

Expect Earnings to Decline 46.2% yoy in 2024F

26 March 2024



ADRO FY23 earnings beats expectations amid DMO allowance reversal in 4Q23, but still down 34.2% yoy to USD1,641 mn due to decreased ASP despite higher sales volume. We anticipate stable sales volume in '24F but still expect a 46.2% yoy decline in net profit to USD883 mn, attributed to weaker coal demand. KAI project progresses smoothly with expectations for phase I commercial operation by 2025. Downgrade to SELL with a lower TP of IDR2,320 using DCF-based TP (previously IDR2,780) as we expect bigger capex needed in coming years.

FY23 earnings above our and street's forecast

ADRO's net profit rose 22.5% qoq in 4Q23 at USD423 mn (-28.3% yoy) mainly due to DMO allowance reversal. This resulted ADRO reporting net profit of USD1,641 mn in 2023, down 34.2% yoy. Despite a 7% increase in sales volume in FY23, revenue dropped by 20% to \$6,518 mn due to a 26% decline in the ASP. ADMR partly contributed in the increased sales volume in FY23, reaching 5.1 Mt (+52% yoy). This achievement aligns with the company's production target of 6 Mt by 2025.

The net profit achievement in FY23 exceeded both our expectations (116.7%) and street expectations (110.2%). This achievement was largely fueled by 87.4% qoq reduction in operating expenses in 4Q24, driven by a reversal of USD53.7 mn allowance for government charges, which is associated with Domestic Market Obligation.

Stable sales volume in 2024

The projected guidance for 2024 anticipates a stable sales volume of 65-67 Mt (including ADMR of 4.9-5.4 Mt). The strip ratio is expected to remain flat yoy at 4.3x while the capex guidance for 2024 is at USD600-700 mn, primarily allocated to acquiring heavy equipment, and barges, and enhancing infrastructure along the supply chain. Simultaneously, ADMR initiated investments in an aluminum smelter and its associated facilities. In 2024, we expect a further decline in earnings due to continuously low ASP amid weak coal demand as well as strong domestic coal output in 2024F from Indonesia (+19% yoy). We estimate net profit to decline 46.2% yoy to USD 883 mn.

KAI project continues to advance smoothly

Several milestones have been reached at the industrial park located in North Kalimantan. PT Kalimantan Aluminum Industry (KAI) has successfully concluded soil investigations, executed land leveling procedures, and completed piling work for the baking furnace facilities within the aluminum smelter zone. To note, the construction of the aluminum smelter will unfold across 3 phases, each boasting a 500,000 tonne capacity. In the long-run, the smelter expected to achieve an annual capacity of up to 1.5 mn tonne of aluminum. It is anticipated that phase I will reach the commercial operation stage (COD) by 2025.

Downgrade to SELL with lower TP of IDR2,320

We downgrade ADRO to SELL with lower target price of IDR2,320 (previously IDR2,780) as we expect bigger capex required in coming years. The valuation is derived from DCF-based TP (WACC: 12.8%; LTG: -5%; and long-term coal price of USD100/ tonne), which implied to 1.4x '24F EV/EBITDA (-0.3 SD to 5-year mean). Despite the downturn in coal prices, the company's substantial net cash position of USD2.4 bn in 2024F could serve to mitigate any decline in share prices. Yet, risks to our call included 1) higher than expected coal price; and 2) escalations in geopolitical tensions.

Exhibit 1 : Key Statistics

Year end Dec (USD mn)	2022A	2023A	2024F	2025F	2026F
Revenue	8,102	6,518	4,475	3,356	3,729
Net Income	2,493	1,641	883	267	434
EPS (IDR)	1,185	770	425	129	209
P/E	2.3	3.5	6.3	20.7	12.8
EV/EBITDA	0.6	1.1	1.8	4.3	3.1
P/BV	0.9	0.8	0.8	0.8	0.7
ROE	41.4	24.2	13.4	4.2	6.5
Dividend Yield	24.3	37.5	43.0	23.2	7.0
Net gearing (%)	(39.2)	(36.2)	(32.8)	(27.6)	(27.3)

Source: Company, KBVS Research

ADRO IJ	SELL
Sector	Coal.
Price at 25 Mar 2024 (IDR)	2,670
Price target (IDR)	2,320
Upside/Downside (%)	(13.1)

