Oil & Gas
Venturing Into the Unknown for the Days Ahead

NEUTRAL

Return (%)	-1D	-1W	-1M
JCI	+0.4	+0.6	+4.8
LQ45	+0.3	+1.0	+6.0
AKRA IJ	+1.0	-1.0	-0.7
MEDC IJ	+0.0	+0.4	+0.9
PGAS IJ	+0.0	+1.9	-3.1

EPS Growth (%)	FY23E	FY24F
AKRA IJ	+5.5	+8.1
MEDC IJ	-48.5	+66.7
PGAS IJ	-32.0	+10.8

Diminishing oil price due to monetary policy offset by OPEC production and Geopolitical tension
Brent crude oil prices shrugged by -17.7% YoY to USD78.1/bbl in Nov-23 and touched their lowest level since FY22, at USD71.8/bbl in Jun-23. Global oil prices experienced high volatility due to monetary policy tightening and production cuts from OPEC. OPEC's production cuts and Geopolitical tension helped raise crude oil prices to USD96.7/bbl in Sep-23 but rising production from the United States and non-OPEC countries offset the rise. The US economy is expected to grow slowly or even experience a recession in FY24F, at maximum around 1% YoY, subduing the prospect of crude prices. In the longer term however, oil prices are likely to tread higher as the economy recovers. The war between Israel and Palestine presents two possibilities towards crude prices; in the first scenario, if the war spreads to Lebanon and Syria, oil prices could rise up to around USD90/bbl. The worst-case scenario for the conflict is a direct war between Israel and Iran. If this happens, oil prices could rise above USD140/bbl and hamper economic growth.

Economic contraction also contributes to lower natural gas prices
In FY23, natural gas prices experienced a significant decline of -19.4% YTD, reaching a level of USD3.1/MMBTU. This downward trend was primarily driven by a slowdown in global economic growth and EU's lower dependency of natural gas also affected the decline. However, the conflict between Israel and Palestine caused a surge in natural gas prices of +35% since Oct-23 due to disruption in supply caused by the closure of a major natural gas production facility in Israel. Natural gas prices are expected to rise by a limited amount of +1.6% YoY in FY24F, and by +1.9% YoY in FY25F mainly driven by the demand in China that increases +7% Yoy each year. On the supply side, global production is expected to grow by +1.6% YoY.

Indonesia's government trimmed its production aim for both oil and gas in FY24F
For FY24F, Indonesia targets the Indonesia Crude Price (ICP) to be at USD82/bbl (vs USD with a target of 635,000 BOPD (vs 660,000 BOPD in FY23E). Seeing that the production realization in FY23E was below target, at 580,916 BOPD, the government lowered the production target for FY24F. On the other hand, Indonesia's gas lifting reached 6,730 MMSCFD until Nov-23, or exceeding FY23E's target of 6,600 MMSCFD. This surge was driven by increasing local demand for cleaner energy and LPG. Meanwhile, the government targets natural gas lifting of 1,033 MBPD in FY24F (vs 1,100 MBPD for FY23E).

What lurks ahead for oil & gas companies under our coverage
We project **AKRA**'s top line to grow by +2.2% YoY driven by the solid land sales segment (projected to grow by +39.2% YoY) and its increasing contribution AKRA's overall revenue (to account 5.1% by FY24F from 3.8% in FY23E). Though its petroleum segment (projected to grow +4.35% YoY; accounts for 72.5% in FY24F) is likely to stagnate from muted crude oil price projections in FY24F, growth in sales volume is likely to act as a buffer. AKRA will also enjoy higher recurring income as the copper smelter's set to be operational by May-24, as well as higher finance incomes from ample cash position accompanied by high interest rates, enabling a potential bottom-line growth of +8.1% YoY in FY24F, assuming FY23E's net profit comes at IDR2.5tn.

Despite **MEDC** having faced challenges in 9M23 YoY due to the prices fall of oil (-24% YoY) and gas (-16% YoY) and a significant dip of AMMN's profit post IPO to USD13.2mn, MEDC successfully embarked 20% stakes of 2 blocks Exploration and Production Sharing Agreements (EPSA) from OQ Exploration & Production LLC (OQEP) in Oman, valued at USD605mn. This acquisition includes production capacities of 60,000 bpd from block 60 and block 48, spanning 3,000km square, which is currently under exploration but holds significant prospect, potentially contributing to 13mboepd to the group's daily production (+8.1% 9M23). With a profit after tax split of 35% for MEDC and 65% of Oman government, we forecast the robust recovery of net profit growth of +66.7% YoY in FY24F.

