

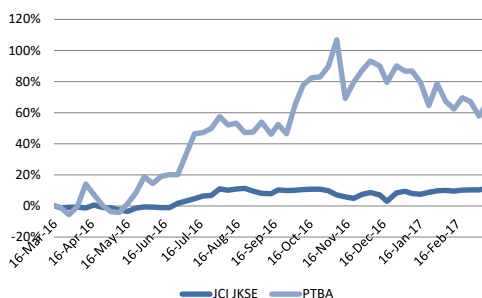
Buy

Target Price	12,600
P/E	13.1
Current Price	10,950
P/E	11.4

Coal Mining

Bloomberg ticker	PTBA:IJ
Reuters ticker	PTBA:JK
52 week high	13,775
52 week low	6,075
Mkt cap (Rp tn)	25.2
Mkt cap (USD bn)	1.9
USDIDR	13,300
Daily avg vol ('000 shares)	2,371
Daily avg val (IDR bn)	27.2
Daily avg val (USD mn)	2.0

Relative performance vs JCI JKSE



Strong financials to support expansion

We are maintaining a Buy rating however with a lower target price of Rp12600 per share, from our previous target at Rp14800 with following considerations:

1. FY2016 net income slightly declined to Rp2 trillion from Rp2.03 trillion in the previous year, which is well below our previous estimate at Rp2.3 trillion.
2. However we still see a fairly positive business growth of the company after successfully recorded a revenue increase to Rp14,06 trillion from Rp13,84 trillion, which is caused by the increase in coal sales volume by more than 8% to 20.76 mt (million tons) from 19.11 mt.
3. Positive gross and operating margin increase after several successful efforts to improve efficiency, among others are the successful renegotiation of mining contractor tariff for overburden removal activity by almost 30% so it is claimed to produce efficiencies of up to Rp400 billion last year.
4. A better coal benchmark price from the government so that the company is optimistic to be able to increase the selling price to PT. PLN (state electricity company) up to 5% - 6% this year.
5. Strong cash position to support future expansion, where the capital expenditure budget of Rp4,45 tn this year can actually be financed with cash reserves that currently stood at 3.67 trillion, and possible addition from the treasury stock which can be valued up to Rp2,14 trillion if referring to current market price.

Valuation and recommendation

We are maintaining Buy rating with target price at Rp12600, implying 13.1x of 2017E P/E Ratio.

Investment risks

Coal price volatility if China's coal industry decided to increase their production capacity again.

Company's operational target

	FY17 (E) a	FY16 b	FY15 c
SALES VOLUME (MT)	27.28	20.76	19.10
PRODUCTION (MT)	24.06	19.62	19.28
TRADING/PURCHASE (MT)	3.02	1.20	1.46
RAILWAY CAPACITY (MT)	21.70	17.72	15.80

