

Friday, 26 February 2021

BUY
Upgrade

Last price (IDR)	12,100
Target Price (IDR)	14,500
Upside/Downside	+19.8%
Previous Target Price (IDR)	15,500

Stock Statistics

Sector	Coal Mining
Bloomberg Ticker	ITMG IJ
No of Shrs (mn)	1,130
Mkt. Cap (IDRbn/USDmn)	13,672/971
Avg. daily T/O (IDRbn/USDmn)	56.6/4.0

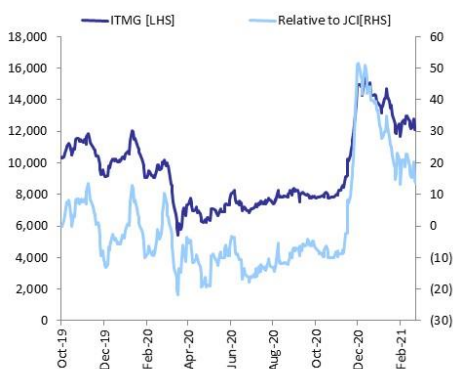
Major shareholders (%)

Banpu Minerals	65.1
Estimated Free Float	31.9

EPS Consensus (USDcents)

	2021F	2022F	2023F
Danareksa	8.4	8.5	8.8
Consensus	10.0	11.7	15.0
Danareksa/Cons	(15.8)	(27.5)	(41.5)

ITMG relative to JCI Index



Source : Bloomberg



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Indo Tambangraya (ITMG IJ)

Upside Emerges

At the recent meeting, Indo Tambangraya Megah (ITMG) expressed its cautiously optimistic view on coal prices in 2021 with the expectation of coal production of 17.7 – 19.9mn tons and a lower SR of 9.7x (2020: 10.1x). As such, we foresee solid coal prices and stable coal production that should give a boost to earnings in 2021. Upgrade to BUY as the recent share price correction provides more upside to our new TP of IDR14,500 (DCF valuation).

4Q20: Signs of improvement from better coal prices. ITMG reported net losses of USD1mn (3Q20 net profits of USD10mn) due to higher other expenses of USD43mn in 4Q20 (3Q20: USD12mn) from USD13mn of write offs booked in 4Q20 and the absence of tax interest compensation. Nonetheless, core earnings rose by 48.7% qoq with the recovery in coal prices leading to 8.0% qoq higher ASP combined with 34.9% qoq higher coal sales volume. In 2020, net profits declined by 69.5% yoy to USD39mn due to lower coal ASP (-17.2% yoy), lower sales volume (-16.2% yoy) and higher other expenses. Core earnings reached USD56mn (-56.9% yoy), within our estimate (98%).

Unfavorable weather to impact 1Q21's production. Due to unfavorable weather, the company expects lower coal production of 4.0mn tons (-13.0% qoq, -11.1% yoy) in 1Q21 with a higher SR of 12.7x in 1Q21 (1Q20: 10.7x). Nonetheless, with the company indicating USD11-12/ton better ASP in Jan 21 compared to the previous month, earnings should be sustained in 1Q21.

Coal production in the range of 17.7 – 19.9mn tons for 2021. For 2021, subject to the government's final approval, ITMG has targeted coal production in the range of 17.7 – 19.9mn tons (2020: 18.4mn tons) with a lower SR of 9.7x in 2021 (2020: 10.1x). While the coal production from Indominco is expected to decline, ITMG expects better coal production from: a) Bharinto, b) Jorong and c) new mining area, Graha Panca Karsa (GPK) in 4Q21. Coal sales volume is expected to reach 20.7 – 22.9mn tons for 2021. (2020: 21.2mn tons)

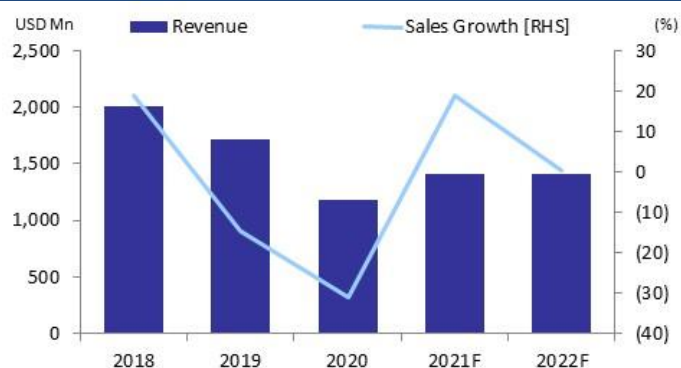
Greater use of in-house contractors to reduce costs and maximize utilization. ITMG plans to use more in-house contractors in 2021 to attain further cost efficiencies and to maximize heavy equipment utilization and the supply chain. ITMG is also considering more fuel hedging and prudent cost management to further mitigate the impact of potentially higher crude oil prices.

