

**BUY | TP : IDR1,600**
**Stock Price Data**

Last Price	:	IDR1,360
52wk High	:	IDR1,995
52wk Low	:	IDR1,295
Share Out	:	24.24 bn
Market Cap	:	IDR32.97 tn

**Stock Price Performance**

1-Day	:	+1.12%
1-Week	:	+4.21%
1-Month	:	-5.56%
3-Month	:	+0.37%
Year-to-Date	:	-22.73%

**Shareholders**

PT Pertamina (Persero)	:	57.0%
Public	:	43.0%

**PT Perusahaan Gas Negara Tbk (PGAS IJ)**
**Resiliency of the Midstream Gas Leader**
**Expect Gas Sales and Transmission Hike This Year**

- The Ministry of Energy and Mineral Resources (ESDM) and SKK Migas are redirecting East Java's gas surplus to meet Central Java's industrial needs. East Java's on-stream gas production, including the Jambaran Tiung Biru (JTB) project, has resulted in a regional gas surplus of 500 MMSCFD. In 1H23, Central Java's industrial gas demand was around 12 MMSCFD, but it is forecasted to increase to 63 MMSCFD by FY27F due to industrial expansion.
- Once the JTB project reaches full operational capacity in FY23E, it is projected to produce 192.8 MMSCFD, or 13.4% of the total volume, the largest among all projects. The JTB's gas is distributed to several customers, such as the State Electricity Company (PLN) in Central Java (100 BBTUD) and the independent power plant in Gresik (30 BBTUD) through Gresik-Semarang gas transmission pipeline.
- The government aims to finish the construction of Cirebon-Semarang (Cisem) phase 1 of Semarang-Batang network by Aug-23. Currently, PGAS holds 858,644 connections, including about 12,000 in Central Java. The aim is to extend its reach to 400,000-600,000 households, targeting an additional 20,000 Central Java connections in FY23E.
- Consequently, we forecast PGAS's gas sales and transmission volumes to rise to 939.6 BBTUD (+4.9% YoY) and 1,427.8 MMSCFD (+5.8% YoY) in FY23E, driven by the Jargas expansion and JTB's full production.

**En Route to be Leader in Asia**

LNG demand is expected to surge in non-OECD Asia-Pacific countries like China, India, Bangladesh, Thailand, and Vietnam, surpassing regional production by 50,000 MMSCFD by FY50F. Looking at this opportunity, PGAS plans to position the Arun LNG Terminal, operated by PT Perta Arun Gas (PAG), as Asia's leading LNG hub due to its strategic Southeast Asia and South Asia trade route location. The company manages five LNG tanks, each holding 127,200 m3, and initially revitalized the F-6004 tank. This revitalization should benefit PGAS by potentially boosting regasification capacity, leading to an anticipated 6.5% YoY increase in regasification revenue in FY23E.

**Unfazed by the Increasing Natural Gas Price**

The price of Indonesia's natural gas (HGBT), utilized in seven industries, has risen from USD6 to a maximum of USD7 per MMBTU. Yet, this increase does not significantly impact PGAS's financial performance, as it only passes through and resells its midstream price at an ASP of USD7.4 per MMBTU in 1Q23. As a result, we predict a 5% YoY increase in the blended ASP, leading to USD7.7 per MMBTU. Despite anticipating lower daily Pangkah PSC production due to natural decline and water channeling challenges, we forecast PGAS's FY23E revenue to rise slightly to USD3.7 billion (+2.6% YoY). We also predict an EBITDA of USD1.1 billion (-10.2% YoY), with a 29.9% margin, and a net profit of USD304.9 million (-6.6% YoY), translating to a net margin of 8.3%.

**Recommendation: BUY with TP IDR1,600/share**

We recommend BUY for PGAS with TP of IDR1,600/share (+17.7% upside), implying FY23E EV/EBITDA of 2.9x. Despite normalized gas prices in FY23E, PGAS benefits from East Java's gas surplus and the Arun LNG tanks' revitalization plan. The HGBT change does not significantly affect the company's earnings. Downside risks include: 1) lower industrial demand; 2) higher lifting costs; 3) high interest rates; 4) production reduction from the potential divestment of the Fasken Block.

