**NEUTRAL**

| Return (%) | -1D | -1W | -1M |
|---|---|---|---|
| JCI | -0.2 | +0.4 | +0.6 |
| LQ45 | +0.3 | -0.4 | +0.9 |
| ADRO IJ | +0.4 | +4.9 | +5.4 |
| ITMG IJ | +0.6 | +2.9 | +4.9 |
| PTBA IJ | +0.4 | +1.9 | -16.8 |

| EPS Growth (%) | FY23E | FY24F |
|---|---|---|
| ADRO IJ | -37.3 | -26.8 |
| ITMG IJ | -48.2 | -22.8 |
| PTBA IJ | -56.2 | -8.0 |

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# Coal Mining
## Striving through Volume, Cost Management and Diversification

### Government policies to further strip coal miners of their profits?

- The long awaited MIP (Mitra Instansi Pengelola) scheme can serve as either good news or another hurdle in the face of coal miners. Export-heavy miners such as ITMG and ADRO could be further burnedend by the probable 11% VAT that remains under discussion till this day. On the other hand, PTBA margins are set to benefit from this scheme.
- The new HBA formula that has been implemented since Mar-2023 had also cushioned the drop in companies' profitabilities by closer reflecting the royalty fees in accordance with the real ASP among miners. This was partially offset by the royalty tariff scheme that has multiplied almost by 2x up to 28% for IUPK-KOP permit holders (ADRO), as well as 13,5% (previously 5%) for PKP2B (ITMG) and IUP (PTBA) permit holders. As a result, the miners' profitability took a blow amid inflated government royalty costs in tandem with plummeting coal prices.
- The DHE Term-Deposit scheme that has been enacted by Bank Indonesia (BI) also poses as a threat towards miners' cash-flow liquidity. With coal still contributing c. 16% of the nation's exports, the government is surely to push upon the term deposit (1 to 6 months) collection from miners in order to safeguard the national foreign exchange reserves amid slipping trade balance surplus.
- The carbon-tax to be incurred from coal companies, planned to take effect in 2024, should brace the coal players for another wave of margin chipping. Details regarding the emission cap and carbon-tax nominal has yet to be disclosed.

### Primed with ample cash to fund diversification strategies

- With the coal sector having lost its spark among investors, especially foreign investors due to ESG-centered discouraging sentiments, coal players' pivoting play towards ESG-favorable business lines is to be the norm. This is pretty evident from the foreign fund outflow pattern seen so far in 1H23, whereby major coal players such as ADRO, ITMG, UNTR and INDY experienced foreign fund withdrawals as seen in exhibit 02, with the exception of HRUM that saw a foreign ownership increment of up to 29.2% YTD. We view this to be heavily accredited to HRUM's diversification strategy to transition into a more nickel-heavy mining company, leaving the coal revenue segment as a supporting one rather than its main driver.
- Picking up on this trend, the rest of the coal miners embark on this diversification-oriented roadmap and we have begun to witness large capex cycles aimed to fund ESG-friendly project pipelines, aimed to regain investors' favor (exhibit 01). ADRO, for example, have finalized their offtake agreement for Kalimantan Industrial Park Indonesia (KIPI) tenants on their new 1.4GW Hydro Power Plant located in North Kalimantan, along with other renewable energy projects that are underway. PTBA follows suit with the renewables diversification strategy, while ITMG is still a tad behind on this transitional play and is still focused on their coal-powered revenue generation pipelines.
- This diversification ploy will brighten the miners' credit rating and provide them access for future funding, utilizing their ample cash reserves until the projects' due.

