



GS Capital

STUDENT RESEARCH

This research is published for educational use only by students taking MB5011 Investment and Portfolio Theory

PT. INDIKA ENERGY, Tbk.

Sector: Mining

Industry: Coal

IDX Ticker: INDY

Date: July 22, 2018

RATING: HOLD

Price Target: IDR 3,500

Price: IDR 3,280

Upside: 6.71%

Highlights and Investment Summary

PT Indika Energy is an integrated energy company in Indonesia. Operating in energy resources, energy services, and energy infrastructure, Indika energy is a key player in mining sector and coal industry in Indonesia. In 2017, it increases its stake in PT Kideco Jaya Agung, Indonesia's third-largest coal mining company, to 91.0%, making Indika Energy one of strongest player in the market. With almost 50% revenue are from Tripatra and Petrosea, which is energy services company, Indika's future is also secured, despite coal being a volatile commodity.

In 2017, global market commodity is also improved, with coal performing better than prediction. Mainly, this could be as a result of supply restriction in China, increasing coal imports, and increasing demands from Asian countries. Analysts predict that for the next few years global coal consumption will decline, due to conversion to other energy sources, but not necessarily for Asian countries which still heavily rely on coal. Indika Energy's main demand is always in Asia, i.e. China, Philippine, and India. This makes us confident that Indika Energy will still have a positive growth in the future, especially in the next 5 years.

From our valuation using DCF analysis, relying on the assumption of 11% growth of operating cash flows in the next 5 years, WACC of 7.48%, and terminal growth of free cash flows of 3.0%, the fair value of INDY in 2018 is priced at IDR 3,450. As an alternative valuation method, we use P/E multiple analysis. Using P/E of industry as the correct P/E of INDY, we get the fair value of INDY is IDR 3,550. Then, we determine the target price as the median of those two value, giving us a target price of IDR 3,500 (6.71% increase from current price). Therefore, Indika Energy is undervalued, but not at a significant level. So, we recommend to investors to hold INDY, at least until next year.

MARKET DATA

52-week High	IDR 4,549.99
52-week Low	IDR 810.00
Avg. Daily Vol.	29 million
Shares Out.	5.21 billion
Market Cap.	17,089 billion

(Source: Yahoo Finance, Stockbit, INDY)

KEY FINANCIAL DATA (2017)

EPS	IDR 872.18
P/E	3.51
BV/S	IDR 2,899.38
ROE	36.28%
ROA	9.23%

(Source: Stockbit, INDY, GS Capital Estimates)

SHAREHOLDERS (2017)

PT Indika Inti Investindo	37.79%
PT Teladan Resources	30.65%
Public	29.73%
Board of Comm. & Dir.	1.83%

(Source: INDY)

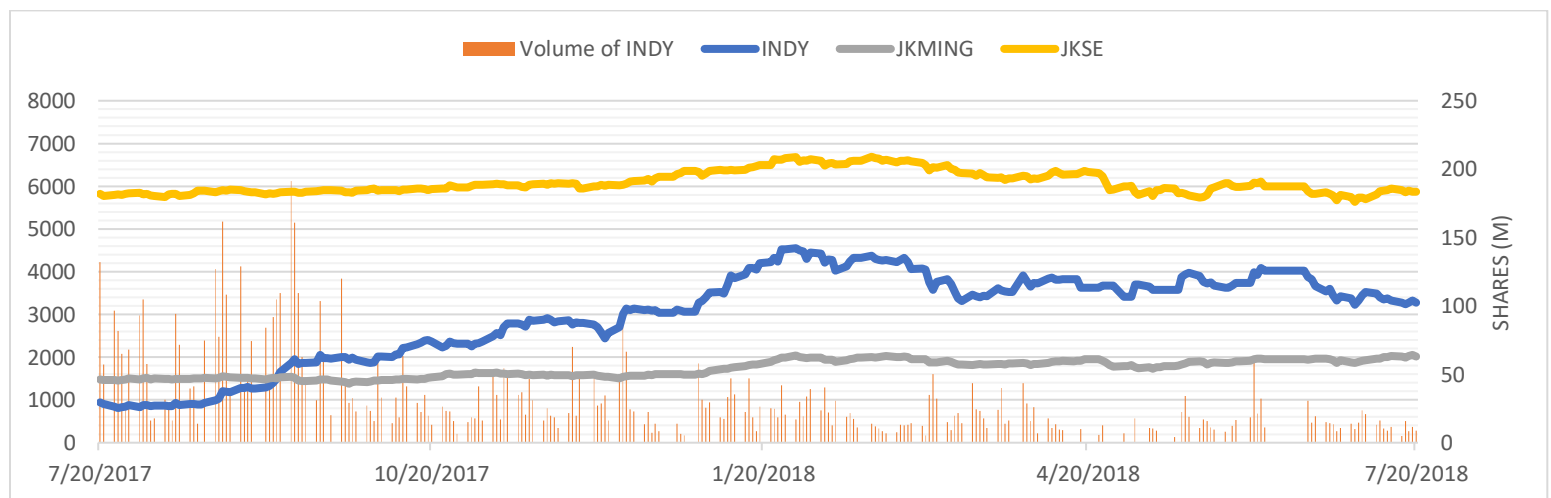


Figure 1 INDY Share Price & Market Volume, JKSE & JKMING Indices

(Source: Yahoo Finance)

Business Overview

PT. Indika Energy Tbk was established in December 2000, operating as an integrated energy company in Indonesia. The company operates in three key business pillars: energy resources, energy services, and energy infrastructures.

