

Friday, 15 March 2019

**BUY**  
**Maintain**

Last price (IDR) 1,455  
Target Price (IDR) 2,000  
Upside/Downside +37.5%  
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) 46,540/3,260  
Avg. daily T/O (IDRbn/USDmn) 100.5/7.0

#### Major shareholders (%)

Adaro Strat. Inv. 43.9  
Estimated Free Float 42.9  
Estimated free float 42.9

#### EPS Consensus (USDcents)

	2019F	2020F	2021F
Danareksa	1.4	1.3	1.2
Consensus	1.3	1.3	1.5
Danareksa/Cons	4.4	0.0	(16.8)

#### ADRO relative to JCI Index



Source : Bloomberg



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## Adaro Energy(ADRO IJ)

### Recovery in store

**We expect the improvement in low-CV coal prices since the beginning of the year to help Adaro Energy (ADRO) book solid coal ASP in 1H19 despite expected consolidation in coal prices in 2019. In addition, we also expect the company to book higher earnings as Kestrel will provide higher saleable coal production. Maintain BUY with an unchanged target price of IDR2,000 (based on DCF valuation).**

**Solid ASP in 1H19 thanks to recovery in the low CV coal price.** Although we expect consolidation in coal prices in 2019, we believe the recent improvement in the low CV coal price for 4,200 kcal/kg GAR and 5,000 kcal/kg GAR (+23 - 32% ytd) will help the company to maintain solid ASP in 1H19. Nonetheless, we maintain our ASP price assumption for ADRO in 2019.

**Flattish cash cost of production amid a lower stripping ratio for 2019.** While the stripping ratio is expected to decline to 4.6x in 2019 from 5.1x in 2018, the management indicates a similar cash cost of production from thermal coal in 2019 compared to 2018 at USD29/ton as the company expects higher fuel costs. To reduce volatility in fuel costs, the management indicates that it will hedge about 20% of its 2019 fuel requirement.

**Expect sturdy earnings in 2019 supported by the Kestrel acquisition.** We expect solid earnings for ADRO in 2019 following the acquisition of Kestrel in Aug 2018 owing to: a) the management's indication of 40% yoy higher saleable coal production of around 6.7mn tons from Kestrel in 2019 from 4.8mn tons in 2018 as a result of efficiency improvements which will boost the earnings of Kestrel this year and b) the absence of one-time non-operational transaction and transition costs for the acquisition that were booked in 2018. Going forward, the management has indicated that coal production from Kestrel will improve further to 10mn tons in the next three years.

**Maintain BUY** with an unchanged target price of IDR2,000 (based on DCF valuation with WACC of 10.2%). We continue to like the company since the recent improvement in the low CV coal price should help to sustain ASP in 1H19 and because the medium to long-term earnings may be enhanced by business diversification beyond thermal coal (in coking coal and power plants). Our target price implies 10.3x 2019F PE.

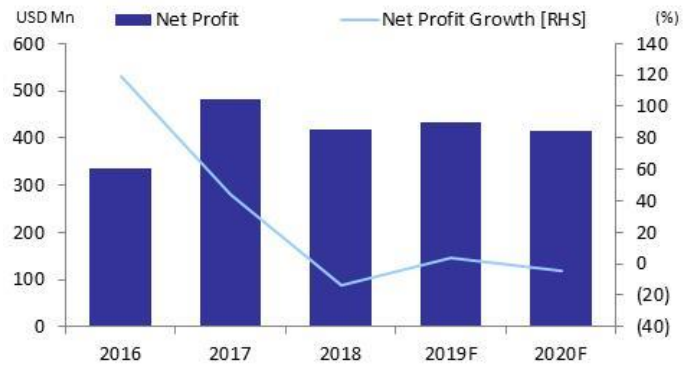
#### Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (USDmn)	3,258	3,620	3,423	3,413	3,376
EBITDA (USDmn)	1,293	1,370	1,199	1,180	1,168
EBITDA Growth (%)	48.8	5.9	(12.5)	(1.6)	(1.0)
Net profit (USDmn)	483	418	434	416	399
EPS (USDcents)	1.5	1.3	1.4	1.3	1.2
EPS growth (%)	44.4	(13.6)	3.9	(4.1)	(4.1)
BVPS (USDcents)	10.8	11.4	12.1	12.7	13.3
DPS (USDcents)	0.3	0.8	0.7	0.7	0.7
PER (x)	6.7	7.8	7.5	7.8	8.2
PBV (x)	0.9	0.9	0.8	0.8	0.8
Dividend yield (%)	3.1	7.7	6.4	6.7	6.4
EV/EBITDA (x)	2.7	2.7	3.1	3.1	2.9

