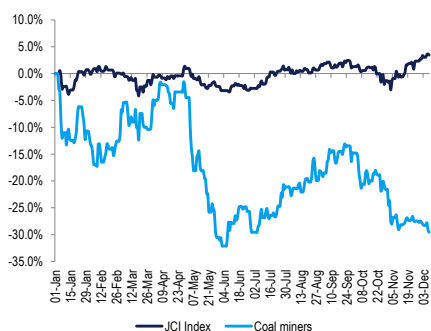


Sector Initiation | 11 December 2023

Sector Index Performance

	3M	6M	12M
Absolute	-16.0%	-0.9%	-29.1%
Relative to JCI	-18.9%	-8.3%	-34.3%



Summary Valuation Metrics

P/E (x)	2022F	2023F	2024F
ADRO IJ	3.4	4.4	5.3
ITMG IJ	3.6	4.6	5.5
PTBA IJ	5.8	6.7	7.4
UNTR IJ	4.3	5.1	5.6

EV/EBITDA (x)	2022F	2023F	2024F
ADRO IJ	1.5	1.8	2.1
ITMG IJ	1.2	1.3	1.4
PTBA IJ	3.3	3.1	3.1
UNTR IJ	1.9	2.0	1.7

Div. Yield	2022F	2023F	2024F
ADRO IJ	18.9%	11.8%	9.0%
ITMG IJ	44.6%	18.0%	14.0%
PTBA IJ	45.3%	6.0%	5.2%
UNTR IJ	30.2%	10.0%	8.6%

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Supply glut and tepid demand to drive price normalization

- We expect limited ST upside on coal price amid soft winter re-stocking and increase in China & India domestic production (10M23: +4/+12%).
- In the long-term, we forecast a surplus by FY24/25F owing to Indonesia's supply (+3/6% vs FY23F) and muted China demand (-2/5% vs. FY23F).
- We resume our coverage on coal sector with Neutral rating as coal price is lacking tangible catalysts for structural rally; PTBA is our top pick.

ST: limited upside from winter re-stocking; 4Q23F coal price to decline qoq

We expect limited upside on coal price despite the seasonal winter re-stocking in 4Q23F due to increasing domestic production in China & India (10M23: +4/+12%), and ample inventory level in China (18 days, 10% above 3yr avg). Seasonally higher electricity demand in China & India is also being offset by the demand decline in Europe and JKT (Japan, Korea Taiwan) from increasing renewables capacity and milder winter. We initially expect price to remain elevated in 4Q23F mainly on declining supply from Indonesia and Australia (48/19% of seaborne supply) in 4Q23F amid issue on production quota (RKAB) and seasonally higher rainfall. But recent potential disruption in Queensland, Australia (c.20% of seaborne supply) due to Cyclone Jasper may lead to ST coal price rally – depending on the severity of the cyclone, which we continue to monitor for now. As of now, we still expect coal price to avg at US\$130/t in 4Q23F (-13% qoq) vs. current price of US\$149/t.

LT: supply growth and tepid demand to drive price normalization

We forecast demand to modestly grow by 9/1/1% in FY23/24/25F as we expect growth from India and Vietnam (16/3% of seaborne demand) to be partly offset by the decline from Europe and JKT (8/25% seaborne demand) amid energy-transition commitment. While China demand (31% seaborne demand) is also set to slightly decline in the medium-term owing to hydro output recovery (10M23: -5% yoy) and ramping-up domestic production. On the other hand, supply growth shall be mainly driven by Indonesia amid ample reserve (c.44 years mine life) and continuation of mining contracting capex cycle. Pama, for example, expects FY24F capex to remain high at Rp15tr, on par with FY22 capex (+248% vs. 3yr avg). However, Australian supply growth is set to slow down over years on the back of tight funding amid commitment to cut exposure from the thermal coal mining sector. We forecast overall supply to grow by 8%/2%/1% in FY23F/24F/25F. In sum, we estimate coal price of US\$170/120/100 per tonne in FY23/24/25F.

Substitution between natural gas & coal in EU to influence coal price

Historically, natural gas and coal price has a positive correlation of 81/89%, especially when Europe turns back to coal due to energy security risks in 2022. However, we see risk on natural gas price is skewed to the downside amid milder winter due to El Nino. This would exert pressure on coal price. So far, Europe's gas storage level of 93% has been relatively high vs. historical (12% above 5yr avg), supporting our bearish thesis on coal price.

Initiate with Neutral rating; we prefer PTBA as our pick

We prefer miners with growth story amid unfavourable coal price outlook, thus we prefer PTBA (Buy; TP Rp2,750) amid on-going railway capacity expansion (Keramasan and Perajen) and potential tailwind from MIP. We initiate ADRO, ITMG, UNTR with Hold rating due to lack of catalyst. In our view, the premium valuation of PTBA compared to peers (32-51%) is justified by its vast coal reserve (c.72 years mining life), supporting its growth story.

Investment Thesis

We resume our coverage on Indonesia coal sector with a Neutral rating as we see limited catalyst on the underlying coal price in ST and LT period. However, we believe that tactical opportunity may persist within the next 12-months, particularly amid the coal re-stocking during summer and next winter season in addition to potential supply disruption in the global seaborne suppliers (i.e Indonesia, Australia) along with China and India's domestic production. Below are several pivotal questions that has been the key market concerns:

#1 – Should investors expect short-term uptick in coal prices?

Maybe, although we see limited upside to current Newcastle coal price (US\$149/t) amid milder-winter in addition to elevated inventory in Europe & JKT and lower supply from Indonesia, recent potential supply disruption driven by Cyclone Jasper in Australia (c.20% thermal seaborne supply) may cause coal price rally and has been able to lift the price from US\$130/t to US\$150/t level, as of latest. However, the price rally sustainability would entirely depend on the severity of the cyclone to coal mining operations in Queensland area (c.60-70% Australia's coal production). Precedent cases in the past, such as the 2010-2011's cyclone Tasha and Yasi, have helped thermal coal prices to rally from US\$110/t level to its all-time high level – at that time – of US\$130/t. Similarly, Cyclone Debbie in 2017 were also able to lift up thermal coal prices by c.10%, albeit the rally was short-lived. Historically, the impact of such cyclone would be more material to coking-coal, as the share of exports from Australia were higher in coking-coal (c.50% seaborne supply) vs. thermal coal (c.20% seaborne supply), benefitting ADRO's subsidiary ADMR.

Nonetheless, for now, we still expect coal price to average at US\$130/t in 4Q23F (-12% qoq). Furthermore, China and India domestic production increase (10M23: +4%/+12%) have also suggested limited further seaborne demand in 4Q23F. Consequently, we expect China seaborne demand to remain muted amid still sufficient inventory level of 18 days (c.10% above 3yr avg). But, we expect India demand to pick up in 4Q23 on the back of inventory restocking in spite of rising domestic production. This, however, shall be offset by the decline in Europe and JKT demand due to still sufficient inventory and milder winter. On the supply side, we expect Indonesia seaborne supply to decline in 4Q23 amid issue on production quota (RKAB) and seasonally higher rainfall. Note that we do not anticipate the RKAB issue to persist as a recurring concern in the short to medium term. We expect this issue to be resolved by 1Q24, given that most requests has been approved and will be in effect for the next 3 years.

#2 – Should investors expect LT structural demand driver for coal?

We forecast Newcastle coal price to decline from US\$170/t in FY23F to US\$120/100 per ton in FY24/25F, mainly reflecting modest overall demand growth of 9%/1%/1% in FY23/24/25F. We expect India and Vietnam (16/3% seaborne demand) to be the main demand growth driver going forward amid industrialization period and government's plan to install additional thermal capacity. China seaborne demand, on the other hand, is expected to decline in the medium-term, predicated on hydro output recovery and increasing domestic production. Despite so, China shall remain the biggest demand contributor in the seaborne market (from 31% in FY23F to 29% in FY25F). Meanwhile, Europe and JKT demand is expected to continue its downward trajectory amid commitment to cut carbon emission & energy-transition.

On the supply side, we expect overall growth of 8%/2%/1% in FY23/24/25F to be mainly driven by Indonesia amid an ample reserve and continuation

of mining contracting capex cycle. Pama, for example, expects FY24F capex to remain high at Rp15tr (+248% vs. 3yr avg). Meanwhile Australia is expected to record modest supply growth on the back of tight funding to the coal sector given that major Australian financial institutions aims to reduce exposure to thermal coal projects to zero by 2030. All in all, this shall turn the current market deficit of 2Mt in FY23F into a slight surplus of 3Mt in FY24F and into a higher surplus of 8Mt in FY25F.

Aside from supply-demand factors, we see the soft natural gas price outlook to potentially exert some additional pressure on coal price. The soft outlook is mainly attributed to expectations of milder winter due to El Nino, historical high gas storage level of 93% (12% above 5yr avg), and easing concerns on further supply disruption from the war between Israel and Hamas. LNG supply is also reportedly ample, with Japan looking to resell some of its shipments and tankers remain on standby above water amid near full capacity in Europe. However, we see further supply disruption as an upside risk to both gas and coal price.

Summary

We initiate the coal sector with a Neutral rating to reflect the weak price outlook. We prefer PTBA out of all coal miners within our coverage given its attractive volume growth story (+16% FY23-25F CAGR), relatively resilient earnings, and light positioning. Thus, we initiate PTBA with Buy rating (TP: Rp2,750). We see PTBA's current premium in valuation compared to peers (32-51%) is justified as it reflects the volume growth story. In addition, we see MIP implementation as an upside risk to our estimates (c. +20% to earnings).

However, we initiate ADRO with Hold rating (TP: Rp2,750) due to lack of volume growth catalyst. Albeit we see ST upside on share price from interim dividend disbursement (7-8% yield). We also see ADRO's ample cash balance (c.64% to market cap) to offer some support to share price.

We also initiate ITMG with Hold rating (TP: Rp22,000) as we also see limited catalysts. ITMG plans to increase production by opening its GPK and NPR mine (FY26F combined production: 6Mt). However, this increase is primarily intended to offset the retirement of Indominco mine, which currently operates at a production run rate of 6-7Mt and is set to retire in FY26F.

We expect solid Pama performance, which shall cushion for UNTR's earnings amid declining coal price, to be offset by the steep decline of 25% in Komatsu volume in FY24F. Thus, we initiate UNTR with Hold rating at TP of Rp24,000. UNTR is currently trading at an attractive 4.9x FY24F P/E (66% discount to 5yr avg). However, note that UNTR has de-rated over the years amid aggressive investments into the metals sector. We see potential that valuation may de-rate further shall UNTR continue buying assets at a premium price.

Fig. 1: Peers valuation summary

Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
			23F	24F	25F	23F	24F	25F	23F	24F	25F
Adaro Energy Indonesia	Hold	2,750	3.4	4.4	5.3	1.5	1.8	2.1	18.9%	11.8%	9.0%
Indo Tambangraya Megah	Hold	22,000	3.6	4.6	5.5	1.2	1.3	1.4	44.6%	18.0%	14.0%
Bukit Asam	Buy	2,750	5.8	6.7	7.4	3.3	3.1	3.1	45.3%	6.0%	5.2%
United Tractors	Hold	24,000	4.3	5.1	5.6	1.9	2.0	1.7	30.2%	10.0%	8.6%

Source: Indo Premier

Supply glut and tepid demand to drive price normalization

Overview

The thermal coal market has been relatively volatile in the past 3 years, mirroring shifts in S-D dynamics as well as changes in energy substitute prices (i.e. oil and gas). Newcastle coal soared past the US\$100/t level in 2H21 as demand surged c.12% yoy on economic recovery, outpacing supply growth (+8% yoy) amid China's ban on Australian coal – c.45% of China's coal imports came from Australia pre-covid. Price peaked at US\$270/t in Oct-21 before declining back to US\$140-170/t in Nov-Dec 2021 as China imposed a price cap of US\$190/t on coal.

Newcastle gained traction again in 2022 as tension between Russia and Ukraine began to escalate, which eventually led to war between the two. Consequently, supply tightened as key importing countries (Europe and JKT, accounting for 8%/25% of seaborne demand) imposed ban on Russian coal (~13% of global seaborne supply). As a result, Newcastle price reached an all-time high of US\$458/t on Sep22.

This year, prices eased on supply recovery from Indonesia (10M23 production: +13% yoy) and Australia, aided by favourable weather and resumption of China coal imports from Australia. Note that Indonesia and Australia accounts for 48%/19% of global seaborne supply. Additionally, the decline in Newcastle price was also partly influenced by lower gas price due to a combination of subdued demand and high inventory in Europe.

In terms of trade, volume grew modestly by 3% in 10M23, well below the 3yr pre-Covid CAGR of 12%. On the import side, China posted robust growth of 69% yoy, offsetting the decline in imports from Europe (-35% yoy) and JKT (-12% yoy). Meanwhile ASEAN countries saw a 5% increase yoy, mainly driven by Vietnam (+26% yoy) and the Phillipines (+20% yoy). On the export side, Australia and Indonesia reported 2%/5% yoy growth. Interestingly, Russian exports defied expectations amid lingering trade sanctions, recorded 6% yoy growth with key off-takers being Egypt, China, and Turkey.

On a monthly basis, trade data picked up by 5% mom in Oct-23, reflecting winter demand. China, India, and Japan imports surged 23/6/15% mom, offsetting the dip in ASEAN (-10% mom), Korea (-6% mom), Taiwan (-16% mom), and Europe (-3% mom). This was well met by the increase in export from Australia (+7% mom) and Indonesia (+7% mom).

