



NOT RATED

Stock Data

Current Price (IDR)	: 236
52wk Range L-H (IDR)	: 50 - 234
Share Outstanding	: 11.42 Bn
Mkt Capitalization	: 2.69 Tn

Major Shareholders

PT Global Transport Service	: 7.58%
Oxley Capital Investment Ltd	: 7.43%
Public	: 84.99%

As of December 31, 2021

MNCS Team Coverage

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PT MNC Energy Investments Tbk (IATA IJ) Energy Sector

Navigating the Turning Points

PT Indonesia Transport & Infrastructure Tbk is officially renamed to PT MNC Energy Investments Tbk (IATA or the Company). The Company also changed its core business activities from commercial air transportation and freight services to investment and holding companies, especially focusing on the coal mining sector. The new business era was marked by the acquisition of Bhakti Coal Resources (BCR) from PT MNC Investama Tbk (BHIT).

Coal Plays Significant Role in Indonesia's Economy

With the estimated coal reserves of 38.8 bn MT, Indonesia is regarded as the top-10 coal-rich country after US, Russia, Australia, China, and India. The domestic coal production had increased +7.4% CAGR over the last decade from 275 mn MT in 2010 to 564 mn MT in 2020. Accounting for more than 50% of the total coal export, India, China, Japan, and South Korea are Indonesia's coal export destination countries. In addition, a significant portion of its exported thermal coal consists of the medium and the low-grade type for which large demand originates from China and India. Furthermore, Indonesia is also benefited from a strategic geographical position towards the giant emerging markets.

Outlook: Energy prices to remain high

- Higher commodity prices, particularly coal, benefitted Indonesia's economy. Non-Oil & Gas exports values jumped to USD219.27 bn (+41.5% YoY), of which mineral fuel exports, including coal, contributed 15.0%. The rising exports were attributable to higher prices and recovering global demand as the economy strengthened since 2H20, although Covid-19 infection continued to overshadow. Given the supply disruption in the energy market to persist, higher oil, gas, and coal prices are likely in 2022. Brent crude and WTI futures prices are already topping USD100/barrel in the first week of Mar-22. Throughout 2021, the global oil supply and demand balance recorded a deficit of 1.6mbpd, propelling oil prices to hit 7-year highs.
- IEA projected global coal demand to hit an all-time high level in 2022. Global coal demand is set to rise to 8,025 mn MT this year. However, this figure did not take into account the Russia-Ukraine conflict that may maintain developed economies prefer coal over gas for electricity.
- We forecast domestic coal production to be 605-631 mn MT in 2022 with improving economic conditions and domestic electricity demand from both the household and the industrial sectors. PLN projects coal demand for the power sector to rise +5.3% YoY this year.

The Greatest Turnaround Stories

IATA believes that its investment in PT Bhakti Coal Resources (BCR) is a good story. BCR is the holding company of the nine coal companies with Mining Business Permits (IUP) in Musi Banyuasin, South Sumatra. With the potential for coal prices to continue to strengthen amid global demand and achieved production targets, IATA's financial performance in FY22E is expected to improve. The management estimates an increase in revenue of up to 3x in FY22E after suffering losses since FY08. In FY21, BSPC and PMC managed to record revenues of USD68.1mn and EBITDA of USD28.4mn, resulting from the production of 2.6 mn MT. IATA targets BCR to increase production to approximately 8 mn MT in FY22E and 12 MT in FY23F. This is based on the increase in PMC production from 2 mn to 4.5 mn MT and BSPC production from 590,000 MT to 1.8 mn MT, BCR will also start producing mines owned by APE and IBPE for 1 mn MT and 500,000 MT, respectively. As of April-22, IATA had acquired 100% ownership of PMC which in turn would add fully to IATA's profitability.

Higher Visibility in Earnings

Management expects IATA to record strong revenue growth at ~12% in FY22E-FY25F on the back of strong commodity prices and higher coal production, translating to higher top-line, performance improvement, and greater margin. PMC is expected to book 4 – 4.3 mn MT/annum sales volume in FY22E-FY25F, translating to 6% YoY revenue growth in the same period. Meanwhile, management expects BSPC to have 49% revenue growth in FY22E-FY25F driven by 1.8 – 4 mn MT/annum sales volume. The blended gross margin should be boosted by these 2-unit businesses which we expect to deliver 62% - 65% gross margin in FY22E-FY25F.

A more Possibility of Re-Rating

We run the numbers to show how this is possible boosting up IATA's valuation. Based on the conservative scenario, IATA set 7.57 mn MT sales volume in FY22F or equal to >5% of 138.1 mn MT KCMi resource. We use the relative valuation method using a sample of 3 largest coal companies ITMG, PTBA, ADRO, and the equal assumption of average PE ratio at 5.09x and EPS reaches IDR378 in FY22F. Meanwhile, the average PBV assumption is at 1.40x, and EV/EBITDA stands at 2.34x. The estimated valuation of IATA could be IDR5.93 tn or USD409.11 mn, which implies 3.70x/2.78x of PE/PBV FY22F.

INDUSTRY IN BRIEF

Coal Plays Significant Role in Indonesia's energy utilization, trade and economy

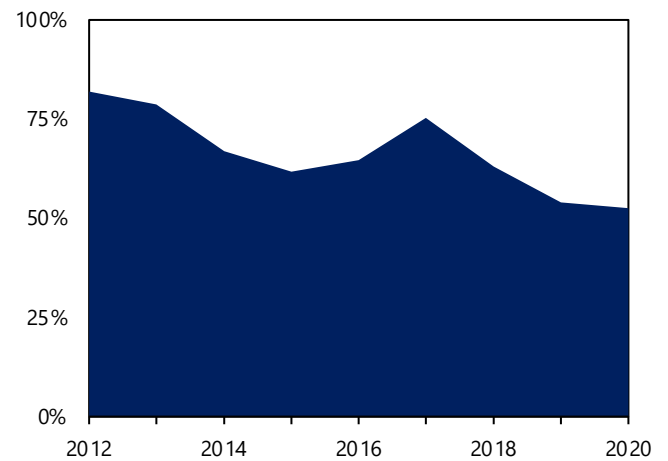
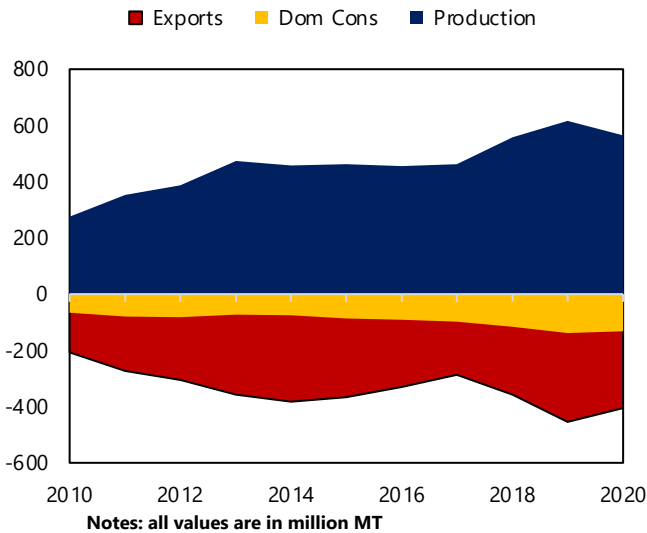
The estimated coal reserves of 38.8 bn MT making Indonesia the top-10 coal rich country after the US, Russia, Australia, China, and India. Domestic coal production has increased +7.4% CAGR in the last decade from 275 mn MT in 2010 to 564 mn MT in 2020.

From 2010 to 2020, on average, 75% of Indonesia's coal production was used for exports. Albeit the price volatility, Indonesia's coal export volume continued to rise with +6.9% CAGR. Meanwhile, coal exports contributed to more than 10% of Indonesia's total exports in terms of nominal value with India, China, Japan, and South Korea are Indonesia's coal export destination countries, accounting for more than 50% of total coal export. However, exports share to those countries continuously declining along with the rising trend in moving to renewables resources, particularly in developed economies.

