

BUY (Maintain)

Target Price (IDR) 3,400 (from 4,200)
Potential Upside (%) 44.1

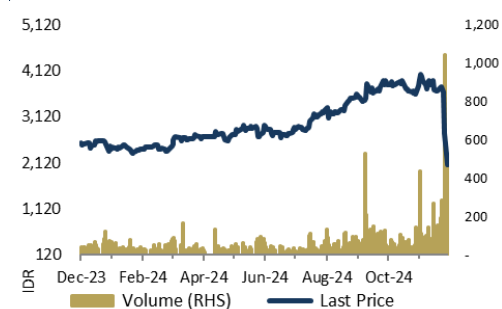
Stock Information

Last Price (IDR)	2,360
Market Cap. (IDRtn / USDbn)	72.6/4.5
52-Weeks High/Low (IDR)	4,300/2,070
3M Avg. Daily Value (IDRbn)	429.3
Free Float (%)	40.7
Shareholders (%):	
Public	33.7
ASI	45.7
Affiliates	7.8
Garibaldi Thohir	6.4
Others	6.4

Stock Performance

(%)	YTD	2023	2022	2021
Absolute	(0.8)	(38.2)	71.1	57.3
JCI Return	(1.1)	6.2	4.1	10.1
Relative	0.2	(44.3)	67.0	47.3

Stock Price & Volumes, 12M



Company Background

Established in 2004 and listed as the biggest IPO (IDR 12.2 trillion) on the IDX in 2008, ADRO integrates mining, energy, and green business operations under Adaro Energy, Adaro Minerals, and Adaro Green pillars, focusing on vertically integrated "pit to power" supply chain and expanding into Indonesia's green economy.

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Renamed, Renewed, Rejuvenated

Post the coal spin-off under AADI, ADRO, poised to be Indonesia's green energy leader, is undergoing major transformation into renewables and greener projects. ADRO's current earnings stem from ADMR (83.8% ownership), backed by significant coking coal reserves (the largest: 158 Mt), and SIS (100%) with its efficient mining operations, of which both have robust EBITDA margins. Beyond traditional mining, ADRO's foray into several renewable and green initiatives will be supported by cheaper financing opportunities to help offset near-term earnings challenges, although we still expect ADRO to book positive 2025-26F bottom-line. We argue that ADRO's higher P/E due to the spin-off is warranted as the company realigns its valuation closer to its new peers (figure 13). Thus, we retain our BUY rating with new TP of IDR 3,400 (SOTP-based), reflecting 12.8x P/E 2025F.

ADMR and Saptaindra Sejati (SIS) as Current Key Earnings Drivers. Following the recent spin-off of its coal business, ADRO's earnings will be predominantly driven by two key assets: ADMR (metcoal business; 83.8% ownership) and SIS (mining contractor; 100%). ADMR boasts significant coking coal reserves of 158 Mt with annual production of 5 Mt and stripping ratio of 3.6x, translating to 2025F revenue of USD 1.1 bn (-7% YoY) and >50% EBITDA margin. As for SIS, we expect the company to process 195 mbcum of overburden at USD 0.57/mbcum, generating USD 111mn in revenue. Together, these assets are projected to bring ADRO's 2025F consolidated revenue to USD 1.3 billion (-77.9% YoY), with EBITDA of USD 705 million (-72% YoY).

Renewables & Green Projects with Significant Potential. Aside from its metcoal and mining contracting businesses, ADRO holds significant green projects waiting to be monetized through Adaro Green and ADMR. Those projects include Indonesia's largest hydro power plant (expected COD in 2030) with installed capacity of 1,375 MW, capable of generating power up to 9 TWh per annum, and aluminum smelter development in Kaltara Industrial Park yielding potential green aluminum production of 1.5mn tpa. Note that the AADI spin-off will provide ADRO with better access to green financing at favorable rates (sub-9%), improving blended cost of capital. Thus, these green assets will serve as future catalysts for ADRO's re-rating.

