



INDO TAMBANGRAYA MEGAH

On Track Volume with Superior ASP

HOLD
Maintain

Share Price : Rp44,750
12M Target Price : Rp48,400 (+8.2%)

Stock Data

Reuters code	ITMG JK
Bloomberg code	ITMG IJ
Issued shares (m shares)	1,130
Market cap (Rpbn)	50,564
52 week low / high (Rp)	34,300/57,950
Avg. daily T/O (Rpbn)	89.7

Major Shareholders

Banpu Mineral Singapore	65.0%
Public	35.0%

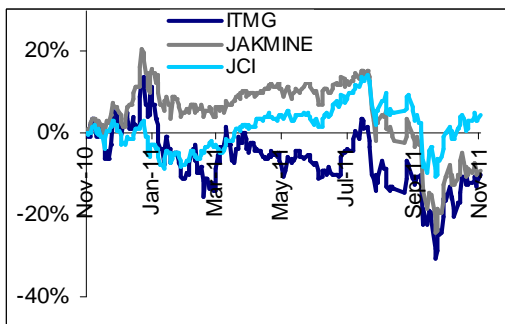
Consensus

	11E	12F
Revenue (Rpbn)	2,270	2,643
KS vs Cons (%)	99.6	90.9
EBITDA (Rpbn)	688	885
KS vs Cons (%)	105.4	92.9
Net profit (Rpbn)	466	616
KS vs Cons (%)	102.2	90.2

Company Description

Indo Tambangraya Megah (ITMG) is high CV thermal coal producer located in East and South Kalimantan. The counter owns 6 mine site location, consisting of Indominco, Trubaindo, Bharinto, Tandung Mayang, Kitadin, and Jorong. Having 5,300-6,500 kcal of thermal coal characteristic, ITMG send 75% of its output abroad.

Share Price



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Investment Thesis

We maintain **HOLD** rating on ITMG and introduce our new TP of Rp48,400 as we roll over our base year to 2012 and set P/E target at 10.9x. The 9M11 results, top to bottom, outperformed our expectations, arriving 77.7% - 81.4% of our FY11E. Production achievement was on track, arriving at 75.7% of our FY11E of 23.5mt, while ASP was 4.7% higher than our FY11E assumption of US\$90.3/mt. Costs remain a concern as 3Q11 cast cost was still higher than our FY11E assumption of US\$44.5/mt. Hence, we make several adjustments in our model, resulting to a 7.3% upward revision in FY11E net income to US\$476.2m. We maintain our FY12 net income forecast at US\$555.8m, assuming production volume of 26.0mt, ASP of US\$92.4/mt and cash cost of US\$44.0/mt.

Key Catalysts

- Production grew 17.2% QoQ to 6.8mt.** Company managed to record strong production volume in 3Q11, mainly supported by a dry weather and additional capacity from mining contractors, particularly at Indominco and Trubaindo mines.
- Strong ASP realization.** 3Q11 average selling price (ASP) remained robust, growing by 1.1% QoQ to US\$98.4/ton, yielding 9M11 figure to hit an average of US\$94.6/ton. For the remaining quarter, as prices for all volume to be sold in 2011 have been sealed, ASP is expected to remain high in 4Q11 with FY11E ASP to approximately reach US\$97/ton.
- Cash cost remained high.** Despite declining oil price in the spot market and drier condition in the sites, ITMG's cash costs still stood at a high US\$49.2/ton in 3Q11 (vs US\$50.7/ton in 2Q11 and 41.5/ton in 1Q11). This is because the company unfortunately hedged its oil purchase while strip ratio in Trubaindo experienced increase (11.9x in 2Q11 to 14.1x in 3Q11).
- What's 2012 target?** Company will allocate around US\$223m capex (fully financed from internal cash) to develop infrastructures and facilities, primarily in Trubaindo (hauling roads) and Indominco (washing plant). With these, ITMG aims to increase production by 14.9% YoY to 27mt in 2012

