INDOPREMIER

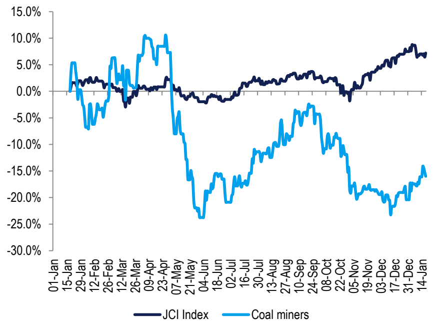
Coal

NEUTRAL *(unchanged)*

Sector Update | 19 January 2024

Sector Index Performance

	3M	6M	12M
Absolute	-8.8%	2.0%	-16.0%
Relative to JCI	-13.5%	-4.2%	-23.2%



Summary Valuation Metrics

P/E (x)	2023F	2024F	2025F
ADRO IJ	3.3	4.2	5.1
ITMG IJ	4.1	5.2	6.3
PTBA IJ	6.3	7.3	8.1
UNTR IJ	4.6	5.5	6.1

EV/EBITDA (x)	2023F	2024F	2025F
ADRO IJ	1.4	1.7	2.0
ITMG IJ	1.5	1.8	1.9
PTBA IJ	3.7	3.5	3.5
UNTR IJ	2.1	2.2	1.9

Div. Yield	2023F	2024F	2025F
ADRO IJ	19.7%	12.3%	9.4%
ITMG IJ	39.5%	15.9%	12.4%
PTBA IJ	41.3%	5.5%	4.8%
UNTR IJ	27.9%	9.3%	8.0%

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Seasonal correction underway; expect more downside to ICI

- We see more downside risk to ICI amid seasonally lower electricity generation in China & India coupled with increase in domestic production.
- The rebound in Dec23 trade volume (+12% mom) was primarily driven by JKT and ASEAN, while China and India remained relatively muted.
- We reiterate our Neutral rating on the sector as we see limited catalysts for coal price rally and downgrade PTBA to Hold.

Monthly trade recap: Dec23 volume picked up on winter demand
Global seaborne coal trade volume rebounded in Dec23 (+12% mom), after soft trade volume in Nov23 (-6% mom), reflecting stronger demand on winter demand. Imports were mainly driven by Japan, Korea, Taiwan (JKT, +28% mom) and ASEAN (+5% mom). Though China/India remained relatively muted (flat/+5% mom) amid higher domestic production. On the export side, Australia was up by 13% mom in Dec23, while Indonesia declined by 2% mom on RKAB issue. On a FY basis, FY23 seaborne trade volume only grew by 3% yoy, below the 3yr pre-covid CAGR of 12%.

More downside risk to ICI amid expected soft China and India demand
We expect coal demand from China and India to remain soft in 1H24 amid seasonally lower electricity generation. India's coal inventory has also bounced back to 13 days (17% above 3yr avg), limiting the potential demand uplift from India. The increase in inventory level was mainly attributed to higher domestic production (Dec23: +18% yoy), despite soft import volume (-5% mom). On a more positive note, China's lower inventory of 15 days (10% below 3yr avg) presents some upside risk to coal price. However, we argue that China does not have any urgency to restock aggressively, unless temperature drops for longer than expected or should there be any further disruption in domestic production (mining accidents). Given that China and India combined accounts for c.59 and c.16% of Indonesia's and Australia's exports, we see more downside risk to ICI prices compared to Newcastle price. We also see additional pressure should domestic coal production in Indonesia continues to increase.

Minimal impact to Indonesia demand from China's coal tariff
The reinstated 3-6% import tariff in China is expected to have limited impact on Indonesian coal demand. The tariff primarily affects U.S, Canada, Russia, Mongolia, and South Africa, with Australia and Indonesia exempt due to free trade pact. Canada, Russia, and U.S coal combined only accounts for c.9% of China imports, while Indonesia and Australia accounts for c.90%. Given that most Canada, Russia, and U.S coal are high CV (5,000-6,300), we believe that China will tend to switch to Australia coal rather than Indonesia.

