

19 SEPTEMBER 2019

SECTORAL UPDATE

OVERWEIGHT

STOCK INFORMATION – VALE INDONESIA

Bloomberg Code	INCO JJ
Current Price	Rp 3,740
Target Price	Rp 4,500
Upside/Downside	20.3%
Recommendation	BUY
Share Out (bn shares)	9.94
Market Cap (Rpbn)	36.566
52 – w range (low-high)	Rp 2,410– Rp 4,310
52 – w average daily	Rp 3,365

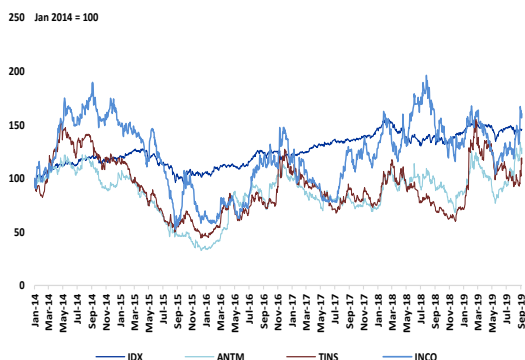
STOCK INFORMATION – ANEKA TAMBANG

Bloomberg Code	ANTM JJ
Current Price	Rp 1,065
Target Price	Rp 1,300
Upside/Downside	22.1%
Recommendation	BUY
Share Out (bn shares)	24.03
Market Cap (Rpbn)	25.713
52 – w range (low-high)	Rp 595– Rp 1,175
52 – w average daily	Rp 885

STOCK INFORMATION – TIMAH

Bloomberg Code	TINS JJ
Current Price	Rp 1,120
Target Price	Rp 1,775
Upside/Downside	58.5%
Recommendation	BUY
Share Out (bn shares)	7.45
Market Cap (Rpbn)	8.86
52 – w range (low-high)	Rp 605 – Rp 1.645
52 – w average daily	Rp 1,125

PRICE CHART



Source: Bloomberg

METAL MINING SECTOR

KEEP CALM AND BUY BLACK BEAUTY

Nickel: the best performer in base metal commodities

YTD 2019, nickel price soared by 67% to US\$ 17,900/tonnes (vs US\$ 10,079/ton), as a result of ban nickel ore. Indonesia government has confirmed to impose a ban on nickel ore export to the end of December 2019, sooner than expected. We see this bring another supply disruption for nickel market in 2020. Nickel market has been faced with a consistent supply deficit over the preceding year (Augst'19 Nickel LME deficit -56,000 tonnes). We see, Philippines and Indonesia remain the key to supply constraint. From Philippines, we expect supply disruption will likely continue. The government has indicated to conduct 6-monthly reviews, and we believe exports will be restricted below 18 Mt. We forecast total nickel supply of 2,172kt for 2019. Hence, the market deficit should easily be more than 80kt in 2020F.

Nickel: demand growing thanks to EV boom

Demand for automotive EV battery will surely to increase sooner rather than later. Nickel is becoming a strategic metal for the battery supply chain, while the market currently accounts for 750kt in 2018 (vs 111kt in 2013). Meanwhile, with the introduction of electric vehicle in Indonesia, we forecast EV batteries demand on nickel to rise to 95kt in 2020 and 240kt in 2025 (from only 44kt in 2018). This will become the key catalyst for the sector and believe this is just the beginning of an exciting story of nickel and booming future. At the moment, we estimate global nickel price averaging at US\$ 17,000/ton in 2020 (+17,4% YoY).

Tin: supply remain constrained in 2020

Just like the other base metals, tin price has been overshadowed by concerns from supply tightness. The global tin supply will remain tight as the lower ore production from Indonesia and Myanmar. Indonesia has banned any trading of tin ingots from illegal mines since last year. The impact is clearly seen on the fall of tin shipments in 2018 (-3% YoY to 75,678 tons). With the new law enforcement and stricter regulations, we expect tin mining activities to remain strictly monitored, thus, the tin shipment may fall to 72,000 in 2019 (-7% YoY) and 70,000 in 2020 (-3% YoY). From Myanmar, supply tightness is likely to show material impact in 2020. We estimate Myanmar's ore stockpile to be depleted by the end of 2019 as the country shifts from open-pit to underground mining.

Tin: LME tin inventory on a decline, averaging tin price at US\$22,000/ton

The London Metal Exchange (LME) tin inventory is currently at historical low for the past 10 years, or below 10,000 tonnes. Following Indonesia's revised tin export rules in 2018, LME'S refined inventories have dropped significantly. Given the slow recovery in Indonesia exports, tin global market could be tighter than what the fundamentals suggest. We expect global tin price remain elevated in 2019, as a global supply remains an issue. We estimate global tin price averaging at US\$ 22,000/ton +9% YoY in 2020F.

Overweight Rating

We remain confident with our overweight call on the sector metal mining. Maintain BUY and TPs for INCO Rp 4,500/share (20.3% upside), ANTM Rp 1,300 /share (22.1% upside), and TINS Rp 1,775/share (58.5% upside).

Key Risk: 1) Changes in government policies; 2) Higher than expected production 3) Significant drop in base metal prices.

Valuation Comparables

Base Metal	MarCap (Rp Bn)	Rating	PE (x)		PBV (x)		EV/EBITDA (x)	
			2019F	2020F	2019F	2020F	2019F	2020F
INCO	36.566	BUY	54.23	26.45	1.33	1.26	7.16	5.84
ANTM	25.713	BUY	19.88	18.04	1.22	1.14	0.65	0.63
TINS	8.86	BUY	8.14	7.15	1.14	1.03	6.43	5.69
Average*			27.42	17.21	1.23	1.14	4.75	4.05

