

Wednesday, 16 August 2023

## BUY Maintain

Last price (IDR)	1,000
Target Price (IDR)	1,170
Upside/Downside	+17.0%
Previous Target Price (IDR)	1,090

### Stock Statistics

Sector	Utilities
Bloomberg Ticker	PGEO IJ
No of Shrs (mn)	31,046
Mkt. Cap (IDRbn/USDmn)	31,046/2,024
Avg. daily T/O (IDRbn/USDmn)	19.4/1.3

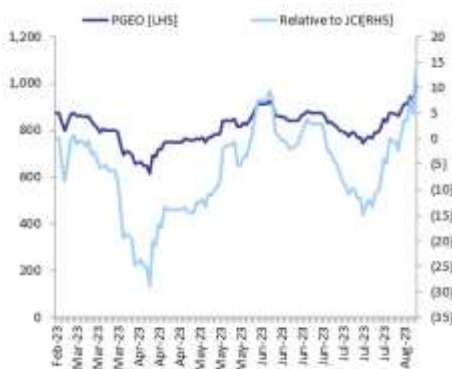
### Major shareholders (%)

PT Pertamina Power Indonesia	69.1
Masdar Indonesia	15.0
Estimated free float	10.0

### EPS Consensus (USDCents)

	2023F	2024F	2025F
Danareksa	0.6	0.6	0.7
Consensus	15.2	15.2	20.2
Danareksa/Cons	(96.4)	(95.9)	(96.5)

### PGEO relative to JCI Index



Source : Bloomberg



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## PT Pertamina Geothermal Energy Tbk(PGEO IJ)

### Rapid Expansion

**PGEO targets to increase the installed capacity that is managed directly to 1 gigawatt (GW), where from 672 MW of installed capacity, PGE will add 340 MW in the next two years. Also, the company believes they could achieve their production in 2023 although they conduct some maintenance this year. Reiterate our Buy call to PGEO with TP of IDR1,170 implied 2023 EV/EBITDA of just 11.3x or 13.2% discount compared to its peers.**

**Quick wins to become 1 GW geothermal power plant.** PGEO targets to increase the installed capacity that is managed directly to 1 gigawatt (GW), where from 672 MW of installed capacity, PGE will add 340 MW in the next two years. An additional 340 MW will be obtained from projects that are ready to be executed such as Hulu Lais (Units 1 and 2) of 110 MW, Lumut Balai (Unit 2) of 55 MW and optimizing binary technology in existing areas such as Hululais, Lumut Balai, Ulubelu and Lahendong. Around 230 MW from the brine projects is expected to finalized its PPA in 4Q23. Management mentioned that the capex for this brine project would require around USD2.5 mn- USD3 mn/MW which means that PGEO require around USD600 mn. This year PGEO targets their capex at USD250 mn, although in 1H23 the company's spent capex is still 10% of their target, they expect it would be fully disbursed in 2H23.

**Expect to achieve production target in 2023.** For 2023 production target, the company believe they could reach around 4,523 GWH where the company already reached around 53% of the target in 1H23. PGEO is scheduled to conduct maintenance to some of their assets i.e. Kamojang Unit 5 which expected to require around 15-25 days to complete as this is a major turn around. Also, the company plan to conduct a maintenance outage in Lahendong Unit 5 & 6 which requires around 10 days. Nevertheless, the company believes they could achieve their production in 2023 although they conduct some maintenance this year.

**Upcoming carbon exchange unlock more potential buyers.** The Financial Services Authority (OJK) has revealed that it will issue regulations regarding carbon exchanges and targets that trading or operation of carbon exchanges can take place in September 2023. We believe this could be a positive catalyst for PGEO as this will unlock more buyer for PGEO carbon credit. PGEO targets their carbon credit revenue to improve significantly in the next five years.

**Maintain BUY.** At this stage, we reiterate our Buy call to PGEO with higher TP of IDR1,170 as we roll over our DCF base year to 2024, our TP implied 2023 EV/EBITDA of just 11.3x or 13.2% discount compared to its peers.

### Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (USDmn)	369	386	398	406	454
EBITDA (USDmn)	289	306	334	349	387
EBITDA Growth (%)	(0.9)	5.7	9.2	4.6	10.6
Net profit (USDmn)	85	127	172	192	221
EPS growth (%)	16.8	49.7	35.2	11.7	15.2
PER (x)	32.9	22.0	16.3	14.6	12.6
PBV (x)	2.2	1.4	1.4	1.3	1.2
Dividend yield (%)	0.0	0.0	3.1	4.3	4.7
EV/EBITDA (x)	13.3	12.3	9.9	9.8	8.7

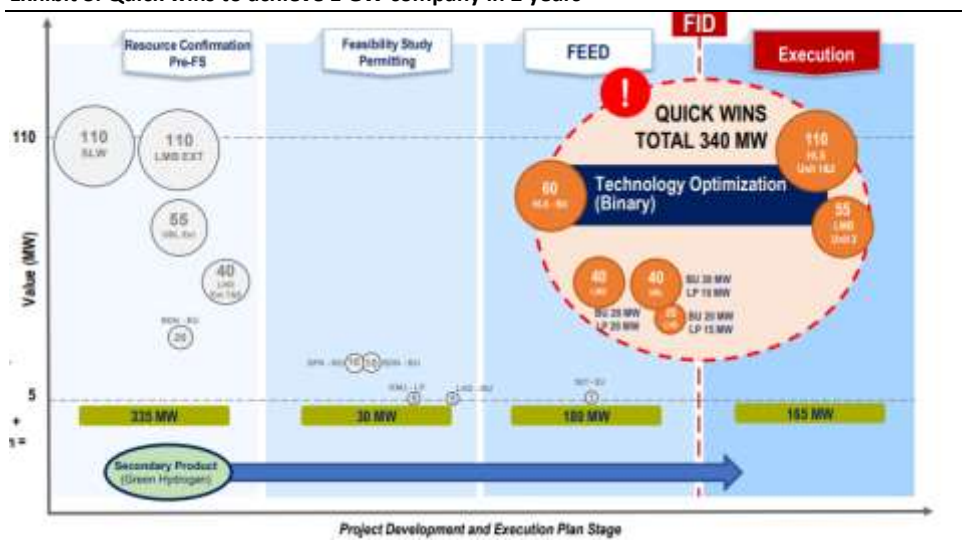
Source : PGEO, Danareksa Estimates

**Exhibit 2. PGEO Peers comparison**

	PER (x)		EV/EBITDA (x)		PBV (x)		ROE (%)	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
ACEN CORP	22.0	16.2	21.1	15.2	1.5	1.3	7.1	9.0
RATCH GROUP PCL	9.9	8.6	13.6	13.3	0.7	0.7	7.4	8.1
PETROVIETNAM POWER CORP	16.8	11.6	6.0	4.9	1.0	0.9	7.0	8.4
BANPU POWER PCL	10.7	11.5	24.0	11.9	0.9	0.8	7.7	7.4
MERCURY NZ LTD	33.1	32.8	13.4	13.1	1.9	1.9	6.4	6.8
YTL POWER INTERNATIONAL BHD	10.1	9.9	8.6	8.6	0.9	0.8	8.1	8.0
CIKARANG LISTRINDO TBK PT	8.4	7.2	4.3	4.2	1.1	1.1	14.4	14.1
ORMAT TECHNOLOGIES INC	36.0	29.1	13.0	11.5	1.9	1.8	9.8	10.0
<b>Average</b>	<b>18.4</b>	<b>15.8</b>	<b>13.0</b>	<b>10.3</b>	<b>1.2</b>	<b>1.2</b>	<b>8.5</b>	<b>9.0</b>
<b>PGEO</b>	<b>16.3</b>	<b>14.6</b>	<b>9.9</b>	<b>9.8</b>	<b>1.4</b>	<b>1.3</b>	<b>8.8</b>	<b>9.3</b>

