

Indo Tambangraya Megah (ITMG)

Sizable dividend yield on offer

Robust coal price outlook for FY22

The uncertainties over gas supplies in Europe to get past through the winter reached another uncharted territory as Russia (through its state-owned gas company Gazprom) reduced its supply cut through the Nord Stream 1 pipe to a mere fifth of its total capacity as retaliation for western sanctions. Since then, we have seen a few emergency measures such as Germany's recently passed emergency legislation to reactivate coal-fired power plants and EU countries' emergency plans to curb gas demand. In addition to this, the currently persistent heatwave and rebound in industrial activities in China should sustain global coal (as a direct alternative to oil and gas) prices at current high level in the mid-term.

Expect another record high quarterly earnings in 2Q22

ITMG indicated flat QoQ production for 2Q22 at ~3.8mn tonnes, which would bring its 1H22 production to 7.6mn tonnes, down 12.6% YoY. Considering current ASP trajectory, we expect ITMG to book 25.3% QoQ revenue growth in 2Q22 (driven mostly by ASP increase) to USD802mn, resulting in 1H22 revenue of USD1.4bn (+113.1% YoY). On cost side, with the indication of a lower strip ratio in 2Q22 at ~10.8x (vs. 11.1x in 1Q22), we expect ITMG to record all-time high GP & OP margins at 56.4% and 52.3%, respectively. This would result in a record high quarterly earnings of USD313mn (+46.8% QoQ), to bring its 1H22 earnings to USD52.6mn (4.5x YoY, 61% of our previous FY22F estimate)

Massive dividend yield to lean on

ITMG has large net cash of USD921mn at the end of Mar2022. ITMG has consistently distributed above 70% of its earnings as dividends since 2015. Considering a modest ~USD70mn capex allocation in FY22 and the lack of big assets acquisition, we can expect ITMG to distribute at least 80% of FY22 earnings as dividends, which would translate to a total yield of 27.3%.

Reiterate BUY call with higher TP from earnings upgrade

We revised up our ITMG's FY22/FY23F coal ASP assumptions to USD168.8/USD128 per tonne (from USD142.5/USD112.5 per tonne previously) and tweaked some cost assumptions to reflect current condition, resulting in a 19%/16% earnings upgrade for FY22/23F. Subsequently, our DCF valuation is lifted to USD3.8bn (equivalent to IDR50,000/sh), implying 3.7x FY22F PE with an average ~50% ROE in the next 2 years. Our sensitivity analysis showed that every 5% move in coal price should result in a 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 adverse global demand slowdown.

	2020A	2021A	2022F	2023F	2024F
Sales (USD mn)	1,185	2,077	3,439	2,824	1,901
GP (USD mn)	199	917	1,617	1,161	483
OP (USD mn)	104	791	1,459	997	308
NP (USD mn)	39	476	1,022	702	165
EBITDA (USD mn)	202	901	1,610	1,157	478
Net debt (USD mn)	(188)	(655)	(933)	(767)	(450)
OP margin (%)	8.8	38.1	42.4	35.3	16.2
ROE (%)	4.7	39.6	55.1	43.0	15.8
Dividend yield (%)	11.1	1.2	10.7	27.3	23.5
EPS (USD)	508	6,017	13,383	9,324	2,191
chg. (% YoY)	(68.6)	1,084.5	122.4	(30.3)	(76.5)
BPS (USD)	10,893	15,203	24,277	21,687	13,851
DPS (USD)	1,275	474	4,258	10,834	9,324
PE (x)	24.7	3.3	3.0	4.3	18.1
PB (x)	1.3	1.3	1.6	1.8	2.9
EV/EBITDA (x)	5.2	1.1	1.4	2.0	5.6

Company Update

Commodities

Aug 3, 2022

12M rating **BUY (Maintain)**
12M TP **IDR 50,000** (Prev IDR 39,000)
Upside **+25.8%**

Stock Data

JCI (Aug 2)	6,988
Stock price (Aug 2, IDR)	39,750
Market cap (IDR bn)	44,915
Shares outstanding (m)	1.130
52-week high/low (IDR)	40,875 / 15,075
6M avg. daily turnover (IDR bn)	155.8
Free float (%)	34.9

