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Initiation Report

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PETROSEA

BUY

Expecting massive turnaround

Estimated (Dec)	2023A	2024F	2025F	2026F
Revenue (USD mn)	578	711	854	864
Net profit (USD mn)	12	8	28	50
EPS (USD)	12	8	28	50
EPS Change (YoY %)	(70.2)	(35.2)	252.0	79.9
PE (x)	42.8	61.1	17.4	10.0
ROIC (%)	6.7	5.7	9.5	12.8
ROE (%)	5.2	3.3	10.6	16.9
Net gearing (x)	0.8	0.8	0.8	0.7
Dividend yield (%)	14.6	0.5	1.7	3.0

### Stock Data

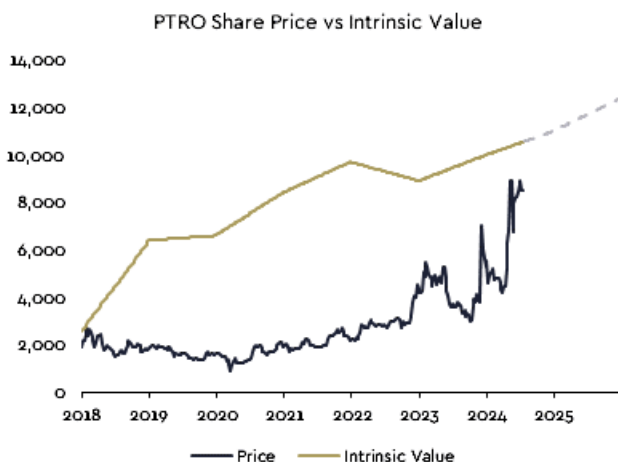
Bloomberg Ticker:	PTRO IJ
Last Price:	Rp7,900
Target Price (Upside):	Rp10,000 (+26.6%)
52-Week Range:	Rp2,880-Rp9,300
Market Capitalization:	Rp8tn
Shares Outstanding (bn):	1.01
6M Avg Trading Value:	Rp27.23bn

All figures are in local currency (Indonesian Rupiah) except where otherwise stated.

### Historical 5-Yr Key Performance (2019–2023):

Revenue Growth	30.6%	ROE	12.1%
Earnings Growth	-57.9%	ROIC	9.6%
FCF Growth	N/A	Asset Growth	31.0%
5-Yr PE	5.9	EBITDA Growth	-8.1%
5-Yr EV/EBITDA	2.1	Net Gearing	0.3

### PTRO Share Price vs Intrinsic Value



### EPS Consensus (USD)

	2024F	2025F	2026F
Sucor estimates	8	28	50
Consensus	N/A	N/A	N/A
Sucor/Consensus	N/A	N/A	N/A

### Impressive comeback in progress

We like PTRO for its: 1) lucrative earnings growth outlook following higher mining contracting volume achieved through new contracts, coupled with higher earnings contribution from coal mining as sales volume gradually increases; 2) new shareholders bring massive opportunity for PTRO in the form of untapped mining assets that could potentially translate to additional business for PTRO; and 3) PTRO still trades at a sound valuation of 17.4x and 5.5x forward PE and EV/EBITDA. We initiate BUY with a TP of Rp10,000, implying 22.0x and 6.3x forward PE and EV/EBITDA.

### Turnaround story under new management

The change in shareholders has resulted in a new contract worth a total of USD 1.8bn for both mining contracting and EPC. We expect this to translate into strong top-line growth in coming years, while earnings are projected to see a massive turnaround following better operating leverage. Note that revenue backlog in both EPC & mining contracting segments has increased significantly by 152% and 60% to USD 747mn and USD 3.7bn, respectively, in 2023.

### Venturing into coal mining

PTRO acquired a coal mining asset located in East Kalimantan, with reserves of nearly 50mn tonnes. In 2023, coal output from this mine reached 0.3mn tonnes, and the company aims to gradually raise its annual production to 5mn tonnes over the next 3-4 years. This new growth engine is projected to bring in USD250mn in revenue by 2028F, contributing 22% of the total.

### Sharp earnings turnaround expected in 2025F

We project PTRO to deliver strong earnings recovery starting in 2025 onwards, with net profit estimated to reach USD 28mn in 2025 or increasing by 252% yoy. This strong growth is largely driven by higher mining contracting volume coming from new contracts, coupled with new contributions from the coal mining segment. Note that we expect PTRO to record low base earnings this year, contributed by higher costs in the coal mining segment. Nevertheless, we project PTRO to record a robust 46% earnings CAGR in 2023 – 2028F, which is arguably one of the highest among peers.

