

PT Adaro Energy Indonesia Tbk (ADRO)

Company Focus

June 7, 2022

Creating a Brighter Future

Company in brief. Adaro Energy Indonesia is a vertically integrated energy producer company in Indonesia with businesses in the coal, energy, utilities and supporting infrastructure sectors. Adaro Energy has more than 8.4 bn tons of coal resources and 1.3 bn tons of coal reserves across thermal and metallurgical coal. Adaro Energy Indonesia 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. Adaro Energy Indonesia's main location is in South Kalimantan. Adaro Energy Indonesia also has metallurgical coal assets across the spectrum from semisoft coking coal to premium-hard coking coal in Indonesia and Australia.

Enjoying the benefits of the coal rally. In 1Q22, ADRO generated strong revenue growth of 76.98% YoY to USD 1.22 billion, slightly below our projection in FY22E due to the 3% YoY decreased of coal sales to 12.20 Mt, while coal production decreased 6% YoY to 12.15 Mt, as heavy rains affected mining activities in the quarter and also impacted by the government policy that banned the export of coal to avert domestic power crisis. However, the higher average selling price (ASP) of 86% YoY managed to support the top-line performance. The cost of revenue in 1Q22 only increased by 24.01% YoY to USD 622.78 million, mainly due to higher royalty expenses, as well as a higher ASP. The number is justified by a GPM of 49.15%, compared to 27.43% in 1Q21. The company also successfully managed an operational EBITDA margin of 61.6% (vs 35.3% in 1Q21). Furthermore, the combination of higher coal price coupled with operational efficiency and cost control benefited the company's net profit, which jumped significantly to USD 400.07 million, from USD 71.75 million in 1Q21.

Global coal demand remains strong. Coal prices have surged with a Newcastle coal price is trading at a high level, above 400/Mt. The coal price continues to increase amidst the ongoing supply deficit, while coal demand is expected to increase due to a war in Ukraine which included banning imports of Russian coal from mid-August, and increasing tensions between Australia and China. The condition helped the Indonesian coal exporters to post a record-high performance in FY21, including ADRO as the second biggest coal miner with an export contribution of 70% to its total revenue (ITMG of 76% in FY21). In 1Q22, Europe became a new destination for ADRO's coal export as the company has shipped roughly 300,000 tons of coal to some buyers from Europa via spot sales. Even though the demand from Europe would likely to increase, ADRO's main market is still in Asia, which are East Asia (27%), Southeast Asia (17%), India (13%), and China (10%) that would remain as the priorities. Amid the positive outlook for global coal demand, ADRO increases the coal output in FY22 to approximately 58-60 million tons with an SR target of 4.1x, higher than 52.7 million tons in FY21.

Indonesia's leading metallurgical coal producers. The company through its subsidiaries, PT Adaro Minerals Indonesia Tbk (ADMR) completed its portfolio of coal products from CV Thermal coal to premium Hard Coking Coal (HCC). Note that ADRO holds a 68.55% stake in ADMR. ADMR conducts metallurgical coal mining in operations through its subsidiaries with coal reserves of 170.7 million tons and coal resources at 980 million tons. Metallurgical coal is sold to steel manufacturers to be used in the manufacture of pig iron/steel. The company HCC coal has low ash and phosphorus content, moderate volatile matter content, and low to moderate sulfur content. Thereby, HCC coal has a high value in use compared to other types of coal. In 1Q22, ADMR booked revenue of USD 182.15 million, jumped by 188.76% YoY, mainly driven by higher sales volume by 15% YoY to 0.15Mt, while ASP recorded a significant increase of 151% YoY. In 1Q22, ADMR has produced 0.62 Mt (-4% YoY) of coal, compared to its target of 3.3mn tons. Furthermore, in the next 3-5 years, the company seeks to expand its production capacity to 5mn-6mn tons.