Source: BRIDS, PGEO

**Exhibit 3. Quick wins to achieve 1 GW company in 2 years**



Source: BRIDS, PGEO

#### Exhibit 4. Income Statement

Year to 31 Dec (USDmn)	2021A	2022A	2023F	2024F	2025F
<b>Revenue</b>	<b>369</b>	<b>386</b>	<b>398</b>	<b>406</b>	<b>454</b>
COGS	(182)	(173)	(178)	(182)	(196)
<b>Gross profit</b>	<b>186</b>	<b>213</b>	<b>220</b>	<b>223</b>	<b>258</b>
<b>EBITDA</b>	<b>289</b>	<b>306</b>	<b>334</b>	<b>349</b>	<b>387</b>
<b>Oper. profit</b>	<b>182</b>	<b>201</b>	<b>217</b>	<b>219</b>	<b>249</b>
Interest income	1	1	1	1	1
Interest expense	(15)	(15)	(11)	(9)	(7)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(39)	7	0	0	0
<b>Pre-tax profit</b>	<b>130</b>	<b>195</b>	<b>207</b>	<b>211</b>	<b>243</b>
Income tax	(44)	(67)	(35)	(19)	(22)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>85</b>	<b>127</b>	<b>172</b>	<b>192</b>	<b>221</b>
<b>Core Net Profit</b>	<b>85</b>	<b>127</b>	<b>172</b>	<b>192</b>	<b>221</b>

#### Exhibit 5. Balance Sheet

Year to 31 Dec (USDmn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	125	262	625	278	192
Receivables	131	126	133	136	139
Inventory	16	20	17	18	18
Other Curr. Asset	7	25	11	14	17
Fixed assets - Net	1,957	1,902	2,148	2,368	2,430
Other non-curr.asset	160	140	145	144	143
<b>Total asset</b>	<b>2,397</b>	<b>2,475</b>	<b>3,080</b>	<b>2,958</b>	<b>2,940</b>
ST Debt	16	616	567	400	287
Payables	100	163	216	160	179
Other Curr. Liabilities	84	79	75	79	78
Long Term Debt	338	328	228	218	168
Other LT. Liabilities	630	34	35	35	36
<b>Total Liabilities</b>	<b>1,168</b>	<b>1,220</b>	<b>1,120</b>	<b>891</b>	<b>748</b>
Shareholder's Funds	1,229	1,256	1,960	2,067	2,192
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>2,397</b>	<b>2,475</b>	<b>3,080</b>	<b>2,958</b>	<b>2,940</b>

### Exhibit 6. Cash Flow

Year to 31 Dec (USDmn)	2021A	2022A	2023F	2024F	2025F
Net income	85	127	172	192	221
Depreciation and Amort.	108	105	117	130	138
Change in Working Capital	(260)	64	46	(58)	16
Other Oper. Cash Flow	8	(22)	12	(1)	(4)
<b>Operating Cash Flow</b>	<b>(60)</b>	<b>274</b>	<b>347</b>	<b>264</b>	<b>371</b>
Capex	13	(49)	(363)	(350)	(200)
Others Inv. Cash Flow	(7)	20	(5)	2	1
<b>Investing Cash Flow</b>	<b>6</b>	<b>(29)</b>	<b>(368)</b>	<b>(348)</b>	<b>(199)</b>
Net change in debt	(86)	(13)	(149)	(177)	(162)
New Capital	121	(101)	533	(86)	(96)
Dividend payment	0	0	0	0	0
Other Fin. Cash Flow	(12)	6	1	1	1
<b>Financing Cash Flow</b>	<b>24</b>	<b>(108)</b>	<b>384</b>	<b>(263)</b>	<b>(258)</b>
<b>Net Change in Cash</b>	<b>(30)</b>	<b>137</b>	<b>363</b>	<b>(347)</b>	<b>(86)</b>
Cash - begin of the year	155	125	262	625	278
Cash - end of the year	125	262	625	278	192

### Exhibit X. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
<b>Growth (%)</b>					
Sales	4.2	4.7	3.0	2.0	12.0
EBITDA	(0.9)	5.7	9.2	4.6	10.6
Operating profit	(3.6)	10.6	8.2	0.8	13.4
Net profit	16.8	49.7	35.2	11.7	15.2
<b>Profitability (%)</b>					
Gross margin	50.6	55.1	55.3	55.0	56.7
EBITDA margin	78.5	79.2	84.0	86.1	85.1
Operating margin	49.3	52.1	54.7	54.0	54.7
Net margin	23.0	33.0	43.3	47.4	48.8
ROAA	3.4	5.2	6.2	6.4	7.5
ROAE	7.5	10.2	10.7	9.5	10.4
<b>Leverage</b>					
Net Gearing (x)	0.2	0.5	0.1	0.2	0.1
Interest Coverage (x)	12.5	13.6	19.2	23.7	38.2

Source : PGEO, Danareksa Estimates

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