



**PT Indo Tambangraya Megah Tbk**



# **Analyst Briefing 2Q17 Performance Results**

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***Jakarta, 16 Aug 2017***

**1 INTRODUCTION**

**2 OPERATIONAL REVIEW**

**3 COMMERCIAL REVIEW**

**4 FINANCIAL REVIEW**

**5 QUESTION & ANSWERS**

# Highlights of 2Q17 and 1H17 results



**Coal sales**  
**5.5 Mt**  
 ↑ Up 0.1Mt  
 +2% Q-Q

**Coal sales**  
**10.9 Mt**  
 ↓ Down 2.2 Mt  
 -17% Y-Y

Unit: US\$ million

	<u>1Q17</u>	<u>2Q17</u>	<u>Q-Q</u>	<u>1H16</u>	<u>1H17</u>	<u>y-y</u>
<b>Total Revenue</b>	368	381	+4%	609	749	+23%
<b>Gross Profit Margin</b>	31%	26%	-5%	19%	28%	+9%
<b>EBIT</b>	89	71	-21%	59	160	+173%
<b>EBITDA</b>	103	84	-18%	82	188	+129%
<b>Net Income</b>	57	48	-16%	36	105	+189%
<b>ASP (USD/ton)</b>	\$67.5	\$68.5	+1%	\$46.3	\$68.4	+48%

# 2017 outlook remains positive

## 1H17

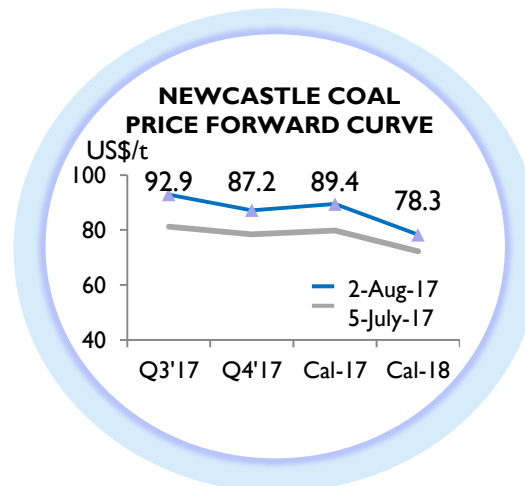
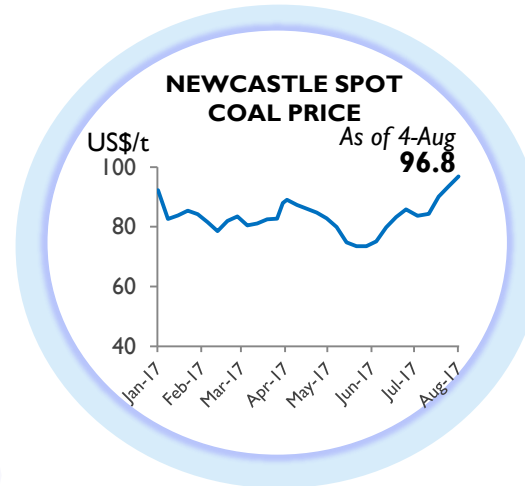
Supply tighter while demand higher than expected ....

### DEMAND

- Temporary rising in demand from China (economy, regulation, warm weather and low hydropower)
- Nuclear shutdown in South Korea
- Less hydro and nuclear outage in Europe

### SUPPLY

- China import ban smoothens possible price spike
- Indirect impact from cyclone Debbie; steel industry continues to draw coal from thermal
- Abnormal rainfall limits Indonesia production



## 2H17 OUTLOOK

.... excess pressure lesser, but likely to continue through year end

### DEMAND

- Chinese government intervention continues
- Chinese buyers trend to buy higher CV
- Demand from South Korea and Taiwan due to nuclear outage and new coal-fired capacity
- Heat wave and less rainfall continues support coal burn in Europe

### SUPPLY

- Indonesia producers enter rainy season with low stocks
- Strikes in Australia limit supply growth
- N. Korea sanctions may impact at margins
- Winter will slow supply from Russia and North China
- Weaker US dollar supports coal prices

# Medium term: continued tight demand/supply

MARKET OUTLOOK 2017 – 2020

## DEMAND



### **Growing Pacific demand offsetting lower Atlantic demand**

- N. Asia demand remains stable
- Growth shifts from N.Asia to SEA and South Asia
- Turkey is the only demand growth country in Europe

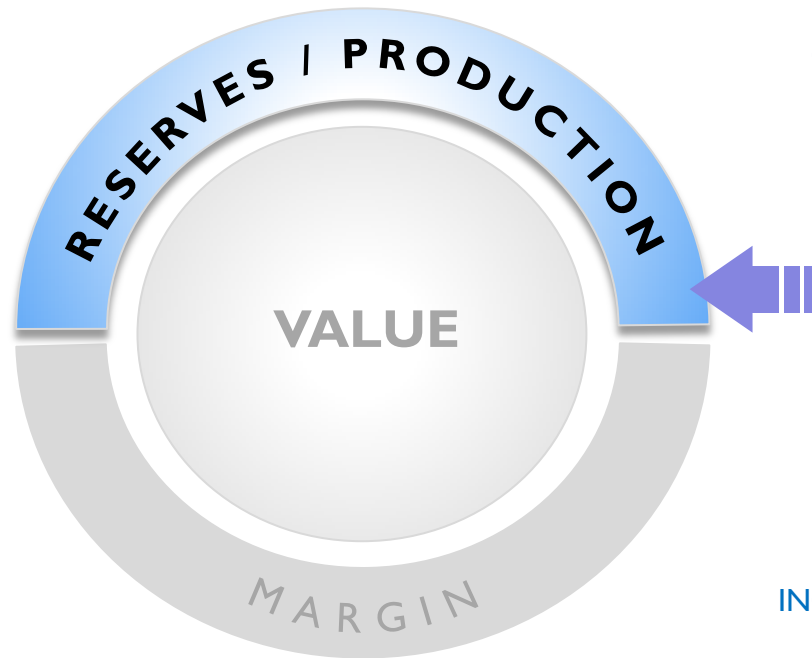
## SUPPLY



### **Supply pressure from reserves depletion and Indonesia domestic demand**

- Depletion of high CV reserves
- Indonesia's attempt to preserve reserves
- Limited investment into new capacity – new supply likely to come with higher cost and/or lower quality

# Coal strategies: adding reserves



ORGANIC  
RESERVES



## TECHNICAL FEASIBILITY

- New mining methods (underground, Auger)
- New area (Bharinto)

## ECONOMIC FEASIBILITY

- Costs and reserves trade off

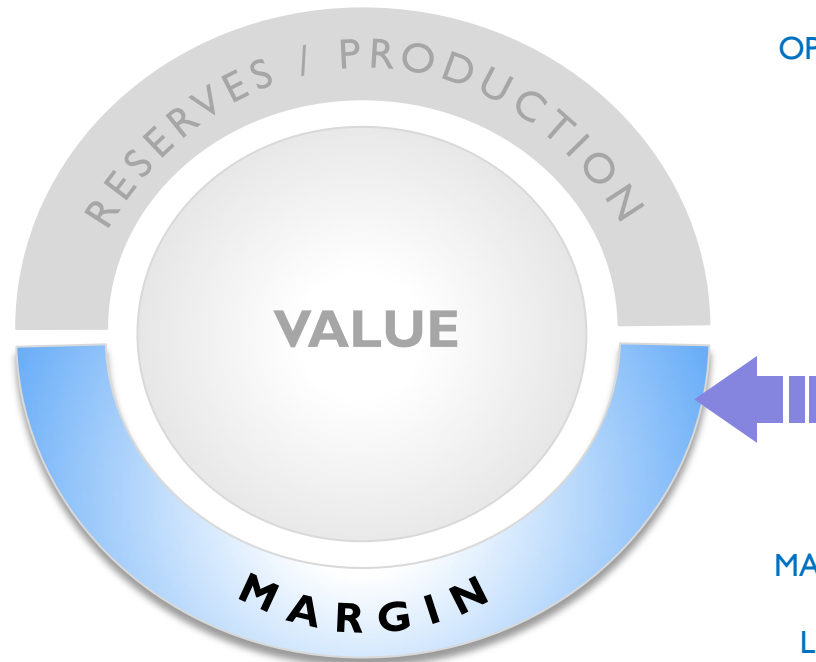
## ACQUISITION AND THIRD PARTY

- Focus on synergic acquisition around current operations
- Both high CV and low CV
- Explore ways to uplift value
- More innovative structuring and financing

INORGANIC  
RESERVES



# Coal strategies: enhance margin



OPERATION



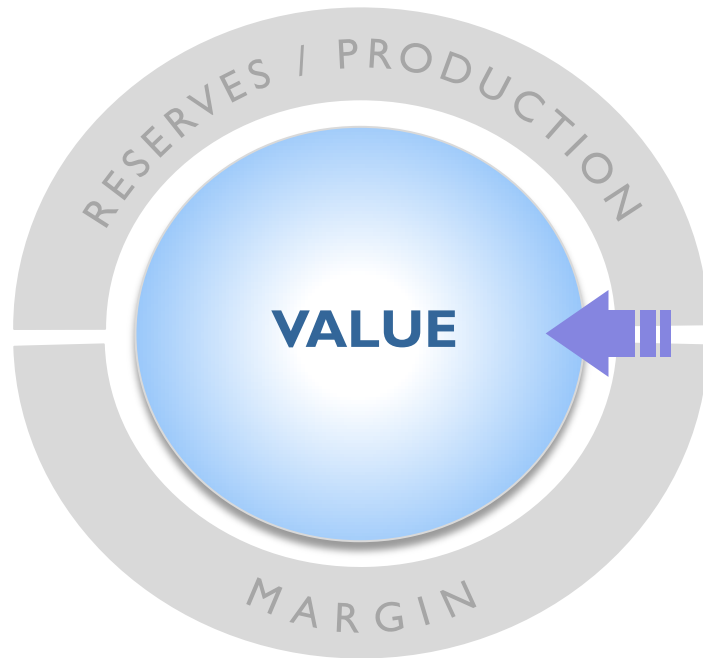
- Operational Excellence/ Step change Productivity Program
- Collaboration with contractors, expand in-house contract mining
- Fuel procurement

MARKETING  
SALES  
LOGISTICS



- Maintain flexibility and spread
- Focus on midstream development
- Optimize and drive coal flow initiatives...
- Expand trading capabilities
- Continue Brand elevation..

# Strategies: maximize long term value



LONG TERM  
FOCUS



- Maximize long-term value not short-term results
- Expand skills and competitive advantage to new resources

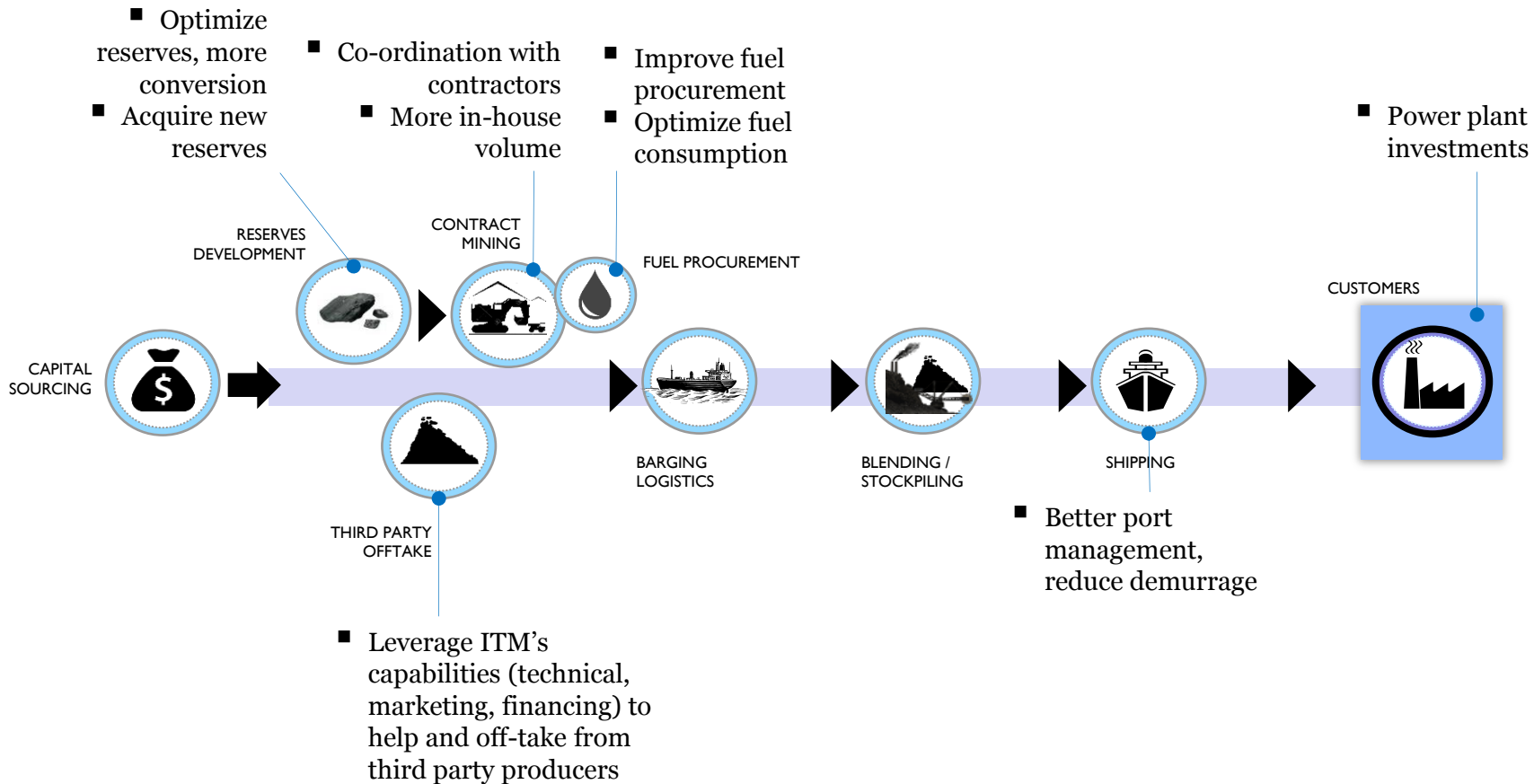
OPTIMIZATION



- Reserves/ margin – higher S/R can lead to higher reserves but will come with higher costs
- Product quality – CV and impurity



