INDOPREMIER

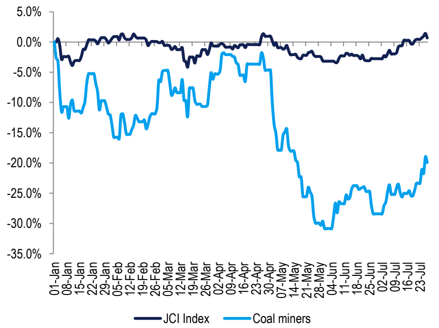
Coal

NEUTRAL *(unchanged)*

Sector Update | 27 July 2023

Sector Index Performance

	3M	6M	12M
Absolute	-18.5%	-12.8%	-21.9%
Relative to JCI	-18.3%	-13.8%	-21.9%



Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
ADRO IJ	1.5	2.9	3.6
PTBA IJ	5.0	4.4	7.8
HRUM IJ	6.8	8.2	8.1
ITMG IJ	4.2	9.0	12.2
UNTR IJ	5.7	5.5	5.4

EV/EBITDA (x)	2023F	2024F	2025F
ADRO IJ	1.3	1.9	2.1
PTBA IJ	3.1	2.6	4.7
HRUM IJ	3.1	3.6	3.7
ITMG IJ	1.5	3.5	5.1
UNTR IJ	2.5	1.9	1.7

Div. Yield	2023F	2024F	2025F
ADRO IJ	27.3%	17.4%	9.3%
PTBA IJ	32.8%	16.9%	17.0%
HRUM IJ	5.1%	7.3%	9.8%
ITMG IJ	44.0%	19.0%	11.1%
UNTR IJ	9.6%	8.0%	8.2%

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2H23 coal price outlook: demand downside risk prevails

- We see market balance turn into a higher surplus in 2H23 attributed to lower import demand amid higher China and India domestic production.
- Expect 2Q23 to be weak as soft ASP more than offset higher volume.
- In our view, recent rebound in coal stocks was mainly attributed to expectations on China recovery, though fundamentals remain soft.

Jun23 data: China slowing down while Russian supply picking up

Coal trade improved by 11% yoy to 592Mt in 1H23 with China recording the strongest growth of 121% yoy as it seeks to stock up amid economic reopening, followed by ASEAN at +9% yoy. This has more than offset soft import from Europe (-31% yoy) attributed to declining gas price and JKT (-10% yoy). On a monthly basis, coal trade remained flat mom in Jun23, and up by only 2% yoy. ASEAN and JKT demand picked up (3MMA: +17/+10% mom) but was offset by lower China and India imports (3MMA: -5/-11% mom). Additionally, Russian seaborne supply increased 9% yoy in 1H23.

2H23 supply-demand may turn FY23 market into higher surplus

Although China's seaborne demand growth in 1H23 (annualized: +54% yoy) is well ahead of our forecast, this was well met with steady increase in domestic production (+5% yoy) and Indonesian seaborne supply (annualized: +13% yoy). Meanwhile, demand from India came short of our expectation (1H23: flat yoy). Going into 2H23, we see downside risk to China's seaborne demand on rising domestic production (1H23: +5% yoy). Though we see upside room for India demand (FY23F +4% yoy vs. 1H23's flat yoy), though this may still be behind our forecast. On supply front, we expect Australia and Indonesia supply to continue to pick up and thus tip the market balance into a higher surplus of 8Mt (from 5Mt prev.). Consequently, we cut our Newcastle/ICI4 forecast to US$175/65 (vs. US$240/75 previously)

2Q23 preview: expect a weak quarter

We expect 2Q23 earnings to be soft as weak coal prices may more than offset higher volumes. Amid Newcastle steeper decline (-37% qoq) compared to ICI4 (-16% qoq), we expect ITMG and HRUM to be the weakest performers qoq. We expect cash cost to trend down by 5-12% amid declining fuel price and lower royalty. Combined with moderate 10% qoq volume growth in 2Q23, we expect coal miners to record +12% to -66% qoq growth. Despite this, we expect 1H23 EBITDA of HRUM/UNTR to be ahead of our/consensus FY23 forecast, while the others are slightly below.

