TRIMEGAH SECURITIES

January 24, 2011

TRIM Commodities Comments

Hot Coal Outside, Colder Inside

Commodity Wrap: Hot Coal Outside, Colder Inside

The sea borne coal market has been a hot issue since the beginning of the year as the worst Queens land flood in 50 years pushed international coal prices to post crisis highs, while the domestic coal market has been haunted by negative noise amplified through the media when PLN asked its coal suppliers regarding pricing settlement for 2011 coal delivery. PLN demanded to use 4Q10 average coal price of around USD95-97/ton, while its suppliers is arguing for the current benchmark price of USD130/ton. Assuming PLN 2011 coal demand of 55mn tons and roughly USD15/ton coal price difference, government will have to fork out another Rp7.4tr to subsidize the nation's electricity needs this year.

We are generally skeptical that ID government's statement last Thursday (2011 01 20) on the export ban of low rank coal in 2014 will be executed, citing reasons explained in our previous notes (2011 01 21 Trim Notes: Restriction on Exporting Low-Rank Coal, Will It Be Truly Happened?) judging from (1) Indonesia's coal production and reserve profile, (2) slow execution in sector related infrastructure investment, and (3) commercially unproven coal upgrading technologies. Do be reminded that (4) Indonesia needs coal exports to fund its trade balance and overall economic growth.

In view of the above two news, PTBA is at the highest risk of derating. Currently the most expensive coal exposure in Indonesia, PTBA has the highest percentage of low rank reserve and coal sales to PLN.

Oil: Price Fell After Reaching 27 Months High Last Week

Crude oil fell under USD90/barrel in the weekend to close USD89.1/barrel, declining 2.7% WoW amidst expectations that China will take more aggressive steps to slow its economic growth. Investors are worried that the current policy tightening in China maybe intensified and prolonged. Crude oil reached its 27 months high last week after IEA reported improved global demand outlook and that inventory in the US may slack due to the shutdown of Trans Alaska Pipeline.

Coal: Queensland's Coke Output to Drop, Expect Price Remains at High Level

Queensland facing the worst floods in 50 years has cut its annual coking coal output forecast by 10.5%. Coking coal output in the 12 months ending Jun'11 is forecasted to be 177mn tons vs. 198mn tons previously estimated. Meanwhile, government also expects the sector to take as long as 3 months for mining activities to normalize. Overall conditions improved this week with several train lines and coal miners back operating, obviously not at full capacity. But with more rain forecasted and general infrastructure damage, risks exist in the of global coking coal supply. We continue to expect benchmark coal price to remain elevated for sometime.

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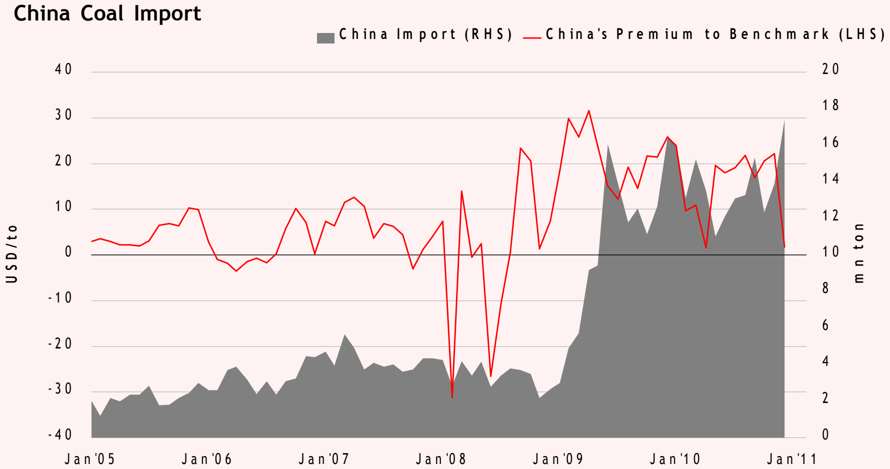
Coal: China's Import Expected to Drop in 1Q11

China's coal imports hit a monthly record in Dec'10 when shipments reach 17.4mn tons, 6.0% YoY higher. However, generally comfortable inventory levels, and a lack of arbitrage opportunities between local coal and (currently high) international prices will inhibit this import growth. As such, we expect total Chinese import volume to decline in this 1Q11 period.

