MNC sekuritas

EQUITY RESEARCH - MNCS SECTOR UPDATES

Coal Mining Sector - December 4, 2023

NEUTRAL

Return (%)	-1D	-1W	-1M
JCI	+0.3	+2.3	+6.4
LQ45	+0.3	+1.8	+4.4
ADRO IJ	+0.4	+4.9	+5.4
ITMG IJ	-0.9	-2.4	-5.8
PTBA IJ	+0.4	+1.9	-16.8

EPS Growth (%)	FY23E	FY24F
ADRO IJ	-41.6	-33.9
ITMG IJ	-56.1	-39.8
PTBA IJ	-61.4	-9.5

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Coal Mining

In Search of Coal Players' Afterparty

Industrial performance recap

- Indonesia's coal industry's activity grew; production grew 12.4% YoY reaching 646.6mn tons, both the domestic as well as export sales grew 8.7%/6.3% YoY to 267.7mn/323.4mn tons, respectively, as of Oct-23's data from the Ministry of Energy and Mineral Resources (MoEMR). China's own coal output jumped 3.8% YoY with the clear target of fulfilling the nation's growing power consumption by 5.9% YoY to 769bn KWh in 10M23. Even with such a strong output resurgence, the imports have not faltered but have, to the contrary, surged by 98.1% YoY within the same time period. India's imports have also grown 10.3% YoY coinciding with their own outputs having reached record highs.
- The miners in our universe performed as expected in 9M23; seeing a normalizing decline in net profit. Out of the three, ADRO's decline was the most cushioned, landing a less painful -36% YoY decline (24.5% NPM) compared to ITMG's and PTBA's even steeper decline of -54.6%/-62.2% YoY (NPM of 22.2%/13.6%), respectively. ADRO achieved the highest GPM (39.9%), amongst ITMG's decent 33.4% and PTBA's meager 21.4%. ADRO's bottom line exceeded MNCS/consensus estimates at 77.9%/83.7% of FY23E, while ITMG's and PTBA's fell short, reflecting 73.9%/68.6% and 63.8%/43.0%, respectively. ITMG's top line fell the deepest by -30.2% YoY amid a -36.2% shrink in ASP whilst also recording the slowest sales growth (9.8% YoY vs ADRO's/PTBA's of 11.1%/14.4% YoY), whereas ADRO managed to contain the top line/ASP slip to -15.8%/-24.2% YoY and PTBA by an even softer -10.7%/-22.0% YoY.
- ADRO stood with the most abundant net cash reserves amounting to USD2,236.2mn, 3x that of ITMG's, while PTBA's net cash comes in negative due to its sizeable accrued expenses. ADRO's unappropriated retained earnings came in at USD5,131.8mn during the same period, 4x/24x times higher than ITMG's and PTBA's, priming a higher probability for dividends in FY24F.

Coal prices expected to stabilize at current levels

Chinese and Indian coal demand are expected to stay strong at least until FY31F before they start declining, at a CAGR of 2.0% and 3.1%, respectively, according to S&P forecasts. Both nations have a hasty agenda of ramping up their coal-fired power plant (CFPP) capacity; China has been on a CFPP permitting spree with 243 GW of capacity now under active construction which still has the potential to grow to 392 GW if the base case scenario plays out, while India's figures, though lower, stand at a considerable 65.3 GW. This will be met with soild Indonesian output; MoEMR expects FY24F production to be maintained at c. 700mn tons. We project the Newcastle price to hover around c. USD120/ton for FY24F, entailing a blended ASP of -32.4%/-13.4%/-27.8% YoY for ADRO/PTBA/ITMG.

Strategically positioned market share to temper FY24F's earnings decline...