Domestic consumption has grown +7.0% CAGR in the last decade. The power plant is the highest coal consumer so far with an 80% share of total consumption, followed by iron, steel, and metallurgy industry (~10%); cement, textile, and fertilizer (~5%) as well as pulp and paper (~2%).

Exhibit 01. Indonesia coal production, exports, consumption grew more than 5% CAGR in the last decade

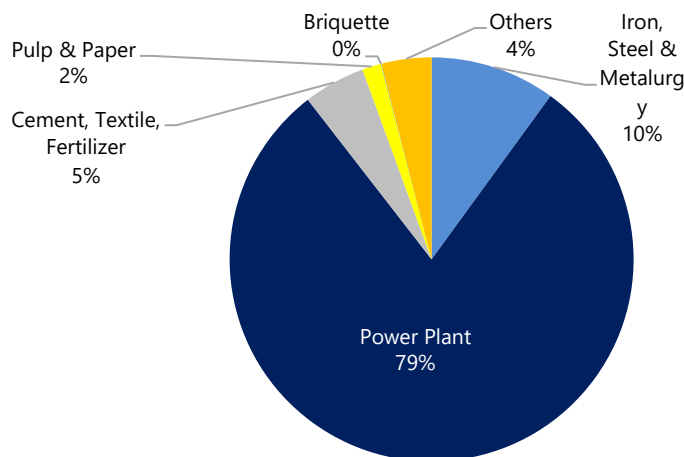
Exhibit 02. Coal exports to China, India, Japan and South Korea accounted >50% total exports although the trend is declining



Sources : Handbook of Energy & Economic Statistics, ESDM

Sources : Handbook of Energy & Economic Statistics, ESDM

Exhibit 03. Indonesia coal consumption mostly from power plant



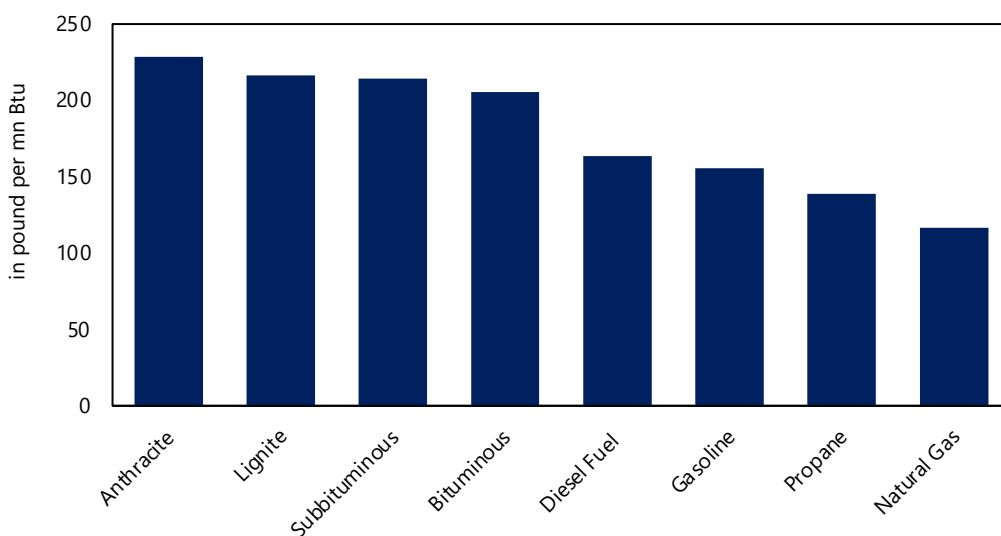
Sources : Handbook of Energy & Economic Statistics, ESDM

Indonesia’s coal is predominantly medium and low grade that produce less CO2

Indonesia’s coal predominantly falls into medium (5,100-6,100 Kcal/Kg) and low grade (<5,100 Kcal/Kg), which further falls into the category of sub-bituminous and lignite. Thus, it is more suitable for power plant utilization than basic metal and downstream industry. Indonesia’s medium and low-grade coal is estimated to account for 62% and 24% of reserves. According to US Energy Information and Administration (EIA), low-ranking coal emit less CO2 in terms of pound per million British thermal units (Btu).

Demand for medium & low-grade coal from China & India has skyrocketed as many new coal-fired power plants have been built to supply electricity to their immense populations. Therefore, Indonesia is benefitted from the strategic geographical positions towards the giant emerging markets of China and India.

Exhibit 04. Low rank coal emit less CO2 in terms of pound per million Btu



Source : US Energy Information Administration

Coal price surged to all time high in 2022 which benefits Indonesia’s economy

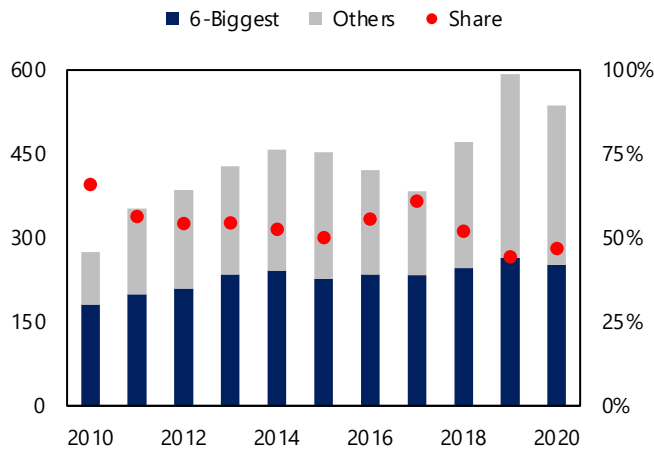
Higher commodity prices, particularly coal, benefitted Indonesia’s economy. The energy prices soared in 1Q22, with Newcastle thermal coal hitting USD418/MT (+146.90% YTD), an all-time high record. Non-Oil & Gas exports values jumped to USD219.27bn in FY21 (+41.5% YoY) of which mineral fuel exports, including coal, contributed 15.0%. Rising exports were attributable to higher prices and recovering global demand as the economy strengthened since 2H20, although Covid-19 infection continued to overshadow.

Higher exports than imports caused a trade balance surplus of USD4.79bn cumulatively in Feb-22, which in turn brought a positive impact on Indonesia’s external stability and government revenues. Moreover, Ample FX supply due to strong exports helps stabilize rupiah with the record high of reserves (>USD141bn in Dec-21) and CA surplus of USD3.8bn in Feb-22, the first time in a decade. Even with the higher commodity price, domestic inflation remained low and manageable within the central bank’s 2-4% target.

On the revenue side, government non-tax income reached IDR22tn in Jan-22 (+11.7%YoY) and achieved 6.6% from the budget target. All in all, surging commodity prices, particularly coal, have helped the government achieve a healthy fiscal balance at -4.65% GDP lower than the budget target set at -5.8% GDP.

Furthermore, higher coal prices also boosted FDI and DDI by +90% YoY and +86% YoY respectively in 2021, on top of low based effect when commodity prices fell in 2020. Historically, rising coal prices would benefit mining companies’ financial performance. Our model shows that every USD1/MT increase in global benchmark coal price will translate to an increase of USD0.88/MT Weighted Average Blended ASP and USD79mn higher coal cumulative revenues in the 6-largest coal mining companies, which accounted for more than 50% of total sales.

