HOLD
TP: Rs 220 | ⮝ 14%

PETRONET LNG | Oil & Gas | 02 November 2023

PDHPP project unlikely to be value accretive

- **PLNG has approved the PDHPP project at a capital intensity of US$ 3,000-3,650/t**
- **Considering higher global competitiveness, we consider capital cost above US$ 2,250/t as a risk to the fair value**
- **We lower our TP to Rs 220 from Rs 275, factoring in negative value of Rs 58/sh from the proposed PDHPP implementation**

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Approval of PDHPP project: PLNG has approved implementation of the propane dehydrogenation and polypropylene project (PDHPP) by FY28 at a capital cost of Rs 207bn, with potential project cost variation of +/-10%. Management has guided for project IRR of 20%, equity IRR of 30%, EBITDA of Rs 40bn and PAT of Rs 20bn at 100% capacity utilisation.

Pros/cons of the investment proposal: (a) Approval of the project during a downturn in the propylene cycle improves chances of a turnaround in the cycle, but visibility on the same is low. (b) Synergy benefits from proximity to regasification plants are not apparent in the high capital costs. (c) Synergy benefits from reuse of cold energy, leading to power cost savings of Rs 1.2bn-1.3bn, translate to relatively small savings of US$ 20/t of propylene, compared to EBITDA/t guidance of US$ 600/t.

Questions on viability: Questions arise from (a) the higher capital intensity range of US$ 3,000-3,650/t of propylene vs. US$ 2100-2,750 for global players, (b) disadvantages of higher propane prices vs. Middle East players and lower capital efficiency vs. Chinese players, (c) viability of ethane stripping from LNG while petrochemical operations remain under pressure, (d) practicality of the US$ 600/t EBITDA guidance and underlying assumptions of benefits from ethane stripping and hydrogen production, (e) added risk from persisting propylene surplus in global markets, and (f) execution risk typical of such large projects.

Rs 58/sh likely at risk from fair value: We believe that project cost in excess of US$ 2,250 represents a risk from an economic viability standpoint. This translates into a value of Rs 58/sh at risk from planned implementation of the PDHPP project.

Maintain HOLD, TP cut to Rs 220: We cut our TP for PLNG to Rs 220 (from Rs 275) as we strip away the Rs 58/sh at risk from the PDHPP project. Our valuation of the core business is based on an unchanged one-year forward P/E multiple of 11.6x, in line with the 5Y median. Apart from the proposed capital outlay, we also need more visibility on RLNG demand within the country to derive comfort on utilisation of the new capacity. We thus retain our HOLD rating for PLNG.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	PLNG IN/Rs 194
Market cap	US$ 3.5bn
Free float	50%
3M ADV	US$ 8.9mn
52wk high/low	Rs 254/Rs 193
Promoter/FPI/DII	50%/33%/6%

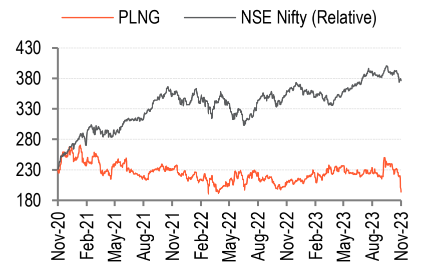
Source: NSE | Price as of 1 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	5,98,994	5,66,723	5,76,360
EBITDA (Rs mn)	48,558	48,499	51,364
Adj. net profit (Rs mn)	32,399	32,001	33,853
Adj. EPS (Rs)	21.6	21.3	22.6
Consensus EPS (Rs)	21.6	21.6	23.3
Adj. ROAE (%)	22.8	20.4	19.6
Adj. P/E (x)	9.0	9.1	8.6
EV/EBITDA (x)	5.3	5.1	4.7
Adj. EPS growth (%)	(3.4)	(1.2)	5.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Question marks on PDHPP project viability

PDHPP project profile

PLNG has approved the implementation of a 750ktpa propane dehydrogenation plant (PDH) and 500ktpa polypropylene (PP) plant, including a propane and ethane handling facility. A jetty for the import of propane and ethane is not included in the project scope and is a separate project under implementation by the company.

- **Multiple revenue streams:** The company's submissions for environment clearance indicate multiple revenue streams for the project besides propylene and polypropylene, such as the sale of hydrogen, ethane and propane.
- **Project startup guided for FY28:** PLNG has guided for implementation over four years which implies commissioning in FY28.

Fig 1 – Project configuration

Parameter	Capacity (ktpa)
Unit capacities	
Propane Dehydrogenation Unit	750
Polypropylene Unit	500
Propylene Unit	250
Product break-up	
Ethane	700
Propane	100
Hydrogen	32
Propylene	250
Polypropylene	500
C4 LPG	36

Source: Company, BOBCAPS Research

Higher capital intensity a concern

The company is guiding for a project cost of Rs 206.9bn with +/-10% variation.

- **Increase in project cost from pre-feasibility stage:** The project cost guidance has increased from Rs 120bn under discussion during the pre-feasibility stage. Management highlights that hard costs have increased to Rs 160.7bn due to the additional ethane handling facility planned within the plant boundary (Rs 25bn). Further, there are additional soft costs of Rs 46bn, including the provision of rupee depreciation against the dollar (Rs 19bn), interest during construction (Rs 16bn) and margin money (Rs 4bn).
- **Higher capital intensity a concern:** Capital intensity for the project works out to ~US$ 3,350/t of propylene, with a range of US$ 3,000/t to US$ 3,650/t at 10% cost variance – well above the US$ 2,100-2,750/t seen for several global projects and US$ 2,720/t for GAIL's Usar PDHPP project to be completed in 2025. We await clarity on the reasons for the higher capital intensity and its cost benefits.

