

Indo Tambangraya Megah (ITMG)

Pure high CV coal & dividend play

Bullish coal outlook for FY22

As explained in detail in our recent ADRO report ([ADRO – Plotting paths to USD10bn valuation \(7Mar2022\)](#)), the uncertainties over energy supplies from Russia due to its aggression towards Ukraine in the past 2 weeks have resulted in prices surges in key commodities. The potential supply crunch in Europe and steady demand from China should sustain global coal prices at current high level in the mid-term. Considering current dynamics, our FY22/23F coal price assumptions are USD190/t and USD150/t, respectively (from previous assumptions of USD150/t and USD100/t before 7Mar2022).

High-level quarterly earnings to continue in the next quarters

ITMG booked 2nd highest quarterly net profit of USD204mn in 4Q21 (+32.6% QoQ, (a 2% lower than its record high 4Q11 earnings), to bring its FY21 earnings to USD476mn (~12x YoY) exceeding both our and consensus by estimates by 10% and 15%, respectively. Both ASP (at USD103.5/t, +93% YoY) and sales volume (at 20.1mn tonnes, down 5.2% YoY) were within our expectations. Thus, the strong 4Q21 results were primarily due to better operational cost control which pushed both its 4Q21 GP & OP margins to an all-time high at 51.2% and 45.4%.

Expect a significant ~17% final dividend yield

ITMG has large net cash of USD655mn at the end of 2021. ITMG has consistently distributed above 94% of its earnings as dividend since 2015 (except FY19's dividend payout ratio (DPR) of 77.7%). Considering a modest USD70mn capex allocation in FY22 and the lack of large assets acquisition, we can expect ITMG to distribute 100% DPR for its FY21 earnings. Excluding its USD96mn (or IDR1,218/sh) interim dividend paid out on 24Nov2021, the final dividend (which is historically been distributed to shareholders in mid-April) should be USD379mn (or ~IDR5,000/sh), implying ~17% yield.

Reiterate BUY call with significant earnings upgrade

We revised up our ITMG's FY22/FY23F coal ASP assumptions to USD142.5/USD112.5 per tonne (from USD124.5/USD85 per tonne previously), resulting in a massive 40%/110% earnings upgrade for FY22/23F. Subsequently, our DCF valuation is lifted to USD3.1bn (equivalent to IDR39,000/sh), implying 3.5x FY22F PE with ~50% ROE in the next 2 years. Our sensitivity analysis showed that every 5% move in coal price should result in 10% and 8% movement in our ITMG's earnings assumptions and DCF valuation, respectively. Risk to our call includes changes in gov't tax regulation and potential oversupply of Russian coal in the aftermath of recent conflicts.

	2020A	2021A	2022F	2023F	2024F
Sales (USD mn)	1,185	2,077	3,044	2,546	1,927
GP (USD mn)	199	917	1,359	1,040	557
OP (USD mn)	104	791	1,216	886	392
NP (USD mn)	39	476	855	606	235
EBITDA (USD mn)	202	901	1,351	1,031	547
Net debt (USD mn)	(188)	(655)	(695)	(376)	(90)
OP margin (%)	8.8	38.1	40.0	34.8	20.3
ROE (%)	4.7	39.6	56.0	52.0	32.9
Dividend yield (%)	11.1	1.7	21.9	39.8	28.4
EPS (USD)	508	6,017	11,201	8,051	3,120
chg. (% YoY)	-68.6%	1084.5%	86.1%	-28.1%	-61.2%
BPS (USD)	10,893	15,203	19,949	15,461	9,485
DPS (USD)	1,275	474	6,186	11,336	8,051
PE (x)	55.7	4.7	2.5	3.5	9.1
PB (x)	2.6	1.9	1.4	1.8	3.0
EV/EBITDA (x)	10.1	1.7	1.1	1.8	3.9

Company Update

Commodities

Mar 9, 2022

12M rating **BUY (Maintain)**
12M TP **IDR 39,000** (Prev IDR 28,000)
Upside **+38%**

Stock Data

JCI (Mar 8)	6,814
Stock price (Mar 8, IDR)	28,300
Market cap (IDR bn)	31,976
Shares outstanding (m)	1.130
52-week high/low (IDR)	30,200 / 11,425
6M avg. daily turnover (IDR bn)	104.2
Free float (%)	34.9

