true friend Korea Investment
& Sekuritas Indonesia

Company Update

Commodities

Apr 11, 2022

Harum Energy (HRUM)

Smooth transition to nickel business

High coal prices continue to provide extraordinary cashflows

We view the mid-term global coal prices will sustain at a high level mainly due to 1) stable demand from China and 2) supply risks in Europe amidst Russia-Ukraine war. We project the company's FY22-23F coal production at 4.3 mn tonnes (+19.4% YoY) and 5.0 mn tonnes (+16.3% YoY), respectively. Moreover, we forecast HRUM's coal ASP at USD133/tonne and USD105/tonne for FY22-23F. Additionally, we expect the higher ASP to cover costs hike due to a higher strip ratio in FY22-23F at around 10x (vs. 9.5x in FY21), resulting in expanding cash margins.

Huge investment for transformation into nickel business

During FY20-21, HRUM has shown its concrete move toward nickel business by disbursing a total investment of USD317mn. By far, the company has equity interest in 1) Nickel Mines Ltd or NIC (6.7%), 2) PT Position (51%) and 3) Infei Metal Industry – PT IMI (49.0%). HRUM's accounted investment in NIC and PT IMI as equity-method investment (a change from financial investment (mark-to-market) previously. Meanwhile, PT Position will be booked using a consolidation approach.

Sizable contribution to earnings from nickel business to start in FY22

We foresee nickel ore revenue to contribute 19.1% of HRUM's consolidated revenue in FY22F and keep on expanding to 38.9% of the total revenue in FY25F. Subsequently, we expect the share of profits from PT IMI and NIC to be USD53.7mn in FY22F (20.7% of HRUM's consolidated net profit) and increase to USD128.0mn in FY25F (70.7% of HRUM's consolidated net profit). We project sales volumes of PT POS to increase from 2.4mn tonnes in FY22Fto 4.5 mn tonnes in FY25F. Likewise, we expect NPI volumes from PT IMI to grow from 13,5kt of Ni in FY22F to 40.5kt of Ni in FY25F.

Re-iterate BUY call with TP of IDR16,500/sh

We utilized SOTP valuation to derive our TP of IDR16,500 (offering 27.9% upside potential). We value coal, nickel ore and NPI by using DCF method; while assigning 6x EV/EBITDA multiples (at its -1 stdev of its 3-years mean) for NIC. Note that, if we exclude net cash position from the SOTP, the value from nickel business represents 78% of HRUM's total enterprise value. Potential upside on this valuation may emerge from 1) investment of HRUM in HPAL given the limonite reserves and 2) sustained high nickel price beyond our long term assumptions of USD19k/t.

	2019A	2020A	2021A	2022F	2023F
Sales (IDR bn)	263	158	336	705	676
GP (IDR bn)	68	43	175	410	357
OP (IDR bn)	24	6	132	345	281
NP (IDR bn))	19	59	74	259	245
EBITDA (IDR bn)	32	15	143	358	295
Net debt (IDR bn)	(227)	(211)	(49)	(287)	(456)
OP margin (%)	9.1	3.9	39.3	48.9	41.6
ROE (%)	4.6	13.0	11.4	27.7	20.3
Dividend yield (%)	2.7	-	0.3	1.3	1.2
EPS (IDR)	97	312	392	1,388	1,312
chg. (%, YoY)		222.1	25.6	254.3	(5.4)
BPS (IDR)	2,090	2,403	3,438	5,018	6,464
DPS (IDR)	36	-	37	165	156
PE (x)	133.3	41.4	32.9	9.3	9.8
PB (x)	6.2	5.4	3.8	2.6	2.0
EV/EBITDA (x)	68.5	144.7	16.4	5.9	6.6

12M rating	**BUY**
12M TP	**IDR 16,500**
Upside	**+27.9%**

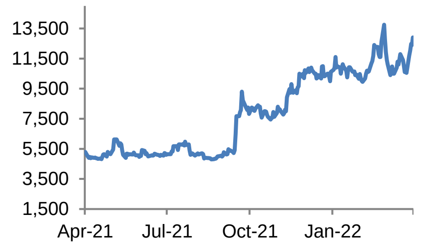
Stock Data

JCI (Apr 8)	7,127
Stock price (Apr 8, IDR)	12,900
Market cap (IDR bn)	34,876
Shares outstanding (m)	2,704
52-week high/low (IDR)	14,750/4,700
6M avg. daily turnover (IDR bn)	146.5
Free float (%)	13.5
Major shareholders (%)	
PT Karunia Bara Perkasa	79.8