BUY

| | |
|-------------------------------|--------------|
| Current Price (IDR) (06/03) | 3,520 |
| Target price (IDR) | 4,300 |
| Upside/Downside (%) | 22.1% |
| 52 Week High (IDR) | 3,590 |
| 52 Week Low (IDR) | 1,190 |
| Major Shareholders: | |
| PT Adaro Strategic Investment | 43.91% |
| Garibaldi Thohir | 6.18% |
| Public and others | 49.91% |

Stock Price Movement



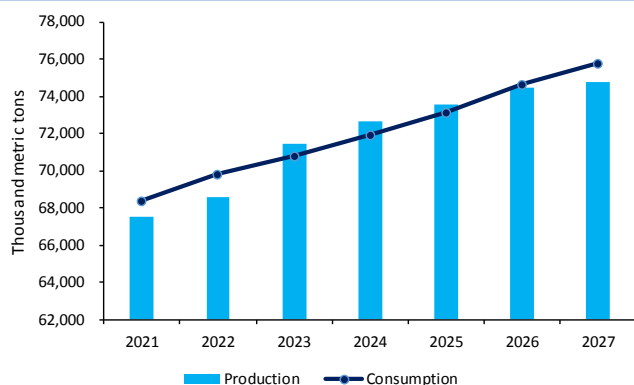
Source: Bloomberg, Shinhan Sekuritas Indonesia

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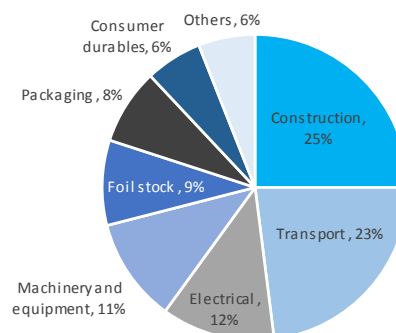
Entering the smelter business as a diversified strategy. ADRO through PT Aluminum Indonesia signed a Letter of Intention to Invest (LoI) for a total amount of USD 728 million or IDR 10.41 trillion (IDR 14,300 per US dollar) in December 2021 to build an aluminum smelter at the world's largest green industrial park in Indonesia which developed by PT Kalimantan Industrial Park Indonesia. The smelter's capacity reached 500 thousand tons and estimated will be operating in 2024. The aluminum smelter will produce aluminum ingots and sheets which are mainly used in die-casting alloys, battery industry, printing and dyeing industry, pharmaceutical industry, rubber industry, chemical industry, etc. Therefore, we are optimistic that ADRO's diversification will have a positive impact on its performance as the aluminum industry has an opportunity to continue to advance driven by increasing demand against expected supply limitations due to the increase in manufacturing and sales of electric vehicles. However, we have not calculated this project to our current valuation due to the company's management has not disclosed the detail of the project.

World Aluminum Consumption & Production Forecast



Source: knoema, Shinhan Sekuritas Indonesia

Global End Use of Aluminum Products by Sector



Source: Statista, 2020

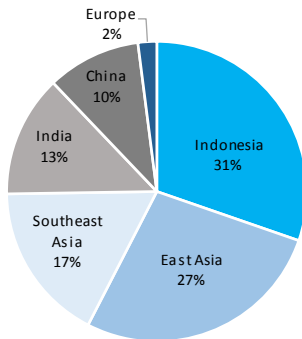
Valuation. ADRO is currently trading at 7.58x PE, slightly lower than its 5-years historical mean of 7.84x PE. Considering the positive outlook for global coal demand and its diversification business, we recommend BUY for ADRO with a DCF-based TP of IDR 4,300 per share (+22.1% upside) by using the WACC assumption 11.7%, stripping ratio at 4.1x and complete reserve monetization. Our TP representing PE FY22E/FY23F of 6.95x/8.68x. The risk to our call includes a significant decrease in coal price, higher royalty tariff, and lower coal output from the company's target.

ADRO latest financial highlight

| Mn USD | 3M21 | 3M22 | YoY | 4Q21 | 1Q22 | QoQ |
|-------------------|-------|-------|--------|-------|-------|--------|
| Net sales | 692 | 1,225 | 77.0% | 1,424 | 1,225 | -14.0% |
| Gross Profit | 190 | 602 | 217.2% | 799 | 602 | -24.7% |
| Operating Expense | -44 | -63 | 43.6% | -51 | -63 | 22.9% |
| Operating Income | 146 | 539 | 269.3% | 748 | 539 | -27.9% |
| Income Before Tax | 118 | 611 | 418.6% | 777 | 611 | -21.3% |
| Net Income | 72 | 400 | 457.6% | 513 | 400 | -22.0% |
| (%) | | | | | | |
| Gross Margin | 27.4% | 49.1% | | 56.1% | 49.1% | |
| Operating Margin | 21.1% | 44.0% | | 52.5% | 44.0% | |
| Net Margin | 10.4% | 32.7% | | 36.0% | 32.7% | |