Upgrade to BUY. We fine tune our earnings forecasts, lowered by 6.8 – 7.2% for 2021 and 2022. As such, we trim our TP to IDR14,500 (DCF valuation with WACC of 12.8%). Upgrade to BUY as the recent share price correction provides more upside to our new TP, implying 12.8x 2021F PE.

Key Financials

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Revenue (USDmn)	1,716	1,185	1,408	1,415	1,470
EBITDA (USDmn)	242	162	199	200	204
EBITDA Growth (%)	(51.0)	(32.8)	22.2	0.5	2.4
Net profit (USDmn)	129	39	95	96	99
EPS (USDcents)	11.5	3.5	8.4	8.5	8.8
EPS growth (%)	(50.6)	(69.5)	141.0	0.8	3.4
BVPS (USDcents)	78.7	75.6	79.1	80.8	82.7
DPS (USDcents)	18.9	5.7	4.9	6.8	6.9
PER (x)	7.5	24.6	10.2	10.1	9.8
PBV (x)	1.1	1.1	1.1	1.1	1.0
Dividend yield (%)	22.0	6.7	5.7	7.9	8.0
EV/EBITDA (x)	3.4	4.8	3.5	3.2	2.7

Source : ITMG, BRI-Danareksa Estimates

Exhibit 1. Revenues and Growth


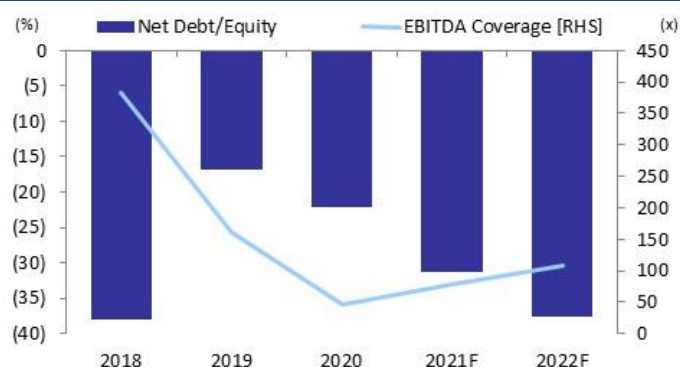
Source: Company, BRI-Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, BRI-Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, BRI-Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, BRI-Danareksa Sekuritas estimates

Exhibit 5. 2020 core net profit within expectations

Operational performance	4Q19	3Q20	4Q20	QoQ,%	YoY,%	2019	2020	YoY,%	2020F	A/F,%
Sales volume, mn tons	6.5	4.3	5.8	34.9	(10.8)	25.3	21.2	(16.2)	21.5	99
Production volume, mn tons	5.3	4.9	4.6	(6.5)	(13.8)	23.4	18.4	(21.2)	19.0	97
ASP, USD/ton	60.0	48.8	52.7	8.0	(12.2)	64.6	53.5	(17.2)	52.7	101
Strip ratio, bcm/ton	9.3	10.0	8.9	(10.6)	(3.8)	10.9	10.1	(7.6)	10.0	100
Coal prod cost, USD/ton	39.4	34.0	37.5	10.3	(4.8)	43.8	39.5	(9.8)	41.5	95
Coal total cost, USD/ton	54.9	45.7	46.0	0.7	(16.2)	57.7	49.2	(14.7)	52.2	94
Financial performance	4Q19	3Q20	4Q20	QoQ,%	YoY,%	2019	2020	YoY,%	2020F	A/F,%
Net sales, USDmn	411	219	313	43.0	(23.7)	1,716	1,185	(30.9)	1,238	96
COGS, USDmn	(322)	(173)	(254)	46.5	(21.1)	(1,389)	(986)	(29.0)	(1,042)	95
Gross profit, USDmn	89	46	59	29.4	(33.2)	327	199	(39.0)	196	102
Opex, USDmn	(43)	(21)	(18)	(16.7)	(58.6)	(146)	(95)	(34.8)	(102)	93
Operating profit, USDmn	46	25	42	69.2	(9.7)	181	104	(42.4)	93	111
Net profit, USDmn	28	10	(1)	n.a.	n.a.	129	39	(69.5)	57	70
Core Earnings, USDmn	34	15	22	48.7	(34.7)	129	56	(56.9)	57	98
Gross margin, %	21.6	20.9	18.9	(2.0)		19.0	16.8	(2.2)	15.8	
Operating margin, %	11.2	11.2	13.3	2.1		10.5	8.8	(1.8)	7.5	
Net margin, %	6.9	4.6	(0.2)	(4.8)		7.5	3.3	(4.2)	4.6	

