



COMPANY RESEARCH

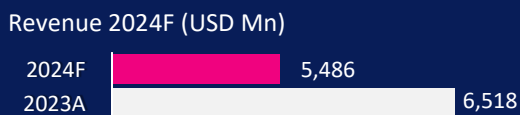
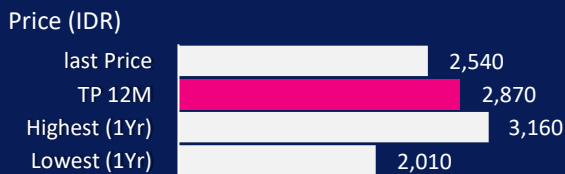
Equity Update

Stock Rate **HOLD**
Industry Neutral

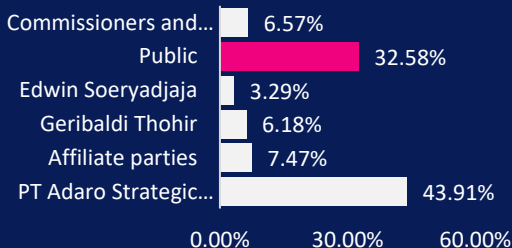
Fair Value vs. Last Price IDR 2,870 +13%

Stock Data
Ticker Code ADRO
SubSector Oil, Gas & Coal
Sector Energy

Market Cap (IDR.Tn) 81.24
Shares Issued (Bn) 31.99



Shareholders Composition



Sukarno Alatas
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PT Adaro Energy Indonesia Tbk (ADRO)

The high potential dividend yield is appealing, but it results in a significant decrease in net profit.

The top and bottom recorded a decline. ADRO recorded FY23 revenue of USD 6,518 Mn or -20% y/y (vs FY22 8,102 Mn). Sales volume rose to 65.71 Mt or +7% y/y (vs FY22 61.34Mn), however there was a decline in average selling price (ASP) to USD 96.1/tonne or -26% y/y (vs FY22 USD 129/tonne). Net profit to decrease to USD 1,641 Mn or -34% y/y (vs FY22 USD 1,545 Mn). Net profit margin ratio decreased to 25% (FY22 at 31%). FY23's EBITDA of USD 2,473 Mn or -62% y/y (vs FY22 1,783 Mn). EBITDA margin ratio decreased to 38% (vs FY22 at 60%).

Balance sheet remains healthy. In FY23, a net cash position of \$1,936 Mn, with a cash position of \$3,311 Mn. Cash balance at the end of FY23 also decreased by 19% to USD 3,311 Mn. Cash and cash equivalents represented 32% of total assets. Shareholder's equity stood at USD 7,408 Mn +14% y/y, driven by higher retained earnings. Then total liabilities decreased to USD 3,064 Mn, or -42% y/y (FY23 DER 0.41x vs. FY22 0.65x).

ADRO plans to increase sales volume by 1% to 2% y/y in 2024, despite the projected downward trend in coal prices. Our revenue estimate for ADRO is USD 5,486 Mn or -15.8% y/y, assuming ASP at USD 75.6 per tones. The projected net profit is USD 932 Mn or -43.2% y/y, resulting in a net profit margin ratio of 17% (vs FY23 25%).

ADRO is expected to pay a dividend at a ratio of 60% of FY23 performance. The company has already paid an interim dividend of IDR 199.98 per share. FY2023 EPS is USD 0.05 per share or IDR 769.25 per share. The FY23 dividend is expected to be USD 0.03 per share or IDR 461.6 per share. Therefore, ADRO's potential final dividend is IDR 261.57 or a dividend yield of 10.3% (based on the last price of IDR 2,450).

Recommendation "HOLD"

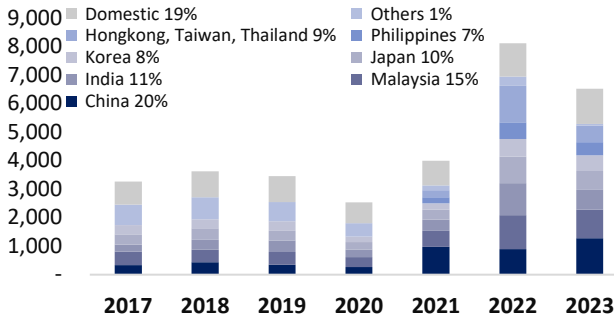
Based on DCF valuation and future opportunities, we maintain ADRO's fair value for 12M target at IDR 2,870 per share. This price reflects a P/E of 6.2x and PBV of 0.72x. Then, we project a potential total dividend yield of 9.8% (Assumption DPR at 60% from 2024F) in 2025F and 5.4% (Assumption DPR at 60% from 2025F) in 2026F. Risk: Global recession, volatile coal prices, energy transition and government policies. To mitigate the existing risks, especially the volatile coal price, we strongly recommend implementing strict risk management. Despite the downtrend conditions in the medium term, the current price is in an uptrend in the short term. With a bullish scenario has the potential to strengthen to the resistance level of 2,640 & 2,840, while the support level is at 2,450.

