

Tuesday, 30 June 2009

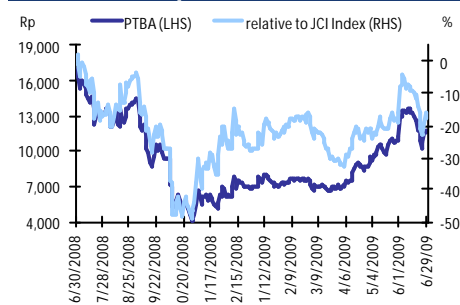
BUY

Bloomberg Code	PTBA IJ
Price, Rp	11,650
Mkt Cap Rp bn	26,842
Target Price, Rp	15,500

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Last Recommendation

	Rec.	Target Price
30-Jun-09	BUY	Rp 15,500
04-Sep-08	BUY	Rp 16,000

PTBA relative price to JCI Index

MINING SECTOR/ COMPANY UPDATE

Tambang Batubara Bukit Asam**Pumping up****TP of Rp15,500, BUY**

We set our TP for the end of 2010 at Rp15,500 reflecting: (1) 7-21% higher 11-12F coal prices due to stronger demand as the global economy recovers, (2) 10% pa higher railway throughput leading to a total capacity expansion of 20 mn tons, and (3) the shift in contract pricing to market pricing. Potential surprises may come from its three new projects and faster-than-expected capacity expansion. Our TP implies PE10-11F of 14.3-11.9x. We believe this valuation is justified as the implied 10-11F PEG is low at just 0.69-0.57x. BUY.

Higher 11-12F coal price assumptions of \$80-85/ton

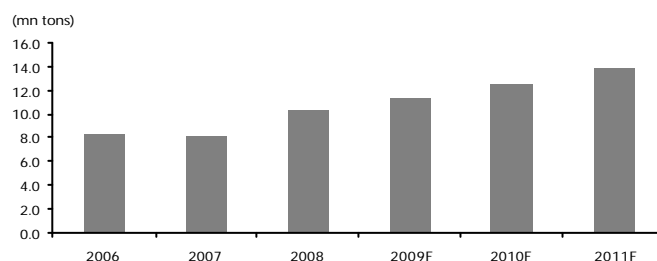
We raise our 2011-12F coal price assumptions by 7-21% to \$80-85/ton due to continued recovery in coal demand which is being driven by the global economic recovery. India, for example, shall see its import gap increase from 43Mt in 2009-10 to 160Mt in 2011-2012 according to the C&O group and Coal Portal. On the supply side, meanwhile, we don't think supply can catch up with the stronger demand because of capacity constraints at ports. Thus, going forward, we are confident that this situation will translate into higher coal prices (as reflected in the recent increase of the 2 year forward price).

Capacity expansion is being undertaken

Last year, PTBA's railway capacity jumped 33% yoy with the delivery of 9 new locos. And with more new rolling stock expected to arrive by the beginning of 2010, railway capacity should increase another 10% pa in the 2009-2015 period. Please note, however, that our assumptions are very conservative (and much lower than the company's), such that we expect PTBA to achieve the maximum 20 mn tons pa in 2015, or two years later than the company's expectation of 2013. Our sensitivity analysis shows that for every 5% increase in capacity, 10-11F earnings will increase by 5%-10%. This bodes well for future earnings growth.

Getting better pricing

PLTU Suralaya is PTBA's most important customer and the contract accounts for about 50% of PTBA's coal volume sales. In recent times, the contract pricing has shifted from the cost plus method to market pricing. This year's contract price of Rp884,000/ton was determined in Nov 08 when the coal price was about \$100/ton. Looking ahead, we expect the trend of using market pricing to continue. Even though this may translate into lower pricing for PTBA in 2010, prices should recover in 2011-2012 given our higher coal price assumptions. Our sensitivity analysis shows that for every 5% increase in PLTU Suralaya pricing, 10-11F earnings will increase by some 5%.

