

Adaro Energy

BUY (unchanged)

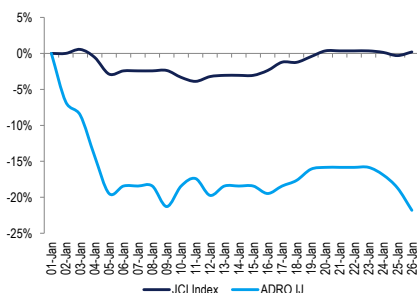
Company Update | Coal | ADRO IJ | 27 January 2023

Stock Data

Target price	Rp4,640
Prior TP	Rp5,450
Current price	Rp3,010
Upside/downside	+54%
Shares outstanding (mn)	31,986
Market cap (Rp bn)	96,278
Free float	41%
Avg. 6m daily T/O (Rp bn)	269

Price Performance

	3M	6M	12M
Absolute	-23.4%	-8.2%	36.2%
Relative to JCI	-20.9%	-7.7%	32.2%
52w low/high (Rp)	2,160 – 4,140		



Major Shareholders

Adaro Strategic Investment	43.9%
----------------------------	-------

Erindra Krisnawan, CFA

PT Indo Premier Sekuritas
erindra.krisnawan@ipc.do.id
+62 21 5088 7168 ext. 718

Reggie Parengkuan

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

A potentially strong 4Q22 but capex for future growth may remain high

- Management indicated strong 4Q22 sales volume due to improving weather condition; we estimate FY22 to be in-line with our estimates.
- We adjusted FY23/24F earnings by -2/3% to reflect higher interest costs.
- Maintain Buy rating at a lower SOTP-based of Rp4,640 to reflect higher capex.

Expect a strong 4Q22 top line; in-line FY22

ADRO's thermal and coking coal sales volume improved in 3Q22 to 15.8/1Mt (+9/13% qoq, +27/243% yoy) driven by stronger production and improving logistics. Our check with management indicated that this shall continue in 4Q22 on the back of improving weather condition and expect FY22 sales volume target to slightly exceed its guidance (56-60Mt). We estimate that this shall translate to 4Q22 thermal/ coking coal sales volume of +2%/flat qoq which shall bring FY22 total sales volume to c.61Mt (at 101% of our FY22 forecast). Combined with higher ASPs (ICI4 average of US\$92/t in 4Q22 vs. US\$81/t in 3Q22), we estimate that this shall translate to FY22 US\$8.4bn revenue (at 100/108% of ours/consensus estimates).

Factoring in higher capex from growth projects

Management indicated capex for organic business growth of US\$600mn mainly for heavy equipment procurement (for Balangan, MIP, and ADMR production expansion). Meanwhile, growth capex is indicated at US\$2.1bn for power plant (US\$1bn) and ADMR's smelter and jetty (US\$1.1bn). We raised our FY23F capex assumption to US\$2.8bn (from US\$1.9bn previously) to mainly reflect growth capex, and assumed 70% debt financing.

We lowered FY23F estimates on higher interest

We maintained our FY22F earnings but revised down FY23/24F earnings by 2/3% to reflect the following: 1) Higher FY23/24F production volume to 63Mt from 61Mt previously to reflect improving weather outlook. 2) Higher capex to US\$2.8bn, and additional debt financing (US\$1.5bn).

Maintain Buy at a lower SOTP-based TP of Rp4,640

We cut our SOTP-based TP to Rp4,640 from Rp5,450 on our lower earnings forecast and higher capex and debt. We maintain our Buy rating as ADRO currently traded at 2.2x EV/EBITDA (40% discount to 10yr average). We expect valuation from ADRO's growth projects (i.e., aluminium smelter, Kaltara industrial estate) to cushion downside from ST coal price correction. Key risks are weaker than expected coal price and project delays.

