

Trans Power Marine (TPMA)

An ironclad business model

Prominent bulk material transportation service provider

TPMA has grown rapidly since its establishment in 2005 to become one of the leading inter-island bulk carrier and transshipment service providers in Indonesia. TPMA competes in this low-barrier-to-entry business by providing cost-efficient and timely bulk materials transportation services for prominent domestic coal miners, cement producers, state-owned electricity companies, and wood-processing companies. Both “asas cabotage” & a 49% foreign ownership cap limit for sea transportation business provide a competitive safeguard for local players like TPMA.

Solid existing business to provide a high revenue base

The outstanding performance of coal transportation service providers should continue in 2023 considering higher growth indication for domestic coal production (vs. last 4 years) with market’s growing expectation of China’s reopening. We expect TPMA’s barging revenue from existing business to grow ~14% next year (vs. 12.5% CAGR between 2018 and 2022e).

Sizable potential future growth beyond 2023 from nickel-related

Indonesia’s huge investment in nickel smelters started to show significant results with surging demand for nickel ore (a staggering 48% CAGR between 2015 and 2022) to be delivered to nickel smelters. Currently, there are 13 operational nickel smelters and several projects are scheduled to come online in the next 3 to 5 years. TPMA has laid the groundwork for rapid future growth drivers beyond 2023 by teaming up with PT Pacifik Pelayaran Indonesia (PPI) and T&J Industrial Holding Limited to purchase 60 sets of tug and barges in stages within 4 years to transport mainly nickel ores and products.

Initiate coverage on the counter offering a massive 55% upside

TPMA is on track to book a record high quarterly earnings of ~USD5mn in 4Q22, to bring its FY22 net profit at ~USD14.6mn (3.7x YoY). Amid favorable conditions (i.e. shortage in barges) with plenty demand of coal & nickel ore going forward, we expect TPMA to deliver a staggering 54% CAGR earnings between FY21 and FY25. We utilized DCF valuation to derive TPMA’s fair value of USD118mn (or equivalent to IDR700/sh), implying a decent 7x FY23F PE and 3.5x FY23F EV/EBITDA. Solid balance sheet & strong op. cashflow generation of ~USD30mn p.a. allows higher dividend payout going forward.

	2020A	2021A	2022F	2023F	2024F
Sales (USD mn)	39.8	42.0	67.5	75.9	78.0
GP (USD mn)	7.8	9.4	21.3	23.5	23.8
OP (USD mn)	4.2	5.5	16.8	18.6	18.7
NP (USD mn)	2.1	4.0	14.6	17.2	19.7
EBITDA (USD mn)	14.4	16.8	27.9	31.0	34.3
Net debt (USD mn)	14.7	6.3	(3.7)	(10.1)	(15.5)
OP margin (%)	10.7	13.1	24.9	24.5	24.0
ROE (%)	2.7	5.1	17.5	18.3	19.0
Dividend yield (%)	4.8	2.8	10.2	11.4	12.5
EPS (USD)	0.0008	0.0015	0.0055	0.0065	0.0075
chg. (%., YoY)	-74.7	89.9	268.4	17.9	14.8
BPS (USD)	0.0292	0.0293	0.0340	0.0375	0.0416
DPS (USD)	0.0015	0.0008	0.0030	0.0034	0.0037
PE (x)	40.3	21.0	5.4	4.6	4.0
PB (x)	1.1	1.1	0.9	0.8	0.7
EV/EBITDA (x)	6.9	5.3	2.7	2.2	1.8

Company

In-depth

Transportation

Nov 24, 2022

12M rating **BUY (Initiate)**
12M TP **IDR 700**
Upside **55.5%**

Stock Data

JCI (Nov 23)	7,054
Stock price (Nov 23, IDR)	450
Market cap (IDR bn)	1,185
Shares outstanding (mn)	2,633
52-week high/low (IDR)	515 / 300
6M avg. daily turnover (IDR bn)	3.6
Free float (%)	29.8

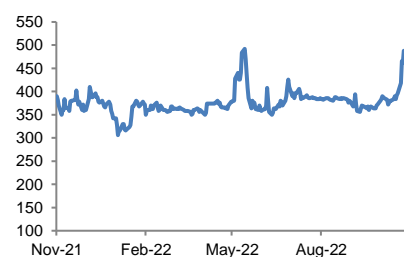
Major shareholders (%)

Dwitunggal Perkasa Mandiri	57.8
Standard Chartered PLC	6.8
Ascend Bangun Persada	4.6

Performance

	1M	6M	12M
Absolute (%)	22.6	27.3	18.4
Relative to JCI (%)	20.3	15.4	7.6

TPMA stock price



Source: Bloomberg

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Established in 2005, TPMA has grown rapidly and sustainably (from only using chartered vessels initially) to successfully become **one of the leading inter-island bulk carrier and transshipment service providers in Indonesia** for coal, woodchips, and nickel ore supported by **large fleets consisting of 3 crane barges, 38 tug boats, and 33 barges.**

Bulk materials shipment is **a competitive business with a low barrier to entry.** However, **track record and reputation** definitely have a **huge influence on customers to choose their transportation service providers.** Given the years of experience in the business, TPMA manages to provide cost-efficient and timely bulk materials transportation services for prominent domestic coal miners, cement producers, state-owned electricity companies, and wood-processing companies.

