

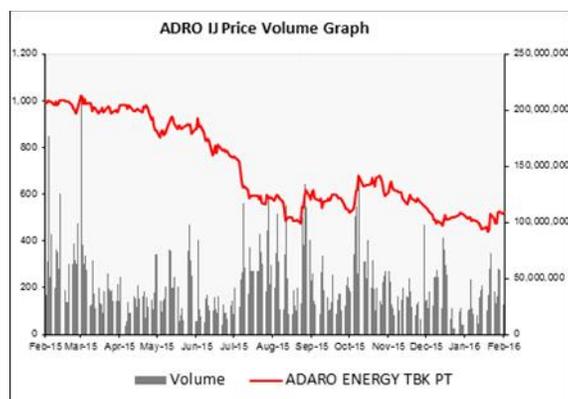
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**PT Adaro Energy Tbk is a coal mining company. The company and its subsidiaries currently deal in coal mining and trade, coal infrastructure and logistics, and mining contractor services.**

**Current Price: IDR 520**

**52-Week Target Price: IDR 750**



#### Share Price Performance

Price (IDR)	520
52-Week High (03/03/15)	1,035
52-Week Low (01/20/16)	437
YTD Change/%	5.00 / 0.97%

#### Stock Information

Market Cap (IDR)	16,632.7B
Shares Out/Float (M)	31,986.0/13,743.6

Source: Bloomberg, Sinarmas Investment Research

## Company Update

### PT Adaro Energy Tbk (ADRO)

## Attractive Play for Commodity Rebound

**BUY**

#### FY15 Operational Results Slightly Missed Targets

The company's total coal production in 2015 was decreased by 8% YoY to 51.46 MT, slightly lower compared to both company's low-end guidance and our estimate of 52 MT. The FY15 blended average strip ratio was 5.19x, also slightly below company's target of 5.33x. Furthermore, the company sold 53.11 MT of coal, decreased by 7% YoY, slightly missed our sales target of 54 MT, as the coal market was still continue to be challenging last year.

#### Lowering Our Assumptions

Due to FY15 operational results announced by the company slightly missed both the company's and our targets, we lower our FY15E assumption accordingly to the results and our FY16F forecast assumption accordingly to company's guidance.

#### Brighter Outlook on Commodities

Our oil price assumption for long-term is set to USD 35-40 per barrel as we view most oil producers' costs are economically in between that price range. Moreover, we also view domestic demand has already started to pick up where DMO increased by almost 15% YoY in 2015.

#### What We Expect When Financial Results Released

After the adjustment in our financial modeling, we estimate ADRO's FY15E and FY16F total revenue to reach USD 2.74bn (-18% YoY, -2% from previous) and USD 2.92bn (+7% YoY, -5% from previous) in respectively. Despite the decline in top line, FY15E and FY16F net profit is forecasted to reach USD 248mn (+35% YoY) and USD 269mn (+9% YoY) in respectively.

#### Valuations - Attractive Play for Commodity Rebound

After we made some adjustment in our assumptions, we maintain our BUY rating and target price of IDR 750/share, which represents 7x PE16F. The company's valuation looks attractive at this price as it has 45% potentially upside.

Financial Highlights	2013	2014	2015E	2016F	2017F
Revenue (USD mn)	3,285	3,325	2,736	2,776	3,064
% growth	-12%	1%	-18%	2%	10%
Gross Profit (USD mn)	744	720	662	672	742
Net Profit (USD mn)	231	183	248	256	287
% growth	-40%	-21%	35%	3%	12%
Gross Margin (%)	22.7%	21.7%	24.2%	24.2%	24.2%
Net Margin (%)	7.1%	5.5%	9.1%	9.2%	9.4%
Return on Equity (%)	7.3%	5.6%	7.0%	6.9%	7.2%
Return on Assets (%)	3.5%	2.9%	3.9%	4.0%	4.5%

Source: Company Data, Sinarmas Investment Research

Operational Performance	FY14	FY15	Growth (% YoY)	Our FY15E Assumption	Difference (%)
Production Volume (MT)	56.21	51.46	-8.5%	52.00	-1.0%
Sales Volume (MT)	57.02	53.11	-6.9%	54.00	-1.6%
Overburden Removal (Mbcm)	319.09	266.97	-16.3%	275.60	-4.9%
Strip Ratio (x)	5.68	5.19	-8.6%	5.30	-2.1%

FY16F	Company's Guidance	Our Assumption		
		Old	New	Changes (%)
Production Volume (MT)	52-54	55	52	-5.5%
Sales Volume (MT)	-	57	54	-5.3%
Strip Ratio (x)	4.71	5.0	4.7	-6.0%
Cash Cost (USD/tonne)	26-28	31	26	-12.9%
EBITDA (USD mn)	450-700	737	715	-3.0%
Capex (USD mn)	75-100	75	75	0.0%

