

# TRIM Result Commentary

## ADRO: Strongly Recovered

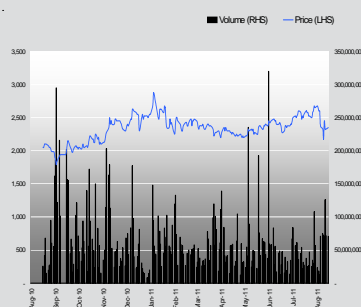
Maintained

**BUY**

Share Price : Rp2,350  
Sector : Coal  
Price Target : Rp3,000 (27.6%)

### Stock Data

Reuters Code : ADRO.JK  
Bloomberg Code : ADRO IJ  
Issued Shares (mn) : 31,986  
Mkt Cap (Rpbn) : 75,167  
Average Daily T/O : 63.2m  
52-Wk range : Rp1,760/Rp2,900



### Company Description:

PT Adaro Energy Tbk is a vertically integrated coal mining company by having pit to port subsidiaries from barging, ship-loading, dredging, port services, and marketing.

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**Two-fold Increased on 1H11 Net Profit, Maintain BUY.** ADRO managed to book USD267.8mn of net profit, jumped 103.8% YoY, slightly ahead from our FY11 estimate of USD466.6mn. Strong bottom line improvement was mainly driven by higher production volume and ASP, supported by USD13.2mn of forex gain and no goodwill amortization. Revenue at the top line reached USD1.8bn, up 35.8% YoY, in line with our FY11 estimate. We continue to believe that ADRO will maintain these good performances in 2H11 onwards as weather has normalized and additional heavy equipment has arrived. We've made some minor revision in our forecast to adjust the 1H11 result, reiterate our BUY call on the counter.

**... Driven by Higher Volume and ASP.** ADRO has previously announced its highest record of quarterly production in 2Q11, which bolstered its 1H11 coal sales volume. Sales reached 24.0mn tons, up 10.4% YoY, 51.0% of our full year estimate. Sales of E-4000 also showed an encouraging data in 1H11, sold 2.6mn tons and on track to meet its full year target. In line with increasing global thermal prices, ADRO's ASP locked at USD68.1/ton, up by 23.0% YoY. Along with the continuous strong thermal coal price going forward, we are comfortable to maintain our 2011 ASP assumption of USD71.3/ton.

**Rising Costs Proved as a Blessing in Disguise.** We always view the ADRO's rising cash cost positively rather than a threat as higher cash margin implied. ADRO's cost of revenue increased at a lesser rate compared to its revenue in 1H11, showed by higher profitability margin for both QoQ and YoY basis. Cash cost ex royalties stood at USD40/ton, within our expectation. We expect ADRO's cash margin to break its highest record this year, reaching USD30.6/ton.

**Potential of USD153mn One Time Expense.** Quoting the management statement on their press release, ADRO has made a payment of USD153.0mn at 2nd week of Aug'11 in order to resolve all claims to 3 customers with regards to the force majeure declaration and suspended deliveries happened back in 2008-2009. We've yet input this to our earning assumption, but most likely to be accounted in other expenses, in our view. However, even considering such expense (USD68.8mn after tax), we continue to believe that ADRO will be able to fulfill our expectation this year.

ITMG (1H11 Result)						
QoQ (USDmn)	2Q11	1Q11	QoQg (%)	Qtr Margin (%)	2Q11	1Q11
Revenue	1,014	757	33.9			
GP	345	250	38.1	GPM	34.0	33.0
OP	318	219	44.8	OPM	31.3	29.0
NP	159	108	47.0	NPM	15.7	14.3
YTD YoY	2Q11	2Q10	YoYg (%)	YTD Margin (%)	2Q11	2Q10
Revenue	1,771	1,304	35.8			
GP	595	430	38.5	GPM	33.6	32.9
OP	537	389	38.2	OPM	30.3	29.8
NP	268	132	103.6	NPM	15.1	10.1
TRIM Est			Realization (%)	Margin (%)		
Revenue	3,624		48.9			
OP	1,004		53.5	OPM	27.7	
NP	467		57.3	NPM	12.9	
Bloomberg Est			Realization (%)	Margin (%)		
Revenue	3,595		49.3			
OP	1,125		47.8	OPM	31.3	
NP	531		50.4	NPM	14.8	

