

Singapore Coal Monthly

Indonesian coal to see a new opportunity



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SINGAPORE | MINING | SECTOR UPDATE

18 March 2019

China

China restricted Australian coal imports. In Feb-19, Dalian Customs imposed an indefinite restriction on Australian coal imports and may implement a quota of 12mn tonnes of the overall coal import for 2019. Five ports under their supervision of the customs executed the ban. The volume of coal import across these five ports totalled at 14mn tonnes in 2018. Meanwhile, China has been slowing down the customs clearance of Australian coal by at least 40 days.

Approval for resumption of work in coal mines in Yulin City in Shannxi. Following the broad shut-down of coal mines for safety investigation due to the catastrophic accident in Jan-19, the Ministry of Energy of Yulin City announced the approval for resumption of mining work in the first batch of 49 mines with an annual capacity of 168mn tonnes in mid-Feb-19. By the end of the month, the second batch of 15 mines with an annual capacity of 35.6mn tonnes resumed as well.

Indonesia

Demand for Indonesian thermal coal heats up. The restriction of Australian coal imports resulted in a substitution for Indonesian coal. In 2018, China imported a total of about 72mn tonnes of Australian bituminous coal (higher CV) and 7.2mn tonnes of Indonesian bituminous coal. Though there is a limited quantity of high-CV coal in Indonesia, the domestic producers were receiving more inquiries from China in Feb-19. Meanwhile, some smaller scale high-CV producers are returning to the market.

Temporary supply shock boosted the coal imports but it's unsustainable

The coal mine accident propelled the demand for seaborne coal due to the concerns of a supply shortage. In Jan-19, total coal import to China jumped by 19.5% YoY and 227.5% QoQ to 33.5mn tonnes. Indonesian coal imports surged by 16% YoY to a three-year new high of 16mn tonnes during the period. However, with the resumption of domestic production, the import volume fell in Feb-19. According to China Customs, total coal import plunged by 15.5% YoY and 47.3% QoQ to 17.6mn tonnes in Feb-19. The demand for seaborne coal could weaken in the upcoming month because port coal inventory was replenished as shown in Figure 6, and demand for coal is tapering when it comes to the end of the winter.

Indonesian coal has the potential to partially fill the supply gap

The current restriction on Australian coal import could create some opportunities for the Indonesia coal sector. China has been cutting the capacity since 2016 in accordance with the 13th-Five-Year Plan. In 2018, there were 5,800 mines shut down and more than 150mn tonnes of capacity phased out. In 2019 and 2020, China will continue to curtail the remaining 150mn tonnes of capacity to complete the goal of total 800mn tonnes capacity elimination under the plan. Hence, the demand for coal imports remains intact. The gap in domestic supply gap leaves room for Indonesia and Russia to fill it up. Though the current coal prices are depressed, the potential ramp-up of high-CV coal production could offset the price headwinds in part given the relatively low cash cost operation.

Golden Energy & Resources

BUY (Maintained)

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.235
FORECAST DIV	SGD 0.070
TARGET PRICE	SGD 0.300
TOTAL RETURN	57.4%

Geo Energy Resources

BUY (Maintained)

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.183
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.245
TOTAL RETURN	39.3%

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Coal counters monthly updates

Golden Energy and Resources (Target px: S\$0.36 / BUY)

- Expect 25mn tonnes of production in 2019 (up 10.6% YoY)
- FY18 cash cost jumped by 18% YoY but is expected to fall in FY19e
- Coal price headwinds to remain due to extended coal import restriction from China

Geo Energy Resources (Target px: S\$0.245/ BUY)

- Expect 10mn tonnes of production in 2019 (up 30% YoY)
- 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 for dual listing in Hong Kong

