

PT Adaro Energy Indonesia Tbk (ADRO)

Company Focus

September 13, 2022

Bolstered by Strong Coal Price

EBITDA in 1H22 was recorded at an all-time high. The higher ASP has successfully maintained ADRO's performance with the revenue in 1H22 reaching USD 3.54 billion, increased by 126.6% YoY which was supported by ASP growth (+117.3% YoY) while sales volume only increase by 6.7% YoY to 27.50 million tons, reflecting 47.4% from our target. In line with the result, EBITDA soared to USD 2.34 billion with an EBITDA Margin of 66.0% (Vs 40.6% in 1H21). The royalties to the government of Indonesia combined with income tax expense increased to USD 1.21 billion, from USD 291.73 million in the same period last year. However, ADRO's bottom line in 1H22 jumped to USD 1.21 billion from USD 169.96 million in 1H21.

Revise our projection for FY22E/FY23F. In 2Q22, the revenue significantly increased to USD 2.32 billion (+89.17% QoQ, +166.04% YoY). The solid result was boosted by higher than anticipated coal prices which reached an all-time high. Furthermore, in 3Q22, we see that the coal price will remain fluctuated at a high level and benefit ADRO's top line. Recently, Newcastle coal prices have soared far above USD 400 per ton, pushing Indonesia HBA in August 2022 to USD 321.59 per ton, higher than July of USD 319.0 per ton. This was mainly driven by the deepening of the global energy crisis in Europe and the heatwave in China that was boosting the demand for coal. Meanwhile, ADRO targeted its production volume to moderate at 58 tons – 60 million tons. With this condition, we revise up ADRO's revenue in FY22E and FY23F to USD6.48 billion and USD 5.47 billion, respectively. Besides that, net profit also estimates higher at USD 2.07 million in FY22E and USD 1.52 million in FY23F.

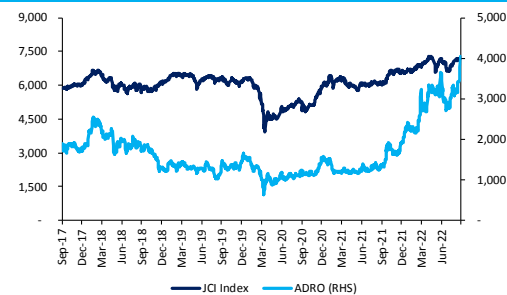
The solid performance will offset changes in higher royalty rates. Government Regulations No. 15 and No. 26 of 2022 both set the type and tariff for the government's non-tax revenue from the Ministry of Energy and Mineral Resources. In the coal sector, holders of Izin Usaha Pertambangan (IUP) and Izin Usaha Pertambangan Khusus (IUPK) are the most affected due to the change in the royalty rate stipulated in this regulation. As we know, PT Adaro Indonesia (AI), ADRO's largest mine which produce 22.88 million tons in 1H22, representing 82% of total production ADRO in 1H22, will be transitioned to an IUPK from its current Coal Contract of Work (CCoW) starting on January 2023. Based on the IUPK terms, the royalties paid by Adaro Indonesia will increase progressively to approximately 28% from the current 13.5% level and the tax rate will decline to 22% from 45%, among other changes to profit sharing, legal jurisdiction, and concession size. Besides that, ADRO also has several concessions under IUP schemes, including Balangan Coal Companies which produce around 5 million tons per year, and Mustika Indah Permai (MIP), ADRO's assets in South Sumatra with the production of around 2 million tons per year. Although the cost is higher, we believe that with the current coal prices, ADRO's performance is still maintained.

Valuation is still attractive. We revise our target price to IDR 4,630 per share (Implying PE FY22E/FY23F at 4.34x and 5.93x) from IDR 4,300 per share due to a higher projection for ADRO performance as coal price remains trading at a high level amid supply disruption after the European Union announced to impose a ban on all coal imports from Russia starting on August 10. Downside risks to our rating and price target include: 1) lower than expected coal prices, 2) lower than expected production rate or higher costs, and 3) changes in government regulations that can have an impact on the company's performance.

