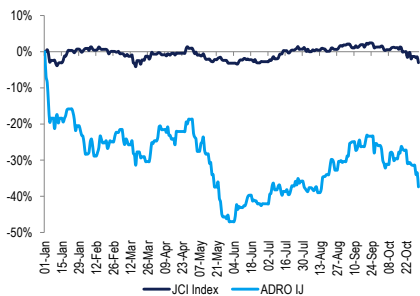


Stock Data

Target price	Rp3,200
Prior TP	Rp4,650
Current price	Rp2,410
Upside/downside	+33%
Shares outstanding (mn)	31,986
Market cap (Rp bn)	77,086
Free float	40%
Avg. 6m daily T/O (Rp bn)	134

Price Performance

	3M	6M	12M
Absolute	0.8%	-19.1%	-35.7%
Relative to JCI	4.4%	-15.9%	-29.9%
52w low/high (Rp)	2,040 – 3,970		



Major Shareholders

Adaro Strategic Investment	43.9%
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Reggie Parengkuan

PT Indo Premier Sekuritas
reggie.parengkuan@ipc.do.id
+62 21 5088 7168 ext. 714

Ryan Winipta

PT Indo Premier Sekuritas
ryan.winipta@ipc.co.id
+62 21 5088 7168 ext. 718

3Q23 result: In-line with ours but beat vs. consensus on better ASP & volume

- 9M23 net profit of US\$1.2bn came in-line with ours (77% IPS), but above consensus (88% cons) as ASP & volume came better than expected.
- 3Q23 net profit (-17% qoq) was soft, driven by lower ASP (-7% qoq) and sales volume (-2% qoq), partly offset by lower cash cost (-2% qoq).
- We revised up our FY23-25F earnings by 1-35%, but cut our LT ASP assumptions; reiterate Buy at lower SOTP-based TP of Rp3,200.

3Q23 earnings declined on lower ASP and volume

ADRO's 9M23 earnings of US\$1.2bn (-36% yoy) came in-line with ours but above consensus estimates at 77/88%. 9M23 revenue of US\$4.9bn (-16% yoy) missed our estimate (at 67%) on lower than expected blended ASP of US\$98/t (-24% yoy, at 92% of est.), while sales volume of 49Mt (+11% yoy) came in-line at 72%. The lower revenue, however, was positively offset by lower than expected cash cost, income tax, and minority interest (Fig. 1). On a quarterly basis, 3Q23 earnings declined to US\$345mn (-17% qoq), mainly driven by lower ASP (-7% qoq) and lower sales volume (-2% qoq), and was partly offset by the improvement in cash cost (-2% qoq).

Sales volume was in-line, ASP/cash cost slightly below

3Q23 sales volume slightly declined to 16.5Mt (-2% qoq), in-line with lower production volume of 17.3Mt (-2% qoq). ASP declined to US\$88/t (-7% qoq), outperforming the decline in ICI price (-17% qoq). Cash cost declined 2% qoq as lower royalty (-12% qoq) and opex (-29% qoq) more than offsets higher mining fee (+17% qoq). While stripping ratio increased to 5.1x (+22% qoq/+23% yoy, in-line with ADRO's mining plan. Overall, 9M23 sales volume of 49.1Mt (+11% yoy) was in-line with our FY23 estimates (at 73%).

We fine-tuned our FY23-25F and LT estimates

We revised up our FY23/24/25F net profit estimates by 1/35/27% to reflect the following: 1) lower blended sales volume of 63/64/65Mt (vs. 67/68/69Mt previously). 2) adjusted blended ASP to US\$100/82/70 per ton (vs. 107/69/62 previously) 3) lower tax rate from 25% to 20% and fine-tuned our minority interest. Despite so, we cut our LT coking coal sales volume to 6Mt (-26%) and lowered LT coking/thermal ASP to US\$220/50 per tonne (-10/-12%). This, resulted in lower DCF-based TP of Rp3,200 (from Rp4,650 previously).

Reiterate Buy rating at lower SOTP-based TP of Rp3,200

We continue to like ADRO amid solid operational performance which shall offer buffer against downside risk in coal price. We reiterate our Buy rating at current valuation of 4.7x FY24F P/E (21% discount to PTBA).

