

TRIM Result Commentary

ITMG : Weak Production Offset by Higher ASP

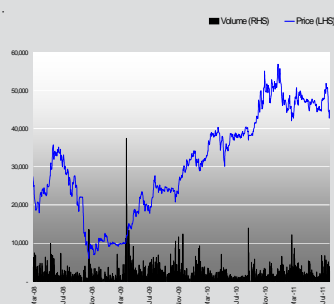
Maintained

HOLD

Share Price : Rp43,950
Sector : Coal
Price Target : Rp51,000 (16.0%)

Stock Data

Reuters Code : ITMG.JK
Bloomberg Code : ITMG.IJ
Issued Shares (mn) : 1,129.9
Mkt Cap (Rpbn) : 49,660
Average Daily T/O : 1.6m
52-Wk range : Rp36,550/Rp57,950



Company Description:

ITM was established in Indonesia as a coal mining company in 1987. After a period of expansion, ITM was acquired in 2001 by the Banpu Group of Thailand. ITM has subsidiaries Indominco Mandiri, Trubaindo Coal Mining, Jorong Barutama Greston, Kitadin, and Bharinto Ekatama.

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Inline 1H11 Result. Revenue stood at USD970.3mn, up 18.1% YoY, and represented 43.3% of our FY11 estimate. Margins were up either on a YoY or QoQ basis due to higher ASP and lower stripping ratio. Operating profit and net profit reached USD268.3mn and USD205.0mn, increased 34.4% YoY and 53.1% YoY, formed 42.3% and 43.5% of our FY11 estimate, respectively. It was relatively an in line result, considering the usual seasonality on most of coal producers and also the additional heavy equipments that already arrived in Jun'11. We upgrade our ASP and cash cost assumption to adjust with recent updates given by the management, making a slight increase of FY11-12 earnings by around 2.0%. However, our minor adjustment doesn't give a significant impact on target price. Maintain HOLD, TP of Rp51,000.

Weak 1H11 Production, Expected to Accelerate in 2H11. Due to the lingering wet weather, particularly in East Kalimantan, the company only managed to dig out 11.0mn tons of coal in 1H11 or 45.6% of our 2011 estimate. However, we expect a higher production in 2H11 looking at our drier weather expectation ahead and additional mining equipments that already arrived in Trubaindo and Indominco. Average daily production has already showed an improvement since Jul'11. Bharinto and Kitadin Tandung Mayang are also on track to start its first production in 4Q11. As such, we believe that the company will be able to fulfill our 2011 estimation of 24.1mn tons.

Stronger ASP to Continue Boost The Revenue. ASP reached USD97.4/ton in 2Q11, up 12.0% QoQ and drove 1H11 ASP to reach USD92.2/ton. 97% of the company's sales target has already been contracted, leaving 3.0% portion uncontracted to adjust the fluctuation in production. 82.0% of the contracted coal sales were based on fixed price at USD90/ton, 14.0% linked to the index, and 4.0% remain unpriced (to be negotiated in Sep'11). Looking at such encouraging figures and supported by our bullish coal price view next year, we upgrade our 2011-2012 ASP assumption by around 1.0%-2.0%.

ITMG (1H11 Result)						
QoQ (USDmn)	2Q11	1Q11	QoQg (%)	Qtr Margin (%)	2Q11	1Q11
Revenue	502	468	7.2			
Gross Profit	189	152	24.1	GPM	37.6	32.5
Operating Profit	151	117	28.5	OPM	30.1	25.1
Net Profit	110	95	15.6	NPM	21.9	20.3
YTD YoY	1H11	1H10	YoYg (%)	YTD Margin (%)	1H11	1H10
Revenue	970	822	18.1			
Gross Profit	341	284	20.1	GPM	35.1	34.5
Operating Profit	268	200	34.4	OPM	27.7	24.3
Net Profit	205	134	53.1	NPM	21.2	16.3
FY TRIM est	Realization (%)		Margin (%)			
Revenue	2,241.0		43.3			
Operating Profit	633.7		42.3	OPM	28.3	
Net Profit	472.1		43.5	NPM	21.1	
FY Consensus est	Realization (%)		Margin (%)			
Revenue	2,241.9		43.3			
Operating Profit	637.6		42.1	OPM	28.4	
Net Profit	468.7		43.8	NPM	20.9	