Energy Resources

The energy resources area conducts exploration, production of coal. In this area, they have several subsidiaries companies: PT. Kideco Jaya Agung, PT. Santan Batubara, PT. Multi Tambangjaya Utama, PT. Mitra Energi Agung, and PT. Indika Energy Trading. The exploration area covers of 50,921-hectare concession in Paser Regency, East Kalimantan, Indonesia. In 2017, Indika Energy increases its stake in Kideco to 91.0%. With an effective and well-developed operational infrastructure, Kideco is efficient and financially flexible, making it an extremely important part of Indika Energy business portfolio.

Energy Services

The energy services area accommodates engineering, procurement, and construction (EPC), operational, and logistics supply to clients. Through its main subsidiaries which are PT. Petrosea and PT. Tripatra, Indika Energy serves pit-to-port and life of mines services in coal mining and accommodates the oil and gas industry development.

Energy Infrastructure

The energy infrastructures area covers wide range of energy industry infrastructures and facilities, including roads, port operations, barges, and transshipment facilities to deliver energy commodity for both domestic and international clients. It also provides 660-Megawatt coal-fired power plant in Cirebon, West Java. In this area, Indika Energy operates under several its subsidiaries and partners companies: PT. Mitrabahtera Segara Sejati, PT. Cirebon Electric Power, PT. Petrosea Offshore Supply Base, and PT. Kuala Pelabuhan Indonesia.

The company is also involved in the investment, general trading, marketing, financing, coal and mining trading, contracting, development, agriculture, and waste management. In 2008, Indika Energy was listed on the Indonesian Stock Exchange (IDX) in the midst of its drive to consistently develop and expand its business scope both organically and through acquisitions to firmly encompass all aspects of the energy resources, services and infrastructure sectors, which have become its three key business pillars.

In tandem with income from synergic cross-selling of services to clients among Indika Energy businesses, long-term cost control enhanced by the synergy of integrated operations stabilizes earnings and facilitates cash flow as the energy service and infrastructure business diversification contributes more significantly. This business portfolio strategy of complementary products and services to domestic and international customers is a core strength.

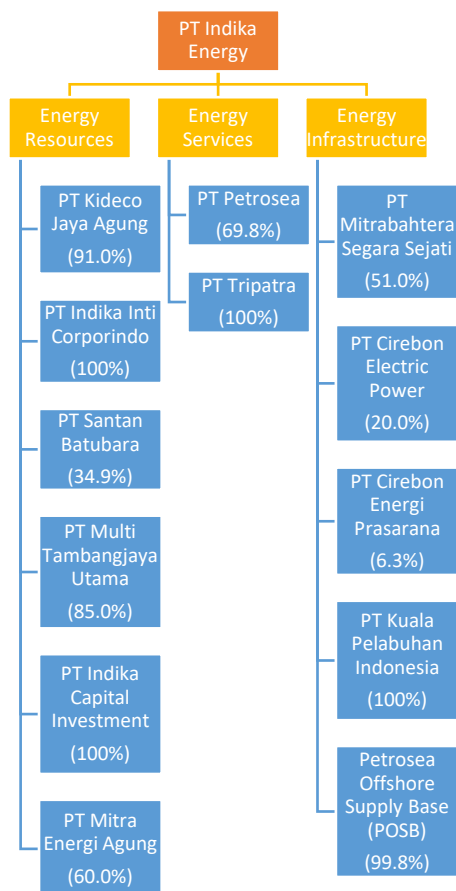
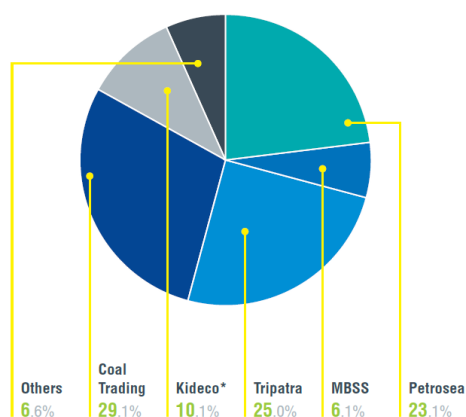


Figure 2 Indika Energy Business Portfolio in 2017
(Source: INDY)



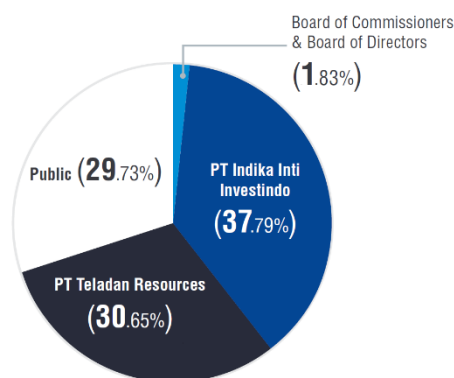
* One month revenue from Kideco (December 2017)

Figure 3 Indika Energy Revenue Breakdown
(Source: INDY)

Table 1 Sales by Destination in 2017

Country	Percentage
Indonesia	31%
China	27%
Korea	11%
India	10%
Philippines	5%
Taiwan	5%
Malaysia	4%
Japan	4%
Thailand	1%
Others	2%
Total	100%

(Source: INDY)

Figure 4 Capital Structure of INDY as of December 31, 2017
(Source: INDY)

Indika Energy's long-term business strategies are reflected in its focus on creating synergies within the three business pillars, boosting organic growth and expanding through acquisitions. However, due to the prolonged coal market downturn, Indika Energy focuses its efforts on strengthening resilience in the face of adverse effects from the global situation.

