Stock Call

PT. Kapuas Prima Coal Tbk.

ZINCronitation Stupendously

16 October 2018

Strong Buy

We recommend a Strong Buy for ZINC in our Stock Call with a 12mo target price at IDR 2,700; still has an upside potential of 64.6%. The main catalysts of our recommendation are 1) ZINC evolution into a major player in non-ferrous and precious metals, 2) ZINC expansion plan of doubling its capacity and 3) ZINC smelters business plan.

A major player in non-ferrous & precious metal. ZINC evolved from just an iron ore mining company, then started mining galena and now it starts producing zinc, lead and silver in the form of concentrates. The future plan of ZINC products will be in the form of ingots as it finished its lead and zinc smelter. Composition of its mineral is 65% zinc & 35% lead.

Production doubling capacity. ZINC management plans to increase their ore production capacity to 600,000 tons per year in 2019-2020 from the current 360,000 tons per year. This capacity building is carried out through two strategies; 1) increased IPPKH permit to 1,519 ha from previous 390 ha and 2) completion of the second floatation plant with a new capacity of 2,500 tons per day. Total capacity of the ZINC floatation plant increased to 4,000 tons per day.

New lead and zinc smelters. The next important step is to produce minerals in ingot form. Lead smelter plans to start operating in 4Q 2018 or no later than 1Q 2019 under PT. Kapuas Prima Citra, with a total production capacity of 20,000 tons ingots per year. The zinc smelter is projected to be completed and can be operational by the end of 2020 with a total capacity of 30,000 tons ingots per year, which will be operated under PT. Kobar Lamandau Mineral.

Valuation & Recommendation. Using the Discounted Cash Flow model, we set a **fair value** for ZINC at **IDR 2,700** per share. The assumption that we use in this valuation is cost of capital (WACC) of 7.8% and terminal growth of 3.8%. We also do sensitivity analysis using the WACC range between 7.4% to 8.2% and the range of terminal growth between 3.4% to 4.2%. From the results of this analyst sensitivity we get the ZINC fair value range between IDR 2,220 to IDR 3,420.

By comparing the closing price of ZINC on Monday (15/10) at IDR 1,640 level, we see an upside potential of 64.6% in the next 12 months. Therefore we recommend a **Strong Buy** for ZINC.

	FY16	FY17	FY18F	FY19F	FY20F	FY21F
Revenue (IDR tn)	138	436	889	1,561	2,390	3,179
Profit before income tax (IDR bn)	(31)	66	281	432	759	1,082
Net income (IDR mn)	(35)	45	233	361	637	911
EPS (IDR)	(6.9)	9.0	46.1	71.4	126.2	180.3
BV (IDR)	29.1	94.8	131.7	188.9	289.8	434.1
Revenue growth (%)	-56.0%	215.2%	103.9%	75.6%	53.1%	33.0%
Net Income growth (%)	99.4%	-229.5%	415.1%	54.7%	76.7%	42.9%
Current ratio (X)	0.6	1.1	1.1	1.1	1.2	1.4
Debt-to-equity (X)	1.0	0.3	0.9	1.2	0.6	0.3
ROE (%)	-23.8%	9.4%	35.0%	37.8%	43.5%	41.5%
P/E (X)	(390.3)	301.4	58.5	37.8	21.4	15.0
P/BV (X)	92.8	28.5	20.5	14.3	9.3	6.2

Source : Bloomberg, MCS Research

Price (15/10)	IDR 1,640
Target Price	**IDR 2,700**
Ticker	ZINC
Industry	Base metal

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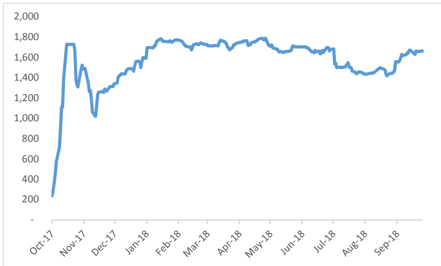


Company Description:

ZINC is a mining & trading company, focusing on 3 major products: zinc, lead & silver. It has a mining licence (IUP) for 5,569 Ha located at Bintang Mengalih Village, Belantikan Raya Subdistrict, Lamandau Regency, Central Kalimantan.

The next development ZINC will complete the smelter and will export in the form of ingots. In addition ZINC will also conduct underground mining.

Stock Data

52-week Range (IDR)	1,870 | 238
Mkt Cap (IDR tn)	8.3
JCI Weight	0.13%
Shares O/S (bn)	5.1
Shares Float	20.8%
YTD Change	+10.1%

Share Holders:

PT. Sarana Inti Selaras	21.36%
Sim Antony	15.13%
Kioe Nata	13.05%
Budi Mulio Utomo	10.54%
Haroen Soedjatmiko	9.57%
William	9.56%
Public/Others (<5%)	20.34%

I. INVESTMENT THESIS

I.1. Evolution into a major player in non-ferrous & precious metal

From an iron ore player into a major non-ferrous and precious metal ...

One of the most interesting things to invest in PT. Kapuas Prima Coal Tbk. (ZINC) is the development and plan of the Company from only iron ore players in 2008 to become a major player in the non-ferrous and precious metal business in 2022. The Company was established in 2005 and began to conduct iron ore (Fe) mining in 2008 to 2014. In 2015 the Company began producing Galena (PbS) and in 2017 began to produce zinc concentrate (Zn), lead (Pb) and silver (Ag)

... would enter into smelter business, both lead and zinc.

In accordance with Government regulations, particularly through the Ministry of Energy and Mineral Resources, the Company's management decided to enter the smelter business so that the Company could easily export their concentrate products. At the end of 2018 (3Q or 4Q) the lead smelter is planned to begin operating under PT. Kapuas Prima Citra, in which the Company owns 30% of the shares while the remaining 70% is owned by PT. Indonesia Royal Resources. The Company's second smelter, the zinc smelter, is currently under construction and is expected to be operational by the end of 2020 under PT. Kobar Lamandau Mineral. Currently PT. Kobar Lamandau Mineral is not under the Company's structure but has the same controlling shareholder as the Company. The company has now entered into a partnership with Merlion Resources Holding Limited to acquire the zinc smelter from PT. Kabar Lamandau Mineral with a transaction value of USD 30 million.

Picture 1. ZINC Products Evolution

Source: Company

From iron ore, to Galena, to zinc, lead and silver; both in concentrate and ingots ...

We have discussions with management regarding the Company's milestones. Basically these milestones can be divided into three major parts, namely:

- Before 2014: at this time the Company's main product was iron ore.
- 2014-2016: at this time the Company began selling Galena (PbS).
- 2017 going forward: the company will focus on the production and sale of zinc (Zn), lead (Pb) and silver (Ag) concentrates. Then when the smelter is finished and ready for production, the Company's sales will be in the form of ingots.

... input production capacticy expand to 947 thousand tons per year.

Currently the Company's input ore production capacity is 360 thousand tons per year and will be increased to 600 thousand tons per year in 2019 and 947 thousand tons per year in 2020. With such input capacity, we project that the Company is able to produce zinc concentrate up to 119 thousand tons per year, lead to 64 thousand tons per year and silver up to 3.7 million t.oz per year.

Growth in concentrate production capacity in zinc, lead and silver ...

In our production model, we assume in 2018 would produce 36,000 ton zinc, 19,000 ton lead and 1.1 million t.oz silver all in concentrate. And in 2021 we assume a production growth in all products which zinc production would be 119,000 ton, lead 64,000 ton and silver should be around 3.7 million t.oz.