*as of closing price 18th Sept

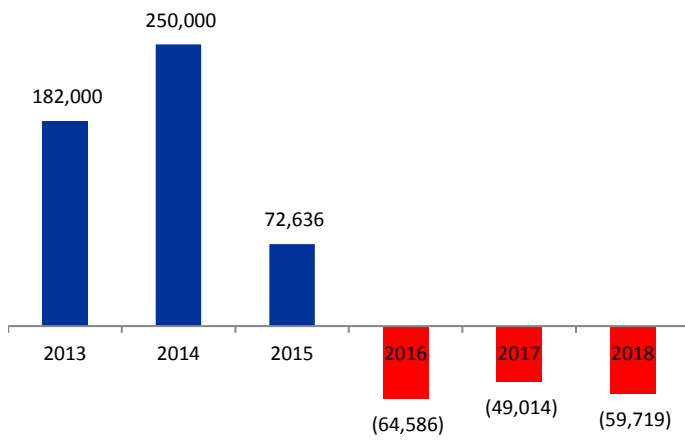
Source: Lotus Andalan Research

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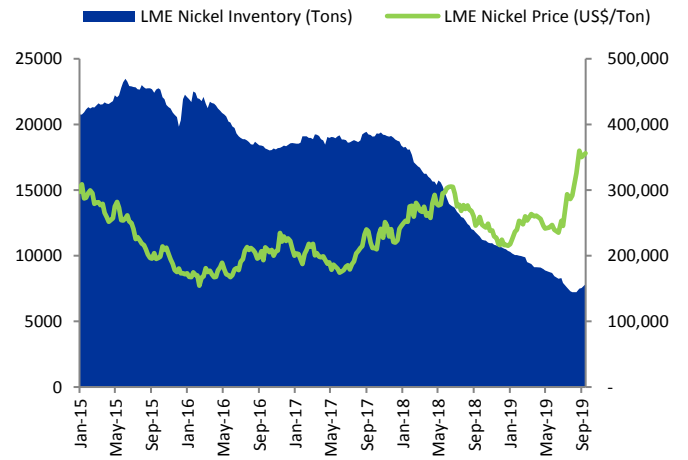
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LME Nickel Deficit (US\$/ Tonne)



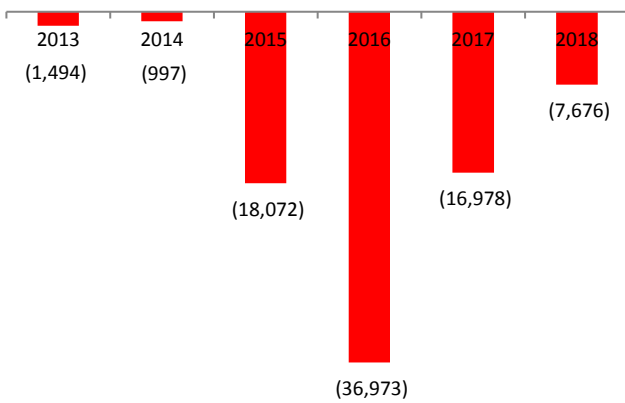
Source: Company data and Lotus Andalan Research

LME Nickel price and inventory



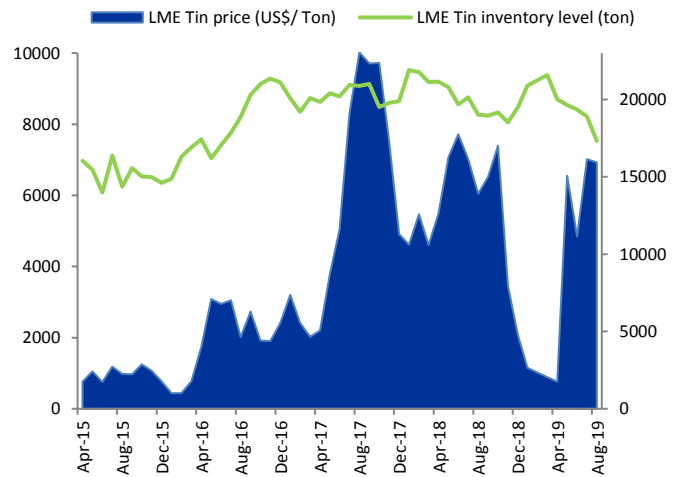
Source: Company data and Lotus Andalan Research

LME Tin Deficit (US\$/ Tonne)



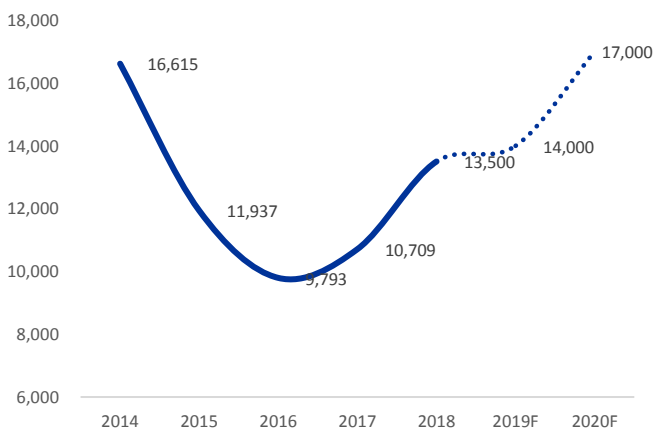
Source: Company data and Lotus Andalan Research

LME tin price and inventory



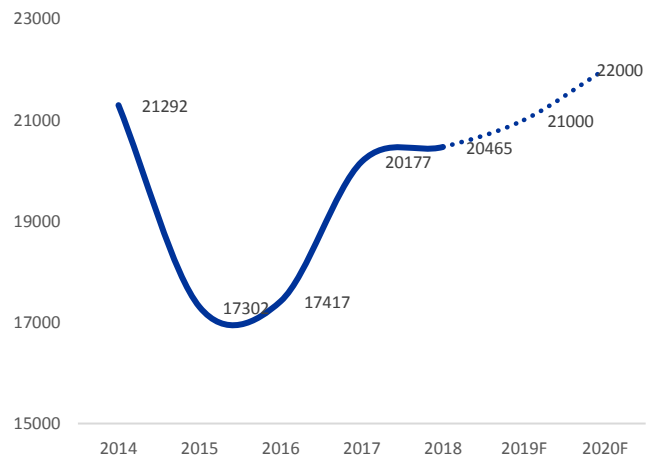
Source: Company data and Lotus Andalan Research

