



## COAL MINING SECTOR UPDATE

### So Far, So Good!

#### Looking Forward to Improvement in FY21E

- Coal companies' performance within MNCS coverage are slightly below our estimate. The -18% YoY drop on ASP and -9% YoY on sales volume has caused ADRO's revenue to slipped by -26.67% YoY to USD2.53 million. PTBA's revenue also fell by -20.48% YoY to IDR17.32 trillion due to a -6.1% YoY drop on sales volume. Lastly ITMG's revenue fell by -30.91% YoY to USD1.18 billion as ASP and sales volume tumbled by -17% YoY/-16% YoY, respectively.
- Despite lower COGS and Operating Expense, ADRO's net profit still decreased by -63.65% YoY to USD146.93 million. Subsequently, PTBA's net profit also decreased by -41.16% YoY to IDR2.38 trillion, followed by ITMG's net profit at USD39.47 million (-69.50% YoY).
- For FY21E, ADRO set a production target at 52-54 million ton, close to their previous production in FY20. While PTBA increase their FY21E target by 19% YoY to 29.5 million ton, near their pre-pandemic production of 29.1 million ton in FY19 and ITMG set their target in the range of 17.7-19.9 million ton.
- We are quite optimistic that in FY21E performance will pick-up pace along with business activities and the hike on coal price though still not head-to-head with the performance in the pre-Covid level. We estimate that the average top-line will increase by ~25% YoY while the bottom-line will soar by 75%-100% YoY.

#### Dividend Yield Decline

- Both PTBA & ITMG has recently distributed dividends from the net profit generated in FY20. ITMG had distributed a final dividend of IDR167/share after previously distributing an interim dividend of IDR307/share in Nov-2020, payout ratio stood at 90% (vs 75% in FY19) and the yield offered is at 3.76%, lower than previous years. Moreover, PTBA's payout ratio was lower at 35% compared to 92.75% previously. The dividends stood at IDR74.55/share with lower yield of 2.93%. On the other hand, ADRO increase their payout ratio to 99% payout ratio (vs 62% in FY19), DPS stood at IDR66.5 with higher yield of 5.5%.
- The drop on net profit in FY20E has caused most yield to fell. We estimate ADRO and PTBA DPR will be ~70% followed by ITMG with higher DPR ~90% in FY22F.

#### Super Cycle in Question!

- The black rock commodity keep rising to USD93/mt (+52.09% YoY/+15.53% YTD), albeit our previous estimation of a post-winter downtrend. The incline on coal as well as other commodities has sparked questions on whether this is a start of a super cycle or just a long adjustment for the newly re-opened economy.
- We believe the current uptrend seemed to have the same pattern which is: **1) The imbalance demand and supply**, as demand return but supply hasn't followed due to prolonged limitations on business operations/activities; and **2) Massive stimulus**, in which the liquidity usually lift the commodity market. This has happened in the 2008 crisis; coal price rose to USD139.05/mt in 2011 after major stimulus distribution. Nevertheless, these sentiments has become a booster for the coal price as we estimate the price to reach USD85-90/mt in FY21E and we believe the coal demand would still rise for the rest of the year.

#### Increasing the Export Quota

- In response towards the supply concern with the rising coal price, the Government has announced to increase domestic coal production by 75 million ton making the total reached 625 million ton for FY21E. However, the increase is intended for export purposes only and will not be obligated for domestic market (non DMO).
- The initiative would at least balance out the supply and demand in the market. Still, we are aware that the extra supply can potentially drag the price down.
- We believe that this can be gains for ADRO and PTBA as they can increase their export size from 71% (ADRO) and 54% (PTBA) in FY20, while all of ITMG's sales were already intended for exports. And it seems that both companies are currently reviewing their coal production target but neither has announced the new ones.

