

Monday, 26 October 2009

BUY

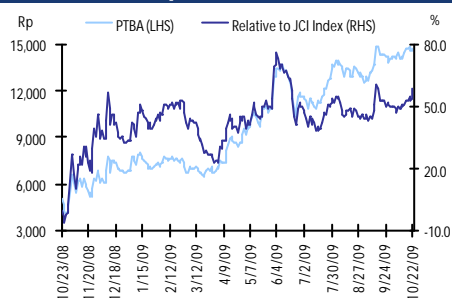
Bloomberg Code	PTBA IJ
Price, Rp	14,950
Mkt Cap Rp bn	26,910
Target Price, Rp	24,500

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Last Recommendation

	Rec.	Target Price
26--Oct-09	BUY	Rp 24,500
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

Revealing the true potential

TP upped to Rp24,500

We have greater confidence in PTBA after approval was given by the Minister of Transportation to start the construction of a 307-km railway track connecting its Banko Tengah Mine in South Sumatera to Srengsem in Lampung. The railway, when finished and fully utilized, will provide additional throughput capacity of 20Mt to PTBA. At almost the same time, PTBA and the state railway company PT Kereta Api (PTKA) signed an agreement that will provide a gradual increase in railway capacity to 22.7Mt, or higher than the 20Mt expected earlier. With total throughput capacity of the railways to swell to 42.7Mt in the long-term from currently 11.3Mt, PTBA can begin unlocking its 1,770Mt reserves just in time for when demand for coal is increasing worldwide. We estimate the increase in capacity will help push up the company's sales at a 5-year CAGR of 14% to 25.7Mt in 2014. Based on this expectation, our DCF valuation produces a TP of Rp24,500, implying a PE 10F/11F of 24.8x/19.2x. This sounds expensive but at a PEG 10F/11F of 1.24x/0.96x, the shares remain attractive we believe. BUY maintained.

Higher revenues and earnings

The increase in railway capacity will help PTBA increase sales. This will mean higher revenues and higher earnings. In 2017, when capacity is estimated to increase to 42.7Mt (our previous estimate was 20Mt), PTBA's sales are expected rise to 44.7Mt (our earlier estimate was 22.1Mt) and its revenues are expected to reach Rp23,226bn (99% higher than our previous estimate of Rp11,654bn). Although PTBA forecasts the 42.7Mt throughput capacity to be available by 2016, we are more conservative and expect this level of capacity to be attained one year later in 2017. We take this view since the railway capacity next year will be the same as this year at 10.3Mt (it had been previously estimated to increase to 11.3Mt). This is due to slight delays in the delivery of rolling stocks from PTKA from early 2010 to the end of 2010. As a consequence, we lower our sales estimate for 2010 to 14.3Mt (previously 15.5Mt). This also means lower 2010 revenues and lower earnings estimates of Rp8,797bn (previously Rp9,507bn) and Rp2,279bn (previously Rp2,499bn), respectively. However, we choose not to change our target of 13.7Mt capacity in 2011 since the new rolling stocks, when ready, will give a 21% boost to capacity, matching our existing target.

"Take or pay" scheme secures capacity target

The agreement between PTKA and PTBA contains a clause about a "take or pay" scheme which has been devised as a guarantee by PTKA should the throughput target fail to be achieved. We view this positively as it shows a commitment from PTKA to overcome any obstacles hampering the company from delivering the promised capacity to PTBA, including the issue of Rp450bn-600bn of tax clearance arising from asset revaluation which so far has not been approved by the Minister of Finance, thus holding back the establishment of PT Kereta Api Trans Sriwijaya, the joint venture with PTKA that will be responsible for the development of the Banko Tengah-Srengsem railway. For PTBA the scheme (the formula is yet to be calculated by both companies) will minimize any potential losses that might be incurred caused by delays in the delivery of targeted railway capacity.

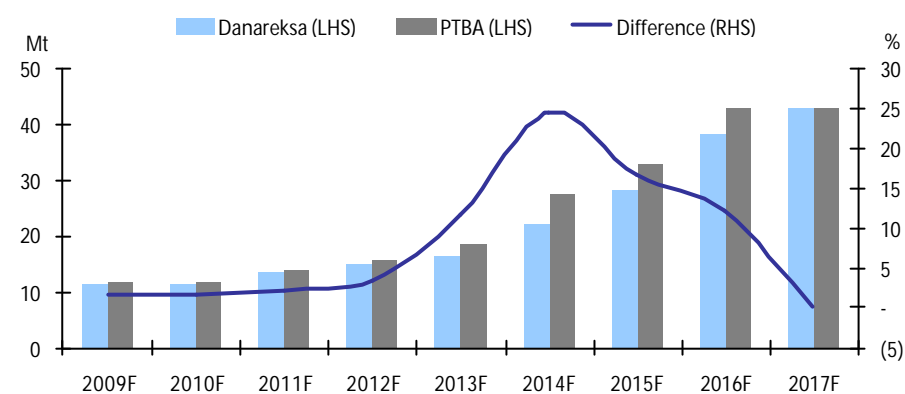
Year to Dec	2007	2008	2009F	2010F	2011F
Revenue, Rp bn	4,124	7,216	9,711	8,797	10,831
Net profit, Rp bn	726	1,708	2,966	2,279	2,946
EPS, Rp	315	741	1,287	989	1,278
PER, x	47.4	20.2	11.6	15.1	11.7
Yield, %	0.7	1.1	2.5	4.3	3.3
EV/EBITDA, x	33.4	12.2	7.3	10.1	7.4

