

# Adaro Energy

BUY (unchanged)

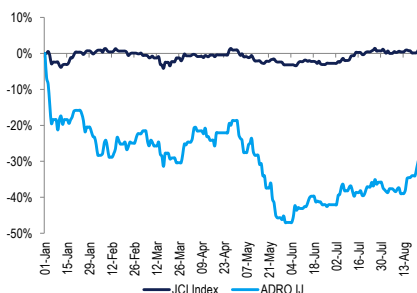
Company Update | Coal | ADRO IJ | 22 Aug 2023

## Stock Data

Target price	Rp4,650
Prior TP	Rp4,650
Current price	Rp2,700
Upside/downside	+72%
Shares outstanding (mn)	31,986
Market cap (Rp bn)	85,722
Free float	40%
Avg. 6m daily T/O (Rp bn)	124

## Price Performance

	3M	6M	12M
Absolute	9.8%	-6.9%	-14.3%
Relative to JCI	7.0%	-7.2%	-11.6%
52w low/high (Rp)	2,040 – 4,140		



## Major Shareholders

Adaro Strategic Investment	43.9%
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## 1H23 earnings beat from lower cost and higher interest income

- Soft 2Q23 earnings on lower ASP, though 1H23 still ahead amid lower cost and higher than expected interest income.
- Cost declined in 2Q23 on lower royalty rate of 25% (vs. 27% in 1Q23), though we expect cost to pick up in the upcoming quarter on higher SR.
- We maintain our FY23-25F estimates and reiterate our Buy rating at unchanged SOTP-based TP of Rp4,650.

### 2Q23 earnings slightly declined on lower ASP; 1H23 was still ahead

ADRO 2Q23 net profit dropped to US\$416mn (-9% qoq/-49% yoy) as lower ASP (-23% qoq) drags down improvement in sales volume (+8% qoq) and cost (-17% qoq). Overall, 1H23 net profit reached US\$874mn (-28% yoy), which came ahead of our/consensus FY23 forecast at 55/56% respectively. Meanwhile, EBITDA of US\$1.4bn (-40% yoy) formed 46/56% of ours/consensus estimates. The outperformance in 1H23 earnings partly reflected higher than expected interest income of US\$64mn (+450% yoy).

### Broadly in-line sales volume/ASP, cost outperformed on lower royalty

2Q23 sales volume improved to 16.9Mt (+8% qoq/+11% yoy) amid better weather condition. ASP saw a steep decline to US\$88/t (-23% qoq/-41% yoy), in-line with drop in Newcastle coal price (-37% qoq/-56% yoy). On the other hand, COGS/t declined to US\$55/t (-17% qoq/-3% yoy) despite higher stripping ratio of 4.1x (+15% qoq/+22% yoy). The decline in cost was mainly attributed to lower royalty fee which reflected in lower royalty rate of 25% (vs. 27% in 1Q23). Overall, 1H23 sales volume of 33Mt (+19% yoy) was in-line with our FY23 forecast (at 48%). Meanwhile, ASP/COGS per tonne of US\$101/60 accounted for 94/87% of our FY23 forecast.

### We maintain our FY23-25F earnings estimate for now

We maintain our FY23-25F blended sales volume at 67/68/69Mt and blended ASP at US\$107/69/62 per tonne for now. We also maintain our cash cost assumption at US\$69/50/47 per tonne as we expect ADRO to catch up on OB removal in the upcoming quarters which potentially lead to higher cost.

### Reiterate Buy rating at unchanged SOTP-based TP of Rp4,650

We reiterate our Buy rating on ADRO at unchanged SOTP-based TP of Rp4,650 amid solid operational performance which shall offer buffer against downside risks in coal price. ADRO is currently trading at 1.8x FY23F EV/EBITDA (46% discount to 10yr mean). Key risk is weaker coal price.

