

11 October 2021

Basic Materials | Mining

Indo Tambangraya (ITMG IJ)

Neutral (from Buy)

Buyers Beware! D/G To NEUTRAL from Buy

Target Price (Return): IDR26,000 (4.6%)
 Price (Market Cap): IDR24,850 (USD1,974m)
 ESG score: 2.80 (out of 4)
 Avg Daily Turnover (IDR/USD) 75,290m/5.26m

- D/G NEUTRAL from Buy, new IDR26,000 TP from IDR23,000, c.5% upside with c.13% FY22F yield.** We input our latest revision on Indo Tambangraya's FY22F-23F earnings at +42% and 36%, given strong coal price trends (FY21F ASP: USD74.70/tonne; +42% YoY) underpinning overall profitability. However, the significant share price increase means the stock trades close to its 5-year rolling forward P/E mean. Our valuation de-rating – at 8.6x from 10.7x – reflects our views on global commodities volatilities and ESG-related risks.
- 3Q21 earnings preview.** We expect a better bottomline achievement in 2H at c.USD139m (1H: USD118m). This is also line with seasonality patterns on ITMG's coal production, which has remained on track so far (c.53% of full-year realisation during 2H in the last five years). This is also coupled by better expectations on coal selling prices (YTD Newcastle Coal futures average: USD111.00/tonne; +85% YoY). Hence, our guidance for 3Q earnings being achieved at c.USD77m (+3% QoQ, +660% YoY) is more than feasible.
- A positive earnings outlook is expected,** but it might already have been priced in, given the share price thrust – it jumped 47% since our [3 Sep report](#). This was propelled by a sky-rocketing coal price benchmark (Newcastle Coal futures hit an all-time-high record breach at USD269.50/tonne in early October) thanks to unstable coal shortage supply issues, ie a prolonged electricity crunch in China and Europe. At this stage, we see the time period for ITMG to catch up with its fair value has come earlier than expected, as its current c.8x P/E closely reflects its fundamentals from an earnings perspective (FY21F EPS in IDR terms: +570% YoY). Hence, buyers beware!
- However, more constructive sentiment awaits** from fair production growth (FY22F coal output: +7% YoY) ahead of the opening of a new mine, ie Graha Panca Karsa or GPK with c.117m tonnes of potential low-calorific coal resources. Moreover, ITMG's export orientation (c.81% to total coal sales) should enable it to capitalise on offshore demand (mostly from China) and improve its selling price mix ahead. The company also offers a handsome dividend yield about c.10%. These factors remain as the upside for ITMG in the long term. On the downside, there are risks from: i) Weakening ASPs (FY22F: -5% YoY) on normalised demand post the winter season in early 2Q22 that might partially soften coal prices, ii) slower economic growth (unexpected risks from the pandemic situation), iii) disruptions from more economically viable renewable energy that supplants coal demand, iv) selective investment sentiment (eg foreign ownership dropped to c.45% from c.68% over the last five years), and v) limited funding options (ESG-related restrictions). These will remain the challenges, in our view.

Analysts

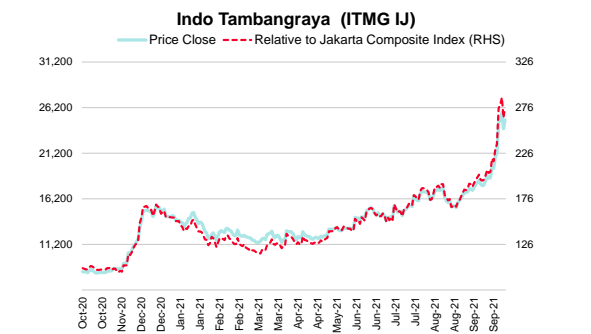
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	79.4	43.6	68.5	97.6	205.8
Relative	71.0	36.0	61.2	90.8	177.2
52-wk Price low/high (IDR)				8,050	– 25,650



Source: Bloomberg

Overall ESG Score: 2.80 (out of 4)

E: MODERATE

For its effort to lower greenhouse gas emissions (FY20: 1.7m tonnes CO2 equivalent, -15% YoY), ITMG beat 32 other leading companies to land the 2021 Emission Awards for managing and reducing carbon emissions. The company is also involved in renewable energy, ie solar power plant projects in Bontang.

