

May 22, 2023



Research Center

Morning KISI/

- Research Company Update: Surya Esa Perkasa, Tbk (ESSA)
- Market Commentary
- Macro Calendar

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Surya Esa Perkasa (ESSA)

Hitting the skids amid low ammonia prices

Setback in 1Q23 ammonia sales

ESSA booked an underwhelming 1Q23 ammonia sale at 105k MT, and expects excess of its 1Q23 production to be booked as sales in 2Q23. Concurrently, ASP fell to USD708/MT (-13% YoY) but is still higher than the pre-Russian-Ukraine war level. 1Q23 ammonia segment GPM stood at 15.4%, a drop from 40.4% in 1Q22 due to a one-off from maintenance shutdown cost of around ~USD10mn in 1Q23 which won't recur going forward.

Ammonia prices should recover but at a much lower level vs. 2021/22

Ammonia price averaged USD623/MT in 1Q23, a drop of 38% from FY22 owing to the weak feedstock gas price. Even though the low production costs looked attractive, the ammonia market was broadly oversupplied due to 1) low seasonal demand in 1Q23, and 2) recovering global ammonia plant post-pandemic. We view ammonia prices should rebound when 1) planting season starts by end of 2Q23/early 3Q23, and 2) feedstock gas cost rise as Europe re-enters winter heating season and gradual recovery in China's manufacturing sector. Therefore, we tweak our ESSA's ASP assumption to USD451/426 per MT in FY23/FY24F (from USD758/590 per MT).

Expect margin recovery in 2Q23 onwards as operations normalised

ESSA's GPM in 2Q23F is expected to normalize to ~30% as 1) 2Q23 should book the rest of ammonia that was not sold (~37k MT) in 1Q23, 2) 1Q23 GPM was impaired due to maintenance one-offs, and 3) robust sales as ammonia plant will be performing at 114% capacity post-plant maintenance (assuming that there will be no significant delay for the 2Q23F shipment). We forecast ESSA's ammonia ASP in 2Q23 to settle around USD320/MT and ESSA's 2Q23F gas cost to average around USD5/MMBtu. At current cost structure, only if 2Q23F ammonia ASP falls below USD206.3/MT, then we might see ESSA booking a net loss.

Significant earnings downgrade led to SELL call with TP at IDR490/sh

We slashed our DCF-based TP to IDR490/sh from IDR1,210/sh and downgrade our call to SELL on the back of much lower earnings as we cut our FY23/24F earnings by 55/51% and weak ammonia price outlook, as feedstock gas and ammonia demand remain muted. Our TP implies a -16.2% downside to the current price and implies a 12.2x FY23F PE and 5.2x FY23F EV/EBITDA (between -1 and -0.5std dev).

FY-ending Dec.	2021A	2022A	2023F	2024F	2025F
Sales (USD mn)	303	731	372	364	364
GP (USD mn)	110	341	120	111	105
OP (USD mn)	86	302	94	82	74
NP (USD mn)	14	139	46	43	41
EBITDA (USD mn)	134	347	141	130	127
Net debt (USD mn)	392	122	(14)	(116)	(119)
OP margin (%)	28	41	25	23	20
ROE (%)	5	26	8	7	6
Dividend yield (%)	0%	1%	8%	0%	0%
EPS (IDR)	13	132	40	37	36
chg. (% YoY)	(172)	934	(70)	(6)	(5)
BPS (IDR)	275	499	492	529	564
DPS (IDR)	-	5	45	12	11
PE (x)	26.3	7.2	14.7	15.6	16.4
PB (x)	1.2	1.9	1.2	1.1	1.0
EV/EBITDA (x)	6.3	2.4	6.0	6.5	6.7

Company

Update

Basic Materials

May 19, 2023

12M rating **SELL (Downgrade)**

12M TP **IDR 490**

(from IDR1,210)

Upside **-16.2%**

Stock Data

JCI (May 17)	6,663
Stock price (May 17, IDR)	585
Market cap (IDR bn)	10,078
Shares outstanding (m)	17,227
52-week high/low (IDR)	1,405/550
6M avg. daily turnover (IDR bn)	32.8
Free float (%)	31.5
Major shareholders (%)	
Trinugraha Akraya Sejahtera	21.0
Chander Vinod	16.4

Performance

	1M	6M	12M
Absolute (%)	-23.3	-39.1	-50.7
Relative to JCI (%)	-15.5	-37.8	-51.2

ESSA share price



Source: Bloomberg

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Market Commentary

Market Commentary

- JCI finished modestly higher Friday after recent straight days of losses, as the index caught up with the latest global equities rebound on hopes that the lawmakers in Washington will avert a first-ever US default. While the index posted a third weekly decline on a gloomy global outlook, erased 0.11% this week.
- Today's advance was attributed most to hefty gains in big-cap stocks while offsetting the continued pressures in commodity stocks as China's lackluster economic recovery and monetary tightening by the Fed weigh on the outlook.
- Regional equities were mixed with China and Hongkong shares were pulled lower by tech stocks as the focus returns to China's lackluster economy.
- 6/11 sectors pushed higher led by Finance and followed by Property, Tech, Industrial, and Consumers. While Energy and Basic Materials remain the lags.
- RUPIAH +0.40% at 14,925 against USD.
- Big banks and other big stocks contributed to the index higher, catching up with a rebound in most global stocks on encouraging signs from debt-ceiling talks in Washington. BBRI IJ +3.85%, BBKA IJ +2.56%, BMRI IJ +1.50%, ASII IJ +2.37%.
- Meanwhile, energy and basic material stocks remain under pressure as China's lackluster economic recovery and monetary tightening by the Fed weigh on the outlook. ADRO IJ -5.12%, ITMG IJ -6.08%, MDKA IJ -5.96%, ADMR IJ -5.11%.
- Top value were: BBKA (+2,5%), BBRI (+3,8%), GOTO (+1,7%)
- Top Gainers: BBRI (+3,8%), BBKA (+2,5%), BMRI (+1,5%)
- Top Losers: MDKA (-5,9%), ADRO (-5,1%), UNTR (-3,0%)

