

Indonesia Coal Update

Underweight (Unchanged)

Arandi Nugraha

E-mail: arandi@bahana.co.id

Phone: +6221 250 5081 ext. 3619

Policy risk: Higher royalties for IUP holders

Payments to increase by end of 1Q15

The Energy and Mineral Resources Ministry (ESDM) plans to raise coal royalties charged to mining operation permit (IUP) holders by the end of 1Q15. According to ESDM data, coal accounts for about 80% of Indonesia's mining revenue, and about 25% of Indonesian coal companies are IUP license holders. The move is intended to help meet the revised 2015 state budget (APBNP) non-tax mineral revenue target of IDR31.7tn, up 28.9% from the earlier budget due to a reduced oil and gas non-tax revenue target (exhibit 3). The revised budget includes a sharp fall of 63.7% in oil and gas non-tax revenue, amounting to IDR81.4tn, due to reductions in the oil price assumption (USD60/bbl) and oil-lifting target (825k b/d). The administration of former President Susilo Bambang Yudhoyono had planned to raise royalty payments, but implementation was delayed due to weakening coal prices. The Indonesia coal producer association (APBI) had proposed that the increase be postponed as it felt royalty hikes would hurt coal miners and might not yield optimum state income in the weak coal environment, proposing instead for the government to focus on reducing illegal coal mining.

Coal price should remain weak on China environmental concerns

APBI had proposed raising royalties at a coal price of USD100/mt, and the Ministry of Finance had countered with a USD80/mt proposed threshold. However, the upcoming increase is not price-dependent. The royalties will be assessed *ad valorem* based on coal type (exhibit 2). The coal price has risen 11.0% ytd but is down 9.8% y-y, to USD69.2/mt as of 18 February. The recent coal price increase is due to Glencore's (not rated) plan to cut coal output by 50% at its South Africa operations. Glencore is the largest exporter of seaborne thermal coal. In addition, the latest EIA report indicates that US coal production is down 10% w-w to 18.1mn mt as of 12 February. That said, China's plan to cut greenhouse-gas emissions by 30-50% could lead to continued weak coal prices. In 2014, only 8 of the 74 cities monitored by China's ministry of environmental protection met national pollution standards.

Royalty increase to adversely affect PTBA most

We have conducted a sensitivity analysis on the effects of the royalty increase on our coverage group (exhibits 6-10). We believe PTBA will suffer the most, as all of its mines hold IUPs. ITMG should be the second hardest hit, as its Kitadin mine holds an IUP. ADRO has only 1 IUP site, Balangan, of which its coal production should reach 1mn mt in 2015, as the site is still being developed. On HRUM, the company suspended production early in 2015 at its IUP site, Tambang Batubara Harum, due to the lower benchmark coal price. On PTBA's average royalty payment will rise to about 9.8%, reducing overall 2015F earnings by 20.5%. ADRO's 2015F earnings should fall by 0.6% and ITMG's by 3.8%, while the increase should not affect HRUM and BUMI. We assume average Newcastle coal prices of USD66/mt in 2015 and USD65/mt in 2016. We thus lower PTBA's 2015F net profit by 31% to IDR1.53tn. Maintain UNDERWEIGHT sector call. Risks: higher coal prices and lower global coal production output amid global economic growth.

Exhibit 1. Rating & target price summary

Code	CP (IDR)	New		Old	
		Rating	TP	Rating	TP
PTBA	10,625	REDUCE	10,000	REDUCE	12,000
ADRO	995	REDUCE	900	REDUCE	1,000
ITMG	18,200	REDUCE	14,000	REDUCE	15,000
HRUM	1,690	REDUCE	950	REDUCE	1,100

Sector UNDERWEIGHT UNDERWEIGHT

Source: Bloomberg, Bahana
(Based on closing prices as of 20 Feb 2015)

Exhibit 2. Royalty changes

Coal type	Current royalty	Proposed royalty
<5,100kcal/kg	3.0%	7.0%
5,100-6,100kcal/kg	5.0%	9.0%
>6,100kcal/kg	7.0%	13.5%

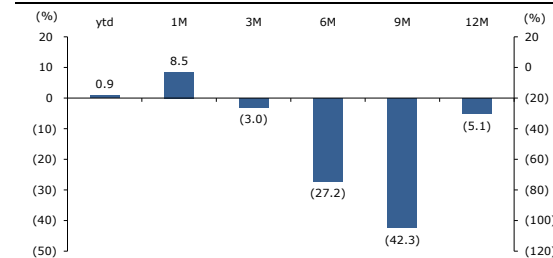
Source: Various sources
Note: royalty assessed on revenue

Exhibit 3. 2015F APBNP non-tax revenue

Non-tax revenue (IDRtn)	2015F APBN (IDRtn)	2015F APBN-P (IDRtn)	Difference (IDRtn)
Natural res.			
Oil and gas	224.3	81.4	(142.9)
Non-oil and gas			
- Minerals	24.6	31.7	7.1
- Geothermal	0.6	0.6	0.0
- Forestry	4.6	4.7	0.1
- Fisheries	0.3	0.6	0.3
State-owned	44.0	37.0	(7.0)
Others	89.8	90.1	0.3
BLU income	22.2	23.1	0.8
Total	410.3	269.1	(141.3)

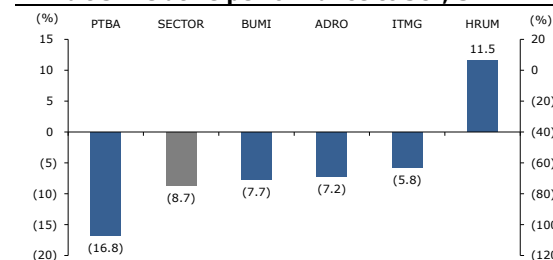
Source: Ministry of Finance

Exhibit 4. Coal sector relative to JCI



Source: Bloomberg, Bahana

Exhibit 5. Relative performance to JCI, 3M



Source: Bloomberg, Bahana

Exhibit 6. 2015 royalty sensitivity analysis: PTBA – 100% IUP production

PTBA											
Contract type	Site	Average 2015F Coal selling price (USD/mt)	Calorific value (Kcal/kg)	2015F Sales volume (mn mt)	2015F Sales value (USDmn)	Current royalty	Proposed royalty	Current royalty payment (USDmn)	Adjusted 2015 royalty (USDmn)	Adjusted additional royalty (USDmn)	Net income change (%)
IUP	Peranap	64.9	5,900	12.4	801.9	5.0%	9.0%	40.1	64.1	24.1	
	Ombilin	67.1	6,100	0.1	7.4	5.0%	9.0%	0.4	0.6	0.2	
	Tanjung Enim	69.3	6,300	3.4	233.4	7.0%	13.5%	16.3	27.7	11.4	-20.5
	IPC mine	73.7	6,700	0.1	7.3	7.0%	13.5%	0.5	0.9	44.4	
		77.0	7,000	1.3	96.6	7.0%	13.5%	6.9	11.7	4.8	
Total								64.2	105.0	40.8	

