

# Singapore Coal Monthly

A deeply undervalued sector



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SINGAPORE | MINING | SECTOR UPDATE

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## What is the news?

### China

In Mar-18, the authority announced the Government Work Report for 2018, part of which directs the ongoing supply-side reform. According to the report, China will cut down steel and coal capacity by 30mn tonnes and 150mn tonnes respectively in 2018. Meanwhile, it will shut coal-fired plants with a capacity of less than 300k KW that fail to meet emission standards in 2018.

### Indonesia

In Mar-18, the Minister of Energy and Mineral Resources (MEMR) announced a price cap of coal sales to electricity sector for public interest. The price is fixed at US\$70/tonne (on FOB basis), with standard specification of 6,322kcal/kg GAR, total moisture 8%, total Sulphur 0.8% and ash 15%. In principle, the adjustment formula is the formula to determine HPB (the benchmark coal price), where the prevailing HBA (coal price reference that becomes the baseline of HPB) is fixed at US\$70 if the prevailing HBA is higher than or equal to US\$70. If the applicable HBA is lower than US\$70, the adjustment formula shall use the prevailing HBA as the baseline.

### Domestic capacity cut and even more reliant on imported coal

In 2017, China phased out 183mn tonnes of coal capacity, which outperformed the target of 150mn tonnes set in early 2017. The total coal capacity eliminated during 2016 and 2017 amounted to c.500mn tonnes. If the authority manages to achieve the target this year, it is expected to complete the 800mn tonnes of capacity reduction ahead of the 13<sup>th</sup> Five-Year Plan (from 2015 to 2020). See Figure 1 and 3, China's power demand remains relatively strong growth in Jan/Feb-18 (Thermal power: 4% YoY, Hydro: 11%), compared to a flat domestic coal production. Accordingly, the demand gap was filled by the imported coal whose volume jumped 43% and 76% YoY in respective Jan/Feb-18, shown in Figure 2. We expect the demand for imported coal will continue to grow given the ongoing curtailment of domestic production will result in a supply short.

### Indonesia coal prices close to 6-year highs

Refer to Figure 4, the HBA reached US\$101.86/tonne (+24.4% YoY and 1.2% MoM), surpassing the peak of US\$101.69/tonne in Dec-16. According to the new pricing formula, coal producers or trading companies will be subject to an average 30% discount of the current spot price, which is a disincentive for domestic coal sellers. It is expected that most coal producers or trading companies will shift more sales to overseas markets after fulfilling the basic requirement of supplying 25% of annual production to domestic market. The total volume of exported coal accounted for 77.4% of total production in 2017. Hence, the new policy could drive percentage higher moving forward. Furthermore, it could cool down the sentiment of investment in the coal sector.

## Golden Energy & Resources

### BUY (Maintained)

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.380
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 0.480
<b>TOTAL RETURN</b>	<b>30.0%</b>

## Geo Energy Resources

### BUY (Maintained)

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.220
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.470
<b>TOTAL RETURN</b>	<b>118.2%</b>

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### Coal counters monthly updates

#### Golden Energy and Resources (Target px: S\$0.48 / BUY)

- FY17 production arrived at 15.6mn tonnes (+64.2% YoY).
- Secured 13 offtake agreements for 15mn tonnes of coal sales in FY18.
- Sales target in FY18 will be 20mn tonnes.
- Cash position reached US\$189mn as of Mar-18.

#### Geo Energy Resources (Target px: S\$0.47/ BUY)

- FY17 production arrived at 7.7mn tonnes (+40% YoY).
- Secured an offtake agreement with ECTP for 7.5mn tonnes coal supply in FY18.
- Sales target in FY18 will be 11 to 12mn tonnes.
- Cash position reached US\$262mn as of Dec-17.

