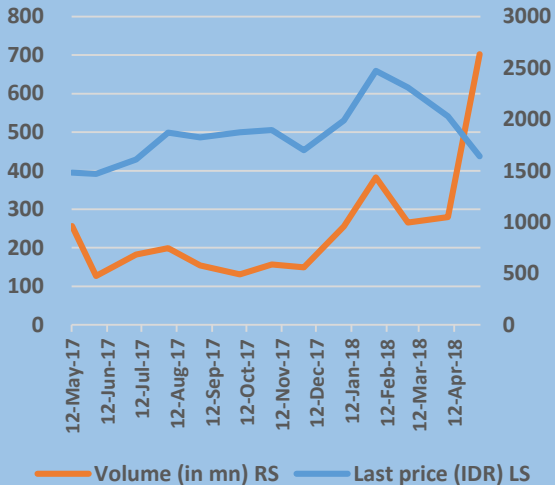


PT Adaro Energy,Tbk

BUY

May 9 , 2018
Coal Mining, Equity

Current Price IDR. 1625
Target Price IDR. 2680
JKSE Index 5774.72



Stock Code
Bloomberg code **ADRO IJ**
Market cap (IDR.bn) **51817.3**
52-Week High (IDR) **2650**
52-Week Low (IDR) **1395**
6-m Avg Daily. Val (IDR) **2073**
Free Float (%) **43.85**

Major Shareholders (%)
PT Adaro Strategic Investment **43.91%**
Others **12.24%**
Public **43.85%**

USD/IDR-YE
2017A **13555**
2018F (Avg) **13617**

Key Indicators
Total Debt/ Equity (x) **0.6**
Current ratio (x) **2.14**

Analyst: Revita Dhiah Anggrainy
revita.anggrainy@binaartha.com

Investment Consideration Growing, diversified production

As of 1Q18, coal production reached 10.95Mt or 8% lower yoy due to extreme weather condition. In Thermal coal, ADRO also has a new blended coal product combing Balangan and Wara called E4200 and market demand for this type of product is growing. In 1Q18, sales of E4200 increased 42% yoy amid strong marketing efforts to develop market acceptance . ADRO targets coal production volume growth of 4 to 8% yoy for this year. In addition, AI's coal asset (Thermal coal) in MIP will start production in 2H18 and also AMC (Coking coal) plans to have additional production from a concession near Haju's mine from 2019 onward. So despite 1Q18 weather conditions, we believe ADRO coal production target is achievable as weather starts to improve and from their diversified products. ADRO has also maintained their sales to existing customers particularly premium ones in ASEAN markets with long term contracts.

Looking for expansion opportunities

Going forward, ADRO is looking for opportunities to expand inside and outside Indonesia, including in power, mining assets or other sector such as in water project (PDAM). Recently, ADRO has entered a binding agreement with Melbourne-based private equity firm EMR Capital to acquire Rio Tinto's 80 percent stake in its remaining coal mine in Australia (Kestrel mine) at an estimated transaction value of US\$2.25 billion. By increasing its coking coal operations, Adaro hopes to offset the government cap and opportunities beyond thermal coal will create solid growth for ADRO in the future. In power, ADRO's power projects from BPI and TPI will start to contribute to ADRO's earnings from 2019 onward. This will create captive demand for ADRO's coal.

Margin performance maintained

Despite higher expenses during 1Q18 due to a higher strip ratio, fuel cost and marketing expenses to develop new products that resulted in EBITDA lower by 1% yoy. ADRO managed to maintain EBITDA margin at 36% on cost discipline measures during the last 5 years. ADRO continued to maintain their debt management with strong liquidity of cash and available-for-sale financial assets as it shown in 1Q18. During 1Q18, ADRO managed to reduce their bank loans by 9% yoy through US\$ 101 mn of debt repayment. ADRO also has hedged approximately 20% of their fuel requirements for 2018 at prices below their budget. We are targeting EBITDA margin during 2018 -2019 of 39-40%.