Industry Overview & Competitive Positioning

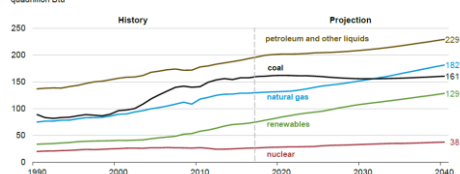
Macroeconomic Overview

World's Economic Growth and Global Energy Demand

The last decade has been punctuated by a series of broad-based economic crises and negative shocks, starting with the global financial crisis of 2008–2009, followed by the European sovereign debt crisis of 2010–2012 and the global commodity price realignments of 2014–2016. As these crises and the persistent headwinds that accompanied them subside, the world economy has strengthened, offering greater scope to reorient policy towards longer-term issues that hold back progress along the economic, social and environmental dimensions of sustainable development. In 2017, global economic growth is estimated to have reached 3.0 per cent, a significant acceleration compared to growth of just 2.4 per cent in 2016, and the highest rate of global growth recorded since 2011. Labor market indicators continue to improve in a broad spectrum of countries, and roughly two-thirds of countries worldwide experienced stronger growth in 2017 than in the previous year. At the global level, growth is expected to remain steady at 3.0 per cent in 2018 and 2019.

Global energy consumption was spurred by the rebound in China, the world's largest energy consumer since 2009, triggered by the sustained economic growth. Chinese energy consumption rose twice as fast as in 2016, pulled-up by a strong industrial demand that has offset three years of low consumption, energy efficiency gains in the industry and national policies to decarbonize the economy. Energy consumption grew in most of Asian countries, such as India (steady growth rate since 2000), Indonesia, Malaysia or South Korea. It increased for the first time since 2013 in Japan, driven by the economic growth.

Economic growth also raised energy consumption in Europe (e.g. in Germany, France, Italy and Turkey, whereas it dipped in the United Kingdom), in Canada, and in Russia (end of two-years of recession). Energy consumption remained stable in the United States for the second year in a row, partly due to a lower electricity demand and energy efficiency improvements. It recovered from two years of contraction in Brazil but declined in Mexico and Argentina.

World energy consumption increases for fuels other than coal
IEO2018 Reference case
world energy consumption by energy source
quadrillion BtuFigure 5 World Energy Consumption
(Source: EIA, Energi Energi Outlook 2018)

Global Coal Consumption

After several years of free-fall, the coal market experienced a mini-revival last year, with both global consumption and production increasing. Global coal consumption rose by 1%, (25 mtoe), with India (4.8%, 18 Mtoe) recording the fastest growth, as demand both inside and outside of the

Global coal consumption and production

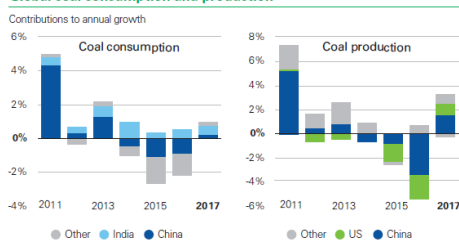


Figure 6 Global Coal Consumption and Production
(Source: BP Statistical Review of World Energy 2018)

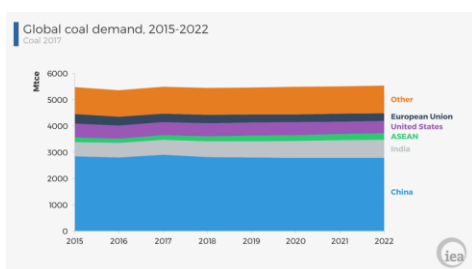


Figure 7 Global Coal Demand
(Source: EIA, Market Report Series: Coal 2017)

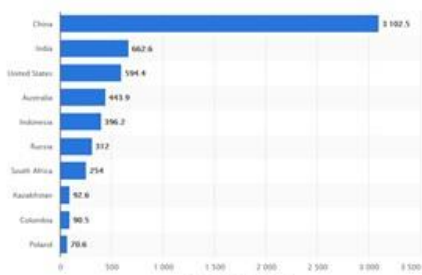


Figure 8 Top Ten Hard Coal Producers in 2016
(Source: statista.com)

Table 2 Top Coal Exporters

	2014	2015	2016p
Australia	375.0	392.3	389.3
Indonesia	409.2	366.7	369.9
Russian Federation	155.5	155.2	171.1
Colombia	81.2	77.8	83.3
South Africa	69.0	75.5	76.5
United States	88.2	67.1	54.7
Netherlands ¹	31.3	36.6	40.6
Canada	34.5	30.5	30.3
Mongolia	19.8	14.5	25.8
Kazakhstan	30.9	31.2	25.7
Other	74.7	60.7	66.3
World	1 369.3	1 308.1	1 333.5

(Source: IEA, Coal Information: Overview, 2017 Edition)

power sector increased. Interestingly, after three years of successive declines, China's coal consumption (0.5%, 4 Mtoe) also ticked-up. This is despite the substantial coal-to-gas switching in the industrial and residential sector, as increases in power demand in China sucked in additional coal as the balancing fuel.

World production of coal increased more strongly (3.2%, 105 mtoe), driven by notable increases in both Chinese (3.6%, 56 Mtoe) and US (6.9%, 23 Mtoe) output. Interestingly, the increase in US production came despite a further fall in domestic consumption, with US coal producers instead increasing exports to Asia.

Coal's share in the global energy mix is forecast to decline from 27% in 2016 to 26% in 2022 on sluggish demand growth relative to other fuels. Growth through 2022 is concentrated in India, Southeast Asia and a few other countries in Asia. Coal demand declines in Europe, Canada, the United States and China, the largest coal consumer by far, and where we forecast a structural but slow decline with some fluctuations linked to short-term market requirements.

Indonesia's Coal Industry

The Indonesian economy recorded higher absolute growth at 5.07%, stable compared with 5.03 percent in 2016. Performance accelerated through the year to reach 5.19% in the fourth quarter, the strongest pace of expansion since the fourth quarter of 2013, supported by accelerated government spending, fixed investment and private consumption.

