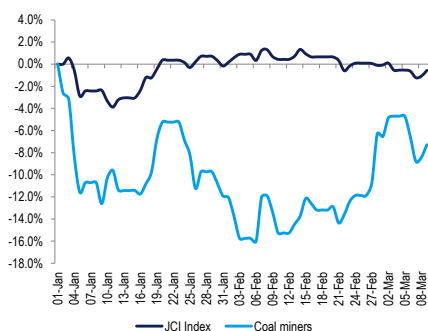


Sector Update | 24 March 2023

Sector Index Performance

| | 3M | 6M | 12M |
|-----------------|--------|--------|------|
| Absolute | -10.3% | -20.7% | 1.2% |
| Relative to JCI | -10.2% | -15.5% | 1.9% |



Summary Valuation Metrics

| P/E (x) | 2023F | 2024F | 2025F |
|---------|-------|-------|-------|
| ADRO IJ | 2.7 | 3.5 | 4.4 |
| PTBA IJ | 3.9 | 3.8 | 6.0 |
| HRUM IJ | 5.6 | 5.3 | 5.4 |
| ITMG IJ | 4.8 | 9.9 | 12.4 |
| UNTR IJ | 5.5 | 5.6 | 5.5 |

| EV/EBITDA (x) | 2023F | 2024F | 2025F |
|---------------|-------|-------|-------|
| ADRO IJ | 2.4 | 2.6 | 2.8 |
| PTBA IJ | 2.2 | 1.9 | 3.2 |
| HRUM IJ | 3.6 | 3.8 | 4.0 |
| ITMG IJ | 2.0 | 4.4 | 5.8 |
| UNTR IJ | 1.8 | 1.9 | 1.2 |

| Div. Yield | 2023F | 2024F | 2025F |
|------------|-------|-------|-------|
| ADRO IJ | 22.9% | 9.8% | 7.6% |
| PTBA IJ | 22.5% | 19.2% | 20.0% |
| HRUM IJ | 6.2% | 8.9% | 15.0% |
| ITMG IJ | 32.5% | 16.5% | 10.1% |
| UNTR IJ | 9.0% | 8.1% | 8.1% |

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Seasonal coal price correction is underway

- Encouraging demand recovery in China and India in 2M23 but Europe's weak demand has driven further correction in Newcastle price index.
- Indication of rising export from Indonesia affirms further supply risk when weather conditions normalize further in 2Q23.
- We maintain sector Neutral rating for now; Indo coal miners' rich cash position shall buffer earnings contraction impact in FY23.

Healthy demand from China, India offset Europe's weakness in 2M23

In terms of trade, thermal coal seaborne's volume grew to 187Mt in 2M23, up 20% yoy. On the demand side, in Feb23 China continued to show import recovery (+159% yoy, from 2M22's low base), with also healthy demand from India (+37% yoy) and ASEAN (+33% yoy) markets. While Newcastle index benchmark have softened further in 3M23 (YTD), down to US\$172/t (-57% YTD), this appeared to have reflected continued slowing demand momentum in European market (-16% yoy), amid resumed correction in European gas price has (-47% YTD).

Normalizing inventory led demand recovery, but supply growth is underway

We view the healthy demand from China and India in 2M23 to be encouraging as inventory levels in both countries are now slightly below the historical norm (India's at 12 days vs. 5-year average of 15 days, China's at 15 days vs. 5-year average of 18 days). This, however, has been well supplied by rising export (+20% yoy) which has been driven by Indonesia (+97% yoy, from 2M22's low base), Canada (+9%), US (+24%) which offset contracting supply from Australia (-10% yoy) and Colombia (-9% yoy).

Prevailing supply risk may pose threat to Indonesian export prices in 2Q23

In-line with our FY23 forecast, 2M23 data indicate evidence of rising supply though mainly still from Indonesia. We think supply risk has yet to come in full swing as we see room for Indonesia's export to rise further in 2Q23, as the 2M23 if annualized (seasonality-adjusted) may see FY23 export volume of ~430-440Mt (+7-10% yoy, vs. our forecast of 428Mt). That said, we see possible downside risk for the medium/low-CV coal amid the expectation of more supply from Indonesia in 2Q23. We maintain our FY23 coal price forecast of US\$240/t for Newcastle (vs. spot of US\$177) and US\$75/t for ICI4 (vs. spot of US\$74).

