

Assessing the Future Prospect Investment of Coal Mining Company: PT Indika Energy Tbk

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Abstract - Coal has a negative impact on the environment. Coal can cause global warming, water pollution, air pollution, and various diseases for humans. However, coal is multifunctional energy sources that widely used in various industry and manufacture. Various countries of the world, as well as financial institutions, have agreed not to provide investment and funding to the development of coal power plants. By using PESTEL, Porter Five Forces, Financial Analysis, Financial Ratio, and Valuation author analyzed the investment prospects in coal companies, especially PT Indika Energy Tbk. Coal sector growth in the long term predictably is relatively limited even decreasing. However, in the short term, the demand will still be very large. That's because renewable energy still can't cover the huge energy needs. The supply deficit due to COVID-19 is likely to push up coal prices. Strong historical financial condition, good management, and undervalued valuation make PT Indika Energy Tbk attractive enough to be an investment object.

Keywords - Coal Sector, Environment, Investment Prospect

I. INTRODUCTION

Coal is a type of combustible hydrocarbon rock with a brownish black color that is formed from plants buried in the ground so that it undergoes a decomposition process in oxygen-free conditions under pressure and heat with a certain temperature for a very long period of time (Roebroeks and Villa, 2011; Gowlett, 2016; (Hirst, 2019). Coal is a multifunctional commodity that is used as a raw material or the process of making several industrial goods that are widely used by the community (Miller, 2011). Coal is used in the power plant generation industry, where 41% of power plants in the world using coal as a fuel (Nataly Echevarria Huaman & Xiu, Jun. 2014). The CO_2 produced from burning coal is twice to four times more than oil (Ren & Patel 2009). Coal emissions contributed 90% of the world's CO_2 in 2011 (Olivier, Peters, and Janssens-Maenhout 2012). The continuous increase in CO_2 has an impact on climate change and global warming which correlates with the occurrence of floods and storms as a whole (Gething et al., 2010, Henderson-Sellers et al., 1998; Pielke and Pielke, 1997, Simpson and Riehl, 1981).

Because of that, almost all countries in the world have a plan to reduce their consumption of coal. China, one of the largest export destinations for Indonesian coal (33% of total coal exports), has promised to eliminate carbon production by 2060 (Ping XJ, 2020). China also promised to reduce coal consumption, which previously

56.8% will be reduced to 52% in 2025. In addition, India, one of the countries that contribute 27% of Indonesia's total coal exports, has begun to increase the development of EBT (Renewable Energy) to reduce the use of coal. Various countries in Europe such as (France and Germany) have closed their last mines and coal plants in 2004 ((Bezzina, 2004) and 2018 (Campbell, 2020; Reuter et al., 2020). Even other countries have committed to reducing their use of coal gradually (Casey, 2020). several banks have implemented green financing which complicates financing for coal companies and power plants (Thornhill, 2020).

The reduction in global coal consumption will be a threat for coal companies in Indonesia and also the world. One of them is PT Indika Energy Tbk. Therefore, the author raises the title about "Assessing The Future Prospect Investment of Coal Mining Company: PT Indika Energy Tbk" to answer the investor question regarding the prospect investment in coal mining company especially PT Indika Energy Tbk.

II. METHODOLOGY

A. Data Collection Method

In this research, the authors use secondary data as a study material. Secondary data include financial statement reports, annual reports, public expose, news, yahoo finance, barchart website, tradingeconomics website, coal association website, journal, books, previous research and many other sources to support this study case. All of this information is used by the authors to conduct this study.

B. Data Analysis

The author will conduct two analysis approach. For the first is external analysis and the second is internal analysis. External analysis is to find out external factors that can affect the company's prospects in the future. In this external analysis, the author will use two methods, PESTEL and Porter Five Forces. PEST analysis is a tool to evaluate and understand strategic risk, that will make us know about how the changes of macroeconomic factors will impact the company operation and position (Sammot-Bonnici and Galea, 2015). The five-force framework is a tool for the identification of certain powers in a business by using external or outside perspectives (Johnson, Scholes, & Whittington, 2008).