The theme for coal players going forward is who can slowdown their earnings decline the most, whilst sceruing enough capital for diversification plays. All three miners are projected to experience further declines in their bottom-line in FY24F; ADRO by -33.9%, ITMG by -39.8% and PTBA by -9.5% YoY, and hence their ability to generate FCF (projected to unanimously decline by -45.9%, -41.7% and -14.8% YoY, respectively). What we think will be a reasonably decisive factor in cushioning the rate of earnings' decline of coal miners would be their portfolio of export market, in particular the Chinese and Indian market. From our universe, the coal player that has the most exposure to such market giants would be ITMG (China: 29%; India: 4%), ADRO (China: 20%; India: 11%) and then PTBA (China: 9%; India: 17%). Despite having the largest proportion of Chinese export market, ITMG's YoY revenue demise was due to their larger exposure to the Japanese, Philippines and Taiwanese market (each accounting for 20.1%, 10.5% and 2.0% of the revenue), which had a higher ASP base and was more volatile. The slump in ASP incurred from the two regions (India by -25.3% YoY; China by -30.2% YoY) were milder than that of other countries (Philippines by -50.1%, Taiwan by -41.6%, Hong Kong by -40.5% and Japan by -39.5% YoY).

...faced with threat of leveling the playing ground through BLU/MIP

The government has once again voiced out the impending policy of Mitra Instansi Pengelola (MIP; formerly known as BLU), indicating that the policy will be rolled out in Jan-24. The policy itself hasn't exactly been welcomed within the coal mining community, let alone shown undisputed consent. Nevertheless, we have not yet priced in the effect of BLU into our projections due to the undisclosed variables such as tariff ratio that will come into the calculation. PTBA's margins should benefit from the enactment of this policy, while ADRO and ITMG can expect some margin-chipping, with ITMG to a greater extent due to its greater exposure to the export market (83% of its total revenue vs ADRO's 82%), and ADRO's partial buffer against the BLU fee through the met coal segment (met coals aren't included in the MIP scheme).

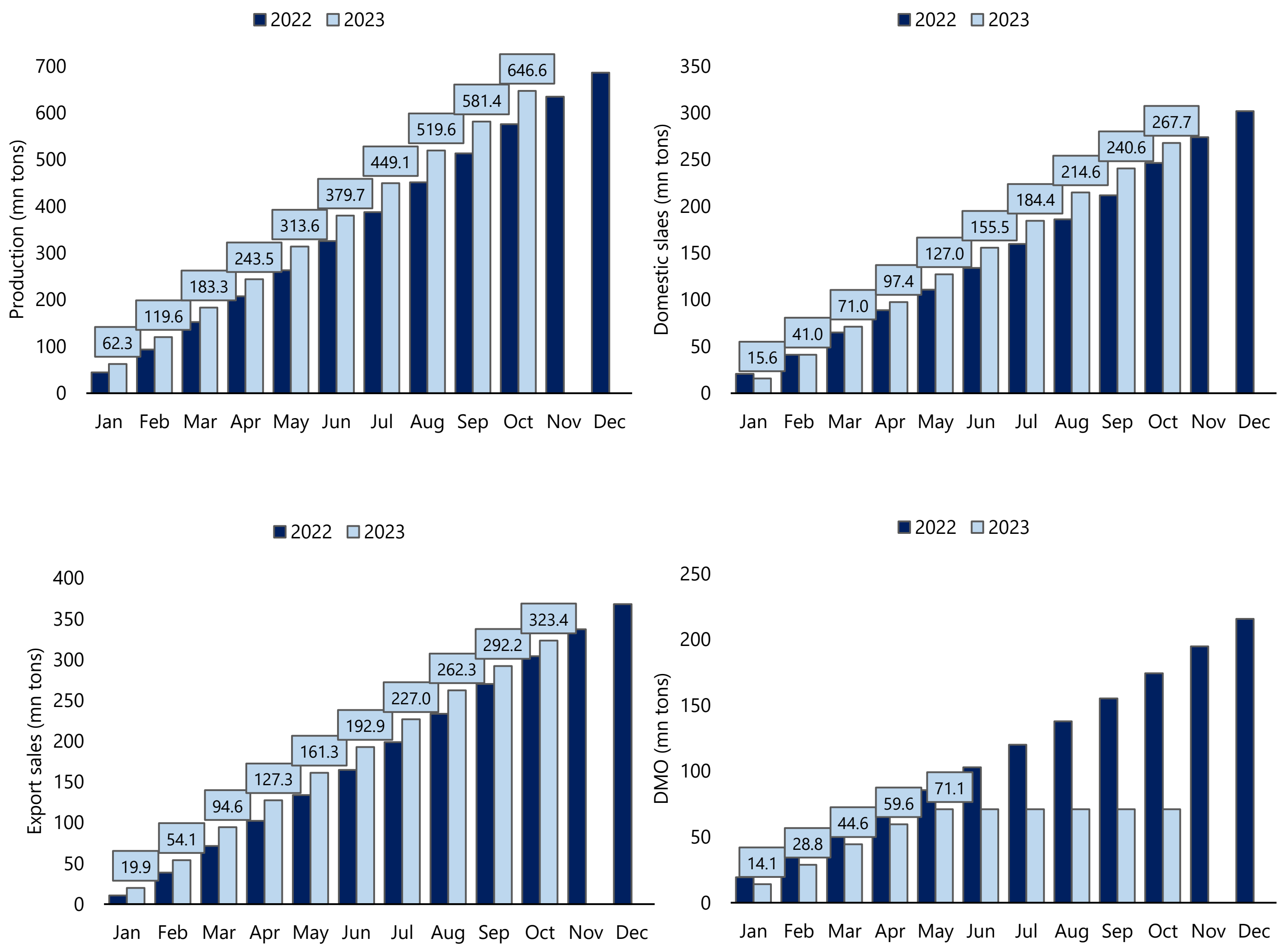
NEUTRAL recommendation for the coal mining sector

