Darma Henwa

Bloomberg: DEWA.IJ | Reuters: DEWA.JK

Mining Services Sector

29 November 2023

SAMUEL SEKURITAS INDONESIA

Your Lifelong Investment Partner

JCI Index: 7,041

BUY (Initiation)

Target Price (IDR)	**85 (Initiation)**
Potential Upside (%)	**21.4**

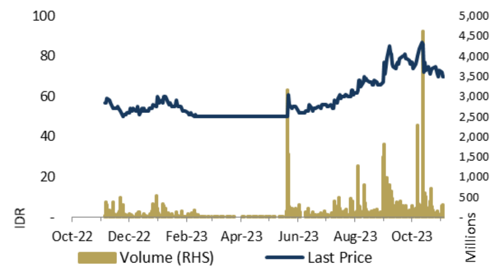
Price Comparison	
Cons. Target Price (IDR)	n.a
SSI vs. Cons. (%)	n.a

Stock Information	
Last Price (IDR)	70
Shares Issued (Mn)	21,854
Market Cap. (IDR Bn)	1,530
52-Weeks High/Low (IDR)	93/50
3M Avg. Daily Value (IDR Bn)	32.4
Free Float (%)	88.5
Shareholder Structure:	
Goldwave Capital Limited	17.46
Zurich Assets International	11.50
Public (%)	71.04

Stock Performance

(%)	YTD	1M	3M	12M
Absolute	32.1	(7.9)	2.9	22.8
JCI Return	2.6	4.0	1.0	0.3
Relative	29.4	(11.9)	1.9	22.5

Stock Price & Volumes, 12M



Company Background

PT Darma Henwa Tbk provides integrated mining services, including exploration, mining, and hauling, primarily for Indonesian coal miners. It operates under a mining contractor business model, offering a range of services to support the mining operations of its clients.

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A New, Golden Chapter

We initiate our coverage on DEWA with a BUY and a DCF-based TP of IDR 85 per share (CoE: 13.8%), implying a 2024F PE of 7.9x. We project DEWA to generate net profits of USD 29mn in FY24F and USD 32mn in FY25F, supported by its coal mining projects' expansion (KPC, Arutmin, and CLS), potential copper and gold mining projects in Gorontalo and Palu, and lower interest expense. The company plans to hold a private placement by issuing a maximum of 18.26 billion ordinary Series B shares with an exercise price of IDR 50/share, and the proceeds will be used to settle some of its debt obligations in an effort to turn the company into a net cash company by 2024F.

Potential additional earnings from new projects. We project DEWA to book solid revenue growth, with a 6-year CAGR of 7.0% from pre-COVID years to 2024F, driven mainly by the expansion of its coal mining projects (KPC, Arutmin, and CLS). As an integrated mining services company, the company will also focus on non-coal mineral mining services; the company has been actively seeking potential projects this year, focusing mainly on non-coal mining projects in Gorontalo and Palu. These projects, which include mining activities and the construction of port, mine roads, and gold ore processing facilities, should help boost DEWA's revenue in the future, as those projects have an estimated mineral ore content of more than 400mt.

Positive sentiment from the upcoming Private placement. DEWA plans to hold a private placement by issuing a maximum of 18.26bn ordinary series B shares with an exercise price of IDR 50/share, subject to approval of the company's EGM that will be held on December 18, 2023. The company will use the proceeds to settle some of its debt obligations, enabling it to cut its annual interest expense by ~USD 11.6mn, boosting its EPS to 67.1% and turning DEWA into a net cash company by 2024.

Initiate with BUY. We initiate our coverage on DEWA with a BUY and a DCF-based TP of IDR 85 per share with the following assumptions: CoE of 13.8%, terminal growth rate of 3.0%, implying a 2024F P/E of 7.9x, -24.8% lower than its peers. We like DEWA due to its (1) LoM (Life of Mine) contract with its client (Arutmin and KPC mines), which should help mitigate the uncertainty risk, and (2) its diversification efforts to non-coal mineral mining services.

Valuations (at closing price IDR 70 per share)

Y/E Dec	21A	22A	23F	24F	25F
Revenue (USD Mn)	323	407	437	516	545
EBITDA (USD Mn)	40	(40)	16	46	71
EV/EBITDA (x)	4.2	NM	11.4	3.9	2.1
Net Profit (USD Mn)	1	(17)	2	29	32
Net Profit Growth (%)	-33.7%	NM	NM	1502.7%	9.7%
EPS (IDR)	1	(12)	1	11	12
P/E Ratio (x)	90.9	(6.0)	102.5	6.5	5.9
BVPS (IDR)	192	177	120	129	141
P/BV Ratio (x)	0.4	0.4	0.6	0.5	0.5
DPS (IDR)	NA	NA	NA	NA	NA
Dividend Yield (%)	NA	NA	NA	NA	N.A
ROAE (%)	0.4	N.M	0.6	8.7	8.8
ROAA (%)	0.2	N.M	0.3	5.0	5.4
Interest Coverage (x)	2.3	NM	1.2	23.2	25.9
Net Gearing (x)	0.3	0.2	NC	NC	NC

Business Overview

An integrated energy company. PT Darma Henwa Tbk provides integrated mining services, including exploration, mining, and hauling, primarily for Indonesian coal miners. It operates under a mining contractor business model, offering a range of services to support the mining operations of its clients.

In July 1996, PT Darma Henwa Tbk underwent a significant transformation, transitioning from a domestic investment (PMDN) to a foreign investment (PMA) company, marked by the acquisition of the majority of the company’s shares by Henry Walker Group Limited. Concurrently, the Articles of Association were comprehensively amended to align with Indonesian law. Subsequently, in September 2005, the company officially rebranded from PT HWE Indonesia to PT Darma Henwa. More noteworthy changes were made in July 2007 through Deed No. 38, involving amendments to the Articles of Association to facilitate an IPO, with subsequent approval from the Minister of Law and Human Rights in July 2007. The most recent amendment occurred on October 2020, through Deed No. 64. According to Article 3 of the company's Articles of Association, Darma Henwa is oriented towards conducting diverse business activities, including mining support, repair of metal fabrication products, machinery and equipment, rental and lease services, as well as involvement in construction, demolition, and land preparation, alongside head office activities.

Table 1. DEWA’s projects

Clients	Projects	Scope of Work
PT Kaltim Prima Coal	Coal Mining Project in Bengalon East Kalimantan	Coal Mining
	Coal Port Operations Project In Lubuk Tutung, East Kalimantan	Coal port operations service through subsidiary PT Dire Pratama
PT Arutmin Indonesia	Coal Mining Project in Asam Asam and its extension in South Kalimantan	Coal Mining
PT Cakrawala Langit Sejahtera	Coal mining project in Satui, South Kalimantan	Coal Mining
PT Adiprotek Envirodunia	Infrastructure development, exploration drilling, mining	Copper and gold mining

Source: Company, SSI Research

PT Kaltim Prima Coal (KPC). Based in Sangatta, East Kalimantan, Indonesia. KPC currently oversees one of the world's largest open-pit mines. Specializing in coal mining and marketing for domestic and international industrial clients, KPC’s main headquarters is located in Sangatta, with additional representative offices in Jakarta, Samarinda, and Balikpapan. The company efficiently manages a massive mining concession area of 84,938 hectares, supported by more than 4,499 employees and 21,000 additional personnel from contractors and affiliated firms. Thanks to those factors, KPC has a rather impressive annual coal production capacity of 70 million tons.

PT Arutmin Indonesia. The coal mining company operates mainly in South Kalimantan. With mining activities in Senakin, Satui, Mulia, and Batulicin, the company, which is part of the Bumi Resources Group, is a key player in the production of high-quality thermal coal. Known for its presence in domestic and international coal markets, Arutmin Indonesia contributes significantly to the diverse mineral resource portfolio managed by the Bumi Resources Group, one of Indonesia's largest mining companies.

