

Equity Research

Company Update

Perusahaan Gas Negara

Look at the bright side!

Delayed implementation of the new gas price scheme

We just had a conference call with Perusahaan Gas Negara (PGAS) to discuss the new regulation that will reshape the company's performance in the future. Two recent Ministry of Energy and Mineral Resources (MEMR) decrees, regarding special gas from PGAS to Perusahaan Listrik Negara (PLN) and 7 selected industries. Referring to these decrees, total volume allocated to these types of customers account for about 60% of PGN's total consolidated distribution volumes sold last year.

The managements express that the demand during quarantine period declined significantly. They mentioned that cumulatively since March to May 2020, their distribution volume was down by around 250 – 300 mmscfd (Fig.4). This is not only from commercial and industries sectors but also from power plant including PLN which down significantly during the period. Luckily on this story, payment problem is not an issue for PGAS's clients as their payment schedule remains on time.

Blessed in disguise from implementation new gas price delay

We notice that there is a blessed in disguise from PGAS management story during our concall where the company mentioned they will not lower their gas price entirely to their selected clients if upstream players, as their suppliers, hasn't signed the gas price amendment. Our sensitivity analysis suggest that every one month delay on new gas price implementation, PGAS's 2020F net profit will rise by around ~2% from our base assumption (Fig 2). Our base assumption is that the company will implement new gas price in August '20 as SKK migas would push upstream players to sign the amendment as soon as possible.

Negative effect due to COVID-19 will fully reflected in 2Q20

We believe, post quarantine period, gas enquiries from PGAS' clients will show gradual recovery where June '20 is the starting point of new normal period. Thus, we still have some hopes to their 2H20 performance albeit we suspect they will face some difficulties to reach their optimum level due to capacity limitation (physical distancing) that the govt impose until today. Assuming there will be no second wave, we expect that the economy activity will run in a normal pace in 4Q20. On this background, we believe the company would record negative volume growth due to slump performance during quarantine and recovery period. We slash our distribution volume assumption in 2020F by 16.3% to 795 mmscfd, this is 19.6% lower compared to last year achievement.

Revise up our 2020F earnings assumption on higher subsidy from government

The bright color on this story will stem from the delay of implementation of new gas price and the amount of subsidy that the government will offered to PGAS. The company mentioned that they will procure gas from upstream at around USD4/mmbtu from previously USD6/mmbtu. After we fine tune our model with lowering distribution volume, the delay of new gas price implementation schedule and higher subsidy that the govt will give to PGAS (USD2/mmbtu subsidy vs USD1/mmbtu in our previous forecast), It results into additional USD38 mn (Fig.3) to PGAS' net profit in 2020 compared to our initial forecast.

Maintain Buy with higher TP of IDR1,500

At this stage, we raise our TP to IDR1,500 (from IDR860) based on target PE of 12x. PGAS currently trades at PE 2020F 8.5x or significantly below its-5 year average 20.3x. Given the upside and stronger earnings outlook, PGAS remains a BUY.

VALUATION HIGHLIGHTS

(USD mn)	2018	2019	2020F	2021F	2022F
Revenue (USD mn)	3,870	3,849	3,419	3,802	4,039
EBITDA (USD mn)	1,111	864	999	1,220	1,347
Net profit (USD mn)	305	66	202	319	427
EPS (USD/cent)	1.3	0.3	0.8	1.3	1.8
DPS (Rp/share)	58	50	40	71	99
ROE (%)	10.6	2.6	7.7	11.4	14.1
Dividend yield (%)	2.5	2.1	1.7	3.0	4.2

Sucor Sekuritas

BUY

Current Price 1,030
Target price 1,500
Upside 46%

15 June 2020

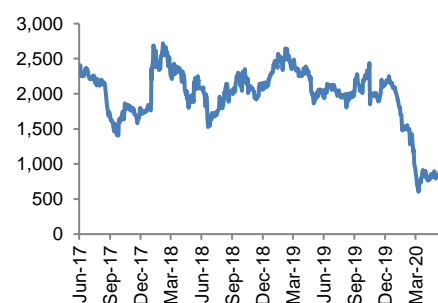
INDONESIA

Oil and gas

Stock Data

Bloomberg Ticker	PGAS IJ Equity
Outs. Share (bn)	24.24
Mkt Cap (IDR bn)	24,120
52 Week Range (IDR)	605-2,460
6M Avg Val (IDR bn)	126
YTD Returns (%)	-54.1
Beta (x)	1.65

Share Price Performance (IDR/Share)



Share Performance (%)

Month	Absolute	Relative
3m	9.0	3.2
6m	-48.1	-40.0
12m	-44.8	-34.3

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Fig 2: Sensitivity analysis on the new gas price implementation