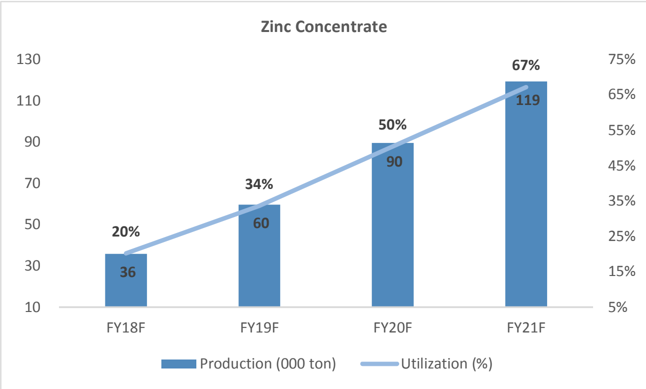
... yet still have room to growth and higher valuation matrix ...

What makes it interesting in those number are: 1) ZINC still has an upside potential which it has not deplete it capacity, and 2) it has a CAGR around 50% between 2018 to 2021 which indicating ZINC is actually a high growth company (CAGR for zinc 48.9%, lead 49.9% & silver 49.8%). In this case, we can safely assume a higher valuation matrix compare to its competitor in term of relative valuation and applying a higher than average terminal growth (in this case 6.3% of terminal growth).

... by expanding exploration area and second Floatation Plant.

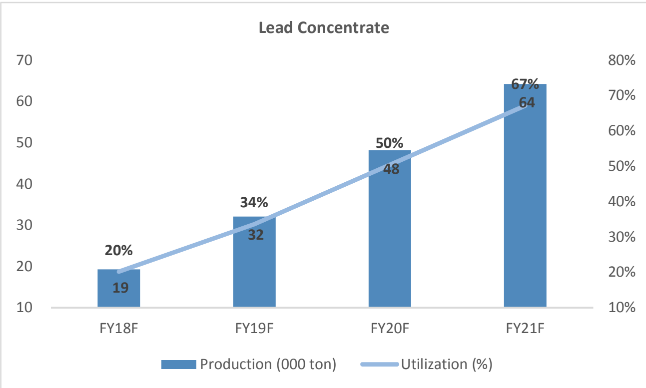
How then we ask ZINC could manage to service its high production growth? In the later part of this report we will discuss several key agenda to boosting mineral production up to ingots. One of the key agenda is to expand its exploitation and exploration area to 1,500 ha from current area of 390 ha. Another is to operate its 2nd Line Floatation Plant in 4Q 2018.

Graph 1. Zinc Production Forecast



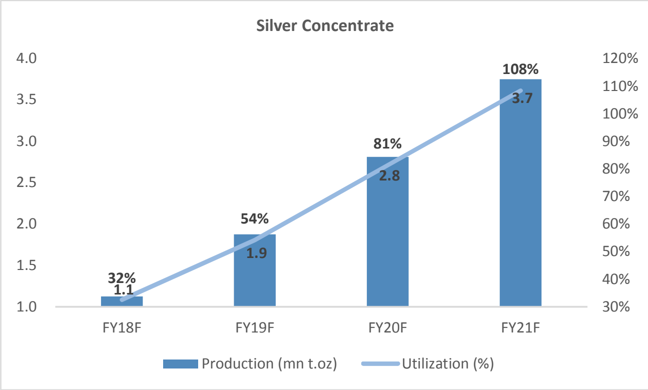
Source: Company, MCS Research

Graph 2. Lead Production Forecast



Source: Company, MCS Research

Graph 3. Silver Production Forecast



Source: Company, MCS Research

I.2. Second Floatation Plant and expansion of exploration area.

IPPKH permit to 1,519 ha from current 390 ha ...

ZINC has a mining permit area of 5,569 ha located in Bintang Mengalih Village, Belantikan Raya District, Lamandau, Central Kalimantan; with an exploration permit of 5,848 ha. Total mining area of 5,169 ha consist of two permits (Ijin Usaha Pertambangan Operasi Produksi); the first one for 2,100 ha from September 2007 to September 2037 and the second one for 3,469 ha from July 2012 to July 2032. However, the key catalyst permits is the borrow-to-use forest area permit (Ijin Pinjam Pakai Kawasan Hutan) which ZINC already has for 390 ha. By June 2018 it has been given a new permit of IPPKH for another 1,129 ha so in total ZINC will have a 1,519 ha available to be explorated.

... plus floatation plant capacity should increase 66% by the completion of 2nd Floatation Plant.

Second major catalyst for production growth would come from the second Floatation Plant with a total new producing capacity of 2,500 ton/day. Combining with the fist Floatation Plant (capacity 1,500 ton/day) then ZINC should increase its production capacity by 66.7%. The second Floatation Plant itself should be operated in 4Q 2018, hence its impact would be stated in full year 2019 results.

Ore input capacity jumps to 1.3 ton ore per year.

Should this second Floatation Plant fully operate by the end of 2018 then ZINC total capacity in ore input could increase from 360,000 ton ore per year in 2017 to 440,000 ton ore per year in 2018. Management has a 1.3 ton ore per year target by the end of 2021. In our discussion, the process from ore to concentrate to ingot has a ratio of 13:2:1; which means for every 360,000 ton ore will produce 65,000 ton in concentrate and 27,000 ton ingot. In our model, we still consider a 360,000 ton ore production instead of 440,000 ton ore as stated by management. Next year then we would upgrade our model to 600,000 ton of ore being produced.

Picture 2. Floatation Plant

Source: Company

I.3. Into smelters business; lead and zinc smelters

Lead smelter to operate in 2018 while zinc one in 2020.

Next development ZINC management has been preparing is entering into smelter business as mandated by the Goverment. According to its development plan, lead smelter will be operating by the end of 2018 under PT. Kapuas Prima Citra, a subsidiary company and zinc smelter by the 2020 under PT. Kobar Lamandau Mineral, an affiliated company.

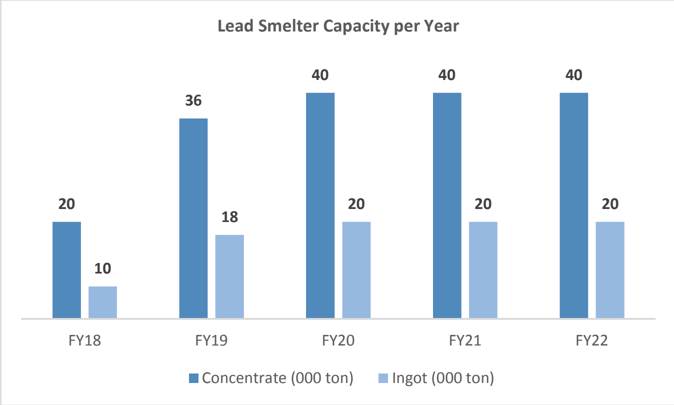
Lead smelter under PT. Kapuas Prima Citra with ingots capacity up to 20,000 ton per year.

Lead Smelter. Lead smelter will be operated by a subsidiary company PT. Kapuas Prima Citra in which ZINC has a minority stake of 30% equity. Other shareholder is PT. Indonesia Royal Resources with a 70% stake in equity. According to management plan, lead smelter will be operated by the end of 2018 with initial capacity of 40,000 ton per year concentrate input; which should be produce a 20,000 output of ingot. Input capacity will increase to 36,000 ton concentrate per year by 2020.

Zinc smelter under PT. Kobar Lamandau Mineral with ingots capacity up to 30,000 ton per year.