PT Cakrawala Langit Sejahtera. The company was founded through Deed No. 57 on November 17, 2009, documented by Notary Humberg Lie, SH, SE, Mkn in Jakarta. In February 2015, CLS took over from PT Thiess Indonesia (Thiess) as the primary mining contractor or PT Arutmin Indonesia.

PT Adiprotek Envirodunia. Founded in 1991, PT. Adiprotek Envirodunia initially focused on supplying and manufacturing eco-friendly cleaning chemicals. The company actively advocated for the adoption of these eco-friendly alternatives, highlighting the potential hazards of conventional cleaning chemicals. Encouraged by positive responses, PT. Adiprotek Envirodunia diversified its offerings, venturing into Gas Treating Technology, Project Management Consultancy, and Engineering & Procurement in 2005. The company's expansion aimed to provide a comprehensive range of eco-friendly products and technologies, in line with its commitment to support sustainability and minimize negative impacts on both users and the environment.

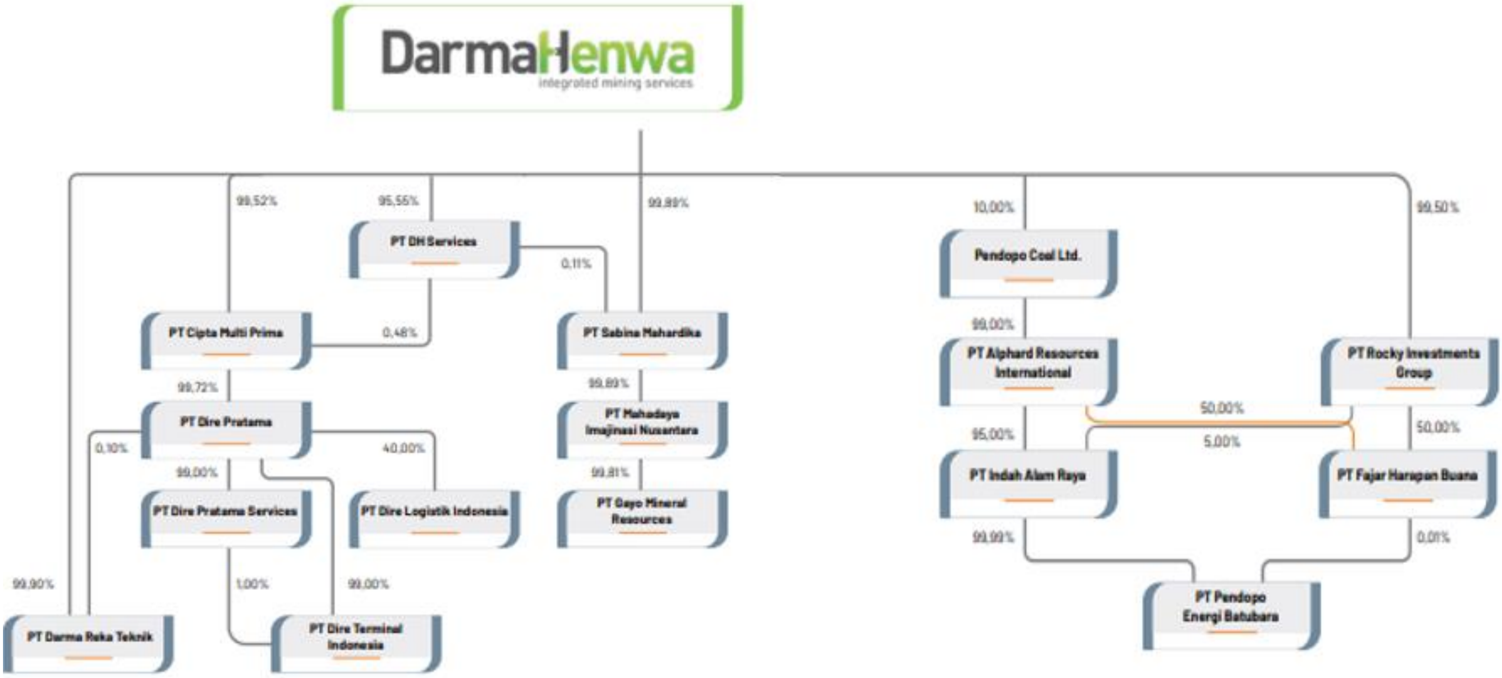
Table 2. DEWA's subsidiaries

Company	Scope of Work
PT DH Services	Machine Reparation Services and Mining Supports
PT Darma Reka Teknik	Machine Repair for Special Purposes and Machine Repair for General Use
PT Rocky Invesments Group	Trading and Mining services
PT Gayo Mineral Resources	Exploration, mining (exploitation), trade and industry
PT Dire Pratama	Post Activities Services
PT Dire Terminal Indonesia	Sea Port Service
PT Dire Logistik Indonesia	Logistic Service
PT Cipta Multi Prima	Various services
PT Dire Pratama Services	Various services
PT Fakar Harapan Buana	Various services
PT Mahadaya Imanjinasi Nusantara	Management Consultant
PT Sabina Mahardika	Management Consultant
Prove Energy Investmentes Limtied	Investment Company

Source: Company, SSI Research

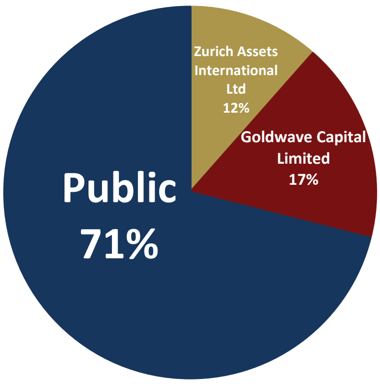
Development of gold mining assets. DEWA is actively involved in infrastructure construction endeavors at the copper and gold mine site in Bone Bolango Regency, Gorontalo, owned by PT Adiprotek Envirodunia. During the initial phases, the company initiated the construction of pioneer road, and started the construction of haul road in the first quarter of 2023. Looking ahead, the company is poised to undertake tasks related to infrastructure development, exploration, and mineral mining activities. Furthermore, DEWA has proceeded with the development and feasibility study of PT Gayo Mineral Resources' gold mining assets. The company collaborates with the Ministry of Energy and Mineral Resources, the Ministry of Environment and Forestry, the Directorate General of Minerals and Coal, consultants, and other stakeholders to advance exploration studies, estimate resources, conduct mine geotechnical studies, and prepare the Work Plan and Budget (RKAB).

Figure 1. DEWA's Corporate Structure



Source: Company

Figure 2. DEWA's Ownership



Source: Company, SSI Research

Figure 3. DEWA's Board of Commissioners

Board of Commissioners		Past/Current Experiences
President Comissioner, Nalinkant Amratlal Rathod		Indian citizen, was born in Rajahmundry, India on May 12, 1950. Currently, he is the Managing Director of Capital Managers Asia Pte. Ltd, Singapore. He has also served as Commissioner at PT Bumi Resources Tbk, PT Bakrie Telecom Tbk, and PT Energi Mega Persada Tbk.
Vice President Commissioner, Suadi Atma		Indonesian citizen, born in Banjarmasin, in 1947. Appointed as Commissioner on June 8, 2012. Spent most of his career in the military. During 2003-2007, he served as Commissioner of PT Medical Etam, as well as advisor to PT Darma Henwa Tbk and PT Adindo Hutani Lestari.
Independent Commissioner, Gories Mere		Indonesian citizen, born in Medan, November 17, 1954. Appointed as Commissioner on May 31, 2013. He completed his education at the National Police Academy in 1976, and continued at the College of Police Science (PTIK) in 1986, at Sespimpol in 1992, and Sesko ABRI in 1998.
Independent Commissioner, Kanaka Puradiredja		Indonesian citizen. Born in 1944. He has more than 30 years of experience in public accountancy including 21 years as Managing Partner of KPMG Indonesia. Serving as head of honorable council of Indonesian Accountants Association. Founder and Senior Partner of Kanaka Puradiredja, Suhartono– a public accountant office.
Independent Commissioner, Gories Mere		Indonesian citizen, born in 1958. Appointed as Independent Director on March 28, 2014. Continuing his bachelor's degree at the Hotel School "LES ROCHES" Switzerland. Served as Chief Business Development Officer at PT Mahkota Duta Makmur since 2005. He also serves as Manager at PT Soegih Interjaya.
Commissioner, Ashok Mitra		Mr. Ashok Mitra, an Indian citizen, has 40 years of experience in various industries. His expertise is in finance and commercial, supply chain management, and business repair. He received a Bachelor of Commerce degree from St. Petersburg.He then moved to Indonesia in August 2007, and served as Chief Financial Officer of PT Kaltim Prima Coal (KPC) in 2008