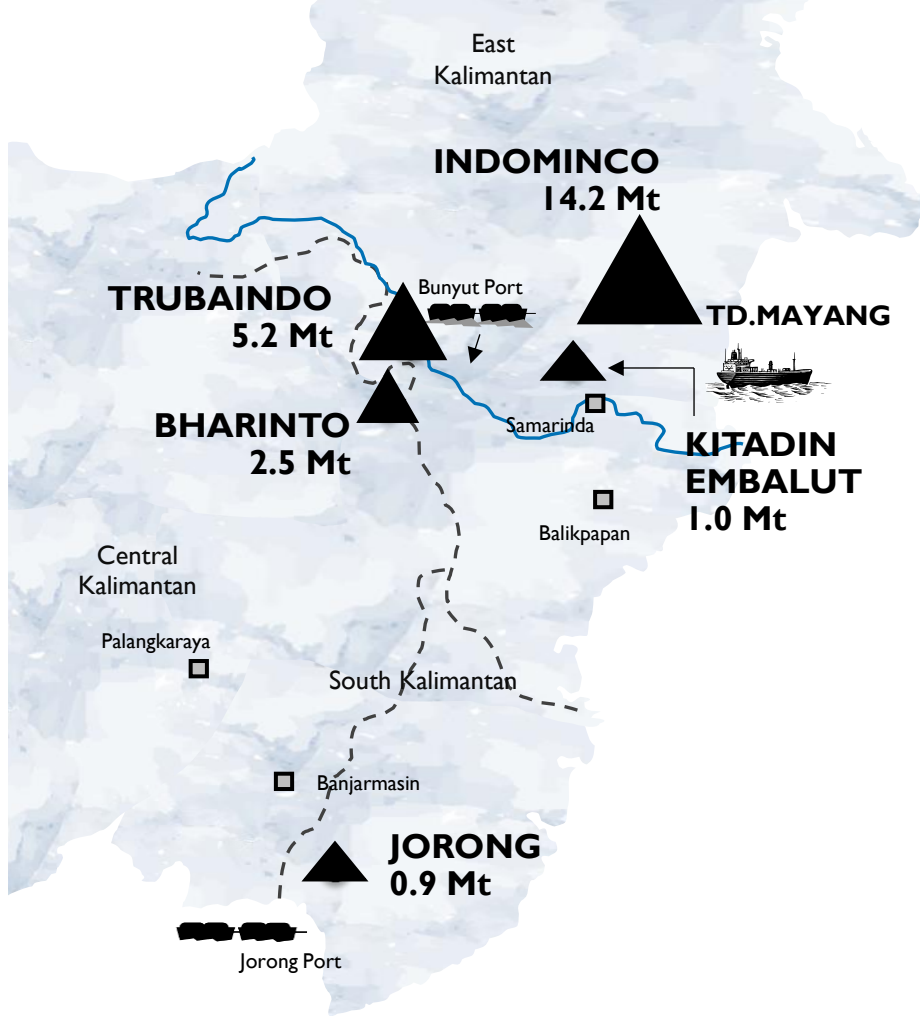
# Towards a more sustainable integrated platform



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- 5 QUESTION & ANSWERS

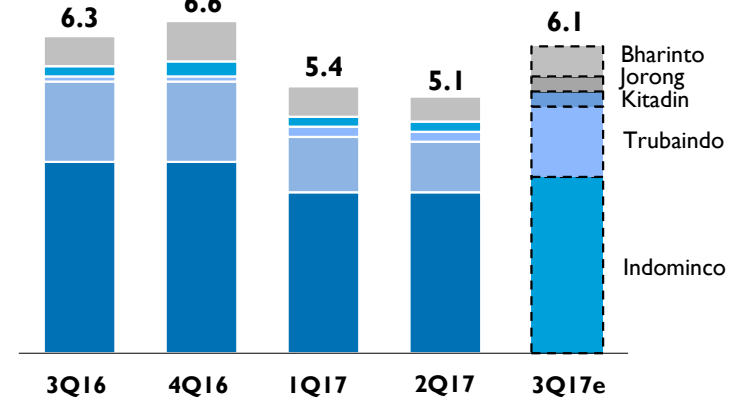
# Operational summary 2017

2017 TARGET : 23.8 Mt



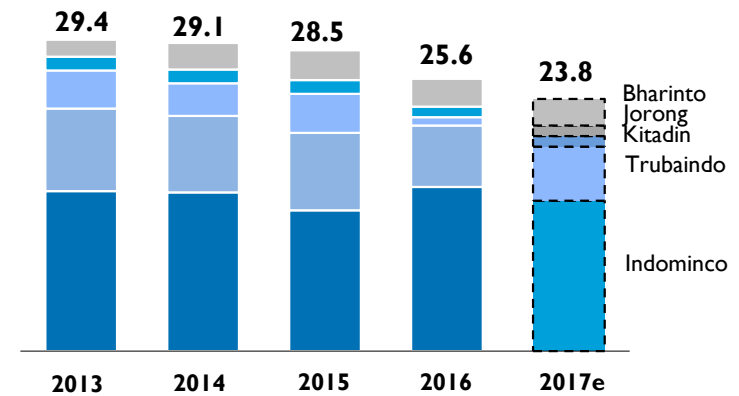
## QUARTERLY OUTPUT TREND

Unit: Mt



## YEARLY OUTPUT TREND

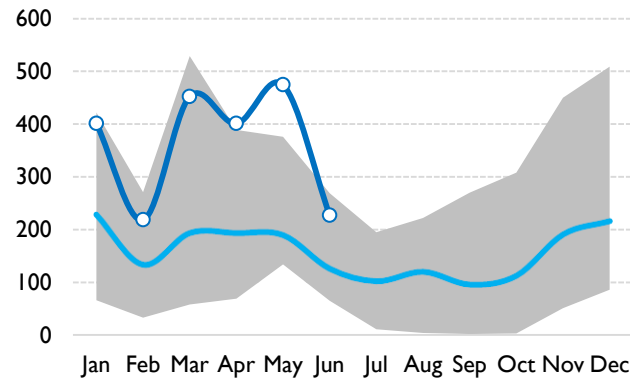
Unit: Mt



# Heavy rainfall impacted Indonesian production

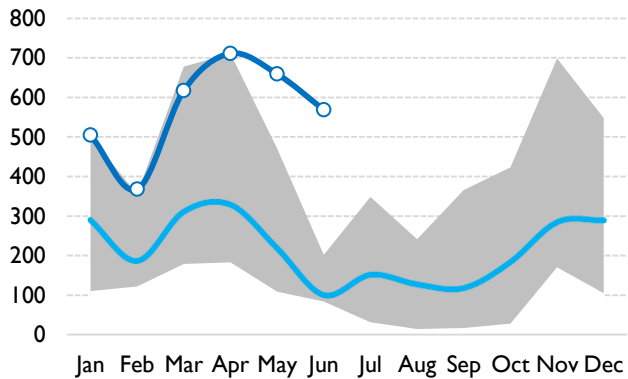
## INDOMINCO

Unit: Millimeter



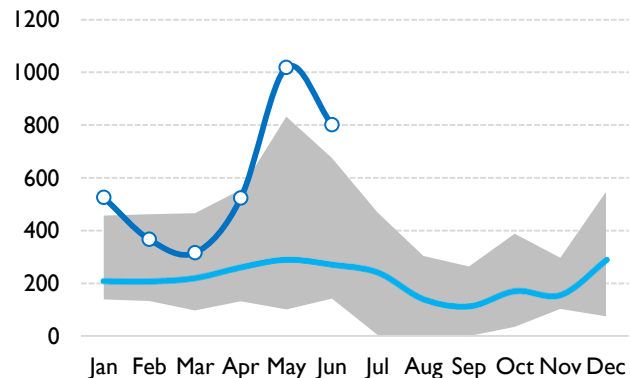
## TRUBAINDO & BHARINTO

Unit: Millimeter



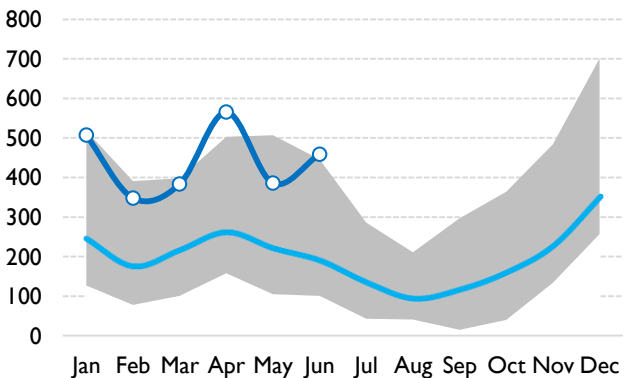
## JORONG

Unit: Millimeter



## EMBALUT

Unit: Millimeter

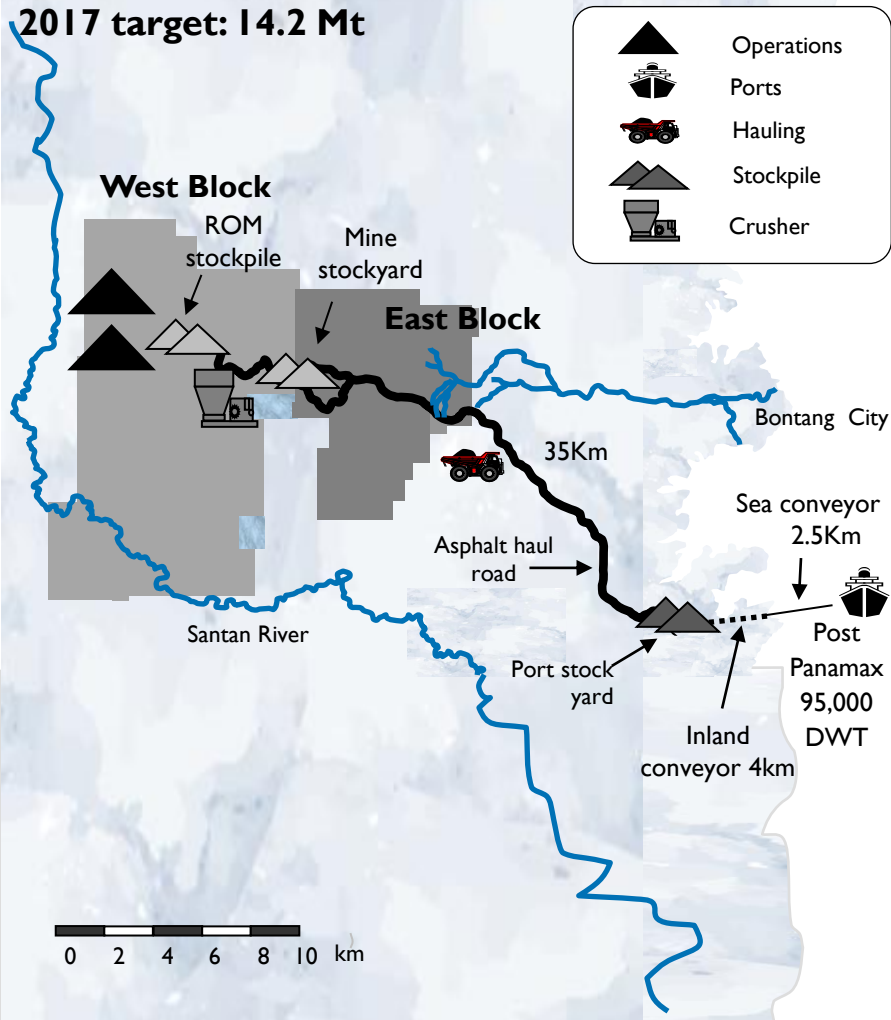


— 2010-16 average rainfalls   
 —○— 1H17 rainfalls   
  2010-16 rainfall range

- 1H17 rainfall levels were highest in the last 7 years
- This was resulted in lower production output across Indonesian coal sector and put upward pressure on coal price
- Embalut and Jorong achieved production target despite heavy rainfall. Indominco Trubaindo, and Bharinto produced lower-than-target production