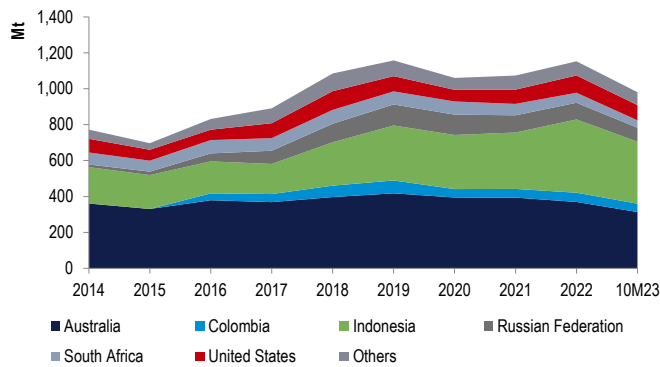
We see limited upside to current price of US\$149/t and expect price to remain soft in 4Q23F (c.-12% qoq) despite seasonally higher demand coupled with seasonally lower supply. This is mainly due to increasing domestic production in India and China. Going forward, we expect supply growth (mainly from Indonesia) to outpace demand growth (mainly from India and Vietnam), underpinning our bearish thesis on thermal coal price. We explain the supply and demand driver for coal in details below:

Fig. 2: Coal market balance

Supply-Demand balance	2016	2017	2018	2019	2020	2021	2022	2023F	2024F	2025F
Seaborne supply										
Australia	201	200	208	212	200	199	178	198	200	202
Colombia	90	84	80	71	51	55	52	57	58	59
Indonesia	364	383	426	456	403	430	459	496	513	526
Russia	116	131	138	144	142	149	139	138	144	145
South Africa	76	79	76	74	71	61	58	67	67	60
United States	23	38	48	36	26	37	35	40	38	37
Others	52	29	23	28	21	28	38	37	33	30
Total supply	922	944	999	1,021	913	958	959	1,033	1,052	1,059
Seaborne demand										
China	177	168	186	189	199	246	208	320	314	304
India	153	150	167	187	161	148	166	169	182	195
JKT	283	306	301	289	263	272	274	257	252	239
Europe	142	137	129	108	77	85	96	80	76	70
ASEAN	79	90	107	125	140	127	129	145	160	174
Others	89	93	97	104	92	92	73	64	66	68
Total demand	924	945	988	1,002	931	970	946	1,035	1,049	1,051
Market balance (Mt)	-1	-1	12	19	-19	-11	13	-2	3	8

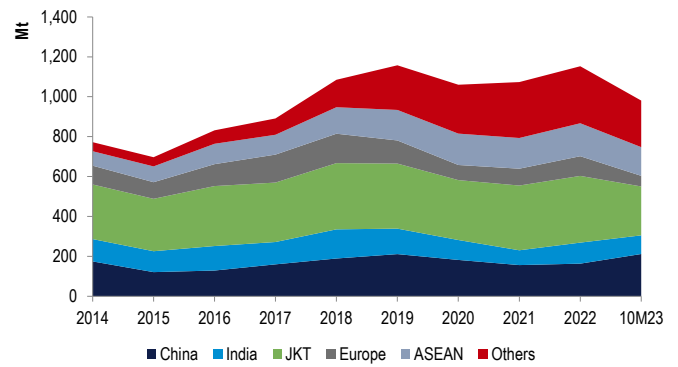
Source: Bloomberg, Indo Premier

Fig. 3: Coal exports



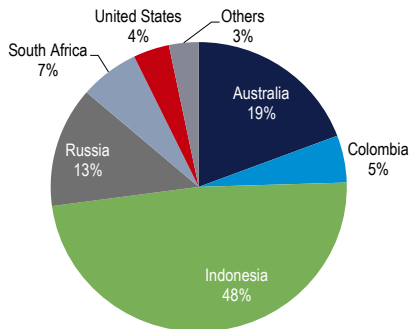
Source: Bloomberg, Indo Premier

Fig. 4: Coal imports



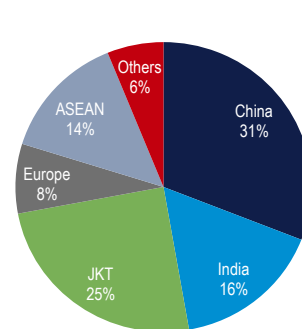
Source: Bloomberg, Indo Premier

Fig. 5: Seaborne supply market share



Source: Bloomberg, Indo Premier

Fig. 6: Seaborne demand market share

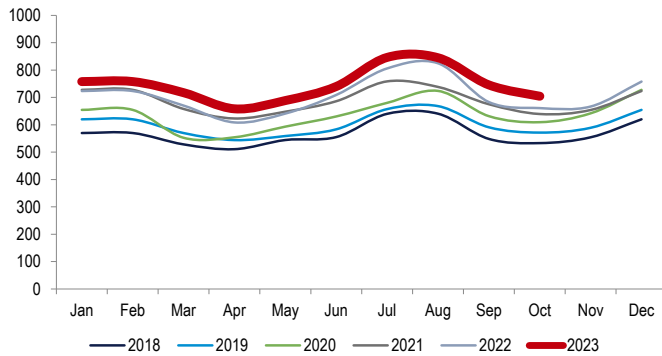


Source: Bloomberg, Indo Premier

China demand surged amid reopening and declining hydro output

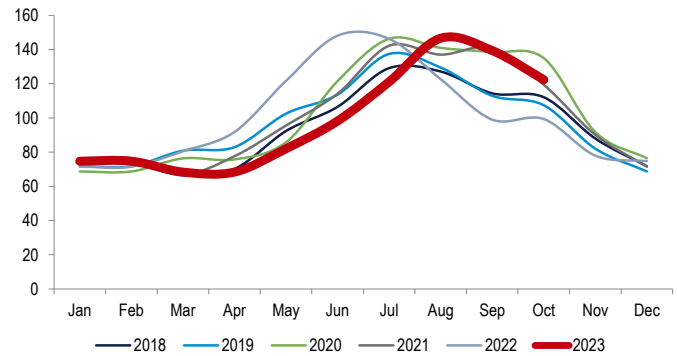
Electricity demand in China witnessed a notable increase of 6% yoy in 10M23 amid economic reopening. However, hydro output experienced a decline of 5% yoy attributed to severe drought caused by El Nino. As a result, hydropower's share in China's energy mix declined to 13%, down from 15% in FY22. To cater for the increasing electricity demand, thermal generated electricity output surged by 7% yoy, increasing thermal contribution to total electricity output to 70%, up from 69% in FY22.

Fig. 7: China electricity output



Source: Bloomberg, Indo Premier

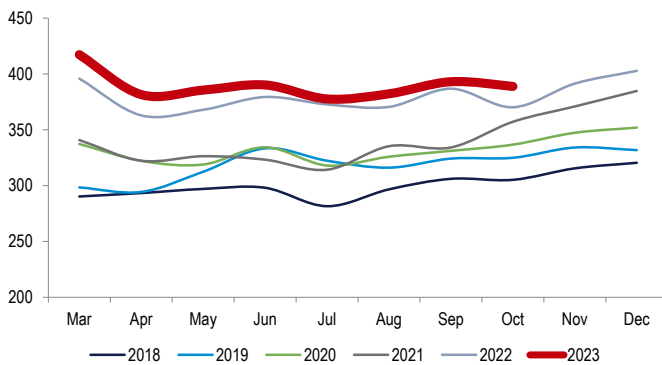
Fig. 8: China hydropower output



Source: Bloomberg, Indo Premier

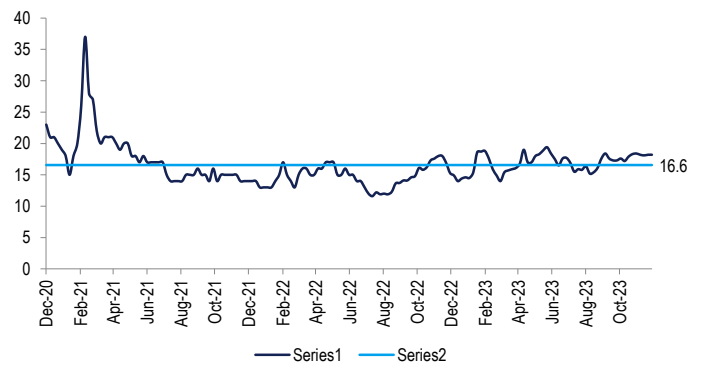
As a result, 10M23 coal imports surged 69% yoy, peaking in Mar-23 at 25Mt (+41% mom/+97% yoy) but moderated back to around 20Mt a month, though still well above FY22 monthly average of 14Mt. The downward trajectory occurred on the back of high inventory level (Oct-23: 18 days, 10% above avg) coupled with increasing domestic coal production (10M23: +4% yoy). Despite so, we observed Oct-23 imports picking up by 23% mom which reflected winter demand.

Fig. 9: China coal production



Source: Bloomberg, Indo Premier

Fig. 10: China coal inventory (days)

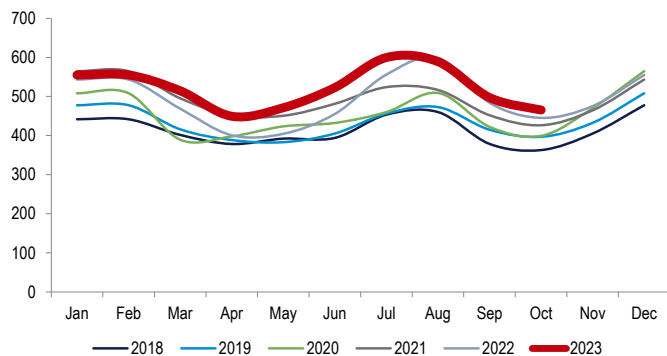


Source: Bloomberg, Indo Premier

Outlook – We expect thermal electricity demand to remain strong in 4Q23, given that during winter thermal output is typically 2-3% higher compared to summer amid substantial decline in hydro power output (fig.8). However, this shall be offset by seasonally higher coal production in Q4 coupled with high inventory level of 18 days (10% above 3yr avg). Moving forward, we expect seaborne demand from China to gradually decline by 2/3% in FY24/25F predicated on hydro output recovery, increasing domestic production, and additional renewables capacity. Note that China has an abundant reserve of coal (FY21: 208bn tonnes), implying c.52 years of

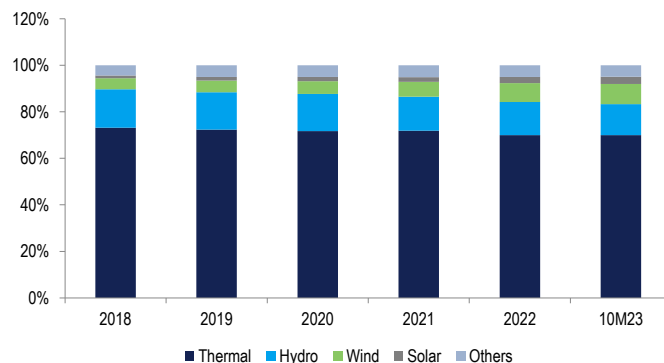
mine life at annualized FY23F production of c.4bn tonnes. On the renewables front, China is aiming to source 33% of power supply from renewables by 2025. Reportedly, solar power investments surged 233% yoy to c.US\$40bn in FY22 and installed capacity is forecasted to more than double to 240GW in FY23F, up from 107GW in FY22. **ST neutral, LT bearish**

Fig. 11: China thermal output



Source: Bloomberg, Indo Premier

Fig. 12: China energy mix

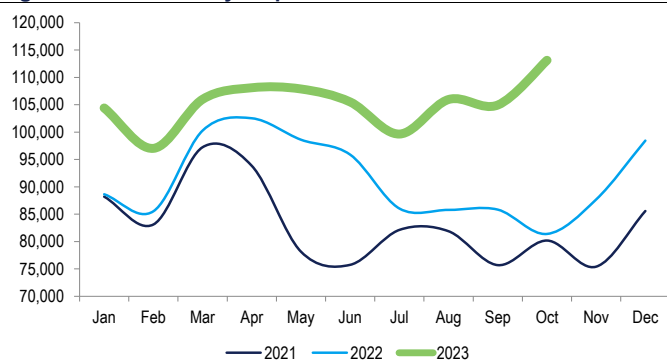


Source: Bloomberg, Indo Premier

Muted India seaborne demand as domestic production ramps up

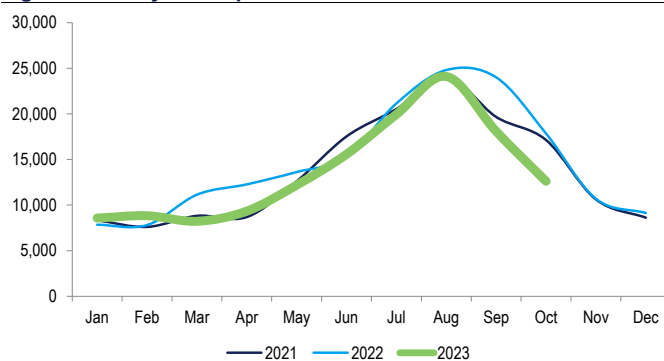
In India, 10M23 electricity demand surged 12% yoy, showcasing robust economic growth (2Q23 GDP: +7.8% yoy) and industrial production growth (Sep-23: +5.8% yoy). However, India also experienced a substantial decline of 12% yoy in 10M23 hydro output, much more severe compared to China. As a result, hydro power only accounted for 9% of India's energy mix in 10M23, down from 12% in FY22. In turn, thermal electricity output surged 16% yoy, increasing thermal contribution to total electricity output to 72%, up from 70% in FY22.