Source: Company, SSI Research

Figure 4. DEWA's Board of Directors

Board of Directors		Past/Current Experiences
President Director, Teguh Boentoro		Mr. Teguh Boentoro is an Indonesian citizen who has more than 30 years of experience in the fields of financial investment and taxation. He founded PT Infinia Luhur in 2013 and has served as Director until now.
Director, Agus Efendi		An Indonesian citizen, born in Ponorogo, on September 5, 1970. In mid-2012, he was appointed as Head of Bengalon Coal Project in East Kalimantan owned by PT Kaltim Prima Coal. He then served as the Company's Chief Operating Officer since October 1, 2013 and was appointed as Director on April 29, 2016.
Director, Ahmad Hilyadi		Mr. Ahmad Hilyadi is an Indonesian citizen and was born on March 25, 1961. He was appointed as Director of PT Darma Henwa Tbk through the Extraordinary General Meeting of Shareholders (EGMS) on August 19, 2022.

Source: Company, SSI Research

Industry Analysis

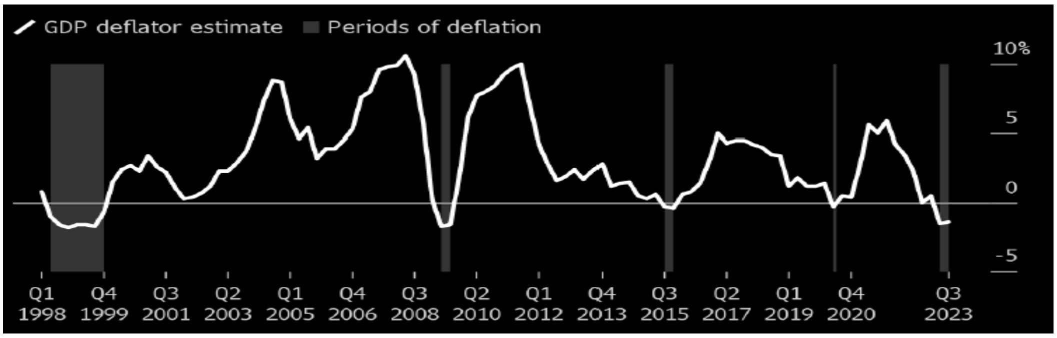
Coal price normalization is inevitable. Global economy growth is projected to reach only ~2.7% in 2023F (20-year average: 3.6%) and ~2.9% in 2024F, due to persistent inflation (mainly caused by the spike in food, fertilizer and energy prices following the geopolitical tension between Russia and Ukraine), which lead to a longer-than-expected high interest rate environment. China's economic growth is hindered by weak consumer and business confidence as external demand is expected to decline, partly due to the property sector crisis [the sector accounts for ~25% of total GDP] (last year, homebuyers threatened to stop repaying mortgages because developers couldn't build presold housing projects due to strapped liquidity and strict Covid-19 restrictions), Even though the authorities had introduced several measures over the past year to prop up the sector, including smaller down payments, allowing bigger mortgages and cut in mortgage rate, confidence remains low, partly due to persistent liquidity problems among property developers, as well as the economic slowdown in China. It is estimated that for every 1 ppt drop in property investment, China's GDP growth will decline ~0.1 ppt. Another factor that might lead to a decline in worldwide coal demand is India's intention to cease thermal coal imports by 2024-2025 (India is the world's second-largest coal consumer). It is worth noting that we saw a positive correlation between China's and India's GDP growth and the movement of coal prices of ~50% and ~11% over ten years (before the pandemic).

Even with the stimulus, new home prices in 70 cities in China (excluding state-subsidized housing) fell by 0.3% MoM in Sept-23, its worst MoM decline in almost a year, while the overall loan prime rate and average rate of new mortgage came in at 4.25% and 4.1% (10-year average: 5,4%). The nationwide home sales (by floor space) fell ~10.1% YoY in 9M23, with sales mostly concentrated on tier 1 cities while sales in smaller tier 2 and tier 3 cities continued to decline, thus adding to doubts about whether Beijing's steps to prop up the property market are enough to revive the sector.

