

IPO Report

HERO GLOBAL INVESTMENT

Indonesia | Energy

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Riding the Wave of Green Energy Transition

- HGII aims to attain a total capacity of 80 MW for hydropower plants by 2031F
- Manageable balance sheet expected to be able to support its expansion plans
- Rosy outlook for Indonesia's hydro power plants
- Leveraging potential synergy with Japanese partner
- Equity valuation ranges between IDR1.39tn and IDR1.49tn

Investment Summary

- **HGII aims to attain a total capacity of 80 MW for hydropower plants by 2031F** – The company's total operating capacity currently stands at 19MW, sourced from two operating assets, PM-1 and PM-2 which both have capacity of 10MW and 9MW, respectively with both operating as a combined asset, enabling it to achieve cost and time savings. The company aims to achieve 80MW capacity for its hydropower plants portfolio by 2031F. In 2023, the consolidated output of the hydropower plants stood at 107K MWH. Furthermore, both hydropower plants have a relatively high average availability factor of 97.9-98.6% in 2023.
- **Manageable balance sheet expected to be able to support its expansion plans** – As of June 2024, HGII's balance sheet is remarkably strong with its net gearing ratio standing at 0.3x. Following IPO, we expect the company's net gearing to improve post-IPO, thus providing solid support to carry out its expansion plans in the future. In addition to hydropower plants, the company also eyes to diversify its power plant portfolio by tapping into other kinds of renewable energy, including biomass & biogas, as well as solar power. As of today, the company, through its investee company, Pelita Prima Energi Semesta (PPES) has operated a biogas power plant, UB-1.
- **Rosy outlook for Indonesia's hydro power plants** - Hydropower plants are one of the country's main sources of green energy, thanks to their reliability, lower operational costs, flexibility and more

Financial Summary

In IDR bn	2023A	2024F	2025F
Revenue	103	98	558
Gross profit	71	75	203
EBITDA	53	58	181
Net profit	25	36	114
Net profit growth (%)	2.9%	45.0%	218.7%
GPM (%)	68.9%	76.2%	36.4%
EBITDA Margin (%)	53.6%	51.6%	59.7%
ROAE (%)	6.0%	6.0%	14.1%

Source: Company, PTOS
 (Adjusted by OCBC Forecast)

importantly, given the country's topography allowing substantial run-off through waterfalls. We believe that the hydropower will play an important role for Indonesia's transition pledge that aims higher contribution of renewable to 30% by 2050.

- **Leveraging potential synergy with Japanese partner** – As of November 2024, the company has entered a CSPA with a Japanese electricity utility company, Shikoku Electric Power, through its subsidiary, SEP International Netherlands B.V (SEPI) allowing it to control a 25% of shares post-IPO. With the entry of the latter as a shareholder, we believe it shall result in a fruitful synergy in a form of technology capability and innovation as well as strengthens its capital for future expansion.
- **Equity valuation ranges between IDR1.39tn and IDR1.50tn** – Having evaluated the valuation of company, we use both a DCF and relative valuation approaches to determine the range of its valuation. For DCF, we use an assumption of WACC of 18% with a LTG of 0% and come up with an equity valuation at IDR1.49tn. In addition to DCF valuation, we use EV/MW valuation based on historical transactions carried out by its peers, Kencana Energy Lestari (KEEN) and Arkora Hydro (ARKO) and come up with a valuation range of IDR65.8bn/MW-IDR73.3bn/MW. Combining these two valuation approaches, HGII's range of valuation stands at IDR1.39tn-IDR1.49tn.

Investment Risks

- Change in government's renewable policy, target and regulations on tariff
- Delays in project realization
- Fluctuations in revenue bookings
- Higher debt and finance costs especially during project construction

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KEY INVESTMENT THESIS AND RISKS

In our view, we believe that key catalysts for the company will primarily stem from its expansion plans thanks to increasing popularity of renewable energy in the industry and government's commitment to incentivize the use of renewable energy.

Thanks to Indonesia's topography, hydro power source has a relatively strategic position compared to other form of renewable or other energy alternatives.

Aside from its advantages, we note several potential headwinds to our projection, namely 1) risks of policy change, especially involving tariff revision of State Electricity Company (PLN) as the off taker; 2) delays in project realization; and 3) fluctuations in revenue bookings.

VALUATION

Having considered its strengths, pipeline projects, and risks, we come up with an equity valuation, ranging from IDR1.39tn-IDR1.49tn. The valuation is based on two valuation methods, EV/MW multiple and Discounted-Cash Flow (DCF). For EV/MW multiple, we use stake transactions carried out by its peers, Kencana Energi Lestari (KEEN) and Arkora Hydro (ARKO) as our benchmarks. In 2022, KEEN/ARKO have divested 21.6%/25.0% of their stakes to Tepco and Astra Group through United Tractors which according to our calculation, valued at IDR65.8bn/MW and IDR73.1bn/MW, according to our calculation.

Figure 1: Valuation based on transactions

	Tepco- KEEN	UNTR- ARKO
Date of acquisition	15-Feb-22	8-Aug-22
Acquired stake	25.0%	21.6%
Operating capacity (MW)	44	17
EV/MW (USD thousand)	\$4,387	\$4,796
EV/MW (IDR thousand)	IDR 65,805,539	IDR 73,131,794
Operating capacity of HGI (MW)	19	19
EV of HGI (IDR thousand)	IDR 1,250,305,233	IDR 1,352,938,181
Equity value of HGI (IDR thousand)	IDR 1,392,887,017	IDR 1,495,519,965

Source: Companies, PTOS

In addition to EV/MW, we also incorporate DCF method into our valuation for a comparison. By assuming a WACC of 18% and long-term growth rate of 0%, we come up with a DCF valuation of IDR1.50tn. Our WACC assumption is based on the company's cost of debt excluding tax of 9.0% and cost of equity of 20.2%.

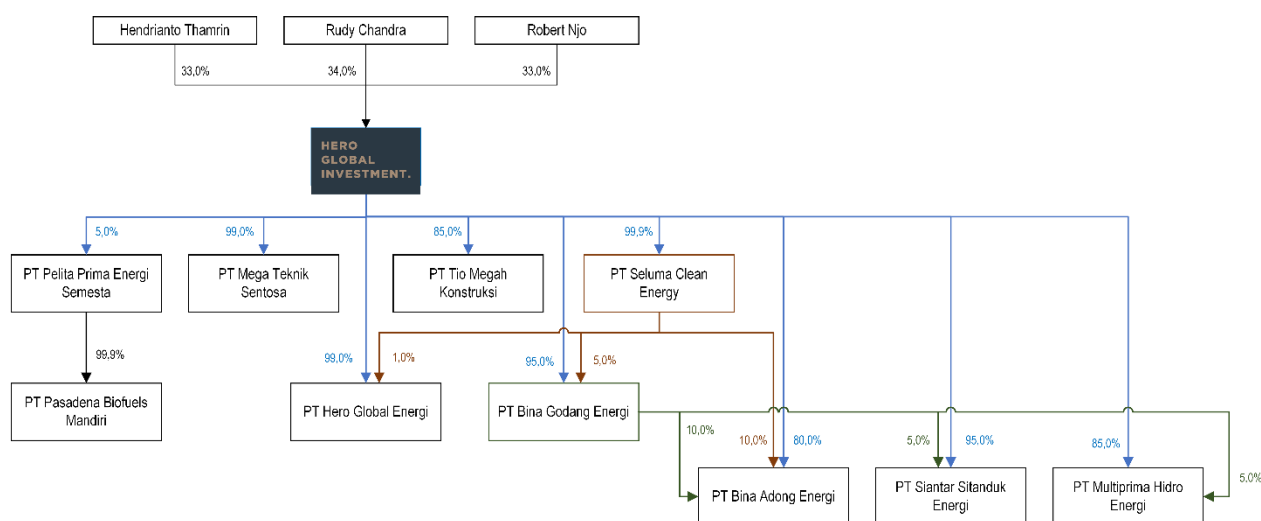
Figure 2: DCF-based valuation summary

DCF valuation (IDR thousand)			
Total NPV	IDR 104,355,880	WACC	18.0%
Terminal value	IDR 1,250,833,685	Cost of debt	9.0%
EV	IDR 1,355,189,566	Cost of equity	20.2%
Equity value	IDR 1,497,771,350		

Source: PTOS

HERO GLOBAL INVESTMENT

Hero Global Investment is a company engaged in developing renewable energy sector, primarily mini hydropower plants as well as other form of renewable, especially biogas projects that is run through its partnership. As of 2024, the company has two main hydropower plants: Parmonangan 1 (PM-1), through Seluma Clean Energy, and Parmonangan 2 (PM-2), through Bina Godang Energi. In the future, HGII plans to expand into other renewables, such as biomass and solar power. Currently, the company has eight direct owned subsidiaries and one indirectly owned subsidiary.

