



Indonesian Coal: No Bailout, Don't Throw Good Money After Bad

*Governments Intervene at Their Peril When
Problems Are Structural*

Executive Summary

Indonesia's coal industry faces at least twelve more months of gruelling business conditions if, as we expect, benchmark coal prices remain at the current levels of US\$47 a tonne. Stakeholders will be asking increasingly tough questions about the financial status of the sector for as long as these low coal prices persist.

IEEFA reports examining the impact of the COVID-19 downturn on Indonesia's price-sensitive coal sector published earlier this year raised the following question: **Will the Indonesian coal industry try to make the case for a government bailout, and if so, when?**

In our first report, [Can Indonesia's coal industry survive COVID-19?](#) we examined the consequences of low coal prices from COVID-19 on Indonesian coal companies' cash flow and for government royalties.

Our second report, [Indonesian Coal at the Mercy of the Dragon and Tiger](#) estimated the potential coal demand shortfall from the two key markets of China and India. We found that the listed Indonesian coal companies are financially vulnerable at coal prices below US\$60 a tonne, and that hopes of relief from new demand out of China or India could not be justified.

**The sector seems
poised to request a
coal industry bailout if
low prices persist. We
say *No* to the bailout.**

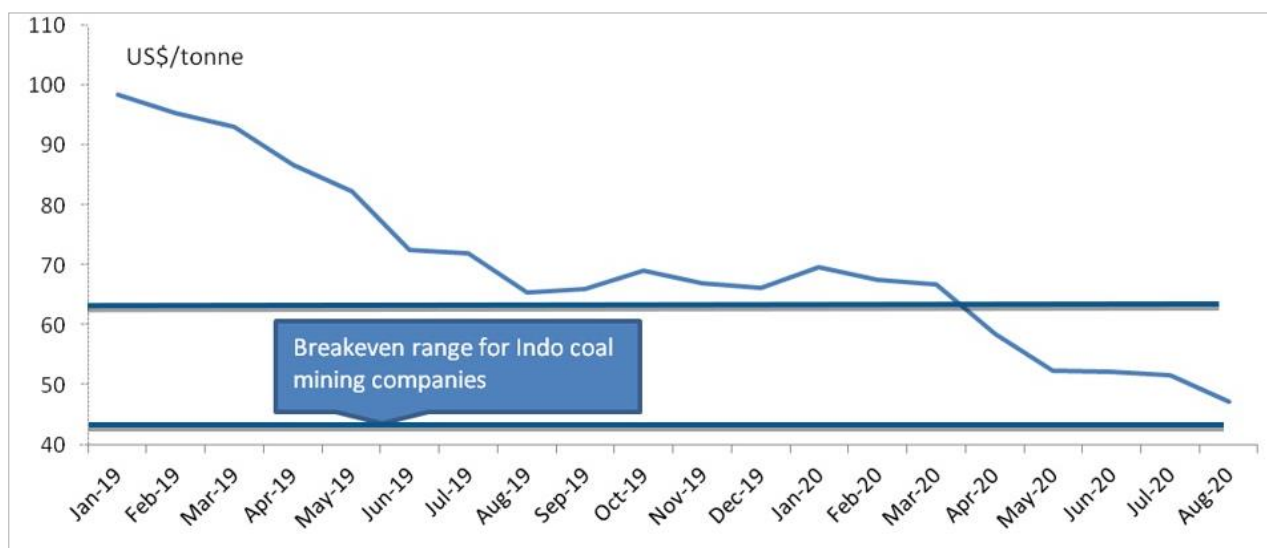
Given the coal industry's structural problems, we have in this third report turned our attention to the case for a coal industry bailout — something the sector seems poised to request if low prices persist and lead to industry-wide financial stress.

We say *No* to the bailout, based on the following:

- The continuing sales of significant coal assets by major mining companies signals a structural decline in the economic value of coal assets globally. Coal growth forecasts for South and South East Asia may be rebased as COVID-19 and the energy transition cut into the remaining coal growth narrative. If this decline is structural and not cyclical, there may be no exit plans for a bailout.

- Royalties are a fundamental obligation of any private sector resource extraction business model. By granting industry-wide royalty relief and protecting underperforming companies, the Indonesian government is putting at risk US\$1.1bn in royalties and US\$1.2bn in taxes it collected in 2019 from the 11 coal companies in our analysis.
- Even the pro-coal Trump Administration has backed away from royalty relief for the coal sector. In July, royalty relief for U.S. coal companies was rejected by the Bureau of Land Management, as the use of COVID-19 as reason to circumvent existing requirements was disallowed. The application included two of the largest mines in the U.S. (2019 sales: 142.8mt) and if successful, would have resulted in US\$300m in relief over two years.
- Any relief for the coal sector represents a form of relief for creditors. The leading coal companies have outstanding loans of US\$3.8bn borne by Indonesian and foreign banks including four domestic lenders that stand out: Bank Mandiri (Mandiri), Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI) and Permata Bank (Permata). The nature of the exposures is not disclosed, leaving open the question of whether the banks have secured collateral covering potential losses.
- Current outstanding coal sector bonds of US\$3.1bn are unlikely to be refinanced. There should be a clear division between private and public funding.

Figure 1: Newcastle Benchmark Coal Price* Jan 2019 - Aug 2020 vs Indonesian Coal Breakeven Zone (US\$/Tonne)



Source: IndexMundi and IEEFA estimates.

