

Adaro Energy Tbk (ADRO IJ)

Modest Performance During the Pandemic

Company Update | Dec 28, 2020

Overweight

| | |
|---------------------------|--------------|
| Target Price (IDR) | 1,580 |
| Consensus Price (IDR) | 1,620 |
| TP to Consensus Price (%) | -2.5 |
| vs. Last Price (%) | +6.0 |

Shares data

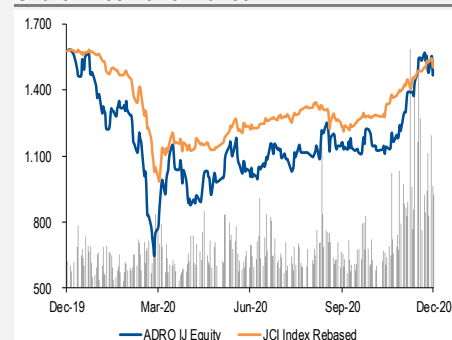
| | |
|------------------------|--------------|
| Last Price (IDR) | 1,490 |
| Price Date as of | Dec 23, 2020 |
| 52 wk Range (Hi/Lo) | 1,620 / 610 |
| Free Float (%) | 43.7 |
| Outstanding sh.(mn) | 31,986 |
| Market Cap (IDR bn) | 47,019 |
| Market Cap (USD mn) | 3,294 |
| Avg. Trd Vol - 3M (mn) | 120.7 |
| Avg. Trd Val - 3M (bn) | 161.4 |
| Foreign Ownership (%) | 30.9 |

Mining

Coal

| | |
|-----------|---------|
| Bloomberg | ADRO IJ |
| Reuters | ADRO.JK |

Share Price Performance



| | YTD | 1M | 3M | 12M |
|-----------|-------|-------|-------|-------|
| Abs. Ret. | -4.2% | 15.5% | 28.4% | -5.7% |
| Rel. Ret. | 0.4% | 9.2% | 6.3% | -1.0% |

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In 3Q20, ADRO recorded a modest performance with net loss of USD47 million or -180% QoQ (-142% YoY). Meanwhile, in 9M20 ADRO was able to booked bottom line of USD109 million or decreased 73% YoY. We revised our forecast for 2020-2022F to adjust with company and industry outlook. Thus, we revised our recommendation to OVERWEIGHT with Target Price at IDR1,580.

Modest Performance

In 3Q20, ADRO posted a top line of USD592 million, -3% QoQ or -33% YoY, resulting in net loss of USD47 million, -180% QoQ or -142% YoY. Meanwhile in 9M20, ADRO recorded USD1.9 billion in top line (-26% YoY) and managed to book a bottom line of USD109 million (-73% YoY) due to a significant increase in other expenses. We expect ADRO's top line in 2021F to be USD2.6 billion (+1% YoY) and bottom line will be over USD397 million or up by 29% YoY as we assume China's economic recovery will increase Coal demand. Besides, disruption of coal supply due to La Nina will continue to strengthen its price.

Lower Coal Production

In 9M20, ADRO's coal production decreased by -7% YoY to 41 million ton due to the Covid-19 pandemic that occurred around the world. Besides, lower production was also caused by La Nina that disrupts coal supply, decreasing sales volume by 9% YoY to 40 million ton. Because of this, we see that ADRO's coal production will still be low until early 2021. However, lower production will be covered by increase in coal prices.

Coal Price will Continue to Strengthen as Coal Demand Recovers

Alongside China's economic recovery, coal demand already indicated a recovery. This was reflected by China's PMI that returned to expansion (in November 2020, China's PMI reached 54,90), which will increase the demand for electricity and boost coal demand. In turn, increasing demand for coal will strengthen coal price. Coal price has increased since September 2020 by 55% which at the end of 2020 already reached USD84/ton. We see that coal price will continue to strengthen due to demand recovery, disrupted supply, and MoU signing between Indonesia and China.