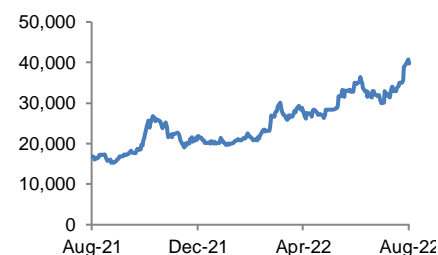
Major shareholders (%)

Banpu Minerals	65.1
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Performance

	1M	6M	12M
Absolute (%)	35.7	109.6	182.8
Relative to JCI (%p)	28.8	79.0	104.7

ITMG stock price



Source: Bloomberg

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Table 1. ITMG's 2Q22 results preview

2Q22 financial results preview									% of prev.
in USD mn	2Q21	1Q22	2Q22F*	QoQ	YoY	6M21	6M22F*	YoY	FY22F KISI
Revenue	392	640	802	25.3%	104.4%	676	1,442	113.1%	47.4%
Gross Profit	142	336	452	34.3%	217.2%	227	788	246.7%	58.0%
Operating Profit	117	300	419	39.7%	259.2%	180	719	298.4%	59.1%
Net Income	76	213	313	46.8%	314.5%	118	526	347.5%	61.6%
GPM	36.3%	52.6%	56.4%			33.6%	54.7%		
OPM	29.8%	46.9%	52.3%			26.7%	49.9%		
NPM	19.3%	33.3%	39.1%			17.4%	36.5%		

2Q22 operational results preview									% of prev.
	2Q21	1Q22	2Q22F*	QoQ	YoY	6M21	6M22F*	YoY	FY22F KISI
Production vol (mn)	4.7	3.8	3.8	0.0%	-19.1%	8.7	7.6	-12.6%	41.1%
Sales vol (mt)	4.9	4.3	4.0	-7.0%	-18.4%	9.0	8.3	-7.8%	39.0%
ASP (USD/t)	80.3	150.4	198.4	31.9%	147.1%	74.7	173.6	132.3%	121.5%
OB removal (m bcm)	49.7	42.2	41.1	-2.5%	-17.3%	95.7	83.3	-13.0%	40.0%
Stripping ratio	10.6	11.1	10.8			11.0	11.0		

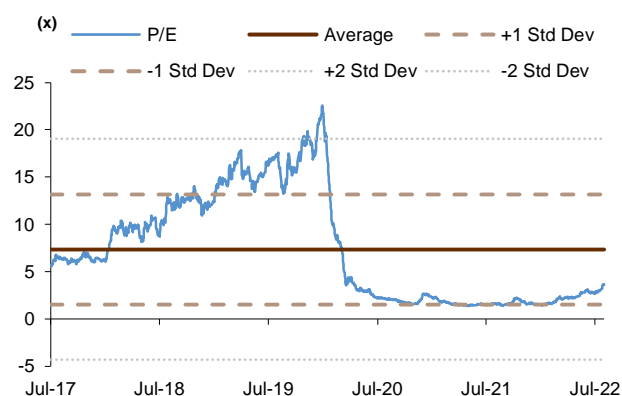
Source: Company, KISI

Table 2. ITMG's DCF valuation

DCF Valuation Summary		Assumption	
Enterprise value (USD mn)	2,906	Risk-free rate	7.0%
Net cash (USD mn)	933	Market Premium	4.5%
Equity Value (USD mn)	3,840	Beta	0.8
Shares outstanding (mn)	1,130	After tax Cost of Debt	13.6%
Target Price (USD / share)	3.40	Debt Proportion	0.0%
		Equity Proportion	100.0%
		Cost of Equity	10.6%
Target Price (IDR /share)	50,000	Long-term growth	0.0%
Target P/E	3.7	consider 5 year life-mine after 2025	
Current P/E	3.0	WACC	10.6%