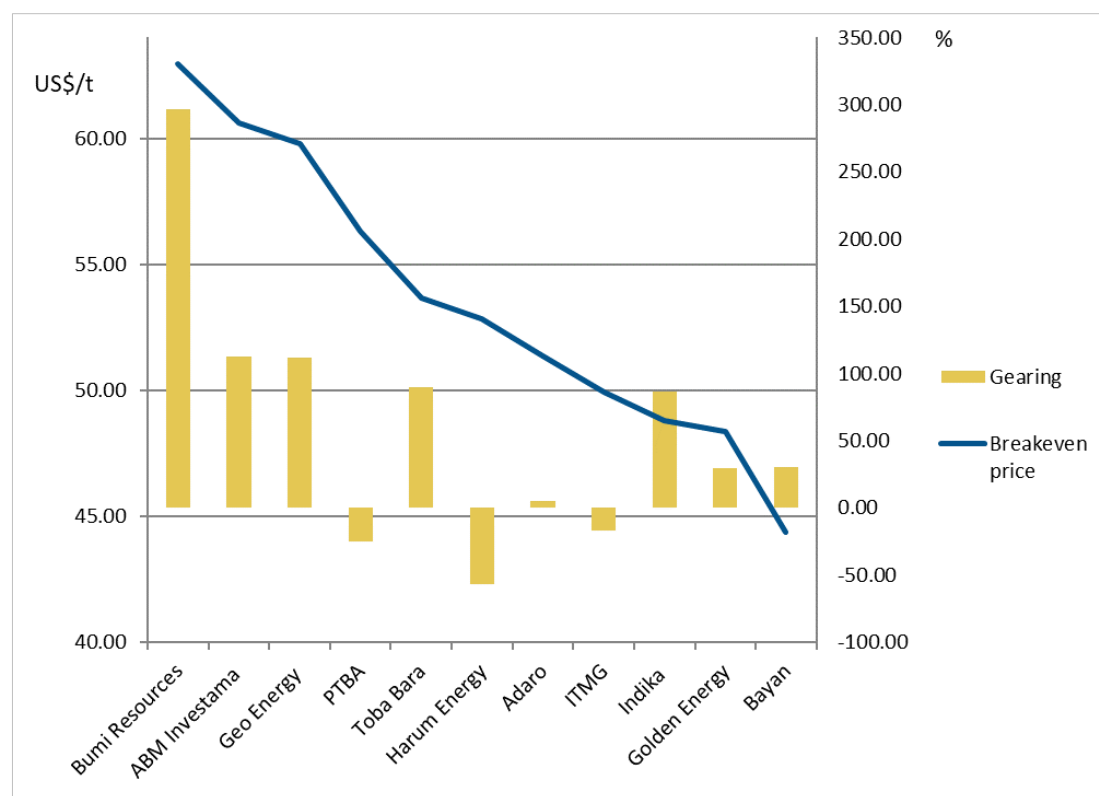
*The Newcastle coal benchmark price is the price for high-quality 6,300kcl/kg coal FOB (free on board) from Newcastle, Australia. The Indonesian coal breakeven price range for the 11 Indonesian companies as calculated by IEEFA is the Newcastle benchmark price at US\$44-63/tonne.

Any policy discussion concerning the outlook for the Indonesian coal sector must start with a pragmatic understanding of the sector's ability to adapt to energy transition.

Our analysis identifies two key metrics that highlight the sector's weak financial and operational positioning:

1. At the current coal price of US\$47 a tonne, only 1 of 11 Indonesian coal companies reviewed - **Bayan Resources** – is cash positive per tonne of coal sold (see Figure 2).
2. **Bumi Resources, ABM Investama** and **Geo Energy Resources** are most at risk due to having the highest gearing ratio, and the highest required breakeven prices (see Figure 2).

Figure 2: Indonesian Coal Company Breakeven Price and 2019 Gearing Ratio (US\$/Tonne, %)



Source: Company reports and IEEFA estimates.

Even with some measure of relief, these companies could struggle to survive in more challenging markets.

Our conclusion is that instead of any bailout, market forces should be permitted to operate, letting market participants determine the right value of these poorly run assets and companies.

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Introduction

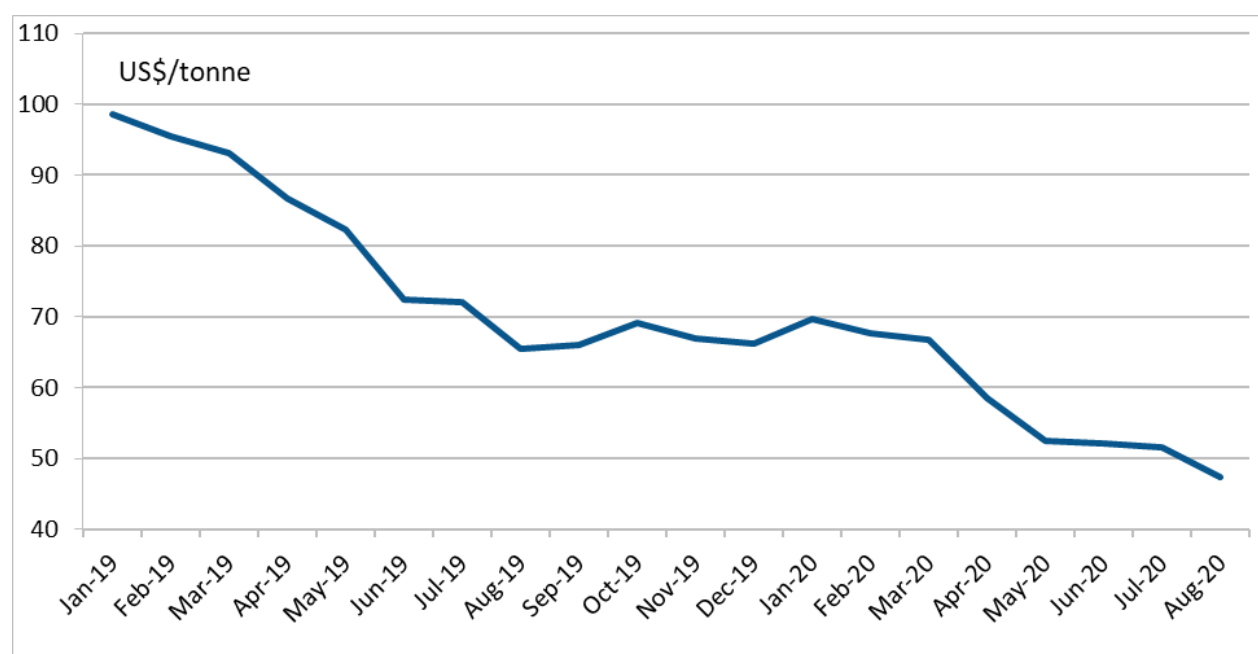
Coal Prices Continue to Fall During COVID-19 Pandemic

The financial health of the Indonesian coal sector is linked to the outlook for coal prices.

