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Stock Valuation and Business Performance of PT. Indo Tambangraya Megah, Tbk.

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Abstract - **The aims of this study are to recalculate intrinsic value of ITMG with the factors that might affect the valuation in mind and evaluating its business performance. External, internal, and business model analysis were carried out to know about the business from top to down. Linear regression modelling is used to know the effect of global coal price to ITMG's revenue. Absolute valuation model such as DCF analysis was conducted to know the intrinsic value of ITMG stock price. Relative valuation model such as PER and EV/EBITDA were used to compare ITMG with its peers. Based on DCF analysis, the intrinsic value per share of ITMG is IDR 15,910 per share and it has margin of safety 34% to the current market price with close price at 26 April 2021. Current market price for ITMG is IDR 11,850 and since the intrinsic value is higher than the current market price then the stock is undervalued. For the PER, ITMG is the highest in 2020, and for the EV/EBITDA is the second lowest in 2020 compared to its peers. The recommendation for the investor would be to buy ITMG stocks.**

Keywords – **Absolute valuation, DCF, intrinsic value, relative valuation, stock.**

I. INTRODUCTION

Jakarta Composite Index (JCI) is stock market index of Indonesian Public's companies. There are several sectors in the Indonesian stock market and one of the promising sectors to invest in JCI is on mining sector, specifically coal mining. Indonesia's coal industry is one of the largest in the world where Indonesia is a coal producer and a coal exporter. China and India have the most demand for importing Indonesian coal. Based on the data that was provided, Indonesia is ranked at 2nd place with coal production of 15.05 exajoules (BP Statistical Review World Energy, 2020). Central Bank of Indonesia (BI) projects the growth of Indonesian economy in 2021 will be in the range of 4.3% to 5.3%. Coal mining activity contributes to Indonesia's GDP since Indonesia is large coal producer that exports its coal to neighboring country such as China, India, Malaysia, Japan, Vietnam. With the projection of positive economic growth in 2021 by Central Bank of Indonesia, this could lead to more coal are being exported and this will make PT. Indo Tambangraya Megah Tbk. benefit since at least 80% of its coal that has been produced are being exported to neighboring countries while the remaining coal are being sold to be used by domestic market. ITMG is selected because it is listed as top 10 constituent in mining sector based on its market capitalization and ITMG might be one of the most profitable company if coal price increases. ITMG also want to downstream its coal business into underground coal gasification project. ITMG is listed as one of stock in LQ45 index and also in IDX High Dividend 20 index.

Global coal price influenced the business of ITMG. After coal price reached its highest price in mid-2018, coal price started to decline. It was declining since mid-2018 until the end of 2019. This is caused by trade war that happened between US and China, and it is still an ongoing situation until now, this situation plays a role in crippling the global enthusiasm in coal. Global trading activities have been disrupted by the trade tensions. The stability of international markets, which coal was included has been challenged by the trade tensions too. The declining in coal price is also affected by oversupply. The declining of coal price starting from mid-2018 to the end of 2019 is depicted within the stock price of coal mining company in Jakarta Composite Index. Mining sector is the second lowest compared to the other sector within Jakarta Composite Index during 2019.

Fig. 1. Jakarta Composite Index and Sectoral Indices Movement 2019.

Mining sector might be the second lowest sector in the ranking, but this could be a turnover story where commodity price could rise which lead to the stock price of public company within mining sector give higher return. Due to this pandemic in 2020, stock market around the world has crashed, including JCI. March 2020 was the lowest point of JCI. This resulted in a big drop for many companies' stock price. Even though JCI dropped, the company's performance was the same as before, the drop more likely caused by the fear of investor from covid-19 pandemic. Seeing this market crash, investors tend to switch into safe haven assets such as bank deposit and purchase gold. When actually, this would be a good time into enter the stock market.

