COAL MINING SECTOR UPDATE

Remains on Fire!

Best Price Performing Commodity

- The black rock commodity is unstoppable, rising by +246.19% YoY/+114.60% YTD to its highest ever at USD172.75/mt. We see that the pattern is quite similar to what happened a decade ago, after the financial crisis, shown in the fall on the price in 2008 and again in 2020, coal rose to its previous peak in 2011. At the time, China was on their revolutionary path to become the economic powerhouse, their coal demand rose by 325 million tons in 2011.
- According to the British Petrol, the only region with rising coal usage is Asia while other countries have already shown coal energy decrease over the past decade. Nevertheless, we believe that coal will not be abandoned shortly by the Asian countries as it remains a reliable and cost affordable source of energy. Based on our technical review, coal price might rise to its resistance at USD188/mt. Since we see that demand is still strong while most countries are still in the pandemic state and considering the upcoming winter demand, we decide to increase our average price estimate to USD110/mt in FY21E.

Domestic Coal Crisis

- The Ministry of Energy and Mineral Resources (MEMR) stated that as of 1H21 DMO realization reached 46.16% out of the 137.5 million ton target in FY21E. The low achievement has caused a domestic energy crisis, admitted by PLN, hence the government has established a new export restriction toward 34 DMO offender companies. Several listed companies will be affected as follows: 1) PT Arutmin Indonesia, a subsidiary of BUMI; 2) PT Hanson Energy, a subsidiary of ARII; 3) PT Borneo Indobara, a subsidiary of GEMS; and 4) PT Bara Tabang, a subsidiary of BYAN which recently has fulfilled its DMO obligation and got the export ban lifted. We assume that there is a reluctance for DMO compliance, other than the huge price disparity (~USD100/ton or 144.64%), the bad weather in the 1Q21 had caused a low production volume, leading the companies to focus on export.
- However, PLN coal absorption reaches 82.18% of the DMO or 113 million ton. Ultimately, when it came to a decision, the government would choose not to adjust the DMO price, as it will also affect the public electricity rate.

Asian Coal Plant Closures with Indonesia on the lead

- Several major financial firms such as Asian Development Bank (ADB), Citi, HSBC, Prudential, and Blackrock are planning to quicken coal plants retirement in Asia. Of course, this is aligned with the commitment for zero carbon emission in the light of the global warming, as coal contributes 46% of total Co2 emissions and 72% of total greenhouse gas emissions worldwide.
- Indonesia would roughly need USD16 billion to USD29 billion (IDR232 trillion – IDR420.5 trillion, assuming IDR14,500/USD) to shut down 50% of the plant capacity. Furthermore, based on the Paris agreement, Indonesia aims to self-reduce 29% of emission by 2030 or reduce 41% with help from other countries. While the government already plans to retire 50 GW by 2056. Assuming that with 25.27 GW capacity, the current coal carbon emission stood at 24,259 tons (based on US EIA data, 1 GW = 960 tons Co2 emission). As of 2056, Indonesia can reduce 47,040 tons of Co2 and decrease coal usage by 245 million tons.
- We see that this would pose a risk for the coal sector overall as there are already international intervention to cut the business short, especially with a direct buying scheme that will not be profitable for coal companies in the long run.

Overweight Outlook with Top Picks: ADRO IJ and PTBA IJ

We decide to revise our outlook from **NEUTRAL** to **OVERWEIGHT** as we increase our coal average estimate for FY21E. Hence, we also revise our target price for **ADRO IJ** from IDR1,450 to **IDR1,830** and **ITMG IJ** from IDR14,400 to **IDR20,500.** Our decision is supported by the massive increase on ASP and improving productions in the 2Q21 and for the rest of the year as the 1Q21 operations were disrupted by heavy rain. Our **BUY** recommendations goes to **ADRO IJ (TP: IDR1,830)** and **PTBA IJ (TP:IDR3,000)**, as we believe these two companies won't be affected as much as ITMG IJ when coal price drops in the future, as these two already have other initiatives beside coal exports.

Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY21E	FY22F	FY21E	FY22F		
ADRO IJ	44,301	5.66	6.69	0.78	0.79	BUY	1,830
PTBA IJ	26,958	5.08	7.48	1.58	1.56	BUY	3,000
ITMG IJ	19,322	6.46	8.91	1.53	1.50	BUY	20,500

Sources: Bloomberg, MNCS

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Best Price Performing Commodity

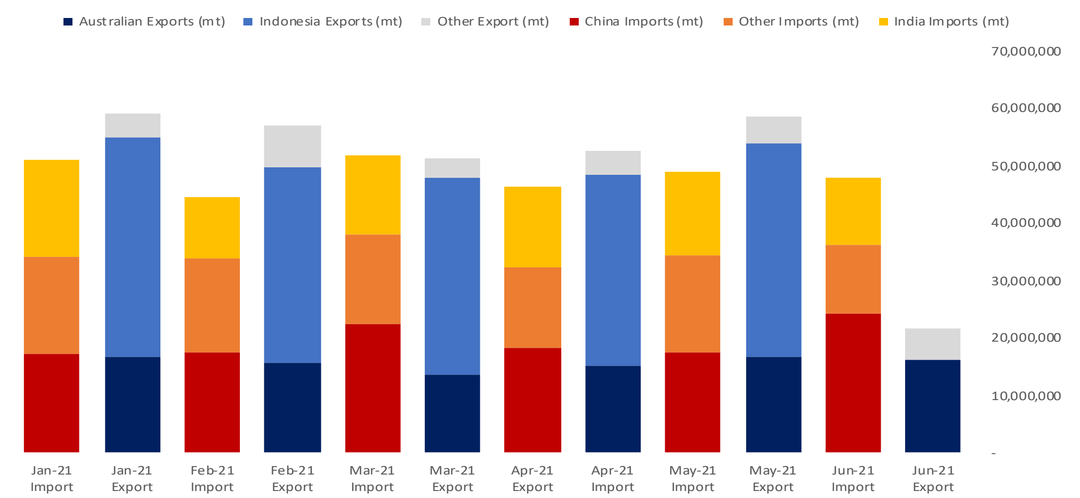
The black rock commodity is unstoppable, rising by +246.19% YoY/+114.60% YTD to its highest ever at USD172.75/mt. It has beaten the highest price in 2011 at USD139.05/mt and become the commodity with the highest price growth, which is quite surprising as it was previously declining even in the pre-Covid-19 era. We see that the pattern is quite similar with what happened a decade ago, after the financial crisis, shown in the fall on the price in 2008 and again in 2020, coal rose to it's previous peak in 2011. At the time, China was on their revolutionary path to become the economic powerhouse, their coal demand rose by 325 million tons in 2011.

Exhibit 01. Coal Price Pattern in the last 10 years

Sources : Bloomberg, MNCS

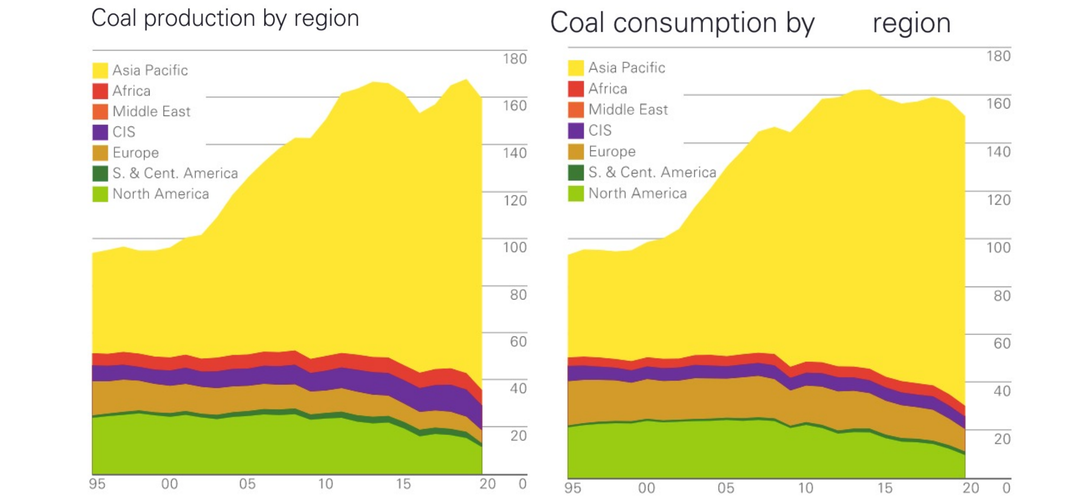
Currently, China contributes 40% towards global thermal coal import in 1H21, followed by India with 28%. Indonesia is still the major thermal coal supplier, accounting for 59% of total coal export while Australia stood at 31%. According to the British Petrol, the only region with rising coal usage is Asia while other countries already shown coal energy decrease over the past decade. Nevertheless, we believe that coal won't be abandoned shortly by the Asian countries as it remains a reliable and cost affordable source of energy. Based on our technical review, coal price might rise to it's resistance at USD188/mt. Since we see that demand is still strong while most countries are still in the pandemic state and considering the upcoming winter demand, we decide to increase our average price estimate to USD110/mt in FY21E.