S: GOOD

ITMG provided donations and health/logistics support during the pandemic and floods in South Kalimantan. The company is also active in environmental programmes for the community, such as the Rehabilitation of Watershed Area or DAS, for which it received TOP CSR Awards in 2021.

G: GOOD

ITMG has implemented an enterprise risk management system in accordance with the ISO 31000:2018 framework. The company also actively pushes for the internalisation of its code of conduct to both internal and external parties.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (USDm)	1,716	1,185	1,800	1,739	1,484
Recurring net profit (USDm)	129	56	272	248	182
Recurring net profit growth (%)	(58.4)	(56.9)	389.5	(8.9)	(26.6)
Recurring P/E (x)	14.85	34.48	7.04	7.73	10.53
P/B (x)	2.2	2.2	1.8	1.9	2.0
P/CF (x)	11.99	7.64	6.94	5.33	7.64
Dividend Yield (%)	11.2	5.1	3.3	12.7	11.4
EV/EBITDA (x)	7.01	8.97	3.54	3.79	4.85
Return on average equity (%)	13.9	4.5	27.2	22.4	16.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Indonesia	Recurring EPS	0.12	0.05	0.25	0.23	0.17
Basic Materials	DPS	0.20	0.09	0.06	0.22	0.20
Indo Tambangraya	BVPS	0.81	0.78	0.95	0.93	0.89
ITMG IJ	Return on average equity (%)	13.9	4.5	27.2	22.4	16.9
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	14.85	34.48	7.04	7.73	10.53
	P/B (x)	2.2	2.2	1.8	1.9	2.0
	FCF Yield (%)	6.0	12.2	13.3	17.7	12.0
	Dividend Yield (%)	11.2	5.1	3.3	12.7	11.4
	EV/EBITDA (x)	7.01	8.97	3.54	3.79	4.85
	EV/EBIT (x)	9.70	16.13	4.10	4.51	6.16
	Income statement (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	1,716	1,185	1,800	1,739	1,484
	Gross profit	327	199	490	424	327
	EBITDA	250	187	478	417	323
	Depreciation and amortisation	(69)	(83)	(65)	(67)	(69)
	Operating profit	181	104	413	350	255
	Net interest	5	(0)	(0)	(0)	1
	Pre-tax profit	186	73	391	325	237
	Taxation	(59)	(35)	(137)	(98)	(71)
	Reported net profit	129	39	257	230	169
	Recurring net profit	129	56	272	248	182
	Cash flow (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(59)	108	(84)	29	(16)
	Cash flow from operations	160	251	276	359	251
	Capex	(45)	(17)	(20)	(20)	(20)
	Cash flow from investing activities	(45)	(17)	(20)	(20)	(20)
	Dividends paid	(214)	(97)	(62)	(244)	(219)
	Cash flow from financing activities	(215)	(78)	(77)	(247)	(222)
	Cash at beginning of period	368	159	231	211	321
	Net change in cash	(100)	156	178	92	9
	Ending balance cash	159	231	211	321	332
	Balance sheet (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	159	231	211	321	332
	Tangible fixed assets	223	196	172	147	120
	Total assets	1,205	1,156	1,397	1,376	1,290
	Total liabilities	325	276	337	333	300
	Total equity	880	880	1,060	1,043	990
	Total liabilities & equity	1,205	1,156	1,397	1,376	1,290
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(14.5)	(30.9)	51.9	(3.4)	(14.7)
	Recurrent EPS growth (%)	(58.4)	(56.9)	389.5	(8.9)	(26.6)
	Gross margin (%)	19.0	16.8	27.2	24.4	22.0
	Operating EBITDA margin (%)	14.6	15.8	26.6	24.0	21.8
	Net profit margin (%)	7.5	3.3	14.3	13.2	11.4
	Dividend payout ratio (%)	165.4	245.9	24.3	106.0	129.8
	Capex/sales (%)	2.6	1.4	1.1	1.2	1.4
	Interest cover (x)	121	30	119	101	73

