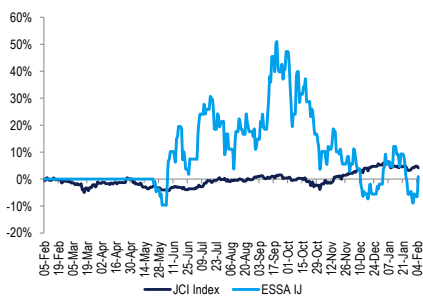


Stock Data

Target price	Rp700
Prior TP	Rp600
Current price	Rp730
Upside/downside	-4%
Shares outstanding (mn)	17,227
Market cap (Rp bn)	12,576
Free float	28%
Avg. 6m daily T/O (Rp bn)	24

Price Performance

	3M	6M	12M
Absolute	24.8%	-9.8%	-0.7%
Relative to JCI	26.7%	4.3%	-3.6%
52w low/high (Rp)	488 – 815		



Major Shareholders

Chander Vinod Laroya	16.4%
Garibaldi Thohir	14.1%
Akraya International	7.5%

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1Q24 results: beat in earnings but valuation remains rich

- ESSA reported 1Q24 NP of US\$10mn (+228% yoy/-59% qoq) ahead of our forecast, driven by higher ammonia margin.
- At current valuation, we strongly believe investors are beginning to factor in company's long term plan to double its current capacity.
- We maintain our Hold rating at upgraded TP of Rp700/sh to reflect +21/+24/-25% earnings adjustment in FY24-26F and capacity addition.

1Q24 earnings was a beat on higher ammonia margin

ESSA 1Q24 net profit improved to US\$10mn (+228% yoy) on yoy basis which came ahead at 34% of our FY24F forecast driven by higher ammonia margin (+1,994 bps yoy), but declined qoq (-59% qoq) on the back of lower ammonia price (1Q24 avg: US\$355/t, -32% qoq). The earnings beat in 1Q24 was primarily driven by a combination of higher-than-expected ammonia plant utilization rate of 122% (vs. 115% IPS) and ASP of US\$344/t (-51% yoy/31% qoq). On qoq basis, interest expense rose by +28% qoq despite US\$26mn debt repayment, as some amounts of interest expenses that should be reported in 4Q23, is recorded in 1Q24 instead, due to accounting reason.

Ammonia price remained weak despite rising gas price

Despite Europe's record high gas storage level, the Dutch TTF gas price has recently surged to \$34/MWh (c.+38% from bottom in Feb24) due to recent geopolitical tension between Iran-Israel and Russia-Ukraine. While these events have not actually shifted gas supply dynamics, traders are starting to hedge against an all-out war scenario and buy into gas option contracts. As a result, US Henry Hub gas price and ammonia price has lagged behind the Dutch TTF gas by 18/45%. In our view, ammonia price will only catch up if US gas price follows suit or war tension intensifies.

Valuation ahead ST fundamental as market pricing in higher LT volume

ESSA is currently trading at 24x FY24F P/E (80-140% premium to regional peers), ahead of its short-term fundamentals as we strongly believe investors are beginning to factor in company's long term plan to double its current capacity (650kt). Assuming blue ammonia premium of US\$100/t and LT price assumption of US\$300/t, it would take c.500kt capacity expansion in FY30F to justify ESSA's current market value.

Maintain Hold rating with a higher TP of Rp700/sh

We maintain our Hold rating given the soft industry backdrop and unattractive valuation. However, we have raised our TP to Rp700/sh (from Rp600/sh previously) to reflect capacity addition of 300kt in FY30F to reflect ESSA's long term plan. We have also adjusted FY24/25/26F earnings forecast by +21/+24/-25% on higher utilization rate assumption and delayed blue ammonia production.

Financial Summary (US\$ mn)	2022A	2023A	2024F	2025F	2026F
Revenue	731	345	296	296	296
EBITDA	349	124	120	120	119
Net profit	139	35	36	44	41
EPS growth	894%	-75%	5%	22%	-7%
ROE	26%	7%	7%	7%	6%
PER (x)	6.2	25.1	23.9	19.7	21.2
EV/EBITDA (x)	2.8	7.5	7.0	6.8	6.6
Dividend yield	N/A	N/A	N/A	N/A	N/A
IPS vs. consensus			61%	63%	67%

Source: Company, Indo Premier

Share price closing as of: 23 April 2024

1Q24 earnings was a beat on higher ammonia margin

ESSA 1Q24 net profit improved to US\$10mn (+228% yoy) on yoy basis which came ahead at 34% of our FY24F forecast driven by higher ammonia margin (+1,994 bps yoy), but declined qoq (-59% qoq) on the back of lower ammonia price (1Q24 avg: US\$355/t, -32% qoq). The earnings beat in 1Q24 was primarily driven by a combination of higher-than-expected ammonia plant utilization rate of 122% (vs. 115% IPS) and ASP of US\$344/t (-51% yoy/31% qoq), despite benchmark price being in-line with our forecast of US\$350/t. As a result, 1Q24 ammonia gross margin of 35% came ahead of our FY24 forecast of 27%.