Internal analysis is the analysis of the company such as financial statements, valuations, and company strategies. Internal analysis is a specific analysis of PT Indika Energy Tbk directly. The author will use DCF method for valuation calculation. DCF is the summation of present value of future free cashflow and present value of terminal value (Florian Setiger, 2008). The formula can define as,

$$\text{Company Value} = \sum_{t=0}^n \frac{FCF_t}{(1+r)^t} + \text{Terminal Value} \quad (1)$$

Company value same as enterprise value. To get the equity value we should reduce by outstanding debt. The formula can define as,

$$\text{Equity Value} = \text{Company Value} - \text{Debt Outstanding} \quad (2)$$

III. RESULTS

A. PESTEL

- *Politic*

The maritime minister said that Indonesia would gradually stop using coal-fired power plants. This was done as a response to the national program to reduce carbon gas emissions by 29% in 2030. G7 such as the US, Canada, Italy, France, Germany, Britain, and Japan have agreed to no longer provide financing for coal projects in a short time. Trade war between China and Australia give benefit to Indonesia coal market. China is the biggest coal consumption and production in the world. China's policies related to coal will be quite influential on the condition of the global coal market. Indonesia government issued a policy that every company must sell at least 25% domestically.

- *Economic*

The COVID-19 pandemic has had a considerable impact on the economies of all countries in the world. The impact of COVID-19 on the country's economy is reflected in the country's GDP growth, where Indonesia itself at the end of 2020 was -2.07%. This condition does not only occur in Indonesia but also in other countries, including destination countries for PT Indika Energy's Tbk coal sales. During 2020, almost all countries prioritized their state funds for public health and welfare. This will have an impact on coal demand.

- *Social*

Indonesia is one of the largest coal-producing countries in the world, where Indonesia contributes nearly 5.5% of coal production in the world. Indonesia. Indonesia's coal reserves are still very large. The existence of this potential opens up wide

job opportunities for the people of Indonesia with the existence of coal companies. The coal industry has a considerable influence on the economy and welfare of some people. On the other hand, there are also people who suffer losses with the presence of coal companies.

- *Technology*

UCG (Underground Coal Gasification) technology is a technology used by coal miners to convert coal into a gas by burning coal in the ground using oxygen injected through injection wells. Another technology is Clean Coal Technology, which is a technology that can regulate coal emissions such as *SO*, *NO* and *CO* generated from coal-fired power plant operations. Even though does not eliminate emission gases, at least reduces emission gases that will be released into the air.

- *Environment*

Coal combustion emission gases produced by the power plant are *SO*₂, *NO*, mercury, particulates, and various other heavy metals. These gas emissions are very dangerous for human health. Burning coal that produces carbon will react with oxygen in the air to produce *CO*₂. *CO*₂ is like a blanket that makes the earth warmer. The impact of this can result in rising earth temperatures, prolonged droughts, extreme weather, floods, rising sea levels, and the extinction of various species. Other environmental impacts of the coal mining process include the exploitation of forests so that the number of trees that can absorb carbon and minimize global warming is reduced. Burning coal produces ash, where the ash can end up in landfills, rivers, and lakes which at any time can pollute the water.

- *Legal*

Ministerial Decree ESDM Number 261 K/30/MEM/2019 concerning the fulfilment of domestic coal needs in 2020, in which coal companies are required to sell a minimum of 25% to domestic. PP No.25 of 2021 concerning 0% coal royalties for companies that carry out downstream or value-added. Law No. 21 of 2020 concerning job creation which states that coal is officially a taxable item of 10%.