### Coal faced with blurry outlook

FY23 is nearing its first half and thus far we have seen a -68% plunge in Newcastle coal prices, a -38% and -37% dive in Chinese and Indonesian HBA prices YTD. Seasonally, coal demand is anticipated to pick up past the 2H mark when countries prepare their stockpiles to face winter and the Chinese industrial activity peaks. The government has scrambled to pour down stimuli in order to revive its debt-ridden property sector and rising unemployment rates, having cut their policy rates and injected liquidity to keep the economy afloat, but more intervention is expected to be delivered as the intended impact has yet materialized. That was until recently (3 Jul-23) when the market saw an upsurge of Newcastle coal prices as traders readjusted the market prices on the back of increased Chinese uptake of their coal stocks mainly for utilities. Given the circumstances, we opt for the conservative view and expect a further correction in HBA prices in 3Q23 before rebounding towards the end of FY23E and into 1Q24 (USD145/t, USD152/t and USD155/t for HBA within ITMG's GAR range; USD112/t, USD85/t and USD122/t for HBA I within ADRO's and PTBA's GAR range for the periods 3Q23, 4Q23 and 1Q24; exhibit 03).

### Volume and cost to be the highlights for now

Miners in our universe mainly posted growth in production volume in 1Q23. ADRO's production came in at 15.7 Mt (+29% YoY), more than twice from PTBA's 6.8 Mt (+7% YoY). ITMG's production, on the other hand, stagnated at 3.8 Mt. We are of the view that production volume sits as the main driver for now as coals prices withers, coupled with prudent cost management. Of the three, we observe that PTBA is faced with higher overburden costs as it had just commenced operations on Bangko Barat and Bangko Tengah (to contribute more than c. 50% of the 2023 production volume), whereas ADRO's and ITMG's stripping ratio (SR) remains at manageable levels within their 3-year average and could ease further on the back of favorable El Nino weather conditions. We still, however, maintain conservative projections for the miners this year; with ADRO expected to experience a -41.6% YoY net profit cooldown to USD1.5bn reflecting a NPM of 19.4%, PTBA's to slip more than -56% YoY to IDR5.5tn (14.8% NPM), while ITMG's bottom line is poised to fall -48.2% YoY (26.7% NPM).

### NEUTRAL Recommendation for the Coal Mining Sector

We call a **NEUTRAL** stance for the Indonesian coal miners as we believe most of them are fairly priced for now, with several short-term catalysts including conducive weather and China's increased uptake of their inventories. Coal miners are currently faced with a challenging period where they need to undertake a focus-splitting maneuver in which operational costs optimization, production volume uplift and capital expenditure towards ESG-leaning diversifications must all be met in order to attract investment appetite and refurbish their credit ratings. Based on our DCF valuation, PTBA holds the lowest EV/Reserve ratio of IDR6,854/t or equivalent to USD0.46/t. Out of the three, ADRO is valued the highest at USD3.31/t, while ITMG is valued slightly lower at USD2.84/t. We still, however, view ADRO to be farily valued at IDR3,100/share which currently offers a 32% upside, given their relatively low SR compared to peers which can help buffer the net profit decline, high export market share and robust 1Q23 production and sales performance, as well as their ample cash reserves to counter refinancing risks and support their diversification capex needs.

| Ticker | Mkt Cap (IDR tn) | P/E (x) | | P/B (x) | | Rec | TP (IDR/Sh) |
|---|---|---|---|---|---|---|---|
| | | FY23E | FY24F | FY23E | FY24F | | |
| ADRO IJ | 71.3 | 3.2 | 4.3 | 0.7 | 0.7 | BUY | 3,100 |
| ITMG IJ | 26.5 | 3.0 | 3.9 | 0.9 | 0.8 | HOLD | 26,100 |
| PTBA IJ | 30.9 | 5.7 | 6.2 | 1.1 | 1.1 | HOLD | 2,900 |