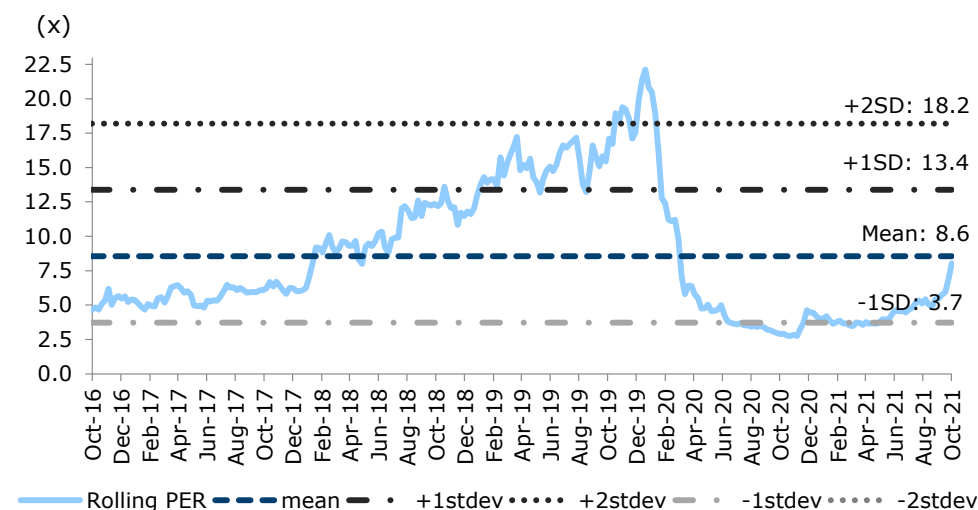
Source: Company data, RHB

Figure 1: RHB vs Street estimates

(USDm)	RHB (new)			RHB (old)			Change			Street			RHB vs Street		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Revenue	1,800	1,739	1,484	1,721	1,649	1,631	4.6%	5.5%	-9.0%	1,748	1,718	1,633	3.0%	1.2%	-9.1%
Gross profit	490	424	327	404	350	338	21.4%	20.9%	-3.5%	505	437	386	-2.8%	-3.0%	-15.2%
Operating profit	413	350	255	298	237	215	38.9%	47.7%	18.6%	420	381	276	-1.5%	-8.0%	-7.7%
Pre-tax profit	391	325	237	275	218	207	42.1%	48.8%	14.5%	376	346	251	3.9%	-6.1%	-5.7%
Net profit	257	230	169	182	169	151	41.5%	36.2%	11.9%	280	266	188	-8.2%	-13.3%	-10.1%
Margin															
Gross	27.2%	24.4%	22.0%	23.5%	21.3%	20.8%				28.9%	25.4%	23.6%			
EBIT	23.0%	20.1%	17.1%	17.3%	14.4%	13.2%				24.0%	22.2%	16.9%			
Pre-tax	21.7%	18.7%	16.0%	16.0%	13.3%	12.7%				21.5%	20.1%	15.4%			
NPM	14.3%	13.2%	11.4%	10.6%	10.3%	9.2%				16.0%	15.5%	11.5%			
Key assumptions															
Vol. production (m tonnes)	19.9	21.2	22.1	19.9	20.6	21.3	0.0%	3.1%	3.6%						
ASP (USD/tonne)	76.0	72.8	60.2	72.6	70.8	68.6	4.8%	2.8%	-12.3%						
Cash cost (USD/tonne)*	52.9	49.6	42.1	55.2	52.9	51.4	-4.3%	-6.1%	-18.1%						