- **Capital intensity does not reflect benefit of proximity to existing RLNG plant:** PLNG highlights proximity to its existing plant as an advantage as it can share utilities with the LNG plant and will not require a long pipeline from the jetty to the plant to transport propane. However, this advantage is not visible in the apparent capital intensity.

- **Funding:** The company expects to fund the project through a debt:equity mix of 70:30 to optimise its capital structure and continue with the existing level of dividend payout.

Fig 2 – Company guidance

Parameter	Unit	Rs	US$
Capital cost	Bn	206.9	2.5
Capital intensity	**Per tonne of propylene**	**2,75,800.0**	**3,343.0**
Profitability guidance			
EBITDA	Bn	40.0	0.5
PAT	Bn	20.0	0.2
Cost savings on power		1.3	0.0
Unit profitability			
EBITDA per tonne	Currency/t of propylene	53,333.3	646.5
Cost savings on power	Currency/t of propylene	1,666.7	20.2

Source: Company, BOBCAPS Research

Project economics questionable

Company guidance

Submissions for environmental clearance indicate that the feasibility analysis for the project has been done by Engineers India (EIL). PLNG guidance suggests the following pointers on project economics.

- **Returns:** The company guides for project IRR of 20% and equity IRR of 30% based on spreads of US$ 200/t for propylene to propane and US$ 600/t for polypropylene to propane, arrived at using the average of the past seven years.

- **Profitability:** Indicative potential EBITDA is Rs 40bn and net profit Rs 20bn at 100% capacity utilisation.

- **Utility-like revenue stream:** PLNG indicated that 50% of profitability is likely to come through assured revenue streams, which we interpret as not having linkage to product price volatility. We would like to better understand these revenue streams.

- **Offtake tie-up:** PLNG has signed a long-term (15-year) offtake agreement for 250ktpa of propylene and 11ktpa of hydrogen with Deepak Phenolics. Pricing under this contract will be based on import parity with the recovery of fixed charge in the form of handling charges. The company is envisaging take or pay (TOP) arrangements at 90% offtake levels. However, security against the TOP arrangement is limited only to 45 days of bank guarantee.

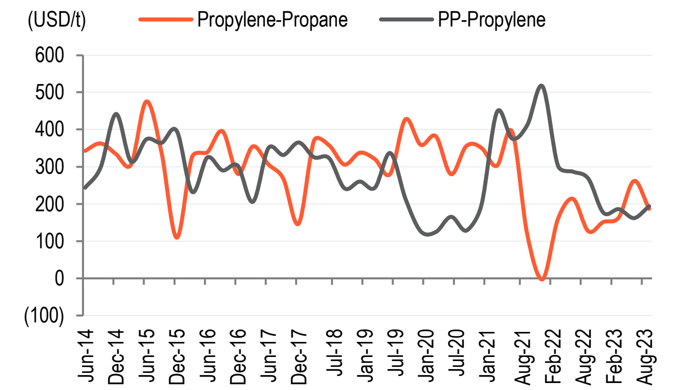
- **Synergy benefits could lower opex by US$ 20/t:** The company highlights synergy benefits from the use of available cold energy at the regasification plant, which could reduce the cost of power by Rs 1.2bn-1.3bn. This synergy could lower opex by US$ 20/t in our view. Additional benefits could also accrue from common utilities with the LNG plant and lower logistics cost due to proximity to the jetty.

Clarity on profit levels awaited

We examine the broad gross margin indicators and await further clarity from PLNG which is planning another conference call with analysts to share more details.

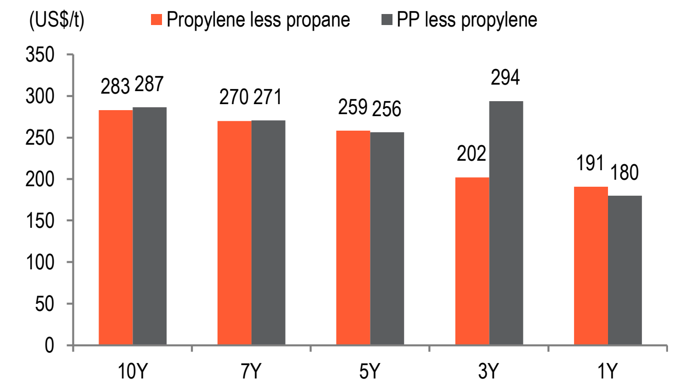
- **Historical spreads have come off:** Propylene to propane spreads have averaged US$ 259-283/t over 5-10 years, accounting for the use of 1.2mt of propane for 1mt of propylene. Spreads have come off over the past three years to ~US$ 200/t as supply additions through the PDH plant have materialised. Similarly, polypropylene (PP) to propylene spreads have averaged US$ 256-287/t over a 5-10-year horizon and have also come off over the past one year to US$ 180/t with demand weakness amid rising supply.

Fig 3 – Historical spreads have eased over past three years



Source: Bloomberg, BOBCAPS Research

Fig 4 – Average historical spread for different periods



Source: Bloomberg, BOBCAPS Research

- **Integrated spread works out at ~US$ 600 level:** As per our broad calculations, the plant could earn a spread of US$ 515-569/t from the sale of 500ktpa of PP and additional spread of US$ 86-94/t from the sale of 250ktpa of propylene under the average margin scenario of the past 5-10 years. On a combined basis, this could result in a spread of US$ 601-664/t on the averages of 5Y to 10Y levels. The company could earn additional spread from hydrogen, ethane and propane streams, which we will like to understand further from the company.

