

Perusahaan Gas Negara Tbk (PGAS IJ)

Top & Bottom Line Recovers in 3Q20

Company Update | Jan. 22, 2021

Performance recovery in 3Q20 allowed revenue to grow 14.5% QoQ to USD61.9 million. Gas distribution led the increase with 13.9% QoQ revenue growth. PGAS once again recorded net profit of USD46.5 million vs net loss of USD41.1 million in the second quarter.

Performance Improvements in Third Quarter 2020. PGAS booked revenue increase by USD681.9 million (14.5% QoQ), equal to 72.0% of our 2020E target. Revenue growth in 3Q was boosted by the surge in gas demand, increasing gas distribution segment by 13.9% QoQ to USD560.4 million in 3Q20. The boost of revenue in the third quarter resulted in net profit of USD46.5 million vs net loss of USD41.1 million in the second quarter.

Tax Disputes Do Not Hinder PGAS Liquidity. Different interpretations in understanding the tax provision on the obligation to collect VAT on the delivery of natural gas resulted in tax dispute. This caused PGAS to be obligated to pay the principal of the dispute of more than IDR3 trillion. We see that this dispute will not hinder the company's liquidity. Throughout 9M20, PGAS recorded a cash position of USD1.2 billion vs USD1.0 billion in 9M19 (+14.8%). Meanwhile, PGAS also still has standby loans from banks that can be disbursed in 2021. In terms of valuation, we consider liquidity of PGAS to be relatively safe with current ratio and cash ratio value of around 2.7x and 1.6x in 9M20.

Absorbs USD168 Million Capital Expenditure until October 2020. PGAS has spent a capital expenditure of USD168 million until October 2020, or equal to 84% of our estimates. Absorption of PGAS capex in the upstream business was used to develop existing oil and gas blocks, including West Pangkah and Lapangan Sidayu projects worth USD77 million (45.8%). In the downstream business, it was used towards the developments of Rokan oil pipeline, gas transmission pipeline from Gresik to Semarang, Kuala Tanjung distribution pipeline, worth USD88 million (52.4%) in total. In the supporting business, USD3 million (1.8%) was used for fiber optic development.

We Recommend BUY and Target Price of IDR2,030. We recommend BUY with Target Price of IDR2,030 with a potential increase of 17.0%. Our Target Price reflects forward EV/EBITDA at level 5.4x (moving within -1SD area of 10-year historical average).

Perusahaan Gas Negara Tbk | Summary

	2019	2020 E	2021 F	2022 F
Revenue (USD mn)	3,849	2,986	3,461	3,615
Growth (%)	-0.6	-22.4	15.9	4.5
EBITDA (USD mn)	1,040	946	1,210	1,232
Net Profit (USD mn)	68	145	249	256
EPS (IDR)	39	89	149	151
Growth (%)	-80.1	125.1	68.2	0.9
P/E (x)	55.0	18.6	13.7	13.5
P/BV (x)	1.2	0.9	1.0	1.0
EV/EBITDA (x)	6.7	6.4	5.7	5.7
ROE (%)	2.1	4.5	7.6	7.4
DER (x)	1.3	1.3	1.4	1.3
Net Debt (USD mn)	1,710	2,126	1,927	2,037

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	2,030
Consensus Price (IDR)	1,726
TP to Consensus Price (%)	+17.6
vs. Last Price (%)	+17.0

Shares Data

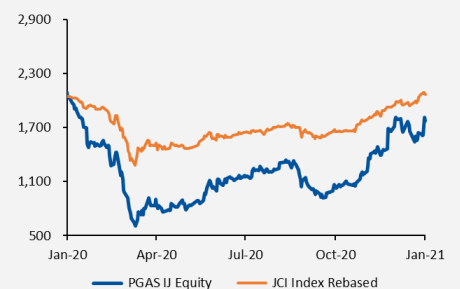
Last Price (IDR)	1,735
Price Date as of	Jan. 20, 2021
52 wk Range (Hi/Lo)	2,000/605
Free Float (%)	43.0
Outstanding Shares (mn)	24,242
Market Cap (IDR bn)	43,271
Market Cap (USD mn)	3,086
Avg. Trd Vol - 3M (mn)	278.0
Avg. Trd Val - 3M (bn)	434.7
Foreign Ownership (%)	13.2