Indonesia is the world's largest exporters of thermal coal. Over the past few years, Indonesia's coal industry has been rocked by extreme price volatility. The price recovery that started in 2016 continued in 2017, with the Newcastle coal index closing at over US\$ 100 at the of 2017, despite volatility during the year. The main driver of prices was demand from china, while domestic demand also continued to be robust.

Estimates from the ministry of Energy and Mineral Resources and the Indonesian Coal Mining Association (APBI) put total Indonesian coal production for 2017 at 461 million tons, compared with 2016 production of 434 million tons. Approximately 21% of output in 2017 was absorbed by the domestic coal market, compared with 20% the year before.

In the oil and gas sector, Indonesia's oilfields are aging, with declining oil production due to a lack of exploration and development although gas output has risen, with output around 800,000 barrels per day in 2017. On the other hand, the growing economy is driving higher domestic demand for energy, resulting in increased imports to make up the difference. According to Wood MacKenzie, Indonesia imported around 500,000 barrels of crude per day in 2017.

Based on this good performance and high demand of coal consumption in Asian's countries, it will be a better chance for Indonesia's coal industry to increase coal production within the next few years.

Table 3 Top Coal Importers

	2014	2015	2016p
PR of China	291.6	204.1	255.6
India	237.6	215.6	200.1
Japan	188.1	189.6	189.4
Korea	131.0	133.9	134.5
Chinese Taipei	65.8	64.8	65.6
Netherlands ¹	47.3	57.1	55.5
Germany	53.8	54.5	53.6
Turkey	29.8	34.0	36.2
Malaysia	21.7	25.5	28.9
Russian Federation	26.8	24.1	24.0
Other	319.0	308.3	287.9
OECD Americas	35.2	35.5	35.0
OECD Asia Oceania	330.7	335.1	333.1
OECD Europe	273.5	265.3	239.0
OECD Total	639.4	635.9	607.1
Africa + Mid. East	15.1	14.5	14.6
Other Asia Oceania	682.5	587.2	636.9
Oth. Europe + Eurasia	50.1	47.3	47.1
Other Americas	25.4	26.7	25.6
Non-OECD Total	773.1	675.6	724.2
World	1 412.5	1 311.5	1 331.3

(Source: IEA, Coal Information: Overview, 2017 Edition)

Competitive Positioning

Promising Opportunity of Coal Consumption Growth in Asian Countries

More rapid growth is expected in the developing ASEAN countries of Malaysia, Thailand, the Philippines and Vietnam, driven by growing manufacturing and construction industries as well as inadequate domestic coal reserves. Short-term growth in Indonesian coal exports is supported by their low-cost structure on both FOB and delivered basis. However, Indonesia remains geographically advantaged to meet demand from India and Southeast Asia, supporting Indonesia's long-term position as the largest exporter of seaborne thermal coal and Indonesia is expected to remain the largest supplier of thermal coal into the seaborne market over the long-term horizon.

Indika Energy has Kideco as its subsidiaries in coal resources. Kideco has earned a reputation for being one of the most reliable coal suppliers in Indonesia. Kideco's geographically well-diversified customer base includes long standing relationships with highly-rated power companies in South Korea, Taiwan, Malaysia and Indonesia, with annual installed capacity of up to 55 million tons.

Environmentally Friendly Coal Production

Kideco's coal produces relatively low levels of nitrogen during combustion, making it environmentally friendly for use in coal-fired power plants.

High Prospect of Energy Services

The government hopes to increase exploration activity, potentially creating opportunities for companies engaged in energy services. Tripatra is advantageously positioned to capitalize on these opportunities. The engineering and project management capabilities that Tripatra developed may also be flexibly applied outside the oil and gas industry.

Petrosea, as one of the leading coal mining contractors in Indonesia, is competitively positioned to benefit from the rising demand for coal production in Indonesia.

High Opportunity of Energy Infrastructure

During the last several years of low coal prices, MBSS focused on maximizing its fleet utilization, improving its technical capabilities and improving its safety and operational practices. In this more favorable coal market climate, MBSS expects to deliver improved performance in 2018, supported by its strong safety track record and large fleet size which give it a competitive advantage in the market.

Financial Analysis

In this section, we present the principal assumption on which we base our valuation.

Revenue

Indika Energy's revenue in 2017 is increasing from previous year by 42.91%, from IDR 10.42 billion to IDR 14.87 billion. This increase is primarily due to:

1. A 25.42% increase in Tripatra's revenue (energy services)
2. A 20.73% increase in Petrosea's revenue (energy services)
3. A 47.6% increase in revenue from energy resources
4. Kideco's revenues were consolidated for one month (December 2017), after the increase in Kideco's stake to 91.0%

One of the most important aspect in valuing a company is to understand its revenue growth. To measure revenue more correctly, we have to include the share of results of associates, since over the years Indika Energy is increasing its stake on its associates or subsidiaries (i.e. the increase of stakes in Kideco in 2017). Hence, we will use the total of revenue and share of results of associates as our "new" revenue to make comparing more make sense and accurate.

Now, to make projection on revenue, we will use the industry average. We chose 3 closest companies to Indika Energy, which are: Adaro Energy (ADRO), Indo Tambangraya Megah (ITMG), and Tambang Batubara Bukit Asam (PTBA). We will use the weighted-average (by market capitalization) of CAGR of revenue of these three companies and Indika Energy.

