

Tuesday, 16 November 2021

BUY
Maintain

Last price (IDR) 19,325
Target Price (IDR) 28,000
Upside/Downside +44.9%
Previous Target Price (IDR) 27,000

Stock Statistics

Sector Coal Mining
Bloomberg Ticker ITMG IJ
No of Shrs (mn) 1,130
Mkt. Cap (IDRbn/USDmn) 21,836/1,536
Avg. daily T/O (IDRbn/USDmn) 84.2/5.9

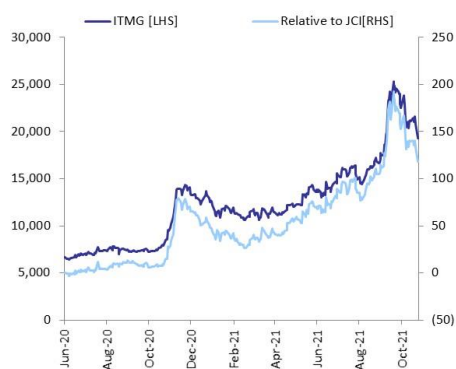
Major shareholders (%)

Banpu Minerals 65.1
Estimated Free Float 34.9

EPS Consensus (USDcents)

	2021F	2022F	2023F
Danareksa	26.0	21.3	15.9
Consensus	30.1	27.7	18.9
Danareksa/Cons	18.4	(15.1)	(5.6)

ITMG relative to JCI Index



Source : Bloomberg



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Indo Tambangraya (ITMG IJ)

Expect solid earnings in 4Q21

We expect Indo Tambangraya Megah (ITMG) to book stronger earnings in 4Q21 on expectations of higher coal production and stronger coal prices which will subsequently impact ASP in this quarter. The company expects the coal price to remain above USD100/ton in 2022 with production not far from the 2021 target. Maintain BUY with a higher TP of IDR28,000 (DCF valuation) as we fine tune our earnings estimates post the 9M21 results.

Strong coal prices boosted earnings. Stronger coal prices helped the company to boost its earnings with net profits of USD154mn in 3Q21 (+103.7% qoq, +1,422.7% yoy), resulting in 9M21 net profits of USD272mn (+579% yoy). While the higher SR of 10.6x in 3Q21 (2Q21: 10.5x) and rising fuel prices led to 3.5% qoq higher quarterly production costs for the coal business, the profitability was stronger thanks to the higher coal prices. The result is above our previous estimate and the consensus.

Expect better coal production and prices to boost earnings in 4Q21. After recording a slight decline in coal production in 3Q21, ITMG expects 19.6% qoq higher quarterly coal production of 5.5mn tons in 3Q21 under the assumption of favorable weather conditions. The production growth will come from Bharinto and Trubaindo. Meanwhile, the company expects a lower SR of 9.3x in 4Q21 from 10.6x in 3Q21. With the firm coal prices in 3Q21, the company's ASP should benefit in 4Q21. Hence, we expect ITMG to book stronger earnings in this quarter.

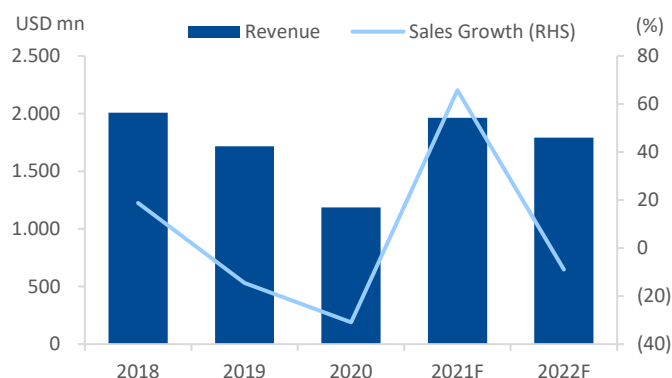
The 2022 production target will not be far from this year's target. Due to unfavorable weather conditions, the company slightly reduced its 2021 coal production target to 18.6 – 18.8mn tons from previous guidance of 19.0 – 19.9mn tons with a coal sales volume target of around 20.2 – 20.4mn tons. For 2022, the company is in the process of finalizing the budget, but the management indicated the production target for 2022 will not be far from this year's target. We expect additional coal production in 2022 to come from the operational commencement of the new mining area, Graha Panca Karsa (GPK), a low CV coal concession with trial production to start in late 4Q21. ITMG has indicated coal production of 1.0mn tons from GPK with a SR of 2.5x in 2022.

Maintain BUY. We expect the recent strong coal prices to boost the earnings of ITMG in 4Q21. We maintain our target price with a higher TP of IDR28,000 (DCF valuation with WACC of 12.0%) as we fine tune our earnings forecast post the 9M21 results. Our TP implies 9.2x 2022F PE. **The key risk:** a reversal in global coal prices with the expectation of easing concerns on global coal supply.