Performance

	1M	6M	12M
Absolute (%)	-9.8	50.3	122.2
Relative to JCI (%p)	-4.8	48.2	94.0

HRUM stock price



Source: Bloomberg

Fahressi Fahalmesta
fahressi.f@kisi.co.id

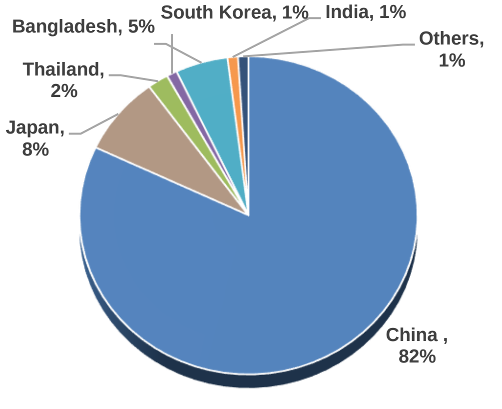
I. High coal prices continue to provide extraordinary cashflows

We view the mid-term global coal prices will sustain at high level mainly due to 1) stable demand from China and 2) supply risks in Europe amidst Russia-Ukraine war. A more detailed discussion about coal sector outlook can be referred to our latest ADRO report (*ADRO – Plotting paths to USD10bn valuation (7Mar2022)*). By and large, we are bullish on coal outlook and expect FY22/23F average coal price at USD190/t and USD150/t, respectively.

HRUM's coal is categorized as mid-to-high CV (5,400-6,400kcal), commonly used to feed power plants in other countries. As of FY21, around 82% of the total sales volume is absorbed by China, then Japan (8%), Bangladesh (5%), and other Asian countries.

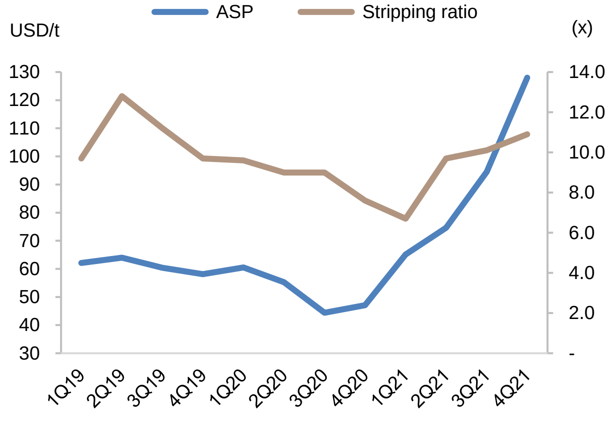
In terms of production, we project the company's FY22-23F coal production at 4.3 mn tonnes (+19.4% YoY) and 5.0 mn tonnes (+16.3% YoY), respectively. Moreover, we forecast ASP of HRUM's coal at USD133/tonne and USD105/tonne for FY22-23F. Additionally, we expect the higher ASP to cover costs hike due to a higher strip ratio in FY22-23F at around 10x (vs. 9.5x in FY21), resulting in expanding cash margin.