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

Exhibit 1. Change in railway capacity assumptions and relevant financial forecasts

	2010F	2016F	2017F
Railway capacity, Mt			
Previous	12.4	18.2	20.0
Current	11.3	22.2	42.7
Change, %	-9.1	21.9	113.0
Sales, Mt			
Previous	15.5	20.1	22.1
Current	14.3	25.7	44.7
Change, %	-7.3	28.2	102.7
Net profits, Rp bn			
Previous	2,499	3,688	2,527
Current	2,279	4,272	5,408
Change, %	-8.8	15.8	114.0

Source: Danareksa Sekuritas

Exhibit 2. Danareksa forecast of railway capacity expansion vs. company forecast

Source: Company, Danareksa Sekuritas

Exhibit 3. Potential (estimated) revenue lost if PTKA fails to meet throughput capacity target

	2011F	2012F	2013F
Throughput capacity target, mn tons	13.7	15.1	16.6
Sales, mn tons:			
If target is met	17.2	18.6	20.1
If target is not met	14.8	17.2	18.6
% Potential sales lost	16.0	8.0	8.1
Revenue, Rp bn:			
If target is met	10,831	12,036	12,768
If target is not met	9,303	11,143	11,806
% Potential revenue lost	16.4	8.0	8.1

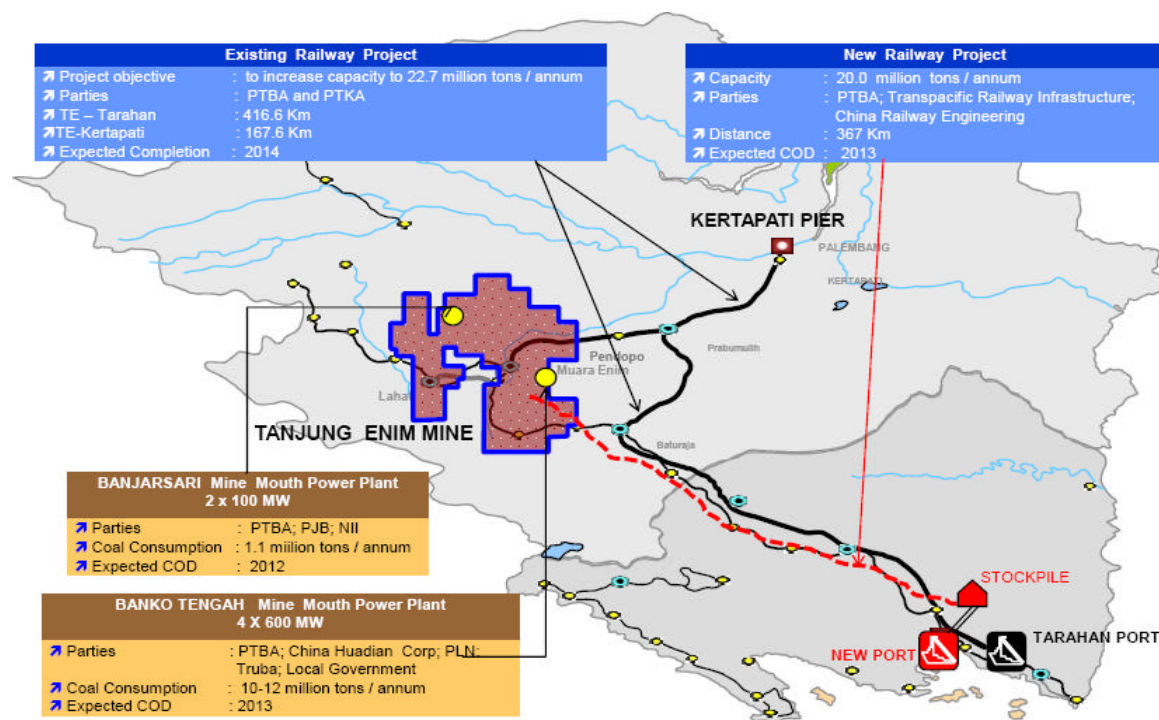
Note:

