

Friday, 15 May 2020

BUY
Maintain

Last price (IDR) 1,000
Target Price (IDR) 1,300
Upside/Downside +30.0%
Previous Target Price (IDR) 1,300

Stock Statistics

Sector Coal Mining
Bloomberg Ticker ADRO IJ
No of Shrs (mn) 31,986
Mkt. Cap (IDRbn/USDmn) 31,986/2,152
Avg. daily T/O (IDRbn/USDmn) 71.3/4.8

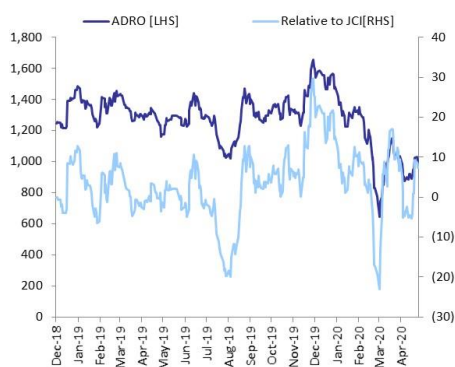
Major shareholders (%)

Adaro Strat. Inv. 43.9
Estimated Free Float 43.7

EPS Consensus (USDcents)

	2020F	2021F	2022F
Danareksa	1.2	1.1	1.1
Consensus	1.0	1.1	2.6
Danareksa/Cons	17.8	3.9	(56.9)

ADRO relative to JCI Index



Source : Bloomberg



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Adaro Energy (ADRO IJ)

Decent results

Adaro Energy (ADRO) reported net profits of USD98mn (-17.4% yoy) in 1Q20 compared to net losses of USD2mn in 4Q19. The result is within our expectations, but above the consensus. While the Covid-19 pandemic will result in a challenging coal outlook and impact performance in the coming quarters, we believe the low crude oil prices may help to dampen further declines in earnings for 2020. Maintain BUY with a TP of IDR1,300 (based on DCF valuation with WACC of 10.2%).

Lower costs improved the quarterly results. While further declines in coal prices by 5.4% qoq resulted in 6.5% qoq lower revenues, ADRO reported better quarterly results with net profits of USD98mn in 1Q20 vs. net losses of USD2mn in 4Q19. This mainly reflects: a) a lower SR of 3.5x in 1Q20 (4Q19: 4.5x) and b) substantially lower other expenses of only USD9mn in 1Q20 vs. USD114mn in 4Q19 in the absence of losses on assets disposals of USD68mn and losses on derivatives of USD25mn booked in 4Q19.

Lower coal prices weakened yearly profits. The yearly net profits declined by 12.7% yoy hit by subdued coal prices with ASP down by 17.3% yoy. However, during the period, thanks to solid demand, coal sales and production volume jumped by 7.8% yoy and 4.8% yoy, respectively. In anticipating the challenging coal outlook, ADRO lowered its SR. Coupled with lower fuel consumption, the company managed to lower its coal cash cost per tonne by 12.7% yoy. A lower tax rate of 20.4% in 1Q20 vs. 39.6% in 1Q19 also helped to moderate further declines in net profits.

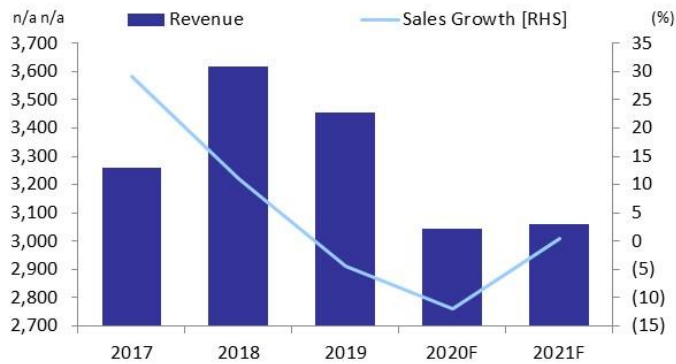
2020 guidance: maintaining coal production targets amid the pandemic. While the outlook is challenging given the Covid-19 pandemic, ADRO still expects to maintain its 2020 coal production target of around 54 - 58mn tons. The 2020 target is lower than 2019's realization of 58.0mn tons, but similar to previous year targets of 54 - 56mn tons. With a stripping ratio target of 4.3x and given the assumption of a Newcastle coal price of USD70 - 75/ton, the company anticipates operational EBITDA in the range of USD900mn - USD1.2bn. Our EBITDA assumption of USD1.1bn for 2020 is within this range.

