

Perusahaan Gas Negara Tbk (PGAS IJ)

Lower Results than Expected

Company Update | Sep 15, 2020

PGAS reported 1H20 net profit of USD6.8 million or declining 88% YoY which means operational results still below our expectations. However, 1H20 distribution segment performed well with spread of USD2.3/MMBTU, higher than 1H19. We maintain our 2020-2022F earnings estimate and expect 2020F distribution spread to hover at USD1.7-2.0/MMBTU. Hence, we retain our BUY recommendation for PGAS.

Weak Results and Below Expectations

PGAS posted 1H20 net profit of USD6.8 million (-88% YoY), which only contributed to 7% of our 2020F target. This performance was mainly due to the lower revenue (-18% YoY) and operating profit (-23% YoY) as result of declining O&G demand during pandemic condition. Although the 1H20 performance was below our expectations, we are still optimistic that the downstream segment will support PGAS to generate more volume in 2H20.

Distribution Segment Performed Relatively Well

In 1H20, distribution business actually performed relatively well with distribution spread of USD2.3/MMBTU in 1H20 (vs. USD2.0/MMBTU in 1H19) and lower distribution volume of 811 BBUTD (-9% YoY), below our prediction. Then, PGAS benefited from lower-than-expected natural gas input cost from upstream E&P suppliers since April. We see for 2020F there will be a decrease in spread because gas price regulation will be fully implemented in 2020. So, we estimate 2020F distribution spread to come in at around USD1.7-2.0/MMBTU.

Maintain Our 2020-2022F Estimates

We maintain our 2020-2022F earnings estimate, considering: 1) PGAS will procure upstream natural gas at lower prices then making firmer profitability performance outlook; and 2) SKK Migas still supports PGAS natural gas input cost from upstream E&P contractors at a fair level. We still keep our assumptions especially for 2020F gas distribution volume, as we predict that it is hard to grow the volume in 2020 amid the current situation of Indonesia's GDP contraction.

Maintain BUY Rating and TP of IDR1,400

We maintain BUY recommendation with the same TP and offer potential 22.3% upside. TP based on forward EV/EBITDA of 5.2x (-0.7 SD of its 10-year historical mean). PGAS is currently trading at 4.6x EV/EBITDA (at -1 SD level of its 10-year historical mean).

Perusahaan Gas Negara Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (USD mn)	3,849	3,090	3,439	3,620
Growth (%)	-0.6	-19.7	11.3	5.3
EBITDA (USD mn)	1,040	912	1,011	1,058
Net Profit (USD mn)	68	97	134	154
EPS (IDR)	39	59	80	90
Growth (%)	-80.1	50.6	35.4	12.6
P/E (x)	55.0	23.6	17.4	15.5
P/BV (x)	1.2	0.7	0.7	0.7
EV/EBITDA (x)	6.7	5.8	5.3	5.1
ROE (%)	2.1	3.0	4.1	4.5
DER (%)	128.0	127.9	136.7	132.8
Net Debt (USD mn)	1,710	1,896	1,946	2,030

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Buy

Target Price (IDR)	1,400
Consensus Price (IDR)	1,364
TP to Consensus Price (%)	+2.6
vs. Last Price (%)	+22.3

Shares Data

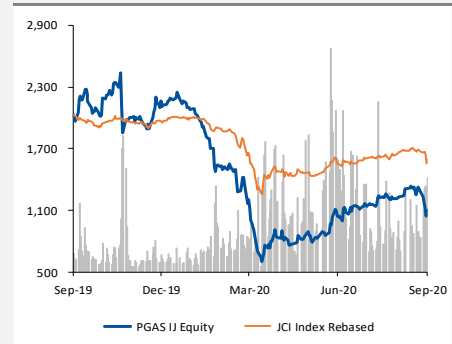
Last Price (IDR)	1,145
Price Date as of	Sep 14, 2020
52 wk Range (Hi/Lo)	2,460/605
Free Float (%)	43
Outstanding Shares (mn)	24,242
Market Cap (IDR bn)	26,787
Market Cap (USD mn)	1,784
Avg. Trd Vol - 3M (mn)	140.3
Avg. Trd Val - 3M (bn)	164.5
Foreign Ownership (%)	14.4

