



**PT Indo Tambangraya Megah Tbk**

# **ANALYST BRIEFING 2Q18 PERFORMANCE RESULT**



***Jakarta, 16 August 2018***

**1 INTRODUCTION**

**2 OPERATIONAL REVIEW**

**3 COMMERCIAL REVIEW**

**4 FINANCIAL REVIEW**

**5 QUESTION & ANSWERS**

# Highlights of 2Q18 and 1H18 results



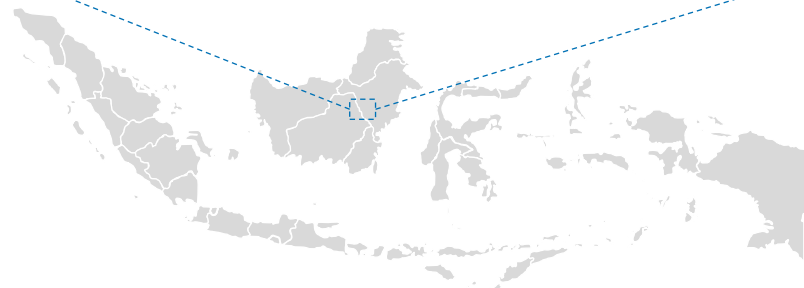
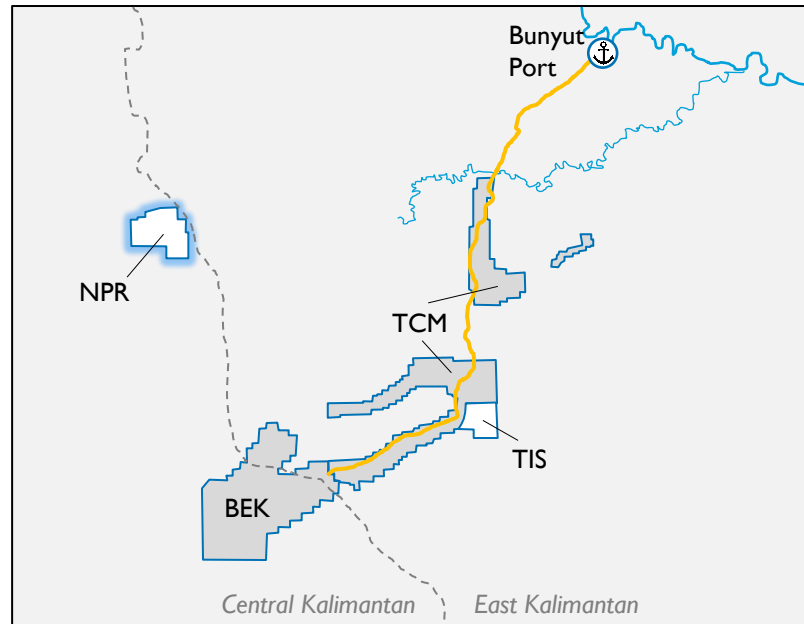
**Coal sales**  
**5.3 Mt**  
 ↑ Up 0.9Mt  
 +20% Q-Q

**Coal sales**  
**9.6 Mt**  
 ↓ Down 1.3 Mt  
 -12% Y-Y

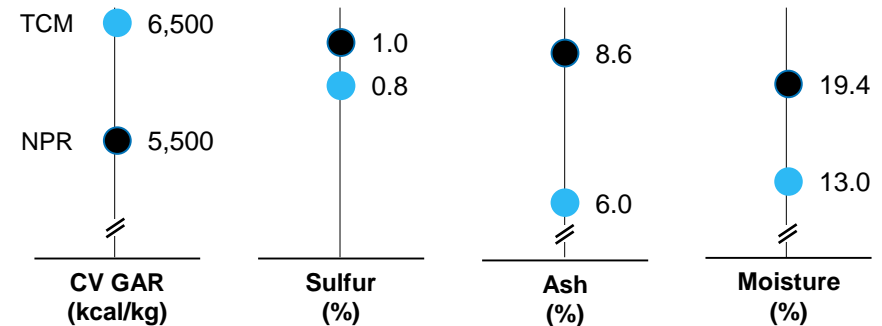
Unit: US\$ million

	<u>1Q18</u>	<u>2Q18</u>	<u>Q-Q</u>	<u>1H17</u>	<u>1H18</u>	<u>y-y</u>
<b>Total Revenue</b>	<b>378</b>	<b>431</b>	<b>+14%</b>	<b>749</b>	<b>809</b>	<b>+8%</b>
<b>Gross Profit Margin</b>	<b>29%</b>	<b>27%</b>	<b>-2%</b>	<b>28%</b>	<b>28%</b>	<b>0%</b>
<b>EBIT</b>	<b>88</b>	<b>79</b>	<b>-10%</b>	<b>160</b>	<b>167</b>	<b>+4%</b>
<b>EBITDA</b>	<b>102</b>	<b>93</b>	<b>-9%</b>	<b>188</b>	<b>196</b>	<b>+4%</b>
<b>Net Income</b>	<b>58</b>	<b>44</b>	<b>-24%</b>	<b>105</b>	<b>103</b>	<b>-3%</b>
<b>ASP (USD/ton)</b>	<b>\$83.6</b>	<b>\$78.3</b>	<b>-6%</b>	<b>\$68.4</b>	<b>\$80.9</b>	<b>+18%</b>

# New Coal Reserves Acquisition



## MEDIUM-HIGH CV COAL CONCESSION

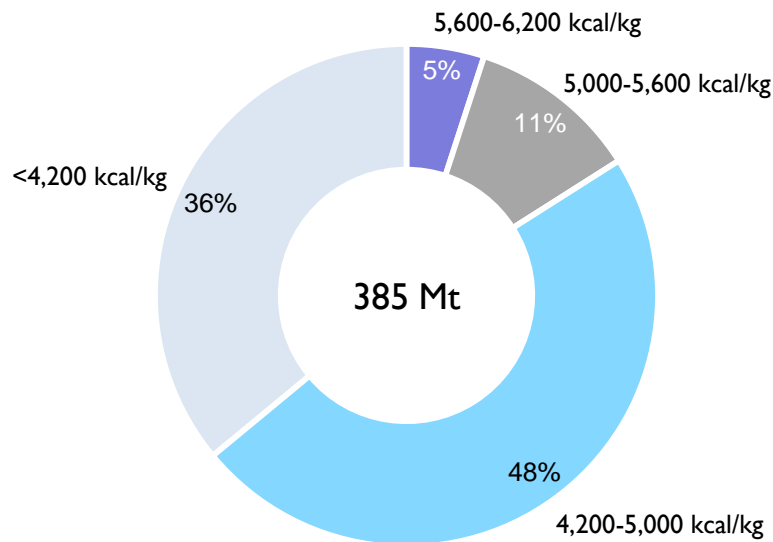


- Acquired 100% stake in PT Nusa Persada Resources (NPR). Total transaction value was \$30M for 77 Mt reserves based on JORC calculation.
- NPR is a medium CV concession which has IUP operation license for concession area of 4,291 ha in Central Kalimantan; adjacent to Trubaindo concession.
- NPR would utilize the current infrastructure of Melak cluster to synergized the operation.
- Production is planned to start in 2022.

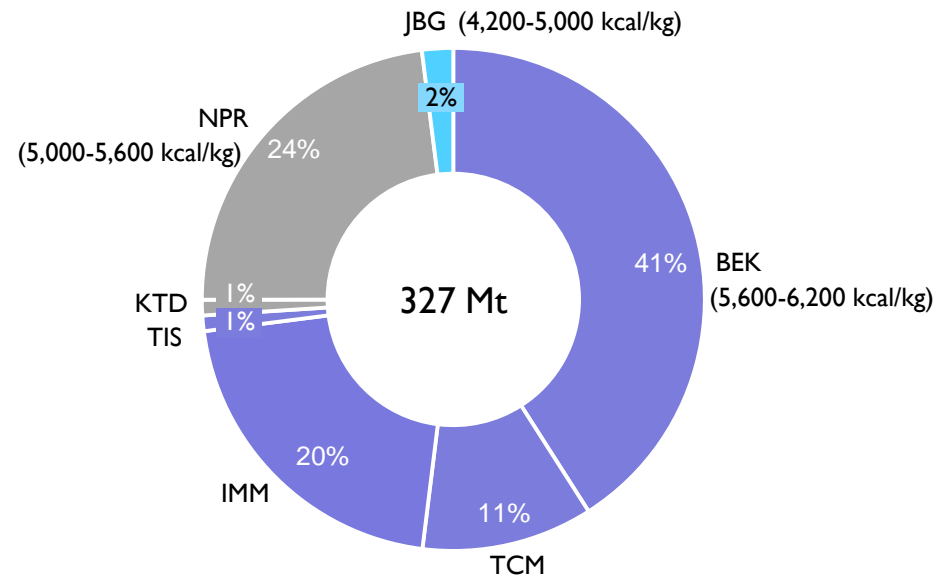
# Strengthening our premium coal portfolio



## INDONESIAN THERMAL COAL EXPORT BY QUALITY

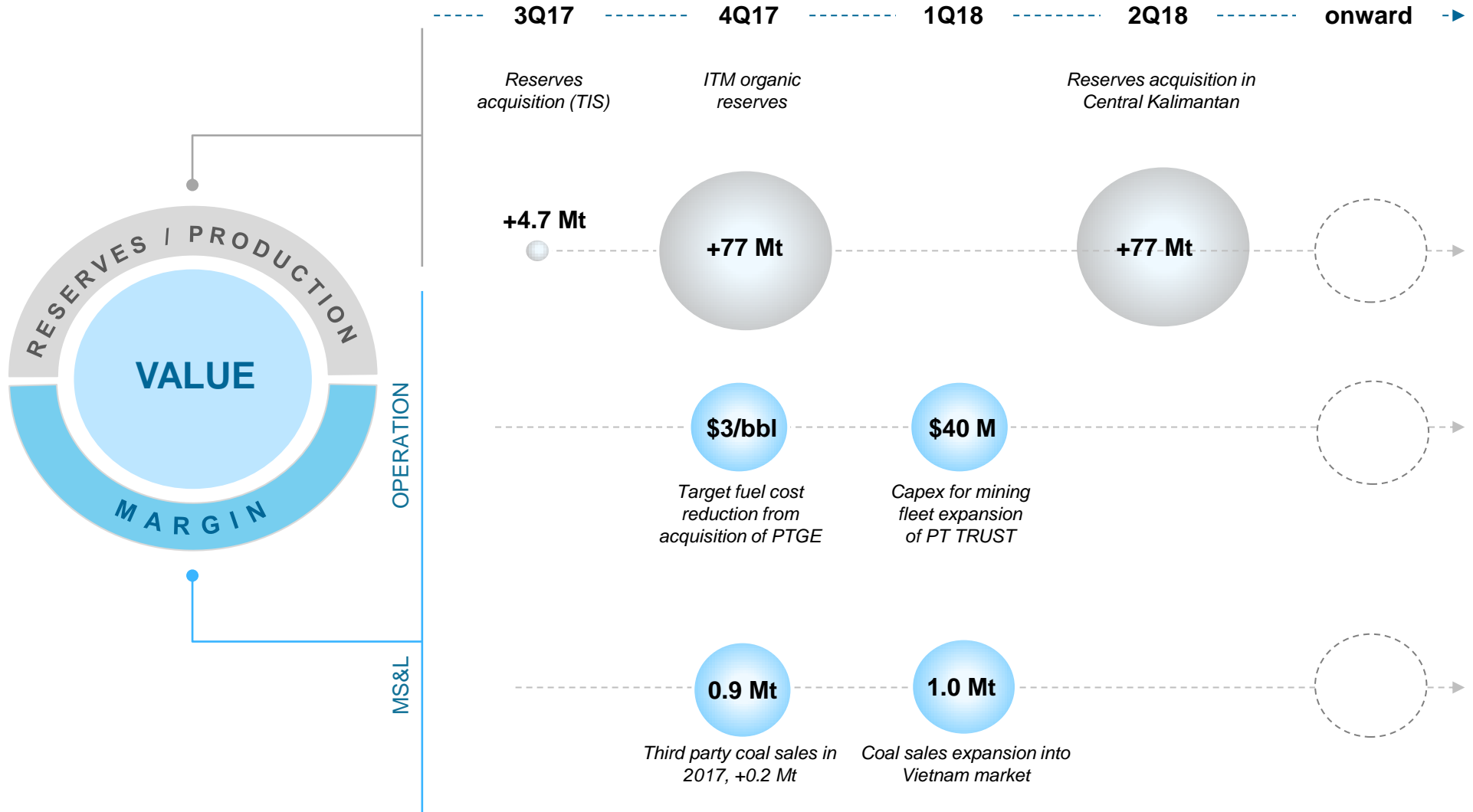


## ITM RESERVES BREAKDOWN BY QUALITY



- High CV coal is increasingly more difficult to source in Indonesia.
- NPR complements ITM's high CV coal portfolio.
- This situation is a preferred position for established players with premium products.