Exhibit 02. YTD Thermal Coal Export & Import



Sources : Bloomberg, MNCS

Exhibit 03. Coal Production and Consumption Trend in Exajoules (1 EJ = 34 mn tons of coal)



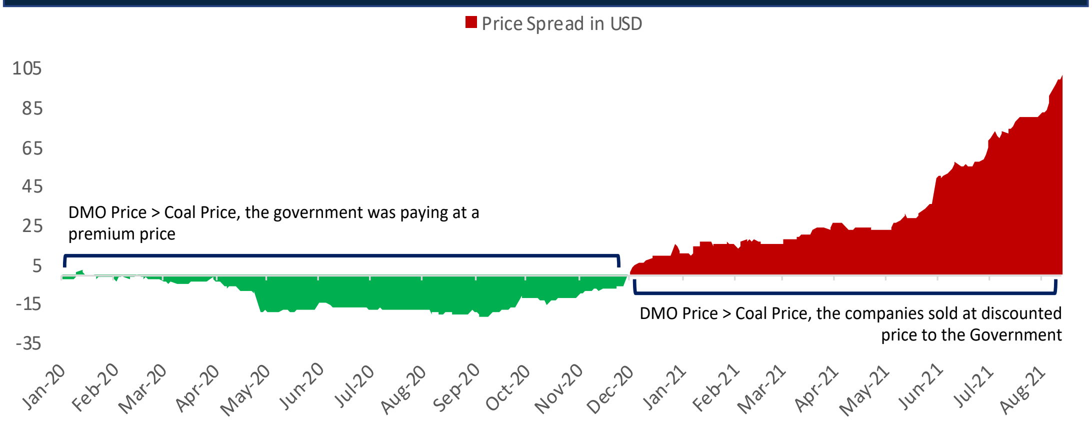
Sources : British Petrol

Domestic Coal Crisis

The Ministry of Energy and Mineral Resources (MEMR) stated that as of 1H21 DMO realization reached 46.16% out of the 137.5 million ton target in FY21E. The low achievement has caused a domestic energy crisis, admitted by PLN, hence the government has established a new export restriction toward 34 DMO offender companies. Several listed companies will be affected as follows: 1) PT Arutmin Indonesia, a subsidiary of BUMI; 2) PT Hanson Energy, a subsidiary of ARII; 3) PT Borneo Indobara, a subsidiary of GEMS; and 4) PT Bara Tabang, a subsidiary of BYAN which recently has fulfilled its DMO obligation and got the export ban lifted. We assume that there is a reluctance for DMO compliance, seeing that the coal price is sky-high while DMO price is capped at USD70/ton. Other than the huge price disparity (~USD100/ton or 144.64%), the bad weather in the 1Q21 had caused a low production volume, leading the companies to focus on export.

Government aims for a 625 million ton of coal production in FY21E with 25% DMO from the previous 550 million ton target, as there is a 75 million ton of export quota that will not be obligated locally. Production volume in 1H21 has reached 47.83% from the target, as companies struggles with production in the 1Q20. While PLN coal absorption reach 82.18% of the DMO or 113 million ton. Ultimately, when it came to a decision, the government would choose to not adjust the DMO price, as it will also affect the public electricity rate. We believe this will not significantly affect profitability as it only accounts for 25% and companies are obligated either way, though we see that the companies that has fulfilled the obligation earlier this year would have the benefit of export for the rest of the year along with the higher price and increased production volume.