The stock price of ITMG has dropped significantly on March, and remain in sideways position from March. The author wanted to determine the intrinsic value per share of ITMG, to describe the financial performance of ITMG, to assess the coal business prospect for ITMG in the foreseeable future, and to assess ITMG stock in order to make recommendation for investor whether to buy, hold, or sell the stock.

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II. METHODOLOGY

First, the author conducts three analyses which were external analysis, internal analysis, and business strategy analysis. External analysis is conducted because the author wanted to know about the macroeconomic condition that affecting PT. Indo Tambangraya Megah Tbk. business. The coal industry in general will be analyzed during this external analysis process too. This external analysis process will be done by doing PESTEL analysis and Porter's Five Forces analysis. Several factors that have influence on the coal industry will be analyzed by using the PESTEL analysis. The competitiveness within the coal industry will be analyzed by using Porter's Five Forces analysis.

Internal analysis will be conducted in order to know the situation within the PT. Indo Tambangraya Megah Tbk. itself. The internal situation within PT. Indo Tambangraya Megah Tbk. will be analyzed by looking through the financial, human resources and organizational, reputational, and technological perspectives.

Business strategy analysis was conducted in order to know how PT. Indo Tambangraya Megah Tbk. doing in the environment of the business by conducting SWOT analysis and also business model canvas to gain understanding about PT. Indo Tambangraya Megah Tbk. advantages within the industry against the competitors.

The results that were gained by doing external analysis, internal analysis and business strategy analysis will be used for stock valuation process to determine the value of PT. Indo Tambangraya Megah Tbk. stock price. This stock valuation process will be using several valuation methods such as absolute valuation method and relative valuation method. For the absolute valuation method will be determined by using discounted cash flow (DCF) and for the relative valuation method will be determined by using PER and EV/EBITDA within the industry against its peers. The final part of this conceptual framework would be to figure out the conclusion of this research and to determine the recommendation for the investor whether to buy, hold, or sell PT. Indo Tambangraya Megah Tbk. stock that listed as ITMG in Indonesia Stock Exchange.

III. RESULTS

A. External Analysis

It is estimated that 4.9 percent is the amount of the global economy has contracted in 2020, some countries even contracted for more than 10 percent. In 2021, the global GDP is forecasted to grow by 4.6 – 6.1 percent, China has a different story, it is forecasted that the economy growth in China will accelerate to 7.9 percent in 2021. China strong economic growth is backed up with its strong economic activity which leads to a higher energy consumption, and this could lead to a greater benefit in the energy industry including coal this will lead to increasing demand for coal as source of energy. In Southeast Asia, the coal consumption has been increasing more than doubled in the last ten years, the largest coal consumption growth is in Indonesia and in Vietnam which then followed by Malaysia and Philippines. In year 2021, due to expected recovery of the economies, the coal demand in Southeast Asia is forecasted to be rebound for 7%. The demand for coal in Southeast Asia originates in the power sector which covers up for a large portion. Vietnam, Philippines, and Indonesia are all expanding the coal-fired power plant capacity (IEA, 2020). In Indonesia the primary energy mix in 2025, coal will still be the top contribution. While for the primary energy mix in 2050, coal will be in the second place after renewables energy (National Energy General Plan, 2020). For PESTEL Analysis:

Politic: Joe Biden is elected as the President of the United States of America. China's president Xi Jinping targets to cut carbon emissions relative to economic activity in China by 2030. The trade war between USA and China that is still happening. In Indonesia, government policy about national electricity program that is correlated with the domestic market obligation. Carbon credit issue.

Economic: Supply and demand of the commodities makes the price fluctuate, like what had happened in the past when the coal price dropped is caused by the oversupply of coal. The profitability of a company also depends on the foreign exchange rates, which is heavily influence on the coal business since it's all about importing and exporting of coal which happened between two countries with different currency. Also, in 2021, the global GDP growth is forecasted to be 4.6 – 6.1 percent.

