

PT Adaro Energy,Tbk

BUY

18 November 2022
Coal Mining, Equity

Current Price **IDR. 3580**
Target Price **IDR. 6850**
JKSE Index **7076.836**



Investment Consideration 9M22 Higher Prices

ADRO's production volume grew 14.5% YoY in 9M22 to 45.37 Mt from 39.64 Mt. Coal sales increased 13.7% YoY to 44.17 Mt from 38.86 Mt in 9M21. The average selling price (ASP) increased by 106% YoY. Coal prices remained near the levels seen in 2Q22, maintained by unfavorable weather and supply constraints as well as geopolitical events. We maintain our coal production volume target for 2022F at 58 Mt compared to 52.70 Mt in 2021A. We believe ADRO will continue to see strong demand from customers despite the various challenges.

Improving operating performance

As of 9M22, ADRO booked revenue of USD 5,91 bn, up 130% YoY while bottom line profit increased even more significantly to USD. 1,90 bn, +352% YoY. In 3Q22, revenue increased by 136% to USD 2,37 bn compared to USD.1,01 bn in 3Q21. Operational EBITDA increased by 231% YoY to USD 3,798 mn. This strong operational EBITDA is reflective of volatile weather patterns, demand for coal from the recovering global economy and geopolitical dynamics driving prices. Cost of revenue increased by 59% YoY to USD. 2,55 mn mainly due to increased royalty expenses due to the higher ASP and higher mining costs as a result of higher global oil prices. Royalties to the Government of Indonesia combined with tax expenses increased by 302% to USD 2,047 mn from USD 510 mn. Based on the terms of an IUPK-KOP, the royalties paid by Adaro Indonesia (Adaro Indonesia's mine represents 79% of ADRO's 9M22 production) will increase progressively based on coal selling prices. We estimate 2022-2023F bottom line profit will grow at a compound annual growth rate of 29% to 2023F from 2021A. Going forward, ADRO will continue to improve operations by focusing on efficiency and cost control.

Valuation: significant upside potential

We adjust our estimates based on the 9M22 result and we upgrade our ADRO target price to IDR 6,850 which translates to a 9.4x PER with new adjustment to the USD/IDR exchange rate. With significant upside, we maintain our BUY recommendation.

Financial Highlight	2018						
	A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Sales growth (%)	-4.49%	-26.68%	57.51%	81.38%	-22.17%	-5.16%	
net profit growth (%)	-3.24%	-63.65%	535.34%	178.98%	-40.47%	-19.43%	
EBITDA margin (%)	35.50%	29.18%	29.53%	50.32%	60.76%	55.19%	51.25%
Net profit margin (%)	11.54%	11.69%	5.80%	23.38%	35.96%	27.51%	23.37%
Net debt/equity /cash (x)	0.08	0.05	0.05	(0.07)	(0.17)	(0.33)	(0.10)
current ratio	1.96	1.71	1.51	2.08	2.36	4.05	2.87
EPS (USD)	0.0131	0.0126	0.0046	0.0292	0.0814	0.0485	0.0391

Stock Code **ADRO IJ**
Bloomberg code **ADRO IJ**
Market cap (IDR.Trn) **109.380**
52-Week High (IDR) **4250**
52-Week Low (IDR) **1600**
6-m Avg Daily. Val (IDR) **3114**
Free Float (%) **40.58**

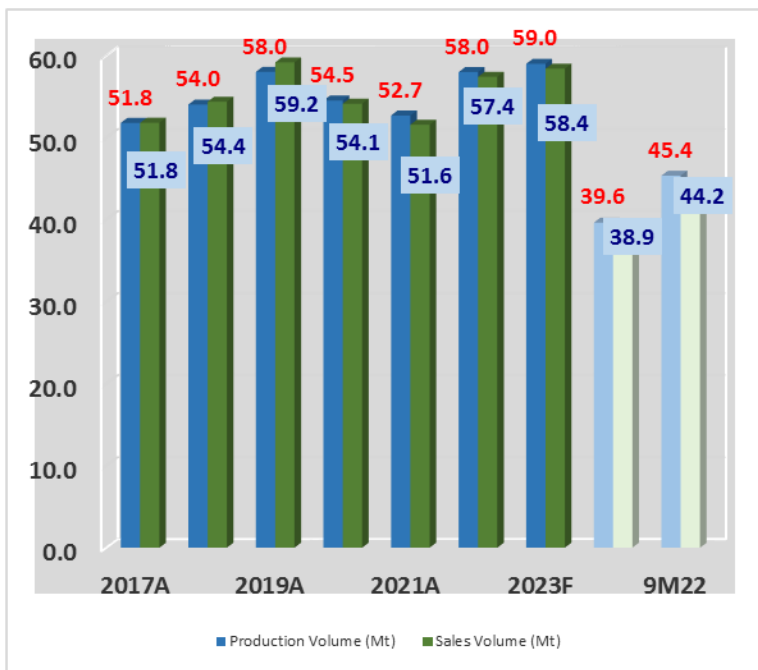
Major Shareholders (%)
PT Adaro Strategic Investment **43.91%**
Others **12.38%**
Public **40.58%**