Financial Summary (US\$ mn)	2020A	2021A	2022F	2023F	2024F
Revenue	3,993	8,102	7,438	4,961	4,538
EBITDA	2,071	4,799	3,048	2,064	1,863
Net profit	990	2,462	1,593	848	679
EPS growth	612%	138%	-36%	-47%	-20%
ROE	25%	45%	24%	12%	9%
PER (x)	6.1	2.5	3.8	7.1	8.9
EV/EBITDA (x)	2.7	0.7	1.5	2.2	2.4
Dividend yield	2.4%	2.4%	24.8%	15.8%	8.4%
IPS vs. consensus			114%	88%	85%

Source: Company, Indo Premier

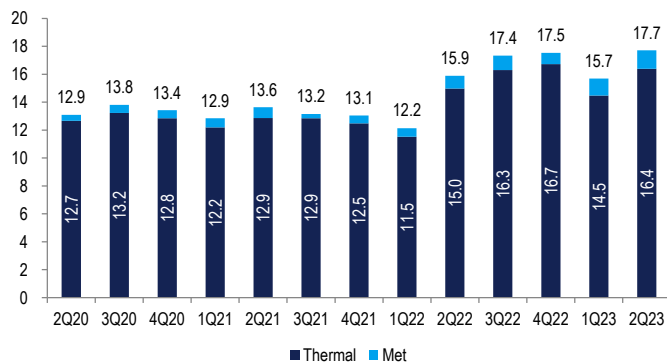
Share price closing as of: 22 August 2023

Fig. 1: 1H23 results summary

ADRO 1H23 results (US\$ mn)	1H23	1H22	yoy%	2Q23	2Q22	yoy%	1Q23	qoq%	IPS FY23F	% of IPS	Cons FY23F	% of cons
Revenue	3,479	3,541	-2%	1,641	2,317	-29%	1,839	-11%	7,438	47%	5,861	59%
COGS	(2,033)	(1,516)	34%	(958)	(893)	7%	(1,075)	-11%	(4,657)	44%	(3,595)	57%
<b>Gross profit</b>	<b>1,446</b>	<b>2,025</b>	<b>-29%</b>	<b>683</b>	<b>1,423</b>	<b>-52%</b>	<b>763</b>	<b>-10%</b>	<b>2,782</b>	<b>52%</b>	<b>2,266</b>	<b>64%</b>
Gross profit margin	42%	57%		42%	61%		42%		37%		39%	
Opex	(241)	(143)	68%	(129)	(76)	68%	(112)	15%	(345)	70%	(227)	
<b>EBIT</b>	<b>1,206</b>	<b>1,882</b>	<b>-36%</b>	<b>554</b>	<b>1,347</b>	<b>-59%</b>	<b>651</b>	<b>-15%</b>	<b>2,437</b>	<b>49%</b>	<b>2,039</b>	<b>59%</b>
EBIT margin (%)	35%	53%	-35%	34%	58%	-42%	35%		33%		35%	
<b>EBITDA</b>	<b>1,393</b>	<b>2,339</b>	<b>-40%</b>	<b>667</b>	<b>1,584</b>	<b>-58%</b>	<b>726</b>	<b>-8%</b>	<b>3,048</b>	<b>46%</b>	<b>2,477</b>	<b>56%</b>
EBITDA margin (%)	40%	66%		41%	68%		39%		41%		42%	
Interest income	64	12	450%	30	6	385%	33	-10%	76	84%		
Interest expenses	(54)	(39)	39%	(27)	(21)	32%	(27)	3%	(101)	54%		
Profit/loss in JV	52	177	-71%	22	108	-79%	30	-26%	125	42%		
Others	(27)	9	-395%	(1)	(10)	N/A	(26)	-98%	-			
<b>Profit before tax</b>	<b>1,240</b>	<b>2,041</b>	<b>-39%</b>	<b>579</b>	<b>1,430</b>	<b>-60%</b>	<b>662</b>	<b>-13%</b>	<b>2,537</b>	<b>49%</b>	<b>2,231</b>	<b>56%</b>
Tax expenses	(244)	(696)	-65%	(109)	(524)	-79%	(136)	-20%	(634)			
Minority interests	(122)	(133)	-8%	(54)	(93)	-41%	(68)	-20%	(310)			
<b>Net income</b>	<b>874</b>	<b>1,213</b>	<b>-28%</b>	<b>416</b>	<b>813</b>	<b>-49%</b>	<b>458</b>	<b>-9%</b>	<b>1,593</b>	<b>55%</b>	<b>1,560</b>	<b>56%</b>
Coal production volume (m tonnes)	33	28	19%	17.7	15.9	12%	15.7	13%	64.0	52%		
Coal sales volume (m tonnes)	33	27	19%	16.9	15.3	11%	15.7	8%	64.0	51%		
Coal ASP (US\$/tonne)	101	126	-20%	88	149	-41%	114	-23%	107	94%		
COGS/tonne (US\$/tonne)	60	53	14%	55	56	-3%	66	-17%	73	83%		
OB removal (m bcm)	130	102	27%	73	54	36%	56	30%	288	45%		
Strip ratios	3.9	3.6	7%	4.1	3.4	22%	3.6	15%	4.5	86%		