Warranted re-rating with adj. TP of IDR 3,400 – BUY. As ADRO embarks on its greener path, valuation re-rating is in order, particularly when compared to its new peers (figure 13). Versus its blended metcoal-renewable comps, ADRO's valuation is attractive on 33.8% discounts. That said, untapped green assets, solid balance sheet, ADMR and SIS' contributions, and positive 2025F earnings of USD 504mn (from USD -141 mn in 2024F post-AADI spin-off) have us retaining our BUY on ADRO with revised TP to IDR 3,400 (SOTP-based), reflecting 2025F P/E of 12.8x. **Downside risks:** commodity price volatility, operational delays, and financing issues.

Forecasts and Valuations (@ IDR 2,310 per share) *25F & 26F post-AADI Spinoff

Y/E Dec	22A	23A	24F	25F*	26F*
Revenue (USD Mn)	8,102	6,518	5,936	1,309	1,264
EBITDA (USD Mn)	4,726	2,653	2,516	705	659
EV/EBITDA (x)	0.4	0.7	0.6	2.5	3.0
Net Profit (USD Mn)	2,493	1,641	1,577	504	473
Net Profit Growth (%)	167	(34)	(3.9)	N/A	(6.1)
EPS (IDR)	1,279	842	809	259	243
P/E Ratio (x)	1.8	2.8	2.9	9.0	9.5
BVPS (IDR)	2,288	3,349	3,802	2,308	2,126
P/BV Ratio (x)	1.0	0.7	0.6	1.0	1.1
DPS (IDR)	334	498	1,627	222	193
Dividend Yield (%)	14.4	21.5	70.1	9.6	8.3
ROAE (%)	45.4	23.6	26.5	11.4	11.5
ROAA (%)	27.1	15.4	18.8	8.4	8.8
Net gearing (x)	47.9	20.0	(0.7)	(0.6)	(0.6)

Figure 1. ADRO's Financial Snippets post-AADI Spin-off

in USDmn	ADRO 2024F	
	Pre-AADI Spin-off	Post-AADI Spin-off
Revenue	5,936	623
EBIT	2,026	137
Net Profit	1,577	(141)
Assets	10,909	5,476
Liabilities	2,755	43
Equity	8,154	5,433

Sources: Company, SSI Research

To derive the fair value of the newly restructured ADRO, we utilized SOTP valuation method. First, we calculated the enterprise value of ADRO's 83.8% stake in ADMR, which amounted to USD 2.4bn. Then, we performed asset-based valuation for both ADRO's remaining JVs and assets holdings, excluding those held by AADI. Our approach yielded JV asset value of USD 625mn and USD 4.5bn for the remaining assets. We then applied 39.3% discount to the JVs and remaining assets, in line with pre-spin-off asset discount. Next, we incorporated holding company discount of 30%, yielding equity value of USD 5.9bn, translating into fair value of IDR 3,400/share (assuming USD/IDR rate of 15,900).

Figure 2. ADRO SOTP Valuation

ADRO Valuation post-AADI Spinoff	% Ownership / Discount	Asset Value	Value to ADRO	Notes
ADMR	83.84%	2,937	2,462	ADMR's EV
JVs	39.3%	625	245	Book Value
Remaining Assets post-AADI Spinoff	39.3%	4,557	1,790	39.3% of Book Value
Holding Discount			30%	
Total Asset Value			3,148	
Debt			(264)	
Cash			3,044	
Equity Value (USDmn)			5,927	
Equity Value (IDRbn)			94,246	
Shares Outstanding			31	
Fair Value/ Share			3,400	
Blended Peers' Fair Value/Share			3,500	13.6x P/E blended metcoal-renewable peers (Figure. 13)
Mid-point Fair Value/Share			3,400	
Current Price			2,360	
Potential Upside			44.1%	
Implied P/E 2025F			12.8	

Sources: Company, SSI Research

As AADI accounts for 109% of ADRO's earnings, we anticipate a sharp decline in ADRO's 2024F bottom line with -USD 141mn loss; however, we expect the figure to improve in 2025 with net profit of USD 504mn

We performed asset-based SOTP valuation to derive ADRO's post-spinoff fair value, while also applying appropriate market discounts to value its remaining assets

Our SOTP valuation on ADRO yields enterprise value of USD 4.3 bn and equity value of USD 5.6 bn, translating into fair value of IDR 3,400/share (+44.1% upside potential; 12.8x P/E 2025F)

