Medco Energi Internasional

Bloomberg: MEDC.IJ | Reuters: MEDC.JK

Oil & Gas Sector

29 May 2023

JCI Index: 6,687

BUY (Unchanged)

Target Price (IDR)	**1,600 (from 1,600)**
Potential Upside (%)	**77.8**

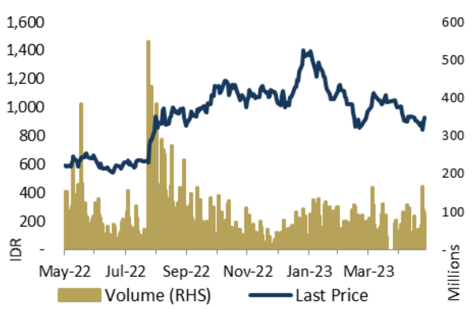
Price Comparison	
Cons. Target Price (IDR)	1,438
SSI vs. Cons. (%)	111.3

Stock Information	
Last Price (IDR)	900
Shares Issued (Mn)	25,136
Market Cap. (IDR Bn)	22,623
52-Weeks High/Low (IDR)	1,430/540
3M Avg. Daily Value (IDR Bn)	75.8
Free Float (%)	22.8
Shareholder Structure:	
PT Medco daya abadi lestari	51.5
Diamond Bridge PTE. LTD	21.46
Masyarakat	26.4

Stock Performance

(%)	YTD	1M	3M	12M
Absolute	(11.3)	(10.9)	(21.7)	97.4
JCI Return	(2.4)	(3.3)	(2.3)	(4.8)
Relative	(8.9)	(7.6)	(19.5)	58.7

Stock Price & Volumes, 12M



Company Background

PT Medco Energi Internasional Tbk or MedcoEnergi is an Indonesian oil and gas company. The company is engaged in the exploration for and production of oil & gas, services, power, chemicals, rental of properties, trading and holding & related operations.

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Elevated O&G Prices to Give a Leg Up

1Q23 results: Power to the rescue. MEDC posted positive topline growth in 1Q23, with a revenue of USD 558 million (+14% yoy), driven mainly by its power business (USD 111 million, +255% yoy). Meanwhile, O&G sales slipped to USD 393 million (-1.6%) on the back of the decline of crude oil ASP to USD 77.1/bbl (-22.3% yoy) despite higher O&G production of 165 mbopd (+29.9% yoy). MEDC posted an operating profit of USD 178 million (-10.9% yoy); the decline was mainly caused by lower O&G margin (53%, -220 bps) and higher OpEx (USD 54 million, +29.9% yoy). The company's operating margin fell to 32% (-894 bps). MEDC booked a flattish EBITDA of USD 325 million (+3.8% yoy) and a bottom line of USD 80 million (-11.3% yoy), falling short of ours and cons.

Oil prices to stabilize as Saudi hints production cuts. The recent drop in oil prices (due to weak demand from the US and China) led to a decline in MEDC's ASP to just USD 77/bbl in 1Q23, compared to USD 100/bbl in 1Q22. However, we cut our FY23F Brent price projection to USD 80/bbl as Saudi and OPEC+ countries hinted that another production cut is in the works. Recently, OPEC+ made another oil production cut of approx.. 1.16 mmbopd, bringing its total production cut to 3.66 mmbopd (3.7% of global oil demand). Our normalized yet elevated oil price thesis is also supported by the decline in US crude inventories, which we believe will continue in the upcoming quarters; however, weak demand from China and the US might be a risk for the price rally, prompting us to cut our projection.

Normalizing oil prices, lower margins = lower forecast. This year, we believe MEDC will reap huge revenue from its gas business, especially with the new GSA contract for the Corridor block and a higher ASP of USD 7.7/mmbtu, which should give MEDC's O&G business a leg up. However, due to the business' low margin nature, we have to cut our margin projection to 51%, thus lowering our EBITDA and earnings estimates to USD 1.1 billion and USD 314 million, respectively. Our earnings revision was justified by our recent oil price projection cuts, and with the Ijen Geothermal project coming in full swing, MEDC should experience lower margins from its power business. Furthermore, we are still waiting for the green light for AMNT's IPO, since it might become a positive catalyst for the slumping MEDC shares (-21.56%.YTD)

BUY, TP IDR 1,600. We maintain our bullish view on MEDC, giving it a BUY and a SOTP-based TP of IDR 1,600, reflecting 4.7x FY23F EV/EBITDA. **Main Risks**: Declining O&G prices and lifting volume.