Fig 5 – Potential gross spread from the PDH plant at theoretical 100% utilisation

(US$/t)	10Y	7Y	5Y	3Y	1Y
Gross spread indicator					
Propylene less Propane	283	270	259	202	191
Polypropylene (PP) less Propylene	287	271	256	294	180
Gross spread for 500ktpa PP to propane	**569**	**541**	**515**	**496**	**371**
Additional uplift from 250kt sale of propylene	94	90	86	67	64
Gross spread for 500kt PP and 250ktpa propylene	**664**	**631**	**601**	**563**	**434**
Gross spread for integrated plant	**664**	**631**	**601**	**563**	**434**

Source: Company, BOBCAPS Research

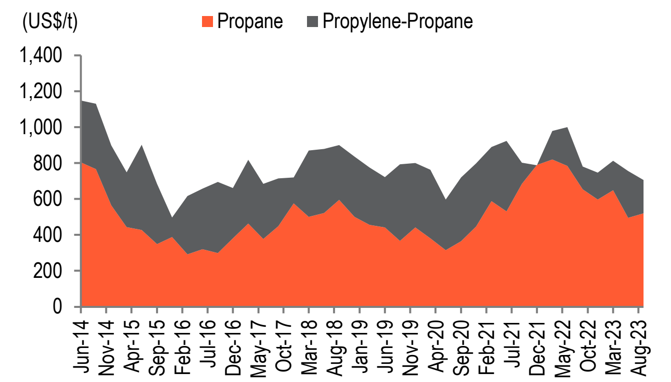
- **Question mark on margins from ethane stream:** We interpret project configuration as having a separator to strip out the ethane stream from the incoming LNG stream. As ethane is purchased at the LNG price, its economics will remain in question. At this point of time, GAIL's petrochem plant is not making profit from imported LNG and hence there will be a question mark on whether ethane can be sold sustainably above LNG prices.
- **Guidance of US$ 600/t in EBITDA needs further explanation:** We need to understand the contribution from the additional ethane, propane and hydrogen facilities as well as fixed handling charges to the project revenue stream. While opex for such a plant should be lower than US$ 200/t, we need clarity on whether other revenue streams will be able to offset opex to achieve the indicated profitability level.

Global surplus in propylene chain

PDH plants offer significantly higher propylene yields than the traditional naphtha cracking process as well as methanol to oil (MTO) processes. PDH capacity has doubled over the last decade and accounted for 17.2mt of installed global capacity as of CY21, per estimates from Aranca in its Jul'22 report.

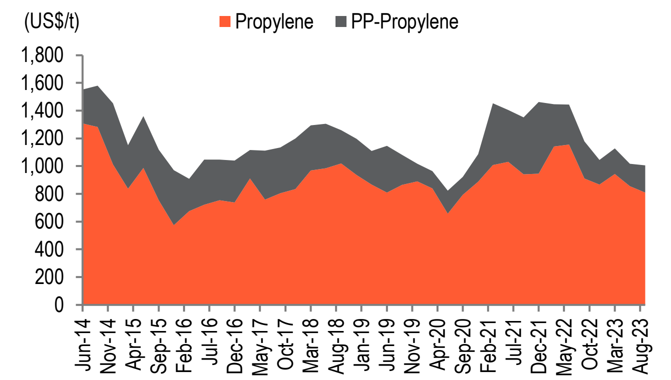
- **PDH supply additions stronger:** Aranca projected that global PDH capacity would grow at an 18% CAGR during CY21-CY24, increasing its share from 11% in CY21 to 16% in CY24. Our channel checks suggest that PDH capacity has grown by 6.5% in CY22, is likely to grow by 7.5% in CY23 and climb even higher in CY24. Supply additions have turned the global propylene market into surplus amid continued demand weakness in China.
- **Market likely to remain in surplus for medium term:** The global market is likely to take at least three years to absorb the additional supply, which could keep spreads depressed in the near-to-medium term.
- **Further supply additions cannot be ruled out:** Potential meaningful PDH additions beyond the next couple of years cannot be ruled out. Further, as and when Saudi Arabia embarks on its oil to chemicals journey, it could add significantly higher propylene supply in global markets.

Fig 6 – Propylene to propane spread



Source: Bloomberg, BOBCAPS Research

Fig 7 – Polypropylene to propylene spread



Source: Bloomberg, BOBCAPS Research

Global implementation successes

Aranca estimates that China accounted for half of the 17.2mtpa PDH capacity as of CY21. Other major producers were from the US, US, Saudi Arabia and South Korea.

- **Producers in Saudi Arabia** have an advantage of ~20% discount on propane prices for domestic consumption.
- **Producers in the US** have an advantage of domestic availability of propane from increases in shale gas supply.
- **Producers in China** have succeeded due to a large domestic market and China's cost advantage in implementing simple process plants. In the current downturn, we understand that Chinese players are operating at weaker utilisation level of 75%.

Investment positives

- **Timing of investment during downturn of the propylene cycle:** It is positive that PLNG has approved the investment during the downcycle as the market may take around three years to absorb the new supplies being added over CY21-CY24. However, at this stage it is difficult to comment whether the market will turn around by FY28-FY29 as we do not have longer term visibility on supply.
- **Access to growing domestic market:** The Indian market for propylene is in the early stages of development and is likely to witness strong growth in demand. We do not perceive domestic absorption as a challenge.

Project execution risks

Besides the risk that sharp project cost escalation will lead to apparently higher capital intensity as highlighted above, we are also concerned about the execution challenges typical of such large projects, which include cost overruns and delayed implementation. While the PDHPP plant is a relatively simple process, project execution risk remains.