# ITM Coal Strategy: progress and way forward



**1 INTRODUCTION**

**2 OPERATIONAL REVIEW**

**3 COMMERCIAL REVIEW**

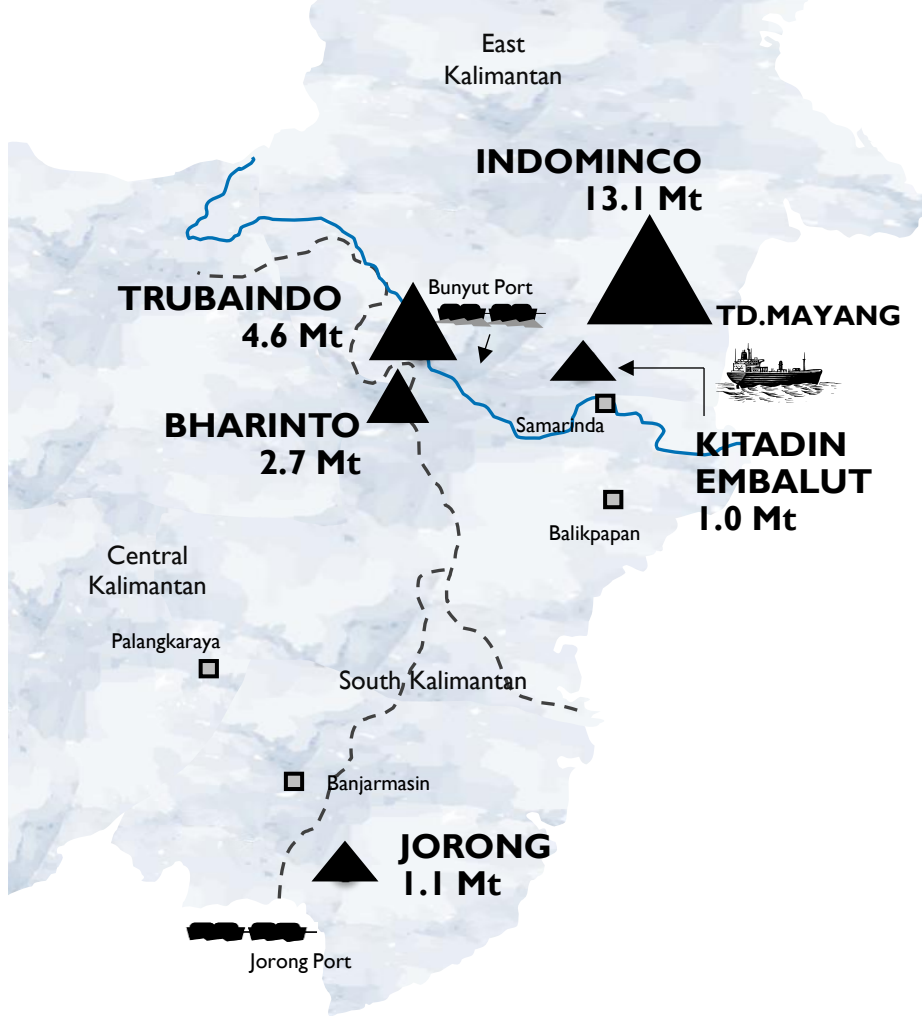
**4 FINANCIAL REVIEW**

**5 QUESTION & ANSWERS**

# Operational Summary 2018

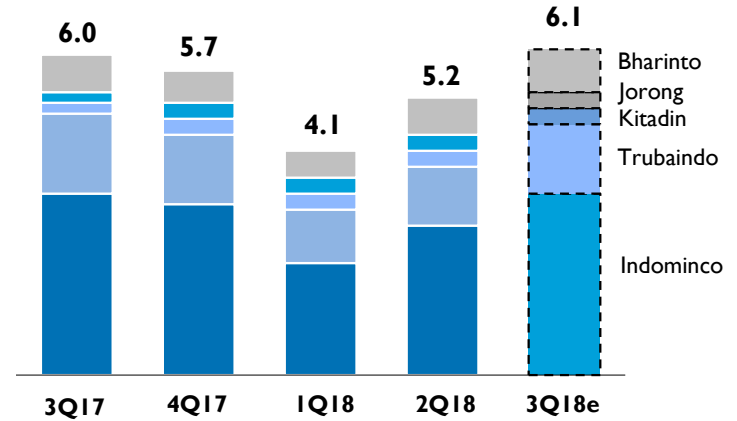


2018 TARGET : 22.5 Mt



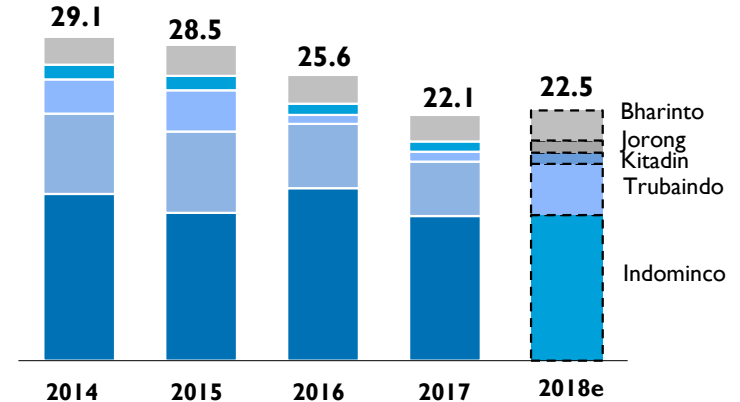
## QUARTERLY OUTPUT TREND

Unit: Mt



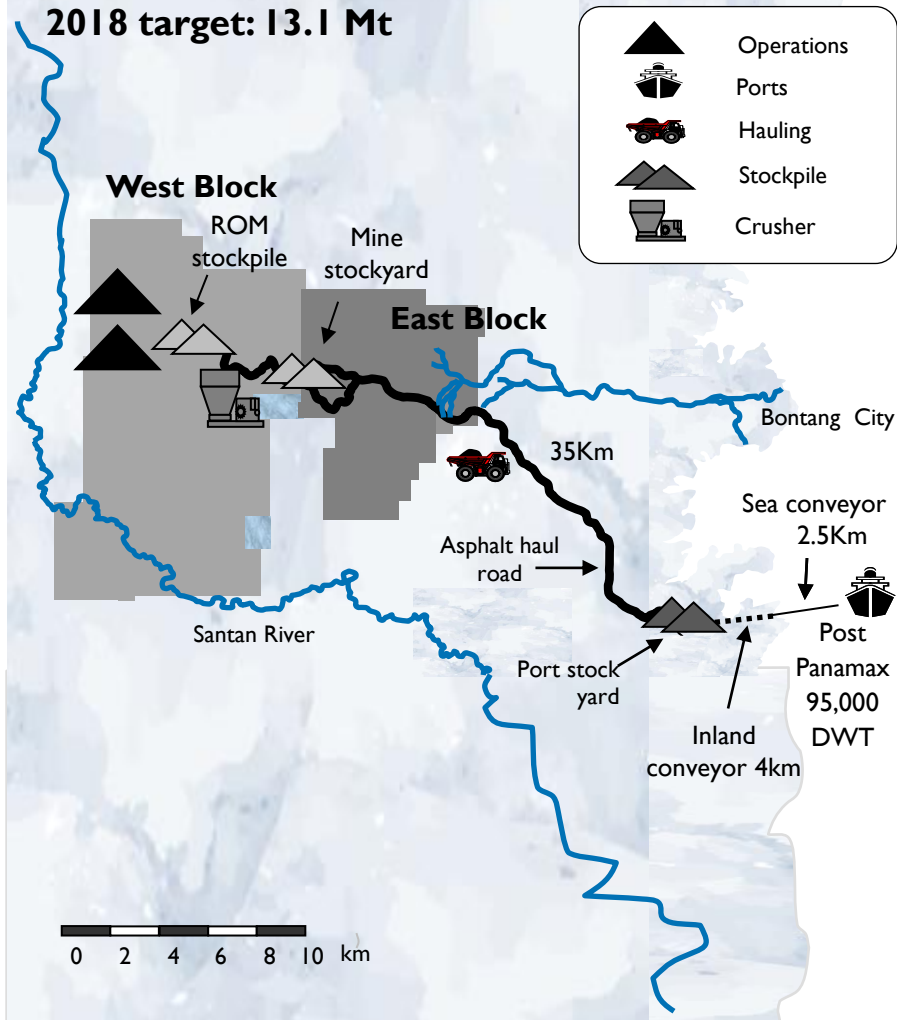
## YEARLY OUTPUT TREND

Unit: Mt





## SCHEMATIC

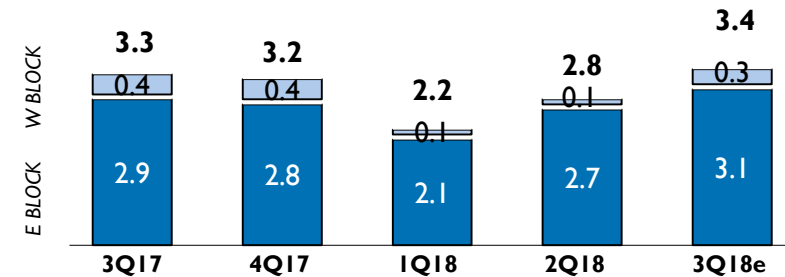


## QUARTERLY UPDATES

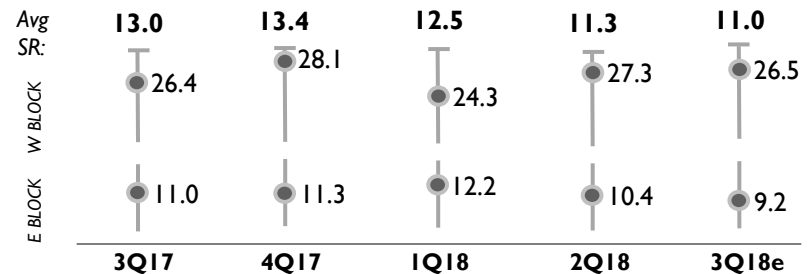
- 2Q18 production was close to target due to weather condition and pre stripping activities.
- Average strip ratio in 2018 is expected to be lower than 2017 due to higher contribution from East Block operation.

## QUARTERLY OUTPUT

Unit: Mt



Unit: Bcm/t



\*SR based on ROM coal

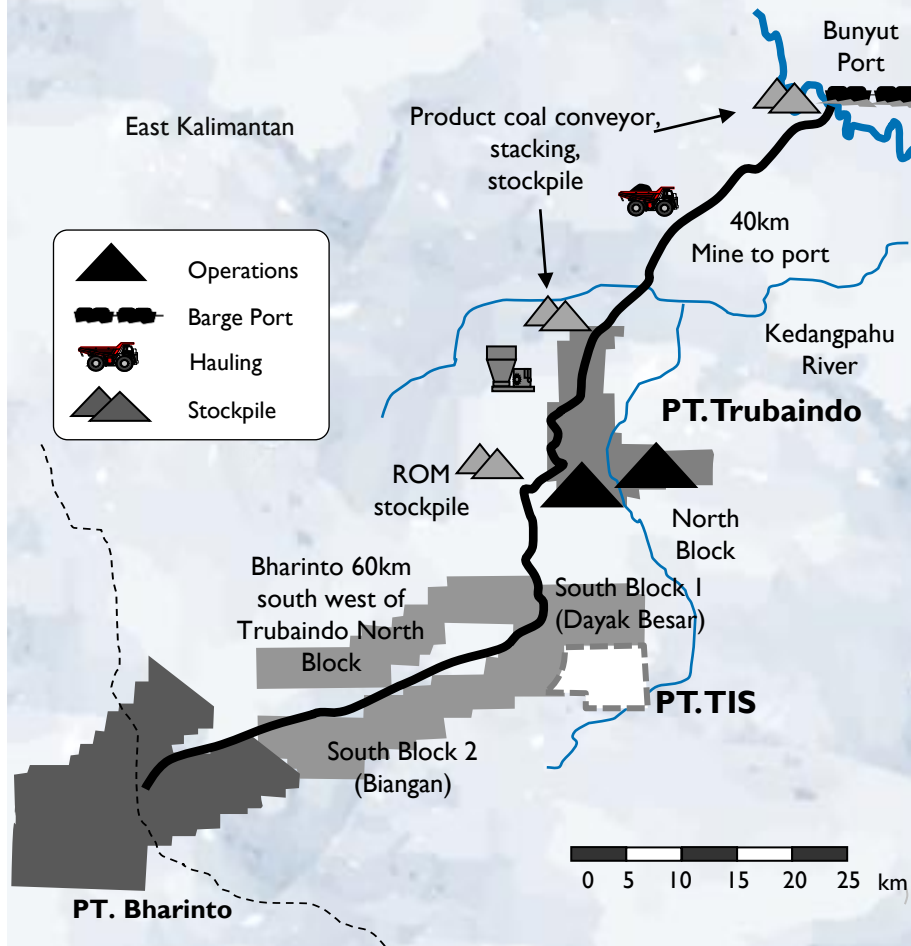
\*\*SR FY17 IMM: 11.9, WB: 24.6, EB: 10.2