Rating Revised to OVERWEIGHT with Target Price at IDR1,530

We revised our recommendation to OVERWEIGHT with lower target price at IDR1,530 (previously IDR1,700) due to: 1) modest performance during 3Q20; 2) lower coal production; 3) coal price will continue to strengthen. Our new TP is based on forward EV/Ton 2021 of 0.89x. ADRO is currently traded at 0.86x EV/Ton.

Adaro Energy Tbk | Summary

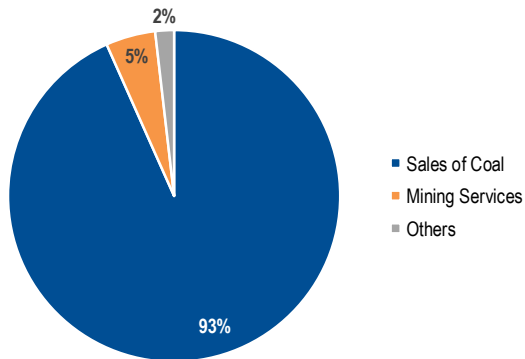
| | 2019A | 2020F | 2021F | 2022F |
|---------------------|-------|-------|-------|-------|
| Revenue (USD mn) | 3.457 | 2.583 | 2.615 | 2.681 |
| Growth (%) | -4,5 | -25,3 | 1,2 | 2,5 |
| EBITDA (USD mn) | 1.050 | 813 | 889 | 1.024 |
| Net Profit (USD mn) | 404 | 307 | 397 | 403 |
| EPS (IDR) | 175 | 138 | 180 | 183 |
| Growth (%) | -6,8 | -21,3 | 30,6 | 1,4 |
| P/E (x) | 8,9 | 11,3 | 8,6 | 8,5 |
| P/BV (x) | 0,9 | 0,8 | 0,7 | 0,7 |
| EV/EBITDA (x) | 4,2 | 4,7 | 4,3 | 3,6 |
| ROE (%) | 9,8 | 7,2 | 8,5 | 8,3 |
| DER (%) | 47,8 | 40,4 | 39,8 | 33,2 |
| Net Debt (USD mn) | 369 | 180 | 271 | 125 |