**Stable legacy EPC & mining contracting segments**

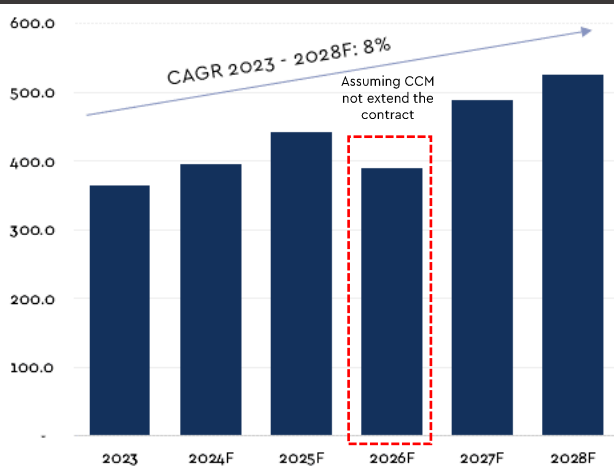
PTRO has established itself as a prominent EPC and mining contractor in Indonesia, catering to both leading multinational oil and gas as well as domestic mining companies, including Freeport, BP, Unocal, Total, ConocoPhillips, Newmont, Bayan Group, Kideco, etc. The company has maintained a strong relationship with Freeport, its largest EPC customer (contributing 47% of EPC revenue) over the years, and we project this partnership to result in stable and growing revenue for PTRO through both new and extension of existing EPC projects. Additionally, PTRO has recently secured a lucrative 3-year contract worth USD 448mn from BP Berau and Vale Indonesia (INCO), representing a substantial 30% revenue backlog from existing EPC contracts.

PTRO is also ranked as one of the top 6 largest mining contractors in Indonesia, with total coal production of 17mn tons and OB removal of 131mn bcm in 2023. The company has secured a majority of its mining contracts until 2026-2028, including Kideco (which represents 43% of mining contracting revenue). In addition, PTRO was also awarded a life-of-mine contract from parents SINI, valued at USD 1.08bn.

PTRO has initiated diversification of its mining contract into mineral projects such as gold, bauxite, and nickel. Currently, PTRO has already secured and worked on nickel projects, including Cipta Djaya Selaras Mining and Sumberdaya Arindo (SDA), a subsidiary of ANTM, with a length contract of 2 years. However, the contribution from this non-coal segment remains low at below 5% of PTRO's mining contracting revenue.

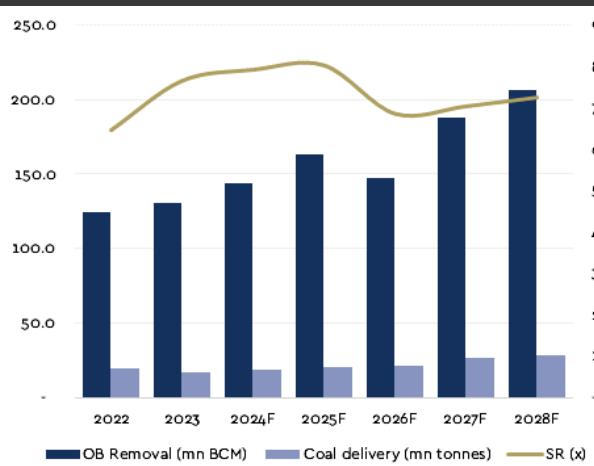
EPC revenue is to grow strongly at 18% CAGR over the next three years, driven by a new contract from BP & Vale and an extended contract from Freeport. Meanwhile, mining contracting is expected to see a modest flat by 2% CAGR, assuming gradual volume growth from 3 new contracts and non-extension CCM contracts in 2026. These two segments will continue to remain as the backbone for PTRO, with revenue contributions of 31% and 58%, respectively, in 2024.

