

Mitrabaha Segara Sejati (MBSS)

Returning to its glory days

A leading bulk materials shipping services provider in Indonesia

MBSS provides cost-efficient and timely bulk materials shipping services for Indonesia's coal producers to their respective domestic customers. MBSS' solid reputation and track record over the years helped to maintain its steady market share. In addition, the status quo on "asas cabotage" provides some kind of safeguard (or barriers to entry) for local players like MBSS.

Solid performance from existing business to continue....

Indonesia as one of the main coal producers in the world should benefit as global manufacturing activities continue to recover and a potential global commodities supply crunch due to geopolitical tensions between Russia and Ukraine. Indonesia's total coal production is expected to grow 9% this year, after a modest 7.2% CAGR between 2017 and 2021. We expect MBSS to capture a similar growth in coal shipment volume this year and continue to record solid performance throughout 2022.

... with huge catalyst from nickel-related services

The huge investment in nickel smelters started to show significant results as Indonesia's annual nickel smelter production grew at 40% CAGR from 2018 to 2021. This has created huge market opportunities for transportation service providers given there are still several nickel projects scheduled to be operational in the next 3 to 5 years. A recent change in MBSS' controlling shareholders has opened an avenue for a more lucrative nickel-related business to separate MBSS from its competitors.

Initiate coverage with BUY recommendation offering a 30% upside

We expect MBSS to record ~USD6.2mn earnings in 4Q21, the highest quarterly earnings since 2Q14 from a better volume and much-improved margins. The solid performance should continue going forward with 55% CAGR earnings between FY21 and FY24. We utilized DCF valuation to arrive at MBSS' fair value of USD208mn (or equivalent to IDR1,750/share), implying a decent 10x FY22F PE. MBSS' strong balance sheet and expected strong operational cashflow generation of ~USD60mn p.a. in the next 3 years should allow a sizable dividend payout from FY23 onwards. MBSS currently trades at 7.7x FY22F PE, 2.7x FY22F EV/EBITDA, and a decent ~12% ROE.

	2019A	2020A	2021F	2022F	2023F
Sales (USD mn)	77.8	54.9	78.8	98.0	133.5
GP (USD mn)	18.4	3.9	19.7	31.9	46.7
OP (USD mn)	6.8	(6.7)	11.8	22.8	35.8
NP (USD mn)	1.6	(15.0)	9.9	20.4	32.3
EBITDA (USD mn)	27.9	9.5	33.9	47.4	64.6
Net debt (USD mn)	(4.9)	(10.2)	(10.9)	(46.6)	(46.4)
OP margin (%)	8.8	(12.2)	15.0	23.2	26.8
ROE (%)	0.9	(9.1)	6.1	11.5	16.4
Dividend yield (%)	-	-	-	9.7	15.4
EPS (USD)	0.0009	(0.0086)	0.0056	0.0116	0.0185
chg. (% YoY)	NM	NM	NM	106.2	58.8
BPS (USD)	0.0982	0.0896	0.0955	0.1074	0.1175
DPS (USD)	-	-	-	0.0087	0.0139
PE (x)	102.8	(11.3)	17.0	7.7	4.9
PB (x)	0.9	1.1	1.0	0.9	0.8
EV/EBITDA (x)	6.3	17.9	4.9	2.7	1.9

Company

In-depth

Transportation

Apr 5, 2022

12M rating **BUY (Initiate)**

12M TP **IDR 1,750**

Upside **30%**

Stock Data

JCI (Apr 4)	7,116
Stock price (Apr 4, IDR)	1,350
Market cap (IDR bn)	2,363
Shares outstanding (mn)	1,750
52-week high/low (IDR)	1,550 / 410
6M avg. daily turnover (IDR bn)	3.4
Free float (%)	17..5

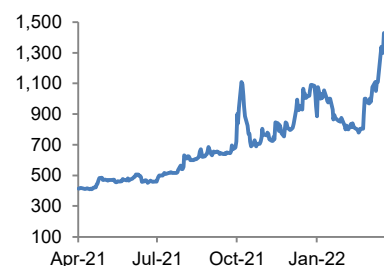
Major shareholders (%)

Galley Adhika Arnawama	82.5
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Performance