Utilities

Energy

Bloomberg	PGAS IJ
Reuters	PGAS.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-18.9%	-3.3%	66.0%	-11.7%
Rel. Ret.	-21.3%	-7.6%	40.0%	-14.7%

Restu Pamungkas

+62 21 5088 9133

restu.pamungkas@nhsec.co.id

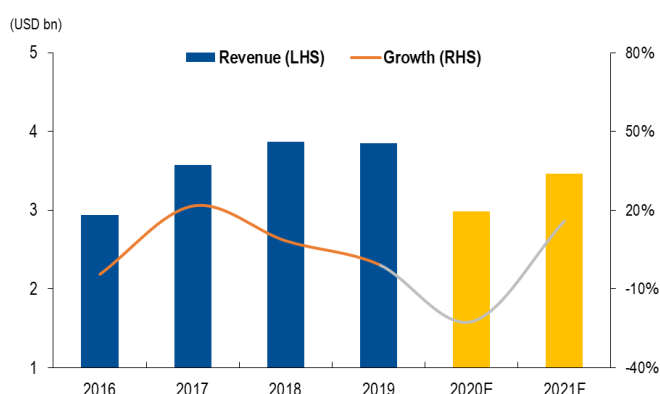
Company Profile & Performance Forecast



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

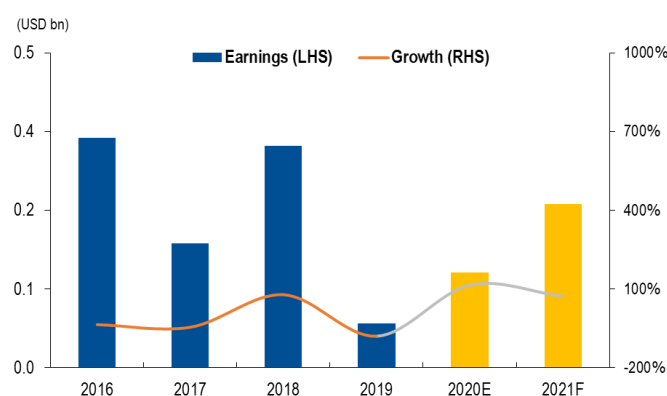
provinces in Indonesia and continues to expand. The natural gas end user segment that receives PGN natural gas energy services range from households, transportation (SPBG), small customers, commercial, industrial and power plants. The PGAS downstream natural gas infrastructure management portfolio until 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

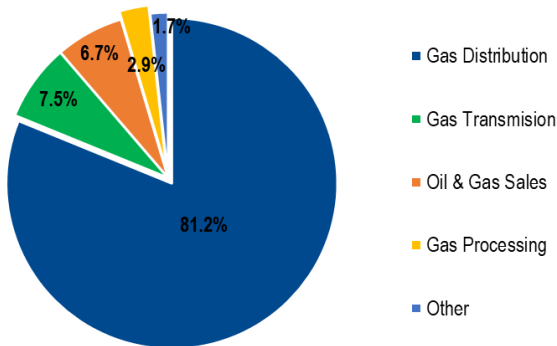
	Market Cap (USD mn)	Total Asset (USD mn)	Sal. Growth* (%)	NP Growth* (%)	Div. Yield (%)	ROE* (%)	EV/EBITDA (x)	P/BV (x)
Indonesia								
PERUSAHAAN GAS NEGARA TBK	3,094	7,374	-0.6	N/A	2.3	-0.3	4.4	1.2
China								
CHINA GAS HOLDINGS LTD	20,071	14,458	0.3	5.2	1.7	23.2	10.3	3.5
ENN ENERGY HOLDINGS LTD	17,513	11,667	15.6	13.7	1.4	19.9	11.3	4.2
CHINA RESOURCES GAS GROUP LTD	12,060	10,402	9.1	-4.6	2.2	16.0	9.8	3.0
KUNLUN ENERGY CO LTD	8,009	21,239	7.4	1.8	4.0	10.1	4.5	1.0
Japan								
TOKYO GAS CO LTD	105	355	1.8	31.2	3.6	6.7	6.4	0.5
South Korea								
KOREA GAS CORP	2,820	34,037	-4.6	N/A	1.1	-6.4	9.9	0.4
India								
GAIL INDIA LTD	8,481	9,939	-4.6	43.9	4.7	19.8	4.6	1.3
INDRAPRASTHA GAS LTD	5,377	1,001	12.5	48.3	0.5	25.8	16.2	7.3
GUJARAT GAS LTD	3,497	1,051	32.9	186.5	0.3	43.4	10.6	7.7

