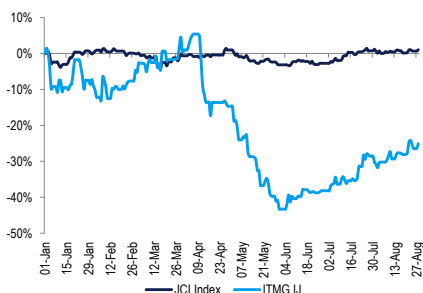


Stock Data

Target price	Rp34,700
Prior TP	Rp34,700
Current price	Rp29,225
Upside/downside	+19%
Shares outstanding (mn)	1,130
Market cap (Rp bn)	33,022
Free float	35%
Avg. 6m daily T/O (Rp bn)	51

Price Performance

	3M	6M	12M
Absolute	24.2%	-18.9%	-24.1%
Relative to JCI	20.7%	-19.8%	-21.1%
52w low/high (Rp)	22,125 – 45,350		



Major Shareholders

Banpu Minerals	65.1%
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KTAs from site visit: resource upside prospect at Indominco mine

- ITMG's operational team indicated possible upside in resource and reserve base, though it has not obtained JORC certification.
- Management aims to tap into unmineable resources (est. 127Mt) through underground coal gasification project (pilot project to start in FY25F).
- We maintain our FY23-25F earnings estimates and reiterate Buy at unchanged TP of Rp34,700.

Abundant untapped resource base

Indominco's operations team indicated that its resource base stood at ~500Mt and reserve at 53Mt as of Dec22. This is higher than the official numbers (as stated in its FY22 Annual Report) where resources/reserves were reported at 280Mt/24Mt. Nonetheless, data stated by operations team are yet to be JORC certified. The operations team also estimated that Indominco should currently have 8 years of mine life (vs. 4 years implied in the official numbers). However, majority of its resources are uneconomically viable to mine due to its depth (Indominco generally extracts coal between 10-30m underground).

UCG project to tap into uneconomically viable resources

Management is currently conducting a feasibility study on underground coal gasification (UCG) with Tekmira to tap into its unmineable resources that lies ~200 metres below ground level. Coal resources for UCG is estimated to reach 127Mt with 10 years life of mine. Pilot project for UCG is expected to start in FY25F. Management indicated plans of selling gas produced from coal gasification to Pupuk Kalimantan Timur.

Increasing renewable energy composition through solar and biomass

Indominco's mining operation currently has 3 power sources; coal-fired power plant (capacity of 2x7MW), diesel-powered power plant (capacity of 10x1MW), and solar-powered power plant (capacity of 3MW). Its coal-fired power plant blends coal with wood as biomass (at 1-2% composition and aims to increase it to 10% by FY24F). Additionally, management has a long-term target of increasing its solar capacity to 9MW, in-line with government's target of 23% renewable energy composition (Indominco is currently at 11%).

Maintain Buy rating at unchanged TP of Rp34,700

We maintain our estimates and reiterate Buy at unchanged TP of Rp34,700 which we derived from DCF method (WACC 13.5%, LT coal price of US\$85/t). ITMG is currently trading at 2x FY23F EV/EBITDA (34% discount to 10yr mean). Key risks are weaker coal price and higher cost inflation.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	2,077	3,636	2,488	1,875	1,767
EBITDA	857	1,742	895	412	292
Net profit	475	1,200	637	284	198
EPS growth	1104%	153%	-47%	-55%	-30%
ROE	46%	76%	36%	19%	15%
PER (x)	4.8	1.9	3.6	8.0	11.5
EV/EBITDA (x)	1.9	0.5	1.5	3.6	5.3
Dividend yield	4.7%	23.6%	42.2%	22.4%	12.5%
IPS vs. consensus			103%	76%	86%

Source: Company, Indo Premier

Share price closing as of: 28 August 2023

KTA from site visit: resource upside prospect at Indominco mine

We visited ITMG's Indominco coal mine (41% of ITMG's total FY22 production volume) and port in Bontang last week. Our key takeaways from the site visit are prospect of tapping into its abundant resource base through UCG project.