Project evaluations by other players in India

- **Evaluation in 2019:** A consortium of Abu Dhabi National Oil Company (ADNOC), Adani Group, BASF, Germany and Borealis carried out a joint feasibility study for setting up a PDHI-PP chemical complex along with an acrylics chain in Mundra, India, in 2019. They put the plan on hold due to the Covid-19 pandemic.
- **Evaluation in 2018:** ONGC Petro Additions in Jan'18 evaluated the option of enhancing propylene production using propane as feedstock via the PDH route alongside its cracker project. It found the option economically less attractive than that where the entire feed is taken to the steam cracker.

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Q2 in line

PLNG's Q2FY24 revenue/EBITDA/net income at Rs 125.3bn/Rs 12.2bn/Rs 8.2bn was marginally ahead of Bloomberg consensus by 1%/2%/1%.

- **Marginal sequential uptick.** EBITDA was up 2.8% QoQ with 6.0% QoQ improvement in blended EBITDA margin to Rs 54.5/MMbtu partially offset by ~3.0% volume decline to 223Tbtu.
- **Volumes down despite benefit of additional cargoes in monsoon.** While long-term volume improved 11.7% QoQ to 115tbtu, tolling volumes reduced 17.1% QoQ to 102tbtu. Dahej utilisation dropped from 96% in Q1 to 93% in Q2 despite benefit of diverted cargoes from Dabhol.
- **Use of pay charges yet to be resolved.** Management indicates that discussions are still undergoing customers and expect some resolution in Q3.

Projects update

- **Dahej expansion on track**: Management is still targeting operation of 5mtpa expansion at Dahej terminal by May'25. Upon completion of this investment, the existing jetty could permit scale-up of operations to 20mmtpa (i.e. 2.5mmtpa expansion). However, expansion of another 2.5mmtpa will become operational only upon completion of third jetty.
- **Dahej storage tank:** PLNG is expanding existing storage tank capacity by 0.37mmscm to 1.37mmscm via the addition of two tanks at a capex of Rs 12.5bn. The company is looking to complete the project by Jun'24 ahead of its previous guidance of Sep'24.
- **Gopalpur FSRU availability still under evaluation**: The company is still finalising appointment of consultant for evaluation of availability for a floating storage and regasification terminal (FSRU). In case of non-availability, PLNG may have to settle for a land-based terminal, which would require another detailed feasibility report, additional clearances and board approval. A land-based terminal will also take longer to implement than an FSRU.

Fig 8 – Quarterly Performance: Q2 EBITDA in line with consensus, absolute EBITDA impacted by lower volumes

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Net sales	**125,326**	**159,857**	**(21.6)**	**116,564**	**7.5**	**241,890**	**302,496**	**(20.0)**
EBITDA	**12,153**	**11,730**	**3.6**	**11,821**	**2.8**	**23,974**	**22,373**	**7.2**
EBITDA/mmbtu (Rs)	**54.5**	**61.1**	**(10.8)**	**51.4**	**6.0**	**52.9**	**55.9**	**(5.4)**
Blended regas margin (Rs/mmbtu)	63.9	74.4	(14.0)	58.9	8.5	61.4	69.8	(12.0)
Depreciation	1,948	1,922	1.4	1,919	1.5	3,867	3,835	0.8
Interest	747	811	(7.9)	746	0.2	1,493	1,590	(6.1)
Other income	1,567	942	66.3	1,467	6.8	3,035	2,360	28.6
PBT	**11,025**	**9,939**	**10.9**	**10,625**	**3.8**	**21,650**	**19,309**	**12.1**
Provision for tax	2,839	2,496	13.7	2,723	4.3	5,561	4,858	14.5
Effective tax rate	*25.7*	*25.1*		*25.6*		*25.7*	*25.2*	
Standalone PAT Adj	**8,187**	**7,443**	**10.0**	**7,902**	**3.6**	**16,088**	**14,452**	**11.3**
EPS (adj)	5.5	5.0	10.0	5.3	3.6	10.7	9.6	11.3
JV/Associate profit	408	481	(15.1)	316	29.4	-	-	-

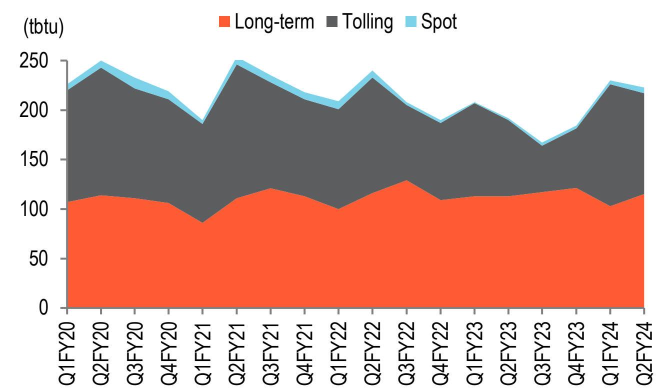
Source: Company, BOBCAPS Research

Fig 9 – Volumes: Q2 volumes impacted by lower tolling volumes

Volumes (tbtu)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Long term contracts	**115**	**113**	**1.8**	**103**	**11.7**	**220**	**242**	**(9.1)**
Dahej	102	103	(1.0)	90	13.3	194	218	(10.9)
Kochi	13	10	30.0	13	-	26	24	7.4
Spot	**6**	**2**	**200.0**	**4**	**50.0**	**16**	**15**	**5.3**
Dahej	6	2	200.0	4	50.0	16	15	5.3
Kochi	-	-	-!	-	-	-	-	-
Regasification services	**102**	**77**	**32.5**	**123**	**(17.1)**	**170**	**170**	**-**
Dahej	102	77	32.5	123	(17.1)	170	170	-
Kochi	-	-		-		-	-	-
Total Volumes	**223**	**192**	**16.1**	**230**	**(3.0)**	**406**	**427**	**(5.0)**
Dahej	**210**	**182**	**15.4**	**217**	**(3.2)**	**380**	**403**	**(5.7)**
Kochi	**13**	**10**	**30.0**	**13**	**-**	**26**	**24**	**7.4**

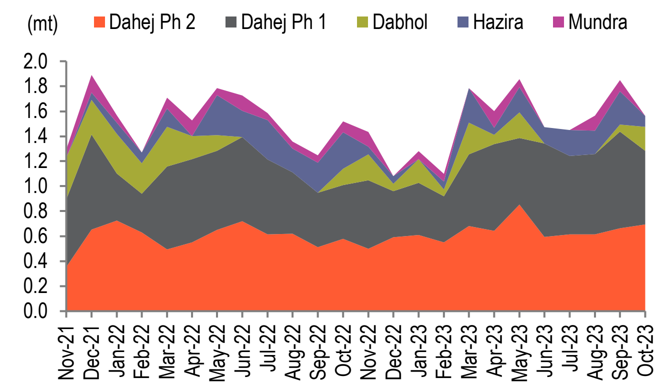
Source: Company, BOBCAPS Research

Fig 10 – Dahej volume declines on fall in tolling volumes



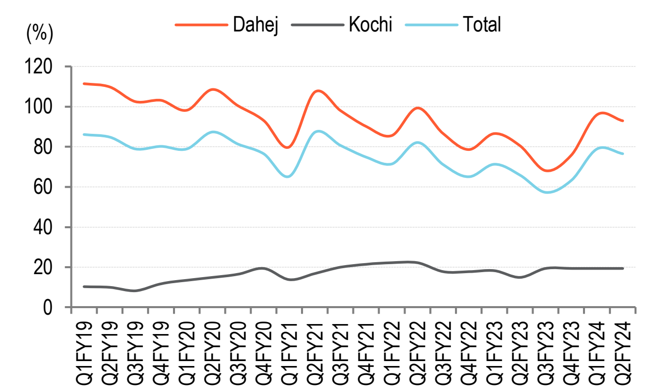
Source: Company, BOBCAPS Research

Fig 11 – LNG imports at Dahej eases further in Oct'23



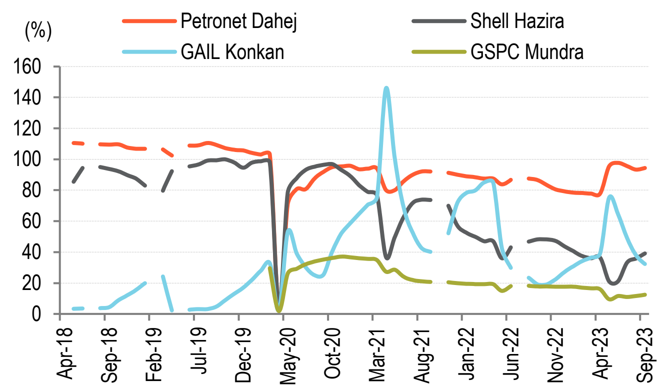
Source: Bloomberg, BOBCAPS Research | Dahej 1: Dahej Phase 1; Dahej 2: Dahej Phase 2

Fig 12 – Dahej utilisation dropped to 93% from 96% in Q1 despite additional cargoes diverted from Dabhol



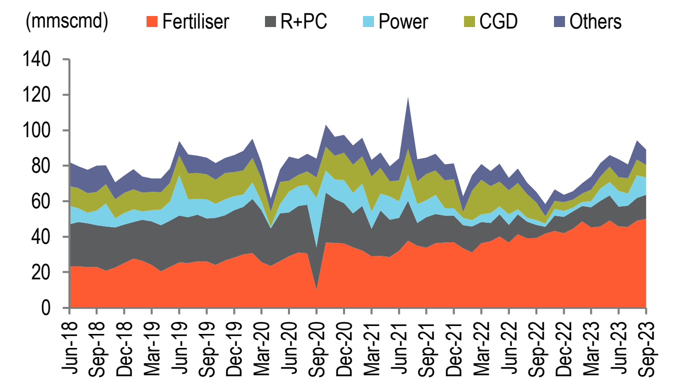
Source: Company, BOBCAPS Research

Fig 13 – Dahej maintains higher utilisation amongst west coast terminals



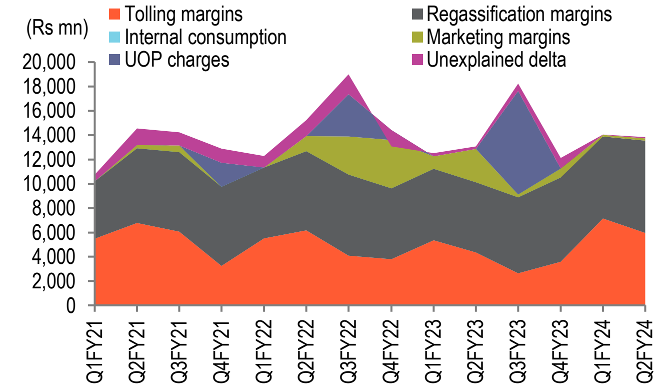
Source: CMIE, BOBCAPS Research

Fig 14 – LNG consumption improved in Q2



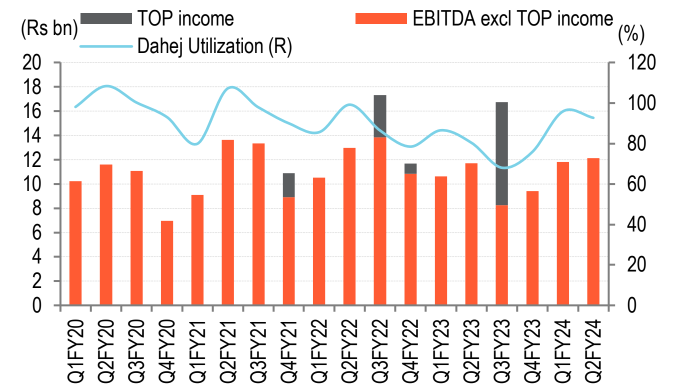
Source: CMIE, BOBCAPS Research | R+PC: Refining and Petrochemicals