Exhibit 04. Price Gap between Coal Price and DMO Price is Wider in 1H21

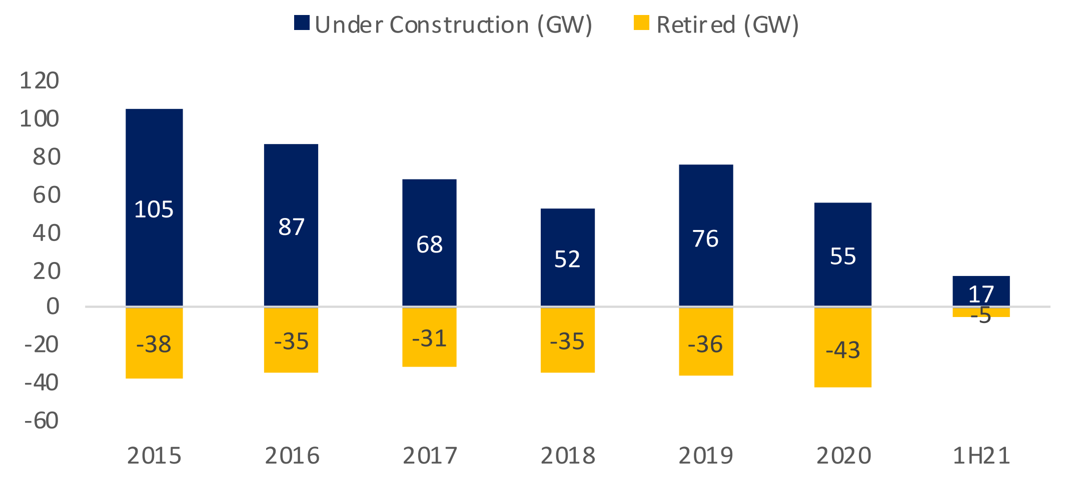


Sources : Bloomberg, MNCS

Asian Coal Plant Closures with Indonesia on the lead

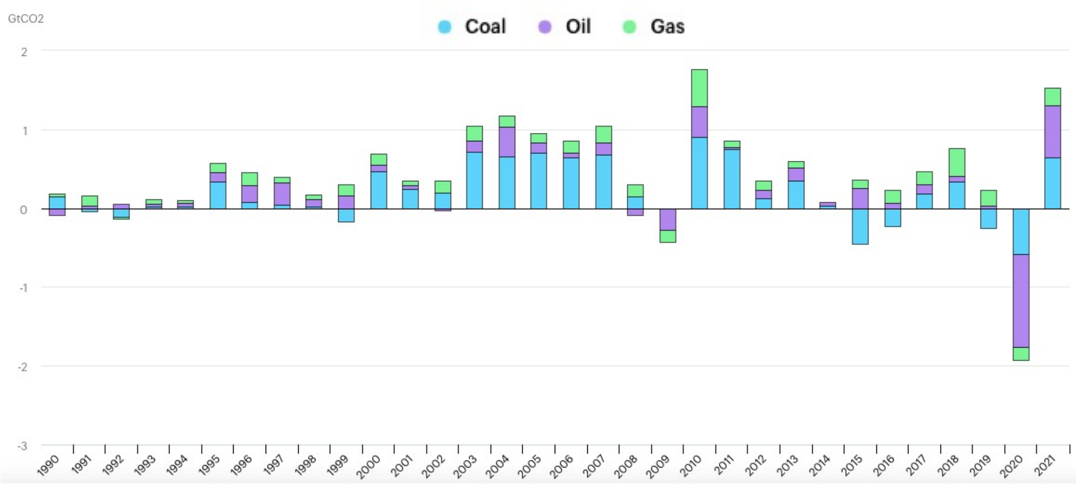
Several major financial firms such as Asian Development Bank (ADB), Citi, HSBC, Prudential, and Blackrock are planning to quicken coal plants retirement in Asia with schemes to buy and run them at a lower cost of capital, which will resulted in a wider margin to generate similar returns with shorter time of around 15 years instead of 50 years. This is aligned with the commitment for zero carbon emission in the light of the global warming, as coal contributes 46% of total Co2 emissions and 72% of total greenhouse gas emissions worldwide. ADB plans to run feasibility studies with USD1.7 million budget on Asian countries to estimate the cost, assets and to deal with government as well as stakeholders, so that the first acquisition will be done in FY22F.

