

Indo Tambang (ITMG IJ)

14 August 2018

Results Note

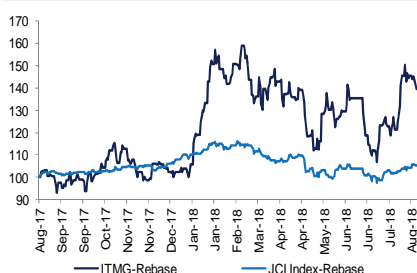
BUY (Unchanged)

Stock Data

Target price (Rp)	Rp29,000
Prior TP (Rp)	Rp29,000
Shareprice (Rp)	Rp25,900
Upside/downside (%)	+12.0
Sharesoutstanding (m)	1,130
Marketcap. (US\$ m)	2,003
Free float (%)	28.8
Avg. 6m dailyT/O (US\$ m)	3.2

Price Performance

	3M	6M	12M
Absolute (%)	-1.8	-13.9	25.9
Relative to JCI (%)	-2.6	-2.8	26.4
52w high/low (Rp)	31,700 - 18,550		



Major Shareholders

Banpu Public Co. Ltd.	65.1%
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Estimate Change; Vs. Consensus

	2018F	2019F
Latest EPS (USD ¢)	20.4	18.3
Vs. Prior EPS (%)	0.0	0.0
Vs. Consensus (%)	(17.2)	(26.3)

Source: Bloomberg

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Potential recovery in 2H18

- Earnings below expectation on coal swap and forex losses.
- Margin in 1H18 dropped due to higher stripping ratio and opex.
- Mining life expanded to 11.5 years as coal reserves improved.
- Maintain Buy rating with unchanged TP of Rp29,000.

Weak results on coal swap and forex losses. ITMG recorded weak results in 2Q18 with earnings dropped 23% qoq and 6.8% yoy to US\$44.8mn, allowing net profit to reach US\$103mn in 1H18, down 2.2% yoy and came below expectation, forming only 37% and 45% of consensus' and our forecasts for FY18F. Weak earnings in 1H18 were mostly caused by lower coal sales volumes of 12% yoy and losses from coal swaps and forex of US\$15.6mn. Operating profit reached US\$78.9mn in 2Q18, down 10% qoq but up 12% yoy, bringing operating profit to US\$167mn in 1H18, up 4.3% yoy but came below consensus (42%) and our (46%) forecast for FY18F.

Margin decreased as stripping ratio and opex increased. ITMG recorded lower margin in 1H18 despite coal ASP increased by 18% yoy as blended stripping ratio increased to 11.4x (from 10.1x in 1H17). Higher opex in 1H18 (+12%) also contributed to lower operating margin of 20.6%, from 21.3% recorded in 1H17. Nonetheless, lower precipitation in 2H18 will benefit ITMG, in our view. We expect operational improvement and margin expansion in 2H18 as rainfall dropped significantly in Jul'19 (Fig. 2).

Coal reserves improved as price increased. ITMG recorded higher coal reserves of 255mn tons (Fig. 5) as the company booked an additional 77mn tons of coal reserves on the back of higher coal price and additional exploration activities. The company is committed to further improve coal reserves through additional exploration activities, optimize costs efficiency and raise stripping ratio as evident in 1H18. With our flat annual production volumes forecasts of ~22mn tons, ITMG's mine life improved to 11.5 years.

Maintain Buy rating as performance in 2H18 would improve. Despite weak results in 1H18, we maintain our forecast for FY18F as we expect operational improvement and better margin in 2H18 on the back of favorable weather as Indonesia is entering dry season, which expected to be the hottest season in more than three years. At this stage, we maintain our Buy recommendation on ITMG with 12% potential upside to our DCF-based (WACC: 12.7%, TG: 1.5%) target price of Rp29,000. Our TP implies FY18F-19F P/E of 10.5x-11.7x, respectively.

