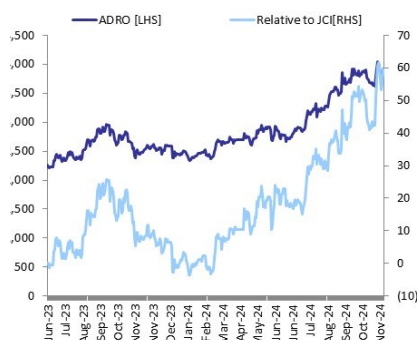


Hold

(Downgraded)

Last Price (Rp)	3,920
Target Price (Rp)	4,100
Previous Target Price (Rp)	3,770
Upside/Downside	4.6%
No. of Shares (mn)	31,986
Mkt Cap (Rpbn/US\$mn)	122,506/7,727
Avg, Daily T/O (Rpbn/US\$mn)	232,4/14,7
Free Float (%)	39,9
Major Shareholder (%)	
PT Adaro Strategic	43.9
Garibaldi Thohir	6.2
EPS Consensus (US\$cents)	
	2024F 2025F 2026F
BRIDS	3.6 3.1 2.3
Consensus	4.2 3.5 3.3
BRIDS/Cons (%)	(13.5) (10.9) (29.2)

ADRO relative to JCI Index



Source: Bloomberg

BRI Danareksa Sekuritas Analysts

Erindra Krisnawan, CFA

(62-21) 5091 4100 ext. 3500

erindra.krisnawan@brids.co.id

Kafi Ananta

(62-21) 5091 4100 x. 3506

kafi.azhari@brids.co.id

Adaro Energy (ADRO IJ)

Potential upside from AADI post spin-off; lowered rating to Hold with a higher TP of Rp4,100

- We estimate base-case valuation of AADI's equity at US\$6.1bn and ADRO's valuation (post- AADI spin-off) at US\$5.3-7.0bn.
- Key risk is downside if the market assigns a bigger Holdco disc.; this may be minimized with more visibility on renewable projects.
- We raised our TP to Rp4,100 but lowered our rating to Hold, based on our latest valuation of ADRO and AADI.

AADI: Potential strong FCF in FY26 onwards

We forecast AADI's FY25/ FY26F EBITDA of US\$1,245mn/ US\$1,119mn, a decline due to our assumption of normalizing coal price forecast (Newcastle FY25/26F of US\$120/\$110 /t). Nonetheless, we see steady free cash flow generation from AADI, particularly in FY26 onwards due to minimal capex for mining; we assumed capex to peak in FY25, mainly to fund the completion of CFPP (remaining capex of US\$650mn). We think AADI will have the capacity to pay out dividends above the indicated 45% payout ratio in its prospectus.

Potential upside in AADI vs. ADRO Post spin-off downside

We estimate that post-spin-off of AADI, ADRO's valuation would be at US\$5.3-7.0bn. Our base-case valuation of AADI's equity is US\$6.1bn, mainly incorporating the valuation of thermal coal operation and the CFPP (KPI). This implies that post AADI's spin-off, ADRO shareholders may potentially see 9-31% (US\$0.7-2.4bn) downside from current market capitalization. However, shareholders who subscribe to AADI may potentially see 112-171% upside (US\$3.0-4.5bn), assuming our fair valuation (please refer to Exh. 1-2).

Renewable projects hold key for ADRO's future (post spin-off) valuation

We think the key risk for shareholders is the downside on ADRO, particularly if the market assigns a bigger Holdco discount. This risk may be minimized if we have more visibility on ADRO's renewable projects. We observed that global companies with renewable projects trade at a median market cap of US\$1.1/ GW), though the caveat is that ADRO's hydro project is only slated for completion by FY30.

Rating change to Hold with a higher TP of Rp4,100

We lower our rating on ADRO to Hold, with a higher TP of Rp4,100 (pre-spin off), now based on the valuation of ADRO and AADI post- spin off. Key risks are: weaker coal price, bigger Holdco discount for ADRO post spin-off.

Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Revenue (US\$mn)	8,102	6,518	6,270	5,860	5,372
EBITDA (US\$mn)	4,799	2,510	2,126	1,926	1,597
EBITDA Growth (%)	143.2	(47.7)	(15.3)	(9.4)	(17.1)
Net Profit (US\$mn)	2,493	1,641	1,162	997	747
EPS (US\$cents)	7.8	5.1	3.6	3.1	2.3
EPS Growth (%)	167.1	(34.2)	(29.2)	(14.1)	(25.1)
BVPS (US\$cents)	18.8	21.2	21.0	22.6	13.2
DPS (US\$cents)	2.7	2.9	2.0	1.5	1.1
PER (x)	3.1	4.7	6.7	7.7	10.3
PBV (x)	1.3	1.1	1.2	1.1	1.8
Dividen yield (%)	11.1	12.0	8.2	6.3	4.4
EV/EBITDA	1.1	2.1	2.5	2.5	5.2

Source: ADRO, BRIDS Estimates

Potential upside from AADI post spin-off; lowered rating to Hold with a higher TP of Rp4,100

AADI: Potential strong FCF in FY26 onwards

We forecast AADI's FY25/ FY26 EBITDA of US\$1,245mn/ US\$1,119mn, a decline due to our assumption of normalizing coal price forecast (Newc FY25/26F of US\$120/ \$110/ t). Nonetheless, we see steady free cash flow generation from AADI, particularly in FY26 onwards due to minimal capex for mining; we assumed capex to peak in FY25, mainly to fund the completion of CFPP (remaining capex of US\$650mn). We think AADI will have the capacity to pay out dividend above the indicated 45% payout ratio in its prospectus.

Potential upside in AADI vs. ADRO Post spin-off downside

We estimate that post- spin-off of AADI, ADRO's valuation would be at US\$5.3-7.0bn. Our base-case valuation of AADI's equity is US\$6.1bn, mainly incorporating the valuation of the thermal coal operation and the coal-fired power plant (KPI), based on DCF (implying 4.2x FY24 EV/ EBITDA). The above implies that post AADI's spin-off, ADRO shareholders may potentially see 9-31% (US\$0.7-2.4bn) downside from current market capitalization. However, shareholders who subscribe to AADI (at valuation of US\$2.6bn, funded with the expected special dividend) may potentially see 112-171% upside (US\$3.0-4.5bn), assuming our fair valuation above.

Exhibit 1. AADI Valuation Summary

AADI valuation assumptions	2024F	2025F	2026F	LT
Newcastle coal price (US\$/t)				
Base	135	120	100	100
Optimistic	140	130	120	110
AADI valuation summary (US\$ mn)				
	Thermal coal	KPI	Net debt	AADI
Base	6,086	973	(955)	6,104
Optimistic	7,109	973	(955)	7,151
Implied EV/ EBITDA (x)				
Base	4.2			
Optimistic	4.9			

Source: Company, BRIDS Estimates

Exhibit 2. ADRO (Post-AADI Spin-Off Valuation Est.)

(US\$ mn)	Base	Optimistic	Valuation method
ADMR (84% stake)	3,877	4,210	SOTP
SIS	325	520	EV/ EBITDA
Cash	2,400	2,640	BV
Total	6,602	7,370	
Holding company discount	20%	5%	
ADRO estimated fair value	5,282	7,002	
Current market cap	7,409		@ Rp3830
Potential downside (US\$mn)	(2,128)	(408)	
% downside	-28.7%	-5.5%	
Potential Upside from AADI			
Market cap at IPO/ subscription	2,640	2,640	Appraisal valuation
Estimated fair value	6,104	7,151	DCF
Potential upside from AADI	3,464	4,511	
% downside	131.2%	170.9%	

Source: Company, BRIDS Estimates

Renewable projects hold key for ADRO's future (post spin-off) valuation

We think the key risk for shareholders is a possible bigger downside on ADRO, particularly if the market assigns a bigger Holdco discount. This risk may be minimized when investors gain more visibility on ADRO's renewable projects (i.e., 1.375GW hydro, 70MW wind power and a possible 2GW solar power project). We observed that companies in global markets with renewable projects trade at market cap of US\$0.2-3.2/GW (median of US\$1.1/ GW), translating to potential upside in future market cap of ADRO's renewable projects, though the caveat is that the key hydro project is only slated for completion by FY30.

Exhibit 3. Renewable Peers Valuation Table

Company Name	Ticker	Country	Mkt cap/GW	Market Cap (USDmn)	Capacity (MW)	Hydro (MW)	Solar (MW)	Wind (MW)	Geothermal (MW)	Others (MW)
IBERDROLA, S.A.	IBE SM Equity	ES	2.0	89,710	44,100	13,300	7,000	23,800		
ENEL GREEN POWER S.P.A.	ENEL IM Equity	IT	1.1	72,577	65,140	27,960	14,490	21,770	860	60
MERCURY NZ LTD	MCY NZ Equity	NZ	3.2	5,458	1,727	714	-	527	486	-
ABOITIZ POWER CORP	AP PM Equity	PM	1.2	4,548	3,800	1,000				2,800
ACEN CORP	ACEN PM Equity	PM	0.6	2,898	4,664	-	2,268	1,701	695	-
CONTACT ENERGY LTD	CEN NZ Equity	NZ	2.8	3,991	1,428	752		300	376	
CHINA DATANG CORP RENEWABL-H	1798 HK Equity	HK	0.1	1,888	24,988	12,542	1,500	10,946		
XINYI ENERGY HOLDINGS LTD	3868 HK Equity	HK	0.2	861	3,851		3,851			
BCPG PCL	BCPG TB Equity	TB	0.2	485	1,947	114	658	319		857
Renewable peer average			1.3							