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	3,993	8,102	6,441	5,437	4,781
EBITDA	2,071	4,799	2,447	1,902	1,504
Net profit	1,046	2,493	1,604	1,144	862
EPS growth	612%	138%	-36%	-29%	-25%
ROE	25%	45%	24%	16%	12%
PER (x)	5.2	2.2	3.4	4.7	6.3
EV/EBITDA (x)	2.4	0.6	0.9	1.1	1.2
Dividend yield	2.7%	2.7%	27.7%	17.9%	12.7%
IPS vs. consensus			116%	115%	97%

Source: Company, Indo Premier

Share price closing as of: 1 November 2023

Fig. 1: 9M23 results summary

Forecast changes (US\$ mn)	Previous			New			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	7,438	4,961	4,538	6,441	5,437	4,781	-13%	10%	5%
Cost of sales	(4,657)	(3,398)	(3,258)	(3,854)	(3,487)	(3,293)	-17%	3%	1%
Gross profit	2,782	1,563	1,281	2,587	1,951	1,489	-7%	25%	16%
SG&A Expenses	(345)	(230)	(210)	(438)	(370)	(325)	27%	61%	55%
Operating profit	2,437	1,333	1,070	2,149	1,581	1,163	-12%	19%	9%
Net interest	(25)	(31)	(29)	26	(2)	2	-206%	-92%	-108%
Others	125	105	116	104	65	73	-16%	-38%	-37%
Pre-tax income	2,537	1,407	1,158	2,279	1,644	1,239	-10%	17%	7%
Income tax	(634)	(352)	(289)	(456)	(329)	(248)	-28%	-7%	-14%
Minority interest	(310)	(207)	(189)	(219)	(171)	(129)	-29%	-17%	-32%
Net income	1,593	848	679	1,604	1,144	862	1%	35%	27%

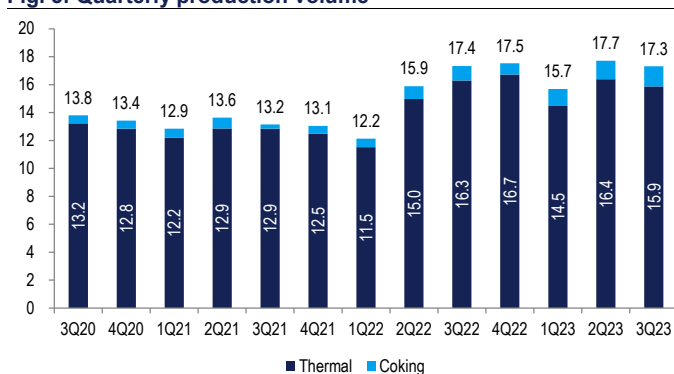
Source: Company, Indo Premier

Fig. 2: 9M23 results summary

ADRO 9M23 results (US\$ mn)	9M23	9M22	yoy%	3Q23	3Q22	yoy%	2Q23	qoq%	IPS FY23F	% of IPS	Cons FY23F	% of cons
Revenue	4,981	5,913	-16%	1,502	2,372	-37%	1,641	-8%	7,438	67%	6,061	82%
COGS	(2,993)	(2,548)	17%	(960)	#####	-7%	(958)	0%	(4,657)	64%	(3,644)	82%
Gross profit	1,988	3,365	-41%	542	1,340	-60%	683	-21%	2,782	71%	2,417	82%
Gross profit margin	40%	57%		36%	56%		42%		37%		40%	
Opex	(332)	(232)	43%	(92)	(89)	3%	(129)	-29%	(345)	96%	(330)	
EBIT	1,655	3,133	-47%	450	1,251	-64%	554	-19%	2,437	68%	2,087	79%
EBIT margin (%)	33%	53%	-37%	30%	53%	-43%	34%		33%		34%	
EBITDA	1,944	3,798	-49%	551	1,459	-62%	667	-17%	3,048	64%	2,412	81%
EBITDA margin (%)	39%	64%		37%	62%		41%		41%		40%	
Interest income	98	23	322%	34	12	195%	30	13%	76	129%		
Interest expenses	(81)	(62)	31%	(27)	(24)	17%	(27)	1%	(101)	81%		
Profit/loss in JV	75	221	-66%	23	44	-48%	22	3%	125	60%		
Others	(37)	18	-300%	(10)	9	N/A	(1)	1396%	-			
Profit before tax	1,710	3,334	-49%	470	1,292	-64%	579	-19%	2,537	67%	2,201	78%
Tax expenses	(332)	(1,165)	-71%	(88)	(469)	-81%	(109)	-19%	(634)			
Minority interests	(159)	(265)	-40%	(37)	(132)	-72%	(54)	-32%	(310)			
Net income	1,219	1,903	-36%	345	691	-50%	416	-17%	1,593	77%	1,383	88%
Core profit	2,331	644	262%	355	682	-48%	416	-15%	1,593	146%	1,383	169%
Coal production volume (m tonnes)	51	45	12%	17.3	17.4	0%	17.7	-2%	67.5	75%		
Coal sales volume (m tonnes)	49	44	11%	16.5	16.7	-1%	16.9	-2%	67.5	73%		
Coal ASP (US\$/tonne)	98	130	-24%	88	137	-36%	94	-7%	107	92%		
Cash cost (US\$/tonne)	55	46	19%	57	56	2%	58	-2%	58	94%		
OB removal (m bcm)	217	174	25%	88	71	23%	73	19%	288	75%		
Strip ratios	4.3	3.8	12%	5.1	4.1	23%	4.1	22%	4.5	95%		