Fig 1. HRUM's coal sales volume destination FY21



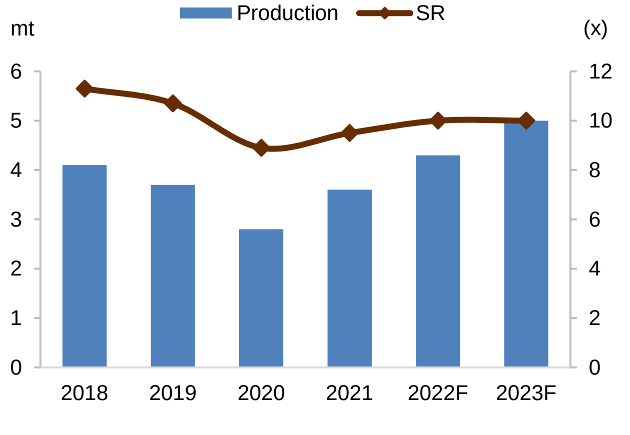
Source: Company, KISI

Fig 2. HRUM's quarterly average ASP and SR



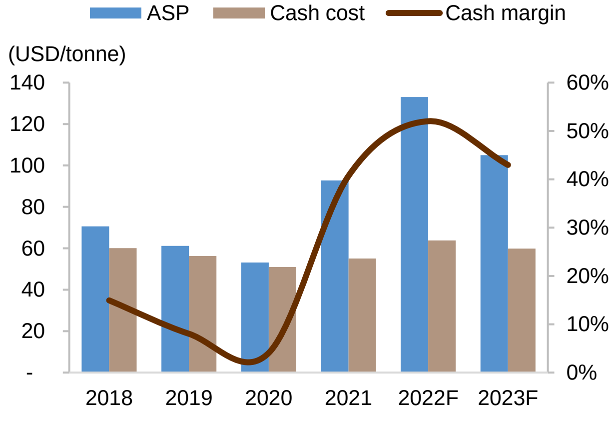
Source: Company, KISI

Fig 3. HRUM's coal production and strip ratio



Source: Company, KISI

Fig 4. HRUM's ASP and cash margin



Source: Company, KISI

II. Huge investment for transformation into nickel business

During FY20-21, HRUM has shown its concrete move toward nickel business by disbursing a total investment of USD317mn. By far, the company has equity interest in 1) Nickel Mines Ltd or NIC (6.7%), 2) PT Position (51%), and 3) Infei Metal Industry – PT IMI (49.0%). HRUM's accounted investment in NIC and PT IMI as equity-method investment (a change from financial investment (mark-to-market) previously) Meanwhile, PT Position will be booked using a consolidation approach.

Fig 5. Series of HRUM's investment in nickel assets (2020-2021)

Date	Target	Transaction Value (USD mn)	Cumulative Ownership
2020			
26-May-20	Nickel Mines Limited	22.8	3.2%
16-Jun-20	Nickel Mines Limited	3.6	3.7%
15-Dec-20	Nickel Mines Limited	27.8	4.9%
2021			
1-Feb-21	PT Position (Nickel ore)	80.3	51.0%
19-Feb-21	PT Infei Metal Industry (NPI)	68.6	24.5%
12-May-21	Nickel Mines Limited	45.0	6.7%
30-Jul-21	PT Infei Metal Industry (NPI)	41.2	39.2%
13-Dec-21	PT Infei Metal Industry (NPI)	27.4	49.0%
	Total Investment	**316.7**	

Source: Various sources, KISI

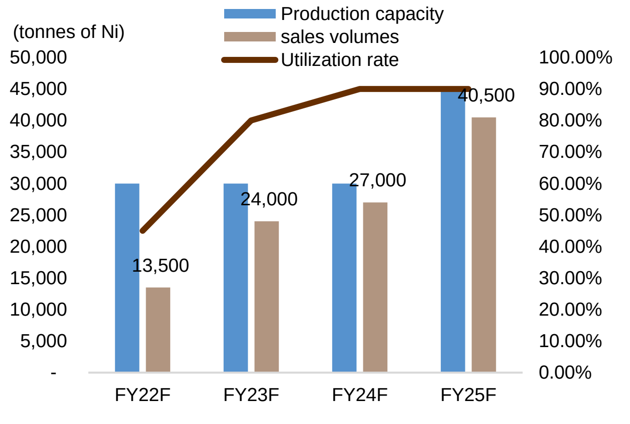
Fig 6. Brief profile of NIC, PT POS and PT IMI

	NIC	PT POS	PT IMI
Brief Profile	NIC is an Australian Public company that produces nickel pig iron (NPI), a key material for stainless steel production. Currently, NIC has 80% ownership in Hengjaya Nickel (HNI) and Ranger Nickel (RNI) projects, both operating RKEF smelters.	HRUM acquired 51% stakes in PT POS in early 2021. The remaining 49% stake is owned by Singaporean investment company affiliated with Tsingshan. POS nickel mine covers an area of 4,000 Ha and has been issued a mining production license until 2037	IMI is a private nickel refining producer. The company will be refining ores from PT POS and other parties. PT IMI currently is developing an NPI smelter in Weda Bay
Production Capacity	Around 53,000 tonnes of Ni annually (adjusted by 80% stakes)	3 mn tonne of saprolite ore per annum starting in 2H22	up to 30,000 tonnes of Ni annually, and targeted to start the production in 2H22

