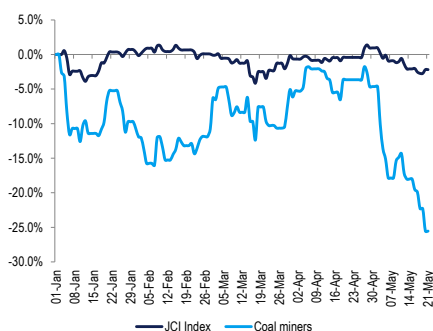


### Sector Update | 22 May 2023

#### Sector Index Performance

	3M	6M	12M
Absolute	-14.2%	-25.5%	-26.1%
Relative to JCI	-11.4%	-20.1%	-22.9%



#### Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
ADRO IJ	1.5	2.8	3.6
PTBA IJ	5.5	4.9	8.6
HRUM IJ	4.1	4.1	4.3
ITMG IJ	3.7	7.9	10.7
UNTR IJ	5.3	4.9	4.9
EV/EBITDA (x)	2023F	2024F	2025F
ADRO IJ	1.3	1.9	2.0
PTBA IJ	3.5	3.0	5.3
HRUM IJ	1.9	1.5	1.4
ITMG IJ	1.2	2.9	4.2
UNTR IJ	1.8	1.3	1.2
Div. Yield	2023F	2024F	2025F
ADRO IJ	27.7%	17.7%	9.4%
PTBA IJ	29.7%	15.4%	15.4%
HRUM IJ	6.7%	12.2%	19.3%
ITMG IJ	49.9%	21.6%	12.6%
UNTR IJ	10.9%	8.6%	9.2%

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## Entering seasonal bottom for coal price; expect earnings drop in 2Q

- Thermal coal price seasonal correction has been exacerbated by recent concerns over China's softer demand and higher domestic production.
- Coal miners' performance and FY23 guidance indicated earnings may have peaked in 1Q23, as cost will rise vs. the anticipated softer ASPs.
- Despite already reduced funds' positioning, we think it's too early to dip back into the sector until 2Q23 earnings drop is seen; maintain Neutral.

### Coal price correction is expected, but softer demand adds pressure

Coal prices correction recent weeks (Newcastle price falling to US\$162/t as of last week or -59% YTD, while Indonesian indices ICI3 and ICI4 falling to US\$92/t and US\$69/t or -19 and -21% YTD) has thus far been in-line with our view ([link to report](#)), which was predicated on expectation of supply increase. Nonetheless, recent industry newsflows indicated additional concerns from a combination of soft domestic demand in China (in-line with soft data point in industrial activities) and India, and rising production in China (+5% as of 4M23).

### Softer Apr23 imports; China seasonal summer demand may be at risk

While 4M23, coal trade (based on Bloomberg data) still recorded 11% yoy to 377Mt in 4M23; Apr23 trade have showed a continued slowdown (Apr 3mMA -3% mom) mainly reflecting slowing imports across markets ex-China and India (i.e., JKT -12% mom, ASEAN flat mom, Europe -9% mom). Despite still steady import from China and India, we see still sufficient inventory and available supplies from domestic markets to be the driver behind the price softening.

### Coal miners' earnings may have peaked in 1Q23

The coal miners' 1Q23 results and management guidance indicate earnings may soften further in the coming quarters on the combination of: 1) 1Q23 coal ASPs were generally still ahead of expectation, reflecting the still resilient Newcastle and ICI prices at end of 4Q22/1Q23, but a more severe price corrections in early 2Q23 may start to impact 2Q23. 2) Higher 1Q23 costs, notably from higher royalty (mainly on higher govt's coal refence price), mining fee and higher stripping ratio. We expect these to offset FY23 production volume growth plan (2-11% yoy).

