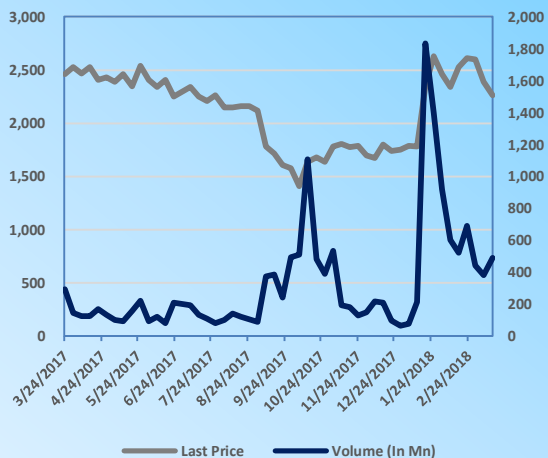


### PT Perusahaan Gas Negara, Tbk

**BUY**

Infrastructure, Energy  
19<sup>th</sup> March 2017

Price	IDR.	2,270
Target	IDR.	3,050
JKSE Index		6,304.952



#### Stock code

Bloomberg code	PGAS IJ
Market cap (in Bn)	54,785.8
52-week high	2,860
52-week low	1,365
6-m avg.dail.val (IDR)	1,971
Free Float (%)	43.03%

#### Major Share Holders (%)

Government of RI	56.97%
Public	43.03%

#### USD/IDR-YE

2017	13,480
2018F (6m-avg)	13,529

#### Key Indicators

ROE (%)	2018F	6.0%
Tot.Debt/Tot Equity (x)		1.0
Current ratio (x)		3.4

Analyst:  
Eka Rahmawati Rahman

#### Investment Considerations

##### Expecting Flat in 2018

- As of 2017FY PGAS revenue rose +1.18% to USD. 2.97 billion, +0.3% higher than our forecast for 2017F of USD. 2.96 billion. While net profit fell -53.0% to USD. 143 million from USD. 304.4 million in 2016FY, lower than our 2017F estimate of USD 175 million.
- The lower net profit was caused by higher cost of revenues which increased for oil and gas operations, by +46% yoy to USD 443 million, and for gas distributions +5% to USD 1,624 million, but decreased for Liquid Natural Gas (LNG) cost by -55.4% to USD 85.7 million.
- Finance costs increased due to higher interest from the refinancing of commercial loan to bond in their oil and gas subsidiary.
- As for targets for 2018, we estimate revenue to grow slightly by 1.6% to USD 3.02 billion.

##### Options for PGAS and PERTAGAS

- As of January 2018, the Government has reorganized their Oil and Gas holdings with PERTAMINA as the holding company.
- In the establishment of the new oil and gas holding structure, PGAS and Pertagas have a few options, such as 1). PGAS acquires the shares of Pertagas owned by Pertamina, 2). PGAS acquires Pertagas' s treasury stock – Pertagas right issue, 3) transfer of the shares of Pertagas owned by Pertamina to the share capital of PGAS, and 4) Merger.
- As of today, we don't yet know the valuation and the chosen option between PGAS and Pertagas. The decision will be released at the end of March or in April 2018.

