

Stable amid dwindling coal demand

22 January 2020

Company profile

The Company's business activities are currently focused on mining contractor services, general mining services and equipment maintenance, which are in line with the business scope stated in the Company's Articles of Association, namely: Land clearing, top soiling, overburden removal, coal hauling, coal barging and equipment rental.

Stock Data

Outstanding shares	21,853,733,792
Market cap (Rp)	1,092,686,689,600
Weight vs IHSG (%)	0.02

Shareholders (%)

Goldwave Capital Limited	17.46%
Zurich Assets International Ltd.	11.50%
Masyarakat	71.04%
Outstanding Shares (unit)	21,853,733,792

Price Performance

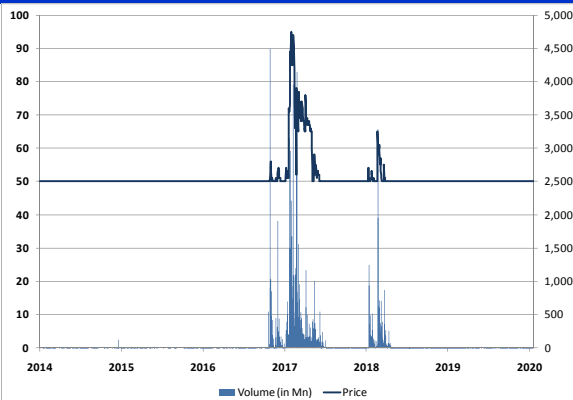
52-week high/low	Rp50/Rp50
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DEWA price versus JCI



Sources :IDX and VSI

Price and Volume



Sources :IDX and VSI

- DEWA's 9M19 net profit up 44.32% YoY to USD1.192mn
- Operational performance improved, thanks to higher overburden YoY
- Mining fees are based on contracts, thus reducing exposure to price risk

Double digit revenue growth

DEWA has seen improvement in financial performance in 9M19 with growing net profit by 44.32% YoY in 9M19. We perceive that the improvement in bottom-line was a result of higher revenue growth of 25.98% YoY to USD237.93mn compared to previous year in the same period of USD188.87mn. Furthermore, we also highlight both gross and operating margins expanded thanks to improved efficiency, demonstrated by manageable COGS growth in 9M19. In terms of balance sheet, we deem DEWA's debt profile in 9M19 was relatively healthy.

Improved productivity

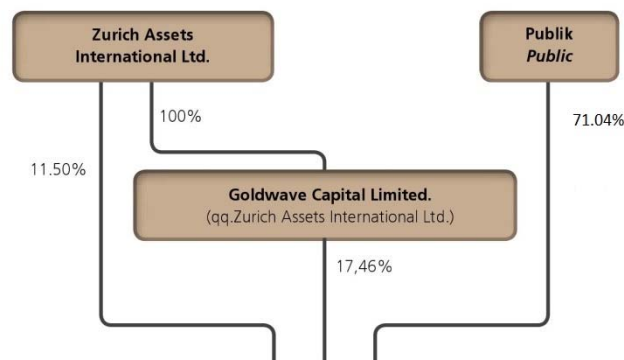
The company's operational activities in 11M19 was improved YoY, shown by higher production, overburden removal and coal delivery in its main mines of Bengalon, Asam-Asam and Satui. DEWA's stripping ratio in 11M19 dropped from between 5.77x and 10.55x in 11M18 to between 4.98x and 8.39x. At the end of 2019, DEWA managed to sign gold mine infrastructure projects with ANTAM.