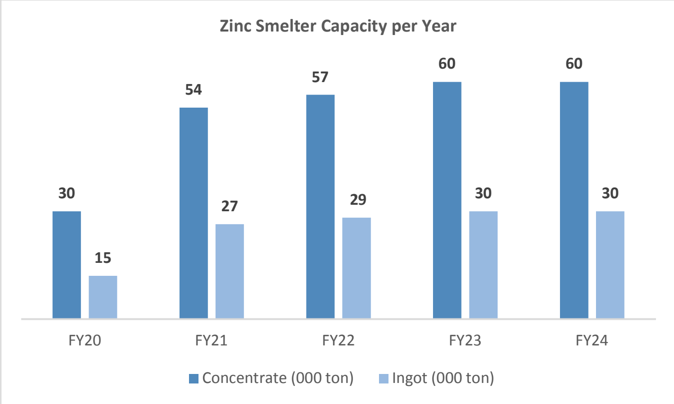
Zinc Smelter. Lead smelter will be operated by an affiliate company PT. Kobar Lamandau Mineral. According to management plan, zinc smelter will be operated by 2020 with initial capacity of 60,000 ton per year concentrate input; which should be produce a 30,000 output of ingot. Input capacity will increase to 108,000 ton concentrate per year by 2021 and to 114,000 ton per year by 2022 forward. In their information submitted to Indonesia Stock Exchange, ZINC management has signed an agreement with Merlion Resources Holding Limited to acquire PT. Kobar Lamandau Mineral. Another acquisition plan with Merlion is to acquire PT. Angkasa Citra Lestari (an affiliate company) to produce zinc oxyde.

Graph 4. Smelter Lead Capacity



Source: Company, MCS Research

Graph 5. Smelter Zinc Capacity



Source: Company, MCS Research

I.4. Capital expenditure and source of financing

The company budgeted capital expenditure of USD 121 million until 2021.

To support all the expansion plan such as concentrate production, building a new floatation plant and both lead and zinc smelter, ZINC would spend approximately USD 121 million of capital expenditure between 2018 to 2021, or equivalent of IDR 1.7 trillion. For constructing zinc smelter only it would take USD 30 million of capex, let alone other expenditures to support all its smelter in the future.

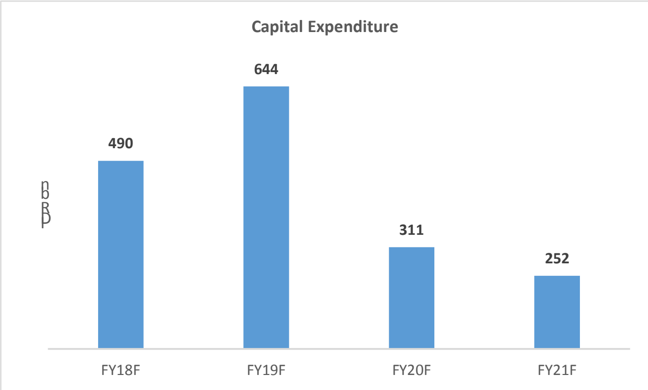
The Company's plan to issue bonds is IDR 600 billion at the end of 2018.

In our financial modeling, after discussing with the management, we come to a conclusion that ZINC would finance its capital expenditure of IDR 1.7 trillion by internal cash 41% (IDR 700 billion) and by external debt 59% (IDR 1 trllion). By the end of 2018 in our model ZINC would need an external debt as much as IDR 480 billion, and according to the management it is preparing to underwrite bond up to IDR 600 billion in 4Q 2018.

Part of the debt could be repay by 2020 by its CFO.

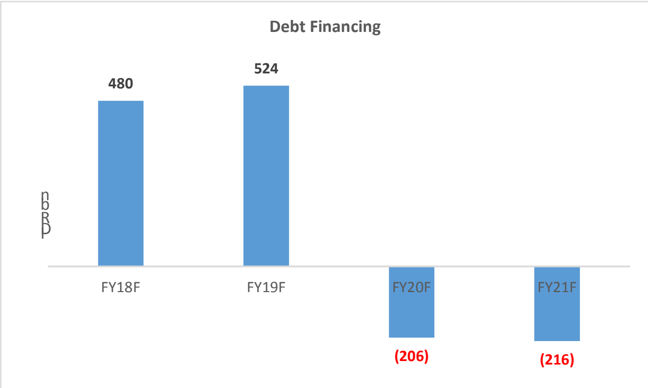
Should the management be very dilligent with its cash flow then part of its debt could be repay by 2020 as cash inflow from operation will increase while cash outflow for financing activites will decrease.

Graph 6. Capital expenditure schedule



Source: Company, MCS Research

Graph 7. Disbursement & repayment debt schedule



Source: Company, MCS Research

I.5. Export opportunities from a weakening Rupiah

An opportunity from the weakening of Rupiah.

The weakening of the Rupiah exchange rate against the US Dollar on the one hand can be a threat to the Indonesian economy, but this has become an opportunity for the Company. In the past year the Rupiah exchange rate has weakened by 12.2% YoY from IDR 13,340 to IDR 15,200.

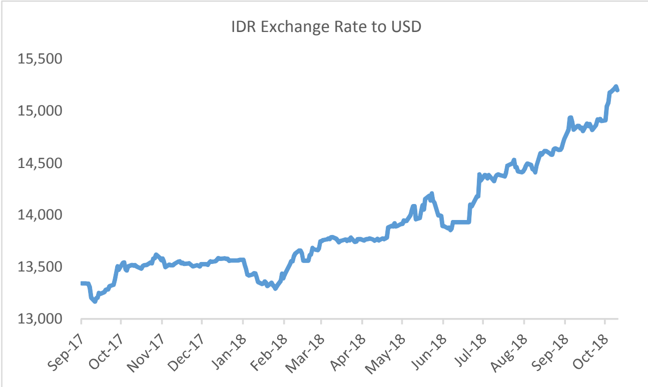
USD strengthened in the past 1 year agoinst global currencies.

The weakening of the Rupiah exchange rate in our view was caused more by external factors, although internal factors also had a role. The external factors we mean are mainly the strengthening of the US Dollar against global currencies such as emerging market currencies. The strengthening of the US Dollar was triggered by a reversal of funds to America in line with the increase in the benchmark interest rate of the Federal Reserve Bank. Based on the data that we process from Bloomberg terminal, the Dollar Index in the past year has strengthened by 3.4% YoY.

An opportunity to export concentrate.

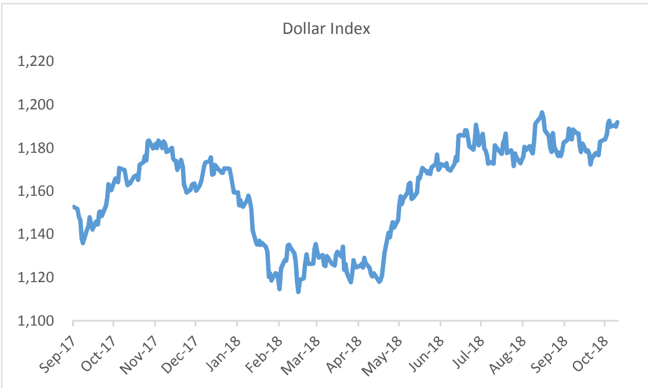
The weakening of the Rupiah exchange rate has become an opportunity for the Company because currently the Company relies on the export market for concentrate products. Regarding this export, the Company currently has permission to export concentrate with an export quota of 36,000 tons per year for lead and 60,000 tons per year for zinc. The latest export permit owned by the Company dated April 4, 2018 (Letter of Directorate General of Foreign Trade).

