

Wednesday, 31 July 2019

HOLD
Maintain

Last price (IDR) 1,305
Target Price (IDR) 1,500
Upside/Downside +14.9%
Previous Target Price (IDR) 1,500

Stock Statistics

Sector Coal Mining
Bloomberg Ticker HRUM IJ
No of Shrs (mn) 2,653
Mkt. Cap (IDRbn/USDmn) 3,462/247
Avg. daily T/O (IDRbn/USDmn) 5.3/0.4

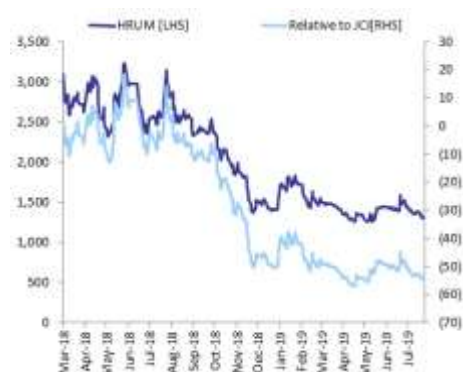
Major shareholders (%)

Karunia Bara Perkasa 71.0
Estimated Free Float 28.9
Estimated free float 28.9

EPS Consensus (USDcents)

	2019F	2020F	2021F
Danareksa	1.1	1.1	1.1
Consensus	0.8	0.9	0.8
Danareksa/Cons	33.1	25.2	40.5

HRUM relative to JCI Index



Source : Bloomberg



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Harum Energy (HRUM IJ)

Soft earnings

Harum Energy (HRUM) reported net profits of USD6.3mn in 2Q19 (-1.3% qoq, but +38.2% yoy). Cumulatively, net profits declined by 26.2% yoy to USD12.7mn in 1H19. Despite the muted coal price outlook, we expect higher coal production - which will come from Santan Batubara (SB) and the recommencement of operations at its KUP mining area - to sustain earnings. Maintain HOLD with a target price of IDR1,500.

Lower volume softened quarterly net profits. HRUM reported a 1.3% qoq decline in net profits to USD6.3mn in 2Q19 mainly due to: a) 1.3% qoq lower coal sales volume with lower production volume (-35.5% qoq) and b) higher total FOB cash costs (+4.5% qoq) on a rising stripping ratio to 12.8x in 2Q19 from 9.7% in 1Q19. Despite lower coal prices, the company managed to improve its coal ASP by 3.0% qoq to USD64/ton thanks to higher priced sales contracts carried over from previous quarters.

1H19: weak earnings from lower coal prices. Yearly net profits declined by 26.2% yoy to USD12.7mn in 1H19 due to: a) soft coal prices which resulted in 14.4% yoy lower ASP of USD63/ton and b) higher operating expenses (+8.8% yoy). The impact of weak coal prices resulted in lower gross and operating margins of 26.9% and 12.9% in 1H19 compared to 33.0% and 21.2% in 1H18 respectively.

Expect a significant increase in waste removal and coal hauling in 3Q19. The company indicated a significant production increase in both waste removal and coal hauling in 3Q19. The coal hauling at Mahakam Sumber Jaya (MSJ) is expected to double in 2H19 compared to 1H19 thanks to higher equipment productivity and the availability of new working areas. For 2019, the company targets higher coal production of 4.5 – 5.0mn tons (2018: 4.1mn tons) backed by: a) higher coal production from Santan Batubara (SB) of around 1.1mn tons vs. only 0.45mn tons in 2018 and b) the resumption of mining operations at Karya Usaha Pertiwi (KUP) at the end of 1H19. As a result, HRUM expects KUP to operate at an annualized run rate of 1mn tons.

Maintain HOLD. We remain concerned by the company's limited reserves with a mining life of only 12 years based on the current production rate. Maintain HOLD with a target price of IDR1,500 (based on DCF valuation with WACC of 13.9%).