Figure 3: Hero Global Investment's Group Structure


Source: Company

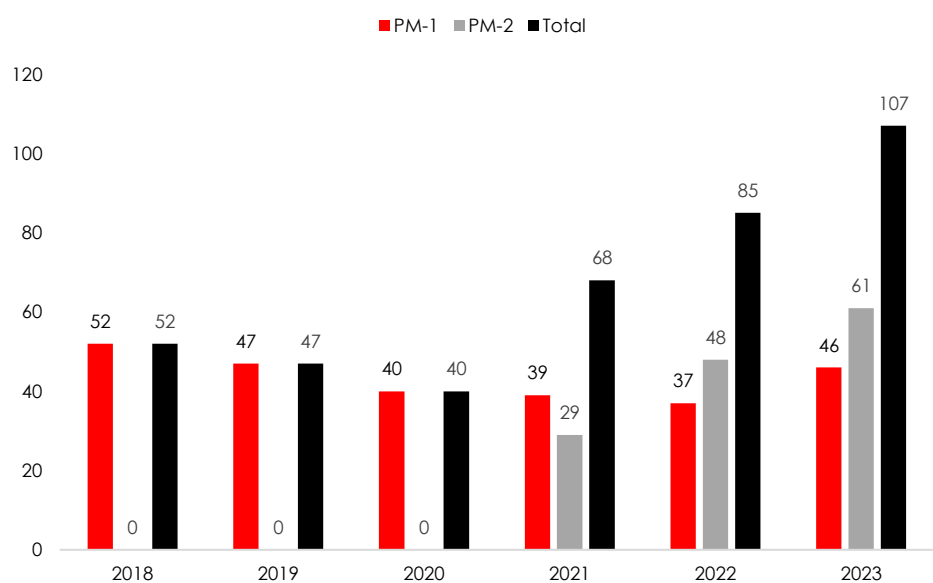
The company has currently an installed capacity of 20.2 MW and a operating capacity of 19 MW sourced from two operating hydropower plants, PM-1 and PM-2. PM-1 has a total operating capacity of 9 MW with a contract period of 20 years (2017-2037), while PM-2 has a total operating capacity of 10 MW with a contract period of 25 years (2021-2046).

As of 2023, HGII generated 110 GWh of electricity, with 51 GWh from PM-1 and 59 GWh from PM-2. Output from PM-2 was 16% higher than PM-1 due to the greater height of the waterfalls. In 2023, the average availability factor for PM-1 was 98.6%, while for PM-2 was 97.9% or considered to be high. PM-2 has a fixed

tariff rate for the duration of the contract, while PM-1's tariff remains the same for the first 8 years before decreasing in year 11 until its end of operations.

In November 2024, the company's controlling shareholders entered a conditional share sale and purchase share agreement (CSPA) with a subsidiary of Shikoku Electric Power Company (Yonden), SEP International Netherlands BV. Assuming 20% of public ownership in addition to Yonden's, those controlling shareholders (Rudy Chandra, Hendrianto Thamrin, dan Robert Njo) will control 55% of the company's shares post-IPO.

Figure 4: Production Performance (GWh)



Source: Company, PTOS

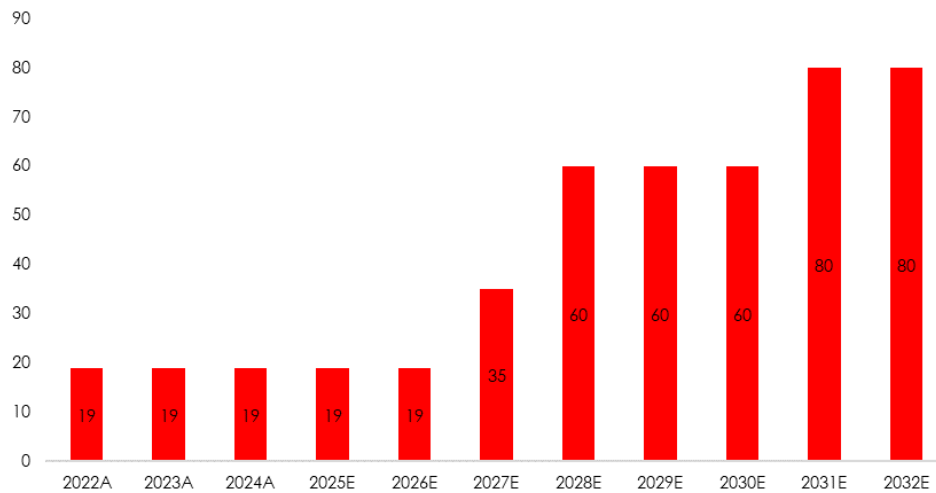
Figure 5: Hero Global Investment's Hydropower Plants

	PM-1	PM-2
Location	North Sumatra	North Sumatra
No of Units	2 units	2 units
Installed Capacity	2 x 4.6 MW	2 x 5.5 MW
Contract Capacity	2 x 4.5 MW	2 x 5.0 MW
Tariff	IDR 1,210/kWh (year 1-8) IDR 935/kWh (year 9-20)	IDR 1,049.75/kWh
Average Availability Factor (as of 2023)	98.6%	97.9%
Power Purchase Agreement (PPA)	Signed : November 2013 Period : 20 years End Date : July 2037	Signed : August 2017 Period : 25 years End Date : May 2046
Construction Period	March 2015 - July 2017	January 2019 - May 2021
Commence of Operation	July 2017	May 2021

Source: Company, PTOS

The company plans to expand its renewable energy portfolio, focusing on hydropower plants, while also expanding into different type of renewables such as biogas, biomass, and solar power. By 2031F, the company expects to achieve 80 MW capacity from its hydro power plants.

Figure 6: Projected Operating Capacity of Hydro Power Plants (MW)



Source: Company, PTOS

Figure 7: PM-1 and PM-2 sites



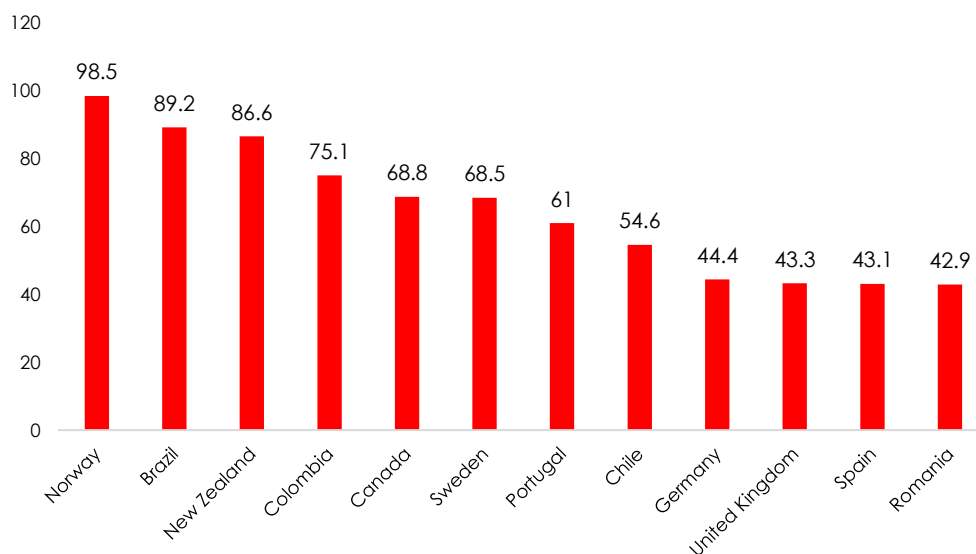
Source: Company, PTOS

DEVELOPMENT OF RENEWABLE ENERGY

Renewable energy development is rapidly advancing globally, fueled by technological progress, rising investments, and growing recognition of the critical need to address climate change and strengthen energy security. The push for renewable energy is imperative, as it helps reduce greenhouse gas emissions, enhances energy security by lessening dependence on unstable fossil fuels, and fosters economic growth through job creation and innovation. Additionally, the transition to renewable energy aids in environmental preservation by reducing the harmful impacts of fossil fuel extraction and its use.

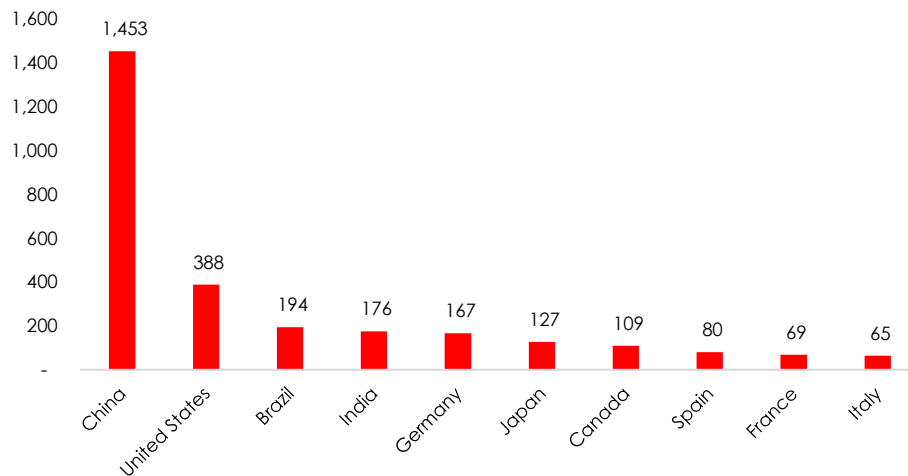
As reported by enerdata.net, Norway leads the world in renewable energy share, with 98.5% of its energy coming from abundant hydropower resources, followed by Brazil at 89.2% and New Zealand at 86.6% in 2022. On the capacity front, Statista notes that China tops the global list with a staggering 1,453 GW of installed renewable energy capacity, significantly outpacing the United States, which ranks second with 388 GW. In contrast, Indonesia's renewable energy capacity stands at 13.2 GW, accounting for 13.1% of the country's total energy. However, the Indonesian government aims to increase this share to 19.5% by 2024, with a commitment to reach 23.0% by 2025.