Fig 15 – Gross margin was largely flat QoQ



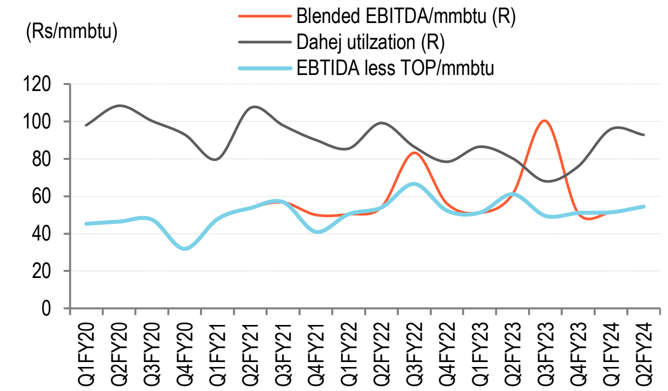
Source: CMIE, BOBCAPS Research | R+PC: Refining and Petrochemicals

Fig 16 – Marginal uptick in EBITDA …



Source: Company, BOBCAPS Research

Fig 17 – … with a modest improvement in unit EBITDA margin



Source: Company, BOBCAPS Research

Near-term outlook on volumes

Although the revival in LNG imports has been faster than we expected, deeper recovery would depend upon demand momentum from the refining and petrochemicals sectors. Gas-based generation has only limited room for usage upsides. With the improved availability of domestic gas, RLNG consumption has not increased over past three-four years.

LNG imports to depend on price levels during winter

LNG prices have started tightening from the low levels of US$ 10-12/MMbtu seen during May'23 to $17 in October initially with extension of the Norwegian maintenance season and more recently with the risk of disruption to Australian supply following industrial action initiated by the LNG Workers' Union. Gorgon and Wheatstone by Chevron cover ~6% of global LNG production.

Spot prices typically tighten during Q4 and Q1 (Oct-Feb) depending on the severity of winter in Europe and recovery of Chinese volumes as the economy improves and winter demand kicks in.

Valuation methodology

We maintain our forecasts for PLNG with broadly in-line result. We forecast a 5% CAGR in PLNG's EBITDA over FY23-FY26 on the back of higher utilisation of the Dahej terminal from 13.6mmtpa in FY23 to an estimated 18.3mmtpa in FY26. We assume only a modest 0.7mmtpa increase in FY26 from the upcoming 2.5mmtpa capacity. Utilisation could scale up faster if global LNG prices retract below US$ 10/MMbtu upon ramp-up of new liquefaction terminals. Our conservative stance on volume assumptions also reflects the availability of higher domestic supply and increased competitive intensity along the west coast.

We expect blended EBITDA to normalise in FY24 as actual LNG volumes replace revenue from UOP charges. We are not factoring in realisation of UOP charges billed over FY22-FY23 as we await indications from customers on payment. Our forecasts are broadly in line with consensus over FY24-FY26.

Fig 18 – Forecasts

(Rs bn)	Actuals	Forecasts			Consensus			Delta to Consensus (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,98,994	5,66,723	5,76,360	5,95,717	5,54,934	5,73,490	5,86,637	2.1	0.5	1.5
EBITDA	48,558	48,499	51,364	56,068	48,073	51,555	56,258	0.9	(0.4)	(0.3)
EBITDA growth (%)	(7.6)	(0.1)	5.9	9.2	(1.0)	7.2	9.1	-	-	-
Net income	32,399	32,001	33,853	37,050	31,987	34,249	37,003	0.0	(1.2)	0.1

Source: Bloomberg, BOBCAPS Research

Fig 19 – Key assumptions

Parameter		FY23	FY24E	FY25E	FY26E
Dahej terminal					
Volume	mmtpa	13.6	16.9	17.4	18.3
Regas tariffs	Rs/mmbtu	57.8	60.6	63.7	66.9
Kochi terminal					
Volume	mmtpa	0.9	1.0	1.1	1.2
Regas tariffs	Rs/mmbtu	85.7	82.0	86.1	90.5
Company aggregate					
Volume	mmtpa	14.5	17.8	18.5	19.4
Volumes	Tbtu	752	927	959	1009
Blended EBITDA	Rs/MMbtu	64.6	52.3	53.5	55.6
Blended Regas tariffs	Rs/MMbtu	78.9	64.8	67.3	70.7

Source: Company, BOBCAPS Research

HOLD, TP lowered to Rs 220

We cut our TP for PLNG to Rs 220 (from Rs 275) as we now adjust it for Rs58/share as a value at risk from the PDHPP plant at Dahej to reflect our concerns on viability of the PDHPP plant.

- **Core business:** We continue to value core-business based on an unchanged one-year forward P/E multiple of 11.7x (based on the five-year median) but have rolled forward valuations to Oct'24 (from Sep'24). The stock has derated over the past five years, evidenced by a decline in median P/E from 13.4x over seven years to 11.6x over five years and 11x over three years.

Given the expected recovery in volumes, we believe valuations should revert to at least the five-year median, which is more representative of steady-state volumes. To price in growth from the capacity expansion planned over the next two years, we need more visibility on LNG offtake within the country amid higher domestic availability of natural gas and increased competition.

