

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

Company Update

Utilities

Nov 8, 2022

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

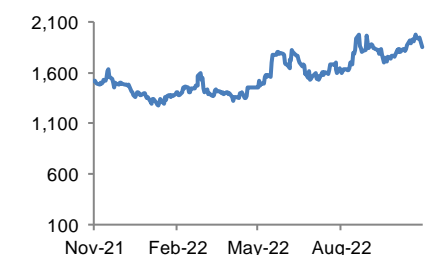
Stock Data

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

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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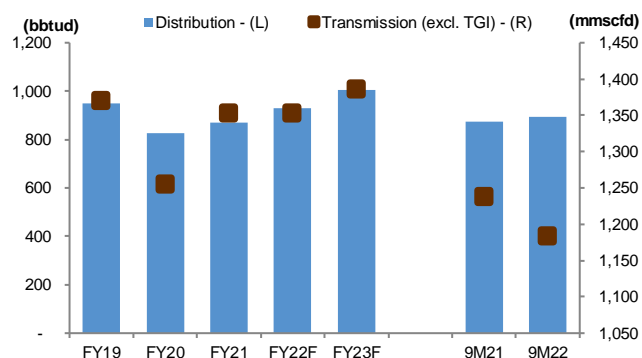
Table 1. PGAS' 9M22 operational and financial results

PGAS 3Q22 financial results										
	Unit	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY	% of FY22F KISI
Revenue	USD mn	790	903	901	0%	14%	2,254	2,642	17%	73%
Gross Profit	USD mn	146	235	186	-21%	27%	439	607	38%	75%
Operating Profit	USD mn	274	189	137	-27%	-50%	328	475	45%	75%
Net profit	USD mn	90	120	72	-40%	-20%	286	311	8%	72%
Core net profit	USD mn	66	100	78	-22%	18%	201	283	40%	66%
GPM		18.5%	26.0%	20.6%			19.5%	23.0%		
OPM		34.7%	20.9%	15.2%			14.6%	18.0%		
Core NPM		8.4%	11.0%	8.7%			8.9%	10.7%		

PGAS 3Q22 operational results										
Segment	Unit	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY	% of FY22F KISI
Distribution	bbtud	885	887	880	-1%	-1%	873	894	2%	96%
Transmission	mmscd	1,389	1,391	1,313	-6%	-5%	1,361	1,343	-1%	99%
Upstream lifting	boepd	28,232	32,379	33,466	3%	19%	22,956	30,350	32%	98%
Regasification	bbtud	82	143	131	-8%	60%	88	131	49%	99%
LPG processing	tpd	75	141	131	-7%	75%	101	137	36%	100%
Oil transportation	bopd	9,261	31,671	39,661	25%	328%	9,301	31,413	238%	105%

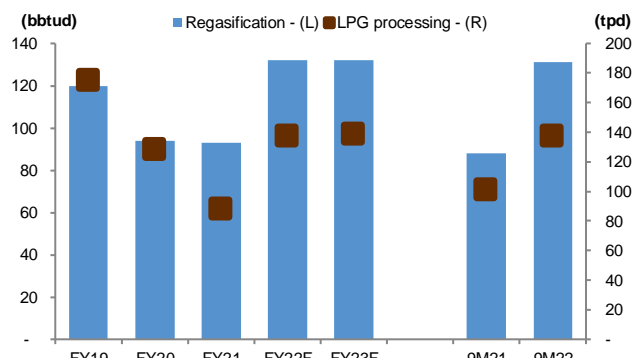
Source: Company, KISI

Fig 1. PGAS' distribution & transmission vol.