China Coal Import



Source Bloomberg

Metals: Both Tin and Nickel Keep Outperforming Base Metals

After a great year in 2010, Tin continue to outperform in 2011, up 2.8% WoW on mounting concern that global supplies will trail demand. Wet weather is creating supply issues in Indonesia, the world's largest tin supplier. On the other hand, nickel price also increase 1.8% WoW, gaining 6.3% since beginning of the year, on signs of increasing consumption in China.

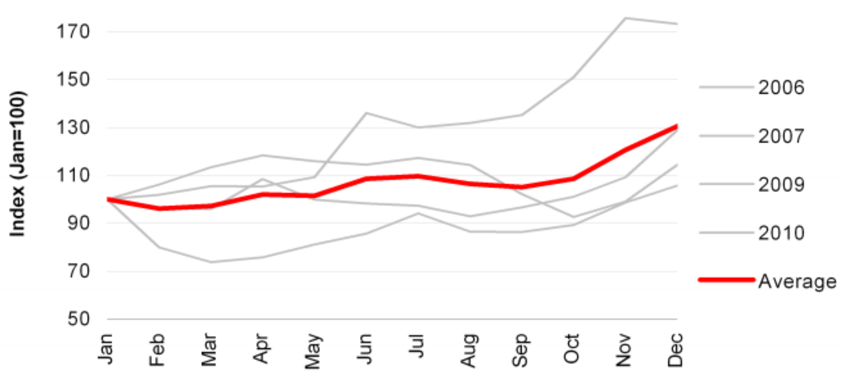
CPO: Indonesian Palm Expansion Will Be Hampered in 2011, In Line With Our Expectation

Indonesian Palm Oil Producers Association (GAPKI) as reported on local newspaper said that due to Norwegian Moratorium, increasing export taxes, and unclear forest spatial regulations will slow expansion amongst Indonesian planters to add only another 200k-250k ha in 2011. This is half of the optimum rate expansion estimated at 500k ha/yr. The problem is worsened as ID government reported to extend the Moratorium coverage from primary forest (only originally) to include secondary forest and even the APL forest (Area Penggunaan Lain).

Energy

24-Jan-11

Coal Price Seasonality



Source: Blomberg, Trimegah Research

Catalyst:

MT to LT Indian 11th policy plan and Indonesian fast track of 1st 10,000 MW power plant projects will come online going until 2014 with coal as a dominant fuel, creating a regional hunger for coal. It is estimated that 5,000-6,000MW of coal fired power plants scheduled to come online in 2011 in Indonesia. PLN coal demand will jumped 75% to reach 70mn tons in 2014 compared to current level of 40mn tons. 2nd 10,000MW programme is already beginning in Indonesia, again with coal taking the chunk of power source for the programme. India will continue to feed its domestic demand from seaborne market due to structural problem of its supply side. LT emerging market growth will continue to provide a good floor for coal prices, with robust demand coming from China, India and Indonesia.

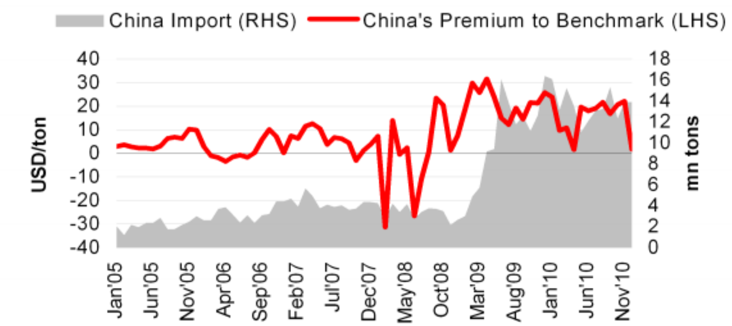
ST Colder than normal winter in Northen Hemisphere, coupled with Queensland worst flood in 50 years will create tighter supply-demand balance at seaborne trade in the short term, hence driving the price higher. We expect spot price for thermal coal to hit USD142.5/ton.