Fig. 13: India electricity output



Source: Bloomberg, Indo Premier

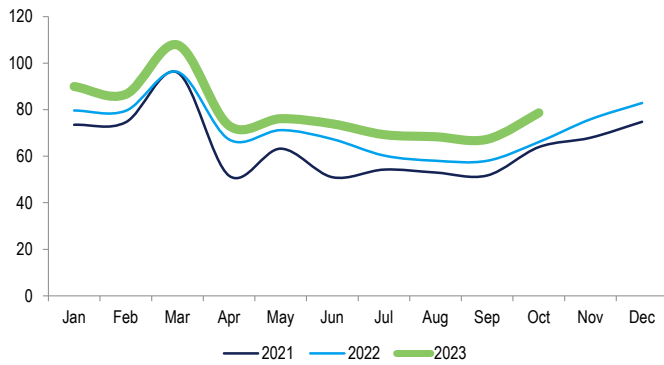
Fig. 14: India hydro output



Source: India Ministry of Coal, Indo Premier

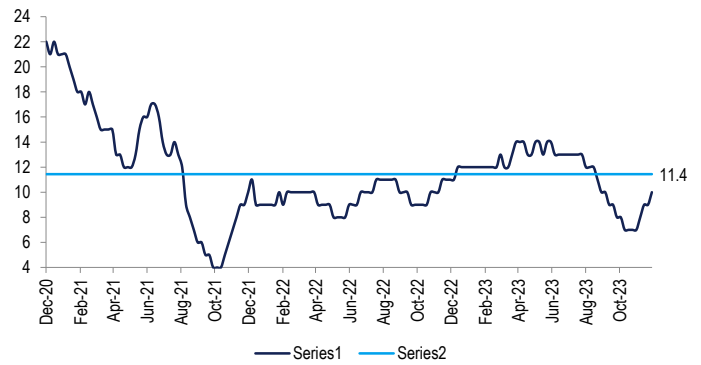
Despite so, imports remained relatively muted, recording a mere 2% yoy growth in 10M23 mainly boosted by strong Sep-23 and Oct-23 volume amid inventory restocking. The previously soft seaborne demand was the result of ramping up domestic production (10M23: +12% yoy), leading to a peak inventory level of 14 days in Jun-23 (17% above 3yr avg).

Fig. 15: India coal production



Source: India Ministry of Coal, Indo Premier

Fig. 16: India coal inventory (days)



Source: Bloomberg, Indo Premier

Outlook – We expect seaborne demand to pick-up in 4Q23 as inventory level has pulled back to 8 days in Oct-23 (35% below 3yr avg), though this shall be partly offset by expectation of seasonally higher production volume in Q4. Moving forward, we expect India seaborne demand to grow 8/6% in FY24/25F amid industrialization period and strong economic growth. On the downside, hydro output is expected to gradually recover and domestic production to continue to ramp up. Note that India’s coal minister aims to end coal imports by 2024-2025 and rely solely on domestic supply. However, we see limited possibility for this to materialize. To put into perspective, India’s coal domestic production surged 12% yoy in 10M23 to cater for increasing thermal electricity output (+16% yoy). During this period, imports still managed to record 2% yoy growth despite high 1H23 inventory level of 13 days (11% above 3yr average). **ST and LT bullish**

Demand in Europe plunged amid additional renewables capacity

Europe experienced a significant downturn in imports, plummeting by 35% yoy as of 10M23. This decline was closely linked to a steep 29% yoy reduction in thermal generated electricity in 9M23, despite a relatively modest 3% yoy decrease in overall electricity output attributed to voluntary demand curb. Note that FY21/22 thermal output of 19.3/20.2TWh was a high base given that gas prices was extremely high, forcing a gas-to-coal switching. During that period, coal contribution to the energy mix increased to 7/8% from 6% in FY20. However, coal’s share has moderated back to 6% as of 9M23.

Gas price has eased 45% YTD to US\$43/MWh but did not lead to resurgence in gas usage due to added capacity in renewables (wind, solar, hydro). Consequently, gas output continued its downward trajectory, reaching 24.4TWh in 9M23, marking a significant 19% yoy decrease. This decline shrank gas contribution to Europe’s energy mix to 14% (from 16/18% in FY21/22). Meanwhile, the share of wind, solar, and hydro increased to 16/8/18% (from 15/6/16% in FY22). Lower gas proportion in the energy mix would translate to less sensitive thermal demand to changes in gas price, all else being equal. Given our neutral to bearish view on gas, this would translate to limited downside in seaborne demand should both scenarios materialize.

Outlook – In our view, the potential for winter demand to significantly boost seaborne demand in Q4 seems limited. This is attributed to increasing renewables capacity and all-time high gas storage level of 93% (12% above 5yr avg). However, we see an upside risk should a sudden cold snap occurs. Going forward, we expect seaborne demand to continue to

decline by 6/7% in FY24/25F, in-line with EU’s commitment to phase out coal-fired power plants by 2030. Note that Europe aims to raise renewables proportion in the energy mix to 45% by 2030 and is currently ahead of schedule (at 42% of energy mix as of 9M23). **ST and LT bearish**

Declining electricity demand in JKT on the back of warmer weather

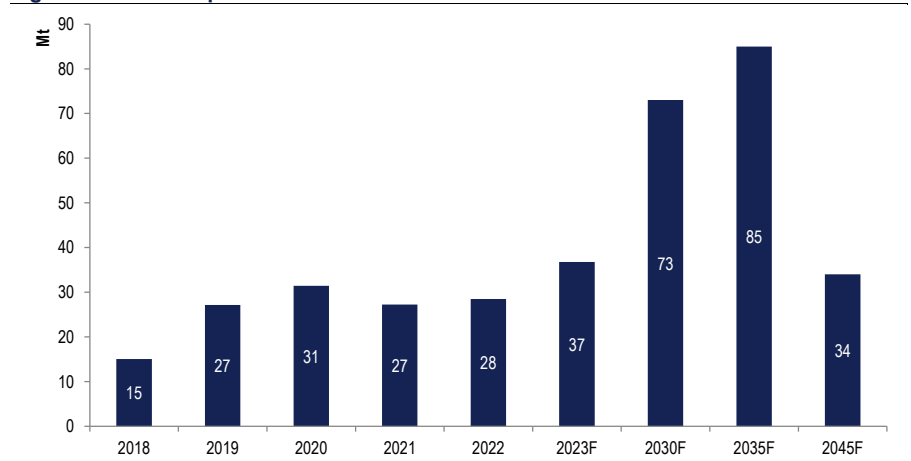
Imports to JKT (Japan/Korea/Taiwan) declined 12% yoy as of 10M23, in-line with the decline in thermal generated electricity output in Japan/Korea/Taiwan (7M23: -9/-4/-5% yoy). The decline in thermal output reflected the lower electricity demand (7M23: -6/-3/-3% yoy) amid warmer weather. As of 7M23, coal contributed 28/31/33% to JKT’s energy mix, down from 31/32/34% in FY22. However, with the addition of renewables capacity, primarily in hydro and solar, gas contribution has also dwindled to 31/29/53% (vs. 34/30/54% in FY22) in Japan/Korea/Taiwan.

Outlook – We see limited potential for seaborne demand to pick-up in 4Q23 despite seasonally lower hydro and solar output. Recent reports indicate that JKT’s coal inventory remains ample, and a milder start to winter has postponed the start of heating season. However, we expect coal to remain a major contributor to JKT’s energy supply going forward, aided by the commissioning of new coal-fired power plants. Note that Japan and Korea has added 6.5/2.5GW of coal-fired power plant capacity in the past 3 years (net of retired plants, +14/+7% from FY20). Consequently, JKT appears hesitant to decommission its CFPP by 2030. Instead, the focus is currently on implementing 20% of ammonia co-firing strategy across all CFPP by 2023 to mitigate carbon emission. JERA, Japan’s biggest power generator company, is currently doing a pilot project to co-fire 20% of ammonia on its 4.1GW thermal power plant. Eventually, JKT plans to fully replace its CFPP capacity with ammonia by 2050. Thus, we see JKT seaborne demand declining at a slower rate compared to Europe at 2/5% in FY24/25F. **ST and LT bearish.**

Vietnam to potentially become a significant demand driver

Vietnam, on the other hand, has seen imports soaring by 26% yoy as of 10M23 attributed to 25% yoy increase in thermal generated electricity output. Although currently Vietnam seaborne demand only accounts for 3% of global demand, we perceive Vietnam as an emerging player with the potential to become a significant demand driver in the seaborne market.

Fig. 17: Vietnam imports



Source: Bloomberg, Indo Premier

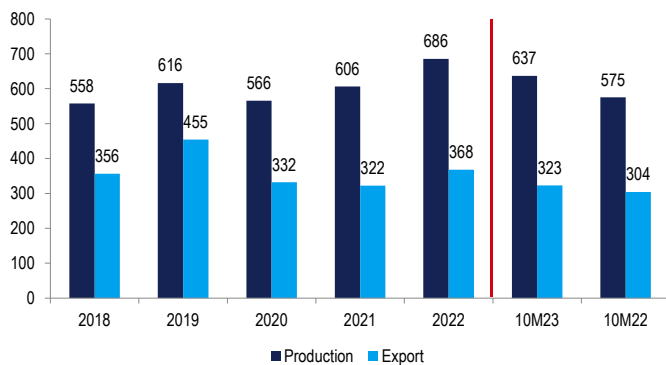
The government has outlined ambitious projections, forecasting imports to reach 73Mt by 2030, which implies a robust 13% FY22-FY30 CAGR. This surge in demand is expected to derive from both existing and upcoming coal-fired power plants. The government aims to increase its thermal capacity to 30GW by 2030, marking a substantial 20% increase from current capacity. Additionally, the government further projects seaborne demand to continue to grow to 85Mt by 2035, before gradually declining to 34Mt by 2045, and eventually phasing out to zero by 2050.

Considering the anticipated gradual decline in demand from Europe and JKT, Vietnam is poised to secure a position among the top three coal importers by 2030. **ST and LT bullish**

ST supply constraint amid maxed out production quota

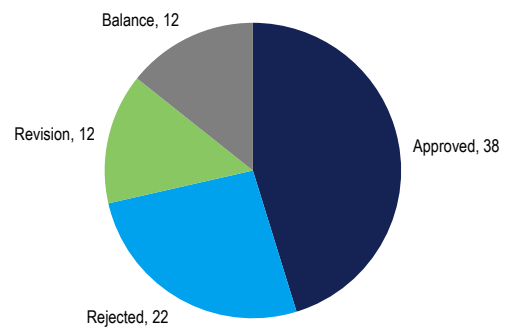
Indonesian 10M23 coal exports increased by 4% yoy, reflecting a surge in production to 637Mt (+13% yoy) amid favourable weather condition. Note that the Indonesian government’s FY23 target coal production is at 695Mt, indicating a current run rate of 92%, well above the 5yr average of 84%. This has raised concerns of future constrained supply which consequently pushed ICI coal price higher to US\$63/t in Oct-23 (+15% from its bottom in Jun-23).

Fig. 18: Indonesia production and export



Source: ESDM, Indo Premier

Fig. 19: RKAB revision



Source: ESDM, Indo Premier

Recently, the Minister of Energy and Natural Resources (ESDM) has approved 38 requests for RKAB revision out of 84 total requests – 22 was rejected, 12 needs further revision, and 12 still under review. Subsequently, concerns on supply eased and ICI traded slightly lower at US\$59/t on Nov-23 (-6% from its high on Oct-23).

To put into perspective, coal production could potentially reach c.760Mt, assuming normal run rate of 84% in Oct-23. This implies an additional c.65Mt of seaborne supply, equivalent to ~3% of global seaborne supply, given that ~52% of Indonesian coal is exported. Based on our channel check, however, upside to FY23 target seems limited as the incremental volume from the revised production quota is insignificant.

Additionally, the higher production was also well supported by an increase in mining capacity, indicated by still solid 9M23 Komatsu sales of 4.4k units (-4% yoy), with deliveries to the mining sector remaining relatively flat at 2.7k units (+1% yoy). Note that in FY22 Komatsu deliveries increased 86% yoy, driven by 111% yoy increase in deliveries to the mining sector, which could be considered as a high base. Furthermore, Pama has set FY23F

capex at Rp15tr (+248% vs.3yr avg) to be mainly spent on mining equipment.

Outlook – We expect Indonesia’s seaborne supply to decline in 4Q23 on the back of maxed out production capacity coupled with seasonally higher rainfall. Going forward, we expect Indonesian seaborne supply to continue to grow 3/2% predicated on supportive weather, still ample reserve (FY22: 33bn tonnes, estimated mine life of 44 years), and capex cycle continuation from mining contractors. UNTR management indicated that Pama’s capex in FY24F is expected to sustain at FY23F level of US\$1bn, before declining in FY25F as they see limited catalyst to ramp up production amid expectation of coal price normalization. **ST bullish, but LT bearish**

Limited supply growth from Australia amid funding issue

Australia’s exports recorded a modest increase of 2% yoy, reaching 313Mt in 10M23 despite favourable weather condition and resumption of exports to China. However, the significant improvement in exports to China, amounting to 49Mt (significantly up from 359kt in FY22), was offset by lower exports to JKT and Singapore (-18/-7% yoy).

