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Adaro to boost coking coal, logistics business

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For major coal miner PT Adaro Energy, a stitch in time is expected to save nine.

The publicly listed firm is set to strengthen its coking coal and logistics divisions in order to reduce its dependence on the highly volatile thermal coal business in the long run.

Adaro has recently entered a binding agreement with Melbourne-based private equity firm EMR Capital to acquire the Anglo-Australian miner Rio Tinto's 80 percent stake in Kestrel, an underground coking coal mine in Queensland's Bowen Basin region in Australia, with an estimated transaction value of US$2.25 billion.

This follows Adaro's previous acquisition of IndoMet Coal - now Adaro MetCoal (AMC) - in mid-2016 from another Anglo-Australian miner BHP Billiton. AMC holds mining concessions for 350,000 hectares in Kalimantan that contain more than 1.2 billion tons of mostly metallurgical coal.

"I believe Indonesia will transform into an industrialized country. By that time, we will need steel factories that won't be able to run without coking coal," Adaro president director Garibaldi "Boy" Thohir said on Monday.

"In order to cope with this trend, Adaro will have two main commodities in the future: thermal coal and coking coal."

Even today, Boy said the country's largest steel producer PT Krakatau Steel still relied on imported coking coal to run its business, thus providing a major market for Adaro to tap into.

Indonesia's total imports of coke and semi-coke coal reached 553,797 tons in 2016, skyrocketing by 147.3 percent annually, according to the Geneva-based International Trade Center. However, the figure fell by 31.2 percent to 381,000 tons last year. About 97 percent of the coking coal imports came from China in the past two years.

Adaro's AMC produced around 900,000 tons of metallurgical coal in 2017. Meanwhile, the soon-to-be acquired Kestrel mine generated a total of 4.25 million tons of hard coking coal and 843,000 tons of thermal coal last year, respectively providing 3.4 million tons and 674,000 tons of Rio Tinto's production share last year.

Moreover, Adaro plans to expand the business scope of its logistics subsidiary PT Adaro Logistics from only working on coal-related shipments to also distributing other types of energy, including liquefied natural gas (LNG). This is considering the prospect of high demand growth for energy in remote areas across the country, particularly in the eastern half.

At present, Adaro Logistics' subsidiary PT Indonesia Bulk Terminal, which operates in South Kalimantan, already has a coal terminal with an annual capacity of 12 million tons and is able to load vessels with a capacity of 80,000 deadweight tonnage (DWT).

"Furthermore, as the government plans to require coal exporters to only use Indonesian-flagged vessels, it is logical and likely for us to enter this line of business in the future," Boy said, without disclosing further details.

The government initially planned to implement a new shipping policy that would oblige coal and crude palm oil (CPO) exporters to ship their commodities using only domestic shipping companies at the end of this month.

However, because of a lack of available local vessels, the implementation of this policy has been postponed for two years.

Adaro plans to allocate at least $750 million in capital expenditure this year, up significantly compared to last year's figure of only $229 million. About $300 million will be used to procure new heavy equipment, while another $300 million will be for developing its subsidiary AMC.

At first, the company aimed to book operational earnings before interest, taxes, depreciation and amortization (EBITDA) of around $1.3 billion to $1.5 billion in 2018, compared to the $1.3 billion it recorded last year, following the recent hike in global coal prices.

Nevertheless, Adaro has revised down its EBITDA target to around $1.1 billion to $1.3 billion in the wake of the government's decision to cap Indonesia's coal reference price (HBA) at $70 per ton for coal sold domestically to the power-generation sector.

"The prices should just follow the market's movement. If there are two different prices [for domestic and export markets], it will lead to more disadvantages than benefits," said Indonesian Coal Mining Association (APBI) executive director Hendra Sinadia.

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