

Adaro Andalan Indonesia

BUY (initiation)

Company initiation | AADI IJ | 5 December 2024

Stock Data

Target price	Rp12,000
Prior TP	N/A
Current price	Rp5,550
Upside/downside	+116%
Shares outstanding (mn)	7,786
Market cap (Rp bn)	43,217
Free float	40%
Avg. 6m daily T/O (Rp bn)	N/A

Price Performance

	3M	6M	12M
Absolute	N/A	N/A	N/A
Relative to JCI	N/A	N/A	N/A
52w low/high (Rp)		N/A – N/A	

Major Shareholders

Adaro Strategic Investment	41.1%
Garibaldi Thohir	5.8%

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Unlocking thermal expansion; current valuation is too attractive to ignore

- AADI's spin-off from ADRO shall allow further value-unlocking on thermal-coal business via Pari & Ratah Coal future expansion.
- Expect AADI to record core NP of US\$946mn in FY25F with attractive dividend yield of c.16% assuming c.45% dividend payout ratio (DPR).
- Valuation is undemanding at 2.9x FY25F P/E (peers 5-7x) along with +ve tailwind on MSCI & FTSE inclusion; Initiate with Buy at Rp12,000/sh TP.

Spin-off to potentially unlock thermal expansion

We think AADI's spin-off from ADRO as a standalone company shall enable the company to grow its production volume through Pari and Ratah Coal, as previously, any expansion in the thermal-coal business is limited by ADRO shareholders' pressure on ESG along with potentially higher costs of capital affecting ADRO's non-thermal business (i.e. aluminium, hydropower-plant). While timeline for both Pari & Ratah is still undetermined, such expansion is possible with the new structure and shall be positive for future earnings.

Attractive dividend yield of 16% with +ve tailwind from royalty rate cut

AADI has a strong FCF generation and robust execution track-record in operating their existing mines (i.e. Adaro Indonesia, Balangan, and MIP). As a result, we expect AADI to deliver c.16% dividend yield in FY25F by assuming c.45% payout ratio for conservative reason, as AADI may require further capex budget to develop expansion of Pari & Ratah coal in the future. Aside from LT +ve tailwind from Pari & Ratah, there is a potential ST tailwind from royalty rate cut for IUPK holders (AI: c.80% total volume), which shall translate to +2.6% to FY25F EPS for every 1% royalty cut.

MSCI & FTSE indices inclusion to boost share price upside

We think AADI could be included into MSCI standard-cap & FTSE large and mid-cap index as soon as 1Q25F (Feb25 for MSCI, Mar25 for FTSE), as it only needs to trade above Rp8,000/share (4x FY25F P/E) to be eligible for an inclusion into MSCI and above Rp10,000/share for FTSE (5x FY25F P/E). Index inclusion is positively correlated with shareholders return & outperformance vs. JCI (Fig. 18), another +ve tailwind to AADI share price.

Initiate with Buy rating and TP of Rp12,000/share

AADI's IPO is priced at an undemanding valuation of 2.9x FY25F P/E (c.50% discount to peers average), too attractive to ignore in our view, with risk/reward skewed to upside owing to: 1) potential expansion from Pari & Ratah, 2) MSCI & FTSE inclusion, and 3) royalty rate-cut. Thus, we initiate AADI with a Buy rating and SOTP-based TP of Rp12,000/sh valuing AADI's coal business (mining & CFPP) at 6x FY25F P/E target multiple while assigning 9x FY25F P/E multiple for Kestrel. Key downside risk to our estimate is softer than expected coal price.

Financial Summary (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	7,726	5,915	5,154	4,936	5,003
EBITDA	3,786	1,465	1,354	1,255	1,215
Net profit	2,065	1,144	1,236	946	882
EPS growth	182%	-45%	8%	-23%	-7%
ROE	46%	24%	40%	26%	21%
PER (x)	1.3	2.4	2.2	2.9	3.1
EV/EBITDA (x)	0.1	0.8	2.2	2.4	2.0
Dividend yield	60.5%	33.5%	105.6%	15.7%	14.6%
IPS vs. consensus			N/A	N/A	N/A

