

Bukit Asam Tbk (PTBA IJ)

Production Costs Erode Profits

Although PTBA's quarter performance in 3Q19 was still relatively good it got difficulty to pursue 2018's performance due to the high cost of revenue eroding net profits. Coal market conditions are still weak, and it made PTBA revenues to grow insignificantly. Thus, to run efficiency at its operation until the end of 2019 is vital for PTBA.

Relatively Good Performance

In 3Q19, PTBA was still able to book revenues of IDR5.6 trillion (+1.7% YoY; +6.8% QoQ) supported an increase in total coal sales of 7.3 million tons (+14% YoY; +7.4% QoQ) with 61% contributions coming from domestic sales. However, the costs of revenues increased to IDR3.5 trillion (+11.3% YoY; +5.7% QoQ) eroding PTBA's 3Q19 net profits to IDR1 trillion (-14.1% YoY; +25.5% QoQ).

Rising Production Costs amid Sluggish Market

The costs of revenues increased because 3Q19's production costs such as coal railway services rising to IDR1.2 trillion (+6.7% YoY; +4.2% QoQ) and mining services soaring to IDR1.1 trillion (+23.9% YoY; +32.1% QoQ). The increasing costs of revenues were burdensome for PTBA as global coal prices and HBA declined further, and PTBA only had the option to carry out transportation efficiency if it wants to have significant net profit growth. Of note, coal railway services gave the largest contribution of 33.9% to the costs of revenues. We estimate PTBA's revenues for 2019F at around IDR21 trillion, supported by the same sales volume and stripping ratio estimated previously. But its net profits for 2019F will decline to IDR4.5 trillion (vs. the previous estimate of IDR5.1 trillion) due to the costs of revenues estimated to edged up 6.8%.

Declining Export Contributions

PTBA, in 3Q19, succeeded to sell ~3 million tons of HCV coal to the premium market, but its 3Q19 export contribution was only 39% and continued to decline during 2019. We believe that if PTBA wants to continue to thicken margins, it must obtain long-term contracts with non-traditional countries such as Malaysia and the Philippines, where the level of exports to these countries is still below 5%.

Rating Downgrade to HOLD with the Price Target of IDR2,300

Optimization the railway capacity, one of the strategy efficiencies carried out by PTBA, is a positive catalyst, but declining exports coupled with the sluggish coal market will be challenges for PTBA to improve performance until the end of the year. We recommend HOLD with the price target of IDR2,300 or a potential upside of 5.0% based on the forward P/E of 5.6x (-1 SD). At present, PTBA is traded with 2019F P/E of 10.3x.

Bukit Asam Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	21,167	21,644	21,420	21,490
Growth (%)	8.7%	2.3%	-1.0%	0.3%
EBITDA	7,004	6,699	6,565	6,733
Net Profit	5,024	4,581	4,476	4,626
EPS (IDR)	436	398	389	402
Growth (%)	12.2%	-8.8%	-2.3%	3.4%
P/E	9.7x	10.3x	10.6x	10.2x
P/BV	3.0x	2.6x	2.5x	2.4x
EV/EBITDA	5.9x	6.0x	6.2x	6.0x
ROE (%)	33.4%	26.7%	24.4%	24.0%
DER (%)	5.1%	1.5%	1.5%	1.5%
Net Debt	-5,469	-5,890	-4,807	-4,707

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Update | Nov 04, 2019

Hold

Dec 2020 TP (IDR)	2,300
Consensus Price (IDR)	2,834
TP to Consensus Price	-18.8%
vs. Last Price	+5.0%

Shares data

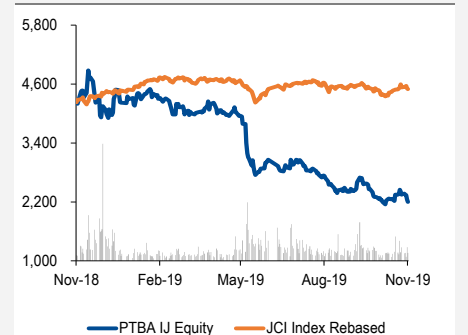
Last Price (IDR)	2,190
Price Date as of	Nov 01, 2019
52 wk Range (Hi/Lo)	5,025 / 2,110
Free Float (%)	35.0
Outstanding sh.(mn)	11,521
Market Cap (IDR bn)	46,313
Market Cap (USD mn)	3,261
Avg. Trd Vol - 3M (mn)	14.66
Avg. Trd Val - 3M (bn)	62.08
Foreign Ownership	9.1%