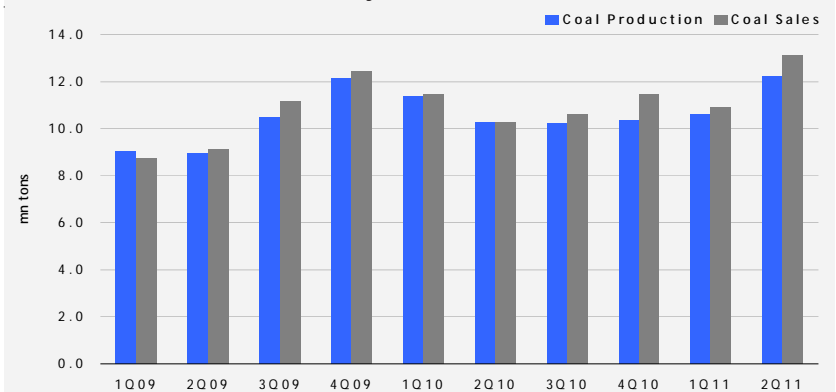
Source: Company, Bloomberg

**Forecast Changes**

		New			Original			% Change		
		2011E	2012F	2013F	2011E	2012F	2013F	2011E	2012F	2013F
Revenue	USDmn	3,624	4,527	5,108	3,624	4,527	5,108	-	-	-
Gross Profit	USDmn	1,192	1,732	1,981	1,156	1,687	1,930	3.1	2.7	2.6
Operating Profit	USDmn	1,041	1,543	1,783	1,004	1,498	1,732	3.6	3.0	2.9
Other Inc (exp)	USDmn	(96)	(80)	(64)	(155)	(139)	(124)	(37.8)	(42.6)	(48.3)
Pre-tax Profit	USDmn	945	1,463	1,719	850	1,358	1,608	11.1	7.7	6.9
Tax Expense	USDmn	(420)	(653)	(764)	(378)	(606)	(715)	11.2	7.6	6.8
Net Profit	USDmn	518	801	944	467	744	883	11.1	7.7	6.9
Coal Production	mn tons	47.0	53.3	60.5	47.0	53.3	60.5	-	-	-
Stripping Ratio	x	5.9	5.6	5.5	5.9	5.6	5.5	-	-	-
ASP	USD/ton	71.3	79.8	80.3	71.3	79.8	80.3	-	-	-
Cash Cost ex Royalties	USD/ton	40.0	39.6	38.1	40.7	40.5	39.0	(1.9)	(2.1)	(2.2)

