

Friday, 22 November 2019

BUY
Maintain

Last price (IDR) 1,310
Target Price (IDR) 1,700
Upside/Downside +29.8%
Previous Target Price (IDR) 1,700

Stock Statistics

Sector Coal Mining
Bloomberg Ticker ADRO IJ
No of Shrs (mn) 31,986
Mkt. Cap (IDRbn/USDmn) 41,902/2,973
Avg. daily T/O (IDRbn/USDmn) 65.9/4.7

Major shareholders (%)

Adaro Strat. Inv. 43.9
Estimated Free Float 42.9

EPS Consensus (USDcents)

	2019F	2020F	2021F
Danareksa	1.4	1.3	1.2
Consensus	1.3	1.3	1.3
Danareksa/Cons	4.1	(2.8)	(8.5)

ADRO relative to JCI Index



Source : Bloomberg



Stefanus Darmagiri

(62-21) 5091 4100 ext. 3530

stefanus.darmagiri@danareksa.co.id

Adaro Energy (ADRO IJ)

9M19: Supported by Kestrel acquisitions

Adaro Energy (ADRO) reported net profit of USD109mn in 3Q19 (-38.7% qoq, -7.0% yoy). Cumulatively, net profit jumped by 29.8% yoy to USD406mn in 9M19 supported by higher coal volume and earnings contribution from the Kestrel acquisitions. The result are above our forecasts (94%) on lower-tax than expected and consensus estimates (93%). Despite soft coal price, we maintain our BUY call with target price of IDR1,700 (based on DCF valuation) given undemanding valuation.

Soft coal price and higher costs weakened net profit. ADRO reported lower net profit by 38.7% qoq to USD109mn in 3Q19. This was mainly attributable to a) lower ASP by 10.1% qoq owing to soft coal prices, b) higher stripping ratio to 5.3x in 3Q19 (2Q19: 4.5x) increased cash cost of production, c) soft contribution from Kestrel coal mine on minimal production from this mining area due to planned longwall relocation from July to mid-August 2019. ADRO expects normalization in the operation at Kestrel following the completion of the longwall relocation. And d) normalization tax rate to 33.6% in 3Q19 (2Q19: 29.9%).

9M19: solid earnings amid soft coal price. While soft coal prices resulted on the coal ASP declined by 13.1% yoy to USD55/ton, ADRO managed to improve net profit by 29.8% yoy to USD406mn in 9M19. This was supported by a) higher coal sales volume by 13.7% yoy, b) lower stripping ratio to 4.8x in 9M19 (9M18: 5.2x) reflected on lower coal cash cost by 6% yoy and c) earnings contribution and improvement from Kestrel coal mining and d) lower tax rate of 34.1% in 9M19 (9M18: 45.3%).

Maintaining its coal production target for 2019. ADRO expect 2019's coal production at 54 – 56mn tons with lower stripping ratio of 4.6x in 2019 (2018: 5.1x). We expect solid earnings from the recent acquisition of Kestrel Coal Resources, in which ADRO owns a 47.99% interest and 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 as the stock is trading at undemanding valuation. Nonetheless, diversification into coking coal and power plants will help to sustain the company's earnings in the long-run. Our TP is IDR1,700 (based on DCF valuation with WACC of 10.2%). Our target price implies 2019F PE of 8.8x and 2020F PE of 9.6x.

