

March 6, 2013

**Company Update**

# Utilities

# Surya Esa Perkasa

## Oil & Gas

## In Preparation for Take-off

**Current Price** Rp3,000  
**Target** Rp4,300  
**Upside potential (%)** 43

**Stock Data**

Bloomberg Ticker ESSA IJ  
 Outstanding share (mn) 1,000  
 Market Cap (Rpbn) 3,000  
 52 week range (Rp) 1,530-3,500  
 6-M Avg Value(Rp bn) 0.6  
 YTD Returns (%) -3.2  
 Beta (x) N/A

**Major Shareholders (%)**

Trinugraha Akraya 33  
 Ramaduta Teltaka 22

**1-year Share Price Performance**



**Share Performance (%)**

Month	Absolute	Relative
3m	3.3	-10.8
6m	30.5	7.7
12m	102.6	40.6

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■ **Securing gas supply for ammonia plant**

We strongly believe that ESSA will succeed in completing its ammonia plant project in 2015 given that the company has secured gas to feed the ammonia plant and appointed the EPC contractor. ESSA's subsidiary, Panca Amara Utama (PAU) has signed a gas Heads of Agreement (HOA) with Joint Operating Body Pertamina Medco Tomori Sulawesi (JOBPMTS), which will supply 55 mmscfd of natural gas to PAU from its Senoro field. ESSA recently awarded a Japanese contractor, Toyo Engineering, contract to build ammonia plant.

■ **Positive corporate action in store; selling new shares at Rp3,000-3,500**

ESSA will continue its plan for a non preemptive issue of up to 10% of its shares, setting price of between Rp3,000-3500/shares. We view the plan as positive as the proceed of Rp300-350 bn will be used as company's equity participation in PAU (59.98% owned by ESSA) and would also have only a minimal dilution impact on its existing shareholders. PAU will build a 700,000 ton per year ammonia facility at an estimated project cost of US\$ 750 mn (DER: 2:1). The International Finance Corporation (IFC) will facilitate loans worth US\$500 mn for PAU and also plans to take equity stake of US\$ 25 mn. The financial close is expected in April 2013.

■ **Major upward earnings revision**

In view of the stronger profits from ammonia units ahead, we revise our FY13-23f EBITDA forecasts significantly by 15% to US\$2,384 bn, mainly on account of higher ammonia price and gas price assumptions. The management indicates that PAU gas price will be linked to an indexed ammonia price whereby at current ammonia price of US\$ 730/mt, PAU will buy gas at a price of US\$ 8.60/mmbtu. ESSA's management forecast that 2012-2021 net profit to jump more than six-fold to US\$742.6 mn due to the start-up of the company's ammonia plant. Meanwhile, the company will continue its expansion on LPG plant equipment which resulted in ESSA's highest product recovery rate in 2014.

■ **Maintain Buy with new target price of Rp4,500**

We continue to like ESSA on strong domestic demand outlook for LPG and ammonia. Domestic LPG demand continues to increase due to the government's initiative to convert the use of kerosene to LPG. Demand for ammonia is also very strong given that Indonesia's annual urea import has increased to US\$2.6 bn while Indonesia imported 78% of its ammonium nitrate consumption of 550k tons. Following increase in EBITDA forecast we raise our DCF-based TP for ESSA from Rp3,800 to Rp4,300 and maintain our Buy call. In our view, ESSA is only suitable for long term investors who don't mind thin trading liquidity.

**Key investment metrics**

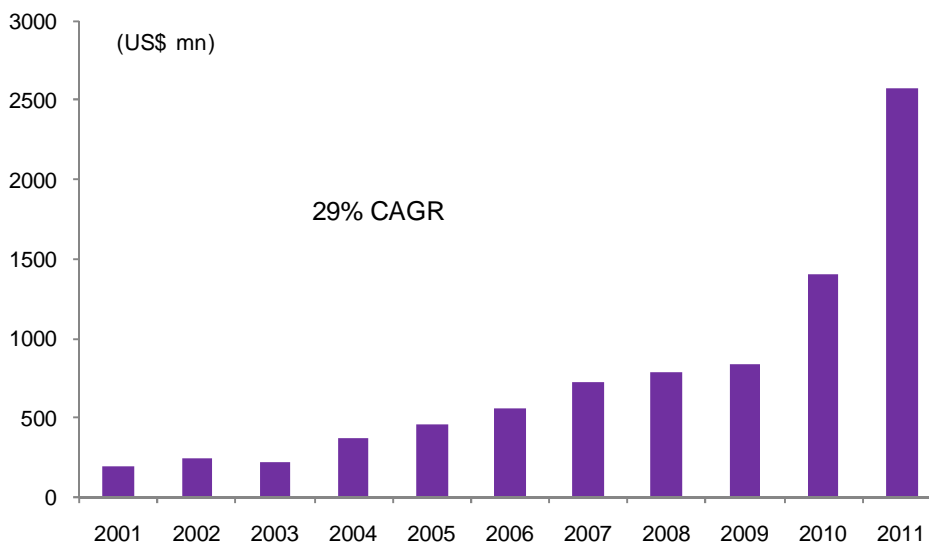
FYE Dec (US\$ mn)	2010	2011	2012F	2013F	2014F
Revenue (US\$ mn)	34.1	42.4	39.7	48.0	54.8
Net profit (US\$ mn)	9.4	11.3	10.5	17.7	19.7
% chg y-o-y	67.1	20.1	-7.7	68.9	11.7
Dividend Yield (%)	0.00	0.06	0.01	0.01	0.02
ROE (%)	45.1	59.1	19.8	17.7	7.9
PER Ratio (x)	33.5	27.9	30.2	17.9	16.0
PBV (x)	15.1	16.5	6.0	3.2	1.3
EV/EBITDA (x)	18.6	15.8	13.9	19.9	15.8