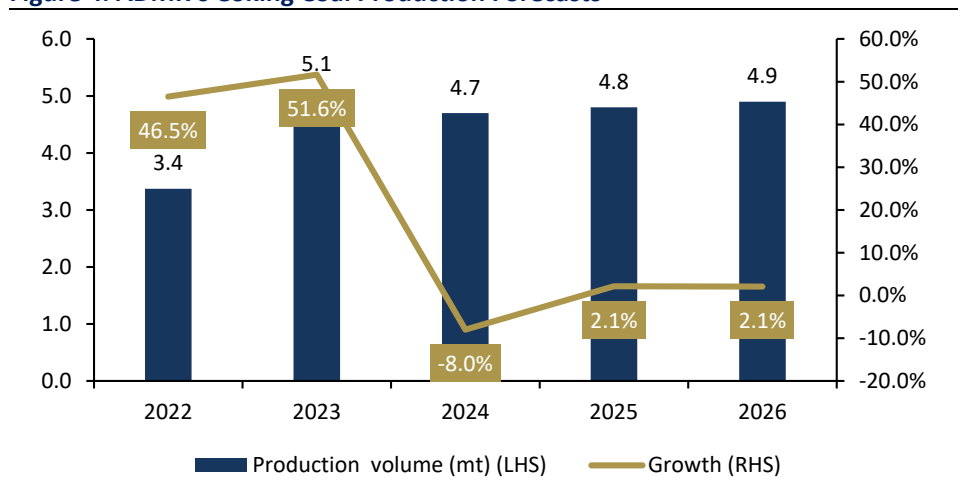
Figure 3. Top 10 Remaining Assets under ADRO post-AADI Spinoff

ADRO Remaining Assets	Ownership (%)	Asset Value (USDmn)
PT Alam Tri Daya Indonesia (ATDI)	84%	1,299
PT Saptaindra Sejati (SIS)	100%	918
PT Adaro Power (AP)	100%	885
PT Adaro Baterai Indonesia (ABI)	84%	436
PT Adaro Indo Aluminium (AIA)	84%	431
PT Kalimantan Aluminium Industry (KAI)	54%	427
PT Alam Tri Bangun Indonesia (ATBI)	100%	198
PT Makmur Sejahtera Wisesa (MSW)	100%	132
PT Adaro Clean Energy Indonesia (ACEI)	100%	118
PT Kalimantan Energi Hijau (KEH)	100%	75

Sources: Company, SSI Research

Post AADI spin-off, ADRO will retain key assets such as ATDI (investment services) valued at USD 1.3bn and SIS (mining contracting) valued at USD 918mn

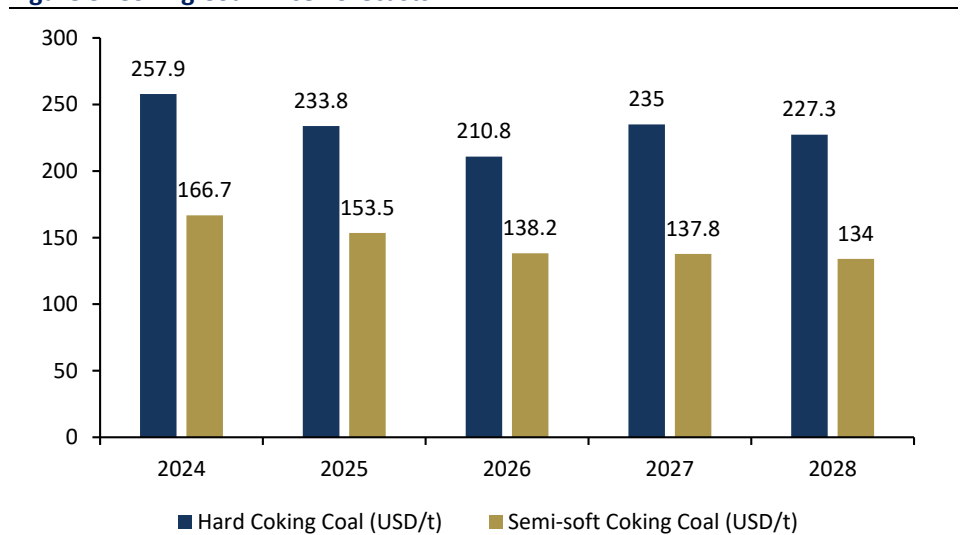
Figure 4. ADMR's Coking Coal Production Forecasts



