

# ANALYST BRIEFING

## 3Q19 PERFORMANCE RESULTS

*Jakarta, 13<sup>th</sup> November 2019*

OUR WAY IN ENERGY



**1**

**INTRODUCTION**

**2**

**OPERATIONAL REVIEW**

**3**

**COMMERCIAL REVIEW**

**4**

**FINANCIAL REVIEW**

**5**

**QUESTION & ANSWERS**

# Highlights of 3Q19 and 9M18 results



**Coal sales**  
**6.5 Mt**  
 ↑ Up 0.2 Mt  
 +3% Q-Q

**Coal sales**  
**18.7 Mt**  
 ↑ Up 2.7 Mt  
 +17% Y-Y

*Unit: US\$ million*

	<u>2Q19</u>	<u>3Q19</u>	<u>Q-Q</u>	<u>9M18</u>	<u>9M19</u>	<u>y-y</u>
<b>Total Revenue</b>	440	412	-6%	1,415	1,304	-8%
<b>Gross Profit Margin</b>	16%	18%	+3%	30%	18%	-12%
<b>EBIT</b>	39	38	-2%	321	134	-58%
<b>EBITDA</b>	54	53	-2%	366	180	-51%
<b>Net Income</b>	30	30	-1%	197	99	-50%
<b>ASP (USD/ton)</b>	\$66.7	\$61.7	-7%	\$84.2	\$66.3	-21%

## Maximizing Bottom Line Profit



### Margin Improvement

- Seek new customer segments in domestic & South East Asia markets, e.g. Vietnam, Myanmar, Bangladesh.
- Focus sales on premium markets by maintaining brand elevation.
- Enhanced coal blending activities within ITM group to improve coal product quality.
- Expand coal trading capacity to increase coal product diversity.
- Expand in-house mining contractor business to Melak area to capture margin within ITM group.



### Cost Efficiency

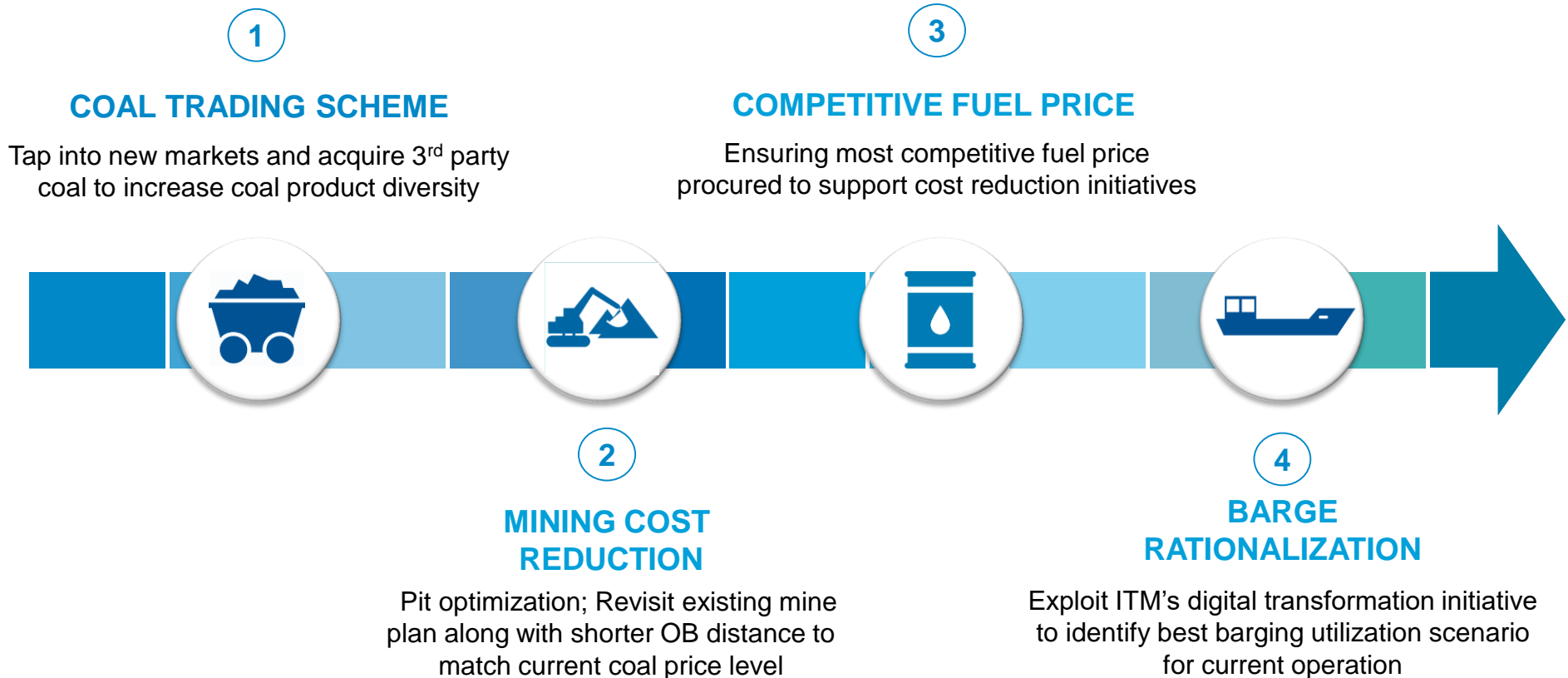
- Pit optimization to match current coal price environment.
- Secured most competitive fuel price sourcing.
- 'Reusable and repairable' approach to reduce overhaul cost.
- Improve barge utilization and review barge contract to reduce logistics cost.
- Capex rationalization and cost effectiveness initiatives.
- Lean on digital capabilities to maintain cost efficiency (e.g establishment of Melak Digital Center to monitor pit optimization and contractor performance).



### Financial Management

- Applying effective cash management approach to support company operations while keeping ample cash reserves.
- Ensure adequate external funding availability from financial institution to support organic and inorganic growth opportunities.
- Balancing debt and equity portion to maintain optimum capital structure.

