

One-off expense dragged profit, core earnings in-line. ADRO recorded 9M20 revenue/NPAT/core NPAT at USD 1,955mn/109mn/202mn respectively, down by -26%/-73%/-50% compared to 9M19. Operationally, 9M20 production/sales volume were down by -7%/-9% YoY. While ASP declined by -19% YoY, lower cash cost (-14% YoY) driven by lower SR (-18% YoY) and lower fuel price managed to slightly offset coal price weakness, showing ADRO's superior cash cost control. Worth noting, ADRO booked USD 119mn one-off expense during the quarter, derived from USD 75mn loss on impairment due to lower coal price and USD 48mn from loss on derivative financial instrument as company reduce investment value in one of its subsidiary investment (BEP, 10% ownership). **Excluding one-off expense, core earnings came in at USD 202mn (-50% YoY), forming 72%/71% of our and consensus estimate.**

Superior cost control showed by QoQ margin improvement. On quarterly basis, ADRO posted 3Q20 revenue/gross profit/core NPAT at USD 592mn/139mn/50mn, showing -3%/+12%/+7% QoQ improvement on the back off strong cost control (-14% QoQ) due to lower SR (-3% QoQ), lower fuel price and operational efficiency which managed to fully offset weakness in coal ASP (-7% QoQ). As a result, GPM/core NPM expanded by 330/80 bps QoQ. On bottom line level, core earnings slightly dragged down by continuous loss from Kestrel as the subsidiary booked another earnings loss at USD 54.5 mn (vs USD -40.5 mn in 2Q20) due to weak production (-21% QoQ) and lower ASP price (-9% QoQ).

Revising our forecast. We lowered our FY20E/FY21F EPS by 45%/7%, incorporating one-off expense in 3Q20 as well as adjusting our Kestrel forecast due to weak production from lower demand and lower coking price. We have not changed our operational and core earnings estimate due to ADRO's strong and discipline cost control.

We reiterate our BUY rating for ADRO with unchanged target price of IDR 1,350 (+19% upside), implying 8.7x/7.6x FY21F/22F PE. ADRO remains as our top pick on the sector shown by their superior cost control among the peers. In addition, we remain optimistic on coal sector as we see short term upside on coal price stemmed by global economic recovery and strong China demand. ADRO is currently trading at 7.4x/6.4x FY21F/FY22F PE with implied dividend yield at 6%. Downside risks to our call are lower than expected coal price and policy intervention from China.

Highlights (USD Mn)	2018	2019	2020E	2021F	2022F
Revenue	3,620	3,457	2,612	3,004	3,276
% growth	11.1%	-4.5%	-24.4%	15.0%	9.1%
EBITDA	1,240	999	671	954	1,037
Net Profit	418	404	154	327	375
% growth	-13.6%	-3.2%	-61.9%	112.2%	14.9%
EBITDA Margin	34.3%	28.9%	25.7%	31.8%	31.6%
Net Margin	11.5%	11.7%	5.9%	10.9%	11.5%
Return on Equity	9.7%	10.1%	3.7%	7.5%	8.2%
Return on Assets	5.9%	5.6%	2.4%	4.7%	5.1%
EPS (USD)	0.013	0.013	0.005	0.010	0.012

Richard Suherman

Equity Analyst

+62 21 392 5550 ext. 610

richard.suherman@sinarmassekuritas.co.id**Stock Information**

Sector	Coal Mining
Bloomberg Ticker	ADRO IJ
Market Cap. (IDR tn)	36.1
Share Out./Float (mn)	31,986/13,973
Current Price	IDR 1,130
52-week Target Price	IDR 1,350
Upside (%)	19.5%

Share Price Performance

52W High (12/16/19)	1,715
52W Low (03/20/20)	610
52W Beta	1.7
YTD Change (%)	-25.4%

Relative Valuations

Trailing P/E	22.9x
Forward P/E	8.7x
P/BV	0.8x
EV/EBITDA	2.8x

ADRO - 3Q20 earnings summary

USD Thousand	3Q19	2Q20	3Q20	%QoQ	%YoY	9M19	9M20	%YoY	%DH	%Cons
Revenue	878,904	612,460	591,595	-3%	-33%	2,654,133	1,954,520	-26%	71.3%	71.5%
Cost of Revenue	-644,591	-487,974	-452,190	-7%	-30%	-1,855,435	-1,492,231	-20%		
Gross Profit	234,313	124,486	139,405	12%	-41%	798,698	462,289	-42%	69.8%	68.6%
Operating Expense	-53,066	-36,297	-30,644	-16%	-42%	-167,813	-128,900	-23%		
Other Income/(expense)	-857	12,916	-119,465	N/A	N/A	43	-115,291	N/A		
Operating Income	180,390	101,105	-10,704	-111%	-106%	630,928	218,098	-65%	47.6%	45.9%
Net Financing	-11,938	-16,247	-14,807	-9%	24%	-34,250	-44,477	30%		
Profit/(loss) from JV	6,822	-8,470	-16,823	99%	-347%	66,860	-6,848	-110%		
EBT	175,274	76,388	-42,334	-155%	-124%	663,538	166,773	-75%		
Tax Expense	-58,917	-15,492	-3,518	-77%	-94%	-225,982	-46,104	-80%		
NCI	-7,218	-3,980	138	-103%	-102%	-31,561	-11,290	-64%		
NPAT	109,139	56,916	-45,714	-180%	-142%	405,995	109,379	-73%	39.1%	38.7%
Est. Core NPAT	109,825	46,583	49,858	7%	-55%	405,961	201,612	-50%	72.1%	71.4%
Margin										
GPM	26.7%	20.3%	23.6%			30.1%	23.7%			
OPM	20.5%	16.5%	-1.8%			23.8%	11.2%			
NPM	12.5%	7.6%	8.4%			15.3%	10.3%			
Operational										
Production	14.2	12.9	14.2	10%	0%	44.1	41.1	-7%		
Sales Volume	15.9	12.7	13.6	7%	-14%	44.7	40.8	-9%		
SR	5.0	4.1	4.0	-3%	-20%	4.7	3.9	-18%		
ASP	50.6	44.0	40.8	-7%	-19%	54.5	44.2	-19%		
Cash Cost	41.3	34.2	29.5	-14%	-29%	38.4	33.2	-14%		
Kestrel - Production	1.3	1.2	1.0	-21%	-28%	4.8	4.1	-15%		
Kestrel - Sales Volume	1.4	1.3	1.1	-13%	-23%	4.7	4.4	-7%		
Kestrel - ASP	107.4	74.7	68.0	-9%	-37%	129.3	81.1	-37%		
Kestrel - Revenue	152,454	94,874	74,835	-21%	-51%	603,973	352,813	-42%		
Kestrel - NPAT	-3,516	-40,468	-54,502	N/A	N/A	88,505	-78,982	N/A		

Source: Company Data, Sinarmas Investment Research

	Previous			New			%Change		
	2020E	2021F	2022F	2020E	2021F	2022F	2020E	2021F	2022F
Revenue	2,741	3,084	3,327	2,612	3,004	3,276	-5%	-3%	-2%
Gross Profit	662	809	872	603	787	862	-9%	-3%	-1%
Operating Profit	458	584	630	319	580	639	-30%	-1%	1%
Net Profit	280	352	394	154	327	375	-45%	-7%	-5%
Key Assumptions									
Coal Production	53.9	56.6	57.1	53.9	56.6	57.2	0%	0%	0%
Sales Volume	54.4	57.1	57.6	54.4	57.1	57.7	0%	0%	0%
SR	4.4	4.4	4.4	4.0	4.4	4.6	-9%	0%	5%
XW1 Coal Price	60	65	70	60	65	70	0%	0%	0%

Income Statement (USD Mn)	2018	2019	2020E	2021F	2022F
Revenue	3,620	3,457	2,612	3,004	3,276
Cost of Revenue	(2,410)	(2,493)	(2,009)	(2,217)	(2,414)
Gross Profit	1,210	965	603	787	862
Operating Expense	(194)	(233)	(169)	(207)	(223)
Other Income (Expense)	(124)	(114)	(115)	0	0
EBIT	892	618	319	580	639
EBITDA	1,240	999	671	954	1,037
Net Financing	(41)	(38)	(60)	(55)	(52)
Gain/(loss) of JV	(29)	80	(20)	45	60
EBT	821	659	240	570	647
Tax	(343)	(224)	(74)	(219)	(244)
Non Controlling Interest	60	31	12	25	29
Net Profit for the Year	418	404	154	327	375
Adj. Core Profit	490	480	238	327	375