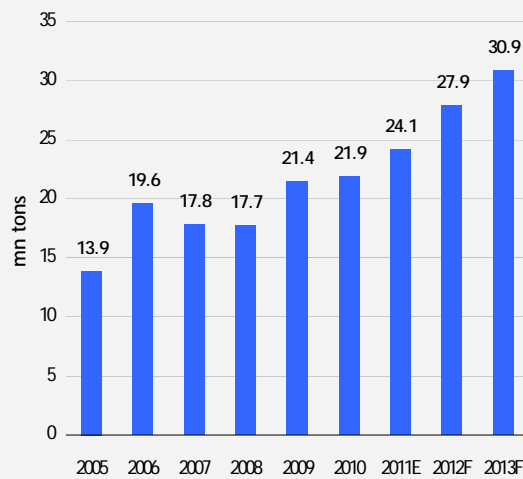
Source: Company, Bloomberg

Forecast Changes

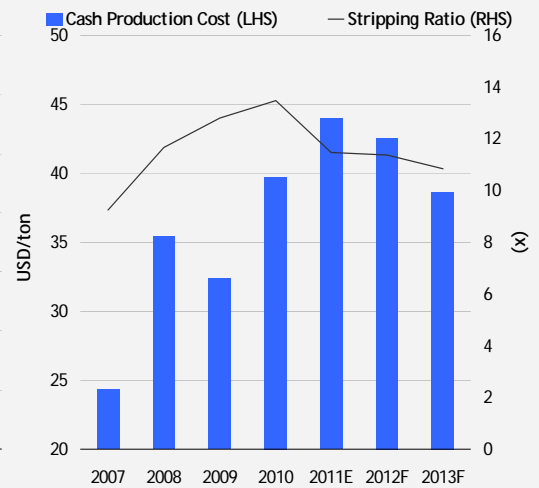
		New			Original			% Change		
		2011E	2012F	2013F	2011E	2012F	2013F	2011E	2012F	2013F
Revenue	USDmn	2,241	2,766	2,664	2,183	2,738	2,658	2.7	1.0	0.2
Gross Profit	USDmn	829	1,163	1,064	816	1,151	1,079	1.6	1.1	(1.4)
Operating Profit	USDmn	634	921	826	621	902	831	2.1	2.1	(0.6)
Other Inc (exp)	USDmn	(7)	(3)	0	(8)	(5)	(3)	(14.6)	(38.7)	(105.3)
Pre-tax Profit	USDmn	627	918	826	613	897	828	2.3	2.3	(0.2)
Tax Expense	USDmn	(155)	(226)	(202)	(152)	(221)	(203)	2.1	2.1	(0.6)
Net Profit	USDmn	472	692	624	461	676	625	2.3	2.4	(0.1)
Coal Production	mn tons	24.1	27.9	30.9	24.1	27.9	30.9	-	-	-
Stripping Ratio	x	11.5	11.4	10.8	12.1	11.7	11.1	(5.3)	(2.7)	(2.3)
ASP	USD/ton	92.7	98.9	86.0	90.3	97.9	85.9	2.7	1.0	0.2
Cash Cost ex Royalties	USD/ton	44.0	42.6	38.7	42.5	41.9	37.8	3.4	1.5	2.2