Utilities

Energy

Bloomberg	PGAS IJ
Reuters	PGAS.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-46.5%	-6.9%	41.4%	-41.7%
Rel. Ret.	53.5%	93.1%	141.4%	58.3%

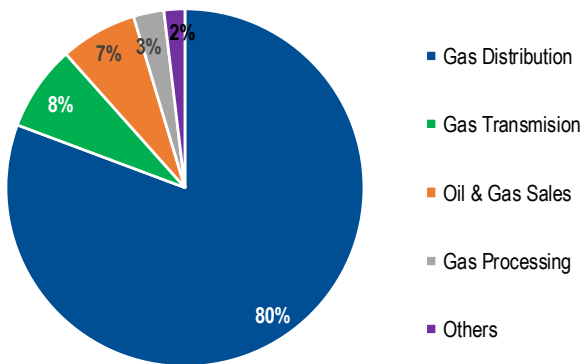


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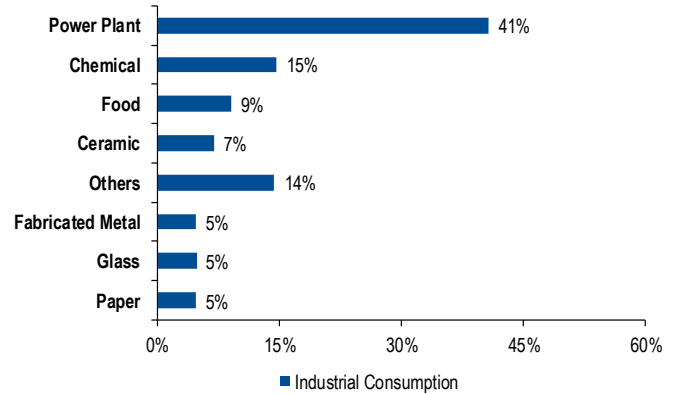
Performance Highlights in Charts