Forecast and Valuations (@ IDR 900 per share)

Y/E Dec	21A	22A	23F	24F	25F
Revenue (USD Mn)	1,252	2,312	2,045	2,042	2,042
EBITDA(USD Mn)	667	1,593	1,108	1,084	1,061
EV/EBITDA (x)	6.6	2.7	3.7	3.8	4
Net Profit (USD Mn)	47	531	314	280	210
EPS (USD)	0.0	0.0	0.0	0.0	0
EPS Growth (%)	n.a	1,033	(40.8)	(11.1)	(25)
P/E Ratio (x)	40.4	3.3	5.7	6.4	9
BVPS (IDR)	0	0	0	0	0
P/BV Ratio (x)	1.8	1.1	1.0	0.9	1
DPS (IDR)	-	37	21	19	14
Dividend Yield (%)	-	3.4	2.0	1.8	1.3
ROAE (%)	3.9	35.7	16.5	12.7	8.6
ROAA (%)	0.8	8.4	4.4	3.7	2.7
Interest Coverage (x)	3.0	6.1	4.0	3.9	3.9
Net Gearing (%)	2.0	1.5	1.1	1.0	0.9

Figure 1. SOTP Valuation

Business	Method	Multiple (x)	2023 EBITDA	Valuations (USDmn)	Stake	Value to MEDC (USDmn)	Notes
Oil & Gas	EV/EBITDA	3.1	1,130	3,523	100.00%	3,523	50% Discount to Peers
Power	EV/EBITDA	7.3	60	441	100.00%	441	50% Discount to Peers
AMNT	EV/EBITDA	3.8	1,400	5,355	23.13%	1,239	20% Discount to Peers
Enterprise Value (USDmn)						**5,203**	
(-) Debt						(3,400)	
(+) Cash						1,124	
(-) Minority Interest						(224)	
Equity Value (USDmn)						**2,702**	
Equity Value (IDRbn)						**40,527**	

Source: SSI Research

Figure 2. Medco Power's Peers

TICKER	Company Name	Market Cap (USDmn)	EV/EBITDA 2022	EV/EBITDA 2023	EV/EBITDA 2024	PE 2022	PE 2023	PE 2024
ORA US	Ormat Technologies Inc.	5,043	18.94	13.37	11.80	52.96	42.59	32.32
FGEN PM	First Gen Corp	1,316	3.34	3.03	2.94	4.28	4.57	4.52
6504 JT	Fuji Electric Co Ltd	6,527	9.10	7.22	6.56	15.00	13.72	12.49
GE US	General Electric Co	110,747	13.49	11.36	8.08	31.34	49.88	25.50
CEG US	Constellation Energy	27,453	11.57	10.89	9.71	-	20.93	15.56
VWS DC	Vestas Wind Systems A/S	29,015	-	26.16	13.58	-	341.75	34.04
688223 CH	Jinko Solar Co Ltd	18,506	29.43	12.30	9.58	48.83	20.26	15.24
CSIQ US	Canadian Solar Inc	2,799	8.90	6.52	5.63	6.65	7.63	7.07
BEP US	Brookfield Renewable	14,785	15.47	27.23	24.66	-	-	-
DQ US	Daqo New Energy	3,071	0.42	0.45	0.72	1.65	2.41	4.43
AQN CN	Algonquin Power & Utilities	5,895	16.16	12.57	11.89	65.42	14.94	14.43
Weighted Average			**12.73**	**14.03**	**10.18**	**22.89**	**74.69**	**21.72**

