

## PT Adaro Energy,Tbk

BUY

17 December 2020  
Coal Mining, Equity

Current Price IDR. 1555  
Target Price IDR. 2660  
JKSE Index 6118,40



Stock Code ADRO IJ  
Bloomberg code ADRO IJ  
Market cap (IDR.bn) 49258  
52-Week High (IDR) 1715  
52-Week Low (IDR) 610  
6-m Avg Daily. Val (IDR) 1540  
Free Float (%) 43.69

Major Shareholders (%)  
PT Adaro Strategic Investment 43.91%  
Others 12.40%  
Public 43.69%

USD/IDR-YE  
2019A 13866  
2020F (Avg) 14199

Key Indicators  
Total Debt/ Equity (x) 0.44  
Current ratio (x) 1.44

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### Investment Consideration

#### Lower production growth

In 9M20, coal production reached 41,1 Mt which is 7% lower yoy. Meanwhile, coal sales volume in 9M20 of 40,76 Mt was 9% lower yoy. ADRO has revised their coal production target for 2020 to 52 -54 Mt because of declining demand due to slowing economic growth and weak buying interest from major importing countries. The situation has also had an impact on global coal prices for 9M20. ADRO's sales mix in 9M20 is dominated by E4700 and E4900 products, supported by solid demand for these types of coal. The Southeast Asian Market made up 49% of sales in 9M20. We believe ADRO's coal production target is achievable, driven by sales to existing customers particularly premium ones in ASEAN markets which have long term contracts. As 2020 is likely to be a difficult year, ADRO will continue to focus on improving operations through cost control, and efficiency.

#### Other Businesses progress

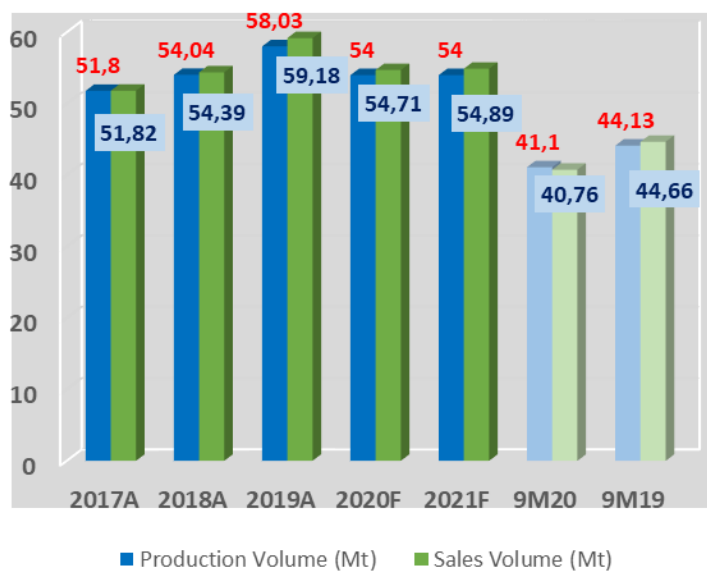
In hard coking coal, during 9M20, AMC's coal sales reached 1,04 Mt, a 27% increase yoy. AMC's coal was sold to customers in Japan, Indonesia, India, and China. As for the Kestrel coal mine, in 9M20, saleable coal production volume at Kestrel reached 4.06 Mt, 15% lower than in 9M19. Meanwhile its coal sales volume of 4.35 Mt in 9M20, was 7% lower yoy. Kestrel sold its hard coking coal mainly to major customers in the Asian markets and has contracted the majority of its sales for 2020. India remains the largest sales destination in 9M20 followed by South Korea and Japan. ADRO's power plants achieved a solid performance in 9M20. PT Makmur Sejahtera Wisesa (MSW) reached an availability factor of 94.1% in 9M20, compared to the target of 88.1%. Meanwhile, PT Tanjung Power Indonesia (TPI) continued on its promising trajectory, having reached an availability factor of 98.6% in 9M20, against a target of 82.8%. At the end of September 2020, construction progress of PT Bhimasena Power Indonesia's 2 x 1000 MW power plant has reached 94.3%. In Water, the project in Kotawaringin Timur, Central Kalimantan, under PT Adaro Tirta Mentaya continues on its construction trajectory. As of 9M20, construction reached 93% and we expect commissioning of this project in 4Q20. Meanwhile, PT Dumai Tirta Persada (DTP) continues to develop the first phase of the project, totaling 50 lps, and is expected to start commissioning in 4Q20.

#### Valuation: 71 % upside potential

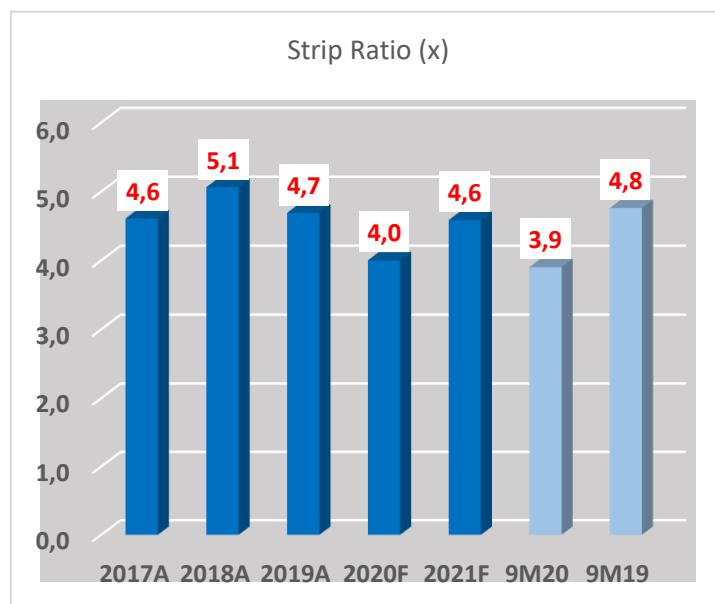
With WACC at 8.1x, we are targeting ADRO to reach 2660 or trade at 20x PER with 71% upside. We recommend BUY.

Profit and Loss (USD.mn)	2017 A	2018 A	2019 A	2020 F	2021 F
Revenue	3.258	3.620	3.457	2.791	3.058
Cost of sales	(2.117)	(2.410)	(2.493)	(2.298)	(2.263)
<b>Gross Profit</b>	<b>1.142</b>	<b>1.210</b>	<b>965</b>	<b>492</b>	<b>795</b>
Operating expense	190	318	347	162	178
<b>Operating Profit</b>	<b>952</b>	<b>892</b>	<b>618</b>	<b>330</b>	<b>617</b>
taxes	(393)	(343)	(224)	(167)	(270)
Minority interest	(53,141)	(59,821)	(30,812)	(28,487)	(25,001)
<b>Net Profit</b>	<b>483</b>	<b>418</b>	<b>404</b>	<b>117</b>	<b>304</b>
EPS	0,0151	0,0131	0,0126	0,0037	0,0095
<b>EBITDA</b>	<b>1.286</b>	<b>1.285</b>	<b>1.009</b>	<b>764</b>	<b>1.115</b>

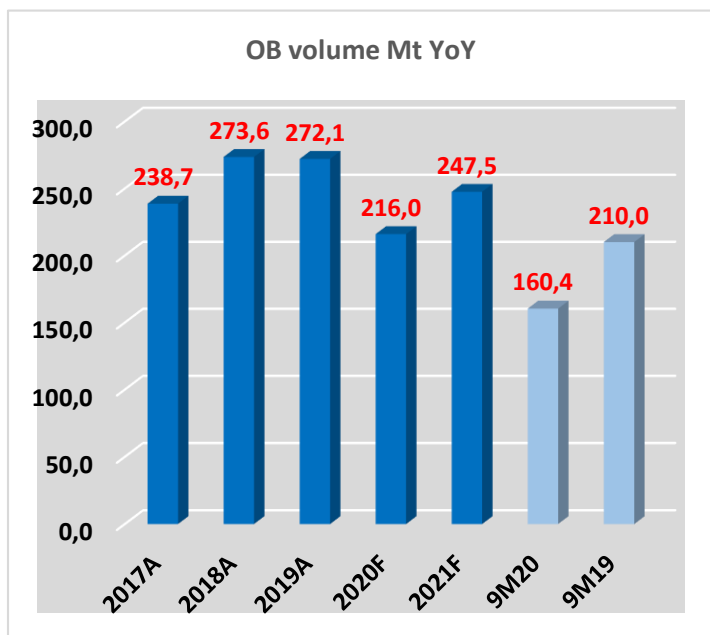
Production and sales volume (in mn tons) yoy



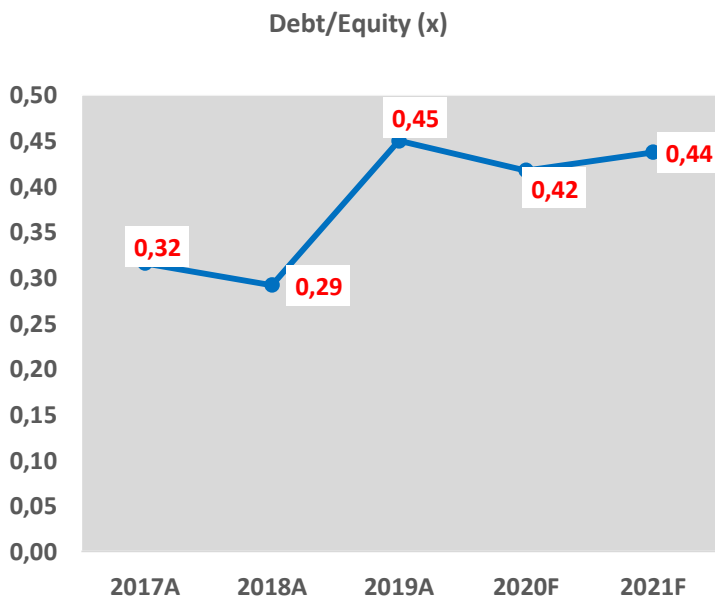
Blended Strip ratio (x) yoy



Overburden volume (Mt) yoy



Debt to Equity (x) yoy



## Profit and Loss (US\$.mn)

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Other income	(34)	(41)	(38)	(29)	(32)
<b>PBT</b>	<b>930</b>	<b>821</b>	<b>659</b>	<b>313</b>	<b>599</b>
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<b>EBITDA</b>	<b>1.286</b>	<b>1.285</b>	<b>1.009</b>	<b>764</b>	<b>1.115</b>

## Balance Sheet (US\$.mn)

Balance sheet (US\$.mn)	2017A	2018A	2019A	2020F	2021F
Cash and cash equivalent	1.206,85	927,90	1.576,19	1.247,54	1.517,71
ST Investment	0,03	0,03	0,00	0,00	0,00
Trade Account Receivable	314,72	370,89	310,32	267,59	276,50
inventory	85,47	112,01	121,03	113,35	105,40
Other current asset	125,09	100,32	96,09	83,72	85,63
<b>Current Asset</b>	<b>1.979,16</b>	<b>1.600,29</b>	<b>2.109,92</b>	<b>1.712,19</b>	<b>1.985,25</b>
Net Fixed Asset	1.506,55	1.609,70	1.722,41	2.413,94	2.783,19
other long term asset	3.186,10	3.153,30	2.377,99	1.953,38	1.987,88
LT Investment and receivables	142,33	697,46	1.006,78	697,64	611,66
<b>Total non current Asset</b>	<b>4.834,99</b>	<b>5.460,46</b>	<b>5.107,18</b>	<b>5.064,95</b>	<b>5.382,72</b>
<b>Total Asset</b>	<b>6.814,15</b>	<b>7.060,76</b>	<b>7.217,11</b>	<b>6.777,14</b>	<b>7.367,97</b>
Trade payable	279,16	341,77	335,52	252,30	276,50
Accrued expenses	37,40	52,21	60,71	49,01	53,71
Short Term bank loans	201,16	182,67	506,06	706,06	706,06
Other Current liabilities	330,38	344,21	451,73	362,77	397,58
<b>Total current liabilities</b>	<b>773,30</b>	<b>816,44</b>	<b>1.232,60</b>	<b>1.321,13</b>	<b>1.380,14</b>
Long term loans	1.090,83	1.072,53	551,60	204,12	404,12
Senior notes	0,00	0,00	734,01	734,01	734,01
Other Long term liabilities	858,39	869,09	715,49	577,53	632,94
<b>Total long term/ non current liabilities</b>	<b>1.949,22</b>	<b>1.941,62</b>	<b>2.001,11</b>	<b>1.515,66</b>	<b>1.771,07</b>
<b>Total Liabilities</b>	<b>2.722,52</b>	<b>2.758,06</b>	<b>3.233,71</b>	<b>2.836,79</b>	<b>3.151,21</b>
<b>Total Equities</b>	<b>4.091,63</b>	<b>4.302,69</b>	<b>3.983,40</b>	<b>3.940,35</b>	<b>4.216,76</b>
<b>Total Liabilities and equity</b>	<b>6.814,15</b>	<b>7.060,76</b>	<b>7.217,11</b>	<b>6.777,14</b>	<b>7.367,97</b>

**Cash Flow (US\$.mn)**

<b>Cash Flow (in US\$. mn)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2020F</b>
+ Net Income	483,30	417,72	404,19	117,45	303,77
+Depreciation	215,24	236,80	238,99	274,12	337,95
- Change in WC	(127,80)	143,06	554,82	157,61	56,12
<b>WC</b>					
Current Assets	772,31	672,40	533,73	464,65	467,54
Current Liabilities	773,30	816,44	1.232,60	1.321,13	1.380,14
WC	(0,99)	(144,05)	(698,87)	(856,48)	(912,60)
<b>Cash From Operating Activities</b>	<b>570,74</b>	<b>797,58</b>	<b>1.198,01</b>	<b>549,18</b>	<b>697,84</b>
capex	(120,68)	(862,27)	114,29	(231,89)	(655,72)
<b>cash from investing activities</b>	<b>(120,68)</b>	<b>(862,27)</b>	<b>114,29</b>	<b>(231,89)</b>	<b>(655,72)</b>
Long term liabilities	(150,37)	(18,30)	(520,93)	(347,49)	200,00
Senior notes	0,00	0,00	734,01	0,00	0,00
Other Long term liabilities	7,77	10,70	(153,60)	(137,96)	55,41
equity	(177,55)	(206,66)	(723,49)	(160,49)	(27,36)
<b>cash from financing activities</b>	<b>-320,15</b>	<b>-214,25</b>	<b>-664,00</b>	<b>-645,94</b>	<b>228,05</b>
<b>Net Changes in Cash</b>	<b>129,90</b>	<b>(278,95)</b>	<b>648,30</b>	<b>(328,65)</b>	<b>270,17</b>
<b>Beginning Balance</b>	<b>1.076,95</b>	<b>1.206,85</b>	<b>927,90</b>	<b>1.576,19</b>	<b>1.247,54</b>
<b>Ending balance</b>	<b>1.206,85</b>	<b>927,90</b>	<b>1.576,19</b>	<b>1.247,54</b>	<b>1.517,71</b>

**Ratio Highlights**

<b>Ratio Highlights</b>	<b>2017 A</b>	<b>2018 A</b>	<b>2019 A</b>	<b>2020 F</b>	<b>2021 F</b>
<b>Growth (% YoY)</b>					
Sales	29,08%	11,09%	-4,49%	-19,28%	9,59%
OP	61,98%	-6,29%	-30,76%	-46,61%	87,18%
EBITDA	39,01%	-0,06%	-21,51%	-24,30%	46,00%
NP	44,43%	-13,57%	-3,24%	-70,94%	158,64%
EPS	44,43%	-13,57%	-3,24%	-70,94%	158,64%
<b>Profitability</b>					
Operating Margin(%)	29,21%	24,64%	17,86%	11,81%	20,18%
EBITDA margin(%)	39,46%	35,50%	29,18%	27,36%	36,45%
NET Profit margin(%)	14,83%	11,54%	11,69%	4,21%	9,93%
ROA(%)	7,09%	5,92%	5,60%	1,73%	4,12%
ROE(%)	11,81%	9,71%	10,15%	2,98%	7,20%
<b>Stability</b>					
Debt/ Equity (X)	0,32	0,29	0,45	0,42	0,44
Current ratio (X)	2,56	1,96	1,71	1,30	1,44
Int. Coverage (x)	17,54	12,61	9,94	4,65	7,92
<b>Per Share data (USD)</b>					
EPS	0,0151	0,0131	0,0126	0,0037	0,0095
BVS	0,128	0,135	0,125	0,123	0,132

**Stock Ratings:**

Buy: a recommendation to purchase the security with upside potential of 20% or greater

Hold: a recommendation to neither buy nor sell a security with upside potential of 0-19%.

Sell: a recommendation to close out a long position in a security with upside potential below 0% or negative.

**RESEARCH TEAM**  
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