

TINS posted a net loss in 1Q20 due to high inventory cost and lower ASP but we are still optimistic for the 2020F performance. We expect TINS to reach tin ore production of 58,391 tonnes, refined tin sales volume of 56,930 tonnes, and ASP of USD15,691/tonnes for 2020F. We initiate a BUY recommendation considering operational efficiency, bullish potential of global tin prices in 2H20, and the prospect of new smelter project.

High Inventory Cost and Lower ASP

In 1Q20, TINS posted a net loss of IDR413 billion due to high inventory cost and lower ASP (-22% YoY) despite higher refined tin sales volume at USD17.563 tonnes (+39% YoY). TINS managed to reduce its manufacturing costs per tonne (-28% YoY) with lower purchases of refined tin and reductions of third party services.

Key Assumptions of TINS's Performance

We made several assumptions to estimate TINS's 2020F-2021F performance. The tin ore production for 2020F is 58,391 tonnes and 61,311 tonnes for 2021F. Consumption will go down in 1H20 due to the COVID-19 pandemic, refined tin sales volume of 56,930 tonnes in 2020F and 59,777 tonnes in 2021F. ASP of 15,691/tonne in 2020F and USD17,665/tonne in 2021F. For 2020F, we estimate the average global tin prices to be 16,109/tonne.

Efficiency and Prospect from New Smelter Project

The COVID-19 pandemic is a major factor to a declining TINS financial performance in 1Q20. In our opinion, 2Q20 financial performance will be lower than 1Q20 but we are optimistic that the 2H20 performance will be better because TINS has prepared several strategies to mitigate the risks. Some of the strategies are; 1) cutting around 30% of opex; 2) supply chain financing to reduce of interest expenses. We see the new smelter project to be the next main driver of TINS's operational performance because it has technology with more efficiency in production and processing costs.

Initiate to BUY with TP of IDR750

Although TINS's 1Q20 financial performance was disappointing, we still decide to initiate a BUY with TP of IDR750, considering: 1) operational efficiencies that will be carried out by TINS; 2) bullish potential of global tin prices in 2H20; 3) the long-term prospects of the new smelter project. Our TP based on forward EV/EBITDA of 7.8x (+1.4 SD of its 5-year historical mean) with the potential upside of 26.1%, implies 2020F EV/EBITDA of 25.3x.

Timah Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (IDR bn)	19,303	14,143	17,076	20,462
Growth (%)	75.2	-26.7	20.7	19.8
EBITDA (IDR bn)	772	1,220	1,616	2,052
Net Profit (IDR bn)	-611	-57	164	278
EPS (IDR)	-82	-8	22	37
Growth (%)	-562.1	-90.6	385.1	69.8
P/E (x)	-10.1	-97.3	34.1	20.1
P/BV (x)	5.0	4.8	4.2	4.0
EV/EBITDA (x)	46.5	25.3	20.6	16.6
ROE (%)	-10.7	-1.1	3.1	4.8
DER (%)	287.2	245.3	293.2	322.6
Net Debt (IDR bn)	9,961	7,066	9,540	10,303

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Buy

Target Price (IDR)	750
Consensus Price (IDR)	540
TP to Consensus Price (%)	+38.9
vs. Last Price (%)	+26.1

Shares Data

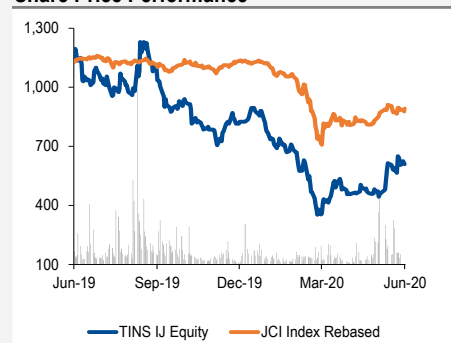
Last Price (IDR)	595
Price Date as of	Jun 25, 2020
52 wk Range (Hi/Lo)	1,285/328
Free Float (%)	35.0
Outstanding Shares (mn)	7,448
Market Cap (IDR bn)	4,431
Market Cap (USD mn)	311
Avg. Trd Vol - 3M (mn)	26.7
Avg. Trd Val - 3M (bn)	14.2
Foreign Ownership (%)	5.3

Mining

Metal

Bloomberg	TINS IJ
Reuters	TINS.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-26.1%	32.6%	70.4%	-46.0%
Rel. Ret.	-21.0%	9.2%	26.1%	-21.1%



