27 May 2024

Energy & Petrochemicals | Oil & Gas Services

# Elnusa (ELSA IJ)

**Buy**

## Let It Grow; BUY

| | |
|---|---|
| Target Price (Return): | IDR630 (42.5%) |
| Price (Market Cap): | IDR442 (USD201m) |
| ESG score: | 2.9 (out of 4) |
| Avg Daily Turnover (IDR/USD) | 13,711m/0.86m |

- **Initiating coverage with BUY and IDR630 TP, 43% upside and c.6% yield.** We believe Elnusa is in a sweet spot amidst the rising oil & gas (O&G) exploration activity in Indonesia and higher petroleum demand. Relatively stable profitability and strong balance sheet provide comfort in generating earnings growth despite oil price fluctuations. Since taking over the majority share ownership of Pertamina Hulu Energi (PHE) in late 2021, it has created a dynamic synergy as well as opportunities to participate in the Government's target of achieving oil production of 1mbpd by 2030.

- **Beneficiary of 36% YoY higher upstream investment target and in a sweet spot to participate in the country's 1mbpd oil production target by 2030.** We see ELSA as a major beneficiary of Indonesia's O&G industry. Supported by PHE and Pertamina, the company is in an optimal position to take advantage of the Government's target of pursuing a 1mbpd oil lifting and 12bcfpd gas lifting by 2030. We think it has a relatively lower risk compared to other upstream contractors. A giant gas discovery in South Andaman and the North Ganal block in late 2023 has prompted the country's Special Task Force for Upstream O&G Business Activities (SKK Migas) to raise the upstream investment target to USD 17.7bn for 2024. As such, we believe the company will benefit from the higher investment as it should translate to more well service activity. Its synergy with PHE since late 2021 has been fruitful as upstream segment revenue rose 35% YoY in 2022.

- **National petroleum demand's annual growth of 2% to propel downstream segment going forward.** The company's downstream business mostly operates on delivering and transporting petroleum across the country. Hence, the perpetual growth of national petroleum demand stems from the perpetual growth of number of vehicles on the road – propelling the company's downstream earnings. Currently, ELSA is able to deliver approximately 26m kl petroleum across Indonesia, fulfilling 31% of national petroleum demand. As such, we see a vast opportunity for the company to increase its distribution and logistics capacity to transport more petroleum.

- **Undemanding valuation at 4.7x 2024F PE, while earnings could grow 37% YoY for 2024F.** Our TP is based on a 3-year average P/E 2024F of 6.7x and includes a 2% discount as its 2.9 ESG score is below the 3.0 country median. Its current 4.7x 2024F PE valuation is way below its peers' average of 6.3x. As the stock is trading at 0.7x P/BV, with a FY24F ROE of 14%, we believe its price does not reflect its exciting prospects. We expect a 37% YoY earnings growth for 2024F. Downside risks to our call include project delays, high dependency on Pertamina, and changes in government regulations.

| Forecasts and Valuation | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---|---|---|---|---|---|
| Total turnover (IDRb) | 12,306 | 12,564 | 13,901 | 14,285 | 15,447 |
| Recurring net profit (IDRb) | 378 | 503 | 688 | 752 | 883 |
| Recurring net profit growth (%) | 247.0 | 33.1 | 36.7 | 9.2 | 17.5 |
| Recurring P/E (x) | 8.49 | 6.38 | 4.67 | 4.27 | 3.64 |
| P/B (x) | 0.8 | 0.7 | 0.6 | 0.6 | 0.5 |
| P/CF (x) | 2.20 | 2.31 | 2.62 | 2.30 | 2.07 |
| Dividend Yield (%) | 1.7 | 5.9 | 6.3 | 8.6 | 9.3 |
| EV/EBITDA (x) | 2.16 | 1.49 | 0.90 | 0.42 | (0.07) |
| Return on average equity (%) | 9.5 | 11.7 | 14.6 | 14.5 | 15.4 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

**Analyst**

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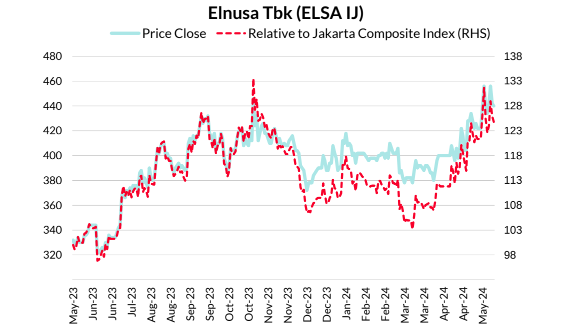
### Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 13.4 | 10.6 | 7.3 | 7.8 | 36.6 |
| Relative | 14.1 | 8.5 | 8.9 | 3.2 | 29.3 |
| 52-wk Price low/high (IDR) | | | | | 322 –456 |




*Source: Bloomberg*

### Overall ESG Score: 2.9 (out of 4)

**E: GOOD**
Minimise risks and the negative impacts of environmental damage due to operational activities through efficient use of materials and resources, waste management, and implementation of reforestation programme.

**S: GOOD**
Community involvement and development activities, including involving local communities for certain programmes and developing sustainable communities.

**G: GOOD**
Management of business practices based on good governance including anti-corruption, fair competition, respect for rights and intellectual property, and free from political influence.

**Note:**
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

# Financial Exhibits

**Asia**
Indonesia
Energy & Petrochemicals
**Elnusa**
ELSA IJ
Buy

**Valuation basis**

Average 3-years P/E 24F

**Key drivers**

i. Beneficiary of Indonesia oil output target of 1Mbpd by 2030, as higher upstream investment target propels earnings;
ii. Perpetual petroleum demand growth increases distribution volume; and
iii. Synergy with Pertamina to help compete with international O&G contractors.

**Key risks**

i. Project delays and unplanned shutdown;
ii. High dependency on Pertamina;,
iii. Changes in government regulations

**Company Profile**

Elnusa is an energy services provider with core competencies in oil & gas (O&G) upstream services, support services, and energy distribution & logistics services through its subsidiary, Elnusa Petrofin. ELSA is a subsidiary of Pertamina. It also sources its revenue largely from Pertamina projects – jobs entailing services related to seismic activities, O&G well maintenance, and other operations and maintenance aspects.

| Financial summary (IDR) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---|---|---|---|---|---|
| Recurring EPS | 51.80 | 68.94 | 94.27 | 102.98 | 121.02 |
| DPS | 7.45 | 25.90 | 27.54 | 37.66 | 41.14 |
| BVPS | 568.40 | 611.44 | 678.17 | 743.48 | 823.37 |
| Return on average equity (%) | 9.5 | 11.7 | 14.6 | 14.5 | 15.4 |

| Valuation metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 8.49 | 6.38 | 4.67 | 4.27 | 3.64 |
| P/B (x) | 0.8 | 0.7 | 0.6 | 0.6 | 0.5 |
| FCF Yield (%) | 32.7 | 28.9 | 24.8 | 29.3 | 33.1 |
| Dividend Yield (%) | 1.7 | 5.9 | 6.3 | 8.6 | 9.3 |
| EV/EBITDA (x) | 2.16 | 1.49 | 0.90 | 0.42 | (0.07) |
| EV/EBIT (x) | 4.97 | 2.86 | 1.59 | 0.74 | (0.11) |

| Income statement (IDRb) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---|---|---|---|---|---|
| Total turnover | 12,306 | 12,564 | 13,901 | 14,285 | 15,447 |
| Gross profit | 912 | 1,170 | 1,375 | 1,460 | 1,593 |
| EBITDA | 1,146 | 1,282 | 1,463 | 1,543 | 1,649 |
| Depreciation and amortisation | (648) | (612) | (635) | (659) | (685) |
| Operating profit | 498 | 670 | 828 | 884 | 964 |
| Net interest | (114) | (40) | (30) | (5) | 85 |
| Pre-tax profit | 487 | 647 | 884 | 966 | 1,135 |
| Taxation | (109) | (143) | (196) | (214) | (252) |
| Reported net profit | 378 | 503 | 688 | 752 | 883 |
| Recurring net profit | 378 | 503 | 688 | 752 | 883 |

| Cash flow (IDRb) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---|---|---|---|---|---|
| Change in working capital | 677 | 242 | (97) | (16) | (17) |
| Cash flow from operations | 1,461 | 1,390 | 1,226 | 1,394 | 1,551 |
| Capex | (410) | (463) | (429) | (454) | (488) |
| Cash flow from investing activities | (388) | (488) | (429) | (454) | (488) |
| Dividends paid | (54) | (189) | (201) | (275) | (300) |
| Cash flow from financing activities | (587) | (478) | (201) | (275) | (999) |
| Cash at beginning of period | 1,145 | 1,657 | 2,078 | 2,674 | 3,340 |
| Net change in cash | 486 | 425 | 596 | 666 | 64 |
| Ending balance cash | 1,657 | 2,078 | 2,674 | 3,340 | 3,403 |

| Balance sheet (IDRb) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---|---|---|---|---|---|
| Total cash and equivalents | 1,657 | 2,078 | 2,674 | 3,340 | 3,403 |
| Tangible fixed assets | 1,715 | 1,889 | 1,683 | 1,478 | 1,281 |
| Total investments | 488 | 464 | 464 | 464 | 464 |
| Total assets | 8,836 | 9,601 | 10,453 | 11,020 | 11,214 |
| Short-term debt | 353 | 412 | 412 | 412 | 412 |
| Total long-term debt | 1,052 | 832 | 832 | 832 | 133 |
| Total liabilities | 4,719 | 5,185 | 5,550 | 5,640 | 5,252 |
| Total equity | 4,117 | 4,416 | 4,903 | 5,380 | 5,963 |
| Total liabilities & equity | 8,836 | 9,601 | 10,453 | 11,020 | 11,214 |

| Key metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---|---|---|---|---|---|
| Revenue growth (%) | 51.2 | 2.1 | 10.6 | 2.8 | 8.1 |
| Recurrent EPS growth (%) | 247.0 | 33.1 | 36.7 | 9.2 | 17.5 |
| Gross margin (%) | 7.4 | 9.3 | 9.9 | 10.2 | 10.3 |
| Operating EBITDA margin (%) | 9.3 | 10.2 | 10.5 | 10.8 | 10.7 |
| Net profit margin (%) | 3.1 | 4.0 | 4.9 | 5.3 | 5.7 |
| Dividend payout ratio (%) | 14.4 | 37.6 | 29.2 | 36.6 | 34.0 |
| Capex/sales (%) | 3.3 | 3.7 | 3.1 | 3.2 | 3.2 |
| Interest cover (x) | 3.47 | 5.81 | 6.66 | 7.90 | 19.66 |

*Source: Company data, RHB*

# Capitalising On Indonesia O&G Investments Surge

In the O&G industry, ELSA has a unique position as a field service company as it does not directly report to SKK Migas, Indonesia's O&G task force, and the Ministry of Energy and Mineral Resources (ESDM). Keeping the government bodies at an arm's length, ELSA functions as a subcontractor for O&G companies, which are also known as PSC (Production Sharing Contract) Contractor. It assists PSC Contractors on pursuing production target as well as exploring and operating O&G fields assigned by SKK Migas for a certain period.

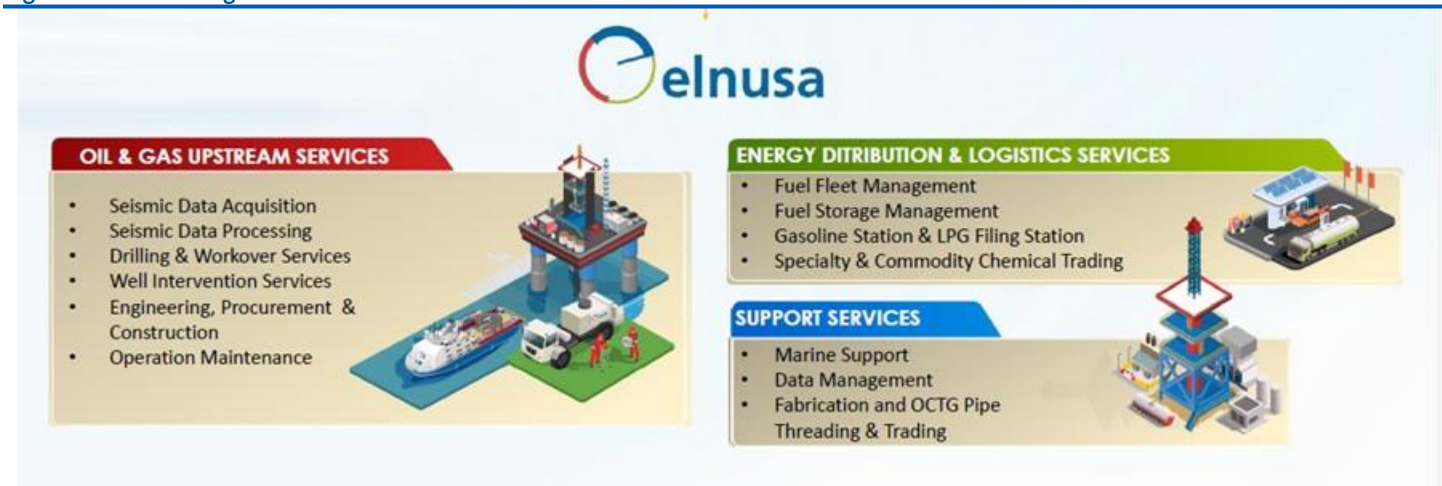
To support PSC Contractors, ELSA offers three main services to generate its revenues:

i. Integrated upstream O&G services.

ii. Energy distribution and logistics services

iii. O&G support services.

**Figure 1: Business segments**

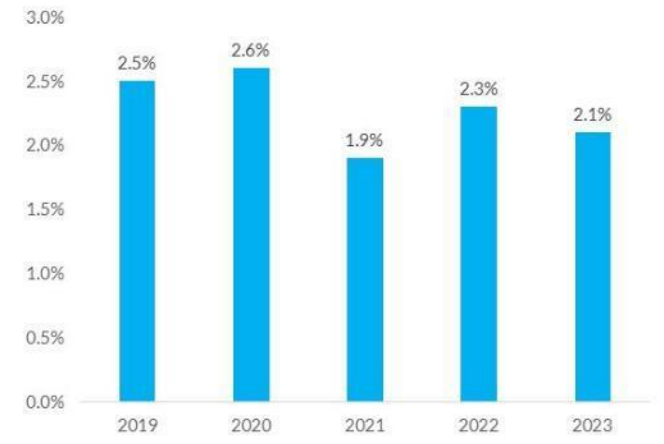



*Source: Company data*

As an O&G support company, ELSA generates relatively stable revenue amidst fluctuations in oil prices. Hence, we see two investment thesis for ELSA going forward: i) A high oil price environment should attract more upstream investment, as it provides incentives for PSC Contractor companies to explore and exploit O&G assets. The cost recovery method helps to keep O&G investments attractive, ii) there is more investment target ahead following SKK Migas' 1mbpd oil and 12bcfpd gas output targets by 2030. Although it has to vie with renowned international O&G field service companies ie Baker Hughes, Schlumberger, and Halliburton, the local content regulation allows ELSA to compete for contracts.

