Maybank Kim Eng

Oil & Gas

Indonesia

Perusahaan Gas Negara (PGAS IJ)

Gradual volume recovery

BUY

Share Price	IDR 840
12m Price Target	IDR 1,150 (+40%)
Previous Price Target	*IDR 1,150*

Maintain BUY

Apr volumes were expectedly weak. We estimate distribution volume to gradually improve in 3Q20 as the economy restarts, and so we tweaked our 2020 earnings forecast up slightly. Maintain BUY and SOTP TP of IDR1,150 due to attractive risk and return. Government intervention is the main risk to our call.

Expectedly weak April volumes

Declining economic activity and low oil prices put pressure on gas and and O&G volumes in Apr. Gas distribution volume dropped 8.7% MoM to 804mmscfd. 4M20 volume of 862mmscfd (-3.8% YoY) was higher than our initial FY20 assumption of 589mmscfd. Gas transmission volume declined 2.2% MoM. 4M20 volume was 1,332mmscfd (+0.6% YoY) and was in line with our FY20 assumption of 1,369mmscfd. O&G volume was flat (-0.2%) MoM at 17,261boepd. 4M20 volume of 19,921boepd (-30.5% YoY) was below our FY20 assumption of 24,050boepd.

Down before up

We expect gas distribution and transmission volumes to decline further MoM in May due to the full impact of the implementation of large-scale social limitations (PSBB). We think volumes will stay low in Jun before gradually improving in Jul onwards as PSBB is relaxed. Refer to our Indonesia Strategy report dated 14 May titled Bottoming out...then recover?.

Slight rise in FY20E earnings

We raise our 2020 earnings forecast by 2.7% to USD99m due to higher gas distribution volume of 778mmscfd (+32.2%), which offsets the lower O&G volume assumption of 17,967boepd (-25.3%). We maintain our gas distribution margin assumption at USD1.6/mmbtu. However, we lower our O&G gross profit assumption to –USD77m from breakeven due to low oil prices.

FYE Dec (USD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,870	3,849	2,428	2,900	2,925
EBITDA	1,144	958	738	730	748
Core net profit	303	134	99	98	109
Core EPS (cts)	1.2	0.6	0.4	0.4	0.4
Core EPS growth (%)	65.5	(55.9)	(25.8)	(0.9)	10.9
Net DPS (cts)	0.4	0.1	0.2	0.2	0.0
Core P/E (x)	11.7	28.3	13.9	14.0	12.7
P/BV (x)	1.4	1.5	0.5	0.5	0.5
Net dividend yield (%)	2.8	0.7	3.1	2.9	0.0
ROAE (%)	9.7	2.6	4.1	3.7	4.0
ROAA (%)	3.8	1.7	1.3	1.3	1.5
EV/EBITDA (x)	4.9	6.4	4.7	4.4	3.8
Net gearing (%) (incl perps)	44.4	51.1	41.2	30.7	19.0
Consensus net profit	-	-	88	118	131
MKE vs. Consensus (%)	-	-	22.6	(16.6)	(16.9)

Company Description

PGAS is engaged in the distribution and transmission of natural gas to industrial, commercial, and household customers.

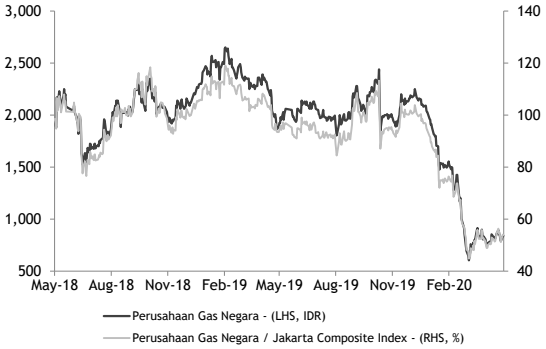
Statistics

52w high/low (IDR)	2,440/605
3m avg turnover (USDm)	7.9
Free float (%)	43.0
Issued shares (m)	24,242
Market capitalisation	IDR20.4T
	USD1.4B

Major shareholders:

Pertamina	57.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(45)	(55)
Relative to index (%)	3	(28)	(42)