Sources : Bloomberg, MNCS Research

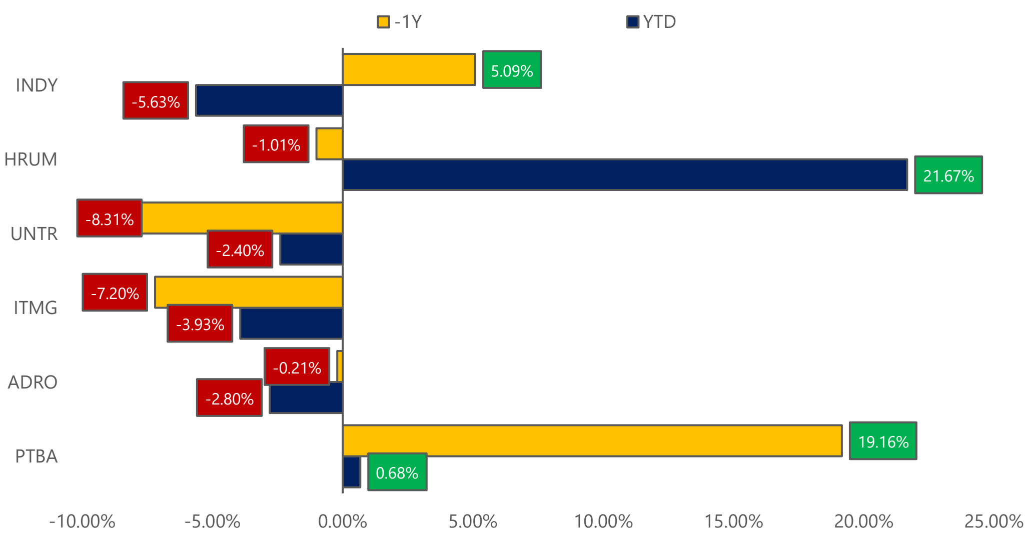
**Exhibit 01. Indonesian coal players project pipelines: steadily diverging from coal-focused value derivation**

| ADRO | Progress | Location | Capacity | Off-taker |
|---|---|---|---|---|
| Hydro Power Plant | Finalization of Offtake Agreement | North Kalimantan (KIPI) | Phase 1: 1.4 GW | KIPI tenants |
| Mini-Hydro Power Plant | Selection process of EPC contractor | Central Kalimantan | 4 MW | PT Maruwai Coal, ADMR's subsidiary |
| Solar PV and BESS | Development | Central Kalimantan | Solar PV: 8 MWp<br>BESS: 4 MWh | PT Adaro Indonesia, ADRO's subsidiary |
| Wind Turbine and BESS | Letter of Intent | South Kalimantan | Wind: 70 MW<br>BESS: 10 MWh | PLN |
| **PTBA** | **Progress** | **Location** | **Capacity** | **Off-taker** |
| CFPP Tanjung Lalang | 97.3% construction progress | South Sumatra | 1320 MW<br>5.4 mn tons/year of coal | PLN |
| Wind Power Plant | MoU in Oct-22 | South China | 2 GW | CHDOI, CHDGX |
| Solar PV with TINS | MoU in Jan-23 | TINS operational area | 6.4 MW | TINS |
| Solar PV with SMGR | MoU in Oct-22 | SMGR operational area | 40 MWp | SMGR |
| Solar PV with JSMR | MoU in Feb-23 | Along toll routes | 2 MWp | JSMR |
| Solar PV in post-mining lands | Planning | Bantuas, Ombilin and Muara Enim mining lands | 600 MW combined capacity | PLN |
| **ITMG** | **Progress** | **Location** | **Capacity** | **Off-taker** |
| GPK | Operational by end of 2023 | East Kalimantan | Resource/reserve: 117/N/A<br>3,910 kcal/kg | - |
| TIS | Operational by 2024F | East Kalimantan | Resource/reserve (mn tons): 5/N/A<br>5,335 – 5,700 kcal/kg | - |
| NPR | Development | Central Kalimantan | Resource/reserve (mn tons): 142.9/77.4<br>6,629 – 6,178 kcal/kg | - |

Source : Companies, MNCS

*Foreign investors exhibits an apparent affinity towards HRUM, as indicated by the YTD foreign ownership growth of 21.67%, as opposed to its peers that incurred net foreign ownership cut so far in 6M23, with the exception of PTBA.*

