

# Adaro Energy Tbk (ADRO IJ)

## Rising Coal Prices Propel Earnings Prospects



Company Update | October 6, 2021

### HOLD

<b>Target Price (IDR)</b>	<b>1,840</b>
Consensus Price (IDR)	1,795
TP to Consensus Price (%)	+5.5
Potential Upside (%)	+0.5

#### Shares data

Last Price (IDR)	1,830
Price Date as of	Oct 5, 2021
52 wk Range (Hi/Low)	1,985 / 1,090
Free Float (%)	43.6
Outstanding sh.(mn)	31,985
Market Cap (IDR bn)	59,461
Market Cap (USD mn)	4,214
Avg. Trd Vol - 3M (mn)	94.1
Avg. Trd Val - 3M (bn)	133.1
Foreign Ownership (%)	31.6

#### Mining

##### Coal

Bloomberg	ADRO IJ
Reuters	ADRO.JK

#### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	+28.4%	+37.8%	+46.5%	+65.8%
Rel. Ret.	+24.9%	+33.9%	+41.1%	+41.6%

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ADRO's performance in 6M-21 indicates major growth with 14.2% YoY increase in revenue and 9.6% YoY decrease in the stripping ratio. We maintain our earnings estimates, due to positive trend towards winter demand and increasing global coal prices. ADRO has managed to produce more solid performance than in Q1-21. Additionally, rise in sales of thermal coal to China and Japan consumers also grew by 15.3% and 11.8% YoY and its revenues triggered by the upbeat selling prices of thermal coal which we estimate to exceed ~USD65/tonne.

#### Higher Earnings Despite Lower Production

- For 1H21, Adaro Energy (ADRO) posted a net profit of USD169.2mn (+9.8% YoY), supported by increase in revenue and sales volume.
- However, coal production slips in 1H21; ADRO posted lower YoY coal production of 26.3mn tonnes (-5.1% YoY).
- ADRO's 1H21 stripping ratio decrease to 4.3x, from the previous period at 4.5x. We estimate that this signal improvement in its production efficiencies with lower ore wastes in its large scale mining activities.

#### Revenue and Stripping Ratio Improves

- Furthermore, ADRO's 1H21 coal ASP rose to USD53.0/tonne (+15.3% YoY), given higher global coal prices.
- However, ADRO's 1H21 revenue rose to USD1.5bn (14.2% YoY), achieving 55.5% of the consensus' half-year target numbers.
- Meanwhile, lower 1H21 stripping ratio also indicate cost reduction control, thus, help much in boosting ADRO's bottom-line performance. Thus, ADRO's 1H21 net profit rose to USD169mn (+9.7% YoY).

#### Rating HOLD with Target Price at IDR1,840

- We maintain our revenue forecasts at USD3.6bn (+45.6% YoY) for FY2021, as we estimate that continuous rise of coal prices and winter demand will drive the sales for ADRO.
- We also believe that rebound on coal export to China and Japan market is going to affect sales growth. We also keep our FY 2021 net profit forecasts at USD200 mn (+38.1% YoY).
- Furthermore, we predict that ADRO's full-year 2021 – 2022F ROE will stand at 4.9% and 9.7%, respectively.
- We increase our TP to IDR 1,840; as we increase our forecast in global coal prices and higher coal trading activities. Our TP implies 22F P/E at 12.5x and PBV at 1.2x. However, due to recent surge in ADRO stock price, our recommendation is adjusted to Hold.

