

3 May 2021

Basic Materials | Mining

Adaro Energy (ADRO IJ)

Buy (Maintained)

Healthy 1Q21 Operational Performance; BUY

- **Keep BUY and IDR1,500 TP, 21% upside and c.5% FY21F yield.** Despite weather challenges, Adaro Energy booked healthy operational numbers, with 1Q21 core earnings (based on its supplemental notes) at USD110m (+39.2% QoQ, -19.1% YoY). Sustained coal benchmark prices helped its performance (1Q21 ASP: USD51.80/tonne; +28.5% QoQ, +8.7% YoY), offsetting the decrease in coal production volumes during the quarter. We are positive for better earnings ahead, on anticipated drier weather from 2Q.
- **1Q21 sales volumes slightly below expectations; better ASP charted.** ADRO's 1Q21 topline recovered to USD692m (+19.2% QoQ, -7.8% YoY) – equivalent to 23% of our and Street's FY21 estimates. This was mainly on better sales price achievement, easing the impact of lower production volumes (1Q21: 12.9m tonnes; -4.2% QoQ, -10.7% YoY). Nevertheless, production remained in line with management's full-year guidance (c.24% of 54m tonne target).
- **Higher ASPs helped 1Q21 GPM, which expanded to 27% (4Q20: 20%; 1Q20: 26%), even with higher cash costs (USD25.90/tonne; +21.9% QoQ, -0.1% YoY) – 1Q21 gross profit was at USD190m (+65.8% QoQ, -4.3% YoY).** The higher cost was in line with increased mining activity from the pre-stripping (1Q21 strip ratio: 4.1x; 4Q20: 3.7x) phase, in line with management's plan to increase its high calorific value or high-CV coal mix. 1Q21 overburden volumes were at 52.5m bcm (+7.1% QoQ, +5.6% YoY).
- **Healthy operational performance was achieved, (1Q21 EBIT: USD134m; +71.3% QoQ, +4.6% YoY) with expanded margin at 19% (4Q20 EBIT margin: 13%; 1Q21: 17%).** The hefty opex increase (1Q21: USD3.57/tonne; +31.3% QoQ, -17.0% YoY) – notably from higher employee costs – was offset by decent topline achievement.
- **However, reported net earnings expectations fell** due to non-operational factors (1Q21: -USD16m, 4Q20: -USD23m), stemming from lower interest income and losses on JVs. Despite booking a substantial recovery in 1Q21 pre-tax earnings at USD118m (+113% QoQ, -11% YoY), ADRO's 1Q21 reported net income was below our and Street's full-year estimates at 20% (USD72m; +91.1% QoQ, -26.9% YoY). Nevertheless, the performance displayed ADRO's ability to recover from 1H20's tough situation. We expect better earnings going forward, on stable support from coal prices.
- **Downside risks:** Further weakening of its ASP (due to slower GDP growth, if the recovery from COVID-19 takes longer than expected), and a halt in demand growth.

Target Price (Return): IDR1,500 (20.5%)
Price: IDR1,245
Market Cap: USD2,778m
Avg Daily Turnover (IDR/USD) 117,380m/8.23m

Analysts

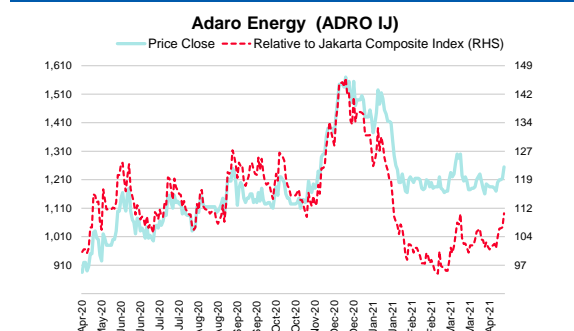
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.2)	4.1	4.6	11.6	41.8
Relative	(12.8)	6.6	2.0	(5.7)	10.1
52-wk Price low/high (IDR)				890 – 1,570	



Source: Bloomberg

Previous reports on ADRO:

