

Weak '23 Earnings to Continue in '24F Despite Strong Volume Outlook

15 March 2024



ITMG's FY23 earnings fell short of street forecasts, with a net profit of US\$500.3 mn (-58.3% yoy), mainly due to weak coal prices in 4Q23, despite a marginal increase in production and sales volume throughout 2023. The recent surge in coal prices, triggered by potential export bans on Russian producers, is expected to be temporary, leading to a bearish outlook for coal in 2024. Given that, we anticipate another profit decline of US\$386.1 mn (-22.8% yoy) in '24F, despite higher sales volume guidance. Reiterate SELL with a higher target price of IDR23,300.

**FY23 Earnings below street's forecast**

ITMG reported a net profit of US\$94.5 mn in 4Q23, (-69.1% yoy/-4.7% qoq). The decline was primarily fueled by lower coal price in 4Q23. Consequently, FY23 net profit exceeded our expectations but below street estimate, reaching US\$500.3 mn (-58.3% yoy), representing 109.1% of our estimate and 90% of the street estimate.

Throughout 2023, ITMG witnessed a marginal increase in coal production by 1% yoy. Concurrently, sales volume experienced a 11% upturn. However, revenue plummeted by 35% to US\$2.37 bn, attributable to a significant drop in ASP. Additionally, we note a substantial decrease in selling expenses in 4Q23 to US\$3.9mn, declining by 93.8% yoy and 85.5% qoq, primarily due to the reversal of accrual related to DMO totalling US\$29.9 million in 4Q24.

**The recent surge in coal prices is anticipated to be temporary**

We maintain a bearish stance on the coal sector, forecasting a decrease in the Newcastle coal price to US\$120 per tonne (-30.9% yoy) for 2024F. Despite a recent surge in coal prices due to potential export bans targeting Russia's producers, we anticipate a bearish outlook for coal in 2024. This stance reflects weak coal fundamentals, with stagnant import demand from major importers like China and India.

**Profitability in 2024 is anticipated to decrease**

ITMG is setting its sights on achieving a coal production of 20.2Mt in 2024, representing a robust yoy growth of 16-19%. This target is attributed to the anticipated commencement of operations at both the Graha Panca Karsa (GPK) mine in Apr'24, boasting a capacity of 1 mn tons, and the Tepian Indah Sukses (TIS) mine in 2Q24, with a capacity of 0.4Mt. Meanwhile, coal sales volume is expected to grow to 24.9-25.6 Mt in 2024, surging by 19-22% due to higher production and higher volume from the trading business. In 2024, ITMG anticipates a reduced stripping ratio of 10.0x, compared to 12.5x in 2023. Despite the bullish volume outlook, our projections still indicate a lower anticipated profit for ITMG in 2024, with expected net earnings of US\$386.1 mn (-22.8% yoy). This figure is higher with our earlier forecast of US\$276 mn for 2024 net profit.

**Reiterate SELL with higher TP of IDR23,300**

We reiterate SELL for ITMG with target price of IDR23,300 (previously IDR22,850) using DCF-based TP (WACC: 12%; LTG: -10%; and long-term coal price of US\$100/ tonne), which implied to 2.0x '24F EV/EBITDA (slightly below 5-year mean). We assign -10% LTG due to the potential decrease in production volume as certain mines are expected to enter their maturing stage over the next five years. Yet, risks to our call included 1) higher than expected coal price; and 2) escalations in geopolitical tensions.

<b>ITMG IJ</b>	<b>SELL</b>
Sector	Coal
Price at 14 Mar 2024 (IDR)	27,400
Price target (IDR)	23,300
Upside/Downside (%)	(15.0)

**Stock Information**

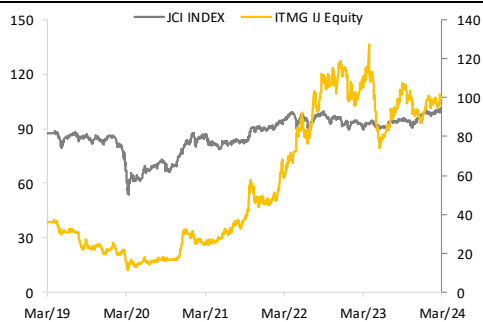
PT Indo Tambangraya Megah Tbk is a mining company, which engages in integrated coal mining, processing, logistics, and trading.