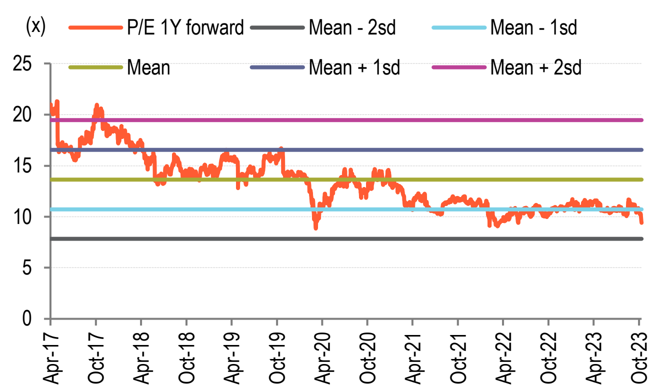
- **PDHPP Plant:** We have concerns on economic viability of the PDHPP plant with higher capital cost intensity range of US$3,000-3,700/t. Allowing for disadvantage of propane prices vs competitors in Middle East and more efficient capital costs in Chinese producers, we consider value above US$ 2,250/t of capital cost at risk, which translates to a value of Rs 58/share. We adjust value at risk from our fair value of core business to arrive at our target price.

Fig 20 – Valuation summary

(Rs)	Value
FY25E EPS (Rs)	22.6
Target P/E multiple (x)	11.7
Fair value (Mar'24)	264
Fair value of core business (Oct'24)	279
Value at risk for the PDHPP Plant	58
Fair value (Oct'24)	221
Target price rounded to nearest Rs 5 (Sep'24)	220

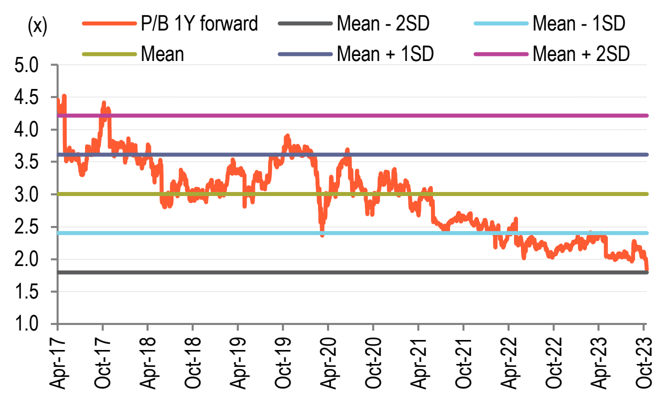
Source: BOBCAPS Research

Fig 21 – P/E 1Y forward



Source: Refinitiv, BOBCAPS Research

Fig 22 – P/B 1Y forward



Source: Refinitiv, BOBCAPS Research

Key risks

Key risks to our estimates are:

- **RLNG plant utilisation:** A key upside risk is higher LNG utilisation than current assumptions should usage within India improve, possibly led by a sharp reduction in global LNG prices. Similarly, LNG utilisation below our current assumptions is a key downside risk. This is possible with an increase in global LNG prices driven by a sharper rise in demand from Europe (with a severe winter) and China (with faster recovery).
- **Project execution:** Slower execution of projects than assumed is a downside risk while faster approval of long-term options could be an upside risk.
- **PDHPP project viability:** We currently consider Rs 58/share as a value at risk from planned implementation of PDHPP project to reflect our concerns on its viability. While better viability than our assumptions represent an upside risk for the stock, inferior viability could pose a downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	9.4	357	450	BUY
Gujarat State Petronet	GUJS IN	1.8	259	370	BUY
Hindustan Petroleum Corp	HPCL IN	4.3	252	410	BUY
Indian Oil Corp	IOCL IN	10.6	92	150	BUY
Indraprastha Gas	IGL IN	3.2	381	550	BUY
Mahanagar Gas	MAHGL IN	1.2	1,004	1,255	BUY
Petronet LNG	PLNG IN	3.5	194	220	HOLD
Reliance Industries	RIL IN	184.8	2,297	3,015	BUY

