

FROM EQUITY RESEARCH
Indo Tambangraya: A dividend play

(ITMG IJ. IDR 20,100.BUY.TP IDR 30,000)

Amid expectations of coal price consolidation, we continue to like Indo Tambangraya Megah (ITMG) as: a) it is a dividend play with a 17% yield for 2019, b) further coal mining acquisitions would increase the mining life to at least 15 years and c) earnings are solid on the back of stable coal production and lower risks for coal with higher CV. Maintain BUY with a target price of IDR30,000 (based on DCF valuation with WACC of 13.7%).

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KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	6.077	(0,6)	(4,4)	426
Thailand	1.634	(1,0)	(6,8)	1.311
Philippines	7.451	1,4	(12,9)	83
Malaysia	1.653	(0,6)	(8,0)	328
Singapore	3.059	(0,4)	(10,1)	666
Regional				
China	2.594	0,4	(21,6)	20.642
Hong Kong	25.772	0,1	(13,9)	8.292
Japan	21.148	(0,3)	(7,1)	13.993
Korea	2.068	0,7	(16,2)	4.165
Taiwan	9.707	0,6	(8,8)	2.986
India	35.150	0,5	3,2	362
NASDAQ	7.032	0,2	1,9	117.470
Dow Jones	24.370	(0,2)	(1,4)	11.430

CURRENCY AND INTEREST RATE

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US\$	14.608	(2,2)	1,4	(7,8)
SBI rate	%	6,00	0,3	0,3	1,8
10y Gov	Indo bond	8,25	0,3	0,0	1,9

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	102	(0,5)	(3,5)	1,3
Gold	US\$/toz	1.244	0,1	3,6	(4,5)
Nickel	US\$/mt.ton	10.697	(0,3)	(6,1)	(15,8)
Tin	US\$/mt.ton	19.148	0,9	(0,2)	(4,7)

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2.152	(1,2)	(3,4)	13,3
Corn	US\$/mt.ton	137	-	3,0	9,4
Oil (WTI)	US\$/barrel	52	0,7	(13,2)	(13,9)
Oil (Brent)	US\$/barrel	60	0,4	(14,2)	(10,0)
Palm oil	MYR/mt.ton	1.743	0,4	(10,5)	(27,1)
Rubber	US\$/kg	123	0,2	(0,6)	(16,1)
Pulp	US\$/tonne	1.205	N/A	2,8	20,5
Coffee	US\$/60kgbag	77	(1,5)	(7,0)	(12,9)
Sugar	US\$/MT	345	0,5	0,2	(12,7)
Wheat	US\$/ton	142	(0,8)	1,7	5,6
Soy Oil	US\$/lb	29	0,7	3,9	(13,2)
Soy Bean	US\$/by	915	0,6	4,5	(3,9)

Wednesday, 12 December 2018

BUY
Maintain

Last price (IDR) 20,100
Target Price (IDR) 30,000
Upside/Downside +49.3%
Previous Target Price (IDR) 33,200

Stock Statistics

Sector Coal Mining
Bloomberg Ticker ITMG IJ
No of Shrs (mn) 1,130
Mkt. Cap (IDRbn/USDmn) 22,711/1,555
Avg. daily T/O (IDRbn/USDmn) 49.5/3.4

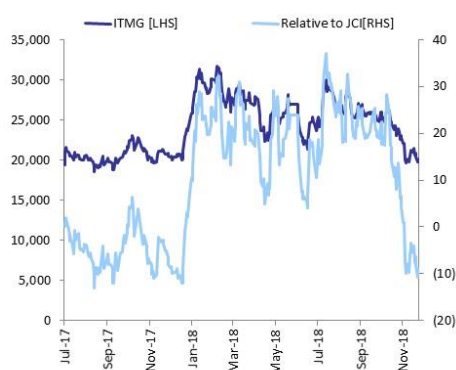
Major shareholders (%)