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

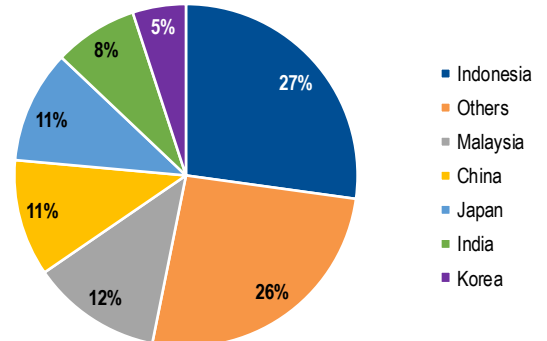
Performance Highlights in Charts

9M20 Revenue Breakdown



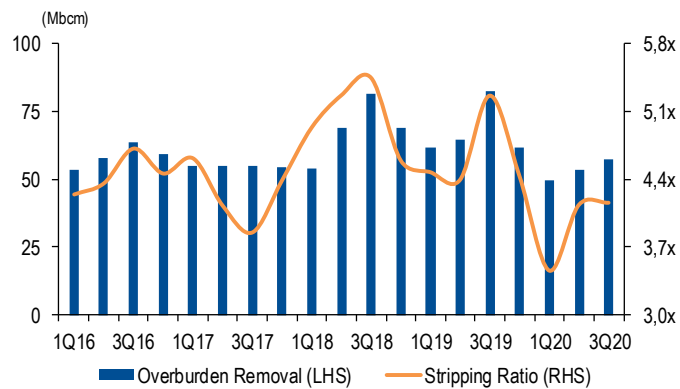
Source: Company Data, NHKSI Research

9M20 Sales by Geographic



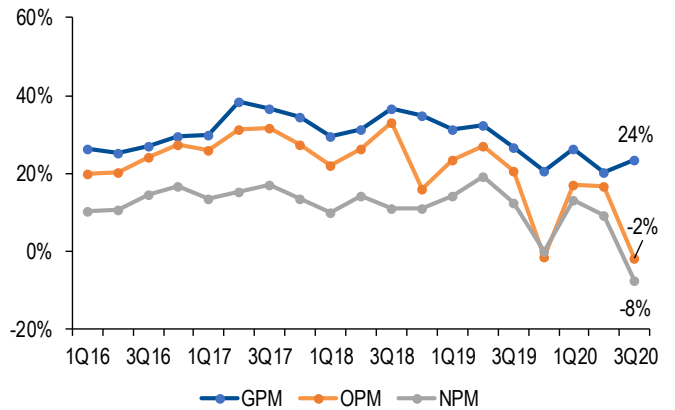
Source: Company Data, NHKSI Research

OB Removal & Stripping Ratio



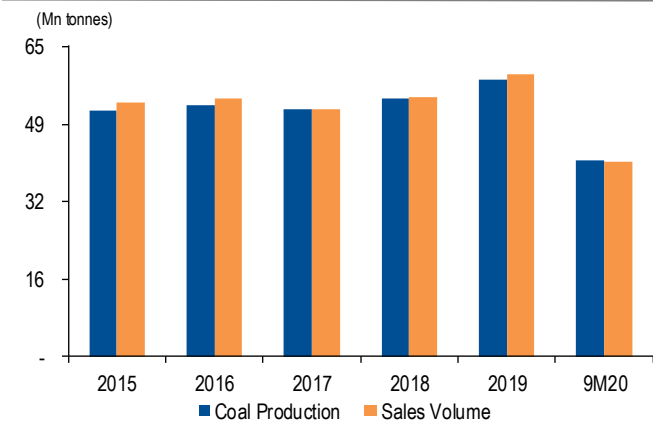
Source: Company Data, NHKSI Research

Margin Ratios



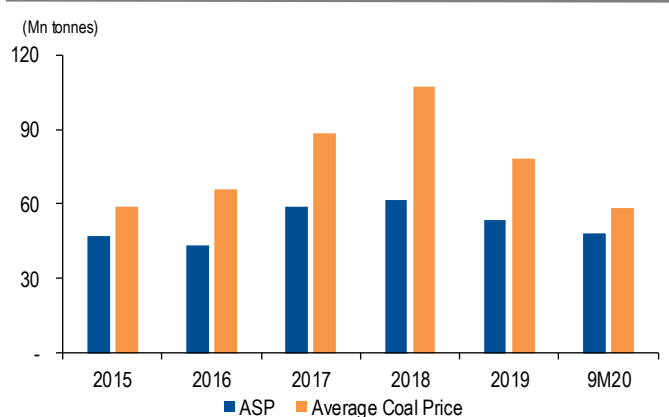
Source: Company Data, NHKSI Research

Production & Sales Volume



Source: Company Data, NHKSI Research

ASP & Coal Price



Source: Company Data, NHKSI Research

Other Highlights in Charts

ADRO and USDIDR Movement



Source: Bloomberg, NHKSI Research

ADRO and Newcastle Coal Prices Movement



Source: Bloomberg, NHKSI Research

Financial Review

Earnings Revisions

| | | 2020F | 2021F | 2022F |
|---------------|----------|--------|--------|-------|
| Sales | Revised | 2,583 | 2,615 | 2,681 |
| | Previous | 3,551 | 3,657 | |
| | Change | -27,3% | -28,5% | |
| Gross Profit | Revised | 672 | 782 | 816 |
| | Previous | 993 | 1,022 | |
| | Change | -32,3% | -23,5% | |
| Gross Margin | Revised | 26,0% | 29,9% | 30,5% |
| | Previous | 27,9% | 27,9% | |
| EBIT | Revised | 524 | 628 | 659 |
| | Previous | 701 | 722 | |
