

Monday, 20 November 2023

BUY
Maintain

Last price (IDR) 1,120
Target Price (IDR) 1,900
Upside/Downside +69.6%
Previous Target Price (IDR) 1,900

Stock Statistics

Sector Coal Mining
Bloomberg Ticker MEDC JJ
No of Shrs (mn) 25,136
Mkt. Cap (IDRbn/USDmn) 29,912/1,925
Avg. daily T/O (IDRbn/USDmn) 159.9/10.3

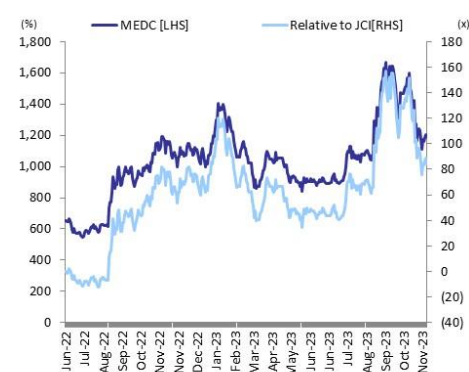
Major shareholders (%)

Medco Daya Abadi Lestari 51.5
Diamond Bridge Pte Ltd 21.5
Estimated free float 22.5

EPS Consensus (USDcents)

	2023F	2024F	2025F
Danareksa	1.4	1.2	1.1
Consensus	1.1	1.1	1.3
Danareksa/Cons	30.4	9.9	(17.7)

MEDC relative to JCI Index



Source : Bloomberg



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Medco Energi International (MEDC JJ)

A potentially more compelling growth story in FY24

We reiterate our Buy rating on MEDC with a TP of IDR1,900 as we see upside in earnings and reserve in 2024F onwards from the potentially accretive prospective Middle East asset acquisition and the potential release of Tanzania 2P Reserves.

Expect the potential Middle East acquisition to be completed at end of 2023.

Medco entered into an agreement to acquire a 20% non-operating stake in a Middle East O&G asset in Aug23, with management expecting the deal to be closed by end of FY23. According to Fitch report, the potential new block may add production rate of 13 mbopd and 2P reserves of 56 mmboe (net MEDC's ownership). Our conservative estimation sees the acquisition may be valued at USD560mn (based on valuation/ reserve of USD10/boe vs. Ophir and Corridor acquisition of around USD8/boe), which we assumed to be fully funded through bank loans at CoF of 7%. Assuming the deal will be finalized at end of 2023, we think this block may begin to contribute to MEDC's financials as soon as 1Q24.

A potentially accretive acquisition for MEDC's FY24 earnings. Assuming an additional 13 mbopd from the potential Middle East block acquisition, we estimate 8.5% uplift in MEDC's 2024F total production volume to 166 mboepd. We also see potential for the block to have low operating costs given its onshore location and thus, expect its lifting costs to be around USD10/boe. Assuming net split of 60% for MEDC from this block, we expect that the prospective acquisition to be potentially accretive and estimate a 19% boost in MEDC's 2024F net profit (to USD362mn post-acquisition).

Another potential 'gold treasure' from Tanzania block. MEDC acquired a block in Tanzania as part of Ophir's asset takeover in 2019. The Tanzania block is currently under development with JV partners in Block 1 and 4 comprising of Medco (20%), Shell (operator, 60%), and Pavilion Energy (20%). We see a huge upside for MEDC's reserve from the block's potential reserves of 16 TCF, hence translating to 3.2 TCF or 569mmboe net ownership for MEDC. While we are aware that the conversion of potential reserves to actual 2P reserves may involve a huge discount, we believe this block will nonetheless offer a significant boost to MEDC's current 2P reserves (of 491mmboe). We expect the 2P reserves of the Tanzania block to be released in 4Q24.

Maintain Buy rating. We await further details on the asset acquisitions before we incorporate the impact on our 2024F earnings forecasts. While MEDC's share price has been dragged by oil price correction, we believe there is still plenty of upside in earnings and reserve in 2024 onwards. Thus, we reiterate our Buy rating on MEDC with an unchanged SOTP-based TP of IDR1,900. Key risks include delays in the finalization of the deal weaker oil price.

Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (USDmn)	1,252	2,312	1,988	1,873	1,824
EBITDA (USDmn)	698	1,593	1,307	1,217	1,158
EBITDA Growth (%)	42.3	128.1	(18.0)	(6.8)	(4.9)
Net profit (USDmn)	47	531	361	304	269
EPS growth (%)	(124.3)	1,034.9	(32.0)	(15.8)	(11.5)
PER (x)	41.2	3.6	5.3	6.3	7.2
PBV (x)	1.8	1.2	1.1	1.0	0.9
EV/EBITDA (x)	7.6	3.0	3.4	3.4	3.3

Source : MEDC, Danareksa Estimates

	Pre-acquisition	Post-Acquisition	Changes
Revenue	1,873	2,095	11.9%
Gross profit	849	977	15.2%
EBITDA	1,217	1,380	13.4%
Net profit	304	362	19.1%
Gross margin	45%	47%	
EBITDA margin	65%	66%	
Net margin	16%	17%	
Production	153	166	8.5%

Source: BRIDS, MEDC

Exhibit 2. sensitivity analysis lifting cost vs loan rate to post-acquisition 2024F earnings changes

