

1Q18 results. PTBA booked a net profit of IDR 1.45 tn (+66.6% YoY, -21.6% QoQ) bringing a good result to start the year (31.4%/35.5% of our estimate and consensus). Strong earnings result was boosted by higher ASP and coal production as well as a lower cash cost in 1Q18. Blended ASP was recorded at USD 65.1 per ton (+8.3% YoY). Note that DMO impact is still minimum given the regulation was effectively implemented starting 12th March 2018. Meanwhile, coal production was recorded higher at 5.28 Mt (+18.1% YoY) achieving 20.7% of company's FY18 target. On the cost side, PTBA is focusing on cost efficiency which resulted in lower cash cost in 1Q18, stood at USD 49.1 per ton (-8.0% YoY). Overall, gross and net margin was recorded at 44.9% and 25.2% (vs 37.2% & 19.2% in 1Q17).

DMO implication. Being a SoE, PTBA has a large portion of domestic sales, accounted for 61% of total sales in FY17. Despite having big portion of domestic sales, we think the impact of DMO regulation is quite minimum. We estimate DMO impact will only reduce their revenue by 5-6% from our previous estimate. PTBA is also planning to mitigate DMO impact by increasing export portion and starting to produce a higher CV coal. In 1Q18, domestic sales only accounts for 45% of total sales (vs 58% in 1Q17) and the company will keep on lowering their domestic sales portion. Furthermore, PTBA will start producing a higher CV coal at 6,400 amounted up to 2-3 Mt in FY18 which could boost their blended ASP. The management mentioned that they have already approached several prospective foreign buyers. Conservatively, we assume 90% of PTBA domestic sales (PLN's sales) will be pegged to DMO price (USD 70 per ton). This number has not taken into account possible compensation from government due to higher domestic sales portion compared to their DMO obligation.

Reiterate ADD call on PTBA with FY18 target price at 3,750 derived via DCF valuation. Currently, PTBA is trading at 7.8x forward PE, -1.0SD from its 5 years average PE. At current price, we think PTBA still provide an attractive valuation. We remain to like PTBA due to strong 1Q18 result combined with company's current strategy to keep reducing their domestic sales portion. Not to mention, PTBA is actively implementing new strategy to mitigate DMO impact such as producing higher coal CV and increasing cost efficiency. Hence, we think PTBA will still be able to deliver strong earnings result this year.

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	14,059	19,471	21,320	22,534	24,422
% growth	2%	38%	9%	6%	8%
Gross Profit	2,944	6,584	7,173	7,293	8,127
Net Profit	2,006	4,476	4,837	4,974	5,609
% growth	-1%	123%	8%	3%	13%
Gross Margin (%)	21%	34%	34%	32%	33%
Net Margin (%)	14%	23%	23%	22%	23%
Return on Equity (%)	19%	32%	32%	28%	27%
Return on Assets (%)	11%	20%	20%	18%	18%
EPS	174	389	420	432	487

Richard Suherman

Equity Analyst

+62 21 392 5550 ext. 610

richard.suherman@sinarmassekuritas.co.id

Stock Information

Sector	Coal Mining
Bloomberg Ticker	PTBA IJ
Market Cap. (IDR tn)	38.6
Share Out./Float (mn)	11,520/4,036
Current Price	IDR 3,280
52-week Target Price	IDR 3,750
Upside (%)	14.3%

Share Price Performance

52W High (04/11/18)	3,570
52W Low (03/23/18)	1,810
52W Beta	1.50
YTD Change (%)	36.2%

Relative Valuations

Trailing P/E	7.0x
Forward P/E	7.8x
P/BV	2.4x
EV/EBITDA	4.2x

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	14,059	19,471	21,320	22,534	24,422
Cost of Revenue	(9,657)	(10,965)	(12,394)	(13,434)	(14,339)
Gross Profit	4,401	8,507	8,925	9,100	10,083
General & Administrative Expenses	(1,111)	(1,334)	(1,404)	(1,476)	(1,566)
Selling and Marketing Expenses	(696)	(911)	(979)	(1,016)	(1,070)
Other Income (Expense)	(64)	(363)	(97)	(102)	(111)
EBIT	2,531	5,899	6,445	6,505	7,336
EBITDA	2,944	6,584	7,173	7,293	8,127
Net Financing	53	81	53	78	85
Share in Net Loss of Associates & JV	150	122	154	212	241
EBT	2,734	6,102	6,652	6,795	7,661
Tax	(709)	(1,554)	(1,771)	(1,775)	(2,002)
Non Controlling Interest	18	71	44	45	51
Net Profit for the Year	2,006	4,476	4,837	4,974	5,609

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	3,675	3,555	5,030	7,107	9,379
Trade Receivables	2,285	5,344	3,505	3,704	4,015
Other Current Assets	2,390	2,219	2,682	2,901	3,146
Total Current Assets	8,350	11,118	11,217	13,712	16,539
Fixed Assets	6,088	6,199	7,757	8,231	8,521
Other Non Current Assets	4,139	4,670	5,049	5,248	5,674
Total Assets	18,577	21,987	24,022	27,190	30,734
Accruals & Trade Payables	2,351	1,857	2,530	2,742	2,927
Bank Loans	1,439	299	313	331	359
Other Current Liabilities	1,253	2,357	1,704	1,773	1,924
Total Current Liabilities	5,043	4,513	4,547	4,847	5,210
Other Non Current Liabilities	2,982	3,674	4,275	4,611	4,937
Total Liabilities	8,024	8,187	8,823	9,458	10,147
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	15,920	18,407	21,212
Non Controlling Interest	131	192	236	281	332
Other Components of Equity	175	163	163	163	163
Total Equity	10,552	13,800	15,200	17,732	20,587
Total Equity & Liabilities	18,577	21,987	24,022	27,190	30,734

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	2,006	4,476	4,837	4,974	5,609
Depreciation	355	615	653	674	707
Amortization	82	287	75	114	84
Chg. in NWC	(338)	(2,240)	1,382	(146)	(233)
CF from Operating	2,106	3,139	6,947	5,617	6,167
Capital Expenditure	(835)	(763)	(2,132)	(1,127)	(977)
Chg. in LT Assets	(534)	(840)	(474)	(334)	(530)
Chg in LT Liabilities	217	864	424	293	258
CF from Investing	(1,151)	(739)	(2,182)	(1,168)	(1,249)
Chg. in Share & APIC	0	0	0	0	0
Chg. in ST Loans	266	(1,177)	28	27	41
Chg. in LT Loans	81	(218)	224	43	67
Dividends Paid	(832)	(1,857)	(2,902)	(2,487)	(2,804)
Others	91	49	44	45	51
CF from Financing	(395)	(3,203)	(2,606)	(2,372)	(2,645)
Change in Cash	559	(803)	2,158	2,077	2,273
Beginning Cash	3,115	3,675	2,871	5,030	7,107
Ending Cash	3,675	2,871	5,030	7,107	9,379

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	19%	32%	32%	28%	27%
ROA	11%	20%	20%	18%	18%
Gross Margin	31%	44%	42%	40%	41%
Operating Margin	18%	30%	30%	29%	30%
EBITDA Margin	21%	34%	34%	32%	33%
Net Profit Margin	14%	23%	23%	22%	23%
Liquidity & Solvency					
Current Ratio	1.7	2.5	2.5	2.8	3.2
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	8.9	8.7	7.7	7.0
Price to Book (PBV)	2.7	2.1	2.8	2.4	2.1

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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