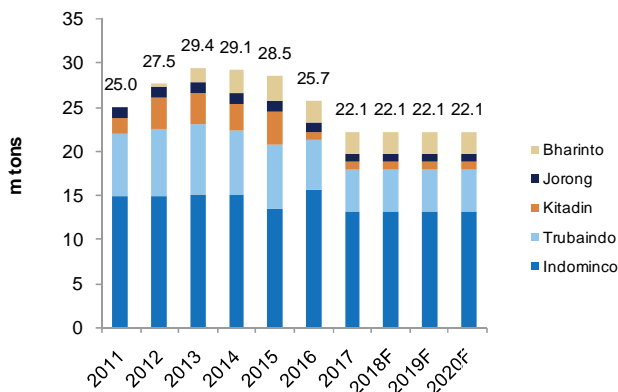
Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (US\$Mn)	1,367	1,690	1,752	1,717	1,779
EBITDA (US\$Mn)	278	448	430	401	418
EBITDA Growth (%)	5.4	61.1	(3.8)	(6.8)	4.1
Net Profit (US\$Mn)	131	253	231	207	213
EPS (US\$Cents)	11.6	22.4	20.4	18.3	18.8
EPS Growth (%)	107.1	93.3	(8.7)	(10.4)	3.0
Net Gearing (%)	(36.2)	(39.1)	(16.6)	(16.9)	(16.1)
PER (x)	15.3	7.9	8.7	9.7	9.4
PBV (x)	2.2	2.1	2.0	2.0	1.9
Dividend Yield (%)	3.0	9.9	10.1	9.2	8.3
EV/EBITDA (x)	6.0	3.6	4.3	4.6	4.4

