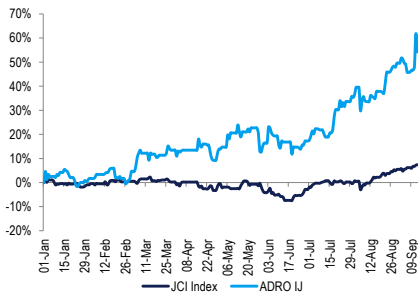


Stock Data

Target price	Rp3,900
Prior TP	Rp3,900
Current price	Rp3,670
Upside/downside	+6%
Shares outstanding (mn)	30,759
Market cap (Rp bn)	112,884
Free float	41%
Avg. 6m daily T/O (Rp bn)	185

Price Performance

	3M	6M	12M
Absolute	32.0%	37.5%	26.1%
Relative to JCI	17.7%	32.4%	13.9%
52w low/high (Rp)	2,340 – 3,850		



Major Shareholders

Adaro Strategic Investment	43.9%
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Ample dividend from thermal spin-off while unlocking renewable potential

- ADRO plans to spin-off thermal coal assets through IPO with US\$2.4-2.6bn valuation while also distributing dividend (c.34% yield).
- We expect upside from dividend distribution, thermal-coal IPO (only at FY24F 2x P/E), and unlocking renewable valuation on ADRO level.
- Maintain our Buy rating at unchanged SOTP-based TP of Rp3,900 for now, but we will revisit our estimates once more details are available.

ADRO to spin-off thermal assets and distribute dividend

ADRO plans to spin-off its thermal coal business by listing its 99.99% stake in Adaro Andalan Indonesia (AAI) through IPO at US\$2.4-2.6bn valuation. Shareholders registered on a certain date (TBA) will obtain the rights to subscribe to AAI’s IPO at a ratio that remains undetermined. Additionally, ADRO will also distribute dividend after EGMS which we estimate at c.34% yield (at Rp3,670 price) which can be used to subscribe to AAI’s IPO.

Potential downside to ADRO share price after spin-off

Post transaction, ADMR (84% stake) and Adaro Green (100% stake) will be ADRO’s primary earnings driver. Among the key investor concerns are the potential downside to ADRO share price post-dividend and AAI rights subscription date. In theory, there shall be c.18% downside to share price based on SOTP valuation of US\$6.1bn (Fig. 1), but should the market decide to not value the green business given its relatively nascent stage, we see c.35% downside. However, we think the downside to share price could be buffered from AAI’s IPO. Positively, AAI valuation of US\$2.4bn implies an attractive 2x FY24F P/E, and we see net upside of 22-39% (ADRO + AAI) if we assume AAI will re-rate to 4-5x FY24F P/E, in-line with coal peers valuation.

The transaction is a long-term +ve, in our view

Despite potential downside in ST, we think transaction is a long-term +ve as we see a re-rating to ADRO share price from: 1) purchasing additional renewable assets, which could generate more cash flow to ADRO, 2) unlocking renewables valuation as renewables capacity are being ramped-up, while 3) obtaining premium multiples owing to its renewable exposures, which are much higher vs. thermal coal business valuation (Fig. 2 & 3).

Maintain Buy at unchanged SOTP-based TP of Rp3,900

We maintain our Buy rating at unchanged SOTP-based TP of Rp3,900 for now and will revisit our estimates once more details on this transaction are available such as: 1) AAI’s IPO subscription rights ratio in relation to ownership in ADRO, and 2) dividend payout ratio and yield, pending EGMS on 18th Oct.

Financial Summary (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	8,102	6,518	4,850	4,969	4,424
EBITDA	4,799	2,510	1,654	1,799	1,491
Net profit	2,493	1,641	1,040	1,092	818
EPS growth	167%	-34%	-37%	5%	-25%
ROE	41%	24%	15%	14%	10%
PER (x)	2.9	4.5	7.1	6.7	9.0
EV/EBITDA (x)	1.0	1.9	3.2	2.9	3.2
Dividend yield	8.9%	13.6%	10.9%	5.7%	6.0%
IPS vs. consensus			81%	96%	75%