We call for a **NEUTRAL** stance for the Indonesian coal miners as they face a new wave of uncertainty, mainly pertaining to the BLU implementation, whilst coal prices are expected to remain stagnant at their current levels post-normalization period. We continue to like ADRO as our top pick (TP: IDR2,700/share) due to its 1) relatively resilient earnings performance, 2) relatively stable outlook in facing MIP policy and 3) ample cash and RE reserves entailing higher possibilities of lucrative dividends compared to its peers.

Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
ADRO IJ	82.5	3.9	5.9	0.9	0.9	HOLD	2,700
ITMG IJ	28.2	3.5	5.8	0.9	0.9	HOLD	24,900
PTBA IJ	28.1	6.3	7.0	1.1	1.1	HOLD	2,500

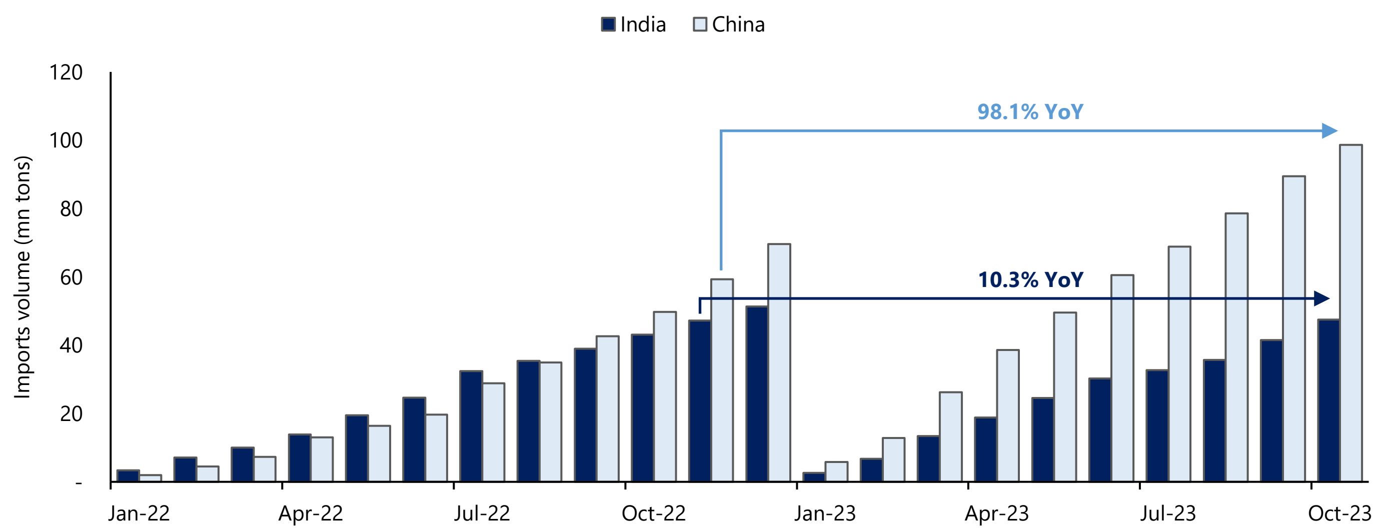
Sources : Bloomberg, MNCS Research

Exhibit 01. YoY Indonesian coal industry performance (monthly cumulative)



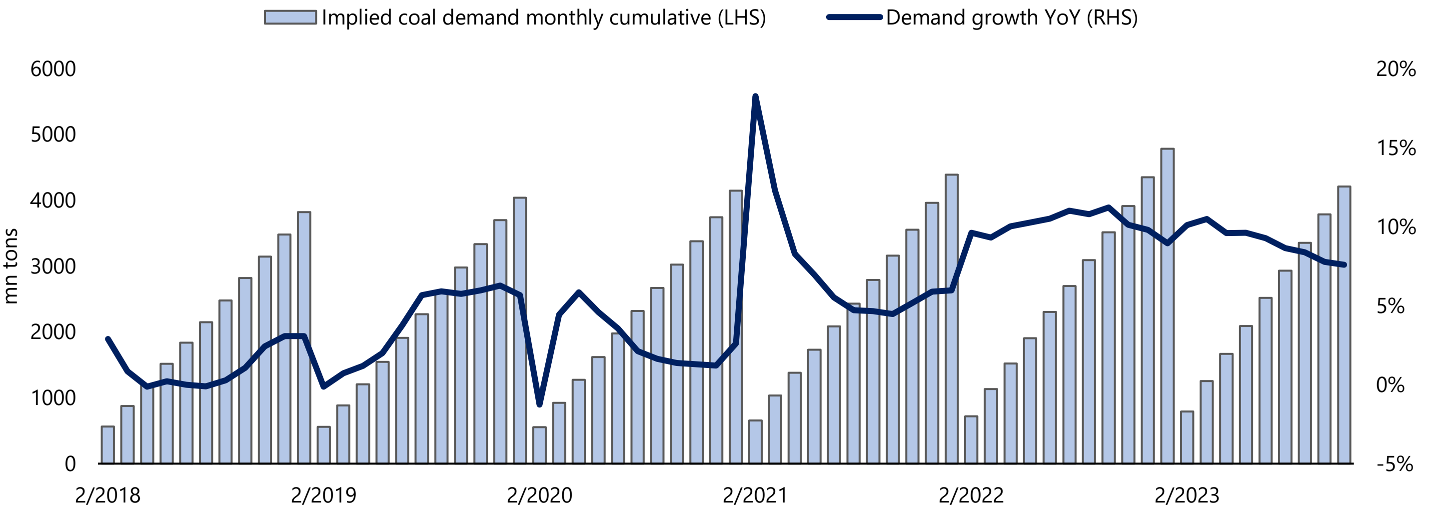
Source : MoEMR, MNCS

Exhibit 02. India and China import volumes have surged (monthly cumulative per year)



