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# Perusahaan Gas Negara

## Playing On News Flows' Sentiments

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### Positive & bad news flows past 1 month; mere impact on short-term earnings, in fact...

Investors was speculating on the PGAS—Pertagas merger issue positive-ly back in Mid-Nov' 15 with expectation that Pertamina would acquire majority stake through a tender offer in our view. Share price rally was **short lived and we think share price has been declining by 24.7% since 19 Nov' 15** due to 1.) market factors, 2.) Oil price drop since OPEC announcement in 4 Dec' 15 not to cut supply, 3.) SOE Ministry's statement that PGAS-Pertagas merger unlikely to happen, 4.) Open access issue have been raised again (negative for PGAS as it could potentially hurt its margin spread). No short-term earnings would be impacted from this news flows except for its upstream level which sells in a relatively more of a spot mechanism in our view.

### ... fundamental wise, Oct' 15 volumes showing signs of accelerating volumes

Our channel-check suggests Oct' 15 distribution volumes would exceed 800mmscfd, higher than 1Q, 2Q & 3Q's distribution volume which have been hovering well below at ~790mmscfd level. Also, PGAS' management guided that 4Q15 earnings should improve QoQ although we do not gain further info on the main drivers of the earnings increase. We think that the oil price drop since OPEC's announcement on 4 Dec' 15 on its refusal to cut supply should not be a full-benchmark to PGAS' share price as the upstream level only contributes 6% of its operating profit.

### Upgrade to BUY as share price has dropped severely

Besides PGAS' depleting profitability & higher risk profile to upstream O&G, PGAS' reputation as a rotational/defensive play has also been fading out. Yet, we think that valuation over exceeds fundamentals and should be a good accumulation point on a momentum wise perspective as we expect 4Q15 earnings to improve QoQ. We change our recommendation to BUY (from SELL) but maintain our TP as share price has underperformed the market by -11.1% in the past 3 months. PGAS is current trading at 9.6x 2016 P/E, a 38.8% discount to 3-years historical forward P/E.



PGAS is a state owned company which distributed 865mmscfd and 852 mmscfd in FY14. It holds a market share of more than 75% in the gas distribution business.

**BUY** **Rp2,950**

### Company Update

Share Price	Rp2,315
Sector	Oil & Gas
Price Target	Rp2,950 (27%)

### Stock Data

Reuters Code	PGAS.JK
Bloomberg Code	PGAS.IJ
Issued Shares	24,242
Mkt Cap. (Rpbn)	56,119
Avg. Value Daily 6 Month (Rpbn)	98.5
52-Wk range	6050 / 2150

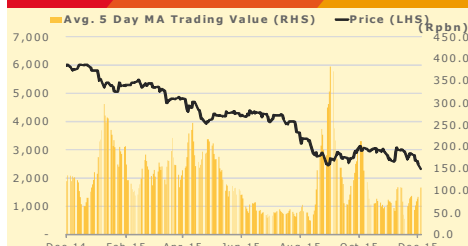
### Major Shareholders

Republic of Indonesia	57.0%
Public	43.0%

### Consensus

<b>Net profit</b>	<b>16F</b>	<b>17F</b>
Consensus (USDm)	484	524
TRIM vs Cons. (%)	-11%	-7%

### Stock Price



### Companies Data

Year end Dec	2013	2014	2015E	2016E	2017E
Revenue (USDm)	3,002	3,409	2,867	3,166	3,614
Net profit (USDm)	804	723	413	432	490
Net profit growth	-9.7%	-10.2%	-42.9%	4.6%	13.3%
EPS (IDR)	346	364	230	241	273
BVPS (IDR)	1,124	1,456	1,680	1,829	2,005
P/E (x)	6.7	6.4	10.1	9.6	8.5
P/B (x)	2.1	1.6	1.4	1.3	1.2
EV/EBITDA (x)	3.5	4.0	6.7	6.2	5.2
Div. yield (%)	9.5	9.9	7.0	4.0	4.2

### Income Statement (USDm)

Year end Dec	2013	2014	2015F	2016F	2017F
<b>Revenue</b>	<b>3,002</b>	<b>3,409</b>	<b>2,867</b>	<b>3,166</b>	<b>3,614</b>
Revenue growth (%)	16.5%	13.6%	-15.9%	10.4%	14.2%
Gross Profit	1,418	1,465	974	1,071	1,206
<b>Opr. profit</b>	<b>908</b>	<b>940</b>	<b>504</b>	<b>518</b>	<b>591</b>
<b>EBITDA</b>	<b>1,101</b>	<b>1,212</b>	<b>790</b>	<b>843</b>	<b>938</b>
EBITDA growth (%)	-7.2%	10.1%	-34.8%	6.6%	11.3%
Net int. inc/(exp.)	5	-50	-85	-71	-72
Gain/(loss) forex	84	47	0	0	0
Other inc./ (exp)	68	41	114	116	117
<b>Pre-tax Profit</b>	<b>1,066</b>	<b>979</b>	<b>533</b>	<b>563</b>	<b>635</b>
Tax	228	231	120	130	145
Minority interest	33	25	0	1	1
Extra. items	-	-	-	-	-
<b>Net profit</b>	<b>804</b>	<b>723</b>	<b>413</b>	<b>432</b>	<b>490</b>
Net profit growth (%)	-9.7%	-10.2%	-42.9%	4.6%	13.3%

