

# Perusahaan Gas Negara (PGAS)

## Realizing benefits of synergy

### Indicative FY21 operational performance in-line with our expectation

Indicative PGAS' 4Q21 distribution volume fell 2% QoQ to 865 bbtud, bringing its FY21 distribution volume to 871 bbtud (+5% YoY). Its 4Q21 transmission volume was more encouraging with 35% QoQ growth to 1,694 mmscf, bringing its FY21 transmission volume to 1,352 mmscf (+8% YoY). Meanwhile, its upstream lifting fell 25% QoQ (from quarterly high activities in 3Q21) to 23,014 boepd, bringing its FY21 upstream lifting to a respectable 20% YoY growth to 23,562 boepd.

**Indicative FY21 operational performance for key segments was 98-103% of our FY21F. Refer to Table 1 for PGAS's indicative FY21 operational summary.** Considering these operational data, we **expect PGAS to book ~USD50mn 4Q21 net profit excl. provision to tax disputes.**

### An early indication of better synergy with Pertamina

Since officially being Pertamina's gas sub-holding at the end of 2018, PGAS is expected to have **more synergy with other relevant Pertamina subsidiaries.** One of the key projects is **one of the national strategic projects (PSN); Jambaran Tiung Biru (JTB) Gas Processing Facilities (GPF).** This GPF is expected to be operational in May2022, **potentially adding ~170bbtud natural gas distribution volume (representing a substantial ~20% of PGAS' FY21 daily distribution volume)** mainly to supply Central and East Java area. **Another additional revenue from Pertamina-related project is the oil transportation through the 367km pipes from Rokan block to Dumai refinery with a volume of 130k – 200k boepd (expected to flow through in stages: Feb2022 & Apr2022).**

### Reiterate BUY call on PGAS with much higher expected earnings

Considering a substantial additional volume from JTB GPF as explained in the 2<sup>nd</sup> point above, **we revised up our core FY22/23F earnings assumptions by 42%/50%, respectively.** This **bumped up our PGAS' SOTP valuation to IDR2,000/sh**, implying 12.5x FY22F PE and 5.5 x FY22F EV/EBITDA (both at less than -0.5 std dev of its 5 years average). **PGAS has few ongoing investments (with USD746mn capex allocation this year – one of the highest annual capex since 2015) such as. regasification projects in 5 refineries, LNG facilities in Cilacap, city gas projects, which should contribute to PGAS earnings in the future. In addition, SAKA divestment might be closer to realization given the current uptrend of crude oil prices.**

	2019A	2020A	2021F	2022F	2023F
Sales (USD mn)	3,849	2,886	3,100	3,530	3,684
GP (USD mn)	1,227	854	965	1,123	1,165
OP (USD mn)	518	326	423	488	484
Core profit (USD mn)	133	89	201	255	262
NP (USD mn)	68	-265	335	265	249
EBITDA (USD mn)	962	716	941	1,051	1,078
Net debt (USD mn)	1,369	1,074	1,327	1,780	2,052
OP margin (%)	13.5	11.3	13.6	13.8	13.1
ROE (%)	2.1	-8.6	10.6	7.7	6.8
Dividend yield (%)	3.4	-	4.1	5.4	5.6
Core EPS (USD)	0.005	0.004	0.008	0.011	0.011
chg. (% YoY)	(60.0)	(32.7)	124.9	27.1	2.7
BPS (USD)	0.133	0.122	0.138	0.147	0.154
DPS (USD)	0.004	-	0.004	0.005	0.005
PE (x)	19.1	27.9	12.1	9.2	8.9
PB (x)	0.8	0.8	0.7	0.7	0.6
EV/EBITDA (x)	4.8	6.0	4.8	4.7	4.9

## Company Update

### Utilities

17 Feb, 2021

12M rating **BUY (Maintain)**  
12M TP **IDR 2,000** (Prev IDR1,800)  
Upside **+37.9%**

