



# High Coal Prices Could Boost Indonesia's Energy Transition

*A Combined US\$6.8 Billion Cash Balance From Indonesian Coal Companies Could Help Accelerate the Pivot Away From Coal*

## Executive Summary

Global coal prices have reached an all-time high as countries stop purchasing Russian coal amidst the Russia-Ukraine conflict. Indonesian coal companies have become one of the biggest beneficiaries of this change, with eight companies reporting high realized coal prices, net profits and operating cash flows for 2021 and 1Q22.

These coal companies are not expanding coal capacity, with one or two exceptions, capital expenditure (capex) is mainly for maintenance and there are moves towards non-coal projects. The major exception is the dimethyl ether (DME) project announced by state-owned coal miner PTBA (Tambang Batubara Bukit Asam), but the projects face uncertain financial returns and funding as IEEFA reported in 2020.<sup>1</sup>

**Indonesian coal companies have benefitted from price hikes with high 2021 and 1Q22 profits, and a combined cash balance of US\$6.8 billion.**

In this report, IEEFA highlights that coal prices will likely stay elevated given conflict-induced changes to trade flows. Due to disruptions in shipping schedules, Korea and Japan are likely to buy less Russian coal and substitute with coal from Indonesia and Australia, hence coal prices are likely to stay high.

In the longer term, the new trade flows will likely require time to adjust even following conflict resolution. Therefore, coal prices will be supported during this adjustment process.

Moreover, even if China ends its unofficial ban on imports of Australian coal, it is unlikely to help ease supply pressure. This is because there are already existing buyers for Australian coal since the ban was implemented. Its higher prices could make it likely to be priced out of the Chinese market.<sup>2</sup>

<sup>1</sup> IEEFA. [Proposed DME Project in Indonesia \(D\)oes Not \(M\)ake Economic Sense](#). November 2020. IEEFA. [Indonesia's Downstream Coal Plans Add Up to a Black Hole](#). January 2022.

<sup>2</sup> Reuters. [China's mooted end to Australian coal ban will have zero market impact](#). 25 July 2022.

IEEFA's deep dive into the Indonesian coal sector finds that the eight companies are not reinvesting into new coal capacity. However, two have plans to acquire a new mine (ABM Investama) or build up downstream capacity (PTBA), while taking the opportunity to repay debt.

While this is not surprising, considering the 185 global financial institutions<sup>3</sup> which have clearly stated that they will no longer support coal or coal power plant financing, a lack of new coal supply may mean coal prices continue to stay elevated, putting the onus of energy transition on potential buyers.

In the event that there is conflict resolution, coupled with the EU's commitment to decarbonize, coal prices are likely to normalize from current levels longer term. Coal companies should not miss the opportunity now to diversify away from coal before the cost to transition gets higher.

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<sup>3</sup> IEEFA. [Coal Divestment](#). July 2022.

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## Opportunity for Indonesian Coal to Transition

The Russia-Ukraine conflict has disrupted coal markets with major global coal importers in the European Union (EU), Japan, South Korea and Taiwan phasing out Russian coal over the short to medium term. Meanwhile, India has stepped in and committed to buying Russian coal.

These can drive up global coal prices in two ways:

1. **Phasing out of Russian coal imports:** According to the International Energy Agency (IEA), Russia provided 18% of global thermal coal exports in 2020.<sup>4</sup> According to Reuters, Russia accounted for 13% of Japanese coal<sup>5</sup> and 18% of Korean coal imports<sup>6</sup> in 2021. As the phase-out continues through the rest of the year, there will be Russian coal without any international buyers.
2. **Disruption of shipping schedules:** As Japan and Korea reduce Russian coal imports, coal will be sourced from countries further away, including Indonesia and Australia. For example, IEEFA estimates that it is four shipping days from Siberia to Japan, compared to 13 for Indonesia and 19 for Australia.<sup>7</sup>

High coal prices provide an opportunity for Indonesian coal companies to accelerate the transition away from coal. The recent first quarter profits and cashflows for all Indonesian coal companies have been at new highs.

IEEFA recommends:

1. **Halt on coal capacity investment:** A closer look at the capex and asset balances for the companies indicate that the eight companies in our sample have not expanded new coal capacity.
2. **Further debt reduction:** Indonesian coal companies have been reducing debt since 2020. This financially conservative strategy makes sense in light of an increasing number of financial institutions withdrawing from financing new coal projects.