Mining

Coal

Bloomberg	PTBA IJ
Reuters	PTBA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-49.1%	-3.5%	-19.4%	-48.0%
Rel. Ret.	-49.5%	-4.6%	-16.7%	-54.4%

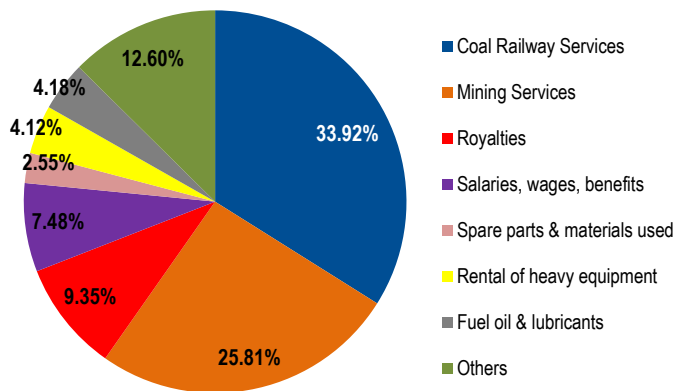
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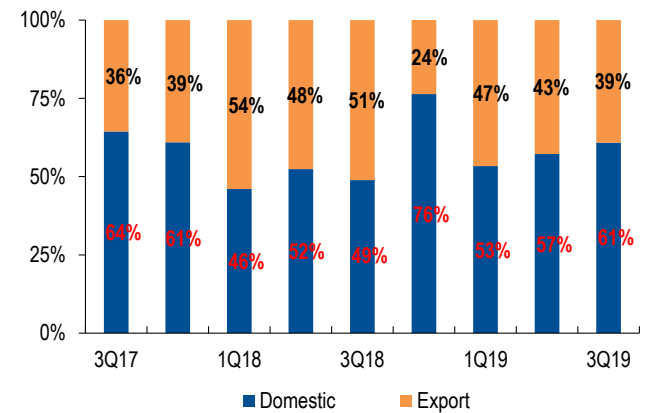
Performance Highlights in Charts

