

PT Indo Tambangraya Megah Tbk.

FY19: Inline, Lower Volume Guidance



NEUTRAL (TP: IDR 11,500)

6 March 2020

Inline FY19 results. ITMG FY19 revenue and net profit came in at USD 1.7 bn (-14.5% YoY) and USD 129.4 mn (-50.0% YoY), achieving 104% and 97% of our estimates respectively. Net margin dropped by 550 bps to 7.5% as of FY19. Decline in net profit and margin were mainly contributed by a drop in ASP to USD 64.7 per ton (-20.3% YoY), whereas production cost remains flat at USD 55.1 (-1.3% YoY) as SR was maintained at 10.9x (vs 11.1x in FY18).

Quarterly results. On QoQ basis, 4Q19 revenue and net profit came in at USD 410.8 mn (-30.7% YoY, -0.3% QoQ) and USD 30.8 mn (-50.0% YoY, +3.7% QoQ) respectively. Meanwhile, production and sales volume were recorded at 5.4 Mt (-17.2% YoY, -19.4% QoQ) and 6.6 Mt (+10% YoY, +3.1% QoQ) due to higher focus on trading this year. Net margin remained flat QoQ as weakness in ASP (-3.0% QoQ) was partially offset by lower stripping ratio (-2.1% QoQ) and lower effective tax rate.

Weaker outlook on lower price and volume. We forecast earnings to remain soft in FY20 (-18% YoY) as we expect coal price to remain weak paired with lower production volume guidance (-15.4% YoY) following government direction to reduce national output. On the cost side, we view limited upside on SR reduction as depleting reserve remains as a concern. We bake in sales volume at 22.2 Mt (-12.3% YoY) with decline in ASP to USD 61.2 per ton (-5.4% YoY). As a result we expect net profit to drop to USD 106 mn (-18% YoY) with margin deteriorating by 20 bps. Note that our forecast is 11% below consensus.

We maintain our NEUTRAL rating on PT Indo Tambangraya Megah Tbk (ITMG) with lower 52-week TP of IDR 11,500, derived from blended DCF valuation throughout its mine life (12% WACC) and PE valuation. Our target price implies 7.8x FY20F PE, -0.7SD from 10 year average PE. We remain cautious on the stock, mainly due to headwind on the coal sector. Muted demand growth from coronavirus paired with high inventory level will put downward pressure on price. In addition, lower volume and limited upside on SR reduction will put pressure on company's earnings. However, attractive annual dividend yield potential at 13% should give some support for the stock price. Downside risks to our call are lower than expected coal price and slower than expected economy growth due to coronavirus.

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Stock Information

Sector	Coal Mining
Bloomberg Ticker	ITMG IJ
Market Cap. (IDR tn)	11.8
Share Out./Float (mn)	1,130/393
Current Price	IDR 10,425
52-week Target Price	IDR 11,500
Upside (%)	10.3%

Share Price Performance

52W High (03/26/19)	24,475
52W Low (02/03/20)	9,800
52W Beta	1.1
YTD Change (%)	-9.2%

Relative Valuations

Trailing P/E	6.2x
Forward P/E	7.3x
P/BV	0.9x
EV/EBITDA	2.9x

Highlights (USD mn)	2018	2019	2020E	2021F	2022F
Revenue	2,008	1,716	1,438	1,493	1,519
% growth	18.8%	-14.5%	-16.2%	3.8%	1.7%
Gross Profit	584	327	269	284	275
Net Profit	262	129	106	114	106
% growth	3.7%	-50.6%	-17.9%	7.0%	-6.3%
Gross Margin	29.1%	19.0%	18.7%	19.0%	18.1%
Net Margin	13.0%	7.5%	7.4%	7.6%	7.0%
Return on Equity	27.2%	14.0%	12.1%	13.0%	12.2%
Return on Assets	18.7%	9.8%	8.7%	9.1%	8.4%
EPS (USD)	0.23	0.11	0.09	0.10	0.09

ITMG 4Q19 Earnings Summary

USD Thousand	4Q18	3Q19	4Q19	%QoQ	%YoY	FY18	FY19	%YoY	%DH	%Cons
Revenue	592,439	412,079	410,812	-0.3%	-30.7%	2,007,630	1,715,592	-14.5%	104.0%	99.6%
Gross Profit	155,110	75,431	88,856	17.8%	-42.7%	583,959	326,688	-44.1%		
Operating Profit	86,252	45,136	38,849	-13.9%	-55.0%	367,363	185,908	-49.4%		
Net Profit	62,545	30,395	28,207	-7.2%	-54.9%	261,951	129,426	-50.6%	97.1%	92.4%
Margin										
GPM	36.0%	16.7%	20.2%			72.2%	36.6%			
OPM	20.0%	10.0%	8.8%			45.4%	20.8%			
NPM	14.5%	6.7%	6.4%			32.4%	14.5%			
Operational										
Production	6.4	5.2	5.3	1.9%	-17.2%	22.1	23.4	5.9%		
Sales Volume	7.3	6.6	6.5	-1.5%	-10.3%	23.5	25.3	7.7%		
ASP (\$/ton)	81.7	61.7	60.0	-2.8%	-26.6%	81.0	64.6	-20.2%		

