BINAARTHA SEKURITAS

Equity Research

PT Perusahaan Gas Negara Tbk

Infrastructure, Energy
9 July 2018

Price	**IDR.**	**1,565**
Target	**IDR.**	**1,935**
JKSE Index		**5,694.914**

Stock code

Bloomberg code	PGAS IJ
Market cap (in Bn)	39,513
52-week high	2,860
52-week low	1,365
6-m avg.dail.val (IDR)	2,220
Free Float (%)	43.03%

Major Share Holders (%)

PERTAMINA	57.00%
Public	43.00%

USD/IDR-YE

2017	13,480
2018F (6m-avg)	13,782

Analyst:
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Investment Considerations

BUY

PERTAGAS acquisition

- PGAS has acquired 51% of PT Pertamina Gas (PTG) from PT Pertamina (Persero) for IDR 16.6 trillion. The value implies an equity value of IDR 32.6 trillion for 100% of Pertagas. The fair valuation of Pertagas includes PT Pertamina Gas valued at IDR 28.4 trillion and PT Pertagas Niaga valued at IDR 4.2 trillion as of December 2017. The valuation methods used are DCF and Market Comparables. The funding will come from internal cash 30% and 70% from bank loans.
- Pertagas will retain 99% of subsidiary PT Pertagas Niaga (PTGN) while Pertagas's other subsidiaries such as PT Perta Kalimantan Gas (PKG), PT Perta Daya Gas (PDG), PT Perta-Samtan Gas (PSG), and PT Perta Arun Gas (PAG) will be carved out for Pertamina.

Post acquisition plans

- Post Acquisition, PGAS will focus on the midstream to downstream segment. PGAS's total gas pipeline network will be 9,677Km covering 14 provinces and 55 regencies, 2 FSRUs, 12 gas fueling stations, 4 MRUs, total transmission and distribution volumes of 3 Bcfd with 96% market share in transmission and distribution of gas. PGAS is targeting distribution volume growth of 7% per annum, transmission volume growth of 5% per annum. PGAS plans to have an additional 576 km network of pipeline.
- Post acquisition, the company targets to earn an additional EBITDA of USD 65 million a year on average for the next 5 years.
- PGAS near term business integration plan post acquisition includes 1) eliminating operational duplication, particularly in East and West Java. 2) Market expansion of the distribution business in Medan, Dumai, Central Java, East, and West Java. 3) Market expansions of the transmission business in Semarang - Cirebon. 4) Market expansion of the LNG business in Papua & surrounding areas. and 5) Retailing of CNG and LNG. For Upstream business, PGAS is still in discussions on SAKA Energy's future.

