

Harum Energy (HRUM)

Brighter outlook on coal segment for now

Expecting slight coal volumes decline in 4Q22

The company indicates production volumes to be slightly lower in 4Q22 vs. 3Q22 due to weather constraints. However, as our previous projections were conservative, we raised our FY22/23F coal sales volumes by 16.2%/1.0% to 4.8/4.9 mn tonnes, but adjusted down FY24F by 6.3% to 5.0 mn tonnes following HRUM's indication. Moreover, we believe coal prices in 4Q22 to remain stable compared to 3Q22. We lift our FY22/23/24F HRUM's coal ASP by 39.1%/16.3%/5.7%. Most of the company's sales volumes are exported to China (9M22: 54%) and 25% of the coal sales are linked to Newcastle coal index. We upgrade our revenue projection from coal segment for FY22/23F by 61.7%/17.5% but reduced FY24F assumptions by 0.9% due to lower expected sales volumes.

Revisiting nickel business contribution

We fine-tuned our projections from POS, IMI, and WMI. 1) POS: we revised our FY22F production volumes to nothing (from 2.4 mn wmt), and cut FY23-24F production to 0.6/2.4 wmt. Note that, the annual capacity nickel ore production is 3 mn wmt until FY24F and will be ramping up to 5 mn wmt on FY25-26F. Furthermore, based on our new forecasts, POS should generate revenue of USD34-192 mn in FY23-25F. 2) IMI: For FY22F, we raised our production volume target to 18,000 tonnes NPI, from 13,500 tonnes NPI as IMI average nickel production in 2Q-3Q22 stood at 6,460 tonnes NPI. However, the FY22F ASP is lower-than-expected as our previous ASP forecast used 3-month LME nickel prices assumption without discount. It turned out, quarterly NPI ASP was on average at a 30% discount. Hence, we cut our FY22F ASP by 25% to USD18,000/tonne NPI. We also adjusted down our FY23/24F NPI ASP by 25%/20%. 3) WMI: we project the production to start in FY24F with 80% utilization (previously 50%), or 35,200 tonnes of nickel in NPI.

Retain BUY call with TP of IDR2,730/sh

We raised our FY22F revenue and net profit assumptions by 27.7% and 22.2% to USD912 mn and USD309 mn. However, we adjusted down FY23/24F revenue by 6.6%/6.2% as we lowered revenue estimate from POS (nickel ore). As such, we trimmed down FY23/24F bottom-line estimates by 2.3%/1.0% to USD233/153 mn. We derived our TP by using SOTP valuation and arrived at a lower TP of IDR2,730 (56.4% upside potential). We have incorporated WMI investment into our model and valuation. Note that, nickel business contributed 59% to HRUM's value. Currently, the counter trades at 6.7x 23F PE, still below its 5-year mean PE.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	158	336	912	648	507
GP (IDR bn)	43	175	580	374	223
OP (IDR bn)	6	132	455	307	150
NP (IDR bn))	59	74	309	233	153
EBITDA (IDR bn)	15	143	468	321	164
Net debt (IDR bn)	(211)	(49)	(231)	(372)	(429)
OP margin (%)	3.9	39.3	49.8	47.3	29.5
ROE (%)	13.0	11.4	32.9	20.1	11.7
Dividend yield (%)	-	2.1	4.8	3.7	2.4
EPS (IDR)	312	392	341	259	169
chg. (% YoY)	222.1	25.6	(13.0)	(24.1)	(34.5)
BPS (IDR)	2,403	3,438	1,037	1,287	1,446
DPS (IDR)	-	37	85	65	42
PE (x)	5.6	4.5	5.1	6.7	10.3
PB (x)	0.7	0.5	1.7	1.4	1.2
EV/EBITDA (x)	94.9	11.2	3.0	4.0	7.4

Company Update

Commodities

Dec 15, 2022

12M rating **BUY**
12M TP **IDR 2,730**
Upside **+56.4%**

Stock Data

JCI (Dec 15)	6,801.7
Stock price (Dec 15, IDR)	1,745
Market cap (IDR bn)	23,589
Shares outstanding (m)	13,518.1
52-week high/low (IDR)	2,950/1,335
6M avg. daily turnover (IDR bn)	115.66
Free float (%)	18.61

Major shareholders (%)

PT Karunia Bara Perkasa	79.8
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Performance

	1M	6M	12M
Absolute (%)	11.0	(11.7)	(17.8)
Relative to JCI (%p)	8.5	(10.5)	(19.9)

HRUM stock price



Source: Bloomberg

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I. Quarterly record earnings in 3Q22