Graph 8. Rupiah exchange rate against the US Dollar



Source : Bloomberg

Graph 9. US Dollar Index against global currencies



Source : Bloomberg

Revenue in USD while most cost in IDR.

We say that the weakening of the Rupiah exchange rate is an opportunity for the Company because by relying on this export market, the Company's Revenue will be in the form of US Dollars while most of the costs are in Rupiah.

I.6. Chinese export market is attractive

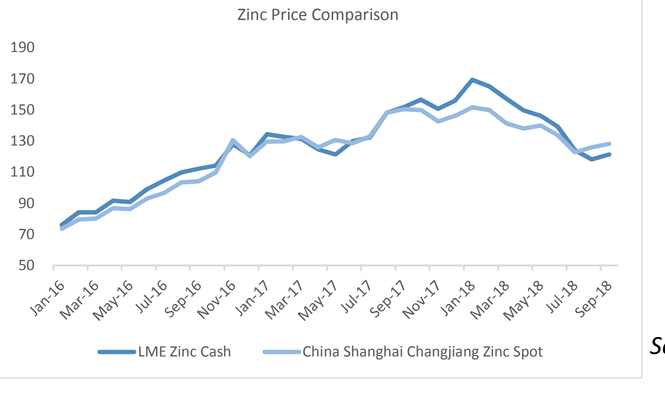
Commodities export to China gain momentum ...

The export market to China is another attraction for the Company's performance, where most of the Company's concentrate exports are aimed at the Chinese market. There are two interesting things from this Chinese market; first is the weakening of the Yuan exchange rate against the US Dollar causing the price of Yuan denominated commodities to strengthen relative to US Dollar-denominated commodities; and second, China's domestic base metal demand is still quite strong in line with infrastructure development by the Chinese Government, one of which is related to the OBOR (One Belt One Road) project.

... which is profitable to the Company.

These factors are reflected in the price movements of base metal commodities, especially for zinc prices in the Shanghai commodity market, which has increased more than the same products on the London Metal Exchange. The company, which makes commodity prices in Shanghai as a benchmark, will certainly be slightly more profitable than if it exports to Europe.

Graph 10. Commodities price comparison



Source : Bloomberg

II. FINANCIAL PROJECTIONS

II.1. Commodities prices assumption

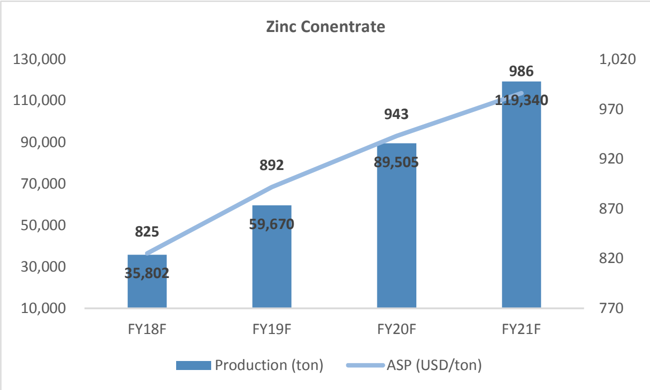
Two key assumptions are commodity volume and average selling price. LME and SME as references.

Two major key assumptions in our financial model are concentrate production volume and commodities average selling prices. For concentrate production volume we have discuss in the first part of this report. For the second assumption; commodities average selling prices we combine between global commodities prices in London Metal Exchange (LME) and Shanghai Metal Exchange (SME) with certain formula to adjust ZINC product characteristic.

Commodity prices will peak in 2019.

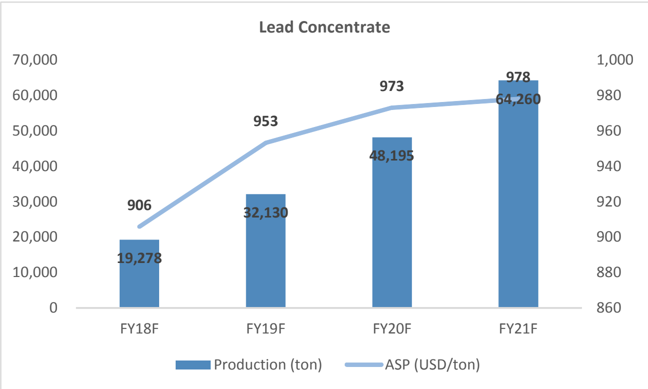
In our forecast, commodities prices such as zinc, lead and silver would continue its spike up to 2021 due to a deficit in inventory market. Zinc ASP would accelerate to USD 825/ ton in 2019 while lead price to USD 906/ton and silver to USD 13.1/t.oz. In 2021 we estimate the average price of zinc can reach USD 986/ton, lead USD 978/ton and silver USD 14.2/t.oz.

Graph 11. Zinc concentrate production & ASP



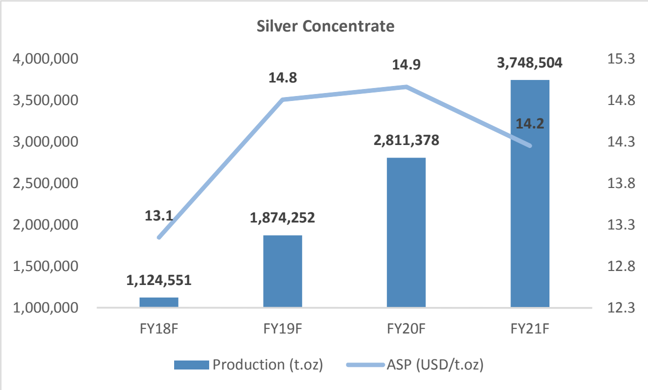
Source: Company, MCS Research, Bloomberg

Graph 12. Lead concentrate production & ASP



Source: Company, MCS Research, Bloomberg

Graph 13. Silver concentrate production & ASP



Source: Company, MCS Research, Bloomberg

II.2. Revenue and Net Income forecast

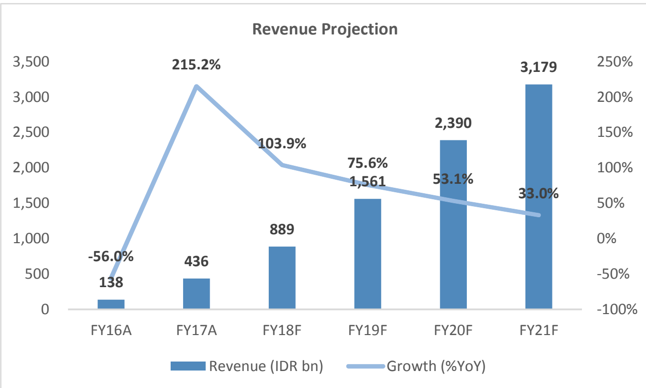
Revenue will grow at CAGR 87% between 2016 to 2021 ...

In our forecast, we dictate a 104% YoY Revenue growth in 2018 to IDR 889 billion from IDR 436 billion in 2017. Revenue from zinc concentrate still plays a major role which contibutes 48% of total Revenue, followed by lead concentrate and silver concentrate each of 28% and 24% contribution. By the end of 2021 we forecast Revenue would be IDR 3.1 trillion, indicated a CAGR of 87.3% between 2016 to 2021.

... while Net Income will grow at CAGR 112%.

