

PT Perusahaan Gas Negara (Persero) Tbk

BUY

Infrastructure, Energy
December 7th, 2017

Price	IDR.	1,580
Target	IDR.	2,110
JKSE Index		6,035.51

Investment Considerations

Recovery in Downstream volume

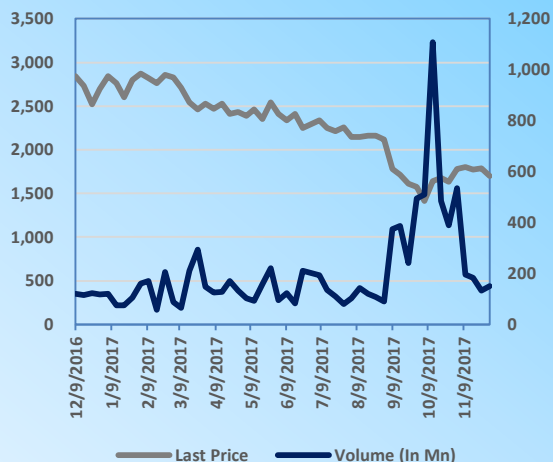
As of 9M17, volume of the two main contributors to revenue, distribution and transmission, declined -3.3% and -8.2% yoy due to lower consumption in 2Q17 mainly from the power plant sector and other industries following the long public holiday. In 3Q17, volume started to show a recovery QoQ in both distribution and transmission by 2.4% and 2.08% respectively. PGAS continues to strengthen its pipeline network infrastructure which as of 9M17 increased 148 km to 7390 Km compared to 7242 Km in 2016A. Despite a decline in consumption in 2Q17, we believe future demand for gas as a clean, cheap and safe fuel will remain high. Especially as PGAS seeks to expand the utilization of natural gas to other regions in the country, by targeting industrial areas such as supplying gas to Modern Industrial Area Cikande, Serang, Banten and in the Riau islands. In addition, in November 2018, the Duri-Dumai gas transmission and distribution pipeline in Riau Province will start ground breaking for an additional 67 kilometers. The Duri - Dumai transmission JV with Pertamina is targeted to operate by end 2018 as well as Duri - Dumai.

Growth in Upstream volume

From 11 acquired oil and gas blocks under PGN's subsidiary Saka Energi Indonesia, Fasken has started production at 160-170MMSCFD while domestically there is increasing revenue at SAKA coming from Muara Bakau, Bangkanai, and Sanga-Sanga blocks that already started operations. Muara Bakau block started producing in 1H17 with production of 467 MMSCFD. As of 9M17, oil and gas lifting increased +33% yoy to 36,905 boepd.

Valuation: TP 2110 with 34% Upside

Using a DCF valuation with WACC at 8.46%, we estimate PGAS shares will rise by 34% to IDR 2,110 within a year. BUY



Stock code

Bloomberg code	PGAS IJ
Market cap (in Bn)	37,938
52-week high	3,050
52-week low	1,365
6-m avg.dail.val (IDR)	1,942
Free Float (%)	43.03%

Major Share Holders (%)

Government of RI	56.97%
Public	43.03%

USD/IDR-YE

2016	13,795
2017F (6m-avg)	13,546

Key Indicators

	2018F
ROE (%)	8 %
Tot.Debt/Tot Equity (x)	0.9
Current ratio (x)	3.0

Analyst:
Eka Rahmawati Rahman
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Income Statement in USD

