

PT Perusahaan Gas Negara Tbk

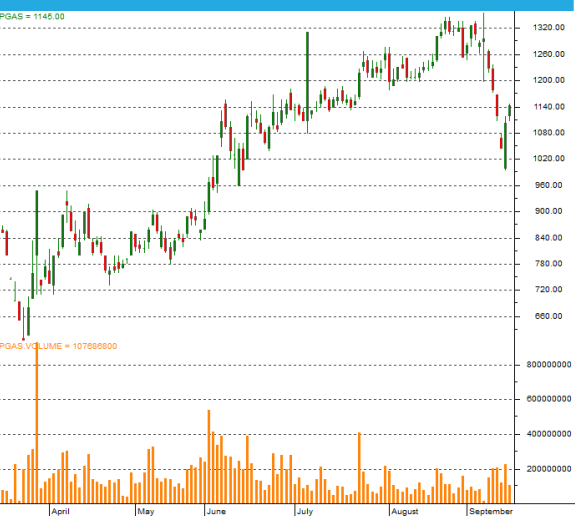
HOLD

Infrastructure, Energy
15 September 2020

Price **IDR. 1,145**

Target **IDR. 1,360**

JKSE Index **5,161.828**



Stock code PGAS IJ
Bloomberg code PGAS IJ
Market cap (in Bn) 27,760
52-week high 2,460
52-week low 605
6-m avg.dail.val (IDR) 1,831
Free Float (%) 43.03%

Major Share Holders (%)
PERTAMINA 57.00%
Public 43.00%

USD/IDR-YE
2019 13,887
2020F (6m-avg) 14,882

Analyst:
Eka Rahmawati Rahman

Investment Considerations

Down on Lower Demand

- The impact of the Covid-19 outbreak is weakening demand across all of PGAS' businesses.
- Despite June increasing by +14% MoM due to reopening, PGAS's distribution volume still decreased -9% YoY to 811 BBTUD in 1H2020.
- Gas transportation volume in 1H2020 was 1,290 MMSCFD, -5% YoY. Lower gas transportation volume is inline with lower gas demand from major customers.
- Upstream lifting also decreased, with oil gas lifting down -30% YoY to 20,492 BOEPD. Crude oil decreased by -24% YoY to 3,629 BOEPD, gas decreased by -30% YoY, LPG decreased by -56% YoY, and LNG decreased by -30% YoY. Lower lifting volume was also impacted by the crash in oil prices.
- As Jakarta has once again implemented large-scale social restriction in September, we are expecting lower gas demand will still weigh on PGAS's sales volume in 2H2020

ASP Decrease

- Due to the Ministry of Energy and Mineral Resources Decrees 89 and 91 (2020), PGAS is going to fully implement the gas price of US\$6,00/MMBTU on the volume of 646,13 BBTUD to seven industrial sectors and PLN starting from August 2020.
- Previously, the new gas price policy was partially implemented starting from 2Q2020 and resulted in a lower ASP and APP in 1H2020.

More Efficiency

- 2020 has been a challenging business environment for most sectors due to the covid-19 outbreak. PGAS is no exception, pressed by lower demand and a decline in ASP.
- As of 1H2020, PGAS's revenue decreased -18% YoY to US\$ 1.47 billion from US\$ 1.79 billion in 1H2019 driven by lower revenue in most of PGAS's businesses.
- Despite a decrease in the cost of revenue of -17% yoy as PGAS started to partially procure its gas from upstream suppliers at lower prices, Gross profit still decreased -20% YoY to US\$ 463 mn.
- As PGAS continues to reduce opex by lowering salaries and depreciation expenses, operating expense decreased -18.4% YoY, but operating income still declined -23.4% YoY to US\$ 193 mn.
- Profit before tax decreased by -47% YoY to US\$ 68 mn.
- PGAS net income of US\$7 mn was down -88% YoY from US\$ 54mn in 1H2019.
- As a result of the weaker 1H2020 results, we lower our 2020F PGAS revenue and profitability to US\$ 2.86 billion and US\$ 43 mn respectively.

Valuation: HOLD with TP 1,360

- Our DCF valuation with WACC at 7.8%, gives a target price of IDR 1,360 or 19% upside which is a 26x PE valuation within one year. We recommend Hold.