Reiterate Neutral rating on limited catalyst for a rally
We reiterate our sector Neutral rating as we see limited catalyst in underlying coal price (both Newcastle and ICI prices) while from valuation perspective, Indonesia coal players are currently trading at fair valuation of 4-7x FY24F P/E. We downgrade PTBA to Hold (from Buy) at unchanged DCF-based TP of Rp2,750 as upside to our TP is already lower than 10%. We currently prefer ITMG for a tactical trade due to lightest positioning among peers (link to our report) combined with highest earnings sensitivity (3% vs. peers at 0.2-2.5%) should a cold snap in China occur.

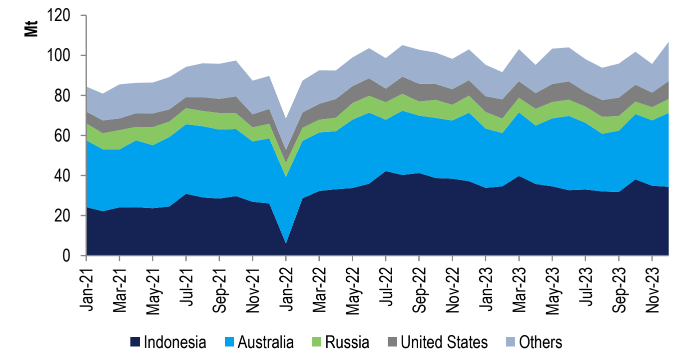
Monthly trade recap: Dec23 volume picked up on winter demand
Global seaborne coal trade volume rebounded in Dec23 (+12% mom) reflecting stronger demand on winter seasonality. After soft trade volume in Nov23 (Fig. 1 & 2), imports has significantly picked-up particularly in Japan, Korea, Taiwan (JKT) area up by +28% mom and ASEAN (+5% mom). Meanwhile, imports from two of the biggest coal importers, China and India (c.47% global seaborne demand combined) remain relatively muted, as China imports were flattish while India recorded 5% mom decline, following higher domestic production.

On the export side, export from Australia (19% global seaborne export) were up by +13% mom in Dec23, indicating that incremental seaborne demand (most probably from JKT) in Dec23 was mainly for high-CV coal rather than low-CV. Indonesia volume (48% global seaborne export), on the other hand, declined by 2% mom in Dec23, potentially due to delay in mining plan (RKAB) permit issuance.

On FY basis, FY23 seaborne trade volume only grew by 3% yoy, well below the 3yr pre-covid CAGR of 12%. Demand from Europe area declined significantly by 34% yoy, owing to an increase in natural gas availability, which are widely preferred vs. coal due to environmental issue. Similarly, JKT also recorded 11% yoy import volume decline in FY23.

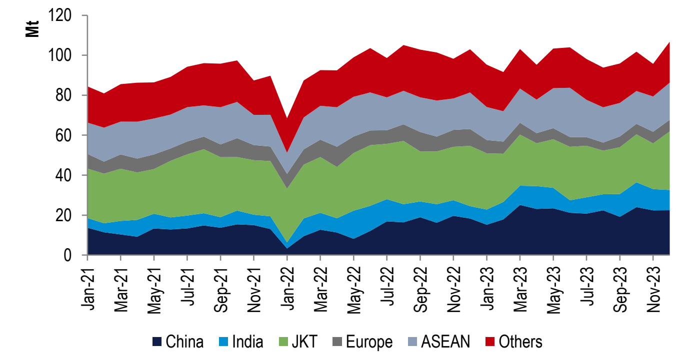
Meanwhile, ASEAN countries posted 6% growth yoy, mainly driven by Vietnam (+30% yoy) and Philippines (+20% yoy). India imports also went up by +9% yoy thanks to its economic resiliency which create further demand for electricity (+11% yoy); this was despite an increase in domestic coal production. On the export side, volume growth from Australia (+4% yoy) outpaced volume growth from Indonesia (+2% yoy). This has more than offset the decrease in Russian supply (-2% yoy).

