

**We maintain our BUY call on ELSA with 52-week TP of IDR 490, derived via DCF valuation (12% WACC).** Our target price provides 42.2% upside potential and implies 7.6x FY20F PE, -0.8 SD discount from its 5 years mean. We believe recent share price correction, primarily due to LQ45 index exclusion this week, provides buying opportunity for the stock as we see company's fundamental and 1H19 earnings result remains solid. In addition, valuation remains attractive at current point. Downside risks to our call include lower than expected new contract achievement and margin compression on the upstream business.

**Robust top-line growth with improving margin.** ELSA booked 2Q19 revenue of IDR 1.87 tn (+28.0% YoY, -1.7% QoQ), bringing company's 1H19 achievement to IDR 3.77 tn (+29.3% YoY, 56.2% of our previous estimate). Both upstream and downstream businesses have performed well above our expectation in 1H19, as top-line managed to grow by 41.3% YoY and 21.4% YoY respectively. On the other hand, ELSA posted 2Q19 net profit of IDR 78.9 bn (+38.8% YoY, +4.0% QoQ), translating to a 4.2% NPM in 2Q19 (vs 3.9%/4.0% in 2Q18/1Q19).

**Solid upstream recovery.** ELSA's upstream business booked a total revenue of IDR 1.64 tn (+41.3% YoY) in 1H19, as both drilling & oilfield service as well as seismic service activity have significantly improved in the past few years. As of Jun-19, ELSA has secured IDR 1.7 tn worth of new contracts, achieving 53% of our FY19E. Margin wise, ELSA managed to improve their upstream profitability as both GPM and NPM rose to 8.4%/1.1% in 1H19, from previously 7.8%/-11.1% in 1H18. Given a stable oil price and more expiring oil and gas block contracts returned to Pertamina, we see upstream business to perform well for the next few years.

**Stable downstream growth.** ELSA's downstream business recorded another solid top-line growth as 1H19's revenue came in at IDR 2.1 tn (+21.4% YoY). On the profitability side, GPM saw a slight improvement to 10.0% in 2Q19 (vs 8.6%/9.4% in 1Q19/2Q18). Meanwhile, NPM slightly rose to 5.9% in 2Q19, from 5.4% in the previous quarter, which brings 1H19 net profit to IDR 118.6 bn (+7.8% YoY). We expect downstream business will remain to be the backbone for company's bottom line growth as recovery in the upstream business require a much longer time.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	4,979	6,625	7,699	7,347	7,644
% growth	37.5%	33.1%	16.2%	-4.6%	4.0%
Gross Profit	579	652	822	797	840
Net Profit	247	276	318	333	369
% growth	-20.5%	11.8%	15.0%	4.7%	10.9%
Gross Margin (%)	11.6%	9.8%	10.7%	10.8%	11.0%
Net Margin (%)	5.0%	4.2%	4.2%	4.6%	4.9%
Return on Equity (%)	8.1%	8.5%	9.2%	9.0%	9.3%
Return on Assets (%)	5.1%	4.8%	5.0%	5.1%	5.4%
EPS	34	38	44	46	51

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Sector	Oil and Gas
Bloomberg Ticker	ELSA IJ
Market Cap. (IDR tn)	2.4
Share Out./Float (mn)	7,299/3,211
Current Price	334
52-week Target Price	490
Upside (%)	46.7%

**Share Price Performance**

52W High (02/07/19)	416
52W Low (11/26/18)	302
52W Beta	1.5
YTD Change (%)	0.6%

**Relative Valuations**

Trailing P/E	8.0x
Forward P/E	7.6x
P/BV	0.8x
EV/EBITDA	3.8x

## 2Q19 Earnings Summary

IDR Mn	2Q18	1Q19	2Q19	%QoQ	%YoY	6M18	6M19	%YoY
Revenue	1,460,532	1,901,705	1,869,058	-1.7%	28.0%	2,916,732	3,770,763	29.3%
Gross Profit	152,134	193,368	189,254	-2.1%	24.4%	304,065	382,622	25.8%
EBT	74,003	109,345	108,361	-0.9%	46.4%	165,253	217,706	31.7%
Net Profit	56,764	75,864	78,891	4.0%	39.0%	127,663	154,755	21.2%
GPM	10.4%	10.2%	10.1%			10.4%	10.1%	
NPM	3.9%	4.0%	4.2%			4.4%	4.1%	