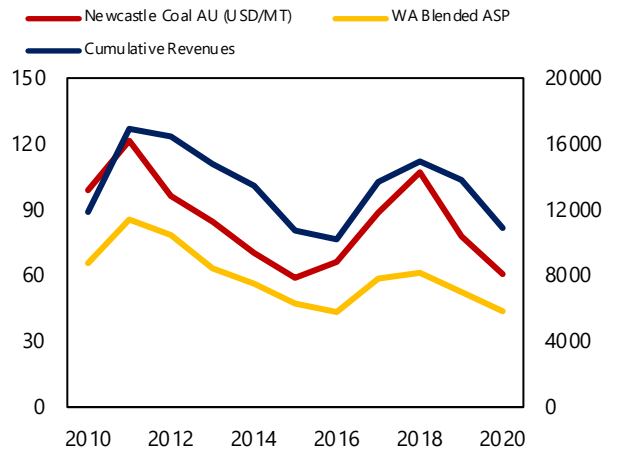
Exhibit 05. Sales of 6-biggest coal mining companies accounted for >50% of Indonesia's total sales including exports and domestic sales



Notes: 6-biggest coal mining companies by sales including: BUMI, ADRO, INDY (Kideco), ITMG, PTBA, BYAN
Sources: Companies Annual Report and ESDM

Sources : Handbook of Energy & Economic Statistics, ESDM

Exhibit 06. Historically, higher global coal price means higher companies ASP and cumulative revenues in 6-biggest domestic coal mining companies



Notes: Newcastle Coal AU and Weighted Average Blended ASP (LHS) and Cumulative Coal Revenues in USD mn (RHS).
Sources: Companies Annual Report and ESDM

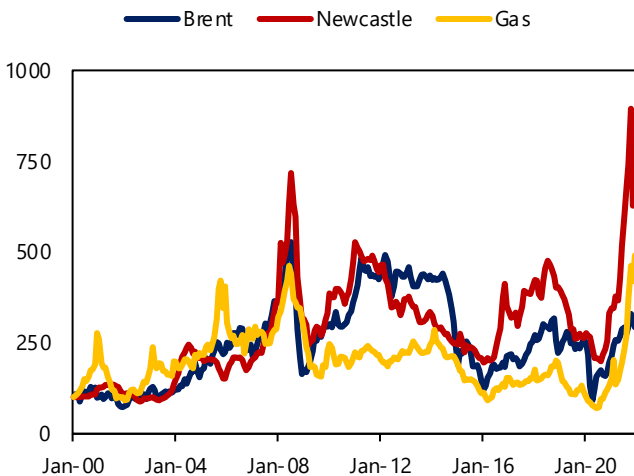
Sources : Handbook of Energy & Economic Statistics, ESDM

Outlook: Energy prices to remain high

Given the supply disruption in the energy market to persist, higher oil, gas, and coal prices are likely to occur in 2022. Brent crude and WTI futures prices are already topping USD100/barrel in the first week of Mar-22. Throughout 2021, the global oil supply and demand balance recorded a deficit of 1.6mbpd, propelling oil prices to hit 7-year highs.

The recent conflict between Russia-Ukraine also worsens the global energy security outlook with Russia contributed ~11% of the global oil supply. The economic sanctions imposed on Kremlin by NATO's countries may cause economic turbulence to Russia as a member of OPEC+ and a major player in gas exporters to Europe. In addition, the Russian military force attack on Ukraine's oil and gas facilities also poses another threat to the production and supply of gas, thus becoming an alarm for the global energy market that is still haunted by deficit balance. Furthermore, as the energy market becomes more integrated, higher oil and gas prices should trigger the gas to coal substitution to fulfill energy demand. Hence, the outlook for coal price would remain high above pre-pandemic level.

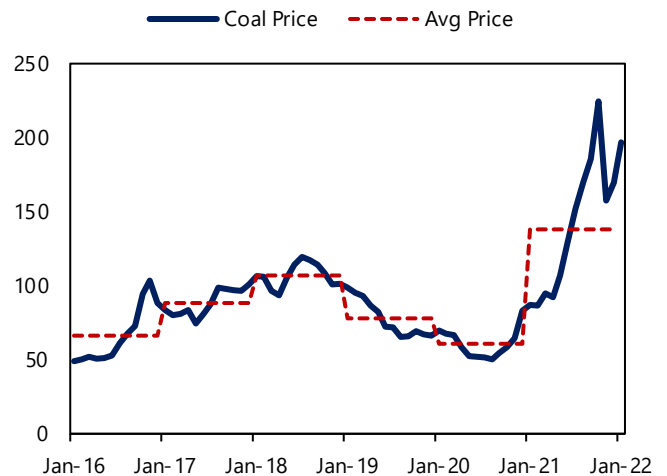
Exhibit 07. Energy prices continue to soar amid Russia-Ukraine conflict as market becoming more integrated



Notes: all prices are rebased with 2000=100

Sources : Companies Annual Report and ESDM

Exhibit 08. Coal price hitting an all-time level following the surge in oil and gas price globally



Notes: avg price derived from monthly average in the last 5-yr

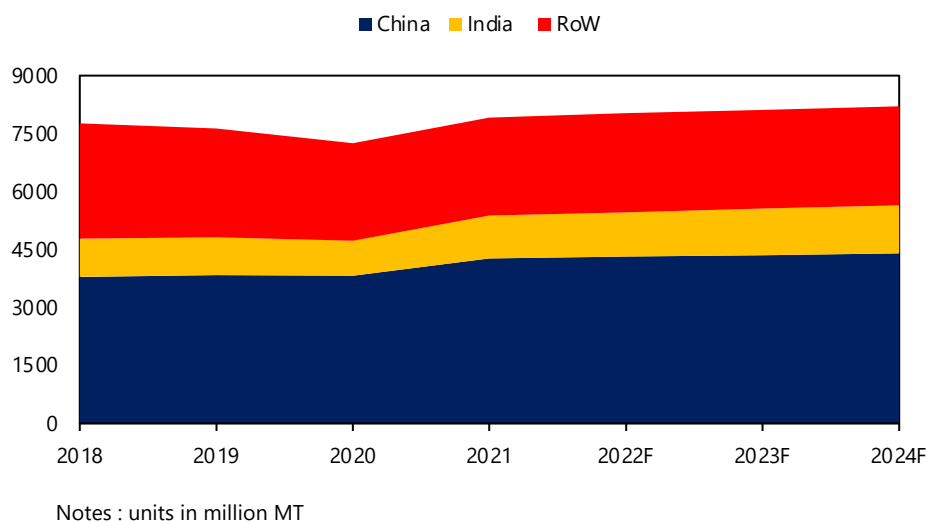
Source : Bloomberg

Global coal demand to hit an all time high in 2022 on the back of stronger demand from China and India

Switching the energy from gas to coal is likely to occur in Europe. Given the heightened geopolitical tension between Russia and Ukraine that impact the gas price to jump, Europe may rethink its plan to move away from coal. However, we think Indonesia’s opportunity to tap the European market is relatively small given : 1) higher fuel price and expensive freight cost and 2) Asia is still a dominant market for coal globally. Therefore, we expect Indonesia to still be benefitted from Asia’s strong demand this year.

IEA projected global coal demand to hit an all-time high level in 2022. Global coal demand is set to rise to 8,025 mn MT this year. However, this figure did not take into account the Russia-Ukraine conflict that may maintain developed economies prefer coal over gas for electricity. Coal demand from China and India, which account for two-thirds of global consumption, is expected to rise 1% and 4% between 2022 and 2024. Assuming that the coal demand from the rest of the world stays the same, coal demand in 2024 is projected to hit 8,206 mn MT or imply +1.25% CAGR.

