INDOPREMIER

# Coal & Metals

**NEUTRAL** *(unchanged)*

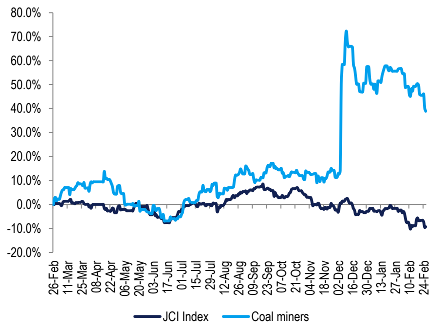
***Sector update | 26 February 2025***

# Quick take on new MEMR decree: concern on coal competitiveness arise

- Ministry of Energy and Mineral Resources (MEMR) has mandated the usage of HBA price as basis for coal sales, starting March 1st 2025.
- We think intention is positive – for Indonesian coal to be priced fairly, but discussion with co. indicates no details yet on the implementation.
- However, using HBA/HPB price as floor meant that HBA won't ever decline, raising concern on price competitiveness. Maintain Neutral.

**Sector Index Performance**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute | 21.5% | 22.4% | 35.5% |
| Relative to JCI | 30.3% | 35.4% | 44.8% |




**Summary Valuation Metrics**

| P/E (x) | 2024F | 2025F | 2026F |
|---|---|---|---|
| AADI IJ | 3.5 | 4.6 | 4.9 |
| ITMG IJ | 4.7 | 6.4 | 13.1 |
| PTBA IJ | 6.8 | 6.4 | 5.3 |
| UNTR IJ | 5.0 | 5.0 | 4.8 |

| EV/EBITDA (x) | 2024F | 2025F | 2026F |
|---|---|---|---|
| AADI IJ | 3.4 | 3.7 | 3.3 |
| ITMG IJ | 2.1 | 2.6 | 5.2 |
| PTBA IJ | 4.1 | 3.8 | 3.3 |
| UNTR IJ | 2.3 | 2.1 | 1.8 |

| Div. Yield | 2024F | 2025F | 2026F |
|---|---|---|---|
| AADI IJ | 66.4% | 9.8% | 9.2% |
| ITMG IJ | 17.9% | 13.7% | 10.1% |
| PTBA IJ | 14.9% | 11.1% | 11.8% |
| UNTR IJ | 9.1% | 8.5% | 8.7% |

### ESDM established HPB as the new benchmark selling price for coal

Ministry of Energy and Mineral Resources (MEMR) has recently established Harga Patokan Batubara (HPB) as the new benchmark for every sale of coal from Indonesia, both domestic and export, starting March 1st 2025. There are several implications, of which, as of now, HBA is currently trading at +14% premium vs. ICI (Fig. 1) – HBA3 & ICI5 (similar GAR) as comparison, potentially leading to ASP upside for coal-miners if the decree is implemented. Although, there is no certainty that buyers are willing to absorb higher price. MEMR plans to publish Harga Batubara Acuan (HBA) on a bi-weekly basis, every 1st and 15th of each month (previously every 20th of each month), though the formula used to establish it remains unchanged (1-month lag). This shall make HBA more reflective towards market prices. There are no changes to DMO price (US$70/t for power-plant, US$90/t to cement industry) in this decree.

### HPB as a floor price raised concerns on price competitiveness

On the downside, MEMR has also set HPB (derivation of HBA, adjusted with GAR, sulphur, & ash content) as a floor price to miners, indicating that miners are allowed to sell above HPB price but not below. This would not be a problem during price upcycle, as HPB is formed using historical price, meaning that miners could immediately sell at market price. During a down cycle, however, establishing HPB as a floor price would imply that HPB would remain flat despite falling coal price, potentially keeping Indonesian coal price well above market prices and thus raising concerns on Indonesia's coal competitiveness should it occur, while the royalty paid to the government also remain unchanged in spite of it, potentially putting additional burden to miners.

### No change in nickel ore benchmark price (HPM)

Nickel miners have been pushing for a revision to nickel ore benchmark price (HPM) amid chatter on royalty rate increase (from 10% to potentially >15%) as this would benefit nickel-miners – i.e. guarantee of higher ASP for miners and win-win solution for government as royalty is imposed at HPM level (FOB) but not at CIF level (incl. premium). However, there were no change nor discussion regarding the policy in this MEMR regulation.

