

Pricing divergence. Benchmark price for Australia's premium high grade coal product has been on the rise for the past few months. Newcastle price index (6,322 Kcal/Kg) has been up by 17% YoY and haven't fallen much from their six years high at USD 119 per ton. While high coal CV has enjoyed their momentum, the lower grade variety for Newcastle 5,500 Kcal/Kg coal price has been falling since June, declining by 15% YoY and 27% from its peak in February. This month, the cheaper coal price has reached its lowest level in more than a year at USD 65 per ton. The discount spread between the two has widened to 42% (USD 48 per ton) from its five years average at 20% (USD 16 per ton), the first time since 2014.

What about Indonesian coal price? ICI4, one of the five benchmark prices of the Indonesian coal index, issued by Argus and Coalindo Energy has indicated that Indonesia's low grade coal product (4,200 Kcal/Kg) is currently trading at USD 38 per ton, 66% discount from current Newcastle coal price (vs 57% at the beginning of the year). Similar to the Newcastle medium grade coal discussed in the previous paragraph, ICI4 has declined by more than 13.5% YTD. Our channel check suggests that several players in Kalimantan are currently trading their low quality coal (4,000 Kcal/Kg) at USD 38 per ton.

What caused it to happen? We see changes in supply demand dynamics between high and low coal CV to be one of the possible reasons for the widening gap. 1) From demand perspective, one explanation is that demand for better quality product (high CV) has been increasing as many countries nowadays have been battling to reduce air pollution by enforcing new regulation standards such as stopping bank financing on new thermal coal projects and promoting the usage of gas as well as renewable energy. While usage of coal can't be eradicated, several countries such as South Korea are seeking higher energy coal with lower sulphur content, such as those produced in Russia and South Africa, shifting demand toward higher quality coal. 2) On the flip side, supply has been tighter for high quality coal products as production increase has been quite limited. Meanwhile during coal price downturn in 2013-2015, many small low CV coal players had to shut down their operation as price dropped below cost of production. Now that coal price has rebounded, many of those small low CV coal players have begun to restart their operation, overflowing low coal CV supply in the market. Our channel check also suggests while big machineries (200 ton dump truck) supply are very limited, small machineries (20-40 ton dump truck) for small capacity mines are very easy to find, making it possible to restart their coal mining operation. 3) Another possible reason is that DMO pricing has slowly diminished the bargaining power of domestic supplier in the export market, causing Indonesian market price to drop relative to Newcastle price index.

Top picks on ITMG and PTBA for coal miners. At current situation, we prefer coal miners with 1) high CV coal and 2) high dividend yield. ITMG (BUY, TP: IDR 31,700) remains as our top pick as they are one of the few coal miners with high CV and also provides high dividend yield (~12%). We also like PTBA (BUY, TP: IDR 5,200) as we see potential upside from transferred sales quota and attractive dividend yield (~8%). Meanwhile, we downgrade ADRO to ADD (TP: 2,100), HRUM to NEUTRAL (TP: 2,560) and we also initiate coverage on INDY with NEUTRAL rating (TP: 3,250).

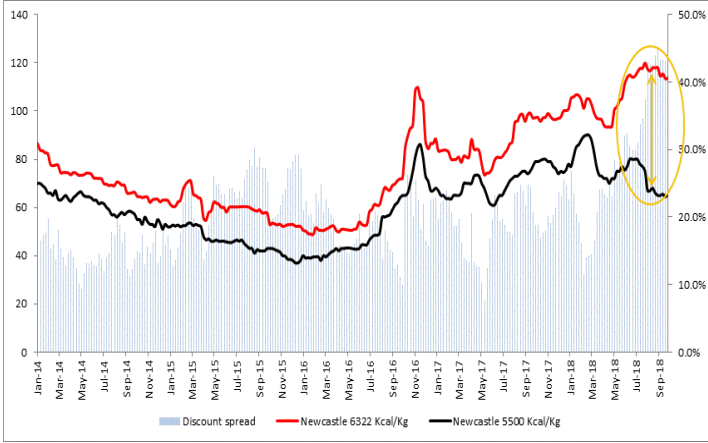
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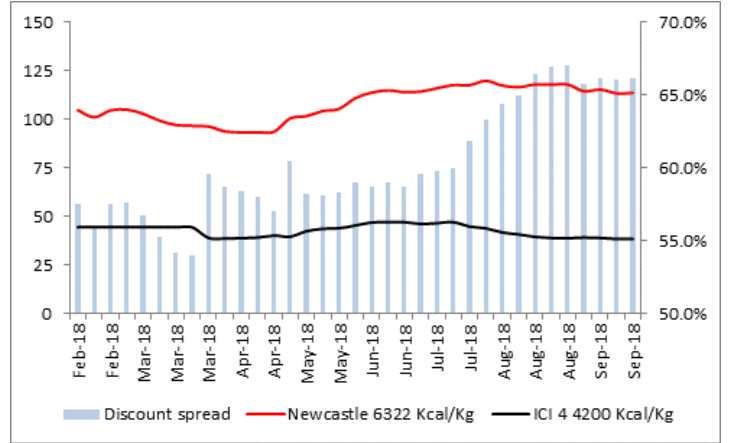
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Newcastle 6,322 Kcal/Kg vs 5,500 Kcal/Kg price



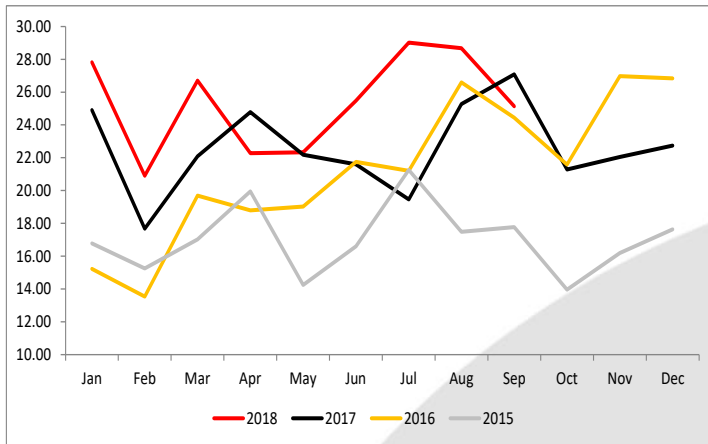
Source: Bloomberg, Sinarmas Investment Research