Coal industry overview

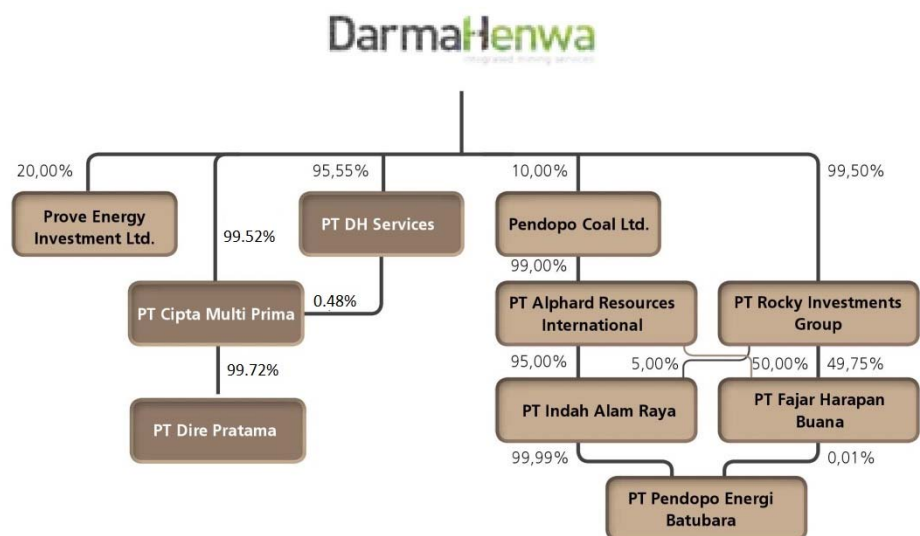
Despite its strong contribution to the world's energy mix, coal industry has been in steady downtrend following China's policy to reduce its imports consumption, causing higher supply in the market. Also, the escalating trade war between US-China also adds to the downward pressure sourced from weakening business sentiment and consumption. In our opinion, China is considered to be the main driver of commodity prices, especially coal as the country remains the largest coal producer and consumer. In spite of its status as the largest coal producers, China also tops the net importer countries. Amidst weakening coal demand in China, the major coal producers does not show signs of significant reduction as consumption is believed to pick up in emerging Southeast Asia market, including Indonesia and India (see details on page 4).

Darma Henwa : Brief company profile

The company engages in energy sector services ranging from mining, civil construction, mining-related activities comprising excavation, stripping, land relocation, and gradin. The company is established since 1991 and affiliated with Bumi Resources (BUMI). DEWA's clients are mostly its affiliated companies, namely Kaltim Prima Coal (KPC), Arutmin Indonesia, Dairi Prima Mineral (DPM) that all of three are BUMI's subsidiaries. Since June 2019, DEWA has appointed Saptari Hoedaja as President Director. The appointment is based on EGMS resolution.



The company's corporate structure



Source: Darma Henwa

DEWA's major source of revenue came from Bengalon coal mine owned by KPC

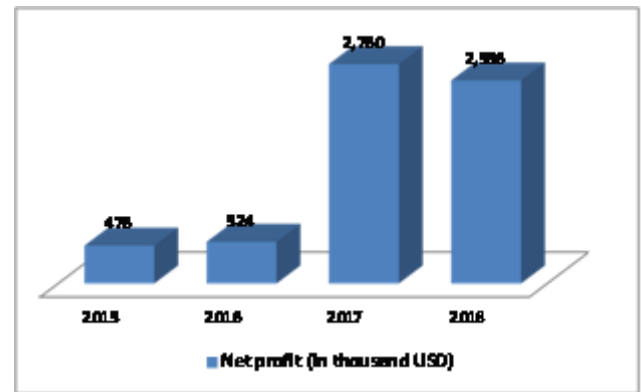
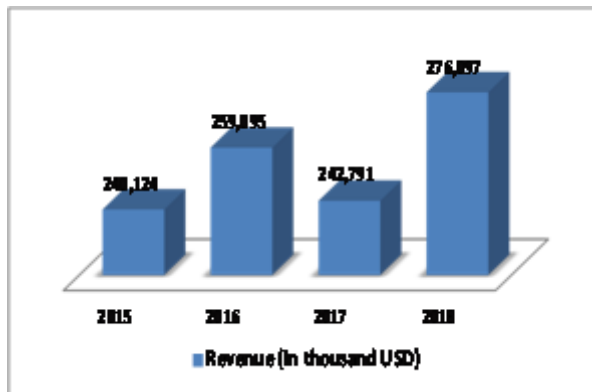
As of 2018, DEWA's major source of revenue came from Bengalon coal mine owned by KPC, followed by Asam-Asam coal mine by Arutmin Indonesia with both combined making up 88.7% of its total annual revenue of 2018. For those projects, DEWA was involved in both civil constructions. As its primary clients, DEWA is provided life of mine contract, which enables it to undergo works until economic value of all the reserves are exhausted with its affiliated companies mainly KPC and Arutmin Indonesia as the country's biggest coal producers with 56.7mn tons and 27mn tons of coal, respectively. KPC's area of concession spans 90,938 acre in Sangatta and Bengalon, East Kalimantan, while Arutmin's are in Satui, Batulicin, Kintap and Asam-Asam.