Coal companies now have a historic opportunity to consolidate their financial position and transition. For example, the eight Indonesian coal companies have taken advantage of the historically high coal prices to lower their debt levels in 2021 and 1Q21. Their operating cashflow is at new highs, and the capex plans have been modest with no large capacity planned. Indika Energy has started to invest in solar energy.<sup>8</sup>

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<sup>4</sup> IEA. [Coal 2021 Analysis and forecast to 2024](#). 17 December 2021. Page 55.

<sup>5</sup> Reuters. [Factbox: Asian buyers of Russian oil, gas and coal](#). 6 April 2022.

<sup>6</sup> Reuters. [Factbox: Asian buyers of Russian oil, gas and coal](#). 6 April 2022.

<sup>7</sup> [www.shiptraffic.net](http://www.shiptraffic.net)

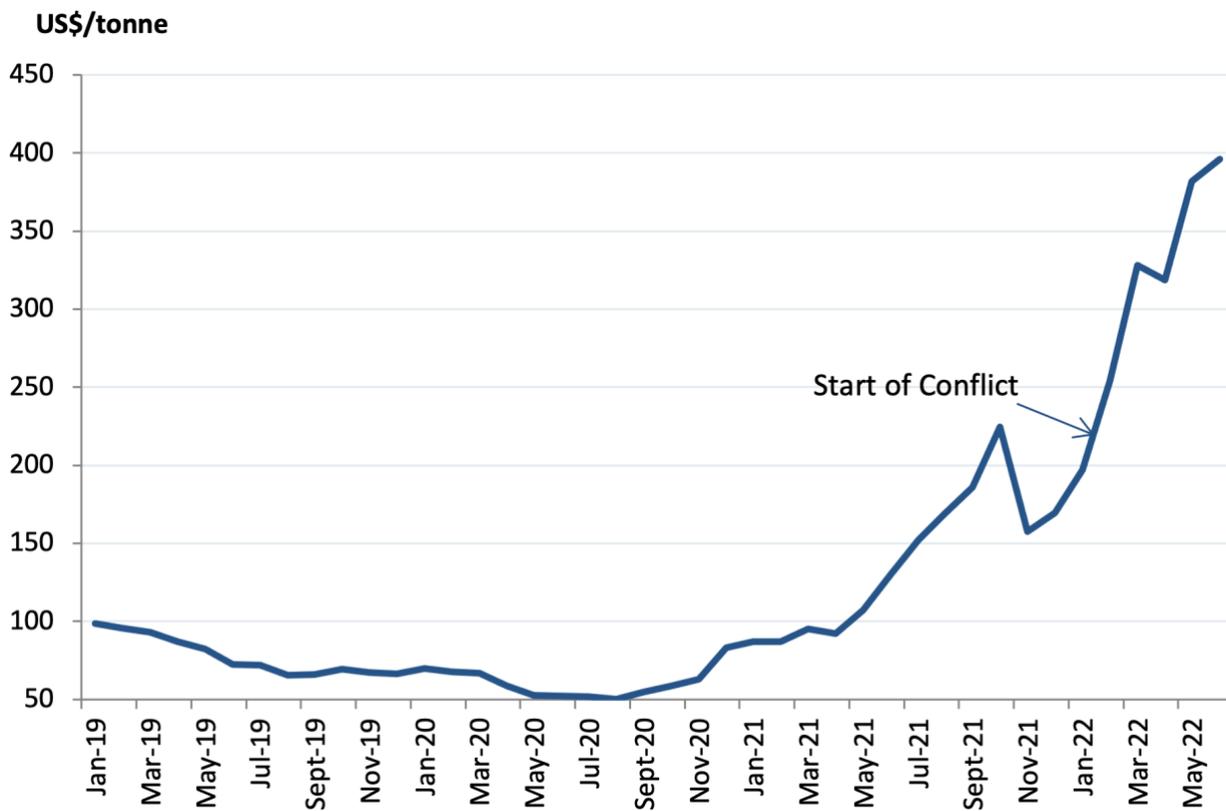
<sup>8</sup> Indika Energy. [Indika Energy Annual Report 2021](#). March 2022. Page 31.

## Cyclical High Coal Prices Likely to Persist

The Russia-Ukraine conflict has disrupted coal markets. The Newcastle benchmark coal price has risen 100%: from an average price of US\$197/tonne in January, before the conflict, to the average June price of US\$396/tonne.

As major coal importers start to phase out Russian coal imports, this effectively removes 18% of the global coal supply and results in disruptions to shipping routes. This will likely lead to supply disruptions which would help support coal prices.

**Figure 1: Newcastle Coal Price Jan 2019-Jun 2022 (US\$/tonne)**



Source: IndexMundi website and Refinitiv time series, IEEFA estimates.