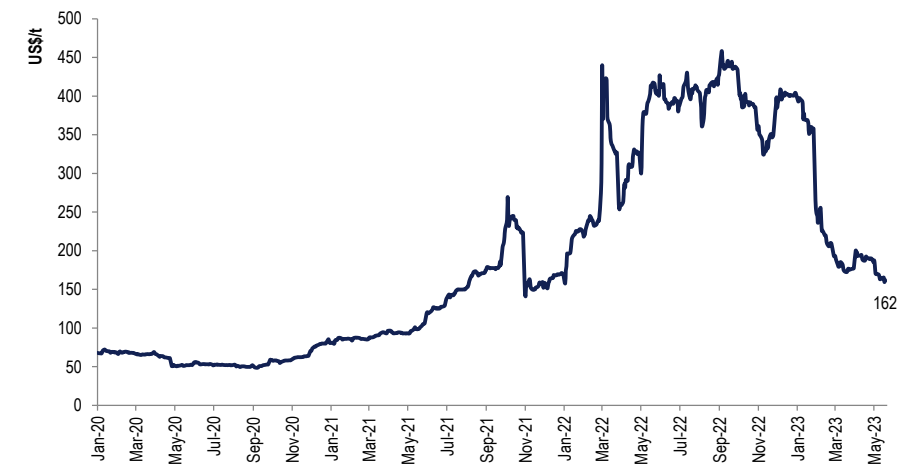
### Maintain sector Neutral rating

Reduced funds' positioning on the sector (currently neutral weighting vs. JCI, except for UNTR) and possibility for seasonal price pickup due to summer demand suggested price pressure may be limited. However, we think it is too early to dip back into the sector until we see the extent of 2Q-3Q23 earnings decline and impact of China economic slowdown in coal prices. We thus maintain Neutral rating on the sector, with preference on UNTR (Buy, TP Rp29,700), as we expect its contracting business to benefit from the resilient mining fee and rising SR.

## Entering coal price’s seasonal bottom

Coal prices have continued their correction path in recent weeks, with Newcastle price falling to US\$162/t as of last week, while Indonesian indices ICI3 and ICI4 falling to US\$92/t and US\$69/t respectively. The price correction has thus far been in-line with our view ([link to report](#)), amid expectation of supply increase from Indonesia. Nonetheless, recent industry newsflows indicated a combination of soft domestic demand in China (in-line with soft data point in industrial activities) and India, and rising production in China (+5% as of 4M23).

**Fig. 1: Newcastle coal price**



Source: Bloomberg, Indo Premier

### Apr23 trade data: steady imports, but not enough to support prices

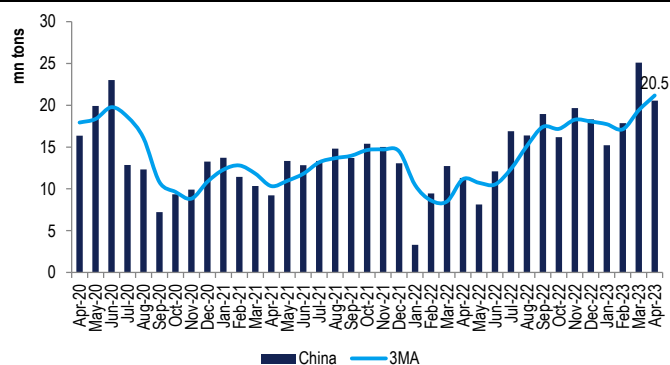
In 4M23, coal trade (based on Bloomberg data) has recorded 11% yoy to 377Mt, with key markets such as China and India recording strong 114% and 33% yoy growth, well offsetting the weak import from Europe (-30% yoy) and unexpected drop in Japan-Korea-Taiwan/ JKT import (-10% yoy).

The Apr23 trade, however, have showed a continued slowdown (Apr 3MMA -3% mom, though still +3% yoy on low-based comparison due to China lockdown in 1H22). The softer Apr23 trade volume mainly reflected slowing imports across markets ex-China and India (i.e., JKT -12% mom, ASEAN flat mom, Europe -9% mom), while China and India still grew at +9% and +12% mom respectively.