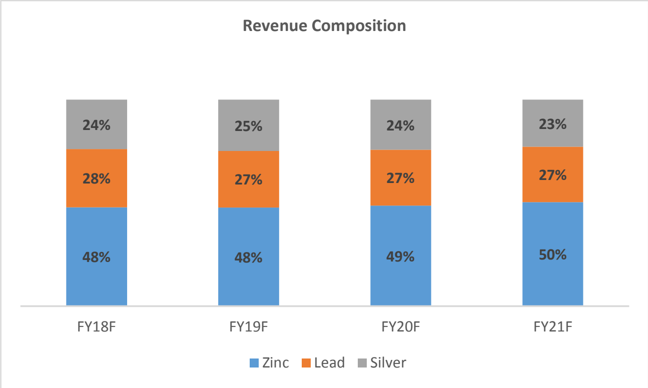
Operating Income would grow from IDR 81 billion in 2017 to IDR 1.2 trilllion in 2021, constituting a CAGR of 95.3%. In 2018 we expect Operating Income growth would be 276% YoY to IDR 304 billion. Net Income in our financial model should grow at a 112% CAGR between 2017 to 2021 to reach a IDR 911 billion level. For 2018 Net Income would be at IDR 233 billion, a 415% YoY growth.

Graph 14. Revenue Projection



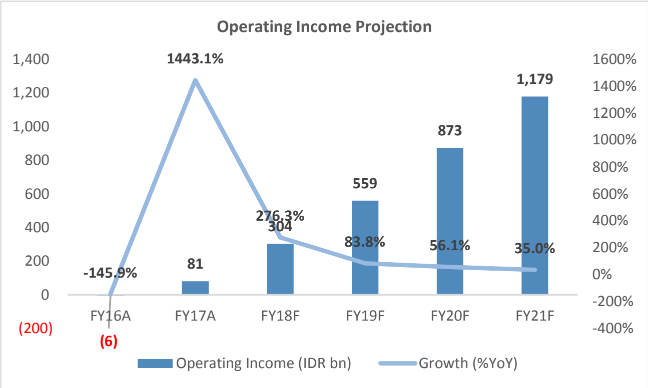
Source: Company, MCS Research

Graph 15. Revenue Composition



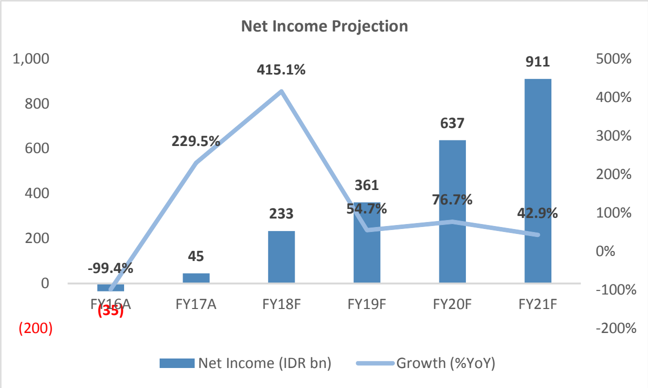
Source: Company, MCS Research

Graph 16. Operating Income Projection



Source: Company, MCS Research

Graph 17. Net Income Projection



Source: Company, MCS Research

II.3. Ratio analysis

Improvement in liquidity & leverage by cash flow reprofiling ...

Liquidity & leverage ratio. Current Ratio should improve from 0.6x in 2016 to 1.4x in 2021 while Debt-to-Equity Ratio would decrease from 1.0x in 2016 to 0.3x in 2021. Key component for this improvement in our opinion is how the management reprofiling its cash flow.

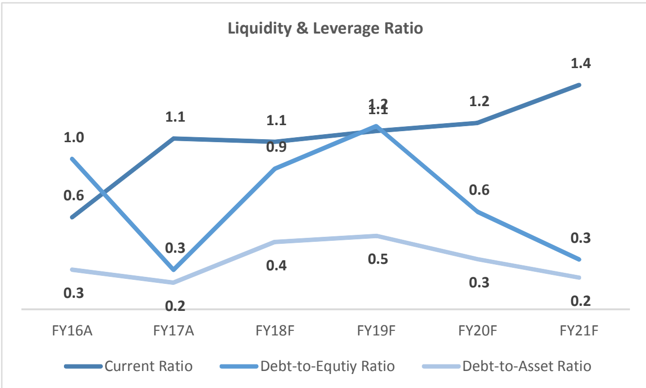
... improving profit margin in which net would be at 26% level ...

Profit margis ratio. Profit margin should improve significantly due to ZINC decision to sell commodities in concentrate. Gross Profit rose to 33.5% in 2017 from 14.8% in 2016 and we expect would increase to 53.7% in 2018 as an improving commodities price while cash cost basically remain the same. We expect Operating Profit margin will also improve from 18.5% in 2017 to 34.2% in 2018 while Net Income margin should be at 26.2% level in 2018, slightly above management guidance of 23% to 25%.

... and ROE boost to 35% from 9%.

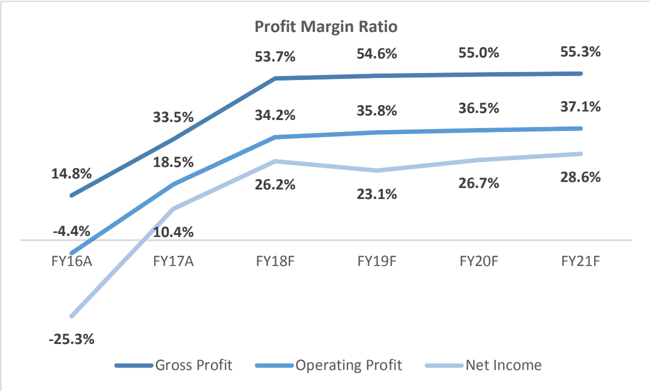
Return on Equity and Asset. As Net Income improves significantly, accompanied by better margins, we come to a conclusion thaat ZINC would improve its return; both ROE and ROA. Return on Equity could sky-rocketing to 35.0% in 2018 from a mere 9.4% in 2017, and to 41.5% in 2021. Return on Asset should improve to 16.8% in 2018 from 6.4% a year earlier.

Graph 18. Liquidity & Leverage Ratio



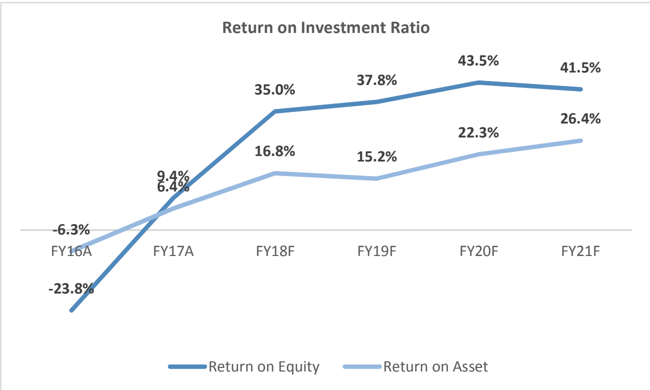
Source: MCS Research

Graph 19. Profit Margin Ratio



Source: MCS Research

Graph 20. Return on Investment Ratio



Source: MCS Research

III. VALUATION and RECOMMENDATION

III.1. Valuation

Use DCF as valuation methodology, main asumptions are WACC at 7.8% & terminal growth at 3.8% ...

We use the Discounted Cash Flow model methodology to conduct valuations for the Company's shares. The basic assumption we use is WACC of 7.8% and terminal growth of 3.8%. In our model, we project FCFF ZINC in 2018 and 2019 is still experiencing a deficit, but it is positive in 2020 so we get a present value of FCFF of IDR 13.7 trillion.