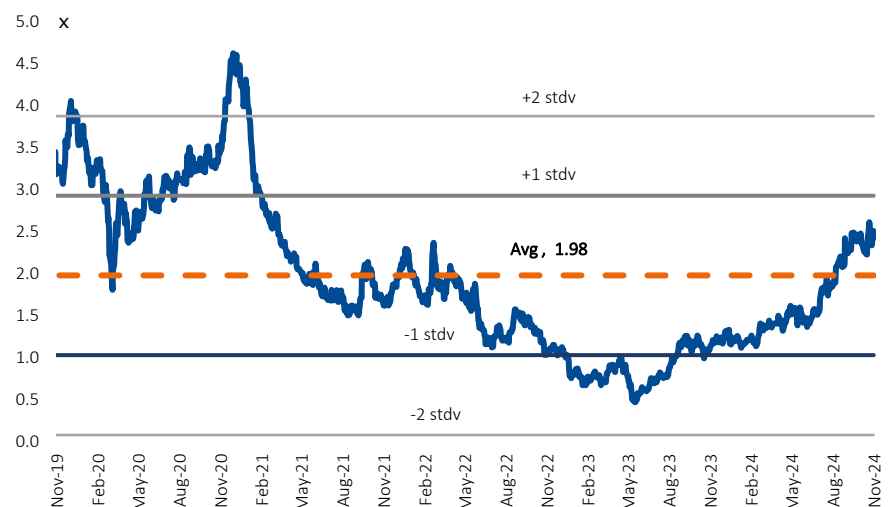
Source: Company, BRIDS Estimates

Exhibit 4. Coal Sector Valuation Table

Ticker	Current price (Rp)	Target Price (Rp)	Market Cap (Rpbn)	Rating	PE (x)		EV/EBITDA		PB (x)		ROE (%)		Div. Yield
					2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	
UNTR	26,550	31,000	98,289.1	BUY	5.3	6.3	3.5	4.3	1.2	1.1	22.4%	18.4%	13.4%
ADRO	3,920	4,100	118,420.9	HOLD	5.1	5.4	2.9	2.9	1.1	1.0	21.2%	18.1%	8.8%
ITMG	26,500	31,300	29,801.8	BUY	7.0	8.1	3.0	3.3	1.2	1.1	17.2%	14.3%	6.0%
PTBA	2,750	3,100	31,336.2	BUY	3.9	4.7	1.3	1.6	1.1	1.1	28.0%	23.5%	23.5%
HRUM	1,145	1,700	18,249.4	BUY	5.7	7.5	4.9	6.7	1.4	1.4	24.5%	18.4%	12.3%
HRUM	1,145	1,700	18,249.4	BUY	4.9	5.9	5.5	7.0	1.0	1.0	21.3%	17.6%	16.4%