##### Valuation: Maintain BUY with TP 3,050 with 34% Upside

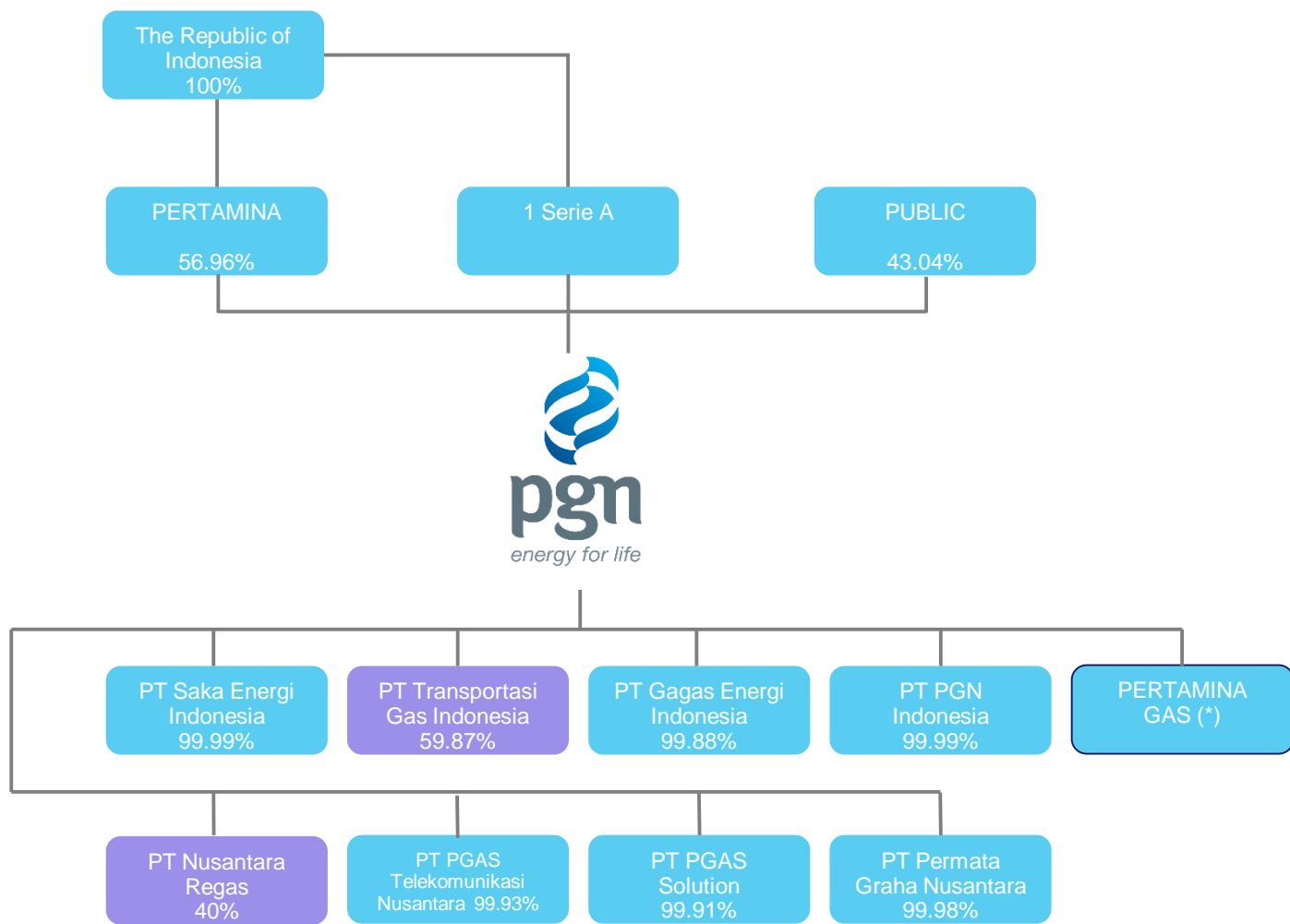
- Duri – Dumai with 58 km and Duri – Dumai Transmission with 67 km of pipeline which is a joint venture with Pertagas will start to operate at the end of 2018.
- And ESDM Ministry released PERMEN ESDM No. 4/2018 on the master plan of the natural gas transmission and distribution network, which will benefit PGAS as a dominant player in downstream gas .
- We maintain our BUY recommendation for PGAS with a DCF valuation with WACC at 8.21%.
- We estimate PGAS shares will rise by 34% to IDR 3,050 within a year. BUY

Income Statement in USD Mn.	2015A	2016A	2017A	2018F	2019F
<b>Revenues</b>	<b>3,068.8</b>	<b>2,934.7</b>	<b>2,969.5</b>	<b>3,018.9</b>	<b>3,066.3</b>
Cost of Revenues	(2,105.7)	(2,047.8)	(2,172.4)	(2,209.8)	(2,244.6)
<b>Gross Profit</b>	<b>963.1</b>	<b>886.9</b>	<b>797.1</b>	<b>809.1</b>	<b>821.8</b>
Operating Income (Expense)	(405.6)	(442.7)	(420.2)	(428.7)	(435.4)
<b>Operating Profit</b>	<b>557.5</b>	<b>444.2</b>	<b>376.9</b>	<b>380.4</b>	<b>386.4</b>
Others Income (Expense)	(119.9)	(59.3)	(101.5)	(108.7)	(110.4)
<b>PBT</b>	<b>437.6</b>	<b>385.0</b>	<b>275.4</b>	<b>271.7</b>	<b>276.0</b>
Tax	(34.6)	(76.4)	(127.8)	(62.5)	(63.5)
Non-controlling interest	(1.6)	(4.2)	(4.6)	(6.0)	(6.1)
<b>Net Profit</b>	<b>401.4</b>	<b>304.4</b>	<b>143.0</b>	<b>203.2</b>	<b>206.4</b>
<b>EPS (USD)</b>	<b>0.017</b>	<b>0.013</b>	<b>0.006</b>	<b>0.008</b>	<b>0.009</b>
<b>EBITDA</b>	<b>701.3</b>	<b>661.2</b>	<b>621.4</b>	<b>574.1</b>	<b>601.3</b>