BUY

Current Price (IDR) (09/09)	3,950
Target price (IDR)	4,630
Upside/Downside (%)	17.2%
52 Week High (IDR)	4,160
52 Week Low (IDR)	1,305
Major Shareholders:	
PT Adaro Strategic Investment	43.91%
Garibaldi Thohir	6.18%
Public and others	49.92%

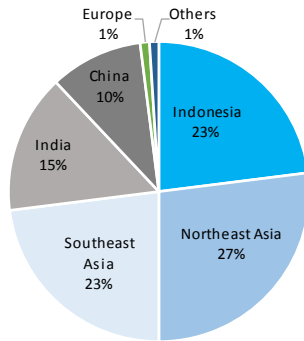
Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

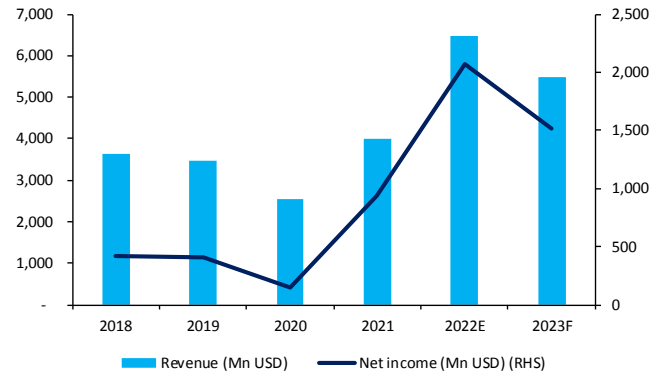
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ADRO's Revenue Breakdown by Country in 1H22



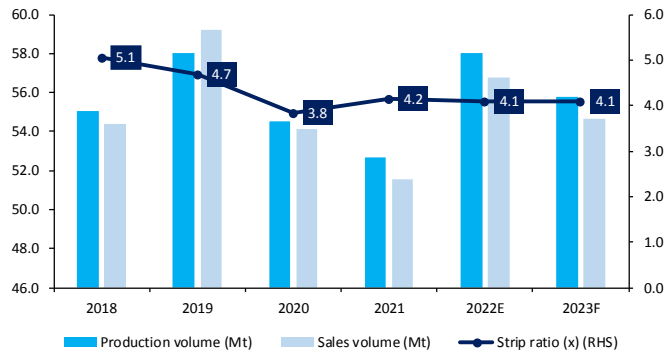
Source: Company, Shinhan Sekuritas Indonesia

ADRO's Revenue and Net Profit Projection



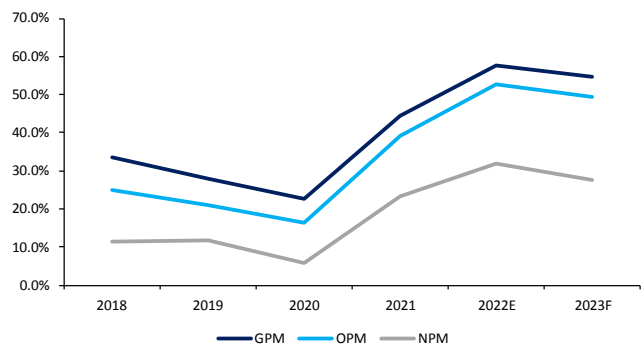
Source: Company, Shinhan Sekuritas Indonesia

ADRO's Production and Sales Volume Projection



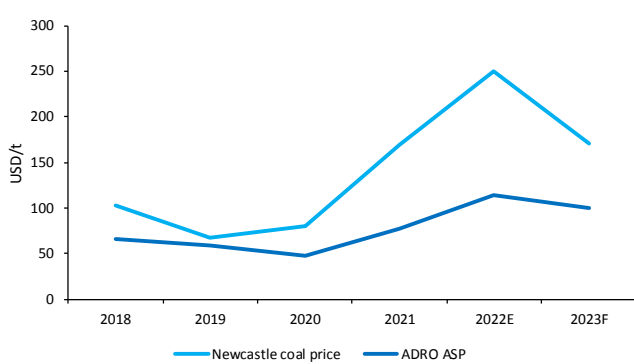
Source: Company, Shinhan Sekuritas Indonesia

