tax revenue as well as companies' income. The government is also aiming for a higher foreign investment which will be in a shape of a cooperation to build a certain plant or facility as done by PTBA IJ.

#### The Cost and Benefit regarding the Current Stance

But there's a long winding road to reach the end goal. A downstream project will surely need a feasibility study beforehand while the facility is definitely not so affordable and will take years to build. With this in mind, some companies are still heavily relying on coal export such, namely ITMG IJ and HRUM IJ. So based on exhibit 05, we can conclude that only several companies will be benefitted from the 0% royalties, while many companies are now racing to fulfill the requirement. Nevertheless, the advantage won't be as significant as we reckon that the exemption only applies for downstream generated revenue. Subsequently, the implementation of VAT on coal sales will caused a larger negative effect because it will put tension on both parties. Supposedly, if the coal miners were the ones bearing the tax then it will potentially slashed their profit margin. So another scheme is a burden-sharing with the customer, which we estimate will hurt the future coal demand. Accordingly, we will wait on further details from the Omnibus Law regarding coal.

#### Exports are Rolling Downhill

The heated issue from the China coal ban continues along with the renewable energy movement. These are reflected on the coal price (exhibit 01) which has dropped by -16.35% YTD though lately the price slowly hikes. Furthermore, the increasing domestic coal production and inventory has caused China to cut back on their coal import as it decreased by -7.24% YTD followed by coal export from Indonesia which dropped by -10.64% YTD. A deep concern for future coal export in Indonesia due to a large contribution towards China (exhibit 2). Surely this increase awareness on the government long ago following the downstreaming policy and it doesn't stop there, alarming as it is, the President has respond on the following issue by a future ban on raw coal export. Though uncertain of the timeline, this will poorly affect the strictly exporting companies but will majorly affect the coal price as Indonesia is one of the largest producers.

#### NEUTRAL Outlook with Top Picks: ADRO IJ (BUY; TP: IDR1,310) and PTBA IJ (BUY; TP: IDR2,390)

We maintain our **NEUTRAL** recommendation for the coal mining sector. Despite the challenging future, we still consider potential upsides on **ADRO IJ (BUY; TP: IDR1,310)** and **PTBA IJ (BUY; TP: IDR2,390)** for being the most well-prepared companies which will paid off quicker than the others. However, we decide to exclude our recommendation for ITMG IJ due to it's high sensitivity towards the commodity price movement caused by it's heavy reliance on export and by having the lowest production realization compared to peers. Moreover, as long as the law and the ban has not been implemented, coal will still gain advantage from the upcoming winter, in which we hope for a revival on the demands. But note that the growing awareness of global investors toward ESG (Environment, Social, Governance) investment will potentially be a threat for the stock performance in the long run.



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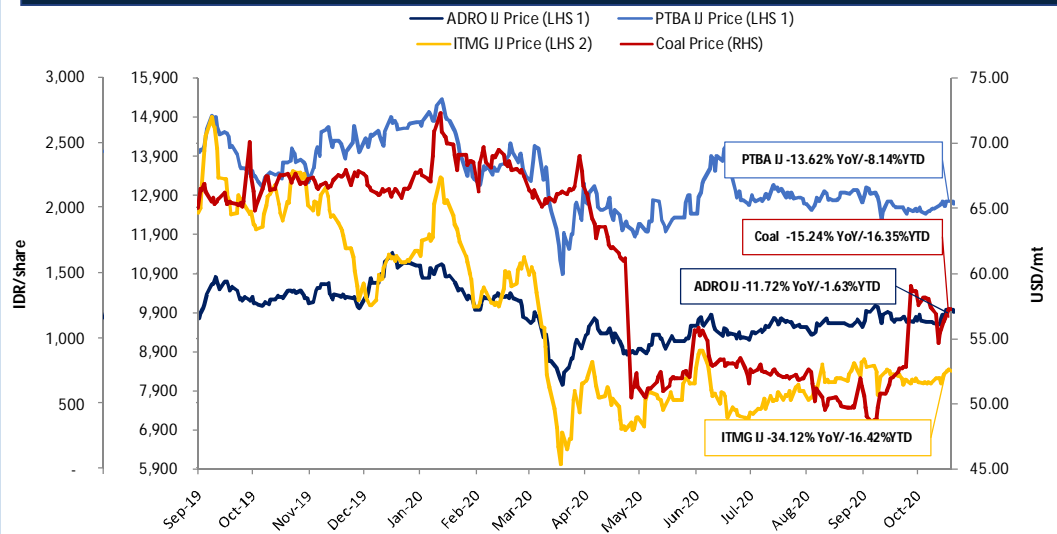
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Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY20E	FY21F	FY20E	FY21F		
ADRO IJ	37,104	6.03	6.00	0.48	0.46	BUY	1,310
PTBA IJ	22,638	6.69	6.40	1.27	1.25	BUY	2,390