Going by the historical data, imports from China may see a seasonal pick up in Jun-Jul, reflecting the higher demand in Summer (rising power generation for air conditioning). However, we see the narrative of rising domestic production and slowing industrial activity as potential risk on demand in the coming months. On the supply front, Indonesia and Australia exports were -3% and +13% mom in Apr23. In overall, despite steady import from China and India, we see still sufficient inventory (China and India at 18 and 13 days respectively) and available supplies from domestic markets to be the driver behind softer prices.

With listed Indonesian coal miners indicating intact FY23 production growth plan (5-6% yoy from FY22), we maintain our view that the normalizing weather condition (dry weather in 2Q-3Q) may likely support more Indonesian production volumes.

**Fig. 2: China coal import**



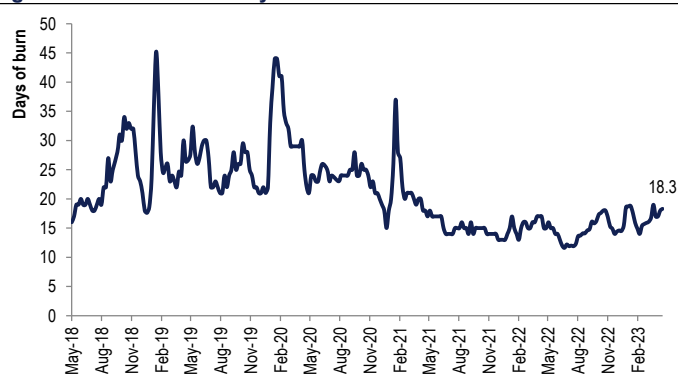
Source: Bloomberg, Indo Premier

**Fig. 3: India coal import**



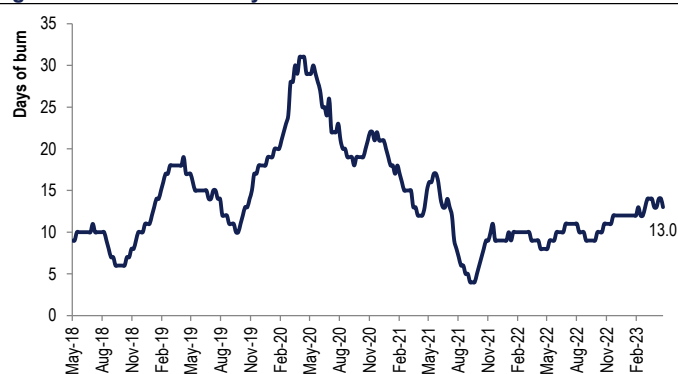
Source: Bloomberg, Indo Premier

**Fig. 4: China coal inventory**



Source: Bloomberg, Indo Premier

**Fig. 5: India coal inventory**



Source: Bloomberg, Indo Premier

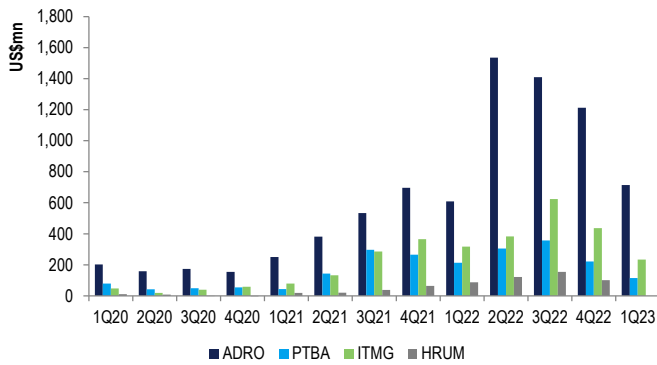
### 1Q23 earnings key trend and outlook

We noted the following key points from the Indonesian coal miners 1Q23 results and management guidance:

- 1Q23 coal ASPs were generally still ahead of expectation, albeit softening 10-24% qoq. This likely reflected the still resilient Newcastle and ICI prices at end of 4Q22/1Q23, but a more severe price correction in early 2Q23 may start to be reflected in 2Q23.
- Steady 1Q23 production volume growth (flat to 29% yoy) and sales volume growth (5-29% yoy), with intact FY23 production volume plan (2-11% yoy).
- Higher 1Q23 costs, notably from higher royalty (mainly on higher govt's coal reference price), mining and higher stripping ratio. Despite the anticipated correction in coal price, the coal miners maintain high SR plan for FY23 (vs. FY22).

