

We recently met with the management of PT Timah Tbk. (TINS, Not Rated) and here are the key important highlights that we got from the meeting. 1) The company seems very optimistic with the effectiveness of the new regulation to eliminate illegal mining. 2) The company aims to increase production up to 60,000 ton in FY19 (+36.4% YoY). 3) The company guides net profit at IDR 1.2 - 1.5 tn in FY19.

The end of illegal tin mining? In November 18, Indonesia Commodity and Derivatives Exchange (ICDX) suspended tin export activity from private smelters whose tin ore was verified by PT Surveyor Indonesia. These ores are suspected coming from illegal mines. As a result, Indonesia's tin export was down by 32.8% MoM in Nov 18 and all shipments for the month was exclusively from TINS. Originally, TINS' local partners who mined at TINS concession can only sell their ore to TINS. However, the reality was that many of them sold their ore illegally to private smelters. Now that export restriction from illegal mines has been established, we expect TINS' local miners can only sell their ore to TINS, ending the practice of illegal tin mines.

Indonesia's 2018 tin export

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Total
Other Smelters	2,022	5,807	5,469	4,098	7,353	3,839	3,626	5,812	5,674	2,405	0	140	46,245
TINS	2,485	1,400	0	0	5,140	1,770	2,950	2,270	3,180	2,620	3,375	5,010	30,200

Source: Company Data, Sinarmas Investment Research

Production volume expansion. Due to export restriction on illegal mines, the company expects production volume to grow up to 60,000 tons in FY19, increasing by 36.4% YoY from 44,000 tons in FY18. Note that the company has smelting capacity of 54,000 tons per year. Hence, the remaining 6,000 tons will be outsourced to local private smelters.

Robust earnings expectation makes current valuation very attractive. Volume expansion paired with an increase in price should lead to robust earnings growth this year. The company guides net profit at IDR 1.2 - 1.5 tn in FY19 (57% - 97% above FY19 consensus numbers). At current price, TINS is still traded at 7.6x-9.4x FY19F PE (47-58% discount to global peers which trades at 16x PE).

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