| | Change | -25,3% | -13,1% | |
| EBIT Margin | Revised | 20,3% | 24,0% | 24,6% |
| | Previous | 19,7% | 19,7% | |
| EBITDA | Revised | 773 | 856 | 971 |
| | Previous | 1,058 | 1,186 | |
| | Change | -26,9% | -27,8% | |
| EBITDA Margin | Revised | 29,9% | 32,7% | 36,2% |
| | Previous | 29,8% | 32,4% | |
| Net Profit | Revised | 309 | 397 | 403 |
| | Previous | 410 | 420 | |
| | Change | -24,7% | -5,3% | |
| Net Margin | Revised | 11,9% | 15,2% | 15,0% |
| | Previous | 11,5% | 11,5% | |

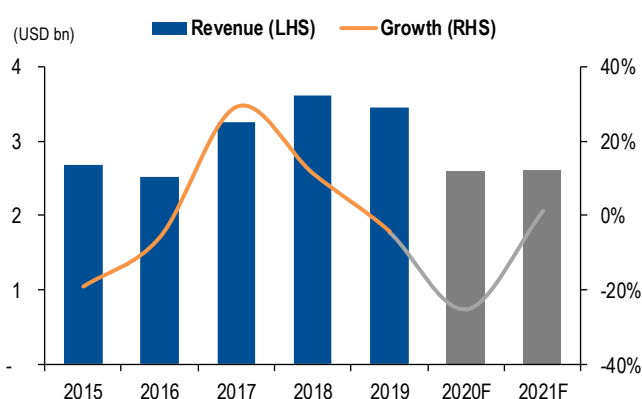
Unit: USD mn, %

Source: Company Data, NHKSI Research

Company Overview

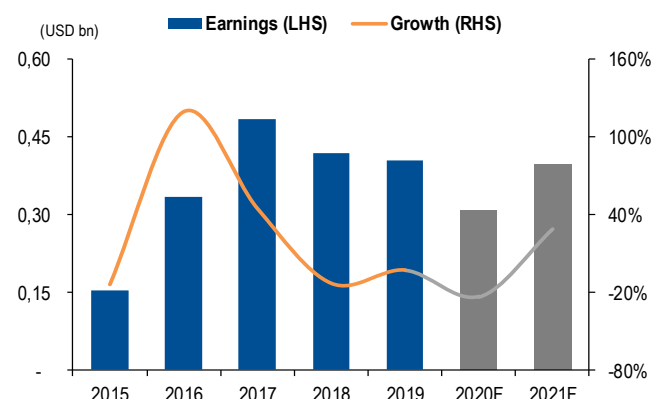
Adaro Energy is a vertically integrated energy company to run coal, energy, utility, supporting infrastructure businesses. Its eight integrated business pillars are Adaro Mining, Adaro Services, Adaro Logistics, Adaro Power, Adaro Land, Adaro Water, Adaro Capital, and Adaro Foundation, and its clean thermal coal "Envirocoal" mine is located in South Kalimantan. Meanwhile, it also has varied metallurgical coal such as semi-soft coking coal (SSCC) and premium hard coking coals (HHC) produced by its Indonesia and Australia-based mines. ADRO consistently develops non-coal businesses to earn more stable revenues to cushion the volatile coal business industry.