Nickel Price Forecast



Source: Company data and Lotus Andalan Research

TIN Price Forecast



Source: Company data and Lotus Andalan Research

19 SEPTEMBER 2019

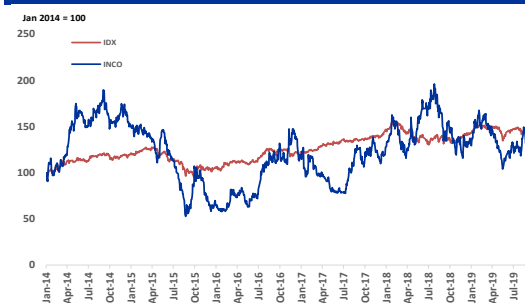
INITIATE COVERAGE

BUY

STOCK INFORMATION

Bloomberg Code	INCO IJ
Sector	Metal Mining
Current Price	Rp 3,740
Target Price	Rp 4,500
Upside/Downside	20.3%
Share Out (bn shares)	9.94
Market Cap (Rp bn)	36.566
52 – w range (low-high)	Rp 2,410– Rp 4,310
Average daily turnover (Rp bn)	
1 month	Rp 115.9
3 month	RP 85.1
YTD 2019	Rp 61.2

PRICE CHART



Source: Bloomberg

SHAREHOLDERS INFORMATION, AS OF 30 JUNE 2019

VCL	58.73%
Sumitomo Metal Mining	20.09%
Public	20.49%
Vale Japan Limited	0.55%
Sumitomo Corporation	0.14%

Source: Company data

FORWARD PER BAND



Source: Bloomberg and Lotus Andalan Research

PT VALE INDONESIA Tbk

Groovy metal

We believe INCO's financial performance will improve on the back solid global nickel price due to the decline in global nickel supply. Based on our sensitivity analysis INCO FY20's net profit will increase +23% for each +1% increase in nickel price and vice versa. Hence, we initiate INCO coverage with a BUY recommendation and a fair value at Rp 4,500/ share implies 31.8x PER and 1.5x PBV 2020F target.

Every +1% increase to ASP translates to +23% net profit

INCO's performance has strongly correlated with nickel price, we optimistic INCO will book a significant turnaround profit in 2020F. The average nickel price is currently at the level of US\$ 17,900/ ton +67% YTD. We estimate LME nickel price to average in 2019F and 2020F at US\$ 14,500/ton (+3,7% YoY) and US\$ 17,000/ton (+21% YoY), respectively. Despite the contrast nickel supply, we are confident in nickel industry's in long term outlook, hence the price. Based on our sensitivity analysis, INCO FY20's net profit will increase +23% for each 1% increase in nickel prices.

The nickel production has return to normal

After the incident in electronic furnace system in 1Q19, INCO's stated that production has now normalised without any additional major maintenance activities in 2Q19. The incident in electric furnace required two weeks shut down for maintenance. As of 2Q19, INCO's production came in at 17,631 metric tons (+35% QoQ). We estimate full year production to reach 70,000 metric tons of nickel in matte this year (-3% YoY).

Lower cash cost thanks to lower commodities price

We notice that INCO's HSFO usage decreased to 600,500 barrel in 2Q19 (-23.7% YoY) after maintenance activities back to normal in 1Q19. Moreover, as fuel represents around 30% of INCO's total COGS, we lowered our cash cost estimates in 2020F by 12.5% to US\$5,587/ton due to a recent drop in global coal and oil benchmark price. We assume coal price of US\$ 80/ton and Brent oil price of US\$60/bbl in 2020F.

Initiate coverage with BUY rating – fair value at Rp 4,500/share

We obtain the fair value of INCO at Rp 4,500 per share implies 2020F PER target of 31.8x and 2020F EV/EBITDA target of 8.6x which was calculated by DCF methodology and WACC assumption of 10.6%. Based on yesterday's closing price, the stock is trading at 26.5 PER 2020F and 7.2x EV/EBITDA 2020F, respectively, while our fair value offers 20.3% upside potential. Hence, we initiate INCO coverage with a BUY recommendation.

Key Risk: 1) the future supply/demand dynamics; 2) lower than expected nickel price; 3) changes in government policies.

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	629	777	721	863	905
EBITDA	121	187	184	301	338
Net profit	(15)	61	47	97	114
EPS (Rp)	(21)	87	67	140	166
PER (x)	(181.85)	43.14	54.23	26.45	22.39
PBV (x)	1.52	1.35	1.33	1.26	1.19
EV/EBITDA (x)	21.77	12.56	12.29	7.16	5.84
Dividend yield (%)	0.00	(0.00)	0.00	0.00	0.00
RoE (%)	(0.84)	3.27	2.48	4.89	5.48

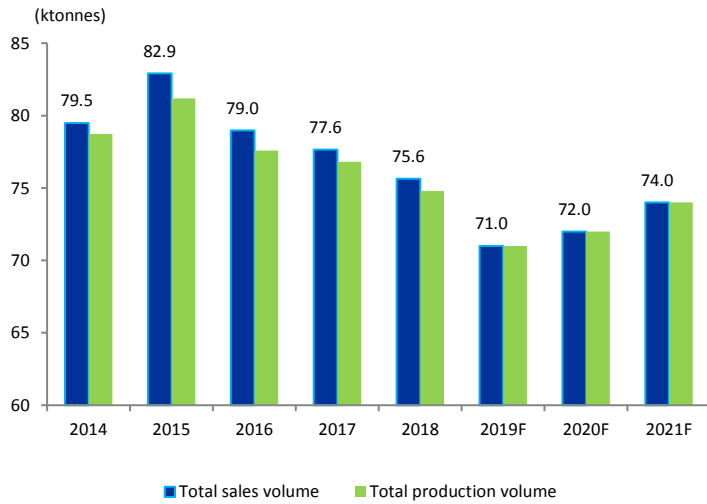
Source: Company data and Lotus Andalan Research

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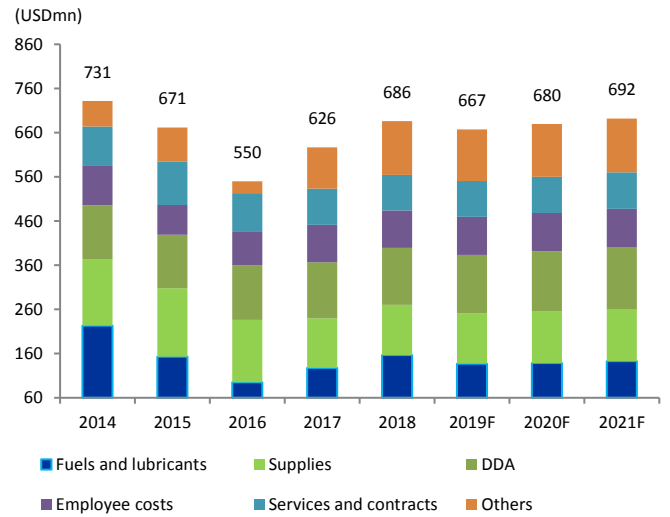
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Cash cost/ton and ASP