Exhibit 1. Railway capacity expansion

Source: Company, Danareksa Sekuritas

Year to Dec	2007	2008	2009F	2010F	2011F
Revenue, Rp bn	4,124	7,216	9,711	9,507	10,831
Net profit, Rp bn	726	1,708	2,951	2,499	3,003
EPS, Rp	315	741	1,281	1,085	1,304
PER, x	37.0	15.7	9.1	10.7	8.9
Yield, %	0.9	1.4	3.2	5.5	4.7

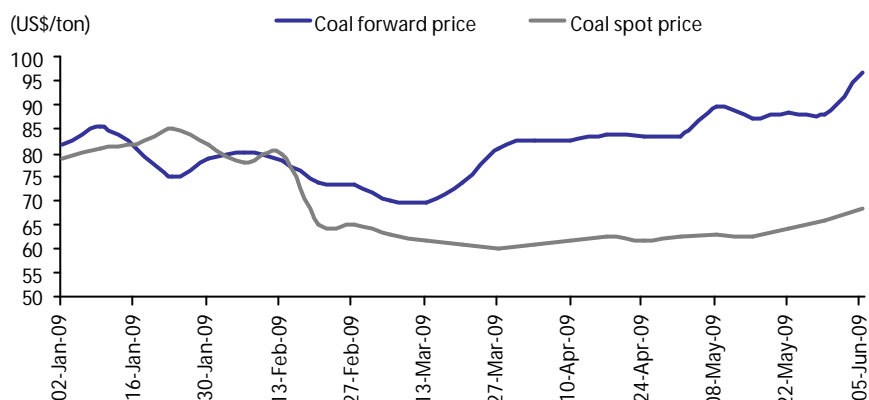
Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

Exhibit 2. Change in benchmark coal price

	2009	2010	2011	2012
New, \$/ton	75	80	80	85
Old, \$/ton	75	80	75	70
Change, %	0	0	7	21

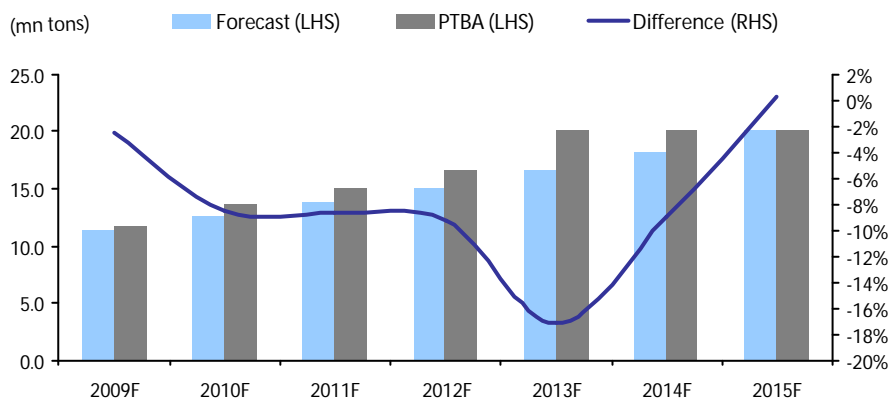
Source: Danareksa

Exhibit 3. The 2 year coal forward price has ticked up



Source: Bloomberg

Exhibit 4. Our forecast of railway capacity expansion vs. company forecast



Source: Danareksa, company

Exhibit 5. Earning sensitivity to changes in railway capacity

	2010F net income (Rp bn)	Change %	2011F net income (Rp bn)	Change %
Base case +10%	2,762	11	3,627	21
Base case +5%	2,631	5	3,308	10
Base case: 10-11F railway capacity 12.4-13.7mn tons	2,499	0	3,003	0
Base case -5%	2,368	-5	2,714	-10
Base case -10%	2,237	-11	2,439	-19

Source: Danareksa

Exhibit 6. Earning sensitivity to changes in Suralaya pricing

	2010F net income (Rp bn)	Change %	2011F net income (Rp bn)	Change %
Base case +10%	2,775	11	3,288	9
Base case +5%	2,637	6	3,146	5
Base case: 10-11F Suralaya pricing Rp718,699-Rp730,107/ton	2,499	0	3,003	0
Base case -5%	2,361	-6	2,861	-5
Base case -10%	2,223	-11	2,719	-9