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Industry Background

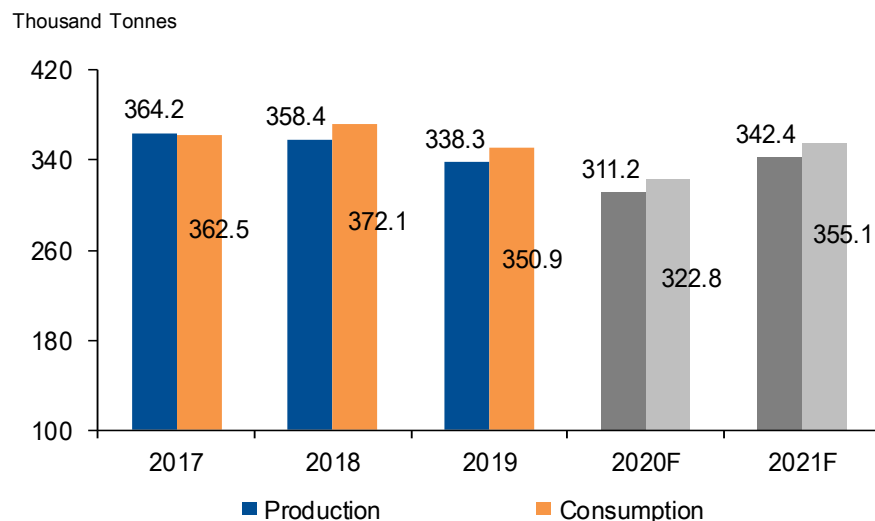
Supply-Demand Potentially Improved in 4Q20

The global production and consumption of tin experienced a plummet in 2019 due to the decrease of electronics production especially in the telecommunication industry. For 2020, we predict that the production and consumption of tin will go down due to the COVID-19 pandemic, but optimistic that there will be a rise in industrial consumption in 4Q20. Our estimates in 2020 are that the global tin production will fall to 311.2 thousand tonnes (-8 YoY) and the consumption to 322.8 thousand tonnes (-8 YoY).

Indonesia's Export Potentially Declining in 2020

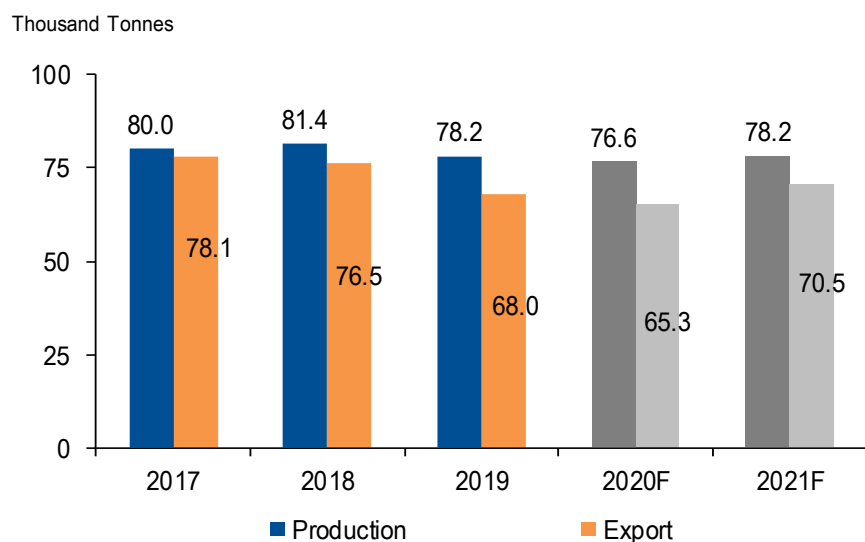
Indonesia's tin export in the past five years have shown volatility. The tin export volume decrease in 2019 is slightly lower compared to 2018 with the decrease of demand due to weakening economy and falling global tin prices caused by trade war. PT Timah Tbk in 2019 contributed to almost 100% of all Indonesia's tin export volume. In 2020, we predict that the impact of COVID-19 pandemic will drop the tin export by around 21% YoY.

Figure 1: Supply-Demand of Global Tin



Source: International Tin Association, NHKSI Research

Figure 2: Indonesia's Tin Production & Export



Source: Company Data, NHKSI Research

Company Background

Short History

PT Timah Tbk (TINS) is a company engaged in the integrated tin mining business. TINS is a member of the Mining Industry Indonesia (MIND ID) located in Bangka Belitung and Riau islands, Indonesia. According to the data from International Tin Association (ITA), in 2019, TINS is the biggest tin producer in the world followed by Yunnan Tin (China) on the second position. Currently, TINS is listed as a member of ITA.

Integrated Business Process

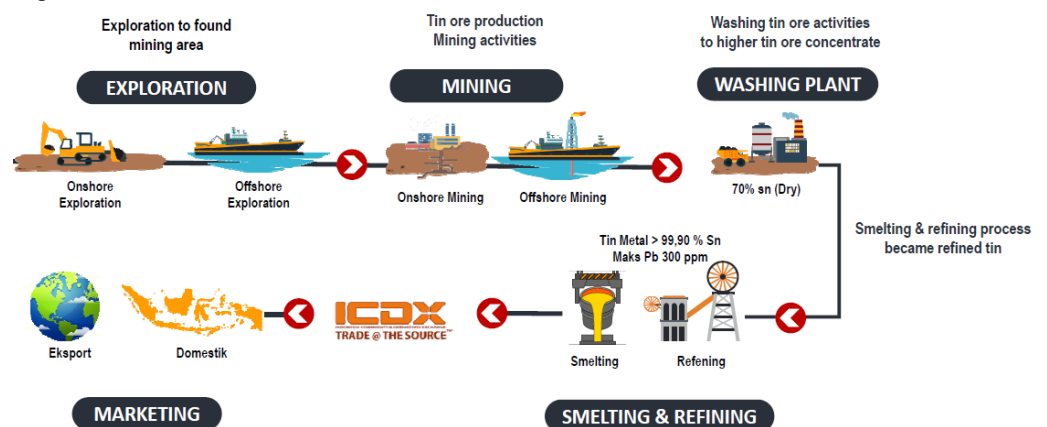
TINS business scope includes tin ore mining, refined tin production (industry), tin trading, exploration, research and development, non-tin mining and other competence-based businesses (real estate, hospital, shipping and shipbuilding) which are run integrated through its subsidiaries.