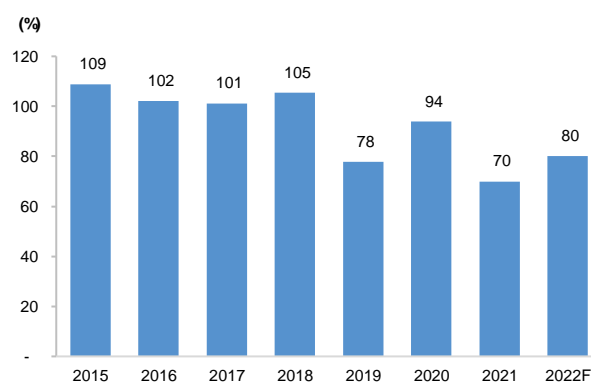
Source: KISI

Fig 1. ITMG's PE band



Source: Bloomberg, KISI

Fig 2. ITMG's dividend payout ratio



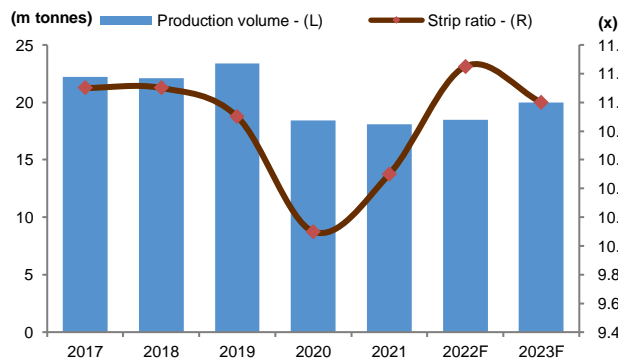
Source: Company, KISI

Table 3. Summary of assumptions changes

Assumptions	Unit	Revised			Previous		
		FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Sales volume	m tonnes	20.4	22.0	23.7	21.3	23.0	
Change (%)		-4%	-4%	new			
ASP	USD/tonne	168.8	128.0	80.0	142.5	112.5	
Change (%)		18%	14%	new			
Revenue	USD mn	3,439	2,824	1,901	3,044	2,546	
Change (%)		13%	11%	new			
Cost of revenue	USD mn	1,822	1,663	1,418	1,685	1,506	
Change (%)		8%	10%	new			
EBITDA	USD mn	1,610	1,157	478	1,351	1,031	
Change (%)		19%	12%	new			
Net profit	USD mn	1,022	702	165	855	606	
Change (%)		19%	16%	new			
Target price	IDR	50,000			39,000		
Recommendation		BUY			BUY		

