15 October 2024

Clean Energy | Gas Utilities

Perusahaan Gas Negara (PGAS IJ)

Neutral (Maintained)

Replacing Gas With LNG

Target Price (Return):	IDR1,440 (-7%)
Price (Market Cap):	IDR1,545 (USD2,406m)
ESG score:	2.9 (out of 4)
Avg Daily Turnover (IDR/USD)	70,716m/4.54m

- **Maintain NEUTRAL and TP of IDR1,440, 7% downside with c.8% FY24F dividend yield.** We recently visited one of Perusahaan Gas Negara's gas transmission pipelines, which stretches from Cirebon to Semarang (CISEM-1). There, we observed the development of the gas pipeline connecting gas supply from Jambaran Tiung Biru (JTB) to the Batang and Kendal industrial estates. We also met with PGAS' key management team to learn more about its plan to replace the declining gas supply in the pipeline with LNG.
- **Visiting a vital gas pipeline connecting gas supply from East Java to West Java.** The Cirebon-Semarang gas pipeline is one of two anticipated PGAS gas pipeline developments, alongside the Dumai–Sei Mangke (Dusem) pipeline. The Cisem-1 gas pipeline has been operational since Aug 2023, and will enter phase 2 of operations, ie extending the pipeline to gas users in West Java. Phase 2 is scheduled to be completed in early 2026. The Cisem-1 transmission pipeline spans 62km (116mmscfpd capacity), and is operated by Pertagas, transmitting gas from the Jambaran Tiung Biru field to the onshore receiving facility (ORF) in Tambak Rejo, Semarang, then to the Kendal and Batang industrial estates. As of August, CISEM-1 transmitted 0.73 mmscfpd of gas to Kendal and 0.92 mmscfpd of gas to Batang. The transmission toll fee is set at USD 0.31/mmbtu.
- **Mixed feedback from gas customers about replacing gas pipelines with LNG.** We also met with PGAS' key management team members, including President Director Arief Setiawan Handoko and Commerce Director Ratih Esti Prihatini. We asked the commerce director how PGAS' gas customers have responded to the company's plan to replace gas pipelines with LNG. She elaborated that, from socialisation and conference meetings with customers, the response was mixed but customers have come to terms with the fact that this is inevitable, given the depleting gas supply from upstream sources. Despite some industries' efforts to directly import LNG from abroad, PGAS is confident that having adequate gas infrastructure is pivotal to fully utilising LNG. Despite the new gas supply mix, management targets to maintain a distribution spread of USD 1.7-1.8/mmbtu going forward.
- **No alternative to replacing gas suppl – at USD14/mmbtu, LNG is still cheaper than diesel.** As of 1H24, PGAS' average gas price was USD7.78/mmbtu, ie 77% cheaper than high-speed diesel's USD33.5/mmbtu. Therefore, we believe utilising LNG would still be more cost-effective than the alternative. As mentioned earlier, with PGAS maintaining a USD1.8/mmbtu margin spread, and LNG costs at USD12/mmbtu, gas selling prices for non-special gas users could potentially reach USD14/mmbtu (plus regasification cost), which is 58% lower than high-speed diesel prices.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	3,569	3,646	3,568	3,656	3,713
Recurring net profit (USDm)	339	308	314	325	339
Recurring net profit growth (%)	31.4	(9.2)	2.1	3.3	4.5
Recurring P/E (x)	7.09	7.81	7.66	7.41	7.09
P/B (x)	0.9	0.9	0.9	0.8	0.8
P/CF (x)	2.48	3.32	12.24	3.38	3.30
Dividend Yield (%)	8.6	9.5	8.1	8.3	8.6
EV/EBITDA (x)	2.82	2.30	2.55	2.00	1.51
Return on average equity (%)	12.6	10.4	10.4	10.4	10.6
Net debt to equity (%)	5.8	net cash	net cash	net cash	net cash