Table 1: Global Refined Tin Producer

No	Company	Production in 2019 (tonne)
1	Timah (Indonesia)	76,400
2	Yunan Tin (China)	72,000
3	Malaysia Smelting Corp (Malaysia)	24,300
4	Minsur (Peru)	19,600
5	Yunnan Chengfeng (China)	19,100
6	EM Vinto (Bolivia)	11,500
7	Thaisarco (Thailand)	10,900
8	Metallo (Belgium)	9,300
9	Guanxi China Tin (China)	8,200
10	Geju Zi-Li (China)	8,000

Source: International Tin Association, NHKSI Research

Figure 3: Business Process of TINS

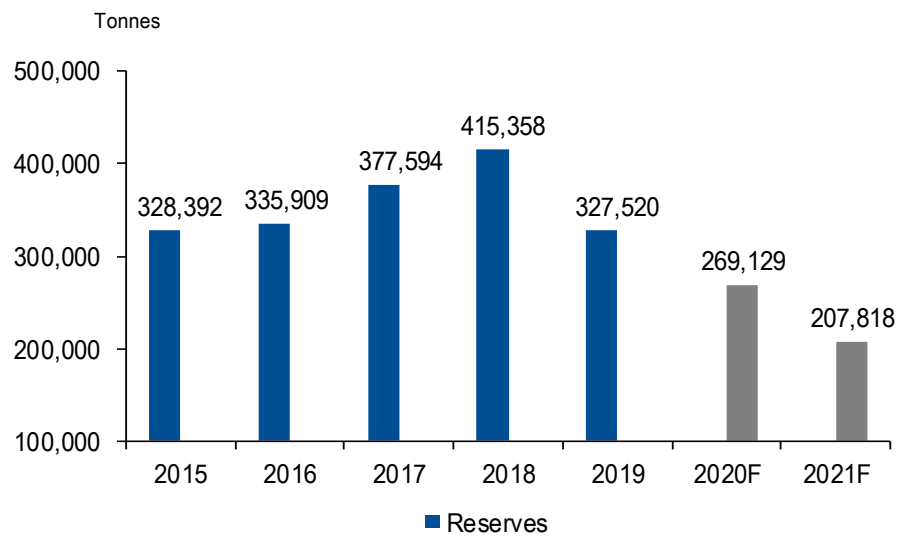


Source: Company Data

Resources and Reserves

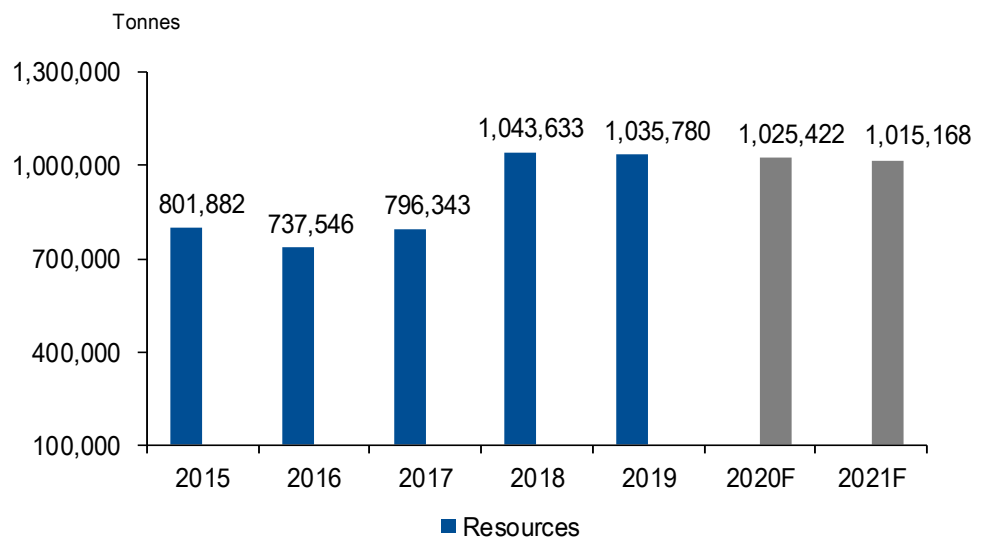
TINS has 127 mining license (IUP) in the Bangka Belitung islands, Riau islands, and Riau. Currently, TINS owns a total of 327,520 tonnes of tin reserves in Bangka and Riau. Its on-shore reserves reach 73,340 tonnes (22% of total reserves), while the off-shore reserves amount to 254,180 tonnes (78% of total reserves). The mineral resources owned by TINS now is 1,035,780 tonnes. TINS has two smelters located in Muntok (capacity: 42,000 tonnes/year) and Kundur (capacity: 12,000 tonnes/year) with total capacity reaching 54,000 tonnes/year. With an average refined tin production at 47,727 tonnes/year for the last 5 years, the reserves will last for at least 8 years.