*Assuming no "take or pay" scheme available

**Throughput capacity targets are Danareksa's targets

Source: Danareksa Sekuritas

Exhibit 4. New Projects



Source: Company

Exhibit 5. 1H09 Results

	2Q09	1Q09	QoQ	2Q08	YoY, %	1H09	1H08	YoY, %	2009F	A/F
		%		%	(A)		%	(F)	%	%
Sales volume, Mt	3.0	2.8	7.2	3.2	-4.2	5.8	5.9	-0.2	13.3	44
Production volume, Mt	2.9	3.1	-8.3	2.7	5.9	6.0	5.1	17.5	11.8	51
ASP, Rp '000/ton	717	826	-13.1	524	37.0	770	493	56.1	727	106
Production cash costs, Rp '000/ton	330	320	3.2	323	2.3	325	302	7.5	343	95
Net sales, Rp bn	2,171	2,330		1,654		4,501	2,889	55.8	9,711	46
Gross profit, Rp bn	1,218	1,457		794		2,675	1,359	96.9	5,080	53
Operating profit, Rp bn	900	1,186		566		2,085	959	117.3	4,020	52
Net profit, Rp bn	672	921		424		1,592	710	124.2	2,951	54
Gross margin, %	56.1	62.5		48.0		59.4	47.0			
Operating margin, %	41.4	50.9		34.2		46.3	33.2			
Net margin, %	30.9	39.5		25.6		35.4	24.6			

Source: Company and Danareksa Sekuritas

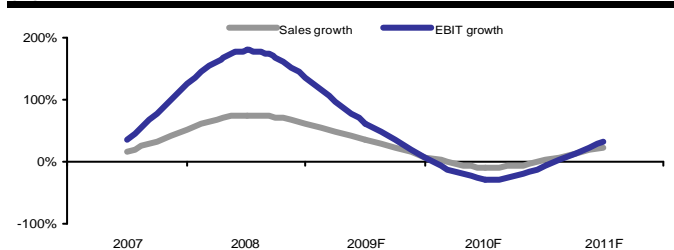
PROFIT & LOSS ACCOUNT

Y/e Dec, Rp bn	2007A	2008A	2009F	2010F	2011F
Sales	4,123.9	7,216.2	9,711.3	8,797.4	10,831.5
COGS	(2,501.0)	(3,686.1)	(4,621.7)	(4,771.9)	(5,762.4)
Gross profit	1,622.8	3,530.1	5,089.6	4,025.5	5,069.1
Gross margin	39.4%	48.9%	52.4%	45.8%	46.8%
Operating expenses	(725.8)	(1,036.2)	(1,049.1)	(1,101.1)	(1,232.4)
Operating profit	897.0	2,493.9	4,040.5	2,924.4	3,836.7
Operating margin	21.8%	34.6%	41.6%	33.2%	35.4%
Other income/expenses	33.5	(49.9)	0.0	0.0	0.0
Net interest	79.1	107.6	91.3	125.1	104.6
Pre-tax profit	1,009.6	2,551.7	4,131.8	3,049.5	3,941.3
Taxes	(282.8)	(837.1)	(1,156.9)	(762.4)	(985.3)
Minority interest	(0.6)	(6.8)	(9.2)	(8.3)	(10.3)
Net profit	726.2	1,707.8	2,965.7	2,278.8	2,945.7
Dividend	(242.8)	(363.1)	(853.9)	(1,482.8)	(1,139.4)

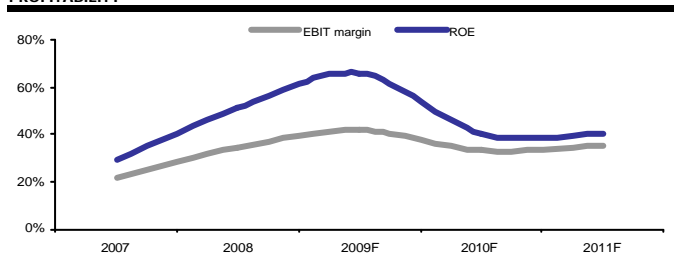
CASHFLOW

Y/e Dec, Rp bn	2007A	2008A	2009F	2010F	2011F
Net income	726.2	1,707.8	2,965.7	2,278.8	2,945.7
Depreciation / amortisation	68.7	70.3	86.2	147.7	212.5
Gross cash flow	794.9	1,778.1	3,051.8	2,426.5	3,158.2
Capex	(316.2)	(146.3)	(513.9)	(1,795.6)	(637.4)
Change in working cap	528.4	(357.5)	(565.0)	160.0	(482.3)
Other A/L changes	-57.05	-202.7272	0	0	0
Free cash flow	950.1	1,071.6	1,972.9	790.9	2,038.5
Dividends	(242.8)	(363.1)	(853.9)	(1,482.8)	(1,139.4)
Investment	0.0	0.0	0.0	0.0	0.0
Debt issues	0.0	0.0	0.0	0.0	0.0
Others	220.539	110.423	9,213,0623	8,346,0474	10,275,7791
Net cash flow	927.8	818.9	1,128.2	(683.6)	909.4
Cash at beginning	1,295.0	2,222.8	3,041.7	4,169.9	3,486.4
Cash at end	2,222.8	3,041.7	4,169.9	3,486.4	4,395.8