Balance Sheet (USD Mn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	928	1,576	1,224	1,632	2,011
Trade Receivables	377	319	241	278	303
Other Current Assets	206	208	131	188	207
Total Current Assets	1,600	2,110	1,596	2,098	2,520
Mining Properties	2,297	1,534	1,436	1,328	1,209
Fixed Assets	1,610	1,722	1,786	1,816	1,855
Other Non Current Assets	1,554	1,851	1,598	1,651	1,713
Total Assets	7,061	7,217	6,416	6,893	7,296
Bank Loans	183	508	132	152	165
Other Current Liabilities	634	725	457	583	640
Total Current Liabilities	816	1,233	589	734	805
Bank Loans	1,211	1,406	1,242	1,318	1,371
Other Non Current Liabilities	730	595	449	501	546
Total Liabilities	2,758	3,234	2,280	2,553	2,721
Share & APIC	1,497	1,497	1,497	1,497	1,497
Retained Earnings	2,161	2,289	2,373	2,553	2,759
Non Controlling Interest	652	253	265	290	319
Other Components of Equity	(8)	(56)	-	-	-
Total Equity	4,303	3,983	4,136	4,340	4,575
Total Equity & Liabilities	7,061	7,217	6,416	6,893	7,296

Source: Company Data, Sinarmas Investment Research

Cash Flow (USD Mn)	2018	2019	2020E	2021F	2022F
Net Income	418	404	154	327	375
Depreciation & Amortization	412	219	358	381	405
Change in Working Capital	160	224	(95)	26	10
Cash Flow from Operating	990	847	417	734	790
Capital Expenditure	(398)	(182)	(261)	(240)	(262)
Mining properties	(59)	613	(62)	(62)	(62)
Change in Long Term Assets	(581)	(296)	253	(54)	(62)
Change in Long Term Liabilities	(63)	(135)	(146)	52	45
Cash Flow from Investing	(1,100)	(1)	(217)	(305)	(341)
Change in Share & APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	(17)	331	(387)	25	17
Change in Long Term Loans/Bonds	55	194	(164)	76	53
Dividends Paid	(223)	(277)	(69)	(147)	(169)
Others	17	(447)	68	25	29
Cash Flow from Financing	(168)	(198)	(552)	(21)	(70)
Change in Cash	(279)	648	(352)	408	379
Beginning Cash	1,207	928	1,576	1,224	1,632
Ending Cash	928	1,576	1,224	1,632	2,011

Financial Ratio & Key Assumption	2018	2019	2020E	2021F	2022F
Profitability					
ROE	9.7%	10.1%	3.7%	7.5%	8.2%
ROA	5.9%	5.6%	2.4%	4.7%	5.1%
Gross Margin	33.4%	27.9%	23.1%	26.2%	26.3%
Operating Margin	24.6%	17.9%	12.2%	19.3%	19.5%
EBITDA Margin	34.3%	28.9%	25.7%	31.8%	31.6%
Net Profit Margin	11.5%	11.7%	5.9%	10.9%	11.5%
Liquidity					
Current Ratio	1.1	1.3	2.1	2.2	2.5
Solvency					
Debt to Equity	0.3	0.5	0.3	0.3	0.3
Debt to Assets	0.2	0.3	0.2	0.2	0.2
Valuation					
Price to Earnings (PE)	6.8	7.0	18.5	8.7	7.6
Price to Book (PBV)	0.7	0.7	0.7	0.7	0.6
Assumptions					
Coal Price (\$/ton)	107.3	78.0	60.0	65.0	70.0
ASP blended	61.5	53.5	43.5	47.8	51.9
Coal production	54.0	57.7	53.9	56.6	57.2
Stripping Ratio	5.1	4.5	4.0	4.4	4.6

Source: Company Data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

BUY: Share price may rise by more than 15% over the next 12 months.

ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

REDUCE: Share price may range between -10% to -15% over the next 12 months.

SELL: Share price may fall by more than 15% over the next 12 months.

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst (s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2020). All rights reserved.