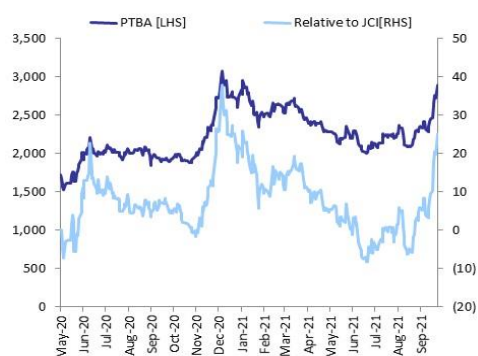


Tuesday, 05 October 2021

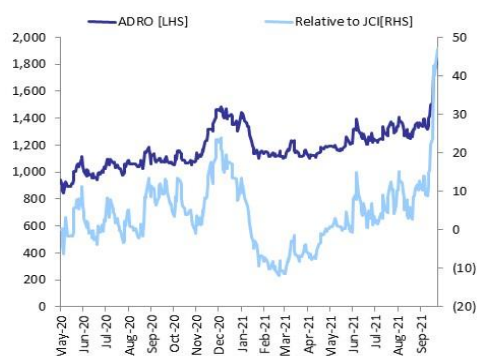
OVERWEIGHT Maintain

Coal Mining Still Flying High

PTBA relative to JCI Index



ADRO relative to JCI Index



Source : Bloomberg

We raise our coal price assumption to USD120/ton for 2022 and USD90/ton for 2023. Newcastle coal prices have reached an all-time high of USD228/ton with heightened concerns on global coal supply and robust global coal demand. Maintain OVERWEIGHT with PTBA IJ (BUY.TP: IDR3,800) and ADRO IJ (BUY.TP: IDR2,400) as our top picks as we believe high coal prices will persist toward the end of the year and early next year (around Chinese New Year) and this will give a lift to their earnings until 1H22. Key concern: sooner-than-expected decline from the recent coal price highs.

Persistently high coal prices on global supply concerns and robust demand. Newcastle coal prices (NWC) climbed to USD228/ton due to: a) global coal supply tightness (from heavy rainfall and flooding in Kalimantan's major coal producing region and b) robust global coal demand with countries in the Northern Hemisphere starting to purchase coal stocks in anticipation of the winter season. The coal stocks at six major power plants in China stood at 14 days of burns, or lower than the average of around 26 – 27 days in 2019 – 2020. As a result, Chinese government officials were ordered to secure the supply of coal ahead of the winter season. Also, rising gas prices in European countries have helped to alleviate coal prices.

High coal prices led to lower India coal imports. Following the fall in Covid-19 cases in India, electricity demand in India started to recover in Jun 21, which was followed by recovery in coal consumption. Nonetheless, India's coal imports have trended down since Apr 21 from the impact of the recent strong global coal prices, which led to a widening gap between global coal prices and India's domestic coal prices.

Moderation in coal prices post CNY 2022. We foresee moderation in coal prices post Chinese New Year (CNY) in 2022 due to: a) easing global coal supply concerns with the expectation of favorable weather conditions to further improve coal production in Indonesia and b) muted coal demand post CNY as the Northern Hemisphere will enter Spring. We also expect intervention from the Chinese government to cool down coal prices with the expectation of greater coal production in the country. We assume an average coal price (NWC) at USD120/ton for 2022 and USD90/ton for 2023.

Further earnings enhancement in 2H21 and to some extent in 1H22. With the trending up of the coal price since 2Q21, we expect solid coal prices to benefit the earnings of coal mining companies in 2H21. Despite our expectation of moderation in NWC coal prices post CNY 2022, we believe that solid earnings for coal mining companies will continue to 1H22 since the majority of the coal sales volume is based on contracts and there is a lag of up to 3 – 6 months between the global coal price and the company's ASP.

Maintain Overweight while raising our coal price assumption. The sector is trading at -0.5SD on PE valuation (9.5x 2022F PE) and below the average PE of 10.2x in 2018. **Top Picks: ADRO (BUY.TP:IDR2,400) and PTBA (BUY.TP:IDR3,800).** **Key risks:** Reversal in global coal prices with the expectation of easing concerns on global coal supply.