After starting to fall in April 2020, the Newcastle benchmark coal price has declined significantly in recent months, putting companies with high breakeven prices at risk.

The average benchmark price declined 12% month-on-month in April to US\$63/tonne from an average US\$68/tonne in March. The average May price fell a further 10% month-on-month to US\$52/tonne. The price in August averaged US\$47/tonne compared to the first-half 2020 average price of US\$61/tonne.

Figure 3: Newcastle Benchmark Coal Price Jan 2019 - Jul 2020 (US\$/Tonne)



Source: IndexMundi.

With breakeven prices for the sector averaging US\$53/tonne in 1H2020, current prices at US\$47/tonne signal more distress. (See Table 1)

**Table 1: 2020 Forecast Benchmark Coal Breakeven Price, 1H 2020
Average Price (US\$/Tonne)**

Company	Stock Code	Breakeven Price	Average 1H Price	Cash Per Tonne
Bumi Resources	BUMI.JK	62.94	61.22	-1.72
ABM Investama	ABMM.JK	60.60	61.22	0.62
Geo Energy Resources	RE4.SI	59.80	61.22	1.42
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	56.31	61.22	4.91
Toba Bara	TOBA.JK	53.65	61.22	7.57
Harum Energy	HRUM.JK	52.83	61.22	8.39
Adaro Energy	ADRO.JK	51.35	61.22	9.87
ITMG (Indo Tambangraya Megah)	ITMG.JK	49.92	61.22	11.30
Indika Energy	INDY.JK	48.79	61.22	12.44
Golden Energy and Resources	AUE.SI	48.39	61.22	12.84
Bayan Resources	BYAN.JK	44.35	61.22	16.87

Source: Reuters, company reports and IEEFA estimates.

Only one out of 11 Indonesian companies, Bayan Resources, is expected to be cashflow positive according to our estimates. (See Table 2) This puts the onus on each company to find ways to reduce cash costs by more than 10% versus 2019 levels.

**Table 2: 2020 Forecast Benchmark Coal Breakeven Price, Aug 2020 Spot
Price (US\$/Tonne)**

Company	Stock Code	Breakeven Price	Current Price	Cash Per Tonne
Bumi Resources	BUMI.JK	62.94	47.00	-15.94
ABM Investama	ABMM.JK	60.60	47.00	-13.60
Geo Energy Resources	RE4.SI	59.80	47.00	-12.80
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	56.31	47.00	-9.31
Toba Bara	TOBA.JK	53.65	47.00	-6.65
Harum Energy	HRUM.JK	52.83	47.00	-5.83
Adaro Energy	ADRO.JK	51.35	47.00	-4.35
ITMG (Indo Tambangraya Megah)	ITMG.JK	49.92	47.00	-2.92
Indika Energy	INDY.JK	48.79	47.00	-1.79
Golden Energy and Resources	AUE.SI	48.39	47.00	-1.38
Bayan Resources	BYAN.JK	44.35	47.00	2.65

Source: Reuters, company reports and IEEFA estimates.

Coal Sector Bailouts Are a Risky Business

As discussed in our first report¹ on Indonesia's coal sector vulnerabilities, IEEFA's view is that coal sector interests are very likely to push for relief from coal royalty obligations a first step in any bailout.

We argue against any bailout for the following reasons:

1. Providing support to the Indonesia coal industry in the form of royalty relief is a blunt tool that distorts normal market incentives for more efficient operators. Royalty payments are a transparent cost of doing business that should be factored into operating decisions across a range of commodity price scenarios.

With this in mind, it's notable that royalty relief for the struggling U.S. coal industry was rejected in July 2020. The industry's effort to use the COVID-19 pandemic as reason to circumvent existing procedures for relief was disallowed. The royalty relief applied for represented 26% of U.S. 2019 coal production and would have resulted in US\$300m relief over 2 years.

2. The Indonesian coal industry is facing a range of structural risks that go beyond the immediate risks associated with weak pricing related to the COVID-19 downturn. The pivot away from fossil fuels in global energy markets has undermined traditional assumptions about the value of coal assets in many markets.

Starting in 2016, two major diversified mining companies, Anglo American and Rio Tinto, have sold seven Australian coal assets. BHP put its major Australian thermal coal asset Mt. Arthur up for sale in July 2020. These moves signal a negative view on the economic and risk profile of these assets.

Those who support the case for royalty relief would argue that support would be temporary with the goal of smoothing out short-term market distortions. As a result, it is assumed that if there was a coal bailout, there would be a defined exit from relief efforts after cyclical recovery starts.

However, if the decline in asset values is structural, rather than related to COVID-19 and the massive drop in coal prices, this creates a situation whereby underperforming assets will continue to operate unprofitably — a scenario that can result in a policy trap without a viable exit strategy.

¹ IEEFA. [Can Indonesia's coal industry survive COVID-19?](#) May 2020.