Going forward, we see recent mine expansions to balance out closures on the back of depleted resources. Recent mine expansions such as New Hope’s New Acland mine has recently commenced topsoil removal and is expected to produce 5-7.5Mt of coal annually. Adani Group’s Carmichael mine is ramping up towards its annual production target of 12Mt (from 7Mt). Meanwhile, Whitehaven’s Vickery project is set to start commercial production in 2H24 with initial production capacity of 1Mt, including an option to ramp up to 7-8Mt for US\$1bn. In total, we expect around additional production of 11-14mt (1% seaborne supply) set to come to the market within FY24-25F.

On the other hand, mines such as Muswellbrook, Bloomfield, Springvale, and Newlands (annual production: 2/1/2/4Mt, 1% seaborne supply) has recently been retired due to depleted resources and thus shall partly offset production ramp up. In addition, new investments are limited amid funding difficulties, despite still abundant resources (FY21: ~82bn tonnes). Adani’s Carmichael mine, for instance, was initially planned to produce 60Mt of coal annually but had to downsize to 12Mt due to funding issue. In turn, this shall limit Australian seaborne supply growth going forward. Thus, we pencil in a mere 1% supply growth in FY24/25F. **ST bearish, LT neutral**

El Nino impact

Historically, El Nino typically persists for 12-19 months, based on the last 5 cycles (1994-1995, 1997-1998, 2002-2003, 2009-2010, 2015-2016). With the current El Nino cycle commencing in Jun-23, it is expected to persist up until next year. In fact, the National Oceanic and Atmospheric Administration (NOAA) forecasts 60% likelihood of El Nino persisting up until FY24 summer (Jun-Sep). The World Meteorological Organization (WMO) recent forecast indicates that El Nino is likely to peak in Nov23-Jan24.

On the supply side, El Nino is considered as a positive catalyst amid below average rainfall, translating into fewer disruptions in mining activity. This is reflected by the higher coal production in China, India, and Indonesia (10M23: +13/+12/+11% yoy). On the demand side, El Nino is expected to lift electricity demand in tropical countries (i.e. Indonesia, India, Vietnam) but decrease electricity demand in countries with colder climate (i.e. Europe, China), thus increase/decrease coal demand respectively. Energy

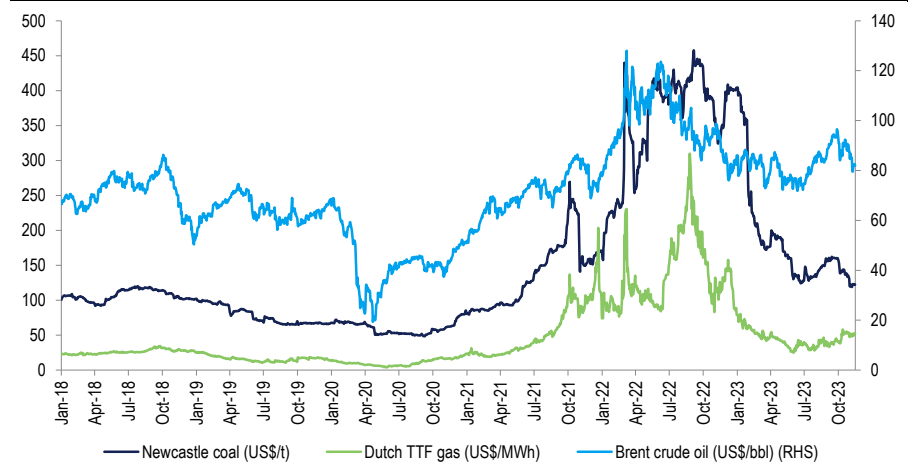
mix is another aspect to look at to analyse the impact of El-Nino to coal demand, countries with high hydro power proportion (i.e. China) could potentially see a relatively higher coal demand amid switching of energy source. Given that El-Nino is expected to peak in Nov23-Jan24, we expect hydro output to gradually recover as drought starts to ease.

Overall, El Nino has negatively affected coal price this year, reflecting limited incremental seaborne demand from China and India as domestic production ramps up. Seaborne demand from Europe and JKT has also declined, reflecting delayed heating season. Meanwhile seaborne supply increased substantially, mainly from Indonesia.

Coal correlation to natural gas and oil

Aside from supply-demand factors, coal price is also influenced by substitute fossil fuels such as natural gas and oil. Over the past 5 years, Newcastle price has been heavily correlated to Brent crude oil/Dutch TTF gas price, at 81/89% respectively.

Fig. 20: Newcastle, oil, TTF



Source: Bloomberg, Indo Premier

For instance, the strike at Chevron’s and Woodside Energy’s key gas facility in Australia on 10-Aug, which could potentially disrupt ~10% of global LNG supply, pushed up the Dutch TTF gas 20% wow in the second week of August. In that same period, Newcastle advanced 5% wow.

Another example, Israel-Hamas war that started on 7-Oct, raised concerns on supply should it escalate regionally. As a result, Dutch TTF gas price surged 32% wow on the second week of October. This has also pushed up Newcastle price by 4% wow. The surge in gas price was also partly driven by halted operations at Chevron’s Tamar field, which supplies ~70% of Israel’s energy needs. This, could potentially translate to lower LNG exports from Egypt to Europe (~15% of total LNG imports), given that Egypt imports ~7bcm gas from Tamar and Leviathan field.

In our view, however, risk on the natural gas market is skewed to the downside amid all-time high gas storage level of 93% (12% above 5yr avg) coupled with tepid demand outlook which reflects voluntary demand curb in Europe as well as expectation of milder winter. Supply concerns from Israel-Hamas war has recently eased on negotiations to cease-fire for 3-5 days and Chevron has resumed operations at Tamar field, which would allow more LNG exports to Europe. LNG supply also remains ample for

now with Japan looking to resell some of its LNG shipment, according to news flow.

Despite so, gas supply remains tight amid drop in piped Russian supply (FY22 piped supply: -42% yoy, FY21 market share: c.50%). Thus, price remains sensitive on any further supply disruption, reflected on the given example above. Incremental demand would mainly hinge on weather condition and policy from the European government. Note that a few weather models are pointing to a potential cold snap later this month, according to news flow, which we see as an upside risk to both gas and coal price.

3Q23 recap and 4Q23 outlook

Overall, 9M23 earnings was a mixed bag, PTBA and ITMG missed consensus numbers, while ADRO and UNTR was a beat and in-line respectively. PTBA missed on lower than expected ASP, while ITMG missed on higher cash cost. Meanwhile ADRO was well ahead on better than expected volume and ASP. On a quarterly basis, ADRO's earnings outperformed peers in 3Q23 (-17% qoq) which was partly lifted by the solid performance of its coking coal business (+10% qoq). Meanwhile, ITMG/PTBA/UNTR posted 20/38/30% decline in 3Q23 earnings.

Thermal ASP declined across the board in 3Q23, with UNTR recording the steepest decline of 34% qoq, followed by ADRO (-23% qoq), ITMG (-10% qoq), and PTBA (-10% qoq). Correspondingly, cash cost declined 1-10% mainly driven by lower royalty cost. However, we observed an increase of 2-7% qoq in mining cost across the board attributed to higher fuel cost.

Operationally, ITMG and PTBA saw solid production volume growth of 23/9% qoq amid drier weather condition. Sales volume, however, fell 17/27% short of production and was recorded at -2/+12% qoq due to timing of delivery for ITMG and delay in Sumsel8 CFPP completion as well as fully utilized railway capacity for PTBA. ADRO, on the other hand, showcased relatively soft operational numbers where thermal production/sales volume declined by 3/4% qoq.

We see ADRO to potentially outperform peers on a qoq basis, aided by an increase in coking coal price. The following is our take on each miner's 4Q23 outlook based on 1-month lag QTD thermal coal price of US\$143/t (+4% qoq):

■ ADRO

We forecast ADRO to post FY23F earnings of US\$1.6bn (-37% yoy), slightly ahead of consensus forecast (at 108%), on the back of resilient 4Q23F earnings of US\$350mn (+1% qoq). The resilient earnings shall be mainly driven by strong coking coal price (QTD 1-month lag: +33% qoq). Thermal sales volume is expected to decline 14% qoq, in-line with mining plan, while coking coal sales volume to remain flat qoq due to ramp up in production. Cash cost is expected to increase by 8% to mainly reflect higher royalty cost.

■ ITMG

We expect ITMG to deliver soft 4Q23F production volume (-34% qoq) as management plans to focus on pre-stripping, following strong production volume in 3Q23 (+23% qoq). Consequently, stripping ratio is expected to increase 12% qoq and thus push up cash cost by 6% qoq. On the brighter side, 9M23 production volume of 15.3Mt was above sales volume of 13.4Mt (excl. coal trading), indicating that ITMG is sitting at 1.1Mt of inventory. We expect this to buffer for 4Q23F sales volume and forecast a 13% decline qoq. As a result, we expect ITMG

to record 4Q23F earnings of US\$80mn (-19% qoq). This shall translate to FY23F earnings of US\$483mn (-60% yoy) and below consensus estimates (at 84%).

■ **PTBA**

We expect sales volume to remain relatively flat in 4Q23 amid full utilization of existing railway capacity. We estimate PTBA to have around 3.5Mt of coal in inventory as of 9M23. Note that Sumsel8 CFPP has commissioned in Sep-23, and therefore we see upside risk to sales volume from mine mouth sales should Sumsel8 ramps up earlier than expected. Cash cost is expected to slightly increase by 2% to reflect higher railway cost due to higher ICI prices and royalty cost. Thus, we forecast PTBA to deliver 4Q23F earnings of Rp976bn (-3% qoq). Cumulatively, forecasted FY23 earnings of Rp4.8tr (-62% yoy) shall be slightly below consensus estimates (at 93%).

■ **UNTR**

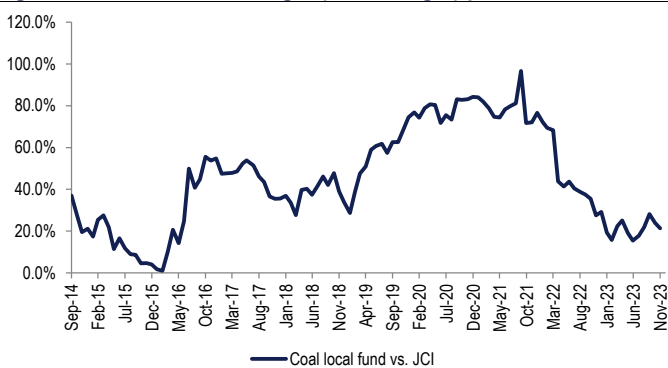
We forecast UNTR to post FY23F earnings of Rp19.5tr (-7% yoy), in-line with consensus estimates (at 100%) and much more resilient compared to peers thanks to solid performance from Pama. On a quarterly basis, we expect Pama volume to slightly decline by 3% amid seasonally higher rainfall. Komatsu is expected to record 18% decline in sales volume, in-line with soft commodity prices. Combined, this shall more than offset improvement in UT’s coal mining business attributed to higher ASP but relatively flat volume. Overall, we expect 4Q23F earnings to decline to Rp3.8tr (-8% qoq).

Fund positioning

Domestic institutional funds has been reducing exposure in the Indonesian coal sector, with ITMG experiencing the biggest decline YTD (-27%), followed by PTBA (-25%), and UNTR (-13%). This was in-line with the Newcastle coal price downward trend since early 2023 (from ~US\$400/ton at the peak/-65% YTD). ADRO was the only exception, with domestic funds’ position being flat YTD. However, we think this was mainly due to interim dividend expectations, set to be disbursed by end of 2023.

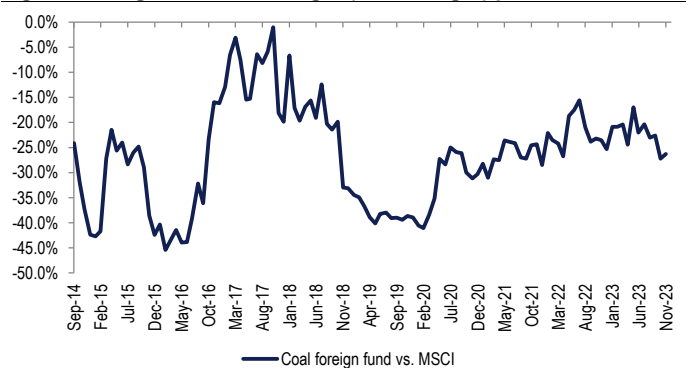
We observed that domestic institutional funds position is often correlated with the increase in underlying commodity prices i.e. Newcastle coal. As of Nov-23, local funds still have an overweight position in the coal sector (21% higher position vs. JCI weighting), albeit the overweight magnitude vs. JCI weight has been declining from its peak in 2021 (Fig. 21). Foreign funds, on the other hand, have maintained their underweight position (vs. MSCI weight) despite coal price rally in 2022, reflecting ESG issue.

