

16 April 2024

Energy & Petrochemicals | Oil & Gas Services

Medco Energi Internasional (MEDC IJ)

Buy (Maintained)

Higher Oil Revenue Supports EBITDA; Keep BUY

Target Price (Return): IDR1,830 (17.3%)
 Price (Market Cap): IDR1,560 (USD2,499m)
 ESG score: 2.8 (out of 4)
 Avg Daily Turnover (IDR/USD) 79,423m/4.35m

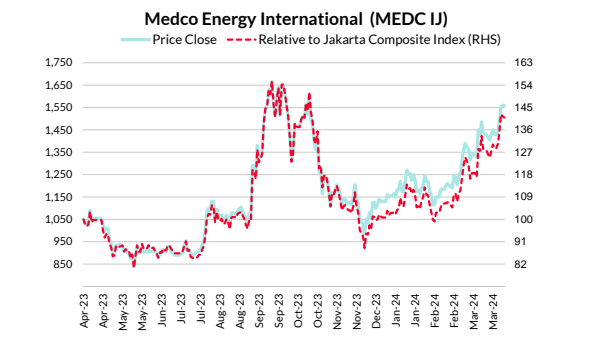
- **Keep BUY, new IDR1,830 TP from IDR2,100, 17% upside.** Despite a lower oil and gas output target of 145mboepd (FY23: 160mboepd), additional oil output of 12-13kbpd from Oman's Block 60 and higher oil prices (our average oil price estimate: USD85/bbl, current price: USD89.70/bbl; +18% YTD) should see Medco Energi Internasional's 2024 EBITDA grow 5% YoY, in our view. For bottomline, we calculate USD145m in net income from associate Amman Mineral Internasional (AMMN IJ, NR), stemming from higher output, which translates to 12% YoY net income growth for MEDC.
- **145mboepd production output target for 2024 with more oil output contributions.** During its recent earnings call, management set a 2024 oil and gas production target of 145mboepd or 9% YoY lower (FY23: 160mboepd). MEDC also set a lower gas output of 100mboepd (FY23: 128mboepd) on: i) 22-23mboepd lower gas output from Corridor Block, ii) lower output in Yemen and Vietnam (Chim Sao project) of 3mboepd, and iii) maintenance scheduled for the Senoro-Toili field, which translates to 1.5-2mboepd less gas output. Conversely, additional 12-13kbpd in oil from Block 60 (Oman) will drive the oil output target up 45mboepd (FY23: 32mboepd). Gross oil revenue could potentially rise 64% YoY to USD1.2bn and contribute 44% to total gross revenue (FY23: 30% oil, 70% gas). With the amendment of the Corridor Block's production sharing contract or PSC to a cost recovery model, cost recoveries could contribute 52% to total 2024 net revenue. We see 2024F oil & gas revenue growing 12% YoY to USD2.2bn.
- **AMMN targets 1m troy oz (toz) and 456mlbs gold and copper output; translates to USD145m income from associate.** AMMN experienced a 75% YoY plunge in total net income due to heavy rainfall, which curtailed production. Ore concentrate production dropped 32% YoY to only 541,893 dry tonnes as AMMN must navigate mining activities during harsh weather conditions and instances of lower ore grades. Entering 2024, its management team is eyeing outputs of 1m toz gold (+122% YoY) and 456mlbs copper (+50% YoY), driven by high-grade fresh ore from Phase 7. Utilising Bloomberg gold and copper price forecasts of USD2,292/toz and USD4.10/mlbs, we calculate USD693m and USD145m in net profit and income from associates for MEDC (21% ownership).
- **Toning down 2024F EBITDA by 8% on lower output.** Our sensitivity analysis shows every USD5/bbl change in oil price sees EBITDA rising/falling 5%. Hence, we see higher oil revenue still supporting MEDC's EBITDA despite lower gas revenue on less gas output. We ascribe a 4% discount to its TP as MEDC's 2.8 ESG score is below the 3.0 country median. Our TP is also based on 4.6x FY24F EV/EBITDA of its 5-year mean. Downside risks include lower-than-expected oil prices and oil output volume.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	35.1	13.9	31.6	19.1	43.8
Relative	34.9	13.4	32.5	13.1	36.9
52-wk Price low/high (IDR)				840	-1,665



