

# Medco Energi Internasional Tbk (MEDC IJ)

## Boosts Performance amid Sluggish Market

MEDC's 9M19 performance showed improvement on an annual basis as revenues gained by 10.3%, supported by a 17.7% YoY increase in oil sales. Ophir depreciation method that had been adjusted to MEDC's standard caused EBITDA to surge by 4.9% YoY. MEDC's 2020 outlook remains positive as its new assets are potential for picking up.

### Stellar Performance

MEDC succeeded to gain revenues of USD1.02 billion (+10.3% YoY), backed by the oil & gas segment to post surging revenues to USD852.7 million (+12.6% YoY) as lifting & sales increased to 30.6 MBOPD (+17.7% YoY) albeit decreasing ASP to USD62.5/barrel (+9.2% YoY). Meanwhile, cash costs increasing to USD9.5/BOE (+9.2% YoY), whereas Ophir depreciation method that had been adjusted to MEDC's standard causing EBITDA's 9M19 to increase to USD477 million (+4.9%) resulted in MEDC's net profits surging to USD19.2 billion (+73.9% YoY).

### Stable Non-Oil Revenues

MEDC compared to its Asia Pacific's peers making up 58% of gas production was exposed less to volatile prices of crude oil. MEDC's current gas production accounting for 60% of its total production sets prices of its produced gas at fixed-rate, and that is one of its strategies proven effectively minimizing commodities risks. To stabilize further its revenues, MEDC through its subsidiary Amman Mineral diversifies its businesses into copper and gold production whose capacities are continually boosted.

### Productive New Assets

MEDC's new assets to produce gas at Block A Aceh since 1H19 gradually is capable of producing 50 BBTUPD gas or 7x greater than 2018's early production of 6 BBTUPD. We estimate that its new assets' production capacities enable MEDC to record 2020's cost recovery falling short in the range of 85%-90% to support MEDC's 2020 financial performance stemming from oil & gas revenues.

### BUY Rating with TP of IDR1,100

Moody's upgraded MEDC's CFR from B1 to B2 to acknowledge MEDC's fundamental improvement. In addition to MEDC's upgraded CFR, its robust liquidity drives 2020's better financial performance. Taking those two factors into account, we maintain BUY recommendation with the TP of IDR1,100 or a 22.9% potential upside based on the forward EV/EBITDA of 4.9x (-0.15 SD). MEDC currently is traded with the 2019F EV/EBITDA of 4.3x.

### Medco Energi Internasional Tbk | Summary

	2018A	2019F	2020F	2021F
<b>Sales</b>	1,212	1,387	1,498	1,571
<b>Growth</b>	33.9%	14.5%	8.0%	4.8%
<b>EBITDA</b>	584	675	777	836
<b>Net Profit</b>	-51	21	47	54
<b>EPS (IDR)</b>	-45	16	37	42
<b>Growth</b>	-140.4%	-140.4%	127.2%	14.9%
<b>P/E</b>	-19.6x	53.1x	23.6x	20.8x
<b>P/BV</b>	0.7x	0.8x	0.8x	0.8x
<b>EV/EBITDA</b>	4.1x	4.3x	3.4x	3.1x
<b>ROE</b>	-3.7%	1.5%	3.3%	3.7%
<b>DER</b>	202.4%	244.7%	228.0%	220.2%
<b>Net Debt</b>	2,389	2,896	2,676	2,576

Unit: USD mn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Buy

<b>Dec 2020 TP (IDR)</b>	<b>1,100</b>
Consensus Price (IDR)	1,007
TP to Consensus Price	+9.2%
vs. Last Price	+22.9%

### Shares data

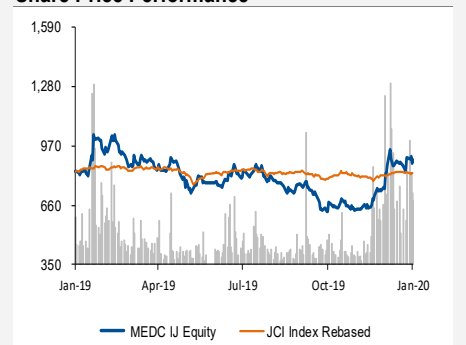
Last Price (IDR)	895
Price Date as of	Jan 10, 2020
52 wk Range (Hi/Lo)	1,060 / 620
Free Float (%)	26.4
Outstanding sh.(mn)	17,920
Market Cap (IDR bn)	16,039
Market Cap (USD mn)	1,171
Avg. Trd Vol - 3M (mn)	46.1
Avg. Trd Val - 3M (bn)	38.1
Foreign Ownership	6.2%

### Mining

#### Oil & Gas

Bloomberg	MEDC IJ
Reuters	MEDC.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-13.3%	20.1%	32.6%	7.2%
Rel. Ret.	-13.1%	18.7%	30.4%	8.0%

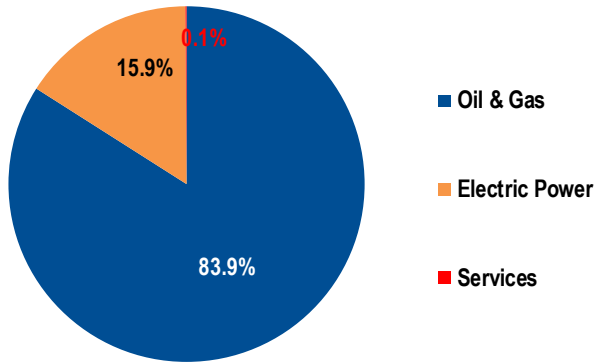
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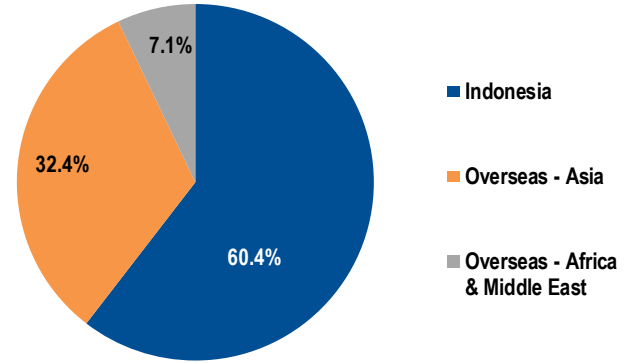
## Performance Highlights in Charts

9M19 Revenue Breakdown (Segment)



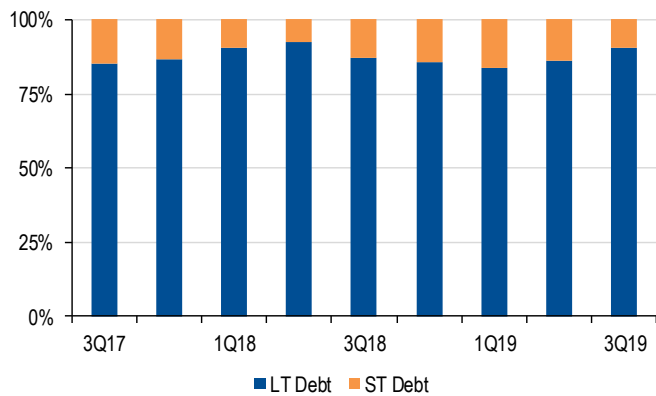
Source: Company Data, NHKS Research

9M19 Revenue Breakdown (Geography)



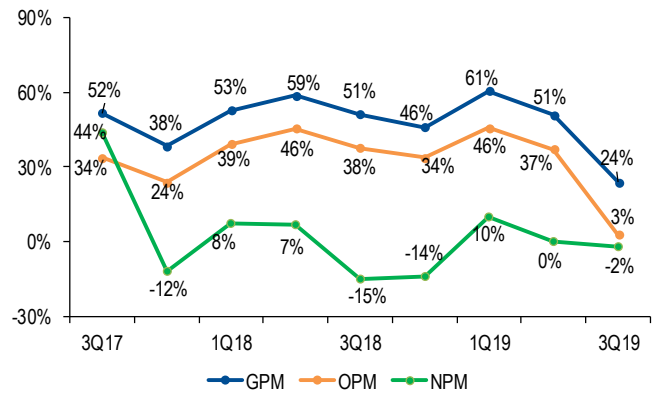
Source: Company Data, NHKS Research

Debt Portion



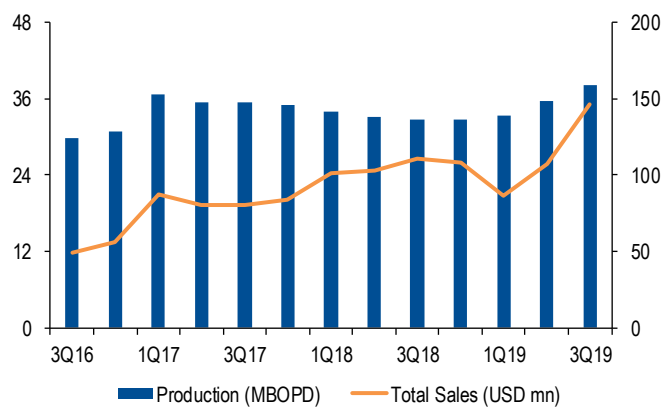
Source: Company Data, NHKS Research

Margin Ratios



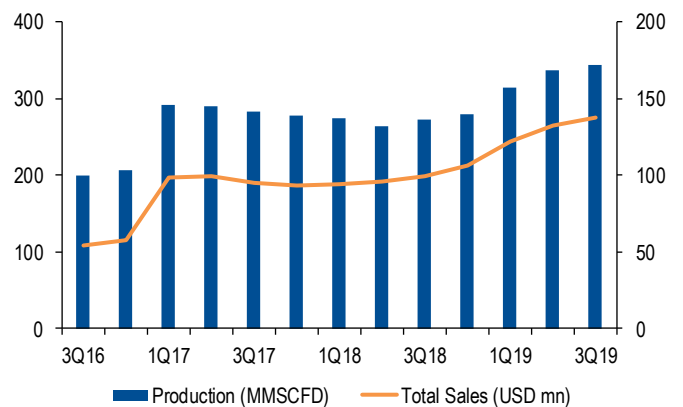
Source: Company Data, NHKS Research

Oil Statistics



Source: Company Data, NHKS Research

Gas Statistics



Source: Company Data, NHKS Research

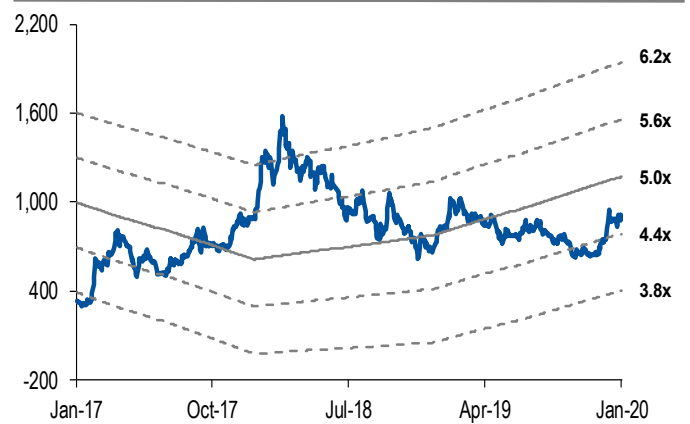
## Valuation Highlights in Charts

3-Year Forward EV/EBITDA Band



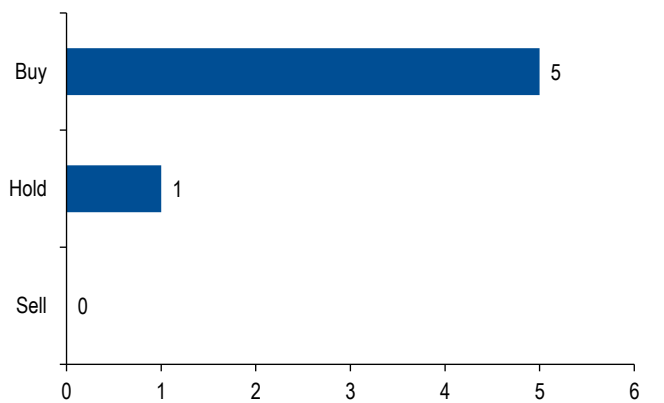
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward EV/EBITDA Band



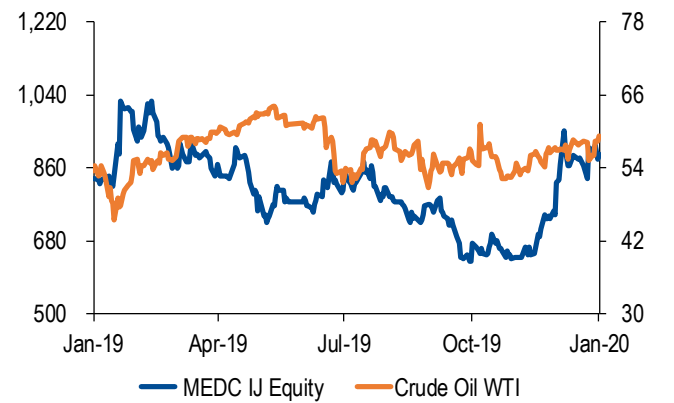
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and Oil Prices Correlated Negatively



Source: Bloomberg, NHKS Research

## Quarterly Review

	3Q18	4Q18	1Q19	2Q19	3Q19					4Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
<b>Income statement</b>										
Sales	349	291	284	342	390		11.9%	14.3%		371
Gross Profit	179	134	172	174	93		-47.9%	-46.7%		166
EBIT	132	98	130	127	11		-91.8%	-91.5%		96
EBITDA	153	131	159	183	134		-12.4%	-27.0%		199
