Adaro Energy Tbk (ADRO IJ)

Surprising Performance

In 2Q19, ADRO succeeded to make a surprise with financial performance that grew beyond expectation, while the coal market was still wobbly. ASP decreased 8% YoY, but revenues and net profits, respectively grew 10% YoY and 47% YoY thanks to increasing production and sales volumes accompanied by cost-efficiency.

Beyond Expectation Performance

In 2Q19, ADRO successfully booked revenues of USD929 million (+10% YoY, +10% QoQ), gross profits of USD300 million (+13% YoY, +13% QoQ), EBITDA of USD338 million (+7% YoY, +17% QoQ), and net profits of USD178 million (+47% YoY, +50% QoQ). It efficiently controlled its costs during 2Q19, reflected in the respective growth of GPM to 32% (vs. 1Q19 of 31%), OPM to 27% (vs. 1Q19 of 24%); thus, ADRO was capable of maintaining healthy margins.

Sales Volume and Cost-Efficiency

ADRO recorded coal production of 14 million tons (+12% YoY, +7% QoQ) enabling ADRO to increase coal sales volume to 15 million tons (+20% YoY, +16% QoQ). Export sales grew to 78% (vs. 1Q19 worth of 73%) as China and India have high demands for coal after exports curbs in 1Q19. However, ASP of USD56/ton (-8% YoY, -3% QoQ) gave no impacts on ADRO's performance because it managed to record stripping ratio at 4.6x (-8% YoY, -0.2% QoQ): a form of cost-efficiency. We project that for 2019F, ADRO will still be able to record coal production of 55 million tons, with the coal sales volume of 58 million tons accompanied by stripping ratio in the range of 4.4x-4.5x.

Wobbly Coal Market

The average global coal price in 2Q19 was USD80/ton (-18% YoY, -16% QoQ) which continues to experience a downward trend; thus, the NDRC currently plans to maintain Chinese coal benchmark price in the range of USD70/ton-USD98/ton. The policy makes it hard for coal miners to post significant increases in revenues, appropriate for the remaining 2019. We project that the average coal price for 2019F will be in the range of USD83/ton-USD85/ton.

BUY Rating with the Price Target of IDR1,600

ADRO's strong business structure and investment in mining infrastructure underline our BUY recommendation with the price target of Rp1,600 or a 19.9% upside potential based on a 7.8x (+1 SD) forward P/E. ADRO is currently traded at a 7.0x 2019F P/E.

Adaro Energy Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	3,620	3,404	3,513	3,647
Growth (%)	11.1%	-6.0%	3.2%	3.8%
EBITDA	1,258	1,072	1,204	1,342
Net Profit	418	466	447	470
EPS (IDR)	188	207	196	206
Growth (%)	-13.6%	11.5%	-4.0%	5.2%
P/E	6.5x	7.0x	7.3x	7.0x
P/BV	0.6x	0.7x	0.7x	0.6x
EV/EBITDA	2.5x	3.4x	3.2x	2.9x
ROE (%)	9.3%	9.9%	9.1%	9.4%
DER (%)	33.0%	30.0%	31.0%	31.0%
Net Debt	490	398	563	666

Unit: USD mn, %, x
Source: Company Data, Bloomberg, NHKS Research
Please consider the rating criteria & important disclaimer

Company Update | Sep 09, 2019

Buy

Dec 2020 TP (IDR)	**1,600**
Consensus Price (IDR)	1,574
TP to Consensus Price	+1.6%
vs. Last Price	+19.9%

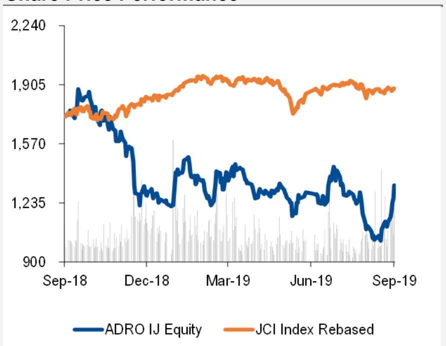
Shares data

Last Price (IDR)	1,335
Price Date as of	Sep 06, 2019
52 wk Range (Hi/Lo)	1,900 / 1,010
Free Float (%)	43.69
Outstanding sh.(mn)	31,986
Market Cap (IDR bn)	42,381
Market Cap (USD mn)	3,450
Avg. Trd Vol - 3M (mn)	52.16
Avg. Trd Val - 3M (bn)	63.41
Foreign Ownership	32.2%

Mining
Coal

Bloomberg	**ADRO IJ**
Reuters	**ADRO.JK**

Share Price Performance

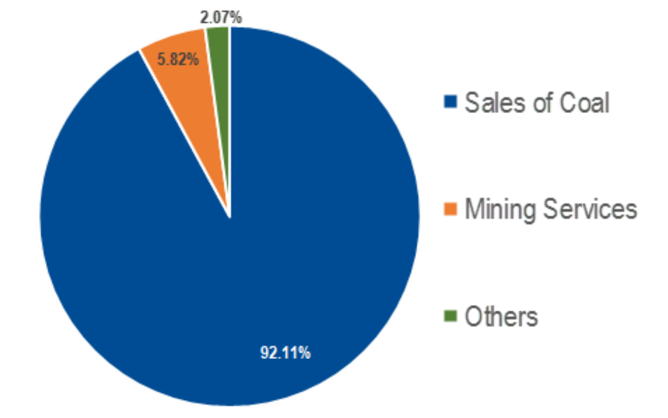


	YTD	1M	3M	12M
Abs. Ret.	9.9%	23.0%	3.1%	-22.6%
Rel. Ret.	8.0%	19.9%	1.5%	-31.8%

Meilki Darmawan
(021)797-6202, ext: 170
meilki.darmawan@nhsec.co.id

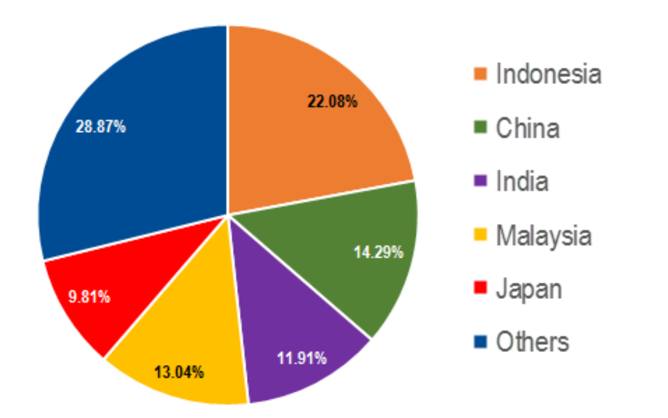
Performance Highlights in Charts

2Q19 Revenue Breakdown



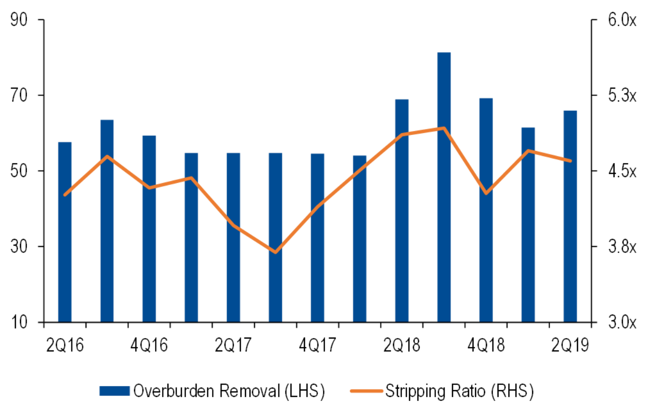
Source: Company Data, NHKS Research

2Q19 Sales by Geographic



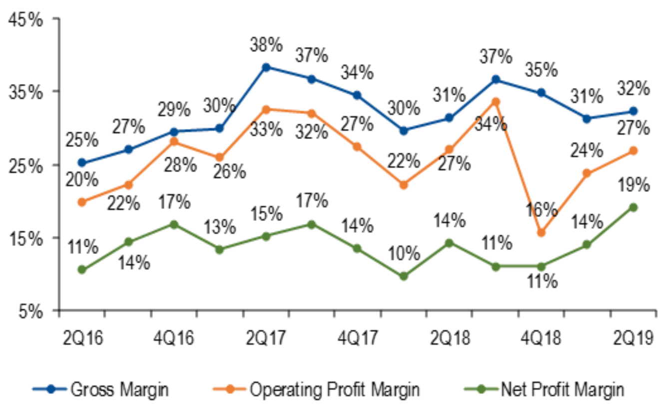
Source: Company Data, NHKS Research

OB Removal & Stripping Ratio



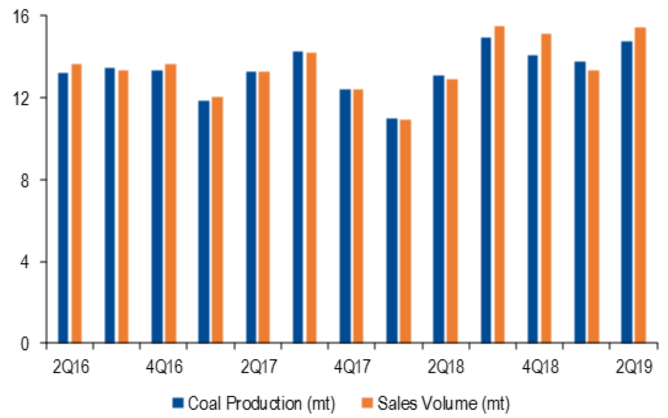
Source: Company Data, NHKS Research

Margin Ratio



Source: Company Data, NHKS Research

Production & Sales Volume



Source: Company Data, NHKS Research

Average Selling Price

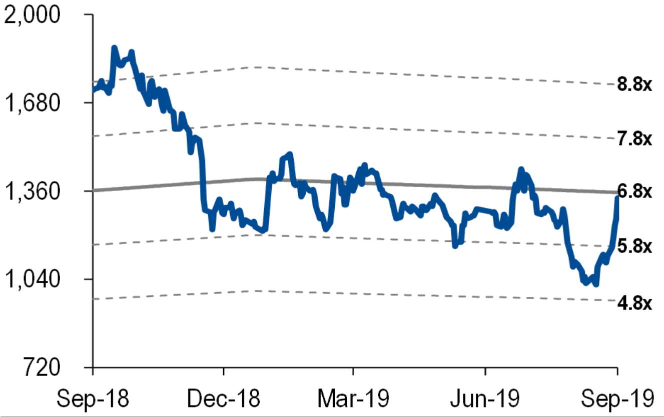
Source: Company Data, NHKS Research

Valuation Highlights in Charts

12-Month Forward P/E Band

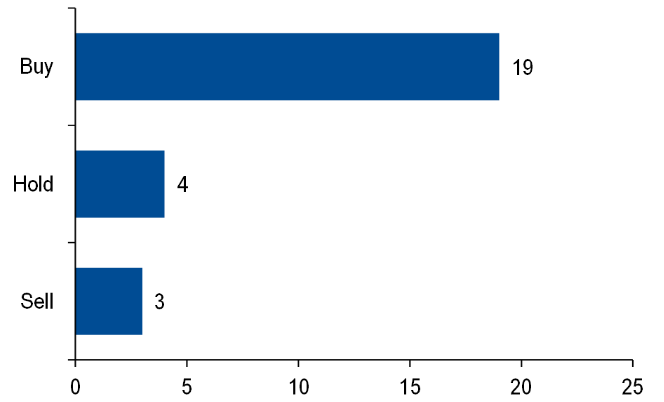
Source: Bloomberg, NHKS Research

12-Month Dynamic Forward P/E Band



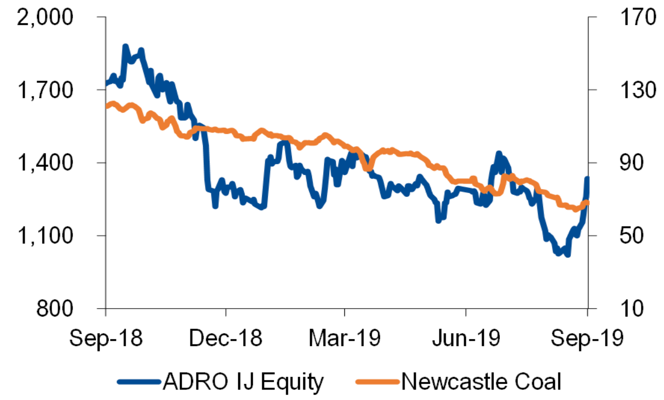
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and Coal Prices Correlated Positively



Source: Bloomberg, NHKS Research

Quarterly Review

	2Q18	3Q18	4Q18	1Q19	2Q19					3Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Sales	846	1,057	953	846	929		109.7%	9.7%		817
Gross Profit	266	387	332	265	300		112.8%	13.2%		226
EBIT	229	355	150	201	250		109.0%	23.9%		134
EBITDA	316	445	231	290	338		106.9%	16.6%		209
Net Profit	121	117	105	119	178		147.2%	49.9%		82
Margin										
Gross Margin	31.3%	36.6%	34.8%	31.3%	32.3%		102.8%	1.0%		27.7%
EBIT Margin	27.1%	33.6%	15.7%	23.8%	26.9%		99.3%	3.1%		16.4%
EBITDA Margin	37.4%	42.1%	24.3%	34.2%	36.4%		97.4%	2.2%		25.6%
Net Profit Margin	14.3%	11.1%	11.0%	14.0%	19.2%		134.2%	5.1%		10.1%

Unit: USD mn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	3,404	3,513	3,647
	-Previous	4,006	4,315	
	-Change	-15.0%	-18.6%	
Gross Profit	-Revised	1,024	1,159	1,203
	-Previous	1,244	1,340	
	-Change	-17.7%	-13.5%	
EBIT	-Revised	727	871	901
	-Previous	905	975	
	-Change	-19.7%	-10.7%	
EBITDA	-Revised	1,055	1,204	1,342
	-Previous	1,258	1,285	
	-Change	-16.2%	-6.3%	
Net Profit	-Revised	466	447	470
	-Previous	494	555	
	-Change	-5.7%	-19.5%	
Margin				
Gross Margin	-Revised	30.1%	33.0%	33.0%
	-Previous	31.3%	31.3%	
EBIT Margin	-Revised	21.4%	24.8%	24.8%
	-Previous	22.6%	22.6%	
EBITDA Margin	-Revised	31.0%	34.3%	36.8%
	-Previous	31.4%	29.8%	
Net Profit Margin	-Revised	13.7%	12.7%	12.9%
	-Previous	12.3%	12.9%	

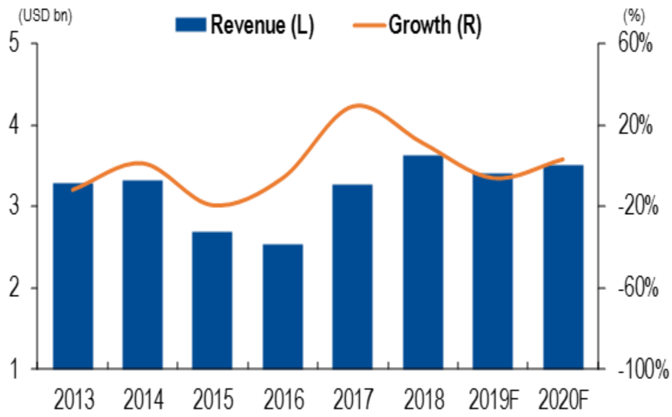
Unit: USD mn, %

Source: Company Data, NHKS Research

Company Overview

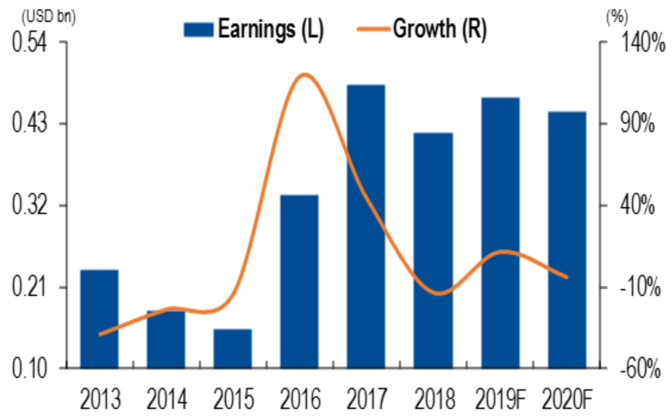
- PT Adaro Energy Tbk (ADRO) is a leading mining company, the second-largest coal producer in Indonesia and has developed into a vertically integrated organization.
- ADRO's main businesses include coal mining, mining services contractors, mining logistics services, and coal-fired power plants.
- ADRO has several subsidiaries that operate on mining energy, transportation by large vessels, ship loading, dredging, port services, marketing, and electricity generation.
- ADRO currently operates the most extensive single coal mining in South Kalimantan and aims to become a significant mining and energy group in Southeast Asia.

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
Indonesia									
ADARO ENERGY TBK	3,029	7,061	3,785	519	13.7%	13.7%	14.2%	5.8x	0.8x
BUKIT ASAM TBK	2,133	1,676	1,444	328	-6.8%	22.7%	29.2%	5.8x	1.6x
INDO TAMBANGRAYA MEGAH TBK	1,158	1,443	2,091	230	-8.1%	11.0%	25.7%	4.9x	1.3x
BUMI RESOURCES TBK	432	3,907	1,032	150	-58.7%	14.5%	N/A	2.9x	N/A
India									
COAL INDIA LTD	16,938	19,145	13,290	2,498	148.1%	18.8%	74.8%	7.0x	4.6x
Thailand									
BANPU PCL	2,139	8,485	3,409	155	-27.8%	4.5%	6.1%	13.1x	0.8x
Australia									
WHITEHAVEN COAL LTD	2,299	3,397	1,779	378	0.6%	21.2%	15.1%	6.1x	1.0x
Canada									
CAMECO CORP	3,573	5,886	1,514	111	N/A	7.3%	3.1%	34.5x	1.0x
China									
INNER MONGOLIA	2,743	13,746	5,902	549	-23.5%	9.3%	12.9%	5.2x	0.6x
SHANXI LU'AN	3,240	9,488	3,577	406	-8.47%	11.4%	11.6%	8.3x	0.9x
United States									
PEABODY ENERGY CORP	1,716	7,424	5,209	485	-46.4%	9.3%	14.5%	7.1x	0.6x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(USD mn)	2018/12A	2019/12F	2020/12F	2021/12F
Sales	3,620	3,404	3,513	3,647
Growth	11.1%	-6.0%	3.2%	3.8%
COGS	(2,410)	(2,380)	(2,354)	(2,444)
Gross Profit	1,210	1,024	1,159	1,203
Gross Margin	33.4%	30.1%	33.0%	33.0%
Operating Expenses	(306)	(297)	(288)	(299)
EBIT	904	727	871	904
EBIT Margin	25.0%	21.4%	24.8%	24.8%
Depreciation	354	328	333	437
EBITDA	1,258	1,055	1,204	1,342
EBITDA Margin	34.8%	31.0%	34.3%	36.8%
Interest Expenses	(65)	(126)	(285)	(285)
EBT	821	789	780	821
Income Tax	(343)	(286)	(296)	(312)
Minority Interest	(60)	(37)	(37)	(39)
Net Profit	418	466	447	470
Growth	-13.6%	11.5%	-4.0%	5.2%
Net Profit Margin	11.5%	13.7%	12.7%	12.9%

PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	9.4%	9.9%	9.1%	9.4%
ROA	5.9%	6.2%	5.8%	6.1%
ROIC	9.2%	7.8%	8.6%	8.5%
Cash Dividend (USD mn	225	225	251	241
Dividend Yield	8.2%	6.9%	7.6%	7.3%
Payout Ratio	53.9%	48.4%	56.2%	51.2%
DER	33.0%	30.0%	31.0%	31.0%
Net Gearing	57%	48%	51%	49%
LT Debt to Equity	27.8%	20.8%	28.5%	23.3%
Capitalization Ratio	24.8%	23.1%	23.7%	23.7%
Equity Ratio	60.9%	64.2%	61.6%	64.9%
Debt Ratio	20.1%	19.2%	19.1%	20.1%
Financial Leverage	159.8%	159.1%	158.1%	154.2%
Current Ratio	196.0%	166.2%	198.8%	170.7%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	31,986	31,986	31,986	31,986
Share Price (IDR)	1,230	1,440	1,440	1,440
Market Cap (IDR tn)	39.3	46.1	46.1	46.1

BALANCE SHEET

(USD mn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	928	978	926	893
Receivables	371	207	587	237
Inventories	112	110	106	119
Total Current Assets	1,600	1,429	1,817	1,446
Net Fixed Assets	3,906	4,250	4,400	4,730
Other Non Current Asset	1,554	1,470	1,577	1,577
Total Assets	7,061	7,149	7,793	7,752
Payables	342	284	270	305
ST Bank Loan	220	420	119	390
LT Debt	1,198	956	1,369	1,169
Total Liabilities	2,758	2,560	2,991	2,724
Capital Stock + APIC	1,497	1,498	1,498	1,498
Retained Earnings	2,161	2,502	2,597	2,823
Shareholders' Equity	4,303	4,589	4,802	5,028

VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	6.5x	7.0x	7.3x	7.0x
Price/Book Value	0.6x	0.7x	0.7x	0.7x
Price/Sales	0.8x	1.0x	0.9x	0.9x
PE/EPS Growth	-0.5x	0.6x	-1.8x	1.3x
EV/EBITDA	2.5x	3.4x	3.2x	2.9x
EV/EBIT	3.5x	5.0x	4.4x	4.3x
EV (IDR bn)	45,533	51,183	53,436	54,832
Sales CAGR (3-Yr)	10.5%	10.5%	2.5%	0.2%
EPS CAGR (3-Yr)	39.9%	11.6%	-2.6%	4.0%
Basic EPS (IDR)	188	207	196	206
Diluted EPS (IDR)	188	207	196	206
BVPS (IDR)	1,936	2,037	2,105	2,198
Sales PS (IDR)	1,628	1,511	1,540	1,594
DPS (IDR)	101	100	110	105

CASH FLOW STATEMENT

(USD mn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	906	858	800	915
Investing Cash Flow	(793)	(384)	(831)	(777)
Financing Cash Flow	(472)	(322)	(20)	(171)
Net Changes in Cash	(359)	152	(52)	(33)

TOP OWNERSHIP

By Geography	%	Shareholders	%
Indonesia	67.8	Adaro Strategic	43.9
United States	18.8	Garibaldi Thohir	6.2
Luxembourg	8.8	Edwin Soeryadjaya	3.3
Ireland	1.1	Theodore Rahmat	2.5

Source: Company Data, NHKS Research

Closing and target price update

Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2016.11.24	Buy	IDR2,130	IDR1,801
2017.04.10	Buy	IDR2,220	IDR1,978
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

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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