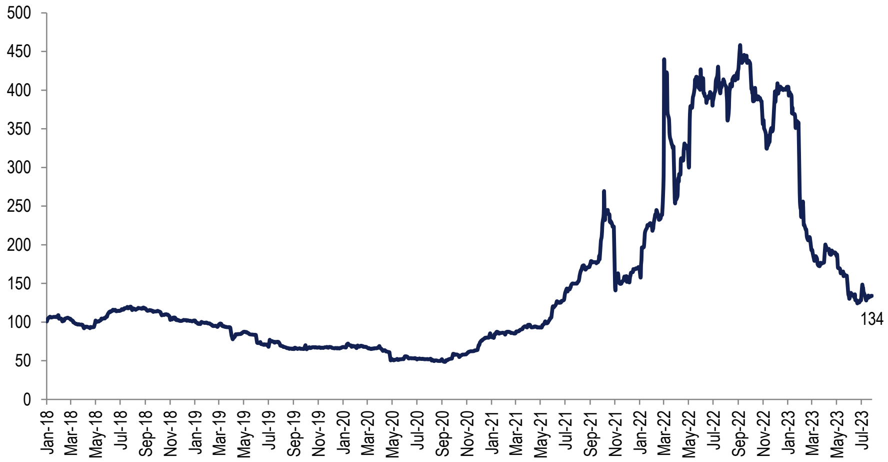
Maintain sector Neutral rating

In our view, the rebound of 17-27 % in Indonesian coal stocks (excl. PTBA: -8%) since Jun23 was mainly fuelled by expectations on China and the pick-up in coal futures (+16-18% in the past 2 weeks). However, trading activities in the physical market remains subdued, according to newsflow. As we expect market balance tipping into a higher surplus in FY23, we see more downside risk in ICI4 compared to Newcastle. If materializes, we estimate 3Q23 earnings to decline by 3-8%. We maintain Neutral on the sector, favouring UNTR on defensive earnings profile and HRUM on further monetization of nickel assets.

Potential downside on seaborne demand

Thermal coal prices softened in 2Q23 with Newcastle averaging at US$161/t (-37% qoq/-56% yoy) and ICI4 averaging at US$70/t (-16% qoq/-32% yoy). Although prices seems like stabilizing at ~US$130/t (Newcastle) and ~US$70/t (ICI4), latest data and newsflow suggests more downside risk to coal price attributed to softening import demand as domestic supply ramps up further in China and India (1H23: +5/+9% yoy respectively).

Fig. 1: Newcastle coal price



Source: Bloomberg, Indo Premier

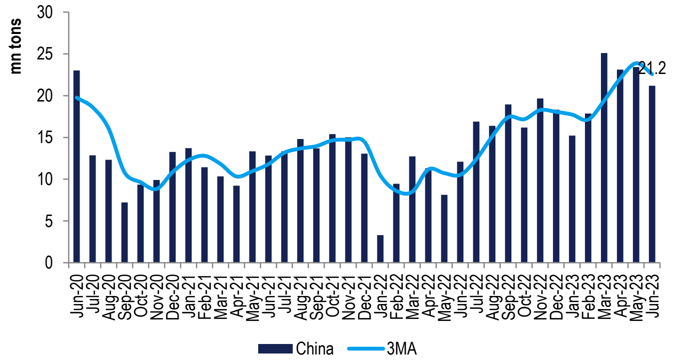
Jun23 data: China slowing down while Russian imports picking up

Based on Bloomberg data, coal trade improved 11% yoy to 592Mt in 1H23 with China recording the strongest growth of 121% yoy as it seeks to stock up amid economic reopening, followed by ASEAN at +9% yoy. This has more than offset soft import from Europe (-31% yoy) attributed to declining gas price and JKT (-10% yoy).

On a monthly basis, trade data remained relatively flat mom in Jun23, and up by only 2% yoy. ASEAN and JKT demand picked up (3MMA: +17/+10% mom) but was offset by lower China and India imports (3MMA: -5/-11% mom).

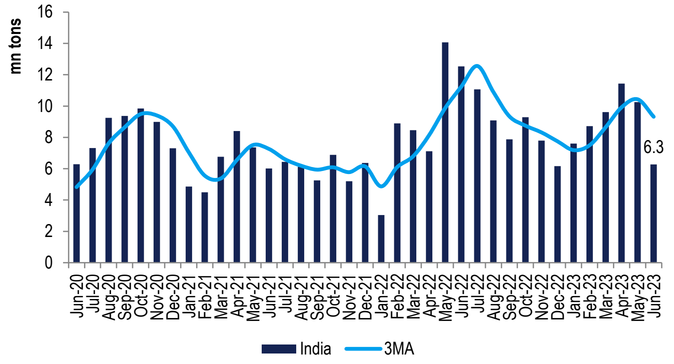
Additionally, it is worth noting that Russian supply continued to pick up, reaching 8.2Mt in Jun23 3MMA (+3% mom/+5% yoy), which brought 1H23 volume to 47Mt (+9% yoy). Key offtakers are Egypt, China, Turkey, and Korea in pecking order (accounting for 70% of 1H23 Russian exports).