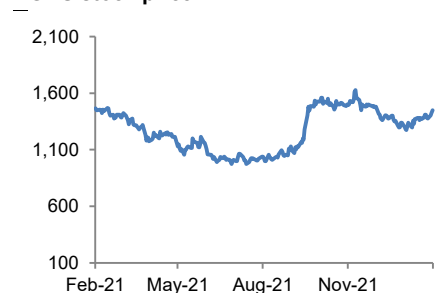
#### Stock Data

JCI (Feb 16)	6,850
Stock price (Feb 16, IDR)	1,450
Market cap (IDR bn)	35,150
Shares outstanding (mn)	24,241
52-week high/low (IDR)	1,640 / 960
6M avg. daily turnover (IDR bn)	180.6
Free float (%)	43.0
<b>Major shareholders (%)</b>	
Pertamina (Persero)	57.0

#### Performance

	1M	6M	12M
Absolute (%)	6.0	38.5	(6.6)
Relative to JCI (%)	5.7	23.9	(11.5)

#### PGAS stock price



Source: Bloomberg

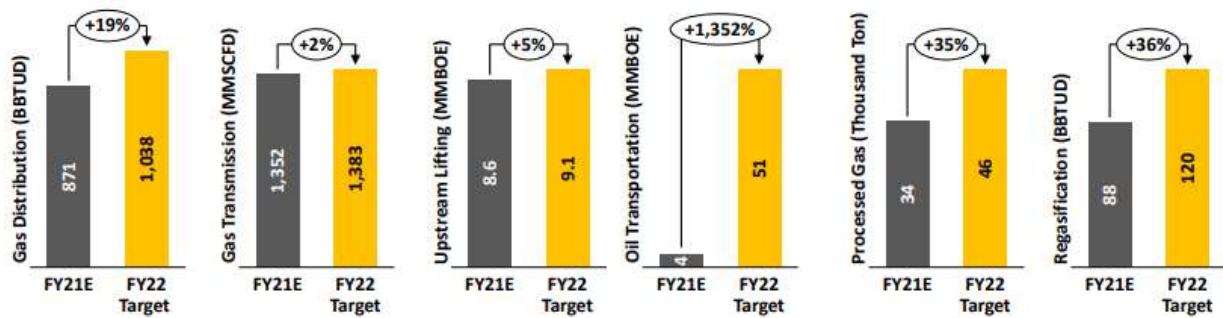
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Table 1. Indicative operational performance in 4Q21

PGAS - Key operational segment	Unit	4Q20	3Q21	4Q21E	% QoQ	% YoY	12M20	12M21	% YoY	% of KISI FY21F
Distribution	<i>bbtud</i>	876	882	865	-2%	-1%	828	871	5%	99%
Transmission	<i>mmscfd</i>	1,192	1,252	1,694	35%	42%	1,255	1,352	8%	103%
Upstream lifting	<i>boepd</i>	20,510	30,597	23,014	-25%	12%	19,585	23,562	20%	98%

Source: Company, KISI

Fig 1. PGAS' operational corporate guidance for FY22



Source: Company presentation

Table 2. Summary of assumptions change

Assumptions	Unit	Revised			Previous		
		FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
Distribution volume	<i>bbtud</i>	871	958	1,020	880	905	929
Change (%)		-1%	6%	10%			
Transmission volume	<i>mmscfd</i>	1,352	1,372	1,407	1,318	1,293	1,332
Change (%)		3%	6%	6%			
Upstream lifting	<i>boepd</i>	23,562	24,740	25,977	24,000	26,400	29,040
Change (%)		-2%	-6%	-11%			
D&T spread (margin)	USD	1.95	1.90	1.90	1.95	1.90	1.90
Change (%)		0%	0%	0%			
Oil price	USD/bl	71	75	70	70	75	70
Change (%)		1%	0%	0%			
Revenue	USDmn	3,100	3,530	3,684	3,129	3,225	3,319
Change (%)		-1%	9%	11%			
EBITDA	USDmn	941	1,051	1,078	935	926	943
Change (%)		1%	13%	14%			
Core profit	USDmn	201	255	262	202	168	179
Change (%)		0%	52%	47%			
Net profit (incl. extraordinary items)	USDmn	335	265	249	333	180	166
Change (%)		0%	47%	50%			
Equity value (SOTP) / share	IDR		2,000			1,800	
Change (%)			11%				
Recommendation			BUY			BUY	

