

13 May 2022

Clean Energy | Gas Utilities

## Perusahaan Gas Negara (PGAS IJ)

**Buy** (Maintained)

### A Promising Start To The Year; Maintain BUY

- **Maintain BUY and IDR1,800 TP, 22% upside with c.7% yield.** 1Q22 earnings stood at USD119m (+573% QoQ, +93% YoY). This accounted for 39% and 43% of our and Street FY22F – above estimates. On operational performance, most of FY22 volume targets seem to be achievable indicating a good start to the year. Going forward, we expect margin to be relatively manageable before the commencement of the additional gas cap, while upstream business should provide support for the year.
- **In-line YTD-Mar 2022 operational performance.** Commercial gas distribution volume was in line with our estimates at 915 bbtud (-0.1% YoY), while transmission volume was slightly down to 1,325 mmscf (-1.0% YoY). YTD-Mar 2022 upstream lifting was in line with the company's expectations at 25% of total upstream lifting for 2022. We expect overall business to be relatively good, with drivers coming from commercial gas distribution, transmission, upstream, and oil transportation.
- **Awaiting ruling on expansion of price cap.** Expansion of gas price cap for additional industries at USD6.00/mmbtu is a certainty. However, no official ruling has been published as the company and market, in general, are still awaiting further clarification. PGAS expects to record a margin of USD1.60-1.80/mmbtu this year, vs our estimation of USD1.60-1.70/mmbtu for 2022-2023 – relatively at the lower end.
- **Ramping up oil transportation in Rokan.** This project has been partially on stream since Jan 2022, and for FY22, PGAS expects the Rokan Block to ramp up to 140,000 boepd by 2Q22. The oil transportation service facility for Pertamina has a toll fee of USD2.50/boe – very decent margin, in our view.
- **City gas network expansion is far-stretched.** PGAS is targeting an additional 1m city gas connections with a total capex of c.240m and expects an internal rate of return (IRR) of c.11%. Current household customers make up the c.600,000 connections since PGN was established. We think to reach the 1m connection target seems far-stretched and as such, we have not included the investment into our estimates.
- **Improving Saka continues strong performance.** Upstream business revenue was higher at 14% of total revenue in 1Q22 from c.10-11%, mainly driven by better oil prices for 2022. At better average oil prices than last year, we expect further potential upside risk for PGAS' upstream wing, especially on margin expansion.
- **Our unchanged TP of IDR1,800 implies 10x FY22F P/E and 4.5x EV/EBITDA** (market valuation: 8.1x P/E and 4x EV/EBITDA). We apply a 4% ESG discount to derive our TP, based on our in-house methodology. Key downside risks: Further downside from government regulations and lower-than-expected sales volume.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	2,886	3,036	3,441	3,735	3,910
Recurring net profit (USDm)	(265)	304	301	375	397
Recurring net profit growth (%)	(492.0)	-	(0.8)	24.3	6.0
Recurring P/E (x)	na	8.06	8.12	6.53	6.16
P/B (x)	1.1	1.0	0.9	0.9	0.8
P/CF (x)	4.27	3.44	2.59	3.17	2.23
Dividend Yield (%)	2.8	na	7.4	7.4	9.2
EV/EBITDA (x)	5.91	4.60	3.95	3.67	3.60
Return on average equity (%)	(11.0)	12.8	11.6	13.6	13.5
Net debt to equity (%)	47.9	29.6	22.2	18.7	11.1

Source: Company data, RHB

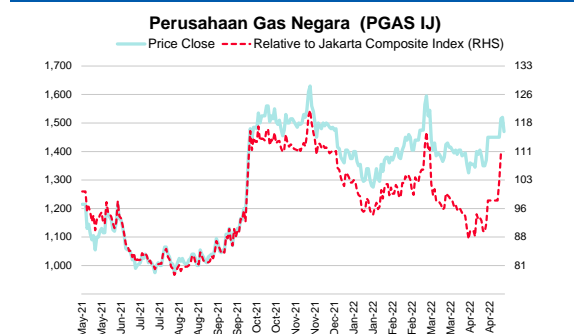
Target Price (Return):	IDR1,800 (+22%)
Price (Market Cap):	IDR1,470 (USD2,448m)
ESG score:	2.83 (out of 4)
Avg Daily Turnover (IDR/USD)	126,551m/8.72m

