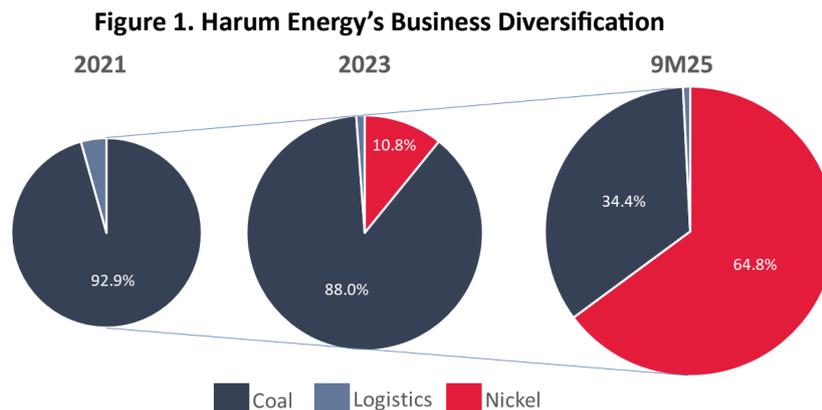


Navigating RKAB policy shifts and coal fundamental risks: Harum Energy diversification strategy

Idham Muhammad Fachri & Hazel Ilango | March 2026

Harum Energy's diversification strategy amid emerging risks

PT Harum Energy Tbk (Harum Energy) reduced its reliance on coal revenue from 88.0% in 2023 to 34.4% in 2025, marking a significant shift in its revenue composition in less than two years. With market and policy risks beginning to intensify since early 2025, Harum's early move to diversify highlights a proactive approach to building long-term business resilience and sustainability.



2026 Indonesian coal outlook: Rising risks, limited leverage

Indonesia's coal sector is facing a widening set of market and policy pressures. [Export dynamics are shifting](#) as key buyers increasingly prioritise energy security, favour coal of higher grade and diversify their energy mix away from dependence on coal, one of the country's major commodities.

On the regulatory side, the introduction of the RKAB (Rancangan Kerja dan Anggaran Biaya) policy on [output limits](#) and [coal export tax](#) signal intensifying policy risk that could further erode Indonesia's competitiveness as a trusted supplier and add to regulatory uncertainty for producers. At the same time, mandatory coal downstream investment for [licence extension](#) raises the risk of capital allocation, given the uncertain commercial viability of such projects.

RKAB Policy Context: Shortcomings of adjusting coal output

Total coal exports from Indonesia make up about 6.6% of world coal production. The low percentage and [preference higher-grade coal](#) can potentially limit the country's ability to unilaterally [tighten global markets](#) because any supply shortfall can be offset by other exporting countries. Major buyers are also continuing to diversify procurement sources, such as Russian and Mongolian coal, to [replace Indonesian coal](#) and expand energy options. Indonesian pricing power is thus constrained, and supply-side interventions become less effective.

Historically, coal and nickel producers have responded to a downturn by adjusting output. Production controls can provide short-term price support and help manage cyclical volatility.

However, such measures primarily address near-term pressures rather than long-term structural risk. They do not counter weakening demand growth, substitution trends or increasing policy constraints in export markets, nor create a new engine of earnings resilience.

The shortcomings of making output changes raise a question: Is it enough to simply manage production, or is a more structural repositioning required?

Sustainable response to growing risk: Adjusting production or diversification?

Companies face a choice between tactical adjustment and structural adaptation, given their constrained pricing power and the rising regulatory risks.

Output control is a useful short-term lever. It can stabilise cash flow, preserve balance sheets and navigate cyclical downturns. However, it does not reduce concentration risk in a commodity facing long-term headwinds.

Diversification, by contrast, is a structural response. Rather than commit more capital to coal expansion or commercially uncertain downstream mandates, companies can limit high reinvestment in coal while reallocating funds to more viable related sectors.

If executed well, diversification can provide exposure to segments of higher growth while managing risk, because the coal part of the business is able to carry on developing, leaving industrial continuity undisrupted. Diversification can also support the national agenda and its alignment with net-zero goals.