Higher ASP, Attractive Valuation; Maintain BUY
4Q20 EBIT Outperformed; Stay BUY
Better Earnings Growth Ahead; Stay BUY
Clarity On Better Coal Demand Ahead; Still BUY
Operational Target Still Positive; U/G To BUY
Better ASP Control, Recovery To Kick Off In 2021
Further Cost Efficiencies Conducted
Volatile Coal Price, But Undemanding Value
1Q20 Above Expectations; U/G To Trading BUY
Conference Call Key Takeaways; Stay NEUTRAL
Weak Earnings On Lower Coal Prices
JV Income Boosts 3Q19, Above Expectations
Indonesia Coal: End of An Era; Sell Now, Buy Later
IDX-RHB Summit KTA: Weakness Up Ahead

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F
Total turnover (USDm)	3,457	2,535	2,970	3,220
Recurring net profit (USDm)	404	147	353	379
Recurring net profit growth (%)	(3.2)	(63.6)	140.5	7.3
Recurring P/E (x)	6.87	18.91	7.86	7.33
P/B (x)	0.7	0.7	0.7	0.7
P/CF (x)	3.86	4.43	3.88	3.31
Dividend Yield (%)	9.9	9.0	5.3	10.2
EV/EBITDA (x)	2.75	2.97	2.72	1.90
Return on average equity (%)	11.0	3.9	9.5	10.0
Net debt to equity (%)	9.5	8.8	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-19	Dec-20	Dec-21F	Dec-22F
Indonesia	Recurring EPS	0.01	0.00	0.01	0.01
Basic Materials	DPS	0.01	0.01	0.00	0.01
Adaro Energy	BV/PS	0.12	0.12	0.12	0.12
ADRO LJ	Return on average equity (%)	11.0	3.9	9.5	10.0
Buy					
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F
9.6x P/E, which is close to the 3-year mean.	Recurring P/E (x)	6.87	18.91	7.86	7.33
	P/B (x)	0.7	0.7	0.7	0.7
	FCF Yield (%)	41.4	16.9	16.4	21.0
	Dividend Yield (%)	9.9	9.0	5.3	10.2
Key drivers	EV/EBITDA (x)	2.75	2.97	2.72	1.90
i. Increase in coal sales volumes;	EV/EBIT (x)	3.58	6.62	4.26	3.52
ii. Increase in coal prices;					
iii. A drop in oil prices.					
Key risks	Income statement (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F
i. Economic downturn;	Total turnover	3,457	2,535	2,970	3,220
ii. Decrease in coal prices;	Gross profit	965	577	745	792
iii. Increase in oil prices.	EBITDA	951	916	854	1,052
	Depreciation and amortisation	(219)	(504)	(308)	(485)
	Operating profit	732	411	546	567
	Net interest	(38)	(54)	0	0
	Pre-tax profit	659	222	564	631
	Taxation	(224)	(64)	(198)	(237)
	Reported net profit	404	147	353	379
	Recurring net profit	404	147	353	379
Company Profile	Cash flow (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F
Adaro Energy is a coal-mining company. The company and its subsidiaries currently deal in coal mining & trade, coal infrastructure & logistics, and mining contractor services.	Change in working capital	257	(67)	(81)	(18)
	Cash flow from operations	719	627	715	838
	Capex	431	(157)	(259)	(256)
	Cash flow from investing activities	134	(47)	(312)	(272)
	Dividends paid	(275)	(250)	(147)	(283)
	Cash flow from financing activities	(335)	(639)	(177)	(305)
	Cash at beginning of period	928	1,576	1,174	1,557
	Net change in cash	518	(59)	227	261
	Ending balance cash	1,576	1,174	1,557	1,867
	Balance sheet (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F
	Total cash and equivalents	1,576	1,174	1,557	1,867
	Tangible fixed assets	1,722	1,539	1,507	1,447
	Total investments	793	629	629	629
	Total assets	7,211	6,229	6,755	6,910
	Short-term debt	549	643	643	643
	Total long-term debt	1,406	865	864	863
	Total liabilities	3,234	2,430	2,611	2,684
	Total equity	3,977	3,799	4,145	4,227
	Total liabilities & equity	7,211	6,229	6,755	6,910
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F
	Revenue growth (%)	(4.5)	(26.7)	17.2	8.4
	Recurrent EPS growth (%)	(3.2)	(63.6)	140.5	7.3
	Gross margin (%)	27.9	22.8	25.1	24.6
	Operating EBITDA margin (%)	27.5	36.1	28.8	32.7
	Net profit margin (%)	11.7	5.8	11.9	11.8
	Dividend payout ratio (%)	68.1	170.2	41.6	74.5
	Capex/sales (%)	(12.5)	6.2	8.7	7.9
	Interest cover (x)	11.0	4.6	11.4	11.8

