

High production number, but lower sales volume. PTBA posted strong production output in 3Q17 at 7.48 mn tons (+40.3% YoY, +51.4% QoQ). While production significantly increased, sales volume was recorded slightly lower which only achieved 5.88 mn tons (+14.8% YoY, -0.7% QoQ) in 3Q17. Domestic market is still dominating at 64% of company's total sales.

Margin expansion on the back of lower stripping ratio. PTBA recorded revenue in 3Q17 at IDR 4.26 tn (+29.6% YoY, -3.8% QoQ) and net income at IDR 917.7 bn (+169.3% YoY, +6.4% QoQ) bringing 9M17 total revenue and net income at IDR 13.2 tn and IDR 2.7 tn (72.6% and 71.5% of our estimates) respectively. This translated net margin to 21.6% in 3Q17 (vs 19.5% in 2Q17). Slow QoQ top line growth was mainly driven by lower sales volume along with lower weighted ASP in 3Q17 which stood at ~USD 54.0 per ton (-3.1% QoQ). However, the margin still has a room to expand due to lower than expected stripping ratio at 3.77x (vs 3.93x in 1H17) resulting in lower cash cost at ~USD 42.2 per ton at 3Q17 (-2.3% QoQ). According to the management, the company is currently focusing on lowering their expenses this year such as using fewer fuel consumption which will help to improve margins significantly.

Better outlook for 4Q17 despite potentially higher stripping ratio. Going forward to 4Q17, we believe revenue and net income will be higher QoQ supported by the increase on ASP since it will use higher 3Q17 coal index compared to 2Q17. Even though we expect stripping ratio to slightly increase in 4Q17 given company's guidance for FY17 is at 4.47x, we believe the effect will be offset by higher ASP. As such, we expect margin to keep stronger in 4Q17.

Maintain BUY rating with a lowered TP. Considering a strong 3Q17 result, we maintain our BUY call on PTBA with lower TP for FY18 at IDR 13,250 (previously at IDR 15,750) reflecting target PE at 9.0x. We lowered our TP on the back of management guidance that there will be no major increase in total production target next year due to the maximum capacity from KAI railway as well as uncertainty on government regulation for domestic coal price. Overall, we still maintain our BUY call due to strong earnings growth and margin expansion. Risks to our call include 1) Lower than expected coal price 2) Higher than expected stripping ratio, 3) Adoption on domestic cap price regulation 4) Delay on power plant project execution.

| Financial Highlights | 2015 | 2016 | 2017E | 2018F | 2019F |
|-----------------------|--------|--------|---------|---------|---------|
| Revenue (IDR bn) | 13,845 | 14,059 | 18,201 | 17,813 | 17,415 |
| % growth | 5.9% | 1.5% | 29.5% | -2.1% | -2.2% |
| Gross Profit (IDR bn) | 4,251 | 4,401 | 7,046 | 6,720 | 6,124 |
| Net Profit (IDR bn) | 2,036 | 2,006 | 3,694 | 3,384 | 2,845 |
| % growth | 0.8% | -1.5% | 84.1% | -8.4% | -15.9% |
| Gross Margin (%) | 30.7% | 31.3% | 38.7% | 37.7% | 35.2% |
| Net Margin (%) | 14.7% | 14.4% | 20.5% | 19.2% | 16.5% |
| Return on Equity (%) | 21.9% | 19.0% | 29.3% | 23.4% | 17.8% |
| Return on Assets (%) | 12.1% | 10.8% | 17.0% | 14.1% | 11.0% |
| EPS (IDR) | 883.6 | 870.7 | 1,603.1 | 1,468.7 | 1,234.9 |

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| | |
|-----------------------|-------------|
| Sector | Coal Mining |
| Bloomberg Ticker | PTBA JJ |
| Market Cap. (IDR tn) | 28.51 |
| Share Out./Float (mn) | 2,304/806 |
| Current Price | IDR 10,600 |
| 52-week Target Price | IDR 13,250 |
| Upside (%) | 25.0% |

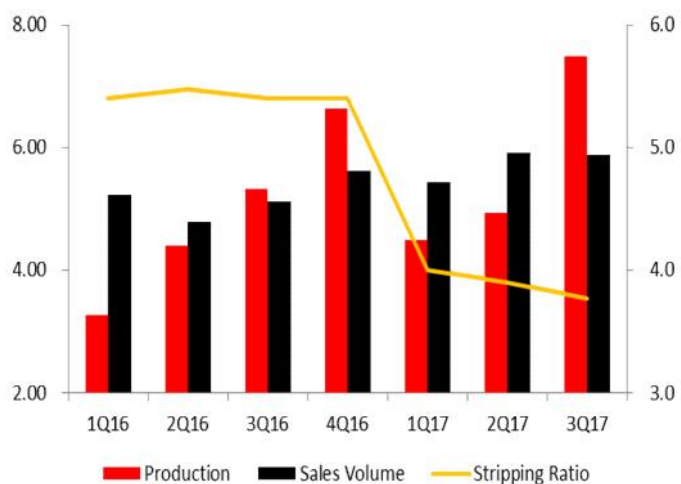
Share Price Performance

| | |
|---------------------|--------|
| 52W High (04/04/17) | 14,200 |
| 52W Low (09/14/16) | 9,075 |
| YTD Change (%) | 28.5% |