Notes from our site visit:

Coal operation:

- Based on ITMG's FY22 Annual Report, Indominco coal mine has a concession area of 24,121ha with total resource of 280Mt and reserve of 24Mt as of Dec22. Implying 6Mt production rate, this would translate to 4 years of mine life.
- The operations team has been continuing exploration works and has indicated that based on their data, resource base stood at ~500Mt and reserves at 53Mt as of Dec22. However, this has not been JORC certified and has not obtained Borrow-to-Use permit for forest areas (IPPKH). To add, confidence level is also uncertain.
- The operations team also indicated that Indominco currently has 8 year of mine life (until 2030) with the above reserve base, implying mine plan production rate of ~6.6Mtpa.
- The remaining resource base of ~447Mt is not economically viable to mine as it is positioned very deep inside (Indominco usually extracts coal in depth between 10-30m) and extracting it would incur cost that is higher than its selling price (US\$80-100/t based on internal assumption)
- Post extraction from mine pit, coal is transported to ROM stockpile, where it will be kept for a maximum of 7 days before transported to the crusher.
- The company also has its own stockpile for OB, which in the future will be used to backfill depleted mining pit.
- Indominco currently has 3 crushers on-site with total operating capacity of 3,000 tonnes per hour. However, only 1 crusher is actively operating with capacity of 1,300 tonnes per hour.
- Crusher maintenance occurs twice every 1 month with each maintenance taking up to 12 hours.
- After being crushed into an average size of ~5cm, the supply will go through an automated quality control process to filter for metals.
- The filtered coal will then be transported to their port stockyard located ~17km from its crusher.
- In the port stockyard, coal with different CVs (5,300-6,300) are separated and blended according to order specification.
- Indominco's port has its own conveyor belt system which connects its port stockyard directly to cargo ship.

Underground coal gasification project:

- Management is currently conducting a feasibility study with Mineral and Coal Technology Research and Development Centre of Ministry of Energy and Mineral Resources (Tekmira) on underground coal gasification (UCG) to tap into their unmineable resources that lies ~200 metres below ground level.

- Coal resources for UCG is estimated to reach 127Mt with 10 years life of mine.
- Pilot project for UCG is expected to start in FY25F.
- Operations team indicated plans of selling gas produced from coal gasification to Pupuk Kalimantan Timur.

Energy source:

- Indominco's mining operation consumes power from 3 different sources; coal-fired power plant (capacity of 2x7MW), diesel-powered power plant (capacity of 10x1MW), and solar-powered power plant (3MW).
- Its coal-fired power plant consumes ~60 tonnes of coal each day, which are blended with wood as biomass (at 1-2% of composition). Its utilization rate is currently at 2x4MW and management is targeting to increase biomass composition to 10% by FY24F.
- Gamal, Kaliandra, and Sengon Buto wood is used for blending. Management currently procure these woods from locals nearby but expects to be able to obtain them from forests along their hauling road in the future.
- On its solar panels, the company has installed 8,844 panels and 67 inverters so far and plans to expand capacity to 9MW.
- Solar panel utilization rate stood at around 2.1-2.2MW, accounting for ~11% of total energy consumption.
- Management has a long-term target of increasing its renewable energy composition to 23% (vs. 11% currently).
- Total capex for solar panels and inverter (excluding land) reached around US\$960k, which includes 20 years warranty for the panels and 15 years warranty for the inverter.

Rehabilitation:

- Indominco is required by law to rehabilitate 26,533ha outside of its mine (110% of concession area).
- The company has handed over 9,600ha of rehabilitated area and expects another 3,000ha this year.
- We also visited their Mentawir Nursery which aims to plant 15-20mn of endemic seeds (such as Meranti) per annum.

Fig. 1: Indominco Control room



Source: Company, Indo Premier

Fig. 2: Indominco Mine pit 19A



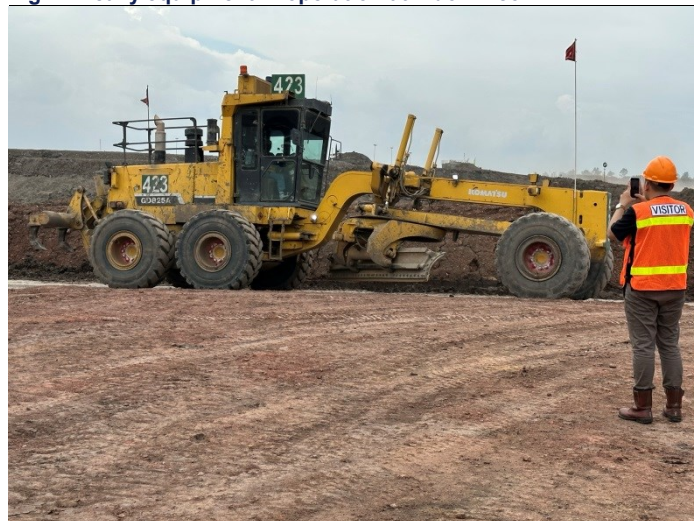
Source: Company, Indo Premier

Fig. 3: Heavy equipment in operation at Indominco



Source: Company, Indo Premier

Fig. 4: Heavy equipment in operation at Indominco



Source: Company, Indo Premier

Fig. 5: Crusher and conveyor belt in Indominco



Source: Company, Indo Premier

Fig. 6: Conveyor belt to temporary stockpile at Indominco – ready to be transported to port