Figure 5. Comparison of House Sales in China's Tier 1, 2, and 3 Cities

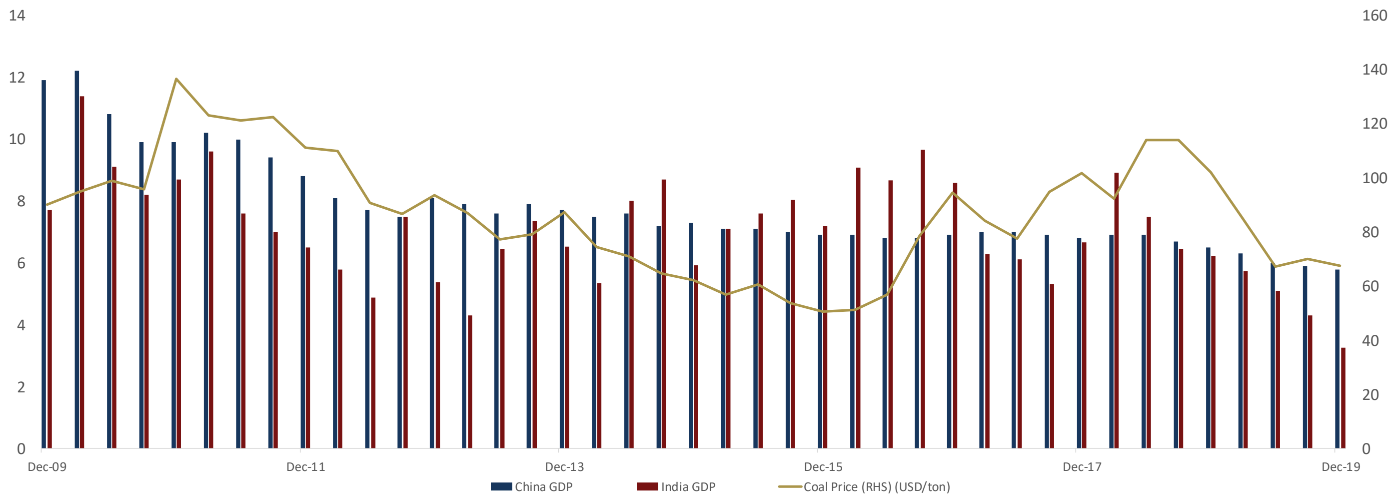
Source: Bloomberg

Figure 6. China's Deflation



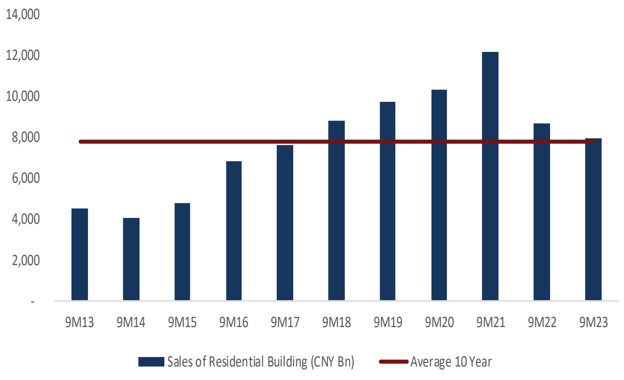
Source: Bloomberg

Figure 7. The Correlation Between China's & India's GDP Growth and Coal Price



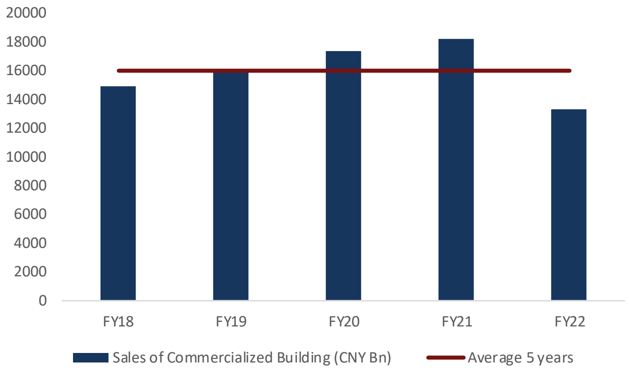
Source: Bloomberg, SSI Research

Figure 8. Sales of Residential Building (CNY Bn)



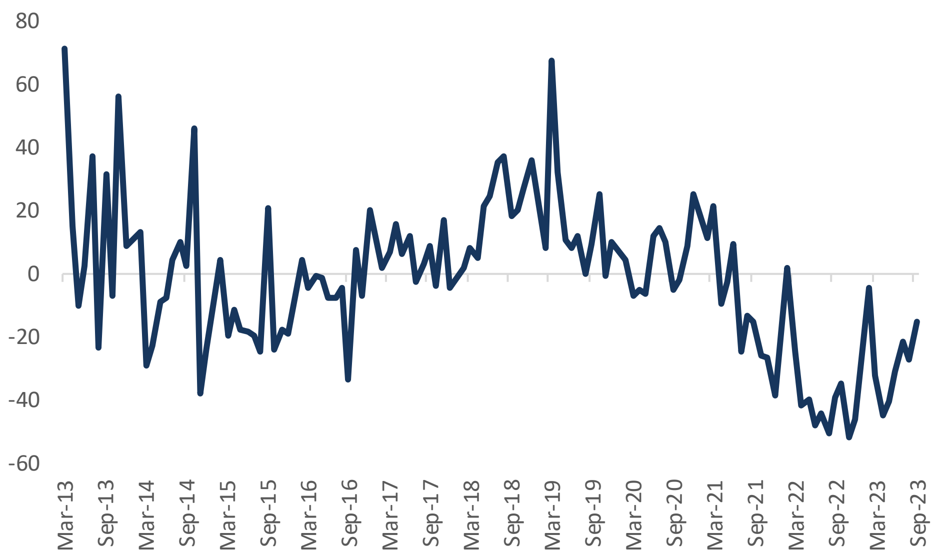
Source: Bloomberg, SSI Research

Figure 9. Sales of Commercial Building (CNY Bn)



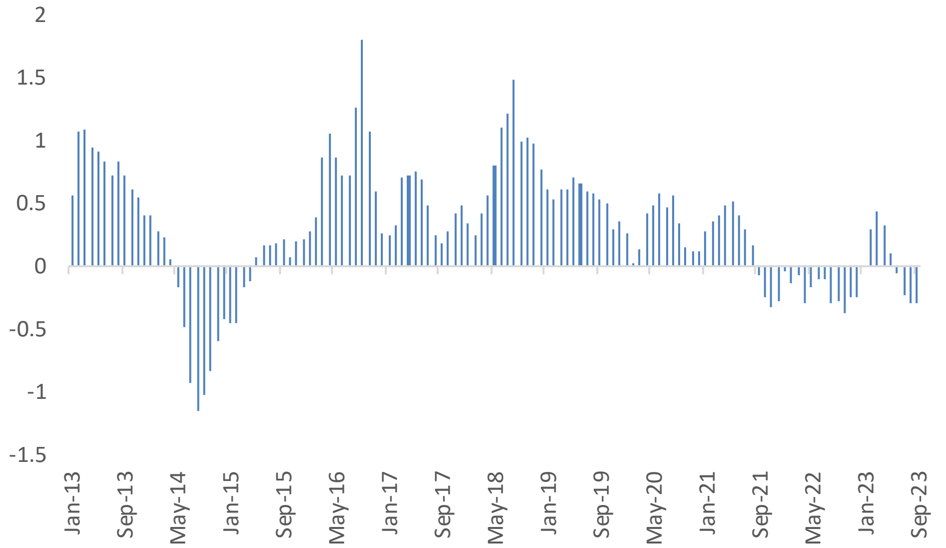
Source: Bloomberg, SSI Research

Figure 10. Under-Construction Floor Space in China



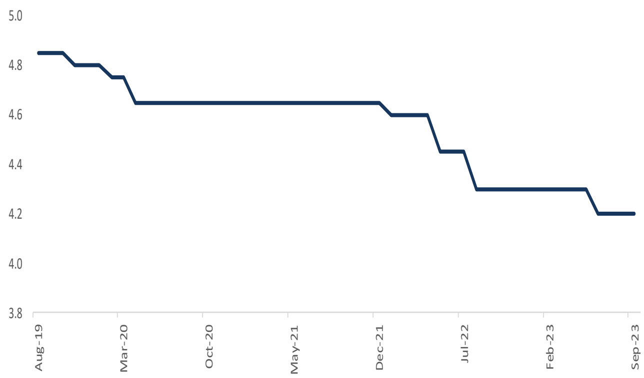
Source: Bloomberg, SSI Research

Figure 11. Fluctuations of New Home Price at 70 Cities in China (%, MoM Basis)



