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Research Center

Morning KISI/

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Perusahaan Gas Negara, Tbk (PGAS): Self-sustaining upstream growth

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Perusahaan Gas Negara (PGAS)

Self-sustaining upstream growth

Steady downstream volume providing baseline profit

PGAS' downstream volume (i.e. distribution & transmission) continues to be very stable with ~3% growth annually (except for covid-19 pandemic hit FY20). For PGAS' FY23 distribution volume (i.e. retail), we expect a higher growth (at ~7%) given full-year operation of Jambaran Tiung Biru (JTB) Gas Processing Facilities (GPF) which will mainly supply Central and East Java area, before the growth normalizes to ~3% p.a. from FY24 onwards. This GPF (one of national strategic projects) has started to supply gas on stream to buyers on 20Sep2022 and will gradually increase its output to ~170 bbtud (or equivalent to ~19% of PGAS' YTD-22 daily distribution volume). Meanwhile, we expect PGAS' transmission volume (i.e. industry) to grow at a 3% p.a. level from FY23 onwards (hovering between 1,352 mmscfd to 1,450 mmscfd).

Self-sustaining growth for O&G upstream business

Sustained high oil price (YTD-22 ICE Brent crude price average is USD101.4/bbl) helped PGAS' upstream subsidiary Saka Energi Indonesia (SEI) to generate a record high earnings of USD174mn (as of 9M22), a staggering 4.5x YoY. In addition, the completion of new well drilling in West Pangkah (Feb2022) and Ketapang (Apr2022) as well as Muriah well workover has added 30% of SEI's O&G lifting to 30,350 boepd as of 9M22, surpassing its FY19 achievement and on a right trajectory to the peak ~50,000 boepd in FY17. Entering FY23, SEI's operation should be self-sustained with a cash position of USD214mn (as of end Jun2022), expected cash generation of ~USD150mn in 2H22, and net gearing of ~32%. SEI has a big capex plan of ~USD1.5bn between 2022 and 2028 to increase its O&G lifting and many options to finance its planned capex (e.g. internal cash, debt raising, paring down minority stakes on its existing project development, etc).

Reiterate BUY on PGAS with ~7% higher TP at IDR2,450

We tweaked our assumptions to account a more bullish volume on SEI's O&G lifting (~20% higher) considering better production YTD, resulting in 10%/13% higher earnings for FY23/24F. In conjunction, we rolled forward our valuation to FY23F resulting in a 7% higher PGAS' SOTP valuation at IDR2,450/sh, implying 10.3x FY23F PE and 5.4x FY23F EV/EBITDA (both at around -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	3,604	3,730	3,806
GP (USD mn)	846	958	1,245	1,243	1,201
OP (USD mn)	318	420	633	600	554
Core profit (USD mn)	107	211	371	385	397
NP (USD mn)	(273)	304	410	385	397
EBITDA (USD mn)	708	842	1,147	1,129	1,100
Net debt (USD mn)	1,074	784	926	1,292	1,493
OP margin (%)	11.0	13.8	17.6	16.1	14.5
ROE (%)	(8.8)	9.7	12.0	10.5	10.1
Dividend yield (%)	0.7	6.6	6.7	6.4	6.6
Core EPS (USD)	0.004	0.009	0.015	0.016	0.016
chg. (% YoY)	(33.6)	98.2	75.5	3.8	3.1
BPS (USD)	0.122	0.136	0.147	0.157	0.168
DPS (USD)	0.001	0.008	0.008	0.008	0.008
PE (x)	29.8	14.9	8.1	7.8	7.5
PB (x)	1.1	1.0	0.8	0.8	0.7
EV/EBITDA (x)	7.0	5.6	4.1	4.6	4.9

12M rating **BUY (Maintain)**
12M TP **IDR 2,450** (Prev IDR2,300)
Upside **+32.4%**

Stock Data

JCI (Nov 7)	7,102
Stock price (Nov 7, IDR)	1,850
Market cap (IDR bn)	44,847
Shares outstanding (mn)	24,241
52-week high/low (IDR)	1,995 / 1,260
6M avg. daily turnover (IDR bn)	206.2
Free float (%)	43.0

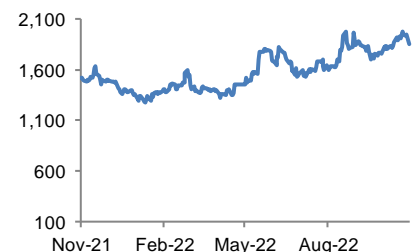
Major shareholders (%)

Pertamina (Persero)	57.0
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Performance