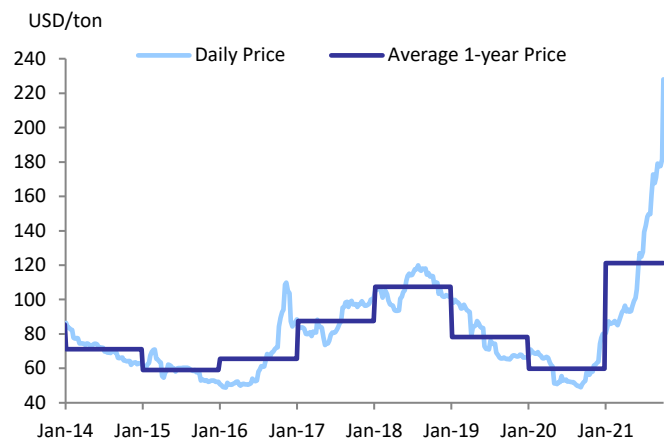
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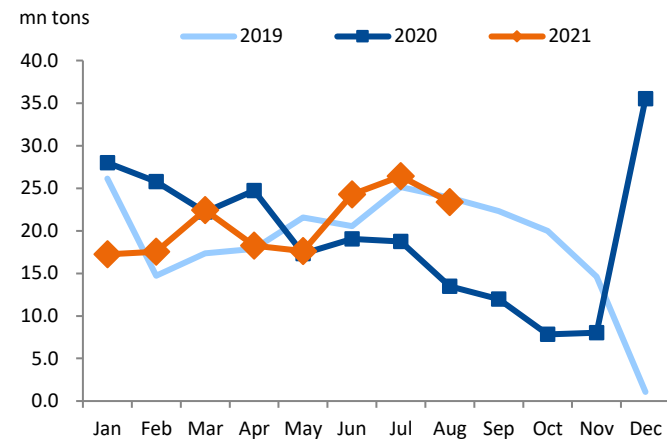
| Company | Ticker | Rec | Target Price (Rp) | Market Cap. (RpBn) | P/E (x) | | P/BV (x) | | ROE (%) 2022F |
|------------------|---------|------|-------------------|--------------------|---------|-------|----------|-------|---------------|
| | | | | | 2021F | 2022F | 2021F | 2022F | |
| Bukit Asam | PTBA IJ | BUY | 3,800 | 32,340.1 | 7.3 | 7.1 | 1.7 | 1.4 | 21.7 |
| Adaro Energy | ADRO IJ | BUY | 2,400 | 59,493.9 | 8.3 | 9.0 | 1.0 | 1.0 | 10.8 |
| Indo Tambangraya | ITMG IJ | BUY | 27,000 | 27,767.9 | 6.6 | 8.1 | 1.9 | 1.9 | 23.6 |
| Harum Energy | HRUM IJ | SELL | 5,000 | 22,507.6 | 30.3 | 23.7 | 4.1 | 3.7 | 16.3 |

