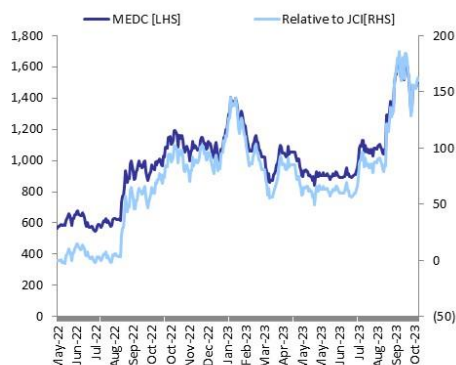


Tuesday, 17 October 2023

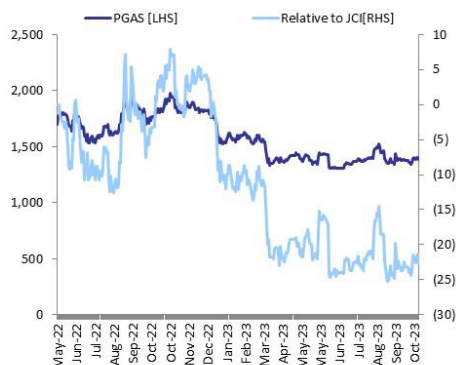
## OVERWEIGHT

### Maintained

MEDC relative to JCI Index



PGAS relative to JCI Index



Source : Bloomberg

## Oil & Gas

### Oil on fire

The possibility of petroleum supply disruptions and slower-than-expected replenishment of SPR inventory may act to sustain oil prices at high levels (above USD70/bbl), in our view. Against such a backdrop, we continue to like MEDC (Buy, TP IDR1,900) as our top pick in the sector.

**OPEC+ measures undermine the impact of soaring US oil production.** The most striking feature of the oil market is its low price elasticity of demand (i.e., demand for oil is not very responsive to changes in prices). As demand is relatively sticky, changes in oil prices are mainly driven by changes in supply. OPEC+ is trying to support the oil price by reducing oil supply and it has agreed to cut production by 1.2 mn bpd until the end of 2023. Saudi Arabia has already trimmed its production to 8.9 mn bpd (2022: 10.4 mn bpd) and its ally Russia followed suit by cutting production to 9.3 mn bpd in Sept 2023 (2022: 10.3 mn bpd). The US is the only major oil producer we see that is continuing to raise production, serving as the balancing factor in limiting any significant increase in oil prices. Nevertheless, the current conditions are relatively unique compared to the past decade as US' SPR inventory stands at a critically low level.

**Low US SPR inventory level as price support.** Since Russia's invasion of Ukraine, President Biden has overseen 230 mn bbl of oil sales from the SPR, the largest ever in history (since February 2022). Tapping the reserve this year was intended to compensate for a shortfall of supplies resulting from Western sanctions on Russia, a major oil and gas exporter and to control the soaring inflation. The US President also announced that the Administration intended to repurchase crude oil for the SPR when prices are at or below USD67-USD72/bbl, adding to global demand when prices are around that level. As such, we believe that this could be the short-term floor price for oil until the SPR returns to its normal level.

**Iran & Israel conflict; potential disruption in the Strait of Hormuz.** Israel has long accused Iran of engaging in a proxy war by backing certain groups - including Hamas - that have launched attacks on its shores. A more remote, but perhaps more serious risk to the oil market, is the possibility that the conflict spills over into the Strait of Hormuz (Fig: 8), a narrow waterway off Iran's southern border through which more than 20% of global seaborne oil exports (~17 mn bbls) travel each day. Nevertheless, the US, aware of the vulnerability of the trading route, has kept an extensive military presence in the Gulf.

**MEDC remains our top pick amid high oil prices.** Against this backdrop, we believe the supply constraints narrative for oil will outweigh the impact of easing oil demand. If we take out from the equation the geopolitical risks, we believe the oil price in FY24 will remain above USD70/bbl (ours: USD78/bbl) with support coming from US efforts to replenish its SPR inventory. We continue to like MEDC (Buy, TP IDR1,900) as potential beneficiary of higher oil price. Key catalysts on MEDC are: higher gas price from corridor, additional volume from middle east acquisition. Key risk are: declining oil price and dry field impairment.