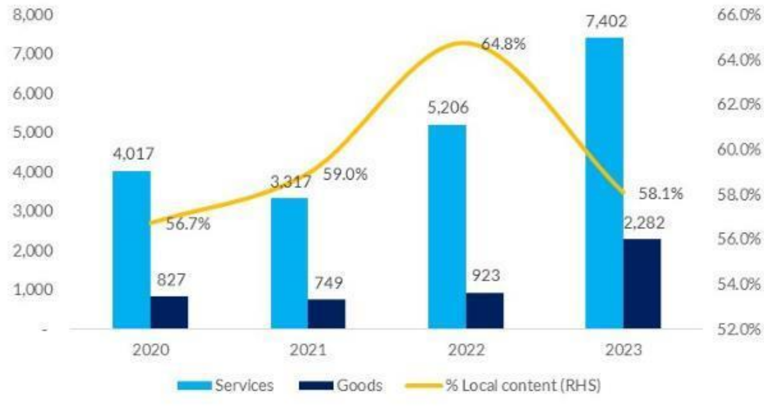
As of 2023, ELSA's market share in the upstream O&G services segment stood at 2.1%, lower compared to 2022's 2.3%. The local content on services, which ELSA operates, however, showed incremental portion from USD3.3bn in 2021 to USD7.4bn in 2023. Based on the Minister Decree no. 15 Year 2013, local content for seismic survey is 90%, and 55-70% for upstream services. To note, despite the total local content percentage seems to decrease in 2023, but local content transaction rose 58% YoY to USD9.6bn. For 2024, SKK Migas and ESDM have set the local content target at 64% (2023: 63%).

**Figure 2: ELSA's upstream services market share**




*Source: Company data, RHB*

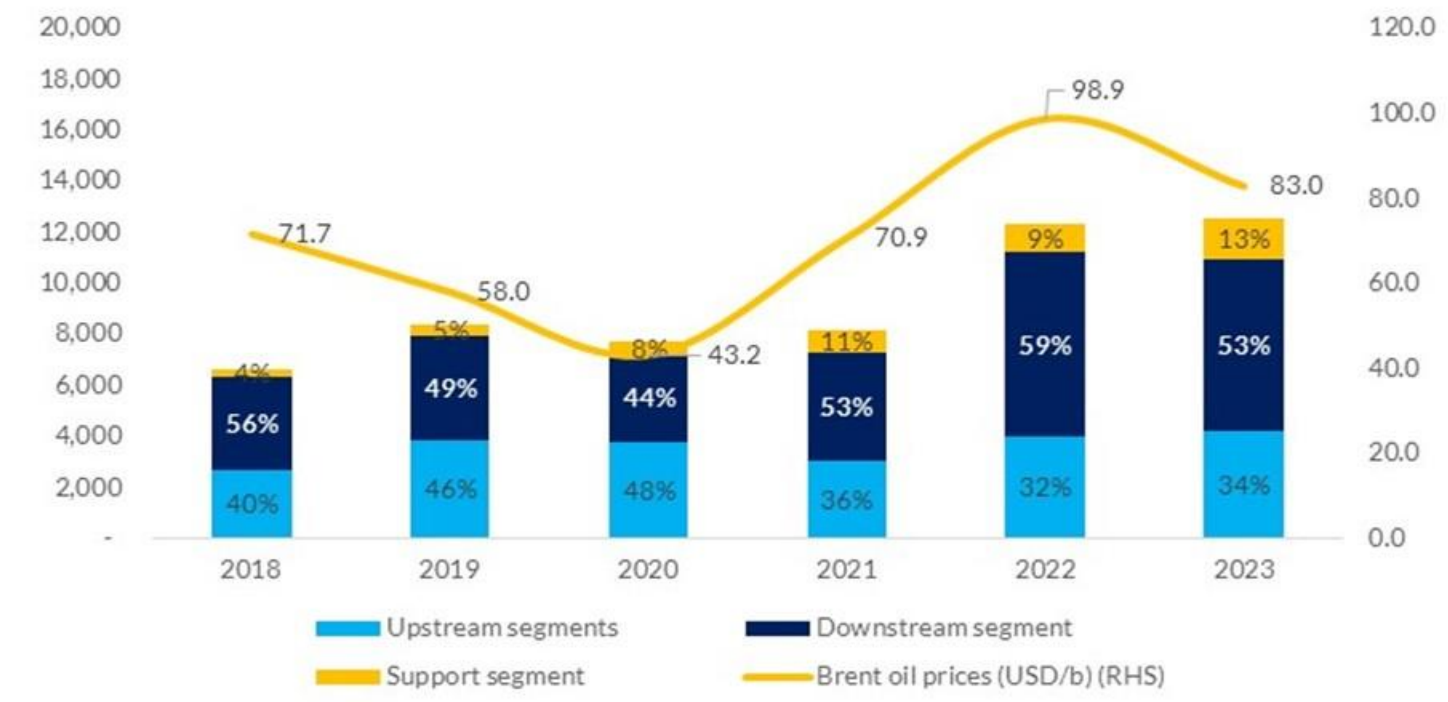
**Figure 3: Upstream local content realisation (USDm)**




*Source: ESDM, SKK Migas, RHB*

Despite being contract-based, ELSA faces volatility in the upstream business due to project timing and feasibility studies, stemming from oil prices being softened by downstream business. The downstream segment, on average, contributed 52% to total revenue in 2018–2023 with 5% deviation. On average, the upstream segment in average contributed 40% to total revenue for the same period with 7% deviation, while the support segment contributed 8% with 3% deviation. Captivatingly, between 2018–2023, the upstream and support segments, which are directly affected by upstream dynamics, showed 15% CAGR growth pa, compared with just 13% pa for the downstream.

**Figure 4: Revenue contributions per segment (IDRbn) vs Brent oil prices (USD/bbl)**




*Source: Company data*

In late 2021, 51% share ownership of ELSA was acquired by Pertamina Hulu Energi (PHE), Pertamina's upstream business, via acquisition of a 41% stake from Pertamina and 10% from Dana Pensiun Pertamina. ELSA becomes Pertamina's upstream sub-holding, with PHE as the holding company. Along with Pertamina Drilling Service Indonesia (PDSI), ELSA is working together with other PHE subsidiaries ie Pertamina EP, Pertamina Hulu Indonesia (PHI), Pertamina EP Cepu, and Pertamina Hulu Rokan.

The acquisition not only boosted ELSA's revenue, but also its bottomline. Prior to the acquisition, in 2021, due to high competition with international O&G oilfield services, ELSA faced difficulties in setting profitable selling prices to PSC Contractor companies. Since the acquisition and becoming an integral part of PHE, it is able to set fair contract prices.

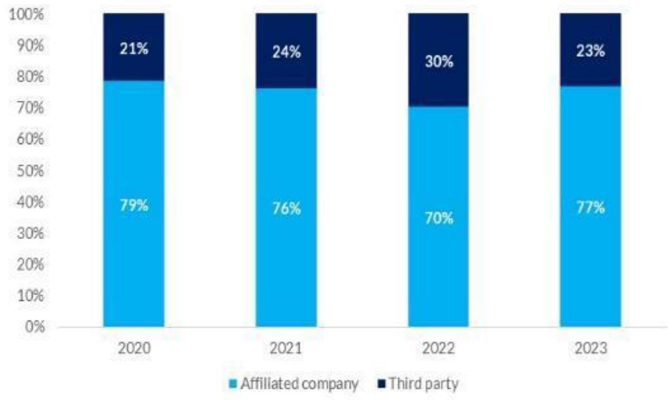
**Figure 5: Pertamina's structure**


*Source: Company data*

## Fruitful synergy with Pertamina propels revenue by 51% YoY in 2022

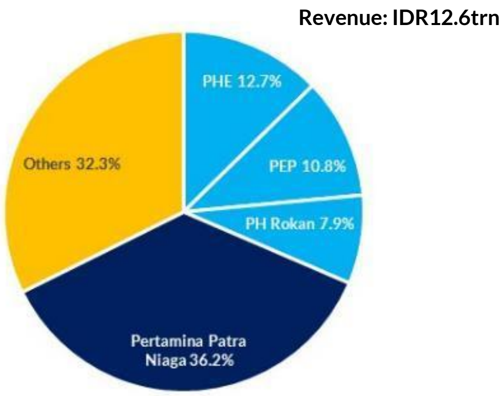
The integration with Pertamina from the beginning of 2022 has opened a new revenue channel for ELSA and boosted total revenue by 51% YoY. The combination of economy reopening post the COVID-19 pandemic and closer relationship with PHE as the new majority shareholder brought lucrative revenue for ELSA. Its affiliated upstream revenue increased almost IDR1trn (IDR937bn) to IDR4trn, while affiliated downstream revenue jumped IDR1.5trn to IDR4.6trn. For upstream business, well activities work was up 13% YoY to 639 activities, while well services activities jumped 33% YoY to 30,299 activities. For downstream, Pertalite (RON 90) gasoline spiked 28% YoY to 29m kl and Solar (subsidised diesel) went up 14% YoY to 17m kl.

**Figure 6: Affiliated revenue contribution**




*Source: Company data, RHB*

**Figure 7: Pertamina's upstream and downstream contribution (2023)**

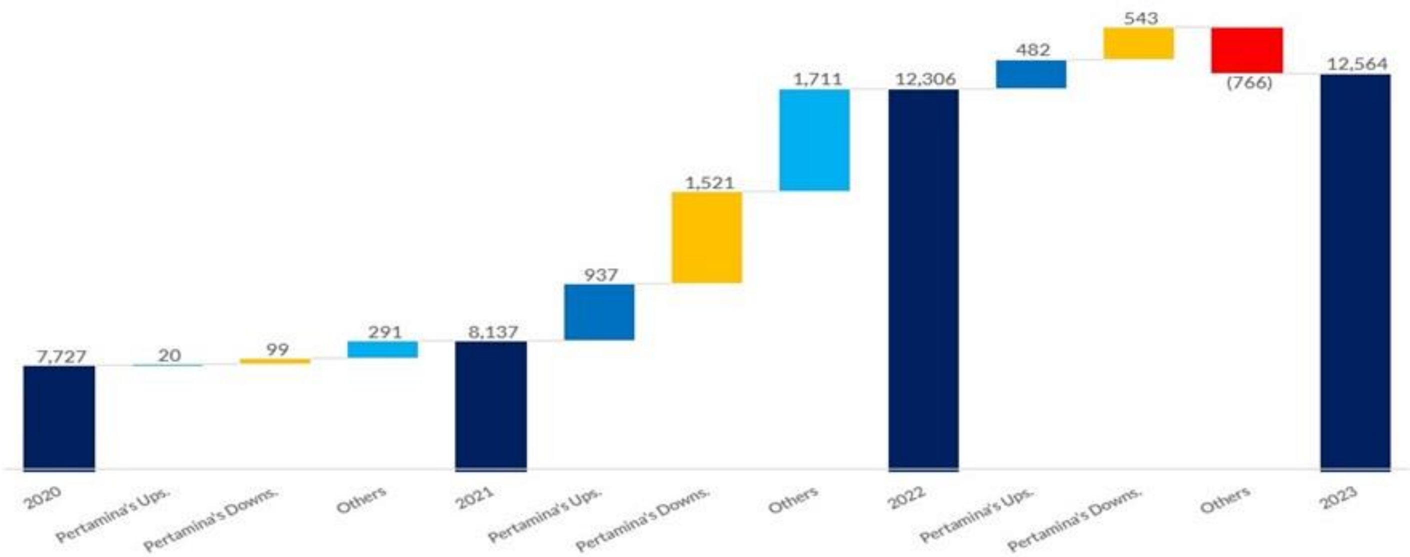



*Source: Company data, RHB*

For FY23, Pertamina contributed 77% to ELSA's total revenue, with its upstream subsidiary making up IDR4.5trn or 36% of the total. Among these upstream companies, PHI accounted for 35% with IDR1.6trn, followed by Pertamina EP (30% and IDR1.4trn), and Pertamina Hulu Rokan (22% and IDR999bn). PHE operates in Regional 3 Kalimantan – on the Mahakam field, Sangasanga, Sangatta, and East Kalimantan & Attaka. In 2022, PHI's total production output was 147kboepd, of which 43kbpd was oil. Among others, Pertamina EP operates in Offshore North West Java (ONWJ), Offshore South East Sumatera (OSES), and Block A. In 2022, Pertamina EP had a total production of 217kboepd, with 70kbpd oil output.

On the other hand, Pertamina's downstream subsidiary, ie Pertamina Patra Niaga, Pertamina Gas Negara (PGAS), and Pertamina Lubricants, contributed 39% (amounting to IDR4.9trn) of ELSA's total revenue in FY23. Pertamina Patra Niaga is the biggest contributor amongst downstream companies, with 36% of the segment's total revenue.

**Figure 8: Pertamina's Influence on ELSA's revenue – before and after the acquisition in 2021 (IDRbn)**



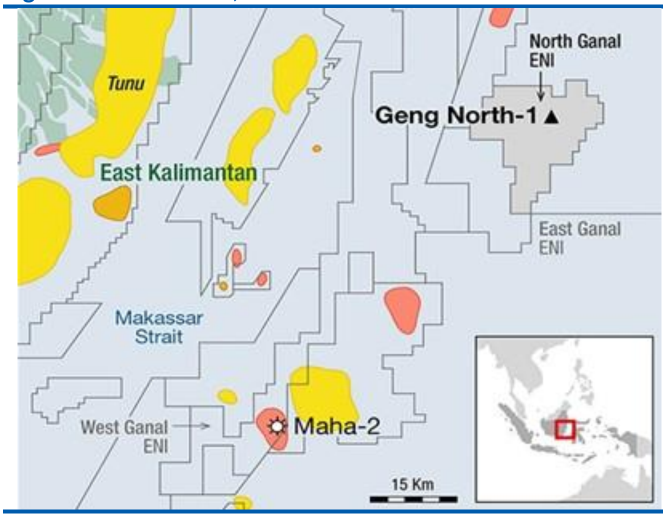

*Source: Company data, Bloomberg*

## Pursuing 1Mbpd oil output and 12bcfpd gas output in 2030

An interesting development emerged in late 2023 with the huge discovery of gas in North Ganal, East Kalimantan. The gas discovery is estimated to have 5tcf resources with condensate potentially reaching 400mbbls. The gas block is located 85km offshore from East Kalimantan. It is targeted to go on-stream in 2027–2028, with Bontang LNG plant as the potential gas customer. As an O&G support service company, the gas discovery will provide ELSA with the opportunity to assist North Ganal's operator Eni North Ganal, an Italian O&G contractor, to realise its on-stream target. We believe ELSA should be familiar with the area's landscape and reservoir as it has previous experience of working on a project with PHI near North Ganal.

Another giant gas discovery is on South Andaman Gas Field, which is the second largest new gas reserve discovered in Indonesia over the last 24 years (the largest was Abadi gas, Masela Block in Maluku for 6.9tcf in 2000). The new discovery is estimated to have 6tcf potential gas reserves. SKK Migas estimates the total investment for the overall Andaman block (four wells, including South Andaman), requires USD360m. The plan of development (PoD) of each field is scheduled to be signed in 2026-2027 and is expected to go on-stream in 2029-2030.