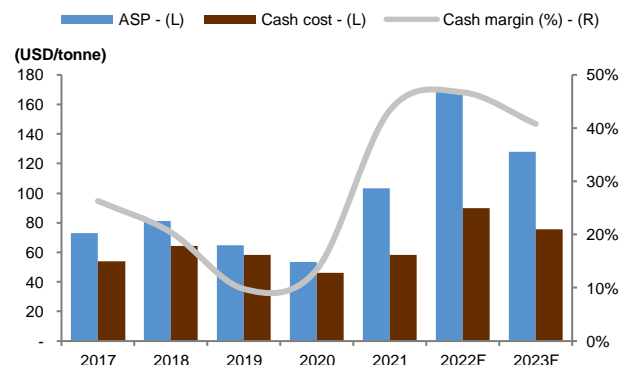
Source: KISI

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



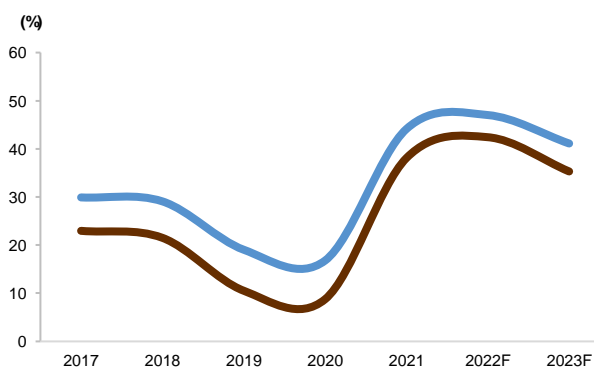
Source: Company, KISI

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



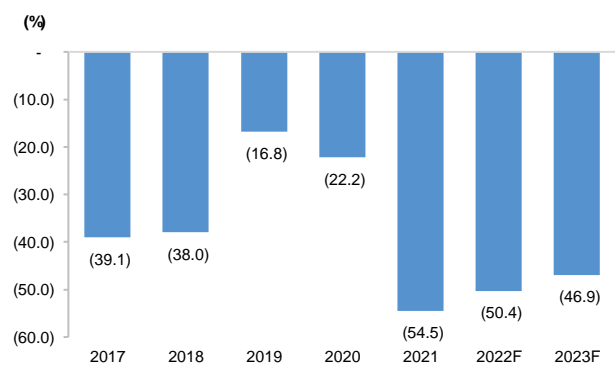
Source: Company, KISI

Fig 5. ITMG's GP & OP margins trend



Source: Company, KISI

Fig 6. ITMG's net gearing trend

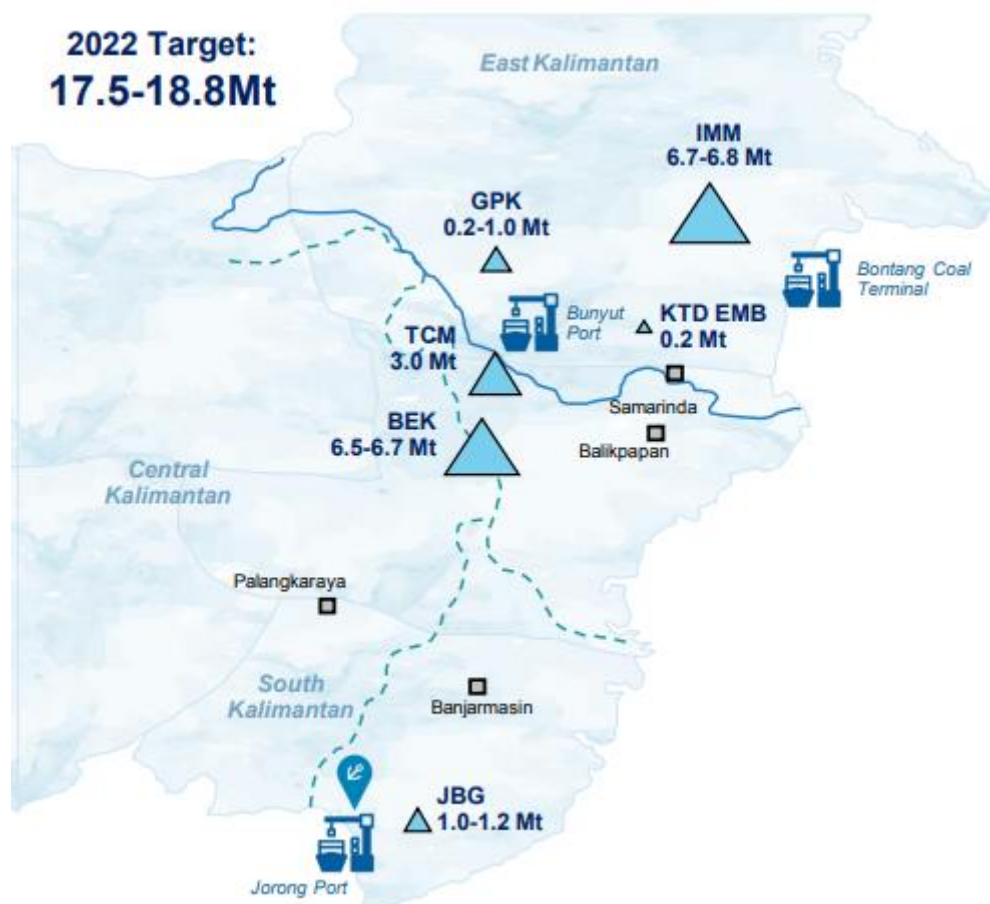


Source: Company, KISI

Company Overview

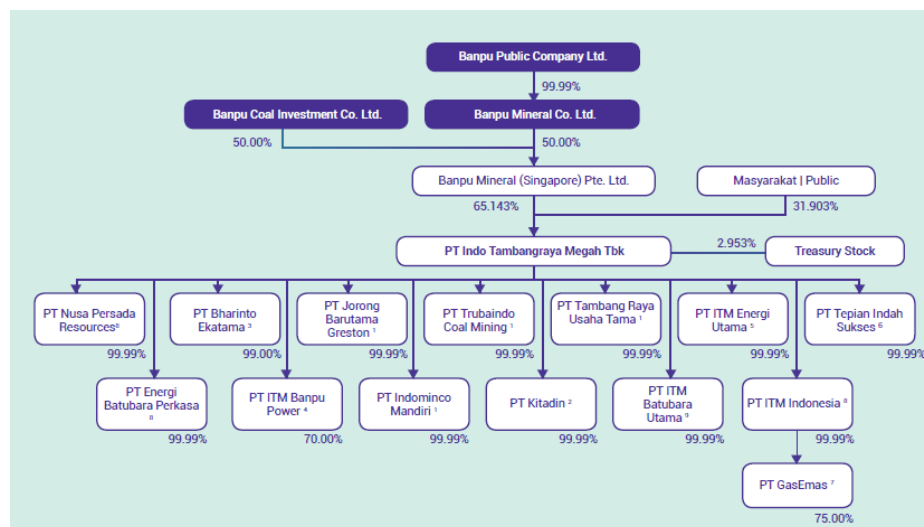
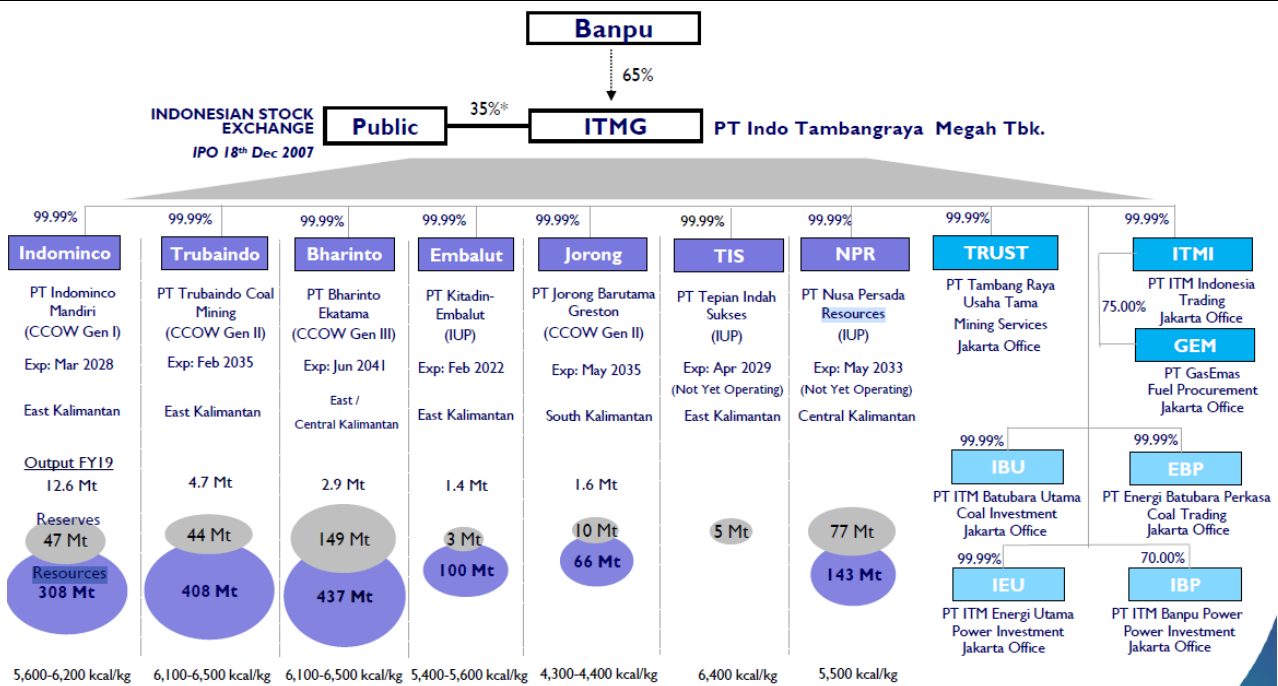
ITMG is an Indonesia-based company primarily engaged in coal mining. Through its subsidiaries, such as Indominco Mandiri, Trubaindo Coal Mining, Bharinto Ekatama, Kitadin, and Jurong Barutama Greston, it operates several coal mining concessions in mostly Kalimantan island, Indonesia. Indominco Mandiri 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	933	767	450
Accounts & other receivables	75	187	283	232	156
Inventories	60	62	82	95	84
Others	43	48	69	56	38
Non-current assets					
Fixed assets	210	179	149	75	(20)
Mining properties	539	499	911	904	713
Other non-current assets	1,159	1,666	2,427	2,129	1,422
Total assets					
Current liabilities	62	85	120	109	93
Accounts & other payables	-	-	-	-	-
ST debt	8	10	-	-	-
Current portion of LT debt	137	270	376	302	208
Others					
Non-current liabilities	36	26	-	-	-
LT debt & financial liabilities	2	2	3	3	3
Employee benefits liability	67	72	75	81	74
Other non-current liabilities	312	465	574	495	378
Total liabilities	-	-	-	1	1
Controlling interest	393	393	393	393	393
Capital stock	-	-	-	-	-
Additional paid-in capital	-	-	-	-	-
Other Reserves	461	816	1,468	1,248	658
Retained earnings	(8)	(8)	(8)	(8)	(8)
Minority interest	846	1,202	1,853	1,634	1,043
Shareholders' equity	231	691	933	767	450