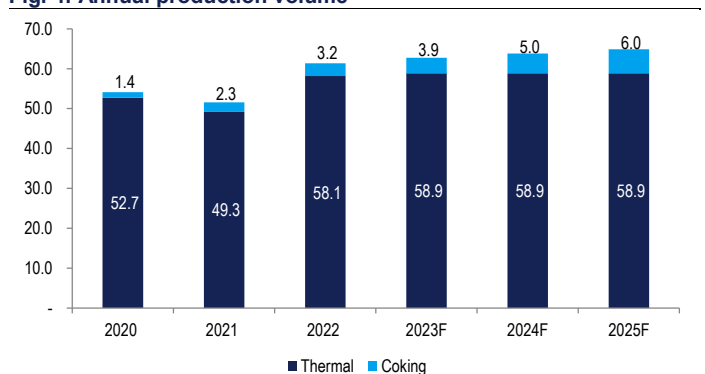
Source: Company, Indo Premier

Fig. 3: Quarterly production volume

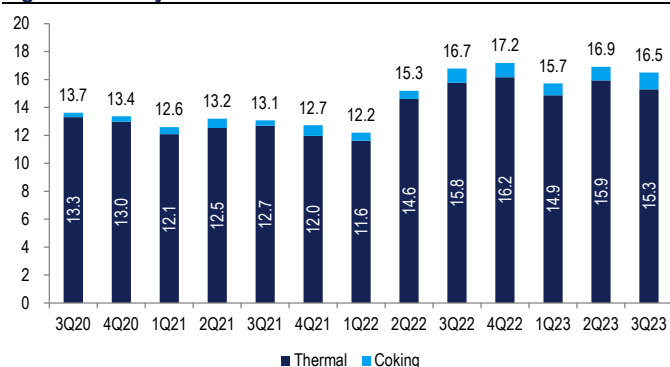


Source: Company, Indo Premier

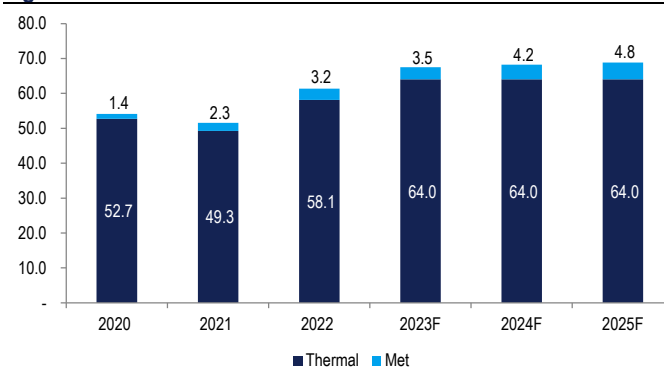
Fig. 4: Annual production volume



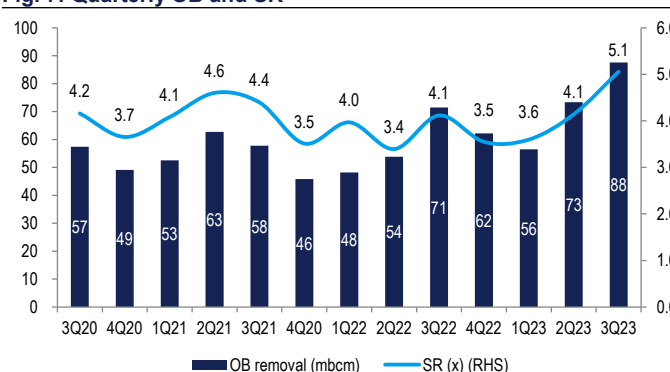
Source: Company, Indo Premier

Fig. 5: Quarterly sales volume


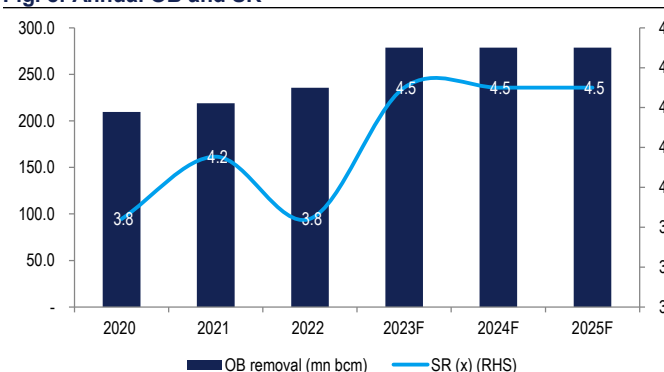
Source: Company, Indo Premier

Fig. 6: Annual sales volume


Source: Company, Indo Premier

Fig. 7: Quarterly OB and SR


Source: Company, Indo Premier

Fig. 8: Annual OB and SR


Source: Company, Indo Premier

Fig. 9: SOTP valuation

SOTP	US\$ mn	Valuation method
Coal assets	3,130	DCF (WACC: 10.9%)
Power	309	Project equity investment (Batang and Tanjung IPP)
Others	567	BV (stake in Kestrel and other investments)
Total	4,006	
Cash	5,480	
Debt proportion	2,276	
Equity value	7,210	
USD/IDR	14,297	
Equity value (Rp tr)	103,078	
No of shares	31,986	
Target price	3,200	
Current share price	2,410	
Upside	33%	

Source: Company, Indo Premier

Fig. 10: ADRO valuation band



Source: Company, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	3,993	8,102	6,441	5,437	4,781
Cost of sales	(2,223)	(3,449)	(3,854)	(3,487)	(3,293)
Gross profit	1,770	4,653	2,587	1,951	1,489
SG&A Expenses	(185)	(375)	(438)	(370)	(325)
Operating profit	1,585	4,277	2,149	1,581	1,163
Net interest	(49)	(42)	26	(2)	2
Forex gain (loss)	0	0	0	0	0
Others	64	240	104	65	73
Pre-tax income	1,599	4,476	2,279	1,644	1,239
Income tax	(458)	(1,645)	(456)	(329)	(248)
Minority interest	(95)	(338)	(219)	(171)	(129)
Net income	1,046	2,493	1,604	1,144	862

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	1,811	4,067	5,214	5,480	5,624
Receivable	586	665	437	369	324
Inventory	126	199	193	174	165
Other current assets	315	388	388	388	388