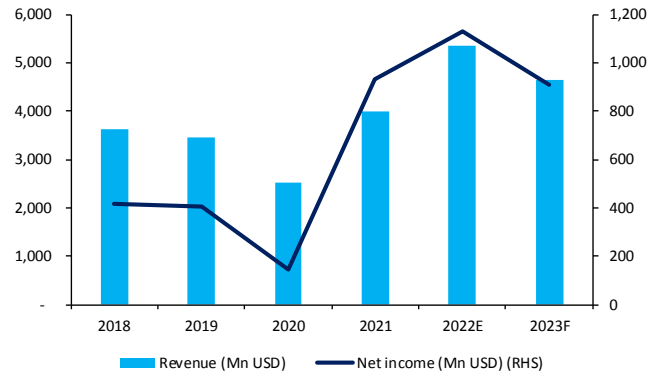
Source: Company, Shinhan Sekuritas Indonesia

ADRO's Revenue Breakdown by Country in 1Q22



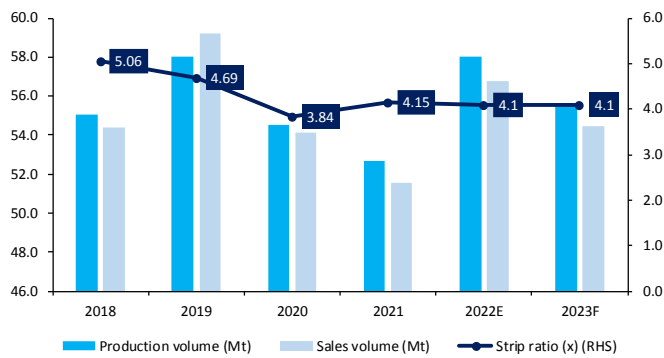
Source: Company, Shinhan Sekuritas Indonesia

ADRO's Revenue and Net Profit Projection



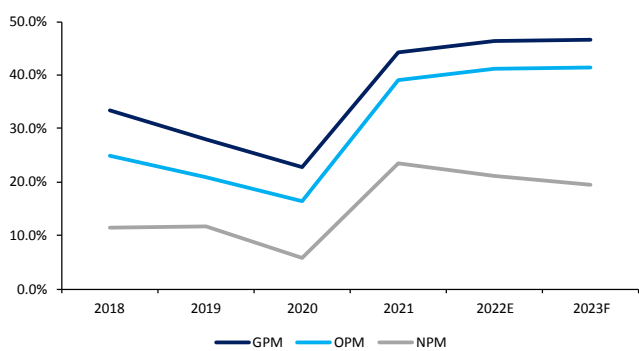
Source: Company, Shinhan Sekuritas Indonesia

ADRO's Production and Sales Volume Projection



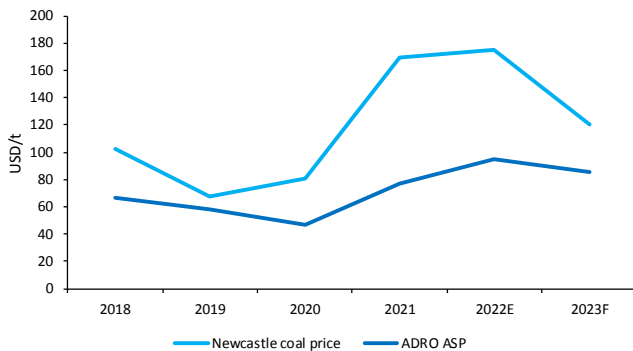
Source: Company, Shinhan Sekuritas Indonesia

ADRO's Margin



Source: Company, Shinhan Sekuritas Indonesia

ADRO's ASP Vs Newcastle Price Trend



Source: Company, Bloomberg, Shinhan Sekuritas Indonesia

ADRO's 5-year Average P/E Band



Source: Company, Shinhan Sekuritas Indonesia

Income Statement

| (Mn USD) | 2019 | 2020 | 2021 | 2022F | 2023F |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 3,457 | 2,535 | 3,993 | 5,365 | 4,642 |
| COGS | 2,493 | 1,958 | 2,223 | 2,881 | 2,480 |
| Gross Profit | 965 | 577 | 1,770 | 2,483 | 2,162 |
| EBITDA | 1,114 | 867 | 2,048 | 2,622 | 2,362 |
| Operating Expense | 239 | 159 | 208 | 279 | 241 |
| Operating Profit | 725 | 417 | 1,562 | 2,204 | 1,921 |
| Pre-Tax Profit | 764 | 340 | 1,515 | 2,161 | 1,872 |
| Tax Expense (Benefit) | 105 | 118 | 29 | 475 | 412 |
| Net Profit | 404 | 147 | 933 | 1,133 | 908 |
| EPS (USD) | 0.01 | 0.00 | 0.03 | 0.04 | 0.03 |