Maintain Neutral rating; cash-rich balance sheet to buffer earnings correction impact

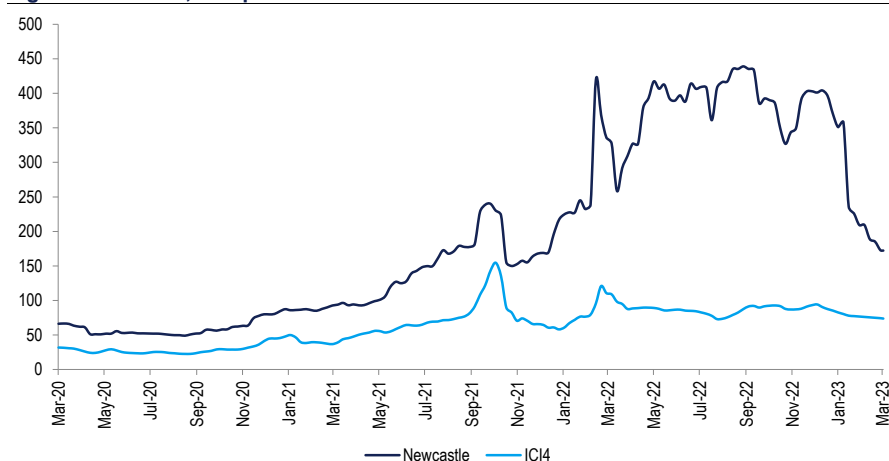
Based on our coal price assumptions, our earnings forecast foresees Indonesian coal miners to see 9-49% correction in FY23. We think the Indonesian coal stocks' performance divergence may likely reflect market's perception on potential dividend, despite the fact that all companies have accumulated high cash positions as of Dec22 (ranging from 16-50% to market capitalization). We continue to prefer ADRO and UNTR as our top sector pick. We believe market's perception on ADRO's lower-than-peers potential dividend is misplaced, as its net cash/ market capitalization ranks the second highest (at 44%). We like UNTR's more defensive earnings profile amid expectation for mining contracting (Pama) more resilient earnings against coal price downside.

Seasonal price correction underway

Newcastle index benchmark have softened further in 3M23 (YTD), down to US\$172/t (-57% YTD). Newcastle’s correction appeared to have reflected continued slowing demand momentum in European market, amid resumed correction in European gas price has (-47% YTD). While latest market reports indicated stabilizing price at US\$170-180/t, buyers continued to aim at low fixed prices bid, hence indicating still tepid interests.

The Indonesian benchmark for low CV coal (ICI4) have followed the correction path, down to US\$74/t, a less steep correction (-18% YTD) compared to Newcastle (-57% YTD). We noted that ICI4 index has been supported by re-emergence of demand from China and market’s perception of still tight supply from Indonesia amid still high rainfall in Jan-Feb23 and ahead of the holidays season.

Fig. 1: Newcastle, ICI4 price



Source: Bloomberg, Indo Premier

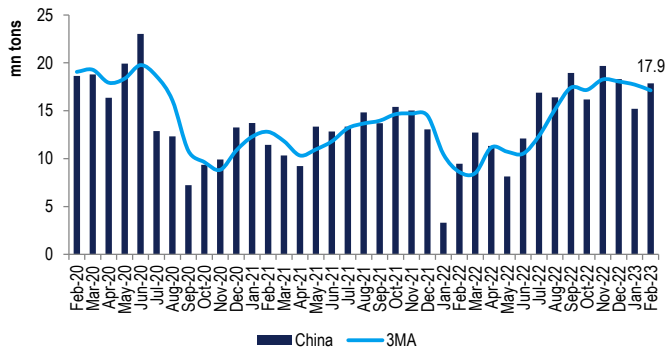
Healthy demand from China, India offset Europe’s weakness, but met with supplies

Global seaborne thermal coal trade volume grew to 187Mt in 2M23, up 20% yoy. On the demand side, among the key importers, in Feb23 China continued to show import recovery (+159% yoy, from 2M22’s low base), with also healthy demand from India (+37% yoy) and ASEAN (+33% yoy), and stable Japan-Korea-Taiwan (JKT) markets (-3% yoy).

