

20th October 2011

Tambang Batubara Bukit Asam Tbk

Still Waiting for the Railway Project Completion

HOLD

The 2011E Result Projection

The result in 2011E is projected to be better than it was in last year. The company's total production and purchasing volume is projected to increase by 15.97% to reach 15.1 Mt this year. The sales volume is also projected to increase by 16.6% to 15.1 Mt. Moreover, the ASPs for both domestic and export selling this year are predicted to increase around 22-31% to IDR 750,000 and USD 88 respectively.

PTBA's Domestic Sales VS. Export Sales

PTBA's total sales projected in 2011E is divided into 65% of domestic sales (9.815 Mt) and 35% of export sales (5.285 Mt). The company only exports its coal production to Asian countries therefore its sales should be less vulnerable to be effected from the current global economy condition.

Excellent Future Business Growth Strategies

The projection above is based on PTBA's future growth strategies:

- The Power Plant at Tanjung Enim mine with its capacity of 3x10 MW will start operating in 2H11. Another power plant at Tarahan Port will start following to operate in 2013. Moreover, the Banjarsari mine-mouth power plant which will supply 1.4 Mt coal per annum is targeted to start EPC this year and start operating in 2014.
- CBM project in Tanjung Enim is now in the exploration progress of the second core hole and is targeted to start operating in 2013 with capacity of 50 MMSCF per day.
- The Tanjung Enim-Bandar Lampung new railway project developed by BATR is currently in the design stage. This project will start operating in 2015 for transporting 25 Mt in 20-year period. The company also has another new railway project which is from Tanjung Enim to Tanjung Api-Api. It is now still in the study phase.
- The company signed a 20-year CTA with PTKA in October 2009 for the existing railways transportation capacity. PTKA is targeting of 13.6 Mt in 2011 and then it will gradually increase to 22.7 Mt annually in 2014-2029.
- The expansion of Tarahan Port to increase its throughput capacity from 12 Mt to 25 Mt per annum by 2013.

How We Derive Our Valuation

We calculate the value of the company by using the DCF method. The stock is currently trading at IDR 17,000 and the target price 2012 is at IDR 20,200. This target price reflects the stock is trading at PE 13x. Therefore we recommend a HOLD on the stock.

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Stock Data

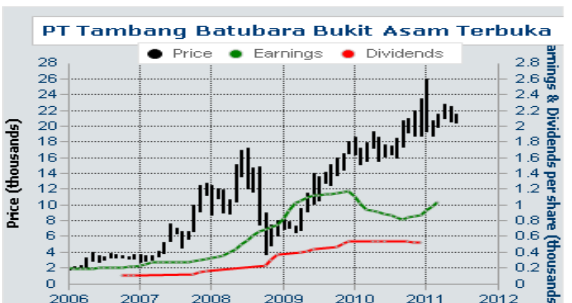
Sector	Coal Mining
Price (20th October 2011)	IDR 17,000
Target Price 2012	IDR 20,200
EPS 2011E	IDR 1,266
EPS 2012F	IDR 1,575
EPS 2013F	IDR 2,176
Market Cap (IDR)	IDR 39,168 T
Issued Shares (mn)	2,304
PE2011E	14
PE2012F	13

Five Years Averages

Sales Growth (%)	24.38%
EPS Growth (%)	43.69%
EBITDA Margin (%)	29.90%

Shareholders

Government of Indonesia	65%
Public	35%



Source: www.corporateinformation.com

REVENUE FORECAST	2011E	2012F	2013F
Sales volume (million metric Tonnes)	15.1	17.6	20.5
Coal Price (USD/Mt)	88	90	100
Revenue (Rp in bn)	11,314	14,080	20,500

The Review of 1H11 Result

The table below shows us the result comparison between 1H10 and 1H11. We can see that the total production and purchasing volume had increased by 4.65% and the sales volume had increased by 1.55%. The ASPs for domestic and export sales also had gone up by 27% and 62% YoY respectively. The increase in sales volumes and ASPs have lead the sales revenue increased by 35% and the net profit increased by 77%. Furthermore, the gross profit margin was up by 19%, the operating profit margin was up by 40% and the net profit margin was up by 7.6%.

	1H10	1H11	% YoY
Production (Mt)	5.80	6.20	+ 6.90%
Purchasing (Mt)	0.44	0.33	- 25.00%
Production & Purchasing (Mt)	6.24	6.53	+ 4.65%
Transported (Mt)	5.10	5.60	+ 9.80%
Average of Stripping Ratio (x)	3.87	3.67	- 5.17%
Sales (Mt)	6.44	6.54	+ 1.55%
ASP-Domestic (IDR/ton)	601,106	760,554	+ 27.00%
ASP-Export (USD/ton)	61.15	98.83	+ 62.00%
Sales Revenue (IDR billion)	3.80	5.12	+ 35.00%
Net Profit (IDR billion)	908	1,610	+ 77.00%
Net Profit Margin (%)	23.90%	31.50%	+ 7.60%

Cash Cost

The total cash cost is calculated by the sum of COGS, G&A expenses, selling expense, and royalty. This calculation exclude the coal inventories. Total cash cost (FOB) calculated both in IDR and USD during the first 6 months of FY11E compared to the same period in FY10A has increased by 15% and 25% YoY respectively.