Fig. 1: Mining contractor segment revenue, USD mn



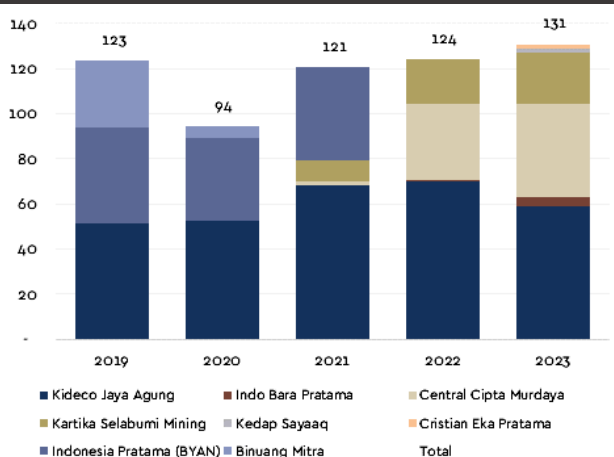
Source: Company, Sucor Sekuritas

Fig. 2: Mining contracting segment operational performances



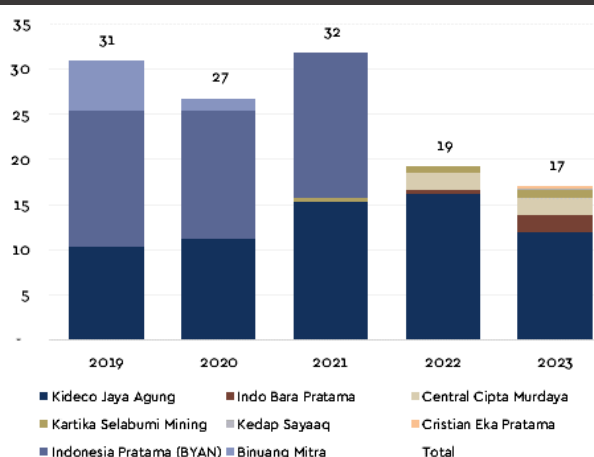
Source: Company, Sucor Sekuritas

Fig. 3: PTRO mining contractors client based on OB Removal



Source: Company, Sucor Sekuritas

Fig. 4: PTRO mining contractors client based on coal production



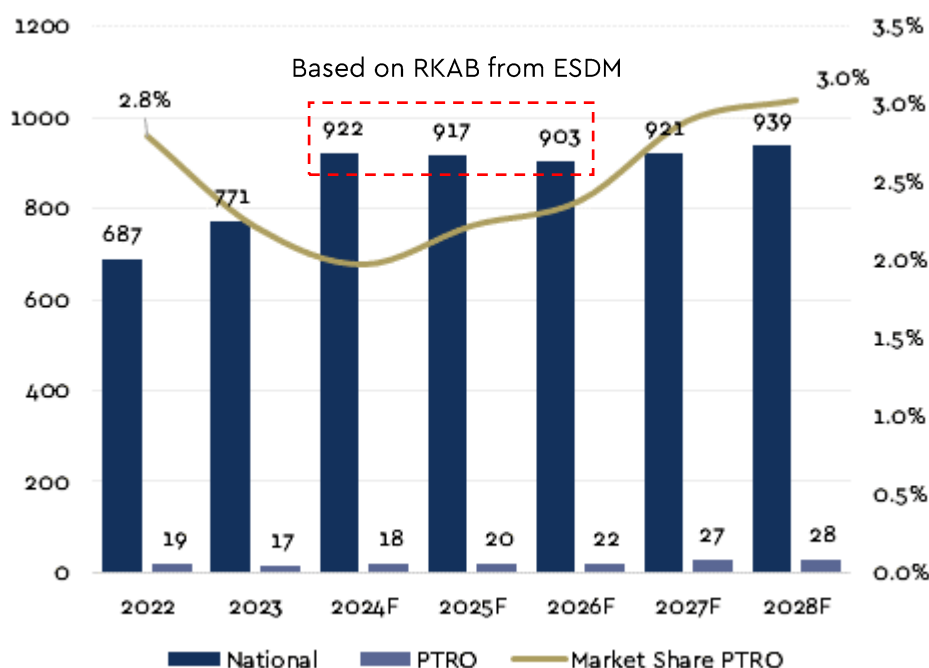
Source: Company, Sucor Sekuritas

**Beneficiary of the strong domestic coal production**

In early 2024, the Government officially approved the RKAB proposals from several national coal producers, reaching ~922mn tons per year during 24-26F, growing by 20% yoy from 2023 realization. We see additional production is predominantly from small coal miners, as large coal producers have seen to maintain their current production levels. This situation could be advantageous for PTRO, given its prominent position in mining contractor services and extensive experience with major coal miners, potentially enabling it to secure more contracts in the future.

We project the company could gain more market share in the industry, driven by the gradual ramp-up in coal production from three new contracts secured this year. We project PTRO's mining contracting segment to deliver 28mn tonnes of coal output, growing by 11% CAGR in 2023-28F. This will also boost PTRO's coal mining contracting market share to 3.0% by 2028F (vs. 2.2% currently).