Exhibit 1. Sturdy coal prices



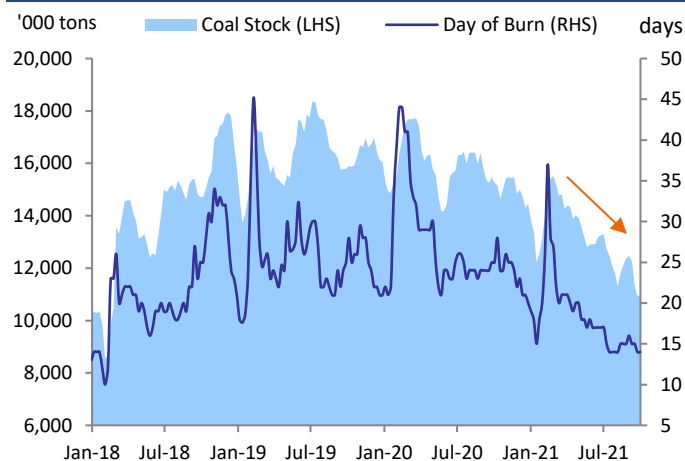
Source: Bloomberg,

Exhibit 2. China's coal imports started to increase in June 21



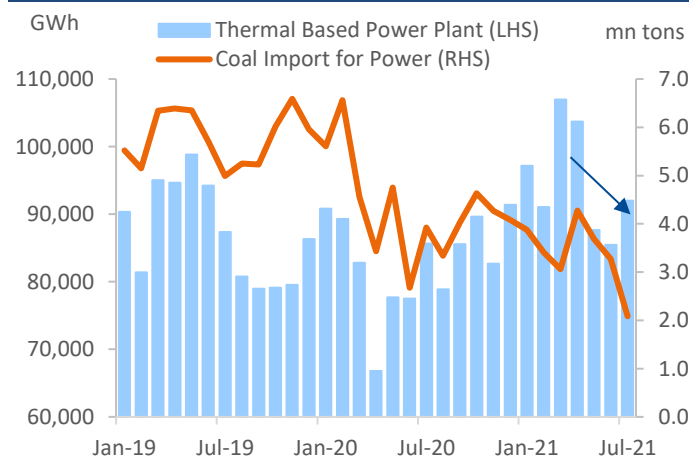
Source: Bloomberg, Customs General Administration, Sxool

Exhibit 3. Low China coal stocks at six major power plants



Source: Bloomberg, China Coal Resources

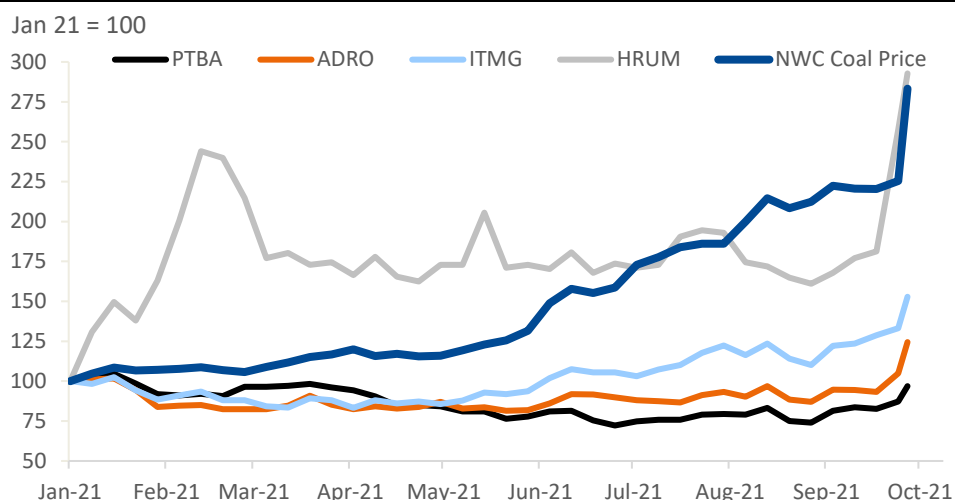
Exhibit 4. Lower India coal imports on high coal prices



Source: CEA India

Share prices have started to react to the recent strong coal prices. From the recent strong coal prices of above USD200/ton, as reflected in the increase in coal prices by 183.2% ytd, the share prices of coal mining companies have started to react to the recent strong coal prices. The share price of PTBA, ADRO, ITMG and HRUM went up by 2.8% ytd, 30.1% ytd, 77.4% ytd and 179.4% ytd respectively.

Exhibit 5. Coal mining share prices have reacted to the recent strong global prices



Source: Bloomberg, BRI-Danareksa Sekuritas

Maintain Overweight with PTBA and ADRO as our top picks:

Bukit Asam (PTBA IJ.BUY.TP:IDR3,800): We expect greater coal production and solid coal prices to further improve earnings for the company in 2022. Further development in its infrastructure (by further expanding capacity and the new development of railways as well as ports) which will help to increase coal production in the future and business diversification in the power plant and coal gasification will help the company to further strengthen earnings in the long-run. Maintain BUY with a higher TP of IDR3,800 (DCF with WACC of 12.9% and LT growth of 3%).

