Adaro Andalan Indonesia (AADI IJ)

Two Tailwinds: Coal Prices And Special Dividend

Highlights

- **Kestrel proceeds create potential for a substantial special dividend.** AADI's US$661.3m attributable after-tax proceeds could translate into Rp1,529/share (15.0% yield) assuming a 100% payout, although actual distribution remains subject to capital allocation priorities.
- **4Q26 earnings are likely to remain solid, supported by higher coal prices.** We expect higher coal prices (October ICI4: US$78.35/tonne vs US$67.80/tonne in 3Q26) to offset lower volumes, supporting 2026 net profit of nearly US$1.0b (+32.3% yoy).
- **Maintain BUY with a higher target price of Rp13,500, down from Rp14,300,** based on 6.3x 2027F PE, reflecting Alamtri Resources Indonesia's (ADRO) five-year average PE.

Analysis

- **Kestrel proceeds create potential for a large special dividend.** Adaro Andalan Indonesia (AADI) completed the sale of its 47.99% stake in Kestrel to Yancoal on 1 Oct 26 for US$814.12m before tax and US$734.83m after tax, subject to sales and purchase agreement adjustments. AADI cited the intended use of the proceeds for dividends, business development in Indonesia and partial loan repayment. AADI holds the stake through 90%-owned Adaro Capital, leaving US$661.3m attributable to AADI after tax. On our illustrative assumption of a 100% payout of this amount, the dividend would be Rp11.9t or Rp1,529/share, a potential 15.0% yield. Management has not announced a payout, and competing uses make 100% an upper-end scenario for the upfront proceeds. AADI also remains attractive from a core dividend perspective, with its 2025 payout ratio at 59.2%.
- **4Q26 earnings are likely to remain solid, supported by higher coal prices.** Despite lower sales volume and a higher strip ratio, we believe stronger coal prices could support profitability. We estimate that 4Q26 ASP could increase by up to 15% qoq, assuming the Oct 26 ICI4 price of US$78.35/tonne is sustained, compared with US$67.80/tonne in 3Q26. This should help offset lower expected sales volume of 17.2mt (-3.7% qoq; -10.6% yoy). Consequently, we expect 2026 net profit to approach US$1.0b, representing a 32.3% yoy growth. Amid tighter domestic supply from El Niño-related disruptions, AADI is likely to maintain its 30% domestic market obligation (DMO) through 4Q26, with a similar allocation expected in 2027.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	5,320	4,910	5,455	5,105	5,395
EBITDA	1,254	1,139	1,516	1,220	1,368
Operating profit	1,150	1,015	1,390	1,089	1,234
Net profit (rep./act.)	1,211	760	1,011	926	1,012
Net profit (adj.)	1,211	760	1,011	926	1,012
EPS (Rp)	2,612	1,640	2,182	2,141	2,338
PE (x)	4.1	6.5	4.9	5.0	4.5
P/B (x)	1.6	1.5	1.4	1.3	1.3
EV/EBITDA (x)	3.9	4.2	3.0	3.7	3.2
Dividend yield (%)	0.0	7.2	12.1	11.4	12.9
Net margin (%)	22.8	15.5	18.5	18.1	18.7
Net debt/(cash) to equity (%)	97.3	49.9	49.5	24.9	22.2
Interest cover (x)	(149)	223	(185)	(21)	(54)
ROE (%)	40.4	22.8	29.2	26.9	29.1
Consensus net profit	-		1,017.0	986.0	921.0
UOBKH/Consensus (x)	-		1.0	0.9	1.1

Source: AADI, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rp10,625
Target Price	Rp13,500
Upside	+27.0%
Previous TP	Rp14,300

Stock Data

Sector	Energy
Bloomberg ticker	AADI IJ
Shares issued (m)	7,787
Market cap (Rpb)	83,125
Market cap (US$m)	4,575
3-mth avg daily t'over (US$m)	7.8

Price Performance (%)

52-week high/low				Rp12,925/Rp6,750
1mth	3mth	6mth	1yr	YTD
(7.6)	16.3	(2.7)	28.2	53.0

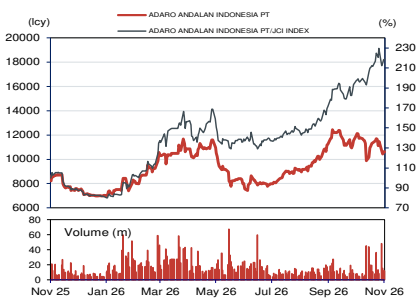
Major Shareholders (%)

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

Balance Sheet Metrics

FY26 NAV/Share (Rp)	7,483
FY26 Net Debt/Share (Rp)	n.a

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.

