

Adaro Minerals Indonesia

BUY

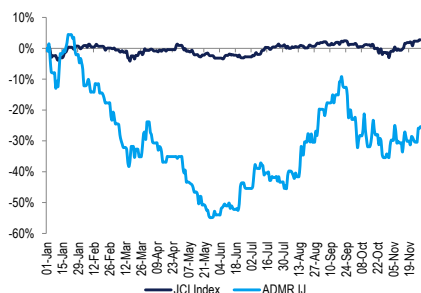
Company Update | Metals | ADMR IJ | 29 November 2023

Stock Data

Target price	Rp1,650
Prior TP	Rp1,650
Current price	Rp1,265
Upside/downside	+30%
Shares outstanding (mn)	40,882
Market cap (Rp bn)	51,716
Free float	23%
Avg. 6m daily T/O (Rp bn)	67

Price Performance

	3M	6M	12M
Absolute	4.1%	58.1%	-22.9%
Relative to JCI	3.0%	52.1%	-23.2%
52w low/high (Rp)	765 – 1,770		



Major Shareholders

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

Ryan Winipta

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

Reggie Parengkuan

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

Tailwind from potential reversal on DMO compensation charge

- On 29 Nov, Ministry of Energy and Mineral Resources has issued a regulation on domestic market obligation (DMO) compensation charge.
- The new tariff is simplified from the previous one, with DMO compensation charges potentially lower vs. ADMR's existing provision.
- While it hasn't been confirmed whether the new tariff is applied retroactively, we estimate FY23-25F EPS impact of 5-7%. Maintain Buy.

New tariff formula: simplified with lower actual compensation charge

The new domestic market obligation (DMO) compensation charge formula will be changed into a simplified tariff tiers that will be imposed based on average coal calorie specifications with three different groups: 1) <3,800 GAR, 2) 3,800-5,000 GAR, and 3) >5,000 GAR, and current coal benchmark prices (HBA, Fig. 1). Previously, the DMO compensation charge formula was also based on calorie specifications in addition to its ash, moisture, and sulphur content, that is adjusted with the realized ASP for each coal-miner and DMO % ratio. Note that the new DMO compensation charge is actually very similar to the previous regulation prior to Nov-22 revision, and our estimates for the new DMO charges is much lower vs. ADMR's 9M23 provision on DMO charge (Fig. 2), indicating a potential reversal in 4Q23F/FY23F.

+ve impact to ADMR, reversal from 9M23 is the most likely scenario

We think the impact to ADMR is positive, as this would reduce DMO compensation charges that need to be expensed/provisioned by ADMR starting 4Q23F onwards; impact to FY24F/25F NP would be 5-6% (excl. reversal). While there is a possibility that the regulation would be retroactively applied up until FY22, we think the most likely scenario is for the reversal on 9M23's DMO charges rather than 9M23 + FY22, given the time-frame of the regulation, based on our channel-checks with coal company, but this is still subject to further clarification by the company. We conducted a scenario analysis to FY23F NP, indicating 7-17% potential upgrade to our FY23F forecast and +17-29% vs. consensus NP estimates.

Maintain our Buy rating with unchanged TP of Rp1,650/share

We maintain our FY23F/24F/25F NP forecast for now, subject to further clarity on the regulation from the company. Maintain our Buy rating with an unchanged SOTP-based TP of Rp1,650/share (Fig 4). Downside risks include easing supply tightness and deteriorating macro-economic sentiments.

Financial Summary (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Revenue	460	908	1,018	1,199	1,782
EBITDA	248	490	491	555	621
Net profit	155	332	343	395	387
EPS growth	-664%	114%	3%	15%	-2%
ROE	77%	60%	38%	30%	23%
PER (x)	21.5	10.0	9.7	8.5	8.6
EV/EBITDA (x)	13.5	6.9	7.5	7.7	7.0
Dividend yield	0%	0%	0%	0%	0%
IPS vs. consensus			110%	116%	103%

Source: Company, Indo Premier

Share price closing as of: 29 November 2023

Fig. 1: New DMO compensation charge tariff (based on coal CV specifications and prevailing HBA price)

