

Adaro Energy Indonesia (ADRO)

On cloud nine

2 September 2022



ITMG II	BUY
Sector	Coal Mining
Price at 1 Sept 2022 (Rp)	3,700
Price target (Rp)	4,750
Upside/Downside (%)	28.4

Stock Information

Adaro Energy Indonesia is one of the largest integrated coal mining and energy company, with businesses spanning over eight pillars in the coal, energy, utilities and supporting infrastructure sectors.

Market cap (Rp bn)	110,457
Shares outstanding (mn)	31,090
52-week range (Rp)	1,335-3,700
3M average daily vol. ('000)	4,288
3M average daily val. (Rp mn)	149,905

Shareholders (%)

Adaro Strategic Investments	43.9
Garibaldi Thohir	6.2
Public	40.6

Stock Performance

Source: Bloomberg

	1M	3M	12M
Performance (%)	10.4	11.1	39.1

- ADRO's 1H22 net profit skyrocketed 614% YoY to USD1.21bn (+103.1% QoQ in 2Q22)
- We expect net profit of USD1.93bn and EBITDA margin of c. 50% in 2022
- We reiterate our "BUY" call with 28% upside potential on a 12-month view on strong ASP

Above expectation

ADRO's net profit skyrocketed 613.5% YoY in 1H22 to USD1.21bn (103.1% QoQ in 2Q22), accounting for 62.7% of our FY forecast. This was supported by higher revenue of USD3.54bn in 1H22, growing 126.6% YoY (89.2% QoQ in 2Q22). GPM also expanded from 32.0% in 1H21 to 57.2% in 1H22, although cost of revenue surged 42.6% YoY as royalties quadrupled. Furthermore, operational expenses soared 65.8% YoY in 1H22 to USD143.1mn, largely from higher selling expenses due to commission. Nevertheless, EBITDA margin reached 61.0% in 1H22 (64.6% in 2Q22), compared to 41.5% in a year prior. Meanwhile, ADRO booked a share of profit in JV of USD177.25mn in 1H22 (USD107.7mn in 2Q22), compared to loss of USD16.5mn in 1H21 which was mostly derived from Kestrel. In addition, ADRO managed to maintain its net cash position in 1H22.

Higher ASP, manageable cash cost

ADRO's impressive performance in 1H22 was mainly supported by strong ASP +117.4% YoY (+61.7% QoQ in 2Q22) of USD125.9/MT (USD152.5/MT in 2Q22) in the midst of tight supply and rising geopolitical tension in Europe. Furthermore, sales volume also increased 6.6% YoY to 27.5mn MT (+18.4% QoQ in 2Q22 to 15mn MT), in line with higher production by 5.7% YoY to 28.01mn MT (+30.5% QoQ in 2Q22 to 15.9m n MT). For the cost front, ADRO's cash cost escalated 8.7% YoY to USD59.5/M (+20.1% QoQ in 2Q22 to USD64.4/MT). Meanwhile, strip ratio was up from 3.6x in 1H21 to 4.4x in 1H22 (4.6x in 2Q22).

Coal price to remain high

We expect ADRO's revenue and net profit of USD6,70bn in and USD1.93bn in 2022. We estimate the company's ASP of USD115/MT (+54.6% YoY), assuming that price increases in 2H22 is likely to decelerate, considering aggressive monetary tightening, slow economic recovery in China pertinent to the lockdown policies and cheaper Russian coal offered in the market. On top of that, we note that prolonged conflict in Ukraine, and higher demand during winter in 4Q22 coupled with heatwave in China will provide more upside risks to coal price. On the other hand, China has started to ramp up coal output/day by 18.7% YoY. We estimate sales volume to reach 56mn MT. In addition, we forecast EBITDA margin of 49-50% in 2022 despite higher royalties. ADRO strives to further diversify away from thermal coal by establishing green industrial park.