Source: FactSet

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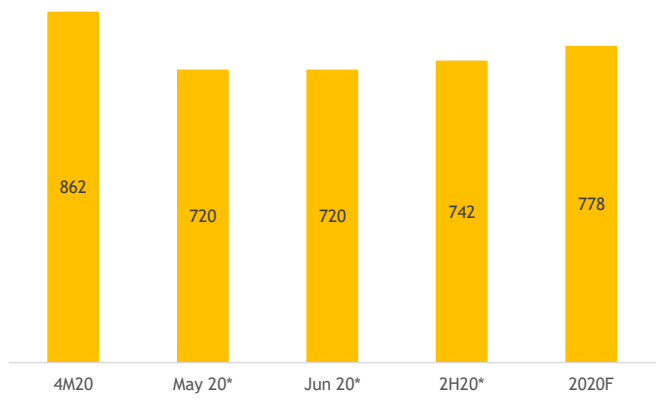
Fig 1: Apr operational statistics

	Mar	Apr	MoM	4M19	4M20	YoY	2020F*	4M20 / 2020F*
Gas distribution, mmscfd	881	804	-8.7%	896	862	-3.8%	589	146.4%
Gas transmission, mmscfd	1,328	1,299	-2.2%	1,324	1,332	0.6%	1,369	97.3%
Upstream lifting, boepd	17,294	17,261	-0.2%	28,649	19,921	-30.5%	24,050	82.8%

* initial assumptions

Source: Company, Maybank Kim Eng

Fig 2: Estimated 2020 distribution volume



* MKE estimate

Source: Company, Maybank Kim Eng

Fig 3: Change of forecast

	2020F
Gas distribution volume, mmscfd	
New	778
Old	589
Change	*32.2%*
O&G volume, boepd	
New	17,967
Old	24,050
Change	*-25.3%*
O&G gross profit, USD m	
New	-77
Old	0
Change	*N/A*
Sales, USD m	
New	2,428
Old	2,062
Change	*17.8%*
EBIT, USD m	
New	279
Old	244
Change	*14.4%*
Core profit, USD m	
New	99
Old	96
Change	*2.7%*

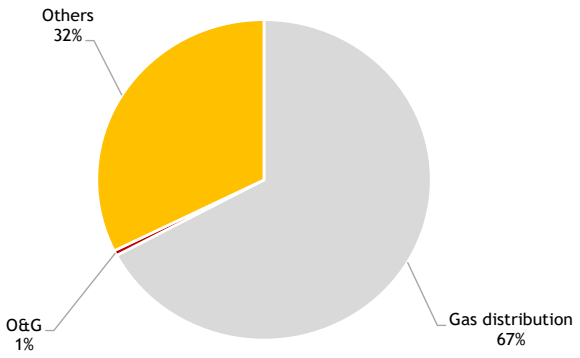
Source: Maybank Kim Eng

Fig 4: Main assumptions

	2020F	2021F
Distribution volume, mmscfd	778	974
growth	*-21.4%*	*25.2%*
ASP (gas distribution), USD/mmbtu	6.2	6.0
growth	*-25.0%*	*-2.6%*
Blended gas cost, USD/mmbtu	4.5	4.5
growth	*-25.8%*	*-0.8%*
Distribution margin, USD/mmbtu	1.6	1.5
growth	*-22.9%*	*-7.7%*
Gas distribution margin, USD/mmbtu	1.6	1.5
growth	*-22.9%*	*-7.7%*
Transmission*, mmscfd	1,369	1,369
growth	*0.0%*	*0.0%*
O&G volume, 000 boepd	17,967	17,967
growth	*-36.5%*	*0.0%*
Effective tax rate	47%	40%