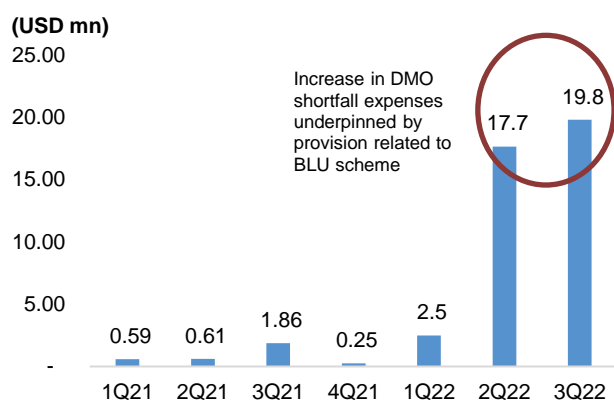
HRUM has been enjoying a positive momentum of high coal prices this year. The latest 3Q22 results showed that the company booked record-high quarterly revenue and earnings of USD325.3 mn (+44.4% QoQ/+202.2% YoY) and USD91.5 mn (+9.9% QoQ/+236.1% YoY). This is without a significant contribution from nickel business. So we can say this is almost purely the numbers from coal operation as income from associates reported was only USD1.9 mn in 3Q22. Moreover, similar to 2Q22, HRUM charged a provision again related to BLU amounting to USD19.8 mn in selling expenses. Overall, 9M22 financial results of HRUM exceed ours and consensus' estimates.

Fig 1. HRUM 9M22 financials snapshot

in USD mn	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY	% of FY22F KISI	% to cons
Revenue	89.8	225.3	325.3	44.4%	262.2%	205.5	702.8	241.9%	98%	94%
Gross Profit	46.6	147.6	192.7	30.6%	314.0%	101.8	437.2	329.5%	105%	104%
Operating Profit	35.7	116.3	149.9	28.9%	319.5%	71.5	350.3	389.9%	101%	95%
Net Income	27.2	83.2	91.5	9.9%	236.1%	37.6	237.4	532.0%	94%	81%
GPM	51.8%	65.5%	59.2%			49.5%	62.2%			
OPM	39.8%	51.6%	46.1%			34.8%	49.8%			
NPM	30.3%	36.9%	28.1%			18.3%	33.8%			

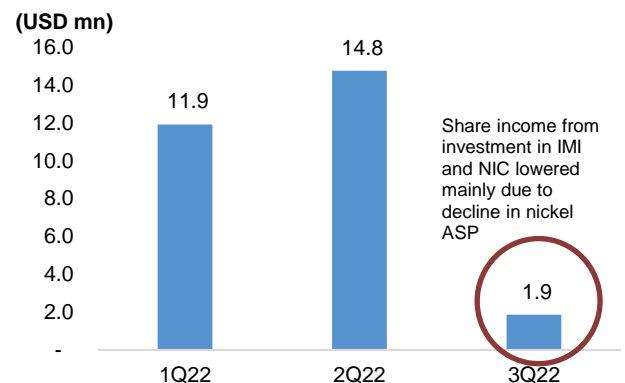
Source: Company, KISI

Fig 2. Quarterly DMO shortfall



Source: Company, KISI

Fig 3. Income from associates (IMI and NIC)



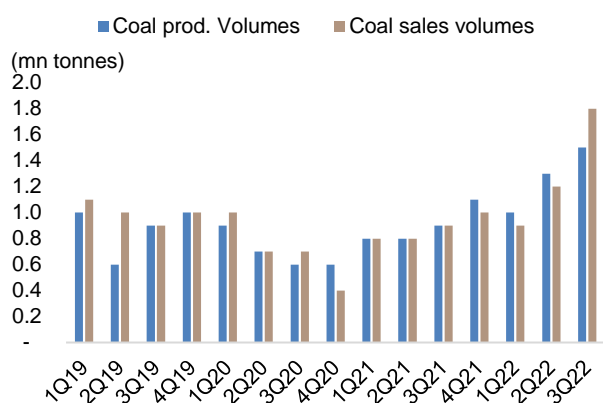
Source: Company, KISI

II. Expecting slight coal volumes decline in 4Q22

Coal sales and production volumes have been trending up from 1Q22 until 3Q22, reaching 1.5 mn tonnes (15.4% QoQ/66.7% YoY) and 1.8 mn tonnes (50% QoQ/100% YoY). Based on historical data, coal production and sales volumes in 3Q22 were record high. This brought 9M22 production and sales volumes to rise by 52.0% YoY and 56.0% YoY, respectively. For 4Q22, the company indicates production volumes to be somewhat lower due to weather constraints.

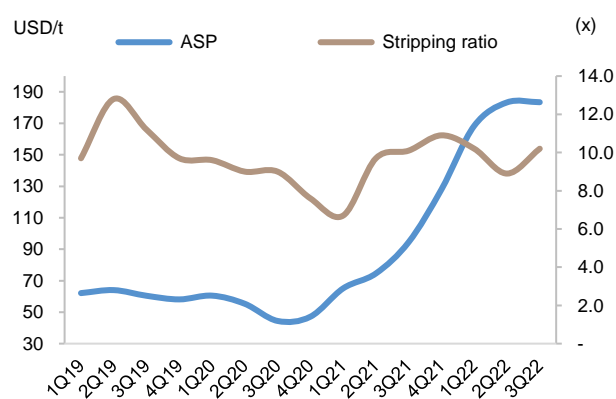
However, as our previous projections were conservative, we raised our FY22/23F coal sales volumes by 16.2%/1.0% to 4.8/4.9 mn tonnes, but adjusted down FY24F by 6.3% to 5.0 mn tonnes following HRUM's target.