Figure 8: Share of Renewable Energy Worldwide in 2022 (%)



Source: Enerdata.net, PTOS

Figure 9: Top Countries in Installed Renewable Energy Capacity (GW)



Source: Statista, PTOS

THE ADVANTAGE OF HYDROPOWER ENERGY

Hydropower energy offers several advantages compared to conventional non-renewable energy sources, such as fossil fuels (natural gas, oil, and coal), and other new renewable energy sources, as follows:

Reliable and Consistent Power. Hydropower is known for its reliability as a renewable energy source, thanks to its ability of steady and continuous supply of electricity. Unlike solar or wind energy, which are dependent on weather conditions and can be intermittent, hydropower benefits from the consistent flow of water in rivers or dams. This predictability makes it a dependable source of base-load power, meaning it can consistently meet the minimum demand for electricity over a period. During periods of high-water flow, such as during the rainy season, hydropower plants can generate even more electricity, making them highly responsive to changes in energy demand. This consistency is especially valuable for maintaining grid stability and meeting the continuous energy needs of communities and industries.

Low Operational Costs. One of the major advantages of hydropower is its relatively low operational and maintenance costs once the plant is built. The technology used in hydropower plants is mature and well-established, leading to fewer operational surprises and lower ongoing expenses compared to other types of power plants. Hydropower plants primarily involve mechanical components like turbines and generators that, with proper maintenance, can operate efficiently for many years. The abundant waterflow allows it to reduce the costs associated with energy production. Over the lifetime of the plant, these low operational costs can translate into significant economic savings, making hydropower one of the most cost-effective energy sources available.

Environmental Benefits. Hydropower is one of the cleanest sources of energy as it generates electricity without emitting greenhouse gases or other pollutants. This is a significant environmental benefit, particularly in the context of global efforts to combat climate change and reduce carbon emissions. Unlike fossil fuels, which release large amounts of CO₂ and other harmful gases when burned, hydropower relies on the natural water cycle to generate power. This

makes it an attractive option for countries looking to reduce their carbon footprint and transition to sustainable energy systems. Additionally, the environmental impact of hydropower can be further minimized with careful planning and management, ensuring that ecosystems and water quality are protected.

Long Lifespan. Hydropower plants are known for their long operational life. Some plants have been in operation for over a century and continue to produce electricity efficiently. This longevity is a major advantage, as it provides a sustained return on investment and ensures long-term energy security. The robust design and durable construction of hydropower facilities contribute to their extended lifespan. Moreover, with periodic upgrades and maintenance, the efficiency and output of these plants can be improved, further extending their useful life and making them a valuable long-term asset.

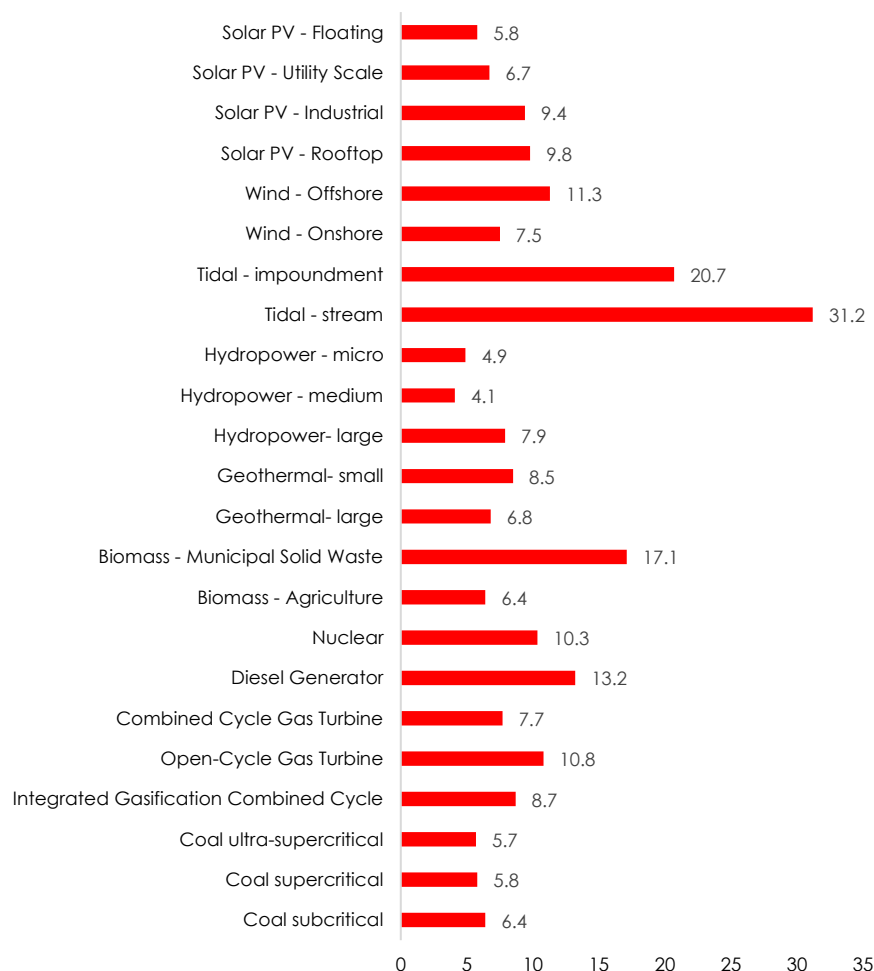
THE COST EFFECTIVENESS OF DIFFERENT ENERGY SOURCES

To assess the cost-effectiveness of various energy sources, we can use the Levelized Cost of Energy (LCOE), a metric that provides insights into the relative affordability of different energy generation technologies throughout their operational lifetimes. LCOE measures and compares the average cost per unit of electricity produced over the entire lifespan of a power plant. It includes all expenses related to constructing, operating, and maintaining the plant, along with fuel costs, financing costs, and the expected duration of the plant's operation.

Hydropower energy offers competitive costs when compared to coal energy, particularly at smaller scales. The Levelized Cost of Energy (LCOE) for micro and medium hydropower is 4.9 US cents/kWh and 4.1 US cents/kWh, respectively, which are both lower than the LCOE for coal energy, typically ranging from 5.7 to 6.4 US cents/kWh. Even large-scale hydropower, with an LCOE of 7.9 US cents/kWh, remains competitive, especially when considering the long-term benefits of lower operational costs and environmental impact. While coal power plants may have lower initial capital costs, their long-term expenses are influenced by fluctuating fuel prices, environmental regulations, and associated emissions costs, making hydropower a more sustainable and cost-effective choice over time.

From renewable energy resources, medium-scale hydropower stands out as the most cost-effective renewable energy source, with the lowest LCOE of 4.1 US cents/kWh, highlighting its efficiency and reliability. In contrast, tidal stream, with the highest LCOE of 31.2 US cents/kWh, underscores the current economic challenges faced by emerging marine technologies.

Table 10: LCOE of Various Electricity Power Plant Technologies (USDcent/kWh)

