

17 November 2021

Basic Materials | Mining

Indo Tambangraya (ITMG IJ)

Neutral (Maintained)

Still Cautious On The Medium-Term Outlook

- **NEUTRAL, new IDR21,100 TP from IDR26,000, c.9% upside with c.15% FY22F yield.** We further revise Indo Tambangraya's FY22F-23F earnings upwards by 42% and 26%, on the higher-than-expected ASPs recorded in 9M21 (FY21F: USD87.30/tonne; +63% YoY), which underpinned the expected earnings recovery this year. However, the dim outlook for coal price de-rates ITMG's FY22F P/E valuation to 5.6x (from c.8x), also reflecting ESG risks – our TP includes a 4% ESG discount, based on our proprietary in-house methodology.
- **The recent coal price downtrend dampened its stellar earnings** (9M21 reported net profit: USD272m; +579% YoY; NPM at 21% vs 9M20's 5%), as anticipation of better earnings seems to have been priced in during the stock's surge in September – we see limited strong upside factors going forward. We also expect a correction in coal prices (on normalised inventory ahead of the peak of winter season, and stricter global policy towards thermal power plant development) to keep the negative sentiment towards the stock (share price down c.29% since 2021's mid-October high) for some time – underestimating its fundamental qualities, in our view.
- **Overall operations remain sound.** A feasible increase in output (FY22F: c.21m tonnes; +10% YoY) – partly supported by capacity addition from its new mine Graha Panca Karsa (GPK), and its integrated trading partner in maintaining stable coal sales (FY22F: c.23m tonnes; +7% YoY) – should provide a cushion for ITMG's topline, reducing the impact from expected lower ASPs (FY22: USD72/tonne; -18% YoY). The company's exports (c.81% of total coal sales) will keep a higher selling price mix ahead, in our view. Its ongoing cost efficiency programme (e.g digitalisation of mining operations, alternative fuel source from solar panel projects) will ensure better margins in the future (FY22F EBIT margin: c.24%; 10-year average: 18%). Also, its healthy operations should maintain ITMG's robust balance sheet (9M21 net gearing: -44% vs FY20's -21%) and ensure the continuity of its hefty dividend trend (c.10% yield of 10-year average). These fundamental traits remain ITMG's upside factors in the long term.
- **Downside risks:** Weakening coal price on normalised demand post winter season (in early 2Q22), slower economic growth (unexpected risks from the pandemic), and disruptions from more economically viable renewable energy that supplants coal demand. Upside risk: Defensive coal demand from traditional markets (China and India) in the near term.

Target Price (Return): IDR21,100 (9.2%)
Price (Market Cap): IDR19,325 (USD1,538m)
ESG score: 2.80 (out of 4)
Avg Daily Turnover (IDR/USD) 114,246m/8.02m

Analysts

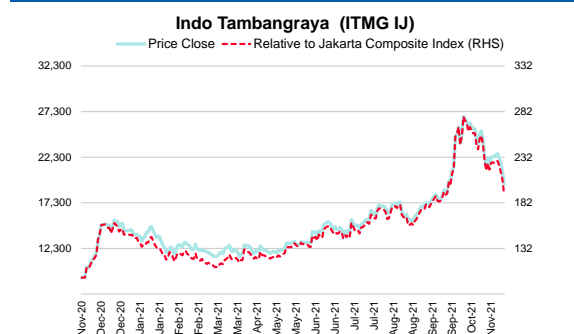
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	39.5	(25.7)	13.0	50.1	128.0
Relative	28.8	(25.4)	5.2	38.7	106.9
52-wk Price low/high (IDR)	9,100 – 26,750				



Source: Bloomberg

Overall ESG Score: 2.80 (out of 4)

E: GOOD

For its efforts to lower GHG emissions (FY20: 1.7m tonnes CO2 equivalent, -15% YoY), ITMG beat 32 other leading companies to be awarded the 2021 Emission Award for managing and reducing carbon emissions. The company is also involved in renewable energy – 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 (DAS)", for which the company received TOP CSR Awards in 2021.