Fig 4. Quarterly coal sales and production volumes



Source: Company, KISI

Fig 5. Quarterly ASP and stripping ratio



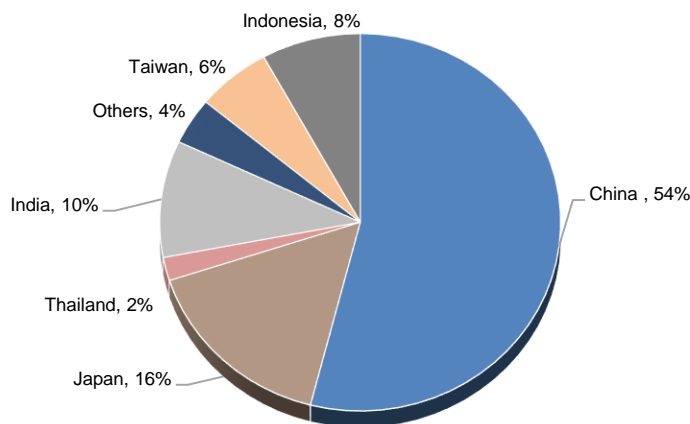
Source: Company, KISI

Fig 6. HRUM 9M22 financials snapshot

Assumptions	Unit	Revised			Previous		
		FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Sales volume	mn tonnes	4.8	4.9	5.0	4.2	4.9	5.3
	Change (%)	16.2%	1.0%	-6.3%			
Production volume	mn tonnes	4.8	4.9	5.0	4.3	5.0	5.5
	Change (%)	11.6%	-2.0%	-9.1%			
ASP	USD/tonne	185.0	122.1	74.0	133.0	105.0	70.0
	Change (%)	39.1%	16.3%	5.7%			
Coal Revenue	IDR bn	897	598	370	555	509	373
	Change (%)	61.7%	17.5%	-0.9%			

Source: Company, KISI

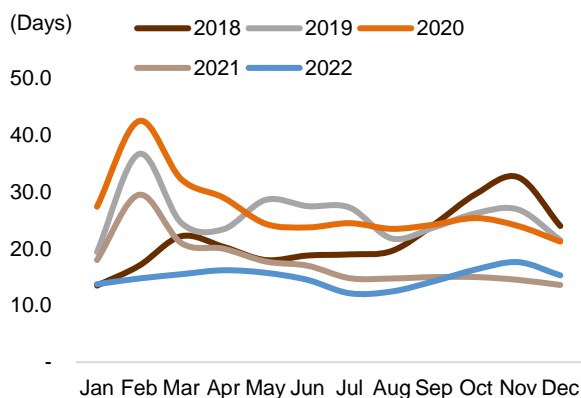
Fig 7. HRUM's coal sales volumes by destination



Source: Company, KISI

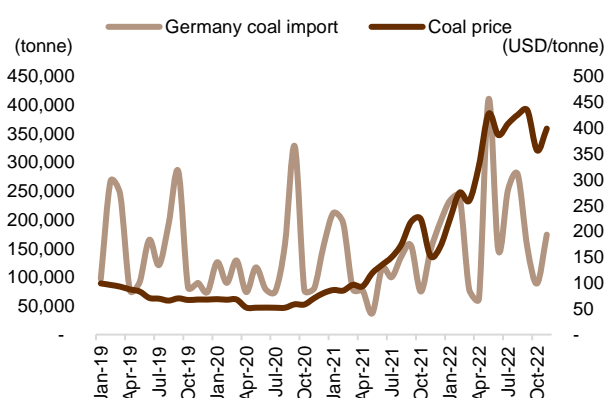
Furthermore, 3Q22 HRUM's coal ASP remains flat on a quarterly basis, standing at USD183.4/tonne (+0.1% QoQ), but skyrocketed 94.1% YoY compared to 3Q21. The company 9M22 coal ASP jumped by 128.6% YoY to USD179.9/tonne. We believe coal prices in 4Q22 to remain stable compared to 3Q22. There are several key reasons why we believe coal prices to stay at a relatively high level in mid-term, **1) Coal import from China is expected to stay robust as the economic activity has not reached its full capacity given zero covid policy and Chinese government's plant to add more coal-fired power plants in couple years ahead and 2) current energy crunch in Europe.**

Fig 8. Avg.days burn (China key power plants)



Source: Bloomberg, KISI

Fig 9. Monthly Germany coal imports and coal prices



Source: Bloomberg, KISI

We lift our FY-22-24F HRUM's coal ASP by 39.1%/16.3%/5.7%. Most of the company's sales volumes are exported to China (9M22: 54%) and 25% of the coal sales are linked to Newcastle coal index. **We upgrade our revenue projection from coal segment only in FY22-23F by 61.7%/17.5%, but slightly slashed FY24F projection by 0.9% due to lower expected sales volumes.**

III. Revisiting nickel business contribution

Referring to the company’s 9M22 MD&A report released, we notice our previous nickel forecasts need to be reassessed. We elaborate on the details as follows.