Fig. 21: Local funds overweight (underweight) position



Source: KSEI, Indo Premier

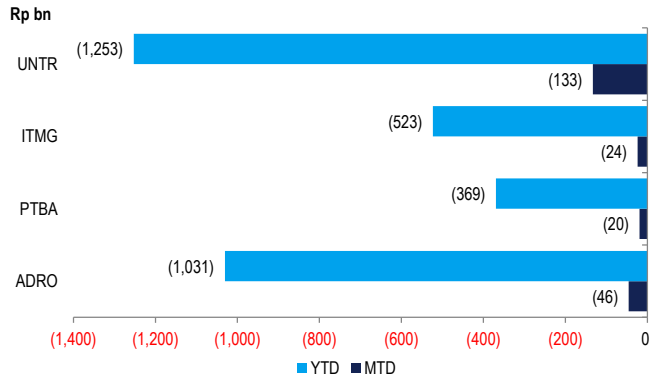
Fig. 22: Foreign funds overweight (underweight) position



Source: KSEI, Indo Premier

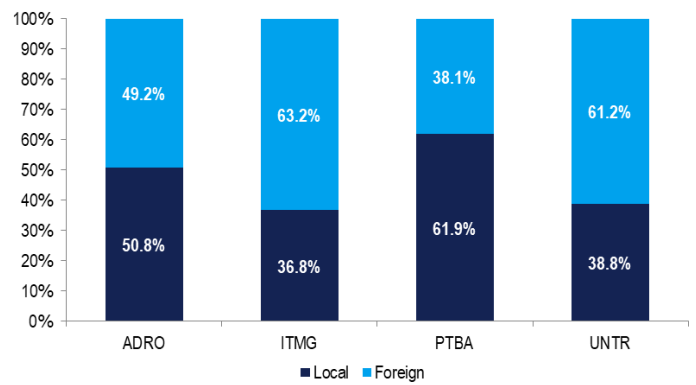
Similarly, foreign funds have been reducing their position YTD across coal miners, with biggest outflow recorded in UNTR (Rp1.3tr YTD), followed by ADRO (Rp1tr), ITMG (Rp523bn), and PTBA (Rp369bn). However, we expect that in the event of foreign inflow – either due to risk-on sentiments or a rally in coal prices, ITMG and UNTR should benefit the most, as these two are foreign favorites, compared to ADRO and PTBA (Fig. 24).

Fig. 23: Foreign inflow (outflow)



Source: Indo Premier

Fig. 24: Foreign vs local funds breakdown (historical average)



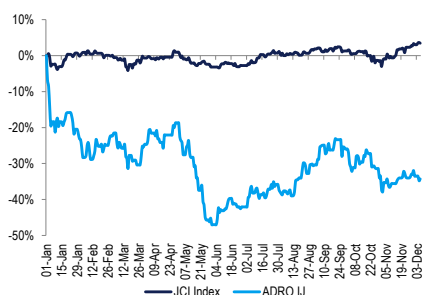
Source: KSEI, Indo Premier

Stock Data

Target price	Rp2,750
Prior TP	Rp3,200
Current price	Rp2,560
Upside/downside	+7%
Shares outstanding (mn)	31,986
Market cap (Rp bn)	81,884
Free float	40%
Avg. 6m daily T/O (Rp bn)	117

Price Performance

	3M	6M	12M
Absolute	-11.1%	16.4%	-31.6%
Relative to JCI	-14.1%	-9.0%	-36.8%
52w low/high (Rp)	2,040 – 3,970		



Major Shareholders

PT Adaro Strategic Investment	43.9%
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Lacking catalyst despite attractive dividend yield and ample cash balance

- Increasing coking coal contribution (5% in FY23F to 7% in FY24F) shall offer a cushion to margin amid expectation of drop in thermal coal prices.
- In the near-term, ADRO has an attractive interim dividend yield of 7-8%, assuming 40-50% dividend payout ratio for 1H23 NP.
- We re-initiate with Hold at SOTP-based TP of Rp2,750/sh, albeit we see ST upside on price from interim dividend disbursement.

Increasing coking coal contribution to offer some cushion to NP

ADMR's coking coal is set to be ADRO's main volume growth driver going forward (20% FY23-25F CAGR), given limited volume upside from thermal coal business (c.60Mt over FY23/24/25F). The increasing coking coal contribution shall offer some cushion to NP, with every 1% increase in coking coal volume to contribute an additional c.25bps in FY24F cash margin. Despite so, we still expect FY24/25F earnings to decline by 23/16% yoy, underperforming peers (PTBA: -13/-9%, UNTR: -16/-10%).

ST dividend upside, thanks to ample cash

We expect ADRO to be able to at least maintain its dividend payout ratio at historical average of 40-50%, thanks to its ample cash balance of US\$3.5bn as of 9M23 (c.64% to market cap). This implies an attractive interim dividend yield of 7-8% at current price. Note that we estimate ADRO to budget US\$450/1,050mn for capex in FY24/25F – mostly to reflect for maintenance capex (US\$350mn) and aluminium capex (FY25F: US\$600mn).

Initiate with Hold at TP of Rp2,750/sh

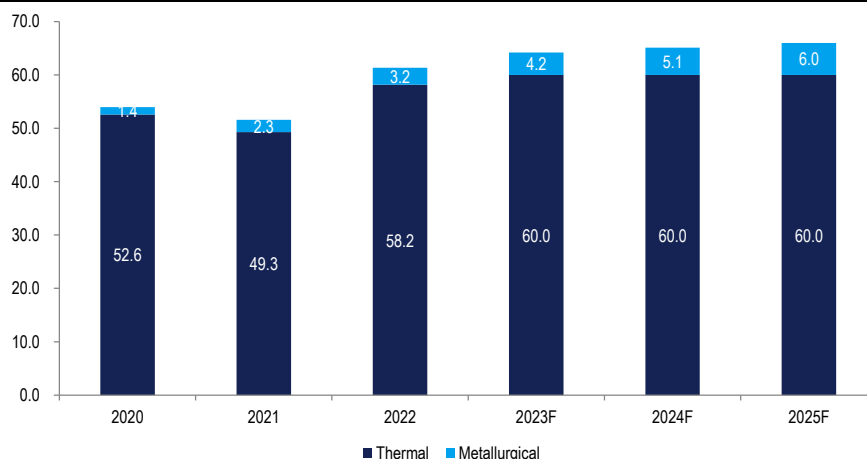
We resume coverage on ADRO with Hold rating due to lack of growth catalyst, albeit in the near term we see potential upside on share price from interim dividend disbursement in Dec-23 (c.7-8% yield). We assign multiple target of 4.7x FY24F P/E (c.13% discount to 5yr avg) to arrive at our TP of Rp2,750 – derived from 4.6x FY24F P/E target for its coal business and 6x FY24F P/E target for Kestrel. ADRO is currently trading at 4.4x FY24F P/E (19% discount to 5yr avg). Key downside risks are lower than expected coal price and delays in coking coal volume ramp up.

Financial Summary (US\$m)	2021A	2022A	2023F	2024F	2025F
Revenue	3,993	8,102	6,592	5,641	4,969
EBITDA	2,071	4,799	2,432	1,947	1,728
Net profit	933	2,493	1,557	1,195	1,002
EPS growth	535%	167%	-38%	-23%	-16%
ROE	23%	41%	24%	17%	13%
PER (x)	5.7	2.1	3.4	4.4	5.3
EV/EBITDA (x)	2.4	0.6	1.5	1.8	2.1
Dividend yield	2.8%	12.3%	18.9%	11.8%	9.0%
IPS vs. consensus			106%	109%	108%

Source: Company, Indo Premier

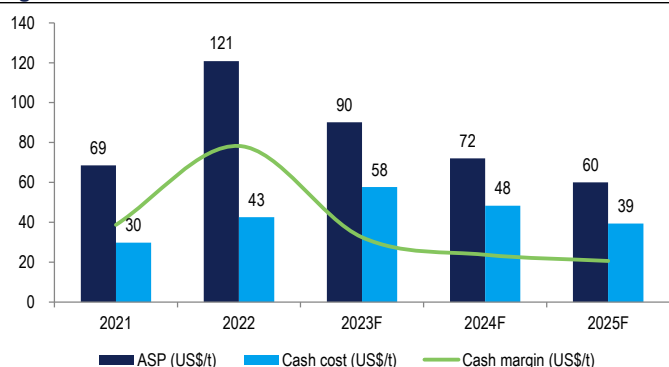
Share price closing as of: 8 December 2023

Fig. 25: ADRO coal sales volume (thermal + coking)



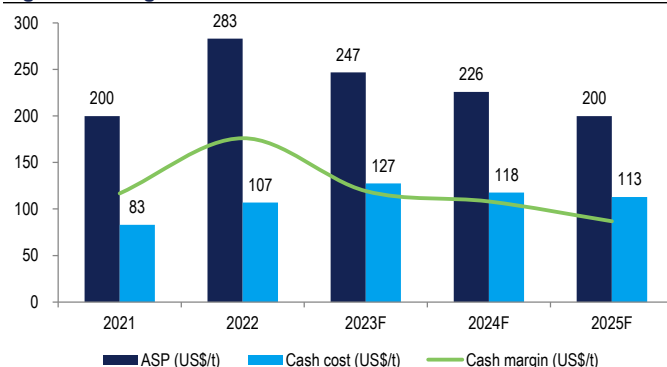
Source: Company, Indo Premier

Fig. 26: Thermal ASP and cash cost



Source: Company, Indo Premier

Fig. 27: Coking ASP and cash cost



Source: Company, Indo Premier

Fig. 28: ADRO earnings sensitivity analysis – for every 1% change in respective ASP

ADRO sensitivity analysis	Impact to earnings		
	FY23F	FY24F	FY25F
Thermal	1.9%	1.9%	2.0%
Coking	0.4%	0.6%	0.8%
Blended	2.3%	2.5%	2.7%

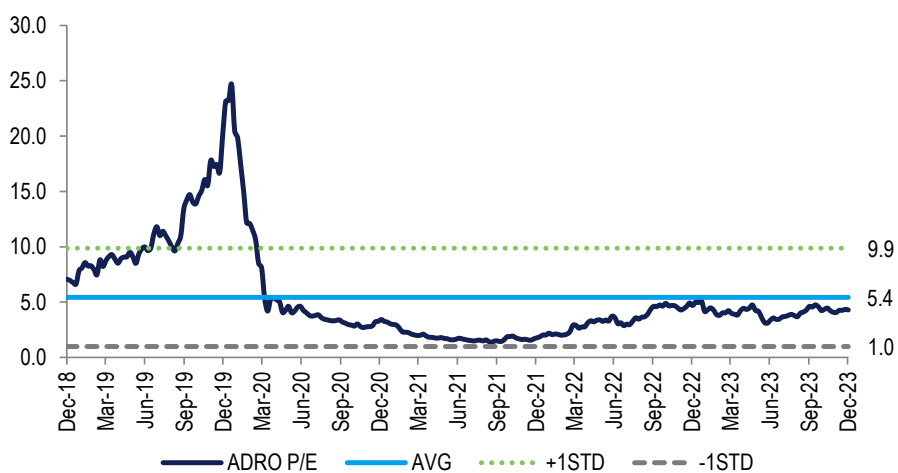
Source: Company, Indo Premier

Fig. 29: SOTP valuation summary

SOTP valuation summary	US\$m n	Remarks
Coal assets	5,004	Multiple target - 4x FY24F P/E
Kestrel	646	Multiple target - 6x FY24F P/E
Equity value (US\$m n)	5,650	
USD/IDR	15,500	
Outstanding shares	32.0	
Target price (Rp/sh)	2,750	
Current price	2,560	
Upside/downside	7%	
Implied FY24F P/E	4.7	

Source: Company, Indo Premier

Fig. 30: Valuation band



Source: Company, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	3,993	8,102	6,592	5,641	4,969
Cost of sales	(2,223)	(3,449)	(3,999)	(3,640)	(3,262)
Gross profit	1,770	4,653	2,593	2,001	1,706
Opex	(185)	(375)	(461)	(395)	(348)
Operating profit	1,585	4,277	2,132	1,606	1,358
Net interest	(49)	(42)	19	18	(2)
Income from associates	7	210	107	108	96
Others	(56)	31	0	0	0
Pre-tax income	1,486	4,476	2,257	1,731	1,453
Income tax	(458)	(1,645)	(496)	(381)	(320)
Minority interest	(95)	(338)	(203)	(156)	(131)
Net income	933	2,493	1,557	1,195	1,002

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	1,811	4,067	3,198	3,682	4,103
Receivable	452	647	439	376	331
Inventory	126	199	222	202	181
Other current assets	449	406	406	406	406
Total current assets	2,838	5,319	4,265	4,666	5,021
Fixed assets	1,397	1,452	1,617	2,343	3,180
Other non-current assets	3,352	4,011	4,088	4,071	4,054
Total non-current assets	4,749	5,463	5,705	6,414	7,234
Total assets	7,587	10,782	9,970	11,080	12,255
Payable	272	333	421	383	343
Other payables	219	1,176	100	100	100
Current portion of LT loans	219	143	260	260	260
Other current liabilities	651	795	263	263	263
Total current liab.	1,362	2,448	1,044	1,006	966
Long term loans	1,291	1,369	1,200	1,620	2,180
Other LT liab.	476	439	439	439	439
Total non-current liabilities	1,767	1,807	1,639	2,059	2,619
Total liabilities	3,129	4,255	2,682	3,065	3,585
Equity	343	343	343	343	343
Retained earnings	2,783	4,481	5,038	5,610	6,135
Minority interest	1,332	1,703	1,906	2,062	2,193
Total SHE + minority int.	4,458	6,527	7,287	8,015	8,670
Total liabilities & equity	7,587	10,782	9,970	11,080	12,255