Assumptions		Old ASP	New ASP				
Impacted Volume		40%	60%				
ASP (USD/mmbtu)		8.5	6.0				
Blended ASP (USD/mmbtu)		7.0					
Cash Cost (USD/mmbtu)		4.8					
Starting Month	2020F (USD mn)			Sensitivity to Base Assumption			Target Price
	Revenue	EBITDA	Earnings	Revenue	EBITDA	Earnings	(IDR)
July	3,383	991	198	-1.1%	-0.8%	-2.0%	1,470
August	3,419	999	202	0.0%	0.0%	0.0%	1,500
September	3,455	1,006	206	1.1%	0.7%	2.0%	1,530
October	3,490	1,013	211	2.1%	1.4%	4.5%	1,560
November	3,526	1,020	215	3.1%	2.1%	6.4%	1,600
December	3,562	1,027	219	4.2%	2.8%	8.4%	1,630

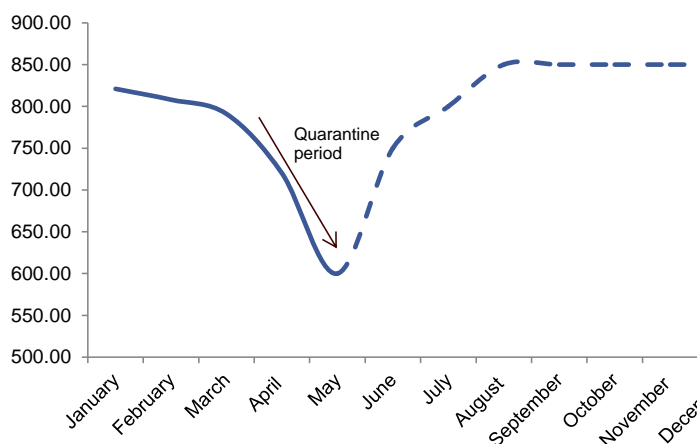
Source: Company, Sucor Research

Fig 3: Forecast changes

	2020F		2021F		Changes	
	Old	New	Old	New	2020F	2021F
Revenue	3,651	3,419	3,802	3,802	-6.4%	0.0%
Gross Profit	1,096	1,159	1,176	1,386	5.7%	17.9%
EBITDA	936	999	1,010	1,220	6.7%	20.8%
Net profit	164	202	192	319	22.9%	66.1%
Distribution Volume	950	795	950	950	-16.3%	0.0%
ASP	7.0	7.0	7.0	7.0	0.0%	0.0%
Cash cost	5.4	4.8	5.5	4.8	-11.1%	-11.1%

Source: Company, Sucor Research

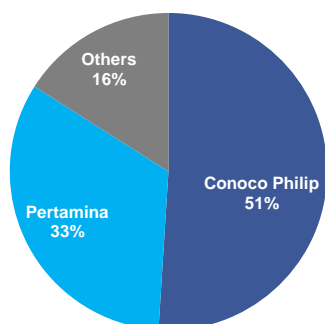
Fig 4: 2020 distribution volume trend and expectation



PGAS distribution volume went down significantly since March-May (17% lower compared to their normal volume). We believe sign of recovery will begin starting in June with the ease of restriction on quarantine measures.

Source: Company, Sucor Research

Fig 5: PGAS gas suppliers

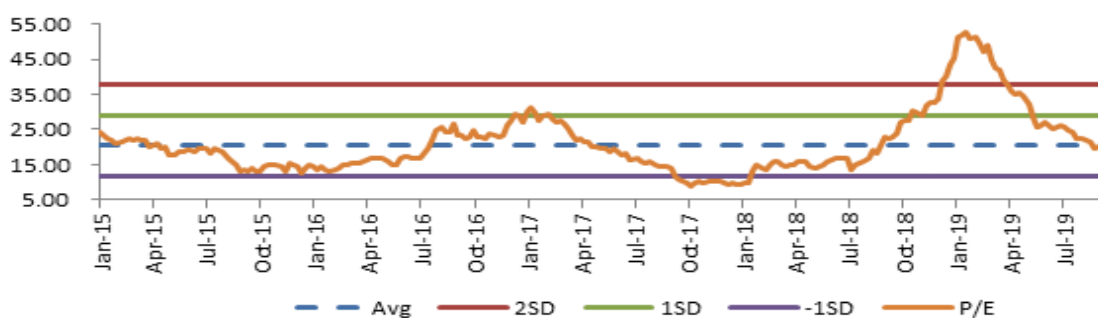


Pertamina has already signed the gas price amendment. While Conoco as the largest gas supplier still reluctant to sign.

We believe SKK Migas will push other upstream including Conoco to sign the amendment as soon as possible.

