

6 SEPTEMBER 2018

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	INDY IJ
Sector	Integrated Energy
Current Price	Rp 2,810
Target Price	Rp 4,700
Previous Target Price	Rp 4,910
Upside/Downside	67%
Share Out (bn shares)	5.2
Market Cap (Rp bn)	Rp 14,641
52 – w range (low-high)	Rp 1,330 – Rp 4,550
52 – w average daily	Rp 3,279

PRICE CHART



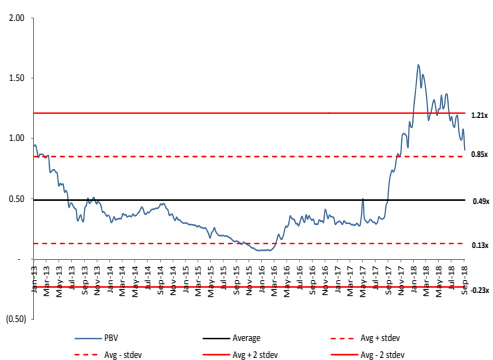
Source: Bloomberg

SHAREHOLDERS INFORMATION, AS OF 30 JUNE 2018

PT Indika Inti Investindo	37.8%
PT Teladan Resources	30.7%
Public (each below 5%)	31.5%

Source: Company data

FORWARD PBV BAND



Source: Bloomberg and Lotus Andalan Research

PT INDIKA ENERGY Tbk

IMPACT OF KIDECO'S CONSOLIDATION SHOWN IN 1H18 RESULT

1H18 revenue soared 3-folds, driven by full year consolidation of Kideco

INDY managed to book a revenue of US\$ 1.45 billion in 1H18 which rocketed by 3-folds (vs US\$ 453 million in 1H17), mainly driven by Kideco's 2018 full year consolidation effect. We note that Kideco's 1H18 revenue increased by 16.1% YoY reached to US\$ 938.8 million (vs US\$ 808.7 million in 1H17) which was translated into 65% contribution to the company's total revenue, on the back of 1) ASP hike of 7.5% YoY (US\$ 54.4/ton in 1H18 vs US\$ 50.6/ton in 1H17) and 2) coal volume sales of 17.3 million tons (+8.0% YoY vs 16 million tons in 1H17) including the recognition of 500k tons of coal volume sales in 1Q18 (came from 4Q17 contract carry over) due to the cut-off date of 31 December 2017. In all, INDY's total revenue came in line with our expectation which covered 52% to 2018F total revenue of US\$ 1.79 billion. Meanwhile, INDY's operational profitability in 1H18 improved significantly as a result of 2018 Kideco's full year consolidation, in which the gross, operating and EBITDA margins soared to the level of 26.1% (vs 12.5% in 1H17); 16.9% (vs 2.4% in 1H17) and 26.2% (vs 15.6% in 1H17), respectively.

However, DMO price regulation slowed 2Q18 performance

On quarterly basis, INDY 2Q18's result came in weaker, but expected, due to the implementation of the new regulation from Ministry of Energy and Mineral Resources on the determination of coal price benchmark for national electricity as stated in Permen ESDM No. 1395K/30/MEM/2018 which set the coal price benchmark for national electricity at US\$ 70/ton started in March 2018. As a result, 2Q18 Kideco's revenue declined by 22.1% to US\$ 411 million (vs US\$ 527.8 million) on the back of 1) ASP declined by 7.6% QoQ to US\$ 52.1 per ton (vs US\$ 56.4 per ton in 1Q18) and 2) declining coal volume sales by 15.7% QoQ from 9.4 million tons to 7.9 million tons. In addition, INDY's subsidiary, Tripatra book lower 2Q18 revenue of US\$ 53.2 million (-11.8% QoQ vs US\$ 60.3 million in 1Q18) due to nearly completion of the ENI Muara Bakau BV project. Hence, the company's total revenue consolidation declined by 21.1% QoQ during the same period from US\$ 809 million in 1Q18 to US\$ 638.2 million in 2Q18, while the net profit shrunk by 69.2% QoQ (US\$ 17.9 million in 2Q18 vs US\$ 58.4 million in 1Q18).

Maintain BUY rating – Fair value at Rp 4,700/share

Currently, the share price has corrected by 38% from its higher price this year and traded at 0.88x 2019F PBV (close to its 5-years average PBV +1 st dev of 0.85x) which translates into attractive valuation compared to the industry of 1.01x 2019F PBV post Kideco's full year consolidation effect this year. Meanwhile, we obtain INDY's fair value at Rp 4,700/share (vs previously at Rp 4,910/share) on the back of 1) the changes of Kideco's valuation methodology from EV/EBITDA multiple to DCF valuation; 2) higher net debt and non-controlling interest ended as of 30 June 2018 and 3) the changes in Rupiah assumption of Rp 14,200 (vs previously at Rp 13,800) following the recent Rupiah depreciation against US\$. Hence, we keep BUY rating on the counter with a 67% potential upside.

