

## Indonesia

**REDUCE** (previously HOLD)

Consensus ratings\*: Buy 9 Hold 7 Sell 5

Current price:	Rp1,655
Target price:	Rp1,300
Previous target:	Rp1,300
Up/downside:	-21.5%
CGS-CIMB / Consensus:	-22.8%
Reuters:	PGAS.JK
Bloomberg:	PGAS IJ
Market cap:	US\$2,855m
	Rp40,119,696m
Average daily turnover:	US\$18.89m
	Rp268,675m
Current shares o/s:	24,242m
Free float:	43.0%

\*Source: Bloomberg

**Key changes in this note**

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	19.1	78.9	-23.7
Relative (%)	12.6	56.1	-18.6

Major shareholders	% held
Indonesian Government	57.0
Public	43.0

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# Perusahaan Gas Negara

## Another unfortunate tax dispute

- PGAS is facing yet another tax dispute due to differing understandings of the gas distribution value added tax billing mechanism.
- If the tax office sends a tax underpayment bill, PGAS would have to provision the amount, at the very least, as it lost the case in the Supreme Court.
- Downgrade to Reduce from Hold with unchanged TP of Rp1,300. The good news has been mostly priced in, while there could be more downside risks.

### Value added tax dispute

In a 30 Dec 2020 disclosure letter, PGAS said it lost a tax dispute case against the tax office on 18 Dec 2020, and may potentially need to pay Rp3.06tr in underpaid tax, as well as a penalty (likely the same amount as the tax underpayment). The tax dispute case arose from differing understandings of the gas distribution value added tax (PPn) billing mechanism, on the back of the change in gas distribution sales price from single currency (in Rp/m<sup>3</sup>) to dual currency (in US\$/mmbtu and Rp/m<sup>3</sup>) in 2012-13. PGAS previously won the case in the tax court in 2019. Additionally, in another similar case (worth Rp3.8tr) in 2014-17, the tax office cancelled the tax underpayment billing as PGAS filed an objection. In fact, the gas distribution business is free of PPn.

### Provision risk could arise, at the very least

Based on the facts as stated by the company, we understand the tax dispute case is not PGAS's fault. Furthermore, it plans to submit another judicial review for the case. However, based on the previous Saka Indonesia Pangkah Limited's (SIPL) [PGAS's upstream oil and gas subsidiary] tax dispute, SIPL had to pay the underpaid tax amount to the tax office (of US\$128m) in 2019 after receiving a bill from the tax office (see more on [An unfortunate tax dispute](#)), despite the fact that this was not SIPL's tax liability. SIPL is also in the process of another judicial review for the case, but it may take a while to settle. Based on this, we think that if the tax office decides to send a bill, PGAS may need to at least provision for the tax underpayment.

### Downgrade to Reduce from Hold with unchanged TP of Rp1,300

We have not yet factored this case into our forecasts. However, based on our sensitivity analysis, if it needs to pay US\$200m in underpaid tax (assuming US\$1=Rp15,000) and US\$400m for underpaid tax and penalty, our TP could decline to Rp1,140 and Rp1,000, respectively (12% and 23% downsides from our current TP). With most of the good news price in, there could be more downside risks, i.e. 1) government may potentially claw back the cheap gas supply allocation (see report: [limited upside risk](#)); 2) lower all the gas selling price to US\$6/mmbtu (already in our FY21F estimate, but not in Bloomberg's consensus' estimates yet); 3) SIPL may potentially need to pay the tax penalty of US\$128m (already in our FY20F estimate, but not in Bloomberg consensus' estimates). Downgrade to Reduce with an unchanged TP of Rp1,300 (WACC: 9%, LTG: 0%). Upside risks: approval compensation on the back of lower gas selling price implementation.

