Oil & Gas
Fragile Recovery: Not Out of the Red Yet

NEUTRAL

Return (%)	-1D	-1W	-1M
JCI	-0.5	+2.0	+0.9
LQ45	-1.0	+0.7	-3.8
AKRA IJ	-0.6	-2.1	-13.5
MEDC IJ	-4.0	+5.6	-5.3
PGAS IJ	-1.3	+5.1	-13.1

EPS Growth (%)	FY24E	FY25F
AKRA IJ	+13.6	+14.5
MEDC IJ	-1.7	-2.1
PGAS IJ	+17.2	-2.2

Global oil prices improved, but geopolitical strife remains in the driver's seat

The global crude oil prices showed a hike in Apr-2024 with average Brent spot price stood at USD89.0/BBL and WTI at USD84.4/BBL, respectively increasing from USD84.7/BBL and USD80.4/BBL. This climb was mainly driven by the easing global oil inventories following OPEC's decision to implement voluntary production cuts until 1H24, resulting in an average of 0.3mbpd global oil stocks reduction. Concurrently, the heating geopolitical friction in Middle East amid Iran and Israel, also contributed to the global oil prices. However, as of May 17th, 2024, the oil prices subdued with Brent averaging at USD83.2/BBL and WTI at USD78.7/BBL, following a cooling-down of the geopolitical conflict, despite ongoing signs of tightness in the crude oil market. Consequently, EIA has lowered its estimation of Brent spot price from average USD88.6/BBL to USD87.8/BBL in its recent report, due to uncertainty happening in Middle East and with anticipation of OPEC to continue production limitations.

Equilibrium in Sight: Assessing the Intersection of Global Oil Demand and Supply

The global oil consumption in Apr-24 showed improvement to 101.4mbpd (vs 100.3mbpd in Apr-2023), influenced by the rise in non-OECD to 56.7mbpd (vs 55.6mbpd in Apr-2023), while the demand in OECD remained stable at 44.7mbpd (vs 44.7 mbpd in Apr-23). The growth is expected to continue, reaching 104.8mbpd in 2024, driven by robust air travel and strong road mobility, particularly in on-road diesel and trucking sectors. Additionally, industrial, construction, and agricultural activities in non-OECD countries will support this growth, where the demand is estimated to grow by 880kbpd YoY. Capacity expansions and favourable petrochemical margins, especially in China and the Middle East, are also anticipated to contribute significantly to rising oil demand. Meanwhile, world oil supply stood at 102.1mbpd in Apr-2024, with total OPEC recorded production to stabilized at 32.1mbpd in Apr-2024 (vs 32.9mbpd in Apr-2024). The global supply is forecasted to grow by 530kbpd this year, reaching an unprecedented 103.7mbpd. This increase is driven by a 1.4mbpd rise in non-OPEC output, offsetting an 840kbpd decline in OPEC production. Given this outlook, we anticipate the global oil demand in 2024 will meet the supply, assuming the voluntary cuts by OPEC persist throughout the year.

Our view on the Oil & Gas companies within our universe

- Despite a slowdown in 1Q24's performance, we maintain positive outlook on **AKRA**, with our projection of top-line to advance by +2.8% YoY in FY24E, driven by the trading and distribution segment (+2.4% YoY) and the robust industrial estate land segment (+16.3% YoY) following management optimism to achieve 130ha land sales this year (vs 91ha in FY23). AKRA is also expected to enjoy higher finance incomes accompanied by high interest rates and lower financial expenses from ample cash position, enabling a potential bottom-line growth of +13.4%/+14.5% YoY in FY24E/FY25F.
- Our perspective on **MEDC** remains modestly optimistic with recoveries expected in FY24E where we estimate bottom-line growth to still experience a slight slowdown at -1.7% YoY, yet better compared to the FY23's earnings plunge (-37.7% YoY). We anticipate the improvement to stem from AMMN's outputs target raise and the favourable price of gold as a widely-used hedge instrument against geopolitical shocks. Additionally, MEDC is trading at attractive 2.2x/1.3x PER/PBV for FY24E. Meanwhile, lower oil and gas production volume target from MEDC for FY24E (-9.4% YoY) acts as a downward incentive.
- **PGAS** achieved better-than-expected performance in 1Q24, with revenue growing at +1.7% YoY supported by higher ASP at USD7.9/MMbtu (vs USD7.4/MMbtu in 1Q23 or USD7.6/MMbtu in 4Q23). Additionally, the new revenue stream, LNG trading, constituted to 6.1% of the total revenue also acted as a booster. Net income expanded by +40.8% YoY in 1Q24, favoured by the strong balance sheet which resulted in lower interest costs (-27.0% YoY). Our forecast for the top- and bottom-line to grow by +2.7% YoY and +17.2% YoY respectively. However, we maintain modest recommendation on PGAS in FY24E with our justification stems on the declining operational production volume in most segments, following gas supply shortage from suppliers and lower demand from customers. We expect the slowdown to sustain, in line with the global outlook.