Major shareholders (%)

Banpu Minerals	65.1
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Performance

	1M	6M	12M
Absolute (%)	42.7	87.2	176.0
Relative to JCI (%p)	35.4	44.7	122.8

ITMG stock price



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Table 1. ITMG's FY21 operational and financial results

ITMG 4Q21 results snapshot in USD mn										
	4Q20	3Q21	4Q21	QoQ	YoY	FY20	FY21	YoY	% of FY21F KISI	% to cons
Revenue	313	647	753	16.4%	140.4%	1,185	2,077	75.2%	99%	106%
Gross Profit	59	304	385	26.9%	549.9%	199	917	360.2%	102%	
Operating Profit	42	269	342	27.2%	721.4%	104	791	661.4%	105%	
Net Income	-1	154	204	32.6%	NM	39	476	1104.9%	110%	115%
GPM	18.9%	46.9%	51.2%			16.8%	44.1%			
OPM	13.3%	41.5%	45.4%			8.8%	38.1%			
NPM	-0.2%	23.8%	27.1%			3.3%	22.9%			

ITMG 4Q21 operational									
	4Q20	3Q21	4Q21	QoQ	YoY	FY20	FY21	YoY	% of FY21F KISI
Production vol (mn)	4.6	4.6	4.9	6.5%	6.5%	18.4	18.2	-1.1%	101%
Sales vol (mt)	5.8	5.8	5.3	-8.6%	-8.6%	21.2	20.1	-5.2%	97%
ASP (USD/t)	52.7	111.0	143.0	28.8%	171.3%	53.5	103.5	93.5%	
OB removal (m bcm)	40.9	48.8	47.0	-3.5%	14.9%	185.8	191.1	2.8%	106%
Stripping ratio	8.9	10.6	9.6	-9.4%	7.9%	10.1	10.5	4.0%	

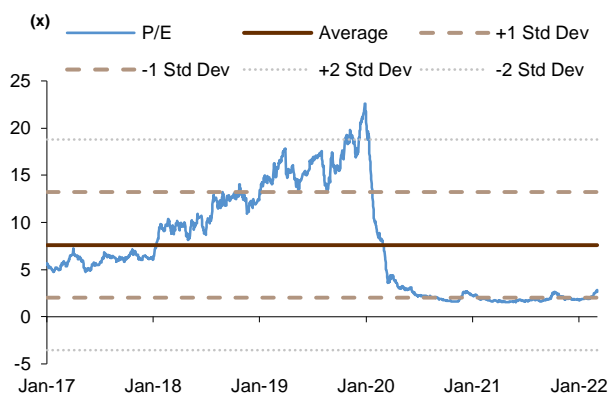
Source: Company, KISI

Table 2. ITMG's DCF valuation

DCF Valuation Summary		Assumption	
Enterprise value (USD mn)	2,424	Risk-free rate	6.5%
Net cash (USD mn)	695	Market Premium	5.0%
Equity Value (USD mn)	3,120	Beta	1.4
Shares outstanding (mn)	1,130	After tax Cost of Debt	13.6%
Target Price (USD / share)	2.76	Debt Proportion	0.0%
		Equity Proportion	100.0%
		Cost of Equity	13.5%
Target Price (IDR /share)	39,000	Long-term growth	0.0%
Target P/E	3.5	consider 5 year life-mine after 2025	
Current P/E	2.5	WACC	13.5%