G: GOOD

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

Forecasts and Valuation	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (USDm)	1,185	1,893	1,679	1,462
Recurring net profit (USDm)	56	447	328	199
Recurring net profit growth (%)	(56.9)	704.2	(26.7)	(39.4)
Recurring P/E (x)	26.85	3.34	4.56	7.52
P/B (x)	1.7	1.3	1.2	1.2
P/CF (x)	5.95	3.31	3.38	5.23
Dividend Yield (%)	6.5	4.2	14.7	11.7
EV/EBITDA (x)	6.70	1.77	1.99	2.76
Return on average equity (%)	4.5	36.6	24.6	13.2
Net debt to equity (%)	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-20	Dec-21F	Dec-22F	Dec-23F
Indonesia	Recurring EPS	0.05	0.41	0.30	0.18
Basic Materials	DPS	0.09	0.06	0.20	0.16
Indo Tambangraya	BVPS	0.78	1.04	1.11	1.10
ITMG IJ	Return on average equity (%)	4.5	36.6	24.6	13.2
Neutral					
	Valuation metrics	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	26.85	3.34	4.56	7.52
	P/B (x)	1.7	1.3	1.2	1.2
	FCF Yield (%)	15.7	28.8	28.2	17.8
	Dividend Yield (%)	6.5	4.2	14.7	11.7
	EV/EBITDA (x)	6.70	1.77	1.99	2.76
	EV/EBIT (x)	12.06	1.97	2.31	3.53
Valuation basis					
5.6x P/E target, at -0.5SD of 5-year mean to FY22F EPS					
Key drivers					
i. Coal sales volumes;					
ii. Coal prices;					
iii. Oil prices.					
Key risks					
Downside risks:					
i. Deterioration of global coal prices and a softer ASP;					
ii. Economic downturn;					
iii. Slower-than-expected recovery in global demand growth post COVID-19.					
Upside risk:					
i. Defensive coal demand from traditional markets (China and India) in the near term.					
Company Profile					
ITMG is a coal exploration and mining company that provides energy and electricity support. The company operates in Indonesia and supplies coal to the domestic market, as well as to customers in Japan, South-East Asia, India, and Pakistan.					
	Income statement (USDm)	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	1,185	1,893	1,679	1,462
	Gross profit	199	689	462	297
	EBITDA	187	626	470	315
	Depreciation and amortisation	(83)	(65)	(67)	(69)
	Operating profit	104	562	404	246
	Net interest	(0)	(0)	2	5
	Pre-tax profit	73	459	360	202
	Taxation	(35)	(96)	(72)	(44)
	Reported net profit	39	366	291	160
	Recurring net profit	56	447	328	199
	Cash flow (USDm)	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	108	(92)	28	(3)
	Cash flow from operations	251	450	442	286
	Capex	(17)	(20)	(20)	(20)
	Cash flow from investing activities	(17)	(20)	(20)	(20)
	Dividends paid	(97)	(62)	(220)	(174)
	Cash flow from financing activities	(78)	(77)	(222)	(177)
	Cash at beginning of period	159	231	372	544
	Net change in cash	156	353	199	88
	Ending balance cash	231	372	544	606
	Balance sheet (USDm)	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	231	372	544	605
	Tangible fixed assets	196	172	147	120
	Total assets	1,156	1,473	1,546	1,519
	Total liabilities	276	304	308	299
	Total equity	880	1,169	1,237	1,220
	Total liabilities & equity	1,156	1,473	1,546	1,519
	Key metrics	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(30.9)	59.7	(11.3)	(12.9)
	Recurrent EPS growth (%)	(56.9)	704.2	(26.7)	(39.4)
	Gross margin (%)	16.8	36.4	27.5	20.3
	Operating EBITDA margin (%)	15.8	33.1	28.0	21.5
	Net profit margin (%)	3.3	19.3	17.3	10.9
	Dividend payout ratio (%)	245.9	17.0	75.5	109.1
	Capex/sales (%)	1.4	1.1	1.2	1.4
	Interest cover (x)	29.9	161.7	116.3	70.9