Source: KISI

Table 3. PGAS' SOTP

Assets	Stakes (%)	Value (USD mn)	Remarks
<b>Distribution/Transmission and others:</b>			
PGAS	100.0%		
Pertagas	51.0%	4,869	DCF
<b>Saka Energi Indonesia</b>	100.0%	157	0.5x FY22F PB
Net cash (debt)		(1,780)	
<b>Total Equity Value</b>		<b>3,245</b>	
No. of shares (bn)		24.24	
<b>Equity Value per share (IDR)</b>		<b>2,000</b>	
USD/IDR assumed		15,000	

Source: KISI

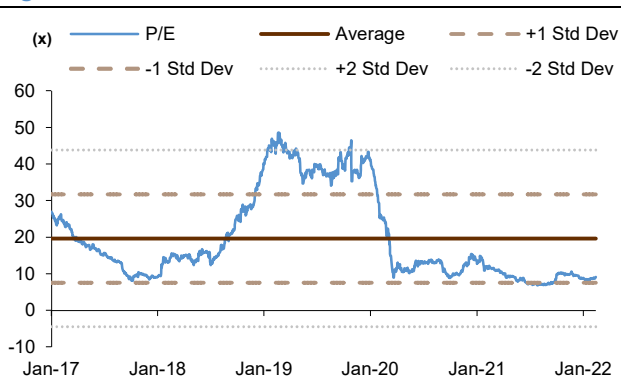
Table 4. PGAS regional peers valuation

Company	Bloomberg code	Market cap	PE (x)		EV/EBITDA (x)		ROE
		USD mn	FY21F	FY22F	FY21F	FY22F	%
Perusahaan Gas Negara Tbk PT	PGAS IJ Equity	2,466	12.1	9.2	4.8	4.7	12.2*
Petronas Gas Bhd	PTG MK Equity	8,158	16.6	17.3	9.2	9.1	15.7
Gas Malaysia Bhd	GMB MK Equity	828	14.5	14.4	9.0	8.8	21.8
PTT PCL	PTT TB Equity	35,550	10.4	10.0	5.4	5.3	11.2
PetroVietnam Gas JSC	GAS VN Equity	9,627	22.6	18.6	14.2	11.1	19.7
Shenzhen Gas Corp Ltd	601139 CH Equity	3,668	15.4	12.5	7.8	6.6	11.8
GAIL India Ltd	GAIL IN Equity	8,304	12.4	6.2	10.3	5.2	10.7
Gujarat Gas Ltd	GUJGA IN Equity	6,060	37.8	36.5	22.7	23.1	31.6

Source: Bloomberg, KISI

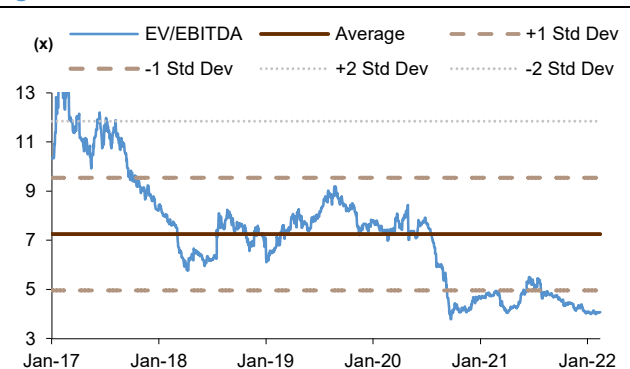
Notes: \*ROE (excl. Saka Energi Indonesia)  
PGAS PE multiples reflect core earnings  
All regional peers valuations are based on consensus