Note: * = Last 12 Month (LTM)

Source: Bloomberg, NHKSI Research

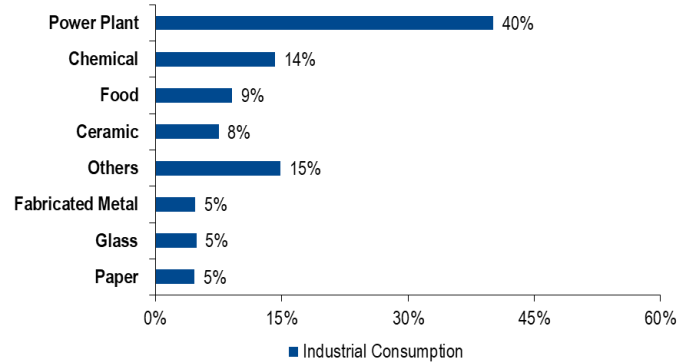
Performance Highlights & Valuation in Charts

3Q20 Revenue Breakdown



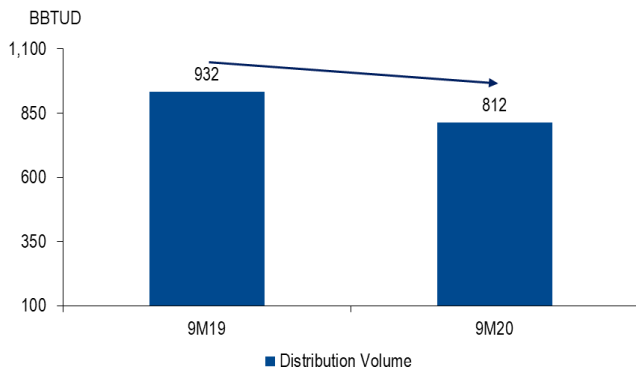
Source: Company Data, NHKSI Research

3Q20 Industrial Consumption



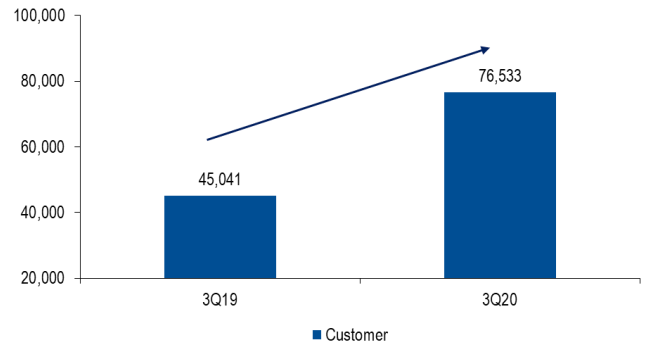
Source: Company Data, NHKSI Research

Distribution Volume (-12.9% YoY)



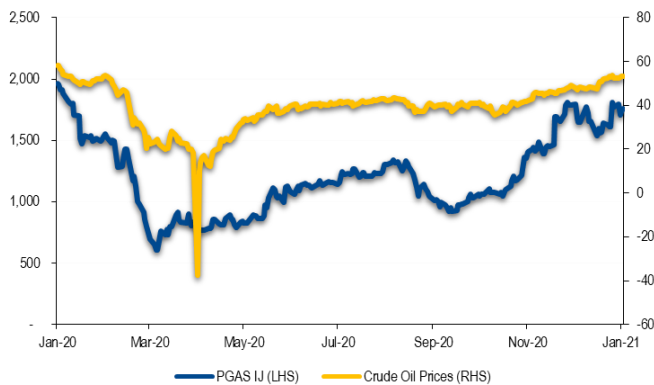
Source: Company Data, NHKSI Research

Number of Customers (+69.9% YoY)



