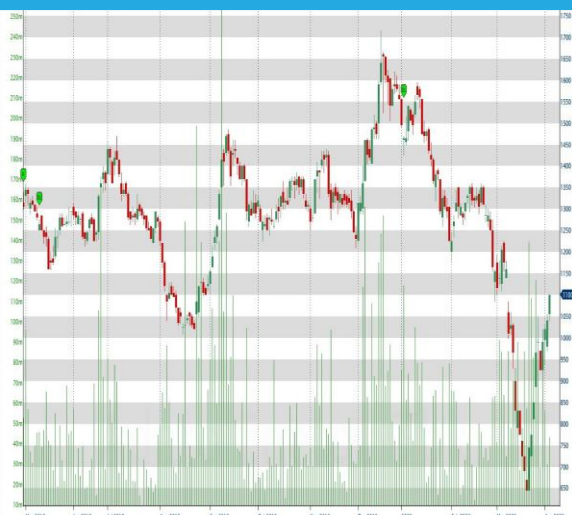


## PT Adaro Energy,Tbk

**BUY**

6 April 2020  
Coal Mining, Equity

Current Price **IDR. 1100**  
Target Price **IDR. 1400**  
JKSE Index **4623,43**



Stock Code **ADRO IJ**  
Bloomberg code **35184,6**  
Market cap (IDR.bn) **1715**  
52-Week High (IDR) **610**  
52-Week Low (IDR) **1293**  
6-m Avg Daily. Val (IDR) **43.85**  
Free Float (%)

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) **0.52**  
Current ratio (x) **1.69**

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### Investment Consideration Maintain production growth

In 2019, coal production reached 58.03Mt up 7% yoy due to strong output from contractors and the favorable weather conditions throughout the year. This led to a 9% yoy increase in coal sales despite a decline in the ASP (Average selling price). ADRO blended strip ratio was 4,69x due to the higher production. We estimate this year ADRO's production will be 54Mt or at the lower end of the 2020 guidance, and the strip ratio will be 4,3x due to the unfavorable conditions of commodities, particularly coal because of the corona virus. 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.

### New Businesses progress

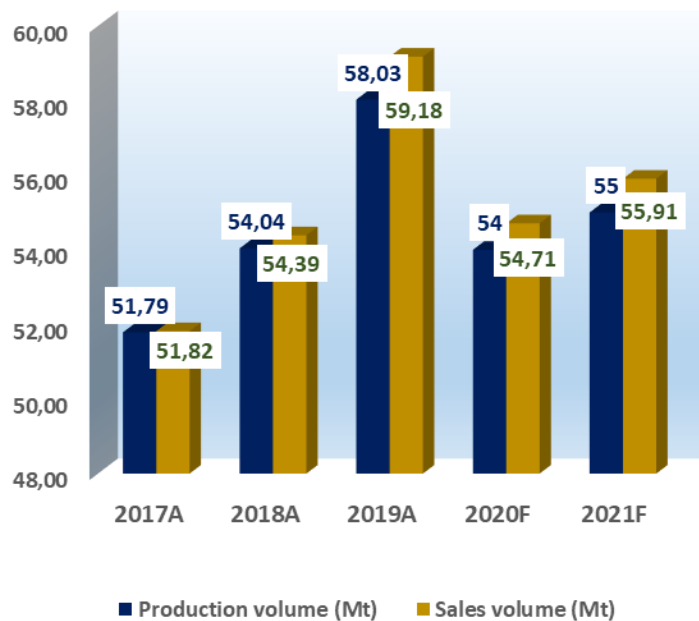
Going forward, ADRO is looking to grow by integration. With coking coal subsidiary, AMC, Adaro can offset the government thermal coal price cap and create growth for the future. In 2019, AMC's coal was sold to customers in Japan, Indonesia, India, China and Europe. In power, ADRO's power projects with BPI and TPI will start to contribute to earnings from 2019 onward. TPI (2x100MW PP in Tanjung) has successfully commenced commercial operation of its second unit (100 MW) in December 2019, following the commercial operation of its first 100 MW unit in September 2019. Construction progress at PT Bhimasena Power Indonesia's 2x1,000 MW PP in Batang, Central Java has reached 91.8% at the end of 2019. In Water, PT Adaro Tirta Mandiri (ATM), joined with PT Adhi Karya Tbk (ADHI) to form PT Dumai Tirta Persada (DTP), of which ATM owns 49%. DTP has signed a co-operation agreement with Perusahaan Daerah Air Minum (PDAM) for a water treatment facility in Dumai, Riau. This build, operate and transfer project has a capacity of 450 liters per second and will cost about IDR400 billion. It is targeted to start operation by the end of 2020. These other projects will also create captive demand for ADRO's coal.