Fig. 1: Monthly coal exports



Source: Bloomberg, Indo Premier

Fig. 2: Monthly coal imports



Source: Bloomberg, Indo Premier

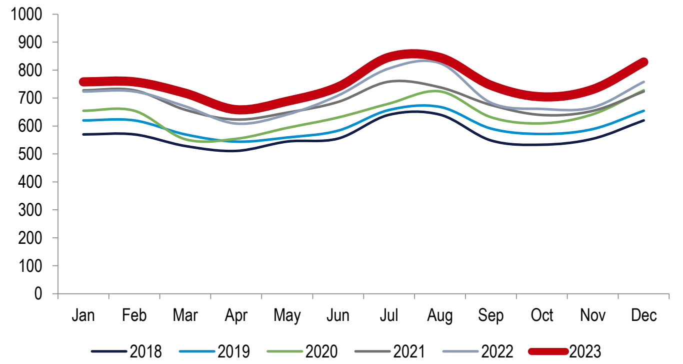
More downside risk to ICI amid expected soft China and India demand
We expect coal demand from China and India to remain soft in 1H24 amid seasonally lower electricity generation (Fig. 7 & 8). Aside from demand-seasonality, we observed that India's coal inventory has also bounced back to 13 days (17% above 3yr average, +63% from its bottom in Oct23), limiting the potential demand uplift from India. The increase in India's coal inventory level was mainly attributed to higher domestic production, marking +11/+18% increase yoy in Nov/Dec23 (FY23: +13% yoy), despite soft import volume in both Nov23 (-14% mom) and Dec23 (-5% mom).

We think the upside risks to coal price should come from China, given its lower-than-average coal inventory at c.14-15 days (10% below 3yr avg). However, we argue that China does not have any urgency to restock aggressively, unless temperature drops longer than expected, which would drive up prices by the end of the winter season (Feb/Mar-24), at the earliest. This would also depend on the supply disruption of China's domestic coal production, which has continuously seen major incident happening in FY23. Despite of these incidents, China are still recording +6/+3% yoy increase in domestic coal production volume in Nov/Dec23.

As China and India combined accounts for c.59% and c.16% (c.48% and c.28% prior to China's import ban pre-Covid) of Indonesia's and Australia's exports, we see more downside risk to ICI prices compared to Newcastle price.

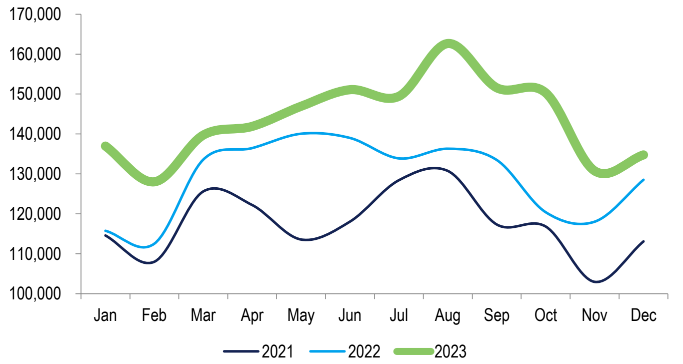
In addition, we expect higher coal production from Indonesia to exert more pressure to ICI prices. As of 11M23, production reached 723Mt (+14% yoy), well ahead of Ministry of Energy and Mineral Resources (ESDM) FY23 target of 695Mt. This year, ESDM targets domestic coal production to be at 710Mt. QTD, ICI4 is currently trading at an average of US$58/t (Fig. 9), slightly down by 1% qoq but lacking catalyst for a rally.