PGAS is poised for significant business expansion through the integration of distribution infrastructure and services in Batam area, boasting a 273.5km pipeline that caters to 5,971 customers. Additionally, PGAS has signed the renewal of the Gas Sale and Purchase Agreement (PJBG) with MEDC, securing around 400bn BBTUD from the Corridor Block for FY24F-FY28F. Despite a +2% YoY increase in revenue for 9M23, PGAS faced challenges as its EBITDA declined by -13% YoY, and net profit plummeted by -36% YoY. These setbacks were attributed to a +7% YoY rise in the cost of revenue, diminishing key upstream supply, one-off tax and contract provision, and the Ministry of Energy and Mineral Resources (ESDM) withholding approval for the non-HGBT new pricing scheme. Hence, we projected the net income to grow +10.8% YoY in FY24F with 1.8x EV/EBITDA.

NEUTRAL recommendation for the oil & gas sector
We call a **NEUTRAL** rating for the oil and gas sector; though crude oil prices continually approached the harbinger of a significant rallies this year, we think the diminished momentum that followed was due to a fundamentally waning growth of the global economy; which the OPEC took note of and therefore issued production cuts to maintain the prices in motion. We like AKRA and MEDC each with a TP of IDR1,700 and IDR2,050, implying FY24F EV/EBITDA of 9.7x and 1.5x, respectively. Risk to our call includes 1) meager land sales contracts, 2) lackluster economy growth to hamper petroleum sales volume and 3) drag ASP deeper than expected, as well as 4) escalations of geopolitical frictions which induce market volatility and supply chain disruptions.

Ticker	Mkt Cap (IDR tn)	EV/EBITDA (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
AKRA IJ	28.8	7.5	6.7	2.0	1.9	BUY	1,700
MEDC IJ	30.0	2.0	1.8	1.7	1.4	BUY	2,050
PGAS IJ	26.9	2.3	2.7	0.5	0.5	HOLD	1,200