Table 1. TPMA significant contract agreements

Client	Type of Service	Start of contract	Contract maturity
Pelayanan Bahtera Adhiguna (Persero)	Coal transshipment	Sep 2014	Jun 2022
Dian Ciptamas Agung	Coal transshipment	Jan 2020	Dec 2022
Dianta Daya Embara	Coal transshipment	Jan 2020	Dec 2022
Jorong Baturama Greston	Coal transshipment	Jan 2014	Dec 2022
Kaltim Prima Coal	Coal transshipment	Feb 2022	Dec 2022
Borneo Indobara	Coal transshipment	Feb 2020	Jan 2023
Solusi Bangun Indonesia	Coal transshipment	May 2018	Apr 2023
Korintiga Hutani	Bulk goods transshipment	May 2013	May 2023
Exploitasi Energi Indonesia	Coal transshipment	Jan 2020	Dec 2024
Dwi Guna Laksana	Coal transshipment	Jan 2020	Dec 2024

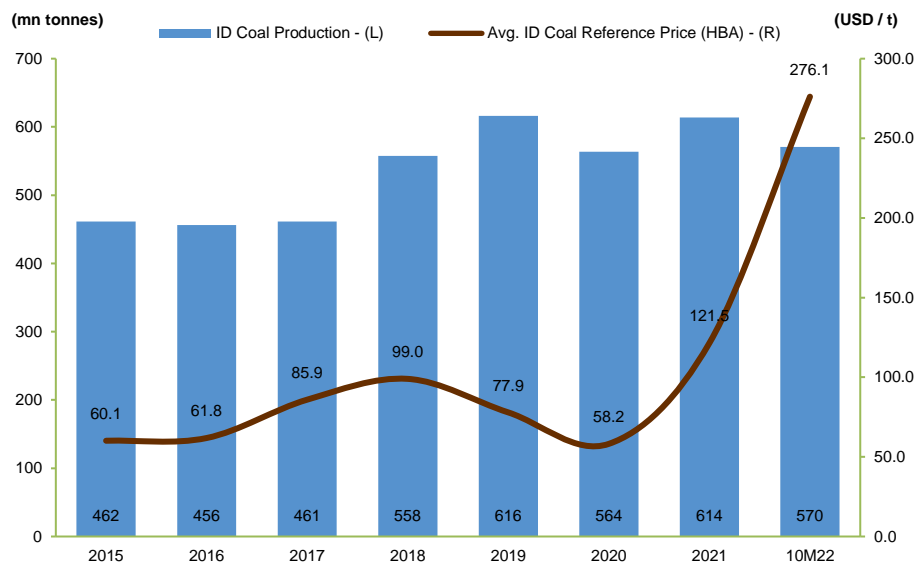
Source: Company's financial statement (as of end Sep2022), KISI

The “asas cabotage” implementation; backed by several regulations such as Presidential decree no. 5/2005, Ministry of Transportation decree no. 71/2005, Maritime Law no. 17/2008; essentially states that all ships used for domestic shipping (including various commodities) must be manned by Indonesian national crews and under the Indonesian “flag”. This implementation, **along with a 49% foreign ownership cap limit for Indonesia’s domestic and foreign sea transportation business** (stated in Presidential decree no. 49/2021), **ensures a competitive edge in the local market for local bulk materials transportation service providers like TPMA.**

After around three years of stringent restrictions, **China unveiled 20 new steps to ease its zero-covid policies.** Given the **expectation** of China reconnects with the world, manufacturing activities should lean towards expansion (a reading above 50 on PMI), **boosting its thermal coal demand.** Indonesia has been the biggest thermal coal provider to China; with 133mn tonnes as of 10M22 (~58% of total) and 196mn tonnes in FY21 (~60% of total). Indonesian coal miners are expected to continue to ramp up their production to take advantage of the current exceptional coal price environment. Therefore, we believe that the **outstanding performance of coal transportation service providers will continue in 2023.**

In addition, Indonesia Ministry of Energy & Mineral Resources (MoEMR) instructed 125 coal companies to supply 161.2mn tonnes of coal to power plants in 2023 as a domestic market obligation (DMO). Considering the average DMO portion of slightly less than 25%, this implies **a more aggressive 5.8% growth in coal production** (vs. 4.1% CAGR between 2018 and 2022e).