Figure 1. Financial Highlight

year-end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (USD Mn)	3,993	8,102	6,518	5,486	4,532
Net Profit (USD Mn)	933	2,493	1,641	932	623
EPS (Full amount)	0.03	0.08	0.05	0.03	0.02
EBITDA Margin	52%	60%	38%	28%	24%
NPM	23.4%	30.8%	25.2%	17.0%	13.8%
Div. Yield (%)	12.5%	12.0%	20.0%	9.8%	5.4%
ROE	21%	38%	22%	12%	8%
P/E (x)	5.3	3.1	3.0	6.1	9.2
P/BV (x)	1.1	1.2	0.6	0.7	0.7
EV/EBITDA (x)	2.3	1.1	1.1	2.2	3.1

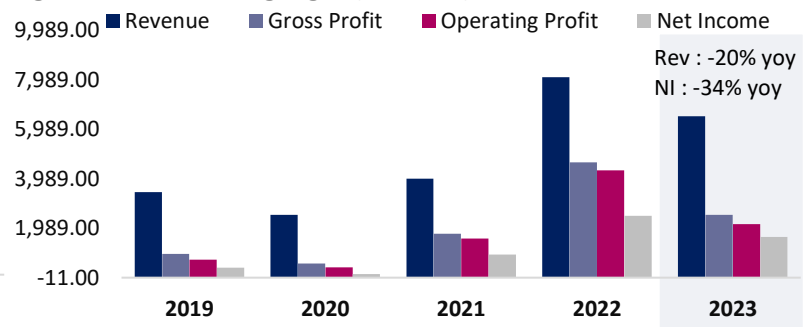
Source: ADRO and KSI Research

Figure 2. Sales by destination in FY23



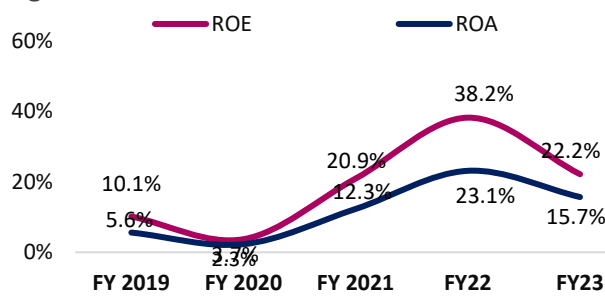
Source: ADRO and KSI Research

Figure 3. Financial Highlight (USD Mn)



Source: ADRO and KSI Research

Figure 4. ROE vs ROA 2019 – 2023



Source: ADRO and KSI Research

Financial Review

Revenue: ADRO recorded FY23 revenue of USD 6,518 Mn or -20% y/y (vs FY22 8,102 Mn). Sales volume rose to 65.71 million tonnes or +7%y/y (vs FY22 61.34Mn), however there was a decline in average selling price (ASP) to USD 96.1/tonne or -26% y/y (vs FY22 USD 129.3/tonne). Coal production in 65.88Mt or +5%, with a strip ratio of 4.4x or +16% y/y.

Gross profit: FY23 gross profit of USD 2,537 Mn or -45% y/y (vs FY22 USD 4,653 Mn). Gross profit margin ratio decreased to 39% (vs FY22 at 57%).

Operating profit: FY23's operating profit of USD 2,873 Mn or -43% y/y (vs FY22 5,020 Mn). Operating profit margin ratio decreased to 44% (vs FY22 at 62%).

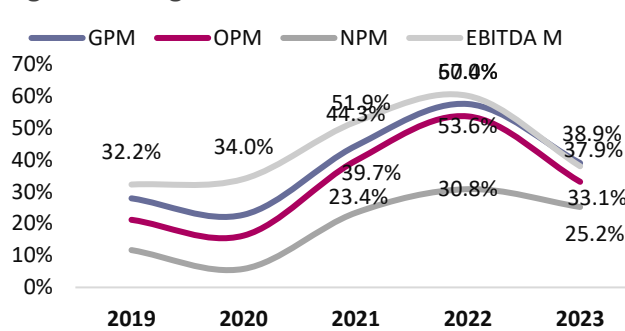
EBITDA: FY23's EBITDA of USD 2,473 Mn or -49% y/y (vs FY22 4,861 Mn). EBITDA margin ratio decreased to 38% (vs FY22 at 60%).