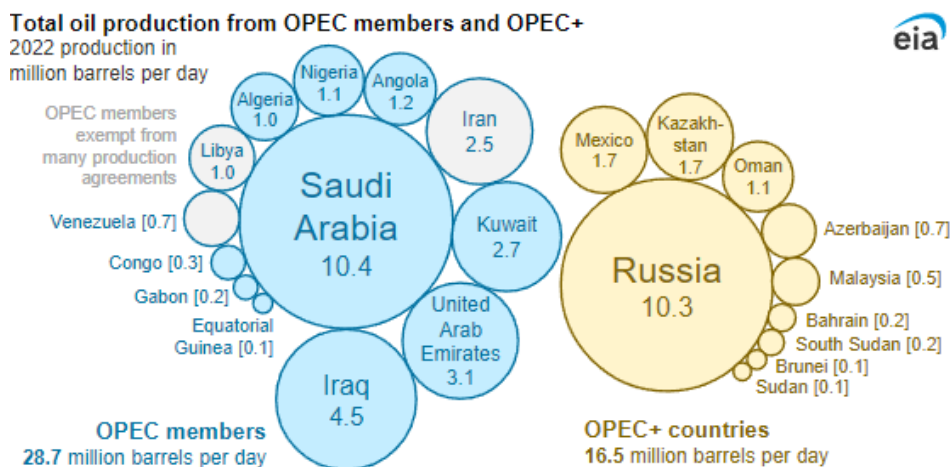
**Hasan Barakwan**

(62-21) 5091 4100 ext. 3530

hasan.barakwan@brids.co.id

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2023F	2024F	2023F	2024F	
Medco Energi International	MEDC IJ	BUY	1,900	37,995	6.7	7.9	1.3	1.2	16.0
Perusahaan Gas Negara	PGAS IJ	BUY	1,800	58,366	7.8	7.3	0.7	0.7	9.5
AKR Corporindo	AKRA IJ	BUY	2,000	46,980	10.4	9.7	2.3	2.1	22.5

**Exhibit 1. OPEC and OPEC+ members oil production in 2022**



**Exhibit 2. MEDC's 2024F earnings sensitivity to oil price and lifting cost**

		Brent Price USD/bbl (Base at USD80/bbl)							
		-20%	-15%	-10%	-5%	0%	5%	10%	15%
Lifting Cost USD/boe (Base at USD6.9/boe)	20%	-37.4%	-31.5%	-25.6%	-19.8%	-13.9%	-8.0%	-2.1%	3.8%
	15%	-33.9%	-28.1%	-22.2%	-16.3%	-10.4%	-4.5%	1.4%	7.2%
	10%	-30.5%	-24.6%	-18.7%	-12.8%	-6.9%	-1.1%	4.8%	10.7%
	5%	-27.0%	-21.1%	-15.2%	-9.4%	-3.5%	2.4%	8.3%	14.2%
	0%	-23.5%	-17.6%	-11.8%	-5.9%	0.0%	5.9%	11.8%	17.6%
	-5%	-20.1%	-14.2%	-8.3%	-2.4%	3.5%	9.4%	15.2%	21.1%
	-10%	-16.6%	-10.7%	-4.8%	1.1%	6.9%	12.8%	18.7%	24.6%
	-15%	-13.1%	-7.2%	-1.4%	4.5%	10.4%	16.3%	22.2%	28.1%

Source: Wood Mackenzie, BRI Danareksa Sekuritas estimates

**Exhibit 3. AKRA's 2024F earnings sensitivity to oil and chemical prices**

		Brent Price USD/bbl (Base at USD80/bbl)							
		-20%	-15%	-10%	-5%	0%	5%	10%	15%
Chemical price (Base at IDR4k/to n)	20%	8.0%	6.2%	4.3%	2.5%	0.6%	-1.2%	-3.0%	-4.9%
	15%	7.8%	6.0%	4.2%	2.3%	0.5%	-1.4%	-3.2%	-5.1%
	10%	7.7%	5.8%	4.0%	2.2%	0.3%	-1.5%	-3.4%	-5.2%
	5%	7.5%	5.7%	3.8%	2.0%	0.2%	-1.7%	-3.5%	-5.4%
	0%	7.4%	5.5%	3.7%	1.8%	0.0%	-1.8%	-3.7%	-5.5%
	-5%	7.2%	5.4%	3.5%	1.7%	-0.2%	-2.0%	-3.8%	-5.7%
	-10%	7.1%	5.2%	3.4%	1.5%	-0.3%	-2.2%	-4.0%	-5.8%
	-15%	6.9%	5.1%	3.2%	1.4%	-0.5%	-2.3%	-4.2%	-6.0%

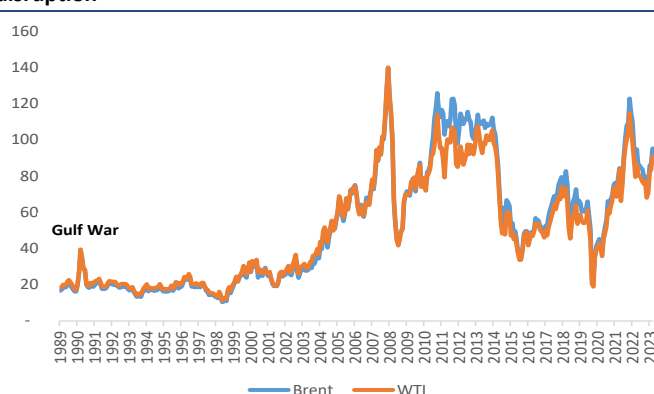
Source: Bloomberg, BRI Danareksa Sekuritas estimates