Risk:

ST macro risk is the biggest risk, followed by regulatory risk as increase of local demand may urge Indonesian government to implement stricter DMO and price control. Government also state that it might ban the export of low rank coal in 2014 to increase state's export revenue.

Price Movement	Last	WoW (%)	MoM (%)	YoY (%)	Ytd (%)	Average Price 1 Mth	3 Mth	6 Mth	Ytd
Oil and Gas									
Crude Oil	89.1	(2.7)	(2.6)	19.5	(2.5)	90	87	83	90
Natural Gas	5	5.7	16.0	(18.6)	7.5	4	4	4	5
Coal									
Newcastle 6,700kc GAD	139	0.0	13.2	39.9	9.8	131	116	105	133
Qinhuangdao 6,000kc GAD	127	0.0	(0.9)	4.2	(0.9)	127	126	120	127
Richard Bay 6,000kc NAR	129	0.0	0.4	48.3	(0.9)	128	113	100	128
Coal (Daily)	115	(4.9)	(8.3)	43.0	(12.7)	124	116	105	123
Other									
Baltic Dry Index	1,370	(4.8)	(22.7)	(57.2)	(22.7)	1,557	2,005	2,297	1,503

Chinese Coal Price vs Benchmark to Import Level



Source: Blomberg, Trimegah Research

Relative Companies	Ticker	Trim TP (Rp/shr)	Last Px (Rp/shr)	M. Cap (Rptr)	YTD (%)	Bloomberg TP Avg	Bloomberg TP High	Bloomberg TP Low	P/E (x) 2011	P/E (x) 2012	P/BV (x) 2011	P/BV (x) 2012	ROE (%) 2011	ROE (%) 2012	EPSg (x) 2011	EPSg (x) 2012	Div. Y (%) 2011	Div. Y (%) 2012
Adaro Energy	ADRO	2,900	2,325	74.4	(8.8)	3,050	4,200	2,500	13.5	10.5	3.3	2.7	24.1	25.5	100.7	28.1	1.9	2.9
Bumi Resources	BUMI	-	2,975	61.8	(1.7)	3,428	4,300	2,500	12.6	9.9	2.8	2.3	22.4	22.8	85.7	26.9	1.8	2.7
Borneo Lumbung Energy	BORN	-	1,620	28.7	20.9	2,033	2,200	2,050	14.5	10.0	3.3	2.6	22.8	25.9	21.8	44.5	1.2	2.4
Harum Energy	HRUM	-	8,750	23.6	(2.8)	10,329	11,900	8,500	13.8	10.0	7.3	4.8	53.1	48.3	104.9	38.5	2.2	3.4
Indika Energy	INDY	-	4,275	22.3	(9.5)	5,434	6,600	4,300	10.6	9.1	2.9	2.4	27.2	26.1	77.1	16.9	2.5	3.9
Indo Tambangraya Megah	ITMG	50,700	45,750	51.7	(9.9)	59,114	75,200	45,101	11.1	9.1	5.0	3.9	44.7	43.1	72.7	22.1	4.2	6.1
Tambang Batubara Bukit Asam	PTBA	25,300	19,700	45.4	(14.2)	25,493	35,600	19,000	13.0	11.0	5.1	4.0	39.4	36.7	69.3	18.7	2.8	4.2
Regional Average									**12.1**	**9.5**	**2.8**	**2.1**	**23.5**	**21.7**	**27.2**	**15.9**	**2.4**	**2.9**