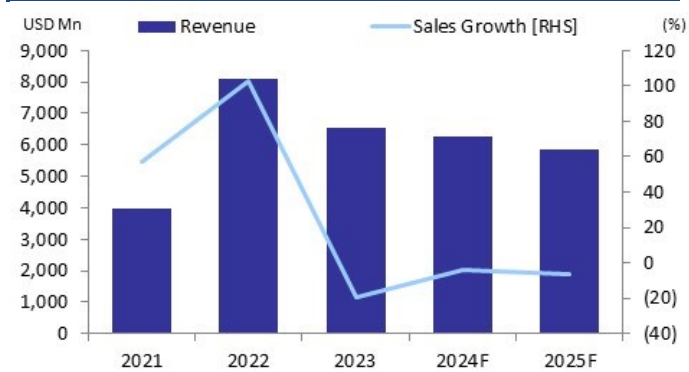
Source: Company, BRIDS Estimates

Exhibit 5. ADRO Forward 5-year EV/EBITDA 2024-25 Band



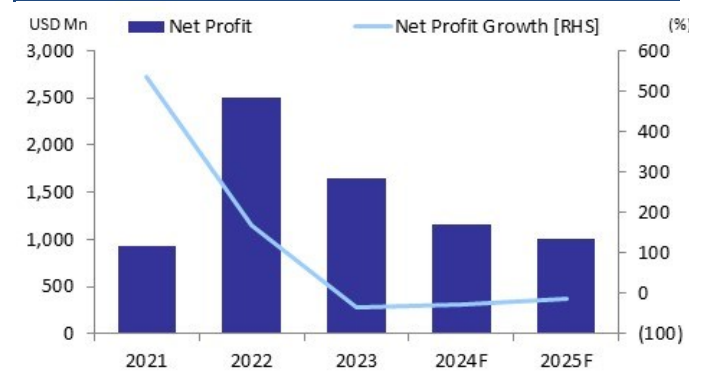
Source: Company, BRIDS Estimates

Exhibit 6. Revenue and Growth



Source: Company, BRIDS Estimates

Exhibit 7. Net Profit and Growth



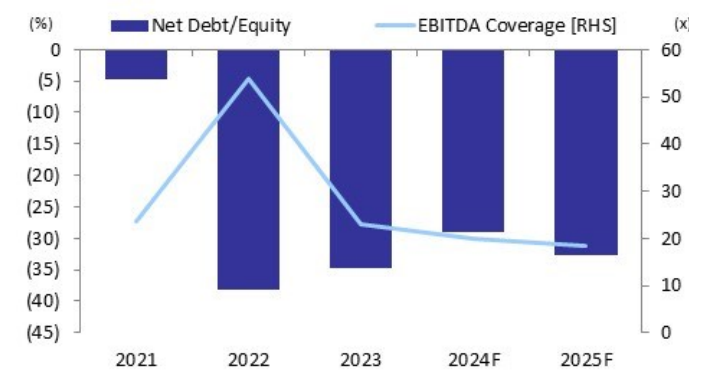
Source: Company, BRIDS Estimates

Exhibit 8. Margins



Source: Company, BRIDS Estimates

Exhibit 9. Gearing Level



Source: Company, BRIDS Estimates

Exhibit 10. Income Statement

Year to 31 Dec (US\$mn)	2022A	2023A	2024F	2025F	2026F
Revenue	8,102	6,518	6,270	5,860	5,372
COGS	(3,449)	(3,980)	(4,202)	(4,031)	(3,912)
Gross profit	4,653	2,537	2,068	1,828	1,460
EBITDA	4,799	2,510	2,126	1,926	1,597
Oper. profit	4,277	2,193	1,679	1,445	1,080
Interest income	48	140	20	19	20
Interest expense	(89)	(109)	(107)	(105)	(103)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	210	108	113	113	113
Other Income (Expenses)	31	(38)	(10)	(18)	(20)
Pre-tax profit	4,476	2,294	1,694	1,455	1,090
Income tax	(1,645)	(439)	(373)	(320)	(240)
Minority interest	(338)	(213)	(160)	(137)	(103)
Net profit	2,493	1,641	1,162	997	747
Core Net Profit	2,493	1,641	1,162	997	747

Exhibit 11. Balance Sheet

Year to 31 Dec (US\$mn)	2022A	2023A	2024F	2025F	2026F
Cash & cash equivalent	4,067	3,311	3,113	3,601	151
Receivables	665	542	643	588	542
Inventory	199	171	166	159	154
Other Curr. Asset	283	230	209	197	180
Fixed assets - Net	1,452	1,754	2,098	2,190	2,271
Other non-curr.asset	4,011	4,416	4,153	4,219	4,238
Total asset	10,782	10,473	10,470	11,043	7,625
ST Debt	176	252	253	256	261
Payables	333	345	531	516	499
Other Curr. Liabilities	1,939	1,539	483	455	417
Long Term Debt	1,404	487	469	447	428
Other LT. Liabilities	404	441	517	503	485
Total Liabilities	4,255	3,064	2,252	2,177	2,089
Shareholder's Funds	6,025	6,773	6,716	7,228	4,218
Minority interests	503	636	1,501	1,638	1,318
Total Equity & Liabilities	10,782	10,473	10,470	11,043	7,625