Figure 4: TINS' Tin Reserves



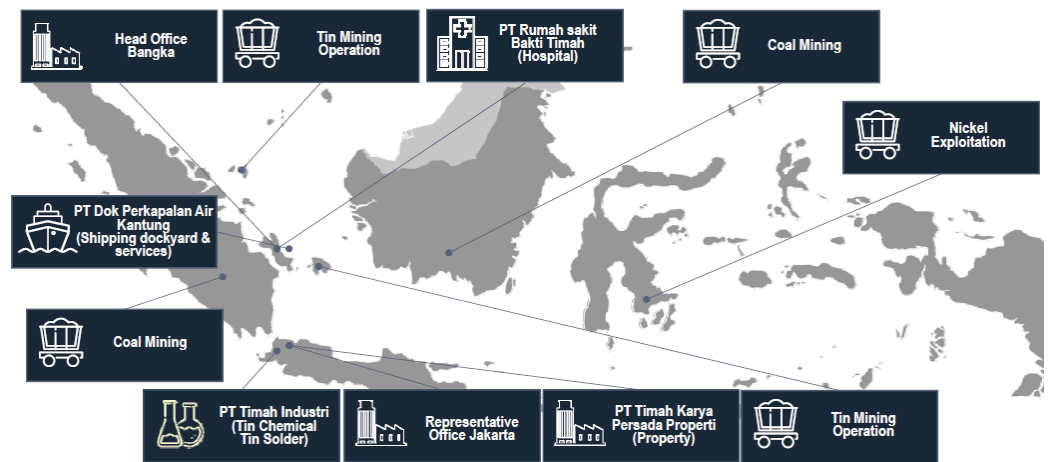
Source: Company Data, NHKSI Research

Figure 5: TINS' Tin Resources



Source: Company Data, NHKSI Research

Figure 6: TINS' Business Location



Source: Company Data

Ongoing Project

TINS is investing in long-term operational support facility in the form of Tin Ausmelt Project with a capacity of 35,000 tonnes/year and some of its supporting facility in Muntok, Bangka Belitung Province. The project will be equipped with technology that can process low grade tin containing 40%-60% sn tin. In 2017 and 2018, TINS signed an agreement with Outotec Pty Ltd on the Muntok Ausmelt project. The contract value of this Tin Ausmelt Project is USD17.08 million, USD4.8 million, and IDR5.95 billion. On 31 December 2019, the construction progress has reached 19.50%.

Figure 7: Project Highlight



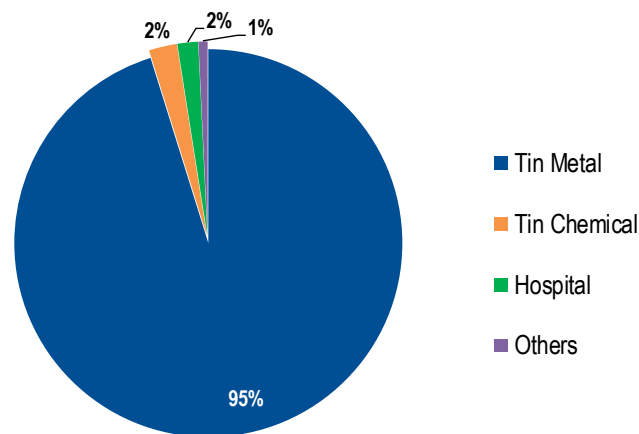
Source: Company Data

Operational Performance

1Q20 Performance Still Weak

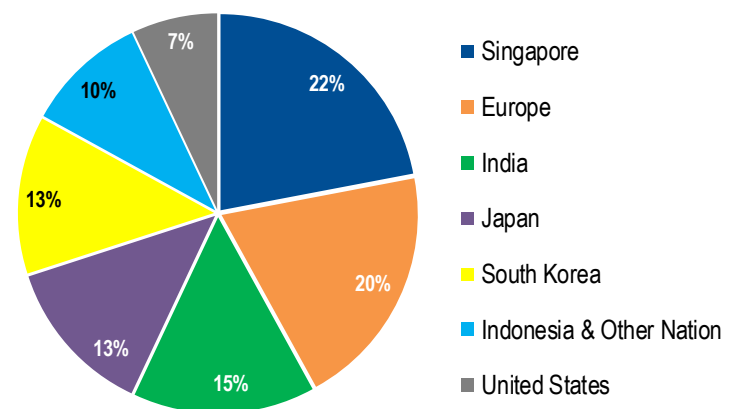
In 1Q20, TINS recorded a net loss of IDR413 billion (-5.2% YoY) due to: 1) tin commodity prices continue to weaken that 1Q20 ASP fell to USD16,703 tonnes (-22% YoY); 2) production volume fell to 14,133 tonnes (-13% YoY). Although TINS managed to record a revenue of IDR4.4 trillion (+4 YoY), the cost of revenue rose sharply (+35% YoY) compared to the income which results in TINS losses throughout the first quarter.