Exhibit 09. Coal demand is projected to grow +1.25% CAGR between 2021-2024



Source : International Energy Agency (IEA)

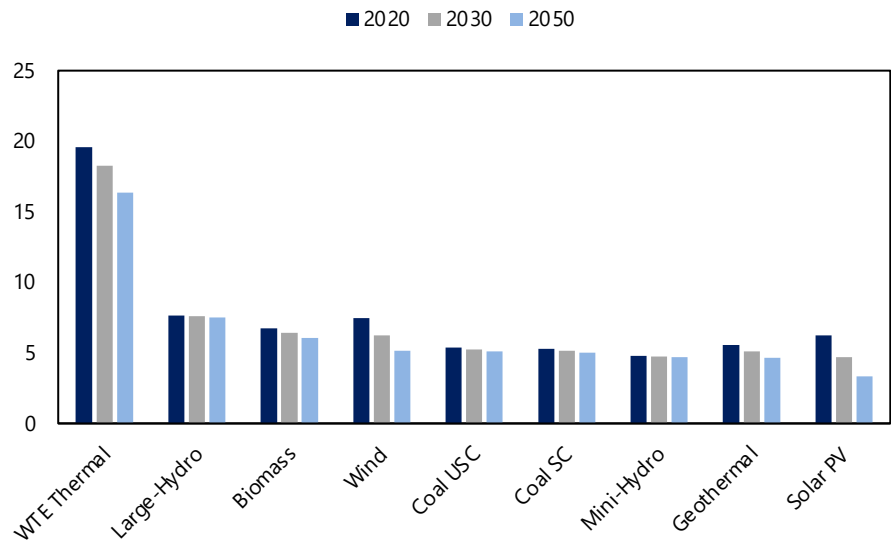
Domestic demand to stay robust in 2022

Throughout 2021, total domestic coal production reached 588.54 mn MT or 94.17% of the 625 mn MT target. We expect higher coal prices to boost production with our forecasted domestic coal production to reach 605-631 mn MT in 2022. Along with improving economic conditions, domestic electricity demand from household and industrial sectors will likely increase. PLN projects coal demand for the power sector to rise +5.3% YoY this year and expects Indonesian power generators to consume 119 mn MT of coal in 2022 with PLN’s coal-fired power plants to consume 68.42 mn MT while IPPs are projected to consume up to 50.76 mn MT in 2022.

Challenge in moving away from fossil fuel-based energy in medium to long term

Indeed, recent scarcity in gas and the soaring price have favored coal for the energy substitute. Moreover, coal remained the lowest-cost energy source in terms of the Levelized Cost of Electricity (LCOE). With higher energy prices to remain in place, it also hinders the outlook for renewable energy resources in the medium and in the long run, should the supply and demand imbalance persist. It should be noted that the relationship between fossil fuel and renewables prices is not a clear cut. The oil price jumped to above USD100/barrel may trigger the consumer to move to renewables. However, higher prices at the same time will give incentives for companies to spur production to cash in, which might help stabilize the prices. The tendency to meet high prices with the increase in supply will lead to another energy transition problem: volatility. High swings in prices may result in difficulties for investors or stakeholders to plan alternative energy projects. Therefore, we believe fossil fuels are here to stay and play a strategic role in the global economy.

Exhibit 10. Levelized Cost of Electricity comparison across different source types (USD cents/kWh)

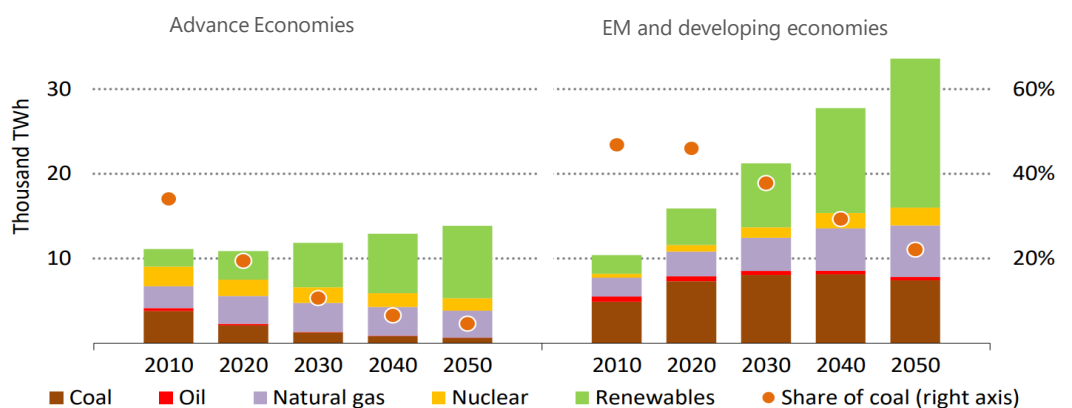


Source : IESR

Emerging market and developing economies drive most of the increase in global electricity demand, met mainly by renewables and gas, though coal remains important.

- We see that the current situation becomes a "wake-up call" to reduce its over-dependence on coal and aggressively pursue a renewable energy strategy.
- Based on IEA, the energy sector in 2050 is based largely on renewable energy instead of fossil fuels. Nevertheless, we also note that the EM and developing countries still rely on fossil fuels.
- In China, even as the government pushes to ramp up renewable power, the industrial economy still relies heavily on fossil fuels: coal, gas, and oil.

Exhibit 11. Emerging markets: coal remains important



Sources : Bloomberg, International Energy Agency, MNCS

COMPANY PROFILE

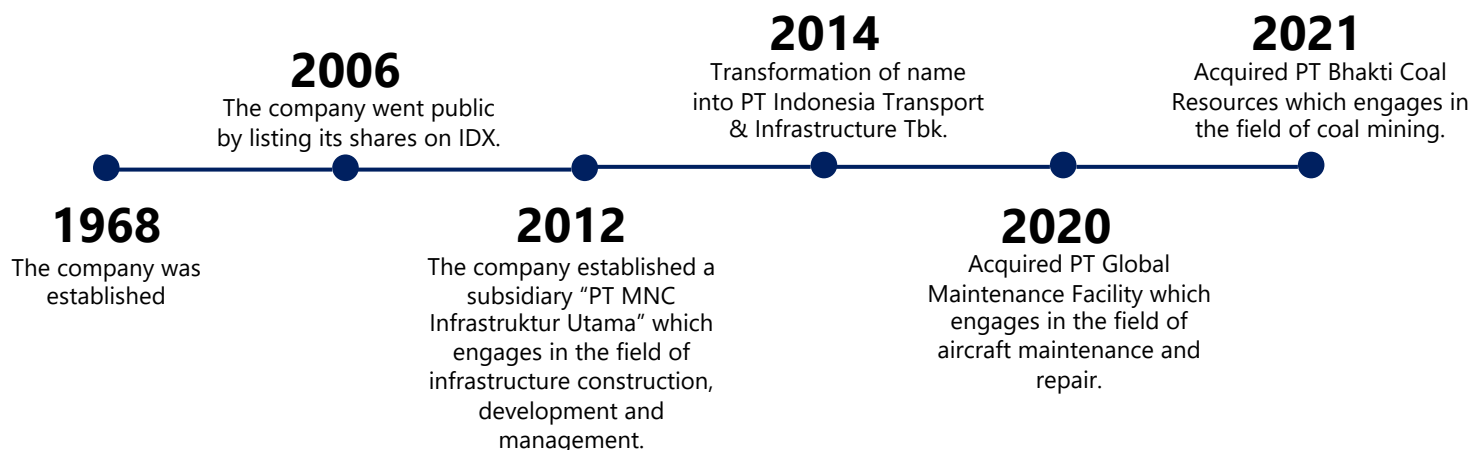
Expansion into Coal Mining Business, IATA Officially Renamed to PT MNC Energy Investments Tbk

PT Indonesia Transport & Infrastructure Tbk is officially renamed to PT MNC Energy Investments Tbk (IATA or the Company). Taking advantage of the momentum arising from the continuous hike in coal ASP and their increasing demand, IATA took a strategic step by expanding into the coal mining sector, changed its core business activities from commercial air transportation and freight services to investment and holding companies, especially focusing on the coal mining sector. These changes were made to mitigate losses caused by the Covid-19 pandemic.

IATA manages several new business lines following the acquisition of PT Bhakti Coal Resources (BCR) from PT MNC Investama Tbk (BHIT). BCR leads 9 IUP coal mining companies located in South Sumatra with a total mining area of 74,000 ha and resources of ~1.6bn MT. For lines already in production, namely Bhumi Sriwijaya Perdana Coal (BSPC) and Putra Muba Coal (PMC), each has resources and reserves of 207.6mn MT/138.1mn MT, potentially generating revenue of USD68.1mn in FY21E. Meanwhile, other mining companies are targeted to operate in FY22E and FY23F. Business activities are supported by capable facilities in the form of a hauling road and 2 ports as well as mining locations close to major rivers and port points. Production demand is maintained, especially to meet exports to India, China and other ASEAN countries. BCR produces low-calorie coal in the range of 2,800- 3,800 Kcal/Kg, good for supporting domestic needs, especially power plants.