Newcastle 6,322 Kcal/Kg vs Indonesia 4,200 Kcal/Kg price



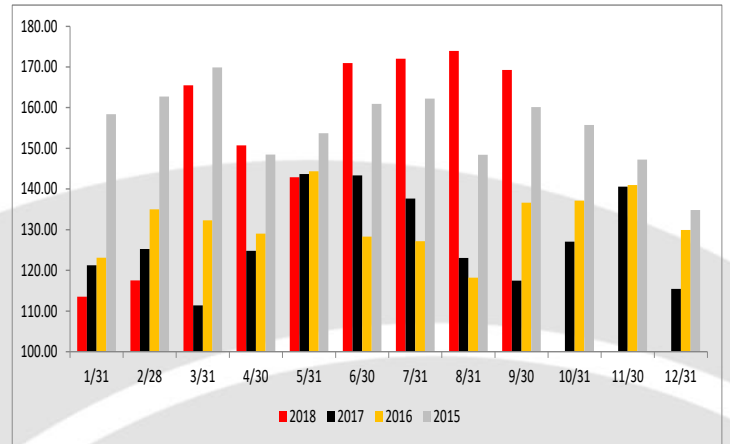
Source: Bloomberg, Sinarmas Investment Research

China coal import



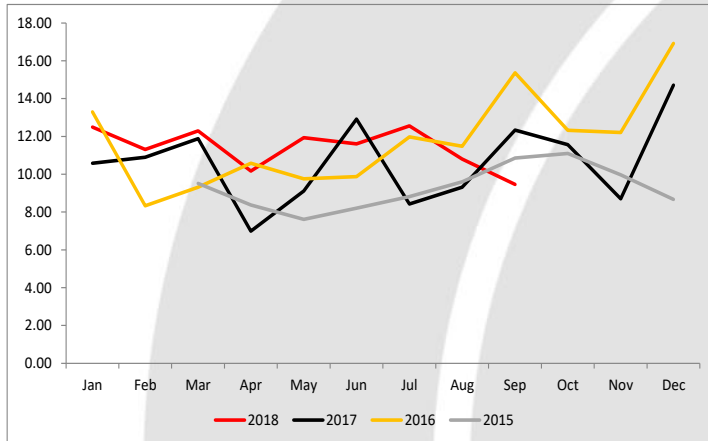
Source: Bloomberg, Sinarmas Investment Research

China coal inventory



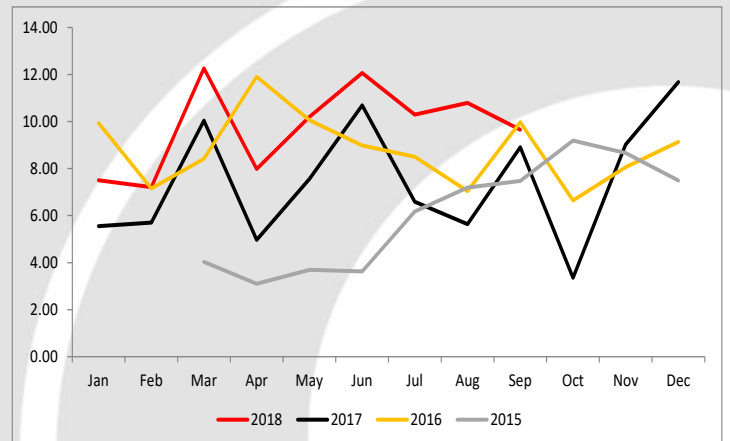
Source: Bloomberg, Sinarmas Investment Research

Japan coal import



Source: Bloomberg, Sinarmas Investment Research

India coal import



Source: Bloomberg, Sinarmas Investment Research

3Q18 result expectation. We expect solid operational performance in 3Q18 as weather has been significantly improving in recent quarter. Management seems very optimistic to achieve their 3Q18 production target at 6.1 Mt (+7.0% YoY, +17.3% QoQ). On the margin side, we believe margin will remain stable as stripping ratio tends to be flat while rising fuel price will be offset by higher ASP and higher volume in 3Q18. On another note, DMO provision and loss on coal swap will continue to persist in the following quarters, but we believe it has been priced in by the market.

High CV among coal miners. Being one of the few coal miners in Indonesia with high coal specification, we view ITMG to be the main beneficiary of the rising high CV coal price. In addition, 50% of ITMG's contracts are index linked, hence they are in a better position to benefit from the rising high CV coal price. We calculate that every 1% increase in coal price will uplift ITMG's net profit by 3.7%.

Recent mine acquisition eases reserve concern. ITMG has recently acquired 100% stake in PT Nusa Persada Resources (NPR), a medium CV coal greenfield mine concession with an operation area of 4,291 ha in Central Kalimantan, adjacent to Trubaindo concession. NPR has a medium coal specification ranging from 5,000-5,600 Kcal/Kg with an estimated total reserve of 77 Mt. Total transaction was valued at USD 30 mn which equates to a reserve valuation of USD 0.4 per ton. Despite production inception target in 2022, we view this acquisition will ease market concern on short reserve, extending ITMG's current life of mine by 3 years.

We reiterate our BUY call on ITMG with end-of-FY19 TP at IDR 31,700, derived from DCF valuation in proportion to their mine life (~13 years). Our target price implies a potential upside of 27.1% from current market price. ITMG is currently trading at 8.4x forward FY19 forward PE, -0.5SD from its five years average. We remain optimistic on the company's performance on the back of highly attractive dividend yield (~12%), robust 2H18 earnings result performance and higher coal reserves from recent mine acquisition. Downside risks to our call are lower than expected coal price, higher than expected transfer quota sales price.