#### NEUTRAL Outlook for Coal Mining Sector in FY21E

We still set a **NEUTRAL** outlook for the coal mining sector as we look forward to the performance in 2Q21E supported by the catalyst mentioned above, while the downside is only China remains in the coal power plant financing as other countries including South Korea and Japan are planning to cease their financing in Indonesia and shift towards greener energy. We also maintain our **BUY** recommendations for: **1) ADRO (BUY; TP: IDR1,450)**, apart from coal, the company is leaning toward a green initiative to add to their business line. They are planning to create a biomass fuel from wood pellets and palm waste which will produce less emission. They also will be focusing on green energy with solar panel and hydro-plant expansion; **2) PTBA (BUY; TP: IDR3,000)**, the company is aiming to increase their production to 50 million tons in the future along with the coal shipping capacity. The increase is intended for the downstream project financing and coal absorption; **3) ITMG (BUY; TP: IDR14,400 revised from IDR13,800)**, we revised our TP for ITMG as their performance will be propped up by the higher coal price, assuming the hike in demand and price persist.

Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY21E	FY22F	FY21E	FY22F		
ADRO IJ	38,383	8.37	8.03	0.69	0.69	BUY	1,450
PTBA IJ	27,534	6.64	6.29	1.59	1.56	BUY	3,000
ITMG IJ	13,644	9.94	9.45	0.69	0.57	BUY	14,400

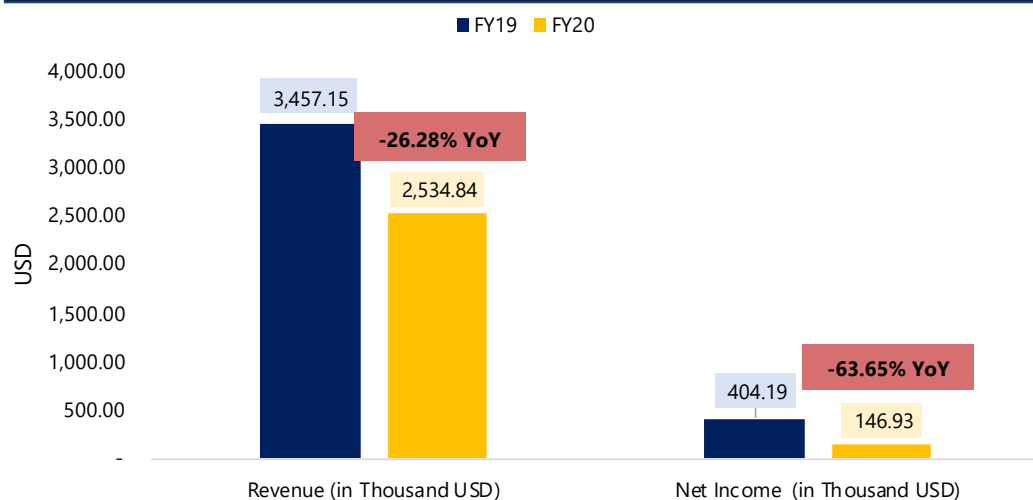
Sources: Bloomberg, MNCS



#### Research Associate

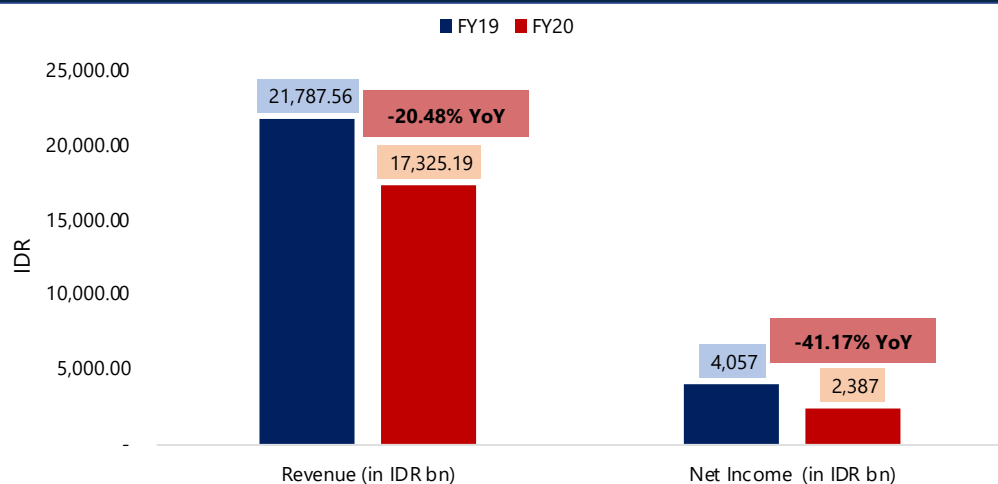
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## Exhibit 01. ADRO's FY20 Performance Highlight