NEUTRAL recommendation for the oil & gas sector

We maintain a **NEUTRAL** rating for the oil and gas sector, with our considerations substantiate on: 1) World oil prices have been showing enhancement, with Brent/WTI growing at +9.7%/+12.4% YTD (up to May 17th), however still heavily influenced by the geopolitical friction; 2) With OPEC's output cut implementation expiring in 1H24, global oil demand has not surpassed the supply just yet until Apr-2024 (even is estimated to intersect, should OPEC carry the policy throughout 2H24); 3) The natural gas market is not over the hump, with -2.1% YTD price decline (up to May 17th) and low number of demand due to milder weather patterns and expansion of renewable alternatives; 4) The ongoing conflict at the Red Sea prompts potential high risks of supply chain disruptions. We continue to like AKRA and MEDC each with TP of IDR2,000 and IDR1,950, implying FY24E EV/EBITDA of 9.6x and 2.2x, respectively.

Ticker	Mkt Cap (IDR tn)	EV/EBITDA (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY24E	FY25F	FY24E	FY25F		
AKRA IJ	31.6	9.6	8.2	2.5	2.3	BUY	2,000
MEDC IJ	35.7	2.2	2.2	1.3	1.1	BUY	1,950
PGAS IJ	37.7	2.1	2.0	0.6	0.6	HOLD	1,550

Sources : Bloomberg, MNCS Research

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The global natural gas market is still hazy

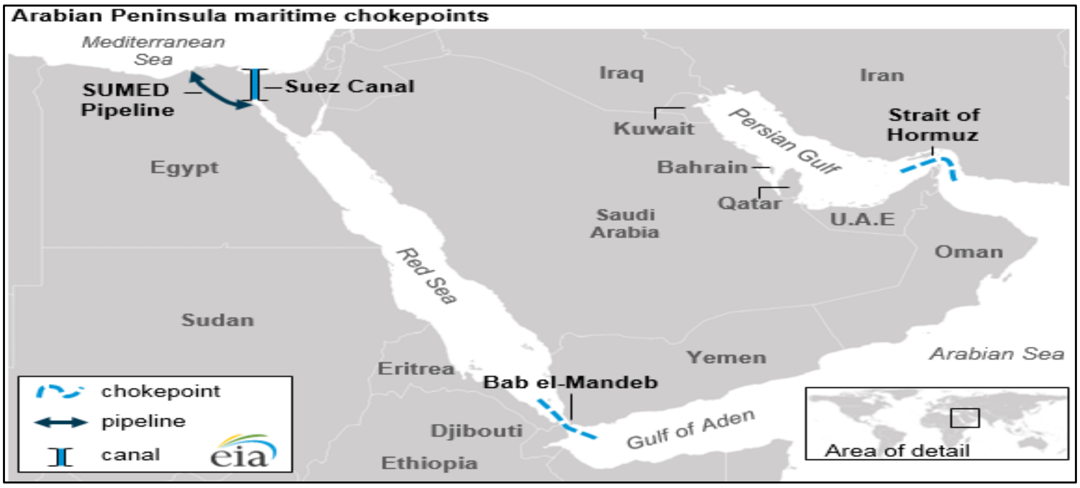
The natural gas spot price stabilized to an average of USD1.8/MMBtu in Apr-2024 (vs USD1.8/MMBtu in Mar-2024) and has continued to show enhancement to an average of USD2.2/MMBtu up to May 15th, 2024. Gas market remains unfavourable with global demand growth is projected to grow by 2.3% in 2024, but still overshadowed by the supply projection growing at 3%. The soft demand is mainly attributed to unseasonably mild weather patterns, the expansion of renewables availability, and geopolitical tensions exerting distortions on the market.