*... our **fair value** for ZINC is at **IDR 2,700** per share.*

By using the DCF we arrived at the conclusion of the **fair value** or 12mo the target price for ZINC was **IDR 2,700** per share. We also do sensitivity analysis where we use the range of WACC assumptions between 7.4% to 8.2% and the range of assumption of terminal growth between 3.4% to 4.2%. In the sensitivity analysis we get the fair value range for ZINC between IDR 2,220 to IDR 3,420 per share.

	FY18E	FY19E	FY20E	FY21E	Terminal
Operating Profit	304	559	873	1,179	
-Income Tax	48	71	121	171	
Operating Profit After Tax	256	488	751	1,007	
+Depreciation	31	42	56	62	
-Capital Expenditure	490	644	311	252	
-Change Working Capital	70	56	54	50	
FCFF	**(272)**	**(171)**	**442**	**767**	**19,180**
PV of FCFF	**(253)**	**(147)**	**353**	**568**	**13,175**
Value of the Firm	**13,697**				
Cash	66				
Total Debt	122				
Value of Equity	**13,642**				
Fair Value per Share	**2,701**	IDR			

	Cost of Capital (WACC)				
Terminal Growth	**7.4%**	**7.6%**	**7.8%**	**8.0%**	**8.2%**
3.4%	2,752	2,601	2,464	2,339	2,225
3.6%	2,892	2,727	2,577	2,441	2,317
3.8%	3,048	2,865	2,701	2,553	2,419
4.0%	3,221	3,019	2,839	2,676	2,529
4.2%	3,417	3,191	2,991	2,812	2,651

III.2. Recommendation

*We recommend **Strong Buy.***

We recommend **Strong Buy** for ZINC shares with a target price of **IDR 2,700** per share. By comparing to the closing price of ZINC on Monday (15/10) at IDR 1,640 level, there is still a potential price increase of 64.6%.

For information, we submit our criteria in determining our recommendations:

- Strong Buy : potential price increase more than 40% in the next 12 months;
- Buy : potential price increase between 10% to 40% in the next 12 months;
- Neutral : potential price increase between 0% to 9% in the next 12 months;
- Reduce : potential price decrease (negative returns) in the next 12 months;
- No Rating : stocks not in our coverage.

IV. ABOUT THE COMPANY

IV.1. Historical Background

Established in 2005; IPO in 2017.

PT. Kapuas Prima Coal Tbk. (ZINC) was established in 2005 as a mining and trading company. In the beginning of operation, ZINC's mining products was iron ore. Next development was ZINC's success in exploring other minerals in the form of Galena stone, and since 2014 it began to focus in this products. As its growing know-how in the mining industry, ZINC started to process Galena into zinc concentrate, lead concentrate and silver concentrate. In 2017 management decided to become a listed company by Initial Public Offering at Indonesia Stock Exchange.

Next development: lead & zinc smelter and underground mine.

According to our discussion with the managements, next step for ZINC is focusing for building smelters both lead and zinc smelter. Also in the internal discussion, management has decided to change its exploition method from above the ground to an underground mining. For the long term profitability, this is going to be a breakthrough. The company has been digging several tunnels now but yet operating in this term.

From concentrate to ingots export oriented.

One of the main reasons why the Company builds smelters is related to the ESDM Ministry regulations. With the existence of this smelter, the Company can export, where currently the export is still in the form of concentrate and when the smelter is finished, the export will be in the form of ingots which will certainly add value to the Company.

Table 1. Company's Milestones

2018	- IPPKH 1,519 ha
	- KCMI resulst 2nd
	- Floatation Plant #2
2017	- Listed on IDX
2016	- Lead smelter (capacity 40,000 tons/year)
	- JORC SMGC - Open Pit Mine Design (1st KCMI)
2014-2016	- Increase in concentrate production
	- 1st line Floatation Plant Development
	- Exploration & study of underground mine
2014	- Production of Galena
2008-2014	- Iron Ore mining
2005	- KPC established

Source : Company

IV.2. Mining Sites and Permits

Mining area of 5,559 ha located in Bintang Mengalih Villange, Central Kalimantan.

ZINC mining concession area is located in Bintang Mengalih Village, Belantikan Raya Sub-district, Lamandau District, Central Kalimantan. With mining area of 5,569 ha it has four open pits : 1) Karim Pit, 2) Gojo Pit, 3) Ruwai Pit and 4) South West Gosson Pit. Management has been planning to explore a possibility to change its mine design into an underground pit, which in the long term should provide value added to the company comparing to its current open pits.

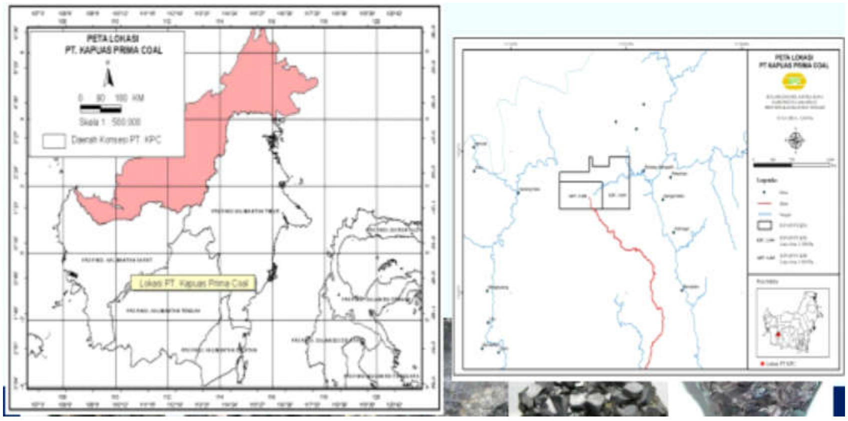
14.4 million ton of resources and 6.5 million ton of reserve.

According to the first JORG report by SMG Consultants in May 2016, ZINC has total of 6,9 million tonnage in dry weight of mineral resources and 4.6 million ton of ore reserve. However, ZINC has conducted a second KCMI report in January 2018 which stated it resource was up to 14.4 million ton in dry weight and reserve up to 6.5 million ton of ore.

Composition of 65% zinc and 35% lead.

The superior characteristics of the Company's ore are the composition of zinc and the lead where zinc is 65% (with a content of 51%) and lead is 35% (with levels of 57%). So that from 360 thousand tons of ore can produce zinc in concentrates of 36,700 tons and lead in concentrate of 17,600 tons.