Source: Danareksa

Exhibit 7. New projects and their status

New projects	Description	Progress
New railway projects	<ul style="list-style-type: none"> - JVs between PTBA and Transpacific Railway Infrastructure and China Railway Engineering - Will build 300 km of railway track and port - PTBA has 10% stake in JV railway and 65% stake in JV coal mine - Capacity expansion: 20 mn tons pa 	<ul style="list-style-type: none"> - Obtained recommendation letter from S. Sumatera and Lampung province - In process to obtain track license from Ministry of Transportation
Banjarsari power plant	<ul style="list-style-type: none"> - to build 2x100 MW mine mouth power plant - Financed by Bank Mandiri - PTBA has 41% stake - Consume 1 mn tons pa supplied by PTBA 	<ul style="list-style-type: none"> - Renegotiation of power purchase Agreement with PLN
Banko Tengah power plant	<ul style="list-style-type: none"> - to build 4x600 MW mine mouth power plant - 70% financed by China Development Bank - PTBA has 28% stake in JV power plant and 41% in JV coal mine - Consume 10-12 mn tons pa 	<ul style="list-style-type: none"> - Negotiation of Power Purchase Agreement with PLN - Waiting for financing to close

Source: Company

Exhibit 8. 1Q09 results

	1Q08	1Q09	YoY %	2009F	Actual/F %
Sales volume, mn tons	2.7	2.8	4	13.3	21
Production volume, mn tons	2.4	3.1	29	11.8	26
Selling price, Rp '000/ton	457.1	832.3	82	727.0	114
Strip ratio, bcm/ton	2.7	3.0	13	3.4	90
Total cash costs, US\$/ton	31.8	31.5	-1	34.6	91
Net sales, Rp bn	1,234	2,330	89	9,711	24
Gross profit, Rp bn	564	1,457	158	5,080	29
Operating profit, Rp bn	394	1,186	201	4,020	29
Net profit, Rp bn	286	921	221	2,951	31
Gross margin, %	45.7	62.5		52.3	
Operating margin, %	31.9	50.9		41.4	
Net margin, %	23.2	39.5		30.4	

Source: Danareksa, Company

PROFIT & LOSS ACCOUNT

Y/e Dec, Rp bn	2007A	2008A	2009F	2010F	2011F
Sales	4,124	7,216	9,711	9,507	10,831
COGS	(2,501)	(3,686)	(4,632)	(5,138)	(5,736)
Gross profit	1,623	3,530	5,080	4,368	5,095
Gross margin	0	0	1	0	0
Operating expenses	(726)	(1,036)	(1,060)	(1,126)	(1,205)
Operating profit	897	2,494	4,020	3,243	3,890
Operating margin	0	0	0	0	0
Other income/expenses	33	(50)	0	0	0
Net interest	79	108	91	102	128
Pre-tax profit	1,010	2,552	4,111	3,345	4,018
Taxes	(283)	(837)	(1,151)	(836)	(1,005)
Minority interest	(1)	(7)	(9)	(9)	(10)
Net profit	726	1,708	2,951	2,499	3,003
Dividend	(243)	(363)	(854)	(1,475)	(1,250)

BALANCE SHEET

Y/e Dec, Rp bn	2007A	2008A	2009F	2010F	2011F
Cash	2,223	3,042	3,399	4,281	5,796
Receivables	561	1,377	1,853	1,814	2,066
Inventories	271	420	528	586	654
Others	26	112	112	112	112
Total current assets	3,080	4,950	5,891	6,791	8,628
Property & plant - net	361	384	1,567	1,709	1,648
Other assets	3,619	5,723	6,664	7,564	9,401
Account payable	99	69	87	96	108
Short term debt	0	0	0	0	0
Others	645	1,284	1,284	1,284	1,284
Total curr. liabs	744	1,353	1,371	1,381	1,392
Long term debt	0	1	2	3	4
Other long-term	547	675	674	673	672
Share capital	1,152	1,152	1,152	1,152	1,152
Excess paid in	30	30	30	30	30
Retained earnings & others	1,493	2,816	4,912	5,936	7,690
Total equity	2,676	3,998	6,095	7,119	8,873
Net debt	(2,223)	(3,042)	(3,399)	(4,281)	(5,796)
Total capital employed	453	956	2,696	2,838	3,077
Wkg cap (inv+dtrs-ctrs)	733	1,727	2,293	2,303	2,612

