DarmaHenwa integrated mining services

PT DARMA HENWA, TBK.

RECOMMENDATION	**NOT RATED**
TARGET PRICE	**N/A**

Stock Data

Ticker	DEWA
Last Price (12/12/2019)	Rp50
Shares Outstanding (shares)	21.85 bn
Market Cap (IDR tn)	1.09

Shareholders (%)

Goldwave Capital Ltd.	17.46%
Zurich Assets International Ltd.	11.50%
Public (<5%)	71.04%

Financial Summary

(in million US$)	FY17	FY18	Sep19
Revenues	242.79	276.10	237.93
Operating Profit (Loss)	16.74	11.26	7.16
Profit (Loss) Before Tax	10.83	6.81	3.34
Net Profit (Loss)	2.77	2.57	1.20
Comp. Net Profit (Loss)	2.42	3.25	1.20
Basic EPS per 1,000 shares	0.13	0.12	0.05
Total Assets	401.80	415.10	517.41
Total Liabilities	174.25	184.29	285.41
Total Equity	227.55	230.80	232.00

Source: DEWA

ANALYST
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MAJOR OVERHAUL

PT Darma Henwa Tbk. (DEWA) undertakes a major overhaul to improve both its financial and operational performances. Financially, it reorganized its loans earlier this year as well as securing a sizable new loans to finance its operations. So far, strong operational performance in 9M19 has led to a sizable increase in revenues. Regarding its operations, the Company spends its new loans on ramping up its capacity. Bengalon remains as the Company's top project, followed by Asam Asam and Satui. Key risks associated with the Company include global economic slowdown, government regulatory environment as well as weather factor. Conversely, as the Company spends more on capex to ramp up its operational capacity, overall performance is likely to improve as well, brightening its outlook for 2020.

REORGANIZING THE LOANS

DEWA secured a set of loan facilities from PT Bank Rakyat Indonesia (Persero), Tbk. (BBRI) last April. Out of the US$115.80 million total loan facility from BBRI, US$98.8 million are allocated for special transaction, and US$17 million for working capital. DEWA also obtained US$1.82 million from BBRI for taking over the PT Bank Victoria International Tbk. (BVIC) loans and to repay PT Bank Capital Tbk. (BACA). The move resulted in lower cost of borrowing.

SOLID TURNAROUND

DEWA posted a sizable increase in its 9M19 revenues on the back of strong operational performances in the 3Q19. Revenues were up by almost 26% (Y/Y) to US$237.93 million while net profit was also up by 43.73% (Y/Y) to US$1.2 million in the same period. Profitability metrics showed improvement vs. the same period a year earlier with gross profit margin (GPM), operating profit margin (OPM) and net profit margin (NPM) at 7.28%, 3.01%, and 0.5%, respectively. Overburden removal in 3Q19 alone amounted to 36.86 mbcm vs. 45.83 mbcm registered in 6M19. Year-to-date (YTD), overburden removal reached 82.7 mbcm or 9.13% (Y/Y) higher than in 9M18. Coal deliveries on the other hand, reached 4.31 mmt in 3Q19 vs. 7.2 mmt in 6M19. YTD, coal deliveries for 9M19 were 22.09% (Y/Y) higher than in 9M18.

EYES ON BENGALON

Total overburden removal in 9M19 reached 82.69 million bcm (mbcm) while coal getting operation reached 11.51 million metric tons (mmt). Both operations have shown encouraging improvements after hitting their respective lows in June 2019. For the three sites (Bengalon, Asam Asam and Satui), strip ratios were in the range of 5.59 to 8.46 in September 2019. Results at Bengalon however, outperformed the other two sites, while Satui significantly underperformed last year's performance. The Company had said that capex allocation is focused on Bengalon and looking ahead we expect the site will continue to outshine the other two. As of September 2019, total capex spent by DEWA amounted to US$23.68 million and was mostly allocated for purchases of tires, machinery components and equipment. This had led to the increase of total assets to US$517.41 million at the end of 3Q19 vs. US$415.1 million at the end of FY18. Additional components worth US$61.02 million have been ordered in advance to suppliers and are set to be received in 4Q19 and 1Q20.

