

We maintain our NEUTRAL call on PT Indika Energy Tbk (INDY IJ) with 52-week target price of IDR 1,700, implying 5.9x FY20F core PE. We derived our valuation via DCF with 8.8% WACC assumptions. As of 1H19, INDY's consolidated revenue came in at USD 1.38 bn (-4.6% YoY), which accounted for 53.3%/49.2% of our and consensus estimate. At the bottom line level, however, INDY recorded a net profit of USD 12.7 bn (-83.4% YoY, 43.1%/39.6% of our and consensus estimate) as GPM deteriorated by 910 bps YoY, mainly due to weaker commodity price. This brings INDY's 1H19 core profit to USD 56.4 bn (-49.8% YoY, 48.4% of our FY19E). On a QoQ basis, INDY's 2Q19 revenue and net profit stood at USD 679.7 mn (+6.5% YoY, -3.0% QoQ) and USD 0.97 mn (-94.6% YoY, -91.7% QoQ) respectively. Nonetheless, despite its discounted valuation, we remain cautious on the sector as we see near-term outlook to remain challenging. Hence, we maintain our current coal price assumptions at USD 80/75 for FY19E/FY20F. Upside risks to our call include higher than expected coal price and better than expected earnings recovery from other business segments.

Weak coal price weighed down Kideco's performance. As of 1H19, Kideco posted revenue of USD 810.0 mn (-13.7% YoY, 53.4% of our FY19E) with a sales volume at 17.5 Mt (+1.2% YoY, 51.0% of our FY19E). This translates to an ASP of USD 46.3 per ton (-14.7% YoY). At the bottom line, net profit dropped to USD 79.3 mn (-50.4% YoY, 46.1% of our FY19E) due to weaker ASP. Meanwhile, on QoQ basis, 2Q19's revenue fell slightly to USD 400.1 mn (-2.7% YoY, -2.4% QoQ) despite slight improvement in ASP (+3.5% QoQ) as volume declined to 8.5 Mt (-5.6% QoQ) due to seasonality. Going forward to 2H19, we expect muted earnings recovery as we see coal price to remain subdued.

Other business segments shows top-line improvement. While Kideco posted soft 1H19 earnings, we see a major improvement coming from other business segments. This should provide cushion for weak earnings from the coal mining. As of 1H19, Petrosea booked a revenue of USD 238.0 mn (+15.6% YoY), driven by 3.5% YoY higher OB volume from Kideco and Tabang mines as well as new revenue recognition in the port business operation. MBSS, on the other hand, posted 1H19's revenue of USD 40.2 mn (+24.5% YoY) as barging volume managed to increase by 27.3% YoY to 12.6 Mt in 1H19. Lastly, Tripatra's 1H19's revenue increased by 66.9% to USD 189.5 mn due to higher revenue contribution from BP Tangguh project and a newly awarded contract from PT Vopak Terminal Merak.

| Highlights (USD Mn) | 2017 | 2018 | 2019E | 2020F | 2021F |
|----------------------|---------|--------|--------|--------|-------|
| Revenue | 1,099 | 2,963 | 2,592 | 2,536 | 2,533 |
| % growth | 41.7% | 169.7% | -12.5% | -2.2% | -0.1% |
| Gross Profit | 123 | 641 | 504 | 475 | 462 |
| Net Profit | 335 | 80 | 29 | 20 | 22 |
| % growth | -596.2% | -76.1% | -63.3% | -30.3% | 5.2% |
| Gross Margin (%) | 11.2% | 21.6% | 19.5% | 18.7% | 18.3% |
| Net Margin (%) | 30.5% | 2.7% | 1.1% | 0.8% | 0.8% |
| Return on Equity (%) | 30.1% | 7.1% | 2.5% | 1.7% | 1.8% |
| Return on Assets (%) | 9.2% | 2.2% | 0.8% | 0.6% | 0.6% |
| EPS (USD) | 0.064 | 0.015 | 0.006 | 0.004 | 0.004 |