Relying on COVID-19 for Royalty Relief Rejected in July for U.S. Coal

A plea for coal royalty relief on behalf of the U.S. coal industry played out in July 2020. The use of COVID-19 as a justification to circumvent procedure to attain coal royalty relief was rejected.

According to a report by taxpayer.net², in March the Bureau of Land Management (BLM) published guidance for federal coal mine operators in how to apply to have their royalty rate reduced using a COVID-19 rationale. Two months later, the operators of 22 federal coal leases in Wyoming - held by subsidiaries of the two largest U.S. coal companies, Arch Resources and Peabody Energy - applied for relief. The leases in question cover operations on five mines which in 2019 produced 63% of coal production on federal land and 26% (66.5mt) of all U.S. production (640.5mt). In 2019, coal sales for two of the biggest mines in the U.S, Peabody's North Antelope Rochelle Mine and Arch Resources' Black Thunder mine in Wyoming's Powder River Basin, were 77.4mt and 65.4mt respectively.

The royalty rate on U.S. surface mines is 12.5% compared to Indonesia's current rate of 13.5%. According to taxpayer.net, if the U.S. coal industry had had its way, royalty relief over the two coming years would have equated to more than US\$300m.

Instead, BLM denied all 18 applications by Peabody, and Arch Resources withdrew four applications (although one was resubmitted for its Coal Creek mine, which had 2.4mt in coal sales for 2019).

Table 3: Federal Coal Leases: COVID-19 Royalty Relief Requests by Company

Parent Company	Stock Code	Leases	Acres	Denied/Withdrawn
Peabody Energy	BTU	18	47,954	18
Arch Resources	ARCH	4	13,925	3
Total		22	61,879	21

Source: BLM LR2000 system, taxpayer.net.

According to taxpayer.net, BLM's records indicate that its staff removed references to COVID-19 in some files for certain leases, and that BLM also removed the initial operator guidance advice from its website³. According to taxpayer.net, this suggests the strategy of using the pandemic as justification for royalty rate reductions within the existing regulations was tenuous.

Either way, it appears that BLM decided *not* to circumvent normal procedures and grant relief based on COVID-19. The BLM is directed by statute to grant relief only

² Taxpayer.net. [Taxpayers Avoid Huge Losses from Federal Coal Royalty Relief](#). July 29, 2020.

³ Taxpayer.net. [Taxpayers Avoid Huge Losses from Federal Coal Royalty Relief](#). July 29, 2020.

when necessary to conserve federal resources or to continue the life of a mine that would otherwise be shut.

While the reasons for rejecting the coal industry's bailout were not clearly spelt out, the policy context is apparent from other parallel U.S. government COVID relief programs for the fossil fuel industry.

According to the World Resources Institute (WRI), the U.S. oil and gas industry has benefited from more relief programs than the renewable energy sector. WRI notes that according to U.S. Securities and Exchange Commission (SEC) filings, 37 oil companies have filed for more than US\$1.9bn in Coronavirus Aid, Relief, and Economic Security (CARES) Act tax benefits. Oil and gas companies have also benefited from the Federal Reserve's Main Street Lending Program which allows qualified companies to qualify for funds to pay off prior loans. In April, BLM approved 76 applications from oil and gas companies and cut royalties from 12.5% to 0.5%.⁴

The U.S. oil and gas industry has benefited from more relief programs than the renewable energy sector.

Nonetheless, it appears that in the case of coal royalty relief, BLM's view was that the COVID-19 pandemic had *not* yet proven to be an existential threat to coal companies, many of which would still have the option to apply for relief under the CARES Act and the Main Street Lending Program.

Continuing Global Divestment of Coal Assets by Major Miners

While the COVID-19 downturn has clearly been a short-term factor in depressing coal demand, over the longer term, demand for coal assets and reserves has been facing structural decline as traditional players exit the coal sector.

Major international mining companies such as Rio Tinto and Anglo American have been divesting coal assets since 2016. And BHP announced in June 2020 that it wants to sell its Mt. Arthur thermal coal operations in Australia with annual production output of 15-17mt, a sign this trend is *not* restricted to slow energy growth regions. In fact, these moves may well signal a structural, not a cyclical, decline in the value of coal assets.

Rio Tinto sold its Coal & Allied's coal mines in New South Wales to China's Yancoal in June 2017. In August 2018, Rio Tinto also sold its Queensland coal mines to Glencore and to an investor group including Adaro Energy. And from August 2016 to

⁴ WRI. [Oil & Gas Win, Clean Energy Loses in U.S. COVID-19 Response](#). June 10, 2020.

May 2017, Anglo American sold four Australian coal mine operations to buyers including Yancoal and Glencore, and to different smaller mining companies.

The continuing disposal of these coal mine assets by major miners to a diverse group of buyers suggests the buyers have a higher risk appetite. It also indicates that the major miners - the sellers - believe there is a decline in the economic value of these assets and a higher risk profile. Taken together, the continuing divestment of coal assets by major mining companies would support the view that the decline in economic value is more structural and less cyclical.

Table 4: Recent Sale of Australian Coal Mine Assets

Asset	Type	Seller	Buyer	Date
Coal & Allied	Thermal	Rio Tinto	Yancoal	Jun-17
Hail Creek	Coking/Thermal	Rio Tinto	Glencore	Aug-18
Kestrel	Coking/Thermal	Rio Tinto	EMR / Adaro Energy	Aug-18
Foxleigh	PCI	Anglo American	Realm Resources	Aug-16
Callide	Thermal	Anglo American	Batchfire Resources	Oct-16
Drayton	Thermal	Anglo American	Malabar Coal	May-17
Dartbrook	Thermal	Anglo American	Australian Pacific Coal	May-17

Source: Company Reports.

Should Weak Indonesian Coal Companies Be Saved?