# ITM kept its cost conscious approach along its value chain to ensure bottom line target achieved



**1** INTRODUCTION

**2** OPERATIONAL REVIEW

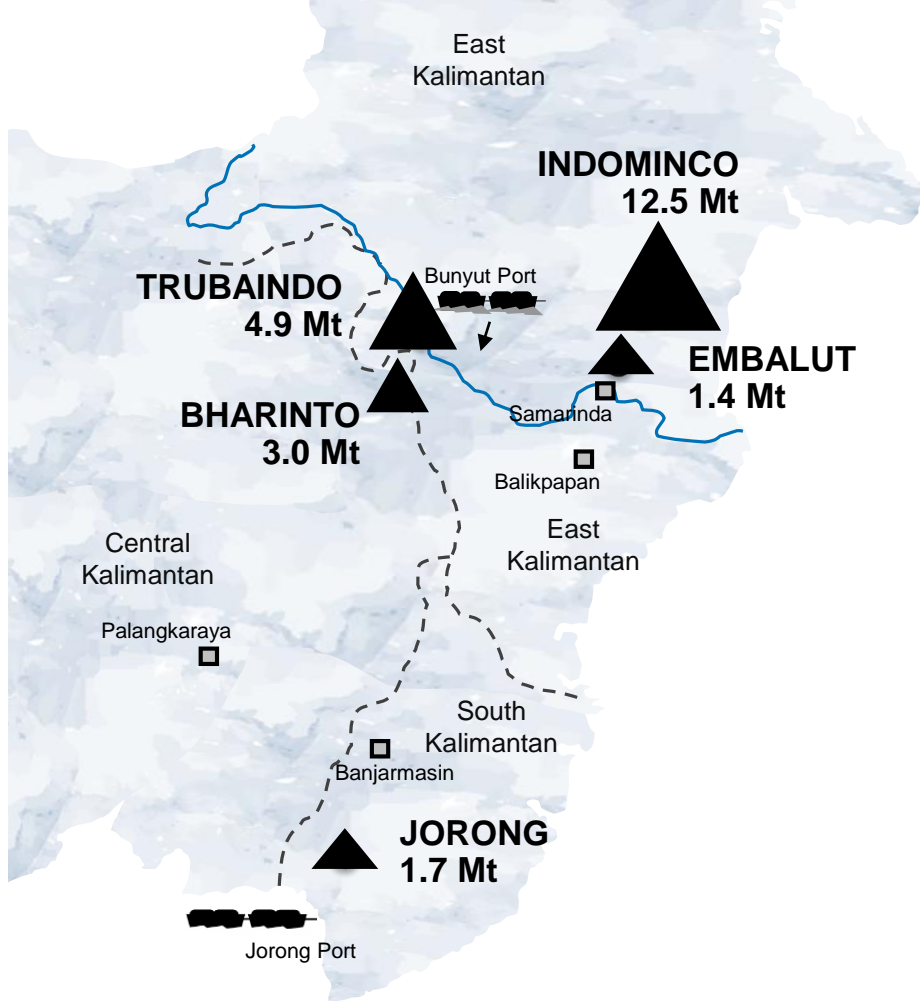
**3** COMMERCIAL REVIEW

**4** FINANCIAL REVIEW

**5** QUESTION & ANSWERS

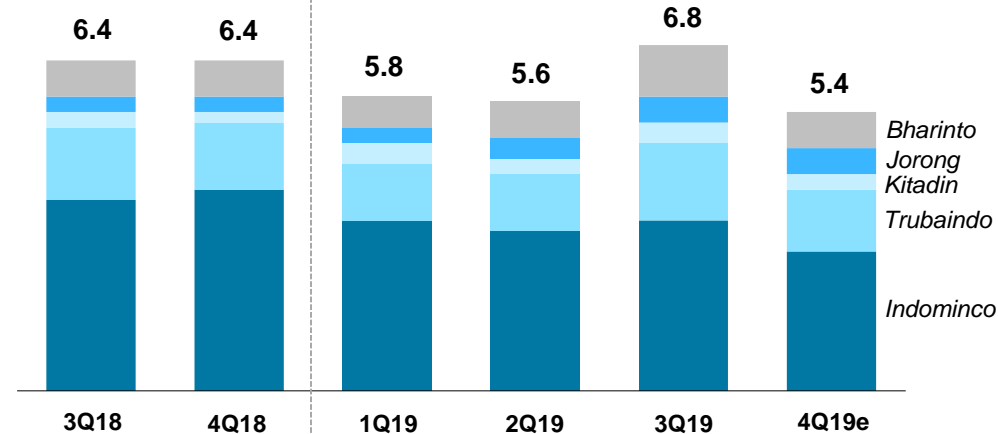
# Operational Summary 2019

**2019 TARGET: 23.5 Mt**



## OUTPUT TREND

Unit: Mt



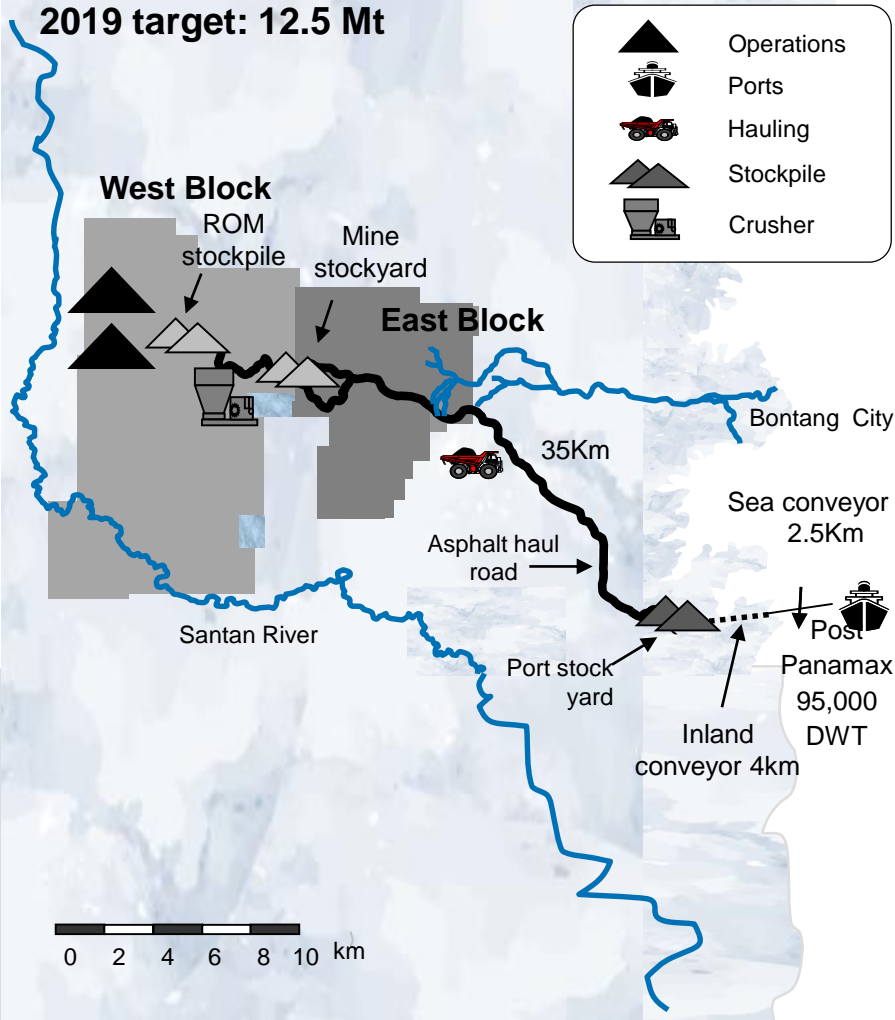
Avg. S/R (bcm/t)	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19e
	10.8x	10.5x	13.2x	11.6x	9.5x	10.1x

## COMMENTS

- 3Q19 total production output achieved above target due to seasonal dry weather.
- Average strip ratio in 3Q19 was lower than target. This was achieved through mining plan optimization.
- Expect lower output in 4Q19e resulting from coal price softening and entering into rainy season.

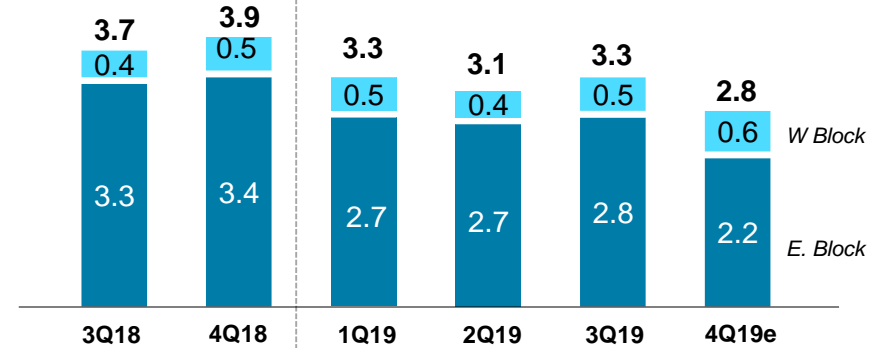
## SCHEMATIC

2019 target: 12.5 Mt



## OUTPUT TREND

Unit: Mt



Avg.S/R (bcm/t)	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19e
- W. Block :	25.0x	17.1x	14.9x	26.1x	22.7x	17.3x
- E. Block :	9.3x	9.7x	13.7x	9.3x	7.5x	10.1x

## COMMENTS

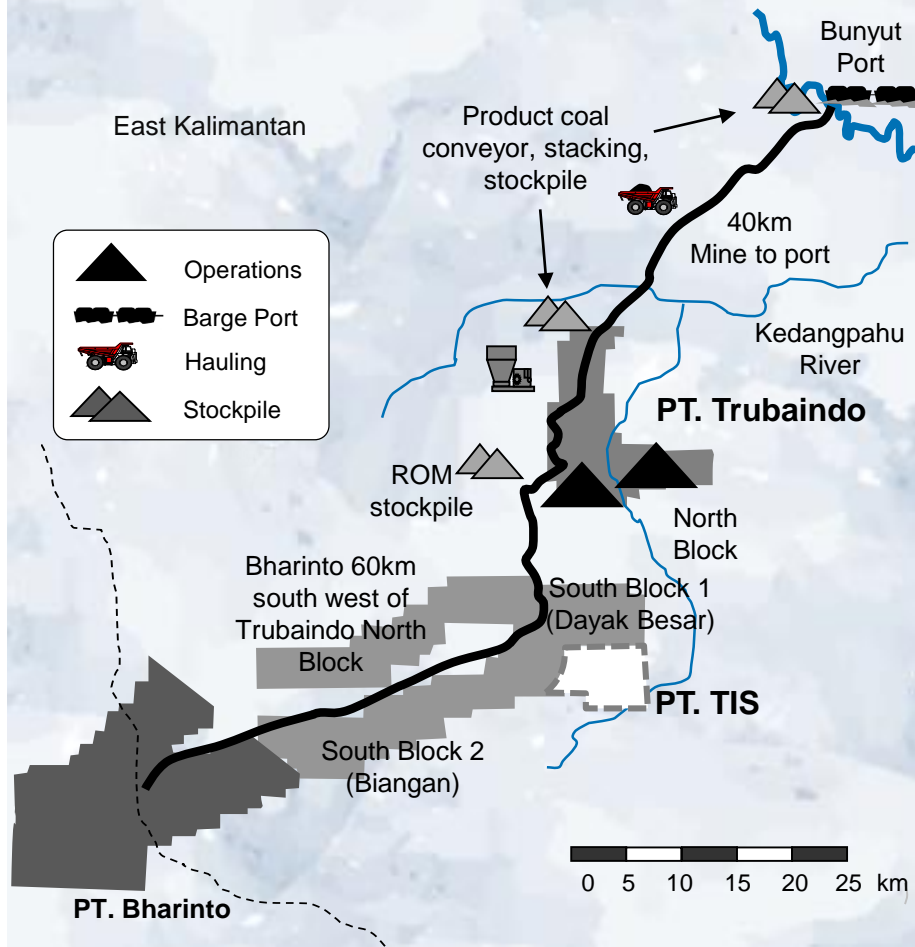
- 3Q19 total output was higher than target, supported by good weather condition at Indominco area.
- Strip ratio in 3Q19 lower than previous quarter due to optimization of mine plan, nonetheless production target still managed to achieve slightly higher than planned.