	1M	6M	12M
Absolute (%)	48.6	98.5	219.7
Relative to JCI (%p)	34.1	76.9	174.1

MBSS stock price



Source: Bloomberg

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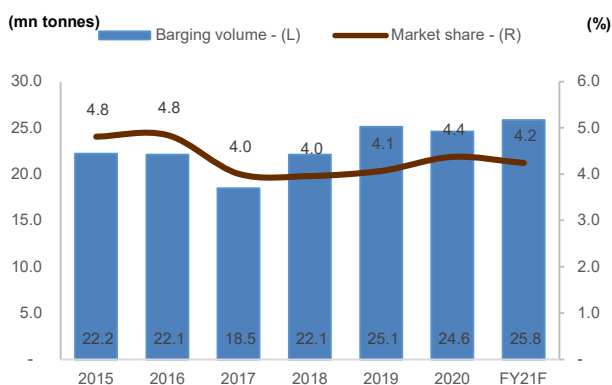
Established in 1994, MBSS has successfully transformed into one of the leading coal transport service providers in Indonesia. With more than 25 years of experience, MBSS is able to provide cost-efficient and timely bulk materials shipping services for Indonesia's coal producers to their respective domestic customers.

A recent change in its controlling shareholders, after PT Galley Adhika Arnawama (GAA) acquired majority stakes from Indika Energy Infrastructure (IEI) and The China Navigation Co. Pte. Ltd. (CNCo) in Oct2021, brought another chapter for MBSS transformation. Under the new management, MBSS swiftly turned its operations around to much better profitability in 3Q21 amid surging coal global and domestic demand. In addition to its existing business, GAA should also help MBSS to secure more businesses in the lucrative nickel segments and thus, separating itself further from competitors.

The bulk materials shipment is not a highly complicated business and does not have a high barrier to entry. However, track record and reputation have a huge influence on customers in choosing their business partners. MBSS' solid reputation and track record have been reflected in its steady market share from coal delivered (to total Indonesia production). MBSS has a strong clientele with well-known and sizable coal producers such as Adaro Energy, Kideco Jaya Agung, Asian Bulk Logistics, etc.

The status quo on "asas cabotage" backed by several regulations such as Presidential decree no. 5/2005, Ministry of Transportation decree no. 71/2005, Maritime Law no. 17/2008, which essentially states that all ships used for domestic shipping (including various commodities) must be manned by Indonesian nationals crews and under the Indonesian "flag", should ensure a competitive edge in the local market for local shipping services providers including MBSS.

Fig 1. MBSS barging volume (as % of coal production)



Source: Company, KISI, Ministry of Energy and Mineral Resources

Table 1. MBSS contract back log as of end Sep2021

Barging		
Contract	Duration	Backlog (USD mn)
Adaro Energy	2010 - 2022	3.2
Cotrans	2012 - 2023	15.3
Asia Bulk Logistics	2021 - 2023	7.3
Floating crane		
Contract	Duration	Backlog (USD mn)
Kideco	2012 - 2023	10.7
Asia Bulk Logistics	2020 - 2022	9.6
Dian Ciptamas Agung	2020 - 2022	6.7
Artha Daya Coalindo	2020 - 2024	6.4

Source: Company, KISI

Table 2. MBSS current contract book

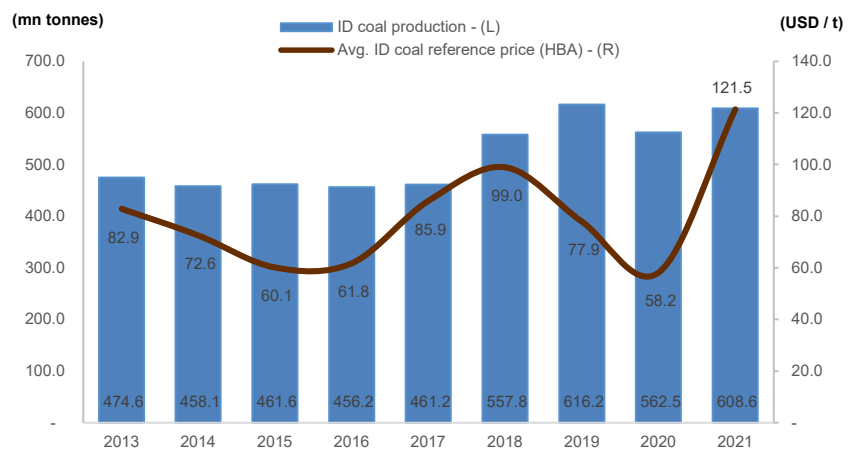
Client	Type of Service	Contract
Adaro Indonesia	Barging	7 years with 2 years and 1 year extension contract (2010 - 2022)
Kideco Jaya Agung	Barging (Transshipment)	3 years with 2 years and 4 years extension contract (2014 - 2023)
	Barging (Long-haul)	11 months contract (2020 - 2021)
Dian Ciptamas Agung	Floating Crane	2 years with 2 years extension contract (2020 - 2024)
Asian Bulk Logistics	Floating Crane	2 years with 2 years extension contract (2020 - 2024)
	Barging	2 years contract (2021 - 2023)
Artha Daya Coalindo	Floating Crane	5 years contract (2020 - 2024)