The company enjoys exclusive and stable contracts from its affiliated companies

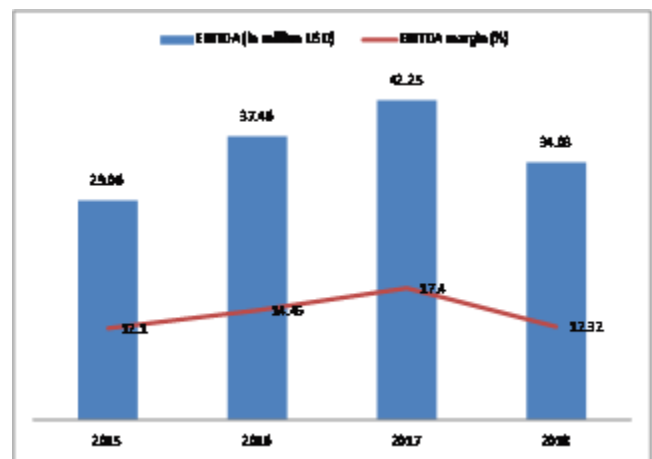
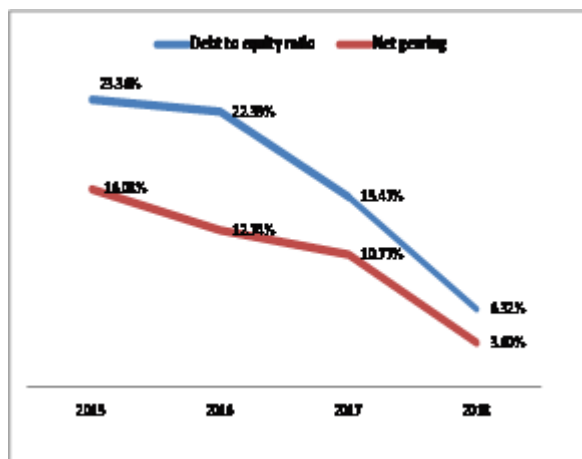
Company's active project as of 2018			
Project owners	Name of projects	Location	Type of work
Kaltim Prima Coal (KPC)	Bengalon coal mine	East Kalimantan	Coal mining and civil construction
Arutmin Indonesia	Asam-Asam coal mine	East Kalimantan	Coal mining and civil construction
Cakrawala Langit Sejahtera	Satui-Mulia coal mine	South Kalimantan	Coal mining and civil construction
Kaltim Prima Coal (KPC) operated by subsidiary Dire Pratama	Lubuk Tutung coal port	East Kalimantan	Coal port operation service

Sources: Company, Valbury Sekuritas

In terms of pricing, the rates are basically based on each client's contract, thus its performance is less affected by the coal prices volatility, particularly during coal prices downtrend. Based on our recent meeting with the management, there are several variables that are subjects to mining-fee adjustment, namely material and fuel prices, explosive, currency rate IDR/USD, and Indonesian manpower escalation mainly based on local inflation rate.