Source: Various sources, KISI

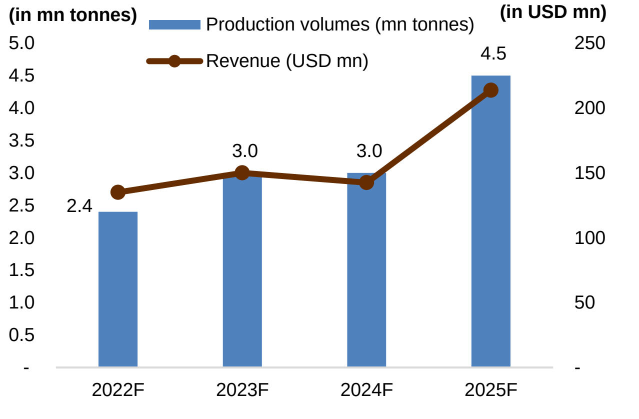
We foresee nickel ore revenue to contribute 19.1% of HRUM's consolidated revenue in FY22F and keep on expanding to 38.9% of the total revenue in FY25F. Subsequently, we expect the share of profits from PT IMI and NIC to be USD53.7mn in FY22F (20.7% of HRUM's consolidated net profit) and increase to USD128.0mn in FY25F (70.7% of HRUM's consolidated net profit). We project sales volumes of PT POS to increase from 2.4mn tonnes in FY22Fto 4.5 mn tonnes in FY25F. Likewise, we expect NPI volumes from PT IMI to grow from 13,5kt of Ni in FY22F to 40.5kt of Ni in FY25F.

Fig 7. NPI production, capacity and utilization rate



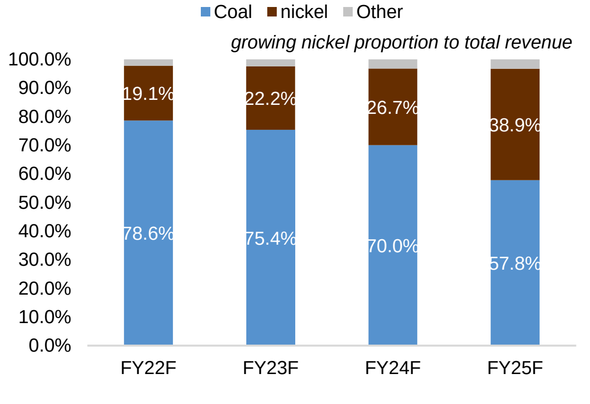
Source: Company, KISI

Fig 8. Nickel ore production and revenue (PT POS)



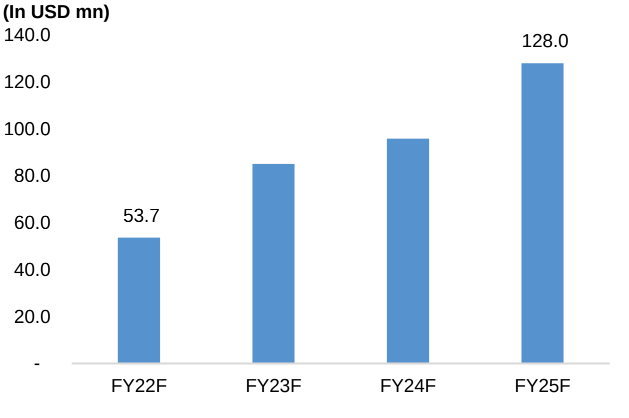
Source: Company, KISI

Fig 9. Revenue mix



Source: Company, KISI

Fig 10. Income from associates



Source: KISI

We believe management of HRUM keep overseeing possible investment, especially for NPI. Based on the company, assuming current level of nickel prices, only 2 years or less to achieve payback period, in which really attractive ROI. In FY21, the positive impact from nickel has not significantly captured, but starting this year we believe the numbers will start to reflect. Additionally, We are of the view that the company unlikely to lose the opportunity if they want to push through the investment in nickel space as they have ample cash level.

III. Reiterate BUY with TP of IDR16,500/sh

We utilized SOTP valuation to derive our TP of IDR16,500 (offering 27.9% upside potential). We value coal, nickel ore, and NPI by using DCF method; while assigning 6x EV/EBITDA multiples (at its -1 stdev of its 5-years mean) for NIC. Note that, if we exclude net cash position from the SOTP, the value from nickel business represents 78% of HRUM's total enterprise value. Currently the counter trades at 6.6x 23F EVEBITDA,

Potential upside on this valuation may emerge from 1) investment of HRUM in HPAL given the limonite reserves and 2) sustained high nickel price beyond our long-term assumptions of USD19k.

