

# Adaro Energy Tbk (ADRO IJ)

## India Demand Drives Exports

ADRO's export share increased to 77% 1H22 (Vs. 72% 1H21), as coal sales to India grew significantly. ADRO's export performance was also supported by sales to Taiwan, the Philippines and Hong Kong in 2Q22. Meanwhile, exports to Malaysia as the second largest portion after India, grew 133% YoY. NHKSI Research sees the current electricity crisis in India and the European Geopolitical conflict, will still make ADRO's export portion, in an increasing trend at least until FY22F.

### Asian Market Focus

- In the midst of implementing Domestic Market Obligation regulations, ADRO maintained exports for Southeast Asia, China, East Asia and New Zealand, ADRO recorded revenue of USD3.5Bn in 1H22 (+127% YoY). This achievement was supported by Average Selling Price which increased by 117% YoY to USD125.9/Ton, and sales volume grew 7% to 27.5Mt due to weather constraints.
- In addition to the electricity crisis that occurred in India and the European Geopolitical conflict, the record price of coal was also affected by the still constrained global supply chain. Meanwhile, the cost of revenue rose 43% YoY to USD1.5Bn, mainly due to the increase in royalty fee to the Government by 60%, in line with the increase in Average Selling Price on an annual basis. From the bottom line, ADRO recorded a 1H22 net profit of USD1.2Bn (+613% YoY). On the other hand, ADRO maintained a strong balance sheet profile, with a cash position of USD2.2Bn.

### Domestic Portion of 23%

- In the midst of a commitment to maintain the market in Southeast Asia, ADRO's share of domestic coal sales was 23% 1H22 (Vs. 28% 1H21), supported by an exclusive partnership with a Power Plant client of 90%, and the remaining 10% of clients are from the cement industry, as well as Pulp & Paper. As for 1H22, coal is still in the super-cycle phase, in line with market concerns about the shortage of energy commodities.
- The ICE Newcastle coal reference price reached a record high above USD400/Ton in early September 2022. Furthermore, for FY22F, ADRO has set a coal production target of 58Mt-60Mt, with a relatively stable Strip Ratio at 4.1x or lower than FY21A at 4.2x.

### Buy Recommendation with Target Price at IDR4,800

- NHKSI Research maintains the Buy recommendation, by raising the target price to IDR4,800, supported by coal prices that remain high, sales volume increases, in line with the decline in world oil prices. Our target price implies a FY22F EV/EBITDA of 4.1x or above the three-year average of 3.0x. On the other hand, we are still anticipating the risk of weather factors that could disrupt production and the potential for a lower Average Selling Price.

### Adaro Energy Tbk | Summary

	2021A	2022F	2023F	2024F
Revenue (USD Mn)	3,993	4,106	4,426	4,487
Growth (%)	57.5%	2.8%	7.8%	1.4%
EBITDA (USD Mn)	2,104	2,270	1,925	2,064
Net Profit (USD mn)	933	1,242	1,348	1,366
EPS (IDR)	408	557	605	613
Growth (%)	535.3%	33.1%	8.5%	1.4%
P/E (x)	5.5x	8.6x	8.6x	8.6x
P/BV (x)	1.2x	2.3x	2.1x	2.0x
EV/EBITDA (x)	2.0x	4.1x	5.1x	4.8x
ROE (%)	22.2%	27.3%	26.5%	23.8%
ROA (%)	13.4%	15.9%	16.0%	15.1%
DER (%)	19.4%	17.4%	17.4%	17.4%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Update | Sept. 27, 2022

## Buy

<b>Target Price (IDR)</b>	<b>4,800</b>
Consensus Price (IDR)	4,378
TP to Consensus Price (%)	+9.6
Potential Upside	+24.3

### Shares data

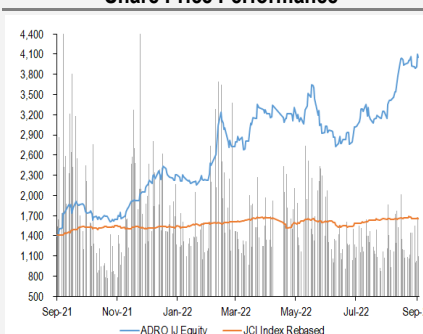
Last Price (IDR)	3,860
Price Date as of	Sept. 26, 2022
52 wk Range (Hi/Lo)	4,190 / 1,425
Free Float (%)	43.7
Outstanding sh.(mn)	31,986
Market Cap (IDR bn)	129,543
Market Cap (USD mn)	8,576
Avg. Trd Vol - 3M (mn)	101.1
Avg. Trd Val - 3M (bn)	337.1
Foreign Ownership (%)	30.2

### Energy

#### Oil, Gas & Coal

Bloomberg	ADRO IJ
Reuters	ADRO.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	80.0%	20.9%	37.8%	186.2%
Rel. Ret.	70.9%	20.7%	35.2%	169.4%

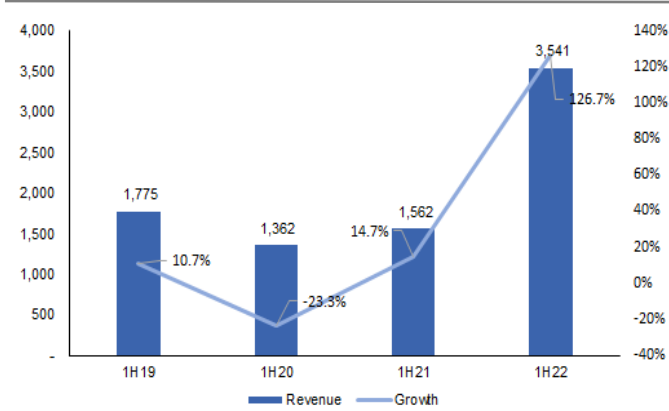
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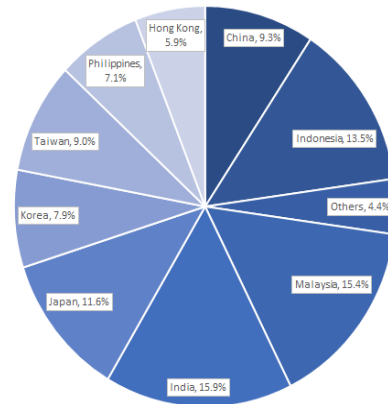
## Performance Highlights in Charts

Revenue Growth (USD Mn)



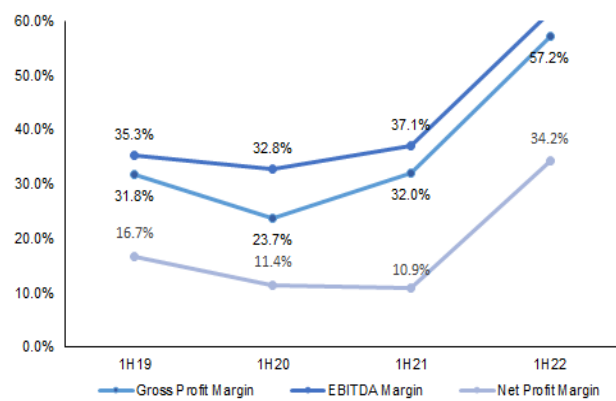
Source: Bloomberg, NHKSI Research

1H22 Revenue Breakdown (by Geography)



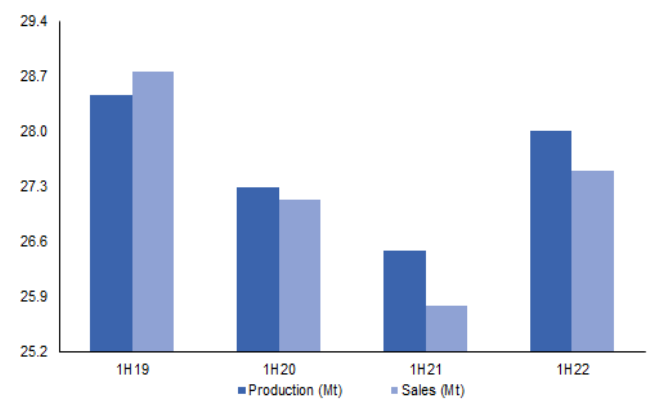
Source: Bloomberg, NHKSI Research

Margin Ratios



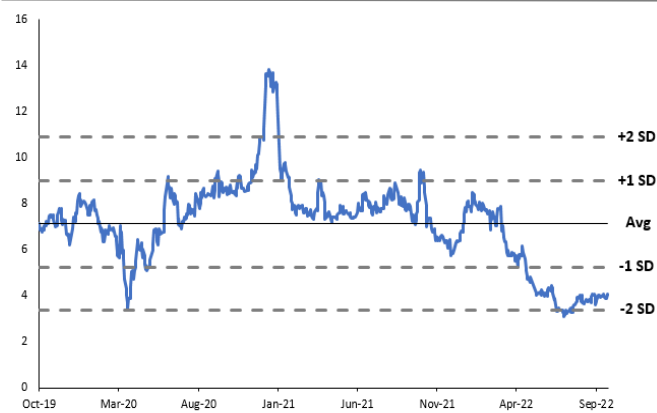
Source: Bloomberg, NHKSI Research

Production and Sales Volume



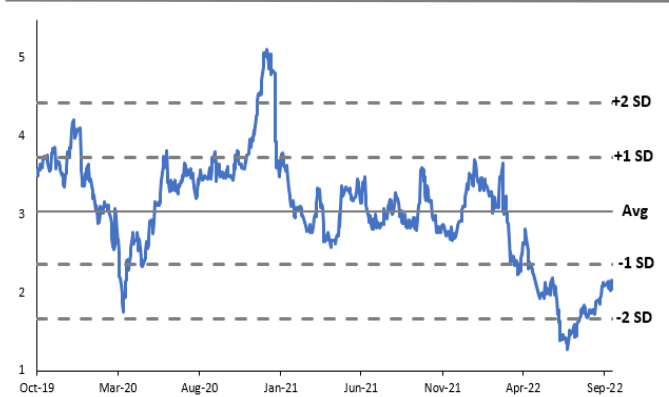
Source: Company Data, NHKSI Research

Blended Forward P/E Ratio



Source: Bloomberg, NHKSI Research

EV/ EBITDA Ratio



Source: Bloomberg, NHKSI Research

## Summary of Financials

### INCOME STATEMENT

(USD mn)	2021/12A	2022/12E	2023/12F	2024/12F
<b>Revenue</b>	<b>3,993</b>	<b>4,106</b>	<b>4,426</b>	<b>4,487</b>
Growth	57.5%	2.8%	7.8%	1.4%
COGS	(2,223)	(2,432)	(2,622)	(2,658)
<b>Gross Profit</b>	<b>1,770</b>	<b>1,673</b>	<b>1,804</b>	<b>1,829</b>
Gross Margin	44.3%	40.8%	40.8%	40.8%
Operating Expenses	(208)	(205)	(221)	(224)
<b>EBIT</b>	<b>785</b>	<b>1,468</b>	<b>1,582</b>	<b>1,604</b>
EBIT Margin	19.7%	35.8%	35.8%	35.8%
Depreciation	486	377	342	459
<b>EBITDA</b>	<b>2,104</b>	<b>2,270</b>	<b>1,925</b>	<b>2,064</b>
EBITDA Margin	52.7%	55.3%	43.5%	46.0%
Interest Expenses	(12)	(12)	(11)	(12)
<b>EBT</b>	<b>1,486</b>	<b>1,909</b>	<b>2,060</b>	<b>2,088</b>
Income Tax	(458)	(571)	(616)	(624)
Minority Interest	(95)	(96)	(97)	(98)
<b>Net Profit</b>	<b>933</b>	<b>1,242</b>	<b>1,348</b>	<b>1,366</b>
Growth	535.3%	33.1%	8.5%	1.4%
Net Profit Margin	23.4%	30.3%	30.5%	30.4%

### PROFITABILITY & STABILITY

	2021/12A	2022/12E	2023/12F	2024/12F
ROE	22.2%	27.3%	26.5%	23.8%
ROA	13.4%	15.9%	16.0%	15.1%
ROIC	10.2%	18.8%	17.1%	16.1%
Cash Dividend (USD mn)	147	125	124	135
Dividend Yield	2.9%	1.2%	1.1%	1.1%
Payout Ratio	15.7%	10.1%	9.2%	9.9%
DER	19.4%	17.4%	17.4%	17.4%
Net Gearing	29%	25%	24%	23%
LT Debt to Equity	13.3%	11.9%	13.0%	13.0%
Capitalization Ratio	16.2%	14.8%	14.8%	14.8%
Equity Ratio	58.8%	58.0%	62.9%	63.6%
Debt Ratio	11.4%	10.1%	10.9%	11.1%
Financial Leverage	166.1%	171.3%	165.1%	158.1%
Current Ratio	208.4%	256.4%	367.5%	384.5%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	31,986	31,986	31,986	31,986
Share Price (IDR)	2,250	4,800	5,207	5,278
Market Cap (IDR tn)	72.0	153.5	166.5	168.8

### BALANCE SHEET

(USD mn)	2021/12A	2022/12E	2023/12F	2024/12F
Cash	1,814	2,127	2,661	2,898
Receivables	452	479	495	492
Inventories	126	105	104	108
<b>Total Current Assets</b>	<b>2,838</b>	<b>3,123</b>	<b>3,458</b>	<b>3,696</b>
Net Fixed Assets	2,615	2,534	2,871	3,151
Other Non Current Asset	2,134	2,369	2,445	2,525
<b>Total Assets</b>	<b>7,587</b>	<b>8,025</b>	<b>8,774</b>	<b>9,372</b>
Payables	651	663	671	682
ST Bank Loan	271	254	240	259
LT Debt	593	556	720	777
<b>Total Liabilities</b>	<b>3,129</b>	<b>3,367</b>	<b>3,254</b>	<b>3,412</b>
Capital Stock + APIC	1,497	1,497	1,497	1,497
Retained Earnings	2,686	2,899	3,665	4,105
<b>Shareholders' Equity</b>	<b>4,458</b>	<b>4,658</b>	<b>5,520</b>	<b>5,960</b>

### VALUATION INDEX

	2021/12A	2022/12E	2023/12F	2024/12F
Price/Earnings	5.5x	8.6x	8.6x	8.6x
Price/Book Value	1.2x	2.3x	2.1x	2.0x
Price/Sales	1.3x	2.6x	2.6x	2.6x
PE/EPS Growth	0.0x	0.3x	1.0x	6.3x
EV/EBITDA	2.0	4.1	5.1	4.8
EV/EBIT	5.2	6.3	6.2	6.1
EV (IDR bn)	57,350	133,247	140,748	140,710
Sales CAGR (3-Yr)	7.0%	4.3%	8.6%	21.0%
EPS CAGR (3-Yr)	24.5%	43.8%	49.4%	110.3%
Basic EPS (IDR)	408	557	605	613
Diluted EPS (IDR)	408	557	605	613
BVPS (IDR)	1,949	2,090	2,476	2,674
Sales PS (IDR)	1,745	1,842	1,985	2,013
DPS (IDR)	64	56	56	60

### CASH FLOW STATEMENT

(USD mn)	2021/12A	2022/12E	2023/12F	2024/12F
Operating Cash Flow	1,436	1,521	1,645	1,832
Investing Cash Flow	(645)	(106)	(808)	(825)
Financing Cash Flow	(153)	(130)	121	(58)
<b>Net Changes in Cash</b>	<b>638</b>	<b>1,286</b>	<b>959</b>	<b>950</b>

### TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	69.3 Adaro Strategic	43.9
United States	7.9 Garibaldi Thohir	6.2
Ireland	1.3 Edwin Soeryadjaya	3.3
Others	21.5 Others	46.6

Source: Company Data, NHKSI 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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