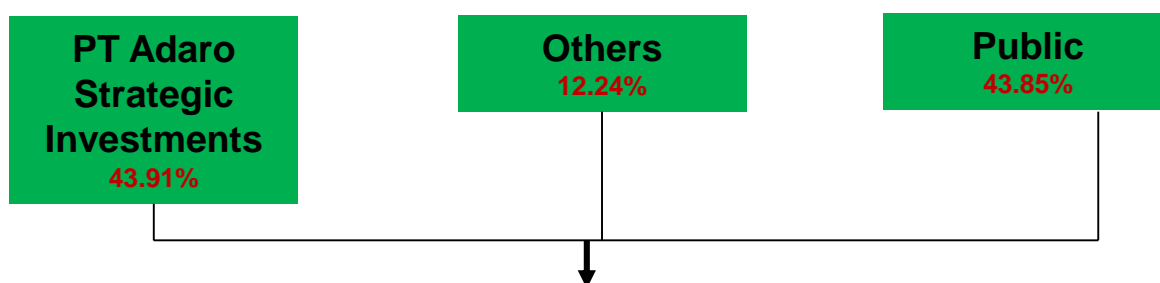
Valuation: 64 % upside potential

We target the price of ADRO within 1 year to reach 2680 or trade at 9.35x PER with 64% upside potential.

Profit and Loss (US\$.mn)	2015 A	2016 A	2017 A	2018 F	2019 F
Revenue	2,684	2,524	3,258	3,509	3,834
Cost of sales	(2,141)	(1,839)	(2,117)	(2,124)	(2,272)
Gross Profit	543	685	1,142	1,385	1,562
Operating expense	211	98	190	204	223
Operating Profit	332	588	952	1,181	1,338
Net Profit	152	335	483	582	656
EPS	0.0048	0.0105	0.0151	0.0182	0.0205
EBITDA	735	870	1,312	1,360	1,537

Company Profile

PT Adaro Energy, Tbk is a vertically integrated energy producer in Indonesia with businesses in coal, energy, utilities, and supporting infrastructure sectors. ADRO deploys an integrated business model comprised of eight pillars: Adaro Mining, Adaro Services, Adaro Logistics, Adaro Power, Adaro land, Adaro Water, Adaro Capital, and Adaro Foundation. Their main location is in South Kalimantan with envirocoal, a low-pollutant thermal coal. Their thermal coal assets range from low CV coal below 4,000 kcal/kg to medium CV coal of 5,000 kcal/kg (gross as received / GAR). ADRO also has metallurgical coal assets across the spectrum from semi-soft coking coal to premium hard coking coal. ADRO continues to develop its non-coal mining business to provide a more stable earnings base and offset the volatility in the coal sector.



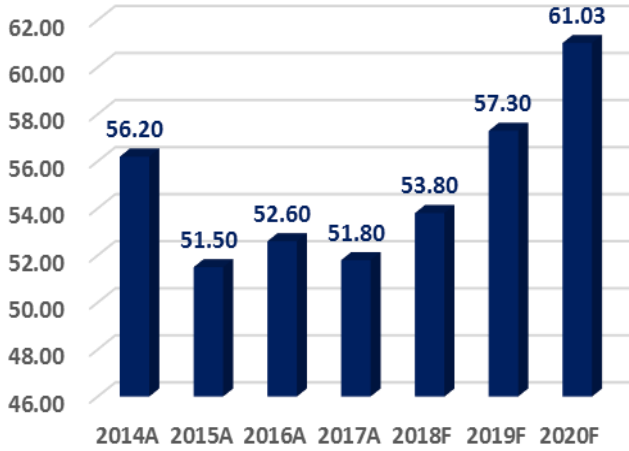
PT Adaro Energy, Tbk (AE)

