

Singapore Coal Monthly

Seasonal demand comes



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SINGAPORE | MINING | SECTOR UPDATE

6 February 2018

What is the news?

China

In Jan-18, Big 4 power generators, namely Huaneng, Datang, Huadian and State Power Investment jointly sent an emergency report to National Development and Reform Commission (NDRC):

1. To guarantee to operate at full capacity before lunar new year holiday and increase coal imports;
2. To clamp down coal prices and coordinate with China Railway to cap the increase in transportation charge.

In the report, the 4 companies stated that since 2017 multiple factors such as over-demand, replacement of obsolete capacity and insufficient rail freight capacity had resulted in high coal prices. A few thermal plants are encountering liquidity crunch owing to suspension or restriction of bank loans. Plant coal stockpile has dropped below 100mn tonnes and expected to further fall to 90mn tonnes by Chinese New Year. The whole thermal power segment is loss-making.

Indonesia

In Jan-18, Indonesia government signed amended contracts with the remaining 18 coal mining companies. It marked the completion of amendments to contracts of all 68 coal miners. Under the amendments, the companies will commit a lump sum 13.5% royalties in cash, and the land rental will be lifted from US\$1/hectare to US\$4/hectare. Miners can keep on operating up to 2 years before their contracts expire, after which they will be granted special mining permits.

Increasing supply becomes imperative in the near term in China

China faced freezing temperatures recently, resulting in a surge in demand for heat and power. In Dec-17, the amount of thermal power production reached 441.7k GWh (+4% YoY). However, coal supply failed to meet the higher seasonal demand since domestic production remained flattish and coal import volume fell sharply, shown in Figure 1 and 2. Meanwhile, port coal stockpile was further exhausted in Dec-17 and Jan-18. As a result, the uptrend of coal price continued without evident corrections, see Figure 4 and 5. We expect the authority will increase the import volume and cautiously boost the domestic production in the near term. After all, to guarantee heat and power supply especially during the upcoming lunar new year is the priority. Moving forward, we believe the government will speed up the consolidation between power plants and coal producers this year since coal miners thrived but power generators suffered last year.

Indonesia coal producers will be subject to higher cash costs

The amendments of mining contracts will negatively impact coal miners. Given the current prevailing high coal prices, producers are able to bear the increase in cash costs. Some miners could ramp up production to make up for the extra rental outlay in order to mitigate the headwinds. However, profit margins of the coal sector will be reduced.

Golden Energy & Resources

BUY (Maintained)

| | |
|---------------------|--------------|
| BLOOMBERG CODE | GER SP |
| CLOSING PRICE | SGD 0.435 |
| FORECAST DIV | SGD 0.015 |
| TARGET PRICE | SGD 0.590 |
| TOTAL RETURN | 39.1% |

Geo Energy Resources

BUY (Maintained)

| | |
|---------------------|--------------|
| BLOOMBERG CODE | GERL SP |
| CLOSING PRICE | SGD 0.260 |
| FORECAST DIV | SGD 0.010 |
| TARGET PRICE | SGD 0.440 |
| TOTAL RETURN | 73.1% |

Blackgold Natural Resources

TRADING BUY (Maintained)

| | |
|---------------------|--------------|
| BLOOMBERG CODE | BHR SP |
| LAST TRADED PRICE | SGD 0.096 |
| FORECAST DIV | SGD 0.000 |
| TARGET PRICE | SGD 0.160 |
| TOTAL RETURN | 66.7% |

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Coal counters monthly updates

Golden Energy and Resources (Target px: S\$0.59 / BUY)

- 4Q17 production arrived at 5.5mn tonnes (+212% YoY, +34% QoQ).
- The growth of overhead costs faster than expected due to higher freight and marketing expenses.
- The 15.6mn tonnes of coal sales in FY17 exceeded the target of 14mn tonnes, and the sales target in FY18 will be more than 18mn tonnes.

Geo Energy Resources (Target px: S\$0.44/ BUY)

- Management revised down FY17 sales target from 10mn tonnes to 7 to 8mn tonnes.
- The newly-issued US\$300mn senior note will enhance solvency and liquidity.
- It secured an offtake agreement with ECTP for 7.5mn tonnes coal supply in FY18.

Investment action

In the recent 2 months, the prices of the two counters bottomed out. We believe it was due to the expectation that China will increase coal import in the near term as major power and heating plants are running out of coal inventories. It's urging the authorities to allow more imports before the festive season when domestic production of coal slows dramatically. The short-lived seasonal impact could bring a good start for the two companies in 2018.

Based on the outlook for a healthy demand and stable price, as well as the ramp-up of production of 40% in FY18, we maintain our BUY rating on coal sector.