B. Porter Five Forces

- *Rivalry Among Existing Competitors*

The rivalry between existing competitors is classified as medium to low at this time, because the number of applicants to the coal business has been relatively declining in line with the policy on environmental sustainability. Almost all company no longer invests the capital expenditure for the coal business segment. But the demand for coal will still exist. The majority

of the world's electricity supply comes from coal. So, there may be competition between coal companies looking for mining resources because coal is nonrenewable and have limited sources.

- *Threat of New Entrants*

The threat of New Entrants in the coal industry is relatively low because this industry is not easily entered by everyone (high barrier to entry). The market interest in doing business in the coal sector is relatively declining due to the increasing pressure on coal companies by local and global government regulations.

- *Bargaining Power of Suppliers*

The bargaining power of suppliers from coal industry companies, especially PT Indika Energy Tbk, is relatively low. PT Indika Energy Tbk company is an integrated coal company. The integration starts from the mining, transportation, and mining construction. So that, the bargaining power of suppliers will be weak because the supplier PT Indika Energy Tbk is its subsidiary.

- *Bargaining Power of Buyers*

The bargaining power of buyers in the coal industry or other commodities is strongly influenced by supply and demand conditions. When supply is large and demand is low, the position of the buyer is higher than the seller, where the bargaining power of the buyer will be greater than the seller. At that time, the price of coal usually decreased (low). On the other hand, when demand is higher than supply, the bargaining power of buyers is low

- *Threat of Substitute Products and Service*

The threat of substitutes for coal is very high. Coal are very good energy sources to be used as a source of electricity generation at relatively low prices. Even so, the negative impact that coal has on the environment is very dangerous. Therefore, many alternative energies have been developed to replace coal as a source of electrical energy, including nuclear energy, wind, water, solar PV, natural gas, biomass, and geothermal.

C. *Financial Statement*

- *Asset*



Figure 1. PT Indika Energy Asset Growth 2011-2020

PT Indika Energy's total assets grew at a CAGR of 12.5% from Rp16.15 trillion in 2011 to 46.71 trillion in 2020. The Company's Current Assets grew at a CAGR of 13.4% from Rp6.34 trillion in 2011 to Rp19.6 trillion in 2020. The company's Non-Current Assets also grew with a CAGR of 10.7% from Rp11.9 trillion in 2011 to Rp29.6 trillion in 2020. This is an indication that the company continues to grow and develop from 2011-2020 as evidence of its operational success. Even though if we look at the annual growth from 2019-2020, the company assets decline due to the impact of the COVID-19 pandemic. The company's total assets decreased by 1.8% from Rp47.5 trillion to Rp46.7 trillion.

- *Liabilities*

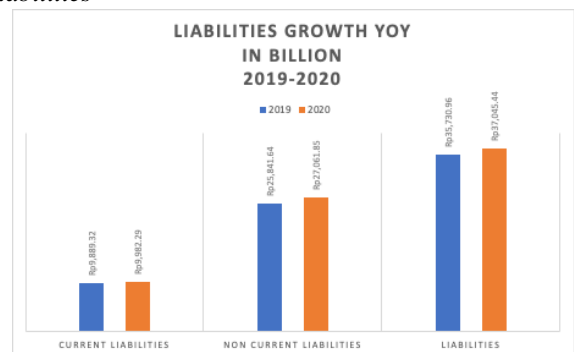


Figure 2. PT Indika Energy Liabilities Growth Year on Year

The company's liabilities increased year on year (YoY), where the company's total liabilities increased by 3.7%, non-current liabilities increased by 4.7% and current liabilities increased slightly by 0.9%. The increase in current liabilities was more influenced by the weakening rupiah exchange rate, because the company's current liabilities in dollars decreased by around US\$ 3.6 million. From the total company debt, bonds payable have the largest composition. The company debt to equity ratio is 3.8 times. It means that total debt of company is bigger 3.8 times than equity of company. Its relatively high.