Sources : Bloomberg, MNCS Research

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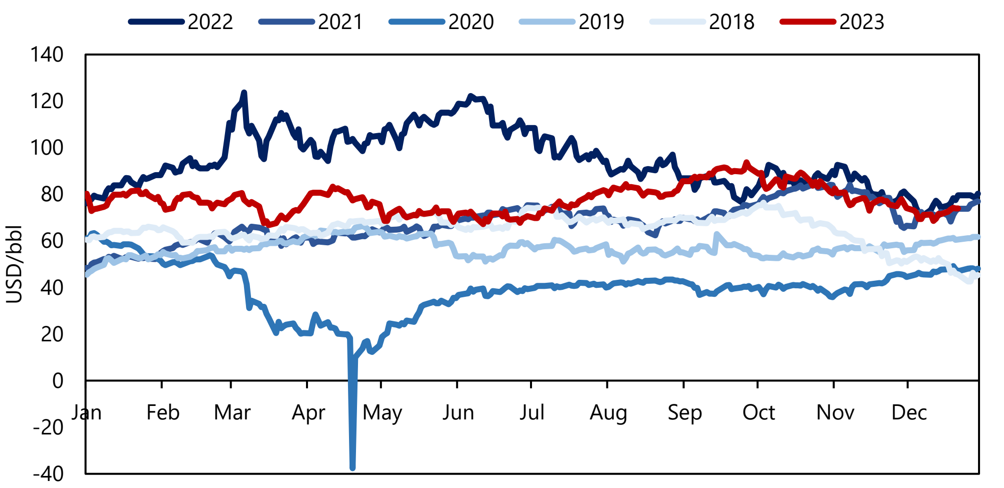
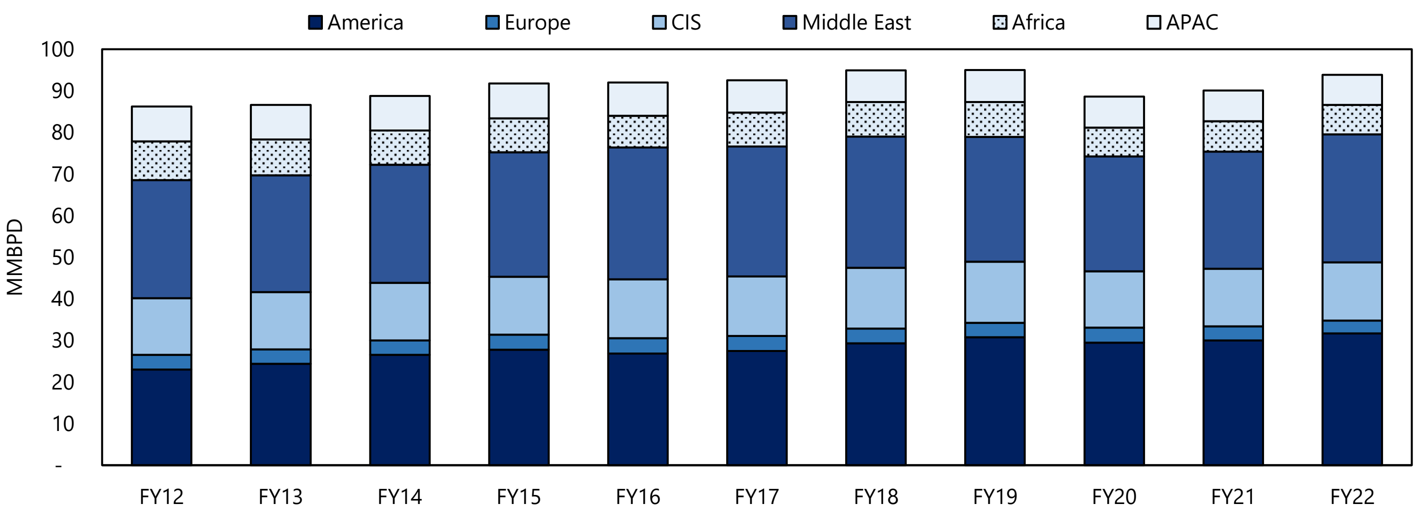
What we've seen on a year-to-date was a sturdy movement in oil prices after a high base FY22 which featured an all-hands-on-deck-type energy supply disruption. This year's mover was the resparked Israel-Palestine conflict which had recently carried over to Red Sea route disruptions, and OPEC cuts.