Fig 2. PGAS' PE band



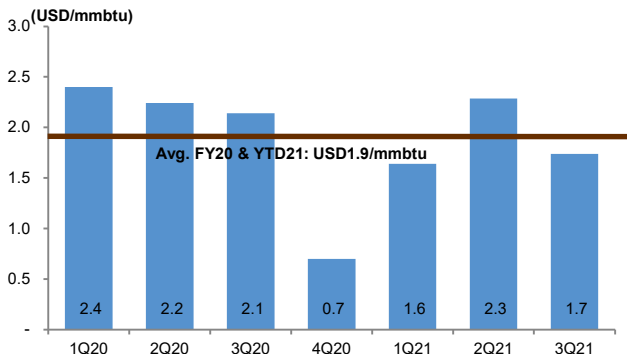
Source: Company, KISI

Fig 3. PGAS' EV/EBITDA band



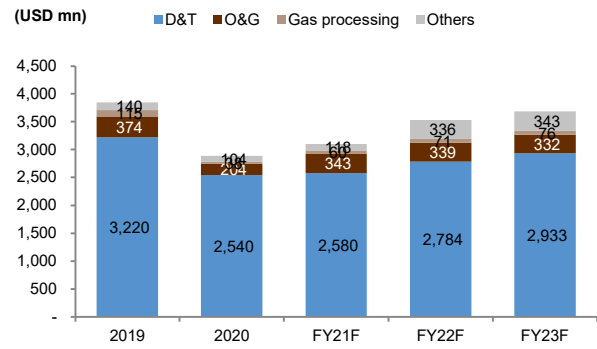
Source: Company, KISI

Fig 4. PGAS' quarterly distribution margin trend



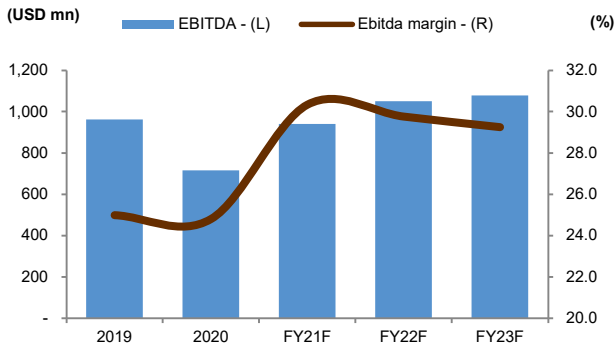
Source: Company, KISI

Fig 5. PGAS' revenue assumptions & breakdown



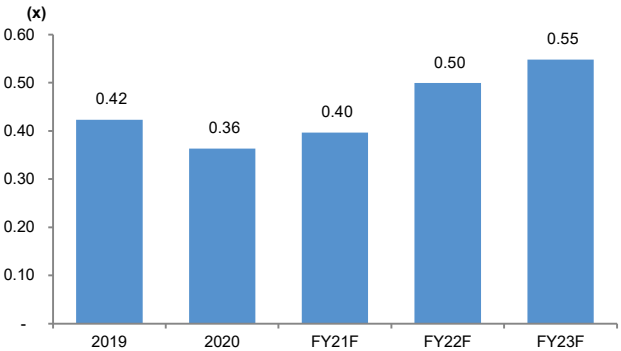
Source: Company, KISI

Fig 6. PGAS' EBITDA & EBITDA margins



Source: Company, KISI

Fig 7. PGAS' net gearing trend



Source: Company, KISI

Fig 8. Rokan crude oil pipeline project



Source: Company, KISI

Fig 9. Jambaran Tiung Biru (JTB) gas project

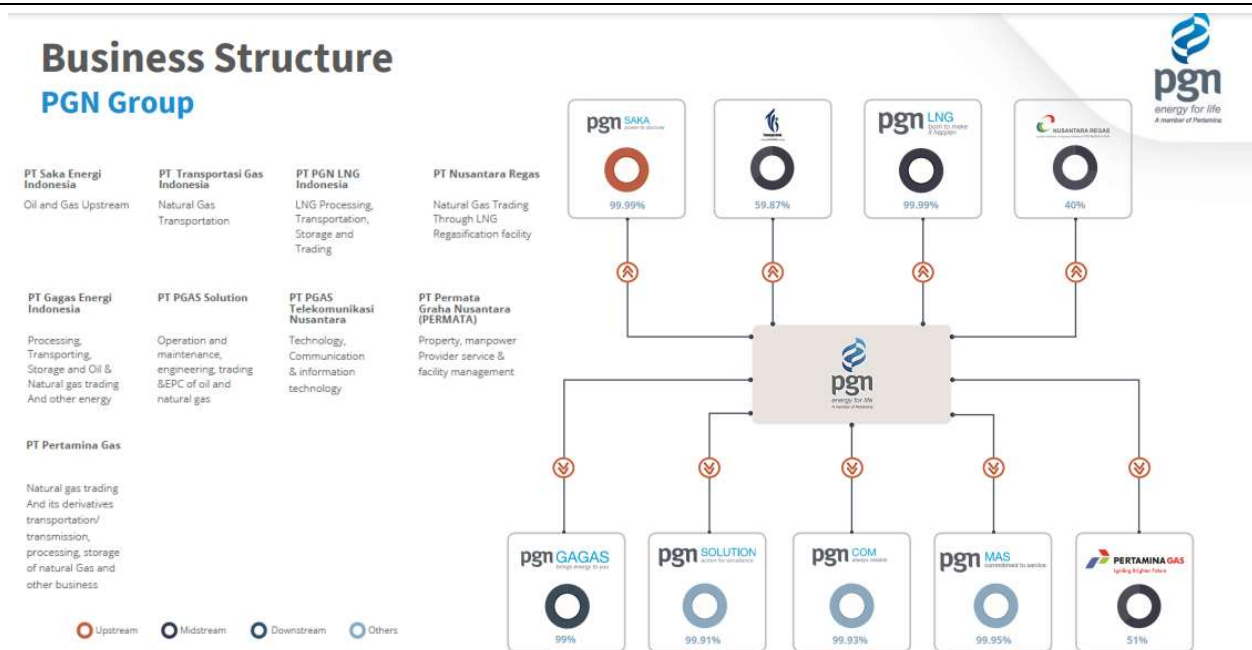


Source: Pertamina EP Cepu, KISI

## Company Overview

Perusahaan Gas Negara (PGAS) engaged in upstream oil and gas, midstream, and downstream gas businesses. PGAS owns and operates natural gas pipelines over more than 10,000 km, covering approximately 96% of the national natural gas pipeline network. PGAS' upstream portfolio consists of 10 oil and gas blocks across Indonesia. Besides, PGAS has 2 FSRUs (Lampung and West Java) and a land-based regasification facility in Arun. PGAS has officially become the Gas sub-holding company after 51% stakes acquisition of Pertamina Gas (and its subsidiaries) in 28Dec2018.

Fig 10. PGAS corporate structure



Source: Company's annual report , KISI Research

**Balance sheet** (USD mn)

FY-ending Dec. (US\$ m)	2019A	2020A	2021F	2022F	2023F
<b>Current assets</b>					
Cash & cash equivalent	1,040	1,179	941	460	163
Accounts & other receivables	510	473	506	629	562
Inventories	71	69	55	83	61
Others	588	285	196	196	196