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.9	10.9	6.9	(1.7)	21.0
Relative	3.3	16.4	6.9	(4.2)	6.2
52-wk Price low/high (IDR)	975 – 1,630				



Source: Bloomberg

#### Overall ESG Score: 2.83 (out of 4)

##### E: GOOD

PGAS continues to support and contribute to developing renewable energy. This commitment is PGAS' active role in advancing renewable energy in Indonesia. Regarding waste management, PGAS's strategy is to reduce waste from its source (reduction at source). This means that the company is trying to reduce the amount of waste through a plan 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 in performing corporate social responsibility activities so that the programs would be effective, efficient and of great benefit. During the pandemic, the company has moved quickly to support the Government in distributing aid to the affected communities.

##### G: GOOD

PGAS is committed to prioritising GCG (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

<b>Asia</b>	<b>Financial summary (USD)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Indonesia	Recurring EPS	(0.01)	0.01	0.01	0.02	0.02
Clean Energy	DPS	0.00	-	0.01	0.01	0.01
<b>Perusahaan Gas Negara</b>	BVPS	0.09	0.10	0.11	0.12	0.12
PGAS IJ	Return on average equity (%)	(11.0)	12.8	11.6	13.6	13.5
Buy						
<b>Valuation basis</b>	<b>Income statement (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
In our SOP approach, we valued:	Total turnover	2,886	3,036	3,441	3,735	3,910
i. The distribution and transmission segment using DCF, with a WACC of 11%;	Gross profit	470	587	670	760	827
ii. Its upstream segment with a relative valuation, ie EV/EBITDA comparative.	EBITDA	718	835	948	1,023	982
	Depreciation and amortisation	(392)	(415)	(455)	(440)	(377)
	Operating profit	326	420	493	583	605
<b>Key drivers</b>	Net interest	(139)	(129)	(99)	(88)	(81)
i. Distribution margin improvement;	Pre-tax profit	(175)	468	486	589	627
ii. Rise in energy prices – especially oil prices;	Taxation	(40)	(103)	(126)	(153)	(163)
iii. Gas demand rises due to energy transition;	Reported net profit	(265)	304	301	375	397
iv. Successful divestment of SEI.	Recurring net profit	(265)	304	301	375	397
	<b>Cash flow (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Change in working capital	510	(86)	194	(270)	262
i. Unfavourable government regulations;	Cash flow from operations	573	711	944	772	1,096
ii. Project delays;	Capex	(668)	(227)	(533)	(487)	(579)
iii. Inefficient capex allocations;	Cash flow from investing activities	(668)	(227)	(533)	(487)	(579)
iv. Further tax disputes that affect earnings.	Dividends paid	(68)	0	(182)	(181)	(225)
	Cash flow from financing activities	234	(160)	(530)	(254)	(268)
<b>Company Profile</b>	Cash at beginning of period	1,040	1,179	1,503	1,385	1,415
Perusahaan Gas Negara is the largest national company in the natural gas transportation and distribution segments. It has exposure to the upstream segment. The company plays a significant role in meeting domestic natural gas needs.	Net change in cash	139	324	(119)	31	249
	Ending balance cash	1,179	1,503	1,385	1,415	1,664
	<b>Balance sheet (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	1,179	1,503	1,385	1,415	1,664
	Tangible fixed assets	4,614	4,448	4,461	4,449	4,468
	Total investments	341	339	339	339	339
	Total assets	7,534	7,511	8,284	7,697	8,733
	Short-term debt	135	55	48	1,790	43
	Total long-term debt	2,458	2,422	2,116	333	2,067
	Total liabilities	4,579	4,226	4,767	3,911	4,731
	Total equity	2,955	3,285	3,517	3,785	4,002
	Total liabilities & equity	7,534	7,511	8,284	7,697	8,733
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(25.0)	5.2	13.3	8.5	4.7
	Recurrent EPS growth (%)	(492.0)	0.0	(0.8)	24.3	6.0
	Gross margin (%)	16.3	19.3	19.5	20.3	21.2
	Operating EBITDA margin (%)	24.9	27.5	27.6	27.4	25.1
	Net profit margin (%)	(9.2)	10.0	8.8	10.0	10.2
	Dividend payout ratio (%)	(25.5)	0.0	60.5	48.3	56.7
	Capex/sales (%)	23.2	7.5	15.5	13.1	14.8
	Interest cover (x)	1.90	2.74	3.49	4.40	4.50

