

Singapore Coal Monthly

More bad news in May



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SINGAPORE | MINING | SECTOR UPDATE

China

Prolonged restriction on coal import

In Jun-19, China Customs reiterated the surveillance on the coal import, restricting the inflow of lower quality coal. According to S&P Global, Fuzhou port declined the customs clearance for coal imports without the backing of local end-users such as local steel mills or power plants. The lengthened uploading and custom clearance for imports also occurred at public ports in Guangxi province, including Qinzhou and Fangcheng. The delays increased by ten days on average.

Indonesia

Proposing higher royalties and early application for permit extensions

In Jun-19, Energy and Mineral Resources Ministry proposed revisions on the regulations pertaining to mining rights including royalties and early application for permit extensions. Under the proposals, the royalties on coal sales to central government will increase by 1.5ppt to 15%. Accordingly, the government's share of coal mining revenue is expected to increase from 68% to 79%. Meanwhile, miners are allowed to submit for a permit extension up to five years before expiration. The extension is not necessary to go through a bidding process if holders agree on the amendment of royalties. There is no timeline for the new rules implemented.

Heavy rainfall affected coal supply

In Jun-19, the continuous rainfall hit mining activities in South Kalimantan. Some producers declared force majeure on shipments because of flooded mines. The operations were halted for several days. PLN, the Indonesian government-owned power company, estimated that the coal supply could fall by 1mn tonnes in June. Some vessels have been waiting for coal loading at the port for more than one month. The authority has lowered the 2019 production target to 32mn tonne for these miners.

Downward pressure from the policy uncertainties

The coal sector is facing a double whammy from the unfavourable regulations and climate. China's coal import restriction has mainly imposed on Australian coal. However, the downturn of coal prices owing to the policy also suppressed the thermal coal market in Indonesia. The demand for Indonesia coal remained strong in May-19 with a 46% YoY growth due to the preparation for the upcoming summer season. However, the stockpile grew by 23.2% YoY to 82mn tonnes at the primary power plants in China. Coal inventory at the six major coastal plants accumulated to 16.2mn tonnes with 27 days in turnover. Therefore, the import could slow down for the next two months.

The proposed revision of royalties adds more headwinds to the coal sector in Indonesia. The downtrend of ASP and domestic market obligation had narrowed profit margin substantially. The 1.5ppt increment of royalty rate will further weaken the profitability. The sector bears more downside risk at the moment.

3 July 2019

Golden Energy & Resources

ACCUMULATE (Maintained)

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.225
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.240
TOTAL RETURN	11.1%

Geo Energy Resources

NEUTRAL (Maintained)

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.154
FORECAST DIV	SGD 0.004
TARGET PRICE	SGD 0.150
TOTAL RETURN	0.0%

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Coal counters monthly updates

Golden Energy and Resources (Target px: S\$0.24 /ACCUMULATE)

- Production volume on-track to meet FY19 target of 25mn tonnes
- Cash profit slight above US\$10/tonne in 1Q19
- Coal price headwinds dim the outlook

Geo Energy Resources (Target px: S\$0.15/ NEUTRAL)

- On-track to meet the FY19 production target of 8mn tonnes
- First gross loss since 1Q16, due to the fall in ASPs while cash costs remained stubbornly high
- Likely to raise debt to acquire coal assets or to redeem the Senior Notes by the end of the year if no cash deployment

