

Safer Bet on Coal

4 June 2024



We upgraded our 2024 net profit forecast for ADRO by 29% to USD 1.14 bn, driven by a lower spread between Newcastle coal prices and ADRO's ASP and slightly higher production, while geopolitical tensions and global supply-demand changes are expected to balance the market. We also upgraded ADRO to HOLD with a new TP of IDR 3,200, anticipating higher Newcastle coal prices assumption for 2025-26 compared with our previous expectation. We still expect lower prices than in 2024 anticipating slower global economic growth due to the FED's prolonged higher interest rates.

**Booked solid profit generation in 1Q24**

In 1Q24, ADRO booked solid net profit generation amid lower coal price of US\$364 mn (-18.3% yoy, -11.4% qoq). The solid net profit generation stems from a combination of factors, including a 5% yoy growth in sales volume and a significant 29% reduction in indicative cash costs. This achievement is notable in the face of a challenging 24% yoy decline in ASP. The performance in 1Q24 exceeded both our internal estimates and street projections, representing 42.4% of our estimate (US\$883 mn) and 34.9% (US\$ 1.04 bn) of the street estimate, respectively.

**Upgrade our net profit forecast by 29% for 2024F**

We upgraded our earnings estimate to US\$1.14 bn for 2024F (-30.6% yoy), mostly driven by lower spread between Newcastle coal price to ADRO's ASP and a slightly higher production level to 68 Mt in 2024 (previously 66 Mt). Despite higher average Newcastle price in 2Q24 (up to May'24) compared to 1Q24, lower ICI 3 average price (as of May'24) could lead to a decline in earnings on a qoq basis. Meanwhile, the ICI 4 average price has remained relatively stable in 2Q24 compared to 1Q24.

**Geopolitical tension over shortages**

Stronger-than-expected economic growth and robust government stimulus in China, coupled with lower coal production in the 4M24, are projected to improve the supply-demand balance for the remainder of the year. Wood Mackenzie has revised its Apr'24 outlook to a balanced supply-demand scenario, eliminating the previously forecasted 16M tonnes surplus estimation seen in Feb'24.

However, increased coal production from Mongolia, Indonesia, India, and Australia is mitigating the impact of China's reduced output. Additionally, hydropower generation in China is anticipated to surge significantly in 2Q24, driven by substantial rainfall in South China during the flooding season. Geopolitical tensions have reconfigured the global coal supply chain, replacing shortages with new supply-demand conflicts, which present substantial challenges for coal prices in the coming years. In response to these dynamics, Russia has announced the removal of export tariffs on thermal coal and anthracite from May 1 to August 31, aiming to bolster its coal industry.

**Upgrade to HOLD with TP of IDR3,200**

We upgraded ADRO to HOLD with a target price of IDR3,200 (previously IDR 2,320), anticipating higher Newcastle coal prices assumption of USD115 for 2025 and USD110 for 2026 (previously USD100 and USD 90, respectively as well assigned lower spread between Newcastle and ADRO's ASP. We still expect lower prices than in 2024 anticipating slower global economic growth due to the FED's prolonged higher interest rates.

Our DCF based TP assumed WACC of 13%, a LTG rate of -5%, and a long-term coal price of USD90 per tonne. This implies a 2.1x 2024F EV/EBITDA (+0.3 standard deviations from the 5-year mean). With the company's strong net cash position of USD3.0 bn in 24F, along with its outperforming financial results compared to other coal producers and a share-buyback program, could mitigate any decline in share prices.

**Exhibit 1 : Key Statistics**

Year end Dec (USD mn)	2022A	2023A	2024F	2025F	2026F
Revenue	8,102	6,518	4,998	4,649	4,447
Net Income	2,493	1,641	1,139	925	816
EPS (IDR)	1,185	770	548	445	393
P/E	2.5	3.8	5.3	6.6	7.5
EV/EBITDA	0.7	1.3	1.4	1.4	1.4
P/BV	0.9	0.8	0.7	0.7	0.6
ROE	41.4	24.2	15.8	12.0	10.0
Dividend Yield	22.2	34.1	27.3	18.9	15.4
Net gearing (%)	(39.2)	(36.2)	(37.6)	(38.7)	(39.8)

Source: Company, KBVS Research

ADRO IJ	HOLD
Sector	Coal
Price at 3 June 2024 (IDR)	2,930
Price target (IDR)	3,200
Upside/Downside (%)	9.2

**Stock Information**

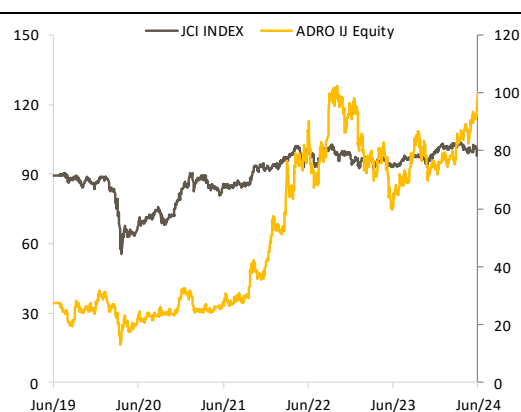
PT Adaro Energy Indonesia Tbk is a coal mining company. The Company produces thermal coal product, envirocoal, sub-bituminous coal with medium calorific value, and ultra-low pollutant content.

Market cap (IDR bn)	93,719
Shares outstanding (mn)	31,986
52-week range (IDR)	2080 - 2990
3M average daily vol. ('000)	46,560
3M average daily val. (IDR mn)	127,202

**Shareholders (%)**

Adaro Strategic Investment	43.9
Affiliated Parties	19.8
Treasury Shares	3.7
Public	32.6

**Stock Performance**



Source: Bloomberg

	1M	3M	12M
Performance	7.0	15.0	43.1

**Analyst**

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Exhibit 2: Financial Summary

(US\$ mn)	1Q24	1Q23	YoY (%)	QoQ (%)
ASP (US\$/ton)	86.2	114	-24%	-3%
Sales Volume (Mt)	16.5	15.7	5%	-1%
<b>Revenues</b>	<b>1,443</b>	<b>1,839</b>	<b>-21.5%</b>	<b>-6.1%</b>
COGS	(815)	(1,075)	-24.2%	-17.4%
<b>Gross Profit</b>	<b>628</b>	<b>763</b>	<b>-17.7%</b>	<b>14.2%</b>
Operating expenses	(108)	(112)	-3.5%	836.2%
Other income (expenses)	(6)	(26)	-77.0%	434.3%
<b>EBIT</b>	<b>514</b>	<b>625</b>	<b>-17.8%</b>	<b>-4.3%</b>
<b>EBITDA</b>	<b>595</b>	<b>697</b>	<b>-14.7%</b>	<b>-5.2%</b>
Finance costs	(23)	(27)	-12.8%	-17.1%
Interest income	39	33	16.0%	-9.3%
Share in profit of JV	3	30	-89.0%	-89.8%
<b>PBT</b>	<b>533</b>	<b>662</b>	<b>-19.5%</b>	<b>-8.8%</b>
Tax expense	(106)	(136)	-21.6%	-0.6%
Minority interest	(52)	(68)	-23.6%	-5.0%
<b>Net Profit</b>	<b>374</b>	<b>458</b>	<b>-18.3%</b>	<b>-11.4%</b>
Gross Margin	44%	42%		
EBITDA Margin	41%	38%		
Net Margin	26%	25%		
Cash cost (US\$/ton)	51	73		