Source: Bahana estimates

Exhibit 7. 2015 royalty sensitivity analysis: ADRO – 2% IUP production

ADRO											
Contract type	Site	Average 2015F Coal selling price (USD/mt)	Calorific value (Kcal/kg)	2015F Sales volume (mn mt)	2015F Sales value (USDmn)	Current royalty	Proposed royalty	Current royalty payment (USDmn)	Adjusted 2015 royalty (USDmn)	Adjusted additional royalty (USDmn)	Net income change (%)
IUP	Balangan	48.4	4,400	1.0	48.4	3.0%	7.0%	1.5	2.8	1.4	-0.6
CCOW	Tutupan, Wara, North Paringin										
Total								1.5	2.8	1.4	

Source: Bahana estimates

Exhibit 8. 2015 royalty sensitivity analysis: ITMG – 11% IUP production

ITMG											
Contract type	Site	Coal selling price (USD/mt)	Calorific value (Kcal/kg)	2015 Sales volume (mn mt)	2015 Sales value (USDmn)	Current royalty	Proposed royalty	Current royalty payment (USDmn)	Adjusted 2015 royalty (USDmn)	Adjusted additional royalty (USDmn)	Net income change (%)
IUP	Kitadin - Embalut	61.3	5,850	1.0	61.3	5.0%	9.0%	3.1	4.9	1.8	
	Kitadin - Td. Mayang	70.2	6,700	2.1	147.4	7.0%	13.5%	10.3	17.5	7.2	-3.8
CCOW	Indominco, Trubaindo, Bharinto, Jorong										
Total								13.4	22.4	9.0	

Source: Bahana estimates

Exhibit 9. 2015 royalty sensitivity analysis: HRUM – 0% IUP production

HRUM											
Contract type	Site	Coal selling price (USD/mt)	Calorific value (Kcal/kg)	2015 Sales volume (mn mt)	2015 Sales value (USDmn)	Current royalty	Proposed royalty	Current royalty payment (USDmn)	Adjusted 2015 royalty (USDmn)	Adjusted additional royalty (USDmn)	Net income change (%)
IUP	Tambang Batubara Harum	59.4	5,400	-	-	5.0%	9.0%	-	-	-	0.0%
CCOW	Mahakam Sumber Jaya, Santan Batubara										
Total								-	-	-	

Source: Bahana estimates

Exhibit 10. 2015 royalty sensitivity analysis: BUMI – 0% IUP production

BUMI											
Contract type	Site	Coal selling price (USD/mt)	Calorific value (Kcal/kg)	2015 Sales volume (mn mt)	2015 Sales value (USDmn)	Current royalty	Proposed royalty	Current royalty payment (USDmn)	Adjusted 2015 royalty (USDmn)	Adjusted additional royalty (USDmn)	Net income change (%)
IUP	Fajar Bumi Sakti	67.8	6,500	-	-	7.0%	13.5%	-	-	-	0.0%
CCOW	KPC, Arutmin										
Total								-	-	-	

Source: Bahana estimates

PTBA: Maintain REDUCE, lower TP to IDR10,000

We are fine-tuning our forecasts to accommodate the upcoming royalty hikes and our lower Newcastle coal price assumptions of USD66/mt for 2015 and USD65/mt for 2016. We estimate that the revised royalties will increase PTBA's 2015 royalty expense by 74.3% to IDR1,229bn; thus we revise down our 2015F net income by 31.3%. Our new 12-month target price of IDR10,000 (from IDR12,000) represents a 2015F PE of 15.0x (prior PE: 13.0x), a 29% premium to the stock's Indonesia peers. Risk: higher-than-expected coal prices.

Exhibit 11. PTBA IJ earnings revisions

Year-end 31 Dec	Old			New			Change (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Sales (IDRb)	13,475	15,784	15,930	13,475	12,610	12,871	-	(20.1)	(19.2)
Gross profit (IDRb)	3,678	4,467	4,358	3,678	3,402	3,424	-	(23.8)	(21.4)
Gross margin (%)	27.3	28.3	27.4	27.3	27.0	26.6			
Operating profit (IDRb)	2,370	2,706	2,527	2,370	1,778	1,725	-	(34.3)	(31.7)
Operating margin (%)	17.6	17.1	15.9	17.6	14.1	13.4			
Net profit (IDRb)	1,991	2,234	2,058	1,991	1,535	1,454	-	(31.3)	(29.3)
Net margin (%)	14.8	14.2	12.9	14.8	12.2	11.3			
EPS (IDR)	864.1	969.7	893.2	864.1	666.0	630.9	-	(31.3)	(29.4)
Sales volume (m ton)	18.6	21.3	22.2	18.6	20.2	21.7	-	(5.2)	(2.3)
Newcastle price (USD/ton)	69.0	68.0	67.0	69.0	66.0	65.0	-	(2.9)	(3.0)

Source: Bahana estimates

ADRO: Maintain REDUCE and TP of IDR900

Balangan is the only ADRO coal site with an IUP license. Balangan coal has 4,400 kcal/kg GAR of calorific value and thus is exposed to a royalty increase of 7%. Balangan contributes 2% of ADRO's total production; thus, ADRO should have an additional royalty payment of USD1.4mn (0.4% of the 2015F royalty). We are revising our earnings forecasts as ADRO has accelerated its bond amortization from 10 years to 5 years and will incorporate the change in its 4Q14 financing charge, amounting to USD27.5mn in additional expense. Management expects the USD800mn bond payment to result in interest savings of USD40mn/year. ADRO targets 2015 production to reach 56-58mn mt, with capex of USD75-125mn, indicating that the company plans to maintain its current operations. Thus, we are reducing our 2015 capex assumption to USD100mn from USD150mn. We assume a lower 2015 Newcastle coal price of USD66/mt. We maintain our IDR900 target price, represents a 2015F PE of 13.0x (prior PE: 14.2x), a 12% peer premium. Risk: higher-than-expected coal prices.