Source: Company data, RHB

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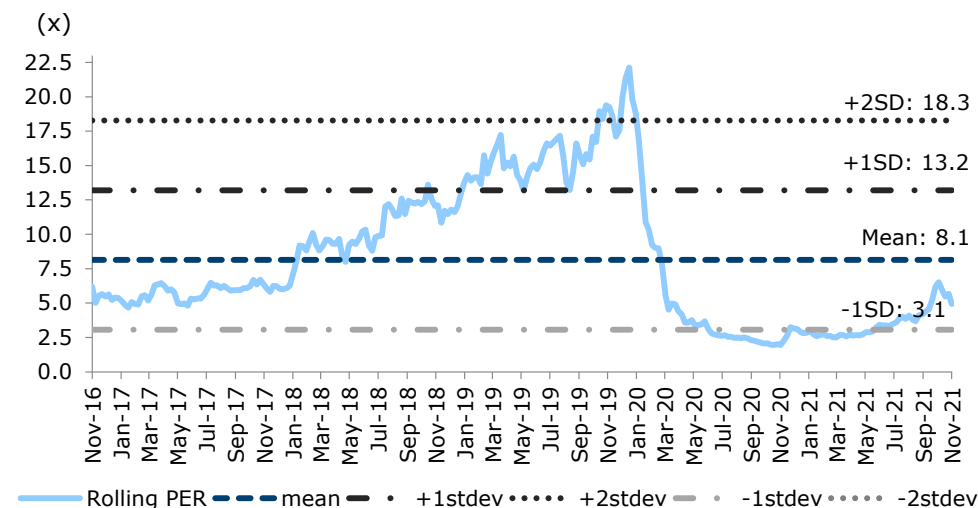
Figure 1: RHB vs Street's estimates

	RHB (new)			RHB (old)			Change			Street			RHB vs Street		
(USDm)	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Revenue	1,893	1,679	1,462	1,800	1,739	1,484	5.2%	-3.5%	-1.5%	1,828	1,814	1,693	3.6%	-7.5%	-13.6%
Gross profit	689	462	297	490	424	327	40.5%	9.0%	-9.2%	571	494	420	20.6%	-6.6%	-29.3%
Operating profit	562	404	246	413	350	255	35.8%	15.3%	-3.3%	469	425	308	19.6%	-4.9%	-19.9%
Pre-tax profit	459	360	202	391	325	237	17.5%	10.7%	-14.9%	430	393	286	6.8%	-8.3%	-29.4%
Net profit	366	291	160	257	230	169	42.3%	26.2%	-5.1%	325	320	226	12.4%	-9.0%	-29.3%
Margin															
Gross	36.4%	27.5%	20.3%	27.2%	24.4%	22.0%				31.2%	27.3%	24.8%			
EBIT	29.7%	24.1%	16.8%	23.0%	20.1%	17.1%				25.7%	23.4%	18.2%			
Pre-tax	24.2%	21.4%	13.8%	21.7%	18.7%	16.0%				23.5%	21.6%	16.9%			
NPM	19.3%	17.3%	10.9%	14.3%	13.2%	11.4%				17.8%	17.6%	13.4%			
Key assumptions															
Vol. production (m tonnes)	18.8	20.7	21.7	19.9	21.2	22.1	-5.5%	-2.6%	-1.7%						
ASP (USD/tonne)	87.3	71.9	60.2	76.0	72.8	60.2	14.9%	-1.2%	0.0%						
Cash cost (USD/tonne)*	52.3	45.8	42.3	52.9	49.6	42.1	-1.0%	-7.6%	0.5%						

Note: *Ex-royalty costs

Source: RHB estimates

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



Source: Company data, RHB

♦ The deep correction in coal price (-44% since its highest-ever level in early October) sent shock waves to most coal stocks, even with higher-than-expected 9M21 results – limited upside factors, in our view.