Market cap (IDR bn)	30,960
Shares outstanding (mn)	1,130
52-week range (IDR)	22,125 - 41,500
3M average daily vol. ('000)	1,162
3M average daily val. (IDR mn)	30,738

**Shareholders (%)**

Banpu	65.1
Public	34.9

**Stock Performance**



Source: Bloomberg

	1M	3M	12M
Performance	0.6	11.3	(28.2)

**Analyst**  
**Benjamin Mikael**  
 benjamin.mikael@kbvalbury.com

**Exhibit 1 : Key Statistics**

Year end Dec (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	3,636	2,374	2,362	1,728	1,872
Net Income	1,194	500	386	50	148
EPS (IDR)	16,277	6,819	5,262	677	2,018
P/E	1.7	4.0	5.2	40.5	13.6
EV/EBITDA	0.4	1.8	2.4	15.5	6.1
P/BV	1.0	1.1	1.1	1.3	1.2
ROE	61.4	28.0	21.8	3.3	9.1
Dividend Yield	41.5	33.3	19.8	15.3	2.0
Net gearing (%)	(72)	(46)	(43)	(33)	(38)

Source: Company, KBVS Research

**Exhibit 2: Financial Summary**

USD (mn)	2023	2022	YoY (%)	4Q23	4Q22	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>2,374</b>	<b>3,636</b>	<b>-34.7</b>	<b>548</b>	<b>1,020</b>	<b>(46.3)</b>	<b>3.8</b>
COGS	(1,632)	(1,742)	-6.3	(415)	(532)	(21.9)	10.6
<b>Gross Profit</b>	<b>743</b>	<b>1,894</b>	<b>-60.8</b>	<b>132</b>	<b>488</b>	<b>(72.9)</b>	<b>(12.9)</b>
<b>EBIT</b>	<b>605</b>	<b>1,683</b>	<b>-64.0</b>	<b>116</b>	<b>410</b>	<b>(71.6)</b>	<b>0.8</b>
Selling expenses	(95)	(170)	-44.2	(4)	(63)	(93.8)	(85.5)
G&A expense	(42)	(42)	0.9	(12)	(15)	(18.4)	27.6
Finance income	35	9	289.5	9	5	82.9	7.7
Finance cost	(3)	(3)	-13.1	(1)	(1)	15.0	82.4
Others	7	(143)	-104.9	(2)	(16)	(86.1)	(213.1)
<b>PBT</b>	<b>644</b>	<b>1,545</b>	<b>-58.3</b>	<b>123</b>	<b>398</b>	<b>(69.2)</b>	<b>(2.2)</b>
Income tax exp.	(144)	(345)	-58.2	(28)	(93)	(69.3)	6.8
Minority Interest	1	1	-2.1	0	0	(24.7)	182.9
<b>Net Profit</b>	<b>500.3</b>	<b>1,200.1</b>	<b>-58.3</b>	<b>94.5</b>	<b>306.3</b>	<b>(69.1)</b>	<b>(4.7)</b>

**Margins (%)**

Gross Profit Margin	31.3	52.1		24.2	47.8
EBIT margin	25.5	46.3		21.2	40.2
Net Margin	21.1	33.0		17.3	30.0

