TRIMEGAH SECURITIES

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TRIM Daily Notes

Brief Outlook on ELSA

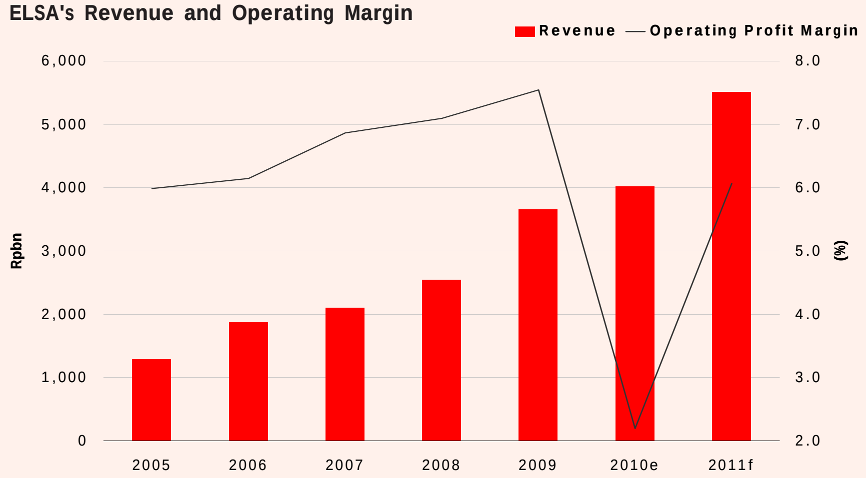
Strong Fundamental and Business Models, Best Opportunities to Ride the Industry's Wave

ELSA was the one and only national company that possessed combined competencies in upstream oil and gas services, namely seismic, drilling, and oilfield. It makes the company able to provide the one stop service to every customer. The company also leader in integrated upstream oil and gas services sector and part of Pertamina group, a biggest state-owned oil and gas company of Indonesia that will place ELSA at the best position to secure Pertamina's projects while keep diversifying its customers even to multi national companies.

Steady Operational Performances Improvement and Sustainable Margins

Despite a heavy loss that suppressed margin in 2010 period which mainly caused by its rigs investment loss and many projects delayed, company guides for better outlook this year. Management aims for achieving Rp5.5tr in FY11, rose 37% YoY while operating profit expected to reach Rp334bn or jumped 280% YoY, supported by efficiency and increasing of equipment's utilization and productivity. It leads to 2011 operating margin of 6.1%, back on the track to its 5 years average after being suppressed at around 2.2% during 2010 period.

ELSA's Revenue and Operating Margin



Source: Company, TRIM Research

Management optimistic its margin will be recovered this year because of better GDL (Geodata Land Seismic) business. GDL was ELSA's most profitable unit business with 18%-19% of Gross Profit Margin, which in 2010 being underperformed due to several projects postponement. New contracts expected to reach USD292.7mn, adding another USD131.6mn carried over from 2010, total secured contracts this year will reach USD424.3mn. To accomplish the target, ELSA management has equipped USD100mn for 2011 capex, most of it will be allocated to its upstream businesses.

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Valuation Still Look Attractive

Given the company's competitive advantages on upstream oil and gas services coupled with outperforming margins and ROE, ELSA still trading at plenty discount to its peers. The company is currently trading at 9.0x PE2011 (assuming 4.5% 2011 Net Profit Margin), compared to its closest peers MEDC at 21.3x PE2011, ENRG at 11.5x PE2011, and BIPI not available due to negative earnings expected. Average industry in regional is trading at 15.3x PE2011

Relative Valuations

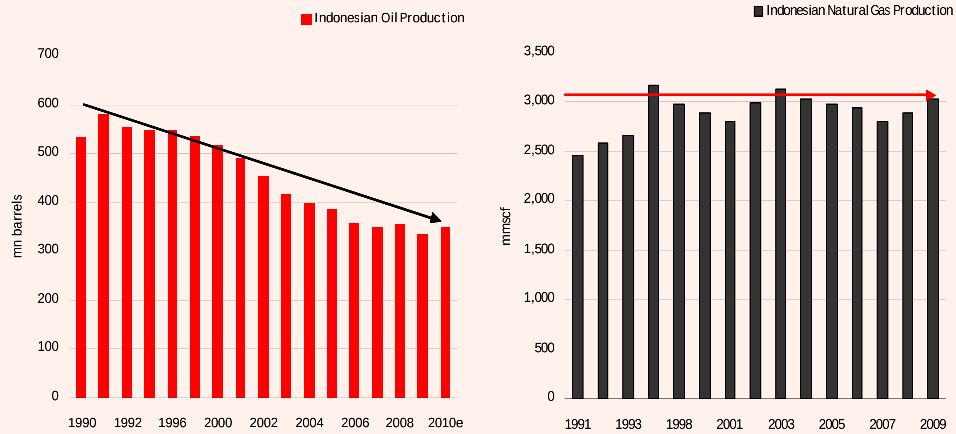
	ROE (%)		P/E (x)	
	2010	2011	2010	2011
ELSA	0.8	12.9	160.0	9.0
BIPI	N/A	N/A	N/A	N/A
MEDC	6.2	6.8	24.3	21.3
ENRG	0.9	4.9	37.3	11.5

Source: Bloomberg, TRIM Research

However, Market Seems Not Appreciating the Sector Well (Risk Factor That Should Be Highly Considered, In Our View)

Different than coal or CPO, our oil and gas businesses were still dominated by foreign companies especially on the upstream side. The country's crude oil and natural gas productions itself were going nowhere and even declined since couple of decades ago. Moreover, lack of infrastructures, complicated or delayed permits, and many political interventions have made the sector become less attractive compared to other commodities.

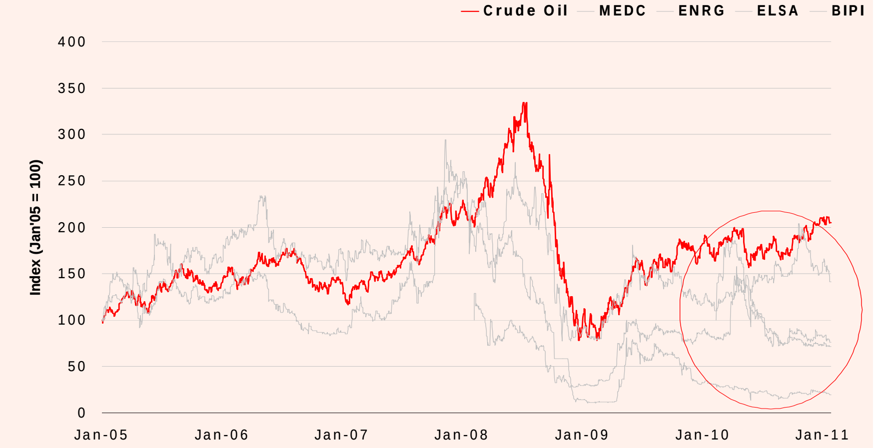
Indonesia Oil and Natural Gas Production



Source: Ministry of Energy & Mineral Resources

Looking at the correlation between commodities stocks price with its underlying commodities price should become the best way to describe our view above. It's a natural thing that commodities stocks have a strong positive correlation with its underlying commodities price as market expected better outlook for earnings. Such thing did not happening to our oil and gas related stocks, historically.

Crude Oil vs. Oil and Gas Stocks Movement



Source: Bloomberg, *TRIM Research*

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