

Bukit Asam (PTBA)

Palatable impact of new coal royalty taxes

Coal price outlook to remain robust in FY22

In the wake of extreme heatwaves and droughts (which negatively affect the hydropower plants to generate power), China's power plants daily coal consumption increased by ~15% in the first two weeks of Aug2022. Power plants in southern China have increased tenders to get more Indonesian coal in Aug2022 amid surging demand. China's Jul2022 thermal coal shipments from Indonesia were 11.7mn tonnes (+22% MoM), while zero coal shipments were recorded from Australia in Jul2022. Robust coal demand in China and more uncertainties in Europe (given EU sanctions on Russia) should sustain global coal (as a direct alternative to oil and gas) prices at the current high level in the mid-term.

Limited impact from coal royalty taxes changes

Gov't regulation no. 26/2022 issued on 15Aug2022 imposed new royalty taxes for coal IUP license holders, which now range from 5% to 13.5% depending on Indonesia Coal Price Reference (HBA) and produced coal calorific value (CV). Refer to Table 1 for more details. PTBA as IUP holders for all its coal concessions will be subjected to new royalty taxes starting 15Sep2022. Applying these new royalty taxes resulted in 3%/11% lower net profit estimates for FY22/23F.

Better indication for 2Q22 earnings

PTBA indicated that May & Jun2022 coal production should catch up after a slow 1Q22 & Apr2022 operational performance. Considering current ASP trajectory, indicated production, and lower strip ratio, we can expect PTBA to generate a ~50% QoQ higher net profit in 2Q22 at IDR3.4tn, bringing its 1H22 net profit to ~IDR5.7tn, ~3.2x YoY, 47% of our FY22 estimate.

Maintain BUY call with a lower TP due to royalty taxes adjustments

We revised down our PTBA's FY22/23F earnings assumptions by 3%/11% to reflect the impact of new royalty taxes. Subsequently, our PTBA's DCF valuation is reduced by 5% to IDR54.8tn (equivalent to IDR4,570/sh), implying 4.4x FY22F PE with an average of ~30% ROE in the next 3 years and >15% expected dividend yield. Our sensitivity analysis showed that every 5% move in coal price should result in an 8% and 4% movement in our PTBA's earnings assumptions and DCF valuation, respectively. Potential upside may come from the implementation of currently discussed coal BLU which benefits coal miners with a high domestic sales portion through compensation.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	17,325	29,261	41,794	41,867	35,692
GP (IDR bn)	4,566	13,484	19,507	15,927	10,965
OP (IDR bn)	2,434	9,890	15,373	11,253	6,082
NP (IDR bn)	2,387	7,909	12,072	8,952	4,961
EBITDA (IDR bn)	3,486	11,260	16,993	13,041	7,921
Net debt (IDR bn)	(4,228)	(4,388)	(7,649)	(5,782)	(5,650)
OP margin (%)	14.0	33.8	36.8	26.9	17.0
ROE (%)	14.1	32.6	42.5	31.6	17.2
Dividend yield (%)	11.2	1.8	16.7	19.2	9.5
EPS (USD)	207	687	1,048	777	431
chg. (% YoY)	(41.2)	231.4	52.6	(25.8)	(44.6)
BPS (USD)	1,470	2,105	2,467	2,462	2,508
DPS (USD)	317	73	687	786	389
PE (x)	13.2	3.9	3.9	5.3	9.5
PB (x)	1.9	1.3	1.7	1.7	1.6
EV/EBITDA (x)	7.9	1.7	2.8	3.6	6.0

Company Update

Commodities

Aug 23, 2022

12M rating **BUY (Maintain)**
12M TP **IDR 4,750** (Prev IDR 5,000)
Upside **+15.9%**

Stock Data

JCI (Aug 22)	7,108
Stock price (Aug 22, IDR)	4,100
Market cap (IDR bn)	47,235
Shares outstanding (m)	11,521
52-week high/low (IDR)	4,630 / 2,070
6M avg. daily turnover (IDR bn)	207.7
Free float (%)	33.8

