

Monday, 14 May 2018

**BUY**  
**Upgrade**

Last price (IDR)	25,625
Target Price (IDR)	33,200
Upside/Downside	+29.6%
Previous Target Price (IDR)	33,200

**Stock Statistics**

Sector	Coal Mining
Bloomberg Ticker	ITMG IJ
No of Shrs (mn)	1,130
Mkt. Cap (IDRbn/USDmn)	28,954/2,074
Avg. daily T/O (IDRbn/USDmn)	37.0/2.7

**Major shareholders (%)**

Banpu Minerals	65.1
Estimated Free Float	31.9

**EPS Consensus (USDcents)**

	2018F	2019F	2020F
Danareksa	25.6	24.1	23.7
Consensus	24.7	24.8	25.1
Danareksa/Cons	3.6	(3.0)	(5.5)

**ITMG relative to JCI Index**



Source : Bloomberg



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# Indo Tambangraya (ITMG IJ)

## Unfavorable weather hit coal production

**Indo Tambangraya Megah (ITMG) reported net profits of USD58mn in 1Q18 (-27.8% qoq, but +1.6% yoy). The decline in quarterly net profits was mainly due to lower coal production on harsh weather conditions. The 1Q18 net profits were below our expectation and consensus estimates. Nonetheless, we upgrade our recommendation to BUY as the recent share price correction provides upside of 29.6% to our TP of IDR33,200 (based on mine-life DCF valuation with WACC of 11.9%). Our target price implies 9.6x 2018F PE.**

**Lower quarterly results.** The company reported 27.8% qoq lower net profits in 1Q18. While coal prices remained strong, we believe the decline in net profits was mainly due to weak coal production. Based on data from Banpu, sales volume from the Indonesia operations only reached 4.4mn tonnes in 1Q18 (4Q17: 7.3mn tonnes). This reflects the unfavorable weather conditions at ITMG's mining area in East Kalimantan. Despite this, the company still managed to maintain its operating margin at 23.2% in 1Q18.

**Higher coal prices shored up the 1Q18 net profits on a yearly comparison.** Despite lower coal production growth on the back of unfavorable weather conditions in addition to higher costs, ITMG managed to post slightly higher net profits on a yearly comparison (+1.6% yoy), mainly thanks to: a) a lower corporate tax rate at 29.6% in 1Q18 (1Q17: 35.3%) and b) higher ASP. We believe that the higher costs were mainly attributable to a higher stripping ratio in 1Q18.

**Slight recovery in coal production expected in 2018.** After unfavorable weather lowered coal production by 13.8% yoy in 2017, the management has indicated a slight recovery in coal production by 1.8% yoy in 2018 while maintaining the average stripping ratio (SR) of around 11x. We expect better weather conditions to help the company raise coal production in the coming quarters.

**Upgrade to BUY.** With sturdy coal prices in 2Q18 and expectations of better weather conditions, we expect ITMG to book better earnings in the coming quarters. We upgrade our recommendation to BUY as the recent share price correction provides attractive upside of 29.6% to our target price of IDR33,200 (based on mine-life DCF valuation with WACC of 11.9%). Our TP implies 9.6x 2018F PE.

**Key Financials**

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (USDmn)	1,367	1,690	1,970	1,967	1,955
EBITDA (USDmn)	272	448	499	435	420
EBITDA Growth (%)	5.7	64.3	11.5	(12.8)	(3.5)
Net profit (USDmn)	131	253	289	272	268
EPS (USDcents)	11.6	22.4	25.6	24.1	23.7
EPS growth (%)	107.1	93.3	14.5	(6.0)	(1.3)
BVPS (USDcents)	80.3	84.8	93.1	100.0	107.1
DPS (USDcents)	3.7	17.6	17.3	17.1	16.7
PER (x)	15.9	8.2	7.2	7.6	7.7
PBV (x)	2.3	2.2	2.0	1.8	1.7
Dividend yield (%)	2.0	9.6	9.4	9.3	9.1
EV/EBITDA (x)	6.4	3.8	3.3	3.8	3.7

Source : ITMG, Danareksa Estimates

**Exhibit 1. Revenues and Growth**

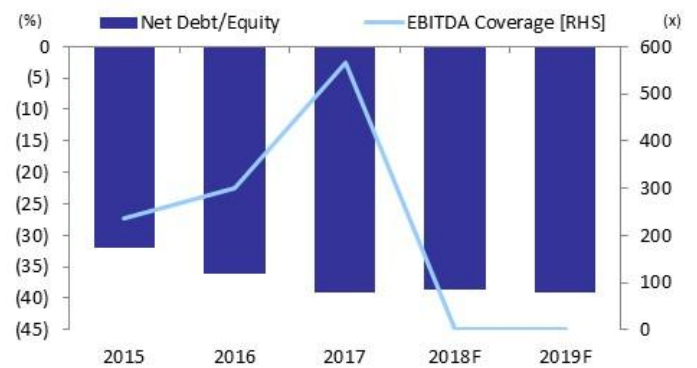

Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. 1Q18 Results – Below Expectation**