USD/IDR-YE
2021A **14263**
2022F (Avg) **15600**

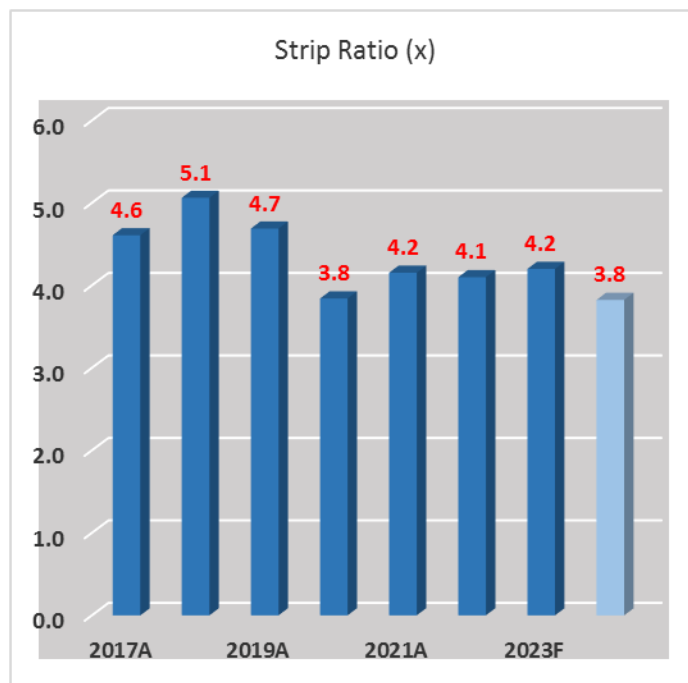
Key Indicators
Net Debt/ Equity (x) **(0.33)**
Current ratio (x) **4.05**

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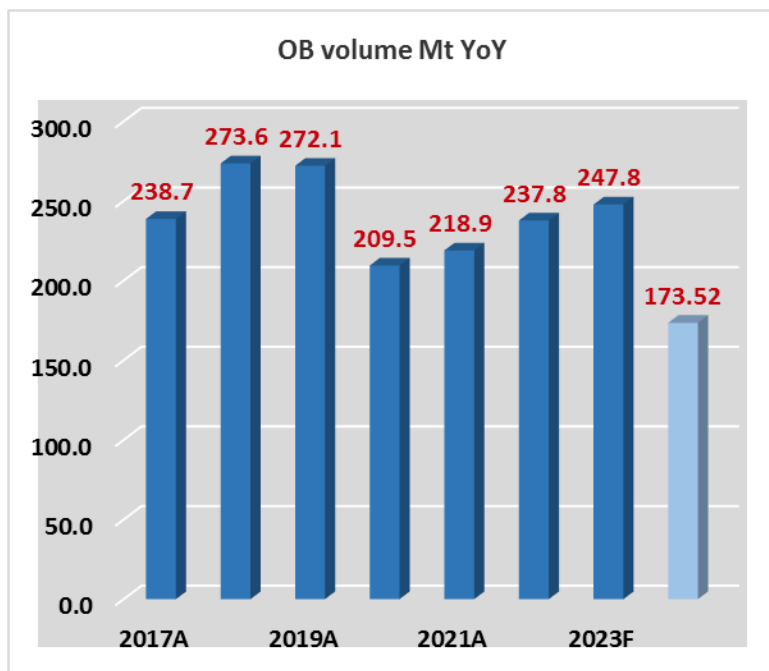
I. Production and sales volume (in mn tons) yoy