Source : ADRO, Danareksa Estimates

**Exhibit 1. Revenues and Growth**

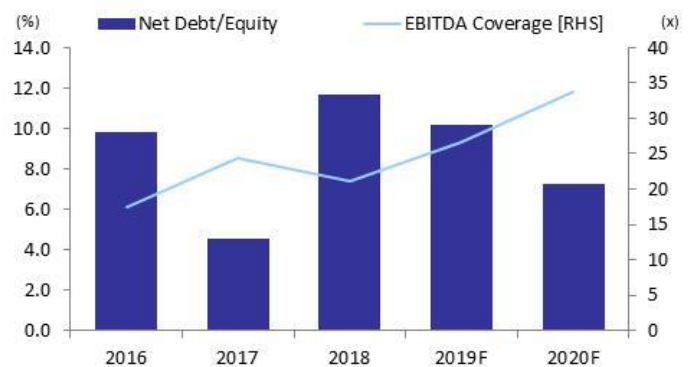

Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**


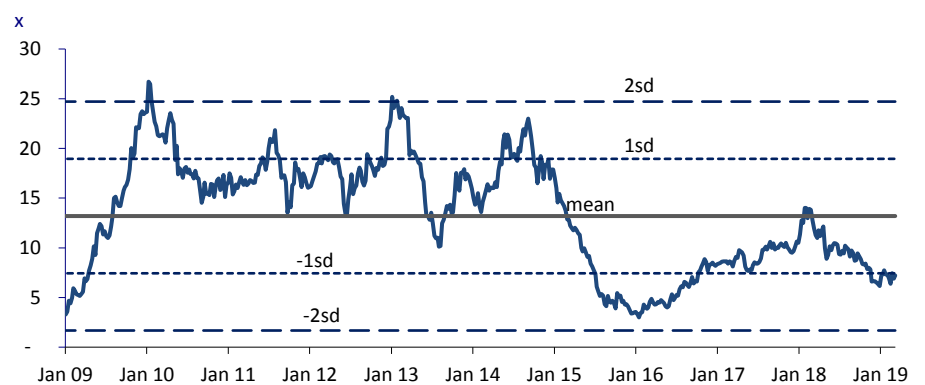
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. The stock is trading undemanding at -1SD**


Source: Bloomberg, Danareksa Estimates

**Exhibit 6. Change in our forecasts**

	New		Previous		Change in forecast (%)	
	2019F	2020F	2019F	2020F	2019F	2020F
Coal sales volume, mn tons	55	56	55	57	0.0	(1.8)
Coal prod. volume, mn tons	55	56	55	57	0.0	(1.8)
Coal Price, USD/ton	90	85	90	85	0.0	0.0
Blended Coal ASP, USD/ton	57	55	57	55	0.0	(0.5)
Revenue (USD mn)	3,423	3,413	3,408	3,460	0.4	(1.4)
EBITDA (USD mn)	1,199	1,180	1,177	1,171	1.9	0.8
Net Profit (USD mn)	434	416	424	410	2.5	1.4