Source: Company Data, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
<b>Revenue</b>	<b>4,979</b>	<b>6,625</b>	<b>7,699</b>	<b>7,347</b>	<b>7,644</b>
Cost of Revenue	4,400	5,973	6,876	6,550	6,804
<b>Gross Profit</b>	<b>579</b>	<b>652</b>	<b>822</b>	<b>797</b>	<b>840</b>
Operating Expense	234	271	344	314	316
Other	(8)	68	17	26	26
<b>EBIT</b>	<b>336</b>	<b>448</b>	<b>495</b>	<b>509</b>	<b>550</b>
<b>EBITDA</b>	<b>600</b>	<b>745</b>	<b>825</b>	<b>861</b>	<b>920</b>
Net Financing	1	(71)	(65)	(58)	(49)
<b>EBT</b>	<b>337</b>	<b>377</b>	<b>430</b>	<b>451</b>	<b>501</b>
Tax	(86)	(101)	(107)	(114)	(127)
NCI	4	0	5	5	6
<b>Net Profit</b>	<b>247</b>	<b>276</b>	<b>318</b>	<b>333</b>	<b>369</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
Cash & Equivalents	903	782	738	1,082	1,439
Trade Receivables	1,259	1,474	1,697	1,620	1,702
Other Current Asset	218	478	630	585	546
<b>Total Current Assets</b>	<b>2,379</b>	<b>2,734</b>	<b>3,065</b>	<b>3,287</b>	<b>3,686</b>
Fixed Assets	1,569	1,917	1,981	1,923	1,798
Other Long Term assets	907	1,068	1,359	1,268	1,303
<b>Total Assets</b>	<b>4,855</b>	<b>5,719</b>	<b>6,405</b>	<b>6,477</b>	<b>6,788</b>
Trade Payables	308	388	446	425	442
Short Term Loans	697	733	987	927	930
Other Current Liabilities	752	1,074	1,236	1,177	1,223
<b>Total Current Liabilities</b>	<b>1,758</b>	<b>2,194</b>	<b>2,669</b>	<b>2,529</b>	<b>2,595</b>
Long Term Loans	0	225	203	182	164
Other Non Current Liabilities	46	55	63	60	63
<b>Total Liabilities</b>	<b>1,803</b>	<b>2,474</b>	<b>2,935</b>	<b>2,772</b>	<b>2,821</b>
Share & APIC	1,166	1,166	1,166	1,166	1,166
Retained Earnings	1,938	2,132	2,354	2,587	2,845
Other Equity	(52)	(52)	(50)	(47)	(44)
<b>Total Equity</b>	<b>3,052</b>	<b>3,245</b>	<b>3,470</b>	<b>3,705</b>	<b>3,966</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,855</b>	<b>5,719</b>	<b>6,405</b>	<b>6,477</b>	<b>6,788</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
<b>Net Income</b>	<b>247</b>	<b>276</b>	<b>318</b>	<b>333</b>	<b>369</b>
Depreciation	264	297	330	353	370
Chg. in NWC	(34)	(74)	(154)	42	19
<b>CF from Operating</b>	<b>259</b>	<b>477</b>	<b>499</b>	<b>494</b>	<b>727</b>
Capital Expenditure	(240)	(645)	(394)	(294)	(245)
Chg. in Long Term Assets	(173)	(161)	(291)	91	(36)
Chg. in Long Term Liabilities	21	9	8	(3)	2
<b>CF from Investing</b>	<b>(191)</b>	<b>(393)</b>	<b>(797)</b>	<b>(677)</b>	<b>(206)</b>
Chg. in Share & APIC	4	-	-	-	-
Chg. in Short Term Loans	181	35	254	(60)	3
Chg. in Long Term Loans	(34)	225	(23)	(20)	(18)
Chg. in Other	(46)	0	2	2	3
Dividends Paid	(31)	(83)	(95)	(100)	(111)
<b>CF from Financing</b>	<b>75</b>	<b>177</b>	<b>139</b>	<b>(178)</b>	<b>(123)</b>
Beginning Cash	744	903	782	738	1,082
Change in Cash	158	(121)	(44)	343	357
<b>Ending Cash</b>	<b>903</b>	<b>782</b>	<b>738</b>	<b>1,082</b>	<b>1,439</b>

Financial Ratio & Key Assumption	2017	2018	2019E	2020F	2021F
<b>Profitability</b>					
ROE	8.1%	8.5%	9.2%	9.0%	9.3%
ROA	5.1%	4.8%	5.0%	5.1%	5.4%
EBITDA Margin	12.0%	11.2%	10.7%	11.7%	12.0%
Gross Margin	11.6%	9.8%	10.7%	10.8%	11.0%
Operating Margin	6.8%	5.7%	5.6%	6.1%	6.6%
Net Profit Margin	5.0%	4.2%	4.2%	4.6%	4.9%
<b>Liquidity</b>					
Current Ratio	1.4	1.2	1.1	1.3	1.4
<b>Solvency</b>					
Debt to Equity	0.2	0.3	0.3	0.3	0.3
Debt to Assets	0.1	0.2	0.2	0.2	0.2
<b>Valuation</b>					
Price to Earning (PE)	10.2	9.1	7.9	7.6	6.8
Price to Book (PBV)	0.0	0.8	0.7	0.7	0.6

Source: Company Data, Sinarmas Investment Research

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