

# Adaro Minerals Indonesia

**BUY** (unchanged)

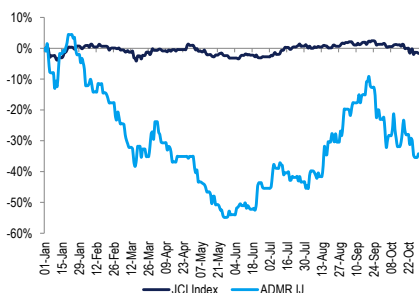
Company Update | Metals | ADMR IJ | 30 October 2023

## Stock Data

Target price	Rp1,800
Prior TP	Rp1,800
Current price	Rp1,115
Upside/downside	+61%
Shares outstanding (mn)	40,882
Market cap (Rp bn)	45,584
Free float	23%
Avg. 6m daily T/O (Rp bn)	76

## Price Performance

	3M	6M	12M
Absolute	16.1%	1.4%	-35.4%
Relative to JCI	18.5%	4.0%	-30.8%
52w low/high (Rp)	765 – 2,010		



## Major Shareholders

Adaro Energy Indonesia	68.5%
Adaro Mining Technologies	8.8%
Alam Tri Abadi	6.5%

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## 3Q23: beat from strong volume; ADMR remains our top pick in the sector

- ADMR reported US\$87mn net profit in 3Q23 (+10% qoq), driven by higher coking-coal volume (+23% qoq) despite ASP decline (-6% qoq).
- 9M23 net profit of US\$251mn stood at 84% of IPS and consensus forecast, we expect higher ASP in 4Q23 to lift earnings further.
- We maintain ADMR as our top pick and maintain our TP at Rp1,800/share.

### 3Q23 results: coking-coal sales volume at 1.2mn ton

ADMR coking-coal sales volume improved by 23% qoq to 1.2mn ton, which was slightly above our FY23F forecast of 3.9mn ton (77% IPS) and in-line with management guidance of 3.8-4.3mn ton. Hard coking coal (HCC)'s ASP, was down by 7% qoq, as per our initial expectation, on the back of lower HCC price over the quarter. Going forward, we expect higher HCC ASP in 4Q23F, thanks to the ongoing logistical challenges in Queensland, Australia (c.70% of Australian coking-coal supply). As a result, higher HCC volume led to the increase in revenue by +14% qoq to US\$257mn, in-line with our forecast but above consensus (69%/79% IPS/Cons) as we expect higher revenue in 4Q23F.

### Cash costs improved qoq

Lower HCC ASP (-7% qoq) has led to GP and EBIT margin compression of c.350bps and c.202bps qoq, respectively. However, on per ton basis, cash costs have actually improved by 8% qoq to US\$106/ton, driven by lower royalty per ton and transportation costs per ton. Operating expenses have also improved by 14% qoq to US\$12mn, which led to higher EBIT and EBITDA delivery of US\$114mn (76%/83% IPS/consensus) and US\$123mn (73%/86% IPS/consensus), respectively (Fig. 1). We observed nothing extraordinary below the operating line, with net profit came at US\$87mn in 3Q23; 9M23 at US\$251mn, above ours and consensus forecast at 84% IPS/Cons.

### Maintain ADMR as our top pick with Rp1,800/share TP

We are reviewing our FY23F forecast, pending further details after the earnings call. Nevertheless, we maintain ADMR as our top pick with an unchanged Rp1,800/share DCF-based TP. Re-rating catalysts include: potential earnings consensus upgrade after 3Q23 result in addition to higher HCC price owing to pro-longed supply disruption in Australia, and higher production and sales volume delivery. Downside risks include lower than expected HCC price and drier weather.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	460	908	1,038	1,248	1,830
EBITDA	243	489	488	613	681
Net profit	155	332	297	351	386
EPS growth	-648.4%	114.2%	-10.5%	18.2%	10.0%
ROE	66.8%	85.8%	41.4%	33.7%	27.4%
PER (x)	18.7	8.7	9.8	8.3	7.5
EV/EBITDA (x)	13.8	5.9	6.7	6.0	4.8
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
IPS vs. consensus			100%	114%	106%

Source: Company, Indo Premier

Share price closing as of: 30 October 2023

Fig. 1: 9M23 results summary

Indo Premier ADMR IJ US\$ m	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	9M23	9M23			
									vs. IPS	vs. Cons	vs. IPS	vs. Cons
Revenue	182	254	231	242	238	225	257	721	69%	79%	1,038	915
GP	120	168	127	120	135	119	126	380	73%	83%	520	456
EBIT	113	160	115	72	113	104	114	331	76%	83%	436	398
EBITDA	120	167	123	79	121	113	123	356	73%	86%	488	416
NP	83	119	82	48	85	79	87	251	84%	84%	297	297
<b>Growth % - qoq</b>												
Revenue	-32%	39%	-9%	5%	-1%	-5%	14%					
GP	82%	40%	-24%	-6%	12%	-12%	6%					
EBIT	75%	41%	-28%	-38%	57%	-8%	9%					
EBITDA	15%	40%	-27%	-35%	53%	-7%	9%					
NP	95%	42%	-31%	-42%	77%	-7%	10%					
<b>Operational data</b>												
Coking-coal production volume (mt)	0.6	0.9	1.0	0.8	1.2	1.3	1.4					
Coking-coal sales volume (mt)	0.6	0.7	0.9	1.0	0.9	1.0	1.2	23%				
ASP (US\$/ton)	308	366	253	239	280	232	216	-7%				
<b>Profitability %</b>												
GP	66%	66%	55%	50%	57%	53%	49%	3.55%				
EBIT	62%	63%	50%	30%	47%	46%	44%	2.02%				
EBITDA	66%	66%	53%	33%	51%	50%	48%					
NP	46%	47%	36%	20%	36%	35%	34%					