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income	933	2,493	1,557	1,195	1,002
Depr. & amortization	486	521	301	341	370
Changes in working capital	(190)	(208)	272	46	26
Others	207	1,058	(1,498)	156	131
Cash flow from operating	1,436	3,864	632	1,737	1,529
Capital expenditure	(212)	(415)	(450)	(1,050)	(1,190)
Others	(433)	(352)	0	0	0
Cash flow from investing	(645)	(767)	(450)	(1,050)	(1,190)
Loans	142	2	(52)	420	560
Equity	(12)	190	0	0	0
Dividends	(147)	(650)	(1,000)	(623)	(478)
Others	(137)	(340)	0	0	0
Cash flow from financing	(153)	(798)	(1,052)	(203)	82
Changes in cash	637	2,256	(869)	484	421

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	44%	57%	39%	35%	34%
Operating margin	40%	53%	32%	28%	27%
Pre-tax margin	37%	55%	34%	31%	29%
Net margin	23%	31%	24%	21%	20%
ROA	12%	23%	16%	11%	8%
ROE	23%	41%	24%	17%	13%
Acct. receivables TO (days)	8.8	12.5	15.0	15.0	15.0
Inventory TO (days)	17.7	17.3	18.0	18.0	18.0
Payable TO (days)	8.2	10.4	9.5	9.5	9.5
Debt to equity	0.4	0.3	0.2	0.3	0.3
Interest coverage ratio (x)	24.8	53.7	23.4	16.7	11.4
Net gearing	(0.1)	(0.4)	(0.3)	(0.3)	(0.2)

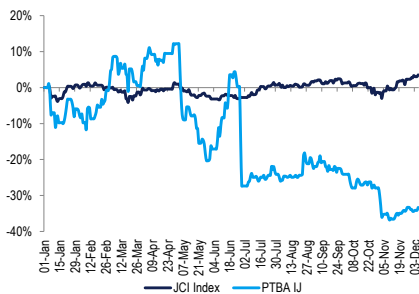
Source: Company, Indo Premier

Stock Data

Target price	Rp2,750
Prior TP	Rp2,850
Current price	Rp2,410
Upside/downside	+14%
Shares outstanding (mn)	11,521
Market cap (Rp bn)	27,765
Free float	34%
Avg. 6m daily T/O (Rp bn)	33

Price Performance

	3M	6M	12M
Absolute	-17.5%	-27.0%	-34.9%
Relative to JCI	-20.4%	-34.4%	-40.1%
52w low/high (Rp)	2,330 – 4,140		



Major Shareholders

PT Indonesia Asahan Aluminium	65.9%
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Appealing volume growth story with potential tailwind from MIP

- Tarahan railway expansion coupled with increasing mine mouth sales to Sumssel8 CFPP shall lead to volume growth of 16% FY23-25F CAGR.
- Capex cycle due to expansion period and declining earnings outlook to result in relatively lower payout ratio, we estimate FY23F yield of 6%.
- We resume coverage on PTBA with Buy rating mainly on attractive volume growth story and relatively resilient earnings compared to peers.

Substantial volume growth from Tarahan and Perajen expansion

To monetize its abundant reserves base (c.74 years of mining life), PTBA is partnering up with PT KAI and PT KALOG to expand its current railway capacity of 32Mt to 52Mt by constructing a new route from Tanjung Enim to Keramasan. PTBA is currently procuring train loading station and rail loop, while PT KAI is looking to procure railway facilities. Concurrently, PT KALOG has just started construction of unloading terminal. Tanjung Enim-Keramasan railway is expected to commercially operate in 4Q24, with volume set to increase gradually. In addition to Tanjung Enim-Keramasan, PTBA is also finalising feasibility study on another route from Tanjung Enim to Perajen with transport capacity of 20Mtpa, expected to start operating by 4Q26.

Volume upside from mine mouth sales to Sumssel8

Aside from volume growth from additional railway capacity, we also expect mine mouth sales volume to grow from c.4.7Mt in FY23F to 6/7Mt in FY24/25F (+28/17% yoy). The growth in mine mouth sales volume reflected the ramp up of Sumssel8 coal-fired power plant, which has just started operating commercially in Oct-23. Combined with railway volume growth, we forecast PTBA to record 37/38/49Mt of sales volume in FY23/24/25F.

Current expansion period may imply low dividend payout ratio

We expect PTBA to record steady capex of Rp2.5tr in FY23/24/25F to reflect both sustaining (~Rp1.5tr) and growth capex (~Rp1tr, mainly for railway expansion). PTBA is currently sitting at 19% cash to market cap ratio, combined with declining earnings outlook and current expansion period, we expect PTBA to post dividend payout ratio of 35%. Should our 4Q23 earnings outlook materialize, this shall translate to FY23F dividend yield of 6%.

Resume coverage with Buy rating with DCF-based TP of Rp2,750

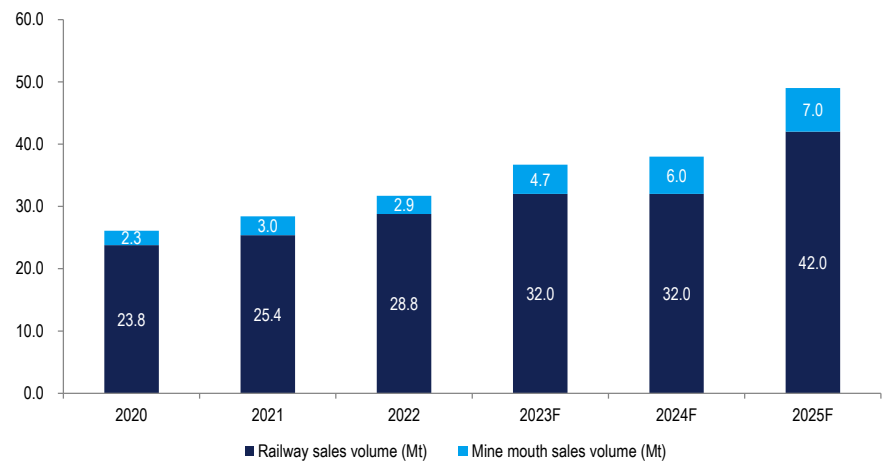
We resume coverage on PTBA with Buy rating on: 1) attractive volume growth story over our forecast period (16% FY23-25F CAGR), 2) relatively resilient earnings (FY24F: -13% yoy) vs. peers (FY24F: -16 to -23% yoy). 3) light positioning from local fund (YTD: -25% yoy), 4) potential upside from MIP (c.+20% to FY24F earnings). We set our TP at Rp2,750 using DCF method to capture its volume growth from Keramasan and Perajen. PTBA is currently trading at 6.7x FY24F P/E (at 5yr avg).

Financial Summary (Rp bn)	2021	2022	2023F	2024F	2025F
Revenue	29,261	42,649	36,994	33,106	35,574
EBITDA	11,133	16,155	6,768	6,372	5,947
Net profit	7,909	12,568	4,792	4,160	3,767
EPS growth	231%	59%	-62%	-13%	-9%
ROE	33%	44%	23%	18%	15%
PER (x)	3.5	2.2	5.8	6.7	7.4
EV/EBITDA (x)	2.2	1.4	3.3	3.1	3.1
Dividend yield	3.0%	28.5%	45.3%	6.0%	5.2%
IPS vs. consensus			94%	89%	99%

Source: Company, Indo Premier

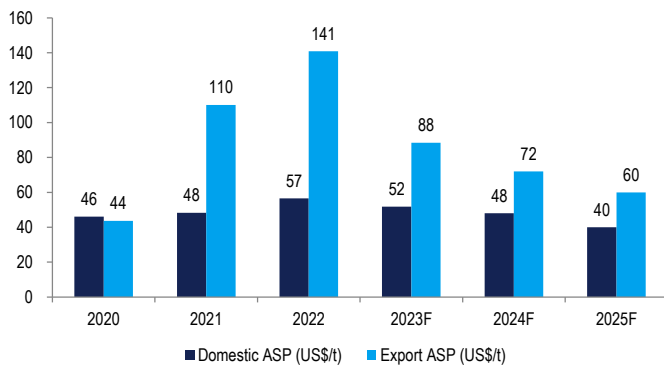
Share price closing as of: 8 December 2023

Fig. 31: Sales volume (mine mouth+railway)



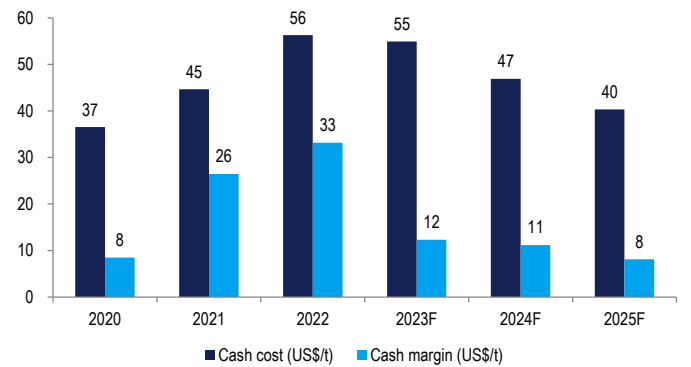
Source: Company, Indo Premier

Fig. 32: Domestic and export ASP



Source: Company, Indo Premier

Fig. 33: Cash cost and margin



Source: Company, Indo Premier

Fig. 34: PTBA earnings sensitivity analysis – for every 1% change in respective ASP

PTBA sensitivity analysis	Impact to earnings		
	FY23F	FY24F	FY25F
Domestic	1.5%	1.8%	2.1%
Export	1.8%	1.9%	2.3%
Blended	3.2%	3.7%	4.4%

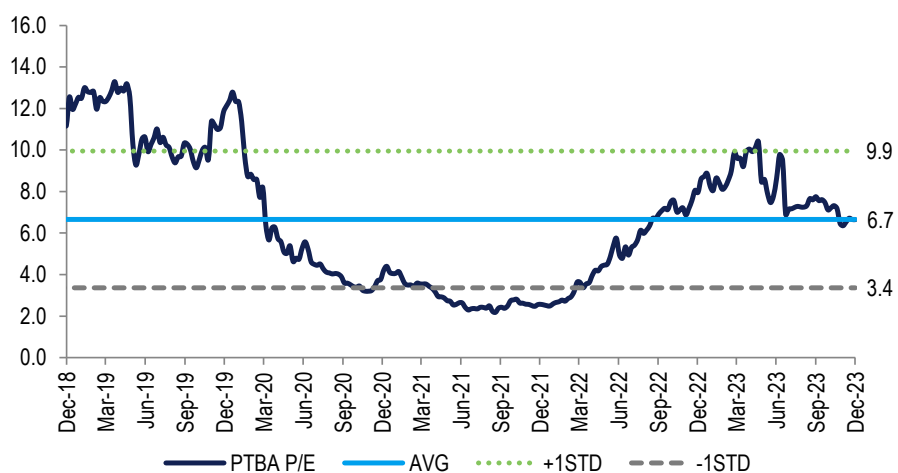
Source: Company, Indo Premier

Fig. 35: DCF valuation summary

DCF valuation summary	
Sum of FCFF PV	25,752
Cash	7,027
Debt	1,362
Equity value	31,416
Outstanding shares	11.5
Target price (Rp/sh)	2,750
Current price	2,410
Upside/down side	14%
Implied FY24F P/E	7.6

Source: Company, Indo Premier

Fig. 36: Valuation band



Source: Company, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	29,261	42,649	36,994	33,106	35,574
Cost of sales	(15,777)	(24,682)	(29,171)	(26,013)	(28,833)
Gross profit	13,484	17,966	7,823	7,093	6,741
SG&A Expenses	(3,594)	(3,343)	(2,667)	(2,456)	(2,634)
Operating profit	9,890	14,623	5,156	4,637	4,107
Net interest	98	228	391	572	683
Forex gain (loss)	301	829	400	300	200
Others	69	523	400	0	0
Pre-tax income	10,359	16,202	6,347	5,510	4,990
Income tax	(2,322)	(3,423)	(1,396)	(1,212)	(1,098)
Minority interest	(128)	(212)	(159)	(138)	(125)
Net income	7,909	12,568	4,792	4,160	3,767

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	4,394	7,030	7,027	9,387	10,824
Receivable	3,100	3,510	4,110	3,678	3,953
Inventory	1,208	3,837	2,917	2,601	2,883
Other current assets	9,510	10,055	2,181	2,181	2,181
Total current assets	18,212	24,432	16,235	17,847	19,841
Fixed assets	8,321	8,410	9,166	9,804	10,341
Other non-current assets	9,591	12,517	12,649	12,777	12,899
Total non-current assets	17,912	20,927	21,815	22,580	23,240
Total assets	36,124	45,359	38,050	40,428	43,081
Payable	1,270	1,936	2,244	2,001	2,218
Other payables	1,555	1,510	1,510	1,510	1,510
Current portion of LT loans	421	592	592	592	592
Other current liabilities	4,254	6,664	6,664	6,664	6,664
Total current liab.	7,501	10,702	11,010	10,767	10,984
Long term loans	626	771	771	771	771
Other LT liab.	3,743	4,971	4,971	4,971	4,971
Total non-current liabilities	4,369	5,741	5,741	5,741	5,741
Total liabilities	11,870	16,443	16,751	16,508	16,725
Equity	1,152	1,152	1,152	1,152	1,152
Retained earnings	22,113	26,292	18,516	20,999	23,310
Minority interest	988	1,472	1,631	1,769	1,893
Total SHE + minority int.	24,254	28,916	21,299	23,919	26,356
Total liabilities & equity	36,124	45,359	38,050	40,428	43,081