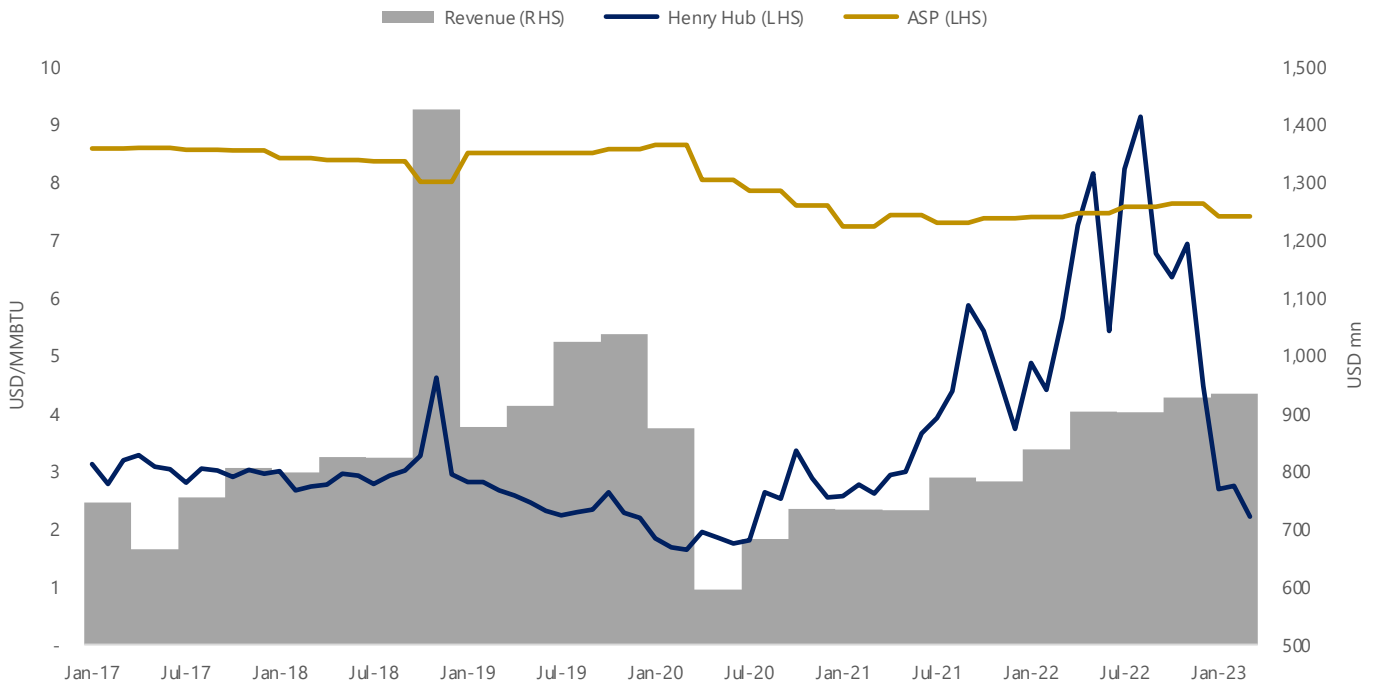

**Research Analyst**

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Key Financial Highlight (USD mn)	FY20	FY21	FY22	FY23E	FY24F
Revenue	2,885.5	3,036.1	3,568.6	3,664.2	3,822.2
Net Income	(264.8)	303.8	326.2	307.2	366.0
EPS (IDR)	(163.8)	188.0	201.9	190.1	226.5
P/E (x)	(9.8)	8.5	7.9	8.4	7.1
BVS (IDR)	1,828.7	2,032.6	2,129.7	2,291.2	2,483.7
P/B (x)	0.9	0.8	0.8	0.7	0.6
EV/EBITDA (x)	5.9	4.3	2.5	2.9	2.5
ROA (%)	(3.5)	4.0	4.5	4.2	4.9
ROE (%)	(9.0)	9.2	9.5	8.3	9.1