Source: Company, KISI

As manufacturing activities continue to recover at a fast pace, China's thermal coal imports continue to remain strong hovering between 250-300mn tonnes annually with Indonesia as the biggest thermal coal provider (with 196mn tonnes in 2021). Indonesian coal miners continue to ramp up their productions to take advantage of the current exceptional coal price environment and the potential windfall from all sorts of sanctions imposed on Russia (after its aggression towards Ukraine in the past month) which resulted in surging coal demand in Europe as alternatives to current natural gas crunch situation. Therefore, we believe that **solid performance for coal transportation service providers should continue in 2022**.

Indonesia's total coal production is expected to grow 9% this year, after a modest 7.2% CAGR between 2017 and 2021. In that same time frame, MBSS' shipment volume has expanded at 8.7% CAGR. **We expect MBSS to capture a similar growth in coal shipment volume this year.**

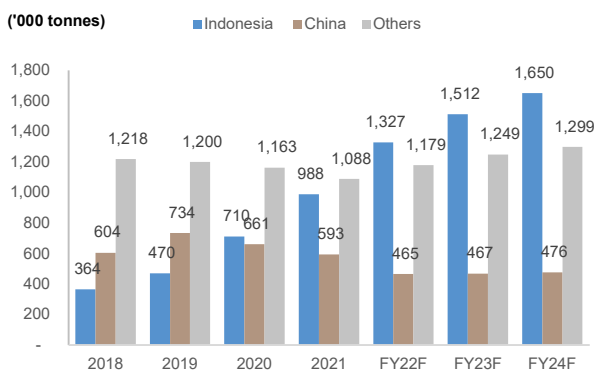
Fig 2. Indonesia coal production & Indonesia coal reference price (HBA)



Source: Company, KISI

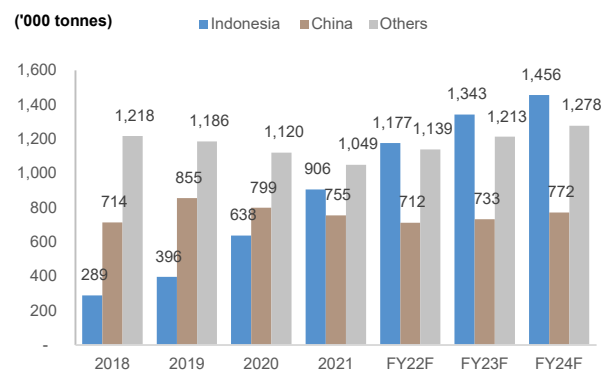
The huge investment in nickel smelters (which has **started in 2015**) started to show significant results as Indonesia's annual nickel smelter production grew at 40% CAGR from 2018 to 2021 to surpass China's annual production. There are still several nickel smelter projects scheduled to be operational from 2022 onwards. This **has created big market opportunities for maritime transportation service providers like MBSS**.