Peer comparison

| COMPANY | BLOOMBERG TICKER | PSR RATING | TARGET PRICE (SGD) | 1M RETURN (%) | 3M RETURN (%) | YTD RETURN (%) | PRODUCTION (MN TONNES) FY16 | PRODUCTION (MN TONNES) FY17e | MKT CAP (SGD mn) | EV (SGD mn) | EV/EBITDA TTM | RESERVE (MN TONNES) | EV/RESERVE (SGD/TONNE) | FY18 P/E | FY17 P/E | FY17 P/B | NET D/E (%) | ROA (%) | ROE (%) |
|------------------------------------|------------------|-------------|--------------------|---------------|---------------|----------------|-----------------------------|------------------------------|------------------|-------------|---------------|---------------------|------------------------|-------------|-------------|------------|-------------|-------------|-------------|
| Singapore | | | | | | | | | | | | | | | | | | | |
| Golden Energy & Resources | GER SP | BUY | 0.59 | 10.0 | (2.8) | 12.8 | 9.5 | 14.0 | 1,024 | 1,105 | 5.5 | 780 | 1.4 | 10.7 | 21.3 | 2.4 | Net Cash | 9.6 | 21.0 |
| Geo Energy Resources | GERL SP | BUY | 0.44 | (0.0) | (6.8) | (0.0) | 5.5 | 7.0 - 8.0 | 346 | 388 | 3.2 | 100 | 3.9 | 5.1 | 5.1 | 1.6 | 0.8 | 16.5 | 35.8 |
| BlackGold Natural Resources | BHR SP | TRADING BUY | 0.16 | 7.6 | (13.9) | 17.9 | 0.3 | 0.5 | 88 | 90 | N/A | 147 | 0.6 | NA | NA | 5.8 | 39.1 | (20.8) | (31.6) |
| Indonesia | | | | | | | | | | | | | | | | | | | |
| Adaro Energy | ADRO IJ | | | 31.4 | 33.0 | 32.8 | 52.5 | 52.0-54.0 | 7,922 | 8,534 | 4.0 | 1,200 | 7.1 | 11.8 | 12.1 | 1.7 | 9.4 | 7.7 | 15.3 |
| Bukit Asam | PTBA IJ | | | 32.0 | 42.5 | 34.1 | 19.6 | 21.9 | 3,696 | 3,426 | 3.5 | 3,300 | 1.0 | 9.9 | 9.6 | 2.7 | Net Cash | 19.5 | 32.2 |
| Indo Tambangraya Megah | ITMG IJ | | | 44.6 | 39.5 | 43.0 | 25.6 | 22.6 | 3,226 | 2,681 | 2.8 | 198 | 13.5 | 10.1 | 10.3 | 2.4 | Net Cash | 18.5 | 25.1 |
| Harum Energy | HRUM IJ | | | 58.5 | 40.7 | 58.5 | 7.9 | 4.0-4.5 | 854 | 635 | 3.4 | 113 | 5.6 | 14.2 | 17.9 | 2.0 | Net Cash | 8.5 | 12.0 |
| Baramulti Suksessarana | BSSR IJ | | | 9.6 | (7.7) | 14.3 | 6.4 | 10.0 | 625 | 596 | 4.0 | 114 | 5.2 | 6.0 | 6.3 | 3.0 | 9.2 | 38.6 | 55.2 |
| Market-cap Weighted Average | | | | 34.7 | 35.3 | 35.2 | | | | | 3.6 | | 6.9 | 10.9 | 11.2 | 2.2 | | 13.7 | 22.4 |

Source: Bloomberg, Company, PSR

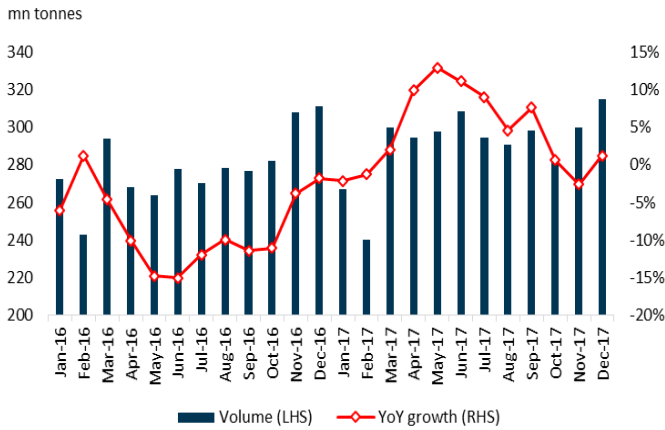
Coal reserve estimate was as of 2016

*Harum Energy: coal reserve estimate was as of 2009

**Baramulti Suksessarana: coal reserve estimate was as of 2012

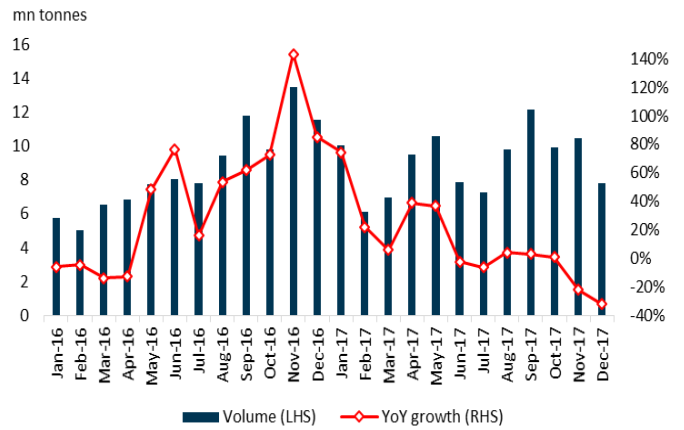
Phillip Coal Tracker: Our snapshot of coal markets