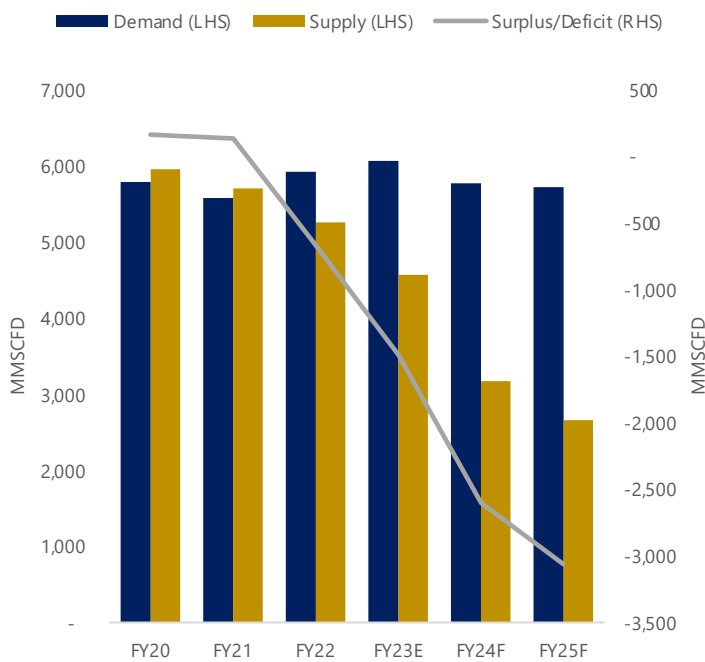
Source : MNCS

**Exhibit 01. Henry Hub vs PGAS' ASP vs Revenue**



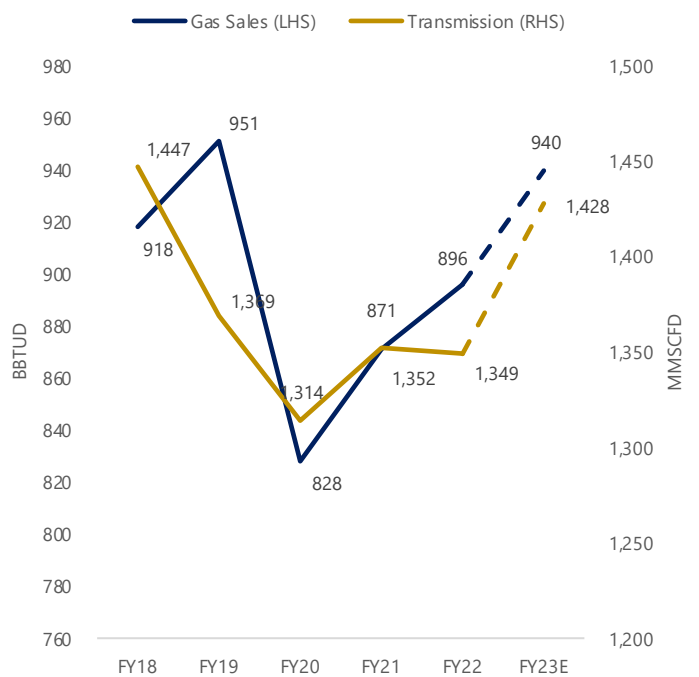
Sources : Company, Bloomberg, MNCS

**Exhibit 02. Domestic Gas Balance is Forecasted for Deficit in FY23E**



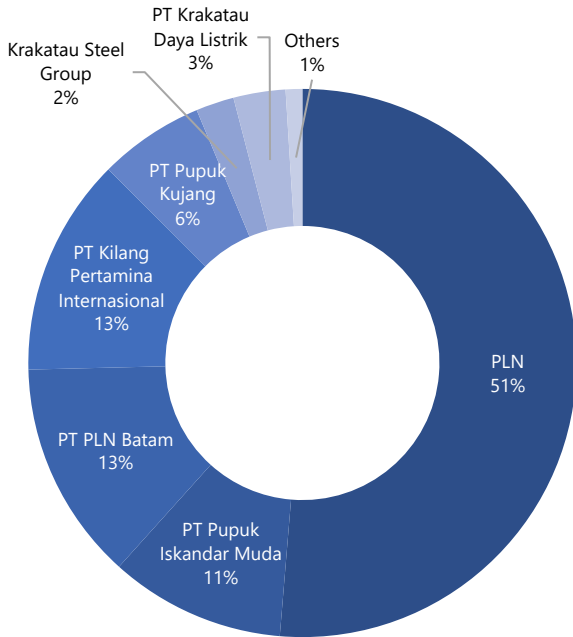
Sources : ESDM, MNCS

**Exhibit 03. Gas Sales and Transmission Volume**



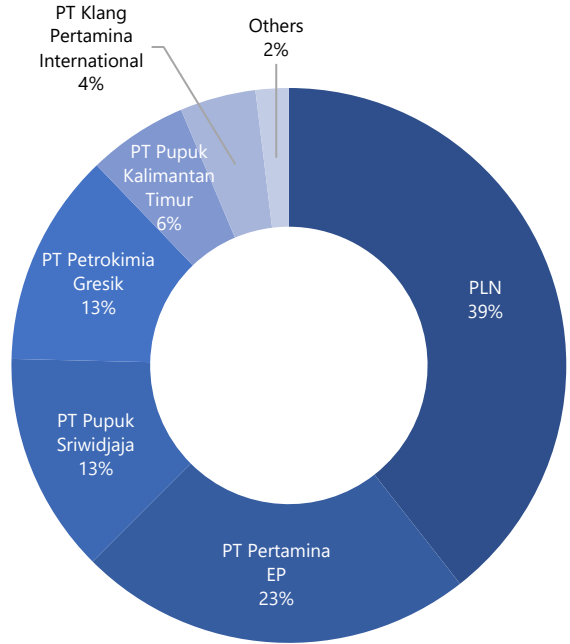
Sources : Company, MNCS

**Exhibit 04. 1Q23 Gas Sales Clients**



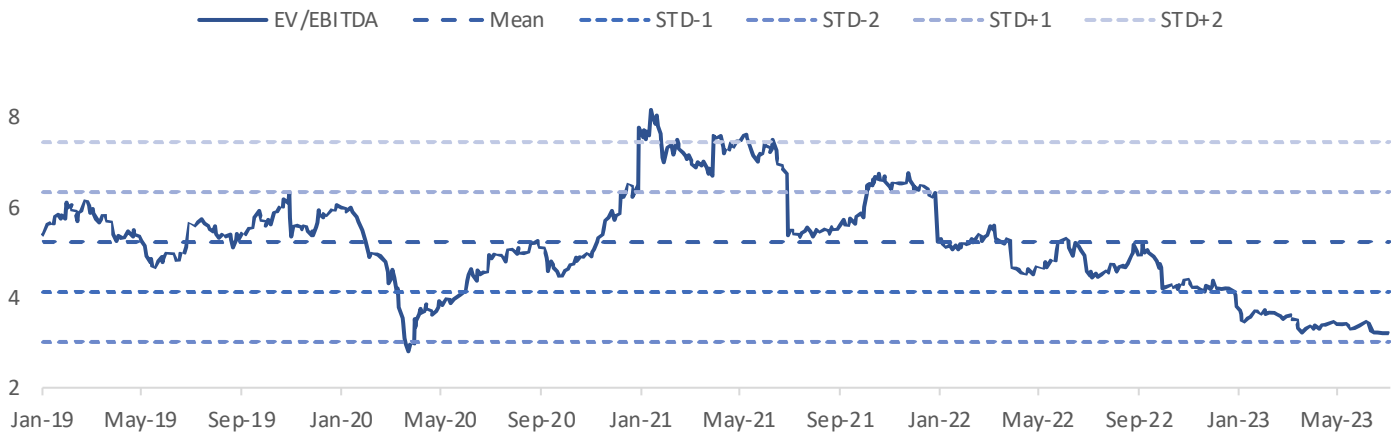
Sources : Company, MNCS

**Exhibit 05. 1Q23 Gas Transmission Clients**



Sources : Company, MNCS

**Exhibit 06. PGAS is currently traded near STD-2 of 5-year EV/EBITDA**



Sources : Bloomberg, MNCS

**Exhibit 07. Financial Projections**

Income Statement						Balance Sheet					
USD mn	2020	2021	2022	2023E	2024F	USD mn	2020	2021	2022	2023E	2024F
<b>Revenues</b>	<b>2,885.5</b>	<b>3,036.1</b>	<b>3,568.6</b>	<b>3,664.2</b>	<b>3,822.2</b>	<b>Current Assets</b>	<b>2,005.8</b>	<b>2,191.2</b>	<b>2,212.4</b>	<b>2,084.6</b>	<b>2,149.0</b>
COGS	(2,415.5)	(2,449.3)	(2,788.1)	(2,888.8)	(2,945.4)	Cash & Cash Equivalents	1,179.0	1,503.3	1,447.7	1,279.2	1,308.9
<b>Gross Profit</b>	<b>470.0</b>	<b>586.8</b>	<b>780.5</b>	<b>775.5</b>	<b>876.8</b>	Account Receivable	537.4	462.1	568.3	583.6	608.7