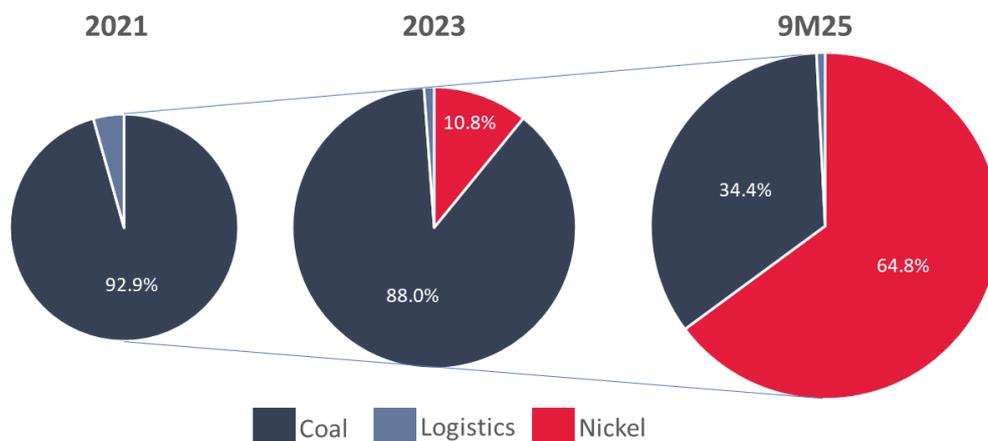
Harum Energy provides a case study of such a strategic pivot in practice. Instead of relying solely on production adjustments, Harum has combined restrained coal reinvestment with strategic capital allocation to nickel, positioning itself across two commodities with differing trajectories within its domain of expertise.

Case study: Harum Energy and its business diversification

Harum was once a pure-play thermal coal producer. The company entered the nickel value chain in 2020, when its balance sheet was strong and coal markets offered peak earnings visibility. Between 2020 and 2025, its nickel operations evolved from a marginal business line into the primary revenue driver.

As at September 2025, nickel accounted for 64.8%, or about USD664 million year-to-date, of consolidated revenue, up from 10.8% in the same period of 2023. This result underscores the speed at which Harum's earnings mix has shifted away from coal (Figure 2).

Figure 2. Harum Energy's Business Diversification



Sources: FactSet, Harum financial statements, ESI analysis

In six years of diversification efforts, the company practised a two-pronged strategy: a) managing legacy coal assets and b) strategically allocating capital to a new growth area.

a) Limited high reinvestment in coal expansion

Harum’s coal operations have been deliberately conservative. Beyond routine maintenance and exploration, the only significant expansions in recent years were the [2018 acquisitions](#) of PT Bumi Karunia Pertiwi (BKP) and PT Santan Batubara (SBB). Since its foray into nickel starting 2020, the group has not added major coal assets and has instead streamlined its portfolio, including divesting PT Tambang Batubara Harum, now PT Arkara Prathama Energi.

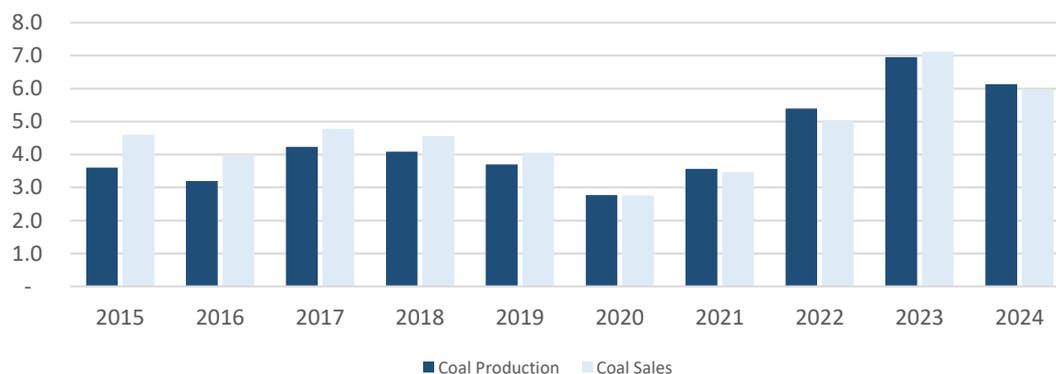
While the expiry of some [PKP2B mining permits](#) in 2020-2025, coupled with reserve constraints, might have played a role, the decision to limit coal expansion also reflected management’s strategic choice to manage risk. This choice included [avoiding significant new investment](#) in coal assets, preserving cash and focusing resources on diversification to [reduce dependence](#) on a single commodity. The difficulty of securing high-quality coal assets and the continuing uncertainty of China’s coal import policies were [push factors](#).