**Figure 9: North Ganal, East Kalimantan**




*Source: Company data*

**Figure 10: Andaman Gas Field, North Sumatera**

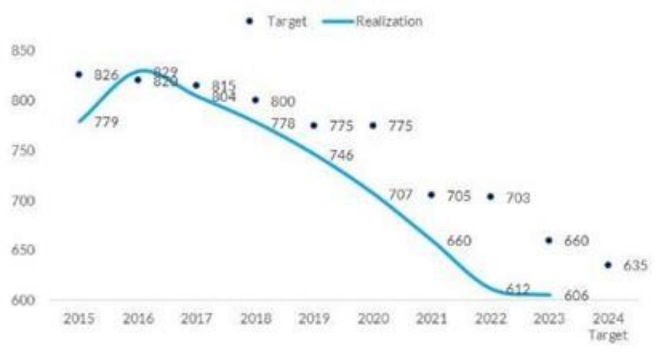

*Source: Company data*

The aforementioned giant gas discovery is pivotal for SKK Migas to pursue its target of lifting 1Mbpd oil and 12bcfpd gas by 2030 – targets set by ESDM since 2020. The reason for setting such a lofty target is to combat the natural decline of Indonesia's O&G lifting, which has been happening in the past 10 years. On average, oil lifting declined 4% annually since its peak period of 829kbpd in 2016, to 606kbpd in 2023. Gas lifting gradually declined on overage 2% per year since its peak of 1,202kboepd in 2015, to 960kboepd in 2023.

ELSA is interesting to look at, because along with PHE, it will on the frontline of exploring new potential reserves as well as developing and exploiting new O&G field to combat the natural decline.

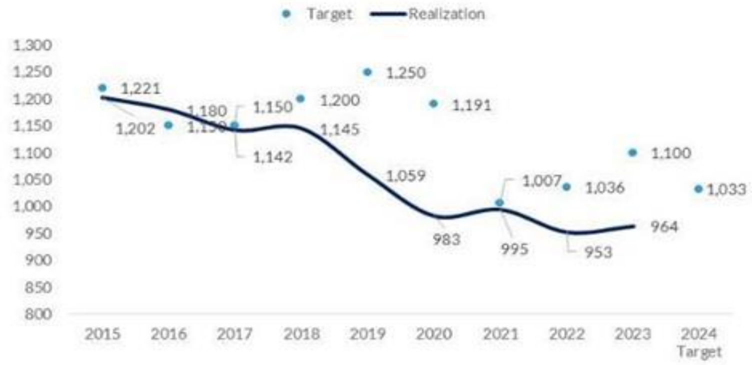
For 2024, SKK Migas targets 635kbpd oil lifting and 1,033kboepd gas lifting, down 4% and 6% YoY from 2023's O&G lifting targets.

**Figure 11: Indonesia oil lifting (target vs realisation) (kbpd)**



*Source: SKK Migas, Ministry of Energy and Mineral Resources(ESDM), RHB*

**Figure 12: Indonesia gas lifting (target vs realization) (kboepd)**

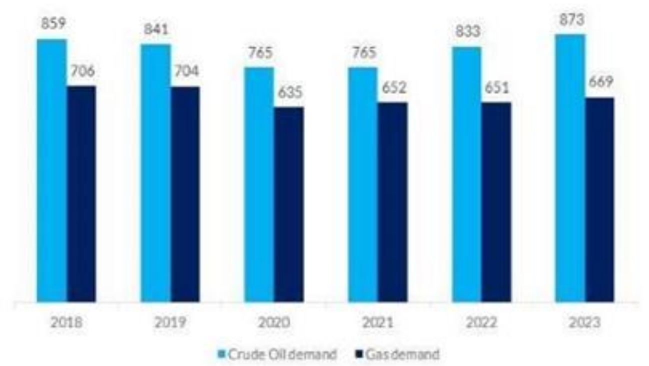


*Source: SKK Migas, ESDM, RHB*

According to ESDM, the actual lifting of natural gas and crude oil in 2023 fell short of State Budget or APBN targets – the natural gas target was 1.1mboepd but only achieved 964kboepd. The crude oil target was 660kbpd but only 605kbpd was realised. In terms of exploration efforts, Indonesia has been predominantly successful in finding natural gas rather than crude oil.

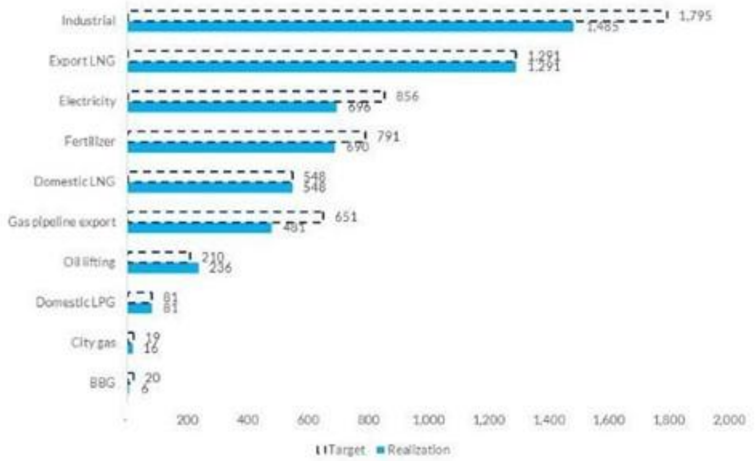
Based on our calculations, the country needs to grow oil lifting by at least 9% pa from 2024 to 2030 in order to achieve the 1mbpd oil lifting target. For natural gas, Indonesia should expand gas lifting by 13% pa for the same period, from 850kboepd (or 5.8bcfpd) in 2024 to 1.8mboepd (or 12bcfpd) in 2030.

**Figure 13: Indonesia crude O&G demand per day (kboepd)**



*Source: SKK Migas, EDSM*

**Figure 14: Gas usage realisation vs target (mmscfd)**

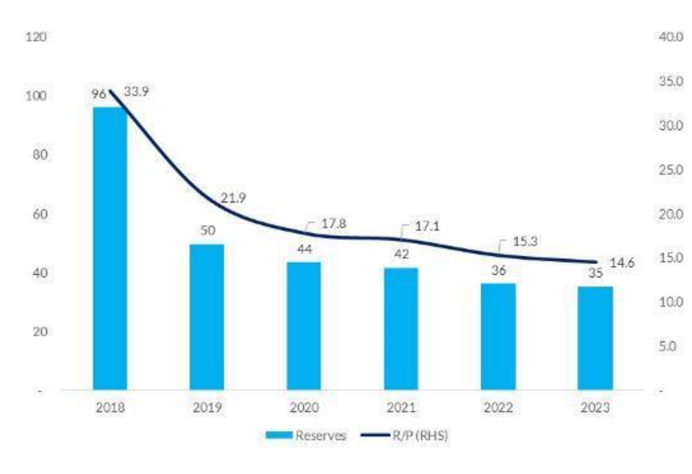


*Source: SKK Migas, EDSM*

During COVID-19, both Indonesia's crude oil and natural gas demand deteriorated by 9% and 10% YoY to 765kbpd and 635kboepd. However, since the country's economic reopening in 2022, crude oil demand has exceeded pre-COVID-19 levels – reaching 873kboepd (+5% YoY) or a 14% increase from 2020's levels. Meanwhile, gas demand remains below pre-pandemic numbers.

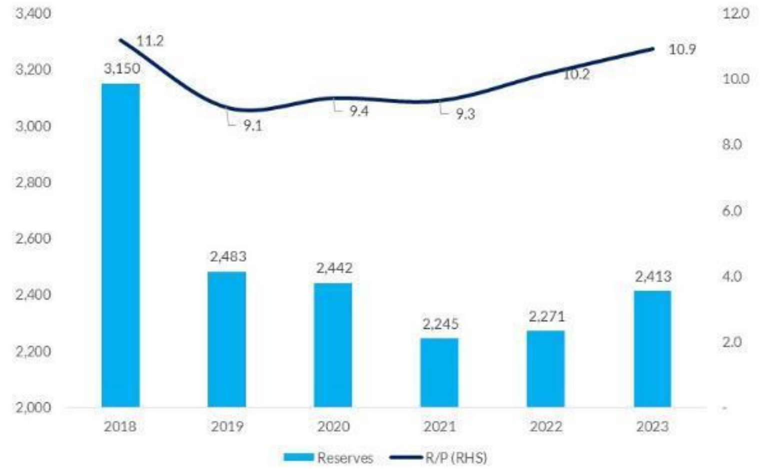
ESDM said the allocation of natural gas for domestic needs in 2023 increased to 669kboepd from 651kboepd (+3% YoY). The industrial sector remains the largest domestic consumer of natural gas, accounting for 40.5% of usage. Indonesia still has abundant gas reserves – the country's reserves to production (R/P) can last for the next 14.6 years. It has 35.3tcf in natural gas proven reserves, with gas lifting realisation at 2.4tcf. On oil, the ministry estimates Indonesia's oil R/P should last for the next 10.9years. Oil proven reserves stand at approximately 2.4bn bbls, with oil lifting at 221m bbls.

**Figure 15: Indonesia's gas reserves (tcf) and R/P (years)**




*Source: SKK Migas, EDSM*

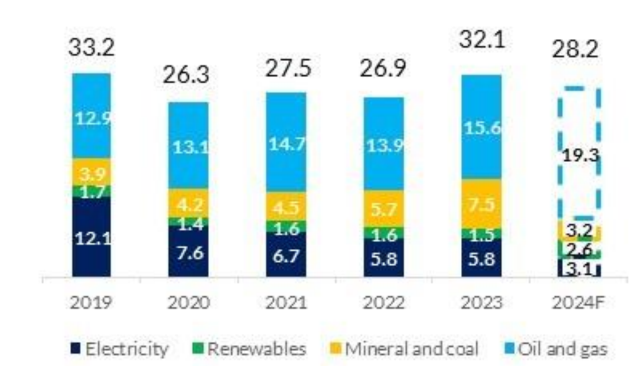
**Figure 16: Indonesia oil reserves (mmbbls) and R/P (years)**




*Source: SKK Migas, EDSM*

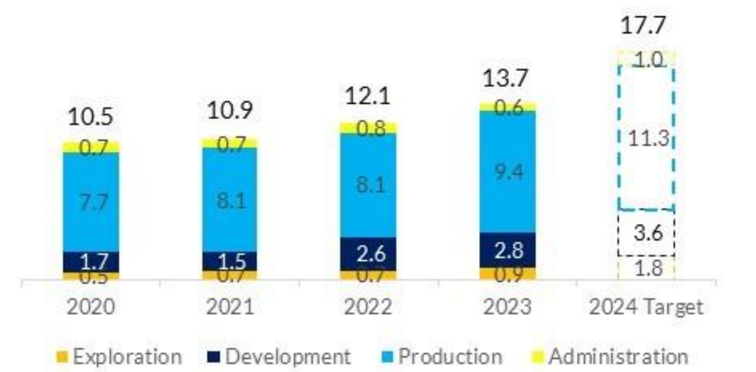
In 2023, ESDM recorded a mining and energy investment realisation of USD32bn (+19% YoY), with O&G investment realisation contributing the most at USD15.6bn (+12% YoY), followed by the mineral and coal sector at USD7.5bn. For 2024, the ministry has set an energy and mineral investment target of USD28.2bn, with only two sectors expected to rise, O&G – expected to grow 24% YoY to USD19.3bn – and renewable energy (+73% YoY to USD2.6bn).

**Figure 17: Investment realisation and 2024 target (USDbn)**




*Source: SKK Migas, ESDM*

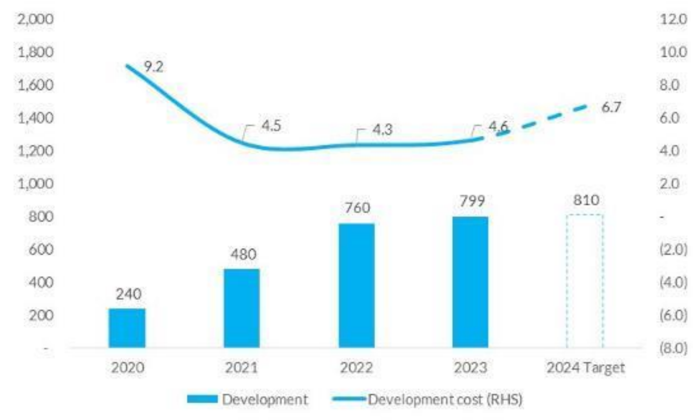
**Figure 18: Upstream investment (USDbn)**




*Source: SKK Migas, ESDM*

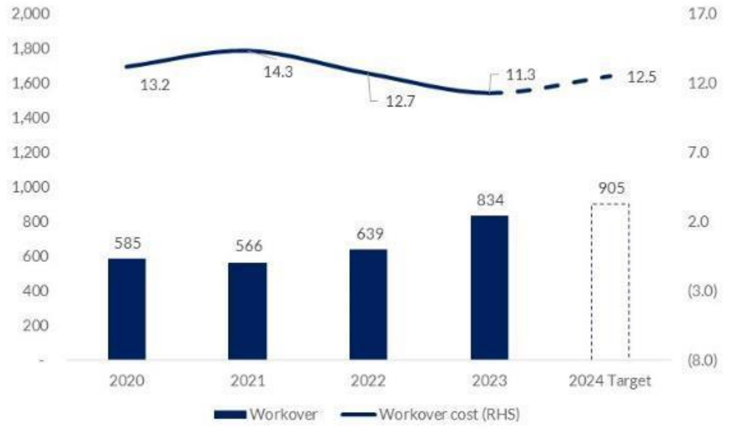
SKK Migas reported that investment in the domestic upstream sector rose 13% YoY in 2023 to USD13.7bn. This growth rate was above the global average, which stood at only 7% YoY, and was also the highest realisation since 2016. The figure is also 5% better than 2023's target of USD13bn. For 2024, SKK Migas has set a 36% YoY higher upstream investment target of USD17.7 bn.

**Figure 19: Development wells (unit) and costs (USDm/well)**



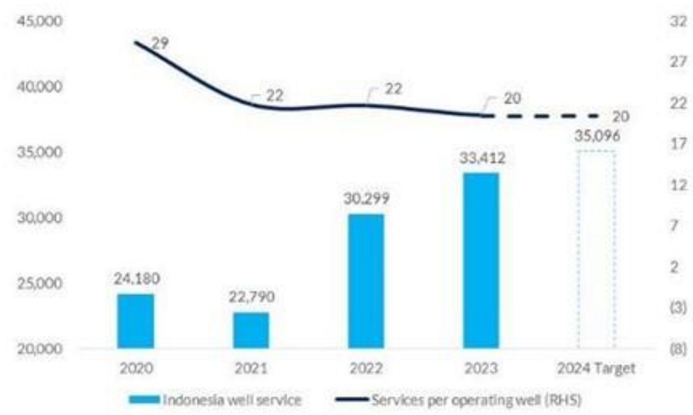

*Source: SKK Migas, ESDM*

**Figure 20: Workover wells (unit) and costs (USDm/well)**



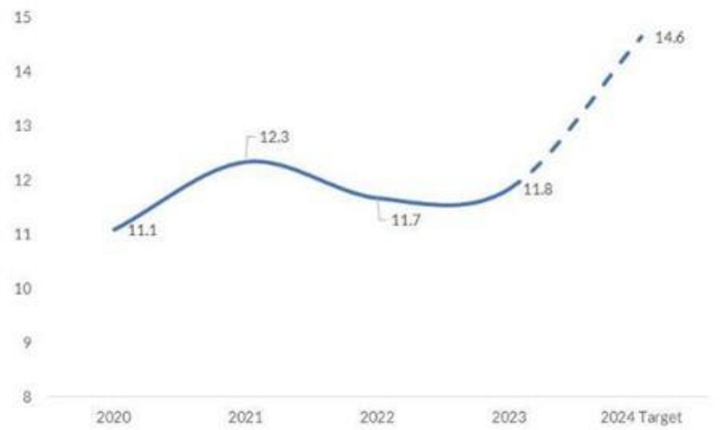

*Source: SKK Migas, ESDM*

**Figure 21: Well service (activity) and per operating well (x)**




*Source: SKK Migas, ESDM*

**Figure 22: Well service cost estimates (IDRbn/activity)**




*Source: SKK Migas, ESDM*

In order to increase O&G production, SKK Migas encourages all PSC contractors to achieve activity targets that comprise: i) Drilling of development wells (mainly to explore and unearth potential reserves into production), ii) drilling of rework wells (workover; ie activities to maintain current production and lifting), and iii) well maintenance (well service) activities. Higher upstream investments translate into the abovementioned three components.