Investment action

We are positive on the sector. The ramp-up of production is expected to be double digits for each of the two coal counters this year while the expected average coal price (4,200 GAR: US\$ 39.5/tonne) in 2019 will be 10% lower than that in 2018. Therefore, the overall performance will continue to improve due to the growth of output offsetting the decline in ASP. 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) FY18	PRODUCTION (MN TONNES) FY19e	MKT CAP (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	RESERVE (MN TONNES)	EV/RESERVE (SGD/TONNE)	FY19 P/E	FY18 P/E
Singapore															
Golden Energy & Resources	GER SP	BUY	0.30	(4.0)	2.1	9.1	22.6	25.0	553	909	4.6	1,000	0.9	7.9	10.4
Geo Energy Resources	GERL SP	BUY	0.25	(5.1)	9.5	10.1	7.9	10.0-13.0	256	376	3.9	116	3.2	4.7	9.9
Hong Kong															
Agritrade Resources*	1131 HK			(22.4)	(4.3)	(2.2)	5.7	N/A	1,419	1,814	10.9	97	18.7	23.9	6.5
Indonesia															
Adaro Energy	ADRO IJ			17.3	16.4	19.8	54.0	54.0-56.0	4,312	5,869	3.0	1,200	4.9	7.7	7.6
Bukit Asam	PTBA IJ			(0.7)	(9.9)	(6.5)	26.4	27.3	4,408	3,884	5.7	3,300	1.2	9.4	8.4
Indo Tambangraya Megah	ITMG IJ			8.1	10.5	12.6	22.1	23.6	2,451	1,945	2.4	354	5.5	7.0	6.8
Harum Energy**	HRUM IJ			0.0	(3.6)	6.1	4.6	N/A	379	178	3.3	113	1.6	9.4	7.5
Baramulti Suksessarana***	BSSR IJ			2.5	3.8	4.7	N/A	N/A	609	615	4.0	114	5.4	6.0	6.5
Market-cap Weighted Average				4.5	3.5	6.4					4.7		5.2	9.8	7.6

Source: Bloomberg, Company, PSR

Coal reserve estimate was as of 2016

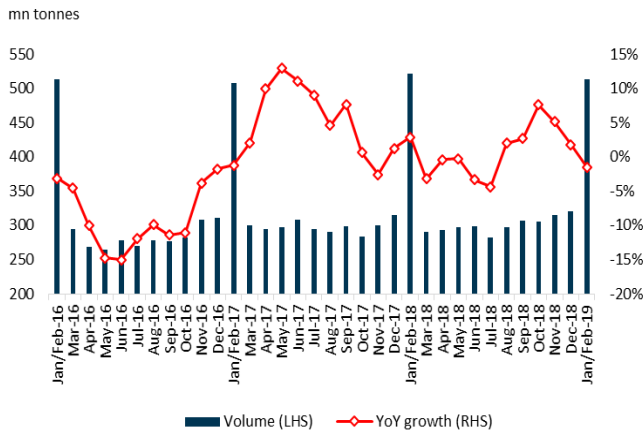
*Agritrade Resources: financial year ends in March, and coal reserve estimate was as of Mar-18

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

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

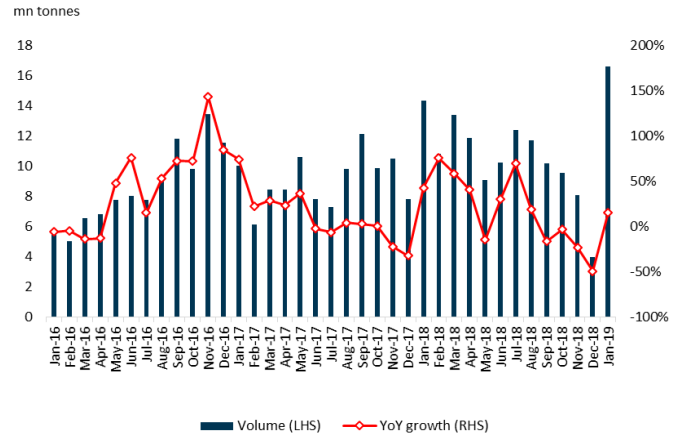
Phillip Coal Tracker: Our snapshot of coal markets