Source: Danareksa Sekuritas Estimates

### Exhibit 7. Income Statement

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>3,258</b>	<b>3,620</b>	<b>3,423</b>	<b>3,413</b>	<b>3,376</b>
COGS	(2,117)	(2,410)	(2,413)	(2,458)	(2,466)
<b>Gross profit</b>	<b>1,142</b>	<b>1,210</b>	<b>1,010</b>	<b>956</b>	<b>909</b>
<b>EBITDA</b>	<b>1,293</b>	<b>1,370</b>	<b>1,199</b>	<b>1,180</b>	<b>1,168</b>
<b>Oper. profit</b>	<b>958</b>	<b>1,016</b>	<b>822</b>	<b>765</b>	<b>719</b>
Interest income	19	24	21	13	9
Interest expense	(53)	(65)	(45)	(35)	(17)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	12	(29)	30	50	50
Other Income (Expenses)	(6)	(124)	0	0	0
<b>Pre-tax profit</b>	<b>930</b>	<b>821</b>	<b>827</b>	<b>793</b>	<b>760</b>
Income tax	(393)	(343)	(346)	(332)	(318)
Minority interest	(53)	(60)	(47)	(45)	(43)
<b>Net profit</b>	<b>483</b>	<b>418</b>	<b>434</b>	<b>416</b>	<b>399</b>
<b>Core Net Profit</b>	<b>483</b>	<b>418</b>	<b>434</b>	<b>416</b>	<b>399</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	1,207	928	602	388	76
Receivables	321	377	313	312	309
Inventory	85	112	96	97	98
Other Curr. Asset	365	183	183	183	183
Fixed assets - Net	1,507	1,610	1,954	2,158	2,228
Other non-curr.asset	3,328	3,851	3,732	3,614	3,496
<b>Total asset</b>	<b>6,814</b>	<b>7,061</b>	<b>6,880</b>	<b>6,753</b>	<b>6,389</b>
ST Debt	237	220	393	591	35
Payables	279	342	308	314	315
Other Curr. Liabilities	257	255	255	255	255
Long Term Debt	1,156	1,211	669	139	139
Other LT. Liabilities	793	730	728	728	728
<b>Total Liabilities</b>	<b>2,723</b>	<b>2,758</b>	<b>2,353</b>	<b>2,027</b>	<b>1,472</b>
Shareholder's Funds	3,468	3,650	3,875	4,074	4,265
Minority interests	623	652	652	652	652
<b>Total Equity &amp; Liabilities</b>	<b>6,814</b>	<b>7,061</b>	<b>6,880</b>	<b>6,753</b>	<b>6,389</b>

### Exhibit 9. Cash Flow

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Net income	483	418	434	416	399
Depreciation and Amort.	341	478	378	415	449
Change in Working Capital	(211)	160	47	5	4
Other Oper. Cash Flow	274	(108)	24	45	7
<b>Operating Cash Flow</b>	<b>888</b>	<b>947</b>	<b>883</b>	<b>881</b>	<b>858</b>
Capex	(186)	(412)	(500)	(500)	(400)
Others Inv. Cash Flow	(228)	(357)	21	13	9
<b>Investing Cash Flow</b>	<b>(415)</b>	<b>(770)</b>	<b>(479)</b>	<b>(487)</b>	<b>(391)</b>
Net change in debt	(78)	(44)	(188)	(356)	(554)
New Capital	12	17	0	0	0
Dividend payment	(101)	(250)	(209)	(217)	(208)
Other Fin. Cash Flow	(177)	(180)	(334)	(35)	(17)
<b>Financing Cash Flow</b>	<b>(343)</b>	<b>(457)</b>	<b>(730)</b>	<b>(608)</b>	<b>(779)</b>
<b>Net Change in Cash</b>	<b>130</b>	<b>(279)</b>	<b>(326)</b>	<b>(213)</b>	<b>(312)</b>
Cash - begin of the year	1,077	1,207	928	602	388
Cash - end of the year	1,207	928	602	388	76

### Exhibit 10. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	29.1	11.1	(5.4)	(0.3)	(1.1)
EBITDA	48.8	5.9	(12.5)	(1.6)	(1.0)
Operating profit	79.3	6.1	(19.2)	(6.9)	(6.0)
Net profit	44.4	(13.6)	3.9	(4.1)	(4.1)
<b>Profitability (%)</b>					
Gross margin	35.0	33.4	29.5	28.0	26.9
EBITDA margin	39.7	37.8	35.0	34.6	34.6
Operating margin	29.4	28.1	24.0	22.4	21.3
Net margin	14.8	11.5	12.7	12.2	11.8
ROAA	7.2	6.0	6.2	6.1	6.1
ROAE	14.6	11.7	11.5	10.5	9.6
<b>Leverage</b>					
Net Gearing (x)	0.0	0.1	0.1	0.1	0.0
Interest Coverage (x)	18.1	15.6	18.3	21.8	41.9

Source : ADRO, Danareksa Estimates

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