<b>Non-current assets</b>					
Fixed assets	2,748	2,698	2,802	3,164	3,242
Intangible assets	4	3	3	3	3
O&G properties	1,396	1,276	1,240	1,141	1,014
Other non-current assets	1,018	1,552	2,148	2,408	3,043
<b>Total assets</b>	<b>7,374</b>	<b>7,534</b>	<b>7,892</b>	<b>8,083</b>	<b>8,285</b>
<b>Current liabilities</b>					
Accounts & other payables	260	215	208	193	226
ST debt	164	11	50	50	50
Current portion of LT debt	21	19	22	22	22
Others	678	938	910	910	910
<b>Non-current liabilities</b>					
LT debt	357	354	317	289	264
Notes payable	1,961	1,964	1,975	1,975	1,975
Employee benefits liability	148	138	145	152	160
Other non-current liabilities	550	939	921	927	933
<b>Total liabilities</b>	<b>4,139</b>	<b>4,579</b>	<b>4,548</b>	<b>4,518</b>	<b>4,539</b>
<b>Controlling interest</b>					
Capital stock	344	344	344	344	344
Additional paid-in capital	-468	-468	-468	-468	-468
Other equities	(44)	(40)	(50)	(50)	(50)
Retained earnings	2,729	2,396	2,731	2,896	3,018
Minority interest	673	722	787	842	899
<b>Shareholders' equity</b>	<b>3,234</b>	<b>2,955</b>	<b>3,345</b>	<b>3,565</b>	<b>3,743</b>
<b>Cash flow</b> (USDmn)					
FY-ending Dec. (US\$ m)	2019A	2020A	2021F	2022F	2023F
<b>C/F from operating</b>					
Net profit	68	(265)	335	265	249
Depreciation	443	390	518	563	594
Net incr. in W/C					
Others	307	292	(656)	(583)	(608)
<b>C/F from investing</b>					
CAPEX	(241)	(283)	(460)	(735)	(485)
Others	(699)	299	99	131	102
<b>C/F from financing</b>					
Incr. in equity	-	-	-	-	-
Incr. in debts	(58)	154	(74)	(22)	(22)
Dividends	(97)	(86)	-	(100)	(128)
Others	0	-	-	-	-
<b>C/F from others</b>					
Increase in cash	(277)	501	(238)	(481)	(297)