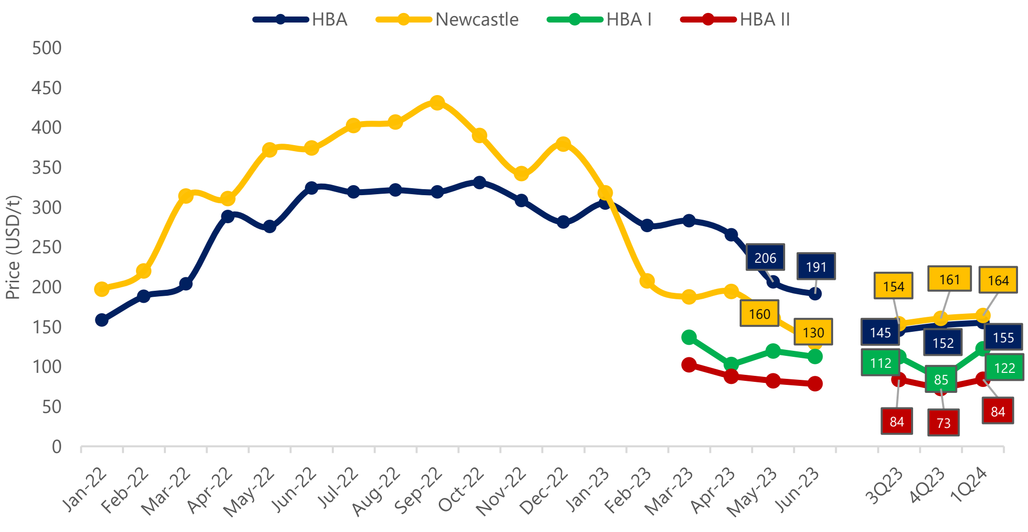
**Exhibit 02. Foreign inflow/outflow profile depicted from the change in foreign ownership positions of Indonesian coal miners**




Source : Bloomberg, KSEI, MNCS

*Coal prices are still looking at further depreciation with a slight rebound towards the end of FY23E assuming seasonal winter demand pick-up.*

**Exhibit 03. Coal prices expected to decline further in FY23E**

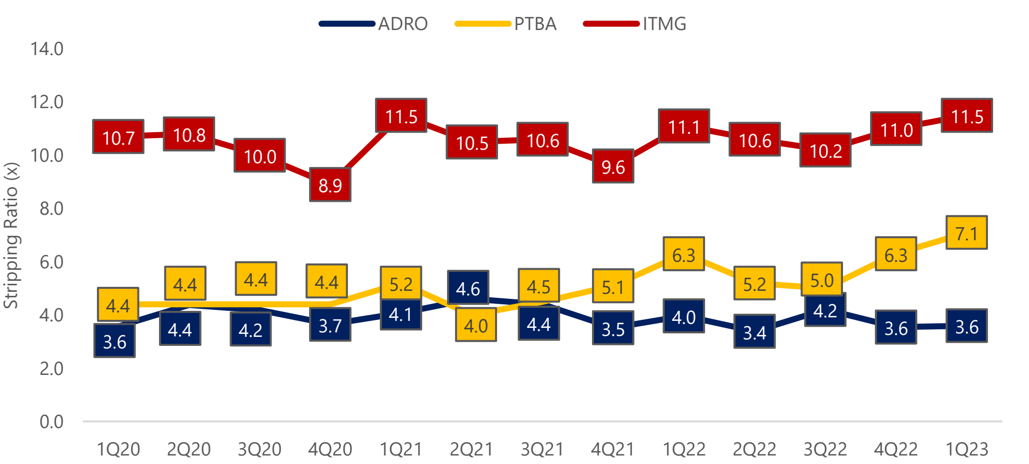



Source : Bloomberg, MoEMR, MNCS

*ITMG's and ADRO's stripping ratios were maintained prudently below their 3-year mean of 10.5x and 3.9x, respectively, with potentials of further lowering and thus highlighting their cost efficiency high-ground.*

*PTBA, on the other hand, is dealing with higher than average (5.1x) stripping ratio as they have just redirected their operations on the new mining grounds.*

