

High demand for coal. Coal price has increased by +6.0% YTD to its highest level above US\$ 106.0 per ton amid strong demand outlook. China demand for coal remained strong as winter weather proven to be colder than anticipated. Switching energy sources from coal to gas has led to inefficient electricity supply for heater, causing several regions in China to suffer from cold weather. Accordingly, coal fired power plant operation need to be restarted by the government to cater growing demand for electricity during these winter period. At current pace, we see demand for coal from China to remain high.

Ship in a bottleneck while demand soar. While demand soar during winter season, coal shipping has been disrupted as port in China were experiencing a bottleneck. Several news has cited that some vessels had to wait more than two weeks to unload the goods at China's port. Furthermore, delays at loading port in Kalimantan, Indonesia due to huge rainfalls as well as the congestion in Australian shipping port have given more pressure to coal supply. As a result, China has recorded one of their lowest inventory level for coal in December 2017 where it was recorded at 115.45 Mt (-17.9% MoM, -11.2% YoY). We believe the congestion and coal supply delays have given the upside risks to coal price.

Extreme weather added pressure. Winter season for this year has proven to be one of the coldest period ever recorded. Some countries in the Northern region such as US and Canada are experiencing a colder winter where their temperature reached a record low level. One of the example is Chicago where their temperature has drop to -50°C , their lowest temperature in years. Besides that, hot summer in southern region such as Australia has also shown its hottest weather where the temperature has spiked up to 47°C , the hottest temperature since 1939. We believe extreme weather condition in this year would lead to higher coal demand.

Maintain overweight view with upgraded coal price. As we see strong tailwind for coal, we maintain our OVERWEIGHT view for coal sector. Moving forward, we also upgraded our coal price assumption to US\$85/US\$80 per ton from US\$80/US\$75 per ton for 2018 and 2019 onwards. Accordingly, we maintain our BUY call for ADRO and HRUM with higher FY18 target price at 2,800 and 3,400 respectively, while we downgrade our call to ADD for PTBA with FY18 target price at 3,650 due to aggressive stock price rally. Furthermore, we upgrade our call to ADD for ITMG with FY18 target price at 31,650.

Ticker	Rating	Current Price (IDR)	Target Price (IDR)	Upside (Downside)	FY18e P/E
ADRO	BUY	2,310	2,800	21.2%	9.1
PTBA	ADD	3,300	3,650	10.6%	8.1
ITMG	ADD	28,475	31,650	11.1%	9.1
HRUM	BUY	2,700	3,400	25.9%	10.2

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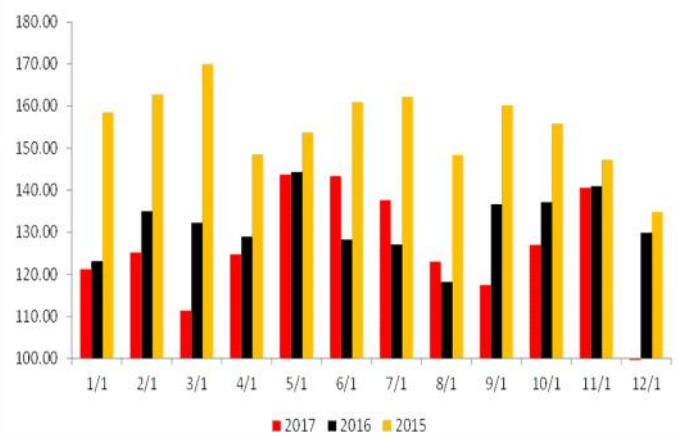
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Newcastle coal price (FY17-YTD)



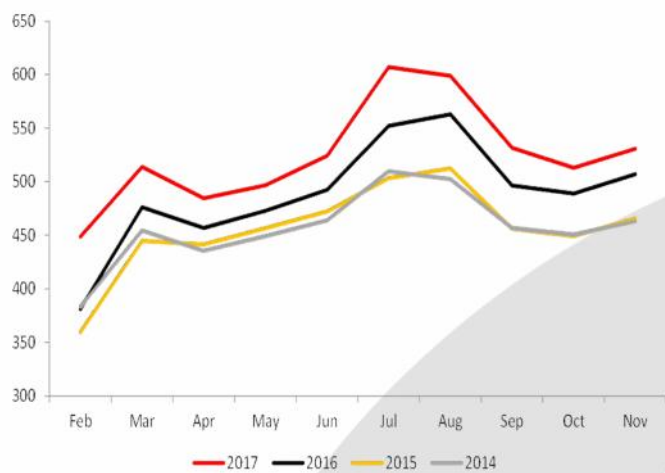
Source: Bloomberg, Sinarmas Investment Research