Exhibit 12. ADRO IJ earnings revisions

Year-end 31 Dec	Old			New			Change (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Sales (IDRb)	3,341	3,265	3,242	3,341	3,063	3,041	-	(6.2)	(6.2)
Gross profit (IDRb)	711	569	564	711	507	505	-	(10.9)	(10.5)
Gross margin (%)	21.3	17.4	17.4	21.3	16.6	16.6			
Operating profit (IDRb)	506	363	357	506	301	299	-	(17.1)	(16.2)
Operating margin (%)	15.2	11.1	11.0	15.2	9.8	9.8			
Net profit (IDRb)	252	219	221	238	184	183	(5.6)	(16.0)	(17.2)
Net margin (%)	7.5	6.7	6.8	7.1	6.0	6.0			
EPS (IDR)	94	80	80	88	67	66	(6.4)	(16.3)	(17.5)
Sales volume (m ton)	56.6	59.6	59.6	56.6	56.6	56.6	-	(5.0)	(5.0)
Newcastle price (USD/ton)	69.0	68.0	67.0	69.0	66.0	65.0	-	(2.9)	(3.0)

Source: Bahana estimates

ITMG: Maintain REDUCE, lower TP to IDR14,000

With 11% IUP production, we believe ITMG will be the second-hardest hit by the royalty hike, after PTBA. Based on our calculation, ITMG would see a USD9.0mn royalty increase in 2015F. As a result, we reduce our net profit by 1.3% for 2015F and 9.1% for 2016F. We have not revised our Newcastle coal price assumption for ITMG, as we have been assuming a price of USD66/mt and the company plans to publish 4Q14 results shortly. We reduce our target price to IDR14,000 (from IDR15,000), represents a 2015F PE of 8.8x (prior PE: 9.9x), a 24% peer discount. Risks: higher-than-expected coal prices.

Exhibit 13. ITMG IJ earnings revisions

Year-end 31 Dec	Old			New			Change (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Sales (IDRb)	2,049	1,950	2,076	2,049	1,950	2,076	-	-	-
Gross profit (IDRb)	434	381	398	434	378	377	-	(0.8)	(5.2)
Gross margin (%)	21.2	19.5	19.2	21.2	19.4	18.2			
Operating profit (IDRb)	273	223	229	273	220	209	-	(1.4)	(8.9)
Operating margin (%)	13.3	11.4	11.0	13.3	11.3	10.0			
Net profit (IDRb)	203	174	168	203	171	153	-	(1.3)	(9.1)
Net margin (%)	9.9	8.9	8.1	9.9	8.8	7.4			
EPS (IDR)	2,171	1,815	1,728	2,171	1,791	1,569	-	(1.3)	(9.1)
Sales volume (m ton)	29.5	29.5	31.9	29.5	29.5	31.9	-	-	-
Newcastle price (USD/ton)	69.0	66.0	65.0	69.0	66.0	65.0	-	-	-

Source: Bahana estimates

HRUM: Maintain REDUCE, lower TP to IDR950

We recently spoke with HRUM and learned that the company operates mostly as a coal contract of work (CCOW) holder, and as such should not see any negative impact from the royalty increase as long as its Tambang Batubara Harum site is not in a production phase. We have revised our Newcastle coal price assumptions for HRUM to USD66/mt for 2015 and USD65/mt for 2016 and thus lower our target price to IDR950 (from IDR1,100), represents a 2015F PE of 22.6x (prior PE:18.7x), a 95% peer premium. Risk: higher-than-expected coal prices.

Exhibit 14. HRUM IJ Earnings revisions

Year-end 31 Dec	Old			New			Change (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Sales (USDm)	464	458	516	464	445	438	-	(2.9)	(15.2)
Gross profit (USDm)	87	87	96	87	74	66	-	(14.8)	(30.7)
Gross margin (%)	18.6	19.0	18.5	18.6	16.7	15.1			
Operating profit (USDm)	21	20	19	21	8	5	-	(61.1)	(75.6)
Operating margin (%)	4.6	4.4	3.6	4.6	1.8	1.0			
Net profit (USDm)	21	18	17	21	10	7	-	(47.5)	(58.2)
Net margin (%)	4.5	4.0	3.4	4.5	2.2	1.7			
EPS (IDR)	92	80	75	92	42	32	-	(47.5)	(57.5)
Sales volume (m ton)	8.0	8.0	8.0	8.0	8.0	8.0			
Newcastle price (USD)	69.0	68.0	67.0	69.0	66.0	65.0			

Source: Bahana estimates

Tambang Batubara Bukit Asam (PTBA)