Exhibit 12. Cash Flow

Year to 31 Dec (US\$mn)	2022A	2023A	2024F	2025F	2026F
Net income	2,493	1,641	1,162	997	747
Depreciation and Amort.	521	317	447	481	517
Change in Working Capital	625	(84)	(501)	35	17
Other Oper. Cash Flow	181	(212)	(303)	(5)	(6)
Operating Cash Flow	3,820	1,663	804	1,508	1,275
Capex	0	0	0	0	0
Others Inv. Cash Flow	(1,115)	(819)	(643)	(652)	(632)
Investing Cash Flow	(1,115)	(819)	(643)	(652)	(632)
Net change in debt	2	(885)	(5)	(15)	(14)
New Capital	247	161	184	137	(3,741)
Dividend payment	(861)	(930)	(631)	(486)	(336)
Other Fin. Cash Flow	163	54	93	(4)	(1)
Financing Cash Flow	(449)	(1,601)	(359)	(368)	(4,093)
Net Change in Cash	2,256	(756)	(199)	488	(3,450)
Cash - begin of the year	1,811	4,067	3,311	3,113	3,601
Cash - end of the year	4,067	3,311	3,113	3,601	151

Exhibit 13. Key Ratio

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Growth (%)					
Sales	102.9	(19.6)	(3.8)	(6.5)	(8.3)
EBITDA	143.2	(47.7)	(15.3)	(9.4)	(17.1)
Operating profit	179.9	(48.7)	(23.4)	(13.9)	(25.3)
Net profit	167.1	(34.2)	(29.2)	(14.1)	(25.1)
Profitability (%)					
Gross margin	57.4	38.9	33.0	31.2	27.2
EBITDA margin	59.2	38.5	33.9	32.9	29.7
Operating margin	52.8	33.7	26.8	24.7	20.1
Net margin	30.8	25.2	18.5	17.0	13.9
ROAA	27.1	15.4	11.1	9.3	8.0
ROAE	49.1	25.7	17.2	14.3	13.1
Leverage					
Net Gearing (x)	(0.4)	(0.3)	(0.3)	(0.3)	0.1
Interest Coverage (x)	47.9	20.0	15.7	13.8	10.5

Source : ADRO, BRIDS Estimates

BRI Danareksa Equity Research Team

Erindra Krisnawan, CFA	Head of Equity Research, Strategy, Coal	erindra.krisnawan@brids.co.id
Natalia Sutanto	Consumer, Cigarettes, Pharmaceuticals, Retail	natalia.sutanto@brids.co.id
Niko Margaronis	Telco, Tower, Technology, Media	niko.margaronis@brids.co.id
Hasan Barakwan	Metal, Oil and Gas	hasan.barakwan@brids.co.id
Victor Stefano	Banks, Poultry	victor.stefano@brids.co.id
Ismail Fakhri Suweleh	Healthcare, Property, Industrial Estate	ismail.suweleh@brids.co.id
Richard Jerry, CFA	Automotive, Cement	richard.jerry@brids.co.id
Ni Putu Wilastita Muthia Sofi	Research Associate	wilastita.sofi@brids.co.id
Naura Reyhan Muchlis	Research Associate	naura.muchlis@brids.co.id
Sabela Nur Amalina	Research Associate	sabela.amalina@brids.co.id
Kafi Ananta Azhari	Research Associate	kafi.ananta@brids.co.id

BRI Danareksa Economic Research Team

Helmy Kristanto	Chief Economist, Macro Strategy	helmy.kristanto@brids.co.id
Dr. Telisa Aulia Falianty	Senior Advisor	telisa.falianty@brids.co.id
Kefas Sidauruk	Economist	kefas.sidauruk@brids.co.id

BRI Danareksa Institutional Equity Sales Team

Yofi Lasini	Head of Institutional Sales and Dealing	yofi.lasini@brids.co.id
Novrita Endah Putrianti	Institutional Sales Unit Head	novrita.putrianti@brids.co.id
Ehrlich Suhartono	Institutional Sales Associate	ehrliech@brids.co.id
Yunita Nababan	Institutional Sales Associate	yunita@brids.co.id
Adeline Solaiman	Institutional Sales Associate	adeline.solaiman@brids.co.id
Andreas Kenny	Institutional Sales Associate	andreas.kenny@brids.co.id
Christy Halim	Institutional Sales Associate	christy.halim@brids.co.id
Jason Joseph	Institutional Sales Associate	jason.joseph@brids.co.id

BRI Danareksa Sales Traders

Mitcha Sondakh	Head of Sales Trader	mitcha.sondakh@brids.co.id
Suryanti Salim	Sales Trader	suryanti.salim@brids.co.id

INVESTMENT RATING

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

Disclaimer

The information contained in this report has been taken from sources which we deem reliable. However, none of PT BRI Danareksa Sekuritas and/or its affiliated and/or their respective employees and/or agents makes any representation or warrant (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of PT BRI Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitations for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as results of acting in reliance upon the whole or any part of the contents of this report and neither PT BRI Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in the report is not to be taken as any recommendation made by PT BRI Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regards to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.