Social: Indonesia is the fourth largest population country in the world with 268 million people in it. Half of Indonesia's population is located in Java Island which an area of only 6.74% the area of Indonesia. With 1.25% of annual population growth rate in Indonesia for the past 10 years, Indonesia will get demographic bonus in the near future according to statistical data provided by BPS.

Technological: The more technologies are advancing, the more they will help the company to make most of its activities to be more efficient and easier such as in operating activities and administrative activities. The implementation of technology within a company will boosted the efficacy of the business-related process which could lead to cost savings. New technology within coal industries opens up many possibilities such as goal gasification.

Environmental: The usage of coal has been associated with global warming since the combustion of coal is related with the release of CO_2 in which pollute water and soil.

Legal: The parliament of Indonesia passed a law amending the 2009 Mining Law which is the Law No.4 of 2009 on Mining Mineral and Coal. Mining business licensing, transfer of license, divestment requirements, and the extension of Coal Contracts of Work and Contracts of

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Work. There are also incentives to coal value-added production operation activities in the form of 0% royalty fee.

For Porter's Five Forces Analysis:

Threat of New Entrants – Low, high capital inflow and investment are required in order to enter the coal industry. In order to enter the coal mining business, a company needs to have lots of mining equipment, workforce, land concession, and exploration for new mining site and these requirements make the coal industry needs high capital and investments. The high switching cost and having logistic on behalf of the company also contribute to the barrier for new entrants.

Threat of Substitutes – Medium, fossil-fueled energy such as coal, gas, and oil have many substitutes by the renewable energy. Most of the countries in this world want to reduce carbon footprint by reducing the usage of fossil-fueled energy and change into renewable energy. Renewables are in track to surpass coal in terms of source of electricity in 2025. Although the demand for coal worldwide is declining, the demand in Asian countries is still expected to remain steady or grow.

Bargaining Power of Buyer – High, the number of coal producer is increasing and also the already exist coal producer are increasing its production target, then this could lead to the increased supply of coal. The buyer has high bargaining power to purchase the coal with cheaper price from various coal suppliers.

Bargaining Power of Supplier – Medium, there are various coal specification with different level of energy content that resides within the coal itself and this make the supplier have an advantage if the suppliers have access to high energy content coal. The availability and the amount of coal resources within the local area of each mining site owned by the company.

Industry Rivalry – Medium, many competitors in the coal industry, not only from domestic companies but also from foreign companies. Every coal mining company has its own market segment regarding to the production volumes and the coal specifications. Industry that needs a large scale of coal tends to buy the coal from coal producers with high volume of production in order to maintain the sustainability of its industry process. Small and medium industry that only needs a small amount of coal tends to buy the coal from coal producers with low volume of production.

B. Internal Analysis

From 2016 to 2018, both of the revenue and the net income of ITMG is increasing every year. This is caused by the increasing coal price worldwide, and ITMG business is mainly about exporting coal to neighboring countries. In 2019, the coal price started to decline, this is caused by the trade war between China and USA which lower the demand of coal, so the lower demand resulted in a declining coal price. In 2020, Covid-19 pandemic hits the world, and many manufacture activities were being halt and the demand for coal remain going down further resulting in lower coal price, but ITMG is still managed to have a positive net income throughout the year because of the excellence cost savings and efficient operation that is conducted by the company. For the financial ratios, ITMG has moderate liquidity ratios, ITMG has moderate inventory periods but with strong collection periods and strong total assets turnover, ITMG has strong debt to equity ratio, ITMG has moderate profitability ratios but with strong earnings per share, and ITMG has mediocre market ratios.