TIME TO DELIVER

Even as the loans had been reorganized to reduce their interest expenses, the hefty size of the newly acquired loan facility from BBRI will mean bigger overall financial obligations to meet in the coming quarters. Positive signs already seen since July this year however, as production volume has shown substantial growth and as the Company ramps up its capacity, overall production should boost the Company's performance onward. Risks that may influence the Company's performance include external and internal risks. External risks are global economic slowdown which can put pressure on demand for coal and regulatory risk coming from the Government as well as weather factor. Internal risks include delays in the project schedules.

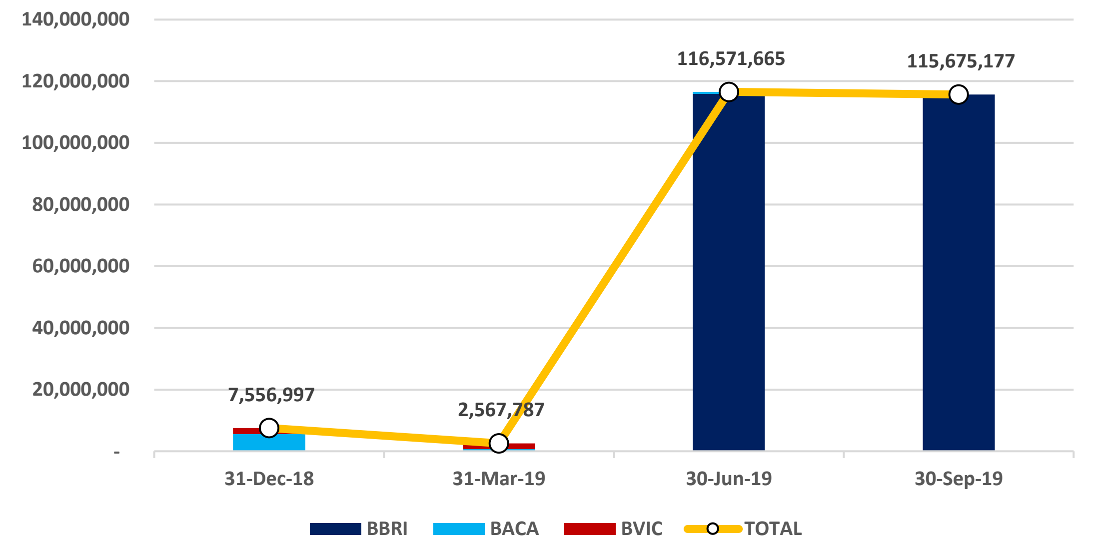
WAITING FOR CLEARER SIGNAL

Based on the most recent financial result, at Rp50 per share the Company's share is currently trading at 0.36x PBV and at 49x PER19 (Annualized).

REORGANIZING THE LOANS

By the end of 1Q19, outstanding loans to PT Bank Victoria Internasional Tbk. (BVIC) were at US$1.86 million while outstanding loans to PT Bank Capital Tbk. (BACA) were at US$0.71 million. On April 2019, DEWA managed to secure loan facilities with PT Bank Rakyat Indonesia (Persero), Tbk. (BBRI). The total amount of loans obtained was US$117.62 million and the proceeds were used for purchasing and financing the Company's mining equipment and for taking over the credit facility of BVIC and for full repayment of loans to BACA.

Figure 1
Massive Flow of New Loans
(figures in US$)



Source: DEWA

The decision to use BBRI loans to take over BVIC loans and to fully repay BACA loans were aimed at reducing the associated costs of borrowing, considering lower interest rate incurred from BBRI loans.