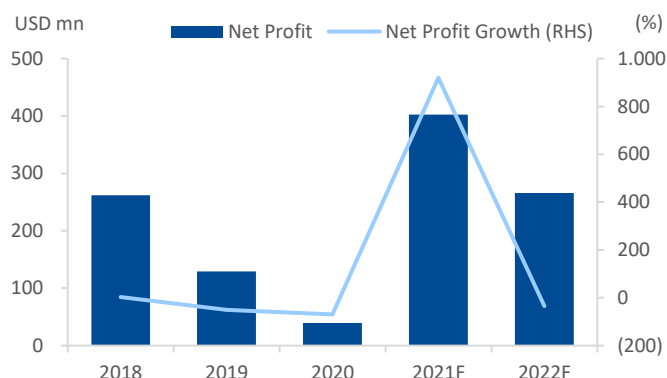
Key Financials

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Revenue (USDmn)	1,716	1,185	1,965	1,790	1,693
EBITDA (USDmn)	242	162	638	441	350
EBITDA Growth (%)	(51.0)	(32.8)	292.5	(30.9)	(20.7)
Net profit (USDmn)	129	39	403	266	202
EPS (USDcents)	0.1	0.0	0.4	0.2	0.2
EPS growth (%)	-50.6	-69.5	919.8	-34.0	-24.1
BVPS (USDcents)	0.8	0.8	0.9	0.9	1.0
DPS (USDcents)	0.2	0.1	0.2	0.2	0.2
PER (x)	11.8	38.7	3.8	5.7	7.6
PBV (x)	1.7	1.8	1.4	1.4	1.4
Dividend yield (%)	14.0	4.2	12.2	17.3	12.1
EV/EBITDA (x)	5.7	8.2	1.7	2.4	2.8

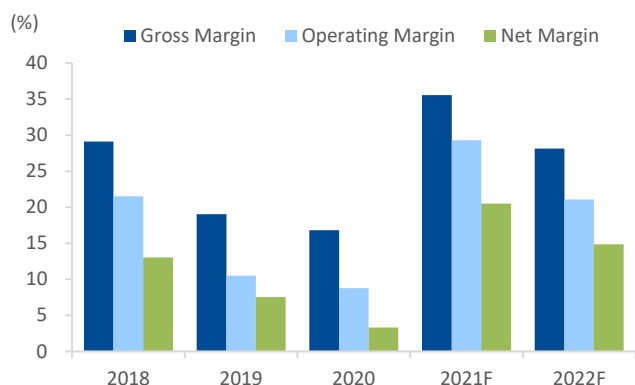
Source : ITMG, BRI-Danareksa Estimates

Exhibit 1. Revenues and Growth


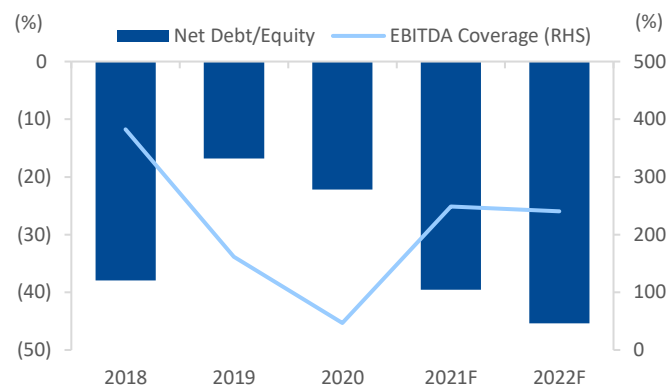
Source: Company, BRI-Danareksa Sekuritas estimates

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. 9M21 earnings – above previous expectations

Operational performance	3Q20	2Q21	3Q21	QoQ,%	YoY, %	9M20	9M21	YoY, %	2021F	A/F, %
Sales volume, mn tons	4.3	4.9	5.8	18.9	34.9	15.4	14.8	(3.9)	20.4	73
Production volume, mn tons	4.9	4.7	4.6	(2.4)	(5.3)	13.9	13.3	(4.1)	18.5	72
ASP, USD/ton	48.8	80.3	111.0	38.2	127.5	53.8	89.0	65.4	93.8	95
Strip ratio, bcm/ton	10.0	10.5	10.6	0.8	6.0	10.5	10.9	4.2	9.7	113
Coal prod cost, USD/ton	36.1	40.0	41.4	3.5	14.7	40.2	41.3	2.7	50.5	82
Financial performance	3Q20	2Q21	3Q21	QoQ,%	YoY, %	9M20	9M21	YoY, %	2021F	A/F, %
Net sales, USDmn	219	392	647	65.0	195.1	872	1,323	51.8	1,965	67
COGS, USDmn	(173)	(250)	(343)	37.6	98.0	(732)	(792)	8.2	(1,266)	63
Gross profit, USDmn	46	142	304	113.2	562.5	140	531	279.8	698	76
Opex, USDmn	(21)	(26)	(35)	35.7	64.6	(78)	(82)	5.5	(123)	67
EBITDA, USD mn	47	138	290	110.1	517.0	126	514	307.9	638	81
Net profit, USDmn	10	76	154	103.7	1,422.7	40	272	579.0	403	67
Gross margin, %	20.9	36.3	46.9	10.6		16.0	40.1	24.1	35.5	
Operating margin, %	11.2	29.8	41.5	11.8		7.1	33.9	26.8	29.3	
EBITDA margin, %	21.4	35.2	44.8	9.6		14.5	38.8	24.4	32.5	
Net margin, %	4.6	19.3	23.8	4.5		4.6	20.5	15.9	20.5	