China coal inventory (FY15-FY17)



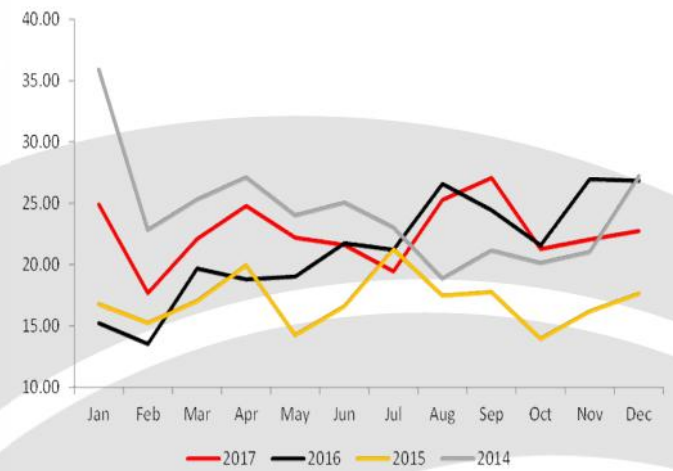
Source: Bloomberg, Sinarmas Investment Research

China electricity consumption



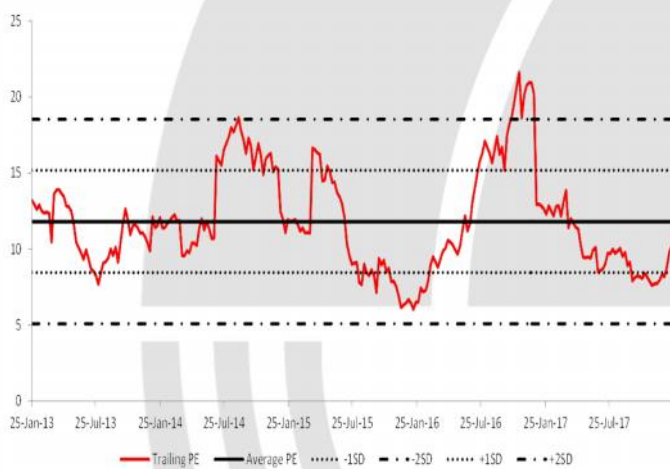
Source: Bloomberg, Sinarmas Investment Research

China's coal import



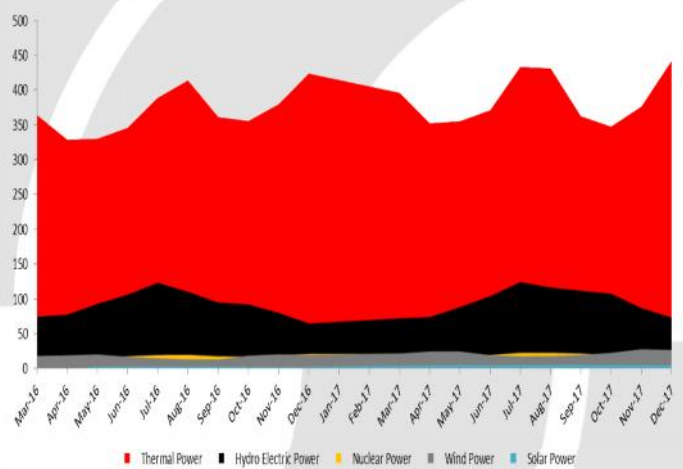
Source: Bloomberg, Sinarmas Investment Research

Indonesia coal stock 5 years average PE



Source: Bloomberg, Sinarmas Investment Research

China electricity production by type



Source: Bloomberg, Sinarmas Investment Research

PT Adaro Energy Tbk.