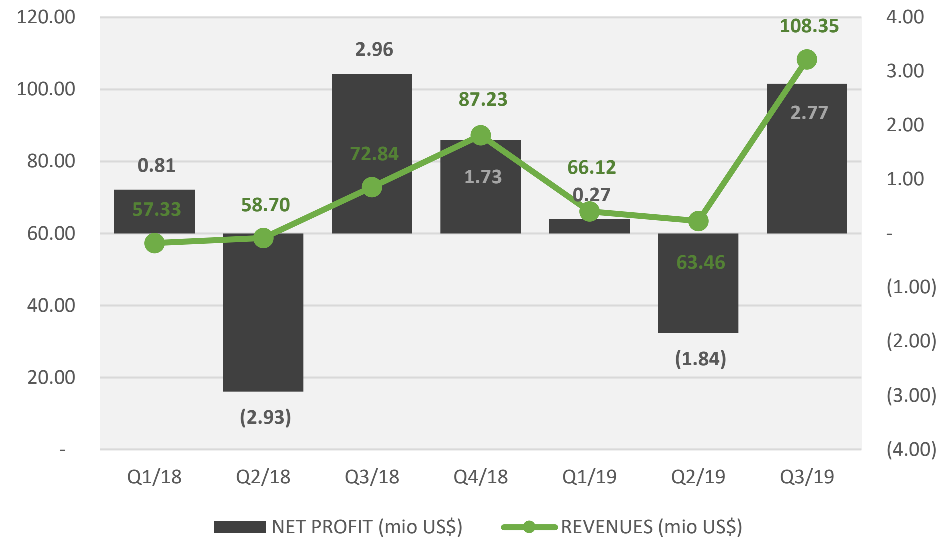
Note that the principal repayment for a portion of US$ BBRI credit facilities was given SIX MONTHS grace period while another portion of US$ BBRI credit facilities was given 90 DAYS grace period. As a result, we anticipate further pressure on NPM next year when DEWA starts its principal repayment and interest payments.

SOLID TURNAROUND

After it went through a weak second quarter, the Company managed to stage a strong comeback in the third quarter with revenues jumped 71% to US$108.35 million. The jump effectively turned the bottom line from a loss of US$1.84 million to a profit worth US$2.77 million. While seemingly remarkable, the same pattern was also seen exactly last year (FY18) when DEWA reversed its losses worth US$2.93 million in second quarter to a whopping gains of US$2.96 million. Last year however, revenues were only up by 24% (Q/Q) from Q2/18 to Q3/18. Looking ahead towards the last quarter of the year, we expect Company to stay positive on the bottom line although as we are entering the rainy season there is the risk that weather can interrupt operations. We expect revenues to at least increase slightly in the final quarter, while net profit is expected to stay flat or slightly below 3Q/19. Consequently, for FY19 the total revenues are seen higher than that of FY18 and the Company will stay positive on the bottom line for FY19. Going further into FY20, we anticipate the start of principal repayment and interest payments on BBRI credit facilities. This will put pressure on the bottom line. Hence, while the revenues are assumed to be stabilizing at the rate of US$100 million per quarter, the Company's profit margin will largely depend on its operational efficiency to deliver better margin.

Compared to FY18 ratios however, gross profit margin (GPM), operating profit margin (OPM) and net profit margin (NPM) were lower. This was due to a surge in demand which occurred before DEWA started to ramp up its production capacity. As a result, DEWA had to fill in the shortage with higher share of production from subcontractors. Now as the Company has ramped up its capacity, production should be able to catch up in 2020.