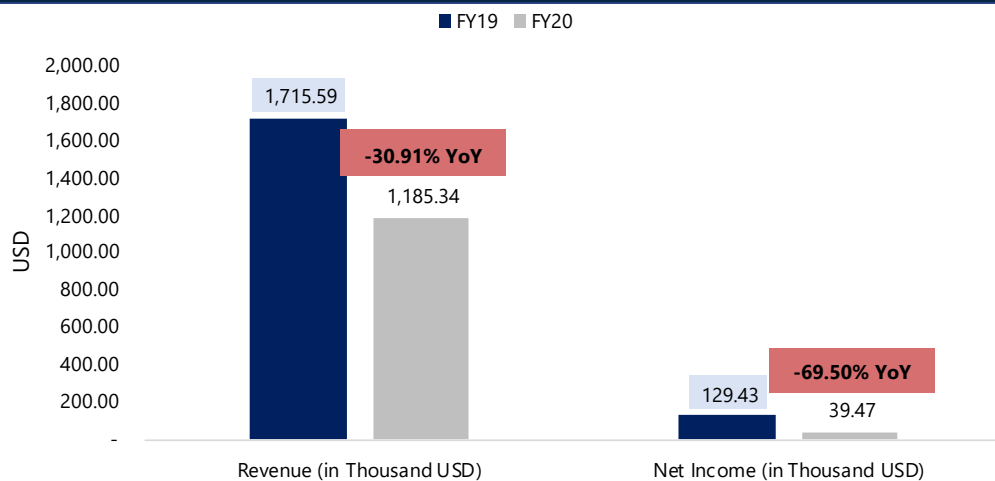
Sources : Company, MNCS

## Exhibit 02. PTBA's FY20 Performance Highlight



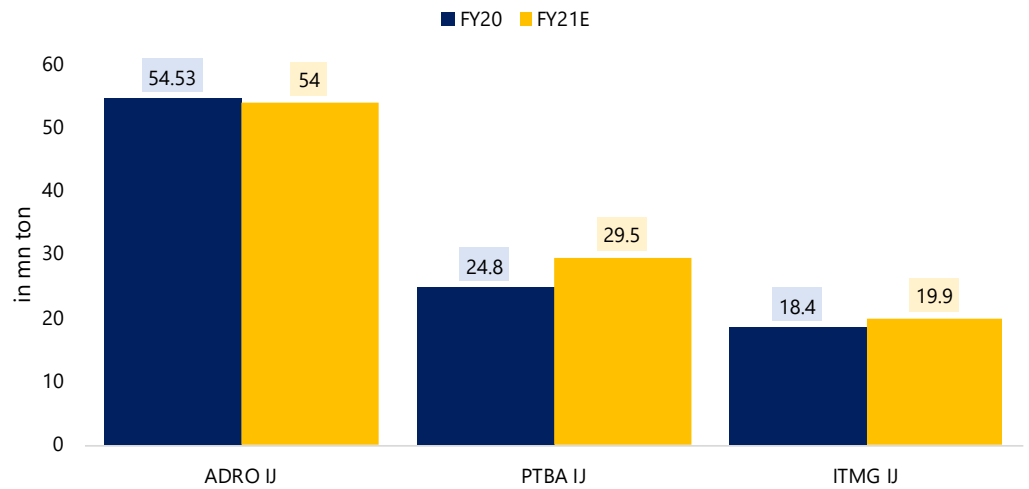
Sources : Company, MNCS

## Exhibit 03. ITMG's FY20 Performance Highlight



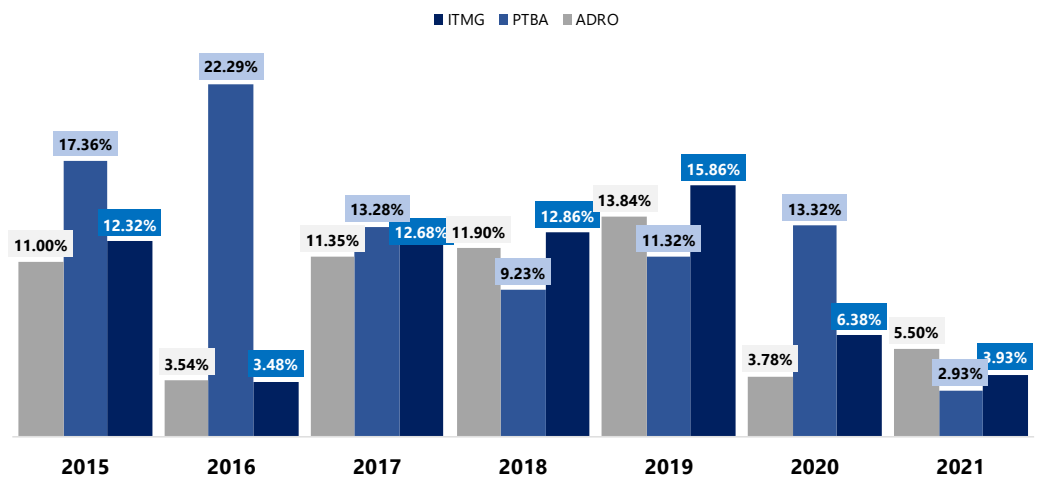
Sources : Company, MNCS

Exhibit 04. Coal Production in FY21 and Target in FY21E



Sources : Company, MNCS

