

Moderate performance. 1Q18 revenue came in at USD 764.0 mn (+5.1% YoY, -6.8% QoQ). Despite higher blended ASP at USD 64.4 per ton (+14.1% YoY, +5.3% QoQ), ADRO 1Q18 performance was dampened by weak coal production in the quarter, mainly caused by bad weather condition (1Q18 production: 10.95 Mt; -7.7% YoY, -11.9% QoQ), which was the lowest level in the past three years. Meanwhile on the cost side, cash cost was recorded 12.0% higher than the year before or at USD 44.0 per ton, ultimately affected by higher SR, fuel cost and royalty payment to the government. On opex side, ADRO posted a jump of 25.9% YoY, contributed by an increase in sales commission and salaries expense from additional new employees for AMC mines. Furthermore, effective tax rate was recorded higher at 46.7% (vs 39.4% in 1Q17). Overall, net profit was recorded weak at USD 74.4 mn (-23.4% YoY, -32.8% QoQ) which resulted in lower net margin of 9.7% (vs 13.4% in 1Q17).

Ramp-up production. Due to heavy weather condition in 1Q18, production fell below management target at 10.95 Mt (20.3% of FY18 target). Despite soft production, we think the company will still be able to deliver their FY18 target by ramping up their production in 2H18. Historically, first quarter has always been the toughest quarter for coal production and this year's rainfall were not any better than last year. We think company's coal production should recover in upcoming quarters along with their earnings.

Minimal impact on DMO. On the back of DMO, ADRO has lowered their FY18 EBITDA guidance to USD 1.1-1.3 mn, from previously USD 1.3-1.5 mn. We think the impact of DMO is quite minimal for ADRO, -3.8% for revenue from our previous estimate. Note that current market price is still higher compared to last year average (USD 88 per ton). On the cost side, cash cost and opex will be maintained at current level. Hence, with production recovery, margin should also improve in upcoming quarters.

Maintain BUY call on ADRO with lowered FY18 target price at 2,480 derived via DCF valuation. We maintain our BUY call for ADRO but revised and lowered our forecast earnings for ADRO after adjusting with their 1Q18 weak earnings and DMO pricing. We remain to like ADRO as we think their production and earnings should recover in upcoming quarters. Downside risk to our call include lower than expected coal price and coal production and higher than expected cash cost.

Highlights (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	2,524	3,258	3,522	3,323	3,456
% growth	-6%	29%	8%	-6%	4%
Gross Profit	919	1,283	1,304	1,279	1,328
Net Profit	335	483	474	499	520
% growth	120%	44%	-2%	5%	4%
Gross Margin (%)	36%	39%	37%	38%	38%
Net Margin (%)	13%	15%	13%	15%	15%
Return on Equity (%)	9%	12%	11%	10%	10%
Return on Assets (%)	5%	7%	6%	7%	6%
EPS	0.01	0.02	0.01	0.02	0.02

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Stock Information

Sector	Coal Mining
Bloomberg Ticker	ADRO IJ
Market Cap. (IDR tn)	59.8
Share Out./Float (mn)	31,986/14,028
Current Price	IDR 1,830
52-week Target Price	IDR 2,480
Upside (%)	35.5%

Share Price Performance

52W High (01/29/18)	2,650
52W Low (05/18/17)	1,395
52W Beta	1.50
YTD Change (%)	-1.1%

Relative Valuations

Trailing P/E	9.2x
Forward P/E	9.4x
P/BV	1.2x
EV/EBITDA	4.2x

Income Statement (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	2,524	3,258	3,522	3,323	3,456
Cost of Revenue	(1,839)	(2,117)	(2,368)	(2,170)	(2,259)
Gross Profit	685	1,142	1,154	1,153	1,196
Operating Expense	(151)	(184)	(202)	(200)	(211)
Other Income (Expense)	54	(6)	(18)	(17)	(17)
EBIT	588	952	934	936	968
EBITDA	919	1,283	1,304	1,279	1,328
Net Financing	(41)	(34)	(29)	(31)	(26)
Share in Net Loss of Associates & JV	0	12	24	20	21
EBT	547	930	929	925	963
Tax	(206)	(393)	(390)	(370)	(385)
Non Controlling Interest	6	53	65	55	58
Net Profit for the Year	335	483	474	499	520