## SCHEMATIC

2017 target: 14.2 Mt

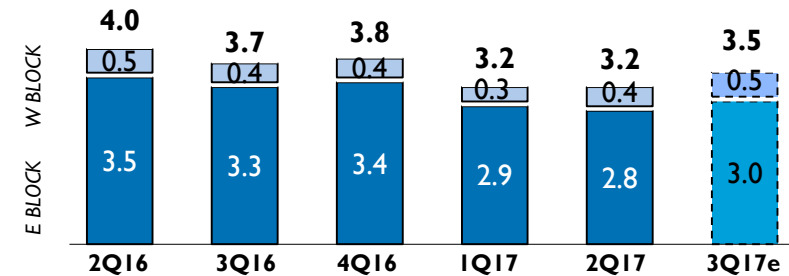


## QUARTERLY UPDATES

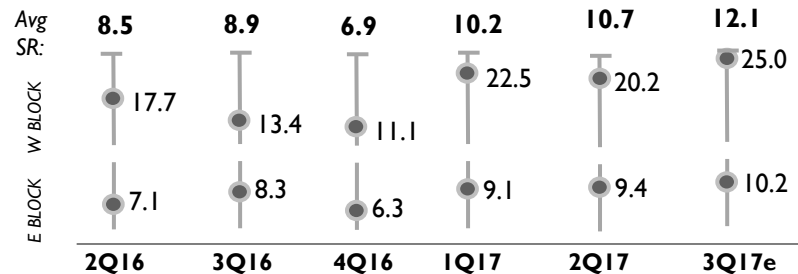
- 2Q17 production output was lower than target due to weather condition at Indominco area.
- Total average strip ratio in 2017 is expected to be higher than 2016 due to optimized coal reserved.

## QUARTERLY OUTPUT

Unit: Mt



Unit: Bcm/t



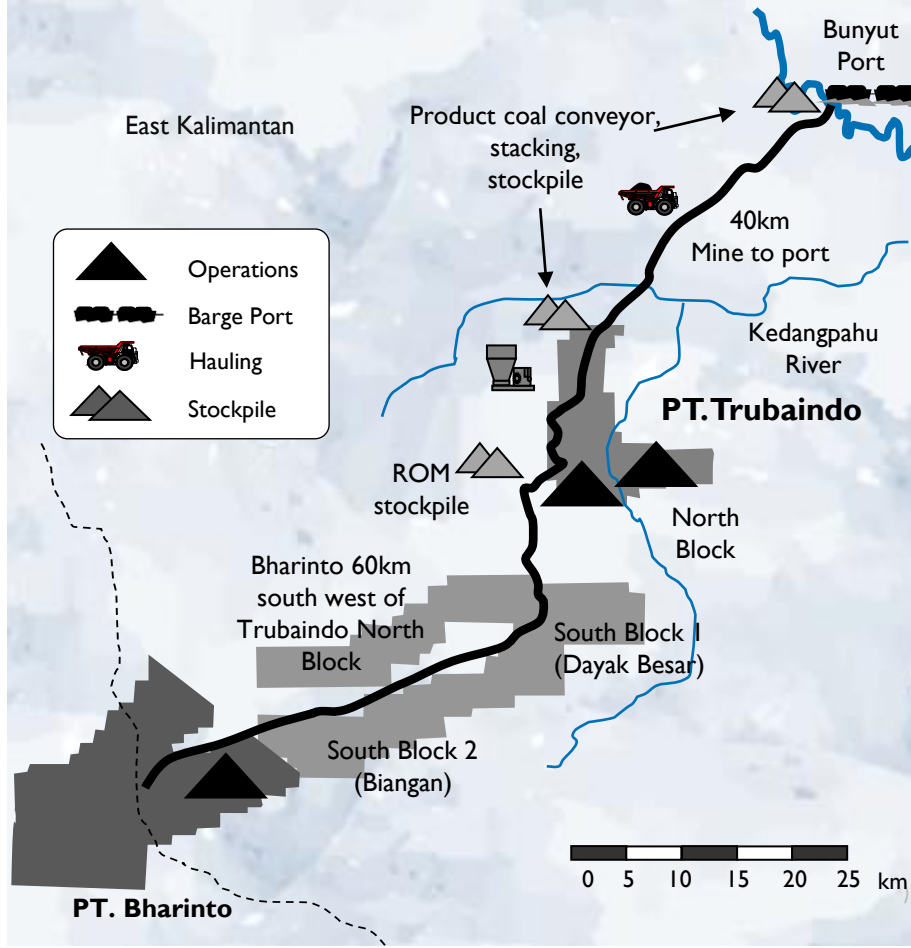
\*SR based on FC coal

\*\*SR FY16 IMM: 8.3, WB: 14.1, EB: 7.4

# Melak group – Trubaindo and Bharinto

## SCHEMATIC

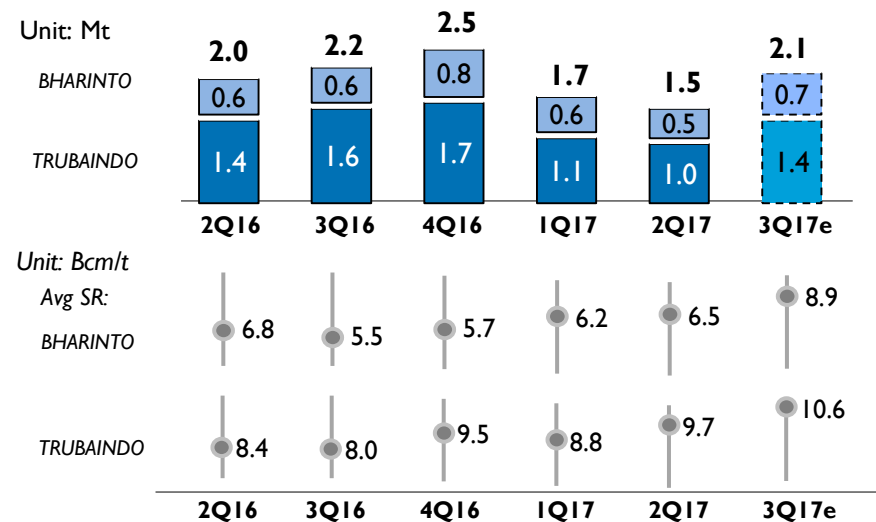
2017 target: TCM 5.2 Mt  
BEK 2.5 Mt



## QUARTERLY UPDATES

- Trubaindo:
  - 2Q17 production output was lower than target due to heavy rainfalls affecting mine production.
  - Continue hauling road improvement program from Trubaindo South Block to Bunyut port and expected to be completed by 4Q17.
- Bharinto:
  - 2Q17 production slightly lower than target due to rainy days affecting production.

## QUARTERLY OUTPUT



\*SR based on FC coal

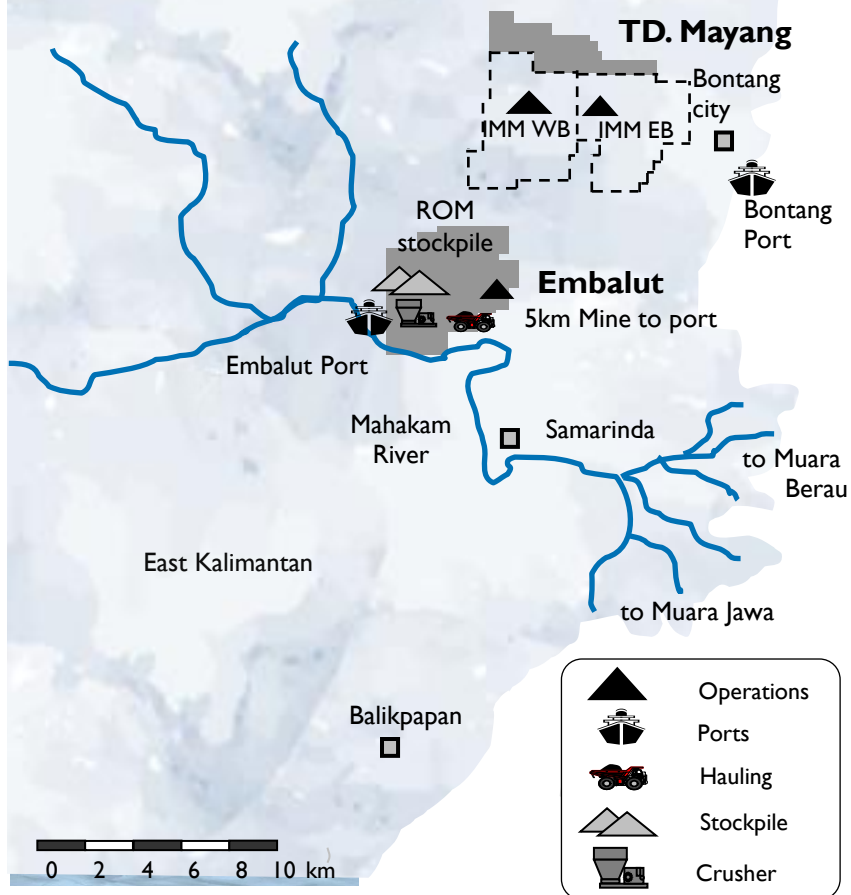
\*\*SR FY16 TCM: 8.6, BEK: 6.1

# Kitadin Embalut and Tandung Mayang



## SCHEMATIC

2017 target: EMB 1.0 Mt

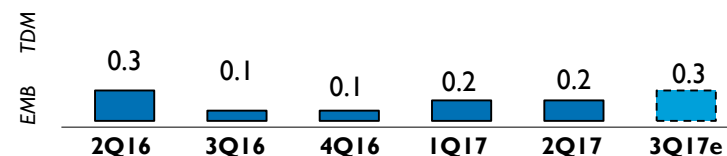


## QUARTERLY UPDATES

- Kitadin Embalut:
  - 2Q17 production achieved according to target
- Kitadin Td.Mayang:
  - Continue mine closure activities including mine rehabilitation.

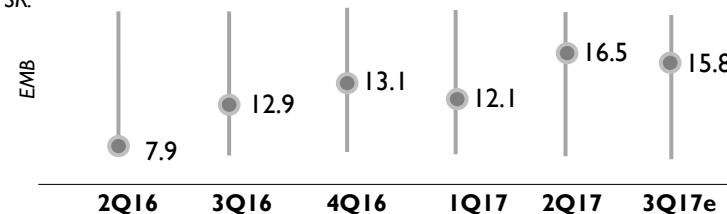
## QUARTERLY OUTPUT

Unit: Mt



Unit: Bcm/t

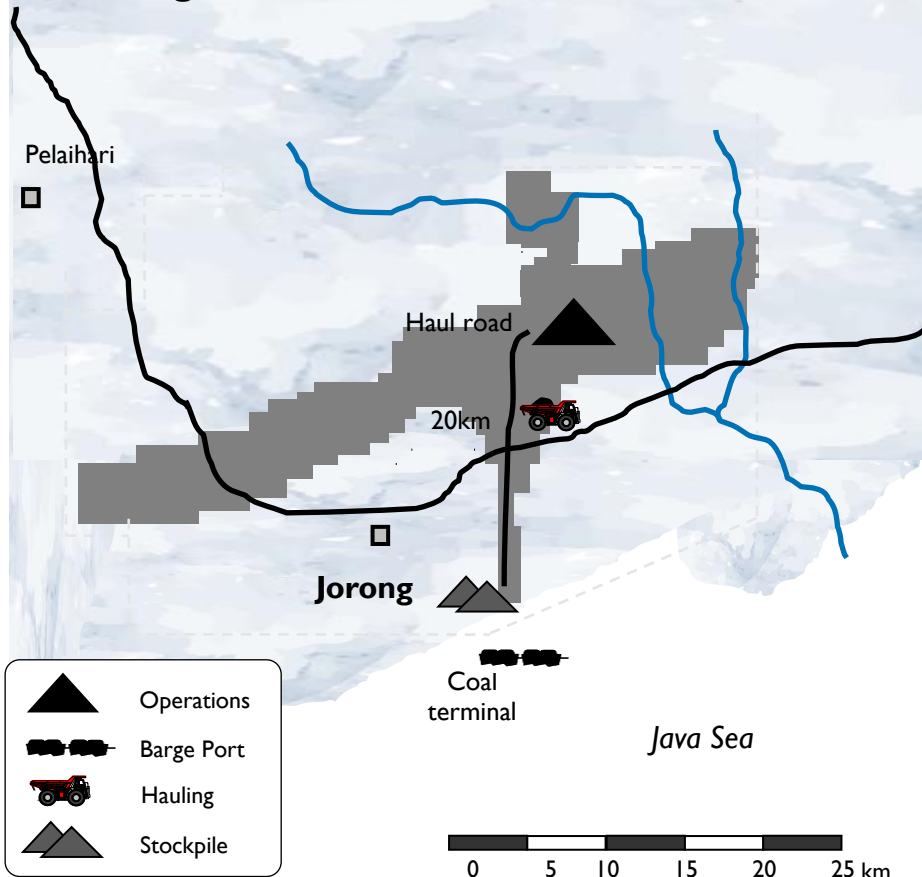
Avg SR:



\*SR based on FC coal \*\*SR FY16 EMB: 11.3

## SCHEMATIC

2017 target: 0.9 Mt

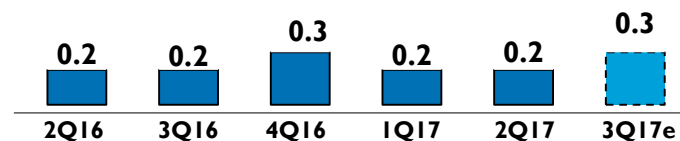


## QUARTERLY UPDATES

- 2Q17 production achieved as according to target.
- Mine closure plan already submitted and being reviewed by government for approval.
- Remaining mine reserves will be depleted by 2019.

