

PT Adaro Energy,Tbk

BUY

27 October 2021
Coal Mining, Equity

Current Price **IDR. 1745**
Target Price **IDR. 3410**
JKSE Index **6605,441**

Investment Consideration

52 Mt coal production target

ADRO's 1H21 coal production reached 26.49 million tons, a decrease of 3% yoy compared to 1H20. Sales volume was 25.78 million tons, down 5% on an annual basis. Overburden removal (OBM) reached 115.22 million bank cubic meters (Mbcm) during 1H21 or up 12% yoy. This is in line with their target to increase the stripping ratio in 2021. The 1H21 Stripping ratio was at 4.3x vs the target of 4.8x. With rainfall starting to rise near the end of this year, we see a chance that the target will be missed. We estimate that 2021 and 2022 production will be similar while high coal price conditions will remain until early next year as the global economy continues to recover.

Improving operating performance

ADRO booked revenue of US\$ 1,563 million in 1H21, up 15% yoy mainly due to a 25% higher average selling price (ASP) supported by stronger global coal prices. Higher than expected rainfall and rain hours in May and June affected ADRO mining operations during 1H21 but with operational efficiency and cost control, ADRO managed to book an EBITDA margin in 1H21 of 41%. Going forward, ADRO will continue to improve operational efficiency and cost control. We estimate EBITDA margins in 2021-2022F will average 36%.

Debt under control

ADRO in 1H21 managed to achieve a cash balance of US\$ 1,208 million with total interest bearing debt at the end of 1H21 of US\$ 1,690 million or a 2% increase yoy. ADRO continues to strengthen and maintain a healthy balance sheet, with net debt of US\$ 305 million in 1H21. Total net debt/equity during 1H21 was 0,08x. We estimate net debt/equity in 2021F will be 0,06x.

Valuation: significant upside potential

With WACC at 10.9x, we are targeting ADRO to reach IDR. 3410 or trade at 37x PER with 95% upside. We maintain our BUY recommendation

Profit and Loss (USD.mn)	2018 A	2019 A	2020 A	2021 F	2022 F	2023 F
Revenue	3.620	3.457	2.535	3.056	3.072	3.094
Cost of sales	(2.410)	(2.493)	(1.958)	(2.101)	(2.216)	(2.181)
Gross Profit	1.210	965	577	954	856	912
Operating expense	318	347	292	306	307	309
Operating Profit	892	618	285	649	549	603
Other income	(41)	(38)	(54)	(32)	(32)	(33)
PBT	821	659	222	631	531	585
taxes	(343)	(224)	(64)	(325)	(291)	(274)
Minority interest	(59,821)	(30,812)	(11,578)	(24,979)	(27,281)	(28,113)
Net Profit	418	404	147	281	212	283
EPS	0,0131	0,0126	0,0046	0,0088	0,0066	0,0088
EBITDA	1.285	1.009	748	1.101	1.032	1.127

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Adaro Energy Tbk, Indonesia, Jakarta:ADRO, D



Stock Code **ADRO IJ**
Bloomberg code **ADRO IJ**
Market cap (IDR.bn) **56135**
52-Week High (IDR) **1980**
52-Week Low (IDR) **1100**
6-m Avg Daily. Val (IDR) **1210**
Free Float (%) **43.71**

Major Shareholders (%)
PT Adaro Strategic **43.91%**
Investment **12.38%**
Others **43.71%**
Public

USD/IDR-YE
2020A **14055**
2021F (Avg) **14183**

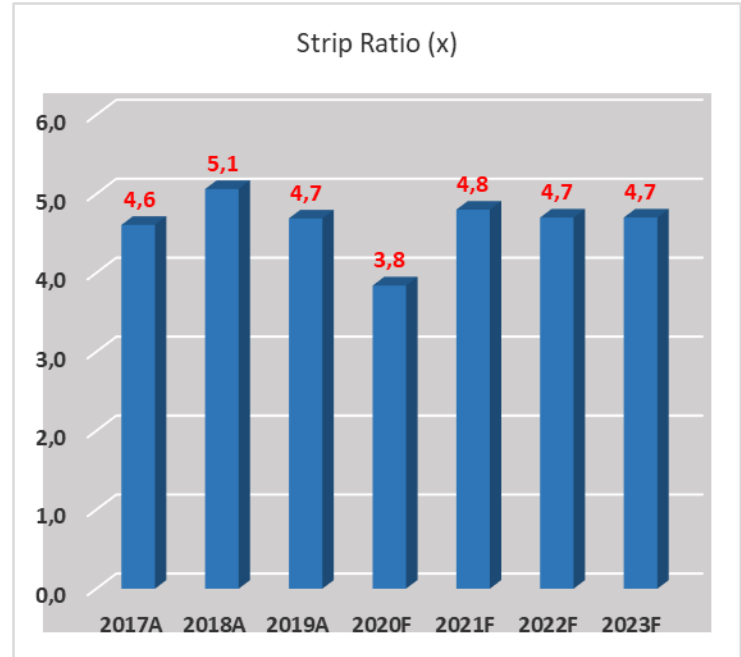
Key Indicators
Net Debt/ Equity (x) **0.04**
Current ratio (x) **2.18**