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Stock Information

Sector	Coal Mining
Bloomberg Ticker	ITMG IJ
Market Cap. (IDR tn)	28.2
Share Out./Float (mn)	1,129/392
Current Price	IDR 24,950
End-of-FY19 Target Price	IDR 31,700
Upside (%)	27.1%

Share Price Performance

52W High (02/26/18)	32,200
52W Low (11/27/17)	19,300
52W Beta	1.2
YTD Change (%)	20.5%

Relative Valuations

Trailing P/E	7.3x
Forward P/E	8.4x
P/BV	2.0x
EV/EBITDA	3.5x

Highlights (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	1,367	1,690	1,761	1,649	1,617
% growth	-14.0%	23.5%	4.2%	-6.3%	-1.9%
Gross Profit	331	505	520	475	477
Net Profit	131	253	239	225	230
% growth	107.1%	93.3%	-5.4%	-5.7%	2.1%
Gross Margin (%)	24.2%	29.9%	29.6%	28.8%	29.5%
Net Margin (%)	9.6%	15.0%	13.6%	13.7%	14.2%
Return on Equity (%)	14.4%	26.4%	25.5%	24.2%	24.7%
Return on Assets (%)	10.8%	18.6%	17.6%	16.8%	17.1%
EPS	0.12	0.22	0.21	0.20	0.20

Income Statement (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	1,367	1,690	1,761	1,649	1,617
Cost of Revenue	(1,037)	(1,184)	(1,241)	(1,174)	(1,141)
Gross Profit	331	505	520	475	477
Selling Expense	(99)	(87)	(88)	(84)	(86)
General & Administrative Expense	(23)	(30)	(33)	(33)	(34)
Net Financing	1	3	4	4	4
Other Expense	(18)	(29)	(62)	(40)	(31)
EBT	192	362	342	322	329
EBITDA	307	481	484	439	437
Tax	(61)	(109)	(102)	(97)	(99)
Net Profit	131	253	239	225	230

Balance Sheet (USD Mn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	328	374	514	524	544
Trade Receivables	125	176	176	165	162
Other Current Assets	86	246	115	107	105
Total Current Assets	539	797	804	797	811
Fixed Assets	224	223	218	213	206
Deferred Exploration & Development	74	85	81	78	76
Other Non Current Assets	373	254	254	253	250
Total Assets	1,210	1,359	1,357	1,340	1,343
Trade Payables	94	153	160	152	147
Accrued Expense	117	117	123	116	113
Other Current Liabilities	28	58	56	54	55
Total Current Liabilities	239	328	338	322	315
Provision for Mine Rehabilitation	22	26	30	34	37
Other Non Current Liabilities	42	47	51	54	57
Total Liabilities	302	401	419	409	409
Share & APIC	393	393	393	393	393
Retained Earnings	533	585	564	557	560
Other Components of Equity	(18)	(20)	(19)	(19)	(19)
Total Equity	907	958	938	931	933
Total Equity & Liabilities	1,210	1,359	1,357	1,340	1,343

Cash Flow (USD Mn)	2016	2017	2018E	2019F	2020F
Net Income	131	253	239	225	230
Depreciation & Amortization	99	93	84	81	81
Change in Working Capital	(12)	(123)	143	2	(1)
Others	0	0	0	0	0
Cash Flow from Operating	218	223	466	308	310
Capital Expenditure	(20)	(43)	(40)	(38)	(36)
Change in Long Term Assets	(61)	98	(14)	(13)	(12)
Change in Long Term Liabilities	4	9	8	7	6
Others	(23)	(40)	(21)	(21)	(20)
Cash Flow from Investing	(100)	25	(67)	(65)	(62)
Change in Share & APIC	0	0	0	0	0
Change in Short Term Loans/Bonds	0	0	0	0	0
Change in Long Term Loans/Bonds	0	0	0	0	0
Dividends Paid	(40)	(201)	(260)	(232)	(228)
Others	(17)	(2)	0	0	0
Cash Flow from Financing	(58)	(202)	(259)	(232)	(228)
Change in Cash	60	46	139	11	19
Beginning Cash	268	328	374	514	524
Ending Cash	328	374	514	524	544

Financial Ratio & Key Assumptions	2016	2017	2018E	2019F	2020F
Profitability					
ROE	14.4%	26.4%	25.5%	24.2%	24.7%
ROA	10.8%	18.6%	17.6%	16.8%	17.1%
Gross Margin	24.2%	29.9%	29.6%	28.8%	29.5%
Operating Margin	14.0%	21.4%	19.4%	19.5%	20.3%
Net Profit Margin	9.6%	15.0%	13.6%	13.7%	14.2%
Liquidity					
Current Ratio	2.3	2.4	2.4	2.5	2.6
Solvency					
Debt to Equity	0.3	0.4	0.4	0.4	0.4
Debt to Assets	0.2	0.3	0.3	0.3	0.3
Valuation					
Price to Earnings (PE)	20.1	10.4	11.0	11.6	11.4
Price to Book (PBV)	2.9	2.7	2.8	2.8	2.8
Key Assumptions					
Average Selling Price (\$/ton)	51.0	73.0	72.0	66.9	66.7
Cash Cost (\$/ton)	40.5	53.6	55.5	52.9	50.6
Overburden Removal (mn tonnes)	207.4	245.3	246.1	241.8	242.9
Coal production	25.6	22.1	22.4	22.2	22.5

Expecting solid 3Q18 performance. We expect strong 3Q18 earnings result on the back of robust operational performance driven by better weather conditions. Moreover, third quarter's output historically accounted for ~29% of PTBA's total output. As of August, management mentions that production for July and August has already reached above 5 Mt (vs 5.93 Mt in 2Q18). On the flipside, we expect stable margin as rising fuel price will be net off by relatively flat SR, higher ASP and higher USDIDR conversion rate.