Source: Company, Bloomberg, KBVS Research

**Exhibit 3: Coal supply-demand outlook**

	2021	2022	2023	2024F	2025F
<b>Seaborn Exporters (Mt)</b>	<b>958</b>	<b>959</b>	<b>1,059</b>	<b>1,063</b>	<b>1,028</b>
Australia	199	178	202	205	213
China	3	4	4	4	4
Colombia	55	52	53	63	59
Indonesia	430	459	512	517	489
North Korea	0	0	0	0	0
Russia	149	139	144	137	134
South Africa	61	58	67	67	64
US	37	35	44	39	38
Others	26	34	33	31	27
<b>Seaborn Importers (Mt)</b>	<b>970</b>	<b>946</b>	<b>1,050</b>	<b>1,046</b>	<b>1,019</b>
China	246	208	327	327	300
India	148	166	180	171	172
Japan	125	127	102	101	101
South Kora	91	92	89	94	94
Taiwan	57	55	52	52	50
Vietnam	26	34	49	48	53
Other Asia	132	120	125	137	149
Germany	24	27	16	13	11
UK	2	3	1	2	1
Other Non Asia	120	114	111	102	88
<b>Global Balance (Mt) : demand minus</b>	<b>11</b>	<b>-13</b>	<b>-9</b>	<b>-16</b>	<b>-10</b>

Source: Wood Mackenzie, KBVS Research

**Exhibit 4: ITMG Mine Contribution**

Production (Mt)	2023	2024
Indominco	6.5	6.8
Trubaindo	2.8	2.9
Bharinto	7.1	8.1
Jorong	0.6	0.4
GPK		1
Tis		0.4
<b>Total</b>	<b>17.0</b>	<b>19.6</b>

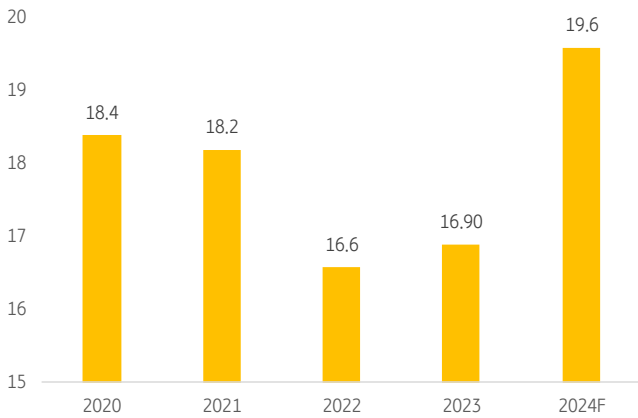
Source: Company, KBVS Research

**Exhibit 5: ITMG's DCF Valuation**

	2024F	2025F	2026F	2027F	2028F
Net Profit	386	50	148	342	94
Depreciation	65	70	70	73	76
Reinvested Capital	(97)	(75)	(69)	(64)	(81)
Working Capital	(1)	(7)	(1)	4	(13)
Capex	(96)	(68)	(68)	(68)	(68)
FCFF	354	45	150	351	90
PV FCFF	316	36	106	223	51
PV Terminal value	208				
Net Debt	(771)				
Equity Value	1,711				
Minority Interest	1				
Target 12 M	23,332				
<b>Target 12 M (IDR per share)</b>	<b>23,300</b>				

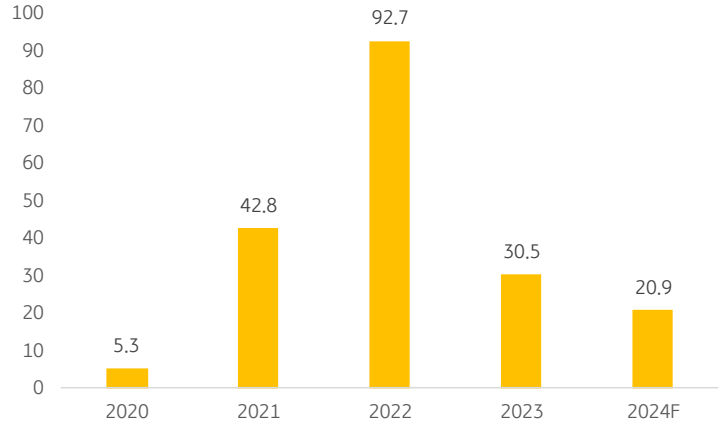
*Source: Company, KBVS Research*

Exhibit 6: ITMG's Production Volume (Mt)



