

**Cost plus margin policy rejected, positive outlook ahead.** According to Reuters, Indonesia Minister of Energy and Mineral has rejected PLN proposal to cap coal price using cost plus margin policy. He argued that using cost plus margin mechanism will not improve operational efficiency for both mining coal companies and electricity power producer. Note that only 30% of power producer cost comes from primary energy while the remaining comes from maintenance cost and transmission distribution cost. The minister urge PLN and other power producer to maximize their production efficiency especially from maintenance and distribution cost. While the minister has rejected the cost plus margin mechanism, we are not yet certain that government will not regulate the current coal price. Based on the current information, the minister mentioned that the government is still studying a better and more fair policy for thermal coal pricing.

**Our view:** we see the minister decision to reject the cost plus margin policy as a positive catalyst for mining sector given such policy will reduce mining company's profitability. Hence, we still maintain OVERWEIGHT with coal mining sector with our top picks of PTBA (TP: IDR 16,500), ADRO (TP: IDR 2,200), DOID (TP: IDR 1,450), HRUM (TP: IDR 2,600) and ITMG (TP: IDR 21,500). Though we remain optimistic for the sector, we also advise our investor to closely monitor government regulation on coal price as there might be an indication that the government will still want to regulate the current coal price.

**Richard Suherman**

Research Associate

+62 21 392 5550 ext. 610

[richard.suherman@sinarmassekuritas.co.id](mailto:richard.suherman@sinarmassekuritas.co.id)

## 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.

### DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

### **Additional information is available upon request.**

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2017). All rights reserved.