PT Position (POS)

Previously we expected POS to start commercial nickel ore production this year. However, mining commencement is estimated to begin in 4Q23. Therefore, we revised our FY22F production volumes to nothing (from 2.4 mn wmt), and cut FY23-24F production to 0.6/2.4 wmt. Note that, the annual capacity nickel ore production is 3 mn wmt until FY24F and will be ramping up to 5 mn wmt for FY25-26F. Furthermore, based on our new forecasts, POS should generate revenue of USD34-192 mn in FY23-25F.

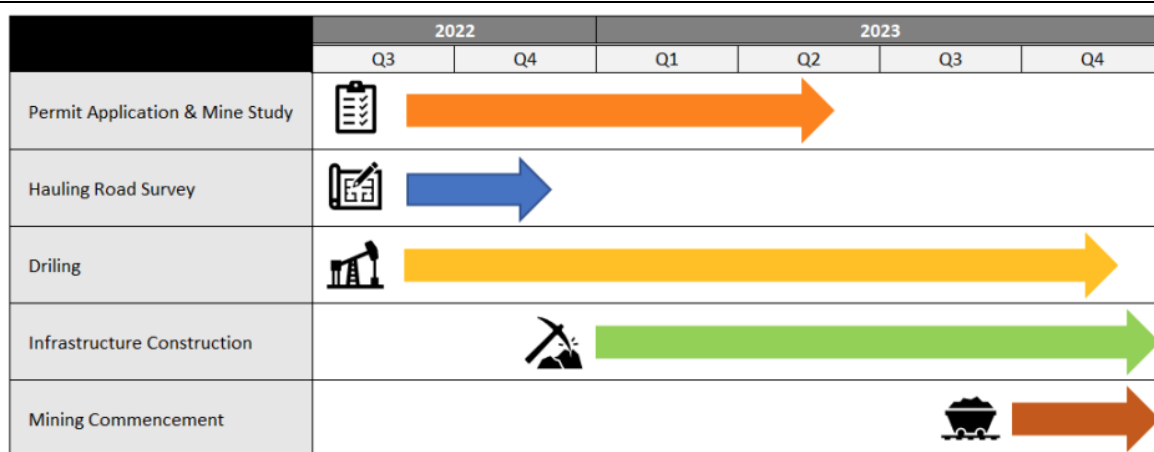
Fig 10. PT POS production and revenue assumptions

New Assumptions	2022F	2023F	2024F	2025F	2026F
Production volumes (mn wmt)	-	0.6	2.4	4.1	4.5
Revenue (USD mn)	-	34	120	192	214

Old assumptions	2022F	2023F	2024F	2025F	2026F
Production volumes (mn wmt)	2.4	3.0	3.0	4.5	5.0
Revenue (USD mn)	144	169	150	214	238

Source: Company, KISI

Fig 11. Timeline of PT POS production commencement



Source: Company

Infei Metal Industry (IMI)

IMI is accounted as an investment in associates given 49% equity interest of HRUM and the smelter has started its commercial production starting in Apr-2022. Total production in 2Q-3Q22 reached 12,936 tonnes NPI, with average ASP and cash cost of USD17,843.5/tonne and USD14,897/tonne; this translate to an EBITDA margin of 16%.

Fig 12. IMI 1Q22-3Q22 operational and financial results

PT IMI	1Q22	2Q22	3Q22
NPI production (tonnes)	27,876.0	40,126.0	43,630.0
Nickel metal production (tonnes)	4,065.0	6,456.0	6,480.0
Nickel sales revenue (USD mn)	88.3	116.5	107.3
ASP nickel (USD/tonne)	17,493.0	19,588.0	16,099.0
Cash cost (USD/tonne)	13,755.0	14,858.0	14,937.0
EBITDA (USD mn)	18.9	28.1	7.7
NPAT (USD mn)	16.2	25.3	4.2

Source: Company, KISI

For FY22F, we raised our production volumes assumptions to 18,000 tonnes NPI, from 13,500 tonnes NPI as IMI average nickel production in 2Q-3Q22 stood at 6,460 tonnes NPI. However, FY22F ASP is lower-than-expected as our previous ASP forecast used 3-month LME nickel prices assumption without discount. It turned out, quarterly NPI ASP was on average at a 30% discount. Hence, we cut our FY22F ASP by 25% to USD18,000/tonne NPI. We also adjusted down our FY23/24F NPI ASP by 25%/20%. Moreover, we revised down IMI FY22F net profit margin to 15% from 25%, mainly due to high fuel costs this year. However, starting from next year onwards, we view the net profit margins will surge to at least 20% level. All in all, we trimmed our share of profit from IMI in FY22/23/24F to USD23.81/39.7/40.0 mn from USD39.7/66.2/66.2 mn.