Net Income: Net profit to decrease to USD 1,641 million or -34% YoY (vs FY22 USD 2,493 Mn). Net profit margin ratio decreased to 25% (FY22 at 31%). In Q423, net income increased to USD 635.98 Mn or +84% q/q / +8% y/y, with net profit margin to 41% compared to Q323 23% & Q422 27%.

Total assets decreased to USD 10,472 million or -3% y/y. Cash balance at the end of FY23 also decreased by 19% to USD 3,311 Mn. Cash and cash equivalents represented 32% of total assets. Shareholder's equity stood at USD 7,408 Mn, representing an increase of 14% y/y driven by higher retained earnings. Then **total liabilities** decreased to USD 3,064 Mn, or -42% y/y (FY23 DER 0.41x vs. FY22 0.65x).

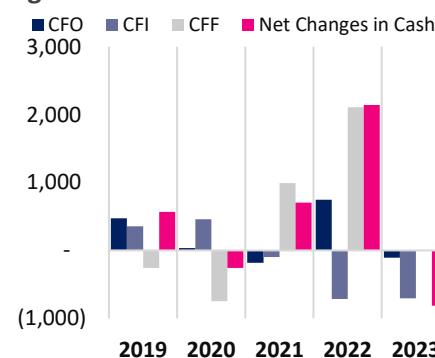
Balance sheet remains healthy with a **net cash position of \$1,936 million** at the end of 2023, with a cash position of \$3,311 million.