As a result, capital expenditure on coal has remained limited, averaging around 9% (USD221.5 million) between 2015 and September 2025. Over the same period, coal production and sales broadly tracked the [market cycle](#), peaking at 7.1 million tonnes (Mt) in 2023 before moderating to 6.0Mt in 2024 as prices softened (Figure 3).

The absence of major coal expansion or acquisition, combined with minimal capex and close alignment with the market cycle, shows that coal is maintained primarily as a stable, cash-generating asset rather than a driver of growth.

This prudent approach frees up capital and management attention to pursue higher-growth opportunities elsewhere while ensuring the coal business continues to provide reliable liquidity and support overall financial stability.

Figure 3. Harum Coal Sales and Production (million tonnes), 2015-2024



Sources: Harum annual reports, ESI analysis

b) Strategic capital allocation to nickel

Harum’s disciplined approach to coal has taken place in tandem with a strategic diversification into broader energy, mining and related sectors as the company recognises the finite prospects of coal markets.

In particular, nickel has been positioned as Harum’s key link to the [energy transition](#) supply chain, offering a complementary avenue for steady long-term growth alongside its coal business.

The company has leveraged the coal price upcycle to accelerate diversification. Notably, [FY2023 dividend payments](#) were suspended, ending a three-year distribution streak since 2021, to fully allocate capital to its nickel investment, mainly PT Blue Sparking Energy (BSE). This change reflected management’s willingness to prioritise long-term positioning over short-term shareholder payouts.

Harum’s capital reallocation reflected management’s willingness to prioritise long-term positioning over short-term shareholder payouts

Harum’s strategic moves drew support from its largely debt-free balance sheet between 2015 and 2019. Early nickel investments in 2020-2023 were primarily funded through retained earnings, enabling the company to derisk the business without materially weakening its balance sheet (Figure 4).

Figure 4. Harum Consolidated Leverage Ratio (%)



Sources: FactSet, ESI analysis

Note: This assessment is based on the LTM 9M2025 data of 12 selected companies.

Between 2020 and 2024, Harum committed about USD1.3 billion to nickel, with around 80% funded internally and the remainder via bank loans, strategic partnerships and other sources.

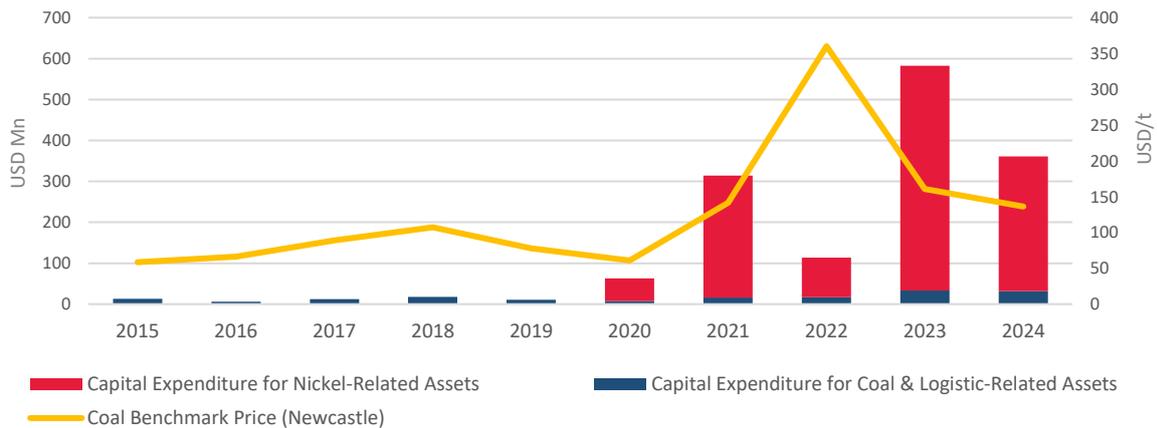
As borrowing increased to support expansion, leverage rose from 2020 onwards, reaching 39.5% by September 2025, above the Indonesian peer average of 21.5%. The higher debt was taken out by PT Tanito Harum Nickel (THN) in the form of [syndicated funding](#) in FY2024 for corporate and investment needs, working capital and the refinancing of shareholder loans.