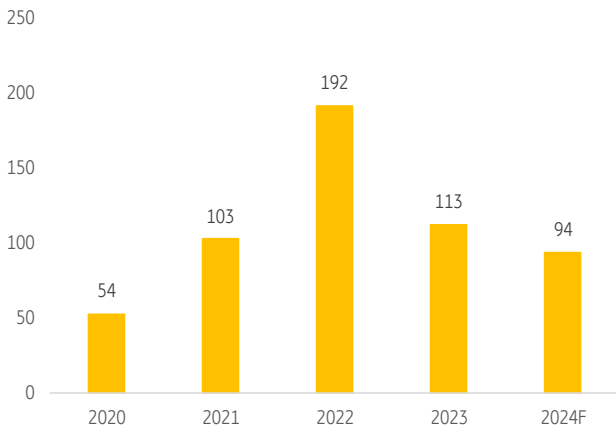
Source: Company, KBVS Research

Exhibit 7: ITMG's Sales Volume (Mt)



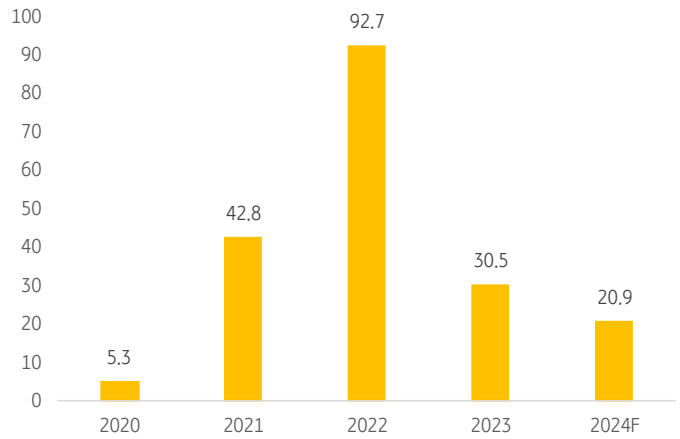
Source: Company, KBVS Research

Exhibit 8: ITMG's ASP (US\$/ ton)



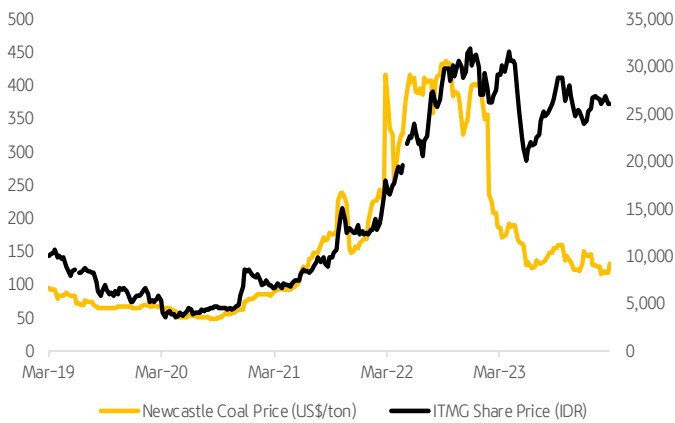
Source: Company, KBVS Research

Exhibit 9: ITMG's Cash Margin (US\$/ton)