	1M	6M	12M
Absolute (%)	10.2	44.0	36.5
Relative to JCI (%)	4.3	29.9	14.3

PGAS stock price



Source: Bloomberg

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Market Commentary

Market Commentary

- JCI ends 54 points lower on Tuesday, pulled back after a three-day winning streak, as the index failed to break the strong 7100 resist-level amid a lack of fresh strong catalyst. Global stocks signaling to turn lower amid growing nervousness before the US midterm elections and US CPI data later the week.
- Big caps led the index lower as traders booked the recent gains amid short-lived trading as sentiments remain vulnerable.
- Basic Materials, Infrastructures, Financials, and Energy weighed down the index. While Tech, Industrials, and Consumers remain afloat.
- RUPIAH -0.06% at 15,698 against USD.
- Pullback in the big cap stocks triggered a correction to a broader market. BBRI IJ -1.49%, BBKA IJ -1.13%, TLKM IJ -1.40%.
- Most commodity stocks were lower at the close as their commodity price rally paused as China reopening hopes faded and traders weighed supply concerns against the impact on demand of a global economic slowdown. INCO IJ -1.75%, ADRO IJ -1.83%, MDKA IJ -0.71%.
- The newcomer stock BELI IJ 0.00% ended flat after rose nearly 5% at the opening. While the others hit their upper limit price. CBUT IJ +24.64%, OMED IJ +23.53%
- Top value were: TLKM IJ -1.40%, BELI IJ 0.00% IJ, BUMI IJ +3.93%
- Top Gainers : EMTK IJ +5.25%, BUMI IJ +3.93%, AMRT IJ +1.13%
- Top Losers: BBRI IJ -1.49%, BBKA IJ -1.13%, TLKM IJ -1.40%

News

Macroeconomic, Sector and Corporate News

- O&G – Conrad Asia Energy Ltd. won the auction for 2 oil and gas working areas in Offshore North West Aceh (Meulaboh) and Offshore South West Aceh (Singkil) with total commitment of USD30mn in the first 3 years. (Bisnis)
- BBYB – awaits OJK’s approval for its planned preemptive rights issue. (Kontan)
- CSRA – to distribute IDR25/sh interim dividend (~4.1% yield). Cum date:17Nov2022. (Kontan)
- WIFI – targets to build 2,500 km fiber optic networks in 2023. (Kontan)
- ASSA – plans to develop integrated cold chain solutions through its subsidiary PT Adi Sarana Investindo. (Kontan)
- SMKL - recorded 9M22 net profit of IDR77bn, +10% YoY. (Kontan)
- PORT - recorded 9M22 net profit of IDR14.6bn (vs. 9M21 net loss of IDR42.1bn). (Kontan)
- PTPP - recorded 9M22 net profit of IDR141bn, +9% YoY. (Investor daily)
- ELSA - recorded 9M22 net profit of IDR290.6bn, +673% YoY. (Investor daily)
- GTSI – recorded 9M22 net profit of USD2.9mn (vs 9M21 net loss of USD3.2mn). (Bisnis)

Outliers

Outlier Stocks

- Sharp Movers (Up) : PBRX (+24.4%), LEAD (+20.2%), WINS (+14.8%)
- Sharp Movers (Down) BELL (-6.9%), PICO (-6.9%), PANI (-6.7%)

Mon	Tue	Wed	Thu	Fri
3	4	5	6	7
<p>Korea > Market closed (National Foundation Day) September exports and imports (announced October 1)</p> <p>US> September ISM manufacturing PMI</p> <p>China> Market closed (National Day)</p>	<p>US> August durable goods (F)</p> <p>China> Market closed (National Day)</p>	<p>OPEC+ ministerial meeting</p> <p>Korea> September CPI</p> <p>US> September ISM services PMI MBA mortgage applications</p> <p>China> Market closed (National Day)</p>	<p>US> New jobless claims</p> <p>China> Market closed (National Day)</p>	<p>US> September non-farm payrolls September jobless rate</p> <p>China> Market closed (National Day) September FX reserves</p>
10	11	12	13	14
<p>Korea> Market closed (substitute holiday for Hangul Day)</p> <p>US> Market closed (Columbus Day)</p> <p>China> September Caixin services PMI (announced October 8)</p> <p>Japan> Market closed (Sports Day)</p>	<p>OECD leading economic index</p>	<p>The OPEC Monthly Oil Market Report</p> <p>Korea> MPC meeting</p> <p>US> FOMC minutes release MBA mortgage applications September PPI</p>	<p>Korea> Stock options expiry</p> <p>US> September CPI Initial jobless claims</p>	<p>Korea> September jobless rate</p> <p>US> September retail sales October Michigan Consumer Confidence (P)</p> <p>China> September PPI September CPI September exports and imports September trade balance</p>
17	18	19	20	21
<p>US> October manufacturing index (New York)</p> <p>China> September mining and manufacturing production September retail sales September fixed asset investment 3Q22 GDP</p> <p>Japan> August mining and manufacturing production (F)</p>	<p>US> September industrial production</p>	<p>US> Fed Beige Book release MBA mortgage applications September housing starts</p> <p>Europe> September CPI (F)</p>	<p>US> Initial jobless claims September existing home sales</p> <p>China> PBOC LPR release</p>	<p>Japan> September CPI</p>
24	25	26	27	28
	<p>US> October Conference Board Consumer Expectations Index</p>	<p>US> September new home sales</p>	<p>Korea> 3Q22 GDP (A)</p> <p>US> Initial jobless claims September durable goods orders (P) 3Q22 GDP (A)</p> <p>Europe> ECB MPC meeting</p>	<p>US> September PCE October Michigan Consumer Confidence (F)</p> <p>Japan> BoJ MPC meeting</p>
31				
<p>Korea> September mining and manufacturing production</p> <p>China> October manufacturing PMI October services PMI</p> <p>Europe> October CPI (P)</p> <p>Japan> September manufacturing production (P)</p>				

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures

in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement