

Darma Henwa (DEWA IJ): Accelerated Expansion

NOT RATED

1YR Target Price : N/A
Last Price : Rp50
Upside/Downside : N/A

Company Profile

(www.ptdh.co.id)

PT Darma Henwa Tbk is an Indonesia-based company engaged in mining and energy services. The main service offered by DEWA is focused in mining contractor services. It also sets up a number of new operational infrastructures. Current DEWA's coal mining projects include Bengalon, Asam Asam and Satui.

Stock Stats

Market Capitalization (Billion)	:	Rp1,093
Shares Outstanding (Billion)	:	21.85
52 Weeks Highest Price	:	Rp50
52 Weeks Lowest Price	:	Rp50
YTD Performance	:	+0.0%

Shareholders

Goldwave Capital Ltd	:	17.5%
Zurich Asset International Ltd	:	11.5%
Public	:	71.0%

DEWA is coal mining contractor affiliated with PT Bumi Resources (BUMI IJ) who is currently holding exclusive life mine contracts in Asam Asam and Bengalon. Financial and operational performance improved in 9M19 as seen on higher revenue and net profit supported by higher overburden removal and coal getting backed by machineries addition. Yet, BRI loan brought leverage ratio inched higher, while accrual ratio started to deteriorate. In the other hand, DEWA has signed the deal with Thriveni to establish JV related to supply and maintenance of heavy equipment in order to obtain further potential cost efficiency. Currently DEWA is traded at Rp50, equivalent to PBV of 0.3x and annualized PER of 48.8x.

Synergy with exclusive coal miner. DEWA is a mining contractor company with majority of its revenue (9M19: 99.3%) contributed from coal mining services. Current coal mining projects include Asam Asam (PT Arutmin Indonesia- PKP2B contract until November 2020), Bengalon (PT PT Kaltim Prima Coal - PKP2B contract until December 2021), and Satui (PT Cakrawala Langit Sejahtera). DEWA is affiliated with PT Bumi Resources (BUMI IJ) where income proportion contributed by related parties accounted for 95.7% as of 9M19. Due to its affiliation, exclusive life of mine contracts have been owned since 2004 for Bengalon and 2007 for Asam Asam.

Turnaround story as operation is improving. As of 3Q19, DEWA posted revenue of USD108 million (+70.8% QoQ, +48.7% YoY) which brought revenue in 9M19 reached USD238 million (+26.0% YoY). Financial improvement was consistent with operational uplift where coal delivery recorded at 11.43 million metric tons (+22.0% YoY) and overburden removal reached 82.69 million Bcm (+9.1% YoY) in 9M19. Profitability also increased where gross margin was at 7.3% (9M18: 3.5%), backed by increased in blended ASP per coal mined at USD20.8 per metric ton (+3.3% YoY) while cash cost remained constant at USD17.5 per metric ton (-0.1% YoY). These improvements brought net profit in 3Q19 reached USD2.8 million (-6.2% YoY, 2Q19: loss of USD1.8 million), translated to USD1.2 million profit in 9M19 (+ 43.7% YoY).

Loan support from BRI. Operational performance improvement is supported by BRI loan of USD115.86 obtained on April 22, where DEWA plans to use 85.3% of the proceed to finance the revitalization and addition of heavy equipment and mining machinery. It is worth to note that in 9M19, we have not seen any significant increase in net asset of machinery and equipment. However, other assets recorded significant increase mainly from advance to suppliers which considerably rose to USD61.0 million (9M18: USD4.5 million). Yet, management said that some portions of procured crucial spare-parts have arrived and maintenance of current equipment has been carried out, where these factors greatly boosted DEWA operational performance. As information, after receiving the loan, DEWA's DER increased significantly to 0.61x (9M18: 0.10x).

Expectation of potential cost efficiency from JV with Thriveni. In December 2019, DEWA had signed the deal with mining services contractor from India, Thriveni Resomin Pte Ltd related to the establishment of a joint venture which will engage in the supply and maintenance of heavy equipment, as well as mining service consulting. DEWA's management expect that with Thriveni's expertise in service, reconditioning and engineering, as well as the plan to build engineering excellence center (EEC) in Bengalon, efficient maintenance costs can be obtained in the future.

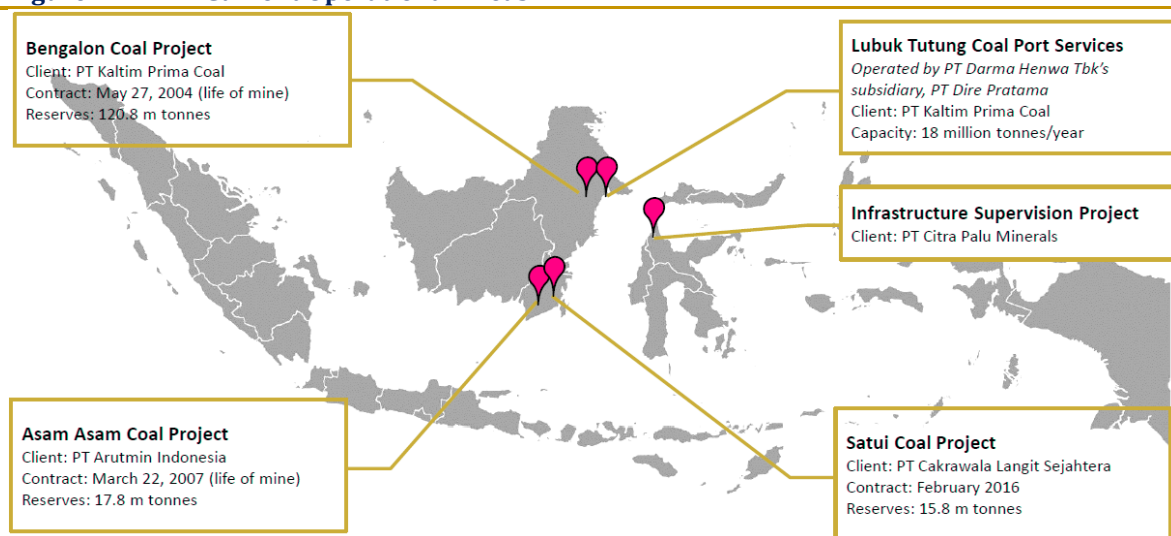
Valuation and risk factors. DEWA is currently trading at Rp50, equivalent to PBV of 0.3x (peers: 0.9x) and annualized PER of 48.8x (peers: 16.3x). Operational improvement is projected to be fully reflected in 2020 along with fleet optimization. On the other hand, main risk factors of DEWA include: 1) Highly concentrated revenue portion contributed by related parties, 2) Uncertainty on the extension of PKP2B contracts for PT Arutmin Indonesia and PT Kaltim Prima Coal, and 3) Decreased earnings quality as CF-based accrual ratios jumped to 30% in 9M19 (9M18: -5%), in line with upsurge in aggregate accruals indicating lower cash generation ability.

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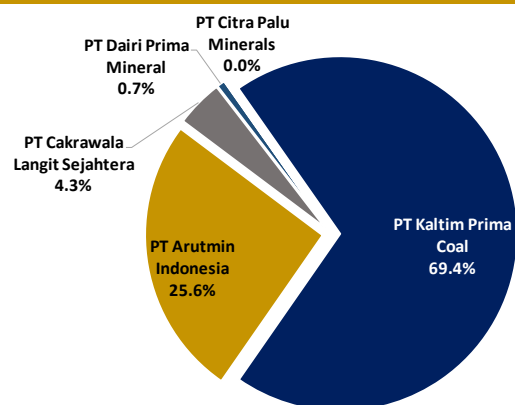
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Figure 1. DEWA Current Operational Areas



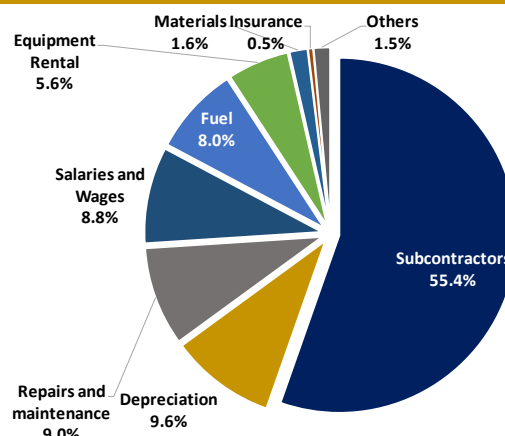
Source: DEWA, ASI Research

Figure 2. DEWA Revenue Contribution 9M19



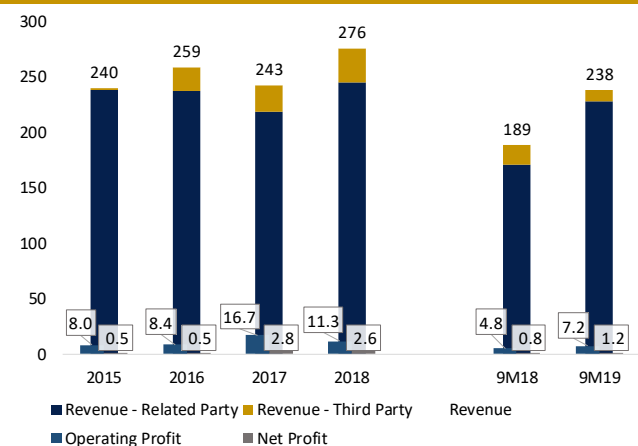
Source: DEWA, ASI Research

Figure 3. DEWA Cost Structure 9M19



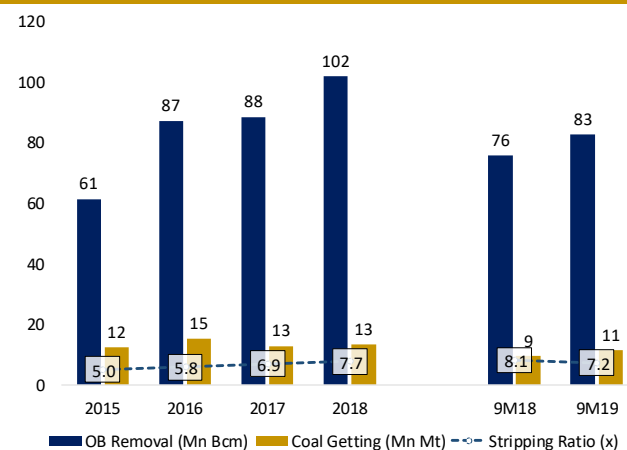
Source: DEWA, ASI Research

Figure 4. DEWA Historical Earnings (USD Mn)