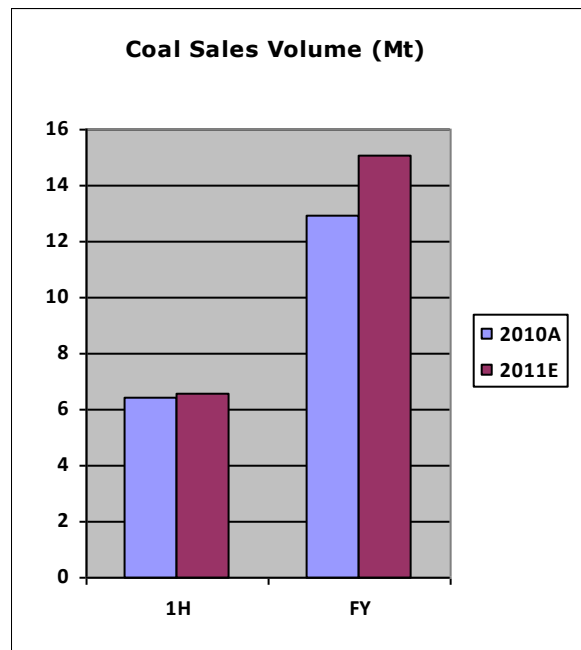
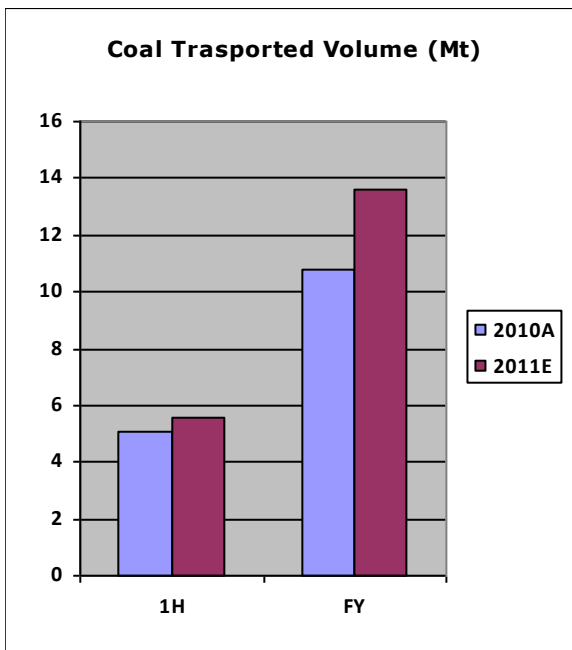
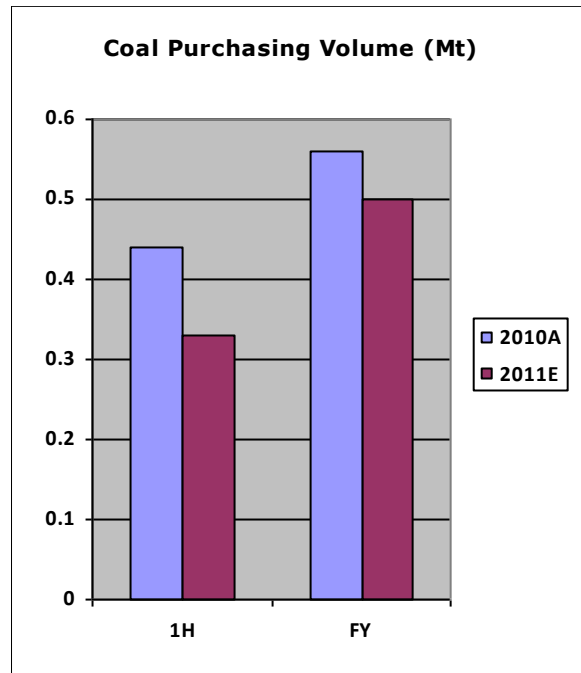
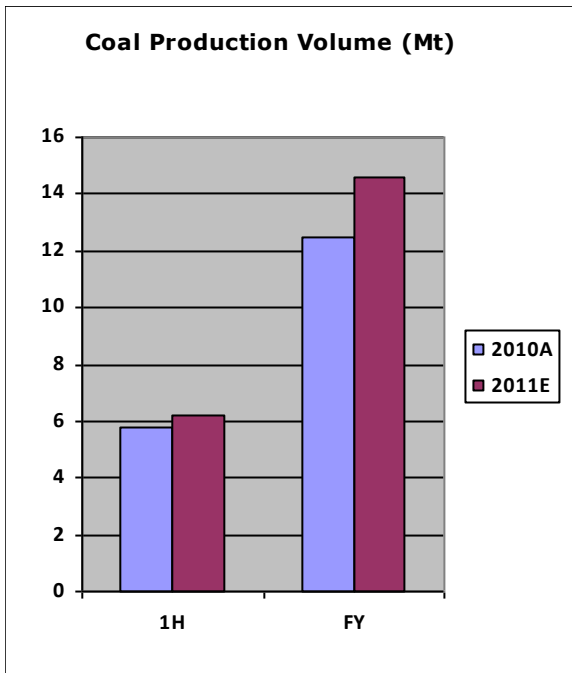
Cash Cost	FY10A	1H10	1H11	% YoY
IDR	381,943	384,871	443,279	+15%
USD	42.48	42.22	51.56	+25%
1 USD =	8,991	9,083	8,597	