*Simplified Corporate Structure

Adaro Mining		Adaro Mining Services		Adaro Logistics		Power	
Adaro Indonesia (AI)	88.5%	Saptaindra Sejati (SIS)	100%	Maritim Barito Perkasa (MBP)	100%	Makmur Sejahtera Wisesa (MSW)	100%
Coal mining, S Kalimantan		Coal mining and haulier contractor		Barging & shiploading		Operator of 2x30MW mine-mouth power plant in S. Kalimantan	
Balangan Coal	75%	Jasapower Indonesia (JPI)	100%	Sarana Daya Mandiri (SDM)	51.2%	Bhimasena Power (BPI)	34%
Coal mining, S Kalimantan		Operator of overburden crusher and conveyor		Dredging & maintenance in Barito River mouth		Partner in 2x1000MW power generation project in Central Java	
Mustika Indah Permai (MIP)	75%	Adaro Eksplorasi Indonesia (AEI)	100%	Indonesia Multi Purpose Terminal (IMPT)	100%	Tanjung Power Indonesia (TPI)	65%
Coal mining, S Sumatra		Mining exploration		Port management & terminal operator		Partner in 2x100MW power plant project in S. Kalimantan	
Bukit Enim Energi (BEE)	61%	Adaro Mining Technologies (AMT)	100%	Indonesia Bulk Terminal (IBT)	100%		
Coal mining, S Sumatra		Coal research & development		Coal terminal & fuel storage			
Adaro MetCoal (AMC),	100%						
Coal mining, C Kalimantan							
E Kalimantan							
Bhakti Energi Persada (BEP)	10.2%						
Coal mining, E Kalimantan							

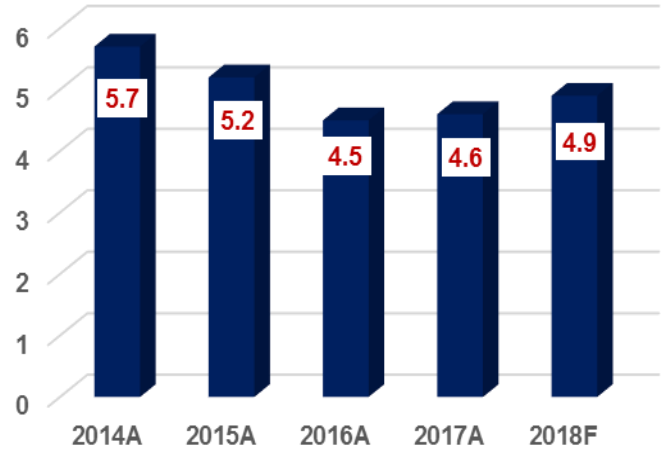
Production volume (in mn tons) yoy

Production Volume (Mt)

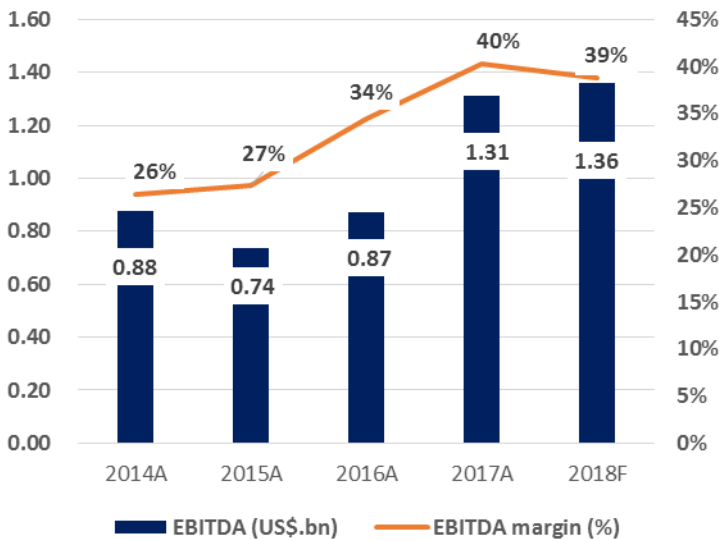


Consolidated planned Strip ratio yoy

Consolidated planned Strip ratio (x)