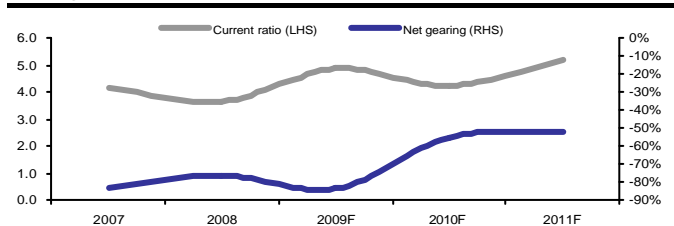
GROWTH



PROFITABILITY



LEVERAGE



BALANCE SHEET

Y/e Dec, Rp bn	2007A	2008A	2009F	2010F	2011F
Cash	2,222.8	3,041.7	4,169.9	3,486.4	4,395.8
Receivables	560.5	1,376.6	1,852.6	1,678.3	2,066.3
Inventories	271.5	420.0	526.6	543.8	656.6
Others	25.5	111.6	111.6	111.6	111.6
Total current assets	3,080.4	4,950.0	6,660.8	5,820.0	7,230.3
Property & plant - net	360.6	383.9	811.7	2,459.6	2,884.5
Other assets	3,618.6	5,722.9	7,433.7	6,592.9	8,003.2
Account payable	99.1	69.2	86.8	89.6	108.2
Short term debt	0.0	0.0	0.0	0.0	0.0
Others	645.3	1,284.2	1,284.2	1,284.2	1,284.2
Total curr. liabs	744.4	1,353.4	1,371.0	1,373.8	1,392.4
Long term debt	0.0	1.0	2.0	3.0	4.0
Other long-term	547.1	674.7	673.7	672.7	671.7
Share capital	1,152.1	1,152.1	1,152.1	1,152.1	1,152.1
Excess paid in	30.5	30.5	30.5	30.5	30.5
Retained earnings & others	1,493.0	2,815.6	4,927.4	5,723.3	7,529.6
Total equity	2,675.5	3,998.1	6,109.9	6,905.9	8,712.2
Net debt	(2,222.8)	(3,041.7)	(4,169.9)	(3,486.4)	(4,395.8)
Total capital employed	452.7	956.4	1,940.0	3,419.5	4,316.4
Wkg cap (inv+dtrs-crtrs)	732.9	1,727.5	2,292.5	2,132.5	2,614.8

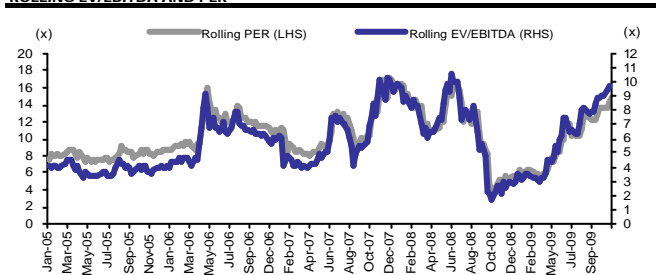
QUARTERLY BREAKDOWN

Y/e Dec, Rp bn	2Q08	3Q08	4Q08	1Q09	2Q09
Revenue	2,888.5	4,967.5	7,216.2	2,330.4	2,170.7
Gross profit	1,358.8	2,462.2	3,530.1	1,456.7	1,218.4
Operating profit	959.5	1,768.8	2,493.9	1,185.5	899.7
Pre-tax profit	1,002.6	1,868.3	2,551.7	1,291.0	945.7
Tax	(294.9)	(548.9)	(837.1)	(371.0)	(273.1)
Net profit	710.4	1,321.4	1,707.8	920.6	671.8

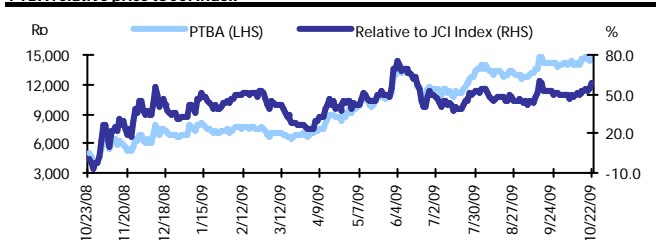
COMPANY BACKGROUND

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.

ROLLING EV/EBITDA AND PER



PTBA relative price to JCI Index



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