		Lifting cost (USD/boe)						
		7	8	9	10	11	12	13
Interest rate	4.0%	26.8%	25.6%	24.5%	23.3%	22.1%	20.9%	19.8%
	5.0%	25.4%	24.2%	23.1%	21.9%	20.7%	19.6%	18.4%
	6.0%	24.0%	22.9%	21.7%	20.5%	19.4%	18.2%	17.0%
	7.0%	22.7%	21.5%	20.3%	19.1%	18.0%	16.8%	15.6%
	8.0%	21.3%	20.1%	18.9%	17.8%	16.6%	15.4%	14.2%
	9.0%	19.9%	18.7%	17.5%	16.4%	15.2%	14.0%	12.9%
	10.0%	18.5%	17.3%	16.2%	15.0%	13.8%	12.6%	11.5%

Source: BRIDS, MEDC

Exhibit 3. SOTP valuation

SOTP valuation	Method	Method	Equity value (USDmn)
Oil and gas	DCF	DCF	1,134
AMMN	P/E	Target P/E 2024F 11.7x	2,069
Total equity value (USDmn)			3,204
USD/IDR			14,800
Total equity value (IDRbn)			47,412
Outstanding shares (bn)			25.14
Target price (IDR/sh)			1,886
Rounding target price (IDR/sh)			1,900

Source: BRIDS, MEDC

Exhibit 4. Income Statement

Year to 31 Dec (USDmn)	2021A	2022A	2023F	2024F	2025F
Revenue	1,252	2,312	1,988	1,873	1,824
COGS	(701)	(1,066)	(1,095)	(1,025)	(1,043)
Gross profit	551	1,246	893	849	781
EBITDA	698	1,593	1,307	1,217	1,158
Oper. profit	388	1,026	703	664	593
Interest income	9	40	21	25	31
Interest expense	(222)	(259)	(237)	(222)	(207)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	62	233	67	176	161
Other Income (Expenses)	32	8	161	0	0
Pre-tax profit	269	1,046	715	643	578
Income tax	(207)	(494)	(333)	(317)	(287)
Minority interest	(15)	(22)	(22)	(22)	(22)
Net profit	47	531	361	304	269
Core Net Profit	47	531	361	304	269

Exhibit 5. Balance Sheet

Year to 31 Dec (USDmn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	481	600	718	891	1,075
Receivables	479	616	731	642	641
Inventory	101	106	135	130	135
Other Curr. Asset	158	281	281	281	281
Fixed assets - Net	50	62	61	62	62
Other non-curr.asset	3,932	5,119	5,020	4,929	4,811
Total asset	5,684	6,932	7,095	7,083	7,153
ST Debt	411	503	472	442	411
Payables	250	286	396	346	364
Other Curr. Liabilities	345	591	591	591	591
Long Term Debt	231	562	2,630	2,461	2,291
Other LT. Liabilities	3,217	3,243	1,005	1,005	1,005
Total Liabilities	4,455	5,184	5,095	4,845	4,663
Shareholder's Funds	1,073	1,557	1,788	2,004	2,234
Minority interests	157	190	212	234	256
Total Equity & Liabilities	5,684	6,932	7,095	7,083	7,153

Exhibit 6. Cash Flow

Year to 31 Dec (USDmn)	2021A	2022A	2023F	2024F	2025F
Net income	47	531	361	304	269
Depreciation and Amort.	310	567	604	554	565
Change in Working Capital	(47)	(103)	(34)	44	14
Other Oper. Cash Flow	153	220	(67)	(176)	(161)
Operating Cash Flow	463	1,215	863	726	687
Capex	(340)	(1,620)	(457)	(287)	(287)
Others Inv. Cash Flow	423	398	0	0	0
Investing Cash Flow	83	(1,223)	(457)	(287)	(287)
Net change in debt	207	91	(200)	(200)	(200)
New Capital	0	3	0	0	0
Dividend payment	0	(60)	(89)	(88)	(38)
Other Fin. Cash Flow	(222)	(259)	(237)	(222)	(207)
Financing Cash Flow	(16)	(226)	(526)	(510)	(446)
Net Change in Cash	530	(233)	(120)	(71)	(45)
Cash - begin of the year	297	481	600	718	891
Cash - end of the year	481	600	718	891	1,075

Exhibit 7. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Growth (%)					
Sales	13.8	84.7	(14.0)	(5.8)	(2.6)
EBITDA	42.3	128.1	(18.0)	(6.8)	(4.9)
Operating profit	146.3	164.1	(31.5)	(5.6)	(10.7)
Net profit	(124.3)	1,034.9	(32.0)	(15.8)	(11.5)
Profitability (%)					
Gross margin	44.0	53.9	44.9	45.3	42.8
EBITDA margin	55.8	68.9	65.7	65.0	63.5
Operating margin	31.0	44.4	35.4	35.4	32.5
Net margin	3.7	23.0	18.1	16.2	14.7
ROAA	0.8	8.4	5.1	4.3	3.8
ROAE	4.5	40.4	21.6	16.0	12.7
Leverage					
Net Gearing (x)	0.1	0.3	1.2	0.9	0.7
Interest Coverage (x)	1.7	4.0	3.0	3.0	2.9

Source : MEDC, Danareksa Estimates

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