Source: Company, Indo Premier

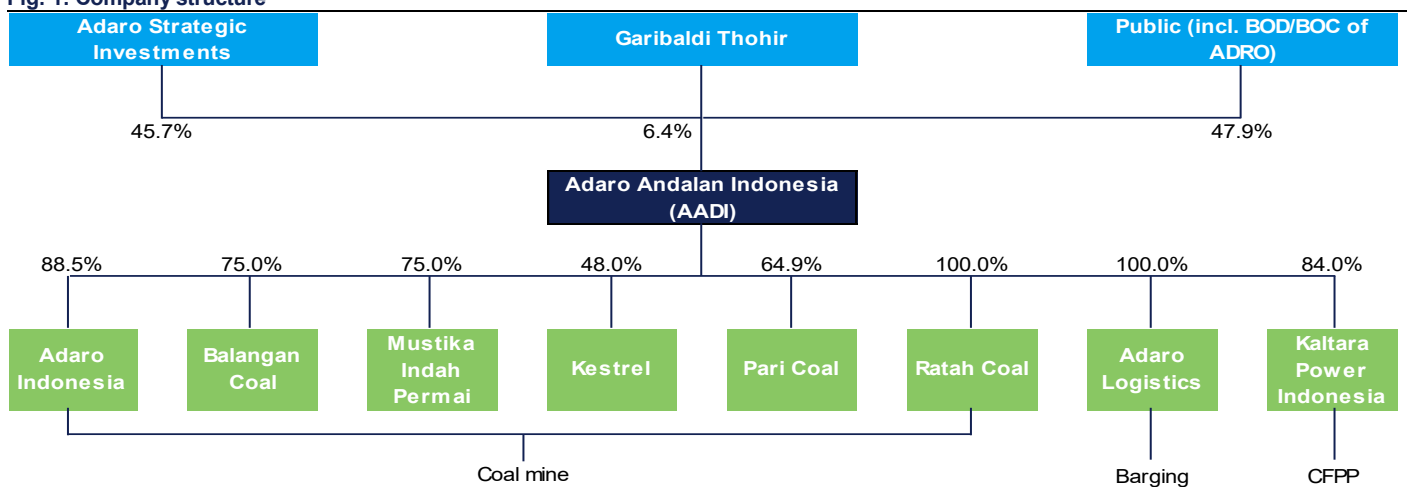
Share price closing as of: e-IPO price

Spin-off to potentially unlock thermal expansion

Adaro Andalan Indonesia (AADI) has been a key player in Indonesia's coal-mining sector since 1992. Previously, AADI was known as Alam Tri Abadi (ATA) and served as ADRO's operational backbone, contributing ~75% to ADRO's FY23 NP. AADI has now been spun-off to separate ADRO's thermal and green business via Public Offering to Existing Shareholders (POES) mechanism and c.10% new shares IPO to the public.

Thus, as a spin-off company from ADRO, **AADI as a stand-alone coal-mining entity should be able to further expand and grow its production volume** as previously, any expansion in the thermal-coal business is limited by ADRO shareholders' pressure on ESG along with potentially higher costs of capital affecting ADRO's non-thermal business (i.e. coking-coal, aluminium, hydro power-plant). We explained ADRO's potential volume expansion coming from Pari & Ratah Coal in details below.

Fig. 1: Company structure



Source: Company, Indo Premier

AADI currently has 5 operating thermal coal mining concessions (Adaro Indonesia, Laskar Semesta Alam, Semesta Centramas, Paramitha Cipta Sarana, and Mustika Indah Permai/MIP) with a vast resource/reserve base of 4,102/917Mt. As of now, majority of AADI's production volume mainly came from Adaro Indonesia (c.80% of total production volume) with the rest from Balangan Coal and MIP. Based on FY24F production of c.65Mt, AADI still has a considerable mine life of 14 years, with a potential upside from 2 mines under development (Pari and Ratah).

Fig. 2: AADI operating map



Source: Company, Indo Premier

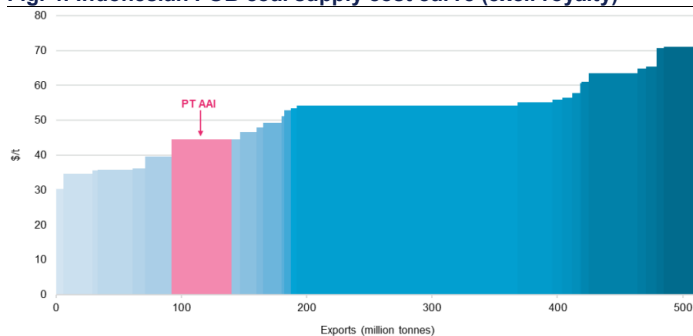
Fig. 3: AADI mining concession summary

Mining site	Land (Ha)	Location	Type	Concession	License	Resource (Mt)	Reserve (Mt)
Adaro Indonesia	23,492	Tabalong & Balangan, South Kalimantan	Sub-bituminous	2022-2032	IUPK	3,397	642
SCM (Balangan Coal)	2,500	Balangan, South Kalimantan	Sub-bituminous	2009-2029	IUP-OP	81	34
LSA (Balangan Coal)	2,500	Balangan, South Kalimantan	Sub-bituminous	2014-2034	IUP-OP	58	21
PCS (Balangan Coal)	2,500	Balangan, South Kalimantan	Sub-bituminous	2009-2029	IUP-OP	206	68
Mustika Indah Permai (MIP)	2,000	Lahat, South Sumatra	Sub-bituminous	2010-2030	IUP-OP	361	152
Pari Coal	24,971	Makaham Ulu, East Kalimantan	Sub-bituminous	2024-2054	CCoW - OP	183	24
Ratah Coal	36,490	Makaham Ulu, East Kalimantan & Murung Raya, Central Kalimantan	Bituminous	2023-2024	CCoW - Exploration	N/A	N/A

Source: Company, Indo Premier

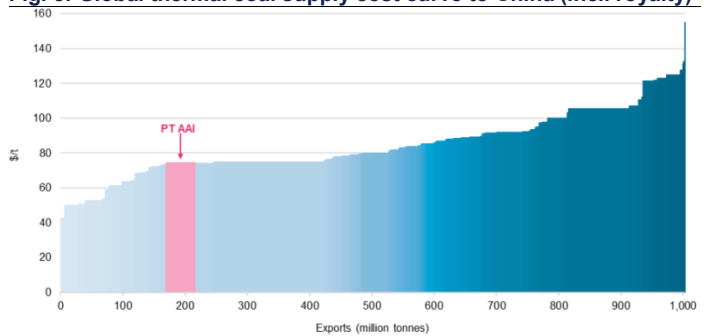
In terms of cash costs, AADI is currently placed in the first quartile compared to Indonesian miners (excl. royalty) & other exporters to China, which shall provide some cushion amid coal price downturn, if any. Additionally, McCloskey stated that Adaro Indonesia's (AI) Envirocoal (c.80% of production) has one of the lowest ash, sulphur, and nitrogen content in the world, fetching a premium ASP in Japan (1H24: 5% of total volume) as they are benchmarked against ICI2 index instead of ICI3 due to its low pollutant characteristics.