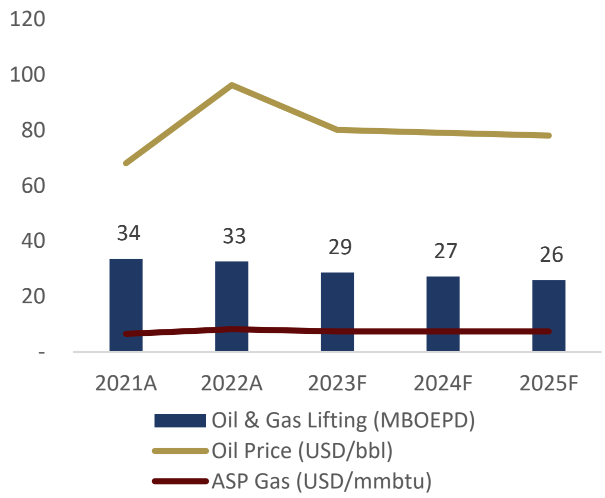
Source: Bloomberg, SSI Research

Figure 3. AMNT's Peers

Ticker	Name	Mkt Cap (USDmn)	P/E (x) 2023F	P/E (x) 2024F	P/B (x) 2023F	P/B (x) 2024F	EV / EBITDA (x) 2023F	EV / EBITDA (x) 2024F
GLEN LN	Glencore PLC (GLNCY)	65,033	6.54	7.23	1.39	1.35	3.91	4.27
BHP AU	BHP Group Ltd	142,776	9.78	10.15	3.17	2.94	5.03	5.08
RIO LN	Rio Tinto PLC	100,682	7.71	8.21	1.75	1.63	4.26	4.43
358 HK	Jiangxi Copper Co. Ltd	7,606	6.26	6.23	0.49	0.46	7.40	7.12
VALE US	Vale SA	59,274	4.79	5.69	1.50	1.35	3.30	3.68
1088 HK	China Shenhua Energy	82,525	7.49	7.48	1.18	1.14	4.57	4.63
AAL LN	Anglo American PLC (NGLC	38,044	7.02	7.41	1.17	1.04	3.73	3.91
2600 HK	Aluminum Corporation of (	11,773	10.53	8.50	0.91	0.82	7.29	6.73
2899 HK	Zijin Mining Group Co. Ltd.	39,415	10.75	8.96	2.41	1.96	8.66	7.38
Weighted Average			**7.97**	**8.20**	**1.93**	**1.78**	**4.75**	**4.79**

