

Tuesday, 12 February 2019

BUY

Maintain

Last price (IDR) 1,260
 Target Price (IDR) 2,000
 Upside/Downside +58.7%
 Previous Target Price (IDR) 2,000

Stock Statistics

Sector Coal Mining
 Bloomberg Ticker ADRO IJ
 No of Shrs (mn) 31,986
 Mkt. Cap (IDRbn/USDmn) 40,302/2,872
 Avg. daily T/O (IDRbn/USDmn) 96.2/6.9

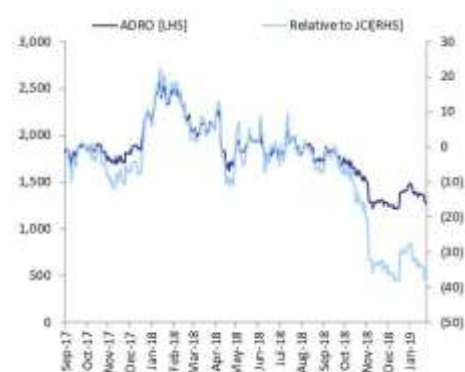
Major shareholders (%)

Adaro Strat. Inv. 43.9
 Estimated Free Float 42.9

EPS Consensus (USDcents)

	2018F	2019F	2020F
Danareksa	1.4	1.3	1.3
Consensus	1.4	1.4	1.4
Danareksa/Cons	(0.9)	(5.4)	(8.4)

ADRO relative to JCI Index



Source : Bloomberg



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Adaro Energy (ADRO IJ)

Coal production target maintained for 2019

Adaro Energy (ADRO) reported coal production of 15.1mn tons in 4Q18 (+0.9% qoq, +21.2% yoy), translating into cumulative coal production of 54.0mn tons in 2018. For 2019, the company has provided guidance for flat growth in coal production at 54 – 56mn tons with operational EBITDA expected to reach USD1.0 – 1.2bn. The coal production and EBITDA are broadly inline with our assumptions. Maintain BUY.

4Q18 coal production – within expectations: ADRO reported coal production of 15.1mn tons in 4Q18 (+0.9% qoq, +21.2% yoy). Quarterly coal production was relatively stable even though the company experienced more rainy days and rainfall in November and December 2018 compared to the long-term average. Cumulatively, coal production went up by 4.4% yoy to 54.0mn tons in 2018. This growth came from Balangan coal (+46.4% yoy), Adaro MetCoal (AMC – +12% yoy) as well as its main mining area, Adaro Indonesia (AI – +1% yoy). The coal production was within our expectations as well as the management's guidance of 54 – 56mn tons.

Lower stripping ratio may help to sustain earnings in 4Q18. Although revenues are expected to be impacted by the widening gap between low-CV coal prices and Newcastle (NWC) coal which will reduce ADRO's ASP in 4Q18 as well as the slight decline in coal sales volume (-2.3% qoq), we expect that the lower stripping ratio of 4.6x in 4Q18 (3Q18: 5.4x) and lower crude oil price will boost profitability and sustain earnings in 4Q18.

2019 guidance: to maintain coal production. ADRO has maintained its 2019 coal production target at 54 – 56mn tons with an indicated lower stripping ratio of 4.6x in 2019 from 5.1x in 2018. The management expects operational EBITDA to reach USD1.0 – 1.2bn in 2019 or similar to our estimate of USD1.2bn. For the recent acquisition of Kestrel Coal Resources, in which ADRO owns a 47.99% interest, saleable coal production is expected to increase by 40% yoy in 2019 thanks to a Change Program, which will improve efficiency and the production profile for 2019 and beyond.

Maintain BUY. While the low-CV quality coal price has increased slightly from its lowest levels - as reflected in the narrowing gap between the low-CV and Newcastle (NWC) coal prices - we expect consolidation in coal prices in 2019 and 2020 to impact on ADRO's net profits. Nonetheless, diversification into coking coal and power plants will help to sustain the company's earnings in the long-run. Maintain BUY with a TP of IDR2,000 (based on DCF valuation with WACC of 10.2%). Our target price implies 11.4x 2019F PE.

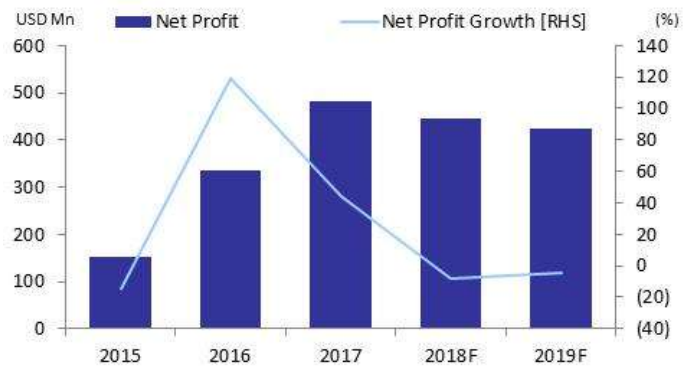
Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (USDmn)	2,524	3,258	3,547	3,408	3,460
EBITDA (USDmn)	869	1,293	1,300	1,177	1,171
EBITDA Growth (%)	18.2	48.8	0.5	(9.5)	(0.5)
Net profit (USDmn)	335	483	444	424	410
EPS (USDcents)	1.0	1.5	1.4	1.3	1.3
EPS growth (%)	119.5	44.4	(8.1)	(4.6)	(3.2)
BVPS (USDcents)	9.8	10.8	11.4	11.9	12.5
DPS (USDcents)	0.2	0.2	0.3	0.8	0.8
PER (x)	8.6	5.9	6.5	6.8	7.0
PBV (x)	0.9	0.8	0.8	0.8	0.7
Dividend yield (%)	2.6	2.6	3.5	9.3	8.5
EV/EBITDA (x)	3.7	2.4	2.3	2.5	2.4