Fig. 4: Indonesian FOB coal supply cost curve (excl. royalty)



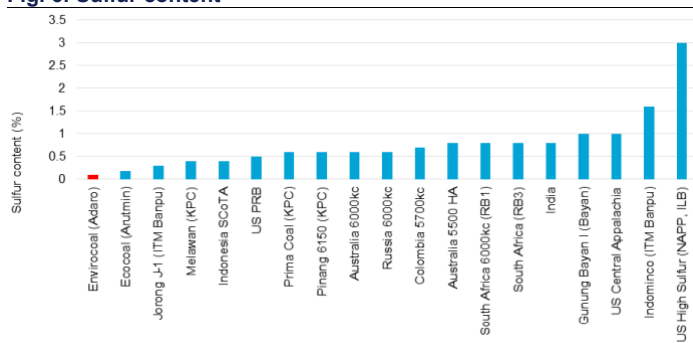
Source: McCloskey by OPIS, Company, Indo Premier

Fig. 5: Global thermal coal supply cost curve to China (incl. royalty)



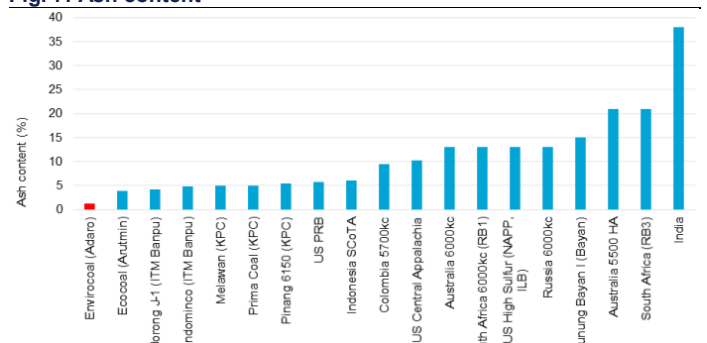
Source: McCloskey by OPIS, Company, Indo Premier

Fig. 6: Sulfur content



Source: McCloskey by OPIS, Company, Indo Premier

Fig. 7: Ash content



Source: McCloskey by OPIS, Company, Indo Premier

AADI is also a vertically integrated miner with its own logistics business arm operating 70 barges and 74 tugboats to transport its products through Barito River (~220km) along with its own barge-to-barge transfer terminal in Kelanis and floating crane for transshipment at Taboneo Anchorage.

In addition, AADI is currently constructing 1.06GW of coal-fired power plant (CFPP, under Kaltara Power Indonesia) that will be located inside Kalimantan Industrial Park Indonesia (KIPI). The CFPP is expected to come online in 4Q25F/1Q26F in parallel with the commencement of ADMR's aluminium smelter. AADI currently owns c.84% stake in the project with total

investment estimated to reach US\$1bn, with the remaining 16% stake owned by Cita Mineral Investindo (CITA).