Picture 3. Mining Sites



Source: Company

Table 2. Resources 1st KCMI

Category of Resources	Tonnage (T)	(Pb + Zn) (%)	Ag (ppm)
Measured	2,327,000	9.6	98.0
Indicated	3,267,000	8.8	99.4
Inferred	1,325,000	9.0	75.6
Total	**6,919,000**	**9.1**	**94.4**

Source : Company

Table 3. Reserves 1st KCMI

Category of Reserves	Ore Reserve (ton)	In-Situ Density (t/m2)	Pb (%)	Zn (%)	Ag (ppm)
Proved	1,900,000	3.2	4.2	5.5	103.8
Estimated	2,700,000	3.1	3.7	5.1	103.6
Total	**4,600,000**	**3.2**	**3.9**	**5.2**	**102.6**

Source : Company

Table 4. The Company's Permits

Mining Permit Area	- Bintang Mengalih Village, Belantikan Raya District, Lamandau, Central Kalimantan - Mining area of 5,569 ha
Exploration Permit	- Dated 25 October 2005 - No. 540/79/PTB/X/2005 for 5,848 ha
Borrow-to-use Forest Area permit	- Ministry of Forestry No. 713/Menhut-II/2009 dated on 19 December 2009 for 390 ha - No. 47/1/IPPKH/PMDN/2018 dated 31 May 2018 for 1,129 ha
Exploitation Permit	- No. Ek.540/02/I/2010; 6 Sep 2007 to 6 Sep 2037 for 2,100 ha - No. Ek.540/6/VIII/2012; 31 Jul 2012 to 30 Jul 2032 for 3,469 ha - Can be extended 2 x 10 years
Clear & Clean Permit	- Dept. ESDM No. 34/Min/33A/2012 - Dated 23 May 2012
Environmental Permit	- Governor of Central Kalimantan No. 188.44/1175/2013
Export Permit of Pb & Zn Concentrate Mining	- 4 April 2017 : Letter of Directorate General of Foreign Trade - 4 April 2018 : Letter of Directorate General of Foreign Trade
Export Quota	- Pb : 36,000 ton concentrate/year; Zn : 60,000 ton concentrate/year

Source : Company

IV.3. Corporate Structures and the Managements

PT. Sarana Inti Selaras owns 21.3% shares.

PT. Sarana Inti Selaras is ZINC's direct parent entity. Based on the data we have, PT. Sarana Inti Selaras currently owns 21.36% of ZINC's shares, which is the largest shareholder. On the other hand, public shareholders amounted to 20.79%.

To consolidate three subsidiaries.

Currently ZINC has one subsidiary, PT. Kapuas Prima Citra, which has a lead smelter. The ownership of ZINC in Kapuas Prima Citra is 30% while 70% of the remaining shareholding is owned by PT. Indonesia Royal Resources. Based on our discussions with management, ZINC plans to consolidate PT. Kabar Lamandau Mineral which will operate zinc smelter. At present the management has signed a partnership with Merlion Resources Holdings Limited to do this acquisition. In addition, ZINC will also work with the Merlion in the zinc oxyde processing industry, under PT. Angkasa Citra Lestari.

As for the composition of the Board of Commissioners and Board of Directors are as follows:

Board of Comissioners

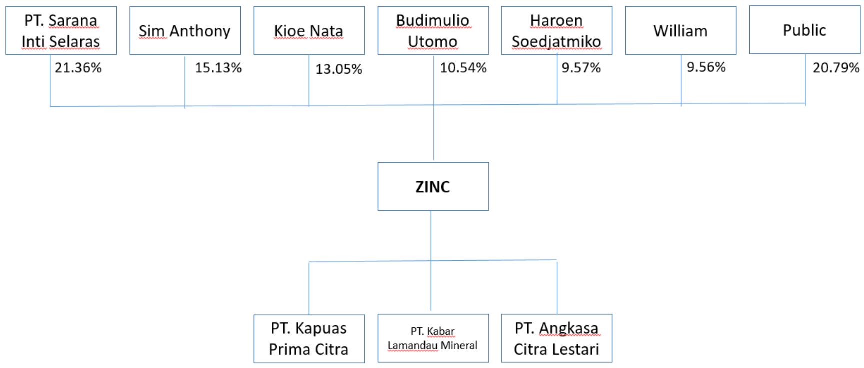
President Comissioner : Sim Antony
Comissioner : Kioe Nata
Independent Comissioner : Ifiandiaz Nazsir

Board of Directors

President Director : Harjanto Widjaja
Director : Hendra Susanto William
Independent Director : Padli Noor

.

Picture 4. Corporate Structure



Source : Company

*Apendix 1-**Balanced Sheet Statement***

(In IDR bn)

BALANCED SHEET	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F	FY21F
Assets								
+ Cash, Cash Equivalents & STI	74	67	13	66	32	55	44	44
+ Accounts & Notes Receiv	10	0	0	3	7	13	21	28
+ Inventories	11	149	95	76	177	278	402	520
+ Other ST Assets	1	0	1	77	156	300	260	420
Total Current Assets	**96**	**216**	**109**	**222**	**372**	**646**	**726**	**1,012**
+ Property, Plant & Equip, Net	285	315	364	385	812	1,372	1,571	1,699
+ Property, Plant & Equip	*478*	*535*	*628*	*658*	*1,116*	*1,718*	*1,973*	*2,163*
- Accumulated Depreciation	*193*	*220*	*264*	*273*	*304*	*346*	*402*	*464*
+ Other LT Assets	16	98	84	105	205	362	555	739
+ Prepaid Expense	*0*	*61*	*69*	*5*	*14*	*26*	*41*	*56*
+ Deferred Tax Assets	*9*	*8*	*6*	*5*	*7*	*7*	*6*	*6*
+ Investments in Affiliates	*4*	*3*	*2*	*20*	*20*	*20*	*20*	*20*
+ Misc LT Assets	*4*	*27*	*7*	*75*	*164*	*309*	*487*	*657*
Total Noncurrent Assets	**302**	**413**	**448**	**490**	**1,017**	**1,734**	**2,126**	**2,439**
Total Assets	**397**	**630**	**557**	**712**	**1,388**	**2,380**	**2,852**	**3,451**
Liabilities & Shareholders' Equity								
+ Payables & Accruals	2	18	50	59	94	144	222	297
+ Accounts Payable	*1*	*4*	*8*	*15*	*26*	*47*	*72*	*96*
+ Accrued Taxes	*0*	*0*	*1*	*13*	*33*	*49*	*85*	*121*
+ Other Payables & Accruals	*2*	*14*	*42*	*32*	*35*	*48*	*65*	*80*
+ ST Debt	119	133	120	111	227	327	355	373
+ ST Borrowings	*91*	*106*	*93*	*94*	*107*	*119*	*133*	*147*
+ ST Capital Leases	*0*	*0*	*5*	*5*	*2*	*1*	*0*	*0*
+ Current Portion of LT Debt	*28*	*28*	*22*	*13*	*119*	*208*	*221*	*226*
+ Other ST Liabilities	35	5	14	31	23	90	28	31
Total Current Liabilities	**156**	**156**	**184**	**202**	**345**	**562**	**605**	**701**
+ LT Debt	64	43	22	11	374	798	565	330
+ LT Borrowings	*64*	*43*	*20*	*7*	*371*	*797*	*564*	*330*
+ LT Capital Leases	*0*	*0*	*3*	*3*	*3*	*1*	*0*	*0*
+ Other LT Liabilities	218	473	203	21	4	66	219	228
Total Noncurrent Liabilities	**282**	**516**	**226**	**31**	**378**	**864**	**784**	**558**
Total Liabilities	**438**	**673**	**410**	**233**	**723**	**1,426**	**1,388**	**1,259**
+ Share Capital & APIC	10	25	250	537	537	537	537	537
+ Common Stock	*10*	*25*	*250*	*505*	*505*	*505*	*505*	*505*
+ Additional Paid in Capital	*0*	*0*	*0*	*32*	*32*	*32*	*32*	*32*
+ Retained Earnings	(51)	(68)	(103)	(58)	128	417	926	1,655
Equity Before Minority Interest	(41)	(43)	147	479	665	954	1,464	2,192
+ Minority/Non Controlling Interest	0	0	0	0	0	0	0	0
Total Equity	**(41)**	**(43)**	**147**	**479**	**665**	**954**	**1,464**	**2,192**
Total Liabilities & Equity	**397**	**630**	**557**	**712**	**1,388**	**2,380**	**2,852**	**3,451**
Book Value per Share (BVPS)	**(8)**	**(9)**	**29**	**95**	**132**	**189**	**290**	**434**