Year to 31 December	2012	2013	2014F	2015F	2016F
PROFIT & LOSS (IDRb)					
Sales	11,594	11,209	13,475	12,610	12,871
Gross profit	5,088	3,464	3,678	3,402	3,424
EBITDA	3,663	2,281	2,570	2,040	2,054
Depreciation	69	128	200	263	329
EBIT	3,594	2,153	2,370	1,778	1,725
Net interest income/(expense)	324	234	236	222	167
Forex gain/(losses)	-	-	-	-	-
Other income/(expense)	(6)	75	75	75	75
Pre-tax profit	3,912	2,461	2,680	2,074	1,967
Taxes	(1,002)	(607)	(661)	(512)	(485)
Minority interest	(9)	(28)	(28)	(28)	(28)
Extraordinary gain/(losses)	-	-	-	-	-
Net profit	2,900	1,826	1,991	1,535	1,454
BALANCE SHEET (IDRb)					
Cash and equivalents	5,917	3,344	2,702	2,178	1,973
Trade receivables	1,546	1,428	1,871	1,751	1,788
Inventories	766	902	1,089	1,023	1,050
Fixed assets	2,713	3,796	4,574	5,639	6,423
Other assets	1,788	2,208	2,208	2,208	2,208
Total assets	12,729	11,677	12,444	12,799	13,442
Interest bearing liabilities	45	78	51	51	51
Trade payables	1,127	1,554	1,361	1,279	1,312
Other liabilities	3,052	2,494	2,494	2,494	2,494
Total liabilities	4,224	4,126	3,905	3,824	3,857
Minority interest	86	114	114	114	114
Shareholders' equity	8,419	7,437	8,424	8,861	9,470
CASH FLOW (IDRb)					
EBIT	3,594	2,153	2,370	1,778	1,725
Depreciation	69	128	200	263	329
Working capital	(477)	408	(824)	(41)	(30)
Other operating items	(973)	(638)	(379)	(243)	(271)
Operating cash flow	2,213	2,051	1,367	1,756	1,753
Net capital expenditure	(877)	(1,005)	(1,005)	(1,327)	(1,114)
Free cash flow	1,335	1,046	362	429	639
Equity raised/(bought)	-	-	-	-	-
Net borrowings	-	33	(27)	-	-
Other financing	(2,210)	(3,653)	(977)	(1,092)	(844)
Net cash flow	(874)	(2,573)	(642)	(662)	(205)
Cash flow at beginning	6,791	5,917	3,344	2,701	2,178
Cash flow at end	5,917	3,344	2,702	2,178	1,973
RATIOS					
ROAE (%)	35.1	23.0	25.1	17.8	15.9
ROAA (%)	23.9	15.0	16.5	12.2	11.1
EBITDA margin (%)	31.6	20.4	19.1	16.2	16.0
EBIT margin (%)	31.0	19.2	17.6	14.1	13.4
Net margin (%)	25.0	16.3	14.8	12.2	11.3
Payout ratio (%)	52.3	55.0	55.0	55.0	55.0
Current ratio (x)	4.9	2.9	3.2	2.9	2.8
Interest coverage (x)	na	na	na	na	na
Net gearing (%)	nc	nc	nc	nc	nc
Debts to assets (%)	0.4	0.7	0.41	0.4	0.4
Debtor turnover (days)	48	45	50	50	50
Creditor turnover (days)	62	72	50	50	50
Inventory turnover (days)	42	41	40	40	40
MAJOR ASSUMPTIONS					
ASP (USD/ton)	81.7	61.0	64.1	60.7	59.8
growth %	(11.3)	(25.4)	5.1	(5.3)	(1.5)
Coal Sales Volume (m tons)	15.3	17.8	18.6	20.2	21.7
growth %	13.9	15.8	4.6	8.6	7.4

Net profit expected to erode in 2015-16 on continued weak coal price and higher output

Strong cash level amid declining coal price

Tight EBIT in 2015-16F

Margin contraction expected

Production to rise 12.3% y-y in 2015F

Source: Company, Bahana estimates

Arandi Nugraha (arandi@bahana.co.id) +6221 2505081 ext. 3619

Adaro Energy (ADRO)

Year to 31 December	2012	2013	2014F	2015F	2016F
PROFIT & LOSS (USDm)					
Sales	3,722	3,285	3,341	3,063	3,041
Gross profit	1,043	739	711	507	505
EBITDA	1,099	803	864	668	663
Depreciation	263	269	358	366	364
EBIT	836	534	506	301	299
Net interest income/(expense)	(107)	(100)	(107)	(55)	(51)
Forex gain/(losses)	-	-	-	-	-
Other income/(expense)	(15)	(15)	-	-	-
Pre-tax profit	714	419	399	246	247
Taxes	(330)	(190)	(160)	(61)	(62)
Minority interest	2	2	(2)	(2)	(2)
Extraordinary gain/(losses)	-	-	-	-	-
Net profit	385	231	238	184	183

One-time finance charge amounting USD27.5mn in 2014 as a result of USD800mn bond prepayment

BALANCE SHEET (USDm)

Cash and equivalents	500	681	648	1,088	1,366
Trade receivables	474	310	315	289	287
Inventories	64	103	106	103	102
Fixed assets	3,697	3,893	3,823	3,558	3,293
Other assets	1,956	1,747	1,645	1,645	1,645
Total assets	6,692	6,733	6,538	6,682	6,993
Interest bearing liabilities	2,445	2,221	1,846	1,890	1,775
Trade payables	353	327	338	328	326
Other liabilities	899	991	991	991	991
Total liabilities	3,697	3,539	3,175	3,209	3,092
Minority interest	436	490	490	490	490
Shareholders' equity	2,559	2,705	2,873	2,983	3,111

Debt level to remain steady despite USD800mn bond prepayment as ADRO has borrowed USD1,000mn at a lower interest rate

CASH FLOW (USDm)

EBIT	836	534	506	301	299
Depreciation	263	269	358	366	364
Working capital	(50)	100	2	16	0
Other operating items	(616)	(181)	(269)	(117)	(115)
Operating cash flow	433	722	598	566	548
Net capital expenditure	(1,073)	(355)	(288)	(100)	(100)
Free cash flow	(640)	367	309	466	448
Equity raised/(bought)	-	-	-	-	-
Net borrowings	340	(225)	(374)	44	(115)
Other financing	242	38	33	(70)	(55)
Net cash flow	(59)	181	(33)	440	278
Cash flow at beginning	559	500	681	648	1,088
Cash flow at end	500	681	648	1,088	1,366

Net cash flow should remain positive...

RATIOS

ROAE (%)	15.4	8.8	8.5	6.3	6.0
ROAA (%)	5.9	3.4	3.6	2.8	2.7
EBITDA margin (%)	29.5	24.4	25.9	21.8	21.8
EBIT margin (%)	22.5	16.3	15.2	9.8	9.8
Net margin (%)	10.4	7.0	7.1	6.0	6.0
Payout ratio (%)	47.4	20.8	30.0	30.0	30.0
Current ratio (x)	1.6	1.8	1.6	2.4	2.9
Interest coverage (x)	7.1	4.6	4.2	4.3	4.7
Net gearing (%)	76.0	56.9	41.7	26.9	13.2
Debts to assets (%)	36.5	33.0	28.2	28.3	26.5
Debtor turnover (days)	45	33	33	33	33
Creditor turnover (days)	47	46	46	46	46
Inventory turnover (days)	8	14	14	14	14