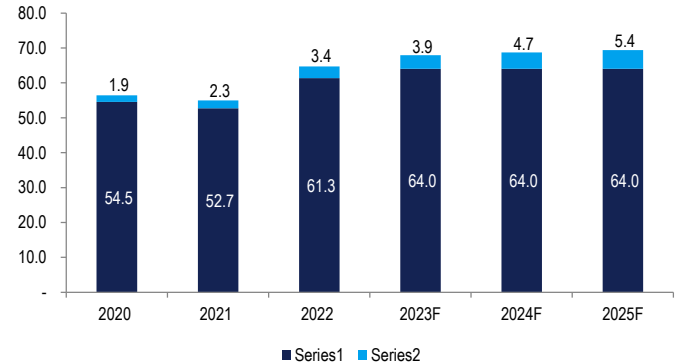
Source: Company, Indo Premier

Fig. 2: Quarterly production volume



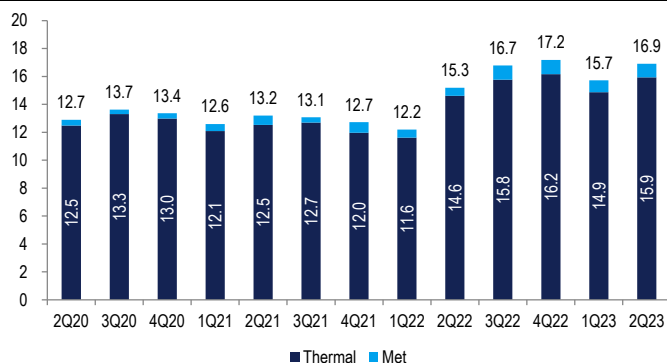
Source: Company, Indo Premier

Fig. 3: Annual production volume



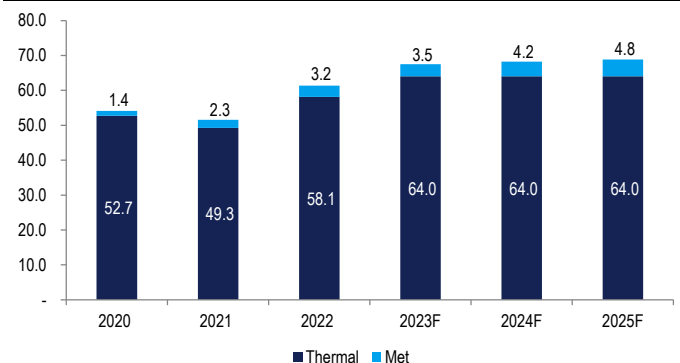
Source: Company, Indo Premier

Fig. 4: Quarterly sales volume



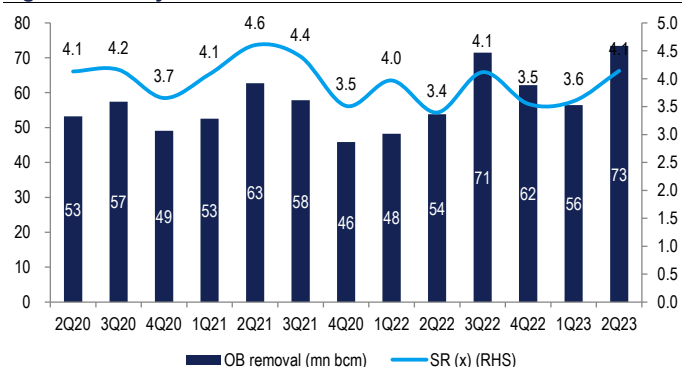
Source: Company, Indo Premier

Fig. 5: Annual sales volume



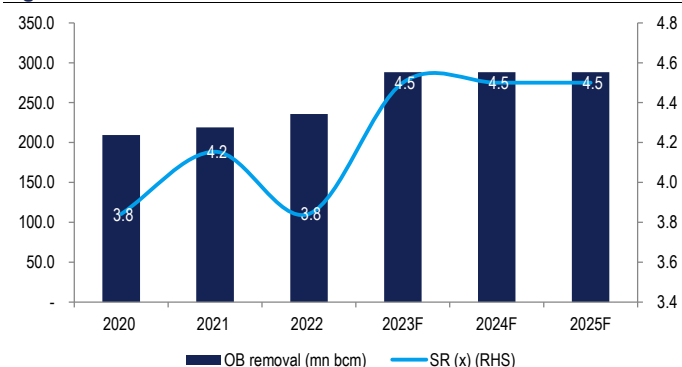
Source: Company, Indo Premier

Fig. 6: Quarterly OB and SR



Source: Company, Indo Premier

Fig. 7: Annual OB and SR



Source: Company, Indo Premier

Fig. 8: SOTP valuation

SOTP	US\$ mn	Valuation method
Coal assets	8,280	DCF (WACC: 10.9%; LT grow th: 10%) Project equity investment (Batang and Tanjung IPP) BV (stake in Kestrel and other investments)
Power	309	
Others	567	
<b>Total</b>	<b>9,157</b>	
Cash	3,521	
Debt proportion	2,276	
<b>Equity value</b>	<b>10,402</b>	