#### Adaro Energy Tbk | Summary

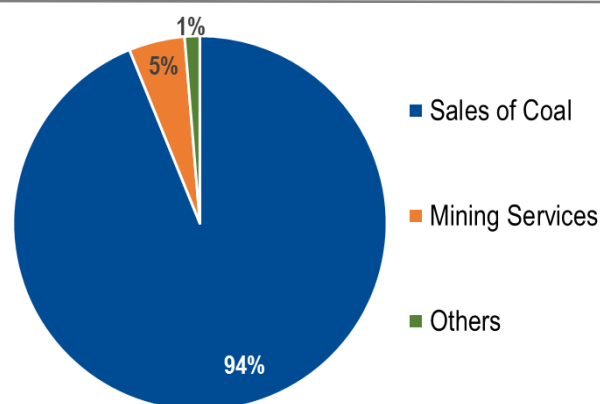
	2019/12	2020/12	2021/12F	2022/12F
Revenue (USD mn)	3,475	2,533	3,686	5,232
Growth (%)	-4.0%	-27.1%	45.5%	42.0%
EBITDA (USD mn)	1,179	772	883	1,032
Net Profit (USD mn)	401	146	200	379
EPS (IDR)	175	64	88	168
Growth (%)	-4.0%	-63.5%	37.1%	89.1%
P/E (x)	8.9x	22.5x	20.9x	12.5
P/BV (x)	0.9x	0.9x	1.0x	1.2x
EV/EBITDA (x)	3.2x	4.5x	5.2x	5.1x
ROE (%)	10.3%	3.7%	4.9%	9.6%
Dividend Yield (%)	5.6%	7.6%	6.3%	6.1%
ROA (%)	5.9%	2.2%	2.9%	5.4%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