# Melak group – Trubaindo and Bharinto

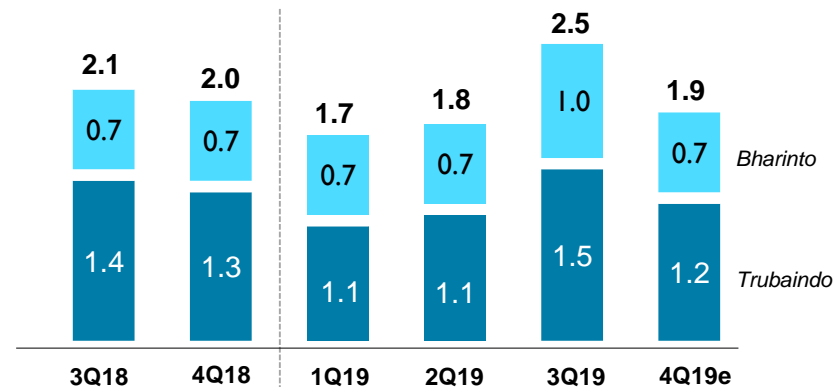
## SCHEMATIC

2019 target: TCM 4.9 Mt  
BEK 3.0 Mt



## OUTPUT TREND

Unit: Mt



S/R (bcm/t)

- Trubaindo :	12.7x	11.1x	12.9x	13.5x	10.5x	9.1x
- Bharinto :	8.3x	10.2x	12.2x	10.2x	8.4x	8.5x

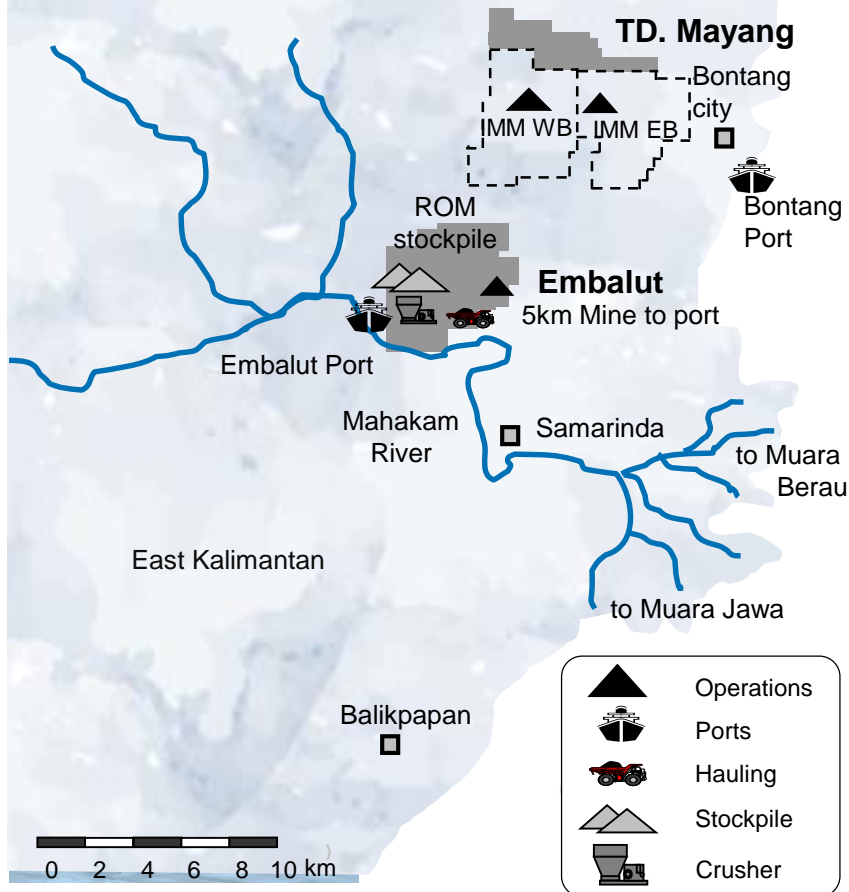
## COMMENTS

- Trubaindo:
  - 3Q19 production achieved as according to target.
  - Strip ratio in 3Q19 in line with target.
  - 1st phase of port stock yard extension already completed (including reclaim tunnel 3&4).
- Bharinto:
  - 3Q19 production achieved as according to target.
  - PT TRUST hauling operation already started in Melak area.

# Kitadin Embalut and Tandung Mayang

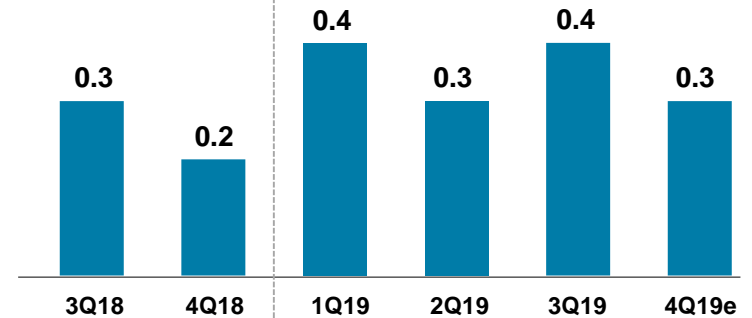
## SCHEMATIC

2019 target: EMB 1.4 Mt



## OUTPUT TREND

Unit: Mt



S/R (bcm/t)

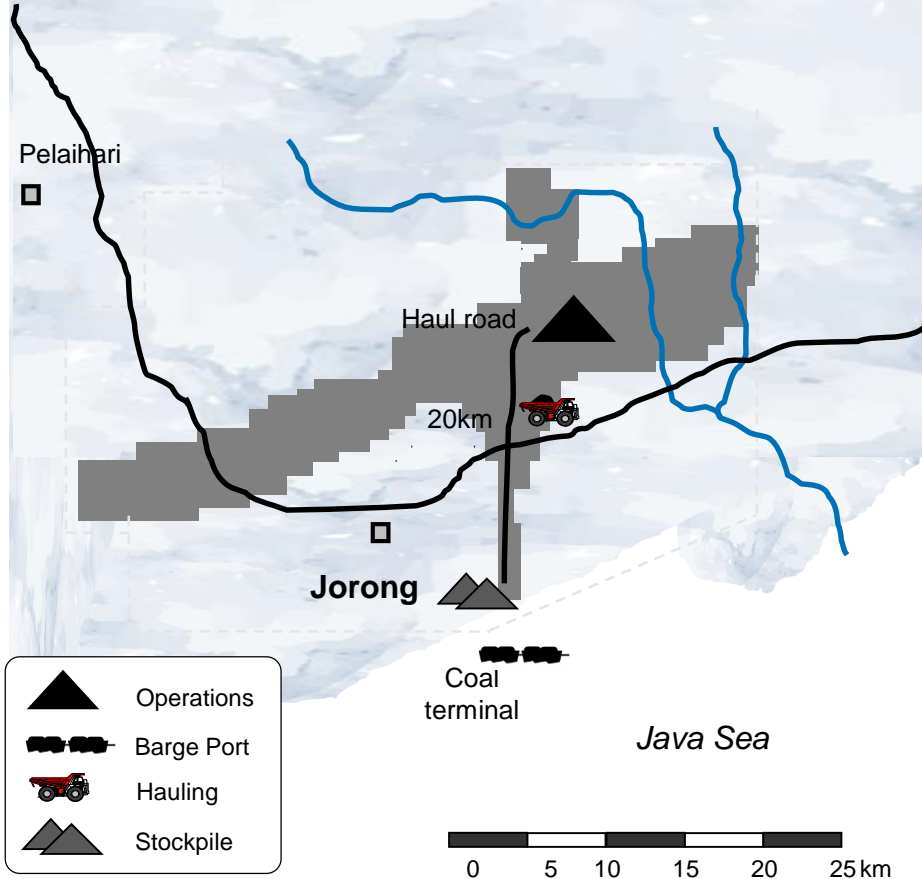
- Embalut : 9.8x 12.8x 11.9x 10.1x 8.6x 9.2x

## COMMENTS

- Kitadin Embalut:
  - 3Q19 production achieved as according to target.
  - New potential mining area has been obtained to secure future production output.
- Kitadin Td.Mayang:
  - Mine closure activities reached 90% completion and mine rehabilitation activities continues.
  - Already fulfilled 900 Ha of water shed rehabilitation (DAS) area obligation and is accepted by the Ministry of Environment and Forestry (KLHK).

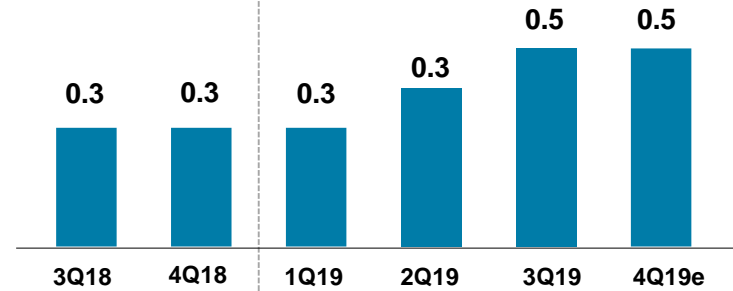
## SCHEMATIC

2019 target: 1.7 Mt



## OUTPUT TREND

Unit: Mt









S/R (bcm/t): 6.5x 6.5x 10.5x 8.1x 6.7x 7.0x

## COMMENTS

















- 3Q19 production achieved as according to target.
- Strip ratio in 3Q19 lower than previous quarter as a result of mine plan optimization.
- 2019 FY strip ratio expect to be higher compared to previous year to maximize coal reserves.

