

# Bukit Asam Tbk (PTBA IJ)

## An Opportunity to Enter

PTBA in 1H19 recorded a decrease in net profits. Although its total revenue increased, the rise in operating costs weakened PTBA's performance. However, in term of fundamental and business strategies, the company still has the potential for further growth. Having a high dividend payout ratio, PTBA is a worth-considered top-pick.

### 1H19 Modest Performance

In 1H19, PTBA recorded total revenues of IDR10.6 trillion (+1.2% YoY). In details, its domestic sales reached IDR6 trillion (+18% YoY), but export sales amounted only IDR4.6 trillion (-115.6% YoY). However, PTBA posted EBITDA of IDR3 trillion (-18.4% YoY); it was a decrease due to operating costs increasing to IDR1 trillion (+9.1% YoY), slashing PTBA net profits of IDR2 trillion (-24.4% YoY). PTBA undergo decreasing margin, GPM to 34.4% (vs. 41.5% in 1H18), OPM to 24.4% (vs. 32.2% in 1H18), and NPM to 18.9% (vs. 25.3% in 1H19).

### Positive Impacts of Upgraded Railway Capacity

PTBA continues to boost expansion, especially in the upgraded of railway capacity, the Tanjung Enim-Kertapati line will be increased to 5 Mtpa which will be completed in 4Q19. We are confident that the upgraded railway capacity will reduce operational costs; thus, its margins increase solidly only if it consistently manage cost-efficiency.

### Benefits from DMO Quota Transfers

Starting in 2H19, PTBA will transfer the DMO quota for coal companies that have not been able to supply according to PLN's calorie needs, the impact of this policy can stabilize PTBA's revenue. We project that in 2019F, PTBA will be able to book revenues of IDR21 trillion based on an assumption of the total production of 25.5-26 million tons, the sales volume of 27.2-28 million tons (2.2-3 millions tons from high CV coal), stripping ratio in the range of 4.7x-4.8x, coupled with the stable ASP.

### BUY Rating with the Target Price of IDR2,900

PTBA has the most attractive P/E and high dividend payout ratio (estimated to reach 73.8% in 2019) among its peers. Although global coal prices are potential to weaken, PTBA's strategies to hold exploration and increases in high CV coal production will provide positive prospects. Based on these underlying facts, we recommend BUY with the target price of IDR2,900 or a 25.5% upside potential based on a 6.4x (-0.5 SD) forward P/E. At present, PTBA is traded at 9.3x 2019F P/E.

## Buy

<b>Dec 2020 TP (IDR)</b>	<b>2,900</b>
Consensus Price (IDR)	3,140
TP to Consensus Price	-7.6%
vs. Last Price	25.5%

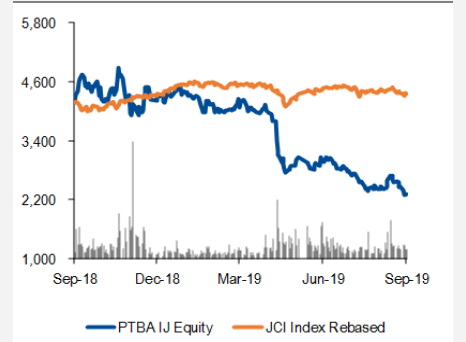
### Shares data

Last Price (IDR)	2,310
Price Date as of	Sep 27, 2019
52 wk Range (Hi/Lo)	5,025 / 2,290
Free Float (%)	34.1
Outstanding sh.(mn)	11,521
Market Cap (IDR bn)	26,498
Market Cap (USD mn)	1,873
Avg. Trd Vol - 3M (mn)	25.13
Avg. Trd Val - 3M (bn)	67.69
Foreign Ownership	9.1%

### Mining

<b>Coal</b>	
Bloomberg	PTBA IJ
Reuters	PTBA.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-46.5%	-4.5%	-22.0%	-44.5%
Rel. Ret.	-46.8%	-3.3%	-19.5%	-49.0%

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### Bukit Asam Tbk | Summary