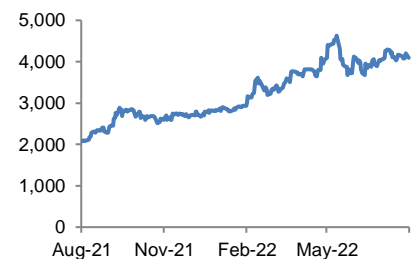
Major shareholders (%)

Indonesia Asahan Aluminium	65.9
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Performance

	1M	6M	12M
Absolute (%)	5.8	66.6	127.1
Relative to JCI (%)	(1.9)	34.6	64.9

PTBA stock price



Source: Bloomberg

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Table 1. Royalty tax changes for IUP license

Coal mine	PP no. 81/2019		PP no. 26/2022		
	CV	Existing royalty tax	CV	Reference Price (HBA)	Royalty tax (15Sep2022 onwards)
Open Pit	≤ 4,700 kcal/kg	3% of selling price	≤ 4,200 kcal/kg	< USD 70/t	5% of selling price
				USD 70/t ≤ HBA < USD 90/t	6% of selling price
				USD 90/t	8% of selling price
	4,700 kcal/kg < x ≤ 5,700 kcal/kg	5% of selling price	4,200 kcal/kg < x ≤ 5,200 kcal/kg	< USD 70/t	7% of selling price
				USD 70/t ≤ HBA < USD 90/t	8.5% of selling price
				USD 90/t	10.5% of selling price
	> 5,700 kcal/kg	7% of selling price	> 5,200 kcal/kg	< USD 70/t	9.5% of selling price
				USD 70/t ≤ HBA < USD 90/t	11.5% of selling price
				USD 90/t	13.5% of selling price
Underground	≤ 4,700 kcal/kg	2% of selling price	≤ 4,200 kcal/kg	< USD 70/t	4% of selling price
				USD 70/t ≤ HBA < USD 90/t	5% of selling price
				USD 90/t	7% of selling price
	4,700 kcal/kg < x ≤ 5,700 kcal/kg	4% of selling price	4,200 kcal/kg < x ≤ 5,200 kcal/kg	< USD 70/t	6% of selling price
				USD 70/t ≤ HBA < USD 90/t	7.5% of selling price
				USD 90/t	9.5% of selling price
	> 5,700 kcal/kg	6% of selling price	> 5,200 kcal/kg	< USD 70/t	8.5% of selling price
				USD 70/t ≤ HBA < USD 90/t	10.5% of selling price
				USD 90/t	12.5% of selling price

Source: Gov't regulation no. 26/2022, KISI

Table 2. PTBA's 2Q22 results preview

PTBA 2Q22 results preview									
	2Q21	1Q22	2Q22F*	QoQ	YoY	6M21	6M22F*	YoY	% of FY22F KISI
Revenue	6,296	8,205	10,320	25.8%	63.9%	10,291	18,525	80.0%	44.3%
Gross Profit	2,529	3,451	5,101	47.8%	101.7%	3,547	8,552	141.1%	43.8%
Operating Profit	1,822	2,851	4,377	53.5%	140.3%	2,256	7,228	220.3%	47.0%
Net Income	1,278	2,275	3,426	50.6%	168.1%	1,779	5,701	220.5%	47.2%
GPM	40.2%	42.1%	49.4%			34.5%	46.2%		
OPM	28.9%	34.7%	42.4%			21.9%	39.0%		
NPM	20.3%	27.7%	33.2%			17.3%	30.8%		

PTBA 2Q22 operational results preview									
	2Q21	1Q22	2Q22F*	QoQ	YoY	6M21	6M22F*	YoY	% of FY22F KISI
Production vol (mn)	8.8	6.3	6.8	7.9%	-22.7%	13.3	13.1	-1.5%	39.0%
Sales vol (mt)	7.0	7.0	7.6	7.9%	7.9%	12.9	14.6	12.8%	43.3%
ASP (IDR'000/ton)	885.6	1,159.0	1,341.4	15.7%	51.5%	787.0	1,254	59.3%	101.8%
Stripping ratio (x)	4.0	6.3	5.5	-12.7%	37.8%	4.4	5.9	33.7%	
OB removal (m bcm)	35.1	39.7	37.4	-5.8%	6.5%	58.5	77	31.7%	44.1%

