Adaro Andalan Indonesia (AADI IJ)

Two Tailwinds In 2H26

Highlights

- **Continued deliveries in Kalimantan.** Deliveries uninterrupted as of 6 Sep 26, while the disruption sits upstream in Central Kalimantan.
- **Kaltara power contributes from 2H26.** The 1GW captive plant is expected to add around US$60m to 2026 rental income.
- **Maintain BUY with a higher target price of Rp14,300 from Rp10,900,** based on 6.3x 2027F PE, reflecting Alamtri Resources Indonesia (ADRO)'s five-year average PE.

Analysis

- **AADI's mines sit in South Kalimantan, away from the constrained upstream Barito.** Adaro Andalan Indonesia (AADI)'s coal deliveries remain uninterrupted as of 6 Sep 26. Its major producing assets and the Adaro Indonesia (AI) coal mine are all in South Kalimantan and feed Kelanis via AADI's own 80km hauling road rather than by river. AADI only enters the river at the mid-Barito loading station and controls dredging on the stretch below through Sarana Daya Mandiri.
- **Coal prices to stay elevated as supply disruption meets seasonal demand.** Newcastle coal price is up 37.7% since the US-Iran conflict began in Feb 26, while seasonal demand and El Niño supply disruption should keep prices supported into 2H26. On the supply side, El Niño-driven low water levels have made parts of the upper Barito in Central Kalimantan unnavigable, with force majeure already declared by some shippers and Apindo estimating around 3.9 mt per month of barging at risk. On the demand side, the July to October window typically prices at the upper end of the range as Northern Hemisphere cooling demand overlaps with restocking ahead of winter, and this year the same El Niño is cutting Indian hydro output and monsoon replenishment, which pulls India back into the seaborne market.
- **Kaltara power adds earnings.** AADI started earning revenue in mid-26 by renting out its 1GW coal power plant to power Alamtri Minerals Indonesia's (ADMR) new aluminum smelter. The demand side is running ahead of plan. All 72 potlines at Kalimantan Aluminum Industry (KAI) are now operational, with 2026 targets of around 370,000 tonnes for production and 340,000 tonnes for sales and full capacity of around 500,000 tonnes next year. 2Q26 showed rental earnings of US$22m with potential to contribute US$60m in rental income in 2026, and a fuller contribution in 2027 of around US$80m.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	5,320	4,910	6,319	5,863	6,044
EBITDA	1,254	1,139	1,567	1,362	1,429
Operating profit	1,150	1,015	1,450	1,241	1,305
Net profit (rep./act.)	1,211	760	1,128	1,050	1,070
Net profit (adj.)	1,211	760	1,128	1,050	1,070
EPS (Rp)	2,612	1,640	2,434	2,266	2,309
PE (x)	4.7	7.5	5.0	5.4	5.3
P/B (x)	1.9	1.7	1.5	1.6	1.6
EV/EBITDA (x)	4.5	4.9	3.2	3.8	3.5
Dividend yield (%)	0.0	6.3	7.9	12.1	11.6
Net margin (%)	22.8	15.5	17.9	17.9	17.7
Net debt/(cash) to equity (%)	97.3	49.9	54.4	26.4	24.8
Interest cover (x)	(149)	223	(193)	(19)	(53)
ROE (%)	40.4	22.8	30.2	30.5	30.4
Consensus net profit	-	-	989.0	935.0	861.0
UOBKH/Consensus (x)	-	-	1.1	1.1	1.2

Source: Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rp12,225
Target Price	Rp14,300
Upside	+17.2%
Previous TP	Rp10,900

Stock Data

Sector	Energy
Bloomberg ticker	AADI IJ
Shares issued (m)	7,787
Market cap (Rpb)	95,195
Market cap (US$m)	5,405
3-mth avg daily t'over (US$m)	6.2

Price Performance (%)

52-week high/low				Rp12,925/Rp6,750
1mth	3mth	6mth	1yr	YTD
32.5	51.9	27.0	74.6	75.3

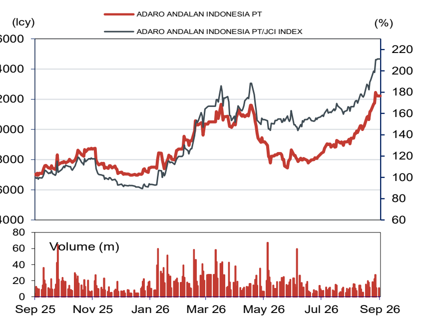
Major Shareholders (%)