Relative Valuations

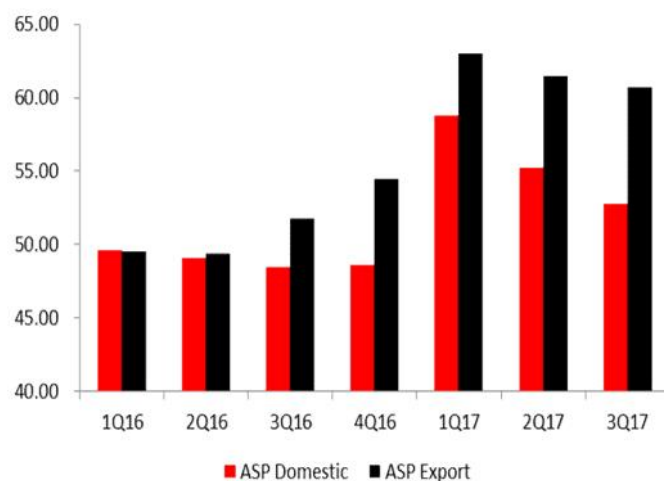
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|---------------|------|
| Trailing P/E | 6.2x |
| Forward P/E | 7.2x |
| Trailing P/BV | 1.8x |
| Forward P/BV | 1.9x |

Quarterly Operational Result



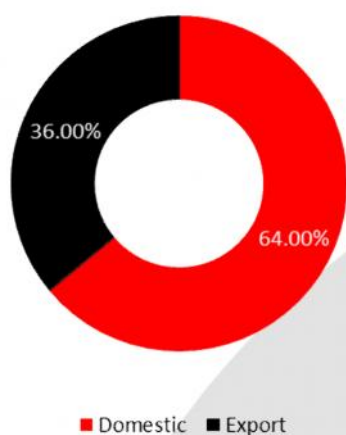
Source: Company Data, Sinarmas Investment Research

Quarterly ASP



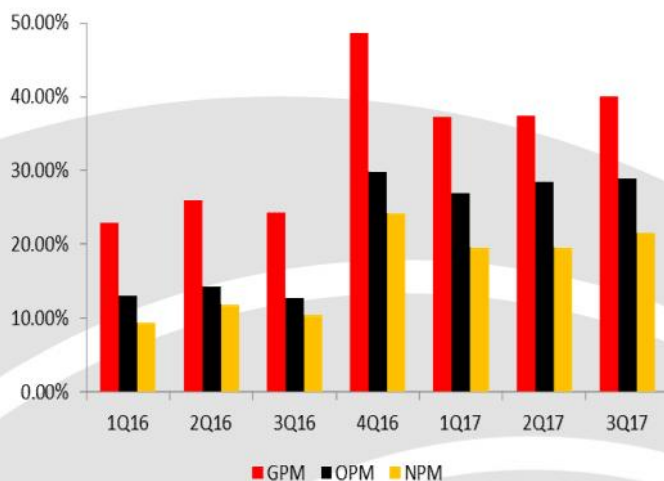
Source: Company Data, Sinarmas Investment Research