Financial performance	4Q17	1Q18	QoQ,%	1Q17	1Q18	YoY, %	2018F	A/F, %
Net sales, USDmn	526	378	(28.1)	368	378	2.8	1,970	19
COGS, USDmn	(367)	(267)	(27.2)	(253)	(267)	5.6	(1,388)	19
Gross profit, USDmn	159	111	(30.0)	115	111	(3.4)	582	19
Opex, USDmn	(38)	(23)	(37.9)	(26)	(23)	(9.4)	(141)	17
Operating profit, USDmn	121	88	(27.5)	89	88	(1.6)	441	20
Net profit, USDmn	80	58	(27.8)	57	58	1.6	289	20
Gross margin, %	30.2	29.4	(0.8)	31.2	29.4	(1.9)	29.6	
Operating margin, %	23.0	23.2	0.2	24.2	23.2	(1.1)	22.4	
Net margin, %	15.3	15.4	0.1	15.5	15.4	(0.2)	14.7	

Source: Company, Danareksa Sekuritas estimates

### Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
<b>Revenue</b>	<b>1,367</b>	<b>1,690</b>	<b>1,970</b>	<b>1,967</b>	<b>1,955</b>
COGS	(1,037)	(1,184)	(1,388)	(1,413)	(1,411)
<b>Gross profit</b>	<b>331</b>	<b>505</b>	<b>582</b>	<b>554</b>	<b>544</b>
<b>EBITDA</b>	<b>272</b>	<b>448</b>	<b>499</b>	<b>435</b>	<b>420</b>
<b>Oper. profit</b>	<b>209</b>	<b>388</b>	<b>441</b>	<b>411</b>	<b>390</b>
Interest income	2	3	3	4	4
Interest expense	(1)	(1)	0	0	0
Forex Gain/(Loss)	(4)	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(14)	(29)	(20)	(15)	0
<b>Pre-tax profit</b>	<b>192</b>	<b>362</b>	<b>425</b>	<b>399</b>	<b>394</b>
Income tax	(61)	(109)	(136)	(127)	(126)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>131</b>	<b>253</b>	<b>289</b>	<b>272</b>	<b>268</b>
<b>Core Net Profit</b>	<b>139</b>	<b>253</b>	<b>289</b>	<b>272</b>	<b>268</b>

### Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	328	374	408	441	508
Receivables	132	195	202	194	182
Inventory	62	109	110	108	101
Other Curr. Asset	17	119	119	119	119
Fixed assets - Net	224	223	276	353	404
Other non-curr.asset	447	339	328	317	306
<b>Total asset</b>	<b>1,210</b>	<b>1,359</b>	<b>1,444</b>	<b>1,533</b>	<b>1,620</b>
ST Debt	0	0	0	0	0
Payables	98	161	151	163	170
Other Curr. Liabilities	141	167	167	167	167
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	64	73	73	73	73
<b>Total Liabilities</b>	<b>302</b>	<b>401</b>	<b>391</b>	<b>402</b>	<b>410</b>
Shareholder's Funds	907	958	1,052	1,130	1,210
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>1,210</b>	<b>1,359</b>	<b>1,444</b>	<b>1,533</b>	<b>1,620</b>

### Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Net income	131	253	289	272	268
Depreciation and Amort.	64	59	58	24	30
Change in Working Capital	(9)	(125)	(18)	21	27
Other Oper. Cash Flow	(47)	95	(3)	(4)	(4)
<b>Operating Cash Flow</b>	<b>139</b>	<b>282</b>	<b>325</b>	<b>314</b>	<b>321</b>
Capex	(22)	(50)	(100)	(90)	(70)
Others Inv. Cash Flow	4	15	3	4	4
<b>Investing Cash Flow</b>	<b>(18)</b>	<b>(34)</b>	<b>(97)</b>	<b>(86)</b>	<b>(66)</b>
Net change in debt	0	0	0	0	0
New Capital	0	0	0	0	0
Dividend payment	(42)	(199)	(195)	(194)	(188)
Other Fin. Cash Flow	(18)	(2)	0	0	0
<b>Financing Cash Flow</b>	<b>(60)</b>	<b>(201)</b>	<b>(195)</b>	<b>(194)</b>	<b>(188)</b>
<b>Net Change in Cash</b>	<b>60</b>	<b>46</b>	<b>33</b>	<b>34</b>	<b>67</b>
Cash - begin of the year	268	328	374	408	441
Cash - end of the year	328	374	408	441	508

### Exhibit 9. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
<b>Growth (%)</b>					
Sales	(14.0)	23.5	16.6	(0.2)	(0.6)
EBITDA	5.7	64.3	11.5	(12.8)	(3.5)
Operating profit	7.7	86.1	13.7	(7.0)	(5.0)
Net profit	107.1	93.3	14.5	(6.0)	(1.3)
<b>Profitability (%)</b>					
Gross margin	24.2	29.9	29.6	28.1	27.8
EBITDA margin	19.9	26.5	25.3	22.1	21.5
Operating margin	15.3	23.0	22.4	20.9	19.9
Net margin	9.6	15.0	14.7	13.8	13.7
ROAA	10.9	19.7	20.6	18.3	17.0
ROAE	15.0	27.1	28.8	24.9	22.9
<b>Leverage</b>					
Net Gearing (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Interest Coverage (x)	228.7	489.4	0.0	0.0	0.0

Source : ITMG, Danareksa Estimates

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