

EQUITY RESEARCH

Adaro Energy

Result Notes

ADRO

BUY

Target Price

Current Price

Upside (downside)

Rp 1,700

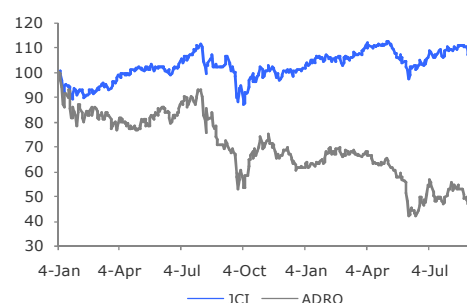
Rp 1,350

26%

Share Performance

	3 M	6 M	12 M
Absolute (%)	-8.2	-29.7	-33.3
Relative to JCI (%)	-13.2	-30.7	-38.1
52-WK range (Rp)	1,180 - 2,150		

Price Chart (from 1/1/2011)



Source: Bloomberg

Share Data

Out' shares (m)	31,986
Market Cap (US\$ m)	4,508.4
6 M avg.daily (US\$)	6,822,521

Shareholder information

Adaro Strategic Investments	43.9 %
Free float	46.1 %

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Toning down, focus on efficiency

	unit	1H11	1H12	yoy	1Q12	2Q12	qoq
Revenue	US\$ m	1,771	1,931	9.1%	916	1,015	10.9%
Gross profit	US\$ m	595	634	6.5%	298	336	12.8%
Op profit	US\$ m	537	551	2.6%	262	289	10.4%
EBITDA	US\$ m	631	668	5.8%	321	346	7.8%
Net income	US\$ m	268	260	-2.9%	121	139	14.1%
EBITDA margin	%	36%	35%		35%	34%	

Operational data:

Production	mt	22.8	23.0	0.9%	11.0	12.1	9.9%
Selling volume	mt	24.0	23.7	-1.4%	11.3	12.4	10.6%
ASP	US\$	68.1	75.1	10.2%	75.2	75.0	-0.2%
Strip Ratio	bcm	5.9	6.4	8.5%	6.4	6.4	0.0%
Cash production cost	US\$	37.3	38.9	4.5%	46.8	44.0	-5.9%

Source: The company and IndoPremier

1H12 results: below expectation; net income reached 44.8% of our FY12F estimate of US\$533.7m due to lower production

Highlights:

- ADRO management is revising down some of FY12 guidance: 1) annual production from 50-53mt to 48-51mt due to difficult market condition, 2) Coal cash cost (exclude royalty) outlook was lowered from US\$40-45/mt to US\$39-42/mt and 3) Capex guidance was also lowered from US\$650-700 to US\$400-500m in FY12.
- None of its shipments had been deferred.
- Production and sales volume was still up by 9.9% and 10.6% qoq. All of sales this year has been contracted at mostly fixed pricing and index-linked.
- Expansion plan is progressing well. It spent US\$52.2 for OPCC, mine-mouth power plant and port expansion).

Our view:

- Toning down.** During abundant supply condition in the market, we believe that supply cut from few major producers would be good for the industry in the longer term. We are positive on the company's initiatives to reduce per unit production cost.
- No deferred shipment so far.** During this market condition, high quality end buyers are keys to avoid deferred shipment. Besides PTBA, the company is the largest domestic suppliers with 19.4%. We believe that domestic demand for coal is still high in the future supported by coal-fired power plants development.
- We maintain our BUY call on ADRO with TP of Rp1,700,-/share.** Despite the low coal price environment, ADRO can still manage to preserve high margin (at~35% EBITDA margin).

Results Note

Financials Summary

Profit & Loss

Year to 31 Dec (US\$ m)	2011	2012F	2013F	2014F
Sales	3,987	4,283	4,811	5,223
COGS	(2,559)	(2,909)	(3,447)	(3,874)
Gross profit	1,428	1,375	1,364	1,348
Operating expense	(145)	(174)	(189)	(206)
EBIT	1,284	1,201	1,175	1,143
EBITDA	1,444	1,455	1,465	1,456
Interest income	7	8	10	10
Other items	(442)	(306)	(389)	(351)
Equity in net earnings associates	2	3	4	5
Profit before tax	1,003	980	920	916
Tax	(451)	(441)	(414)	(412)
Minority interest	7	(6)	(5)	(5)
Net profit	560	533.7	501	499

Balance Sheet

Year to 31 Dec (US\$ m)	2011	2012F	2013F	2014F
Cash and equivalents	559	767	880	970
Trade receivables	485	490	543	607
Inventory	52	28	33	38
Other current assets	201	165	176	177
Fixed assets	1,432	1,703	1,851	1,822
Def exploration and development	10	6	5	4
Mining properties	1,245	1,169	1,094	1,019
Other non-current assets	1,673	1,702	1,705	1,701
Total assets	5,658	6,030	6,286	6,338
Trade payable	388	657	827	902
Accrued expenses	39	45	53	59
Taxes payable	70	68	64	64
Other current liabilities	282	409	529	295
Long-term loan	1,966	1,662	1,283	1,137
Prov. employee benefits	2	3	4	5
Other non-current liabilities	471	467	461	459
Total liability	3,217	3,308	3,217	2,916
Minority interest	6	12	17	22
Equity	2,436	2,711	3,051	3,400

Cash Flow

Year to 31 Dec (US\$ m)	2011	2012F	2013F	2014F
Net profit	552	539	506	504
D&A	491	255	289	314
Working capital	(123)	334	120	12
Others	58	(10)	(15)	1
Net cash flow from operation	978	1,118	902	831
Capex	(1,197)	(445)	(361)	(209)
Investments	(120)	(21)	-	-
Others	(72)	-	-	-
Net cash flow after investment	(411)	651	541	622
Net Debt issuance (payment)	512	(180)	(262)	(379)
Dividend payment	(107)	(259)	(160)	(150)
Equity issuance	7	-	-	-
Others	(50)	(4)	(6)	(2)
Change in cash	(49)	208	113	90
Beginning cash balance	607	559	767	880
Ending	559	767	880	970

Key Metrics

Year to 31 Dec	2011	2012F	2013F	2014F
Profitability (%)				
Gross margin	36%	32%	28%	26%
EBIT margin	32%	28%	24%	22%
EBITDA margin	36%	34%	30%	28%
Net Income margin	14%	12%	10%	10%
ROA	10%	9%	8%	8%
ROE	23%	20%	16%	15%
Growth (%)				
Sales	47%	7%	12%	9%
EBIT	72%	-6%	-2%	-3%
EBITDA	1%	1%	-1%	9%
Net Income	130%	-5%	-6%	0%
Leverage (x)				
Debt/Equity	1.0	0.8	0.6	0.4
Debt/EBITDA	1.5	1.3	1.1	0.9
Net debt/EBITDA	0.8	0.5	0.3	0.1
Interest coverage (x)	12.1	10.8	12.1	14.3

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INVESTMENT RATINGS

Buy: Expected total return of 10% or more within a 12-month period
Hold: Expected total return between -10% and 10% within a 12-month period
Sell: Expected total return of -10% or worse within a 12-month period

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