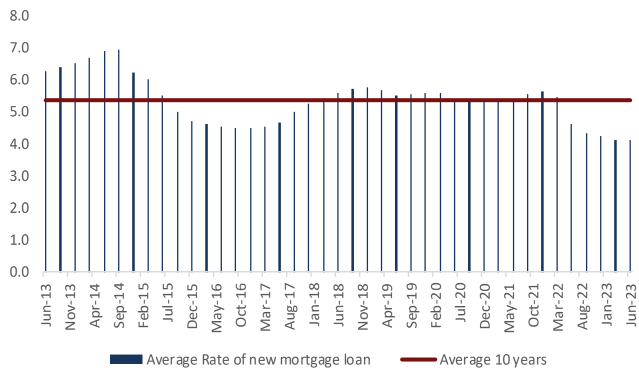
Source: Bloomberg, SSI Research

Figure 12. China's Loan Prime Rate



Source: Bloomberg, SSI Research

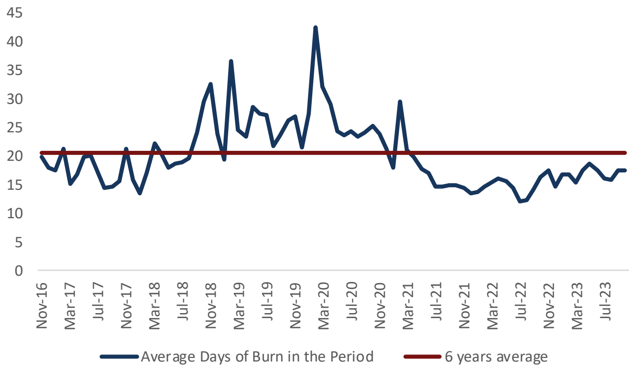
Figure 13. Average Rate of New Mortgage



Source: Bloomberg, SSI Research

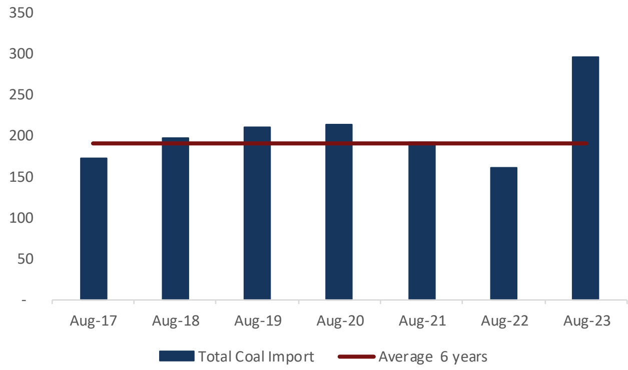
Avoiding another 'power crunch'. Despite the economic deceleration, there are indications of recovery in China's overall factory activity, with its PMI experiencing an expansion after six months in Sept-23, which might increase its overall domestic coal usage. Thus, we expect China's overall coal import demand to increase, which should benefit Indonesia [Indonesia contributes 49% of China's total coal import]. It's worth mentioning that China has been increasing its overall inventory to prevent regional 'power crunches', like in 2022 (average days of burn of China's key power plants dropped to ~12 days [5-year average: ~22 days]). In 1H23, Chinese authorities granted approvals of 52 GW of new coal power plants, began construction on 37 GW of new coal power plants, announced 41 GW of new projects and revived 8 GW of previously shelved coal power plant projects. In 8M23, China's coal imports rose to 296mn tons (+83% YoY; 6-year average: 191.4mn tons). Regarding its coal inventory in ports, China posted 102.5mn tons in 9M23, lower than the historical average (7-year) of 109.7mn tons.

Figure 14. China Power Plants' Days of Burn



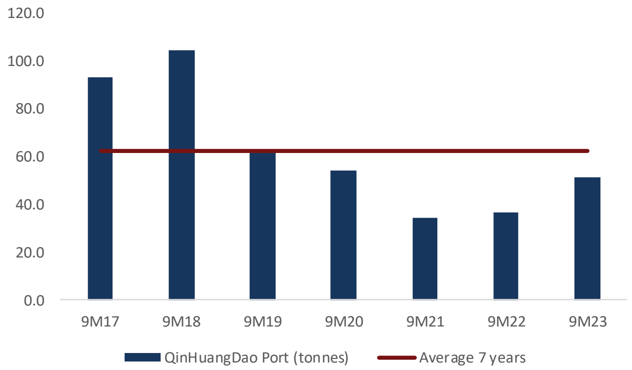
Source: Bloomberg, SSI Research

Figure 15. China's Coal Imports



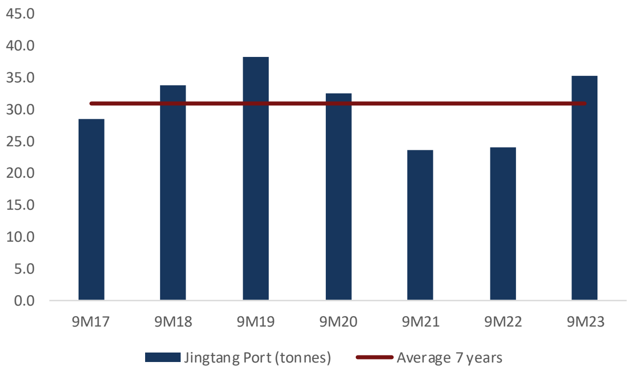
Source: Bloomberg, SSI Research

Figure 16. QingHuang Dao Port Inventory (Mn Ton)



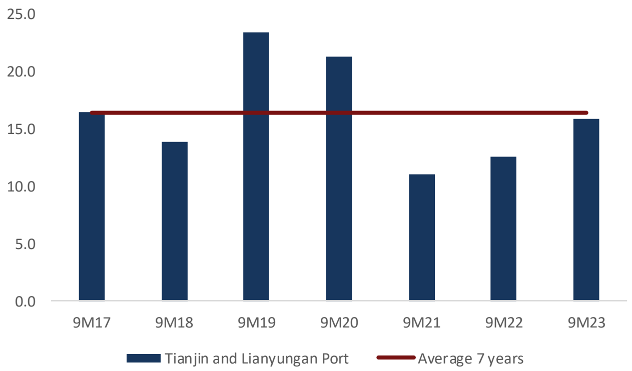
Source: Bloomberg, SSI Research

Figure 17. Jingtang Port Inventory (Mn Ton)



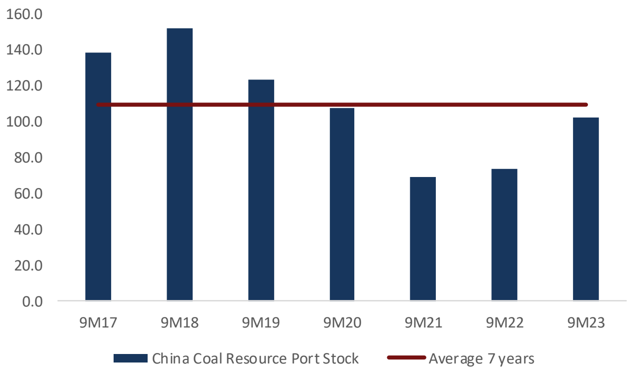
Source: Bloomberg, SSI Research

Figure 18. Tianjin and Lianyungan Port (Mn Ton)



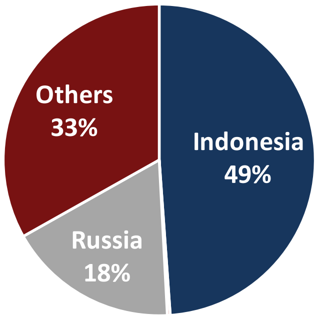
Source: Bloomberg, SSI Research

Figure 19. China Coal Resource Port Stocks (Mn Ton)



Source: Bloomberg, SSI Research

Figure 20. **China's Coal Importers (8M23)**



Source: Bloomberg, SSI Research

Domestic coal demand might remain elevated. According to the RUPTL of Indonesia's State Electricity Company (PLN), the estimated coal usage in both the optimal case and low carbon case is expected to reach 165mn tons and 153mn tons in 2030F (10-year CAGR: optimal case: +3.6%, low carbon case: +3.3%). Regarding the energy mix, coal is expected to be the primary energy source in Indonesia for a long while, accounting for approximately 60% of the country's energy supply in 2030, mainly due to the government's commitment to numerous ongoing coal projects (to reduce the fundamental cost of electricity supply). Though there's a looming threat from renewable energy, we believe it's still years before renewable energy can fully replace coal, mainly due to problems regarding the long-term sustainability of its supply and relatively high prices. Thus, we anticipate domestic demand for coal and services of coal mining contractors will remain high for the foreseeable future.