# Melak group – Trubaindo and Bharinto



## SCHEMATIC

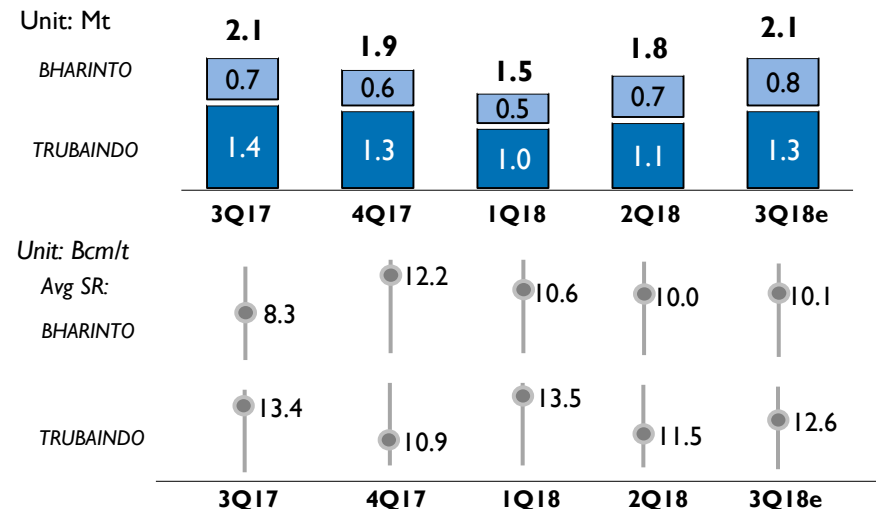
2018 target: TCM 4.6 Mt  
BEK 2.7 Mt



## QUARTERLY UPDATES

- Trubaindo:
  - 2Q18 production output slightly higher than target.
  - Continue hauling road improvement program from Trubaindo to Bharinto area, expected to be completed by end year of 2018.
- Bharinto:
  - 2Q18 production achieved close to target despite weather conditions.

## QUARTERLY OUTPUT



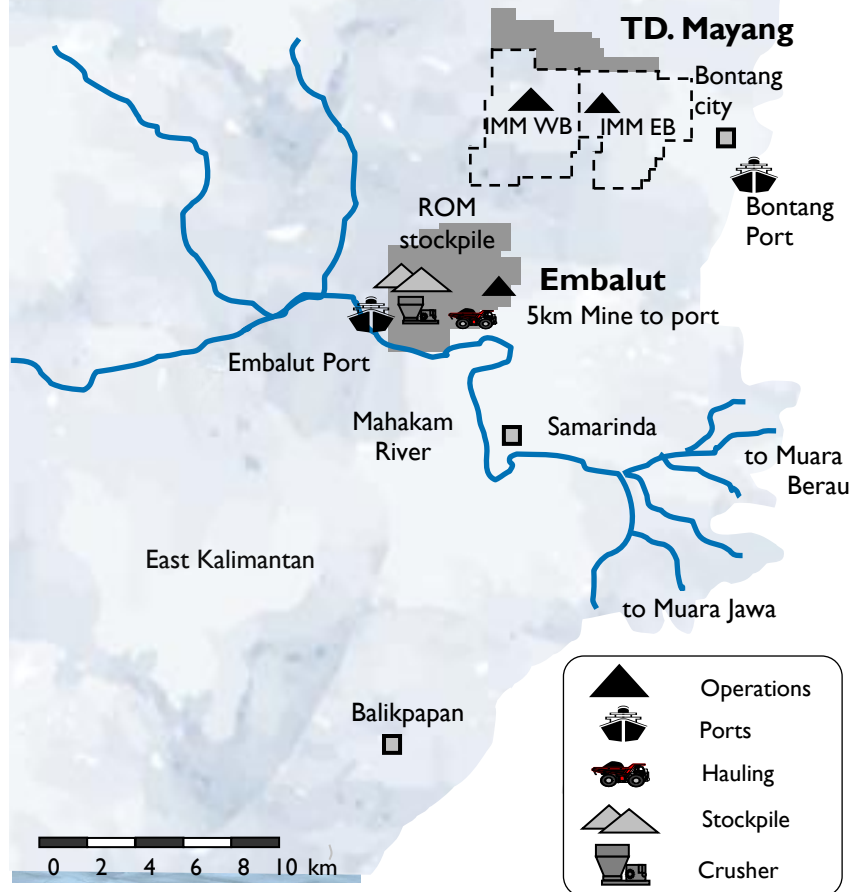
\*SR based on ROM coal

\*\*SR FY17 TCM: 11.2, BEK: 9.1

# Kitadin Embalut and Tandung Mayang

## SCHEMATIC

2018 target: EMB 1.0 Mt



## QUARTERLY UPDATES

- Kitadin Embalut:
  - 2Q18 production achieved according to target.
  - Further study to optimize coal reserves.
- Kitadin Td.Mayang:
  - Continue mine closure activities including mine rehabilitation.

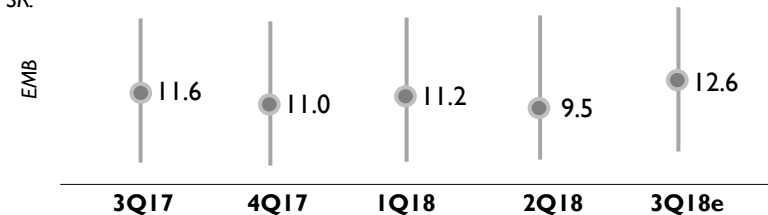
## QUARTERLY OUTPUT

Unit: Mt



Unit: Bcm/t

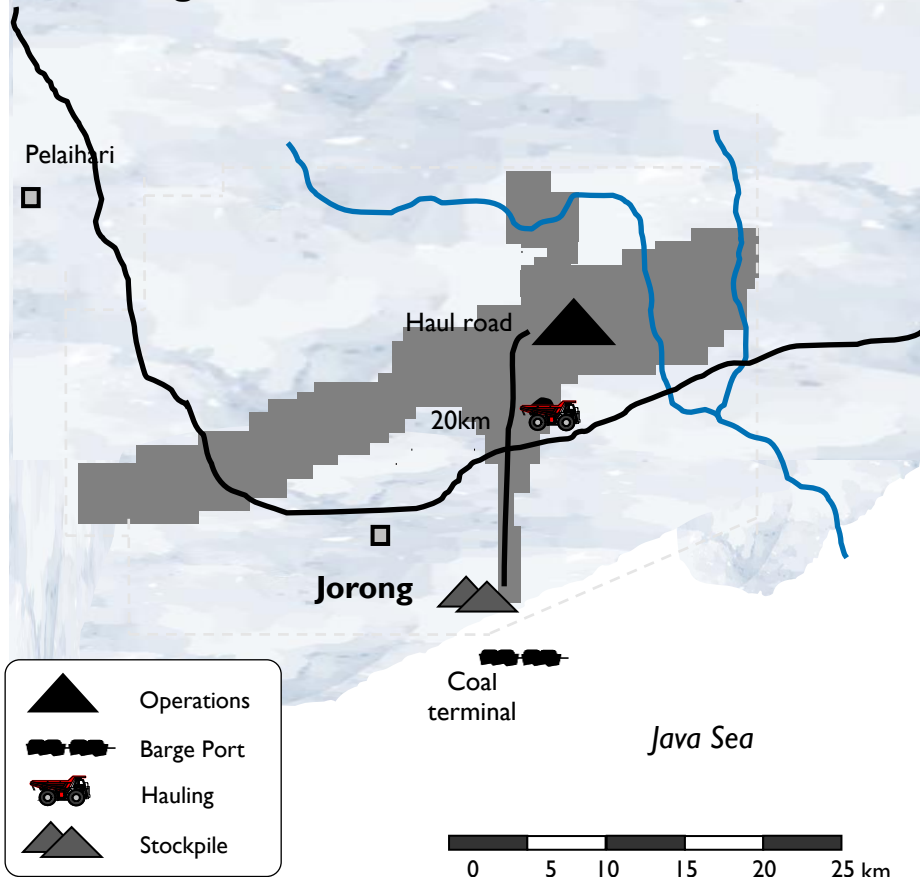
Avg SR:



\*SR based on ROM coal \*\*SR FY17 EMB: 12.2

## SCHEMATIC

2018 target: 1.1 Mt

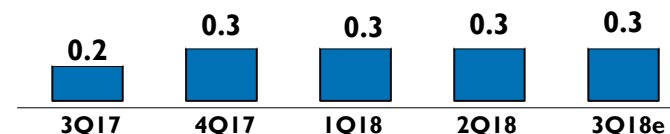


## QUARTERLY UPDATES

- 2Q18 production achieved according to target.
- Additional reserves from river diversion project would extend the life of the mine beyond 2019.
- Permit requirement by government is continue in progress.

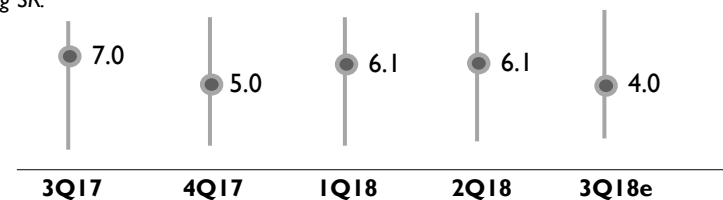
## QUARTERLY OUTPUT

Unit: Mt



Unit: Bcm/t

Avg SR:



\*SR based on ROM coal

\*\*\*SR FY17 JBG: 6.3

**1 INTRODUCTION**

**2 OPERATIONAL REVIEW**

**3 COMMERCIAL REVIEW**

**4 FINANCIAL REVIEW**

**5 QUESTION & ANSWERS**

## 1H18

Strong demand and tight supply continued to drive coal price

### China

- Economy
- Regulation (safety)
- Colder-than-expected winter, early summer
- Low hydropower output

### India

- Pre-monsoon restocking

### Australia

- Rail maintenance and coal supply consolidation

### Indonesia and Colombia

- Rain impact production and transport

### S. Africa

- High domestic demand and domestic supply shortage tighten export

## 2H18 OUTLOOK

Supply tightness continues especially shortage of high quality product

### China

- Chinese government intervention continues

### SEA and S.Asia

- Strong demand growth from emerging economies due to new coal-fired capacity
- Domestic supply shortage remains in India

### Indonesia

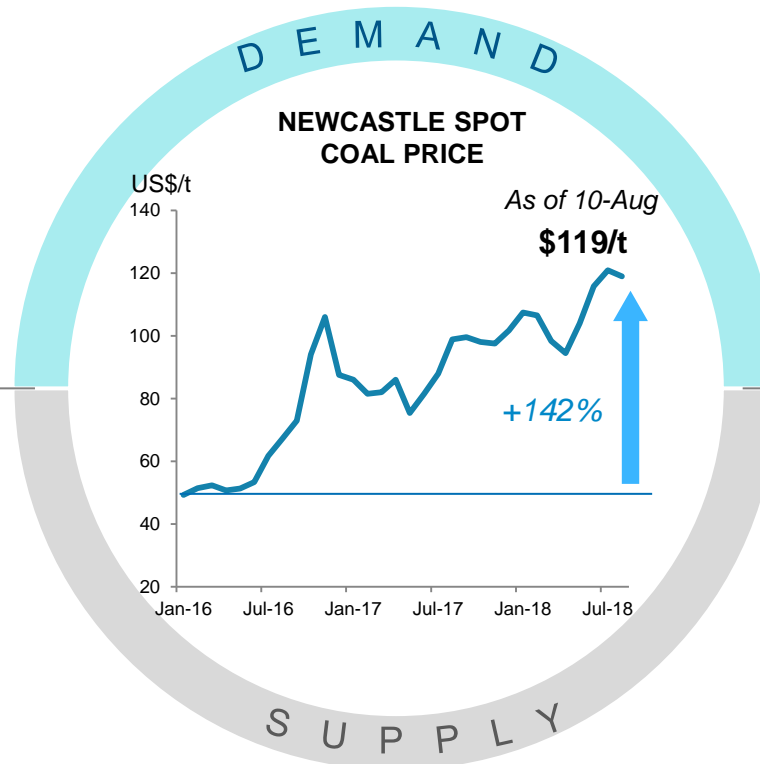
- Government strengthen control over illegal miners and DMO