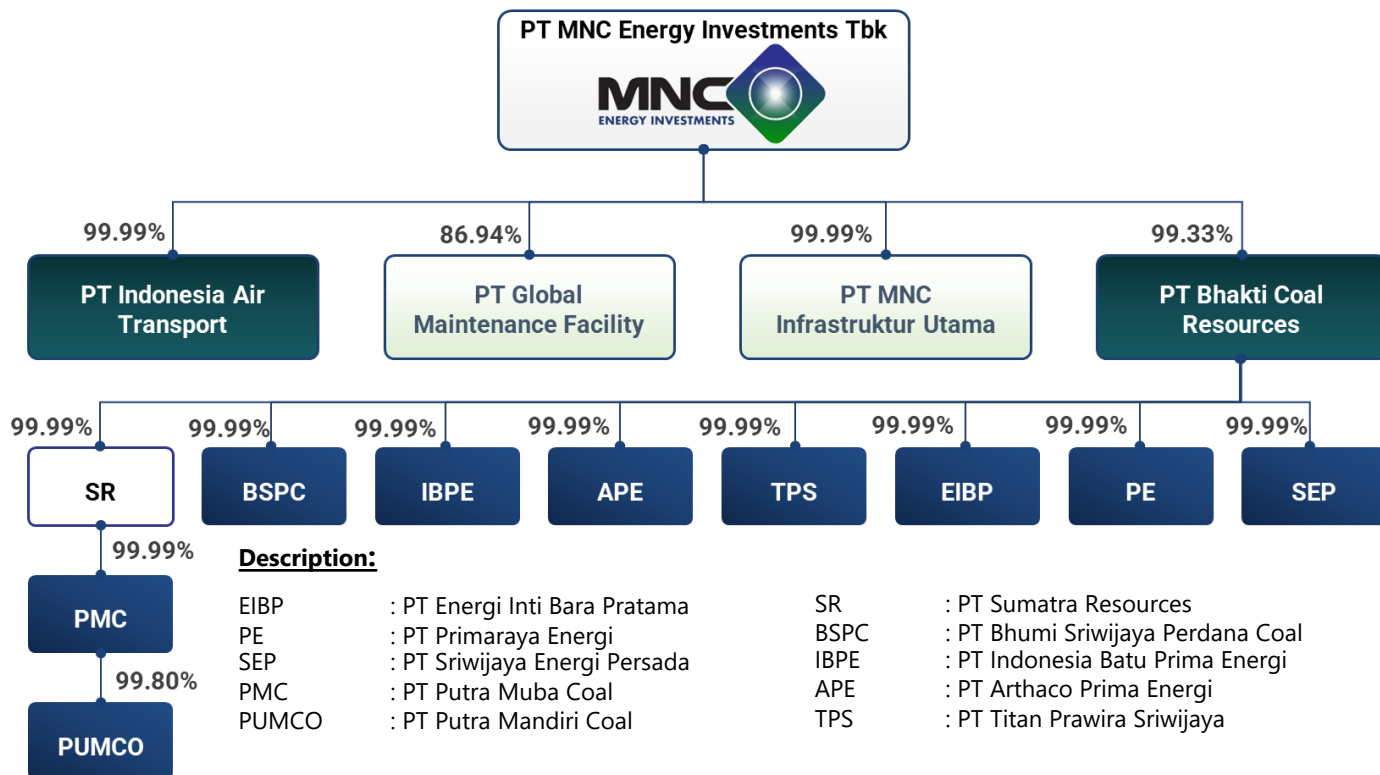
Another corporate entity, namely PT Indonesia Air Transport (IAT), is involved in the aviation industry in air transportation rental (aircraft/helicopters), maintenance, and trading of aircraft spare parts equipment. IAT has work operations in 3 major islands (Java, Kalimantan and Sulawesi). With a reliable fleet including the Embraer Legacy 600, ATR42-500 and the Airbus EC155-B1 Helicopter, along with 54 years of experience, they are certainly ready to support the needs of mining activities (aircraft rental) or other individual mobility due to their ability to reach remote areas, especially mining areas.

Exhibit 12. Company Milestones



Source : Company

Exhibit 13. Company Structure



Source : Company (As of April, 08 2022)

Exhibit 14. Board of Commissioners & Board of Directors



Drs Hamidin
President Commissioner



Darma Putra
Commissioner



Christophorus Taufik
Commissioner



Henry Suparman
President Director



Agustinus Wishnu Handoyono
Vice President Director



Kushindarto
Director

Source : Company

Abundant Coal Resources

IATA believes that its investment in PT Bhakti Coal Resources (BCR) will be a major new growth opportunity. BCR is the holding company of the nine coal companies with Mining Business Permits (IUP) in Musi Banyuasin, South Sumatra, which include:

- PT Bhumi Sriwijaya Perdana Coal (BSPC) dan PT Putra Muba Coal (PMC), both have already operated and actively produced coal with a GAR range of 2,800 – 3,600 kcal/kg. With a total area of 9,813 ha, BSPC has an estimated total resource of 130.7mn MT, while PMC has 76.9mn MT, with estimated total reserves of 83.3mn MT and 54.8mn MT, respectively.
- PT Indonesia Batu Prima Energi (IBPE) dan PT Arthaco Prima Energi (APE), both are targeted for coal production this year. Moreover, PT Energi Inti Bara Pratama (EIBP), PT Sriwijaya Energi Persada (SEP), PT Titan Prawira Sriwijaya (TPS), PT Primaraya Energi (PE), and PT Putra Mandiri Coal (PUMCO) are being prepared to be operated in one or two years from now. These seven IUPs with an area of 64,191 ha have an estimated total resource of more than 1.4 billion MT.

KEY INVESTMENT HIGHLIGHT

Betting on Turnaround Stories

Along with the potential for coal prices to continue to strengthen amid global demand and achieving production targets, IATA's financial performance in FY22E is expected to improve; the management estimates an increase in revenue up to three times in FY22E after suffering losses since 2008. In FY21, BSPC and PMC managed to record revenues of USD68.1mn and EBITDA of USD28.4mn, resulting from the production of 2.6mn MT.

IATA targets BCR to increase production to approximately 8mn MT in FY22E and 12 MT in FY23F. This is based on the increase in PMC production from 2mn-4.5mn MT and BSPC production from 590,000 MT to 1.8mn MT. BCR will also start producing mines owned by APE and IBPE for 1mn MT and 500,000 MT, respectively. The other five IUPs will start for operation in the next one or two years. The total mining area for the nine IUPs is 74,004 ha. The estimated total resources of BSPC and PMC are 130.7mn MT and 76.9mn MT, with an estimated total reserve of 83.3mn MT and 54.8mn MT, respectively. The GAR range of BSPC and PMC is 2,800 – 3,600 kcal/kg. Based on internal BCR data, the other seven IUPs have estimated total resources of more than 1.4bn MT.