Source: Company, BRI-Danareksa Sekuritas estimates

Exhibit 6. Changes in our forecasts

	New		Previous		Chg in forecast (%)	
	2021F	2022F	2021F	2022F	2021F	2022F
Coal sales volume, mn tons	20.4	21.0	21.5	22.5	(5.1)	(6.7)
Coal prod. volume, mn tons	18.5	19.0	18.5	19.5	0.0	(2.6)
Coal Price, USD/ton	140	120	140	120	0.0	0.0
Blended Coal ASP, USD/ton	94	81	81	76	16.1	7.6
Revenue, USD mn	1,965	1,790	1,842	1,804	6.7	(0.8)
EBITDA, USD mn	638	441	482	406	32.3	8.6
Net Profit, USD mn	403	266	294	241	37.1	10.3

Source: BRI-Danareksa Sekuritas estimates

Exhibit 7. ITMG is trading at slightly above -1.0SD valuation



Source: Bloomberg, BRI-Danareksa Sekuritas estimates

Exhibit 8. Income Statement

Year to 31 Dec (USDmn)	2019A	2020A	2021F	2022F	2023F
Revenue	1,716	1,185	1,965	1,790	1,693
COGS	(1,389)	(986)	(1,266)	(1,287)	(1,285)
Gross profit	327	199	698	504	408
EBITDA	242	162	638	441	350
Oper. profit	181	104	576	377	285
Interest income	6	3	2	4	4
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	575	379	288
Income tax	(59)	(35)	(173)	(114)	(86)
Minority interest	3	2	0	0	0
Net profit	129	39	403	266	202
Core Net Profit	114	39	403	266	202

Exhibit 9. Balance Sheet

Year to 31 Dec (USDmn)	2019A	2020A	2021F	2022F	2023F
Cash & cash equivalent	159	231	453	505	575
Receivables	146	82	155	133	117
Inventory	103	60	83	78	70
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	1,455	1,455	1,467
ST Debt	11	8	11	11	11
Payables	81	69	159	169	176
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	392	390	386
Shareholder's Funds	890	854	1,071	1,073	1,089
Minority interests	(5)	(8)	(8)	(8)	(8)
Total Equity & Liabilities	1,209	1,159	1,455	1,455	1,467

Exhibit 10. Cash Flow

Year to 31 Dec (USDmn)	2019A	2020A	2021F	2022F	2023F
Net income	129	39	403	266	202
Depreciation and Amort.	61	59	62	64	65
Change in Working Capital	(73)	88	(6)	37	30
Other Oper. Cash Flow	(87)	(39)	1	(2)	(3)
Operating Cash Flow	31	147	459	364	293
Capex	(45)	(20)	(40)	(40)	(30)
Others Inv. Cash Flow	8	(8)	2	4	4
Investing Cash Flow	(37)	(29)	(38)	(36)	(26)
Net change in debt	11	33	(11)	(11)	(11)
New Capital	0	0	0	0	0
Dividend payment	(214)	(65)	(186)	(264)	(185)
Other Fin. Cash Flow	(1)	(3)	(3)	(2)	(1)
Financing Cash Flow	(205)	(35)	(199)	(277)	(197)
Net Change in Cash	(211)	82	222	52	70
Cash - begin of the year	368	159	231	453	505
Cash - end of the year	159	231	453	505	575

Exhibit 11. Key Ratios

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Growth (%)					
Sales	(14.5)	(30.9)	65.7	(8.9)	(5.4)
EBITDA	(51.0)	(32.8)	292.5	(30.9)	(20.7)
Operating profit	(58.2)	(42.4)	453.9	(34.5)	(24.6)
Net profit	(50.6)	(69.5)	919.8	(34.0)	(24.1)
Profitability (%)					
Gross margin	19.0	16.8	35.5	28.1	24.1
EBITDA margin	14.1	13.7	32.5	24.6	20.6
Operating margin	10.5	8.8	29.3	21.1	16.8
Net margin	7.5	3.3	20.5	14.8	11.9
ROAA	9.8	3.3	30.8	18.3	13.8
ROAE	13.9	4.5	41.8	24.8	18.7
Leverage					
Net Gearing (x)	(0.2)	(0.2)	(0.4)	(0.5)	(0.5)
Interest Coverage (x)	120.5	29.9	224.3	205.8	258.7

Source : ITMG, BRI-Danareksa Estimates

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