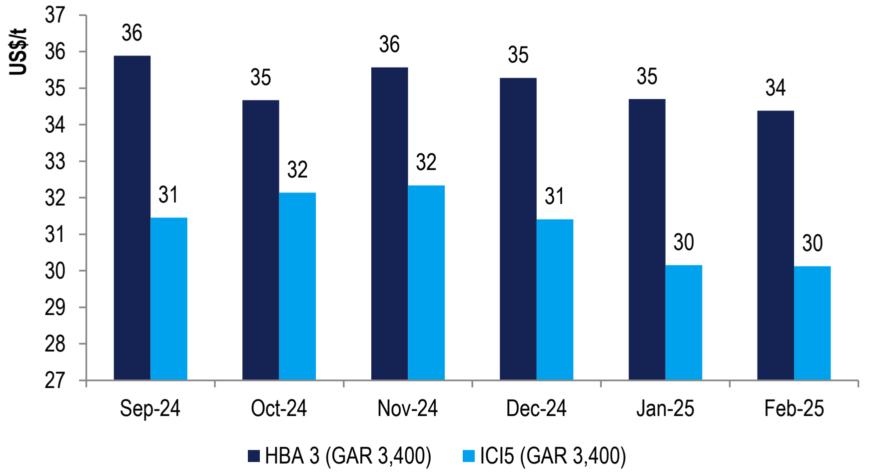
### Maintain our Neutral stance as we await implementation

Overall, we think MEMR plan in releasing HBA price on bi-weekly is a positive for the sector as it better reflects spot market condition & royalties that are paid to the government. However, enforcing HPB/HBA as a floor price could raise concern on competitiveness of Indonesian coal in the future, especially during price down-cycle. Maintain our Neutral rating on the sector amid limited catalyst for a sustained rally, although downside risk to appears limited. Our preference: AADI>UNTR>PTBA>ITMG.

**Reggie Parengkuan**
PT Indo Premier Sekuritas
reggie.parengkuan@ipc.co.id
+62 21 5088 7168 ext.714

**Ryan Winipta**
PT Indo Premier Sekuritas
ryan.winipta@ipc.co.id
+62 21 5088 7168 ext.718

**Fig. 1: HBA3 vs. ICI5**




*Source: Bloomberg, Indo Premier*

**Fig. 2: Bi-weekly HBA simulation**

| Month | Week | Realized price (US$/t) |
|---|---|---|
| December (M-2) | 1 | 120 |
| | 2 | 120 |
| | 3 | 120 |
| | 4 | 120 |
| January (M-1) | 1 | 110 |
| | 2 | 110 |
| | 3 | 110 |
| | 4 | 110 |
| February (M+0) | 1 | 100 |
| | 2 | 100 |
| | 3 | 100 |
| | 4 | 100 |

| HBA | New |
|---|---|
| 1 January | 116.5 |
| 15 January | 111.5 |
| 1 February | 106.5 |
| 15 February | 101.5 |

| HBA | Old |
|---|---|
| 20 January | 111.5 |
| 20 February | 101.5 |

*Source: Bloomberg, Indo Premier*

**Fig. 3: Energy peers comparison**

| Ticker | Company | Rating | Target price (Rp/share) | P/E | | | EV/EBITDA | | | Dividend yield (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 24F | 25F | 26F | 24F | 25F | 26F | 24F | 25F | 26F |
| AADI IJ | Adaro Andalan Indonesia | Buy | 12,000 | 3.6 | 4.6 | 5.0 | 3.5 | 3.7 | 3.4 | 65.3% | 9.7% | 9.0% |
| ITMG IJ | Indo Tambangraya Megah | Hold | 22,000 | 4.5 | 6.2 | 12.6 | 2.0 | 2.4 | 4.8 | 18.7% | 14.3% | 10.5% |
| PTBA IJ | Bukit Asam | Hold | 2,900 | 6.6 | 6.2 | 5.2 | 4.0 | 3.7 | 3.2 | 15.2% | 11.3% | 12.0% |
| UNTR IJ | United Tractors | Buy | 33,000 | 4.9 | 4.8 | 4.7 | 2.3 | 2.0 | 1.7 | 9.3% | 8.7% | 8.9% |

*Source: Bloomberg, Company data, 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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