USD/IDR	14,297	
<b>Equity value (Rp tr)</b>	<b>148,717</b>	
No of shares	31,986	
<b>Target price</b>	<b>4,650</b>	
Current share price	2,700	
<b>Upside</b>	<b>72%</b>	

Source: Company, Indo Premier

Fig. 9: ADRO EV/ EBITDA



Source: Company, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	3,993	8,102	7,438	4,961	4,538
Cost of sales	(2,223)	(3,449)	(4,657)	(3,398)	(3,258)
<b>Gross profit</b>	<b>1,770</b>	<b>4,653</b>	<b>2,782</b>	<b>1,563</b>	<b>1,281</b>
SG&A Expenses	(185)	(375)	(345)	(230)	(210)
<b>Operating profit</b>	<b>1,585</b>	<b>4,277</b>	<b>2,437</b>	<b>1,333</b>	<b>1,070</b>
Net interest	(49)	(42)	(25)	(31)	(29)
Forex gain (loss)	0	0	0	0	0
Others	64	240	125	105	116
<b>Pre-tax income</b>	<b>1,599</b>	<b>4,476</b>	<b>2,537</b>	<b>1,407</b>	<b>1,158</b>
Income tax	(458)	(1,645)	(634)	(352)	(289)
Minority interest	(95)	(338)	(310)	(207)	(189)
<b>Net income</b>	<b>1,046</b>	<b>2,493</b>	<b>1,593</b>	<b>848</b>	<b>679</b>