Figure 1: Monthly coal production in PRC slowing down



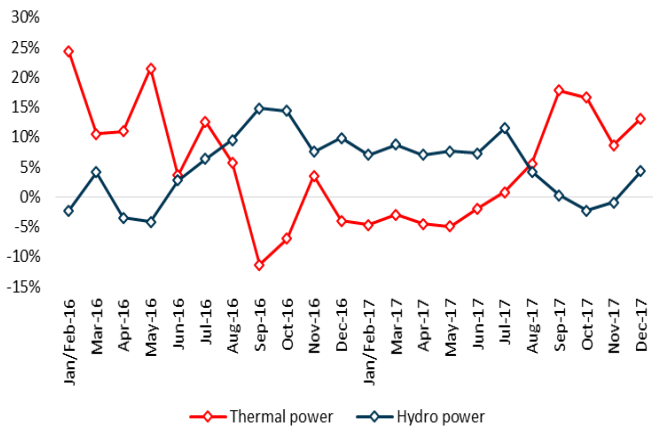
Source: National Bureau Statistics of PRC, PSR

Figure 2: Coal import from Indonesia by China declining



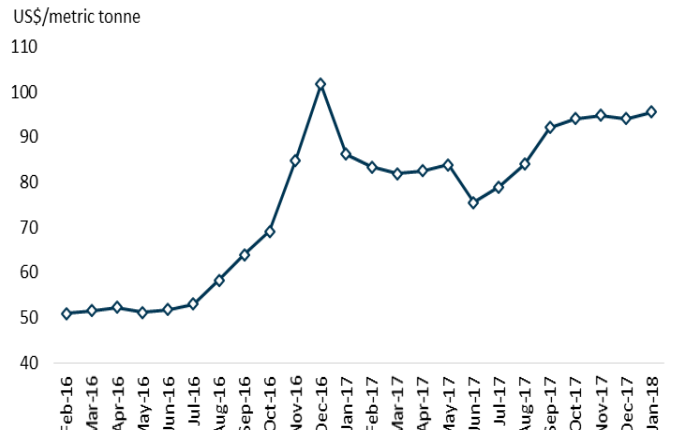
Source: General Administration of Customs of PRC, PSR

Figure 3: China power demand YoY rebound in 4Q17



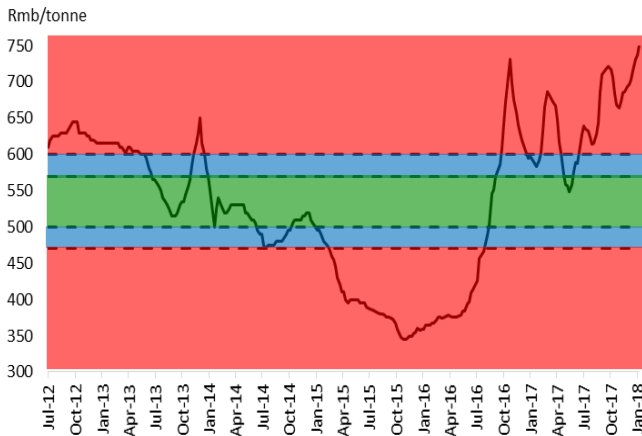
Source: National Bureau Statistics of PRC, PSR

Figure 4: Indonesia coal price reference (HBA) climbing up



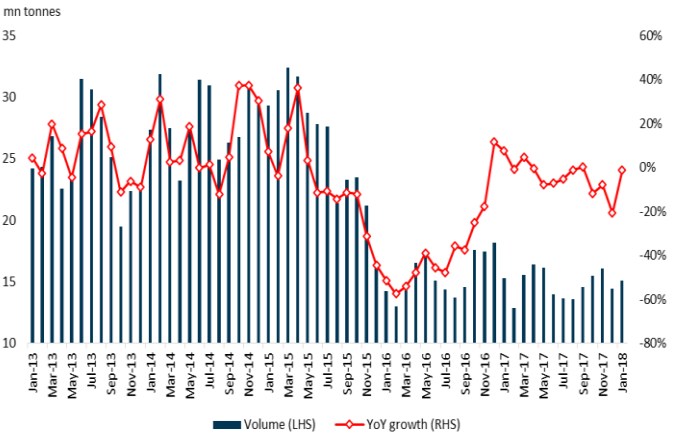
Source: Coalspot.com, PSR

Figure 5: Qinghuangdao 5,500 GAR weekly FOB spot price



Source: Bloomberg, PSR, NDRC price zones (red/blue/green)

Figure 6: Total port coal inventory declining



*Source: Bloomberg, PSR

*The total port coal inventory includes coal stockpile at Qinghuangdao Port, Tianjin Port, Caofeidian Port, Guangzhou Port, Jingzhou Port, Lianyungang Port, Dandong Port, Jingtang Port, Yinkou Port, Qingdao Port, and Huanghuagang Port.

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