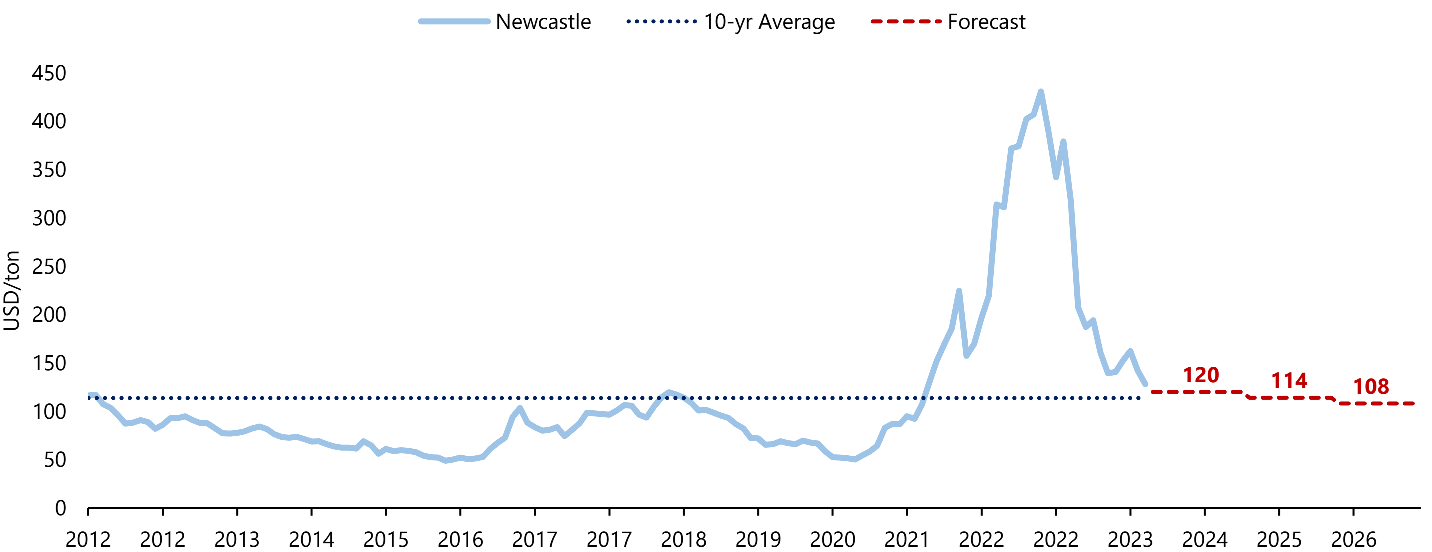
Source : Bloomberg, Global Ports, MNCS

Exhibit 03. China's implied coal demand (output + imports - exports) has consistently grown, growth to exceed pre-pandemic levels



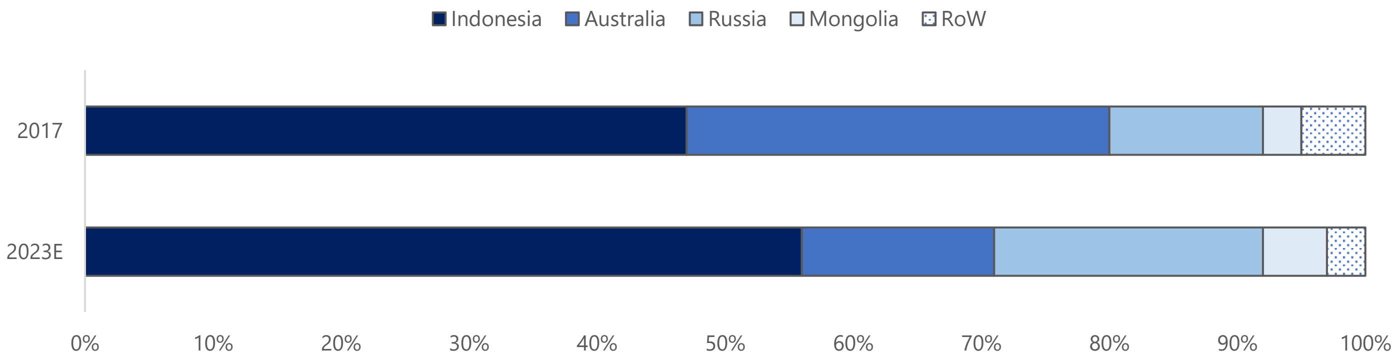
Source : Bloomberg, MNCS

Exhibit 04. Coal prices to hover above 10-yr historical mean in FY24F on its declining trend