Sources: Company, Valbury Sekuritas



Sources: Company, Valbury Sekuritas

Financials: Double digit revenue growth

DEWA's revenue managed to grow 25.98% YoY to USD237.93mn in 9M19 compared to USD188.87mn in revenue for 9M18 thanks to higher production. The higher revenue mostly came from KPC/Bengalon that grew 44.33% YoY and Arutmin that rose 7.52% YoY in 9M19. The related parties' revenue made up 95.70% of DEWA's total revenue, expanding from 90.53% in 9M18. Meanwhile, revenue from third parties composed 4.30% of DEWA's total revenue, decreasing from 9.50% in 9M18. Furthermore, DEWA's gross profit margin expanded from 3.50% in 9M18 to 7.28% in 9M19 and its gross profit jumped 162.15% YoY as cost of goods sold increased manageably at 21.04% YoY. Interest income surged 76.25% YoY in 9M19 to USD134.72 thousand. Moreover, DEWA's FX gain plunged 92.41% YoY in 9M19, as we suspect, due to appreciation of IDR compared to last year. Meanwhile, G&A also escalated 23.23% YoY in 9M19. However, DEWA's operating profit managed to grow 47.69% YoY in 9M19 with operating margin profit stood at 3.01%. On the other hand, financial charges increased by 34.13% YoY in 9M19, yet DEWA still booked pretax profit of USD3.34mn. In addition attributable profit elevated by 44.32% in 9M19 to USD1.192mn with net margin profit of 0.5%. Balance sheet wise, DEWA's net gearing stood at 42.65% in 9M19.

DEWA's bottom line improved, as a result from higher revenue

In April, DEWA a USD115.86MN in loans from Bank Rakyat Indonesia, consisting of USD17mn for working capital and the remaining is for special transaction credit facility utilized for increasing DEWA's production capacity as DEWA is progressing capacity ramp-up plan. The full impact of ramped up production is expected to be realized in the end of 2019.

	3Q19	3Q18	YoY (%)	9M19	9M18	YoY (%)
Volume						
Overburden (mbcm)	36.87	29.11	26.64	82.7	75.78	9.14
Coal delivery (mt)	4.32	3.43	25.82	11.44	9.37	22.09
Profitability						
Revenue	108.35	72.84	48.75	237.93	188.87	25.98
EBITDA	15.23	12.01	27.83	28.75	23.49	22.36
Gross profit	8.48	5.69	49.09	17.32	6.61	162.15
Operating profit	6.31	5.11	23.65	7.16	4.85	47.69
Net profit/loss	2.77	2.96	-6.23	1.2	0.83	43.73
Capital expenditure	13.16	7.55	74.39	23.68	17.14	38.1
	As of 9M19	As of 9M18		YTD 9M19 (%)		
Assets						
Total assets	517.41	415.1		24.65		
Current assets	211.76	108.99		94.3		
Non current assets	305.66	306.11		-0.15		