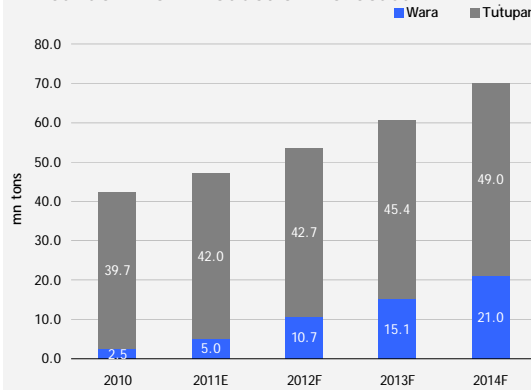
Source: TRIM Research

**ADRO Made a Record on Quarterly Production in 2Q11**



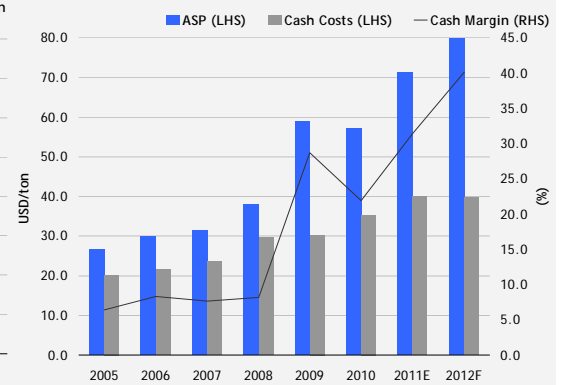
Source: Company, TRIM Research

**Breakdown on Production Forecast**



Source: Company, TRIM Research

**Coal Sales Contract Status**



## Income Statement (USDmn)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Revenue	2,591	2,718	3,624	4,527	5,108
% growth	39	5	33	25	13
COGS	1,529	1,867	2,432	2,795	3,127
Gross Profit	1,062	851	1,192	1,732	1,981
Opr Profit	955	746	1,041	1,543	1,783
EBITDA	1,080	908	1,192	1,735	2,076
% growth	109	(16)	31	46	20
Net int inc/(exp)	(82)	(111)	(96)	(80)	(64)
Gain/(loss) Forex	10	(3)	-	-	-
Other inc/(exp)	(58)	(76)	-	-	-
Pre-tax Profit	825	556	945	1,463	1,719
Tax	(396)	(294)	(420)	(653)	(764)
Minority Int.	(5)	(0)	(6)	(9)	(10)
Extra. Items	(4)	(19)	-	-	-
Net Profit	420	243	518	801	944
% growth	358	(42)	113	55	18

## Balance Sheet (USDmn)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Cash and Deposits	1,084	601	725	949	1,831
Other Current Assets	439	522	666	854	961
Net Fixed Assets	713	970	1,385	1,765	1,654
Other Assets	1,848	2,376	2,394	2,291	2,184
Total Assets	4,084	4,469	5,170	5,859	6,630
ST Debt	229	189	260	6	38
Other Current Liabilities	540	449	715	931	1,063
LT Debt	1,296	1,387	1,133	1,125	1,086
Other LT Liab	335	394	390	574	665
Minority Interest	6	6	12	21	31
Total Liabilities	2,400	2,418	2,498	2,636	2,852
Shareholder's Equity	1,678	2,045	2,660	3,202	3,746
Net debt)/(cash)	441	975	668	182	(707)
Net Working capital	109	863	518	416	866

## Interim Results (USDmn)

	2Q10	3Q10	4Q10	1Q11	2Q11
Sales	616	663	725	757	1,014
Gross Profit	184	229	185	250	345
Operating Profit	163	200	150	219	318
Net Profit	32	59	56	108	159
Gross Margins (%)	30	35	25	33	34
Opr Margins (%)	27	30	21	29	31
Net Margins (%)	5	9	8	14	16

## Cash Flow (USDmn)

Year end 31 Dec	2009	2010	2011E	2012F	2013F
Net Profit	420	243	518	801	944
Depr/Amort	123	163	209	250	351
Chg in Working Cap	41	(222)	170	31	29
Others	(18)	6	(44)	167	80
CF's from Oprs	566	190	854	1,250	1,405
Capex	(220)	(262)	(500)	(571)	(182)
Others	132	(280)	63	66	68
CF's from Investing	(88)	(542)	(436)	(505)	(114)
Net Change in Debt	463	(170)	(291)	(262)	(8)
Others	(90)	(118)	(44)	(259)	(401)
CF's from Financing	374	(288)	(335)	(521)	(408)
Net Cash Flow	852	(640)	83	224	882
Cash at BoY	233	1,242	643	726	950
Cash at EoY	1,085	602	726	950	1,832
Free Cashflow	346	(72)	354	678	1,223

## Key Ratio Analysis

Year end 31 Dec	2009	2010	2011E	2012F	2013F
<b>Profitability</b>					
Gross Margins (%)	41.0	31.3	32.9	38.3	38.8
Op Margins (%)	36.9	27.4	28.7	34.1	34.9
EBITDA Margins (%)	41.7	33.4	32.9	38.3	40.6
Net Margins (%)	16.2	8.9	14.3	17.7	18.5
ROE (%)	27.8	12.3	21.4	27.3	27.2
ROA (%)	11.5	5.3	10.4	14.5	15.1
<b>Stability</b>					
Current ratio (x)	2.0	1.8	1.4	1.9	2.5
Net Debt/Equity (x)	0.3	0.5	0.3	0.1	(0.2)
Int Coverage (x)	10.8	6.5	9.8	16.7	21.0
<b>Efficiency</b>					
A/P days	49.1	49.1	49.1	49.1	49.1
A/R days	45.0	45.0	45.0	45.0	45.0
Inventory days	9.0	9.0	9.0	9.0	8.0

## Key Assumptions

Year end 31 Dec	2010	2011E	2012F	2013F
Coal Production (mn tons)	42.2	47.0	53.3	60.5
Stripping Ratio	5.3	5.9	5.6	5.5
ASP (USD/ton)	58.0	71.3	79.8	80.3
Cash Cost ex. Royalties (USD/ton)	35.1	40.0	39.6	38.1

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