

Tuesday, 30 June 2020

BUY
Maintain

Last price (IDR)	1,150
Target Price (IDR)	1,300
Upside/Downside	+13.0%
Previous Target Price (IDR)	1,000

Stock Statistics

Sector	Utilities
Bloomberg Ticker	PGAS IJ
No of Shrs (mn)	24,242
Mkt. Cap (IDRbn/USDmn)	27,878/1,957
Avg. daily T/O (IDRbn/USDmn)	139.7/9.8

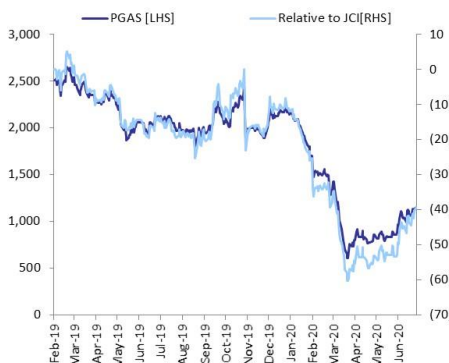
Major shareholders (%)

Pertamina	57.0
Estimated free float	43.0

EPS Consensus (USDcents)

	2020F	2021F	2022F
Danareksa	0.5	0.5	0.6
Consensus	0.5	0.7	0.8
Danareksa/Cons	(10.0)	(23.1)	(25.6)

PGAS relative to JCI Index



Source : Bloomberg



Niko Margaronis
(62-21) 5091 4100 ext. 3512
niko.margaronis@danareksa.co.id

Perusahaan Gas Negara (PGAS IJ)

Ongoing US\$6 gas plan, mired by the pandemic

We spoke with PGAS' IR team to discuss the latest new gas SPAs which appear to be for existing gas users. At the present time, the Covid-19 pandemic may delay overall recovery for PGAS. Looking ahead, we understand the key catalyst is new supply agreements with foreign contractors. We roll over our DCF valuation and upgrade our TP and recommendation to BUY.

Key US\$6 gas plan to be implemented retroactively. PGAS currently operates by charging normal gas prices. However, the ministerial decree KepMen 89/2020 will be implemented retroactively from 13 April, setting a lower price of US\$6/mmbtu for a fixed quantity of ~620bbtud gas (320bbtud for the 7 strategic industries, and 300bbtud for power plants incl. possibly IPPs) in the next 4 years. This will be accompanied with a reduction in upstreaming gas costs to US\$4-4.5/mmbtu with an expected margin for this quantity at US\$1.5-2/mmbtu which will impact PGAS' current gas margin of +US\$2.5/mmbtu. Nonetheless, PGAS is expected to be compensated in-kind mainly by improving its gas distribution volumes with the support of the ministry of minerals & resources (MEMR) helping to find both the gas demand and its supply.

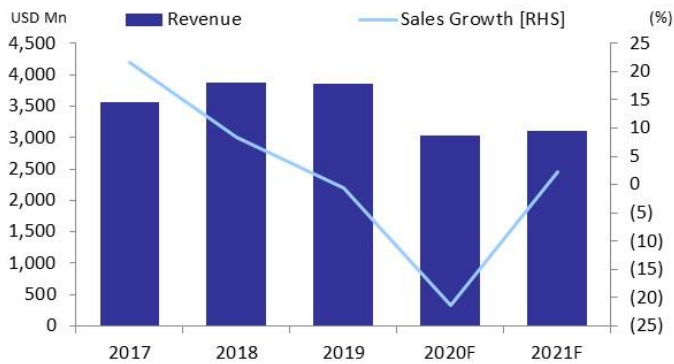
The Covid-19 pandemic has delayed the effectiveness of the gas plan. The volumes for April 2020 reached 804bbtud and PGAS disclosed that in May and June vols. reached 654bbtud/714bbtud for PGN + Pertagas in total. PGN's latest 880bbtud guidance for 2020 may have to be reviewed depending on whether there is a 2nd wave of Covid19. According to PGAS' IR team, any expansion beyond 880bbtud vol. would take place at a growth pace of 3-4%yoy which accounts also for the time to build the necessary pipe infrastructure and LNG terminals.