Reiterate BUY on the back of high ASP amid strong demand and tight supply

We maintain our BUY recommendation with a DCF-based price target of Rp4,750/share. The stock is currently traded at a 2022F PER of 5.1x and EV/EBITDA of 2.3x. We highlight several paramount catalysts namely 1) strong demands for coal; 2) the company's efforts to diversify its revenue to metallurgical coal, and renewable energy; 3) relatively efficient production thanks to integrated business; 4) strong USD and 5) robust balance sheet. Nevertheless, we note several downside risks to our recommendation, including 1) aggressive monetary tightening that may accelerate risk of recession; 2) lower-than-estimated output due to unsupportive weather; 3) global shifting to renewable and 4) change in government policies.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (USD mn)	2,535	3,993	6,698	5,242	4,742
Gross profit (USD mn)	22.8%	44.3%	47.0%	46.0%	45.5%
EBITDA (USD mn)	861	2,022	3,335	2,431	2,258
EBITDA margin	34.0%	50.6%	49.8%	46.4%	47.6%
Net profit (USD mn)	147	933	1,933	1,384	1,297
Net profit margin	5.8%	23.4%	28.9%	26.4%	27.4%
EPS (USDc)	0.4	2.9	6.2	4.5	4.2
ROAA	2.2%	13.4%	21.9%	13.4%	11.7%
ROAE	1.0%	5.9%	9.7%	5.5%	4.5%
EV/EBITDA (x)	8.6	3.7	2.3	3.1	3.4
PER (x)	74.8	10.9	5.1	7.2	7.7
PBV (x)	2.5	2.2	1.6	1.4	1.2

Analyst

Devi Harjoto

Adaro Energy Indonesia (ADRO)

ADRO's Financial Overview

Consolidated Statements of Profit or Loss (USD mn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Revenue	1,563	3,541	126.6%	1,225	2,317	89.2%
Cost of revenue	(1,064)	(1,516)	42.6%	(623)	(893)	43.5%
Gross profit	499	2,025	305.6%	602	1,423	136.5%
Gross profit margin (%)	31.9%	57.2%		49.1%	61.4%	
Operating expenses	(86)	(143)	65.8%	(67)	(76)	14.8%
Operating profit	413	1,882	355.8%	535	1,347	151.6%
Operating profit margin	26.4%	53.1%	101.1%	43.7%	58.1%	33.0%
EBITDA	649	2,161	233.0%	664	1,497	125.4%
EBITDA margin	41.5%	61.0%		54.2%	64.6%	
Other income/ expenses	(113)	159	(241.2%)	19	83	334.1%
Profit before tax	300	2,041	580.1%	611	1,430	133.9%
Income tax expenses	(111)	(696)	527.8%	(171)	(524)	206.0%
Attributable net profit	170	1,213	613.5%	400	813	103.1%
Net profit margin	10.9%	34.2%		32.7%	35.1%	