## QUARTERLY OUTPUT

Unit: Mt



Unit: Bcm/t

Avg SR:



\*SR based on FC coal

\*\*\*SR FY16 JBG: 4.5



# Agenda

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# 2017 outlook remains positive

## 1H17

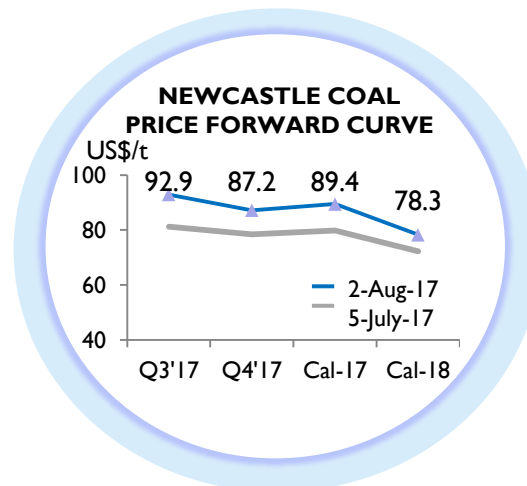
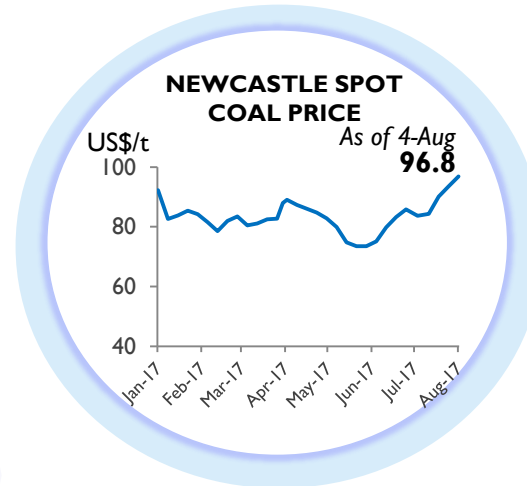
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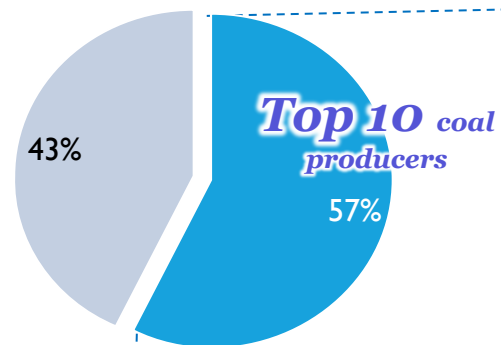


### **Supply pressure from reserves depletion and Indonesia domestic demand**

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# Medium term limits on Indonesian supply

## LISTED-INDONESIAN COAL PRODUCER PRODUCTION AND MINE LIFE

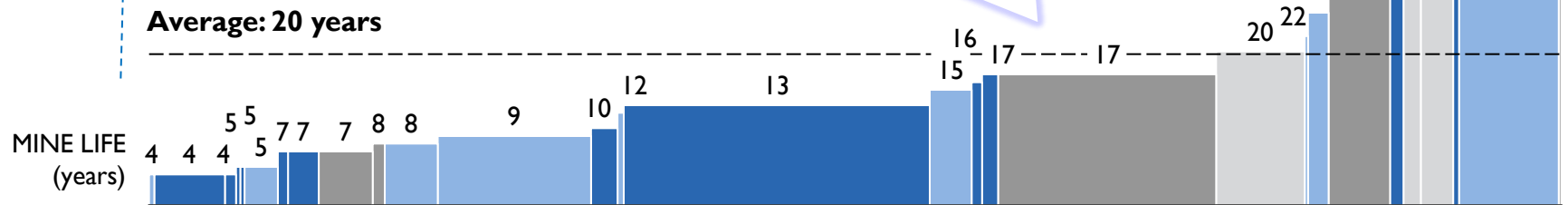


2016 INDONESIAN COAL PRODUCTION  
**475 Mt**

- C. 90Mt of coal supply may not last more than 10 years
- Majority may not last more than 15 years – mostly high CV
- Other c. 40% of production from smaller producers are low CVs
- Some figures have not been updated since the coal price fall
- At least, need current pricing to stabilize to incentivize new production, which is likely to come at a higher cost


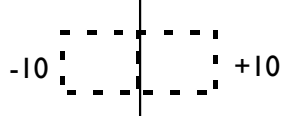

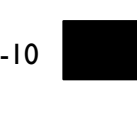

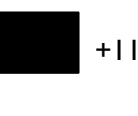

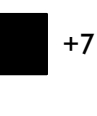

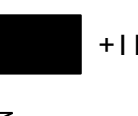

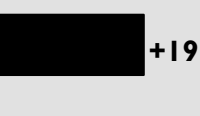
CV/GAR

- > 5,700
- 5,000-5,700
- 4,300-5,000
- < 4,300











2016 CUMULATIVE PRODUCTION OF TOP 10 PRODUCERS **c.270 Mt**

# Global demand trends: 2017 vs 2016

GEOGRAPHY		CHANGE 2017-16 (Mt.)	COMMENTS
	<b>CHINA</b>	-10  +10	<ul style="list-style-type: none"> <li>▪ Warm weather and strong power demand boosted coal burn</li> <li>▪ Heavy rain in the south caused flood and reduced hydropower generation</li> <li>▪ Coal supply recovered slowly due to strict safety inspections</li> <li>▪ Second-tier ports ban policy will affect coal import in the second half</li> </ul>
	<b>INDIA</b>	-10 	<ul style="list-style-type: none"> <li>▪ Tax reform has made domestic coal more competitive</li> <li>▪ Coal consumption seems to decline in Q3 amid increase hydropower and nuclear generation</li> <li>▪ Low utilization rate of coal-fired power plants will continue.</li> </ul>
	<b>OTHER N.ASIA</b>	 +11	<ul style="list-style-type: none"> <li>▪ High temperature and nuclear shutdown boost coal burn in South Korea</li> <li>▪ Taiwan coal demand has risen as new capacity comes on line amid nuclear outage and strong demand</li> </ul>
	<b>EUROPE</b>	 +7	<ul style="list-style-type: none"> <li>▪ Higher coal burn in Southern Europe due to low hydro and heat wave</li> <li>▪ Increase coal-to-gas fuel switching in European continent due to high coal price lower the growth</li> <li>▪ Turkey will add 1.3GW coal-fired power plant in Q4</li> </ul>
	<b>OTHERS</b>	 +11	<ul style="list-style-type: none"> <li>▪ 1.32 GW Pakistan's first imported coal-fired power plant came on line early July</li> <li>▪ Malaysia and Philippines are expected to add 5 Mt of demand growth</li> <li>▪ Egypt and Morocco will drive import growth in the North African markets while Chile will drive growth in Americas</li> </ul>
	<b>GLOBAL</b>	 +19	<p><i>High temperature, nuclear shutdown and low hydropower generation are driving coal demand in Europe and north Asia. China's policy still be the main influencer to international coal prices.</i></p>

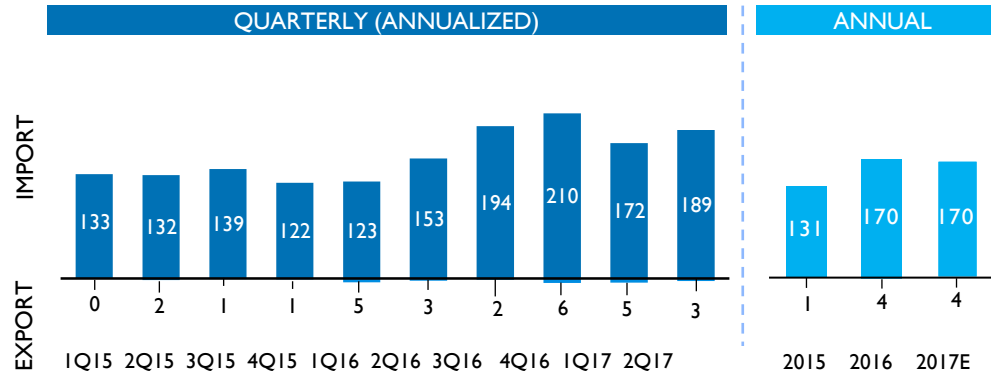
# Global supply trends: 2017 vs 2016

GEOGRAPHY		CHANGE 2017-16 (Mt.)	COMMENTS
	<b>INDONESIA</b>	+8	<ul style="list-style-type: none"> <li>Abnormal rain disrupts production and limits export growth</li> <li>Many producers are expected to enter rainy season with low stocks</li> <li>China's second-tier ports ban and weak Indian demand will impact low CV coal export</li> </ul>
	<b>AUSTRALIA</b>	0	<ul style="list-style-type: none"> <li>Weather, maintenance and strikes tighten supply and limited supply growth</li> </ul>
	<b>COLOMBIA</b>	+1	<ul style="list-style-type: none"> <li>Rainfall tighten supply</li> </ul>
	<b>RUSSIA</b>	+6	<ul style="list-style-type: none"> <li>Export remains strong despite maintenance and rail upgrade works which reduce throughput capacity</li> </ul>
	<b>S.AFRICA</b>	0	<ul style="list-style-type: none"> <li>Stormy weather conditions disrupted coal loading operation and created congestion at Richards Bay Coal Terminal</li> </ul>
	<b>USA</b>	+8	<ul style="list-style-type: none"> <li>Stronger international price keeps coal export high</li> </ul>
	<b>OTHERS</b>	-3	<ul style="list-style-type: none"> <li>Export from high cost producers such as Poland and Venezuela are expected to decline</li> </ul>
	<b>GLOBAL</b>	+20	<p><i>Most major exporting countries are facing supply disruptions from rains and expected supply tightness to remain through year end while uncertain China's policy will challenge growth prospects for all suppliers in 2017</i></p>