Exhibit 05. Global Coal Plant Construction vs Retirement



Sources : APBI, MNCS

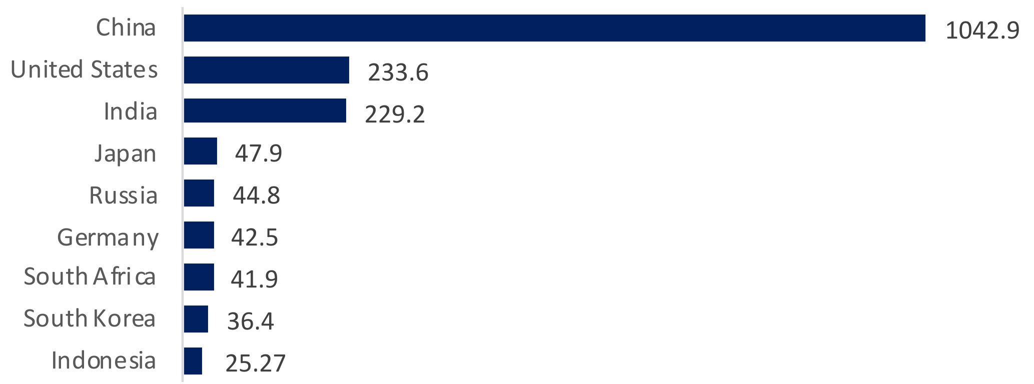
Exhibit 06. Change in CO2 emissions by fuel



Sources : IEA

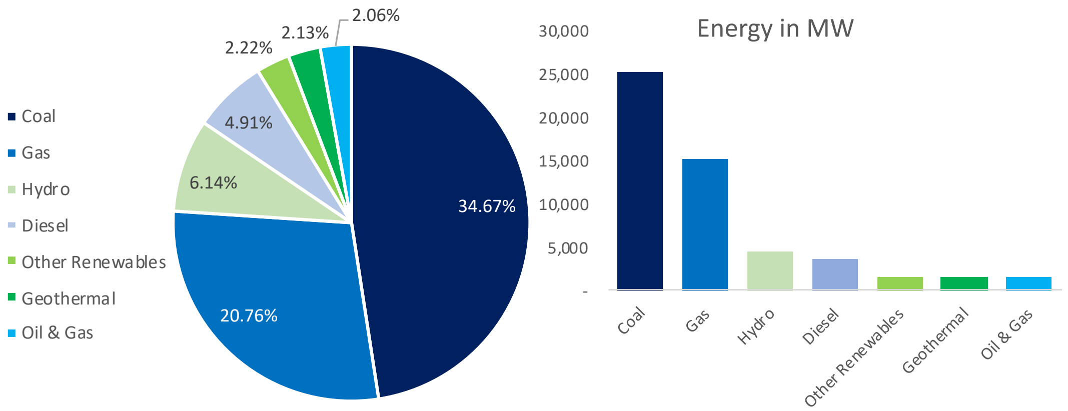
Indonesia would roughly need USD16 billion to USD29 billion (IDR232 trillion – IDR420.5 trillion, assuming IDR14,500/USD) to shut down 50% of the plant capacity, in which the running capacity stood at 25.27 GW as of Apr-21. The cost is higher than Philippines and Vietnam, but it won't surpass the mammoth coal consumer, China, which in total stood at 1,042.9 GW as of Jan-21. Surprisingly, the United States was still hanging on the 2nd place despite vigorous effort to retire the plants. As it turns out, Indonesia's place remains at the 9th in the world and the 5th in Asia.