Net Profit	-53	-40	28	-0.2	-9		83.6%	-4447.1%		2
<b>Margin</b>										
Gross Margin	51.2%	46.0%	60.7%	51.1%	23.8%		-27.4%	-27.2%		44.8%
EBIT Margin	37.7%	33.8%	45.8%	37.2%	2.7%		-34.9%	-34.4%		25.8%
EBITDA Margin	43.5%	45.2%	56.2%	53.6%	34.4%		-9.5%	-19.4%		53.5%
Net Profit Margin	-15.1%	-13.8%	9.9%	-0.1%	-2.2%		12.9%	-2.1%		0.4%

Unit: USD mn, %

Source: Company Data, NHKS Research

## Earnings Revision

		2019F	2020F	2021F
<b>Income Statement</b>				
Sales	-Revised	1,387	1,498	1,571
	-Previous	1,317	1,419	
	-Change	5.3%	5.5%	
Gross Profit	-Revised	606	663	712
	-Previous	615	612	
	-Change	-1.5%	8.3%	
EBIT	-Revised	363	453	492
	-Previous	401	413	
	-Change	-9.4%	9.7%	
EBITDA	-Revised	675	777	836
	-Previous	554	584	
	-Change	21.8%	33.1%	
Net Profit	-Revised	21	47	54
	-Previous	164	180	
	-Change	-87.3%	-73.8%	
<b>Margin</b>				
Gross Margin	-Revised	43.7%	44.3%	45.3%
	-Previous	46.7%	43.1%	
EBIT Margin	-Revised	26.2%	30.3%	31.3%
	-Previous	30.4%	29.1%	
EBITDA Margin	-Revised	48.7%	51.9%	53.2%
	-Previous	42.1%	41.2%	
Net Profit Margin	-Revised	1.5%	3.2%	3.5%
	-Previous	12.5%	12.7%	

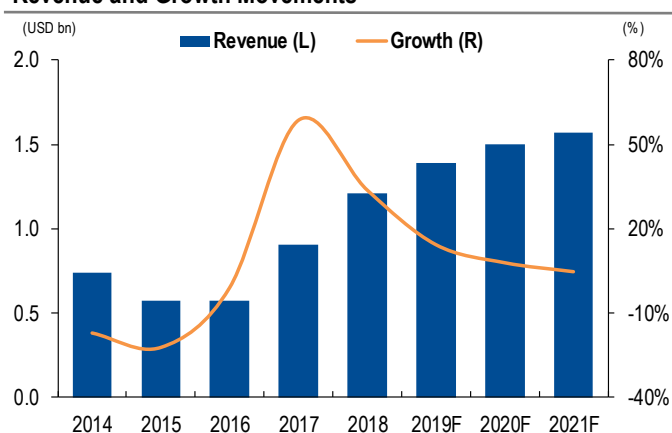
Unit: USD mn, %

Source: Company Data, NHKS Research

## Company Overview

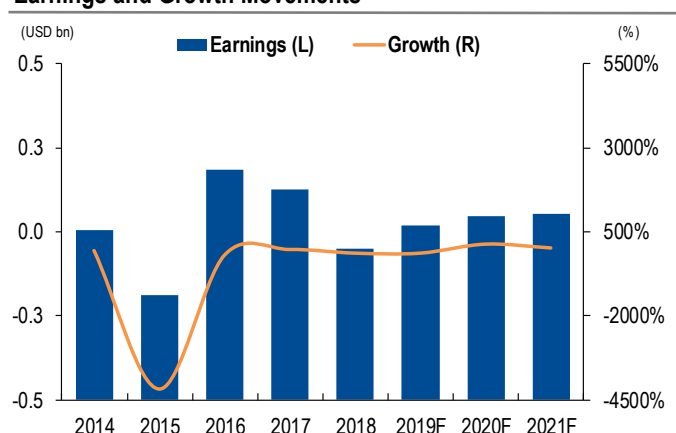
- PT Medco Energi Internasional Tbk (MEDC) runs oil & gas exploration and oil & gas production and is one of energy businesses owned by Medco Group.
- MEDC, in the last 3 decades, develops its energy businesses by means of integrated exploration, oil & gas production, liquefied petroleum gas processing, high-speed diesel marketing, storage & transportation, power plants, drilling rigs, coal mining services, and copper and gold mining.
- MEDC's upgraded credit rating proves its robust financial performance as Fitch Ratings upgrades MEDC's credit rating from B to B+, while Moody's upgrades MEDC's credit rating to B2 with a positive outlook. In addition, S&P upgrades MEDC's credit rating to B with a positive outlook, and Pefindo rates MEDC's credit rating A+ with a stable outlook.
- MEDC currently produces 85 MBOEPD oil & gas whose per-unit cash expenses amount to USD8.7/BOE.

### Revenue and Growth Movements



Source: Company Data, NHKS Research

### Earnings and Growth Movements



Source: Company Data, NHKS Research

## Asia Pacific Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	EV/EBITDA LTM	P/BV
<b>Indonesia</b>									
MEDCO ENERGI INTERNSIONAL TBK	1,172	5,252	1,307	-21	56.6%	-1.6%	-1.7%	6.5x	0.9x
<b>Japan</b>									
INPEX CORP	15,609	43,275	10,077	1,196	197.3%	11.9%	4.4%	3.9x	0.6x
<b>China</b>									
CNOOC LTD	78,157	98,681	33,728	8,420	69.5%	25.0%	13.9%	3.7x	1.3x
UNITED ENERGY	4,702	2,062	813	217	9.3%	26.8%	15.1%	8.6x	3.1x
<b>Australia</b>									
WOODSIDE PETROLEUM	23,011	27,088	5,112	1,242	13.1%	24.3%	7.3%	7.8x	1.4x
OIL SEARCH LTD	8,242	10,674	1,755	424	68.1%	24.2%	8.4%	8.5x	1.6x
<b>Thailand</b>									
PTT EXPLORATION	17,288	19,645	5,823	1,453	25.1%	25.1%	13.1%	3.6x	1.5x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

## Summary of Financials

## INCOME STATEMENT

(USD mn)	2018/12F	2019/12F	2020/12F	2021/12F
<b>Sales</b>	<b>1,212</b>	<b>1,383</b>	<b>1,491</b>	<b>1,564</b>
<i>Growth</i>	33.9%	14.2%	7.8%	4.9%
COGS	(580)	(779)	(831)	(855)
<b>Gross Profit</b>	<b>631</b>	<b>604</b>	<b>660</b>	<b>709</b>
<i>Gross Margin</i>	52.1%	43.7%	44.3%	45.3%
Operating Expenses	(159)	(242)	(209)	(219)
<b>EBIT</b>	<b>472</b>	<b>363</b>	<b>451</b>	<b>490</b>
<i>EBIT Margin</i>	39.0%	26.2%	30.3%	31.3%
Depreciation	112	312	324	344
<b>EBITDA</b>	<b>584</b>	<b>674</b>	<b>775</b>	<b>834</b>
<i>EBITDA Margin</i>	48.2%	48.7%	52.0%	53.3%
Interest Expenses	(189)	(274)	(274)	(274)
<b>EBT</b>	<b>200</b>	<b>195</b>	<b>296</b>	<b>341</b>
Income Tax	(196)	(174)	(235)	(271)
Minority Interest	(23)	(9)	(14)	(16)
<b>Net Profit</b>	<b>(51)</b>	<b>21</b>	<b>47</b>	<b>54</b>
<i>Growth</i>	-140.4%	-140.4%	125.7%	15.0%
<i>Net Profit Margin</i>	-4.2%	1.5%	3.1%	3.4%

## PROFITABILITY &amp; STABILITY

	2018/12F	2019/12F	2020/12F	2021/12F
ROE	-3.7%	1.5%	3.3%	3.6%
ROA	-1.0%	0.4%	0.8%	0.9%
ROIC	0.2%	0.8%	2.0%	2.1%
Cash Dividend (IDR bn)	N/A	N/A	N/A	N/A
Dividend Yield	N/A	N/A	N/A	N/A
Payout Ratio	N/A	N/A	N/A	N/A
DER	202.4%	244.7%	228.0%	220.0%
Net Gearing	331.8%	391.8%	359.6%	341.5%
LT Debt to Equity	173.4%	209.7%	195.3%	188.5%
Capitalization Ratio	66.9%	71.0%	69.5%	68.8%
Equity Ratio	26.4%	22.8%	23.5%	22.8%
Debt Ratio	53.5%	55.9%	53.6%	50.1%
Financial Leverage	370.0%	381.1%	429.5%	425.5%
Current Ratio	165.8%	144.7%	159.8%	156.3%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	17,794	17,794	17,794	17,794
Share Price (IDR)	875	875	875	875
Market Cap (IDR tn)	15.6	15.6	15.6	15.6

