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Premier Insight

15 August 2017

Indo Tambang (ITMG IJ; Hold)

Weak volume

- **Earnings in 1H17 are in-line; we expect lower performance in 2H17.**
- **Weak volumes in 2Q17 as rainfall remained high.**
- **We expect SR to increase in 2H17 resulting in lower margins.**
- **Maintain Hold rating with unchanged TP.**

In-line 1H17 results. ITMG recorded 2Q17 net profit of $48.1mn, down 16% qoq but jumped 258% yoy, allowing 1H17 bottom-line to reach $105mn (+189% yoy), accounting for 49% of consensus FY17F earnings forecast and represent 56% of ours. We view ITMG’s 1H17 earnings as in-line with our forecast despite higher than expected ASP of US$68.4 per ton (4% above our FY17F estimate of $65.7/ton), as we forecast ITMG’s mining costs to increase in 2H17 due to higher stripping ratio (SR) while we also believe coal price will correct in the period.

Low production in 2Q17. ITMG booked 2Q17 production volumes of 5.1mn tons, down 6% qoq and 30% yoy, bringing 1H17 coal production to 10.4mn tons, down 18% yoy, accounting for only 42% of our FY17F coal production forecast of 24.9mn tons. These were likely caused by high rainfall in the period. We note that precipitation was high in April and May while rainfall in June was the highest in 1H17. However, we expect drier weather in 2H17, which confirmed by decreasing precipitation in July, the driest month so far this year. Thus, we maintain our FY17F coal production volume estimate.

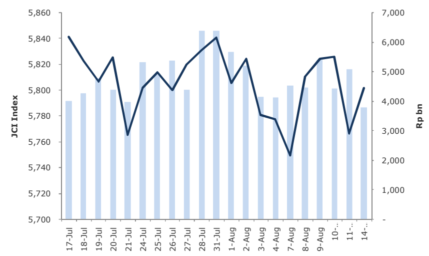
SR to increase further, margin to decrease. ITMG recorded 1H17 SR of 9.7x increased 16% yoy but remained lower than our forecast of 10.5x for FY17F. At this stage, we maintained our SR estimate as we believe ITMG will remove more over burden in 2H17 to improve its coal reserves which will also helped by favorable drier weather in the period. Thus, with our estimate of lower coal price in 2H17 and higher costs, we believe ITMG’s margins in 2H17 will be lower compared to the margins recorded in 1H17. Please note that despite ASP increased to $68.5/ton (+1% qoq) and sales volumes reached 5.5mn tons (+2% qoq) in 2Q17, EBIT margin decreased to 18.5% (from 24.2% in 1Q17) as SR increased to 10.1x (from 9.4x).

Maintain Hold rating. We expect higher coal production volumes in 2H17 and higher SR in the period on the back of drier weather. However, we maintain our ASP forecast for ITMG of $65.7 per ton in FY17F vs. $68.4 per ton recorded in 1H17 as we believe in 2H17, coal price to correct from the current level. We maintain our Hold rating for ITMG with unchanged DCF-based (WACC: 12.7%, TG: 1.5%) target price of Rp17,000.

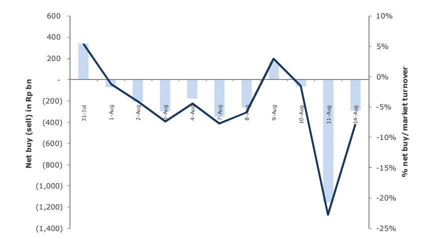
Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (US$Mn)	1,589	1,367	1,702	1,562	1,603
EBITDA (US$Mn)	263	278	376	266	292
EBITDA Growth (%)	(13.0)	5.4	35.3	(29.3)	9.9
Net Profit (US$Mn)	63	131	189	112	124
EPS (US$Cents)	5.6	11.6	16.7	9.9	11.0
EPS Growth (%)	(68.6)	107.1	44.8	(40.7)	10.8
Net Gearing (%)	(32.1)	(36.2)	(20.7)	(19.7)	(17.7)
PER (x)	26.8	12.9	8.9	15.0	13.6
PBV (x)	2.0	1.9	1.7	1.8	1.7
Dividend Yield (%)	6.8	3.6	6.2	9.0	5.3
EV/EBITDA (x)	5.4	4.9	3.9	5.6	5.2

Source: ITMG, IndoPremier *Share Price Closing as of : 14 August 2017*

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,801	0.6%	9.0%	9.5%
LQ45	963	0.7%	5.5%	8.8%
DJI	21,994	0.6%	18.0%	11.3%
SET	1,561	-0.7%	0.6%	1.2%
HSI	27,250	1.4%	18.8%	23.9%
NKY	19,537	-1.0%	15.8%	3.5%
FTSE	7,354	0.6%	5.9%	3.0%
FSSTI	3,322	0.4%	15.9%	15.3%
EIDO	27	0.6%	2.6%	11.1%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	47.6	-2.5%	7.0%
CPO/tonne	620.4	-0.6%	5.5%
Soy/bushel	9.2	-0.7%	-8.2%
Rubber/kg	1.9	-0.8%	2.6%
Nickel/tonne	10,407	-2.0%	1.4%
Tins/tonne	20,460	0.2%	12.5%
Copper/tonne	6,368	-0.2%	34.1%
Gold/try.oz (Spot)	1,282	-0.6%	-4.3%
Coal/tonne	95.5	-0.4%	39.8%
Corn/bushel	3.4	0.3%	9.5%
Wheat/bushel*	146.5	5.8%	-7.0%