### Financial Summary

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (US\$m)	3,870	3,849	2,780	3,156	3,309
Operating EBITDA (US\$m)	1,127	927	738	628	757
Net Profit (US\$m)	305.0	67.5	(96.4)	39.5	81.5
Core EPS (US\$)	0.014	0.006	0.001	0.004	0.004
Core EPS Growth	448%	(60%)	(84%)	307%	20%
FD Core P/E (x)	8.5	21.3	134.6	33.1	27.4
DPS (US\$)	0.002	0.004	0.001	0.000	0.000
Dividend Yield	1.93%	3.46%	0.71%	0.22%	0.42%
EV/EBITDA (x)	4.35	5.63	7.12	8.49	6.69
P/FCFE (x)	16.34	NA	NA	NA	10.13
Net Gearing	44.4%	52.3%	52.8%	51.7%	39.0%
P/BV (x)	1.11	1.12	1.17	1.15	1.12
ROE	10.6%	5.2%	0.8%	3.5%	4.1%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			(0.99)	0.20	0.37

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Another unfortunate tax dispute

### 11M20 VOLUME ACHIEVEMENT – BROADLY IN LINE

- Total gas distribution volume in the month of Nov 20 increased to 899 mmscfd (+6% mom). In Nov 20, PGAS's gas distribution volume improved to 793 mmscfd (+5% mom), Gagas's was 3 mmscfd (-40% mom), and Pertagas's improved to 103 mmscfd (+14% mom).
- Cumulatively, 11M20's total gas distribution volume was 824 mmscfd (-13% yoy), higher than the 816 mmscfd (-13% yoy) in 10M20. PGAS's 11M20 gas distribution volume (including Gagas) improved to 746 mmscfd (-12% yoy) vs. 741 mmscfd (-12% yoy) in 10M20. Pertagas's gas distribution volume improved to 78 mmscfd (-23% yoy) in 11M20 vs. 75 mmscfd (-24% yoy) in 10M20. We estimate gas distribution volumes of 713 mmscfd/81 mmscfd (-12% yoy/-43% yoy) for PGAS (including Gagas)/Pertagas in FY20F.
- Gas transmission vol. in the month of Nov 20 was 1,131 mmscfd (-8% mom). Cumulatively, 11M20's volume was 1,258 mmscfd (-8% yoy). We estimate 1,320mmscfd (-4% yoy) gas transmission volume in FY20F.
- Upstream lifting volume in the month of Nov 20 was 27.5k boepd (+2% mom). Cumulatively, 11M20's volume was 19.9k boepd (-29% yoy). We forecast 21.6k boepd (-24% yoy) upstream lifting volume in FY20F.

## VALUATION

Figure 1: PGAS's DCF valuation (TP of Rp1,300 is rounded up from equity valuation of Rp1,265/share)

Assumptions												
Risk Free Rate		5%										
Mkt Risk Premium		4%										
Equity Beta		2										
Cost of Equity		11%										
Cost of Debt		9%										
Target Debt weight		70%										
Target Equity weight		30%										
Tax rate		25%										
WACC		9%										
Perpetual growth		0%										
US\$ m		2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBITDA (ex-minorities)		516	605	539	563	582	567	559	547	551	582	593
Tax expense		(48)	(65)	(59)	(57)	(69)	(46)	(107)	(103)	(103)	(128)	(132)
Change in WC		(25)	(22)	2	(4)	(8)	1	(4)	(2)	(1)	(18)	(9)
CF from operations		443	518	482	502	506	522	448	442	447	435	452
Capex		(380)	(226)	(249)	(246)	(215)	(184)	(185)	(127)	(119)	(122)	(126)
FCF		63	292	233	256	290	338	262	314	328	312	326
FCF NPV (ex-minorities)	1,904	63	268	195	196	204	217	154	169	162	141	135
Cash		830										
Debts		(2,466)										
TV multiple (x)		11										
Terminal value		1,538										
Value to equity holders		2,045										
Target price in US\$		0.08										
USD-IDR		15,000										
<b>Target price in Rp</b>		<b>1,265.69</b>										