9M19 COGS Breakdown



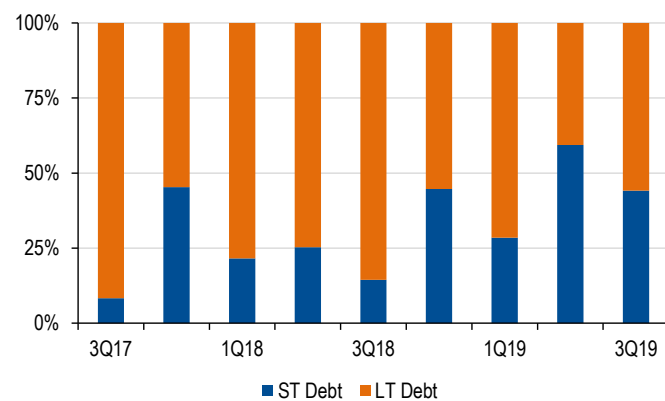
Source: Company Data, NHKS Research

Sales Contribution



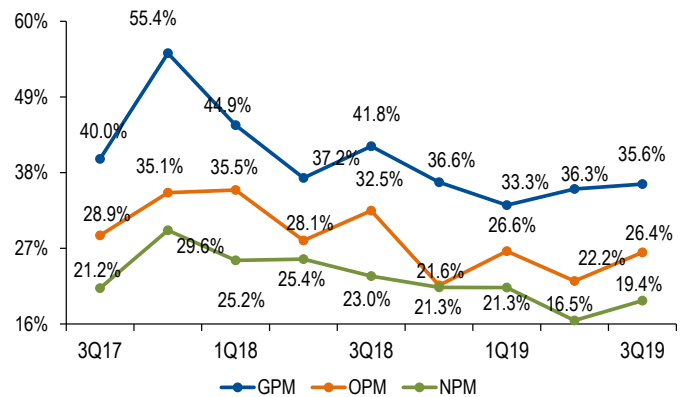
Source: Company Data, NHKS Research

Debt Portion



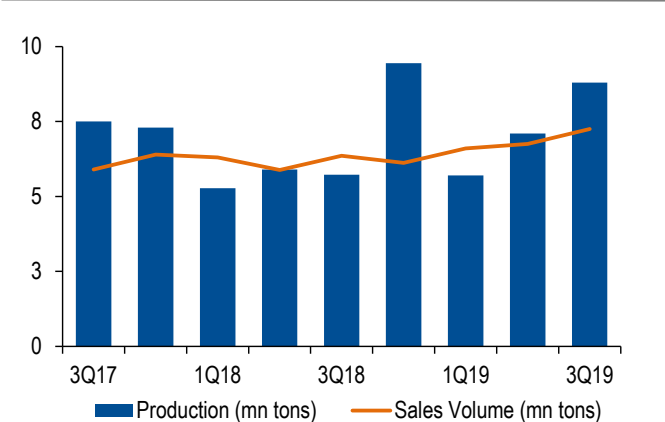
Source: Company Data, NHKS Research

Margin Ratios



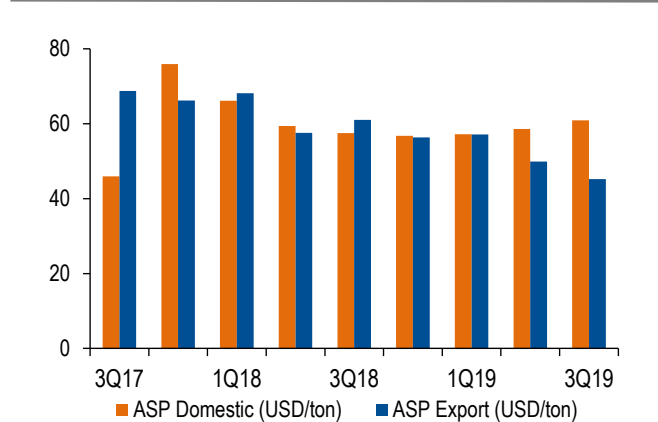
Source: Company Data, NHKS Research

Production & Sales Volume



Source: Company Data, NHKS Research

Average Selling Price



Source: Company Data, NHKS Research

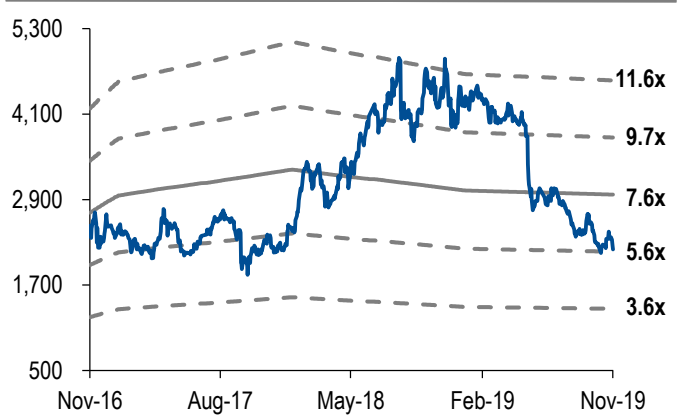
Valuation Highlights in Charts

3-Year Forward P/E Band



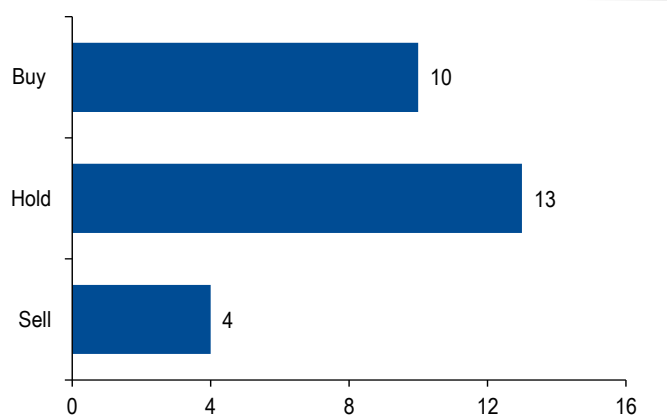
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward P/E Band



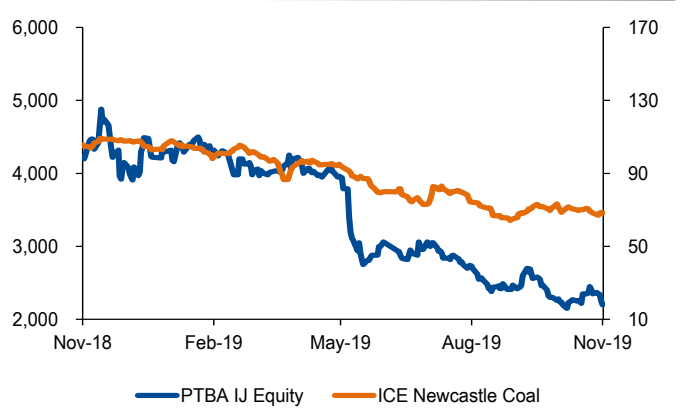
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and Coal Prices Correlated Positively