...and net gearing ratio should decline

MAJOR ASSUMPTIONS

ASP (USD/ton)	76.6	61.5	59.2	54.1	53.7
growth %	(2.5)	(19.8)	(3.6)	(8.6)	(0.7)
Coal Sales Volume (m tons)	48.6	53.5	56.6	56.6	56.6
growth %	(4.3)	10.0	5.9	-	-

Steady annual coal sales of 56.6mn mt in 2015-16F

Source: Company, Bahana estimates

Arandi Nugraha (arandi@bahana.co.id) +6221 2505081 ext. 3619

Indo Tambangraya Megah (ITMG)

Year to 31 December 2012 2013 2014F 2015F 2016F

PROFIT & LOSS (USDm)

Sales	2,439	2,179	2,049	1,950	2,076	<i>Higher revenues on higher sales volume</i>
Gross profit	741	509	434	378	377	
EBITDA	621	399	350	299	291	
Depreciation	62	61	78	79	83	
EBIT	558	337	273	220	209	
Net interest income/(expense)	13	8	6	7	7	
Forex gain/(losses)	-	-	-	-	-	
Other income/(expense)	19	(24)	5	2	(12)	
Pre-tax profit	591	321	283	229	204	
Taxes	(159)	(90)	(80)	(57)	(51)	
Minority interest	-	-	-	-	-	
Extraordinary gain/(losses)	-	-	-	-	-	
Net profit	432	230	203	171	153	

BALANCE SHEET (USDm)

Cash and equivalents	461	289	366	382	403	<i>Fixed assets should remain steady...</i>
Trade receivables	249	193	196	187	199	
Inventories	151	118	109	106	115	
Fixed assets	336	317	294	274	273	
Other assets	294	410	417	422	425	
Total assets	1,491	1,327	1,382	1,372	1,416	
Interest bearing liabilities	-	-	-	-	-	
Trade payables	186	166	151	147	158	
Other liabilities	303	263	319	313	331	
Total liabilities	489	428	470	460	489	
Minority interest	-	-	-	-	-	
Shareholders' equity	1,002	898	912	912	927	

CASH FLOW (USDm)

EBIT	558	337	273	220	209	<i>...supported by maintenance of capex allocation</i>
Depreciation	62	61	78	79	83	
Working capital	(23)	43	47	6	6	
Other operating items	(183)	(283)	(69)	(48)	(56)	
Operating cash flow	414	159	328	257	244	
Net capital expenditure	(65)	(66)	(60)	(65)	(85)	
Free cash flow	349	93	268	192	159	
Equity raised/(bought)	-	-	-	-	-	
Net borrowings	-	-	-	-	-	
Other financing	(501)	(266)	(191)	(176)	(138)	
Net cash flow	(151)	(173)	77	16	21	
Cash flow at beginning	612	461	289	366	382	
Cash flow at end	461	289	366	382	403	

RATIOS

ROAE (%)	41.5	24.2	22.5	18.8	16.6	<i>Expected to remain debt-free</i>
ROAA (%)	28.1	16.4	15.0	12.4	11.0	
EBITDA margin (%)	25.5	18.3	17.1	15.3	14.0	
EBIT margin (%)	22.9	15.5	13.3	11.3	10.0	
Net margin (%)	17.7	10.6	9.9	8.8	7.4	
Payout ratio (%)	92.5	62.3	62.3	62.3	62.3	
Current ratio (x)	2.2	1.6	1.6	1.7	1.7	
Interest coverage (x)	na	na	na	na	na	
Net gearing (%)	nc	nc	nc	nc	nc	
Debts to assets (%)	-	-	-	-	-	
Debtor turnover (days)	31	26	30	30	30	
Creditor turnover (days)	39	35	34	34	34	
Inventory turnover (days)	32	25	24	24	24	

MAJOR ASSUMPTIONS

ASP (USD/ton)	90.0	74.9	69.1	66.1	65.1	<i>Coal sales volume to rise by 8.1% y-y in 2016F</i>
growth %	(6.7)	(16.8)	(7.8)	(4.3)	(1.5)	
Coal Sales Volume (m tons)	27.1	29.1	29.5	29.5	31.9	
growth %	9.7	7.4	1.4	-	8.1	

Source: Company, Bahana estimates

Arandi Nugraha (arandi@bahana.co.id) +6221 2505081 ext. 3619

Harum Energy (HRUM)

Year to 31 December	2012	2013	2014F	2015F	2016F
PROFIT & LOSS (USDm)					
Sales	1,043	837	464	445	438
Gross profit	319	176	87	74	66
EBITDA	223	81	32	20	17
Depreciation	12	12	11	12	12
EBIT	211	69	21	8	5
Net interest income/(expense)	1	1	3	1	1
Forex gain/(losses)	-	-	-	-	-
Other income/(expense)	0	(7)	5	5	5
Pre-tax profit	213	63	29	14	10
Taxes	(51)	(13)	(6)	(3)	(2)
Minority interest	(30)	(8)	(3)	(1)	(1)
Extraordinary gain/(losses)	-	-	-	-	-
Net profit	132	42	21	10	7

EBIT should decline on lower coal price and production suspension

BALANCE SHEET (USDm)

Cash and equivalents	162	181	103	107	112
Trade receivables	68	52	37	36	35
Inventories	102	28	27	26	27
Fixed assets	22	16	19	20	22
Investment in associates	123	116	98	99	98
Other assets	61	86	38	39	40
Total assets	539	481	323	328	333
Interest bearing liabilities	-	-	-	-	-
Trade payables	85	68	50	49	50
Other liabilities	25	18	24	23	23
Total liabilities	110	86	75	73	73
Minority interest	79	79	69	74	76
Shareholders' equity	350	316	179	182	184

Cash to remain intact

CASH FLOW (USDm)

EBIT	211	69	21	8	5
Depreciation	12	12	11	12	12
Working capital	7	65	9	(0)	0
Other operating items	0	(20)	1	0	0
Operating cash flow	231	126	43	20	17
Net capital expenditure	157	(11)	(12)	(12)	(13)
Free cash flow	388	137	30	7	5
Equity raised/(bought)	(118)	-	-	-	-
Net borrowings	(0)	-	-	-	-
Other financing	(296)	(119)	(108)	(5)	(0)
Net cash flow	(27)	19	(78)	2	4
Cash flow at beginning	189	162	181	105	107
Cash flow at end	162	181	103	107	112

