

Outstanding FY16 Results. The company booked strong FY16 results, which above our estimate. Although revenue decreased by 6% YoY to USD 2.52 bn (110.4% of ours) mainly due to 8% YoY lower average selling price, net profit increased by 125.6% YoY to USD 340.69 million (137.8% of ours) supported by better cost efficiency. Cost of revenue decreased by 14% YoY to USD 1.84 bn, mainly due to lower stripping ratio to 4.45x, lower than company's guidance of 4.71x, which was recorded as the lowest for at least in the last six consecutive years. Moreover, production volume achieved its range target of 52-54 million tons by booking 52.64 million tons (+2.3% YoY, 101.2% of ours) while sales volumes reached to 54.09 million tons (+1.8% YoY, 101.7% of ours).

FY17E Outlook. As we think the industry is estimated to be better this year and also the company's plan to include 1 million tons of MetCoal in their production target, we view that the company might be able to achieve its total production more towards to the high-end of guidance range of 54 million tons (+2.6% YoY). In term of financial, supported by higher selling price, we estimate the company will generate better revenue and net profit by 29.6% YoY and 11.5% YoY in respectively this year.

Higher Coal Price Sentiment. We have seen that Newcastle's coal price reached its strongest price level in the last quarter FY16, which touched USD 114.75/ton, the strongest level in the last six consecutive years. For that, during 4Q16 average coal price stood at USD 93.73/ton, stronger by 77.8% YoY and 41.7% QoQ. We view Newcastle's price movement this year will quite sustain above USD 70/ton as there are possibilities of: 1) increasing demand from China as it might tighten back its local production policy in April to maintain coal price stability; 2) continuation to reduce the oversupply market from coal producers.

Changes in Our Forecast. We make some adjustment to our new FY17E and FY18F targets from previous: 1) production volume by -1.1% YoY and -1.2% YoY; 2) sales volume by -1.1% YoY and -1.1% YoY; and 3) strip ratio by +1.3% YoY and -1.4% YoY in respectively.

Valuation. We maintain our BUY rating for the stock with upgraded 52-week target price to IDR 2,200/share. The main catalyst for the increase in our TP is supported by higher selling price which will benefit to company's earnings and cash flow. However, downside risk to our recommendation are the lower-than-estimate coal price, the higher-than-estimate cash cost, the heavier-than-average rainfall, and the changes in regulation.

| Financial Highlights | 2015 | 2016 | 2017E | 2018F | 2019F |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (USD mn) | 2,684 | 2,524 | 3,272 | 3,553 | 3,720 |
| % growth | -19.3% | -6.0% | 29.6% | 8.6% | 4.7% |
| Gross Profit (USD mn) | 543 | 685 | 936 | 975 | 1,007 |
| Net Profit (USD mn) | 151 | 341 | 380 | 386 | 405 |
| % growth | -17.6% | 125.6% | 11.5% | 1.6% | 5.1% |
| EPS (USD) | 0.00477 | 0.01046 | 0.01166 | 0.01185 | 0.01245 |
| Gross Margin (%) | 20.2% | 27.1% | 28.6% | 27.4% | 27.1% |
| Net Margin (%) | 5.6% | 13.5% | 11.6% | 10.9% | 10.9% |
| Return on Equity (%) | 4.5% | 9.0% | 9.3% | 8.9% | 8.7% |
| Return on Assets (%) | 2.5% | 5.2% | 5.6% | 5.4% | 5.6% |

James Wahjudi

Senior Equity Analyst

+62 21 392 5550 ext. 611

james.wahjudi@sinarmassekuritas.co.id**Stock Information**

| | |
|-----------------------|---------------|
| Sector | Coal Mining |
| Bloomberg Ticker | ADRO IJ |
| Market Cap. (IDR tn) | 57.89 |
| Share Out./Float (mn) | 31,986/13,697 |
| Current Price | IDR 1,805 |
| 52-week Target Price | IDR 2,200 |
| Upside (%) | 21.9% |

Share Price Performance

| | |
|---------------------|-------|
| 52W High (03/29/17) | 1,845 |
| 52W Low (04/04/16) | 655 |
| 52W Beta | 2.061 |
| YTD Change (%) | 6.78% |

Relative Valuations

| | |
|--------------|--------|
| Trailing P/E | 12.94x |
| Forward P/E | 13.65x |
| P/BV | 1.25x |
| EV/EBITDA | 7.03x |