Source: Bloomberg, NHKS Research

Quarterly Review

	3Q18	4Q18	1Q19	2Q19	3Q19					4Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Sales	5,544	5,131	5,337	5,278	5,639	5,302	1.7%	6.8%	6.3%	5,390
Gross Profit	2,319	1,878	1,777	1,880	2,049	2,460	-11.6%	9.0%	-16.7%	2,457
EBIT	1,800	1,109	1,419	1,174	1,489	1,808	-17.3%	26.8%	-17.6%	1,891
EBITDA	1,991	1,286	1,752	1,288	1,627	1,946	-18.3%	26.3%	-16.4%	2,031
Net Profit	1,273	1,094	1,137	871	1,093	1,507	-14.1%	25.5%	-27.5%	1,479
Margin										
Gross Margin	41.8%	36.6%	33.3%	35.6%	36.3%	46.4%	-5.5%	0.7%	-10.1%	45.6%
EBIT Margin	32.5%	21.6%	26.6%	22.2%	26.4%	34.1%	-6.1%	4.2%	-7.7%	35.1%
EBITDA Margin	35.9%	25.1%	32.8%	24.4%	28.9%	36.7%	-7.1%	4.4%	-7.8%	37.7%
Net Profit Margin	23.0%	21.3%	21.3%	16.5%	19.4%	28.4%	-3.6%	2.9%	-9.0%	27.4%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	21,644	21,420	21,490
	-Previous	21,186	21,236	21,293
	-Change	2.2%	0.9%	0.9%
Gross Profit	-Revised	8,162	8,127	8,128
	-Previous	8,560	8,592	8,609
	-Change	-4.7%	-5.4%	-5.6%
EBIT	-Revised	5,973	5,837	6,001
	-Previous	6,291	6,318	6,329
	-Change	-5.1%	-7.6%	-5.2%
EBITDA	-Revised	6,699	6,565	6,733
	-Previous	7,023	7,091	7,169
	-Change	-4.6%	-7.4%	-6.1%
Net Profit	-Revised	4,581	4,476	4,626
	-Previous	5,102	5,183	5,233
	-Change	-10.2%	-13.6%	-11.6%
Margin				
Gross Margin	-Revised	37.7%	37.9%	37.8%
	-Previous	40.4%	40.5%	40.4%
EBIT Margin	-Revised	27.6%	27.3%	27.9%
	-Previous	29.7%	29.8%	29.7%
EBITDA Margin	-Revised	31.0%	30.6%	31.3%
	-Previous	33.2%	33.4%	33.7%
Net Profit Margin	-Revised	21.2%	20.9%	21.5%
	-Previous	24.1%	24.4%	24.6%

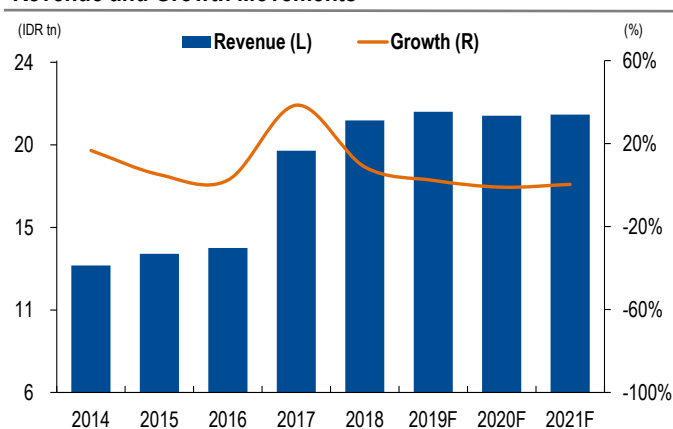
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