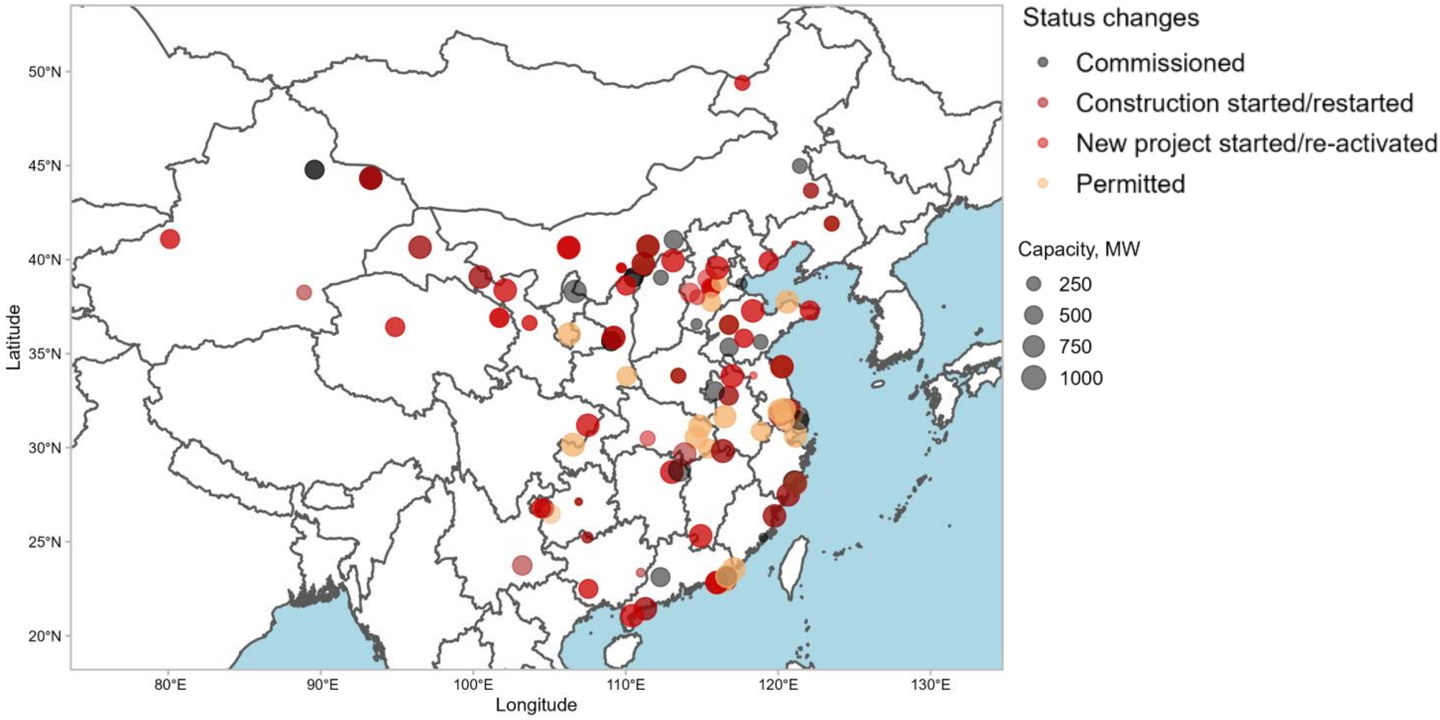
Source : Bloomberg, MNCS

Exhibit 05. China's appetite for Australian coal have yet recovered post trade-ban lift in early 2023; opportune for Indonesian coal players