### Russia as a Major Global Coal Exporter

According to the IEA, Russia exported 187m tonnes of thermal coal (for power stations) in 2020, which accounted for 18% of the global thermal coal market of

978m tonnes.<sup>9</sup> Russia is a major coal exporter to Asia, accounting for 13-18% of imports for major coal importers Japan, Korea and Taiwan.<sup>10</sup>

**Table 1: Russia Thermal Coal Exports, Share 2021 (million tonnes, %)**

Coal trade 2021	Unit	Russia	Total	Russia % share
Japan	m tonnes	14.1	112.9	12.5
Korea	m tonnes	16.6	95.0	17.5
Taiwan	m tonnes	8.1	55.0	14.7
India	m tonnes	3.0	150.0	2.0
Other countries	m tonnes	145.2		
Total Russian exports	m tonnes	187.0		
Global thermal coal market	m tonnes		1,050.0	17.8

Source: IEA, Argus Media, Reuters and IEEFA estimates.

In 2021, Russia accounted for 13% of Japan, 18% of Korea and 15% of Taiwan's thermal coal imports in 2021. As these countries look to phase out Russian coal and look to Indonesia and Australia, this will disrupt regional coal markets. Already a major coal exporter to these markets, Indonesia is set to benefit further as the North Asian buyers switch away from Russian coal.

**Table 2: Thermal Coal Exports, Share in 2021 (million tonnes, %)**

Coal trade	Unit	Japan	Korea	Taiwan	India
Total thermal coal imports	m tonnes	112.9	95.0	55.0	150.0
from Russia	m tonnes	14.1	16.6	8.1	3.0
Russian coal market share	%	12.5	17.5	14.7	2.0
from Indonesia	m tonnes	10.0	20.2	20.2	72.1
Indonesia coal market share	%	8.9	21.3	24.4	48.1

Source: IEA, Argus Media, Reuters and IEEFA estimates.

## Disruption to Shipping Routes

While Japan, Korea and Taiwan start to phase out Russian coal imports in 2H22, coal will be sourced from countries further away, including Indonesia and Australia. India has begun to increase its imports of Russian coal. IEEFA believes this will result in shipping disruptions and delays due to the new routes.

As shown in the table below, at an average speed of 10 knots, Russia is 4-7 shipping days from North Asia compared to 7-13 days from Indonesia. In the case of India, it takes ten more shipping days to transport coal from Russia than Indonesia.

<sup>9</sup> IEA. *Coal 2021 Analysis and forecast to 2024*. 17 December 2021. Page 55.

<sup>10</sup> Reuters. *Factbox: Asian buyers of Russian oil, gas and coal*. 6 April 2022.

Taiwan News. *Taiwan relies on diverse oil and gas sources amid Russia sanctions*. 9 March 2022.

Longer shipment times are expected as North Asian buyers look to buy more from Australia and Indonesia to phase out Russian coal. It takes 19-22 days to reach North Asia from Australia. Shipping times from Australia and Russia to India are 24 and 26 days, respectively.

**Table 3: Shipping Distances and Routes (Nautical Miles, Days)**

Port Origin	Port destination	Distance (nautical miles)	Days Trip
<b>Vladivostok, Russia</b>	Yokohama, Japan	1,041	4.3
	Inchon, Korea	1,009	4.2
	Kaohsiung, Taiwan	1,720	7.2
	Chennia, India	5,647	23.5
<b>Balikpapan, Indonesia</b>	Yokohama, Japan	3,219	13.4
	Inchon, Korea	2,847	11.9
	Kaohsiung, Taiwan	1,810	7.5
	Chennia, India	3,124	13.0
<b>Newcastle, Australia</b>	Yokohama, Japan	4,636	19.3
	Inchon, Korea	5,340	22.3
	Kaohsiung, Taiwan	4,692	19.6
	Chennai, India	6,210	25.9

Source: shiptraffic.net and IEEFA estimates.

IEEFA estimates that the impact of the two trade flows will result in:

1. Japan, Korea and Taiwan phasing out Russian coal and buying more from Australia and Indonesia
2. India buying more coal from Russia

An estimated 8-26 days added for each importing market is significant as one Supramax vessel can accommodate a maximum of 60k tonnes, Panamax 80k tonnes, and a Capesize 110-200k tonnes. When measured against a replacement cargo of above 8-17m tonnes for each market, the delays and shipping disruptions are likely to make coal supply even tighter and help support coal prices.

