

## Indonesia Coal

**Neutral** (Maintained)

### KTAs From Conference Calls With ADMR And ITMG

- **Still NEUTRAL; Top Pick: Adaro Energy (ADRO).** Based on our conference calls with ADRO and Indo Tambangraya (ITMG), the companies' operations should remain stable – this should help secure output levels and minimise the shock from normalising coal prices. Both companies believe benchmark prices will remain at manageable levels (Newcastle: USD120-140/tonne). While it is unlikely that prices will return to levels seen over the past two years, most coal players remain fundamentally strong (net cash balance sheets), and are still rewarding investors (upcoming interim dividends in 2H).
- **Adaro Minerals (ADMR IJ, NR) to support ADRO.** ADRO still aims to achieve 67m tonnes (+2% YoY) in sales volumes, with ADMR's metallurgical coal (metcoal) accounting for 5.3m tonnes (+18% YoY). Management expects the impact of the approved national coal production quotas (RKAB; c.900m tonne ceiling production) to be reflected in higher output next year (also depending on the price situation), and there are no upward/downward revisions in ADRO and ADMR's FY24F production levels. ADMR still aims for c.6m tonnes of production from 2025 onwards, while keeping a favourable stripping ratio (SR) of c.4x (owing to its one-of-a-kind geological advantage). However, the increase depends on its efforts to boost transportation capacity (via rivers and hauling roads). Due to the bottleneck, ADMR has not considered larger long-term contracts for metcoal. Most of its selling prices are pegged to spot prices, which means there is a minimal lag between ASP realisation to benchmark prices (about two weeks, compared to thermal coal, which takes 1-2 months to be reflected in its earnings).
- **ITMG: Fair dividends.** Management still expects a gradual increase in quarterly production until the end of the year (FY24F: 20m tonnes; +18% YoY). Costs incurred are expected to be more efficient, as pre-stripping activities were carried out last year (SR maintained at c.10x). Management has factored in the potential impact of *La Nina* in this year's volume target. ITMG's latest concession, Graha Panca Karsa (GPK; 3,900 kcal/kg), is expected to generate c.1m tonnes this year while Tepian Indah Sukses (TIS, a small concession adjacent to Trubaindo; 6,400 kcal/kg) will add 0.5m tonnes. ITMG will continue to trade with third parties to support the fulfilment of its clients' contracts. It will rely on existing reserves for future production and reach peak output by 2030-2035 before gradually moving into minerals and renewables (no further acquisitions of coal concessions). Management said interim dividends (typically distributed in August-September) could have potential yields of c.15% (based on ITMG's last closing price; DPR at 60-70%).
- **Short-term trading opportunities based on seasonal patterns.** Although a re-rating to current valuations (the industry is trading below the 5-year mean level at c.6x) remains limited by minimal earnings growth (due to the 2-year high-base effect), sentiment from coal prices – which are still relatively stable (within our FY24F average target of USD135/tonne) – provides fair potential from a fundamental perspective, with competitive margins to provide steady cash flow. We reiterate our NEUTRAL view on the sector for now, while awaiting: i) Earnings surprises from higher-than-expected volumes and better margins, and ii) improved demand for seaborne coal in regular markets.

Stocks Covered	4
Rating (Buy/Neutral/Sell):	3 / 0 / 1
Last 12m Earnings Revision Trend:	Neutral