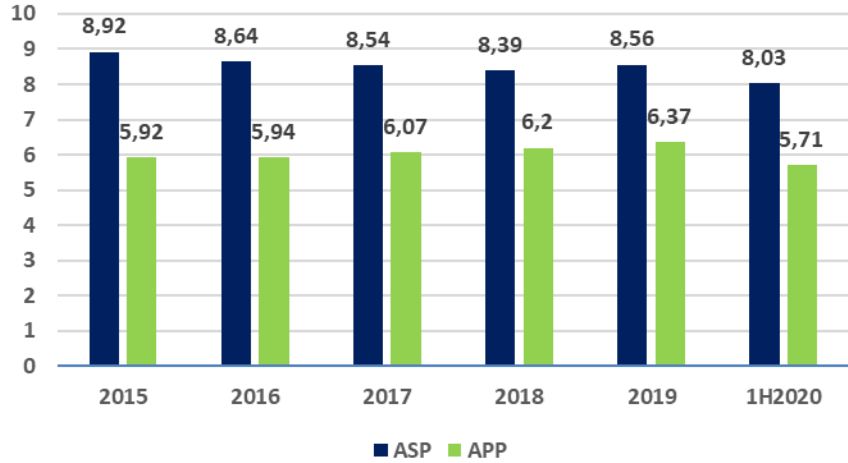
Financial Highlights	2015A	2016A	2017A	2018A	2019A	2020F	2021F
Revenue (USD Mn)	3.069	2.935	3.571	3.870	3.849	2.854	3.413
Gross Profit (USD Mn)	963	887	1.182	1.309	1.227	899	1.092
GPM (%)	31%	30%	33%	34%	32%	32%	32%
Net Profit (USD Mn)	401	304	196	305	68	43	85
NPM (%)	13%	10%	6%	8%	2%	2%	3%
EPS (USD)	0,02	0,01	0,01	0,01	0,003	0,002	0,004
EBITDA (USD Mn)	701	661	764	996	668	554	632
EBITDA Margin (%)	23%	23%	21%	26%	17%	19%	19%
Tot debt/ equity (x)	1,1	1,2	1,0	1,8	1,6	1,2	1,6
Current Ratio (X)	2,6	2,6	2,7	1,5	2,0	2,7	2,1

Table: Revenue Breakdown by Segment in US\$ Mn

Business Segment	1H2019	1H2020	(%)
Distribution	1.333	1.186	-11%
Transmission	163	114	-30%
Upstream	196	102	-48%
Oil Transportation	13	23	77%
Gas Processing	39	26	-33%
Fiber Optic	8	8	0%
Finance Income from Finance Lease	12	0	-100%
Others	25	10	-60%

Source: Company

Chart: PGAS's Pricing YoY (US\$/MMBTU)



Source: Company

Table: The Letter of Agreements related to ongoing implementation of MEMR Decree

MEMR Decree No. 89 Year 2020

Regions	Suppliers	Effective Volume (BBTUD)
Regional Distribution I	PEP SSWJ, CPGL	205
Regional Distribution II	PHE WMO, Ophir, KEI	74
Regional Distribution III (Medan)	PEP A1, PHE NSO-NSB**	29.9
Regional Distribution III (Batam)	COPI Batam 1	11
Regional Distribution III (Dumai)	COPI Dumai	6
Pertagas	PEP A3	0.9
Pertagas Niaga	PHE OK, ONWJ, MBGI	4.33
PGN Standalone		325.9
PGN & Group		331.13

MEMR Decree No. 91 Year 2020

Regions	Suppliers	Effective Volume (BBTUD)
Regional Distribution I	PHE JM, CPGL	275
Regional Distribution III	CPGL Batam I Batam II	40
PGN Standalone		315

Source: Company

Table: Income Statement in USD. Million YoY

Income Statement in USD Mn.	2015A	2016A	2017A	2018A	2019A	2020F	2021F
Revenues	3.068,8	2.934,7	2.969,5	3.870,3	3.848,7	2.854,0	3.412,9
Cost of Revenues	(2.105,7)	(2.047,8)	(2.172,4)	(2.560,8)	(2.621,3)	(1.955,0)	(2.320,8)
Gross Profit	963,1	886,9	797,1	1.309,5	1.227,3	899,0	1.092,1
Operating Income (Expense)	(405,6)	(442,7)	(420,2)	(664,2)	(681,0)	(513,7)	(614,3)
Operating Profit	557,5	444,2	376,9	645,3	546,3	385,3	477,8
Others Income (Expense)	(119,9)	(59,3)	(101,5)	(60,4)	(266,5)	(242,6)	(238,9)
PBT	437,6	385,0	275,4	584,9	279,9	142,7	238,9
Tax	(34,6)	(76,4)	(127,8)	(220,3)	(166,9)	(71,4)	(119,5)
Non-controlling interest	(1,6)	(4,2)	(4,6)	(59,6)	(45,4)	(28,5)	(34,1)
Net Profit	401,4	304,4	143,0	305,0	67,5	42,8	85,3
EPS (USD)	0,017	0,013	0,006	0,013	0,003	0,002	0,004
EBITDA	701,3	661,2	621,4	996,5	676,8	489,9	632,3

