



Sep 16, 2021

Nat Resources

**INDO**

NYSE

Rating

**Outperform**

Unchanged

Current Price

**\$5.02**

Target Price

**\$8.00**

Market Capitalization

**37.25M**

Shares Outstanding

**7.43M**

Float

**2.21M**

Institutional Holdings

**0.5%**

12-Month Low/High

**\$3.26/\$11.87**

Average 90-Day Volume

**16907**

Fiscal Year End

**12/31/2019**

## Indonesia Energy Corp

### Results for 2nd well surpass expectations

**Indo announced that it has discovered oil in its Kruh 26 well.** The discovery follows similar success at the initial Kruh 25 well and was largely expected. Drilling was done in only 18 days at a cost below initial expectations of \$1.5 million. Drilling encountered a larger-than-expected pay zone implying that reserves may be higher than expected. Production for the first two wells is expected in the fourth quarter, in line with expectations.

**Drilling continues albeit with fewer wells to be drilled in 2021.** The company still plans to drill 18 wells in 2021-23 but will only do three in 2021 instead of five. The company has faced several drilling delays since it started its drilling program, mostly due to COVID issues. The most recent delay does not change our overall profile of valuation for the company, but we will be watching future drilling to see if the company can stay on track.

**Oil prices are back above \$75.** After crossing \$75 in June and July and then dipping to \$65 in August, Brent oil prices have soared back above \$75. With production from the two Kruh wells expected to come on line in October and oil prices high, the company should see a big jump (management says 100%) in production and revenues. We see EBITDA turning positive in 2022 and climbing to \$5 million in 2023.

**Rating remains Outperform with a \$8.00 price target.** The discovery of oil at the Kruh 26 well was expected but the performance of the well is encouraging. Drilling results lead us to believe drilling costs, production rates, and reserves per well may surpass management's type curve for future wells. We continue to use type curves in our models but believe there could be some upside. We have adjusted our models to reflect lower drilling in 2021 which has largely been offset by an increase in assumed near-term oil prices.

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**Refer to the last two pages for  
Analyst Certification & Disclosures**

#### Revenues (\$ MIL)

Period	2020A	2021E	2021E2
Q1		0.7	
Q2		0.4	
Q3		0.6	
Q4		2.9	
	2.0	4.7	18.3

#### EPS (\$)

Period	2020A	2021E	2022E
Q1		(\$0.17)	
Q2		(\$0.22)	
Q3		\$0.02	
Q4		\$0.10	
	(\$0.94)E	(\$0.93)E	(\$097)