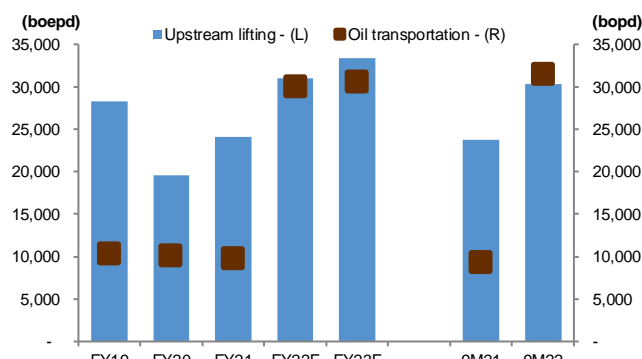
Source: Company, KISI

Fig 2. PGAS' gas processing & regasification vol.



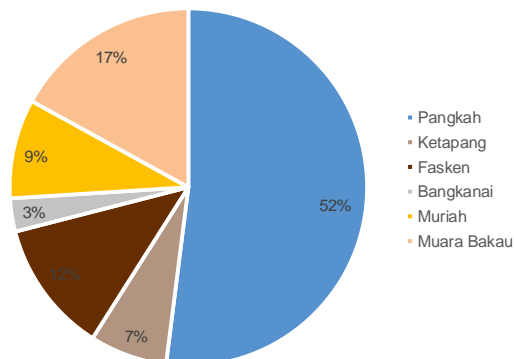
Source: Company, KISI

Fig 3. PGAS' upstream lifting & oil transport vol.



Source: Company, KISI

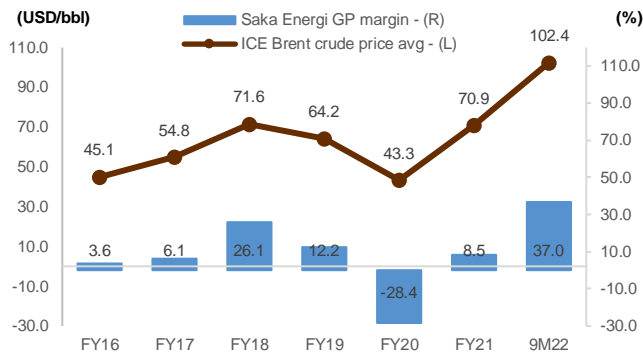
Fig 4. Pangkah field – the largest O&G prod. contributor



Source: Company, KISI.