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: PGAS's 5-year 12M forward EV/EBITDA



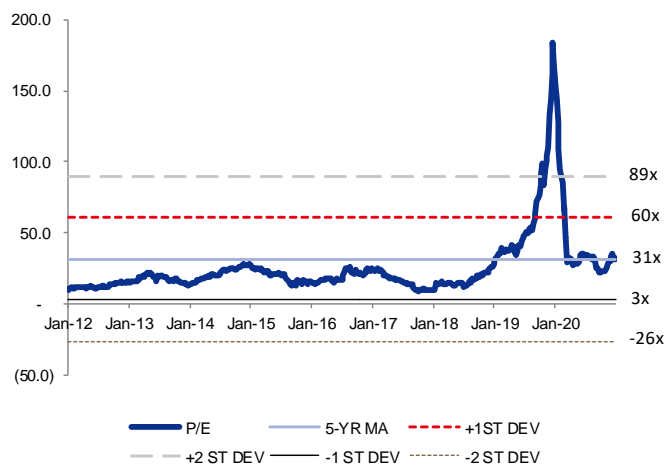
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 3: PGAS's 5-year forward P/B band (5-year mean)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 4: PGAS's P/E band (5-year mean)



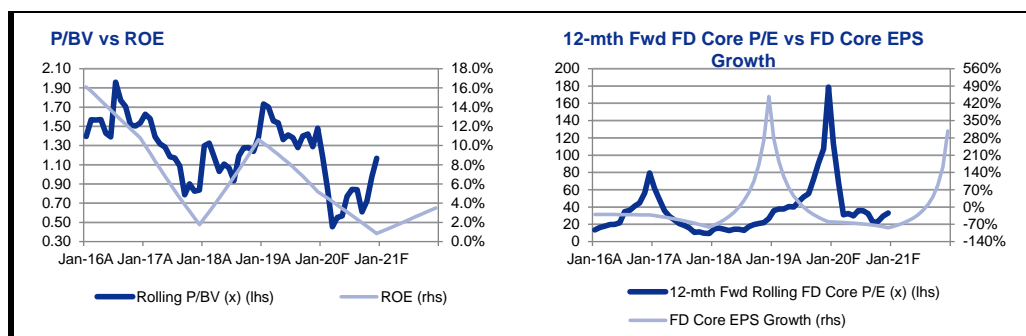
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 5: Sector comparison

Company	Bberg. Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY2020	CY2021		CY2020	CY2021	CY2020	CY2021	CY2020	CY2021	CY2020	CY2021
<b>Indonesia</b>																
Perusahaan Gas Negara	PGAS IJ	REDUCE	1,655	1,300	2,855	134.6	33.1	-8.1%	1.2	1.2	0.8%	3.5%	7.1	8.5	0.7%	0.2%
<b>Regional</b>																
Petronas Gas	PTG MK	ADD	17.18	18.6	8,456	17.0	17.5	1.1%	2.65	2.55	15.3%	14.9%	8.5	8.3	7.1%	4.2%
Gas Malaysia Berhad	GMB MK	ADD	2.72	3.0	869	18.5	18.0	4.7%	3.32	3.30	18.0%	18.4%	12.7	12.4	4.9%	5.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(US\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>Total Net Revenues</b>	<b>3,870</b>	<b>3,849</b>	<b>2,780</b>	<b>3,156</b>	<b>3,309</b>
<b>Gross Profit</b>	<b>1,309</b>	<b>1,227</b>	<b>915</b>	<b>912</b>	<b>994</b>
<b>Operating EBITDA</b>	<b>1,127</b>	<b>927</b>	<b>738</b>	<b>628</b>	<b>757</b>
Depreciation And Amortisation	(507)	(409)	(434)	(405)	(445)
<b>Operating EBIT</b>	<b>620</b>	<b>518</b>	<b>304</b>	<b>223</b>	<b>312</b>
Financial Income/(Expense)	(119)	(142)	(142)	(131)	(130)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	84	(96)	(168)	73	75
<b>Profit Before Tax (pre-EI)</b>	<b>585</b>	<b>280</b>	<b>(6)</b>	<b>164</b>	<b>257</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>585</b>	<b>280</b>	<b>(6)</b>	<b>164</b>	<b>257</b>
Taxation	(220)	(167)	(38)	(63)	(88)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>365</b>	<b>113</b>	<b>(44)</b>	<b>101</b>	<b>169</b>
Minority Interests	(60)	(45)	(52)	(61)	(88)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>305</b>	<b>68</b>	<b>(96)</b>	<b>40</b>	<b>82</b>
Recurring Net Profit	335	134	21	86	104
<b>Fully Diluted Recurring Net Profit</b>	<b>335</b>	<b>134</b>	<b>21</b>	<b>86</b>	<b>104</b>