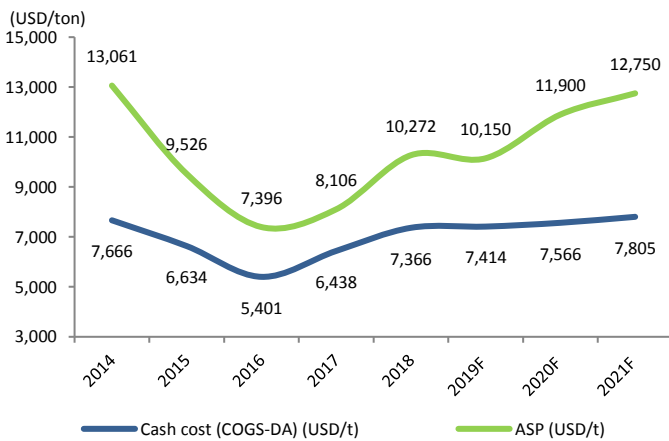
Source: Company data and Lotus Andalan Research

INCO COGS



Source: Company data and Lotus Andalan Research

Margin performance



Source: Company data and Lotus Andalan Research

Sensitivity Analysis

Revenue sensitivity to nickel price (FY 20)		
Nickel Price (USD/mt)	Net Profit (USD/mn)	% Change to net profit
19,000	141	45%
18,000	119	23%
17,000	97	0%
16,000	79	23%
15,000	67	45%

Source: Company data and Lotus Andalan Research

Financial Highlights of PT Vale Indonesia Tbk

In Rp Billion									
BALANCE SHEET	2017A	2018A	2019F	2020F	INCOME STATEMENT	2017A	2018A	2019F	2020F
ASSETS									
Cash & cash equivalents	222	301	340	449	Revenue	629	777	721	863
Accounts receivable	166	124	118	142	COGS	623	673	651	724
Inventories - net	118	132	134	149	Gross profit	7	104	70	139
Other current assets	92	74	41	79	Operating expenses	11	12	11	13
Total current assets	597	631	633	819	Operating profit	(5)	92	59	126
Fixed assets	1,494	1,435	1,475	1,430	EBITDA	121	187	184	301
Other non current assets	94	137	137	137	Interest income	3	5	5	6
Total Non current assets	1,588	1,571	1,612	1,567	Interest expense	(8)	(7)	(2)	(2)
TOTAL ASSETS	2,185	2,202	2,245	2,386	Other income (expenses)	(13)	(8)	0	(1)
LIABILITIES & EQUITY					Total other income/(expenses)	(18)	(10)	4	3
Short term bank loan	37	37	9	-	Income before tax	(23)	83	63	129
Accounts payable	61	91	80	89	Tax expense	(8)	22	16	32
Current maturities - bank loan	15	26	20	43	Net profit before minority interest	(15)	61	47	97
Other payables	17	22	12	7	Minority interest	-	-	-	-
Total Current Liabilities	129	175	121	140	Net profit	(15)	61	47	97
Bank loan	200	143	169	169	EPS (Rp)	(21)	87	67	140
Other LTD	36	0	25	44					
Total Non Current Liabilities	236	143	193	213	KEY FINANCIAL RATIOS	2017A	2018A	2019F	2020F
Additional PIC	278	278	278	278	Growth (%)				
Capital stock	136	136	136	136	Revenue	7.7	23.4	(7.2)	19.8
RE	1,405	1,470	1,517	1,614	Gross profit	(80.8)	1,486.8	(32.7)	98.6
Total Equity	1,819	1,884	1,931	2,033	Operating Profit	na	na	(35.9)	112.9
TOTAL LIABILITIES & EQUITY	2,185	2,202	2,245	2,386	EBITDA	(15.9)	54.8	(1.8)	64.3
					Net Profit	na	na	(21.9)	105.0
CASH FLOW STATEMENT	2017A	2018A	2019F	2020F	Profitability (%)				
Net profit	(15)	61	47	97	Gross margin	1.0	13.4	9.7	16.1
Depreciation & Amortization	125	94	124	175	Operating margin	(0.8)	11.9	8.2	14.6
Change in WC	49	35	2	(53)	EBITDA margin	19.2	24.1	25.5	34.9
Others	-	-	(0)	-	Net Profit margin	(2.4)	7.8	6.6	11.2
Net Operating Cash Flow	160	190	174	219	ROAA	(0.7)	2.8	2.1	4.2
Change in fixed assets - net	(87)	(35)	(165)	(130)	ROAE	(0.8)	3.3	2.5	4.9
Others	(0)	(43)	-	-	Solvency (x)				
Net Investing Cash Flow	(87)	(78)	(165)	(130)	Current ratio	4.6	3.6	5.3	5.9
Change in borrowings - net	(37)	(36)	25	20	Interest coverage	(0.6)	13.6	33.9	65.0
Dividend payment	-	-	-	-	Net debt to EBITDA	(1.2)	(1.4)	(1.7)	(1.3)
Adjustment	-	3	5	-	Net debt to equity	(8.2)	(14.0)	(15.9)	(19.9)
Net Financing Cash Flow	(37)	(33)	30	20					
Change in cash	36	79	39	109					
Cash at the beginning period	186	222	301	340					
Cash at the ending period	222	301	340	449					

Source: Company data and Lotus Andalan Research

Notes:

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **Neutral** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

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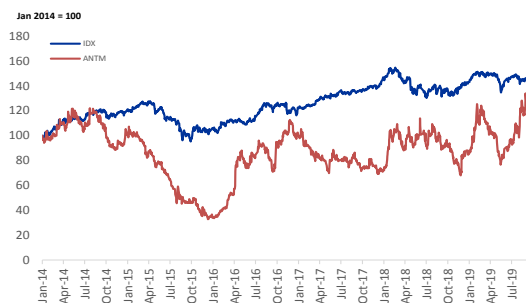
INITIATE COVERAGE

BUY

STOCK INFORMATION

Bloomberg Code	ANTM JJ
Sector	Metal Mining
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Target Price	Rp 1,300
Upside/Downside	22.1%
Share Out (bn shares)	24.03
Market Cap (Rp bn)	25.713
52 – w range (low-high)	Rp 595– Rp 1,175
Average daily turnover (Rp bn)	
1 month	Rp 140.6
3 month	Rp 131.4
YTD 2019	Rp 105.3

PRICE CHART



Source: Bloomberg

SHAREHOLDERS INFORMATION, AS OF 30 MARCH 2019

INALUM	65%
Public	35%

Source: Company data

FORWARD PER BAND



Source: Bloomberg and Lotus Andalan Research

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PT ANEKA TAMBANG TBK

The hit of opportunity

ANTM will be able to achieve sustainable growth on the back of: (1) Support from Indonesia's government, (2) potential additions from nickel segment, and (3) the cultivation of the bauxite segment as long-term driver. We estimate the company's 2019F – 2020F net profit will surge +47.2% and +10.3% YoY to Rp 1.28 trillion and Rp 1.41 trillion, respectively. We initiate ANTM coverage with a BUY rating at a target fair value of Rp 1,300/share (+22.1% upside potential). ANTM is currently trading at 19.9x and 18.1x of PER in 2019F and 2020F.

Potential additions from nickel segment

Given the ban, ANTM will lose the export market for ore nickel with low grade around 3,7 mn tonnes or ~7% of total revenue. However, it will be compensated by higher average selling price from Ferronickel (FeNi) revenue. We are positive on ANTM's nickel segment, with a solid performance going forward following the completion of Pomalaa expansion project (P3FP). This will ramp up ANTM'S capacity by +66% YoY to 40k tonnes per annum with sales of 31k tonnes in 2019, rising gradually in the following year. We estimate the revenue to increase by 10.3% YoY to Rp 1.4 trillion with net margin of approx. 4.7% YoY in 2020F.

Gold still shines

In the last few weeks, gold bar has been gaining attention, as prices have increased quite significantly (Ytd +17.8% to US\$ 1,523 /oz), partly due to investors seeking more stable investment given a prolonged US – China trade tension. This prove positive to ANTM, as gold contributes 71% to total revenue. Although ANTM's gold mostly obtained via trading, we believe the high gold price still benefits ANTM from higher sales volume. We forecast our gold sales volume to increase by 15.45% YoY. ANTM has also expanded their gold market into India, UEA and Malaysia to expand market penetration and we believe company will continue to be innovate after successes with batik-themed and Hello Kitty products.

Focused on bauxite segment as long term driver

After completing the acquisition of ICA from Showa Denko, the CGA Tayan is scheduled to commence operation in 4Q19. We forecast ANTM bauxite ore production to resume, reaching around 107k tons with the same of total sales. Meanwhile, to increase its capacity, ANTM will build Smelter Grade Alumina Refinery (SGAR) in Mempawah, which is targeted to operate in 2020. SGAR's project potentially produce 1 mn tonnes alumina per annum and can be a raw material to produce 500k ton alluminium. This could remove the dependency of imports alumina and potentially increase bauxite production in 2020F to 3 million wmt (+150 % YoY).

Initiate coverage with BUY rating – fair value at Rp 1,300/share

Based on DCF methodology and a WACC assumption of 9.5%, we derive the company's fair value at Rp 1,300 per share which is implying 2020F PER target of 22.1x and 2020F EV/EBITDA target of 7.6x. Recently, the stock was trading at 19.8x PER 2020F and 6.3x EV/EBITDA 2020F while our fair value indicates upside potential of 22.1%. Therefore, we initiate ANTM coverage with BUY rating on the counter.

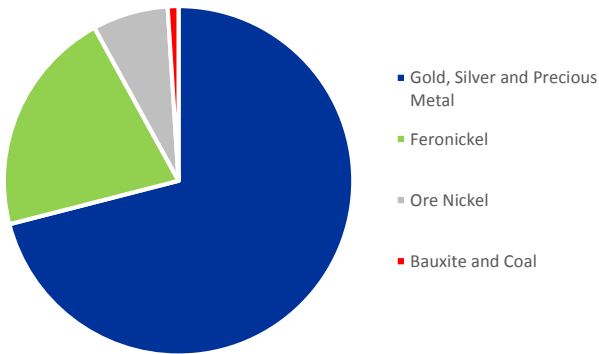
Key risks: 1) Significant drop in nickel and gold prices; 2) lower than expected ferronickel and gold sales volume; 3) changes in government policies.

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	12,654	25,242	28,840	30,301	32,393
EBITDA	1,374	2,557	3,125	3,351	7,121
Net profit	137	874	1,287	1,419	4,034
EPS (Rp)	6	36	54	59	168
PER (x)	187.48	29.27	19.88	18.04	6.34
PBV (x)	1.38	1.30	1.22	1.14	0.97
EV/EBITDA (x)	7.34	6.61	6.52	6.26	5.63
RoE (%)	0.74	4.43	6.12	6.32	15.24

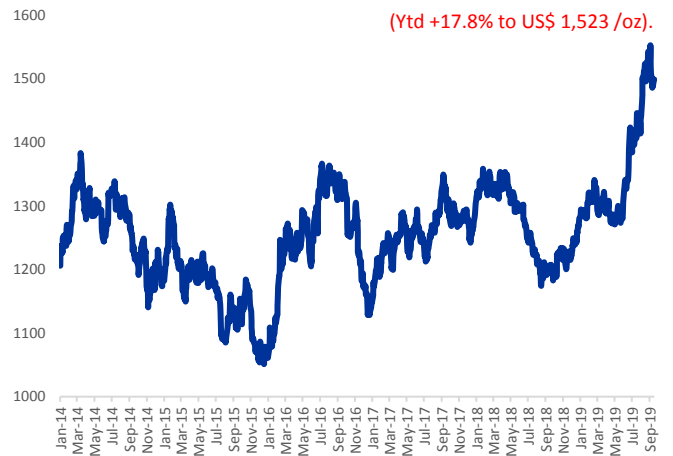
Source: Company data and Lotus Andalan Research