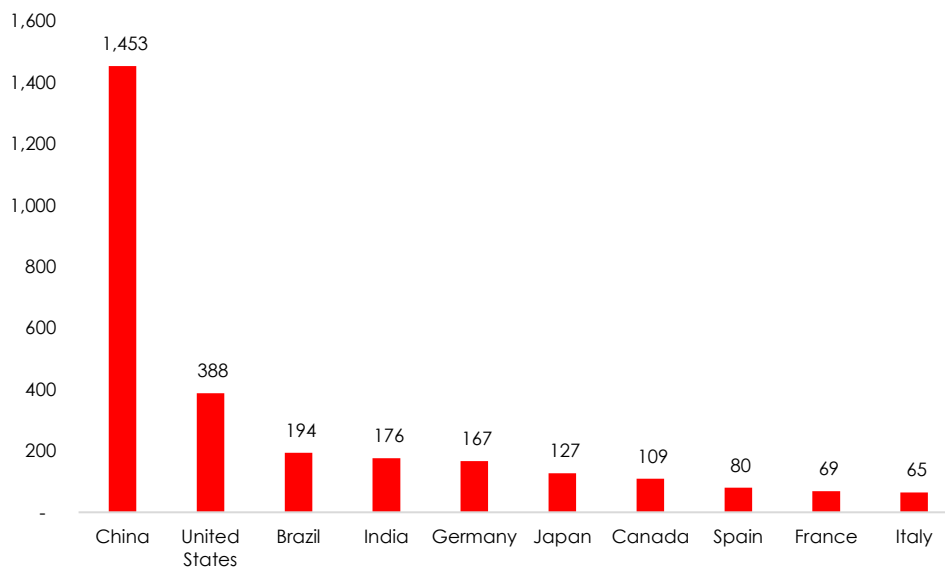


Source: IESR, PTOS

GLOBAL OUTLOOK OF HYDROPOWER DEMAND

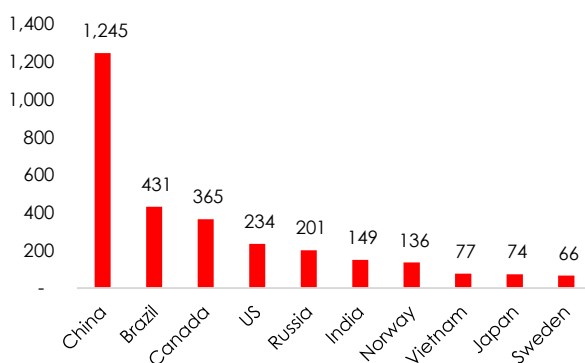
As of 2023, global hydropower capacity reached 1,416 GW, according to the International Hydropower Association. China leads with 421 GW, followed by Brazil (110 GW), the United States (102 GW), and Canada (83 GW). In addition to their high installed capacity, China and Brazil also produced the most hydropower energy in 2023, generating 1,245 TWh and 431 TWh, respectively, as reported by Statista. Global electricity generation from hydropower is forecasted to reach 4,318 TWh in 2024 and is expected to grow to 4,680 TWh by 2030, according to Incoirys. According to GlobalData, China Three Gorges Corp, a company based in China, has the highest hydropower plant capacity worldwide at 66,523MW as of March 2022, followed by Centrais Elétricas Brasileiras S.A. (46,504MW) and Hydro-Québec (36,961MW).

Figure 11: Global Hydropower Installed Capacity in 2023 (GW)

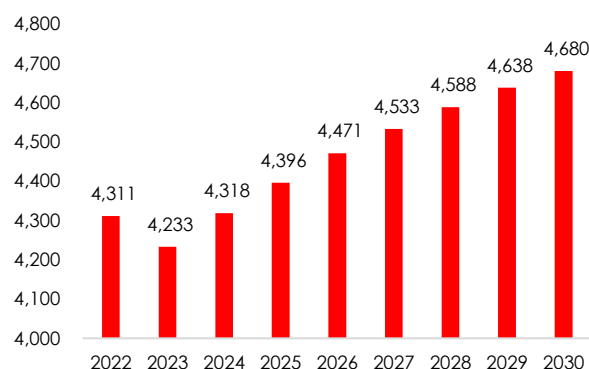


Source: International Hydropower Association, PTOS

Figure 12: Global Hydropower Generation in 2023 (TWh) **Figure 13: Global Electricity Generation Projection from Hydropower Energy (TWh)**



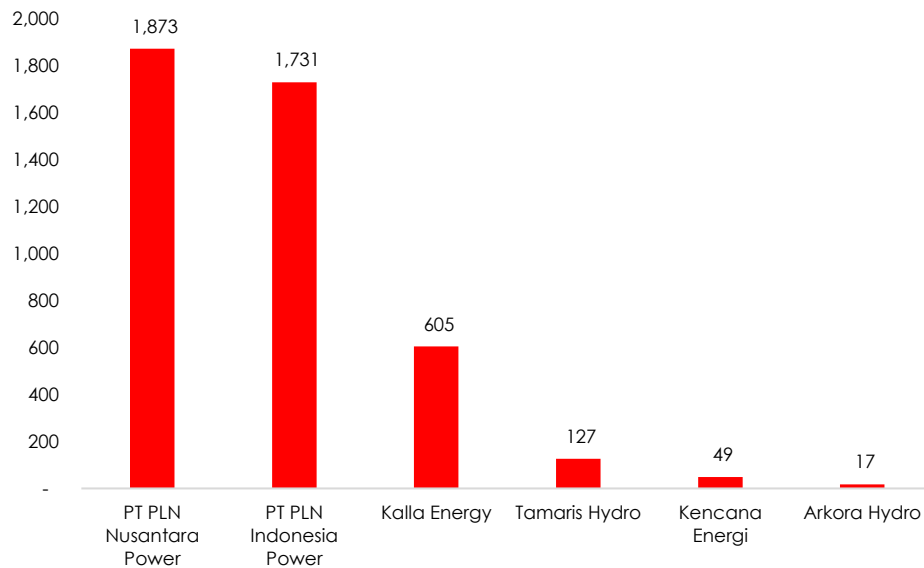
Source: Statista, PTOS



Source: Incoorys, PTOS

In Indonesia, some of the companies that operate hydropower plants include PT PLN Nusantara Power (1,873 MW) and PT PLN Indonesia Power (1,731 MW), both owned by the state-owned enterprise PT PLN, as well as Kalla Energy (605 MW) and Tamaris Hydro (127 MW). Among publicly listed companies are Kencana Energi Lestari (KEEN) with 49 MW and Arkora Hydro (ARKO) with 17.4 MW.

Figure 14: Installed Capacity of Several Hydropower Companies in Indonesia as of 2023 (MW)



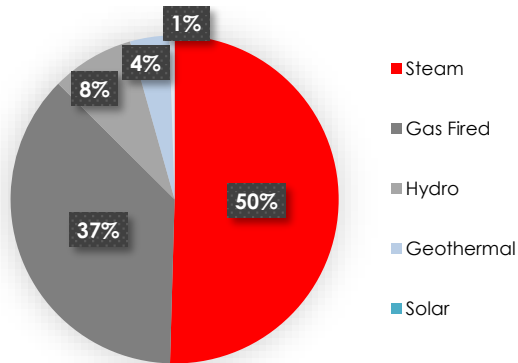
Source: Compiled from Various References by PTOS

INDONESIA HYDROPOWER INDUSTRY OUTLOOK

The development of hydropower energy in Indonesia offers significant potential for driving economic growth and enhancing environmental sustainability. By harnessing the country's abundant water resources, Indonesia can reduce its dependence on fossil fuels, lower energy costs, and boost local economies, while promoting sustainable development. Hydropower contributes to a more resilient and diversified power grid with minimal environmental impact compared to other energy sources. Expanding this renewable energy sector is crucial for Indonesia's efforts to meet its Net Zero Emission target by 2060.

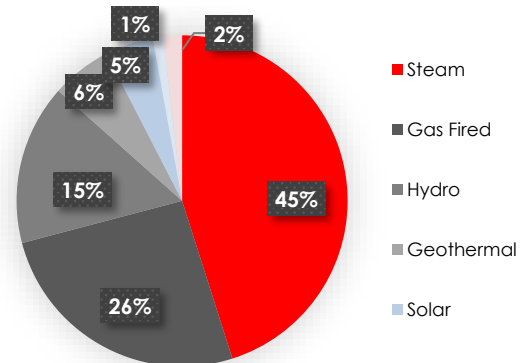
The Indonesian government has set ambitious goals to achieve 23% of its electricity from renewable sources by 2025. This commitment is reflected in the latest Electricity Supply Business Plan (RUPTL) from PLN, which shows a significant shift towards renewable energy. For the first time, the plan includes more renewable energy projects than fossil fuel ones for the 2021-2030 period. Of the planned 40,575 MW of new power plants, 51.6% will be dedicated to renewable energy, with a total allocation of 20,923 MW, or 25% addition of capacity than in the previous 2019-2028 plan. By 2030, renewable energy is expected to account for 29.1% of Indonesia's power generation capacity, reaching 28,870 MW. The share of renewable energy in power generation projects will continue to grow, with Independent Power Producers (IPPs) playing a larger role in this development. The hydropower plant capacity is planned to reach 15.6 GW, growing at a CAGR of 11.6% from 2020 to 2030. By 2030, hydropower is anticipated to contribute 16% of Indonesia's total power generation, making it the largest renewable energy source in the country.

Figure 15: Electricity Generation Source as of 2020



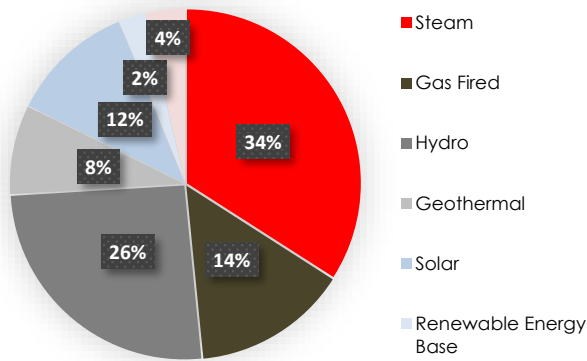
Source: PLN, PTOS

Figure 16: Planned Electricity Mix in 2030F



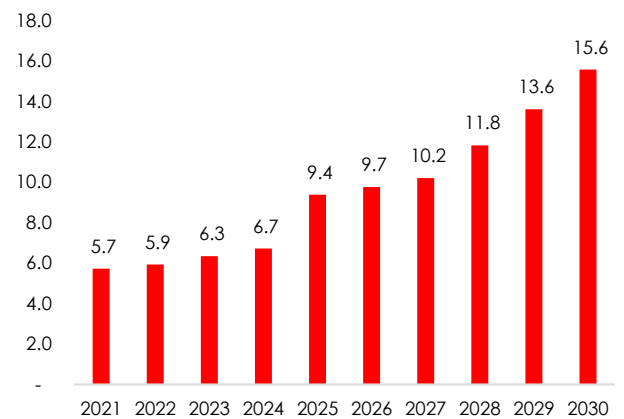
Source: PLN, PTOS

Figure 17: Planned Power Plants Addition in 2021-2030



Source: PLN, PTOS

Figure 18: Hydropower Plant Capacity Target (GW)



Source: PLN, PTOS

In the 2021-2030 RUPTL by PLN, the planned additions of renewable energy power plants are made up of approximately 49.7% hydropower projects (including mini/micro hydro), 22.4% solar energy projects, and 16.0% geothermal projects. The primary regions for renewable energy development will be JaMaLi (Java, Madura, Bali) and Sumatra, with JaMaLi targeting 9,634 MW and Sumatra focusing on 5,237 MW.