Figure 5. Margin Ratio 2019 – 1H23



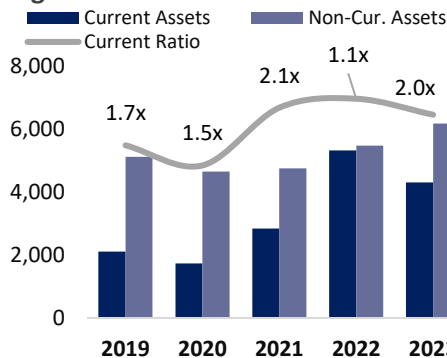
Source: ADRO and KSI Research

Figure 6. Cashflow Activities



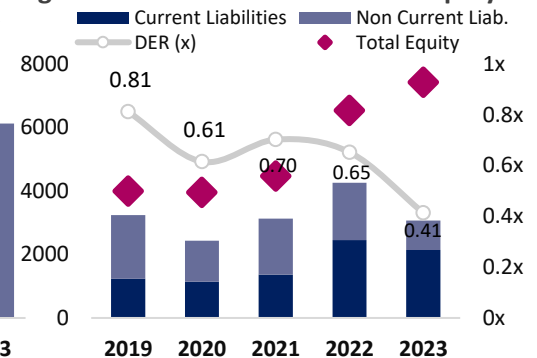
Source: ADRO and KSI Research

Figure 7. Non vs Current Assets



Source: ADRO and KSI Research

Figure 8. Total Liabilities vs Total Equity



Source: ADRO and KSI Research

Figure 9. Financial Performances

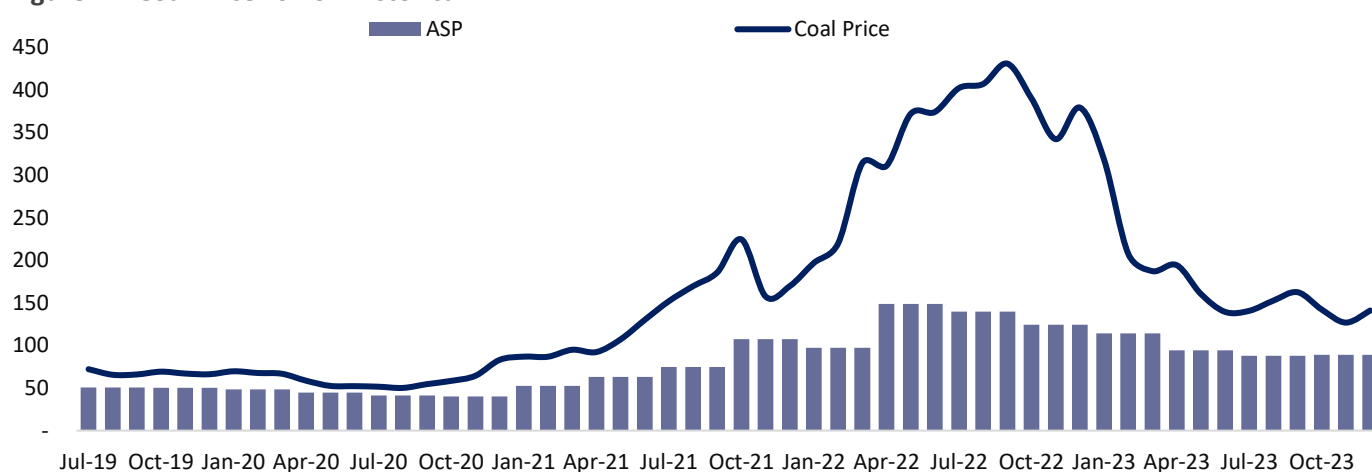
Unit: \$ thousand	4Q22	3Q23	4Q23	q/q (%)	y/y (%)	FY22	FY23	y/y (%)
Sales Volume (Mt)	16.9	16.5	16.6	1%	-2%	61.34	65.71	7%
Average selling price(\$/ton)	127	88	89	1%	-30%	129.3	96.1	-26%
Coal Mining & Trading	2,140.01	1,452.03	1,478.17	2%	-31%	7,933	6,315	-20%
Mining Services	34.92	34.03	42.18	24%	21%	119	141	19%
Logistics	11.09	11.97	10.9	-9%	-2%	39	46	19%
Others	3.24	3.78	5.21	38%	61%	12	15	27%
Total Revenues	2,189	1,502	1,536	2%	-30%	8,102	6,518	-20%
Gross Profit	1,287.92	541.6	549.51	1%	-57%	4,653	2,537	-45%
<i>GPM (%)</i>	<i>59%</i>	<i>36%</i>	<i>36%</i>			<i>57%</i>	<i>39%</i>	
Selling Expenses	34.71	28.63	22.1	-23%	-36%	125	104	-17%
General & Adm. Expenses	106.79	60.92	-12.65	-121%	-112%	242	231	-5%
Operating Income	839	440.24	536.84	22%	-36%	5,020	2,873	-43%
<i>OPM (%)</i>	<i>38%</i>	<i>29%</i>	<i>35%</i>			<i>62%</i>	<i>44%</i>	
EBITDA	1,529.00	503.6	574.23	14%	-62%	4,861	2,473	-49%
<i>EBITDA M (%)</i>	<i>70%</i>	<i>34%</i>	<i>37%</i>			<i>60%</i>	<i>38%</i>	
Finance Costs	27.06	27.48	27.97	2%	3%	89	109	22%
Finance Income	-24.53	-34.09	-42.78	25%	74%	-48	-140	195%
Income from Affiliate	-11.58	23.03	32.47	41%	-380%	89	162	83%
Profit Before Income Tax	1,111.00	469.88	584.12	24%	-47%	4,476	2,294	-49%
Income Tax	480.04	88.01	107.07	22%	-78%	1,645	439	-73%
Net Profit	590	345.06	635.98	84%	8%	2,493	1,641	-34%
<i>NPM (%)</i>	<i>27%</i>	<i>23%</i>	<i>41%</i>			<i>31%</i>	<i>25%</i>	

Source: ADRO and KSI Research

Figure 10. Operational Highlight

Unit: Mt	4Q22	3Q23	4Q23	q/q (%)	y/y (%)	FY22	FY23	y/y (%)
Coal Production	17.5	17.3	15.2	-12%	-14%	62.9	65.9	5%
Overburden (Mbcm)	62.2	87.6	68.9	-21%	11%	235.8	286.6	22%
Stripping R (x)	3.6	5.1	4.6	-10%	28%	3.8	4.4	16%

Source: ADRO and KSI Research

Figure 11. Coal Price vs ASP Historical


Source: ADRO and KSI Research

Valuation & Dividend Potential

We used the DCF valuation method to determine the fair price of ADRO. Our assumptions included a beta of 0.91x, a risk-free rate of 6.63%, a risk premium of 6.56%, a WACC of 11.47%, and a perpetuity growth rate of -1%. Based on these assumptions, we arrived at a fair value of USD 0.19 per share or **IDR 2,870 per share** (assuming an exchange rate of IDR 15,500 to USD). Currently priced (2,540), it trades at a PE of 3.21x vs 5Y AVG at 6.4x and a PBV of 0.78x vs 5Y AVG of 0.93x.