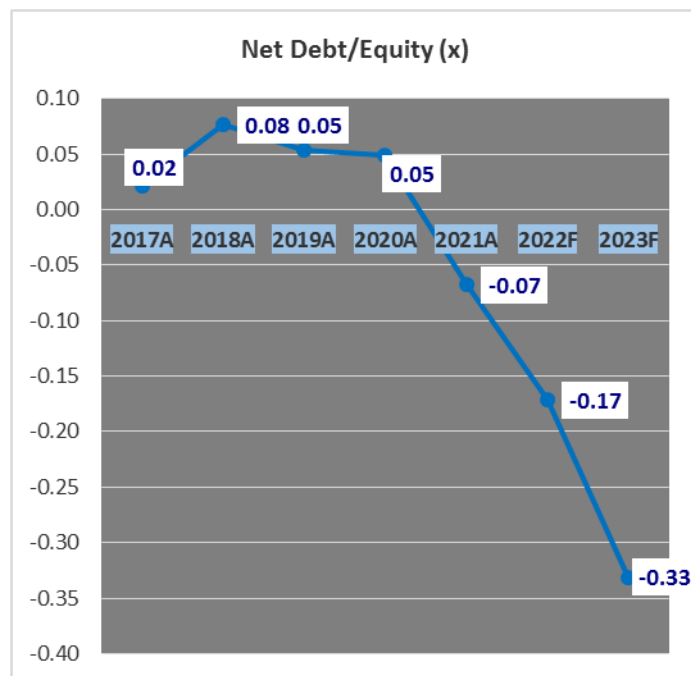
II. Blended Strip ratio (x) yoy



III. Overburden volume (Mt) yoy



IV. Net Debt to Equity (x) yoy



Profit and Loss

Profit and Loss (USD.mn)	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Revenue	3,620	3,457	2,535	3,993	7,242	5,636	5,345
Cost of sales	(2,410)	(2,493)	(1,958)	(2,223)	(2,619)	(2,495)	(2,685)
Gross Profit	1,210	965	577	1,770	4,623	3,141	2,660
Operating expense	318	347	292	241	724	564	535
Operating Profit	892	618	285	1,528	3,898	2,577	2,125
Other income	(41)	(38)	(54)	(49)	(76)	(59)	(56)
PBT	821	659	222	1,486	3,856	2,544	2,094
taxes	(343)	(224)	(64)	(458)	(1,187)	(942)	(798)
Minority interest	(59.821)	(30.812)	(11.578)	(95.101)	(64.307)	(51.219)	(46.577)
Net Profit	418	404	147	933	2,604	1,550	1,249
EPS	0.0131	0.0126	0.0046	0.0292	0.0814	0.0485	0.0391
EBITDA	1,285	1,009	748	2,009	4,400	3,111	2,740

Balance Sheet

Balance sheet (US\$.mn)	2018A	2019A	2020A	2021 A	2022 F	2023 F	2024 F
Cash and cash equivalent	927.90	1,576.19	1,173.70	1,811.14	2,786.57	4,106.39	2,406.85
ST Investment	0.03	0.00	0.00	0.00	0.00	0.00	0.00
Trade Account Receivable	370.89	310.32	224.15	451.99	992.03	772.07	732.20
inventory	112.01	121.03	105.13	125.74	143.51	143.58	161.86
Other current asset	100.32	96.09	75.83	228.56	144.84	112.72	106.90
Current Asset	1,600.29	2,109.92	1,731.62	2,838.13	4,066.95	5,134.76	3,407.81
Net Fixed Asset	1,609.70	1,722.41	1,539.44	1,397.11	1,414.51	1,766.44	1,993.96
other long term asset	3,153.30	2,377.99	2,181.67	2,028.50	2,534.63	1,859.91	2,138.01
LT Investment and receivables	697.46	1,006.78	928.84	1,323.20	2,679.47	1,859.91	2,138.01
Total non current Asset	5,460.46	5,107.18	4,649.95	4,748.80	6,628.61	5,486.26	6,269.99
Total Asset	7,060.76	7,217.11	6,381.57	7,586.94	10,695.57	10,621.02	9,677.80
Trade payable	341.77	335.52	214.27	272.41	416.65	308.83	278.23
Accrued expenses	52.21	60.71	53.86	59.94	135.42	105.39	99.95
Short Term bank loans	182.67	506.06	587.72	218.97	144.84	112.72	106.90
Other Current liabilities	344.21	330.31	289.07	810.24	1,158.69	845.41	801.76
Total current liabilities	816.44	1,232.60	1,144.92	1,361.56	1,720.18	1,266.96	1,186.89
Long term loans	1,072.53	551.60	42.60	550.59	713.21	813.21	913.21
Senior notes	0.00	734.01	736.96	740.12	722.87	722.87	722.87
Other Long term liabilities	869.09	715.49	505.36	476.35	506.93	394.53	374.15
Total long term/ non current liabilities	1,941.62	2,001.11	1,284.93	1,767.06	1,943.00	1,930.60	2,010.22
Total Liabilities	2,758.06	3,233.71	2,429.85	3,128.62	3,663.17	3,197.56	3,197.11
Total Equities	4,302.69	3,983.40	3,951.71	4,458.32	7,032.39	7,423.46	6,480.68
Total Liabilities and equity	7,060.76	7,217.11	6,381.57	7,586.94	10,695.57	10,621.02	9,677.80

Cash Flow

Cash Flow (in US\$. mn)	2018A	2019A	2020A	2021A	2022F	2023F	2024F
+ Net Income	417.72	404.19	146.93	933.49	2,604.21	1,550.41	1,249.13
+Depreciation	236.80	238.99	283.69	287.74	293.39	325.34	406.28
- Change in WC	143.06	554.82	(111.86)	(252.44)	105.23	(201.20)	(52.67)
Cash From Operating Activities	797.58	1,198.01	318.75	968.79	3,002.84	1,674.55	1,602.74
capex	(862.27)	114.29	173.55	(386.60)	(2,173.20)	817.02	(1,190.01)
cash from investing activities	(862.27)	114.29	173.55	(386.60)	(2,173.20)	817.02	(1,190.01)
Long term liabilities	(18.30)	(520.93)	(509.00)	507.99	162.61	100.00	100.00
Senior notes	0.00	734.01	2.95	3.16	(17.25)	0.00	0.00
Other Long term liabilities	10.70	(153.60)	(210.13)	(29.01)	30.58	(112.40)	(20.37)
equity	(206.66)	(723.49)	(178.61)	(426.89)	(30.14)	(1,159.34)	(2,191.91)
cash from financing activities	(214.25)	(664.00)	(894.79)	55.24	145.79	(1,171.75)	(2,112.28)
Net Changes in Cash	(278.95)	648.30	(402.49)	637.44	975.43	1,319.82	(1,699.55)
Beginning Balance	1,206.85	927.90	1,576.19	1,173.70	1,811.14	2,786.57	4,106.39
Ending balance	927.90	1,576.19	1,173.70	1,811.14	2,786.57	4,106.39	2,406.85

Financial Ratio Highlights

Ratio Highlights	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F	2024 F
Growth (% YoY)							
Sales	11.09%	-4.49%	-26.68%	57.51%	81.38%	-22.17%	-5.16%
OP	-6.29%	-30.76%	-53.87%	436.43%	155.09%	-33.90%	-17.54%
EBITDA	-0.06%	-21.51%	-25.80%	168.43%	119.01%	-29.31%	-11.93%
NP	-13.57%	-3.24%	-63.65%	535.34%	178.98%	-40.47%	-19.43%
EPS	-13.57%	-3.24%	-63.65%	535.34%	178.98%	-40.47%	-19.43%
Profitability							
Operating Margin(%)	24.64%	17.86%	11.24%	38.28%	53.83%	45.72%	39.76%
EBITDA margin(%)	35.50%	29.18%	29.53%	50.32%	60.76%	55.19%	51.25%
NET Profit margin(%)	11.54%	11.69%	5.80%	23.38%	35.96%	27.51%	23.37%
ROA(%)	5.92%	5.60%	2.30%	12.30%	0.00%	0.00%	0.00%
ROE(%)	9.71%	10.15%	3.72%	20.94%	0.00%	0.00%	0.00%
Stability							
Debt/ Equity (X)	0.29	0.45	0.35	0.34	0.22	0.22	0.27
Net Debt/Equity (x)	0.08	0.05	0.05	(0.07)	(0.17)	(0.33)	(0.10)
Current ratio (X)	1.96	1.71	1.51	2.08	2.36	4.05	2.87
Int. Coverage (x)	12.61	9.94	2.48	24.00	59.46	37.61	29.28
Per Share data (USD)							
EPS	0.0131	0.0126	0.0046	0.0292	0.0814	0.0485	0.0391
BVS	0.135	0.125	0.124	0.139	0.220	0.232	0.203

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.

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