### Cash Flow

(US\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>EBITDA</b>	<b>1,127</b>	<b>927</b>	<b>738</b>	<b>628</b>	<b>757</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	269	407	(11)	(25)	(22)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(138)	(141)	(220)	11	(13)
Net Interest (Paid)/Received	(119)	(142)	(142)	(131)	(130)
Tax Paid	(220)	(167)	(38)	(63)	(88)
<b>Cashflow From Operations</b>	<b>919</b>	<b>883</b>	<b>327</b>	<b>419</b>	<b>505</b>
Capex	(305)	(978)	(340)	(490)	(226)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(419)	(83)	0	0	0
<b>Cash Flow From Investing</b>	<b>(724)</b>	<b>(1,061)</b>	<b>(340)</b>	<b>(490)</b>	<b>(226)</b>
Debt Raised/(repaid)	(20)	167	0	(162)	3
Proceeds From Issue Of Shares	(1,416)	17	0	0	0
Shares Repurchased					
Dividends Paid	(55)	(99)	(20)	(6)	(12)
Preferred Dividends					
Other Financing Cashflow	1,481	(183)	52	59	88
<b>Cash Flow From Financing</b>	<b>(11)</b>	<b>(97)</b>	<b>32</b>	<b>(109)</b>	<b>79</b>
Total Cash Generated	184	(275)	19	(180)	358
<b>Free Cashflow To Equity</b>	<b>175</b>	<b>(10)</b>	<b>(13)</b>	<b>(232)</b>	<b>282</b>
<b>Free Cashflow To Firm</b>	<b>348</b>	<b>(5)</b>	<b>159</b>	<b>97</b>	<b>447</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

**Balance Sheet**

(US\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	1,338	1,058	1,077	897	1,255
Total Debtors	746	645	466	529	555
Inventories	79	71	50	61	63
Total Other Current Assets	311	434	434	434	434
<b>Total Current Assets</b>	<b>2,474</b>	<b>2,209</b>	<b>2,028</b>	<b>1,921</b>	<b>2,307</b>
Fixed Assets	4,273	4,144	4,036	4,108	3,875
Total Investments	381	366	366	366	366
Intangible Assets	5	4	4	4	4
Total Other Non-Current Assets	807	652	748	777	797
<b>Total Non-current Assets</b>	<b>5,466</b>	<b>5,165</b>	<b>5,154</b>	<b>5,255</b>	<b>5,042</b>
Short-term Debt	0	164	164	0	0
Current Portion of Long-Term Debt	23	57	57	57	57
Total Creditors	449	441	314	378	390
Other Current Liabilities	1,133	461	461	461	461
<b>Total Current Liabilities</b>	<b>1,605</b>	<b>1,123</b>	<b>996</b>	<b>895</b>	<b>907</b>
Total Long-term Debt	777	568	568	565	565
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,062	2,075	2,075	2,078	2,080
<b>Total Non-current Liabilities</b>	<b>2,839</b>	<b>2,642</b>	<b>2,642</b>	<b>2,643</b>	<b>2,646</b>
Total Provisions	294	374	374	374	374
<b>Total Liabilities</b>	<b>4,737</b>	<b>4,139</b>	<b>4,012</b>	<b>3,912</b>	<b>3,927</b>
Shareholders' Equity	2,575	2,561	2,444	2,477	2,547
Minority Interests	627	673	726	787	875
<b>Total Equity</b>	<b>3,202</b>	<b>3,234</b>	<b>3,170</b>	<b>3,264</b>	<b>3,422</b>