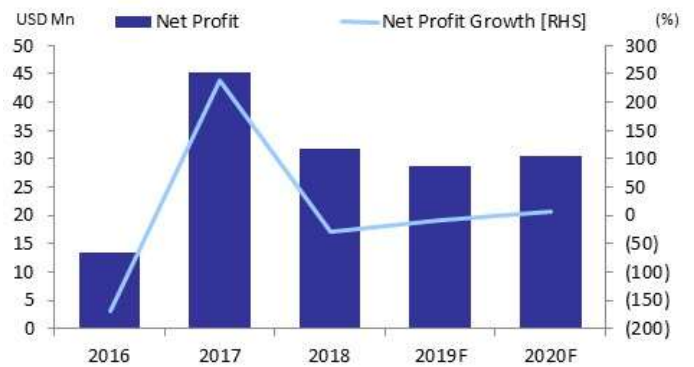
Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (USDmn)	326	337	368	421	447
EBITDA (USDmn)	84	63	62	63	63
EBITDA Growth (%)	89.2	(25.3)	(2.4)	2.4	(0.1)
Net profit (USDmn)	45	32	29	30	30
EPS (USDcents)	1.7	1.2	1.1	1.1	1.1
EPS growth (%)	239.2	(29.7)	(9.5)	5.8	(0.2)
BVPS (USDcents)	11.7	11.2	11.5	12.1	12.6
DPS (USDcents)	0.1	0.4	0.6	0.6	0.6
PER (x)	5.6	7.9	8.7	8.3	8.3
PBV (x)	0.8	0.8	0.8	0.8	0.7
Dividend yield (%)	1.3	4.5	6.7	6.1	6.4
EV/EBITDA (x)	(0.2)	0.6	(0.7)	(1.1)	(1.5)

Source : HRUM, Danareksa Estimates

Exhibit 1. Revenues and Growth

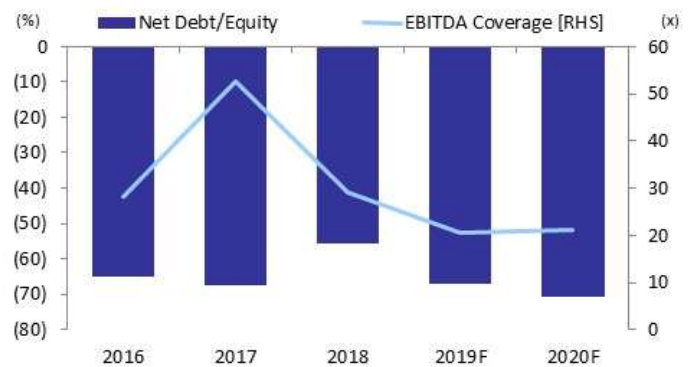

Source: Company, Danareksa Sekuritas estimates

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. 1H19 Results – Below Expectation

Operational Data	2Q18	1Q19	2Q19	QoQ, %	YoY, %	1H18	1H19	YoY, %	2019F	A/F, %
Production vol, mn tons	0.8	1.0	0.6	(35.5)	(24.7)	1.6	1.6	(1.5)	5.3	30.0
Sales vol, mn tons	0.9	1.1	1.0	(7.5)	18.3	2.0	2.1	6.5	5.8	36.4
ASP, USD/ton	73.1	62.1	64.0	3.0	(12.4)	73.6	63.0	(14.4)	61.3	102.8
Strip ratio, bcm/ton	11.0	9.7	12.8	32.0	16.4	10.2	10.9	6.9	10.4	105.2
FOB cash cost, USD/ton	44.3	38.3	40.1	4.5	(9.5)	42.5	39.2	(7.8)	37.6	104.3
Financial performance	2Q18	1Q19	2Q19	QoQ, %	YoY, %	1H18	1H19	YoY, %	2019F	A/F, %
Revenue, USDmn	66.3	72.1	67.7	(6.0)	2.1	153.1	139.8	(8.7)	367.7	38
COGS, USDmn	46.9	52.2	50.0	(4.1)	6.7	102.7	102.2	(0.5)	253.7	40
Gross profit, USDmn	19.4	19.9	17.7	(11.1)	(9.0)	50.5	37.6	(25.5)	114.0	33
Opex, USDmn	8.5	10.4	9.2	(12.0)	7.5	18.0	19.6	8.8	65.2	30
Operating profit, USDmn	10.9	9.5	8.5	(10.1)	(21.9)	32.5	18.0	(44.6)	48.8	37
EBITDA, USDmn	15.3	13.0	11.9	(8.5)	(22.2)	40.0	24.9	(37.8)	61.6	40
Pretax profit, USDmn	9.5	8.9	9.4	5.5	(1.7)	30.0	18.2	(39.2)	42.2	43
Net profit, USDmn	4.6	6.4	6.3	(1.3)	38.2	17.2	12.7	(26.2)	28.8	44
Gross margin, %	29.3	27.6	26.1	(1.5)	(3.2)	33.0	26.9	(6.1)	31.0	
Operating margin, %	16.4	13.1	12.6	(0.6)	(3.9)	21.2	12.9	(8.3)	13.3	
EBITDA margin, %	23.1	18.0	17.6	(0.5)	(5.5)	26.1	17.8	(8.3)	16.7	
Net margin, %	6.9	8.9	9.3	0.4	2.4	11.2	9.1	(2.1)	7.8	