Fig. 5: Coal production expected to rise in the 24-26F, mn tonnes



Source: Company, Sucor Sekuritas

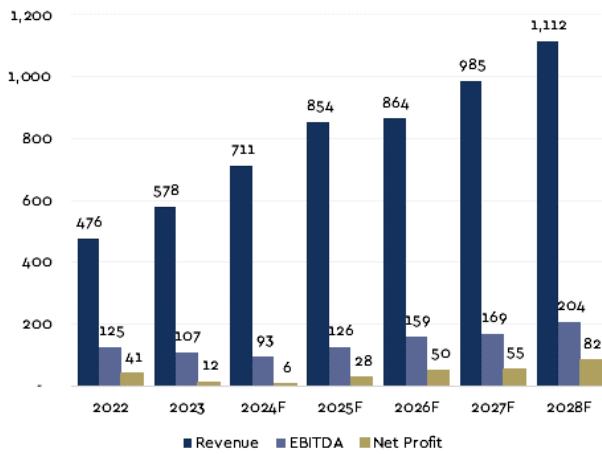
## Financial Overview

### Strong earnings growth outlook over the next 5Y

PTRO is expected to deliver robust 46% earnings growth CAGR 2023–2028F, mainly driven by 14% CAGR on revenue and margin expansion, primarily on the coal division. The revenue growth was mostly driven by a modest 8% CAGR mining contracting revenue alongside a robust growth of 101% CAGR in the coal mining division, supported by a gradual improvement in coal production.

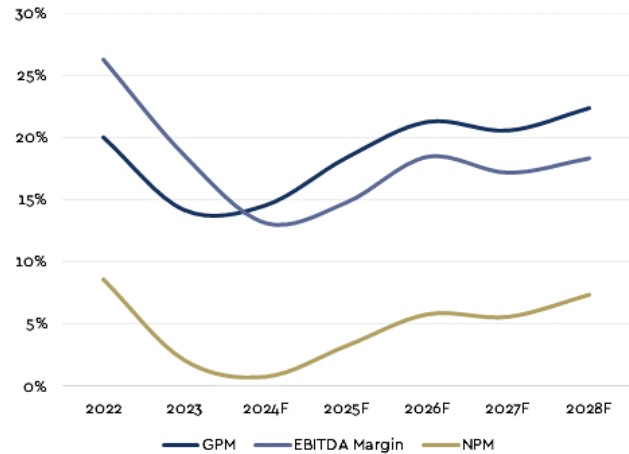
We also anticipate margin improvement in EBITDA, reaching 18% in 28F (vs 14% in 24F) driven by improvement in the coal division segment. Our earnings estimate also assumes cash cost to gradually decline to USD 35 per tonne for its coal mining segment within the next 5Y, declining from USD 65 per tonne estimates in 2024. This could drive ROE & ROIC expansion to 25% and 18% in 28F, respectively.

Fig. 6: PTRO financial performances (mn USD)



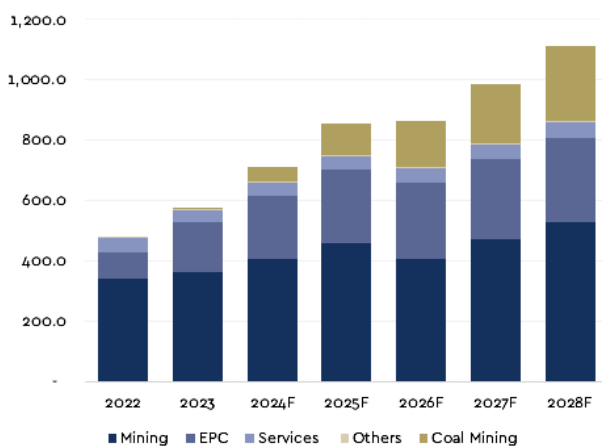
Source: Company, Sucor Sekuritas

Fig. 7: PTRO margin (%)