In the human resources and organizational factor, formal training that is conducted within the company is designed in such a way in order to improve the operational, managerial, and behavioral skills of the employees. In reputational factor, ITMG managed to achieve many awards and certifications throughout the year in 2020 and this is happened because the company can achieve a sustainable growth in three aspects which are environmental, social, and corporate governance by the implementation of company culture called as Banpu Heart. In technological factor, digitalization makes the company operate more efficient like an annual coal production increased by up to 2 – 5%, improved safety and performance of mining and hauling activities, and reduced fuel consumption in mining operations, which all of these events lead to cost efficiency for up to 10 million USD per annum (ITMG Annual Report, 2020).

C. Business Model Analysis

For SWOT Analysis the result was as follows:

Strength: High efficiency coal mining operation as can be seen in cost efficiency that has been done for up to 10 million USD per annum. Excellence cost reduction, the company reduced the average coal business cost by USD8 per ton in 2020. Integrated digitalization within the company across various departments which leads to cost efficiency and cost reduction.

Weakness: High price to earnings ratio compared to its peers within the same industry and business model. Have not yet down streaming the coal business into the renewable energy. The goal gasification project still on the planning process. Large part of its business is in the coal export to the international market. This can turn to its weakness because there is possibility that the demand for coal from neighboring countries are declining.

Opportunity: Increasing energy demand worldwide after contracted progress of manufacturing and other activities that require a huge amount of energy due to Covid-19 pandemic. Strong economic growth in neighboring countries which are the market for ITMG coal exporting business. Coal gasification prospect in the near future for renewables energy which will lead to more diversified business model of the company.

Threat: The coal price is still strongly influenced by the policy of China government since China is the highest coal consumer and producer, making the coal price volatile. New policy by the government to reduce carbon footprint

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in the world, so limiting the use of fossil-fueled energy such as coal.

D. Absolute Valuation

In the absolute valuation model, Discounted Cash Flow (DCF) method will be used. The Free Cash Flow to Firm (FCFF) model will be used in the DCF analysis, so that investors know the cash flow that is available to the company after the company has paid its operating expenses and also its capital expenditures. Therefore, investors can do valuation for the stock price of ITMG based on its future earnings. The data that will be used in this research is from 2016 – 2020. The risk-free rate is 6.48% obtained from government bond 10 years yield, the country default spread is 1.68% obtained from Damodaran and Moody's rating, the company default spread is 0.63% obtained from Damodaran, the equity risk premium is 6.56% obtained from Damodaran, and the beta stock is 1.055 obtained from Pefindo. Finally, the WACC is 11.569%. The income statement projection and balance sheet projection assumptions are based on the historical data of ITMG from 2016-2020, for the growth percentage is obtained by using the percentage of revenue.

For the revenue projection, it will use linear regression model by Excel, which based on the effect of coal price to the revenue. The starting coal price for 2021 is using the average of last 6 months price which is 79 USD/mt and increases 5% per year.

To determine the cash flow of the firm, there are 3 variables that are needed to be determined first. EBIT is obtained by subtracting the gross profit with the operating expenses. EBITDA is obtained by adding back the depreciation and amortization expense to the EBIT. NOPAT is obtained by subtracting the operating profit with the company tax rate. Free cash flow to firm (FCFF) is obtained by subtracting the cash flow from operation with the capital expenditure and also with the change in the net working capital. Next, FCFF for each year is discounted by the weighted average cost of capital to know the discounted cash flow for each year, and also the terminal value of the company is also computed too.

By summing up all the DCF for each year and also the terminal value, it will get the firm value. In order to know the intrinsic value of the company, the firm value of the company will be subtracted by the company's current outstanding debt and then divided its result with the current shares outstanding of the company. Intrinsic value per share or fair value per share of ITMG after conducting this analysis is IDR 15,910 per share and it has margin of safety 34% to the current market price with close price 26 April 2021. Current market price for ITMG is IDR 11,850 and since the intrinsic value is higher than the current market price then the stock is undervalued based on the DCF model analysis.

E. Relative Valuation

The relative valuation for ITMG is conducted in order to know the value of ITMG stock price in comparison with its peers and its competitors within the same industry. In this research, price to earnings ratio (PER) and enterprise value to earnings before interest, taxes, and depreciation amortization (EV/EBITDA) will be used. Competitors of PT. Indo Tambangraya Megah Tbk. (ITMG) within the same industry which are also listed in Indonesia Stock Exchange are PT. Harum Energy Tbk. (HRUM), PT. Indika Energy Tbk. (INDY), PT. Adaro Energy Tbk. (ADRO), and PT. Bukit Asam Tbk. (PTBA).

Table 1 Price to Earnings Ratio

Stock	2016	2017	2018	2019	2020
ITMG	10.86	6.83	6.03	7.21	28.52
HRUM	32.26	9.04	8.22	13.87	9.82
ADRO	12.06	9.09	6.42	8.85	22.39
PTBA	14.36	6.33	9.86	7.55	13.56
Industry Average	17.39	7.82	7.63	9.37	18.57
Discount or Premium	-38%	-13%	-21%	-23%	54%

Based on the comparison of the price to earnings ratio analysis, it can be seen that PER for ITMG is below industry average from 2016 until 2019, only 2020 that it is above the industry average, in fact ITMG has the highest PER within the same industry in the year 2020. This might happen because of the positive sentiment that was brought by the increasing coal price, while the company has not been generating revenue with the higher average selling price of coal. INDY was not included since the PER has a negative value and considered as outlier.

Table 2 EV/EBITDA

Stock	2016	2017	2018	2019	2020
ITMG	5.18	3.92	3.39	4.54	6.45
HRUM	5.78	2.44	1.89	2.05	18.82
INDY	7.13	10.55	3.83	5.62	9.57
ADRO	6.38	4.49	3.21	4.34	5.15
PTBA	10.05	4.83	6.74	5.25	8.02
Industry Average	6.90	5.25	3.81	4.36	9.60
Discount or Premium	-25%	-25%	-11%	4%	-33%

Based on the comparison of EV/EBITDA ratio analysis, it can be seen that EV/EBITDA for ITMG is below industry average from 2016 until 2018 and in 2020 again, only 2018 that it is above the industry average, in fact ITMG has the second lowest EV/EBITDA within the same industry in the year 2020.

IV. DISCUSSION

From the relative valuation point of view, in this case is using EV/EBITDA, ITMG was under the average industry from 2016 to 2018, this makes ITMG is rather has a cheaper stock price than the average industry and would be a good pick, and since the coal price is increasing from 2016 to 2018, and ITMG business model is exporting coal to neighboring countries, investors tend to invest in ITMG and make the price is rising from 2016 to 2018. Now with the global economy recovery and the increasing demand of coal, and with the low EV/EBITDA ratio, ITMG would be a good company to invest in mining sector with a fair price that 34% above the current market price and relatively cheaper than its peers within the same industry.

V. CONCLUSION

According to the financial performance analysis during the period of 2016 to 2020, PT. Indo Tambangraya Megah Tbk. has moderate liquidity ratios, moderate inventory periods but with strong collection periods and strong total assets turnover, strong debt to equity ratio, moderate profitability ratios but with strong earnings per share, and mediocre market ratios.

According to the macroeconomic, external, internal, and business model analysis that was conducted, PT. Indo Tambangraya Megah Tbk. still has good prospect business in the coal industry with big opportunity in mind which was down streaming the coal business into renewable energy products that are more friendly to the environment since many big countries in the world that used to consume coal in high numbers are starting to limit the use of coal in their country and switching to renewables energy. In the short term, coal is still the top selection for manufacturing and power generation, and with the forecasted economic growth post pandemic in China and other neighboring countries, PT. Indo Tambangraya Megah Tbk. will benefit from this situation as global coal demand rebound, specifically within the Southeast Asia region.

According to the valuation that has been conducted by using the absolute and relative valuation method, both have good result for PT. Indo Tambangraya Megah Tbk. It is concluded to buy ITMG stocks.

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