	2018A	2019F	2020F	2021F
<b>Sales</b>	21,167	21,186	21,236	21,293
<b>Growth (%)</b>	8.7%	0.1%	0.2%	0.3%
<b>EBITDA</b>	7,004	7,023	7,091	7,169
<b>Net Profit</b>	5,024	5,102	5,183	5,233
<b>EPS (IDR)</b>	436	443	450	454
<b>Growth (%)</b>	12.2%	1.6%	1.6%	1.0%
<b>P/E</b>	9.7x	9.3x	9.1x	9.0x
<b>P/BV</b>	3.0x	2.5x	2.4x	2.2x
<b>EV/EBITDA</b>	5.9x	5.8x	5.7x	5.6x
<b>ROE (%)</b>	33.4%	29.3%	27.2%	25.6%
<b>DER (%)</b>	5.1%	1.5%	5.5%	4.5%
<b>Net Debt</b>	-5,469	-5,678	-5,004	-5,549

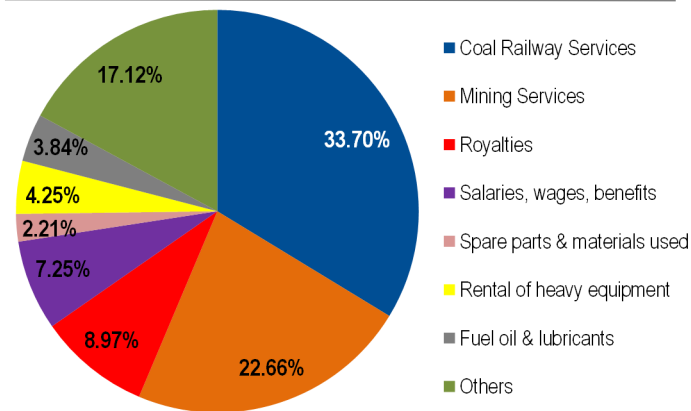
Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