Best performer in the sector. PTBA has been outperforming both the JCI index and the coal sector driven by earnings revision upgrade from consensus as well as better clarity on the new DMO pricing scheme and transfer quota sales. Despite having the biggest exposure to DMO sales, the impact is not as severe as what the market had anticipated. Strong production growth, higher export sales portion, lower cash cost as well as potential upside from DMO quota sales have given positive sentiment toward the stock performance.

Expecting earnings surprise in 4Q18. PTBA sold ~52% of its coal to PLN, ~27% (~6.5 Mt) higher than the DMO requirement. According to the regulation, PTBA is allowed to sell its remaining excess quotas to other players who are in shortage. The regulation, however, does not specify any price, but instead the price will be set by the market and through the negotiation between both parties. To give a picture, ASP difference between export and DMO could vary by USD 15-18 per ton, depending on the coal quality. For every USD 5 per ton on the transfer quota selling price, PTBA could gain additional profit of IDR 480 bn. Conservatively, we assume USD 7 per ton as the price benchmark for transfer quota sales, hence PTBA could gain an additional profit of IDR 673.4 bn (~14% of PTBA's net profit). To note, profit from quota sales will go directly to bottom line, hence improving net margin.

We reiterate our BUY call on PTBA with higher end-of-FY19 target price of IDR 5,200, derived via DCF valuation which implies 14.5% potential upside from current market price. We raise our FY19's EPS onwards for PTBA as we adjust our dollar assumption to be at 14,800 while maintaining other variables at constant. Despite strong share performance YTD, we believe potential upside remain to persist given future production growth opportunities, attractive dividend yield (~8%) as well as upside earnings surprise in 4Q18. Valuation wise, PTBA is currently trading at FY19F PE at 9.2x, -0.3SD from its five years average PE.

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Sector	Coal Mining
Bloomberg Ticker	PTBA IJ
Market Cap. (IDR tn)	52.3
Share Out./Float (mn)	11,520/4,029
Current Price	IDR 4,540
End-of-FY19 Target Price	IDR 5,200
Upside (%)	14.5%

Share Price Performance

52W High (08/10/18)	4,940
52W Low (10/24/17)	2,090
52W Beta	1.0
YTD Change (%)	84.6%

Relative Valuations

Trailing P/E	8.0x
Forward P/E	9.2x
P/BV	2.7x
EV/EBITDA	4.9x

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	14,059	19,471	22,299	24,090	25,833
% growth	1.5%	38.5%	14.5%	8.0%	7.2%
Gross Profit	4,401	8,507	9,246	9,789	10,644
Net Profit	2,006	4,476	5,296	5,677	6,263
% growth	-1.5%	123.1%	18.3%	7.2%	10.3%
Gross Margin (%)	20.9%	33.8%	35.4%	35.0%	35.7%
Net Margin (%)	14.4%	23.4%	24.0%	23.8%	24.5%
Return on Equity (%)	19.0%	32.4%	34.4%	31.1%	29.2%
Return on Assets (%)	10.8%	20.4%	21.4%	20.0%	19.4%
EPS (IDR)	174	389	460	493	544

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	14,059	19,471	22,299	24,090	25,833
Cost of Revenue	(9,657)	(10,965)	(13,053)	(14,302)	(15,189)
Gross Profit	4,401	8,507	9,246	9,789	10,644
General & Administrative Expenses	(1,111)	(1,334)	(1,520)	(1,588)	(1,678)
Selling and Marketing Expenses	(696)	(911)	(1,032)	(1,079)	(1,136)
Other Income (Expense)	(64)	(363)	459	510	581
EBIT	2,531	5,899	7,153	7,632	8,410
EBITDA	2,944	6,584	7,890	8,427	9,219
Net Financing	53	81	24	48	55
Share in Net Loss of Associates & JV	150	122	155	179	205
EBT	2,734	6,102	7,332	7,859	8,670
Tax	(709)	(1,554)	(1,988)	(2,131)	(2,350)
Non Controlling Interest	18	71	48	52	57
Net Profit for the Year	2,006	4,476	5,296	5,677	6,263

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	3,675	3,555	5,161	7,520	9,959
Trade Receivables	2,285	5,344	3,666	3,960	4,247
Other Current Assets	2,390	2,219	2,806	3,103	3,337
Total Current Assets	8,350	11,118	11,633	14,583	17,543
Fixed Assets	6,088	6,199	7,846	8,271	8,732
Other Non Current Assets	4,139	4,670	5,245	5,576	6,013
Total Assets	18,577	21,987	24,724	28,431	32,287
Accruals & Trade Payables	2,351	1,857	2,665	2,919	3,101
Bank Loans	1,439	299	328	354	380
Other Current Liabilities	1,253	2,357	1,848	1,967	2,114
Total Current Liabilities	5,043	4,513	4,840	5,240	5,594
Other Non Current Liabilities	2,982	3,674	4,496	4,913	5,228
Total Liabilities	8,024	8,187	9,337	10,153	10,822
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	11,366	14,565	16,104	18,942	22,073
Non Controlling Interest	131	192	240	292	348
Other Components of Equity	175	163	163	163	163
Total Equity	10,552	13,800	15,387	18,277	21,465
Total Equity & Liabilities	18,577	21,987	24,724	28,431	32,287

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	2,006	4,476	5,296	5,677	6,263
Depreciation	355	615	661	680	723
Amortization	82	287	76	116	85
Chg. in NWC	(338)	(2,240)	1,369	(230)	(205)
CF from Operating	2,106	3,139	7,402	6,242	6,866
Capital Expenditure	(835)	(763)	(2,230)	(1,084)	(1,163)
Chg. in LT Assets	(534)	(840)	(671)	(468)	(542)
Chg in LT Liabilities	217	864	610	353	253
CF from Investing	(1,151)	(739)	(2,290)	(1,199)	(1,452)
Chg. in Share & APIC	0	0	0	0	0
Chg. in ST Loans	266	(1,177)	49	39	38
Chg. in LT Loans	81	(218)	259	64	62
Dividends Paid	(832)	(1,857)	(3,178)	(2,838)	(3,131)
Others	91	49	48	52	57
CF from Financing	(395)	(3,203)	(2,821)	(2,684)	(2,974)
Change in Cash	559	(803)	2,290	2,359	2,439
Beginning Cash	3,115	3,675	2,871	5,161	7,520
Ending Cash	3,675	2,871	5,161	7,520	9,959