Adaro Strategic Investment	41.1
Affiliated	18.2
Alamtri Resources Indonesia	15.4
Garibaldi Thohir	5.8

Balance Sheet Metrics

FY26 NAV/Share (Rp)	8,062
FY26 Net Debt/Share (Rp)	10,995

Price Chart



Source: Bloomberg

Company Description

Adaro Andalan Indonesia operates as a mining company. It mines and produces coal products as a fuel for domestic use, and serves customers worldwide.

- **Divesting stake in Kestrel Australia.** AADI, through its subsidiary Adaro Capital (ACL), signed a sale and purchase agreement on 14 Apr 26 to divest its 47.99% stake in Kestrel Coal Group, an Australian metallurgical coal mining company, to a third party for a total transaction value of up to US$2.4b. The consideration consists of US$1.85b in upfront cash payable upon completion, subject to adjustments, and up to US$550m in contingent annual payments over five years, depending on the coking coal FOB Australia index exceeding certain thresholds. Based on AADI's effective ownership of 34.6% in Kestrel, the upfront cash proceeds attributable to AADI are estimated at US$640.1m. Compared with Kestrel's carrying value of US$736m, this would imply a loss of around US$96m, but if the additional contingent payment is received, the transaction could potentially result in a profit of US$94m.
- **Potential special dividend from Kestrel divestment.** The Kestrel divestment is still ongoing and could be completed in 1Q27. Once completed, AADI may distribute a special dividend from the proceeds. Assuming 100% payout and only the US$640m upfront cash is paid out, the dividend could reach Rp1,450/share, implying an 11.9% yield at the current price of Rp12,175. Including contingent payments, this could rise to Rp1,720/share, or a 14.1% yield. Every 10% increase in the payout ratio would add around 1.2% to the dividend yield under the upfront cash scenario, or 1.4% if the contingent payment is included. AADI also remains attractive from a core dividend perspective, with its 2025 payout ratio at 59.2%.

Valuation/Recommendation

- **Maintain BUY with target price of Rp14,300 from Rp10,900.** Our target price of Rp14,300 is based on 6.3x 2027F PE, which is ADRO's 2019-24 average PE prior to the spin-off of AADI. We increase our target price as coal prices continue to sustain at an elevated level with the upcoming winter seasonal demand and potential supply disruption from the El Nino effect. Additionally, AADI is expected to receive US$60m in rental income for 2026.

Earnings Revision/Risk

- **We increase our 2026 and 2027 earnings forecast by 24.8% and 1.0**%, as we increase 2026 and 2027 coal price assumptions by 8.3% and 1.7%.

Earnings Revision

	--------------- New ---------------		------------ Previous ------------		-------- Difference (%) --------	
(US$m)	2026F	2027F	2026F	2027F	2026F	2027F
Coal Price (US$/mt)	84.5	78.0	78.0	76.7	8.3	1.7
Revenue	6,319	5,863	5,851	5,769	8.0	1.6
Gross Profit	1704	1504	1393	1518	22.4	-1.0
EBITDA	1,567	1,362	1,256	1,377	24.8	-1.1
Operating Profit	1,450	1,241	1,138	1,256	27.3	-1.2
Net Profit	1,128	1,050	904	1,040	24.8	1.0
Gross Margin (%)	29.1	25.7	26.2	28.6	2.9	-2.9
EBITDA Margin (%)	26.8	23.3	23.7	25.9	3.1	-2.7
Op. Margin (%)	24.8	21.2	21.4	23.7	3.3	-2.4
Net Margin (%)	17.9	17.9	15.4	18.0	2.4	-0.1

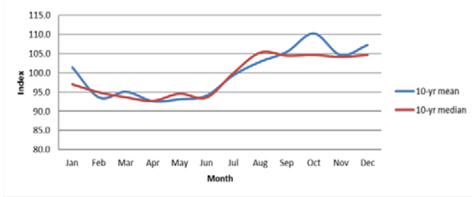
Source: UOB Kay Hian

- **Key risks**: a) Supply disruption from El Nino, and b) lower-than-expected coal prices.