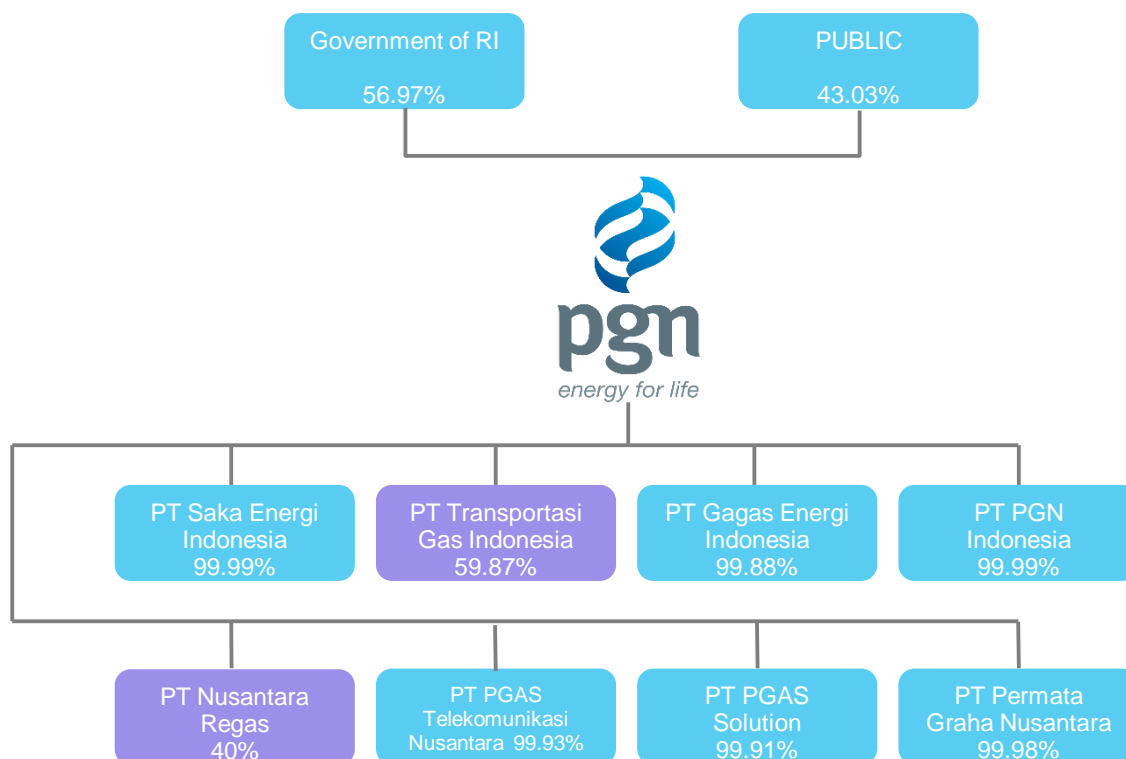
Mn.	2014A	2015A	2016A	2017F	2018F	2019F
Revenues	3,253.4	3,068.8	2,934.7	2,960.1	3,020.1	3,272.6
Cost of Revenues	(1,967.9)	(2,105.7)	(2,047.8)	(2,190.4)	(2,144.2)	(2,323.5)
Gross Profit	1,285.5	963.1	886.9	769.6	875.8	949.0
Operating Income						
(Expense)	(426.5)	(405.6)	(442.7)	(384.8)	(392.6)	(425.4)
Operating Profit	859.0	557.5	444.2	384.8	483.2	523.6
Others Income (Expense)	70.8	(119.9)	(59.3)	(106.6)	(108.7)	(117.8)
PBT	929.8	437.6	385.0	278.2	374.5	405.8
Tax	(218.8)	(34.6)	(76.4)	(97.4)	(86.1)	(81.2)
Non-controlling interest	0.2	(1.6)	(4.2)	(5.9)	(6.0)	(6.5)
Net Profit	711.2	401.4	304.4	174.9	282.3	318.1
EPS (USD)	0.029	0.017	0.013	0.007	0.012	0.013
EBITDA	1,129.1	701.3	661.2	511.9	617.1	658.0

Source: Company and Binaartha

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, 19 cities and 12 provinces. 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 +- 7,390 km length pipeline network, 2 units of FSRU, 10 gas fueling stations, and 4 mobile refueling units (MRU). The company has six subsidiaries and two joint ventures.