Investment action

The ramp-up of production is expected to be moderate for both coal companies this year. Expected average coal price (4,200 GAR: US\$ 39.5/tonne) in 2019 will be 10% lower than that in 2018. Meanwhile, the cash cost will also decline due to the normalisation of stripping ratio. The thinner margin will offset the growth of production. Therefore, the profitability will be flat in 2019. We downgrade our recommendation to NEUTRAL for the 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 Ltd	GER SP	ACC	0.24	13.6	12.5	2.3	22.6	25.0	529	939	6.6	1,119	0.8	9.2	19.8
Geo Energy Resources Ltd	GERL SP	NEU	0.15	3.4	(11.0)	(6.2)	7.9	8.0	220	336	6.1	81	4.2	7.7	165.5
Hong Kong															
Agritrade Resources Ltd	1131 HK			0.9	(18.7)	(19.3)	5.7	N/A	1,186	1,581	10.9	97	16.3	10.3	6.5
Indonesia															
Adaro Energy Tbk PT	ADRO IJ			9.7	11.9	22.1	54.0	54.0-56.0	4,301	5,936	3.3	1,200	4.9	7.6	6.9
Bukit Asam Tbk PT	PTBA IJ			(1.3)	(20.7)	(22.8)	26.4	27.3	3,330	2,809	5.9	3,300	0.9	6.8	6.8
Indo Tambangraya Megah Tbk PT	ITMG IJ			(1.6)	(20.7)	(6.5)	22.1	23.6	1,871	1,355	3.2	354	3.8	6.4	5.5
Harum Energy Tbk PT	HRUM IJ			2.8	7.8	8.2	4.6	N/A	383	194	2.1	113	1.7	11.6	10.5
Baramulti Suksessarana Tbk PT	BSSR IJ			(17.7)	(27.4)	(26.8)	N/A	N/A	401	421	5.3	114	3.7	6.0	5.9
Market-cap Weighted Average				2.6	(7.5)	(1.1)					4.9		4.6	7.5	6.7

Source: Bloomberg, Company, PSR

Coal reserve estimate was as of 2016

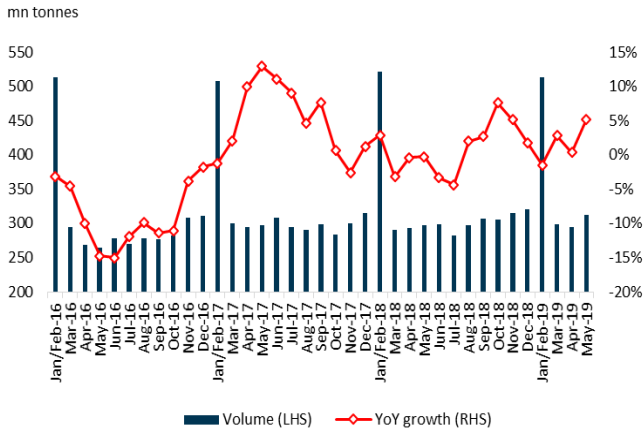
*Agritrade Resources: financial year ends in March, and coal reserve estimate was as of Mar-18

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

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

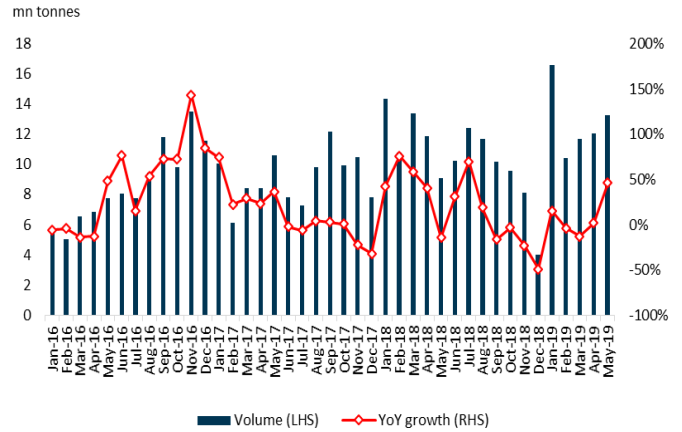
Phillip Coal Tracker: Our snapshot of coal markets