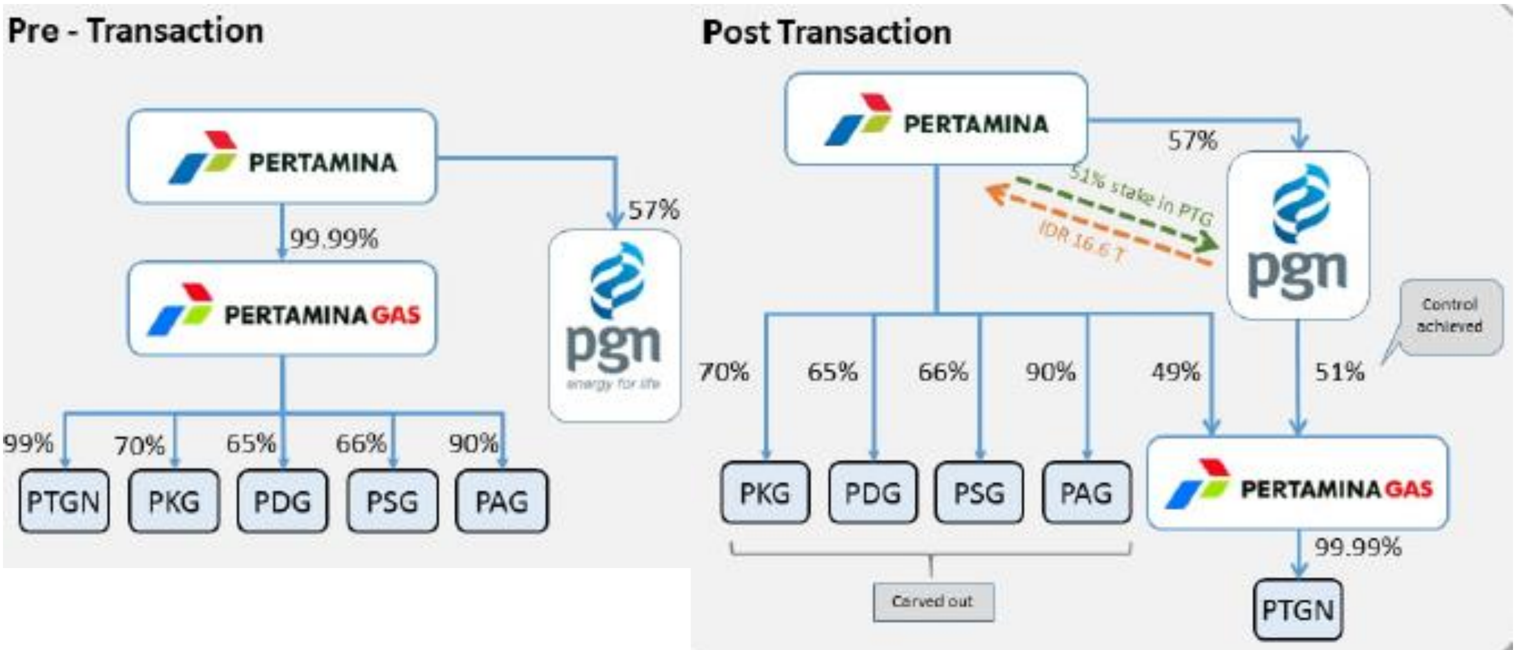
Valuation: Maintain BUY with TP 1,935 with 24% Upside

- We are expecting better pro-forma earnings from PGAS with the strengthening of core transmission and distribution business segments and a larger market share. We are targeting revenue to reach USD 3.6 billion in 2018F & grow 21% after the acquisition.
- A DCF valuation with WACC at 4.07%, gives a revised target price of IDR 1,935 or 24% upside and a 13x PE valuation within a year. Maintain BUY

Financial Highligths	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Revenue (USD Mn)	3,001	3,253	3,069	2,935	2,969	3,604	3,693	3,899
Gross Profit (USD Mn)	1,418	1,285	963	887	797	1,037	1,066	1,127
GPM (%)	47%	40%	31%	30%	27%	29%	29%	29%
Net Profit (USD Mn)	861	711	401	304	143	258	265	280
NPM (%)	29%	22%	13%	10%	5%	7%	7%	7%
EPS (USD)	0.04	0.03	0.02	0.01	0.01	0.01	0.01	0.01
EBITDA (USD Mn)	1,338	1,129	701	661	621	976	1,032	1,102
EBITDA Margin (%)	45%	35%	23%	23%	21%	27%	28%	28%
Tot debt/ equity (x)	0.6	1.0	1.1	1.2	1.0	1.3	1.2	1.0
Current Ratio (X)	2.0	2.6	2.6	2.6	3.9	2.3	2.2	1.6

Source: Company and Binaartha

Pictures: Structure PGAS pre-acquisition and post-acquisition Pertagas



Source: Company

Table: Key operational PGAS pre-acquisition and post-acquisition Pertagas

	PGAS	PTG + PTGN	Combined
Distribution Volume (in MMScfd)	772	128	900
Transmission Volume (in MMScfd)	1,252	1,375	2,627
Pipeline (in KM)	7,454	2,223	9,677
FSRU (units)	2	-	2
Gas Fuel Stations (units)	12	-	12
MRU (units)	4	-	4
Residential Customers	192,489	-	192,489
Commercial & Industrial Customers	3,732	88	3,820