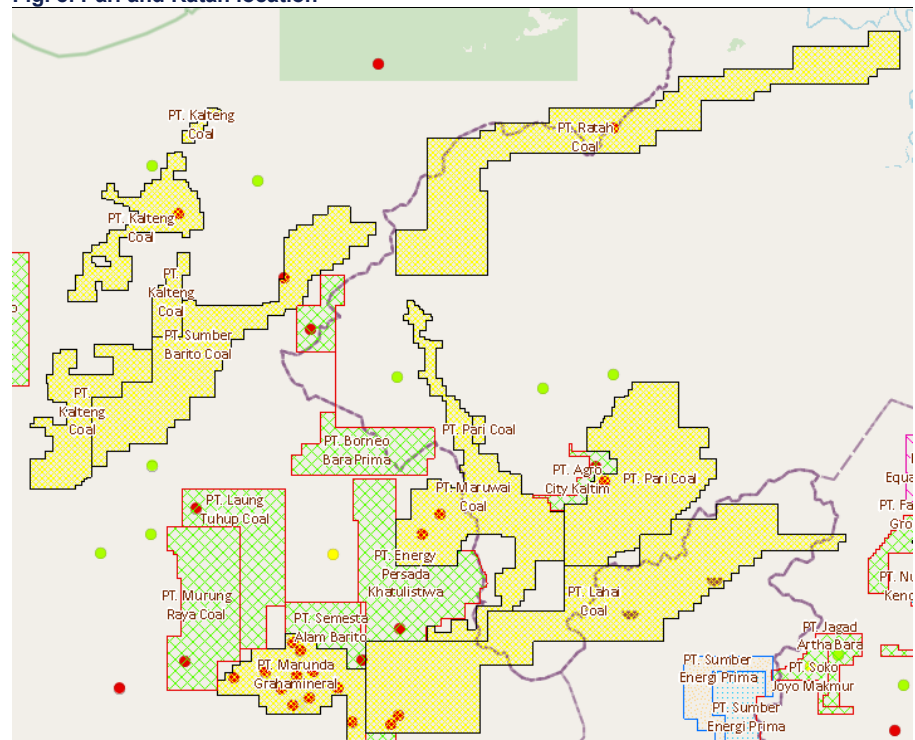
Potential upside from Pari and Ratah

AADI made an acquisition of Pari and Ratah mine from BHP back in 2016. However, the mine has been relatively inactive since then, owing to expansion limitation under Adaro Energy (ADRO) that aims to diversify from its thermal-coal business. Nonetheless, Pari & Ratah concession sits on a massive 51.5k ha of land combined vs. AI's 23.5k ha concession, which could be unlocked in the future, thanks to AADI spin-off.

Albeit, unlike Adaro Indonesia (AI) that is currently producing ~50Mtpa on average, Pari Coal is currently in early exploration phase with an indicated 183/24Mt resource/reserve base and an average calorific value (CV) of 4,300 kcal/kg with further potential resources in the future.

Similarly, Ratah mine is also behind in terms of production, as it has yet to initiate exploration activities. Note that Ratah mine has a different type of coal (bituminous) which is expected to have a calorific value (CV) of at least >5,500kcal/kg and thus shall fetch a higher ASP as it is closer to IC12 index (US\$94/t currently).

Fig. 8: Pari and Ratah location



Source: ESDM, Indo Premier

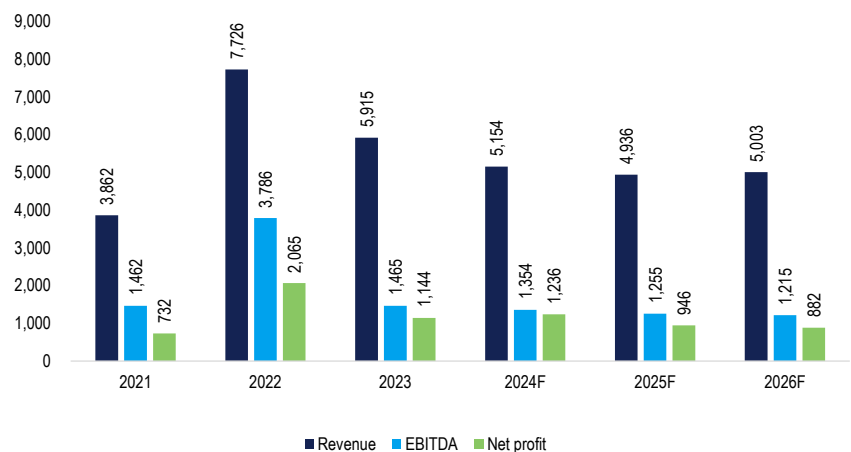
However, Pari and Ratah is located north of Adaro Indonesia's concession, adjacent to ADMR's Maruwai and Lahai mine. Which means, Pari and Ratah is connected to a relatively narrower and shallower river compared to AI, potentially leading to logistical bottleneck. According to ADMR, barging capacity is limited to 8Mtpa in this area, of which c.5Mtpa has been taken up by ADMR already in FY24F.

As both Pari & Ratah is set to face similar logistical challenge as ADMR, AADI may need to build hauling road to fully unlock the value from these mines, although capex timeline and project feasibility for such plan remains unclear.

Financials

We forecast AADI to record US\$1.2bn NP in FY24F (+9% yoy), but note that this includes US\$323mn gain from selling ~15% stake in Adaro Minerals Indonesia (ADMR). Excluding this one-off gain, we estimate AADI to book FY24F core NP of US\$1bn (-12% yoy). We expect NP to slightly decline to US\$946/882mn in FY25F/26F (-7/-7% yoy vs. FY24F core NP), as the decline in coal price (FY24/25/26F: US\$130/120/110 per ton) shall more than offset higher sales volume. Note that we have not included potential upside from Pari and Ratah into our NP estimates, considering that resource/reserve base and logistics plan remains unclear.

Fig. 9: FY24/25/26F revenue, EBITDA, net profit



Source: Company, Indo Premier

Fig. 10: Key assumptions

Key assumptions	FY24F	FY25F	FY26F
Coal production (Mt)	65.0	67.0	70.0
Adaro Indonesia	51.0	51.0	51.0
Balangan	9.0	9.5	10.0
MIP	5.0	6.5	9.0
SR (x)	4.0	4.0	4.0
ASP (US\$/t)	76	70	64
Production cost (US\$/t)	56	52	49
ex. Royalty (US\$/t)	39	37	35
Cash margin (US\$/t)	21	18	15
New castle coal (US\$/t)	130	120	110

Source: Indo Premier

Thermal coal mining (Adaro Indonesia, Balangan, MIP)

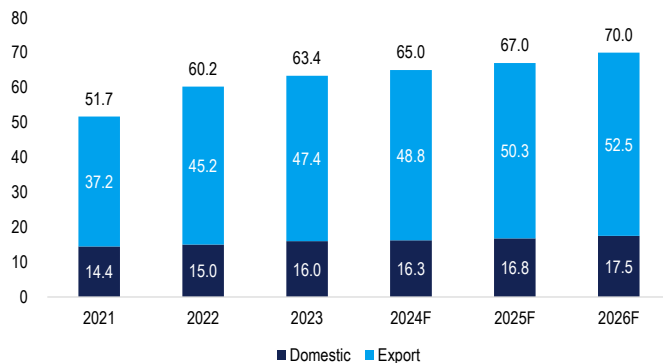
We project thermal coal mining to record US\$4.9/4.7/4.5bn revenue in FY24/25/26F, respectively, based on Newcastle coal price assumption of US\$130/120/110 per ton during our forecast period. We assigned 36-59% discount to our domestic/export selling price assumption to arrive at a blended ASP of US\$76/70/64 per ton in FY24/25/26F, similar to historical average.