Source: Indo Premier

Fig. 2: ADMR's sum-of-the-parts (SOTP) valuation

	(US\$ m n)	Methodology
Met coal	4,739	DCF (LTG: 0%, WACC: 10.2%)
Aluminium	437	DCF (LTG: 0%, WACC: 10.5%)
Net Cash (debt)	(361)	Book value
<b>Total NPV</b>	<b>4,815</b>	
NPV per share	0.12	
<b>NPV per share (Rp)</b>	<b>1,800</b>	
Current share price	1,115	
<b>Upside</b>	<b>61%</b>	

Source: Company, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	460	908	1,038	1,248	1,830
Cost of sales	(220)	(373)	(518)	(610)	(1,103)
<b>Gross profit</b>	<b>240</b>	<b>535</b>	<b>520</b>	<b>638</b>	<b>727</b>
SG&A Expenses	(25)	(75)	(83)	(107)	(145)
<b>Operating profit</b>	<b>216</b>	<b>460</b>	<b>436</b>	<b>531</b>	<b>581</b>
Net interest	(16)	(21)	(40)	(62)	(66)
Forex gain (loss)	0	0	0	0	0
Others	2	(2)	0	0	0
<b>Pre-tax income</b>	<b>202</b>	<b>438</b>	<b>396</b>	<b>468</b>	<b>515</b>
Income tax	(45)	(102)	(99)	(117)	(129)
Minority interest	(2)	(4)	0	0	0
<b>Net income</b>	<b>155</b>	<b>332</b>	<b>297</b>	<b>351</b>	<b>386</b>

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	181	511	968	738	1,102
Receivable	88	64	87	105	154
Inventory	33	53	60	71	128
Other current assets	14	18	18	18	18
<b>Total current assets</b>	<b>317</b>	<b>646</b>	<b>1,132</b>	<b>931</b>	<b>1,401</b>
Fixed assets	607	594	1,254	1,984	1,913
Other non-current assets	43	47	47	47	47
<b>Total non-current assets</b>	<b>649</b>	<b>640</b>	<b>1,300</b>	<b>2,030</b>	<b>1,960</b>
<b>Total assets</b>	<b>966</b>	<b>1,287</b>	<b>2,433</b>	<b>2,961</b>	<b>3,360</b>
ST loans	0	0	0	0	0
Payable	20	23	30	35	63
Other payables	72	174	174	174	174
Current portion of LT loans	0	0	0	0	0
<b>Total current liab.</b>	<b>92</b>	<b>197</b>	<b>204</b>	<b>209</b>	<b>238</b>
Long term loans	634	487	97	19	4
Other LT liab.	1,302	1,007	1,459	1,553	1,522
<b>Total liabilities</b>	<b>760</b>	<b>717</b>	<b>1,566</b>	<b>1,743</b>	<b>1,756</b>
Equity	121	121	121	121	121
Retained earnings	82	414	711	1,062	1,449
Minority interest	3	35	35	35	35
<b>Total SHE + minority int.</b>	<b>205</b>	<b>569</b>	<b>867</b>	<b>1,218</b>	<b>1,604</b>
<b>Total liabilities &amp; equity</b>	<b>966</b>	<b>1,287</b>	<b>2,433</b>	<b>2,961</b>	<b>3,360</b>

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income	460	908	1,038	1,248	1,830
Depr. & amortization	27	29	52	83	100
Changes in working capital	117	94	0	0	0
Others	(444)	(551)	(757)	(914)	(1,532)
<b>Cash flow from operating</b>	<b>160</b>	<b>480</b>	<b>332</b>	<b>417</b>	<b>398</b>
Capital expenditure	(7)	(17)	(718)	(818)	(19)
Others	(387)	(6)	0	0	0
<b>Cash flow from investing</b>	<b>(394)</b>	<b>(24)</b>	<b>(718)</b>	<b>(818)</b>	<b>(19)</b>
Loans	146	(147)	842	172	(16)
Equity	(164)	(0)	0	0	0
Dividends	0	0	0	0	0
Others	392	27	0	0	0
<b>Cash flow from financing</b>	<b>373</b>	<b>(119)</b>	<b>842</b>	<b>172</b>	<b>(16)</b>
<b>Changes in cash</b>	<b>139</b>	<b>337</b>	<b>456</b>	<b>(229)</b>	<b>363</b>

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	52.3%	58.9%	50.1%	51.1%	39.7%
Operating margin	46.9%	50.7%	42.1%	42.5%	31.8%
Pre-tax margin	43.9%	48.2%	38.2%	37.5%	28.2%
Net margin	33.7%	36.6%	28.7%	28.1%	21.1%
ROA	17.0%	29.5%	16.0%	13.0%	12.2%
ROE	66.8%	85.8%	41.4%	33.7%	27.4%
Acct. receivables TO (days)	5	14	12	12	12
Inventory TO (days)	7	7	9	9	9
Payable TO (days)	11	17	17	17	17
Debt to equity	308%	86%	153%	123%	93%
Interest coverage ratio (x)	15.2	19.7	12.2	9.8	10.3
Net gearing	220%	-4%	42%	63%	24%