**Table 5: Change in Shipping Times to Major Markets (Days)**

Port	Yokohama, Japan	Inchon, Korea	Kaohsiung, Taiwan	Chennai, India
<b>Balikpapan, Indonesia</b>	13.4	11.9	7.5	13.0
<b>Vladivostok, Russia</b>	4.3	4.2	7.2	23.5
<b>Additional days at sea</b>	9.1	7.7	0.3	10.5
<b>Newcastle, Australia</b>	19.3	22.3	19.6	25.9
<b>Vladivostok, Russia</b>	4.3	4.2	7.2	23.5
<b>Additional days at sea</b>	15.0	18.1	12.4	-2.4 (fewer)
<b>Net impact</b>	<b>24.1</b>	<b>25.8</b>	<b>12.7</b>	<b>8.1</b>

Source: shiptraffic.net and IEEFA estimates.

## Indonesian Coal Snapshot: Financially Strong 1Q22

These eight companies are in a strong shape financially: high coal prices, high profits, operating cashflows and low debt in 1Q22.

**Table 6: Indonesian Coal Companies Realised Coal Price 1Q22 vs FY2021 (US\$/tonne, % diff)**

Company	Stock Code	FY2021 price	1Q22 price	% diff
ABM Investama	ABMM.JK	40.5	56.1	38.6
Adaro Energy	ADRO.JK	74.4	97.4	30.9
Bayan Resources	BYAN.JK	71.0	101.0	42.3
Geo Energy Resources	RE4.SI	56.4	62.3	10.5
Harum Energy	HRUM.JK	92.8	168.4	<b>81.5</b>
Indika Energy	INDY.JK	61.4	70.8	15.3
ITMG (Indo Tambangraya Megah)	ITMG.JK	103.2	150.4	45.7
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	71.3	80.8	13.3
<b>Average price</b>		71.2	91.5	<b>28.6</b>

Source: Company reports and IEEFA estimates.

Indonesian coal companies have benefited from the surge in coal prices the sector enjoying an average price of US\$92/tonne for 1Q22 which is 29% higher than the average price realized in FY2021. Not surprisingly, this has meant that the same companies have enjoyed stellar 1Q22 net profits.

**Table 7: Indonesian Coal Companies Net Profit 1Q22 vs FY2021 (US\$/tonne, as a %)**

Company	Stock Code	FY2021 profit	1Q22 profit	as a %
ABM Investama	ABMM.JK	186.2	52.7	28.3
Adaro Energy	ADRO.JK	1,028.6	440.0	42.8
Bayan Resources	BYAN.JK	1,266.0	380.2	30.0
Geo Energy Resources	RE4.SI	179.5	40.5	22.6
Harum Energy	HRUM.JK	74.1	62.8	84.7
Indika Energy	INDY.JK	227.9	95.1	41.7
ITMG	ITMG.JK	475.4	213.2	44.9
PTBA	PTBA.JK	561.9	160.4	28.5
<b>Total</b>		3,999.6	1,444.9	36.1

Source: Company reports and IEEFA estimates.

These eight Indonesian coal companies recorded a combined net profit of US\$4bn in 2021. Even more impressive is that 1Q22 net profit was US\$1.4bn in 1Q22 alone, which represents 36% of FY2021 net profit. Harum Energy managed to record 85% of FY2021 in 1Q22 alone.

These companies all have low debt levels and high cash levels, and notably, their capex forecasts and guidance suggest that there is minimal coal capacity being planned:

**Table 8: Indonesian Coal Companies Net Cash (Debt), Change 1Q22 vs FY2021 (US\$ million)**

Company	Stock Code	FY2021 net cash (debt)	1Q22 net cash (debt)	Change in net cash (debt)
ABM Investama	ABMM.JK	-148.0	-154.9	-6.9
Adaro Energy	ADRO.JK	222.0	2.3	-219.7
Bayan Resources	BYAN.JK	980.5	1,346.7	366.2
Geo Energy Resources	RE4.SI	187.0	205.1	18.1
Harum Energy	HRUM.JK	50.2	100.9	50.7
Indika Energy	INDY.JK	-227.9	-95.1	132.8
ITMG	ITMG.JK	655.2	886.0	230.8
PTBA	PTBA.JK	944.6	1,067.2	122.5
<b>Total</b>		<b>2,663.6</b>	<b>3,358.2</b>	<b>694.5</b>

Source: Company reports and IEEFA estimates.

The combined net cash position of the eight Indonesian coal companies is US\$3.4bn at the end of 1Q22, a rise from US\$2.7bn at the end of 2021. This means the Indonesian coal companies had a net increase of US\$700m in cash through the 1Q22. Only two of the eight companies have a net debt balance as of 1Q22: ABM Investama (ABM) and Indika Energy (Indika).

ABM had a net debt position of US\$155m, which is manageable as 1Q22 operating cashflow was US\$79m.