ANTM Sales breakdown



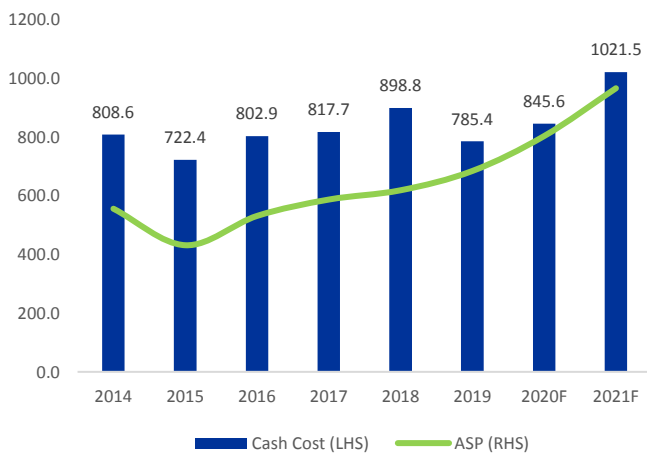
Source: Company data and Lotus Andalan Research

Gold Price (US\$/Troy oz)



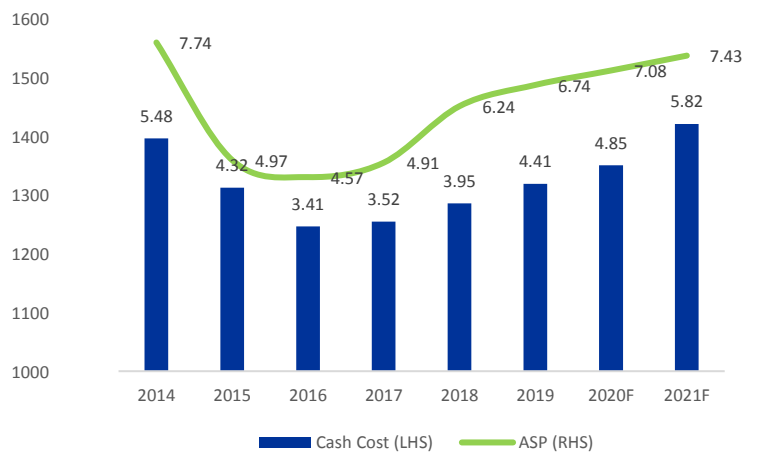
Source: Company data and Lotus Andalan Research

Gold Cash Cost and ASP (US\$/ Troy oz)



Source: Company data and Lotus Andalan Research

Feronickel Cash Cost and ASP (US\$/lb)



Source: Company data and Lotus Andalan Research

Financial Highlights of PT Aneka Tambang Tbk

In Rp Billion									
BALANCE SHEET					INCOME STATEMENT				
	2017A	2018A	2019F	2020F		2017A	2018A	2019F	2020F
ASSETS									
Cash & cash equivalents	5,551	4,299	4,206	5,199	Revenue	12,654	25,242	28,840	30,301
Accounts receivable	1,377	975	1,114	1,170	COGS	11,010	21,765	24,816	25,980
Inventories - net	1,258	2,028	1,865	2,050	Gross profit	1,644	3,477	4,024	4,321
Other current assets	816	1,197	1,367	1,231	Operating expenses	1,043	1,624	2,019	2,121
Total current assets	9,002	8,498	8,552	9,650	Operating profit	601	1,853	2,005	2,200
Fixed assets	15,692	21,667	22,047	22,396	EBITDA	1,374	2,557	3,125	3,351
Other non current assets	5,320	3,141	3,588	3,770	Interest income	260	164	194	168
Total Non current assets	21,012	24,808	25,636	26,166	Interest expense	348	554	336	314
TOTAL ASSETS	30,014	33,306	34,187	35,816	Other income (expenses)	(55)	(307)	-	-
LIABILITIES & EQUITY					Total other income/(expenses)	(143)	(697)	(142)	(146)
Short term bank loan	4,101	3,773	4,311	4,530	Income before tax	454	1,266	1,863	2,054
Accounts payable	1,291	1,158	1,880	2,067	Tax expense	318	391	576	635
Current maturities - bank loan	-	-	-	-	Net profit before minority interest	137	874	1,287	1,419
Other payables	161	580	663	696	Minority interest	(0)	0	0	0
Total Current Liabilities	5,552	5,511	6,854	7,293	Net profit	137	874	1,287	1,419
Bank loan	5,298	7,348	5,032	4,599	EPS (Rp)	6	36	54	59
Other LTD	674	708	809	850	KEY FINANCIAL RATIOS				
Total Non Current Liabilities	5,971	8,055	5,840	5,449	Growth (%)				
Capital Stock & APIC	6,338	6,338	6,338	6,338	Sales	39.0	99.5	14.3	5.1
RE	9,766	10,591	12,344	13,926	Gross profit	93.0	111.5	15.7	7.4
other	2,387	2,810	2,810	2,810	Operating Profit	72.6	208.5	8.2	9.7
Total Equity	18,490	19,739	21,492	23,074	EBITDA	122.2	86.1	22.2	7.2
TOTAL LIABILITIES & EQUITY	30,014	33,306	34,187	35,816	Net Profit	110.7	540.6	47.2	10.2
CASH FLOW STATEMENT					Profitability (%)				
Net Income	137	874	1,753	1,581	Gross margin	13.0	13.8	14.0	14.3
Depreciation & Amortization	773	704	1,120	1,151	Operating margin	4.7	7.3	7.0	7.3
Change in WC	(46)	(500)	746	(55)	EBITDA margin	10.9	10.1	10.8	11.1
Others	688	797	(88)	170	Net Profit margin	1.1	3.5	4.5	4.7
Net Operating Cash Flow	1,551	1,875	3,532	2,848	ROA	0.5	2.6	3.8	4.0
Capital Expenditure	(1,854)	(6,679)	(1,500)	(1,500)	ROE	0.7	4.4	6.1	6.3
Others	(1,209)	4,085	(448)	(182)	Solvency (x)				
Net Investing Cash Flow	(3,063)	(2,594)	(1,948)	(1,682)	Current ratio (x)	1.1	1.3	1.2	1.1
Change in borrowings - net	(506)	1,722	(1,778)	(214)	Net debt to equity (x)	0.6	0.4	0.4	0.4
Dividend payment	-	-	-	-	Net debt to EBITDA (x)	6.8	4.3	2.5	2.6
Adjustment	(63)	(2,342)	101	41	Interest coverage (x)	1.7	3.3	8.0	7.7
Net Financing Cash Flow	(568)	(620)	(1,677)	(173)	Change in cash				
Change in cash	(2,073)	(1,252)	(93)	993					
Cash at the beginning period	7,623	5,551	4,299	4,206	Cash at the beginning period				
Cash at the ending period	5,551	4,299	4,206	5,199	Cash at the ending period				

