

1H18 result in a nutshell. PTBA booked a net profit of IDR 2.58 tn (+49.4% YoY) which translate to 53.3%/53.2% of our estimate and consensus respectively. Strong profit growth were mainly driven by an increase in sales volume and ASP. Production and sales volume were recorded at 11.2 Mt (+18.9% YoY) and 12.2 Mt (+7.6% YoY) respectively. Meanwhile, ASP was booked at IDR 842.789 per Mt (+2.3% YoY).

DMO impacts were mitigated by lower cash cost and higher export.

In 2Q18 alone, PTBA booked a lower QoQ net profit at IDR 1.1 tn (+31.9% YoY, -22.5% QoQ) due to DMO regulation that became fully effective in 2Q18. As a result, weighted ASP in 2Q18 was down by 11.3% QoQ. To mitigate DMO impact, the management has taken several actions such as lowering cash cost, producing higher CV coal and increasing export sales portion. In 2Q18, despite higher SR, cash cost was recorded lower at IDR 494.881 per Mt (-11.7% YoY, -17.5% QoQ). PTBA claims that higher coal production relative to flat fixed cost has resulted in lower cash cost. Management also tried to produce higher CV coal (~1 Mt of 6,400 CV coal) and increased export sales portion (47.9% in 1H18 vs 36% in 1H17) to improve weighted ASP. As a result, we expect less downside and more upside surprise on future earnings.

Transfer quota sales may provide upside surprise. PTBA sold ~50% of its total sales to domestic, a ~25% (~6.5 mn Mt) excess sales according to DMO regulation. Based on latest regulation from the government, PTBA is allowed to sell its excess quota to other company based on agreed price between both parties. Assuming 70% discount to coal price benchmark, at current market price, PTBA should able to sell its shares at \$10-\$20 per Mt. Conservatively, using \$10 per Mt, it should translate to additional income for PTBA up to IDR ~910 bn (18.9% of PTBA's net profit).

We reiterate our ADD call on PTBA and raise our end-of-FY19 TP to IDR 4,750. We raise our TP to IDR 4,750 as we raise our earnings forecast by 8%/9% for FY18 & FY19. We see higher export sales portion and lower cash cost will result in higher earnings than our previous estimate. Not to mention, potential earnings from transfer quota sales will give additional income for the company. Currently, PTBA is traded at 8.9x FY19F PE (-0.5SD to its 5 years avg PE) which still provides attractive return. To add, given robust earnings this year, dividend yield could reach up to 7.9%, assuming similar payout ratio at 75%.

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	14,059	19,471	21,320	22,554	24,467
% growth	2%	38%	9%	6%	8%
Gross Profit	2,944	6,584	7,762	8,177	9,169
Net Profit	2,006	4,476	5,210	5,601	6,349
% growth	-1%	123%	16%	7%	13%
Gross Margin (%)	21%	34%	36%	36%	37%
Net Margin (%)	14%	23%	25%	25%	26%
Return on Equity (%)	19%	32%	34%	31%	30%
Return on Assets (%)	11%	20%	21%	20%	20%
EPS	174	389	452	486	551

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Stock Information

Sector	Coal Mining
Bloomberg Ticker	PTBA IJ
Market Cap. (IDR tn)	49.7
Share Out./Float (mn)	11,520/4,030
Current Price	IDR 4,310
52-week Target Price	IDR 4,750
Upside (%)	10.2%

Share Price Performance

52W High (07/18/18)	4,450
52W Low (09/28/17)	1,810
52W Beta	0.90
YTD Change (%)	75.2%

Relative Valuations

Trailing P/E	10.1x
Forward P/E	8.9x
P/BV	3.6x
EV/EBITDA	5.9x

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	14,059	19,471	21,320	22,554	24,467
Cost of Revenue	-9,657	-10,965	-12,650	-13,351	-14,189
Gross Profit	4,401	8,507	8,670	9,203	10,278
General & Administrative Expenses	-1,111	-1,334	-1,404	-1,477	-1,566
Selling and Marketing Expenses	-696	-911	-981	-1,017	-1,071
Other Income (Expense)	-64	-363	746	677	734
EBIT	2,531	5,899	7,031	7,386	8,374
EBITDA	2,944	6,584	7,762	8,177	9,169
Net Financing	53	81	28	53	58
Share in Net Loss of Associates & JV	150	122	154	212	241
EBT	2,734	6,102	7,213	7,650	8,673
Tax	-709	-1,554	-1,955	-1,999	-2,266
Non Controlling Interest	18	71	47	51	58
Net Profit for the Year	2,006	4,476	5,210	5,601	6,349