These has offset by weak demand from Europe (-16% yoy). We view the healthy demand from China and India in 2M23 to be encouraging as inventory levels in both countries are now only slightly below the historical norm (India’s at 12 days vs. 5-year average of 15 days, China’s at 15 days vs. 5-year average of 18 days).

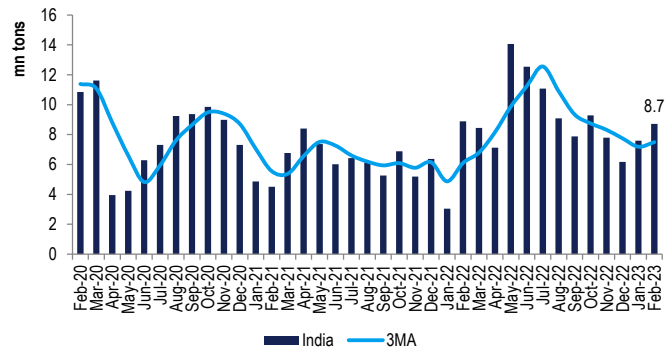
The demand growth, however, has been well supplied by rising export (+20% yoy) which has been driven by rising supply from Indonesia (+97% yoy, from 2M22’s low base), Canada (+9%), US (+24%) which more than offset contracting supply from Australia (-10% yoy), Colombia (-9% yoy).