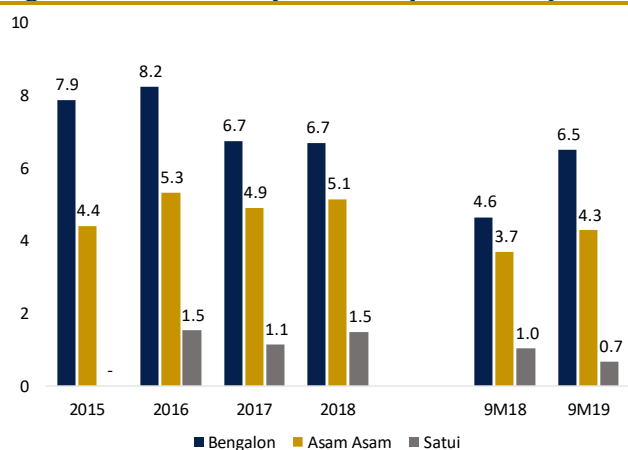
Source: DEWA, ASI Research

Figure 5. DEWA Coal Getting, OB Removal and SR



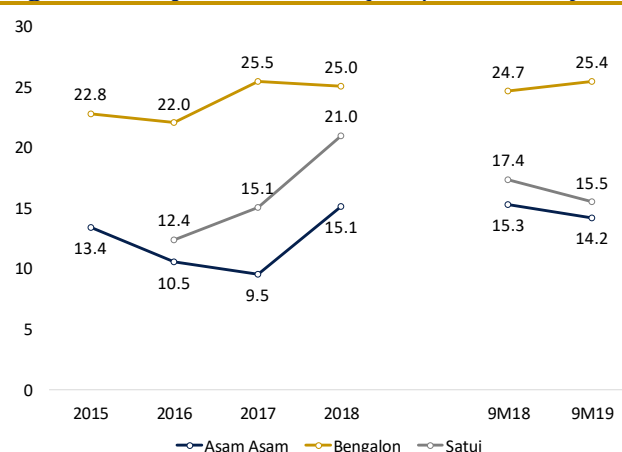
Source: DEWA, ASI Research

Figure 6. Coal Mined by Location (Million MT)



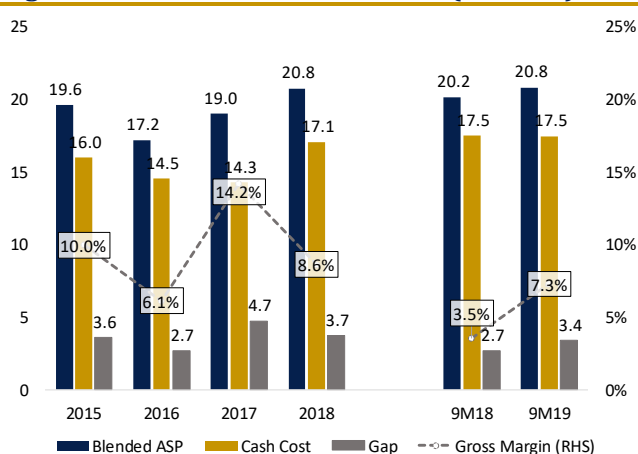
Source: DEWA, ASI Research

Figure 7. ASP per Coal Mined (USD/Metric Ton)



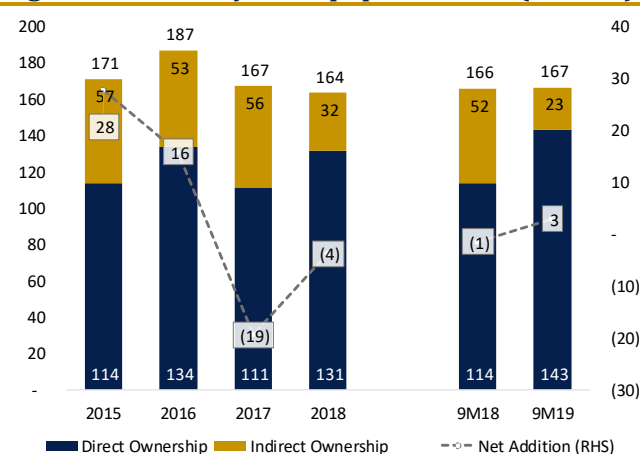
Source: DEWA, ASI Research

Figure 8. Cash Cost and Blended ASP (USD Full)



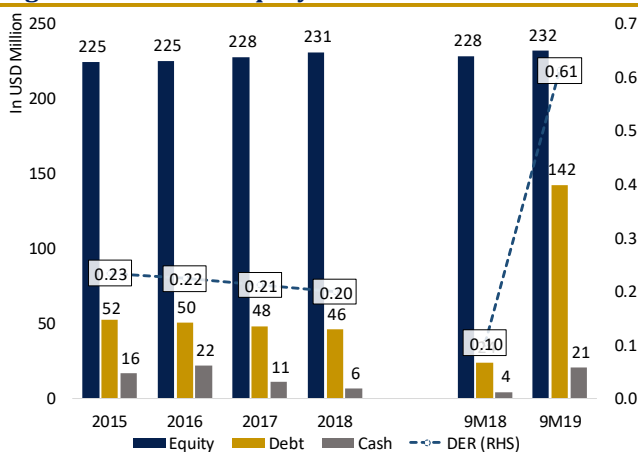
Source: DEWA, ASI Research

Figure 9. Machinery and Equipment Asset (USD Mn)