Financial Summary (US\$ mn)	2020A	2021A	2022F	2023F	2024F
Revenue	2,535	3,993	8,386	5,913	4,861
EBITDA	861	2,071	4,552	2,528	2,383
Net profit	273	990	3,062	1,357	1,148
EPS growth	-64%	612%	193%	-56%	-15%
ROE	4%	25%	53%	20%	16%
PER (x)	11.0	3.0	1.0	2.2	2.6
EV/EBITDA (x)	7.5	3.0	1.1	3.0	3.0
Dividend yield	8.3%	4.9%	20.9%	61.0%	27.0%
IPS vs. consensus			125%	87%	103%

Source: Company, Indo Premier

Share price closing as of: 26 January 2023

Fig. 1: Forecast changes summary

Forecast changes (US\$ mn)	Previous			New			Changes		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Net revenue	8,386	5,775	4,757	8,386	5,913	4,861	0%	2%	2%
Cost of sales	(3,992)	(3,734)	(3,023)	(3,992)	(3,827)	(3,100)	0%	2%	3%
Gross profit	4,394	2,041	1,734	4,394	2,087	1,761	0%	2%	2%
SG&A Expenses	(389)	(268)	(220)	(389)	(274)	(225)	0%	2%	2%
Operating profit	4,005	1,773	1,514	4,006	1,813	1,536	0%	2%	1%
Net interest	(34)	(2)	2	(34)	(66)	(61)	-1%	3175%	-3166%
Others	105	125	105	105	125	105	0%	0%	0%
Pre-tax income	4,076	1,896	1,621	4,077	1,872	1,579	0%	-1%	-3%
Income tax	(815)	(379)	(324)	(815)	(374)	(316)	0%	-1%	-3%
Minority interest	(200)	(138)	(113)	(200)	(141)	(116)	0%	2%	2%
Net income	3,061	1,379	1,184	3,062	1,357	1,148	0%	-2%	-3%

Source: Company, Indo Premier

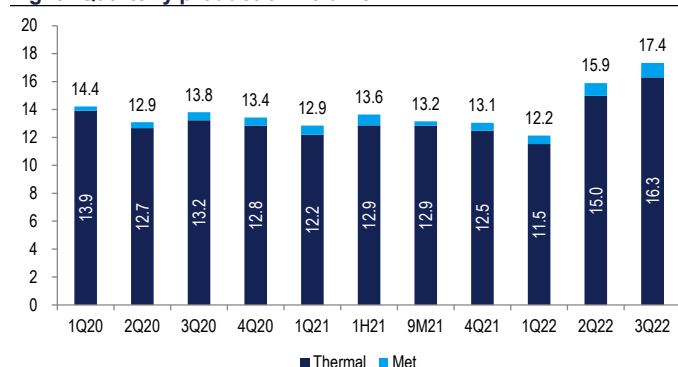
Fig. 2: ASP

ADRO	3M22	1H22	9M22	FY22F	1Q22	2Q22	3Q22	4Q22F
Coal revenue (US\$ mn)	1,188	3,462	5,749	8,392	1,188	2,274	2,287	2,643
Sales volume (mn ton)	12.2	27.5	44.2	61	12.2	15.3	16.7	17.0
Blended coal ASP/ton	97	126	130	137	97	149	137	155

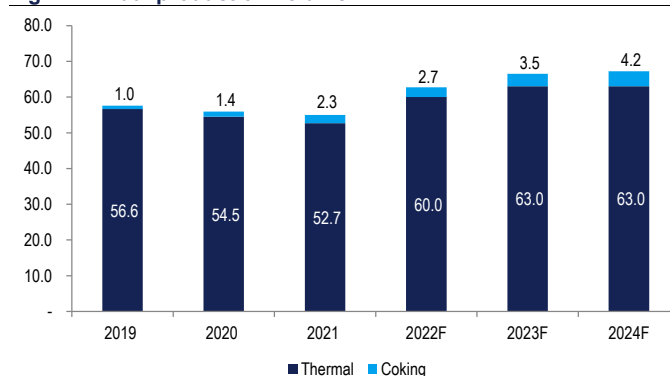
ADMR	3M22	1H22	9M22	FY22F	1Q22	2Q22	3Q22	4Q22F
Metcoal revenue (US\$ mn)	182	434	664	948	182	252	230	284
Sales volume (mn ton)	0.6	1.3	2.2	3	0.6	0.7	0.9	1.0
Met coal ASP/ton	308	339	303	297	308	366	253	284