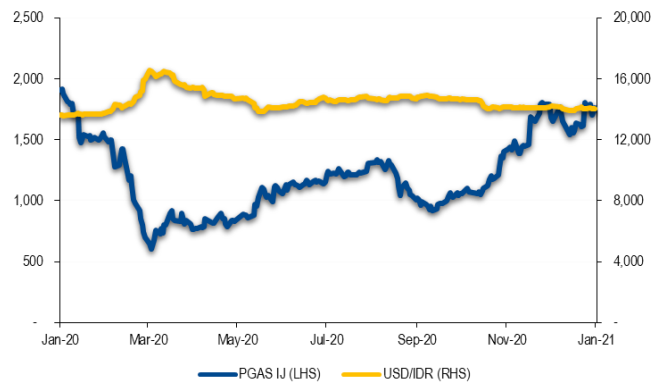
Source: Company Data, NHKSI Research

PGAS & Crude Oil Prices Movement



Source: Bloomberg, NHKSI Research

PGAS & USD/IDR Movement



Source: Bloomberg, NHKSI Research

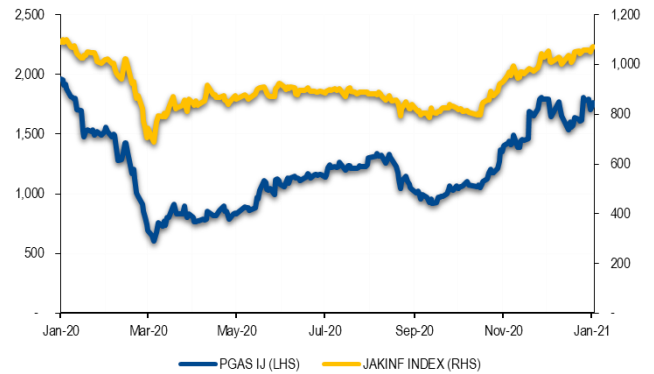
Valuation & Other Highlight in Charts

10-Year Forward EV/EBITDA Band



Source: Bloomberg, NHKSI Research

PGAS & JAKINF INDEX



Source: Bloomberg, NHKSI Research

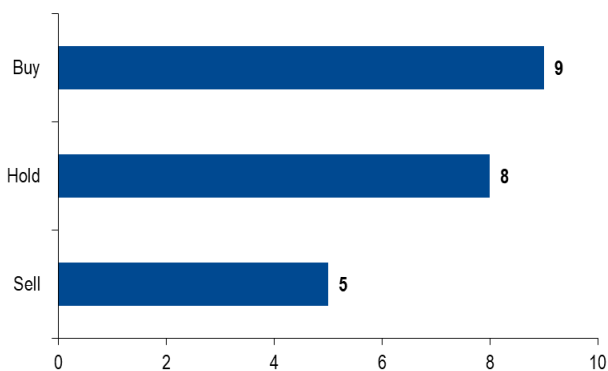
Rating and Target Price Update

Target Price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
01/22/2020	Buy	2,030 (12 Month)	1,735	1,726	+17.0%	+17.6%

Source: NHKSI Research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI Research

Summary of Financial's

INCOME STATEMENT					PROFITABILITY & STABILITY				
(USD mn)	2019	2020 E	2021 F	2022 F		2019	2020 E	2021 F	2022 F
Revenue	3,849	2,986	3,461	3,615	ROE	2.1%	4.5%	7.6%	7.4%
<i>Growth</i>	-0.6%	-22.4%	15.9%	4.5%	ROA	0.9%	2.0%	3.3%	3.1%
COGS	(2,621)	(1,903)	(2,173)	(2,259)	ROIC	3.5%	4.4%	7.3%	7.4%
Gross Profit	1,227	1,083	1,287	1,356	Cash Dividend (USDmn)	97	68	145	249
<i>Gross Margin</i>	31.9%	36.3%	37.2%	37.5%	Dividend Yield	2.6%	2.4%	4.1%	7.0%
Operating Expenses	(709)	(550)	(623)	(649)	Payout Ratio	15.7%	24.1%	33.0%	43.2%
EBIT	518	533	664	707	DER	128.0%	127.5%	140.4%	129.3%
<i>EBIT Margin</i>	13.5%	17.9%	19.2%	19.6%	Net Gearing	90%	97%	108%	112%
Depreciation	522	413	546	525	LT Debt to Equity	78.2%	87.9%	89.5%	90.1%
EBITDA	1,040	946	1,210	1,232	Capitalization Ratio	46.0%	47.4%	48.6%	48.4%
<i>EBITDA Margin</i>	27.0%	31.7%	35.0%	34.1%	Equity Ratio	43.9%	44.0%	41.6%	43.6%
Interest Expenses	(210)	(185)	(195)	(204)	Debt Ratio	37.3%	39.6%	39.3%	40.8%
EBT	280	439	576	613	Financial Leverage	227.8%	234.2%	234.7%	229.3%
Income Tax	(167)	(223)	(161)	(172)	Current Ratio	196.6%	208.2%	207.7%	251.4%
Minority Interest	(45)	(72)	(166)	(185)	Par Value (IDR)	100	100	100	100
Net Profit	68	145	249	256	Total Shares (mn)	24,242	24,242	24,242	24,242
<i>Growth</i>	-80.0%	114.6%	71.6%	2.9%	Share Price (IDR)	2,170	1,650	2,040	2,040
<i>Net Profit Margin</i>	1.8%	4.9%	7.2%	7.1%	Market Cap (IDR tn)	52.6	40.0	49.5	49.5