Source: Company, KISI

Table 3. PTBA's DCF valuation

DCF Valuation Summary		Assumption	
Enterprise value (IDR bn)	47,165	Risk-free rate	7.2%
Net cash (IDR bn)	(7,649)	Market Premium	4.5%
Equity Value (IDR bn)	54,814	Beta	1.0
Shares outstanding (mn)	11,522	After tax Cost of Debt	6.8%
Target Price (IDR / share)	4,750	Debt Proportion	4.1%
		Equity Proportion	95.9%
		Cost of Equity	11.7%
Target PE (x)	4.4	Long-term growth	0.0%
Current PE (x)	3.9	<i>consider 35 year life-mine after 2025</i>	
		WACC	11.5%

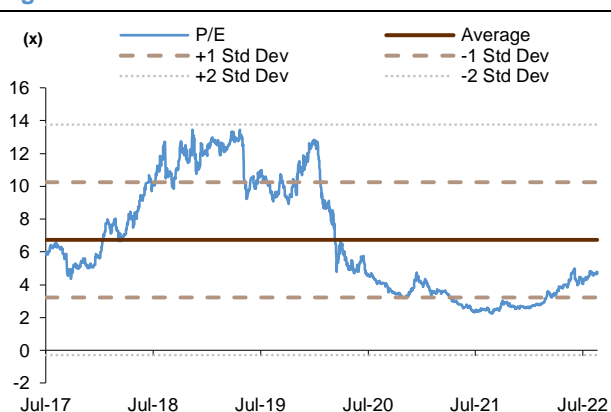
Source: KISI

Table 4. Summary of assumptions changes

Assumptions	Unit	Revised			Previous	
		FY22F	FY23F	FY24F	FY22F	FY23F
Sales volume	m tonnes	33.6	37.2	38.2	33.6	37.2
Change (%)		0%	0%	new		
Global coal price	USD/tonne	325.0	150.0	100.0	190.0	150.0
Change (%)		71%	0%	new		
ASP	USD/tonne	83.2	74.3	61.7	86.6	74.3
Change (%)		-4%	0%	new		
Revenue	IDR bn	41,394	41,467	35,292	43,064	41,467
Change (%)		-4%	0%	new		
Cost of revenue	IDR bn	22,286	25,941	24,727	22,115	24,498
Change (%)		1%	6%	new		
EBITDA	IDR bn	16,993	13,041	7,921	18,873	14,515
Change (%)		-10%	-10%	new		
Net profit	IDR bn	12,072	8,952	4,961	12,456	10,095
Change (%)		-3%	-11%	new		
Target price	IDR		4,750		5,000	
Change (%)			-5%			
Recommendation			BUY		BUY	