Source: Company, Indo Premier

Share price closing as of: 13 September 2024

Fig. 1: ADRO/AAI simulation

ADRO		
Price (Rp/sh)	3,670	
Shares out. (bn)	31	
USD/IDR	15,800	
Mkt cap (US\$m)	7,145	
AAI	Lower	Upper
Valuation (US\$m)	2,450	2,634
Ratio (x)	0.33	0.33
Implied shares out. (bn)	10	10
Implied price (Rp/sh)	3,810	4,090
Annualised FY24F NPATMI (US\$m)	1,200	1,200
Implied FY24F P/E (x)	2.0	2.2
Simulation		
ADRO share price (Rp/sh)	3,670	3,670
Hypothetical ADRO shares	1,000	1,000
Initial investment value (Rp)	3,670,000	3,670,000
ADRO valuation post transaction (US\$m)		
	6,137	6,137
ADMR	2,450	2,450
SIS	660	660
Adaro Green	1,000	1,000
Net cash (debt)	2,027	2,027
ADRO fair value (Rp/sh)	3,200	3,200
Investment value post transaction (Rp)	3,200,000	3,200,000
Loss on ADRO (Rp)	(470,000)	(470,000)
%	-13%	-13%
Implied AAI shares	331	331
Implied AAI price (Rp/sh)	3,810	4,090
AAI value (Rp)	1,259,539	1,352,103
Bear - 4x FY24F P/E target multiple	2,519,077	2,704,206
Gain on AAI	1,259,539	1,352,103
Net gain (loss)	789,539	882,103
%	22%	24%
Base - 5x FY24F P/E target multiple	3,148,846	3,380,258
Gain on AAI	1,889,308	2,028,155
Net gain (loss)	1,419,308	1,558,155
%	39%	42%
Bull - 6x FY24F P/E target multiple	3,778,616	4,056,309
Gain on AAI	2,519,077	2,704,206
Net gain (loss)	2,049,077	2,234,206
%	56%	61%

Source: Company data, Indo Premier estimates

Fig. 2: Hypothetical valuation of ADRO post transaction: ADMR & Adaro Green

SOTP valuation summary	US\$m n	Remarks
ADMR	2,450	Multiple target - 7x FY24F P/E
Mining contracting	660	Multiple target - 5.5x FY24F P/E
ADRO Green	1,000	DCF - WACC 8%; LT growth 2%
Net cash (debt)	2,027	
Equity value (US\$m n)	6,137	
USD/IDR	15,500	
Outstanding shares	32.0	
Target price (Rp/sh)	3,000	
Current price	3,670	
Upside/down side	-18%	

Source: Company data, Indo Premier estimates

Fig. 3: Renewables valuation

Ticker	Current market cap (US\$m n)	EV/MW			EV/EBITDA			P/E			Remarks
		FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	
PGEO IJ Equity	3,065	5.1	5.1	4.7	9.8	9.3	8.8	18.5	18.5	18.5	Geothermal (100%).
ACEN PM Equity	3,676	1.8	2.1	2.2	31.8	25.9	29.2	23.2	19.3	18.1	Solar (71%), Wind (21%), Geothermal (2%), Others (6%).
CKP TB Equity	921	0.6	0.6	0.6	16.3	18.4	18.8	17.9	15.4	13.8	Hydro (93%), Solar (1%), Others (6%).
BCPG TB Equity	622	1.2	1.1	1.0	11.6	18.0	16.7	17.8	14.8	13.0	Solar (63%), Wind (27%), Hydro (10%).
AP PM Equity	4,680	16.8	8.3	7.0	9.1	8.2	8.5	8.4	7.9	7.8	Solar (94%), Geothermal (4%), Others (2%).
ADANIGR IN Equity	34,201	4.0	3.4	2.9	32.7	23.5	18.7	123.3	70.9	47.9	Solar (68%), Wind (13%), Hybrid (19%).
		5.1	3.0	2.7	17.2	17.6	18.3	16.8	14.4	13.2	