On the volume front, we expect AI's volume to remain stable at 51Mt going forward and growth shall be primarily driven by Balangan and MIP in the short to medium term, before eventually Pari and Ratah to contribute to LT growth. We think there is still a lot of room for growth from MIP, considering its extensive mining life of c.30 years by end of FY24F. Thus, we pencil in additional 1.5Mt volume p.a. for MIP starting FY25F (vs. 5Mt in FY24F) and

a modest 0.5Mt additional volume p.a. for Balangan (vs. 9Mt in FY24F). Based on these numbers, AADI would still have c.11 years of mining life left combined by end of FY26F.

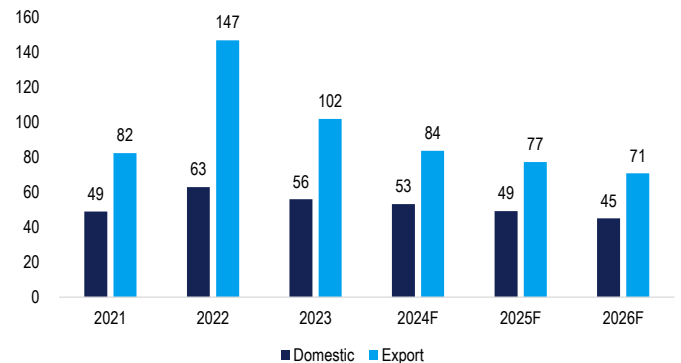
In-line with the decline in coal price, we expect production cost to decline from US\$56/t in FY24F to US\$52/49 per ton in FY25/26F (-6/-6% yoy), primarily attributed to lower royalty (from lower ASP) and fuel cost. Overall, we forecast cash margin of US\$21/18/15 per ton in FY24/25/26F for AADI's thermal coal mining segment.

Fig. 11: Domestic/export sales volume



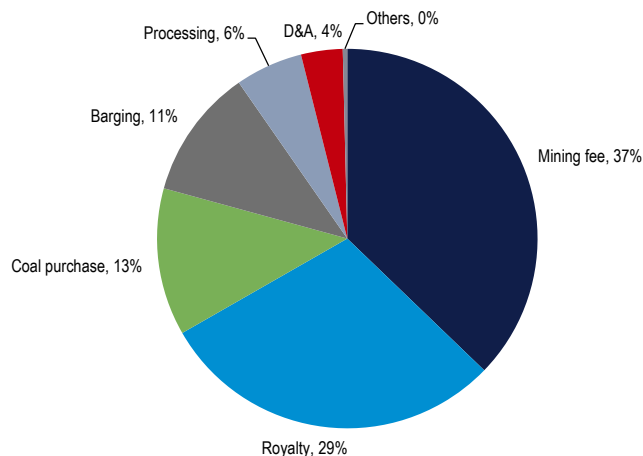
Source: Company, Indo Premier

Fig. 12: Domestic/export ASP



Source: Company, Indo Premier

Fig. 13: AADI production cost structure



Source: Company, Indo Premier

Logistics (Maritim Barito Perkasa) – c.4% of FY25F revenue

We project AADI's barging business to record US\$175/198/210mn revenue in FY24/25/26F and contribute ~3/4/4% to total revenue respectively. Our estimates are derived from barging fee of US\$35/33/30 per ton based on historical fee adjusted down to reflect expectation of declining fuel price and volume of 5/6/7Mt based on ADMR's sales volume. Additionally, we expect barging cost to slightly trend down from US\$6.6/t in FY24F to US\$6.3/6.0 per ton in FY25/26F primarily driven by lower fuel price.

Electricity (Kaltara Power Indonesia) – c.5% revenue starting FY26F

For AADI's 1.06GW coal fired power plant in Kaltara, we conservatively assume that it will commence operations in 1Q26F and assigned capacity factor of 46% in FY24F to account for ramping up process. We pencil in ASP of US\$6c/KWh (in-line with PPA of Indonesian CFPP) and net profit margin of 14% (in-line with ADRO's BPI). As a result, we forecast KPI to contribute US\$258mn in revenue (5% of total) and US\$30mn in NP (~3% of total).

Potential tailwind from royalty rate cut

Recently, there has been chatter on the media regarding government's plan to adjust the current royalty rate scheme for IUPK holders to take into account the calorific value (CV) sold that were previously ignored in the current royalty scheme (Fig. 14). Despite declining coal prices (ICI3: -12% YTD/-34% yoy in FY23), HBA has been consistently trading above US\$100/t and thus profitability has been severely impacted, especially for miners with low CV coal. We think it is only fair that the scheme is adjusted accordingly, considering that CCOW/IUPOP royalty scheme have already taken into account the CV of coal sold (Fig. 15).