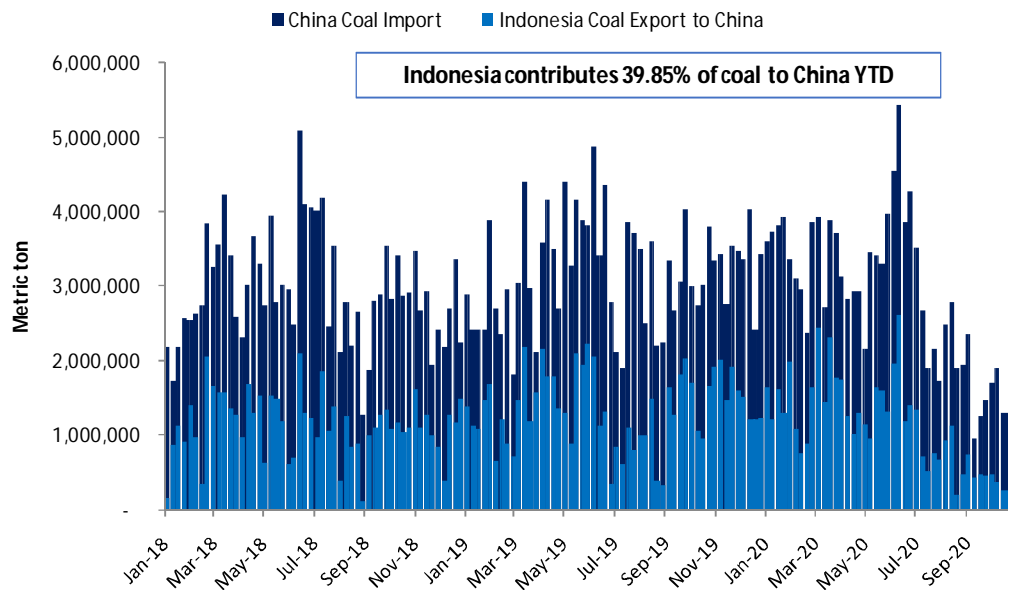
Sources: Bloomberg, MNCS

Exhibit 01. Coal Price movement is very influential to ITMG Price



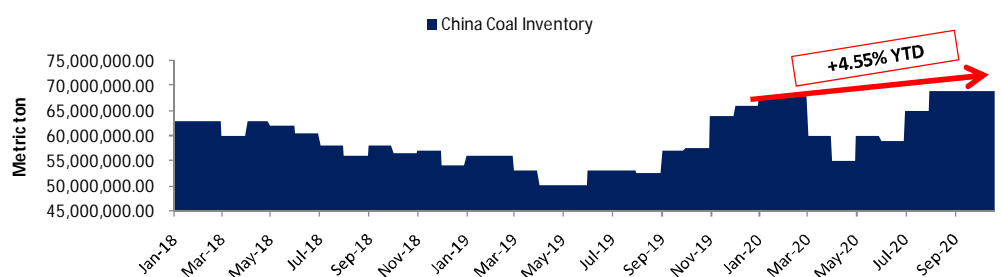
Source : Bloomberg, MNCS

Exhibit 02. Coal Import from China is showing a downtrend



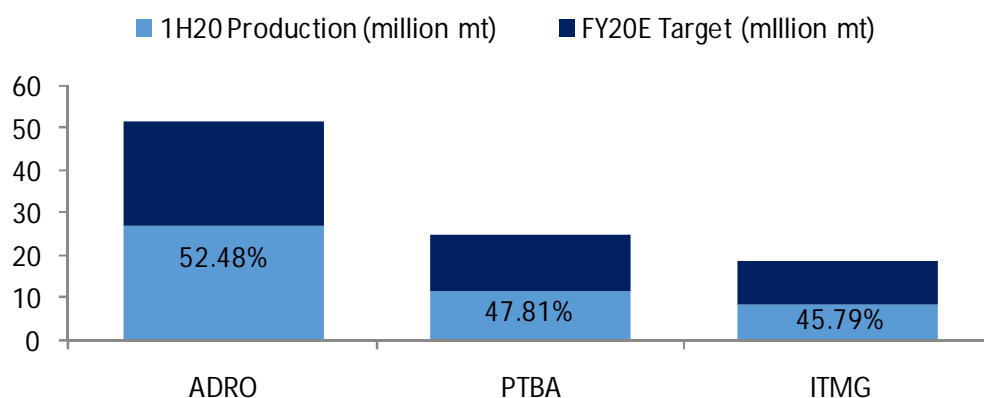
Source : Bloomberg, MNCS