Implementing KepMen89/2020, enlisting eligible gas users, waiting for foreign contractors to renew supply contracts. PGAS' commercial director recently announced new gas SPA agreements including with Krakatau Steel (KRAS IJ, non-rated) for 12-15bbtud, and for 32 new clients for 1.3bbtud. We understand these are contract renewals in line with the ongoing implementation of KepMen 89/2020. We also understand that any gas user which is not in the KepMen list may apply to the relevant authorities to become eligible for the lower price. Upstreaming supply at US\$4-4.5/mmbtu should be the current focus as we expect to hear updates from foreign contractors who control significant resources in the South Sumatra Block Corridor.

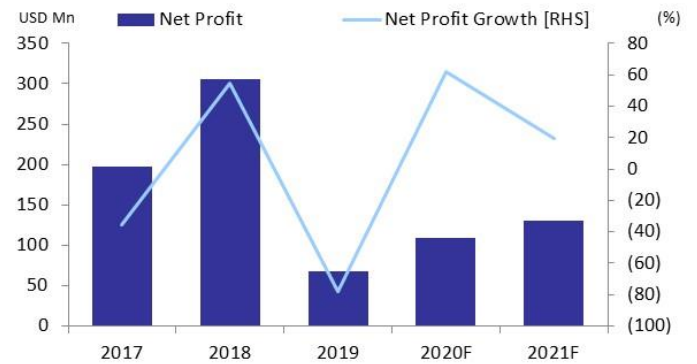
Upgrade to BUY. We upgrade our TP as the group is determined to generate OPEX and CAPEX savings at the rate of 30%yoy. We also appreciate the MEMR efforts to maintain gas ASP at US\$6/mmbtu and upstreaming costs @4-4.5 per mmbtu reducing the uncertainty on PGAS' margin from increasing costs. We thus adjust accordingly our estimates for PGAS' gas margin, OPEX and capex. The company will attain benefits more towards the medium and long term.

Key Financials

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	3,870	3,849	3,029	3,101	3,348
EBITDA (USDmn)	1,217	1,040	786	836	889
EBITDA Growth (%)	12.2	(14.5)	(24.4)	6.3	6.4
Net profit (USDmn)	305	68	109	130	144
EPS (USDcents)	1.3	0.3	0.5	0.5	0.6
EPS growth (%)	54.9	(77.9)	61.6	19.5	10.6
BVPS (USDcents)	10.6	10.6	10.7	10.8	10.9
DPS (USDcents)	0.2	0.4	0.3	0.5	0.5
PER (x)	3.9	17.5	10.8	9.1	8.2
PBV (x)	0.5	0.5	0.5	0.5	0.4
Dividend yield (%)	4.7	8.2	5.7	9.2	11.0
EV/EBITDA (x)	1.8	1.4	2.9	2.9	2.6

Exhibit 1. Revenues and Growth


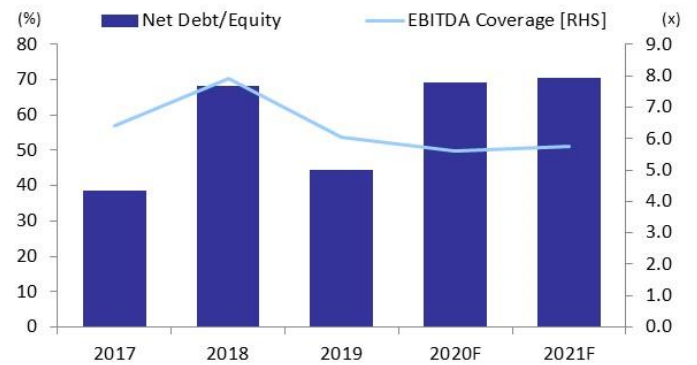
Source: Company, Danareksa Sekuritas estimates