Figure 21. **Energy Sources for Indonesia's Electricity Generation (Low Carbon Scenario)**

In Percent										
Energy Source	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Coal	67.0	66.1	67.0	67.7	61.0	61.7	61.6	60.3	59.8	59.4
Water	5.8	5.6	5.5	5.9	8.0	8.6	8.6	9.0	9.5	9.6
Gas	16.6	18.0	18.1	17.4	15.6	14.9	14.9	15.7	15.5	15.4
Oil	3.5	3.0	1.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Geo Thermal	5.8	5.8	5.9	5.9	7.4	7.4	7.7	7.8	8.0	8.2
Others	1.3	1.5	2.0	2.7	7.7	7.1	6.8	6.7	6.8	7.0

Source: PLN, SSI Research

Figure 22. **Energy Sources for Indonesia's Electricity Generation (Optimal Case Scenario)**

In Percent										
Energy Source	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Coal	68.2	68.7	68.8	68.9	62.1	62.7	62.9	63.4	63.7	64.0
Water	6.5	6.1	6.4	6.7	8.0	8.6	8.7	9.2	9.8	9.9
Gas	15.7	16.7	16.0	15.6	14.5	14.0	13.7	13.2	12.9	12.6
Oil	3.2	1.9	1.3	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Geo Thermal	5.5	5.4	5.6	5.6	7.6	8.2	8.1	8.5	8.5	9.7
Others	1.0	1.2	1.9	2.7	7.5	6.2	6.3	5.4	4.7	3.3

Source: PLN, SSI Research

Figure 23. Energy Sources for Indonesia's Electricity Generation (Optimal Case Scenario)

Energy Source	Metrics	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	10 Years CAGR
Biodiesel	Th kL	458	330	248	134	90	92	97	104	111	117	-12.8%
Bio Mass	kilo tons	607	1508	3142	4185	13947	12814	11457	9442	8086	8047	29.5%
Gas	TBTU	365	393	391	405	394	395	394	389	393	396	0.8%
Oil	Th KL	1883	1239	909	449	330	335	353	377	400	425	-13.8%
Coal	Mn Ton	116	120	128	135	129	136	142	150	158	165	3.6%
Coal Subtitute	Mn Ton	0	0	0	0	0	0	1	2	3	4	41.4%

Source: PLN, SSI Research

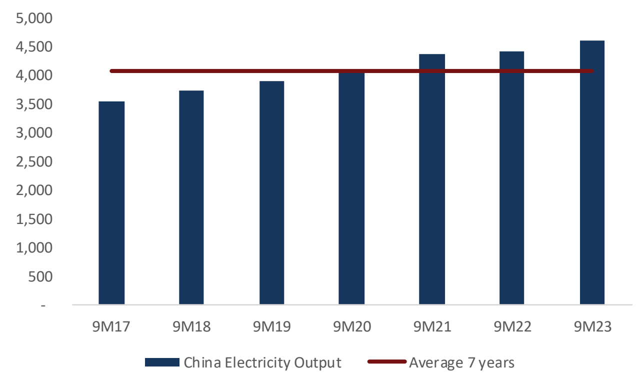
Figure 24. Energy Sources for Indonesia's Electricity Generation (Low Carbon Case)

Energy Source	Metrics	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	10 Years CAGR
Biodiesel	Th kL	637	569	287	129	118	129	135	141	148	154	-13.2%
Bio Mass	kilo tons	481	1306	2584	3335	13138	12231	11235	11302	11489	11825	37.7%
Gas	TBTU	395	438	452	454	426	425	441	484	503	534	3.1%
Oil	Th KL	2291	1927	1075	438	379	405	420	442	462	480	-14.5%
Coal	Mn Ton	111	115	122	131	124	131	137	141	147	153	3.3%
Coal Subtitute	Mn Ton	0	0	0	0	0	0	1	2	3	3	31.6%

Source: PLN, SSI Research

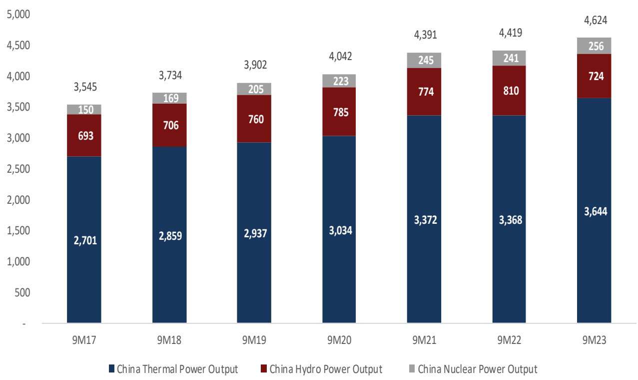
Short and mid-term catalysts. We noticed three factors that might become positive catalysts for the coal mining contractor industry. The first one is the El Nino phenomenon, which started on Feb-23 and might linger until 1H24F. When looking at historical data, we noticed that the number of rainy days usually drops by ~10% during El Nino, creating a better 'environment' for mining activities. The second one is the price outlook; the NewC coal future contract averages at ~USD 133/ton for the mid-term, much higher than the previous 10-year average (USD 115/ton), which might entice coal mining companies to increase their production, boosting demand for mining contractor services. The third one is the demand for coal; we believe that Indonesia will still rely on coal as its primary energy source for the next ten years or more. Also, China might still heavily rely on coal as its primary energy source in the mid-term (~51% of China's power mix in 2030F). To note, China recorded higher-than-average electricity output in 9M23 of 4,624bn KWH (+4.6% YoY; 7–year average: 4,094bn KWH), mostly from thermal power (79%; 7-year average: 76%), followed by hydropower (16%; 7-year average: 18%), and nuclear (6%; 7-year average: 5%). Given these numbers, we are optimistic that demand for coal from China will remain high.

Figure 25. China's Electricity Output (bn KWH)



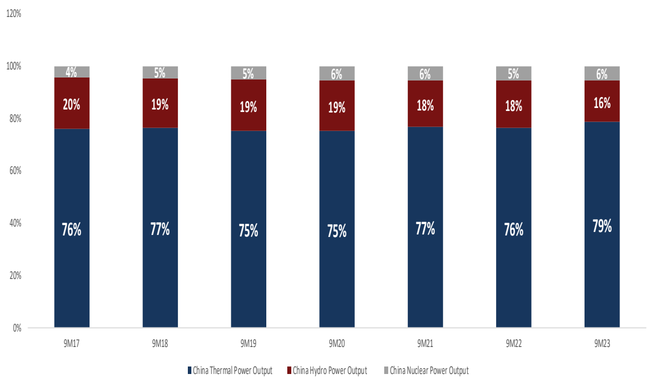
Source: Bloomberg, SSI Research

Figure 26. China's Electricity Energy Source (bn KWH)



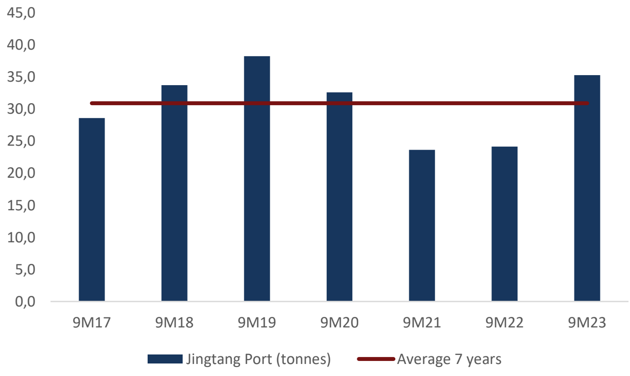
Source: Bloomberg, SSI Research

Figure 27. **China's Electricity Energy Source (by portion)**



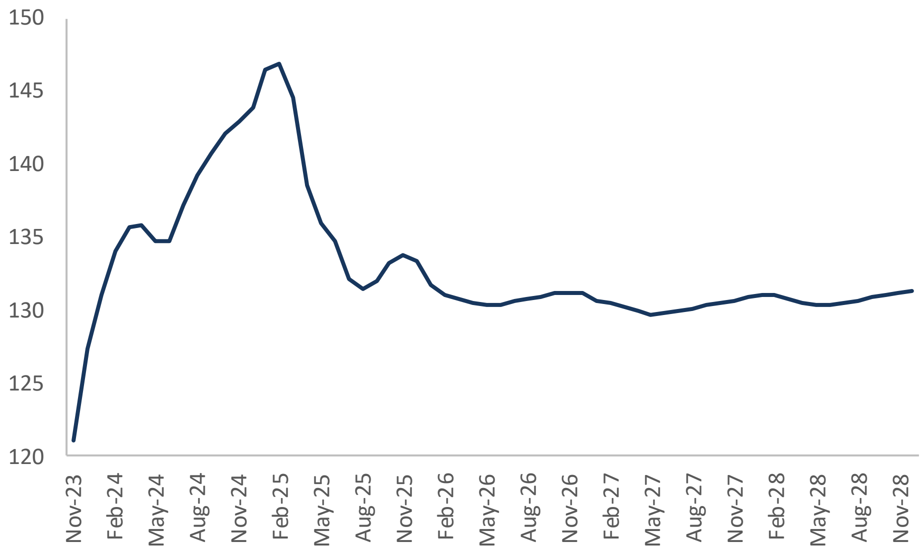
Source: Bloomberg, SSI Research

Figure 28. Jingtang Port Inventory (Mn Ton)



