

James Wahjudi
Senior Equity Analyst
james.wahjudi@sinarmassekuritas.co.id
(021) 392 5550 ext: 611

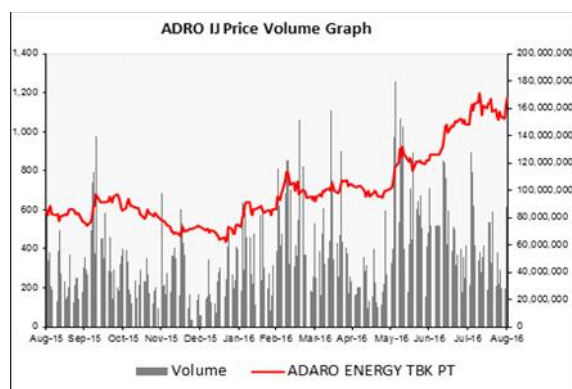


PT Adaro Energy Tbk is a coal mining company. The company and its subsidiaries currently deal in coal mining and trade, coal infrastructure and logistics, and mining contractor services.

Current Price: IDR 1,180

52-Week Target Price: IDR 1,300

Previous Target Price: IDR 900



Share Price Performance

Price (IDR)	1,180
52-Week High (08/09/16)	1,200
52-Week Low (01/20/16)	437
52-Week Beta	2.31
YTD Change/%	665.00 / 129.13%

Stock Information

Market Cap (IDR)	37,743.4B
Shares Out/Float (M)	31,986.0/13,743.6

Company Update

PT Adaro Energy Tbk (ADRO)

1H16 Earnings Review

NEUTRAL

NEUTRAL with TP IDR 1,300/Share

We change our recommendation to NEUTRAL for the stock with upgraded 52-week target price to IDR 1,300/share, which implies 16x PER FY16E and 14x PER FY17F. We view the company's 1H16 solid performance will continue thorough out this year supported by coal price recovery and better costs efficiency, therefore we raise our FY16E net profit.

Inline 1H16 Results: Margins Expanded

The company reported its 1H16 revenue and net profit by USD 1.18bn (-16% YoY) and USD 123.04mn (+3% YoY) in respectively, which inline with our FY16E estimate by 51% and 63% in respectively. The decrease in revenue was due to the decrease in export sales revenue by 19% YoY, which was equal to 76% contribution to total coal sales revenue. On the back of better costs efficiency across the board, gross and net profit margins expanded to 26% and 11% in respectively from 21% and 9% in 1H15.

Inline Production Despite Lower Stripping Ratio

In the first six months this year, the company produced 25.86 Mt of coal (50% of our FY16E) which was flat compared to 1H15, while it sold 27.13 Mt of coal (51% of our FY16E), an increase by 2% YoY. On the back of the decrease in overburden removal by 18% YoY, the blended average strip ratio was also down at the same pace by 18% YoY from 5.27x to 4.30x, which was lower than the company's planned strip ratio of 4.71x. We lower our FY16E strip ratio assumption from 4.71x to 4.5x on the back of better efficiency outlook in 2H16.

Power Plant Projects

The company has achieved its financial closure on its Batang Power Plant project in early June 2016. The capacity of Batang Power Plant is 2x1,000 MW which located in central Java. Moreover, the company focuses on the financial closure for Tanjung Power Indonesia to built 2x100 MW power plant in South Kalimantan.

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	549	655	779
Net Profit (USD mn)	183	151	196	232	290
% growth	-21%	-17%	30%	19%	25%
Gross Margin (%)	21.6%	20.2%	24.0%	24.8%	25.5%
Net Margin (%)	5.5%	5.6%	8.5%	8.8%	9.5%
Return on Equity (%)	5.6%	4.5%	5.6%	6.3%	7.4%
Return on Assets (%)	2.9%	2.5%	3.4%	3.9%	4.7%

Source: Company Data, SinarMas Investment Research

Operational Performance	2Q16	1Q16	QoQ	2Q15	YoY	1H16	1H15	YoY
Production Volume (MT)	13.23	12.63	4.8%	12.72	4.0%	25.86	25.88	-0.1%
Sales Volume (MT)	13.66	13.47	1.4%	13.15	3.9%	27.13	26.59	2.0%
Overburden Removal (Mbcm)	57.65	53.58	7.6%	74.24	-22.3%	111.23	136.35	-18.4%
Strip Ratio (x)	4.36	4.24	2.7%	5.84	-25.3%	4.30	5.27	-18.4%