Fig 1. Indonesia coal production & Indonesia coal reference price (HBA)



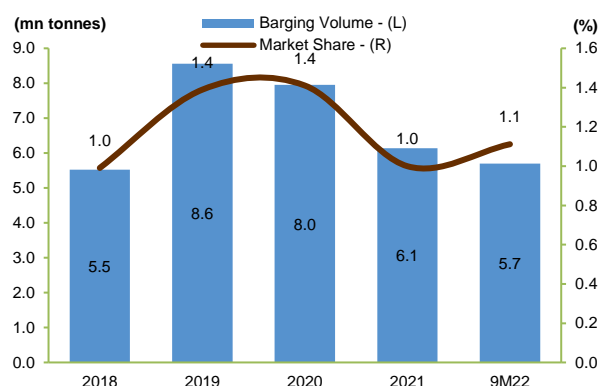
Source: Ministry of Energy & Mineral Resources (MoEMR), KISI

Fig 2. China's thermal coal import from Indonesia



Source: Bloomberg Intelligence, KISI

Fig 3. TPMA barging volume (as % of coal production)

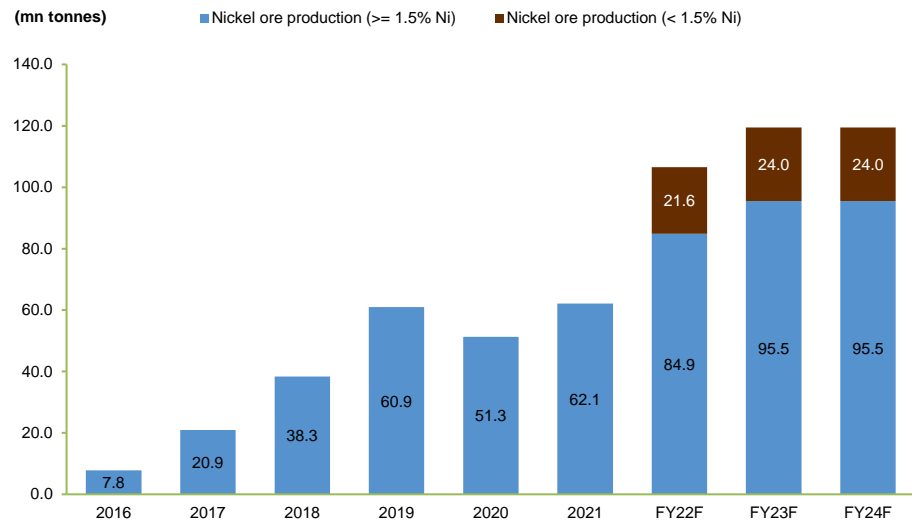


Source: Company, Ministry of Energy and Mineral Resources, KISI

Indonesia's huge investment in nickel smelters (which started in 2015) started to show significant results with 13 operational nickel smelters. There are still several nickel smelter projects scheduled to be operational from 2023 onwards. This rapid development has **resulted in a surging ~48% CAGR demand for nickel ore (≥ 1.5% grade) between 2015 and 2022**. This presents big opportunities for maritime transport service providers like TPMA.

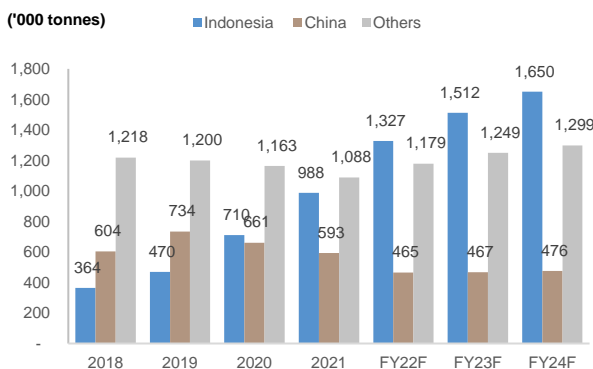
TPMA saw this huge opportunity for rapid future growth beyond 2023 and transformed its subsidiary PT Trans Logistik Perkasa (TLP) into a **JV with two partners** with **PT Pacifik Pelayaran Indonesia** (40% stakes in JV) and **T&J Industrial Holding Limited** (30% stakes in JV) on 26Jan2022. This **JV plans to purchase 60 sets of tug and barges in stages within 4 years to transport mainly nickel ores and products**.

Fig 4. Indonesia nickel ore production



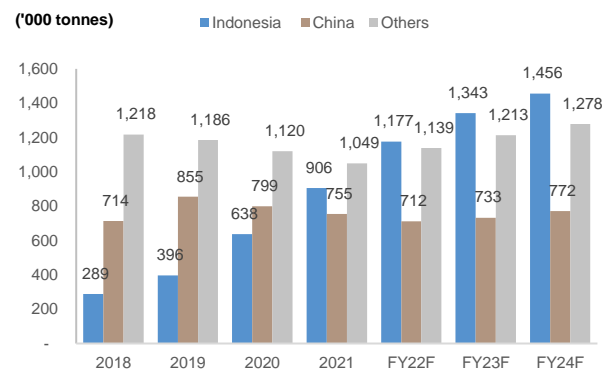
Source: Ministry of Energy & Mineral Resources (MoEMR), KISI

Fig 5. Indonesia nickel smelter prod. (no.1 in the world)



Source: Wood MacKenzie, KISI

Fig 6. Indonesia finished nickel prod. (no.1 in the world)