Risks to our call include: 1) lower-than-expected average nickel and coal prices and 2) unfavorable changes in the regulations.

Fig 11. HRUM's SOTP summary

	Ownership	Valuation	Target multiple	Enterprise Value (USDmn)
Coal	100.0%	DCF	-	546.8
Nickel Mines Australia	6.70%	EVEBITDA	6.0x	235.0
PT Position	51.0%	DCF	-	397.9
PT Infei Metal Industry	49.0%	DCF	-	1,340.9
Net debt				(456)
Equity value (USDmn)				2,976.4
Outstanding shares				2,704
Target Price (IDR/sh)				**16,500**

Source: KISI

Fig 12. Nickel peers average

No.	Bbg. Ticker	Market cap (USDm)	2023F			
			PER (x)	EVEBITDA (x)	ROE (%)	Dvd yield (%)
1	HRUM IJ	2,428	9.8	6.6	20.3	1.2
2	ANTM IJ	4,685	14.4	9.2	15.4	3.2
3	INCO IJ	5,241	19.3	9.6	7.8	1.3
4	NIKL PM	2,046	10.9	N/A	25.1	N/A
5	600489 CH	6,224	34.8	12.6	3.8	1.2
6	2059 TT	1,471	15.2	9.2	18.8	3.3
7	NIC AU	2,466	6.5	4.7	26.7	6.7
		24,561	**19.1**	**8.7**	**13.5**	**2.2**