Source: Company

Table: Income Statement in USD. Million YoY

						Forecast post pertagas acquisition		
Income Statement in USD Mn.	**2013A**	**2014A**	**2015A**	**2016A**	**2017A**	**2018F**	**2019F**	**2020F**
Revenues	**3,001.5**	**3,253.4**	**3,068.8**	**2,934.7**	**2,969.5**	**3,604.2**	**3,692.6**	**3,899.4**
Cost of Revenues	(1,583.5)	(1,967.9)	(2,105.7)	(2,047.8)	(2,172.4)	(2,566.8)	(2,626.6)	(2,772.6)
Gross Profit	**1,418.0**	**1,285.5**	**963.1**	**886.9**	**797.1**	**1,037.3**	**1,066.0**	**1,126.8**
Operating Income (Expense)	(484.3)	(426.5)	(405.6)	(442.7)	(420.2)	(482.5)	(493.0)	(520.2)
Operating Profit	**933.7**	**859.0**	**557.5**	**444.2**	**376.9**	**554.8**	**573.0**	**606.6**
Others Income (Expense)	191.4	70.8	(119.9)	(59.3)	(101.5)	(137.9)	(141.7)	(149.8)
PBT	**1,125.1**	**929.8**	**437.6**	**385.0**	**275.4**	**416.9**	**431.3**	**456.8**
Tax	(231.2)	(218.8)	(34.6)	(76.4)	(127.8)	(100.1)	(103.7)	(109.9)
Non-controlling interest	(33.4)	0.2	(1.6)	(4.2)	(4.6)	(58.7)	(62.5)	(66.7)
Net Profit	**860.5**	**711.2**	**401.4**	**304.4**	**143.0**	**258.1**	**265.1**	**280.2**
EPS (USD)	**0.035**	**0.029**	**0.017**	**0.013**	**0.006**	**0.011**	**0.011**	**0.012**
EBITDA	**1,337.6**	**1,129.1**	**701.3**	**661.2**	**621.4**	**976.4**	**1,031.8**	**1,102.2**

Source: Company & Binaartha

Table: Cash Flow in USD. Million YoY

						Forecast post pertagas acquisition		
Cash Flow (In USD Mn)	**2013A**	**2014A**	**2015A**	**2016A**	**2017A**	**2018F**	**2019F**	**2020F**
Net Income	861	711	401	304	143	258	265	280
Depreciation	186	126	145	144	199	232	258	286
Change in WC		(359)	15	(86)	(280)	(13)	6	(59)
Cash From Operating Activities	**1,046**	**478**	**561**	**363**	**62**	**477**	**529**	**507**
Capex	(844)	(1,498)	(962)	(81)	26	(1,937)	(702)	(817)
Cash From Investing Activities	**(844)**	**(1,498)**	**(962)**	**(81)**	**26**	**(1,937)**	**(702)**	**(817)**
Long-term Bank Loans	(228)	(139)	780	43	(883)	744	17	(315)
Bonds Payables	0	1,332	2	2	620	0	0	0
Others Noncurrent Liabilities	(102)	201	(122)	(1)	53	19	0	10
Equity	(488)	(563)	(254)	(157)	(126)	497	68	65
Cash From Financing Activities	**(819)**	**832**	**406**	**(113)**	**(335)**	**1,261**	**85**	**(240)**
Net Changes in Cash		**(188)**	**4**	**169**	**(248)**	**(199)**	**(88)**	**(549)**
Beginning Balance	**1,567**	**1,319**	**1,131**	**1,136**	**1,304**	**1,056**	**857**	**769**
Ending Balance	**1,567**	**1,131**	**1,135**	**1,304**	**1,056**	**857**	**769**	**219**