Indika reduced net debt from US\$133m to US\$95m by end of 1Q22. This debt level is manageable as Indika 1Q22 operating cashflow is US\$174m. The Indonesian coal companies have benefited from the rise in coal prices through profits, and their cash levels are much higher than debt.

## Indonesian Coal: Big Profit Margin, Strong Operating Cash

The Newcastle benchmark averaged US\$366/ tonne in 2Q22, 41% higher than the 1Q22 average of US\$260/tonne. Even for 1Q22, Indonesian coal companies enjoyed 27-64% margins. This has resulted in increased operating cashflows for 1Q22.

For 1Q22, the total coal sales volume of the eight Indonesian coal companies was 25% of FY2021 levels. While the Indonesian export ban has helped to keep sales volumes down, this also means that these companies have not significantly boosted production capacity.

**Table 9: Coal Sales 1Q22 vs FY2021 (million tonnes, %)**

Company	Stock Code	FY2021 sales	1Q 2022 sales	as a %
ABM Investama	ABMM.JK	11.8	3.9	33.1
Adaro Energy	ADRO.JK	51.6	12.6	24.4
Bayan Resources	BYAN.JK	40.0	10.6	26.5
Geo Energy Resources	RE4.SI	11.4	2.9	25.4
Harum Energy	HRUM.JK	3.5	0.8	22.9
Indika Energy	INDY.JK	35.8	9.2	25.7
ITMG	ITMG.JK	20.1	4.1	20.4
PTBA	PTBA.JK	28.4	5.9	20.9
<b>Total</b>		<b>202.6</b>	<b>50.0</b>	<b>24.7</b>

Source: Company reports and IEEFA estimates.

For 1Q22, Indonesian coal companies enjoyed margins of 27-64%, with Harum Energy at 64% and Adaro Energy at 27%. This has provided high operating cash per tonne of coal sales. This is significant as the average 2Q22 benchmark is 41% higher than 1Q22, which means that these operating cash flows are likely to be higher in 2Q if operating costs remain under control.

**Table 10: Average Selling Price, Operating Costs and Margins 1Q22 (US\$/tonne, %)**

Company	Stock Code	1Q 22 ASP	1Q 22 Costs	1Q22 margin %
ABM Investama	ABMM.JK	56.1	26.3	53.1
Adaro Energy	ADRO.JK	97.4	70.9	27.2
Bayan Resources	BYAN.JK	101.0	37.4	63.0
Geo Energy Resources	RE4.SI	62.3	36.6	41.2
Harum Energy	HRUM.JK	168.4	61.1	63.7
Indika Energy	INDY.JK	70.8	32.8	53.7
ITMG	ITMG.JK	150.4	74.5	50.5
PTBA	PTBA.JK	80.8	51.4	36.4

Source: Company reports and IEEFA estimates.

With the margins in 1Q22, the eight coal companies have generated total operating cashflows of US\$1.4bn, which is 26% of the total FY21 operating cashflow. For the companies specifically, the highest percentage is Indika which generated 36% of its FY2021 operating cashflow in 1Q22.

**Table 11: Operating Cashflow 1Q22 vs FY2021 (US\$ million, %)**

Company	Stock Code	FY2021 Opcf	1Q22 Opcf	as a %
ABM Investama	ABMM.JK	364.6	79.3	21.7
Adaro Energy	ADRO.JK	1,270.0	352.0	27.7
Bayan Resources	BYAN.JK	1,510.1	422.3	28.0
Geo Energy Resources	RE4.SI	272.8	19.6	7.2
Harum Energy	HRUM.JK	129.5	32.4	25.0
Indika Energy	INDY.JK	485.1	172.7	35.6
ITMG	ITMG.JK	617.7	187.6	30.4
PTBA	PTBA.JK	754.8	153.4	20.3
<b>Total</b>		<b>5,404.5</b>	<b>1,419.3</b>	<b>26.3</b>

Source: Company reports and IEEFA estimates.

This combined operating cashflow for the eight Indonesian coal companies in 1Q22 was US\$1.4bn and the net cash position was US\$3.3bn. This means that as of 1Q22, these eight companies' total cash balances exceeded their debt by US\$3.3bn. As IEEFA notes below, the good news from an Environmental, Social and Governance (ESG) perspective is that capex is low and these companies have not outlined capacity expansion plans.

There are only two companies with net debt balances at the end of 1Q22, ABM with US\$155m and Indika with US\$95m. ABM enjoyed US\$79m of operating cashflow in 1Q22, which is 51% of its net debt position. Indika's 1Q22 operating cashflow was US\$173m, which is 84% more than net debt of US\$95m.