Operationally, ammonia production was up +38% yoy albeit slightly declined to 197kt (-1% qoq) on qoq basis, though utilization rate remained above 120% level. Similarly, sales volume also went up to 182kt on yoy basis (+73% yoy) but declined on qoq basis at a bigger magnitude vs. its production due to delivery delay. Ammonia ASP declined to US\$344/t (-31% qoq/-51% yoy), in-line with the decline in ammonia price, but discount to benchmark narrowed by 105bps qoq to 3%. On the LPG front, production volume declined to 16kt (-7% qoq/-10% yoy), implying 114% utilization rate (4Q23: 126%), on the back of decreasing C3/C4 content. Meanwhile ASP remained stable at US\$622/t (flat qoq/-9% yoy), also in-line with benchmark price.

Below operating line, interest expense surprisingly rose by 28% qoq to US\$3.5mn despite US\$26mn debt repayment. This is due to adjustment from 4Q23 shortfall (i.e. 4Q23 interest expense should be higher than reported number, which is recorded in 1Q24).

Fig. 1: 3M24 financial summary

ESSA 3M24 results	3M24	3M23	yoy%	1Q24	1Q23	yoy%	4Q23	qoq%	IPS FY24F	% of IPS	Cons FY24F	% of cons
Revenue	74	88	-16%	74	88	-16%	112	-34%	281	26%	373	20%
COGS	(47)	(69)	-33%	(47)	(69)	-33%	(58)	-19%	(197)	24%	(254)	18%
Gross profit	27	18	47%	27	18	47%	55	-50%	85	32%	119	23%
Gross margin	37%	21%		37%	21%		49%		30%		32%	
Opex	(7)	(8)	-9%	(7)	(8)	-9%	(9)	-20%	(21)	34%	(32)	22%
EBIT	20	11	88%	20	11	88%	46	-56%	60	33%	87	23%
EBIT margin	27%	12%		27%	12%		41%		21%		23%	
Depreciation	12	12	-1%	12	12	-1%	12	-1%	47	25%	46	25%
EBITDA	32	22	41%	32	22	41%	58	-45%	107	30%	133	24%
EBITDA margin	43%	26%		43%	26%		51%		38%		36%	
Interest income	1	1	58%	1	1	58%	1	6%	0	451%		
Interest expense	(3)	(6)	-44%	(3)	(6)	-44%	(3)	28%	(10)	35%		
Others	0	0	-93%	0	0	-93%	0	-98%				
Pre-tax profit	18	5	239%	18	5	239%	45	-61%	51	35%	76	23%
Income tax	(4)	(2)	96%	(4)	(2)	96%	(10)	-62%	(11)	35%		
Minority interest	(3)	(0)	4027%	(3)	(0)	4027%	(9)	-63%	(10)	36%		
Net profit	10	3	228%	10	3	228%	25	-59%	30	34%	59	17%
Net margin	14%	4%		14%	4%		22%		11%		16%	

Source: Company, Indo Premier

Fig. 2: 3M24 operational summary

Operational summary	3M24	3M23	yoy%	1Q24	1Q23	yoy%	4Q23	qoq%	IPS FY24F	% of IPS	Cons FY24F	% of cons
Ammonia (k mt)	197	143	38%	197	143	38%	200	-1%	739	27%	-	N/A
Utilization rate (%)	61%	44%		122%	88%		123%		114%			
LPG (k mt)	16	18	-10%	16.4	18	-10%	18	-7%	72	23%	-	N/A
Utilization rate (%)	114%	126%		114%	126%		123%		126%			
Ammonia ASP (US\$/mt)	344	708	-51%	344	708	-51%	502	-31%	405	85%	-	N/A
LPG ASP (US\$/mt)	622	681	-9%	622	681	-9%	624	0%	572	109%	-	N/A

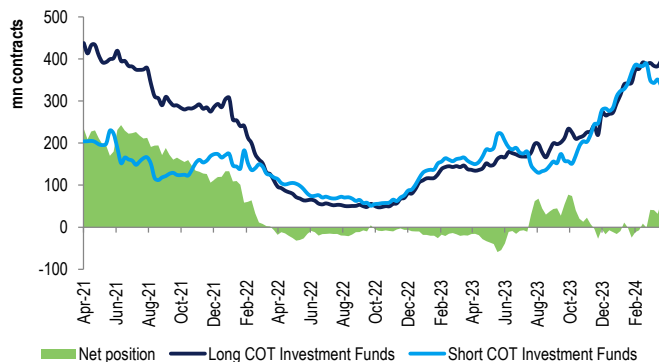
Source: Company, Indo Premier

Ammonia price remained weak despite increasing gas price

Despite Europe ending the winter with record high gas storage level of 59% full (41% above 5yr avg), the Dutch TTF gas price has recently surged to US\$34/MWh (+38% from its bottom in Feb24) following a series of events: 1) Russian drone attacks on Ukrainian gas storage sites with capacity accounting for ~7% of Europe gas imports, 2) Iranian retaliatory missile attacks on Israel, which although may not disrupt gas supply but may temporarily disrupt LNG and oil trade through the Red Sea (8/12% of global LNG/oil seaborne trade).

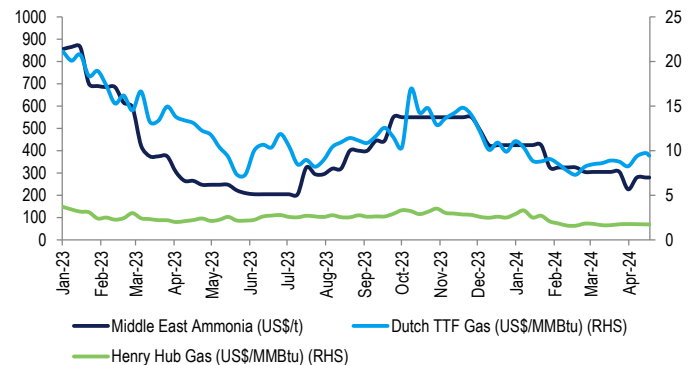
Although these events have not actually shift supply dynamics in the natural gas market yet, intense swings in natural gas prices have prompted traders to pile into options contract (Fig.1) to protect themselves should both conflicts intensify. As a result, the Dutch TTF gas price has diverged from US Henry Hub gas price, while also leaving ammonia price behind (Fig.2). In our view, ammonia price will only catch up if US gas price follows suit or tension between Russia-Ukraine and Iran-Israel intensifies further.

Fig. 3: Dutch TTF gas traders' positioning



Source: Bloomberg, Indo Premier

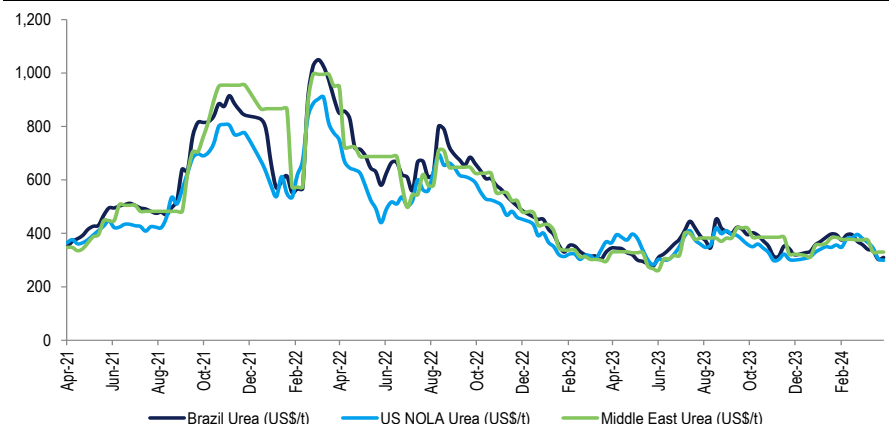
Fig. 4: Dutch TTF vs. Henry Hub vs. Middle East Ammonia



Source: Bloomberg, Indo Premier

Additionally, urea prices have declined 14-23% from Feb24 levels (Fig.3) as the planting season of major crops in key importing countries concludes (i.e. Brazil and India, accounting for 16/12% global fertilizer imports). This has also pressured ammonia prices, but we anticipate that the upcoming planting season in the US to support prices, in addition to Brazil and India planting season in 2H (Fig.4).

Fig. 5: Urea prices



Source: Bloomberg, Indo Premier

Fig. 6: Planting calendar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Brazil (15.7% of global fertilizer imports)												
Soybean (58% of planted area)										x	x	x
Corn (26% of planted area)	x	x								x	x	x
India (11.9% of global fertilizer imports)												
Rice (26% of planted area)	x											x
Wheat (16% of planted area)	x									x	x	x
United States (9.3% of global fertilizer imports)												
Soybean (30% of planted area)					x	x						
Corn (27% of planted area)				x	x							
Wheat (12% of planted area)				x	x							

Source: Various sources, Indo Premier

Valuation ahead ST fundamental as market pricing in higher LT volume

ESSA is currently trading at 24x FY24F P/E (80-140% premium to regional peers) (Fig.5). Given the soft backdrop in the natural gas and ammonia market, we believe ESSA's current valuation is ahead of its short-term fundamentals. Even after factoring in its blue ammonia project, the stock is currently trading at 15x FY26F P/E (20-60% premium to regional peers). Thus, we strongly believe that investors are beginning to factor in company's long term plan to double its current capacity (650kt).

Based on our check with company, a greenfield ammonia plant project is estimated to take up to 2-3 years to obtain gas supply and another 2-3 years to build the plant itself. Assuming blue ammonia premium of US\$100/t and LT price assumption of US\$300/t, it would take c.500kt capacity expansion in FY30F to justify ESSA's current market value. Using the investment cost of its current ammonia plant (~US\$1.2k/t) as benchmark, we estimate such capacity expansion would cost around US\$800mn after inflation.

Fig. 7: Forecast changes summary

Company name	Ticker	Current market cap (US\$m)	EV/Sales			EV/EBITDA			P/E		
			FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
ESSA INDUSTRIES INDONESIA TB	ESSA IJ Equity	786	2.8	2.7	2.6	7.0	6.8	6.6	23.9	19.7	21.2
YARA INTERNATIONAL ASA	YAR NO Equity	7,881	0.7	0.7	0.7	5.2	4.8	4.7	11.2	9.5	9.5
SAUDI BASIC INDUSTRIES CORP	SABIC AB Equity	64,063	1.7	1.6	1.5	10.3	7.4	6.6	31.2	17.8	14.2
ACRON PJSC	AKRN RM Equity	6,705	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CF INDUSTRIES HOLDINGS INC	CF US Equity	14,841	3.1	3.1	2.9	7.7	8.5	7.9	12.9	13.8	13.0
MOSAIC CO/THE	MOS US Equity	9,889	1.1	1.1	1.0	5.4	5.5	5.3	10.4	11.0	10.2
OCI NV	OCI NA Equity	5,593	2.4	2.5	2.2	9.3	9.0	7.5	34.5	19.9	15.7
NUTRIEN LTD	NTR CN Equity	25,883	1.4	1.3	1.3	6.5	6.4	6.2	13.5	12.7	12.4
Average			1.7	1.7	1.6	7.4	6.9	6.4	19.0	14.1	12.5
Average (excl. SABIC & OCI)			1.6	1.6	1.5	6.2	6.3	6.0	12.0	11.7	11.3

Source: Bloomberg, Indo Premier

Maintain Hold rating at upgraded TP of Rp700/sh

We maintain our Hold rating given the soft backdrop in natural gas and ammonia market, coupled with the steep valuation premium that ESSA is currently trading in compared to regional peers. However, we raised our TP to Rp700/sh (from Rp600/sh previously), driven by our expectation of 300kt capacity addition in FY30F, partially pricing in company's long-term plan to double its current capacity (650ktpa).

Additionally, we have also adjusted our FY24/25/26F earnings by +21/+24/-25% to reflect higher utilization rate of 120% in FY24-26F/LT (vs. 115% previously), considering that ESSA has consistently recorded utilization rate above 120% over the past 4 quarters. Moreover, we have also pushed back blue ammonia commercial production to FY27F from FY26F

previously, in-line with management's latest comment. We maintain our ammonia price forecast at US\$350/300 in FY24-26/LT for now. We see escalating tension in Russia-Ukraine and Iran-Israel as potential upside risk to our estimates. Conversely, key downside risks include project delays and lower than expected blue ammonia premium.