Navigating through the local dynamics

In Apr-2024, Indonesia Crude Price (ICP) reached USD87.6/BBL, surpassing the FY24E target at USD82/BBL as set earlier. This was influenced by the raise in global oil prices, following the global politic clash that sparked concern of oil supplies disruption, and OPEC's lower production forecast. The government set gas lifting target at 1,033mmboepd, compared to the realization of 0.964mmboepd in 2023. Meanwhile the oil lifting is aimed to reach 635mbpd, increasing from the actualization of 607mbpd in the previous year.

We expect the domestic oil demand to increase in the Kalimantan and Sulawesi regions due to B2B activities, such as: 1) building and infrastructure development and the relocation of civil servants to IKN; 2) mining activities driven by the rising fuel needs of smelters. Indonesia's stable GDP outlook should also be beneficial to the oil consumption. Additionally, the relatively stable automotive sales (1million units for 4-wheelers and 5-6million units for 2-wheelers) will also sustain revenue from B2C. Distributors (Pertamina, Akra BP, Vivo, Shell, etc.) are dynamic in adjusting the ASP with spot prices to maintain company margins.

Exhibit 01. Map of Maritime Chokepoints in the Middle East

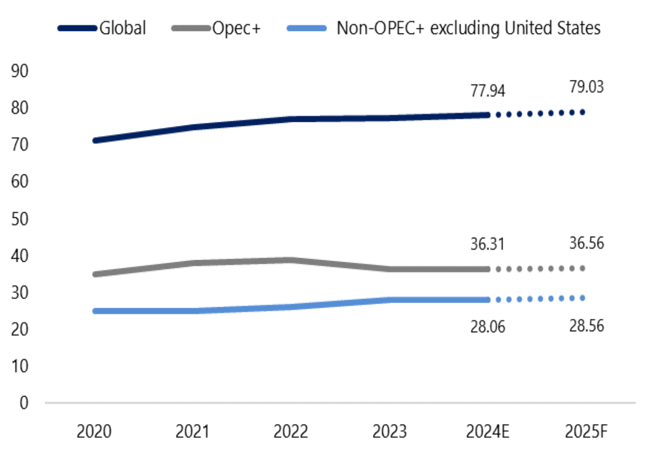


Source: EIA

Plotting the Red Sea Chokepoints

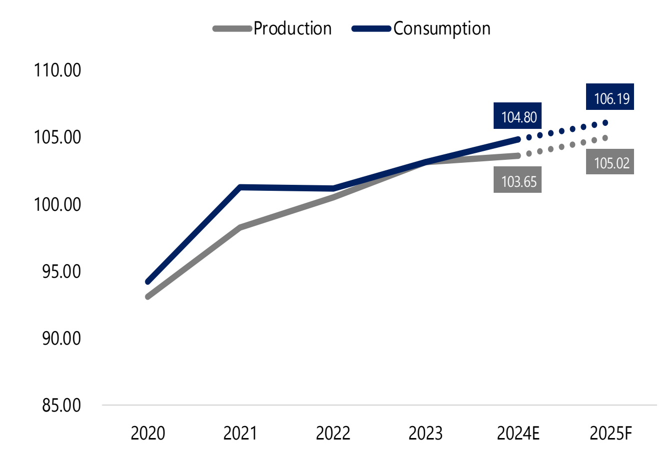
Given that the oil that passes through Bab el-Mandeb is not produced there, a blockade at the strait would not be as tremendous as one at the Strait of Hormuz. Alternatives such as rerouting shipments via the Cape of Good Hope would cause disruptions to shipment costs and travel times, but there would unlikely be a supply crisis, thanks to ample global oil stocks. The Bab el-Mandeb Strait is traversed by 8.8mmbpd, or around 10% of the world's maritime oil commerce. These trade flows have increased by 50% since the start of the Russia-Ukraine crisis. Unlike the crucial Strait of Hormuz, oil flows through the Red Sea can be redirected, mitigating the turmoil. Though escalating US-Iran tensions could drive prices to USD90 or more, Brent crude prices have stayed constant despite recent tensions in the Red Sea. Hence, speculating the worst-case scenario if Strait of Hormuz is blocked, oil prices may soar sharply, considering 20% of the world's oil flows through the strait.