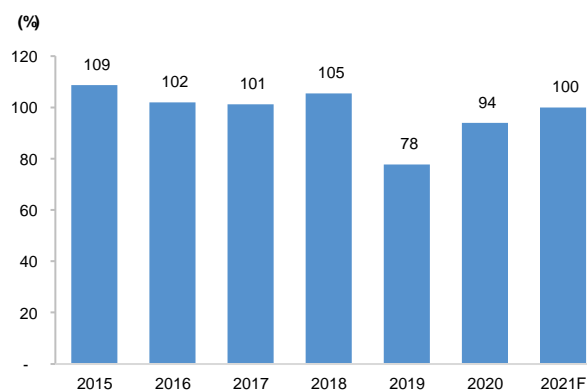
Source: KISI

Fig 1. ITMG's PE band



Source: Bloomberg, KISI

Fig 2. ITMG's dividend payout ratio



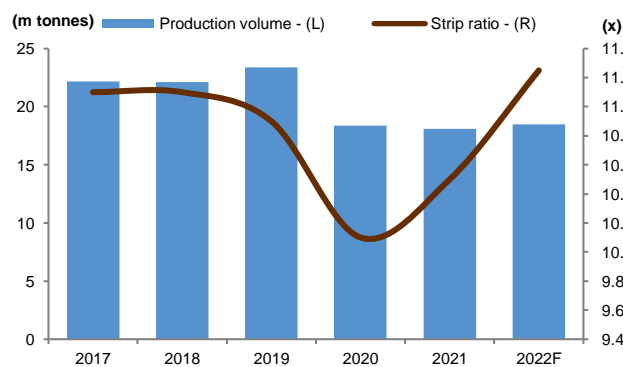
Source: Company, KISI

Table 3. Summary of assumptions changes

Assumptions	Unit	Current			Previous		
		FY21A	FY22F	FY23F	FY21F	FY22F	FY23F
Sales volume	m tonnes	20.1	21.3	23.0	20.7	25.3	25.9
Change (%)		-3%	-16%	-11%			
Global coal price	USD/tonne	136.5	190.0	150.0	135.0	150.0	100.0
Change (%)		1%	27%	50%			
ASP	USD/tonne	103.2	142.5	112.5	110.7	124.5	85.0
Change (%)		-7%	14%	32%			
Revenue	USD mn	2,077	3,044	2,546	2,090	2,804	2,019
Change (%)		-1%	9%	26%			
Cost of revenue	USD mn	1,160	1,685	1,506	1,129	1,653	1,394
Change (%)		3%	2%	8%			
EBITDA	USD mn	901	1,351	1,031	808	935	491
Change (%)		12%	45%	110%			
Net profit	USD mn	476	855	606	433	611	289
Change (%)		10%	40%	110%			
Target price	IDR	39,000			28,000		
Recommendation		BUY			BUY		