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	2,312	2,249	2,334	2,300	2,015
Recurring net profit (USDm)	528	265	358	359	219
Recurring net profit growth (%)	1,170.1	(49.8)	35.0	0.1	(39.0)
Recurring P/E (x)	4.73	9.42	6.98	6.97	11.43
P/B (x)	1.6	1.4	1.2	1.1	1.0
P/CF (x)	1.59	1.96	1.95	1.95	2.39
Dividend Yield (%)	2.4	3.6	4.0	4.0	2.5
EV/EBITDA (x)	2.31	3.11	2.82	2.73	3.00
Return on average equity (%)	40.4	19.5	18.9	16.7	9.5
Net debt to equity (%)	137.5	141.0	114.7	92.2	65.9

Source: Company data, RHB

Overall ESG Score: 2.8 (out of 4)

E: GOOD

MEDC has implemented measures to reduce greenhouse gas (GHG) emissions and improve energy efficiency. Emissions reduction was achieved through optimising fuel gas consumption and transportation fuel. It also made efforts to avoid flaring by utilising associated gas that otherwise would be flared. Long-term ESG plans also include enlarging renewable energy portfolio ie photovoltaic solar and geothermal for Medco Power Indonesia.

S: GOOD

MEDC is consistently active in local community empowerment initiatives in the areas where it operates. Local community empowerment entails strengthening engagement, enhancing livelihoods and creating self-reliant and resilient communities. The company has a routine CSR programme that promotes activities such as organic farming, entrepreneurship training, and marine conservation.

G: GOOD

The company has several key initiatives that are focused on good corporate governance or GCG issues, which includes training on business ethics, fraud risks, human rights, anti-bribery and corruption. Shareholder engagement is also quite active and transparent. However, we do note that timely financial statement reporting needs further improvement.

Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	Recurring EPS	0.02	0.01	0.01	0.01	0.01
Energy & Petrochemicals	DPS	0.00	0.00	0.00	0.00	0.00
Medco Energi Internasional	BVPS	0.06	0.07	0.08	0.09	0.10
MEDC IJ	Return on average equity (%)	40.4	19.5	18.9	16.7	9.5
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	4.73	9.42	6.98	6.97	11.43
5-years EV/EBITDA	P/B (x)	1.6	1.4	1.2	1.1	1.0
	FCF Yield (%)	3.8	20.7	34.1	34.1	38.5
	Dividend Yield (%)	2.4	3.6	4.0	4.0	2.5
Key drivers	EV/EBITDA (x)	2.31	3.11	2.82	2.73	3.00
i. Additional 12-13kbpd from Block 60, Oman, amidst higher oil prices;	EV/EBIT (x)	3.59	4.93	3.97	3.93	5.06
ii. Maintaining USD10/bbl lifting cost despite new assets;						
iii. Higher production target for AMMN amidst stronger gold and copper prices						
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	2,312	2,249	2,334	2,300	2,015
i. Weakening economic condition that affects demand for energy and lowers energy prices;	Gross profit	1,246	1,034	1,200	1,154	851
ii. Lower-than-expected oil output will hurt our forecast;	EBITDA	1,593	1,255	1,320	1,277	978
iii. Unplanned shutdown and oil & gas leaks;	Depreciation and amortisation	(567)	(463)	(383)	(391)	(399)
iv. Delayed projects.	Operating profit	1,026	792	937	886	579
	Net interest	(220)	(227)	(244)	(200)	(178)
	Pre-tax profit	1,046	728	842	844	562
	Taxation	(508)	(340)	(409)	(410)	(273)
	Recurring net profit	531	331	372	373	234
	Recurring net profit	528	265	358	359	219
Company Profile						
MEDC is a leading South-East Asian energy and natural resources company with three key business segments, oil & gas, power, and copper mining. MEDC explores for and produces oil and gas primarily in Indonesia, but is expanding its presence in South-East Asia. The company operates gas, photovoltaic, geothermal and hydro power plants in Indonesia through Medco Power Indonesia and operates a large local copper and gold mine through a non-consolidated interest in AMMN.	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(18)	27	(32)	10	75
	Cash flow from operations	1,569	1,272	1,281	1,281	1,045
	Capex	(1,473)	(755)	(430)	(430)	(84)
	Cash flow from investing activities	(1,428)	(1,171)	(393)	(410)	(73)
	Dividends paid	(60)	(89)	(100)	(101)	(63)
	Cash flow from financing activities	(22)	(347)	(661)	(1,103)	(932)
	Cash at beginning of period	481	600	354	580	348
	Net change in cash	119	(246)	226	(232)	40
	Ending balance cash	600	354	580	348	388
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	748	436	625	373	402
	Tangible fixed assets	2,643	2,944	2,997	3,043	2,735
	Total investments	1,411	1,653	1,653	1,653	1,653
	Total assets	6,932	7,468	7,724	7,510	7,161
	Short-term debt	436	396	273	323	269
	Total long-term debt	2,715	2,900	3,009	2,452	1,970
	Total liabilities	5,184	5,441	5,408	4,904	4,372
	Total equity	1,748	2,028	2,316	2,606	2,789
	Total liabilities & equity	6,932	7,468	7,724	7,510	7,161
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	84.7	(2.7)	3.7	(1.4)	(12.4)
	Recurrent EPS growth (%)	1170.1	(49.8)	35.0	0.1	(39.0)
	Gross margin (%)	53.9	46.0	51.4	50.2	42.2
	Operating EBITDA margin (%)	68.9	55.8	56.5	55.5	48.5
	Net profit margin (%)	23.0	14.7	15.9	16.2	11.6
	Dividend payout ratio (%)	11.3	27.0	27.0	27.0	27.0
	Capex/sales (%)	63.7	33.5	18.4	18.7	4.2
	Interest cover (x)	3.96	2.87	3.35	3.52	2.78

Source: Company data, RHB

Figure 1: RHB (revised/previous) vs Street estimates

(USDm)	RHB (new)			RHB (old)			Change			Street			RHB vs Street (%)		
	2023A	2024F	2025F	2023A	2024F	2025F	2023A	2024F	2025F	2023A	2024F	2025F	2023A	2024F	2025F
Revenue	2,249	2,334	2,300	2,249	2,420	2,401	-	(3.6)	(4.2)	2,249	2,215	2,233	0.0	5.4	3.0
Gross profit	1,034	1,200	1,154	1,034	1,290	1,263	-	(7.0)	(8.6)	1,034	1,091	1,100	0.0	10.0	4.9
Operating profit	792	937	886	792	976	945	-	(4.1)	(6.2)	792	825	757	0.0	13.6	17.1
EBITDA	1,255	1,320	1,277	1,255	1,431	1,406	-	(7.8)	(9.2)	1,255	1,367	1,350	0.0	(3.5)	(5.4)
Net profit	331	372	373	331	400	388	-	(7.1)	(4.0)	331	358	377	0.0	3.8	(1.1)
Margin (%)															
Gross	46.0	51.4	50.2	46.0	53.3	52.6				46.0	49.3	49.3			
EBIT	35.2	40.1	38.5	35.2	40.4	39.4				35.2	37.2	33.9			
EBITDA	55.8	56.5	55.5	55.8	59.2	12.3				55.8	61.7	12.3			
NPM	14.7	15.9	16.2	14.7	16.5	16.2				14.7	16.2	16.9			