# China: continued government intervention

## CHINA THERMAL COAL IMPORTS/EXPORTS\*

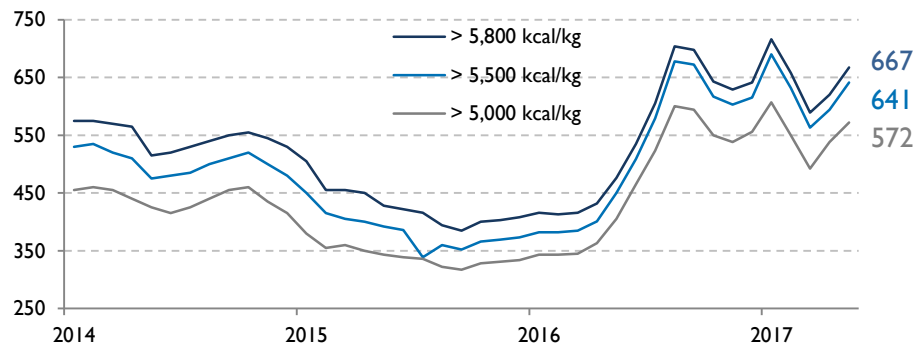
Unit: Mt



Sources: Banpu MS&L estimates

## CHINA DOMESTIC COAL PRICES

Unit: RMB/t

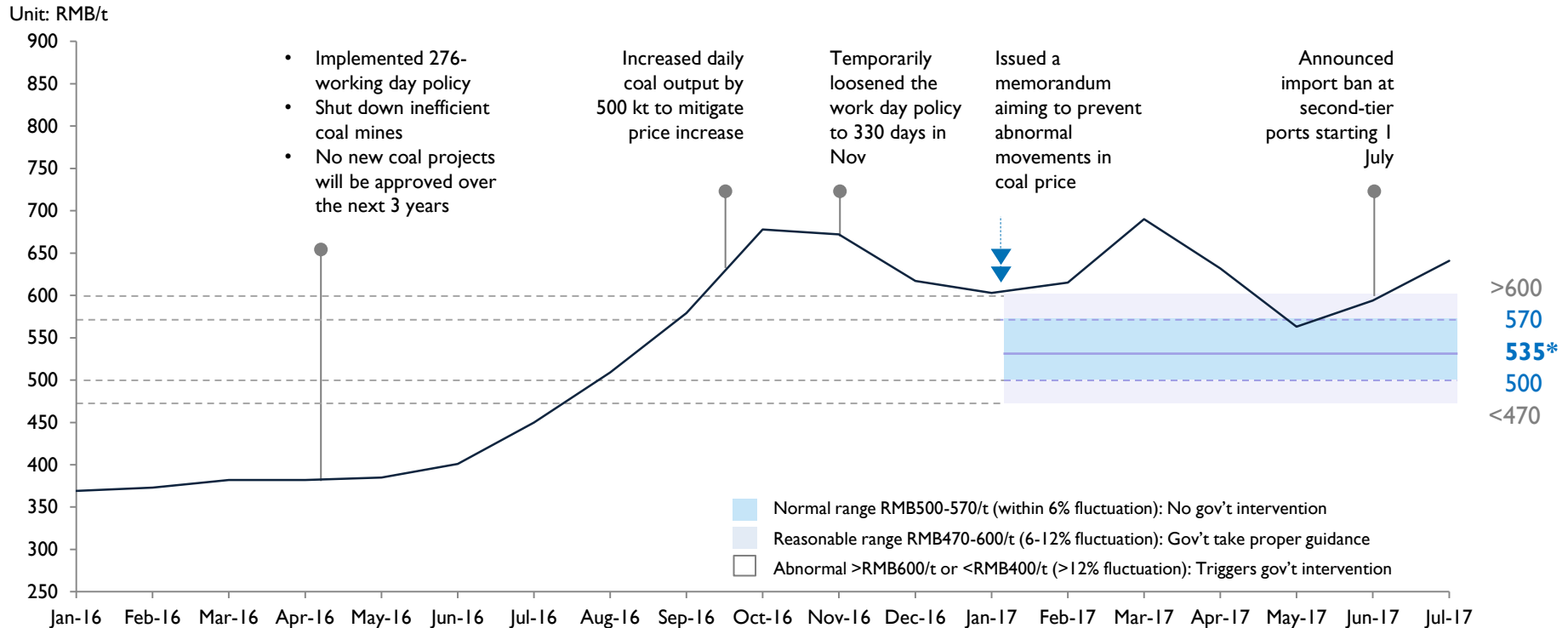


- Thermal coal import 90 Mt in 1H17, growing 31% YoY, but expect to fall in the 2H17
- Thermal coal prices started to fall rapidly in April 2017 on effective production cut but surge again in July due to warm weather, low hydro and strong demand
- Tighter spot supply as large miners focus on contract supply and remove coal from spot market
- Government asked miners to release new supply but production is still restricted by the capacity cut and safety inspection policy and is less likely to increase quickly in response to the demand increase
- Government continued restricts coal import
  - Tighter custom clearance procedure
  - Ban on coal imports at second-tier ports from 1 July – 31 December 2017
- Hydropower generation is expected to improve in Q3

# China policies aim to balance demand and supply...



CHINA DOMESTIC COAL SPOT PRICES FOR 5,500 KCAL/KG COAL GRADE



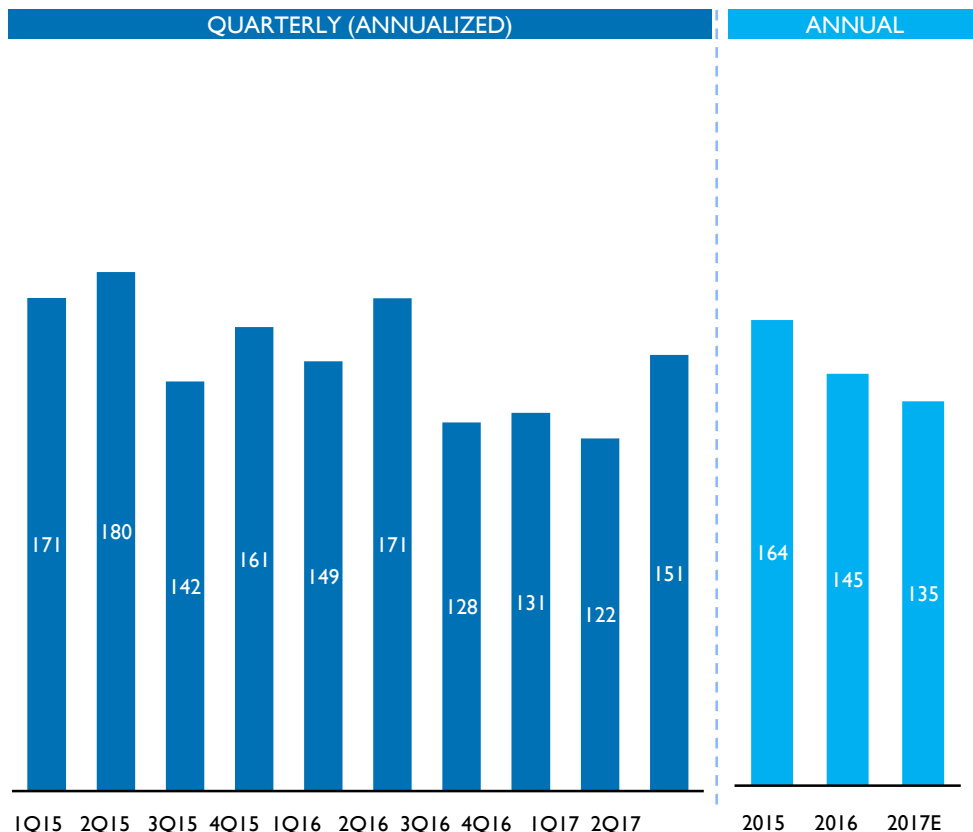
- Intention is to reduce outdated capacity, secure supply and stabilize prices
- The government has set a reasonable range for thermal coal prices; stability at target domestic price level at RMB535/t is positive for the seaborne market
- Higher-than-expected coal prices this summer have prompted the NDRC to allow more supply into the market but production has recovered slowly



# India: structural adjustments

## INDIA THERMAL COAL IMPORTS\*

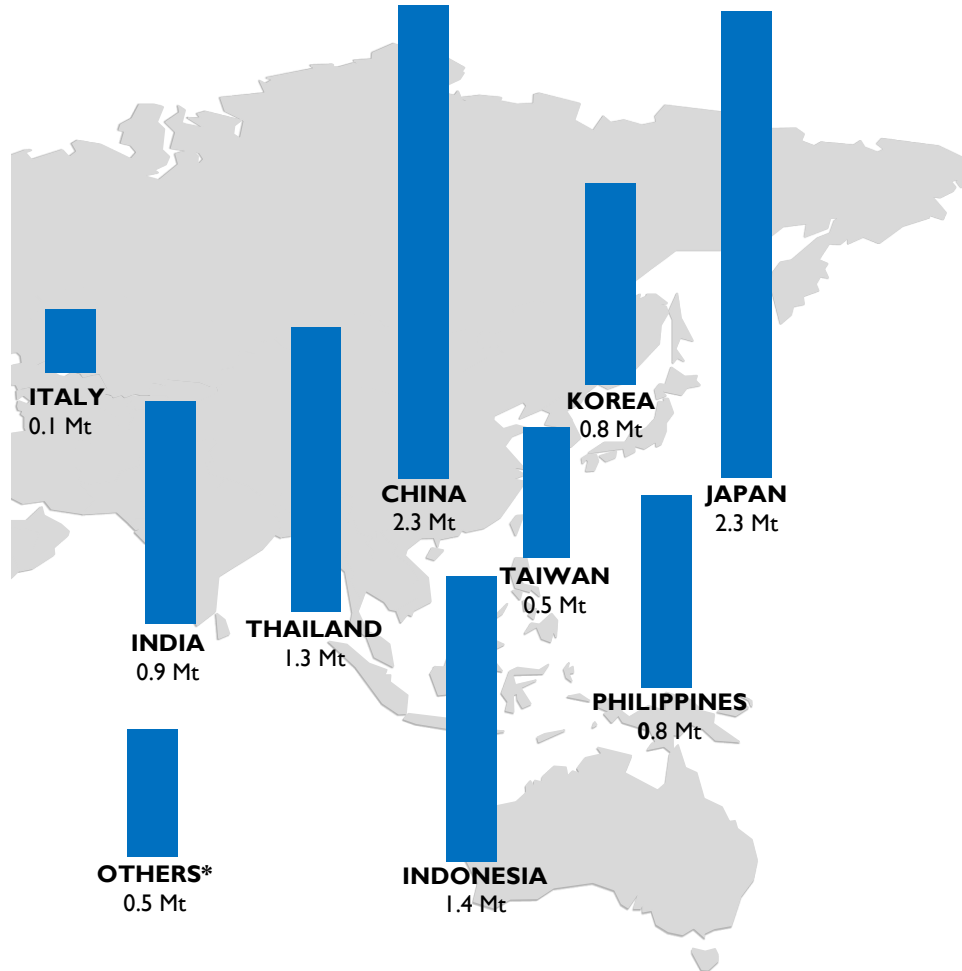
Unit: Mt



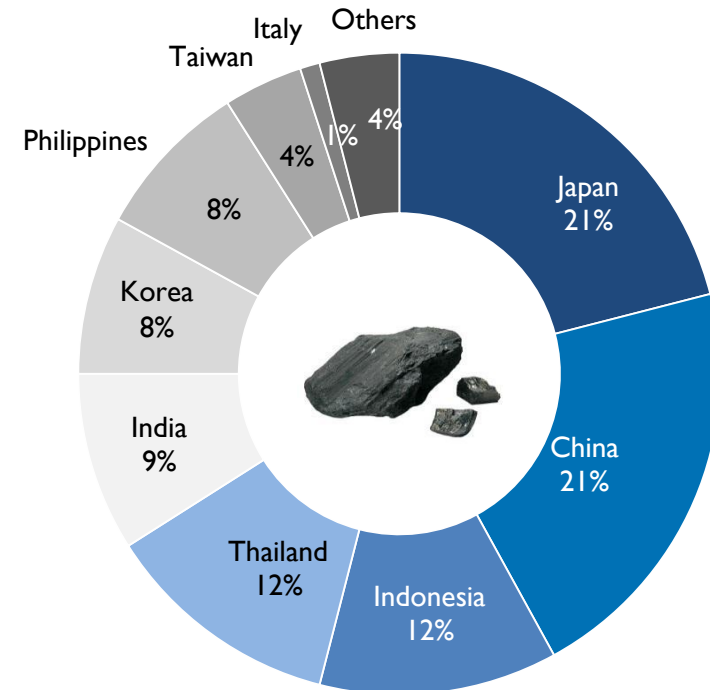
- From 1 July, India introduced a goods and services tax (GST) which reduce tax rate for domestic coal from 12% to 5%
- Tax on imported coal increased from 5% to 7.5% (5% sales tax and 2.5% import tax) but the import tax is not applicable to Indonesia due to free-trade agreements
- Reduction in tax should help to boost economic growth and spur power demand
- Limited ability to pass on higher coal price to consumers reduce operational incentives for power plants, leading to lower coal consumption.
- India's central government has introduced new rules regarding coal allocation to power plants. Previously, provincial mines could only allocate coal to state-run power plants, but now, private power plants can also be allocated coal from the mine.
  - This will allow private power plants switch to use domestic coal if price arbitrage and coal quality allow.