9M17 Sales Breakdown



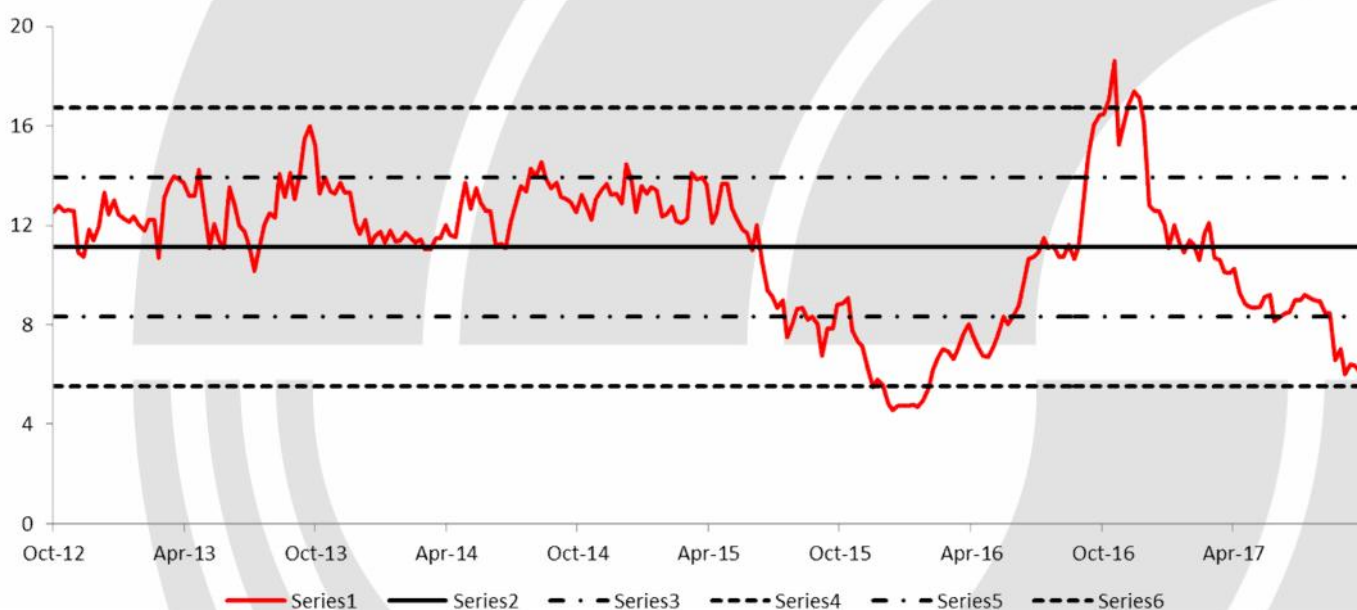
Source: Company Data, Sinarmas Investment Research

Quarterly Margin



Source: Company Data, Sinarmas Investment Research

PTBA trading below 5 years average PE



Source: Bloomberg, Sinarmas Investment Research

| Balance Sheet (IDR bn) | 2015 | 2016 | 2017E | 2018F | 2019F |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash and Cash Equivalent | 3,115 | 3,675 | 4,126 | 5,278 | 6,222 |
| Trade Receivables | 1,596 | 2,285 | 2,988 | 2,954 | 2,916 |
| Inventories | 1,233 | 1,102 | 1,412 | 1,406 | 1,396 |
| Other Current Assets | 1,654 | 1,288 | 1,811 | 1,884 | 1,921 |
| Total Current Assets | 7,598 | 8,350 | 10,337 | 11,521 | 12,455 |
| Deferred Development Expenditure | 1,443 | 1,401 | 1,542 | 1,684 | 1,824 |
| Fixed Assets | 5,579 | 6,088 | 6,679 | 7,216 | 7,688 |
| Other Non Current Assets | 2,274 | 2,738 | 3,111 | 3,518 | 3,976 |
| Total Assets | 16,894 | 18,577 | 21,670 | 23,939 | 25,943 |
| Accruals & Trade Payables | 2,794 | 2,351 | 2,722 | 2,714 | 2,768 |
| Bank Loans | 1,336 | 1,439 | 1,606 | 1,778 | 1,951 |
| Other Current Liabilities | 793 | 1,253 | 1,557 | 1,609 | 1,644 |
| Total Current Liabilities | 4,923 | 5,043 | 5,885 | 6,100 | 6,363 |
| Post Employment Benefits Obligation | 1,873 | 2,141 | 2,269 | 2,392 | 2,508 |
| Other Non Current Liabilities | 810 | 841 | 927 | 1,012 | 1,097 |
| Total Liabilities | 7,606 | 8,024 | 9,081 | 9,504 | 9,967 |
| 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 | 10,192 | 11,366 | 13,362 | 15,167 | 16,665 |
| Non Controlling Interest | 113 | 131 | 150 | 170 | 190 |
| Other Components of Equity | 102 | 175 | 196 | 217 | 239 |
| Total Equity | 9,288 | 10,552 | 12,588 | 14,435 | 15,975 |
| Total Equity & Liabilities | 16,894 | 18,577 | 21,670 | 23,939 | 25,943 |