Banpu Minerals 65.1
Estimated Free Float 31.9

EPS Consensus (USDcents)

	2018F	2019F	2020F
Danareksa	25.3	23.1	22.4
Consensus	23.6	23.2	22.2
Danareksa/Cons	7.0	(0.3)	0.7

ITMG relative to JCI Index



Source : Bloomberg



Stefanus Darmagiri

(62-21) 29 555 831

stefanus.darmagiri@danareksa.com

Indo Tambangraya (ITMG IJ)

A dividend play

Amid expectations of coal price consolidation, we continue to like Indo Tambangraya Megah (ITMG) as: a) it is a dividend play with a 17% yield for 2019, b) further coal mining acquisitions would increase the mining life to at least 15 years and c) earnings are solid on the back of stable coal production and lower risks for coal with higher CV. Maintain BUY with a target price of IDR30,000 (based on DCF valuation with WACC of 13.7%).

Solid earnings in 4Q18 amid a minor correction in ASP. Following the recent coal price correction which was driven by China's coal import restrictions, we expect a minor correction in the company's ASP in 4Q18 compared to USD88.6/tonne in 3Q18 given a price delay of around 3 months. Hence, in view of stronger coal production (estimated to reach 6.8mn tonnes in 4Q18, +6.3% qoq), we expect ITMG to book solid earnings in 4Q18. Going into 2019, despite expectations of further coal price consolidation, we expect ITMG to maintain its earnings supported by a slight improvement in coal production in 2019 as well as the lower risks for coal with higher CV given that the weak demand for low-CV coal will widen the gap between low-CV coal and Newcastle coal prices.

Expect a slight improvement in coal production. While the management is in the process of setting the coal production target for 2019, we expect a slight improvement in coal production to around 23.0 – 23.5mn tonnes in 2019. We believe that slightly higher production will come from: a) the commencement of operations at its new mining area at Tepian Indah Sukses with coal production of around 0.5mn tonnes and b) greater coal production from Bharinto following the preparation of additional vehicles from the mining contractors to support future growth.

More acquisitions will increase reserves. After ITMG managed to acquire Nusa Perdana Resources (NPR), ITMG's mining life rose to around 13 years based on the current production rate. The company continues to make acquisitions of coal mining companies in order to increase the mining life to at least 15 years. Several coal mining acquisitions are still in process.

Maintain BUY with a lower TP of IDR30,000 (based on DCF valuation with WACC of 13.7%) as we fine tune our forecasts and roll-over valuation to 2019. We like the company as: a) it is a dividend play with a 17% yield for 2019, b) further coal mining acquisitions would increase the mining life to at least 15 years, and c) earnings are solid. We select ITMG as our top pick in the coal sector, noting it has lower risks on the widening gap between low-CV coal and NWC prices. Our TP implies 9.1x 2019F PE.

Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (USDmn)	1,367	1,690	1,970	1,910	1,893
EBITDA (USDmn)	272	448	493	423	401
EBITDA Growth (%)	5.7	64.3	10.2	(14.4)	(5.0)
Net profit (USDmn)	131	253	285	261	253
EPS (USDcents)	11.6	22.4	25.3	23.1	22.4
EPS growth (%)	107.1	93.3	12.9	(8.4)	(3.4)
BVPS (USDcents)	80.3	84.8	84.4	83.4	83.0
DPS (USDcents)	3.7	17.6	25.6	24.2	22.7
PER (x)	11.9	6.2	5.4	5.9	6.2
PBV (x)	1.7	1.6	1.6	1.7	1.7
Dividend yield (%)	2.5	11.7	18.5	17.2	15.8
EV/EBITDA (x)	4.5	2.6	2.5	3.0	3.1