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	3,675	3,555	5,196	7,406	9,996
Trade Receivables	2,285	5,344	3,505	3,708	4,022
Other Current Assets	2,390	2,219	2,709	2,934	3,187
Total Current Assets	8,350	11,118	11,410	14,048	17,205
Fixed Assets	6,088	6,199	7,754	8,226	8,514
Other Non Current Assets	4,139	4,670	5,190	5,411	5,867
Total Assets	18,577	21,987	24,354	27,685	31,586
Accruals & Trade Payables	2,351	1,857	2,582	2,725	2,896
Bank Loans	1,439	299	313	331	359
Other Current Liabilities	1,253	2,357	1,760	1,836	1,998
Total Current Liabilities	5,043	4,513	4,655	4,893	5,254
Other Non Current Liabilities	2,982	3,674	4,346	4,589	4,897
Total Liabilities	8,024	8,187	9,002	9,482	10,151
Share & APIC	1,183	1,183	1,183	1,183	1,183
Treasury Shares	-2,302	-2,302	-2,302	-2,302	-2,302
Retained Earnings	11,366	14,565	16,069	18,870	22,044
Non Controlling Interest	131	192	239	290	348
Other Components of Equity	175	163	163	163	163
Total Equity	10,552	13,800	15,352	18,203	21,436
Total Equity & Liabilities	18,577	21,987	24,354	27,685	31,586

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	2,006	4,476	5,210	5,601	6,349
Depreciation	355	615	655	677	711
Amortization	82	287	75	114	84
Chg. in NWC	-338	-2,240	1,463	-218	-248
CF from Operating	2,106	3,139	7,405	6,174	6,896
Capital Expenditure	-835	-763	-2,132	-1,128	-979
Chg. in LT Assets	-534	-840	-616	-357	-560
Chg in LT Liabilities	217	864	495	199	240
CF from Investing	-1,151	-739	-2,253	-1,285	-1,299
Chg. in Share & APIC	0	0	0	0	0
Chg. in ST Loans	266	-1,177	28	27	42
Chg. in LT Loans	81	-218	224	44	68
Dividends Paid	-832	-1,857	-3,126	-2,800	-3,175
Others	91	49	47	51	58
CF from Financing	-395	-3,203	-2,827	-2,679	-3,007
Change in Cash	559	-803	2,325	2,210	2,590
Beginning Cash	3,115	3,675	2,871	5,196	7,406
Ending Cash	3,675	2,871	5,196	7,406	9,996

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	19%	32%	34%	31%	30%
ROA	11%	20%	21%	20%	20%
Gross Margin	31%	44%	41%	41%	42%
Operating Margin	18%	30%	33%	33%	34%
EBITDA Margin	21%	34%	36%	36%	37%
Net Profit Margin	14%	23%	25%	25%	26%
Liquidity & Solvency					
Current Ratio	1.7	2.5	2.5	2.9	3.3
Debt to Equity	0.8	0.6	0.6	0.5	0.5
Debt to Assets	0.4	0.4	0.4	0.3	0.3
Valuation					
Price to Earning (PE)	6.3	10.5	9.7	8.6	7.7
Price to Book (PBV)	2.7	2.1	3.6	3.0	2.5

Key Assumptions	2016	2017	2018E	2019F	2020F
Coal Price (\$/ton)	65.7	88.2	85.0	80.0	80.0
ASP Blended (\$/ton)	49.4	59.9	59.9	59.2	60.7
Coal Production	19.6	24.2	25.4	27.0	28.5
Stripping Ratio	5.4	3.6	4.2	4.3	4.3

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