Operating Expense	166.5	188.4	192.1	214.8	226.1	Inventories	68.9	54.8	59.6	67.3	70.2
<b>EBIT</b>	<b>303.7</b>	<b>420.3</b>	<b>592.2</b>	<b>583.3</b>	<b>662.0</b>	Others current Assets	220.4	171.1	136.8	154.5	161.2
<b>EBITDA</b>	<b>696.9</b>	<b>855.0</b>	<b>1,216.8</b>	<b>1,095.9</b>	<b>1,178.4</b>	<b>Non-Current Assets</b>	<b>5,528.2</b>	<b>5,319.8</b>	<b>4,982.5</b>	<b>5,264.9</b>	<b>5,364.8</b>
Interest Expense	171.3	153.3	132.4	120.2	116.9	Fixed Asset-net	2,804.8	2,756.6	2,739.9	2,731.9	2,722.6
Other	(339.8)	176.2	56.6	-	-	Other Non-Current Assets	2,723.4	2,563.2	2,242.6	2,533.0	2,642.2
<b>Profit Before Tax</b>	<b>(175.4)</b>	<b>467.9</b>	<b>542.7</b>	<b>493.1</b>	<b>575.8</b>	<b>TOTAL ASSETS</b>	<b>7,534.0</b>	<b>7,510.9</b>	<b>7,194.9</b>	<b>7,349.5</b>	<b>7,513.8</b>
Tax Expense (Benefit)	40.4	103.4	141.4	118.7	138.6	<b>Current Liabilities</b>	<b>1,183.2</b>	<b>863.9</b>	<b>992.6</b>	<b>1,037.8</b>	<b>1,081.9</b>
Net Income Before MI	(134.9)	571.3	684.1	611.8	714.3	Account Payable	215.1	165.4	236.2	244.7	249.6
Minority Interest	49.0	60.7	75.1	67.2	71.2	ST Debt	124.9	55.5	48.2	49.5	51.6
<b>Net Profit</b>	<b>(264.8)</b>	<b>303.8</b>	<b>326.2</b>	<b>307.2</b>	<b>366.0</b>	Other current liabilities	843.2	643.0	708.2	743.6	780.8