Fig. 2: China import



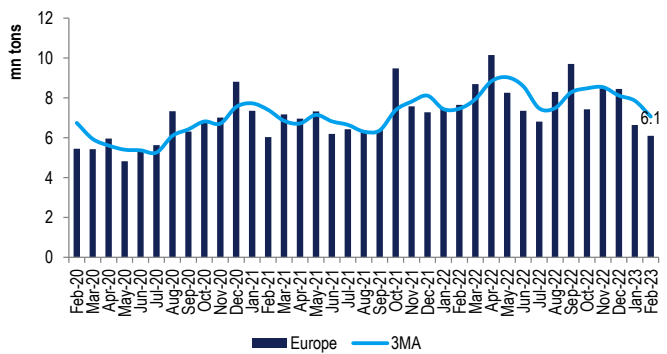
Source: Bloomberg, Indo Premier

Fig. 3: India import



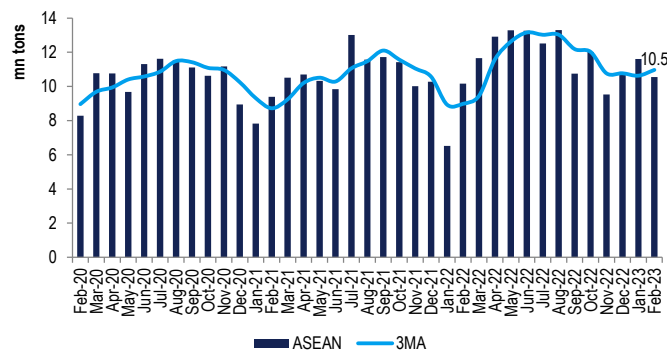
Source: Bloomberg, Indo Premier

Fig. 4: Europe import



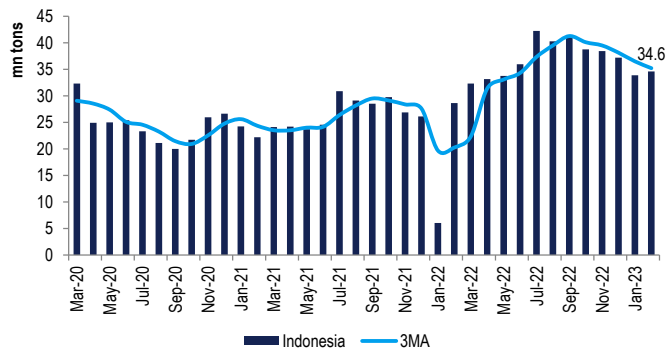
Source: Bloomberg, Indo Premier

Fig. 5: ASEAN import



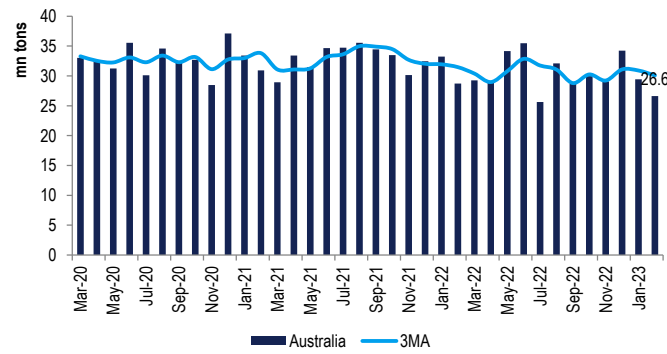
Source: Bloomberg, Indo Premier

Fig. 6: Indonesia export



Source: Bloomberg, Indo Premier

Fig. 7: Australia export



Source: Bloomberg, Indo Premier

Fig. 8: China inventory

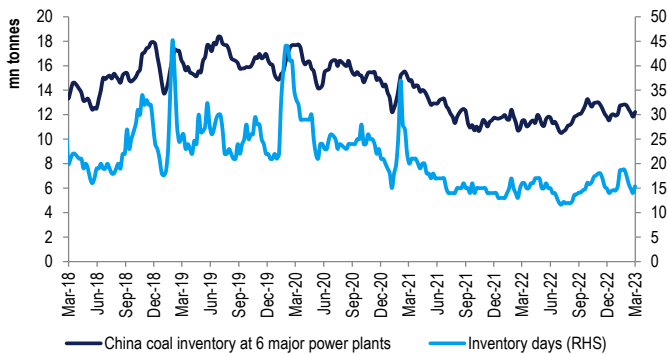
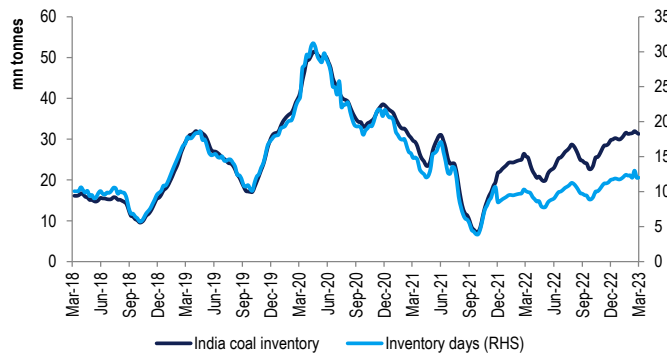


