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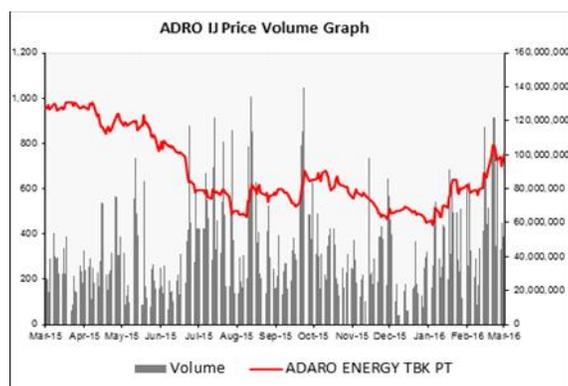


PT Adaro Energy Tbk is a coal mining company. The company and its subsidiaries currently deal in coal mining and trade, coal infrastructure and logistics, and mining contractor services.

Current Price: IDR 750

52-Week Target Price: IDR 900

Previous Target Price: IDR 750



Share Price Performance

Price (IDR)	750
52-Week High (03/24/15)	995
52-Week Low (01/20/16)	437
52-Week Beta	2.08
YTD Change/%	235.00 / 45.63%

Stock Information

Market Cap (IDR)	23,989.5B
Shares Out/Float (M)	31,986.0/13,743.6

Company Update

PT Adaro Energy Tbk (ADRO)

Belts Tightening

BUY

BUY rating with TP IDR 900/share. We maintain our BUY recommendation with upgraded 52-week target price to IDR 900/share, which represents 13x PER FY16E. The stock price has rallied by +45% YTD on the back of the optimism in commodities outlook especially on the rebound of oil price from its lowest level to USD 35-40/barrel, which inline with our expectation. On the top of that, we upgrade the stock target price on the back of the expectation of the company's better earnings (+5% YoY) this year which resulted from lower production cost (-16% YoY) and lower finance costs (-24% YoY) despite lower revenue (-15% YoY).

FY15 Financial Results. Revenue was decreased by 19% YoY to USD 2.68mn due to sales volume decreased by 7% YoY to 53.11 MT and ASP decreased by 14% YoY. Coal oversupply continues to weigh in the industry and also lower demand growth in China added downward pressure on coal price. Cash cost (excluding royalty) was decreased by 16% YoY to USD 27.98/ton which mainly due to lower strip ratio from 5.68x in FY14 to 5.19x in FY15 and lower -than-budgeted fuel costs. Thus, cost of revenue decreased by 18% YoY to USD 2.14mn. Net income fell by 17% YoY to USD 151mn due to lower revenue and a USD 65mn of non-cash impairment change.

Debt Reduced. During the challenges last year, the company reduced total liabilities by 17% YoY to USD 2.61bn as results from lower trade payables and lower bank loans as part of the refinancing. Total bank loans fell by 17% YoY to USD 1.48bn by last year end. Net debt to operational EBITDA ratio was improved to 1.18x while net DER was also improved to 0.26x.

FY16E Better Earnings. Coal production is targeted to reach 52-54 MT, an increase up to 5% YoY, with blended strip ratio of 4.71x, a decrease from 5.19x in FY15. With the cash costs is targeted to reach USD 27/ton, the company aims EBITDA to reach USD450-700mn. Inline with the management's estimate, we forecast company's consolidated revenue to reach USD 2.29bn (-15% YoY) due to relatively flat sales volume and lower ASP by 15% YoY this year. On the other hand, net profit is estimated to increase by 5% YoY to reach USD 159mn with net margin improved to 7%.

Financial Highlights	2014	2015	2016E	2017F	2018F
Revenue (USD mn)	3,325	2,684	2,287	2,646	3,054
% growth	1%	-19%	-15%	16%	15%
Gross Profit (USD mn)	719	543	484	581	693
Net Profit (USD mn)	183	151	159	191	243
% growth	-21%	-17%	5%	20%	27%
Gross Margin (%)	21.6%	20.2%	21.2%	22.0%	22.7%
Net Margin (%)	5.5%	5.6%	7.0%	7.2%	8.0%
Return on Equity (%)	5.6%	4.5%	4.6%	5.3%	6.4%
Return on Assets (%)	2.9%	2.5%	2.8%	3.2%	4.0%

Source: Company Data, SinarMas Investment Research

Operational Performance	FY14	FY15	Growth (% YoY)	FY16E	Growth (% YoY)
Production Volume (MT)	56.21	51.46	-8.5%	52.00	1.0%
Sales Volume (MT)	57.02	53.11	-6.9%	53.21	0.2%
Overburden Removal (Mbcm)	319.09	266.97	-16.3%	244.92	-8.3%
Strip Ratio (x)	5.68	5.19	-8.6%	4.71	-9.2%