Figure 12. DCF Valuation Method

DCF (USD Mn)	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	932	623	349	423	377	336
marginal tax rate	19%	19%	19%	19%	19%	19%
EBIT (1-tax)	753	504	282	342	305	272
+ D & A	280	232	195	164	146	130
- Capex	(550)	(500)	(350)	(350)	(350)	(350)
Changes in working capital	1,435	15	(4)	73	120	107
Free Cash Flow	1,919	251	123	229	221	159
Terminal Value						1,260
Discount Factor	1.00	0.90	0.80	0.72	0.65	0.58
Firm Value	3,375	Key Assumption				
Cash	4,483	Perpetuity Growth -1.00%				
Interest Bearing Debt	2,127	Beta 0.91				
Equity Value	5,731	RF 6.63%				
Share	30,881	RP 6.56%				
Equity Value Per Shares	0.19	Cost of Equity 12.60%				
Assumption USD	IDR 15,500	Cost of Debt 7.28%				
Fair Value (IDR)	2,870	WACC 11.47%				
Last Price	2,540					
Potential Upside (%)	13%					

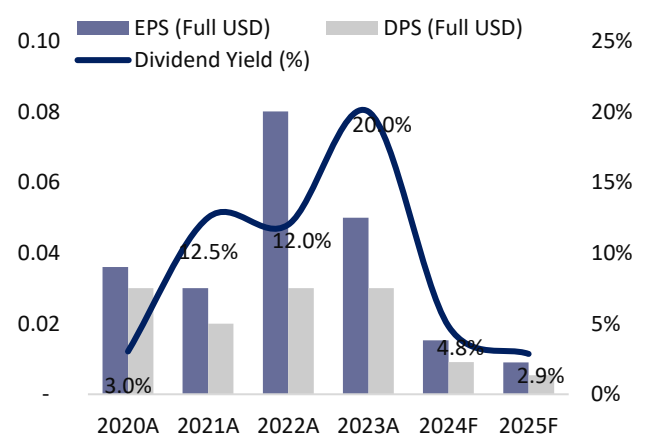
Source: Bloomberg and KSI Research

Figure 13. Scenario analysis for Profit & Market Ratio

2024F	Profit	EPS	Div/Share	Price	Div. yield
Sales Gr	470.6	0.0152	0.0091	0.1856	4.82%
-20%	447.29	0.0145	0.0087	0.1800	4.67%
-19%	452.88	0.0147	0.0088	0.1813	4.71%
-18%	458.47	0.0148	0.0089	0.1827	4.74%
-17%	464.06	0.0150	0.0090	0.1840	4.78%
-16%	469.65	0.0152	0.0091	0.1853	4.81%
-15%	475.24	0.0154	0.0092	0.1867	4.85%
-14%	479.28	0.0155	0.0093	0.1877	4.87%
-13%	486.42	0.0158	0.0095	0.1894	4.91%
-12%	492.02	0.0159	0.0096	0.1907	4.94%
-11%	497.61	0.0161	0.0097	0.1921	4.98%
-10%	503.20	0.0163	0.0098	0.1934	5.01%

Source: Bloomberg and KSI Research

Figure 14. Dividend yield Estimated



Source: Bloomberg and KSI Research

ADRO is expected to pay a dividend at a ratio of 60% of FY23 performance. The company has already paid an interim dividend of IDR 199.98 per share. FY2023 EPS is USD 0.05 per share or IDR 769.25 per share. The FY23 dividend is expected to be USD 0.03 per share or IDR 461.6 per share. Therefore, ADRO's potential final dividend is IDR 261.57 or a **dividend yield of 10.3% (based on the last price of 2,450)**.

The final dividend distribution is expected to take place in May, as per the historical schedule.