## BALANCE SHEET

(USD mn)	2018/12F	2019/12F	2020/12F	2021/12F
Cash	418	457	571	691
Receivables	167	303	215	557
Inventories	62	185	115	133
<b>Total Current Assets</b>	<b>1,827</b>	<b>1,962</b>	<b>2,000</b>	<b>2,439</b>
Net Fixed Assets	1,907	2,348	2,299	2,244
Other Non Current Asset	1,518	1,686	1,754	1,837
<b>Total Assets</b>	<b>5,252</b>	<b>5,996</b>	<b>6,053</b>	<b>6,520</b>
Payables	119	231	140	241
ST Bank Loan	402	480	465	468
LT Debt	2,405	2,871	2,779	2,796
<b>Total Liabilities</b>	<b>3,865</b>	<b>4,627</b>	<b>4,631</b>	<b>5,036</b>
Capital Stock & APIC	481	489	489	489
Retained Earnings	737	746	793	847
<b>Shareholders' Equity</b>	<b>1,387</b>	<b>1,369</b>	<b>1,423</b>	<b>1,484</b>

## VALUATION INDEX

	2018/12F	2019/12F	2020/12F	2021/12F
Price/Earnings	-19.6x	53.2x	23.8x	21.0x
Price/Book Value	0.7x	0.8x	0.8x	0.8x
Price/Sales	0.8x	0.8x	0.7x	0.7x
PE/EPS Growth	0.1x	-0.4x	0.2x	1.4x
EV/EBITDA	4.1x	4.3x	3.4x	3.1x
EV/EBIT	5.0x	8.0x	5.9x	5.2x
EV (IDR bn)	36,681	40,679	37,170	35,251
Sales CAGR (3-Yr)	28.2%	34.3%	18.1%	8.9%
EPS CAGR (3-Yr)	-35.2%	-51.8%	-28.3%	-201.6%
Basic EPS (IDR)	(45)	16	37	42
Diluted EPS (IDR)	(45)	16	37	42
BVPS (IDR)	1,208	1,085	1,118	1,150
Sales PS (IDR)	1,055	1,096	1,171	1,212
DPS (IDR)	N/A	N/A	N/A	N/A

## CASH FLOW STATEMENT

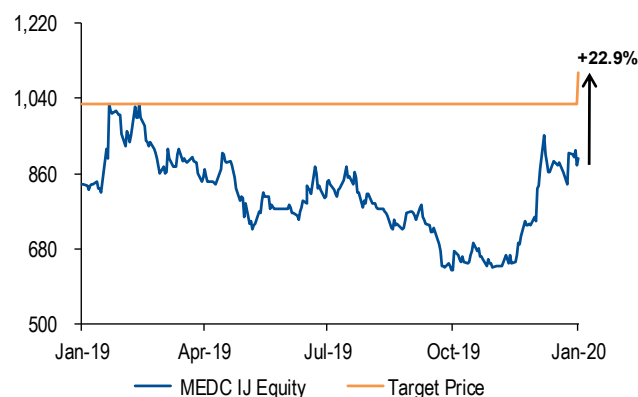
(USD mn)	2018/12F	2019/12F	2020/12F	2021/12F
Operating Cash Flow	(38)	302	358	385
Investing Cash Flow	(159)	(248)	(144)	(292)
Financing Cash Flow	114	153	(100)	27
<b>Net Changes in Cash</b>	<b>(84)</b>	<b>208</b>	<b>114</b>	<b>120</b>

## OWNERSHIP

By Geography	% Shareholders		%
Indonesia	93.8	Medco Raya Abadi	50.0
United States	5.4	Diamond Bridge	21.4
Ireland	0.3	Dimensional Fund	2.0
United Kingdom	0.0	Vanguard Group	1.3

Source: Company Data, NHKS Research

**Closing and Target Price Update**



Source: Bloomberg, NHKS Research

**Rating and Target Price Update**

Date	Rating	Target price	Consensus
2017.02.13	Buy	IDR1,920	IDR1,845
2018.10.16	Buy	IDR1,025	IDR1,371
2020.01.13	Buy	IDR1,100	IDR1,007

Source: NHKS Research

**NHKS stock ratings**

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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