Source: Company data, Bloomberg, RHB

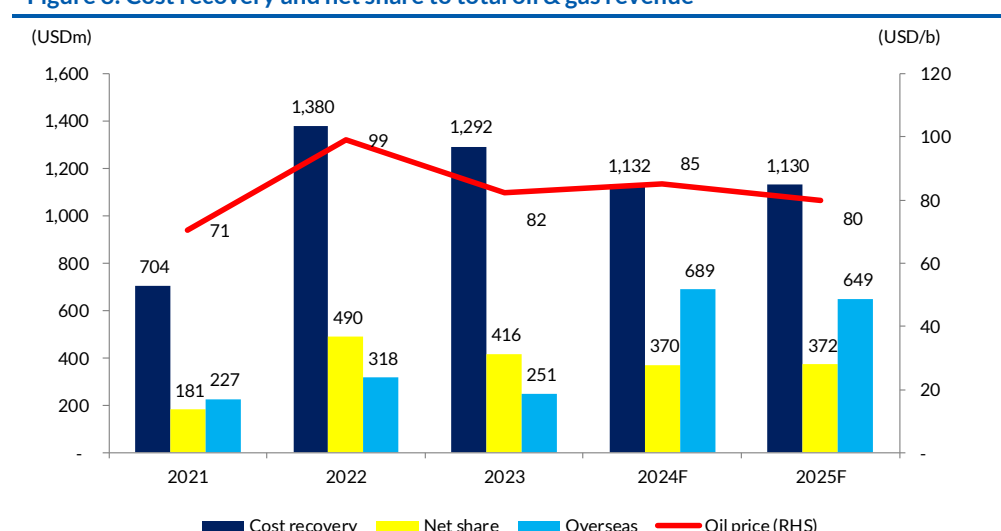
Figure 2: Sensitivity analysis

EBITDA	Oman oil output (+/- 5k bpd)				
	11.6	16.6	21.6	26.6	31.6
75.0	-23.3%	-16.5%	-9.8%	-3.0%	3.6%
80.0	-19.7%	-12.3%	-4.9%	2.5%	9.9%
85.0	-16.2%	-8.1%	1,320	8.0%	16.1%
90.0	-12.7%	-3.9%	4.8%	13.6%	22.3%
95.0	-9.1%	0.3%	9.8%	19.2%	28.6%

- ◆ Our sensitivity analysis reveals that every USD5/bbl increase/decrease on oil prices, 2024F EBITDA should increase/decrease by 5%
- ◆ While a 5k bpd increase/decrease Oman's oil output, could see EBITDA increasing/decreasing by 8%

Source: Company data, Bloomberg, RHB

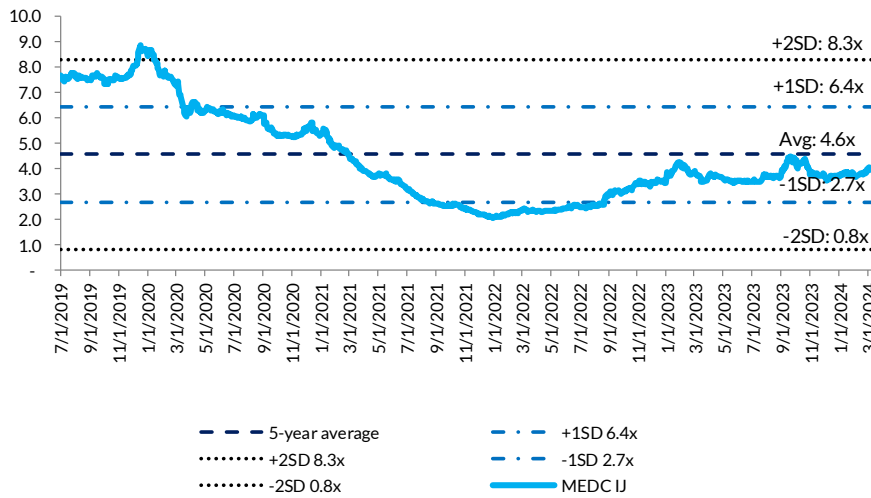
Figure 3: Cost recovery and net share to total oil & gas revenue



- ◆ Overseas revenue should be boosted by Block 60 (Oman) – from USD251m in 2023 to an estimated USD689m in 2024
- ◆ On lower gas output, cost recovery estimates will slightly decline to USD1.1bn (-12% YoY). We believe that, in terms of a cost recovery environment, higher lifting costs equals to elevated cost recoveries

Source: Company data, Bloomberg, RHB

Figure 7: EV/EBITDA valuation



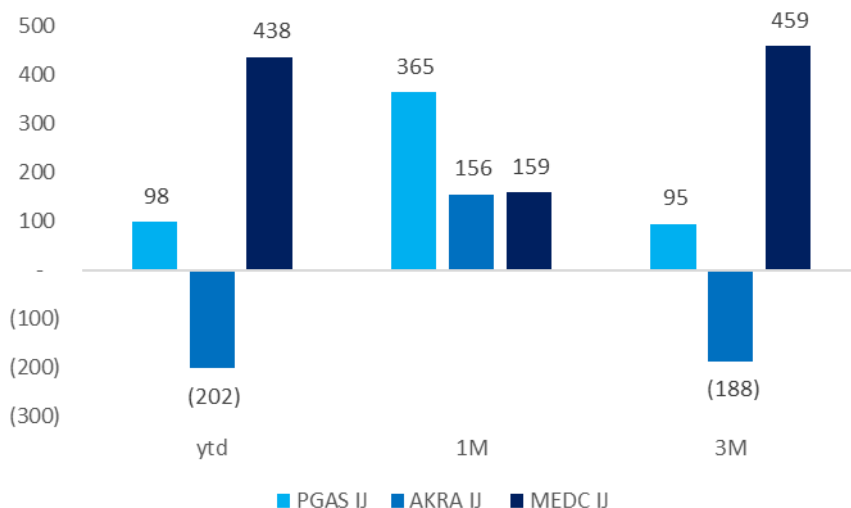
Source: Company data, Bloomberg, RHB

Figure 8: Peers comparison

Name	Ticker	Mkt cap (USD)	P/E		EV/EBITDA		ROE		Div. yield 2024F
			2024F	2025F	2024F	2025F	2024F	2025F	
MEDC	MEDC IJ	2,460	6.8	7.1	4.0	4.0	17.7	15.7	4.0
PTT Exploration & Production	PTTEP TB	16,700	8.8	9.3	2.8	2.9	13.7	12.2	5.7
Oil India	OINL IN	8,120	6.1	6.0	8.0	6.8	17.8	17.3	3.1
Inpex Corp	1605 JP	20,390	9.0	8.9	3.2	3.2	8.6	8.0	3.0
Santos	STO AU	16,790	12.4	12.5	5.4	5.2	9.1	8.9	5.4
Weighted average		64,460	9.4	9.5	4.3	4.1	11.6	10.8	4.4

Source: Company data, Bloomberg, RHB

Figure 9: Net foreign buys



♦ MEDC remains a foreign investor favorite for the oil and gas sector in the last three months, booking IDR459bn in net foreign buys

Source: Company data, Bloomberg, RHB

Emissions And ESG

Trend analysis

MEDC incorporated additional emissions data in its reporting following the acquisition of new block asset (namely the Corridor Block), which resulted in a change in its emission trends in 2022-2023. That said, the company has also widened the conservation area for biodiversity within its operations.

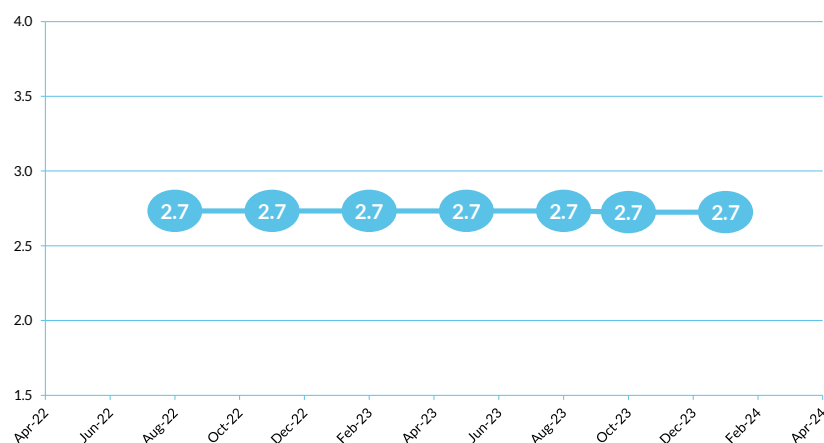
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	4,039,200	3,271,752	2,551,967
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	4,039,200	3,271,752	2,551,967

Source: Company data, RHB

Latest ESG-Related Developments

- Charted progress in its Sarulla geothermal power plant project (330 MW capacity), Sekongkan wind energy project (50-100MW), a mini-hydropower plant in West Java (9MW), and a solar photovoltaic energy project.
- Aims to have 700MW of renewable energy being used in its operations.

ESG Rating History



Source: RHB

Recommendation Chart



Date	Recommendation	Target Price	Price
2024-01-22	Buy	2,100	1,175
2023-10-05	Buy	1,770	1,310
2022-12-06	Buy	1,400	1,090
2022-09-28	Buy	1,100	870
2022-08-24	Buy	970	770
2022-08-02	Buy	880	600

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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