- 1 INTRODUCTION
- 2 OPERATIONAL
- 3 COMMERCIAL REVIEW**
- 4 FINANCIAL REVIEW
- 5 QUESTION & ANSWERS

# Global coal demand trends: 2019 vs 2018

GEOGRAPHY		CHANGE 2019-18 (Mt)	COMMENTS
	<b>CHINA</b>	+30	<ul style="list-style-type: none"> <li>Import remained strong in Q3 as buyers speed up imports amid fear of import ban.</li> <li>Weak demand, high stocks and production recovery continue pressure domestic coal prices.</li> <li>Possible to looser import restrictions compare to last year.</li> <li>Imported coal remains cheaper than domestic coal at coastal area.</li> </ul>
	<b>INDIA</b>	+10	<ul style="list-style-type: none"> <li>Weak demand and prolonged monsoon slow coal imports in Q3.</li> <li>Slow economy will hit coal demand in Q4 but poor domestic production will support imports.</li> </ul>
	<b>OTHER N.ASIA</b>	-14	<ul style="list-style-type: none"> <li>Japan has been hit by several typhoons which damaged power distribution lines and lower power demand.</li> <li>South Korea and Taiwan coal burn improved in Q3 due to easing of coal curtailment.</li> <li>But coal plant restrictions and nuclear recovery is likely to impact coal burn in Q4.</li> </ul>
	<b>EUROPE</b>	-22	<ul style="list-style-type: none"> <li>Weak fundamentals with high stocks, strong renewables and cheap gas prices continued pressure coal burn.</li> <li>Continued strong flows of LNG from the seaborne market would likely be needed to drive an oversupply of gas in the winter and support strong coal-to-gas fuel switching.</li> </ul>
	<b>OTHERS</b>	+25	<ul style="list-style-type: none"> <li>Vietnam, Philippines and Bangladesh drive demand growth in Asia.</li> <li>Sluggish economy reduced coal demand in general industry in Pakistan and Thailand.</li> </ul>
	<b>GLOBAL</b>	+29	<p><i>Economic slowdown, surging renewables and ultra-low gas prices hit coal burn. Coal plant restriction to tackle dust emissions in North Asia is expected to lower coal burn during winter. Chinese import policy is the key driver for global coal market in Q4.</i></p>

# Global coal supply trends: 2019 vs 2018

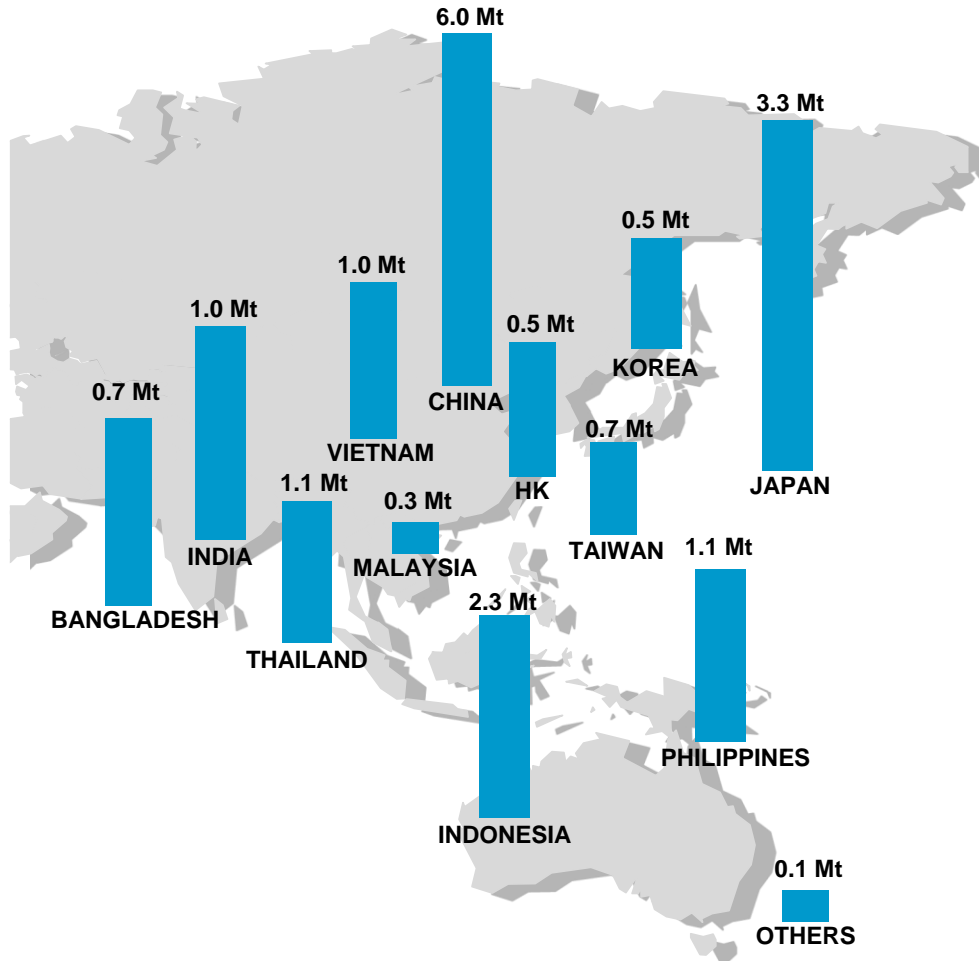
GEOGRAPHY	CHANGE 2019-18 (Mt)	COMMENTS
 <b>INDONESIA</b>	 <b>+40</b>	<ul style="list-style-type: none"> <li>Government approved production increase to boost royalties.</li> <li>High China demand continues to support Indonesian coal prices.</li> <li>Online monitoring system which will be implemented from 1<sup>st</sup> Nov is likely to squeeze out non-compliant miners but don't expect significant impact to exports.</li> </ul>
 <b>AUSTRALIA</b>	 <b>+2</b>	<ul style="list-style-type: none"> <li>Export remains strong with growing HCV exports offset the decline of high-ash production.</li> <li>No evidence of supply cut.</li> </ul>
 <b>COLOMBIA</b>	 <b>-8</b>	<ul style="list-style-type: none"> <li>Coal exports continued hampered by weak European demand and low prices.</li> <li>Major producers ceased production from high-cost pits.</li> <li>High freight rates made Colombian coal difficult to compete in Asia.</li> </ul>
 <b>RUSSIA</b>	 <b>+6</b>	<ul style="list-style-type: none"> <li>Government encourages exports.</li> <li>Expect coal exports will remain strong as rail operator cut railing costs.</li> </ul>
 <b>S.AFRICA</b>	 <b>-2</b>	<ul style="list-style-type: none"> <li>Strong domestic demand and low export prices hampered Q3 exports.</li> <li>But take-or-pay rail and port contracts will continue pressure producers to maintain year end export levels.</li> <li>South Asian buyers are expected to ship more coal ahead of IMO2020.</li> </ul>
 <b>USA</b>	 <b>-15</b>	<ul style="list-style-type: none"> <li>Some key exporters announced production cuts.</li> <li>Risk of further production cut increases due to depressed coal prices.</li> </ul>
 <b>OTHERS</b>	 <b>0</b>	<ul style="list-style-type: none"> <li>Low coal prices squeeze production from small exporters.</li> </ul>
 <b>GLOBAL</b>	 <b>+24</b>	<p><i>The US and Colombian producers have largely impact from low prices with seen production cut from several producers. But global market remains oversupply due to significant growth from Indonesia.</i></p>