Fig. 2: China coal import



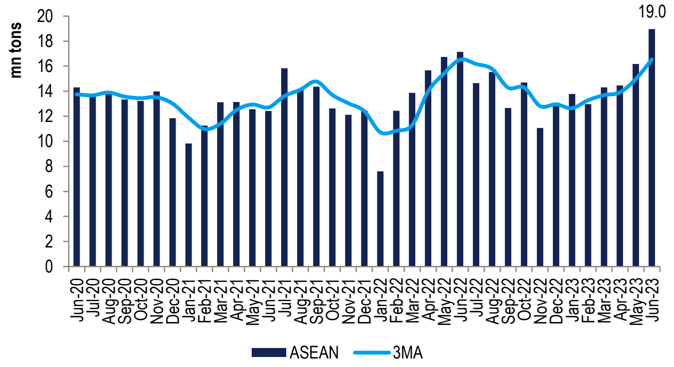
Source: Bloomberg, Indo Premier

Fig. 3: India coal import



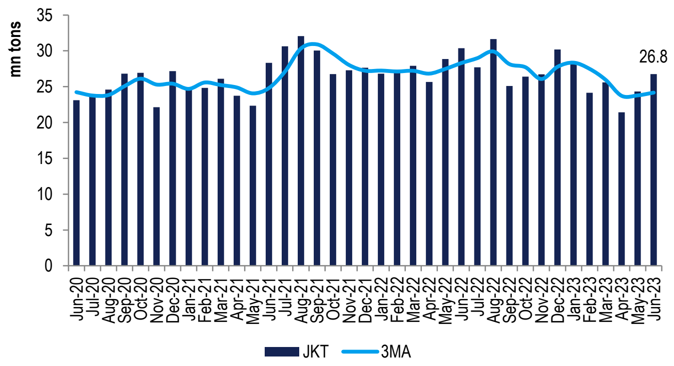
Source: Bloomberg, Indo Premier

Fig. 4: ASEAN coal import



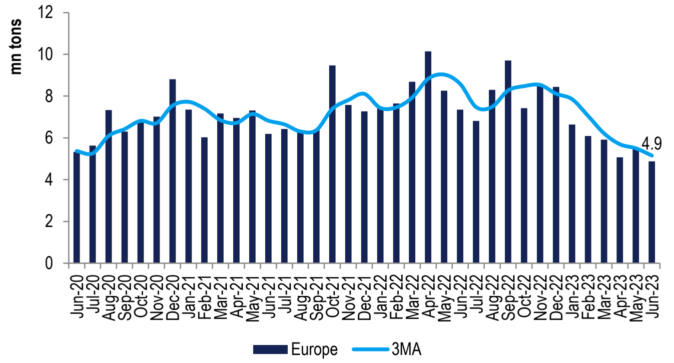
Source: Bloomberg, Indo Premier

Fig. 5: JKT coal import



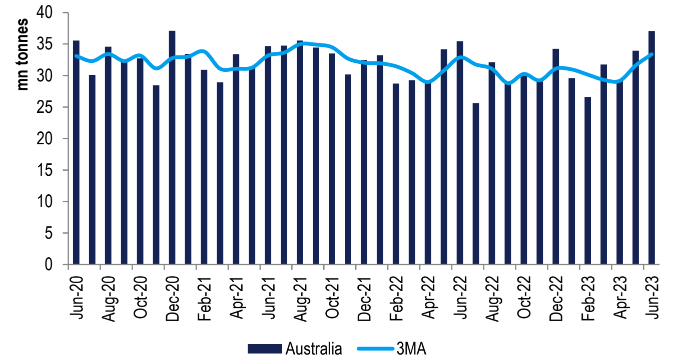
Source: Bloomberg, Indo Premier

Fig. 6: Europe coal import



Source: Bloomberg, Indo Premier

Fig. 7: Australia coal export

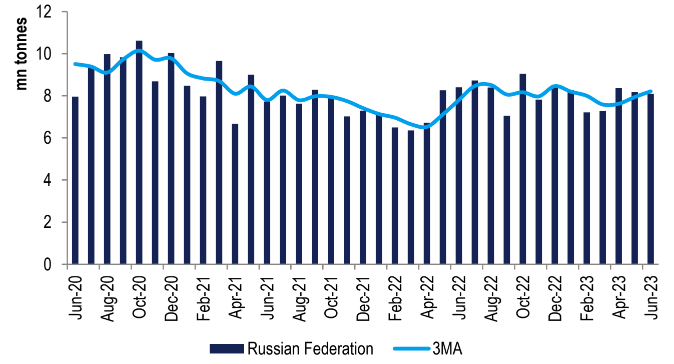


Source: Bloomberg, Indo Premier

Fig. 8: Indonesia coal export

Source: Bloomberg, Indo Premier

Fig. 9: Russia coal export



Source: Bloomberg, Indo Premier

Supply-demand outlook

We previously forecasted supply growth (+7% yoy) to outpace demand growth (+3% yoy) in FY23 and tip the market balance into surplus of 5Mt (from deficit of 30Mt in FY22). So far, our thesis remained intact and concurred with a steep decline in Newcastle coal price to US$134/t (-33% YTD). However, the discrepancy lies on the key demand drivers, as our forecast for demand growth was mainly predicated on China's economic reopening and India. Although China's seaborne demand growth in 1H23 (annualized: +54% yoy) is well ahead of our forecast, this was well met with steady increase in domestic production (1H23: +5% yoy) and Indonesian seaborne supply (annualized: +13% yoy). Meanwhile, demand from India came short of our expectation (1H23: flat yoy).

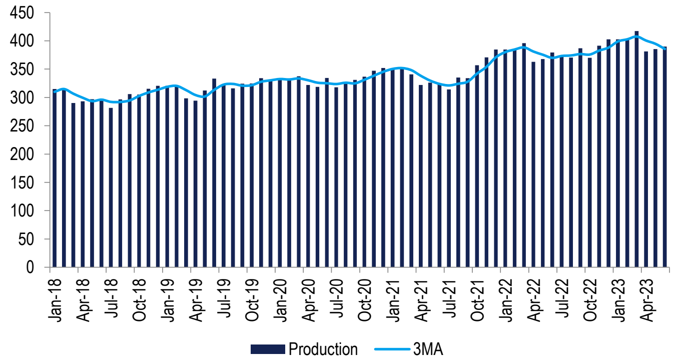
Fig. 10: Market balance forecast