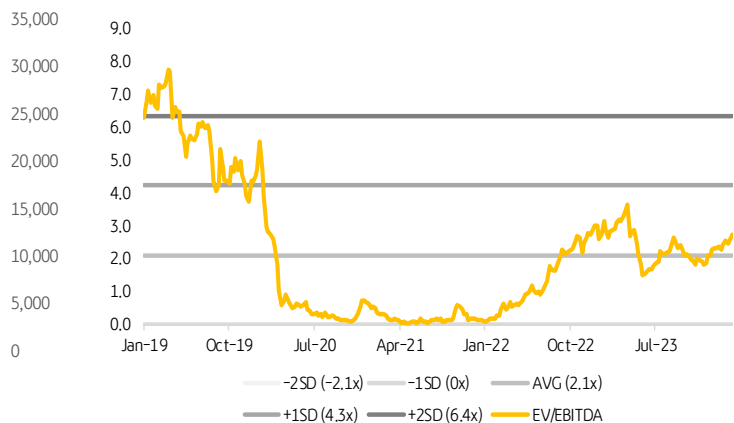
Source: Company, KBVS Research

Exhibit 10: Newcastle Coal Price VS ITMG's Share Price



Source: Bloomberg, KBVS Research

Exhibit 11: ITMG's Forward EV/EBITDA



Source: Bloomberg, KBVS Research

FINANCIAL TABLES

Exhibit 12: Profit & Loss summary

Year End Dec (US\$ mn)	2022A	2023A	2024F	2025F	2026F
<b>Revenue</b>	<b>3,636</b>	<b>2,374</b>	<b>2,362</b>	<b>1,728</b>	<b>1,872</b>
Cost of revenue	(1,742)	(1,632)	(1,719)	(1,513)	(1,524)
<b>Gross profit</b>	<b>1,894</b>	<b>743</b>	<b>643</b>	<b>215</b>	<b>348</b>
Selling expenses	(175)	(95)	(143)	(144)	(145)
G&A expenses	(42)	(42)	(43)	(44)	(44)
<b>Operating profit</b>	<b>1,677</b>	<b>605</b>	<b>457</b>	<b>28</b>	<b>160</b>
<b>EBITDA</b>	<b>1,760</b>	<b>649</b>	<b>522</b>	<b>98</b>	<b>230</b>
Other op. income/exp	(143)	7	-	-	-
Finance income	9	35	41	38	32
Finance expense	(3)	(3)	(3)	(3)	(3)
Inc/loss from assoc.	-	-	-	-	-
Pre-tax profit	1,539	644	494	63	189
Tax expense	(345)	(144)	(109)	(14)	(42)
Minority interest	0	1	1	1	1
<b>Net profit</b>	<b>1,194</b>	<b>500</b>	<b>386</b>	<b>50</b>	<b>148</b>
EPS (IDR)	16,277	6,819	5,262	677	2,018

Source: Company, KBVS Research

Exhibit 13: Balance sheet

Year End Dec (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Cash and equivalents	1,430	851	853	588	698
Trade receivables	280	197	199	192	194
Inventories	96	98	105	105	105
Net- Fixed assets	151	168	196	180	165
Other assets	682	873	888	901	914
<b>Total Assets</b>	<b>2,640</b>	<b>2,188</b>	<b>2,240</b>	<b>1,966</b>	<b>2,076</b>
Trade payables	144	110	117	103	104
Short-term debt + CMLTD	13	16	8	8	8
Long-term debt	13	8	74	74	74
Other liabilities	520	266	266	266	266
<b>Total Liabilities</b>	<b>690</b>	<b>399</b>	<b>465</b>	<b>451</b>	<b>452</b>
Minority interest	(5)	1	1	1	1
Paid capital	393	393	393	393	393
Retained earnings	1,515	1,341	1,327	1,068	1,176
Other equities	47	54	54	54	54
<b>Total Equity</b>	<b>1,950</b>	<b>1,789</b>	<b>1,774</b>	<b>1,515</b>	<b>1,623</b>

Source: Company, KBVS Research

**Exhibit 14: Cash Flow**

Year End Dec (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net income	1,194	500	386	50	148
Depreciation & amortization	77	44	65	70	70
Change in working capital	49	(323)	(1)	(7)	(1)
<b>Cash flow from operations</b>	<b>1,320</b>	<b>221</b>	<b>450</b>	<b>112</b>	<b>217</b>
Capex	(39)	(11)	(96)	(68)	(68)
Others	(32)	(127)	-	-	-
<b>Cash flow from investments</b>	<b>(71)</b>	<b>(138)</b>	<b>(96)</b>	<b>(68)</b>	<b>(68)</b>
Changes in debt	(10)	(3)	59	-	-
Changes in equity	-	-	-	-	-
Dividends paid	(840)	(674)	(400)	(309)	(40)
Others	345	11	(12)	-	-
<b>Cash flow from financing</b>	<b>(505)</b>	<b>(666)</b>	<b>(353)</b>	<b>(309)</b>	<b>(40)</b>
<b>Net Cash Flow</b>	<b>744</b>	<b>(582)</b>	<b>1</b>	<b>(264)</b>	<b>110</b>