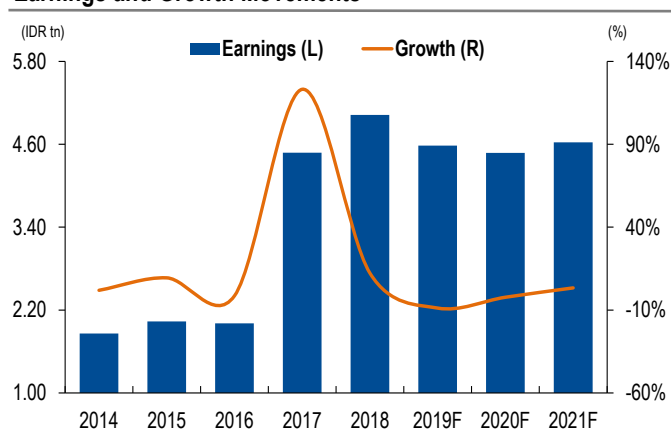
- PT Bukit Asam (PTBA IJ) is a state-owned company running the coal mining industry and produces mid-to-low calorie coal (4,800kcal/kg to 6,700kcal/kg). It has mining concessions with the total reserves of ~ 11.5 billion tons, and most of them are located in South Sumatra.
- After the incorporation of the mining holding under PT Asahan Aluminum (Inalum) by the government on November 29, 2017, PTBA performed stock split with the ratio of 1: 5 on December 14, 2017. It currently merges with PT Timah Tbk and PT Aneka Tambang Tbk into a holding company.
- PTBA currently will penetrate a business line in the coal downstream segment, namely the coal gasification. There are several gasification projects carried out by PTBA subsuming the project cooperation with PT Pertamina and Air products producing Dimethyl Ether (DME); the collaboration with PT Pupuk Indonesia and PT Chandra Asri Petrochemicals Tbk producing urea for fertilizers and polypropylene for plastic raw materials.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales Growth LTM	Gross Margin LTM	Operating Margin LTM	Net Profit Growth LTM	ROE LTM	P/E LTM	Dividend Yield
Indonesia									
BUKIT ASAM TBK	1,882	1,676	8.7%	40.4%	29.7%	-27.4%	26.4%	5.8x	14.8%
ADARO ENERGY TBK	2,932	7,061	11.1%	33.4%	24.8%	13.8%	14.2%	5.6x	7.0%
INDO TAMBANGRAYA MEGAH TBK	1,012	1,443	18.8%	29.1%	21.5%	-8.2%	25.7%	4.3x	21.9%
China									
SHANXI XISHAN COAL CO.	2,569	9,458	12.6%	31.8%	12.3%	21.4%	10.2%	8.7x	5.2%
SHANXI LU'AN ENVIRONMENTAL CO.	2,945	9,488	6.8%	41.1%	15.8%	-18.1%	10.2%	8.2x	3.9%
INNER MONGOLIA COAL CO.	2,601	13,746	5.9%	30.4%	18.4%	-38.6%	9.2%	6.4x	8.3%
Thailand									
BANPU PUBLIC CO.	1,995	8,485	15.9%	35.3%	12.3%	-27.9%	6.1%	12.0x	6.0%
Phillipines									
SEMINARA MINING	1,990	1,372	-4.5%	50.3%	31.8%	-31.6%	24.5%	10.2x	9.5%
DMCI HOLDING	2,158	3,483	2.7%	37.4%	23.3%	-27.3%	15.2%	9.1x	11.7%

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Sales	21,167	21,644	21,420	21,490
<i>Growth</i>	8.7%	2.3%	-1.0%	0.3%
COGS	(12,621)	(13,482)	(13,294)	(13,361)
Gross Profit	8,546	8,162	8,127	8,128
<i>Gross Margin</i>	40.4%	37.7%	37.9%	37.8%
Operating Expenses	(2,263)	(2,189)	(2,290)	(2,127)
EBIT	6,283	5,973	5,837	6,001
<i>EBIT Margin</i>	29.7%	27.6%	27.3%	27.9%
Depreciation	721	726	727	732
EBITDA	7,004	6,699	6,565	6,733
<i>EBITDA Margin</i>	33.1%	31.0%	30.6%	31.3%
Interest Expenses	(111)	(49)	(54)	(10)
EBT	6,799	6,388	6,242	6,452
Income Tax	(1,677.9)	(1,775.2)	(1,734.7)	(1,792.9)
Minority Interest	(97.2)	(32.5)	(31.7)	(32.8)
Net Profit	5,024	4,581	4,476	4,626
<i>Growth</i>	12.2%	-8.8%	-2.3%	3.4%
<i>Net Profit Margin</i>	23.7%	21.2%	20.9%	21.5%

PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	33.4%	26.7%	24.4%	24.0%
ROA	21.8%	18.4%	17.2%	16.8%
ROIC	27.7%	23.6%	22.2%	21.4%
Cash Dividend (IDR bn)	3,357	3,768	3,115	3,133
Dividend Yield	6.9%	8.0%	6.6%	6.6%
Payout Ratio	66.8%	82.3%	69.6%	67.7%
DER	5.1%	1.5%	1.5%	1.5%
Net Gearing	5%	1%	1%	1%
LT Debt to Equity	2.8%	0.8%	0.8%	0.8%
Capitalization Ratio	4.9%	1.5%	1.5%	1.5%
Equity Ratio	67.3%	70.1%	70.6%	69.8%
Debt Ratio	3.4%	1.1%	1.1%	1.0%
Financial Leverage	145.4%	142.1%	141.7%	143.3%
Current Ratio	237.8%	248.1%	242.9%	232.7%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	11,521	11,521	11,521	11,521
Share Price (IDR)	4,220	4,100	4,100	4,100
Market Cap (IDR tn)	48.6	47.2	47.2	47.2

BALANCE SHEET

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	6,301	6,160	5,087	5,007
Receivables	2,782	2,638	3,230	3,976
Inventories	1,551	1,337	1,518	2,033
Total Current Assets	11,739	11,586	11,405	12,843
Net Fixed Assets	8,427	9,308	9,865	10,422
Other Non Current Asset	4,007	4,802	5,179	5,330
Total Assets	24,173	25,696	26,449	28,595
Payables	1,048	740	717	747
ST Bank Loan	372	119	124	132
LT Debt	460	151	156	167
Total Liabilities	7,903	7,672	7,780	8,635
Capital Stock + APIC	1,183	1,183	1,183	1,183
Retained Earnings	16,815	17,590	18,952	20,445
Shareholders' Equity	16,270	18,024	18,669	19,960

VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	9.7x	10.3x	10.6x	10.2x
Price/Book Value	3.0x	2.6x	2.5x	2.4x
Price/Sales	2.3x	2.2x	2.2x	2.2x
PE/EPS Growth	0.8x	-1.2x	-4.6x	3.0x
EV/EBITDA	5.9x	6.0x	6.2x	6.0x
EV/EBIT	6.6x	6.8x	7.0x	6.8x
EV (IDR bn)	41,166	40,397	40,747	40,637
Sales CAGR (3-Yr)	15.5%	15.5%	3.2%	0.5%
EPS CAGR (3-Yr)	32.2%	26.7%	0.0%	-2.7%
Basic EPS (IDR)	436	398	389	402
Diluted EPS (IDR)	436	398	389	402
BVPS (IDR)	1,412	1,564	1,620	1,733
Sales PS (IDR)	1,837	1,879	1,859	1,865
DPS (IDR)	291	327	270	272

CASH FLOW STATEMENT

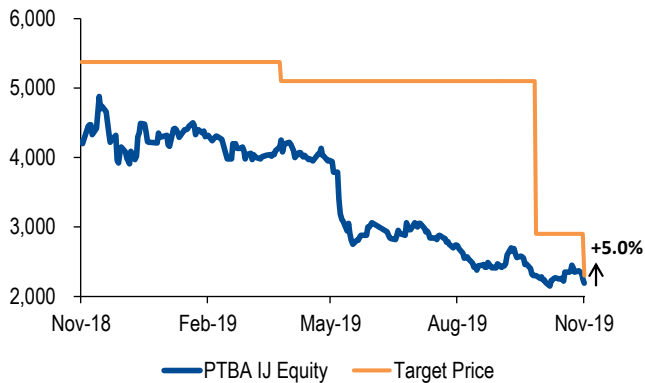
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	7,201	5,077	4,331	4,655
Investing Cash Flow	(1,324)	(1,931)	(1,583)	(1,419)
Financing Cash Flow	(3,115)	(3,272)	(3,821)	(3,316)
Net Changes in Cash	2,763	(126)	(1,073)	(81)

TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	90.9	Inalum 65.9
United States	5.0	Vanguard Group 1.3
Luxembourg	1.6	Dimensional Fund 0.7
Canada	0.7	Blackrock 0.7

Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2018.30.04	Buy	IDR3,950	IDR3,675
2018.08.07	Buy	IDR5,375	IDR4,600
2019.26.03	Buy	IDR5,100	IDR4,538
2019.10.30	Buy	IDR2,900	IDR3,140
2019.11.04	Hold	IDR2,300	IDR2,834

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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