Financial Performance (in USD '000)	FY14	FY15	Growth (% YoY)	FY16E	Growth (% YoY)
Revenue	3,325,444	2,684,476 	-19.3%	2,287,320	-14.8%
Sales of Coal	3,102,126	2,491,596	-19.7%	2,128,333	-14.6%
Mining Services & Others	223,318	192,880	-13.6%	158,987	-17.6%
Cost of Revenue	2,605,707	2,141,176 	-17.8%	1,802,581	-15.8%
Sales of Coal	2,431,411	1,990,931	-18.1%	1,678,615	-15.7%
Mining Services & Others	174,296	150,245	-13.8%	123,966	-17.5%
Gross Profit	719,737	543,300 	-24.5%	484,739	-10.8%
Sales of Coal	670,715	500,665 	-25.4%	449,718	-10.2%
Mining Services & Others	49,022	42,635 	-13.0%	35,021	-17.9%

Appendix I: Financial Statements

Balance Sheet (in thousand of USD)	2014	2015	2016E	2017F	2018F
CURRENT ASSETS					
Cash and cash equivalents	745,248	702,452	965,499	938,780	988,982
Trade receivables - third parties	285,560	195,694	181,579	201,505	237,490
Inventories	96,743	72,791	64,282	73,068	85,074
Total Current Assets	1,271,632	1,092,519	1,335,433	1,362,528	1,498,701
NON-CURRENT ASSETS					
Investment in associates and joint ventures	395,626	327,460	275,567	320,828	369,086
Mining properties	2,098,603	2,026,965	2,059,950	2,084,700	2,109,450
Fixed assets	1,616,603	1,467,111	1,313,023	1,155,185	993,597
Total Non-Current Assets	5,142,232	4,866,110	4,468,209	4,554,756	4,594,759
CURRENT LIABILITIES					
Trade payables	351,145	196,419	204,137	211,674	254,618
Bank loans	160,522	93,574	128,500	162,000	187,500
Total Current Liabilities	774,595	454,473	499,410	512,763	606,039
NON-CURRENT LIABILITIES					
Bank loans	1,613,437	1,383,481	1,281,500	1,119,500	932,000
Deferred tax liabilities	575,888	582,305	444,306	535,365	596,840
Total Non-Current Liabilities	2,379,797	2,151,113	1,833,862	1,783,374	1,669,510
EQUITY					
Share capital	342,940	342,940	342,940	342,940	342,940
Additional paid-in capital, net	1,154,494	1,154,494	1,154,494	1,154,494	1,154,494
Retained earnings	1,310,883	1,387,009	1,487,290	1,616,161	1,784,337
Non-controlling interests	491,862	487,155	504,201	526,107	554,694
TOTAL EQUITY	3,259,472	3,353,043	3,470,370	3,621,148	3,817,911

Income Statement (in thousand of USD)	2014	2015	2016E	2017F	2018F
Revenue	3,325,444	2,684,476	2,287,320	2,646,454	3,054,011
Cost of revenue	2,605,707	2,141,176	1,802,581	2,065,299	2,360,441
Gross profit	719,737	543,300	484,739	581,155	693,570
Operating expenses	163,192	133,010	112,790	130,812	150,777
Other expenses, net	66,713	78,409	56,348	71,247	78,727
Operating income	489,832	331,881	315,602	379,096	464,066
Finance income	25,260	11,859	18,619	20,477	22,397
Finance costs	(189,717)	(60,762)	(46,165)	(49,350)	(44,853)
Profit before income tax	321,639	279,973	288,056	350,223	441,610
Income tax expense	138,395	128,970	128,319	158,672	198,399
Profit for the year	183,244	151,003	159,737	191,551	243,211

Appendix II: Financial Ratios

Ratios	2014	2015	2016E	2017F	2018F
Profitability					
ROE	5.6%	4.5%	4.6%	5.3%	6.4%
ROA	2.9%	2.5%	2.8%	3.2%	4.0%
Gross Margin	21.6%	20.2%	21.2%	22.0%	22.7%
Operating Margin	14.7%	12.4%	13.8%	14.3%	15.2%
Net Margin	5.5%	5.6%	7.0%	7.2%	8.0%
Net Income Growth	-21.0%	-17.6%	5.8%	19.9%	27.0%
Liquidity					
Current Ratio (x)	1.64	2.40	2.67	2.66	2.47
Quick Ratio (x)	1.52	2.24	2.55	2.51	2.33
Solvency					
Debt/Equity (x)	0.52	0.43	0.37	0.31	0.24
Debt/Assets (x)	0.26	0.24	0.22	0.19	0.15
Valuations					
P/E (x)	11.83	13.78	13.04	10.88	8.57
P/BV (x)	0.65	0.63	0.61	0.58	0.55

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