Cash flow (USDmn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating					
Net profit	39	476	1,022	702	165
Depreciation	100	110	150	159	170
Net incr. in W/C	78	102	(357)	8	126
Others	(83)	(93)	(47)	(30)	53
C/F from investing					
CAPEX	(17)	(7)	(120)	(85)	(76)
Others	-	-	-	-	-
C/F from financing					
Incr. in equity	(13)	(14)	0	-	-
Incr. in debts	33	(8)	(36)	-	-
Dividends	(65)	(107)	(370)	(922)	(755)
Others	-	-	-	-	-
C/F from others	-	-	-	-	-
Increase in cash	72	460	242	(167)	(317)

Income statement (USDmn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	1,185	2,077	3,439	2,824	1,901
COGS	(986)	(1,160)	(1,822)	(1,663)	(1,418)
Gross profit	199	917	1,617	1,161	483
SG&A expense	(95)	(125)	(158)	(164)	(175)
Operating profit	104	791	1,459	997	308
Financial income	3	3	7	7	6
Financial expense	(3)	(3)	(2)	(2)	(2)
Other expense	(31)	(170)	(100)	(100)	(100)
Other non-operating profit	-	-	-	-	-
Income (loss) from JV	-	-	-	-	-
Earnings before tax	73	621	1,364	901	212
Income taxes	(35)	(146)	(341)	(198)	(47)
Net profit	39	476	1,022	702	165
Non-controlling interest	2	0	(1)	(1)	(0)
Other comprehensive profit	-	-	-	-	-
Total comprehensive profit	-	-	-	-	-
Total comprehensive profit of controlling interest	-	-	-	-	-
EBITDA	202	901	1,610	1,157	478

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	508	6,017	13,383	9,324	2,191
BPS	10,893	15,203	24,277	21,687	13,851
DPS	474	4,258	10,834	9,324	2,191
Growth (%)					
Sales growth	(31)	75	66	(18)	(33)
OP growth	(42)	661	84	(32)	(69)
NP growth	(70)	1,105	115	(31)	(77)
EBITDA growth	(12)	346	79	(28)	(59)
Profitability (%)	-	-	-	-	-
OP margin	8.8	38.1	42.4	35.3	16.2
NP margin	3.3	22.9	29.7	24.9	8.7
EBITDA margin	17.1	43.4	46.8	41.0	25.2
ROA	3.4	28.5	42.1	33.0	11.6
ROE	4.7	39.6	55.1	43.0	15.8
Dividend yield	11.1	1.2	10.7	27.3	23.5
Dividend payout ratio	94	69	80	100	100
Stability					
Net debt (US\$ m)	(188)	(655)	(933)	(767)	(450)
Int.-bearing debt/equity (%)	5.1	3.0	-	-	-
Valuation (X)					
PE	24.7	3.3	3.0	4.3	18.1
PB	1.3	1.3	1.6	1.8	2.9
EV/EBITDA	5.2	1.1	1.4	2.0	5.6

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