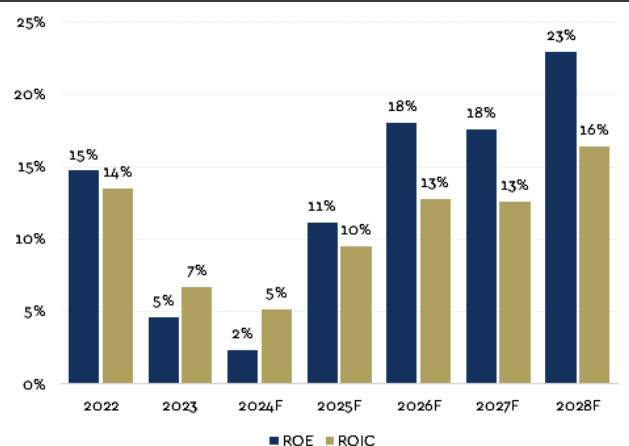
Source: Company, Sucor Sekuritas

Fig. 8: PTRO revenue breakdown



Source: Company, Sucor Sekuritas

Fig. 9: ROE & ROIC expanding driven by margin improvement

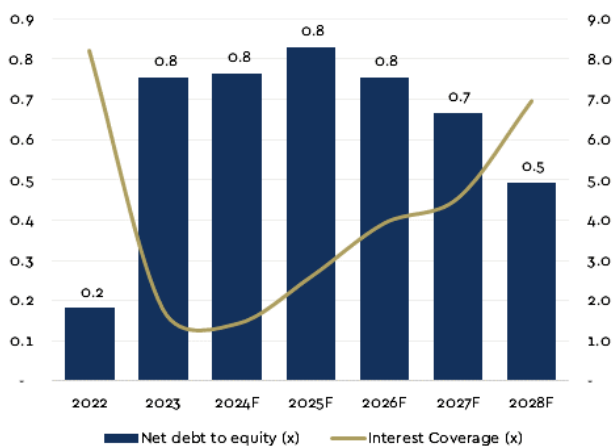


Source: Company, Sucor Sekuritas

**Strong balance sheet gave room for expansion**

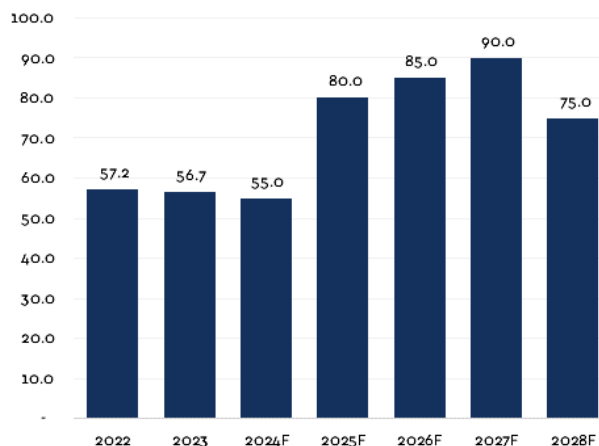
A healthy balance sheet positions the company to execute substantial contracts and expand its business. PTRO's gearing ratio remains manageable, with a net debt-to-equity ratio (DER) of 0.8x in 2023. Interest coverage remains sound, standing at 1.8x in 2023, and is projected to improve to 8.3x by 2028 as earnings contribution from the coal mining segment kicks in. Additionally, PTRO has recently secured USD 480mn credit facilities from Bank BCA to support business expansion and refinancing.