Source : ITMG, Danareksa Estimates

MARKET NEWS

MACROECONOMY

The social security budget for 2019 increases by 23.3%

The government said that the social spending budget for 2019 would be set at IDR 200.8tn, or up by 24.3% from the amount in the 2018 budget (IDR 161.54tn). As the Budget Implementation List (DIPA) and allocation of transfers to regions and village funds (TKDD) have been submitted, government agencies can immediately spend the budget. Meanwhile, the state revenues budget for 2019 has been set at IDR 2,165.1tn with budgeted state expenditure of IDR 2,461.1Tn. (Kontan)

SECTOR

Automotive: Domestic car sales up by 6.9% yoy to 1.06mn units in 11M18

Wholesale domestic car sales jumped by 6.9% yoy to 1.06mn units in 11M18. Daihatsu and Suzuki managed to improve sales by 7.6% yoy and 7.9% yoy, respectively, while Toyota and Honda reported a decline in sales volume by 6.4% yoy and 13.1% yoy. The higher Daihatsu sales volume was mainly attributable to strong sales of Terios (+181.5% yoy). (Bisnis Indonesia)

Comment: Assuming car sales volume of around 85,000 – 90,000 units in Dec 2018, we expect the 2018 sales volume to reach 1.15mn units (+6.0 – 6.5% yoy), or slightly higher than our estimate of 1.12mn units. Going into 2019, given the higher interest rates, we expect a slowdown in domestic car sales volume growth to +3% yoy. (Stefanus)

Wizphone is now available in 13,500 Alfamart stores

Wizphone is a 4G smart feature phone intended to be sold at a very low price of just Rp99,000. Since yesterday (11/12), Wizphone became available at 13,500 Alfamart outlets. Alfamart is focusing on developing digital services like Alfacart, Alfapop and Alfamind, and Wizphone can help them support the retail transactions of their customers. Through Wizphone, Alfamart customers can even get credit through a Pay later feature. There are currently two credit offers for mid-low and mid-high customers. This allows them to buy the handphone on credit and collect points. (Kontan)

Comment: We understand that Wizphone uses the sharing economy model / Collaboration model, with a) KaiOS technologies developing the first 4G Smart Feature Phone, b) Google making sure their digital services run smoothly including the Google Assistant working in Bahasa Indonesia, Google Maps and Google Search, and c) Alfamart as a convenience store connects deeper with its customer base through digital means. Alfacart is said to have 9-10mn registered users. (Niko)

CORPORATE

Summarecon Agung (SMRA) posted 11M18 marketing sales of Rp2.88tn

SMRA posted 11M18 marketing sales of Rp2.88tn (-4.8% YoY), accounting for 72% of its FY18 target of Rp4.0tn – below expectation. In terms of the product type, landed residential property accounts for the majority of the marketing sales at Rp1.72tn (60%), followed by apartments at Rp501.4bn (17%), shoplots at Rp354.3bn (12%) and landplots at Rp302.2bn (10%). In Nov 18 alone, SMRA booked marketing sales of Rp479.9bn, of which most are sales of residential property at Rp332.5bn (69.3%) – mostly supported by the launchings of cluster Mozart in Serpong, cluster Dayana in Bandung and Sevanti Homes in Karawang. Marketing sales of apartments reached Rp97.6bn (20.3%) in Nov 18 and the marketing sales of shoplots stood at Rp49.9bn (10.4%). (Company)

Comment: SMRA is unlikely to achieve its full year Rp4.0tn marketing sales target. Taking into consideration the upcoming launchings and ~Rp200bn of marketing sales from the Makassar launchings as well as the marketing sales of existing products, we estimate FY18 marketing sales of Rp3.3-3.5tn. December launchings will include Cluster Olive Residence in Bekasi and North Goldfinch shophouses in Serpong. (Yudha)

Hutchison 3 targets 8,000 new BTS installations

Hutchison 3 plans to add around 8,000 new BTS in 2019 to strengthen its 4G network and lay the foundations for future 5G networks. (Kontan)

Comment: this is a positive development for TOWR since Hutch 3 is a main revenues contributor for TOWR. Hutch 3 reportedly has 55,100 BTS in 7,919 small towns and at 281 locations. Of these BTS, 16,000 are currently 4G. (Niko)