Income Statement

(USD Mn)	2015	2016	2017E	2018F	2019F
Revenue	2,684	2,524	3,409	3,772	3,633
% growth	-19%	-6%	35%	11%	-4%
Cost of Revenue	-2,141	-1,839	-2,152	-2,273	-2,196
% growth	-18%	-14%	17%	6%	-3%
Gross Profit	543	685	1,257	1,499	1,437
% growth	-25%	26%	83%	19%	-4%
Operating Expense	-133	-151	-171	-187	-187
Other Income/Exp.	-78	54	-34	-38	-36
EBIT	332	588	1,052	1,274	1,214
% growth	-33%	77%	79%	21%	-5%
EBITDA	652	919	1,434	1,649	1,569
% growth	-19%	41%	56%	15%	-5%
Net Financing	-49	-41	-42	-47	-43
Profit from JV	-3	0	8	8	9
EBT	280	547	1,018	1,236	1,180
% growth	-14%	95%	86%	21%	-5%
Tax	-129	-206	-407	-494	-472
NCI	-1	6	11	13	13
Net Profit	152	335	600	728	695
% growth	-14%	120%	79%	21%	-5%

Balance Sheet

(USD Mn)	2015	2016	2017E	2018F	2019F
Cash & equivalents	703	1,077	1,445	2,102	2,483
Trade receivables	198	305	412	456	439
Other current assets	192	211	305	356	341
Total current assets	1,093	1,593	2,162	2,914	3,264
Mining properties	2,027	2,437	2,507	2,510	2,493
Fixed assets	1,467	1,544	1,535	1,572	1,633
Other LT Assets	1,372	949	982	1,004	1,004
Total Assets	5,959	6,522	7,185	8,000	8,394
ST Loans	94	123	136	151	145
Other	361	522	546	605	582
Total Current Liabilities	454	645	682	756	727
LT Loans	1,444	1,296	1,422	1,573	1,515
Other	707	796	875	928	896
Total Liabilities	2,606	2,736	2,979	3,257	3,138
Share & APIC	1,497	1,497	1,497	1,497	1,497
Retained Earnings	1,387	1,628	2,059	2,583	3,083
NCI	487	639	650	663	676
Other	-19	21	0	0	0
Total Equity	3,353	3,786	4,207	4,744	5,256
Total Equity & Liabilities	5,959	6,522	7,185	8,000	8,394

Cash Flow

(USD Mn)	2015	2016	2017E	2018F	2019F
Net Income	152	335	600	728	695
Dep. & Amortization	307	379	382	375	355
Chg. in NWC	-98	34	-181	-39	10
CF from Operating	361	747	801	1,064	1,060
Capital Expenditure	-53	-303	-239	-264	-254
Mining Properties	-32	-563	-205	-151	-145
Chg. in LT Assets	55	423	-33	-23	0
Chg in LT Liabilities	14	89	79	53	-32
CF from Investing	-17	-353	-397	-385	-431
Chg. in Share & APIC	0	0	0	0	0
Chg. in ST Loans	-85	31	17	18	-7
Chg. in LT Loans	-243	-149	126	151	-58
Dividends Paid	-75	-94	-169	-205	-195
Others	18	192	-11	13	13
CF from Financing	-386	-19	-37	-22	-248
Change in Cash	-43	374	368	657	381
Beginning Cash	745	702	1,077	1,445	2,102
Ending Cash	702	1,077	1,445	2,102	2,483

Ratio Analysis and Key Assumptions

	2015	2016	2017E	2018F	2019F
Profitability					
ROE	5%	9%	14%	15%	13%
ROA	3%	5%	8%	9%	8%
Gross Margin	20%	27%	37%	40%	40%
Operating Margin	12%	23%	31%	34%	33%
EBITDA Margin	24%	36%	42%	44%	43%
Net Profit Margin	6%	13%	18%	19%	19%
Liquidity					
Current Ratio	1.5	1.7	2.1	2.8	3.4
Solvency					
Debt to Equity	0.5	0.4	0.4	0.4	0.3
Debt to Assets	0.3	0.2	0.2	0.2	0.2
Valuation					
Price to Earning (PE)	32.8	14.9	11.1	9.1	9.5
Price to Book (PBV)	1.7	1.6	1.6	1.4	1.3
Key Assumptions					
Coal Price (\$/ton)	58.9	65.7	85.0	85.0	80.0
ASP Blended (\$/ton)	47.6	43.9	58.7	63.8	60.0
Coal Production	51.5	52.6	53.8	54.9	55.8
Stripping Ratio	5.2	4.4	4.6	4.5	4.5

PT Bukit Asam Tbk.