Figure 19: Anticipated Addition of Renewable Energy Power Plant Capacity

Renewable Energy Power Plant Addition (MW)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
Geothermal	136	108	190	141	870	290	123	450	240	808	3,355
Hydro	400	53	132	87	2,478	327	456	1,611	1,778	1,950	9,272
Minimicro Hydro	144	154	277	289	189	43	-	2	13	6	1,118
Solar	60	287	1,308	624	1,631	127	148	165	172	157	4,680
Wind	-	2	33	337	155	70	-	-	-	-	597
Biomass/Waste	12	43	88	191	221	20	-	15	-	-	590
Renewable Energy Base	-	-	-	-	-	100	265	215	280	150	1,010
Renewable Energy Peaker	-	-	-	-	-	-	-	-	-	300	300
Total	752	647	2,028	1,670	5,544	978	991	2,458	2,483	3,370	20,923

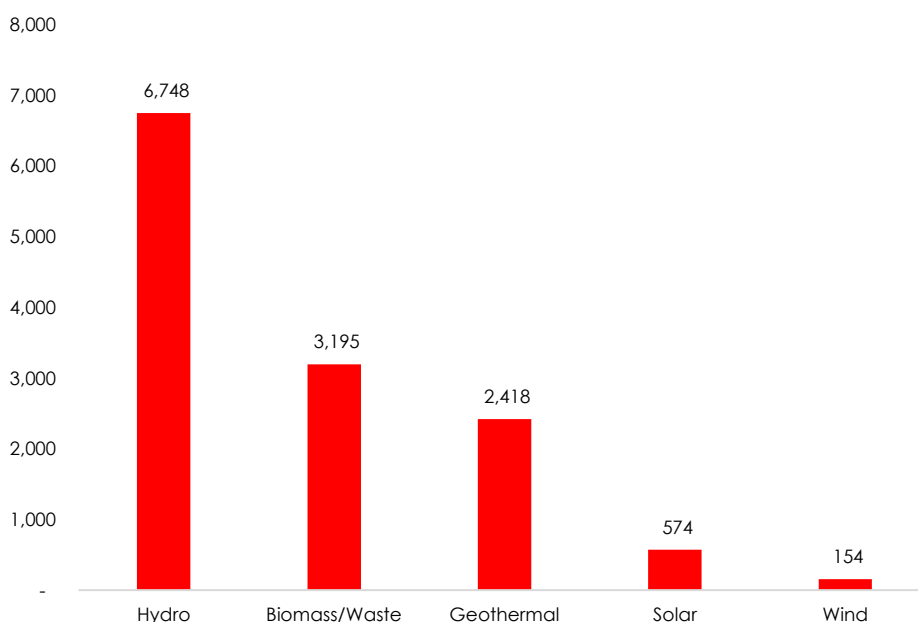
Source: PLN, PTOS

Figure 20: Anticipated Renewable Energy Power Plant Capacity Addition by Region

Renewable Energy Power Plant (MW)	Jawa, Madura, Bali	Sumatera	Kalimantan	Sulawesi	Maluku, Papua, Nusa Tenggara	Total
Geothermal	1,915	1,180	-	75	185	3,355
Hydro	3,903	2,682	1,153	1,444	90	9,272
Minimicro Hydro	418	426	28	156	91	1,118
Solar	2,906	193	304	176	1,101	4,680
Wind	260	110	70	130	27	597
Biomass/Waste	232	117	86	50	106	590
Renewable Energy Base	-	230	100	230	450	1,010
Renewable Energy Peaker	-	300	-	-	-	300
Total	9,634	5,237	1,741	2,261	2,050	20,923

Source: PLN, PTOS

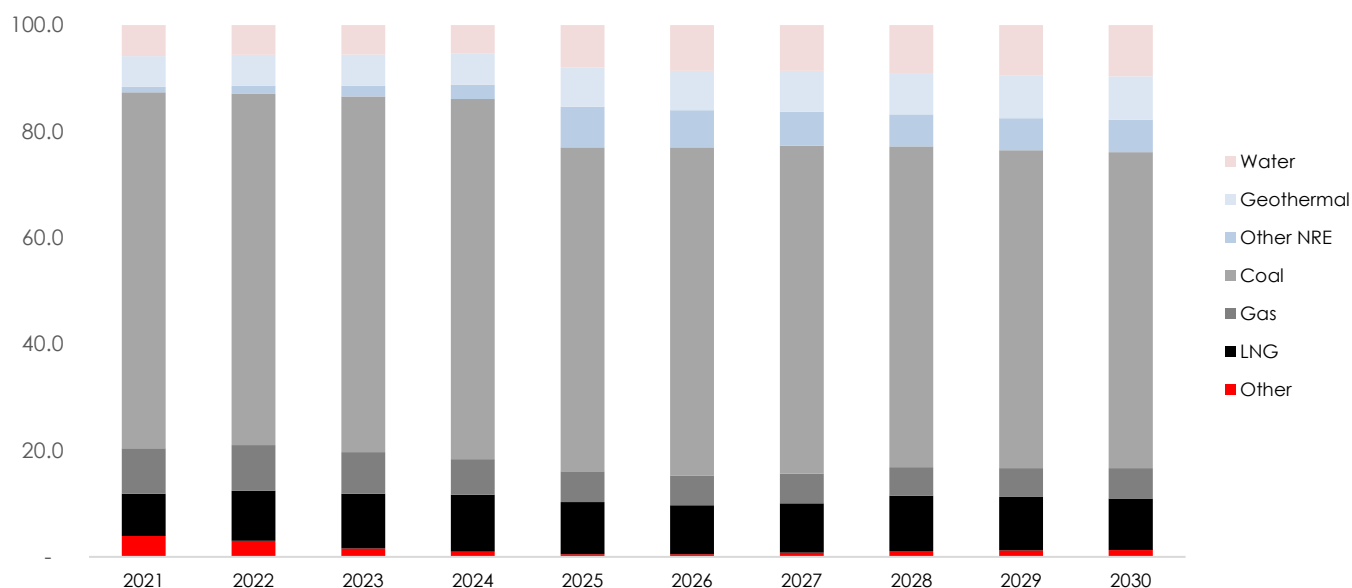
As of 2023, Indonesia's total renewable energy installed capacity reached 13.1 GW, including 6,748 MW from hydro energy, 3,195 MW from biomass/waste energy, 2,418 MW from geothermal energy, 574 MW from solar energy, and 154 MW from wind energy, according to the Ministry of Energy and Mineral Resources (ESDM). This renewable energy capacity represented 13.1% of the country's total power plant capacity, falling short of the 17.9% target set for 2023. According to the Ministry of Energy and Mineral Resources (MEMR) press release no. 060.Pers/04/SJI/2023, the total hydropower potential amounted to 95 GW as of February 2023, with only 6.69 GW, or 7% of the total potential, currently utilized.

Figure 21: Renewable Energy Power Plant Installed Capacity in Indonesia as of 2023 (MW)


Source: Ministry of Energy and Mineral Resources, PTOS

For 2030, ESDM projects that Indonesia's electricity production will total 445.1 TWh (terawatt hours), reflecting a CAGR of 4.86% from 290.5 TWh in 2021. In 2021, coal energy accounted for 67.0% of electricity production, while hydropower contributed 5.8%. By 2030, the share of hydropower is expected to increase to 9.6%, whereas the contribution of coal energy is projected to decrease to 59.4%.

Figure 22: Composition of Electricity Generation Sources (%)



Source: Ministry of Energy and Mineral Resources, PTOS

TARIFF FOR HYDROPOWER ENERGY

Indonesian government has established a regulation of acceleration of renewable energy for electricity supply, which is Presidential Decree 112/2022. In this decree, the government regulates the maximum tariff of renewable energy sources, including the tariff of hydropower energy. Under this new policy, the tariff will be the same for the first 10 years and will decrease in the 11th year. The tariff will depend on the capacity and the location of the location of power plant. Electricity tariffs for renewable energy projects, after this regulation is issued, must adhere to this regulation. Out of conservatism, we apply an average c. 6% discount to the maximum tariff referenced in the presidential decree for our tariff assumption for HGI's pipeline projects.