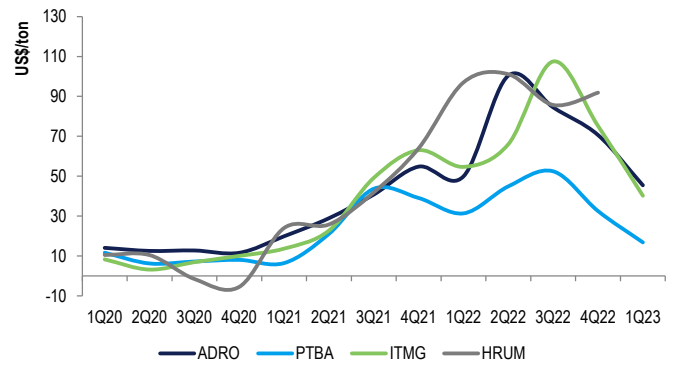
Judging from the above, we believe the Indonesian coal miners earnings have likely peaked in 1Q23, and expect higher cost and ASP in the coming quarters to offset the impact of higher production and sales volumes.

**Fig. 6: Coal miners quarterly EBITDA**



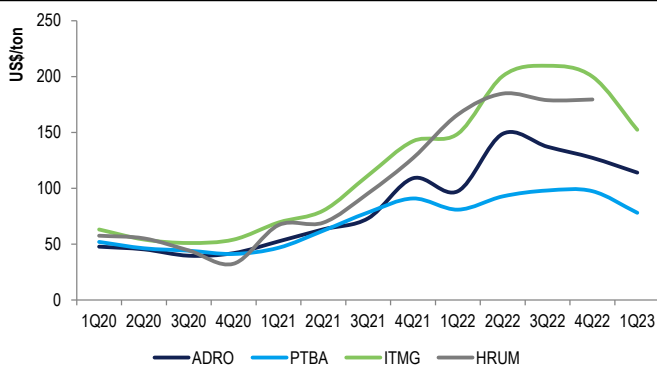
Source: Company, Indo Premier

**Fig. 7: Coal miners quarterly EBITDA per tonne**



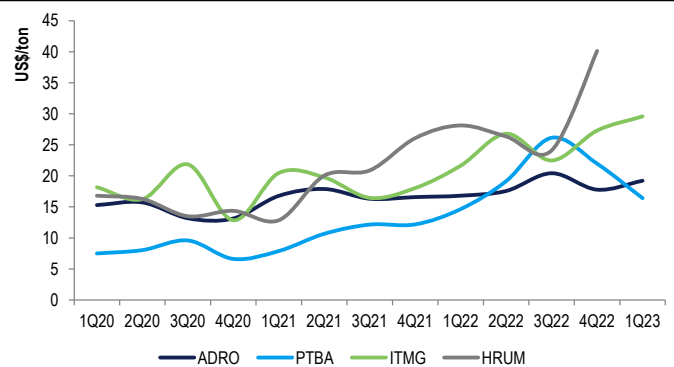
Source: Company, Indo Premier

**Fig. 8: Coal miners quarterly ASP**



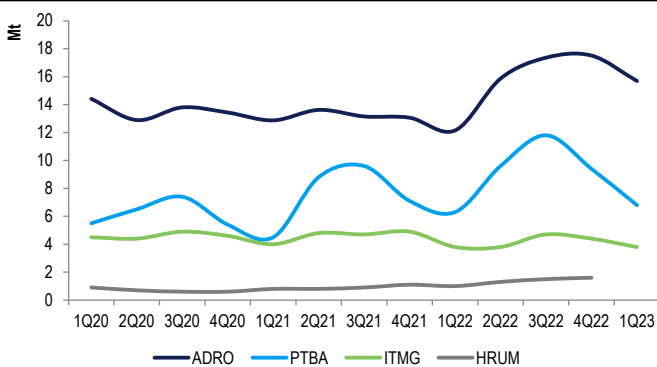
Source: Company, Indo Premier

**Fig. 9: Coal miners quarterly mining cost**



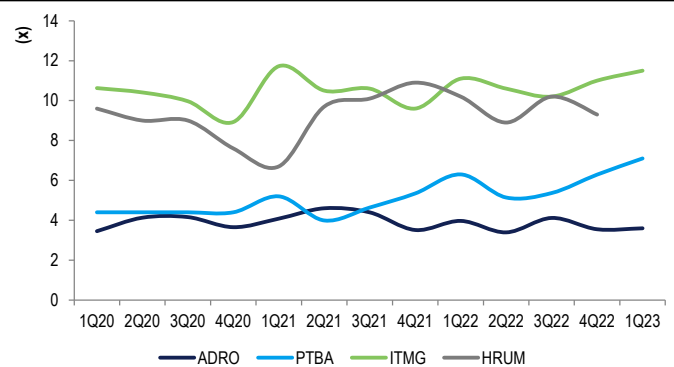
Source: Company, Indo Premier

**Fig. 10: Coal miners quarterly production volume**



Source: Company, Indo Premier

