

Thursday, 4 July 2019

**BUY**  
**Maintain**

Last price (IDR) 2,050  
Target Price (IDR) 2,700  
Upside/Downside +31.7%  
Previous Target Price (IDR) 2,700

#### Stock Statistics

Sector Utilities  
Bloomberg Ticker PGAS JJ  
No of Shrs (mn) 24,242  
Mkt. Cap (IDRbn/USDmn) 49,695/3,511  
Avg. daily T/O (IDRbn/USDmn) 128.4/9.1

#### Major shareholders (%)

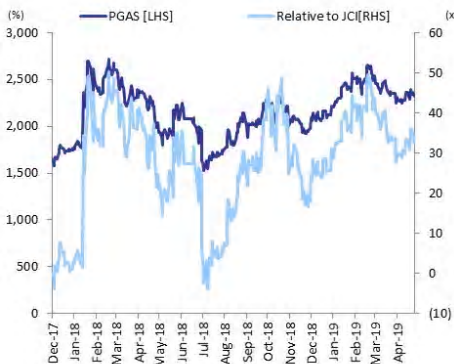
Pertamina 57.0

Estimated free float 43.0

#### EPS Consensus (USDcents)

	2019F	2020F	2021F
Danareksa	1.1	1.2	1.3
Consensus	1.2	1.2	1.4
Danareksa/Cons	(6.1)	(0.6)	(5.9)

#### PGAS relative to JCI Index



Source : Bloomberg



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## Perusahaan Gas Negara (PGAS JJ)

### Bringing it home!

**In the second half of the game finalizing the Gas subholding plans by the end of the year, a super deal between Pertamina and PGN appears set to transpire. Looking at the operational prospects, we don't have any concerns on gas pricing or the ability to meet volume targets. The opportunity lies in swapping Pertamina's minority stake in Pertagas for PGN's SAKA Energi to generate a value accretive deal for PGN. Bring it Home!**

**PGN gets what it wants, SAKA bypasses PGN closer to Pertamina.** O&G asset separation into upstreaming & downstreaming is a brilliant way to align business interests. The 51% sale of Pertagas in a transaction worth Rp20.2tn was the latest piece of puzzle. It paves the way to trade the equity and operations of SAKA under the subholding PGN for Pertamina's non-core assets and minority stake. The base case scenario is that the 49% minority stake in Pertagas is traded for SAKA in a non-cash deal. As a rule of thumb, we assume the same valuation for Pertagas as during the first stake transfer. This seems reasonable as we expect a decline in SAKA's FY19 EBITDA earnings from FY18 USD408mn given the expiry of two fields in 2018. Assuming a 6x multiple EV/EBITDA valuation, the workings show EV of US\$2.1bn, while deducting the USD625mn SAKA bond, we approach the 49% value of Pertagas. Moreover, if we simply apply <2x PBV on SAKA's book value, the equity value of SAKA is north of US\$1.4bn allowing for PGAS to record a gain. The newly appointed IR officer (the former CFO in SAKA) informed us that Pertamina may have non-core assets also in the Corridor block to trade with and accommodate a non-cash deal.

**PGN to realize direct benefits.** We expect savings post SAKA divestment via lower capex, amortization and impairment risk. Also, PGN is set to refinance US\$350mn of its own debt, with capacity to raise US\$1bn, with room to absorb SAKA's debt if Pertamina wants a debt free asset. PGN expects lower interest costs of 40-80bps. Fully owning Pertagas will also boost its integration into PGN.

**PGN's gas price is on the safe side.** PGN has worked with the Ministry to produce instructions for the implementation of the 7-11 regulation on price. We are advised that PGN's standalone gas price of US\$8.5/mmbtu may currently be lower than the justified average price range allowed to vary by the location and cost structure. We may probably even see upside in gross profits.

**PGN has got fitter in recent months.** The 5M19 distribution volume of 948mmscfd is 40% of the implied FY19 target, and higher than the 3M and 4M19 sales. May itself was 980mmscfd or lower vs April's 1002mmscfd but overall the last two months have elevated the base vs. FY18's 962mmscfd and 3M19's 919mmscfd. PGN sees a weak June due to Eid Mubarak, but volumes are expected to ramp up in 2H and meet the YE target.

