

Singapore Coal Monthly

Surge in imported coal by China



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SINGAPORE | MINING | SECTOR UPDATE

7 September 2018

China

Three-year plan for cleaner air released: In Jul-18, the State Council rolled out the action plan to, namely “Battle for A Blue Sky”, to control air pollution. It aims to reduce the emission of major air pollutants and greenhouse gas. According to the plan, emissions of sulphur dioxide and nitrogen oxides are expected to decrease by 15% from 2015 level. Meanwhile, PM 2.5 density will drop by at least 18%. Percentage of days with good air quality at least reaches 80% annually, and that of heavily polluted days at least decreases by 25% from 2015 level. Three regions including Beijing-Tianjin-Hebei and surrounding areas, the Yangtze River Delta, and the Fenhe and Weihe river plains will be paid closed attention during execution of the plan.

The plan also reiterates that natural gas is expected to account for 10% of total energy consumption, out of which coal will drop to 58% by 2020.

Indonesia

Coal DMO and domestic remained status quo: In Jul-18, Indonesia’s President Joko Widodo decided to keep the current price cap on domestic thermal coal procurement unchanged. Previously, the authority proposed to revoke the coal domestic market obligation (DMO) policy and impose a levy on exports. The current policy is expected to continue until the presidential election in 2019.

More seaborne coal to offset the domestic shortfall

The domestic crude coal production continued to decrease by 4% YoY to 282mn tonnes in Jul-18 due mainly to the initiation of “Battle for A Blue Sky” which disrupted production, see Figure 1. Consequently, coal imports jumped by 49% YoY to 29mn tonnes in Jul-18, a high since Jan-14. The shortfall of coal supply was replenished by imported coal. As shown in Figure 2, total coal exports from Indonesia surged by 33% YoY to 38mn tonnes which aligned with the strong demand from China. Port coal stockpile continued to build up, reaching 22mn tonnes (+62% YoY) in Aug-18. There is a strong expectation of ongoing clam-down on domestic supply and growing demand for coal during the summer season. The growth of demand for thermal power was still healthy at 5% YoY. The slowdown in thermal power compared to prior months was due to the pick-up of hydropower in Jul-18, see Figure 3.

Positive coal price outlook in 2H18

As shown in Figure 4 & 5, both coal prices in China and Indonesia have been buoyant in recent months. HBA keeps trending up to a new 6-year high in Aug-18, touching US\$107.4/tonne. Qinhuangdao 5,500 GAR hovered around the US\$600/tonne, which is the level the authority deemed abnormally high. With the execution of the action plan across the nation, it is expected that imported coal will continue to fill the supply gap, supporting coal prices moving forward.

Golden Energy & Resources

BUY (Maintained)

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.255
FORECAST DIV	SGD 0.013
TARGET PRICE	SGD 0.410
TOTAL RETURN	65.9%

Geo Energy Resources

BUY (Maintained)

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.220
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.340
TOTAL RETURN	59.1%

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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

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	(8.2)	(6.9)	(11.7)	15.5	20.0	588	798	3.8	780	1.0	5.9	6.4
Geo Energy Resources	GERL SP	BUY	0.34	(2.2)	0.0	(17.0)	7.7	10.0 - 11.0	292	376	3.4	100	3.8	4.7	7.2
Indonesia															
Adaro Energy	ADRO IJ			(12.4)	(16.3)	(5.2)	52.5	52.0-54.0	5,036	6,157	4.1	1,200	5.1	7.6	8.0
Bukit Asam	PTBA IJ			(15.8)	(5.3)	69.0	19.6	21.9	4,117	3,736	4.9	3,300	1.1	8.5	7.6
Indo Tambangraya Megah	ITMG IJ			(10.7)	(8.2)	33.7	25.6	22.6	2,723	2,357	3.1	198	11.9	7.4	7.8
Harum Energy*	HRUM IJ			(17.1)	(22.8)	23.1	7.9	4.0-4.5	577	377	3.6	113	3.3	6.7	10.0
Baramulti Suksessarana**	BSSR IJ			(3.5)	(2.7)	29.4	N/A	N/A	604	593	4.0	114	5.2	6.0	5.5
Market-cap Weighted Average				(12.9)	(10.8)	27.8					4.1		5.2	7.7	7.8