EPS (full amount)	(0.0)	0.0	0.0	0.0	0.0	<b>Non-Current Liabilities</b>	<b>3,395.4</b>	<b>3,362.1</b>	<b>2,760.5</b>	<b>2,608.8</b>	<b>2,417.9</b>
						LT Debt	2,957.8	2,895.0	2,231.7	2,120.1	1,908.1
						Other Non-Current Liabilities	437.6	467.1	528.9	488.7	509.8
						<b>TOTAL EQUITY</b>	<b>2,955.4</b>	<b>3,284.9</b>	<b>3,441.8</b>	<b>3,702.9</b>	<b>4,014.0</b>
						<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>7,534.0</b>	<b>7,510.9</b>	<b>7,194.9</b>	<b>7,349.5</b>	<b>7,513.8</b>
Cash Flow						Ratios					
USD mn	2020	2021	2022	2023E	2024F	USD mn	2020	2021	2022	2023E	2024F
<b>CFO Total</b>	<b>587.9</b>	<b>627.6</b>	<b>1,010.0</b>	<b>823.0</b>	<b>889.7</b>	Revenue Growth (%)	(25.0)	5.2	17.5	2.7	4.3
Net Income	(264.8)	303.8	326.2	307.2	366.0	EBIT Growth (%)	(44.4)	38.4	40.9	(1.5)	13.5
Depr.	393.1	434.7	624.7	512.6	516.4	EBITDA Growth (%)	(33.0)	22.7	42.3	(9.9)	7.5
Change in Working Capital	(497.5)	39.9	(40.3)	(14.4)	(23.3)	Net Profit Growth (%)	(491.8)	214.7	7.4	(5.8)	19.1
Change in Others	957.0	(150.8)	99.5	17.7	30.5	Current Ratio (%)	169.5	253.6	222.9	200.9	198.6
<b>CFI Total</b>	<b>(752.3)</b>	<b>(226.3)</b>	<b>(287.4)</b>	<b>(795.0)</b>	<b>(616.3)</b>	Quick Ratio (%)	163.7	247.3	216.9	194.4	192.1