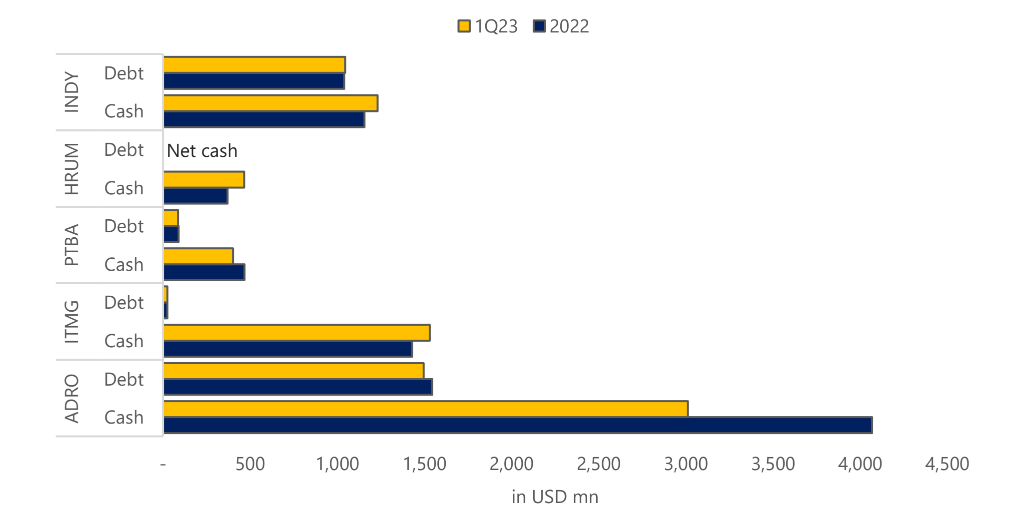
**Exhibit 04. Stripping ratio trends of the three miners**




Source : MNCS, Companies

*ADRO is sitting on the largest pile of cash compared to its peers as of 1Q23 (USD4.1bn), which is adequate for their debt payments and diversification capex.*

**Exhibit 05. Cash reserves and debt profile of coal miners**



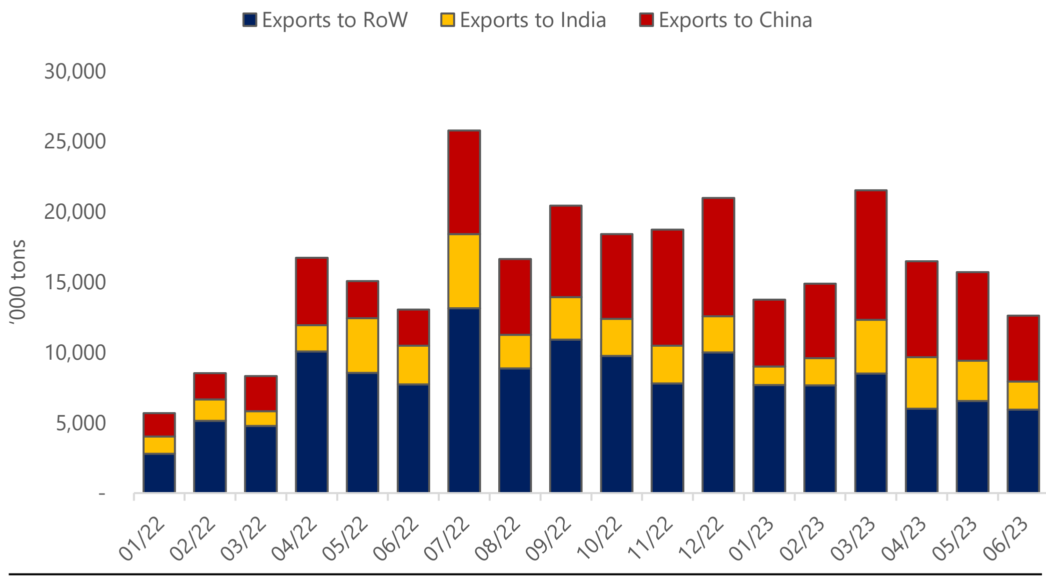

Source : MNCS, Companies

*Chinese coal imports from Indonesia seen to pick-up from last year, as the country rushes to refill its stocks in anticipation of power demands.*

