

# Commodity Shipping

## OVERWEIGHT

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### 12M PRICE PERFORMANCE



### MARKET DATA

	YTD	1M	3M	12M
Absolute	4.0%	-14.8%	7.3%	-0.8%
JCI return	-0.2%	-0.8%	-0.5%	-1.8%
Relative	4.1%	-14.0%	7.9%	1.0%

### STOCK COVERAGE SHIPPING

Ticker	Rating	CP (IDR)	TP (IDR)	P/E (x) 2024F	P/B (x) 2024F
TPMA	BUY	665	930	5.4	1.3
HATM	BUY	242	505	6.7	2.8
PSSI	Under review	505	n.a	n.a	n.a
Sector	Overweight			3.3	1.2

Source: Bloomberg, BCA Sekuritas

## Self-Fulfilling Prophecy

### Stable margin towards end of year, as we expected

With FY23F coming to an end, stable profitability in 3Q23 is still recorded at least by 2 commodity shippers under our coverage TPMA and HATM. TPMA recorded higher gross margin in 3Q23 at 38.5% (vs 33% in 2Q23 and 32% in 3Q22) despite lower ASP at USD3.4/t in 3Q23 (-21% QoQ, -7% YoY) mainly due to lower oil price: TPMA's fuel cost in 3Q23 at USD0.6/t (-37% QoQ, -38% YoY). Meanwhile, HATM was also able to maintain its high profitability in 3Q23 with 2 additional vessels have joined the company earlier this year (1 Supramax and 1 Panamax). EBITDA margin in 3Q23 was recorded at 43% (vs 51% in 2Q23 and 37% in 3Q22). This is inline with our view that commodity shippers, esp under our coverage, should be able to maintain its pricing steadily higher supported by higher cargo demand with slower recovery in cargo supply domestically. [Please refer back to our initiation report](#). Going forward, we expect TPMA and HATM to be able to maintain their high profitability despite a relatively volatile ASP (following oil price) while catalyst still comes from higher freight volume from additional vessels acquired by each shipper.

### "Wise" players secure partnership with China

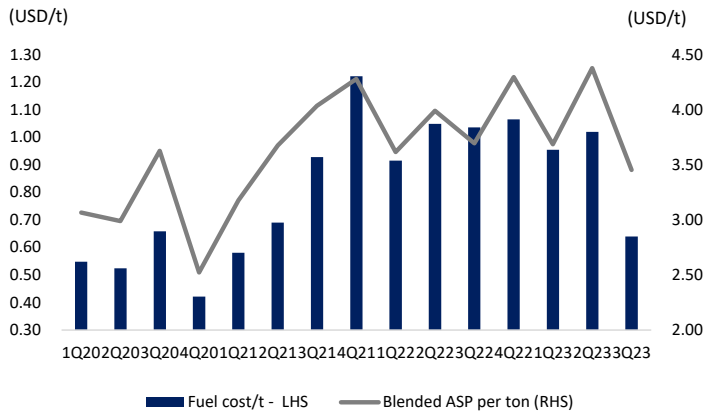
At least 50% of nickel smelter capacity in Indonesia would be coming from Tshingshan group by 2025F that will also require transportation to carry its massive cargo nationwide. It is only strategic for certain shippers to partner up with the group, at least to secure their nickel and related cargo in the future. Earlier this year, HATM received 7-year contract from the group to carry at least 4.3m MT/year worth of cargo, almost equals to 2x HATM's total volume carried before the partnership. Expansion mode is currently on for HATM, adding 1 MV per year to cater the demand. We expect HATM's freight volume to be at 4.2/6/6.6m MT by FY23/24/25F (+58/+43/+10% YoY). On the other side, TPMA entered the partnership with Tshingshan group in 2022 through JV that targets to operate 45 vessels by FY26F. Our simulation showed, when the JV is able to operate 30 vessels in a year, even with a normalized TC rate, it would be able to generate USD11.9m in total net profit (TPMA's portion for 30% stake: USD3.5m). We estimated the JV can contribute by 15-20% to TPMA's net profit in FY25F onward.

### Business is still doing well, maintain OVERWEIGHT on the sector

We still like the sector that provides a relatively stable earnings compared to miners. Although supply issue is getting better with more deliveries have been done to domestic players, we expect the pace of recovery in supply should not be faster than the demand now additional volume from nickel industry and its related cargo are coming in. High profitability, strong balance sheet and healthy cashflow generation are also our main reasons to favor the sector that also offers high dividend yield. TPMA recently announces IDR78.9bn in interim dividend or equals to IDR30/sh (~4.5% dividend yield) with at least another IDR26/s that we expect to be distributed to final dividend from FY23F net profit (~8.4% div yield in total. We rolled forward our valuation for both TPMA and HATM, arriving to new TP at IDR930/sh for TPMA (still implies to 7.6x FY24F PE) and IDR378/sh for HATM (implies to 10.5x FY24F PE). TPMA currently trades at 5.4x FY24F PE while HATM currently trades at 6.7x FY24F PE. We believe HATM deserves a more premium valuation with its positioning as MV specialist that puts HATM in a well position to secure a more long-term contract with higher profitability (also ability to serve international market).