Thermal	3M22	1H22	9M22	FY22F	1Q22	2Q22	3Q22	4Q22F
Coal revenue (US\$ mn)	1,006	3,027	5,084	7,444	1,006	2,022	2,057	2,359
Sales volume (mn ton)	11.6	26.2	42.0	58	11.6	14.6	15.8	16.0
Thermal coal ASP/ton	87	116	121	128	87	138	130	147

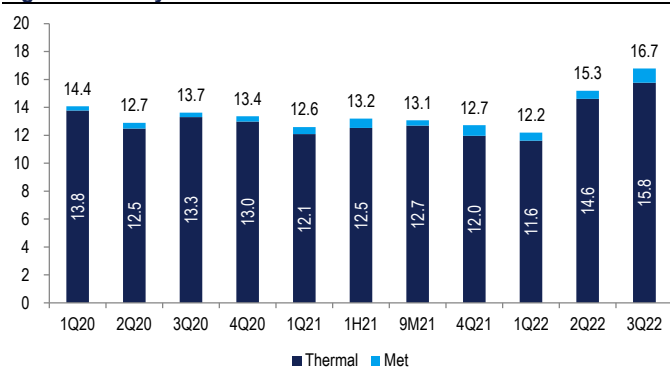
Source: Company, Indo Premier

Fig. 3: Quarterly production volume


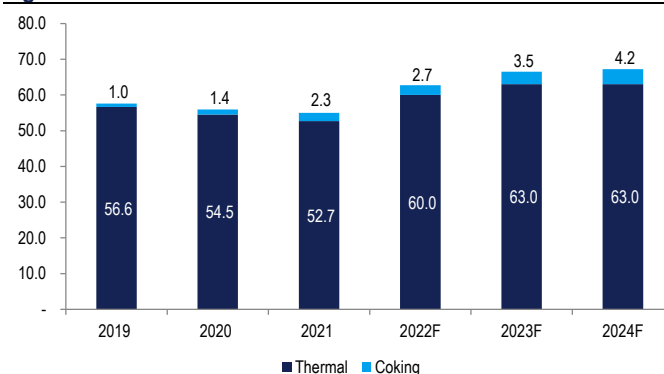
Source: Company, Indo Premier

Fig. 4: Annual production volume


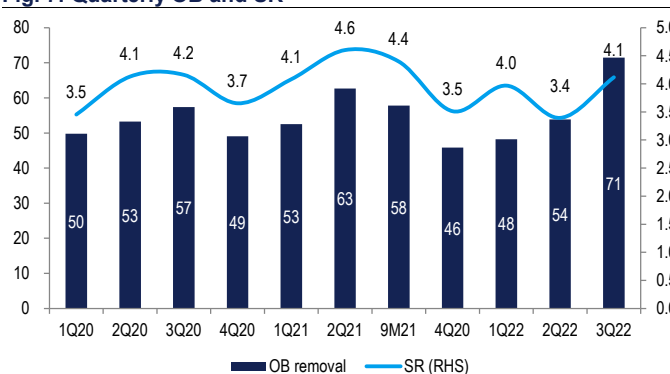
Source: Company, Indo Premier

Fig. 5: Quarterly sales volume


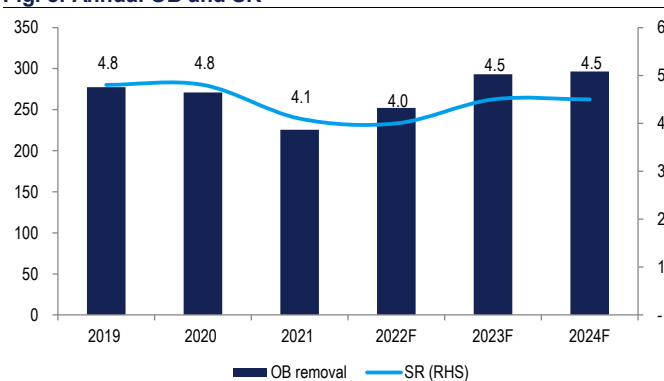
Source: Company, Indo Premier

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	10,946	DCF (WACC: 10.9%; LT growth: 10%)
Power	309	Project equity investment (Batang and Tanjung IPP)
Others	567	BV (stake in Kestrel and other investments)
Total	11,823	
Cash	928	
Debt proportion	2,371	
Equity value	10,379	
USD/IDR	14,297	
Equity value (Rp tr)	148,391	
No of shares	31,986	
Target price	4,640	
Current share price	3,010	
Upside	54%	