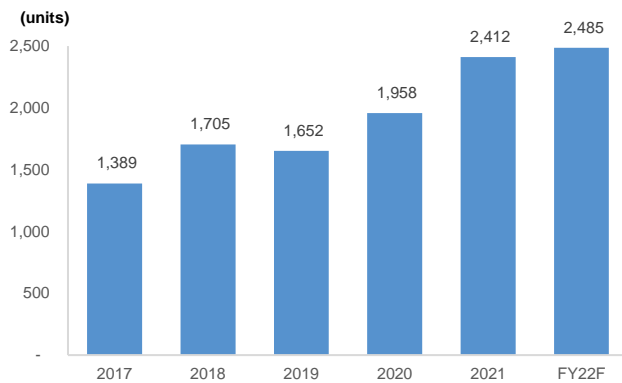


Source: Wood MacKenzie, KISI

The shortage of available barges in the current market has tilted the power balance towards the owners (and operators) of tug and barges given the accelerating demand to move coal and nickel ores from port stockpiles to either mother vessels (for export) or users (domestic inter-island). This has resulted in an indicated staggering more than 30% increase in the spot market fee.

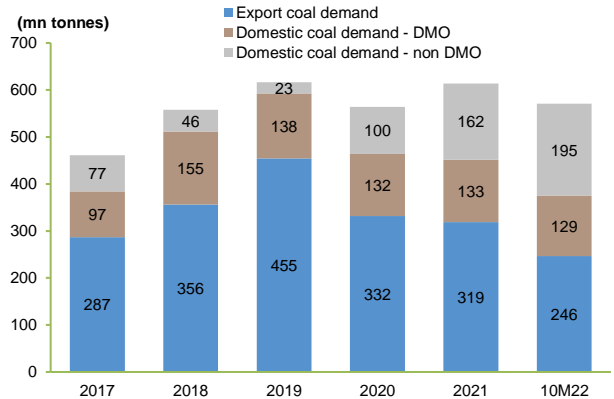
The long lead time (more than a year) to order new sets of tug and barges; due to the **unavailability of components** (from importing countries), **volatile steel prices**, and **limited capacity of the ship manufacturing facilities around the region**; have **intensified the barges' shortage situation**. To illustrate the current shortage situation, we estimated the current available barges in the market (estimated at ~1,700 units now) based on the information collected from prominent players in the industry. Then we estimated the number of barges needed to fulfill transportation demand for coal and nickel ores (excluding other commodities) each year for the past 5 years.

Fig 7. Estimated annual demand for barges



Source: KISI

Fig 8. ID coal demand (export, DMO & non-DMO)



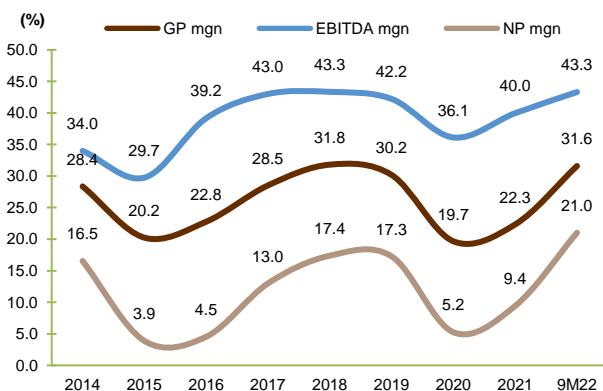
Source: Ministry of Energy & Mineral Resources (MoEMR), KISI

As of now, TPMA has 38 tug boats, 33 barges, and 3 floating cranes; a steady number of fleets kept since 2014, despite many up and down cycles of coal prices. This reflected TPMA's prudent approach to the business and priority in maintaining its profitability. TPMA has regular docking and maintenance program to ensure that all their fleets (with a current average age of ~8 years in operation) are kept in optimal operating condition.

The operational efficiency and management's acumen to spot opportunities have kept TPMA from recording a loss even during the dire coal prices environment. Remarkably, both TPMA's gross profit margins and EBITDA margins have never fallen below 20% and 30%, respectively. TPMA has also generated a **steady annual ~USD14.5mn cash flow from operations** since 2013, which **enables TPMA to steadily pare its gross leverage** from 133% in 2013 (a two-year period of aggressive fleet expansion) to 15% in 9M22.