With rising risks to pricing, sector profitability and coal asset values, policy makers will need to be alert to how any bailout for the coal sector will affect different companies or influence market behaviour.

A coal bailout raises the question of moral hazard because industry-wide royalty relief would result in a range of economic policy problems:

- If coal industry-wide royalty relief was granted, the Indonesian government stands to forfeit significant royalty income at a time when government revenues are down sharply. As discussed in detail below, the government collected US\$1.1bn in royalties from the 11 coal companies in 2019.
- A market-wide bailout would undermine normal market forces that would see less efficient mines fail and permit more competitive market players to decide on the next steps. It would distort market incentives by helping badly run companies that require high breakeven prices and have high debt levels, while at the same time having the effect of penalizing well-run companies that invested in their business in order to operate with lower breakeven coal prices and conservative balance sheets. This creates a situation where underperforming assets would continue operating against a backdrop of a structural decline in the economic value of coal assets.

The moral hazard issue is particularly relevant in the Indonesian case because the weaker players have the highest required benchmark breakeven prices and also tend to have the highest net debt.

Table 5: Indonesian Coal Companies' 2019 Coal Sales, Breakeven Price, Royalty and Net Debt per tonne (million tonnes, US\$ /Tonne)

Company	Stock Code	Breakeven Price (US\$ Per t)	Net Profit Per t (US\$)	Royalty Per t (US\$)	Net Debt Per t (US\$)
Bumi Resources	BUMI.JK	62.94	0.08	1.74	18.8
ABM Investama	ABMM.JK	60.60	0.80	NA	29.1
Geo Energy Resources	RE4.SI	59.80	-6.69	NA	19.5
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	56.31	11.67	3.87	-13.5
Toba Bara	TOBA.JK	53.65	5.42	2.71	48.4
Harum Energy	HRUM.JK	52.83	4.02	7.08	-49.2
Adaro Energy	ADRO.JK	51.35	6.52	6.34	4.0
ITMG (Indo Tambangraya Megah)	ITMG.JK	49.92	5.51	8.54	-6.3
Indika Energy	INDY.JK	48.79	-0.53	6.82	26.6
Golden Energy and Resources	AUE.SI	48.39	0.44	NA	6.2
Bayan Resources	BYAN.JK	44.35	7.89	3.11	6.7

Source: Company Reports and IEEFA estimates.

As highlighted in blue in Table 5, Bumi Resources, ABM Investama and Geo Energy Resources require the highest benchmark breakeven coal price and have very high gearing per tonne of coal sales. For each tonne of coal sold in 2019, ABM Investama had US\$29 of net debt compared to US\$20 for Geo Energy Resources and US\$19 for Bumi Resources. These three companies also had extremely low net profit per tonne of coal sold in 2019 with US\$0.08 for Bumi and US\$0.80 for ABM Investama while Geo Energy Resources made a loss of US\$6.69 per tonne of coal sold for 2019.

If the Indonesian government were to offer industry-wide royalty relief, it would penalize the companies that are better run highlighted in yellow such as ITMG (Indo Tambangraya Megah) and PTBA (Tambang Batubara Bukit Asam), which paid US\$4 and US\$9 per tonne of royalties per tonne of coal sold in 2019. Both ITMG and PTBA also ran net cash balance sheets for 2019: PTBA's net profit per tonne was US\$11.67 while ITMG's was US\$5.51 per tonne.

Allowing poorly run coal mines and companies to fail may be the economically correct option. Better performing coal companies can then decide whether to take on the task of turning around these operations.

In addition to its mines, ABM Investama has a sizeable mining services segment. If market forces are allowed to operate, the two larger mining service companies,

Allowing poorly run coal mines and companies to fail may be the economically correct option.

Pamapersada Nusantara (PAMA) and Bukit Makmur Mandiri Utama (BUMA) could play a role in determining the value of these assets.

In the wake of a structural decline in the value of coal mining assets, IEEFA's position is that the deployment of capital to save poorly performing coal assets may not be the best use of limited financial resources. If the decline in coal price is structural and not cyclical, then any funds committed may well be at risk of failing to generate target returns.

Indonesian Coal: US\$2.3bn Taxes/Royalties at Risk and Five Companies Are Highly Geared

The 11 listed Indonesian coal companies we reviewed (nine listed in Indonesia and two in Singapore) have a meaningful economic footprint with total coal sales of 294mt. Based on their 2019 cash flow statements, the group paid a total of US\$1.2bn in taxes and US\$1.1bn in royalties. Our analysis also found that 5 of the 11 companies have gearing levels above 87%.

If the current low coal price continues, these 5 companies (Bumi Resources, ABM Investama, Geo Energy Resources, Toba Bara, and Indika Energy) could have difficulties managing their debt load.

Table 6: Indonesian Coal Companies' 2019 Coal Sales, Tax Paid, Royalties Paid (million US\$)

Company	Stock Code	Coal Sales (m tonnes)	Tax Paid (US\$ m)	Royalties Paid (US\$ m)
Adaro Energy	ADRO.JK	54.4	306.9	344.9
Indika Energy	INDY.JK	34.1	230.8	232.5
Bayan Resources	BYAN.JK	23.5	212.8	88.1
ITMG (Indo Tambangraya Megah)	ITMG.JK	24.6	111.3	200.7
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	28.3	108.4	95.3
Golden Energy and Resources	AUE.SI	22.8	92.4	140.4
Bumi Resources*	BUMI.JK	80.6	44.2	
ABM Investama*	ABMM.JK	9.5	33.0	
Toba Bara	TOBA.JK	4.9	17.6	13.3
Harum Energy	HRUM.JK	4.6	14.7	32.5
Geo Energy Resources*	RE4.SI	7.1	9.4	
Total		294.4	1,181.5	1,147.7

Source: Company Reports and IEEFA estimates.