Source: Company, Indo Premier

Fig. 10: ADRO EV/ EBITDA



Source: Company, Indo Premier

Income Statement (US\$ mn)	2020A	2021A	2022F	2023F	2024F
Net revenue	2,535	3,993	8,386	5,913	4,861
Cost of sales	(1,958)	(2,223)	(3,992)	(3,827)	(3,100)
Gross profit	577	1,770	4,394	2,087	1,761
SG&A Expenses	(165)	(185)	(389)	(274)	(225)
Operating profit	411	1,585	4,006	1,813	1,536
Net interest	(54)	(49)	(34)	(66)	(61)
Forex gain (loss)	0	0	0	0	0
Others	(135)	64	105	125	105
Pre-tax income	222	1,599	4,077	1,872	1,579
Income tax	(64)	(458)	(815)	(374)	(316)
Minority interest	(12)	(95)	(200)	(141)	(116)
Net income	147	1,046	3,062	1,357	1,148

Balance Sheet (US\$ mn)	2020A	2021A	2022F	2023F	2024F
Cash & equivalent	1,174	1,811	2,212	1,341	1,635
Receivable	224	586	671	473	389
Inventory	105	126	200	191	155
Other current assets	229	315	315	315	315
Total current assets	1,732	2,838	3,397	2,321	2,494
Fixed assets	1,539	1,397	2,250	3,202	3,307
Other non-current assets	3,111	3,352	4,069	5,332	5,411
Total non-current assets	4,650	4,749	6,319	8,534	8,719
Total assets	6,382	7,587	9,716	10,855	11,213
ST loans	0	0	0	0	0
Payable	214	272	499	478	388
Other payables	288	818	818	818	818
Current portion of LT loans	643	271	271	271	271
Total current liab.	1,145	1,362	1,588	1,567	1,477
Long term loans	856	1,333	601	2,101	2,100
Other LT liab.	429	434	434	434	434
Total liabilities	2,430	3,129	2,624	4,102	4,011
Equity	1,365	1,353	1,353	1,353	1,353
Retained earnings	2,347	2,783	5,218	4,737	5,071
Minority interest	240	322	521	662	778
Total SHE + minority int.	3,952	4,458	7,092	6,753	7,202
Total liabilities & equity	6,382	7,587	9,716	10,855	11,213

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2020A	2021A	2022F	2023F	2024F
Net income	411	1,585	4,006	1,813	1,536
Depr. & amortization	449	486	546	716	847
Changes in working capital	(206)	119	68	185	30
Others	81	(754)	0	0	0
Cash flow from operating	736	1,436	4,620	2,714	2,413
Capital expenditure	(212)	(1,998)	(2,806)	(927)	(1,096)
Others	(146)	(433)	0	0	0
Cash flow from investing	(359)	(645)	(1,998)	(2,806)	(927)
Loans	(447)	105	(731)	1,499	(1)
Equity	0	0	0	0	0
Dividends	(250)	(147)	(628)	(1,837)	(814)
Others	(81)	(111)	0	0	0
Cash flow from financing	(778)	(153)	(1,359)	(338)	(815)
Changes in cash	(401)	638	1,262	(430)	671

Key Ratios (US\$ mn)	2020A	2021A	2022F	2023F	2024F
Gross margin	23%	44%	52%	35%	36%
Operating margin	16%	40%	48%	31%	32%
Pre-tax margin	9%	40%	49%	32%	32%
Net margin	6%	26%	37%	23%	24%
ROA	2%	15%	35%	13%	10%
ROE	4%	25%	53%	20%	16%
Acct. receivables TO (days)	9.5	11.8	12.5	12.5	12.5
Inventory TO (days)	17.3	19.3	20.0	20.0	20.0
Payable TO (days)	7.1	9.1	8.0	8.0	8.0
Debt to equity	38%	36%	12%	35%	33%
Interest coverage ratio (x)	9.6	24.8	71.6	25.2	23.5
Net gearing	8%	-5%	-19%	15%	10%

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

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

DISCLAIMERS

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have any regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT Indo Premier Sekuritas or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.