Capital allocation has tilted decisively towards nickel. Average annual capex over the past three years was USD324.9 million, making up 92% of average total capex, compared with USD27.5 million (8%) allocated to coal and logistics combined (Figure 5).

Early nickel investment was financed mainly by retained earnings, while later debt-funded expansion reflects a scaling of established bankable assets, resulting in higher leverage linked to growth rather than weakened capital discipline

While early nickel investment was financed mainly by retained earnings, later debt-funded expansion reflects a scaling of established bankable assets – evidenced by the USD620 million syndicated loan [to THN](#) and [USD412 million in medium convertible notes](#) (MCNs). The higher leverage is linked to growth rather than weakened capital discipline.

Figure 5. Harum Capex (USD mn) by Business Segment and Historical Newcastle Coal Benchmark Price (USD/t)



Sources: FactSet, Harum annual reports, investing.com, ESI analysis

Note: Capital expenditure includes providing loans to a subsidiary or third party.

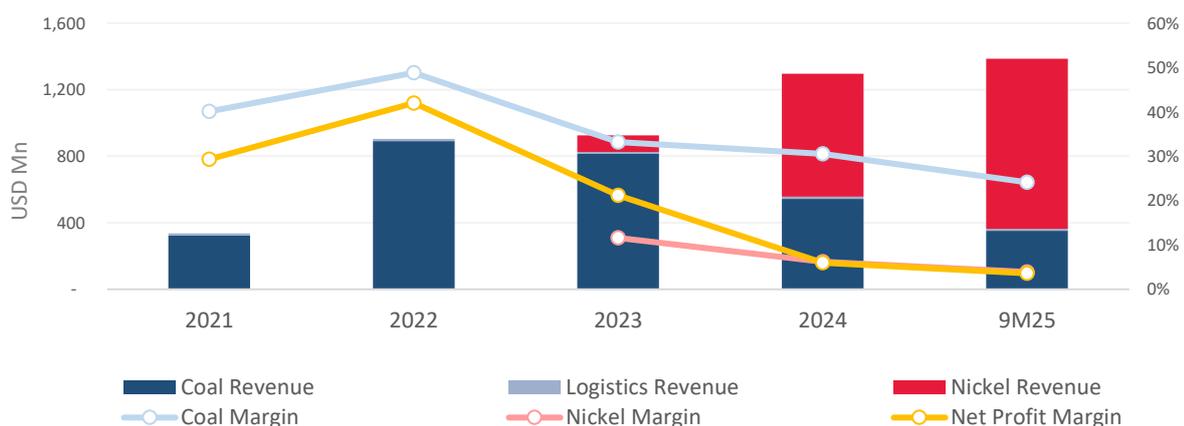
Today, nickel is no longer a peripheral investment but a core, integrated business line. Harum now operates across nickel mining, processing and refining in a six-year shift that has re-anchored the company’s growth trajectory away from coal.

Is Harum’s nickel venture a good strategy?

Harum’s diversification into nickel has materially reshaped its income statement. Consolidated revenue reached about [USD1.3 billion](#) in FY2024, up 40% year on year, driven by rising nickel output. Meanwhile, softer coal prices prompted a scale-back in coal production. By FY2024, nickel had overtaken coal as the primary revenue contributor.

Margins, however, lag the pace of revenue growth. As at September 2025, nickel margins stood at 3.9%, well below coal’s 24.1%, highlighting that diversification has boosted top-line growth but also introduced operational challenges and earnings volatility (Figure 6).

Figure 6. Harum Revenue (USD mn) and Coal and Nickel Margins (%)



Sources: FactSet, Harum financial statements, ESI analysis

There are two ways to view this diversification:

1. **A strategic first-mover advantage.** Harum’s entry into nickel in 2020 reflected an early and decisive reallocation of capital towards a structurally growing sector, using its windfall of elevated

coal earnings to invest in assets linked to the energy transition rather than double down on thermal coal.