Earnings Outlook

- Outperforming 9M11 results.** The 9M11 results, top to bottom, outperformed our expectations, arriving 77.7% - 81.4% of our FY11E. Production achievement was on track, arriving at 75.7% of our FY11E of 23.5mt, while ASP was 4.7% higher than our FY11E assumption of US\$90.3/mt.
- Maintain production assumption.** We continue to maintain our production assumption of 23.5mt in FY11E. We anticipate that, the rainy seasons which have started in mid-October, will delay the commencing production at Tandung Mayang and Bharinto sites, from previously planned in 4Q11 to 1Q12.
- ASP: Upgrade the FY11E, but maintain for FY12F.** Due to better-than-expected realization in 9M11, we decide to upgrade our FY11E ASP by 6.5% to US\$96.2/ton. For 2012, we prefer to conservatively maintain our assumption at US\$92.4/ton given recent weakness in the thermal coal price benchmark (this will apply to the new contract, starting by 1Q12).
- Increases cash cost assumption.** We believe cash cost in 4Q11 will remain high, attributed to the oil hedging activity and rising strip ratio in Trubaindo mine. As such, we decide to slightly increase our FY11E cash cost assumption by 5.4% to US\$46.9/ton. Meanwhile, we believe FY12F cash cost will decrease along with the increasing contribution from East Block of Indominco (low strip ratio) and subsiding contribution from West Block of Indominco (high strip ratio) at the same time.

Financial Highlights

Year to 31 Dec	2009	2010	2011E	2012F	2013F
Revenue (Rpbn)	1,508	1,668	2,261	2,403	2,397
EBITDA (Rpbn)	493	423	725	822	758
Net Profit (Rpbn)	336	204	476	556	509
EPS (Rp)	3,088	1,637	3,787	4,420	4,050
EPS Growth (%)	53.2	(47.0)	131.4	16.7	(8.4)
ROAE (%)	48.0	27.1	51.7	43.1	32.0
DPS (Rp)	1,373	2,052	731	1,704	1,989
Div. Yield (%)	7.1	5.2	1.6	3.8	4.4
P/E (x)	6.3	24.0	11.8	10.1	11.0
P/BV (x)	2.7	6.8	5.0	3.9	3.3
EV/EBITDA (x)	3.5	10.9	7.7	6.7	7.2

Result Highlight vs our old estimates

Financial Highlight	Unit	2Q11	3Q11	%Chg	9M10	9M11	%Chg	FY11E	%FY11E
Sales	US\$m	502	678	35.2	1,205	1,649	36.8	2,123	77.7
Gross Profit	US\$m	189	266	40.7	410	606	48.1	798	76.0
Operating Profit	US\$m	151	219	45.0	298	487	63.3	612	79.6
Net Income	US\$m	110	156	41.6	186	361	94.3	444	81.4
Operational Highlight									
Production	mt	5.8	6.8	17.2	16	18	9.2	24	75.7
Strip Ratio	x	11.4	12.2	6.6	13	12	(11.7)	13	89.4
Cash production cost	US\$/ton	50.7	49.2	(3.0)	37	46	24.2	44	102.8
ASP	US\$/ton	97.4	98.4	1.1	74	95	28.0	90	104.7
Profitability									
Gross Margin	%	38	39	1.5	34	37	2.8	38	97.9
Operating Margin	%	30	32	2.2	25	30	4.8	29	102.5
Net Margin	%	22	23	1.0	15	22	6.5	21	104.9

Source: Company and Kresna Research

Revision Highlight

Financial Highlight	Unit	New FY11E	Old FY11E	%Chg
Sales	US\$m	2,261	2,123	6.5
Gross Profit	US\$m	849	798	6.4
Operating Profit	US\$m	656	612	7.1
Net Income	US\$m	476	444	7.3
Operational Highlight				
Production	mt	23.5	23.5	-
Strip Ratio	x	13.1	13.1	-
Cash production cost	US\$/ton	46.9	44.5	5.6
ASP	US\$/ton	96.2	90.3	6.5
Profitability				
Gross Margin	%	37.5	37.6	(0.0)
Operating Margin	%	29.0	28.8	0.2
Net Margin	%	21.1	20.9	0.2

Source: Kresna Research

Income Statement (US\$m)

Year to 31 Dec	2009	2010	2011F	2012F	2013F
Revenue	1,508	1,668	2,261	2,403	2,397
Growth (%)	14.5	10.6	35.5	6.3	(0.3)
Gross profit	570	542	849	941	877
Operating profit	436	363	656	742	677
Depr / amort	57	60	69	80	80
EBITDA	493	423	725	822	758
Growth (%)	27.0	(14.3)	71.4	13.4	(7.8)
Net intr. inc (exp)	3	2	8	12	15
Forex gain (loss)	4	5	-	-	-
Inc from subsidiary	1	2	3	4	5
Other inc (exp)	13	(93)	(29)	(13)	(14)
Pre-tax profit	456	277	635	741	679
Tax expense	121	73	159	185	170
Minority interest	-	-	-	-	-
Extraordinary items	-	-	-	-	-
Net profit (loss)	336	204	476	556	509
Growth (%)	42.8	(39.2)	133.2	16.7	(8.4)