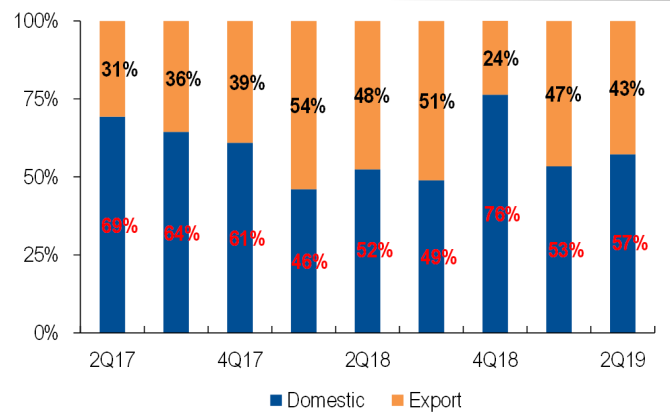
## Performance Highlights in Charts

### 6M19 COGS Breakdown



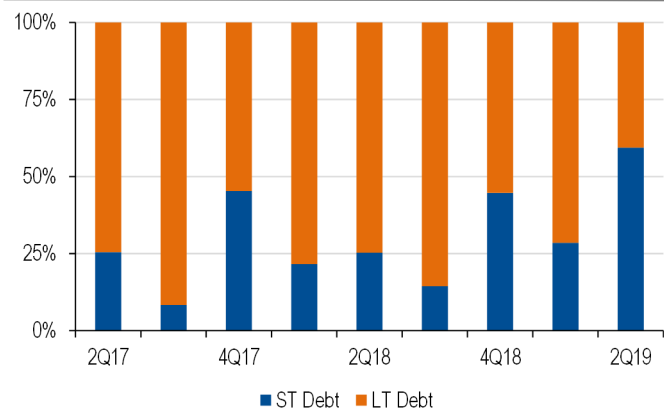
Source: Company Data, NHKS Research

### Sales Contribution



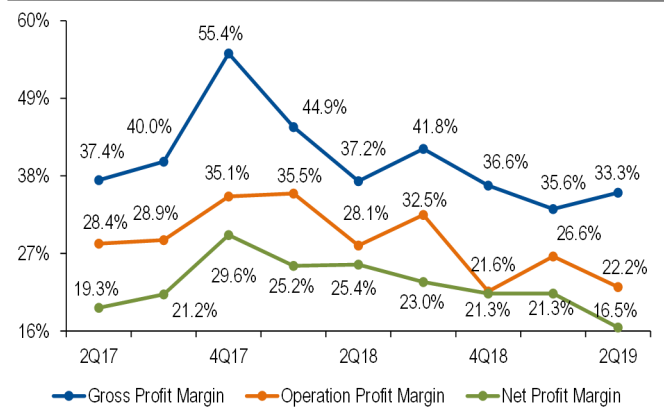
Source: Company Data, NHKS Research

### ST Debt & LT Debt



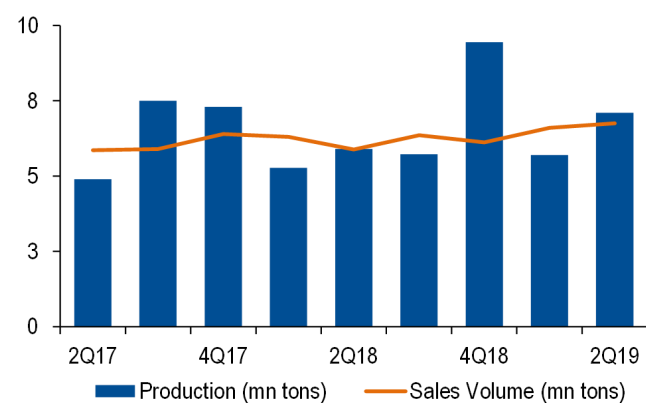
Source: Company Data, NHKS Research

### Margin Ratio



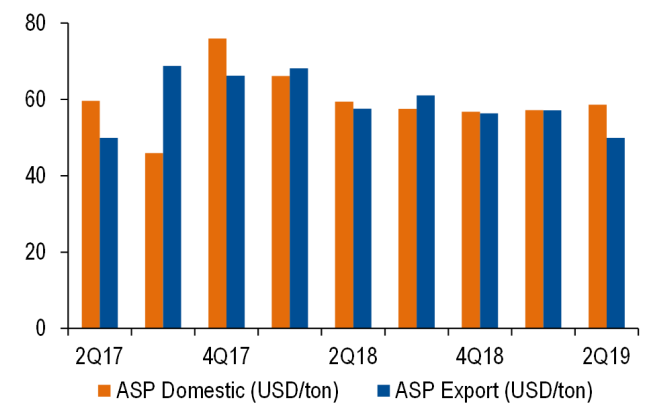
Source: Company Data, NHKS Research

### Production & Sales Volume



Source: Company Data, NHKS Research

### Average Selling Price



Source: Company Data, NHKS Research

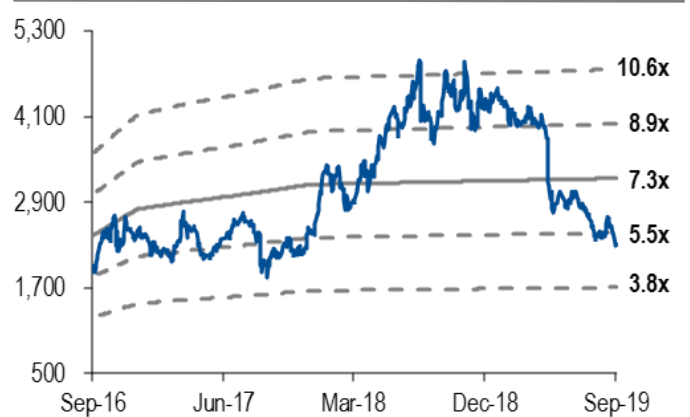
## Valuation Highlights in Charts

3-Year Forward P/E Band



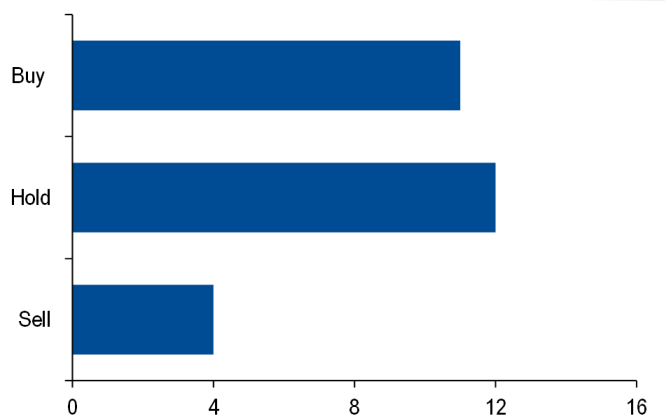
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward P/E Band



Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and Coal Prices Correlated Positively