Soft Commodities

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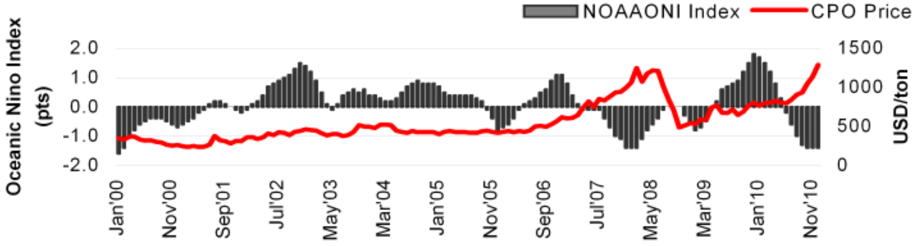
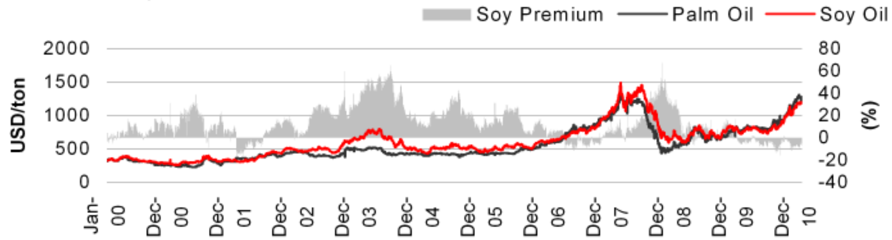
Oceanic Nino Index vs. CPO Price



Palm Oil vs. Soybean Oil



Source: Bloomberg, TRIM Research

Catalyst:

LT Oil Consumption per capital in emerging markets (China 14kg, India 8kg, Brazil 18kg, and Indonesia 17kg) are still half of developed nations (30kg). This will support CPO prices in the long term as CPO prices will need to remain above cost + margin model to support volume growth. Structural oil supply problems combined with USD debasement story will support bio-diesel commercial viability in the LT.

MT A drier period followed after La Nina will boost CPO production and make the supply and demand balanced. Price will be normalize but it will be floored in our view, as human consumption of edible oil will grow steadily at 4.0%-5.0% CAGR mainly contributed by Chindia and bio diesel mandatory in several edible oil producer countries. Moratorium in Indonesia also expected to hamper CPO production, driving a positive outlook on CPO price in medium term.

ST La Nina phenomena (wet in the Eastern and dry in the Western) expected to continue until the end of 1Q11 with strong La Nina occur during Oct'10- Feb'11 period, creating a supply shortage for most of soft commodities counters.

Risk:

We also see moratorium along with unclear forest spatial regulation as a serious obstacle for Indonesia planters to expand, hampering the growth opportunity. Association expected our planters will "only" add 200k ha - 250k ha in 2011 vs. 500k ha 3-4 years ago.

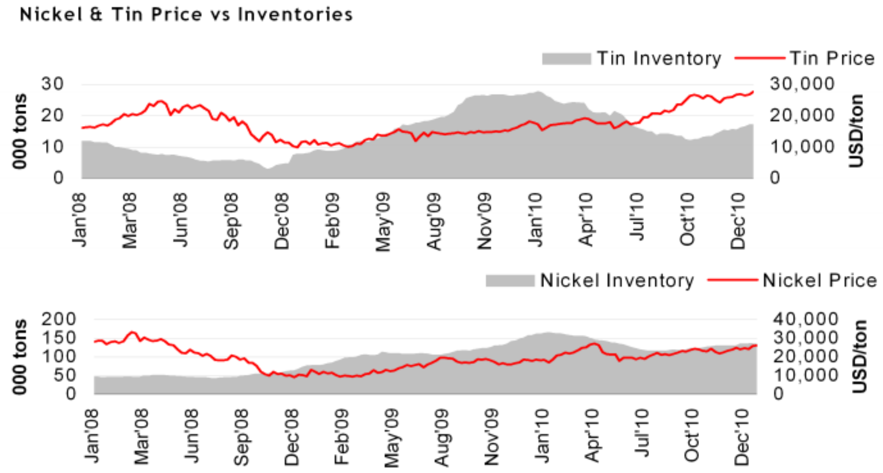
Price Movement	Last	WoW (%)	MoM (%)	YoY (%)	Ytd (%)	Average Price 1 Mth	3 Mth	6 Mth	YTD
CPO Malaysia	3,875	4.5	4.2	58.6	1.9	3,789	3,543	3,146	3,785
CPO Rotterdam	1,283	1.6	2.2	65.5	(0.2)	1,272	1,191	1,060	1,271
Soybean Meal	1,412	(0.7)	4.6	48.4	1.3	1,392	1,312	1,193	1,398
Soybean Oil	58	0.5	1.7	56.8	(0.3)	57	54	48	57
Rubber	483	5.7	18.5	72.8	19.0	435	387	346	443
Corn	657	1.3	7.0	80.2	4.5	629	588	530	632
Wheat	825	6.6	5.3	65.4	3.8	790	742	720	790
Sugar	32	4.7	(4.9)	12.3	0.7	32	30	27	32