Company Structure



Source: Company

Table: Gas regulation

Gas Regulation		
Oct-15	Third Economic Policy Package	Lowering energy price including gasoline, electricity and gas price
Feb-16	Decree of ESDM Minister No. 6 / 2016	Guideline and procedure to determine allocation, utilization and price of gas
May-16	Presidential Decree No. 40 / 2016	Determine of gas price for seven industries (specific users)
Jun-16	Decree of ESDM Minister No. 16 / 2016	Procedure for determining the price for specific users
Nov-16	Decree of ESDM Minister No. 40 / 2016	Gas prices for three specific industries i.e the fertilizer, petrochemical, and steel industry
Jul-17	Decree of ESDM Minister No. 45 / 2017	Guideline to determine utilization and price of gas for electricity sector
Jul-17	Gas Price Amendement CPGL - PGN	ESDM Minister approved increased gas price of ConocoPhillips to PGN in Batam Area

Regulatory Highlights

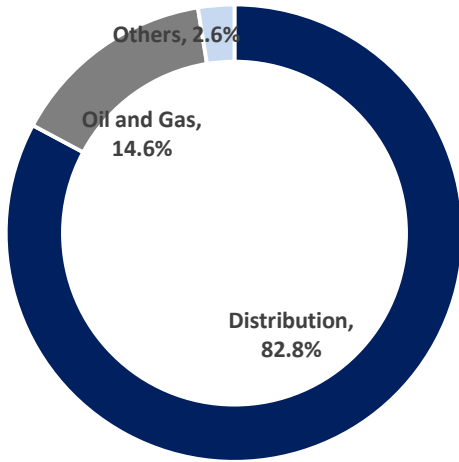
PGAS or 'PGN' as an SOE is required to follow applicable regulations. The latest regulation came in July 2017, ESDM Minister released a new regulation on gas prices CPGL – PGN. ESDM Minister approved an increased in the gas price of ConocoPhillips to PGN in Batam Area from US\$ 2.6/mmbtu to US\$ 3.5/mmbtu for volume of 22.73 billion british thermal unit from 1 august until the end of the contract in 2019. Despite the increased gas price of ConocoPhillips to PGN, PGN is not allowed to raise the selling price to the consumer.

ESDM Minister also released Decree of ESDM Minister No. 45 / 2017 on the guidelines to determine the price of gas to the electricity sector. According to the regulation, power plants (PLN or BUPLT) can buy natural gas at a maximum price of 14.5% of the IPC (Indonesia crude price) , power plants can purchase LNG if the price is lower or the same. If the domestic LNG price is higher, it depends on the ESDM Minister regulation or purchasing nature gas from overseas / importing.

For the future, ESDM Ministry is preparing several more regulations, such as setting margin limit for gas traders at only 7% and Internal Rate of Return (IRR) at 11%.