EBIT expected to decline

RATIOS

ROAE (%)	37.8	12.6	8.4	5.3	4.0
ROAA (%)	24.6	8.2	5.1	2.9	2.2
EBITDA margin (%)	21.4	9.7	7.0	4.4	3.9
EBIT margin (%)	20.3	8.2	4.6	1.8	1.0
Net margin (%)	12.6	5.0	4.5	2.2	1.7
Payout ratio (%)	70.1	55.3	50.0	50.0	50.0
Current ratio (x)	3.1	3.5	2.3	2.4	2.4
Interest coverage (x)	na	na	na	na	na
Net gearing (%)	nc	nc	nc	nc	nc
Debts to assets (%)	-	-	-	-	-
Debtor turnover (days)	24	23	29	29	29
Creditor turnover (days)	30	30	40	40	41
Inventory turnover (days)	36	12	21	21	22

Trimming ROA in 2015-16F

MAJOR ASSUMPTIONS

ASP (USD/ton)	79	68	58	55	54
growth %	(15.7)	(13.4)	(15.3)	(4.3)	(1.5)
Coal Sales Volume (m tons)	12.9	11.9	8.0	8.0	8.0
growth %	48.3	(7.8)	(32.8)	-	-

Production suspension at TBH; steady coal sales

Source: Company, Bahana estimates

Arandi Nugraha (arandi@bahana.co.id) +6221 2505081 ext. 3619

Bumi Resources (BUMI)

.0	2012	2013	2014F	2015F	2016F
PROFIT & LOSS (USDm)					
Sales	3,776	3,547	3,829	4,207	4,678
Gross profit	997	686	778	1,056	1,085
EBITDA	709	457	504	790	688
Depreciation	281	227	242	259	270
EBIT	429	230	262	531	418
Net interest income/(expense)	(566)	(604)	(417)	(432)	(493)
Forex gain/(losses)	(345)	(101)	(150)	(174)	(150)
Other income/(expense)	(48)	(137)	(35)	(38)	(23)
Pre-tax profit	(86)	(134)	(110)	(116)	(95)
Taxes	(616)	(745)	(451)	(229)	(343)
Minority interest	(90)	85	68	34	154
Extraordinary gain/(losses)	39	51	(9)	(4)	6
Net profit	(666)	(609)	(392)	(199)	(183)

Net profit to remain negative...

BALANCE SHEET (USDm)

Cash and equivalents	45	46	99	118	217
Trade receivables	1,231	1,190	1,214	1,178	1,249
Inventories	298	430	364	400	444
Fixed assets	275	188	287	252	416
Investment in associates	1,753	1,705	1,815	1,933	1,992
Other assets	3,753	3,445	3,135	3,194	3,719
Total assets	7,354	7,004	6,915	7,075	8,036
Interest bearing liabilities	3,244	2,228	2,959	3,078	3,638
Trade payables	319	250	314	345	384
Other liabilities	3,158	4,829	4,331	4,534	5,074
Total liabilities	6,721	7,307	7,604	7,957	9,095
Minority interest	241	190	195	201	207
Shareholders' equity	392	(493)	(884)	(1,084)	(1,267)

...resulting in negative shareholder equity

CASH FLOW (USDm)

EBIT	429	230	262	531	418
Depreciation	281	227	242	259	270
Working capital	(10)	1,297	(1,165)	(753)	(824)
Other operating items	(637)	(247)	(155)	(277)	(449)
Operating cash flow	699	1,753	(661)	38	(136)
Net capital expenditure	(637)	(247)	(155)	(277)	(449)
Free cash flow	63	1,507	(816)	(239)	(586)
Equity raised/(bought)	(879)	-	-	-	-
Net borrowings	(375)	(1,016)	731	120	560
Other financing	1,168	(244)	139	139	125
Net cash flow	(24)	0	53	19	99
Cash flow at beginning	69	45	46	99	118
Cash flow at end	45	46	99	118	217

Increasing negative free cash flow

RATIOS

ROAE (%)	(84.9)	na	na	na	na
ROAA (%)	(9.1)	(8.5)	(5.6)	(2.8)	(2.4)
EBITDA margin (%)	18.8	12.9	13.2	18.8	14.7
EBIT margin (%)	11.4	6.5	6.8	12.6	8.9
Net margin (%)	(17.6)	(17.2)	(10.2)	(4.7)	(3.9)
Payout ratio (%)	-	-	-	-	-
Current ratio (x)	0.9	0.4	0.5	0.5	0.6
Interest coverage (x)	0.8	0.4	0.6	1.2	0.8
Net gearing (%)	815.6	na	na	na	na
Debts to assets (%)	44.1	31.8	42.8	43.5	45.3
Debtor turnover (days)	29	44	35	35	35
Creditor turnover (days)	42	32	38	40	39
Inventory turnover (days)	36	24	34	29	42

Margin contraction ahead

MAJOR ASSUMPTIONS

ASP (USD/ton)	78.2	63.8	61.5	65.0	68.9
growth %	(16.6)	(18.5)	(3.6)	5.7	6.0
Coal Sales Volume (m tons)	71.6	82.1	88.5	92.0	96.5
growth %	13.1	14.7	7.8	4.0	4.9

Coal sales expected to rise 4.0% y-y in 2015

Source: Company, Bahana estimates

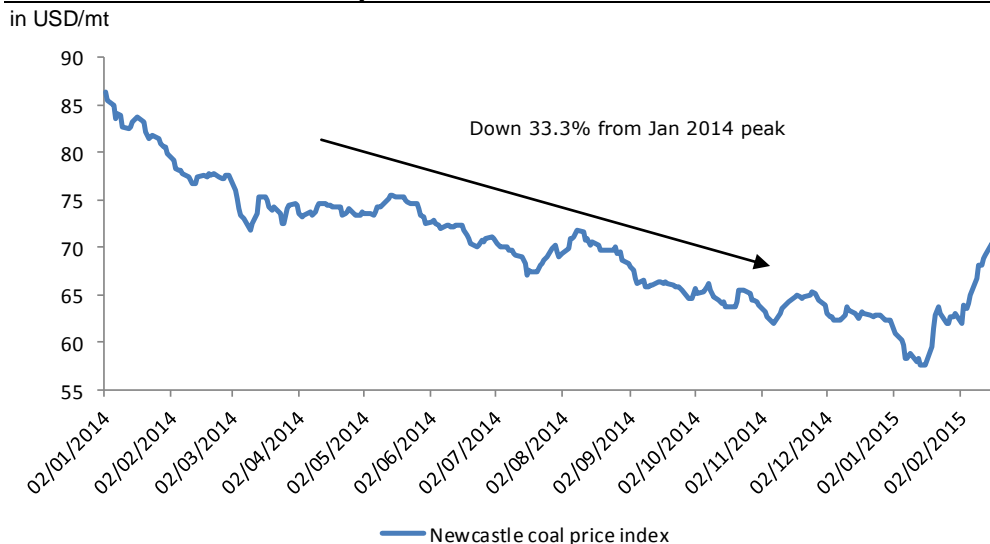
Arandi Nugraha (arandi@bahana.co.id) +6221 2505081 ext. 3619