Source: Company data, RHB

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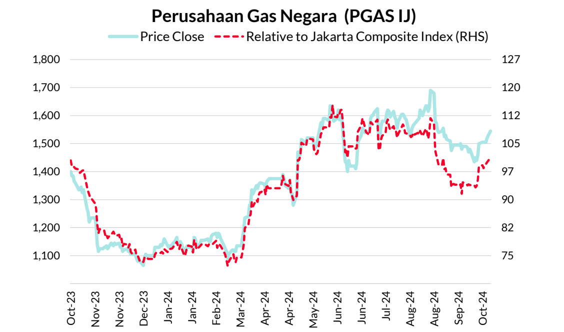
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	36.7	3.3	(2.2)	12.4	10.4
Relative	32.8	6.5	(5.4)	8.7	1.3
52-wk Price low/high (IDR)					1,065 –1,690



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: GOOD
PGAS continues to support and contribute to developing renewable energy, which is a major role it plays. This means it is also trying to reduce the amount of waste, by minimising the impact of waste disposal.

S: GOOD
PGAS' commitment to improving people's welfare is manifested in a number of ways, from health, community welfare to education. PGAS applies ISO 26000 standards in performing corporate social responsibility activities. During the COVID-19 pandemic, the company distributed aid to communities affected by lockdowns.

G: GOOD
PGAS is committed to prioritising good corporate governance principles ie, transparency, accountability, responsibility, independence, and fairness. It is also integrating the principles and practices of sustainability, paying attention to five important aspects, ie people, planet, prosperity, peace, and partnership.

Financial Exhibits

Asia
Indonesia
Clean Energy
Perusahaan Gas Negara
PGAS IJ
Neutral

Valuation basis

3-year P/E mean

Key drivers

i. Steady distribution margin despite more LNG coming into supply;
ii. Steady long-term gas contract;
iii. Higher gas distribution volume due to the expansion of the Indonesian economy.

Key risks

i. Unfavourable government regulations;
ii. Court cases, such the Gunvor issue;
iii. Inefficient capex allocations.

Company Profile

Perusahaan Gas Negara is the largest national company in Indonesia's natural gas transportation and distribution industry. It has exposure to the upstream segment. The company plays a significant role in meeting the country's natural gas needs.

Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Recurring EPS	0.01	0.01	0.01	0.01	0.01
DPS	0.01	0.01	0.01	0.01	0.01
BVPS	0.11	0.11	0.11	0.12	0.12
Return on average equity (%)	12.6	10.4	10.4	10.4	10.6

Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Recurring P/E (x)	7.09	7.81	7.66	7.41	7.09
P/B (x)	0.9	0.9	0.9	0.8	0.8
FCF Yield (%)	30.1	20.4	1.8	27.7	28.4
Dividend Yield (%)	8.6	9.5	8.1	8.3	8.6
EV/EBITDA (x)	2.82	2.30	2.55	2.00	1.51
EV/EBIT (x)	5.25	4.09	4.67	3.50	2.63

Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover	3,569	3,646	3,568	3,656	3,713
Gross profit	781	734	720	764	774
EBITDA	1,104	964	962	990	996
Depreciation and amortisation	(512)	(422)	(437)	(424)	(423)
Operating profit	592	542	525	566	573
Net interest	(106)	(49)	(20)	(42)	(21)
Pre-tax profit	543	524	536	555	583
Taxation	(141)	(147)	(151)	(156)	(164)
Reported net profit	326	278	284	295	309
Recurring net profit	339	308	314	325	339

Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Change in working capital	(12)	589	(553)	(8)	(4)
Cash flow from operations	970	724	197	712	729
Capex	(244)	(233)	(154)	(45)	(45)
Cash flow from investing activities	30	(58)	(102)	(45)	(45)
Dividends paid	(206)	(228)	(195)	(199)	(206)
Cash flow from financing activities	(996)	(878)	(94)	(183)	(230)
Cash at beginning of period	1,503	1,448	1,245	1,245	1,729
Net change in cash	4	(212)	1	484	454
Ending balance cash	1,448	1,245	1,245	1,729	2,183

Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total cash and equivalents	1,476	1,282	1,248	1,732	2,186
Tangible fixed assets	3,689	3,502	3,219	2,840	2,463
Total investments	303	307	296	296	296
Total assets	7,195	6,599	6,255	6,372	6,457
Short-term debt	17	42	47	73	73
Total long-term debt	1,658	520	751	742	718
Total liabilities	3,753	3,059	2,688	2,710	2,692
Total equity	3,442	3,540	3,567	3,662	3,765
Total liabilities & equity	7,195	6,599	6,255	6,372	6,457

Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Revenue growth (%)	17.5	2.2	(2.2)	2.5	1.5
Recurrent EPS growth (%)	31.4	(9.2)	2.1	3.3	4.5
Gross margin (%)	21.9	20.1	20.2	20.9	20.8
Operating EBITDA margin (%)	31.0	26.4	27.0	27.1	26.8
Net profit margin (%)	9.1	7.6	8.0	8.1	8.3
Dividend payout ratio (%)	63.1	82.1	68.4	67.6	66.7
Capex/sales (%)	6.8	6.4	4.3	1.2	1.2
Interest cover (x)	4.47	5.56	6.49	6.36	6.65

Source: Company data, RHB

Figure 1: ORF Tambak Rejo facility, Semarang

Source: Company data, RHB

Figure 2: Briefing at ORF Tambak Rejo

Source: Company data, RHB

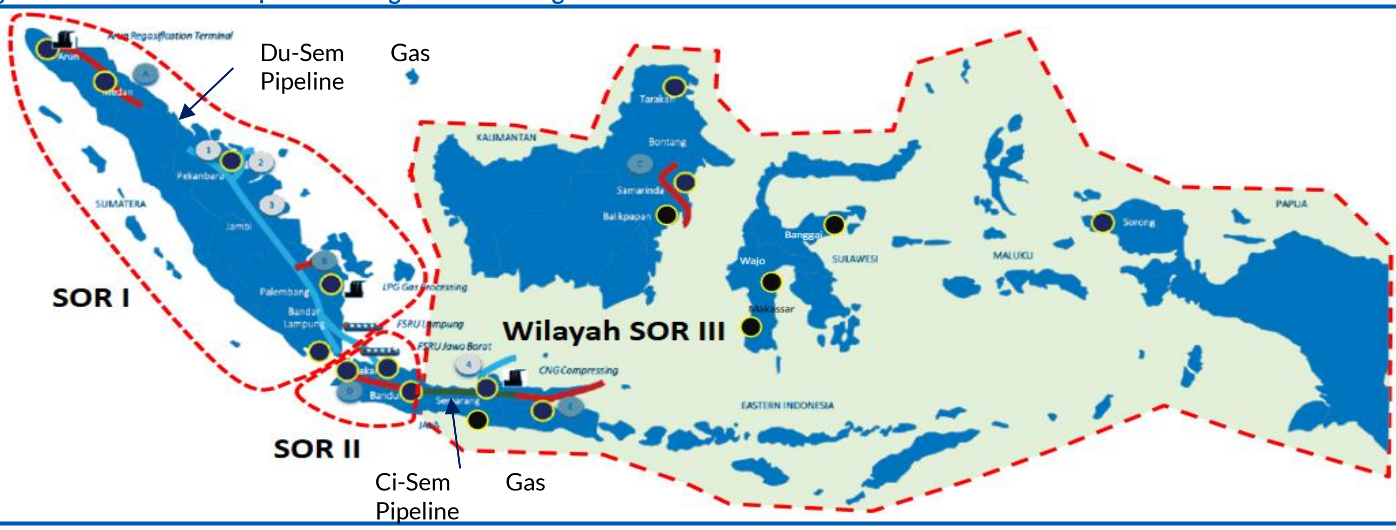
Figure 3: The ORF at Batang Industrial Estate