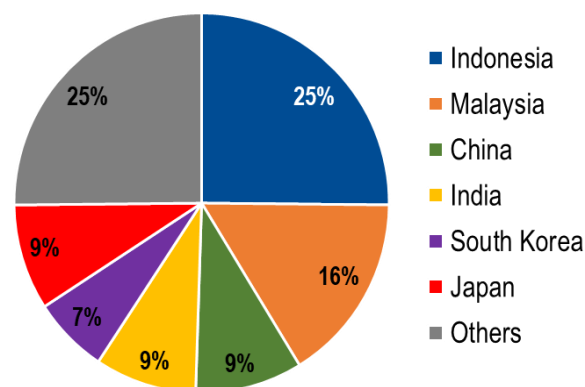
## Performance Highlights in Charts

6M21 Revenue Breakdown



Source: Company Data, NHKS Research

6M21 Sales by Geographic



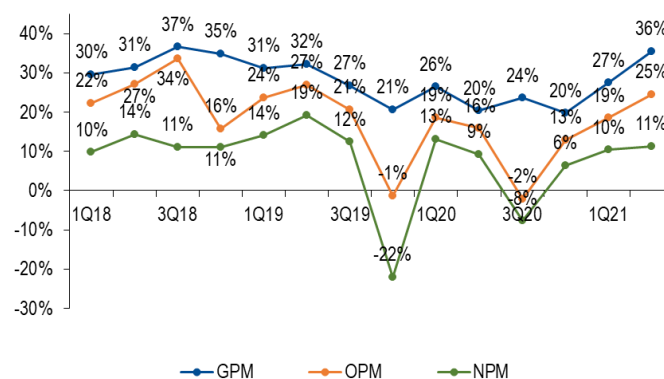
Source: Company Data, NHKS Research

OB Removal &amp; Stripping Ratio



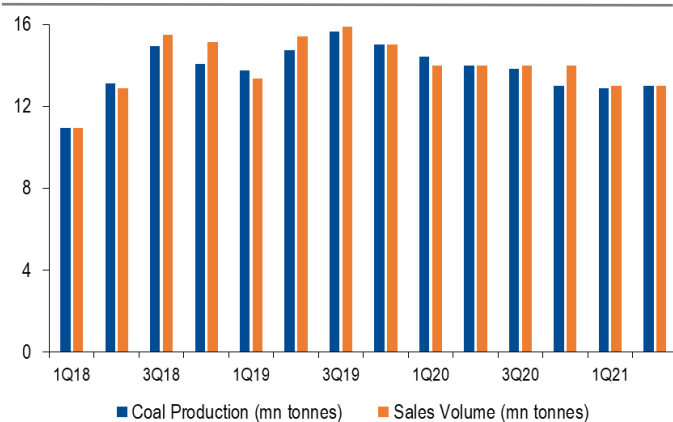
Source: Company Data, NHKS Research

Margin Ratios



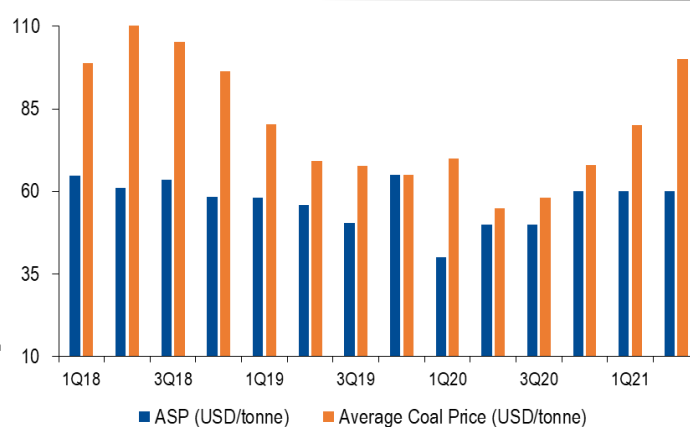
Source: Company Data, NHKS Research

Production &amp; Sales Volume



Source: Company Data, NHKS Research

ASP &amp; Coal Price



Source: Company Data, NHKS Research

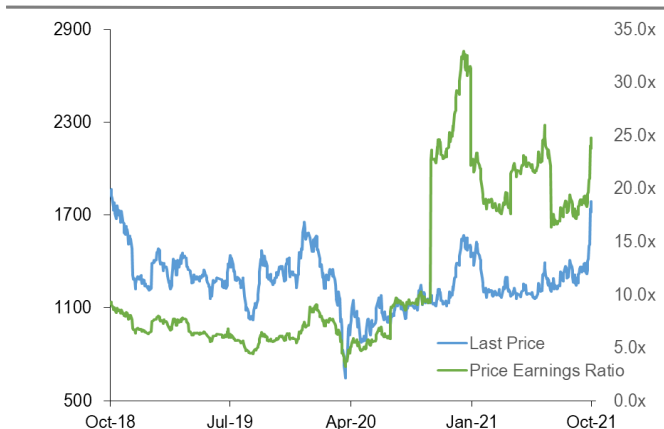
## Valuation Highlights in Charts

### 3-Year P/E Band



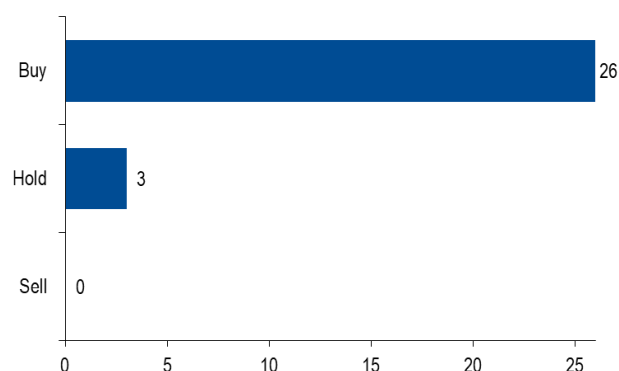
Source: Bloomberg, NHKS Research

### 3-Year Dynamic P/E Band and ADRO IJ



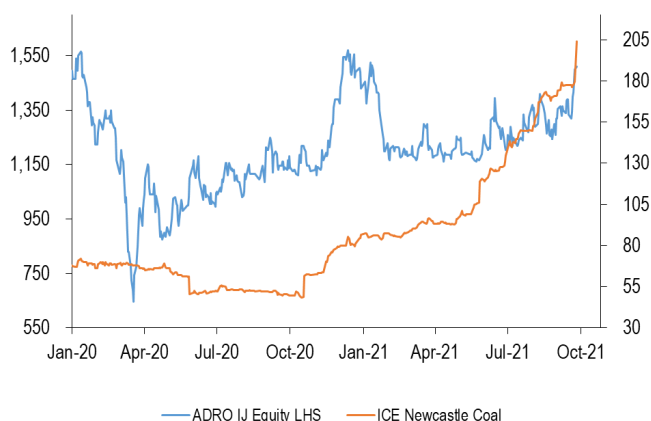
Source: Bloomberg, NHKS Research

### Recommendations by Analysts



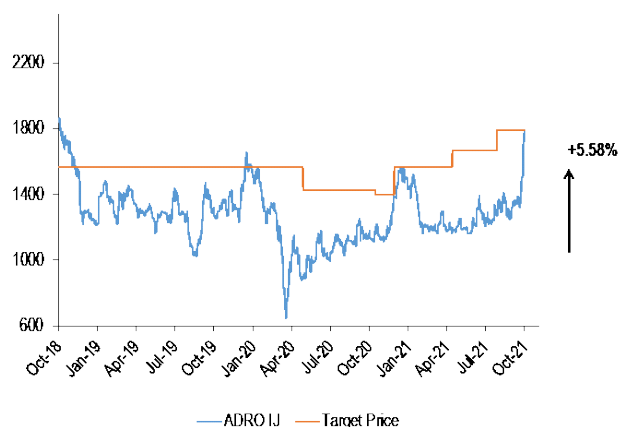
Source: Bloomberg, NHKS Research

### ADRO Share Price vs Coal Price



Source: Bloomberg, NHKS Research

### Closing and Target Price Update



Source: Bloomberg, NHKS Research

### Rating and Target Price Update

Date	Rating	Target price	Consensus
2018.01.10	Buy	IDR2,220	IDR1,978
2018.04.11	Buy	IDR2,260	IDR2,030
2018.06.04	Buy	IDR2,500	IDR2,613
2018.11.07	Buy	IDR1,970	IDR2,171
2019.03.08	Buy	IDR1,675	IDR1,723
2019.09.09	Buy	IDR 1,600	IDR 1,733
2020.12..28	Buy	IDR1,570	IDR1,574
2021.10.30	Hold	IDR1,840	IDR1,795