Source: Bloomberg, Indo Premier

Fig. 4: Thermal-coal business peers comparison

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				24F	25F	26F	24F	25F	26F	24F	25F	26F
ADRO IJ	Adaro Energy Indonesia	Buy	3,900	5.0	7.0	9.3	2.2	2.9	3.2	10.4%	8.0%	5.7%
ITMG IJ	Indo Tambangraya Megah	Hold	22,000	5.2	7.1	14.5	2.4	3.0	5.9	17.4%	12.5%	9.1%
PTBA IJ	Bukit Asam	Sell	2,000	8.7	10.3	10.6	5.0	5.5	5.3	14.6%	4.0%	3.4%
UNTR IJ	United Tractors	Buy	33,000	5.1	5.1	4.9	2.4	2.1	1.8	8.9%	8.3%	8.5%

Source: Company, Indo Premier

Income Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net revenue	8,102	6,518	4,850	4,969	4,424
Cost of sales	(3,449)	(3,980)	(3,244)	(3,240)	(3,040)
Gross profit	4,653	2,537	1,606	1,729	1,384
SG&A Expenses	(375)	(344)	(291)	(298)	(265)
Operating profit	4,277	2,193	1,315	1,431	1,119
Net interest	(42)	31	42	11	7
Forex gain (loss)	210	108	108	96	27
Others	31	(38)	0	0	0
Pre-tax income	4,476	2,294	1,464	1,538	1,152
Income tax	(1,645)	(439)	(293)	(308)	(230)
Minority interest	(338)	(213)	(132)	(138)	(104)
Net income	2,493	1,641	1,040	1,092	818

Balance Sheet (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	4,067	3,311	3,863	4,408	4,852
Receivable	647	520	323	331	295
Inventory	199	171	180	180	169
Other current assets	406	299	299	299	299
Total current assets	5,319	4,302	4,666	5,218	5,615
Fixed assets	1,452	1,754	2,482	3,320	3,406
Other non-current assets	4,011	4,416	4,406	4,390	4,372
Total non-current assets	5,463	6,171	6,888	7,710	7,777
Total assets	10,782	10,473	11,554	12,928	13,392
ST loans	333	345	342	341	320
Payable	143	223	260	260	260
Other payables	1,971	1,568	1,124	1,124	1,124
Current portion of LT loans	2,448	2,135	1,725	1,725	1,704
Total current liab.	1,369	404	1,524	2,084	2,084
Long term loans	439	524	524	524	524
Other LT liab.	1,807	929	2,049	2,609	2,609
Total liabilities	4,255	3,064	3,774	4,334	4,313
Equity	343	343	343	343	343
Retained earnings	4,481	5,220	5,460	6,136	6,517
Minority interest	1,703	1,846	1,977	2,116	2,220
Total SHE + minority int.	6,527	7,409	7,780	8,595	9,080
Total liabilities & equity	10,782	10,473	11,554	12,928	13,392

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
EBIT	2,493	1,641	1,040	1,092	818
Depr. & amortization	521	317	339	368	373
Changes in working capital	(208)	166	185	(8)	26
Others	1,058	(972)	(318)	138	104
Cash flow from operating	3,864	1,153	1,245	1,590	1,321
Capital expenditure	(415)	(597)	(1,050)	(1,190)	(440)
Others	(352)	14	0	0	0
Cash flow from investing	(767)	(582)	(1,050)	(1,190)	(440)
Loans	2	(885)	1,157	560	0
Equity	190	9	0	0	0
Dividends	(650)	(1,000)	(800)	(416)	(437)
Others	(340)	542	0	0	0
Cash flow from financing	(798)	(1,334)	357	144	(437)
Changes in cash	2,256	(756)	552	544	444

Key Ratios (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Gross margin	57%	39%	33%	35%	31%
Operating margin	53%	34%	27%	29%	25%
Pre-tax margin	55%	35%	30%	31%	26%
Net margin	31%	25%	21%	22%	18%
ROA	23%	16%	9%	8%	6%
ROE	41%	24%	15%	14%	10%
Acct. receivables TO (days)	12.5	12.5	15.0	15.0	15.0
Inventory TO (days)	17.3	23.3	18.0	18.0	18.0
Payable TO (days)	10.4	11.5	9.5	9.5	9.5
Debt to equity	0.3	0.1	0.3	0.3	0.3
Interest coverage ratio (x)	53.7	22.9	16.5	11.9	(55.7)
Net gearing	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)

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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