Figure 1: Monthly coal production in PRC grew modestly



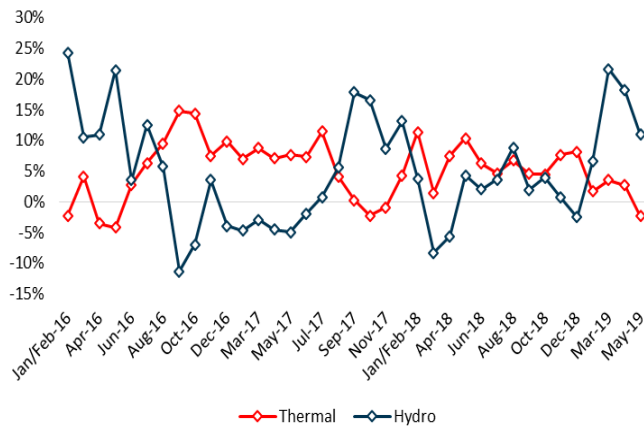
Source: National Bureau Statistics of PRC, PSR

Figure 2: Coal imports from Indonesia to China surged in May-19



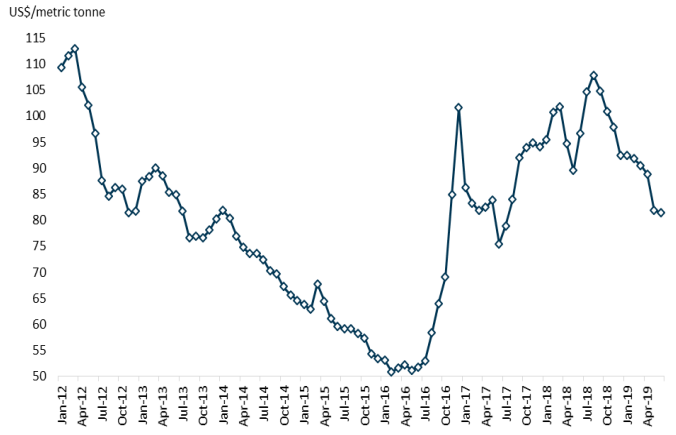
Source: Bloomberg, PSR

Figure 3: China thermal power supply growth slowed down



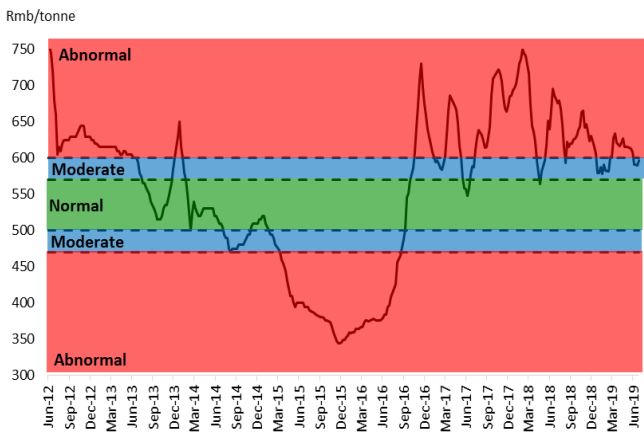
Source: National Bureau Statistics of PRC, PSR

Figure 4: HBA dropped to a 23-month low



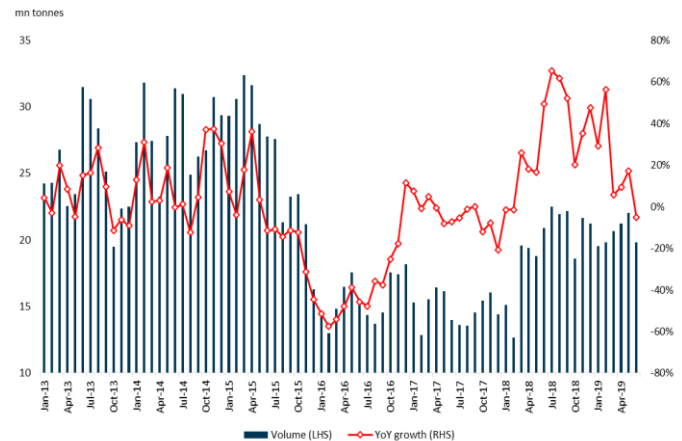
Source: Coalspot.com, PSR

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 fell in May-19



*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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