### Colombia

- Mining issue, weather, and falling European demand will limit export

### China

- Supply expected to improve but growing demand keeps market tightness



# Demand and supply trends

## DEMAND – REMAINS STRONG

### HIGH ECONOMIC GROWTH EXPECTATION

Rising prosperity drives an increase in energy demand

### BALANCE BETWEEN ECONOMICS, RELIABILITY AND ENVIRONMENT

Coal remains important to a 'balanced' baseload solution for power generation in Asia

### MORE FOCUS ON QUALITY

Requirement for higher calorific value, lower Sulphur, and lower ash coal

## SUPPLY – DIFFICULT TO INCREASE CAPACITY

### CONSTRAINTS ON NEW CAPACITY EXPANSION

Not only economics, but also environmental and social issues

### LIMITED CAPITAL

Tightening financing conditions for coal projects

### DECLINING COAL QUALITY

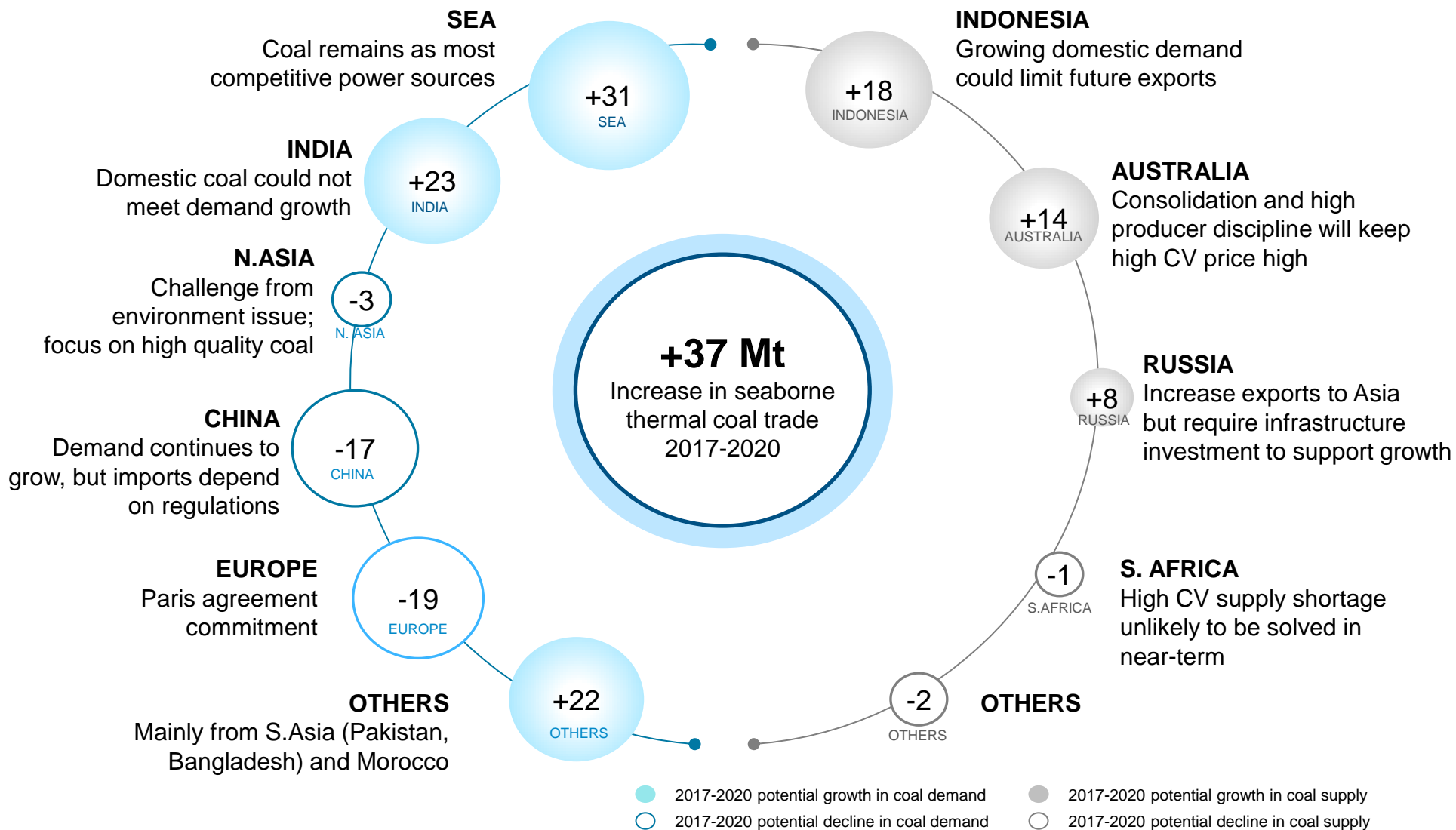
Depletion of high-quality coal reserves



# Medium term demand and supply outlook

## KEY DEMAND COUNTRIES

## KEY SUPPLY COUNTRIES

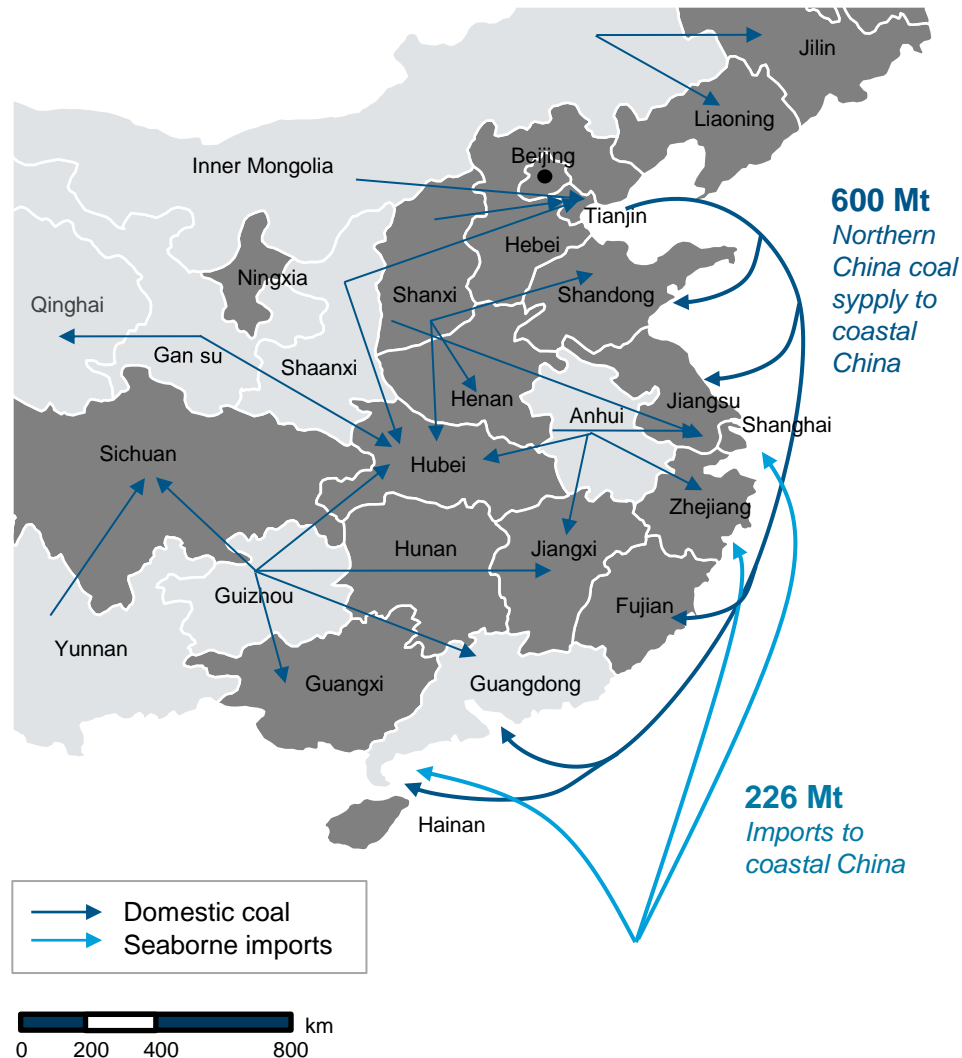


Note: No spurt from World/ Asian GDP growth, steel demand, or technical changes  
 Source: ITM MS&L



# China: tight supply continues in the short term

## CHINA DOMESTIC COAL TRADE FLOW



### 2Q18

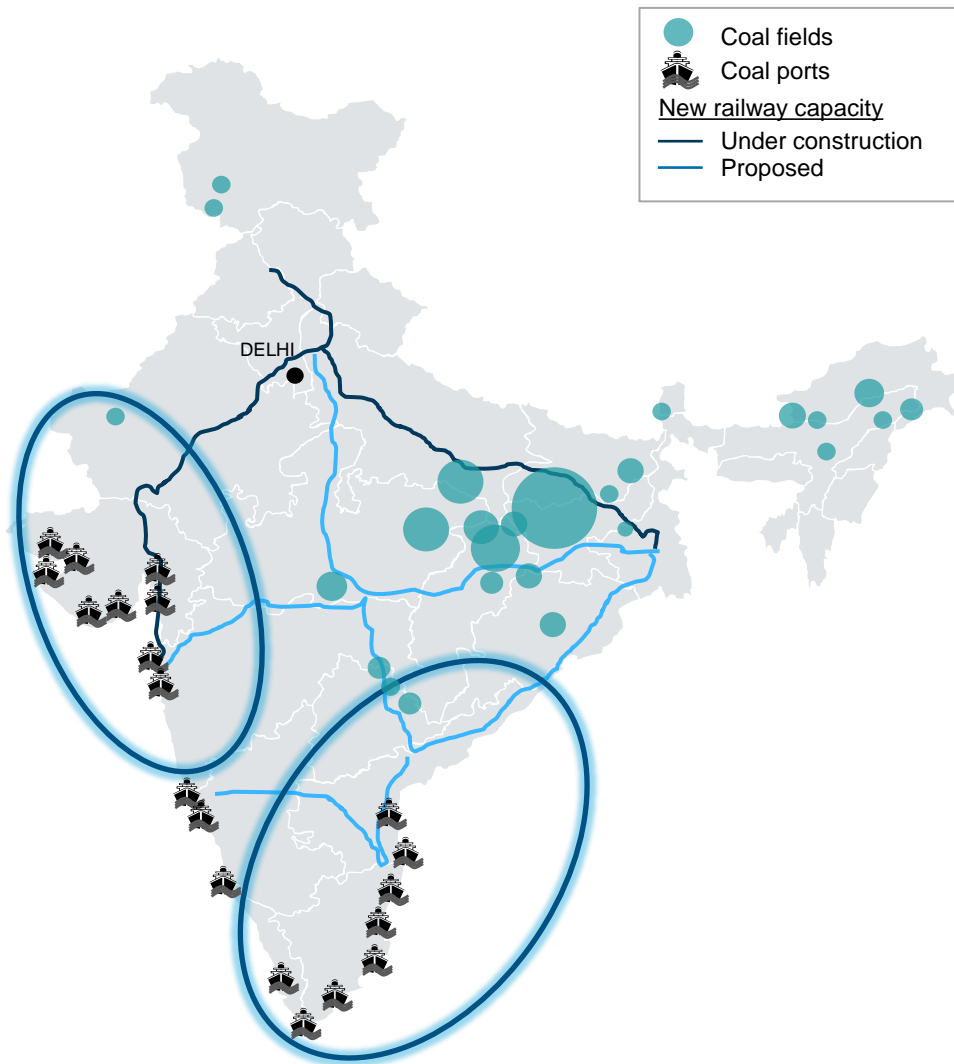
- Reintroduced import coal ban at tier-2 port in April reverses domestic coal prices significantly
- Strengthened demand for thermal coal (warm weather, low hydropower output) outpaced improving domestic supply
- Government try to cool down the market by trying to provide more supply of cheaper coal to gencos

### Outlook

- Domestic supply started to recover, but import still be required
- Government will continue intervention to stabilize coal prices
- Trade war may curtail coal demand but RMB devaluation is likely to maintain demand for industrial products – electricity demand would remain high