News

Macroeconomic, Sector and Corporate News

- DOID – Plans to issue USD 500mn global bond for refinancing. EGM: 8Jun2023. (Bisnis)
- INTP – To distribute IDR160/sh dividend (~1.6% yield). Cum date: 26May2023. (Investor daily)
- AMRT – To distribute dividend of IDR24/shs (~0.8% yield). Cum date: 26May2023.
- MIDI – To distribute dividend of IDR4.1/shs (~1.1% yield). Cum date: 26May2023.
- BFIN – To distribute dividend of IDR32/shs (~2.5% yield). Cum date: 25May2023. (Kontan)
- DLTA – To distribute dividend of IDR325/shs (~8% yield). Cum date: 25May2023. (Kontan)
- IPO – PT Maxindo Karya Anugerah, engages in snack food businesses, plans for IPO of up 1bn shares (~10.4% of capital) @ IDR 100-110/sh. Initial bookbuilding: 22-24May2023. (Bisnis)

Outliers

Outlier Stocks

- Sharp Movers (Up) : SAGE (+13,4%), MPXL (+10,7%), CHIP (+9,9%)
- Sharp Movers (Down) : HAJJ (-10%), MBAP (-7%), NCKL (-7%)

Macro Calendar

May 22, 2023

Mon	Tue	Wed	Thu	Fri
1	2	3	4	5
Korea> Market closed (Labor Day) April trade balance April imports/exports yoy US> April Market manufacturing PMI (F) April ISM manufacturing PMI Japan> April Jibun Bank manufacturing PMI (F) China> Market closed through May 3 (Labor Day)	Korea> April CPI US> March job openings and labor turnover survey March manufacturing orders March durable goods orders (F) Europe> April Markit manufacturing PMI (F) April CPI (P) Japan> April monetary base	US> FOMC meeting (through May 4) April ADP employment chg. April Markit services/composite PMI (F) April ISM services PMI MBA mortgage applications Europe> March jobless rate Japan> Market closed through May 5 (Constitution Memorial Day, etc.)	Korea> April FX reserves US> March trade balance Initial jobless claims Continuing claims for unemployment insurance Europe> ECB MPC meeting March PPI April Markit services/composite PMI (F) China> April Caixin manufacturing PMI	Korea> Market closed (Children's Day) US> April jobless rate April non-farm payrolls April avg. hourly wages April economic activity participation rate Europe> March retail sales China> April Caixin services/composite PMI
8	9	10	11	12
US> March wholesale inventory mom (F) Japan> April Jibun Bank services/composite PMI (F)	US> NFIB small business optimism index China> April trade balance April imports/exports yoy April M2 money supply	Korea> April jobless rate US> April CPI MBA mortgage applications	US> Initial jobless claims Continuing claims for unemployment insurance April PPI China> April CPI/PPI Japan> March current balance	US> May U. of Michigan consumer confidence index (P) May U. of Michigan consumer expectation index (P) May U. of Michigan inflation expectations (P) Japan> April M2 money stock yoy
15	16	17	18	19
US> May New York manufacturing index Europe> March industrial production Japan> April PPI April machine tool orders (P)	US> April retail sales mom April mining and manufacturing production mom April facility utilization rate Europe> 1Q23 GDP (P) China> April mining and manufacturing production April retail sales	US> MBA mortgage applications April housing construction starts April building permits Europe> April CPI (F) Japan> 1Q23 GDP (P) March mining and manufacturing production (F) March facility utilization rate	US> Initial jobless claims Continuing claims for unemployment insurance April existing home sales May Philadelphia Fed economic outlook May economic leading index Japan> April trade balance April imports/exports yoy	Japan> March tertiary industry index mom April nationwide CPI
22	23	24	25	26
Korea> May imports/exports (May1-20) US> March Chicago Fed national activity index April Dallas Fed manufacturing activity index Europe> March construction production May consumer expectation index (P) OECD Economic Outlook Japan> March core machinery orders	US> April new home sales May Markit manufacturing PMI (P) May Markit services/composite PMI (P) Europe> May Markit manufacturing PMI (P) May Markit services/composite PMI (P) Japan> May Jibun Bank manufacturing PMI (P) May Jibun Bank services/composite PMI (P)	Korea> June BSI manufacturing/non-manufacturing index US> FOMC minutes release MBA mortgage applications Japan> April machine tool orders yoy (F)	Korea> BoK MPC meeting April PPI US> Initial jobless claims Continuing claims for unemployment insurance 1Q23 private spending 1Q23 GDP April pending home sales	US> April PCE April durable goods orders (P) April U. of Michigan consumer confidence index (F) April U. of Michigan consumer expectation index (F) April U. of Michigan inflation expectations (F) Japan> May Tokyo CPI May Tokyo core CPI
29	30	31		
Korea> Market closed (substitute holiday) US> Market closed (Memorial Day)	US> FHFA house price index mom May CB consumer expectation index May Dallas Fed manufacturing activity index Europe> May consumer expectation index (F) Japan> April jobless rate	Korea> April mining and manufacturing production US> MBA mortgage applications China> May NBS manufacturing PMI May NBS services/composite PMI Japan> April retail sales April mining and manufacturing production		

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement