

9 January 2024

Energy & Petrochemicals | Oil & Gas Services

AKR Corporindo (AKRA IJ)

Buy (Maintained)

Off To a Good Start; Keep BUY

Target Price (Return): IDR1,970 (27.1%)
 Price (Market Cap): IDR1,550 (USD2,004m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (IDR/USD) 33,940m/2.17m

- **Keep BUY, new IDR1,970 TP (SOP) from IDR1,880, 27% upside, c.4% yield.** New land sales secured at the end of FY23 brought AKR Corporindo's sales achievement above its expectations. Based on this, we upgrade our FY23-24F earnings by 1-4%. Apart from strong support from industrial land sales, management is confident on the outlook for its main business in the petroleum and chemicals segment, as well as the utilities segment. AKRA is optimistic of a c.15% YoY bottomline growth this year.
- **Prominent tenants for Java Integrated Industrial and Port Estate (JIPE).** Management revealed that 61ha of industrial land sales were booked in 4Q23 by investors from Hong Kong, adding a total of 91ha (+117% YoY) to 1H23's booked sales of c.30ha (purchased by China's Hailiang and a US petrochemical firm) – exceeding AKRA's initial guidance of c.75ha for FY23 (RHB's initial estimate: c.80ha). The recent sale will potentially translate to c.IDR1.5bn (+126% YoY) in gross profit for the segment in FY23F (c.45% of estimated GPM), given the historical price of c.IDR3m/sq m. AKRA is targeting c.130ha of land sales for FY24, with early commitment from Sichuan Hebang Biotechnology (67 ha) as a decent start.
- **Support from better economic conditions** – higher demand for petroleum (AKRA's specialty is the distribution of biodiesel fuel; c.76% of total annual topline) should be absorbed by robust activity in East Indonesia, as the logistics (a notable rise in commodity shipments) and mining sectors are expected to contribute to AKRA's targets. Management reiterated that its 2.8m kilo litre fuel distribution target (+4% YoY) for FY23 should be achieved, and more growth is anticipated this year (target: +8% YoY). Similar sentiment is seen for its chemicals segment (c.18% of total revenue), in line with higher demand from smelting activities.
- **Still attractive; suitable for long-term play.** AKRA's balance sheet remains in a net cash position (c.IDR2trn), with a maintained trajectory of hefty returns for investors (ROE at c.23%). Management's ability to steer the company on the right track justifies its ESG premium of 4% (based on AKRA's ESG score of 3.2; above the country median). Aside from benefiting from a stable domestic economy, AKRA's long-term catalysts should come from the provision of utilities (water, electricity) and services (port handling) to its tenants, starting with the copper smelter to be operated by Freeport Indonesia (commercial operations in 2H24; c.145MW of electricity needed) with c.IDR200-400bn gross profit contribution (c.4% of total) expected ahead from the tenant's utilities procurement.
- **Valuation.** AKRA is trading at c.10x P/E to its FY24F earnings, well below its 5-year average of c.14x, which is quite attractive (share price increased 22% in the past 12 months).
- **Downside risks:** Sudden weakening of the economy and unstable political conditions.

Analysts

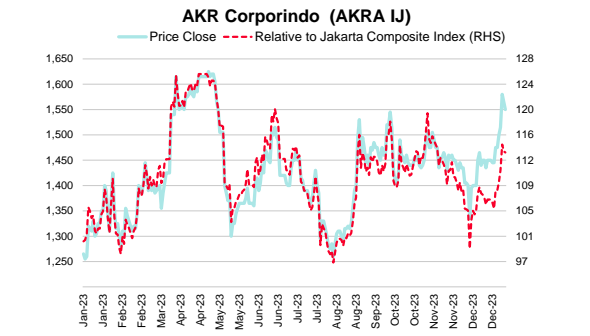
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	11.1	9.2	6.9	22.0
Relative	5.0	9.4	3.5	(1.5)	13.0
52-wk Price low/high (IDR)	1,255 – 1,625				



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

The JIPE Special Economic Zone is a green industrial estate that has adopted various ESG initiatives. AKRA operates the water and waste water treatment plants at JIPE. Other initiatives include zero water run-offs, gas-based power generation, and development of solar-power panels installed on tenants' rooftops, as well as occupational safety and health management according to ISO standards.

S: EXCELLENT

AKRA has a policy to prioritise local labour from locations surrounding its operational areas, eg the recruitment of operator personnel at its gas stations and terminals. Also, with the development of JIPE, AKRA has created employment opportunities for locals to support this industrial estate and port's operations – this is also aided by the regional government's initiatives.

G: EXCELLENT

AKRA's good corporate governance implementation is based on legal corridors that are applied nationally and internationally. Governance standards included by the company are the ASEAN Corporate Governance Scorecard issued by the ASEAN Capital Market Forum and the Indonesian Corporate Governance Roadmap published by the Financial Services Authority.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
Total turnover (IDRb)	25,707	47,540	41,522	48,104	51,207
Recurring net profit (IDRb)	1,120	2,153	2,664	3,135	3,188
Recurring net profit growth (%)	29.3	92.3	23.7	17.7	1.7
Recurring P/E (x)	27.79	14.45	11.68	9.93	9.76
P/B (x)	3.4	2.9	2.6	2.2	2.0
P/CF (x)	16.96	9.61	12.16	9.06	8.87
Dividend Yield (%)	1.7	2.2	3.9	4.2	5.0
EV/EBITDA (x)	17.19	8.85	6.62	5.89	4.35
Return on average equity (%)	12.5	21.5	22.8	23.5	21.2
Net debt to equity (%)	1.5	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
Indonesia	Recurring EPS	55.78	107.26	132.71	156.17	158.83
Energy & Petrochemicals	DPS	26.55	34.33	59.86	65.19	76.73
AKR Corporindo	BVPS	458.66	537.14	607.65	695.92	775.48
AKRA IJ	Return on average equity (%)	12.5	21.5	22.8	23.5	21.2
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
	Recurring P/E (x)	27.79	14.45	11.68	9.93	9.76
	P/B (x)	3.4	2.9	2.6	2.2	2.0
	FCF Yield (%)	2.2	8.8	6.4	8.8	8.5
	Dividend Yield (%)	1.7	2.2	3.9	4.2	5.0
	EV/EBITDA (x)	17.19	8.85	6.62	5.89	4.35
	EV/EBIT (x)	21.32	10.24	7.26	6.43	4.75
Key drivers	Income statement (IDRb)	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
i. Well established infrastructure and connectivity;	Total turnover	25,707	47,540	41,522	48,104	51,207
ii. Blue chip customers;	Gross profit	2,293	4,252	4,611	5,110	5,247
iii. Growing industrial estate income as a future revenue driver.	EBITDA	1,805	3,323	3,666	4,262	4,368
	Depreciation and amortisation	(350)	(449)	(323)	(355)	(371)
	Operating profit	1,455	2,873	3,343	3,907	3,997
	Net interest	(20)	(8)	159	211	189
	Pre-tax profit	1,437	2,836	3,453	4,047	4,122
	Taxation	(302)	(607)	(760)	(891)	(907)
	Reported net profit	1,112	2,153	2,617	3,080	3,137
	Recurring net profit	1,120	2,153	2,664	3,135	3,188
Key risks	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
The main risks to our call:	Change in working capital	2,072	(243)	3,990	(2,265)	5,037
i. A sudden weakening of the economy (which halts demand for energy);	Cash flow from operations	1,834	3,238	2,558	3,435	3,508
ii. Unstable political conditions that curb investment decisions.	Capex	(1,138)	(485)	(579)	(712)	(871)
	Cash flow from investing activities	(599)	(1,138)	(488)	(579)	(712)
	Dividends paid	(533)	(689)	(1,202)	(1,309)	(1,540)
	Cash flow from financing activities	(1,218)	(1,717)	(770)	(1,235)	(1,364)
	Cash at beginning of period	1,549	2,600	4,338	9,072	8,167
	Net change in cash	17	383	1,301	1,621	1,433
	Ending balance cash	2,600	4,338	9,072	8,167	14,088
Company Profile	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
AKRA expanded its business coverage to the distribution of petroleum products by expanding its existing infrastructure. As its business portfolio grew, it started to focus on energy, logistics, and manufacturing, as well as and industrial estate management.	Total cash and equivalents	2,600	4,338	9,072	8,167	14,088
	Tangible fixed assets	8,113	8,170	8,426	8,783	9,283
	Total investments	2,218	2,234	2,234	2,234	2,234
	Total assets	23,509	27,188	22,891	32,076	27,051
	Short-term debt	573	556	441	401	369
	Total long-term debt	2,201	2,138	2,219	2,204	2,023
	Total liabilities	12,210	14,033	8,703	16,116	9,494
	Total equity	11,299	13,155	14,188	15,960	17,557
	Total liabilities & equity	23,509	27,188	22,891	32,076	27,051
Key metrics	Key metrics	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
	Revenue growth (%)	45.1	84.9	(12.7)	15.9	6.5
	Recurrent EPS growth (%)	29.3	92.3	23.7	17.7	1.7
	Gross margin (%)	8.9	8.9	11.1	10.6	10.2
	Operating EBITDA margin (%)	7.0	7.0	8.8	8.9	8.5
	Net profit margin (%)	4.3	4.5	6.3	6.4	6.1
	Dividend payout ratio (%)	47.9	32.0	45.9	42.5	49.1
	Capex/sales (%)	4.4	1.0	1.4	1.5	1.7
	Interest cover (x)	25.5	50.2	71.2	85.1	91.7

Source: Company data, RHB

Figure 1: Revisions to estimates

(IDRbn)	RHB (old)			RHB (new)			Old vs new			Street			RHB vs Street		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenue	41,017	45,900	49,070	41,522	48,104	51,207	1.2%	4.8%	4.4%	42,648	43,407	45,693	-2.6%	10.8%	12.1%
Gross profit	4,559	4,893	5,046	4,611	5,110	5,247	1.1%	4.4%	4.0%	4,567	4,977	5,216	1.0%	2.7%	0.6%
Operating profit	3,307	3,746	3,849	3,343	3,907	3,997	1.1%	4.3%	3.9%	3,418	3,764	3,996	-2.2%	3.8%	0.0%
EBITDA	3,690	4,156	4,290	3,726	4,318	4,439	1.0%	3.9%	3.5%	3,822	4,172	4,435	-2.5%	3.5%	0.1%
Net profit	2,589	2,954	3,022	2,617	3,080	3,137	1.1%	4.3%	3.8%	2,637	2,898	3,014	-0.8%	6.3%	4.1%
EPS (IDR)	134	144	150	130	153	156				133	146	152			
GPM (%)	11.1	10.7	10.3	11.1	10.6	10.2				10.7	11.5	11.4			
Operating margin (%)	8.1	8.2	7.8	8.1	8.1	7.8				8.0	8.7	8.7			
EBITDA margin (%)	9.0	9.1	8.7	9.0	9.0	8.7				9.0	9.6	9.7			
Net margin (%)	6.3	6.4	6.2	6.3	6.4	6.1				6.2	6.7	6.6			

Source: Company data, RHB

Figure 2: Valuation assumption

WACC assumptions

Beta	0.8
Equity risk premium	7.2%
Risk free rate	7.0%
Cost of equity	12.6%
Cost of debt after tax	1.2%
Equity weight portion	82.3%
Debt weight portion	17.7%
Long-term growth	3.5%
WACC	10.7%

Business segments	Value (IDR bn)	Ownership (%)	Value by ownership (IDRbn)
TD/distribution, manufacturing, and logistics	28,724	100%	28,724
JIIPE – Industrial estate NAV	2,656	60%	637
JIIPE – utilities	4,704	60%	2,823
Cash (IDRbn)			9,072
Debt (IDRbn)			2,661
Equity value (IDRbn)			38,595
Shares (bn shares)			20.1
TP (IDR/share)			1,923
ESG premium / (discount)			2.0%
TP (IDR/share)			1,970

Source: Company data, RHB

Emissions And ESG

Trend analysis

The company steadily improved its efficiency on energy consumption and emission intensity over the past three years, as displayed by the decrease in emissions (at 0.02kg of CO₂/IDR; -44% YoY), especially from its truck fleet.

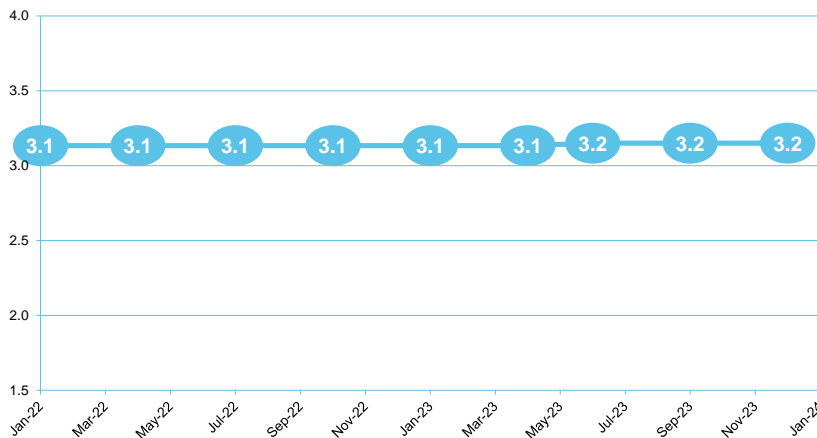
Emissions (tCO ₂ e)	Dec-20	Dec-21	Dec-22
Scope 1	29,266	17,878	18,146
Scope 2	12,266	12,465	14,396
Scope 3	48,683	53,253	51,912
Total emissions	90,215	83,596	84,453

Source: Company data, RHB

Latest ESG-Related Developments

- AKR Corporindo is one of the leading companies on ESG adoption in the Indonesian market. It is currently listed on JCI's sub-indexes that focus on sustainability development (Top 8 IDX ESG Star, IDX LQ45 Low Carbon Leaders, IDX Top 30 ESG Leaders, and SRIKEHATI).
- The company has received several prestigious accolades including: Platinum Grade for Emission Disclosure 2023 from Bumi Global Karbon and *Investor Daily*, Indonesia Best Business Transformation Award 2023 from *SWA Magazine*, and the Top 50 big capitalisation public-listed company IICD Award 2023 from Indonesia Institute for Corporate Directorship.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-10-27	Buy	1,880	1,440
2023-06-06	Buy	1,940	1,405
2023-03-27	Buy	1,840	1,540
2022-10-25	Buy	1,700	1,360
2022-09-12	Buy	1,500	1,205
2022-07-26	Buy	1,350	1,080
2022-04-28	Buy	1,180	1,070
2022-03-23	Buy	1,060	885
2022-01-18	Buy	1,060	810
2022-01-04	Buy	1,060	840
2019-10-07	Not Rated	na	824
2017-07-26	Buy	1,500	1,290

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
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