

Tuesday, 02 June 2020

HOLD
Maintain

Last price (IDR) 1,215
Target Price (IDR) 1,300
Upside/Downside +7.0%
Previous Target Price (IDR) 1,300

Stock Statistics

Sector Coal Mining
Bloomberg Ticker HRUM IJ
No of Shrs (mn) 2,653
Mkt. Cap (IDRbn/USDmn) 3,223/221
Avg. daily T/O (IDRbn/USDmn) 1.1/0.1

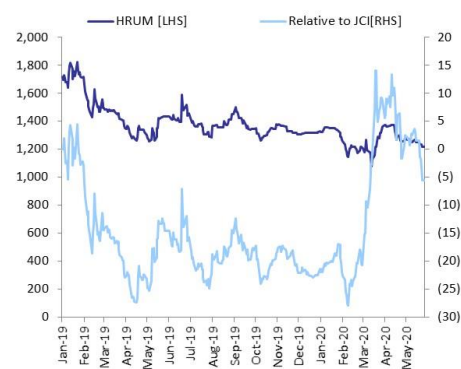
Major shareholders (%)

Karunia Bara Perkasa 71.0
Estimated Free Float 28.9
Estimated free float 13.6

EPS Consensus (USDcents)

| | 2020F | 2021F | 2022F |
|----------------|--------|-------|-------|
| Danareksa | 0.5 | 0.7 | 0.8 |
| Consensus | 0.7 | 0.6 | 0.3 |
| Danareksa/Cons | (23.7) | 8.5 | 173.6 |

HRUM relative to JCI Index



Source : Bloomberg



Stefanus Darmagiri

(62-21) 5091 4100 ext. 3530

stefanus.darmagiri@danareksa.co.id

Harum Energy(HRUM IJ)

1Q20: hit by a higher tax rate

Harum Energy (HRUM) reported net profits of USD0.8mn in 1Q20 (-66.6% qoq, -87.1% yoy). While the result was still within our expectations operationally, the net profits were below our expectations on a higher tax rate in 1Q20. Despite the muted coal price outlook, we expect solid coal production of around 4mn tons in 2020 with recommencement of operations at KUP mining areas. Maintain HOLD with a target price of IDR1,300.

Higher tax rate lowered quarterly profits. While the company managed to post higher quarterly operating profits in 1Q20 with the company able to sell its 1Q20 coal production of around 1mn tons while also recording lower costs, the net profits declined by 66.6% qoq to USD0.8mn in 1Q20. This mainly reflects a higher tax rate of 53.5% in 1Q20 (4Q19: 14.5%). Nonetheless, lower production costs and operating expenses (on normalization of the GA expenses and lower selling expenses) helped the company to improve its gross and operating margins to 28.2% and 13.7% in 1Q20 from 24.3% and 1.1% in 4Q19, respectively.

Lower coal prices soften profits. Yearly net profits declined by 87.1% yoy due to: a) soft coal prices which weighed on the company's ASP, b) higher other expenses arising from higher forex losses of USD4.9mn in 1Q20 vs. USD0.8mn in 1Q19 and c) a higher tax rate of 53.5% in 1Q20 vs. 21.7% in 1Q19 as there was a tax-effect on non-deductible expenses in 1Q20. The impact from lower COGS and operating expenses helped the company to maintain solid gross and operating margins.

Expect a slight improvement in coal production in 2020. We expect HRUM's coal production to improve slightly to around 4.0mn tons in 2020 (2019: 3.7mn tons) underpinned by the recommencement of mining operations at Karya Usaha Pertiwi (KUP) in 1Q20 with additional heavy equipment to be mobilized during 1H20 so that the annualized run-rate will reach 1mn tons per annum. Overall, most of the coal production will come from Mahakam Sumber Jaya (MSJ) at around 3.0mn tons in 2020.

Maintain HOLD with a target price of IDR1,300 (based on DCF valuation with WACC of 13.9%) as there is only limited upside to our target price and given the company's limited reserves with a mining life of only 12 years based on the current production rate. Nonetheless, solid coal production is expected to sustain earnings in 2020 amid consolidation in the coal price. Our target price implies 21.8x 2020F PE.