CASHFLOW

Y/e Dec, Rp bn	2007A	2008A	2009F	2010F	2011F
Net income	726	1,708	2,951	2,499	3,003
Depreciation / amortisation	69	70	107	149	159
Gross cash flow	795	1,778	3,058	2,648	3,163
Capex	(316)	(146)	(1,290)	(291)	(98)
Change in working cap	528	(358)	(566)	(9)	(310)
Other A/L changes	(57)	(203)	0	0	0
Free cash flow	950	1,072	1,202	2,348	2,755
Dividends	(243)	(363)	(854)	(1,475)	(1,250)
Investment	0	0	0	0	0
Debt issues	0	0	0	0	0
Others	221	110	9	9	10
Net cash flow	928	819	357	882	1,516
Cash at beginning	1,295	2,223	3,042	3,399	4,281
Cash at end	2,223	3,042	3,399	4,281	5,796

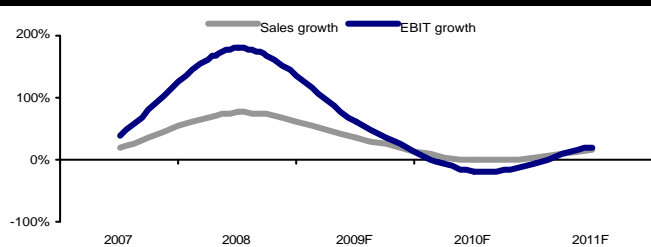
QUARTERLY BREAKDOWN

Y/e Dec, Rp bn	1Q08	2Q08	3Q08	4Q08	1Q09
Revenue	1,234	1,654	2,079	2,249	2,330
Gross profit	564	794	1,103	1,068	1,457
Operating profit	394	566	809	725	1,186
Pre-tax profit	407	596	866	683	1,291
Tax	(121)	(174)	(254)	(288)	(371)
Net profit	286	424	611	386	920

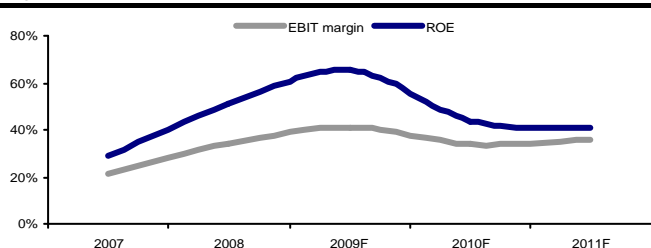
COMPANY BACKGROUND

Tambang Batubara Bukit Asam (PTBA IJ) is a state-owned coal mining company which operates in Sumatra. PTBA has some 2 billion tons of mineable reserves. PTBA produces some 12 million tons of coal per annum and expects to increase its capacity gradually to 20 mn tons within 5 years. Some 60% of its production is sold to PLN, the state-owned electricity company, under a long-term contract, 15% to domestic cement companies and the Bukit Asam power plant with the remainder to the export market.

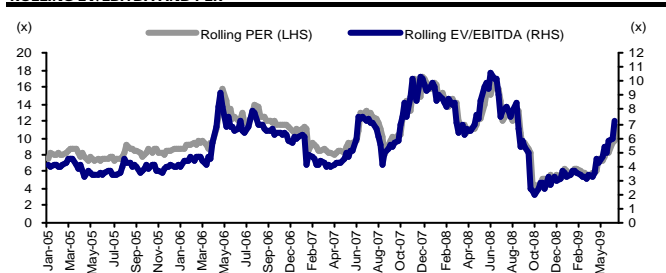
GROWTH



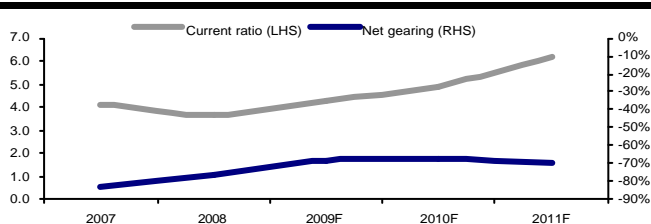
PROFITABILITY



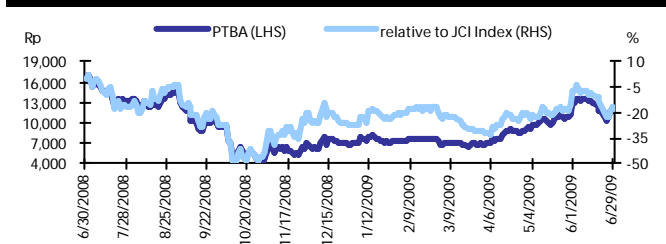
ROLLING EV/EBITDA AND PER



LEVERAGE



PTBA relative price to JCI Index



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