Fig 13. IMI production, sales volumes and share profit in IS forecasts

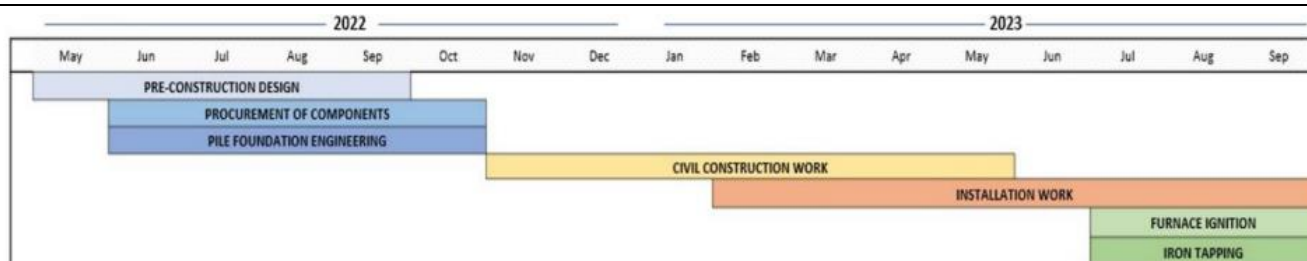
	New			Old			Changes		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Production capacity (tonnes in NPI)	30,000	30,000	30,000	30,000	30,000	30,000	0	0	0
Production volumes (tonnes in NPI)	18,000	24,000	24,000	13,500	24,000	27,000	33.3%	0.0%	-11.1%
Utilization rate	60%	80%	80%	45%	80%	90%	15%	0%	-10%
Share of profit in HRUM IS (USD mn)	23.8	39.7	37.6	39.7	66.2	66.2	-40.0%	-40.0%	-43.1%

Source: Company, KISI

Westong Metal Industry (WMI)

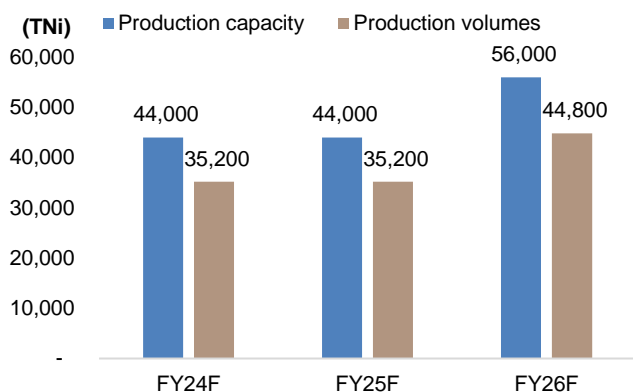
HRUM's other nickel smelter investment is in WMI, with 20% stakes acquired back in late-April 2022. Currently, the NPI smelter is in development phase, and the expected production commencement is in 4Q23 following the company's disclosure, yet in our model we project the production to start in FY24F with 80% utilization (previously 50%), or 35,200 tonnes of nickel in NPI. Note that, the targeted production capacity of WMI is around 44k-56k tNi/year. Moreover, we project ASP WMI smelter to be the same as IMI, and despite the company claiming the cash cost will be more efficient for WMI given its own integrated power infrastructure, we still incorporate identical cash cost assumptions between IMI and WMI.

Fig 14. Timeline of WMI construction



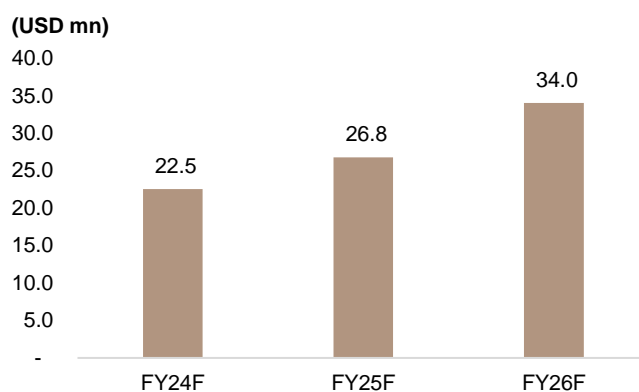
Source: Company

Fig 15. WMI yearly production capacity and volumes



Source: Company, KISI

Fig 16. Forecasted share of income from WMI



Source: Company, KISI

IV. Retain Buy call with lower TP

We raised our FY22F revenue and net profit estimates by 27.7% and 22.2% to USD912 mn and USD309 mn after 9M22 results came ahead of our estimates on the back of stronger-than-expected coal ASP and sales volumes. However, we adjusted down FY23/24F revenue by 6.6%/6.2% as we lowered revenue estimates from POS (nickel ore). As such, we trimmed down FY23/24F bottom-line by 2.3%/1.0% to USD233/153 mn.

Fig 17. HRUM's forecast changes

Assumptions	Unit	Revised			Previous		
		FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Total revenue	USD mn	912	648	507	714	694	541
<i>Change (%)</i>		27.7%	-6.6%	-6.2%			
EBITDA	USD mn	468	321	164	362	303	160
<i>Change (%)</i>		29.5%	6.0%	2.6%			
Net profit	USD mn	309	233	153	253	239	154
<i>Change (%)</i>		22.2%	-2.3%	-1.0%			

Source: KISI

We are still positive with the prospect of HRUM going forward given its strong balance sheet which enables the company to have a bigger chance to not lose investment opportunities in nickel space. At the moment, HRUM's nickel investment has less exposure on EV-battery, but if the company make an investment in HPAL, this will bring potential upside.