Source: Bloomberg, NHKS Research

## Quarterly Review

	2Q18	3Q18	4Q18	1Q19	2Q19			3Q19E	
					Actual	Estimate	Y-Y		Q-Q
<b>Income statement</b>									
Sales	4,743	5,544	5,131	5,337	5,278		111.3%	-1.1%	5,302
Gross Profit	1,766	2,319	1,878	1,777	1,880		106.4%	5.8%	2,460
EBIT	1,334	1,800	1,109	1,419	1,174		88.0%	-17.2%	1,808
EBITDA	1,523	1,991	1,286	1,752	1,288		84.6%	-26.5%	1,946
Net Profit	1,206	1,273	1,094	1,137	871		72.2%	-23.4%	1,507
<b>Margin</b>									
Gross Margin	37.2%	41.8%	36.6%	33.3%	35.6%		95.6%	2.3%	46.4%
EBIT Margin	28.1%	32.5%	21.6%	26.6%	22.2%		79.1%	-4.3%	34.1%
EBITDA Margin	32.1%	35.9%	25.1%	32.8%	24.4%		76.0%	-8.4%	36.7%
Net Profit Margin	25.4%	23.0%	21.3%	21.3%	16.5%		64.9%	-4.8%	28.4%

Unit: IDR bn, %

Source: Company Data, NHKS Research

## Earnings Revision

		2019F	2020F	2021F
<b>Income Statement</b>				
Sales	-Revised	21,186	21,236	21,293
	-Previous	23,403	27,033	
	-Change	-9.5%	-21.4%	
Gross Profit	-Revised	8,560	8,592	8,609
	-Previous	9,638	11,063	
	-Change	-11.2%	-22.3%	
EBIT	-Revised	6,291	6,318	6,329
	-Previous	7,221	8,271	
	-Change	-12.9%	-23.6%	
EBITDA	-Revised	7,023	7,091	7,169
	-Previous	8,081	9,180	
	-Change	-12.4%	-22.8%	
Net Profit	-Revised	5,102	5,183	5,233
	-Previous	5,611	6,471	
	-Change	-9.1%	-19.9%	
<b>Margin</b>				
Gross Margin	-Revised	40.4%	40.5%	40.4%
	-Previous	41.2%	40.9%	
EBIT Margin	-Revised	29.7%	29.8%	29.7%
	-Previous	30.9%	30.6%	
EBITDA Margin	-Revised	33.2%	33.4%	33.7%
	-Previous	34.3%	34.0%	
Net Profit Margin	-Revised	24.1%	24.4%	24.6%
	-Previous	24.0%	23.9%	