Exhibit 15. List of Coal Concessions

No.	Name of IUP	Acreeage (Ha)	Location	Area Code	Status of Permit	Status
A Bhakti Coal Resources						
1	Arthaco Prima Energi	15,000	Musi Banyuasin	KW 58 Pemb 13	IUP OP	Clear & Clean
2	Bumi Sriwijaya Perdana Coal	6,866	Musi Banyuasin	KW 38 Pemb 12	IUP OP	Clear & Clean
3	Energi Inti Bara Pertama Indonesia Batu Prima	13,630	Musi Banyuasin	KW 58 Pemb 13	IUP OP	Clear & Clean
4	Energy	15,000	Musi Banyuasin	KW 56 Pemb 16	IUP OP	Clear & Clean
5	Primaraya Energi	4,424	Musi Banyuasin	KW 71 Pemb 17	IUP OP	Clear & Clean
6	Sriwijaya Energi Persada	8,596	Musi Banyuasin	KW 36 Pemb 18	IUP OP	Clear & Clean
7	Titan Prawira Sriwijaya	6,015	Musi Banyuasin	KW 37 Pemb 19	IUP OP	Clear & Clean
	Subtotal	69,531				
B Putra Muba Coal						
8	Putra Muba Coal	2,947	Musi Banyuasin	KW 132 Pemb 12	IUP OP	Clear & Clean
9	Putra Mandiri Coal	1,526	Musi Banyuasin	KW.21.1606.3.2017.119	IUP OP	Clear & Clean
	Subtotal	4,473				
	Total	74,004				

Source : Company

Exhibit 16. Resources & Reserves

No.	IUP	GAR (kcal/kg)	Resources (MT)				Reserves (MT)	
			Measured	Indicated	Inferred	Total-MII	KCMI	Internal Assessment
Based on Indonesian Joint Committee for Mineral Reserves (KCMI)								
1	BSPC-N	3,200 - 3,400	74,500,000	29,500,000	16,700,000	130,700,000	83,275,520	
2	PMC	2,800 - 3,600	60,400,000	12,900,000	3,600,000	76,900,000	54,822,642	
	Subtotal		134,900,000	42,400,000	30,300,000	207,600,000	138,098,162	
Based on Internal Assessment								
1	APE	3,000 - 3,500	297,086,038	264,076,478	231,066,918	792,229,434		103,827,266
2	IBPE	3,100 - 3,500	211,105,054	187,648,937	161,540,293	560,294,284		2,072,000
3	BSPC-S	2,800 - 3,800	15,777,000	6,581,000	2,028,000	24,386,000		9,831,388
4	PUMCO	3,000 - 3,500	9,632,701	756,100		10,388,801		2,876,576
5	PE	2,800 - 3,100	295,417	871,883	1,496,160	2,663,460		
6	TPS	2,800 - 3,400	62,591	1,520,220	3,443,479	5,026,290		
7	SEP		38,906	296,312	607,672	942,890		
8	EIBP		0	0	0	0		
	Subtotal		533,997,707	461,750,930	400,182,522	1,395,931,159		118,607,230
	Total		668,897,707	504,150,930	430,482,522	1,603,531,159	138,098,162	118,607,230

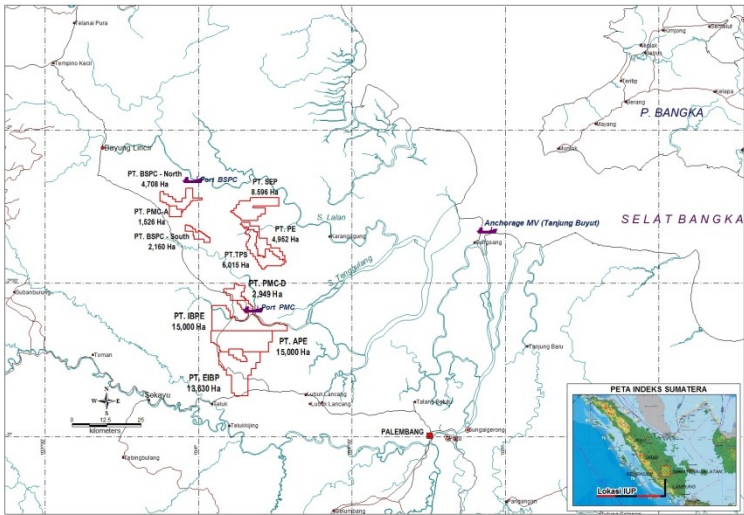
Note: Drilling activities continue for IUPs which have not been fully explored. Reserves will increase if the results of the ongoing exploration show coal findings.

Source : Company

Easy Hauling and Transshipment Completed by Supporting Infrastructures

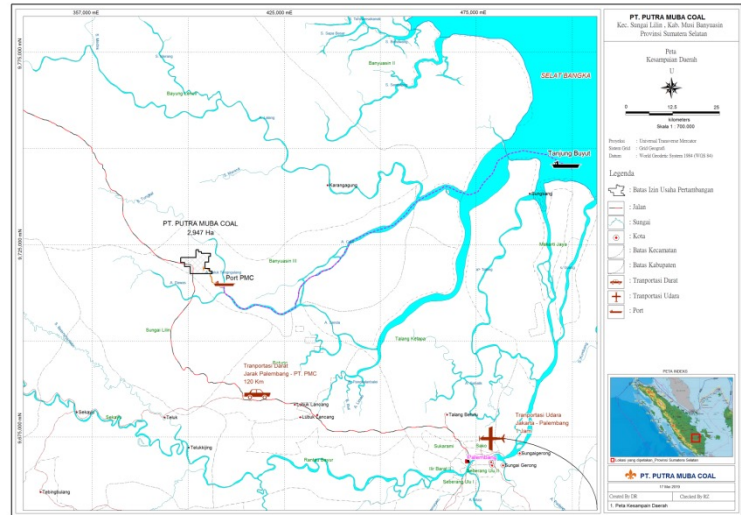
BCR also has supporting infrastructure such as ports and a 12 km hauling road. BCR will also build a new port and hauling road to increase its production capacity. With a short hauling distance of 12-17 km from the mining pit to the port and a low stripping ratio, the production costs of BSPC and PMC are pretty low, thus providing a greater margin on the current selling price of coal. BSPC is about 16.6 km from the port and about 100 km to the transfer area at Tanjung Buyut port. APE and IBPE are 12.5 km and 5 km from the port and approximately 108 km to the transshipment area at Tanjung Buyut port. Meanwhile, PMC has a port located on the Tungkal River, about 10 km from the mine and about 100 miles to the transshipment area at Tanjung Buyut port.

Exhibit 17. Bhakti Coal Resources Concession Map



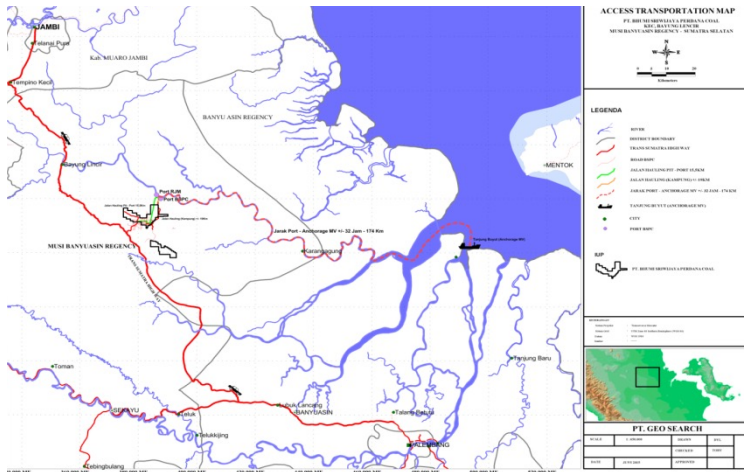
Source : Company

Exhibit 18. Putra Muba Coal Concession Map



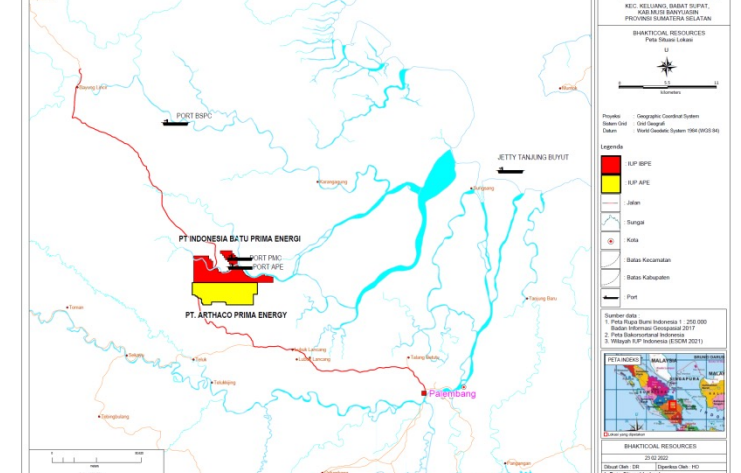
Source : Company

Exhibit 19. Bumi Sriwijaya Perdana Coal Concession Map



Source : Company

Exhibit 20. APE & IBPE Concession Map



Source : Company

The EIA statement regarding mid-low grade emits less CO2 in terms of pounds per mn British thermal units (Btu) benefits Indonesia, which is dominated by coal at that level. South Sumatra is an area that has a calorific value of <5,100 Kcal/kg. Currently, most of the coal in the province is exploited by open pit mining techniques. The stripping ratio for coal varies from 1:2 to 1:10, with the lowest stripping ratio of 1:2 is normally applied for lignite or brown coal. This type of coal is located mainly in Lahat, Musi Rawas, Banyuasin and Musi Banyuasin Regencies. On the other hand, the renewable energy campaign is also a challenge for the global coal industry, so practically a low stripping ratio can be a competitive advantage for cost leadership since the industry currently still uses coal as a raw material.