Source: Company, Sucor Research

Fig 6: PGAS PE band



Source: Company, Sucor Research

Appendix

Fig.7 PGAS Financial Statement

Income Statement						Cash Flow Statement					
	2018	2019	2020F	2021F	2022F		2018	2019	2020F	2021F	2022F
Revenue	3,870	3,849	3,419	3,802	4,039	Net Income	585	280	202	319	427
Cost of Sales	(2,561)	(2,621)	(2,260)	(2,416)	(2,610)	Dep. & Amort.	468	481	543	551	560
Gross Profit	1,310	1,227	1,159	1,386	1,430	Minority Interest	609	46	-	-	-
Operating Expenses	(689)	(689)	(703)	(717)	(643)	Others	(94)	52	-	0	-
Oper. Profit	620	546	455	669	787	Changes in NWC	(165)	2	190	(205)	(51)
EBITDA	1,111	864	999	1,220	1,347	CF from Oper.	704	815	540	819	964
Net Interest:	(119)	(142)	(135)	(146)	(90)	Capex	(600)	(1,748)	(355)	(355)	(355)
Int. Income	35	30	21	11	17	Others	-	-	-	-	-
Int. Expense	(63)	(173)	(166)	(157)	(108)	CF Investing	(600)	(1,748)	(1,235)	(355)	(355)
FX Gain (Loss)	(19)	(28)	1	1	1	Change in Debt	490	(133)	266	(16)	(16)
Equity in Investees	80	67	48	48	50	S-T Borrowings	(752)	-	-	-	-
Others - Net	23	(163)	-	-	-	Dividends Paid	(38)	(84)	(67)	(119)	(166)
Pre-Tax Profit	585	279	369	572	748	Issuance & Others	609	46	-	-	-
Inc. Tax - Net	(220)	(167)	(120)	(205)	(272)	CF Financing	249	(171)	198	(137)	(184)
Minority Interest	(60)	46	47	48	49	Cash Reclass.	-	-	-	-	-
Net Profit	305	66	202	319	427	Change in Cash	353	(1,104)	(497)	327	425
EPS	13	0.3	0.8	13	18	End. Balance	1,315	1,040	544	870	1,295
DPS	0.004	0.003	0.003	0.005	0.007						

Balance Sheet						Key Ratios					
	2018	2019	2020F	2021F	2022F		2018	2019	2020F	2021F	2022F
Cash & Equiv.	1,338	1,117	620	947	1,372	Margins					
Receivables	541	510	391	435	462	Gross Margin (%)	33.8%	31.9%	33.9%	36.5%	35.4%
Inventory - Net	79	71	67	64	61	Oper. Margin (%)	16.0%	14.2%	13.3%	17.6%	19.5%
Others	516	511	636	661	676	EBITDA Mgn. (%)	28.7%	22.4%	29.2%	32.1%	33.3%
Current Assets	2,474	2,209	1,715	2,106	2,571	Net Margin (%)	7.9%	17%	5.9%	8.4%	10.6%
Fixed Assets	2,861	2,748	3,217	3,136	3,046	Valuations					
Other LT Assets	2,604	2,417	2,289	2,175	2,060	P/E (x)	5.6	25.9	8.5	5.4	4.0
LT Assets	5,466	5,165	5,506	5,310	5,106	P/BV (x)	0.7	0.7	0.6	0.6	0.5
Total Assets	7,939	7,374	7,221	7,417	7,677	EV/EBITDA (x)	3.0	4.0	4.2	3.2	2.6
						Gearing/Liquidity					
Curr. Maturities	77	221	19	19	-	Net Debt (Cash) (IDR) Bn	1598	1,741	2,503	2,159	1,716
ST Borrowings	691	-	-	-	-	Interest Cover. (x)	7.2	5.0	6.4	7.8	12.5
Trade Payables	214	260	99	106	114	ND/Equity (x)	0.62	0.68	0.93	0.75	0.59
Other Liabilities	623	642	559	566	574	Current Ratio (x)	15	2.0	2.5	3.0	3.7
Curr. Liab.	1,605	1,123	677	691	688	Quick Ratio (x)	13	1.7	2.1	2.6	3.3
LT Debt	777	598	1,078	1,060	1,061	Profitability					
Other Liabilities	2,356	2,418	2,098	-	-	ROA (%)	4.3%	0.9%	2.8%	4.4%	5.7%
LT Liabilities	3,132	3,016	3,175	3,157	3,159	ROE (%)	10.6%	2.6%	7.7%	11.4%	14.1%
Total Liabilities	4,737	4,139	3,852	3,848	3,847	Earnings Yld. (%)	779.6%	169.9%	516.6%	814.9%	1090.6%
						Dividend Yield (%)	2.5%	2.1%	1.7%	3.0%	4.2%
Shareholders equity	(124)	(124)	(124)	(124)	(124)	Growth					
Minority interests	627	673	673	674	674	Revenue (%)	30.3%	-0.6%	-11.2%	11.2%	6.2%
Retained earnings	2,759	2,729	2,863	3,063	3,324	Cost of Sales (%)	64.3%	-6.3%	-5.6%	19.6%	3.1%
Others	-	-	-	-	-	Oper. Profit (%)	73.4%	-12.0%	-16.6%	46.9%	17.7%
Total Equity	2,575	2,561	2,695	2,895	3,156	Net Profit (%)	113.0%	-78.2%	204.0%	57.7%	33.8%
Total Liab. & SHE	7,939	7,374	7,221	7,418	7,678						

Source: Company, Sucor Research

SucorSekuritas rating definition, analysts certification, and important disclosure

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Overweight	: We expect the industry to perform better than the primary market index (JCI) over the next 12 months.
Neutral	: We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.
Underweight	: We expect the industry to underperform the primary market index (JCI) over the next 12 months

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Buy	: We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.
Hold	: We expect this stock to give return of between -10% and 10% over the next 12 months.
Sell	: We expect this stock to give return of -10% or lower over the next 12 months

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