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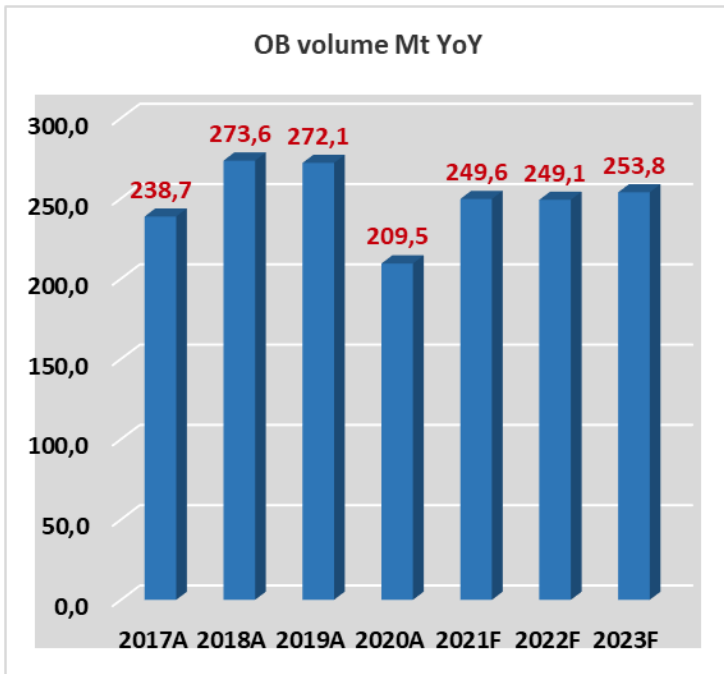
I. Production and sales volume (in mn tons) yoy



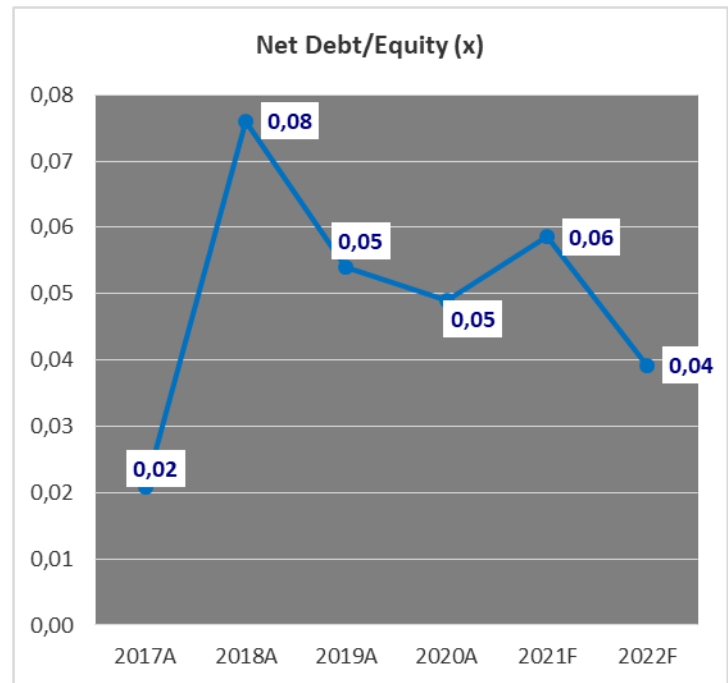
II. Blended Strip ratio (x) yoy



III. Overburden volume (Mt) yoy



IV. Net Debt to Equity (x) yoy



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EBITDA	1.285	1.009	748	1.101	1.032	1.127

Balance Sheet (US\$.mn)