Source : Bloomberg, Company, MCS Research

Apendix 2-**Profit & Loss Statement**

(In IDR bn)

INCOME STATEMENT	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F	FY21F
Revenue	**141**	**314**	**138**	**436**	**889**	**1,561**	**2,390**	**3,179**
- Cost of Revenue	105	230	118	290	411	708	1,075	1,420
+ Cost of Goods & Services	*79*	*209*	*95*	*267*	*388*	*679*	*1,039*	*1,381*
+ Depreciation & Amortization	*25*	*22*	*23*	*23*	*24*	*29*	*36*	*39*
Gross Profit	**37**	**84**	**20**	**146**	**477**	**853**	**1,315**	**1,759**
- Operating Expenses	32	71	27	65	173	294	442	580
+ Selling, General & Admin	27	66	20	60	93	159	241	319
+ Selling & Marketing	5	12	1	28	34	62	96	129
+ General & Administrative	22	54	20	32	39	60	85	109
+ Depreciation & Amortization	5	5	6	5	7	13	20	22
Operating Income (Loss)	**5**	**13**	**(6)**	**81**	**304**	**559**	**873**	**1,179**
- Non-Operating (Income) Loss	26	30	9	11	23	127	114	97
+ Interest Expense, Net	13	9	9	6	3	116	94	70
+ Interest Expense	*17*	*12*	*11*	*8*	*5*	*119*	*96*	*72*
- Interest Income	*4*	*3*	*2*	*2*	*2*	*3*	*2*	*2*
+ Foreign Exch (Gain) Loss	12	18	(4)	(1)	12	(3)	(1)	(1)
+ (Income) Loss from Affiliates	0	1	1	2	4	7	10	14
+ Other Non-Op (Income) Loss	1	2	4	4	5	8	11	14
Pretax Income (Loss), Adjusted	**(21)**	**(17)**	**(15)**	**70**	**281**	**432**	**759**	**1,082**
- Abnormal Losses (Gains)	(50)	(0)	15	4	0	0	0	0
+ Disposal of Assets	(50)	(0)	(7)	0	0	0	0	0
+ Impairment of Intangibles	0	0	22	4	0	0	0	0
Pretax Income (Loss), GAAP	**29**	**(17)**	**(31)**	**66**	**281**	**432**	**759**	**1,082**
- Income Tax Expense (Benefit)	(1)	1	4	21	48	71	121	171
Income (Loss) Incl. MI	**29**	**(18)**	**(35)**	**45**	**233**	**361**	**637**	**911**
- Minority Interest	0	0	0	0	0	0	0	0
Net Income Avail to Common, GAAP	**29**	**(18)**	**(35)**	**45**	**233**	**361**	**637**	**911**
Earnings per Share (EPS)	**6**	**(3)**	**(7)**	**9**	**46**	**71**	**126**	**180**

Source : Bloomberg, Company, MCS Research

Apendix 3-**Cash Flow Statement**

(In IDR bn)

CASH FLOW STATEMENT	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F	FY21F
Cash from Operating Activities								
+ Net Income	29	(18)	(35)	45	233	361	637	911
+ Depreciation & Amortization	30	27	29	28	31	42	56	62
+ Changes in Working Capital	0	112	(86)	(25)	70	56	54	50
+ Other Non-cash Items	(19)	(264)	178	(16)	(316)	(246)	(116)	(377)
Cash from Operating Activities	**41**	**(142)**	**86**	**33**	**19**	**213**	**631**	**645**
Cash from Investing Activities								
+ Change in Fixed & Intang	46	(106)	(88)	(70)	(490)	(644)	(311)	(252)
+ Disp in Fixed & Intang	*108*	*0*	*37*	*14*	*0*	*0*	*0*	*0*
+ Acq of Fixed & Intang	*(62)*	*(106)*	*(125)*	*(84)*	*(490)*	*(644)*	*(311)*	*(252)*
+ Net Change in LT Investment	0	0	0	0	0	0	0	0
+ Net Cash From Acq & Div	0	0	0	0	0	0	0	0
+ Other Investing Activities	(3)	(16)	(6)	29	0	0	0	0
Cash from Investing Activities	**43**	**(122)**	**(94)**	**(40)**	**(490)**	**(644)**	**(311)**	**(252)**
Cash from Financing Activities								
+ Dividends Paid	0	0	0	0	(47)	(72)	(127)	(182)
+ Cash From (Repayment) Debt	(22)	65	(52)	77	480	524	(206)	(216)
+ Cash (Repurchase) of Equity	0	15	0	0	0	0	0	0
+ Other Financing Activities	(63)	178	7	(16)	0	0	0	0
+ Net Cash From Disc Ops	0	0	0	0	0	0	0	0
Cash from Financing Activities	**(84)**	**258**	**(46)**	**61**	**433**	**451**	**(334)**	**(399)**
Net Changes in Cash	**(0)**	**(6)**	**(54)**	**53**	**(34)**	**23**	**(11)**	**0**

Source : Bloomberg, Company, MCS Research

*Apendix 4-**Financial Ratio***

RATIO	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F	FY21F
LIQUIDITY & TURNOVER								
Current ratio (X)	0.6	1.4	0.6	1.1	1.1	1.1	1.2	1.4
Account Recievable (Day)	24.6	na	na	2.5	2.7	3.0	3.2	3.2
Inventory (Day)	51.5	260.0	362.6	103.5	166.6	149.1	141.1	137.3
Account Payable (Day)	2.5	7.1	29.3	20.4	24.6	25.1	25.3	25.4
Cash Convention Cycle (Day)	73.5	na	na	85.6	144.7	127.1	118.9	115.1
GROWTH								
Revenue growth (%)	na	122.6%	-56.0%	215.2%	103.9%	75.6%	53.1%	33.0%
Operating income growth (%)	na	177.0%	-145.9%	-1443.1%	276.3%	83.8%	56.1%	35.0%
Profit before income tax growth (%)	na	-157.9%	84.1%	-314.6%	326.6%	53.7%	75.8%	42.6%
Net income growth (%)	na	-159.9%	99.4%	-229.5%	415.1%	54.7%	76.7%	42.9%
PROFITABILITY								
Gross profit margin (%)	26.0%	26.8%	14.8%	33.5%	53.7%	54.6%	55.0%	55.3%
Operating income margin (%)	3.3%	4.2%	-4.4%	18.5%	34.2%	35.8%	36.5%	37.1%
Net income margin (%)	20.7%	-5.6%	-25.3%	10.4%	26.2%	23.1%	26.7%	28.6%
Return on equity (%)	-72.1%	40.6%	-23.8%	9.4%	35.0%	37.8%	43.5%	41.5%
Return on assets (%)	7.4%	-2.8%	-6.3%	6.4%	16.8%	15.2%	22.3%	26.4%
LEVERAGE								
Debt-to-equity (X)	(4.50)	(4.09)	0.97	0.25	0.90	1.18	0.63	0.32
Debt-to-asset (X)	0.46	0.28	0.26	0.17	0.43	0.47	0.32	0.20
VALUATION								
Price to earnings ratio (X)	465.9	(778.2)	(390.3)	301.4	58.5	37.8	21.4	15.0
Price to book ratio (X)	(336.0)	(316.2)	92.8	28.5	20.5	14.3	9.3	6.2

Source : MCS Research

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