

# Perusahaan Gas Negara (PGAS)

## Upstream unleashed

### Steady downstream volume with (+)ve booster from upstream

PGAS' Apr & May2022 monthly operational data indicated that its **2Q22 distribution & transmission continues to be at a similar level QoQ**, which brings its 1H22 distribution & transmission volume to grow 4% & 10% YoY, respectively, which are **within our FY22 expectations**. Meanwhile, its subsidiary **Saka Energi Indonesia (SEI) continues to be a positive surprise for PGAS with a much better lifting achievement** with an expected ~28% QoQ to ~32,300 boepd upstream lifting (i.e. the highest quarterly performance in the past 5 years). This would bring its 1H22 upstream lifting to ~28,750 boepd, **surpassing its FY19 achievement and on a right trajectory to the peak of ~50,000 boepd in FY17**. Refer to Table 1 for PGAS's 5M22 operational achievement data and Table 2 for 2Q22 operational and financial forecast. Taking all this into account, we **expect PGAS to book ~USD82mn 2Q22 net profit to bring its 1H22 net profit to USD201mn, 59% of our FY22F estimates**.

### (+)ve impact from recent SEI's liability management

Crude oil price has surged from USD80/bbl in early Jan2022 to sustain above USD100/bbl from early Mar2022 onwards. The current 8-year high average YTD crude price helped SEI to generate USD90.6mn cash flow from operation in 1Q22. In addition to its USD289.4mn cash position at the end of FY21, **SEI managed to do liability management by repurchasing USD232mn** of its outstanding USD625mn **global bond through both open market purchase and tender offer**. These corporate actions **brought down its net gearing to below 50%**, a healthy level for an upstream oil company. We believe that the continuous operational improvement and prudent liability management would further increase Saka Energi's value for potential divestment in the future (which might be closer to realization given the current uptrend of crude oil prices).

### Reiterate BUY on PGAS with higher TP on (+)ve impact from SEI

**We revised up our FY22/23F earnings assumption by 18%/16%**, respectively to account for a 6% higher Saka Energi oil production and a ~13% higher ASP (considering the sustained high crude oil price). **This bumped up our PGAS' SOTP valuation by 15% to IDR2,300/sh**, implying 11x FY22F PE and 5.3 x FY22F EV/EBITDA (both at less than -0.5 std dev of its 5-year average). Risks to our call include the potential expansion of USD6/mmbtu gas volume allocation as proposed by Ministry of Industry (Mol) and other changes in regulations.

	2020A	2021A	2022F	2023F	2024F
Sales (USD mn)	2,886	3,036	3,669	3,778	3,886
GP (USD mn)	846	958	1,248	1,242	1,222
OP (USD mn)	318	420	606	562	503
Core profit (USD mn)	81	239	341	349	351
NP (USD mn)	(273)	304	341	349	351
EBITDA (USD mn)	708	842	1,101	1,083	1,045
Net debt (USD mn)	1,074	784	1,389	1,619	1,751
OP margin (%)	11.0	13.8	16.5	14.9	13.0
ROE (%)	(8.8)	9.7	10.1	9.7	9.2
Dividend yield (%)	0.9	7.6	6.6	6.8	6.8
Core EPS (USD)	0.003	0.010	0.014	0.014	0.014
chg. (% , YoY)	(38.9)	194.5	43.0	2.2	0.6
BPS (USD)	0.122	0.136	0.143	0.153	0.163
DPS (USD)	0.001	0.008	0.007	0.007	0.007
PE (x)	33.8	11.4	7.6	7.4	7.3
PB (x)	0.9	0.8	0.7	0.7	0.7
EV/EBITDA (x)	6.4	5.1	4.3	4.7	5.0

## Company Update

### Utilities

Jul 13, 2022

12M rating **BUY (Maintain)**  
12M TP **IDR 2,300** (Prev IDR2,000)  
Upside **+44.2%**

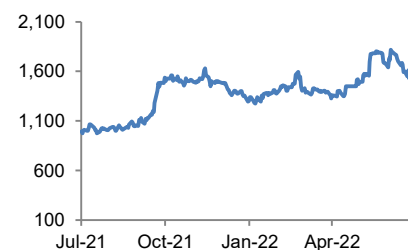
#### Stock Data

JCI (Jul 12)	6,718
Stock price (Jul 12, IDR)	1,595
Market cap (IDR bn)	38,665
Shares outstanding (mn)	24,241
52-week high/low (IDR)	1,860 / 960
6M avg. daily turnover (IDR bn)	167.0
Free float (%)	43.0
<b>Major shareholders (%)</b>	
Pertamina (Persero)	<b>57.0</b>