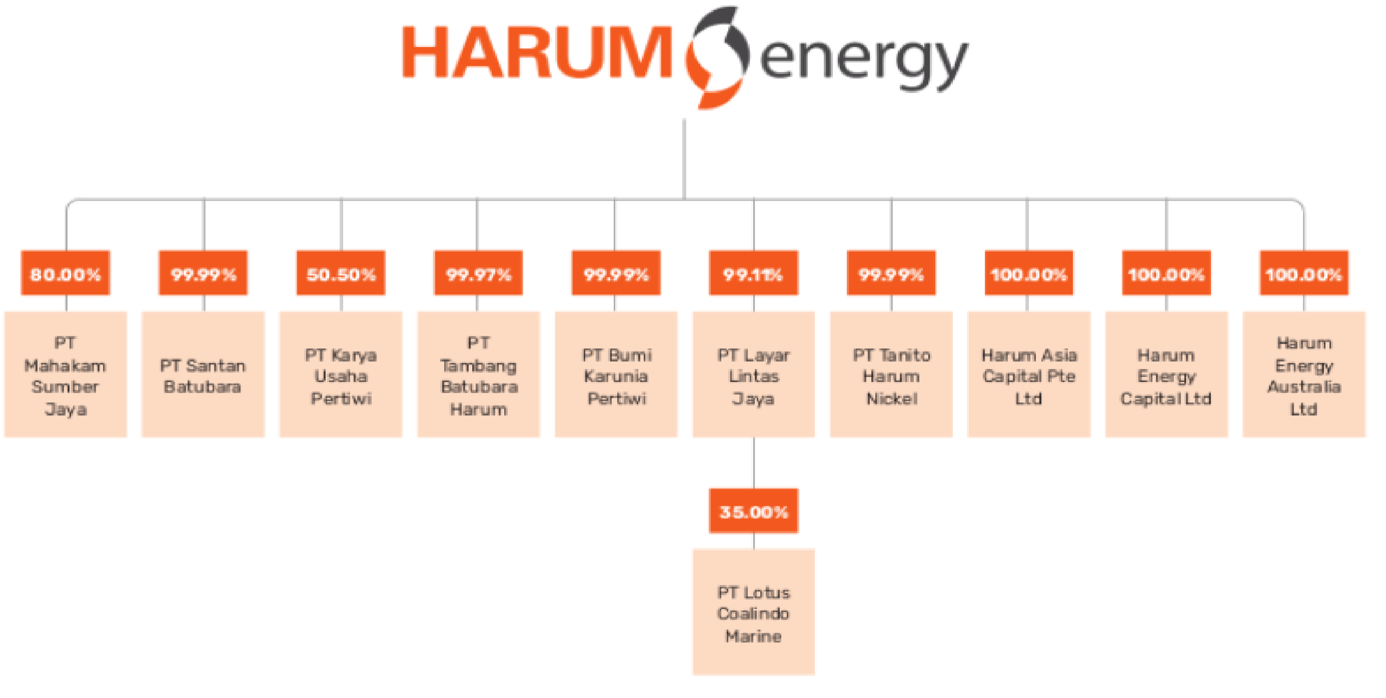
Source: Bloomberg, KISI

Company Overview

On October 6, 2010, Harum Energy conducted an IPO and is officially listed in Indonesia Stock Exchange. HRUM mainly engages in operating and investing in coal mining and logistics through its subsidiaries. HRUM has four subsidiaries in operating its mining activities; PT Mahakam Sumber Jaya (MSJ), PT Santan Batubara (SB), PT Tambang Batubara Harum (TBH), and PT Karya Usaha Pertiwi (KUP). MSJ started to conduct commercial coal mining operations in 2004 and followed by SB, which is a joint venture company in 2009.

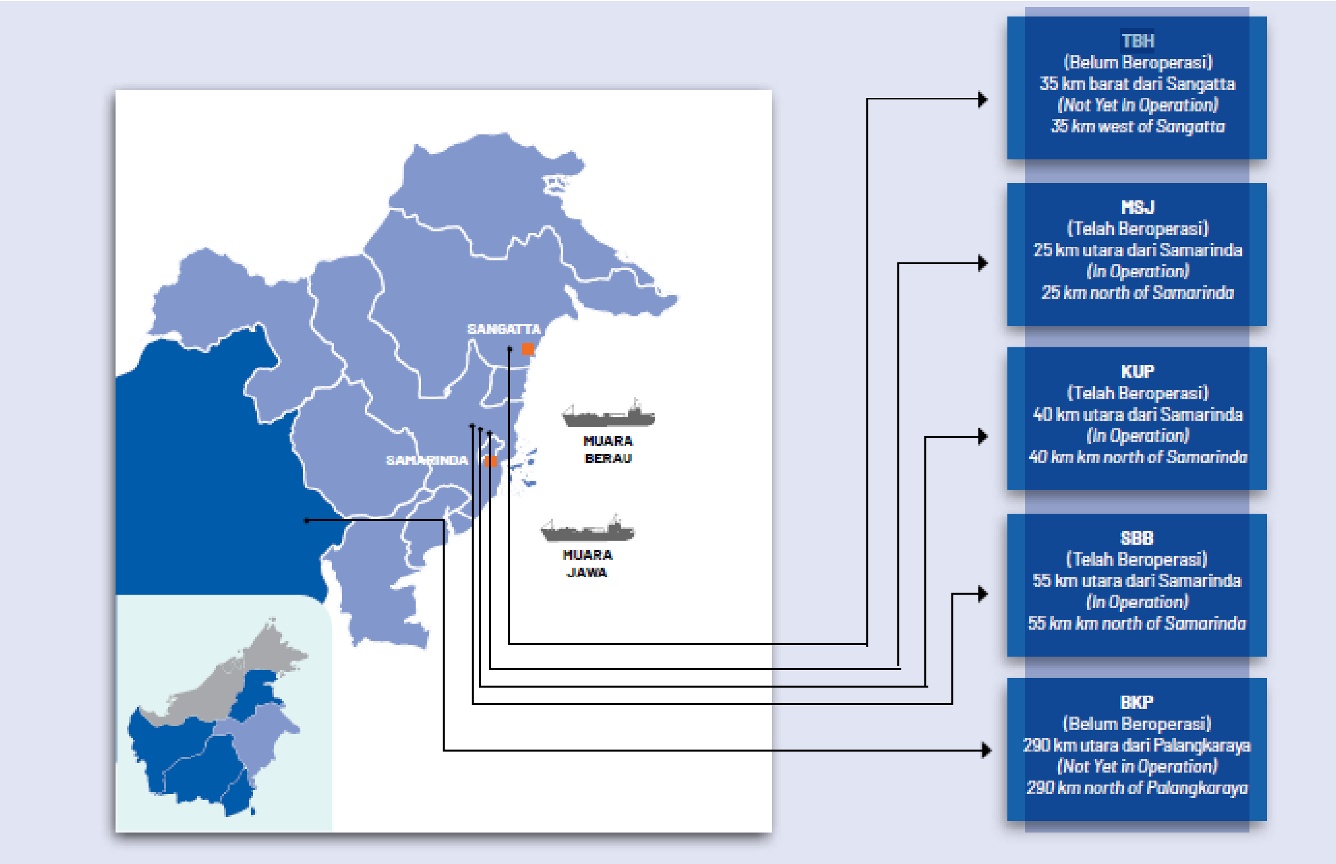
On the other side, to further strengthen the Company's position in the competition maps, the Company also owns PT Layar Lintas Jaya (LLJ), a coal barging and transshipment company. The Company also runs investment activity through its subsidiary, Harum Energy Capital Limited, and by end of 2015 owns 5.39% shares of Australian-based Cockatoo Coal Limited. HRUM has successfully marketed its coal to various customers in domestic and international markets in Asia such as Japan, South Korea, Taiwan, China, and India.

