INDOPREMIER

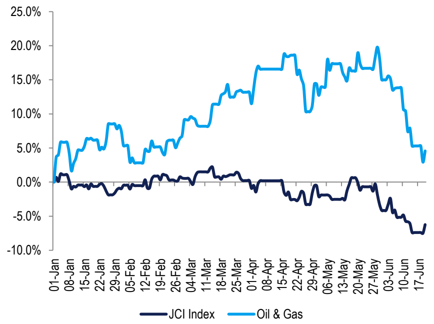
Oil & Gas

NEUTRAL *(unchanged)*

Sector update | 25 November 2024

Sector Index Performance

	3M	6M	12M
Absolute	3.8%	-5.7%	-12.8%
Relative to JCI	-13.7%	-13.5%	-25.6%



Summary Valuation Metrics

P/E (x)	2024F	2025F	2026F
AKRA IJ	11.2	8.8	7.9
MEDC IJ	4.8	5.0	4.7
PGEO IJ	14.8	14.2	12.8
PGAS IJ	7.2	8.2	8.7

EV/EBITDA (x)	2024F	2025F	2026F
AKRA IJ	8.4	6.3	5.5
MEDC IJ	3.6	3.2	2.9
PGEO IJ	7.8	7.2	6.5
PGAS IJ	3.5	3.8	3.9

Div. Yield	2024F	2025F	2026F
AKRA IJ	9.5%	7.5%	6.2%
MEDC IJ	3.6%	3.7%	4.2%
PGEO IJ	4.8%	5.1%	5.3%
PGAS IJ	8.3%	9.7%	8.6%

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Solving Indonesia O&G trade deficit & decade of underinvestment

- Energy independence has been a primary focus of President Prabowo with the aim to increase oil & gas lifting in upcoming years.
- With higher trade deficit and gas shortage occurring in Java & Sumatra, Indonesia needs to address the underinvestment in O&G space.
- More favourable gross-split scheme, ease of doing business, and potential fiscal incentives are set to boost O&G investment.

Oil & gas trade deficit has been trending higher on underinvestment
Indonesia oil & gas trade deficit has been growing in the past few years (Fig.3) with FY22 at record-high at US$24.6bn deficit on higher crude oil price (average: US$99/bbl vs. US$75/bbl currently) due to Russia-Ukraine war. However, oil import has continued to grow as Indonesia's oil lifting and production gradually declined by -3% 10-year CAGR (Fig. 4&5) as oil major players were exiting ASEAN region in general and Indonesia in particular, leading to decade low of capex into upstream O&G globally.

Decline in piped-gas volume meant that LNG import is necessary
Going forward, we also saw potentially widening trade deficit as Indonesia need to import c.40-50 LNG cargoes in FY25F to offset the decline in piped-gas. This would have added at least additional US$2bn trade deficit (2023: US$20bn). Meanwhile, current domestic LNG supply – from Bontang, Tangguh, and Donggi-Senoro (Fig.6), is not yet sufficient (c.14-15 cargoes of LNG) to fulfil domestic LNG demand with several cargoes already contracted to overseas customers. Within our coverage, **PGAS** are among the names that would rely on LNG import starting FY25F (c.20% of total volume) to offset the natural decline in Corridor block and other fields.

3 future potential blocks: Geng North IDD, Andaman, Masela
Not only specific to Indonesia, underinvestment in O&G upstream was occurring globally owing to low crude oil price environment (Fig.7). As a result, several potential O&G blocks in Indonesia hasn't started production. Geng North IDD (Chevron, ENI), Andaman (Mubadala), Masela (INPEX) are among the biggest O&G fields in Indonesia with Merah fields (Genting Oil) also included in National Strategic Project (PSN). Per our estimates, should each of these fields operating at peak capacity, this shall be able to reduce O&G trade deficit by US$12-13bn per annum.

Favourable gross-split scheme to boost upstream investment
Recently, MEMR has introduced a new gross split scheme that basically ensure gross-split of 75-95% for contractors with only 5 parameters (from 13 previously) to determine final gross split. This is a positive, in our view, albeit further improvement could be made (details below).

+ve to PGAS/MEDC; among non-rated, WINS & SUNI are beneficiaries
Better gross split scheme shall be beneficial to **MEDC** albeit short-term impact is limited. Meanwhile, further LNG imports shall enable **PGAS** to charge higher distribution spread at >US$2/mmbtu vs. US$1.3-1.8/mmbtu for piped-gas/HGBT, although this also may raise risk on government intervention in the mid-term. Among the non-rated names, **WINS** shall be the main beneficiaries owing to higher O&G exploration activities and higher charter-rate, while **SUNI** shall benefit from its OCTG tubing, wellhead, and Christmas tree manufacturing & higher local content (TKDN) requirement for O&G industry.