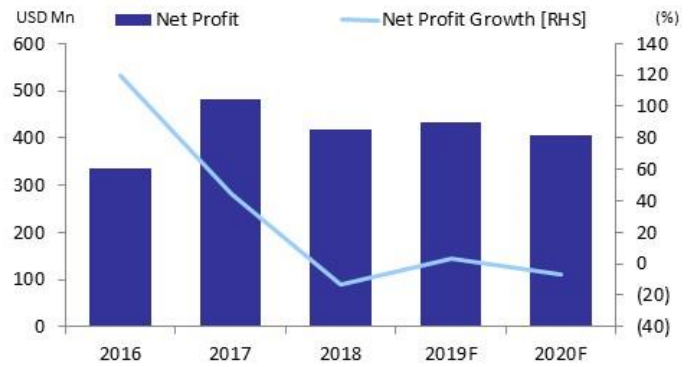
Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (USDmn)	3,258	3,620	3,419	3,367	3,312
EBITDA (USDmn)	1,293	1,370	1,195	1,157	1,132
EBITDA Growth (%)	48.8	5.9	(12.8)	(3.2)	(2.2)
Net profit (USDmn)	483	418	433	404	380
EPS (USDcents)	1.5	1.3	1.4	1.3	1.2
EPS growth (%)	44.4	(13.6)	3.7	(6.6)	(5.9)
BVPS (USDcents)	10.8	11.4	12.1	12.7	13.3
DPS (USDcents)	0.3	0.8	0.7	0.7	0.6
PER (x)	6.2	7.1	6.9	7.4	7.8
PBV (x)	0.9	0.8	0.8	0.7	0.7
Dividend yield (%)	3.4	8.4	7.0	7.3	6.8
EV/EBITDA (x)	2.4	2.5	2.9	2.9	2.7

Source : ADRO, Danareksa Estimates

Exhibit 1. Revenues and Growth

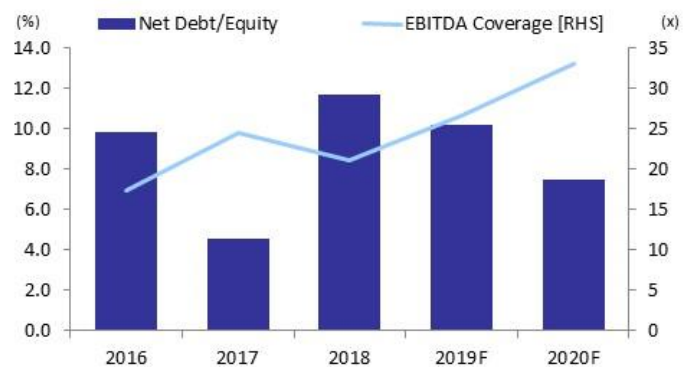

Source: Company, Danareksa Sekuritas estimates

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. 9M19 results – Above expectations

Operational performance	3Q18	2Q19	3Q19	QoQ, %	YoY, %	9M18	9M19	YoY, %	2019F	A/F, %
Coal Sales – Adaro Mining										
Production volume, mn tonnes	14.9	14.7	15.7	6.3	4.9	39.0	44.1	13.2	55.0	80
Sales volume, mn tonnes	15.5	15.4	15.9	3.0	2.7	39.3	44.7	13.7	55.0	81
ASP, US\$/tonne	63.3	56.1	50.5	(10.1)	(20.3)	62.8	54.6	(13.1)	56.7	96
Strip ratio, bcm/tonne	5.4	4.5	5.3	17.7	(3.3)	5.2	4.8	(9.2)	4.6	103
Mining Services - SIS										
Overburden removal, mn bcm	66.5	53.8	66.9	24.4	0.6	160.2	174.8	9.1	224.4	78
Coal mined & hauled, mn tonnes	12.4	12.2	13.5	10.1	9.0	32.4	37.1	14.4	45.7	81
Financial performance										
Net sales, USDmn	1,057	929	879	(5.4)	(16.8)	2,667	2,654	(0.5)	3,419	78
COGS, USDmn	(670)	(629)	(645)	2.5	(3.8)	(1,788)	(1,855)	3.8	(2,412)	77
Gross profit, USDmn	387	300	234	(21.8)	(39.4)	879	799	(9.1)	1,006	79
Operating profit, USDmn	338	253	181	(28.4)	(46.4)	740	631	(14.8)	818	77
EBITDA, USDmn	468	368	285	(22.6)	(39.1)	1,061	976	(8.0)	1,195	82
Pretax income, USDmn	256	270	175	(35.1)	(31.6)	643	664	3.3	825	80
Net profit, USDmn	117	178	109	(38.7)	(7.0)	313	406	29.8	433	94
Gross margin, %	36.6	32.3	26.7	(5.6)		32.9	30.1	(2.9)	29.4	
Operating margin, %	32.0	27.3	20.6	(6.6)		27.8	23.8	(4.0)	23.9	
EBITDA margin, %	44.3	39.6	32.4	(7.2)		39.8	36.8	(3.0)	35.0	
Net margin, %	11.1	19.2	12.4	(6.8)		11.7	15.3	3.6	12.7	