Source: Company data, RHB

Figure 4: A gas customer in Batang Industrial Estate

Source: Company data, RHB

Figure 5: PGAS' sales and operations region – Semarang is in SOR III



Source: Company data

Figure 6: Gas mining operations in SOR III

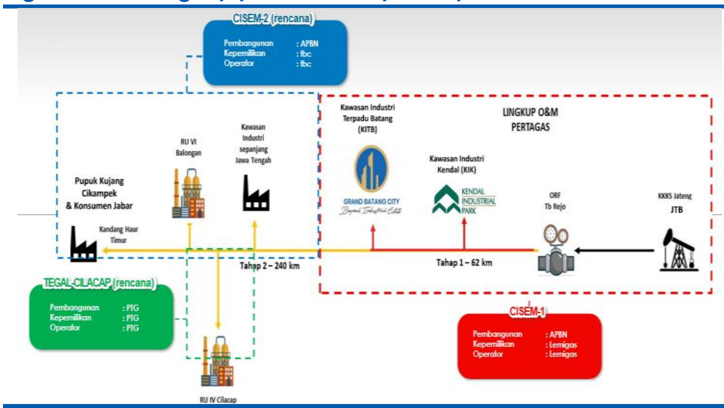
Source: Company data

Figure 7: Gas pipeline expansion plan in Central and East Java

Source: Company data, RHB

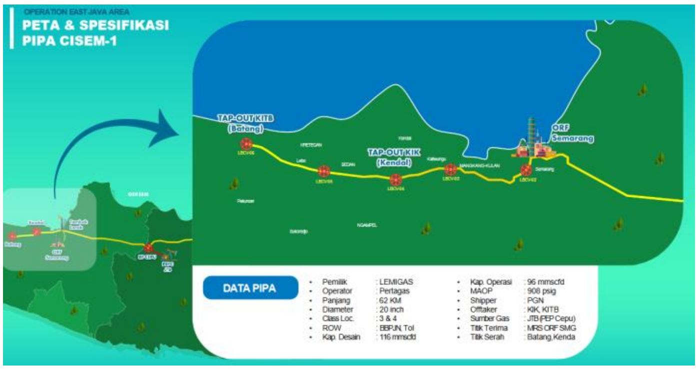
- The business conducted in SOR III focuses on distributing gas to industrial estates and expanding the demand for gas pipelines.
- Potential demand for gas pipeline listed below:
  - JIIPE Industrial Estate in Gresik, East Java, taking up 54.4mmscfpd
  - Kendal Industrial Estate taking up 2.8mmscfpd,
  - Batang Industrial Estate taking up 16mmscfpd,
  - Tegal – Cilacap to Refinery Unit IV Cilacap taking up 51mmscfpd

Figure 8: CISEM gas pipeline development plan



Source: Company data, RHB

Figure 9: CISEM – one existing map and pipe specification



Source: Company data, RHB

Figure 10: Gas transmitted up to Aug 2024

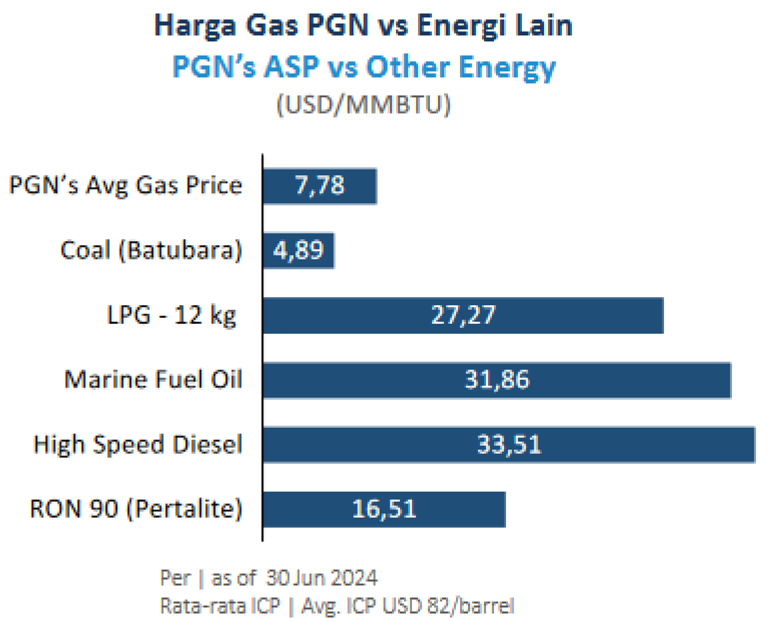
Source: Company data, RHB

Figure 11: CISEM's customer List

Kendal Industrial Estate	Batang Industrial Estate
Central Pertiwi Bahari	Rumah Keramik Indonesia
Dae Young Textile	KCC Glass
Golden Textile Indonesia	
Goldensnack Mas Sejahtera	
Inmas Surya Makmur	