	PTBA 2015F REDUCE	ADRO 2015F REDUCE	HRUM 2015F REDUCE	ITMG 2015F REDUCE	BUMI 2015F REDUCE	SECTOR
Recommendation						
Target price	10,000	900	950	14,000	120	
Price	10,775	995	1,695	18,350	98	
Upside/downside (%)	(7.2)	(9.5)	(43.9)	(23.7)	(2.9)	
TP/consensus (%)	75.1	76.3	74.0	69.7	160.0	
Shares outstanding (m)	2,304	31,990	2,700	1,130	52,972	
Dividend yield (%)	4.3	2.6	1.2	9.6	0.0	
Market cap (IDRb)	30,692	31,830	4,577	20,736	5,191	74,862
Market cap (USDm)	2,389	2,477	356	1,614	404	6,087
3m turnover (IDRb)/(USDm)	24.7/1.9	62.8/4.9	7.8/0.6	56.7/4.4	14.4/1.1	
30 avg daily volumes (m)	2.6	63.5	1.6	1.7	281.9	
PE (x)	20.0	14.4	40.4	11.5	(1.0)	17.1
PE (x) @TP	15.0	13.0	22.6	8.8	(1.2)	11.6
PBV (x)	3.4	0.9	2.1	2.0	(0.2)	1.6
EV/EBITDA (x)	11.5	6.9	8.3	3.5	7.8	7.9
Net gearing (%)	nc	26.6	nc	Nc	na	
BVPS (IDR/share)	3,846	1,091	794	9,528	(610)	2,930
EPS (IDR/share)	666	67	42	1,592	(102)	453
DPS (IDR/share)	474	26	21	1,839	-	
ROAA (%)	12.2	2.8	2.9	12.4	(2.8)	5.5
ROAE (%)	17.8	6.3	5.2	18.8	20.2	13.7
Reserve (million mt)	1,956	702	94	301	2,911	5,964
EV/reserve (USD/mt)	1.1	5.3	1.8	4.2	1.6	3.1
Calorific value GAR (kcal/kg)	4,550-7,400	3,354-4,843	5,400-5,700	4,030-6,155	5,000-6,300	
Coal sales vol. (million mt)	20.2	56.6	8	29.5	92	3,916
(USDmn)						
Revenues	982	3,063	445	1,950	4,207	10,647
Operating profit	138	302	8	220	531	1,199
Net profit	119	184	10	171	(199)	290
Growth (%)						
Revenue	(6.4)	(8.3)	(4.1)	(4.9)	9.9	
Gross profit	(7.5)	(28.7)	(14.9)	(14.3)	35.7	
Operating profit	(25.0)	(40.5)	(60.0)	(21.1)	102.7	
EBITDA	(20.6)	(22.7)	(37.5)	(16.1)	56.7	
Pretax profit	(22.6)	(38.3)	(51.7)	(21.0)	5.5	
Net profit	(22.9)	(22.7)	(52.4)	(17.4)	49.2	
Margin (%)						
Gross profit	27.0	16.6	16.6	19.4	25.1	20.9
Operating profit	14.1	9.9	1.8	11.3	12.6	9.9
EBITDA	16.2	21.8	4.4	15.3	18.8	15.3
Net profit	12.2	6.0	2.2	8.8	(4.7)	4.9

Source: Bloomberg, Bahana estimates

Based on stock prices as of 20 February 2015

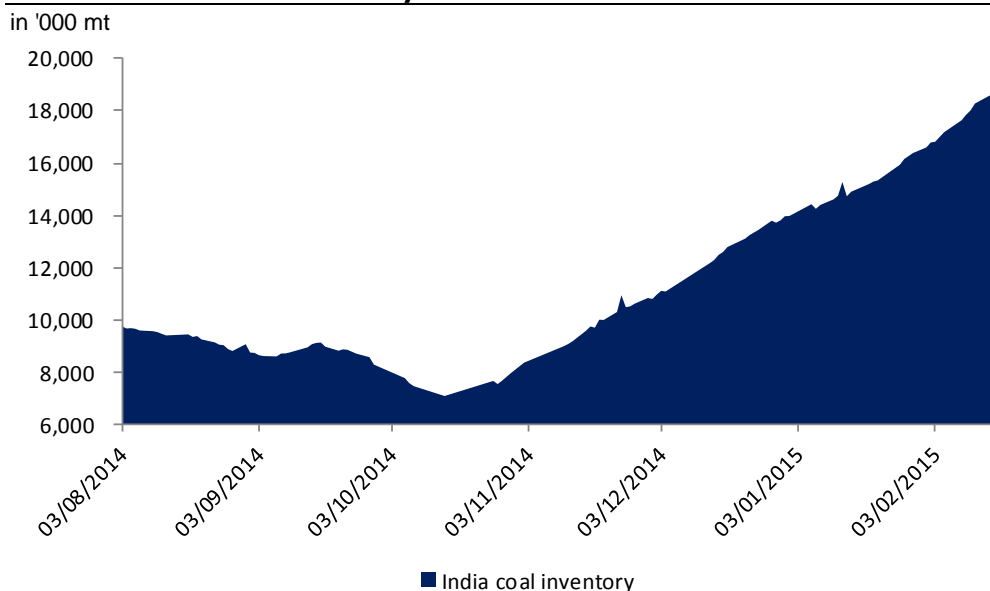
Exhibit 15. Newcastle coal price



Newcastle coal price down 33.3% from January 2014 peak to USD57.5/mt in January 2015; recent coal price increase expected to be temporary