1H20 Revenue Breakdown



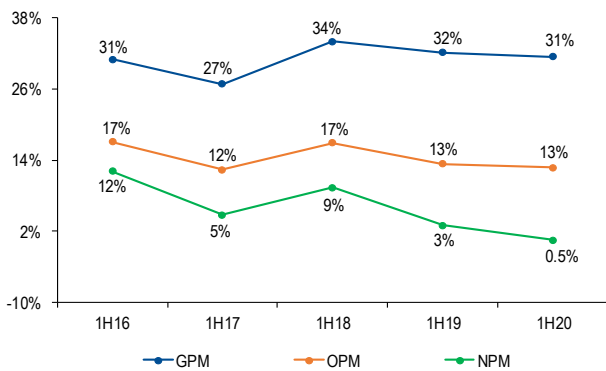
Source: Company Data, NHKSI Research

1H20 Industrial Consumption



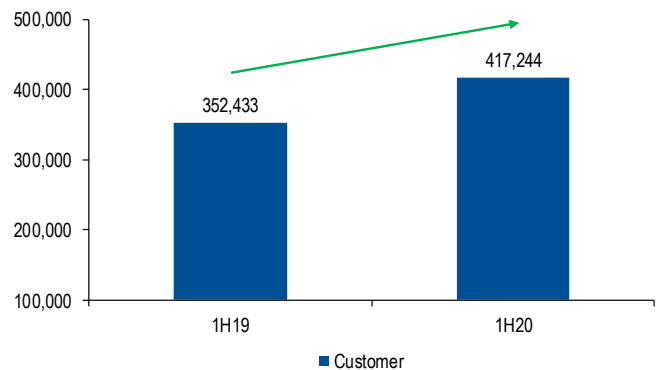
Source: Company Data, NHKSI Research

Margin Ratios



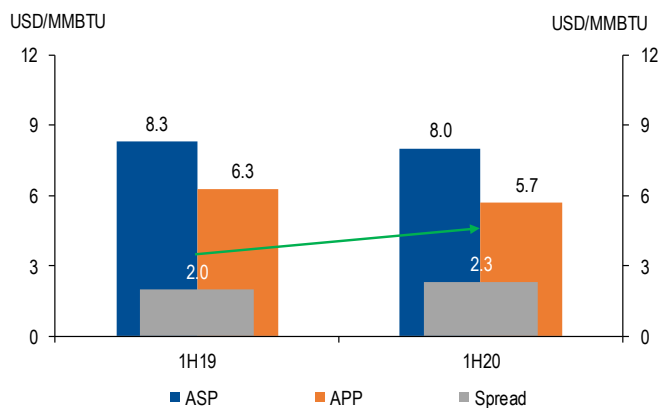
Source: Company Data, NHKSI Research

Number of Customers



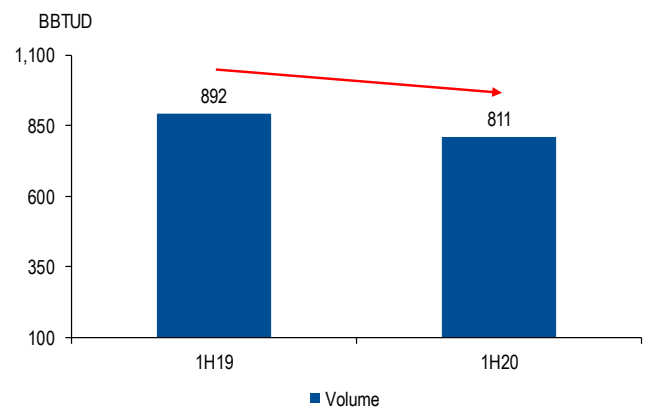
Source: Company Data, NHKSI Research

Gas Pricing



Source: Company Data, NHKSI Research

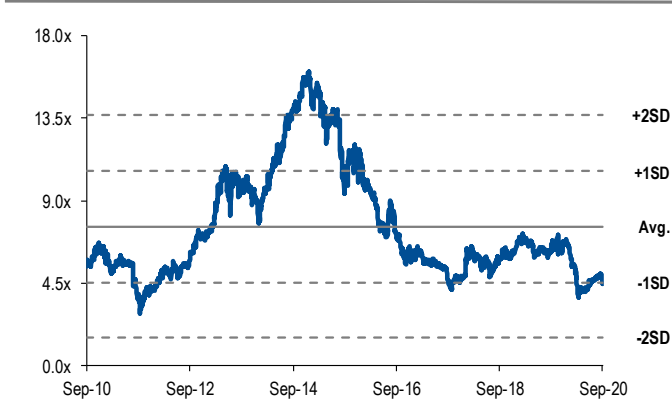
Gas Distribution Volume



Source: Company Data, NHKSI Research

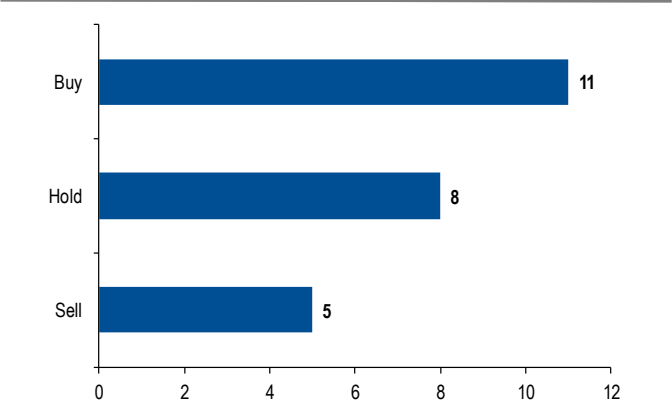
Valuation & Other Highlights in Charts

10-Year Forward EV/EBITDA Band



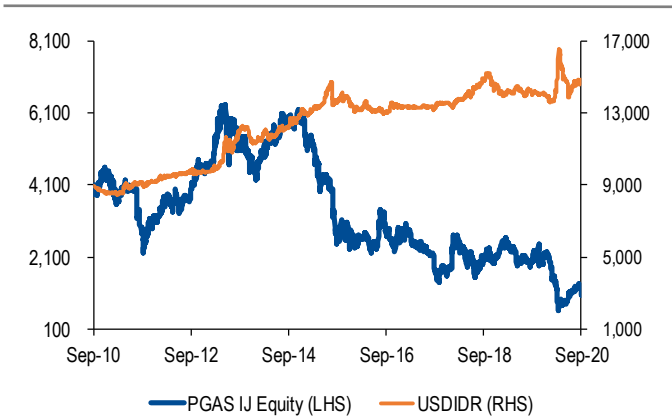
Source: Bloomberg, NHKSI Research

Recommendation by Analysts



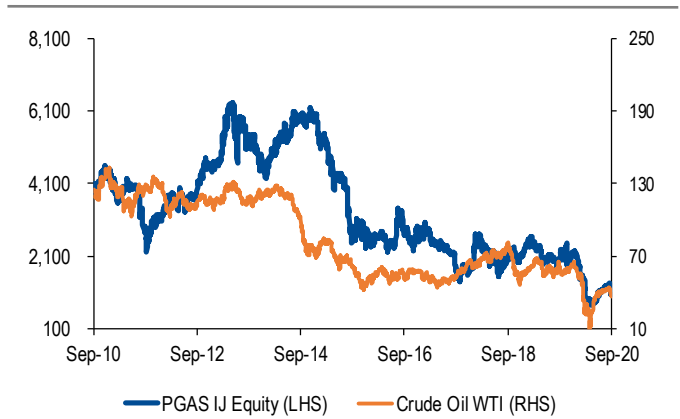
Source: Bloomberg, NHKSI Research

PGAS & USDIDR Movement



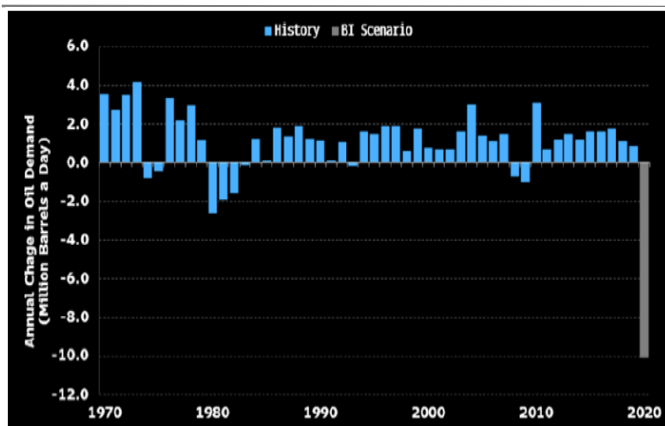