Figure 23: Maximum Reference Price for Electricity from Hydropower Plants Utilizing Water Flow/Fall

No.	Capacity	Maximum Reference Price (UScent/kwh)	
		Year 1-10	Year 11-30
1	≤ 1 MW	11.23 x F	7.02
2	>1 MW - 3 MW	10.92 x F	6.82
3	>3 MW - 5 MW	9.65 x F	6.03
4	>5 MW - 20 MW	9.09 x F	5.68
5	>20 MW - 50 MW	8.86 x F	5.54
6	>50 MW - 100 MW	7.81 x F	4.88
7	>100 MW	6.74 x F	4.21

Source: Presidential Decree 112/2022, PTOS

Figure 24: Maximum Reference Price for Electricity from Hydropower Plants Utilizing Water Power from Reservoirs/Dams or Irrigation Channels Owned by the Ministry

No.	Capacity	Maximum Reference Price (UScent/kwh)	
		Year 1-10	Year 11-30
1	≤ 1 MW	11.23 x 0.8 x F	7.02 x 0.8
2	>1 MW - 3 MW	10.92 x 0.8 x F	6.82 x 0.8
3	>3 MW - 5 MW	9.65 x 0.8 x F	6.03 x 0.8
4	>5 MW - 20 MW	9.09 x 0.8 x F	5.68 x 0.8
5	>20 MW - 50 MW	8.86 x 0.8 x F	5.54 x 0.8
6	>50 MW - 100 MW	7.81 x 0.8 x F	4.88 x 0.8
7	>100 MW	6.74 x 0.8 x F	4.21 x 0.8

Source: Presidential Decree 112/2022, PTOS

Figure 25: Maximum Reference Price for Electricity from Expanded Hydropower Plants

No.	Capacity	Maximum Reference Price (UScent/kwh)	
		Year 1-10	Year 11-30
1	≤ 1 MW	11.23 x 0.7 x F	7.02 x 0.7
2	>1 MW - 3 MW	10.92 x 0.7 x F	6.82 x 0.7
3	>3 MW - 5 MW	9.65 x 0.7 x F	6.03 x 0.7
4	>5 MW - 20 MW	9.09 x 0.7 x F	5.68 x 0.7
5	>20 MW - 50 MW	8.86 x 0.7 x F	5.54 x 0.7
6	>50 MW - 100 MW	7.81 x 0.7 x F	4.88 x 0.7
7	>100 MW	6.74 x 0.7 x F	4.21 x 0.7

Source: Presidential Decree 112/2022, PTOS

Figure 26: Location Factor of Maximum Reference Price

No.	Capacity	Location Factor (F)
1	Java, Madura, Bali	1.00
	- Small Island	1.10
2	Sumatra	1.10
	- The Riau Islands	1.20
	- Mentawai	1.20
	- Bangka Belitung	1.10
	- Small Island	1.15
3	Kalimantan	1.10
	- Small Island	1.15
4	Sulawesi	1.10
	- Small Island	1.15
5	Nusa Tenggara	1.20
	- Small Island	1.25
6	North Maluku	1.25
	- Small Island	1.30
7	Maluku	1.25
	- Small Island	1.30
8	West Papua	1.50
9	Papua	1.50

Source: Presidential Decree 112/2022, PTOS

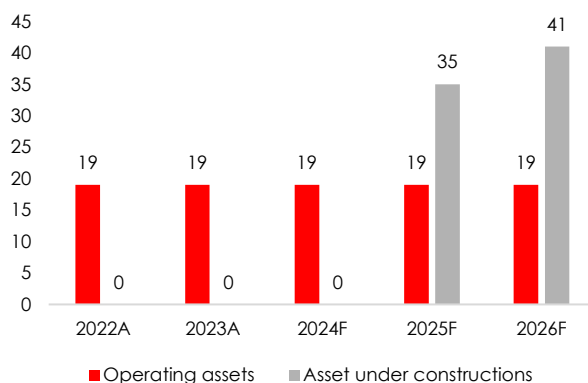
OPERATIONAL OUTLOOK AND FINANCIAL PROJECTION

Capacity projection. HGII has laid down several pipeline projects into its long-term expansion plans that management expects to see substantial growth in capacity to 80MW by 2031F for hydropower plants portfolio.

Yet, for 2024F-2025F, the company's operations will still rely on two operating assets, PM-1 and PM-2 with a combined capacity of 19MW, while the company is scheduled to start construction of LO and SS which have capacity of 10 MW and 25 MW, respectively. The LO and SS are expected to start commissioning in 2027F and 2028F, respectively.

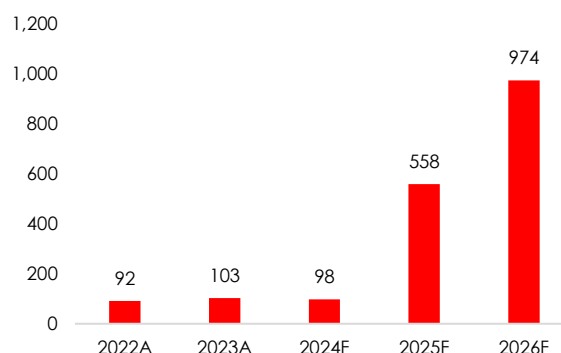
In addition to LO and SS, in 2026F, the company is planning to kick start construction of LSM-1 and SAND, which has a capacity of 3MW each. The projects are expected to be completed in the following year of 2027F. In the following year, HGII eyes to start construction of a 20MW hydropower plant, TP, which is estimated to be completed and to start commissioning in 2031F.

Figure 27: Hydro power plants capacity timeline (MW)



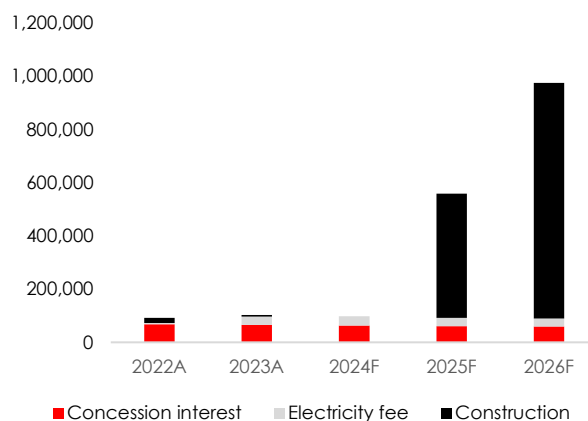
Source: Company, PTOS

Figure 28: Revenue (IDR bn)



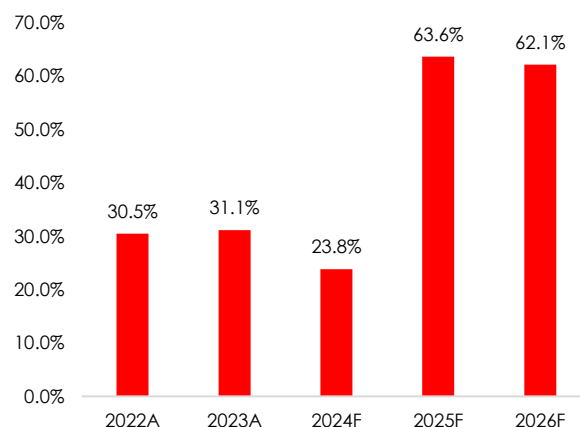
Source: Company, PTOS

Figure 29: Revenue breakdown



Source: Company, PTOS

Figure 30: COGS to revenue proportion



Source: Company, PTOS

Revenue breakdown. Due to accounting treatment of concession that does not recognize the power plant as the company's own assets, the company is able to record the projects as financial assets concession from PLN. As such, it enables HGII to recognize its source of revenue comprising of 1) concession interest income; 2) sale of electricity, and 3) construction services.

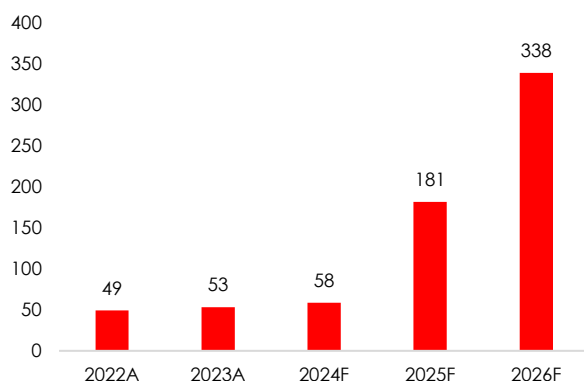
As a result, it is worth nothing that this should lead to fluctuation of revenue, particularly during the stages in construction where HGII books as construction services. For 2025F, we expect HGII's revenue to jump significantly, largely boosted by construction service income from LO and SS projects that are scheduled to commission by 2027F and 2028F, respectively, according to management's timeline.

The construction revenue of HGII is expected to hold a large chunk to its total revenue of c. 80% in 2025F during the initial phase of power plant constructions. Furthermore, for 2026F, we estimate the company's substantial growth in revenue to continue, on the back of additions of construction service income from SAND and LSM-1 project, which is anticipated to start commissioning in a year after.

Tariff assumptions. For PM-1 and PM-2, our tariff assumptions are based on the company's terms with PLN as at that time, the government had not yet regulated the reference tariff of electricity until 2022. As such, the electricity price of PM-1 for year 1 to 8 stands at IDR1.21mn per MW, while during the year 9 to 20, the electricity tariff is to decline to IDR935K per MW. For PM-2 that was starting to be commissioning in 2021, the electricity price stands at IDR1.049mn per MW. Meanwhile, for the pipeline projects (LO, SS, SAND, LSM-1 and TP), we base our assumption on the reference price outlined in the presidential decree No. 112/2022 with an averaged of c. 9% discount applied.