Source: Company, BRI-Danareksa Sekuritas estimates

Exhibit 6. Change in our forecasts

	New		Previous		Chg in forecast (%)	
	2021F	2022F	2021F	2022F	2021F	2022F
Coal sales vol., mn tons	21.5	22.5	23.0	24.0	(6.5)	(6.3)
Coal production vol., mn tons	18.5	19.5	20.0	21.0	(7.5)	(7.1)
Coal Price, USD/ton	70	70	70	70	0.0	0.0
Blended Coal ASP, USD/ton	61	58	58	58	4.2	0.9
Cash Cost, USD/ton	46	44	46	44	0.0	0.0
Revenue, USD mn	1,408	1,415	1,477	1,493	(4.7)	(5.2)
EBITDA, USD mn	199	200	203	206	(2.2)	(2.9)
Net Profit, USD mn	95	96	102	103	(6.8)	(7.2)

Source: BRI-Danareksa Sekuritas estimates

Exhibit 7. Income Statement

Year to 31 Dec (USDmn)	2019A	2020A	2021F	2022F	2023F
Revenue	1,716	1,185	1,408	1,415	1,470
COGS	(1,389)	(986)	(1,152)	(1,157)	(1,202)
Gross profit	327	199	255	258	268
EBITDA	242	162	199	200	204
Oper. profit	181	104	136	136	139
Interest income	6	3	2	3	3
Interest expense	(1)	(3)	(3)	(2)	(1)
Forex Gain/(Loss)	4	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(4)	(31)	0	0	0
Pre-tax profit	186	73	136	137	142
Income tax	(59)	(35)	(41)	(41)	(42)
Minority interest	3	2	0	0	0
Net profit	129	39	95	96	99
Core Net Profit	114	39	95	96	99

Exhibit 8. Balance Sheet

Year to 31 Dec (USDmn)	2019A	2020A	2021F	2022F	2023F
Cash & cash equivalent	159	231	310	362	428
Receivables	146	82	115	108	104
Inventory	103	60	76	70	66
Other Curr. Asset	62	47	47	47	47
Fixed assets - Net	223	196	188	179	158
Other non-curr.asset	517	543	529	514	500
Total asset	1,209	1,159	1,264	1,280	1,302
ST Debt	11	8	11	11	11
Payables	81	69	146	153	165
Other Curr. Liabilities	141	130	130	130	130
Long Term Debt	0	36	22	11	0
Other LT. Liabilities	91	69	69	69	69
Total Liabilities	325	312	378	374	375
Shareholder's Funds	890	854	894	913	935
Minority interests	(5)	(8)	(8)	(8)	(8)
Total Equity & Liabilities	1,209	1,159	1,264	1,280	1,302

Exhibit 9. Cash Flow

Year to 31 Dec (USDmn)	2019A	2020A	2021F	2022F	2023F
Net income	129	39	95	96	99
Depreciation and Amort.	61	59	62	64	65
Change in Working Capital	(73)	88	27	20	21
Other Oper. Cash Flow	(87)	(39)	1	(1)	(2)
Operating Cash Flow	31	147	185	179	183
Capex	(45)	(20)	(40)	(40)	(30)
Others Inv. Cash Flow	8	(8)	2	3	3
Investing Cash Flow	(37)	(29)	(38)	(37)	(27)
Net change in debt	11	33	(11)	(11)	(11)
New Capital	0	0	0	0	0
Dividend payment	(214)	(65)	(55)	(76)	(78)
Other Fin. Cash Flow	(1)	(3)	(3)	(2)	(1)
Financing Cash Flow	(205)	(35)	(69)	(89)	(90)
Net Change in Cash	(211)	82	78	52	66
Cash - begin of the year	368	159	231	310	362
Cash - end of the year	159	231	310	362	428

Exhibit 10. Key Ratios

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Growth (%)					
Sales	(14.5)	(30.9)	18.7	0.5	3.9
EBITDA	(51.0)	(32.8)	22.2	0.5	2.4
Operating profit	(58.2)	(42.4)	31.3	(0.3)	2.5
Net profit	(50.6)	(69.5)	141.0	0.8	3.4
Profitability (%)					
Gross margin	19.0	16.8	18.1	18.2	18.2
EBITDA margin	14.1	13.7	14.1	14.1	13.9
Operating margin	10.5	8.8	9.7	9.6	9.5
Net margin	7.5	3.3	6.8	6.8	6.7
ROAA	9.8	3.3	7.9	7.5	7.7
ROAE	13.9	4.5	10.9	10.6	10.7
Leverage					
Net Gearing (x)	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)
Interest Coverage (x)	120.5	29.9	53.2	74.2	126.8

Source : ITMG, BRI-Danareksa Estimates

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