New gross split PSCs and comparison to previous regulation

In Oct24, Ministry of Energy and Mineral Resources (MEMR) has recently introduced a new gross split PSCs scheme for oil & gas contractors in Indonesia (Fig.1). Few key highlights are:

- **Certainty in gross-splits** for contractors set at 75-95% as previous gross-split scheme could lead to uneconomical splits adjustment for the contractors especially with the gross split is determined after plan of development (POD) approval which takes up to 5 years from first exploration activities.

- **Lesser parameters** to determine gross split proportion based on variable & progressive components with only 5 parameters, from previously 13 parameters that are considered unpractical such as local content (TKDN) and lengthy verification process.

- For non-conventional O&G blocks (i.e. Tanjung Enim, MNK Rokan), gross split for contractors is set at 93-95% to incentivize the progress on these projects.

- **Flexibility** to switch and select between gross-split PSCs and cost recovery PSCs

Nonetheless, further improvement could be made with existing c.40% tax rate that is currently being implemented, which is deemed unfavourable.

Fig. 1: Old vs new gross split PSCs regulation

Topic	MEMR No. 8/2017 (old)	MEMR No. 13/2024 (new)
Base split	57%/43% for crude oil/liquids 52%/48% for natural gas	Undertermined until approval of PoD (plan of development) and/or extension approval for expiring/maturing contracts
Adjustment to base split into gross split	Gross split w ill be determined after PoD approval based on variable & progressive components	Gross split w ill be determined after PoD approval based on variable & progressive components
Variable & Progressive component	13 parameters used to determine the variable & progressive components	Only 5 parameters are used to determine the variable & progressive components (i.e. reserves, location, infrastructure readiness, oil price, and natural gas price)
Ineconomical situation	Minister of ESDM can increase/decrease gross split by +-5% if commercialization calculation doesn't/do met certain requirements	Minister of ESDM can increase/decrease gross split w ith the recommendation from SKK Migas
Gross split evaluation	Monthly	Conducted if there's any adjustment/changes in variable or progressive components
Non-conventional oil & glass block	N/A	Can obtain 93-95% gross split
Sw itching to cost recovery PSCs	Not allow ed	Allow ed

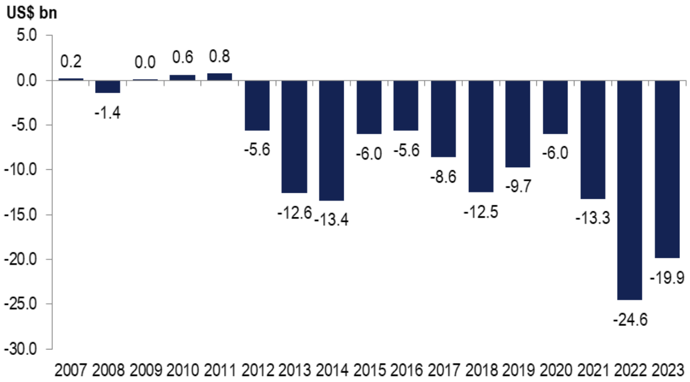
Source: Bloomberg, Company data, Indo Premier

Fig. 2: Indonesia National Strategic Project (PSN) in O&G industry

Company	Project	Investment (US$bn)	Resource/reserve	Est. peak production	Status/target
Genting Oil Kasuri	Merah field	3.37	N/A	330mmscfd	Onstream by 4Q25F
INPEX	Abadi Masela	19.8	N/A	9.5mtpa	Onstream by FY29F
Chevron, ENI	Indonesia Deepw ater (IDD)	N/A	2.67 TCF + 66mn bbl	1.7bcfd	Onstream by FY28F
BP Berau	Tangguh LNG Train-3	N/A	N/A	N/A	Onstream
BP Berau	UCC project	3.84	N/A	476 mmscfd	FID on 2Q24

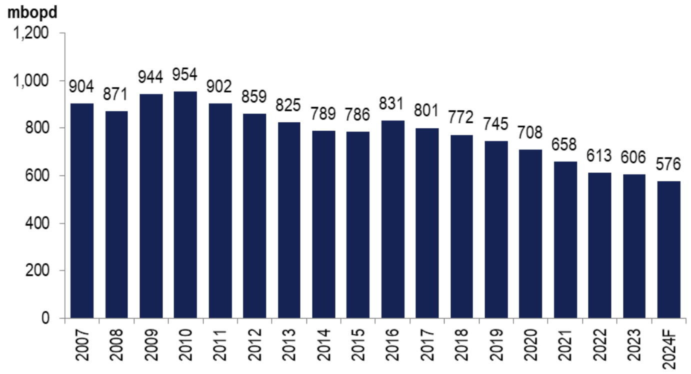
Source: SKK Migas, ESDM, Company data, Indo Premier

Fig. 3: Indonesia trade deficit (US$ bn)