- *Equity*

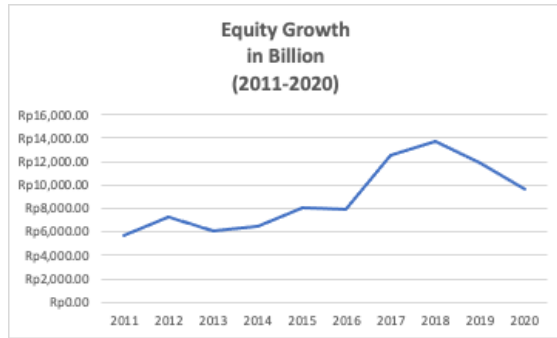


Figure 3. PT Indika Energy Equity Growth 2011-2020

From 2011-2020 the company's equity grew at a CAGR of 6.2%. This indicates that the company is growing and making a profit. Even so, the company's equity tends to decline from 2018-2020. The total company's equity reached its peak in 2018, with total equity Rp13.73 trillion. In 2020 the company's equity was Rp9.67 trillion, a decrease of 29.6% since 2018. This is due to the continued decline in coal prices from 2018.

- Income Statement

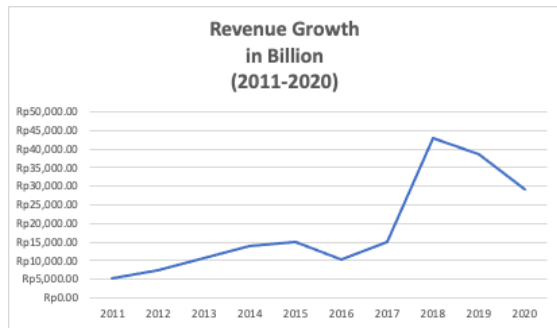


Figure 4. PT Indika Energy Revenue Growth 2011-2020

The company's revenue in 2011 was Rp5.2 trillion and in 2020 it was Rp29.29 trillion, growing at a CAGR of 21.2%. The company's largest revenue was obtained in 2018 with a total of Rp 42.9 trillion. From 2018-2020 the company's revenue continued to decline by 31.7%. On a YoY (Year on Year) basis, the company's revenue decreased by 24.3%. This decrease was caused by the decline in coal prices.

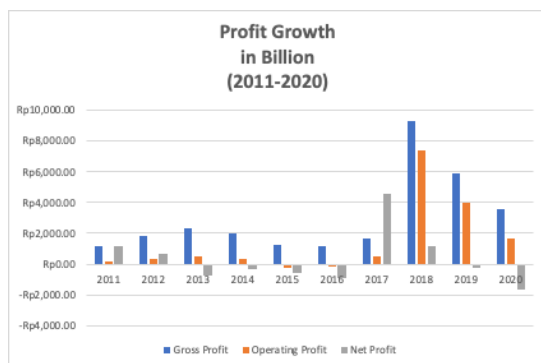


Figure 5. PT Indika Energy Profit Growth 2011-2020

PT Indika Energy's profit has fluctuated from year to year, influenced by the fluctuated of coal price. In 2020, the company's gross profit decreased by 39.6%, the company's operating profit decreased by 59.4% and the company's net profit decreased by 556.8%. The company suffered a considerable loss, but the loss was not caused by operational factors, but by the amortization expense of intangible assets. If the cashless factors are eliminated, the company can still get a profit of Rp0.18 trillion or Rp180 billion.

- Statement of Cashflow

From 2016-2020 the company's operating cash flow is always positive, meaning that the company always gets cash from its business activities every year. However, the cash generated from the company's operating activities does not consistently increase because the coal market is cyclical. In 2020 the company generated positive cash flow despite the pressure from COVID-19 and coal prices which declined to their lowest level. The cash flow generated by the company in 2020 was Rp1.73 trillion. From 2017-2020 the company's investing cash flow has always been negative. This means that the company for the last four years has always set aside cash for investment activities for company development. The company's financing cash flow from 2016-2020 is always negative except in 2017 and 2020. Positive cash flow financing means that the loan or receipt of funds is greater than the payment of obligations made by the company.