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| | |
|-----------------------|-------------|
| Sector | Coal Mining |
| Bloomberg Ticker | INDY IJ |
| Market Cap. (IDR tn) | 7.7 |
| Share Out./Float (mn) | 5,210/1,547 |
| Current Price | 1,485 |
| 52-week Target Price | 1,700 |
| Upside (%) | 14.8% |

Share Price Performance

| | |
|---------------------|-------|
| 52W High (07/31/18) | 3,780 |
| 52W Low (05/17/19) | 1,155 |
| 52W Beta | 1.5 |
| YTD Change (%) | -6.3% |

Relative Valuations

| | |
|--------------|-------|
| Trailing P/E | 36.3x |
| Forward P/E | 20.8x |
| P/BV | 0.5x |
| EV/EBITDA | 3.1x |

2Q19 Earnings Summary

| USD Thousand | 2Q18 | 1Q19 | 2Q19 | %QoQ | %YoY | 6M18 | 6M19 | %YoY |
|--------------------|---------|---------|---------|--------|--------|-----------|-----------|--------|
| Revenue | 638,170 | 700,728 | 679,706 | -3.0% | 6.5% | 1,447,195 | 1,380,434 | -4.6% |
| Gross Profit | 148,927 | 117,645 | 117,716 | 0.1% | -21.0% | 377,723 | 235,362 | -37.7% |
| Net Profit | 17,949 | 11,700 | 966 | -91.7% | -94.6% | 76,317 | 12,666 | -83.4% |
| Margin | | | | | | | | |
| GPM | 23.3% | 16.8% | 17.3% | | | 26.1% | 17.0% | |
| NPM | 2.8% | 1.7% | 0.1% | | | 5.3% | 0.9% | |
| Kideco | | | | | | | | |
| Production (Mt) | 8.3 | 8.3 | 8.2 | -1.2% | -1.2% | 16.5 | 16.5 | 0.0% |
| Sales Volume (Mt) | 7.9 | 9.0 | 8.5 | -5.6% | 7.6% | 17.3 | 17.5 | 1.2% |
| Overburden Removal | 51.3 | 48.6 | 49.4 | 1.6% | -3.7% | 99.9 | 98.0 | -1.9% |
| SR | 6.2 | 5.9 | 6.0 | 2.9% | -2.5% | 6.1 | 5.9 | -1.9% |
| ASP (\$/ton) | 52.0 | 45.5 | 47.1 | 3.4% | -9.5% | 54.3 | 46.3 | -14.7% |

Source: Company Data, Sinarmas Investment Research

| Income Statement (USD Mn) | 2017 | 2018 | 2019E | 2020F | 2021F |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 1,099 | 2,963 | 2,592 | 2,536 | 2,533 |
| Cost of Revenue | (976) | (2,322) | (2,088) | (2,061) | (2,070) |
| Gross Profit | 123 | 641 | 504 | 475 | 462 |
| Operating Expense | (89) | (133) | (127) | (122) | (118) |
| Other Income (Expense) | 207 | (164) | (137) | (135) | (130) |
| EBIT | 241 | 344 | 240 | 218 | 214 |
| EBITDA | 954 | 588 | 498 | 491 | 500 |
| Net Financing | (170) | (8) | (8) | (7) | (7) |
| Gain from JV | 136 | 21 | 19 | 20 | 21 |
| EBT | (25) | 386 | 250 | 226 | 223 |
| Tax | 22 | (167) | (121) | (116) | (113) |
| NCI | (14) | 18 | 11 | 7 | 8 |
| Net Profit | 335 | 80 | 29 | 20 | 22 |