mn tonnes	2016	2017	2018	2019	2020	2021	2022	2023F
Demand								
China	124	119	122	123	132	143	161	181
India	152	146	167	187	165	173	105	109
Indonesia	311	330	326	306	278	294	294	294
ASEAN	69	85	90	127	136	124	136	146
EU	115	120	120	88	58	67	98	98
Others	63	105	115	129	116	129	155	152
Total	**834**	**905**	**940**	**960**	**885**	**930**	**949**	**980**
Supply								
Indonesia	331	287	356	455	332	380	404	434
Australia	201	200	208	212	200	203	178	189
Russia	144	156	173	181	167	177	93	93
Others	189	237	223	191	176	162	281	271
Total	**865**	**880**	**960**	**1,039**	**875**	**922**	**919**	**988**
Market balance	**31**	**(25)**	**20**	**79**	**(10)**	**(8)**	**(30)**	**8**

Source: Bloomberg, Indo Premier

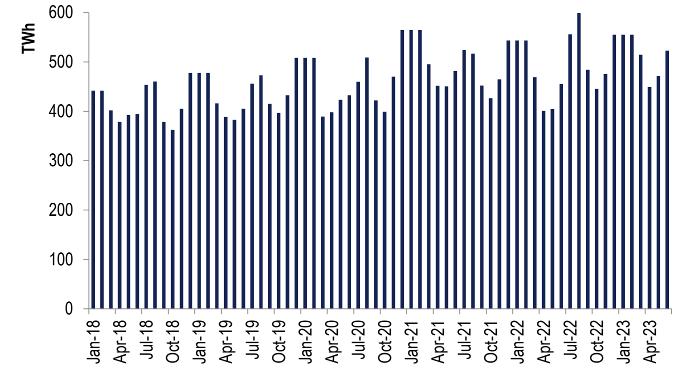
Going into 2H23, we see downside risk to China seaborne demand (compared to 1H23) as economic recovery post lockdown is showing signs of slowing down (seasonally adjusted GDP growth of 0.8% qoq in 2Q23 vs. 2.2% in 1Q23) and policymakers have thus far failed to deploy major stimulus to revive momentum. The recent Politburo meeting indicated govt's aim to lend more support to the real estate sector and resolve local government debt while also boosting consumption of automotive and electronic products. If materializes, this shall boost electricity consumption (1H23: +9% yoy) and shall be seen as a positive catalyst for coal price. However, China's coal inventory remains at an all-time high of 542Mt (c.45 days of consumption). Combined with increasing domestic production (1H23: +5% yoy), we see risk on import to skew more to downside.