Malaysia Palm Oil	Last	MoM (%)	YoY (%)	Cummulative	YoY (%)
Production					
Crude Palm Oil	1,233	(15.5)	(18.9)	16,994	(3.3)
Palm Kernel	303	(16.7)	(22.6)	4,292	(4.6)
Palm Kernel Oil	153	(10.2)	(20.9)	2,015	(3.9)
Export					
Ex-Palm Oil	1,286	(14.3)	5.0	16,646	5.0
Ex-Palm Kernel Oil	107	(11.5)	2.4	1,164	4.1
Inventory					
Palm Oil	1,615	(1.3)	(27.9)		

Relative Companies	Ticker	Trim TP (Rp/shr)	Last Px (Rp/shr)	M. Cap (Rptr)	YTD (%)	Bloomberg TP Avg	High	Low	P/E (x) 2011	2012	P/BV (x) 2011	2012	ROE (%) 2011	2012	EPSg (x) 2011	2012	Div. Y (%) 2011	2012
Astra Agro Lestari	AALI	26,600	21,650	34.1	(17.4)	27,715	38,600	16,988	13.0	12.3	3.9	3.4	29.9	27.5	34.1	5.6	3.7	4.4
BW Plantation	BWPT	-	1,190	4.8	(7.8)	1,273	1,350	1,170	16.4	13.2	3.5	2.8	21.3	21.5	32.1	24.0	0.8	1.0
Gozco Plantation	GZCO	-	395	2.0	(8.1)	508	535	480	8.2	7.5	1.4	1.2	17.3	16.4	66.5	10.1	1.8	2.0
London Sumatra Indones	LSIP	14,600	11,250	15.4	(12.5)	14,264	19,100	9,852	12.0	11.3	2.8	2.4	23.0	21.3	30.1	6.5	2.4	2.9
Tunas Baru Lampung	TBLA	-	420	2.0	2.4	-	-	-	6.6	7.2	1.3	1.2	20.5	17.0	33.3	(9.4)	3.1	2.9
Sampoerna Agro	SGRO	4,050	2,875	5.4	(9.4)	3,598	4,625	2,600	12.2	10.8	2.3	2.0	18.8	18.5	17.5	12.7	2.2	2.5
Bisi International	BISI	-	1,380	4.1	(26.2)	1,430	1,430	1,430	15.8	11.9	3.0	2.5	18.7	20.9	43.4	32.6	0.8	1.2
Regional Average									**18.4**	**14.7**	**2.6**	**2.3**	**14.2**	**15.9**	**(7.4)**	**26.2**	**1.9**	**2.3**

Metals

24-Jan-11



Source: Bloomberg, TRIM Research

Catalyst:

LT Growth from global emerging markets will continue to provide a floor for base metal prices. Aggressive money printing and fiscal stimuli will eventually lead on to inflation, favoring hard asset prices in the future. Supply side issues coming from both China and Indonesia, who both are world's largest tin supplier, will be supportive of tin's prices long term

MT The Q.E 2.0 US stimulus is very commodity intensive, and will be supportive of based metal prices. Based on cost + margin model, the fair nickel price is estimated to be USD16k/ton - USD20k/ton. However, demand is needed to bring its inventory down from historic levels, before nickel price can resume its ascend. We would expect tin to outperform nickel in the medium term on lower inventory glut and structural supply issues.