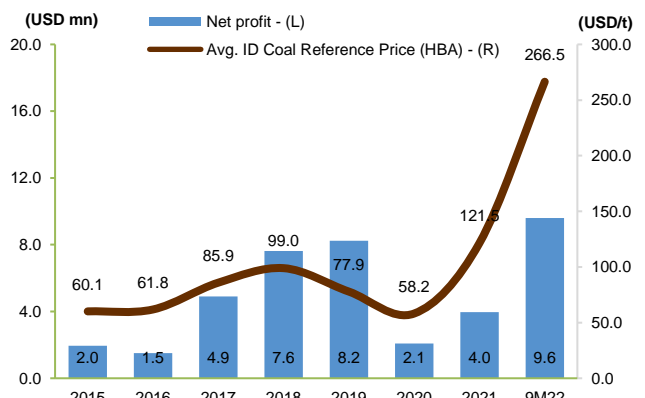
TPMA's **current net cash position** (of USD 0.3mn) at the end of Sep2022 **and loan facilities** from its long-term banking partners i.e. Bank Central Asia (BBCA) and Bank OCBC NISP (NISP) **should be able to facilitate the current planned aggressive expansion** both for its own fleet and through JV to serve nickel sector. It is TPMA's first sizable expansion since 2013/14. In 2023, **TPMA is expecting to receive delivery of: 1) 4 tug boats & 6 barges (direct under TPMA)** in stages starting in 1Q23, and 2) **15 sets of tug & barges (under JV)** within 4Q23. We expect these new fleets to fully contribute to TPMA's earnings starting FY24 onwards.

Fig 9. TPMA's margins trend



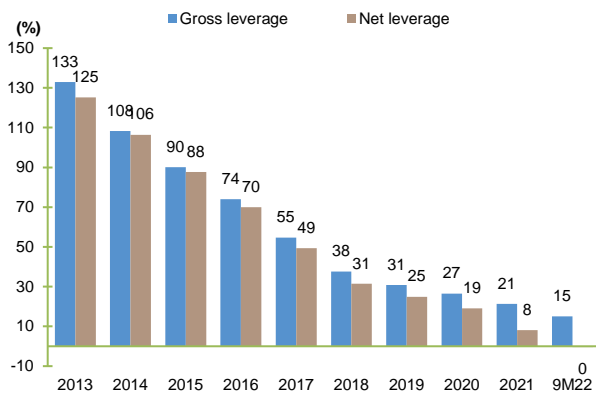
Source: Company, KISI

Fig 10. TPMA's actual net profit (vs. ID coal prices)



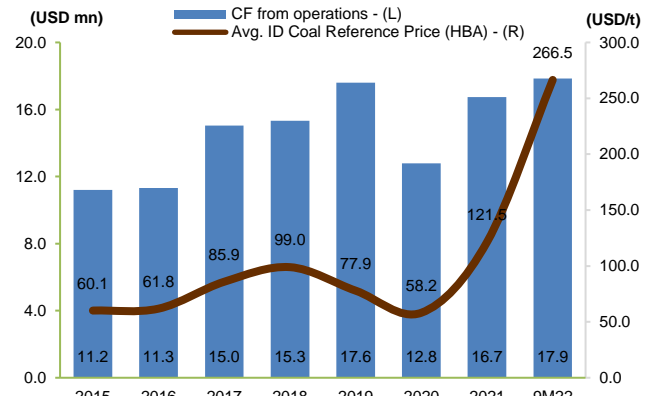
Source: Company, Bloomberg, KISI

Fig 11. TPMA's leverage trend



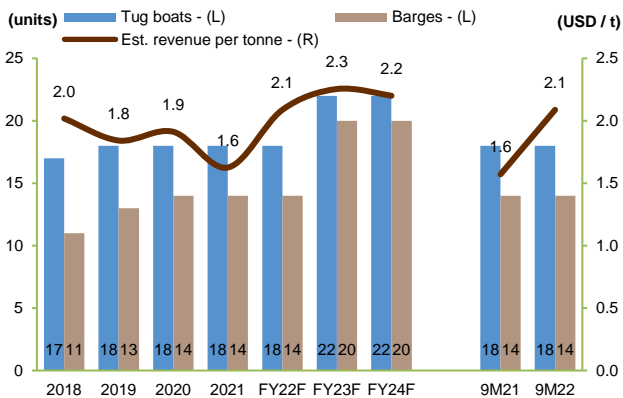
Source: Company, KISI

Fig 12. TPMA's CF from operations (vs. ID coal prices)