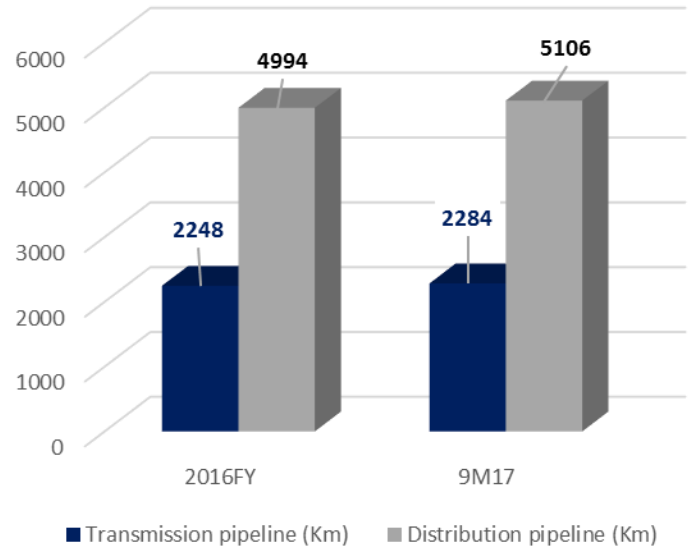
Source: Company and ESDM Ministry

Chart: Revenue Breakdown 9M2017



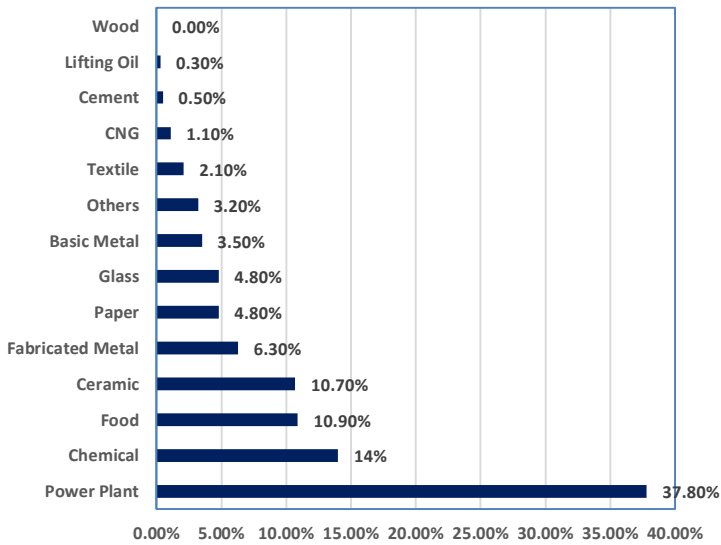
Source: Company

Chart: Pipelines network of PGAS



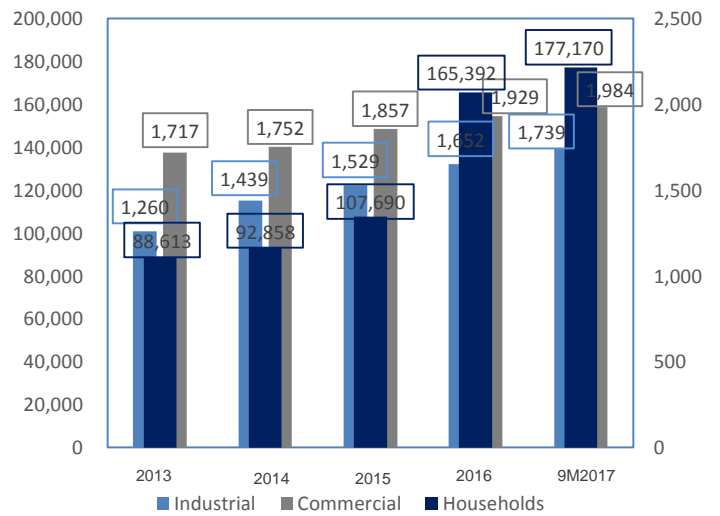
Source: Company

Chart: Industrial & Commercial Diversification Customers



Source: Company

Chart: Numbers of Customers 9M2017



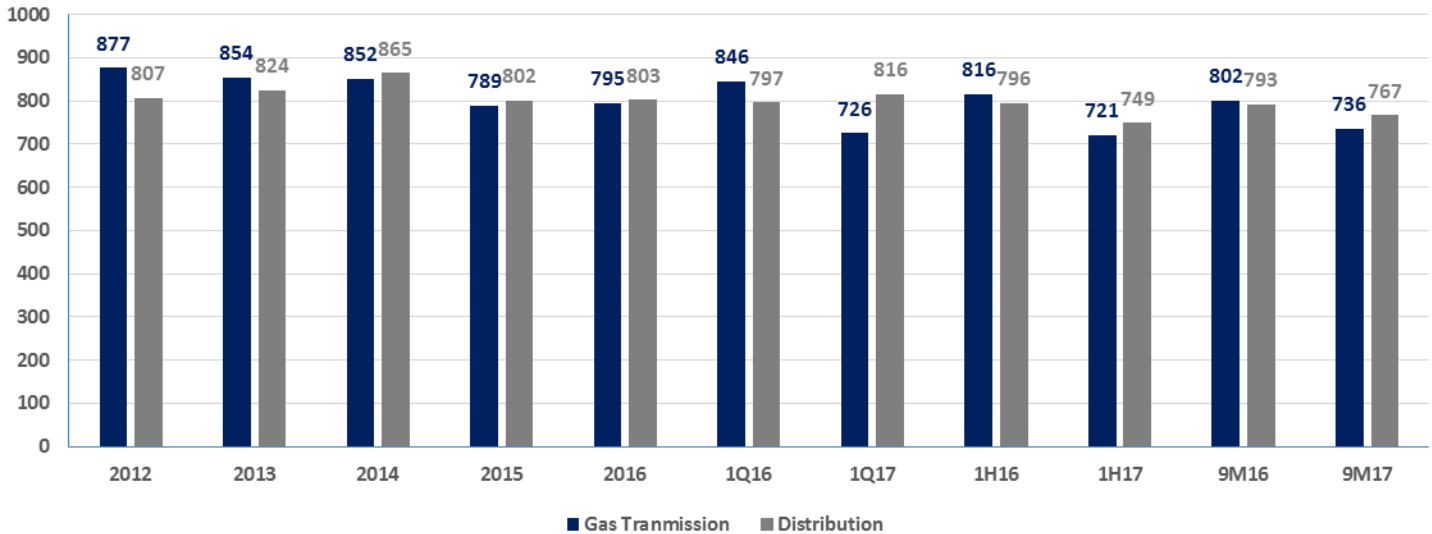
Source: Company

Table: List of upstream busines-SAKA acquired Oil and Gas Blocks

Asset	% Wi	Operator	Area (Km2)	Status	PSC Expiry
Pangkah	100	SEI	784	Production	2026
Ketapang	20	Petronas	885	Production	2028
Bangkanai	30	Salamander	1395	Production	2033
South Sesulu	100	SEI	625	Exploration	2039
Fasken (Texas)	36	Swift Energy	8300 acres	Production	2050
SES	8.9	CNOOC	6082	Production	2018
Muriah	20	Petronas	2823	Production	2021
West Bangkanai	30	Salamander	5463	Exploration	2043
Muara Bakau	11.7	Eni	1082	Production	2032
Wokam	100	SEI	3714	Exploration	