DANAREKSA VALUATION GUIDE

Danareksa	Equity Valuation		Rating	Price (Rp)	Price Target	Mkt Cap Rp Bn	Net profit, Rp bn		EPS (Rp)		Core EPS (Rp)		EPS Growth		PER (x)		EV / EBITDA (x)		PBV (x)		ROE		
	2018	2019					2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Danareksa Universe																							
Auto																							
Astra International																							
Banks																							
BCA																							
BNI																							
BRI																							
Bank Tabungan Negara																							
Bank Mandiri																							
BTPN																							
BTPS																							
BFD Jatim																							
Cigarettes																							
Gudang Garam																							
HMI Sampoerna																							
Construction																							
Wijaya Karya																							
Pembangunan Perumahan																							
Adhi Karya																							
Waskita Karya																							
Waskita Beton																							
Wika Beton																							
Jasa Marga																							
Consumer																							
Indofood CBP																							
Indofood																							
Unilever																							
Kino Indonesia																							
Meyora Indah																							
Sido Muncul																							
Healthcare																							
Kalbe Farma																							
Kimia Farma																							
Heavy Equipment																							
United Tractors																							
Industrial Estate																							
Puradelta Lestari																							
Bekasi Fajar																							
Surya Semesta																							
Media																							
Media Nusantara Citra																							
Surya Citra Media																							
Mining																							
Adaro Energy																							
Tirah																							
Vale Indonesia																							
Aneka Tambang																							
Bukit Asam																							
Indo Tambangraya Megah																							
Harum Energy																							
Plantation																							
Astra Agro Lestari																							
Sampoerna Agro																							
PP London Sumatra																							
Poultry																							
Charoen Pokphand																							
Jafafa Comfeed																							
Malindo Feedmill																							
Property																							
Alam Sutera																							
Bumi Serpong Damai																							
Ciputra Development																							
Pakuwon Jati																							
Summarecon																							
Retail																							
Mitra Adi Perkasa																							
Ramayana																							
Matahari Department Store																							
Matahari Putra Prima																							
Ace Hardware																							
Erajaya Swasembada																							
Telco																							
Telekomunikasi Indonesia																							
Indosat																							
XL Axiata																							
Tow er Bersama																							
Sarana Menara Nusantara																							

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on				Chg, %	w-w, %	m-m, %	YTD, %	Rating
		11-Dec-18	10-Dec-18							
Bukit Asam	PTBA	4.280	4.020	6,5	7,0	(3,2)	74,0	BUY		
Matahari Department Store	LPPF	5.500	5.175	6,3	3,3	15,5	(45,0)	BUY		
Ramayana	RALS	1.400	1.320	6,1	8,5	9,8	16,7	HOLD		
Aneka Tambang	ANTM	755	720	4,9	6,3	10,2	20,8	HOLD		
Erajaya Swasembada	ERAA	2.210	2.110	4,7	(5,6)	31,2	200,7	BUY		
Ace Hardware	ACES	1.535	1.480	3,7	(4,1)	8,5	32,9	BUY		
Timah	TINS	745	725	2,8	6,4	12,9	(3,9)	BUY		
Astra Agro Lestari	AALI	11.900	11.650	2,1	5,3	9,2	(9,5)	BUY		
Indo Tambangraya Megah	ITMG	20.100	19.800	1,5	(6,2)	(15,8)	(2,9)	BUY		
Media Nusantara Citra	MNCN	755	745	1,3	(2,6)	(4,4)	(41,2)	BUY		