| Income Statement (IDR bn) | 2015 | 2016 | 2017E | 2018F | 2019F |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 13,845 | 14,059 | 18,201 | 17,813 | 17,415 |
| Cost of Revenue | (9,594) | (9,657) | (11,155) | (11,094) | (11,291) |
| Gross Profit | 4,251 | 4,401 | 7,046 | 6,720 | 6,124 |
| General & Administrative Expenses | (1,031) | (1,111) | (1,293) | (1,364) | (1,434) |
| Selling and Marketing Expenses | (693) | (696) | (850) | (920) | (991) |
| Other Income (Expense) | (59) | (64) | (64) | (64) | (64) |
| EBIT | 2,469 | 2,531 | 4,839 | 4,373 | 3,635 |
| EBITDA | 2,963 | 2,968 | 5,306 | 4,880 | 4,184 |
| Net Financing | 115 | 53 | 36 | 63 | 50 |
| Share in Net Loss of Associates & JV | 134 | 150 | 166 | 183 | 199 |
| EBT | 2,718 | 2,734 | 5,041 | 4,619 | 3,883 |
| Tax | (681) | (709) | (1,314) | (1,204) | (1,012) |
| Non Controlling Interest | (1) | (18) | (34) | (31) | (26) |
| Net Profit for the Year | 2,036 | 2,006 | 3,693 | 3,384 | 2,845 |

| Cash Flow (IDR bn) | 2015 | 2016 | 2017E | 2018F | 2019F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net Income | 2,036 | 2,006 | 3,694 | 3,384 | 2,845 |
| Depreciation & Amortization | 494 | 437 | 467 | 507 | 549 |
| Change in Working Capital | 185 | (338) | (879) | (6) | 82 |
| Others | (203) | (53) | (73) | (75) | (77) |
| Cash Flow from Operating | 2,512 | 2,053 | 3,210 | 3,810 | 3,400 |
| Capital Expenditure | (1,990) | (835) | (947) | (933) | (910) |
| Change in Long Term Assets | (165) | (459) | (316) | (339) | (385) |
| Change in Long Term Liabilities | 408 | 217 | 139 | 134 | 128 |
| Others | -37 | -22 | -238 | -244 | -248 |
| Cash Flow from Investing | (1,783) | (1,098) | (1,362) | (1,383) | (1,414) |
| Change in Share & APIC | - | - | - | - | - |
| Change in Short Term Loans/Bonds | 58 | 266 | 186 | 189 | 191 |
| Change in Long Term Loans/Bonds | (292) | 81 | 75 | 74 | 73 |
| Dividends Paid | (1,050) | (832) | (1,698) | (1,579) | (1,347) |
| Others | (370) | 91 | 40 | 41 | 42 |
| Cash Flow from Financing | (1,653) | (395) | (1,397) | (1,274) | (1,042) |
| Change in Cash | (924) | 559 | 451 | 1,153 | 944 |
| Beginning Cash | 4,039 | 3,115 | 3,675 | 4,126 | 5,278 |
| Ending Cash | 3,115 | 3,675 | 4,126 | 5,278 | 6,222 |

| Financial Ratio | 2015 | 2016 | 2017E | 2018F | 2019F |
|---------------------------------|-------|-------|-------|-------|-------|
| Profitability | | | | | |
| ROE | 21.9% | 19.0% | 29.3% | 23.4% | 17.8% |
| ROA | 12.1% | 10.8% | 17.0% | 14.1% | 11.0% |
| Gross Margin | 30.7% | 31.3% | 38.7% | 37.7% | 35.2% |
| Operating Margin | 17.8% | 18.0% | 26.6% | 24.5% | 20.9% |
| EBITDA Margin | 21.4% | 21.1% | 29.2% | 27.4% | 24.0% |
| Net Profit Margin | 14.7% | 14.4% | 20.5% | 19.2% | 16.5% |
| Liquidity & Solvency | | | | | |
| Current Ratio | 1.5 | 1.7 | 1.8 | 1.9 | 2.0 |
| Debt to Equity | 0.8 | 0.8 | 0.7 | 0.7 | 0.6 |
| Debt to Assets | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| Valuation | | | | | |
| Price to Earnings (PE) | 5.1 | 14.4 | 7.7 | 9.0 | 11.6 |
| Price to Book (PBV) | 1.2 | 3.1 | 2.7 | 2.4 | 2.3 |

| Key Assumptions | 2015 | 2016 | 2017E | 2018F | 2019F |
|---|------|-------|-------|-------|-------|
| Coal Price (\$/ton) | 58.9 | 65.7 | 75.0 | 70.0 | 65.0 |
| Average Selling Price Export (\$/ton) | 59.1 | 54.5 | 62.2 | 58.1 | 53.9 |
| Average Selling Price Domestic (\$/ton) | 49.7 | 48.9 | 55.9 | 52.2 | 48.4 |
| Cash Cost (\$/ton) | 38.1 | 36.6 | 37.7 | 35.9 | 33.3 |
| Stripping Ratio | 4.5 | 5.4 | 4.4 | 4.4 | 4.5 |
| Overburden Removal (mn tonnes) | 86.8 | 105.9 | 96.3 | 101.4 | 112.4 |

BUY: Share price may rise by more than 15% over the next 12 months.

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

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

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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