**Company Profile**

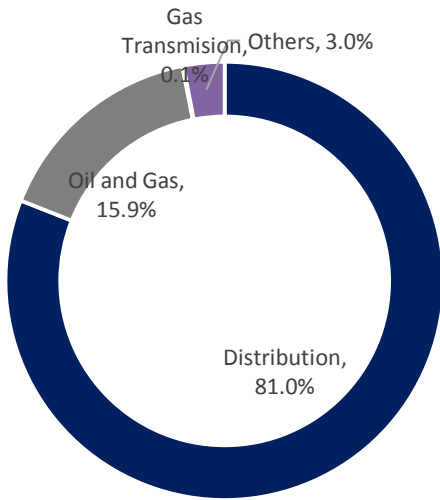
PT Perusahaan Gas Negara (Persero) Tbk is an SOE with its main business in natural gas. The company continues to strengthen its foundation, and transform from a natural gas transmission and distribution company to become a provider for integrated energy solutions that push forward the usage of natural gas for public and industrial needs. The company has a synergy comprising upstream, downstream and supporting businesses. In Downstream business, PGAS operates in 3 Major Coverage Area, 39 cities and 12 provinces in Indonesia. While in Upstream business, PGAS has total assets of 11 blocks with 8 blocks in operation and 3 blocks in exploration. In gas infrastructure, PGAS is developing a +- 7,453 km length pipeline network, 2 units of FSRU, 12 gas fueling stations, and 4 mobile refueling units (MRU). The company has six subsidiaries and two joint ventures.