Figure 2
Bounced Off Weak Q2/19
(figures in US$)

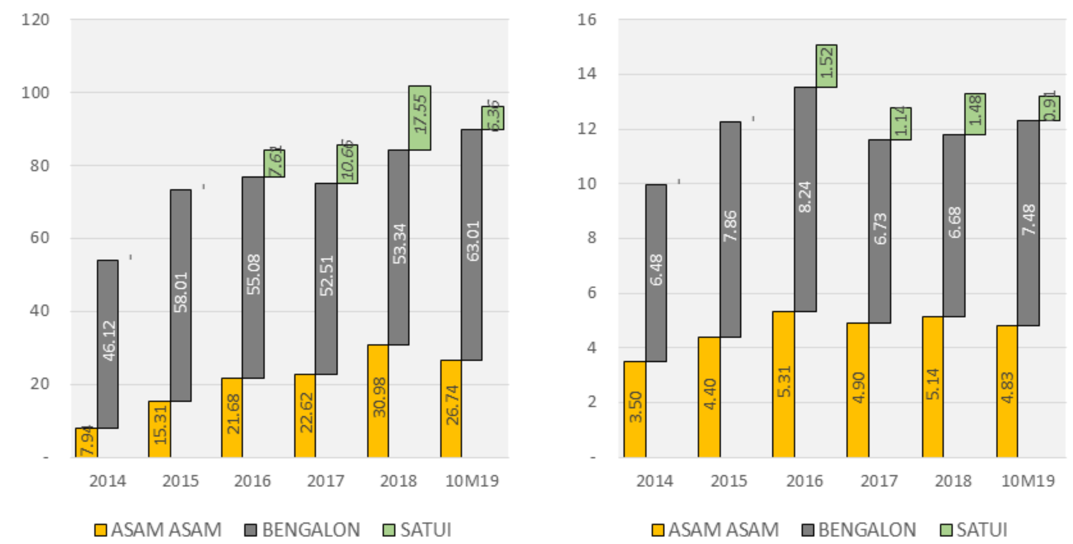


Source: DEWA

EYES ON BENGALON

According to the latest Company's data, total overburden removal in 10M19 reached 96.10 million bcm (mbcm) while coal getting operation reached 13.22 million metric tons (mmt). Both operations have shown encouraging improvements after hitting their respective lows in June 2019. For the three sites (Bengalon, Asam Asam and Satui), strip ratio were in the range of 6.57 to 8.88 in October 2019. Results at Bengalon however, outperformed the other two sites, while Satui significantly underperform last year's performance. The Company had said that capex allocation is focused on Bengalon and looking ahead we expect the site will continue to outshine the other two.

Figure 3
Bengalon Outperformed in OB Removal… (LHS) and in Coal Production (RHS)
(figures in million bcm for OB Removal and in million metric tons for Coal Production)



Source: DEWA

For Bengalon, the Company is focusing the allocation of its capital expenditures. As of September 2019, overall capex spent amounted to US$23.68 million, with another US$61.02 million worth of components to be received from suppliers in 4Q19 and 1Q20.

TIME TO DELIVER

Even as the loans had been reorganized to reduce their interest expenses, the hefty size of the newly acquired loan facility from BBRI will mean bigger overall financial obligations to meet in the coming quarters. Positive signs already seen since July this year however, as production volume has shown substantial growth and as the Company ramps up its capacity, overall production should boost the Company's performance onward. Risks that may influence the Company's performance include external and internal risks. External risks are global economic slowdown which can put pressure on demand for coal and regulatory risk coming from the Government as well as weather factor. Internal risks include delays in the project schedules.

WAITING FOR CLEARER SIGNAL

Based on the most recent financial result, at Rp50 per share the Company's share is currently trading at 0.36x PBV and at 49x PER19 (Annualized). We opt to see whether the Company can sustain its 3Q/19 performance and carry it forward throughout the coming quarters before we initiate full coverage on the Company.

BRIEF COMPANY OVERVIEW

PT Darma Henwa Tbk. (DEWA) was established in 1991 and it is engaged in mining contractor services, general mining services and equipment maintenance, which include: land clearing, top soiling, overburden removal, coal getting, coal hauling, coal barging and equipment rental.