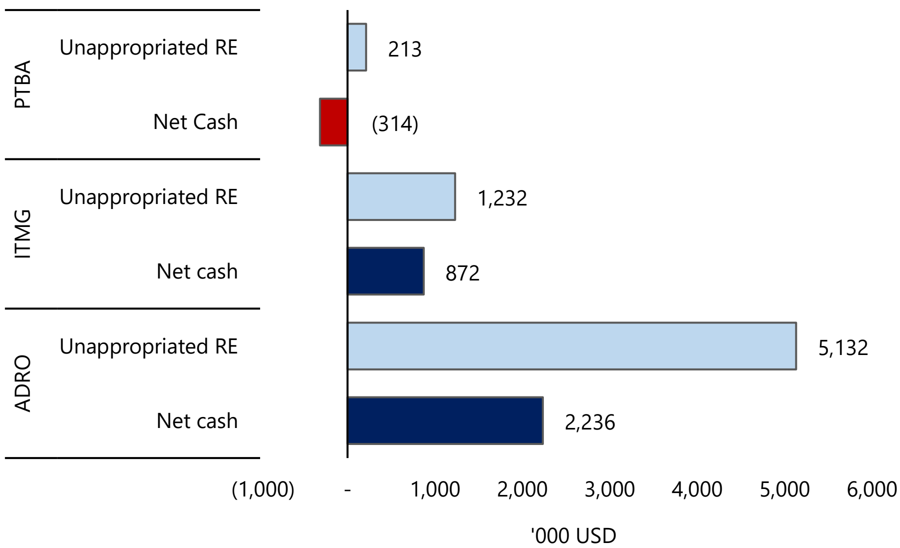
Source : MoEMR, MNCS

Exhibit 06. China's commissioned and planned CFPP geographical profile; plenty underway to fuel more demand



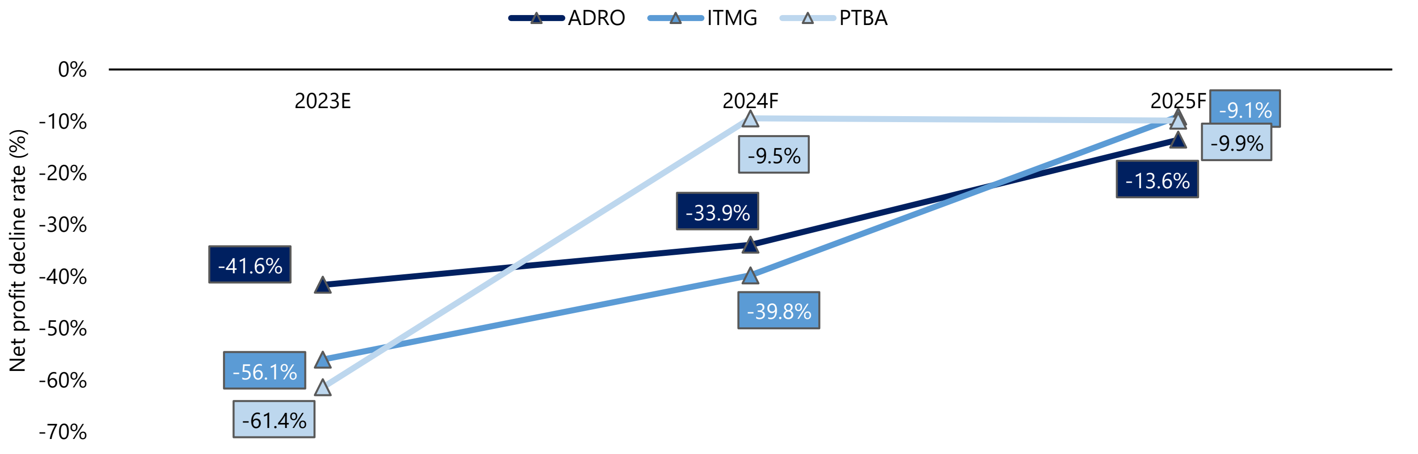
Source : CREA, MNCS

Exhibit 07. ADRO's 9M23 cash and RE reserves to lead; attractive for dividend hunters