<b>Top Picks</b>	<b>Target Price</b>
Adaro Energy (ADRO IJ)	IDR3,200

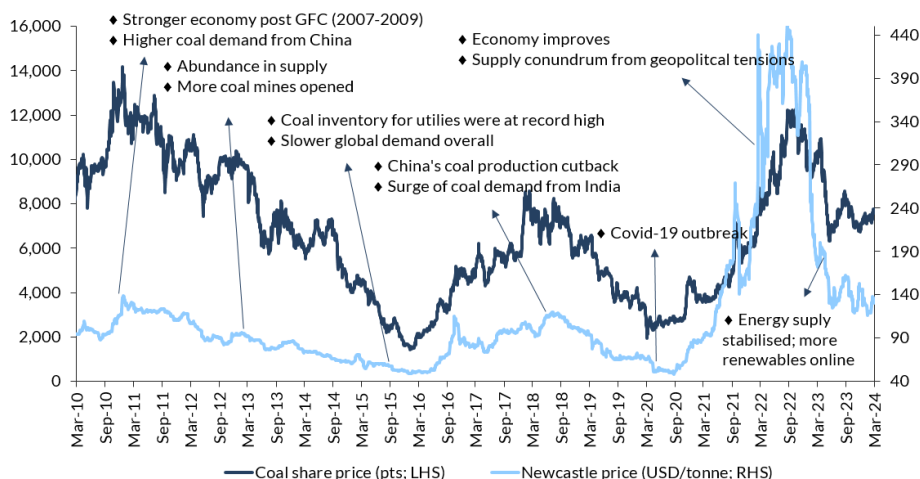
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Company Name	Rating	Target (IDR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Adaro Energy	Trading Buy	3,200	17.2	4.5	0.7	16.6	15.4
Bukit Asam	Sell	2,300	(5.0)	6.4	1.3	20.3	11.7
Indo Tambangraya	Trading Buy	27,500	13.4	4.4	0.8	19.6	16.5
United Tractors	Buy	28,000	29.5	5.3	1.0	19.4	7.4

Source: Company data, RHB

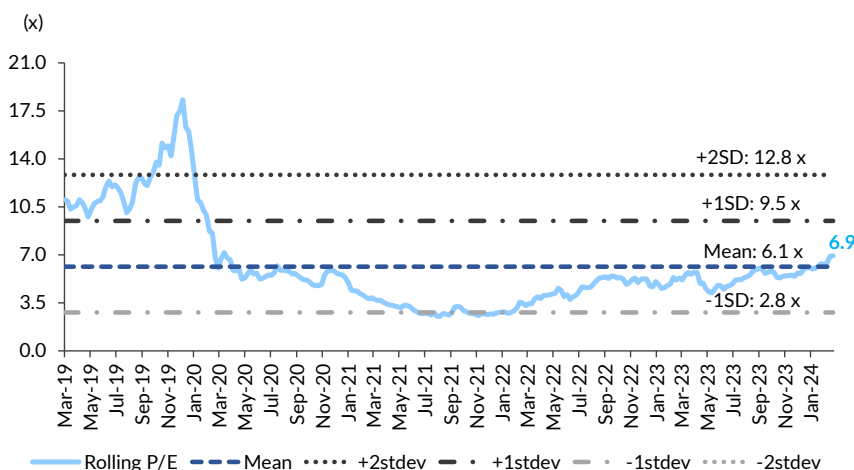
Figure 1: Historical correlation between coal prices and share price performance



Source: Bloomberg, RHB

- ◆ The last few coal price cycles happened in 5-7-year spans from highs to lows – this correlation was reflected in the movement of share prices as well
- ◆ For now, we could be witnessing a drawback from a one-of-a-kind hyperinflation back in 2022 (from geopolitical tensions and strong post-pandemic demand), and a downward trajectory is expected from this point
- ◆ The price is still at high levels compared to previous uptrends (above c.USD100/tonne)

Figure 2: Coal sector P/E trend



Note: Weighted average from ADRO, Bukit Asam, ITMG, and United Tractors  
Source: Bloomberg, RHB

- ◆ Most of the coal counters under our coverage now have limited upside, although the seasonal movement of coal prices provides a reason for tactical trading, albeit in the short term
- ◆ Earnings growth still faces the risk of further downtrends in coal prices this year, mainly due to normalising inventory levels in the utilities sector
- ◆ We remain cautious of uncertainties in the commodity's outlook going forward

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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<b>Not Rated:</b>	Stock is not within regular research coverage

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