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CMB INTERNATIONAL

Fixed Income
Credit Commentary

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CMBI Credit Commentary

INDYIJ – Short-lived impact from Indonesia export ban on coal

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Strong 9M21 results…

Indika's revenue grew to USD 2,155mn (+43% yoy) backed by 40% rise in ASP during the period. Despite heavy rainfall, its production volume grew to 28.2mt (+13% yoy), hence EBITDA tripled to USD509mn for 9M21, trailing gross Debt/EBITDA lowered to mid-2x (Gross debt: USD 1,611mn and Cash: 712mn at Sep 2021). **INDYIJs '24 at ~5.2%, '25 at ~6.6% remain our OW for 2022.**

On track to achieve USD 750mn EBITDA for full year 2021,

given current benchmark coal price is still 10% higher than 3Q21's level. Discretionary cash flow, nonetheless will likely be USD 150mn - USD 200mn, after its planned capex of USD 120mn, tax of USD 280mn, interest expense of USD 100mn potential dividend of USD 50mn.

For 9M21, Indika recorded an increase in cash balance of USD99mn, from its operating cash flow of USD 316mn minus USD 58mn capex and USD 124mn debt repayment. There is a non-cash loss of USD 100mn from disposal of MBSS (51% stake) in Oct 2021. MBSS is a coal barging and transshipment subsidiary and accounts for 7% of Indika's EBITDA, disposal sales proceed of USD 41mn will be deployed into its non-coal diversification initiative.

2022 Benchmark coal price will likely be higher than historical average

While benchmark coal price will likely moderate in 1Q2022 as manufacturing activities will slow down during Chinese New Year and Beijing Winter Olympic, we expect 2022 average coal price will still remain relatively high as alternative energy price (i.e. oil and gas) are well-supported at higher level, due to sporadic production disruption from Covid.

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Export ban on coal in January will dent Indika's revenue, temporarily

Indonesian government imposed an outright export ban on coal for January due to low domestic coal inventory. This is different from previous incidents when government imposed export ban on non-DMO compliant coal miners. This will suppress Indika's revenue in Jan 2022 as domestic coal sales are subject to price cap. However, Indika has been fully compliant of domestic market obligation (DMO) and industry practitioners will seek review from government on 5 Jan 2022 to solely impose export ban on non-compliant miners.

Our base-case is that this one-month export ban is short-lived and government will not resort to frequent outright export ban to fulfil domestic demand as there is already a 25% Domestic Market Obligation requirement in place. **Indika has supplied 30%-35% of its coal domestically over the past few years and so we also expect Indika can raise its export volume after Jan '22 while remaining compliant to DMO.**

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