Source: Bloomberg, SSI Research

Figure 29. Forward Newc Price (USD/Ton)



Source: Bloomberg, SSI Research

Financial Overview

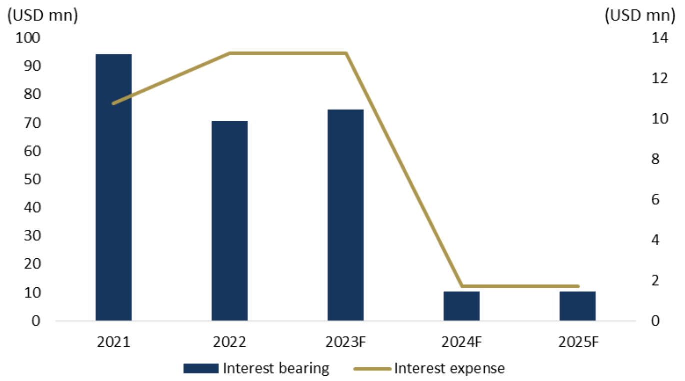
Positive outlook thanks to rights issue. DEWA plans to hold a private placement by issuing a maximum of 18.26bn ordinary series B shares with an exercise price of IDR 50/share, subject to approval of the company's EGM that will be held on December 18, 2023. The company will use the proceeds to settle some of its debt obligations, enabling it to cut its annual interest expense by ~USD 11.6mn, boosting its EPS to 67.1% and turning DEWA into a net cash company by 2024.

Table 3. Rights Issue Projections

Potential Right Issue	
# Shares	18,260,000,000
Price/share	50
Total Proceed	913,000,000,000
USD IDR	15,100
Total Proceed in USD Mn	**60.5**

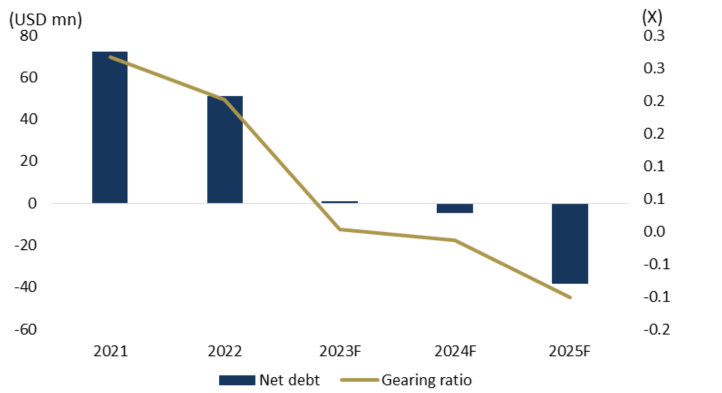
Source: Company, SSI research

Figure 30. Lower interest-bearing debt thanks to rights issue…



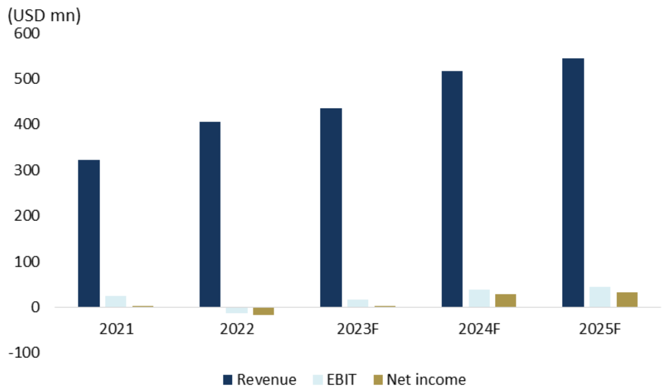
Source: Company, SSI Research

Figure 31. …which should translate to a net cash in 2024 onwards



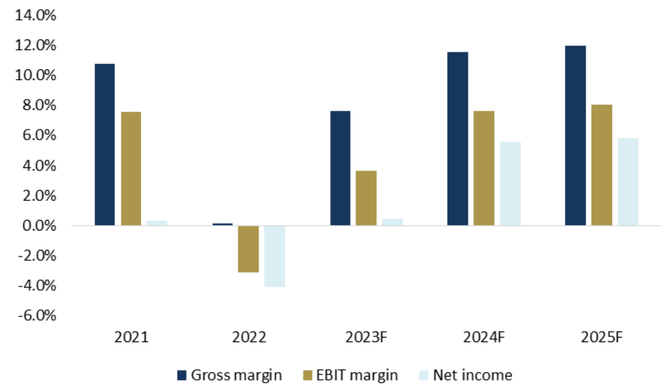
Source: Company, SSI Research

Figure 32. DEWA's profitability trend



Source: Company, SSI Research

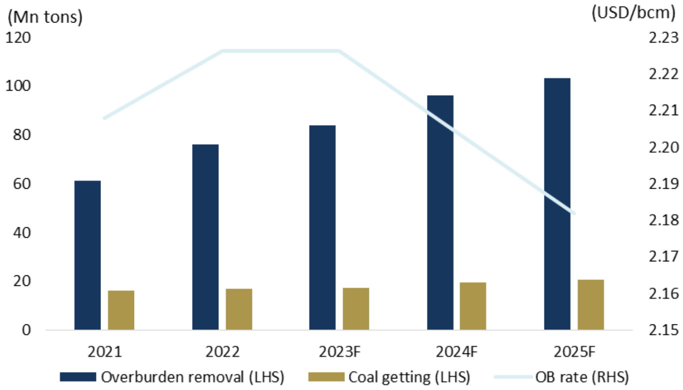
Figure 33. DEWA's margin trend



Source: Company, SSI Research

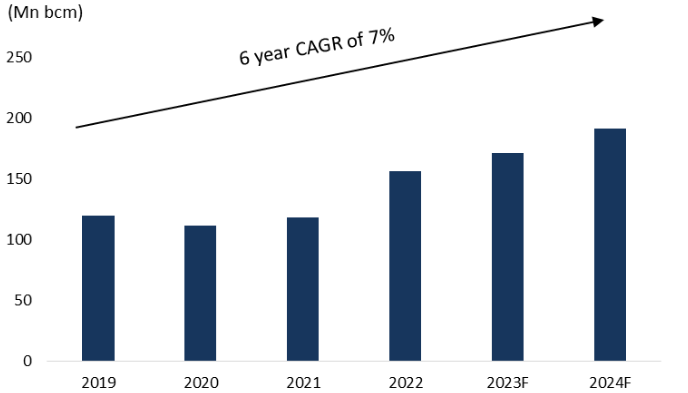
Robust earnings growth driven by expansion. We project DEWA to book solid revenue growth, with a 6-year CAGR of 7.0% from pre-COVID years to 2024F, driven mainly by the expansion of its coal mining projects (KPC, Arutmin, and CLS). We expect DEWA to maintain its stellar overburden volume growth, with projected volume of 192mn bcm (+12.1% YoY) and 201mn bcm (+4.6% YoY) in 2024 and 2025. In addition, we forecast higher gross margins in 2024F and 2025F of 11.6% and 12.0%, respectively, as we expect its margins from mineral mining services to outpace the drop in margins from coal mining services. Hence, we project DEWA to book 2024-2025 net profits of USD 29mn and USD 32mn, respectively.