Financial Ratio & Key Assumptions	2016	2017	2018E	2019F	2020F
Profitability					
ROE	19.0%	32.4%	34.4%	31.1%	29.2%
ROA	10.8%	20.4%	21.4%	20.0%	19.4%
Gross Margin	31.3%	43.7%	41.5%	40.6%	41.2%
Operating Margin	18.0%	30.3%	32.1%	31.7%	32.6%
EBITDA Margin	20.9%	33.8%	35.4%	35.0%	35.7%
Net Profit Margin	14.4%	23.4%	24.0%	23.8%	24.5%
Liquidity					
Current Ratio	1.7	2.5	2.4	2.8	3.1
Solvency					
Debt to Equity	0.8	0.6	0.6	0.6	0.5
Debt to Assets	0.4	0.4	0.4	0.4	0.3
Valuation					
Price to Earning (PE)	6.3	11.3	10.5	9.5	8.5
Price to Book (PBV)	2.7	2.1	3.9	3.3	2.8
Key Assumptions					
ASP Blended (\$/ton)	49.4	59.9	59.6	58.0	58.9
Coal Production	19.6	24.2	25.4	26.9	28.4
Stripping Ratio	5.4	3.6	4.3	4.4	4.4

Recovery in sight. ADRO posted a lower than expected production in 1H18, achieving 44% of FY18 management target due to heavy rainfall and delay in equipment delivery. However, we expect major recovery in 2H18 operational performance as weather has significantly improved and some of the new additional equipment has been delivered in the third quarter. Management remains optimistic to achieve their FY18 production target at 54-56 Mt, though we believe they will likely meet the lower end of the guidance.

3Q18 expectation. We expect higher overburden removal volume and coal production output in 3Q18 driven by better weather condition. In addition, we expect SR to remain high in the next quarter due to 1) ramp up in OB removal post weak performance in 1Q18 from heavy rainfall 2) commencement of a new pit to catch up with production target. Overall, we expect margin to be pressurized with high SR as well as higher fuel cost, though the impact should be slightly offset by higher ASP and higher volume in 3Q18.

Additional profit from Kestrel acquisition. In early August, ADRO with EMR capital completed the acquisition of Rio Tinto's 80% stake in the Kestrel Coal mine in Australia. ADRO will own 48% out of the total 80% ownership, staying on the minority side. Kestrel itself is a coking coal mine with total reserve of 146 Mt and annual production of 5 Mt. The total transaction was valued at USD 2.25 bn, which equates to a reserve valuation of USD 19.2 per ton or FY17 8.2x EV/EBITDA. Profit contribution from Kestrel should be fully reflected in 4Q18. Local news cited that ADRO is planning to double up their current production output to 10 Mt per year.

We tone down our rating on ADRO to ADD with lower end-of-FY19 target price at IDR 2,100 as we slightly trimmed our FY18-19 EPS target, factoring the rise in oil price, SR hike and decline in low coal CV price benchmark. However, given the recovery performance and earnings in 2H18 as well as additional profit from Kestrel acquisition, we think ADRO still provides an attractive return with potential upside of 23.5% from current market price. ADRO is currently trading at 9.3x forward FY19 PE, -0.74SD from its 5 years average. Downside risk to our call are lower than expected coal production, higher than expected stripping ration and fuel price.

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Sector	Coal Mining
Bloomberg Ticker	ADRO IJ
Market Cap. (IDR tn)	54.3
Share Out./Float (mn)	31,986/13,962
Current Price	IDR 1,700
End-of-FY19 Target Price	IDR 2,100
Upside (%)	23.5%

Share Price Performance

52W High (01/29/18)	2,650
52W Low (05/09/18)	1,575
52W Beta	1.2
YTD Change (%)	-8.6%

Relative Valuations

Trailing P/E	7.8x
Forward P/E	9.3x
P/BV	1.0x
EV/EBITDA	3.7x

Highlights (USD mn)	2016	2017	2018E	2019F	2020F
Revenue	2,524	3,258	3,508	3,358	3,488
% growth	-6.0%	29.1%	7.7%	-4.3%	3.9%
Gross Profit	685	1,142	1,073	1,099	1,135
Net Profit	335	483	433	447	463
% growth	119.5%	44.4%	-10.4%	3.3%	3.4%
Gross Margin (%)	36.4%	39.4%	34.9%	36.5%	36.5%
Net Margin (%)	13.3%	14.8%	12.4%	13.3%	13.3%
Return on Equity (%)	8.8%	11.8%	9.7%	9.3%	8.9%
Return on Assets (%)	5.1%	7.1%	5.9%	5.9%	5.7%
EPS (USD)	0.01	0.02	0.01	0.01	0.01

Income Statement (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	2,524	3,258	3,508	3,358	3,488
Cost of Revenue	(1,839)	(2,117)	(2,434)	(2,259)	(2,353)
Gross Profit	685	1,142	1,073	1,099	1,135
Operating Expense	(151)	(184)	(199)	(198)	(208)
Other Income (Expense)	54	(6)	(21)	(17)	(17)
EBIT	588	952	853	884	910
EBITDA	919	1,283	1,224	1,227	1,272
Net Financing	(41)	(34)	(29)	(32)	(30)
Share in Net Loss of Associates & JV	0	12	24	25	27
EBT	547	930	849	877	907
Tax	(206)	(393)	(356)	(368)	(381)
Non Controlling Interest	6	53	59	61	63
Net Profit for the Year	335	483	433	447	463

Balance Sheet (USD Mn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	1,077	1,207	1,484	1,563	1,899
Trade Receivables	305	321	346	331	344
Other Current Assets	211	204	228	225	234
Total Current Assets	1,593	1,979	2,058	2,120	2,476
Mining Properties	2,437	2,355	2,406	2,442	2,474
Fixed Assets	1,544	1,507	1,896	2,026	2,124
Other Non Current Assets	949	973	974	974	982
Total Assets	6,522	6,814	7,334	7,562	8,056
Bank Loans	123	201	123	118	122
Other Current Liabilities	522	572	613	585	606
Total Current Liabilities	645	773	736	702	728
Bank Loans	1,296	1,156	1,245	1,192	1,238
Other Non Current Liabilities	796	793	903	842	877
Total Liabilities	2,736	2,723	2,884	2,736	2,843
Share & APIC	1,497	1,497	1,497	1,497	1,497
Retained Earnings	1,628	1,967	2,271	2,585	2,909
Non Controlling Interest	639	623	682	743	807
Other Components of Equity	21	4	0	0	0
Total Equity	3,786	4,092	4,451	4,826	5,213
Total Equity & Liabilities	6,522	6,814	7,334	7,562	8,056

Cash Flow (USD Mn)	2016	2017	2018E	2019F	2020F
Net Income	335	483	433	447	463
Depreciation & Amortization	379	325	370	343	363
Change in Working Capital	34	(211)	236	(9)	(1)
Cash Flow from Operating	747	598	1,040	782	824
Capital Expenditure	(303)	(167)	(631)	(336)	(314)
Mining properties	(563)	(39)	(179)	(173)	(178)
Change in Long Term Assets	423	(24)	(1)	0	(8)
Change in Long Term Liabilities	89	(3)	110	(61)	35
Cash Flow from Investing	(353)	(234)	(701)	(570)	(466)
Change in Share & APIC	0	0	0	0	0
Change in Short Term Loans/Bonds	31	83	(76)	(7)	6
Change in Long Term Loans/Bonds	(149)	(140)	88	(53)	46
Dividends Paid	(94)	(144)	(129)	(133)	(138)
Others	192	(33)	55	61	63
Cash Flow from Financing	(19)	(234)	(61)	(132)	(23)
Change in Cash	374	130	277	79	335
Beginning Cash	702	1,077	1,207	1,484	1,563
Ending Cash	1,077	1,207	1,484	1,563	1,899

Financial Ratio & Key Assumptions	2016	2017	2018E	2019F	2020F
Profitability					
ROE	8.8%	11.8%	9.7%	9.3%	8.9%
ROA	5.1%	7.1%	5.9%	5.9%	5.7%
Gross Margin	27.1%	35.0%	30.6%	32.7%	32.5%
Operating Margin	23.3%	29.2%	24.3%	26.3%	26.1%
EBITDA Margin	36.4%	39.4%	34.9%	36.5%	36.5%
Net Profit Margin	13.3%	14.8%	12.4%	13.3%	13.3%
Liquidity					
Current Ratio	1.7	1.6	2.0	2.2	2.6
Solvency					
Debt to Equity	0.4	0.3	0.3	0.3	0.3
Debt to Assets	0.2	0.2	0.2	0.2	0.2
Valuation					
Price to Earnings (PE)	14.9	9.5	10.6	10.3	9.9
Price to Book (PBV)	1.6	1.1	1.0	1.0	0.9
Assumptions					
ASP blended	43.9	59.1	63.8	59.2	59.2
Coal production	52.6	51.8	53.6	54.7	57.2
Stripping Ratio	4.4	4.6	5.1	5.0	5.0

Operational challenges lead to lower than expected production.

In 2Q18, production came in lower than expected at 0.8 Mt (-27% YoY, flat QoQ). Combination of bad weather, contractor's equipment availability issues, and land access delays led to lower than expected OB removal and coal production. As a result, full ramp up in new mines operation (KUP and SB mines) have to be rescheduled to the beginning of 2019, from the initially plan of second half of this year. Lower production volume has also led to higher cost per unit in the quarter.

Battle between growth and cost. Due to land access delay and equipment availability issues, stripping ratio rose higher than expected (+17.1% QoQ). Moreover, the company has also taken some pre-stripping activities until the end of the year as they are planning to restart their operation in the SB and KUP mines, which will increase total OB volume as well as SR. While production were delayed and SR tend to go up, rising oil price will continuously give more downward pressure to company's margin in the next quarters.

3Q18 result outlook. With the delivery of additional heavy equipment as well as weather improvement, we expect higher OB volume and coal production in 3Q18. The company mentioned that the new equipment delivery will be onsite and fully operational before the end of August. However, pre-stripping of initial ground in KUP and SB mines will continue to give upward pressure to stripping ratio. Hence, we expect margin will continue to compress due to rising SR as well as rising fuel price.

We downgrade our call on HRUM to NEUTRAL with lower end-of-FY19 target price at IDR 2,560. We lowered our production forecast for the company as we take into account the delay in the commencement of their new mine operation. We also raise our SR forecast to 10.5x as we see further downside from SR hike in the following quarters. As a result, we expect negative earnings growth this year due to lower than expected production output, higher SR and fuel cost as well as additional expense from transfer quota sales. Valuation wise, HRUM is currently trading at FY19F 9.4x PE, -1.5SD from its five years average PE.