Source: company's presentation

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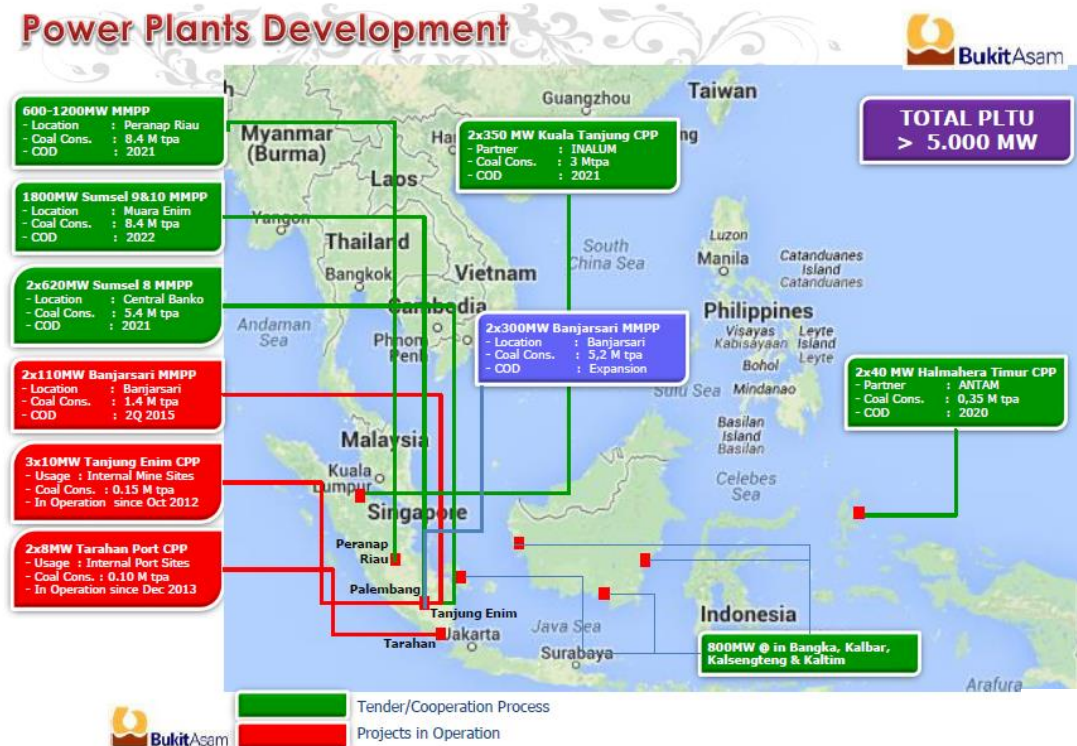
The company is targeting more than 30% of coal sales volume growth this year to 27.28 mt.

Income Statement (IDR tn)	2016A	2017A	2018E	2019E
Revenue	14,059	15,113	16,171	17,141
<i>growth</i>	2.4%	7.5%	7.0%	6.0%
- Cost of Revenue	9,657	10,306	10,947	11,552
Gross Profit	4,401	4,807	5,225	5,589
<i>margin</i>	31.3%	31.8%	32.3%	32.6%
Income Before XO Items	2,024	2,235	2,455	2,643
- Min Interests (Credits)	18	19	20	20
Net Income (Losses)	2,006	2,216	2,436	2,623
<i>growth</i>	-1.5%	10.5%	9.9%	7.7%
<i>margin</i>	14.3%	14.7%	15.1%	15.3%
EPS	871	962	1,057	1,138

Current Price	10,950
P/E	11.4
Target Price	12,600
P/E	13.1

Source: Bloomberg, Reliance research estimates

Power Plants Development



We believe PTBA will be the frontrunner in the 35,000 MW project given it's status as a state owned enterprise.

Other than the advantage it posses as a main coal supplier to PT. PLN's Java and Sumatra power plants, the company also has started to successfully operating 2 power plants of their own.