Exhibit 02. The historical trend and forecast of Crude Oil Production (in mbpd)



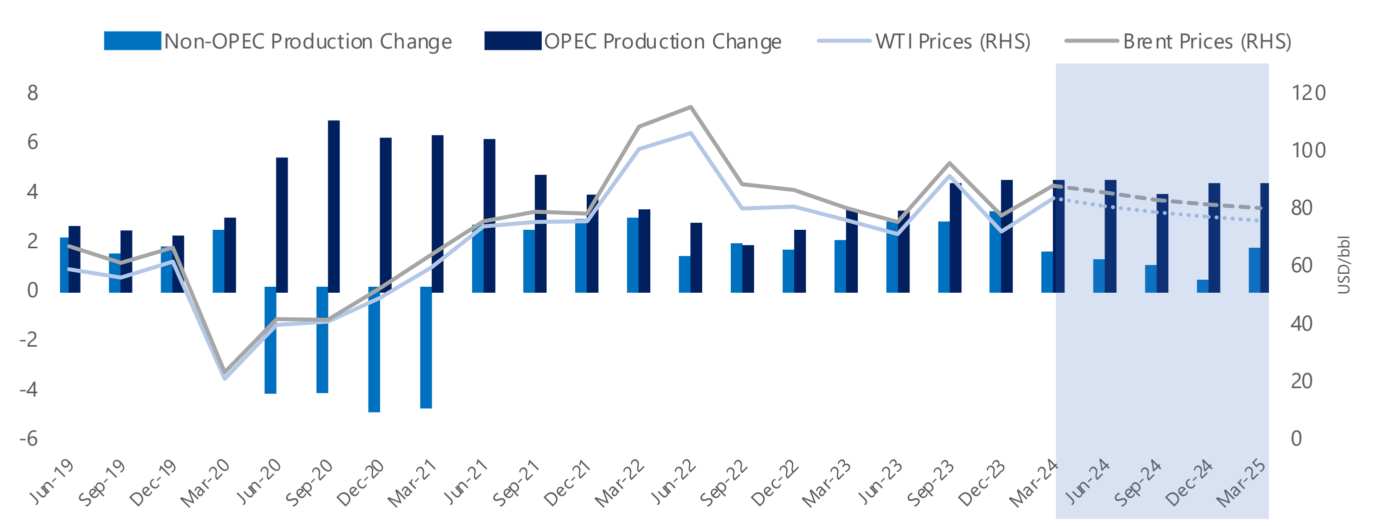
Sources: EIA, MNCS

Exhibit 03. With the OPEC's decision of production cut to continue in 2H24, the oil demand is expected to surpass the supply