Revenue and Growth Movements



Source: Company Data, NHKSI Research

Earnings and Growth Movements



Source: Company Data, NHKSI Research

Global Companies Peers Analysis

| | Market Cap (USD mn) | Asset (USD mn) | Sales LTM (USD mn) | Net Profit LTM (USD mn) | Net Profit Growth LTM (%) | Net Profit Margin (%) | ROE LTM (%) | P/E LTM (x) | P/BV (x) |
|----------------------------|---------------------|----------------|--------------------|-------------------------|---------------------------|-----------------------|-------------|-------------|----------|
| Indonesia | | | | | | | | | |
| ADARO ENERGY TBK | 3.294 | 7.217 | 2.758 | 108 | -78,9 | 3,9 | 2,9 | 11,3 | 0,8 |
| BUKIT ASAM TBK | 1.130 | 1.209 | 1.283 | 68 | -58,4 | 5,3 | 7,6 | 16,1 | 1,3 |
| INDO TAMBANGRAYA MEGAH TBK | 2.325 | 1.885 | 1.270 | 185 | -36,0 | 14,6 | 16,0 | 12,1 | 2,0 |
| India | | | | | | | | | |
| COAL INDIA LTD | 11.264 | 19.904 | 12.610 | 2.358 | -4,3 | 18,7 | 57,0 | 5,5 | 2,6 |
| Thailand | | | | | | | | | |
| BANPU PCL | 1.765 | 8.657 | 2.294 | -89 | N/A | -3,9 | -4,1 | N/A | 0,9 |
| Australia | | | | | | | | | |
| WHITEHAVEN COAL LTD | 1.260 | 3.591 | 1.156 | 20 | -94,3 | 1,7 | 0,9 | 52,7 | 0,5 |
| Canada | | | | | | | | | |
| CAMECO CORP | 5.226 | 5.723 | 1.580 | -3 | N/A | -0,2 | -0,1 | N/A | 1,4 |
| China | | | | | | | | | |
| INNER MONGOLIA | 1.939 | 13.559 | 4.906 | 266 | -40,0 | 5,4 | 5,4 | 6,3 | 0,3 |
| SHANXI LU'AN | 2.988 | 10.664 | 3.918 | 232 | -30,2 | 5,9 | 6,2 | 12,2 | 0,7 |
| United States | | | | | | | | | |
| PEABODY ENERGY CORP | 195 | 6.543 | 3.261 | (2.031) | N/A | -62,3 | -101,8 | N/A | 0,2 |

Note: * = Last Twelve Months (LTM)

Source: Bloomberg, NHKSI Research

Summary of Financials

INCOME STATEMENT

| (USD mn) | 2019/12A | 2020/12F | 2021/12F | 2022/12F |
|---------------------|--------------|------------|------------|--------------|
| Revenue | 3.457 | 2.583 | 2.615 | 2.681 |
| Growth | -4,5% | -25,3% | 1,2% | 2,5% |
| COGS | (2.493) | (1.912) | (1.833) | (1.865) |
| Gross Profit | 965 | 672 | 782 | 816 |
| Gross Margin | 27,9% | 26,0% | 29,9% | 30,5% |
| Operating Expenses | (233) | (148) | (154) | (157) |
| EBIT | 732 | 524 | 628 | 659 |
| EBIT Margin | 21,2% | 20,3% | 24,0% | 24,6% |
| Depreciation | 318 | 290 | 262 | 364 |
| EBITDA | 1.050 | 813 | 889 | 1.024 |
| EBITDA Margin | 30,4% | 31,5% | 34,0% | 38,2% |
| Interest Expenses | (66) | (74) | (53) | (55) |
| EBT | 659 | 438 | 573 | 588 |
| Income Tax | (224) | (110) | (143) | (147) |
| Minority Interest | (31) | (21) | (32) | (38) |
| Net Profit | 404 | 307 | 397 | 403 |
| Growth | -3,2% | -23,9% | 29,2% | 1,4% |
| Net Profit Margin | 11,7% | 11,9% | 15,2% | 15,0% |