Cash Flow (US\$m)

Year to 31 Dec	2009	2010	2011F	2012F	2013F
Net profit (loss)	336	204	476	556	509
Depr / amort	57	60	69	80	80
Chg in working cap.	13	(8)	124	(48)	3
Others	(9)	101	37	24	29
Operating CF	397	357	706	611	621
Capex - net	(78)	(54)	(157)	(20)	(20)
Others	(11)	(15)	(16)	(21)	(24)
Investing CF	(89)	(70)	(173)	(41)	(44)
Net chg in debt	43	(57)	-	-	-
Net chg in equity	(9)	(15)	15	-	-
Dividend	(149)	(256)	(92)	(214)	(250)
Others	13	(93)	(29)	(13)	(14)
Financing CF	(102)	(421)	(106)	(227)	(264)
Net CF	207	(134)	427	344	314
Free CF	320	302	550	591	601

Interim Results (US\$m)

	3Q10	4Q10	1Q11	2Q11	3Q11
Sales	397	450	468	502	678
Gross Profit	139	119	152	189	266
Operating Profit	99	65	117	151	219
Net profit	52	18	95	110	156
Gross Margins (%)	35.1	26.4	32.5	37.6	39.2
Opr Margins (%)	24.9	14.4	25.1	30.1	32.3
Net Margins (%)	13.0	4.1	20.3	21.9	23.0

Price and Valuation History

	2006	2007	2008	2009	2010
Price					
High		19,600	35,700	32,000	55,000
Avrg		18,175	22,349	19,311	39,304
Low		14,000	5,950	9,150	28,950
P/E					
High	-	21.4	17.7	10.4	33.6
Avrg	-	19.9	11.1	6.3	24.0
Low	-	15.3	3.0	3.0	17.7
EV/ EBITDA					
High	-	13.9	10.2	6.3	15.8
Average	-	12.8	6.2	3.5	11.1
Low	-	9.6	1.2	1.3	8.0

Balance Sheet (US\$m)

Year to 31 Dec	2009	2010	2011F	2012F	2013F
Cash & its equivalents	429	295	722	1,066	1,379
Trade receivables	144	133	147	210	232
Inventories	65	71	63	64	65
Other current asset	36	110	57	70	74
Fixed assets - net	344	348	446	397	347
Other LT assets	182	133	144	134	122
Total Assets	1,199	1,090	1,579	1,940	2,220
ST debt	-	-	-	-	-
Trade payables	89	95	125	130	135
CPLTD	15	-	-	-	-
Other current liab.	236	237	297	309	320
LT debt - net	40	-	-	-	-
Other LT liabilities	31	37	37	40	44
Minority interest	-	-	-	-	-
Total Liabilities	411	369	459	478	499
Total Equity	787	721	1,120	1,461	1,721
Net cash (debt)	374	295	722	1,066	1,379

Financial Ratios

Year to 31 Dec	2009	2010	2011F	2012F	2013F
Profitability					
Gross margin (%)	37.8	32.5	37.5	39.1	36.6
Opr margin (%)	28.9	21.8	29.0	30.9	28.3
EBITDA margin (%)	32.7	25.3	32.1	34.2	31.6
Net margin (%)	22.2	12.2	21.1	23.1	21.2
ROAE (%)	48.0	27.1	51.7	43.1	32.0
ROAA (%)	30.8	17.8	35.7	31.6	24.5
Leverage					
Current ratio (x)	1.7	1.3	2.1	2.9	3.5
Net Debt-to-equity (x)	(0.5)	(0.4)	(0.6)	(0.7)	(0.8)
Intr. coverage (x)	723.3	86.6	N/A	N/A	N/A
Activity					
Receivable TO (days)	34	29	23	31	35
Payable TO (days)	34	30	32	32	32
Inventory TO (days)	25	23	16	16	15

Key Assumptions

Year to 31 Dec	2009	2010	2011F	2012F	2013F
Production volume (mt)	21.4	21.9	23.5	26.0	28.0
ASP (US\$/ ton)	70.5	76.2	96.2	92.4	85.6
Cash cost (US\$/ ton)	43.8	41.4	46.9	44.0	43.0
Strip Ratio (US\$/ ton)	12.8	11.6	13.1	12.4	11.7

Capital History

Date	Description
Jan-08	IPO @ Rp 14,000

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Definition of ratings :

BUY = stock return > 10% over the next 12 months (excluding dividend)

HOLD = stock return -10% to 10% over the next 12 months (excluding dividend)

SELL = stock return <10% over the next 12 months (excluding dividend)

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