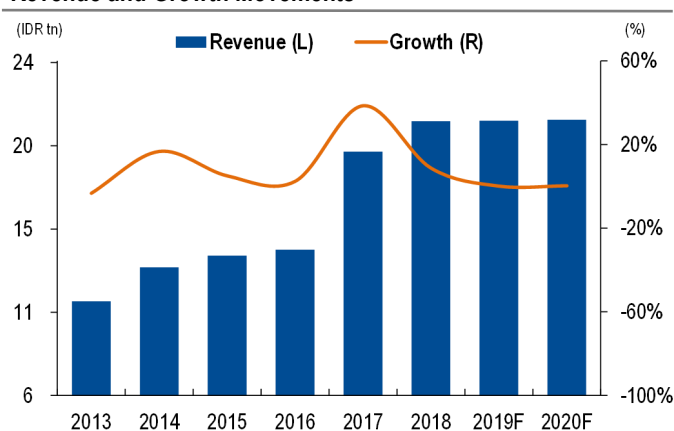
Unit: IDR bn, %

Source: Company Data, NHKS Research

## Company Overview

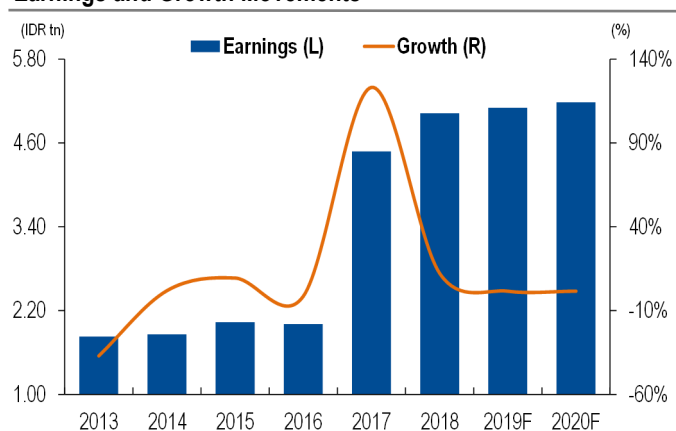
- PT Bukit Asam (PTBA IJ) is a state-owned company, engaged in the production of mid-to-low calories coal (4,800kcal/kg to calories 6,700kcal/kg), and has a mining concession, with total reserves of around 11.5 billion tons, mostly located in South Sumatra regions.
- The formation of a mining holding under PT Asahan Aluminum (Inalum) by the government on November 29, 2017, was followed by a stock split with a ratio of 1:5 by PTBA on December 14, 2017, and PTBA currently merges with PT Timah Tbk and PT Aneka Tambang Tbk as one holding.
- PTBA adds a business line in the downstream coal segment, namely coal gasification and carries out several gasification projects, including 1) Project cooperation with PT Pertamina and Air products to produce Dimethyl Ether (DME); 2) Collaboration with PT Pupuk Indonesia and PT Chandra Asri Petrochemicals Tbk to produce urea for fertilizers and polypropylene for plastic raw materials.

### Revenue and Growth Movements



Source: Company Data, NHKS Research

### Earnings and Growth Movements



Source: Company Data, NHKS Research

### Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales Growth LTM	Gross Margin LTM	Operating Margin LTM	Net Profit Growth LTM	ROE LTM	P/E LTM	Dividend Yield
<b>Indonesia</b>									
BUKIT ASAM TBK	2,033	1,676	8.7%	40.4%	29.7%	-20.1%	29.7%	6.0x	13.7%
ADARO ENERGY TBK	3,141	7,061	11.1%	33.4%	24.8%	13.8%	14.2%	6.1x	6.5%
INDO TAMBANGRAYA MEGAH TBK	1,033	1,443	18.8%	29.1%	21.5%	-8.2%	25.7%	4.4x	27.0%
<b>China</b>									
SHANXI XISHAN COAL CO.	2,708	9,458	12.9%	28.7%	12.8%	10.7%	9.9%	9.8x	4.9%
SHANXI LU'AN ENVIRONMENTAL CO.	3,215	9,488	6.6%	34.9%	17.2%	-8.5%	11.6%	8.2x	3.5%
INNER MONGOLIA COAL CO.	2,746	13,746	6.1%	27.8%	19.1%	-23.5%	12.9%	5.2x	7.8%
<b>Thailand</b>									
BANPU PUBLIC CO.	1,978	8,485	15.9%	35.3%	12.3%	-27.9%	6.1%	12.1x	6.0%
<b>Phillipines</b>									
SEMINARA MINING	1,915	1,357	-4.5%	50.3%	31.8%	-31.6%	24.5%	10.1x	9.6%
DMCI HOLDING	2,270	3,483	2.7%	37.4%	23.3%	-27.3%	15.2%	9.9x	10.8%

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

## Summary of Financials

### INCOME STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
<b>Sales</b>	<b>21,167</b>	<b>21,186</b>	<b>21,236</b>	<b>21,293</b>
<i>Growth</i>	8.7%	0.1%	0.2%	0.3%
COGS	(12,621)	(12,625)	(12,644)	(12,683)
<b>Gross Profit</b>	<b>8,546</b>	<b>8,560</b>	<b>8,592</b>	<b>8,609</b>
<i>Gross Margin</i>	40.4%	40.4%	40.5%	40.4%
Operating Expenses	(2,263)	(2,269)	(2,274)	(2,280)
<b>EBIT</b>	<b>6,283</b>	<b>6,291</b>	<b>6,318</b>	<b>6,329</b>
<i>EBIT Margin</i>	29.7%	29.7%	29.8%	29.7%
Depreciation	721	732	773	840
<b>EBITDA</b>	<b>7,004</b>	<b>7,023</b>	<b>7,091</b>	<b>7,169</b>
<i>EBITDA Margin</i>	33.1%	33.2%	33.4%	33.7%
Interest Expenses	(111)	(81)	(27)	(38)
<b>EBT</b>	<b>6,799</b>	<b>6,816</b>	<b>6,898</b>	<b>6,900</b>
Income Tax	(1,677.9)	(1,682.0)	(1,683.2)	(1,635.4)
Minority Interest	(97.2)	(31.7)	(32.2)	(32.5)
<b>Net Profit</b>	<b>5,024</b>	<b>5,102</b>	<b>5,183</b>	<b>5,233</b>
<i>Growth</i>	12.2%	1.6%	1.6%	1.0%
<i>Net Profit Margin</i>	23.7%	24.1%	24.4%	24.6%

### PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	33.4%	29.3%	27.2%	25.6%
ROA	21.8%	20.4%	19.1%	17.9%
ROIC	27.7%	25.2%	23.2%	21.6%
Cash Dividend (IDR bn)	3,357	3,768	3,470	3,213
Dividend Yield	6.9%	8.0%	7.3%	6.8%
Payout Ratio	66.8%	73.8%	66.9%	61.4%
DER	5.1%	1.5%	5.5%	4.5%
Net Gearing	5%	1%	5%	4%
LT Debt to Equity	2.8%	0.8%	3.1%	2.5%
Capitalization Ratio	4.9%	1.5%	5.2%	4.3%
Equity Ratio	67.3%	71.5%	69.2%	70.5%
Debt Ratio	3.4%	1.1%	3.8%	3.2%
Financial Leverage	143.9%	142.2%	144.4%	141.9%
Current Ratio	237.8%	253.3%	242.5%	256.4%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	11,521	11,521	11,521	11,521
Share Price (IDR)	4,220	4,100	4,100	4,100
Market Cap (IDR tn)	48.6	47.2	47.2	47.2

### BALANCE SHEET

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	6,301	5,956	6,079	6,510
Receivables	2,782	2,524	3,295	3,846
Inventories	1,551	1,154	1,562	1,809
<b>Total Current Assets</b>	<b>11,739</b>	<b>11,084</b>	<b>12,504</b>	<b>13,992</b>
Net Fixed Assets	8,427	10,041	10,543	10,981
Other Non Current Asset	4,007	4,802	5,179	5,330
<b>Total Assets</b>	<b>24,173</b>	<b>25,927</b>	<b>28,226</b>	<b>30,303</b>
Payables	1,048	626	759	631
ST Bank Loan	372	122	477	425
LT Debt	460	156	598	536
<b>Total Liabilities</b>	<b>7,903</b>	<b>7,381</b>	<b>8,683</b>	<b>8,943</b>
Capital Stock + APIC	1,183	1,183	1,183	1,183
Retained Earnings	16,815	18,112	19,826	21,845
<b>Shareholders' Equity</b>	<b>16,270</b>	<b>18,546</b>	<b>19,543</b>	<b>21,360</b>

### VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	9.7x	9.3x	9.1x	9.0x
Price/Book Value	3.0x	2.5x	2.4x	2.2x
Price/Sales	2.3x	2.2x	2.2x	2.2x
PE/EPS Growth	0.8x	5.9x	5.8x	9.4x
EV/EBITDA	5.9x	5.8x	5.7x	5.6x
EV/EBIT	6.6x	6.5x	6.4x	6.3x
EV (IDR bn)	41,166	40,609	40,551	39,795
Sales CAGR (3-Yr)	15.5%	14.6%	2.9%	0.2%
EPS CAGR (3-Yr)	32.2%	31.3%	5.0%	1.4%
Basic EPS (IDR)	436	443	450	454
Diluted EPS (IDR)	436	443	450	454
BVPS (IDR)	1,412	1,610	1,696	1,854
Sales PS (IDR)	1,837	1,839	1,843	1,848
DPS (IDR)	291	327	301	279

### CASH FLOW STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	7,201	5,604	5,084	5,368
Investing Cash Flow	(1,324)	(2,869)	(1,572)	(1,408)
Financing Cash Flow	(3,115)	(3,065)	(3,389)	(3,529)
<b>Net Changes in Cash</b>	<b>2,763</b>	<b>(330)</b>	<b>123</b>	<b>432</b>

### TOP OWNERSHIP

By Geography	% Shareholders	%	
Indonesia	90.9	Republic of Indonesia	65.9
United States	5.0	Vanguard Group	1.3
Luxembourg	1.6	Dimensional Fund	0.7
Canada	0.7	Blackrock	0.7

Source: Company Data, NHKS Research

## Closing and target price update



Source: Bloomberg, NHKS Research

## Rating and target price update

Date	Rating	Target price	Consensus
2018.30.04	Buy	IDR3,950	IDR3,675
2018.08.07	Buy	IDR5,375	IDR4,600
2019.26.03	Buy	IDR5,100	IDR4,538
2019.10.30	Buy	IDR2,900	IDR3,140

Source: NHKS Research

## NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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