Financial Performance	1H16	1H15	YoY	FY16E	1H16 vs. FY16E
(in million of USD)					
Revenue	1,176	1,399	-15.9%	2,287	51.4%
Sales of Coal	1,096	1,299	-15.6%	2,128	51.5%
Mining Services & Others	80	100	-19.7%	159	50.5%
Cost of Revenue	873	1,100	-20.6%	1,738	50.2%
Sales of Coal	812	1,022	-20.5%	1,614	50.3%
Mining Services & Others	61	78	-22.0%	124	49.0%
Gross Profit	303	299	1.2%	549	55.1%
<i>margin</i>	<i>25.7%</i>	<i>21.4%</i>		<i>24.0%</i>	
Sales of Coal	283	277	2.2%	514	55.1%
Mining Services & Others	20	22	-11.4%	35	55.7%
Operating Expenses	66	77	-13.6%	169	39.2%
Operating Income	236	222	6.4%	380	62.2%
Finance Costs	25	29	-13.7%	46	54.3%
Finance Income	4	8	-49.1%	19	21.2%
Profit before Income Tax	215	198	8.2%	353	60.8%
Income tax Expenses	92	79	15.4%	157	58.3%
Profit for the Period	123	119	3.3%	196	62.9%
<i>margin</i>	<i>10.5%</i>	<i>8.5%</i>		<i>8.5%</i>	

Sales Destination by Country in 1H16

Indonesia	24%
India	16%
China	14%
Hong Kong	8%
Japan	8%
Korea	7%
Malaysia	8%
Spain	5%
Philippines	3%
Taiwan	3%
Others	3%
Total	100%

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	946,549	941,585	1,017,443
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	1,341,499	1,393,637	1,560,111
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	4,477,483	4,565,169	4,606,928
CURRENT LIABILITIES					
Trade payables	351,145	196,419	196,822	204,082	245,413
Bank loans	160,522	93,574	128,500	162,000	187,500
Total Current Liabilities	774,595	454,473	491,680	504,562	596,225
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	428,385	516,164	575,262
Total Non-Current Liabilities	2,379,797	2,151,113	1,814,626	1,760,121	1,643,408
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	1,523,450	1,678,534	1,877,923
Non-controlling interests	491,862	487,155	510,348	536,710	570,603
TOTAL EQUITY	3,259,472	3,353,043	3,512,676	3,694,123	3,927,405

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	1,737,988	1,991,226	2,275,102
Gross profit	719,737	543,300	549,332	655,228	778,908
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	380,195	453,169	549,405
Finance income	25,260	11,859	18,619	20,075	22,464
Finance costs	(189,717)	(60,762)	(46,165)	(49,350)	(44,853)
Profit before income tax	321,639	279,973	352,648	423,894	527,016
Income tax expense	138,395	128,970	157,093	192,049	236,768
Profit for the year	183,244	151,003	195,556	231,845	290,247

Appendix II: Financial Ratios

Ratios	2014	2015	2016E	2017F	2018F
Profitability					
ROE	5.6%	4.5%	5.6%	6.3%	7.4%
ROA	2.9%	2.5%	3.4%	3.9%	4.7%
Gross Margin	21.6%	20.2%	24.0%	24.8%	25.5%
Operating Margin	14.7%	12.4%	16.6%	17.1%	18.0%
Net Margin	5.5%	5.6%	8.5%	8.8%	9.5%
Net Income Growth	-21.0%	-17.6%	29.5%	18.6%	25.2%
Liquidity					
Current Ratio (x)	1.64	2.40	2.73	2.76	2.62
Quick Ratio (x)	1.52	2.24	2.60	2.62	2.47
Solvency					
Debt/Equity (x)	0.52	0.43	0.36	0.30	0.24
Debt/Assets (x)	0.26	0.24	0.22	0.19	0.15
Valuations					
P/E (x)	11.83	13.78	16.02	13.51	10.79
P/BV (x)	0.65	0.63	0.90	0.86	0.81

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