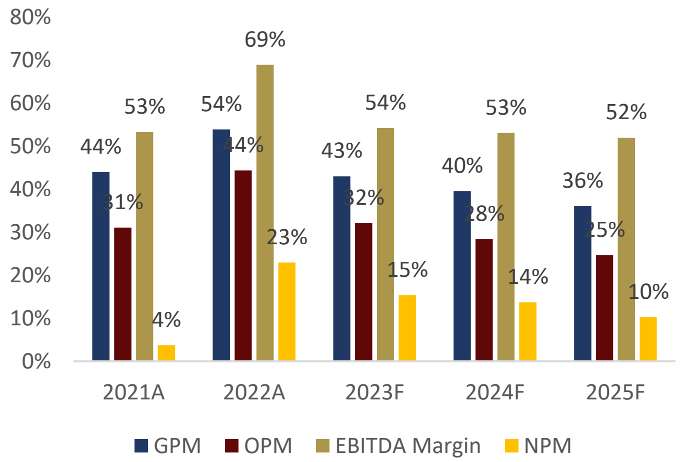
Source: Bloomberg, SSI Research

Figure 4. Oil & Gas Lifting and ASP



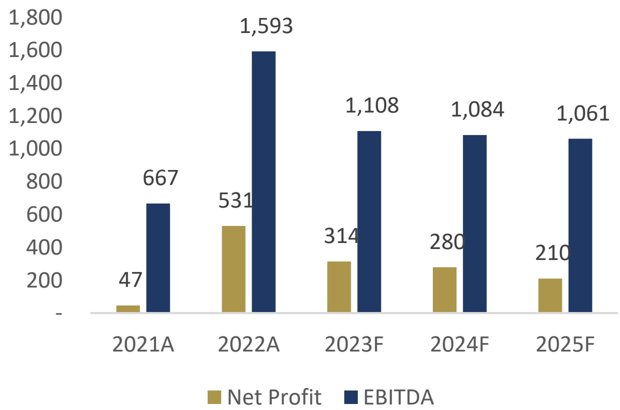
Source: Company. SSI Research

Figure 5. Blended Margins



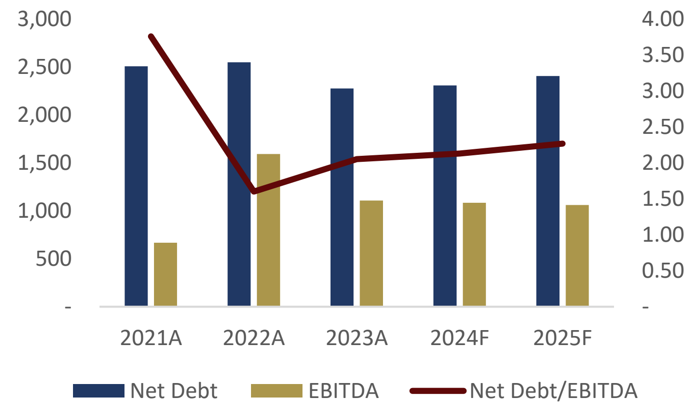
Source: Company. SSI Research

Figure 6. EBITDA & Net Profit Trajectory



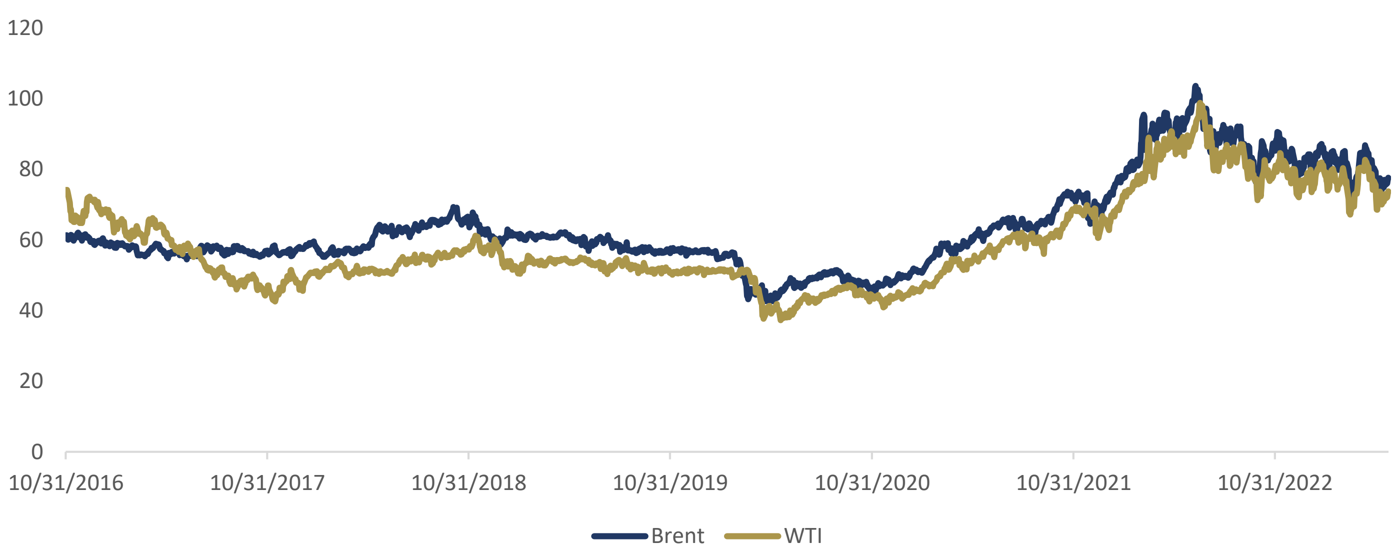
Source: Company. SSI Research

Figure 7. Net Debt to EBITDA



Source: Company. SSI Research

Figure 8. 7-Year Historical Oil Price



Source: Bloomberg, SSI Research

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Key Financial Figures

Profit and Loss					
Y/E Dec (USD Mn)	**21A**	**22A**	**23F**	**24F**	**25F**
Revenue	**1,252**	**2,312**	**2,045**	**2,042**	**2,042**
COGS	(701)	(1,066)	(1,166)	(1,235)	(1,305)
Gross profit	**551**	**1,246**	**879**	**807**	**737**
SG&A	(162)	(220)	(221)	(227)	(233)
Depreciations	278	567	450	504	557
Operating Profit	**389**	**1,026**	**658**	**580**	**504**
EBITDA	**667**	**1,593**	**1,108**	**1,084**	**1,061**
Interest Expense	(222)	(259)	(280)	(277)	(273)
Interest Income	9	40	47	54	49
Pre-Tax Profit	**269**	**1,046**	**624**	**555**	**453**
Income Tax	(223)	(508)	(289)	(255)	(222)
Extraordinary Gain/(Loss)	-	-	-	-	-
Profit Incl. Minority	**31**	**510**	**294**	**259**	**190**
Minority Interest	(16)	(21)	(21)	(21)	(21)
Net Profit	**47**	**531**	**314**	**280**	**210**

Cash Flow					
Y/E Dec (USD Mn)	**21A**	**22A**	**23F**	**24F**	**25F**
Profit Incl. Minority	**(193)**	**31**	**510**	**294**	**259**
Depreciation & Amort.	333	278	567	450	504
Working capital chg	311	7	148	17	17
Operating Cash Flow	**978**	**1,600**	**1,256**	**1,101**	**1,078**
Capital Expenditure	160	(921)	(332)	(330)	(328)
Others	(137)	(277)	5	-	-
Investing Cash Flow	**23**	**(1,198)**	**(327)**	**(330)**	**(328)**
Dividend Paid	-	-	60	36	32
Net Borrowing	262	162	249	(40)	(40)
Others	(775)	(759)	(792)	(803)	(849)
Financing Cash Flow	**(514)**	**(597)**	**(543)**	**(843)**	**(889)**
Net Changes	**487**	**(196)**	**387**	**(72)**	**(139)**
Cash at Beginning	446	933	737	1,124	1,052
Cash at Ending	**933**	**737**	**1,124**	**1,052**	**913**