Maintain BUY with a target price of IDR1,300 (based on DCF with WACC of 10.2%). We expect business diversification with a higher contribution from the non-coal mining business from investments in the power business to help the company sustain long-term earnings. Our target price implies 7.9x 2020F PE.

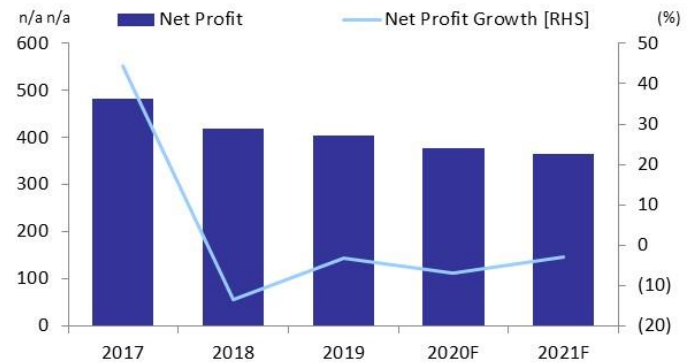
Key Financials

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	3,620	3,457	3,045	3,060	3,145
EBITDA (USDmn)	1,370	1,120	1,026	1,027	1,033
EBITDA Growth (%)	5.9	(18.2)	(8.4)	0.2	0.5
Net profit (USDmn)	418	404	377	366	358
EPS (USDcents)	1.3	1.3	1.2	1.1	1.1
EPS growth (%)	(13.6)	(3.2)	(6.8)	(3.0)	(2.1)
BVPS (USDcents)	11.4	11.7	12.2	12.8	13.4
DPS (USDcents)	0.8	0.6	0.6	0.6	0.5
PER (x)	5.2	5.3	5.7	5.9	6.0
PBV (x)	0.6	0.6	0.5	0.5	0.5
Dividend yield (%)	11.6	9.3	9.0	8.4	8.1
EV/EBITDA (x)	1.9	2.3	2.4	2.2	2.0

Source : ADRO, Danareksa Estimates

Exhibit 1. Revenues and Growth


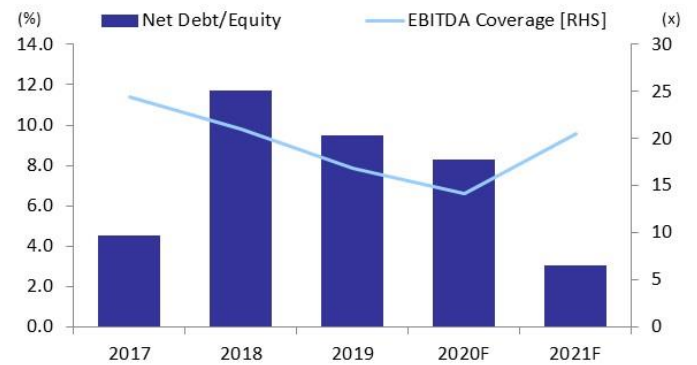
Source: Company, Danareksa Sekuritas estimates

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. 1Q20 Results – Within expectation

Operational performance	4Q19	1Q20	QoQ, %	1Q19	1Q20	YoY, %	2020F	A/F, %
Coal Sales - AI								
Production volume, mn tons	13.9	14.4	3.6	13.8	14.4	4.8	57.0	25
Sales volume, mn tons	14.5	14.4	(0.9)	13.4	14.4	7.8	57.0	25
ASP, US\$/ton	50.4	47.7	(5.4)	57.7	47.7	(17.3)	48.4	98
Strip ratio, bcm/ton	4.5	3.5	(22.6)	4.5	3.5	(22.8)	4.3	80
Cash cost ex royalty, USD/ton	27.6	25.6	(7.3)	29.4	25.6	(12.7)	27.2	94
Mining Services – SIS								
Overburden removal, mn bcm	56.2	41.7	(25.9)	54.1	41.7	(22.9)	226.9	18
Coal mined & hauled, mn tons	12.1	11.0	(8.9)	11.4	11.0	(3.3)	48.3	23
Financial performance								
Net sales, USDmn	803	750	(6.5)	846	750	(11.3)	3,045	25
COGS, USDmn	(637)	(552)	(13.4)	(582)	(552)	(5.1)	(2,193)	25
Gross profit, USDmn	166	198	19.6	265	198	(25.1)	852	23
Operating profit, USDmn	101	136	34.9	196	136	(30.5)	633	22
EBITDA, USDmn	231	265	14.7	323	265	(18.0)	1,026	26
Pretax income, USDmn	(4)	133	n.a.	218	133	(39.1)	720	18
Net profit, USDmn	(2)	98	n.a.	119	98	(17.4)	377	26
Gross margin, %	20.7	26.4	5.8	31.3	26.4	(4.8)	28.0	
Operating margin, %	12.6	18.2	5.6	23.2	18.2	(5.0)	20.8	
EBITDA margin, %	28.8	35.3	6.5	38.2	35.3	(2.8)	33.7	
Net margin, %	(0.2)	13.1	13.3	14.0	13.1	(1.0)	12.4	