Exhibit 01. Crude oil price movement throughout FY23E



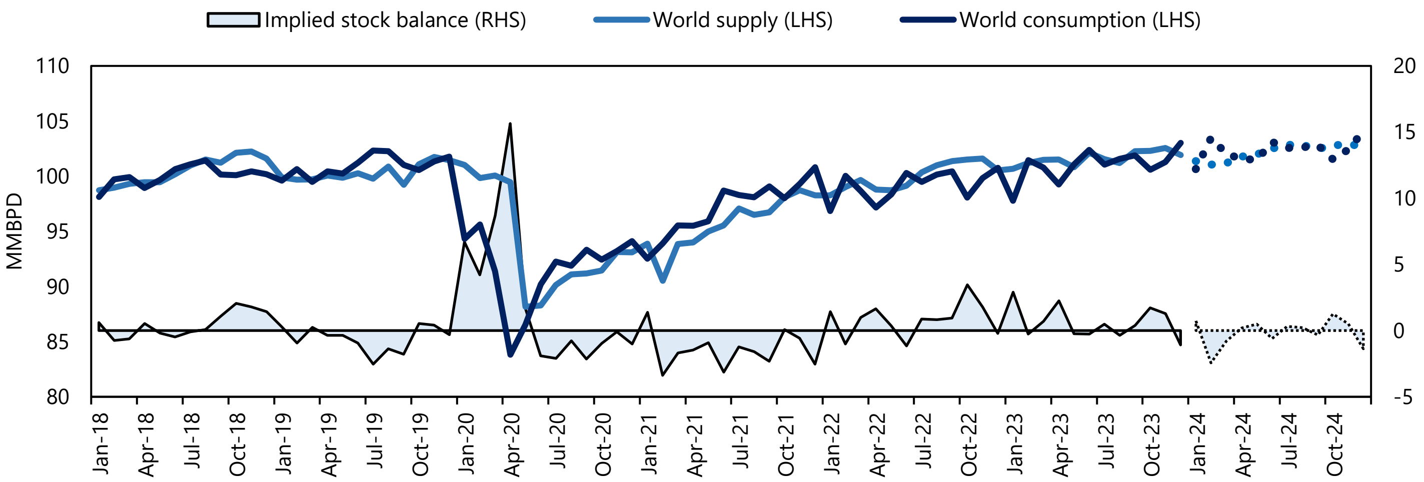
Source : Bloomberg, MNCS

Exhibit 02. Historical global crude production in millions of barrels per day



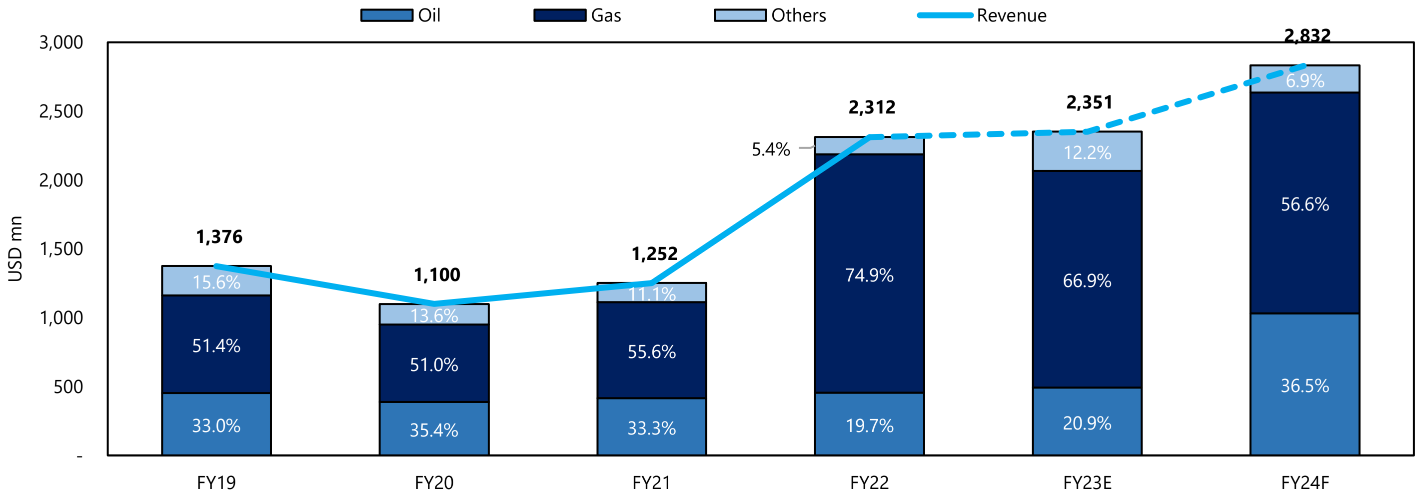
Source : Energy Institute, MNCS

Exhibit 03. IEA's projection of global crude oil supply-demand



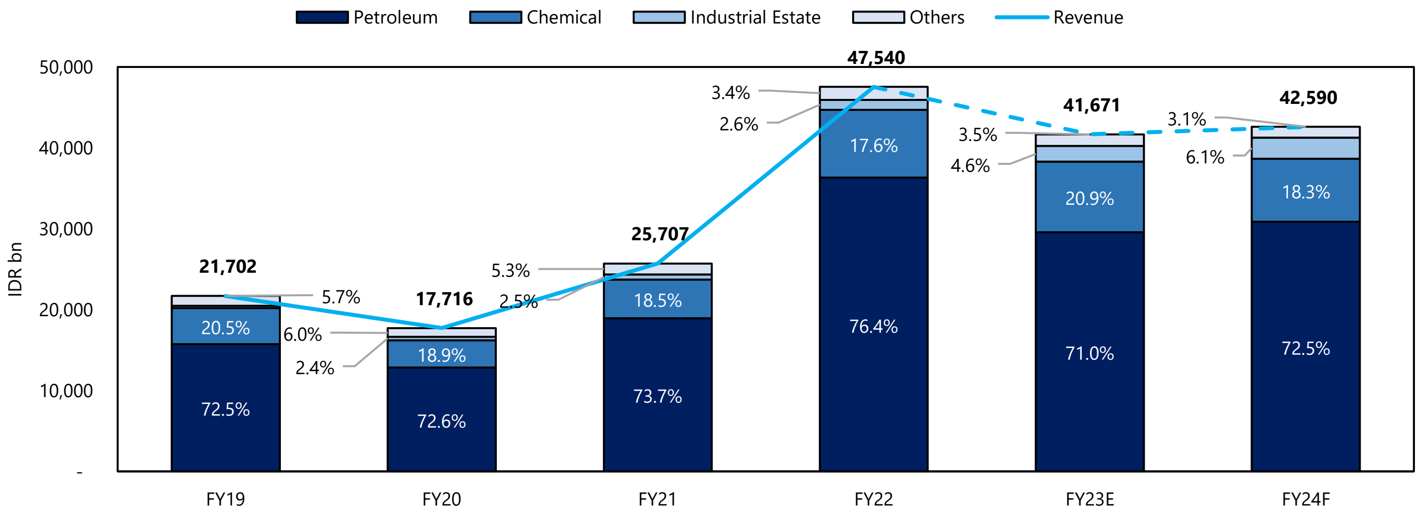
Source : Bloomberg, IEA, MNCS

Exhibit 04. MEDC's segment contribution profile and projection



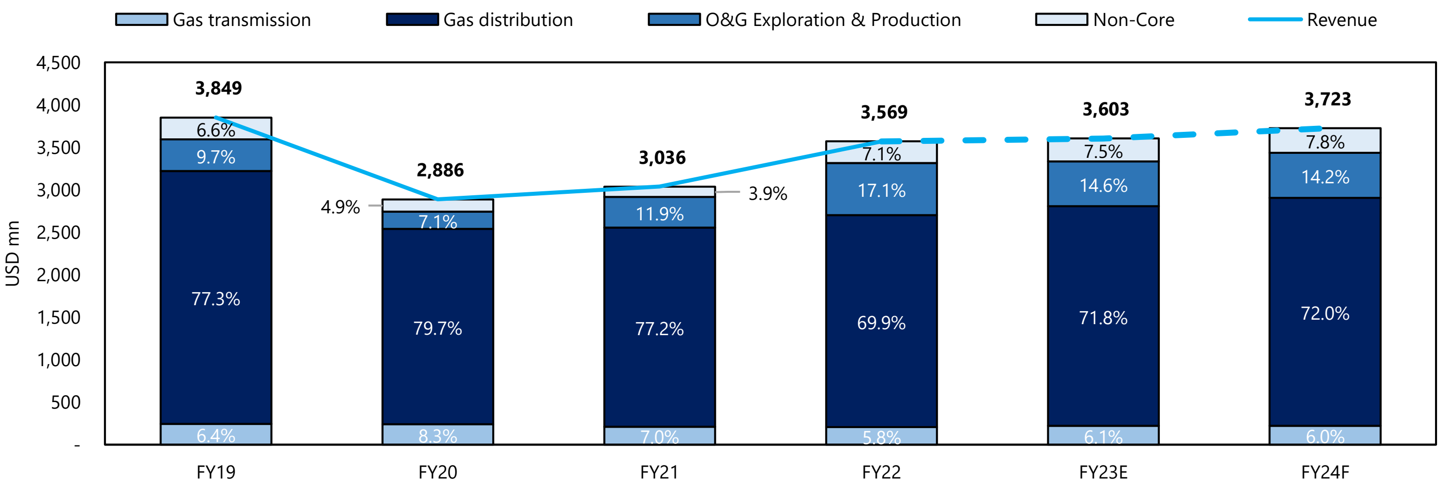
Source : Company, MNCS

Exhibit 05. AKRA's segment contribution profile and projection



Source : Company, MNCS

Exhibit 06. PGAS's segment contribution profile and projection



Source : Company, MNCS

MNC Research Industry Ratings Guidance

- **OVERWEIGHT :** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL :** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT :** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
- **SELL** : Share price may fall by more than 10% over the next 12 months
- **Not Rated** : Stock is not within regular research coverage

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