Note: Russia exports to non-CIS only

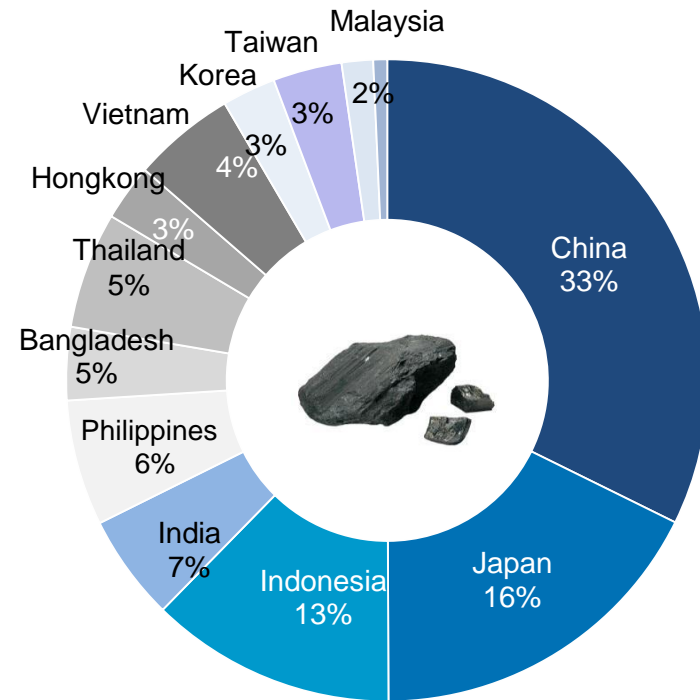
# ITM coal sales 9M19



## COAL SALES BREAKDOWN BY DESTINATION



## COAL SALES 9M19



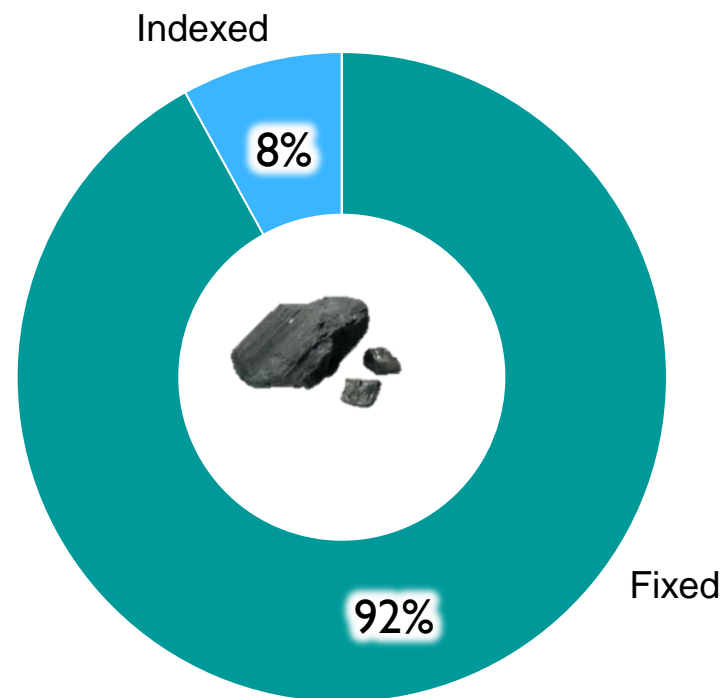
**Total coal sales 9M19: 18.7 Mt**

## COAL SALES CONTRACT AND PRICING STATUS

Contract Status



Price Status



**TARGET SALES 2019: 25.5 Mt**

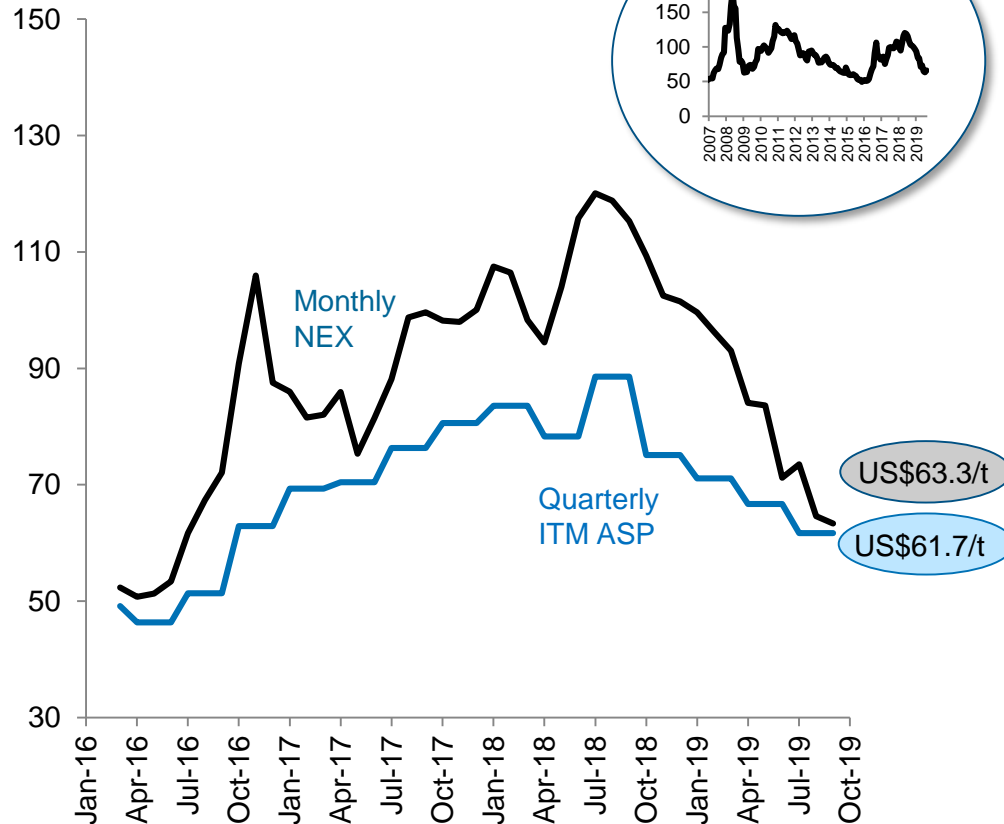


# ITM ASPs vs thermal coal benchmark prices



## ITM ASP VS BENCHMARK PRICES

Unit: US\$/ton



## COMMENTS

- 3Q19 ASP weaker for ITM, shadowed by global coal price movement
  - ITM ASP: US\$61.7/t (-7% QoQ)
  - NEX (Nov 8, 2019)\*: US\$64.8/t
- Spot price stabilized in the high \$60's, with future price on contango trend, do not see a sudden fall. Upside swings could be by any combination of a cold northern Winter, a technical failure of major old nuclear plants or prompt resolution of China – USA trade conflict.

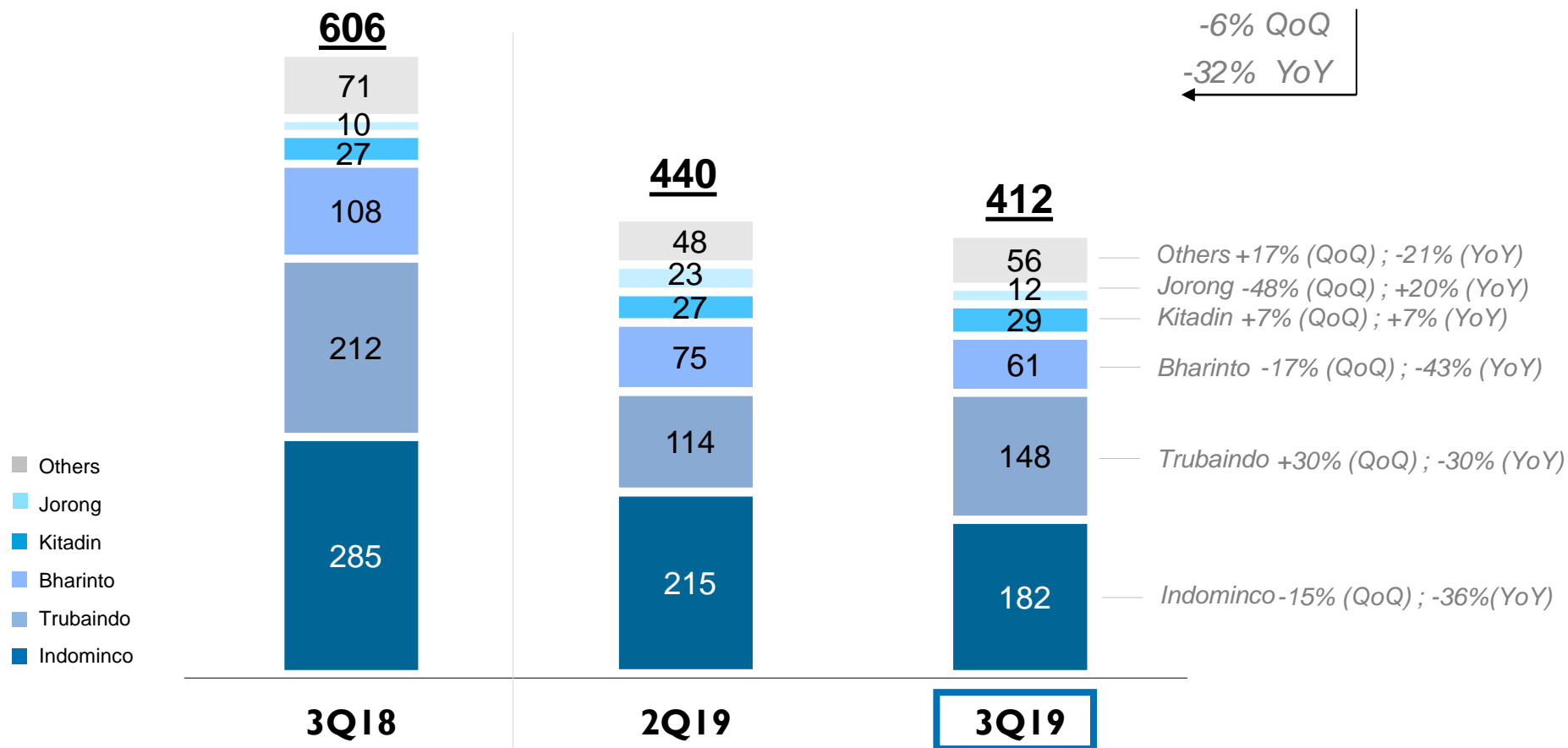
Note: \* The Newcastle Export Index (previously known as the Barlow Jonker Index – BJI)