** : 1 month change*

Source : Bloomberg

Refer to Important disclosures in the last page of this report

Economic Update

A healthy overall posture

- **Continued resilience in 2Q17's external balance with US$0.74bn BOP surplus**
- **We think BoP had a healthy improvement, despite less surplus**
- **CA deficit was 1.96% of GDP supported by better trade**
- **Evident steady upkeep in the service CA, thanks to travel**

BOP surplus. The launch of balance of payment data late last week was another reading of a continued chapter of less external risk in Indonesia, in our view. Balance of payment was registering US$0.74bn surplus, where it was driven by mostly, a positive movement in the capital and financial account, which saw US$5.9bn surplus (vs US$6.8bn in 2016). With the updated information, we continue to believe that the country has maintained resilience, as is seen in the narrowing current account deficit (1.96% of GDP) and also in lower foreign short-term debt position in comparison to both the GDP and foreign reserves. Recently-circulated issue, where the government's plan to increase debt gain negative attention, should appeal with lesser basis of argument as the momentum is indeed supportive to undertake more leverage, albeit with caution. To note, foreign debt was 34.2% of GDP and 272% of reserve in 2Q17 (vs 37% and 297%, respectively, in 2016).

Healthy improvement. We observe some healthy improvements were taking place in the quarter's BoP despite recording lower surplus. Although the lower BoP (overall) surplus might at a glance suggest some deterioration was underway, we believe the evidence should appeal otherwise. Cases in discussion include ones in trade balance, both for goods and services, as well as steep increase in foreign direct investment (+37% yoy). Where primary income experienced wider deficit, we look at a more important support in which primary income receipt grew by 75% yoy (vs payment which grew by only 16% yoy). And where portfolio investment was lower than last year, we took into account the capital inflow throughout the whole semester (1H17), where in sovereign bond and equity markets some Rp122tn of foreign fund was recorded to enter our market, or 24% of increase than last year's position. Nonetheless, we believe next quarter's portfolio investment would remain lower than 2016 on the fact that investors were buying in the promise of tax amnesty last year, which triggered hefty inflow in 3Q16.

Narrowing CA deficit. Current account deficit had also narrowed to record US$4.96bn (1.96% of GDP vs 2.25% in 2Q16) as it gained from better trade this year with rising prices notably in the non-oil and gas segment. Goods trade balance was improving by 28% yoy mostly supported by coal, CPO, petrochemicals, and rubber. Pricings for all our main export commodities showed increase from what we consider the trade trough, happening in 2016. We expect trade to continue improvement and should cushion the many imports invited as the effort to procure infrastructure continues.

Travel service delivered. We also observe there had been a steady improvement in the service trade within the last three years driven by travel service whose increase was 39% yoy (solely for 2Q17, apparent increase was seen in both travel and construction services). Far from attention, travel was among the sector that made steady surplus contribution to the trade balance. We like the intensification of travel promotion nowadays which had boosted number of tourists by 16% to 3 million in the 2Q as it would help the service trade to better perform in coming periods.

News & Analysis

Corporates

SMGR: Semen Indonesia (SMGR IJ, Rp 10,975 ; Hold)reported cement sales of 2.5mn tons (+35.3% mom, +53.1% yoy) in Jul17, with good rebound after the Eid holidays. Cumulatively, sales volume grew +9.2% to 15.3mn tons in 7M17, which faster than the average industry of +4.6%. Based on Jun-Jul17 period, to eliminate the seasonality impact, Semen Indonesia's volume was up +10.3% yoy, mainly supported by export that five folded 500k tons, with flat domestic shipment. Domestic ASP has begun to plateau at Rp733k per tons. Nevertheless this was 4.5% down from ASP in Jan17, leaving profitability continue at risk. We maintain our Hold call on the counter.

JSMR: Jasa Marga (JSMR IJ; Rp 5,450; Buy), will issue asset securitization of Rp2tn from the Jagorawi toll road. The company got approval from OJK, but has yet to decide on the definite issuance time. The proceeds will be used to finance part of the Rp31tn capex to develop new toll roads. Jasa Marga will also issue bonds of USD200-300mn or equivalent to Rp4tn. (Investor Daily)

Comment: These corporate actions will be positive for new toll road development. Nevertheless, this also will mean lesser cash flow allocation for minority shareholders for the next 3-4 years as some operating cash flow will be allocated to serve interest and debt.

Markets & Sector

Warehouse sector: Despite Indonesia's slow economic growth in the first quarter, some companies are still expanding their warehouse business. The booming of e-commerce business help the demand of warehouse/logistic continue to skyrocket. Jababeka's (KIJA IJ; Rp 316; Not Rated) will launch 20 units of warehouse in August. Intiland (DILD IJ; Rp 400; Not Rated) is in the process of completion of 440 unit warehouse in 35ha area. Surya Semesta Internusa (SSIA IJ; Rp 680; Not Rated) will finish constructing 2 warehouse in Makassar and Balik Papan, while Ciputra (CTRA IJ; Rp 1,165; Not Rated) will develop 600 unit of warehouse in 40ha are. (Kontan)

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INVESTMENT RATINGS

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

ANALYSTS CERTIFICATION.

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