Exhibit 07. Coal Power Plant Capacity in GW



Sources : Statista, MNCS as of Jan-21

Exhibit 08. Indonesia Energy Breakdown



Sources : ESDM, MNCS as of Apr-21

In line with ADB's masterplan, Indonesia also set a net-zero carbon emission goal in 2060. Based on the Paris agreement, Indonesia aims to self-reduce 29% of emission by 2030 or reduce 41% with help from other countries. The government already plans to retire 50 GW plants step by step starting in 2030 to be continued until 2056. Assuming that with 25.27 GW capacity, the current coal carbon emission stood at 24,259 tons (based on US EIA data, 1 GW = 960 tons Co2 emission). As of 2056, Indonesia can reduce 47,040 tons of Co2 and decrease coal usage by 245 million tons. Moreover, the government will not accept a new construction Coal Plants in FY21E – FY30F, however, the plants that are already obtained financial closing will still be constructed with capacity of 13.59 GW.

Overall, we see that this would pose a risk for the coal sector as there are already international intervention to cut the business short, especially with a direct buying scheme that will not be profitable for coal companies in the long run.

Exhibit 09. Coal Consumption and Co2 Emission Reduction Scenario

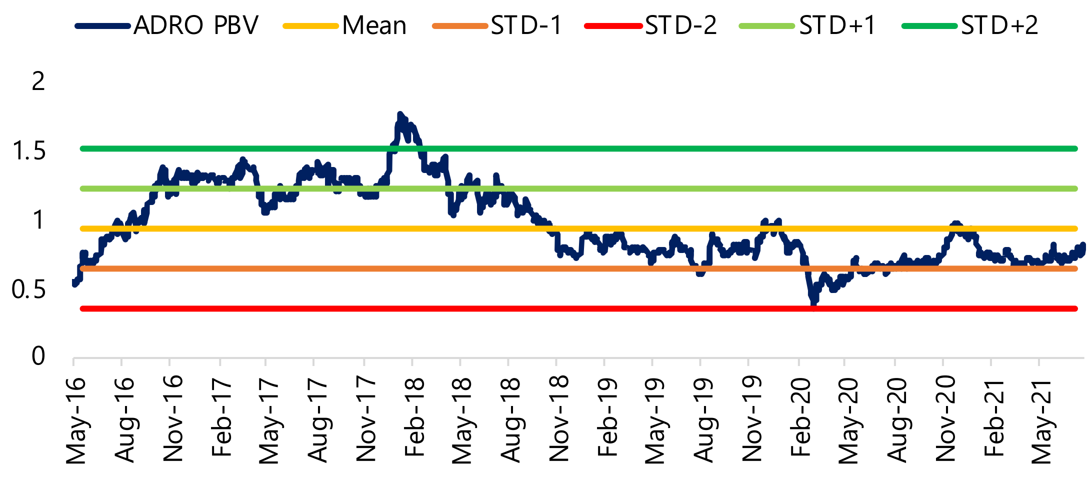
Scenario	Coal Powered Electricity (giga watt)	Coal (Ton)	Co2 Emission (Ton)
Current	25.27	126	24,259
Total Reduction in 2030	1	5	960
Total Reduction as of 2056	49	245	47,040