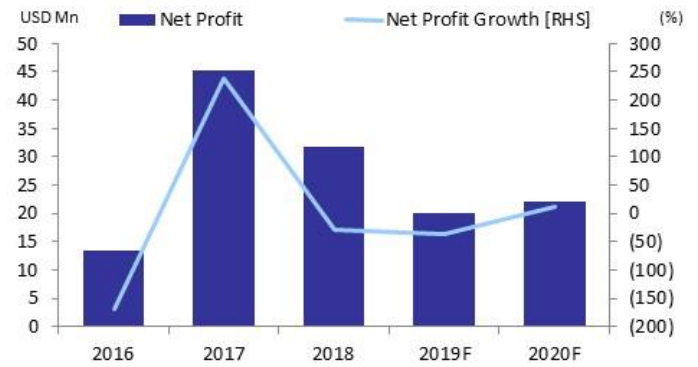
Key Financials

| Year to 31 Dec | 2018A | 2019A | 2020F | 2021F | 2022F |
|--------------------|--------|--------|--------|-------|-------|
| Revenue (USDmn) | 337 | 263 | 239 | 295 | 375 |
| EBITDA (USDmn) | 64 | 38 | 34 | 38 | 45 |
| EBITDA Growth (%) | (24.2) | (40.8) | (10.7) | 12.3 | 17.4 |
| Net profit (USDmn) | 32 | 19 | 14 | 18 | 22 |
| EPS (USDcents) | 1.2 | 0.7 | 0.5 | 0.7 | 0.8 |
| EPS growth (%) | (29.7) | (41.8) | (22.0) | 21.9 | 26.1 |
| BVPS (USDcents) | 11.2 | 11.6 | 11.7 | 12.0 | 12.5 |
| DPS (USDcents) | 0.4 | 0.6 | 0.4 | 0.3 | 0.3 |
| PER (x) | 7.1 | 12.2 | 15.6 | 12.8 | 10.1 |
| PBV (x) | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Dividend yield (%) | 5.0 | 7.5 | 4.4 | 3.4 | 4.2 |
| EV/EBITDA (x) | 0.1 | 0.0 | (1.0) | (1.4) | (1.7) |

Source : HRUM, Danareksa Estimates

Exhibit 1. Revenues and Growth

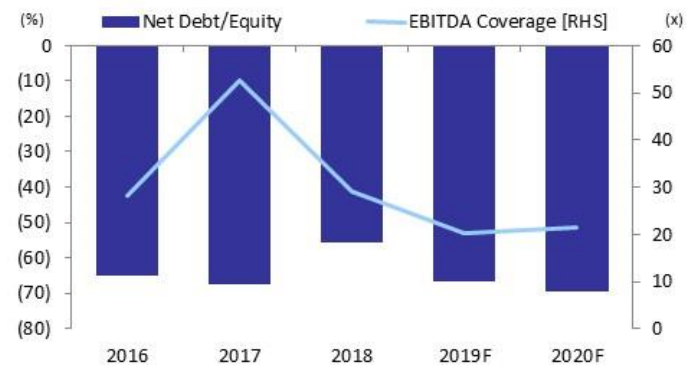

Source: Company, Danareksa Sekuritas estimates

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. 1Q20 Results –Below expectation