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Sector	Coal Mining
Bloomberg Ticker	HRUM IJ
Market Cap. (IDR tn)	5.8
Share Out./Float (mn)	2,703/698
Current Price	IDR 2,150
End-of-FY19 Target Price	IDR 2,560
Upside (%)	19.1%

Share Price Performance

52W High (01/29/18)	3,590
52W Low (10/16/18)	1,955
52W Beta	1.3
YTD Change (%)	4.9%

Relative Valuations

Trailing P/E	9.1x
Forward P/E	9.4x
P/BV	1.3x
EV/EBITDA	2.9x

Highlights (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	217	326	354	356	382
% growth	-12.9%	50.0%	8.8%	0.4%	7.3%
Gross Profit	68	112	115	119	139
Net Profit	18	56	49	52	66
% growth	-194.6%	210.1%	-12.7%	7.7%	25.0%
Gross Margin (%)	31.3%	34.4%	32.4%	33.5%	36.3%
Net Margin (%)	8.3%	17.1%	13.7%	14.7%	17.2%
Return on Equity (%)	3.8%	11.4%	9.5%	9.7%	11.3%
Return on Assets (%)	3.2%	9.9%	8.2%	8.4%	9.8%
EPS	0.00	0.02	0.01	0.02	0.02

Income Statement (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	217	326	354	356	382
Cost of Revenue	(149)	(214)	(239)	(237)	(243)
Gross Profit	68	112	115	119	139
Selling Expense	(16)	(19)	(17)	(16)	(16)
General & Administrative Expense	(20)	(21)	(21)	(22)	(23)
Net Financing	1	2	2	2	3
Other Income (Expense)	(4)	(1)	(13)	(14)	(15)
EBT	29	73	66	70	87
EBITDA	41	85	78	82	99
Tax	(11)	(17)	(17)	(17)	(22)
Non Controlling Interest	(5)	(10)	(10)	(10)	(13)
Net Profit for the Year	13	45	39	42	52

Balance Sheet (USD Mn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	231	266	289	315	350
Trade Receivables	24	26	28	28	30
Other Current Assets	13	23	19	20	21
Total Current Assets	268	315	337	362	401
Fixed Assets	89	81	73	66	59
Deferred Exploration & Development	35	41	45	50	54
Other Non Current Assets	21	23	22	21	21
Total Assets	413	459	477	499	535
Trade Payables	35	31	35	35	36
Other Current Liabilities	17	26	25	25	28
Total Current Liabilities	53	58	60	60	64
Total Non Current Liabilities	5	6	6	6	7
Total Liabilities	58	64	66	66	71
Share & APIC	142	142	142	142	142
Retained Earnings	148	193	205	222	249
Non Controlling Interest	73	81	85	89	93
Other Components of Equity	-8	-20	-20	-20	-20
Total Equity	355	396	411	433	464
Total Equity & Liabilities	413	459	477	499	535

Cash Flow (USD Mn)	2016	2017	2018E	2019F	2020F
Net Income	13	45	39	42	52
Depreciation & Amortization	10	11	10	10	9
Change in Working Capital	13	(6)	3	(1)	1
Others	2	(2)	0	0	0
Cash Flow from Operating	38	48	52	51	62
Change in Deferred Development	(5)	(9)	(6)	(6)	(6)
Change in Long Term Assets	1	(1)	2	0	0
Change in Long Term Liabilities	0	1	0	0	0
Cash Flow from Investing	(3)	(9)	(4)	(6)	(5)
Change in Share & APIC	0	0	0	0	0
Dividends Paid	0	0	(28)	(24)	(26)
Others	(1)	(5)	4	4	4
Cash Flow from Financing	(1)	(5)	(24)	(20)	(21)
Change in Cash	34	34	24	26	35
Beginning Cash	196	231	266	289	315
Ending Cash	230	265	290	315	350

Financial Ratio & Key Assumptions	2016	2017	2018E	2019F	2020F
Profitability					
ROE	3.8%	11.4%	9.5%	9.7%	11.3%
ROA	3.2%	9.9%	8.2%	8.4%	9.8%
Gross Margin	14.9%	22.1%	21.7%	22.8%	26.0%
Operating Margin	8.3%	17.1%	13.7%	14.7%	17.2%
EBITDA Margin	19.0%	26.2%	21.9%	22.9%	26.0%
Net Profit Margin	8.3%	17.1%	13.7%	14.7%	17.2%
Liquidity					
Current Ratio	5.1	5.5	5.6	6.1	6.3
Solvency					
Debt to Equity	0.2	0.2	0.2	0.2	0.2
Debt to Assets	0.1	0.1	0.1	0.1	0.1
Valuation					
Price to Earnings (PE)	38.4	11.3	13.2	12.2	9.8
Price to Book (PBV)	1.4	1.3	1.2	1.2	1.1
Assumptions					
Average Selling Price (\$/ton)	54.3	65.5	69.7	67.2	67.2
Cash Cost (\$/ton)	30.0	38.2	43.3	42.8	41.8
Stripping Ratio	6.2	8.0	10.0	10.5	10.5
Overburden Removal (mn tonnes)	19.8	33.6	44.4	50.8	56.2
Coal production	3.2	4.2	4.4	4.8	5.4

We initiate our coverage on INDY with a NEUTRAL rating call and end-of-FY19 TP at IDR 3,250, derived via DCF valuation. Post Kideco acquisition, the company expects annual production to grow at a rate of 1-2 Mt per year which also brings recovery to INDY's other coal businesses. However, despite its growth and recovery in their business segments and its cheap valuation (currently trading at 8.1x forward FY19 PE), we think INDY will be the most exposed and impacted from the decline in low CV coal price, as 75% of their current reserve are ranging from 4200-4300 CV. We think competition and supply in the low CV segment have been very abundant, hence ASP will potentially remain under pressure in the next quarters.

Post Kideco acquisition. Now that INDY has taken control over Kideco's majority stake, its earnings and assets will be directly consolidated to the company. Post acquisition, Kideco will contribute around 62% of the company's total revenue. Kideco currently has a total reserve of around 400 Mt, with annual production output of 33-34 Mt. Company expects to grow their production by 1-2 Mt per annum in the next few years, inline with government's objective to increase domestic coal production. Important to note, post Kideco acquisition, the company will incur annual amortization expense of USD 131.6 mn for the next five years (until 2023), as a result from differences in transaction value and book value.

Recovery from other coal businesses. Through the consolidation of Kideco, we expect gradual recovery from the other coal business segments especially Petrosea. Any increase in coal production from Kideco (1-2 Mt per year) will give additional new contract for Petrosea given that the company will most likely prioritize their subsidiaries over other third parties. Management also expect MBSS to book positive earnings in the next few quarters, resulting from higher contract and utilization rate.