# India: robust demand amid supply deficit

## COASTAL DEMAND AND COAL INFRASTRUCTURE IN INDIA



### 2Q18

- Higher temperature and demand from non-power sector keep domestic market in supply deficit
- Domestic coal supply still not sufficient to replenish stocks at power plants
- Government recognizes coal shortage situation across India and encourages state-utilities to import
- Indian buyers increased interest on Australian high ash coal due to high Richards Bay prices

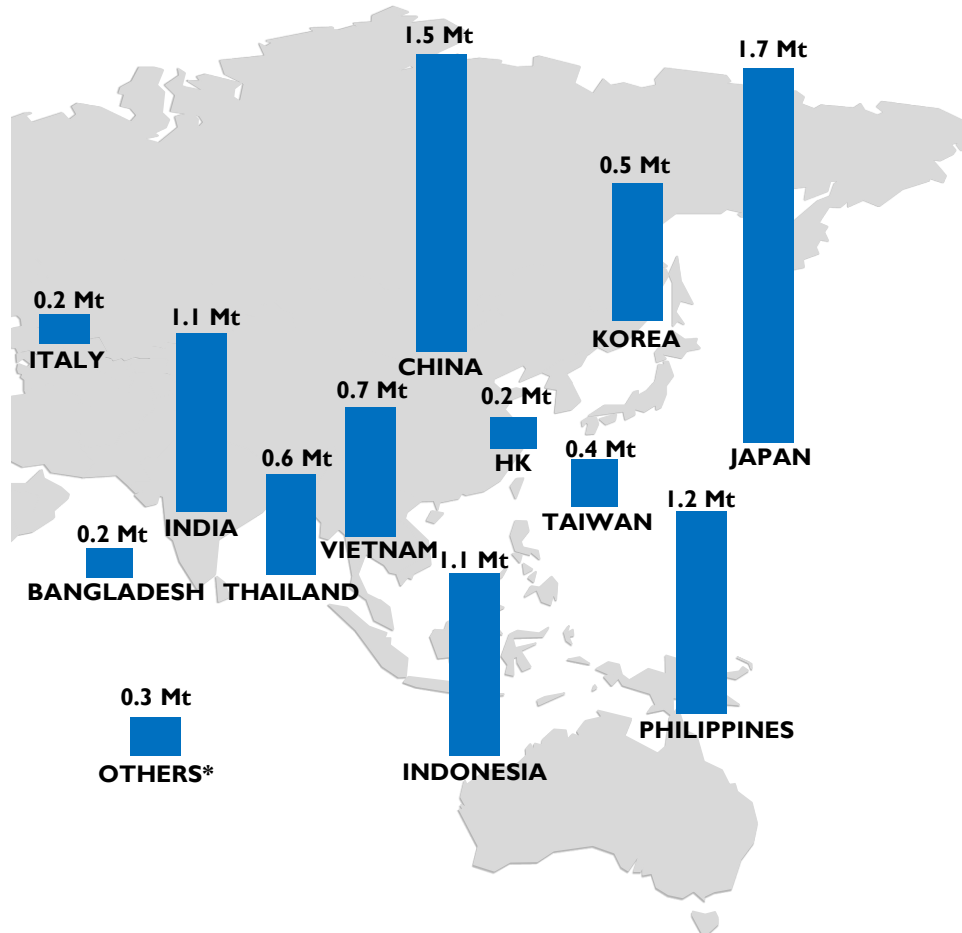
### Outlook

- Coal shortages may remain common for at least 2 to 3 years
- Coal supply concentrated in the east while demand is growing in coastal areas
  - Dislocated market conditions will result in strong import growth
  - Long distance and low quality of domestic coal will also make import more competitive

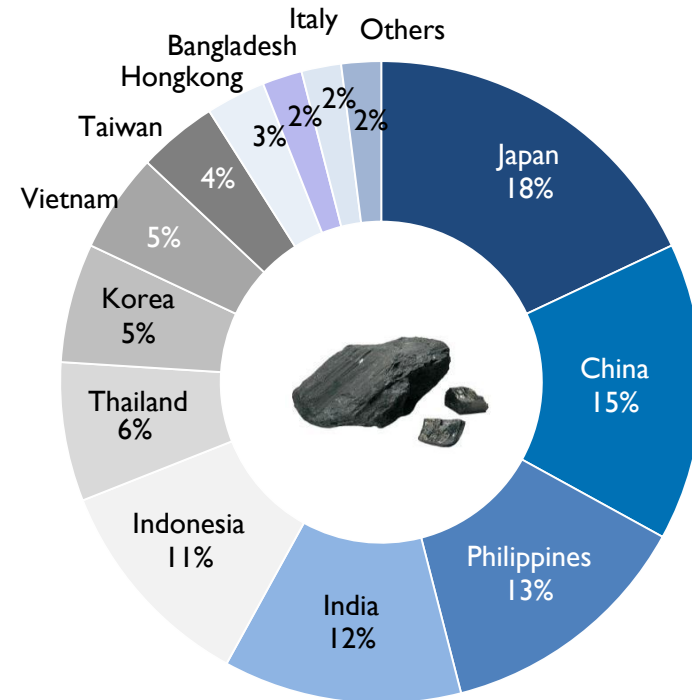
# ITM coal sales IH18



## COAL SALES BREAKDOWN BY DESTINATION



## COAL SALES IQ18



**Total Coal Sales IH18: 9.6 Mt**

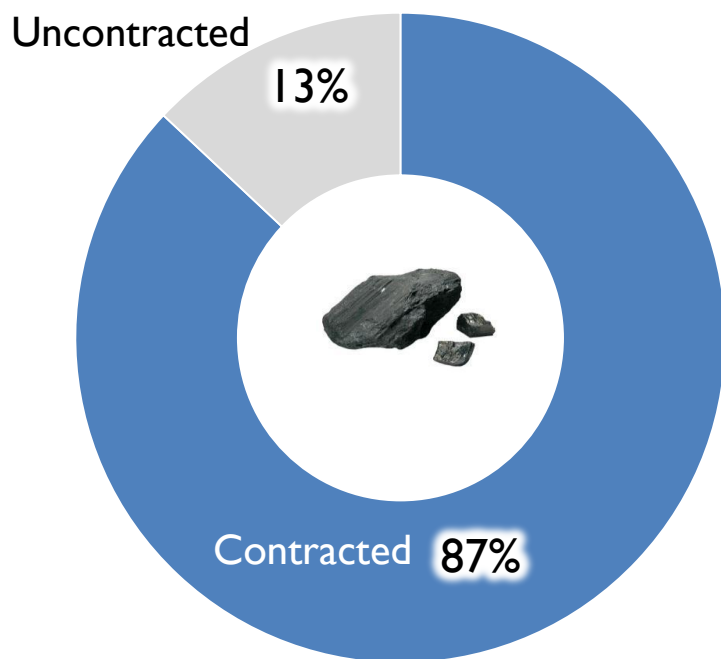
\*) Note: New Zealand, Malaysia, Myanmar

# Indicative coal sales 2018

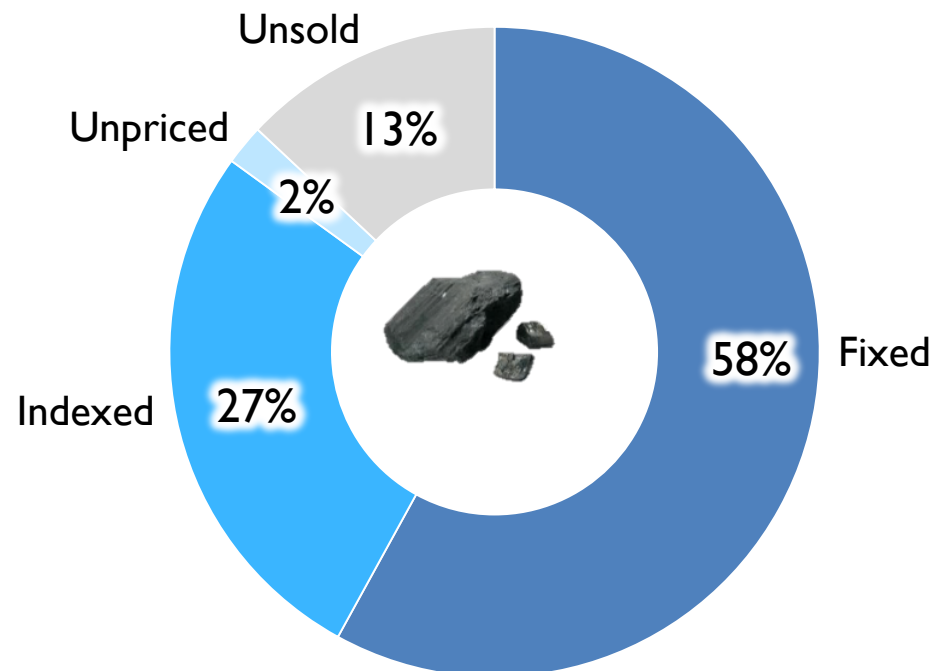


## COAL SALES CONTRACT AND PRICING STATUS

### Contract Status



### Price Status



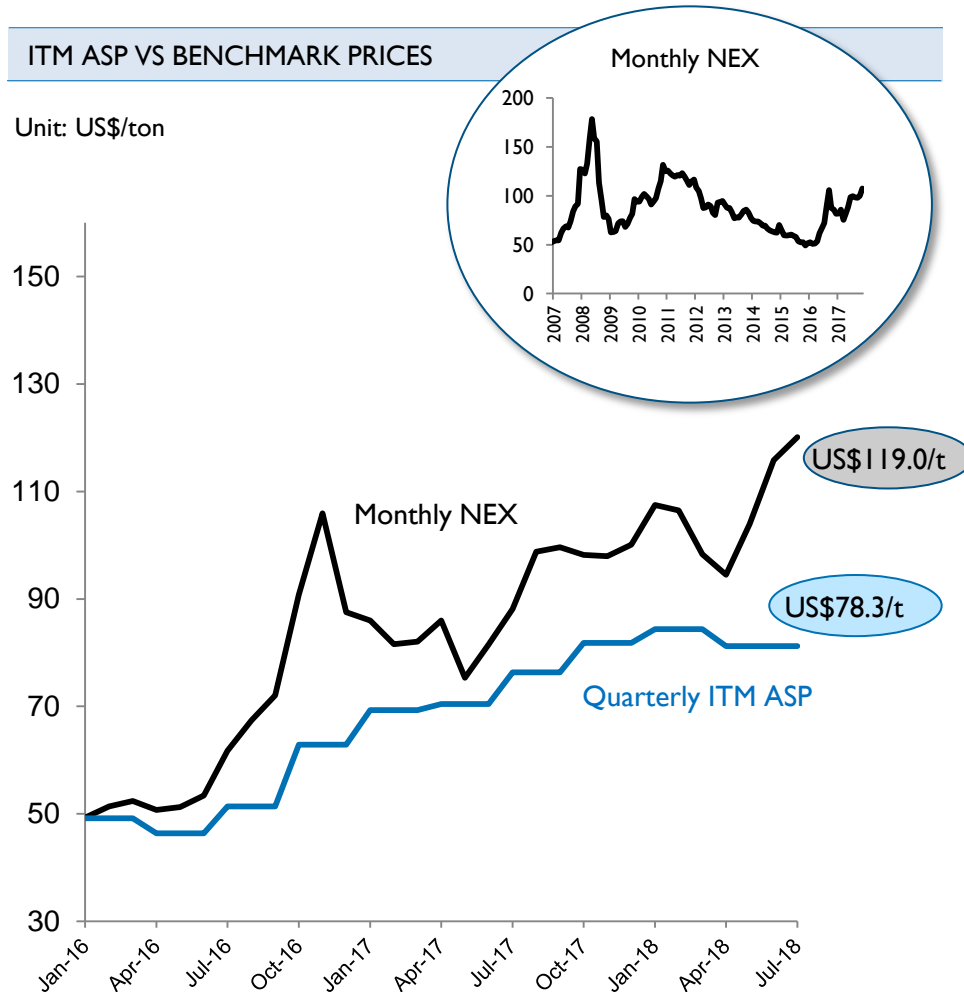
**TARGET SALES 2018: 25.0 Mt**

# ITM ASPs vs thermal coal benchmark prices



## ITM ASP VS BENCHMARK PRICES

Unit: US\$/ton



## COMMENTS

- 2Q18 ASP continued firm according to supply tightness.
  - *ITM ASP: US\$78.3/t\* (-6% QoQ)*
  - *NEX (Aug 10, 2018)\*\*: US\$119.0/t*
- Market was significant strong during 2Q18 with a bullish sentiment started from May. However, ASP was slightly softening due product mixes changed with surplus of lower quality coal sales as well as the domestic price control regulation imposed by government.
- Supply tightness continued to be a major driven on price. Chinese policy remains a major influence.