**Appendix I: Financial Statements**

<b>Balance Sheet (in IDR Mn)</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016F</b>	<b>2017F</b>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	680,904	745,248	794,959	809,628	700,628
Trade receivables - third parties	309,565	285,560	246,412	244,230	272,739
Inventories	102,747	96,743	82,594	82,291	91,655
<b>Total Current Assets</b>	<b>1,370,879</b>	<b>1,271,632</b>	<b>1,355,121</b>	<b>1,350,528</b>	<b>1,318,100</b>
<b>NON-CURRENT ASSETS</b>					
Investment in associates and joint ventures	402,021	395,626	330,202	332,689	368,468
Mining properties	2,186,801	2,098,603	1,774,165	1,776,224	1,973,525
Fixed assets	1,705,799	1,616,603	1,466,593	1,312,833	1,155,323
<b>Total Non-Current Assets</b>	<b>5,325,072</b>	<b>5,142,016</b>	<b>4,945,239</b>	<b>4,994,367</b>	<b>5,134,588</b>
<b>CURRENT LIABILITIES</b>					
Trade payables	326,987	351,145	273,123	280,434	307,673
Bank loans	155,577	160,522	137,000	207,250	298,500
<b>Total Current Liabilities</b>	<b>773,679</b>	<b>774,595</b>	<b>652,076</b>	<b>737,694</b>	<b>839,944</b>
<b>NON-CURRENT LIABILITIES</b>					
Bank loans	1,195,541	1,613,437	1,511,750	1,304,500	1,006,000
Deferred tax liabilities	631,734	574,855	486,467	479,062	536,734
<b>Total Non-Current Liabilities</b>	<b>2,748,079</b>	<b>2,380,905</b>	<b>2,121,392</b>	<b>1,872,498</b>	<b>1,637,220</b>
<b>EQUITY</b>					
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	1,196,797	1,309,707	1,497,186	1,673,634	1,878,110
Non-controlling interests	490,218	491,714	532,272	563,635	599,979
<b>Total Equity</b>	<b>3,174,193</b>	<b>3,258,148</b>	<b>3,526,893</b>	<b>3,734,703</b>	<b>3,975,523</b>

<b>Income Statement (in thousand of USD)</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016F</b>	<b>2017F</b>
Revenue	3,285,142	3,325,444	2,736,350	2,776,556	3,064,263
Cost of revenue	2,540,984	2,605,444	2,073,364	2,104,550	2,322,226
Gross profit	744,158	720,000	662,986	672,006	742,037
Operating expenses	173,089	159,734	137,806	136,600	152,537
Other expenses, net	31,812	66,713	40,696	48,498	49,548
Operating income	539,257	493,553	484,483	486,908	539,952
Finance income	16,139	25,260	25,842	28,529	28,565
Finance costs	(116,582)	(189,717)	(63,499)	(57,706)	(52,911)
Share in net loss of associates and joint ventures	(14,558)	(3,736)	-	-	-
Profit before income tax	424,256	325,360	446,827	457,730	515,605
Income tax expense	192,259	141,820	198,627	201,496	228,087
Profit for the year	231,997	183,540	248,200	256,234	287,519
Other comprehensive income/(loss) for the year, net of tax	(3,852)	(33,017)	-	-	-
<b>Total comprehensive income for the year</b>	<b>228,145</b>	<b>150,523</b>	<b>248,200</b>	<b>256,234</b>	<b>287,519</b>

Source: Company data, Sinarmas Investment Research

**Appendix II: Financial Ratios**

Ratios	2013	2014	2015E	2016F	2017F
<b>Profitability</b>					
ROE	7.3%	5.6%	7.0%	6.9%	7.2%
ROA	3.5%	2.9%	3.9%	4.0%	4.5%
Gross margin	22.7%	21.7%	24.2%	24.2%	24.2%
Operating margin	16.4%	14.8%	17.7%	17.5%	17.6%
Net margin	7.1%	5.5%	9.1%	9.2%	9.4%
Net income growth	-39.5%	-20.9%	35.2%	3.2%	12.2%
<b>Liquidity</b>					
Current Ratio (x)	1.77	1.64	2.08	1.83	1.57
Quick Ratio (x)	1.64	1.52	1.95	1.72	1.46
<b>Solvency</b>					
D/E (x)	0.39	0.52	0.44	0.35	0.25
Debt/Assets (x)	0.19	0.26	0.25	0.21	0.16
<b>Valuations</b>					
P/E (x)	7.52	9.87	7.19	6.97	6.21
P/BV (x)	0.55	0.54	0.49	0.46	0.44

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