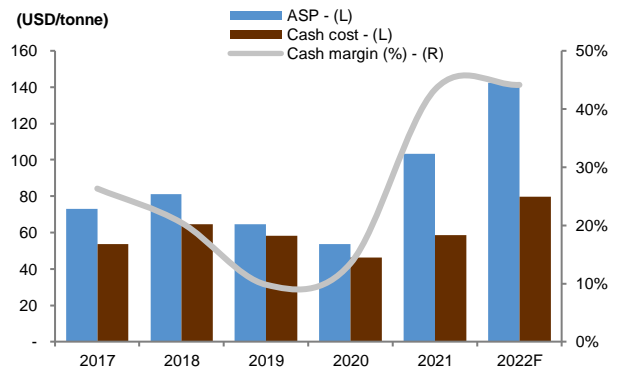
Source: KISI

Fig 3. ITMG's production vol. & strip ratio trend



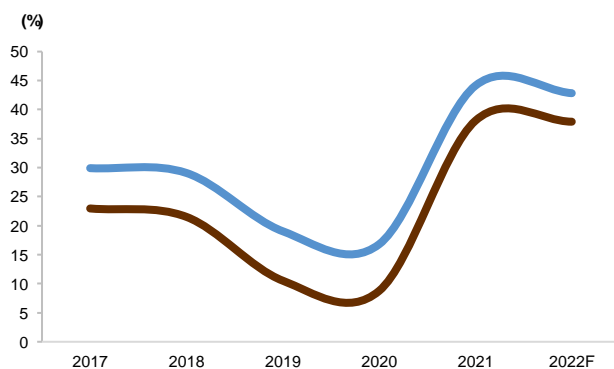
Source: Company, KISI

Fig 4. ITMG's ASP, cash cost & cash margin trend



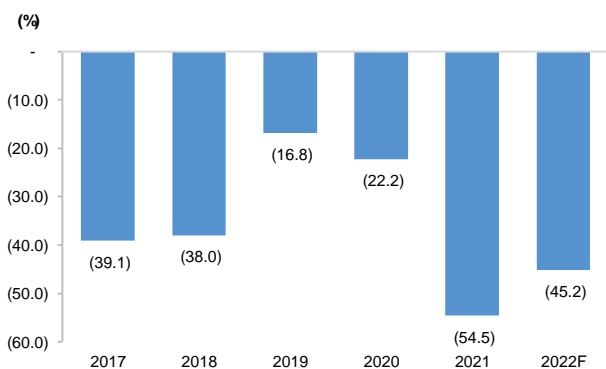
Source: Company, KISI

Fig 5. ITMG's GP & OP margins trend



Source: Company, KISI

Fig 6. ITMG's net gearing trend

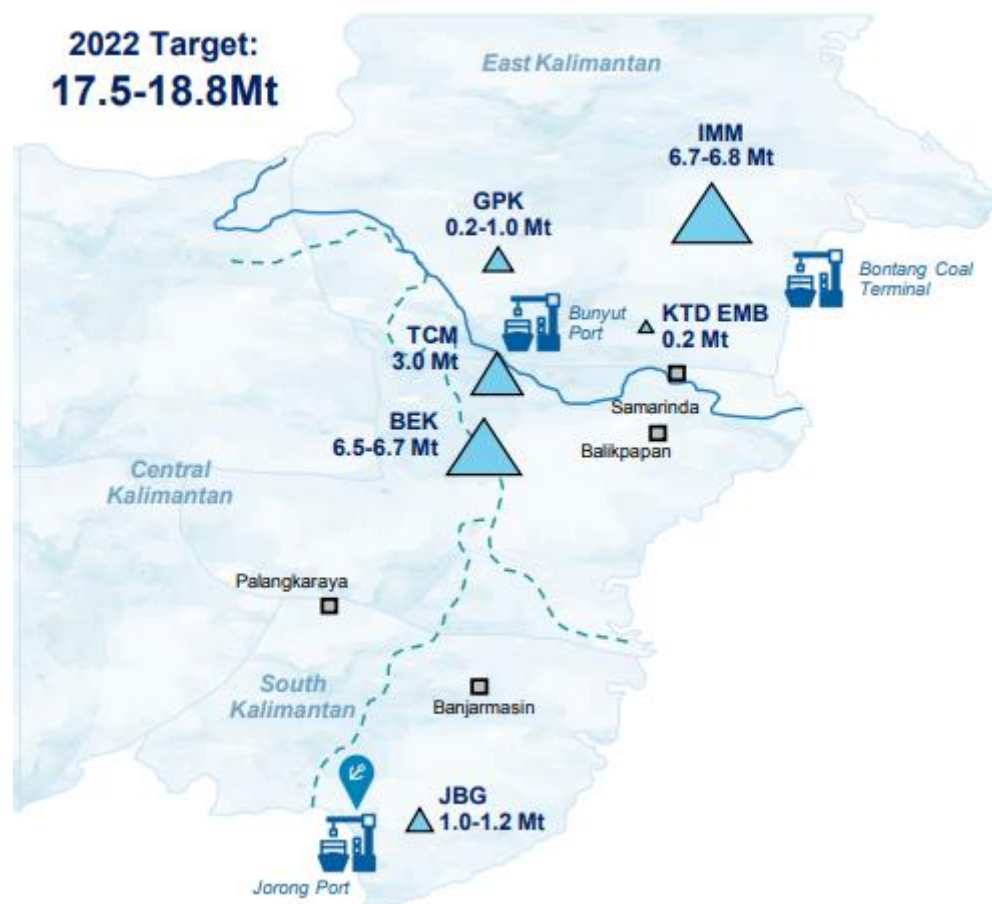


Source: Company, KISI

Company Overview

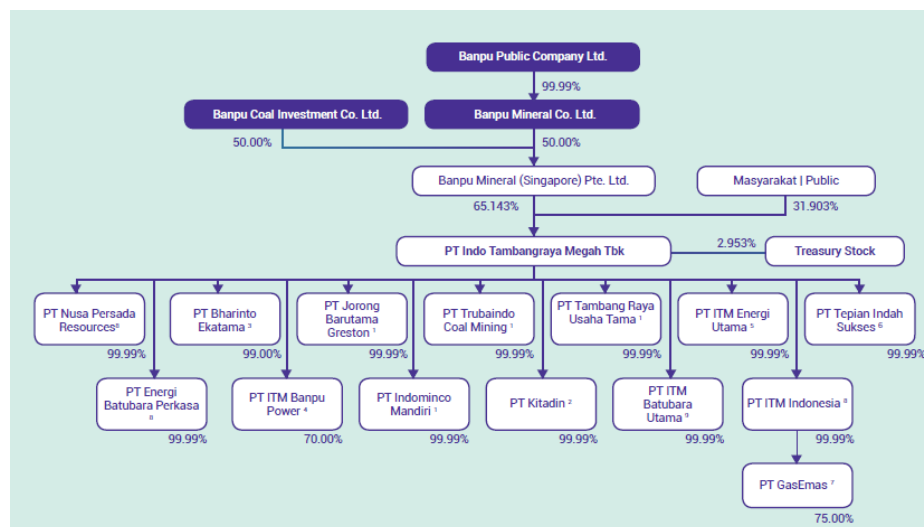
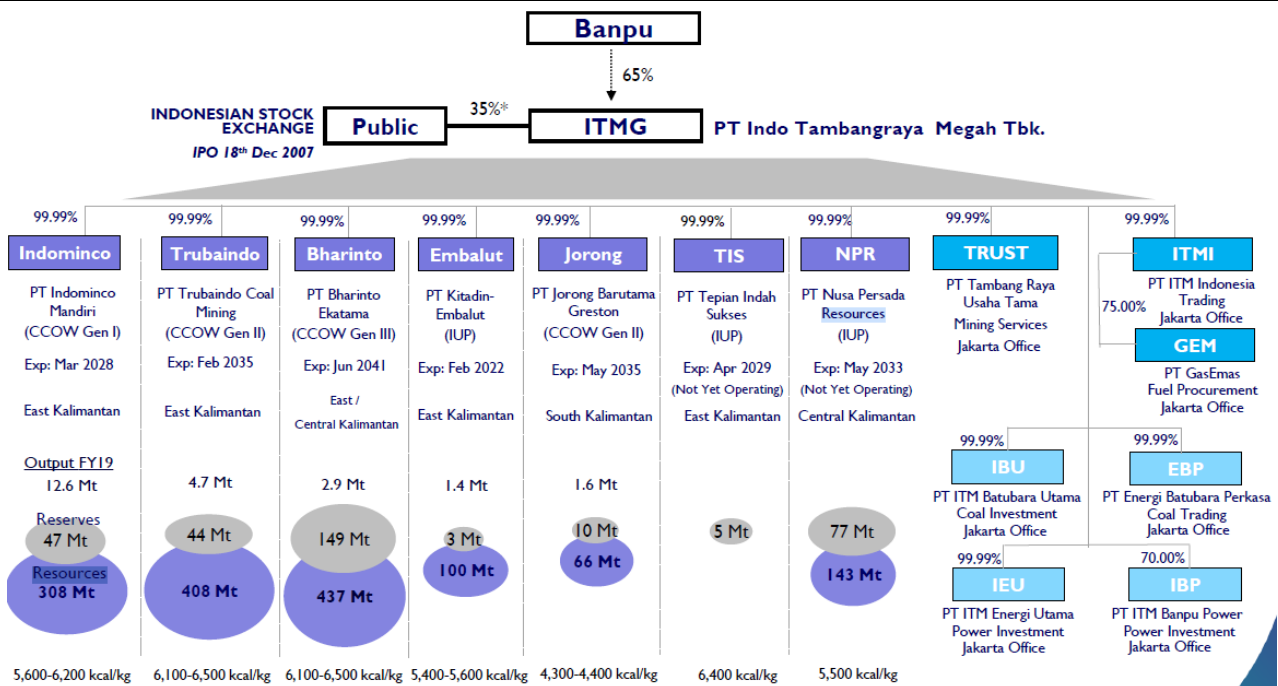
ITMG is an Indonesia-based company primarily engaged in coal mining. Through its subsidiaries, such as Indominco Mandiri, Trubaindo Coal Mining, Bharinto Ekatama, Kitadin, and Jurong Barutama Greston, it operates several coal mining concessions in mostly Kalimantan island, Indonesia. Indominco Mandiri also operates a coal terminal, which is used for stockpiling, blending, and ship loading, and a power plant, which supplies electricity to its port and coal processing plants; both of its coal terminal and power plant are located in Bontang, Indonesia. Its other subsidiaries are ITM Indonesia, which is engaged in coal trading, and Tambang Raya Usaha Tama (TRUST), which is engaged in provisioning mining services. In 2001, ITMG and subsidiaries were acquired by Banpu Minerals (Singapore) Pte Ltd through Centralink Wisesa International. To date, Banpu indirectly owns 65.1% of ITMG's shares, making it ITMG's majority and controlling shareholder.