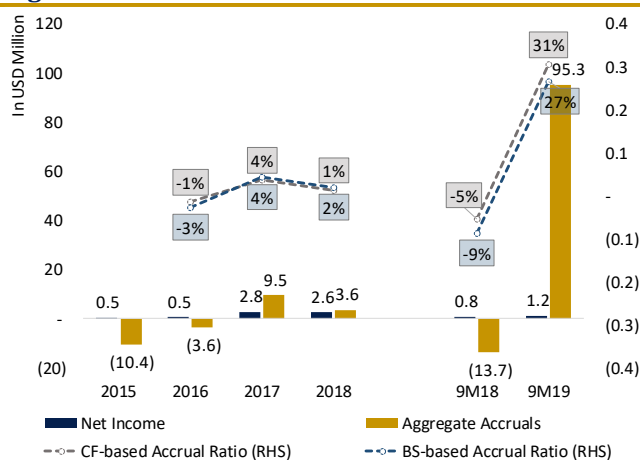
Source: DEWA, ASI Research

Figure 10. Debt-to-Equity Ratio



Source: DEWA, ASI Research

Figure 11. CF-based and BS-based Accrual Ratio



Source: DEWA, ASI Research

Key Financials (USD Million)

Income Statement	2015A	2016A	2017A	2018A	9M18	9M19	Cash Flow	2015A	2016A	2017A	2018A	9M18	9M19
Revenue	240	259	243	276	189	238	Receipt from Cust.	233	268	255	268	185	214
COGS	(216)	(243)	(208)	(252)	(182)	(221)	Payment to Suppliers	(193)	(220)	(237)	(237)	(152)	(270)
Gross Profit	24	16	34	24	7	17	Others	(13)	(3)	(18)	(13)	(2)	(15)
Interest Income	0	0	0	0	0	0	CF from Operations	27	45	(0)	18	31	(70)
G&A Expenses	(11)	(11)	(11)	(14)	(7)	(9)	Acq. of Fixed Assets	(16)	(41)	(7)	(19)	(17)	(24)
Tax Expense	(2)	(1)	(1)	(1)	(0)	(2)	Others	(1)	0	1	-	-	-
Gain on Forex	0	4	1	5	6	0	CF from Investment	(16)	(41)	(7)	(19)	(17)	(24)
Sales of Fixed Assets	0	0	(0)	-	-	-	Receipt of Bank Loans	-	14	1	-	-	118
Others	(4)	1	(6)	(3)	0	0	Receipts of Rel. Parties	-	0	8	16	11	5
Operating Profit	8	8	17	11	5	7	Payments of Bank Loans	(3)	(5)	(5)	(4)	(3)	(8)
Financial Expense	(3)	(6)	(6)	(4)	(3)	(4)	Payments of Fin Lease	(5)	(12)	(23)	(21)	(16)	(4)
Loss from Assoc.	(0)	(0)	(0)	-	-	-	Others	(1)	-	13	-	(19)	(2)
Pretax Profit	5	3	11	7	2	3	CF from Financing	(8)	(3)	(5)	(8)	(27)	108
Tax Expenses	(5)	(2)	(8)	(4)	(1)	(2)	Change in Cash	3	2	(12)	(9)	(12)	14
Net Profit	0	1	3	3	1	1	Forex Effect	0	4	1	5	6	0
Minority Interest	(0)	0	0	0	0	0	Beginning Cash	14	16	22	11	11	6
NP att to Parent	0	1	3	3	1	1	Ending Cash	16	22	11	6	4	21
Balance Sheet	2015A	2016A	2017A	2018A	9M18	9M19	Key Ratios	2015A	2016A	2017A	2018A	9M18	9M19
ASSET							Current Ratio (x)	1.25	1.03	0.84	0.80	0.92	1.32
Cash & cash eq	16	22	11	6	4	21	Quick Ratio (x)	1.10	0.91	0.69	0.65	0.74	1.17
Trade receivables	61	52	43	48	46	71	Net Gearing (x)	0.16	0.13	0.16	0.17	0.09	0.52
Due from Rel. Parties	0	0	0	0	0	0	Interest Coverage (x)	4.48	0.66	3.81	2.08	(0.39)	1.64
Inventories	16	15	20	20	23	23	Debt Service Coverage (x)	12.8	5.2	8.4	7.9	6.3	7.3