Exhibit 6. PTBA – change in our forecasts

| | New | | Previous | | Chg in forecast (%) | |
|----------------------------|---------|---------|----------|---------|---------------------|-------|
| | 2021F | 2022F | 2021F | 2022F | 2021F | 2022F |
| Coal sales volume, mn tons | 29.5 | 33.0 | 29.5 | 33.0 | 0.0 | 0.0 |
| Coal prod. volume, mn tons | 29.5 | 33.0 | 29.5 | 33.0 | 0.0 | 0.0 |
| Coal Price, USD/ton | 140 | 120 | 100 | 80 | 40.0 | 50.0 |
| Blended Coal ASP, IDR/ton | 866,320 | 808,853 | 789,600 | 728,123 | 9.7 | 11.1 |
| Revenue (IDR bn) | 25,809 | 26,970 | 23,546 | 24,306 | 9.6 | 11.0 |
| EBITDA (IDR bn) | 6,562 | 6,834 | 5,684 | 5,770 | 15.4 | 18.4 |
| Net Profit (IDR bn) | 4,434 | 4,544 | 3,780 | 3,812 | 17.3 | 19.2 |

Source: BRI-Danareksa Sekuritas

Adaro Energy (ADRO IJ.BUY.TP:IDR2,400): We expect a spillover impact from the current high coal price to further impact ADRO’s earnings in 1H22 amid expectations of a moderation in the coal price for 2022. We expect the operation of a 2x1,000MW power plant in Batang to commence sometime in 2022 to help the company to further increase coal production to supply this power plant. Maintain BUY with a higher TP of IDR2,400 (DCF with WACC of 9.4%).

Exhibit 7. ADRO – change in our forecasts

| | New | | Previous | | Chg in forecast (%) | |
|----------------------------|-------|-------|----------|-------|---------------------|-------|
| | 2021F | 2022F | 2021F | 2022F | 2021F | 2022F |
| Coal sales volume, mn tons | 53 | 54 | 53 | 54 | 0.0 | 0.0 |
| Coal prod. volume, mn tons | 53 | 54 | 53 | 54 | 0.0 | 0.0 |
| Coal Price, USD/ton | 140 | 120 | 100 | 80 | 40.0 | 50.0 |
| Blended Coal ASP, USD/ton | 63 | 61 | 56 | 53 | 11.9 | 14.4 |
| Revenue (USD mn) | 3,548 | 3,542 | 3,185 | 3,113 | 11.4 | 13.8 |
| EBITDA (USD mn) | 1,402 | 1,275 | 1,288 | 1,107 | 8.9 | 15.2 |
| Net Profit (USD mn) | 501 | 461 | 441 | 367 | 13.4 | 25.6 |

Source: BRI-Danareksa Sekuritas

Indo Tambangraya (ITMG IJ.BUY.TP:IDR27,000): We expect ITMG to book solid earnings given the recent strong coal prices. Our coal price assumption is raised as reflected in our higher earnings assumption, and we raise our target price on ITMG to IDR27,000 (based on DCF with WACC of 12.3%).

Exhibit 8. ITMG – change in our forecasts

| | New | | Previous | | Chg in forecast (%) | |
|----------------------------|-------|-------|----------|-------|---------------------|-------|
| | 2021F | 2022F | 2021F | 2022F | 2021F | 2022F |
| Coal sales volume, mn tons | 21.5 | 22.5 | 21.5 | 22.5 | 0.0 | 0.0 |
| Coal prod. volume, mn tons | 18.5 | 19.5 | 18.5 | 19.5 | 0.0 | 0.0 |
| Coal Price, USD/ton | 140 | 120 | 100 | 80 | 40.0 | 50.0 |
| Blended Coal ASP, USD/ton | 81 | 76 | 74 | 65 | 8.5 | 16.7 |
| Revenue, USD mn | 1,842 | 1,804 | 1,706 | 1,562 | 8.0 | 15.6 |
| EBITDA, USD mn | 482 | 406 | 433 | 332 | 11.3 | 22.3 |
| Net Profit, USD mn | 294 | 241 | 259 | 189 | 13.2 | 27.4 |