Source: Company data, RHB

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Figure 1: ADRO's 1Q21 results highlights

USDm	1Q20	4Q20	1Q21	QoQ	YoY	% of RHB	% of Street
Revenue	750	580	692	19.2%	-7.8%	23%	23%
Gross profit	198	114	190	65.8%	-4.3%	25%	25%
Ebit	128	78	134	71.3%	4.6%	24%	24%
Net profit	98	38	72	91.1%	-26.9%	20%	20%
*Core profit	136	79	110	39.2%	-19.1%		
Margin							
Gross profit	26%	20%	27%				
EBIT	17%	13%	19%				
NPM	13%	6%	10%				
*Core NPM	18%	14%	16%				

Note: *Core profit based on ADRO's supplemental note

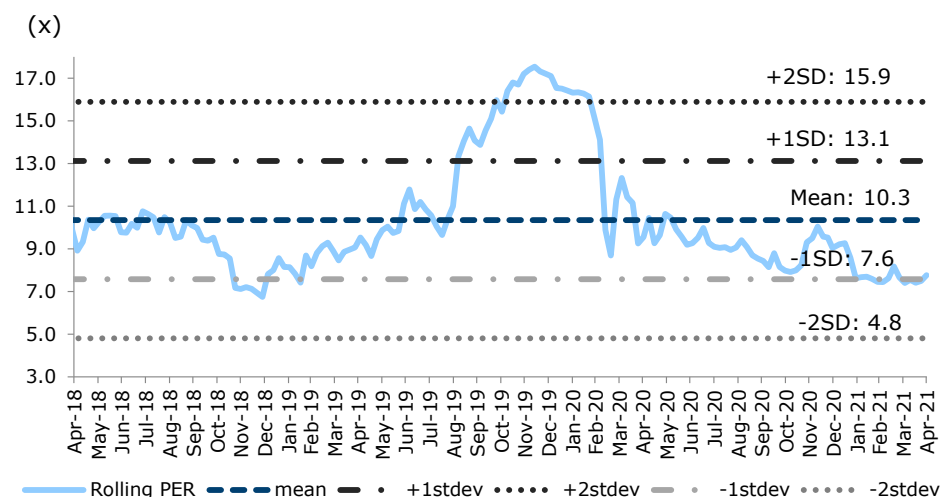
Source: Company data, RHB

Figure 2: ADRO's 1Q21 operational results

	1Q20	4Q20	1Q21	QoQ	YoY
Coal production (m tonnes)	14.4	13.4	12.9	-4.2%	-10.7%
Coal sales (m tonnes)	14.4	13.4	12.6	-5.9%	-12.5%
Overburden (m bcm)	49.8	49.1	52.5	7.1%	5.6%
Strip ratio (x)	3.5	3.7	4.1	11.7%	18.2%
Coal sales ASP (USD/tonne)	47.7	40.3	51.8	28.5%	8.7%
Cash cost (USD/tonne)	25.9	21.2	25.9	21.9%	-0.1%

Source: Company data, RHB

Figure 3: ADRO's 3-year average P/E band



♦ ADRO is trading near -1SD from its 3-year forward-rolling P/E band, implying a c.20% upside to its new P/E target (c.10x)

Source: Bloomberg, RHB

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-22	Buy	1,500	1,210
2020-11-27	Buy	1,700	1,390
2020-11-04	Buy	1,360	1,110
2020-05-19	Trading Buy	1,360	1,005
2019-09-13	Neutral	1,360	1,375
2019-02-12	Buy	1,830	1,275

Source: RHB, Bloomberg

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