Source: Company data, RHB

Figure 1: PGAS' 1Q22 results highlights

USDm	1Q21	4Q21	1Q22	QoQ	YoY	3M21	3M22	YoY	FY22F RHB	FY22F Street
<b>Total Revenue</b>	<b>733</b>	<b>782</b>	<b>837</b>	<b>7.0%</b>	<b>14.2%</b>	<b>733</b>	<b>837</b>	<b>14.2%</b>	<b>24%</b>	<b>25%</b>
<b>Gross profit</b>	<b>129</b>	<b>128</b>	<b>186</b>	<b>45.0%</b>	<b>44.7%</b>	<b>129</b>	<b>186</b>	<b>44.7%</b>		
Op. expense	36	38	37	-2.7%	3.0%	36	37	3.0%		
<b>Operating profit</b>	<b>93</b>	<b>90</b>	<b>149</b>	<b>65.1%</b>	<b>60.8%</b>	<b>93</b>	<b>149</b>	<b>60.8%</b>	<b>30%</b>	<b>33%</b>
<b>EBITDA</b>	<b>183</b>	<b>218</b>	<b>268</b>	<b>23.2%</b>	<b>46.3%</b>	<b>183</b>	<b>268</b>	<b>46.3%</b>	<b>28%</b>	<b>33%</b>
Total other income (exp)	12	(9)	19	N/A	63.8%	12	19	63.8%		
<b>Pretax income</b>	<b>104</b>	<b>81</b>	<b>168</b>	<b>107.4%</b>	<b>61.2%</b>	<b>104</b>	<b>168</b>	<b>61.2%</b>		
Income taxes	(28)	(46)	(28)	-38.9%	2.8%	(28)	(28)	2.8%		
Minority interest	(15)	(17)	(21)	24.8%	40.1%	(15)	(21)	40.1%		
<b>Net Profit</b>	<b>62</b>	<b>18</b>	<b>119</b>	<b>573.1%</b>	<b>92.5%</b>	<b>62</b>	<b>119</b>	<b>92.5%</b>	<b>39%</b>	<b>43%</b>
<b>Margin</b>	<b>1Q21</b>	<b>4Q21</b>	<b>1Q22</b>			<b>3M21</b>	<b>3M22</b>			
Gross	17.5%	16.4%	22.2%			17.5%	22.2%			
Operating	12.6%	11.6%	17.8%			12.6%	17.8%			
EBITDA	25.0%	27.9%	32.1%			25.0%	32.1%			
Pretax	14.2%	10.4%	20.1%			14.2%	20.1%			
Net	8.4%	2.3%	14.2%			8.4%	14.2%			