Financial Exhibits

Company profile

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

Large Reserves and Diversified Portfolio in Indonesia and Australia

1. PT Adaro Indonesia: 88.5%, South Kalimantan, sub-bituminous - Reserves: 682 million tons & Resources: 3.2 billion tons
2. Balangan Coal Companies: South Kalimantan, sub-bituminous - Reserves: 118 million tons & Resources: 257 million tons
3. PT Adaro Minerals Indonesia Tbk (ADMR): Central Kalimantan and East Kalimantan Metallurgical coal - Reserves: 165 million tons Resources: 975 million tons
4. MIP: 75% ownership, South Sumatra, sub-bituminous - Reserves: 207 million tons Resources: 301 million tons
5. BEP: 18.5% ownership with option to acquire 90%, East Kalimantan, sub-bituminous - Resources 3.3 billion tons
6. Kestrel Coal Mine, 48% of 80% Queensland, Australia, Premium HCC - Reserves: 184 Mt & Resources: 421 Mt

Operational Area:



Target for 2024

- Sales volume: 65 million tons to 67 million tons, which includes 61 million tons to 62 million tons of thermal coal, and 4.9 million tons to 5.4 million tons of metallurgical coal from ADMR.
- Strip ratio: 4.3x, y-o-y equivalent to FY23.
- Capital expenditures: \$600 million to \$700 million, including equity investments in projects related to industrial areas in North Kalimantan

Figure 15. Financial Statement (USD Mn)

<i>Income Statement</i>	2022A	2023A	2024F	2025F
Revenue	8,102	6,518	5,486	4,532
Costs of revenue	3,449	3,980	3,950	3,444
Gross profit	4,653	2,537	1,536	1,088
Operating profit	4,339	2,156	1,254	854
EBITDA	4,861	2,473	1,534	1,086
Income before tax	4,476	2,294	1,375	954
Tax expenses	1,645	439	263	183
Minority interests	338.0	213.4	179.7	148.4
Net income	2,493	1,641	932	623
EPS (USD)	0.08	0.05	0.03	0.02
<i>Balance Sheet</i>	2022A	2023A	2024F	2025F
Cash & equivalents	4,172	3,360	4,483	4,522
Account receivables	647	520	505	417
Inventories	199	171	662	577
Fixed assets	2,485	2,749	3,500	4,196
Other assets	2,777	3,251	2,292	1,888
Total assets	10,782	10,473	11,791	11,893
S-T liabilities	176	949	1,013	1,044
Other S-T liabilities	2,272	1,186	1,276	1,054
L-T liabilities	1,407	490	1,114	1,149
Other L-T liabilities	401	438	477	491
Total liabilities	4,255	3,064	3,880	3,738
Equity	6,527	7,409	7,911	8,155
BVPS (Full USD)	0.21	0.24	0.26	0.26
<i>Cash Flow</i>	2022A	2023A	2024F	2025F
Net Income	2,493	1,641	932	623
Depreciation	521	317	280	232
Change in W/C	(2,269)	(2,066)	(1,524)	(831)
Others	745	(108)	(312)	24
CFO	(28)	(54)	(550)	(500)
Capital expenditure	(513)	(435)	943	344
CFI	(714)	(708)	271	(278)
Dividends Paid	931	926	559	312
Net Change Debt	70	(916)	624	34
Others	1,108	(7)	(19)	(53)
CFF	2,109	3	1,164	293
Change in cash	2,140	(813)	1,123	39
Beginning	2,032	4,172	3,360	4,483
Ending cash flow	4,172	3,360	4,483	4,522
<i>Key Ratios</i>	2022A	2023A	2024F	2025F
Gross margin (%)	44%	57%	39%	28%
EBITDA margin (%)	52%	60%	38%	28%
Pretax margin (%)	37%	55%	35%	25%
Net margin (%)	23.4%	30.8%	25.2%	17%
ROE (%)	21%	38%	22%	12%
Current ratio (x)	2.17	2.01	2.57	2.72
Gearing (%)	36%	24%	19%	27%
Net gearing (%)	70%	65%	41%	49%
AR turnover (days)	41	29	29	34
Inventory TO (days)	21	21	16	61
AP turnover (days)	370	124	116	97

Source: ADRO and KSI Research

Kiwoom Sekuritas Guide to Sector/Industry/Stock Ratings

Sector/Industry

OVERWEIGHT	: Sector & Industry Outlook has potential and good condition
NEUTRAL	: Sector & Industry Outlook Stable or tend to be stagnant
UNDERWEIGHT	: Sector & Industry Outlook has challenges and bad condition

Stock

BUY	: Stock Performance > +15%	Over the next 12 month (excluding dividend)
TRADING BUY	: Stock Performance, range between +5% to +15%	Minor to Medium Term
HOLD	: Stock Performance, range between -10% to +15%	Over the next 12 month (excluding dividend)
SELL	: Stock Performance > -15%	Over the next 12 month (excluding dividend)
TRADING SELL	: Stock Performance, range between -5% to -15%	Minor to Medium Term
NOTE RATE	: Stock is not within regular research coverage	Over the next 12 month (excluding dividend)



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