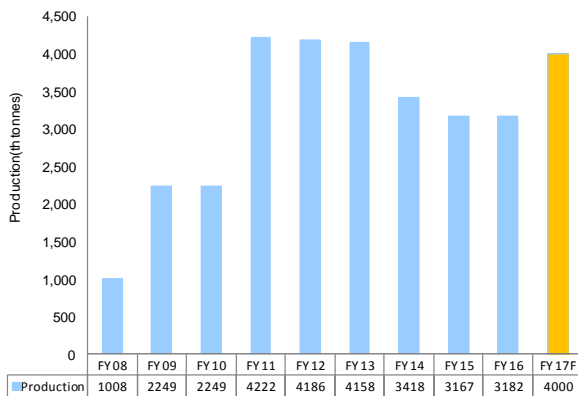


Key takeaways from Resource Alam Indonesia analyst meeting

We attended analyst meeting of Resource Alam Indonesia (KKG IJ, NR). Here below the key takeaways:

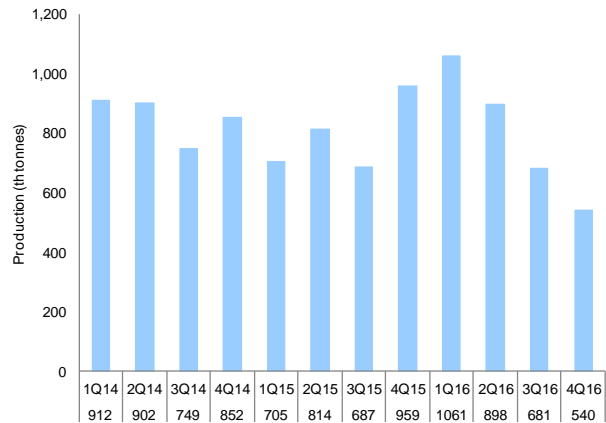
- ◆ Resource Alam Indonesia (KKG IJ, NR) is a coal mining company. The company holds three mining concessions covering ±35,000 ha mining area in East and Central Kalimantan with ±116m tonnes of proven coal reserves and 60m tonnes of coal resources.
- ◆ The company sells low calorific value ranging from GAR 4,200 to 4,400 kcal/kg. It has a well diversified client portfolio with the biggest exposure to South Korea (31.6%) and China (c. 25.2%).
- ◆ The company aims to be the lowest cost producer consider a strategic mining location which is just 12km from pit to port, specifically located near to Samarinda, East Kalimantan. The company has a proven track record could still book a positive earnings during a down trend in coal price in the last couple of years, supported by a clean balance sheet.
- ◆ The company produced 3.2m tonnes in coal in FY16, which is flat compared to FY15's production. The company targets to produce 3.6m-4.0m tonnes of coal in FY17.
- ◆ The company only produced 0.7m tonnes in 4Q16 which is the lowest quarterly production in the last three year. This was due to a change in its mining contractor to Kalimantan Prima Persada (KPP), subsidiary of United Tractor (UNTR IJ), which takes a set-up time to produce at a maximum capacity. This also made low coal production in 1Q17, which is slightly lower than 4Q16's production.
- ◆ The company believes the newly appointed mining contractor has a good reputation and track record in achieving production target. Therefore, the company planning to increase the stripping ratio to 7x-8x from 6x in FY16.
- ◆ Using company's earning guidance, the company is traded at 5.3x-5.9x FY17F P/E, which is undemanding in our view. *(Hariyanto Wijaya, CFA, CPA)*

Figure 1: Annual Production



Source: Company

Figure 2: Quarterly Production and sales



Source: Company

Figure 3: Company's financial projections

3.6m tonnes projection			4.0m tonnes projection		
	Unit	Value		Unit	Value
Average selling Price (GAR 4400)	USD	40.00	Average selling Price (GAR 4400)	USD	40.00
Royalty		13.50%	Royalty		13.50%
ASP Net of royalty	USD	34.60%	ASP Net of royalty	USD	34.60%
Total Cost	USD	23.00	Total Cost	USD	23.00
Gross Profit per ton		11.60	Gross Profit per ton		11.60
Corporate Tax Rate	USD	30%	Corporate Tax Rate	USD	30%
Net Profit per ton	USD	8.12	Net Profit per ton	USD	8.12
Total tonnes produced	m tonnes	3.6	Total tonnes produced	m tonnes	4.0
Net Profit	USDm	29.2	Net Profit	USDm	32.5
	IDRbn	394.6		IDRbn	438.5
# of shares	m shares	5,000.0	# of shares	m shares	5,000.0
EPS	IDR	78.9	EPS	IDR	87.7

Source: Company

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Kuala Lumpur	Hong Kong	Singapore
RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693	RHB Securities Hong Kong Ltd. 12 th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	RHB Research Institute Singapore Pte Ltd (formerly known as DMG & Partners Research Pte Ltd) 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Bangkok
PT RHB Securities Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777	RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 862 9999 Fax : +(66) 2 862 9799