Source: ITMG, IndoPremier

Share Price Closing as of : 14 August 2018

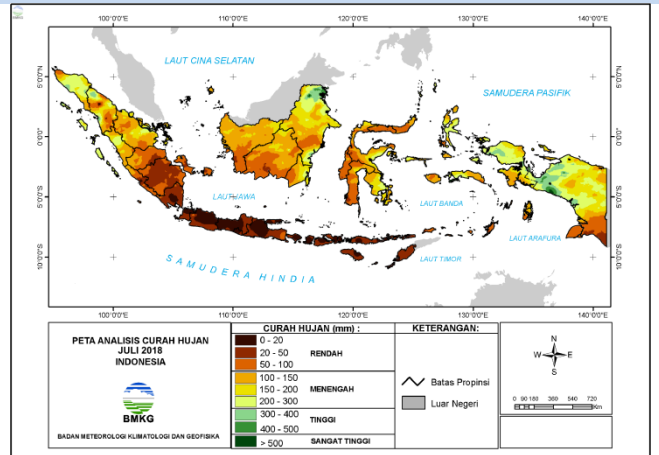
ITMG Results Note

Fig. 1: Production volumes



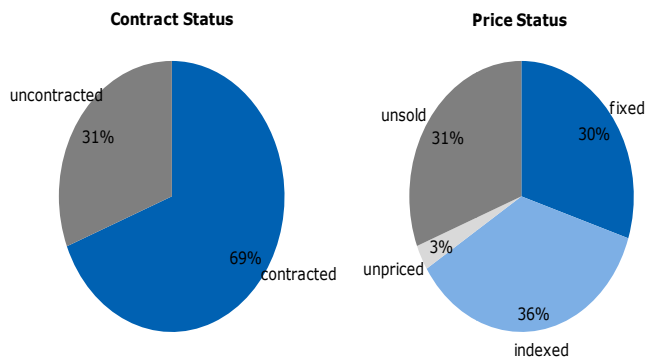
Source: ITMG, IndoPremier

Fig. 2: Rainfall in Jul'19



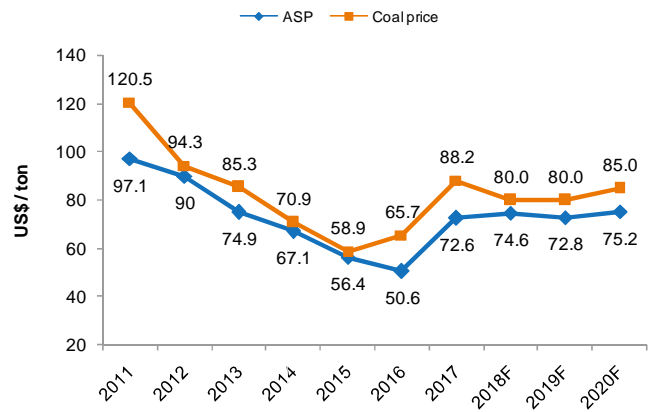
Source: BMKG

Fig. 3: 2018 price and contract status as of March 2018



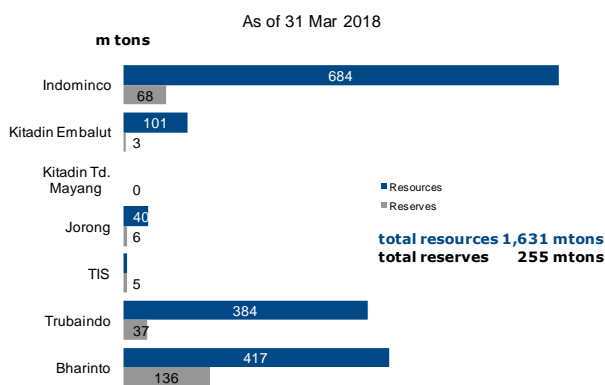
Source: ITMG

Fig. 4: ASP and coal price



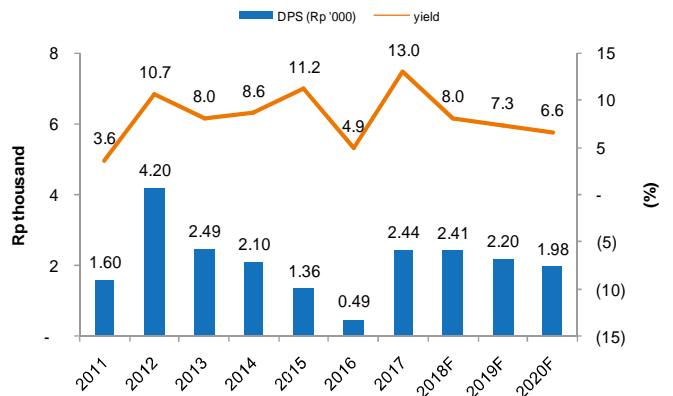
Source: ITMG, Bloomberg, IndoPremier

Fig. 5: Coal resources and reserves



Source: ITMG

Fig. 6: Dividend yield



Source: ITMG, Bloomberg, IndoPremier

ITMG Results Note

Fig. 7: 2Q18 results summary

(US\$ mn)	1H18	1H17	% Y-Y	2Q18	% Q-Q	% Y-Y	vs. cons.	vs. ours
Sales	808.9	748.8	8.0	430.6	13.9	13.1	44.4	46.2
COGS	583.2	536.2	8.7	316.0	18.3	11.5		
Gross profit	225.7	212.5	6.2	114.7	3.3	17.5	41.2	46.7
Total opex	59.2	52.9	12.0	35.8	53.5	32.3		
Selling expenses	46.6	41.0	13.6	29.0	65.4	38.9		
G&A expenses	12.6	11.8	6.4	6.8	17.3	9.9		
Operating profit	166.6	159.7	4.3	78.9	(10.1)	11.8	41.5	46.0
Non opr. inc. (exp.)	(19.2)	(0.6)	nm	(14.0)	nm	nm		
Pretax income	147.4	159.1	(7.3)	64.8	(21.5)	(8.4)	37.1	44.6
Tax	44.9	53.8	(16.6)	20.4	(16.7)	(9.9)		
Net Income	103.0	105.3	(2.2)	44.8	(22.9)	(6.8)	36.9	44.6
	1H18	1H17		2Q18				
GPM (%)	27.9	28.4		26.6				
OPM (%)	20.6	21.3		18.3				
Pretax mgn (%)	18.2	21.2		15.1				
NPM (%)	12.7	14.1		10.4				
Coal prod vol (m tons)	9.3	10.1	(7.9)	5.2	26.8	4.0		42.1
Coal sales vol (m tons)	9.6	10.9	(11.9)	5.3	20.5	(3.6)		40.9
Coal ASP (\$/t)	80.9	68.4	18.3	78.3	(6.3)	14.3		108.5