Figure 1: Monthly coal production in PRC grew slightly



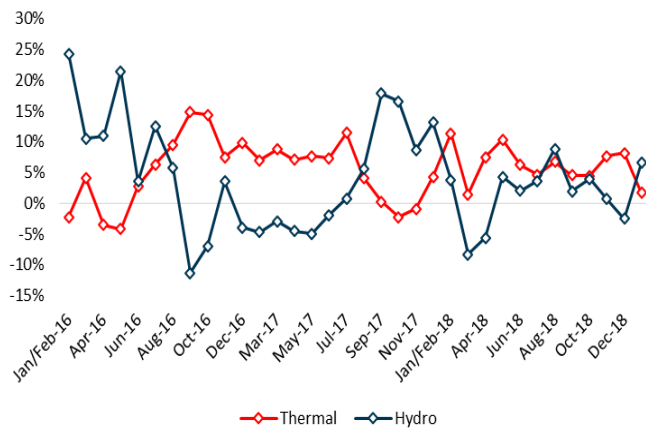
Source: National Bureau Statistics of PRC, PSR

Figure 2: Coal import from Indonesia to China spiked in Jan-19



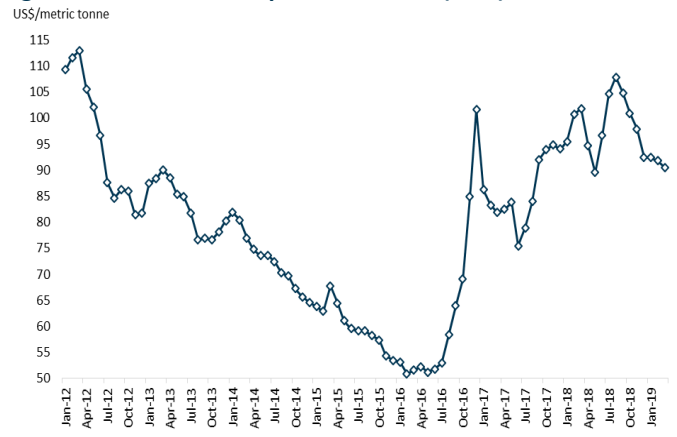
Source: Bloomberg, PSR

Figure 3: China power demand continues to expand YoY



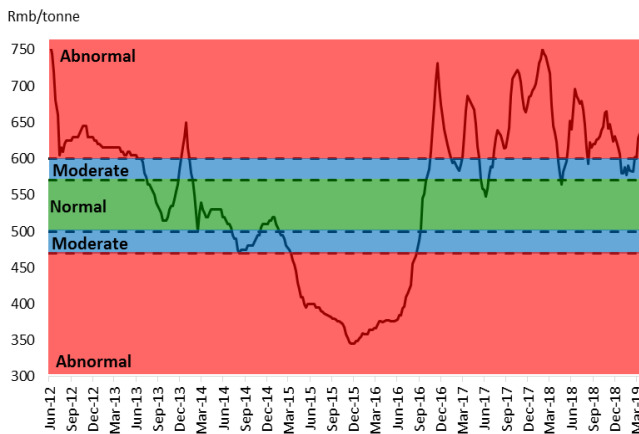
Source: National Bureau Statistics of PRC, PSR

Figure 4: Indonesia coal price reference (HBA) stabilised



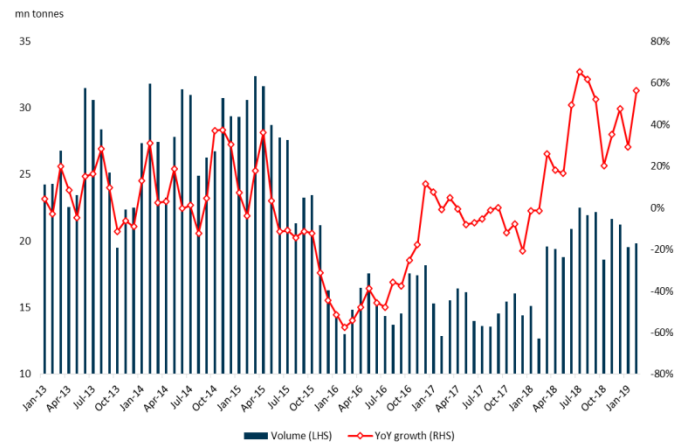
Source: Coalspot.com, PSR

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 was replenished



*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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