Income Statement

(IDR Bn)	2015	2016	2017E	2018F	2019F
Revenue	13,845	14,059	18,820	20,766	21,254
% growth	6%	2%	34%	10%	2%
Cost of Revenue	-9,594	-9,657	-11,196	-11,702	-12,694
Gross Profit	4,251	4,401	7,623	9,064	8,560
% growth	6%	4%	73%	19%	-6%
G&A	-1,031	-1,111	-1,293	-1,363	-1,434
Selling & Marketing	-693	-696	-850	-918	-988
Other Income/(Exp)	-59	-64	-64	-64	-64
EBIT	2,469	2,531	5,416	6,719	6,074
% growth	7%	3%	114%	24%	-10%
EBITDA	2,963	2,968	5,884	7,222	6,615
% growth	13%	0%	98%	23%	-8%
Net Financing	115	53	36	63	50
Profit from JV	134	150	166	183	199
EBT	2,718	2,734	5,618	6,964	6,323
% growth	2%	1%	106%	24%	-9%
Tax	-681	-709	-1,405	-1,741	-1,581
NCI	-1	-18	-38	-47	-43
Net Profit	2,036	2,006	4,176	5,176	4,699
% growth	1%	-1%	108%	24%	-9%

Balance Sheet

(IDR Bn)	2015	2016	2017E	2018F	2019F
Cash & equivalents	3,115	3,675	4,228	5,751	7,691
Trade receivables	1,596	2,285	3,089	3,443	3,559
Other	2,888	2,390	3,350	3,811	3,918
Total CA	7,598	8,350	10,667	13,006	15,168
Fixed Assets	5,579	6,088	6,620	7,097	7,511
Other	3,716	4,139	4,693	5,347	5,950
Total Assets	16,894	18,577	21,980	25,449	28,628
Trade Payables	2,794	2,351	2,732	2,862	3,112
ST Loans	1,336	1,439	1,606	1,778	1,951
Other	793	1,253	1,596	1,753	1,793
Total CL	4,923	5,043	5,935	6,393	6,856
Other	2,684	2,982	3,196	3,404	3,605
Total Liabilities	7,606	8,024	9,131	9,797	10,460
Share & APIC	1,183	1,183	1,183	1,183	1,183
Treasury Shares	-2,302	-2,302	-2,302	-2,302	-2,302
Retained Earnings	10,192	11,366	13,622	16,384	18,858
NCI	113	131	150	170	190
Other	102	175	196	217	239
Total Equity	9,288	10,552	12,849	15,652	18,168
Total Equity & Liabilities	16,894	18,577	21,980	25,449	28,628

Cash Flow

(IDR Bn)	2015	2016	2017E	2018F	2019F
Net Income	2,036	2,006	4,176	5,176	4,699
Dep. & Amortization	494	437	467	503	541
Chg. in NWC	185	-338	-1,057	-546	49
Others	-203	-53	-73	-75	-77
CF from Operating	2,512	2,053	3,513	5,058	5,213
Capital Expenditure	-1,990	-835	-887	-870	-844
Chg. in LT Assets	-165	-459	-356	-444	-390
Chg in LT Liabilities	408	217	139	134	128
Others	-37	-22	-238	-244	-248
CF from Investing	-1,783	-1,098	-1,342	-1,425	-1,353
Chg. in Share & APIC	0	0	0	0	0
Chg. in ST Loans	58	266	186	189	191
Chg. in LT Loans	-292	81	75	74	73
Dividends Paid	-1,050	-832	-1,919	-2,415	-2,225
Others	-370	91	40	41	42
CF from Financing	-1,653	-395	-1,619	-2,110	-1,920
Change in Cash	-924	559	553	1,523	1,940
Beginning Cash	4,039	3,115	3,675	4,228	5,751
Ending Cash	3,115	3,675	4,228	5,751	7,691

Ratio Analysis and Key Assumptions

	2015	2016	2017E	2018F	2019F
Profitability					
ROE	22%	19%	33%	33%	26%
ROA	12%	11%	19%	20%	16%
Gross Margin	31%	31%	41%	44%	40%
Operating Margin	18%	18%	29%	32%	29%
EBITDA Margin	21%	21%	31%	35%	31%
Net Profit Margin	15%	14%	22%	25%	22%
Liquidity					
Current Ratio	1.5	1.7	1.8	2.0	2.2
Solvency					
Debt to Equity	0.8	0.8	0.7	0.6	0.6
Debt to Assets	0.5	0.4	0.4	0.4	0.4
Valuation					
Price to Earning (PE)	20.5	20.8	10.0	8.1	8.9
Price to Book (PBV)	4.5	4.0	3.2	2.7	2.3
Key Assumptions					
Coal Price (\$/ton)	58.9	65.7	85.0	85.0	80.0
ASP Blended (\$/ton)	49.7	48.9	59.1	63.8	60.0
Coal Production	19.3	19.6	21.9	22.5	24.0
Stripping Ratio	4.5	5.4	4.4	4.4	4.5

PT Indo Tambangraya Megah Tbk.