Sources: Company, SSI Research

Considering ADRO's P&L will be heavily influenced by ADMR's performance, we forecast modest outlook for coking coal production, despite our expectation that ADMR will be able to capture growing overseas demands

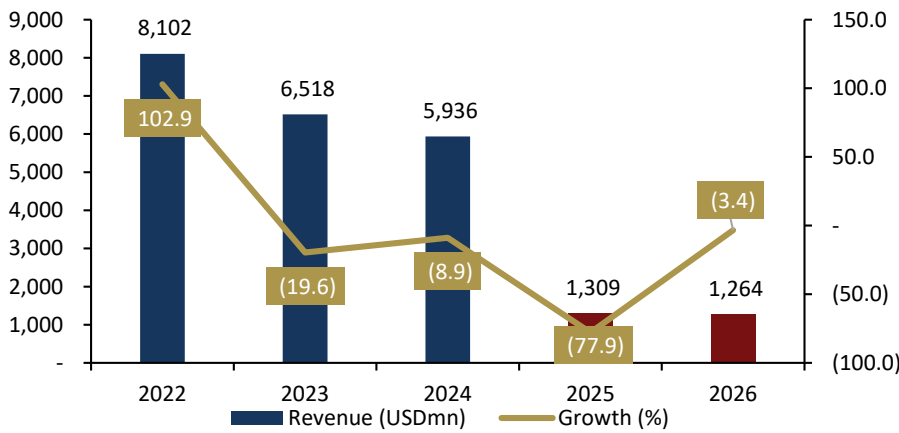
Figure 5. Coking Coal Price Forecasts



Sources: Argus, Bloomberg, SSI Research

Aside from relatively flat production performance, we forecast hard coking coal prices to hover above USD 210/ton for the next five years, supported by growing metcoal exports from Australia (2025F: 161 Mt) and stimulus from the Chinese government

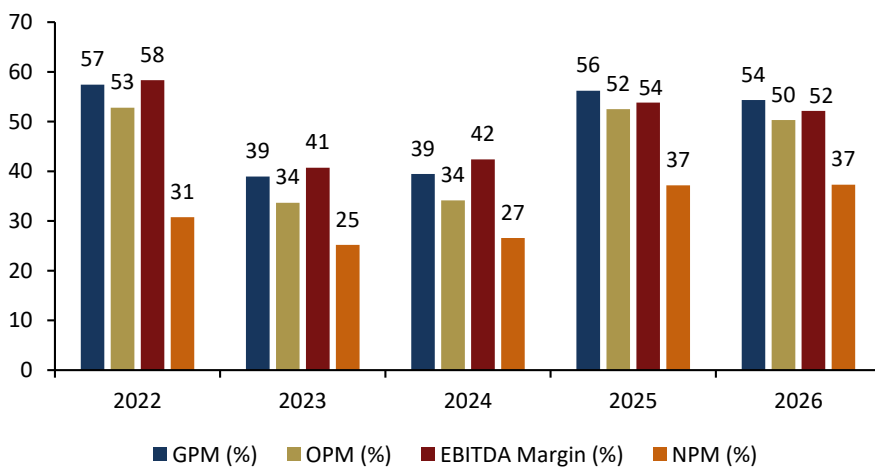
Figure 6. Revenue Forecasts post-AADI Spin-off



Sources: Company, SSI Research

We expect the full effect of the AADI spin-off to be realized by 2025F, resulting in a significant reduction in revenue to USD 1.3 billion (-77.9%); while the spin-off may lead to lower top-line, we anticipate positive contributions from ADMR and SIS to support ADRO's financial performance moving forward

