

**We downgrade our rating call on PT Indo Tambangraya Megah Tbk (ITMG) from ADD to NEUTRAL with 52-week TP of IDR 16,850, derived from DCF valuation through out its mine life (12% WACC).**

We are turning less constructive on the stock, mainly due to headwind on the coal sector. Note that high CV coal price has declined by 32% YTD, currently trading at USD 69 per ton. ITMG reported 1H19 revenue of USD 892.7 mn (+10.4% YoY), which accounted for 50.7%/48.2% of our and consensus estimate. Despite weakening commodity price, revenue generation was supported by higher sales volume at 12.3 Mt (+28.1% YoY) while ASP decline to USD 68.8 per ton (-15.0% YoY). At the bottom line level, 1H19 net profit came in lower at USD 70.8 mn (-31.2% YoY) as margin deteriorated by 480 bps YoY due to lower ASP as well as higher stripping ratio at 12.4x (+9.0% YoY).

**Soft quarter performance.** On QoQ basis, ITMG's 2Q19 revenue and net profit were recorded at USD 439.7 mn (+2.1% YoY, -2.9% QoQ) and USD 31.8 mn (-29.0% YoY, -18.4% QoQ) respectively. Sales volume was up at 6.3 mt (+21.2%, +5.0% QoQ) while NPM further contracted by 140 bps QoQ as ASP decline to USD 66.7 per ton (-14.8% YoY, -6.2% QoQ) for the quarter. Overall, ITMG's 1H19 net profit achieved 50.1% and 35.6% of our and consensus estimate.

**Expecting weaker profit ahead and consensus downgrade.** We estimate softer earnings in 2H19 as we believe coal price to remain weak for the rest of the year. We expect China's coal import to decline in 2H19 mainly due to higher local output, slowing economy growth, lower thermal market share due to lower gas price, and high inventory level. We also note that our FY19F/FY20F earnings estimate are 29%/39% lower than consensus estimate, which provide downside risk for the stock.

**Valuation.** ITMG currently trades at 8.1 FY19F, -0.3SD from its five years average. Despite undemanding valuation, we see further contraction on coal price will continue to weigh down on ITMG's financial performance. Upside risk to our call include higher than expected coal price and sales volume.

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**Stock Information**

Sector	Coal Mining
Bloomberg Ticker	ITMG IJ
Market Cap. (IDR tn)	16.5
Share Out./Float (mn)	1,130/393
Current Price	IDR 14,650
52-week Target Price	IDR 16,850
Upside (%)	15.0%

**Share Price Performance**

52W High (08/30/18)	29,000
52W Low (08/13/19)	14,050
52W Beta	1.3
YTD Change (%)	-30.4%

**Relative Valuations**

Trailing P/E	4.9x
Forward P/E	8.1x
P/BV	1.3x
EV/EBITDA	2.1x

Highlights (USD mn)	2017	2018	2019E	2020F	2021F
Revenue	1,690	2,008	1,763	1,669	1,674
% growth	23.5%	18.8%	-12.2%	-5.3%	0.3%
Gross Profit	505	584	352	318	339
Net Profit	253	259	141	120	134
% growth	93.3%	2.4%	-45.4%	-14.9%	11.4%
Gross Margin	29.9%	29.1%	20.0%	19.1%	20.2%
Net Margin	15.0%	12.9%	8.0%	7.2%	8.0%
Return on Equity	26.4%	26.6%	15.5%	13.3%	14.7%
Return on Assets	18.6%	17.9%	10.2%	8.8%	9.6%
EPS (USD)	0.22	0.23	0.13	0.11	0.12

## 2Q19 Earnings Summary

USD Thousand	2Q18	1Q19	2Q19	%QoQ	%YoY	6M18	6M19	%YoY
Revenue	430,649	453,025	439,676	-2.9%	2.1%	808,896	892,701	10.4%
Gross Profit	114,692	93,612	68,789	-26.5%	-40.0%	225,745	162,401	-28.1%
Operating Profit	64,814	57,671	44,252	-23.3%	-31.7%	147,393	101,923	-30.8%
Net Profit	44,822	38,992	31,832	-18.4%	-29.0%	102,955	70,824	-31.2%
<b>Margin</b>								
GPM	26.6%	20.7%	15.6%			27.9%	18.2%	
OPM	15.1%	12.7%	10.1%			18.2%	11.4%	
NPM	10.4%	8.6%	7.2%			12.7%	7.9%	
<b>Operational</b>								
Production	5.2	5.8	5.6	-3.4%	7.7%	9.3	11.4	22.6%
Sales Volume	5.2	6.0	6.3	5.0%	21.2%	9.6	12.3	28.1%
ASP (\$/ton)	78.3	71.1	66.7	-6.2%	-14.8%	80.9	68.8	-15.0%