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net income	7,909	12,568	4,792	4,160	3,767
Depr. & amortization	1,242	1,533	1,612	1,735	1,840
Changes in working capital	(1,350)	(2,374)	628	505	(339)
Others	2,994	802	8,033	138	125
Cash flow from operating	10,795	12,527	15,064	6,538	5,393
Capital expenditure	(1,977)	(2,369)	(2,500)	(2,500)	(2,500)
Others	(7,862)	1,074	0	0	0
Cash flow from investing	(9,839)	(1,294)	(2,500)	(2,500)	(2,500)
Loans	704	467	0	0	0
Equity	115	315	0	0	0
Dividends	(835)	(7,909)	(12,568)	(1,677)	(1,456)
Others	(895)	(1,541)	0	0	0
Cash flow from financing	(912)	(8,669)	(12,568)	(1,677)	(1,456)
Changes in cash	53	2,636	(4)	2,361	1,437

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	46%	42%	21%	21%	19%
Operating margin	34%	34%	14%	14%	12%
Pre-tax margin	35%	38%	17%	17%	14%
Net margin	27%	29%	13%	13%	11%
ROA	22%	28%	13%	10%	9%
ROE	33%	44%	23%	18%	15%
Acct. receivables TO (days)	9.4	12.2	9.0	9.0	9.0
Inventory TO (days)	13.1	6.4	10.0	10.0	10.0
Payable TO (days)	12.4	12.8	13.0	13.0	13.0
Debt to equity	0.0	0.0	0.1	0.1	0.1
Interest coverage ratio (x)	70.3	80.7	29.2	27.5	25.7
Net gearing	(0.1)	(0.2)	(0.3)	(0.3)	(0.4)

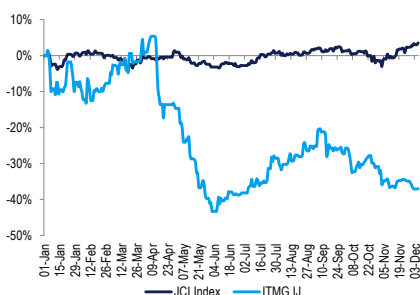
Source: Company, Indo Premier

Stock Data

Target price	Rp22,000
Prior TP	Rp29,400
Current price	Rp24,000
Upside/downside	-8%
Shares outstanding (mn)	1,130
Market cap (Rp bn)	27,118
Free float	35%
Avg. 6m daily T/O (Rp bn)	38

Price Performance

	3M	6M	12M
Absolute	-22.0%	-2.0%	-41.0%
Relative to JCI	-24.9%	-5.4%	-46.2%
52w low/high (Rp)	22,125 – 41,125		



Major Shareholders

Banpu Minerals Limited	65.1%
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Awaiting momentum; re-initiate with Hold rating

- Sales volume is set to grow 7% yoy in FY24F/25F reflecting additional volume from GPK and production ramp up at Bharinto.
- We expect ITMG to book US \$179mn in 2H23 earnings and maintain payout ratio of 60-70%, implying 6-7% yield interim.
- We re-initiate ITMG with Hold rating at multiple-based TP of 22,000.

GPK and NPR mine to replace Indominco

ITMG aims to increase its production gradually by 1.5/1.5Mt in FY24/25F (c.+9/8% yoy) through Graha Panca Karsa (GPK) mine and Bharinto mine. The full ramp up of GPK mine shall coincide with the retirement of Indominco mine (FY23F production: 6.5Mt), which is expected by FY26F. In addition to GPK and Bharinto, Indominco’s production volume will also be replaced with coal from ITMG’s NPR mine with expected production of 3Mtpa in FY26F. Overall, we expect sales volume to still grow from 20Mt in FY23F to 22/23Mt in FY24/25F (+8/7% yoy).

Venturing outside coal, yet still in the early stage

Aside from coal-related services, management is actively exploring investment opportunities in the minerals sector (i.e. gold, copper, nickel), being open to both upstream and downstream assets. ITMG has also showcased commitment in increasing renewables contribution to its business with the recent acquisition of Suryanesia, a ‘solar-as-a-service’ company with installed capacity of 0.5MW as of 3Q23. ITMG aims to increase its installed solar capacity up to 6.3MW. However, the contribution to earnings shall remain limited (less than 1%).

Steady dividend stream

We expect ITMG to post 4Q23 earnings of U S\$80mn (-19% qoq), and should this materialize, ITMG’s 2H23 earnings shall reach US\$179mn (-76% yoy, 6-7% yield). Coupled with manageable capex requirement for expansion, we expect ITMG to be able to maintain its historical dividend payout ratio of 60-70%. GPK, for example, is estimated to cost around US\$10-15mn, with most of the capex have already been disbursed this year. Overall, we forecast ITMG to post final dividend of US\$291-340mn (16-18% yield at current price), but note that ITMG has disbursed interim dividend of US\$199mn in Sep23.

We re-initiate with Hold and TP of Rp22,000

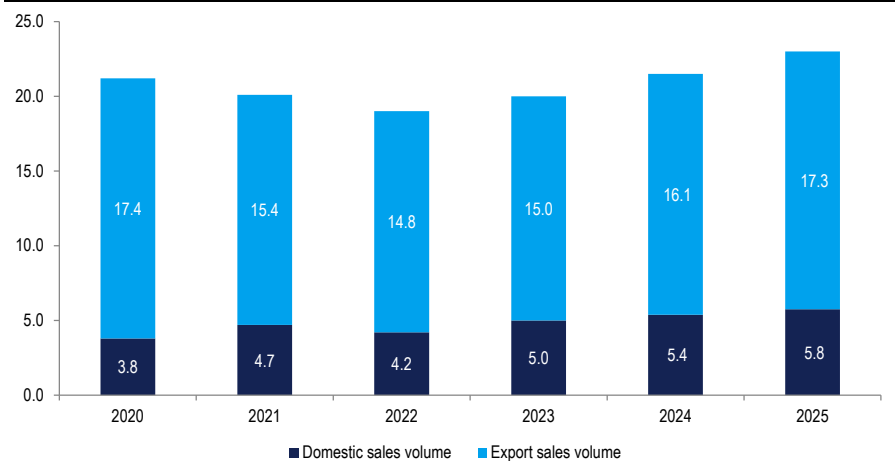
We resume coverage on ITMG with Hold rating with our TP of Rp22,000/sh is derived from a target multiple of 4.2x FY24F P/E (30% discount to 5yr avg) vs. current multiple of 4.6x FY24F P/E. Given its relatively limited reserve (c.11 years of mining life) compared to peers, the discount in valuation compared to peers seems justified, in our view.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	2,077	3,636	2,311	1,885	1,681
EBITDA	857	1,742	635	493	414
Net profit	475	1,200	483	378	316
EPS growth	1104%	153%	-60%	-22%	-16%
ROE	46%	76%	27%	23%	18%
PER (x)	3.7	1.5	3.6	4.6	5.5
EV/EBITDA (x)	1.3	0.2	1.2	1.3	1.4
Dividend yield	6.1%	30.8%	44.6%	18.0%	14.0%
IPS vs. consensus			85%	97%	112%

Source: Company, Indo Premier

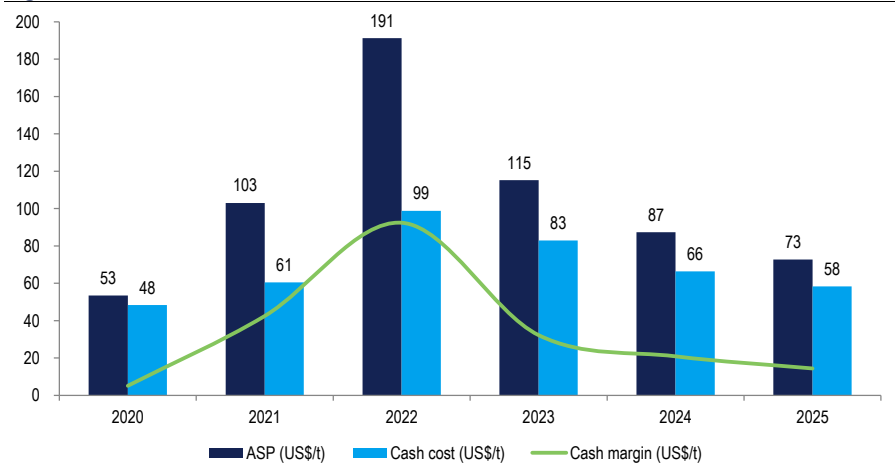
Share price closing as of: 8 December 2023

Fig. 37: Sales volume



Source: Company, Indo Premier

Fig. 38: ASP and cash cost



Source: Company, Indo Premier

Fig. 39: ITMG earnings sensitivity

ITMG sensitivity analysis	Impact to earnings		
	FY23F	FY24F	FY25F
Domestic	0.6%	0.6%	0.7%
Export	2.5%	2.4%	2.6%
Blended	3.2%	3.0%	3.3%

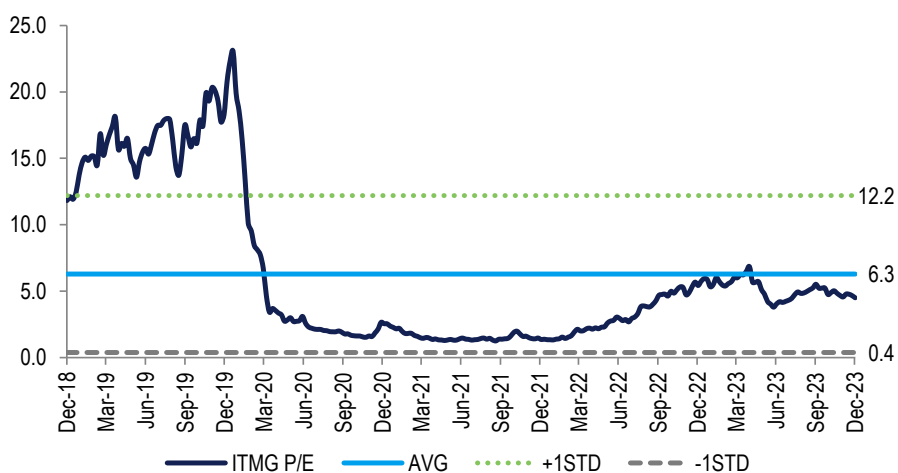
Source: Company, Indo Premier

Fig. 40: Multiple based valuation summary

Multiple based valuation summary	US\$m
FY24F earnings	378
Target multiple (x)	4.2
Equity value (US\$m)	1,601
USD/IDR	15,500
Outstanding shares (bn)	1.1
Target price (Rp/sh)	22,000
Current price	24,000
Upside/downside	-8%

Source: Company, Indo Premier

Fig. 41: Valuation band



Source: Company, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	2,077	3,636	2,311	1,885	1,681
Cost of sales	(1,160)	(1,742)	(1,564)	(1,317)	(1,221)
Gross profit	917	1,894	747	568	460
SG&A Expenses	(125)	(212)	(156)	(113)	(84)
Operating profit	791	1,683	591	455	376
Net interest	0	6	29	29	29
Forex gain (loss)	0	0	0	0	0
Others	(170)	(143)	0	0	0
Pre-tax income	621	1,545	620	484	405
Income tax	(146)	(345)	(136)	(106)	(89)
Minority interest	(0)	1	0	0	0
Net income	475	1,200	483	378	316

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	691	1,430	1,043	1,134	1,228
Receivable	187	280	148	121	108
Inventory	62	96	231	188	168
Other current assets	48	102	102	102	102
Total current assets	988	1,909	1,524	1,545	1,605
Fixed assets	180	164	178	188	192
Other non-current assets	498	568	568	568	568
Total non-current assets	678	732	746	756	760
Total assets	1,666	2,640	2,270	2,301	2,365
ST loans	0	0	25	25	25
Payable	189	292	216	182	169
Other payables	176	293	293	293	293
Current portion of LT loans	0	0	0	0	0
Total current liab.	365	586	534	500	487
Long term loans	26	13	15	15	15
Other LT liab.	74	91	91	91	91
Total liabilities	465	690	641	607	593
Equity	393	437	437	437	437
Retained earnings	854	1,515	1,218	1,282	1,352
Minority interest	(46)	(2)	(26)	(25)	(18)
Total SHE + minority int.	1,202	1,950	1,629	1,694	1,772
Total liabilities & equity	1,666	2,640	2,270	2,301	2,365

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income	475	1,200	483	378	316
Depr. & amortization	66	60	44	37	38
Changes in working capital	(39)	(40)	(79)	36	20
Others	115	106	0	(0)	0
Cash flow from operating	618	1,325	448	451	374
Capital expenditure	(7)	(13)	(58)	(47)	(42)
Others	(18)	(58)	0	0	0
Cash flow from investing	(25)	(71)	(58)	(47)	(42)
Loans	(10)	(13)	27	0	0
Equity	0	44	(25)	2	7
Dividends	(107)	(538)	(780)	(314)	(245)
Others	(17)	3	0	0	0
Cash flow from financing	(134)	(505)	(777)	(312)	(238)
Changes in cash	460	750	(388)	91	94

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	44%	52%	32%	30%	27%
Operating margin	38%	46%	26%	24%	22%
Pre-tax margin	30%	42%	27%	26%	24%
Net margin	23%	33%	21%	20%	19%
ROA	34%	56%	20%	17%	14%
ROE	46%	76%	27%	23%	18%
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%	2%	2%	2%
Interest coverage ratio (x)	319	519	198	154	129
Net gearing	-55%	-73%	-62%	-65%	-67%

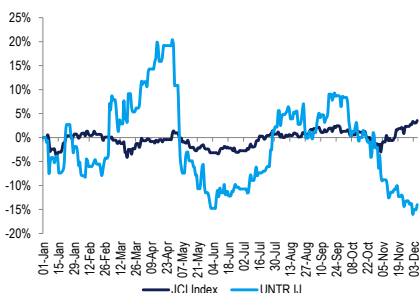
Source: Company, Indo Premier

Stock Data

Target price	Rp24,000
Prior TP	Rp28,000
Current price	Rp22,300
Upside/downside	+8%
Shares outstanding (mn)	3,730
Market cap (Rp bn)	83,182
Free float	38%
Avg. 6m daily T/O (Rp bn)	126

Price Performance

	3M	6M	12M
Absolute	-17.9%	-4.4%	-18.3%
Relative to JCI	-20.8%	-11.8%	-23.5%
52w low/high (Rp)	21,625 – 31,400		



Major Shareholders

PT Astra International Tbk	59.5%
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Enduring the down-cycle; re-initiate with Hold

- Elevated Indonesia coal production in FY24/25F is set to support Pama's operations (+5/+4% yoy in total volume).
- Albeit, Pama's strong operation would be partly offset by the decline in Komatsu volume to 4k units (-24% yoy)
- As a result, we expect earnings to decline by -16/-10% in FY24/25F. Resume coverage with a Hold rating at SOTP-based TP of Rp24,000.