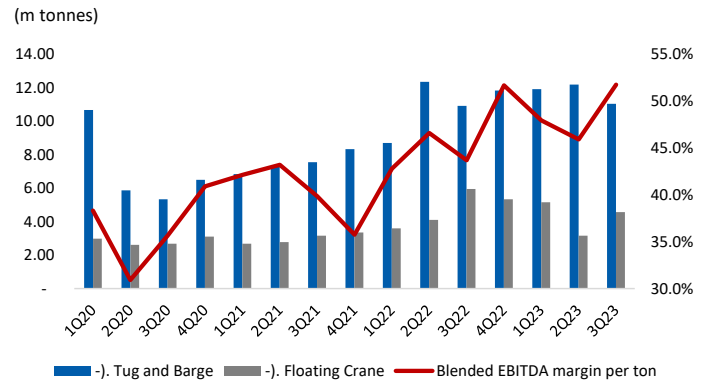
**Risks to our call** will include lower than expected cargo volume, sooner than expected recovery in capacity supply that would disrupt pricing scheme significantly, further restriction in economic mobility and other changes in Govt regulation.

**Exhibit 1. TPMA's ASP and fuel cost per t – lower ASP following lower oil price**



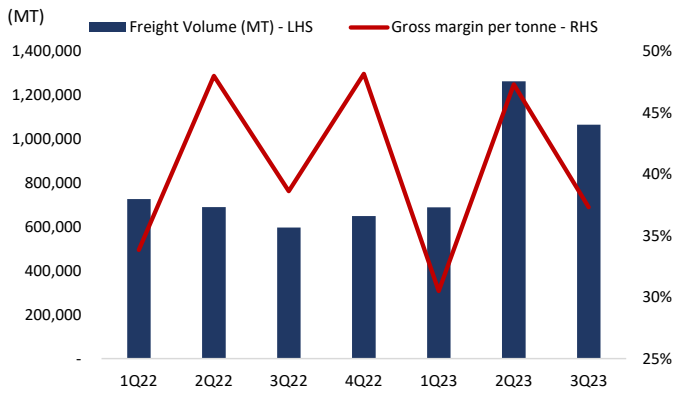
Sources: Company, BCA Sekuritas

**Exhibit 2. TPMA's volume and EBITDA margin – still show steady volume and high profitability**



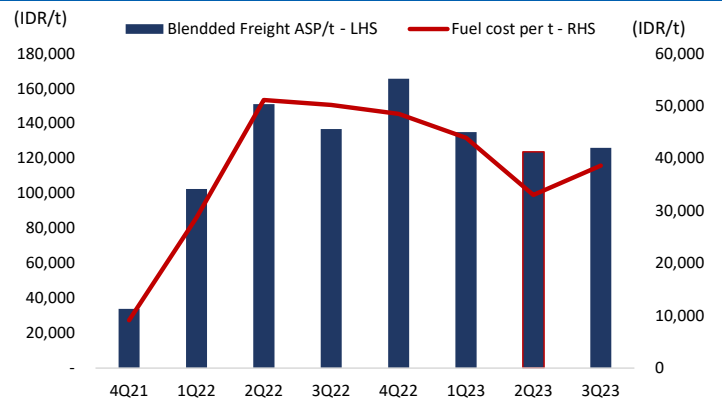
Sources: Company, BCA Sekuritas

**Exhibit 3. HATM's volume and gross margin per tonnes**



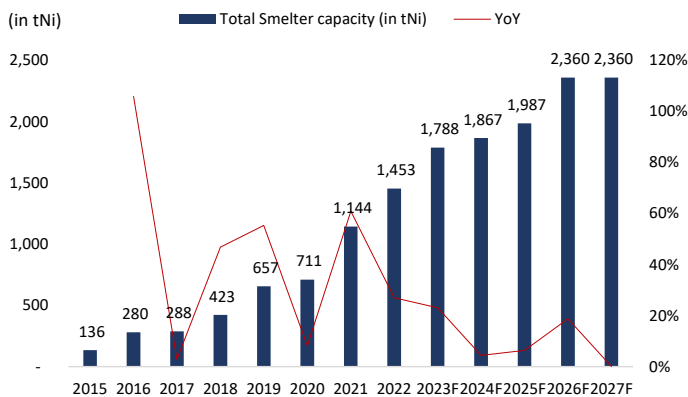
Sources: Company, BCA Sekuritas

**Exhibit 4. HATM's ASP and fuel cost per t**



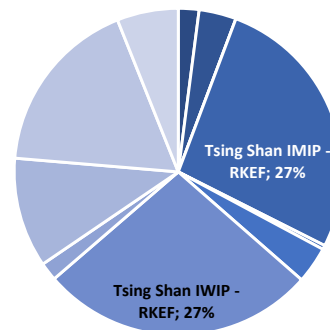
Sources: Company, BCA Sekuritas

**Exhibit 5. Indonesia to have 2.3tNi in nickel smelter capacity by 2027F...**



Sources: MoEMR, BCA Sekuritas

**Exhibit 6. ...at least 50% of it would be coming from Tshingshan by 2025F**



Sources: MoEMR, BCA Sekuritas

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