### Investment action

After the FY17 results, the prices of the two counters still moved sideways despite buoyant coal prices. We believe it was due to the migration of market sentiment towards clean energy investments. However, apart from higher production guidance, we look forward to the potential M&As that will be conducted by these two undervalued companies respectively since they both issued notes to accumulate more war chest over the past few months. Based on the outlook for a healthy demand and stable price, as well as the ramp-up of production in FY18 (GEAR: +29% YoY, GEO: +43% YoY), 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) FY17	PRODUCTION (MN TONNES) FY18e	MKT CAP (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	RESERVE (MN TONNES)	EV/RESERVE (SGD/TONNE)	FY18 P/E	FY17 P/E
<b>Singapore</b>															
Golden Energy & Resources	GER SP	BUY	0.48	(8.4)	0.0	(2.6)	15.5	20.0	882	887	3.8	780	1.1	7.5	13.0
Geo Energy Resources	GERL SP	BUY	0.47	(6.4)	(17.0)	(17.0)	7.7	11.0 - 12.0	299	331	3.5	100	3.3	4.9	5.9
<b>Indonesia</b>															
Adaro Energy	ADRO IJ			(15.0)	10.1	9.7	52.5	52.0-54.0	6,214	7,275	4.4	1,200	6.1	8.3	9.8
Bukit Asam	PTBA IJ			(5.1)	17.5	19.9	19.6	21.9	3,247	2,972	3.5	3,300	0.9	8.6	7.0
Indo Tambangraya Megah	ITMG IJ			(3.3)	42.4	42.9	25.6	22.6	3,126	2,626	2.8	198	13.2	8.4	9.3
Harum Energy	HRUM IJ			(18.6)	29.7	34.1	7.9	4.0-4.5	718	499	3.4	113	4.4	12.0	15.1
Baramulti Suksessarana	BSSR IJ			(10.3)	12.4	11.9	N/A	N/A	573	544	4.0	114	4.8	6.0	5.8
<b>Market-cap Weighted Average</b>				<b>(10.1)</b>	<b>20.2</b>	<b>20.4</b>					<b>3.8</b>		<b>6.3</b>	<b>8.5</b>	<b>9.1</b>

Source: Bloomberg, Company, PSR

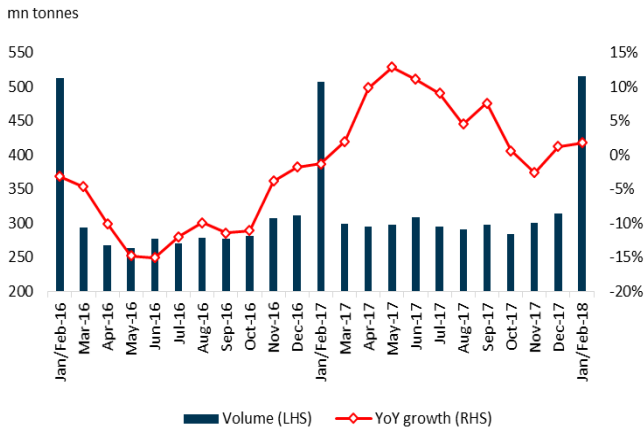
Coal reserve estimate was as of 2016

\*Harum Energy: coal reserve estimate was as of 2009

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

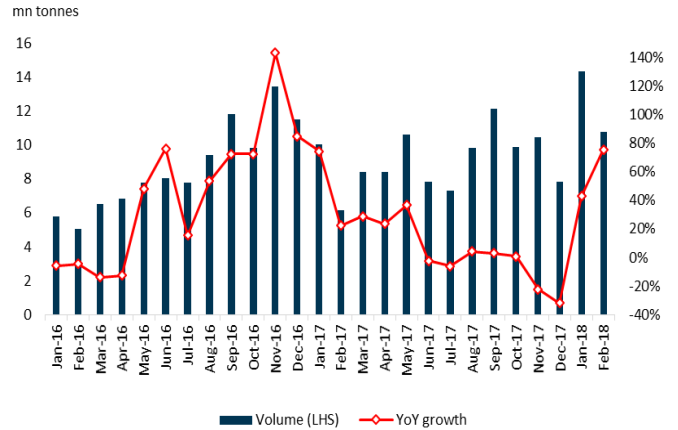
# Phillip Coal Tracker: Our snapshot of coal markets