Fig 13. HRUM's corporate structure (end of Dec-20)



Source: Company, KISI

Fig 14. HRUM operational maps



Source: Company, KISI

Balance sheet

(USDmn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
Current assets	**288**	**249**	**248**	**563**	**652**
Cash & cash equivalent	227	211	149	371	457
Accounts & other receivables	23	9	23	48	46
Inventories	16	12	21	30	40
Others	23	17	54	114	109
Non-current assets	**159**	**249**	**627**	**714**	**799**
Fixed assets	132	126	326	340	353
Financial investment	1	101	-	-	-
Investment in JV	-	-	275	321	396
Other non-current assets	26	22	27	52	50
Total assets	**447**	**499**	**875**	**1,276**	**1,451**
Current liabilities	**31**	**25**	**81**	**219**	**129**
Accounts & other payables	19	6	18	32	35
ST debt	-	-	-	-	-
Current portion of LT debt	-	-	17	83	-
Others	12	18	63	187	95
Non-current liabilities	**16**	**19**	**143**	**121**	**116**
LT debt & financial liabilities	-	-	83	-	-
Deferred tax liabilities	11	13	55	116	111
Other non-current liabilities	5	7	88	5	5
Total liabilities	**47**	**44**	**224**	**341**	**246**
Controlling interest					
Capital stock	142	142	162	162	162
Additional paid-in capital	-	-	-	-	-
Other Reserves	-	-	-	-	-
Retained earnings	172	228	307	535	750
Minority interest	85	85	182	239	293
Shareholders' equity	**400**	**455**	**651**	**936**	**1,205**

Cash flow

(USDmn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
C/F from operating	**25**	**95**	**108**	**287**	**245**
Net profit	19	59	74	259	245
Depreciation	(8)	(9)	(11)	(13)	(14)
Net incr. in W/C	14	45	45	42	14
Others	0	0	0	0	1
C/F from investing	**(7)**	**(107)**	**(391)**	**(75)**	**(101)**
CAPEX	(9)	(7)	(217)	(28)	(27)
Others	1	(100)	(174)	(47)	(74)
C/F from financing	**(7)**	**(4)**	**221**	**10**	**(58)**
Incr. in equity	(0)	(4)	129	57	54
Incr. in debts	0	0	99	(17)	(83)
Dividends	(7)	0	(7)	(31)	(29)
Others	0	0	0	0	0
C/F from others	0	0	0	0	0
Increase in cash	**10**	**(15)**	**(62)**	**222**	**86**

Income statement

(USDmn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
Sales	263	158	336	705	676
COGS	(195)	(115)	(162)	(295)	(318)
Gross profit	68	43	175	410	357
SG&A expense	(44)	(37)	(42)	(66)	(76)
Operating profit	24	6	132	345	281
Financial income	6	4	1	1	2
Financial expense	(2)	-2	(3)	(0)	(0)
Other expense	(0)	0	-0	-	-
Other non-operating profit	-	-	-	-	-
Income (loss) from JV	-	-	-	-	-
Earnings before tax	26	64	128	400	368
Income taxes	(6)	(4)	(29)	(76)	(62)
Net profit	19	59	74	259	245
Non-controlling interest	(2)	(1)	(24)	(65)	(61)
Other comprehensive profit	-	-	-	-	-
Total comprehensive profit	-	-	-	-	-
Total comprehensive profit of controlling interest	-	-	-	-	-
EBITDA	**32**	**15**	**143**	**358**	**295**