Sources: Bloomberg

LAGGARDS

	Code	Price as on				Chg, %	w-w, %	m-m, %	YTD, %	Rating
		11-Dec-18	10-Dec-18							
Charoen Pokphand	CPIN	6.300	7.000	(10,0)	1,6	16,7	110,0	HOLD		
Indocement	INTP	19.675	20.750	(5,2)	-	18,5	(10,4)	SELL		
Pakuwon Jati	PWON	595	625	(4,8)	(5,6)	12,3	(13,1)	BUY		
Kalbe Farma	KLBF	1.505	1.580	(4,7)	(5,9)	12,7	(10,9)	BUY		
Semen Indonesia	SMGR	11.600	11.950	(2,9)	(1,5)	26,8	17,2	SELL		
Matahari Putra Prima	MPPA	167	172	(2,9)	(2,9)	11,3	(63,1)	SELL		
Ciputra Development	CTRA	1.020	1.050	(2,9)	(4,7)	17,9	(13,9)	BUY		
Waskita Beton	WSBP	344	354	(2,8)	(3,9)	6,8	(15,7)	BUY		
Waskita Karya	WSKT	1.795	1.845	(2,7)	4,1	18,5	(18,8)	BUY		
United Tractors	UNTR	29.075	29.750	(2,3)	(2,5)	(12,1)	(17,9)	BUY		

Sources: Bloomberg

PREVIOUS REPORTS

- Plantation: Nov 18 Inventory: Reaching a Record High [_SnapShot20181211](#)
- Pembangunan Perumahan: Imminent change in status [_SnapShot20181210](#)
- Gudang Garam: More growth to come, Property: BCA Standpoint - Assessment of Property Demand [_SnapShot20181207](#)
- Bank Central Asia: Fully valued [_SnapShot20181206](#)
- Media: Remaining resilient [_SnapShot20181205](#)

PT Danareksa Sekuritas

Jl. Medan Merdeka Selatan No. 14
Jakarta 10110
Indonesia
Tel (62 21) 29 555 888
Fax (62 21) 350 1709

Equity Research Team

Helmy Kristanto

helmy.kristanto@danareksa.co.id
(62-21) 2955 888 ext. 3500
Head of Research, Strategy

Stefanus Darmagiri

stefanus.darmagiri@danareksa.co.id
(62-21) 2955 888 ext. 3530
Auto, Coal, Heavy Equip, Metal

Natalia Sutanto

natalia.sutanto@danareksa.com
(62-21) 29555 888 ext.3508
Consumer, Tobacco, Property

Maria Renata

maria.renata@danareksa.co.id
(62-21) 29555 888 ext.3513
Construction

Eka Savitri

Eka.savitri@danareksa.co.id
(62-21) 29555 888 ext.3506
Banking

Niko Margaronis

niko.margaronis@danareksa.co.id
(62-21) 29555 888 ext.3512
Telco, Tower

Yudha Gautama

yudha.gautama@danareksa.co.id
(62-21) 29555 888 ext.3509
Plantation, Property

Ignatius Teguh Prayoga

ignatius.prayoga@danareksa.co.id
(62-21) 29555 888 ext.3511
Research Associate

Sales team

Vera Ongyono

vera.ongyono@danareksa.co.id
(62-21) 29555 888 ext. 3120

Novrita E. Putrianti

novrita@danareksa.co.id
(62-21) 29555 888 ext. 3128

Ehrlich Suhartono

ehrliech@danareksa.co.id
(62-21) 29555 888 ext. 3132

Laksmita Armandani

laksmिताa@danareksa.co.id
(62-21) 29555 888 ext. 3125

Tuty Sutopo

tuty@danareksa.co.id
(62-21) 29555 888 ext. 3121

Upik Yuzarni

upik_y@danareksa.co.id
(62-21) 29555 888 ext. 3137

Giovan Sitepu

giovanp@danareksa.co.id
(62-21) 29555 888 ext. 3130

Rendy Ben Philips

rendy.philips@danareksa.co.id
(62-21) 29555 888 ext. 3148

Adeline Solaiman

adeline.solaiman@danareksa.co.id
(62-21) 29555 888 ext. 3503

Thalia Kadharusman

thalia.kadharusman@danareksa.co.id
(62-21) 29555 888 ext. 3124

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