		Tariff (US\$/ton)		
HBA price (US\$/t)	Variable	<3,800 GAR	>3,800 - 5,000 GAR	> 5,000 GAR
HBA <50	0	0.0	0.0	0.0
50 < HBA < 60	0.5	0.3	0.5	0.8
60 < HBA < 70	1	0.5	1.0	1.5
70 < HBA < 80	1.5	0.8	1.5	2.3
80 < HBA < 90	2	1.0	2.0	3.0
90 < HBA < 100	2.5	1.3	2.5	3.8
100 < HBA < 110	3	1.5	3.0	4.5
110 < HBA < 120	3.5	1.8	3.5	5.3
120 < HBA < 130	4	2.0	4.0	6.0
130 < HBA < 140	4.5	2.3	4.5	6.8
140 < HBA < 150	5	2.5	5.0	7.5
150 < HBA < 160	5.5	2.8	5.5	8.3
160 < HBA < 170	6	3.0	6.0	9.0
170 < HBA < 180	6.5	3.3	6.5	9.8
180 < HBA < 190	7	3.5	7.0	10.5
190 < HBA < 200	7.5	3.8	7.5	11.3
200 < HBA < 210	8	4.0	8.0	12.0
210 < HBA < 220	8.5	4.3	8.5	12.8
220 < HBA < 230	9	4.5	9.0	13.5
230 < HBA < 240	9.5	4.8	9.5	14.3
240 < HBA < 250	10	5.0	10.0	15.0
250 < HBA < 260	10.5	5.3	10.5	15.8
260 < HBA < 270	11	5.5	11.0	16.5
270 < HBA < 280	11.5	5.8	11.5	17.3
280 < HBA < 290	12	6.0	12.0	18.0

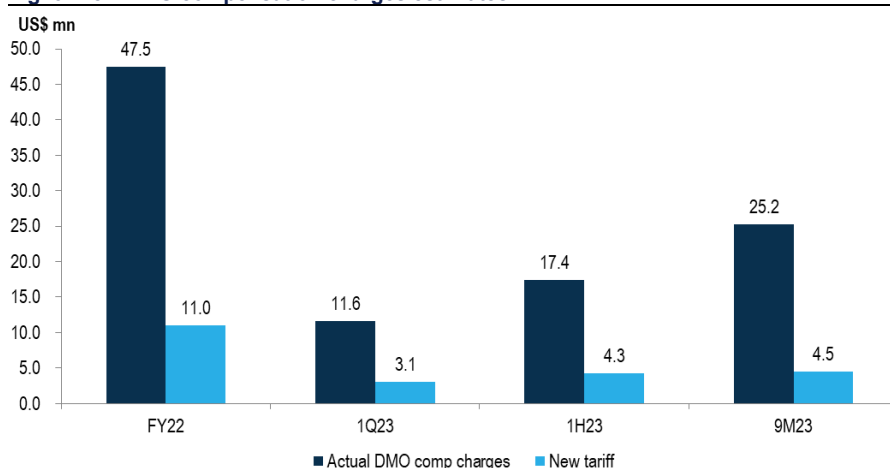
Source: Ministry of Energy and Mineral Resources (MEMR), Indo Premier; HBA base: 6,322kcal/kg

Fig. 2: New DMO compensation charges estimates

ADMR (US\$ mn)	FY22	1Q23	1H23	9M23
Sales volume (mn ton)	3.2	0.9	1.8	3.0
Domestic (% sales)	5%	5%	10%	14%
Required DMO (mn)	0.80	0.21	0.46	0.75
Actual realization	0.16	0.04	0.18	0.42
Delta (P-R), mn ton	0.64	0.17	0.27	0.33
Average HBA price	276.6	288.4	254.7	225.9
Tariff (A), US\$/ton	17.3	18.0	15.8	13.5
DMO charge - A x (P-R)	11.0	3.1	4.3	4.5