**The key catalyst:** 1) recent commodities price hike; 2) government power plant projects of 35,000 MW; 3) Bonded Logistic Centre to support "Tol Laut"; 4) the acceleration of land clearance for strategic projects; and 5) rupiah depreciation will increase INDY fair value.

**The Risk:** 1) Declining in commodities price; 2) delays in infrastructure projects; 3) lacklustre of backlog contract; 4) over supply; 5) the new regulation of coal price benchmark for national electricity and 6) natural disasters.

Financial Summary

(million US\$)	2016A	2017A	2018F	2019F	2020F
Revenue	775	1,099	2,708	2,636	2,520
EBITDA	76	143	646	599	570
Net profit (loss)	(68)	335	145	175	147
EPS (Rp)	(174)	872	396	478	401
PER (x)	NA	3.22	7.09	5.88	7.02
BVPS (Rp)	1,520	2,404	2,807	3,186	3,467
PBV (x)	1.85	1.17	1.00	0.88	0.81
EV/EBITDA (x)	20.53	12.42	3.25	2.79	2.07
Dividend yield (%)	-	-	3.88	3.52	4.25
RoAE (%)	(10.89)	44.31	14.87	15.95	12.04

Source: Company data and Lotus Andalan Research

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## Interim Financial Result - INDY

In million US\$	1H17	1H18	YoY	FY18F	cover	1Q18	2Q18	QoQ	The Comments
<b>Backlog contract</b>									
PTRO	834.4	964.5	15.6%	576.6	167%	1,012.0	964.5	-4.7%	Secured more new contract
MBSS	66.9	114.0	70.4%	75.8	150%	173.0	114.0	-34.1%	Lackluster of backlog contract
Tripatra	690.8	543.1	-21.4%	567.9	96%	549.9	543.1	-1.2%	Solid backlog contract
<b>P/L</b>									
Revenue	453.0	1,447.2	219.5%	2,707.8	53%	809.0	638.2	-21.1%	Inline
- Kideco	-	938.8	N.A	1,797.6	52%	527.8	411.0	-22.1%	Kideco' full year consolidation started in 2018
- Tripatra	149.3	113.5	-24.0%	243.4	47%	60.3	53.2	-11.8%	Inline
- PTRO	108.5	139.8	28.8%	268.3	52%	68.9	70.9	2.9%	Inline
- MBSS	32.7	29.3	-10.4%	62.0	47%	12.6	16.7	32.5%	Inline
- Coal trading & others	162.5	225.8	39.0%	336.5	67%	139.4	86.4	-38.0%	Beat expectation
Cost of revenue	396.6	1,069.5	169.7%	1,999.4	53%	580.2	489.2	-15.7%	
Gross profit	56.5	377.7	569.1%	708.4	53%	228.8	148.9	-34.9%	Inline
Operating Expense	45.8	133.4	191.4%	227.6	59%	66.6	66.8	0.2%	Dominated by amortization cost of Kideco's acquisition
Operating profit	10.7	244.3	2188.6%	480.7	51%	162.2	82.2	-49.3%	Inline
EBITDA	70.6	379.2	437.1%	646.3	59%	227.5	151.7	-33.3%	
Net Profit (Loss)	51.2	76.3	49.0%	145.3	53%	58.4	17.9	-69.2%	Inline
<b>Profitability</b>									
Gross margin	12.5%	26.1%		26.2%		28.3%	23.3%		YoY operational margin improvement driven by Kideco's full year consolidation while 2Q18 profitability declined significantly due to the DMO capping price at US\$ 70 per ton started in March 2018.
EBIT margin	2.4%	16.9%		17.8%		20.0%	12.9%		
EBITDA margin	15.6%	26.2%		23.9%		28.1%	23.8%		
Net margin	11.3%	5.3%		5.4%		7.2%	2.8%		