| Financial performance | 4Q19 | 1Q20 | QoQ, % | 1Q19 | 1Q20 | YoY, % | 2020F | A/F, % |
|-------------------------|------|------|---------|------|------|--------|-------|--------|
| Revenue, USDmn | 62.3 | 61.2 | (1.8) | 72.1 | 61.2 | (15.1) | 238.8 | 26 |
| COGS, USDmn | 47.2 | 43.9 | (6.8) | 52.2 | 43.9 | (15.8) | 175.8 | 25 |
| Gross profit, USDmn | 15.1 | 17.2 | 13.9 | 19.9 | 17.2 | (13.3) | 63.0 | 27 |
| Opex, USDmn | 14.4 | 8.9 | (38.7) | 10.4 | 8.9 | (15.1) | 43.8 | 20 |
| Operating profit, USDmn | 0.7 | 8.4 | 1,098.3 | 9.5 | 8.4 | (11.3) | 19.2 | 44 |
| Pretax profit, USDmn | 2.4 | 4.3 | 80.6 | 8.9 | 4.3 | (51.8) | 20.7 | 21 |
| Net profit, USDmn | 2.5 | 0.8 | (66.6) | 6.4 | 0.8 | (87.1) | 14.4 | 6 |
| Gross margin, % | 24.3 | 28.2 | 3.9 | 27.6 | 28.2 | 0.6 | 26.4 | |
| Operating margin, % | 1.1 | 13.7 | 12.6 | 13.1 | 13.7 | 0.6 | 8.0 | |
| Net margin, % | 3.9 | 1.3 | (2.6) | 8.9 | 1.3 | (7.5) | 6.0 | |

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Change in our forecasts

| | New | | Previous | | Chg in forecast (%) | |
|---------------------------------|-------|-------|----------|-------|---------------------|--------|
| | 2020F | 2021F | 2020F | 2021F | 2020F | 2021F |
| Coal sales volume, mn tons | 4.0 | 5.0 | 5.0 | 6.0 | (20.0) | (16.7) |
| Coal production volume, mn tons | 4.0 | 5.0 | 5.0 | 6.0 | (20.0) | (16.7) |
| Coal Price, USD/ton | 72.0 | 70.0 | 72.0 | 70.0 | 0.0 | 0.0 |
| Blended Coal ASP, USD/ton | 56.0 | 55.9 | 57.3 | 56.5 | (2.3) | (1.0) |
| Stripping Ratio, x | 9.9 | 9.9 | 10.3 | 10.2 | (3.7) | (2.6) |
| Cash Cost, USD/ton | 43.9 | 43.6 | 43.7 | 43.8 | 0.6 | (0.4) |
| Revenue (USD mn) | 239 | 295 | 302 | 355 | (21.0) | (17.0) |
| EBITDA (USD mn) | 34 | 38 | 46 | 49 | (27.2) | (22.8) |
| Net Profit (USD mn) | 14 | 18 | 22 | 24 | (34.9) | (26.4) |

Source: Company, Danareksa Sekuritas estimates

Exhibit 7. Income Statement

| Year to 31 Dec (USDmn) | 2018A | 2019A | 2020F | 2021F | 2022F |
|-------------------------|------------|------------|------------|------------|------------|
| Revenue | 337 | 263 | 239 | 295 | 375 |
| COGS | (235) | (195) | (176) | (218) | (281) |
| Gross profit | 101 | 68 | 63 | 77 | 94 |
| EBITDA | 64 | 38 | 34 | 38 | 45 |
| Oper. profit | 51 | 24 | 19 | 23 | 29 |
| Interest income | 5 | 6 | 5 | 6 | 7 |
| Interest expense | (2) | (2) | (2) | (2) | (2) |
| Forex Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Income From Assoc. Co's | (1) | 0 | 0 | 0 | 0 |
| Other Income (Expenses) | (5) | (2) | (2) | (2) | (2) |
| Pre-tax profit | 48 | 26 | 21 | 25 | 32 |
| Income tax | (8) | (6) | (5) | (6) | (7) |
| Minority interest | (8) | (2) | (1) | (2) | (2) |
| Net profit | 32 | 19 | 14 | 18 | 22 |
| Core Net Profit | 32 | 19 | 14 | 18 | 22 |