3Q18 performance expectation. We think production will remain stable QoQ and will be inline with FY18 management guidance at 33-34 Mt. On the margin side, we expect margin to remain under pressure as ASP will be hurt from decline in low CV coal price and rise in the fuel price. On the flip side, we expect SR to be stable but cash cost will probably rise driven by fee adjustment from their mining contractor. Note that all of their contract with the mining contractor are fixed price.

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Sector	Coal Mining
Bloomberg Ticker	INDY IJ
Market Cap. (IDR tn)	13.4
Share Out./Float (mn)	5,210/1,548
Current Price	IDR 2,570
End-of-FY19 Target Price	IDR 3,250
Upside (%)	26.5%

Share Price Performance

52W High (01/29/18)	4,630
52W Low (10/24/17)	2,160
52W Beta	0.8
YTD Change (%)	-16%

Relative Valuations

Trailing P/E	2.4x
Forward P/E	23.4x
P/BV	0.9x
EV/EBITDA	4.2x

Highlights (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	775	1,099	2,871	2,843	2,911
% growth	-29.4%	41.7%	161.3%	-1.0%	2.4%
Gross Profit	89	123	729	686	700
Net Profit	-68	335	138	112	119
% growth	51.6%	-596.2%	-59.0%	-18.6%	6.3%
Gross Margin (%)	11.4%	11.2%	25.4%	24.1%	24.0%
Net Margin (%)	-8.7%	30.5%	4.8%	3.9%	4.1%
Return on Equity (%)	-9.1%	30.1%	11.3%	8.6%	8.6%
Return on Assets (%)	-3.7%	9.2%	3.7%	2.9%	3.0%
EPS	-0.01	0.06	0.03	0.02	0.02

Income Statement (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	775	1,099	2,871	2,843	2,911
Cost of Revenue	(687)	(976)	(2,142)	(2,157)	(2,212)
Gross Profit	89	123	729	686	700
Operating Expense	(99)	(89)	(123)	(126)	(130)
Other Income (Expense)	(104)	207	(142)	(146)	(146)
EBIT	(114)	241	465	414	424
EBITDA	28	954	706	667	686
Net Financing	(30)	(170)	(6)	(5)	(6)
Share in Net Loss of Associates & JV	59	136	24	22	24
EBT	(13)	(25)	496	443	455
Tax	11	22	(226)	(204)	(210)
Non Controlling Interest	(37)	(14)	21	17	18
Net Profit for the Year	335	483	433	447	463

Balance Sheet (USD Mn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	244	622	516	545	589
Trade Receivables	114	342	518	501	530
Other Current Assets	311	392	371	442	494
Total Current Assets	667	1,354	1,401	1,484	1,608
Mining Properties	18	9	11	11	12
Fixed Assets	518	611	756	845	929
Other Non Current Assets	618	1,663	1,579	1,482	1,361
Total Assets	1,822	3,636	3,748	3,822	3,909
Loans Payable	122	112	75	74	76
Other Current Liabilities	191	547	685	710	754
Total Current Liabilities	313	659	760	784	829
Loans Payable	683	1,305	1,319	1,326	1,322
Other Non Current Liabilities	85	557	451	409	366
Total Liabilities	1,081	2,521	2,530	2,519	2,518
Share & APIC	310	311	311	311	311
Retained Earnings	215	550	633	700	772
Non Controlling Interest	152	190	211	228	246
Other Components of Equity	64	64	64	64	64
Total Equity	741	1,115	1,218	1,302	1,391
Total Equity & Liabilities	1,822	3,636	3,748	3,822	3,909

Cash Flow (USD Mn)	2016	2017	2018E	2019F	2020F
Net Income	(68)	335	138	112	119
Depreciation & Amortization	83	577	217	231	239
Change in Working Capital	(89)	(48)	15	29	37
Cash Flow from Operating	105	960	340	314	321
Capital Expenditure	(47)	556	230	185	189
Change in Intangible assets	0	702	0	0	0
Change in Long Term Assets	(39)	(24)	(1)	0	(8)
Change in Long Term Liabilities	(17)	471	(106)	(41)	(43)
Cash Flow from Investing	68	(1,232)	(388)	(264)	(246)
Change in Share & APIC	2	1	0	0	0
Change in Short Term Loans/Bonds	(137)	(10)	(38)	(1)	2
Change in Long Term Loans/Bonds	(28)	622	14	7	(3)
Dividends Paid	0	0	55	45	48
Others	(25)	38	21	17	18
Cash Flow from Financing	(188)	650	(58)	(22)	(32)
Change in Cash	(15)	378	(106)	29	44
Beginning Cash	259	244	622	516	545
Ending Cash	244	622	516	545	589

Financial Ratio & Key Assumptions	2016	2017	2018E	2019F	2020F
Profitability					
ROE	-9.1%	30.1%	11.3%	8.6%	8.6%
ROA	-3.7%	9.2%	3.7%	2.9%	3.0%
Gross Margin	11.4%	11.2%	25.4%	24.1%	24.0%
EBITDA Margin	3.6%	86.8%	24.6%	23.5%	23.6%
Net Profit Margin	-8.7%	30.5%	4.8%	3.9%	4.1%
Liquidity					
Current Ratio	0.5	0.5	0.5	0.5	0.5
Solvency					
Debt to Equity	1.1	1.9	1.6	1.5	1.3
Debt to Assets	0.5	0.6	0.5	0.5	0.5
Valuation					
Price to Earnings (PE)	-17.5	3.5	8.6	10.5	9.9
Price to Book (PBV)	1.6	1.1	1.0	0.9	0.8
Assumptions					
ASP blended	38.4	51.8	53.1	50.2	50.2
Coal production	32.1	32.0	33.6	35.3	36.3
Stripping Ratio	6.0	6.1	6.1	6.1	6.1

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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