Fig 3. Indonesia nickel smelter production -



Source: Wood MacKenzie, KISI

Fig 4. Indonesia finished nickel production

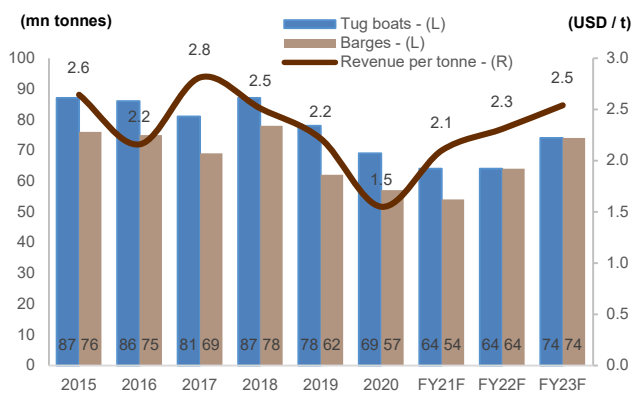


Source: Wood MacKenzie, KISI

As of Dec2021, MBSS has 64 tugs, 54 barges, and 6 floating cranes, a significant decline from 87 tugs, 78 barges, and 6 floating cranes at the end of 2018 due to 3 years of unfavorable coal prices environment (which steadily fell to from USD100/t to USD48/t in Sep2020, before a remarkable recovery in 2021). Despite that, **MBSS has regular maintenance programs to ensure that all equipments are kept in optimal operating condition.**

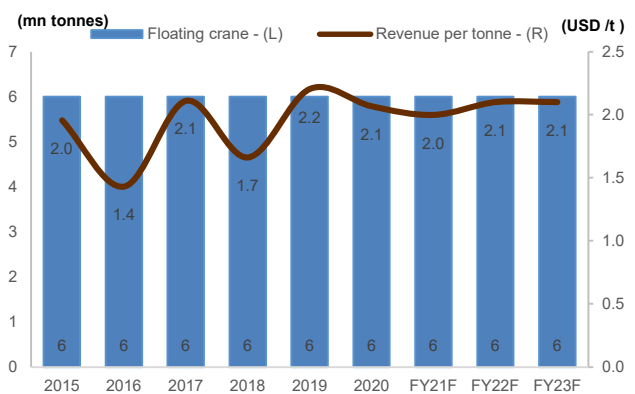
To facilitate its current planned aggressive expansion, MBSS secured an IDR200bn investment loan facility and IDR70bn local credit facility from Bank Central Asia (BBCA) with a favorable rate on 21Jan2022. **Armed with this loan facility and its ~USD20mn net cash position at the end of Sep2021, MBSS has the financial capacity to purchase 10 new barges and 2-3 tug & barges sets this year.** We expect some new barges will start coming in early 4Q22, which will then start to serve new customers (i.e. nickel producers) and gradually increases their contribution to MBSS earnings. We expect MBSS fleets **to expand in the next 2 years** closer to the all-time high seen in both 2015 and 2018.

Fig 5. MBSS tug & barges units & revenue per tonne



Source: Company, KISI

Fig 6. MBSS floating crane units & revenue per tonne

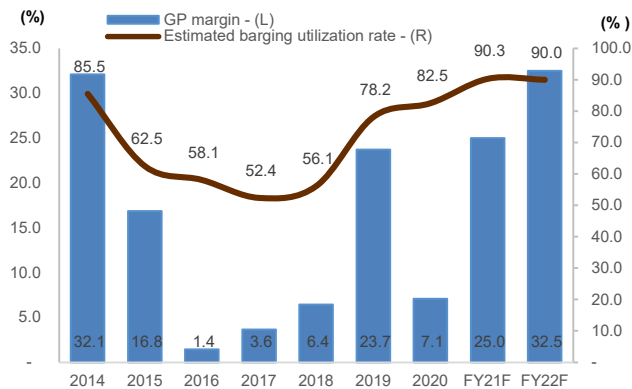


Source: Company, KISI

For 4Q21, we expect MBSS to deliver 7.2mn tonnes of coal (+11% QoQ) through its barging services and handle 3.7mn tonnes of coal (+9% QoQ) through its floating crane. We also expect MBSS to book much-improved margins in 4Q21, which should result in **~USD6.2mn net profit (+63% QoQ), the highest quarterly earnings since 2Q14.** This should bring its FY21 volume to the highest level since 2016 with 25.8mn tonnes (+5% YoY) for barging services and 12.3mn tonnes (+52% YoY) handled by floating cranes.