Source: Company, KBVS Research

**Exhibit 15: Key Performance**

Key Ratios (%)	2022A	2023A	2024F	2025F	2026F
Revenue growth	75	(35)	(1)	(27)	8
EBIT growth	113	(64)	(25)	(94)	470
EBITDA growth	104	(63)	(20)	(81)	135
Net profit growth	152	(58)	(23)	(87)	198
Gross margin	52	31	27	12	19
EBIT margin	46	26	19	2	9
EBITDA margin	48	27	22	6	12
Net margin	33	21	16	3	8
ROA	45	23	17	3	7
ROE	61	28	22	3	9
Net gearing (x)	(1)	(0)	(0)	(0)	(0)
Net debt/EBITDA (x)	(1)	(1)	(1)	(5)	(3)
Interest coverage ratio (x)	500	208	145	9	51


Source: Company, KBVS Research

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 **KB Valbury Sekuritas**  
Head Office

Sahid Sudirman Center 41<sup>st</sup> Floor Unit A-C  
Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,  
Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia  
T. +62 21 – 250 98 300  
F. +62 21 – 255 33 778

### Branch Office

#### Jakarta – Sudirman

Sahid Sudirman Center 41<sup>st</sup> Floor Unit A-C  
Jalan Jenderal Sudirman No. 86 Karet Tengsin,  
Tanah Abang, Jakarta Pusat 10220  
T. (021) 25098300/301

#### Jakarta – Kelapa Gading

Rukan Plaza Pasifik  
Jl. Raya Boulevard Barat Blok A1 No. 10  
Jakarta Utara 11620  
T. (021) 29451577

#### Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV  
Jl. Taman Aries, Kembangan  
Jakarta Barat 11620  
T. (021) 22542390

#### Jakarta – Pluit

Jl. Pluit Putra Raya No. 2  
Jakarta Utara 14450  
T. (021) 6692119

#### Bandung

Jl. HOS Cokroaminoto No. 82  
Bandung 40171  
T. (022) 87255800

#### Malang

Jl. Pahlawan Trip No. 7  
Malang 65112  
T. (0341) 585888

#### Banjarmasin

Jl. Gatot Subroto No. 33  
Banjarmasin 70235  
T. (0511) – 3265918

#### Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN  
Blok A No. 3 Pekanbaru 28291  
T. (0761) 839393

#### Palembang

Komplek PTC Mall Blok I No. 7  
Jl. R. Sukanto  
Palembang 30114  
T. (0711) 5700281

#### Surabaya

Pakuwon Center Lt 21  
Jl. Embong Malang No.1  
Surabaya 60261  
T. (031) 2955788

#### Padang

Jl. Kampung Nias II No. 10,  
Padang 25211  
T. (0751) 8955747

#### Yogyakarta

Jl. Magelang KM 5.5 No. 75  
Yogyakarta 55000  
T. (0274) 623111

#### Semarang

Candi Plaza Building Lt. Dasar  
Jl. Sultan Agung No. 90-90A  
Semarang 50252  
T. (024) 8501122

#### Makassar

Komplek RUKO Citraland City Losari  
Business Park, Blok B2 No. 09  
Jl. Citraland Boulevard Makassar 90111  
T. (0241) 16000818

#### Medan

Komplek Jati Junction No. P5-5A  
Jl. Perintis Kemerdekaan  
Medan 20218  
T. (061) 88816222

#### Denpasar

Jl. Teuku Umar No. 177  
Komplek Ibis Styles Hotel  
Denpasar Bali 80114  
T. (0361) 225229

### Investment Gallery

#### Jakarta

Citra Garden 6 Ruko Sixth Avenue  
Blok J.1 A/18, Cengkareng  
Jakarta Barat 11820  
T. (021) 522392181

#### Semarang

Jl. MT Haryono 637  
Semarang 50242  
T. (024) 8415195

#### Salatiga

Jl. Diponegoro No. 68  
Salatiga 50711  
T. (0298) 313007

#### Solo

Jl. Ronggowarsito No. 34  
Surakarta 57118  
T. (0271) 6726306