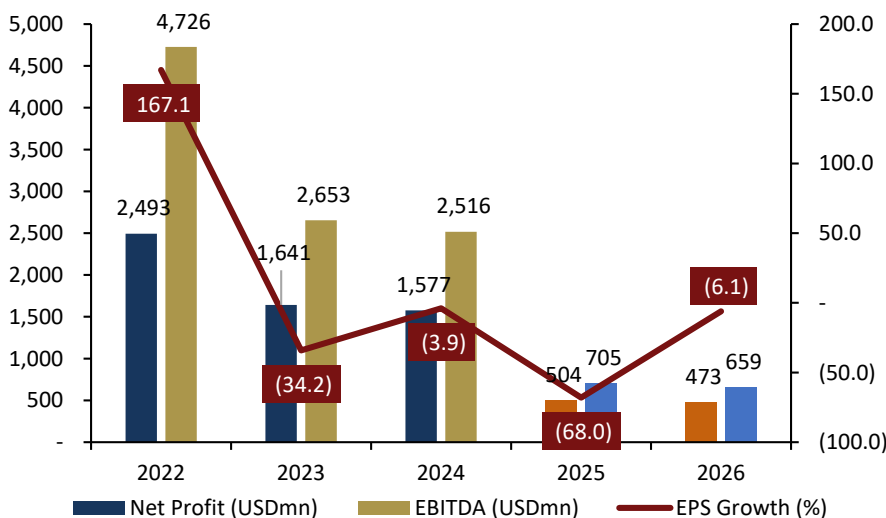
Figure 7. Margins



Sources: Company, SSI Research

We expect margins to pick up post-AADI spin-off as ADMR yields high EBITDA margin of >50% due to low cash cost from its coking coal production

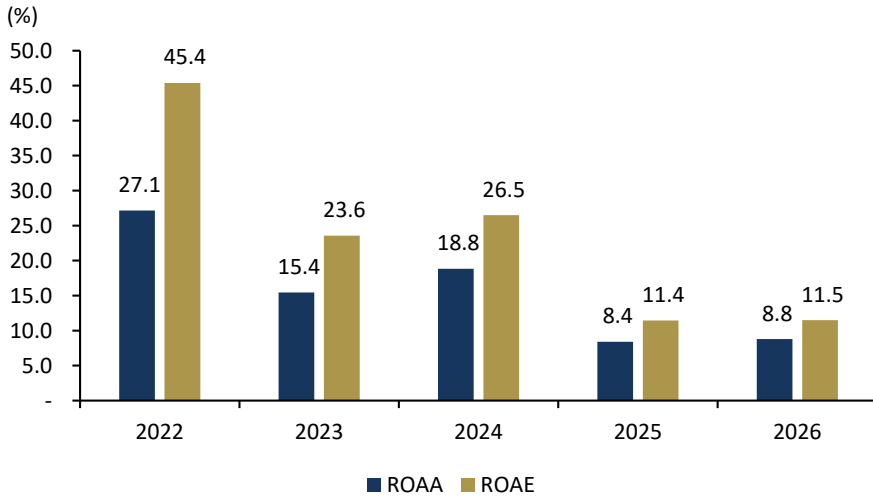
Figure 8. EBITDA & Earnings Forecasts



Sources: Company, SSI Research

We estimate ADRO to book 2025F EBITDA of USD 705mn and net profit of USD 504mn, significantly lower than the previous year, due to AADI spin-off; however, this feat is still impressive considering AADI accounts for 108.9% of ADRO's 2024F net profit

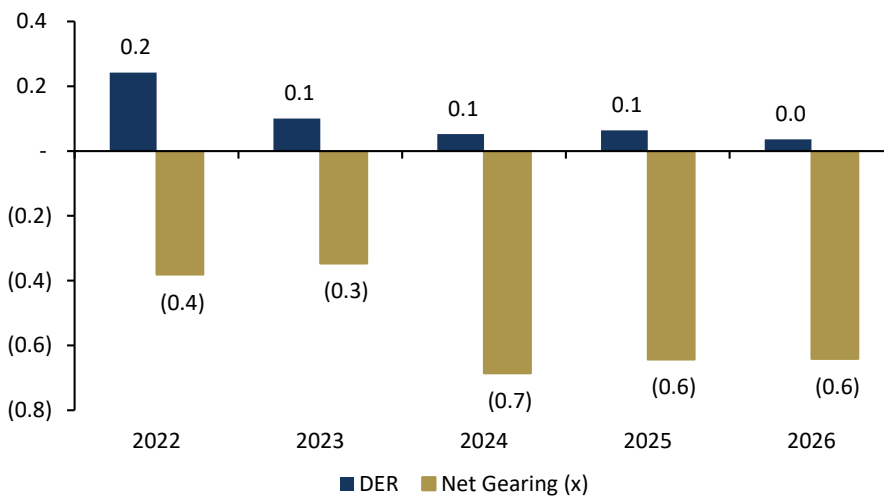
Figure 9. Profitability Metrics



Sources: Company, SSI Research

We expect ROAA & ROAE to both fall post AADI spin-off with 2025F ROAA of 8.4% and ROAE of 11.4%