Fig. 3: China electricity output



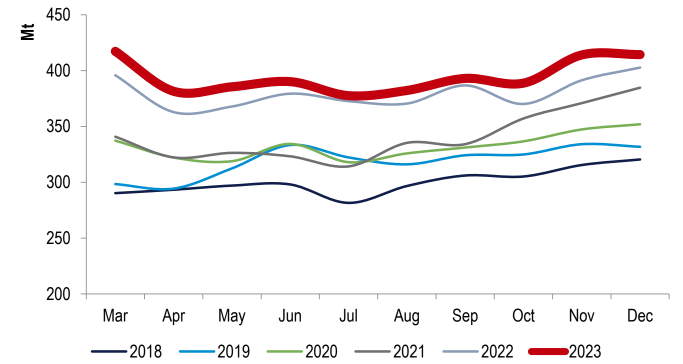
Source: Bloomberg, Indo Premier

Fig. 4: India electricity output



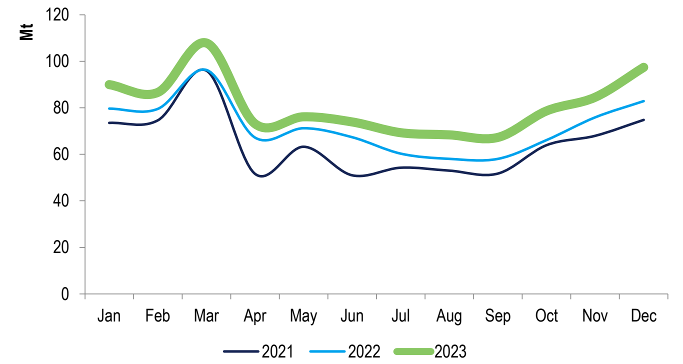
Source: Bloomberg, Indo Premier

Fig. 5: China monthly coal production



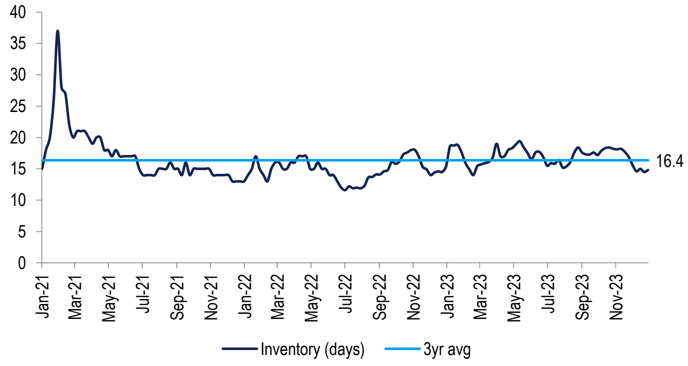
Source: Bloomberg, Indo Premier

Fig. 6: China monthly coal production



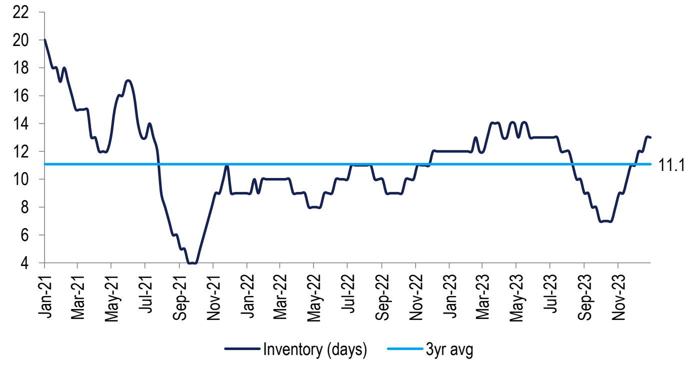
Source: Bloomberg, Indo Premier

Fig. 7: China coal inventory



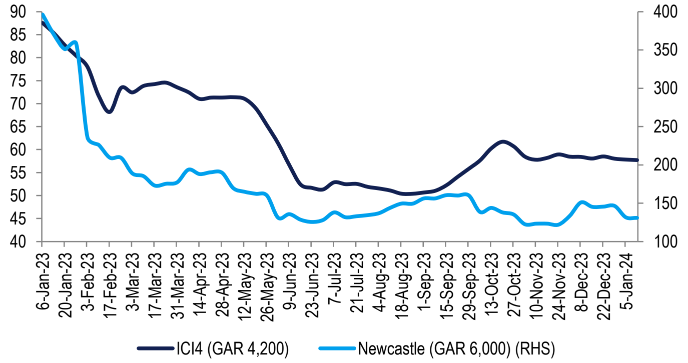
Source: Bloomberg, Indo Premier

Fig. 8: India coal inventory



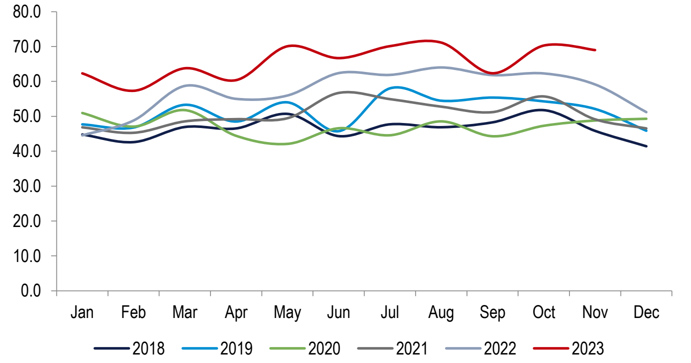
Source: Bloomberg, Indo Premier

Fig. 9: ICI and Newcastle weekly price



Source: Bloomberg, Indo Premier

Fig. 10: Indonesia coal production



Source: Bloomberg, Indo Premier

Minimal impact to Indonesian demand from China's coal tariff

We see limited impact to Indonesian coal demand following China's import tariff re-instatement of 3-6% starting Jan-24. Note that the tariff is only applicable to countries such as U.S, Canada, Russia, Mongolia, and South Africa, while Australia and Indonesia will remain unaffected due to Indonesia and Australia's free trade pact with China, while other countries are set to face higher tariff of 20%.

We think the impact would be limited as Canada, Russia, and U.S coal combined only accounts for c.9% of China's imports. Indonesia and Australia, on the other hand, accounts for c.90% China imports already, meaning if there is any diversion from Canada, Russia, and U.S, the impact would only be around c.9% of China imports and given that most Canada, Russia, and U.S coal are high CV coal (5,000-6,300), we believe that China will tend to switch to Australia coal rather than Indonesia (typically lower-CV).