Figure 34. DEWA's operational trend



Source: Company, SSI Research

Figure 35. DEWA's overburden removal volume (6-year CAGR)



Source: Company, SSI Research

Positive free cash flow. After its rights issue, we expect to see positive free cash flow going forward, which should help the company in its effort to focus on non-coal mineral mining services. The company has been actively seeking potential projects this year, focusing mainly on non-coal mining projects in Gorontalo and Palu. These projects, which include mining activities and the construction of port, mine roads, and gold ore processing facilities,

Figure 36. DEWA's cash flow projection

Source: Company, SSI research

Valuation

Initiate with BUY.. We initiate our coverage on DEWA with a BUY and a DCF-based TP of IDR 85 per share with the following assumptions: CoE of 13.8%, terminal growth rate of 3.0%, implying a 2024F P/E of 7.9x, -24.8% lower than its peers. We put a discount on DEWA's valuation due to the market size of its mining services, which is smaller than its peers. All in all, we like DEWA due to its (1) LoM (Life of Mine) contract with its client (Arutmin and KPC mines), which should help mitigate the uncertainty risk, and (2) its diversification efforts to non-coal mineral mining services.

Table 4. Peers comparison

Company Ticker	Country	Company Ticker	Market Cap (USD Mn)	PER (x) 2024F	PER (x) 2025F	EV/EBITDA (x) 2024F	EV/EBITDA (x) 2025F	PBV (x) 2024F	PBV (x) 2025F	ROE (%) 2024F	ROE (%) 2025F
Local Peers											
DARMA HENWA*	**ID**	**DEWA IJ**	**96**	**6.5**	**5.9**	**3.9**	**2.1**	**0.5**	**0.5**	**8.7**	**8.8**
ADARO ENERGY IND	ID	ADRO IJ	4,874	5.2	6.0	2.0	2.3	0.8	0.7	13.9	11.2
INDO TAMBANGRAYA	ID	ITMG IJ	1,793	5.6	6.9	1.4	2.2	1.2	1.1	20.7	16.6
UNITED TRACTORS	ID	UNTR IJ	5,678	5.3	5.2	2.6	2.6	1.0	1.0	20.0	18.0
Local Weighted Average			**4,797**	**5.3**	**5.8**	**2.2**	**2.4**	**1.0**	**0.9**	**17.7**	**15.1**
Global Peers											
NRW HOLDINGS LTD	AU	NWH AU	757	10.0	9.2	3.9	3.7	1.7	1.6	18.4	18.6
ANGLO AMER PLC	ZA	AAL LN	34,031	10.5	9.1	4.8	4.2	1.2	1.1	11.5	12.8
JCHX MINING MA-A	CN	603979 CH	2,988	21.1	12.1	13.8	8.5	3.1	2.5	14.4	21.0
Global Weighted Average			**30,909**	**11.4**	**9.4**	**5.5**	**4.5**	**1.4**	**1.3**	**11.9**	**13.6**
Local + Global Weighted Average			**27,401**	**10.5**	**8.9**	**5.0**	**4.3**	**1.3**	**1.2**	**12.7**	**13.8**

Source: Bloomberg, SSI research

Key Financial Figures

Profit and Loss

Y/E Dec (USD Mn)	20A	21A	22A	23F	24F	25F
Revenue	**303**	**323**	**407**	**437**	**516**	**545**
COGS	(296)	(288)	(406)	(403)	(457)	(480)
Gross Profit	**7**	**35**	**1**	**33**	**60**	**65**
Operating Expenses	(10)	(10)	(13)	(17)	(20)	(22)
Operating Profit	**(2)**	**24**	**(13)**	**16**	**39**	**44**
EBITDA	**47**	**40**	**(40)**	**16**	**46**	**71**
Finance Income	1	0	0	0	1	0
Finance Costs	(10)	(11)	(13)	(13)	(2)	(2)
Tax Expenses	(1)	(2)	(2)	(2)	(2)	(2)
Others - Net	13	(2)	11	-	-	-
Pretax Income	**0**	**10**	**(17)**	**1**	**37**	**41**
Income tax Benefit (Expense)	1	(9)	0	1	(8)	(9)
Minority Interest	0	0	0	0	0	0
Net Profit	**2**	**1**	**(17)**	**2**	**29**	**32**

Balance Sheet

Y/E Dec (USD Mn)	20A	21A	22A	23F	24F	25F
Cash and Cash Equivalent	19	22	19	74	15	49
Account Receivables	57	57	56	66	92	97
Inventory	18	21	38	31	38	39
Others	127	64	51	51	51	51
Total Current Assets	**221**	**163**	**164**	**222**	**196**	**237**
Fixed Assets	185	206	193	186	182	177
Investment in Shares	-	77	77	77	77	77
Other Assets	145	117	114	114	114	114
Total Assets	**551**	**563**	**548**	**598**	**568**	**604**
Account Payables	76	88	73	77	81	85
ST Debt	40	47	47	42	-	-
Other ST liabilities	81	66	111	90	81	81
Total Current Liabilities	**198**	**201**	**231**	**208**	**163**	**167**
LT Debt	52	38	10	4	-	-
Other LT Liabilities	31	54	53	70	60	60
Total Liabilities	**281**	**293**	**294**	**282**	**223**	**227**
Minority Interest	0	0	0	0	0	0
Total Equity	**269**	**271**	**254**	**316**	**345**	**377**

Cash Flow

Y/E Dec (USD Mn)	20A	21A	22A	23F	24F	25F
Net Profit	2	1	(17)	2	29	32
D&A	37	42	(65)	29	30	32
Changes in Working Capital	12	(4)	(1)	1	(28)	(3)
Others	(44)	63	25	(20)	-	-
Operating Cash Flow	**6**	**102**	**(57)**	**12**	**31**	**61**
Capital Expenditure	(44)	(64)	77	(22)	(26)	(27)
Change in Other Asset	28	(49)	4	-	-	-
Investing Cash Flow	**(16)**	**(113)**	**81**	**(22)**	**(26)**	**(27)**
Change in Debt	(18)	(6)	(24)	4	(64)	-
Change in Equity	(0)	(0)	0	60	0	0
Other Financing	21	19	(3)	-	-	-
Financing Cash Flow	**3**	**13**	**(27)**	**64**	**(64)**	**0**
Net - Cash Flow	**(8)**	**3**	**(3)**	**54**	**(58)**	**34**
Cash at beginning	**27**	**19**	**22**	**19**	**74**	**15**
Cash at ending	**19**	**22**	**19**	**74**	**15**	**49**

Key Ratios

Y/E Dec	20A	21A	22A	23F	24F	25F
Gross Profit Margin (%)	2.5%	10.8%	0.1%	7.6%	11.6%	12.0%
Operating Profit Margin (%)	-0.7%	7.6%	N.M	3.7%	7.6%	8.0%
EBITDA Margin (%)	15.6%	12.5%	N.M	3.7%	9.0%	13.1%
Pre-Tax Margin (%)	0.1%	3.0%	N.M	0.3%	7.2%	7.5%
Net Profit Margin (%)	0.5%	0.3%	N.M	0.4%	5.6%	5.8%
Revenue Growth (%)	-12.0%	6.4%	26.1%	7.3%	18.3%	5.6%
EBITDA Growth (%)	31.2%	-14.8%	N.M	N.M	184.6%	53.4%
Net Gearing (x)	0.3	0.3	0.2	0.0	NC	NC

Major Assumptions

Y/E Dec	20A	21A	22A	23F	24F	25F
Newcastle coal price (USD/Ton)	61	135	346	172	140	110
OB Volume (Mn Bcm)	112	119	157	171	192	201
Coal volume (Mn Ton)	17	16	17	17	20	20
Stripping ratio (x)	8.6	8.0	11.2	12.1	12.2	12.2

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