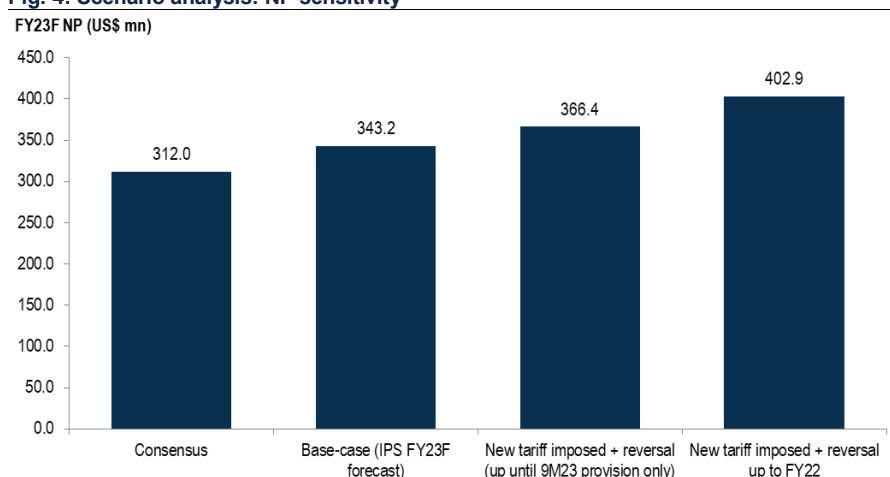
Source: Company, Indo Premier

Fig. 3: New DMO compensation charges estimates



Source: Company, Indo Premier

Fig. 4: Scenario analysis: NP sensitivity



Source: Company, Indo Premier

Fig. 5: ADMR's sum-of-the-parts (SOTP) valuation

	(US\$ mn)	Methodology
Met coal	4,279	DCF (LTG: 0%, WACC: 11.0%)
Aluminium	176	DCF (LTG: 0%, WACC: 11.3%)
Net Cash (debt)	(45)	FY24F Net Cash (Debt)
Total NPV	4,411	
NPV per share	0.11	
NPV per share (Rp)	1,650	
Current share price	1,185	
Upside	39%	

Source: Company, Indo Premier

Income Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net revenue	460	908	1,018	1,199	1,782
Cost of sales	(220)	(373)	(499)	(628)	(1,129)
Gross profit	240	535	519	571	653
SG&A Expenses	(25)	(75)	(65)	(66)	(95)
Operating profit	216	460	454	505	558
Net interest	(16)	(21)	(14)	(0)	(63)
Forex gain (loss)	0	0	0	0	0
Others	2	(2)	0	0	0
Pre-tax income	202	438	440	504	495
Income tax	(45)	(102)	(98)	(111)	(109)
Minority interest	2	4	1	1	1
Net income	158	339	343	395	387

Balance Sheet (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	181	511	551	362	640
Receivable	95	71	79	91	133
Inventory	33	53	111	140	251
Other current assets	8	11	11	11	11
Total current assets	317	646	751	604	1,035
Fixed assets	607	594	660	1,210	1,947
Other non-current assets	43	47	56	56	56
Total non-current assets	649	640	716	1,266	2,003
Total assets	966	1,287	1,467	1,870	3,037
ST loans	0	0	0	0	0
Payable	20	23	30	38	68
Other payables	44	88	88	88	88
Current portion of LT loans	0	0	0	0	0
Total current liab.	92	197	205	212	243
Long term loans	634	487	317	317	1,067
Other LT liab.	34	33	33	33	33
Total liabilities	760	717	555	563	1,343
Equity	121	121	121	121	121
Retained earnings	82	414	757	1,152	1,539
Minority interest	0	0	0	0	0
Total SHE + minority int.	205	569	913	1,307	1,694
Total liabilities & equity	966	1,287	1,467	1,870	3,037

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2021A	2022A	2023F	2024F	2025F
Net income	192	364	343	395	387
Depr. & amortization	32	30	37	50	64
Changes in working capital	(22)	75	(58)	(34)	(122)
Others	0	0	0	0	0
Cash flow from operating	202	469	323	411	329
Capital expenditure	(1)	(17)	(104)	(600)	(800)
Others	(46)	(7)	(9)	0	0
Cash flow from investing	(47)	(24)	(113)	(600)	(800)
Loans	146	(147)	(170)	0	750
Equity	(162)	32	0	0	0
Dividends	0	0	0	0	0
Others	0	0	0	0	0
Cash flow from financing	(17)	(115)	(170)	0	750
Changes in cash	138	331	39	(189)	279

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	52%	59%	51%	48%	37%
Operating margin	47%	51%	45%	42%	31%
Pre-tax margin	44%	48%	43%	42%	28%
Net margin	34%	37%	34%	33%	22%
ROA	16%	26%	23%	21%	13%
ROE	77%	60%	38%	30%	23%
Acct. receivables TO (days)	4.9	12.8	13.0	13.1	13.4
Inventory TO (days)	6.6	7.0	4.5	4.5	4.5
Payable TO (days)	10.9	16.5	16.5	16.5	16.5
Debt to equity	3.1	0.9	0.4	0.2	0.6
Interest coverage ratio (x)	0.7	0.4	0.2	0.2	0.4
Net gearing	2.2	(0.0)	(0.3)	(0.0)	0.3