Fig. 9: India inventory



Source: Bloomberg, Indo Premier

Source: Bloomberg, Indo Premier

Supply risk still prevails

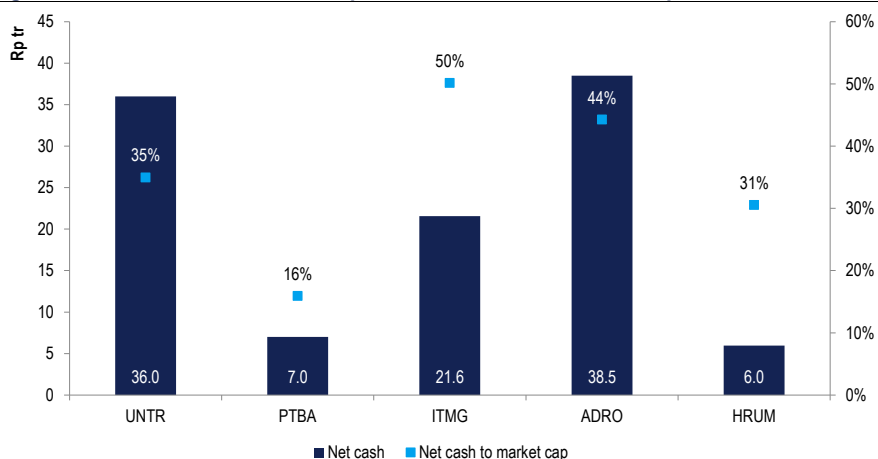
We had projected the thermal coal market to turn into a slight surplus in FY23 (from deficit in FY22) amid expectation of rising supplies from Indonesia and Australia (see our report here). Compared to our FY23 forecast, 2M23 data indicate evidence of rising supply though mainly still from Indonesia. We think supply risk has yet to come in full swing as we see room for Indonesia’s export to rise further in 2Q23 (post the Moslem holiday and normalizing weather condition, as the 2M23 if annualized (seasonality-adjusted) may see FY23 export volume of ~430-440Mt (+7-10% yoy, vs. our forecast of 428Mt). That said, we see possible downside risk for the medium/ low-CV coal amid the expectation of more supply from Indonesia in 2Q23.

We maintain our FY23 coal price forecast of US\$240/t for Newcastle and US\$75/t for ICI4.

Maintain sector’s Neutral rating

Based on our coal price assumptions, our earnings forecast foresees Indonesian coal miners to see 9-49% correction in FY23. The Indonesian coal stocks has displayed mixed performance YTD with share price ranging from -29% (ADRO) to +6% (UNTR). We think the performance divergence may likely reflect market’s perception on potential dividend (ADRO perceived as returning smallest amount given its perceived high capex needs), despite the fact that all companies have accumulated high cash positions as of Dec22 (ranging from 16-50% to market capitalization).

Fig. 10: Indo coal miners’ net cash position vs. net cash/market capitalization



Source: Bloomberg, Indo Premier

We continue to prefer ADRO and UNTR as our top sector pick. We believe market’s perception on ADRO’s potential dividend is misplaced, as despite is possible capex needs (for growth projects), its net cash/market capitalization ranks the second highest (at 44%). We like UNTR’s more defensive earnings profile amid expectation for mining contracting (Pama) more resilient earnings against coal price downside.

Fig. 11: ADRO EV/EBITDA



Source: Bloomberg, Indo Premier

Fig. 12: ITMG EV/EBITDA



Source: Bloomberg, Indo Premier

Fig. 13: PTBA EV/EBITDA



Source: Bloomberg, Indo Premier

Fig. 14: UNTR EV/EBITDA



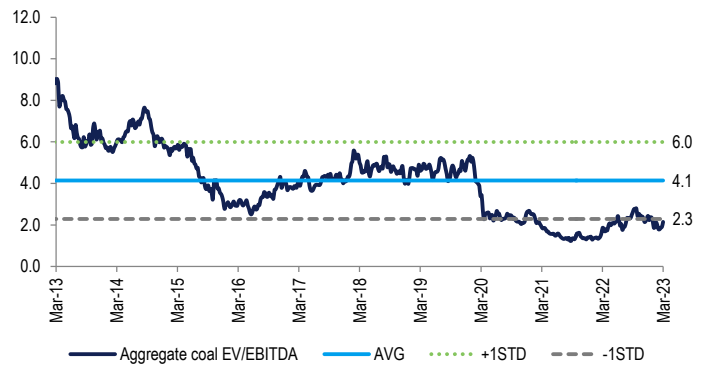
Source: Bloomberg, Indo Premier

Fig. 15: HRUM EV/EBITDA



Source: Bloomberg, Indo Premier

Fig. 16: Coal sector EV/EBITDA



Source: Bloomberg, Indo Premier

SECTOR RATINGS

- OVERWEIGHT : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

- BUY : Expected total return of 10% or more within a 12-month period
- HOLD : Expected total return between -10% and 10% within a 12-month period
- SELL : Expected total return of -10% or worse within a 12-month period

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The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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