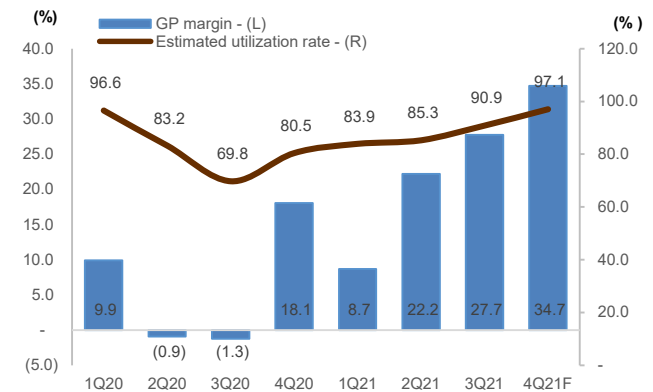
The robust demand for coal transportation has resulted in a high utilization for existing MBSS fleets. **The currently high utilization of ~90% should ensure MBSS generates more than 30% gross margins** (a level that was last seen in 2014) from both its barging and floating crane services **for years to come.** MBSS's GP margin is highly correlated with its utilization rate (to offset depreciation charges in COGS) as other key COGS components like fuel, consumables, spare parts, port charges are passed on to customers.

Fig 7. MBSS GP margin & est. utilization rate (annual)



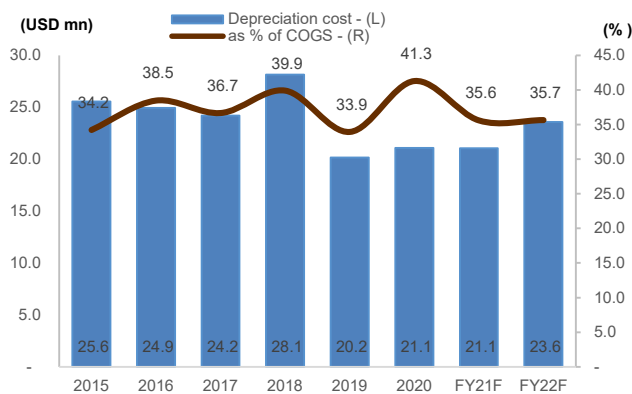
Source: Company, KISI

Fig 8. MBSS' GP margin & est. utilization rate (quarterly)



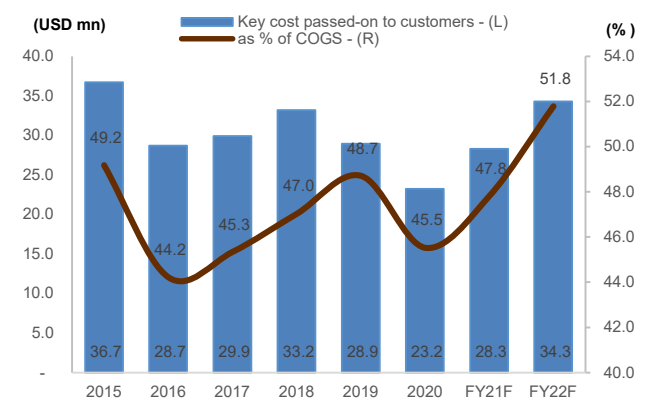
Source: Company, KISI

Fig 9. MBSS depreciation cost as % of COGS



Source: Company, KISI

Fig 10. MBSS' other key components of COGS



Source: Company, KISI

We expect MBSS to deliver a sizable 55% CAGR earnings between FY21 and FY24 from 1) steady services in the existing coal sector and 2) significantly increasing contribution from nickel transportation segment starting in FY22. **We utilized DCF valuation to arrive at MBSS' fair value of USD208mn (or equivalent to IDR1,750/share), implying a decent 10x FY22F PE.** Thus, we initiate coverage on MBSS with a BUY recommendation with a 30% upside from current price.