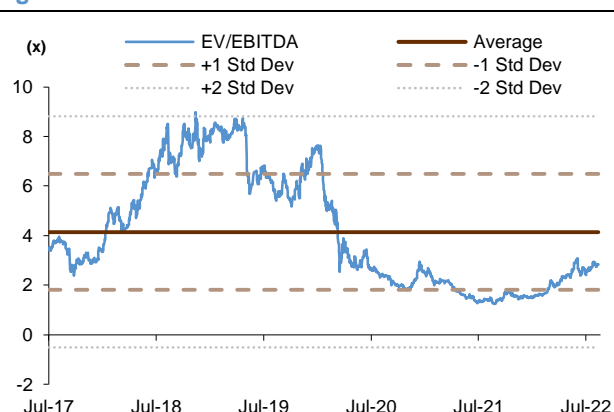
Source: KISI

Fig 1. PTBA's PE band



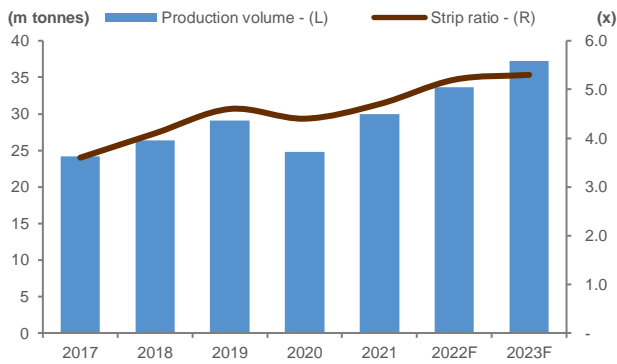
Source: Bloomberg, KISI

Fig 2. PTBA's EV/EBITDA band



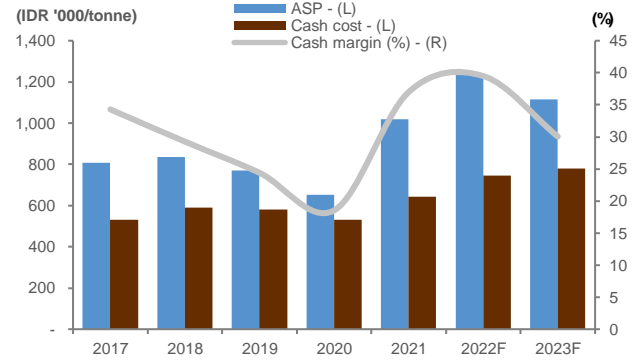
Source: Company, KISI

Fig 3. PTBA's production vol. & strip ratio trend



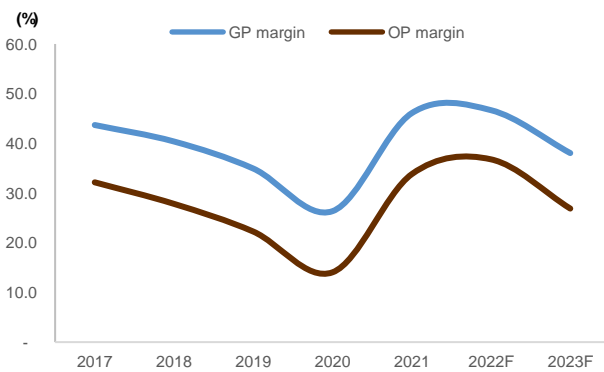
Source: Company, KISI

Fig 4. PTBA's ASP, cash cost & cash margin trend



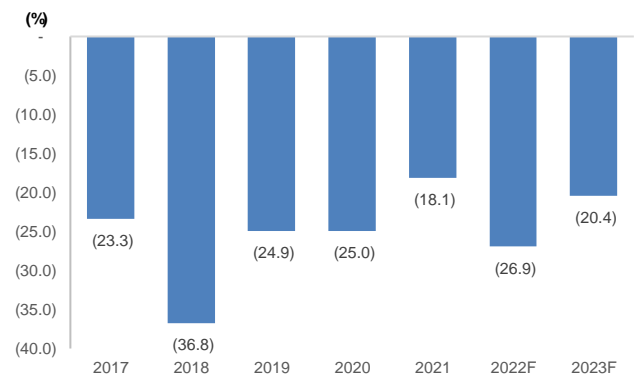
Source: Company, KISI

Fig 5. PTBA's GP & OP margin trend



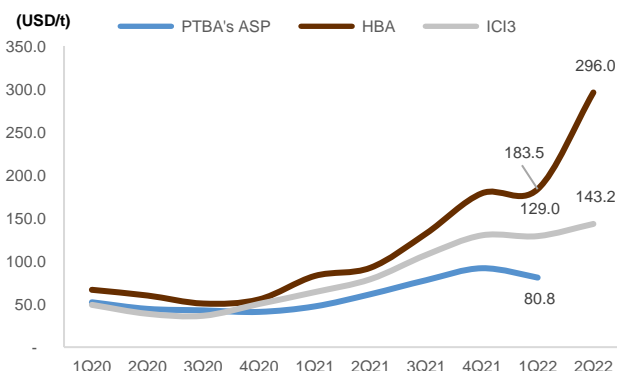
Source: Company, KISI

Fig 6. PTBA's net gearing trend



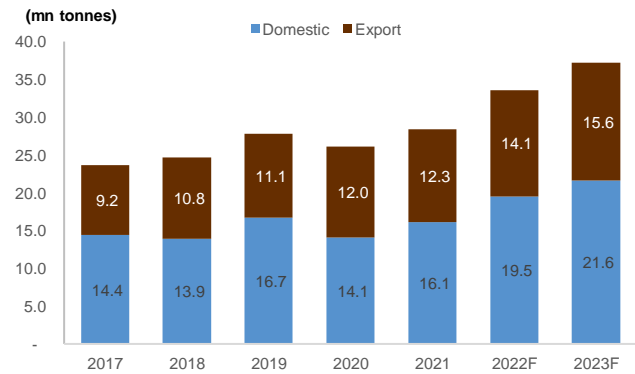
Source: Company, KISI

Fig 7. PTBA's quarterly ASP vs. HBA & ICI3



Source: Bloomberg, Argus, KISI

Fig 8. PTBA's domestic & export vol. breakdown