Fig. 8: Forecast changes summary

Forecast changes (US\$ mn)	Previous			New			Changes		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Net revenue	281	281	319	296	296	296	5%	5%	-7%
Cost of sales	(197)	(197)	(197)	(195)	(195)	(201)	-1%	-1%	2%
Gross profit	85	85	122	101	100	95	19%	19%	-22%
SG&A Expenses	(24)	(24)	(27)	(28)	(28)	(28)	14%	14%	4%
Operating profit	60	60	95	73	73	67	21%	21%	-29%
Net interest	(10)	0	1	(11)	4	4	7%	934%	934%
Others	0	0	0	0	0	0	N/A	N/A	N/A
Pre-tax income	51	61	96	62	76	71	23%	26%	-26%
Income tax	(11)	(13)	(21)	(14)	(17)	(16)	23%	26%	-26%
Minority interest	(10)	(12)	(20)	(12)	(15)	(14)	28%	30%	-30%
Net income	30	36	55	36	44	41	21%	24%	-25%

Source: Indo Premier

Fig. 9: SOTP valuation summary

SOTP Valuation	US\$m n
Ammonia (70% ownership)	734
LPG	105
Asset value	838
Cash	98
Debt	161
Equity value	776
USD/IDR	15,500
Outstanding shares	17,227
Target price	700
Current share price	730
Upside	-4%

Source: Company, Indo Premier

Income Statement (US\$ mn)	2022A	2023A	2023F	2024F	2025F
Net revenue	731	345	296	296	296
Cost of sales	(390)	(242)	(195)	(195)	(201)
Gross profit	341	103	101	100	95
Opex	(39)	(26)	(28)	(28)	(28)
Operating profit	302	77	73	73	67
Net interest	(31)	(15)	(11)	4	4
Others	5	(0)	0	0	0
Pre-tax income	276	62	62	76	71
Income tax	(55)	(15)	(14)	(17)	(16)
Minority interest	(82)	(12)	(12)	(15)	(14)
Net Income	139	35	36	44	41

Balance Sheet (US\$ mn)	2022A	2023A	2023F	2024F	2025F
Cash & Equivalent	148	98	33	58	84
Receivable	62	38	32	32	32
Inventory	29	25	30	30	31
Other Current Assets	23	18	13	13	13
Total Current Assets	261	179	109	134	161
Fixed Assets - Net	528	493	448	482	511
Other non-Current Assets	42	24	24	24	24
Total non-current assets	570	517	472	506	535
Total Assets	831	695	581	640	696
Payable	23	12	10	10	10
ST Bank Loan	1	0	0	0	0
Current Portion of LT Loans	92	106	0	0	0
Other Current Liabilities	6	7	7	7	7
Total Current Liabilities	122	125	16	16	17
Long Term Loans	177	55	0	0	0
Other LT Liabilities	7	18	18	18	18
Total Liabilities	306	198	35	35	35
Equity	106	146	146	146	146
Retained Earnings	225	210	246	290	331
Others	22	23	23	23	23
Minority Interest	173	118	131	146	160
Total SHE + Minority Int.	525	498	546	606	661
Total Liabilities & Equity	831	695	581	640	696

Source: Company, Indo Premier

Cash Flow Statement (US\$ mn)	2022A	2023A	2023F	2024F	2025F
EBIT	302	77	73	73	67
Depr. & amortization	47	47	47	47	52
Net interest	(31)	(15)	(11)	4	4
Changes in working capital	(40)	17	(2)	(0)	(1)
Others	40	25	(9)	(17)	(16)
Cash flow from operating	318	151	98	106	107
Capital expenditure	(1)	(3)	(2)	(81)	(81)
Others	(10)	0	0	0	0
Cash flow from investing	(11)	(3)	(2)	(81)	(81)
Loans	(203)	(109)	(161)	0	0
Equity	3	41	0	0	0
Dividends	0	0	0	0	0
Others	(40)	(130)	0	0	0
Cash flow from financing	(240)	(198)	(161)	0	0
Changes in cash	67	(49)	(65)	25	26

Key Ratios	2022A	2023A	2023F	2024F	2025F
Gross margin	47%	30%	34%	34%	32%
Operating margin	41%	22%	25%	25%	23%
Pre-tax margin	38%	18%	21%	26%	24%
Net margin	19%	10%	12%	15%	14%
ROA	17%	5%	6%	7%	6%
ROE	26%	7%	7%	7%	6%
ROIC	47%	14%	14%	13%	12%
Acct. receivables TO (days)	12	9	9	9	9
Inventory TO (days)	6	6	6	6	6
Acct. payables TO (days)	17	20	20	20	20
Debt to equity	51%	32%	0%	0%	0%
Interest coverage ratio (x)	11.0	7.0	8.5	N/A	N/A
Net gearing	23%	13%	-6%	-10%	-13%

Source: Company, Indo Premier

INVESTMENT 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

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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