Source: Maybank Kim Eng

Fig 5: 1Q20 gross profit breakdown



Source: Company

Fig 6: SOTP

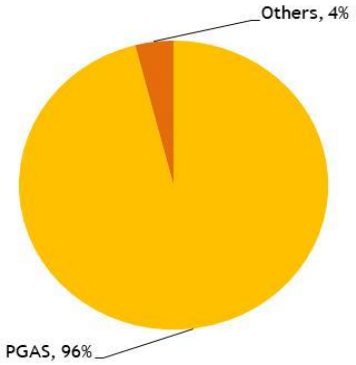
	EV, USD m	Ownership	Attributtable EV, USD m	Valuation methodology
Gas distribution				
PGAS	789	100.0%	789	DCF (WACC 11.2%; TV growth 1%)
Pertagas	89	51.0%	45	DCF (WACC 11.2%; TV growth 1%)
Total	878		835	
Gas transmission	1,480	51.0%	755	DCF (WACC 11.2%; TV growth 1%)
Saka	339	100.0%	339	0.5x PBV
Others	1,092	100.0%	1,092	DCF (WACC 11.2%; TV growth 0%)
Total EV			**3,020**	
Net (debt)/cash - 2020-end				
Cash			1,280	
Debt			-2,698	
Total			-1,418	
Attributable equity value of Transgasindo			360	10x 2020 PER
Equity value			**1,961**	
Tax exposure - SAKA			-330	
Adjusted equity value			**1,631**	
Adjusted equity value, IDR b			**25,282**	
Target price, IDR			**1,150**	

Source: Maybank Kim Eng

Value Proposition

- The largest gas infrastructure in Indonesia with over 9,700 km of pipelines 2 floating, storage, regasification units (FSRUs) and one land-based regasification terminal.
- Over 90% share of domestic distribution market.
- Clean-energy movement supports long-term returns. Best positioned to capture gas-aggregator opportunity, given its unmatched market share.
- Supply is uncertain when contracts run out, due to depleting fields.
- Regulators could cut gas prices or force the industry to consolidate.

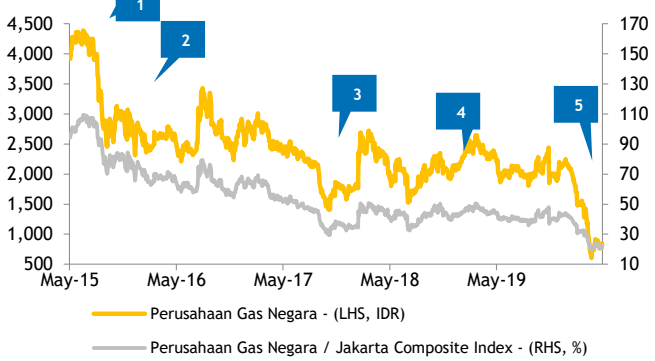
Gas pipe-network split in Indonesia



Source: Company

Price Drivers

Historical share price trend



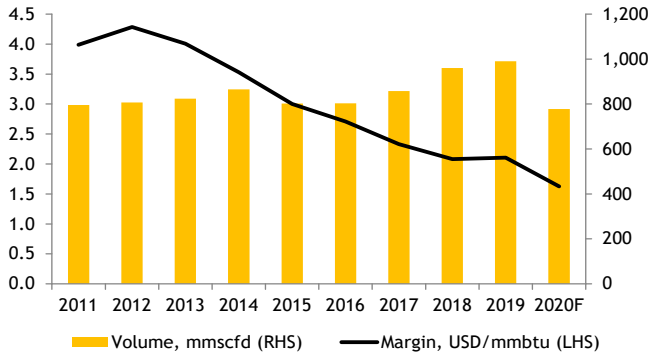
Source: Company, Maybank Kim Eng, Factset

1. Completion of FSRU Lampung.
2. Lower demand and news flow on gas-price cuts & flip-flopping of vague Pertagas-PGAS merger schemes.
3. Volume drop from PLN.
4. Share-ownership swap from government to Pertamina.
5. Gas price review by government.

Financial Metrics

- Forecast 2020 core earnings to drop 27.8% due to lower assumptions for gas distribution margin, volume and oil prices.
- Gas distribution business to continue to be the largest earnings contributor (90% of earnings).
- Maintaining a healthy balance sheet, sustaining dividend payout ratio of 40%.

Distribution margin vs volume growth



Source: Company, MKE

Swing Factors

Upside

- Of the government's 35GW new power plants, potentially half could be powered by gas.
- Higher-than-expected economic growth and gas demand from industrial users.
- Successful integration with Pertagas and Pertamina, which would ease bids for future projects and provide immediate acquisition-led growth.

Downside

- Continuous cuts in downstream gas prices, but not upstream, putting pressure on margins.
- Vague news flow on gas-price cuts with no clear decision by the government.
- Upstream bottlenecks, such as volume diversions or contract terminations.