Source: Bloomberg

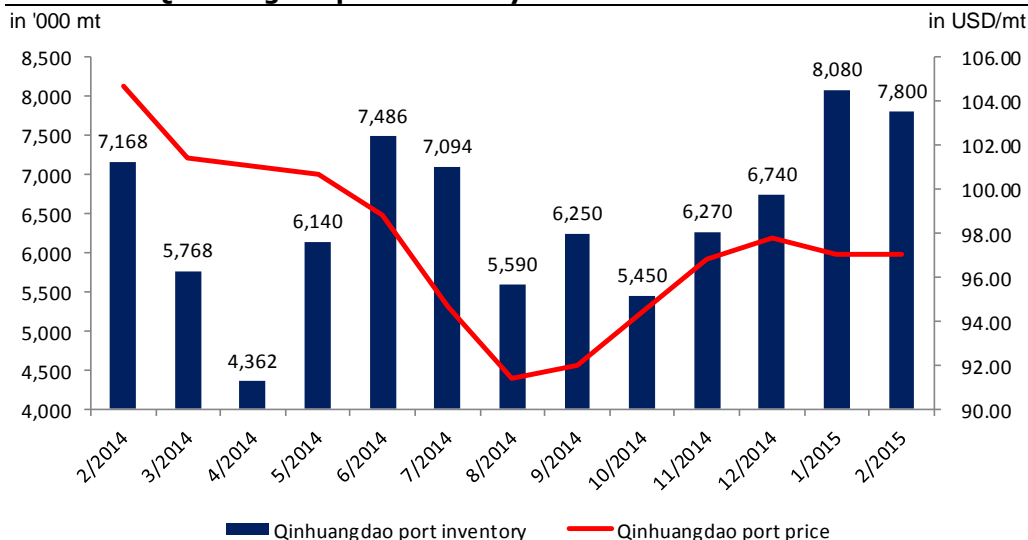
Exhibit 16. India coal inventory



India coal inventory up by 33.3% ytd to 18.6mn mt

Source: Bloomberg

Exhibit 17. Qinhuangdao port inventory



Coal inventory at Qinhuangdao port rose to 8.1mn mt in January 2015

Source: Bloomberg

Research: +62 21 250 5081



Harry Su
harry.su@bahana.co.id
Senior Associate Director
Head of Research
Strategy, Consumer
ext 3600
direct: +62 21 250 5735



Teguh Hartanto
teguh.hartanto@bahana.co.id
Associate Director
Deputy Head of Research
Banks, Cement, Aviation
ext 3610



Leonardo Henry Gavaza, CFA
leonardo@bahana.co.id
Senior Research Manager
Auto, Heavy equipment, Telco
ext 3608



Arandi Nugraha
arandi@bahana.co.id
Research Analyst
Coal, Metals, Oil & Gas
ext 3619



Arga Samudro
arga@bahana.co.id
Economist
ext 3602



Muhammad Wafi
wafi@bahana.co.id
Technical Analyst
ext 3609



Michael W Setjoadi
michael@bahana.co.id
Research Analyst
Consumer, Poultry
ext 3613



Robin Sutanto
robin@bahana.co.id
Research Analyst
Property
ext 3620



Wendy Chandra
wendy_chandra@bahana.co.id
Research Analyst
Consumer, Media
ext 3606



Adrian Mahendra Putra
adrian@bahana.co.id
Research Analyst
Industrial Estate
ext 3614



Bob Setiadi
bob.setiadi@bahana.co.id
Research Analyst
Cement, Infrastructure, Toll roads
ext 3605



Agustinus Reza Kirana
agustinus.reza@bahana.co.id
Research Analyst
Transportation
ext 3616



Kristiadi
kristiadi@bahana.co.id
Research Analyst
Plantations
ext 3621



William Tong
william@bahana.co.id
Research Associate
ext 3604



Adi Saputra
adi.saputra@bahana.co.id
Research Associate
ext 3693



Andre Natalia Susanto
andre@bahana.co.id
Research Associate
ext 3601



Sanni Satrio Dwi Utomo
sanni@bahana.co.id
Research Associate
ext 3611



Made Ayu Wijayati
made.ayu@bahana.co.id
Research Executive
ext 3607



Zefanya Halim
zefanya@bahana.co.id
CA
ext 3612



Novianty Permata Sari
novianty@bahana.co.id
CA
ext 3618

Dealing Room: +62 21 527 0808 (Foreign Institutional) +62 21 250 5508 (Domestic Institutional)

+62 31 535 2788 (Surabaya Branch)



Edy Sujoso
edy.sujoso@bahana.co.id
Head of Equity Sales & Trading
Institutional Equity Sales
ext 2545



Ashish Agrawal
ashish@bahana.co.id
Vice President
Institutional Equity Sales
ext 2550 / 2553



Amelia Husada
amelia@bahana.co.id
Vice President
Institutional Equity Sales
ext 2552



Yohanes Adhi Handoko
yohanes@bahana.co.id
Manager, Surabaya Branch
ext 7250



Ricardo Silaen, CFA
ricardo@bahana.co.id
Vice President
Institutional Equity Sales
ext 2524



John M. Dasaad
dasaad@bahana.co.id
Equity Sales
ext 2549



Reynard Poernawan
reynard@bahana.co.id
Institutional Equity Sales
ext 2528



Suwardi Widjaja
Suwardi@bahana.co.id
Equity Sales
ext 2548



Nurul Farida
nurul@bahana.co.id
Equity Sales
ext 2543



Ari Santosa
ari.santosa@bahana.co.id
Sales Trader
ext 2554



Hanna Marionda
hanna@bahana.co.id
Sales Trader
ext 2525



Adriana Kosasih
adri@bahana.co.id
Sales Executive
ext 2541

Head Office

Graha Niaga, 19th Floor
Jl. Jend. Sudirman Kav. 58
Jakarta 12190
Indonesia
Tel. 62 21 250 5081
Fax. 62 21 522 6049



PT Bahana Securities

<http://www.bahana.co.id>

Surabaya Branch

Wisma BII, Ground Floor
Jl. Pemuda 60-70
Surabaya 60271
Indonesia
Tel. 62 31 535 2788
Fax. 62 31 546 1157

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