Figure 8: 1Q20 Revenue Breakdown



Source: Company Data, NHKSI Research

Figure 9: 1Q20 Destination of Sales

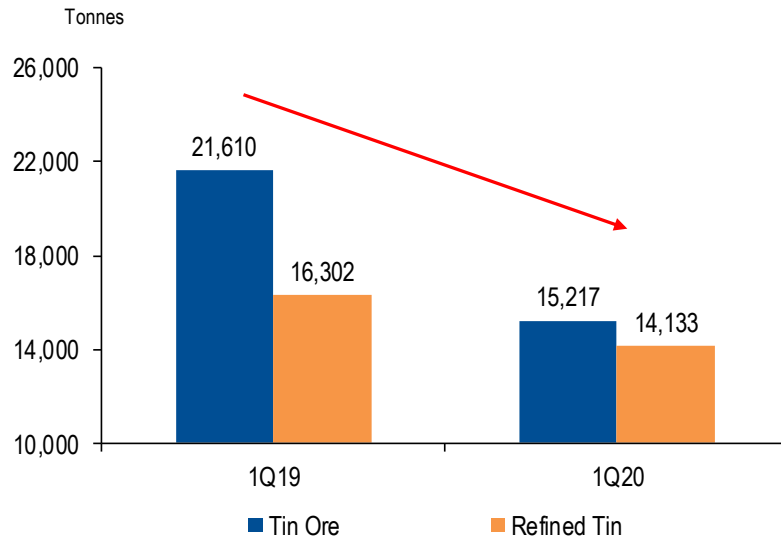


Source: Company Data, NHKSI Research

Production Declines Due to Pandemic

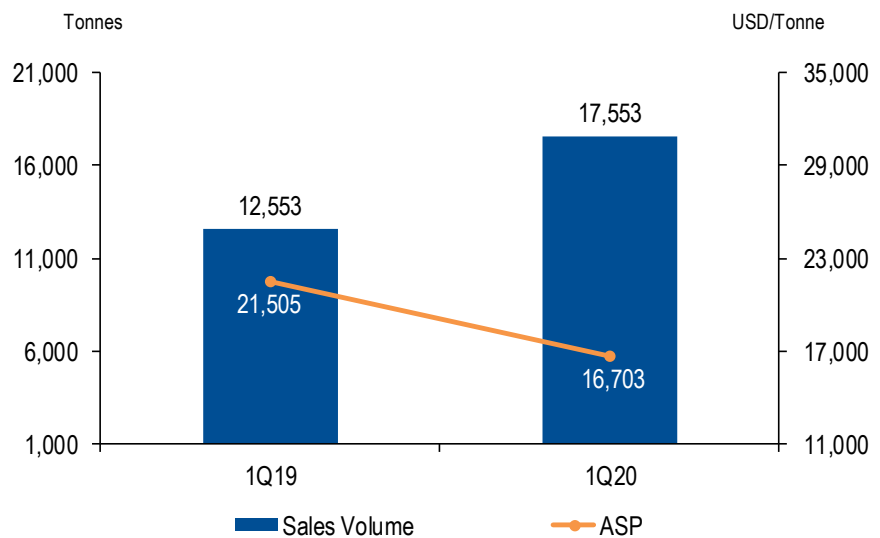
TINS recorded tin ore production of 15,217 tonnes in 1Q20 (-30% YoY) of which 84% came from on-shore mining, while 16% came from off-shore mining. Meanwhile, the refined tin production is 14,133 tonnes (-13% YoY) with refined tin sales volume of 17,553 tonnes (+40% YoY). This happens due to the COVID-19 pandemic which disrupts the production process. Lockdown in importing countries cause demands for tin to fall so the global tin price keeps dropping and affect TINS ASP.