Source: Bloomberg, NHKSI Research

PGAS & Crude Oil Prices Movement



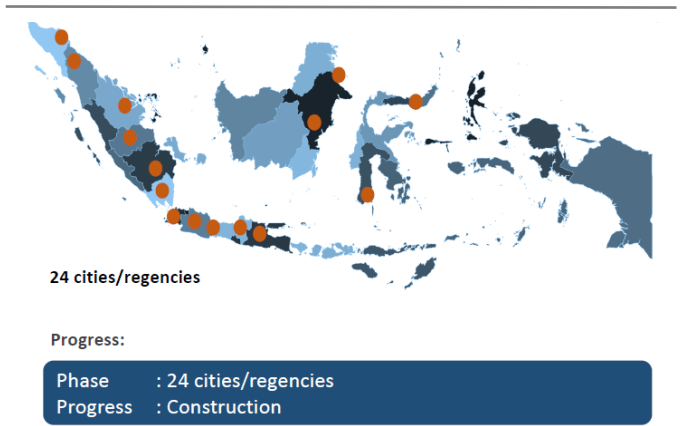
Source: Bloomberg, NHKSI Research

Global Oil Demand



Source: Bloomberg

City Gas Project



Source: Company Data

Financial Review

Quarterly Review

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	YoY %	QoQ %	Surprise %	
Income Statement										
Revenue	929	1,022	1,021	874	595	655	-35.9	-31.9	-9.1	763
Gross Profit	295	307	340	287	175	191	-40.5	-38.9	-7.9	227
EBIT	86	136	107	155	31	66	-63.4	-79.8	-52.6	86
EBITDA	263	247	250	241	139	319	-47.4	-42.4	-56.6	253
Net Profit	-11	75	-62	48	-41	14	-5.7	-12.4	-9.1	1
Margin										
Gross Margin	31.7	30.0	33.3	32.9	29.5	29.1	-2.3	-3.4	0.4	29.8
EBIT Margin	9.2	13.3	10.5	17.8	5.3	10.1	-4.0	-12.5	-4.8	11.3
EBITDA Margin	28.3	24.2	24.5	27.5	23.3	48.8	-5.1	-4.3	-25.5	33.2
Net Profit Margin	3.6	7.3	-6.9	10.7	0.0	2.2	-3.6	-10.7	-2.2	0.2