Using this, by dividing exploration and development investments (Figure 18) to development wells (Figure 19), we estimate Indonesia's development costs could potentially grow 45% YoY to USD6.7bn in 2024. The development cost per well appears to have declined over the years, since the 2020 figure – in fact, many development wells slated for 2020 had been postponed or disrupted due to the pandemic.

We estimate workover well costs by dividing upstream production investments (Figure 18) to workover units (Figure 20). Workover wells are activities to maintain a field's current production and lifting. Workover costs are set to expand 11% YoY to USD12.5bn in 2024, in our view.

For well service costs, we determine how many services are performed per operating well (development + workover well). Using this, we calculated that, in 2023, each operating well – on average – performed 20 kinds of services. Hence, with 20 services per well, we forecast Indonesia's well service activity to soar 5% YoY to 35,096 services. On service costs, higher upstream investment targets – especially on production investment – should lift average well service costs by 24% YoY to IDR14.6bn per activity.

All this translates to lucrative opportunities for ELSA for post higher earnings – boosted by the exciting upstream activities ahead in Indonesia.

### Upstream business: Integrated upstream O&G services

ELSA's integrated upstream O&G services segment highlights its comprehensive involvement in the initial phases of O&G production. Operating activities in this segment are divided into two divisions – upstream services division and the engineering, production and construction – operation & maintenance (EPC-OM) division.

Services offered in this segment include:

i. Seismic data acquisition and processing, geological, geophysical, and reservoir analysis;

ii. Well drilling and workover, focusing on the creation and maintenance of wells;

iii. Well intervention, which are essential for the optimisation of production;

iv. EPC-OM.

**Figure 23: Upstream capabilities and capacity**


*Source: Company data*

As an O&G support company, ELSA has many services to offer, but we will focus on several key drivers that propel its upstream revenue and earnings, especially services that are directly impacted by SKK Migas, ESDM and PSC contractors working interest. These are:

i. Drilling & workover services (DWO). DWO provides drilling & workover service with the aim to increase the productivity of existing wells. The service is currently focused on on-shore drilling, but remains open for exploration and development of prospective offshore drilling and geothermal projects. Activities within DWO including:

   a. Hydraulic workover services (HWU), a workover services of wells with the aim to maintain the performance of O&G wells for continuous production in line with clients' expectations.

   b. Drilling rig, main drilling activity services.

   c. Drilling support services, which ranging from mud-logging services (to detect hydrogen sulphide content around the well area), mud-engineering, hydrogen sulphide services (H2S) (providing drilling security from gas and hazardous conditions in drilling operation areas).

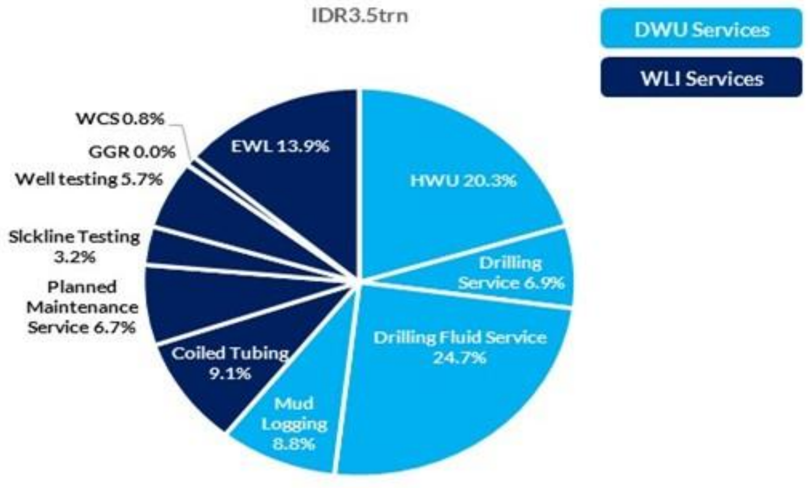
ii. Well intervention services (WLI). This service offers maintenance service for O&G wells by retaining four main business as described below. ELSA's current equipment competency is suffice to operate onshore and offshore, covering Sumatera, Java to Kalimantan.

  a. Electric wireline services: Perforation services and evaporation activity by using logging equipment. The data collected will be used for decision making material to determine the condition and state of the well to be carried out.
  b. Coiled & pumping services. Well intervention services using coiled tubing (CTU) equipment assisted by pumps that pump fluids and chemicals to restore well conditions in accordance with client's program.
  c. Slickline services. To clean scale in O&G production wells.
  d. Well testing & processing services. The unearth O&G will be further evaluated and manipulated on the ground in order to maintain or even increase production.

Aside of these two services, ELSA also has the Investigation Services and Seismic Services Processing, which basically helps clients to determine O&G reserves as well map an appropriate production plan. It also has the Engineering Construction-Operation & Maintenance (EPC-OM) division.

Among the services, HWU and drilling services are the key driver to ELSA's upstream revenue. In 2023, drilling fluid services and HWU contributed 45% of ELSA's upstream revenue, followed by electric wireline logging (EWL) by 14% and CTU for 9%.

**Figure 24: ELSA's upstream revenue contributors 2023 (excluding O&M services)**




*Source: Company data*

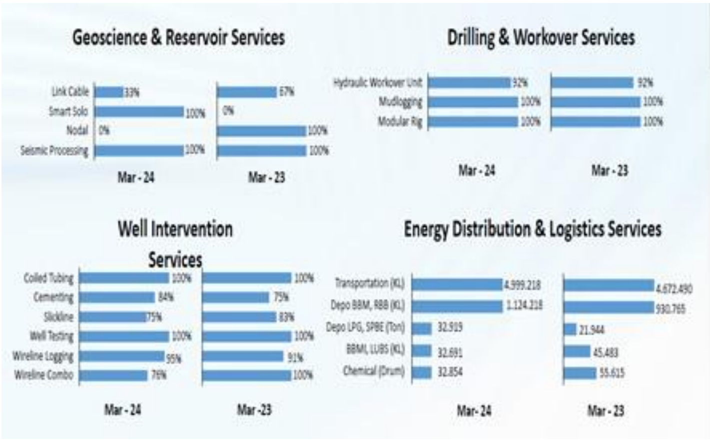
Utilising historical well activity cost per well as the aforementioned, we are assuming ELSA's upstream revenue to translate to how much well activity is being conducted during a year. For 2024, we estimate ELSA is working on 19 wells and has 387 activities.

**Figure 25: ELSA's well service activity and workover well**


*Source: Company data, SKK Migas, ESDM*

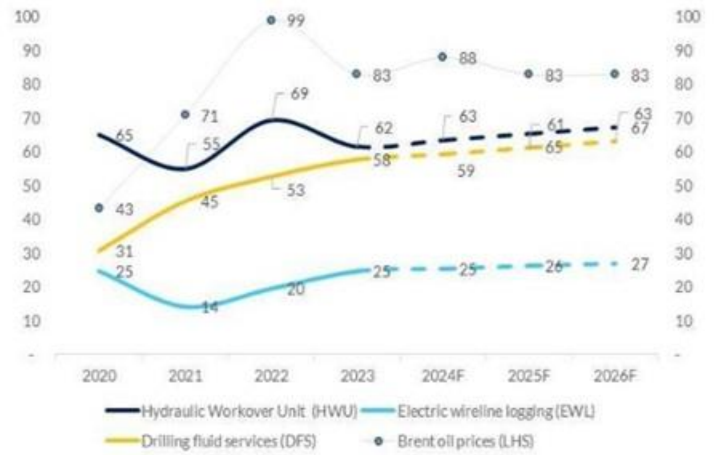
To simplify various services and helps investor gauge ELSA's operational performance, management provides a display capacity utilisation of each equipment for upstream services. Combining capacity utilisation and revenue portion of each services helps us to estimate the ASP of each services.

**Figure 26: Capacity utilisation 2023**




*Source: Company data*

**Figure 27: ASP estimate (IDRbn/unit) vs Brent oil prices (USD/bn)**

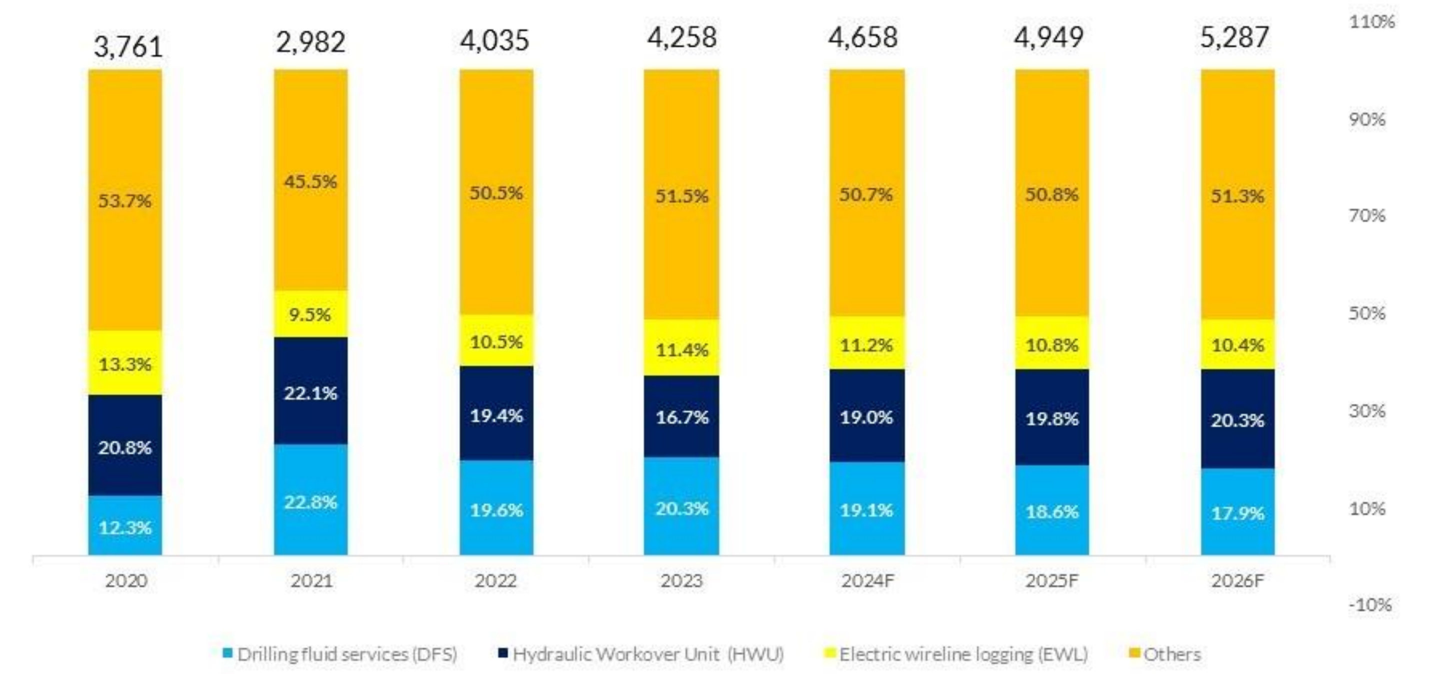



*Source: Company data, Bloomberg*

For 2024, we normalised prices but they are still higher than pre-PHE's acquisition, with HWU steady at IDR63bn per unit, drilling rig service slipped from IDR280bn per unit in 2022 to IDR240bn per unit in 2023. However, with higher upstream investment target we estimate 2024 well service activities will potentially grow 8% YoY to 387 activities, derived from 19 operating wells. As such, upstream revenue is forecasted at IDR4.7trn, up 9% YoY.

ELSA's upstream service ASP relatively is minimally impacted from oil price fluctuations. Since its integration with PHE, ELSA has been able to raise ASP for every upstream service. Drilling service witnessed the most compelling ASP hike, up 161% YoY to IDR280bn per unit – however, ELSA currently has only one drilling rig. Consequently, its WLI services also saw healthy growth of 37% YoY to IDR19bn per unit (EWL), 53% YoY to IDR60 per unit (CTU) and 55% YoY to IDR21bn per unit (PMS).

**Figure 28: Upstream revenue forecast (IDRbn) and contributor (%)**



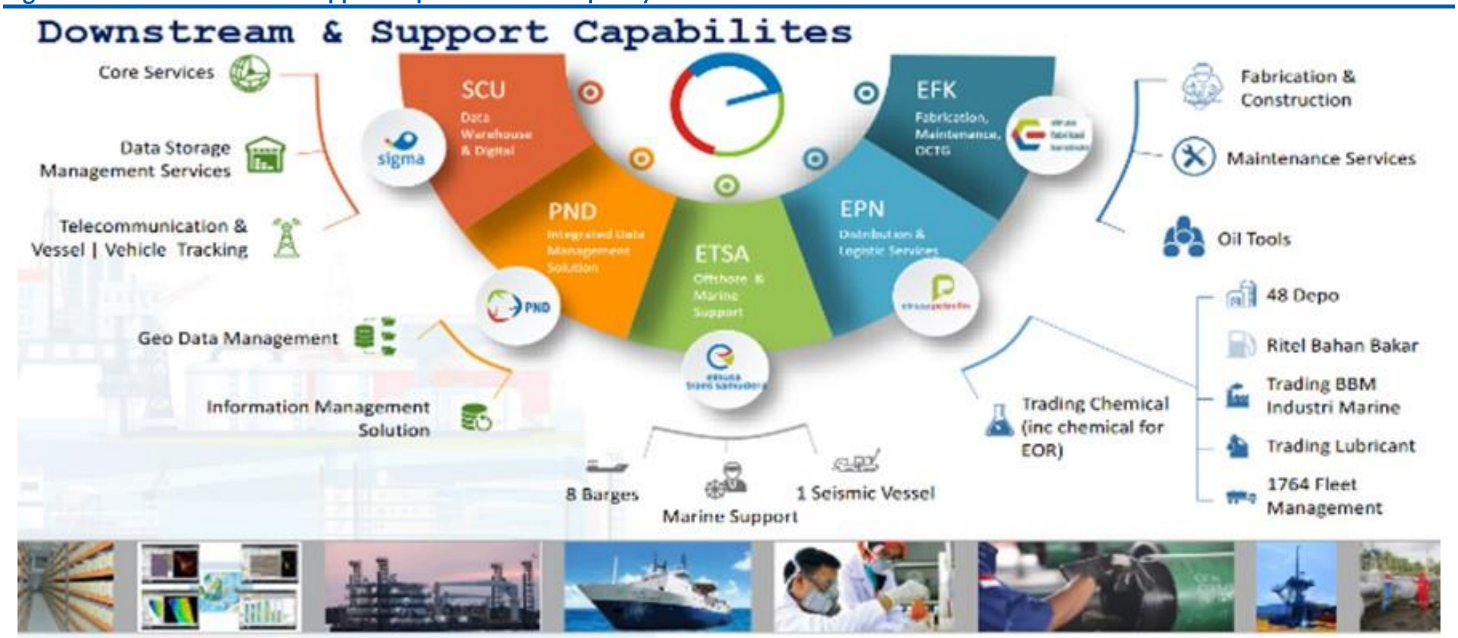

*Source: Company data, RHB*

## Midstream business: Energy distribution and logistics services

The second segment is energy distribution and logistics services, which encompass a range of services aimed at optimising the supply chain and management of fuel resources. This includes fuel fleet management, ensuring efficient transportation and delivery of fuel, fuel storage management, gasoline station and lpg filling station operations, and specialty & commodity chemical trading.