Figure 10: Production



Source: Company Data, NHKSI Research

Figure 11: Refined Tin Sales Volume & ASP



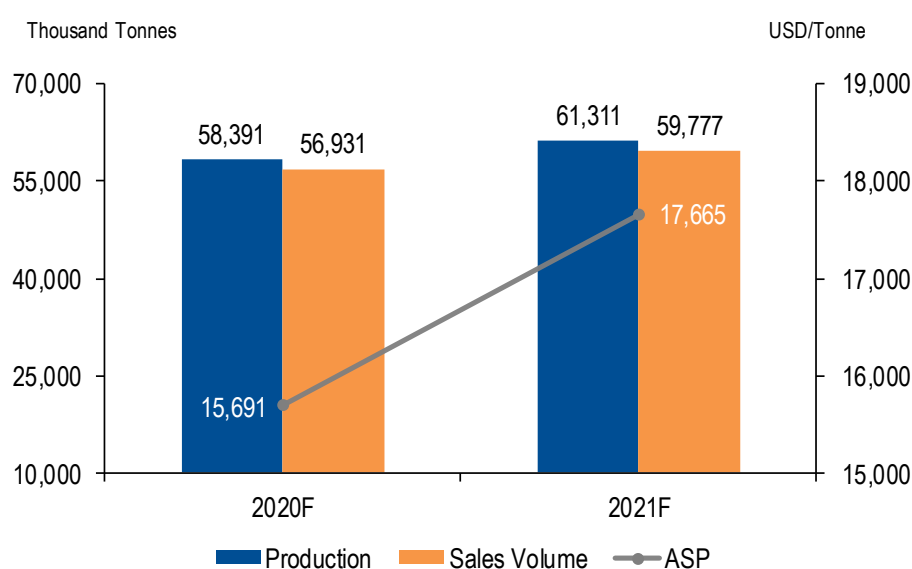
Source: Company Data, NHKSI Research

Earnings Outlook

Performance Will Still Be Depressed in 2020

We estimate TINS will still record a net loss of IDR57 billion in 2020 but will begin to book a net profit of IDR163 billion in 2021F. Our estimates are based on the assumptions that: 1) total tin ore production of 58,391 tonnes in 2020F and 61,311 tonnes in 2021F; 2) refined tin sales volume of 56,930 tonnes in 2020F increasing to 59,777 tonnes in 2021F; 3) ASP amounting to USD 15,691/tonne for 2020F and rising to USD17,665/tonne in 2021F. Our assumptions also consider the demand slump in 2020F and rising demand in 2021F, with the optimism that the global economy will be back to normal. We also assume that TINS is able to improve the efficiency of revenue costs so the GPM for 2020F and 2021F will be 9.1% and 10% respectively.

Figure 12: Key Assumptions



Source: Company Data, NHKSI Research

Sensitivity Analysis

We tested the operational sensitivity of TINS to the increase in global tin selling prices. Every +/-10% of the global tin selling price will influence +/-6% on revenue, +/-17% on net income, and +/-59% on TINS EPS in 2020.

Table 2: Sensitivity Analysis

Global Tin Price	-10%	Base	+10%
Revenue (IDR bn)	13,137	14,143	15,049
Operating Profit (IDR bn)	533	639	734
Net Profit (IDR bn)	-94	-57	-25
EPS (IDR)	-12.7	-8	-3.3
Target Price (IDR)	620	750	880