Note: \* Included post shipment price adjustments as well as traded coal

\*\* The Newcastle Export Index (previously known as the Barlow Jonker Index – BJI)

**1 INTRODUCTION**

**2 OPERATIONAL REVIEW**

**3 COMMERCIAL REVIEW**

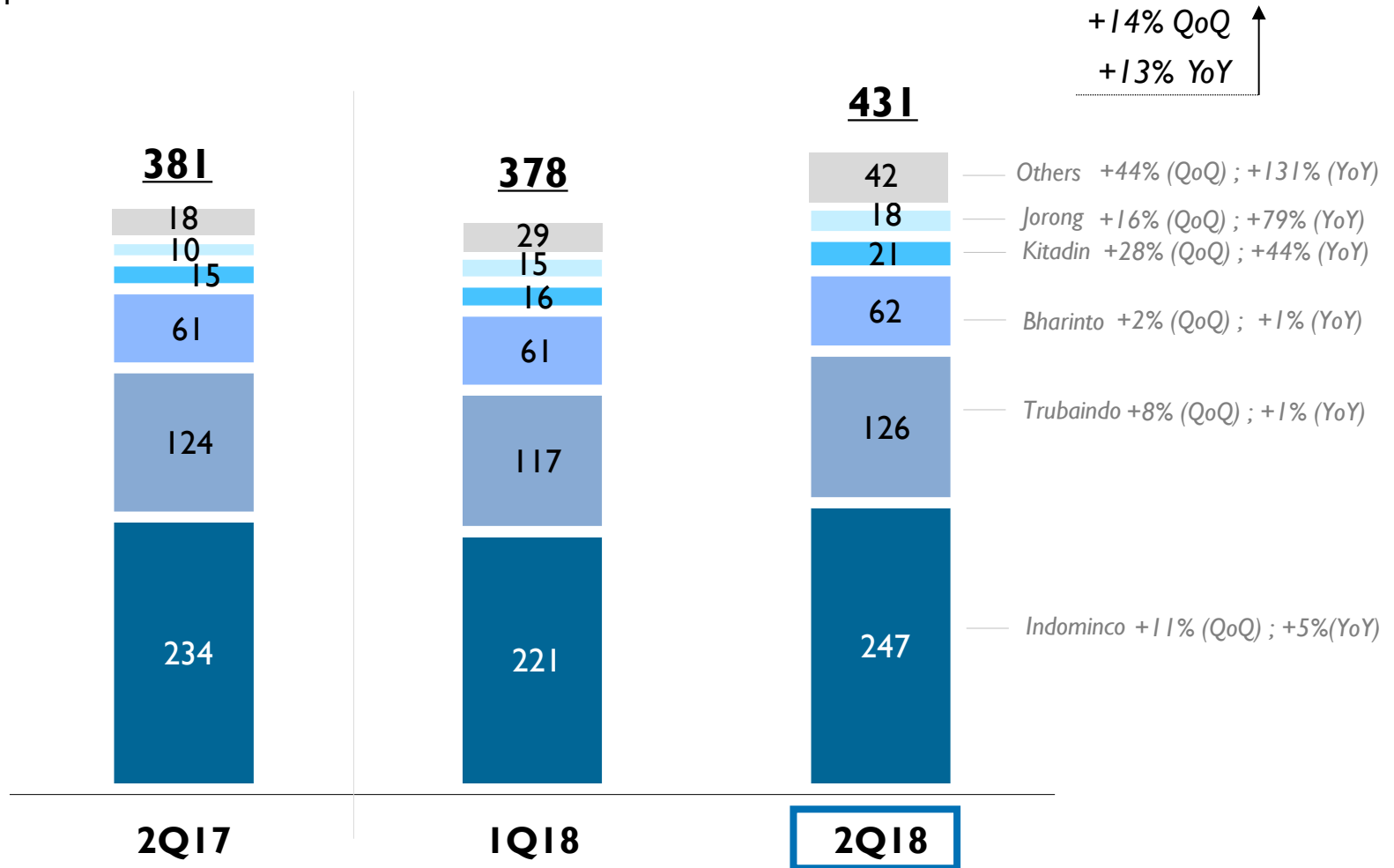
**4 FINANCIAL REVIEW**

**5 QUESTION & ANSWERS**

# Sales Revenue

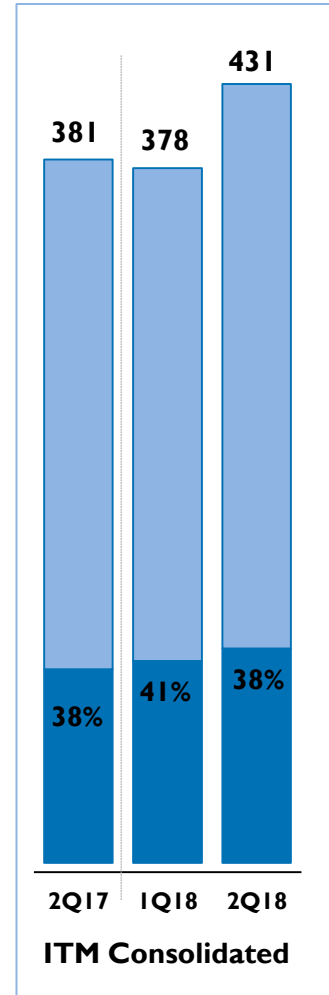
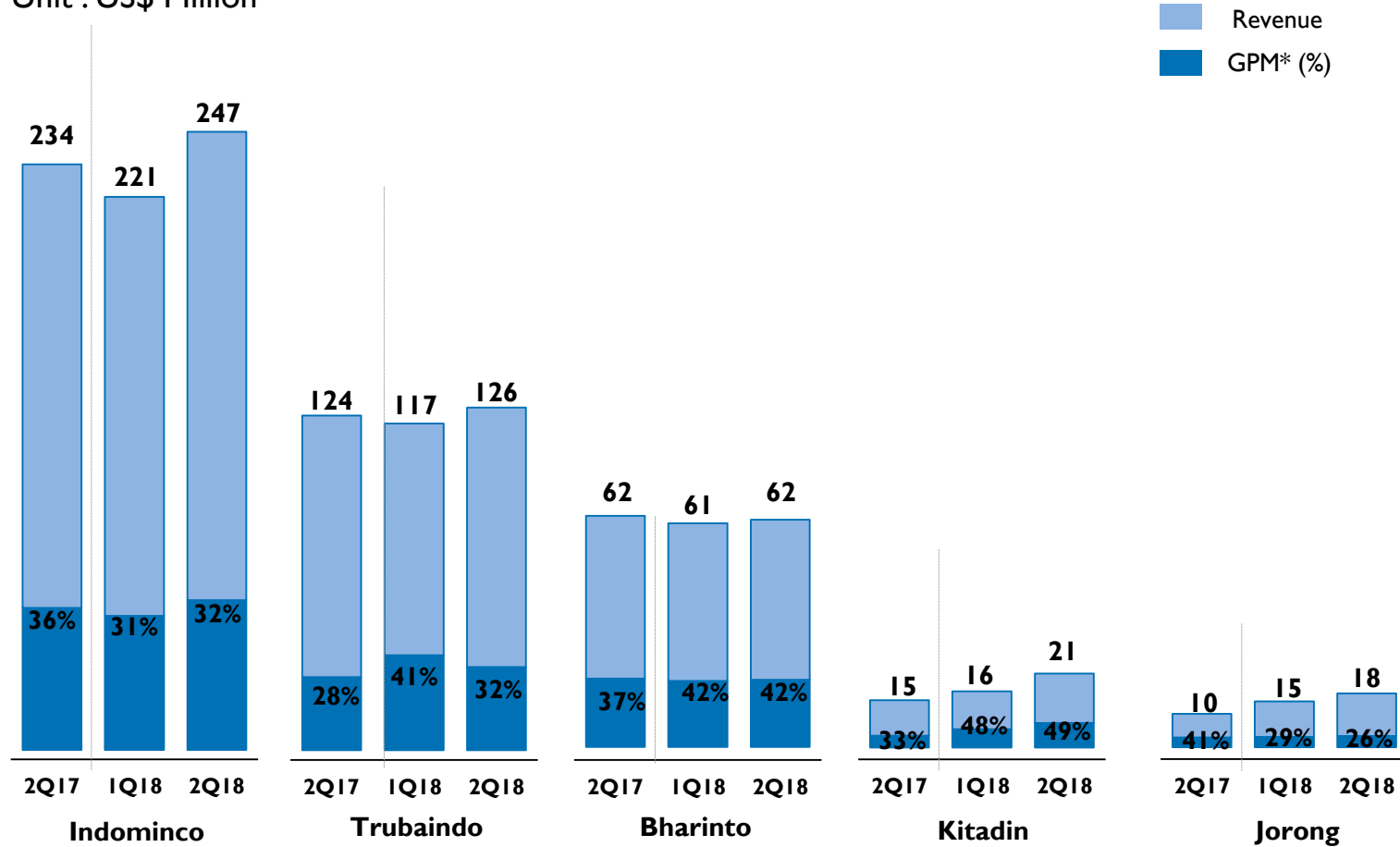


Unit: US\$ million



# Average Gross Margin

Unit : US\$ Million



Note: Excluding royalty



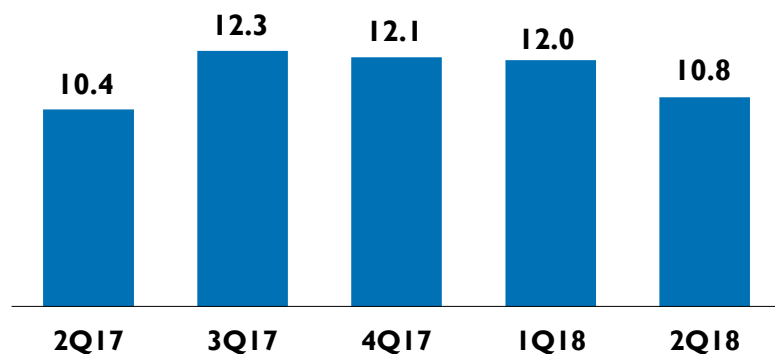
# Cost Analysis



## WEIGHTED AVERAGE STRIP RATIO

Unit: Bcm/t

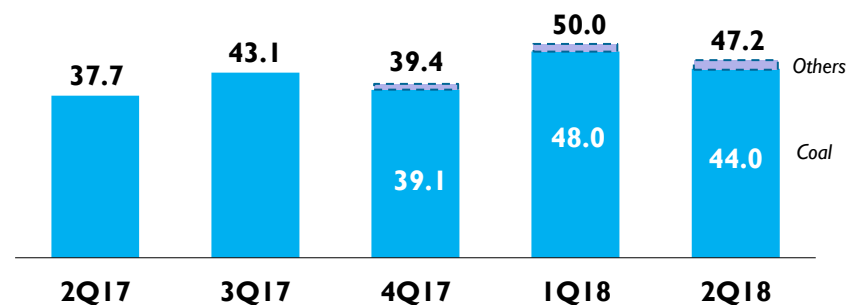
Avg. FY16 : 8.7  
Avg. FY17 : 11.2



## PRODUCTION COST

Unit: US\$/t

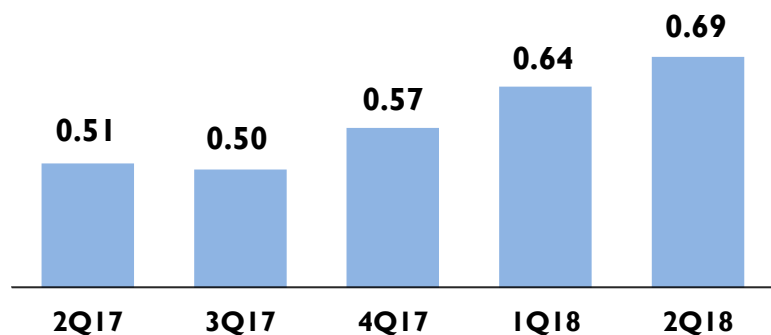
Avg. FY16 : \$28.8/t  
Avg. FY17 : \$39.2/t



