

Based on our recent company visit with ADRO, despite the soft performance in 1Q17, management still maintains their guidance from the beginning of the year at 52 to 54 mn tons for FY17E (relatively the same range as FY16's guidance, though in FY16 they had predicted production to be at the lower end of the range while this year it could reach higher end of the range given). In 1Q17, Adaro Energy produced 11.9 mn tons coal (-6.2% YoY and -10.9% QoQ), which accounted for 22.0% of FY17E. As an addition to heavy rainfall in the first three months of 2017, demand from China and India had deteriorated by a large amount. As a comparison, China and India contributed for 28% of FY16 total sales (14% of FY16 sales came from China, while the other 14% came from India). In 1Q17, China and India contributed 2% and 5% respectively to total 1Q17 sales. Meanwhile, the company had incorporated similar proportion from China and India as last year in this year's projection. Nevertheless, while the company sees clouded regulation in both countries, they are still optimistic that coal supply from ADRO will still be needed by both countries. Going forward, the company believes that the ASEAN market is still interesting, especially factoring the upcoming potential of 50,000 MW additional capacity power plant in ASEAN (35,000 MW coming from Indonesia). Hence, referring to our discussion, management still view this year production target is still achievable with the production expected to catch up in the remaining quarters. As for the coking coal or high grade thermal coal, the company projected 1 mn ton production for FY17E with an estimated margin of 36.4% (\$70 cash cost per ton).

As for capex this year, the company had allocated USD 200-250 mn; USD 100 mn for thermal coal, USD 80 mn for coking coal, and USD 40-65 mn for SIS' heavy machineries. Going forward, the company expects SIS to take a bigger role in ADRO's production. As for this year, the company plans to use 3 mining contractors with SIS taking 42% of ADRO's coal production, while the remaining 58% will be split between PAMA and BUMA (19% and 39% respectively); down from 4 mining contractors in FY16 and 5 mining contractors in FY15. Another important thing to note, for mining contracting business, the whole ADRO's infrastructure can accommodate up to 60 mn tons coal production p.a.

Our view: while we see earnings and cash flow to remain stable, we take NEUTRAL stance on the company due to the uncertainty from China and India market as well as softening coal price following current supply-driven condition.

Evan Lie Hadiwidjaja

Head of Research

+62 21 392 5550 ext. 610

evan.hadiwidjaja@sinarmassekuritas.co.id

Richard Suherman

Research Associate

+62 21 392 5550 ext. 610

richard.suherman@sinarmassekuritas.co.id



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(2017). All rights reserved.