Source: NHKS Research

## Quarterly Review

	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Sales	820	879	803	751	613	592	580	692	871
Gross Profit	170	234	166	198	125	139	114	190	309
Gross Margin	20.7%	26.7%	20.7%	26.4%	20.3%	23.6%	19.7%	27.4%	35.5%
EBIT	121	181	93	140	84	151	43	146	240
EBIT Margin	14.7%	20.6%	11.5%	18.6%	13.8%	25.5%	7.4%	21.1%	27.5%
EBITDA	175	274	207	243	189	260	170	260	358
EBITDA Margin	21.3%	31.2%	25.7%	32.4%	30.9%	43.9%	29.3%	37.6%	41.2%
Net Profit	80	109	-2	98	57	46	38	72	98
Net Margin	9.8%	12.4%	-0.2%	13.1%	9.3%	-7.7%	6.5%	10.4%	11.3%

Unit: USD mn, %

Source: Company Data, NHKS Research

## Earnings Revision

		2019	2020	2021F	2022F
Sales	Revised	3,475	2,533	3,686	5,232
	Previous	3,404	3,013	3,647	4,647
	Change	2.1%	-15.9%	1.1%	13.2%
Gross Profit	Revised	969	574	736	1,044
	Previous	1,024	709	912	1,012
	Change	-5.4%	-19.1%	-19.4%	3.2%
Gross Margin	Revised	27.9%	22.6%	20.0%	20.5%
	Previous	30.1%	23.5%	25.0%	22.9%
EBIT	Revised	753	416	419	730
	Previous	727	471	904	904
	Change	3.6%	-11.7%	-53.7%	-19.7%
EBIT Margin	Revised	21.7%	16.4%	11.4%	14.9%
	Previous	21.4%	15.6%	24.8%	19.2%
EBITDA	Revised	1,179	772	883	1,032
	Previous	1,055	912	1,342	1,342
	Change	11.8%	-15.3%	-34.2%	-23.3%
EBITDA Margin	Revised	33.9%	30.5%	23.9%	20.2%
	Previous	31.0%	30.3%	36.8%	29.5%
Net Profit	Revised	401	146	200	379
	Previous	466	163	470	470
	Change	-13.9%	-10.3%	-57.4%	-19.6%
Net Margin	Revised	11.5%	5.8%	5.4%	7.4%
	Previous	13.7%	5.4%	12.9%	10.3%