## FUEL PRICE

Unit: US\$/Ltr

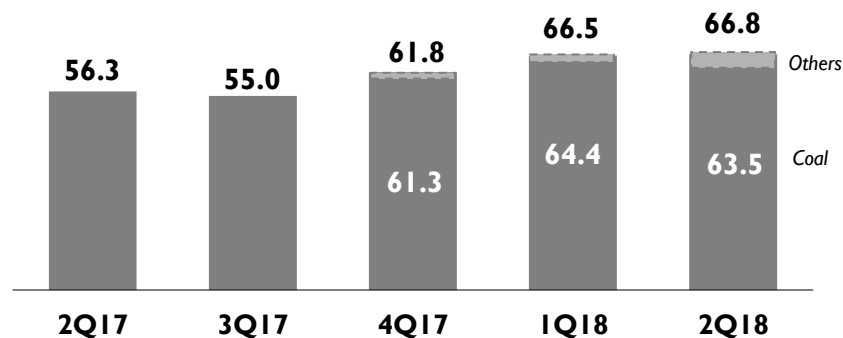
Avg. FY16 : \$0.42/ltr  
Avg. FY17 : \$0.53/ltr



## TOTAL COST\*

Unit: US\$/t

Avg. FY16 : \$43.3/t  
Avg. FY17 : \$56.4/t

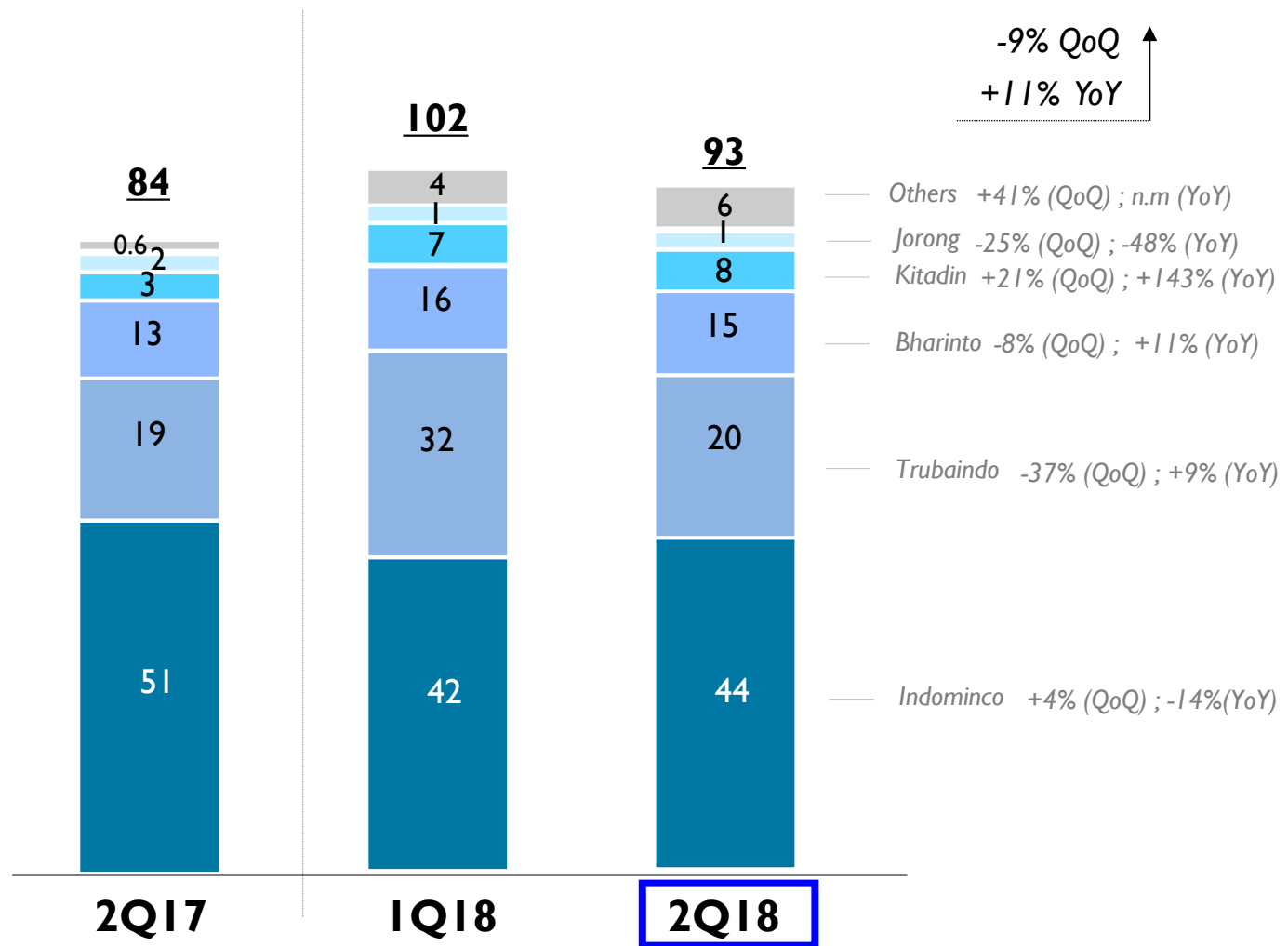


\* Cost of Goods Sold + Royalty + SG&A

# EBITDA



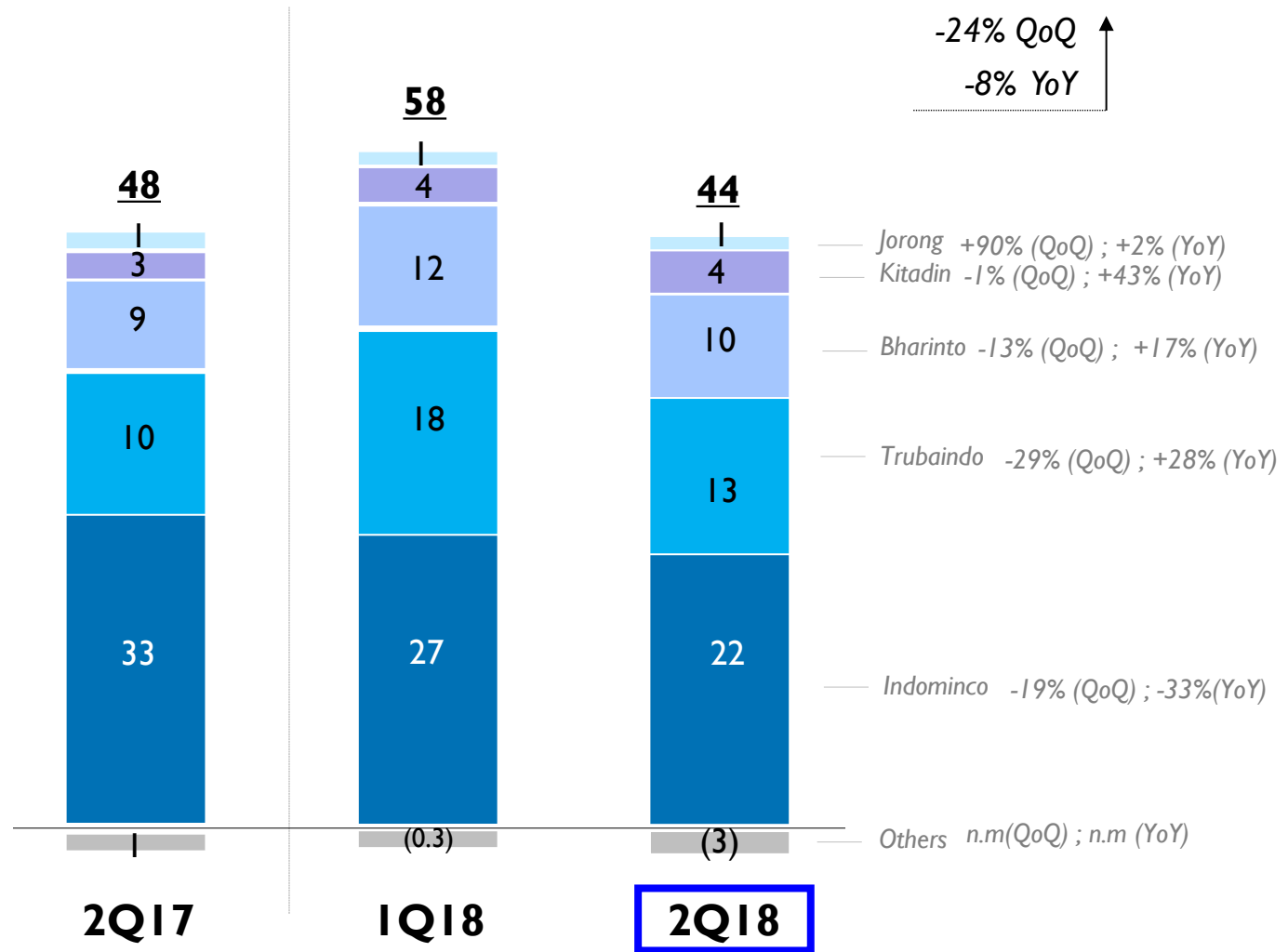
Unit: US\$ million



# Net Income



Unit: US\$ million

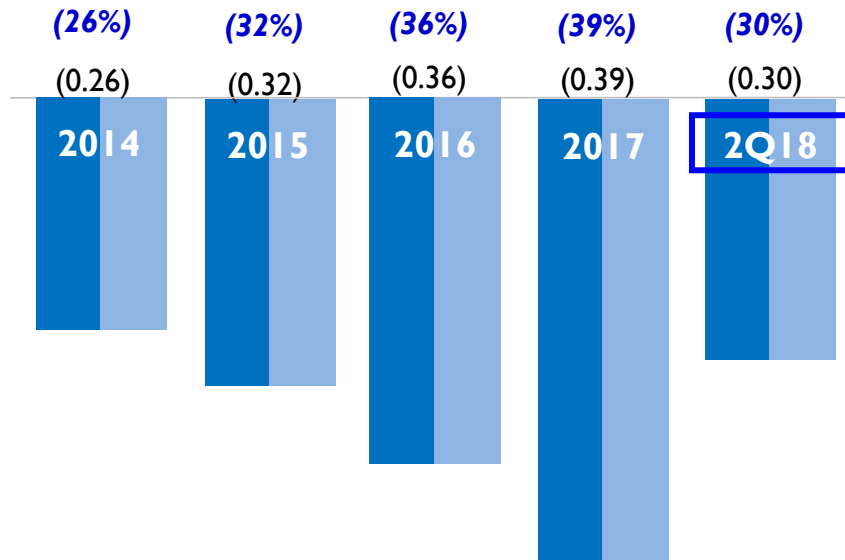


# Balance Sheet



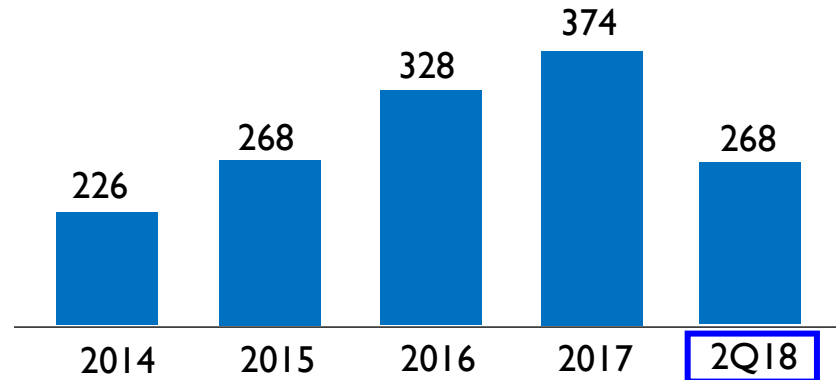
## KEY RATIOS

- Net Gearing (%)
- Net D/E (times)