Source: BOBCAPS Research, NSE | Price as of 1 Nov 2023

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**4,31,686**	**5,98,994**	**5,66,723**	**5,76,360**	**5,95,717**
EBITDA	52,523	48,558	48,499	51,364	56,068
Depreciation	(7,685)	(7,643)	(8,062)	(8,894)	(9,893)
EBIT	44,839	40,914	40,437	42,470	46,175
Net interest inc./(exp.)	(3,173)	(3,305)	(3,029)	(2,751)	(2,472)
Other inc./(exp.)	3,073	5,736	5,374	5,538	5,830
Exceptional items	0	0	0	0	0
EBT	44,738	43,345	42,782	45,258	49,533
Income taxes	(11,215)	(10,946)	(10,781)	(11,405)	(12,482)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**33,524**	**32,399**	**32,001**	**33,853**	**37,050**
Adjustments	0	0	0	0	0
Adjusted net profit	**33,524**	**32,399**	**32,001**	**33,853**	**37,050**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	15,265	16,440	16,654	16,819	17,235
Other current liabilities	8,423	8,609	8,290	8,402	8,637
Provisions	1,203	1,926	1,926	1,926	1,926
Debt funds	9,566	7,423	7,423	7,423	7,423
Other liabilities	42,479	40,481	35,893	31,304	26,716
Equity capital	15,000	15,000	15,000	15,000	15,000
Reserves & surplus	1,19,255	1,34,347	1,49,548	1,65,628	1,83,227
Shareholders' fund	1,34,255	1,49,347	1,64,548	1,80,628	1,98,227
Total liab. and equities	**2,11,191**	**2,24,226**	**2,34,734**	**2,46,502**	**2,60,164**
Cash and cash eq.	43,196	56,800	58,142	60,536	64,499
Accounts receivables	26,844	38,397	38,615	39,156	40,464
Inventories	5,767	11,531	11,103	10,512	10,054
Other current assets	5,158	4,826	4,656	4,702	4,790
Investments	30,772	11,394	11,503	11,773	12,427
Net fixed assets	95,572	87,903	96,100	1,05,706	1,19,413
CWIP	1,926	11,259	12,500	12,000	6,400
Intangible assets	0	0	0	0	0
Deferred tax assets, net	1,956	2,116	2,116	2,116	2,116
Other assets	0	0	0	0	0
Total assets	**2,11,191**	**2,24,226**	**2,34,734**	**2,46,502**	**2,60,164**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**31,408**	**18,392**	**33,966**	**36,488**	**39,827**
Capital expenditures	(16,611)	10,119	(17,609)	(18,271)	(18,654)
Change in investments	0	0	0	0	0
Other investing cash flows	3,073	5,736	5,374	5,538	5,830
Cash flow from investing	**(13,539)**	**15,855**	**(12,235)**	**(12,732)**	**(12,824)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(2,334)	(2,848)	(3,589)	(3,589)	(3,589)
Interest expenses	0	0	0	0	0
Dividends paid	(15,750)	(17,250)	(16,801)	(17,773)	(19,451)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**(18,084)**	**(20,098)**	**(20,389)**	**(21,361)**	**(23,040)**
Chg in cash & cash eq.	**(214)**	**14,149**	**1,342**	**2,394**	**3,963**
Closing cash & cash eq.	**43,209**	**57,344**	**58,142**	**60,536**	**64,499**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	22.3	21.6	21.3	22.6	24.7
Adjusted EPS	22.3	21.6	21.3	22.6	24.7
Dividend per share	10.5	11.5	11.2	11.8	13.0
Book value per share	89.5	99.6	109.7	120.4	132.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	0.6	0.4	0.4	0.4	0.4
EV/EBITDA	4.9	5.3	5.1	4.7	4.3
Adjusted P/E	8.7	9.0	9.1	8.6	7.8
P/BV	2.2	1.9	1.8	1.6	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.9	74.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	99.8	105.9	105.8	106.6	107.3
EBIT margin (EBIT/Revenue)	10.4	6.8	7.1	7.4	7.8
Asset turnover (Rev./Avg TA)	215.6	275.1	247.0	239.5	235.2
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.3
Adjusted ROAE	26.7	22.8	20.4	19.6	19.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	65.9	38.8	(5.4)	1.7	3.4
EBITDA	11.8	(7.6)	(0.1)	5.9	9.2
Adjusted EPS	13.7	(3.4)	(1.2)	5.8	9.4
Profitability & Return ratios (%)					
EBITDA margin	12.2	8.1	8.6	8.9	9.4
EBIT margin	10.4	6.8	7.1	7.4	7.8
Adjusted profit margin	7.8	5.4	5.6	5.9	6.2
Adjusted ROAE	26.7	22.8	20.4	19.6	19.6
ROCE	24.8	20.3	18.4	17.6	17.5
Working capital days (days)					
Receivables	19	20	25	25	24
Inventory	4	6	8	8	7
Payables	12	11	12	12	12
Ratios (x)					
Gross asset turnover	3.2	4.5	4.0	3.6	3.3
Current ratio	3.3	4.1	4.2	4.2	4.3
Net interest coverage ratio	14.1	0.0	0.0	0.0	0.0
Adjusted debt/equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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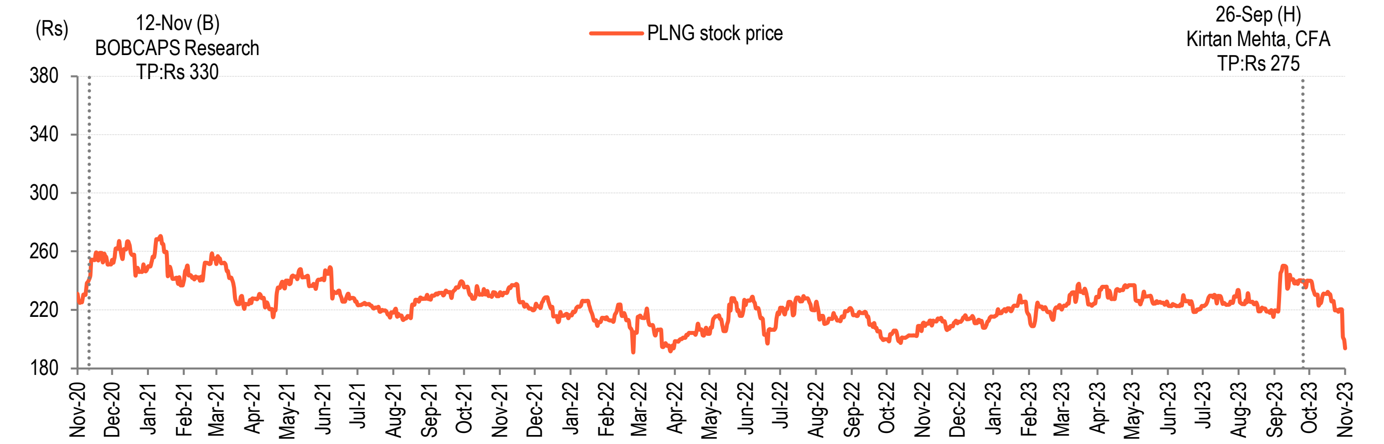
Ratings and Target Price (3-year history): PETRONET LNG (PLNG IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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