| Balance Sheet (USD Mn) | 2017 | 2018 | 2019E | 2020F | 2021F |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalent | 622 | 613 | 492 | 572 | 610 |
| Trade Receivables | 342 | 429 | 479 | 489 | 516 |
| Other CA | 392 | 417 | 424 | 456 | 487 |
| Total CA | 1,354 | 1,460 | 1,393 | 1,513 | 1,612 |
| Mining Properties | 9 | 11 | 10 | 9 | 9 |
| Fixed Assets | 611 | 627 | 762 | 802 | 825 |
| Other LT Assets | 1,663 | 1,572 | 1,468 | 1,340 | 1,205 |
| Total Assets | 3,636 | 3,670 | 3,632 | 3,665 | 3,651 |
| Loans Payable | 112 | 84 | 50 | 49 | 49 |
| Other CL | 547 | 587 | 562 | 616 | 620 |
| Total CL | 659 | 670 | 612 | 665 | 669 |
| Loans Payable | 1,305 | 1,377 | 1,395 | 1,398 | 1,400 |
| Others | 557 | 496 | 442 | 398 | 358 |
| Total Liabilities | 2,521 | 2,543 | 2,449 | 2,462 | 2,427 |
| Share & APIC | 311 | 311 | 311 | 311 | 311 |
| Retained Earnings | 550 | 570 | 616 | 628 | 641 |
| NCI | 190 | 179 | 189 | 196 | 204 |
| Others | 64 | 68 | 68 | 68 | 68 |
| Total Equity | 1,115 | 1,127 | 1,183 | 1,203 | 1,224 |
| Total Equity & Liabilities | 3,636 | 3,670 | 3,632 | 3,665 | 3,651 |

Source: Company Data, Sinarmas Investment Research

| Cash Flow (USD Mn) | 2017 | 2018 | 2019E | 2020F | 2021F |
|--------------------------|----------------|--------------|--------------|--------------|--------------|
| Net Income | 335 | 80 | 29 | 20 | 22 |
| Dep. & Amo. | 577 | 223 | 239 | 252 | 265 |
| Chg. in NWC | (48) | 75 | 78 | (13) | 56 |
| CF from Operating | 960 | 228 | 190 | 286 | 230 |
| Capital Expenditure | 556 | 102 | 233 | 152 | 146 |
| Chg. in Intangible | 702 | 3 | 0 | 0 | 0 |
| Chg. in LT Assets | 446 | 46 | 34 | 12 | 6 |
| Chg. in LT Liabilities | 471 | (61) | (54) | (44) | (41) |
| CF from Investing | (1,232) | (212) | (322) | (208) | (193) |
| Chg. in Share & APIC | 1 | 0 | 0 | 0 | 0 |
| Chg. in ST Loans | (10) | (29) | (34) | (1) | (0) |
| Chg. in LT Loans | 622 | 72 | 18 | 4 | 2 |
| Dividends Paid | 0 | 32 | 12 | 8 | 9 |
| Chg. in Others | 38 | (8) | 11 | 7 | 8 |
| CF from Financing | 650 | 3 | (17) | 2 | 1 |
| Beginning Cash | 244 | 622 | 641 | 492 | 572 |
| Change in Cash | 378 | 19 | (149) | 80 | 38 |
| Ending Cash | 622 | 641 | 492 | 572 | 610 |

| Financial Ratio & Key Assumption | 2017 | 2018 | 2019E | 2020F | 2021F |
|----------------------------------|-------|-------|-------|-------|-------|
| Profitability | | | | | |
| ROE | 30.1% | 7.1% | 2.5% | 1.7% | 1.8% |
| ROA | 9.2% | 2.2% | 0.8% | 0.6% | 0.6% |
| Gross Margin | 11.2% | 21.6% | 19.5% | 18.7% | 18.3% |
| EBITDA Margin | 86.8% | 19.9% | 19.2% | 19.3% | 19.7% |
| Net Profit Margin | 30.5% | 2.7% | 1.1% | 0.8% | 0.8% |
| Liquidity & Solvency | | | | | |
| Current Ratio | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Debt to Equity | 1.9 | 1.8 | 1.6 | 1.5 | 1.5 |
| Debt to Assets | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| Valuation | | | | | |
| Price to Earning (PE) | 1.8 | 7.6 | 20.8 | 29.8 | 28.4 |
| Price to Book (PBV) | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Assumptions | | | | | |
| Coal price | 88.0 | 100.0 | 80.0 | 75.0 | 75.0 |
| Coal production | 32.0 | 34.0 | 34.0 | 34.0 | 34.0 |
| Stripping Ratio | 6.1 | 6.3 | 6.3 | 6.3 | 6.3 |

Source: Company Data, Sinarmas Investment Research

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

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