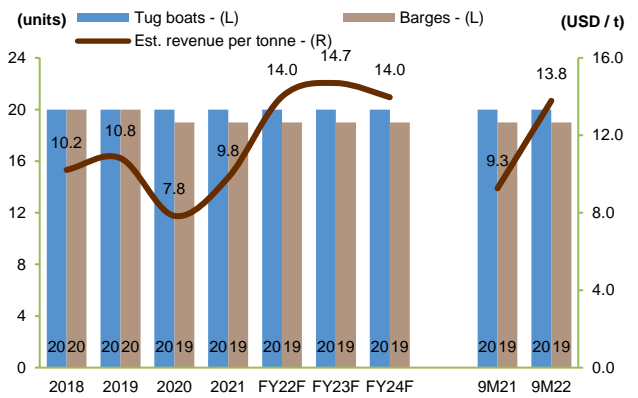
Source: Company, Bloomberg, KISI

Fig 13. TPMA's T&B units for transshipment & rev/tonne



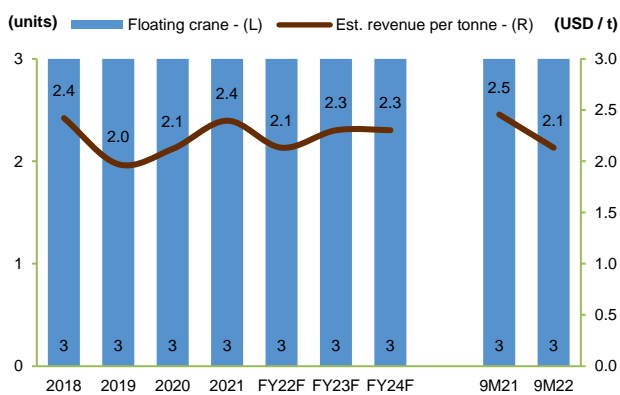
Source: Company, KISI

Fig 14. TPMA's T&B units for inter-island & rev/tonne



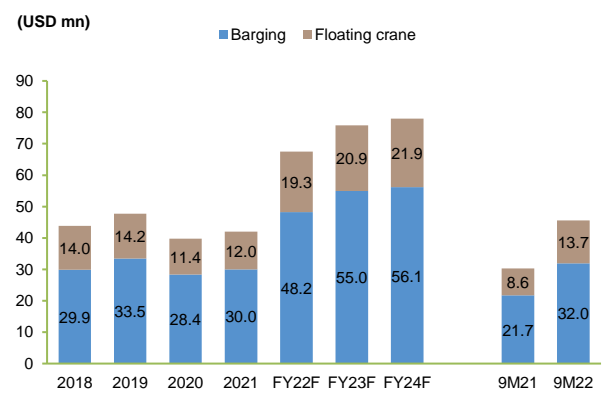
Source: Company, KISI

Fig 15. TPMA's floating crane units & rev/tonne



Source: Company, KISI

Fig 16. TPMA's revenue breakdown

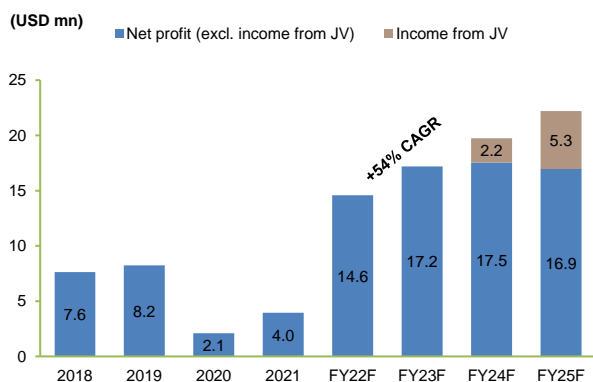


Source: Company, KISI

For 4Q22, we expect TPMA to transport 2.5mn tonnes of coal & woodchips (+19% QoQ) with its barging services and handle 2.7mn tonnes of coal & woodchips (+6% QoQ) with its floating cranes. Considering the trajectory of fee per tonne for its services, we can expect stable and optimum GP & OP margins of ~32% & ~25%, respectively which should result in the highest quarterly earnings of ~USD5mn (+36% QoQ). This should translate into a record-high net profit of ~USD14.6mn (3.7x YoY) for FY22.

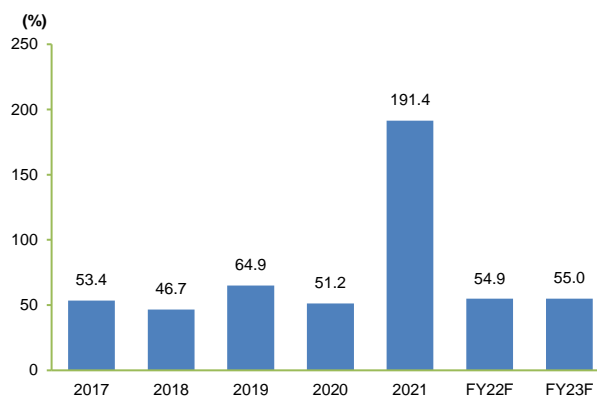
We expect TPMA to deliver a staggering 54% CAGR earnings between FY21 and FY25 driven by 1) steady growth from existing clients (i.e. coal & woodchips) and 2) increasing income contribution from its JV transporting nickel ores & products starting in FY24. Considering all the factors explained above, we utilized DCF valuation to arrive at TPMA's fair value of USD118mn (or equivalent to IDR700/sh), implying a decent 7x FY23F PE and 3.5x FY23F EV/EBITDA. We initiate coverage on TPMA with a strong BUY recommendation offering a massive 55% upside from the last closing price.

Fig 17. TPMA's net profit estimates FY22-FY25



Source: Company, KISI

Fig 18. TPMA's dividend payout ratio trend



Source: Company, KISI

TPMA's solid balance sheet with ~USD 0.3mn net cash at the end of Sep2022 and expected strong operational cashflow of ~USD30mn p.a. on average for the next 3 years should allow TPMA to either allocate capex more aggressively in pursuit of growth (if opportunities arise) or distribute a higher dividend payout ratio of more than 50% from FY23 onwards (providing more than 10% yield annually). TPMA currently trades at just 4.6x FY23F PE (at its -1 std dev of 5 years), 2.2x FY23F EV/EBITDA (much lower than the payback period of purchasing tug & barge set) with a decent ~18% ROE.