Source: Company, Bloomberg, KBVS Research

Exhibit 3: Coal supply-demand outlook

	2019	2020	2021	2022	2023	2024F	2025F
<b>Seaborne Exporters (Mt)</b>	<b>1,021</b>	<b>913</b>	<b>958</b>	<b>962</b>	<b>1,046</b>	<b>1,058</b>	<b>1,047</b>
Australia	212	200	199	178	202	203	213
China	5	2	3	4	4	3	2
Colombia	71	51	55	52	53	64	59
Indonesia	456	403	430	459	512	525	517
North Korea	0	0	0	0	0	0	0
Russia	144	142	149	139	134	128	129
South Africa	74	71	61	62	67	68	64
US	36	26	37	35	44	39	38
Others	23	18	26	34	30	28	24
<b>Seaborne Importers (Mt)</b>	<b>1,002</b>	<b>931</b>	<b>970</b>	<b>946</b>	<b>1,052</b>	<b>1,058</b>	<b>1,048</b>
China	189	199	246	208	327	345	332
India	187	161	148	166	180	172	172
Japan	126	119	125	127	102	101	99
South Korea	106	90	91	92	89	94	94
Taiwan	57	54	57	55	52	52	51
Vietnam	34	46	26	34	49	49	54
Other Asia	127	127	132	120	126	133	149
Germany	26	17	24	27	16	10	9
UK	2	1	2	3	1	2	1
Other Non Asia	147	117	120	114	112	100	86
<b>Global Balance (Mt): demand minus supply</b>	<b>-19</b>	<b>19</b>	<b>11</b>	<b>-17</b>	<b>6</b>	<b>0</b>	<b>1</b>

Source: Wood Mackenzie, KBVS Research

Exhibit 4: ADRO Mine Contribution

Production Volume	1Q24	1Q23	yoy (%)
AI	13.21	11.81	12%
Balangan	2.16	1.9	14%
MIP	1.14	0.77	48%
AMI	1.56	1.22	27%
<b>Total</b>	<b>18.07</b>	<b>15.7</b>	<b>15%</b>

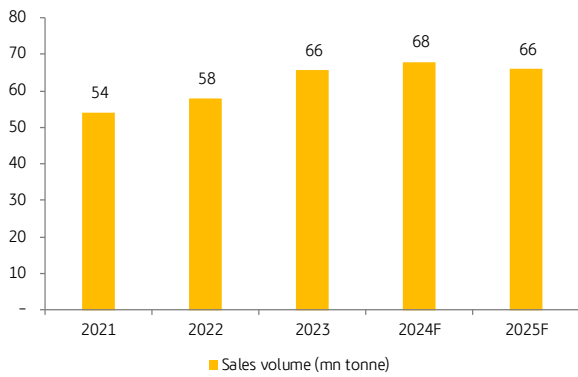
Source: Company, KBVS Research

Exhibit 5: ADRO's DCF Valuation

US\$ mn	2024F	2025F	2026F	2027F	2028F
Net Profit	1,139	925	816	1,008	488
Interest expense (1- tax)	82	56	48	40	32
Depreciation	477	521	557	586	608
Working Capital	6	25	19	(38)	85
Capex	(629)	(700)	(700)	(700)	(700)
FCFF	1,075	828	741	896	513
PV FCFF	951	648	513	549	279
PV Teriminal value	1,470				
Net Debt	(2,684)				
Equity Value	7,095				
Minority Interest	(825)				
Target Price (IDR/share)	3,199				
Target Price (Rounded)	3,200				

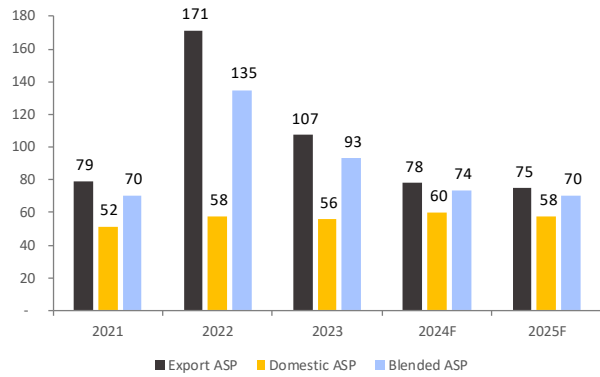
Source: Company, KBVS Research

Exhibit 6: ADRO's Production Volume (Mt)