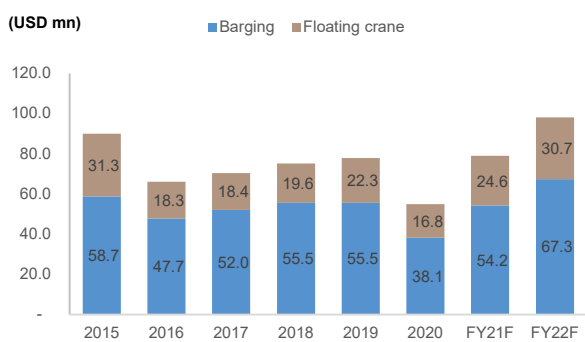
MBSS' strong balance sheet (net cash of ~USD20mn at the end of Sep2021) allows it to allocate capex more aggressively in pursuit of growth in nickel segment. With this, MBSS should generate a strong operational cash flow of ~USD60mn p.a. on average for the next 3 years. Given this, we can expect MBSS to start distributing a sizable dividend payout ratio of ~75% from FY23 onwards. MBSS currently trades at 8 x FY22F PE, 2.7x FY22F EV/EBITDA, and a decent ~12% ROE.

Table 3. MBSS's DCF estimates

Assumptions		Equity Value calculation		
Beta	2.0	Enterprise value (USD mn)	161	
Equity Risk Premium	5.0%	Net debt (USD mn)	(47)	
Risk Free Rate (RFR)	6.5%	Equity Value (USD mn)	208	
Cost of Equity	16.5%	Shares outstanding (bn)	1.8	
Cost of Debt	6.1%			
Tax	22.0%	Equity value per share (IDR)	1,750	
Cost of Debt (adjusted for tax)	4.7%			
<hr/>				
Equity Portion	88.3%			
Debt Portion	11.7%			
WACC	15.1%			
<hr/>				
DCF Valuation (USD mn)	2022F	2023F	2024F	2025F
EBITDA	47.4	64.6	73.1	71.3
Tax	- 1.2	- 1.7	- 1.9	- 1.9
Capex	- 22.3	- 35.3	- 35.3	- 38.5
Other expenditures	- 5.6	- 8.8	- 8.8	- 9.6
Free cash flow	18.3	18.7	27.1	21.3
TV in 2025				141