Source: Darma Henwa

Operational review: Increased productivity

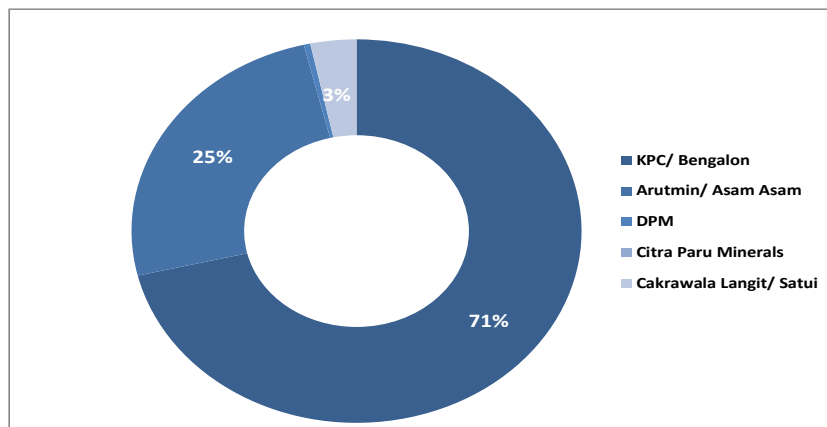
DEWA's 9M19 coal delivery was slightly up by 2.08% MoM to 1.81mn tonnes despite entering a rainy season. However, in YoY basis, monthly production still increased by 82.82% YoY compared to November 2018. In quarterly basis, DEWA's 9M19 coal delivery reached 11.44mn tonnes, or growing 22.09% YoY from 9.37mn tonnes recorded last year. Same goes to DEWA's 11M19 overburden removal that recorded a slight decrease of 8.65% MoM to 12.24 mbcm in November 2019, yet surged by 37.68% YoY. Nevertheless, overburden of Satui Coal Project in South Kalimantan province increased by 14.76% MoM. Quarterly, the company's overburden rose 9.13% YoY from 75.78 mbcm to 82.70 mbcm. Hence, DEWA's overburden removal throughout 11M19 was recorded at 108.35mn bcm. In addition, DEWA's stripping ratio in November 2019 also generally showed a slight retreat from between 6.51x and 8.88x to between 4.98x and 8.39x.

At the end of 2019, DEWA managed to sign a new contract with Aneka Tambang (ANTM) valuing Rp14.7bn. The various works included in the contracts consists of infrastructure project, mining, and gold processing. Meanwhile, total mining volume is expected to reach 95,000bcm comprising of 67,000 bcm of waste and 28,000 bcm of ore with 60% gold conversion recovery. As of 2019, DEWA has three other pipeline projects, especially non-coal projects namely pre-mining and earthworks project in zinc and tin mines in Dairi, North Sumatra and gold mine road construction in Tombulilato, Sungai Mek block in Gorontalo, as well as mine infrastructure, drilling exploration and gold mining activities in Palu, Central Sulawesi.

DEWA is eyeing to sign contract this year in relations to gold and copper mine works in Bone Belango, Gorontalo. The company will undergo road construction works in the early stage of mining activity, earthworks and mine infrastructure. In addition, DEWA is also targeting gold mine works in Central and South Sulawesi owned by CPM.

DEWA records an improvement in its operational performance

Expecting more contracts to come



Sources: Company, Valbury Sekuritas

Coal Industry

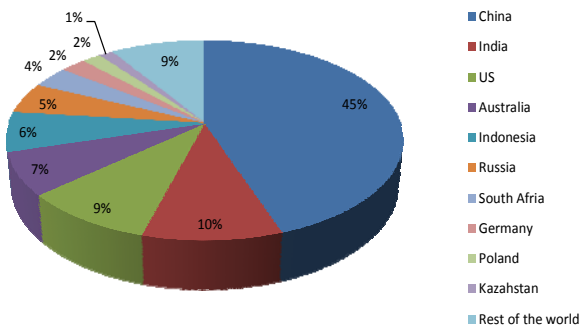
As of 2018, coal's contribution to world's energy mix stood at 25% or the second largest after oil with 31%. We believe that the coal prices' downtrend is due to oversupplied market stemming from soft consumption coupled with bearish sentiment on the back of ongoing US-China trade war.

On the demand side, China, as the world's top coal consumer with over 50% of share, has shown signs of decelerating with its GDP down from 6.4% YoY in 2Q18 to only 6.2% YoY 2Q19, or lower than forecasts of 6.x% YoY. On the other hand, the moderating economy has driven Chinese government to reduce its coal imports to support domestic producers, sending the coal prices on a downward spiral. China has decided to cap its total coal consumption in 2019 at the same level as last year of 281.23mn tons. Based on Newcastle benchmark for 6,000kcal, the current coal price stands at USD63.95/MT as of 5 September 2019, or fell by 44.03% YoY. While we think that Chinese's economy slowing down is partly a result of the full-blown trade war with the US, the Chinese economy has been excessively expanding for years. Despite its 2018's GDP having been dubbed as the slowest in 28 years, the added Chinese's GDP of USD1.4tn has in fact exceeded the Australia's total output that worth USD1.32tn in 2017. Therefore, in size perspective, China's economy remains the main engine of the world's economy and especially coal price movement. Furthermore, China has introduced a move to shift its sources of energy mix to renewables, in addition to coal gasification, to diminish air pollution.