9M26 Results

Year to 31 Dec (US$m)	9M26	9M25	yoy(%)	3Q26	3Q25	yoy(%)	qoq(%)
ASP (US$/tonne)	72.51	65.44	10.8	72.65	61.68	17.79	(6.9)
Sales Volume (Mt)	51.35	52.69	(2.54)	17.88	18.72	(4.49)	(2.9)
Revenues	**3,959.20**	**3,609.10**	**9.7**	**1412.6**	**1209.6**	**16.8**	**(6)**
COGS	(2,757.20)	(2,665.90)	3.4	(993.3)	(961.8)	3.3	1.6
Gross Profit	**1,202.00**	**943.30**	**27.4**	**419.3**	**247.7**	**69.3**	**(20.1)**
Operating expenses	(181.30)	(171.80)	5.5	(60)	(57.6)	4.3	(13.2)
Other income (expenses)	46.60	39.10	19.3	41.6	11.4	265.7	(3883.3)
EBIT	1,067.40	810.60	31.7	400.9	201.5	98.9	(11.9)
Finance costs	(40.00)	(45.20)	(11.6)	(18.7)	(12.2)	53.7	27.1
Interest income	33.50	43.00	(22.1)	14.6	14.1	3.5	37.5
Share in profit of JV	-	4.20	(101)	(0.5)	13.5	(103.4)	(108.4)
PBT	1,060.90	812.60	30.6	396.3	217	82.6	(13.1)
Tax expense	(300.30)	(157.70)	90.4	(160.1)	(43.4)	269	87.1
Minority interest	(77.30)	(67.50)	14.4	(26.6	(14.9)	78.1	(33.3)
Net Profit	**683.30**	**587.30**	**16.3**	**209.6**	**158.6**	**32.1**	**(36.6)**
Coal Sales	3,723.40	3,448.30	8	1299.1	1154.7	12.5	(9.5)
Electricity Rental	87.80	-	-	43.6	-	-	-1.4
Logistic	130.10	139.80	(7)	65	49	32.7	298.7
Other	17.90	21.00	(14.6)	4.9	5.8	(16.3)	(17.3)

Source: UOB Kay Hian

- **3Q26 earnings fell qoq on lower ASP, higher stripping and a one-off tax charge.** Revenue declined 6.0% qoq to US$1,412.6m, as coal sales volume eased 2.9% qoq to 17.9mt and ASP fell 6.9% qoq to US$72.70/tonne with the strip ratio rising to 4.39x (2Q26: 3.82x) and cash cost up 5.2% qoq to US$52.10/tonne. EBIT fell 11.9% qoq to US$400.9m, supported by the US$21.5m gain on the Kestrel disposal. Net profit declined 36.6% qoq to US$209.6m, as tax expense rose to US$160.1m (2Q26: US$85.6m), including US$79.3m of capital gains tax on the disposal. Excluding the net Kestrel loss of US$57.8m, core profit was about US$267.4m (-19.2% qoq; +68.6% yoy). In 9M26, higher coal prices lifted EBIT by 31.7% yoy to US$1,067.4m, as ASP of about US$72.50/tonne (+10.8% yoy) offset a 2.5% lower sales volume. 9M26 net profit was below our previous expectation, at 61% of our 2026 forecast and 67% of consensus, while core profit of about US$741m reached 66% and 73%, respectively.

Valuation/Recommendation

- **Maintain BUY with a lower target price of Rp13,500 (from Rp14,300).** Our target price of Rp13,500 is based on 6.3x 2027F PE, which is ADRO's 2019-24 average PE prior to the spin-off of AADI. We lower our target price and cut our earnings forecast for 2027.

Earnings Revision/Risk

- **We trim our 2026 and 2027 earnings forecasts by 10.8% and 11.4% respectively** as we lower our coal volume estimates by 4.7% for 2026 and 3.7% for 2027, and increase the DMO from 25% to 30% on higher domestic electricity power demand.

Earnings Revision

	New		Previous		Difference (%)	
(US$m)	2026F	2027F	2026F	2027F	2026F	2027F
Coal sales (mt)	68.6	69.2	71.9	71.9	-4.7	-3.7
Revenue	5,455	5,105	6,319	5,863	-13.7	-12.9
Gross Profit	1666	1374	1704	1504	-2.2	-8.6
EBITDA	1,516	1,220	1,567	1,362	-3.3	-10.5
Operating Profit	1,390	1,089	1,450	1,241	-4.1	-12.3
Net Profit	1,011	931	1,128	1,050	-10.4	-11.4
Gross Margin (%)	26.4	21.7	29.1	25.7	-2.8	-4.0
EBITDA Margin (%)	24.0	19.3	26.8	23.3	-2.8	-4.0
Operating Margin (%)	22.0	17.2	24.8	21.2	-2.8	-4.0
Net Margin (%)	18.5	18.2	17.9	17.9	0.7	0.3

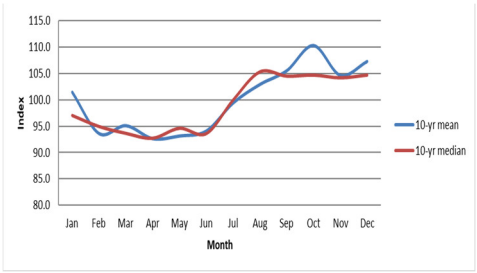
Source: UOB Kay Hian

- **Key risks:** a) Supply disruption from El Niño, b) lower-than-expected coal prices, and c) higher domestic electricity power demand.