Reiterate Neutral rating on limited catalyst for a rally

Indonesia coal players are currently trading at fair valuation of 4-7x FY24F P/E. We reiterate our Neutral rating on the sector as we see limited catalyst for a rally in the underlying coal price (both Newcastle and ICI prices) and downgrade PTBA to Hold at unchanged DCF-based TP of Rp2,750. PTBA is currently trading at 6x FY23F P/E (3% discount to 3yr avg). We currently prefer ITMG for a tactical trade due to lightest positioning among peers (link to our report) combined with highest earnings sensitivity (3% vs. peers at 0.2-2.5%) should a cold snap in China occur.

Fig. 11: Peers valuation summary

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				23F	24F	25F	23F	24F	25F	23F	24F	25F
ADRO IJ	Adaro Energy Indonesia	Hold	2,750	3.3	4.2	5.1	1.4	1.7	2.0	19.7%	12.3%	9.4%
ITMG IJ	Indo Tambangraya Megah	Hold	22,000	4.1	5.2	6.3	1.5	1.8	1.9	39.5%	15.9%	12.4%
PTBA IJ	Bukit Asam	Hold	2,750	6.3	7.3	8.1	3.7	3.5	3.5	41.3%	5.5%	4.8%
UNTR IJ	United Tractors	Hold	24,000	4.6	5.5	6.1	2.1	2.2	1.9	27.9%	9.3%	8.0%

Source: Indo Premier

SECTOR RATINGS

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

COMPANY RATINGS

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

ANALYSTS CERTIFICATION

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

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