Stock Information

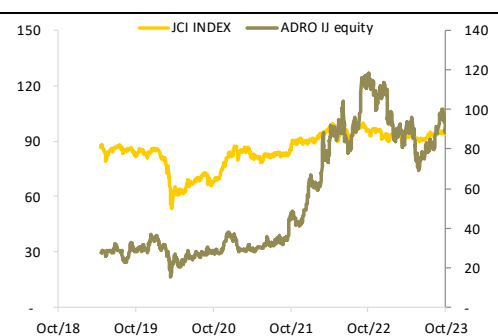
PT Adaro Energy Indonesia Tbk is a coal mining company. The Company produces thermal coal product, envirocoal, sub-bituminous coal with medium calorific value, and ultra-low pollutant content.

Market cap (IDR bn)	85,403
Shares outstanding (mn)	31,986
52-week range (IDR)	2,010 - 3,160
3M average daily vol. ('000)	45,481
3M average daily val. (IDR mn)	113,795

Shareholders (%)

Adaro Strategic Investment	43.9
Affiliated Parties	19.8
Treasury Shares	3.7
Public	32.6

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	14.8	5.0	1.5

Analyst

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Exhibit 2: Financial Summary

(US\$ mn)	2023	2022	YoY (%)	4Q23	4Q22	YoY (%)	QoQ (%)
ASP (US\$/ton)	96	129	-25.7%	89	125	-28.5%	1.2%
Sales Volume (Mt)	65.7	61	7.1%	16.6	17.2	-3.4%	0.5%
Revenues	6518	8102	-19.6%	1536	2189	-29.8%	2.3%
COGS	(3980)	(3449)	15.4%	(987)	(901)	9.5%	2.8%
Gross Profit	2537	4653	-45.5%	550	1288	-57.3%	1.5%
Operating expenses	(344)	(375)	-8.4%	(12)	(144)	-92.0%	-87.4%
Other income (expenses)	(38)	31	-222.6%	(1)	12	-109.1%	-88.1%
EBIT	2155	4308	-50.0%	537	1157	-53.6%	21.9%
EBITDA	2475	4832	-48.8%	627	1234	-49.1%	20.7%
Finance costs	(109)	(89)	22.5%	(28)	(27)	3.4%	1.8%
Interest income	140	48	194.7%	43	25	74.4%	25.5%
Share in profit of JV	108	210	-48.6%	32	(12)	-380.4%	41.0%
PBT	2294	4476	-48.7%	584	1143	-48.9%	24.3%
Tax expense	(439)	(1645)	-73.3%	(107)	(480)	-77.7%	21.7%
Minority interest	(213)	(338)	-36.9%	(55)	(73)	-25.2%	48.1%
Net Profit	1641	2493	-34.2%	423	590	-28.3%	22.5%
Gross Margin	39%	57%	-32.2%	36%	59%	-39.2%	-0.8%
EBITDA Margin	38%	60%	-36.3%	41%	56%	-27.5%	18.0%
Net Margin	25%	31%	-18.2%	28%	27%	2.1%	19.7%
Cash cost (US\$/ton)	62	53	15.4%	55	56	-1.5%	-7.9%

Source: Company, Bloomberg, KBVS Research

Exhibit 3: Coal supply-demand outlook

	2021	2022	2023	2024F	2025F
Seaborn Exporters (Mt)	958	959	1,059	1,063	1,028
Australia	199	178	202	205	213
China	3	4	4	4	4
Colombia	55	52	53	63	59
Indonesia	430	459	512	517	489
North Korea	0	0	0	0	0
Russia	149	139	144	137	134
South Africa	61	58	67	67	64
US	37	35	44	39	38
Others	26	34	33	31	27
Seaborn Importers (Mt)	970	946	1,050	1,046	1,019
China	246	208	327	327	300
India	148	166	180	171	172
Japan	125	127	102	101	101
South Korea	91	92	89	94	94
Taiwan	57	55	52	52	50
Vietnam	26	34	49	48	53
Other Asia	132	120	125	137	149
Germany	24	27	16	13	11
UK	2	3	1	2	1
Other Non Asia	120	114	111	102	88
Global Balance (Mt) : demand minus	11	-13	-9	-16	-10