Source: Bloomberg, Company, PSR

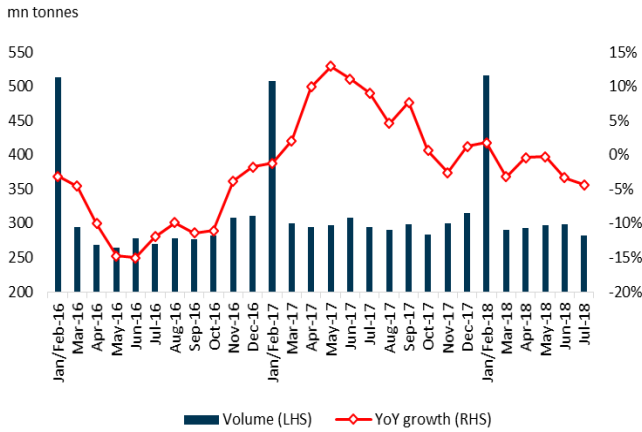
Coal reserve estimate was as of 2016

*Harum Energy: coal reserve estimate was as of 2009

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

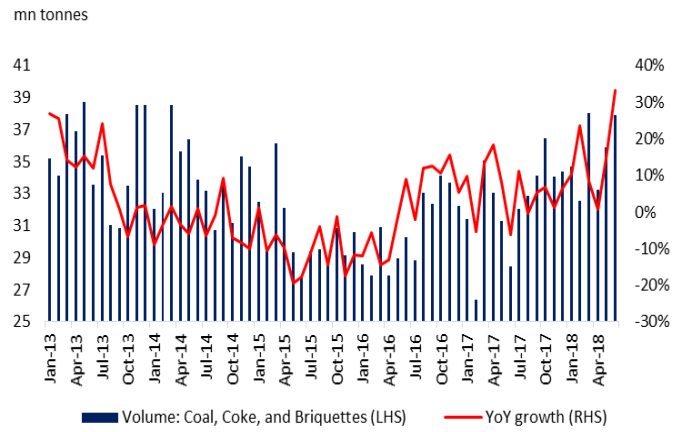
Phillip Coal Tracker: Our snapshot of coal markets

Figure 1: Monthly coal production in PRC slightly falls



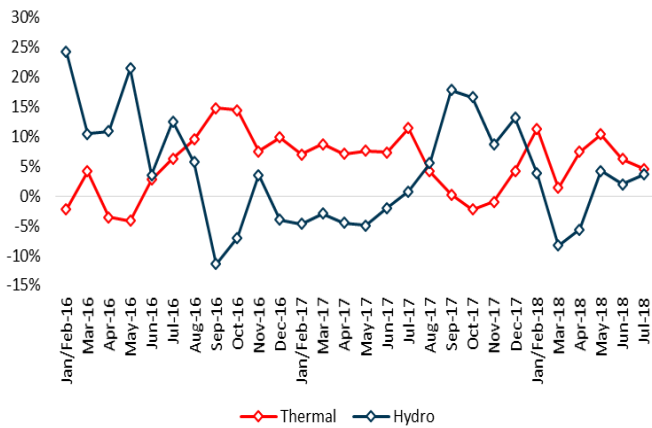
Source: National Bureau Statistics of PRC, PSR

Figure 2: Indonesia coal export substantially grows



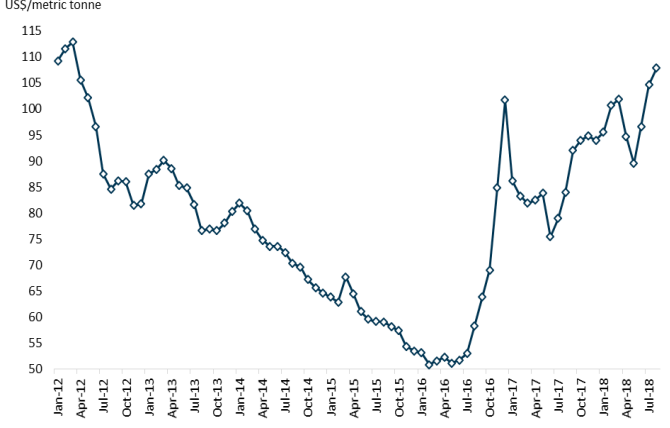
Source: Central Bureau of Statistics, PSR

Figure 3: China power demand continues to expand YoY



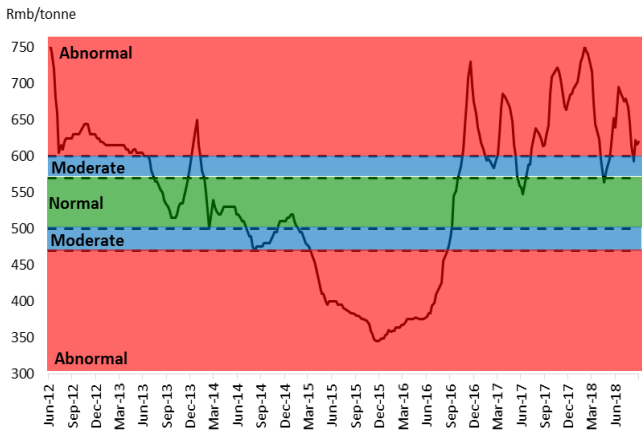
Source: National Bureau Statistics of PRC, PSR

Figure 4: Indonesia coal price reference (HBA) hit a 6-year high



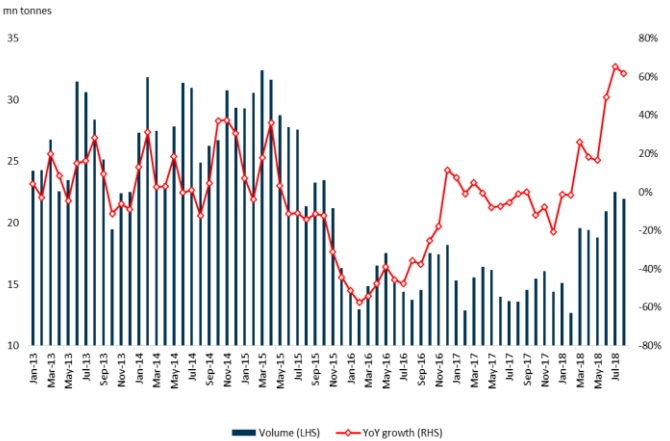
Source: Coalspot.com, PSR

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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