Balance Sheet					
Y/E Dec (USD Mn)	**21A**	**22A**	**23F**	**24F**	**25F**
Cash & Equivalents	481	600	1,124	1,052	913
Receivables	479	616	489	477	466
Inventories	101	106	113	120	127
Other Curr. Assets	72	59	48	48	48
Total Current Asset	**1,701**	**1,751**	**2,007**	**1,930**	**1,786**
Net Fixed Assets	2,033	2,954	3,286	3,616	3,944
Other Non-Curr. Assets	1,950	2,226	2,221	2,221	2,221
Total Asset	**5,684**	**6,932**	**7,514**	**7,767**	**7,951**
Payables	250	286	302	315	327
ST. Debt	315	436	411	386	361
Other Curr. Liabilities	440	658	658	658	658
Total Current Liability	**1,006**	**1,379**	**1,371**	**1,358**	**1,346**
LT. Debt	2,674	2,715	2,989	2,974	2,959
Other LT. Liabilities	775	1,090	1,093	1,095	1,097
Total Liability	**4,455**	**5,184**	**5,454**	**5,428**	**5,403**
Minority Interest	157	190	224	255	277
Total Equity	**1,229**	**1,748**	**2,060**	**2,339**	**2,548**

Key Ratios					
Y/E Dec (%)	**21A**	**22A**	**23F**	**24F**	**25F**
Gross Profit Margin (%)	44.0	53.9	43.0	39.5	36.1
Operating Margin (%)	31.1	44.4	32.2	28.4	24.7
EBITDA Margin (%)	53.3	68.9	54.2	53.1	52.0
Pre-Tax Margin (%)	21.5	45.2	30.5	27.2	22.2
Net Profit Margin (%)	3.7	23.0	15.4	13.7	10.3
Debt to Equity (%)	2.4	1.8	1.7	1.4	1.3
Net Gearing (x)	2.0	1.5	1.1	1.0	0.9
ROE	3.9	35.7	16.5	12.7	8.6
ROA	0.8	8.4	4.4	3.7	2.7

Major Assumptions					
Y/E Dec	**21A**	**22A**	**23F**	**24F**	**25F**
Total oil & gas lifting (MBOEPD)	34	33	29	27	26
Average oil price (USD/bbl)	68	96	80	79	78
ASP gas total (USD/mmbtu)	6.5	8.2	7.4	7.4	7.4
ASP Copper (USD/lb)	4.21	3.56	3.00	3.00	3.00
ASP Gold (USD/oz)	1,799	1,737	1,700	1,700	1,700

Regional & Global Peers Comparison

Ticker	Company	Market Cap	PE (x)		PBV (x)		EV/EBITDA (x)		ROA (%)		ROE (%)	
		(USDmn)	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
ARAMCO AB	Saudi Aramco	2,071,465	15.3	15.3	4.6	4.2	7.4	7.3	19.7	19.2	31.8	28.1
XOM US	ExxonMobil	430,174	10.7	11.4	2.1	2.0	5.6	5.9	9.7	9.1	19.6	17.3
CVX US	Chevron	297,175	11.1	10.9	1.8	1.8	5.8	5.8	8.6	9.2	16.3	16.5
SHELL NA	Shell	206,240	6.2	6.4	1.0	0.9	3.6	3.7	6.7	6.3	15.4	13.0
601857 CH	PetroChina Co	182,860	9.5	9.5	0.9	0.9	3.6	3.7	5.4	5.4	9.9	9.2
TTE US	TotalEnergies	152,778	5.8	6.4	1.2	1.1	3.5	3.8	7.3	6.2	22.2	17.7
COP US	ConocoPhillips	126,508	11.3	10.3	2.6	2.3	4.9	4.9	11.9	11.5	24.1	22.3
BP US	BP PLC	105,925	6.1	6.2	1.4	1.2	3.1	3.3	6.4	5.5	23.2	18.8
	Weighted Average		**12.78**	**12.84**	**3.34**	**3.11**	**6.23**	**6.27**	**14.89**	**14.44**	**26.04**	**23.10**

Source: Bloomberg, SSI Research (valuation at last price)

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