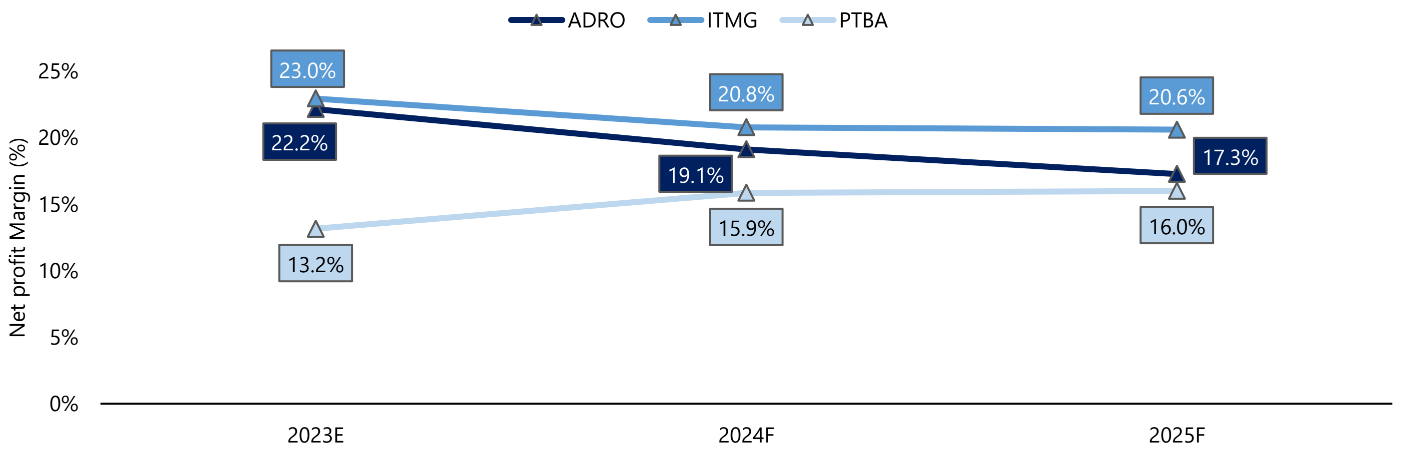
Source : Companies, MNCS

Exhibit 08. ITMG projected to risk deepest net profit contraction next year while PTBA set to gain from export share rise and MIP boost



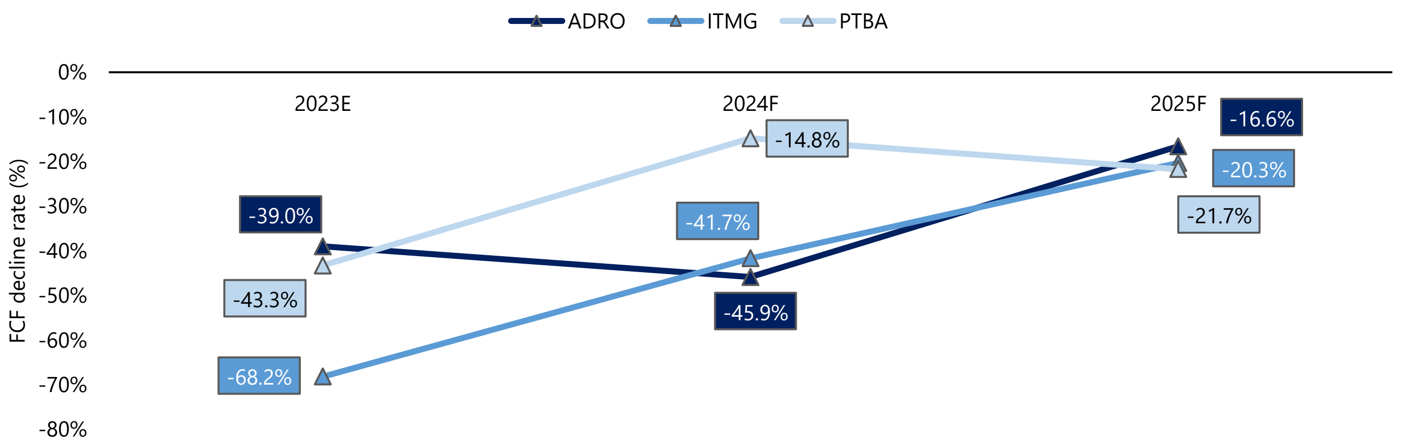
Source : Bloomberg, Companies, MNCS

Exhibit 09. NPMs expected to recalibrate after volatile 2022-2023E coal price movements on stable 2024-2025F



Source : Bloomberg, Companies, MNCS

Exhibit 10. The three coal miners' FCF trend



Source : Bloomberg, Companies, 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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