Source: BRI-Danareksa Sekuritas

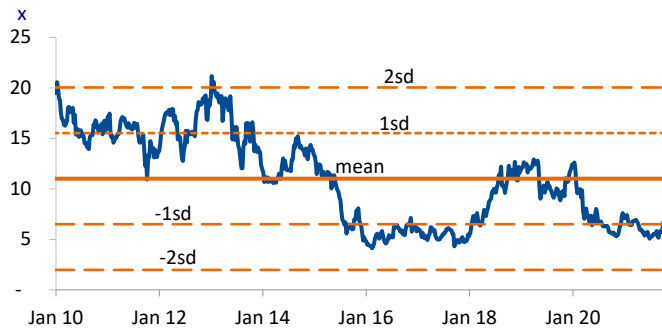
Harum Energy (HRUM IJ.SELL.TP:IDR5,000): We expect coal price recovery and higher coal production from the development of the Mahakam Sumber Jaya (MSJ) Block D and E and the full operation of the mining area at Karya Usaha Pertiwi (KUP) to sustain the earnings of HRUM. However, given that the share price has rallied ahead of its fundamentals, we maintain our SELL call with a higher TP of IDR5,000 (based on SOTP valuation).

Exhibit 9. HRUM – change in our forecasts

| | New | | Previous | | Chg in forecast (%) | |
|----------------------------|-------|-------|----------|-------|---------------------|-------|
| | 2021F | 2022F | 2021F | 2022F | 2021F | 2022F |
| Coal sales volume, mn tons | 3.6 | 5.0 | 3.6 | 5.0 | 0.0 | 0.0 |
| Coal prod. volume, mn tons | 3.6 | 5.0 | 3.6 | 5.0 | 0.0 | 0.0 |
| Coal Price, USD/ton | 140 | 120 | 100.0 | 80.0 | 40.0 | 50.0 |
| Blended Coal ASP, USD/ton | 77.1 | 76.0 | 68.9 | 66.8 | 11.9 | 13.8 |
| Stripping Ratio, x | 9.0 | 9.3 | 9.0 | 9.3 | 0.0 | 0.0 |
| Revenue (USD mn) | 289 | 392 | 260 | 346 | 11.4 | 13.3 |
| EBITDA (USD mn) | 87 | 112 | 79 | 96 | 10.0 | 16.0 |
| Net Profit (USD mn) | 52 | 67 | 46 | 55 | 12.6 | 21.0 |

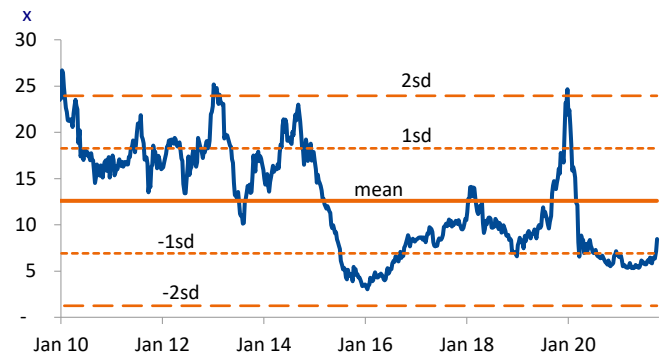
Source: BRI-Danareksa Sekuritas

Exhibit 10. PTBA's PE Band



Source: Bloomberg, BRI-Danareksa Sekuritas

Exhibit 11. ADRO's PE Band



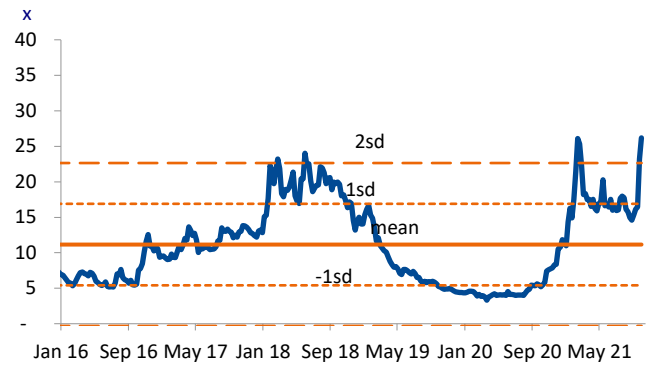
Source: Bloomberg, BRI-Danareksa Sekuritas

Exhibit 12. ITMG's PE Band



Source: Bloomberg, BRI-Danareksa Sekuritas

Exhibit 13. HRUM's PE Band



Source: Bloomberg, BRI-Danareksa Sekuritas

Exhibit 14. Indonesia's Coal sector PE Band



Source: Bloomberg, BRI-Danareksa Sekuritas

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