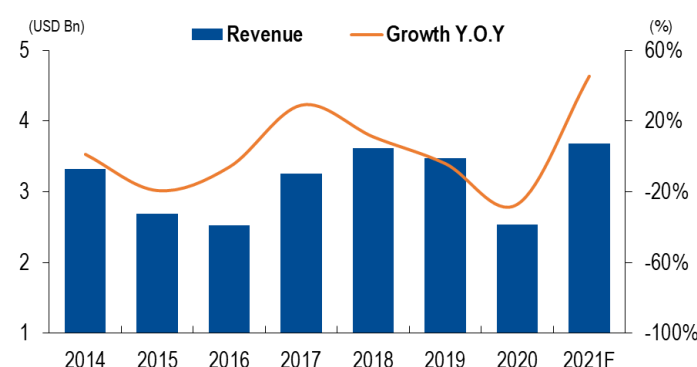
Unit: USD mn, %

Source: Company Data, NHKS 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 for earning more stable revenues to cushion the volatile coal business industry and has 1052 million tonnes of coal reserves and 3547 million tonnes of coal natural resources as of December 2020.

### Revenue and Growth Movements



Source: Company Data, NHKS Research

### Earnings and Growth Movements



Source: Company Data, NHKS 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	P/BV
<b>Indonesia</b>									
ADRO IJ	3,947	6,761	1,561	169	70.6%	11.4%	4.2%	25.9x	1.0x
ITMG IJ	1,924	1,353	669	126	421.5%	19.3%	14.7%	14.4x	2.0x
PTBA IJ	2,289	1,826	719	123	247.4%	23.6%	16.4%	10.8x	1.8x
BUMI IJ	445	3,507	434	(31)	0.0%	5.9%	-7.0%	0.0x	0.0x
<b>India</b>									
COAL INDIA	11,450	19,944	12,619	2,350	148.1%	-4.2%	54.9%	5.4x	2.2x
<b>THAILAND</b>									
BANPU COAL	1,862	9,485	2,281	(58)	-57.7%	-2.4%	-3.0%	32.6x	0.9x
<b>Australia</b>									
WHITEHAVEN COAL	1,020	3,397	1,156	12	-2.9%	1.7%	0.9%	47.7x	0.5x
<b>CANADA</b>									
CAMECO COAL	5,291	5,938	1,344	56	-0.6%	-2.4%	-1.5%	0.0x	2.2x
<b>CHINA</b>									
INNER MONGOLIA	40,321	10,746	14,156	(0)	-38.6%	7.3%	29.2%	35.6x	8.5x
<b>AMERICA</b>									
PEABODY ENERGY	235	4,667	2,812	(1,873)	-785.6%	-64.6%	-107.0%	0.0x	0.3x

Source: Bloomberg, NHKS Research

## Summary of Financials

### INCOME STATEMENT

(USD mn)	2019/12	2020/12	2021/12F	2022/12F
Revenue	3,475	2,533	3,686	5,232
Growth	-4.0%	-27.1%	45.5%	42.0%
COGS	(2,506)	(1,959)	(2,950)	(4,188)
<b>Gross Profit</b>	<b>969</b>	<b>574</b>	<b>736</b>	<b>1,044</b>
Gross Margin	27.9%	22.6%	20.0%	20.0%
Operating Expenses	(216)	(158)	(317)	(314)
<b>EBIT</b>	<b>753</b>	<b>416</b>	<b>419</b>	<b>730</b>
EBIT Margin	21.7%	16.4%	11.4%	14.0%
Depreciation	326	356	464	302
<b>EBITDA</b>	<b>1,179</b>	<b>772</b>	<b>883</b>	<b>1,032</b>
EBITDA Margin	33.9%	30.5%	23.9%	19.7%
Interest Expenses	(143)	(173)	(181)	(190)
<b>EBT</b>	<b>792</b>	<b>346</b>	<b>430</b>	<b>813</b>
Income Tax	(269)	(131)	(163)	(309)
Minority Interest	(122)	(68)	(66)	(125)
<b>Net Profit</b>	<b>401</b>	<b>146</b>	<b>200</b>	<b>379</b>
Growth	-4.0%	-63.5%	37.1%	89.1%
Net Profit Margin	11.5%	5.8%	5.4%	7.2%

### BALANCE SHEET

(USD mn)	2019/12	2020/12	2021/12F	2022/12F
Cash	1,576	1,174	1,252	1,335
Receivables	310	224	214	205
Inventories	121	105	114	124
<b>Total Current Assets</b>	<b>1,451</b>	<b>1,732</b>	<b>1,896</b>	<b>2,100</b>
Net Fixed Assets	3,257	2,909	3,078	2,899
Other Non Current Asse	2,505	1,705	1,871	2,014
<b>Total Assets</b>	<b>7,213</b>	<b>6,346</b>	<b>6,845</b>	<b>7,013</b>
Payables	336	214	222	231
ST Bank Loan	508	587	814	1,129
LT Debt	1,397	865	912	862
<b>Total Liabilities</b>	<b>3,272</b>	<b>2,511</b>	<b>2,793</b>	<b>3,078</b>
Capital Stock + APIC	1,497	1,497	1,497	1,497
Retained Earnings	2,289	2,347	2,424	2,614
<b>Shareholders' Equity</b>	<b>3,941</b>	<b>3,835</b>	<b>4,052</b>	<b>3,935</b>

### CASH FLOW STATEMENT

(USD mn)	2019/12F	2020/12F	2021/12F	2020/12F
Operating Cash Flow	914	735	662	727
Investing Cash Flow	(574)	(358)	(408)	(601)
Financing Cash Flow	285	(777)	(195)	(177)
<b>Net Changes in Cash</b>	<b>625</b>	<b>(400)</b>	<b>59</b>	<b>(51)</b>

### PROFITABILITY & STABILITY

	2019/12	2020/12	2021/12F	2022/12F
ROE	10.3%	3.7%	4.9%	9.6%
ROA	5.9%	2.2%	2.9%	5.4%
ROIC	8.5%	4.9%	4.5%	7.6%
Cash Dividend (USD mn)	200	250	263	290
Dividend Yield	5.6%	7.6%	6.3%	6.1%
Payout Ratio	49.9%	171.0%	131.1%	76.50%
DER	48.3%	37.9%	42.6%	50.6%
Net Gearing	72%	54%	62%	67%
LT Debt to Equity	35.4%	22.6%	22.5%	21.9%
Equity Ratio	54.6%	60.4%	59.2%	56.1%
Debt Ratio	45.4%	39.6%	40.8%	43.9%
Financial Leverage	35.4%	22.6%	22.5%	21.9%
Current Ratio	114.2%	141.2%	125.6%	111.3%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	31,986	31,986	31,986	32,000
Share Price (IDR)	1,555	1,430	1,830	2,105
Market Cap (IDR tn)	49.7	45.7	58.5	67.3

### VALUATION INDEX

	2019/12	2020/12	2021/12F	2022/12F
Price/Earnings	8.9x	22.5x	20.9x	12.5x
Price/Book Value	0.9x	0.9x	1.0x	1.2x
Price/Sales	1.0x	1.3x	1.1x	0.9x
PE/EPS Growth	-2.2x	-0.4x	0.6x	0.1x
EV/EBITDA	3.2x	4.5x	5.2x	5.1x
EV/EBIT	5.0x	8.4x	11.0x	7.2x
EV (IDR bn)	52,618	48,660	64,243	74,872
Sales CAGR (3-Yr)	11.2%	-8.1%	0.6%	14.6%
EPS CAGR (3-Yr)	6.2%	-32.9%	-21.7%	-1.9%
Basic EPS (IDR)	175	64	88	168
Diluted EPS (IDR)	175	64	88	168
BVPS (IDR)	1,718	1,666	1,771	1745
Sales PS (IDR)	1,515	1,101	1,611	2318
DPS (IDR)	87	109	115	129

### TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	69.6	Adaro Strategic 44%
United States	7.4	Garibaldi Thohir 6.2%
Luxembourg	1.1	Edwin Soeryadjaya 3.3%
Ireland	1.3	Theodore Rahmat 2.5%

Source: Company Data, NHKS Research

**NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings**

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. 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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