Share Price Catalyst

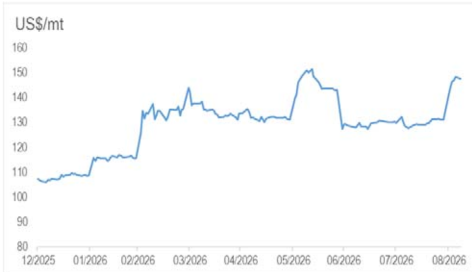
- **Catalysts**: a) Winter seasonal demand, b) Additional income from Kaltara power plant rental, and c) Kestrel divestment.

Newcastle Coal Seasonal Index 10Y



Source: UOB Kay Hian

Coal Price YTD

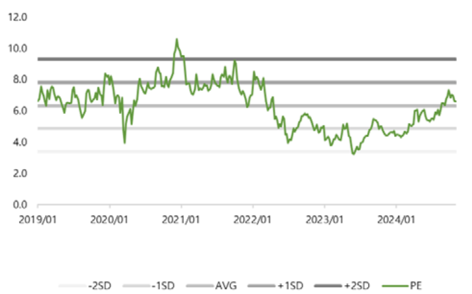


Source: UOB Kay Hian

Coal Mine Location

Source: UOB Kay Hian

ADRO Historical PE



Source: UOB Kay Hian

Profit & loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	4,910	6,319	5,863	6,044
EBITDA	1,139	1,567	1,362	1,429
Deprec. & amort.	124	118	121	124
EBIT	1,015	1,450	1,241	1,305
Total other non-op. income	28	69	110	113
Net interest income/(expense)	(5)	7	66	25
Pre-tax profit	1,055	1,566	1,458	1,486
Tax	(206)	(306)	(285)	(290)
Minorities	(89)	(132)	(123)	(125)
Net profit	760	1,128	1,050	1,070
Net profit (adj.)	760	1,128	1,050	1,070

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	1,685	1,629	1,585	1,551
Other LT assets	560	577	593	611
Cash/ST investment	925	1,722	700	764
Other current assets	871	969	945	981
Total assets	4,041	4,896	3,823	3,907
ST debt	44	379	7	7
Other current liabilities	878	986	955	975
LT debt	782	688	216	115
Other LT liabilities	300	299	298	297
Shareholders' equity	3,334	3,737	3,447	3,519
Minority interest	316	448	571	696
Total liabilities & equity	5,654	6,537	5,493	5,608

Cash flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	795	1,250	1,157	1,172
Pre-tax profit	966	1,434	1,335	1,360
Tax	(206)	(306)	(285)	(290)
Deprec. & amort.	124	118	121	124
Working capital changes	(157)	11	(7)	(16)
Other operating cashflows	68	(7)	(7)	(7)
Investing	(257)	(102)	(118)	(133)
Capex (growth)	(453)	(51)	(64)	(78)
Others	37	(18)	(18)	(19)
Financing	(1,131)	(351)	(2,062)	(974)
Dividend payments	(370)	(450)	(668)	(622)
Issue of shares	-	-	-	-
Proceeds from borrowings	(660)	241	(845)	(101)
Others/interest paid	(101)	(142)	(549)	(251)
Net cash inflow (outflow)	(593)	797	(1,022)	64
Beginning cash	1,519	926	1,722	700
Ending cash	926	1,722	700	764

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	23.2	24.8	23.2	23.7
Pre-tax margin	21.5	24.8	24.9	24.6
Net margin	15.5	17.9	17.9	17.7
ROA	13.3	17.1	18.9	18.9
ROE	22.8	30.2	30.5	30.4
Growth (% yoy)				
Turnover	(7.7)	28.7	(7.2)	3.1
EBITDA	(9.2)	37.7	(13.1)	4.9
Pre-tax profit	(31.5)	48.4	(6.9)	1.9
Net profit	(37.2)	48.4	(6.9)	1.9
Net profit (adj.)	(37.2)	48.4	(6.9)	1.9
EPS	(37.2)	48.4	(6.9)	1.9
Leverage				
Debt to total capital	0.2	0.2	0.1	0.0
Debt to equity	0.2	0.2	0.1	0.0
Net debt/(cash) to equity	(0.0)	(0.3)	(0.1)	(0.2)
Interest cover (x)	223.3	(193.4)	(18.9)	(52.5)