# ITM coal sales 1H17

## COAL SALES BREAKDOWN BY DESTINATION



## COAL SALES 1H17



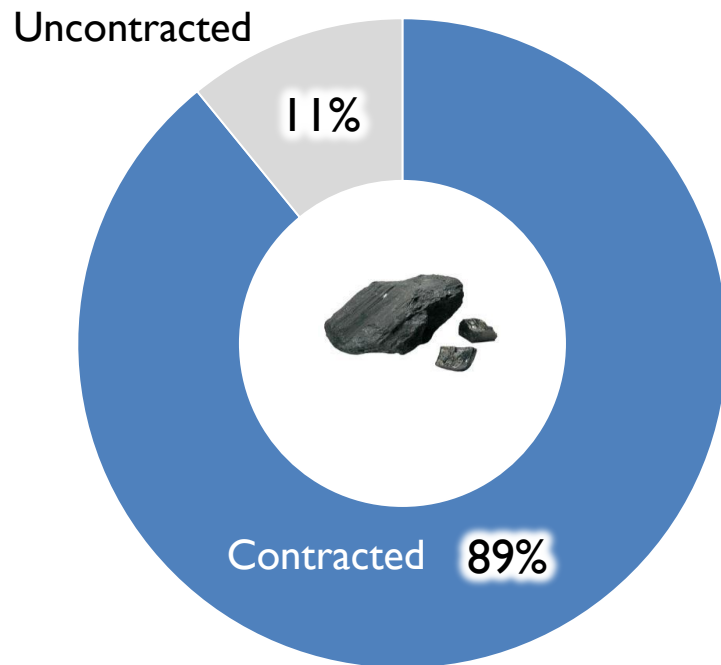
**Total Coal Sales 1H17: 10.9 Mt**

\*) Note: Bangladesh, Vietnam, New Zealand

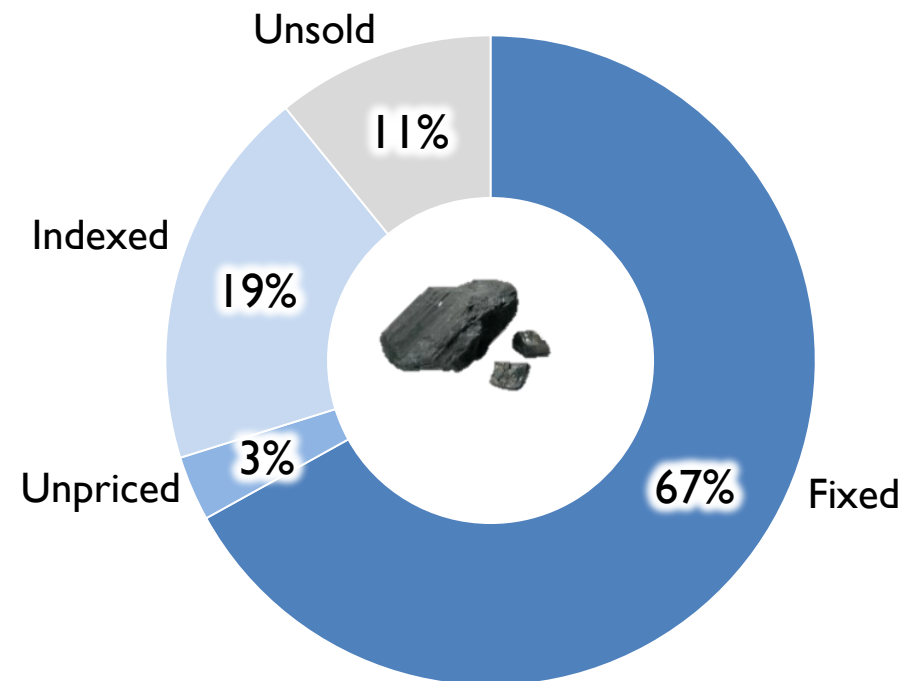
# Indicative coal sales 2017

## COAL SALES CONTRACT AND PRICING STATUS

### Contract Status



### Price Status



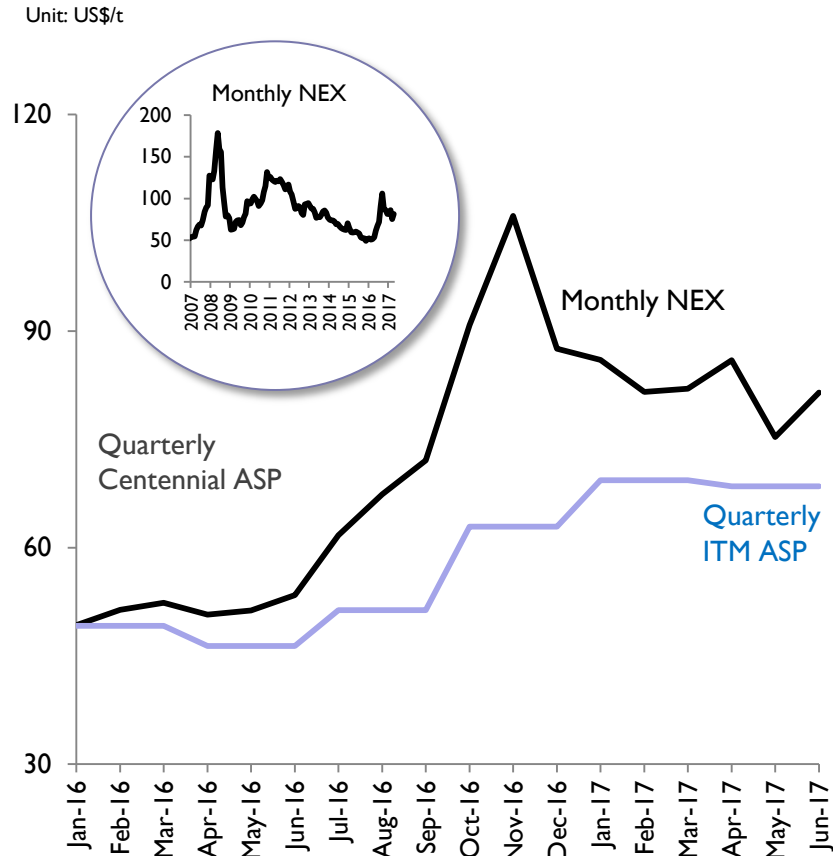
**TARGET SALES 2017: 25.0 Mt**

# ITM ASPs vs thermal coal benchmark prices



## ITM ASP VS BENCHMARK PRICES

## COMMENTS



- 2Q17 ASP firmed according to supply tightness
  - ITM ASP: US\$68.5/t\* (+1% QoQ)
  - NEX (Aug 11, 2017)\*\*: US\$97.2/t
- Price continued volatile in 2Q17 with relatively flat QoQ. Chinese policy remains a major influence, supply tightness due bad weather expected to continue into 3Q17

Note: \* Included post shipment price adjustments as well as traded coal  
 \*\* The Newcastle Export Index (previously known as the Barlow Jonker Index – BJI)