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Revenue	326	337	368	421	447
COGS	(214)	(235)	(254)	(298)	(317)
Gross profit	112	101	114	123	129
EBITDA	84	63	62	63	63
Oper. profit	72	51	49	50	49
Interest income	4	5	5	7	8
Interest expense	(2)	(2)	(3)	(3)	(3)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	(1)	(1)	(1)	(1)
Other Income (Expenses)	(1)	(5)	(8)	(8)	(8)
Pre-tax profit	73	48	42	45	45
Income tax	(17)	(8)	(10)	(10)	(10)
Minority interest	(10)	(8)	(4)	(4)	(4)
Net profit	45	32	29	30	30
Core Net Profit	45	32	29	30	30

Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	266	216	293	322	345
Receivables	26	36	21	21	23
Inventory	12	35	21	20	22
Other Curr. Asset	10	23	23	23	23
Fixed assets - Net	81	82	82	82	81
Other non-curr.asset	64	75	70	67	65
Total asset	459	468	510	536	558
ST Debt	0	0	0	0	0
Payables	33	44	39	46	49
Other Curr. Liabilities	25	24	24	24	24
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	6	11	11	11	11
Total Liabilities	64	80	74	81	84
Shareholder's Funds	315	302	312	327	342
Minority interests	81	86	123	128	132
Total Equity & Liabilities	459	468	510	536	558

Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Net income	45	32	29	30	30
Depreciation and Amort.	12	12	13	13	14
Change in Working Capital	(6)	(35)	25	7	0
Other Oper. Cash Flow	(16)	(41)	(7)	(11)	(12)
Operating Cash Flow	35	(33)	59	39	32
Capex	(10)	(20)	(10)	(10)	(10)
Others Inv. Cash Flow	7	10	10	14	15
Investing Cash Flow	(2)	(10)	0	4	5
Net change in debt	0	0	0	0	0
New Capital	0	0	0	0	0
Dividend payment	(3)	(11)	(17)	(15)	(16)
Other Fin. Cash Flow	6	4	34	1	1
Financing Cash Flow	2	(8)	17	(14)	(15)
Net Change in Cash	35	(50)	76	29	23
Cash - begin of the year	231	266	216	293	322
Cash - end of the year	266	216	293	322	345

Exhibit 9. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	50.0	3.4	9.2	14.6	6.0
EBITDA	89.2	(25.3)	(2.4)	2.4	(0.1)
Operating profit	123.4	(29.2)	(4.5)	2.1	(0.9)
Net profit	239.2	(29.7)	(9.5)	5.8	(0.2)
Profitability (%)					
Gross margin	34.4	30.1	31.0	29.3	29.0
EBITDA margin	25.9	18.7	16.7	15.0	14.1
Operating margin	22.1	15.2	13.3	11.8	11.0
Net margin	13.9	9.4	7.8	7.2	6.8
ROAA	10.4	6.9	5.9	5.8	5.6
ROAE	15.2	10.3	9.4	9.5	9.1
Leverage					
Net Gearing (x)	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)
Interest Coverage (x)	44.8	23.6	16.3	16.6	16.5

Source : HRUM, Danareksa Estimates

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