## Company Profile

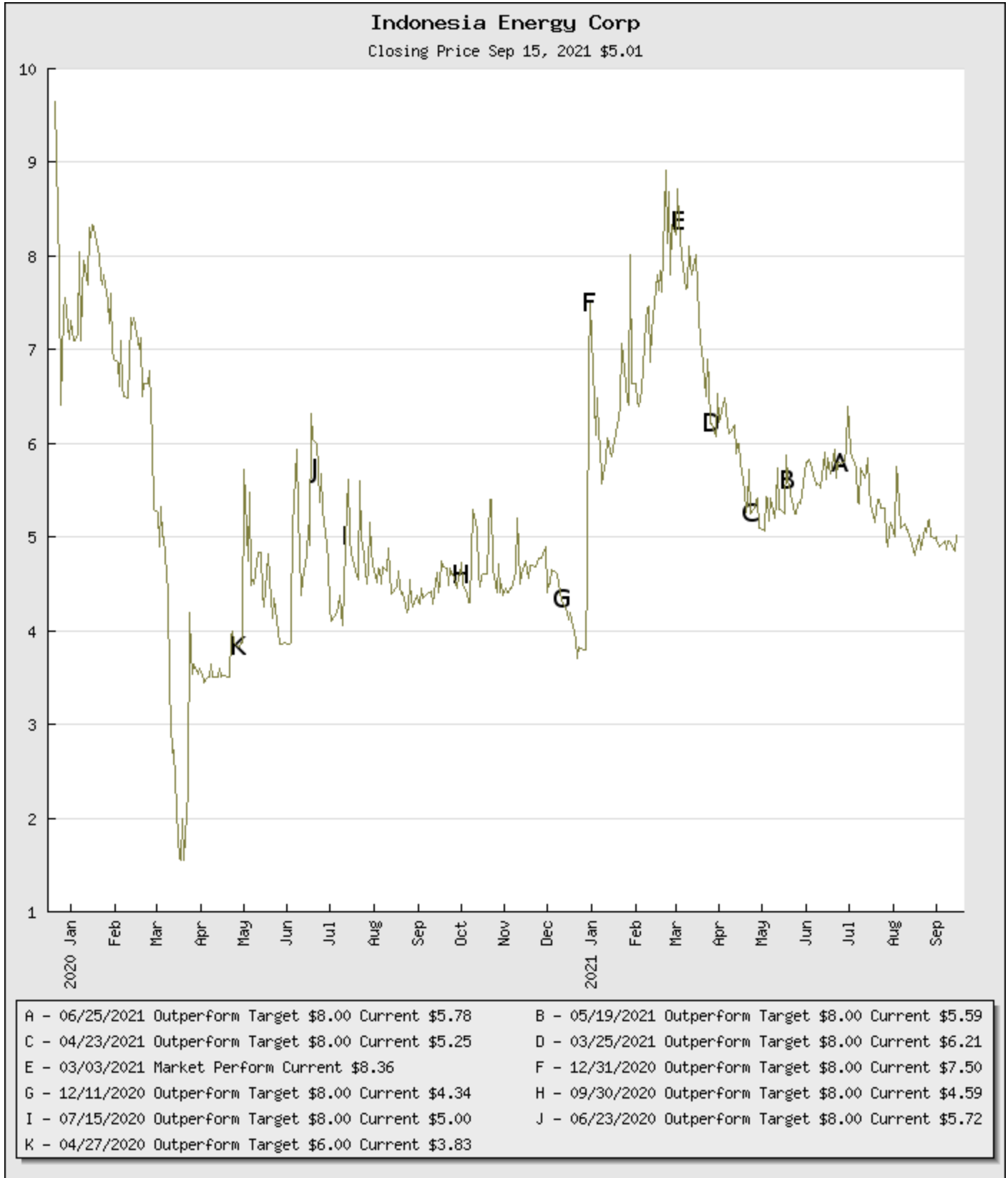
Indonesia Energy Corporation Ltd. (NYSE:INDO) is an oil and gas exploration and production company operating in Indonesia. Its primary producing asset, Kruh Block in South Sumatra province, provides a constant stream of oil. The Citarum Block near Java is more exploratory although it has a long history of production. INDO also has identified a large land position in western Java called the Rangkas in which the company has entered a joint study with the Indonesian government to assess its energy potential. The company completed an initial public offering on December 19, 2019 and is listed on the New York Stock Exchange under the symbol INDO. Financial statements are reported in U.S. dollars.

Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes. These are Corporate Governance/Management, Market Opportunity, Competitive Position, Operating Leverage and Financial Leverage. We assign Indonesia Energy 2.5 checks, which is an average rating. In our opinion, the company's corporate governance practices are below average with only four of the seven board members serving as outside directors. That said, the credentials of the outside directors are strong with an emphasis on auditing, compliance and banking. INDO does not have an independent Chairman of the Board. We believe the management team is exceptionally strong with a diverse knowledge of energy operations in Indonesia and an understanding of Indonesian regulations. We also view INDO's market opportunity as below average. We view INDO's competitive position as average. On one hand, the company is benefiting from the exodus of major international energy companies. On the other hand, INDO remains a small player competing with larger, better capitalized competitors. We believe the company has an above-average operating leverage to industry fundamentals given its exposure to energy prices and knowledge of investment possibilities. We believe INDO has average financial leverage with \$10 million in cash and little debt. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

## Valuation Summary

We rate the shares of INDO as Outperform with our Price Objective of \$8.00 per share. We believe the best way to value exploration and production companies is through a discounted cash flow analysis. We have used a cost of equity of 12% to reflect the company's small size, limited float and volatile trading history. We assume a cost of debt of 8% which recognizes the debt backing of its owners but also an assumed higher debt cost associated with future financing. Our modeling assumes long-term oil and gas prices of \$50 per barrel and \$7 per mcf, respectively.

Risks associated with our valuation include but are not limited to: 1) changes in commodity prices including widening spreads between location pricing and index pricing, 2) drilling results, 3) well performance, 4) changes in operating costs, 5) difficulties in obtaining financing and 6) stock market liquidity.



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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

### Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

### The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

## Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

## Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

## Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclical, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

## ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

Senior Equity Analyst focusing on energy and utility stocks. 24 years of experience as an analyst. Chartered Financial Analyst®. MBA from Washington University in St. Louis and BA in Economics from Carleton College in Minnesota.

Named WSJ 'Best on the Street' Analyst four times. Named Forbes/StarMine's "Best Brokerage Analyst" three times.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	84%	30%
Market Perform: potential return is -15% to 15% of the current price	3%	1%
Underperform: potential return is >15% below the current price	0%	0%

**NOTE:** On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

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