BALANCE SHEET					VALUATION INDEX				
(USD mn)	2019	2020 E	2021 F	2022 F		2019	2020 E	2021 F	2022 F
Cash	1,040	709	1,267	1,300	Price/Earnings	55.0x	18.6x	13.7x	13.5x
Receivables	510	467	747	521	Price/Book Value	1.2x	0.9x	1.0x	1.0x
Inventories	71	51	68	50	Price/Sales	1.0x	1.0x	1.0x	1.0x
Total Current Assets	2,209	1,580	2,552	2,283	PE/EPS Growth	-0.7x	0.2x	0.2x	4.6x
Net Fixed Assets	4,250	4,623	4,624	4,641	EV/EBITDA	6.7x	6.4x	5.7x	5.7x
Other Non Current Assets	915	964	949	970	EV/EBIT	13.4x	11.4x	10.3x	9.9x
Total Assets	7,374	7,168	8,125	8,174	EV (IDR bn)	6,926	6,080	6,862	6,973
Payables	260	168	249	209	Sales CAGR (3-Yr)	9.5%	-5.8%	-3.7%	-2.1%
ST Bank Loan	221	68	167	127	EPS CAGR (3-Yr)	-41.0%	-6.0%	-9.0%	56.3%
LT Debt	2,529	2,768	3,027	3,211	Basic EPS (IDR)	39	89	149	151
Total Liabilities	4,139	4,017	4,745	4,609	Diluted EPS (IDR)	39	89	149	151
Capital Stock + APIC	344	344	344	344	BVPS (IDR)	1,868	1,819	1,952	2,059
Retained Earnings	2,729	2,579	2,626	2,633	Sales PS (IDR)	2,223	1,724	1,999	2,088
Shareholder' Equity	3,234	3,150	3,380	3,565	DPS (IDR)	56	39	84	144

CASH FLOW STATEMENT					TOP OWNERSHIP			
(USD mn)	2019	2020 E	2021 F	2022 F	By Geography	% Top Shareholders	%	
Operating Cash Flow	893	506	751	803	Indonesia	86.8	Pertamina	57.0
Investing Cash Flow	(1,736)	(324)	(591)	(842)	United States	5.4	Norges Bank	1.8
Financing Cash Flow	762	(263)	397	73	Norway	2.7	Vanguard Group	1.6
Net Changes in Cash	(81)	(82)	557	34	Luxembourg	1.6	Blackrock	1.1

Source: Company Data, NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to +15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

DISCLAIMER

This document is strictly confidential and is being supplied to you solely for your information. The recipients of this report must make their own independent decisions regarding any securities or financial instruments mentioned herein. This document may not be quoted, reproduced, exhibited, redistributed, transmitted, edited, translated, or published, in whole or in part, for any purpose without notice. Any failure to comply with this restriction may constitute a violation of civil or criminal laws.

This report and any electronic access hereto are restricted and intended only for the clients and related entities of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not be suitable for all investors. Although the information hereof is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, and agents are held harmless from any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents are liable for errors, omissions, misstatements, negligence, inaccuracy contained herein. All rights reserved by PT NH Korindo Sekuritas Indonesia.