PTBA's Domestic Sales VS. Export Sales

PTBA's total sales projected in 2011E is divided into 65% of domestic sales (9.815 Mt) and 35% of export sales (5.285 Mt). China (37%), Japan (26%), Malaysia (16%) and Taiwan (10%) are in the highest ranks of the distribution of export sales by destination country in 2010. The company only exports its coal production to Asian countries therefore its sales should be less vulnerable to be effected from the current global economy condition.

The 2011E Result Projection

The result in 2011E is projected to be better than it was in last year. The company's total production and purchasing volume is projected to increase by 15.97% to reach 15.1 Mt this year, which consist of the total production of 14.6 Mt and the total purchasing of 0.5 Mt. The sales volume is also projected to increase by 16.6% to 15.1 Mt. Moreover, the ASPs for both domestic and export selling this year are predicted to increase around 22-31% to IDR 750,000 and USD 88 respectively. As of 1H11, they all are still in line with the projection for 2011E.



The Two Power Plants for Internal Use Projects

The company is currently building up two power plants for its internal use. The first one is at Tanjung Enim mine with its capacity of 3x10MW and is predicted to operate fully in 2H11. The EPC progress is already 90% achieved as at June 30th, 2011. This project costs USD 41.4 million. The second one is at Tarahan Port with its capacity of 2x8MW. The EPC has been started. This project is projected to start its commercial operation by mid year 2013.

The Banjarsari Power Plant Project

The groundbreaking of 2x110MW of Banjarsari mine-mouth power plant project in Lahat (South Sumatera) was already done on July 29th, 2011. The PPA addendum has been signed by PT Bukit Pembangkit Innovative (59.75% of its shares is owned by PTBA) and PT PLN with the tariff of USD 5.56954 cent per KWH for a 30-year period. It is targeted to start EPC in this year and start commercial operation in 2014. The project cost IDR 2.7 trillion. The company will supply around 1.4 Mt coal annually for 30-year period.

The CBM Project

The Coal Bed Methane (CBM) project in Tanjung Enim, which is a consortium of PT Bukit Asam Metana Enim (27.5%), PT Pertamina Hulu Energi Metana Sumatera Tanjung Enim (27.5%) and Arrow Energy Pte Ltd (45%), is now in the progress of exploration. The drilling of the first core hole has been completed and the second core hole is still ongoing. After the drilling of these two core holes, they will start to drill the three Pilot Holes. The first indication of Gas in Place (GIP) is 0.8 Trillion Cubic Feet (TCF) reserve. This project will start operating in 2013 with capacity of 50 MMSCF per day. According to the Production Sharing Contract, the revenue from this project will be divided by 45% to the consortium and 55% to the government.

Another CBM project in Sijunjung (West Sumatera) has been signed on April 1st, 2011, by the consortium of PTBA, PT Inti Gas Energi and the government. The first GIP indication is 1 TCF. The project is on the Firm Commitment Exploration progress for the next 3 years to find out about its real GIP, production capacity and gas sales plan.

The Tanjung Enim-Bandar Lampung Railway Project

The project is being developed by PT Bukit Asam Transpacific Railway (BATR), a consortium company for making a new railway from Tanjung Enim to Bandar Lampung. This project is currently in a design stage (engineering) and detailed alignment design has been approved by Regencies. An approval on detailed alignment design from South Sumatera Province and Lampung Province is expected to be obtained by September 2011. After that, the process of land acquisition of 307-kilometer railway will be started. This project is projected to start its commercial operation by 2015 with its annual transportation capacity of 25 Mt for a 20-year period. EPC contract of USD 1.3 billion with the contract period of 4 years.