Source: Company data, RHB

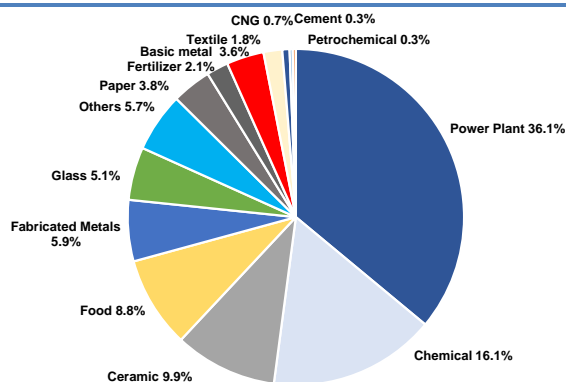
Figure 2: YTD-Mar 2022 and PGAS' operational performance

Volume performance	YTD Mar 2022	FY22F PGAS guidance	FY22F	FY23F	FY24F
Commercial gas (bbtud)	915	1,038	910	1,000	1,030
growth (%)	-0.1	19.2	4.5	9.9	3.0
Transmission (mmscfd)	1,325	1,383	1,380	1,400	1,450
growth (%)	-1.0	13.1	12.8	1.4	3.6
Upstream lifting (mmboe)	2.3	9.1	9.1	9.5	9.5
growth (%)	54.0	5.3	5.3	5.0	0.0
Regasification (bbtud)	119	120	110	110	110
growth (%)	40.0	36.4	25.0	0.0	0.0
LPG Processing ('000 ton)	12	44	44	44	44.0
growth (%)	9.0	29.4	29.4	0.0	0.0
Oil transportation (mmboepd)	2.1	51.4	42.6	51.1	51.1
growth (%)	22.0	1,351.7	1,103.0	20.0	0.0

Source: Company data, RHB

- ♦ Commercial gas distribution volume was in line with our estimate, while transmission volume was slightly down to 1,325mmscfd.
- ♦ YTD-Mar 2022 upstream lifting was in line with company's expectation at 25% of the total upstream lifting for 2022.
- ♦ We expect more conservative commercial gas volume in 2022-2024
- ♦ Commercial gas supply should be driven by the Gresik-Semarang pipeline
- ♦ Rokan will be a primary driver for oil transportation volume from 2022F

Figure 3: Industry composition to total sales as at Mar 2022



Source: Company data, RHB

Figure 4: Estimated impact of 13 additional industries' gas cap on PGAS' sales as at Mar 2022

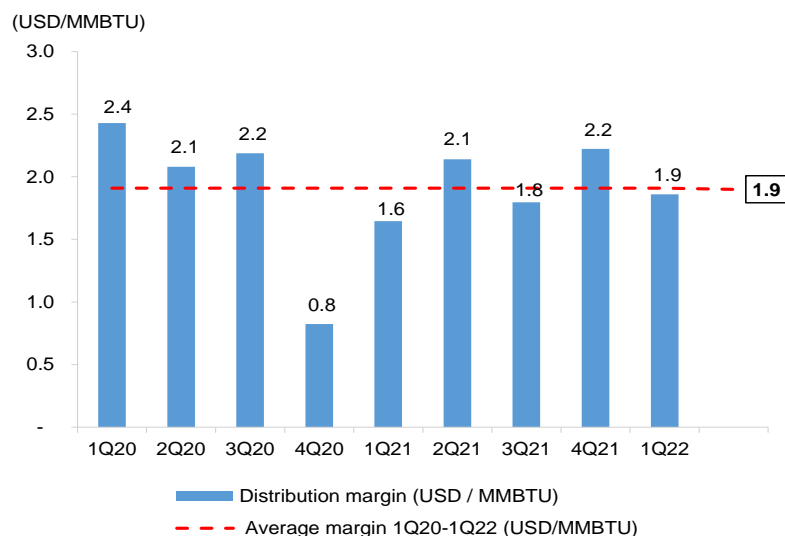
Power Plant	36.1%
Petrochemical	0.3%
Ceramic	9.9%
Fertilizer	2.1%
Glass	5.1%
Cement	0.3%
Food	8.8%
Paper	3.8%
Basic Metal	3.6%
Fabricated metals	5.9%
<b>Already affected seven industries</b>	<b>53.5%</b>
<b>Additional 13 industries</b>	<b>75.9%</b>