Indonesia's nickel sector began rapid expansion following the government's 2014 [ore export ban](#). It was led initially by Chinese-backed investments, including the [Indonesia Morowali Industrial Park \(IMIP\)](#) in 2015, [PT Virtue Dragon Nickel Industry](#) and [PT Megah Surya Pertiwi](#) in 2017, and the [Weda Bay Nickel Project](#) in 2019.

Most Indonesian conglomerates joined in later, including the [Merdeka Group](#) in 2022 and the Astra Group through [PT United Tractors \(UNTR\)](#) in 2023. Harum's decisive capital allocation in 2020 therefore positions it [ahead of most domestic peers](#) and reinforces its strategic first-mover advantage in the emerging energy transition-linked sector.

- 2. Earnings quality and ramp-up risks.** Despite its strategic positioning, Harum's nickel business has yet to deliver stable earnings. While nickel is expected to become the dominant revenue and earnings contributor over time, near-term profitability remains sensitive to price fluctuations and execution risks as assets build up.

Harum nickel project BSE was around 85% complete by the first half of 2025 and is expected to start operations in 2026. [UOB Kay Hian Sekuritas](#) forecasts Harum's nickel contribution to earnings before interest and taxes to rise from 16.9% in 2024 to 90.4% by 2027, driven by higher nickel output and lower coal production.

The company's positioning across the nickel value chain is further supported by its [strategic alliance](#) with Chinese firm Tsingshan and the issuance of USD412 million in MCNs in 2024.

Unlike established nickel operators IMIP or PT Megah Surya Pertiwi, whose integrated infrastructure supports more stable margins, Harum's nickel assets remain in an early operational phase. As a result, margins are likely to stay structurally lower and more volatile in the near term.

Overall assessment

Diversification into nickel provides a partial hedge against long-term risks in the coal business by reducing reliance on a single commodity. However, nickel itself remains highly cyclical, with earnings exposed to price volatility and shifting end-market demand.

Harum's diversification should be viewed as a long-term strategic repositioning rather than an immediate boost to earnings stability

Harum's diversification into nickel is strategically coherent and well-timed relative to domestic peers, particularly in view of the long-term decline in coal. That said, the transformation is not yet translating into earnings of higher quality.

The success of Harum's strategy will depend on disciplined project execution, cost competitiveness and prudent management of commodity-cycle risk across both coal and nickel. Until nickel assets mature and margins stabilise, Harum's diversification should be viewed as a long-term strategic repositioning rather than an immediate boost to earnings stability.

Use of strategic diversification to navigate policy shifts

Indonesian coal sector has historically navigated downturns through cost management, flexible contracts and output adjustments. The current government's production controls reflect a familiar policy toolkit aimed at safeguarding state revenue and stabilising commodity prices.

Coal production curbs are unlikely to materially tighten global markets given Indonesia's [limited reserves](#) and [weakening competitiveness](#). As a result, these measures provide minimal downside protection for the coal segment and underscore the importance of disciplined capital allocation and operational efficiency. At the same time, the government frames production cuts as an effort to stabilise domestic supply and support prices, while also signalling a broader attempt to strategise and adapt to evolving global market dynamics.

Policy requirements now increasingly tie [downstream investment](#) to extension of the PKP2B coal concessionary license. Many of these downstream projects are commercially unproven, creating uncertainty over potential returns.

For Harum, whose PKP2B licences expire in 2034 and 2038, a strategic choice is looming over whether to allocate more capital to meet extension requirements, or optimise operations and prioritise resources for higher-growth opportunities such as nickel.

[Nickel](#) presents a contrast in the Indonesian economy. The country's dominant position in global nickel reserves and supply means policy-driven production controls may [meaningfully influence](#) market balance and pricing, especially in an oversupplied environment. The clout it holds provides both a growth opportunity and a means of mitigating portfolio risk.

These dynamics highlight Harum's strategic trade-off. It is using disciplined coal output adjustments to provide short-term stability while diversifying into areas of higher growth, particularly nickel, as a forward-looking approach to managing the fundamental risk of coal.

For investors and policymakers, the company decision to suspend dividends and redirect its coal windfall is a clear signal of management's willingness to prioritise long-term repositioning over short-term shareholder payouts. It is exemplary of the kind of capital discipline needed to hedge against fundamental risk. The ultimate test will be whether Harum can translate nickel exposure into stable, competitive earnings before coal's decline intensifies.

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