Source: Company, KISI

Company Overview

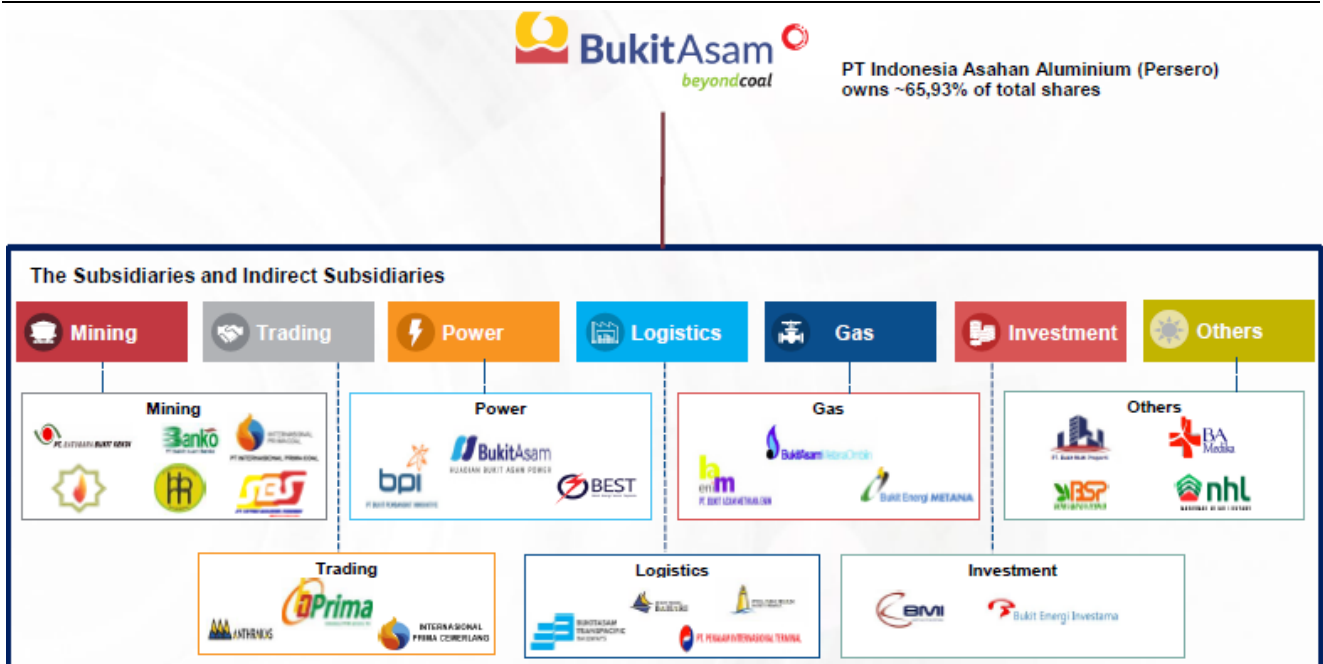
PTBA is one of Indonesia’s largest coal mine producers. PTBA holds a Mining Business License (IUP) for its production area of 93,977 ha located in Tanjung Enim (66,414 ha) including the Regency of Muara Enim and Lahat, South Sumatera, Peranap (18,230 ha), Ombilin (2,935 ha), and Tabalong, East Kalimantan through its subsidiary, IPC (3,145 ha).

For its coal transportation, PTBA entered into an agreement with PT KAI for its coal delivery from Tanjung Enim to Tarahan Port and PTBA’s coal jetty in Kertapati, Palembang.

Publicly listed on the Jakarta Stock Exchange in 2002 with 35% of shares held by public, in 2017, the Company joined the holding of Mining SOEs with Inalum owning ~65.9% of its shares.

