

# Adaro Energy Indonesia (ADRO)

## Resilience In The Face Of Weak Coal Prices

**PT Adaro Energy Indonesia Tbk. (ADRO) reported a 10.8% YoY fall in net income for 1H24 (USD 778.8 million vs USD 873.8 million). However, on a QoQ basis, the company recorded an 8% rise in net income (USD 404.4 million vs 374.3 million) off the back of higher sales volume following increased summer-time demand from India and China. ADRO also continues to be one of the most efficient coal companies in the country, with EBITDA margin for 1H24 improving to 40% from 38.2%, while net profit margin rose from 25.1% to 26.2%.**

### Production & sales volume increase partially offsets fall in ASP

- ADRO increased its production volume in 1H24 by 7% YoY from 33.41 million tons to 35.74 million tons. The company's sales volume mirrors this as it also rose by 7% YoY from 32.62 million tons to 34.94 million tons.
- This increase in volume partially reduced the impact of the fall in global coal prices.
- Coal production volume is expected to slow down slightly in 2H24, with rainfall forecasted to be higher than normal due to the La Nina phenomenon. Sales volume is also expected to cool down with demand from India and China forecasted to taper down.
- However, ADRO's relatively low exposure to these markets should help limit the effects of these factors.

### Summer rains reduce Chinese coal demand, India enters monsoon season.

- Heavy rainfall all over China during the summer typhoon season allowed hydroelectric power plants in China to generate an amount of electricity not seen since 2022.
- Despite coal imports forecasted to increase during the extreme summer heat, electricity generation from China's hydro plants have caused coal demand to remain sombre.
- Indian coal demand is also affected by similar factors as the country enters its monsoon season. Coal import is expected to slow down.
- ADRO's sells 18% of its thermal coal to China and another 11% to India, while it sells 11% and 5% of its metcoal to China and India respectively via subsidiary PT Adaro Minerals Indonesia (AMDR).

### Recommend HOLD with TP of IDR 3,680

- We give a HOLD recommendation for ADRO with a TP of IDR 3,680. This is roughly equivalent to the company's 3-year PE Standard Deviation mean of 4.66x. Price is currently trading at a PE ratio of 4.57x.
- Risks: 1) La Nina affecting mining production 2) Continued slow Chinese economy 3) Fed interest rate

### Adaro Energy Indonesia Tbk | Summary

in IDR bn	2023A	2024E	2025F	2026F
Revenue	99,265	93,812	96,157	98,561
Revenue growth	-17.8%	-5.5%	2.5%	2.5%
Net profit	25,013	25,384	25,871	25,157
EPS (IDR)	810	824	840	817
Net Profit growth	-32.5%	1.5%	1.9%	-2.8%
NPM	25.2%	27.1%	26.9%	25.5%
ROE	21.9%	18.4%	17.1%	15.4%
ROA	15.2%	14.6%	13.2%	11.9%
P/E	2.9x	4.5x	4.4x	4.5x
P/BV	0.6x	0.8x	0.7x	0.7x
EV/EBITDA	1.4x	2.4x	2.1x	2.0x

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Company Update | Sep 03, 2024

# HOLD

<b>Target Price (IDR)</b>	<b>3,680</b>
Consensus Price (IDR)	3,404
TP to Consensus Price	+8.11%
Potential Upside	+1.94%

### Shares data

Last Price (IDR)	3610
Price Date as of	Sep 02, 2024
52 wk Range (Hi/Low)	3,650/2,320
Free Float (%)	37.5
Outstanding sh.(mn)	31,986
Market Cap (IDR bn)	111,038
Market Cap (USD mn)	7,127
Avg. Trd Vol - 3M (mn)	46.5

### Mining

#### Coal

Bloomberg	ADRO IJ
Reuters	ADRO.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	51.7%	8.7%	30.3%	34.7%
Rel. Ret.	45.9%	3.4%	2.8%	24.4%

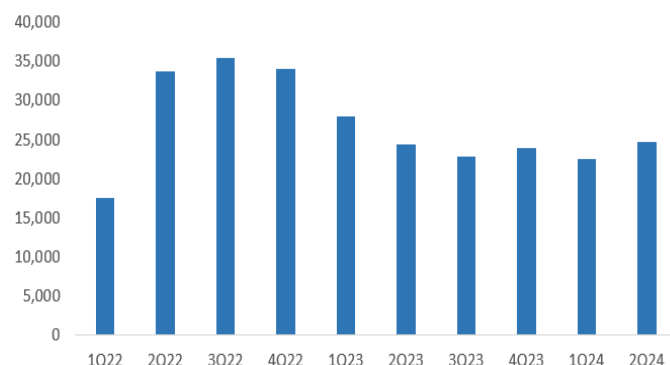
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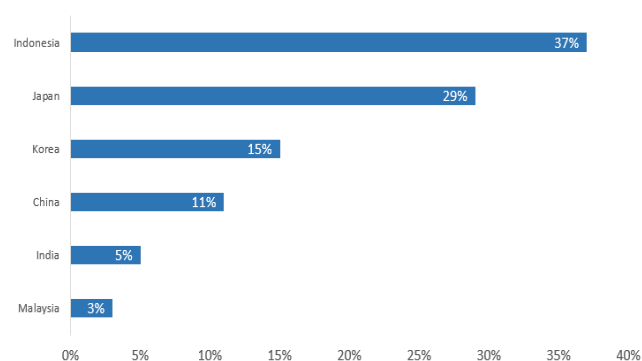
## Performance Highlights in Charts

### ADRO Quarterly Revenue (IDR Bn) | 1Q22 - 2Q24



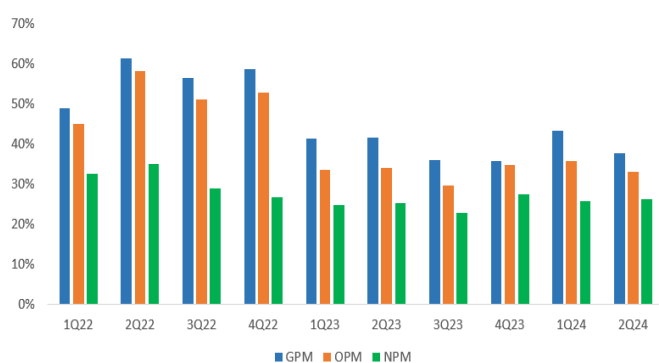
Source: Company Data, NHKSI Research

### ADRO Metcoal Sale Destinations | 1H24



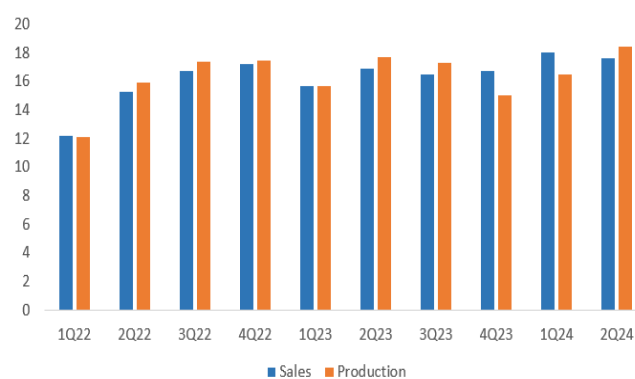
Source: Company Data, NHKSI Research

### ADRO Profit Margins | 1Q22 - 2Q24



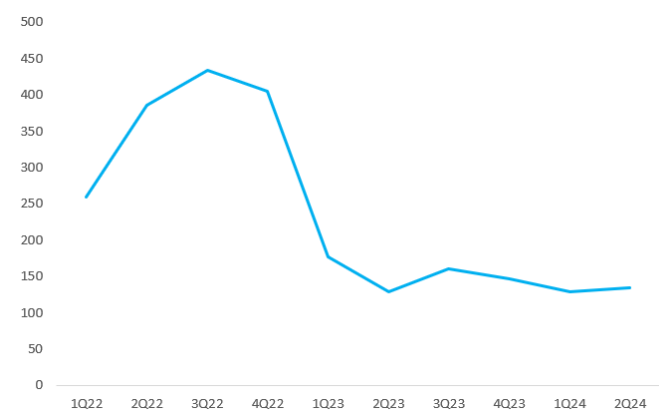
Source: Company Data, NHKSI Research

### ADRO Sales & Production Volume (Million Tons) | 1Q22 - 2Q24



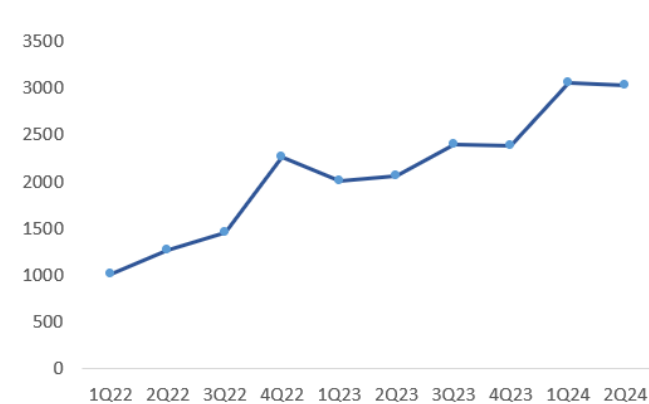
Source: Company Data, NHKSI Research

### Newcastle Coal Price (USD/mt) | 1Q22 - 2Q24



Source: Company Data, NHKSI Research

### ADRO CAPEX (IDR Bn) | 1Q22 - 2Q24



Source: Company Data, NHKSI Research

## Summary of Financials

### INCOME STATEMENT

(IDR bn)	2023/12A	2024/12F	2025/12F	2026/12F
Revenue	99,265	93,812	96,157	98,561
Growth	-17.8%	-5.5%	2.5%	2.5%
COGS	60,655	56,040	56,190	57,894
Gross Profit	38,610	37,772	39,968	40,667
Gross Margin	38.9%	40.3%	41.6%	41.3%
Operating Expenses	(5,650)	(5,239)	(5,404)	(5,866)
EBIT	32,958	32,533	34,564	34,801
EBIT Margin	33.2%	34.7%	35.9%	35.3%
Depreciation	5,368	6,098	6,210	5,713
EBITDA	38,327	38,630	40,774	40,514
EBITDA Margin	38.6%	41.2%	42.4%	41.1%
EBT	34,960	34,955	36,986	37,082
Income Tax	6,695	6,339	7,043	7,414
Minority Interest	3,252	3,232	4,073	4,511
Net Profit	25,013	25,384	25,871	25,157
Growth	-32.5%	1.5%	1.9%	-2.8%
Net Profit Margin	25.2%	27.1%	26.9%	25.5%

### BALANCE SHEET

(IDR bn)	2023/12A	2024/12F	2025/12F	2026/12F
Cash	51,710	58,244	67,029	73,253
Receivables	8,011	7,498	7,159	6,797
Inventories	2,633	3,392	3,740	4,103
Total Current Assets	66,217	73,190	82,591	89,285
Net Fixed Assets	42,711	53,424	55,104	59,160
Other Non Current Assets	52,268	60,989	65,689	69,286
Total Assets	161,196	187,603	203,385	217,731
Payables	18,062	14,136	14,489	14,852
ST Debt	14,603	18,717	19,972	20,837
LT Debt	7,550	10,079	10,288	10,263
Total Liabilities	47,161	49,403	52,084	54,045
Capital Stock	5,279	5,279	5,279	5,279
Retained Earnings	80,349	100,158	112,860	124,966
Shareholders' Equity	114,036	138,200	151,301	163,686

### CASH FLOW STATEMENT

(IDR bn)	2023/12A	2024/12F	2025/12F	2026/12F
Operating Cash Flow	17,846	32,044	33,070	31,455
Investing Cash Flow	(9,156)	(14,465)	(9,537)	(9,850)
Financing Cash Flow	(20,321)	(10,863)	(14,511)	(15,277)
Net Changes in Cash	(11,521)	6,535	8,785	6,225

### PROFITABILITY & STABILITY

	2023/12A	2024/12F	2025/12F	2026/12F
ROE	21.9%	18.4%	17.1%	15.4%
ROA	15.2%	14.6%	13.2%	11.9%
Inventory Turnover	37.7	27.7	25.7	24.0
Days Inventory Outstanding	9.7	13.2	14.2	15.2
Receivables Turnover	11.7	12.5	13.4	14.5
Account Receivable Days	31.2	29.2	27.2	25.2
Dividend Yield (%)	0.1%	0.1%	0.1%	0.1%
Payout Ratio (%)	0.3%	0.3%	0.3%	0.3%
DER	19.4%	20.8%	20.0%	19.0%
Current Ratio	201%	222%	238%	249%
Quick Ratio	1.7	1.9	2.0	2.2
DAR	14%	15%	15%	14%
Total Shares (mn)	30,881	30,804	30,804	30,804
Share Price (IDR)	2,380	3,680	3,680	3,680
Market Cap (IDR tn)	73.50	113.36	113.36	113.36

### VALUATION INDEX

	2023/12A	2024/12F	2025/12F	2026/12F
Price/Earnings	2.9x	4.5x	4.4x	4.5x
Price/Book Value	0.6x	0.8x	0.7x	0.7x
EV/EBITDA	1.4x	2.4x	2.1x	2.0x
EV (IDR bn)	53,731	94,099	87,336	82,166
BVPS (IDR)	3,693	4,486	4,912	5,314
Basic EPS (IDR)	810	824	840	817

### TOP OWNERSHIP

Shareholders	%
PT Adaro Strategic Investment	43.9
Public	32.4
Garibaldi Thohir	6.2
Edwin Soeryadjaja	3.3
By Geography*	
Indonesia	64.8
United States	8.8
Ireland	1.3

\*Based upon publicly reported holdings, not total shares outstanding

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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