

RESEARCH
Petronet LNG | Target: Rs 350 | +32% | BUY

Earnings outlook upbeat


BOB Economics Research | Weekly Wrap

All eyes on ECB

SUMMARY
Petronet LNG

Our recent meeting with the Petronet LNG (PLNG) management has reinforced our core investment thesis – (a) high utilisation levels at Dahej to sustain on low spot LNG prices; (b) demand climate improving, bolstered primarily by CGD (a key swing factor) and also fertilisers, as evident from recent macro data (see our report [Jul'19 natural gas consumption robust](#)); and (c) volume offtake at Kochi ramping up led by OMPL and MCPC in Oct'19, while the MRPL contract may start from Apr'20. Maintain BUY.

[Click here for the full report.](#)
India Economics: Weekly Wrap

Global manufacturing output remained weak while services sector seems to be holding up for now. The mixed economic picture along with hopes of deal between US and China, delay in Brexit and easing of tensions in Hong Kong led to higher global yields. Gold fell and so did US\$. Indian yields rose as GST collections are muted and government is looking at ways to prop growth. On the global front ECB will set the tone. On the domestic front, inflation and growth data ahead of MPC meeting will decide RBI rate trajectory.

[Click here for the full report.](#)
TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL	Buy	175
ONGC	Buy	175
TCS	Add	2,360
HPCL	Sell	200

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	715
Greenply Industries	Buy	195
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.56	0bps	(14bps)	(138bps)
India 10Y yield (%)	6.60	2bps	26bps	(143bps)
USD/INR	71.73	0.2	(1.3)	0.0
Brent Crude (US\$/bbl)	61.54	1.0	4.4	(19.9)
Dow	26,797	0.3	3.0	3.4
Shanghai	3,000	0.5	8.0	11.0
Sensex	36,982	0.9	0	(3.7)
India FII (US\$ mn)	5 Sep	MTD	CYTD	FYTD
FII-D	103.8	334.0	4,581.1	4,036.5
FII-E	(57.8)	(670.8)	6,535.3	(309.9)

Source: Bank of Baroda Economics Research

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BUY

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PETRONET LNG

Oil & Gas

09 September 2019

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Rohit Ahuja | Harleen Manglani

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Buoyant volume outlook: PLNG's incremental 2.5mtpa of capacity at Dahej is benefitting from current low spot LNG prices (~US\$ 3.5/mmbtu).

Management clarified that GAIL is able to sell LNG from long-term contracts despite the ~US\$ 8/mmbtu price, by blending with low-cost spot volumes.

PLNG is avoiding trading spot LNG in a weak price environment to limit inventory losses. The company plans to unlock another 2mtpa of capacity at Dahej in phases from 2021, through rollout of two storage tanks by FY23 (~Rs 6bn capex) and a third jetty by FY24.

Beyond the existing ~17mtpa of long-term contracts, PLNG has short-term contracts with OPAL (~0.5mtpa) and Essar (~0.3mtpa), yielding ~18mtpa of volume visibility at Dahej. Kochi ramp-up to ~1.5mtpa/2.2mtpa is likely in FY20/FY21 post Kochi-Mangalore pipeline commissioning (by Dec'19).

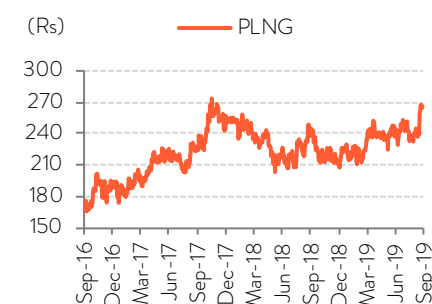
Maintain BUY: PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ ROE over FY20-FY22E. Existing volume contracts alleviate risks from competition. Instead, we see possibilities of a further delay in start-up of the Mundra LNG terminal, considering ongoing disputes between its promoters on regasification tariffs.

Ticker/Price	PLNG IN/Rs 265
Market cap	US\$ 5.5bn
Shares o/s	1,500mn
3M ADV	US\$ 9.5mn
52wk high/low	Rs 269/Rs 203
Promoter/FPI/DII	50%/26%/24%

Source: NSE



STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Total Revenue (Rs mn)	305,986	383,954	439,048	526,425	533,488
EBITDA (Rs mn)	33,124	32,935	44,312	49,662	55,192
Adj. net profit (Rs mn)	20,779	21,554	26,455	30,123	36,796
Adj. EPS (Rs)	13.9	14.4	17.6	20.1	24.5
Adj. EPS growth (%)	21.8	3.7	22.7	13.9	22.2
Adj. ROAE (%)	23.3	21.6	24.5	25.2	27.1
Adj. P/E (x)	19.1	18.5	15.0	13.2	10.8
EV/EBITDA (x)	12.6	12.3	8.6	7.5	6.6

Source: Company, BOBCAPS Research



WEEKLY WRAP

09 September 2019

All eyes on ECB

Global manufacturing output remained weak while services sector seems to be holding up for now. The mixed economic picture along with hopes of deal between US and China, delay in Brexit and easing of tensions in Hong Kong led to higher global yields. Gold fell and so did US\$. Indian yields rose as GST collections are muted and government is looking at ways to prop growth. On the global front ECB will set the tone. On the domestic front, inflation and growth data ahead of MPC meeting will decide RBI rate trajectory.

Sameer Narang | Jahnavi

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Markets

- **Bonds:** Apart from China, global yields closed higher amidst progress over US-China trade talks, easing tensions in Hong Kong and possibility of avoiding no-deal Brexit. US 10Y yield rose by 6bps (1.56%). Crude prices rose by 1.8% (US\$ 62/bbl). India's 10Y yield rose by 4bps (6.6%) in-line with global cues. GST collections remained below target. System liquidity is in surplus of Rs 1.6tn as on 06 Sep 2019 vs Rs 1.2tn in the previous week.
- **Currency:** Barring JPY and INR, other global currencies closed higher in the week as US-China agreed to hold trade negotiations. Investor sentiment also improved as British parliament voted to pass a bill to block no-deal Brexit and political tensions in Hong Kong receded. DXY ended lower by (-) 0.5%. INR fell by (-) 0.4% in the week on the back of weak growth data. FII outflows were US\$ 337mn.
- **Equity:** Except Sensex, other global indices closed the week higher. While global growth worries continued, equity markets are hoping for a US-China trade deal. In addition, macro data was mixed with services PMIs across major economies holding up. At the same time, manufacturing PMIs were subdued. Domestic growth worries dragged Sensex down by (-) 0.9%.
- **Upcoming key events:** In the current week, ECB's policy rate decision, US CPI, China's trade data and global industrial production prints (UK, Euro Area, France, Japan, and India) will be key to watch. In addition, Japan's Q2CY19 GDP growth and Euro trade data will also be released. On the domestic front, markets await release of CPI, IIP and trade data.



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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