

Singapore Coal Monthly

Prepare for higher coal demand in winter



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SINGAPORE | MINING | SECTOR UPDATE

11 October 2018

China

Slight relaxation of air pollution control for the upcoming winter. In Sep-18, China's Ministry of Ecology and Environment and other commissions jointly issued an air pollution-control plan for the Beijing-Tianjin-Hebei region and surrounding areas for the fall and winter spanning 2018-2019. The new plan calls for a 3% reduction of PM2.5 and a 3% drop in the number of severely polluted days during the period from Oct-18 to Mar-19. Meanwhile, production schedules for the steel, coking, and foundry industries should take turns peaking to reduce air pollution. The production of steel in hot weather was limited to 50% of capacity in key cities. Other cities were told to cut production by no less than 30%. Enterprises that failed to follow these regulations would have their electricity cut.

Restriction on coal import remains. In Oct-18, NDRC held a six coastal provinces joint conference pertaining to coal import. The authority reiterated that the restriction on coal imports would be on par with last year. There is no new quota being issued.

Indonesia

Lifting 2018 domestic production target. In Sep-18, Indonesia raised the 2018 coal production target from c.485mn tonnes to c.507mn tonnes. The additional output quotas of 21.9 million tonnes are split among 32 coal miners and will be all exported. Indonesia's coal consumption for power by PLN and independent power producers is expected to reach 88.5mn tonnes in 2018, below a target of 92mn tonnes. PLN expects coal consumption to increase to 96mn tonnes in 2019.

Facing a hurdle to ramp up production. In Sep-18, according to the interview with Pandu Sjahrir, chairman of the Indonesian Coal Mining Association, Producers in the world's largest shipper face an order backlog of 18 months as they are not able to get hold of additional mining equipment. The slow ramp-up in supply will probably keep coal prices buttressed at about \$100 a metric ton through the end of next year.

The China authority learned lessons from last winter's coal-to-gas conversion program

It is expected to see another peak demand for coal in winter which is coming soon. China government simply imposed one solution for coal-to-gas conversion program last year to fulfil the target of a reduction of greenhouse and polluted gas emission. The program prohibits residents from using coal. Some thermal plants and steel mills in the north of China have to shut down. In retrospect, it was considered a failure. Hence, the authorities are now slowing down the pace of reduction rather than an abrupt cut in coal consumption this year. Since the demand for thermal power could surge in the near term, see Figure 3, the authority still aims to assure the profitability of domestic coal producers. Accordingly, the domestic production growth in China turned positive in Aug-18, see Figure 1. We believe the market players have started to stock up coal for winter. We cannot rule out the possibility that a new round of restriction on coal imports during winter. As of Sep-18, the port coal inventory continued to level up (+52% YoY), see Figure 6.

Golden Energy & Resources BUY (Maintained)

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.250
FORECAST DIV	SGD 0.013
TARGET PRICE	SGD 0.410
TOTAL RETURN	69.2%

Geo Energy Resources BUY (Maintained)

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.235
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.340
TOTAL RETURN	48.9%

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External demand favours the coal miners in Indonesia

In Jul-18, the coal exports reached a new high since Mar-14, arriving at 38mn tonnes in Indonesia, see Figure 2. With the increase in export target announced by the authority, the export demand will see new highs in 4Q18. However, the room for growth of production is limited due to the bottleneck of capacity resulting from equipment supply. We believe this is a short-term issue, and it will take 3 to 6 months to ramp up capacity. Though HBA started to correct from the high of US\$107.8/tonne, the temporary shortage of supply will uphold the price in the near term. We expect HBA to average at US\$100/tonne in 4Q18.