| FY16 Results (USD mn) | 4Q16 | 3Q16 | QoQ | FY16 | FY15 | YoY |
|---------------------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| Revenue | 746 | 602 | 24% | 2,524 | 2,684 | -6% |
| Cost of Revenue | 526 | 440 | 20% | 1,839 | 2,141 | -14% |
| Gross Profit | 220 | 163 | 35% | 685 | 543 | 26% |
| <i>Gross Margin (%)</i> | <i>29.5%</i> | <i>27.0%</i> | <i>2.5%</i> | <i>27.1%</i> | <i>20.2%</i> | <i>6.9%</i> |
| Operating Expense | 43 | 35 | 23% | 151 | 133 | 14% |
| Operating Income | 177 | 128 | 39% | 534 | 410 | 30% |
| <i>Operating Margin (%)</i> | <i>23.7%</i> | <i>21.2%</i> | <i>2.5%</i> | <i>21.2%</i> | <i>15.3%</i> | <i>5.9%</i> |
| Interest Income | 3 | 2 | 15% | 9 | 12 | -23% |
| Interest Expense | 12 | 13 | -9% | 50 | 61 | -18% |
| Share in Net Loss of Associates | 1 | 0 | 0% | 0 | -3 | |
| Other Income (Expense) | 29 | 23 | 28% | 54 | -78 | |
| Profit Before Tax | 197 | 139 | 42% | 547 | 280 | 95% |
| Income Tax | 67 | 47 | 44% | 206 | 129 | 60% |
| Minority Interest | 4 | 1 | 409% | -6 | 1 | |
| Net Income | 126 | 91 | 38% | 335 | 152 | 120% |
| <i>Net Margin (%)</i> | <i>16.8%</i> | <i>15.2%</i> | <i>1.7%</i> | <i>13.3%</i> | <i>5.7%</i> | <i>7.6%</i> |

| Operational Results | 4Q16 | 3Q16 | QoQ | FY16 | FY15 | YoY |
|----------------------------------|-------------|-------------|------------|-------------|-------------|------------|
| Production Volume (million tons) | 13.3 | 13.5 | -1% | 52.6 | 51.5 | 2% |
| Sales Volume (million tons) | 13.6 | 13.3 | 2% | 54.1 | 53.1 | 2% |
| Overburden Removal (mbcm) | 59.4 | 63.6 | -7% | 234 | 267 | -12% |
| Stripping Ratio (x) | 4.5 | 4.7 | -6% | 4.5 | 5.2 | -14% |
| Coal ASP (USD/ton) | 52.1 | 41.8 | 25% | 44.6 | 48.4 | -8% |

| Forecast Changes | FY17E | | | FY18F | | |
|----------------------------------|--------------|--------------|---------------|--------------|--------------|---------------|
| | Old | New | Change | Old | New | Change |
| Production Volume (million tons) | 54.60 | 54.00 | -1.1% | 57.33 | 56.65 | -1.2% |
| Sales Volume (million tons) | 56.11 | 55.50 | -1.1% | 58.79 | 58.15 | -1.1% |
| Strip Ratio (x) | 4.64 | 4.70 | 1.3% | 4.87 | 4.80 | -1.4% |
| Coal Price (USD/ton) | 70.00 | 70.00 | - | 70.00 | 70.00 | - |
| Revenue (USD mn) | 3,368 | 3,272 | -2.9% | 3,533 | 3,553 | 0.6% |
| Gross Profit (USD mn) | 862 | 936 | 8.6% | 891 | 975 | 9.4% |
| <i>Gross Margin (%)</i> | <i>25.6%</i> | <i>28.6%</i> | | <i>25.2%</i> | <i>27.4%</i> | |
| Operating Profit (USD mn) | 605 | 724 | 19.7% | 626 | 736 | 17.6% |
| <i>Operating Margin (%)</i> | <i>18.0%</i> | <i>22.1%</i> | | <i>17.7%</i> | <i>20.7%</i> | |
| Net Profit (USD mn) | 313 | 380 | 21.4% | 329 | 386 | 17.3% |
| <i>Net Margin (%)</i> | <i>9.3%</i> | <i>11.6%</i> | | <i>9.3%</i> | <i>10.9%</i> | |

| Income Statement (thousand of USD) | 2015 | 2016 | 2017E | 2018F | 2019F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 2,684,476 | 2,524,239 | 3,271,970 | 3,553,276 | 3,719,868 |
| Cost of revenue | 2,141,176 | 1,838,963 | 2,335,948 | 2,578,112 | 2,712,840 |
| Gross profit | 543,300 | 685,276 | 936,021 | 975,164 | 1,007,028 |
| Operating expenses | 133,010 | 151,175 | 179,038 | 203,617 | 208,355 |
| Other expenses/(income), net | 78,409 | (53,517) | 32,720 | 35,533 | 37,199 |
| Operating income | 331,881 | 587,618 | 724,264 | 736,015 | 761,475 |
| Finance income | 11,859 | 9,092 | 15,538 | 10,337 | 14,635 |
| Finance costs | (60,762) | (50,006) | (49,350) | (44,853) | (39,183) |
| Share in net loss of associates and joint ventures | (3,005) | (184) | - | - | - |
| Profit before income tax | 279,973 | 546,520 | 690,452 | 701,499 | 736,928 |
| Income tax expense | 128,970 | 205,834 | 310,704 | 315,675 | 331,618 |
| Profit for the year | 151,003 | 340,686 | 379,749 | 385,825 | 405,310 |