Total current assets	2,838	5,319	6,232	6,411	6,501
Fixed assets	1,397	1,452	1,778	1,869	1,976
Other non-current assets	3,352	4,011	3,945	3,981	4,023
Total non-current assets	4,749	5,463	5,723	5,850	5,999
Total assets	7,587	10,782	11,955	12,261	12,500
ST loans	0	0	0	0	0
Payable	272	333	482	436	412
Other payables	818	1,939	1,939	1,939	1,939
Current portion of LT loans	271	176	176	176	176
Total current liab.	1,362	2,448	2,596	2,550	2,526
Long term loans	1,333	1,404	2,101	2,100	2,059
Other LT liab.	434	404	404	404	404
Total liabilities	3,129	4,255	5,101	5,054	4,989
Equity	1,353	1,543	1,543	1,543	1,543
Retained earnings	2,783	4,481	4,590	4,771	4,947
Minority interest	322	503	722	892	1,021
Total SHE + minority int.	4,458	6,527	6,855	7,207	7,512
Total liabilities & equity	7,587	10,782	11,955	12,261	12,500

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
EBIT	1,585	4,277	2,149	1,581	1,163
Depr. & amortization	486	521	298	321	340
Changes in working capital	119	956	383	41	30
Others	(754)	(1,891)	0	0	0
Cash flow from operating	1,436	3,864	2,830	1,943	1,534
Capital expenditure	(415)	(595)	(383)	(417)	(497)
Others	(433)	(352)	0	0	0
Cash flow from investing	(645)	(767)	(595)	(383)	(417)
Loans	105	(24)	697	(1)	(41)
Equity	0	0	0	0	0
Dividends	(147)	(147)	(1,496)	(963)	(686)
Others	(111)	(627)	0	0	0
Cash flow from financing	(153)	(798)	(799)	(963)	(727)
Changes in cash	638	2,299	1,436	597	390

Key Ratios (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Gross margin	44%	57%	40%	36%	31%
Operating margin	40%	53%	33%	29%	24%
Pre-tax margin	40%	55%	35%	30%	26%
Net margin	26%	31%	25%	21%	18%
ROA	15%	27%	14%	9%	7%
ROE	25%	45%	24%	16%	12%
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	22.5	17.4	13.8
Net gearing	-5%	-38%	-43%	-44%	-45%

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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