Fig 7. ITMG operational area and production



Source: Company's annual report, KISI

Fig 8. ITMG corporate structure



Source: Company's annual report , KISI

Balance sheet (USDmn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	231	691	695	376	90
Accounts & other receivables	75	187	250	209	158
Inventories	60	62	78	87	79
Others	43	48	61	51	39
Non-current assets					
Fixed assets	210	179	152	84	6
Mining properties	539	499	807	815	723
Other non-current assets	1,159	1,666	2,043	1,622	1,095
Total assets					
Current liabilities	62	85	111	99	90
Accounts & other payables	-	-	-	-	-
ST debt	8	10	-	-	-
Current portion of LT debt	137	270	335	280	213
Others					
Non-current liabilities	36	26	-	-	-
LT debt & financial liabilities	2	2	3	3	3
Employee benefits liability	67	72	71	76	75
Other non-current liabilities	312	465	520	458	380
Total liabilities	-	-	-	1	1
Controlling interest	393	393	393	393	393
Capital stock	-	-	-	-	-
Additional paid-in capital	-	-	-	-	-
Other Reserves	461	816	1,138	779	329
Retained earnings	(8)	(8)	(8)	(8)	(8)
Minority interest	846	1,202	1,523	1,165	714
Shareholders' equity	231	691	695	376	90

Cash flow (USDmn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating					
Net profit	39	476	855	606	235
Depreciation	100	110	134	144	155
Net incr. in W/C	78	102	(297)	3	71
Others	(83)	(93)	(11)	(32)	16
C/F from investing					
CAPEX	(17)	(7)	(107)	(76)	(77)
Others	-	-	-	-	-
C/F from financing					
Incr. in equity	(13)	(14)	-	-	-
Incr. in debts	33	(8)	(36)	-	-
Dividends	(65)	(107)	(534)	(965)	(685)
Others	-	-	-	-	-
C/F from others	-	-	-	-	-
Increase in cash	72	460	4	(319)	(286)

Income statement (USDmn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	1,185	2,077	3,044	2,546	1,927
COGS	(986)	(1,160)	(1,685)	(1,506)	(1,370)
Gross profit	199	917	1,359	1,040	557
SG&A expense	(95)	(125)	(142)	(154)	(165)
Operating profit	104	791	1,216	886	392
Financial income	3	3	7	5	4
Financial expense	(3)	(3)	(2)	(2)	(2)
Other expense	(31)	(170)	(80)	(80)	(80)
Other non-operating profit	-	-	-	-	-
Income (loss) from JV	-	-	-	-	-
Earnings before tax	73	621	1,141	809	314
Income taxes	(35)	(146)	(285)	(202)	(78)
Net profit	39	476	855	606	235
Non-controlling interest	2	0	(1)	(1)	(0)
Other comprehensive profit	-	-	-	-	-
Total comprehensive profit	-	-	-	-	-
Total comprehensive profit of controlling interest	-	-	-	-	-
EBITDA	202	901	1,351	1,031	547

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	508	6,017	11,201	8,051	3,120
BPS	10,893	15,203	19,949	15,461	9,485
DPS	474	6,186	11,336	8,051	3,120
Growth (%)					
Sales growth	(31)	75	47	(16)	(24)
OP growth	(42)	661	54	(27)	(56)
NP growth	(70)	1,105	80	(29)	(61)
EBITDA growth	(12)	346	50	(24)	(47)
Profitability (%)	-	-	-	-	-
OP margin	8.8	38.1	40.0	34.8	20.3
NP margin	3.3	22.9	28.1	23.8	12.2
EBITDA margin	17.1	43.4	44.4	40.5	28.4
ROA	3.4	28.5	41.9	37.4	21.5
ROE	4.7	39.6	56.1	52.1	32.9
Dividend yield	11.1	2.6	33.9	62.1	44.1
Dividend payout ratio	94	100	100	100	100
Stability					
Net debt (US\$ m)	(188)	(655)	(695)	(376)	(90)
Int.-bearing debt/equity (%)	5.1	3.0	-	-	-
Valuation (X)					
PE	55.7	4.7	2.5	3.5	9.1
PB	2.6	1.9	1.4	1.8	3.0
EV/EBITDA	6.2	0.9	0.5	1.0	2.5

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