*Royalties paid not separately disclosed in the cashflow statement.

The coal sector's cash level at the end of 2019 was US\$3.5bn and total debt (bank and other debt plus bonds) was US\$6.5bn. However, the net cash position is quite uneven as some companies manage their operations on a more conservative basis than others. For example, state-owned PTBA had the largest 2019 net cash position of US\$331m with coal sales of 26mt. Harum Energy had the second-largest 2019 net

cash position with US\$227m, but coal sales of only 5mt. ITMG had the third-largest net cash position of US\$149m with 2019 cash sales of 24mt.

At the other end of the spectrum, Bumi Resources' depleted cash position resulted in the largest net debt position at US\$1.5bn with 81mt of coal sales. Indika Energy's large debt position was offset by higher cash levels resulting in a 2019 net debt position of US\$906m. The third largest net debt position was ABM Investama at US\$276m and coal sales of 10mt.

Table 7: Indonesian Coal Companies' 2019 Coal Sales, Cash, Total Debt and Net Debt (million tonnes, million US\$)

Company	Stock Code	Coal Sales (m tonnes)	Cash (US\$ m)	Total Debt (US\$ m)	Net Debt (US\$ m)
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	24.6	343.1	11.7	-331.4
Harum Energy	HRUM.JK	4.6	226.5	0.0	-226.5
ITMG (Indo Tambangraya Megah)	ITMG.JK	23.5	159.2	10.5	-148.7
Geo Energy Resources	RE4.SI	7.1	139.0	277.3	138.3
Golden Energy and Resources	AUE.SI	22.8	177.8	319.8	142.0
Bayan Resources	BYAN.JK	28.3	174.7	363.6	188.9
Adaro Energy	ADRO.JK	54.4	1,576.2	1,791.7	215.5
Toba Bara	TOBA.JK	4.9	20.9	258.3	237.3
ABM Investama	ABMM.JK	9.5	101.9	378.3	276.4
Indika Energy	INDY.JK	34.1	568.6	1,474.9	906.2
Bumi Resources	BUMI.JK	80.6	44.7	1,560.7	1,516.1
Total		294.4	3,532.7	6,446.8	2,914.1

Source: Company Reports and IEEFA estimates.

When companies face liquidity pressures due to depressed sales and cash flow, short-term debt service obligations can matter a great deal.

The total sector debt of US\$6.4bn at the end of 2019 was divided into short-term bank and other loans of US\$1.1bn, long-term loans of US\$2.7bn, and bonds of US\$2.6bn. Below, we take a closer look at the lenders of these loans and the terms of the bonds.

Table 8: Indonesian Coal Companies' 2019 Total Debt, Short Term, Long Term and Bonds (million US\$)

Company	Stock Code	Debt (US\$ m)	Short Term (US\$ m)	Long Term (US\$ m)	Bonds (US\$ m)
Adaro Energy	ADRO.JK	1,791.7	506.1	551.6	734.0
Bumi Resources	BUMI.JK	1,560.7	54.0	1,506.7	0.0
Indika Energy	INDY.JK	1,474.9	93.6	267.7	1,113.6
ABM Investama	ABMM.JK	378.3	35.0	0.0	343.3
Bayan Resources	BYAN.JK	363.6	363.6	0.0	0.0
Golden Energy and Resources	AUE.SI	319.8	60.7	110.5	148.6
Geo Energy Resources*	RE4.SI	277.3	0.0	0.0	277.3
Toba Bara	TOBA.JK	258.3	17.9	240.3	0.0
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	11.7	11.0	0.7	0.0
ITMG (Indo Tambangraya Megah)	ITMG.JK	10.5	10.5	0.0	0.0
Harum Energy	HRUM.JK	0.0	0.0	0.0	0.0
Total		6,446.8	1,152.3	2,677.7	2,616.9

*This is for end-2019, as of July 2020 after buybacks the total outstanding bonds is US\$110m.

Source: Company Reports and IEEFA estimate.

To assess overall debt levels across the sector, we also calculated gearing ratios for 2019 – net debt to net assets as a percentage – to identify which mining companies would have the most difficulty managing their debt.

Bumi Resources was the highest at 296% followed by ABM Investama at 113% and Geo Energy Resources at 112%. Toba Bara was fourth with 90% and Indika Energy was fifth place with 87%.

These five companies will have some difficulty managing their debt load.

Table 9: Indonesian Coal Companies' 2019 Coal Sales, Net Debt and Gearing Ratio (million tonnes, million US\$, %)

Company	Stock Code	Coal Sales (mt)	Net Assets (US\$ m)	Net Debt (US\$ m)	Gearing Ratio (%)
Bumi Resources	BUMI.JK	80.6	510.8	1,516.1	296.80
ABM Investama	ABMM.JK	9.5	245.2	276.4	112.73
Geo Energy Resources	RE4.SI	7.1	123.3	138.3	112.18
Toba Bara	TOBA.JK	4.9	264.1	237.3	89.85
Indika Energy	INDY.JK	34.1	1,045.8	906.2	86.66
Bayan Resources	BYAN.JK	28.3	619.1	188.9	30.51
Golden Energy and Resources	AUE.SI	22.8	479.1	142.0	29.65
Adaro Energy	ADRO.JK	54.4	3,983.4	215.5	5.41
ITMG (Indo Tambangraya Megah)	ITMG.JK	23.5	884.5	-148.7	-16.81
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	24.6	1,328.9	-331.4	-24.94
Harum Energy	HRUM.JK	4.6	399.6	-226.5	-56.69

Source: Company Reports and IEEFA estimates.

The Banks Behind the Loans

We examined bank and other loans provided to the 11 Indonesian coal companies (not including issued bonds which are discussed separately below).