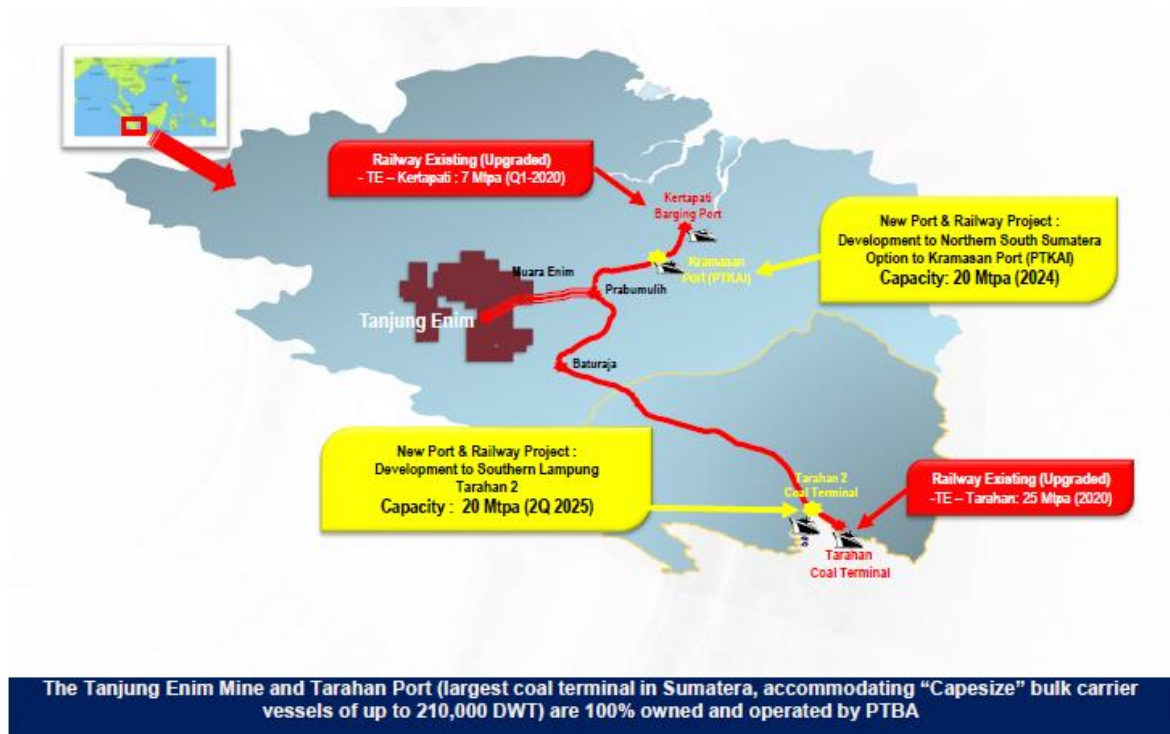
Aside from coal mining, PTBA engaged in other downstream businesses such as power plants and briquette business. In 2019, PTBA signed a contractual agreement with Formosa Plastic Group to become their high-calorie coal supplier. PTBA also aims to direct selling to end-users, especially to electricity companies. The future pipeline also includes an expansion project to the gasification industry and coal-fired power plants.

Fig 9. PTBA corporate structure



Source: Company’s annual report, KISI

Fig 10. PTBA operational maps



Source: Company's annual report, KISI

Balance sheet		(IDRbn)				
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F	
Current assets						
Cash & cash equivalent	4,341	4,394	7,658	5,787	5,650	
Accounts & other receivables	1,579	3,100	4,924	4,703	3,814	
Inventories	805	1,208	1,304	1,519	1,596	
Others	1,639	9,510	8,359	8,373	7,138	
Non-current assets						
Fixed assets	7,925	8,383	10,352	12,515	14,334	
Other non-current assets	7,767	9,529	10,216	10,496	10,090	
Total assets	24,057	36,124	42,813	43,393	42,622	
Current liabilities						
Accounts & other payables	697	1,270	1,954	2,132	2,032	
ST debt	-	-	-	-	-	
Current portion of LT debt	107	4	3	3	-	
Others	3,872	7,499	8,826	9,317	8,462	
Non-current liabilities						
LT debt & financial liabilities	6	2	6	3	-	
Employee benefits liability	82	102	111	130	124	
Other non-current liabilities	3,245	4,369	5,568	5,714	5,268	
Total liabilities	7,118	11,870	14,396	15,034	13,733	
Controlling interest						
Capital stock	1,434	1,746	1,746	1,746	1,746	
Additional paid-in capital	-	-	-	-	-	
Other Reserves	-	-	-	-	-	
Retained earnings	15,329	22,313	26,476	26,374	26,859	
Minority interest	176	194	194	240	284	
Shareholders' equity	16,939	24,254	28,416	28,360	28,889	

Cash flow		(IDRbn)				
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F	
C/F from operating						
Net profit	2,387	7,909	12,072	8,952	4,961	
Depreciation	1,031	1,242	1,374	1,606	1,750	
Net incr. in W/C	2,369	(4,955)	1,745	613	757	
Others	(2,264)	(843)	(331)	11	611	
C/F from investing						
CAPEX	1,159	(1,343)	(3,343)	(3,768)	(3,569)	
Others	(1,178)	(1,255)	(346)	(273)	(211)	
C/F from financing						
Incr. in equity	(219)	241	-	46	44	
Incr. in debts	(50)	(107)	3	(4)	(5)	
Dividends	(3,651)	(835)	(7,909)	(9,054)	(4,476)	
Others	-	-	-	-	-	
C/F from others						
	-	-	-	-	-	
Increase in cash	(416)	53	3,264	(1,871)	(137)	

Income statement		(IDRbn)				
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F	
Sales	17,325	29,261	41,794	41,867	35,692	
COGS	(12,759)	(15,777)	(22,286)	(25,941)	(24,727)	
Gross profit	4,566	13,484	19,507	15,927	10,965	
SG&A expense	(2,132)	(3,594)	(4,134)	(4,674)	(4,883)	
Operating profit	2,434	9,890	15,373	11,253	6,082	
Financial income	363	257	357	414	366	
Financial expense	(133)	(158)	(237)	(256)	(274)	
Other expense	568	370	300	300	300	
Other non-operating profit	-	-	-	-	-	
Income (loss) from JV	-	-	-	-	-	
Earnings before tax	3,232	10,359	15,793	11,711	6,474	
Income taxes	(824)	(2,322)	(3,474)	(2,576)	(1,424)	
Net profit	2,387	7,909	12,072	8,952	4,961	
Non-controlling interest	(21)	(128)	(246)	(183)	(88)	
Other comprehensive profit	-	-	-	-	-	
Total comprehensive profit	-	-	-	-	-	
Total comprehensive profit of controlling interest	-	-	-	-	-	
EBITDA	3,486	11,260	16,993	13,041	7,921	

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	207	687	1,048	777	431
BPS	1,470	2,105	2,467	2,462	2,508
DPS	317	73	687	786	389
Growth (%)					
Sales growth	(20.5)	68.9	42.8	0.2	(14.7)
OP growth	(49.8)	306.3	55.4	(26.8)	(45.9)
NP growth	(41.2)	231.4	52.6	(25.8)	(44.6)
EBITDA growth	(37.9)	223.0	50.9	(23.3)	(39.3)
Profitability (%)					
OP margin	14.0	33.8	36.8	26.9	17.0
NP margin	13.8	27.0	28.9	21.4	13.9
EBITDA margin	20.1	38.5	40.7	31.1	22.2
ROA	9.9	21.9	28.2	20.6	11.6
ROE	14.1	32.6	42.5	31.6	17.2
Dividend yield	11.2	1.8	16.7	19.2	9.5
Dividend payout ratio	90	35	100	75	50
Stability					
Net debt (IDR bn)	(4,228)	(4,388)	(7,649)	(5,782)	(5,650)
Int.-bearing debt/equity (%)	0.7	0.0	0.0	0.0	-
Valuation (X)					
PE	13.2	3.9	3.9	5.3	9.5
PB	1.9	1.3	1.7	1.7	1.6
EV/EBITDA	7.9	1.7	2.8	3.6	6.0

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