

ANALISA SAHAM INDONESIA

JULY 27, 2020

- * THE JCI TRADING RANGE : 5,040PT - 5,150PT (FRIDAY CLOSE: 5,083PT)
- * WALL STREET ENDED LOWER BY SOME 1% ON HEIGHTENED UNITED STATES (US) AND CHINA TENSIONS
- * THE JCI IS EXPECTED TO BE FLUCTUATE BUT SUPPORTED BY STABLE USDIDR AND OIL CLOSE

Morning,

The Jakarta Composite Index (JCI) today (27/7) is expected to be in the range of 5,040pt – 5,150pt in a consolidation phase but stable USDIDR and liquidity support. Meanwhile, Friday last week(23/7) in Wall Street the DJIA ended lower by 182 points or 0.7% at 26,470pt as political risks among the US and China rose.

Indonesia Consumer Sector

Stable and Higher world thermal coal price finds its way to elevate domestic purchasing power

ADRO: Ready to ride on an upward coal price trend_Maintain our BUY call_12-M TP of IDR1,480

Adaro Energy (ADRO) has been among our preference among listed coal-mining shares in the Indonesia exchange. ADRO latest financials differed from our last estimate (see our published report dated 7/11/2018) also as a result much lower prevailing world coal price. We adjusted our earnings projections and came with a revised-revenue projections this year of USD3.2bn (2019: USD3.5bn), and USD3.6bn for the year 2021. Our operational metrics for FY20 include an overall estimated average selling price (ASP) of the company's coal at USD55/tonne (1Q20: USD52.2/tonne, FY21E: USD60/tonne) with sales volume of 58mn tonnes (1Q20:14.4mn tonnes, FY21E: 60.8mn tonnes). At the other end, we expect the company to maintain its current debt level at a total gearing of 44%.

Factoring lower free cash flow to reflect lower total ASP to USD60/tonne (previously USD105/tonne) and lower WACC to 10.3% (previously 12%), we came to an equity value per share of IDR1,480 that we set as the current 12-Month target price for the counter, a potential upside of 36% from Friday closing price of IDR1,090/share.

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ADRO is well-positioned both in domestic and within world scope. Aside from the company scale which is ranked second in terms of production rates in Indonesia (ranked 1st of Bumi Resources at 87.7mn tonnes in 2019), ADRO is also being in a most favorable spot in terms of 1) sophistication of environmentally-friendly coal products, 2) controls over supply-chains for timely delivery, 3) producing a mixture of metallurgical to balance those of thermal ones, 4) track record of marketing bases that included risk-favored pricing tools, mixture of clients, and mostly with longer term contracts.

Indonesia coal – mining counters is a must have in the list of investors' selection with portion being adjusted to suit each's risk-preference, in our view, despite its relatively higher volatility as compared to the other more resilient ones for the following reasons.

1) Coal use as the major fuels for power is expected to continue, despite as yet the green campaigns, and especially during the current pandemic climate,. To replace the low-cost energy based on coal seems unviable at present for to find better alternative fuels, huge funds is necessary to finance further researches, not to mention tax revenues and employment that are forgone. Indeed, during the climate talk in 2019 that took place in Germany, 20 (twenty) countries agreed to phase-out coal by 2030, but this group did not include any of the world's biggest coal producers: China, India, the United States, Australia, Indonesia, Russia, South Africa and Germany.

2) Indonesia listed coal mining producers are global players in terms of production rates that produce mostly thermal coal of calorific value in the range of 5,100kkal – 6,100kkal or ones that is most suitable to produce electricity.

3) Indonesia exported 375mn tonne of coal last year (2018: 343mn) worth of USD20bn (2018:USD20.6bn), made-up of 13% of total non-oil and gas export values, and made-up 80% of foreign exchange from mining exports. Inherent with this contribution, the country earns duties, income tax, value added-tax, on top of direct financial benefit to coal - explorers and their labors. Therefore, positive trend of coal price create multiplier effects in domestic economy, through private consumptions.

Latest thermal-coal price trend

Last close was at USD52/tonne which was also the year-low in late April and is currently at 30% lower as compared to the same spot last year. Analysts cited that coal price is set to recover given the tightening of oversupply as well as demand recovery which we somehow agree. New investments on coal exploration and productions, as in any other commodities, face challenging current situation, in our view.

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At the other end, Friday last week the WTI price closed higher by 22 cents to USD41.3/barrel by support of Eurozone's July Markit PMI of 51.1pt, fastest in 1.5 years time and higher-than-consensus' estimate of 50.1. Meanwhile the USDIDR closed at IDR14.614 vs. IDR14.669 the previous one.

We advise the following recommendation , for both trading and longer-time investment purpose. **AALI, LSIP (sector of Agri, allocation suggestion Underweight), UNTR, ITMG, ADRO, PTBA (sector of Coal Mining, allocation suggestion Market-weight), GGRM, UNVR, ICBP (sector of Consumer, allocation suggestion Overweight), ASII (sector of Automative, allocation suggestion Market-weight), and ACES, SCMA, MAPI (sector of Trade, allocation suggestion Overweight),and TKIM (sector of Basic Industry, allocation suggestion Market-weight).**

Cheers,

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