Sanga-Sanga	37.81	SEI & Vico	1075	Production	2018

Source: Company

Chart: Gas Transmission and Distribution Volume YoY



Source: Company

Table: Income Statement in USD. Million YoY

Income Statement in USD Mn.	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Revenues	3,001.5	3,253.4	3,068.8	2,934.7	2,960.1	3,020.1	3,272.6
Cost of Revenues	(1,583.5)	(1,967.9)	(2,105.7)	(2,047.8)	(2,190.4)	(2,144.2)	(2,323.5)
Gross Profit	1,418.0	1,285.5	963.1	886.9	769.6	875.8	949.0
Operating Income (Expense)	(484.3)	(426.5)	(405.6)	(442.7)	(384.8)	(392.6)	(425.4)
Operating Profit	933.7	859.0	557.5	444.2	384.8	483.2	523.6
Others Income (Expense)	191.4	70.8	(119.9)	(59.3)	(106.6)	(108.7)	(117.8)
PBT	1,125.1	929.8	437.6	385.0	278.2	374.5	405.8
Tax	(231.2)	(218.8)	(34.6)	(76.4)	(97.4)	(86.1)	(81.2)
Non-controlling interest	(33.4)	0.2	(1.6)	(4.2)	(5.9)	(6.0)	(6.5)
Net Profit	860.5	711.2	401.4	304.4	174.9	282.3	318.1
EPS (USD)	0.035	0.029	0.017	0.013	0.007	0.012	0.013
EBITDA	1,337.6	1,129.1	701.3	661.2	511.9	617.1	658.0

Source: Company & Binaartha

Table: Cash Flow in USD. Million YoY

Cash Flow (In USD Mn)	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Net Income	861	711	401	304	175	282	318
Depreciation	186	126	145	144	130	139	149
Change in WC		(359)	15	(86)	(327)	(29)	72
Cash From Operating Activities	1,046	478	561	363	(22)	392	539
Capex	(844)	(1,498)	(962)	(81)	(111)	(352)	(530)
Cash From Investing Activities	(844)	(1,498)	(962)	(81)	(111)	(352)	(530)
Long-term Bank Loans	(228)	(139)	780	43	(898)	(31)	(31)
Bonds Payables	0	1,332	2	2	620	0	0
Others Noncurrent Liabilities	(102)	201	(122)	(1)	49	(26)	13
Equity	(488)	(563)	(254)	(157)	(53)	(107)	(34)
Cash From Financing Activities	(819)	832	406	(113)	(281)	(164)	(52)
Net Changes in Cash		(188)	4	169	(415)	(124)	(44)
Beginning Balance	1,567	1,319	1,131	1,136	1,304	889	765
Ending Balance	1,567	1,131	1,135	1,304	889	765	722

Source: Company & Binaartha

Table: Statement of Financial Position in USD. Million YoY

Statement of Financial Position (In USD Mn)	2012A	2013A	2014A	2015A	2016A	2017F	2018F	2019F
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents	1,567	1,319	1,131	1,136	1,304	889	765	722
Trade Accounts Receivable	264	316	378	387	555	622	634	602
Inventory	2	15	63	43	65	89	91	98
Others Current Assets	150	131	164	156	200	207	211	229
Total Current Assets	1,984	1,781	1,735	1,723	2,125	1,807	1,702	1,651
NONCURRENT ASSETS								
Fixed Assets	1,694	1,837	1,771	1,871	1,829	1,958	2,098	2,246
Oil and Gas Properties	0	433	1,417	1,636	1,709	1,651	1,684	1,825
Trade Receivables	0	40	62	517	451	385	393	425
Other Noncurrent Assets	231	273	705	748	721	697	730	788
Total Noncurrent Assets	1,924	2,583	3,955	4,772	4,709	4,691	4,904	5,285
TOTAL ASSETS	3,908	4,363	5,689	6,495	6,834	6,498	6,606	6,936
LIABILITIES AND EQUITY								
LIABILITIES								
CURRENT LIABILITIES								
Short-term Bank Loans	0	300	48	122	271	0	0	0
Trade Payables	189	158	253	202	219	266	249	282
Accruals	42	180	281	270	231	237	242	262
Others Current Liabilities	241	247	88	74	94	82	85	96
Total Current Liabilities	473	886	669	667	815	585	575	640
NONCURRENT LIABILITIES								
Long-term bank	840	612	473	1,253	1,296	399	367	336
Bonds Payables	0	0	1,332	1,334	1,335	1,955	1,955	1,955
Others Noncurrent Liabilities	241	138	340	218	217	266	241	254
Total Noncurrent Liabilities	1,081	750	2,145	2,805	2,849	2,620	2,564	2,545
TOTAL LIABILITIES	1,553	1,636	2,814	3,472	3,664	3,206	3,138	3,184
Non-controlling interest	157	182	0	2	7	24	24	26
EQUITY	2,197	2,545	2,875	3,020	3,163	3,268	3,443	3,725
TOTAL LIABILITIES & EQUITY	3,908	4,363	5,690	6,495	6,834	6,498	6,606	6,936

Source: Company & Binaartha

Table: Ratio Highlights YoY

Growth (% YoY)	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Sales	16%	8%	-6%	-4%	1%	2%	8%
OP	-8%	-8%	-35%	-20%	-13%	26%	8%
EBITDA	-2%	-16%	-38%	-6%	-23%	21%	7%
NP	-3%	-17%	-44%	-24%	-43%	61%	13%
EPS	-3%	-17%	-44%	-24%	-43%	61%	13%
Profitability							
Operating Margin(%)	31%	26%	18%	15%	13%	16%	16%
EBITDA margin(%)	45%	35%	23%	23%	17%	20%	20%
NET Profit margin(%)	29%	22%	13%	10%	6%	9%	10%
ROA(%)	20%	12%	6%	4%	3%	4%	5%
ROE(%)	34%	25%	13%	10%	5%	8%	9%
Stability							
Tot debt/ equity (x)	0.6	1.0	1.1	1.2	1.0	0.9	0.9
Current Ratio (X)	2.0	2.6	2.6	2.6	3.1	3.0	2.6
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	0.02	0.03	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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