Source: Company & Binaartha

Table: Cash Flow in USD. Million YoY

Cash Flow (In USD Mn)	2015A	2016A	2017A	2018A	2019A	2020F	2021F
Net Income	401	304	196	305	68	43	85
Depreciation	145	144	199	258	260	282	266
Change in WC	15	-86	-248	722	-496	-38	59
Cash From Operating Activities	561	363	147	1.285	-168	287	410
Capex	-962	-81	-1.437	224	41	-906	-499
Cash From Investing Activities	-962	-81	-1.437	224	41	-906	-499
Long-term Bank Loans	780	43	-883	83	-139	-55	244
Bonds Payables	2	2	620	3	3	-2	0
Others Noncurrent Liabilities	-122	-1	445	16	20	159	168
Equity	-254	-157	944	-1.414	-35	760	-699
Cash From Financing Activities	406	-113	1.126	-1.311	-152	861	-288
Net Changes in Cash	4	169	-164	197	-280	242	-377
Beginning Balance	1.131	1.136	1.304	1.140	1.338	1.058	1.300
Ending Balance	1.135	1.304	1.140	1.338	1.058	1.300	923

Source: Company & Binaartha

Table: Statement of Financial Position in USD. Million YoY

Statement of Financial Position (In USD Mn)	2015A	2016A	2017A	2018A	2019A	2020F	2021F
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents	1.136	1.304	1.056	1.338	1.058	1.300	923
Trade Accounts Receivable	387	555	529	746	645	571	580
Inventory	43	65	61	79	71	86	68
Others Current Assets	156	200	162	311	435	200	205
Total Current Assets	1.723	2.125	1.808	2.474	2.209	2.157	1.776
NONCURRENT ASSETS							
Fixed Assets	1.871	1.829	1.706	2.861	2.748	2.992	3.258
Oil and Gas Properties	1.636	1.709	1.595	1.411	1.396	1.284	1.229
Trade Receivables	517	451	437	287	162	86	102
Other Noncurrent Assets	748	721	747	906	859	1.427	1.433
Total Noncurrent Assets	4.772	4.709	4.485	5.466	5.165	5.789	6.022
TOTAL ASSETS	6.495	6.834	6.293	7.939	7.374	7.945	7.798
LIABILITIES AND EQUITY							
LIABILITIES							
CURRENT LIABILITIES							
Short-term Bank Loans	122	271	23	23	186	120	164
Trade Payables	202	219	190	449	441	314	341
Accruals	270	231	192	255	317	157	171
Others Current Liabilities	74	94	62	877	179	200	171
Total Current Liabilities	667	815	467	1.605	1.123	791	846
NONCURRENT LIABILITIES							
Long-term bank	1.253	1.296	414	497	357	302	546
Bonds Payables	1.334	1.335	1.955	1.959	1.961	1.959	1.959
Others Noncurrent Liabilities	218	217	270	678	698	856	1.024
Total Noncurrent Liabilities	2.805	2.849	2.640	3.133	3.016	3.118	3.529
TOTAL LIABILITIES	3.472	3.664	3.106	4.737	4.139	3.909	4.376
Non-controlling interest	2	7	19	627	673	656	751
EQUITY	3.020	3.163	3.168	2.575	2.561	3.380	2.672
TOTAL LIABILITIES & EQUITY	6.495	6.834	6.293	7.939	7.374	7.945	7.798

Source: Company & Binaartha

Table: Ratio Highlights YoY

Growth (% YoY)	2015A	2016A	2017A	2018A	2019A	2020F	2021F
Sales	-6%	-4%	22%	8%	-1%	-26%	20%
OP	-35%	-20%	16%	25%	-15%	-29%	24%
EBITDA	-38%	-6%	16%	30%	-33%	-17%	14%
NP	-44%	-24%	-35%	55%	-78%	-37%	99%
EPS	-44%	-24%	-35%	55%	-78%	-37%	99%

Profitability							
Gross Margin (%)	31%	30%	33%	34%	32%	32%	32%
Operating Margin(%)	18%	15%	14%	17%	14%	14%	14%
EBITDA margin(%)	23%	23%	21%	26%	17%	19%	19%
NET Profit margin(%)	13%	10%	6%	8%	2%	2%	3%
ROA(%)	6%	4%	2%	4%	1%	1%	1%
ROE(%)	13%	10%	5%	12%	3%	1%	3%

Stability							
Tot debt/ equity (x)	1,1	1,2	1,0	1,8	1,6	1,2	1,6
Current Ratio (X)	2,6	2,6	2,7	1,5	2,0	2,7	2,1

Per Share data (USD)							
EPS	0,02	0,01	0,01	0,01	0,00	0,00	0,00
EBITDA/share	0,03	0,03	0,03	0,04	0,03	0,02	0,03

Source: Company & Binaartha

Stock Ratings:

Buy : a recommendation to purchase the security with upside potential of **20% or greater**

Hold : a recommendation to neither buy nor sell a security with upside potential of **0-19%**.

Sell : a recommendation to close out a long position in a security with upside potential **below 0% or negative**.

RESEARCH TEAM
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