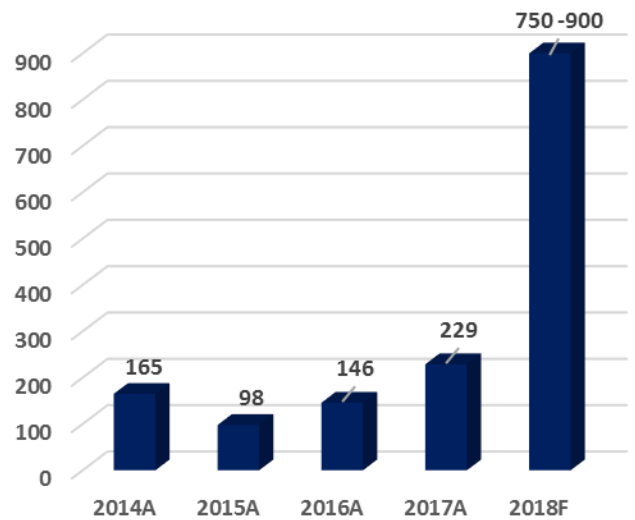


EBITDA (US\$.in billion) vs EBITDA margin (%)



Capex (US\$.in million)

Capex (US\$. In mn)



Profit and Loss (US\$.mn)

Profit and Loss (US\$.mn)	2014 A	2015 A	2016 A	2017 A	2018 F	2019 F	2020 F
Revenue	3,325	2,684	2,524	3,258	3,509	3,834	4,558
Cost of sales	(2,605)	(2,141)	(1,839)	(2,117)	(2,124)	(2,272)	(2,587)
Gross Profit	720	543	685	1,142	1,385	1,562	1,971
Operating expense	226	211	98	190	204	223	265
Operating Profit	494	332	588	952	1,181	1,338	1,706
Other income	(164)	(49)	(41)	(34)	(37)	(40)	(48)
equity in net income associates and jointly controlled entities	(4)	(3)	(0)	12	13	14	17
PBT	325	280	547	930	1,157	1,312	1,675
taxes	(142)	(129)	(206)	(393)	(554)	(625)	(789)
Minority interest	(5.378)	1.437	(6.065)	(53.141)	(21.263)	(31.654)	(46.531)
Net Profit	178	152	335	483	582	656	840
EPS	0.0056	0.0048	0.0105	0.0151	0.0182	0.0205	0.0263
EBITDA	878	735	870	1,312	1,360	1,537	1,949

Balance Sheet (US\$.mn)

Balance sheet (US\$.mn)	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalent	745.25	702.45	1,076.95	1,206.85	898.57	1,347.67	1,746.39
ST Investment	0.00	0.37	0.03	0.03	0.03	0.03	0.03
Trade Account Receivable	285.56	195.69	300.69	314.72	338.97	370.28	440.26
inventory	96.74	72.79	73.42	85.47	141.69	154.78	184.03
Other current asset	144.08	121.21	141.63	372.10	421.13	460.03	546.97
Current Asset	1,271.63	1,092.52	1,592.72	1,979.16	1,800.36	2,332.75	2,917.65
Net Fixed Asset	1,616.60	1,467.11	1,544.19	1,506.55	1,758.55	2,149.56	2,465.66
other long term asset	3,028.74	2,961.34	3,260.16	3,186.10	3,474.35	3,066.86	2,962.77
LT Investment and receivables	496.89	437.66	125.20	142.33	210.57	230.01	273.49
Total non current Asset	5,142.23	4,866.11	4,929.54	4,834.99	5,443.47	5,446.43	5,701.91
Total Asset	6,413.86	5,958.63	6,522.26	6,814.15	7,243.83	7,779.18	8,619.56
Account payable	351.15	196.42	207.79	279.16	315.85	345.02	410.23
Short Term bank loans	160.52	93.57	122.85	201.16	210.57	230.01	273.49
Other Current liabilities	262.93	164.48	313.91	292.98	315.85	345.02	410.23
Total current liabilities	774.60	454.47	644.56	773.30	842.27	920.06	1,093.94
Long term loans	1,613.44	1,383.48	1,241.20	1,090.83	947.88	780.98	484.67
Senior notes	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Long term liabilities	766.36	767.63	850.62	858.39	877.36	958.39	1,139.53
Total long term/ non current liabilities	2,379.80	2,151.11	2,091.82	1,949.22	1,825.25	1,739.37	1,624.19
Total Liabilities	3,154.39	2,605.59	2,736.38	2,722.52	2,667.51	2,659.43	2,718.13
Total Equities	3,259.47	3,353.04	3,785.88	4,091.63	4,576.32	5,119.76	5,901.43
Total Liabilities and equity	6,413.86	5,958.63	6,522.26	6,814.15	7,243.83	7,779.18	8,619.56

Cash Flow (US\$.mn)

Cash Flow (in US\$.mn)	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Current Assets	526.38	390.07	515.77	772.31	901.80	985.09	1,171.26
Current Liabilities	774.60	454.47	644.56	773.30	842.27	920.06	1,093.94
WC	(248.21)	(64.41)	(128.79)	(0.99)	59.53	65.03	77.32
Cash From Operating Activities	563.93	189.77	613.51	570.74	747.04	903.51	1,140.52
capex	(38.42)	54.99	(277.94)	(120.69)	(834.46)	(256.07)	(568.46)
cash from investing activities	(38.42)	54.99	(277.94)	(120.69)	(834.46)	(256.07)	(568.46)
Long term liabilities	417.90	(229.96)	(142.28)	(150.37)	(142.95)	(166.91)	(296.31)
Senior notes	(789.87)	0.00	0.00	0.00	0.00	0.00	0.00
Other Long term liabilities	3.69	1.27	82.99	7.77	18.97	81.03	181.13
equity	(92.88)	(58.87)	98.22	(177.55)	(96.89)	(112.46)	(58.16)
cash from financing activities	(461.17)	(287.55)	38.93	(320.15)	(220.86)	(198.34)	(173.34)
Net Changes in Cash	64.34	(42.80)	374.50	129.90	(308.28)	449.10	398.72
Beginning Balance	680.90	745.25	702.45	1,076.95	1,206.85	898.57	1,347.67
Ending balance	745.25	702.45	1,076.95	1,206.85	898.57	1,347.67	1,746.39

Ratio Highlights

ratio Highlights	2014 A	2015 A	2016 A	2017 A	2018 F	2019 F	2020 F
Growth (% YoY)							
Sales	1.23%	-19.27%	-5.97%	29.08%	7.71%	9.24%	18.90%
OP	-8.48%	-32.76%	77.06%	61.98%	24.07%	13.33%	27.47%
EBITDA	7.46%	-16.23%	18.38%	50.80%	3.67%	12.96%	26.83%
NP	-23.85%	-14.44%	119.51%	44.43%	20.34%	12.78%	28.04%
EPS	-23.85%	-14.44%	119.51%	44.43%	20.34%	12.78%	28.04%
Profitability							
Operating Margin(%)	14.84%	12.36%	23.28%	29.21%	33.65%	34.91%	37.43%
EBITDA margin(%)	26.39%	27.38%	34.47%	40.27%	38.77%	40.09%	42.76%
NET Profit margin(%)	5.36%	5.68%	13.26%	14.83%	16.57%	17.11%	18.43%
ROA(%)	2.78%	2.56%	5.13%	7.09%	8.03%	8.43%	9.74%
ROE(%)	5.47%	4.55%	8.84%	11.81%	12.71%	12.81%	14.23%
Stability							
Total debt/ Equity (X)	1.0	0.8	0.7	0.7	0.6	0.5	0.5
Current ratio (X)	1.64	2.40	2.47	2.56	2.14	2.54	2.67
Int. Coverage (x)	1.71	4.61	10.93	17.54	24.35	31.64	53.86
Per Share data (USD)							
EPS	0.0056	0.0048	0.0105	0.0151	0.0182	0.0205	0.0263
BVS	0.102	0.105	0.118	0.128	0.143	0.160	0.185

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
(62-21) 520-6678 ext.612**

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