**Structure of Oil and Gas Holding Company**



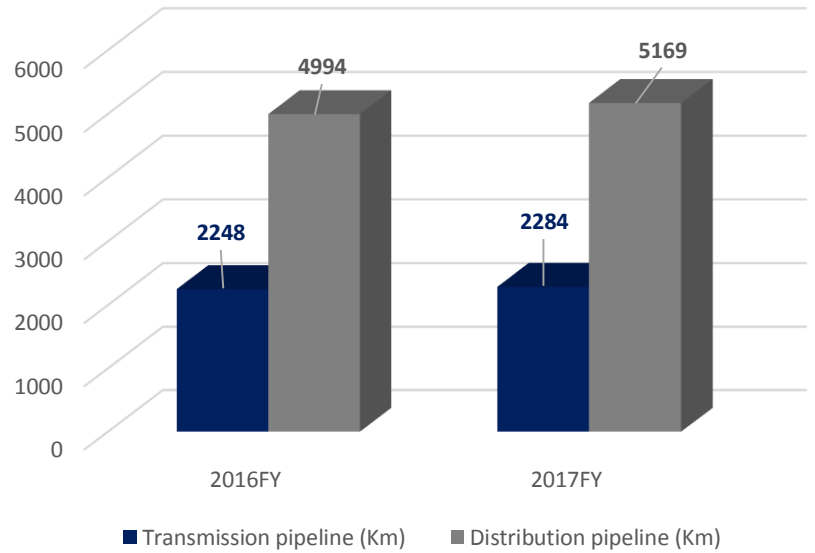
Source: Company

Chart: Revenue Breakdown 2017FY



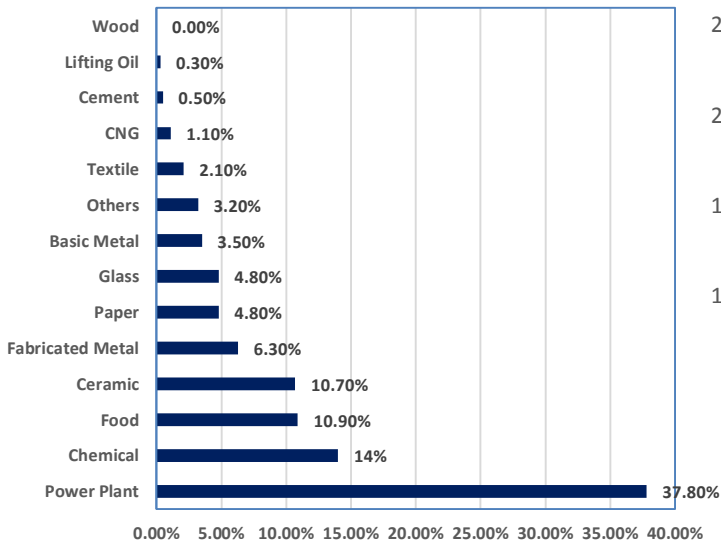
Source: Company

Chart: Pipelines network of PGAS



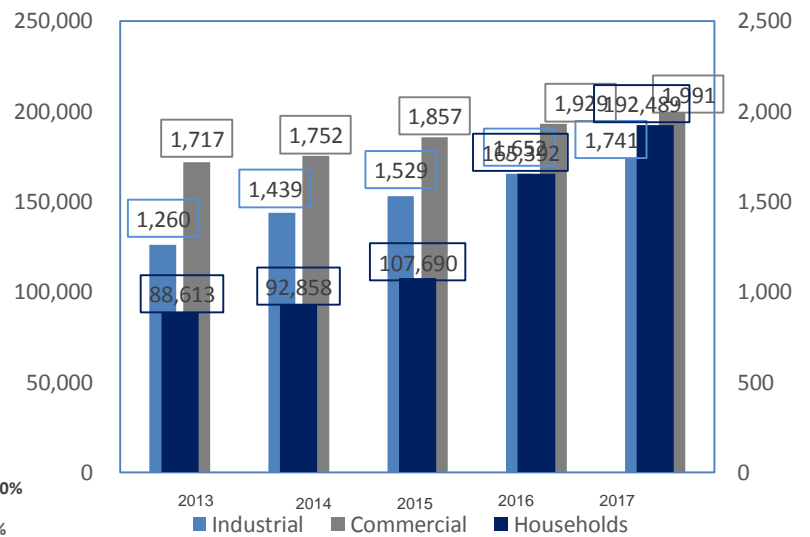
Source: Company

Chart: Industrial & Commercial Diversification Customers



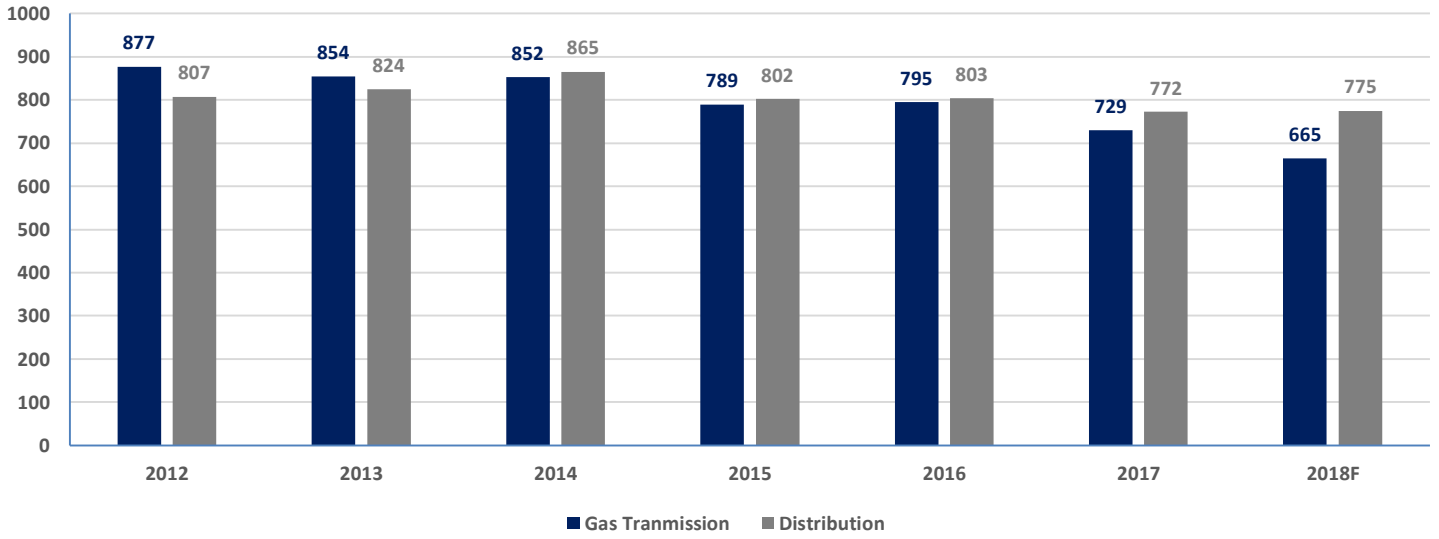
Source: Company

Chart: Numbers of Customers 2017FY



Source: Company

Chart: Gas Transmission and Distribution Volume YoY



Source: Company

Table: Income Statement in USD. Million YoY

Income Statement in USD Mn.	2014A	2015A	2016A	2017A	2018F	2019F
Revenues	3,253.4	3,068.8	2,934.7	2,969.5	3,018.9	3,066.3
Cost of Revenues	(1,967.9)	(2,105.7)	(2,047.8)	(2,172.4)	(2,209.8)	(2,244.6)
<b>Gross Profit</b>	<b>1,285.5</b>	<b>963.1</b>	<b>886.9</b>	<b>797.1</b>	<b>809.1</b>	<b>821.8</b>
Operating Income (Expense)	(426.5)	(405.6)	(442.7)	(420.2)	(428.7)	(435.4)
<b>Operating Profit</b>	<b>859.0</b>	<b>557.5</b>	<b>444.2</b>	<b>376.9</b>	<b>380.4</b>	<b>386.4</b>
Others Income (Expense)	70.8	(119.9)	(59.3)	(101.5)	(108.7)	(110.4)
<b>PBT</b>	<b>929.8</b>	<b>437.6</b>	<b>385.0</b>	<b>275.4</b>	<b>271.7</b>	<b>276.0</b>
Tax	(218.8)	(34.6)	(76.4)	(127.8)	(62.5)	(63.5)
Non-controlling interest	0.2	(1.6)	(4.2)	(4.6)	(6.0)	(6.1)
<b>Net Profit</b>	<b>711.2</b>	<b>401.4</b>	<b>304.4</b>	<b>143.0</b>	<b>203.2</b>	<b>206.4</b>