*Indian coal imports from Indonesia remains comparable to last year's volume.*

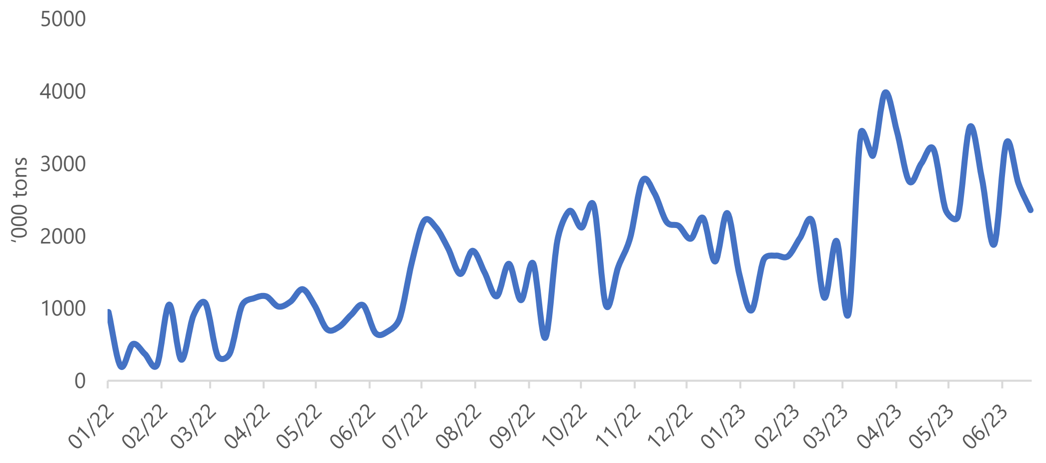
*Demands from rest of world seems to be lacking on a YoY basis, probably because of a slower economy, as well as higher incorporation of renewables into the energy mix.*

**Exhibit 06. Chinese and Indian-destined exports remain the majority of Indonesia's export market**



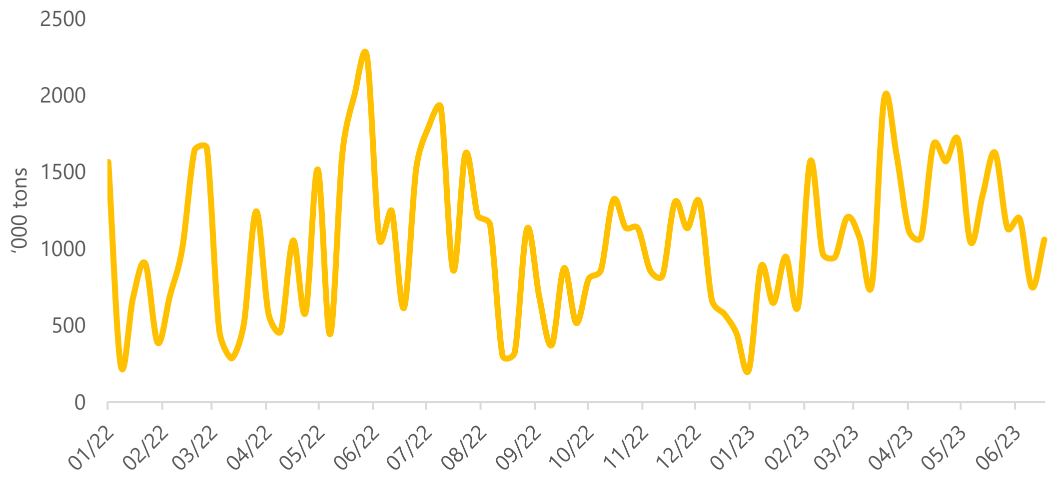

Source : Bloomberg, MNCS

**Exhibit 07. China's coal imports from Indonesia soared 173% YoY**




Source : Bloomberg, MNCS

**Exhibit 08. Indian's coal imports from Indonesia to remain stagnant**




Source : Bloomberg, MNCS

## 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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