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FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	11.8	55.0	12.8	14.0	12.7
Core P/E (x)	11.7	28.3	13.9	14.0	12.7
P/BV (x)	1.4	1.5	0.5	0.5	0.5
P/NTA (x)	1.4	1.5	0.5	0.5	0.5
Net dividend yield (%)	2.8	0.7	3.1	2.9	0.0
FCF yield (%)	18.4	17.5	29.3	32.8	36.2
EV/EBITDA (x)	4.9	6.4	4.7	4.4	3.8
EV/EBIT (x)	9.0	11.8	12.4	12.1	10.3
INCOME STATEMENT (USD m)					
Revenue	3,870.3	3,848.7	2,428.2	2,899.9	2,925.4
Gross profit	1,309.5	1,227.3	803.7	971.8	988.9
EBITDA	1,144.2	957.6	737.9	729.9	747.6
Depreciation	(524.2)	(439.2)	(458.8)	(466.0)	(470.6)
EBIT	620.0	518.4	279.2	263.9	277.1
Net interest income /(exp)	(118.8)	(142.4)	(134.2)	(128.2)	(121.9)
Associates & JV	79.9	67.3	60.1	60.1	60.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	3.8	(163.4)	12.4	0.0	0.0
Pretax profit	584.9	279.9	217.4	195.8	215.3
Income tax	(220.3)	(166.9)	(73.7)	(54.1)	(62.5)
Minorities	(59.6)	(45.4)	(36.4)	(43.5)	(43.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	305.0	67.6	107.3	98.2	108.9
Core net profit	302.6	133.6	99.1	98.2	108.9
BALANCE SHEET (USD m)					
Cash & Short Term Investments	1,315.2	1,040.4	1,280.3	1,567.7	1,912.2
Accounts receivable	540.9	509.5	321.4	383.9	387.3
Inventory	78.5	70.8	43.9	52.1	52.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,861.6	2,747.7	2,708.3	2,562.1	2,411.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	191.5	65.0	65.0	65.0	65.0
Other assets	2,951.6	2,940.4	2,921.1	2,801.3	2,681.4
Total assets	**7,939.3**	**7,373.8**	**7,340.0**	**7,432.1**	**7,509.6**
ST interest bearing debt	0.0	164.4	164.4	164.4	164.4
Accounts payable	213.8	260.1	161.2	191.3	192.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,736.8	2,528.7	2,497.6	2,460.8	2,424.0
Other liabilities	1,787.0	1,186.0	1,166.0	1,166.0	1,166.0
Total Liabilities	**4,737.4**	**4,139.5**	**3,989.0**	**3,982.3**	**3,946.4**
Shareholders Equity	2,574.5	2,560.9	2,641.2	2,696.4	2,766.0
Minority Interest	627.4	673.4	709.8	753.3	797.2
Total shareholder equity	**3,201.9**	**3,234.3**	**3,351.0**	**3,449.7**	**3,563.2**
Total liabilities and equity	**7,939.3**	**7,373.8**	**7,340.0**	**7,432.1**	**7,509.6**
CASH FLOW (USD m)					
Pretax profit	584.9	279.9	217.4	195.8	215.3
Depreciation & amortisation	524.2	439.2	458.8	466.0	470.6
Adj net interest (income)/exp	118.8	142.4	134.2	128.2	121.9
Change in working capital	16.7	174.0	116.1	(40.5)	(2.8)
Cash taxes paid	(124.9)	(98.7)	(73.7)	(54.1)	(62.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,017.6	901.7	803.7	651.5	698.2
Capex	(368.1)	(240.5)	(400.0)	(200.0)	(200.0)
Free cash flow	649.5	661.2	403.7	451.5	498.2
Dividends paid	(55.0)	(97.4)	(27.0)	(42.9)	(39.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	44.4	62.2	(38.9)	(36.5)	(36.5)
Other invest/financing cash flow	(1,634.7)	(2,344.3)	(97.8)	(84.7)	(78.0)
Effect of exch rate changes	0.0	na	na	na	na
Net cash flow	(995.8)	(1,718.3)	239.9	287.4	344.5