Exhibit 8. Balance Sheet

| Year to 31 Dec (USDmn) | 2018A | 2019A | 2020F | 2021F | 2022F |
|---------------------------------------|------------|------------|------------|------------|------------|
| Cash & cash equivalent | 216 | 227 | 260 | 278 | 300 |
| Receivables | 36 | 24 | 12 | 15 | 19 |
| Inventory | 35 | 16 | 12 | 15 | 19 |
| Other Curr. Asset | 23 | 22 | 22 | 22 | 22 |
| Fixed assets - Net | 82 | 75 | 74 | 73 | 71 |
| Other non-curr.asset | 75 | 84 | 77 | 73 | 70 |
| Total asset | 468 | 447 | 457 | 476 | 500 |
| ST Debt | 0 | 0 | 0 | 0 | 0 |
| Payables | 44 | 20 | 27 | 33 | 43 |
| Other Curr. Liabilities | 24 | 12 | 12 | 12 | 12 |
| Long Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other LT. Liabilities | 11 | 16 | 16 | 16 | 16 |
| Total Liabilities | 80 | 47 | 55 | 61 | 71 |
| Shareholder's Funds | 302 | 314 | 316 | 326 | 339 |
| Minority interests | 86 | 85 | 87 | 89 | 91 |
| Total Equity & Liabilities | 468 | 447 | 457 | 476 | 500 |

Exhibit 9. Cash Flow

| Year to 31 Dec (USDmn) | 2018A | 2019A | 2020F | 2021F | 2022F |
|----------------------------|-------------|-------------|-------------|------------|-------------|
| Net income | 32 | 19 | 14 | 18 | 22 |
| Depreciation and Amort. | 13 | 14 | 15 | 15 | 15 |
| Change in Working Capital | (35) | (4) | 23 | 1 | 1 |
| Other Oper. Cash Flow | (42) | (1) | (9) | (11) | (12) |
| Operating Cash Flow | (33) | 27 | 43 | 23 | 27 |
| Capex | (20) | (9) | (10) | (10) | (10) |
| Others Inv. Cash Flow | 10 | 12 | 11 | 12 | 13 |
| Investing Cash Flow | (10) | 2 | 1 | 2 | 3 |
| Net change in debt | 0 | 0 | 0 | 0 | 0 |
| New Capital | 0 | 0 | 0 | 0 | 0 |
| Dividend payment | (11) | (17) | (10) | (8) | (9) |
| Other Fin. Cash Flow | 4 | (3) | 0 | 0 | (2) |
| Financing Cash Flow | (8) | (20) | (10) | (7) | (11) |
| Net Change in Cash | (50) | 10 | 34 | 18 | 20 |
| Cash - begin of the year | 266 | 216 | 227 | 260 | 278 |
| Cash - end of the year | 216 | 227 | 260 | 278 | 300 |

Exhibit 10. Key Ratios

| Year to 31 Dec | 2018A | 2019A | 2020F | 2021F | 2022F |
|--------------------------|--------|--------|--------|-------|-------|
| Growth (%) | | | | | |
| Sales | 3.4 | (22.0) | (9.1) | 23.5 | 27.2 |
| EBITDA | (24.2) | (40.8) | (10.7) | 12.3 | 17.4 |
| Operating profit | (29.2) | (53.4) | (19.4) | 19.6 | 27.0 |
| Net profit | (29.7) | (41.8) | (22.0) | 21.9 | 26.1 |
| Profitability (%) | | | | | |
| Gross margin | 30.1 | 25.7 | 26.4 | 26.0 | 25.1 |
| EBITDA margin | 19.0 | 14.4 | 14.2 | 12.9 | 11.9 |
| Operating margin | 15.2 | 9.1 | 8.0 | 7.8 | 7.8 |
| Net margin | 9.4 | 7.0 | 6.0 | 6.0 | 5.9 |
| ROAA | 6.9 | 4.0 | 3.2 | 3.8 | 4.5 |
| ROAE | 10.3 | 6.0 | 4.6 | 5.5 | 6.7 |
| Leverage | | | | | |
| Net Gearing (x) | (0.6) | (0.6) | (0.6) | (0.7) | (0.7) |
| Interest Coverage (x) | 23.6 | 14.7 | 11.8 | 14.2 | 18.0 |

Source : HRUM, Danareksa Estimates

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