This high level of operating cash in 1Q22 is significant, as average coal prices are likely to be even higher in 2Q22. This means that the eight coal companies are in a strong cash position.

**Table 12: Operating Cashflow vs Net Cash (Debt) 1Q22 (US\$ million, %)**

Company	Stock Code	1Q22 net cash (debt)	1Q22 Opcf	as a %
ABM Investama	ABMM.JK	-154.9	79.3	51.2
Adaro Energy	ADRO.JK	2.3	352.0	>100
Bayan Resources	BYAN.JK	1,346.7	422.3	31.4
Geo Energy Resources	RE4.SI	205.1	19.6	9.6
Harum Energy	HRUM.JK	100.9	32.4	32.1
Indika Energy	INDY.JK	-95.1	172.7	>100
ITMG	ITMG.JK	886.0	187.6	21.2
PTBA	PTBA.JK	1,067.2	153.4	14.4
<b>Total</b>		<b>3,358.2</b>	<b>1,419.3</b>	<b>42.3</b>

Source: Company reports and IEEFA estimates.

## Debt Reduction Since 2020

With the rise in coal prices starting 2H20, IEEFA notes that the total cash position of the eight companies have been rising. The total combined cash position of the eight coal companies rose from US\$3.3bn in FY20 to US\$6.1bn at the end of FY21. The total combined cash balance further rose US\$700m to US\$6.8bn at end of 1Q22.

**Table 13: Total Cash FY20-1Q22 (US\$ million)**

Company	Stock Code	FY2020 Cash	FY 2021 Cash	1Q 2022 Cash
ABM Investama	ABMM.JK	109.2	237.2	279.2
Adaro Energy	ADRO.JK	1,174.0	1,811.0	1,555.7
Bayan Resources	BYAN.JK	383.8	980.5	1,346.7
Geo Energy Resources	RE4.SI	53.0	191.0	209.1
Harum Energy	HRUM.JK	211.1	149.4	200.2
Indika Energy	INDY.JK	792.1	1,100.2	1,227.4
ITMG	ITMG.JK	231.5	691.0	922.0
PTBA	PTBA.JK	387.5	945.0	1,067.5
<b>Total</b>		<b>3,342.1</b>	<b>6,105.3</b>	<b>6,807.7</b>

Source: Company reports and IEEFA estimates.

At the same time as building cash balances, the total combined debt position declined from US\$4.1bn in FY20 to US\$3.7bn for 1Q22. Two companies Bayan Resources (Bayan) and Geo Energy Resources (Geo Energy) effectively reduced their debt to zero.

In October 2021, Geo Energy had enough cash to redeem the 8% senior notes of around US\$59m.<sup>11</sup> Bayan bought back US\$251m of a US\$400m bond due in January 2023 in May 2021 and redeemed the remaining US\$149m in October 2021.<sup>12</sup>

**Table 14: Total Debt FY20-1Q22 (US\$ million)**

Company	Stock Code	FY2020 Debt	FY 2021 Debt	1Q 2022 Debt
ABM Investama	ABMM.JK	425.4	385.2	434.1
Adaro Energy	ADRO.JK	1,493.0	1,589.0	1,553.3
Bayan Resources	BYAN.JK	394.7	0.0	0.0
Geo Energy Resources	RE4.SI	60.0	4.0	4.0
Harum Energy	HRUM.JK	0.0	99.2	99.3
Indika Energy	INDY.JK	1,691.7	1,591.8	1,589.5
ITMG	ITMG.JK	43.4	35.7	36.0
PTBA	PTBA.JK	8.0	0.4	0.4
<b>Total</b>		<b>4,116.3</b>	<b>3,705.4</b>	<b>3,716.6</b>

Source: Company reports and IEEFA estimates.

<sup>11</sup> Geo Energy Resources. [Media Release - Redemption of Bonds](#). 13 October 2021.

<sup>12</sup> Bayan Resources. [Bayan Resources Third Quarter 2021 Update Presentation](#). 3 December 2021. Page 18.

IEEFA's view is that these coal companies are aware of an increasing number of financial institutions that are withdrawing from financing coal mining and coal power projects. This is also reflected in the low capex investment for the eight coal companies.

**Table 15: Capex FY20-1Q22 (US\$ million)**

Company	Stock Code	FY2020 Capex	FY 2021 Capex	1Q 2022 Capex
ABM Investama	ABMM.JK	68.8	82.9	59.3
Adaro Energy	ADRO.JK	169.0	193.0	70.6
Bayan Resources	BYAN.JK	90.3	177.2	69.8
Geo Energy Resources	RE4.SI	7.8	6.2	0.5
Harum Energy	HRUM.JK	7.3	15.9	1.2
Indika Energy	INDY.JK	84.2	67.2	9.7
ITMG	ITMG.JK	20.4	14.6	9.5
PTBA	PTBA.JK	48.5	66.5	7.8
<b>Total</b>		<b>496.3</b>	<b>623.5</b>	<b>228.3</b>

Source: Company reports and IEEFA estimates.

The good news, from an ESG perspective, is that these companies have only invested 15% of their combined cash balance in capex for 2020 and less than 10% for 2021.

IEEFA breaks down the capex for 2021 in detail and other than ABM and PTBA with new coal-related projects, the other companies have focussed on infrastructure and other types of business.

## Capex in Detail: PTBA, ABM Stand Out

A closer look at the disclosure outlined in the company reports identifies where the investment has gone in 2021. For future projects, two companies stand out: PTBA for its plans to invest in the coal downstream DME plant<sup>13</sup> and ABM Investama for plans to acquire a new coal mine.<sup>14</sup>

<sup>13</sup> PT Bukit Asam. *Corporate Presentation PT Bukit Asam 1Q2022*. 8 June 2022. Page 20.

<sup>14</sup> ABM Investama. *ABM Investama Investor Presentation Hungry Stock Event*. May 2022. Page 27.

**Table 16: FY21 Capex and Detail (US\$ million)**

Company	Stock Code	FY 2021 Capex	Detail
<b>ABM Investama</b>	ABMM.JK	82.9	US\$21m for machinery, US\$62m for construction
<b>Adaro Energy</b>	ADRO.JK	193.0	US\$112m heavy equipment, US\$15m docking vessel
<b>Bayan Resources</b>	BYAN.JK	177.2	US\$115m for road and loading, US\$20m for office
<b>Geo Energy Resources</b>	RE4.SI	6.2	US\$5m on leasehold property
<b>Harum Energy</b>	HRUM.JK	15.9	US\$14m addition to existing mine
<b>Indika Energy</b>	INDY.JK	67.2	US\$8m for Kideco Mining, US\$42m for Petrosea
<b>ITMG</b>	ITMG.JK	14.6	US\$2.5m in machinery, US\$11m construction
<b>PTBA</b>	PTBA.JK	66.5	Coal power plant, train loading station, conveyor belt
<b>Total</b>		623.5	

Source: Company reports and IEEFA estimates.

For 2021, the eight coal companies combined capex was US\$624m. Most of the capex was on infrastructure such as roads and machinery such as conveyor belts. Specifically for Indika, only US\$8m was spent on the coal mining arm Kideco. As of March 2022, Indika has disposed of its interest in 70% in coal mining contractor Petrosea.

Looking at the guidance for FY2022, two companies stand out for guiding for coal projects: ABM Investama and PTBA. ABM is guiding for higher coal volumes and plans to acquire a new coal mine. PTBA is outlining plans for the downstream coal DME plant.

IEEFA has published two reports which stresses that the financial justification is tenuous at best. From the ESG perspective, Indika stands out due to its diversification away from coal, and the company is planning to invest US\$32m capex in its gold project Awakmas, and another US\$21m to acquire 51% stake in the solar power company, Empat Mitra Indika Tenaga Surya (EMITS), as a joint venture with Fourth Partner Energy.<sup>15</sup>

<sup>15</sup> Indika Energy. [Indika Energy Group Company Update 3M22](#). May 2022. Page 8, 17-25.

**Table 17: 1Q22 Capex and Detail (US\$ million)**

Company	Stock Code	1Q22 Capex	Guidance and detail
ABM Investama	ABMM.JK	59.3	Increase volumes and acquire new mine
Adaro Energy	ADRO.JK	70.6	US\$300m guidance for capital expenditure
Bayan Resources	BYAN.JK	69.8	US\$200m guidance, US\$121m road, US\$46m conveyors
Geo Energy Resources	RE4.SI	0.5	
Harum Energy	HRUM.JK	1.2	
Indika Energy	INDY.JK	9.7	US\$113m guidance, US\$17m for Kideco, US\$32m for gold
ITMG	ITMG.JK	9.5	US\$69m guidance
PTBA	PTBA.JK	7.8	Expand rail capacity, DME downstream coal plant
<b>Total</b>		<b>228.3</b>	

Source: Company reports and IEEFA estimates.

While the good news is that the coal companies did not embark on a major coal mine expansion in 2021, ABM plans to boost coal sales, and PTBA coal resource usage through downstream processing. Indika has started to pivot away from coal through its gold and solar power projects.