Share Price Catalyst

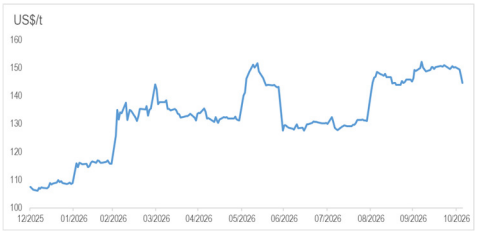
- **Catalysts:** a) Winter seasonal demand, b) additional income from the Kaltara power plant rental, and c) potential special dividend.

10Y Newcastle Coal Seasonal Index



Source: UOB Kay Hian

Newcastle Coal Prices Ytd



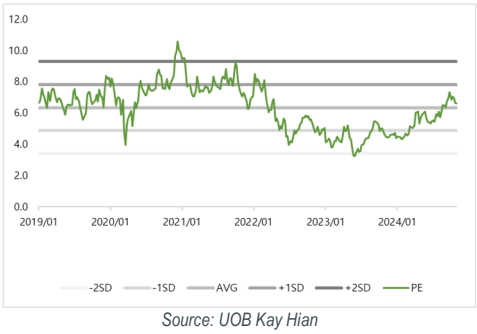
Source: UOB Kay Hian

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	5,455	5,105	5,395
EBITDA	1,139	1,516	1,220	1,368
Deprec. & amort.	124	127	130	134
EBIT	1,015	1,390	1,089	1,234
Total other non-op. income	28	69	110	113
Net interest income/(expense)	(5)	7	59	23
Pre-tax profit	1,055	1,506	1,299	1,413
Tax	(206)	(377)	(260)	(283)
Minorities	(89)	(118)	(109)	(118)
Net profit	**760**	**1,011**	**931**	**1,012**
Net profit (adj.)	**760**	**1,011**	**931**	**1,012**

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	2,225	2,270	2,316	2,364
Cash/ST investment	925	1,406	646	665
Other current assets	871	889	874	920
Total assets	**5,706**	**6,193**	**5,421**	**5,500**
ST debt	44	379	7	7
Other current liabilities	878	872	866	888
LT debt	782	688	216	115
Other LT liabilities	352	351	350	348
Shareholders' equity	3,334	3,468	3,440	3,480
Minority interest	316	434	543	661
Total liabilities & equity	**5,706**	**6,193**	**5,421**	**5,500**

Cash flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	**795**	**1,108**	**1,059**	**1,115**
Pre-tax profit	966	1,388	1,185	1,294
Tax	(206)	(377)	(259)	(283)
Deprec. & amort.	124	127	130	134
Working capital changes	(157)	(24)	9	(23)
Other operating cashflows	68	(7)	(7)	(7)
Investing	**(257)**	**(111)**	**(128)**	**(143)**
Capex (growth)	(453)	(59)	(74)	(88)
Others	37	(18)	(18)	(19)
Financing	**(1,131)**	**(516)**	**(1,691)**	**(954)**
Dividend payments	(370)	(602)	(551)	(602)
Issue of shares	-	-	-	-
Proceeds from borrowings	(660)	241	(845)	(101)
Others/interest paid	(101)	(156)	(295)	(251)
Net cash inflow (outflow)	**(593)**	**480**	**(759)**	**19**
Beginning cash	**1,519**	**926**	**1,406**	**646**
Ending cash	**926**	**1,406**	**646**	**665**

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	23.2	27.8	23.9	25.4
Pre-tax margin	21.5	27.6	25.3	26.2
Net margin	15.5	18.5	18.1	18.7
ROA	13.3	16.3	17.1	18.4
ROE	22.8	29.2	26.9	29.1
Growth (% yoy)				
Turnover	(7.7)	11.1	(6.4)	5.7
EBITDA	(9.2)	33.2	(19.6)	12.2
Pre-tax profit	(31.5)	42.7	(14.1)	9.2
Net profit	(37.2)	33.0	(8.4)	9.2
Net profit (adj.)	(37.2)	33.0	(8.4)	9.2
EPS	(37.2)	33.0	(8.4)	9.2
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)	(0.2)	(0.1)	(0.2)
Interest cover (x)	223.3	(185.4)	(20.5)	(54.3)

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