Fig. 10: Profitable business enable PTRO to be better leverage profile



Source: Company, Sucor Sekuritas

Fig. 11: PTRO capex projection, USD mn



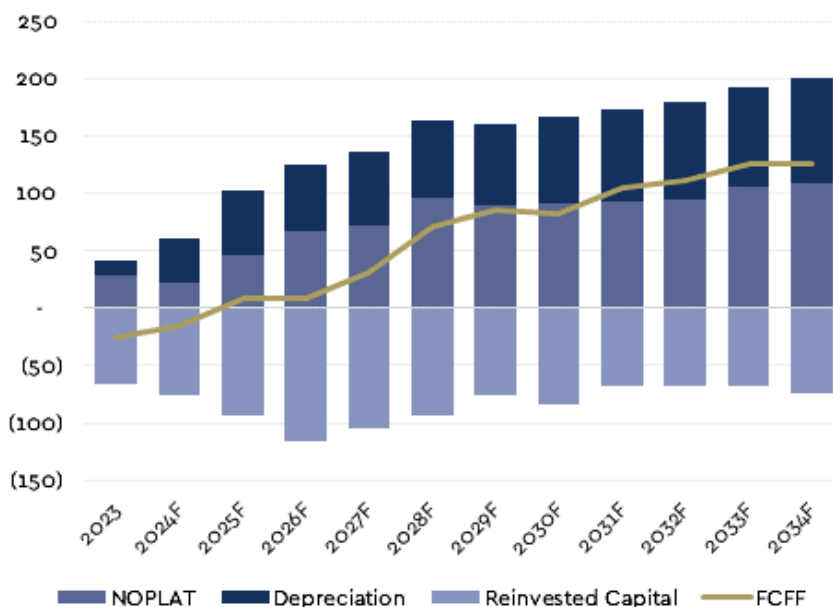
Source: Company, Sucor Sekuritas

**Initiate BUY with a TP of Rp10,000**

We like PTRO for its lucrative earnings growth outlook, stemming from both its mining contracting and coal mining segments. We project the mining contracting business to deliver strong 8% top-line growth over the next five years, driven by the additional new contracts from CUAN and SINI. Additionally, the coal mining segment is projected to generate strong earnings & cash flow in coming years as coal production gradually picks up.

We initiate BUY with a DCF-based TP of Rp10,000, implying 5.6x forward EV/EBITDA. We assume a long-term ROE projection of 18%, a constant 30 - 40% dividend payout ratio, a WACC of 11%, and a terminal growth rate of 2%.

Fig. 12: Robust Free cash flow generation



Source: Company, Sucor Sekuritas

### Company Profile

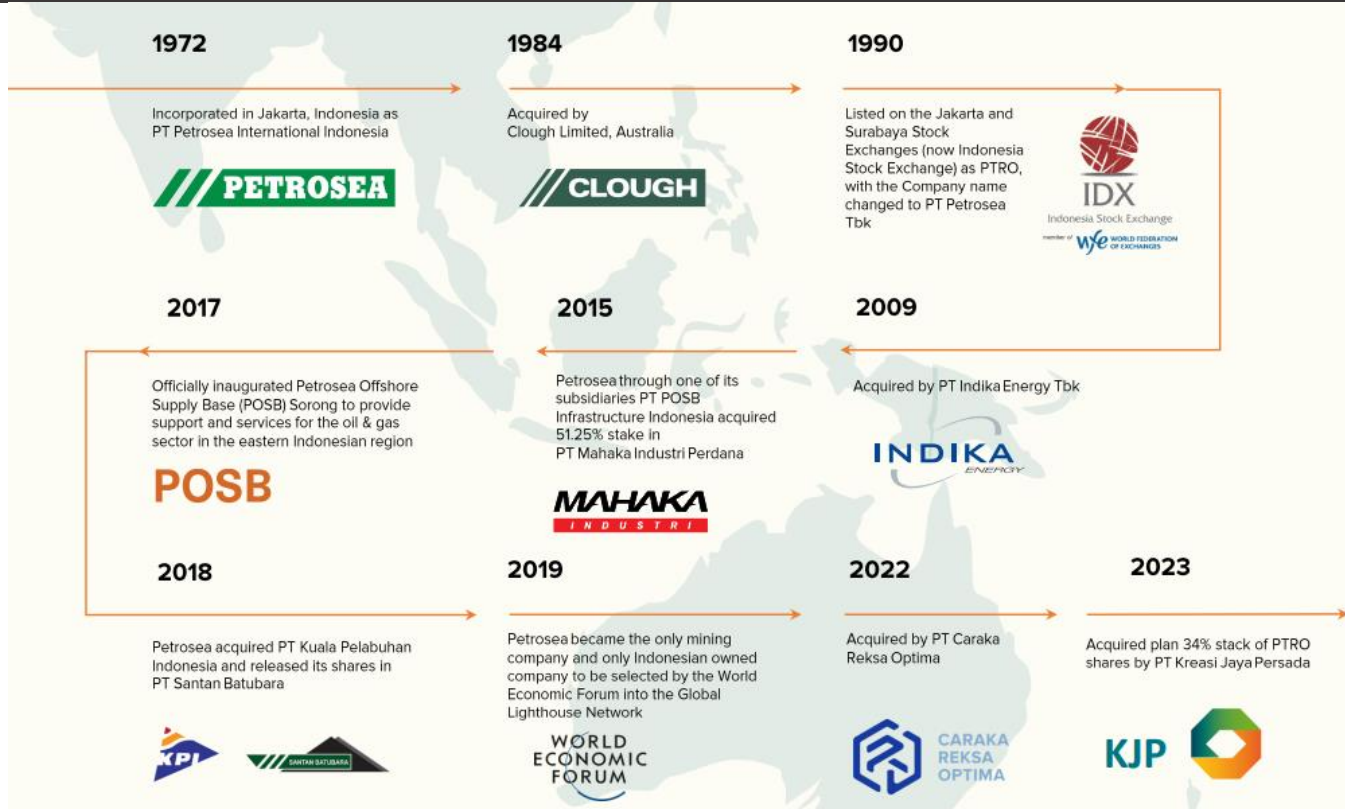
PT Petrosea Tbk. (PTRO) is a multi-disciplinary mining contractor, engineering, procurement & construction (EPC), and oil & gas services company with a strong track record of achievement in Indonesia since 1972.