Exhibit 05. Coal Player Dividend Yield Declined in FY21



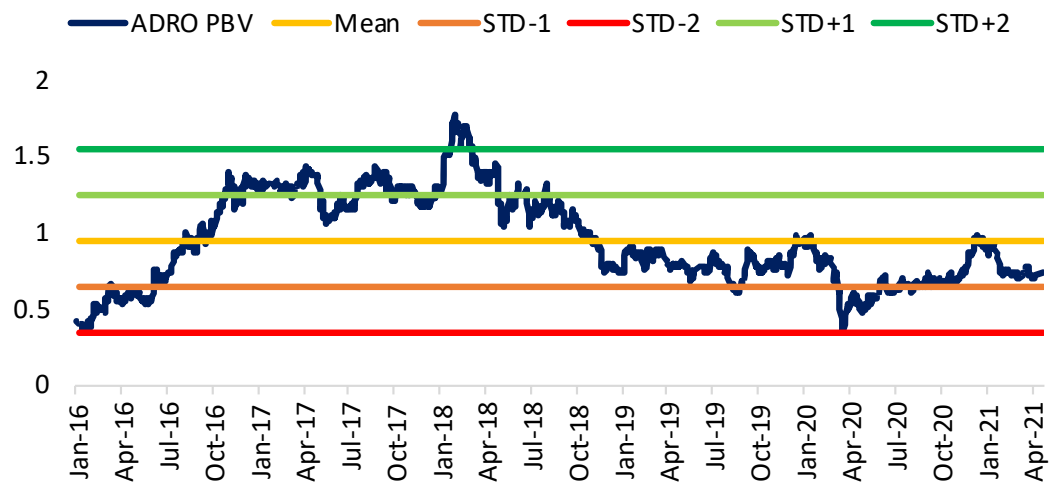
Sources : Company, MNCS

Exhibit 06. US Commodity Price Index and estimate showing Supercycle patterns



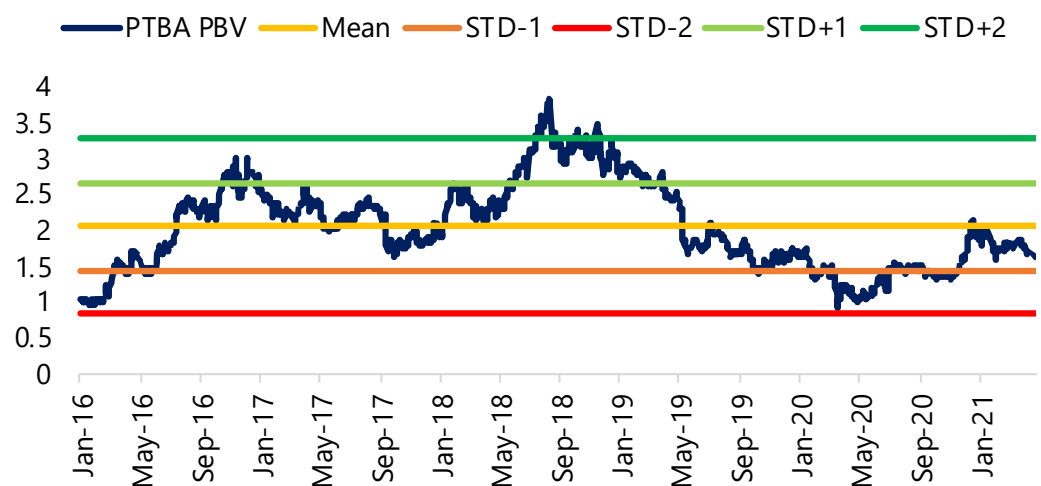
Sources : Stifel Report Jun-2020, janushanderson.com (investment viewpoints by D. Sullivan Aug-2020)