Income Statement

(USD Mn)	2015	2016	2017E	2018F	2019F
Revenue	1,589	1,367	1,567	1,709	1,637
% growth	-18%	-14%	15%	9%	-4%
Cost of Revenue	-1,239	-1,037	-1,047	-1,124	-1,141
% growth	-19%	-16%	1%	7%	2%
Gross Profit	350	331	520	585	496
% growth	-14%	-6%	57%	12%	-15%
Selling Expense	-134	-99	-97	-100	-100
% growth	-8%	-26%	-2%	3%	0%
G&A	-23	-23	-41	-42	-42
% growth	-14%	1%	81%	2%	2%
Net Financing	3	1	2	2	2
% growth	-39%	-55%	59%	0%	0%
Other Expense	-57	-18	-18	-18	-18
EBT	139	192	366	428	338
% growth	-47%	38%	91%	17%	-21%
EBITDA	283	307	462	521	433
% growth	-17%	9%	50%	13%	-17%
Tax	-76	-61	-116	-136	-107
Net Profit	63	131	250	292	231
% growth	-68%	107%	91%	17%	-21%

Cash Flow

(USD Mn)	2015	2016	2017E	2018F	2019F
Net Income	63	131	250	292	231
Dep. & Amortization	89	99	80	78	79
Chg. in NWC	19	-12	-2	1	5
Others	-8	0	-1	-1	-1
CF from Operating	164	218	327	370	314
Capital Expenditure	3	-20	-56	-54	-52
Chg. in LT Assets	37	-61	-36	-34	-31
Chg in LT Liabilities	15	4	9	5	1
Others	-50	-23	-25	-25	-24
CF from Investing	5	-100	-109	-108	-106
Chg. in Share & APIC	0	0	0	0	0
Chg. in ST Loans	0	0	0	0	0
Chg. in LT Loans	0	0	0	0	0
Dividends Paid	-126	-40	-214	-264	-255
Others	-1	-17	18	0	0
CF from Financing	-127	-58	-195	-264	-255
Change in Cash	42	60	22	-2	-47
Beginning Cash	226	268	328	350	349
Ending Cash	268	328	350	349	302

Balance Sheet

(USD Mn)	2015	2016	2017E	2018F	2019F
Cash & equivalents	268	328	350	349	302
Trade receivables	112	125	143	157	150
Others	133	86	88	96	93
Total CA	512	539	582	601	544
Fixed Assets	255	224	230	233	233
Deferred Exploration	83	74	72	71	70
Others	329	373	408	442	471
Total Assets	1,178	1,210	1,292	1,347	1,319
Trade Payables	121	94	95	102	103
Accrued Expense	131	117	118	127	129
Others	33	28	44	50	41
Total CL	284	239	257	279	274
Provision	20	22	24	25	26
Others	40	42	49	53	52
Total Liabilities	344	302	330	356	352
Share & APIC	393	393	393	393	393
Retained Earnings	442	533	569	597	574
Others	-1	-18	0	0	0
Total Equity	835	907	962	990	967
Total Equity & Liabilities	1,178	1,210	1,292	1,347	1,319

Ratio Analysis and Key Assumptions

	2015	2016	2017E	2018F	2019F
Profitability					
ROE	8%	14%	26%	29%	24%
ROA	5%	11%	19%	22%	18%
Gross Margin	22%	24%	33%	34%	30%
Operating Margin	9%	14%	23%	25%	21%
EBITDA Margin	18%	22%	29%	30%	26%
Net Profit Margin	4%	10%	16%	17%	14%
Liquidity					
Current Ratio	1.8	2.3	2.3	2.2	2.0
Solvency					
Debt to Equity	0.4	0.3	0.3	0.4	0.4
Debt to Assets	0.3	0.2	0.3	0.3	0.3
Valuation					
Price to Earning (PE)	41.9	20.3	10.6	9.1	11.5
Price to Book (PBV)	3.2	2.9	2.8	2.7	2.7
Key Assumptions					
Coal Price (\$/ton)	58.9	65.7	85.0	85.0	80.0
ASP Export (\$/ton)	56.4	51.0	67.9	73.3	68.9
Coal Production	28.5	25.6	22.6	22.9	22.2
Stripping Ratio	8.5	8.1	9.0	9.2	9.4

PT Harum Energy Tbk.