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**3 COMMERCIAL REVIEW**

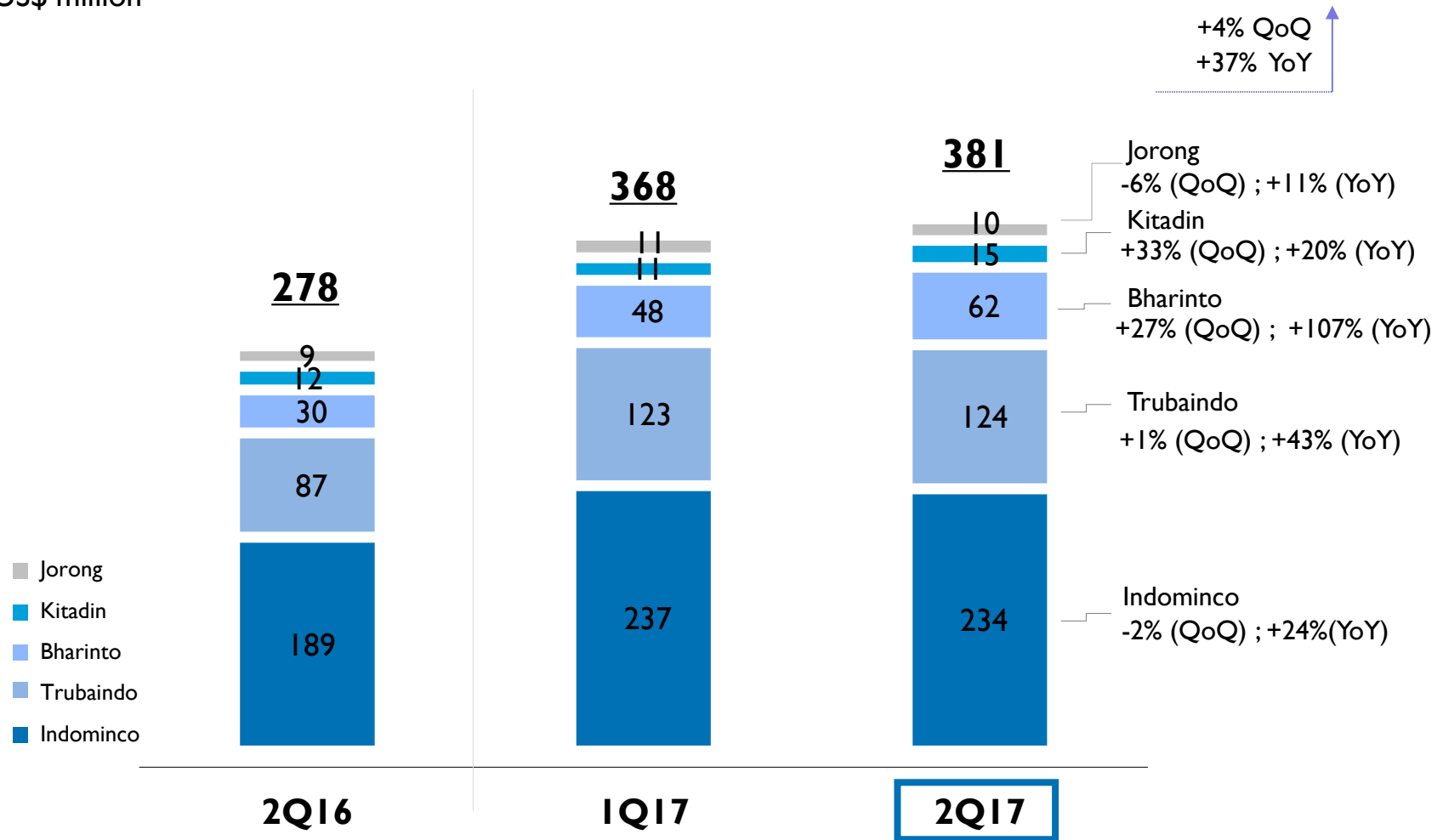
**4 FINANCIAL REVIEW**

**5 QUESTION & ANSWERS**

# Sales revenue



Unit: US\$ million

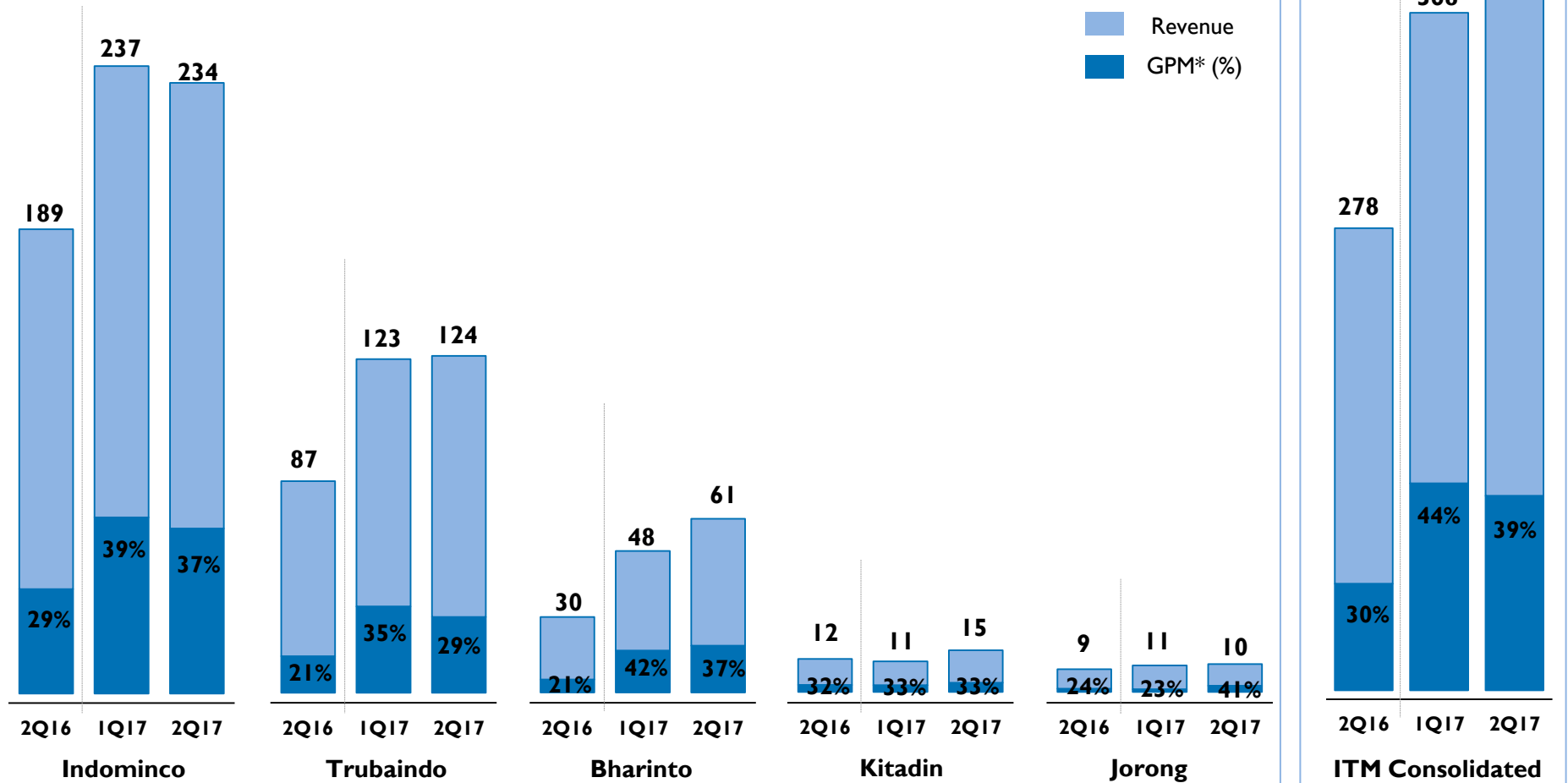


Note : Total consolidated revenue after elimination

# Average gross margin



Unit : US\$ Million



\* Gross profit excluding royalty expense

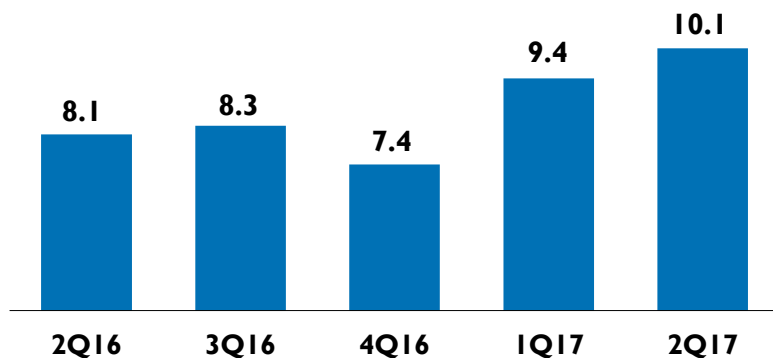
# Total cost



## WEIGHTED AVERAGE STRIP RATIO

Unit: Bcm/t

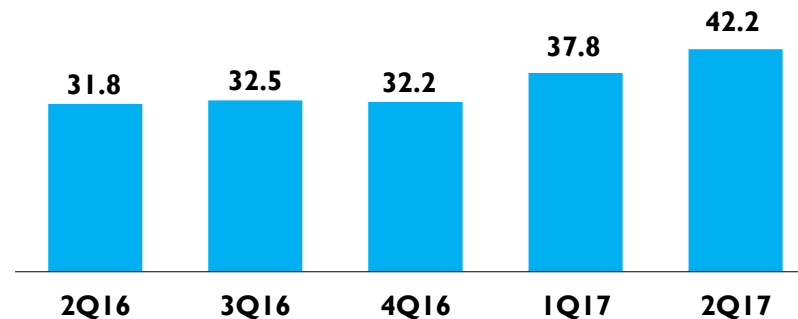
Avg. FY15 : 8.5  
Avg. FY16 : 8.1



## COST OF GOODS SOLD\*

Unit: US\$/t

Avg. FY15: \$37.0/t  
Avg. FY16: \$32.1/t

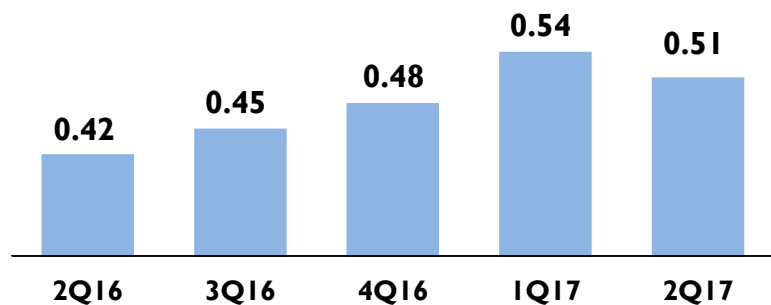


\* Excluding royalty

## FUEL PRICE

Unit: US\$/Ltr

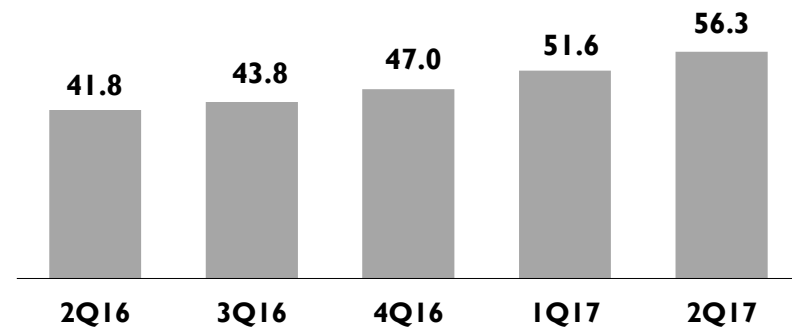
Avg. FY15: \$0.55/ltr  
Avg. FY16: \$0.42/ltr



## TOTAL COST\*\*

Unit: US\$/t

Avg. FY15: \$49.5/t  
Avg. FY16: \$43.8/t



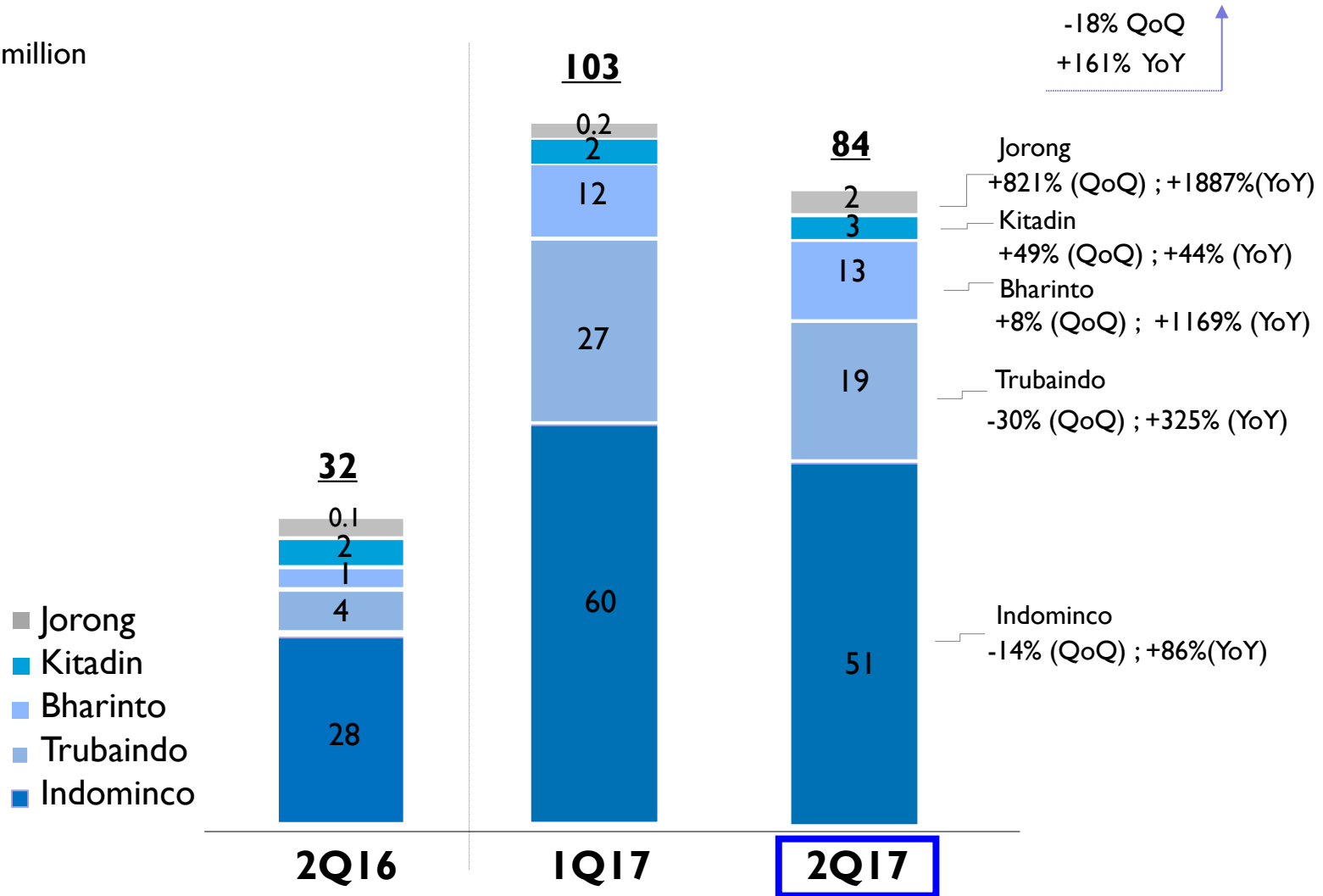
\*\* Cost of Goods Sold + Royalty + SG&A