### Valuation: 27 % upside potential

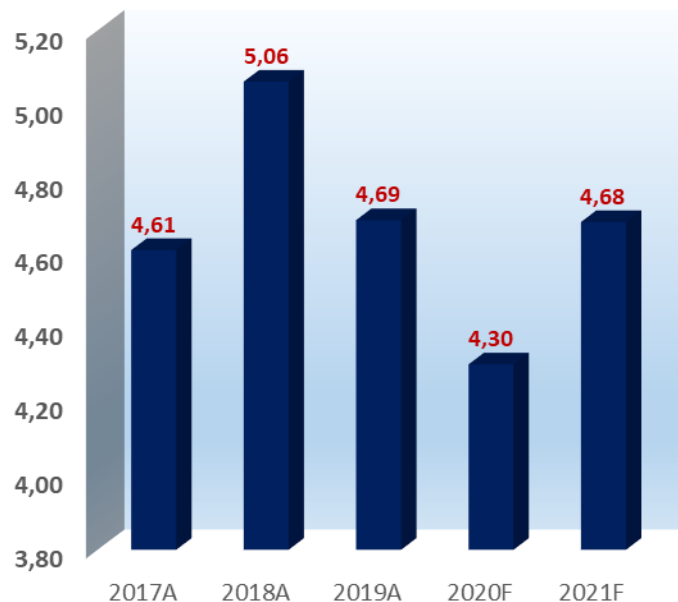
With WACC at 8.9x, we are targeting ADRO to reach 1400 or trade at 5.9x PER with 27% upside. We recommend BUY.

Profit and Loss (USD.mn)	2017 A	2018 A	2019 A	2020 F	2021 F
<b>Revenue</b>	<b>3.258</b>	<b>3.620</b>	<b>3.457</b>	<b>3.439</b>	<b>3.818</b>
Cost of sales	(2.117)	(2.410)	(2.493)	(2.445)	(2.677)
<b>Gross Profit</b>	<b>1.142</b>	<b>1.210</b>	<b>965</b>	<b>993</b>	<b>1.141</b>
Operating expense	190	318	347	200	222
<b>Operating Profit</b>	<b>952</b>	<b>892</b>	<b>618</b>	<b>793</b>	<b>919</b>
Other income	(34)	(41)	(38)	(36)	(40)
<b>PBT</b>	<b>930</b>	<b>821</b>	<b>659</b>	<b>770</b>	<b>892</b>
taxes	(393)	(343)	(224)	(338)	(388)
Minority interest	(53,141)	(59,821)	(30,812)	(35,103)	(31,213)
<b>Net Profit</b>	<b>483</b>	<b>418</b>	<b>404</b>	<b>397</b>	<b>473</b>
EPS	0,0151	0,0131	0,0126	0,0124	0,0148
<b>EBITDA</b>	<b>1.286</b>	<b>1.252</b>	<b>1.009</b>	<b>1.204</b>	<b>1.427</b>