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.4	(0.6)	(36.9)	19.4	0.9
EBITDA growth	9.1	(16.3)	(22.9)	(1.1)	2.4
EBIT growth	29.2	(16.4)	(46.1)	(5.5)	5.0
Pretax growth	40.0	(52.1)	(22.3)	(9.9)	10.0
Reported net profit growth	55.0	(77.8)	58.7	(8.5)	10.9
Core net profit growth	65.5	(55.9)	(25.8)	(0.9)	10.9
Profitability ratios (%)					
EBITDA margin	29.6	24.9	30.4	25.2	25.6
EBIT margin	16.0	13.5	11.5	9.1	9.5
Pretax profit margin	15.1	7.3	9.0	6.8	7.4
Payout ratio	31.9	40.0	40.0	40.0	0.0
DuPont analysis					
Net profit margin (%)	7.9	1.8	4.4	3.4	3.7
Revenue/Assets (x)	0.5	0.5	0.3	0.4	0.4
Assets/Equity (x)	3.1	2.9	2.8	2.8	2.7
ROAE (%)	9.7	2.6	4.1	3.7	4.0
ROAA (%)	3.8	1.7	1.3	1.3	1.5
Liquidity & Efficiency					
Cash conversion cycle	30.2	26.8	27.6	19.8	21.5
Days receivable outstanding	48.5	49.1	61.6	43.8	47.4
Days inventory outstanding	10.7	10.3	12.7	9.0	9.7
Days payables outstanding	29.1	32.5	46.7	32.9	35.6
Dividend cover (x)	3.1	2.5	2.5	2.5	nm
Current ratio (x)	1.5	2.0	2.2	2.5	2.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.8	1.8	1.9	1.9
Net gearing (%) (incl perps)	44.4	51.1	41.2	30.7	19.0
Net gearing (%) (excl. perps)	44.4	51.1	41.2	30.7	19.0
Net interest cover (x)	5.2	3.6	2.1	2.1	2.3
Debt/EBITDA (x)	2.4	2.8	3.6	3.6	3.5
Capex/revenue (%)	9.5	6.2	16.5	6.9	6.8
Net debt/ (net cash)	1,421.6	1,652.7	1,381.7	1,057.5	676.2

Source: Company; Maybank

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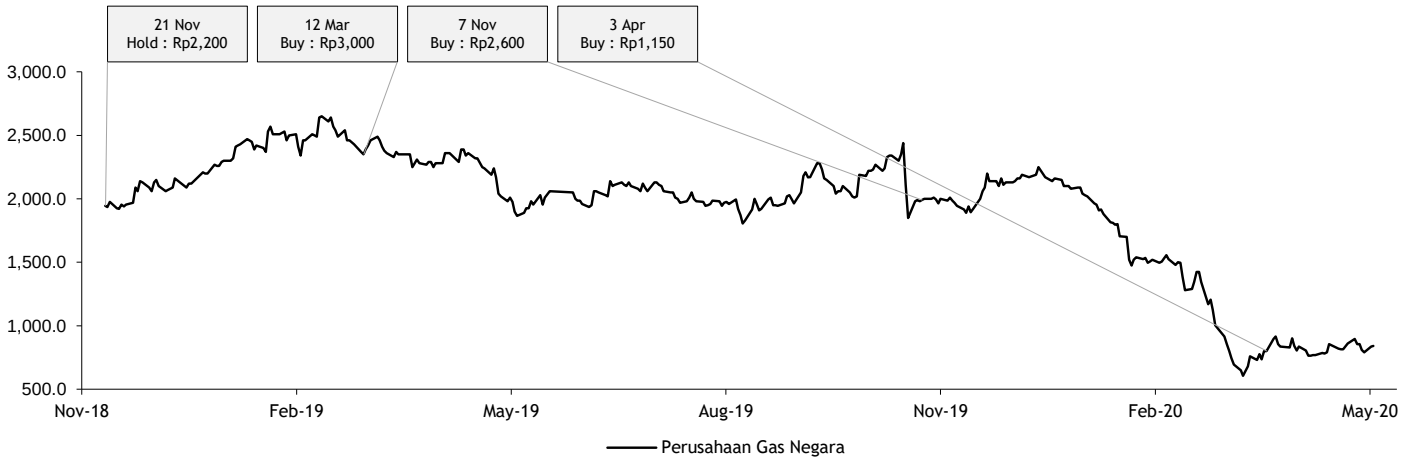

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