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. Reforecast

Rp bn	2020F			2021F			2022F		
	Previous	New	% Δ	Previous	New	% Δ	Previous	New	% Δ
Revenue	3,732	3,029	(18.8)	3,708	3,101	(16.4)	3,864	3,348	(13.3)
Gross Profit	1,068	962	(9.9)	1,048	1,014	(3.3)	1,096	1,087	(0.8)
GP margin (%)	28.6	31.8	3.1	28.3	32.7	4.4	28.4	32.5	4.1
Operating Profit	440	418	(5.0)	455	443	(2.6)	475	469	(1.3)
OP margin (%)	11.8	13.8	2.0	12.3	14.3	2.0	12.3	14.0	1.7
Net Income	110	109	(0.8)	122	130	6.9	131	144	10.2
NI margin (%)	2.9	3.6	0.7	3.3	4.2	0.9	3.4	4.3	0.9

Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Revenue	3,870	3,849	3,029	3,101	3,348
COGS	(2,561)	(2,621)	(2,067)	(2,087)	(2,261)
Gross profit	1,310	1,227	962	1,014	1,087
EBITDA	1,217	1,040	786	836	889
Oper. profit	645	546	418	443	469
Interest income	35	30	33	33	22
Interest expense	(153)	(173)	(140)	(145)	(145)
Forex Gain/(Loss)	(19)	(28)	(19)	(19)	(19)
Income From Assoc. Co's	80	67	0	0	0
Other Income (Expenses)	(3)	(163)	(60)	(42)	(29)
Pre-tax profit	585	280	232	270	298
Income tax	(220)	(167)	(70)	(81)	(89)
Minority interest	(60)	(45)	(53)	(58)	(64)
Net profit	305	68	109	130	144
Core Net Profit	324	96	128	149	163

Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,315	1,310	902	782	881
Receivables	746	645	621	630	660
Inventory	79	71	60	61	66
Other Curr. Asset	247	248	244	245	250
Fixed assets - Net	4,273	4,144	4,424	4,626	4,546
Other non-curr.asset	1,193	1,022	993	1,003	1,040
Total asset	7,939	7,643	7,448	7,552	7,647
ST Debt	768	221	33	33	33
Payables	214	260	187	189	204
Other Curr. Liabilities	623	912	482	487	527
Long Term Debt	2,736	2,529	3,169	3,150	3,131
Other LT. Liabilities	397	487	247	282	325
Total Liabilities	4,737	4,409	4,118	4,141	4,221
Shareholder's Funds	2,575	2,561	2,602	2,625	2,640
Minority interests	627	673	727	785	785
Total Equity & Liabilities	7,939	7,643	7,447	7,551	7,646

Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	305	68	109	130	144
Depreciation and Amort.	489	368	368	393	420
Change in Working Capital	(11)	212	(76)	(7)	(16)
Other Oper. Cash Flow	315	498	(295)	111	142
Operating Cash Flow	1,098	1,146	106	627	690
Capex	(255)	(357)	(648)	(595)	(340)
Others Inv. Cash Flow	129	77	76	26	0
Investing Cash Flow	(126)	(280)	(572)	(569)	(340)
Net change in debt	697	(754)	451	(19)	(19)
New Capital	(752)	0	0	0	0
Dividend payment	(55)	(97)	(68)	(109)	(130)
Other Fin. Cash Flow	(153)	(173)	(140)	(145)	(145)
Financing Cash Flow	(264)	(1,023)	244	(273)	(294)
Net Change in Cash	708	(157)	(222)	(215)	56
Cash - begin of the year	1,140	1,315	1,310	902	782
Cash - end of the year	1,315	1,310	902	782	881

Exhibit 9. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	8.4	(0.6)	(21.3)	2.4	8.0
EBITDA	12.2	(14.5)	(24.4)	6.3	6.4
Operating profit	25.3	(15.3)	(23.5)	6.0	5.8
Net profit	54.9	(77.9)	61.6	19.5	10.6
Profitability (%)					
Gross margin	33.8	31.9	31.8	32.7	32.5
EBITDA margin	31.4	27.0	25.9	26.9	26.6
Operating margin	16.7	14.2	13.8	14.3	14.0
Net margin	7.9	1.8	3.6	4.2	4.3
ROAA	3.8	0.9	1.4	1.7	1.9
ROAE	9.7	2.6	4.2	5.0	5.5
Leverage					
Net Gearing (x)	0.7	0.4	0.7	0.7	0.7
Interest Coverage (x)	4.2	3.2	3.0	3.1	3.2

Source : PGAS, Danareksa Estimates

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.