Source: Company, KB Valbury Sekuritas

ADRO's ASP and sales volume up, in line with higher production

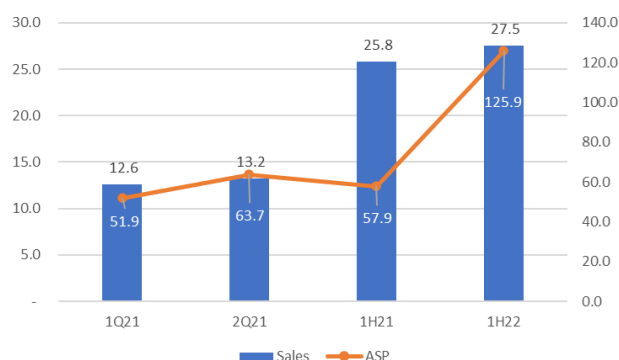


Exhibit 1. Sales volume and ASP

Source: Companies, KB Valbury Securities

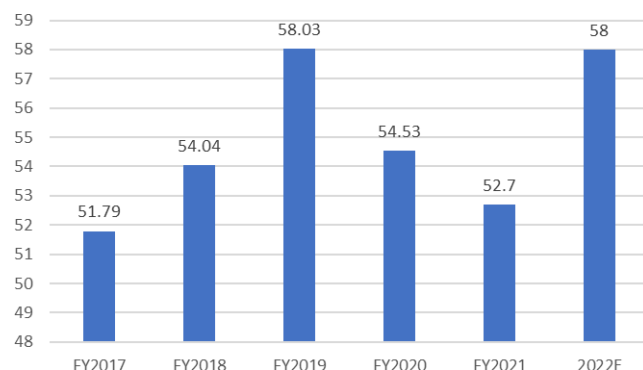


Exhibit 2. ADRO's production

Source: Companies, KB Valbury Securities

ADRO's profitability improved with 73% sales are made for overseas market

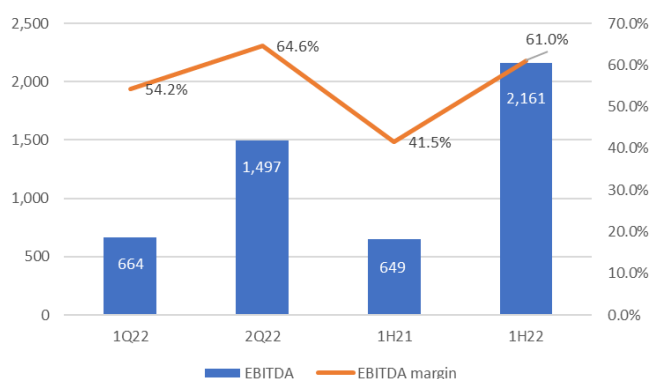


Exhibit 3. EBITDA and EBITDA margin

Source: Companies, KB Valbury Securities

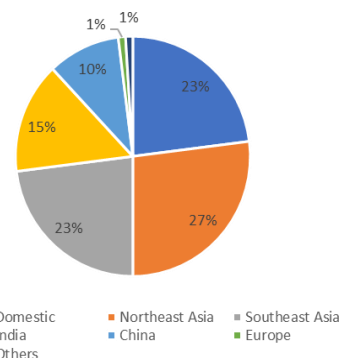


Exhibit 4. Sales by destination

Source: Companies, KB Valbury Securities

Adaro Energy Indonesia (ADRO)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (USD mn)	2020A	2021A	2022F	2023F	2024F
Revenue	2,535	3,993	6,698	5,242	4,742
Cost of revenue	(1,958)	(2,223)	(3,547)	(2,829)	(2,584)
Gross profit	577	1,770	3,150	2,413	2,158
Gross profit margin	22.8%	44.3%	47.0%	46.0%	45.5%
Operating expenses	(165)	(185)	(226)	(379)	(297)
Operating profit	411	1,585	2,924	2,034	1,862
Operating profit margin	16.2%	39.7%	43.7%	38.8%	39.3%
EBITDA	861	2,022	3,335	2,431	2,258
EBITDA margin	34.0%	50.6%	49.8%	46.4%	47.6%
Net. Finance income/ expenses	(189)	(98)	155	170	205
Pretax profit	222	1,486	3,079	2,204	2,066
Income tax	(64)	(458)	(955)	(683)	(641)
Attributable net profit	147	933	1,933	1,384	1,297
Net profit margin	5.8%	23.4%	28.9%	26.4%	27.4%