Source: Company Data, Sinarmas Investment Research

<b>Income Statement (USD Mn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
<b>Revenue</b>	<b>1,690</b>	<b>2,008</b>	<b>1,763</b>	<b>1,669</b>	<b>1,674</b>
Cost of Revenue	(1,184)	(1,424)	(1,411)	(1,351)	(1,335)
<b>Gross Profit</b>	<b>505</b>	<b>584</b>	<b>352</b>	<b>318</b>	<b>339</b>
Selling Expense	(87)	(122)	(104)	(101)	(102)
General & Administrative Expense	(30)	(30)	(30)	(31)	(32)
Net Financing	3	4	5	6	7
Other Expense	(29)	(68)	(21)	(20)	(20)
<b>EBT</b>	<b>362</b>	<b>367</b>	<b>202</b>	<b>172</b>	<b>191</b>
<b>EBITDA</b>	<b>481</b>	<b>526</b>	<b>305</b>	<b>270</b>	<b>288</b>
Tax	(109)	(109)	(61)	(52)	(57)
<b>Net Profit for the Year</b>	<b>253</b>	<b>259</b>	<b>141</b>	<b>120</b>	<b>134</b>

<b>Balance Sheet (USD Mn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
Cash and Cash Equivalent	374	377	395	445	509
Trade Receivables	176	217	191	181	181
Other Current Assets	246	172	167	159	159
<b>Total Current Assets</b>	<b>797</b>	<b>766</b>	<b>753</b>	<b>785</b>	<b>849</b>
Fixed Assets	223	227	219	210	199
Deferred Exploration & Development	85	123	121	122	122
Other Non Current Assets	254	326	291	256	223
<b>Total Assets</b>	<b>1,359</b>	<b>1,443</b>	<b>1,384</b>	<b>1,373</b>	<b>1,393</b>
Trade Payables	153	194	193	184	182
Accrued Expense	117	146	145	139	137
Other Current Liabilities	58	50	41	40	42
<b>Total Current Liabilities</b>	<b>328</b>	<b>390</b>	<b>378</b>	<b>363</b>	<b>361</b>
Provision for Mine Rehabilitation	26	38	52	66	82
Other Non Current Liabilities	47	45	44	43	42
<b>Total Liabilities</b>	<b>401</b>	<b>473</b>	<b>473</b>	<b>472</b>	<b>485</b>
Share & APIC	393	393	393	393	393
Retained Earnings	585	600	542	531	538
Other Components of Equity	(20)	(21)	(21)	(21)	(21)
<b>Total Equity</b>	<b>958</b>	<b>973</b>	<b>914</b>	<b>904</b>	<b>910</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,359</b>	<b>1,446</b>	<b>1,387</b>	<b>1,376</b>	<b>1,396</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (USD Mn)	2017	2018	2019E	2020F	2021F
<b>Net Income</b>	<b>253</b>	<b>259</b>	<b>141</b>	<b>120</b>	<b>134</b>
Depreciation & Amortization	93	94	88	84	83
Change in Working Capital	(123)	96	19	3	(2)
Others	0	(11)	(0)	(0)	(0)
<b>Cash Flow from Operating</b>	<b>223</b>	<b>438</b>	<b>248</b>	<b>207</b>	<b>214</b>
Capital Expenditure	(43)	(49)	(35)	(33)	(31)
Change in Long Term Assets	98	9	5	4	3
Change in Long Term Liabilities	9	10	12	14	15
Others	(40)	(158)	(12)	(11)	(10)
<b>Cash Flow from Investing</b>	<b>25</b>	<b>(188)</b>	<b>(30)</b>	<b>(26)</b>	<b>(24)</b>
Change in Share & APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	-	-	-	-	-
Change in Long Term Loans/Bonds	-	-	-	-	-
Dividends Paid	(201)	(243)	(200)	(131)	(127)
Others	(2)	(1)	0	0	0
<b>Cash Flow from Financing</b>	<b>(202)</b>	<b>(244)</b>	<b>(200)</b>	<b>(131)</b>	<b>(127)</b>
Change in Cash	46	6	18	50	64
Beginning Cash	328	374	377	395	445
Ending Cash	374	380	395	445	509

Financial Ratio & Key Assumption	2017	2018	2019E	2020F	2021F
<b>Profitability</b>					
ROE	26.4%	26.6%	15.5%	13.3%	14.7%
ROA	18.6%	17.9%	10.2%	8.8%	9.6%
Gross Margin	29.9%	29.1%	20.0%	19.1%	20.2%
Operating Margin	21.4%	18.3%	11.4%	10.3%	11.4%
EBITDA Margin	28.5%	26.2%	17.3%	16.2%	17.2%
Net Profit Margin	15.0%	12.9%	8.0%	7.2%	8.0%
<b>Liquidity</b>					
Current Ratio	2.4	2.0	2.0	2.2	2.4
<b>Solvency</b>					
Debt to Equity	0.4	0.5	0.5	0.5	0.5
Debt to Assets	0.3	0.3	0.3	0.3	0.3
<b>Valuation</b>					
Price to Earnings (PE)	4.9	4.7	8.7	10.2	9.2
Price to Book (PBV)	2.8	2.8	1.3	1.4	1.3
<b>Assumptions</b>					
Coal Price (\$/ton)	85.0	100.0	80.0	75.0	75.0
Average Selling Price (\$/ton)	73.0	85.6	67.9	63.4	62.7
Coal production	21.7	22.1	23.2	23.2	23.7
Stripping Ratio	11.1	11.0	10.9	10.8	10.7

Source: Company Data, Sinarmas Investment Research

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