Source: Wood Mackenzie, KBVS Research

Exhibit 4: ADRO Mine Contribution

Production Volume (Mt)	FY23	FY22	YoY (%)
AI	48.6	49.1	-1.1%
Balangan	8.0	7.1	12.8%
ADMR	5.1	3.4	51.6%
MIP	4.2	3.3	26.5%
Total	65.9	62.9	4.8%

Source: Company, KBVS Research

Exhibit 5: ADRO's DCF Valuation

US\$ mn	2024F	2025F	2026F	2027F	2028F
Net Profit	883	267	434	770	402
Interest expense (1- tax)	23	37	32	27	22
Depreciation	477	521	557	586	608
Working Capital	49	92	(37)	(60)	55
Capex	(629)	(700)	(700)	(700)	(700)
FCFF	804	218	286	622	387
PV FCFF	712	171	199	382	211
PV Teriminal value	1,115				
Net Debt	(2,684)				
Equity Value	5,473				
Minority Interest	(783)				
Target Price (IDR/share)	2,318				
Target Price (Rounded)	2,320				

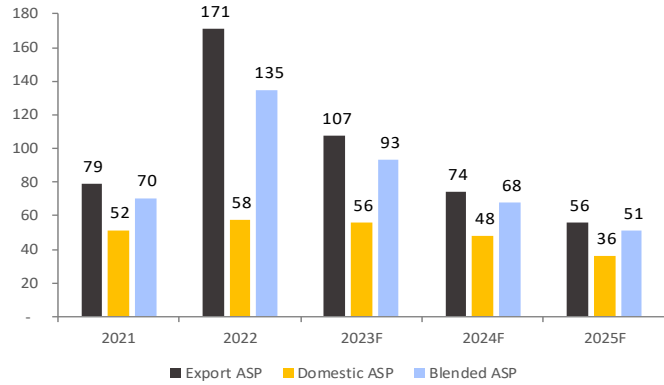
Source: Company, KBVS Research

Exhibit 6: ADRO's Production Volume (Mt)



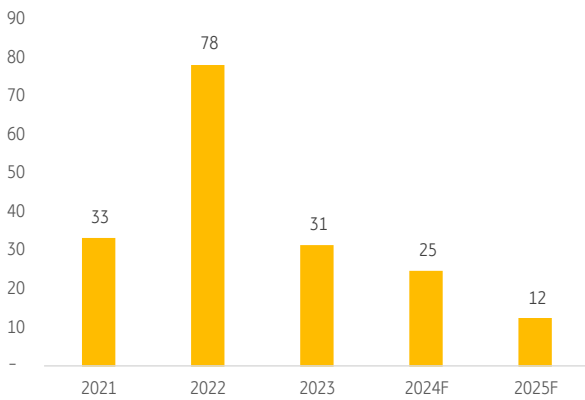
Source: Company, KBVS Research

Exhibit 7: ADRO's Indicative ASP exclude trading business (USD/ton)



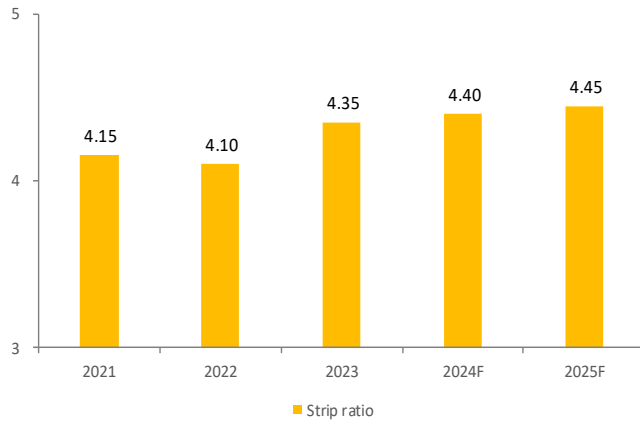
Source: Company, KBVS Research

Exhibit 8: ADRO's Indicative Cash Margin (USD/ ton)



Source: Company, KBVS Research

Exhibit 9: ADRO' Stripping Ratio (x)