- 1** INTRODUCTION
- 2** OPERATIONAL
- 3** COMMERCIAL REVIEW
- 4** **FINANCIAL REVIEW**
- 5** QUESTION & ANSWERS

# Sales revenue



Unit: US\$ million

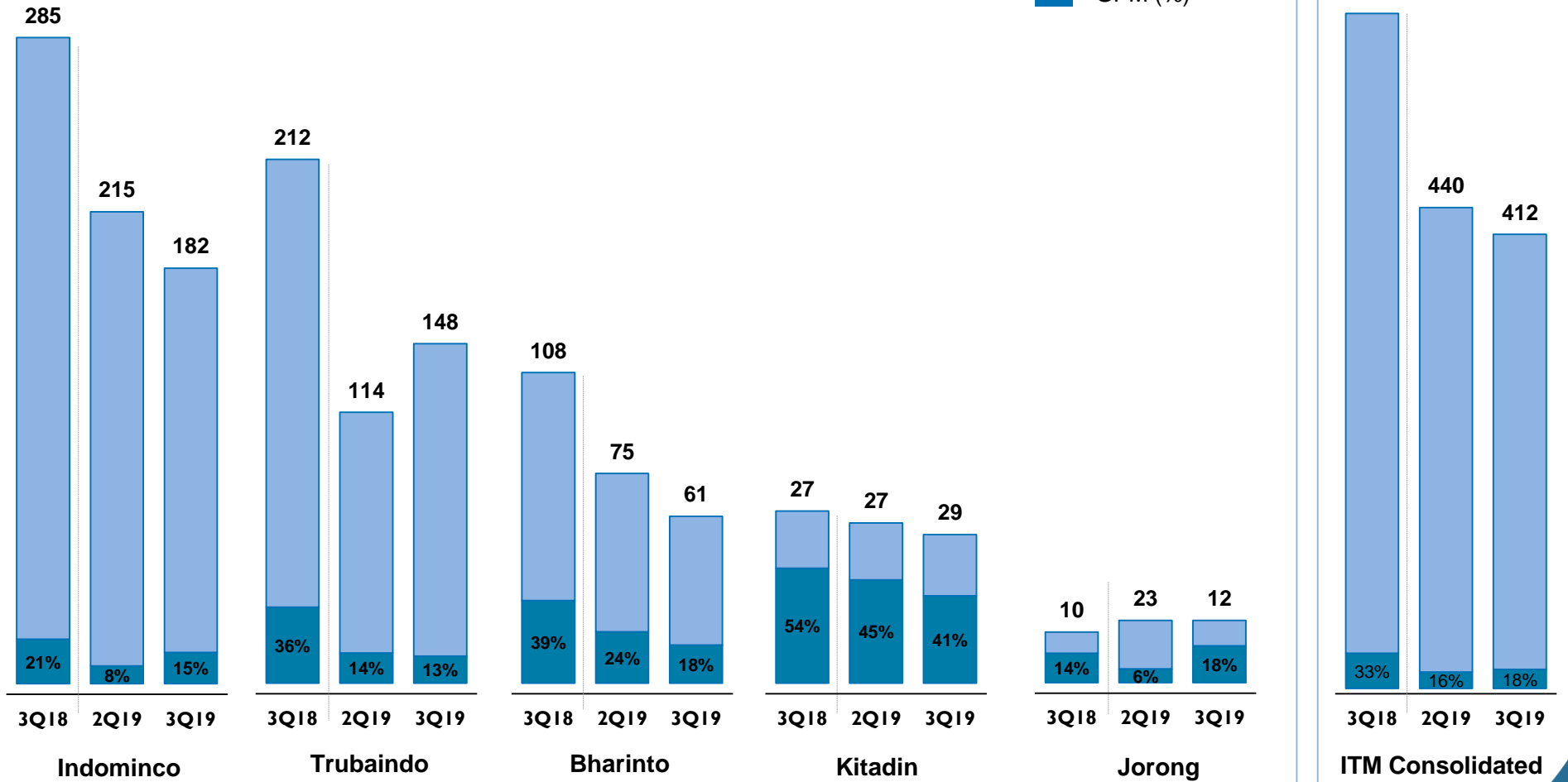


Note: Sales Revenue After Elimination

# Average gross margin

Unit : US\$ Million

Revenue  
GPM (%)



Avg. 9M18: 30%  
9M19: 18%

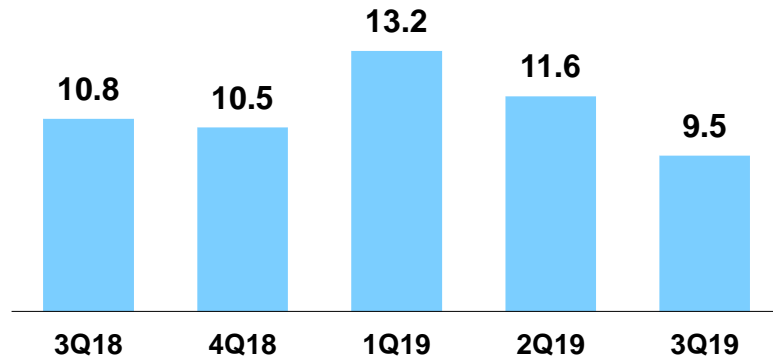
# Cost analysis



## WEIGHTED AVERAGE STRIP RATIO

Unit: Bcm/t

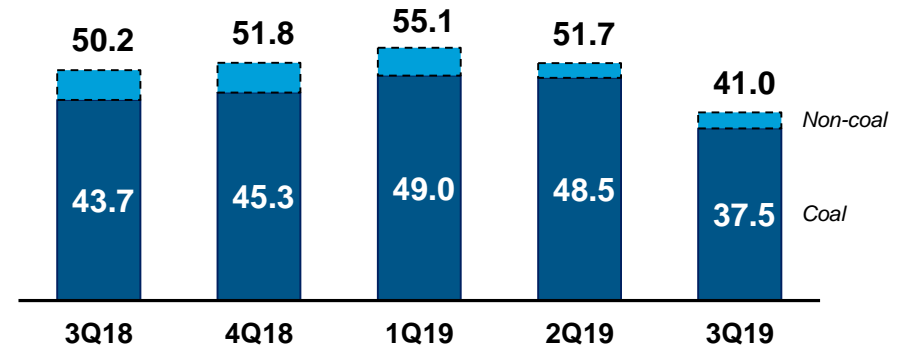
Avg. 9M18: 11.3  
9M19: 11.3



## PRODUCTION COST

Unit: US\$/t

Avg. 9M18: \$49.9/t  
9M19: \$49.3/t

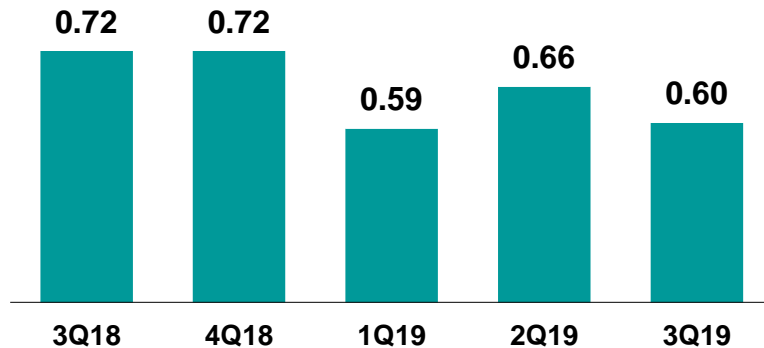


Note: Based on production volume

## FUEL PRICE

Unit: US\$/Ltr

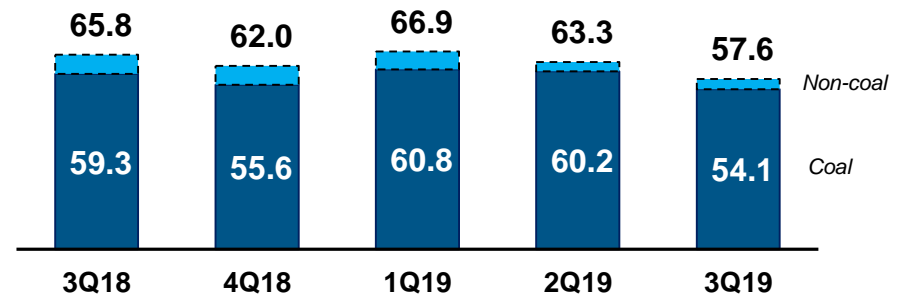
Avg. 9M18: \$0.68/ltr  
9M19: \$0.62/ltr