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	2020F
						Forecast post pertagas acquisition		
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents	1,319	1,131	1,136	1,304	1,056	857	769	219
Trade Accounts Receivable	316	378	387	555	529	718	716	790
Inventory	15	63	43	65	61	91	92	97
Others Current Assets	131	164	156	200	162	351	364	385
Total Current Assets	**1,781**	**1,735**	**1,723**	**2,125**	**1,808**	**2,016**	**1,941**	**1,492**
NONCURRENT ASSETS								
Fixed Assets	1,837	1,771	1,871	1,829	1,706	3,193	3,505	3,849
Oil and Gas Properties	433	1,417	1,636	1,709	1,595	1,591	1,687	1,790
Trade Receivables	40	62	517	451	437	444	451	475
Other Noncurrent Assets	273	705	748	721	747	962	992	1,051
Total Noncurrent Assets	**2,583**	**3,955**	**4,772**	**4,709**	**4,485**	**6,190**	**6,635**	**7,165**
TOTAL ASSETS	**4,363**	**5,689**	**6,495**	**6,834**	**6,293**	**8,207**	**8,575**	**8,658**
LIABILITIES AND EQUITY								
LIABILITIES								
CURRENT LIABILITIES								
Short-term Bank Loans	300	48	122	271	23	89	94	100
Trade Payables	158	253	202	219	190	333	337	361
Accruals	180	281	270	231	192	328	333	344
Others Current Liabilities	247	88	74	94	62	111	116	117
Total Current Liabilities	**886**	**669**	**667**	**815**	**467**	**861**	**880**	**922**
NONCURRENT LIABILITIES								
Long-term bank	612	473	1,253	1,296	414	1,158	1,175	860
Bonds Payables	0	1,332	1,334	1,335	1,955	1,955	1,955	1,955
Others Noncurrent Liabilities	138	340	218	217	270	289	290	299
Total Noncurrent Liabilities	**750**	**2,145**	**2,805**	**2,849**	**2,640**	**3,403**	**3,420**	**3,115**
TOTAL LIABILITIES	**1,636**	**2,814**	**3,472**	**3,664**	**3,106**	**4,264**	**4,300**	**4,037**
Minority interest	182	0	2	7	19	611	654	699
EQUITY	**2,545**	**2,875**	**3,020**	**3,163**	**3,168**	**3,332**	**3,622**	**3,922**
TOTAL LIABILITIES & EQUITY	**4,363**	**5,690**	**6,495**	**6,834**	**6,293**	**8,207**	**8,575**	**8,658**

Source: Company & Binaartha

Table: Ratio Highlights YoY

						Forecast post pertagas acquisition		
Growth (% YoY)	**2013A**	**2014A**	**2015A**	**2016A**	**2017A**	**2018F**	**2019F**	**2020F**
Sales	16%	8%	-6%	-4%	1%	21%	2%	6%
OP	-8%	-8%	-35%	-20%	-15%	47%	3%	6%
EBITDA	-2%	-16%	-38%	-6%	-6%	57%	6%	7%
NP	-3%	-17%	-44%	-24%	-53%	80%	3%	6%
EPS	-3%	-17%	-44%	-24%	-53%	80%	3%	6%
Profitability								
Gross Margin (%)	47%	40%	31%	30%	27%	29%	29%	29%
Operating Margin(%)	31%	26%	18%	15%	13%	15%	16%	16%
EBITDA margin(%)	45%	35%	23%	23%	21%	27%	28%	28%
NET Profit margin(%)	29%	22%	13%	10%	5%	7%	7%	7%
ROA(%)	20%	12%	6%	4%	2%	3%	3%	3%
ROE(%)	34%	25%	13%	10%	5%	8%	7%	7%
Stability								
Tot debt/ equity (x)	0.6	1.0	1.1	1.2	1.0	1.3	1.2	1.0
Current Ratio (X)	2.0	2.6	2.6	2.6	3.9	2.3	2.2	1.6
Per Share data (USD)								
EPS	0.04	0.03	0.02	0.01	0.01	0.01	0.01	0.01
EBITDA/share	0.06	0.05	0.03	0.03	0.03	0.04	0.04	0.05

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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