With a track record of achievement for over 52 years, PTRO offers a competitive advantage through its ability to provide complete pit-to-port mining solutions, integrated engineering, procurement, and construction capabilities as well as logistic support, while demonstrating absolute commitment to safety, health & environment, quality management, and business integrity.

In 2019, PTRO was selected by the World Economic Forum as the only mining company and the only Indonesian-owned company to join the Global Lighthouse Network due to its success in implementing Industry 4.0 technologies.

Petrosea has been listed on the Indonesia Stock Exchange (IDX: PTRO) since 1990 and was the first publicly listed Indonesian engineering and construction company in Indonesia. Petrosea is controlled by PT Kreasi Jasa Persada which is wholly-owned by PT Petrindo Jaya Kreasi Tbk (CUAN).

Fig. 13: PTRO milestone



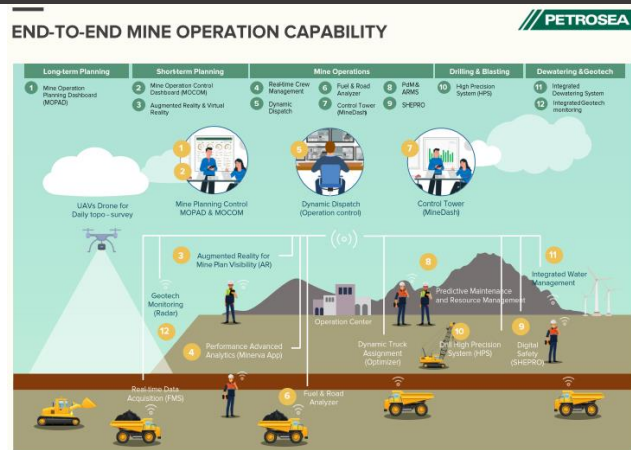
Source: Company, Sucor Sekuritas



**Business Line**

- **Mining Contracting.** The company Petrosea offers a wide range of project services from pit-to-port, including: Open pit contract mining services; Civil and infrastructure construction, including roads, tailing dams, and site facilities; Mining project management services, including equipment and operators from mine owners as well as subcontractors; Technical and feasibility study consulting services; Mine planning and optimization services; Minerva digital platform solution that can be applied in mining operations.
- **Engineering, Procurement & Construction (EPC).** For the minerals and infrastructure industry, Petrosea provides the full range of engineering, procurement, construction and operations services, including: Technical due diligence; Conceptual to full bankable feasibility studies; Front end engineering design; Detail engineering design; Project management; Plant and equipment hire; Procurement and logistics; Operation and maintenance services; Construction; Commissioning.
- **Oil & Gas Services.** Petrosea provides services for the oil & gas industry in Indonesia through the Petrosea Offshore Supply Base (POSB) supply base located in Sorong, West Papua, which consistently delivers international standard and cost-effective services to all of its clients. High-quality supply base management capability, along with a strong focus on HSE, ensures that able to provide services safely and efficiently, supporting offshore oil & gas production, development, and exploration throughout Indonesia.

Fig. 14: Mining contractor business operation



Source: Company, Sucor Sekuritas

Fig. 15: EPC business operation



Source: Company, Sucor Sekuritas

Fig. 16: Services business operation



Source: Company, Sucor Sekuritas

Summary Financials

Chart 17: PTRO Key Financial Highlights

Income statement (USD mn)	2022	2023	2024F	2025F	2026F
Revenue	476	578	711	854	864
Cost of sales	(381)	(496)	(604)	(697)	(680)
<b>Gross profit</b>	<b>95</b>	<b>82</b>	<b>107</b>	<b>157</b>	<b>184</b>
Operating expenses	(35)	(47)	(76)	(99)	(99)
<b>Operating profit</b>	<b>61</b>	<b>35</b>	<b>31</b>	<b>59</b>	<b>85</b>
<b>EBITDA</b>	<b>113</b>	<b>115</b>	<b>125</b>	<b>107</b>	<b>96</b>
Financial income (expenses)	(6)	(19)	(18)	(21)	(20)
Others	(4)	(1)	(3)	(2)	(2)
<b>Pre-tax Profit</b>	<b>50</b>	<b>16</b>	<b>10</b>	<b>35</b>	<b>63</b>
Income tax, net	(9)	(4)	(2)	(7)	(13)
Minority Interests	(0)	(0)	(0)	(0)	(0)
<b>PATMI</b>	<b>41</b>	<b>12</b>	<b>8</b>	<b>28</b>	<b>50</b>
EPS (USD)	41	12	8	28	50
DPS (USD)	0	76	2	8	15