#### Performance

	1M	6M	12M
Absolute (%)	(5.7)	31.4	67.7
Relative to JCI (%)	0.1	21.4	42.9

#### PGAS stock price



Source: Bloomberg

**Edward Tanuwijaya**

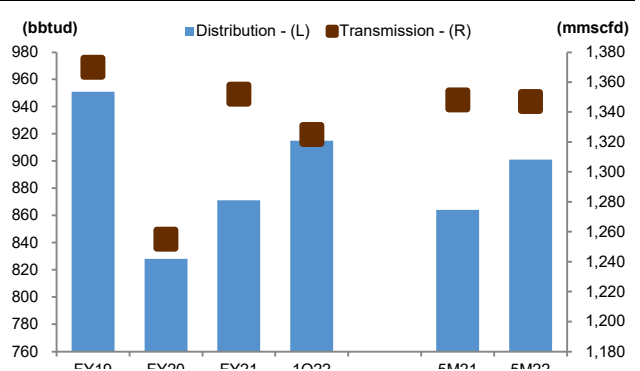
[edward.t@kisi.co.id](mailto:edward.t@kisi.co.id)

Table 1. PGAS' 5M22 operational data per segment

Segment	Unit	5M21	5M22	YoY
Distribution	<i>bbtud</i>	864	901	4%
Transmission	<i>mmscfd</i>	1,348	1,347	0%
Upstream lifting	<i>boepd</i>	20,758	28,743	38%
Regasification	<i>bbtud</i>	87	127	46%
LPG processing	<i>tpd</i>	116	140	21%
Oil transportation	<i>bopd</i>	9,410	25,645	173%

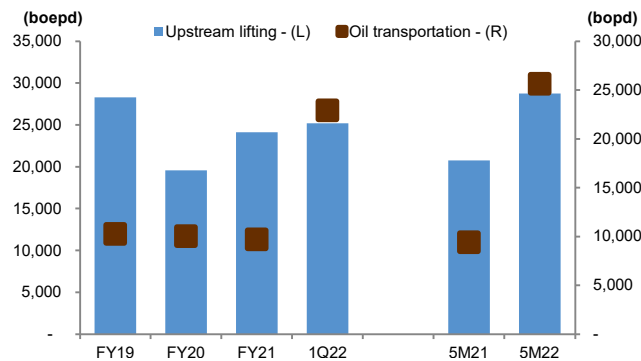
Source: Company, KISI

Fig 1. PGAS' distribution & transmission vol.



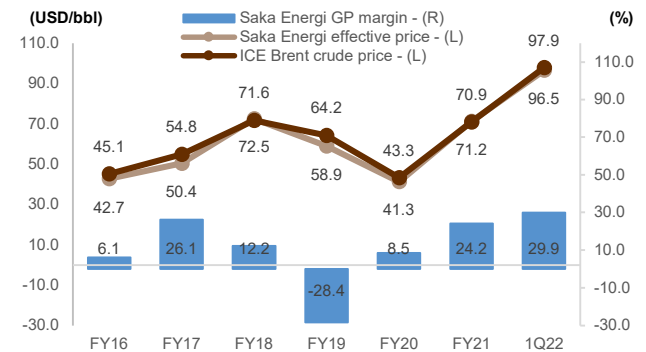
Source: Company, KISI

Fig 2. PGAS' upstream lifting & oil transport vol.



Source: Company, KISI

Fig 3. Saka Energi – beneficiary of high crude oil price



Source: Company, KISI

Table 2. PGAS' forecasted operational performance for 2Q22

PGAS 2Q22 financial forecast									
USD mn	2Q21	1Q22	2Q22	QoQ	YoY	6M21	6M22	YoY	% of FY22F KISI
Revenue	731	837	879	5%	20%	1,465	1,715	17%	47%
Gross Profit	249	186	174	-7%	-30%	450	360	-20%	44%
Operating Profit	119	149	124	-17%	4%	211	273	29%	45%
Net profit	135	119	82	-31%	-39%	197	201	2%	59%
GPM	34.0%	22.2%	19.8%			30.7%	21.0%		
OPM	16.2%	17.8%	14.1%			14.4%	15.9%		
NPM	18.4%	14.2%	9.3%			13.4%	11.7%		
PGAS 2Q22 operational forecast									
Segment	Unit	2Q21	1Q22	2Q22	QoQ	YoY	6M21	6M22	YoY
Distribution	<i>bbtud</i>	820	915	881	-4%	7%	867	898	4%
Transmission	<i>mmscfd</i>	1,252	1,325	1,380	4%	10%	1,232	1,353	10%
Upstream lifting	<i>boepd</i>	23,410	25,205	32,305	28%	38%	20,318	28,755	42%
Regasification	<i>bbtud</i>	96	119	139	17%	45%	91	129	42%
LPG processing	<i>tpd</i>	107	139	141	1%	32%	114	140	23%
Oil transportation	<i>bopd</i>	9,464	22,907	30,500	33%	222%	9,321	53,407	473%

Source: Company, KISI

Table 2. Summary of assumptions change

Assumptions	Unit	Revised			Previous	
		FY22F	FY23F	FY24F	FY22F	FY23F
Distribution volume	bbtud	958	1,020	1,058	958	1,020
Change (%)		0%	0%	new		
Transmission volume	mmscf	1,372	1,407	1,442	1,372	1,407
Change (%)		0%	0%	new		
Upstream lifting	boepd	26,190	27,500	28,875	24,740	25,977
Change (%)		6%	6%	new		
D&T spread (margin)	USD	1.90	1.90	1.80	1.90	1.90
Change (%)		0%	0%	new		
Oil price	USD/bl	98	83	78	85	75
Change (%)		15%	11%	new		
Revenue	USDmn	3,669	3,778	3,886	3,530	3,684
Change (%)		4%	3%	new		
EBITDA	USDmn	1,101	1,083	1,045	1,051	1,078
Change (%)		5%	0%	new		
Net profit (incl. extraordinary items)	USDmn	341	349	351	289	299
Change (%)		18%	16%	new		
Equity value (SOTP) / share	IDR		2,300		2,000	
Change (%)			15%			
Recommendation			BUY		BUY	

Source: KISI

Table 3. PGAS' SOTP

Assets	Stakes (%)	Value (USD mn)	Remarks
<b>Distribution/Transmission and others:</b>			
PGAS	100.0%	4,756	DCF
Pertagas	51.0%		
<b>Saka Energi Indonesia</b>	100.0%	284	0.5x FY22F PB
Net cash (debt)		(1,389)	
<b>Total Equity Value</b>		<b>3,651</b>	
No. of shares (bn)		24.24	
<b>Equity Value per share (IDR)</b>		<b>2,300</b>	
USD/IDR assumed		15,000	

Source: KISI

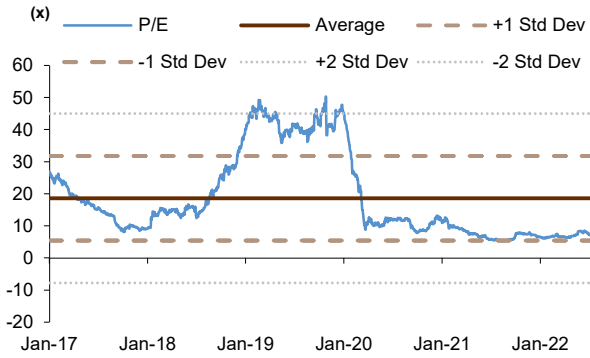
Table 4. PGAS regional peers valuation

Company	Bloomberg code	Market cap	PE (x)		EV/EBITDA (x)		ROE
		USD mn	FY22F	FY23F	FY22F	FY23F	%
Perusahaan Gas Negara Tbk PT	PGAS IJ Equity	2,577	7.6	7.4	4.3	4.7	10.1
Petronas Gas Bhd	PTG MK Equity	7,267	16.9	16.4	8.6	8.8	14.3
Gas Malaysia Bhd	GMB MK Equity	865	12.6	12.5	7.5	7.7	26.5
PTT PCL	PTT TB Equity	26,727	8.3	8.2	5.0	4.9	10.6
PetroVietnam Gas JSC	GAS VN Equity	8,109	14.3	13.9	9.2	9.0	23.4
Shenzhen Gas Corp Ltd	601139 CH Equity	2,959	13.3	11.1	6.9	6.0	11.2
GAIL India Ltd	GAIL IN Equity	7,654	5.8	6.3	5.1	5.4	18.5
Gujarat Gas Ltd	GUJGA IN Equity	3,874	26.2	22.2	16.6	13.8	22.3

Source: Bloomberg, KISI

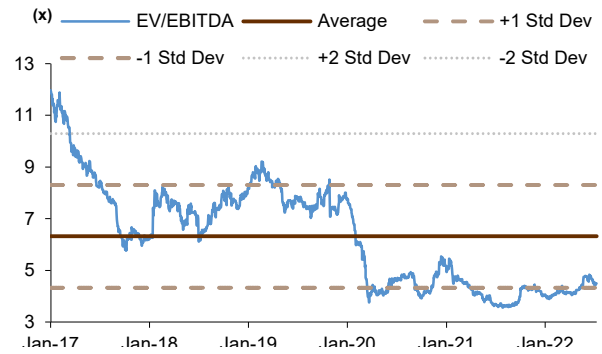
Notes: All regional peers valuations are based on consensus

Fig 4. PGAS' PE band



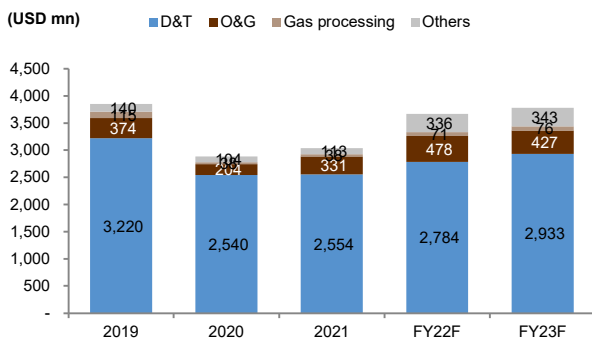
Source: Bloomberg, KISI

Fig 5. PGAS' EV/EBITDA band



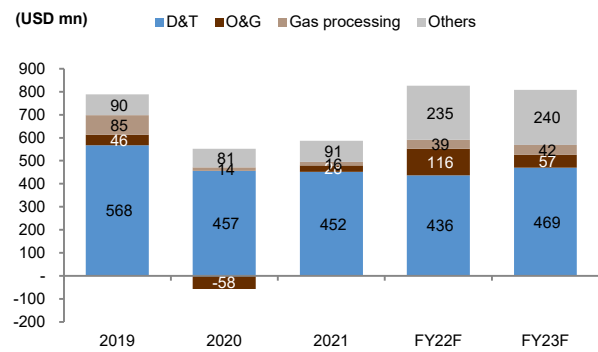
Source: Bloomberg, KISI

Fig 6. PGAS' revenue assumptions & breakdown



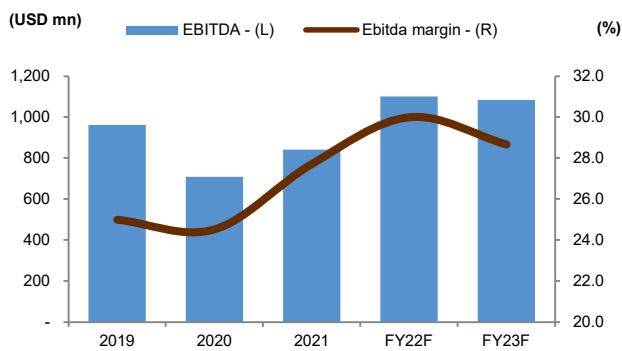
Source: Company, KISI

Fig 7. PGAS' gross profit assumptions & breakdown



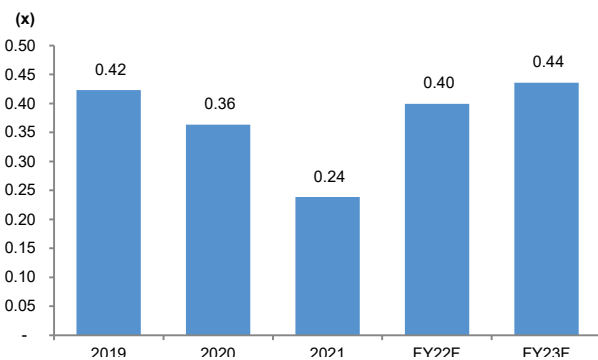
Source: Company, KISI

Fig 8. PGAS' EBITDA & EBITDA margins



Source: Company, KISI

Fig 9. PGAS' net gearing trend

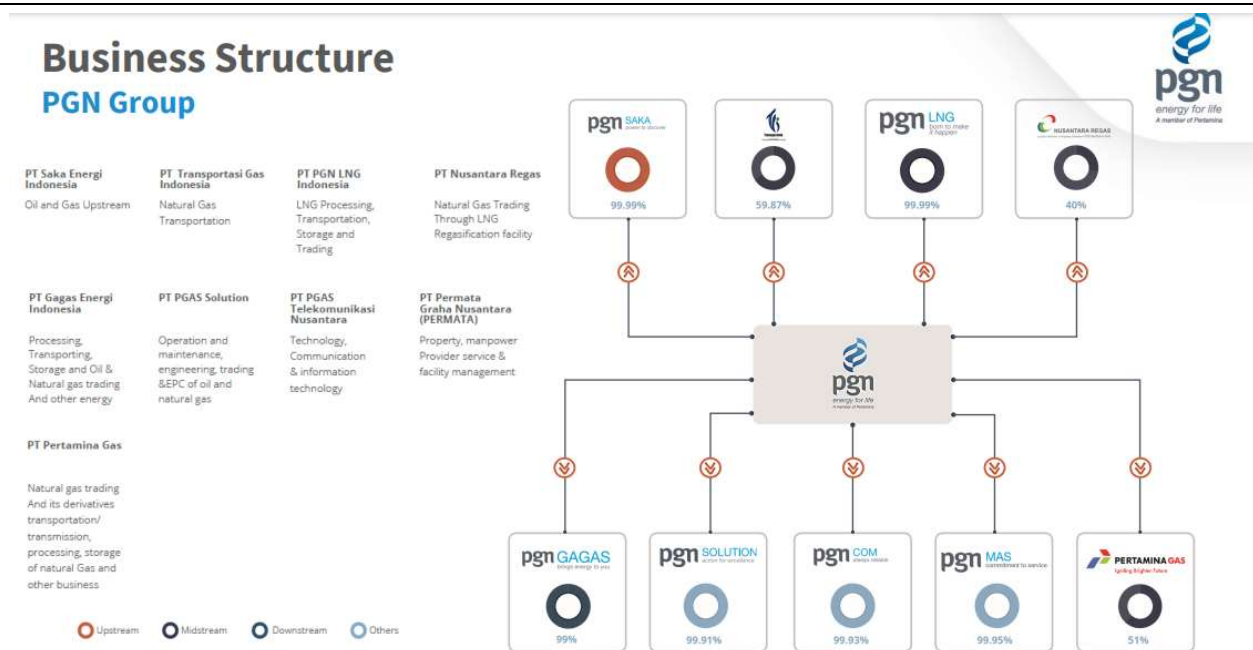


Source: Company, KISI

## 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)	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>					
Cash & cash equivalent	1,179	1,503	686	409	476
Accounts & other receivables	473	413	787	439	826
Inventories	69	55	84	75	103
Others	285	220	281	281	281
<b>Non-current assets</b>					
Fixed assets	2,698	2,650	3,027	3,121	3,095
Intangible assets	3	3	3	3	3
O&G properties	1,276	1,193	1,080	962	839
Other non-current assets	1,552	1,474	1,794	2,262	2,744
<b>Total assets</b>	<b>7,534</b>	<b>7,511</b>	<b>7,741</b>	<b>7,551</b>	<b>8,367</b>
<b>Current liabilities</b>					
Accounts & other payables	215	165	464	100	492
ST debt	11	-	-	-	-
Current portion of LT debt	19	19	45	45	45
Others	938	697	710	710	710
<b>Non-current liabilities</b>					
LT debt	354	404	378	329	284