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (USD mn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	1,174	1,805	3,037	5,186	5,061
Trade receivables	224	452	1,222	157	1,091
Inventories	105	126	347	281	293
Other current assets	229	452	253	266	276
Total current assets	1,732	2,838	4,861	5,892	6,722
Non-current assets					
Fixed assets	1,539	1,397	1,369	1,383	1,397
Investment in JV	591	832	1,148	919	964
Mining properties	1,369	1,217	1,120	1,008	1,058
Other non-current assets	1,150	1,302	1,545	1,441	1,418
Total non-current assets	4,650	4,749	5,182	4,751	4,837
Total assets	6,382	7,587	10,043	10,643	11,559
Current liabilities					
Trade payables	214	272	510	439	405
Taxes payables	66	345	725	363	399
Accrued expenses	54	60	91	100	93
Short term finance liability	643	271	360	406	376
Other current liabilities	168	413	382	373	383
Total current liabilities	1,145	1,362	2,069	1,680	1,655
Non-current liabilities					
Bank loans	43	551	512	538	565
Other non-current liabilities	1,242	1,216	1,192	1,186	1,193
Total non-current liabilities	1,285	1,767	1,704	1,723	1,758
Shareholders' equity	3,952	4,458	6,270	7,239	8,147
Total liabilities and equity	6,382	7,587	10,043	10,643	11,559

Source: Company, KB Valbury Sekuritas

Adaro Energy Indonesia (ADRO)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (USD mn)	2020A	2021A	2022F	2023F	2024F
Net profit	161	933	1,933	1,384	1,297
Depreciation & amortization	449	437	411	398	397
Changes in working capital	(206)	114	(173)	684	(951)
CF from operating activities	405	1,484	2,171	2,466	743
Investment in fixed assets	(101)	(145)	(249)	(289)	(292)
Mining properties	(1)	2	(37)	(10)	(169)
Investment in JV	95	(241)	(316)	230	(46)
Others	15	(152)	(242)	104	24
CF from investing activities	8	(537)	(844)	34	(483)
Dividends paid	(100)	(497)	(300)	(415)	(389)
Debts raised/repaid	(447)	99	36	72	5
Others	(266)	81	169	(6)	(1)
CF from financing activities	(813)	(316)	(95)	(350)	(385)
Free cash flows	(400)	631	1,232	2,150	(125)
Cash and cash equivalents, beginning	1,576	1,174	1,805	3,037	5,186
Cash and cash equivalents, ending	1,177	1,805	3,037	5,186	5,061

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin	22.8%	44.3%	47.0%	46.0%	45.5%
Operating profit margin	16.2%	39.7%	43.7%	38.8%	39.3%
EBITDA margin	34.0%	50.6%	49.8%	46.4%	47.6%
Net profit margin	5.8%	23.4%	28.9%	26.4%	27.4%
Receivables turnover (x)	9.5	11.8	8.0	7.6	7.6
Inventory turnover (x)	4.3	4.8	15.0	9.0	9.0
Payable turnover (x)	1.8	2.3	8.5	6.1	6.1
ROAA	2.2%	13.4%	21.9%	13.4%	11.7%
ROAE	1.0%	5.9%	9.7%	5.5%	4.5%
ROIC	3.4%	21.9%	39.7%	36.8%	27.0%
Debt/ Equity	0.4	0.4	0.3	0.3	0.2
Net debt/Equity (x)	0.1	(0.0)	(0.2)	(0.5)	(0.4)
Net debt/ EBITDA (x)	0.4	(0.1)	(0.4)	(1.4)	(1.5)
Sales/asset turnover (x)	0.5	0.7	0.7	0.3	0.2
Dividend per share (USDc)	0.3	1.6	1.0	1.3	1.3
EPS (USDc)	0.4	2.9	6.2	4.5	4.2

Source: Company, KB Valbury Sekuritas

Adaro Energy Indonesia (ADRO)

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.

 **KB Valbury Sekuritas**

Headquarters

Menara Karya, 9th Floor
 Jl. H.R. Rasuna Said Blok X-5 Kav 1-2
 Jakarta 12950, Indonesia
 T +62 21 255 33 600
 F +62 21 255 33 778

Branch Office

Jakarta - Kelapa Gading
 Rukan Plaza Pasifik
 Jl. Raya Boulevard Barat Blok A1 No. 10
 Jakarta 11620
 T +62 21 - 29451577

Jakarta - Puri Indah
 Rukan Grand Aries Niaga
 Blok E.1 No. 1 V.Jl. Taman Aries, Kembangan,
 Jakarta 14450
 T +62 21 - 22542390
 F +62 21 - 29264310

Jakarta - Pluit
 Jl. Pluit Putra Raya No. 2
 Jakarta 14240
 T +62 21 - 29264300
 F +62 21 - 22542391

Bandung
 Jl. HOS Cokroaminoto No. 82
 Bandung 40171
 T +62 22 - 87255888
 T +62 22 - 87255800
 F +62 22 - 87255811

Semarang
 Candi Plaza Building Lt. Dasar
 Jl. Sultan Agung No. 90-90A
 Semarang 50252
 T +62 24 - 3521888
 T +62 24 - 8501122
 F +62 24 - 8507450

Yogyakarta
 Jl. Magelang KM 5.5 no. 75
 Yogyakarta 55284
 T +62 274 - 4469500
 T +62 274 - 623111
 F +62 274 - 623222

Galeri Investasi

Padang
 Jl. Kampung Nias II no. 10,
 Kel. Belakang Pondok,
 Kec. Padang Selatan
 T +62 751 8955747

Manado
 Kawasan Megamas, Ruko Megaprofit
 Blok IF2 No. 38 Manado. 95254
 T +62 431 7917 836
 F +62 431 880 2129

Surabaya
 Pakuwon Center Tunjungan Plaza Lantai 21
 Jl. Embong Malang No.1
 Surabaya 60261
 T +62 31 - 2955777
 T +62 31 - 2955788
 F +62 31 - 2955716

Denpasar
 Komplek Ibis Styles Hotel
 Jl. Teuku Umar No. 177
 Denpasar Bali 80114
 T +62 361 - 255888
 T +62 361 - 225229
 F +62 361 - 225339

Benjarasin
 Jl. Gatot Subroto No.33 Kel. Kebun Bunga
 Kec. Banjarmasin Timur
 Kalimantan Selatan 70235
 T +62 511 - 3265918
 F +62 511 - 3253432

Solo
 Jl. Ronggo Warsito no. 34
 Solo 57118
 T +62 271 632888
 F +62 271 656988

Makassar
 Ratulangi Points Lt. 3
 Jl. Dr Sem Ratulangi No. 2 Kunjungmee, Maris
 Makassar, Sulawesi Selatan 90125
 T +62 411 8955999

Malang
 Jl. Pahlawan Trip no. 7
 Malang 65112
 T +62 341 - 585888
 F +62 341 - 560056

Solo
 Jl. Ronggowarsito No. 34
 Surakarta 57118
 T +62 271 - 632888

Palembang
 Komp. PTC Mall Blok I No. 7 Jl. R. Sukarno Kel. 8 Ilir
 Kec. Ilir Timur II Palembang 30114
 T 07115700281

Medan
 Komplek Jati Junction No. PS-5A
 Jl. Perintis Kemerdekaan
 Medan 20218
 T +62 61 - 88816222
 F 62 61 - 88816333

Pekanbaru
 Jl. Tuanku Tambusai
 Komplek CNN Blok A No.3 Pekanbaru 28291
 T +62 761 - 839393
 Galeri Investasi

Padang
 Jl. Kampung Nias II no. 10,
 Kel. Belakang Pondok,
 Kec. Padang Selatan
 T +62 751 8955747

Manado
 Kawasan Megamas, Ruko Megaprofit
 Blok IF2 No. 38 Manado, 95254
 T +62 431 7917 836
 F +62 431 880 2129

Solo
 Jl. Ronggowarsito No. 34
 Surakarta 57118
 T +62 271 - 632888

Palembang
 Komp. PTC Mall Blok I No. 7 Jl. R. Sukarno Kel. 8 Ilir
 Kec. Ilir Timur II Palembang 30114
 T 07115700281

Galeri Investasi BEI - KBVS

Yogyakarta
 Universitas Kristen Duta Wacana
 T +62 274 - 544032

Manado
 Universitas Prisma Manado
 T 0431 8800850

Jakarta
 Universitas Gunadarma
 T +62 21 - 8727541