♦ We remain wary on the uncertainties relating to the coal price outlook – our FY22F P/E target is conservative at -0.5SD (5.6x) of its 5-year P/E band

Figure 3: ITMG's 9M21 results review

USDm	3Q20	2Q21	3Q21	QoQ	YoY	9M20	9M21	YoY	% of RHB	% of Cons
Revenue	219	392	647	65.0%	195.1%	872	1,323	51.8%	70%	72%
Gross profit	46	142	304	113.2%	562.5%	140	531	279.8%	77%	93%
EBIT	25	117	269	130.3%	992.2%	62	449	621.3%	80%	96%
EBITDA	72	41	319	681.5%	341.4%	215	581	170.1%	93%	117%
Reported net profit	10	76	154	103.7%	1422.7%	40	272	579.0%	74%	83%
Margins										
Gross margin	20.9%	36.3%	46.9%			16.0%	40.1%			
EBIT margin	11.2%	29.8%	41.5%			7.1%	33.9%			
Reported NPM	4.6%	19.3%	23.8%			4.6%	20.5%			

Note: RHB adjustment

Source: Company data, RHB

Figure 4: ITMG's 9M21 operational results

	3Q20	2Q21	3Q21	QoQ	YoY	9M20	9M21	YoY
ASP (USD/tonne)	48.8	80.3	111.0	38.2%	127.5%	53.8	89.0	65.4%
Coal production (m tonnes)	4.9	4.7	4.6	-2.1%	-6.1%	13.8	13.3	-3.6%
Coal sales (m tonnes)	4.3	4.9	5.8	19.4%	35.0%	15.4	14.8	-3.9%
Strip ratio (x)	10.0	10.6	10.9	3.1%	9.8%	10.4	10.9	4.8%
Prod. cost ex. royalty (USD/tonne)	33.7	32.9	22.4	-31.8%	-33.4%	30.2	30.6	1.3%
Total cost (USD/tonne)	39.7	58.6	82.2	40.4%	107.0%	58.7	65.7	12.0%

Source: Company data, RHB

Recommendation Chart

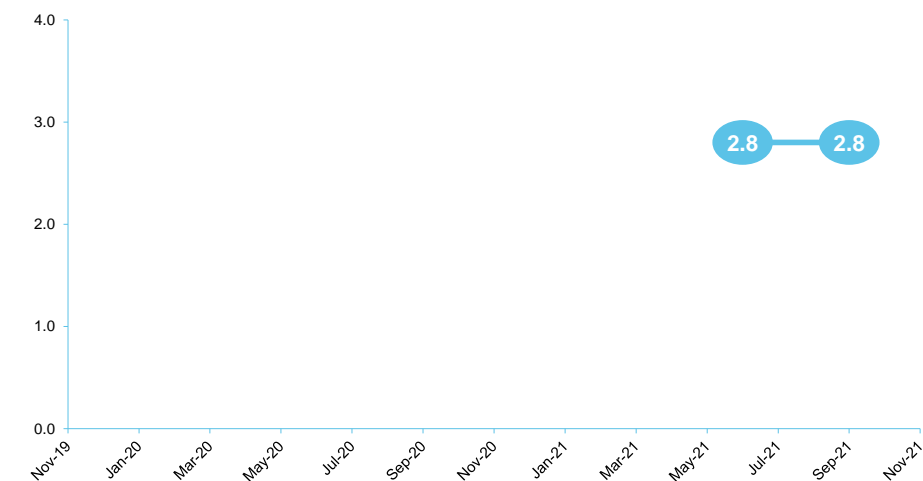


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-11	Neutral	26,000	26,750
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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