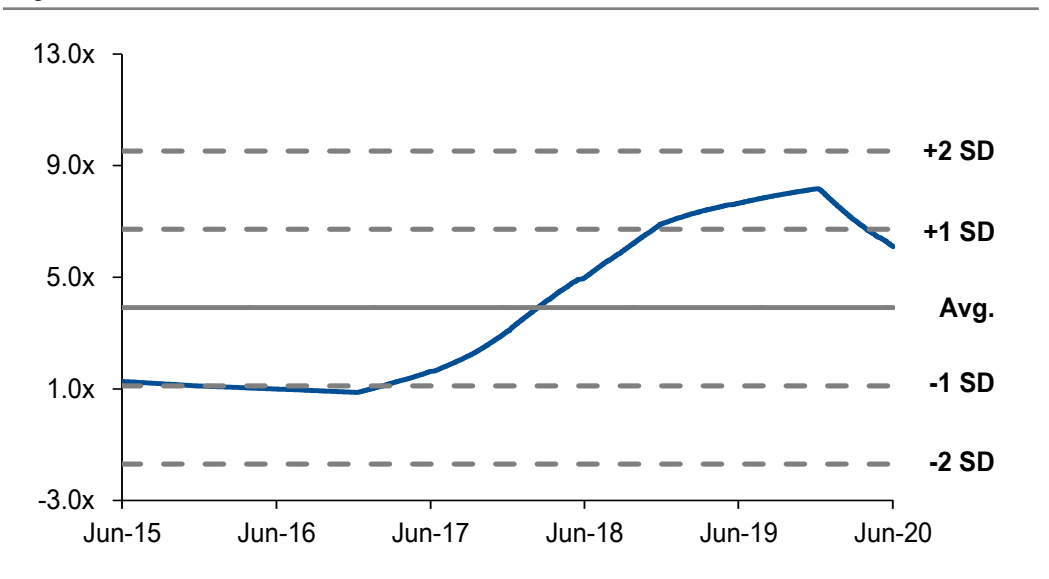
Source: Company Data, NHKSI Research

Valuation

Initiate to BUY

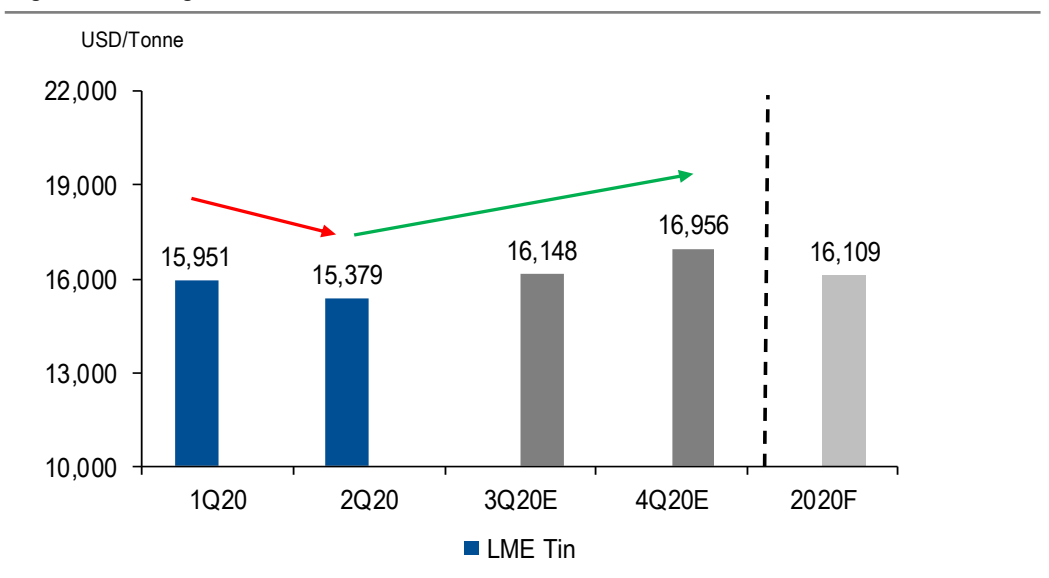
We initiate to BUY on TINS with the target price of IDR750. Our new TP is based on a forward EV/EBITDA of 7.8x (+1.4 SD from the 5-year historical average). While the 1Q20 TINS performance decline, we are optimistic about recommending BUY considering: 1) operational efficiency that will be carried out by TINS for the rest of the year; 2) estimated global selling price of tin which has the potential to rise in 2H20 as importing countries stop lockdown policies; 3) The long-term prospect of a new smelter project with Ausmelt technology that is more efficient in terms of production and processing costs. We estimate that the average global selling prices of tin will be USD16,109/tonne.

Figure 13: 5-Year Forward EV/EBITDA Band



Source: Company Data, NHKSI Research

Figure 14: Average LME Tin Prices



Source: Company Data, NHKSI Research

Financial Review

Quarterly Review

	1Q19	2Q19	3Q19	4Q19	1Q20			2Q20E	
					Actual	Estimate	YoY %		QoQ %
Income Statement									
Revenue	4,237	5,417	4,946	4,703	4,384		3.5	-6.8	3,016
Gross Profit	747	71	247	71	-174		-123.2	-345.5	452
EBIT	487	-237	-111	-215	-386		-179.2	-79.1	317
EBITDA	646	-48	90	83	-235		-136.4	-382.0	457
Net Profit	301	-96	-381	-435	-413		-237.0	-5.2	101
Margin									
Gross Margin	11.6	1.3	5.0	1.5	-4.0		-21.6	-5.5	15.0
EBIT Margin	11.5	-4.4	-2.2	-4.6	-8.8		-20.3	-4.2	10.5
EBITDA Margin	15.3	-0.9	1.8	1.8	-5.4		-20.6	-7.1	15.1
Net Profit Margin	7.1	-1.8	-7.7	-9.3	-9.4		-16.5	-0.2	3.3

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Earnings Revision

		2020F	2021F	2022F
Income Statement				
Revenue	-New	14,143	17,076	20,462
	-Previous	-	-	-
	-Change %	-	-	-
	-Consensus	14,878	15,582	22,376
Gross Profit	-New	1,290	1,708	2,251
	-Previous	-	-	-
	-Change %	-	-	-
	-Consensus	1,463	1,937	3,132
EBIT	-New	639	854	1,125
	-Previous	-	-	-
	-Change %	-	-	-
	-Consensus	658	766	-
EBITDA	-New	1,220	1,616	2,052
	-Previous	-	-	-
	-Change %	-	-	-
	-Consensus	1,203	1,379	2,364
Net Profit	-New	-57	164	278
	-Previous	-	-	-
	-Change %	-	-	-
	-Consensus	-34	145	892
Margin				
Gross Margin	-New	9.1	10.0	11.0
	-Previous	-	-	-
EBIT Margin	-New	4.5	5.0	5.5
	-Previous	-	-	-
EBITDA Margin	-New	8.6	9.5	10.0
	-Previous	-	-	-
Net Profit Margin	-New	-0.4	1.0	1.4
	-Previous	-	-	-

