

DMO pricing rules has been set. Citing from Bisnis Indonesia, Minister of Energy and Mineral Resources (ESDM), Ignasius Jonan, has finally issued official regulation on domestic coal price purchased by PLN and other coal fired power plant. In those ministerial decree, there are several points mentioned for regulating domestic coal purchases. First, government has set coal price benchmark for domestic usage to be at US\$ 70 per ton or using Harga Batubara Acuan (HBA) whichever is lower. Second, the pricing regulation will be effective immediately counting from January 1, 2018 until December 2019. Hence, prior domestic transaction need to be re-adjusted. Third, ministry of ESDM has assigned a maximum quota for domestic coal purchases at 100 Mt or consistent with the coal required by domestic coal fired power plant. Fourth, at the end of 2019, both the cap price at US\$ 70 per ton and also maximum quota at 100 Mt will be reviewed by the ministry of ESDM. Fifth, both government non-tax revenue and royalty will be set accordingly with the DMO pricing rules. Lastly, for coal miners who sell domestic coal for national electrification project could propose additional 10% coal production quota from the current maximum quota that have been accepted by the minister.

Our view: We believe the impact of DMO pricing rules are quite moderate for coal miners with small DMO obligation portion such as ADRO and ITMG. Important note here is that the DMO pricing rules will only affect coal sales to domestic PLN and other coal fired power plant. Export coal sales will still be using the current coal price benchmark which is higher than the DMO price or coal price benchmark in 2017. As coal companies have been punished severely over the past week (~10% -20%), we view that most of the movement has happened and the changes has partially been priced in. While the changes in regulation could negatively impact coal players' margins, this clarification especially point number 5&6 could send a positive signal to the market, though valuations need some adjustment. We are currently reviewing our models with the current DMO regulation.

Company	Domestic sales portion	DMO impact to revenue from our previous estimate
ADRO	20%	~4%
ITMG	11%	~3%
PTBA	64%	~12%
HRUM	0%	0%

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