**Exhibit 4. PGAS's 2024F earnings sensitivity to oil and non-HGBT prices**

		Oil price (USD80/bbl)						
		-15%	-10%	-5%	0%	5%	10%	15%
Distribution price (Non- HGBT)	15%	9.0%	13.6%	18.1%	22.6%	27.1%	31.6%	36.1%
	10%	1.5%	6.0%	10.5%	15.0%	19.6%	24.1%	28.6%
	5%	-6.0%	-1.5%	3.0%	7.5%	12.0%	16.5%	21.1%
	0%	-13.5%	-9.0%	-4.5%	0.0%	4.5%	9.0%	13.5%
	-5%	-21.1%	-16.5%	-12.0%	-7.5%	-3.0%	1.5%	6.0%
	-10%	-28.6%	-24.1%	-19.5%	-15.0%	-10.5%	-6.0%	-1.5%
	-15%	-36.1%	-31.6%	-27.1%	-22.5%	-18.0%	-13.5%	-9.0%

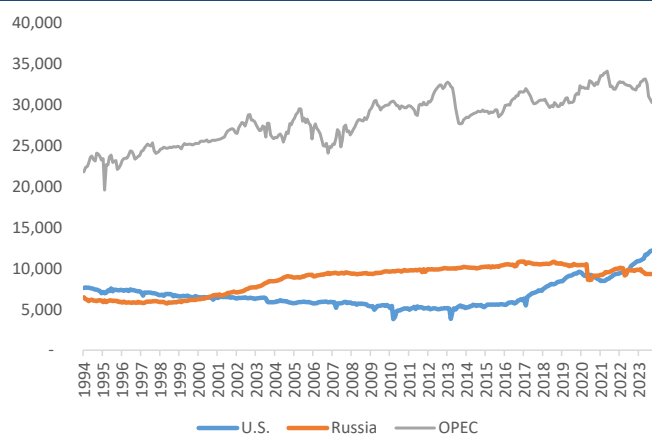
Source: Wood Mackenzie, BRI Danareksa Sekuritas estimates

**Exhibit 5. During gulf war, oil price was doubled due to Hormuz disruption**



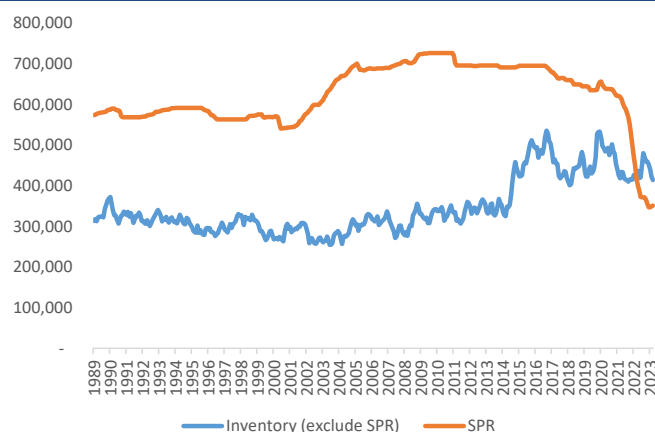
Source: Bloomberg, BRI Danareksa Sekuritas estimates

**Exhibit 6. U.S. is the only major oil producers which pumps more oil**



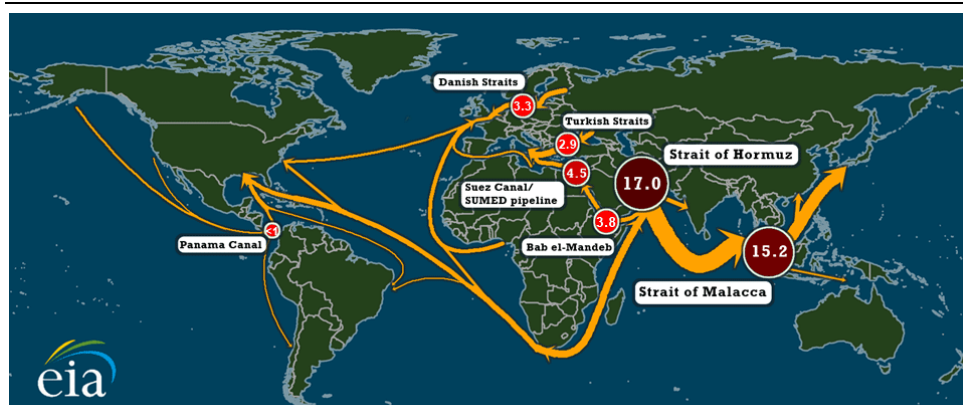
Source: Wood Mackenzie, BRI Danareksa Sekuritas estimates

**Exhibit 7. SPR at its critical level**



Source: Bloomberg, BRI Danareksa Sekuritas estimates

**Exhibit 8. Daily transit volumes through world maritime oil chokepoints**



All estimates in million barrels per day. Includes crude oil and petroleum products. Based on 2013 data.

Source: Investing

**Exhibit 9. Strait of Hormuz: World's largest oil chokepoints**



Source: Investing

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