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Earnings Revisions

		2020F	2021F	2022F
Income Statement				
Revenue	-Maintain	3,090	3,429	3,620
	-Previous	3,090	3,429	3,620
	-Change %	0.0	0.0	0.0
	-Consensus	3,017	3,189	3,354
Gross Profit	-Maintain	936	1,082	1,178
	-Previous	936	1,082	1,178
	-Change %	0.0	0.0	0.0
	-Consensus	934	1,008	1,066
EBIT	-Maintain	383	463	529
	-Previous	383	463	529
	-Change %	0.0	0.0	0.0
	-Consensus	368	390	420
EBITDA	-Revised	912	1,011	1,058
	-Previous	1,191	1,485	1,704
	-Change %	-23.4	-31.9	-37.9
	-Consensus	759	826	885
Net Profit	-Maintain	97	134	154
	-Previous	97	134	154
	-Change %	0.0	0.0	0.0
	-Consensus	89	147	181
Margin				
Gross Margin	-Maintain	30.3	31.5	32.5
	-Previous	30.3	31.5	32.5
EBIT Margin	-Maintain	12.4	13.5	14.6
	-Previous	12.4	13.5	14.6
EBITDA Margin	-Revised	29.5	29.4	29.2
	-Previous	38.5	43.2	47.1
Net Profit Margin	-Maintain	3.1	3.9	4.3
	-Previous	3.1	3.9	4.3