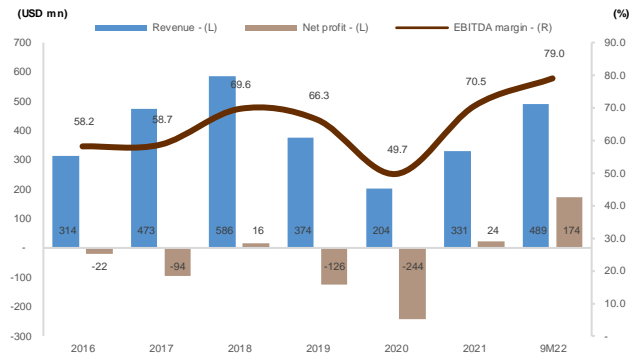
Note: data as of 1H22

Fig 5. SEI – beneficiary of high crude oil price



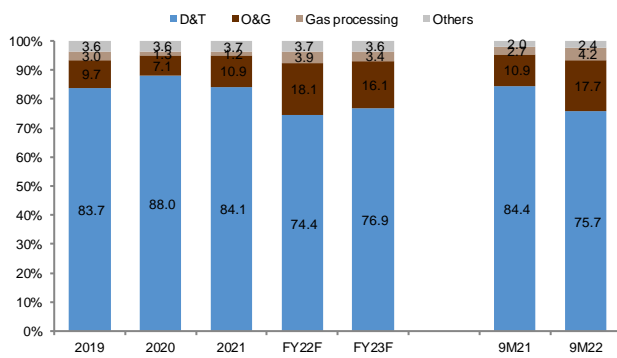
Source: Company, KISI

Fig 6. SEI's revenue, net profit & EBITDA margin trend



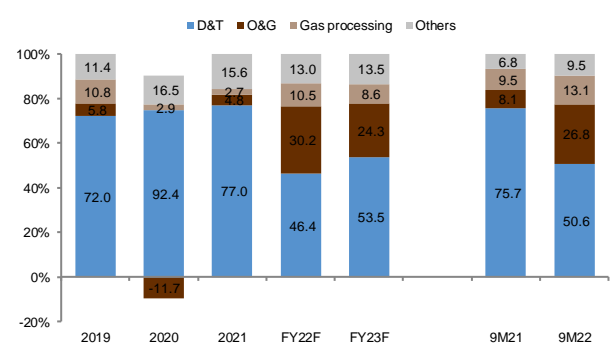
Source: Company, KISI

Fig 7. PGAS' revenue contribution per segment trend



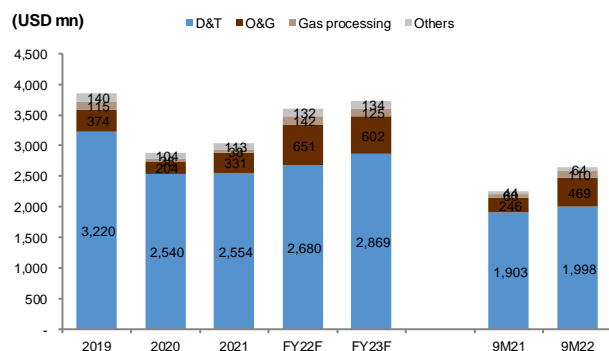
Source: Company, KISI

Fig 8. PGAS' GP contribution per segment trend



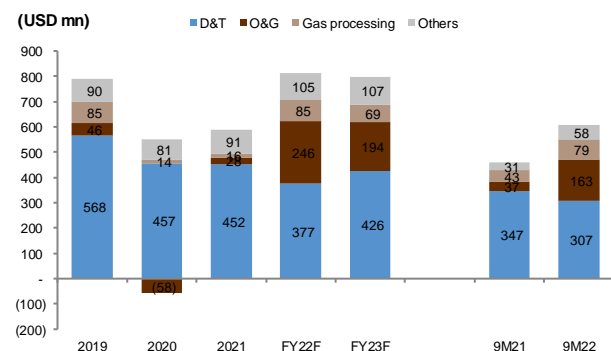
Source: Company, KISI

Fig 9. PGAS' revenue breakdown by segment



Source: Company, KISI

Fig 10. PGAS' gross profit breakdown by segment



Source: Company, KISI

Table 2. Summary of assumptions change

Assumptions	Unit	Revised			Previous		
		FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Distribution volume	bbtud	929	1,003	1,041	958	1,020	1,058
Change (%)		-3%	-2%	-2%			
Transmission volume	mmscfd	1,352	1,386	1,421	1,372	1,407	1,442
Change (%)		-1%	-1%	-1%			
Upstream lifting	boepd	31,000	33,325	34,991	26,190	27,500	28,875
Change (%)		18%	21%	21%			
D&T spread (margin)	USD	1.90	1.90	1.80	1.90	1.90	1.80
Change (%)		0%	0%	0%			
ASP Saka oil price	USD/bl	98	88	83	98	83	78
Change (%)		0%	6%	6%			
Revenue	USDmn	3,604	3,730	3,806	3,669	3,778	3,886
Change (%)		-2%	-1%	-2%			
EBITDA	USDmn	1,147	1,129	1,100	1,101	1,083	1,045
Change (%)		4%	4%	5%			
Net profit (incl. extraordinary items)	USDmn	410	385	397	381	349	351
Change (%)		8%	10%	13%			
Equity value (SOTP) / share	IDR	2,450			2,300		
Change (%)		7%					
Recommendation		BUY			BUY		

Source: KISI

Table 3. PGAS' SOTP

Assets	Stakes (%)	Value (USD mn)	Remarks
Distribution/Transmission and others:			
PGAS	100.0%	4,782	DCF
Pertagas	51.0%		
Saka Energi Indonesia	100.0%	436	0.5x FY23F PB
Net cash (debt)		(1,292)	
Total Equity Value		3,927	
No. of shares (bn)		24.2	
Equity Value per share (IDR)		2,450	
USD/IDR assumed		15,000	