Balance Sheet (USD Mn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	1,077	1,207	1,493	1,595	2,107
Trade Receivables	305	321	347	328	341
Other Current Assets	211	204	237	224	233
Total Current Assets	1,593	1,979	2,078	2,146	2,680
Mining Properties	2,437	2,355	2,406	2,441	2,472
Fixed Assets	1,544	1,507	1,899	2,025	1,984
Other Non Current Assets	949	973	977	972	980
Total Assets	6,522	6,814	7,360	7,585	8,117
Bank Loans	123	201	123	116	121
Other Current Liabilities	522	572	619	586	610
Total Current Liabilities	645	773	742	702	731
Bank Loans	1,296	1,156	1,250	1,179	1,226
Other Non Current Liabilities	796	793	883	812	846
Total Liabilities	2,736	2,723	2,875	2,694	2,803
Share & APIC	1,497	1,497	1,497	1,497	1,497
Retained Earnings	1,628	1,967	2,300	2,650	3,015
Non Controlling Interest	639	623	688	744	801
Other Components of Equity	21	4	0	0	0
Total Equity	3,786	4,092	4,485	4,891	5,314
Total Equity & Liabilities	6,522	6,814	7,360	7,585	8,117

Cash Flow (USD Mn)	2016	2017	2018E	2019F	2020F
Net Income	335	483	474	499	520
Depreciation & Amortization	379	325	370	343	360
Change in Working Capital	34	(211)	231	2	0
Cash Flow from Operating	747	598	1,076	845	881
Capital Expenditure	(303)	(167)	(634)	(332)	(173)
Mining properties	(563)	(39)	(180)	(172)	(177)
Change in Long Term Assets	423	(24)	(3)	5	(8)
Change in Long Term Liabilities	89	(3)	90	(71)	33
Cash Flow from Investing	(353)	(234)	(727)	(570)	(325)
Change in Share & APIC	0	0	0	0	0
Change in Short Term Loans/Bonds	31	83	(75)	(9)	6
Change in Long Term Loans/Bonds	(149)	(140)	94	(71)	47
Dividends Paid	(94)	(144)	(142)	(149)	(155)
Others	192	(33)	61	55	58
Cash Flow from Financing	(19)	(234)	(62)	(173)	(44)
Change in Cash	374	130	286	102	512
Beginning Cash	702	1,077	1,207	1,493	1,595
Ending Cash	1,077	1,207	1,493	1,595	2,107

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	9%	12%	11%	10%	10%
ROA	5%	7%	6%	7%	6%
Gross Margin	27%	35%	33%	35%	35%
Operating Margin	23%	29%	27%	28%	28%
EBITDA Margin	36%	39%	37%	38%	38%
Net Profit Margin	13%	15%	13%	15%	15%
Liquidity & Solvency					
Current Ratio	1.7	1.6	2.0	2.3	2.9
Debt to Equity	0.4	0.3	0.3	0.3	0.3
Debt to Assets	0.2	0.2	0.2	0.2	0.2
Valuation					
Price to Earning (PE)	14.9	12.1	12.4	11.7	11.3
Price to Book (PBV)	1.6	1.4	1.3	1.2	1.1

Key Assumptions	2016	2017	2018E	2019F	2020F
Coal Price (\$/ton)	65.7	85.0	85.0	80.0	80.0
ASP Blended (\$/ton)	43.9	59.1	63.8	57.6	57.6
Coal Production	52.6	51.8	53.8	54.9	57.5
Stripping Ratio	4.4	4.6	4.9	4.8	4.8

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