Fig. 11: China domestic coal production



Source: Bloomberg, Indo Premier

Fig. 12: China thermal power generation



Source: Bloomberg, Indo Premier

Fig. 13: China aggregate coal inventory

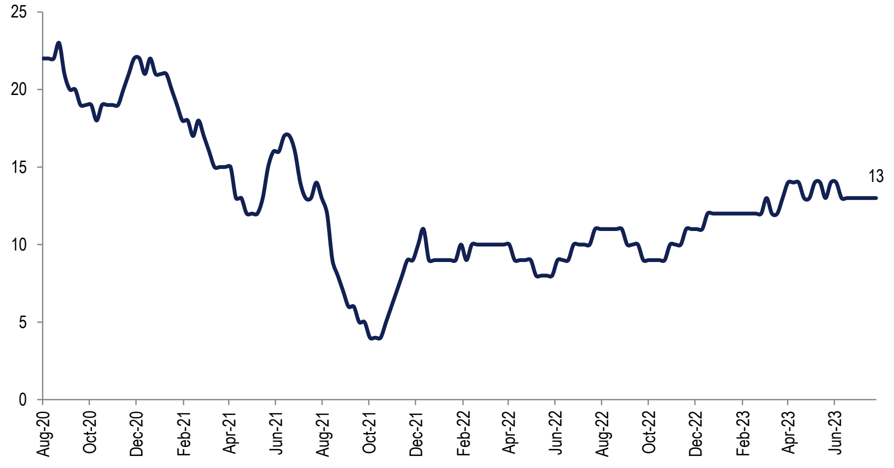
Source: Bloomberg, Indo Premier

Fig. 14: China coal inventory at 6 major power plants

Source: Bloomberg, Indo Premier

Meanwhile in India, domestic production has also been ramping up (1H23: +9% yoy) amid favorable weather condition. As of Jul23, we see a slight drawdown in inventory to 13 days of burn (vs. 14 days in 2Q23) amid weaker than expected imports (1H23: flat yoy). In 2Q23, electricity consumption only grew at 2% yoy due to unseasonal rainfall. We expect to see coal imports to pick up in 2H23, though shall remain below our previous forecast as this shall be met with increasing production.

Fig. 15: India coal inventory



Source: Bloomberg, Indo Premier

On the supply front, we have seen seaborne supply growth from Australia (1H23: flat) to be below our previous estimate attributed to logistical issue in 1Q23. However, Australian seaborne supply improved in 2Q23 (+14% qoq/+2% yoy) amid improving weather condition and thus we expect supply to continue to improve in 3Q23 onwards. On the other hand, Indonesian seaborne supply growth (1H23: +24% yoy) was well ahead of our forecast amid improving weather condition and timely delivery of heavy equipment.

Overall, we adjust our FY23 seaborne demand growth estimate for China/India to 13/4% (vs. 10/8% previously) while also adjusting supply growth estimate for Australia/Indonesia to 6/7% (vs. 8/6% previously). This shall tip the market balance into a higher surplus of 8Mt (vs. 5Mt previously). Given that ~70% of Indonesian coal supply are exported with key offtakers being China (41% of export) and India (17% of export), we see more downside risk for ICI4 compared to Newcastle. We cut our Newcastle forecast to US$175/t and ICI4 to US$70/t (vs. US$240/75 previously).

2Q23 preview

We expect 2Q23 performance to be soft as weak coal prices more than offsets higher volumes. Given that steeper decline on Newcastle (-37% qoq) compared to ICI4 (-16% qoq), we expect miners with higher portion of Newcastle contracts (such as ITMG, HRUM) to be the weakest performers. It is worth noting that we use a 1-month lag benchmark (Newcastle: -47% qoq, ICI4: -13% qoq) to arrive at our ASP assumptions (down 9-38%). We also assumed a moderate 10% qoq volume growth in 2Q23. While cash cost is expected to trend down 5-12% amid declining fuel price and lower royalty.