Income Statement

(USD Mn)	2015	2016	2017E	2018F	2019F
Revenue	249	217	324	407	448
% growth	-48%	-13%	49%	26%	10%
Cost of Revenue	-203	-149	-211	-252	-293
% growth	-48%	-27%	41%	20%	16%
Gross Profit	46	68	113	155	155
% growth	-47%	48%	67%	36%	0%
Selling Expense	-23	-16	-19	-21	-23
% growth	-46%	-30%	18%	12%	7%
G&A	-22	-20	-20	-20	-21
% growth	-6%	-12%	-1%	4%	1%
Net Financing	1	1	1	1	1
Other Income/ (Exp.)	-20	-4	-3	-3	-2
EBT	-18	29	73	111	110
% growth	-340%	-266%	148%	53%	-1%
EBITDA	-6	41	85	124	123
% growth	-127%	-847%	107%	46%	-1%
Tax	-1	-11	-18	-28	-28
NCI	0	-5	-11	-17	-17
Net Profit	-19	13	44	67	66
% growth	-4785%	-169%	228%	53%	-1%

Balance Sheet

(USD Mn)	2015	2016	2017E	2018F	2019F
Cash & Equivalent	196	231	289	341	378
Trade Receivables	10	24	23	29	32
Other Current Assets	19	13	19	25	26
Total Current Assets	225	268	331	394	436
Fixed Assets	98	89	81	73	65
Deferred Exploration	31	35	38	41	45
Others	25	21	21	22	22
Total Assets	381	413	472	531	567
Trade Payables	24	35	50	60	70
Others	8	17	25	34	36
Total CL	33	53	75	94	105
Total Non CL	5	5	5	6	6
Total Liabilities	37	58	81	100	112
Share & APIC	142	142	142	142	142
Retained Earnings	135	148	184	224	249
NCI	71	73	73	73	73
Others	-4	-8	-8	-8	-8
Total Equity	343	355	391	431	456
Total Equity & Li- abilities	381	413	472	531	567

Cash Flow

(USD Mn)	2015	2016	2017E	2018F	2019F
Net Income	-19	13	44	67	66
Dep. & Amortization	10	10	10	10	10
Chg. in NWC	4	13	18	7	7
Others	1	2	-1	-1	0
CF from Operating	-5	38	70	83	82
Chg in Deferred dev.	-5	-5	-5	-5	-5
Chg in LT Assets	4	1	1	1	0
Chg in LT Liabilities	1	0	0	0	0
CF from Investing	0	-3	-3	-4	-4
Chg. in Share & APIC	0	0	0	0	0
Dividends Paid	0	0	-8	-27	-41
Others	1	-1	0	0	0
CF from Financing	1	-1	-8	-27	-41
Change in Cash	-4	34	59	53	37
Beginning Cash	201	196	231	289	341
Ending Cash	197	230	290	342	378

Ratio Analysis and Key Assumptions

	2015	2016	2017E	2018F	2019F
Profitability					
ROE	-6%	4%	11%	16%	15%
ROA	-5%	3%	9%	13%	12%
Gross Margin	0%	15%	23%	28%	25%
Operating Margin	-8%	8%	17%	21%	18%
EBITDA Margin	-2%	19%	26%	31%	28%
Net Profit Margin	-8%	8%	17%	21%	18%
Liquidity					
Current Ratio	6.9	5.1	4.4	4.2	4.1
Solvency					
Debt to Equity	0.1	0.2	0.2	0.2	0.2
Debt to Assets	0.1	0.1	0.2	0.2	0.2
Valuation					
Price to Earning (PE)	-35.4	51.0	15.5	10.2	10.3
Price to Book (PBV)	2.0	1.9	1.7	1.6	1.5
Key Assumptions					
Coal Price (\$/ton)	58.9	65.7	85.0	85.0	80.0
ASP Export (\$/ton)	54.2	54.3	65.5	69.7	65.6
Coal Production	3.6	3.2	4.6	5.4	6.3
Stripping Ratio	7.6	6.2	8.9	8.9	8.9

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

BUY: Share price may rise by more than 15% over the next 12 months.

ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

REDUCE: Share price may range between -10% to -15% over the next 12 months.

SELL: Share price may fall by more than 15% over the next 12 months.

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