## TOTAL COST\*

Unit: US\$/t

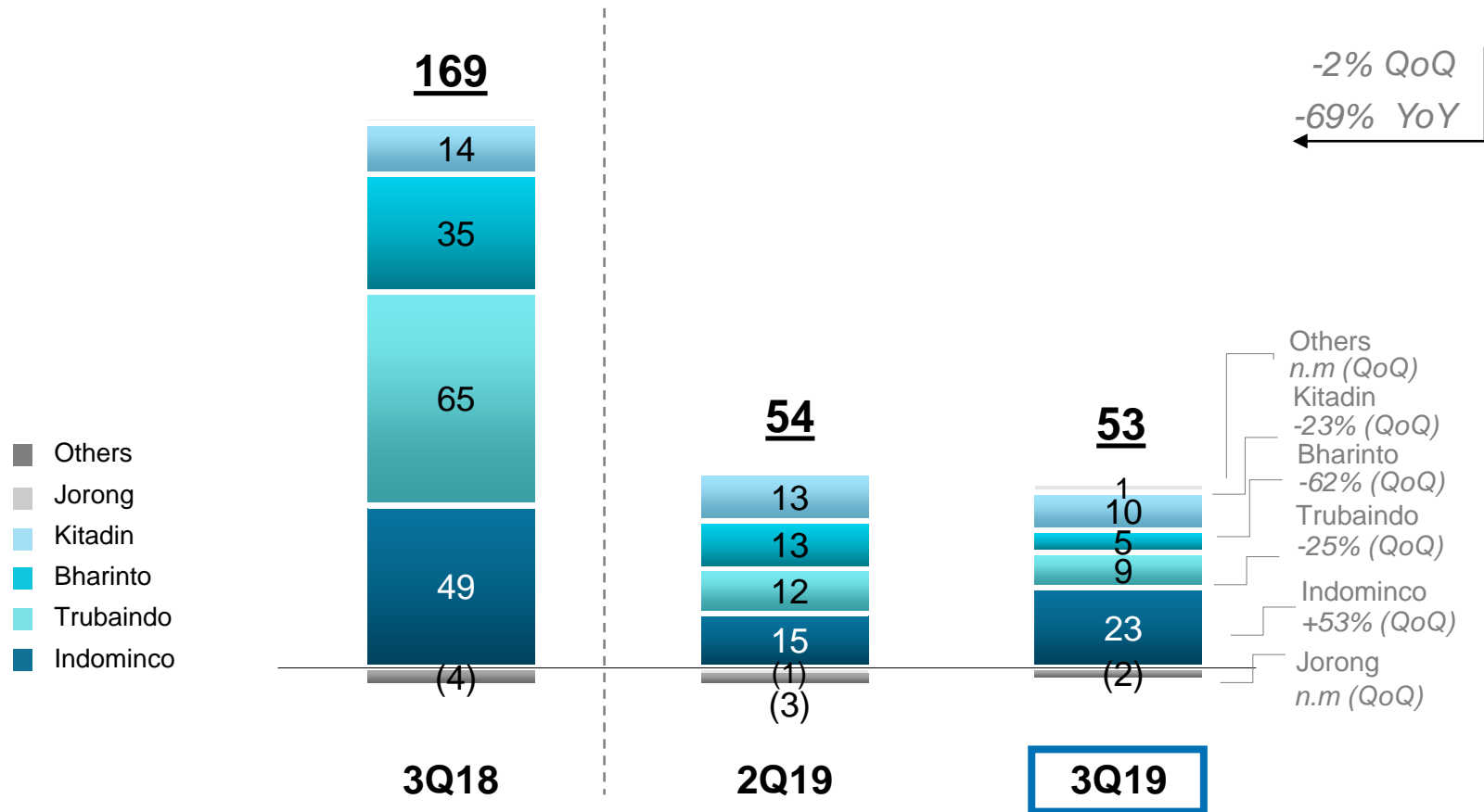
Avg. 9M18: \$65.9/t  
9M19: \$62.5/t



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

# EBITDA

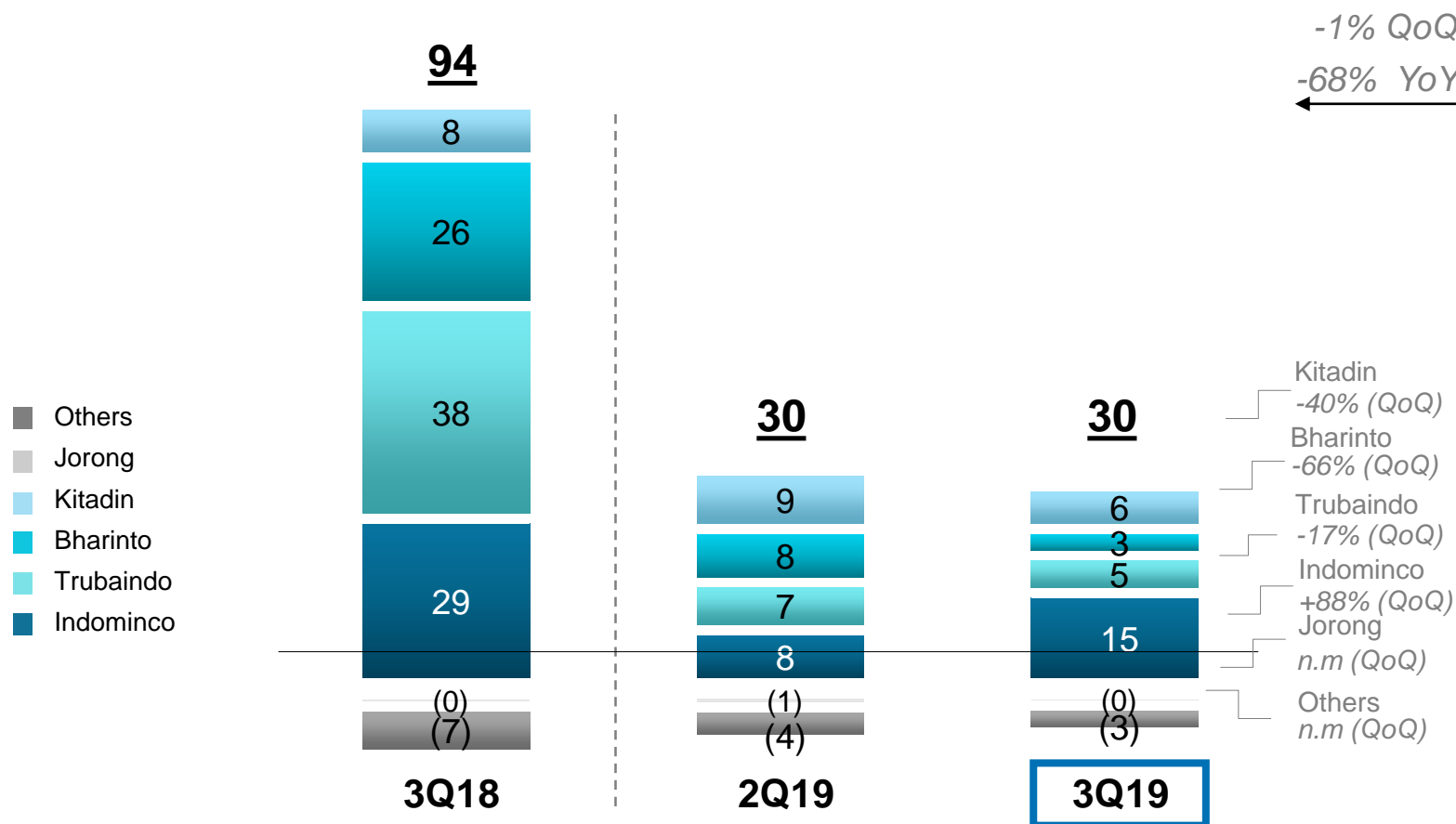
Unit: US\$ million



Note : Total EBITDA after elimination

# Net income

Unit: US\$ million

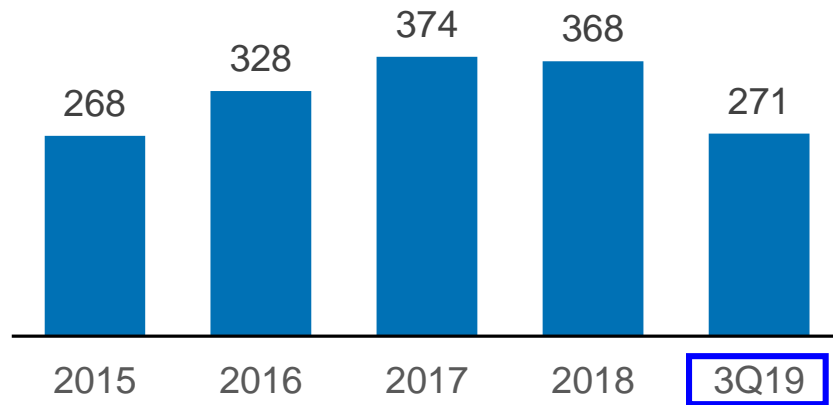


Note : Total consolidated net income after elimination

# Balance sheet

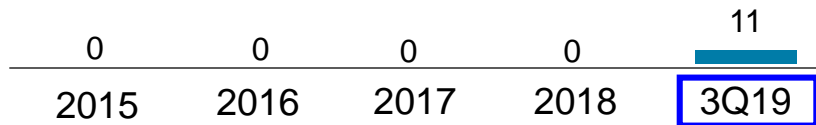
## CASH POSITION

Unit: US\$ million



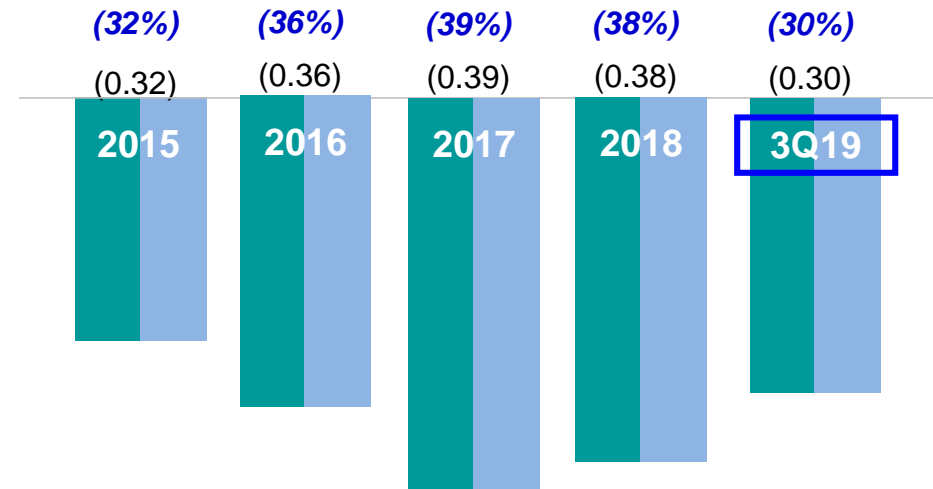
## DEBT POSITION

Unit: US\$ million



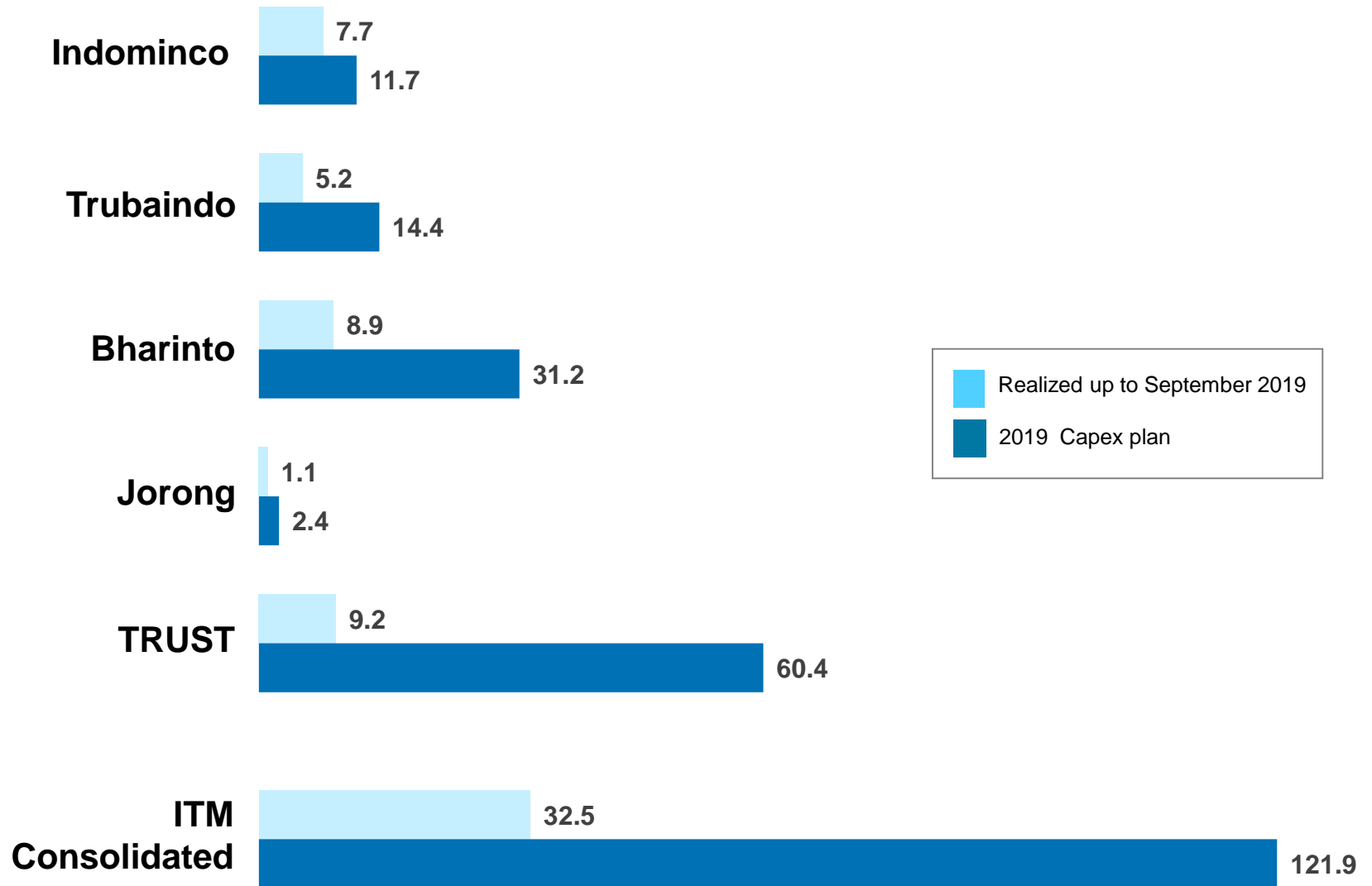
## KEY RATIOS

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





# 2019 Capital expenditure plan





*Thank you*

## Appendices

# Income statement



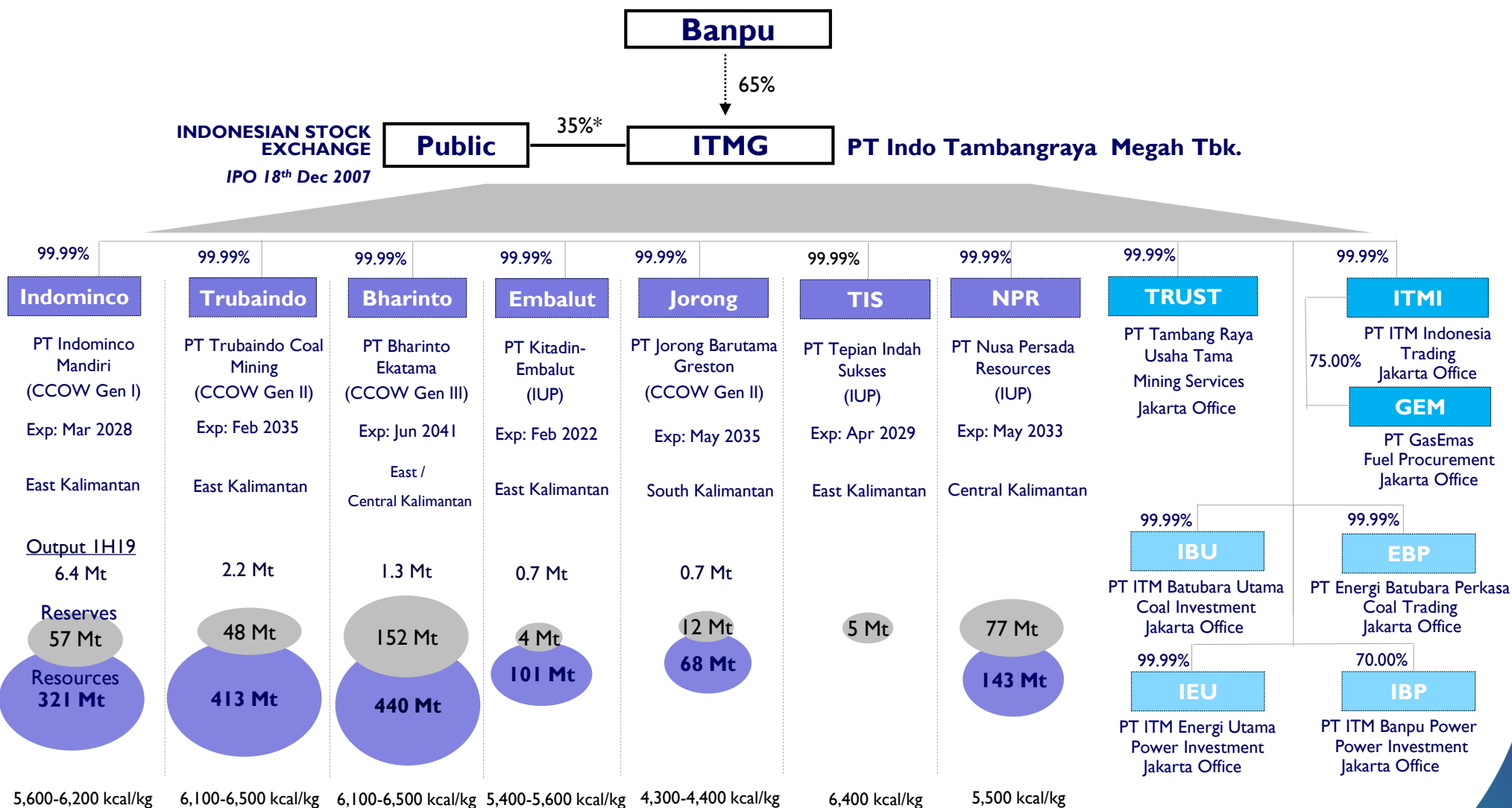
Unit: US\$ thousand	9M19	9M18	YoY%
<b>Net Sales</b>	<b>1,304,780</b>	<b>1,415,191</b>	<b>-8%</b>
<b>Gross Profit</b>	<b>237,832</b>	<b>428,849</b>	<b>-45%</b>
<b>GPM</b>	<b>18%</b>	<b>30%</b>	
SG&A	(103,394)	(108,176)	
<b>EBIT</b>	<b>134,438</b>	<b>320,673</b>	<b>-58%</b>
<b>EBIT Margin</b>	<b>10%</b>	<b>23%</b>	
<b>EBITDA</b>	<b>179,901</b>	<b>365,493</b>	<b>-51%</b>
<b>EBITDA Margin</b>	<b>14%</b>	<b>26%</b>	
Net Interest Income / (Expenses)	3,822	2,299	