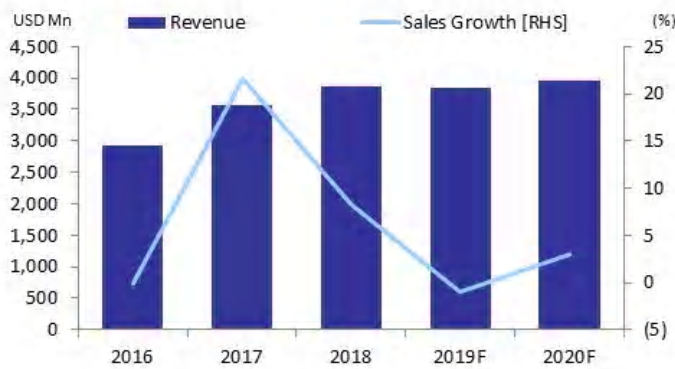
**Reiterate BUY.** 3 catalysts to boost the stock price: a) PGN's distribution volume to recover post-June and meet the target, b) PGN's gas ASP to revive following new instructions from the Ministry and c) trading SAKA for 49% stake for Pertagas to becoming a certainty. Maintain BUY with a TP of Rp2,700.

#### Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (USDmn)	3,571	3,870	3,834	3,948	4,125
EBITDA (USDmn)	1,085	1,201	1,077	1,124	1,220
EBITDA Growth (%)	34.3	10.7	(10.3)	4.3	8.5
Net profit (USDmn)	197	305	273	289	319
EPS (USDcents)	0.8	1.3	1.1	1.2	1.3
EPS growth (%)	(35.3)	54.9	(10.5)	5.9	10.5
BVPS (USDcents)	15.4	10.6	11.3	11.9	12.6
DPS (USDcents)	1.1	0.2	0.4	0.6	0.7
PER (x)	19.8	12.8	14.3	13.5	12.2
PBV (x)	1.0	1.5	1.4	1.4	1.3
Dividend yield (%)	7.0	1.4	2.5	3.8	4.1
EV/EBITDA (x)	5.1	5.1	5.5	5.3	4.8

Source : PGAS, Danareksa Estimates

### Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

### Exhibit 2. Net Profits and Growth



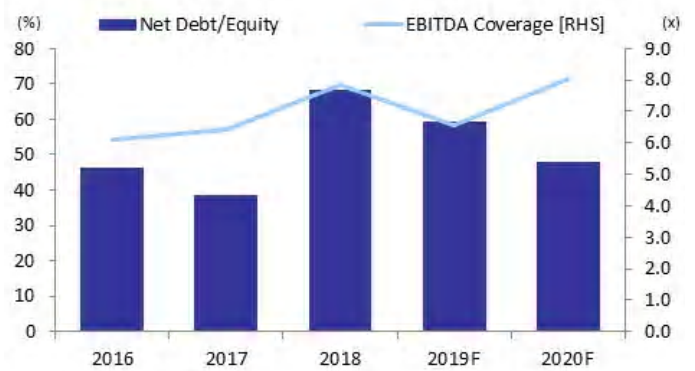
Source: Company, Danareksa Sekuritas estimates

### Exhibit 3. Margins



Source: Company, Danareksa Sekuritas estimates

### Exhibit 4. Gearing Level



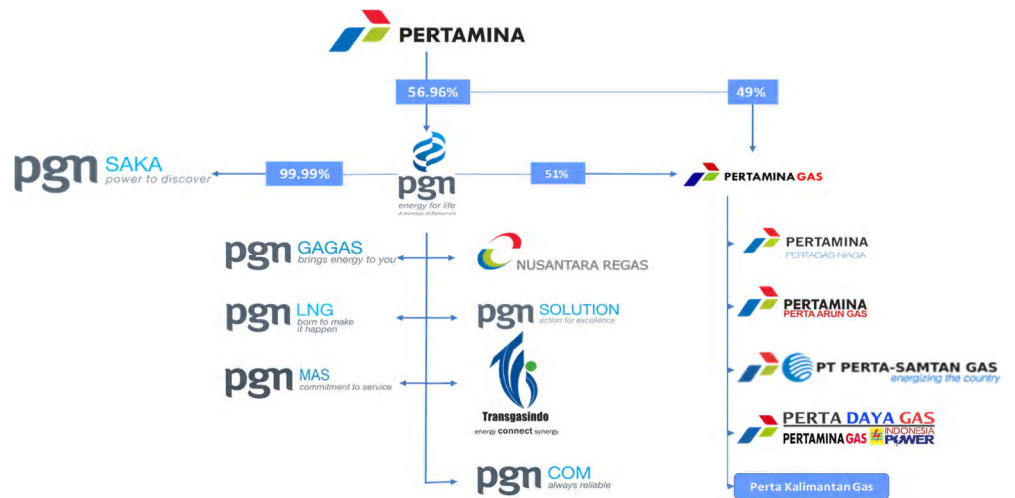
Source: Company, Danareksa Sekuritas estimates

### Exhibit 5. Operational KPIs – Actuals & Forecast

PGN	3M19	4M19	5M18	5M19	Δ yoy%	Apr-19	May-19	Δ mom	FY18 A.	5M achiev.	FY19 PGN targets	5M achiev.	FY19 Run rate	required upside
Distribution (mmscfd)	919	940	977	948	(3.0)	1,003	980	(2.3)	967	42.1%	980	40.3%	1,003	2.3%
Transmission (mmscfd)	1,985	2,028	2,164	2,006	(7.3)	2,157	1,918	(11.1)	2,101	42.9%	2,085	40.1%	2,141	2.7%
Regasification (bbtud)	120	118	111	120	8.3	112.00	128.00	14.3	125	36.9%	128	39.2%	133	4.2%
lifting (mmboe)	2.72	3.62	6.18	4.41	(28.6)	0.90	0.79	(12.2)	14.12	43.8%	10.75	41.0%	-	-
LPG (mtpd)	773	788	754	789	4.6	833	793	(4.8)	588	53.5%	755	43.5%	731	-3.2%
oil transport (barrel)	1,005,499	1,347,197	1,424,134	1,644,875	15.5	341,698	297,678	(12.9)	3,662,280	38.9%	4,361,069	37.7%	-	-

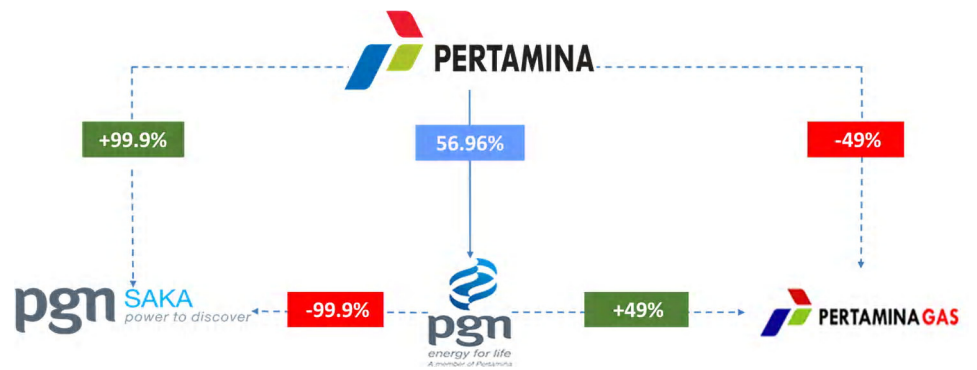
Source : PGN & Danareksa Sekuritas

Exhibit 6. Existing Gas subholding structure



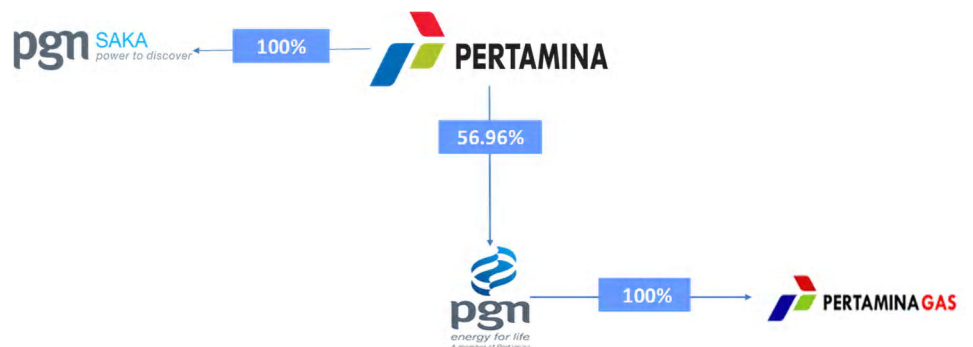
Source : PGN

Exhibit 7. Plausible Scenario – swapping ownership of shares



Source : PGN & Danareksa Sekuritas

Exhibit 7: Desired outcome



Source : PGN & Danareksa Sekuritas

### Exhibit 8. Income Statement

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>3,571</b>	<b>3,870</b>	<b>3,834</b>	<b>3,948</b>	<b>4,125</b>
COGS	(2,389)	(2,561)	(2,503)	(2,602)	(2,688)
<b>Gross profit</b>	<b>1,182</b>	<b>1,310</b>	<b>1,331</b>	<b>1,346</b>	<b>1,438</b>
<b>EBITDA</b>	<b>1,085</b>	<b>1,201</b>	<b>1,077</b>	<b>1,124</b>	<b>1,220</b>
<b>Oper. profit</b>	<b>515</b>	<b>645</b>	<b>576</b>	<b>588</b>	<b>649</b>
Interest income	22	35	35	33	30
Interest expense	(169)	(153)	(164)	(140)	(145)
Forex Gain/(Loss)	(9)	(19)	(19)	(19)	(19)
Income From Assoc. Co's	62	80	87	91	93
Other Income (Expenses)	(3)	(3)	0	(4)	(2)
<b>Pre-tax profit</b>	<b>418</b>	<b>585</b>	<b>516</b>	<b>549</b>	<b>606</b>
Income tax	(165)	(220)	(194)	(207)	(228)
Minority interest	(56)	(60)	(49)	(53)	(58)
<b>Net profit</b>	<b>197</b>	<b>305</b>	<b>273</b>	<b>289</b>	<b>319</b>
<b>Core Net Profit</b>	<b>206</b>	<b>324</b>	<b>292</b>	<b>308</b>	<b>338</b>

### Exhibit 9. Balance Sheet

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	1,140	1,315	1,196	1,461	1,772
Receivables	713	746	719	734	757
Inventory	74	79	76	78	81
Other Curr. Asset	208	247	257	259	263