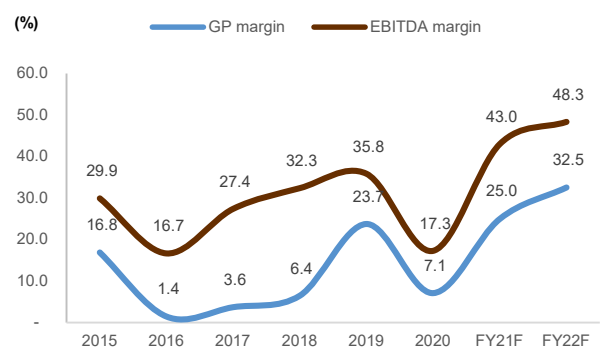
Source: KISI

Fig 11. MBSS' revenue breakdown trend



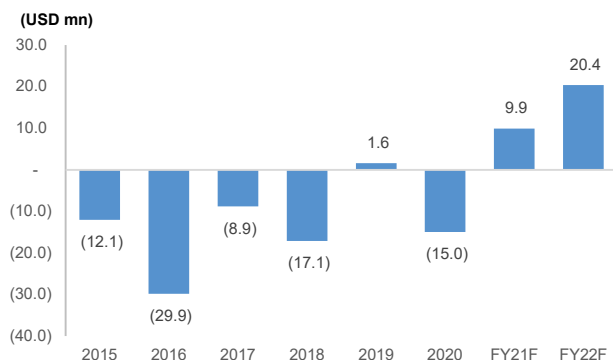
Source: Company, KISI

Fig 12. MBSS' GP & OP margins trend



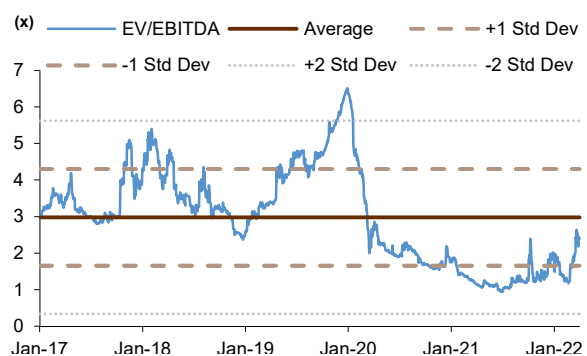
Source: Company, KISI

Fig 13. Significant earnings recovery



Source: Company, KISI

Fig 14. MBSS's EV/EBITDA band

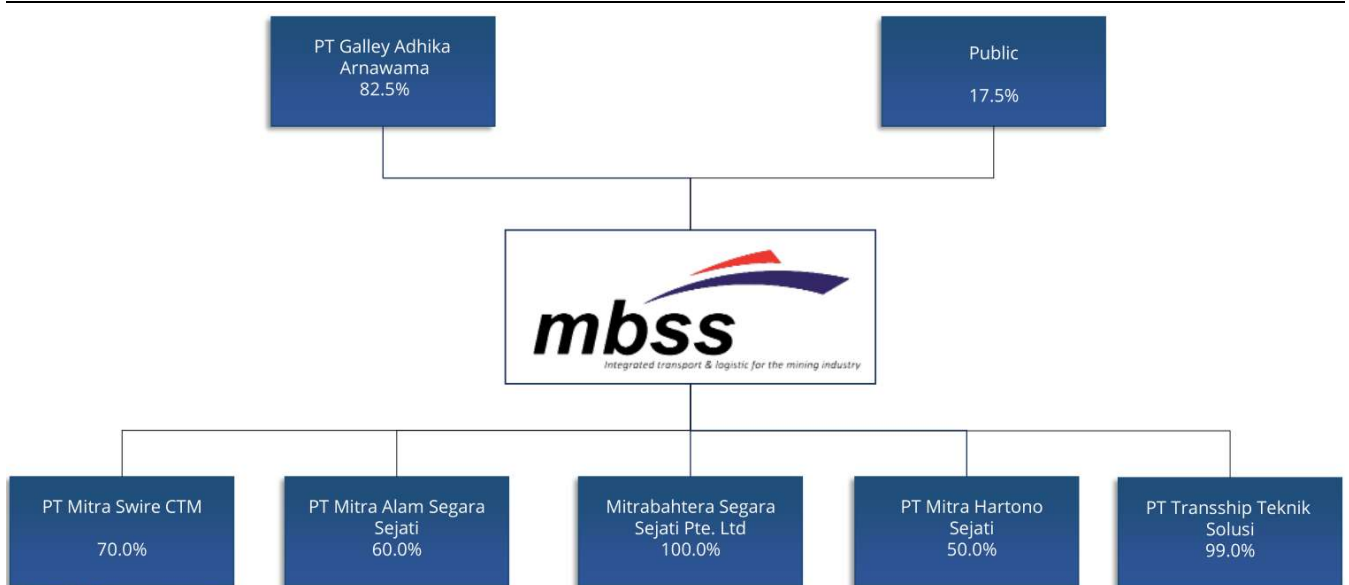


Source: Bloomberg, KISI

Company Overview

PT. Mitrabahtera Segara Sejati Tbk (MBSS) was established in 1994 as a shipping company. Over time, MBSS expanded its facilities, fleets, and overall services to become a leading Indonesian integrated maritime transportation and transshipment services provider and successfully listed on the Indonesia Stock Exchange in 2011. MBSS continues to provide integrated solutions and marine transport for bulk materials, particularly coal for top-tier producers such as Adaro Energy, Cotrans, Kideco, Asia Bulk Logistics, etc.

Fig 15. MBSS corporate structure per end of Dec2021



Source: Company's presentation, KISI

Balance sheet (USD mn)

FY-ending Dec. (US\$ m)	2019A	2020A	2021F	2022F	2023F
Current assets					
Cash & cash equivalent	40.2	35.2	27.1	71.6	86.4
Accounts & other receivables	12.4	12.1	25.0	18.5	34.8
Inventories	2.2	2.4	3.5	4.0	4.0
Others	3.1	4.1	4.0	4.0	4.0
Non-current assets					
Fixed assets	159.0	140.7	123.7	119.3	123.9
Intangible assets	-	-	-	-	-
Investment properties	-	-	-	-	-
Other non-current assets	1.1	0.4	12.0	11.0	9.0
Total assets	218.1	194.9	195.3	228.5	262.1
Current liabilities					
Accounts & other payables	4.8	7.3	5.8	8.9	10.4
ST debt	5.0	6.0	7.0	8.0	9.0
Current portion of LT debt	8.1	15.6	1.3	11.2	5.0
Others	2.7	2.6	2.2	2.2	2.2
Non-current liabilities					
LT debt	27.3	9.4	14.9	13.8	35.0
Notes payable	-	-	-	-	-
Employee benefits liability	-	-	-	-	-
Other non-current liabilities	3.4	3.1	3.5	4.0	4.0
Total liabilities	51.3	44.1	34.7	48.0	65.6
Controlling interest					
Capital stock	26.7	26.7	26.7	26.7	26.7
Additional paid-in capital	33.6	33.6	33.6	33.6	33.6
Other equities	(3.8)	(3.7)	(3.7)	(3.7)	(3.7)
Retained earnings	103.4	88.2	98.1	118.5	135.5
Minority interest	12.0	12.0	12.5	13.0	13.5
Shareholders' equity	159.9	144.8	154.7	175.1	192.1
Cash flow (USDmn)					
FY-ending Dec. (US\$ m)	2019A	2020A	2021F	2022F	2023F
C/F from operating					
Net profit	1.6	(15.0)	9.9	20.4	32.3
Depreciation	20.5	21.4	22.1	24.6	28.8
Net incr. in W/C	-	-	(15.9)	9.0	(14.7)
Others	-	-	-	-	-
C/F from investing					
CAPEX	(8.4)	(14.0)	(6.8)	(22.3)	(35.3)
Others	6.2	4.0	2.5	4.0	4.0
C/F from financing					
Incr. in equity	-	-	-	-	-
Incr. in debts	11.9	(0.5)	(8.8)	8.8	15.0
Dividends	-	-	-	-	(15.3)
Others	(32.9)	(12.1)	-	-	-
C/F from others					
Increase in cash	(1.0)	(16.1)	2.9	44.5	14.8

Income statement (USD mn)

FY-ending Dec. (US\$ m)	2019A	2020A	2021F	2022F	2023F
Sales	77.8	54.9	78.8	98.0	133.5
COGS	(59.4)	(51.0)	(59.1)	(66.2)	(86.7)
Gross profit	18.4	3.9	19.7	31.9	46.7
SG&A expense	(11.6)	(10.6)	(7.9)	(9.1)	(10.9)
Operating profit	6.8	(6.7)	11.8	22.8	35.8
Financial income					
Interest income	0.9	0.7	0.5	1.0	1.5
Financial expense					
Interest expense	(4.8)	(2.3)	(0.8)	(1.0)	(1.6)
Other non-operating profit	(1.9)	(6.0)	(0.2)	(0.2)	(0.2)
Earnings before tax	2.8	(14.3)	10.9	21.6	34.0
Final taxes	(1.0)	(0.7)	(1.0)	(1.2)	(1.7)
Net profit	1.6	(15.0)	9.9	20.4	32.3
Non-controlling interest	0.2	0.0	0.0	0.0	0.0
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	27.9	9.5	33.9	47.4	64.6

Key financial data

FY-ending Dec.	2019A	2020A	2021F	2023F	2023F
per share data (USD)					
EPS	0.0009	-0.0086	0.0056	0.0116	0.0185
BPS	0.0982	0.0896	0.0955	0.1074	0.1175
DPS	-	-	-	0.0087	0.0139
Growth (%)					
Sales growth	3.3	(29.5)	43.7	24.3	36.2
OP growth	NM	NM	NM	92.7	57.2
NP growth	NM	NM	NM	106.2	58.8
EBITDA growth	14.4	(66.1)	258.0	39.8	36.3
Profitability (%)					
OP margin	8.8	(12.2)	15.0	23.2	26.8
NP margin	2.0	(27.3)	12.5	20.8	24.2
EBITDA margin	35.8	17.3	43.0	48.3	48.4
ROA	0.7	(7.3)	5.1	9.6	13.2
ROE	0.9	(9.1)	6.1	11.5	16.4
Dividend yield	-	-	-	9.7	15.4
Dividend payout ratio	-	-	-	-	75.0
Stability					
Net debt (US\$ m)	(4.9)	(10.2)	(10.9)	(46.6)	(46.4)
Int-bearing debt/equity (%)	20.6	16.0	9.7	13.3	19.5
Valuation (X)					
PE	102.8	(11.3)	17.0	8.1	4.9
PB	0.9	1.1	1.0	0.9	0.8
EV/EBITDA	6.3	17.9	4.9	2.7	1.9

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