| Balance Sheet (thousand of USD) | 2015 | 2016 | 2017E | 2018F | 2019F |
|--|------------------|------------------|------------------|------------------|------------------|
| Cash and Cash Equivalents | 702,452 | 1,076,948 | 755,312 | 1,041,155 | 1,109,356 |
| Mining properties | 2,026,965 | 2,436,565 | 2,596,850 | 2,638,100 | 2,679,350 |
| Fixed assets | 1,467,111 | 1,544,187 | 1,472,176 | 1,392,665 | 1,305,654 |
| Goodwill | 903,553 | 793,610 | 1,064,994 | 1,136,846 | 1,200,463 |
| TOTAL ASSETS | 5,958,629 | 6,522,257 | 6,768,606 | 7,157,826 | 7,281,832 |
| Trade Payables | 196,419 | 207,794 | 239,119 | 277,611 | 284,909 |
| Long-term borrowings, net of current maturities: | | | | | |
| Finance lease payables | 45,443 | 39,224 | - | - | - |
| Bank loans | 1,383,481 | 1,241,198 | 1,119,500 | 932,000 | 571,000 |
| Deferred tax liabilities | 582,305 | 653,364 | 732,606 | 862,265 | 879,067 |
| TOTAL LIABILITIES | 2,605,586 | 2,736,375 | 2,703,571 | 2,816,338 | 2,643,735 |
| 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 |
| Difference in value from transaction with non-controlling interest | - | 7,135 | - | - | - |
| Retained earnings | 1,387,009 | 1,627,609 | 1,866,749 | 2,096,510 | 2,343,022 |
| Other comprehensive loss | (18,555) | 14,280 | 14,280 | 14,280 | 14,280 |
| Total equity attributable to owners of the parent | 2,865,888 | 3,146,458 | 3,378,463 | 3,608,224 | 3,854,736 |
| Non-controlling interests | 487,155 | 639,424 | 686,572 | 733,264 | 783,360 |
| TOTAL EQUITY | 3,353,043 | 3,785,882 | 4,065,035 | 4,341,488 | 4,638,097 |

| Cash Flow (thousand of USD) | 2015 | 2016 | 2017E | 2018F | 2019F |
|---|-----------------|------------------|------------------|------------------|------------------|
| Profit for the year | 152,440 | 334,621 | 372,988 | 378,956 | 398,095 |
| Depreciation | 202,990 | 225,830 | 222,011 | 229,511 | 237,011 |
| Changes in working capital | (183,805) | 64,382 | (98,692) | 74,941 | 147,786 |
| CASH FLOWS FROM OPERATING ACTIVITIES | 171,625 | 624,833 | 496,307 | 683,408 | 782,892 |
| CASH FLOWS FROM INVESTING ACTIVITIES | 73,132 | (289,262) | (658,263) | (266,147) | (272,209) |
| CASH FLOWS FROM FINANCING ACTIVITIES | (291,844) | 31,871 | (159,680) | (131,419) | (442,482) |
| NET CASH FLOWS | (47,087) | 367,442 | (321,636) | 285,843 | 68,201 |
| CASH AT BEGINNING PERIOD | 745,248 | 702,452 | 1,076,948 | 755,312 | 1,041,155 |
| CASH AT ENDING PERIOD | 702,452 | 1,076,948 | 755,312 | 1,041,155 | 1,109,356 |

| Financial Ratio | 2015 | 2016 | 2017E | 2018F | 2019F |
|--------------------------|--------|--------|-------|--------|--------|
| Profitability (%) | | | | | |
| ROE | 4.5% | 9.0% | 9.3% | 8.9% | 8.7% |
| ROA | 2.5% | 5.2% | 5.6% | 5.4% | 5.6% |
| Gross Margin | 20.2% | 27.1% | 28.6% | 27.4% | 27.1% |
| Operating Margin | 12.4% | 23.3% | 22.1% | 20.7% | 20.5% |
| Net Margin | 5.6% | 13.5% | 11.6% | 10.9% | 10.9% |
| Net Income Growth | -17.6% | 125.6% | 11.5% | 1.6% | 5.1% |
| Liquidity (x) | | | | | |
| Current Ratio | 2.40 | 2.47 | 2.07 | 2.14 | 1.87 |
| Quick Ratio | 2.24 | 2.36 | 1.93 | 2.02 | 1.76 |
| Solvency (x) | | | | | |
| Debt/Equity | 0.43 | 0.34 | 0.28 | 0.21 | 0.12 |
| Net Debt/Equity | 0.22 | 0.05 | 0.09 | (0.03) | (0.12) |
| Debt/Assets | 0.24 | 0.20 | 0.17 | 0.13 | 0.08 |
| Net Debt/Assets | 0.12 | 0.03 | 0.05 | (0.02) | (0.07) |
| Valuations (x) | | | | | |
| P/E | 33.36 | 15.21 | 13.65 | 13.43 | 12.79 |
| P/BV | 1.52 | 1.34 | 1.25 | 1.17 | 1.10 |

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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.

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