Source: ITMG, IndoPremier

ITMG Results Note

Year To 31 Dec (US\$Mn)	2016A	2017A	2018F	2019F	2020F
Income Statement					
Net Revenue	1,367	1,690	1,752	1,717	1,779
Cost of Sales	(1,037)	(1,184)	(1,269)	(1,271)	(1,319)
Gross Profit	331	505	483	446	460
SG&A Expenses	(122)	(117)	(122)	(119)	(124)
Operating Profit	209	388	362	327	337
Net Interest	1	3	0	0	0
Forex Gain (Loss)	(4)	0	(2)	(2)	(2)
Others-Net	(14)	(28)	(29)	(29)	(30)
Pre-Tax Income	192	362	330	296	305
Income Tax	(61)	(109)	(100)	(89)	(92)
Minorities	0	0	0	0	0
Net Income	131	253	231	207	213
Balance Sheet					
Cash & Equivalent	328	374	165	171	171
Receivable	132	195	169	165	171
Inventory	62	109	120	120	125
Other Current Assets	17	119	22	22	22
Total Current Assets	539	797	476	478	490
Fixed Assets - Net	240	239	262	287	315
Goodwill	0	0	0	0	0
Non Current Assets	430	323	552	540	560
Total Assets	1,210	1,359	1,289	1,306	1,364
ST Loans	0	0	0	0	0
Payable	211	270	0	195	202
Other Payables	28	58	36	35	37
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	239	328	230	230	238
Long Term Loans	0	0	0	0	0
Other LT Liab.	64	73	66	64	67
Total Liabilities	302	401	296	294	305
Equity	375	373	380	376	376
Retained Earnings	533	585	613	635	683
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	907	958	993	1,011	1,059
Total Liabilities & Equity	1,210	1,359	1,289	1,306	1,364

Source: ITMG, IndoPremier

ITMG Results Note

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	131	253	231	207	213
Depr. & Amortization	69	59	69	75	81
Changes in Working Capital	72	169	(224)	3	3
Others	(127)	(162)	19	15	(13)
Cash Flow From Operating	145	319	94	299	283
Capital Expenditure	(20)	(49)	(77)	(85)	(94)
Others	(5)	(25)	(24)	(23)	(24)
Cash Flow From Investing	(25)	(74)	(101)	(108)	(118)
Loans	0	0	0	0	0
Equity	0	0	0	0	0
Dividends	(61)	(199)	(202)	(185)	(165)
Others	0	0	0	0	0
Cash Flow From Financing	(61)	(199)	(202)	(185)	(165)
Changes in Cash	60	46	(209)	6	0
Financial Ratios					
Gross Margin (%)	24.2	29.9	27.6	26.0	25.9
Operating Margin (%)	15.3	23.0	20.6	19.0	18.9
Pre-Tax Margin (%)	14.0	21.4	18.9	17.2	17.1
Net Margin (%)	9.6	15.0	13.2	12.0	12.0
ROA (%)	10.9	19.7	17.4	15.9	15.9
ROE (%)	15.0	27.1	23.6	20.6	20.6
ROIC (%)	15.3	27.4	23.8	20.8	20.7
Acct. Receivables TO (days)	31.6	32.6	35.1	33.8	32.8
Acct. Receivables - Other TO (days)	1.8	2.7	2.8	1.7	1.7
Inventory TO (days)	11.6	13.9	11.1	10.6	10.8
Payable TO (days)	81.5	74.2	66.8	55.8	54.8
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	0.0	0.0	0.0	0.0	0.0
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	(36.2)	(39.1)	(16.6)	(16.9)	(16.1)

Source: ITMG, IndoPremier

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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.

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