As disclosed in the company's financial statements, we identified the major banks that lend to Indonesia's coal sector and arranged the companies in the order of the largest to the smallest loans.

Due to the specific nature of company disclosures, the commentary for the top six companies highlights important details:

- **Bumi Resources:** The company's long-term US\$1.5bn debt is restructured debt from previous bond issues and to a syndicate of lenders.
- **Adaro Energy:** The company's loans are from a syndicate of international and domestic banks. The syndicates' agents – DBS Bank, Overseas-Chinese Banking Corporation (OCBC) and Mandiri - are separately disclosed in Adaro Energy's 2019 Annual Report.
- **Bayan Resources:** The company issued US\$400m worth of bonds in January 2020 and as at March 31 all bank loans were repaid.
- **Indika Energy:** The company has disclosed it has engaged eight domestic and international lenders for financial services and support.
- **Toba Bara:** The company works with five domestic and international banks.
- **Golden Energy and Resources:** This Singapore-listed company with bank loans totalling US\$171m does not disclose the lenders it works with in its

loan section. The names of principal bankers disclosed include domestic banks Mandiri and BRI which lend to other coal companies.

Table 10: Indonesian Coal Companies' 2019 Total Bank and Other Debt and Banks (million US\$)

Company	Stock Code	Bank Debt (US\$ m)	Banks
Bumi Resources	BUMI.JK	1,560.7	Restructured debt
Adaro Energy	ADRO.JK	1,057.7	DBS, Mandiri, OCBC
Bayan Resources*	BYAN.JK	363.6	Mandiri, Permata, QNB, SMBC
Indika Energy	INDY.JK	361.3	Citibank, MUFG, Mandiri, PT SMI, Permata, ICICI Bank, Standard Chartered, Woori
Toba Bara	TOBA.JK	258.3	Bangkok Bank, BNI, Mandiri, PT SMI, KEB Hana
Golden Energy and Resources	AUE.SI	171.2	Not disclosed but principal bankers are
ABM Investama	ABMM.JK	35.0	ANZ, OCBC, Standard Chartered
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	11.7	BNI, BRI, Mandiri, UOB
ITMG (Indo Tambangraya Megah)	ITMG.JK	10.5	Not disclosed
Geo Energy Resources	RE4.SI	0.0	No bank debt
Harum Energy	HRUM.JK	0.0	No bank debt
Total		3,830.0	

Source: Company Reports and IEEFA estimates.

*Bayan Resources issued US\$400m bonds in Jan 2020 to repay bank debt.

In an environment of depressed coal prices, it is critical to monitor how key lending banks manage any non-performing loans when borrowers face cash pressures.

Table 11 below shows the four listed Indonesian banks that lend to the 11 Indonesian coal companies.

These banks will have to monitor the more difficult operating cashflow environment in real time because cash buffers have weakened. The quality of the loans could be at risk if coal prices remain at current levels through to the end of the year. The next discussion for these banks could be the quality and type of assets that have been pledged as security for these loans.

Table 11: Indonesian Bank and Indonesian Coal Company Borrowers

Bank	Stock Code	Coal Company Debt
BNI	BBNI.JK	PTBA, Toba Bara
BRI	BBRI.JK	PTBA
Mandiri	BMRI.JK	Adaro Energy, Indika Energy, PTBA
Permata	BNLI.JK	Indika Energy

Source: Company Reports and IEEFA estimates.

Sector Bondholders Have US\$3.1bn on the Line

The coal sector's bond balance on August 2020 was US\$3.1bn. This compares with and the US\$2.6bn shown at the end of 2019 (see Table 8). The difference between the two balances is the US\$400m in notes issued by Indika Energy in January 2020.

To highlight upcoming maturities that will require issuers to manage cash and foreign currency reserves with care, we have arranged the companies below from the largest to the smallest outstanding bond financing exposures.

Table 12: Indonesian Coal Companies' Outstanding Bonds, Coupon, Issue Date and Maturity (% , million US\$)

Company	Stock Code	Principal (US\$ m)	Currency	Coupon (%)	Issue	Maturity
Indika Energy	INDY.JK	500	US dollar	6.375	24-Jan-13	24-Jan-23
		265	US dollar	6.875	10-Apr-17	10-Apr-22
		575	US dollar	5.875	9-Nov-17	9-Nov-24
Subtotal		1,340				
Adaro Energy	ADRO.JK	750	US dollar	4.25	31-Oct-19	31-Oct-24
Bayan Resources	BYAN.JK	400	US dollar	6.125	24-Jan-20	24-Jan-23
ABM Investama	ABMM.JK	300	US dollar	7.125	1-Aug-17	1-Aug-22
		50	US dollar	7.125	28-Nov-17	1-Aug-22
Subtotal		350				
Golden Energy and Resources	AUE.SI	150	US dollar	9.00	14-Feb-18	14-Feb-23
Geo Energy Resources*	RE4.SI	110	US dollar	8.00	4-Oct-17	4-Oct-22

Source: Company Reports and IEEFA estimates

*Could be a put option dated April 4, 2021. Outstanding bonds at end-July were US\$110m.

Four bonds totalling US\$725 million are maturing in 2022: US\$265m from Indika Energy in April, US\$300m and US\$50m from ABM Investama in August, and US\$110m from Geo Resources in October. However, Geo Resources' outstanding bonds could be subject to a put option by holders in April 2021 if the company increases its coal reserves by 80mt before the put option exercise date.

At a coal price of around US\$47/tonne, IEEFA estimates that of the 11 companies only Bayan Resources will be cash positive per tonne of coal sold at the current price, and that could be challenging for coal companies looking to refinance.

Bumi Resources, ABM Investama, Geo Energy Resources Most at Risk

In Table 13, we have arranged the 11 coal companies in order of the highest benchmark coal breakeven price to the lowest and have compared the most vulnerable companies' total debt and net debt position.