Source: KISI

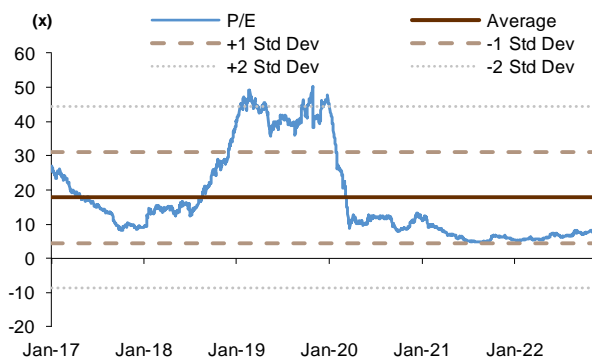
Table 4. PGAS regional peers valuation

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	2,864	8.1	7.8	4.1	4.6	12.0
Petronas Gas Bhd	PTG MK Equity*	7,096	18.6	17.6	9.4	9.3	13.7
Gas Malaysia Bhd	GMB MK Equity*	894	11.5	12.4	6.8	7.8	31.0
PTT PCL	PTT TB Equity*	27,316	8.6	8.5	4.9	4.9	10.8
PetroVietnam Gas JSC	GAS VN Equity*	8,699	15.5	16.4	9.8	9.9	24.5
Shenzhen Gas Corp Ltd	601139 CH Equity*	2,700	14.6	11.6	6.5	5.8	10.0
GAIL India Ltd	GAIL IN Equity*	7,276	5.7	6.6	5.0	5.7	18.5
Gujarat Gas Ltd	GUJGA IN Equity*	4,346	30.3	26.7	19.1	16.4	22.3
Average peers			12.4	12.1	7.3	7.2	15.3

Source: Bloomberg, KISI

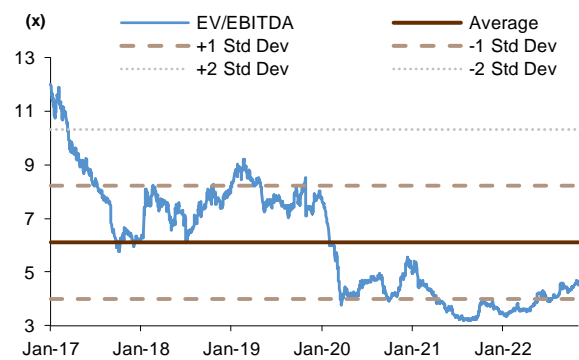
Notes: (*) All regional peers valuations are based on consensus

