

MNC ENERGY INVESTMENTS (IATA)

Undemanding valuation despite the anticipated positive contribution from Oil & Gas and Coal mining business units



BUY

390

Target Price (Rp)
70% Potential Return
 Current Price: 230

COMPANY UPDATE

We initiate IATA with a BUY rating at a TP of 390 (70% potential return from the current 230), due to its potential recovery of financial performances following the anticipated contribution from Bhakti Coal Resources (BCR) and Bhakti Migas Resources (BMR) which is expected to compensate for its underperforming aviation business.

Post the consolidation of BCR, IATA 1Q22 Revenue/EBITDA is recorded at USD 40.4/23.5 mn. Net Profit managed to recover to USD 9.4mn from 0.5mn of net loss in FY21. We project 22F/23F EBITDA and Net Profit to reach USD 233.4/260.1 mn and 93.35/104.05 mn, respectively, following the anticipated 7.8/8.2 mn tons on coal production in 22F/23F.

Therefore, at the expected market cap of Rp4.65 tn post the rights issue, IATA is currently trading at an undemanding valuation of only 3.5/3.1x of its 22F/23F P/E ratio. Our TP is implying 4.8/4.3x of its 22F/23F P/E ratio. Still quite a bargain if compared to its peers, PTBA and ADRO which currently trades at 5.3x and 7.6x of its P/E ratios, respectively. IDX ENERGY companies are currently trading at a median of 9.1x of its respective P/E ratios (Trailing 12M).

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Initiate with a BUY rating at a TP of 390 (70% potential return from the current 230)

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IATA is planning to issue 14.84bn of new series-B shares. Along with the rights issue, there are also 2.97bn of warrants and 1.14bn of private placement shares. The proceeds will be used to pay off its promissory notes worth USD 140mn (Rp2 tn) in order to acquire BCR from PT Bhakti Investama Tbk (BHIT) and to finance its future working capital. AGMS is scheduled for 18-May-2022.

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Brief Company Profile

PT MNC Energy Investments Tbk (IATA) used to be known as PT Indonesia Transport & Infrastructure Tbk which previously involve solely in the business of chartered aviation and port infrastructure. Due to the negative impact of the pandemic to the aviation industry, as of February and April 2022, the Company decided to enter the coal mining and oil & gas business by acquiring and consolidating PT Bhakti Coal Resources (BCR) and PT Bhakti Migas Resources (BMR), respectively. Both entities are under the common control of MNC Group.

BCR have majority ownerships in 9 coal mine assets located in Musi Banyuasin (South Sumatera). Calorific value varies between 2600-3800 kcal/kg. Total reserves and resources are estimated to reach 261.74mn and 1.6bn metric tons, respectively. Stripping ratio 2.5 - 3.5 - 4x.

BMR is expected to own the Participating Interest and Production Sharing contract of the Semai III block (West Papua) post the anticipated acquisition of 85% of PT Suma Sarana (SS, pending Government approval), which is estimated to have 31.8tn cubic feet of unproven gas resources.

We held a site visit to several of BCR's coal mine assets, which are APE, PMC and BSPC-N. Key takeaways are as follows:

- BCR total production volume is expected to reach 7.8mn metric tons this year, from 4 of its assets, which are APE, PMC, BSPC and IBPE. The other 5 assets are expected to be fully operating once the Company secured contractor and possibly other strategic investor.
- Going forward, it is planning to acquire its own barge vessel and establish a trading company so that it can sell higher cv coal from other mining operators.
- During the first day, we took part in the inspection of drilling process performed in the APE (Arthaco Prima Energi) site. It is expected to be fully operating in the next 5-6 months. Production volume is targeted to reach 1mn metric tons this year. Calorific value 3000 – 3500 kcal/kg. Total resources are estimated to be more than 792mn metric tons.
- During the second day we witnessed the coal mining and loading process in some of PMC and BSPC pits and jetties.
- PMC (Putra Muba Coal) has been fully operating. Production volume is targeted to reach 4.5mn metric tons this year. Calorific value 3000 – 3600 kcal/kg. Total resource left is estimated to be around 76.9mn metric tons.
- BSPC-N (Bhumi Sriwijaya Perdana Coal - North) has been fully operating. Production volume is targeted to reach 1.8mn metric tons this year. Calorific value 3200 - 3300 kcal/kg. Total resources are estimated to be more than 130mn metric tons.
- In order to increase production, it is planning to build its own hauling road, considering that it currently still using village road with limited capacity.

Investment Risks

- Lower-than-expected coal production volume of 7.8/8.2 mn tons in 22F/23F.
- Higher-than-expected loss recognition from its aviation business.
- Smaller-than-expected EBITDA and Net Profit of USD 233.4/260.1 mn and 93.35/104.05 mn in 22F/23F, respectively.