Notes payable	1,964	1,967	1,755	1,755	2,000
Employee benefits liability	138	121	125	131	138
Other non-current liabilities	939	853	787	769	751
<b>Total liabilities</b>	<b>4,579</b>	<b>4,226</b>	<b>4,265</b>	<b>3,840</b>	<b>4,421</b>
<b>Controlling interest</b>					
Capital stock	344	344	344	344	344
Additional paid-in capital	(468)	(468)	(468)	(468)	(468)
Other equities	(40)	(51)	(50)	(50)	(50)
Retained earnings	2,396	2,700	2,836	3,014	3,190
Minority interest	722	760	815	871	929
<b>Shareholders' equity</b>	<b>2,955</b>	<b>3,285</b>	<b>3,477</b>	<b>3,711</b>	<b>3,946</b>
<b>Cash flow</b> (USDmn)					
FY-ending Dec. (US\$ m)	2020A	2021A	2022F	2023F	2024F
<b>C/F from operating</b>					
Net profit	(273)	304	341	349	351
Depreciation	390	422	495	521	542
Net incr. in W/C					
Others	300	(143)	(502)	(557)	(578)
<b>C/F from investing</b>					
CAPEX	(283)	(222)	(735)	(485)	(385)
Others	324	104	105	111	113
<b>C/F from financing</b>					
Incr. in equity	-	-	-	-	-
Incr. in debts	(211)	(77)	(316)	(45)	200
Dividends	(68)	(24)	(206)	(171)	(174)
Others	-	-	-	-	-
<b>C/F from others</b>					
Increase in cash	179	364	(817)	(277)	67

**Income statement** (USD mn)

FY-ending Dec. (US\$ m)	2020A	2021A	2022F	2023F	2024F
Sales	2,886	3,036	3,669	3,778	3,886
COGS	(2,039)	(2,078)	(2,421)	(2,536)	(2,664)
<b>Gross profit</b>	<b>846</b>	<b>958</b>	<b>1,248</b>	<b>1,242</b>	<b>1,222</b>
SG&A expense	(177)	(167)	(220)	(246)	(272)
<b>Operating profit</b>	<b>318</b>	<b>420</b>	<b>606</b>	<b>562</b>	<b>503</b>
<b>Financial income</b>					
Interest income	(139)	(129)	(107)	(94)	(44)
<b>Financial expense</b>					
Interest expense	(76)	-	-	-	-
Other non-operating profit	(278)	65	-	-	-
<b>Earnings before tax</b>	<b>(184)</b>	<b>468</b>	<b>546</b>	<b>546</b>	<b>538</b>
Income taxes	(40)	(103)	(149)	(141)	(129)
<b>Net profit</b>	<b>(273)</b>	<b>304</b>	<b>341</b>	<b>349</b>	<b>351</b>
Non-controlling interest	49	61	55	56	58
<b>Other comprehensive profit</b>					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
<b>EBITDA</b>	<b>708</b>	<b>842</b>	<b>1,101</b>	<b>1,083</b>	<b>1,045</b>

**Key financial data**

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (USD)					
EPS	(0.011)	0.013	0.014	0.014	0.014
BPS	0.122	0.136	0.143	0.153	0.163
DPS	0.001	0.008	0.007	0.007	0.007
Growth (%)					
Sales growth	(25.0)	5.2	20.8	3.0	2.9
OP growth	(38.7)	32.1	44.3	(7.2)	(10.5)
NP growth	NM	NM	43.0	2.2	0.6
EBITDA growth	(26.4)	18.9	30.8	(1.6)	(3.5)
Profitability (%)					
OP margin	11.01	13.83	16.51	14.88	12.95
NP margin	(9.46)	10.01	9.30	9.23	9.03
EBITDA margin	24.52	27.72	30.00	28.67	26.89
ROA	(3.66)	4.04	4.48	4.56	4.41
ROE	(8.82)	9.74	10.09	9.71	9.17
Dividend yield	0.86	7.60	6.62	6.77	6.81
Dividend payout ratio	(8.61)	67.79	50.00	50.00	50.00
Stability					
Net debt (US\$ m)	1,074	784	1,389	1,619	1,751
Int-bearing debt/equity (%)	79.5	72.8	62.7	57.4	59.0
Valuation (X)					
PE	33.8	11.4	7.6	7.4	7.3
PB	0.9	0.8	0.7	0.7	0.7
EV/EBITDA	6.4	5.1	4.3	4.7	5.0

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