Fixed assets - Net	4,492	4,273	4,232	4,156	4,046
Other non-curr.asset	1,456	1,193	1,280	1,301	1,335
<b>Total asset</b>	<b>8,183</b>	<b>7,939</b>	<b>7,845</b>	<b>8,076</b>	<b>8,340</b>
ST Debt	100	768	36	33	33
Payables	200	214	202	210	217
Other Curr. Liabilities	542	623	569	592	611
Long Term Debt	2,708	2,736	3,190	3,169	3,150
Other LT. Liabilities	323	397	422	453	490
<b>Total Liabilities</b>	<b>3,873</b>	<b>4,737</b>	<b>4,419</b>	<b>4,457</b>	<b>4,501</b>
Shareholder's Funds	3,741	2,575	2,751	2,889	3,051
Minority interests	570	627	676	729	788
<b>Total Equity &amp; Liabilities</b>	<b>8,183</b>	<b>7,939</b>	<b>7,846</b>	<b>8,075</b>	<b>8,340</b>

### Exhibit 10. Cash Flow

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Net income	197	305	273	289	319
Depreciation and Amort.	561	546	501	536	570
Change in Working Capital	9	(11)	12	(9)	(20)
Other Oper. Cash Flow	161	315	(9)	116	113
<b>Operating Cash Flow</b>	<b>928</b>	<b>1,155</b>	<b>777</b>	<b>932</b>	<b>983</b>
Capex	(386)	(312)	(460)	(460)	(460)
Others Inv. Cash Flow	(64)	129	30	22	13
<b>Investing Cash Flow</b>	<b>(450)</b>	<b>(184)</b>	<b>(430)</b>	<b>(438)</b>	<b>(447)</b>
Net change in debt	(583)	697	(279)	(23)	(19)
New Capital	0	(752)	0	0	0
Dividend payment	(273)	(55)	(97)	(150)	(159)
Other Fin. Cash Flow	(169)	(153)	(164)	(140)	(145)
<b>Financing Cash Flow</b>	<b>(1,026)</b>	<b>(264)</b>	<b>(539)</b>	<b>(314)</b>	<b>(323)</b>
<b>Net Change in Cash</b>	<b>(549)</b>	<b>708</b>	<b>(193)</b>	<b>180</b>	<b>214</b>
Cash - begin of the year	1,449	1,140	1,315	1,196	1,461
Cash - end of the year	1,140	1,315	1,196	1,461	1,772

### Exhibit 11. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	21.7	8.4	(0.9)	3.0	4.5
EBITDA	34.3	10.7	(10.3)	4.3	8.5
Operating profit	15.9	25.3	(10.7)	2.0	10.4
Net profit	(35.3)	54.9	(10.5)	5.9	10.5
<b>Profitability (%)</b>					
Gross margin	33.1	33.8	34.7	34.1	34.8
EBITDA margin	30.4	31.0	28.1	28.5	29.6
Operating margin	14.4	16.7	15.0	14.9	15.7
Net margin	5.5	7.9	7.1	7.3	7.7
ROAA	2.3	3.8	3.5	3.6	3.9
ROAE	5.3	9.7	10.3	10.3	10.8
<b>Leverage</b>					
Net Gearing (x)	0.4	0.7	0.6	0.5	0.4
Interest Coverage (x)	3.0	4.2	3.5	4.2	4.5

Source : PGAS, Danareksa Estimates

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