PROFITABILITY & STABILITY

| | 2019/12A | 2020/12F | 2021/12F | 2022/12F |
|------------------------|----------|----------|----------|----------|
| ROE | 9,8% | 7,2% | 8,5% | 8,3% |
| ROA | 5,7% | 4,2% | 5,2% | 5,1% |
| ROIC | 8,2% | 6,1% | 7,0% | 7,5% |
| Cash Dividend (USD mn) | 275 | 151 | 195 | 214 |
| Dividend Yield | 7,7% | 4,4% | 5,7% | 6,2% |
| Payout Ratio | 68,1% | 49,2% | 49,0% | 53,2% |
| DER | 47,8% | 40,4% | 39,8% | 33,2% |
| Net Gearing | 53% | 59% | 55% | 44% |
| LT Debt to Equity | 35,1% | 35,8% | 34,5% | 28,2% |
| Capitalization Ratio | 32,3% | 28,8% | 28,5% | 24,9% |
| Equity Ratio | 55,2% | 68,1% | 68,8% | 71,6% |
| Debt Ratio | 26,4% | 27,5% | 27,4% | 23,8% |
| Financial Leverage | 172,3% | 162,8% | 146,1% | 142,4% |
| Current Ratio | 171,2% | 356,6% | 368,3% | 346,6% |
| Par Value (IDR) | 100 | 100 | 100 | 100 |
| Total Shares (mn) | 31.986 | 31.986 | 31.986 | 31.986 |
| Share Price (IDR) | 1.555 | 1.555 | 1.555 | 1.555 |
| Market Cap (IDR tn) | 49,7 | 49,7 | 49,7 | 49,7 |

BALANCE SHEET

| (USD mn) | 2019/12A | 2020/12F | 2021/12F | 2022/12F |
|-----------------------------|--------------|--------------|--------------|--------------|
| Cash | 1.576 | 1.697 | 1.667 | 1.556 |
| Receivables | 310 | 248 | 264 | 260 |
| Inventories | 121 | 129 | 90 | 95 |
| Total Current Assets | 2.110 | 2.191 | 2.381 | 2.294 |
| Net Fixed Assets | 1.722 | 1.848 | 2.067 | 2.190 |
| Other Non Current Asset | 1.851 | 1.235 | 1.202 | 1.244 |
| Total Assets | 7.217 | 6.701 | 6.968 | 6.933 |
| Payables | 336 | 234 | 236 | 246 |
| ST Bank Loan | 506 | 213 | 252 | 246 |
| LT Debt | 1.397 | 1.632 | 1.655 | 1.403 |
| Total Liabilities | 3.234 | 2.137 | 2.174 | 1.967 |
| Capital Stock | 343 | 343 | 343 | 343 |
| Retained Earnings | 2.289 | 2.446 | 2.649 | 2.838 |
| Shareholders' Equity | 3.983 | 4.565 | 4.794 | 4.966 |

VALUATION INDEX

| | 2019/12A | 2020/12F | 2021/12F | 2022/12F |
|-------------------|----------|----------|----------|----------|
| Price/Earnings | 8,9x | 11,3x | 8,6x | 8,5x |
| Price/Book Value | 0,9x | 0,8x | 0,7x | 0,7x |
| Price/Sales | 1,0x | 1,3x | 1,3x | 1,3x |
| PE/EPS Growth | -2,7x | -0,5x | 0,3x | 6,2x |
| EV/EBITDA | 4,2x | 4,7x | 4,3x | 3,6x |
| EV/EBIT | 5,4x | 6,9x | 5,8x | 5,3x |
| EV (IDR bn) | 54.433 | 52.003 | 53.204 | 50.990 |
| Sales CAGR (3-Yr) | 11,1% | -7,4% | -10,3% | -8,1% |
| EPS CAGR (3-Yr) | 6,5% | -13,9% | -1,6% | -0,1% |
| Basic EPS (IDR) | 175 | 138 | 180 | 183 |
| Diluted EPS (IDR) | 175 | 138 | 180 | 183 |
| BVPS (IDR) | 1.727 | 2.041 | 2.173 | 2.251 |
| Sales PS (IDR) | 1.499 | 1.155 | 1.185 | 1.215 |
| DPS (IDR) | 119 | 68 | 88 | 97 |