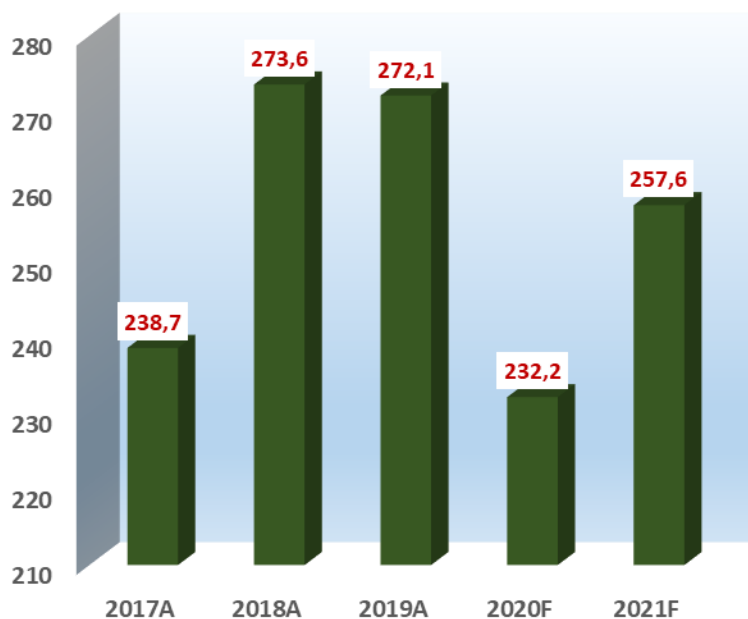
Production and sales volume (in mn tons) yoy



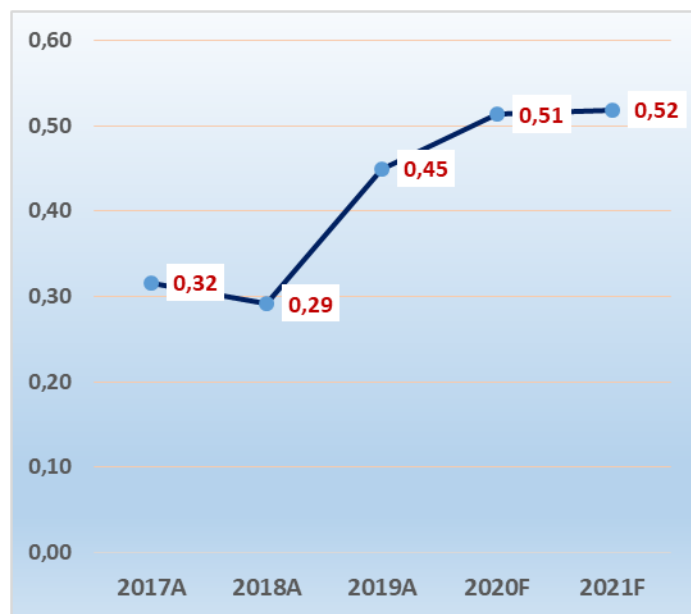
Blended Strip ratio (x) yoy



Overburden volume (Mt) yoy



Debt to Equity (x) yoy



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

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## 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	2.063,73	2.041,39
ST Investment	0,03	0,03	0,00	0,00	0,00
Trade Account Receivable	314,72	370,89	310,32	329,74	345,21
inventory	85,47	112,01	121,03	120,59	124,70
Other current asset	125,09	100,32	96,09	103,16	106,91
<b>Current Asset</b>	<b>1.979,16</b>	<b>1.600,29</b>	<b>2.109,92</b>	<b>2.617,22</b>	<b>2.618,22</b>
Net Fixed Asset	1.506,55	1.609,70	1.722,41	2.388,44	2.769,44
other long term asset	3.186,10	3.153,30	2.377,99	2.235,15	2.481,88
LT Investment and receivables	142,33	697,46	1.006,78	687,74	763,66
<b>Total non current Asset</b>	<b>4.834,99</b>	<b>5.460,46</b>	<b>5.107,18</b>	<b>5.311,32</b>	<b>6.014,98</b>
<b>Total Asset</b>	<b>6.814,15</b>	<b>7.060,76</b>	<b>7.217,11</b>	<b>7.928,54</b>	<b>8.633,20</b>
Trade payable	279,16	341,77	335,52	310,90	345,21
Accrued expenses	37,40	52,21	60,71	60,39	67,05
Short Term bank loans	201,16	182,67	506,06	706,06	706,06
Other Current liabilities	330,38	344,21	451,73	447,03	496,38
<b>Total current liabilities</b>	<b>773,30</b>	<b>816,44</b>	<b>1.232,60</b>	<b>1.463,98</b>	<b>1.547,65</b>
Long term loans	1.090,83	1.072,53	551,60	751,60	951,60
Senior notes	0,00	0,00	734,01	734,01	734,01
Other Long term liabilities	858,39	869,09	715,49	711,67	790,23
<b>Total long term/ non current liabilities</b>	<b>1.949,22</b>	<b>1.941,62</b>	<b>2.001,11</b>	<b>2.197,29</b>	<b>2.475,85</b>
<b>Total Liabilities</b>	<b>2.722,52</b>	<b>2.758,06</b>	<b>3.233,71</b>	<b>3.661,27</b>	<b>4.023,50</b>
<b>Total Equities</b>	<b>4.091,63</b>	<b>4.302,69</b>	<b>3.983,40</b>	<b>4.267,27</b>	<b>4.609,70</b>
<b>Total Liabilities and equity</b>	<b>6.814,15</b>	<b>7.060,76</b>	<b>7.217,11</b>	<b>7.928,54</b>	<b>8.633,20</b>