Source: Company data, RHB

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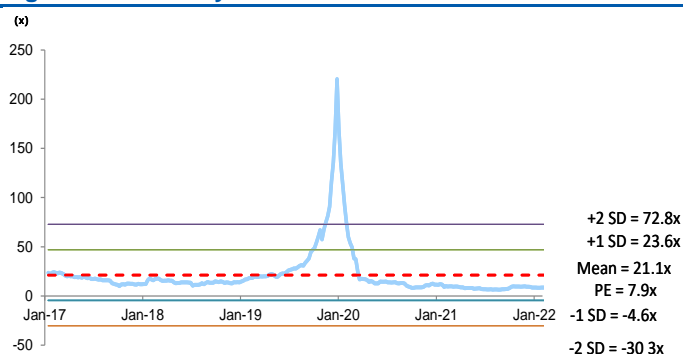
Figure 5: PGAS' historical margin trend



Source: Company data, RHB

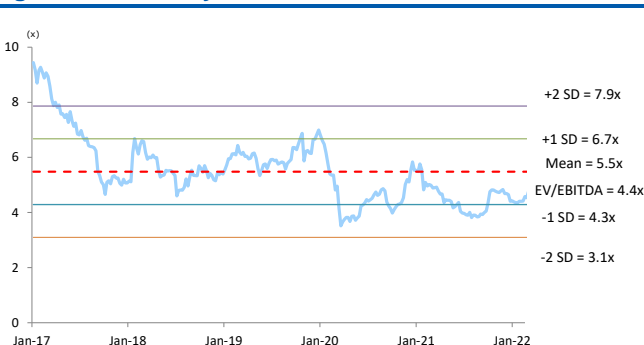
- ◆ The distribution margin averaged at USD1.90/MMBTU for the past eight quarters post price cap regulation
- ◆ PGAS still maintains the view the margin is sustainable at USD1.60-1.80/MMBTU (vs our USD1.60-1.70/MMBTU assumption)

Figure 6: PGAS' 5-year P/E band



Source: Bloomberg, RHB

Figure 7: PGAS' 5-year EV/EBITDA band



Source: Bloomberg, RHB

## Recommendation Chart

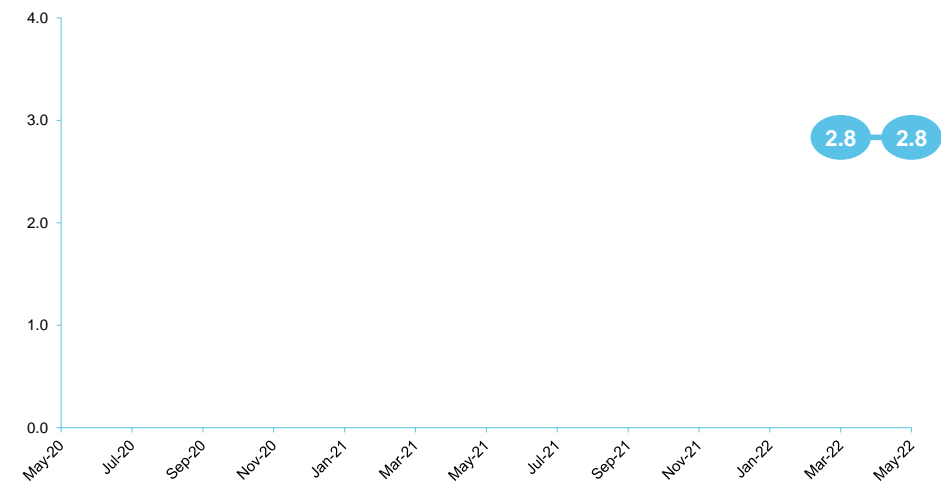


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-03-09	Buy	1,800	1,545
2018-01-24	Neutral	na	2,690
2017-10-30	Neutral	1,700	1,865

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
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