

August 4, 2022



Research Center

Morning KISI/

■ Market Commentary

■ Macro Calendar

Research team:

Edward A. Tanuwijaya | edward.t@kisi.co.id | Strategy, Banks, Real Estate

Illona Freddy | illona.f@kisi.co.id | Poultry, Consumer Staples, Cigarette

David Arie Hartono | david.h@kisi.co.id | Retailers, Media, Telecommunication

Anton Hermansyah | anton.h@kisi.co.id | Technical Analysis

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

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

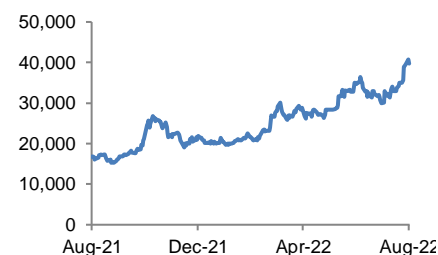
Major shareholders (%)

Banpu Minerals	65.1
----------------	------

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

Edward Tanuwijaya

edward.t@kisi.co.id

Nicholas Kevin Mulyono

nicholas.k@kisi.co.id

Market Commentary

Market Commentary

- JCI extend its winning streak to add 58 points on Wednesday, amid steadied regional stocks on easing angst over Pelosi's Taiwan visit, while rhetoric from the Fed officials is also coloring sentiment.
- The index opened steady and gradually move higher amid market consolidation as investors continues to rotate out from consumer-staples stocks to telco stocks.
- While average daily value soared helped by NG trade from TBIG (IDR 7.95tn at IDR 3200)
- RUPIAH +0.13% at 14.913 against USD.
- Tech and Telco stocks were today's outperformers, while Consumers and Industrials were among the lags.
- TLKM IJ +1.12% led other telco stocks to move higher on sector rotation as investors continue to rotate out from consumer-staple stocks amid a weak growth outlook. ISAT IJ +5.88%, FREN IJ +8.33%, EXCL IJ +7.50%.
- MTEL IJ +3.36% on robust growth outlook after agreeing to buy and lease back Telkomsel's telecommunication towers.
- Tech stocks also contributed most to index gains led by GOTO IJ +3.50%, along with BUKA IJ +8.05%, EMTK IJ +4.62%.
- Consumer stocks continued to weigh the index as investors slashed their position on the weak growth outlook amid weak buying power. INDF IJ -1.87%, ACES IJ -5.07%, ICBP IJ -1.95%, SIDO IJ -3.16%.
- Commodity stocks were mixed, as gains in coal stocks were offset by metals and palm oil stocks. ADRO IJ +4.09%, HRUM IJ -1.38%, ANTM IJ -1.25%, TINS IJ -1.02%.
- BIPI IJ -6.67% hit lower price limit for the second day, as profit taking continues after the Co. announce to acquire PTT Mining for \$471mn. The Co. decided not to distribute dividends for its FY21 earnings.
- Top value were: TLKM IJ +1.12%, BBKA IJ +0.33% IJ, BBRI IJ -0.45%
- Top Gainers: GOTO (+3.50%), TLKM (+1.12%), ASII (+1.93%)
- Top Losers: BBRI (-0.45%), BUMI (-6.96%), MEGA (-2.42%)

News

Macroeconomic, Sector and Corporate News

- HMSP - Entered into an intercompany loan agreement to & from Philip Morris Finance S.A. of up to USD1.02bn until 1Sep2024. (Bisnis)
- Oil – OPEC+ will add only 100,000 bpd of oil in Sep2022, one of the smallest oil production increase in its history despite pressure from US. (bbg)
- SIDO – Plans to expand its export destinations beyond Philippines, Malaysia & Kenya. (Kontan)
- DMAS – recorded 1H22 net profit of IDR660bn, +129% YoY, 72%/77% of our /Cons FY22 ests. (Investor daily)
- BSDE - recorded 1H22 marketing sales of IDR4.7tn (61% of FY22 target). (Bisnis)
- INDY - Subsidiary Indika Capital Pte Ltd injected USD51mn financing to PT Empat Mitra Indika Tenaga Surya (EMITS) for working capital. (Bisnis)
- SMAR - To distribute IDR200/sh interim dividend (~4.1% yield). Cum date: 9Aug2022. (Bisnis)
- DGIK – Allocates IDR20bn for shares buyback of up to 300mn shares (5.41% of capital). (Investor daily)

Outliers

Outlier Stocks

- Sharp Movers (Up) : GDST (+27.8%), WMPP (+11.4%), BAPA (+11.3%)
 - Sharp Movers (Down) : OLIV (-10%), MAPI (-7%), BUMI (-7%)
-

Macro Calendar

August 4, 2022

Mon	Tue	Wed	Thu	Fri
1	2	3	4	5
Korea> July exports US> July ISM manufacturing PMI China> July Caixin manufacturing PMI	Korea> July CPI	US> MBA mortgage applications July ISM services PMI June durable goods orders (F) China> July Caixin services PMI	US> June trade balance New jobless claims	US> July change in non-farm payrolls July jobless rate
8	9	10	11	12
China> July imports and exports (Aug 7) July trade balance (Aug 7) July FX reserves (Aug 7)	OECD leading economic index	Korea> July unemployment rate US> MBA mortgage applications July CPI China> July PPI July CPI	MSCI quarterly review The OPEC Monthly Oil Market Report Japan> Market closed (Mountain Day)	US> August Michigan Consumer Confidence (P)
15	16	17	18	19
Korea> Market closed (National Liberation Day) US> August manufacturing index (New York) China> June mining and manufacturing production July fixed asset investment Japan> June mining and manufacturing production (F) 2Q GDP (P)	US> July housing starts July mining and manufacturing production July capacity utilization	US> July retail sales Europe> 2Q GDP (P) Japan> July core machinery orders	US> FOMC minutes New jobless claims July existing home sales Europe> July CPI	Japan> July CPI
22	23	24	25	26
	US> July new home sales	US> July durable goods orders (P) MBA mortgage applications	Korea> The BoK monetary policy meeting US> Jackson Hole symposium (Aug 25-27) 2Q GDP New jobless claims	US> August Michigan Consumer Confidence (F) July personal consumption expenditures (PCE) price index
29	30	31		
US> August Dallas Fed manufacturing survey	US> August CB consumer confidence index	Korea> July mining and manufacturing production US> MBA mortgage applications Europe> August CPI (P) China> August manufacturing PMI Japan> July mining and manufacturing production (P)		

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement