

PT Adaro Energy,Tbk

BUY

23 June 2022
Coal Mining, Equity

Current Price **IDR. 2910**
Target Price **IDR. 4095**
JKSE Index **6933.24**



Stock Code **ADRO IJ**
Bloomberg code **ADRO IJ**
Market cap (IDR.Trn) **93.90**
52-Week High (IDR) **3710**
52-Week Low (IDR) **1190**
6-m Avg Daily. Val (IDR) **1650**
Free Float (%) **43.70**

Major Shareholders (%)
PT Adaro Strategic Investment **43.91%**
Others **12.39%**
Public **43.70%**

USD/IDR-YE
2021A **14263**
2022F (Avg) **14804**

Key Indicators
Net Debt/ Equity (x) **(0.03)**
Current ratio (x) **2.43**

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Investment Consideration 1Q22 production lower

ADRO's 1Q22 coal production reached 12.15 million tons, a decrease of -6% yoy. Sales volume was 12.20 million tons, down -3% on an annual basis. Overburden removal (OBM) reached 48.22 million bank cubic meters (Mbcm) during 1Q22 or down -8% yoy. This is in line with the wet season in 1Q22 that affects ADRO's operations every year. With a more positive global market outlook, we estimate 2022 production will be higher at 58 million tons as coal prices will remain strong because coal remains the most significant source of energy in Asia. Emerging economies in Asia still rely on coal for electricity generation due to its availability and affordability, despite world plans to reduce carbon emission which could affect future demand for coal.

Improving operating performance

As of 1Q22, ADRO booked revenue of USD 1,225 million, up 77% yoy mainly due to an 86% higher average selling price (ASP) supported by stronger global coal prices. Cost of revenue increased 24% yoy to USD 623 million mainly due to higher royalty expense as a result of the higher ASP. Royalties to the Government of Indonesia and income tax expenses reached USD 320 million, up by 159% y-o-y as a result of higher revenue from sales of coal driven by the higher ASP. ADRO booked bottom line profit of USD 484 million in 1Q22 up significantly from 1Q21. Going forward, ADRO will continue to improve operational excellence, focusing on efficiency and cost control. We estimate Net profit margins during 2022-2023 will average 22%

Debt under control

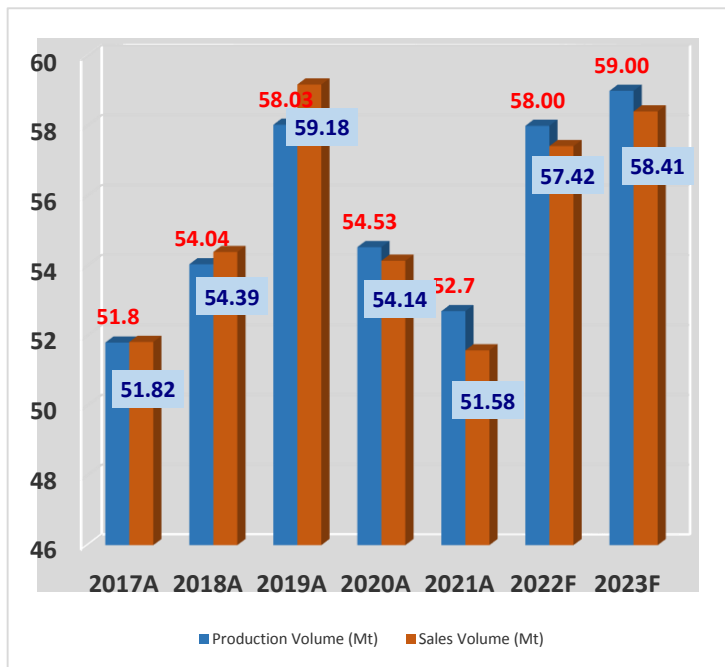
ADRO in 1Q22 managed to achieve a cash balance of USD 1,556 million while the total net debt to equity at the end of 1Q22 was net cash positive compared to 0.03x net debt in 1Q21. ADRO has a healthy balance sheet, with net cash in 1Q22 on the back of higher operating cash flows and carefully managed spending. During 1Q22, cash flows from operating activities increased 67% to USD 214 million, mainly driven by an increase in receipts from customers.

Valuation: 41% upside potential

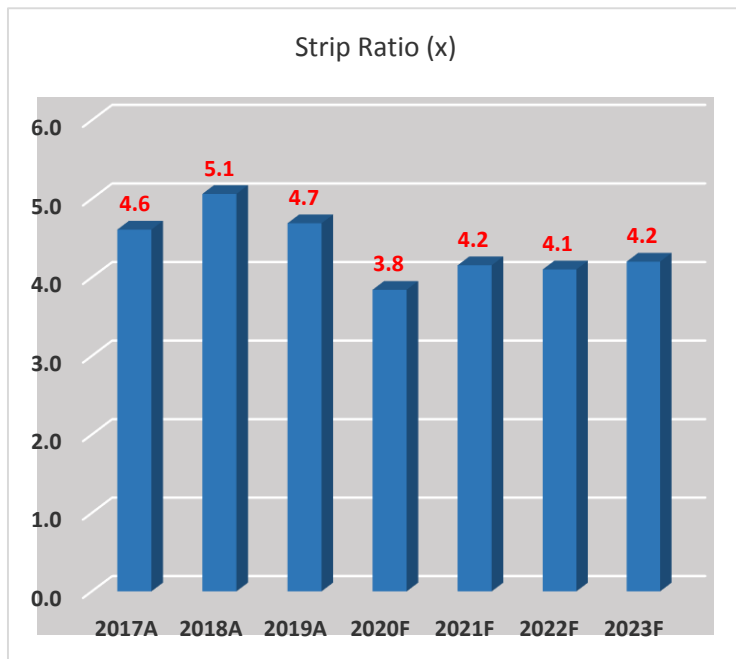
We maintain our ADRO target price of IDR 4,095 which translates to a 10x PER. With 41% upside, we maintain our BUY recommendation.

Profit and Loss (USD.mn)	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F
Revenue	3,620	3,457	2,535	3,993	4,398	4,414
Cost of sales	(2,410)	(2,493)	(1,958)	(2,223)	(2,234)	(2,298)
Gross Profit	1,210	965	577	1,770	2,163	2,116
Operating expense	318	347	292	241	440	441
Operating Profit	892	618	285	1,528	1,724	1,675
Other income	(41)	(38)	(54)	(49)	(46)	(46)
PBT	821	659	222	1,486	1,698	1,649
taxes	(343)	(224)	(64)	(458)	(736)	(635)
Minority interest	(59.821)	(30.812)	(11.578)	(95.101)	(39.052)	(40.117)
Net Profit	418	404	147	933	923	974
EPS	0.0131	0.0126	0.0046	0.0292	0.0289	0.0304
EBITDA	1,285	1,021	832	2,069	2,309	2,332

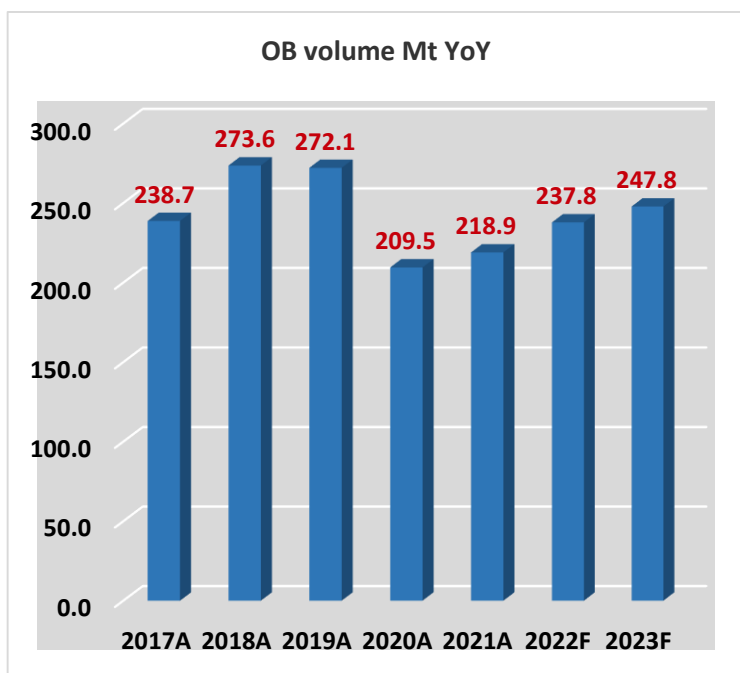
I. Production and sales volume (in mn tons) yoy



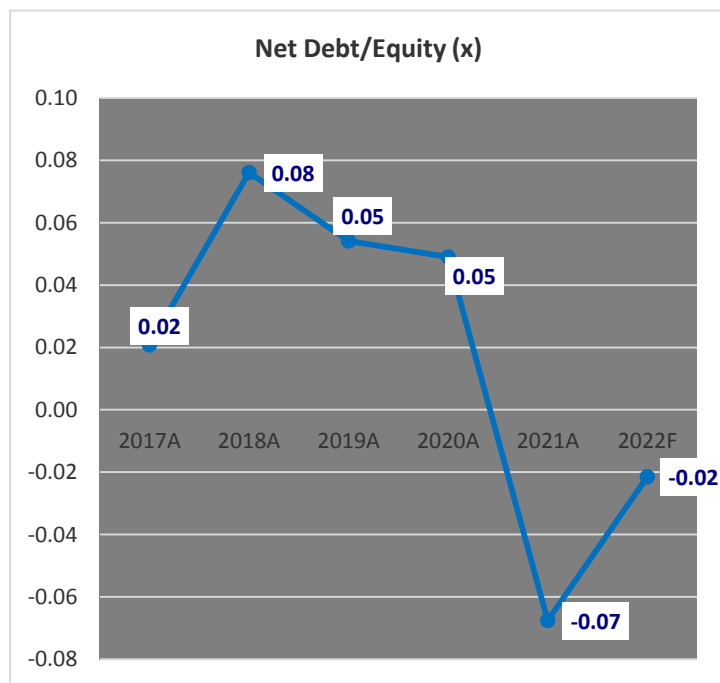
II. Blended Strip ratio (x) yoy



III. Overburden volume (Mt) yoy



IV. Net Debt to Equity (x) yoy



Profit and Loss

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Balance Sheet

Balance sheet (US\$.mn)	2018A	2019A	2020A	2021 A	2022 F	2023 F
Cash and cash equivalent	927.90	1,576.19	1,173.70	1,811.14	1,831.42	2,083.59
ST Investment	0.03	0.00	0.00	0.00	0.00	0.00
Trade Account Receivable	370.89	310.32	224.15	451.99	481.94	483.77
inventory	112.01	121.03	105.13	125.74	104.06	113.34
Other current asset	100.32	96.09	75.83	228.56	219.88	220.72
Current Asset	1,600.29	2,109.92	1,731.62	2,838.13	2,637.31	2,901.41
Net Fixed Asset	1,609.70	1,722.41	1,539.44	1,397.11	1,566.46	1,756.34
other long term asset	3,153.30	2,377.99	2,181.67	2,028.50	2,682.59	3,045.92
LT Investment and receivables	697.46	1,006.78	928.84	1,323.20	1,451.24	1,456.74
Total non current Asset	5,460.46	5,107.18	4,649.95	4,748.80	5,700.28	6,259.00
Total Asset	7,060.76	7,217.11	6,381.57	7,586.94	8,337.59	9,160.41
Trade payable	341.77	335.52	214.27	272.41	421.70	423.30
Accrued expenses	52.21	60.71	53.86	59.94	66.02	66.27
Short Term bank loans	182.67	506.06	587.72	218.97	229.92	241.42
Other Current liabilities	344.21	330.31	289.07	810.24	527.72	529.72
Total current liabilities	816.44	1,232.60	1,144.92	1,361.56	1,179.34	1,194.44
Long term loans	1,072.53	551.60	42.60	550.59	750.59	950.59
Senior notes	0.00	734.01	736.96	740.12	740.12	740.12
Other Long term liabilities	869.09	715.49	505.36	476.35	524.67	526.66
Total long term/ non current liabilities	1,941.62	2,001.11	1,284.93	1,767.06	2,015.38	2,217.37
Total Liabilities	2,758.06	3,233.71	2,429.85	3,128.62	3,194.72	3,411.80
Total Equities	4,302.69	3,983.40	3,951.71	4,458.32	5,142.88	5,748.61
Total Liabilities and equity	7,060.76	7,217.11	6,381.57	7,586.94	8,337.59	9,160.41

Cash Flow

Cash Flow (in US\$. mn)	2018A	2019A	2020A	2021A	2022F	2023F
+ Net Income	417.72	404.19	146.93	933.49	923.10	973.75
+Depreciation	236.80	238.99	283.69	287.74	307.36	344.62
- Change in WC	143.06	554.82	(111.86)	(252.44)	38.89	3.16
Cash From Operating Activities	797.58	1,198.01	318.75	968.79	1,269.35	1,321.53
capex	(339.95)	(351.70)	(100.71)	(145.41)	(476.72)	(534.50)
other long term asset	32.80	775.31	196.32	153.17	(654.09)	(363.33)
LT Investment and receivables	(555.13)	(309.32)	77.93	(394.36)	(128.04)	(5.51)
cash from investing activities	(862.27)	114.29	173.55	(386.60)	(1,258.84)	(903.34)
Long term liabilities	(18.30)	(520.93)	(509.00)	507.99	200.00	200.00
Senior notes	0.00	734.01	2.95	3.16	0.00	0.00
Other Long term liabilities equity	10.70	(153.60)	(210.13)	(29.01)	48.31	1.99
	(206.66)	(723.49)	(178.61)	(426.89)	(238.54)	(368.02)
cash from financing activities	(214.25)	(664.00)	(894.79)	55.24	9.77	(166.03)
Net Changes in Cash	(278.95)	648.30	(402.49)	637.44	20.28	252.17
Beginning Balance	1,206.85	927.90	1,576.19	1,173.70	1,811.14	1,831.42
Ending balance	927.90	1,576.19	1,173.70	1,811.14	1,831.42	2,083.59

Financial Ratio Highlights

Ratio Highlights	2018 A	2019 A	2020 A	2021 A	2022 F	2023 F
Growth (% YoY)						
Sales	11.09%	-4.49%	-26.68%	57.51%	10.14%	0.38%
OP	-6.29%	-30.76%	-53.87%	436.43%	12.78%	-2.84%
EBITDA	-0.06%	-20.56%	-18.50%	148.68%	11.61%	0.98%
NP	-13.57%	-3.24%	-63.65%	535.34%	-1.11%	5.49%
EPS	-13.57%	-3.24%	-63.65%	535.34%	-1.11%	5.49%
Profitability						
Operating Margin(%)	24.64%	17.86%	11.24%	38.28%	39.19%	37.94%
EBITDA margin(%)	35.50%	29.53%	32.82%	51.82%	52.51%	52.82%
NET Profit margin(%)	11.54%	11.69%	5.80%	23.38%	20.99%	22.06%
ROA(%)	5.92%	5.60%	2.30%	12.30%	0.00%	0.00%
ROE(%)	9.71%	10.15%	3.72%	20.94%	0.00%	0.00%
Stability						
Debt/ Equity (X)	0.29	0.45	0.35	0.34	0.33	0.34
Net Debt/Equity (x)	0.08	0.05	0.05	(0.07)	(0.02)	(0.03)
Current ratio (X)	1.96	1.71	1.51	2.08	2.24	2.43
Int. Coverage (x)	12.61	9.94	2.48	24.00	24.06	20.80
Per Share data (USD)						
EPS	0.0131	0.0126	0.0046	0.0292	0.0289	0.0304
BVS	0.135	0.125	0.124	0.139	0.161	0.180

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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