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Revenue	3,620	3,457	3,045	3,060	3,145
COGS	(2,410)	(2,493)	(2,193)	(2,238)	(2,342)
Gross profit	1,210	965	852	821	803
EBITDA	1,370	1,120	1,026	1,027	1,033
Oper. profit	1,016	732	633	601	577
Interest income	24	28	39	27	19
Interest expense	(65)	(66)	(72)	(50)	(32)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	(29)	80	120	120	120
Other Income (Expenses)	(124)	(114)	0	0	0
Pre-tax profit	821	659	720	699	685
Income tax	(343)	(224)	(303)	(294)	(287)
Minority interest	(60)	(31)	(41)	(40)	(39)
Net profit	418	404	377	366	358
Core Net Profit	418	404	377	366	358

Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	928	1,576	1,099	769	1,008
Receivables	377	319	309	311	319
Inventory	112	121	103	105	109
Other Curr. Asset	183	93	93	93	93
Fixed assets - Net	1,610	1,722	1,970	2,078	2,157
Other non-curr.asset	3,851	3,385	3,250	3,116	2,982
Total asset	7,061	7,217	6,824	6,472	6,669
ST Debt	220	549	591	43	43
Payables	342	336	298	304	318
Other Curr. Liabilities	255	348	348	348	348
Long Term Debt	1,211	1,406	854	859	859
Other LT. Liabilities	730	595	567	567	567
Total Liabilities	2,758	3,234	2,658	2,121	2,135
Shareholder's Funds	3,650	3,730	3,913	4,098	4,280
Minority interests	652	253	253	253	253
Total Equity & Liabilities	7,061	7,217	6,824	6,472	6,669

Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	418	404	377	366	358
Depreciation and Amort.	478	503	393	426	456
Change in Working Capital	160	226	(9)	3	1
Other Oper. Cash Flow	(108)	(103)	(76)	22	13
Operating Cash Flow	947	1,030	685	817	828
Capex	(412)	(467)	(500)	(400)	(400)
Others Inv. Cash Flow	(357)	(44)	39	27	19
Investing Cash Flow	(770)	(510)	(461)	(373)	(381)
Net change in debt	(44)	527	(509)	(543)	0
New Capital	17	0	0	0	0
Dividend payment	(250)	(200)	(194)	(181)	(175)
Other Fin. Cash Flow	(180)	(125)	(73)	(50)	(33)
Financing Cash Flow	(457)	203	(776)	(774)	(208)
Net Change in Cash	(279)	722	(551)	(330)	239
Cash - begin of the year	1,207	928	1,576	1,099	769
Cash - end of the year	928	1,576	1,099	769	1,008

Exhibit 9. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	11.1	(4.5)	(11.9)	0.5	2.8
EBITDA	5.9	(18.2)	(8.4)	0.2	0.5
Operating profit	6.1	(28.0)	(13.5)	(5.0)	(4.0)
Net profit	(13.6)	(3.2)	(6.8)	(3.0)	(2.1)
Profitability (%)					
Gross margin	33.4	27.9	28.0	26.8	25.5
EBITDA margin	37.8	32.4	33.7	33.6	32.8
Operating margin	28.1	21.2	20.8	19.7	18.4
Net margin	11.5	11.7	12.4	12.0	11.4
ROAA	6.0	5.7	5.4	5.5	5.5
ROAE	11.7	11.0	9.9	9.1	8.5
Leverage					
Net Gearing (x)	0.1	0.1	0.1	0.0	0.0
Interest Coverage (x)	15.6	11.0	8.8	12.0	18.0

Source : ADRO, Danareksa Estimates

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