

21 March 2013

PT ADARO ENERGY Tbk

FY12 Results & FY13E Outlook

BUY

FY12 Results—Below Expectation

The company reported its FY12 Results, a decrease in net income by 30.6% yoy to USD 385mn due to a decrease in sales revenue by 6.6% yoy to USD 3,722mn and an increase in COGS by 4.7% yoy to USD 2,680mn. The reduction in sales revenue was due to a 4.3% yoy reduction in coal sales volume and a 3.1% yoy down in ASP. Moreover, the company also reported its EBITDA was dropped by 26.2% yoy to USD 1,088mn.

Growth Outlook in FY13E

By targeting its FY13E both coal production and sales volume to grow by a minimum level of 6% yoy to reach 50Mt (as company's guidance) and also a conservative increase of 3% yoy in company's ASP, we expect the company's FY13E sales revenue can reach USD 4.2bn (up by 13% yoy). Moreover, we also expect the company's bottom line to increase by 45% yoy to USD 558.35mn this year on the back of lower stripping ratio (from 6.4x to 5.75x) and also on the back of more costs efficiency which coming from the start operation of OPCC and 2x30MW mine-mouth power plants.

Improving Costs Efficiency

The commencement of OPCC and 2x30MW mine-mouth power plants this year will reduce costs significantly. Once the OPCC starts its operations, it will reduce costs by USD 1-1.2/bcm. With its maximum capacity to transport overburden by up to 34Mbcm per annum, the company is expecting to save approximately USD 34mn per year on its production costs. Moreover, the power to run OPCC is going to be supplied by its owned 2x30MW power plant using Wara coal (300k/p.a.). The company will have more cost saving due to lower dependency on oil.

Valuations

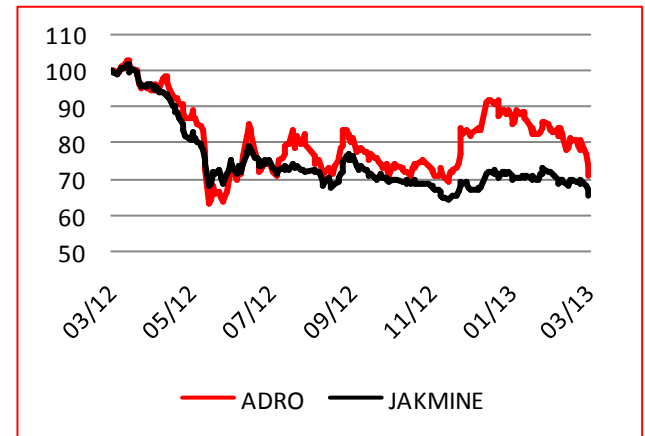
With the assumptions of the company can deliver a minimum of 6% yoy growth in both coal production and sales volumes, 3% yoy increase in ASP, and also the commencement of OPCC and 2x30MW mine-mouth power plants this year, we see a brighter future on ADRO. Therefore, we reiterate BUY rating on ADRO stock with TP IDR 1,670/share, a 23.7% potential upside from its current price, implying PER FY13E 9.9x.

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Stock Data

Sector	Coal Mining
Price (21 March 2013)	IDR 1,350
Target Price (12-month)	IDR 1,670
12-month Rating	BUY
Prior	BUY (TP IDR 1,670)
Ticker	ADRO.IJ (BBG); ADRO.JK (RIC)
Market Cap	IDR 43.181 tn
Shares Outstanding	31,985.962 mn
Free Float	12,832.768 mn

ADRO Performance against Jakmine Index



Source: Bloomberg

	2011	2012	2013E	2014F	2015F
Revenues	3,987	3,722	4,207	4,446	4,785
EBITDA	1,431	1,088	1,351	1,382	1,451
Net Income	550	385	558	586	609
EPS	0.0172	0.0120	0.0175	0.0183	0.0190

In mn USD except per share data; Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Profitability	2011	2012	2013E	2014F	2015F
Gross Margin %	35.82	28.01	31.72	31.85	30.52
EBITDA Margin %	35.89	29.23	32.10	31.09	30.32
EV/EBITDA x	4.95	7.27	5.65	5.07	4.64
P/E x	10.04	14.34	9.90	9.42	9.07

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Top Holders

PT Adaro Strategic Investments	43.91%
Insider	15.94%
Public	40.15%

Source: Bloomberg

Fiscal Year End					
Income Statement (USD mn)	2011	2012	2013E	2014F	2015F
Sales Revenue	3,987	3,722	4,207	4,446	4,785
Gross Profit	1,428	1,043	1,334	1,416	1,461
Operating Income	1,284	836	1,141	1,191	1,230
Depreciation & Amortization	109	252	209	191	221
EBITDA	1,431	1,088	1,351	1,382	1,451
EPS	0.0172	0.0120	0.0175	0.0183	0.0190
Net Interest Income (Expenses)	(120)	(118)	(127)	(127)	(124)
Other Income (Expenses)	(163)	(15)	-	-	-
Extraordinaries	-	-	-	-	-
Minority Interests	(2)	2	0	2	1
Pretax Income	1,003	714	1,014	1,063	1,106
Income Tax Expense	(451)	(330)	(456)	(479)	(498)
Net Income	550	385	558	586	609
Cash Flow (USD mn)					
Operating Cash Flow	712	433	768	778	830
Net Capex	(619)	(484)	(196)	(196)	(195)
Other Investing Items	(445)	(25)	(249)	(147)	(221)
Free Cash Flow	87	(57)	568	578	630
Dividends paid	(151)	(226)	(168)	(176)	(183)
Equity Raised (Buy Back)	-	-	-	-	-
Net Bank Loans	499	291	-	-	-
Debt Issuance (Retirement)	-	-	-	-	-
Other Financing Items	(44)	(41)	(47)	(49)	(53)
Net Cash Flow	(48)	(52)	108	210	178
Balance Sheet (USD mn)					
Cash & Cash Equivalents	559	500	611	824	1,006
Account Receivables	471	474	487	535	580
Inventories	52	64	59	66	74
Other Current Assets	215	375	330	346	410
Net Fixed Assets	1,432	1,769	2,157	1,737	1,983
Other Non-current Assets	2,863	3,509	3,059	2,667	2,324
Total Assets	5,659	6,692	6,703	6,174	6,377
Short-term Liabilities	779	899	946	981	1,096
Long-term Liabilities	2,438	2,798	2,778	2,476	2,451
Total Liabilities	3,217	3,697	3,724	3,456	3,546
Shareholder's Equity	2,436	2,559	2,543	2,282	2,395
Minority Interest	6	436	436	436	436
Total Equity & Liabilities	5,659	6,692	6,703	6,174	6,377
KEY RATIO					
Sales Growth (%)	46.68	-6.64	13.02	5.68	7.62
EPS Growth (%)	126.32	-29.96	44.90	5.03	3.89
EBITDA Margin (%)	3589.55	29.23	32.10	31.09	30.32
Payout Ratio (%)	54.63	50.00	50.00	50.00	50.00
ROE (%)	22.53	12.87	18.74	21.57	21.52
LT Debt/Equity (%)	80.51	71.63	67.96	59.11	51.15
EV/EBITDA (x)	4.95	7.27	5.65	5.07	4.64
P/E (x)	10.04	14.34	9.90	9.42	9.07

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Stock Recommendation History

Date	Recommendation	Target Price (IDR)
July 18, 2012	BUY	1,670
January 5, 2012	BUY	2,000
July 26, 2011	HOLD	2,625

Source: Sinarmas Sekuritas Research