Exhibit 03. China Coal Inventory is higher than previous years



Source : Bloomberg, MNCS

Exhibit 04. Coal Production Achievement as of 1H20

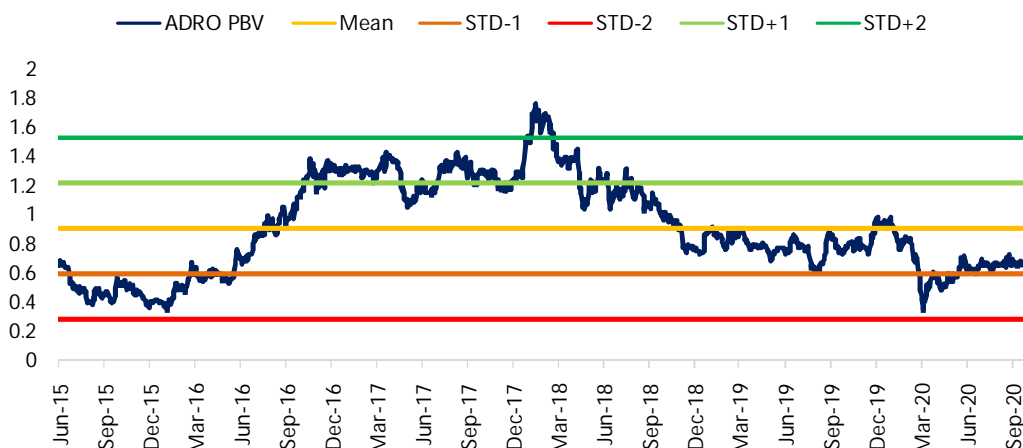


Source : Company, MNCS

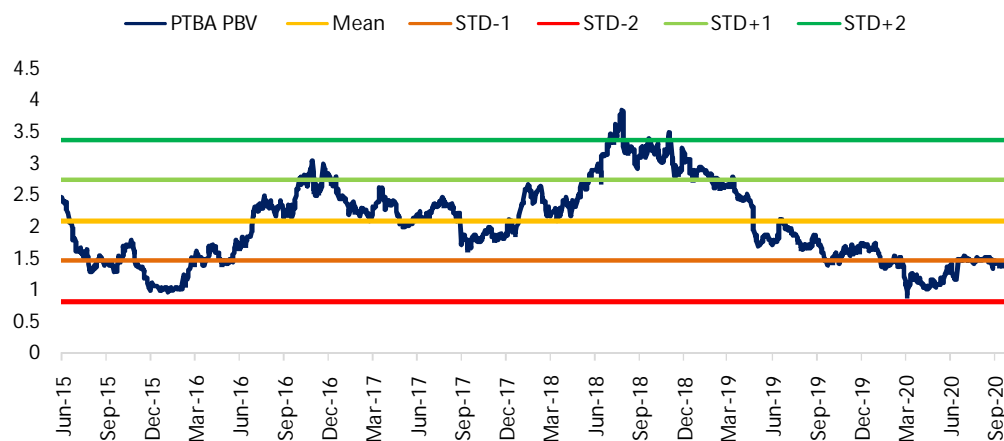
Exhibit 05. Indonesia Public Companies Current Downstreaming Progress