Key Assumptions			
(USD mn)	2022F	2023F	2024F
Revenue	397.2	438.4	489.3
EBITDA	233.4	260.1	293.2
margin	58.8%	59.3%	59.9%
Net Profit	93.4	104.0	117.3
margin	23.5%	23.7%	24.0%
(mn tons)	2022F	2023F	2024F
Coal Volume			
Production	7.79	8.18	8.67
Sales	7.71	8.10	8.58
Current Price	230	230	230
P/E, post RI	3.5	3.1	2.7
Target Price	390	390	390
P/E, post RI	4.8	4.3	3.8

Shareholders, post rights issue:	
Global Transport Services	7.59%
Oxley Capital Investment Ltd	7.43%
Public & others	84.98%
Current mkt cap	
post rights issue (Rp bn)	4,652

Sources: IATA, IDX, Bloomberg, HP Analytics

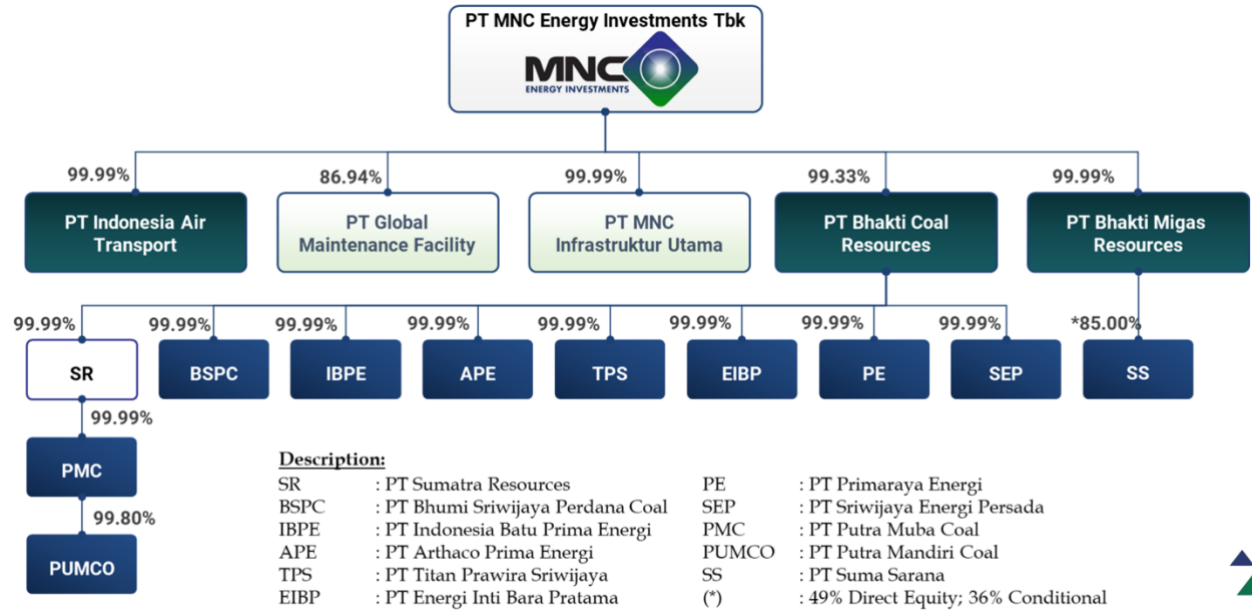
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MNC Energy Investments (IATA) Organization Structure

List of subsidiaries post the anticipated consolidation of BCR (Bhakti Coal Resources) and BMR (Bhakti Migas Resources):



MNC Energy Investments (IATA) Coal Mining Business under Bhakti Coal Resources (BCR)

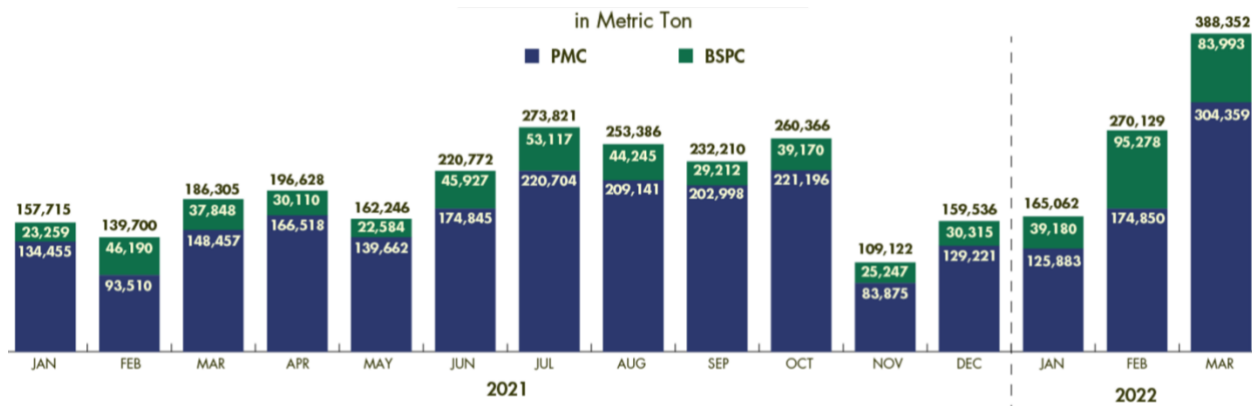
BCR is targeting FY22 coal production volume of 7.8mn metric tons. Total reserves and resources is estimated to reach 261.74mn and 1.6bn metric tons, respectively.