We derived our TP by using SOTP valuation and arrived at a lower TP of IDR2,730 (56.4% upside potential). We have incorporated WMI investment into our valuation and model. We value coal business, POS, IMI, and WMI with DCF-methodology; while assigning 6x EV/EBITDA multiple for investment in NIC. Note that, our TP downgrade is mostly underpinned by assumptions on nickel NPI ASP. Note that, nickel business contributed 59% to our valuation. Currently, the counter trades at 6.7x 23F PE, still below its 5-year mean PE.

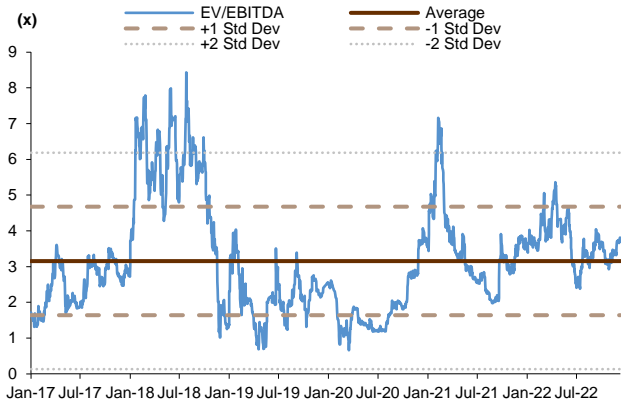
Risks to our call include 1) lower-than-expected average nickel and coal prices and 2) unfavorable changes in the regulations.

Fig 18. HRUM's SOTP valuation

	Ownership	Valuation	Target multiple	Enterprise Value (USDmn)
Coal	100.0%	DCF	-	613.5
Nickel Mines Australia	6.7%	EVEBITDA	6.0x	193.8
PT Position	51.0%	DCF	-	294.9
PT Infei Metal Industry	49.0%	DCF	-	692.7
PT Westrong Metal Industry	20.0%	DCF	-	288.8
Net debt				(372)
Equity value (USDmn)				2,456.2
Outstanding shares				13,518
Target Price (IDR/sh)				2,730