## Cash Flow (US\$.mn)

Cash Flow (in US\$. mn)	2017A	2018A	2019A	2020F	2021F
+ Net Income	483,30	417,72	404,19	396,87	473,37
+Depreciation	215,24	236,53	238,99	250,78	348,71
- Change in WC	(127,80)	143,06	554,82	211,63	60,32
<b>Cash From Operating Activities</b>	<b>570,74</b>	<b>797,31</b>	<b>1.198,01</b>	<b>859,29</b>	<b>882,40</b>
capex	(120,68)	(862,01)	114,29	(454,92)	(1.052,37)
<b>cash from investing activities</b>	<b>(120,68)</b>	<b>(862,01)</b>	<b>114,29</b>	<b>(454,92)</b>	<b>(1.052,37)</b>
Long term liabilities	(150,37)	(18,30)	(520,93)	200,00	200,00
Senior notes	0,00	0,00	734,01	0,00	0,00
Other Long term liabilities	7,77	10,70	(153,60)	(3,82)	78,56
equity	(177,55)	(206,66)	(723,49)	(113,00)	(130,93)
<b>cash from financing activities</b>	<b>-320,15</b>	<b>-214,25</b>	<b>-664,00</b>	<b>83,18</b>	<b>147,63</b>
<b>Net Changes in Cash</b>	<b>129,90</b>	<b>(278,95)</b>	<b>648,30</b>	<b>487,54</b>	<b>(22,34)</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>2.063,73</b>
<b>Ending balance</b>	<b>1.206,85</b>	<b>927,90</b>	<b>1.576,19</b>	<b>2.063,73</b>	<b>2.041,39</b>

## Ratio Highlights

Ratio Highlights	2016 A	2017 A	2018 A	2019 A	2020 F	2021 F
<b>Growth (% YoY)</b>						
Sales	-5,97%	29,08%	11,09%	-4,49%	-0,53%	11,04%
OP	77,06%	61,98%	-6,29%	-30,76%	28,46%	15,80%
EBITDA	37,46%	39,01%	-2,61%	-19,46%	19,35%	18,55%
NP	119,51%	44,43%	-13,57%	-3,24%	-1,81%	19,27%
EPS	119,51%	44,43%	-13,57%	-3,24%	-1,81%	19,27%
<b>Profitability</b>						
Operating Margin(%)	23,28%	29,21%	24,64%	17,86%	23,07%	24,06%
EBITDA margin(%)	36,65%	39,46%	34,60%	29,18%	35,01%	37,38%
NET Profit margin(%)	13,26%	14,83%	11,54%	11,69%	11,54%	12,40%
ROA(%)	5,13%	7,09%	5,92%	5,60%	5,01%	5,48%
ROE(%)	8,84%	11,81%	9,71%	10,15%	9,30%	10,27%
<b>Stability</b>						
Debt/ Equity (X)	0,36	0,32	0,29	0,45	0,51	0,52
Current ratio (X)	2,47	2,56	1,96	1,71	1,79	1,69
Int. Coverage (x)	10,93	17,54	34,78	23,33	27,24	31,59
<b>Per Share data (USD)</b>						
EPS	0,0105	0,0151	0,0131	0,0126	0,0124	0,0148
BVS	0,118	0,128	0,135	0,125	0,133	0,144

**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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