As set out previously in Table 7, the three companies with the highest net debt are Bumi Resources (US\$1.5bn), Indika Energy (US\$906m) and ABM Investama (US\$276m). As shown in Table 9, Bumi Resources has the highest gearing ratio at 296% followed by ABM Investama at 113% and Geo Energy Resources at 112%.

Table 13: Indonesian Coal Companies' 2019 Coal Sales, Breakeven Price, Total Debt and Net Debt (million tonnes, US\$/Tonne, million US\$)

Company	Stock Code	Coal Sales (mt)	Breakeven Price (US\$/t)	Debt (US\$m)	Net Debt (US\$m)
Bumi Resources	BUMI.JK	80.6	62.94	1,560.7	1,516.1
ABM Investama	ABMM.JK	9.5	60.60	378.3	276.4
Geo Energy Resources	RE4.SI	7.1	59.80	277.3	138.3
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	24.6	56.31	11.7	-331.4
Toba Bara	TOBA.JK	4.9	53.65	258.3	237.3
Harum Energy	HRUM.JK	4.6	52.83	0.0	-226.5
Adaro Energy	ADRO.JK	54.4	51.35	1,791.7	215.5
ITMG (Indo Tambangraya Megah)	ITMG.JK	23.5	49.92	10.5	-148.7
Indika Energy	INDY.JK	34.1	48.79	1,474.9	906.2
Golden Energy and Resources	AUE.SI	22.8	48.39	319.8	142.0
Bayan Resources	BYAN.JK	28.3	44.35	363.6	188.9

Source: Company Reports and IEEFA estimates.

The three companies with the highest breakeven price of US\$60-62/tonne also have high net debt balances. At the current benchmark price of US\$47/tonne, the onus is on these three companies to lower costs and refinance short-term debt.

We estimate that Bumi Resources has a breakeven price of US\$63/tonne and around US\$1.5bn net debt. ABM Investama, the second-highest breakeven company at US\$61/tonne, has net debt of US\$276m, while third-ranked Geo Energy Resources at a US\$60/tonne breakeven has net debt at end-2019 of US\$138m. After bond repurchases in January to April 2020, Geo's net debt position was US\$71m on April 30, 2020. At end-July, the current outstanding bond balance was US\$110m.

Comparing the total debt and net debt on a per tonne of coal sold basis demonstrates the pressure these companies will face when seeking to refinance.

Table 14: Indonesian Coal Companies' 2019 Coal Sales, Breakeven Price, Total Debt and Net Debt per tonne (million tonnes, US\$/Tonne)

Company	Stock Code	Coal Sales (mt)	Breakeven Price (US\$ m)	Debt Per t (US\$)	Net Debt Per t (US\$)
Bumi Resources	BUMI.JK	80.6	62.94	19.4	18.8
ABM Investama	ABMM.JK	9.5	60.60	39.8	29.1
Geo Energy Resources	RE4.SI	7.1	59.80	39.1	19.5
PTBA (Tambang Batubara Bukit Asam)	PTBA.JK	24.6	56.31	0.5	-13.5
Toba Bara	TOBA.JK	4.9	53.65	52.7	48.4
Harum Energy	HRUM.JK	4.6	52.83	0.0	-49.2
Adaro Energy	ADRO.JK	54.4	51.35	32.9	4.0
ITMG (Indo Tambangraya Megah)	ITMG.JK	23.5	49.92	0.4	-6.3
Indika Energy	INDY.JK	34.1	48.79	43.3	26.6
Golden Energy and Resources	AUE.SI	22.8	48.39	14.0	6.2
Bayan Resources	BYAN.JK	28.3	44.35	12.8	6.7

Source: Company Reports and IEEFA estimates.

The three companies with the highest net debt per tonne of coal sold are Toba Bara at US\$48/tonne, ABM Investama with US\$29/tonne and Indika Energy with US\$26/tonne. However, we note there are differences in breakeven price levels.

Toba Bara's breakeven is US\$53/tonne compared with ABM Investama at US\$61/tonne, while Indika Energy has a lower breakeven price at US\$49/tonne.

Based on these metrics, we believe the following 3 companies are most at risk:

1. **Bumi Resources:** due to highest net debt, highest gearing ratio, highest required breakeven price
2. **ABM Investama:** due to 3rd highest net debt, 2nd highest gearing ratio, 2nd highest breakeven price
3. **Geo Energy Resources:** due to 3rd highest gearing ratio, 3rd highest breakeven prices

Conclusion

At current coal benchmark price of US\$47/tonne, only one of the 11 listed Indonesian coal companies is at cash breakeven or better.

The high level of observable financial stress could translate into expectations that the Government will step in to provide financial relief.

Given the diversity of the Indonesian coal sector, IEEFA's view is that risk and reward associated with the sector's bank loans of US\$3.8bn and current outstanding

sector bonds of US\$3.1bn should be addressed according to normal market processes.

Our analysis also finds five companies with high gearing: Bumi Resources (296%), ABM Investama (113%), Geo Energy Resources (112%), Toba Bara (90%) and Indika Energy (87%). If low coal prices persist, these five companies would have some difficulty in managing their debt load.

Three of the five companies: Bumi Resources, ABM Investama and Geo Energy Resources stand out for being structurally weak and most at risk due to their high gearing ratios and required high breakeven benchmark prices. These required breakeven prices are US\$63/tonne for Bumi, US\$61/tonne for ABM Investama and US\$60/tonne for Geo Energy Resources. This compares with the current benchmark price of US\$47/tonne.

On that basis, we believe that market forces should be permitted to operate, giving market participants a fair chance to re-price these companies' coal assets, and allowing them to explore opportunities to operate the assets more efficiently.

The Government should *not* provide a bailout to the coal sector.

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

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