Company	Power Plant	Coal to Chemical / Gasification	Other	Conclusion
ADRO IJ	2 x 30 MW and 2 x 100 MW Power Plants in South Borneo, 2 x 1,000 MW Power Plants in Central Java with total 2,260 MW	Downstream potential cooperation studies in East Indonesia	-	ADRO will be most benefitted being the company with the largest power plant and moving towards other ways to downstream and diversify their business
PTBA IJ	6 Operating (2x110 MW, 3x10 MW, 2x8 MW) and 1 Under Construction Power Plants in South Sumatra with total 1,500 MW	On the process of building a coal to DME plant in South Sumatra	2 briquette processing plant in South Sumatra and 3 future coal upgrading facility planned to operate in FY24F	PTBA will also be benefitted as they had prepared many kinds of coal downstreaming as well as a strong gasification project on going
ITMG IJ	-	-	-	Heavily weighing on export will affected ITMG negatively in the future as demand is downtrending followed by the President's statement on coal export halt
INDY IJ	1 operating and 1 under construction power plant with total 1,660 MW in Cirebon	-	-	INDY is also one of the largest power generator which will be benefitted as coal will be absorb to fuel the plant
HRUM IJ	-	-	-	HRUM is also relying on coal export but currently the business is difersifying towards nickel, following the Australian mine acquisition
UNTR IJ	2 x 1,000 Power Plants with total 2,000 MW in Java	-	-	UNTR through subsidiary has move toward fueling power plant which will be of advantage
BUMI IJ	Future 64 MW Power Plant in East Borneo	Plan on building a coal to Methanol plant	-	Though BUMI has not yet have run any downstream projects but they will be in the future following the government regulation

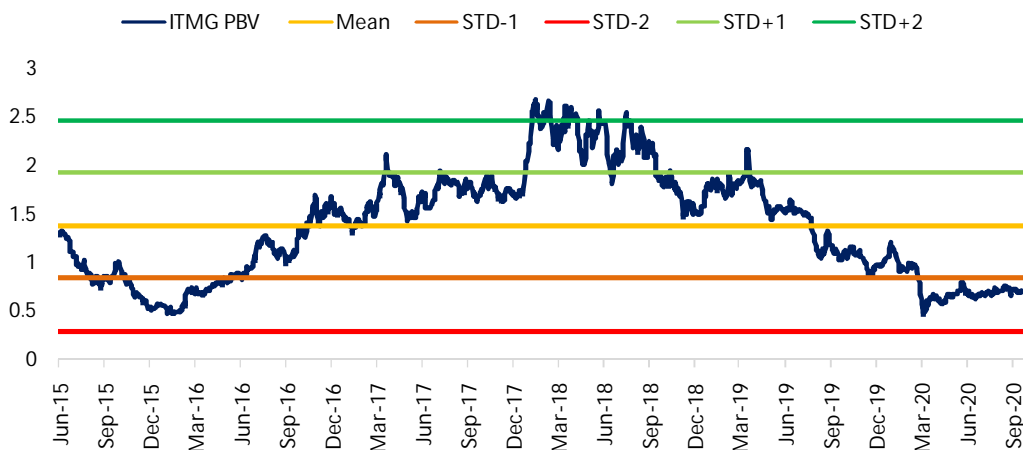
Source : Company, MNCS

Exhibit 06. ADRO is currently traded at  $-0.63\text{STD}$  with PBV at  $0.70\text{x}$  (5-year average)

Source : Bloomberg, MNCS

Exhibit 07. PTBA is currently traded at  $-1.02\text{STD}$  with PBV at  $1.43\text{x}$  (5-year average)

Source : Bloomberg, MNCS

Exhibit 08. ITMG is currently traded at  $-1.20\text{STD}$  with PBV at  $0.71\text{x}$  (5-year average)

Source : Bloomberg, MNCS

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### 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

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