Balance sheet (US\$.mn)	2018A	2019A	2020A	2021F	2022F	2023F
Cash and cash equivalent	927,90	1.576,19	1.173,70	1.559,19	1.862,68	2.009,05
ST Investment	0,03	0,00	0,00	0,00	0,00	0,00
Trade Account Receivable	370,89	310,32	224,15	502,31	336,67	372,92
inventory	112,01	121,03	105,13	97,87	109,28	113,54
Other current asset	100,32	96,09	75,83	85,56	86,02	86,62
Current Asset	1.600,29	2.109,92	1.731,62	2.244,93	2.394,65	2.582,13
Net Fixed Asset	1.609,70	1.722,41	1.539,44	1.795,11	2.021,30	2.275,98
other long term asset	3.153,30	2.377,99	2.181,67	2.138,98	2.119,77	2.134,55
LT Investment and receivables	697,46	1.006,78	928,84	1.161,16	1.105,97	1.082,74
Total non current Asset	5.460,46	5.107,18	4.649,95	5.095,26	5.247,04	5.493,27
Total Asset	7.060,76	7.217,11	6.381,57	7.340,19	7.641,69	8.075,40
Trade payable	341,77	335,52	214,27	276,27	277,75	279,69
Accrued expenses	52,21	60,71	53,86	61,11	61,44	61,87
Short Term bank loans	182,67	506,06	587,72	487,72	512,10	537,71
Other Current liabilities	344,21	330,31	289,07	336,13	307,21	309,35
Total current liabilities	816,44	1.232,60	1.144,92	1.100,11	1.097,07	1.126,75
Long term loans	1.072,53	551,60	42,60	584,07	784,07	984,07
Senior notes	0,00	734,01	736,96	738,52	738,52	738,52
Other Long term liabilities	869,09	715,49	505,36	632,41	635,81	640,24
Total long term/ non current liabilities	1.941,62	2.001,11	1.284,93	1.955,00	2.158,40	2.362,83
Total Liabilities	2.758,06	3.233,71	2.429,85	3.055,11	3.255,47	3.489,59
Total Equities	4.302,69	3.983,40	3.951,71	4.285,08	4.386,21	4.585,81
Total Liabilities and equity	7.060,76	7.217,11	6.381,57	7.340,19	7.641,69	8.075,40

Cash Flow (US\$.mn)

Cash Flow (in US\$. mn)	2018A	2019A	2020A	2021F	2022F	2023F
+ Net Income	417,72	404,19	146,93	281,37	212,48	283,02
+Depreciation	236,80	238,99	283,69	292,49	323,12	363,83
- Change in WC	143,06	554,82	(111,86)	(172,63)	150,72	(11,42)
Cash From Operating Activities	797,58	1.198,01	318,75	401,24	686,32	635,43
capex	(862,27)	114,29	173,55	(737,81)	(474,90)	(610,06)
cash from investing activities	(862,27)	114,29	173,55	(737,81)	(474,90)	(610,06)
Long term liabilities	(18,30)	(520,93)	(509,00)	541,47	200,00	200,00
Senior notes	0,00	734,01	2,95	1,56	0,00	0,00
Other Long term liabilities	10,70	(153,60)	(210,13)	127,04	3,40	4,43
equity	(206,66)	(723,49)	(178,61)	51,99	(111,35)	(83,42)
cash from financing activities	-214,25	-664,00	-894,79	722,06	92,06	121,01
Net Changes in Cash	(278,95)	648,30	(402,49)	385,49	303,48	146,37
Beginning Balance	1.206,85	927,90	1.576,19	1.173,70	1.559,19	1.862,68
Ending balance	927,90	1.576,19	1.173,70	1.559,19	1.862,68	2.009,05

Ratio Highlights

Ratio Highlights	2018 A	2019 A	2020 A	2021 F	2022 F	2023 F
Growth (% YoY)						
Sales	11,09%	-4,49%	-26,68%	20,55%	0,54%	0,70%
OP	-6,29%	-30,76%	-53,87%	127,75%	-15,40%	9,86%
EBITDA	-0,06%	-21,51%	-25,80%	47,12%	-6,29%	9,19%
NP	-13,57%	-3,24%	-63,65%	91,51%	-24,48%	33,20%
EPS	-13,57%	-3,24%	-63,65%	91,51%	-24,48%	33,20%
Profitability						
Operating Margin(%)	24,64%	17,86%	11,24%	21,23%	17,87%	19,49%
EBITDA margin(%)	35,50%	29,18%	29,53%	36,03%	33,59%	36,42%
NET Profit margin(%)	11,54%	11,69%	5,80%	9,21%	6,92%	9,15%
ROA(%)	5,92%	5,60%	2,30%	3,83%	0,00%	0,00%
ROE(%)	9,71%	10,15%	3,72%	6,57%	0,00%	0,00%
Stability						
Debt/ Equity (X)	0,29	0,45	0,35	0,42	0,46	0,49
Net Debt/Equity (x)	0,08	0,05	0,05	0,06	0,04	0,05
Current ratio (X)	1,96	1,71	1,51	2,04	2,18	2,29
Int. Coverage (x)	12,61	9,94	2,48	8,50	6,36	6,31
Per Share data (USD)						
EPS	0,0131	0,0126	0,0046	0,0088	0,0066	0,0088
BVS	0,135	0,125	0,124	0,134	0,137	0,143

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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