Table 4 CAGR of Revenue

Stock	Compounded Annual Growth Rate of Revenue (2008 - 2017)
ADRO	10.42%
ITMG	5.27%
PTBA	11.66%
INDY	19.61%
Industry	10.93%

(Source: Stockbit, GS Capital Calculation)

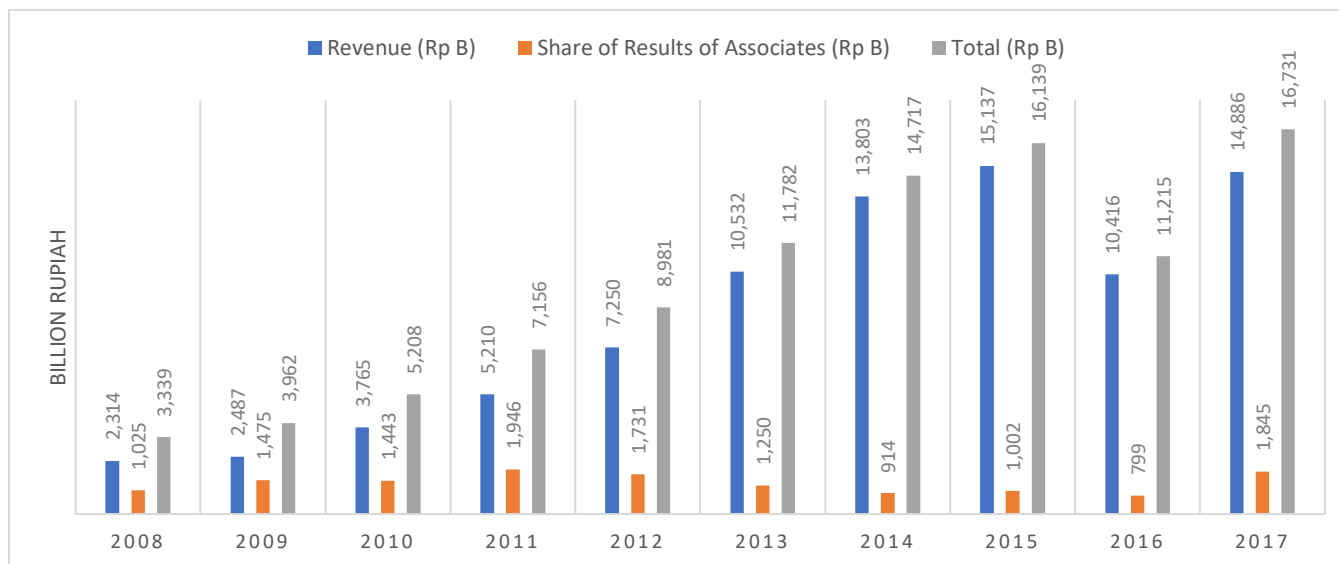


Figure 9 Revenue and Share of Results of Associates

Other Accounts in Income Statements

We will assume that for every account in projected income statements, the proportion to the revenue is always the same. The proportion used for projection is the average past proportion for every account from 2008 to 2017.

Operating Cash Flows

Another important measure for valuation is the operating cash flows. Overall, Indika Energy shows a good cash flow management, indicated by the positive growth of cash flows from IDR 537.74 billion in 2016 to 2,516.20 billion in 2017 (367.91% increase). This is understandable as a result of recovering price of coal in the 2017. Upon acquisition of Kideco--- an indication of a good competitive positioning in coal exploration, production, and trading---and Indika Energy's strong synergy across its business portfolio, we are confident that its operating cash flows will continue to improve in the next several years, at least at the same level of its revenue growth.

Payments of Finance Cost & Cash Flows from Financing Activities

Payments of finance cost is an important account for the calculation of free cash flows later. Overall, Indika Energy shows consistent payments of debt. This makes it easy for analyst to make projection. Right now, there are 3 bonds outstanding that mature in 2022, 2023, and 2024. We expect for the several years ahead Indika Energy will keep paying interest, so the growth is somewhat predictable. We estimate the growth will be around 5% per year.

Table 5 Bonds Outstanding in 2017

Name of Bonds	Face Value (mn US\$)	Interest Rate	Effective Date	Maturity Date
Notes 2022	265	6.88%	10-Apr-17	10-Apr-22
Notes 2023	500	6.38%	24-Jan-17	24-Jan-23
Notes 2024	575	5.88%	9-Nov-17	9-Nov-24

(Source: INDY)

Regarding the cash flows from financing activities, we also predict that in around 2022 or 2023, Indika Energy will issue new bonds, since their bonds will mature in around that year and in the past Indika Energy always maintain its capital structure to be the somewhat the same.

Capital Expenditure

Indika Energy's long-term business has always been to focus on creating synergies within the company's three business pillars and boosting organic growth and expanding through acquisitions. Hence, we will expect that Indika Energy will keep doing acquisitions and investing in new fixed assets for production. Therefore, we think that historical pattern of using cash for capital expenditure will continue and can be used as a good proxy for future capital expenditure. We estimate the growth of capital expenditure will be around 2-3% per year.

Valuation

We evaluate Indika Energy by applying two techniques: Discounted Cash Flow (DCF) and P/E Multiple Analysis. The overall price target is the median of those two prices, which is IDR 3,500 per share.

Discounted Cash Flow Analysis

Our DCF analysis values Indika Energy at IDR 3,450 per share. The target price is acquired from discounting future 5-year free cash flows to the firm (FCFF) from 2019 until 2023 back to the 2018. Terminal growth for DCF valuation is determined to be 3.0%. We calculate that 7.48% is appropriate for WACC with 10.60% cost of equity and 4.69% cost of debt.