Source: Company, KBVS Research

Exhibit 10: Newcastle Coal Price VS ADRO's Share Price



Source: Bloomberg, KBVS Research

Exhibit 11: ADRO's Forward EV/EBITDA



Source: Bloomberg, KBVS Research

FINANCIAL TABLES

Exhibit 12: Profit & Loss summary

Profit & Loss (USD mn)	2022	2023	2024F	2025F	2026F
Revenue	8,102	6,518	4,475	3,356	3,729
Cost of revenue	(3,449)	(3,980)	(2,889)	(2,610)	(2,711)
Gross profit	4,653	2,537	1,586	746	1,018
Operating expense	(345)	(382)	(435)	(457)	(478)
Operating profit	4,308	2,155	1,151	289	539
EBITDA	4,823	2,475	1,627	810	1,096
Finance income	48	140	99	88	72
Finance expense	(89)	(109)	(26)	(42)	(36)
Others	210	108	50	51	51
Pre-tax profit	4,476	2,294	1,274	386	626
Tax expense	(1,645)	(439)	(244)	(74)	(120)
Minority interest	(338)	(213)	(147)	(44)	(72)
Net profit to parent entity	2,493	1,641	883	267	434
EPS (IDR)	1,185	770	425	129	209

Source: Company, KBVS Research

Exhibit 13: Balance sheet

Balance Sheet (USD mn)	2022	2023F	2024F	2025F	2026F
Cash and equivalents	4,067	3,311	2,947	2,411	2,405
Trade Receivables	647	520	559	424	475
Inventories	199	171	180	189	198
Fixed Assets	1,452	1,754	1,906	2,085	2,228
Other assets	4,417	4,716	4,826	4,939	5,056
Total Assets	10,782	10,473	10,419	10,048	10,363
Trade payables	333	345	441	407	431
Short-term debt + CMLTD	143	223	173	123	73
Long term loan	1,369	404	354	304	254
Other liabilities	2,410	2,092	1,810	1,781	1,752
Total Liabilities	4,255	3,064	2,779	2,615	2,510
Minority interest	503	636	783	827	899
Paid Capital	1,497	1,497	1,497	1,497	1,497
Retained earnings	4,481	5,220	5,053	4,801	5,148
Other equities	46	55	56	56	57
Total Equity	6,527	7,409	7,388	7,181	7,601

Source: Company, KBVS Research

FINANCIAL TABLES

Exhibit 14: Profit & Loss Summary

Cash Flow (USD mn)	2022	2023	2024F	2025F	2026F
Net income	2,493	1,641	883	267	434
Depreciation & amortization	515	421	477	521	557
Change in working capital	(208)	166	49	92	(37)
Others	1,129	(657)	(43)	(44)	(44)
Cash flow from operations	3,929	1,572	1,366	837	910
Others	(655)	(256)	(92)	(94)	(97)
Capex	(569)	(723)	(629)	(700)	(700)
Cash flow from investments	(1,224)	(979)	(720)	(794)	(797)
Changes in debt	2	(885)	(100)	(100)	(100)
Changes in equity	226	240	245	144	173
Dividends paid	(650)	(1,000)	(1,149)	(618)	(187)
Others	(27)	44	(6)	(5)	(5)
Cash flow from financing	(449)	(1,601)	(1,009)	(579)	(119)
Net Cash Flow	2,256	(1,008)	(364)	(536)	(6)

Source: Company, KBVS Research

Exhibit 15: Cash flow

Key Ratios (%)	2022	2023	2024F	2025F	2026F
Revenue growth	102.9	(19.6)	(31.3)	(25.0)	11.1
EBIT growth	181.9	(50.0)	(46.6)	(74.9)	86.5
EBITDA growth	144.4	(48.7)	(34.2)	(50.2)	35.3
Net profit growth	167.1	(34.2)	(46.2)	(69.7)	62.4
Gross margin	57.4	38.9	35.4	22.2	27.3
EBIT margin	53.2	33.1	25.7	8.6	14.5
EBITDA margin	59.5	38.0	36.4	24.1	29.4
Net margin	30.8	25.2	19.7	8.0	11.6
ROA	23.1	15.7	8.5	2.7	4.2
ROE	41.4	24.2	13.4	4.2	6.5
Net gearing (x)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)
Net debt/EBITDA (x)	(0.5)	(1.1)	(1.5)	(2.4)	(1.9)
Interest coverage ratio (x)	54.0	22.6	61.7	19.1	30.1

Source: Company, KBVS Research

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