Key financial data

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
per share data (IDR)					
EPS	97	312	392	1,388	1,312
BPS	2,090	2,403	3,438	5,018	6,464
DPS	36	-	37	165	156
Growth (%)					
Sales growth	(22.0)	(39.9)	113.0	109.8	(4.2)
OP growth	(53.4)	(74.1)	2,049.9	160.8	(18.5)
NP growth	(41.8)	218.9	25.6	249.0	(5.4)
EBITDA growth	(47.4)	(52.3)	845.8	112.0	(22.7)
Profitability (%)					
OP margin	9.1	3.9	39.3	48.9	41.6
NP margin	7.0	37.4	22.1	36.7	36.2
EBITDA margin	12.1	9.6	42.7	43.1	34.8
ROA	4.1	11.8	8.5	20.3	16.9
ROE	4.6	13.0	11.4	27.7	20.3
Dividend yield	2.7	-	0.3	1.3	1.2
Dividend payout ratio	22	-	12	12	12
Stability					
Net debt (IDR bn)	(227)	(211)	(49)	(287)	(456)
Int.-bearing debt/equity (%)	-	-	15.4	9.0	0.1
Valuation (X)					
PE	133.3	41.4	32.9	9.3	9.8
PB	6.2	5.4	3.8	2.6	2.0
EV/EBITDA	68.5	144.7	16.4	5.9	6.6

Disclaimer

This Research Report ("Report") is prepared by PT Korea Investment and Sekuritas Indonesia, or its subsidiaries or its affiliates ("KISI").

By receiving this Report, you confirm that: (a) you have previously requested KISI to deliver this Report to you and you are legally entitled to receive the Report in accordance with Indonesian prevailing laws and regulations, and (b) you have fully read, understood and agreed to be bound by and comply with the terms of this Report as set out below. Your failure to comply with the terms below may constitute a violation of law.

All the material presented in this Report is under copyright to KISI. This Report is strictly confidential and is for private circulation only to clients of KISI. This Report is being supplied to you strictly on the basis that it will remain confidential and that you will maintain its confidentiality at all times. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form of by any means or altered in any way, or transmitted to, or distributed to any other party without prior written consent of KISI.

This Report is based on the information obtained by KISI from sources believed to be reliable, however KISI do not make representations as to their accuracy, completeness or correctness. This Report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. KISI accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this Report and further communication given or relied in relation to this document.

This Report is intended for circulation among KISI' clients only and does not consider any specific investment objectives, financial situation and the particular needs of any specific person who may receive this Report. The entire content of this Report is not and cannot not be construed or considered as an offer, recommendation, invitation or solicitation to enter into any transaction (including trading and hedging) relating to the securities, other financial instruments, and other form of investments issued or offered by the company(ies) covered in this Report. It is your own responsibility to: (a) independently evaluate the content of this Report, (b) consider your own individual investment objectives, financial situation and particular needs, and (c) consult your own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this Report.

This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and analysis should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts, and estimates contained in this report reflects a judgment at its original date of publication by KISI and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The views expressed in this Report reflect the personal views of the individual analyst(s) at KISI about the securities or company(ies) mentioned in the Report and the compensation of the individual analyst(s), is, or will be directly or indirectly related to the performance of KISI' activities. KISI prohibits the individual analyst(s) who prepared this Report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company (including those covered in the Report). However, the individual analyst(s) may receive compensation based on the scope of his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations.

In reviewing this Report, you should be aware that any or all of the above activities of KISI and its officers, directors and employees, among other things, may give rise to real or potential conflicts of interest. KISI and its officers, directors and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. KISI may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published.

Please note that the securities of the company(ies) covered in this Report might not be eligible for sale in all jurisdictions or to all categories of investors. The availability of those securities and your eligibility to invest in those securities will be subject to, among others, the prevailing laws of the relevant jurisdiction covering those securities. Furthermore, the value and income of any of the securities covered in this Report can fall as well as rise and an investor (including you) may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred.

PT Korea Investment and Sekuritas Indonesia is Securities Company Member of the Indonesia Stock Exchange, licensed, registered and supervised by the Indonesia Financial Services Authority (Otoritas Jasa Keuangan).