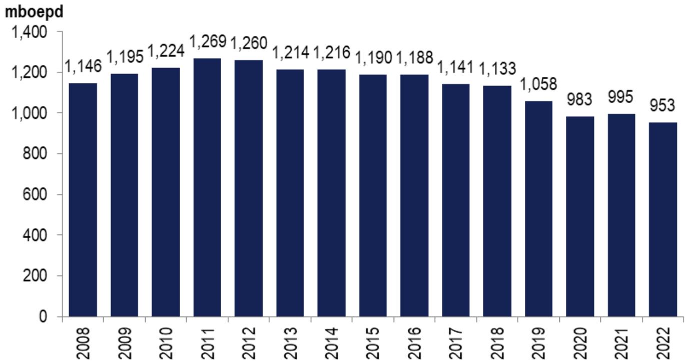
Source: Ministry of trade, Indo Premier

Fig. 4: Indonesia crude oil production



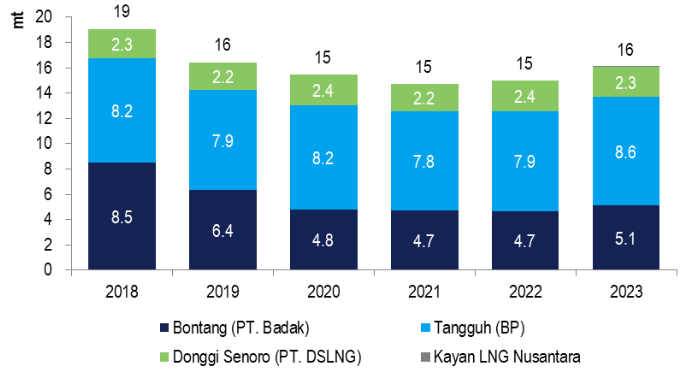
Source: SKK Migas, Indo Premier

Fig. 5: Natural gas production (Indonesia)



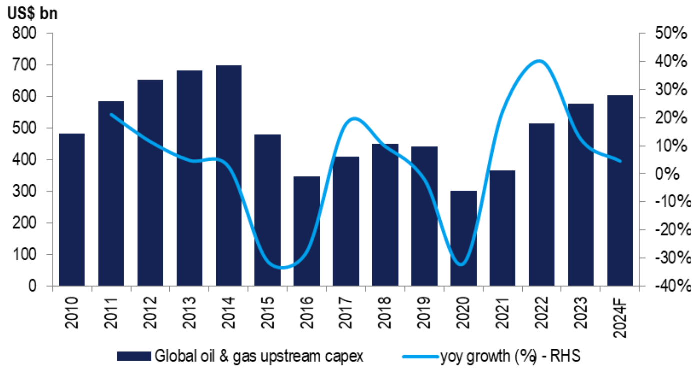
Source: SKK Migas, Indo Premier

Fig. 6: LNG production in Indonesia



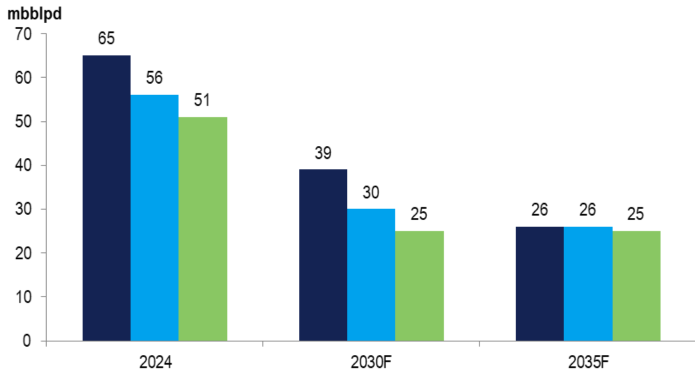
Source: SKK Migas, Indo Premier

Fig. 7: Global oil & gas upstream capex (US$ bn)



Source: S&P Global Commodity Insights, Indo Premier

Fig. 8: Crude oil production assuming no further drilling



Source: S&P Global Commodity Insights, Indo Premier

Fig. 9: Oil & Gas stocks under our coverage & recommendation

Ticker	Company	Rating	Target price (Rp/share)	P/E			EV/EBITDA			Dividend yield (%)		
				24F	25F	26F	24F	25F	26F	24F	25F	26F
AKRA IJ	AKR Corporindo	Buy	1,700	11.2	8.8	7.9	8.4	6.3	5.5	9.5%	7.5%	6.2%
MEDC IJ	Medco Energi Internasional	Buy	1,700	4.8	5.0	4.7	3.6	3.2	2.9	3.6%	3.7%	4.2%
PGEO IJ	Pertamina Geothermal	Hold	1,250	14.8	14.2	12.8	7.8	7.2	6.5	4.8%	5.1%	5.3%
PGAS IJ	Perusahaan Gas Negara	Hold	1,500	7.2	8.2	8.7	3.5	3.8	3.9	8.3%	9.7%	8.6%

Source: Bloomberg, Company data, Indo Premier

SECTOR RATINGS

OVERWEIGHT	:	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
NEUTRAL	:	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
UNDERWEIGHT	:	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

BUY	:	Expected total return of 10% or more within a 12-month period
HOLD	:	Expected total return between -10% and 10% within a 12-month period
SELL	:	Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

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