**Key Ratios**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	12.8%	(0.6%)	(27.8%)	13.5%	4.9%
Operating EBITDA Growth	25.3%	(17.7%)	(20.4%)	(14.9%)	20.6%
Operating EBITDA Margin	29.1%	24.1%	26.5%	19.9%	22.9%
Net Cash Per Share (US\$)	(0.059)	(0.070)	(0.069)	(0.070)	(0.055)
BVPS (US\$)	0.11	0.11	0.10	0.10	0.11
Gross Interest Cover	4.04	3.00	1.76	1.33	1.86
Effective Tax Rate	37.7%	59.6%	0.0%	38.6%	34.2%
Net Dividend Payout Ratio	18%	146%	NA	16%	15%
Accounts Receivables Days	49.23	49.81	57.77	45.44	47.20
Inventory Days	10.88	10.39	11.89	9.02	9.71
Accounts Payables Days	29.49	32.99	43.68	33.15	35.66
ROIC (%)	10.8%	11.2%	6.0%	4.5%	6.1%
ROCE (%)	9.67%	8.70%	5.28%	4.14%	5.55%
Return On Average Assets	6.00%	3.34%	1.35%	3.23%	4.12%

**Key Drivers**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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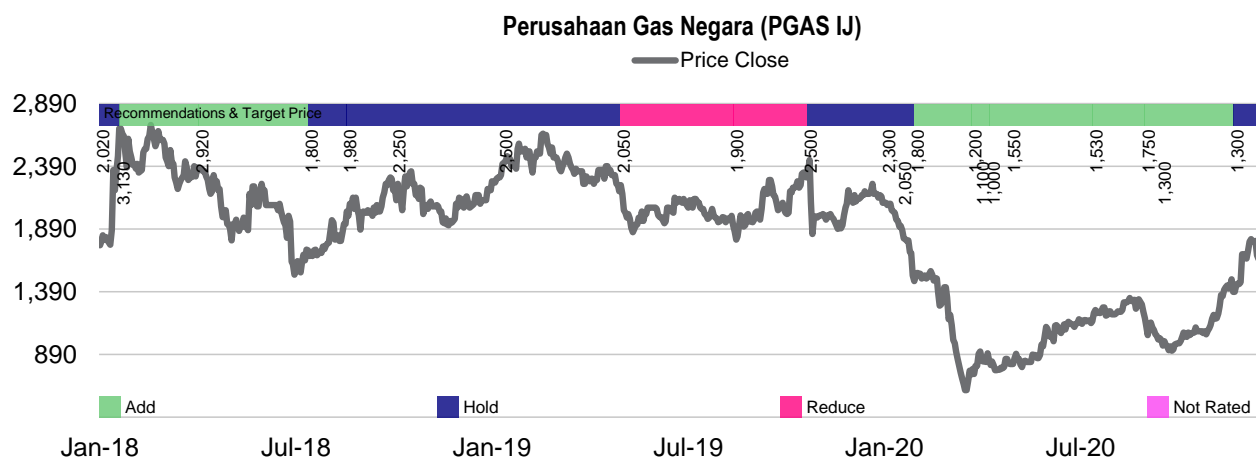
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### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

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1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

**Recommendation Framework****Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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