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Potential mine acquisition. Based on our discussion with management, the company is in progress to acquire multiple small mines around their existing pit. Looking at their current reserve left, we found such action is mandatory. However, the company does not expect to be able to acquire mines with huge reserve, instead the company are going to acquire multiple small mines with potential reserve below 100 mn tons. As a result, we believe this acquisition will incur additional cost regarding to more infrastructure expense and transportation cost required.

Additional reserve is likely to be seen. On December 2016, ITMG's reserve is estimated at 198.3 mn tons. However, those figures was estimated using the last JORC report with long term coal price benchmark at USD 65 per ton. With the current coal price soaring high above USD 95 per ton, we would see a potential increase in their reserve. Our estimation suggest that, a slight changes in long-term coal price benchmark by USD 10 per ton could increase their reserve roughly by ~40 mn tons. Moreover, with their current strategies to increase stripping ratio during high coal price momentum, will also help to maintain their depleting reserve.

3Q17 outlook. Looking forward to 3Q17 result that will be published soon, we expect the company will be able to increase their production in 3Q17, although we are doubtful that the company will be able to achieve its FY17 production target at ~23.8 mn tons. Meanwhile, we also expect ASP to increase in 3Q17 along with their cash cost which will result in a relatively stable margin in 3Q17 compared to 2Q17.

Our view: Although we might see a positive impact due to the increase in remaining reserve, we still maintain our NEUTRAL view on ITMG considering higher mine acquisition cost due to infrastructure and transportation cost, depleting mine reserve, and decline production output trend due to several mine closure.

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