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	1,811	4,067	3,521	3,556	3,657
Receivable	586	665	505	336	308
Inventory	126	199	233	170	163
Other current assets	315	388	388	388	388
<b>Total current assets</b>	<b>2,838</b>	<b>5,319</b>	<b>4,647</b>	<b>4,450</b>	<b>4,515</b>
Fixed assets	1,397	1,452	2,346	2,432	2,567
Other non-current assets	3,352	4,011	5,142	5,195	5,296
<b>Total non-current assets</b>	<b>4,749</b>	<b>5,463</b>	<b>7,489</b>	<b>7,627</b>	<b>7,862</b>
<b>Total assets</b>	<b>7,587</b>	<b>10,782</b>	<b>12,135</b>	<b>12,077</b>	<b>12,378</b>

ST loans	0	0	0	0	0
Payable	272	333	582	425	407
Other payables	818	1,939	1,939	1,939	1,939
Current portion of LT loans	271	176	176	176	176
<b>Total current liab.</b>	<b>1,362</b>	<b>2,448</b>	<b>2,696</b>	<b>2,539</b>	<b>2,522</b>
Long term loans	1,333	1,404	2,101	2,100	2,059
Other LT liab.	434	404	404	404	404
<b>Total liabilities</b>	<b>3,129</b>	<b>4,255</b>	<b>5,201</b>	<b>5,043</b>	<b>4,984</b>

Equity	1,353	1,543	1,543	1,543	1,543
Retained earnings	2,783	4,481	4,578	4,471	4,641
Minority interest	322	503	813	1,020	1,209
<b>Total SHE + minority int.</b>	<b>4,458</b>	<b>6,527</b>	<b>6,934</b>	<b>7,034</b>	<b>7,393</b>
<b>Total liabilities &amp; equity</b>	<b>7,587</b>	<b>10,782</b>	<b>12,135</b>	<b>12,077</b>	<b>12,378</b>

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
EBIT	1,585	4,277	2,437	1,333	1,070
Depr. & amortization	486	521	611	731	793
Changes in working capital	119	956	376	74	18
Others	(754)	(1,891)	0	0	0
<b>Cash flow from operating</b>	<b>1,436</b>	<b>3,864</b>	<b>3,424</b>	<b>2,138</b>	<b>1,881</b>
Capital expenditure	(415)	(2,499)	(765)	(912)	(990)
Others	(433)	(352)	0	0	0
<b>Cash flow from investing</b>	<b>(645)</b>	<b>(767)</b>	<b>(2,499)</b>	<b>(765)</b>	<b>(912)</b>
Loans	105	(24)	697	(1)	(41)
Equity	0	0	0	0	0
Dividends	(147)	(147)	(1,496)	(956)	(509)
Others	(111)	(627)	0	0	0
<b>Cash flow from financing</b>	<b>(153)</b>	<b>(798)</b>	<b>(799)</b>	<b>(956)</b>	<b>(550)</b>
<b>Changes in cash</b>	<b>638</b>	<b>2,299</b>	<b>126</b>	<b>417</b>	<b>419</b>

Key Ratios (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Gross margin	44%	57%	37%	32%	28%
Operating margin	40%	53%	33%	27%	24%
Pre-tax margin	40%	55%	34%	28%	26%
Net margin	26%	31%	21%	17%	15%
ROA	15%	27%	14%	7%	6%
ROE	25%	45%	24%	12%	9%
Acct. receivables TO (days)	11.8	14.7	14.7	14.7	14.7
Inventory TO (days)	19.3	21.2	20.0	20.0	20.0
Payable TO (days)	9.1	11.4	8.0	8.0	8.0
Debt to equity	36%	24%	33%	32%	30%
Interest coverage ratio (x)	24.8	53.7	30.3	20.4	18.5
Net gearing	-5%	-38%	-18%	-18%	-19%

Source: Company, Indo Premier

## INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

## ANALYSTS CERTIFICATION

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