Shareholders Structure

Based on the latest financial report dated June 30th 2019, about 17.46% of the Company shares are owned by Goldwave Capital Ltd., while 11.50% is owned by Zurich Assets International. Public holds 71.04% of total shares.

Current Projects

At the moment, DEWA has three key coal projects and one port service project to work on. KPC remains the biggest revenue contributor, followed by AI and CLS for coal projects. For coal port management service, the Company's subsidiary PT Dire Pratama is the operator.

Outside the above three coal projects, DEWA also have added four non-coal projects: pre-mining and earthworks of zinc and lead mines in Dairi, North Sumatera (PT Dairi Prima Minerals); road construction project for gold mine in Sungai Mak, Gorontalo (PT Gorontalo Minerals); infrastructure construction, drilling exploration and gold mining activities in Palu, Sulawesi (PT Citra Palu Minerals); and most the recently obtained project of infrastructure construction, mining and gold processing in Arinem, West Java (PT Aneka Tambang).

The Arinem gold mine project starts in December 2019 and is scheduled to last for five months, while Dairi, Gorontalo and Palu projects are projects coming from subsidiaries of PT Bumi Resources Minerals (BRMS).

APPENDIX

SUMMARY OF FINANCIAL PERFORMANCE

BALANCE SHEET

(in US$)	2016	2017	2018	9M19
Current Assets	129,048,673	117,660,431	108,985,511	211,755,142
Non-Current Assets	252,291,032	284,139,719	306,112,921	305,656,140
TOTAL ASSETS	**381,339,705**	**401,800,150**	**415,098,432**	**517,411,282**
Current Liabilities	125,615,941	140,872,328	137,066,835	160,826,205
Non-Current Liabilities	30,594,093	33,375,288	47,227,461	124,582,485
TOTAL LIABILITIES	**156,210,034**	**174,247,616**	**184,294,296**	**285,408,690**
TOTAL EQUITY	**225,129,671**	**227,552,534**	**230,804,136**	**232,002,592**

INCOME STATEMENT

(in US$)	2016	2017	2018	9M19
REVENUES	**259,095,490**	**242,790,874**	**276,097,099**	**237,927,206**
COST OF REVENUES	243,230,891	208,407,119	252,285,530	220,607,226
GROSS PROFIT (LOSS)	**15,864,599**	**34,383,755**	**23,811,569**	**17,319,980**
OTHER INCOME (EXPENSES)	(7,494,161)	(17,644,237)	(12,549,809)	(10,159,936)
OPERATING PROFIT (LOSS)	**8,370,438**	**16,739,518**	**11,261,760**	**7,160,044**
PROFIT (LOSS) BEFORE TAX	**2,764,875**	**10,827,703**	**6,812,382**	**3,340,199**
INCOME TAX (BENEFIT) EXPENSE	2,214,985	8,058,563	4,247,046	2,141,743
NET PROFIT (LOSS)	**549,890**	**2,769,140**	**2,565,336**	**1,198,456**
OTHER COMPREHENSIVE INCOME - NET	(176,643)	(346,277)	686,266	-
NET COMPREHENSIVE PROFIT (LOSS)	373,247	2,422,863	3,251,602	1,198,456
BASIC EARNINGS PER 1,000 SHARES (EPS)	**0.0240**	**0.1263**	**0.1169**	**0.0546**

CASH FLOWS

(in US$)	2016	2017	2018	9M19
CASH FLOWS FROM (USED FOR) OPERATIONS	**45,417,820**	**(167,324)**	**18,069,226**	**(70,475,256)**
CASH FLOWS FROM (USED FOR) INVESTMENTS	**(41,232,620)**	**(6,517,828)**	**(19,093,016)**	**(23,625,517)**
CASH FLOWS FROM (USED FOR) FINANCING	**(2,506,997)**	**(5,172,181)**	**(8,017,459)**	**108,067,525**

Source: DEWA

Our Locations

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