We consider IATA to be quite thorough in looking at the current conditions. PMC has an optimal stripping ratio of 1:2.36, supported by abundant reserves and export demand that continues to grow amidst geopolitics and trade wars that benefit Indonesia (e.g., China rejects the use of Australian coal and tends to choose to import from other countries such as Indonesia).

Exhibit 21. General Quality of Indonesian Coal Based on Setting of Tectonic Plates

Basin	Typical Deposit	Calorific Value (KCal/Kg)	Moisture Concent	Sulfur Content	Ash Content
Ombilin	Lenticular and small coverage area	7000	Low	Low	Low
Barito-Tanjung	Thin and continuous in lateral direction	6000	Low	High	Low
Bengkulu		<5000	High	Low	High
South Sumatera, Central Sumatera		<5000	High	Low	High
Barito-Warukin	Thick and wide coverage area	<5000	High	Low	High
Kutai and Tarakan		<5000	High	Low	High

Sources : ITB, Akita University

Exhibit 22. Summary of estimated coal reserves IUP OP for PT PMC as of Nov-21

PIT	Reserve (Mn MT)			Over Burden Mn BCM	SR	CV (kcal/kg)		Quality					
	Secure	Estimated	Total			(% adb)	(% adb)	Ash (% adb)	TS (% adb)	IM (% adb)	RD	ID	TM (% adb)
PANDU 1	4.73	-	4.73	19.89	4.21	5,303	3,159	6.45	0.28	16.00	1.30	1.16	49.93
PANDU 2	0.83	-	0.83	1.84	2.21	5,318	3,148	5.67	0.24	16.35	1.30	1.16	50.49
PANDU 3	1.36	-	1.36	3.34	2.45	5,317	3,149	5.74	0.24	16.32	1.30	1.16	50.43
BISMA	3.79	0.75	4.54	16.34	3.60	5,625	3,547	6.11	0.98	14.71	1.31	1.18	46.37
ABIMANYU	20.12	23.24	43.36	87.73	2.02	5,177	2,965	5.58	0.20	18.64	1.30	1.14	53.42
TOTAL	30.83	23.99	54.82	129.14	2.36	5,231	3,037	5.71	0.27	17.99	1.30	1.15	52.42

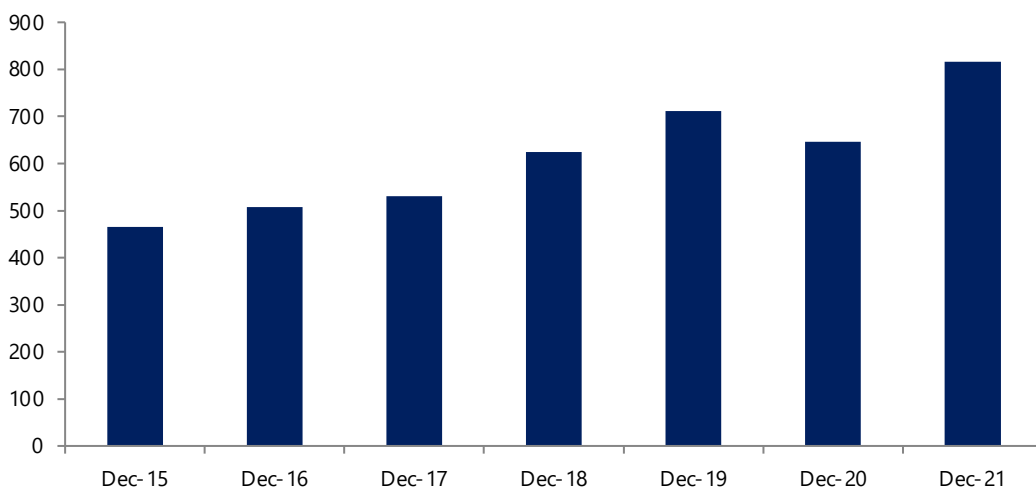
Source : Company

Coal Industry is Actually Booming

China had the largest total coal imports with 315.73mn MT in FY21 or up +5.1% YoY (vs 300.42mn MT in FY20). On the other hand, India recorded a decline in total coal imports to 139.11mn MT in 11M21 or -3.7% YoY (vs 144.47mn MT in 11M20) due to the increasing Covid-19 cases (2nd Wave) in India in 2Q21 – 3Q21. On the other hand, we estimate India's total coal imports will remain high at over 150mn MT in FY21.

We see that in FY22E, the total demand for coal will increase in line with the Russia-Ukraine geopolitical, economic recovery due to the pandemic, and the potential increase in China's electricity consumption rate in FY22E, seeing the growth that occurred in FY21 to 8.31tn KWh or increased +22.40% YoY (vs 6.68tn KWh in FY20). Coal has an output of 543.28 billion KWh in China's electricity in Dec-21, while hydro power is only 71.51bn KWh and Nuclear power is 37.28 billion KWh. IATA, will benefit from the strong demand and rising coal prices in early 2022. Thus, the company assesses that its financial performance and valuation will increase significantly in 2022.

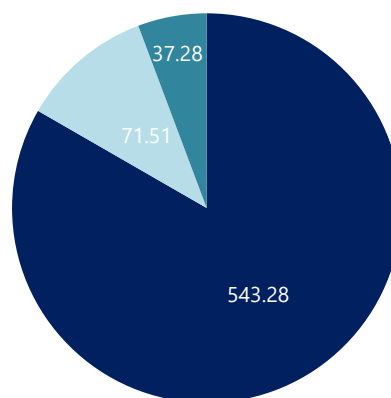
Exhibit 23. China Electricity – Total Energy Consumption (in bn KWh)



Sources : Bloomberg, MNCS

Exhibit 24. China Electricity Output until Dec-21 (in bn KWh)

■ Thermal Coal Power ■ Hydro Power ■ Nuclear Power



Sources : Bloomberg, MNCS

Coal Still Tends to Cheaper

Calculation of costs in the production of power plants has various methods, in which the results will also have differences. The US Energy Information Administration (EIA) report in 2020 tries to compare how much capital costs are used for power generation with various kinds of energy used, such as gas, oil, coal, diesel, etc. While calculating the costs, several internal factors have to be considered, from the actual selling price and effectiveness and externality factors.

To evaluate the total cost of producing electricity, the flow of costs is converted to net present value using the time value of money. All of these costs are combined using a discounted cash flow. The capital cost of generating capacity is often expressed as an overnight cost per watt, where it finds that coal has a lower cost compared to nuclear, fuel cells, and winds.