Source: Company data and Lotus Andalan Research

## Interim Financial Result - KIDECO

Period	1H17	1H18	YoY	FY18F	cover	1Q18	2Q18	QoQ	The Comments
<b>Assumption</b>									
Sales Volume (mln ton)	16.0	17.3	8.0%	34.0	51%	9.4	7.9	-15.7%	Inline
ASP (in US\$/ton)	50.6	54.4	7.5%	52.9	103%	56.4	52.1	-7.6%	2Q18 lower ASP due to DMO capping price at US\$ 70/ton
Cash cost (in US\$/ton)	25.6	29.2	14.3%	29.3	100%	27.6	30.8	11.6%	Due to higher production target
Stripping ratio (x)	5.6	6.1	8.9%	5.9	103%	5.9	6.2	5.1%	Maintain stripping ratio at low level
<b>P/L (in million US\$)</b>									
Revenue	808.7	938.8	16.1%	1,797.6	52%	527.8	411.0	-22.1%	QoQ weaker performance, hit by the implementation of the new regulation from Ministry of Energy and Mineral Resources on the determination of coal price benchmark for national electricity as stated in Permen ESDM No. 1395K/30/MEM/2018 which set the coal price benchmark for national electricity at US\$ 70/ton started in March 18
Cost of revenue	520.8	632.7	21.5%	1,234.4	51%	331.3	301.4	-9.0%	
Gross profit	287.9	306.1	6.3%	563.2	54%	196.5	109.6	-44.2%	
Operating Expense	15.1	20.1	33.1%	46.9	43%	9.7	10.4	7.2%	
Operating profit	272.8	286.0	4.8%	516.3	55%	186.8	99.2	-46.9%	
EBITDA	284.7	303.1	6.5%	549.4	55%	195.0	108.1	-44.6%	
Net Profit	151.5	159.8	5.5%	317.2	50%	103.8	56.0	-46.1%	
<b>Profitability</b>									
Gross margin	35.6%	32.6%		31.3%		37.2%	26.7%		As a result of DMO capping price at US\$ 70/ton, the profitability in 2Q18 declined significantly which was expected.
EBIT margin	33.7%	30.5%		28.7%		35.4%	24.1%		
EBITDA margin	35.2%	32.3%		30.6%		36.9%	26.3%		
Net margin	18.7%	17.0%		17.6%		19.7%	13.6%		

Source: Company data and Lotus Andalan Research

**Sum Of The Part Valuation – INDY**

Subsidiary	Ownership (%)	Enterprise Value	Attributable to INDY	Methodology	Comment
<b>Sum of The Part (in million US\$)</b>					
Kideco Jaya Agung	91.0	2,348.5	2,137.2	DCF	
Tripatra	100.0	102.3	102.3	DCF	
Petrosea Tbk	69.8	261.5	182.5	DCF	
Mitrabahtera Segara Sejati Tbk	51.0	114.1	58.2	DCF	
Cirebon Electric Power	20.0	430.7	86.1	DCF	
Cirebon Electric Prasarana	6.3	2,000.0	125.0	Investment project value	1X1,000 MW power plant located in Cirebon, West Java
<b>Total Enterprise Value</b>			<b>2,691.3</b>		
Less Net debt (cash)			785.2		
Less non-controlling interest			182.2		As of 30 June 2018
<b>Equity Value</b>			<b>1,723.9</b>		
Share outstanding (in million share)			5,210.2		
Fair value - In US\$/share			0.33		
<b>Fair value - Rp/share</b>			<b>4,700.0</b>		
<b>Target Market Ratio (x)</b>					
PER 2019F			9.83		
PBV 2019F			1.47		
EV/EBITDA 2019F			4.49		