Source: Company data and Lotus Andalan Research

Notes:

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **Neutral** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

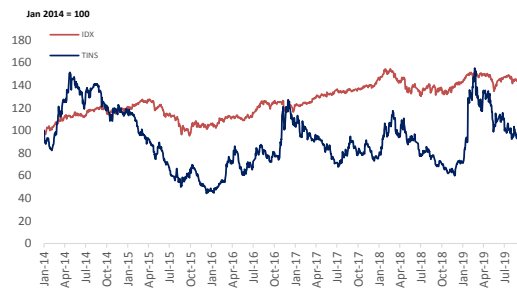
INITIATE COVERAGE

BUY

STOCK INFORMATION

Bloomberg Code	TINS JJ
Sector	Metal Mining
Current Price	Rp 1,120
Target Price	Rp 1,775
Upside/Downside	58.5%
Share Out (bn shares)	7.45
Market Cap (Rp bn)	8.863
52 – w range (low-high)	Rp 605 – Rp 1.645
Average daily turnover (Rp bn)	
1 month	RP 84.7
3 month	RP 50.8
YTD 2019	RP 55.4

PRICE CHART



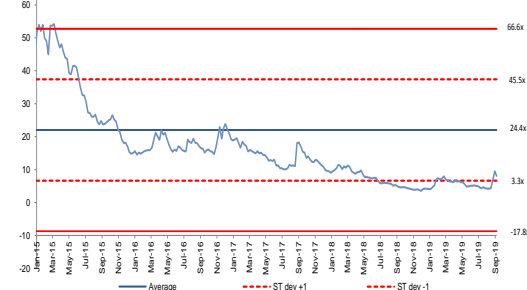
Source: Bloomberg

SHAREHOLDERS INFORMATION, AS OF 30 MARCH 2019

INALUM	65%
Public	35%

Source: Company data

FORWARD PER BAND



Source: Bloomberg and Lotus Andalan Research

PT TIMAH Tbk

No longer a boring metal

TINS is the largest state-owned tin producer in the world, account for 30,200 metric tonnes (MT) ton per annum in 2018. TINS should benefit from government decision amid a global crackdown on illegal mining. Recently, the share price increased by 51% YTD 2019 and still trading below its 5-years average fwd PER band of 24.4x. We initiate a BUY call for TINS with TP IDR 1,775 as its earnings to accelerate in 2020

Benefitting from Illegal mining regulations

TINS accounted for 40% of national production and account for more than 92% of Indonesia's total tin mining areas. We believe the Government is committed to eliminating illegal businesses, as proven by the recent clampdown on un-authorized mining. TINS should benefit the most, and will eventually dominate both the tin ore and refined tin product markets. We expect the company's refined tin production and sales volume to increase 80% and 78% YoY this year as a result of the crackdown.

Higher production and sales volume, earnings jump to +13.8% YoY in 2020F

Based our sensitivity analysis, every +7% increase in ASP should positively impact TINS' earnings by 15.6% in 2020F. We forecast 2020F earnings to surge by +13.8% YoY to IDR 1.16tn. Going forward, we expect strong tin price momentum to continue and led us to anticipate 13.2% earnings CAGR between 2019-2024F.

TINS 2020F guidance

Based on our latest discussion with management, TINS continuously looking for new offshore resources to increase the company's reserves. TINS plans to increase its production capacity to 5,500-6,000 tonnes per month from current 5,000 tonnes. The increase capacity will be met by reserves (offshore exploration) outside Bangka Belitung. To reduce production costs, TINS will implement a fuming plant and Ausmelt, a new technology expected to be operational by 2020. On a separate note, we also foresee the company's property business to provide contribution, as its project in outer Jakarta will commence in 2021F.

Initiate coverage with BUY rating

We initiate TINS with a BUY rating based on target price of IDR 1,775/share. Recently, the share price has increased by 51% YTD 2019 but still trading below its 5-years average fwd PER band of 24.4x.

Key risks: 1) regulatory risks, especially from higher royalty rates, 2) higher than-expected production especially from Myanmar, 3) significant drop in tin prices;

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	9,217.2	11,049.9	15,179.2	16,469.8	17,056.4
EBITDA	1,246.7	1,319.2	2,227.6	2,513.0	2,548.3
Net profit	502.3	531.7	1,024.7	1,166.5	1,159.0
EPS (Rp)	67	71	138	157	156
PER (x)	16.61	15.69	8.14	7.15	7.20
PBV (x)	1.38	1.28	1.14	1.03	0.94
EV/EBITDA (x)	8.56	10.39	6.43	5.69	5.18
Dividend yield (%)	0.90	2.11	2.23	4.30	4.89
RoE (%)	8.57	8.45	14.83	15.14	13.64

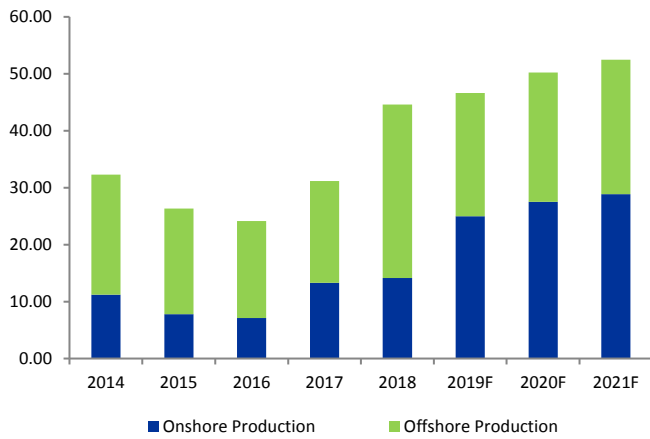
Source: Company data and Lotus Andalan Research