Starting from April 11, with Government Regulation No. 15/2022 signed by President Joko Widodo, the Indonesian government has imposed a progressive coal royalty rate of 14 to 28 percent. It is based on Indonesia thermal coal's benchmark price, known as the Harga Batubara Acuan (HBA).<sup>16</sup>

The HBA is calculated as the average of the Indonesian Coal Index, Newcastle Export Index and the Global Coal Newcastle Index.<sup>17</sup> The previous coal royalty had been at a fixed rate of 13.5 percent regardless of coal prices.<sup>18</sup> This new scheme was set as miners convert their mining licenses into a new special mining permits (IUPK) system when their contracts expire.<sup>19</sup>

According to the Ministry of Energy of Mineral Resources (MEMR), the new high royalty rate of 28% applies when the coal benchmark price is over US\$100/tonne.<sup>20</sup> The average HBA price for Jan-May 2022 is now at US\$222/tonne, so the new higher royalty rates will apply.

There are other factors to consider, as the coal sold under domestic market obligation (DMO) to power plants will be charged 14% as the prices are capped at US\$70-90/tonne.<sup>21</sup>

<sup>16</sup> Jakarta Post. [Indonesia raises coal royalty rates to boost revenue](#). 19 April 2022.

<sup>17</sup> Statista.com [Indonesia coal benchmark price per ton](#).

<sup>18</sup> Jakarta Post. [Indonesia raises coal royalty rates to boost revenue](#). 19 April 2022.

<sup>19</sup> Reuters. [Indonesia raises coal royalty rate to a range of 14 to 28%](#). 18 April 2022.

<sup>20</sup> Reuters. [Indonesia raises coal royalty rate to a range of 14 to 28%](#). 18 April 2022.

<sup>21</sup> Reuters. [Indonesia raises coal royalty rate to a range of 14 to 28%](#). 18 April 2022.

The Indonesian Coal Miners Association has said that this could further hurt downstream coal investment. IEEFA's view is that the new royalties will further discourage new coal sector investment.

**Table 18: Indonesian New Coal Royalty Scheme (US\$/tonne, %)**

HBA Coal Price	IUPK 1st gen General	IUPK 1st gen DMO	IUPK later gen General	IUPK later gen DMO
Less than US\$70	14	14	20	14
US\$70 to US\$80	17	14	21	14
US\$80 to US\$90	23	14	22	14
US\$90 to US\$100	25	14	24	14
More than US\$100	28	14	27	14

Source: Reuters.

## Conclusion

In the longer term, new trade flows will likely require time to adjust even in the event of a conflict resolution. Therefore, coal prices can be supported during this adjustment process.

With prices likely to be supported, IEEFA stresses that Indonesian coal companies should not miss the opportunity to diversify away from the coal industry.

The key conclusions are as follows:

**Coal prices to remain high:** Global coal prices will likely remain high as Asian purchasers phase out Russian coal and start buying from Australia and Indonesia. This creates delays in trade flows as shipping routes are longer to North Asia from Australia and Indonesia than to Russia. Also, India buying more coal from Russia will delay shipping routes as Indonesia is closer.

**Indonesian coal companies' cash balances are strong:** The eight Indonesian coal companies in the report had a combined US\$4bn in FY21 net profit. 1Q22 net profit is already US\$1.4bn. The net cash combined balance was US\$3.4bn at the end of 1Q22. This is all set to grow further, as average benchmark coal prices are 41% higher QoQ (quarter over quarter) in 2Q22.

Indonesian coal companies have embarked on debt reduction since 2020: The total debt balance at the end of 1Q22 was US\$3.7bn, compared to US\$4.1bn at the end of 2020.

The total cash balance is US\$6.8bn at the end of 1Q22, compared to US\$3.3bn at the end of 2020.

**Indonesian coal companies' relatively low capex:** The good news from an ESG perspective is that these companies have only invested 15% of their combined cash balance in capex for 2020 and less than 10% for 2021.

**The combined cash balance is US\$6.8bn at end of 1Q22, compared to US\$3.3bn end of 2020.**

In 2021, the eight coal companies' combined capex was US\$624m. Most of the capex was on infrastructure such as roads and machinery such as conveyor belts. The new royalty scheme of 14-28%, higher than the previous 13.5%, is also likely to discourage new coal capacity investment.

**Three companies stand out:** Looking at the guidance for FY2022, two companies stand out for their planned coal projects: ABM Investama and PTBA. ABM is guiding for higher coal volumes and plans to acquire a new coal mine. PTBA is outlining plans for the downstream coal DME plant.

From the ESG perspective, Indika stands out due to its diversification away from coal and the company is guiding for US\$32m capex in its gold project and US\$21m in a joint venture for solar power.

## About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. [www.ieefa.org](http://www.ieefa.org)

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