### Balance Sheet (USDm)

Year end Dec	2013	2014	2015F	2016F	2017F
Cash and equivalents	1,234	1,131	1,422	1,375	1,697
Trade receivables	250	295	287	317	361
Inventory	15	65	82	91	105
Other curr. assets	170	254	246	248	250
PPE	1,511	2,205	2,741	2,961	2,960
O&G properties	409	1,417	1,328	1,235	1,119
Other assets	551	705	777	850	923
<b>Total assets</b>	<b>4,139</b>	<b>6,072</b>	<b>6,883</b>	<b>7,076</b>	<b>7,416</b>
ST debt	361	48	88	88	88
Other curr. liab.	444	984	981	995	1,017
LT debt/bonds	573	1,805	2,456	2,367	2,367
Other LT liab.	145	340	340	340	340
<b>Total liabilities</b>	<b>1,523</b>	<b>3,178</b>	<b>3,865</b>	<b>3,790</b>	<b>3,812</b>
Minority interest	0	1	1	2	3
<b>Total equity</b>	<b>2,616</b>	<b>2,893</b>	<b>3,017</b>	<b>3,284</b>	<b>3,600</b>
<b>Total liab. &amp; equity</b>	<b>4,139</b>	<b>6,072</b>	<b>6,883</b>	<b>7,076</b>	<b>7,416</b>

### Cash Flow (USDm)

Year end Dec	2013	2014	2015F	2016F	2017F
Core net profit	578	623	331	349	405
Depr. / amort.	-248	598	287	324	348
Chg. in working cap.	-34	-116	-13	-24	-36
Others	533	-209	90	82	82
<b>CF's from oprs</b>	<b>829</b>	<b>897</b>	<b>695</b>	<b>730</b>	<b>798</b>
Capex	22	-2,300	-734	-451	-231
ST investments	23	-7	0	0	0
Others	-712	956	-72	-73	-74
<b>CF's from investing</b>	<b>-667</b>	<b>-1,351</b>	<b>-806</b>	<b>-524</b>	<b>-305</b>
Net change in debt	-304	1,219	691	-89	0
Others	-26	-749	-289	-164	-172
<b>CF's from financing</b>	<b>-331</b>	<b>470</b>	<b>402</b>	<b>-254</b>	<b>-172</b>
<b>Net cash flow</b>	<b>-168</b>	<b>15</b>	<b>292</b>	<b>-47</b>	<b>321</b>
Forex/others	-166	-118	0	0	0
Cash at BoY	1,567	1,234	1,131	1,422	1,375
<b>Cash at EoY</b>	<b>1,234</b>	<b>1,131</b>	<b>1,422</b>	<b>1,375</b>	<b>1,697</b>

### Key Ratio Analysis

Year end Dec	2013	2014	2015F	2016F	2017F
<b>Profitability</b>					
Gross margin (%)	47.2%	43.0%	34.0%	33.8%	33.4%
Op. margin (%)	30.3%	27.6%	17.6%	16.4%	16.3%
EBITDA margin (%)	36.7%	35.6%	27.6%	26.6%	26.0%
Core net margin (%)	19.3%	18.3%	11.6%	11.0%	11.2%
ROAE (%)	33.4%	26.2%	14.0%	13.7%	14.2%
ROAA (%)	20.0%	14.2%	6.4%	6.2%	6.8%
<b>Stability</b>					
Current ratio (x)	2.1	1.7	1.9	1.9	2.2
Net debt to equity (x)	-0.1	0.2	0.4	0.3	0.2
Net debt to EBITDA (x)	-0.4	0.7	1.6	1.5	1.0
Interest coverage (x)	41.6	12.4	4.9	5.2	5.9
<b>Efficiency</b>					
A/R (days)	31	29	37	35	34
Inventory (days)	2	8	14	15	15
A/P (days)	147	173	203	188	166

### Interim Results (USDm)

Year end Dec	3Q14	4Q14	1Q15	2Q15	3Q15
Sales	888	895	696	720	722
Gross profit	454	363	223	255	224
Op. profit	299	212	153	137	133
Pre-tax profit	348	144	149	135	100
Net profit	266	87	109	118	79
Gross margin (%)	51.2%	40.5%	32.1%	35.5%	31.0%
Op. margin (%)	33.7%	23.7%	21.9%	19.1%	18.3%
Net margin (%)	30.0%	9.7%	15.7%	16.4%	10.9%

### Capital History

Date	
IPO date - 15/12/03	IPO @ Rp. 1,500

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