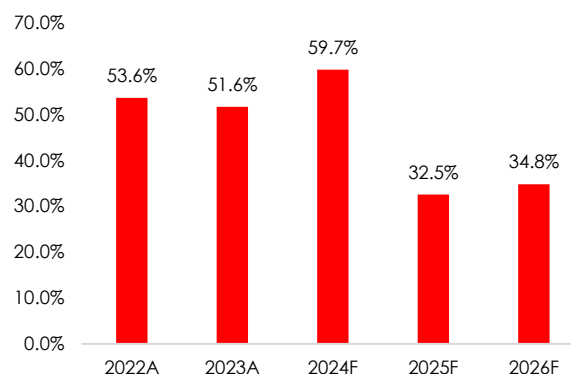
Cost of revenue. Due to recognition of construction costs, HGII's cost of revenue often fluctuates depending on the progress of the project. For 2025F and 2026F, we expect cost of revenue to skyrocketed amidst the commencement of construction of LO and SS for 2025F as well as SAND and LSM-1 in the following year.

Figure 31: EBITDA projection (IDR bn)



Source: Company, PTOS

Figure 32: EBITDA margin

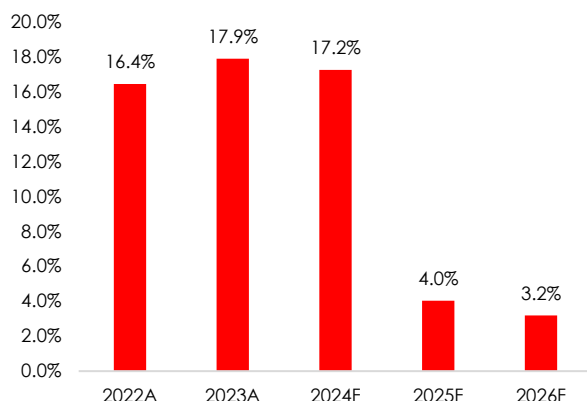


Source: Company, PTOS

On the other hand, excluding construction cost, one of most significant cost components for HGII comes from employee salaries and benefits that is followed by repair and maintenance costs.

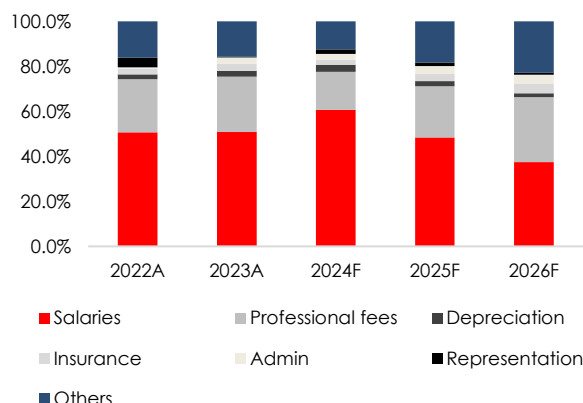
EBITDA. Following the construction of the pipeline projects, we expect HGII's EBITDA to elevate in 2025F and 2026F. Despite strong EBITDA growth, the company's EBITDA margin is estimated to decline in 2025F and 2026F given the start of construction of LO, SS, SAND and LSM-1.

Figure 33: Opex to revenue proportion



Source: Company, PTOS

Figure 34: Components of operational expenses

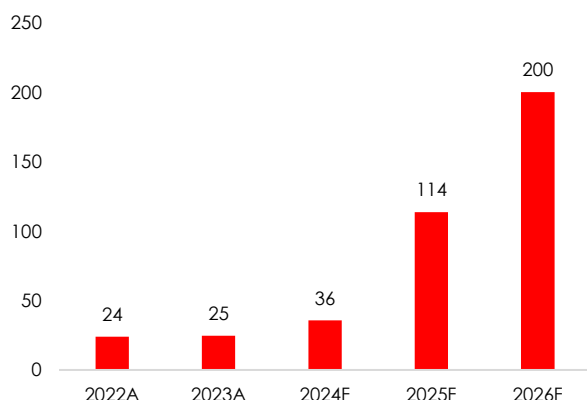


Source: Company, PTOS

Operational expenses. The company's operational expenses are sourced mainly from G&A expenses, which are naturally fixed costs. With the expansion of revenue, we expect the proportion of operational expenses to revenue to significantly decrease since 2025F, aligned with a jump in projected revenue.

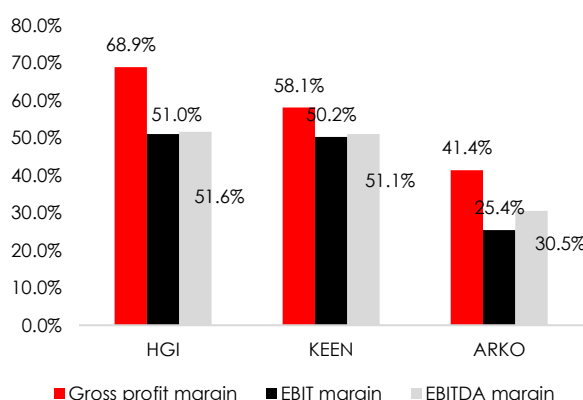
Meanwhile, the employee salaries are made up the most significant cost component, taking c.35-45% to total G&A expenses in 2025F-2026F. We assume the annual rate of salaries increase of 6.5%.

Figure 35: Net Profit Forecast (IDR bn)



Source: Company, PTOS

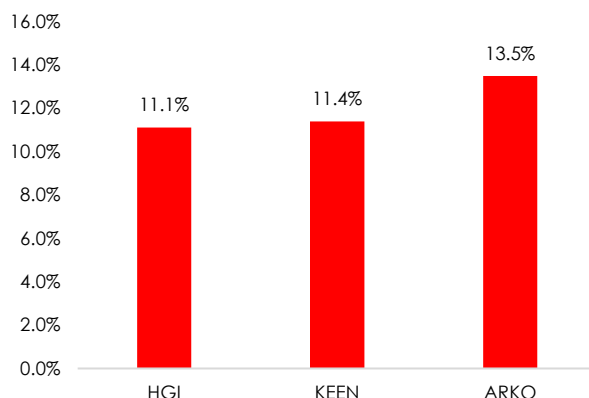
Figure 36: Margins compared to peers as of 1H24



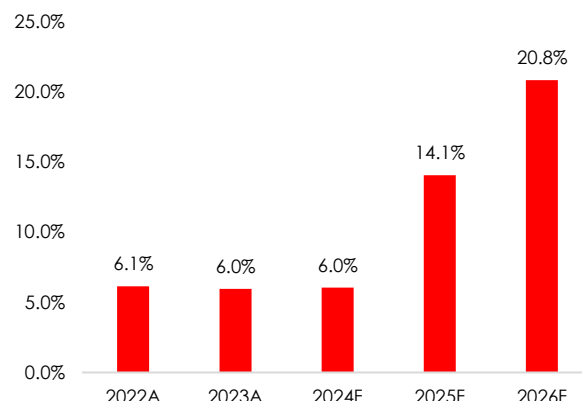
Source: Company, PTOS

Profitability. For bottom-line performance, we forecast HGI's net profit to experience a surge in 2025F/2026F, boosted by higher revenue projection during the construction phase of projects, namely LO, SS, SAND and LSM-1.

HGI's margins are generally higher than peers, KEEN and ARKO as of 1H24, with GPM standing at 68.9% (VS 41.4%/58.1% of ARKO/KEEN). Likewise, EBIT dan net profit margin was also better than comparable peers in the period.

Figure 37: Current ROE Compared to Peers in 1H24


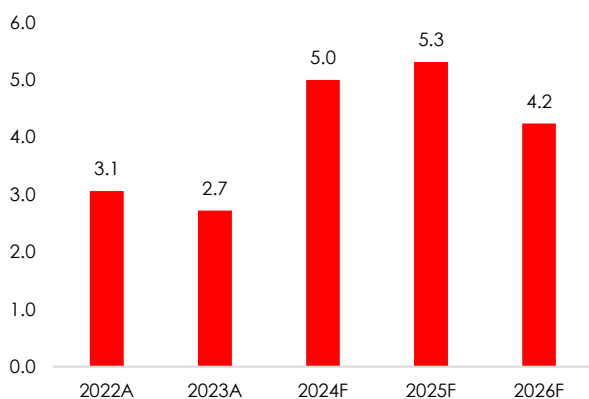
Source: Company, PTOS

Figure 38: ROE Forecast


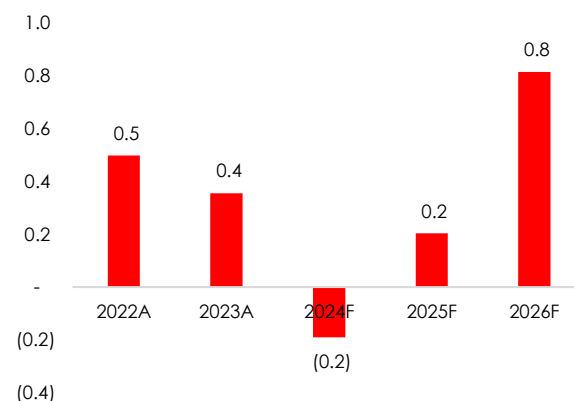
Source: Company, PTOS

HGI's profitability metrics are expected to improve in 2025F onwards along with the progress of the construction and operations of the pipeline projects.