Source : Bloomberg, Company

**Exhibit 1: Our DCF calculation for ESSA**

In US\$ mn	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue - LPG	48.0	54.8	58.3	61.2	64.3	67.5	70.8	74.4	78.1	82.0	86.1
Revenue - Ammonia	0.0	0.0	112.3	432.0	450.0	490.5	534.6	582.8	635.2	692.4	754.7
Total Revenue	48.0	54.8	170.6	493.2	514.3	558.0	605.5	657.2	713.3	774.4	840.8
EBITDA - LPG	27.5	31.5	32.6	34.3	35.3	37.8	38.3	40.2	42.2	44.3	46.5
EBITDA - Ammonia	0.0	0.0	44.9	172.8	184.5	201.1	213.9	233.1	254.1	277.0	301.9
Total EBITDA	27.5	31.5	77.6	207.1	219.8	238.9	252.1	273.3	296.3	321.2	348.4
EBITDA margin - LPG (%)	57.4	57.5	56.0	56.0	55.0	56.0	54.0	54.0	54.0	54.0	54.0
EBITDA margin - Ammonia (%)			40.0	40.0	41.0	41.0	40.0	40.0	40.0	40.0	40.0
Total EBITDA margin (%)	57.4	57.5	45.5	42.0	42.7	42.8	41.6	41.6	41.5	41.5	41.4
Capex	-300.0	-100.0	-90.0	-60.0	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0
Change in Working Capital	43.6	97.8	-1.0	-16.0	-18.0	-20.0	-22.0	-24.0	-26.0	-28.0	-30.0
Minority interest	-0.1	-0.1	-5.1	-14.8	-15.4	-16.7	-18.2	-19.7	-21.4	-23.2	-25.2
Free cash flow	-229.0	29.2	-18.6	116.3	166.4	182.1	191.9	209.5	228.9	250.0	273.1
Discount period	0	1	2	3	4	5	6	7	8	9	10
Discount factor	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.4	0.4	0.3	0.3
Present value	-229.0	26.0	-14.7	81.7	103.9	101.1	94.7	91.9	89.2	86.6	84.1
Enterprise value	734.4										
Net debt	-232.3										
Equity value	498.3										
Outstanding shares (mn)	1,100	(adjusted for non-pre emptive shares)									
Equity value in Rp	4,303.2										

Source : Sucorinvest

**Exhibit 2: Indonesia's urea import**

Source : BPS

## FINANCIALS

### Balance Sheet

FYE Dec (US\$ mn)	FY10	FY11	FY12F	FY13F	FY14F
<b>Assets</b>					
Cash & Equivalents	12.5	20.6	31.2	286.9	230.5
Accounts Receivables	7.2	2.1	3.1	4.2	4.8
Inventories	1.0	1.3	1.1	1.3	1.5
Other current asset	0.4	0.4	0.6	0.7	0.7
Total current assets	21.0	24.3	36.0	293.0	237.4
Long-term receivables	0	0	0	0	0
Net fixed assets	13.5	23.9	24.7	321.3	417.7
Other assets	0.1	23.5	22.4	10.0	12.0
<b>Total assets</b>	<b>34.6</b>	<b>71.7</b>	<b>83.1</b>	<b>624.3</b>	<b>667.1</b>
<b>Liabilities and equities</b>					
Payables	0.7	0.4	0.5	0.6	0.6
ST. debt and curr. maturity	7.0	18.9	6.0	4.5	103.1
Other current liabilities	5.8	3.7	3.8	3.9	4.0
LT. debt	0.0	29.1	19.4	514.7	309.9
Other long term liabilities	0.3	0.5	0.6	0.8	1.0
<b>Total Liabilities</b>	<b>13.7</b>	<b>52.6</b>	<b>30.3</b>	<b>524.5</b>	<b>418.6</b>
Minority Interest	0.0	4.8	4.9	5.0	5.0
<b>Shareholders' equity</b>	<b>20.9</b>	<b>19.2</b>	<b>52.8</b>	<b>99.8</b>	<b>248.5</b>
<b>BVPS (US\$)</b>	<b>0.02</b>	<b>0.02</b>	<b>0.05</b>	<b>0.10</b>	<b>0.25</b>