**Income statement** (USD mn)

FY-ending Dec. (US\$ m)	2019A	2020A	2021F	2022F	2023F
Sales	3,849	2,886	3,100	3,530	3,684
COGS	(2,621)	(2,031)	(2,135)	(2,406)	(2,519)
<b>Gross profit</b>	<b>1,227</b>	<b>854</b>	<b>965</b>	<b>1,123</b>	<b>1,165</b>
SG&A expense	(270)	(177)	(186)	(229)	(258)
<b>Operating profit</b>	<b>518</b>	<b>326</b>	<b>423</b>	<b>488</b>	<b>484</b>
<b>Financial income</b>					
Interest income	(142)	(139)	(102)	(105)	(114)
<b>Financial expense</b>					
Interest expense	63	(76)	69	10	(13)
Other non-operating profit	(128)	(278)	65	-	-
<b>Earnings before tax</b>	<b>280</b>	<b>(175)</b>	<b>508</b>	<b>443</b>	<b>425</b>
Income taxes	(167)	(40)	(109)	(123)	(119)
<b>Net profit</b>	<b>68</b>	<b>(265)</b>	<b>335</b>	<b>265</b>	<b>249</b>
Non-controlling interest	45	49	65	55	56
<b>Other comprehensive profit</b>					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
<b>EBITDA</b>	<b>962</b>	<b>716</b>	<b>941</b>	<b>1,051</b>	<b>1,078</b>

**Key financial data**

FY-ending Dec.	2019A	2020A	2021F	2022F	2023F
per share data (US)					
EPS	0.003	-0.011	0.014	0.011	0.010
BPS	0.133	0.122	0.138	0.147	0.154
DPS	0.004	-	0.004	0.005	0.005
Growth (%)					
Sales growth	-0.6	-25.0	7.4	13.9	4.4
OP growth	-16.4	-37.1	29.7	15.4	-0.9
NP growth	-60.0	NM	NM	27.1	2.7
EBITDA growth	-16.3	-25.6	31.4	11.7	2.6
Profitability (%)					
OP margin	13.5	11.3	13.6	13.8	13.1
NP margin	1.8	-9.2	10.8	7.5	6.8
EBITDA margin	25.0	24.8	30.3	29.8	29.3
ROA	0.9	-3.6	4.3	3.3	3.0
ROE	2.1	-8.6	10.6	7.7	6.8
Dividend yield	3.4	-	4.1	5.4	5.6
Dividend payout ratio	126.6	-	50.0	50.0	50.0
Stability					
Net debt (US\$ m)	1,369	1,074	1,327	1,780	2,052
Int-bearing debt/equity (%)	77.4	79.5	70.7	65.5	61.7
Valuation (X)					
PE	19.1	27.9	12.1	9.2	8.9
PB	0.8	0.8	0.7	0.7	0.6
EV/EBITDA	4.8	6.0	4.8	4.7	4.9



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