AADI is set to benefit through AI (~80% of total production) if the royalty rate scheme adjustment for IUPK license holders comes into effect as Balangan & MIP is not an IUPK. We estimate AADI to enjoy ~2.6% upside to FY25F NP for every 1% royalty rate cut.

Fig. 14: IUPK royalty scheme

HBA (US\$/t)	Royalty rate (%)
<70	14%
70-80	17%
80-90	23%
90-100	25%
>100	28%

Source: Company, Indo Premier

Fig. 15: CCOW/IUPOP royalty scheme

CV (kcal/kg)	HBA (US\$/t)	Royalty rate (%)
<=4,200	<70	5%
	70-90	6%
	>=90	8%
4,200 - 5,200	<70	7%
	70-90	9%
	>=90	11%
>=5,200	<70	10%
	70-90	12%
	>=90	14%

Source: Company, Indo Premier

Fig. 16: Royalty cut sensitivity to earnings

Royalty rate	FY25F NP	Additional FY25F NP	%	FY25F NP post-royalty	Implied P/E @IPO price
28%	946	0	0%	946	2.9
27%	946	25	3%	972	2.8
26%	946	51	5%	997	2.8
25%	946	76	8%	1,022	2.7
24%	946	101	11%	1,047	2.6
23%	946	126	13%	1,073	2.6
22%	946	152	16%	1,098	2.5
21%	946	177	19%	1,123	2.4
20%	946	202	21%	1,148	2.4
19%	946	227	24%	1,174	2.3
18%	946	253	27%	1,199	2.3
17%	946	278	29%	1,224	2.2
16%	946	303	32%	1,250	2.2
15%	946	328	35%	1,275	2.2
14%	946	354	37%	1,300	2.1

Source: Indo Premier

Strong balance sheet/cash flow shall support future projects/dividend

As of Jun24, AADI is currently sitting on US\$1.1bn cash and a total debt of US\$1.7bn. We estimate AADI to reach net cash position of ~US\$300mn by FY26F after accounting for US\$700mn senior note repayment in FY24F and US\$500mn attributable capex for KPI in FY25F (funded using 70/30% debt/equity). AADI has no other major capex allocation beyond KPI and we project US\$100-150mn of maintenance capex each year.

We think AADI's ~45% payout ratio policy is reasonable given the amount of maturing debt and capex for KPI in FY24/25F. We project AADI to generate a strong free cash flow of ~US\$800mn from FY26F onwards, which could potentially be allocated for future growth projects, such as Pari and Ratah,

or distributed as dividends (implying higher payout ratio beyond the maximum amount of 45% stated in their prospectus).

It remains unclear whether AAI will payout dividend for FY24F net profit considering that they have paid out a staggering amount of US\$2.9bn in 1H24. But, based on c.45% payout ratio and IPO price of Rp5,550/share, we estimate FY25F dividend to still yield an attractive return of 16% return.

Index inclusion to further boost share price upside

MSCI – We see potential for AADI to be included into MSCI standard cap index, within two months after its listing date (5-Dec) during MSCI Feb25 review. To be included into MSCI, AADI needs to fulfil certain free-float market capitalization (around US\$1.3-1.5bn as per our estimates) and certain liquidity ratio that typically is assessed on monthly and quarterly basis in 3-months and 12-months period.

However, based on MSCI methodology, MSCI would ignore 12-months liquidity requirement (measured by ATVR/average traded value ratio) for AADI since AADI is a spin-off from existing MSCI standard-cap constituents (ADRO). Meanwhile, we expect its free-float market capitalization (assuming 30-55% free float, depending on AADI's subscription from POES) to achieve US\$1.3-1.5bn within December month or above Rp7,000/share should c.100% shareholders subscribed to POES or above Rp8,000/share as our base case (as we assume c.10% of existing ADRO shareholders will not subscribe to AADI)

We think share price shall be able to sustain within that range or above throughout MSCI review period in Jan25 as at that minimum free-float market cap range, AADI is still trading at an undemanding P/E valuation range of 3-4x FY25F P/E, vs. peers valuation of 5-6x FY25F P/E (Fig. 21).

Fig. 17: MSCI inclusion scenario based on various free-float assumptions

AADI share price (Rp/share)	P/E (x)	Market capitalization (US\$ mn)	Free float % / Free float Mcap					
			30%	35%	40%	45%	50%	55%
5,550	2.8	2,720	816	952	1,088	1,224	1,360	1,496
6,000	3.0	2,941	882	1,029	1,176	1,323	1,470	1,617
7,000	3.5	3,431	1,029	1,201	1,372	1,544	1,715	1,887
8,000	4.0	3,921	1,176	1,372	1,568	1,764	1,960	2,156
9,000	4.6	4,411	1,323	1,544	1,764	1,985	2,206	2,426
10,000	5.1	4,901	1,470	1,715	1,960	2,206	2,451	2,696
11,000	5.6	5,391	1,617	1,887	2,156	2,426	2,696	2,965
12,000	6.1	5,881	1,764	2,058	2,353	2,647	2,941	3,235
13,000	6.6	6,371	1,911	2,230	2,549	2,867	3,186	3,504
Borderline inclusion								
High likelihood for inclusion								

Source: MSCI, Bloomberg, Indo Premier estimates

We also assessed potential scenario for fast-entry inclusion – typically announced within 1 or 2 days post-IPO, similar to Sime Darby and Petronas Chemical (Fig. 18), but we think such scenario is unlikely as AADI free-float market capitalization may not reach the required US\$2.5-2.7bn (c.80% higher cut-off for fast track inclusion) within the first two trading days, especially with free-float only standing at 10% as AADI's shares distribution from POES would only be materialized starting the third trading day.

Fig. 18: Past MSCI fast-entry inclusion in ASEAN

Parent company	Spin-off business/IPO	Note	IPO time	Entry to MSCI	IPO to MSCI entry
Adaro Energy	Adaro Minerals (ADMR)	Subsidiary IPO	Jan-22	May-22	4 months
Petronas	Petronas Chemicals	Parent is not listed	Nov-10	Dec-10	Fast-entry
Ayala Corporation	AC Energy	Backdoor listing	Oct-19	N/A	N/A
Sime Darby	Sime Darby Plantation	Subsidiary IPO	Nov-17	Dec-17	Fast-entry
Sime Darby	Sime Darby Property	Subsidiary IPO	Nov-17	Dec-17	Fast-entry

Source: MSCI, Bloomberg, Indo Premier

FTSE – While MSCI primarily assessed potential MSCI constituents' based on free-float market capitalization, FTSE put more emphasis on full market capitalization. However, similar to MSCI, we think fast-entry inclusion is unlikely as based on FTSE's global equity index series (GEIS) methodology, fast-track inclusion would only be applicable if AADI market capitalization reached at least c.US\$6.6bn (50% higher vs. mid-cap inclusion level in Oct24) and free-float market capitalization of US\$2.2bn. This meant that AADI needed to trade at a valuation of 6-7x FY25F P/E, which we think is still achievable, but less straight-forward as it exceeds our SOTP valuation of Rp12,000/share and may need further catalysts to trade above it, in our view.

Additionally, we think FTSE fast-entry requirement of US\$2.2bn free-float market capitalization, is unlikely to be achieved by AADI, as based on FTSE fast-entry rule, only c.10% of free-float during IPO – and excluding free-float from POES/PUPS process – could be counted as free-float for fast-entry. This may mean that AADI need to trade at US\$22bn full market-capitalization in order to fulfil US\$2.2bn free-float market cap requirement, which is very unlikely, in our view.

Nonetheless, we still see potential for AADI to be included as soon as March 2025, as it only need to achieve US\$4.4bn full market capitalization, and free-float market capitalization of US\$461mn, or roughly above FY25F 5x P/E, as unlike MSCI that require 12-months liquidity requirement, FTSE requirement is more loose as any new IPO stock is eligible for evaluation in the semi-annual review (March & September) or quarterly review (December & June, but with a minimum of three-months trading period).

LQ45 – We think LQ45 index inclusion is unlikely to occur in the short-term, as LQ45 constituents are primarily assessed by their liquidity turnover in the past 12-months. If we benchmarked ADMR, its inclusion into LQ45 occurred in Oct24 or around two and a half years since its IPO in early-FY22. Thus, unless liquidity turnover reached ~Rp30-40bn per daily turnover or above over a sustained period of 12-months or more, we think inclusion to LQ45 is less likely, especially in the short-term, in our view.

Nonetheless, we do not fully rule out the possibility of LQ45 inclusion given that there are few subjective requirements that are not stated as there are few exceptions that were made in the past such as GOTO that is included within 3 months after its public offering date.

Index inclusion & share price performance – Based on our case-study, index-inclusion has been positively correlated with share price performance, often heading towards inclusion (T-3 months) as share price tends to underperform the index post-inclusion (Fig. 19). We think this is primarily driven by the nature of the market as it tends to wait for indices inclusion for profit-taking action in order to maximize profit with ample liquidity for an exit, especially during rebalancing date/period.

Fig. 19: MSCI inclusion performances (%)

MSCI standard-cap index		Absolute return (%)		Outperformance vs. JCI	
Entry time	Company	T-3 months	T + 3 months	T-3 months	T + 3 months
May24	TPIA	108%	26%	110%	22%
Nov23	AMMN	132%	12%	133%	7%
May23	GOTO	1%	-17%	4%	-20%
May22	ADMR	96%	-21%	99%	-29%
May22	AMRT	22%	23%	25%	15%
May22	INCO	39%	5%	42%	-3%
Feb22	ARTO	-4%	-41%	-9%	-38%
May21	TBIG	26%	13%	31%	11%
Average		53%	0%	54%	-4%

Source: MSCI, Bloomberg, Indo Premier estimates

Valuation methodology

We employed SOTP method to capture the value of AADI's thermal and coking coal asset (Kestrel) separately. We assigned 6x FY25F P/E multiple target for AADI's thermal coal and CFPP asset and 9x FY25F P/E multiple target along with 20% holding discount for Kestrel (coking coal asset) to arrive at a total valuation of US\$6.1bn (Rp12,000/sh), implying 116% upside from IPO price.

Our target price implies 6.3x FY25F P/E, 10% premium compared to peers' average to factor in AADI's potential volume growth story and lower cash cost. Further incorporating an assumption of royalty cut to 20% (from 28% previously) for AI would translate to an additional US\$202mn NP in FY25F and would push our TP to Rp14,500/sh (US\$7.2bn), implying 161% upside from IPO price.