Source: Company, Shinhan Sekuritas Indonesia

Balance Sheet

| (Mn USD) | 2019 | 2020 | 2021 | 2022F | 2023F |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | |
| Cash and Equivalent | 1,576 | 1,174 | 1,811 | 1,942 | 1,885 |
| Receivables | 310 | 224 | 452 | 526 | 457 |
| Inventories | 121 | 105 | 126 | 142 | 126 |
| Others | 102 | 229 | 449 | 415 | 387 |
| Total Current Assets | 2,110 | 1,732 | 2,838 | 3,025 | 2,854 |
| Net Fixed Assets | 3,257 | 2,909 | 2,615 | 2,647 | 2,605 |
| Other Assets | 1,851 | 1,741 | 2,134 | 2,233 | 2,336 |
| Total Assets | 7,217 | 6,382 | 7,587 | 7,905 | 7,796 |
| Liabilities and Equities | | | | | |
| Payables | 653 | 466 | 1,073 | 1,027 | 919 |
| Other Short-Term Liabilities | 580 | 679 | 288 | 263 | 193 |
| Total Current Liabilities | 1,233 | 1,145 | 1,362 | 1,290 | 1,113 |
| LT. Debt | 1,397 | 865 | 1,337 | 1,210 | 867 |
| Other Long Term Liabilities | 604 | 419 | 430 | 430 | 430 |
| Total Long-Term Liabilities | 2,001 | 1,285 | 1,767 | 1,641 | 1,297 |
| Total Liabilities | 3,234 | 2,430 | 3,129 | 2,931 | 2,410 |
| Total Equity | 3,983 | 3,952 | 4,458 | 4,974 | 5,387 |
| BVPS (USD) | 0.12 | 0.12 | 0.14 | 0.16 | 0.17 |

Source: Company, Shinhan Sekuritas Indonesia

Cash Flow

| (Mn USD) | 2019 | 2020 | 2021 | 2022F | 2023F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| CFs from Operation | | | | | |
| Net Profit | 404 | 147 | 933 | 1,133 | 908 |
| Change in Working Capital | 135 | (85) | 358 | (136) | (23) |
| CFs from Operation | 765 | 594 | 1,584 | 1,449 | 1,354 |
| CFs from Investments | 217 | (193) | (630) | (549) | (504) |
| CFs from Financing | (333) | (803) | (317) | (769) | (908) |
| Net Inc./ (Dec.) in Cash | 648 | (402) | 637 | 131 | (58) |
| Cash at End Period | 1,576 | 1,174 | 1,811 | 1,942 | 1,885 |

Source: Company, Shinhan Sekuritas Indonesia

Key Ratio

| | 2019 | 2020 | 2021 | 2022F | 2023F |
|----------------------|--------|--------|--------|-------|--------|
| Profitability | | | | | |
| Gross Margin | 27.9% | 22.8% | 44.3% | 46.3% | 46.6% |
| Operating Margin | 21.0% | 16.5% | 39.1% | 41.1% | 41.4% |
| EBITDA Margin | 32.2% | 34.2% | 51.3% | 48.9% | 50.9% |
| Net Margin | 11.7% | 5.8% | 23.4% | 21.1% | 19.6% |
| ROA | 5.6% | 2.3% | 12.3% | 14.3% | 11.6% |
| ROE | 10.1% | 3.7% | 20.9% | 22.8% | 16.8% |
| Growth | | | | | |
| Revenue | -4.5% | -26.7% | 57.5% | 34.4% | -13.5% |
| Operating Profit | -19.8% | -42.4% | 274.3% | 41.1% | -12.9% |
| EBITDA | -11.5% | -22.2% | 136.3% | 28.0% | -9.9% |
| Net Income | -3.2% | -63.6% | 535.3% | 21.4% | -19.9% |
| Solvability | | | | | |
| Current Ratio (x) | 1.7 | 1.5 | 2.1 | 2.3 | 2.6 |
| Quick Ratio (x) | 1.6 | 1.4 | 2.0 | 2.2 | 2.5 |
| Debt to Equity (x) | 0.5 | 0.4 | 0.4 | 0.3 | 0.2 |
| Debt to Asset (x) | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 |

Source: Company, Shinhan Sekuritas Indonesia



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