Coal counters monthly updates

Golden Energy and Resources (Target px: S\$0.42 / BUY)

- Production surged 47% while coal prices were flat
- Multiple upward pressures on cash cost
- The acquisition of BSL mine is expected to be completed by 3Q18

Geo Energy Resources (Target px: S\$0.34/ BUY)

- 10mn tonnes of production target is on track
- Cash cost will be higher this year
- Look forward to a new offtake for TBR mine and an acquisition of a new mine
- In Sep-18, applied dual listing in Hong Kong

Investment action

We remain positive on the sector as we expect coal price (FY18e ASP 4,200 GAR: US\$41/tonne, 1H18 ASP 4,200 GAR: US\$48.6/tonne) will be favourable for coal miners. Meanwhile, the ramp-up of production is still on track. We maintain an OVERWEIGHT rating on the 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
Singapore															
Golden Energy & Resources	GER SP	BUY	0.41	4.2	(26.5)	(34.1)	15.5	20.0	577	786	3.8	780	1.0	5.7	6.2
Geo Energy Resources	GERL SP	BUY	0.34	0.0	11.7	(7.3)	7.7	11.0 - 12.0	292	376	3.4	100	3.8	4.7	7.1
Hong Kong															
Agritrade Resources*	1131 HK			(4.1)	16.1	105.7	5.7	6.0	1820	2233	9.3	192	11.6	21.6	33.6
Indonesia															
Adaro Energy	ADRO IJ			2.6	(4.6)	(0.8)	52.5	52.0-54.0	5,035	6,156	4.1	1,200	5.1	7.6	8.0
Bukit Asam	PTBA IJ			22.0	13.8	102.5	19.6	21.9	4,745	4,365	4.9	3,300	1.3	9.8	9.0
Indo Tambangraya Megah	ITMG IJ			1.2	2.0	31.6	25.6	22.6	2,545	2,180	3.1	198	11.0	7.1	7.2
Harum Energy**	HRUM IJ			(6.4)	(14.4)	16.2	7.9	4.0-4.5	535	335	3.6	113	3.0	4.9	9.2
Baramulti Suksessarana***	BSSR IJ			12.1	6.0	39.9	N/A	N/A	603	592	4.0	114	5.2	6.0	5.4
Market-cap Weighted Average				7.7	4.8	50.0					4.8		5.6	9.7	11.2

Source: Bloomberg, Company, PSR

Coal reserve estimate was as of 2016

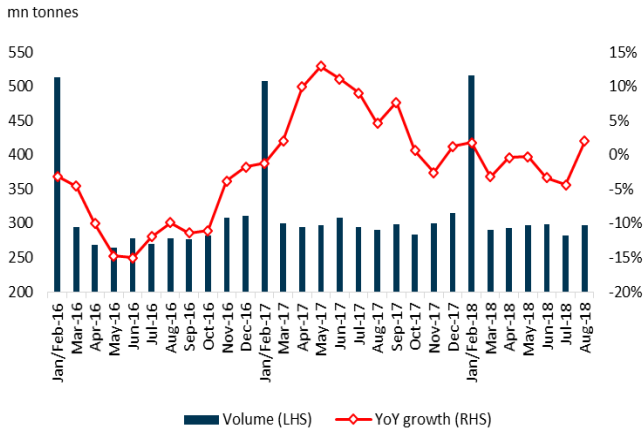
*Agritrade Resources: financial year ends in March, and coal reserve estimate was as of Mar-18

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

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

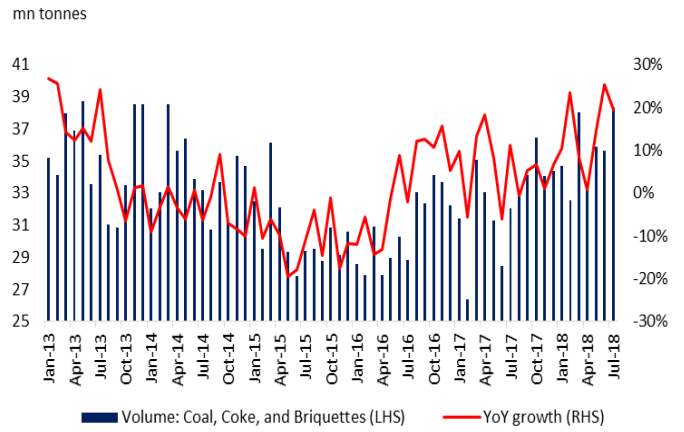
Phillip Coal Tracker: Our snapshot of coal markets