Meanwhile, we expect HGI's ROAE to be c. 14.1% by 2025F, or improving compared to annualized ROE for 2024F at 11.1%, in 1H24. At this point, HGI's ROAE is relatively at par with peers', in our view.

Figure 39: EBITDA coverage ratio (x)


Source: Company, PTOS

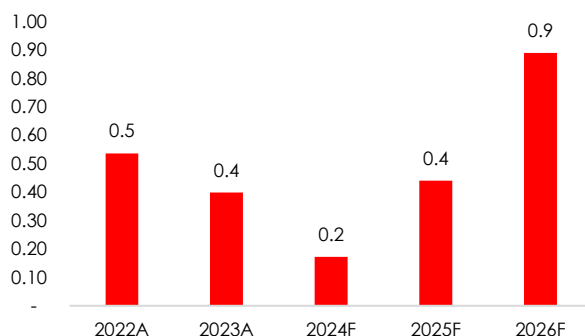
Figure 40: Net gearing (x)


Source: Company, PTOS

Debt metrics. HGI's EBITDA coverage ratio is estimated to be at 5.3x in 2025F or improving from a previous year's coverage ratio.

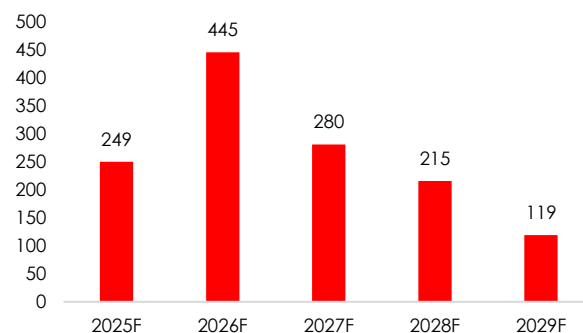
Nevertheless, with the cash generated from the IPO, it should provide an ample room for its balance sheet to finance its expansion plans. We project the company's net gearing ratio to remain manageable at less than 1.0x for 2024F-2026F.

Figure 41: Debt to equity ratio (x)



Source: Company, PTOS

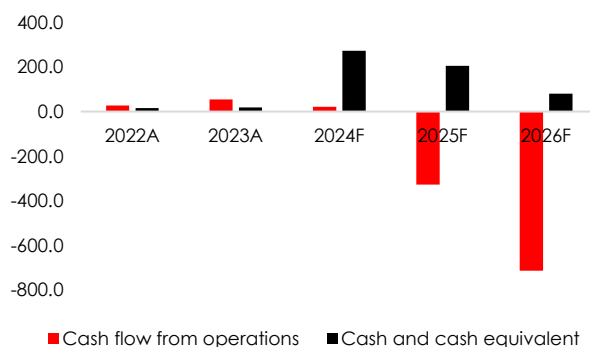
Figure 42: Capex outlook (IDR bn)



Source: Company, PTOS

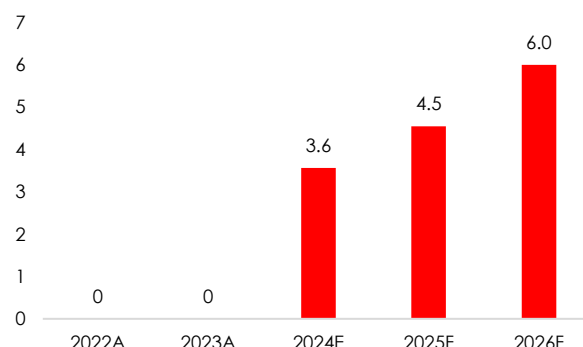
Capex. We expect the company to earmark IDR249bn-IDR445bn in capital expenditure for 2026F and 2027F, that will mostly be spent for its four pipeline projects which will add a capacity of 41Mw in total. The projects are projected to take up 85% of its capex allocation, while the remaining 15% will be allocated for working capital.

Figure 43: Cash and equivalents (IDR bn)



Source: Company, PTOS

Figure 44: Dividend outlook (IDR bn)



Source: Company, PTOS

Cash flow of operations. The company's cash flow of operations is projected to record a positive CFO of IDR21.1bn in 2024F. Nevertheless, in-line with the construction of the four projects scheduled in 2025F-2026F, the company's CFO is expected to be negative. Yet, we anticipate its CFPO should return to positive once the projects start commissioning.

Dividends. The management expects to disburse a cash dividend totaling IDR3.6bn for 2024F, while the amount of dividend to continue rising in-line with improving profitability.

Income Statement

	2022A	2023A	2024E	2025E	2026E
Revenue	91,749	103,183	97,913	558,107	973,574
COGS	-27,970	-32,088	-23,314	-354,890	-604,968
Gross profit	63,779	71,095	74,599	203,217	368,606
G&A	-15,063	-18,438	-16,871	-22,508	-30,956
Depreciation	461	626	695	708	718
EBIT	48,716	52,657	57,728	180,709	337,650
EBITDA	49,177	53,283	58,423	181,416	338,369
Other income/expenses	22	207	0	0	0
Net finance income/expenses	-16,008	-19,510	-11,618	-33,732	-79,084
Pretax profit	32,730	33,355	46,110	146,977	258,567
Income tax	-7,397	-7,212	-10,375	-33,070	-58,178
Non-controlling interest	1,443	1,551	71	228	401
Net profit	23,890	24,592	35,664	113,679	199,989

Source: Company, PTOS
(Adjusted by OCBC Forecast)

Balance Sheet

	2022A	2023A	2024E	2025E	2026E
Cash and cash equivalents	15,581	18,518	273,185	204,888	80,819
Trade receivables	13	694	10,378	9,204	9,204
Financial assets from concessions	89,305	89,305	89,668	79,521	79,521
Other current assets	37,270	37,983	2,147	1,547	1,282
Total current assets	142,169	146,500	375,378	295,160	170,827
Fixed assets	3,393	11,686	12,972	13,215	13,413
Financial assets from concessions	636,482	612,497	610,800	1,060,857	1,975,683
Other non-current assets	297	338	327	7,435	24,519
Total non-current assets	640,172	625,020	624,099	1,081,507	2,013,616
Total Assets	782,341	771,520	999,477	1,376,667	2,184,443
Trade payables	3,369	9,572	0	0	0
Lease	0	0	77	78	83
Bank loans	175,135	161,971	28,000	20,000	27,000
Other current liabilities	46,662	47,708	14,534	10,051	10,050
Total current liabilities	225,166	219,251	47,076	34,603	41,231
Lease	0	0	273	131	45
Bank loans	39,496	7,133	102,000	360,000	913,000
Other non-current liabilities	85,184	86,705	86,263	113,247	171,473
Total liabilities	349,846	313,089	244,662	512,342	1,125,749
Share capital	130,000	130,000	162,500	162,500	162,500
Additional paid-in capital	0	0	264,130	264,130	264,130
Retained earnings	270,720	295,106	327,582	437,093	631,460
Total equity attributable to owners	400,720	425,106	754,212	863,722	1,058,090
Non-controlling interests	31,775	33,326	603	603	603

Source: Company, PTOS
(Adjusted by OCBC Forecast)

Cash Flow Statement

	2022A	2023A	2024E	2025E	2026E
Net profit	23,890	24,592	35,664	113,679	199,989
D&A	461	626	695	708	718
Change in WC	2,838	29,840	-15,259	-442,620	-914,562
Cash flow from operations	27,189	55,057	21,100	-328,233	-713,855
Cash flow from investing	-2,129	-9,459	-1,471	-8,059	-18,001
Cash flow from financing	-19,607	-42,661	235,038	267,995	607,787
Change in cash flow	5,454	2,937	254,667	-68,297	-124,069
Cash at the beginning of the year	10,128	15,581	18,518	273,185	204,888
Cash at the end of the year	15,581	18,518	273,185	204,888	80,819

Source: Company, PTOS
(Adjusted by OCBC Forecast)

Key Ratios

	2022A	2023A	2024E	2025E	2026E
Growth (%)					
Revenue	-61.8	12.5	-5.1	470.0	74.4
Gross profit	-51.9	11.5	4.9	172.4	81.4
EBIT	-59.8	8.1	9.6	213.0	86.8
EBITDA	-59.5	8.3	9.6	210.5	86.5
Net profit	-70.6	2.9	45.0	218.7	75.9
Profitability (%)					
Gross profit margin	69.5	68.9	76.2	36.4	37.9
EBIT margin	53.1	51.0	59.0	32.4	34.7
EBITDA margin	53.6	51.6	59.7	32.5	34.8
Net profit margin	26.0	23.8	36.4	20.4	20.5
RoAA	3.0	3.2	4.0	9.6	11.2
RoAE	6.1	6.0	6.0	14.1	20.8
Solvency (x)					
Coverage ratio	3.1	2.7	5.0	5.3	4.2
Net gearing	0.5	0.4	-0.2	0.2	0.8
Other (x)					
Asset turnover	0.1	0.1	0.1	0.5	0.5
Current ratio	0.6	0.7	8.0	8.5	4.1

Source: Company, PTOS
(Adjusted by OCBC Forecast)

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