Table 6 DCF Valuation Result

Sum of PV of FCF (IDR bn)	6,092.12
PV of Terminal Value (IDR bn)	31,018.05
Firm Value (IDR bn)	37,110.17
Debt Value (IDR bn)	19,158.17
Equity Value (IDR bn)	17,952.00
Shares Outstanding (bn)	5.21
Equity Value per Share (IDR)	3,445.55

(GS Capital Calculation)

Table 7 Free Cash Flows to The Firm

In Billion IDR	2023F	2022F	2021F	2020F	2019F	2018E	2017
Period	5	4	3	2	1	0	
Cash Flows from Operations (IDR bn)	1,908.20	1,719.10	1,548.74	1,395.26	1,256.99	1,132.42	2,516.20
Interest paid (IDR bn)	(1,150.96)	(1,098.17)	(1,045.39)	(992.61)	(939.83)	(887.05)	(735.20)
Capital invested (IDR bn)	(1,124.62)	(1,101.56)	(1,078.51)	(1,055.45)	(1,032.40)	(1,009.34)	(889.67)
FCFF (IDR bn)	1,934.54	1,715.71	1,515.62	1,332.42	1,164.42	1,010.13	2,361.73
Terminal Value (IDR bn)	44,486.95						

(Source: GS Capital Calculation)

Table 8 Indonesian Production of Coal

Year	Production (mn ton)
2007	217
2008	240
2009	254
2010	275
2011	353
2012	412
2013	474
2014	458
2015	461
2016	456
2017	461

(Source: Indonesian Coal Mining Association & Ministry of Energy and Mineral Resources)

Free Cash Flows to the Firm

We calculate free cash flows to the firm (FCFF) starting from the cash flows from operating activities. This method is often more preferred than starting from net income because it's close to the real definition of free cash flows, which is cash available to the owners (both debtor and shareholders) after subtracting capital invested.

To project operating cash flows until 2023, we estimate what is the appropriate level of operating cash flows at the year 0, which is at 2018. After it is determined, we expect that it will grow at a constant rate of 11%, the same as revenue growth. To estimate the appropriate level of cash flows at 2018, we used expected value of operating cash flows at 2008 – 2017. To get the accurate amount of cash available to all owners, not only to equity holders, we need to add back interest paid to the operating cash flows. Finally, subtract it with capital invested to get the final number of free cash flows to the firm.

Terminal Value

To determine the terminal value, we use perpetuity growth method, based on the assumption of going-concern of the firm. This method will assume that the firm will continue to grow forever at a constant rate of 3.0%, starting in 2024. This is a conservative estimate, since Indonesian economic growth is much more than that (around 5%).

In 2017, 31% of revenue source of Indika Energy is absorbed by demands from Indonesia and another 67% is from Asian countries, such as China, Philippine, and India. Moreover, as what we presented in industry analysis, even though overall world coal consumption will be declining, demands from Asian countries will continue to rise in the future, exactly where the customers of Indika Energy are from. Finally, since Indika Energy's revenue is not only from coal mining but also from energy service and infrastructure, this makes the company more resilient from this kind of business risk.

Table 9 DCF Key Variables (1)

Risk-free Rate	7.82%
Market Return	9.79%
Equity Risk Premium	1.97%
Beta	1.41

(Source: GS Capital Calculation)

Table 10 DCF Key Variables (2)

Proportion of Equity	0.47
Cost of Equity	10.60%
Proportion of Debt Financing	0.53
Pre-tax Cost of Debt	6.26%
After-tax Cost of Debt	4.69%
Corporate Tax Rate	25.00%
WACC	7.48%

(Source: GS Capital Calculation)

Weighted-Average Cost of Capital (WACC)

We obtained the risk-free rate from 10-year government bond's yield. Market return from JKSE geometric mean for 10 years (2008 – 2018) is 9.79% per annum. Then, we calculate Indika Energy's beta to be 1.41, using the same time horizon as the market return estimates. For cost of debt, we determine it to be the weighted-average interest rate of all Indika Energy's bonds outstanding. Finally, current corporate income tax rate in Indonesia is 25%.

Table 11 Historical P/E Ratio of INDY

Year	PE Ratio (Annual)
2017	3.51
2016	-4.04
2015	-0.93
2014	-7.76
2013	-4.03
2012	11.13
2011	10.20
2010	31.61
2009	15.69
2008	5.23

(Source: Stockbit)

Table 12 P/E Ratio of Industry

Stock	Price (20/7/2018)	EPS (2017)	PE (2017)
ADRO	1,825.00	204.71	8.92
ITMG	24,200.00	3,028.81	7.99
PTBA	4,260.00	388.56	10.96
Average P/E Industry			9.29

(Source: Stockbit, GS Capital Calculation)

P/E Multiple Analysis

Our P/E multiple analysis values Indika Energy at IDR 3,550 per share.

Target price is acquired from 2018 PE valuation. We used the three closest competitors as the comparable companies. Average P/E ratios of these companies will be used as P/E for estimating price at 2018. Then, we multiply the P/E with the estimated EPS at 2018.

P/E Ratio

Historically, Indika Energy's P/E ratio has been very volatile. There is a period where INDY's P/E ratio is very high which is from 2009 until 2012, peaking at 31.61 in 2010. From 2013 until 2016, INDY's P/E ratio is negative due to its negative earnings. Fortunately, in 2017 INDY's profit is back again at IDR 4,357 billion following the recovery of coal price, making INDY's P/E positive again. Due to its volatility, inferring correct P/E ratio using historical data seems unwarranted, so we will turn to current industry P/E to estimate the fair P/E. After calculating, we get that the P/E ratio of industry is 9.29, making Indika Energy is highly undervalued at 2017. However, in 2018, we project that Indika Energy's PE will follow the industry. Moreover, we assume that tax is immediately paid in the period.

Earnings per Share

EPS is primarily affected by the revenue, assuming that other accounts are relatively at the same level. We also assume that the number of shares outstanding will not be changed during the next five years.

Table 13 P/E Multiple Analysis Result

	2023F	2022F	2021F	2020F	2019F	2018E	2017
Net Income (IDR bn)	2,910.60	2,747.76	2,569.77	2,381.04	2,185.92	1,988.54	4,357.49
Shares Outstanding (bn)	5.21	5.21	5.21	5.21	5.21	5.21	5.21
EPS (IDR)	558.64	527.38	493.22	457.00	419.55	381.89	836.83
Price (PE = 9.29x)	5,189.50	4,899.16	4,581.81	4,245.32	3,897.43	3,547.57	7,773.80

(Source: GS Capital Estimates and Calculation)

Risk Analysis

Regulatory Risk

The framework governing Indonesian energy resources is subject to extensive regulation. The new Mining Law regulates that local extraction of coal mined in Indonesia and Indonesian coal producers are restricted from engaging their subsidiaries or affiliates to provide mining services on their own concessions without first obtaining ministerial approval, with a priority towards domestic contractors, labor, products and services. Changes in regulations may affect Indika Energy's business and ability to compete.

Financial Risk

Domestic, regional, and global economic changes as well as stringent controls on lending and investments caused by illiquid credit markets and general tightening of credit in the financial markets may affect Indika Energy's working capital and borrowing abilities. Indika Energy and its subsidiaries are also exposed to foreign currency risk.

- **Foreign Currency Risk:** The Company and its subsidiaries' functional currency is U.S. Dollar. Their foreign exchange exposure



arises mainly from transactions denominated in currencies other than the U.S. Dollar which are mainly administration and operating expenses.

- **Interest Rate Risk:** The interest rate risk exposure relates to the amount of assets or liabilities which are subject to a risk that a movement in interest rates will adversely affect the profit after tax. The risk on interest income is limited as the Company and its subsidiaries only intends to keep sufficient cash balances to meet operational needs.
- **Price Risk:** The Company and its subsidiaries are exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Company and its subsidiaries do not actively trade these investments. The Company and its subsidiaries face commodity price risk because coal is a commodity product traded in world coal markets.
- **Liquidity Risk:** The Company and its subsidiaries manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.
- **Capital Risk:** The Company and its subsidiaries manage their capital to ensure that they will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

Business Risk

Indika Energy's businesses are subject to a number of risks related directly to its businesses.

- **Coal Market Volatility Risk:** Slower global demand growth for coal in recent years has resulted in an oversupply that has affecting coal prices. The global coal markets are sensitive to changes in coal mining capacity and production output levels, which can adversely affect Indika Energy's business.
- **Oil & Gas Market Volatility Risk:** The markets for coal and oil and gas have been volatile is likely to continue. Tripatra and Petrosea provide energy services which are primarily dependent on spending by coal, mineral, and infrastructure companies.
- **Contractor Management Risk:** Kideco depends on independent contractors to conduct its mining operations, and any significant failure to deliver their obligations will have a negative effect on dividend payments to Indika. Moreover, a significant portion of Tripatra's energy services projects are fixed-price contracts, which can expose the energy services businesses to risks associated with costs.
- **Contract Risk:** MBSS service contracts contain commercial agreements with set price and minimum tonnage requirements that can be terminated following a force majeure event or a default by the customer or MBSS.

APPENDIX

Appendix 1: Forecast of Income Statements

In Billion IDR	2023F	2022F	2021F	2020F	2019F	2018E	2017
Revenue	24,169.13	22,816.94	21,338.96	19,771.80	18,151.55	16,512.48	14,886.00
COGS	(20,095.20)	(18,970.94)	(17,742.08)	(16,439.08)	(15,091.94)	(13,729.15)	(12,125.40)
Gross Profit	4,073.93	3,846.00	3,596.88	3,332.72	3,059.61	2,783.33	2,760.60
SG&A	(1,691.84)	(1,597.19)	(1,493.73)	(1,384.03)	(1,270.61)	(1,155.87)	(1,124.87)
EBITDA	2,382.09	2,248.82	2,103.15	1,948.69	1,789.00	1,627.46	1,635.73
DA	(2,210.69)	(2,087.01)	(1,951.83)	(1,808.48)	(1,660.28)	(1,510.36)	(1,173.45)
EBIT	171.39	161.81	151.32	140.21	128.72	117.10	462.29
Interest Expense	(2,368.74)	(2,236.21)	(2,091.36)	(1,937.77)	(1,778.97)	(1,618.33)	(1,041.80)
Other Income & Expense	6,078.14	5,738.09	5,366.40	4,972.28	4,564.82	4,152.62	4,645.48
EBT	3,880.80	3,663.68	3,426.36	3,174.73	2,914.57	2,651.38	4,065.97
Tax Expense	(970.20)	(915.92)	(856.59)	(793.68)	(728.64)	(662.85)	291.51
Net Income	2,910.60	2,747.76	2,569.77	2,381.04	2,185.92	1,988.54	4,357.49