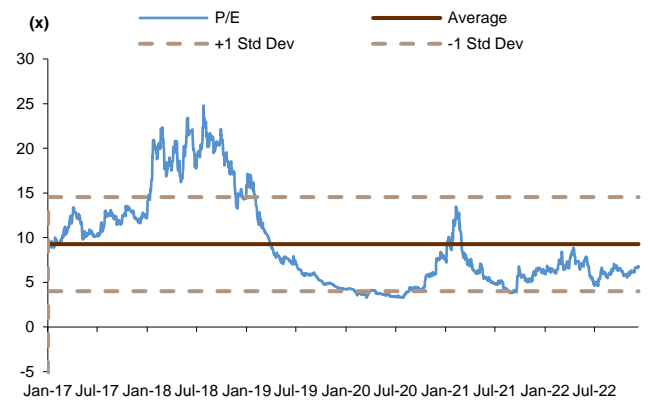
Source: KISI

Fig 19. 5-year EVEBITDA band



Source: Bloomberg, KISI

Fig 20. 5-year PE band



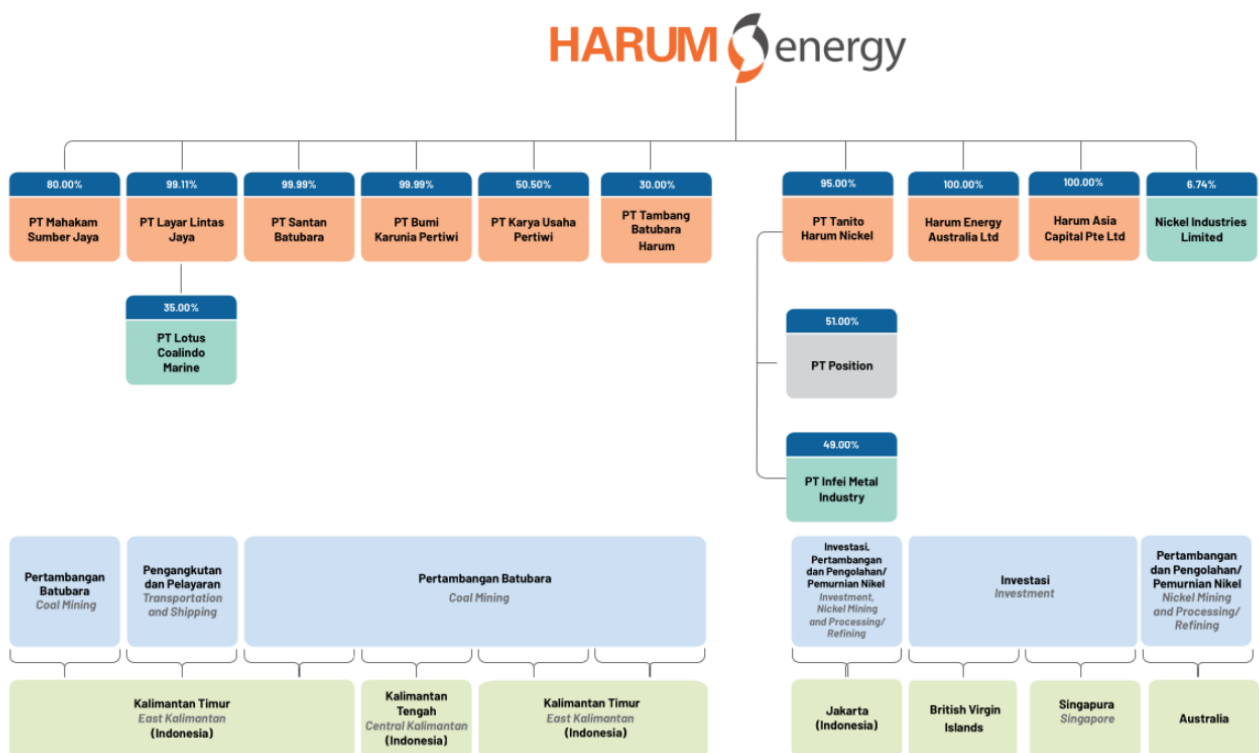
Source: Bloomberg, KISI

Company Overview

On October 6, 2010, Harum Energy conducted an IPO and is officially listed in Indonesia Stock Exchange. HRUM mainly engages in operating and investing in coal mining and logistics through its subsidiaries. HRUM has four subsidiaries in operating its mining activities; PT Mahakam Sumber Jaya (MSJ), PT Santan Batubara (SB), PT Tambang Batubara Harum (TBH), and PT Karya Usaha Pertiwi (KUP). MSJ started to conduct commercial coal mining operations in 2004 and followed by SB, which is a joint venture company in 2009.

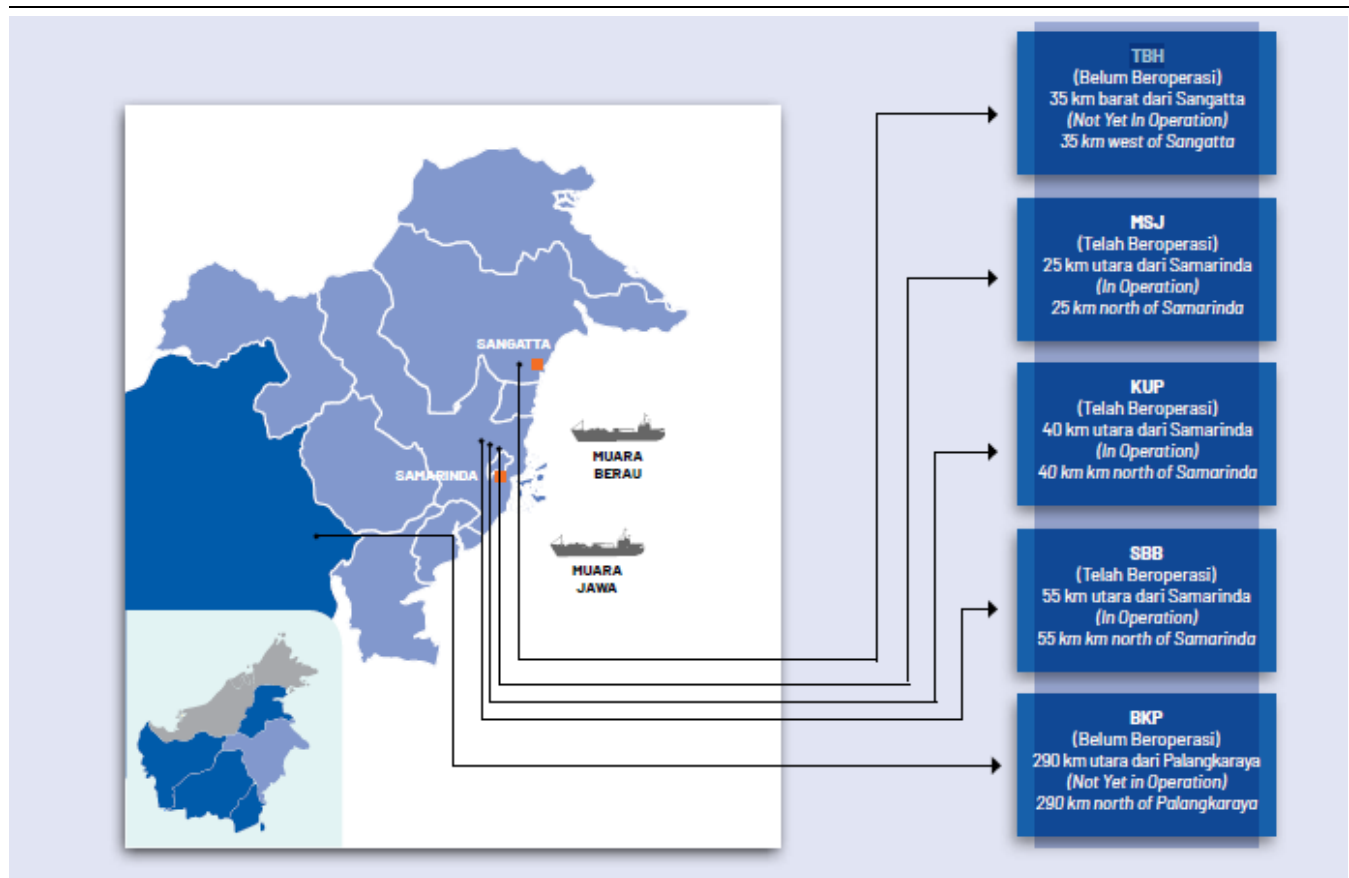
On the other side, to further strengthen the Company's position in the competition maps, the Company also owns PT Layar Lintas Jaya (LLJ), a coal barging and transshipment company. The Company also runs investment activity through its subsidiary, Harum Energy Capital Limited, and by end of 2015 owns 5.39% shares of Australian-based Cockatoo Coal Limited. HRUM has successfully marketed its coal to various customers in domestic and international markets in Asia such as Japan, South Korea, Taiwan, China, and India.