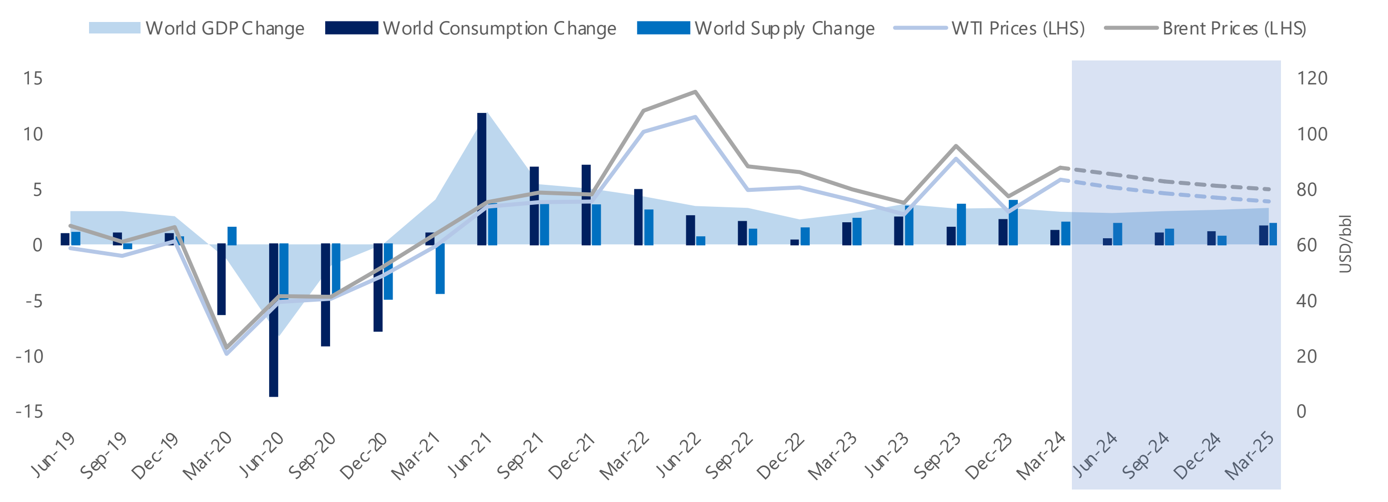
Sources: EIA, MNCS

Exhibit 04. Whilst OPEC's production change can contribute to balance global oil supply and demand, its ability to drive the prices is more limited if compared to Non-OPEC's, given Non-OPEC is a larger producer



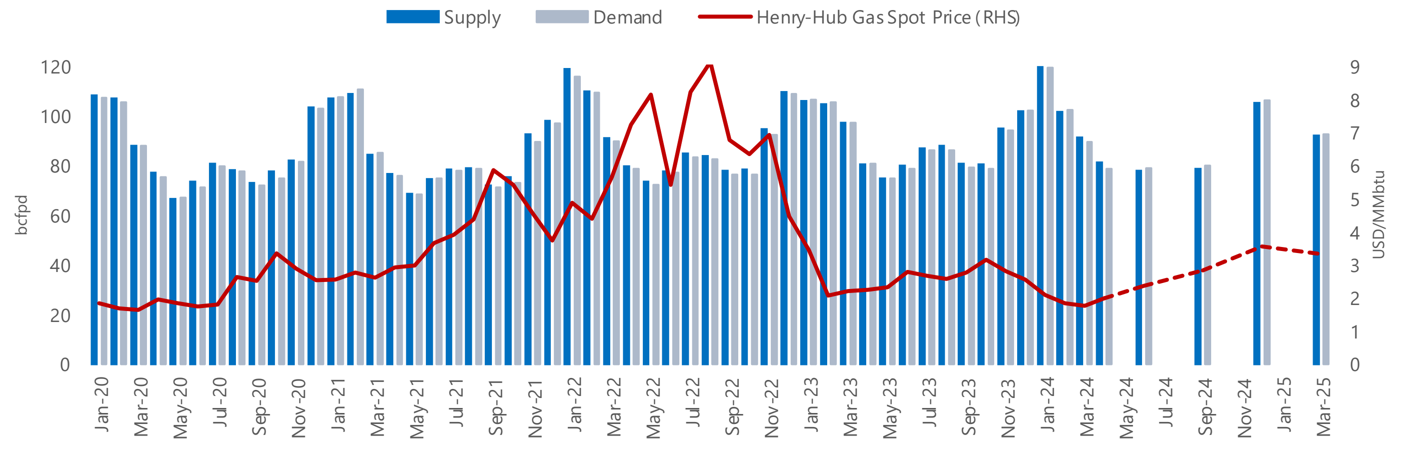
Sources: EIA, Bloomberg, MNCS

Exhibit 05. The relevancy of global GDP change towards oil supply and consumption changes and spot prices



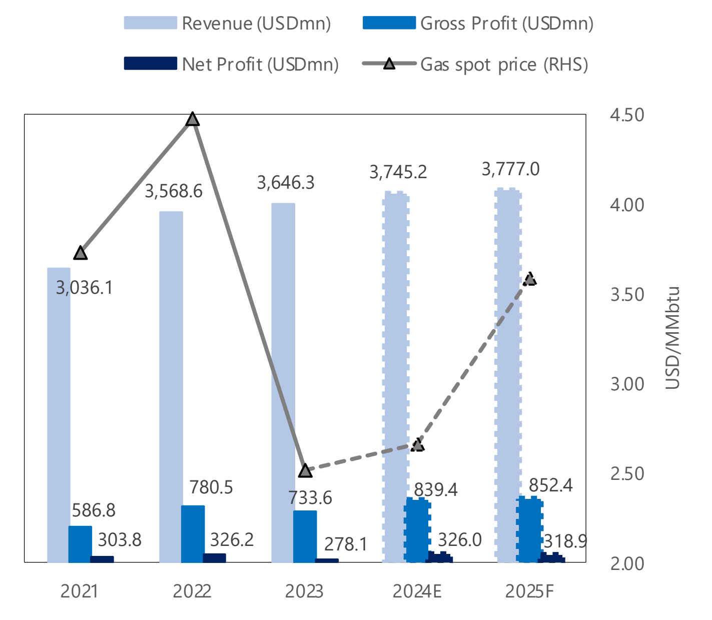
Sources: EIA, Bloomberg, MNCS

Exhibit 06. The trendline and forecast of natural gas spot price towards supply and demand