Appendix 2: Forecast of Balance Sheet

In Billion IDR	2023F	2022F	2021F	2020F	2019F	2018E	2017
Cash & Cash Equivalents	9,812.86	9,647.77	3,274.70	4,767.69	6,493.60	7,720.15	8,427.47
Other Current Assets	14,401.81	13,455.56	12,509.30	11,563.05	10,616.79	9,670.53	9,913.63
Total Current Assets	24,214.67	23,103.33	15,784.00	16,330.73	17,110.39	17,390.69	18,341.10
Fixed Assets	10,719.18	10,386.57	10,053.96	9,721.34	9,388.73	9,056.12	8,489.39
Intangible Assets	17,050.37	17,492.81	17,935.25	18,377.70	18,820.14	19,262.58	19,705.02
Other Non-current Assets	3,515.24	3,598.43	3,681.61	3,764.79	3,847.98	3,931.16	2,721.03
Total Non-Current Assets	31,284.80	31,477.81	31,670.82	31,863.83	32,056.84	32,249.85	30,915.44
Total Assets	55,499.47	54,581.14	47,454.82	48,194.57	49,167.23	49,640.54	49,256.54
Payables	4,001.55	3,777.68	3,532.97	3,273.51	3,005.25	2,733.88	5,858.47
Short-term debt	1,843.73	1,843.73	1,843.73	1,843.73	1,843.73	1,843.73	1,521.65
Other Current Liabilities	1,855.39	1,791.78	1,728.17	1,664.56	1,600.95	1,537.34	1,554.76
Total Current Liabilities	7,700.67	7,413.18	7,104.87	6,781.80	6,449.93	6,114.95	8,934.88
Long-term debt	17,599.98	18,696.73	13,888.22	14,753.68	15,673.06	16,649.74	17,687.28
Other Non-current Liabilities	308.87	1,491.86	2,230.13	4,997.27	7,763.45	9,780.99	7,528.05
Total Non-current Liabilities	17,908.85	20,188.59	16,118.35	19,750.94	23,436.51	26,430.73	25,215.33
Total Liabilities	25,609.51	27,601.78	23,223.22	26,532.74	29,886.45	32,545.68	34,150.21
Capital Stock	770.77	770.77	770.77	770.77	770.77	770.77	770.77
Additional Paid-in Capital	3,438.84	3,438.84	3,438.84	3,438.84	3,438.84	3,438.84	3,438.84
Retained Earnings	22,238.66	19,328.06	16,580.30	14,010.53	11,629.48	9,443.56	7,455.02
Non-controlling Interests	2,580.40	2,580.40	2,580.40	2,580.40	2,580.40	2,580.40	2,580.40
Other	861.29	861.29	861.29	861.29	861.29	861.29	861.29
Total Equity	29,889.96	26,979.36	24,231.60	21,661.83	19,280.78	17,094.86	15,106.32
Total Liabilities and Equity	55,190.60	53,089.28	45,224.69	43,197.30	41,403.78	39,859.55	49,256.54

Appendix 3: Forecast of Statement of Cash Flows

In Billion IDR	2023F	2022F	2021F	2020F	2019F	2018E	2017
Operating Cash Flows	1,908.20	1,719.10	1,548.74	1,395.26	1,256.99	1,132.42	2,516.20
Capital Expenditure	(1,124.62)	(5,158.53)	(1,078.51)	(1,055.45)	(1,032.40)	(1,009.34)	(889.67)
Other	1,815.69	1,698.57	1,589.01	1,486.52	1,390.64	1,300.94	(3,619.24)
Investing Cash Flows	691.07	(3,459.95)	510.51	431.07	358.24	291.60	(4,508.90)
Financing Cash Flows	(2,434.18)	8,113.92	(3,552.24)	(3,552.24)	(2,841.79)	(2,131.34)	7,104.47
Net Changes in Cash	165.09	6,373.07	(1,492.99)	(1,725.91)	(1,226.56)	(707.32)	5,111.77
Cash Beginning	9,647.77	3,274.70	4,767.69	6,493.60	7,720.15	8,427.47	3,311.00
Cash Ending	9,812.86	9,647.77	3,274.70	4,767.69	6,493.60	7,720.15	8,427.47

Appendix 4: Break Down of Revenue in 2017

Revenue Sources	IDR Billion	Percentage
Sales of Coal		
Foreign customers	5,319	35.73%
Domestic customers	537	3.61%
Total Sales of Coal	5,856	39.34%
Third Parties		
BP Berau	2,250	15.12%
PT Freeport	1,505	10.11%
ENI Muara Bakau BV	986	6.62%
PT Kideco Jaya Agung	703	4.72%
PT Indonesia Pratama	658	4.42%
PT Binuang Mitra Bersama	512	3.44%
CSTS Joint Operation	360	2.42%
Indoasia Cemerlang	283	1.90%
PT Maruwai Coal	158	1.06%
PT Adaro Indonesia	153	1.03%
ExxonMobil Cepu	145	0.97%
PT Ras Digital Media	131	0.88%
PT Anzawara Satria	106	0.71%
PT Cotrans Asia	95	0.64%
PT Maracipta Utama	76	0.51%
PT Berau Coal	63	0.43%
STC Joint Operation	59	0.40%
Others	786	5.28%
Total from Third Parties	9,030	60.66%
Total	14,886	100.00%

DISCLOSURES

Ownership and material conflicts of interest:

The author(s) of this report does not hold a financial interest in the securities of this company.

The author(s) of this report does not know of the existence of any conflicts of interest that might bias the content or publication of this report.

Receipt of compensation:

Compensation of the author(s) of this report is not based on investment banking revenue.

Position as an officer or director:

The author(s) does not act as an officer, director or advisory board member of the subject company.

Market making:

The author(s) does not act as a market maker in the subject company's securities.

Ratings guide:

Banks rate companies as either a BUY, HOLD or SELL. A BUY rating is given when the security is expected to deliver absolute returns of 15% or greater over the next twelve-month period, and recommends that investors take a position above the security's weight in the JCI, or any other relevant index. A SELL rating is given when the security is expected to deliver negative returns over the next twelve months, while a HOLD rating implies 0-15% returns over the next twelve months.

Disclaimer:

The information set forth herein has been obtained or derived from sources generally available to the public and believed by the author(s) to be reliable, but the author(s) does not make any representation or warranty, express or implied, as to its accuracy or completeness. The information is not intended to be used as the basis of any investment decisions by any person or entity. This information does not constitute investment advice, nor is it an offer or a solicitation of an offer to buy or sell any security. This report should not be considered to be a recommendation by any individual affiliated with BEJ or CFA Indonesia with regard to this company's stock.