Sources : EIA, Freeing Energy, IMEF, MNCS

Overweight Outlook with Top Picks: ADRO IJ and PTBA IJ

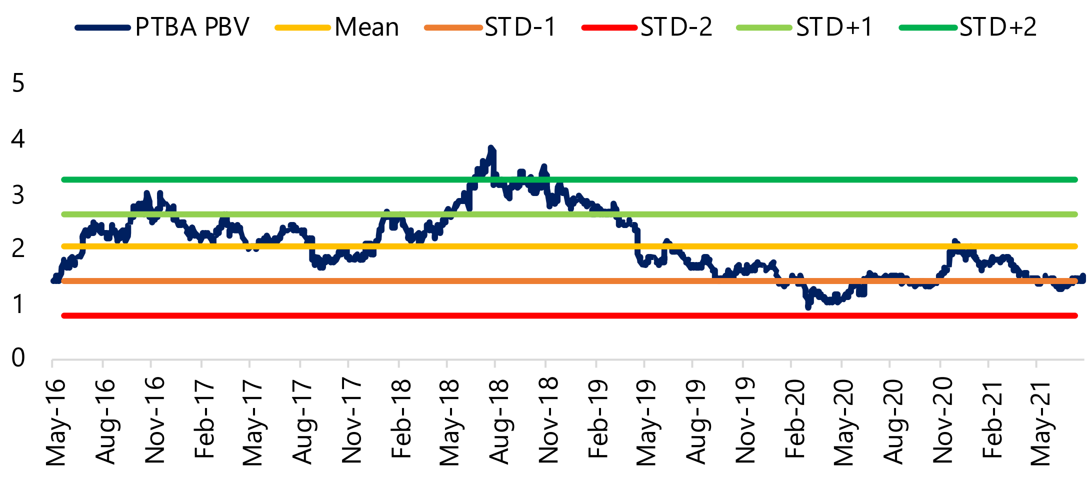
We decide to revise our outlook from **NEUTRAL** to **OVERWEIGHT** as we increase our coal average estimate for FY21E under several considerations: 1) Strong Coal Demand from recovering countries; 2) Most countries are still in the pandemic state; and 3) Considering the upcoming winter demand. Hence, we also revise our target price for **ADRO IJ** from IDR1,450 to **IDR1,830** and **ITMG IJ** from IDR14,400 to **IDR20,500.** Our decision is supported by the massive increase on ASP and improving productions in the 2Q21 and for the rest of the year as the 1Q21 operations were disrupted by heavy rain. Our **BUY** recommendations goes to **ADRO IJ (TP: IDR1,830)** and **PTBA IJ (TP:IDR3,000)**, as we believe these two companies won't be affected as much as ITMG IJ when coal price drops in the future, as these two already have other initiative beside coal exports. ADRO is currently traded at -0.5STD (5-Year Average) with 0.82x PBV while PTBA is currently traded at -1STD (5-Year Average) with 1.53x PBV.

Exhibit 10. ADRO is currently traded at -0.5STD (5-Year Average) with 0.82x PBV



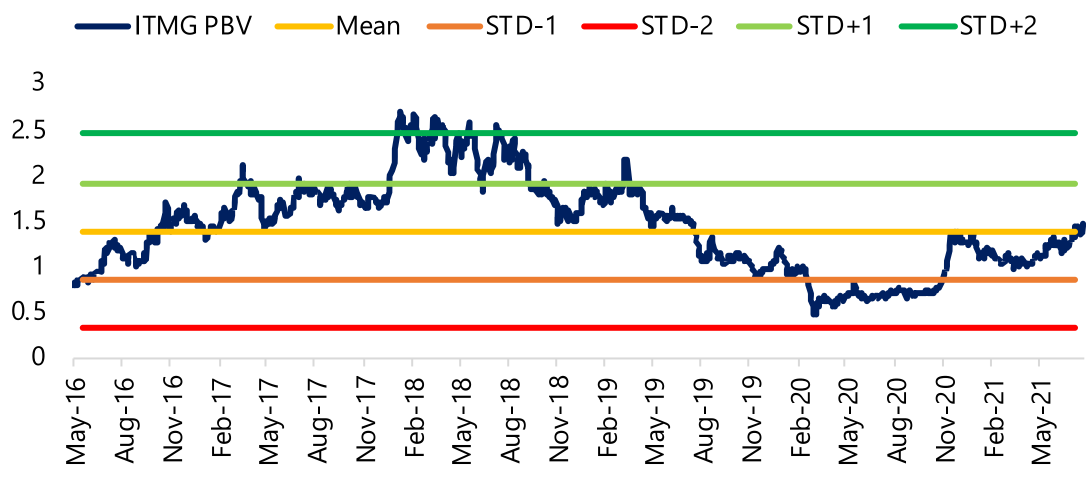
Sources : Bloomberg, MNCS

Exhibit 11. PTBA is currently traded at -1STD (5-Year Average) with 1.53x PBV



Sources : Bloomberg, MNCS

Exhibit 12. ITMG is currently traded at Mean Level (5-Year Average) with 1.45x PBV



Sources : Bloomberg, MNCS

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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