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Financial Summary

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F		2019/12A	2020/12F	2021/12F	2022/12F
Revenue	19,303	14,143	17,076	20,462	ROE	-10.7%	-1.1%	3.1%	4.8%
<i>Growth</i>	75.2%	-26.7%	20.7%	19.8%	ROA	-3.4%	-0.3%	0.8%	1.2%
COGS	(18,167)	(12,853)	(15,368)	(18,211)	ROIC	-0.4%	-8.1%	3.9%	4.5%
Gross Profit	1,136	1,290	1,708	2,251	Cash Dividend (IDR bn)	-	-	55	95
<i>Gross Margin</i>	5.9%	9.1%	10.0%	11.0%	Dividend Yield	0.0%	0.0%	0.2%	0.4%
Operating Expenses	(1,212)	(651)	(854)	(1,125)	Payout Ratio	0.0%	0.0%	33.6%	34.2%
EBIT	(76)	639	854	1,125	DER	287.2%	245.3%	293.2%	322.6%
<i>EBIT Margin</i>	-0.4%	4.5%	5.0%	5.5%	Net Gearing	203%	170%	201%	226%
Depreciation	848	581	762	927	LT Debt to Equity	40.0%	34.7%	32.3%	32.3%
EBITDA	772	1,220	1,616	2,052	Capitalization Ratio	68.7%	63.8%	67.6%	70.0%
<i>EBITDA Margin</i>	4.0%	8.6%	9.5%	10.0%	Equity Ratio	25.8%	29.0%	25.4%	23.7%
Interest Expenses	75	311	375	450	Debt Ratio	56.8%	51.0%	53.0%	55.3%
EBT	(722)	33	205	348	Financial Leverage	366.8%	370.7%	408.3%	422.6%
Income Tax	111	(90)	(41)	(70)	Current Ratio	102.9%	94.6%	73.8%	74.5%
Minority Interest	0	0	0	0	Par Value (IDR)	100	100	100	100
Net Profit	(611)	(57)	164	278	Total Shares (mn)	31,986	31,986	31,986	31,986
<i>Growth</i>	-562.1%	-90.6%	385.1%	69.8%	Share Price (IDR)	825	750	750	750
<i>Net Profit Margin</i>	-3.2%	-0.4%	1.0%	1.4%	Market Cap (IDR tn)	26.4	24.0	24.0	24.0

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F		2019/12A	2020/12F	2021/12F	2022/12F
Cash	1,599	1,754	2,236	3,558	Price/Earnings	-10.1x	-97.3x	34.1x	20.1x
Receivables	1,620	2,255	2,611	3,107	Price/Book Value	5.0x	4.8x	4.2x	4.0x
Inventories	6,501	2,667	2,806	2,981	Price/Sales	1.4x	1.7x	1.4x	1.2x
Total Current Assets	12,307	9,013	10,115	12,046	PE/EPS Growth	0.0x	1.1x	0.1x	0.3x
Net Fixed Assets	3,988	4,945	6,537	7,049	EV/EBITDA	46.5x	25.3x	20.6x	16.6x
Other Non Current Asset	4,066	3,324	5,577	5,980	EV/EBIT	-472.1x	48.2x	39.0x	30.2x
Total Assets	20,361	17,281	22,228	25,075	EV (IDR bn)	35,858	30,804	33,278	34,041
Payables	2,189	2,460	3,098	3,488	Sales CAGR (3-Yr)	40.4%	15.3%	15.7%	2.0%
ST Bank Loan	9,459	7,083	9,953	11,947	EPS CAGR (3-Yr)	-234.4%	-148.5%	7.4%	-176.9%
LT Debt	2,102	1,736	1,823	1,914	Basic EPS (IDR)	(82)	(8)	22	37
Total Liabilities	15,103	12,277	16,575	19,141	Diluted EPS (IDR)	(82)	(8)	22	37
Capital Stock + APIC	317	317	317	317	BVPS (IDR)	164	156	177	186
Retained Earnings	5,377	4,883	5,532	5,813	Sales PS (IDR)	603	442	534	640
Shareholders' Equity	5,258	5,004	5,653	5,934	DPS (IDR)	-	-	2	3

CASH FLOW STATEMENT					TOP OWNERSHIP			
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F	By Geography	% Shareholders	%	
Operating Cash Flow	(2,862)	2,817	341	1,073	Indonesia	94.7	Inalum	65.0
Investing Cash Flow	(1,507)	(653)	(4,614)	(1,839)	United States	3.8	Dimensional Fund	1.3
Financing Cash Flow	5,219	(2,083)	2,956	2,088	Norway	1.0	Vanguard Group	1.2
Net Changes in Cash	850	82	483	1,321	Luxembourg	0.3	Norges Bank	0.7

Source: Company Data, NHKSI Research

Closing & Target Price Update



Source: Bloomberg, NHKSI Research

Rating & Target Price Update

Date	Rating	Target Price	Consensus
2017.07.21	Buy	IDR870	IDR1,099
2017.09.29	Buy	IDR1,070	IDR1,181
2018.01.16	Buy	IDR1,140	IDR1,165
2018.03.29	Buy	IDR1,240	IDR1,281
2020.06.26	Buy	IDR750	IDR540

Source: NHKSI Research

NHKSI 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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