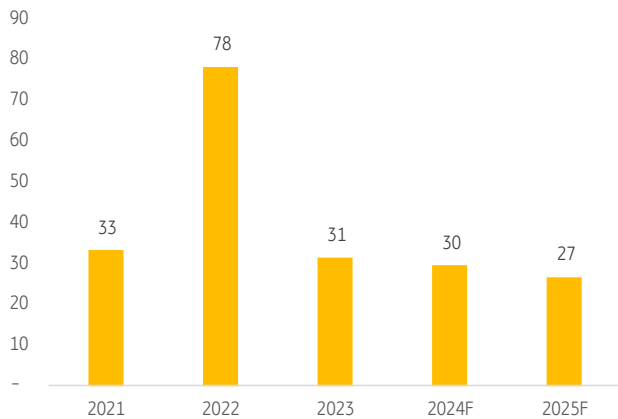
Source: Company, KBVS Research

Exhibit 7: ADRO's Indicative ASP exclude trading business (USD/ton)



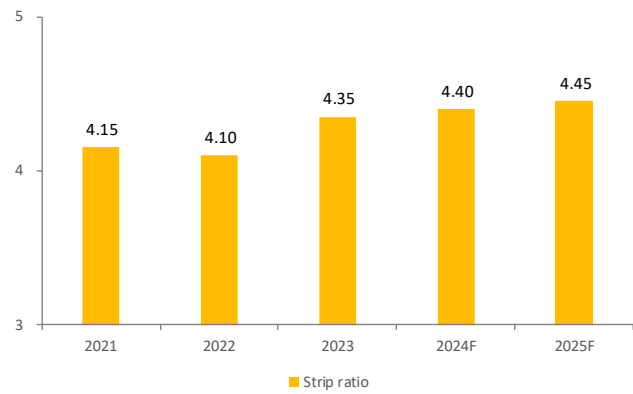
Source: Company, KBVS Research

Exhibit 8: ADRO's Indicative Cash Margin (USD/ ton)



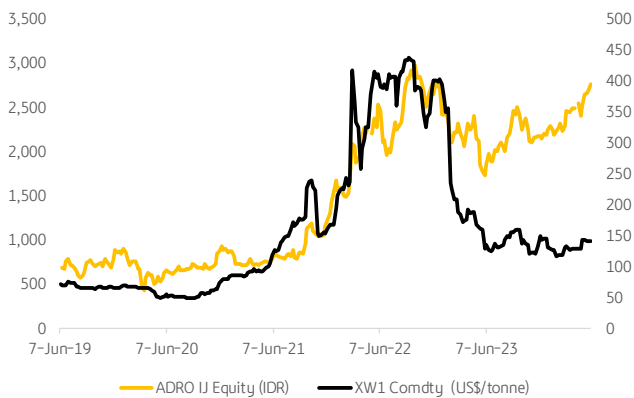
Source: Company, KBVS Research

Exhibit 9: ADRO' Stripping Ratio (x)



Source: Company, KBVS Research

Exhibit 10: Newcastle Coal Price VS ADRO's Share Price



Source: Bloomberg, KBVS Research

Exhibit 11: ADRO's Forward EV/EBITDA



Source: Bloomberg, KBVS Research

FINANCIAL TABLES

Exhibit 12: Profit & Loss summary

Profit & Loss (USD mn)	2022	2023	2024F	2025F	2026F
<b>Revenue</b>	<b>8,102</b>	<b>6,518</b>	<b>4,998</b>	<b>4,649</b>	<b>4,447</b>
Cost of revenue	(3,449)	(3,980)	(3,032)	(2,949)	(2,944)
<b>Gross profit</b>	<b>4,653</b>	<b>2,537</b>	<b>1,966</b>	<b>1,700</b>	<b>1,502</b>
Operating expense	(345)	(382)	(435)	(457)	(478)
<b>Operating profit</b>	<b>4,308</b>	<b>2,155</b>	<b>1,531</b>	<b>1,243</b>	<b>1,024</b>
<b>EBITDA</b>	<b>4,823</b>	<b>2,475</b>	<b>2,007</b>	<b>1,764</b>	<b>1,581</b>
Finance income	48	140	155	142	151
Finance expense	(89)	(109)	(93)	(64)	(55)
Others	210	108	50	13	57
<b>Pre-tax profit</b>	<b>4,476</b>	<b>2,294</b>	<b>1,643</b>	<b>1,334</b>	<b>1,177</b>
Tax expense	(1,645)	(439)	(315)	(256)	(226)
Minority interest	(338)	(213)	(189)	(154)	(135)
<b>Net profit to parent entity</b>	<b>2,493</b>	<b>1,641</b>	<b>1,139</b>	<b>925</b>	<b>816</b>
EPS (IDR)	1,185	770	548	445	393

Source: Company, KBVS Research

Exhibit 13: Balance sheet

Balance Sheet (USD mn)	2022	2023F	2024F	2025F	2026F
Cash and equivalents	4,067	3,311	3,551	3,778	4,010
Trade Receivables	647	520	625	587	567
Inventories	199	171	180	189	198
Fixed Assets	1,452	1,754	1,906	2,085	2,228
Other assets	4,417	4,716	4,826	4,939	5,056
<b>Total Assets</b>	<b>10,782</b>	<b>10,473</b>	<b>11,088</b>	<b>11,578</b>	<b>12,059</b>
Trade payables	333	345	463	460	468
Short-term debt + CMLTD	143	223	173	123	73
Long term loan	1,369	404	354	304	254
Other liabilities	2,410	2,092	1,810	1,781	1,752
<b>Total Liabilities</b>	<b>4,255</b>	<b>3,064</b>	<b>2,801</b>	<b>2,667</b>	<b>2,547</b>
Minority interest	503	636	825	979	1,114
Paid Capital	1,497	1,497	1,497	1,497	1,497
Retained earnings	4,481	5,220	5,657	6,127	6,592
Other equities	46	55	56	56	57
<b>Total Equity</b>	<b>6,527</b>	<b>7,409</b>	<b>8,035</b>	<b>8,659</b>	<b>9,261</b>

Source: Company, KBVS Research

FINANCIAL TABLES

Exhibit 14: Profit & Loss Summary

Cash Flow (USD mn)	2022	2023	2024F	2025F	2026F
Net income	2,493	1,641	1,139	925	816
Depreciation & amortization	515	421	477	521	557
Change in working capital	(208)	166	6	25	19
Others	1,129	(657)	(43)	(44)	(44)
<b>Cash flow from operations</b>	<b>3,929</b>	<b>1,572</b>	<b>1,578</b>	<b>1,428</b>	<b>1,349</b>
Others	(655)	(256)	(92)	(94)	(97)
Capex	(569)	(723)	(629)	(700)	(700)
<b>Cash flow from investments</b>	<b>(1,224)</b>	<b>(979)</b>	<b>(720)</b>	<b>(794)</b>	<b>(797)</b>
Changes in debt	2	(885)	(100)	(100)	(100)
Changes in equity	226	240	288	253	236
Dividends paid	(650)	(1,000)	(800)	(555)	(451)
Others	(27)	44	(6)	(5)	(5)
<b>Cash flow from financing</b>	<b>(449)</b>	<b>(1,601)</b>	<b>(618)</b>	<b>(407)</b>	<b>(320)</b>
<b>Net Cash Flow</b>	<b>2,256</b>	<b>(1,008)</b>	<b>240</b>	<b>227</b>	<b>232</b>

Source: Company, KBVS Research

Exhibit 15: Cash flow

Key Ratios (%)	2022	2023	2024F	2025F	2026F
Revenue growth	102.9	(19.6)	(23.3)	(7.0)	(4.3)
EBIT growth	181.9	(50.0)	(29.0)	(18.8)	(17.6)
EBITDA growth	144.4	(48.7)	(18.9)	(12.1)	(10.4)
Net profit growth	167.1	(34.2)	(30.6)	(18.8)	(11.8)
Gross margin	57.4	38.9	39.3	36.6	33.8
EBIT margin	53.2	33.1	30.6	26.7	23.0
EBITDA margin	59.5	38.0	40.2	37.9	35.6
Net margin	30.8	25.2	22.8	19.9	18.4
ROA	23.1	15.7	10.3	8.0	6.8
ROE	41.4	24.2	15.8	12.0	10.0
Net gearing (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net debt/EBITDA (x)	(0.5)	(1.1)	(1.5)	(1.9)	(2.3)
Interest coverage ratio (x)	54.0	22.6	21.5	27.7	28.9

Source: Company, KBVS Research

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