

Adaro Energy Indonesia (ADRO)

Pressure From Falling Coal Prices Continue

In 9M23, ADRO experienced a 13.2% YoY fall in revenue (IDR 75.3 trillion vs IDR 86.7 trillion) and a 34% decrease in net income (IDR 18.4 trillion vs IDR 27.9 trillion). Gross Profit Margin also fell from 56.9% to 39.9% while Net Profit Margin slipped to 24.5% from 32.2%. This slide comes off the back of the steep decline in global coal prices, with the company's ASP decreasing by 25% YoY. Inflation and increase in production volume also resulted in a 17% rise in production costs, contributing to the fall in profit margins.

Production remains solid, stable demand growth

- With falling global coal prices, use & demand for coal has steadily increased in 9M23. ADRO's coal sales volume reached 49.12 million tons (+11% YoY); on track to reach the 2023 sales target of 62-64 million tons.
- ADRO experienced a 12% YoY increase in coal production volume, reaching 50.73 million tons in 9M23, with better than expected weather being the major catalyst for this.

Mixed bag for subsidiaries

- Despite the overall slide in coal prices, one of ADRO's subsidiaries, Adaro Minerals Indonesia (ADMR), recorded an 8.1% YoY increase in revenue for 9M23. Coking coal sales volume increased by 38% YoY, while production volume rose by 55% YoY, showcasing its strong operational capacity.
- On the flip side, one of ADRO's other subsidiary operating in Australia experienced a decline in both production and sales volume. Kestrel recorded a 6% YoY decline in saleable coal production volume and a 9% fall in sales volume. This is due to lower processing capacity as a result of high clay and dilution content in stocks being processed in the plant.

Further CAPEX expected as diversification efforts continue

- ADRO reported a total CAPEX of IDR 7.32 trillion for 9M23 (+71% YoY), with fixed assets increasing by 21%.
- This rise in CAPEX is mainly due to the company's continued investment in their aluminium smelter along with constructing its ancillary facilities. ADRO also heavily invested in barges, heavy equipment, and other supporting infrastructures to further reinforce their robust supply chain.
- Future CAPEX is expected to further increase as ADRO continues investing in their aluminium smelter as well as green energy projects, such as the wind turbine initiative in Tanah Laut and their Solar PV project.

Macro factors at play

- China continues to be one of the most vital international markets for ADRO, accounting for 22% of the company's sales in 9M23. The country's continued economic recovery (supported by recent economic data), boosted by continued government stimulus, could further boost ADRO's sales volume in 2024.
- On the other hand, the European coal market remains weak due to high renewables availability, a strong gas supply chain, high gas storage, and lower power demand.

Recommend OVERWEIGHT with TP of IDR2870

- We give ADRO an overweight recommendation with TP of IDR2870, reflecting a forward PE ratio of 5.79x, which is approximately equal to ADRO's 5-year mean. Price is currently trading at a forward PE of 5.00x.
- Risks: 1) Extreme weather 2) Chinese economy stagnation 3) Continued decline in global coal prices

Adaro Energy Indonesia Tbk | Summary

in IDR bn	2022A	2023E	2024F	2025F
Revenue	120,782	96,927	102,021	105,449
Revenue growth	111.4%	-19.8%	5.3%	3.4%
Net profit	37,061	24,039	28,046	30,379
EPS (IDR)	1,196	778	908	984
Net Profit growth	177.6%	-35.1%	16.7%	8.3%
NPM	30.7%	24.8%	27.5%	28.8%
ROE	45.0%	19.8%	21.7%	21.2%
ROA	26.9%	14.4%	16.5%	16.6%
P/E	2.1x	3.2x	2.7x	2.5x
P/BV	0.8x	0.7x	0.6x	0.6x
EV/EBITDA	0.7x	1.5x	1.2x	1.1x

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Company Update | Nov 15, 2023

Overweight

Target Price (IDR)	2,870
Consensus Price (IDR)	3,138
TP to Consensus Price	-8.54%
Potential Upside	+14.3%

Shares data

Last Price (IDR)	2,510
Price Date as of	Nov 15, 2023
52 wk Range (Hi/Lo)	2,010/3,990
Free Float (%)	40.26
Outstanding sh.(mn)	31,986
Market Cap (IDR bn)	79,325
Market Cap (USD mn)	5,073
Avg. Trd Vol - 3M (mn)	51.47
Foreign Ownership	34.1%

Mining

Coal

Bloomberg	ADRO IJ
Reuters	ADRO.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-30.9%	-8.5%	3.8%	-29.1%
Rel. Ret.	-30.7%	-7.2%	4.8%	-26.6%

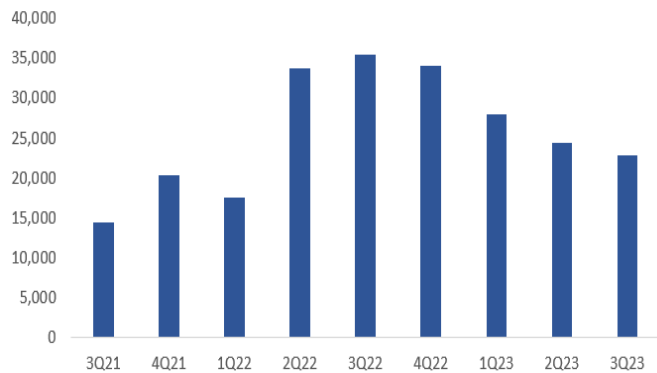
Axell Ebenhaezer (Mining & Property)

(021) 50889133

axell.ebenhaezer@nhsec.co.id

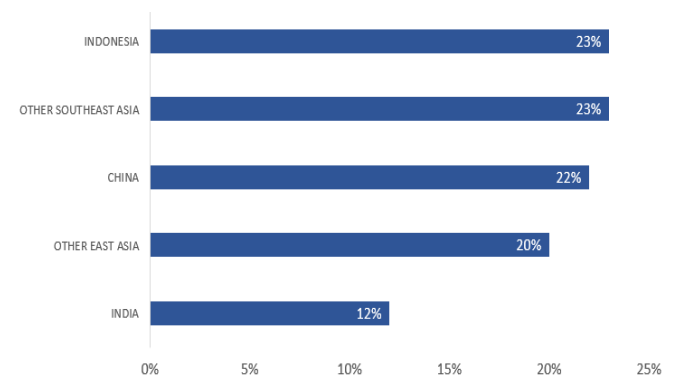
Performance Highlights in Charts

ADRO Quarterly Revenue (IDR Bn) | 3Q21 - 3Q23



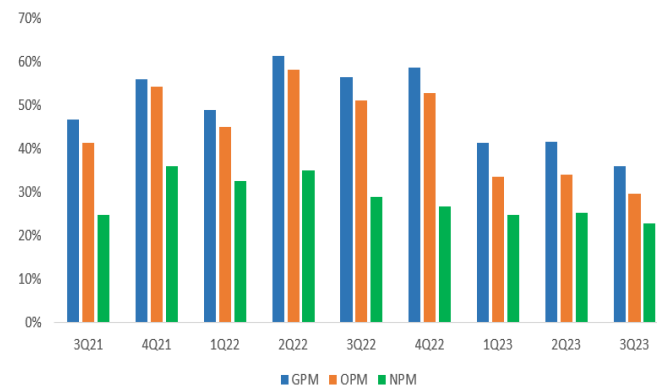
Source: Company Data, NHKSI Research

ADRO Coal Sale Destinations | 9M23



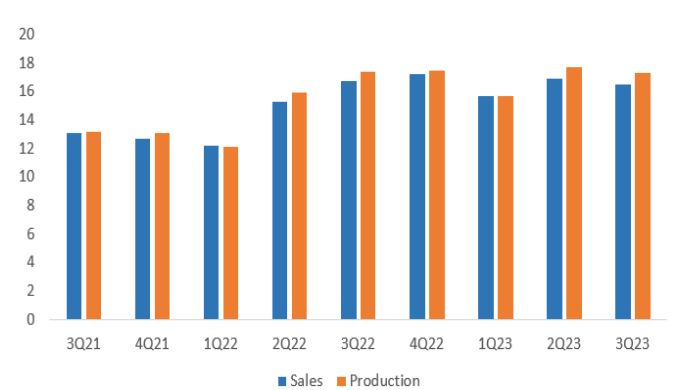
Source: Company Data, NHKSI Research

ADRO Profit Margins | 3Q21 - 3Q23



Source: Company Data, NHKSI Research

ADRO Sales & Production Volume (Million Tons) | 3Q21 - 3Q23



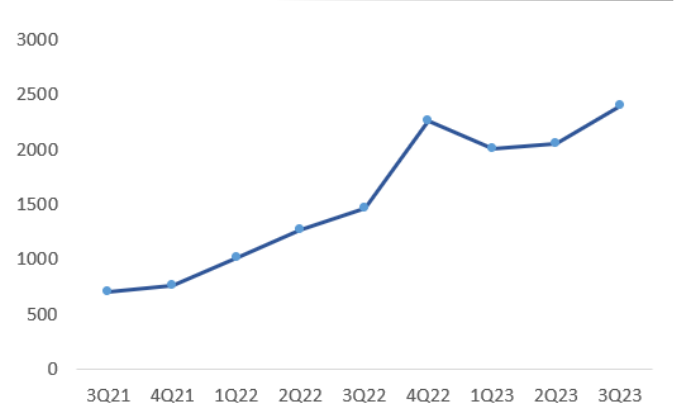
Source: Company Data, NHKSI Research

Newcastle Coal Price (USD/mt) | 1Q22 - 3Q23



Source: Company Data, NHKSI Research

ADRO CAPEX (IDR Bn) | 3Q21 - 3Q23



Source: Company Data, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Revenue	120,782	96,927	102,021	105,449
<i>Growth</i>	<i>111.4%</i>	<i>-19.8%</i>	<i>5.3%</i>	<i>3.4%</i>
COGS	51,376	58,721	59,805	58,758
Gross Profit	69,405	38,206	42,216	46,691
<i>Gross Margin</i>	<i>57.5%</i>	<i>39.4%</i>	<i>41.4%</i>	<i>44.3%</i>
Operating Expenses	(5,585)	(6,626)	(5,912)	(6,065)
EBIT	63,821	31,578	36,304	40,626
<i>EBIT Margin</i>	<i>52.8%</i>	<i>32.6%</i>	<i>35.6%</i>	<i>38.5%</i>
Depreciation	7,703	4,873	5,362	5,474
EBITDA	71,524	36,451	41,666	46,100
<i>EBITDA Margin</i>	<i>59.2%</i>	<i>37.6%</i>	<i>40.8%</i>	<i>43.7%</i>
EBT	66,668	33,239	38,556	42,581
Income Tax	24,572	6,207	7,560	8,766
Minority Interest	5,035	2,993	2,951	3,436
Net Profit	37,061	24,039	28,046	30,379
<i>Growth</i>	<i>177.6%</i>	<i>-35.1%</i>	<i>16.7%</i>	<i>8.3%</i>
<i>Net Profit Margin</i>	<i>30.7%</i>	<i>24.8%</i>	<i>27.5%</i>	<i>28.8%</i>

BALANCE SHEET

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Cash	64,700	58,555	63,277	69,761
Receivables	10,035	6,941	5,436	5,619
Inventories	3,089	3,028	3,196	3,304
Total Current Assets	82,487	74,576	78,265	85,356
Net Fixed Assets	38,539	42,752	45,953	51,077
Other Non Current Assets	46,176	49,012	50,416	54,908
Total Assets	167,201	166,340	174,634	191,341
Payables	34,973	10,872	13,975	14,445
ST Debt	2,725	5,232	4,375	4,844
LT Debt	21,817	21,340	24,041	26,618
Total Liabilities	65,982	44,990	45,473	48,332
Capital Stock	5,318	5,309	5,309	5,309
Retained Earnings	69,494	85,765	96,983	109,135
Shareholders' Equity	101,219	121,350	129,161	143,009

CASH FLOW STATEMENT

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Operating Cash Flow	57,881	19,347	35,407	37,898
Investing Cash Flow	(11,627)	(8,973)	(13,817)	(14,134)
Financing Cash Flow	(11,579)	(15,554)	(16,743)	(17,127)
Net Changes in Cash	34,035	(5,057)	4,722	6,483

PROFITABILITY & STABILITY

	2022/12A	2023/12F	2024/12F	2025/12F
ROE	45.0%	19.8%	21.7%	21.2%
ROA	26.9%	14.4%	16.5%	16.6%
Inventory Turnover	39.1	32.0	31.9	31.9
Days Inventory Outstanding	9.3	11.4	11.4	11.4
Receivables Turnover	9.7	14.7	18.8	18.8
Account Receivable Days	37.8	24.8	19.4	19.4
Dividend Yield (%)	0.1%	0.1%	0.1%	0.1%
Payout Ratio (%)	0.3%	0.3%	0.2%	0.2%
DER	24.2%	21.9%	22.0%	22.0%
Current Ratio	217%	430%	519%	558%
Quick Ratio	1.8	3.5	4.4	4.8
DAR	15%	16%	16%	16%
Total Shares (mn)	31,985	31,985	31,985	31,985
Share Price (IDR)	2,480	2,480	2,480	2,480
Market Cap (IDR tn)	79.32	79.32	79.32	79.32

VALUATION INDEX

	2022/12A	2023/12F	2024/12F	2025/12F
Price/Earnings	2.1x	3.2x	2.7x	2.5x
Price/Book Value	0.8x	0.7x	0.6x	0.6x
EV/EBITDA	0.7x	1.5x	1.2x	1.1x
EV (IDR bn)	46,961	56,392	51,603	49,021
BVPS (IDR)	3,165	3,794	4,038	4,471
Basic EPS (IDR)	1,196	778	908	984

TOP OWNERSHIP

Shareholders	%
PT Adaro Strategic Investment	43.9
Public	32.8
Garibaldi Thohir	6.2
Edwin Soeryadjaja	3.3
By Geography	
Indonesia	65.9
United States	7.9
Ireland	1.1

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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