To differentiate from AKR Corporindo (AKRA IJ, BUY, TP: IDR2,100), ELSA mainly transports gasoline products from one point to another, while AKRA takes sales orders, sets the price, then procures and handles the logistics, storage and distribution of the gasoline from the petroleum supplier to designated customers.

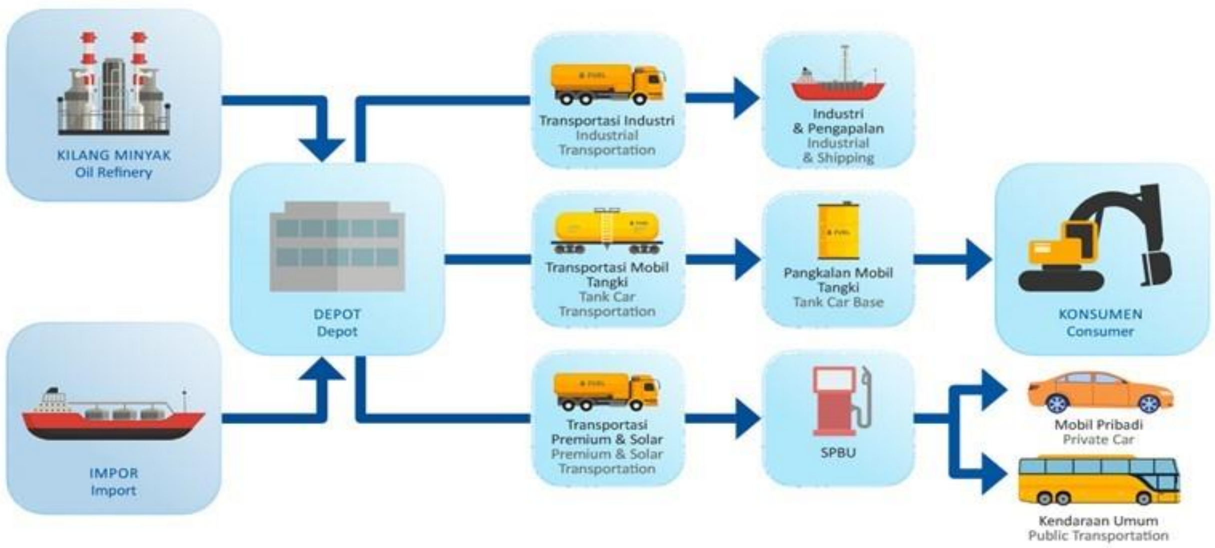
**Figure 29: Downstream and support capabilities and capacity**




*Source: Company data*

Downstream business activities are managed by ELSA's subsidiary, Elnusa Petrofin (EPN). EPN engages in the field of fuel logistics and distribution services, especially fuel transportation services, energy storage management (fuel, gas, aviation), etc. EPN is also a Pertamina's spearhead to distribute Public Service Obligation (PSO) fuel across Indonesia.

**Figure 30: Downstream business cycle**




*Source: Company data*

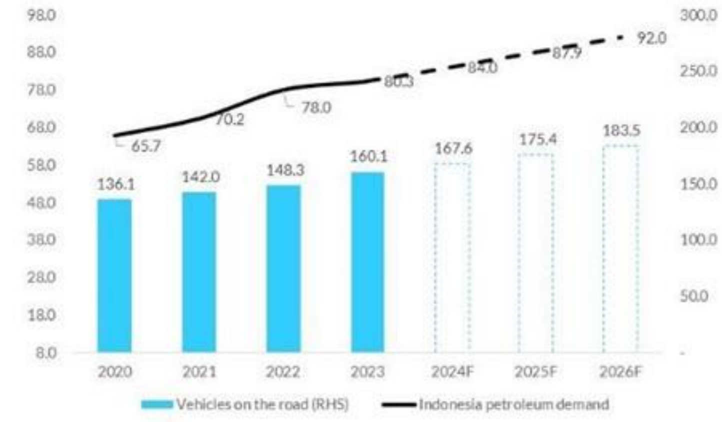
**Figure 31: Trading activity process of special chemicals**


*Source: Company data*

As a petroleum distribution and transportation company, ELSA's downstream business is largely affected by national petroleum sales products such as Pertalite, Solar and diesel, as well as non-public service obligation (Pertamax, Pertamax Turbo). In 2023, diesel fuel reached 17.5m kl flat YoY, Pertalite sales reach 29.8m kilolitres (kl), 2% YoY increase and non-public service obligation (Pertamax, Pertamax Turbo, Dexlite) grew 6% YoY to 32m kl. In total, Indonesia's petroleum volume was at 80m kl, up 2m kl (+3% YoY). In 2019-2023, national petroleum sales on average grew 2% CAGR, from 74m kl in 2019 to 84m kl in 2023.

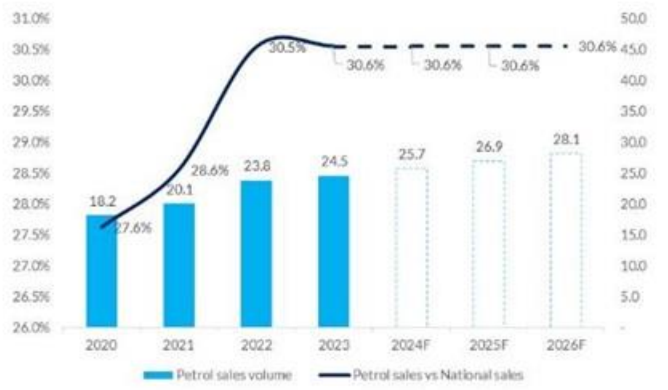
Growth of national petrol volume is derived from the growth of vehicles volume. In 2023, total vehicles on the road in Indonesia reached 160m, of which 134m were 2-wheelers and 26m were 4-wheelers. Exponential sales volume growth of 6% pa in 2020-2023 (from 115m vehicles in 2020 to 160m vehicles in 2023) drove the petroleum demand. As such, we see ELSA directly enjoying higher national petrol sales volume and indirectly benefitting from vehicles sales volume growth.

**Figure 32: Vehicles on the road in Indonesia (m units) vs Indonesia's petroleum demand (m kl)**




*Source: Company data*

**Figure 33: ELSA's petrol sales volume (m kl) and market share to national petrol sales (%)**




*Source: Company data*

We took the liberty to determine ELSA's ASP by dividing downstream revenue to the total petroleum volume – consisting volumes of throughput transport, fuel-depo distribution, gasoline fuel retail, and Inmar gasoline. Based on our calculation, downstream business ASP ranges between IDR209-IDR318/liter during 2020–2023. We estimate its purchase cost to range between IDR188–IDR295 for the same period. This translates to IDR21–IDR23/liter spread for ELSA's petroleum distribution across Indonesia. Going forward, we forecast the distribution margin to be stable at IDR23/liter.

For 2024, we estimate downstream revenue to grow 12% YoY to IDR7.1trn, propelled by 4% YoY national petroleum demand growth to 84m kl and fuel by 5% YoY to increase ELSA's petrol sales to 25.7m kl. Higher oil prices should raise petroleum cost, and ELSA should pass on the hike to customers. We expect the ASP to increase 8% YoY to IDR310/litre.

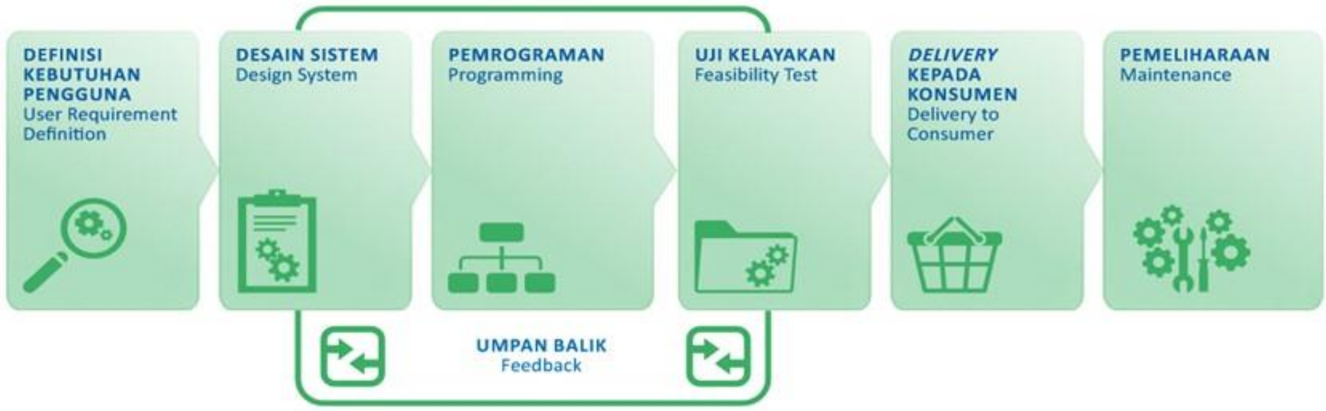
**Figure 34: Downstream revenue forecast (IDRbn) and ASP estimate (IDR/l)**


*Source: Company data, RHB*

## O&G support services: Energy distribution and logistics services

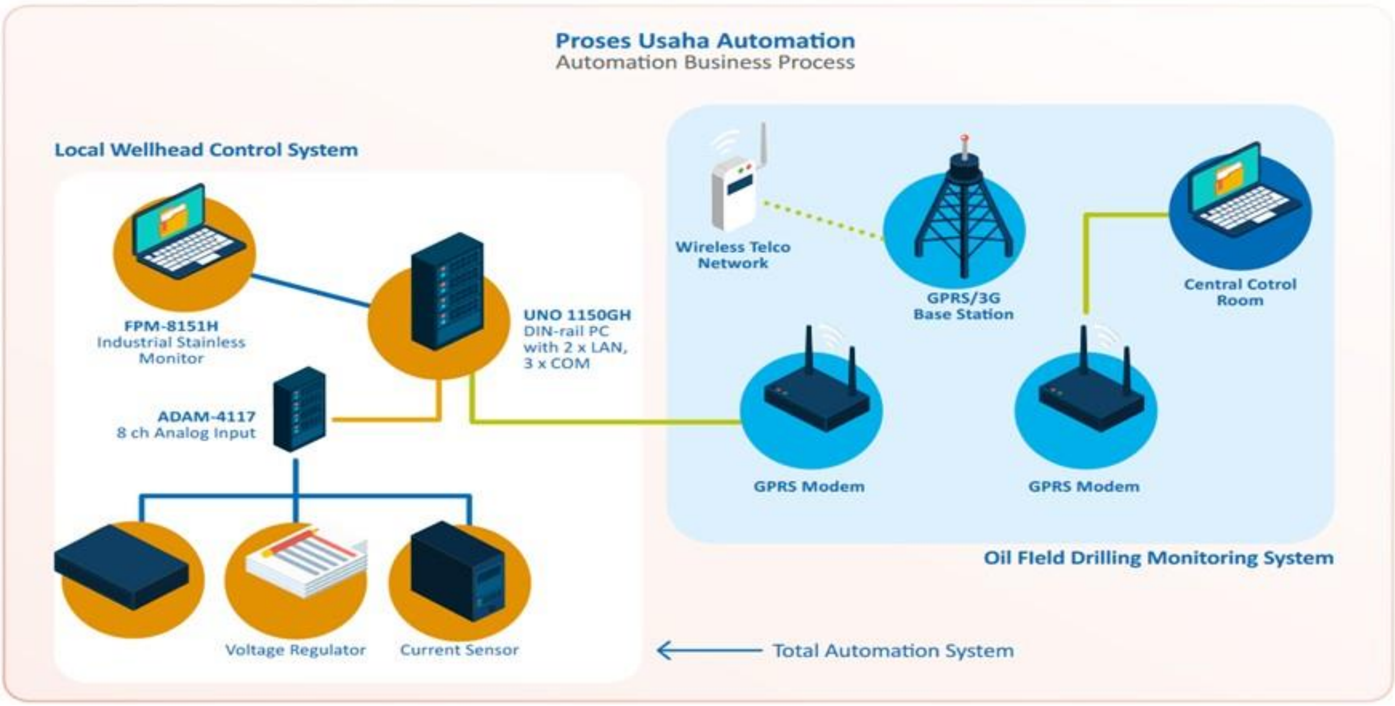
ELSA's third segment covers O&G Support Services, which provides essential support operations that complement the core activities of the O&G industry. This includes marine support, which offers logistical and transportation solutions on water; data management – ensuring the integrity and accessibility of critical information; fabrication – involving the constructing of necessary components and structures; and oil country tubular goods (OCTG) pipe threading & trading, which deals with the distribution of pipes used in drilling operations.