Source: Bloomberg and Lotus Andalan Research

## Financial Highlights of PT Indika Energy Tbk

In million US\$									
BALANCE SHEET					INCOME STATEMENT				
	2016A	2017A	2018F	2019F		2016A	2017A	2018F	2019F
<b>ASSETS</b>									
Cash and cash equivalent	308	700	428	859	<b>Total Revenues</b>	<b>775</b>	<b>1,099</b>	<b>2,708</b>	<b>2,636</b>
Accounts Receivable	126	387	631	614	COGS	687	976	1,999	2,006
Inventories	9	76	82	82	<b>Gross profit</b>	<b>89</b>	<b>123</b>	<b>708</b>	<b>630</b>
Other current assets	225	191	610	605	Operating expenses	125	107	228	223
<b>Total Current Assets</b>	<b>667</b>	<b>1,354</b>	<b>1,750</b>	<b>2,160</b>	<b>Operating profit (loss)</b>	<b>(36)</b>	<b>16</b>	<b>481</b>	<b>407</b>
Fixed Assets	704	1,375	1,341	1,277	<b>EBITDA</b>	<b>76</b>	<b>143</b>	<b>646</b>	<b>599</b>
Investments in associates	271	120	222	204	Equity net income of associates	59	136	13	21
Other non-current assets	179	786	904	893	Interest income	5	9	8	10
<b>Total Non-Current Assets</b>	<b>1,155</b>	<b>2,282</b>	<b>2,467</b>	<b>2,375</b>	Interest expenses	(60)	(77)	(97)	(97)
<b>TOTAL ASSETS</b>	<b>1,822</b>	<b>3,636</b>	<b>4,217</b>	<b>4,535</b>	Others	(83)	216	(111)	(81)
<b>LIABILITIES &amp; EQUITY</b>					<b>Total other income/(expenses)</b>	<b>(79)</b>	<b>284</b>	<b>(187)</b>	<b>(148)</b>
Short term loan	78	81	100	100	<b>Income before tax</b>	<b>(115)</b>	<b>300</b>	<b>294</b>	<b>260</b>
Accounts Payable	120	252	329	330	Tax expense	11	22	(132)	(65)
Current maturities - LT debts	44	31	98	98	<b>Net profit before minority interest</b>	<b>(104)</b>	<b>322</b>	<b>161</b>	<b>195</b>
Other current liabilities	71	295	424	454	Minority interest	(37)	(14)	16	19
<b>Total Current Liabilities</b>	<b>313</b>	<b>659</b>	<b>950</b>	<b>981</b>	<b>Net profit (loss)</b>	<b>(68)</b>	<b>335</b>	<b>145</b>	<b>175</b>
LT debt - net current maturities	683	1,305	1,317	1,319	<b>EPS (Rp)</b>	<b>(174)</b>	<b>872</b>	<b>396</b>	<b>478</b>
MTN	-	-	-	-	<b>CASH FLOW STATEMENT</b>				
Other non-current liabilities	85	557	641	749					
<b>Total Non-Current Liabilities</b>	<b>768</b>	<b>1,861</b>	<b>1,957</b>	<b>2,068</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	
<b>Minority Interest</b>	<b>152</b>	<b>190</b>	<b>280</b>	<b>317</b>	Net profit	(68)	335	145	175
Capital Stock	57	57	57	57	Depreciation & Amortization	113	127	166	191
Additional paid in capital	253	253	253	253	Change in WC	48	(163)	(144)	16
Others equity	64	64	64	64	Others	13	225	(319)	37
Retained earnings	215	551	656	795	<b>Net Operating Cash Flow</b>	<b>106</b>	<b>525</b>	<b>(152)</b>	<b>419</b>
<b>Total Equity</b>	<b>589</b>	<b>925</b>	<b>1,030</b>	<b>1,169</b>	Change in fixed assets - net	12	(798)	(132)	(127)
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,822</b>	<b>3,636</b>	<b>4,217</b>	<b>4,535</b>	Others	44	(456)	(219)	28
					<b>Net Investing Cash Flow</b>	<b>56</b>	<b>(1,254)</b>	<b>(351)</b>	<b>(99)</b>
					Change in borrowings - net	(153)	610	97	2
					Change in equity	5	(1)	-	-
					Change in other liabilities	(17)	472	84	109
					Dividend payment	-	-	(40)	(36)
					Adjustment	(28)	39	90	37
					<b>Net Financing Cash Flow</b>	<b>(193)</b>	<b>1,121</b>	<b>231</b>	<b>111</b>
					<b>Change in cash</b>	<b>(31)</b>	<b>392</b>	<b>(272)</b>	<b>431</b>
					Cash at the beginning period	339	308	700	428
					Cash at the ending period	308	700	428	859
					<b>KEY FINANCIAL RATIOS</b>				
					<b>Growth (%)</b>				
					Revenue	(29.35)	41.73	146.44	(2.66)
					Gross profit	0.42	38.57	476.30	(11.05)
					Operating Profit (Loss)	(28.70)	(144.72)	2,877.32	(15.24)
					EBITDA	(1.20)	87.33	351.02	(7.32)
					Net Profit (Loss)	51.60	(596.22)	(56.67)	20.63
					<b>Profitability (%)</b>				
					Gross margin	11.44	11.19	26.16	23.91
					Operating margin	(4.66)	1.47	17.75	15.46
					EBITDA margin	9.87	13.04	23.87	22.73
					Net Profit margin	(8.72)	30.53	5.37	6.65
					ROAA	(3.40)	12.29	3.70	4.01
					ROAE	(10.89)	44.31	14.87	15.95
					<b>Solvency (x)</b>				
					Current ratio	2.13	2.05	1.84	2.20
					Quick ratio	2.10	1.94	1.76	2.12
					DER	1.34	1.51	1.45	1.28
					EBITDA coverage	1.27	1.86	6.64	6.15
					Net debt to equity	0.82	0.76	1.04	0.55

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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