Exhibit 07. ADRO is currently traded near -0.5STD with 0.74x PBV



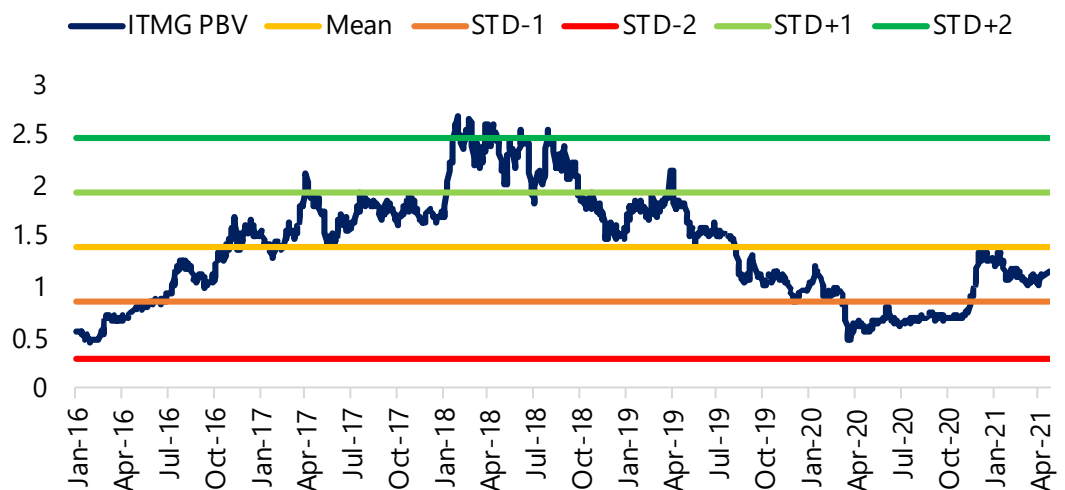
Sources : Bloomberg, MNCS

Exhibit 08. PTBA is currently traded near -0.5STD with 1.64x PBV



Sources : Bloomberg, MNCS

Exhibit 09. ITMG is currently traded near -0.5STD with 1.15x PBV



Sources : 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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