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Revenue	3,258	3,620	3,419	3,367	3,312
COGS	(2,117)	(2,410)	(2,412)	(2,436)	(2,440)
Gross profit	1,142	1,210	1,006	932	872
EBITDA	1,293	1,370	1,195	1,157	1,132
Oper. profit	958	1,016	818	742	684
Interest income	19	24	21	13	8
Interest expense	(53)	(65)	(45)	(35)	(17)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	12	(29)	32	50	50
Other Income (Expenses)	(6)	(124)	0	0	0
Pre-tax profit	930	821	825	771	725
Income tax	(393)	(343)	(345)	(322)	(303)
Minority interest	(53)	(60)	(47)	(44)	(41)
Net profit	483	418	433	404	380
Core Net Profit	483	418	433	404	380

Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	1,207	928	601	378	55
Receivables	321	377	312	308	303
Inventory	85	112	96	96	97
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
Total asset	6,814	7,061	6,879	6,738	6,361
ST Debt	237	220	393	591	35
Payables	279	342	308	311	312
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
Total Liabilities	2,723	2,758	2,353	2,024	1,469
Shareholder's Funds	3,468	3,650	3,874	4,062	4,240
Minority interests	623	652	652	652	652
Total Equity & Liabilities	6,814	7,061	6,879	6,738	6,361

Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Net income	483	418	433	404	380
Depreciation and Amort.	341	478	378	415	449
Change in Working Capital	(211)	160	48	7	5
Other Oper. Cash Flow	274	(108)	24	45	7
Operating Cash Flow	888	947	883	871	841
Capex	(186)	(412)	(500)	(500)	(400)
Others Inv. Cash Flow	(228)	(357)	21	13	8
Investing Cash Flow	(415)	(770)	(479)	(487)	(392)
Net change in debt	(78)	(44)	(188)	(356)	(554)
New Capital	12	17	0	0	0
Dividend payment	(101)	(250)	(209)	(216)	(202)
Other Fin. Cash Flow	(177)	(180)	(334)	(35)	(17)
Financing Cash Flow	(343)	(457)	(730)	(607)	(773)
Net Change in Cash	130	(279)	(327)	(223)	(324)
Cash - begin of the year	1,077	1,207	928	601	378
Cash - end of the year	1,207	928	601	378	55

Exhibit 9. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	29.1	11.1	(5.6)	(1.5)	(1.6)
EBITDA	48.8	5.9	(12.8)	(3.2)	(2.2)
Operating profit	79.3	6.1	(19.5)	(9.2)	(7.9)
Net profit	44.4	(13.6)	3.7	(6.6)	(5.9)
Profitability (%)					
Gross margin	35.0	33.4	29.4	27.7	26.3
EBITDA margin	39.7	37.8	35.0	34.4	34.2
Operating margin	29.4	28.1	23.9	22.0	20.6
Net margin	14.8	11.5	12.7	12.0	11.5
ROAA	7.2	6.0	6.2	5.9	5.8
ROAE	14.6	11.7	11.5	10.2	9.2
Leverage					
Net Gearing (x)	0.0	0.1	0.1	0.1	0.0
Interest Coverage (x)	18.1	15.6	18.2	21.2	39.8

Source : ADRO, Danareksa Estimates

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.