

## CMBI Credit Commentary – MEDCIJ

### MEDCIJ: proposed acquisition will boost its near-term EBITDA and lower leverage metric

**MEDCIJ '26 YTM:6.6%, '27 YTM: 6.9%, '28 YTM: 7.3%**

Medco will acquire ConocoPhillips Indonesia Holding for a purchase consideration of USD1.355bn. ConocoPhillips Indonesia owns a 54% interest in Corridor Production Sharing contract (PSC) and 35% interest in Transasia Pipeline Company Pvt Ltd. We recommend OW on MEDCIJ curve amid improving crude oil price prospect and strong earnings momentum in 2022 following this acquisition.

**Moody's revised Medco to B+/stable outlook, from its previous negative outlook following its proposed acquisition as the rating agency expects strong EBITDA contribution** from the Corridor PSC to lower Medco's Debt/EBITDA to 2.5x - 3.0x, from 4.4x currently. The acquisition will increase Medco's production volume by 60k-70k BoE per day, from 93k BoE per day currently. It will also increase its proved reserves by 80 – 90mn BoE from 207mn Boe as of Jun, 2021.

Corridor PSC is a good target asset, as one of Indonesia's largest oil & gas block. **It has low cash costs of USD 4-5 per barrel of oil equivalent(BoE), compared to Medco's cash cost of USD 9-10 BoE.** Its primary gas production is sold via long-term offtake contracts with fixed pricing to mostly high quality counterparties, per Moody's.

**Medco has already lined-up funding for this acquisition.** It has USD 450mn bank loan amortizing facility, in addition to the USD400mn USD notes it raised in Nov 2021, which expects to complete by 1Q2022 subject to certain customary approval. The acquisition payment will be lower than the purchase consideration of USD1.355bn given the effective date for the transaction will be back-dated to Jan. 1, 2021.

**Having said that, Corridor PSC will enter into gross split scheme by 2024 and there will be uncertainty on profitability** as all cost recovery from Indonesian government will no longer be available. Medco is guiding a low capex budget on Corridor PSC of USD 10mn per annum next 2 years. Medco's proved reserve life will still remain short at 4-5 years after

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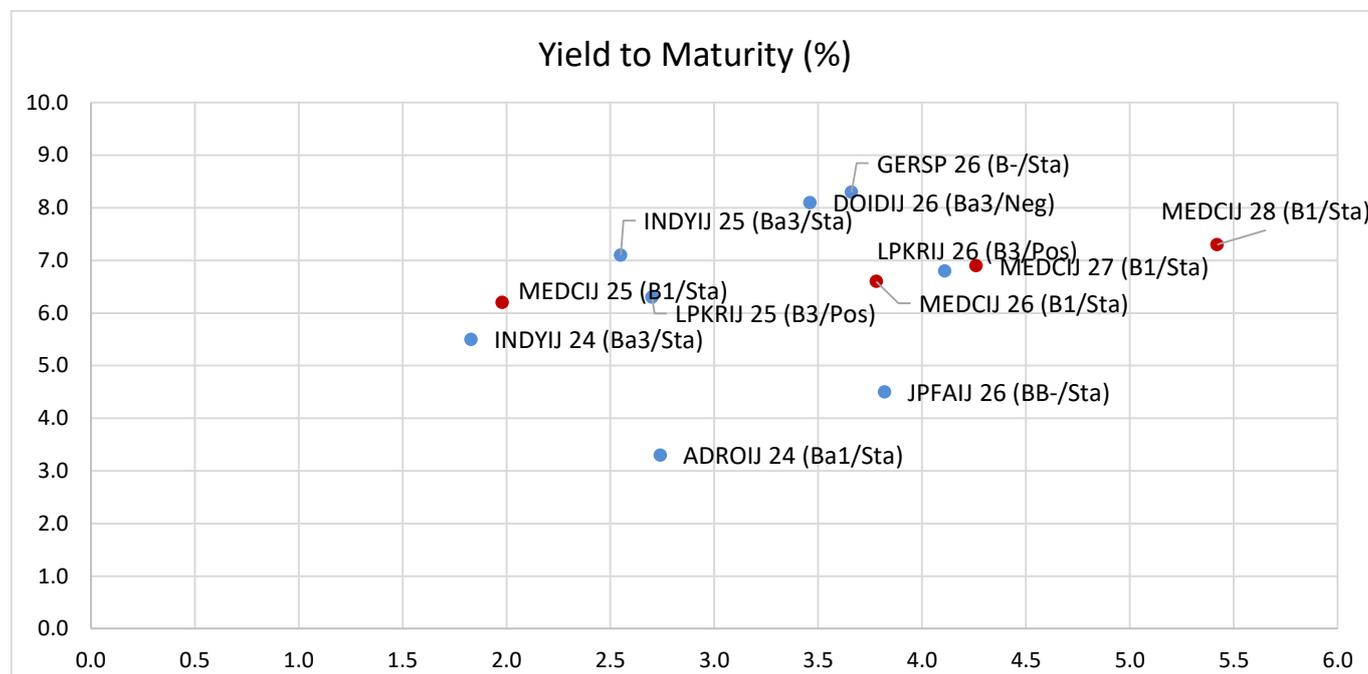
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this acquisition, compared to 6 years as of Jun, 2021 as the company targets to extract more production volume before 2024.



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