**Figure 35: ICT business process**




*Source: Company data*

**Figure 36: Automation business process**



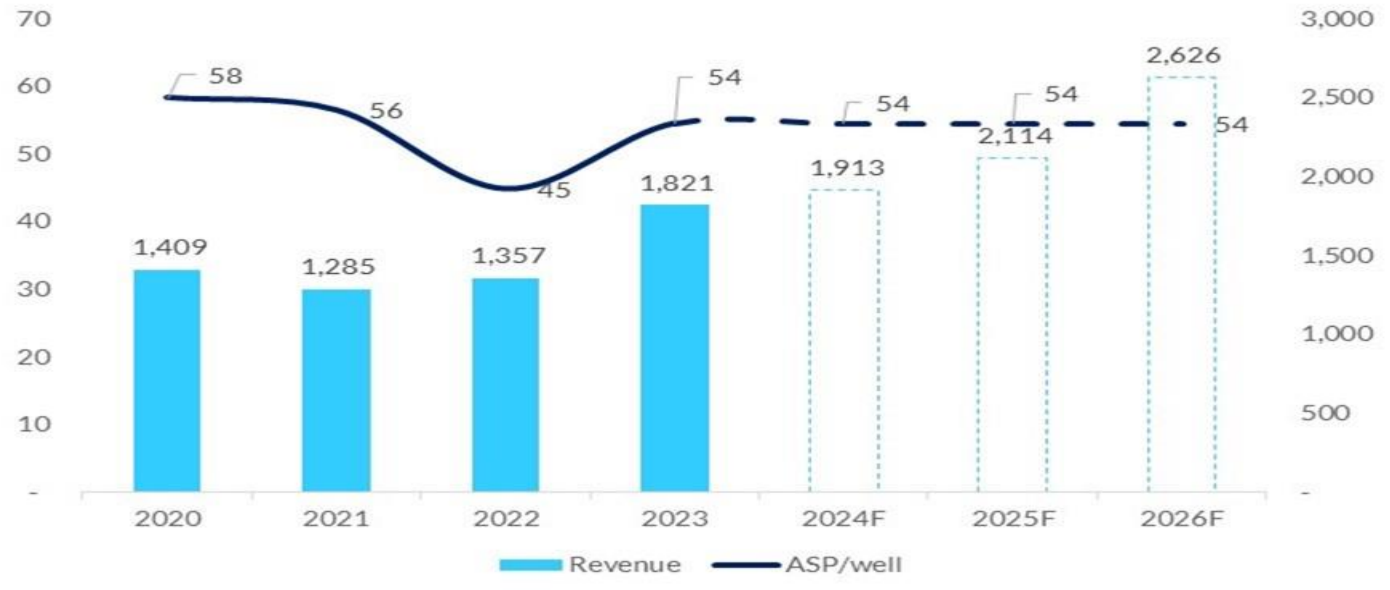

*Source: Company data*

Sigma Cipta Utama (SCU) is ELSA's main subsidiary in the O&G support services segment. The subsidiary provides data management service for the O&G sector, supplying the necessary data for decision-making processes. SCU also has the capability and facilities to maintain, preserve, and identify geological samples. It offers the services for O&G exploration and exploitation activities.

The second largest contributor for this segment is the geodata business unit, which contributed 21% of the segment's 2023 revenue. This unit stores physical and digital data service for O&G subsurface data.

For our forecast, we utilise upstream segment well services activities to estimate revenue forecast on this segment. We estimate 2024F revenue expand 5% YoY to IDR1.9trn.

**Figure 37: Support service revenue forecast (IDRbn) and ASP estimate (IDR/well)**




*Source: Company data, RHB*

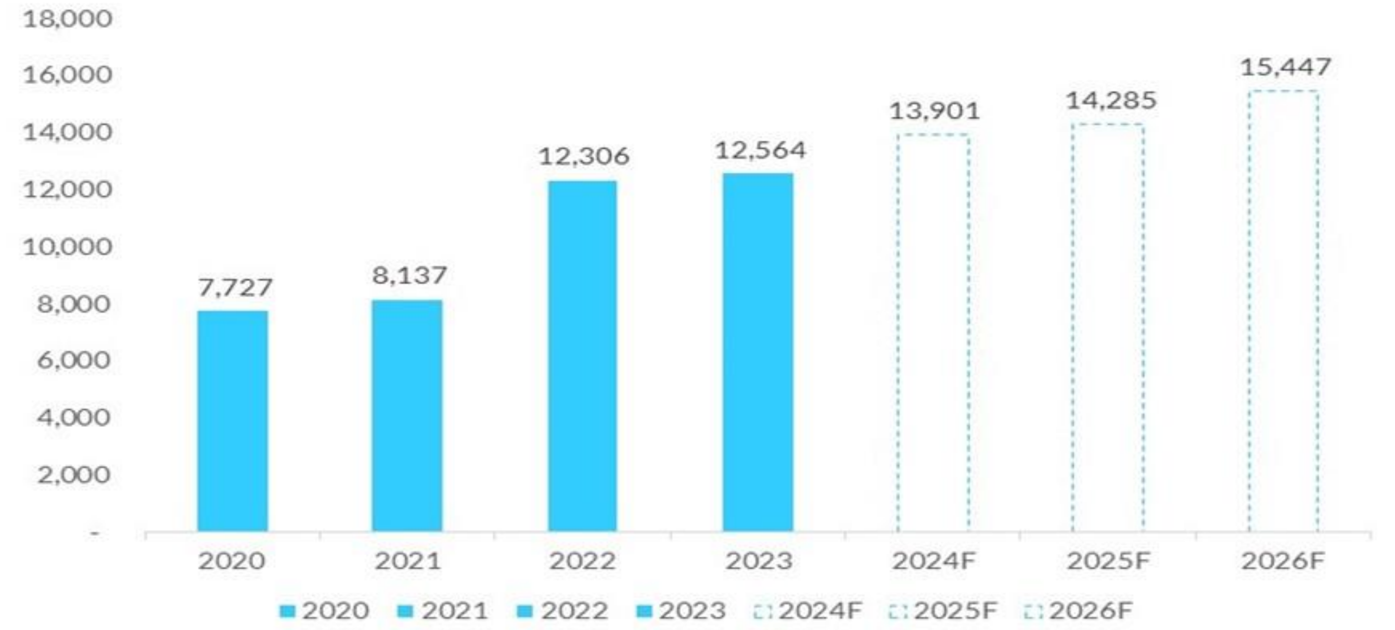
# Financial Outlook

### Revenue to potentially rise 11% YoY on more traffic and activities

ELSA's revenue streams are divided into three primary segments: Energy Distribution and Logistic Services, Integrated Upstream Oil and Gas Services, and Oil and Gas Support Services. In 2023, the Energy Distribution and Logistic Services segment was the largest contributor to the company's revenue, accounting for IDR 6.7trn or 53% of the total revenue. This was followed by the Integrated Upstream Services at IDR 4.2trn, contributing 34%, and the Support Services segment at IDR 1.7trn, making up 13% of the total revenue.

According to the full-year 2023 financial report, the distribution segment experienced a decline of 7.3% YoY, from IDR 7.2trn to IDR 6.7trn. However, this was offset by the Integrated Upstream Oil and Gas Services segment, which saw an increase from IDR 39trn to IDR 4.2trn, marking a 6% YoY growth. Additionally, the Oil and Gas Support Services segment exhibited a significant 50% YoY increase, from IDR 1.1trn to IDR1.6trn. Overall, ELSA's total revenue for the period from 2022 to 2023 experienced a modest increase of 2.1%, YoY, rising from IDR12.3trn to IDR 12,6trn.

**Figure 38: Revenue forecast (2020-2026F (IDRbn))**



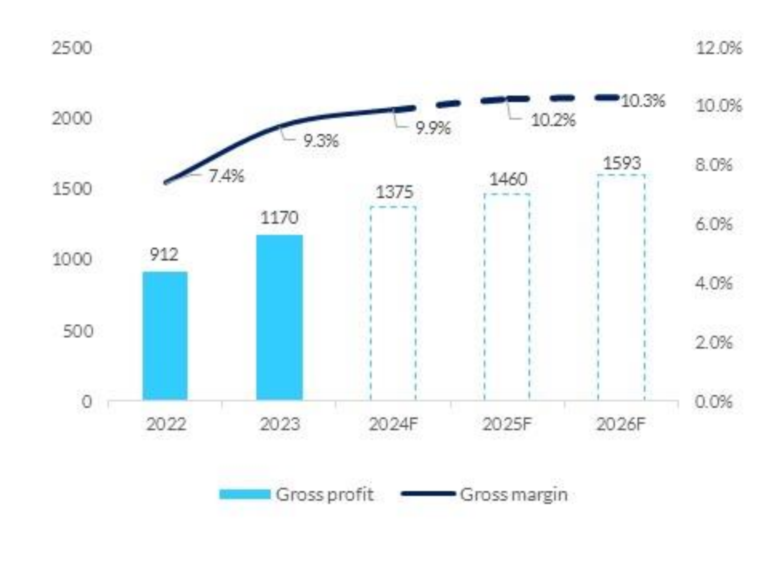

*Source: Company data*

With SKK Migas and ESDM focused on pursuing 1Mbpd oil and 12bcfpd gas liftings by 2030, we see exploration and exploitation activities via development well and workover wells continue to expand throughout 2024F–2026F. SKK Migas setting USD17.7bn target marks serious effort from the Government to add more lifting and combat natural decline. After the elimination of inter-segment revenue, we estimate ELSA's 2024 revenue to grow 11% YoY to IDR13.9trn, with downstream segment contributing the most with 54% (FY23: 53%), followed by upstream with 34% (FY23: 34%) and O&G support segment on 12% (FY23: 13%).

Integration with Pertamina via PHE's acquisition will help ELSA compete against international O&G support services. Also, local content requirement ensures ELSA can participate in major O&G projects going forward. According to the Presidential Decree no. 29 Year 2018, the current minimum local content in an O&G project is 25%, with PSC contractors needing to have 50% local content from 2026.

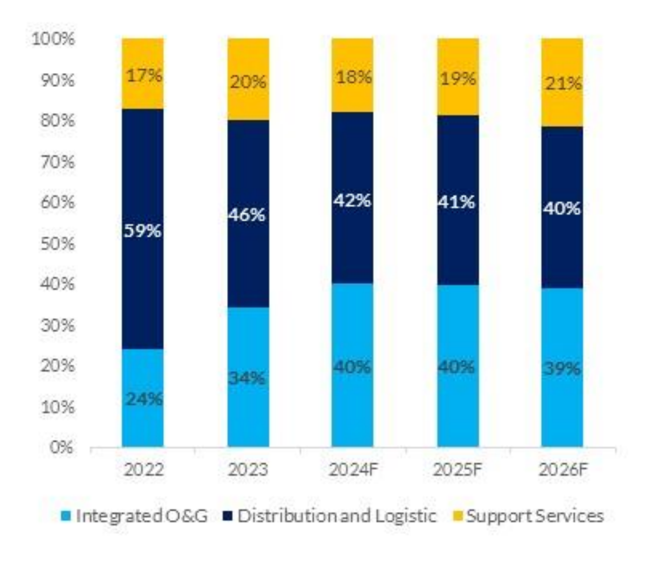
## More contributions from upstream boosts profitability

**Figure 39: Gross profit estimate (IDRbn) and gross margin (%)**




Source: Company data

**Figure 40: Gross profit contributions**

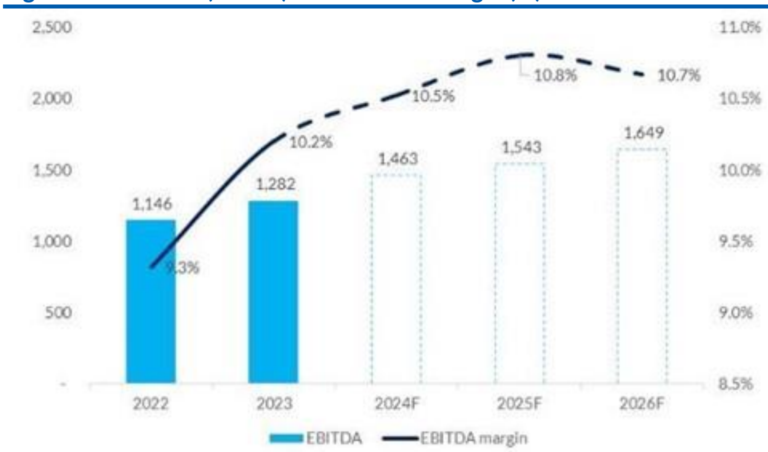



Source: Company data

Historically, the upstream segment caters more margin compared with the other two segments. However, for the upstream segment, the downside risk of fluctuations on oil prices would affect feasibility studies of O&G projects, forcing them to be postponed or delayed. If favourable circumstances occur, ELSA's upstream segment could generate double-digit margin. Hence, it should be interesting from 2024F onwards to monitor ELSA's profitability, given the higher government target of 1Mbpd oil lifting by 2030 and large area of new gas depository discovered in South Andaman and North Ganal.

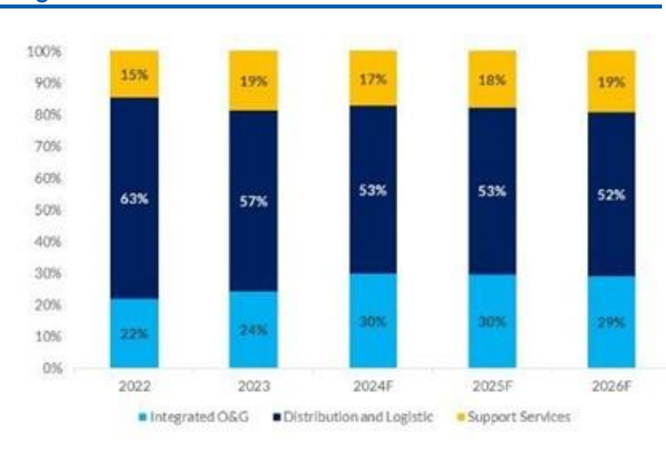
For 2024, we estimate upstream gross profit to increase 37% YoY to IDR551bn, driven by higher gross margin from 9% in 2023 to 12% in 2024F on upstream business (1Q24 upstream gross margin: 12%), and contribute 40% towards total gross profit, up from 2023 level of 34%.

**Figure 41: EBITDA (IDRbn) and EBITDA margin (%) estimates**




Source: Company data

**Figure 42: EBITDA contributions**

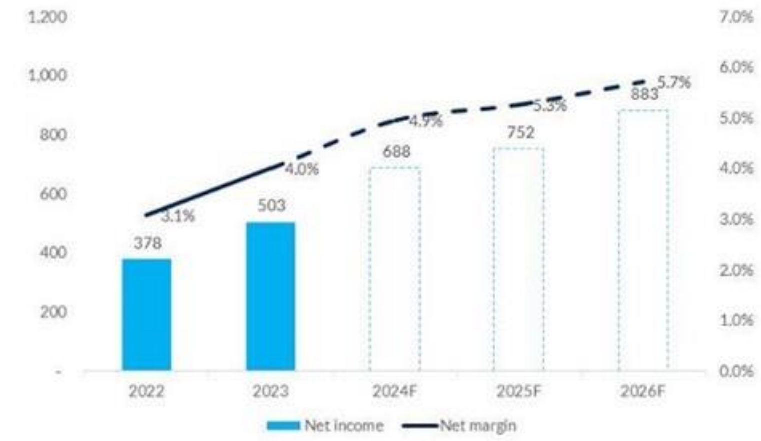



Source: Company data

It is worth to note that with oil prices not directly impacting ELSA's financial performance, it was able to maintain EBIT and EBITDA afloat and booked strong margin. Positioned as an O&G support services company, which can be associated with small selling expenses, ELSA does not need to spend or allocate substantial advertising or marketing expenses to generate revenue. We estimate EBITDA for 2024 could grow 14% YoY to IDR1.5trn.