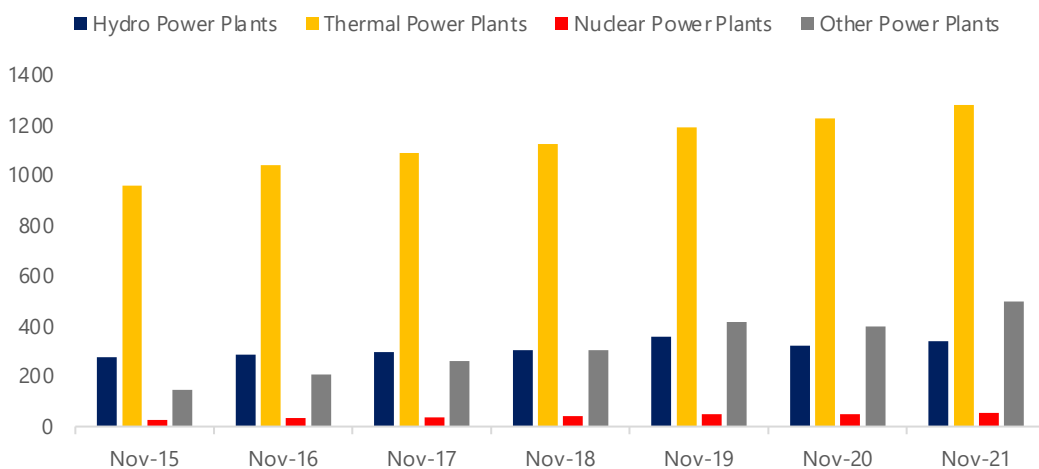
In exhibit 24. from China Electricity Capacity Statistics, it is shown that coal has a larger capacity in the use of power plants of 6000Kw and above, where it can be seen that in 2021, the coal capacity for power plants of 6000Kw and above was recorded at 1,280 mKWh or an increase of 4.4% YoY. Meanwhile, Hydropower is 340 m KWh (15.7% contribution), and nuclear is 53.26 m KWh (2%). This shows that coal is still heavily used by a country as big as China, which is still driven by coal prices because they are cheaper and more efficient than other renewable energies.

Exhibit 25. Capital Cost for Power Generation

Type	Cost (USD/Kw)
Solar PV (Tracking)	2,000
Conventional Hydropower	2,752
Geothermal	2,800
Coal (with SO2 and Nox Controls)	3,500-3,800
Advance Nuclear	6,000
Fuel Cells	7,200
Offshore Wind	6,500

Source : EIA

Exhibit 26. China Electricity Capacity of Power Plants 6000Kw and above (m KWh)



Sources : Bloomberg, MNCS

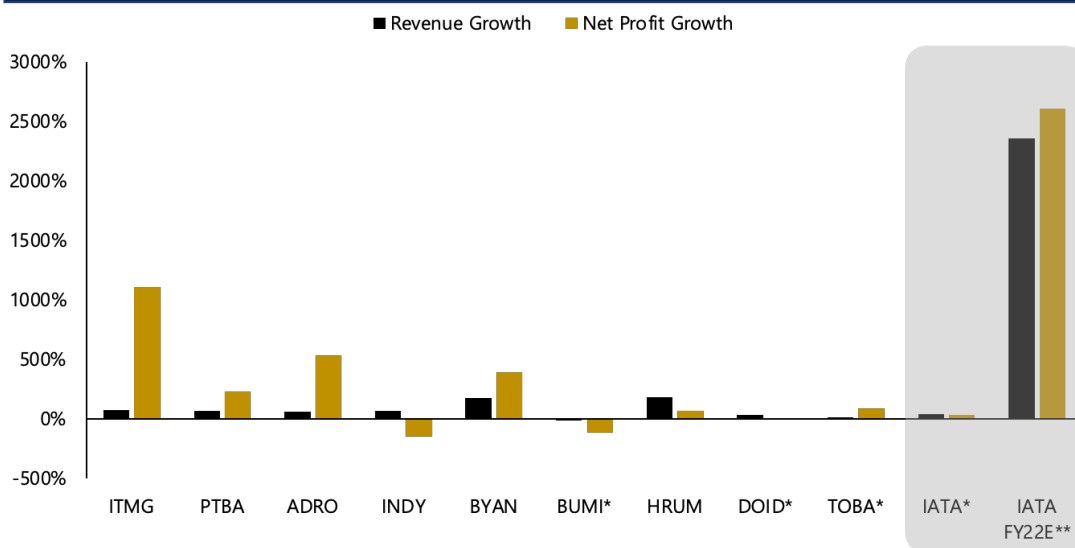
Peers Comparison of Coal Listed Company

The increase in coal prices has a positive impact on coal-listed companies. They recorded a significant performance during 2021, translating into average revenue growth of +70% YoY as well as a three-fold net profit growth (+217% YoY).

We believe that the company's topline and bottom-line performance will perform better in line with rising coal prices supported by the sentiment of geopolitical tensions between Russia and Ukraine. As of (04/03), coal was at its all-time high at USD418.75/Mt. Significantly increased by +378.57% YoY and +146.90% YTD.

The business transformation carried out by the IATA was a brilliant strategic step. The upward trend in coal prices is able to provide a turnaround story. Currently, IATA's topline growth at +15.01% YoY on 9M21.

Exhibit 28. Peers Comparison: Revenue and Earnings Growth in FY21



Note:

*BUMI, DOID, TOBA, IATA figure: FY21 annualized

**IATA FY22E target mainly driven by BCR's consolidation

Sources : Bloomberg, Company, MNCS

Higher Visibility in Earnings

Management expects IATA to record strong revenue growth at ~12% in FY22E-FY25F on the back of strong commodity prices and higher coal production, translating to the higher top line, performance improvement, and greater margin. PMC is expected to book 4 – 4.3 mn MT/annum sales volume in FY22E-FY25F, translating to 6% YoY revenue growth in the same period. Meanwhile, management expects BSPC to have 49% revenue growth in FY22E-FY25F driven by 1.8 – 4 mn MT/annum sales volume. The blended gross margin should be boosted by this 2-unit business which we expect to deliver a 62% - 65% gross margin in FY22E-FY25F. Meanwhile, we believe IBPE and APE will start to generate revenue in FY23F onwards. In addition, operating expense growth should be manageable at 10% - 16% in FY22E-FY25F. All in, IATA expected to deliver 13% CAGR net profit growth in FY22E-FY25F. This will lead IATA to maintain a 42% net margin in 2022F before improving to 43% in FY23F-FY25F.

A more Possibility of Re-Rating

We run the numbers to show how this is possible boosting up IATA's valuation. Based on the conservative scenario, IATA set 7.57 mn MT sales volume in FY22F, equal to >5% of 138.1 mn MT KCMI resource. We are using the relative valuation method using a sample of 3 largest coal companies: ITMG, PTBA, ADRO, and the equal assumption of average PE ratio at 5.09x and EPS reaches IDR378 in FY22F. Meanwhile, the average PBV assumption is at 1.40x, and EV/EBITDA stands at 2.34x. The est. valuation of IATA could be IDR5.93 tn or USD409.11 mn, which implies 3.70x/2.78x of PE/PBV FY22F.

Exhibit 29. Valuation Method

Valuation Methods	Equity Value (in IDR bn)	MNCS Weighting	MNCS Valuation Range (in IDR bn)
PE	8,154	33%	2,718
PBV	2,984	33%	995
EV/EBITDA	6,660	33%	2,220
MNCS Equity Fair Value Range (IDR bn)			5,932
MNCS Equity Fair Value Range (USD mn)			409
Implied PE			3.70x
Implied PBV			2.78x
Implied EV/EBITDA			1.98x

Sources : Bloomberg, MNCS

Exhibit 30. Key Statistics Peers

Ticker	Market Cap (IDR mn)	PE (x)	PBV (x)	Reserve (mn MT)	EV/Reserve (x)	EV/EBITDA (x)
ITMG IJ	31,949	4.39	1.54	291	5.11	1.93
PTBA IJ	38,594	5.13	1.36	3,100	0.60	2.68
ADRO IJ	91,160	5.75	1.30	1,448	4.29	2.40
Average		5.09	1.40		3.33	2.34

Sources : Bloomberg, MNCS (as of 22 March 2022)

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

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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