**Figure 1: Monthly coal production in PRC slowing down**



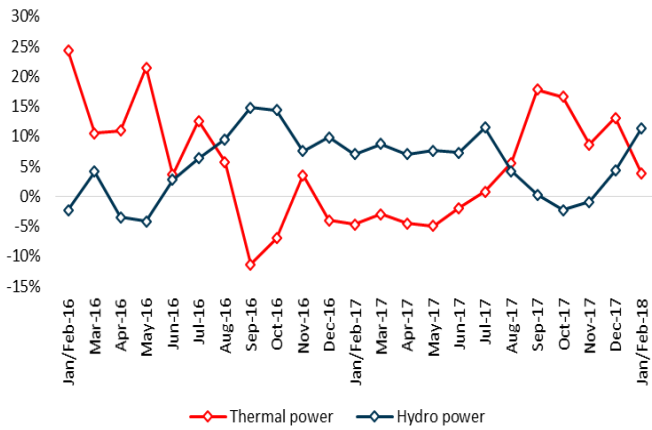
Source: National Bureau Statistics of PRC, PSR

**Figure 2: Coal import from Indonesia by China surged recently**



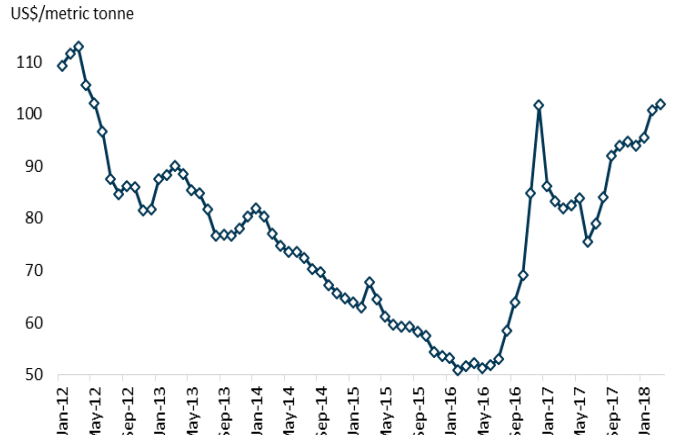
Source: General Administration of Customers of PRC, PSR

**Figure 3: China power demand continues to grow YoY**



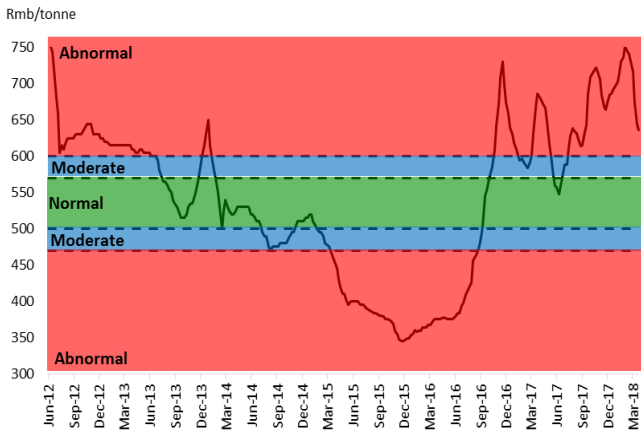
Source: National Bureau Statistics of PRC, PSR

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



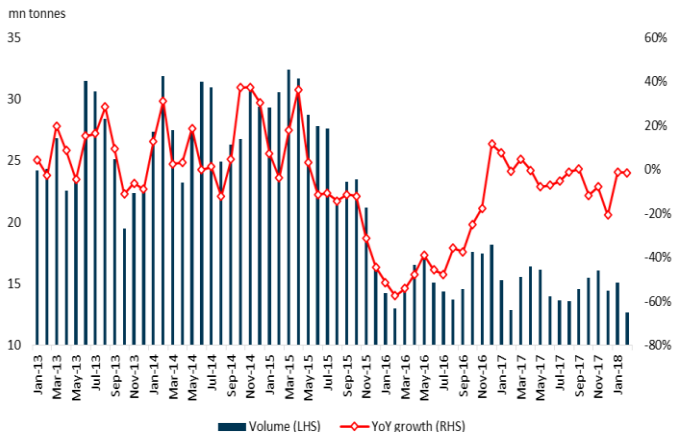
Source: Coalspot.com, PSR

**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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