Source: Company Data, Sinarmas Investment Research

Income Statement (USD Mn)	2018	2019	2020E	2021F	2022F
Revenue	2,008	1,716	1,438	1,493	1,519
Cost of Revenue	1,424	1,389	1,169	1,209	1,244
Gross Profit	584	327	269	284	275
Selling Expense	122	117	97	101	102
General & Administrative Expense	30	30	25	27	29
Net Financing	4	5	5	6	9
Other Expense	(68)	1	0	0	0
EBT	367	186	152	162	152
EBITDA	464	393	274	281	265
Tax	109	59	46	49	46
Net Profit for the Year	262	129	106	114	106

Balance Sheet (USD Mn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	377	159	345	425	479
Trade Receivables	217	134	129	135	142
Other Current Assets	172	180	143	141	143
Total Current Assets	766	473	617	701	764
Fixed Assets	227	223	217	206	191
Deferred Exploration & Development	123	142	134	127	120
Other Non Current Assets	326	372	273	230	208
Total Assets	1,443	1,209	1,241	1,263	1,283
Trade Payables	194	78	120	123	128
Accrued Expense	146	119	117	122	125
Other Current Liabilities	50	36	30	28	29
Total Current Liabilities	390	233	267	273	282
Provision for Mine Rehabilitation	38	38	39	39	39
Other Non Current Liabilities	45	53	63	74	89
Total Liabilities	473	325	369	386	410
Share & APIC	393	393	393	393	393
Retained Earnings	600	513	502	505	502
Other Components of Equity	(24)	(22)	(22)	(22)	(22)
Total Equity	970	884	873	876	873
Total Equity & Liabilities	1,443	1,209	1,241	1,263	1,283

Source: Company Data, Sinarmas Investment Research

Cash Flow (USD Mn)	2018	2,019	2020E	2021F	2022F
Net Income	262	129	106	114	106
Depreciation & Amortization	100	211	127	125	121
Change in Working Capital	(96)	91	(85)	(3)	1
Cash Flow from Operating	458	250	319	242	227
Capital Expenditure	58	45	45	40	37
Change in Long Term Assets	160	225	(31)	23	41
Change in Long Term Liabilities	10	8	10	12	15
Others	(3)	2	0	0	0
Cash Flow from Investing	(205)	(263)	(4)	(51)	(63)
Change in Share & APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	-	11	(11)	-	-
Change in Long Term Loans/Bonds	-	-	-	-	-
Dividends Paid	246	217	118	110	110
Others	(4)	2	(0)	0	0
Cash Flow from Financing	(250)	(204)	(129)	(110)	(110)
Change in Cash	3	(218)	185	81	54
Beginning Cash	374	377	159	345	425
Ending Cash	377	159	345	425	479

Financial Ratio & Key Assumption	2018	2,019	2020E	2021F	2022F
Profitability					
ROE	27.2%	14.0%	12.1%	13.0%	12.2%
ROA	18.7%	9.8%	8.7%	9.1%	8.4%
Gross Margin	29.1%	19.0%	18.7%	19.0%	18.1%
Operating Margin	18.1%	10.6%	10.2%	10.5%	9.5%
EBITDA Margin	23.1%	22.9%	19.1%	18.8%	17.5%
Net Profit Margin	13.0%	7.5%	7.4%	7.6%	7.0%
Liquidity					
Current Ratio	2.0	2.0	2.3	2.6	2.7
Solvency					
Debt to Equity	0.0	0.0	0.0	0.0	0.0
Debt to Assets	0.0	0.0	0.0	0.0	0.0
Valuation					
Price to Earnings (PE)	3.1	6.4	7.8	7.3	7.7
Price to Book (PBV)	0.9	0.9	0.9	0.9	0.9
Assumptions					
Coal Price (\$/ton)	107.2	78.0	70.0	75.0	75.0
Average Selling Price (\$/ton)	81.2	64.7	61.2	62.5	62.7
Coal production	22.1	23.3	19.7	20.0	20.2
Stripping Ratio	11.1	10.9	10.0	10.0	9.8

Source: Company Data, Sinarmas Investment Research

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ADD: Share price may range between 10% to 15% over the next 12 months.

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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.

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