ST Demand growth for nickel is expected to slow mainly cause by lower demand for stainless steels in China and EU. In the other hands, production will speed up supported by new projects coming and continued restart of idled capacity. ABARE expects world demand for nickel to "only" grow by 6.0% in 2011 compared to 9.0% of supply. Moreover, at higher price large scale nickel pig iron production would be expected to contribute a supply expansion, giving the pressure on nickel prices.

Risk:

EU faster recovery than estimated and improving Chinese demand will become the upside risk for our short term nickel view.

Price Movement	Last	WoW (%)	MoM (%)	YoY (%)	Ytd (%)	Average Price 1 Mth	3 Mth	6 Mth	Ytd
Non ferrous Metal									
Aluminum	2,404	(0.8)	0.0	8.8	(2.3)	2,450	2,373	2,288	2,456
Copper	430	(2.3)	1.1	28.8	(3.1)	435	409	380	436
Nickel	26,349	1.8	8.9	43.6	6.3	25,078	23,971	23,271	25,293
Zinc	2,351	(4.2)	1.9	0.1	(4.2)	2,410	2,338	2,267	2,421
Lead	2,460	(7.1)	1.0	9.7	(3.8)	2,563	2,456	2,340	2,583
Tin	27,700	2.8	3.4	55.8	3.0	26,838	26,069	24,502	26,865
Precious Metal									
Gold	1,341	(1.4)	(2.9)	23.1	(5.7)	1,378	1,377	1,324	1,372
Silver	27	(3.2)	(6.4)	62.0	(11.3)	29	28	24	29
Platinum	1,832	1.7	6.0	18.5	3.7	1,779	1,726	1,664	1,786
Palladium	827	4.0	8.1	91.0	3.1	792	735	635	794
LMEX	4,157	(1.7)	1.5	23.1	(1.3)	4,185	3,984	3,766	4,198

Inventory Level	Last	WoW (%)	MoM (%)	YoY (%)	Early Year	Ytd (%)
Non ferrous Metal						
Aluminum	4,550,325	2.7	6.4	(1.8)	4,277,050	6.4
Copper	381,300	0.6	2.9	(28.6)	377,550	1.0
Nickel	135,696	-1.5	(0.9)	(16.4)	135,672	0.0
Zinc	711,550	0.3	1.9	44.9	701,425	1.4
Lead	264,175	23.4	27.1	72.1	208,275	26.8
Tin	17,295	-0.7	10.8	(36.8)	16,275	6.3
Precious Metal						
Gold	0.3	0.0	10.0	175.0	0.3	10.0
Silver	104,359	(0.0)	(0.7)	(7.7)	104,849	-0.5

Relative Companies	Ticker	Trim TP (Rp/shr)	Last Px (Rp/shr)	M. Cap (Rptr)	YTD (%)	Bloomberg TP Avg	High	Low	P/E (x) 2011	2012	P/BV (x) 2011	2012	ROE (%) 2011	2012	EPSg (x) 2011	2012	Div. Y (%) 2011	2012
Aneka Tambang	ANTM	-	2,225	21.2	(9.2)	2,813	3,014	2,375	12.0	11.3	1.6	1.4	13.0	12.2	15.8	6.0	3.2	3.8
International Nickel	INCO	-	4,625	46.0	(5.1)	5,342	6,000	3,750	12.8	10.6	2.6	2.4	20.1	22.3	5.0	14.3	5.5	6.1
Timah	TINS	-	2,550	12.8	(7.3)	2,813	3,200	2,300	15.4	10.2	2.6	2.2	16.9	22.1	33.0	14.2	3.9	5.0
Regional Average									**21.7**	**18.3**	**2.8**	**2.4**	**12.8**	**13.3**	**35.9**	**15.4**	**0.0**	**0.0**

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