FX Gain / (Loss)	473	(9,776)	
Derivative Gain / (Loss)	7,486	(24,969)	
Others	840	(7,116)	
<b>Profit Before Tax</b>	<b>147,059</b>	<b>281,111</b>	<b>-48%</b>
Income Tax	(48,413)	(83,940)	
<b>Net Income</b>	<b>98,646</b>	<b>197,171</b>	<b>-50%</b>
<b>Net Income Margin</b>	<b>8%</b>	<b>14%</b>	

# Income statement



Unit: US\$ thousand	3Q19	2Q19	QoQ%
<b>Net Sales</b>	<b>412,079</b>	<b>439,676</b>	<b>-6%</b>
<b>Gross Profit</b>	<b>75,431</b>	<b>68,789</b>	<b>10%</b>
<b>GPM</b>	<b>18%</b>	<b>16%</b>	
SG&A	(37,079)	(29,795)	
<b>EBIT</b>	<b>38,352</b>	<b>38,994</b>	<b>-2%</b>
<b>EBIT Margin</b>	<b>9%</b>	<b>9%</b>	
<b>EBITDA</b>	<b>53,119</b>	<b>54,254</b>	<b>-2%</b>
<b>EBITDA Margin</b>	<b>13%</b>	<b>12%</b>	
Net Interest Income / (Expenses)	905	1,310	
FX Gain / (Loss)	(1,443)	1,371	
Derivative Gain / (Loss)	4,779	1,888	
Others	2,543	689	
<b>Profit Before Tax</b>	<b>45,136</b>	<b>44,252</b>	<b>2%</b>
Income Tax	(15,465)	(14,269)	
<b>Net Income</b>	<b>29,671</b>	<b>29,983</b>	<b>-1%</b>
<b>Net Income Margin</b>	<b>7%</b>	<b>7%</b>	

# ITM structure



\*: ITM own 2.95% from share buyback program

Note: Updated Coal Resources and Reserves as of 31 Dec 2018 based on estimates prepared by competent persons (consider suitably experienced under the JORC Code) and deducted from coal sales volume in IH19.