Sharlita L Malik

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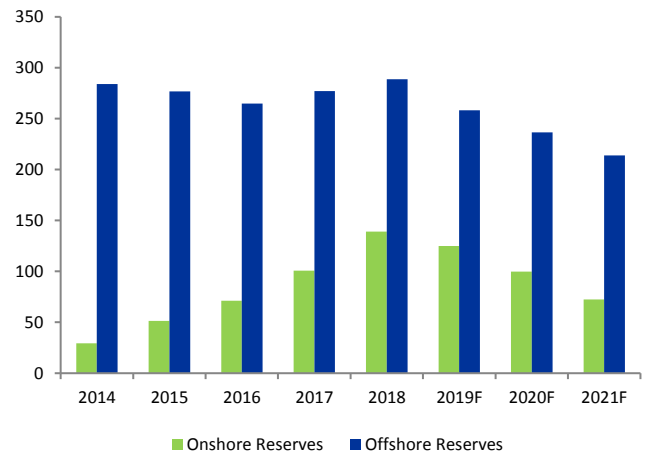
(+62-21) 2395 1000 ext. 2053

TINS Onshore and Offshore Production



Source: Company data and Lotus Andalan Research

TINS Onshore and Offshore Reserve



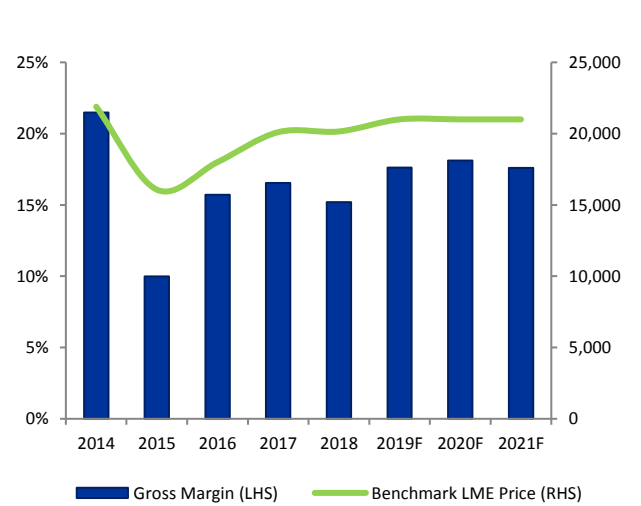
Source: Company data and Lotus Andalan Research

TINS Sales and Benchmark LME Price



Source: Company data and Lotus Andalan Research

Gross Margin and Benchmark LME Price



Source: Company data and Lotus Andalan Research

Financial Highlights of PT TIMAH Tbk

In Rp Billion									
BALANCE SHEET	2017A	2018A	2019F	2020F	INCOME STATEMENT	2017A	2018A	2019F	2020F
ASSETS									
Cash & cash equivalents	1,357	785	389	652	Revenue	9,217	11,050	15,179	16,470
Accounts receivable	1,478	1,974	2,711	2,942	COGS	(7,692)	(9,372)	(12,504)	(13,486)
Inventories - net	2,509	4,262	5,687	6,133	Gross profit	1,526	1,678	2,675	2,984
Other current assets	1,652	2,184	1,793	1,876	Operating expenses	(795)	(931)	(1,062)	(1,152)
Total current assets	6,997	9,204	10,641	11,665	Operating profit	731	747	1,614	1,832
Fixed assets	2,462	3,085	3,057	3,100	EBITDA	1,247	1,319	2,228	2,513
Other non current assets	2,417	2,828	2,722	2,835	Interest income	25	39	23	12
Total Non current assets	4,879	5,914	5,779	5,935	Interest expense	(200)	(305)	(501)	(520)
TOTAL ASSETS	11,876	15,118	16,420	17,600	Other income (expenses)	161	285	288	289
LIABILITIES & EQUITY					Total other income/(expenses)	(15)	20	(189)	(219)
Short term bank loan	2,192	4,644	4,876	5,120	Income before tax	716	767	1,424	1,613
Accounts payable	733	975	1,301	1,403	Tax expense	207	192	356	403
Current maturities - bank loan	-	-	-	-	Net profit before minority interest	502	767	1,424	1,613
Other payables	477	557	557	557	Minority interest	(0)	(0)	(0)	(0)
Total Current Liabilities	3,403	6,176	6,734	7,080	Net profit	502	532	1,025	1,167
Bank loan	1,500	1,500	1,500	1,500	EPS (Rp)	67	71	138	157
Other LTD	912	920	889	907					
Total Non Current Liabilities	2,412	2,420	2,389	2,407					
Capital Stock & APIC	372	373	373	373					
RE	5,819	6,174	7,013	7,821					
other	(130)	(26)	(89)	(81)					
Total Equity	6,061	6,522	7,297	8,113					
TOTAL LIABILITIES & EQUITY	11,876	15,118	16,420	17,600					
CASH FLOW STATEMENT					KEY FINANCIAL RATIOS				
	2017A	2018A	2019F	2020F		2017A	2018A	2019F	2020F
Net profit	502	532	1,025	1,167	Growth (%)				
Depreciation & Amortization	497	562	640	709	Sales	32.3	19.9	37.4	8.5
Change in WC	(785)	(2,007)	(1,836)	(575)	Gross profit	39.3	10.0	59.4	11.5
Others	(298)	(451)	330	(83)	Operating Profit	46.8	2.2	115.9	13.5
Net Operating Cash Flow	(83)	(1,365)	158	1,218	EBITDA	22.1	5.8	68.9	12.8
Change in fixed assets - net	(742)	(1,261)	(687)	(786)	Net Profit	99.2	5.9	92.7	13.8
Others	(324)	(335)	182	(79)	Profitability (%)				
Net Investing Cash Flow	(1,066)	(1,596)	(505)	(865)	Gross margin	16.6	15.2	17.6	18.1
Change in borrowings - net	1,959	2,452	232	244	Operating margin	7.1	14.8	14.6	14.9
Dividend payment	(75)	(176)	(186)	(358)	EBITDA margin	13.5	11.9	14.7	15.3
Adjustment	59	112	(94)	26	Net Profit margin	5.4	4.8	6.8	7.1
Net Financing Cash Flow	1,943	2,388	(48)	(89)	ROA	4.7	3.9	6.5	6.9
Change in cash	794	(573)	(396)	264	ROE	8.6	8.5	14.8	15.1
Cash at the beginning period	564	1,357	785	389	Solvency (x)				
Cash at the ending period	1,357	785	389	652	Current ratio	2.1	1.5	1.6	1.6
					DER	0.4	0.8	0.8	0.7
					Interest coverage	3.6	2.5	3.2	3.5
					Net debt to equity	0.6	0.9	0.9	0.8
						32.3	19.9	37.4	8.5

Source: Company data and Lotus Andalan Research

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