Figure 1: Monthly coal production in PRC starting to pick up



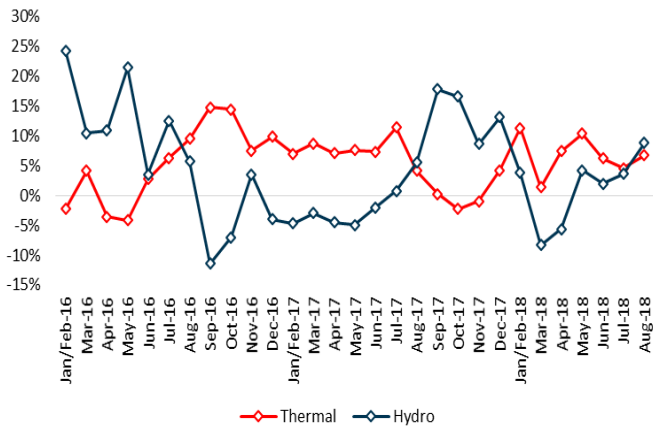
Source: National Bureau Statistics of PRC, PSR

Figure 2: Indonesia coal exports rise substantially



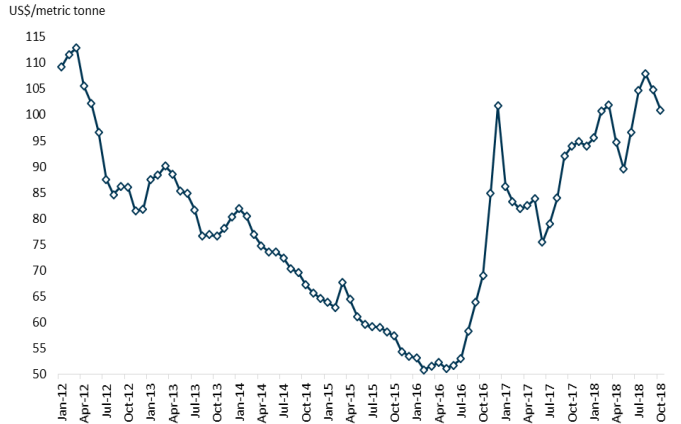
Source: Central Bureau of Statistics, PSR

Figure 3: China power demand continues to expand YoY



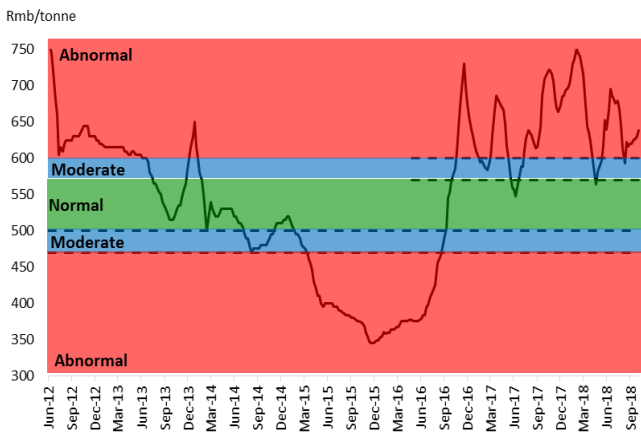
Source: National Bureau Statistics of PRC, PSR

Figure 4: Indonesia coal price reference (HBA) started to correct



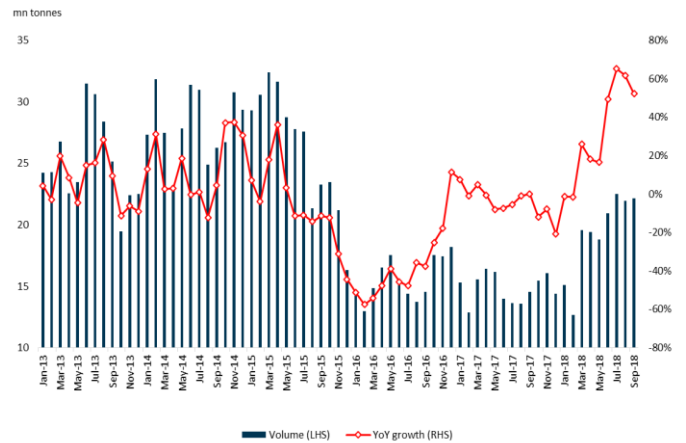
Source: Coalspot.com, PSR

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



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

Figure 6: Total port coal inventory remains at a high level



*Source: Bloomberg, PSR

*The total port coal inventory includes coal stockpile at Qinhuangdao 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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