Source: Company, Indo Premier

Fig. 7: Solar panels at Indominco



Source: Company, Indo Premier

Fig. 8: Port conveyor belt to cargo ship at Indominco



Source: Company, Indo Premier

Fig. 9: ITMG SOTP valuation summary

DCF valuation	
Sum of PV of FCFF	1,795
PV of Terminal Value	-
Add: Cash & Marketable Sec	962
Less: Net Debt	(13)
Total value	2,745
Total shares (million)	1,130
USD	2.43
Fair Value IDR	34,700
Current share price	29,225
Upside	19%

Source: Company, Indo Premier

Fig. 10: ITMG valuation band



Source: Company, Indo Premier

Income Statement	2021A	2022A	2023F	2024F	2025F
Net revenue	2,077	3,636	2,488	1,875	1,767
Cost of sales	(1,160)	(1,742)	(1,516)	(1,348)	(1,348)
Gross profit	917	1,894	971	527	419
SG&A Expenses	(125)	(212)	(140)	(152)	(166)
Operating profit	791	1,683	831	375	253
Net interest	0	6	9	4	3
Forex gain (loss)	0	0	0	0	0
Others	(170)	(143)	(10)	(10)	0
Pre-tax income	621	1,545	830	368	256
Income tax	(146)	(345)	(193)	(85)	(59)
Minority interest	(0)	1	0	0	0
Net income	475	1,200	637	284	198

Balance Sheet	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	691	1,430	962	814	751
Receivable	187	280	160	120	114
Inventory	62	96	249	187	177
Other current assets	48	102	102	102	102
Total current assets	988	1,909	1,472	1,224	1,143
Fixed assets	180	164	169	171	172
Other non-current assets	498	568	568	568	568
Total non-current assets	678	732	737	739	740
Total assets	1,666	2,640	2,209	1,962	1,883
ST loans	0	0	0	0	0
Payable	189	292	209	186	186
Other payables	176	293	293	293	293
Current portion of LT loans	0	0	0	0	0
Total current liab.	365	586	503	479	479
Long term loans	26	13	13	13	13
Other LT liab.	74	91	91	91	91
Total liabilities	465	690	607	584	584
Equity	393	437	437	437	437
Retained earnings	854	1,515	1,191	966	880
Minority interest	(46)	(2)	(26)	(25)	(18)
Total SHE + minority int.	1,202	1,950	1,602	1,378	1,299
Total liabilities & equity	1,666	2,640	2,209	1,962	1,883

Source: Company, Indo Premier

Cash Flow Statement	2021A	2022A	2023F	2024F	2025F
Net income	475	1,200	637	284	198
Depr. & amortization	66	60	64	37	39
Changes in working capital	(39)	(40)	115	(77)	(18)
Others	115	562	(36)	246	91
Cash flow from operating	618	1,782	780	489	309
Capital expenditure	(7)	(13)	(50)	(19)	(18)
Others	(18)	0	0	1	2
Cash flow from investing	(25)	(13)	(50)	(18)	(16)
Loans	(10)	(13)	0	0	0
Equity	0	44	0	0	0
Dividends	(107)	(538)	(960)	(509)	(284)
Others	(17)	0	0	0	0
Cash flow from financing	(134)	(507)	(960)	(509)	(284)
Changes in cash	460	1,262	(230)	(38)	10

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	44%	52%	39%	28%	24%
Operating margin	38%	46%	33%	20%	14%
Pre-tax margin	30%	42%	33%	20%	15%
Net margin	23%	33%	26%	15%	11%
ROA	34%	56%	26%	14%	10%
ROE	46%	76%	36%	19%	15%
Acct. receivables TO (days)	23	23	23	23	23
Inventory TO (days)	11	8	18	18	18
Payable TO (days)	55	50	50	50	50
Debt to equity	2%	1%	1%	1%	1%
Interest coverage ratio (x)	319	519	6,096	2,806	1,987
Net gearing	-55%	-73%	-59%	-58%	-57%

Source: Company, Indo Premier

INVESTMENT 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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