



COAL

Mining Contract Renegotiation Brews

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Early in June, the Government of Indonesia revealed its intention to review mining contracts, as the Government believes that Indonesia should be compensated more than now. State Owned Enterprises Minister Mustafa Abubakar stated that contracts would be studied, with a view to renegotiating royalty schemes, included those covering the coal, nickel and iron ore sectors. The two options to be considered include foreign companies divesting their ownership to the public or coming to an agreement on a new royalty tariff scheme.

Coal counters are of the opinion that any additional royalty imposition should be postponed, simply honoring the current mining contract. Thus far, the Government of Indonesia has only put forward suggestions and concepts, refraining from any sudden policy moves. Coal miners are carefully following this unclear development.

Coal companies within our range of coverage should be less affected by any such policy shift, for the following reasons:

1. Tambang Batubara Bukit Asam (PTBA: BUY - Rp37,400), Adaro Energy (ADRO: BUY - Rp2,725), Indo Tambangraya Megah (ITMG: HOLD - Rp49,050) and Bumi Resources (BUMI: BUY - TP Rp4,500) already pay a steep royalty, ranging from 7% to over 13.5%. Further, these companies also pay notably higher taxes: 25% for KP holders and 45% for CCoW 1st generation holders.
2. We believe that it will be very counterproductive if higher royalty tariffs are imposed, as this could suppress supply side growth, given plans for 10GW in first power generation (national coal consumption is estimated to increase by 13.4% CAGR2011-2015). Moreover, most growth is dominated by low CV coal, sold at higher discounts and yielding lower margins.

We continue to maintain our positive stance on Indonesia coal mining sector given our universe seen sector EPS to grow by 68.8% YoY in 2011 and 79.6% YoY in 2012 on the back of 17.8% CAGR10-12 in production volume and 15.4% CAGR10-12 in selling price. Our favorites in the sector are **BUMI (BUY - TP Rp4,500)** and **PTBA (BUY - TP Rp37,400)**.

Bumi Resources (BUMI): BUY – TP Rp4,500

Positive Catalysts

- Indonesia's biggest thermal coal miner, in terms of production and reserves
- Aims to double production from 61mt in 2010 to 113mt in 2013
- The presence of Vallar will increase corporate image (Vallar may increase its stake up to 51% soon through step-up transaction)
- Divestment (spin off) of BRMS = de-leveraging opportunity + efficiency in capex + coal focus + slimmer structure

Key Risks:

- Market dislike paper settlement with 2.0% coupon rate for the BRMS transaction
- Heavy rainfall and machinery supply disruption
- Uptrending oil prices
- Active and sophisticated corporate actions
- High shares volatility (Beta = 1.4x)

Financial Highlights

Year end Dec	2009	2010	2011E	2012F	2013F
Revenue (US\$m)	3,219	4,370	4,367	8,226	8,707
EBITDA (US\$m)	753	1,229	1,320	2,925	2,923
Net Profit (US\$m)	190	311	423	1,020	1,050
EPS (US\$cent)	1.0	1.6	1.9	4.7	4.8
EPS Growth (%)	(48.7)	62.3	37.1	140.9	3.0
ROAE (%)	12.9	19.2	20.5	34.2	27.8
DPS (Rp)	50.6	27.7	30.3	46.8	112.8
Div Yield (%)	2.6	1.2	0.9	1.4	3.4
P/E (x)	19.9	16.7	18.1	7.5	7.3
P/BV (x)	5.2	4.8	3.7	2.6	2.0

Source: Kresna Research

Tambang Batubara Bukit Asam (PTBA): BUY – TP Rp37,400

Positive Catalysts:

- National 2nd biggest coal mining company in term of reserves after BUMI
- Most profitable coal mining in Indonesia after KKGI
- Aiming a six-fold production increase in the next 9 years through railway project development
- Cash rich company (unleverage firm)
- Its EV/adjusted reserve of US\$4.8/ton is much cheaper than ADRO's US\$16.3/ton, BUMI's US\$13.2/ton and ITMG's US\$24.5/ton.

Key Risks:

- Unpleasant track record in realizing/delivering mega projects
- Low share liquidity in market (average daily transaction is only 65.5)

Financial Highlights

Year to Dec	2009	2010	2011E	2012F	2013F
Revenue (Rpbn)	8,948	7,909	11,700	14,734	18,491
EBITDA (Rpbn)	3,602	2,367	4,292	6,091	8,196
Net Profit (Rpbn)	2,728	2,009	3,333	4,714	6,122
EPS (Rp)	1,184	872	1,447	2,046	2,657
EPS Growth (%)	59.7	(26.4)	65.9	41.4	29.9
ROAE (%)	56.2	33.3	44.6	46.7	45.4
DPS (Rp)	437	592	436	723	1,023
Div. Yield (%)	3.8	3.3	2.1	3.5	4.9
P/E (x)	9.8	20.7	14.5	10.2	7.9
P/BV (x)	4.7	6.5	5.6	4.2	3.1
EV/EBITDA (x)	6.3	15.9	10.1	6.9	4.9

Source: Kresna Research

Indonesian Coal: Valuation comparison

	Mkt Cap (Rpbn)	Target Price (Rp)	Upside (%)	Rec	EPSg (%)		P/E (x)		PEG (x)		Adj EV/ton (US\$)	Div. Yield (%)
					11E	12F	11E	12F	11E	12F		
ADRO	77,566	2,725	12.4	BUY	94.0	79.5	17.4	9.7	0.2	0.6	16.3	0.7
BUMI	69,072	4,500	35.3	BUY	37.1	140.9	18.1	7.5	0.1	0.4	13.2	0.9
ITMG	52,259	49,050	6.1	HOLD	115.6	25.3	13.1	10.5	0.5	0.8	24.5	1.6
PTBA	48,387	37,400	78.1	BUY	65.9	41.4	14.5	10.2	0.4	0.7	4.9	2.1
Average					68.8	79.6	16.4	9.1	0.2	0.6	15.4	1.7

Source: Kresna Research

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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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