**Fig. 11: Coal miners quarterly stripping ratio**



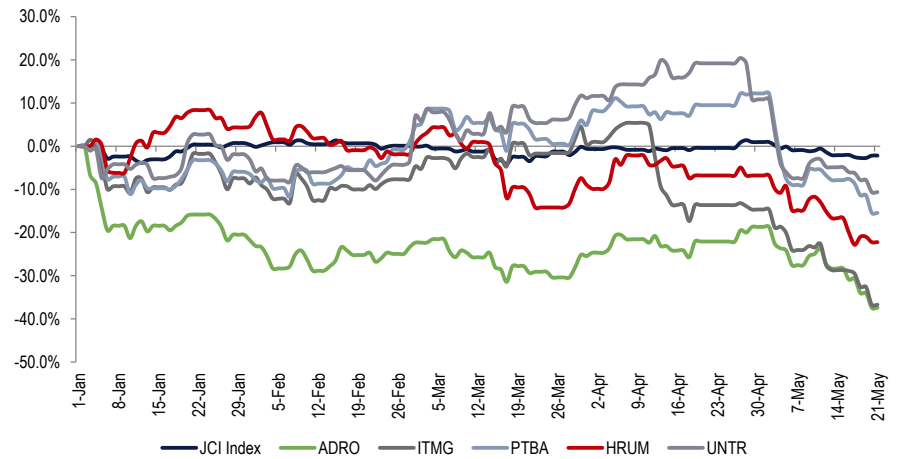
Source: Company, Indo Premier

### Sector recommendation

The Indonesian coal stocks have experienced a sharp drop over the past month, down 11-37% YTD, amid correction in Newcastle price. While reduced fund positioning on the sector (currently neutral weighting vs. JCI) and possibility for seasonal price pickup due to summer demand suggested price pressure may be limited, we think it is too early to dip back into the sector until we see the extent of 2Q-3Q23 earnings decline and impact of China economic slowdown in coal prices. We thus maintain Neutral rating on the sector, with preference on UNTR (Buy, TP Rp29,700), as we expect

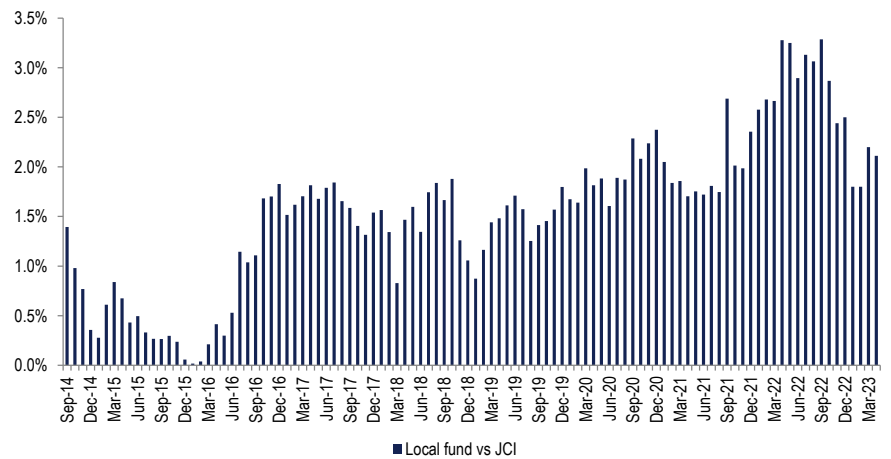
its contracting business to benefit from the resilient mining fee and rising SR.