# EBITDA



Unit: US\$ million

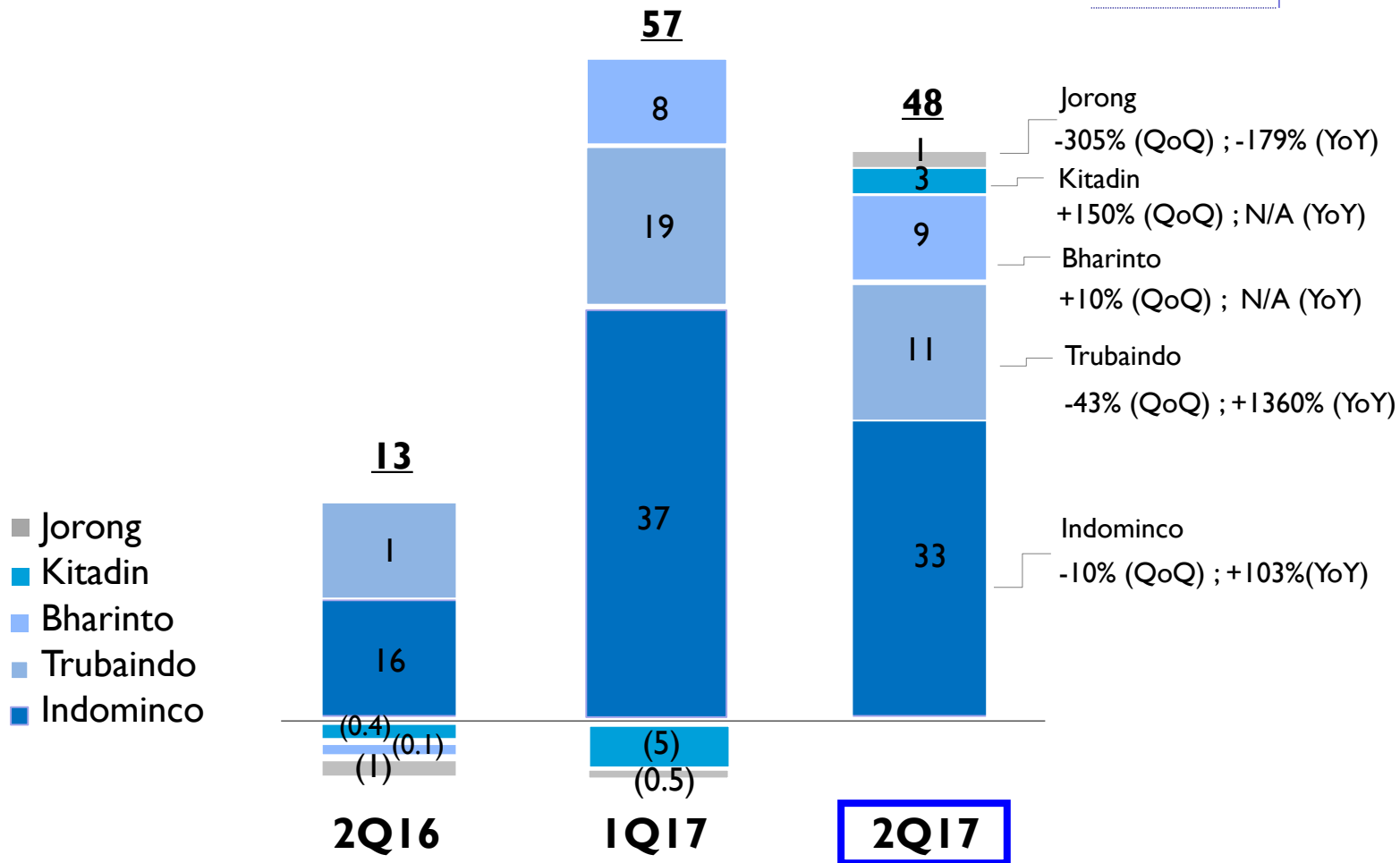


# Net income



Unit: US\$ million

-16% QoQ  
+258% YoY

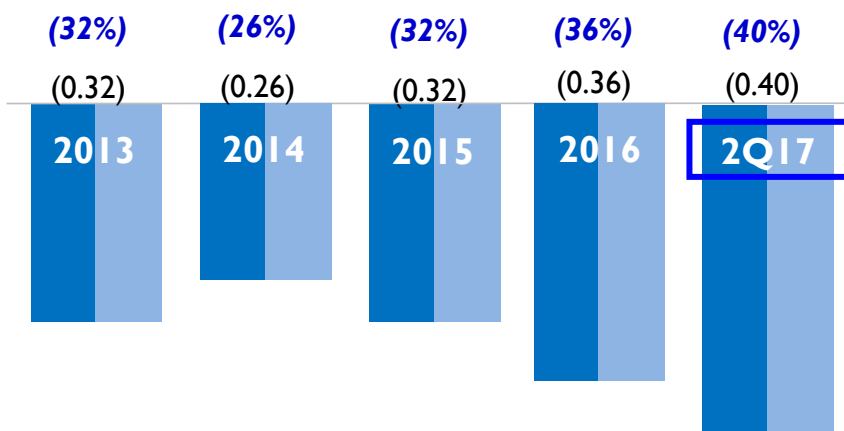


# Balance sheet



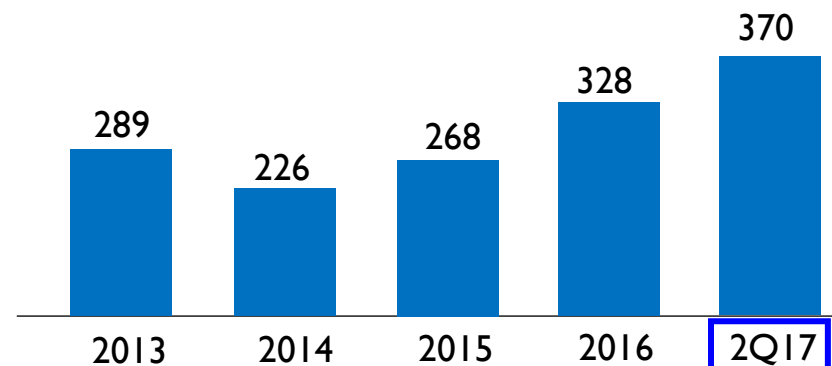
## KEY RATIOS

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



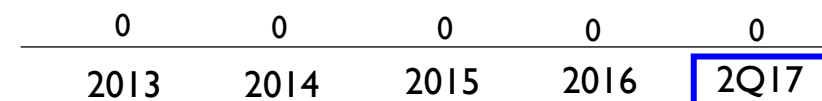
## CASH POSITION

Unit: US\$ million



## DEBT POSITION

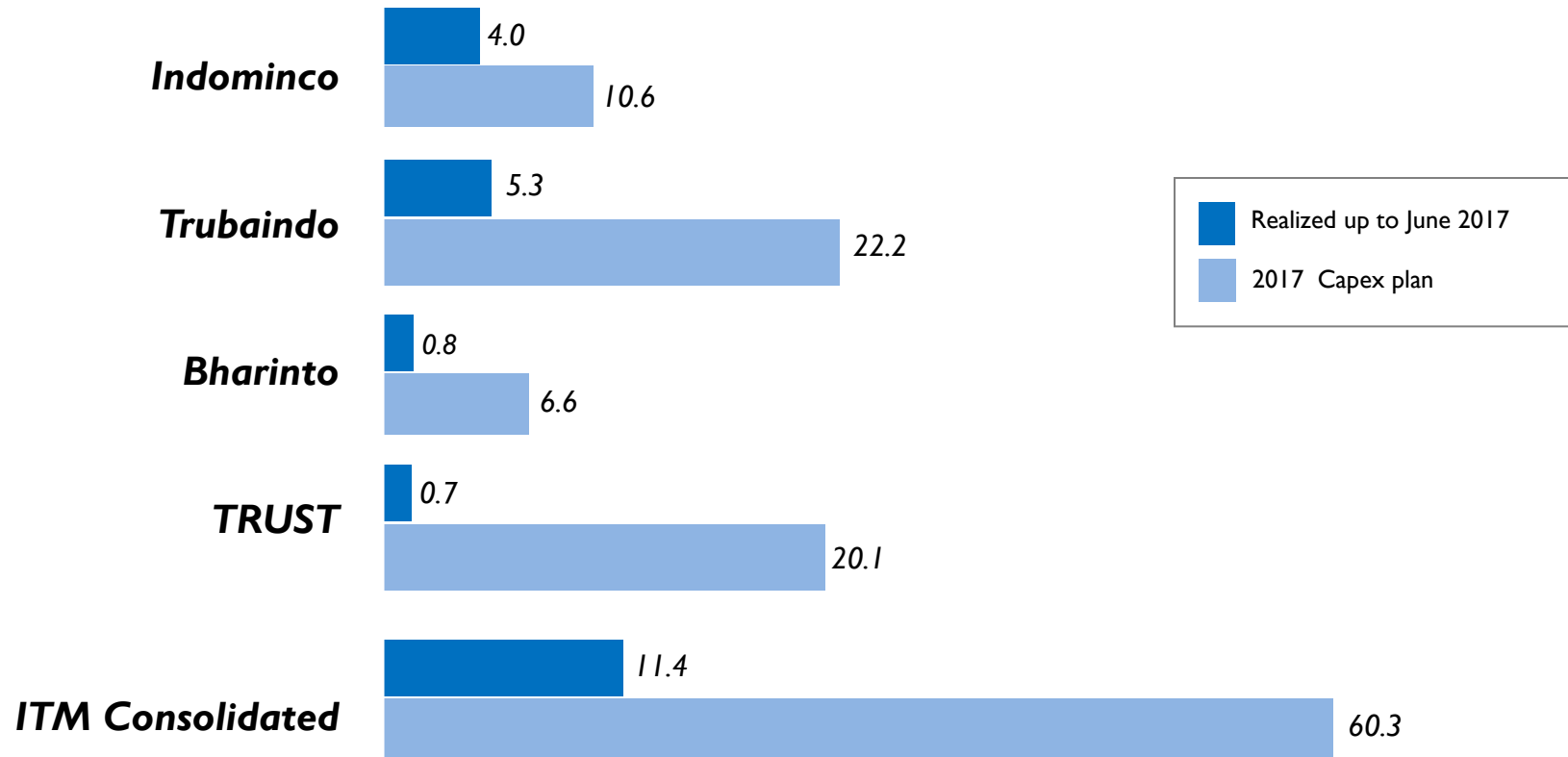
Unit: US\$ million



# 2017 capital expenditure plan



Units: US\$ million



Note: Total capex plan including Jakarta office after elimination

# 2Q17 – Key Takeaways



*Coal price higher in 2Q17 – expected to be more stable in FY17*



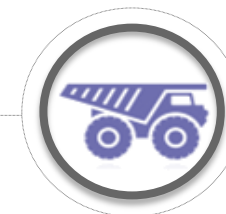
*ASP slightly improved in 2Q17  
\$68.5/t, +1% (QoQ)*



*5.5 Mt sales 2Q17 – achieved according to target*



*Rainfalls in 2Q17 still high at all mine area*



*Strip ratio in 2017 is expected to be higher due to optimized coal reserved*



*Thank you*  

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*Question & Answer*

## Appendices

# Income statement



Unit: US\$ thousand	2Q17	1Q17	QoQ%
<b>Net Sales</b>	<b>380,910</b>	<b>367,874</b>	<b>4%</b>
<b>Gross Profit</b>	<b>97,598</b>	<b>114,945</b>	<b>-15%</b>
<b>GPM</b>	<b>26%</b>	<b>31%</b>	
SG&A	(27,092)	(25,773)	
<b>EBIT</b>	<b>70,506</b>	<b>89,172</b>	<b>-21%</b>
<b>EBIT Margin</b>	<b>19%</b>	<b>24%</b>	
<b>EBITDA</b>	<b>84,451</b>	<b>103,204</b>	<b>-18%</b>
<b>EBITDA Margin</b>	<b>22%</b>	<b>28%</b>	
Net Interest Income / (Expenses)	638	665	
Derivative Gain / (Loss)	533	4,033	
Others	(1,597)	(5,537)	
<b>Profit Before Tax</b>	<b>70,752</b>	<b>88,333</b>	<b>-20%</b>
Income Tax	(22,636)	(31,158)	
<b>Net Income</b>	<b>48,116</b>	<b>57,175</b>	<b>-16%</b>
<b>Net Income Margin</b>	<b>13%</b>	<b>16%</b>	

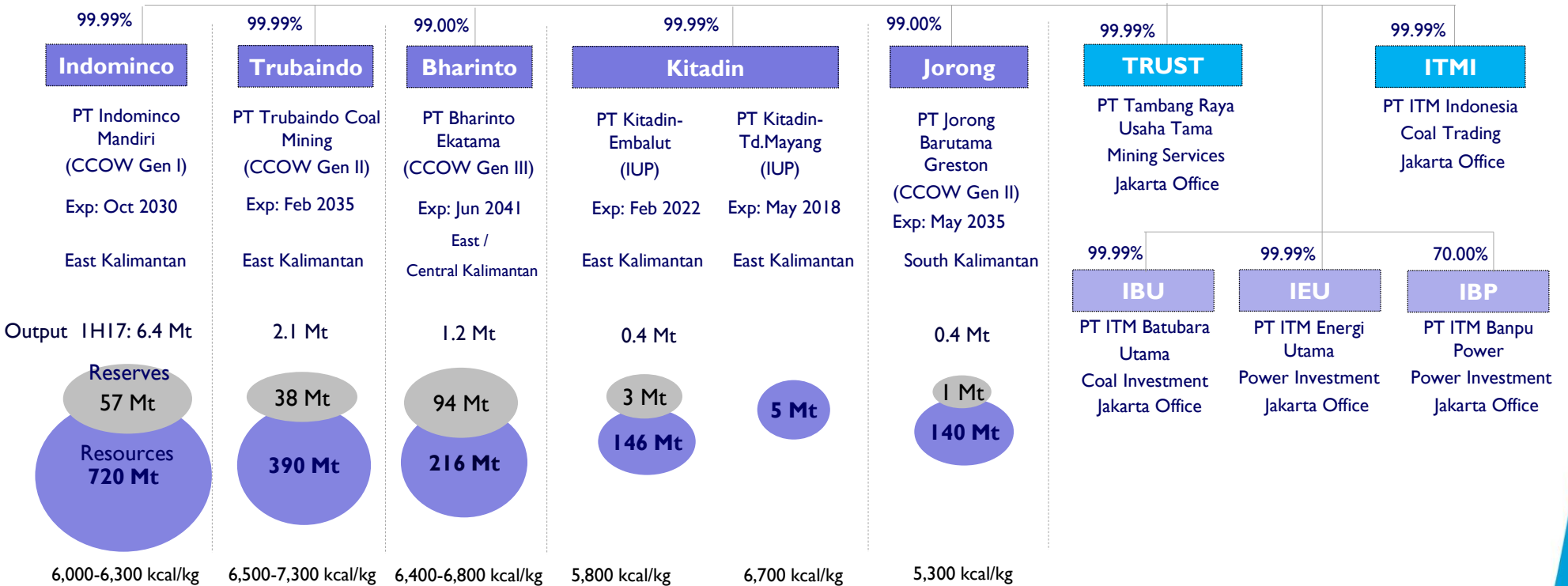
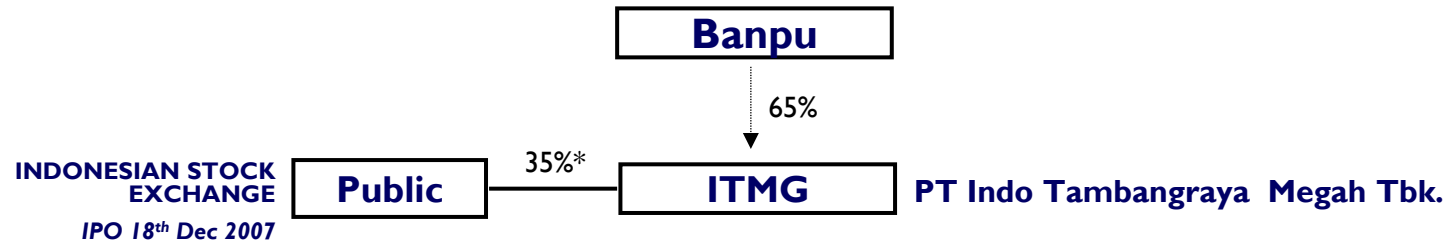


# Income statement



Unit: US\$ thousand	1H17	1H16	YoY%
<b>Net Sales</b>	<b>748,784</b>	<b>609,476</b>	<b>23%</b>
<b>Gross Profit</b>	<b>212,543</b>	<b>116,412</b>	<b>83%</b>
<b>GPM</b>	<b>28%</b>	<b>19%</b>	
SG&A	(52,865)	(57,904)	
<b>EBIT</b>	<b>159,678</b>	<b>58,508</b>	<b>173%</b>
<b>EBIT Margin</b>	<b>21%</b>	<b>10%</b>	
<b>EBITDA</b>	<b>187,655</b>	<b>82,087</b>	<b>129%</b>
<b>EBITDA Margin</b>	<b>25%</b>	<b>13%</b>	
Net Interest Income / (Expens	1,303	621	
FX Gain / (Loss)	672	(1,019)	
Derivative Gain / (Loss)	4,566	(1,875)	
Others	(7,134)	(2,704)	
<b>Profit Before Tax</b>	<b>159,085</b>	<b>53,531</b>	<b>197%</b>
Income Tax	(53,794)	(17,050)	
<b>Net Income</b>	<b>105,291</b>	<b>36,481</b>	<b>189%</b>
<b>Net Income Margin</b>	<b>14%</b>	<b>6%</b>	

# ITM structure



\* : ITM own 2.95% from share buyback program

Note: Updated Coal Resources and Reserves as of 31 Dec 2016 based on estimates prepared by Competent Persons (consider suitably experienced under the JORC Code) in 30 Apr 2015 and deducted from coal sales volume in FY16.