Based on CNPC data, China's coal consumption share in energy mix declined from 68.5% in 2012 to 59% in 2018, although the coal consumption still increased by around 3% to 3.82bn tons. In addition, the relatively lower gas price that deemed to be coal's substitution, also add pressure to coal prices. However, we think that the transition to renewable energy as well as gasification could be quite costly and take time. On the other hand, the higher potential demand is likely to come from Vietnam as the biggest beneficiaries from trade war, India, and East Asia over Nuclear energy concern. Furthermore, the uncertainty over trade war with the US also forces China to introduce more fiscal stimulus, particularly by boosting spending on infrastructure that is likely to boost coal consumption, particularly coking coal. Moreover, coal has been the most affordable energy source, therefore

Market oversupply coupled with full-blown trade war between US- China add risk to coal price.

Top coal producers



Top coal importers

MT

China	247
India	199
Japan	189
South Korea	134
Chinese Taipei	66
Germany	53
Turkey	36
Malaysia	29
Thailand	23
Brazil	20
Others	215

Source: 2016, International Energy Agency (IEA), Valbury Sekuritas

On the supply side, China, which also the biggest coal producers, is seemed to ramp up productions as the NEA (National Energy Administration) has approved new mines in Inner Mongolia, Xinjiang, Shanxi and Shaanxi provinces. On the other hand, Indonesia's coal production is forecasted to decline from 2018 realization of 557mn tons to 489mn tons, while its domestic consumption remains strong on the back of its mega electricity project. Meanwhile, Australia's coal output is seen to be steady compared to last year, as most of producers are locked-in contracts.

FINANCIAL OVERVIEW

HIGHLIGHT FINANCIAL

Quarterly (US\$000)	9M2018	9M2019	YoY Change	2Q2019	3Q2019	QoQ Change
Revenue	188,868	237,927	26.0%	63,456	108,351	70.8%
- Cost of Revenue	182,261	220,607	21.0%	57,723	99,873	73.0%
Gross Profit	6,607	17,320	162.2%	5,733	8,478	47.9%
Gross Margin (%)	3.5%	7.3%	3.8%	9.0%	7.8%	-1.2%
- Operating Expenses	1,759	10,160	43.8%	4,941	4,088	-98.8%
Operating Profit	4,848	7,160	47.7%	793	4,390	453.8%
Operating Margin (%)	2.6%	3.0%	0.4%	1.2%	4.1%	2.8%
EBITDA	23,490	28,750	53.6%	5,930	15,230	97.3%
EBITDA Margin (%)	12.4%	12.1%	2.1%	9.3%	14.1%	0.0%
Non-Operating Income (Losses)	2,848	3,820	34.1%	793	4,390	453.8%
Pretax Income	2,000	3,340	67.0%	-1,355	4,422	-426.3%
- Income Tax Expense (Benefit)	1,166	2,142	83.6%	487	1,650	238.8%
Profit for This Year	834	1,198	43.7%	-1,842	2,772	-250.5%
Income Before XO Items	834	1,198	43.7%	-1,842	2,772	-250.5%
- Minority	8	6	-20.2%	3	1	-55.6%
Net Profit (Losses)	826	1,192	44.3%	-1,845	2,771	-250.2%
Profit Margin (%)	0.4%	0.5%	0.1%	-2.9%	2.6%	5.5%

Sources : Company, Bloomberg and Valbury Sekuritas Indonesia

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