Prepays	24	26	22	27	34	32	BS-based Accrual Ratio		-2.8%	4.3%	2.0%	-8.7%	26.6%
Other current assets	17	14	22	7	15	64	CF-based Accrual Ratio		-1.4%	3.6%	1.3%	-5.3%	30.5%
Current Assets	135	129	118	109	122	212	DSO (days)	92	79	71	60	66	67
Financial Assets	27	19	18	17	18	17	DIO (days)	27	23	31	29	35	29
Deffered Tax Assets	6	4	0	0	0	0	DPO (days)	126	112	129	109	107	92
Inv. in Associates	6	6	6	6	6	6	CCC (days)	(7)	(9)	(27)	(21)	(6)	5
Inv. Available for Sale	-	4	12	12	12	12	GPM	10.0%	6.1%	14.2%	8.6%	3.5%	7.3%
Tax Refund	40	47	54	41	30	38	OPM	3.3%	3.2%	6.9%	4.1%	2.6%	3.0%
Fixed Assets	154	170	172	169	170	171	EBITDA Margin	13.6%	11.3%	20.5%	12.8%	9.4%	11.7%
Other	5	1	22	62	22	62	EBIT Margin	4.8%	1.4%	9.3%	3.4%	-0.6%	2.6%
Non-Current Assets	238	252	284	306	258	306	NPM	0.2%	0.2%	1.1%	0.9%	0.4%	0.5%
Total Assets	373	381	402	415	381	517	ROA	0.1%	0.1%	0.7%	0.6%	0.2%	0.2%
LIABILITIES							ROE	0.2%	0.2%	1.2%	1.1%	0.4%	0.5%
Trade payable	75	75	72	79	71	76	EV/EBITDA (x)	3.5	3.7	2.4	3.3	5.2	7.2
Unearned Revenue	5	6	8	5	8	5	PER (x)	165.2	154.2	29.3	29.5	88.6	65.1
Accrued Expenses	8	15	17	23	23	29	PBV (x)	0.4	0.4	0.4	0.3	0.3	0.3
ST debts	19	29	30	19	21	40							
Others	1	1	13	10	11	11							
Current Liabilities	108	126	141	137	133	161							
LT debts	34	21	18	27	2	102							
Others	7	9	16	21	17	22							
Non-Current Lia.	41	31	33	47	19	125							
Total Liabilities	148	156	174	184	152	285							
EQUITY													
Paid-in capital	241	241	241	241	241	241							
Add. paid in capital	79	79	79	79	79	79							
Retained earnings	(96)	(96)	(93)	(90)	(92)	(89)							
Others	1	1	1	1	1	1							
Minority interest	0	0	0	0	0	0							
Total Equity	225	225	228	231	228	232							

Disclaimer

INVESTMENT RATINGS: Indicators of expected total return (price appreciation plus dividend yield) within the 12-month period from the date of the last published report, are: Buy (10% or higher), Neutral (-10% to 10%) and Sell (-10% or lower).

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