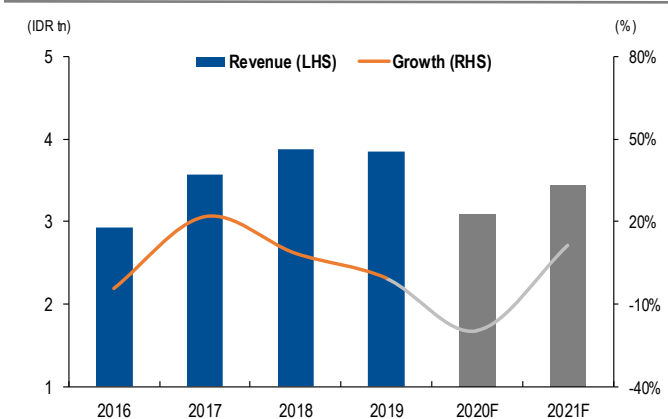
Unit: IDR bn, %

Source: Company Data, NHKSI Research

Company Overview

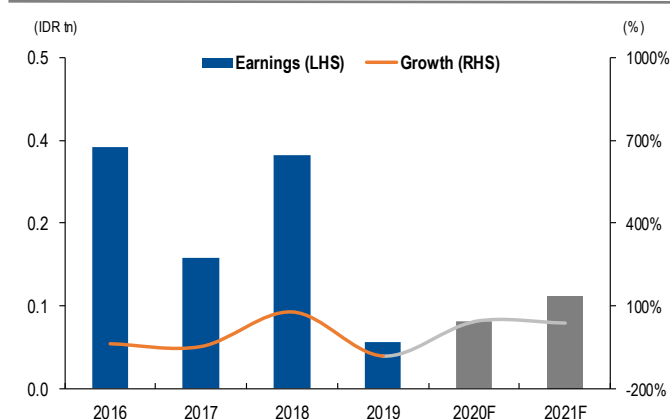
PT Perusahaan Gas Negara Tbk (PGAS) as Subholding Gas, integrates natural gas infrastructure in Indonesia and seeks to increase energy access in Indonesian by using both pipeline and non-pipeline infrastructure. At present, PGAS has operated in 66 districts/cities, in 17 provinces in Indonesia and continues to expand. The natural gas end user segment that receives PGN natural gas energy services range from households, transportation (SPBG), small customers, commercial, industrial and power plants. The PGAS downstream natural gas infrastructure management portfolio until 2019 includes 96% of the natural gas downstream infrastructure that has been built and is operating. As for the management of household natural gas network and small customers, follows the Government and the Sayang Ibu Program covering 49 regencies/cities throughout Indonesia with around 3,000 km long Jargas pipeline.

Revenue & Growth Movement



Source: Company Data, NHKSI Research

Earnings & Growth Movement



Source: Company Data, NHKSI Research

Asia Peers Comparison

	Market Cap (USD mn)	Total Asset (USD mn)	Sal. Growth* (%)	NP Growth* (%)	Div. Yield (%)	ROE* (%)	EV/EBITDA (x)	P/BV (x)
Indonesia								
PERUSAHAAN GAS NEGARA TBK	1,840	7,374	-0.6	-88.7	3.7	0.8	4.8	0.7
China								
CHINA GAS HOLDINGS LTD	14,679	14,458	0.3	11.7	2.3	24.5	12.2	2.9
ENN ENERGY HOLDINGS LTD	12,570	11,667	15.6	13.7	1.9	19.9	11.1	3.2
CHINA RESOURCES GAS GROUP LTD	10,734	10,402	9.1	-4.6	2.4	16.0	9.8	2.7
KUNLUN ENERGY CO LTD	5,854	21,239	7.4	1.8	5.5	10.1	4.5	0.8
Japan								
TOKYO GAS CO LTD	104	355	1.8	48.9	3.5	7.2	5.8	0.5
South Korea								
KOREA GAS CORP	1,848	34,037	-4.6	N/A	1.6	-5.4	9.9	0.3
India								
GAIL INDIA LTD	5,674	9,939	-4.6	43.9	7.9	19.8	4.6	0.8
INDRAPRASTHA GAS LTD	3,912	1,001	12.5	48.3	N/A	25.8	16.2	5.4
GUJARAT GAS LTD	2,858	1,051	32.9	186.5	0.4	43.4	10.6	6.3

Note: * = Last Twelve Months (LTM)

Source: Bloomberg, NHKSI Research

Financial Summary

INCOME STATEMENT					PROFITABILITY & STABILITY				
(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F		2019/12A	2020/12F	2021/12F	2022/12F
Revenue	3,849	3,090	3,439	3,620	ROE	2.1%	3.0%	4.1%	4.5%
<i>Growth</i>	-0.6%	-19.7%	11.3%	5.3%	ROA	0.9%	1.3%	1.8%	1.9%
COGS	(2,621)	(2,154)	(2,357)	(2,441)	ROIC	3.5%	3.5%	5.2%	5.6%
Gross Profit	1,227	936	1,082	1,178	Cash Dividend (USDmn)	97	68	97	134
<i>Gross Margin</i>	31.9%	30.3%	31.5%	32.5%	Dividend Yield	2.6%	2.8%	4.0%	5.5%
Operating Expenses	(709)	(553)	(619)	(650)	Payout Ratio	15.7%	24.1%	41.9%	43.2%
EBIT	518	383	463	529	DER	128.0%	127.9%	136.7%	132.8%
<i>EBIT Margin</i>	13.5%	12.4%	13.5%	14.6%	Net Gearing	90%	98%	110%	114%
Depreciation	522	529	548	529	LT Debt to Equity	78.2%	83.0%	87.4%	86.5%
EBITDA	1,040	912	1,011	1,058	Capitalization Ratio	46.0%	47.4%	48.7%	48.4%
<i>EBITDA Margin</i>	27.0%	29.5%	29.4%	29.2%	Equity Ratio	43.9%	43.9%	42.2%	43.0%
Interest Expenses	(210)	(247)	(259)	(272)	Debt Ratio	37.3%	39.5%	40.1%	40.3%
EBT	280	231	310	369	Financial Leverage	228.0%	232.4%	234.7%	232.8%
Income Tax	(167)	(98)	(87)	(103)	Current Ratio	196.6%	198.3%	200.1%	203.7%
Minority Interest	(45)	(37)	(89)	(111)	Par Value (IDR)	100	100	100	100
Net Profit	68	97	134	154	Total Shares (mn)	24,242	24,242	24,242	24,242
<i>Growth</i>	-80.0%	43.5%	38.1%	14.9%	Share Price (IDR)	2,170	1,400	1,400	1,400
<i>Net Profit Margin</i>	1.8%	3.1%	3.9%	4.3%	Market Cap (IDR tn)	52.6	33.9	33.9	33.9

BALANCE SHEET					VALUATION INDEX				
(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F		2019/12A	2020/12F	2021/12F	2022/12F
Cash	1,040	1,049	1,179	1,253	Price/Earnings	55.0x	23.6x	17.4x	15.5x
Receivables	510	591	615	654	Price/Book Value	1.2x	0.7x	0.7x	0.7x
Inventories	71	65	64	63	Price/Sales	1.0x	0.8x	0.7x	0.7x
Total Current Assets	2,209	1,989	2,294	2,330	PE/EPS Growth	-0.7x	0.5x	0.5x	1.0x
Net Fixed Assets	4,250	4,530	4,561	4,574	EV/EBITDA	6.7x	5.8x	5.3x	5.1x
Other Non Current Asset	915	941	938	953	EV/EBIT	13.4x	13.7x	11.5x	10.2x
Total Assets	7,374	7,460	7,792	8,137	EV (IDR bn)	6,926	5,249	5,329	5,414
Payables	260	212	240	255	Sales CAGR (3-Yr)	9.5%	-4.7%	-3.9%	-2.0%
ST Bank Loan	221	230	248	258	EPS CAGR (3-Yr)	-41.0%	-17.8%	-26.0%	31.9%
LT Debt	2,529	2,716	2,877	3,025	Basic EPS (IDR)	39	59	80	90
Total Liabilities	4,139	4,188	4,501	4,642	Diluted EPS (IDR)	39	59	80	90
Capital Stock + APIC	344	344	344	344	BVPS (IDR)	1,868	1,890	1,901	2,019
Retained Earnings	2,729	2,672	2,506	2,526	Sales PS (IDR)	2,223	1,784	1,986	2,090
Shareholder' Equity	3,234	3,273	3,291	3,495	DPS (IDR)	56	39	56	77

CASH FLOW STATEMENT					TOP OWNERSHIP		
(USD mn)	2019/12A	2020/12F	2021/12F	2022/12F	By Geography	% Shareholders	%
Operating Cash Flow	893	554	632	708	Indonesia	85.6	Pertamina 57.0
Investing Cash Flow	(1,736)	(194)	(769)	(843)	United States	6.9	Norges Bank 1.8
Financing Cash Flow	762	(222)	266	209	Norway	2.7	Vanguard Group 1.6
Net Changes in Cash	(81)	138	129	74	Luxembourg	1.6	FMR 1.2

Source: Company Data, NHKSI Research

Closing & Target Price Update



Source: Bloomberg, NHKSI Research

Rating & Target Price Update

Date	Rating	Target Price	Consensus
2016.12.16	Buy	IDR2,900	IDR3,058
2018.09.10	Buy	IDR2,600	IDR2,438
2020.07.16	Buy	IDR1,400	IDR1,112
2020.09.15	Buy	IDR1,400	IDR1,364

Source: NHKSI Research

NHKSI Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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