Balance Sheet (USD mn)	2022	2023	2024F	2025F	2026F
Cash & Equiv.	62	73	75	74	77
Accounts Receivables	106	150	185	222	225
Inventories	19	19	20	26	27
Fixed Assets, net	233	231	230	253	279
Other assets	177	255	263	280	299
<b>Total Assets</b>	<b>596</b>	<b>728</b>	<b>773</b>	<b>855</b>	<b>906</b>
CM of Long-term Debt	26	50	51	56	58
Short-term Bank Loans	45	37	38	40	41
Trade Payables	119	140	165	186	193
Long-term loans	44	164	169	192	198
Other liabilities	64	102	106	117	118
<b>Total Liabilities</b>	<b>298</b>	<b>492</b>	<b>530</b>	<b>591</b>	<b>609</b>
Shareholders equity	33	33	33	33	33
Minority interests	1	1	1	1	1
Retained earnings	271	212	218	237	272
Other Equity	(7)	(11)	(9)	(8)	(9)
<b>Total Equity</b>	<b>298</b>	<b>236</b>	<b>243</b>	<b>263</b>	<b>297</b>

Cash Flow Statement (USD mn)	2022	2023	2024F	2025F	2026F
Net Income	41	12	8	28	50
Depreciation & Amortization	14	38	55	57	64
Other Operating Cashflow	(53)	84	8	0	2
Changes in NWC	14	(40)	(13)	(21)	(6)
<b>CF from Operation</b>	<b>15</b>	<b>94</b>	<b>58</b>	<b>65</b>	<b>110</b>
Capex for Fixed Assets	(12)	(123)	(64)	(89)	(100)
Other Investing Cashflow	(7)	(20)	-	-	-
<b>CF Investing</b>	<b>(19)</b>	<b>(143)</b>	<b>(64)</b>	<b>(89)</b>	<b>(100)</b>
Change in Debt	(15)	136	7	30	8
Dividends Paid	(0)	(76)	(2)	(8)	(15)
Other Financing Cashflow	(8)	(4)	3	1	(1)
<b>CF Financing</b>	<b>(24)</b>	<b>56</b>	<b>7</b>	<b>23</b>	<b>(7)</b>
<b>Changes in Cash</b>	<b>(27)</b>	<b>7</b>	<b>2</b>	<b>(1)</b>	<b>3</b>
Beginning Balance	89	62	73	75	74
<b>Ending Balance</b>	<b>62</b>	<b>68</b>	<b>75</b>	<b>74</b>	<b>77</b>

Key Ratios	2022	2023	2024F	2025F	2026F
Gross Profit Margin (%)	20.0	14.2	15.0	18.4	21.3
Operating Profit Margin (%)	12.8	6.1	4.4	6.9	9.8
EBITDA Margin (%)	23.7	19.8	17.7	12.6	11.1
Net Profit Margin (%)	8.6	2.1	1.1	3.3	5.8
Return on Invested Capital (%)	13.5	6.7	5.7	9.5	12.8
Return on Equity (%)	13.8	5.2	3.3	10.6	16.9
Dividend Yield (%)	0.0	14.6	0.5	1.7	3.0
Interest Coverage Ratio (x)	8.2	1.8	1.6	2.6	3.9
Net Debt-to-equity (x)	0.2	0.8	0.8	0.8	0.7
Current Ratio (x)	1.2	1.2	1.2	1.2	1.2
Quick Ratio (x)	0.8	1.0	1.0	1.0	1.0
Revenue growth (%)	14.6	21.3	23.0	20.2	1.1
Oper. Profit growth (%)	28.1	(14)	29.8	47.4	17.0
EBITDA growth (%)	36.2	(42)	12.4	89.0	45.3
Net Profit growth (%)	21.5	(70)	(35.2)	252.0	79.9

Source: Sucor Sekuritas, Company



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and important disclosure****Ratings for Sectors**

- 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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