Fig 21. HRUM's corporate structure



Source: Company

Fig 22. HRUM operational maps



Source: Company

Balance sheet (USDmn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets	249	248	474	562	583
Cash & cash equivalent	211	149	233	374	430
Accounts & other receivables	9	23	62	44	34
Inventories	12	21	33	40	37
Others	17	54	147	105	82
Non-current assets	249	627	797	846	921
Fixed assets	126	326	349	360	366
Financial investment	101	-	-	-	-
Investment in JV	-	275	383	438	517
Other non-current assets	22	27	66	48	38
Total assets	499	875	1,271	1,408	1,504
Current liabilities	25	81	175	137	113
Accounts & other payables	6	18	36	30	31
ST debt	-	-	-	-	-
Current portion of LT debt	-	17	-	-	-
Others	18	63	139	107	82
Non-current liabilities	19	143	156	112	88
LT debt & financial liabilities	-	83	-	-	-
Deferred tax liabilities	13	55	150	107	84
Other non-current liabilities	7	88	5	5	5
Total liabilities	44	224	331	249	202
Controlling interest					
Capital stock	142	162	162	162	162
Additional paid-in capital	-	-	-	-	-
Other Reserves	-	-	-	-	-
Retained earnings	228	307	539	714	828
Minority interest	85	182	240	283	312
Shareholders' equity	455	651	941	1,159	1,303

Cash flow (USDmn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	95	108	347	237	165
Net profit	59	74	309	233	153
Depreciation	(9)	(11)	(14)	(14)	(15)
Net incr. in W/C	45	45	51	18	27
Others	0	0	0	1	1
C/F from investing	(107)	(391)	(145)	(81)	(100)
CAPEX	(7)	(217)	(36)	(26)	(20)
Others	(100)	(174)	(108)	(55)	(79)
C/F from financing	(4)	221	(119)	(15)	(10)
Incr. in equity	(4)	129	58	44	29
Incr. in debts	0	99	(99)	0	0
Dividends	0	(7)	(77)	(58)	(38)
Others	0	0	0	0	0
C/F from others	0	0	0	0	0
Increase in cash	(15)	(62)	83	141	56

Income statement (USDmn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	158	336	912	648	507
COGS	(115)	(162)	(333)	(274)	(285)
Gross profit	43	175	580	374	223
SG&A expense	(37)	(42)	(125)	(67)	(73)
Operating profit	6	132	455	307	150
Financial income	4	1	1	2	2
Financial expense	-	(3)	(0)	(0)	(0)
Other expense	0	0	-	-	-
Other non-operating profit	-	-	-	-	-
Income (loss) from JV	-	-	-	-	-
Earnings before tax	64	128	496	374	245
Income taxes	(4)	(29)	(109)	(82)	(54)
Net profit	59	74	309	233	153
Non-controlling interest	(1)	(24)	(77)	(58)	(38)
Other comprehensive profit	-	-	-	-	-
Total comprehensive profit	-	-	-	-	-
Total comprehensive profit of controlling interest	-	-	-	-	-
EBITDA	15	143	468	321	164

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	312	392	341	259	169
BPS	2,403	3,438	1,037	1,287	1,446
DPS	-	37	85	65	42
Growth (%)					
Sales growth	(39.9)	113.0	171.4	(28.9)	(21.8)
OP growth	(74.1)	2,049.9	244.0	(32.6)	(51.2)
NP growth	218.9	25.6	317.3	(24.6)	(34.5)
EBITDA growth	(52.3)	845.8	226.5	(34.4)	(62.1)
Profitability (%)					
OP margin	3.9	39.3	49.8	47.3	29.5
NP margin	37.4	22.1	33.9	36.0	30.1
EBITDA margin	9.6	42.7	51.3	47.4	23.0
ROA	11.8	8.5	24.3	16.6	10.2
ROE	13.0	11.4	32.9	20.1	11.7
Dividend yield	-	2.1	4.8	3.7	2.4
Dividend payout ratio	-	12	25	25	25
Stability					
Net debt (cash) (USD mn)	(211)	(49)	(231)	(372)	(429)
Int.-bearing debt/equity (%)	-	15.4	0.1	0.1	0.1
Valuation (X)					
PE	5.6	4.5	5.1	6.7	10.3
PB	0.7	0.5	1.7	1.4	1.2
EV/EBITDA	94.9	11.2	3.0	4.0	7.4

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