Source : ADRO, Danareksa Estimates

Exhibit 1. Revenues and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, Danareksa Sekuritas estimates

Exhibit 5. 2018 operational activities – broadly within our expectation

Operational performance	4Q17	3Q18	4Q18	QoQ, %	YoY, %	2017	2018	YoY, %	2018F	A/F, %
Coal Sales - AI										
Production volume, mn tonnes	12.4	14.9	15.1	0.9	21.2	51.8	54.1	4.4	54.0	100
Sales volume, mn tonnes	12.4	15.5	15.1	(2.3)	22.0	51.8	54.4	4.9	54.0	101
Strip ratio, bcm/tonne	4.5	5.4	4.6	(15.7)	2.8	4.6	5.1	9.8	5.0	101
Mining Services - SIS										
Overburden removal, mn bcm	43.6	66.5	60.3	(9.2)	38.4	163.1	220.5	35.2	186.8	118
Coal mined & hauled, mn tonnes	9.1	12.4	12.5	1.0	37.4	35.3	44.9	27.1	36.9	122

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Revenue	2,524	3,258	3,547	3,408	3,460
COGS	(1,839)	(2,117)	(2,414)	(2,442)	(2,533)
Gross profit	685	1,142	1,133	966	927
EBITDA	869	1,293	1,300	1,177	1,171
Oper. profit	534	958	931	761	717
Interest income	9	19	20	17	16
Interest expense	(50)	(53)	(52)	(45)	(35)
Forex Gain/(Loss)	2	0	0	0	0
Income From Assoc. Co's	0	12	0	50	60
Other Income (Expenses)	51	(6)	0	0	0
Pre-tax profit	547	930	898	783	758
Income tax	(206)	(393)	(404)	(313)	(303)
Minority interest	(6)	(53)	(50)	(46)	(45)
Net profit	335	483	444	424	410
Core Net Profit	136	483	444	424	410

Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	1,077	1,207	1,038	961	763
Receivables	305	321	325	312	317
Inventory	73	85	96	97	100
Other Curr. Asset	137	365	125	125	125
Fixed assets - Net	1,544	1,507	2,008	2,213	2,380
Other non-curr.asset	3,385	3,328	3,207	3,087	2,966
Total asset	6,522	6,814	6,799	6,795	6,651
ST Debt	154	237	223	391	589
Payables	208	279	309	312	324
Other Curr. Liabilities	283	257	257	257	257
Long Term Debt	1,296	1,156	952	596	65
Other LT. Liabilities	796	793	793	793	793
Total Liabilities	2,736	2,723	2,534	2,350	2,029
Shareholder's Funds	3,146	3,468	3,642	3,822	3,999
Minority interests	639	623	623	623	623
Total Equity & Liabilities	6,522	6,814	6,799	6,795	6,651

Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Net income	335	483	444	424	410
Depreciation and Amort.	448	341	369	416	454
Change in Working Capital	34	(211)	256	15	3
Other Oper. Cash Flow	(100)	274	(28)	28	43
Operating Cash Flow	716	888	1,041	883	910
Capex	(229)	(186)	(750)	(500)	(500)
Others Inv. Cash Flow	10	(228)	20	17	16
Investing Cash Flow	(219)	(415)	(730)	(483)	(484)
Net change in debt	(119)	(78)	(162)	(188)	(356)
New Capital	164	12	0	0	0
Dividend payment	(75)	(101)	(266)	(244)	(233)
Other Fin. Cash Flow	(92)	(177)	(52)	(45)	(35)
Financing Cash Flow	(123)	(343)	(480)	(477)	(624)
Net Change in Cash	374	130	(169)	(77)	(198)
Cash - begin of the year	702	1,077	1,207	1,038	961
Cash - end of the year	1,077	1,207	1,038	961	763

Exhibit 9. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Growth (%)					
Sales	(6.0)	29.1	8.9	(3.9)	1.5
EBITDA	18.2	48.8	0.5	(9.5)	(0.5)
Operating profit	30.2	79.3	(2.8)	(18.3)	(5.7)
Net profit	119.5	44.4	(8.1)	(4.6)	(3.2)
Profitability (%)					
Gross margin	27.1	35.0	32.0	28.3	26.8
EBITDA margin	34.4	39.7	36.7	34.5	33.8
Operating margin	21.2	29.4	26.2	22.3	20.7
Net margin	13.3	14.8	12.5	12.4	11.9
ROAA	5.4	7.2	6.5	6.2	6.1
ROAE	11.1	14.6	12.5	11.3	10.5
Leverage					
Net Gearing (x)	0.1	0.0	0.0	0.0	0.0
Interest Coverage (x)	10.7	18.1	17.8	16.9	20.5

Source : ADRO, Danareksa Estimates

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