Source: TRIM Research

Coal Production Forecast

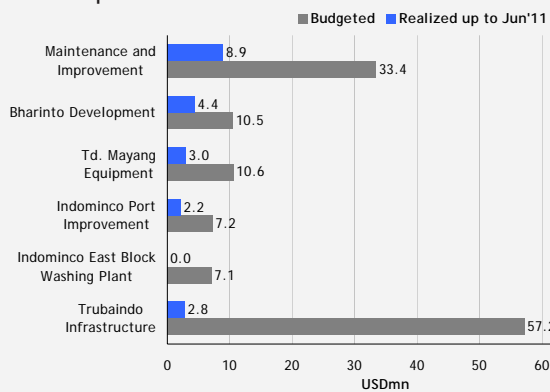


Cash Cost vs. Stripping Ratio

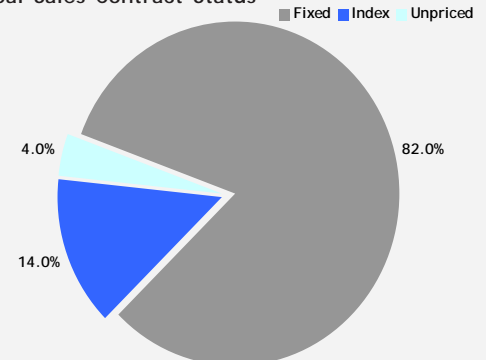


Source: Company, TRIM Research

Slow Capex Realization in 1H11



Coal Sales Contract Status



Source: Company

Income Statement (USDmn)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Revenue	1,508	1,668	2,241	2,766	2,664
% growth	15	11	34	23	(4)
Gross Profit	570	542	829	1,163	1,064
Opr Profit	436	363	634	921	826
EBITDA	485	409	689	978	886
% growth	25	(16)	68	42	(9)
Net Int inc/(exp)	2	2	8	13	19
Gain/(loss) Forex	4	5	-	-	-
Other Inc/(exp)	15	(93)	(14)	(16)	(19)
Pre-tax Profit	456	277	627	918	826
Tax	(121)	(73)	(155)	(226)	(202)
Minority Int.	-	-	-	-	-
Extra. Items	-	-	-	-	-
Net Profit	336	204	472	692	624
% growth	43	(39)	131	46	(10)

Balance Sheet (USDmn)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Cash and Deposits	429	295	583	914	1,216
Other Current Assets	244	314	396	484	298
Net Fixed Assets	344	348	365	380	389
Other Assets	182	133	267	330	318
Total Assets	1,199	1,090	1,610	2,109	2,220
ST debt	15	-	-	-	-
Other Current Liabilities	325	332	523	648	622
LT Debt	40	-	-	-	-
Other LT Liab	31	37	51	62	60
Minority interest	-	-	-	-	-
Total Liabilities	411	369	573	710	682
Shareholder's Equity	787	721	1,037	1,398	1,538
Net Debt/(cash)	(374)	(295)	(583)	(914)	(1,216)
Net Working Capital	(96)	(18)	(127)	(164)	(324)

Interim Results (USDmn)

	2Q10	3Q10	4Q10	1Q11	2Q11
Sales	414	397	450	468	502
Gross Profit	150	139	119	152	189
Operating Profit	106	99	65	117	151
Net Profit	67	52	18	95	110
Gross Margins (%)	36.1	35.1	26.4	32.5	37.6
Opr Margins (%)	25.6	24.9	14.4	25.1	30.1
Net Margins (%)	16.2	13.0	4.1	20.3	21.9

Cash Flow (USDmn)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Net Profit	336	204	472	692	624
Depr/Amort	50	46	55	57	61
Chg in Opr Ass&Liab	34	(56)	115	45	159
Others	(20)	48	(114)	(50)	10
CF's from Oprs	398	242	528	743	853
Capex	(78)	(51)	(72)	(72)	(69)
Others	1	1	(12)	(9)	2
CF's from Investing	(77)	(50)	(84)	(80)	(68)
Net Change in Debt	44	(55)	-	-	-
Others	(158)	(271)	(156)	(330)	(484)
CF's from financing	(114)	(326)	(156)	(330)	(484)
Net cash flow	207	(134)	288	332	302
Cash at BoY	222	429	295	583	914
Cash at EoY	429	295	583	914	1,216
Free Cashflow	321	191	457	671	784

Key Ratio Analysis

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Profitability					
Gross Margins (%)	37.8	37.8	32.5	37.0	42.1
Op Margins (%)	28.9	28.9	21.8	28.3	33.3
EBITDA Margins (%)	32.2	24.5	30.7	35.3	33.3
Net Margins (%)	22.2	22.2	12.2	21.1	25.0
ROE (%)	48.0	27.1	53.7	56.8	42.5
ROA (%)	30.8	17.8	35.0	37.2	28.8
Stability					
Current ratio (x)	2.0	1.8	1.9	2.2	2.4
Net Debt/Equity (x)	(0.5)	(0.4)	(0.6)	(0.7)	(0.8)
Int Coverage (x)	226.2	111.9	-	-	-
Efficiency					
A/P days	34.3	34.3	34.3	34.3	34.3
A/R days	35.0	37.0	37.0	37.0	20.0
Inventory days	24.9	24.9	24.9	24.9	15.0

Key Assumptions

Year end 31 Dec	2010	2011E	2012F	2013F
Coal Production (mn tons)	21.9	24.1	27.9	30.9
Stripping Ratio	13.5	11.5	11.4	10.8
ASP (USD/ton)	74.8	92.7	98.9	86.0
Cash Cost ex. Royalties (USD/ton)	39.7	44.0	42.6	38.7

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