Fig 11. PGAS' PE band



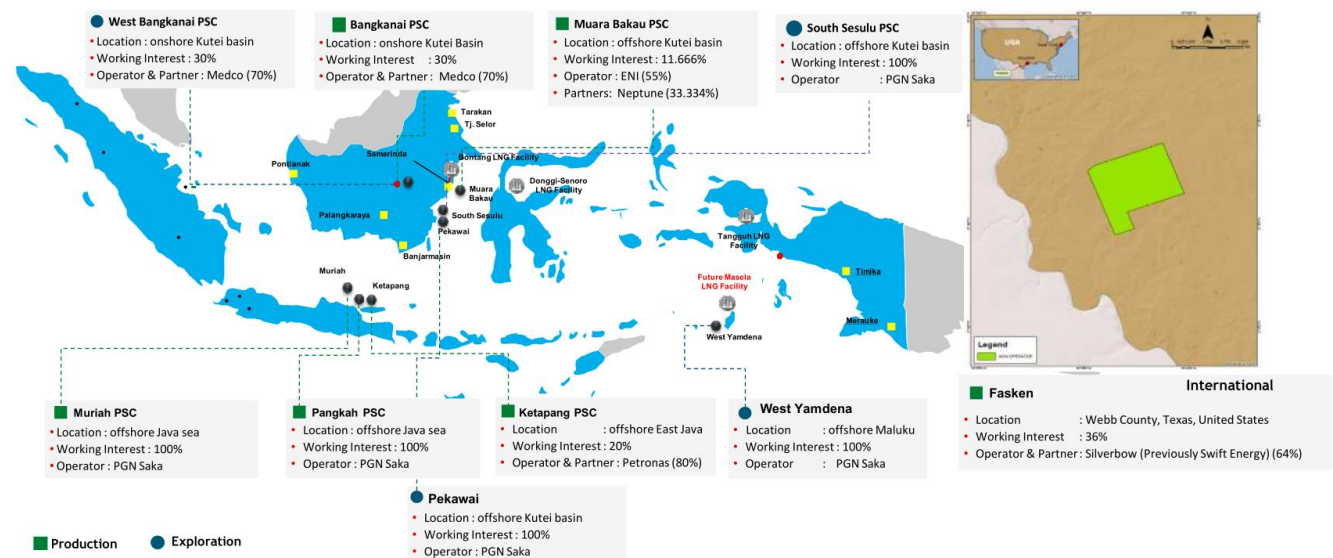
Source: Bloomberg, KISI

Fig 12. PGAS' EV/EBITDA band



Source: Bloomberg, KISI

Fig 13. SEI – portfolio



Source: Company's presentation , KISI

Fig 14. Ujung Pangkah Well Head Platform



Source: KISI

Fig 15. Pangkah Central Processing Plant

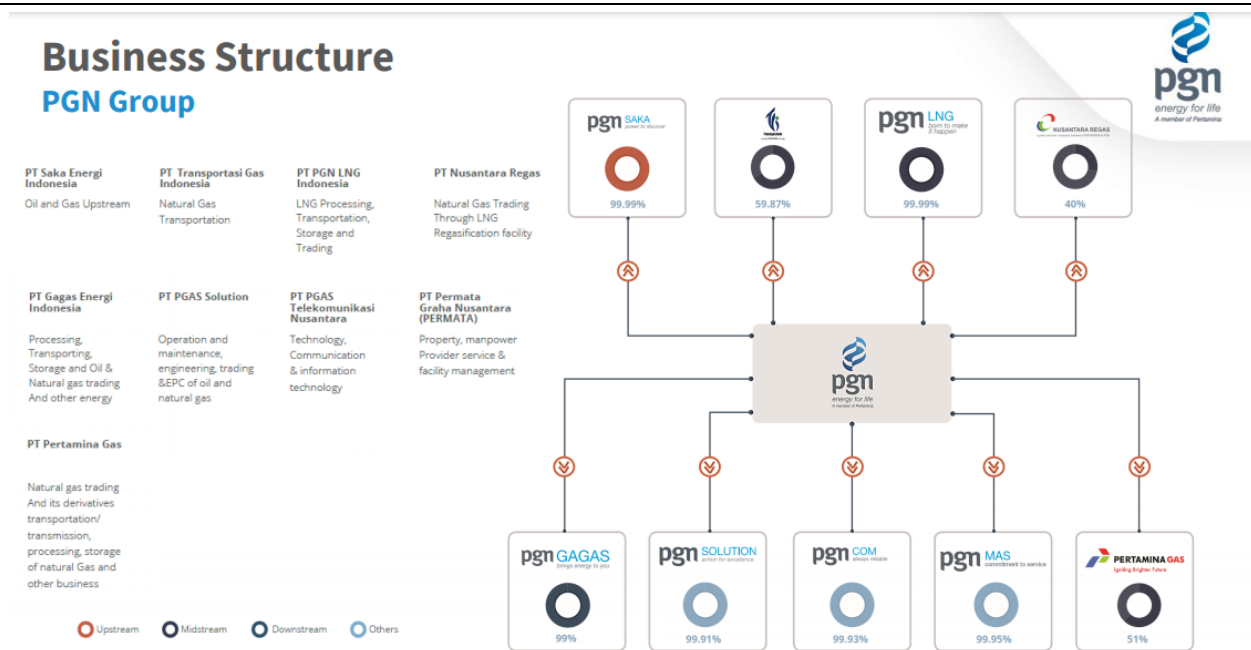


Source: KISI

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 16. PGAS corporate structure



Source: Company's annual report , KISI

Balance sheet (USD mn)

FY-ending Dec. (US\$ m)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	1,179	1,503	1,149	736	734
Accounts & other receivables	473	413	763	445	791
Inventories	69	55	80	75	98
Others	285	220	281	281	281
Non-current assets					
Fixed assets	2,698	2,650	2,577	2,843	2,933
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	1,872	2,300	2,789
Total assets	7,534	7,511	7,806	7,645	8,468
Current liabilities					
Accounts & other payables	215	165	450	102	477
ST debt	11	-	-	-	-
Current portion of LT debt	19	19	45	45	45
Others	938	697	710	710	710
Non-current liabilities					
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
Total liabilities	4,579	4,226	4,251	3,843	4,405
Controlling interest					
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	2,905	3,089	3,294
Minority interest	722	760	825	886	943
Shareholders' equity	2,955	3,285	3,555	3,802	4,063
Cash flow (USDmn)					
FY-ending Dec. (US\$ m)	2020A	2021A	2022F	2023F	2024F
C/F from operating					
Net profit	(273)	304	410	385	397
Depreciation	390	422	515	529	546
Net incr. in W/C					
Others	300	(143)	(577)	(552)	(568)
C/F from investing					
CAPEX	(283)	(222)	(285)	(635)	(485)
Others	324	104	105	105	102
C/F from financing					
Incr. in equity	-	-	-	-	-
Incr. in debts	(211)	(77)	(316)	(45)	200
Dividends	(68)	(24)	(206)	(200)	(192)
Others	-	-	-	-	-
C/F from others					
Increase in cash	179	364	(354)	(414)	(2)

Income statement (USD mn)

FY-ending Dec. (US\$ m)	2020A	2021A	2022F	2023F	2024F
Sales	2,886	3,036	3,604	3,730	3,806
COGS	(2,039)	(2,078)	(2,359)	(2,486)	(2,606)
Gross profit	846	958	1,245	1,243	1,201
SG&A expense	(177)	(167)	(180)	(196)	(209)
Operating profit	318	420	633	600	554
Financial income					
Interest income	(139)	(129)	(103)	(86)	(38)
Financial expense					
Interest expense	(76)	-	-	-	-
Other non-operating profit	(278)	65	10	-	-
Earnings before tax	(184)	468	628	599	595
Income taxes	(40)	(103)	(152)	(152)	(142)
Net profit	(273)	304	410	385	397
Non-controlling interest	49	61	65	62	57
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	708	842	1,147	1,129	1,100

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (USD)					
EPS	(0.011)	0.013	0.017	0.016	0.016
BPS	0.122	0.136	0.147	0.157	0.168
DPS	0.001	0.008	0.008	0.008	0.008
Growth (%)					
Sales growth	(25.0)	5.2	18.7	3.5	2.1
OP growth	(38.7)	32.1	50.7	(5.1)	(7.7)
NP growth	NM	NM	75.5	3.8	3.1
EBITDA growth	(26.4)	18.9	36.3	(1.6)	(2.6)
Profitability (%)					
OP margin	11.01	13.83	17.55	16.09	14.55
NP margin	(9.46)	10.01	11.38	10.32	10.42
EBITDA margin	24.52	27.72	31.83	30.27	28.89
ROA	(3.66)	4.04	5.36	4.98	4.92
ROE	(8.82)	9.74	11.99	10.46	10.09
Dividend yield	0.74	6.55	6.69	6.44	6.63
Dividend payout ratio	(8.61)	67.79	50.00	50.00	50.00
Stability					
Net debt (US\$ m)	1,074	784	926	1,292	1,493
Int.-bearing debt/equity (%)	79.5	72.8	61.3	56.0	57.3
Valuation (X)					
PE	29.8	14.9	8.1	7.8	7.5
PB	1.1	1.0	0.8	0.8	0.7
EV/EBITDA	7.0	5.6	4.1	4.6	4.9

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