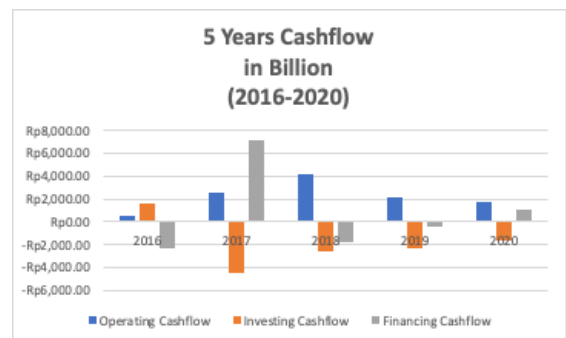


Figure 6. PT Indika Energy Tbk Cash Flow 2016-2020

D. Valuation

TABLE 1. ENTERPRISE VALUE CALCULATION

In Million	2021	2022	2023	2024	2025	PV Terminal Value
PV Free Cash Flow	US\$ (0.29)	US\$ 35.62	US\$ 101.89	US\$ 152.95	US \$156.00	US\$ 1,869.82
Enterprise Value						US\$ 2,315.98

To know the enterprise value of company we can sum of the present value of free cashflow and present value of terminal value. So, based on the table above, we know that PT Indika Energy enterprise value is US\$ 2,315.98 million. To know the equity value of the company, we must reduce it with current outstanding debt of US\$ 1,696.77 million. So that the equity value will be obtained by US\$ 619.22. To know the value of equity value per share, it must be divided by the number of outstanding shareholders as much as 5,210,192 million. The company equity value per share is US\$ 0.12. If converted into rupiah, at an exchange rate of Rp 14,106, then the equity value per share of the company is Rp1,676.46 per share. Whereas the current price of company share is Rp1430.

IV. DISCUSSION

In the long run coal use most likely will continue to decrease. However, not all regions have good potential in the development of renewable energy. For examples the development of wind and solar power plants. Not all countries have good enough sources in the development the new renewable energy from wind and solar. Therefore, it will take time for the transformation from coal to renewable energy. This transformation must be accompanied by the calculation of the fulfillment of energy needs .

The COVID-19 pandemic has made many countries in the world focus on health and economic recovery. Various countries reduced coal demand and began to develop renewable energy. This caused coal companies to lower their production targets. Whereas renewable energy will not be enough to cover the current energy needs. Indonesia renewable energy consumption in 2020 is 11.51% based on Ministry of Energy and Mineral Resources press release. Its means only 11.51% renewable energy contribution to total energy consumption in Indonesia. In the previous review, the replacement of coal will not occur as long as coal is cheaper compared to renewable energy.

Deficit supply due to pandemic and the need for coal as an energy source will most likely push up coal prices in 2021. This makes coal prospect will still be very

interesting. PT Indika Energy Tbk has a fairly good financial performance but has a considerable total debt. Even so, the level of liquidity of the company is still very good. With the company's valuation value based on DCF calculation at Rp 1,676.46, making the company's share price undervalued with MOS (Margin of Safety) of 14.70%. When we buy the company's shares at a price of Rp 1430 per share, we get a discount 14.70% from the equity value of Rp 1,676.46 per share.

Predictions of rising commodity prices due to deficit supply will be the catalyst for improving the performance of coal companies after the pandemic. With the share price still undervalued makes PT Indika Energy Tbk attractive as a place to invest.

V. CONCLUSION

The coal prospect is still good and very attractive. Therefore, coal will still be needed. Supply deficit after COVID-19 potentially makes coal prices rise high. PT Indika Energy Tbk overall performance is quite good. In the long run the company relatively continues to grow. Although the company's debt is quite large, the company has a good liquidity ratio value. PT Indika Energy's share price is undervalued with MOS 17.40%.

With consideration of prospect, company performance and also valuation, PT Indika Energy is quite attractive to invest by investors. So, the author recommended buy for PT Indika Energy Tbk.

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