### Income Statement

FYE Dec (US\$ mn)	FY10	FY11	FY12f	FY13f	FY14f
<b>Revenue</b>	<b>34.1</b>	<b>42.4</b>	<b>39.7</b>	<b>48.0</b>	<b>54.8</b>
Cost of revenue	-14.4	-13.0	-12.7	-14.3	-15.9
Gross profit	19.7	29.4	27.0	33.7	38.8
Gross margin (%)	57.7	69.3	68.0	70.2	70.9
<b>EBITDA</b>	<b>16.7</b>	<b>21.7</b>	<b>22.2</b>	<b>27.5</b>	<b>31.5</b>
EBITDA margin (%)	48.9	51.3	56.0	57.4	57.5
<b>Operating profit</b>	<b>13.9</b>	<b>18.8</b>	<b>19.0</b>	<b>24.1</b>	<b>27.9</b>
Operating margin (%)	40.8	44.4	48.0	50.2	50.9
Net interest inc (exp)	-1.4	-1.3	-1.9	-1.1	-2.3
Others	0.0	2.3	2.5	-0.5	-0.5
<b>Pre-tax profit</b>	<b>12.6</b>	<b>15.2</b>	<b>14.6</b>	<b>23.4</b>	<b>26.2</b>
Pre-tax profit margin (%)	36.9	35.9	36.8	48.9	47.8
Income tax - net	-3.2	-3.9	-4.1	-5.9	-6.5
Minority interest	0.0	-0.1	-0.1	-0.1	-0.1
<b>Net profit</b>	<b>9.4</b>	<b>11.3</b>	<b>10.5</b>	<b>17.7</b>	<b>19.7</b>
Net profit margin (%)	27.6	26.7	26.3	36.8	36.0
<b>EPS (US\$)</b>	<b>0.009</b>	<b>0.011</b>	<b>0.010</b>	<b>0.018</b>	<b>0.020</b>

**Cash flow Analysis**

<b>FYE Dec (US\$ mn)</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY14F</b>
<b>CFs from operation act.</b>					
Net profit	9.4	11.3	10.5	17.7	19.7
Depreciation & amortization	2.7	2.9	3.2	3.5	3.6
Change in working capitals	-2.4	2.5	-2.4	43.6	97.8
Others	-0.6	0.6	4.9	2.0	-3.0
<b>CFs from operation</b>	<b>9.1</b>	<b>17.3</b>	<b>16.2</b>	<b>66.7</b>	<b>118.2</b>
<b>CFs from investments act.</b>					
Net capex	-0.7	-1.2	-4.0	-300.0	-100.0
Others	0.0	-30.5	-2.0	1.7	-1.3
<b>CFs from investments</b>	<b>-0.7</b>	<b>-31.7</b>	<b>-6.0</b>	<b>-298.3</b>	<b>-101.3</b>
<b>CFs from financing act.</b>					
Decrease (inc.) in share cap.	0.0	-17.8	-3.4	-3.1	-5.3
Decrease (inc.) in debt	-2.6	36.5	-22.6	493.8	-106.2
Dividend	0.0	-17.8	-3.4	-3.1	-5.3
Others	0.0	22.0	29.9	-0.3	43.5
<b>CFs from financing</b>	<b>-2.6</b>	<b>23.0</b>	<b>0.5</b>	<b>487.3</b>	<b>-73.3</b>
<b>Net inc/(dec) in cash</b>	<b>5.7</b>	<b>8.7</b>	<b>10.7</b>	<b>255.6</b>	<b>-56.4</b>

**Key Ratios**

<b>FYE Dec</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY14F</b>
Revenue gr. (%)	70.3	24.2	-6.3	20.8	14.2
EBITDA gr. (%)	49.1	30.2	2.4	23.8	14.3
Opr. Profit gr. (%)	58.5	35.0	1.2	26.4	15.8
Net profit gr. (%)	67.1	20.1	-7.7	68.9	11.7
ROE (%)	45.1	59.1	19.8	17.7	7.9
ROA (%)	27.2	15.8	12.6	2.8	3.0
Current ratio (x)	1.6	1.1	3.5	32.6	2.2
Quick ratio (x)	1.5	1.0	3.4	32.5	2.2
Acc Rec. turn over (days)	76.8	18.2	28.3	31.8	31.7
Acc Payable turn over (days)	17.1	12.3	14.9	15.2	14.7
Debt to equity (x)	0.3	2.5	0.5	5.2	1.7
Net debt to equity (x)	-0.3	1.4	-0.1	2.3	0.7
EBITDA/Interest cov. (x)	12.2	16.9	11.5	24.2	13.7

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- Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.  
Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.  
Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months.

**Ratings for Stocks**

- Buy : We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.  
Hold : We expect this stock to give return of between -10% and 10% over the next 12 months.  
Sell : We expect this stock to give return of -10% or lower over the next 12 months.

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The research analyst(s) primarily responsible for the preparation of this research report hereby certify that all of the views expressed in this research report accurately reflect their personal views about any and all of the subject securities or issuers. The research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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