**Fig. 12: Indonesian coal price performance YTD vs. JCI**



Source: Bloomberg, Indo Premier

**Fig. 13: Coal sector fund positioning vs. JCI**



Source: Bloomberg, Indo Premier

**Fig. 14: Coal miners valuation summary**

Ticker	Rating	Current price	Target price (Rp)	P/E		EV/ EBITDA		Div. yield 2023F
				2023F	2024F	2023F	2024F	
ADRO IJ	Buy	2,410	4,650	1.5	2.8	1.3	1.9	27.7%
PTBA IJ	Neutral	3,120	3,400	5.5	4.9	3.5	3.0	29.7%
HRUM IJ	Buy	1,260	2,400	4.1	4.1	1.9	1.5	6.7%
ITMG IJ	Buy	24,700	33,400	3.7	7.9	1.2	2.9	49.9%
UNTR IJ	Buy	23,300	29,700	5.3	4.9	1.8	1.3	10.9%

Source: Bloomberg, Indo Premier

**Fig. 15: ADRO EV/EBITDA**



Source: Bloomberg, Indo Premier

**Fig. 16: ITMG EV/EBITDA**



Source: Bloomberg, Indo Premier

**Fig. 17: PTBA EV/EBITDA**



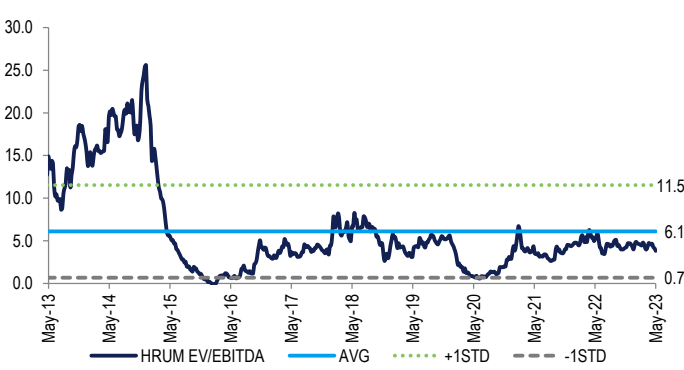
Source: Bloomberg, Indo Premier

**Fig. 18: UNTR EV/EBITDA**



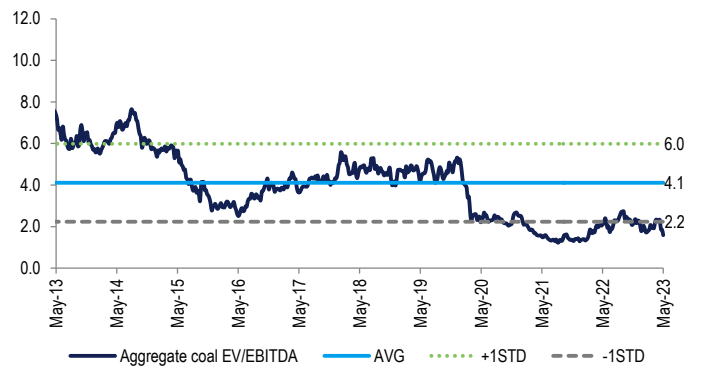
Source: Bloomberg, Indo Premier

**Fig. 19: HRUM EV/EBITDA**



Source: Bloomberg, Indo Premier

**Fig. 20: 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

## ANALYSTS CERTIFICATION

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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