CASH FLOW STATEMENT

| (USD mn) | 2018/12A | 2019/12F | 2020/12F | 2021/12F |
|----------------------------|------------|-----------|-------------|--------------|
| Operating Cash Flow | 553 | (579) | (188) | (9) |
| Investing Cash Flow | 561 | 544 | (74) | (49) |
| Financing Cash Flow | (260) | 102 | 234 | (50) |
| Net Changes in Cash | 854 | 68 | (28) | (107) |

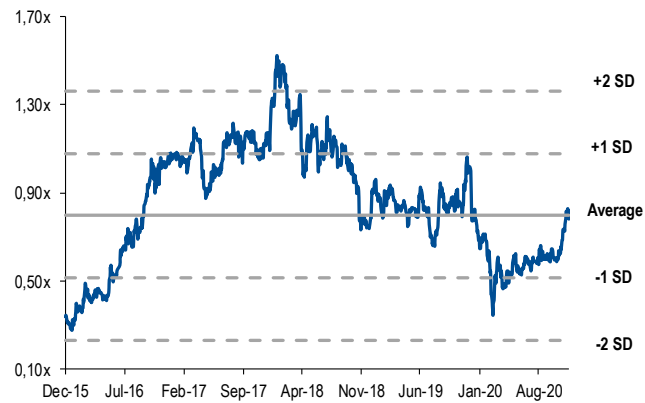
Source: Company Data, NHKSI Research

TOP OWNERSHIP

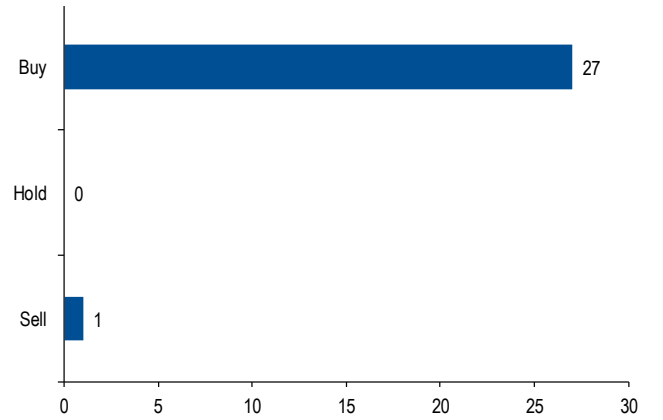
| By Geography | % Shareholders | % |
|---------------|-----------------------|------|
| Indonesia | 69,1 Adaro Strategic | 43,9 |
| Unknown | 19,4 Garibaldi Thohir | 6,2 |
| United States | 7,8 Edwin Soeryadjaya | 3,3 |
| Luxembourg | 1,1 Theodore Rahmat | 2,5 |

Valuation

5-Year Forward EV/Ton Band



Recommendation by Analysts



Closing & Target Price Update



Rating & Target Price Update

| Date | Rating | Target Price | Consensus |
|------------|------------|--------------|-----------|
| 2017.05.19 | Buy | IDR2,010 | IDR2,022 |
| 2018.01.10 | Buy | IDR2,570 | IDR2,327 |
| 2018.04.11 | Buy | IDR2,460 | IDR2,030 |
| 2018.06.04 | Buy | IDR2,500 | IDR2,613 |
| 2018.11.07 | Buy | IDR1,970 | IDR2,471 |
| 2019.03.18 | Buy | IDR1,675 | IDR1,723 |
| 2019.09.09 | Buy | IDR1,600 | IDR1,574 |
| 2020.02.28 | Buy | IDR1,700 | IDR1,511 |
| 2020.12.28 | Overweight | IDR1,580 | IDR1,620 |

Source: NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to 15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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