Based on these assumptions, we expect 2Q23 revenue to decline 1-27% qoq and EBITDA to post +12% to -66% qoq growth. Despite expecting 2Q23 results to be soft, we shall see 1H23 EBITDA of HRUM and UNTR to still be ahead of our/consensus FY23 forecast while ADRO, ITMG, and PTBA to be slightly below.

Fig. 16: 2Q23 preview summary

Revenue (US$mn)	1Q22	2Q22	1Q23	2Q23F	% qoq	% yoy	1H22	1H23F	% yoy	% of IPS	% of Cons	Comment
ADRO	1,188	2,274	1,792	1,574	-12%	-31%	3,462	3,366	-3%	45%	53%	In-line
HRUM	152	225	295	226	-23%	0%	377	521	38%	71%	67%	Above
ITMG	639	781	685	527	-23%	-33%	1,421	1,212	-15%	49%	46%	In-line
PTBA	572	702	654	650	-1%	-7%	1,274	1,304	2%	50%	50%	In-line
UNTR	1,686	1,975	1,951	1,771	-9%	-10%	3,662	3,722		46%	48%	In-line

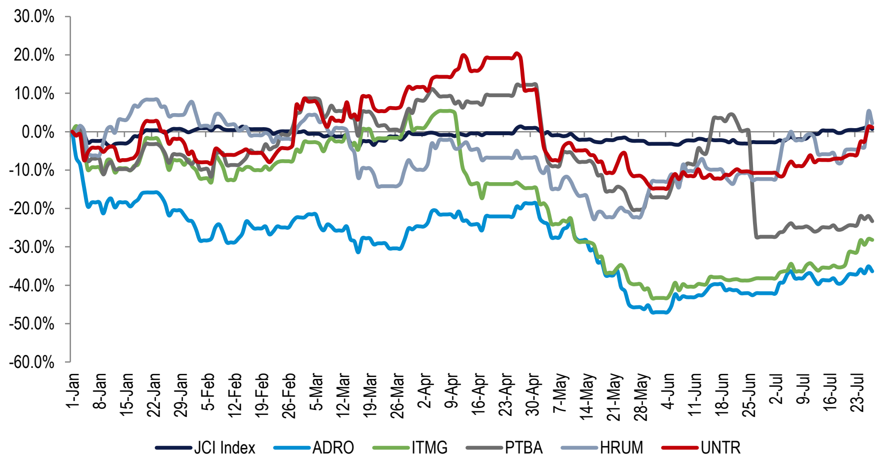
EBITDA	1Q22	2Q22	1Q23	2Q23F	% qoq	% yoy	1H22	1H23F	% yoy	% of IPS	% of Cons	Comment
ADRO	609	1,535	714	555	-22%	-64%	2,144	1,269	-41%	42%	48%	Below
HRUM	87	121	157	84	-47%	-31%	209	241	15%	74%	78%	Above
ITMG	317	383	233	79	-66%	-79%	700	312	-55%	35%	32%	Below
PTBA	215	304	109	122	12%	-60%	520	231	-56%	39%	40%	Below
UNTR	553	710	614	558	-9%	-21%	1,263	1,172	-7%	56%	56%	Above