Note: *Ex-royalty costs
Source: RHB estimates

Figure 2: ITMG's 5-year average P/E band

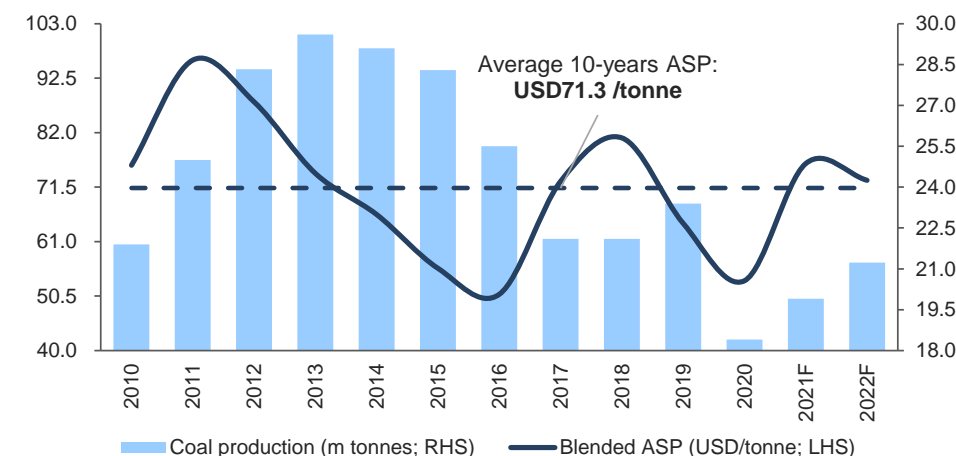


Source: Company data, RHB

◆ A sudden jump in coal prices catapulted the performance of ITMG's shares (+47% since our last update on 3 Sep), surpassing our initial expectations that its fair value might be fulfilled within the next three months

◆ However, we remain wary over uncertainties in coal prices – our P/E target is conservative and has been revised to 8.6x from 10.7x. This is derived from its 5-year P/E band being rolled forward to FY22F EPS.

Figure 3: ITMG's coal production trend



Source: Bloomberg, RHB

◆ Coal prices will soften out next year, in our view (FY22F ASP: -4% YoY), due to improvement on inventory from conservative supply (FY22F ITMG coal output: +6% YoY). This revision also anticipates mild demand post the winter season in early 2Q22

Recommendation Chart

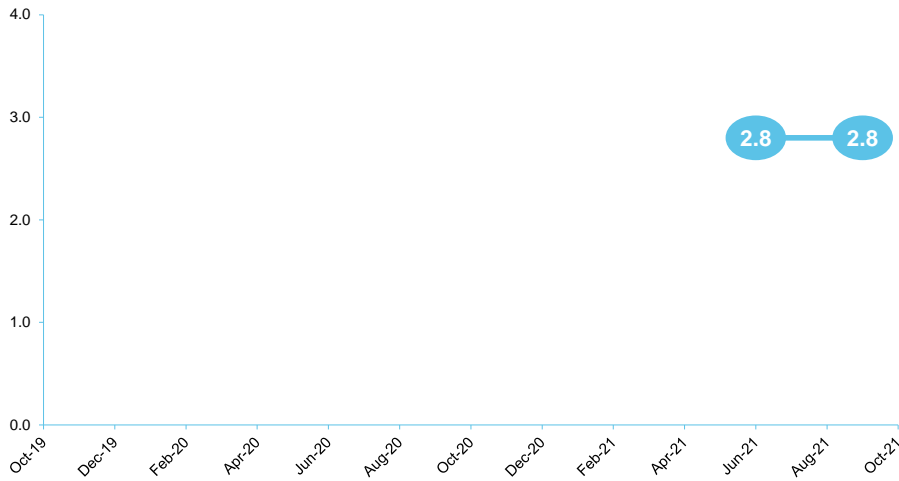


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-09-03	Buy	23,000	16,925
2021-08-04	Buy	20,000	16,750
2021-06-08	Buy	16,650	14,225
2021-02-10	Buy	14,550	12,500
2020-12-08	Neutral	13,900	14,825
2020-05-14	Trading Buy	9,100	7,525
2019-09-20	Sell	10,430	12,425
2019-05-15	Neutral	18,570	17,350
2019-01-29	Neutral	23,860	21,850
2018-11-13	Buy	33,600	23,500

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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