Pama volume to remain robust on RKAB volume spillover

We forecast Pama to record total volume of 1,350/1,400 units in FY24/25F (+5/4% yoy) as we see a potential volume spillover due to recent issue on production quota (RKAB). Based on our channel check, we observed that coal players are set to maintain their production volume relatively similar to FY23F to capitalize on still relatively high coal price vs. historical. PTBA, for example, is expected to ramp up production on the back of new railway capacity (20Mt) set to be completed by 4Q24. ITMG is also expected to increase production as its new mine (GPK) is set to start operating by early next year. Based on our channel check, 50-60% of PTBA's and ITMG's volume orders are given to Pama. This implies that PTBA and ITMG are set to contribute c.15/8% to Pama's FY23F coal production. We see Pama to potentially benefit from PTBA's and ITMG's production expansion plan.

Soft Komatsu volume amid unfavourable commodity price outlook

We expect coal and LME nickel price to decline to US\$170/120/100 and US\$22/18/18.5k per tonne respectively. As a result, we see risk to Komatsu sales volume to be skewed to the downside and forecast volume to drop from c.5,250 units in FY23F to 4,000/3,500 units in FY24/25F, in-line with company guidance of 25% yoy volume decline in FY24F. Based on the latest earnings call, backlog has also normalized to 1-2/5-6 months for small/big machines, indicating that demand is easing.

Mining: coal and gold volume to recover

On the mining side, we expect coal volume to continue to grow to 12/13Mt in FY24/25F amid easing logistical issue at Barito River. Concurrently, we also expect gold volume to recover to 260/300k oz in FY24/25F on the back of tailing facility completion coupled with additional volume from SJR mine.

Resume coverage with Hold rating at SOTP-based TP of Rp24,000

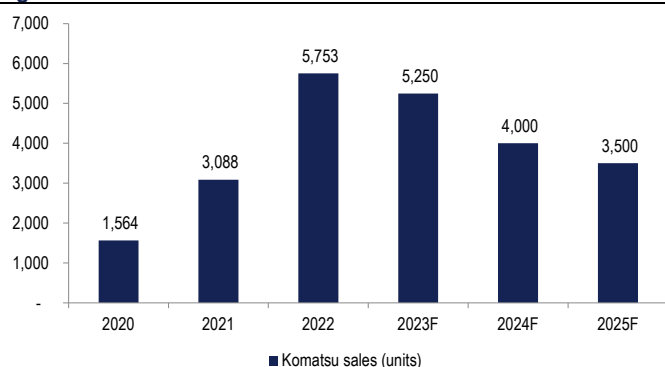
We resume coverage on UNTR with a Hold rating at SOTP based TP of Rp24,000. UNTR currently trades at 5.1x FY24F P/E (70% discount to 5yr avg). UNTR's valuation has de-rated over the years amid aggressive investments into the metals sector and we see valuation may potentially de-rate further should UNTR continue buying assets at a premium price.

Financial Summary (Rp bn)	2021	2022	2023F	2024F	2025F
Revenue	79,461	123,607	123,206	113,762	109,335
EBITDA	21,624	35,628	34,989	31,922	29,948
Net profit	10,280	21,005	19,484	16,420	14,744
EPS growth	71%	104%	-7%	-16%	-10%
ROE	14%	23%	23%	18%	15%
PER (x)	8.1	4.0	4.3	5.1	5.6
EV/EBITDA (x)	2.7	1.3	1.9	2.0	1.7
Dividend yield	3.6%	7.7%	30.2%	10.0%	8.6%
IPS vs. consensus			99%	100%	100%

Source: Company, Indo Premier

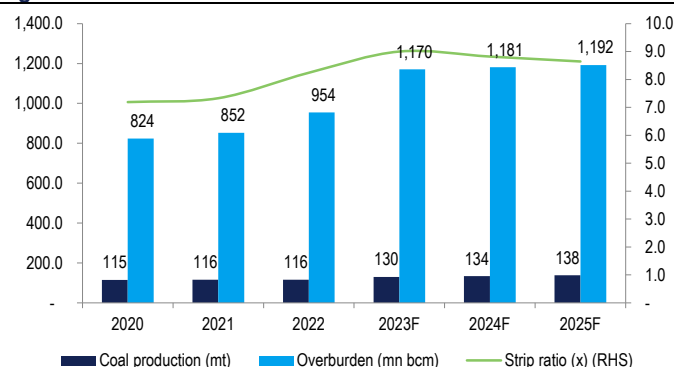
Share price closing as of: 8 December 2023

Fig. 42: Komatsu volume



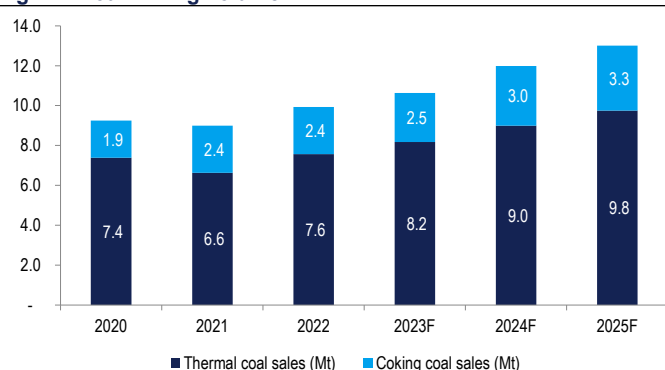
Source: Company, Indo Premier

Fig. 43: Pama volume



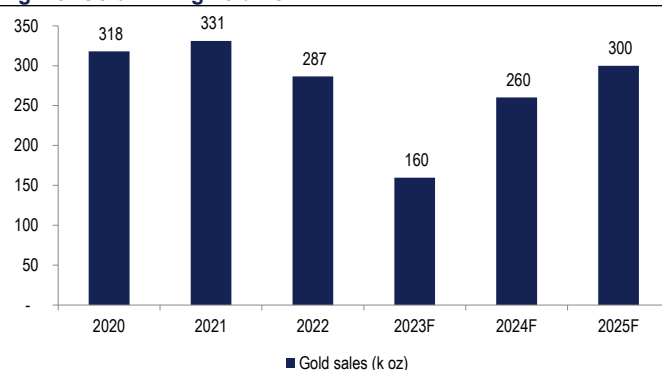
Source: Company, Indo Premier

Fig. 44: Coal mining volume



Source: Company, Indo Premier

Fig. 45: Gold mining volume



Source: Company, Indo Premier

Fig. 46: UNTR earnings sensitivity analysis

UNTR sensitivity analysis	FY23F	FY24F	FY25F
Thermal	0.18%	0.17%	0.15%
Coking	0.05%	0.05%	0.04%
Blended	0.23%	0.22%	0.20%

Source: Company, Indo Premier

Fig. 47: SOTP valuation summary

SOTP valuation summary	US\$m	Remarks
Heavy Equipment	19,652	Target multiple - 6x FY24F P/E
Coal mining & contracting	45,280	Target multiple - 4x FY24F P/E
Gold mining	20,483	Target multiple - 10x FY24F P/E
NIC	4,399	DCF (WACC: 11%)
Equity value (Rp bn)	89,814	
Outstanding shares	3.7	
Target price (Rp/sh)	24,000	
Current share price	22,300	
Upside/downside	8%	

Source: Company, Indo Premier

Fig. 48: Valuation band



Source: Company, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	79,461	123,607	123,206	113,762	109,335
Cost of sales	(59,796)	(88,849)	(90,557)	(85,322)	(83,259)
Gross profit	19,665	34,759	32,650	28,441	26,076
SG&A Expenses	(4,789)	(5,626)	(6,042)	(6,200)	(6,505)
Operating profit	14,876	29,133	26,607	22,241	19,571
Net interest	118	238	329	2	279
Forex gain (loss)	(19)	115	0	0	0
Others	(512)	(40)	763	801	841
Pre-tax income	14,462	29,446	27,699	23,045	20,692
Income tax	(3,854)	(6,452)	(6,371)	(5,070)	(4,552)
Minority interest	(329)	(1,989)	(1,845)	(1,555)	(1,396)
Net income	10,280	21,005	19,484	16,420	14,744

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	33,322	38,282	19,840	22,518	33,749
Receivable	14,019	19,649	24,734	23,747	22,357
Inventory	9,454	15,390	14,908	14,615	14,008
Other current assets	3,809	5,610	5,592	5,174	4,978
Total current assets	60,604	78,930	65,074	66,054	75,092
Fixed assets	20,457	23,678	33,278	39,435	37,250
Mining properties	11,925	11,905	11,081	10,257	9,433
Other non-current assets	19,575	25,965	25,956	25,728	25,621
Total non-current assets	51,957	61,548	70,314	75,420	72,304
Total assets	112,561	140,478	135,388	141,474	147,397
ST loans	6,205	987	987	987	987
Payable	14,958	25,432	26,708	26,183	25,096
Other current liabilities	9,326	15,618	14,771	13,936	13,623
Total current liab.	30,489	42,037	42,467	41,106	39,707
Long term loans	2,982	1,015	1,015	1,015	1,015
Other LT liab.	7,268	7,912	8,017	7,766	7,679
Total liabilities	40,739	50,964	51,499	49,887	48,401
Equity	933	933	933	933	933
Retained earnings	56,673	71,324	65,714	73,780	81,361
Minority interest	3,263	4,816	4,800	4,432	4,260
Others	10,954	12,442	12,442	12,442	12,442
Total SHE + minority int.	71,823	89,514	83,889	91,587	98,996
Total liabilities & equity	112,561	140,478	135,388	141,474	147,397

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net income	10,280	21,005	19,484	16,420	14,744
Depr. & amortization	6,748	6,496	8,381	9,681	10,376
Changes in working capital	1,976	775	(3,110)	697	941
Others	1,824	2,625	(1,045)	(360)	(148)
Cash flow from operating	20,828	30,901	23,710	26,438	25,914
Capital expenditure	(1,850)	(9,696)	(17,157)	(15,014)	(7,367)
Others	(848)	(4,837)	(6)	(140)	(66)
Cash flow from investing	(2,698)	(14,534)	(17,163)	(15,154)	(7,433)
Loans	(3,294)	(7,185)	0	0	0
Equity	0	0	0	0	0
Dividends	(3,014)	(6,427)	(25,093)	(8,354)	(7,163)
Others	1,002	2,204	105	(251)	(87)
Cash flow from financing	(5,307)	(11,407)	(24,988)	(8,605)	(7,250)
Changes in cash	12,823	4,960	(18,441)	2,678	11,231

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	24.7%	28.1%	26.5%	25.0%	23.9%
Operating margin	18.7%	23.6%	21.6%	19.6%	17.9%
Pre-tax margin	18.2%	23.8%	22.5%	20.3%	18.9%
Net margin	12.9%	17.0%	15.8%	14.4%	13.5%
ROA	9.1%	15.0%	14.4%	11.6%	10.0%
ROE	14.3%	23.5%	23.2%	17.9%	14.9%
Acct. receivables TO (days)	5.7	6.3	5.0	4.8	4.9
Inventory TO (days)	6.3	5.8	6.1	5.8	5.9
Payable TO (days)	4.0	3.5	3.4	3.3	3.3
Debt to equity	12.8%	2.2%	2.4%	2.2%	2.0%
Interest coverage ratio (x)	19.7	38.3	34.8	39.4	53.7
Net gearing	-33.6%	-40.5%	-21.3%	-22.4%	-32.1%

Source: Company, 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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