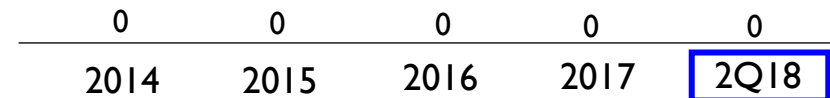
## CASH POSITION

Unit: US\$ million



## DEBT POSITION

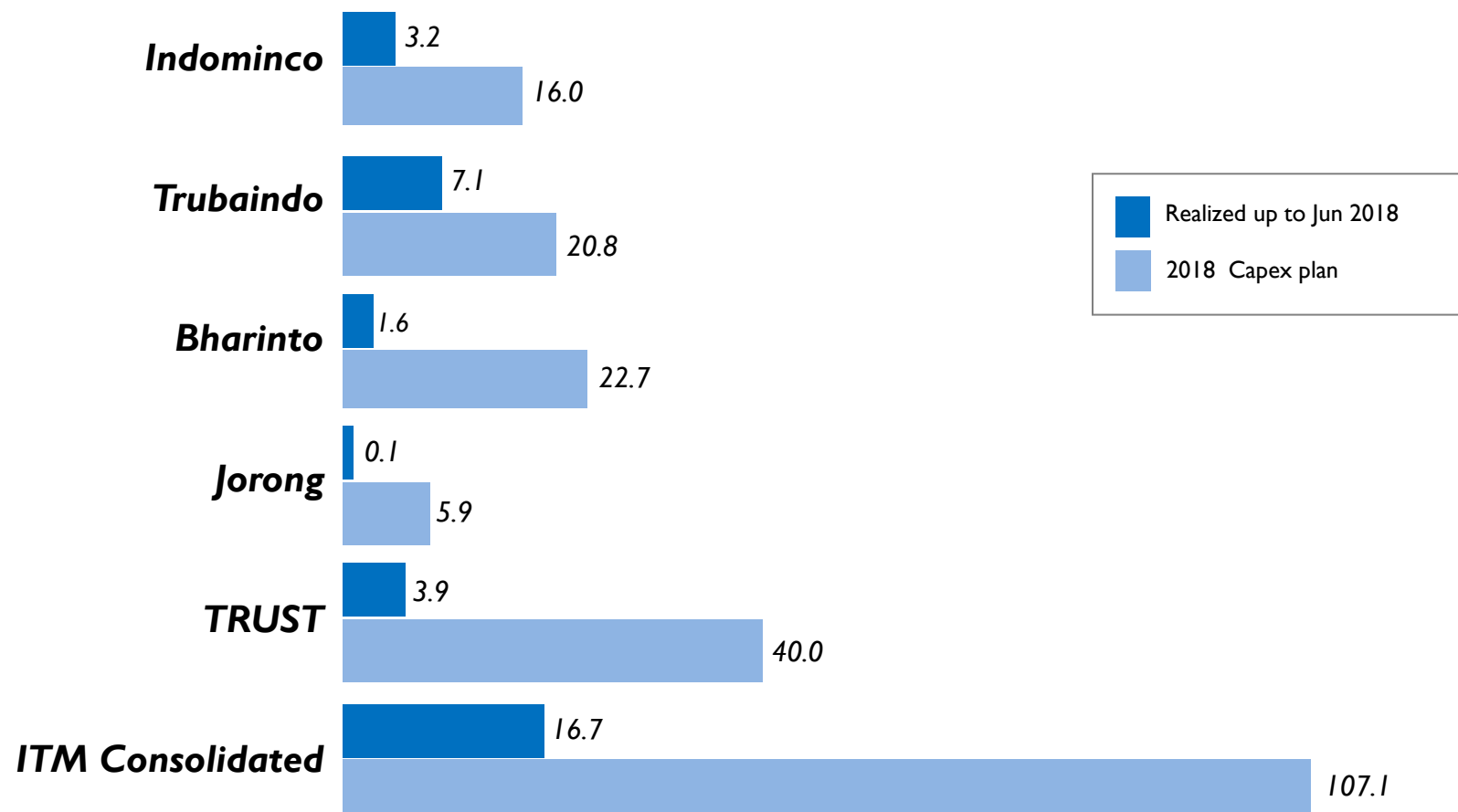
Unit: US\$ million



# 2018 Capital Expenditure Plan



Units: US\$ million





*Thank you*  
*Question & Answer*

## Appendices

# Income Statement



Unit: US\$ thousand	2Q18	1Q18	QoQ%
<b>Net Sales</b>	<b>430,649</b>	<b>378,247</b>	<b>14%</b>
<b>Gross Profit</b>	<b>114,692</b>	<b>111,053</b>	<b>3%</b>
<b>GPM</b>	<b>27%</b>	<b>29%</b>	
SG&A	(35,833)	(23,350)	
<b>EBIT</b>	<b>78,859</b>	<b>87,703</b>	<b>-10%</b>
<b>EBIT Margin</b>	<b>18%</b>	<b>23%</b>	
<b>EBITDA</b>	<b>93,405</b>	<b>102,252</b>	<b>-9%</b>
<b>EBITDA Margin</b>	<b>22%</b>	<b>27%</b>	
Net Interest Income / (Expenses)	606	822	
FX Gain / (Loss)	(3,390)	(2,379)	
Derivative Gain / (Loss)	(9,675)	(104)	
Others	(1,586)	(3,463)	
<b>Profit Before Tax</b>	<b>64,814</b>	<b>82,579</b>	<b>-22%</b>
Income Tax	(20,401)	(24,482)	
<b>Net Income</b>	<b>44,413</b>	<b>58,097</b>	<b>-24%</b>
<b>Net Income Margin</b>	<b>10%</b>	<b>15%</b>	

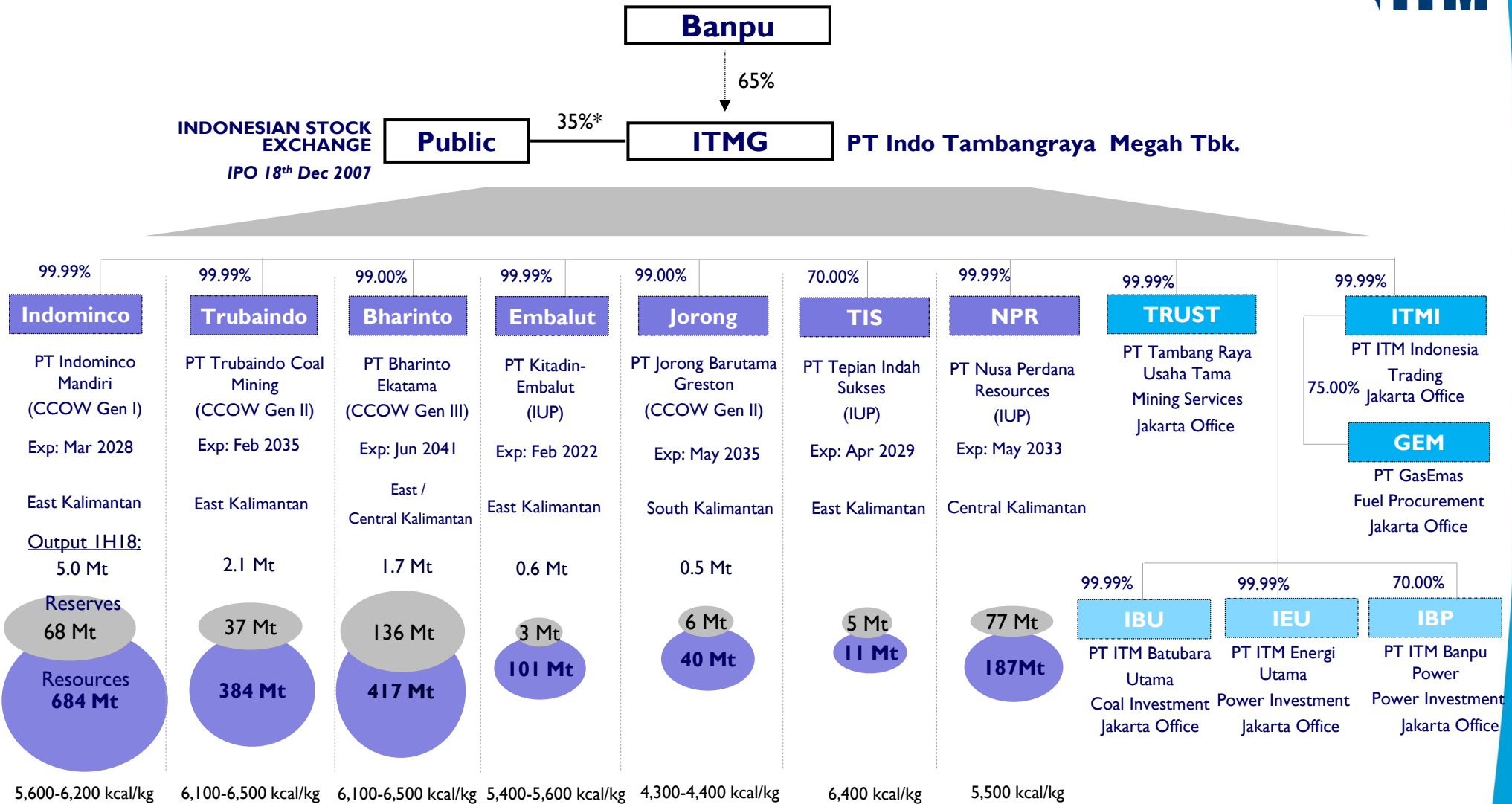


# Income Statement



Unit: US\$ thousand	IH18	IH17	YoY%
<b>Net Sales</b>	<b>808,896</b>	<b>748,784</b>	<b>8%</b>
<b>Gross Profit</b>	<b>225,745</b>	<b>212,543</b>	<b>6%</b>
<b>GPM</b>	<b>28%</b>	<b>28%</b>	
SG&A	(59,183)	(52,865)	
<b>EBIT</b>	<b>166,562</b>	<b>159,678</b>	<b>4%</b>
<b>EBIT Margin</b>	<b>21%</b>	<b>21%</b>	
<b>EBITDA</b>	<b>195,657</b>	<b>187,655</b>	<b>4%</b>
<b>EBITDA Margin</b>	<b>24%</b>	<b>25%</b>	
Net Interest Income / (Expenses)	1,428	1,303	
FX Gain / (Loss)	(5,769)	672	
Derivative Gain / (Loss)	(9,779)	4,566	
Others	(5,049)	(7,134)	
<b>Profit Before Tax</b>	<b>147,393</b>	<b>159,085</b>	<b>-7%</b>
Income Tax	(44,883)	(53,794)	
<b>Net Income</b>	<b>102,510</b>	<b>105,291</b>	<b>-3%</b>
<b>Net Income Margin</b>	<b>13%</b>	<b>14%</b>	

# ITM Structure



\* : ITM own 2.95% from share buyback program

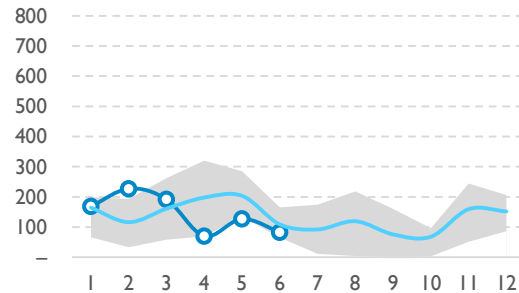
Note: Updated Coal Resources and Reserves as of 31 Dec 2017 based on estimates prepared by Competent Persons (consider suitably experienced under the JORC Code) and deducted from coal sales volume in IH18

# Rainfall 2013-2018



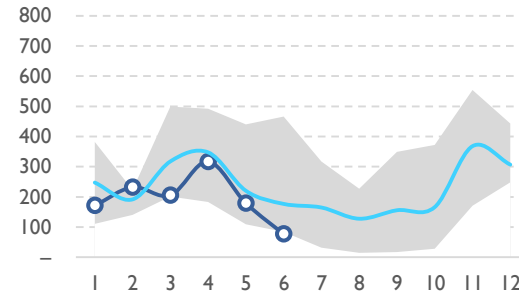
## INDOMINCO

Unit: Millimeter



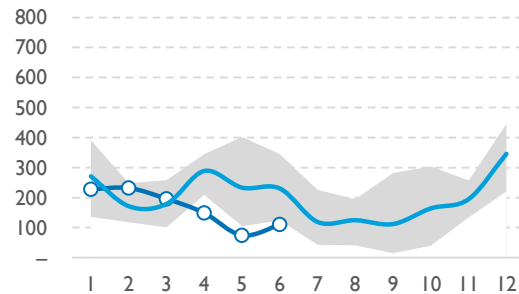
## TRUBAINDO & BHARINTO

Unit: Millimeter



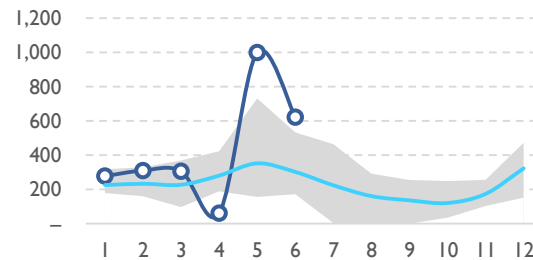
## EMBALUT

Unit: Millimeter



## JORONG

Unit: Millimeter



— 2013-17 average rainfall    ● 2018 rainfall    ■ 2013-17 rainfall range

- Except for Jorong, this year ITM's mines have seen relatively mild rainfall compared to their 5-year average levels.
- Rainfall levels in 2Q18 were exceptionally low; they were even at the lowest level in 5 years at Indominco and Embalut.
- If this favorable weather condition persists in 2H18, ITM to should be able to achieve 2018 production target of 22.5 Mt.