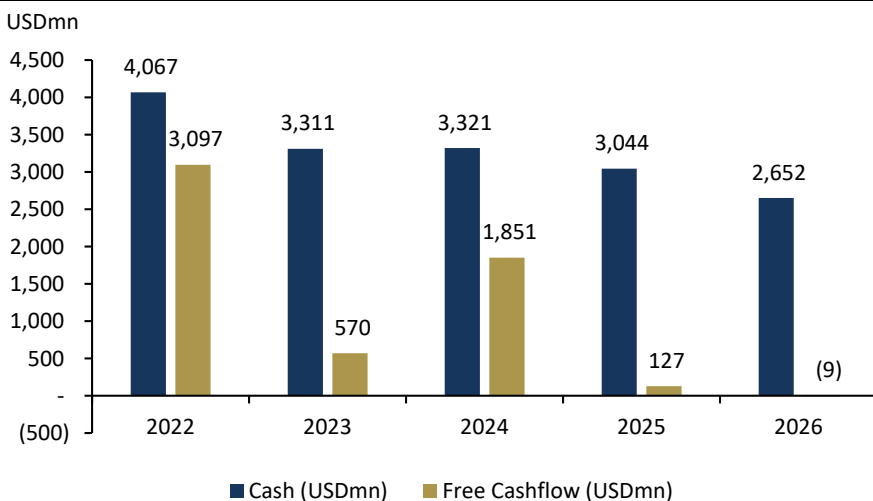
Figure 10. Leverage Positions



Sources: Company, SSI Research

Post-AADI spinoff, we expect ADRO to maintain its net cash position supported by abundant cash reserves

Figure 11. Cash & Free Cashflow



Sources: Company, SSI Research

We anticipate ADRO will maintain robust cash reserves regardless of substantial dividends distribution related to the AADI spin-off; this strong cash position is supported by the exercise of AADI POE rights, expected to inject USD 2.6 billion back into ADRO's balance sheet

Figure 12. Key Financial Figures

Income Statement					
Y/E Dec (USD Mn)	2022	2023	2024F	2025*	2026*
Revenue	8,102	6,518	5,936	1,309	1,264
COGS	(3,449)	(3,980)	(3,593)	(573)	(577)
Gross Profit	4,653	2,537	2,342	736	687
Operating Expenses	(375)	(344)	(340)	(48)	(51)
Others	31	(38)	24	-	-
Operating Income	4,277	2,193	2,026	687	636
EBITDA	4,726	2,653	2,516	705	659
EBITDA Margin	58	41	42	54	52
Interest Income	48	140	163	44	41
Interest Expense	(89)	(109)	(95)	(33)	(22)
Income (loss) from associates JV	210	108	75	(5)	(5)
Pretax Income	4,476	2,294	2,168	693	651
Taxes	(1,645)	(439)	(401)	(128)	(120)
Minority Income	(338)	(213)	(190)	(61)	(57)
Net Profit	2,493	1,641	1,577	504	473

*Figures post-AADI spin-off

Balance Sheet					
Y/E Dec (USD Mn)	2022	2023	2024F*	2025*	2026*
Cash	4,067	3,311	3,321	3,044	2,652
Receivables	647	520	147	140	122
Inventories	199	171	51	40	41
Others	406	299	100	94	92
Total Current Asset	5,319	4,302	3,619	3,317	2,907
Net Fixed Asset	2,485	2,749	1,684	1,432	1,162
Other Assets	2,978	3,422	972	972	972
Total Assets	10,782	10,473	6,275	5,722	5,041
Payables	333	345	160	114	74
ST Debt	176	252	110	92	13
Other Current Liabilities	1,939	1,539	517	517	517
Current Liability	2,448	2,135	787	723	604
LT Debt	1,404	490	126	172	120
Other LT Liabilities	404	438	865	683	610
Total Liability	4,255	3,064	1,778	1,578	1,334
Minority Interest	503	636	424	538	660
Total Equity	6,527	7,409	4,497	4,144	3,707
Total Liability and Equity	10,782	10,473	6,275	5,722	5,041

*Figures post-AADI spin-off

Even though AADI accounts for 109% of ADRO's bottom-line, we expect ADRO to bounce back and book positive 2025F earnings of USD 504mn, driven by significant contributions from ADMR and SIS

Abundant cash balance combined with optimal capital structure serve as key steps towards ADRO's green expansion

Cash Flow					
Y/E Dec (USD Mn)	2022	2023	2024F*	2025F*	2026F*
Net Profit	2,493	1,641	1,577	504	473
D&A	449	460	490	18	23
Change in working capital	956	(127)	141	(28)	(23)
Other Operating	(34)	(822)	176	(81)	(191)
Operating Cash Flow	3,864	1,153	2,384	412	283
Capex	(500)	(402)	(533)	(285)	(292)
Other Investing	(267)	(180)	-	-	-
Investing Cash Flow	(767)	(582)	(533)	(285)	(292)
Special Dividend for AADI Spin-off	-	-	(2,620)	-	-
Dividends	(650)	(970)	(550)	(433)	(376)
Net Borrowing	(28)	(837)	(321)	(91)	(131)
Other Financing	(120)	474	2,726	114	122
Financing Cash Flow	(798)	(1,334)	(765)	(411)	(384)
Net - Cash Flow	2,299	(763)	1,087	(283)	(393)
Forex Gain/(Loss)	(43)	7	3	6	2
Cash at Beginning	1,811	4,067	3,311	3,321	3,044
AADI Spinoff-Adjustment	-	-	(1,080)	-	-
Cash at Ending	4,067	3,311	3,321	3,044	2,652

*Figures post-AADI spin-off

Key Ratios					
Y/E Dec (USD Mn)	2022	2023	2024F	2025F	2026
Gross Profit Margin (%)	57.4	38.9	39.5	56.2	54.3
Operating Profit Margin (%)	52.8	33.7	34.1	52.5	50.3
Pretax Margin (%)	55.2	35.2	36.5	52.9	51.5
Net Profit Margin (%)	30.8	25.2	26.6	38.5	37.4
Revenue Growth (%)	102.9	(19.6)	(8.9)	(77.9)	(3.4)
EBITDA Growth (%)	132.4	(43.9)	(5.2)	(72.0)	(6.4)
Debt to Equity (x)	0.2	0.1	0.1	0.1	0.0
Interest Coverage (x)	N/A	N/A	N/A	N/A	N/A
Net Gearing (x)	(0.4)	(0.3)	(0.7)	(0.6)	(0.6)

*Figures post-AADI spin-off

Although having distributing significant dividends for the AADI spin-off, we expect ADRO to receive USD 2.6bn through shareholders' rights exercises to subscribe to AADI. Additionally, we project the company to remain profitable in 2025-26F, enabling to sustain its dividend-paying trend with 40% DPR

Excellent balance sheet with margins are projected to improve post AADI spin-off, driven by low cash cost from ADMR and relatively low mining cost from SIS

Figure 13. Peer Comparison

Company Ticker	Market	P/E (x)	P/B (x)	2025F	ROE (%)
	Cap. (USDmn)			EV/EBITDA (x)	
BREN	57,006	497.9	81.3	113.6	16.3
PGEO	2,532	13.9	1.3	6.5	9.6
KEEN	144	4.3	0.7	4.7	16.2
ARKO	179	37.1	6.1	45.0	16.4
Renewables (ex. BREN)	59,861	14.9	1.6	8.8	10.4
YAL AU	5,254	6.7	0.9	2.6	14.5
NHC AU	2,597	7.6	1.5	3.9	19.4
000983 CH	6,412	10.2	1.2	4.5	11.2
Coking Coal	14,263	8.4	1.1	3.7	13.9
Blended Avg.	74,125	13.6	1.5	7.8	11.1
ADRO	4,500	9.0	0.8	2.5	11.4

Sources: Company, SSI Research

ADRO is currently traded at new 2025F P/E of 9.0x, 33.8% discount to its metcoal-renewable blended peers average; we believe re-rating is in progress as the company's green projects materialize

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