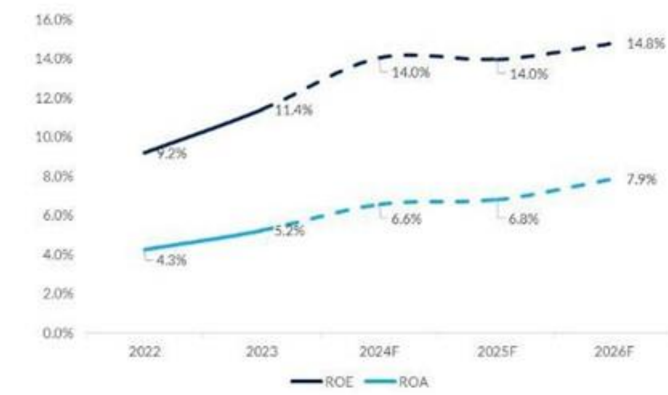
It is similar with gross margin, with the upstream segment EBITDA likely exceeding the other two segments in 2024F. Upstream EBITDA should potentially rise 41% YoY to IDR440bn (before elimination) while downstream and support EBITDA is expected to expand 6% YoY to IDR778bn and IDR256bn.

**Figure 43: Net profit (IDRbn) and net margin (%) estimates**




*Source: Company data*

**Figure 44: ROE and ROA**

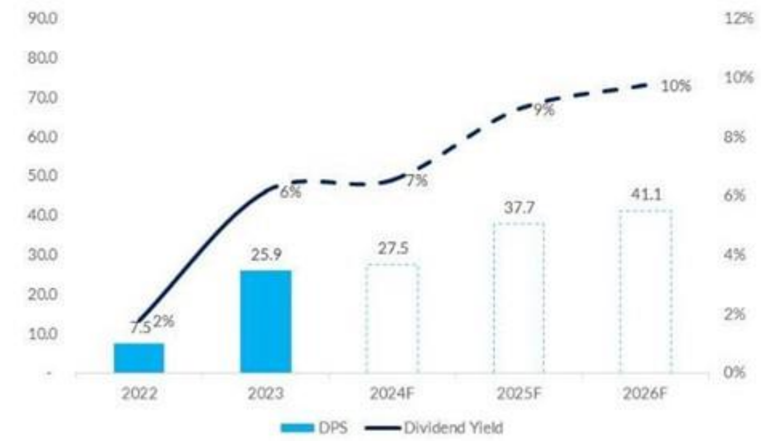



*Source: Company data*

With strong interest coverage at 5.8x in 2023, we see the company has strong cash generation to repay interest expense throughout the loan period. ELSA booked IDR115bn interest expense in 2023, less 20% YoY than 2022's level, while EBIT grew 35% YoY to IDR670bn. Its cash rich position, with IDR2.1trn in 2023, benefits ELSA during the high interest rate period. Interest income jumped 115% YoY to IDR75bn in 2023, and we believe the condition would last if interest rate remains high in 2024F. Compared with other PSC contractors ie Medco Energi Internasional (MEDC IJ, BUY TP: IDR1,830), ELSA's effective tax rate was only 22%, while MEDC's is 49%. This allows ELSA to distribute lucrative dividend payout ratio whereas maintain necessary retained earnings for further business development.

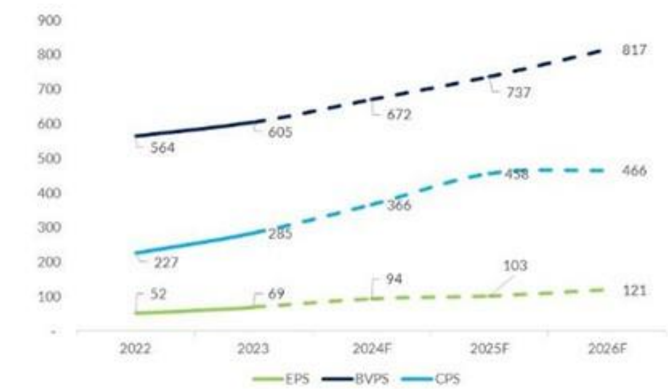
For 2024F, we estimate net profit expand 37% YoY to IDR688bn and net margin at 4.9%, thanks to higher contribution from upstream segment. Return on equity remains above 10%, at 14% in 2024F and return on assets should at 7% (FY23: 5%).

**Figure 45: Dividend per share (IDR) and dividend yield (%)**




*Source: Company data, RHB*

**Figure 46: EPS, BVPS, and CPS**




*Source: Company data, RHB*

We expect ELSA to will continue to distribute 40% of net income as dividend payout ratio throughout projection years. Thus we estimate dividend 2024F potentially at IDR28/share, marking dividend yield at 7%. For 2025F, DPS could grow to IDR38/share, (% dividend yield.

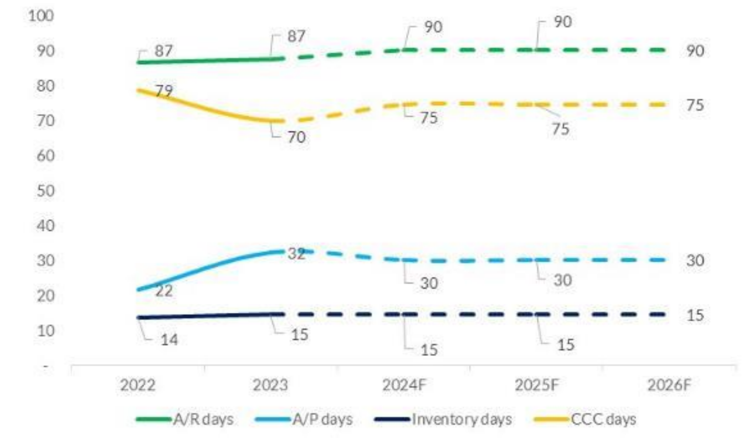
Vast amount of dividend payout we see shall not hurting the Company financial strength to generate earnings for the subsequent year. Strong cash position and retained earnings shall carry ELSA's operation for the following year. In 2024, we forecast BVPS accounted at IDR672/share while cash per share sturdy at IDR366/share.

## Healthy balance sheet, net cash position support growth

We believe ELSA's robust balance sheet and well-managed working capital should help the company generate earnings growth going forward. Despite being partly a logistics and distribution entity, 2023 inventory was manageable at IDR453bn. High account receivable (A/R) levels, however, render higher downside risks on working capital. 2023 A/R days stood at 87 days with inventory and payable days at 15and 32 days. It is worth noting that c.45-50% of payables were to related parties.

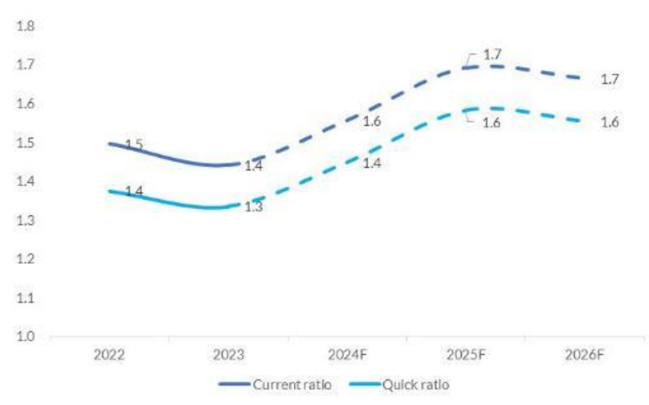
Fortunately, ELSA has managed to maintain both current and quick ratios above 1x in 2023. We note that the company has an obligation to pay back *sukuks* amounting IDR700bn – therefore, its current and quick ratios look set to move downwards.

**Figure 47: Working capital turnover (days)**



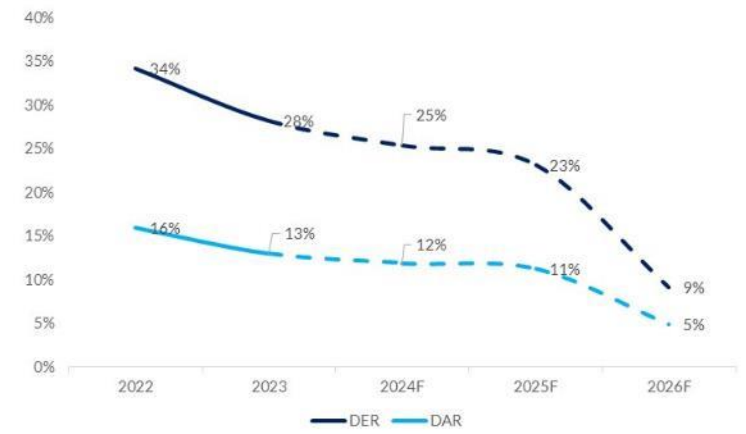

*Source: Company data, RHB*

**Figure 48: Current and quick ratios**



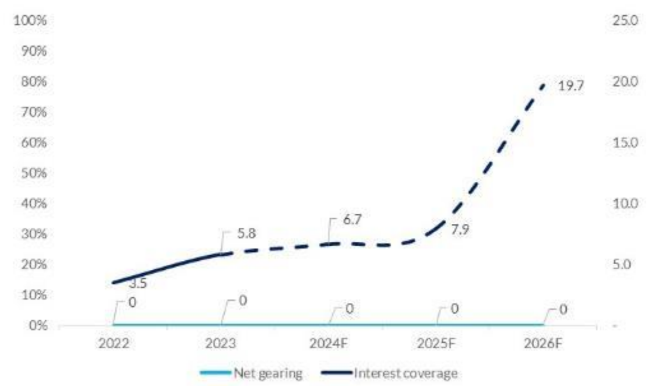

*Source: Company data, RHB*

**Figure 49: D/E and D/A ratios (%)**




*Source: Company data, RHB*

**Figure 50: Net gearing and interest coverage**




*Source: Company data, RHB*

Despite operating in a capital-intensive industry, ELSA is in a net cash position – in FY23, cash in hand stood at IDR2.1trn while its total debt was only at IDR1.2trn, allowing for sturdy interest coverage of above 1x. Looking ahead, even if it was on the verge of a limited cash situation, we hold the view that the company will not face any difficulties in raising funds – either via equity, bank loans, or bonds. This is thanks to the nature of its operational role as an O&G field services provider and support from Pertamina.

### 1Q24 financial performance: Significant net profit growth for ELSA

In 1Q24, ELSA's net profit surged by 59.4% YoY, driven by the ramp-up in upstream activities. Although revenue slipped 1.1% YoY to IDR3.1trn, net profit grew by 59.4% YoY to IDR183.2bn (gross profit rose by 14.9% YoY to IDR324.3bn). Profit before taxes improved by 61.4% YoY to IDR235.9bn.

Upstream services' earnings surged 202% YoY to IDR75bn, accounting for 41% of total 1Q24 net income (1Q23: 22%), while its distribution & logistics energy services segment chalked up net profit growth of 32% YoY to IDR93bn or equivalent to 51% of total 1Q24 bottomline. The wider margin from the upstream segment enabled ELSA to book a NPM of 5.9% in 1Q24 vs 3.7% in 1Q23.

**Figure 51: 1Q24 vs estimates**

| IDRbn | | 1Q23 | 4Q23 | 1Q24F | QoQ | YoY | 1Q24 / RHB | 1Q24 / Street |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | 3,143 | 3,582 | 3,108 | -13.2% | -1.1% | 22% | 25% |
| **Gross profit** | | 282 | 303 | 324 | 7.2% | 14.9% | | |
| | *Margin* | *9%* | *8%* | *10%* | | | | |
| **EBIT** | | 188 | 121 | 212 | 75.7% | 12.6% | 26% | 27% |
| | *Margin* | *6%* | *3%* | *7%* | | | | |
| **Net profit** | | 114 | 98 | 183 | 87.8% | 60.8% | 27% | 30% |
| | *Margin* | *4%* | *3%* | *6%* | | | | |

*Source: Company data, Bloomberg, RHB*

Contract value jumped 37% YoY to IDR10.1trn, with upstream contract value up 42% YoY to IDR3.4trn, while that of distribution & logistics contracts grew 35% YoY to IDR5.4trn. The value of its support business jobs grew by 31% YoY to IDR1.2trn.

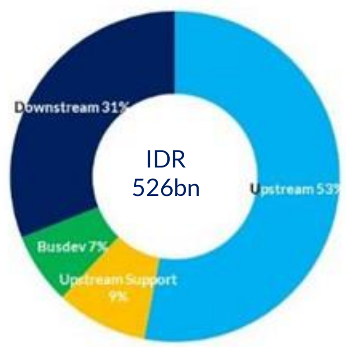
ELSA's 2024 capex amounts to IDR526bn (2023: IDR499bn). Capex will be distributed to the following units: Upstream services (53%), energy distribution & logistics (31%), and support services (9%). This is to enhance E&P activities and help in market optimisation of its chemicals business, including blending innovations related to B35 biodiesel.

Additionally, ELSA intends to invest in: i) Fuel tank vehicles, ii) sea transport for LNG and LPG, iii) initiatives to explore battery asset management, and iv) develop IoT solutions.

**Figure 52: Contract value obtained 1Q24 (IDRbn)**


*Source: Company data*

**Figure 53: Capex 2024**



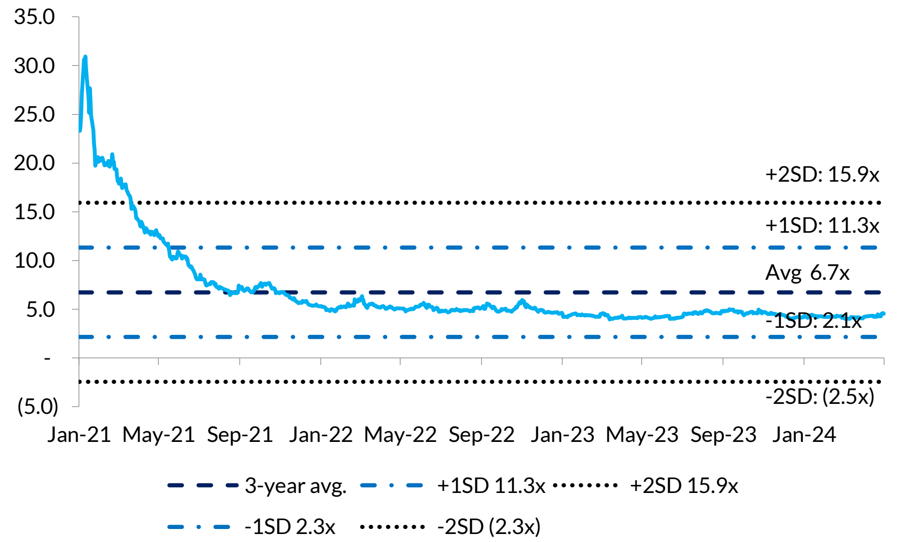

*Source: Company data*

# Valuation

We initiate coverage with a BUY and TP of IDR630, 42% upside. Our TP is based on a 3- year average 2024F P/E of 6.7x. ELSA's valuation is currently hovering at -0.5SD or 4.8x of 2024F P/E ie, 29% below the 3-year average of 6.8x. This is way below the regional O&G support players' 6.3x. We also see ELSA currently trading at 0.7x P/BV, which is lower than its peers' average of 1x.

With exciting prospects ahead, we do not believe the current share price reflects such optimism, which means – in our view – ELSA is below investor's radar. Key downside risks to our call are USD appreciation against the IDR, project delays, lower petroleum demand, and more intense competition.