IUP	Area (ha)	GAR (kcal/kg)	Resources (MT)				Reserves (MT)		2022 Production Target
			Measured	Indicated	Inferred	Total	KCMI	Internal Assessment	
Based on Indonesian Joint Committee for Mineral Reserves (KCMI)									
BSPPC-N	4,708	3,200 - 3,300	74,500,000	29,500,000	26,700,000	130,700,000	83,275,520		1,800,000
PMC	2,947	3,000 - 3,600	60,400,000	12,900,000	3,600,000	76,900,000	54,822,642		4,500,000
Subtotal	7,655		134,900,000	42,400,000	30,300,000	207,600,000	138,098,162		6,300,000
Based on Internal Assessment									
APE	15,000	3,000 - 3,500	297,086,038	264,076,478	231,066,918	792,229,434		103,827,266	1,000,000
IBPE	15,000	3,100 - 3,500	211,105,054	187,648,937	161,540,293	560,294,284		7,104,000	500,000
BSPPC-S	2,158	2,600 - 3,800	15,777,000	6,581,000	2,028,000	24,386,000		9,831,388	
PUMCO	1,526	3,000 - 3,500	9,632,701	756,100		10,388,801		2,876,576	
PE	4,424		295,417	871,883	1,496,160	2,663,460			
TPS	6,015		62,591	1,520,220	3,443,479	5,026,290			
SEP	8,596		38,906	296,312	607,672	942,890			
EIBP	13,630								
Subtotal	66,349		533,997,707	461,750,930	400,182,522	1,395,931,159		123,639,230	1,500,000
Total	74,004		668,897,707	504,150,930	430,482,522	1,603,531,159	138,098,162	123,639,230	7,800,000

Sources: IATA, IDX, HP Analytics

BCR Sales & Production Volumes

1Q22 Coal Sales Volume reaching 388,352 metric tons.



1Q22 Coal Production Volume reaching 360,596 metric tons.



Sources: IATA, IDX, HP Analytics

Our visit to BCR sites

Drilling process at APE (Arthaco Prima Energi) site



Drilling process at APE site



Sources: IATA, HP Analytics

Our visit to BCR sites

Sample of drilling material taken from APE (Arthaco Prima Energi) site



One of the Jetties at PMC (Putra Muba Coal) site



Stockpiles at PMC site



Mining activity at one of the pits in BSPC (Bhumi Sriwijaya Perdana Coal) site



Stockpiles at BSPC site



Mining activity at one of the pits in BSPC site



Sources: IATA, HP Analytics

Our visit to BCR sites

One of the jetties at BSPC (Bhumi Sriwijaya Perdana Coal) port



Loading process at one of the jetties at BSPC port



Sources: IATA, HP Analytics

MNC Energy Investments (IATA) Oil & Gas Business under Bhakti Migas Resources (BMR)

Semai III is estimated to have 31.8tn cubic feet of unproven gas resources.

Prospect Name	Oil Case (BBO, Billion Barrel Oil)						Gas Case (TCF, Trillion Cubic Feet)					
	OOIP (Original Oil in Place)			EUR (Estimated Ultimate Recovery), RF=20%			OGIP (Original Gas in Place)			EUR (Estimated Ultimate Recovery), RF=70%		
	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High
Poksai	1.2	7.3	20.6	0.2	1.5	4.1	2.0	13.5	42.4	1.4	9.5	29.7
Murai Batu	0.4	6.6	31.7	0.1	1.3	6.3	0.6	12.1	65.2	0.5	8.5	45.7
Cucak Ijo	0.3	7.4	28.3	0.1	1.5	5.7	0.6	13.7	58.3	0.4	9.6	40.8
Kaleyo-Oplor	0.1	3.1	10.8	0.0	0.6	2.2	0.2	6.2	23.8	0.2	4.3	16.7
Total	2.0	24.4	91.4	0.4	4.9	18.3	3.4	45.5	189.7	2.4	31.8	132.8

Sources: IATA, IDX, HP Analytics

Rating Scale


BUY	: We expect the stock's total return to exceed 10% over the next 12 months.
HOLD	: We expect the stock's total return to be between 0% and positive 10% over the next 12 months.
SELL	: We expect the stock's total return to fall below 0% or more over the next 12 months.
NOT RATED	: We are not assigning any rating or price target to the stock.
OVERWEIGHT	: Fundamentals are improving.
NEUTRAL	: Fundamentals are steady.
UNDERWEIGHT	: Fundamentals are worsening.




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