Capex	(351.9)	(386.5)	(608.0)	(504.6)	(507.1)	Receivable Days	68.0	55.5	58.1	58.1	58.1
Change in Others	(400.4)	160.3	320.6	(290.4)	(109.2)	Payable Days	32.5	24.7	30.9	30.9	30.9
<b>CFF Total</b>	<b>298.4</b>	<b>(88.9)</b>	<b>(609.8)</b>	<b>(196.5)</b>	<b>(243.7)</b>	Debt to Equity (x)	1.5	1.3	1.1	1.0	0.9
Net Change in Debt	336.0	(132.3)	(670.6)	(110.3)	(209.9)	Debt to EBITDA (x)	6.6	4.9	3.1	3.3	3.0
Equity financing	-	-	-	-	-	Gross Margin (%)	16.3	19.3	21.9	21.2	22.9
Dividend payment	(67.6)	(23.5)	(48.9)	(46.1)	(54.9)	Operating Margin (%)	10.5	13.8	16.6	15.9	17.3
Others	30.0	66.8	109.7	(40.1)	21.1	EBITDA Margin (%)	24.1	28.2	34.1	29.9	30.8
Net Cash Increase	138.7	324.2	(55.6)	(168.4)	29.6	Net Margin (%)	(9.2)	10.0	9.1	8.4	9.6
<b>Closing Balance</b>	<b>1,179.0</b>	<b>1,503.3</b>	<b>1,447.7</b>	<b>1,279.2</b>	<b>1,308.9</b>	ROA (%)	(3.5)	4.0	4.5	4.2	4.9
						ROE (%)	(9.0)	9.2	9.5	8.3	9.1

Sources : Company, MNCS

**MNC Research Industry Ratings Guidance**

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

**MNC Research Investment Ratings Guidance**

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
  - **SELL** : Share price may fall by more than 10% over the next 12 months
  - **Not Rated** : Stock is not within regular research coverage

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