We think AADI's valuation is too attractive to ignore at IPO price of Rp5,550/sh, implying 2.9x FY25F P/E (~50% discount to peers average), not to mention potential tailwind from royalty rate cut. Thus, we initiate AADI with a Buy rating and SOTP-based TP of Rp12,000/sh. Key downside risk to our estimate is softer than expected coal price.

Fig. 20: SOTP valuation

SOTP valuation summary	US\$m	Remarks
Thermal coal & CFPP	5,140	Multiple target - 6x FY24F P/E
Kestrel	807	Multiple target - 9.0x FY24F P/E, 20% holding disc.
Equity value (US\$m)	5,947	
USD/IDR	15,750	
Outstanding shares	7.8	
Target price (Rp/sh)	12,000	
Current price	5,550	
Upside/downside	116%	
Implied FY25F P/E	6.3	

Source: Indo Premier

Fig. 21: Peers comparison

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				24F	25F	26F	24F	25F	26F	24F	25F	26F
AADI.JJ	Adaro Andalan Indonesia	Buy	12,000	2.2	2.9	3.1	2.2	2.4	2.0	105.6%	15.7%	14.6%
ITMG.JJ	Indo Tambangraya Megah	Hold	22,000	5.2	7.1	8.4	2.4	3.0	3.3	17.0%	12.1%	8.9%
PTBA.JJ	Bukit Asam	Hold	2,900	6.9	6.4	5.4	4.1	3.9	3.3	14.7%	10.9%	11.6%
UNTR.JJ	United Tractors	Buy	33,000	5.3	5.2	5.0	2.5	2.2	1.9	8.6%	8.0%	8.2%

Source: Company, Indo Premier

Income Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net revenue	7,726	5,915	5,154	4,936	5,003
Cost of sales	(3,777)	(4,187)	(3,662)	(3,567)	(3,709)
Gross profit	3,949	1,729	1,491	1,370	1,293
SG&A Expenses	(290)	(312)	(258)	(247)	(250)
Operating profit	3,659	1,417	1,234	1,123	1,043
Net interest	(13)	37	57	79	151
Others	235	132	126	112	31
Income from associates	(33)	(26)	300	0	0
Pre-tax income	3,848	1,560	1,716	1,314	1,226
Income tax	(1,499)	(274)	(343)	(263)	(245)
Minority interest	(285)	(142)	(137)	(105)	(98)
Net income	2,065	1,144	1,236	946	882

Balance Sheet (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	3,380	2,534	684	1,016	1,573
Receivable	609	416	506	494	500
Inventory	120	65	89	119	124
Other current assets	217	254	197	197	197
Total current assets	4,327	3,270	1,477	1,826	2,394
Fixed assets	418	533	568	1,104	1,114
Other non-current assets	3,222	3,260	3,073	3,039	3,003
Total non-current assets	3,639	3,793	3,642	4,142	4,117
Total assets	7,966	7,063	5,119	5,968	6,511
Payable	278	386	431	396	412
Current portion of LT loans	104	756	61	61	61
Other current liabilities	1,735	657	328	328	328
Total current liab.	2,118	1,798	820	785	801
Long term loans	1,082	193	895	1,219	1,177
Other LT liab.	258	281	293	293	293
Total non-current liabilities	1,340	474	1,188	1,512	1,470
Total liabilities	3,458	2,272	2,008	2,297	2,271
Equity	2,366	2,366	2,366	2,366	2,366
Retained earnings	1,618	1,843	26	481	952
Minority interest	524	582	719	824	922
Total SHE + minority int.	4,508	4,790	3,111	3,671	4,240
Total liabilities & equity	7,966	7,063	5,119	5,968	6,511

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Net income	2,065	1,144	1,236	946	882
Depr. & amortization	341	99	120	132	172
Changes in working capital	(229)	356	(69)	(52)	4
Others	958	(1,003)	33	105	98
Cash flow from operating	3,135	595	1,321	1,131	1,157
Capital expenditure	(130)	(52)	(122)	(633)	(146)
Others	381	(27)	0	0	0
Cash flow from investing	251	(79)	(122)	(633)	(146)
Loans	(98)	(241)	3	324	(42)
Equity	368	25	0	0	0
Dividends	(1,258)	(1,283)	(3,053)	(491)	(411)
Others	(499)	133	0	0	0
Cash flow from financing	(1,487)	(1,366)	(3,049)	(167)	(454)
FX effect	(23)	4	0	0	0
Changes in cash	1,877	(846)	(1,850)	332	556

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	51%	29%	29%	28%	26%
Operating margin	47%	24%	24%	23%	21%
Pre-tax margin	50%	26%	33%	27%	25%
Net margin	27%	19%	24%	19%	18%
ROA	26%	16%	24%	16%	14%
ROE	46%	24%	40%	26%	21%
Acct. receivables TO (days)	12.7	14.2	10.2	10.0	10.0
Inventory TO (days)	31.4	64.3	41.0	30.0	30.0
Payable TO (days)	13.6	10.9	8.5	9.0	9.0
Debt to equity	0.3	0.2	0.4	0.4	0.4
Interest coverage ratio (x)	55.0	19.6	23.6	16.3	16.4
Net gearing	(0.5)	(0.4)	0.1	0.1	(0.1)

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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