Source: Company, Indo Premier

Sector recommendation

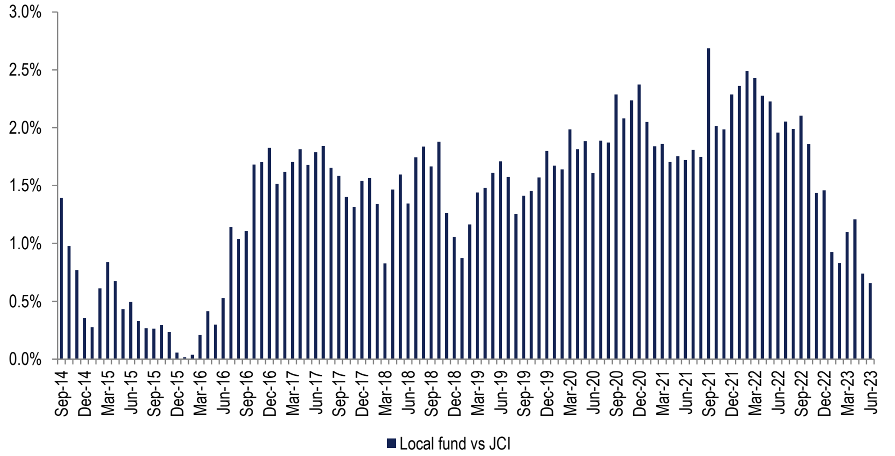
In our view, the rebound of 17-27% in Indonesian coal stocks (excl. PTBA: -8%) since Jun23 was mainly fuelled by expectations on China and the pick-up in coal futures (+16-18% in the past 2 weeks). However, trading activities in the physical market remains subdued, according to newsflow. Given that supply is expected to continue to improve and demand to skew more to downside amid high inventory levels, we shall see market balance tipping into a higher surplus in FY23 and see more downside in ICI4 compared to Newcastle. If materializes, we estimate 3Q23 earnings to decline by 3-8%. We maintain Neutral on the sector, favouring UNTR on defensive earnings profile and HRUM on further monetization of nickel assets.

Fig. 17: Indonesian coal price performance YTD vs. JCI



Source: Bloomberg, Indo Premier

Fig. 18: Coal sector fund positioning vs. JCI



Source: Bloomberg, Indo Premier

Fig. 19: Coal miners valuation summary

Ticker	Rating	Current price	Target price (Rp)	P/E 2023F	P/E 2024F	EV/ EBITDA 2023F	EV/ EBITDA 2024F	Div. yield 2023F
ADRO IJ	Buy	2,450	4,650	1.5	2.9	1.3	1.9	27.3%
PTBA IJ	Neutral	2,830	3,400	5.0	4.4	3.1	2.6	32.8%
HRUM IJ	Buy	1,655	2,200	6.8	8.2	3.1	3.6	5.1%
ITMG IJ	Buy	28,025	33,400	4.2	9.0	1.5	3.5	44.0%
UNTR IJ	Buy	26,375	30,900	5.7	5.5	2.5	1.9	9.6%

Source: Bloomberg, Indo Premier

Fig. 20: ADRO EV/EBITDA

Source: Bloomberg, Indo Premier

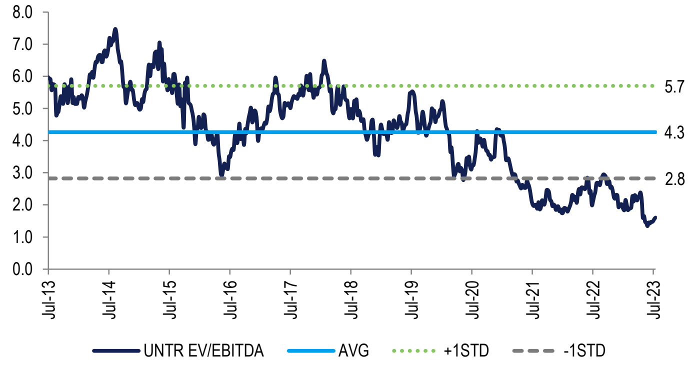
Fig. 21: ITMG EV/EBITDA

Source: Bloomberg, Indo Premier

Fig. 22: PTBA EV/EBITDA

Source: Bloomberg, Indo Premier

Fig. 23: UNTR EV/EBITDA

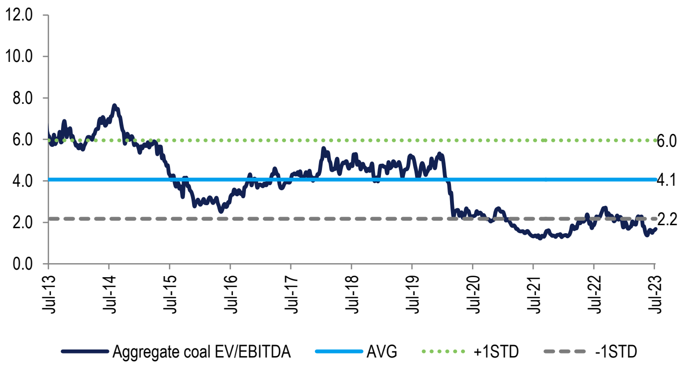


Source: Bloomberg, Indo Premier

Fig. 24: HRUM EV/EBITDA

Source: Bloomberg, Indo Premier

Fig. 25: 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

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