Source: Company data, RHB

Figure 12: Prices of gas vs other energy sources



Source: Company data, RHB

- For 2024, PGAS has taken three cargoes or around 30mmscfpd of LNG. This is about 3% of its 2024F distribution volume of 882mmscfpd
- For 2025, it may take up LNG to fill the gas shortage, following the decline in the gas supply pipeline
- PGAS targets to maintain a USD1.8/mmbtu distribution margin. As such, if we assume a 2025 LNG price of USD12/mmbtu plus regasification cost, PGAS could charge USD14/mmbtu to non-special gas users
- The USD14/mmbtu price is still cheaper than that of marine fuel oil or high-speed diesel

Emissions And ESG

Trend analysis

PGAS is committed to reducing its emissions. In 2022, it reduced emission by 47% YoY to 132ktCO2e. The company continues to maintain ESG principles through sustainable development goals that comprise four pillars: i) Social, ii) economic, iii) environmental, and iv) law and governance.

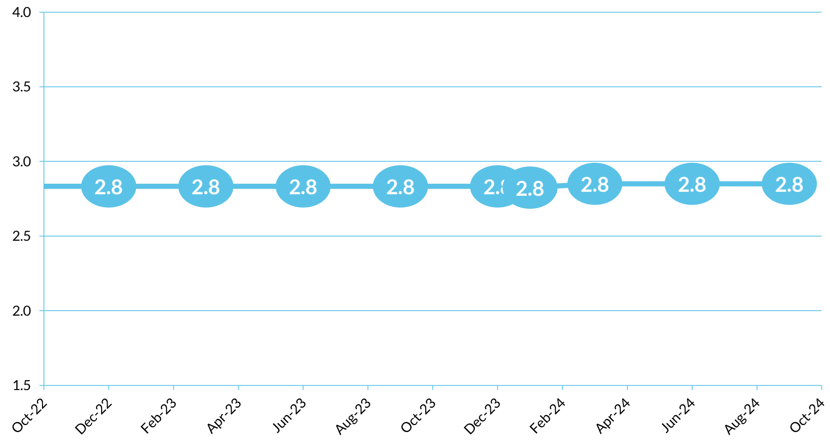
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	44,582	58,616	40,582
Scope 2	7,625	9,686	9,464
Scope 3	40	83	55
Total emissions	52,247	68,385	50,100

Source: Company data, RHB

Latest ESG-Related Developments

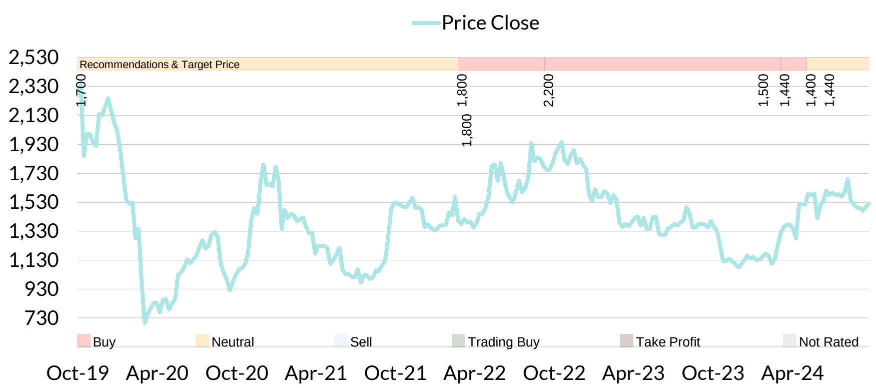
- PGAS has initiate several actions to mitigate greenhouse gas emissions through energy efficiency, loss reduction, using eco-friendly energy sources and planting trees.
- PGAS has planted 2,000 mangrove plants in Desa Binaan Panaran, Lance Island, Batam where re-forestation has not only improved the potential for tourism there, but also enhanced the quality of the natural environment.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-29	Neutral	1,440	1,550
2024-05-20	Neutral	1,400	1,575
2024-03-21	Buy	1,440	1,335
2024-01-31	Buy	1,500	1,165
2022-09-25	Buy	2,200	1,780
2022-07-05	Buy	na	1,610
2022-05-12	Buy	1,800	1,470
2022-03-21	Buy	1,800	1,365
2022-03-09	Buy	1,800	1,545
2018-01-26	Neutral	na	2,630
2018-01-24	Neutral	na	2,690
2017-10-30	Neutral	1,700	1,865

Source: RHB, Bloomberg

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