**Figure 54: 3-year average P/E band**




*Source: Bloomberg, RHB*

- ELSA is currently hovering at -0.5SD, or 4.8x of 2024F P/E, ie 29% below the 3-year average of 6.8x. The peers' average is 6.3x
- Interestingly, ELSA currently trades at 0.7x P/BV, which is below its peers average of 1x. With exciting prospect ahead, we believe ELSA valuations are unjustified

**Figure 55: Peer comparison**

| Name | Mkt cap (IDRbn) | EV/EBITDA 2024F (x) | EV/EBITDA 2025F (x) | P/E 2024F (x) | P/E 2025F (x) | Dividend Yield (%) | P/BV (x) |
|---|---|---|---|---|---|---|---|
| Elnusa | 3,080 | 2.1 | 2.0 | 4.5 | 4.1 | 6.5 | 0.7 |
| Rosetti Marino | 3,170 | 3.7 | 4.9 | 6.4 | 9.4 | 2.8 | 1.4 |
| STEP Energy Services | 3,599 | 2.3 | 2.2 | 4.6 | 3.8 | N/A | 0.8 |
| Calfrac Well Services | 4,065 | 2.8 | 2.2 | 6.1 | 4.7 | N/A | 0.5 |
| Deleum | 1,944 | 4.0 | 3.5 | 11.0 | 10.2 | 4.0 | 1.4 |
| Total Energy Services | 4,563 | 2.4 | 2.1 | 5.7 | 4.5 | 3.4 | 0.7 |
| Source Energy Services | 1,919 | 3.5 | 3.2 | 5.8 | 3.1 | N/A | 1.0 |
| Drilling Tools International | 2,703 | 3.3 | 3.0 | 8.2 | 6.9 | N/A | 1.9 |
| **Weighted average** | **25,043** | **2.9** | **2.8** | **6.2** | **5.6** | **2.1** | **1.0** |

*Source: Company data, Bloomberg, RHB*

**Figure 56: RHB vs Street's estimates**

| Income Statement (IDRbn) | RHB | | | Consensus | | | RHB/Cons. (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F |
| Net revenue | 13,901 | 14,286 | 15,447 | 12,564 | 13,313 | na | 10.6 | 7.3 | na |
| Gross profit | 1,375 | 1,460 | 1,593 | 1,219 | 1,265 | na | 12.8 | 15.4 | na |
| EBIT | 828 | 884 | 964 | 796 | 827 | na | 4.0 | 6.9 | na |
| EBITDA | 1,463 | 1,543 | 1,649 | 1,418 | 1,465 | na | 3.1 | 5.3 | na |
| Net income | 688 | 752 | 883 | 610 | 662 | na | 12.8 | 13.5 | na |

*Source: Company data, Bloomberg, RHB*

# Company Profile

ELSA is an Indonesian company that provides energy service solutions across the O&G industry. Established in 1969, it is a subsidiary of state-owned O&G firm Pertamina and listed on the IDX since 2008. ELSA operates in various segments including integrated upstream O&G services, O&G support services, and energy distribution and logistics services.

The company's upstream offerings include geophysical/seismic data, drilling, and oilfield services. The support segment offers services such as threading, pipe trading and manufacturing, and telecommunication services, among others. ELSA's energy distribution and logistics services encompass storage, trading, distribution, and marketing of O&G products within Indonesia.

**Figure 57: Milestones**

| Description | |
|---|---|
| 1969 | Incorporated by the Government – operating initially in support of Pertamina's electronic and navigation systems for oil vessels. |
| 1971 – 1974 | The company ventured into the O&G industry, introducing services like seismic data processing and establishing a scientific data centre, hence broadening its services spectrum in the petroleum sector. |
| 1980 – 1987 | Expansion continued into data management and storage for O&G, oilfield services, and fuel distribution with the formation of several subsidiaries. The company also rebranded itself as Elnusa or ELSA. |
| 2003 – 2005 | ELSA enhanced its presence in the O&G sector by setting up Elnusa Drilling Services and acquiring Purna Bina Nusa – emphasising on integrated drilling services and construction. |
| 2007 | Aiming for a focused approach in upstream O&G services, ELSA merged four subsidiaries, ie Elnusa Geosains, Elnusa Drilling Services, Sinar Riau Drillindo, and Elnusa Workover Services. |
| 2008 | ELSA went public, listing its shares on the IDX. |
| 2009 – 2010 | The company sold off non-core business units to concentrate more on O&G services. |
| 2011 – 2012 | Implementation of the turnaround programme to improve business and operational performance. |
| 2013 | Declared the year of Human Resources, introduced ETSA, revamped its vision and mission, and updated its logo to signify its commitment to energy services. |
| 2014 | Strengthened operations, organisation, and internal controls, and launched Elnusa Geosains Indonesia and Elnusa Oilfield Services for risk mitigation purposes. |
| 2017 | ELSA accelerated its operational performance and focused on non-asset-based services in the upstream O&G services line. It also boosted market share growth through portfolio diversification. |
| 2018 | Recorded the highest revenue in its history through strengthened portfolio diversification. The performance of energy distribution and logistics services was nurtured, in line with adjustment of the upstream O&G services. |
| 2021 | Pertamina Hulu Energi acquired a 51% share ownership in ELSA in order to integrate Pertamina's upstream business onto one holding company. |

*Source: Company data*

**Figure 58: Board of Commissioners**

| Name | Position | Description |
|---|---|---|
| **Nur Endro Buwono**  | President Commissioner | Nur Endro Buwono, 58, holds a Bachelor of Mechanical Engineering degree from Bandung Institute of Technology (1991). He has served as President Commissioner at Pertamina Drilling Services Indonesia, project leader at Santos/Ophir Development Indonesia, and held various engineering and leadership roles at Occidental Oman, in Houston, and at Unocal, Arco Indonesia, and Schlumberger. He currently does not hold any other positions in other companies, and has no affiliations with the board or major shareholders. |
| **Denie S Tampunolon**  | Independent Commissioner | Denie S Tampubolon, 60, has a Bachelor of Geodesy Engineering degree from the Bandung Institute of Technology (1988). His career in the O&G sector includes significant roles such as CEO at Pertamina Internasional EP, Commissioner at Pertamina Irak Eksplorasi Produksi and Pertamina Internasional EP, director at Etablissments Maurel et Prom (M&P), commissioner at Pertamina EP Cepu, and senior VP and VP of Upstream Business Development at Pertamina. |
| **Wakhid Hasyim**  | Commissioner | Wakhid Hasyim, 54, completed his Bachelor of Science (BS) and Master of Science degrees in Chemical Engineering at Gadjah Mada University (1991, 2005). His work experience includes leading the Human Resources Development Center for O&G at the Ministry of Energy and Mineral Resources, and other key positions within the ministry. Currently, he serves as the Director of Technical and Environmental Affairs for O&G, with no affiliations to the board or major shareholders. |
| **Lusiaga Levi Susila**  | Independent Commissioner | Lusiaga Levi Susila, 64, obtained his BS degree in Physics from the Bandung Institute of Technology (1976). He has extensive experience in the O&G industry, having worked as a Field Engineer at Schlumberger for over two decades, followed by directorial roles at Saripari Pertiwi Abadi, Permata Drilling International, Pilar Anggaraksa, and Elnusa. He holds no other company positions and has no affiliations with the board or major shareholders. |

*Source: Company data, RHB*

Figure 59: Board of Directors

| Name | Position | Description |
|---|---|---|
| **Bachtiar Soeria Atmadja**  | President Director | Bachtiar Soeria Atmadja, 58, holds degrees in Petroleum Engineering from Universitas Trisakti (1991) and the University of Tulsa (1994). He has served as Finance Director at Elnusa, Commissioner at Elnusa Petrofin, and held several senior roles at Pertamina and its subsidiaries. |
| **Stanley Iriawan**  | Director of Finance | Stanley Iriawan, 58, has a Bachelor's degree in Business Management from Southern Oregon University (1988). He has held positions as Financial Director at Patra Drilling Contractor, CEO at PPA Kapital, and several senior positions at Bumi Asri Prima Pratama and Minang Jordanindo Group, reflecting his extensive background in corporate finance and investment. |
| **Endro Hartanto**  | Director of Operations | Endro Hartanto, 56, has a background in Geology and Geophysics from Universitas Pembangunan Nasional Veteran Yogyakarta (1992) and the University of Tulsa (1995), with an MBA from the Bandung Institute of Technology (2006). His career includes leading positions in Pertamina EP Cepu and Pertamina Hulu Indonesia, reflecting his deep expertise in subsurface development and resource evaluation. |
| **Arief Prasetyo Handoyo**  | Director of Business Development | Arief Prasetyo Handoyo, 51, studied Geology at Universitas Gadjah Mada (1998) and has an MBA from the Bandung Institute of Technology (2006). He has held various roles at Pertamina EP and Pertamina Hulu Indonesia, focusing on development, drilling, and exploration, showcasing his strategic and operational leadership in the energy sector. |
| **Hera Handayani**  | Director of Human Capital and General Affairs | Hera Handayani, 48, graduated with a degree in Industrial Engineering from the Bandung Institute of Technology (1998) and holds a Masters degree in Risk Management from Universitas Indonesia (2005). Her positions at Elnusa include VP roles in Business Development, Engineering, and Quality Management as well as academic positions, illustrating her expertise in business development, project management, and education. |

*Source: Company data, RHB*

# ESG

## Environment

ELSA has demonstrated a strong commitment to environmental sustainability through its implementation of key performance indicators under its Environmental Excellence initiative. The company's environmental strategy has primarily focused on the achievements of the decarbonisation programme, which includes carbon dioxide equivalent (CO2e) emission reduction, compliance with Pertamina Environmental Regulation Assurance (PERCA), and adherence to the environmental aspects of the 2023 ESG Charter. These initiatives encompass water and waste management as well as emissions and biodiversity management. Notably, ELSA achieved significant milestones such as a 550 ton CO2e reduction in emissions for 2023, a 100% baseline audit completion for PERCA, and full realisation of its ESG Charter commitments related to environmental excellence. The company also supports global environmental standards, integrating audits with certifications such as ISO 14001:2015, which covers environmental management systems.

For 2024, ELSA has prioritised further enhancing its environmental impact through several strategic initiatives. These include the installation of solar panels at the Cakung workshop, optimisation of equipment to increase efficiency, and a transition from B30 to B35 biodiesel. The company has also implemented a Green Action programme, which features tree planting activities. These efforts are part of a broader commitment to deepen environmental conservation and sustainable practices that align with global standards and stakeholder expectations.

## Social

In the social aspect, ELSA has excelled by developing human resources competencies and implementing exemplary employment practices. This has been recognised via various accolades such as the Indonesia Human Resources Excellence Award 2023, where ELSA secured a 'Very Good' rating in the Reward Management & Talent Retention Strategy category. The company has actively engaged in enhancing employee skills through the Elnusa Academy, Leadership Programme, and Industrial Relations Academy, with employees receiving an average of 635.9 training hours in 2023. ELSA has also focused on responsible service delivery, as reflected in its Customer Satisfaction Index score of 4.34 out of 5, and has expanded its social responsibility activities, increasing its beneficiaries by 4.81% from the previous year.

ELSA's social priorities include further development of its human resource capabilities and the continued provision of services that add value to stakeholders. The company plans to expand its training programmes and continue to foster a learning environment that supports the professional growth of its employees and management personnel. On the community front, ELSA aims to enhance its social impact through initiatives like the Elnusa Sumengko Independent Energy Village programme, which has already garnered recognition at the 2023 IDX Channel CSR Awards. These efforts are aligned with ELSA's strategy to provide sustainable benefits to the communities it serves and to uphold its commitment to responsible corporate citizenship.

## Governance

ELSA's governance practices are anchored in the principles of Good Corporate Governance (GCG), which emphasise transparency, accountability, responsibility, independence, and fairness. The company has been steadfast in enhancing its corporate value through professional, transparent, and efficient management practices. These efforts are supported by robust governance mechanisms and system implementations that ensure clarity in rules, procedures, and the relationships between decision-makers and oversight bodies. This framework helps maintain its competitive edge and strengthen its business fundamentals.

Looking ahead to 2024, ELSA remains committed to reinforcing its governance framework as part of its priorities. The focus will be on further embedding GCG principles across all operational levels and continuing to engage with government regulators and work partners, particularly in initiatives like carbon injection technology to mitigate the impacts of climate change. These priorities are designed to ensure that ELSA not only adheres to stringent governance standards but also aligns with the broader sustainability goals critical to stakeholders and the long-term success of the company.

# Business Risk

**Fluctuations in oil demand and price**. A decline in global oil demand or a sustained drop in oil prices could lead to reduced investment in the O&G sector, causing project delays or postponements, which could hurt ELSA's business and forecasts.

**Dependence on Pertamina.** ELSA is a subsidiary of PHE, which is part of the Pertamina Upstream sub-holding. Its business is heavily reliant on Pertamina's awards of contracts and projects. About 77% of ELSA's 2023 revenue came from related parties. Hence, fluctuations in Pertamina's budget – whether due to global oil price changes, government policies, or corporate restructuring – could directly affect ELSA's project pipeline and revenue.

**Government regulations.** The Indonesian government heavily regulates the O&G sector. While recent news, such as the projected increase in the annual subsidy allocation for fuel (BBM) and LPG, appears positive for the industry, any negative changes in government regulations – such as stricter environmental regulations or tax policies – could increase ELSA's operational costs or limit its ability to secure new projects.

# Emissions And ESG

**Trend analysis**

ELSA incorporates alternative solar energy solutions. Cost saving measures are implemented through the adoption of energy efficiency policies.

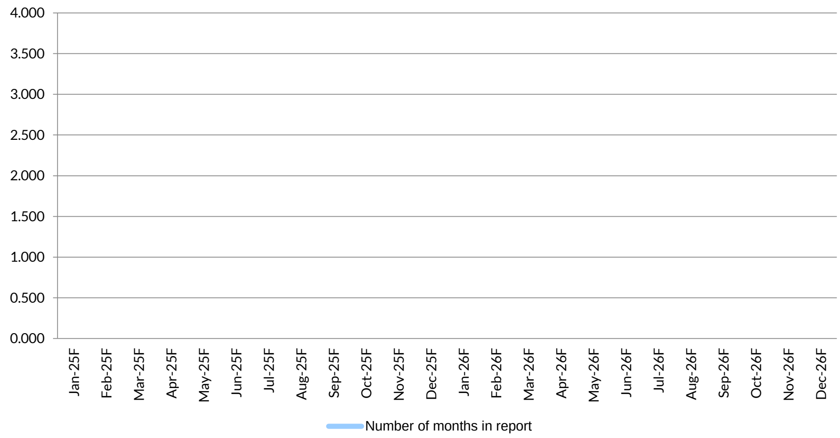
| Emissions (tCO2e) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Scope 1 | 103,370 | 115,528 | 133,215 |
| Scope 2 | 5,146 | 4 | 9 |
| Scope 3 | 285 | 7,267 | 9,134 |
| Total emissions | 108,801 | 122,799 | 142,358 |

*Source: Company data, RHB*

# Latest ESG-Related Developments

- O&G exploration and production activities release carbon emissions which can cause climate change. ELSA takes initiatives to reduce the negative impact of these emissions by implementing carbon injection technology.

# ESG Rating History




*Source: RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2024-05-24 | | | |

*Source: RHB, Bloomberg*

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| | |
|---|---|
| **Buy:** | Share price may exceed 10% over the next 12 months |
| **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 |
| **Sell:** | Share price may fall by more than 10% over the next 12 months |
| **Not Rated:** | Stock is not within regular research coverage |

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