<b>EPS (USD)</b>	<b>0.029</b>	<b>0.017</b>	<b>0.013</b>	<b>0.006</b>	<b>0.008</b>	<b>0.009</b>
<b>EBITDA</b>	<b>1,129.1</b>	<b>701.3</b>	<b>661.2</b>	<b>621.4</b>	<b>574.1</b>	<b>601.3</b>

Source: Company & Binaartha

Table: Cash Flow in USD. Million YoY

Cash Flow (In USD Mn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F
Net Income	861	711	401	304	143	203	206
Depreciation	186	126	145	144	199	199	222
Change in WC		(359)	15	(86)	(280)	5	8
<b>Cash From Operating Activities</b>	<b>1,046</b>	<b>478</b>	<b>561</b>	<b>363</b>	<b>62</b>	<b>407</b>	<b>436</b>
Capex	(844)	(1,498)	(962)	(81)	26	(400)	(561)
<b>Cash From Investing Activities</b>	<b>(844)</b>	<b>(1,498)</b>	<b>(962)</b>	<b>(81)</b>	<b>26</b>	<b>(400)</b>	<b>(561)</b>
Long-term Bank Loans	(228)	(139)	780	43	(883)	54	(31)
Bonds Payables	0	1,332	2	2	620	0	0
Others Noncurrent Liabilities	(102)	201	(122)	(1)	53	(30)	(3)
Equity	(488)	(563)	(254)	(157)	(126)	(55)	(3)
<b>Cash From Financing Activities</b>	<b>(819)</b>	<b>832</b>	<b>406</b>	<b>(113)</b>	<b>(335)</b>	<b>(31)</b>	<b>(37)</b>
<b>Net Changes in Cash</b>		<b>(188)</b>	<b>4</b>	<b>169</b>	<b>(248)</b>	<b>(24)</b>	<b>(163)</b>
<b>Beginning Balance</b>	<b>1,567</b>	<b>1,319</b>	<b>1,131</b>	<b>1,136</b>	<b>1,304</b>	<b>1,056</b>	<b>1,032</b>
<b>Ending Balance</b>	<b>1,567</b>	<b>1,131</b>	<b>1,135</b>	<b>1,304</b>	<b>1,056</b>	<b>1,032</b>	<b>869</b>

Source: Company & Binaartha

Table: Statement of Financial Position in USD. Million YoY

Statement of Financial Position (In USD Mn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and Cash Equivalents	1,319	1,131	1,136	1,304	1,056	1,032	869
Trade Accounts Receivable	316	378	387	555	529	528	513
Inventory	15	63	43	65	61	91	92
Others Current Assets	131	164	156	200	162	211	215
<b>Total Current Assets</b>	<b>1,781</b>	<b>1,735</b>	<b>1,723</b>	<b>2,125</b>	<b>1,808</b>	<b>1,862</b>	<b>1,688</b>
<b>NONCURRENT ASSETS</b>							
Fixed Assets	1,837	1,771	1,871	1,829	1,706	1,905	2,127
Oil and Gas Properties	433	1,417	1,636	1,709	1,595	1,591	1,687
Trade Receivables	40	62	517	451	437	444	451
Other Noncurrent Assets	273	705	748	721	747	745	761
<b>Total Noncurrent Assets</b>	<b>2,583</b>	<b>3,955</b>	<b>4,772</b>	<b>4,709</b>	<b>4,485</b>	<b>4,686</b>	<b>5,026</b>
<b>TOTAL ASSETS</b>	<b>4,363</b>	<b>5,689</b>	<b>6,495</b>	<b>6,834</b>	<b>6,293</b>	<b>6,548</b>	<b>6,714</b>
<b>LIABILITIES AND EQUITY</b>							
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Short-term Bank Loans	300	48	122	271	23	23	24
Trade Payables	158	253	202	219	190	209	204
Accruals	180	281	270	231	192	240	238
Others Current Liabilities	247	88	74	94	62	78	80
<b>Total Current Liabilities</b>	<b>886</b>	<b>669</b>	<b>667</b>	<b>815</b>	<b>467</b>	<b>550</b>	<b>546</b>
<b>NONCURRENT LIABILITIES</b>							
Long-term bank	612	473	1,253	1,296	414	467	436
Bonds Payables	0	1,332	1,334	1,335	1,955	1,955	1,955
Others Noncurrent Liabilities	138	340	218	217	270	241	238
<b>Total Noncurrent Liabilities</b>	<b>750</b>	<b>2,145</b>	<b>2,805</b>	<b>2,849</b>	<b>2,640</b>	<b>2,664</b>	<b>2,629</b>
<b>TOTAL LIABILITIES</b>	<b>1,636</b>	<b>2,814</b>	<b>3,472</b>	<b>3,664</b>	<b>3,106</b>	<b>3,213</b>	<b>3,175</b>
Non-controlling interest	182	0	2	7	19	24	25
<b>EQUITY</b>	<b>2,545</b>	<b>2,875</b>	<b>3,020</b>	<b>3,163</b>	<b>3,168</b>	<b>3,311</b>	<b>3,514</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>4,363</b>	<b>5,690</b>	<b>6,495</b>	<b>6,834</b>	<b>6,293</b>	<b>6,549</b>	<b>6,714</b>

Source: Company & Binaartha

Table: Ratio Highlights YoY

Growth (% YoY)	2013A	2014A	2015A	2016A	2017A	2018F	2019F
Sales	16%	8%	-6%	-4%	1%	2%	2%
OP	-8%	-8%	-35%	-20%	-15%	1%	2%
EBITDA	-2%	-16%	-38%	-6%	-6%	-8%	5%
NP	-3%	-17%	-44%	-24%	-53%	42%	2%
EPS	-3%	-17%	-44%	-24%	-53%	42%	2%

Profitability							
Operating Margin(%)	31%	26%	18%	15%	13%	13%	13%
EBITDA margin(%)	45%	35%	23%	23%	21%	19%	20%
NET Profit margin(%)	29%	22%	13%	10%	5%	7%	7%
ROA(%)	20%	12%	6%	4%	2%	3%	3%
ROE(%)	34%	25%	13%	10%	5%	6%	6%

Stability							
Tot debt/ equity (x)	0.6	1.0	1.1	1.2	1.0	1.0	0.9
Current Ratio (X)	2.0	2.6	2.6	2.6	3.9	3.4	3.1

Per Share data (USD)							
EPS	0.04	0.03	0.02	0.01	0.01	0.01	0.01
EBITDA/share	0.06	0.05	0.03	0.03	0.03	0.02	0.02

Source: Company &amp; 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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