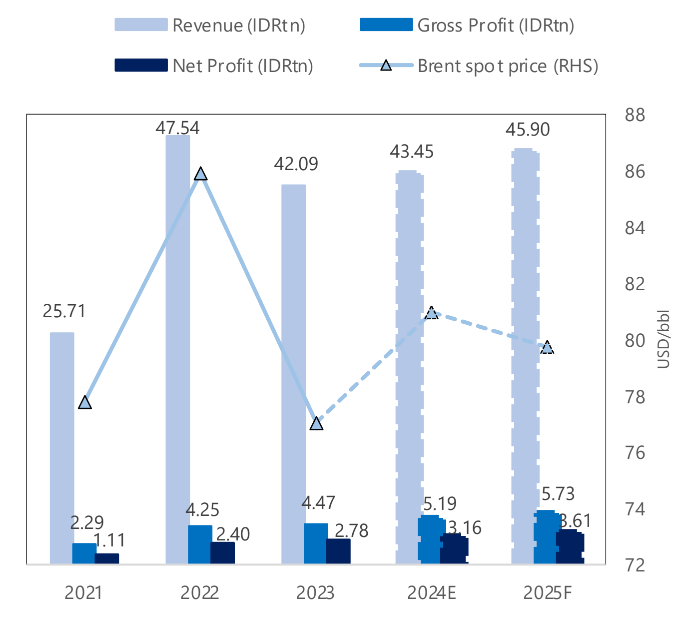
Sources: EIA, Bloomberg, MNCS

Exhibit 07. PGAS's performance throughout the years were mainly supported by ASPs and volume, amidst volatile natural gas spot prices



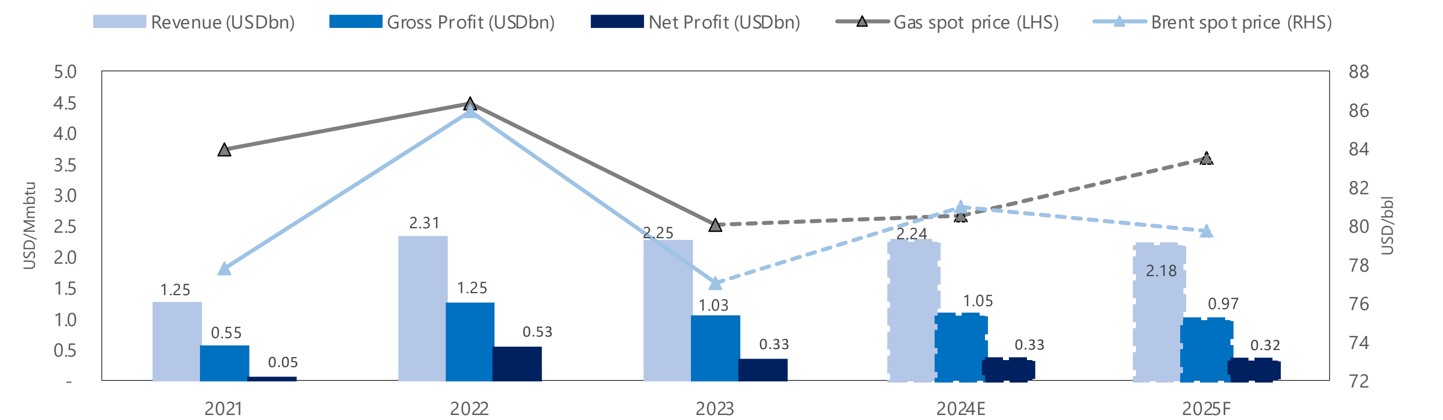
Sources: Company, MNCS

Exhibit 08. The global oil prices expose no disruptions to AKRA's bottom-line as ASP's dynamic can be adjusted accordingly to the spot prices



Sources: Company, MNCS

Exhibit 09. The commodities prices trend and MEDC's performance



Sources: 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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