

RESEARCH
BOB Economics Research | Weekly Wrap

India corporate tax cut to boost investments

Petronet LNG | Target: Rs 350 | +31% | BUY

Concerns seem overstated on investments in Tellurian

SUMMARY
India Economics: Weekly Wrap

Global economy seems to have slowed down further led by dip in China's retail sales and fixed asset investments. A divided Fed delivered rate cut but future path is uncertain. While crude prices did go up, global yields were lower amidst uncertainties around US-China trade talks. Indian yields went up after government announced a US\$ 20bn stimulus for boosting investments. INR was stable and equity markets went up. Fixed income investors now await the borrowing calendar to be released this week.

[Click here for the full report.](#)

Petronet LNG

We hosted an investor call with the Petronet LNG (PLNG) management to discuss its proposed investment in Tellurian Inc's Driftwood LNG project. PLNG clarified its intent to cap investment at US\$ 1bn (for access to ~2mtpa volumes) vs. US\$ 2.5bn overall with JV partners. The company's ~US\$ 700mn cash pile implies that this four-year investment is unlikely to affect our dividend payout estimates (~50%). We believe undue pessimism is being built into valuations as this contract could be earnings accretive at US\$ 6/mmbtu of delivered gas price.

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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 (%)	1.72	(6bps)	17bps	(134bps)
India 10Y yield (%)	6.79	15bps	20bps	(129bps)
USD/INR	70.95	0.5	1.1	1.7
Brent Crude (US\$/bbl)	64.28	(0.2)	7.1	(18.4)
Dow	26,935	(0.6)	3.7	0.7
Shanghai	3,006	0.2	4.4	7.5
Sensex	38,015	5.3	1.8	3.2
India FII (US\$ mn)	19 Sep	MTD	CYTD	FYTD
FII-D	41.1	107.9	4,355.1	3,810.5
FII-E	(104.7)	(854.2)	6,351.9	(493.3)

Source: Bank of Baroda Economics Research

BOBCAPS Research
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WEEKLY WRAP

23 September 2019

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Markets

- **Bonds:** Apart from India and China, global yields closed lower. US 10Y yield fell by 17bps (1.72%) as Fed reduced rates for the second consecutive time to boost growth and delay in US-China trade talks. Crude prices rose by 6.7% (US\$ 64/bbl) on account of supply disruption in Saudi Arabia. With higher oil prices and corporate tax reduction of US\$ 20bn (0.7% of GDP), India's 10Y yield rose by 15bps (6.6%). System liquidity surplus fell to Rs 324bn as on 20 Sep 2019 vs Rs 1.5tn in the previous week.
- **Currency:** Barring JPY (+0.5%) and INR (flat), other global currencies closed lower in the week. Uncertainty over US-China trade talks and US Fed's future stance along with sharp jump in oil prices meant most global currencies were weaker against US\$. INR closed flat after government stimulus to boost the economy was announced.
- **Equity:** Fed's rate cut decision was overshadowed by trade war worries and resulted in global stocks ending mixed this week. Dow fell the most (-1%), followed by Shanghai Comp (-0.8%). Sensex ended the week in green gaining by 1.7% on the back of government's recent announcements to kick start investment cycle by reducing corporate tax rate.
- **Upcoming key events:** In the current week, flash PMIs of major economies (Germany, France, US and Japan) are scheduled to be released. Apart from this, US GDP, new home sales and consumer confidence print will be closely watched. In light of change in government's fiscal arithmetic, all eyes will be on H2 borrowing calendar.



BUY

TP: Rs 350 | ▲ 31%

PETRONET LNG

Oil & Gas

23 September 2019

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LNG supply at an attractive price: PLNG is eyeing an assured long-term delivered LNG price of ~US\$ 6/mmbtu to India, which would make the Tellurian contract commercially viable. Additionally, the company will endeavour to have back-to-back sales contracts in India for these LNG volumes (on the lines of RasGas), de-risking them completely. Pending finalisation of these pricing and sales terms, PLNG is unlikely to convert the current non-binding MoU with Tellurian into a firm sales purchase agreement.

US\$ 2.5bn investment with JV partners: PLNG will partner with one or two companies (as yet unnamed) for US\$ 2.5bn of investment in Tellurian's Driftwood project. If the company were to go it alone, management asserted that its investment is unlikely to exceed US\$ 1bn for ~2mmtpa of volume access. This assurance and PLNG's current US\$ 700mn cash pile alleviate concerns about the investment being a stretch on the balance sheet.

Ample demand to absorb incremental long-term LNG: Power and fertiliser companies – which harbour an estimated >50mmscmd or ~13mmtpa of potential demand – would be key target customers for this long-term LNG, if the deal were to assure a delivered LNG price of US\$ 6/mmbtu to India. PLNG's planned 2mmtpa expansion at the Dahej regasification capacity by 2022 would be a key facilitator for importing the LNG.

Project execution a primary risk: Tellurian's Driftwood LNG project is setting up a 27.6mmtpa liquefaction terminal in Louisiana, USA. This would be integrated with upstream assets (~15tcf reserves) and midstream pipeline infrastructure (~1,000km). The company aims to cap delivered cost of LNG (FoB) at ~US\$ 2.35/mmbtu in the US (see [Tellurian Corporate Presentation](#)), which carry execution risks in terms of timelines and costs.

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Ticker/Price	PLNG IN/Rs 266
Market cap	US\$ 5.6bn
Shares o/s	1,500mn
3M ADV	US\$ 10.0mn
52wk high/low	Rs 272/Rs 203
Promoter/FPI/DII	50%/26%/24%

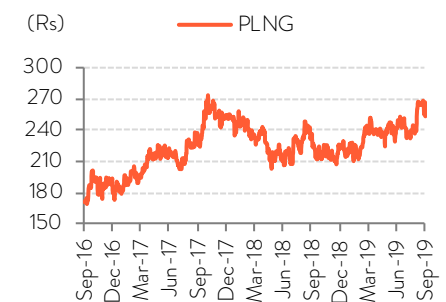
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	439,048	526,425	533,488
EBITDA (Rs mn)	44,312	49,662	55,192
Adj. net profit (Rs mn)	26,455	30,123	36,796
Adj. EPS (Rs)	17.6	20.1	24.5
Adj. EPS growth (%)	22.7	13.9	22.2
Adj. ROAE (%)	24.5	25.2	27.1
Adj. P/E (x)	15.1	13.3	10.9
EV/EBITDA (x)	8.6	7.6	6.7

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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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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