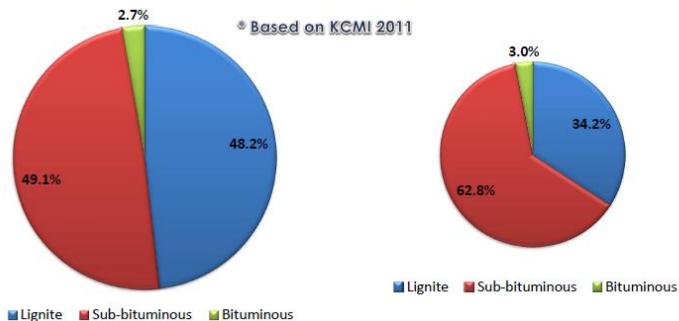
Sources: Company's presentation

Operating Review



Coal Resources
Total: 8.27 bn tons

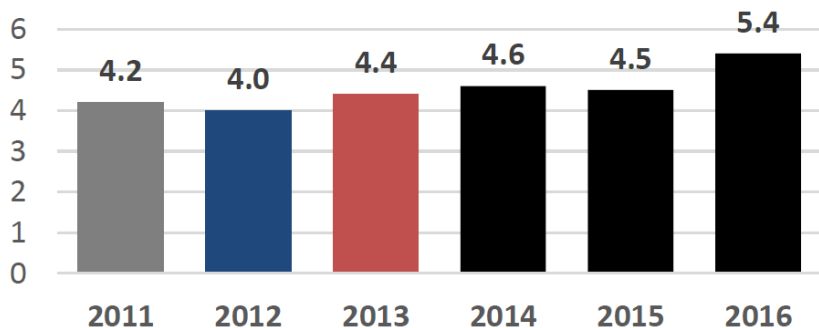
Coal Mineable Reserves
Total: 3.33 bn tons



With 3.33 bn tons of mineable reserves, the company is currently one of the largest in the country.

Parameter	BITUMINOUS	SUB BITUMINOUS	UIGNITE
TM (% ar)	< 18	18 -30	> 35
CV (KCal/Kg adb)	> 6,400	4,900 – 6,400	< 4,900
(KCal/Kg ar)	5,800 – 7,950	4,400 – 5,800	< 4,400

Weighted Average Strip Ratio (.x)



Strip ratio increasing to it's highest since several years, so the company still have the challenge to increase efficiency furthermore.

Average Selling Price (ASP)

	FY16	FY15	YoY
Weighted ASP (IDR/Ton)	676.013	707.052	-4,4%
Export (USD/Ton)	54,46	59,10	-7,9%
Domestic (IDR/Ton)	650.786	666,300	-2,3%

The company has not enjoy the rally of coal price yet, however we believe there will be a more reasonable growth of selling price this year.

Sources: Company's presentation

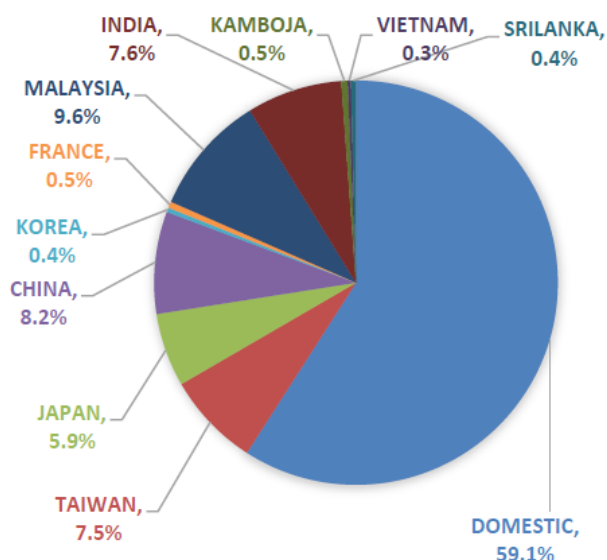
Coal Type by Quality

Coal Brand	CV	
	Kcal/Kg, adb	Kcal/Kg, ar
IPC 53	5,300	-
BUKITASAM – 45	5,464	4,500
BUKITASAM – 50	6,111	5,000
BUKITASAM – 55	6,513	5,500
BUKITASAM – 64	7,070	6,400

Bukitasam50 product is currently the largest contributor to the company's sales volume, that is expected to increase its selling price, considering Indonesia's coal reference price that are already increasing significantly.

Indonesia Coal Reference Price (USD/tonne)	Feb-17	Feb-16	Chg
Indominco 5700 kcal	68.13	41.93	62%
Melawan Coal 5400 kcal	65.55	42.24	55%
Envirocoal 5000kcal	61.32	40.71	51%
Average	65.00	41.63	56%

FY16 Sales Breakdown by Country



Local power plants, that are mostly owned by PT. PLN (state electricity company) are still the largest client for the company. However PTBA claimed to receive a significant increase of demand from overseas, especially from India and China, although total export volume in general are declining yoy.

Sources: Company's presentation, Bloomberg, Reliance Research

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