ADRO's Margin



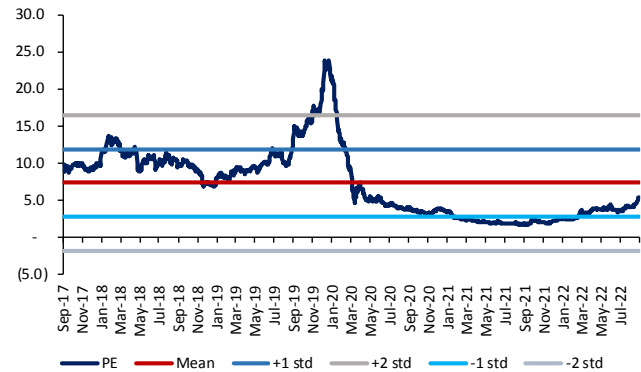
Source: Company, Shinhan Sekuritas Indonesia

ADRO's ASP Vs Newcastle Price Trend



Source: World Bank estimate, Shinhan Sekuritas Indonesia

ADRO's 5-year Average P/E Band



Source: Company, Shinhan Sekuritas Indonesia

Income Statement

(Mn USD)	2019	2020	2021	2022E	2023F
Revenue	3,457	2,535	3,993	6,477	5,473
COGS	2,493	1,958	2,223	2,733	2,486
Gross Profit	965	577	1,770	3,745	2,986
EBITDA	1,114	867	2,048	3,826	3,143
Operating Expense	239	159	208	337	285
Operating Profit	725	417	1,562	3,408	2,702
Pre-Tax Profit	764	340	1,515	3,365	2,653
Tax Expense (Benefit)	105	118	29	740	584
Net Profit	404	147	933	2,072	1,517
EPS (IDR)	0.01	0.00	0.03	0.06	0.05

Source: Company, Shinhan Sekuritas Indonesia

Balance Sheet

(Mn USD)	2019	2020	2021	2022E	2023F
Assets					
Cash and Equivalent	1,576	1,174	1,811	2,440	2,642
Receivables	310	224	452	635	538
Inventories	121	105	126	134	127
Others	102	229	449	455	417
Total Current Assets	2,110	1,732	2,838	3,665	3,723
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	8,545	8,665
Liabilities and Equities					
Payables	653	466	1,073	1,240	1,084
Other Short-Term Liabilities	580	679	288	263	193
Total Current Liabilities	1,233	1,145	1,362	1,503	1,277
LT. Debt	1,397	865	1,337	1,210	867
Other Long Term Liabilities	604	419	430	430	430
Total Long-Term Liabilities	3,234	2,430	3,129	3,144	2,574
Total Liabilities	3,234	2,430	3,129	3,144	2,574
Total Equity	3,983	3,952	4,458	5,401	6,091
BVPS (USD)	0.12	0.12	0.14	0.17	0.19

Source: Company, Shinhan Sekuritas Indonesia

Cash Flow

(Mn USD)	2019	2020	2021	2022E	2023F
CFs from Operation					
Net Profit	404	147	933	2,072	1,517
Change in Working Capital	135	(85)	358	(25)	(52)
CFs from Operation	765	594	1,584	2,459	1,945
CFs from Investments	217	(193)	(630)	(549)	(504)
CFs from Financing	(333)	(803)	(317)	(1,281)	(1,240)
Net Inc./(Dec.) in Cash	648	(402)	637	629	201
Cash at End Period	1,576	1,174	1,811	2,440	2,642

Source: Company, Shinhan Sekuritas Indonesia

Key Ratio

	2019	2020	2021	2022E	2023F
Profitability					
Gross Margin	27.9%	22.8%	44.3%	57.8%	54.6%
Operating Margin	21.0%	16.5%	39.1%	52.6%	49.4%
EBITDA Margin	32.2%	34.2%	51.3%	59.1%	57.4%
Net Margin	11.7%	5.8%	23.4%	32.0%	27.7%
ROA	5.6%	2.3%	12.3%	24.2%	17.5%
ROE	10.1%	3.7%	20.9%	38.4%	24.9%
Growth					
Revenue	-4.5%	-26.7%	57.5%	62.2%	-15.5%
Operating Profit	-19.8%	-42.4%	274.3%	118.2%	-20.7%
EBITDA	-11.5%	-22.2%	136.3%	86.8%	-17.9%
Net Income	-3.2%	-63.6%	535.3%	121.9%	-26.8%
Solvability					
Current Ratio (x)	1.7	1.5	2.1	2.4	2.9
Quick Ratio (x)	1.6	1.4	2.0	2.3	2.8
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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