The Tanjung Enim-Tanjung Api-api Railway Project

The company also has another project which it cooperates with PT Adani and the South Sumatera Provincial Government in the making of new railway from Tanjung Enim to Tanjung Api-api. This 270-kilometer long railway is targeted to transport 35 Mt coal annually for a 20-year period. Now, this project is on the study phase and is expected to complete a construction in 3-4 years time.

The Existing Railway Project

PTBA has two existing railways which are currently used to transport coal from Tanjung Enim to Tarahan Port (416.6 km) and from Tanjung Enim to Kertapati Pier (167.7 km). The company has signed a 20-year Coal Transportation Agreement (CTA) with PT Kereta Api in October 2009. The coal transportation capacity target in 2011 is 13.6 Mt and is projected to gradually increase to reach 22.7 Mt annually in 2014-2029.

The Expansion of Tarahan Port

The EPC contractor for the expansion of Tarahan Port is the joint operation between PT Krakatau Engineering and China Huadian Engineering Co. Ltd. This project is forecasted to increase its throughput capacity from 12 Mt to 25 Mt per annum by 2013.

Risks Related to the Business

There are some risks related to the company's business which could affect its financial performance. The major risks are the high volatility of coal commodity price, the high level of rainfall volume, the high cost of barge transportation, the high cost of royalty and the high volatility of foreign exchange currency.

How We Derive Our Valuation

After getting the information from the management and from other reliable resources, we calculate the value of the company by using the DCF method. In our projection, we assume coal price will not suffer a major correction as we predict coal demand outlook is still strong going into 2012. The stock is currently trading at IDR 17,000 and the target price is at IDR 20,200. This target price reflects the stock is trading at PE 13x. Therefore we recommend a HOLD on the stock.

<i>Fiscal Year End</i>	2009	2010	2011E	2012F	2013F
Income Statement (Rp bn)					
Sales Revenue	8,948	7,909	11,314	14,080	20,500
Gross Profit	4,844	3,650	5,627	7,041	9,969
Operating Income	3,548	2,297	3,894	4,840	6,686
Depreciation & Amortization	54	49	118	127	180
EBITDA	3,602	2,347	4,012	4,967	6,866
EPS	1,184	872	1,266	1,575	2,176
Net Interest Income (Expenses)	-	-	-	-	-
Extraordinaries	-	-	-	-	-
Minority Interests	2	(10)	3	1	1
Pretax Income	3,762	2,600	3,894	4,840	6,686
Income Tax Expense	1,033	601	974	1,210	1,671
Net Income	2,728	2,009	2,918	3,629	5,013
Cash Flow (Rp bn)					
Operating Cash Flow	2,736	2,490	3,315	4,314	6,218
Net Capex	(58)	(490)	(900)	(1,000)	(400)
Other Investing Items	(10)	(311)	36	(11)	157
Free Cash Flow	2,679	2,000	2,415	3,314	5,818
Dividends paid	(1,007)	(1,236)	(1,459)	(1,814)	(2,507)
Equity Raised (Buy Back)	-	-	-	-	-
Net Bank Loans	-	-	-	-	-
Debt Issuance (Retirement)	-	-	-	-	-
Other Financing Items	6	(110)	(35)	(46)	(70)
Net Cash Flow	1,667	345	959	1,443	3,400
Balance Sheet (Rp bn)					
Cash & Cash Equivalents	4,709	5,054	6,013	7,456	10,856
Account Receivables	1,491	997	1,752	2,247	3,112
Inventories	410	424	632	751	1,069
Other Current Assets	173	171	177	254	382
Net Fixed Assets	571	1,109	1,537	1,813	3,230
Other Non-current Assets	724	963	1,069	1,181	1,304
Total Assets	8,079	8,723	11,186	13,708	19,959
Short-term Liabilities	1,381	1,148	1,897	2,311	3,235
Long-term Liabilities	912	1,134	1,463	1,719	2,452
Total Liabilities	2,293	2,281	3,360	4,030	5,688
Shareholder's Equity	1,183	1,183	1,183	1,183	1,183
Minority Interest	84	75	113	135	198
Total Equity & Liabilities	8,079	8,723	11,186	13,708	19,959
KEY RATIO					
Sales Growth (%)	24.00%	-11.61%	43.05%	24.44%	45.60%
EPS Growth (%)	59.78%	-26.35%	45.21%	24.37%	38.15%
EBITDA Margin (%)	40.26%	29.67%	35.46%	35.27%	33.49%
Payout Ratio (%)	45.06%	60.00%	50.00%	50.00%	50.00%
ROE (%)	47.15%	31.19%	37.28%	37.49%	35.13%
Quick Ratio (x)	4.62	5.42	4.19	4.31	4.44
LT Debt/Equity (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA	9.75	20.42	8.73	7.90	5.23
P/E (x)	14.57	26.32	14.02	12.83	9.28

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