Table 2. TPMA's DCF estimates

Assumptions		Equity Value calculation		
Beta	1.2	Enterprise value (USD mn)	108	
Equity Risk Premium	5.0%	Net debt (USD mn)	(10)	
Risk Free Rate (RFR)	7.0%	Equity Value (USD mn)	118	
Cost of Equity	12.8%	Shares outstanding (bn)	2.6	
Cost of Debt	7.5%			
Tax	22.0%	Equity value per share (IDR)	700	
Cost of Debt (adjusted for tax)	5.8%			
<hr/>				
Equity Portion	86.2%			
Debt Portion	13.8%			
WACC	11.8%			
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DCF Valuation (USD mn)	2022F	2023F	2024F	2025F
EBITDA	27.9	31.0	34.3	37.5
Tax	(0.8)	(0.9)	(0.9)	(0.9)
Capex	(8.3)	(16.0)	(19.8)	(19.8)
Other expenditures	(2.1)	(4.0)	(4.9)	(4.9)
Free cash flow	16.6	10.1	8.7	11.9
TV in 2025				101.0

Source: KISI

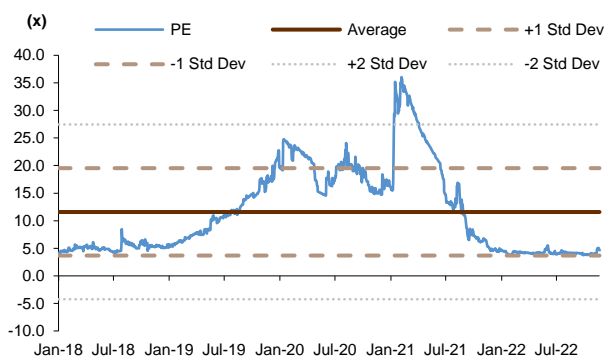
Table 3. TPMA valuation vs. peers

Company	Bloomberg code	Market cap	PE (x)		EV/EBITDA (x)		ROE	Div. yield (%)
		USD mn	FY22F	FY23F	FY22F	FY23F	%	FY22F
Trans Power Marine	TPMA IJ Equity	75.6	5.4	4.6	2.7	2.2	17.5	10.2
Mitrabahera Segara Sejati	MBSS IJ Equity	133.9	8.3	5.3	1.9	1.5	10.0	9.5
Pelita Samudera Shipping	PSSI IJ Equity*	203.8	6.6	5.7	4.5	4.0	22.7	4.7
Rig Tenders Indonesia	RIGS IJ Equity*	21.2	4.6	4.0	1.6	1.4	11.2	-
Average peers			7.1	5.5	3.4	2.9	17.3	6.2

Source: Bloomberg, KISI

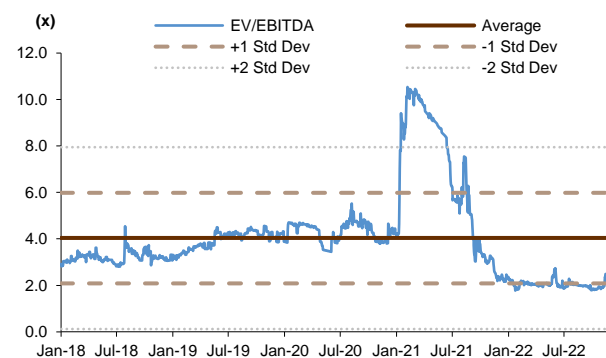
Note: * not under KISI coverage – valuation is estimated based on Bloomberg data

Fig 19. TPMA's PE band



Source: Bloomberg, KISI

Fig 20. TPMA's EV/EBITDA band



Source: Bloomberg, KISI

Company Overview

PT Trans Power Marine Tbk (TPMA) was established in 2005 as a marine shipping transportation company that provided services; including transportation of coal, iron ore, gypsum, sand, and woodchip commodities. Initially, TPMA only used chartered vessels. However, over time, it gradually managed to own several fleets. TPMA was successfully listed on the Indonesia Stock Exchange in 2013.

Currently, TPMA operates 3 crane barges, 38 tug boats, and 33 barges to service a wide-ranging client base including PLN, Indo Tambangraya Megah, Golden Energy Mines, etc. To manage its operating activities, TPMA has 1 branch office in Banjarmasin (South Kalimantan) and 2 representative offices in Cilacap (Central Java) and Kumai (Central Kalimantan).

Early 2022, TPMA transformed its subsidiary PT Trans Logistik Perkasa (TLP) into a JV with PT Pacifik Pelayaran Indonesia (PPI) and T&J Industrial Holding Limited. This JV targets to purchase and operate 60 sets of tugs and barges within four years.

Fig 21. TPMA operational area



Source: Company, KISI

Balance sheet (USD mn)

FY-ending Dec. (US\$ m)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	5.7	10.2	16.2	25.9	30.1
Accounts & other receivables	11.2	9.5	15.1	15.2	16.0
Inventories	0.3	0.7	0.7	0.8	0.8
Others	1.1	0.4	0.9	0.9	0.9
Non-current assets					
Fixed assets	83.7	77.9	73.9	76.6	82.0
Intangible assets	-	-	-	-	-
Investment in shares	-	-	3.0	3.0	5.2
Other non-current assets	1.8	0.6	-	1.0	-
Total assets	103.8	99.3	109.9	123.5	135.0
Current liabilities					
Accounts & other payables	3.8	3.3	6.2	6.8	8.6
ST debt	7.5	6.2	6.1	7.3	7.5
Current portion of LT debt	4.2	4.5	2.4	3.1	2.6
Others	1.4	1.2	1.9	2.3	2.3
Non-current liabilities					
LT debt	8.8	5.8	4.1	5.3	4.5
Notes payable	-	-	-	-	-
Employee benefits liability	-	-	-	-	-
Other non-current liabilities	1.2	1.3	-	-	-
Total liabilities	26.8	22.2	20.7	24.9	25.5
Controlling interest					
Capital stock	28.3	28.3	28.3	28.3	28.3
Additional paid-in capital	4.9	4.9	4.9	4.9	4.9
Other equities	(0.1)	(0.1)	-	-	-
Retained earnings	43.9	43.9	56.3	65.5	76.2
Minority interest	-	-	-	-	-
Shareholders' equity	77.0	77.1	89.6	98.7	109.4
Cash flow (USDmn)					
FY-ending Dec. (US\$ m)	2020A	2021A	2022F	2023F	2024F
C/F from operating					
Net profit	2.1	4.0	14.6	17.2	19.7
Depreciation	10.4	11.3	11.7	12.4	13.4
Net incr. in W/C	0.3	1.5	(2.5)	0.8	1.1
Others	-	-	-	-	-
C/F from investing					
CAPEX	(3.1)	(4.7)	(8.3)	(16.0)	(19.8)
Others	0.0	0.3	(3.0)	-	-
C/F from financing					
Incr. in equity	-	-	-	-	-
Incr. in debts	(4.4)	(3.9)	(3.6)	3.2	(1.2)
Dividends	(4.2)	(4.0)	(2.2)	(8.0)	(9.0)
Others	-	-	-	-	-
C/F from others	2.1	4.0	14.6	17.2	19.7
Increase in cash	10.4	11.3	11.7	12.4	13.4

Income statement (USD mn)

FY-ending Dec. (US\$ m)	2020A	2021A	2022F	2023F	2024F
Sales	39.8	42.0	67.5	75.9	78.0
COGS	(31.9)	(32.6)	(46.3)	(52.3)	(54.2)
Gross profit	7.8	9.4	21.3	23.5	23.8
SG&A expense	(3.6)	(3.9)	(4.5)	(4.9)	(5.1)
Operating profit	4.2	5.5	16.8	18.6	18.7
Financial income					
Interest income	-	-	-	-	-
Financial expense					
Interest expense	(1.4)	(1.0)	(0.8)	(0.5)	(0.3)
Other non-operating profit	(0.3)	(0.0)	(0.6)	-	2.2
Earnings before tax	2.6	4.5	15.4	18.1	20.7
Final taxes	(0.5)	(0.5)	(0.8)	(0.9)	(0.9)
Net profit	2.1	4.0	14.6	17.2	19.7
Non-controlling interest	-	-	-	-	-
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	14.4	16.8	27.9	31.0	34.3

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (USD)					
EPS	0.0008	0.0015	0.0055	0.0065	0.0075
BPS	0.0292	0.0293	0.0340	0.0375	0.0416
DPS	0.0015	0.0008	0.0030	0.0034	0.0037
Growth (%)					
Sales growth	(16.6)	5.7	60.7	12.3	2.9
OP growth	(59.9)	30.0	204.7	10.5	0.8
NP growth	(74.7)	89.9	268.4	17.9	14.8
EBITDA growth	(28.7)	16.9	65.9	11.4	10.6
Profitability (%)					
OP margin	10.7	13.1	24.9	24.5	24.0
NP margin	5.2	9.4	21.6	22.7	25.3
EBITDA margin	36.1	40.0	41.3	40.9	44.0
ROA	1.9	3.9	13.9	14.7	15.3
ROE	2.7	5.1	17.5	18.3	19.0
Dividend yield	4.8	2.8	10.2	11.4	12.5
Dividend payout ratio	51.2	191.4	54.9	55.0	52.5
Stability					
Net debt (USD mn)	14.7	6.3	(3.7)	(10.1)	(15.5)
Int-bearing debt/equity (%)	26.5	21.3	14.0	16.0	13.3
Valuation (X)					
PE	40.3	21.0	5.4	4.6	4.0
PB	1.1	1.1	0.9	0.8	0.7
EV/EBITDA	6.9	5.3	2.7	2.2	1.8

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