

RESEARCH

Petronet LNG | Target: Rs 400 | +40% | BUY

Volumes and margins surge

SUMMARY

Petronet LNG

Petronet LNG's (PLNG) Q2FY20 EBITDA surged to Rs 11.6bn (+31% YoY), as volumes rose to 250tbtu (+15% YoY, +11% QoQ). Despite capacity expansion, Dahej terminal utilisation has scaled up to 108%. EBITDA/mmbtu increased to Rs 46.4 (+14% YoY, 2.5% QoQ) on advantages of scale, trending well above estimates. We upgrade FY21/FY22 EPS by 18%/3% on higher margins and volumes. Our FY20 earnings upgrade (+23%) is driven by tax adjustments. Maintain BUY with a revised Sep'20 TP of Rs 400 (vs. Rs 380).

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
HPCL	Buy	400
ONGC	Buy	200
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	730
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.84	0bps	16bps	(128bps)
India 10Y yield (%)*	6.69	1bps	(4bps)	(114bps)
USD/INR	70.84	0.1	(0.4)	3.8
Brent Crude (US\$/bbl)	61.59	0	(0.5)	(18.9)
Dow	27,071	(0.1)	0.9	8.8
Shanghai	2,954	(0.9)	0.8	15.0
Sensex	39,832	2.0	2.6	17.5
India FII (US\$ mn)	25 Oct	MTD	CYTD	FYTD
FII-D	202.2	211.6	4,185.0	3,640.4
FII-E	(57.5)	496.4	8,657.2	1,812.0

Source: Bank of Baroda Economics Research | *7.26% GS 2029

BOBCAPS Research

research@bobcaps.in



BUY

TP: Rs 400 | ▲ 40%

PETRONET LNG

Oil & Gas

30 October 2019

Volumes and margins surge

Petronet LNG's (PLNG) Q2FY20 EBITDA surged to Rs 11.6bn (+31% YoY), as volumes rose to 250tbtu (+15% YoY, +11% QoQ). Despite capacity expansion, Dahej terminal utilisation has scaled up to 108%. EBITDA/mmbtu increased to Rs 46.4 (+14% YoY, 2.5% QoQ) on advantages of scale, trending well above estimates. We upgrade FY21/FY22 EPS by 18%/3% on higher margins and volumes. Our FY20 earnings upgrade (+23%) is driven by tax adjustments. Maintain BUY with a revised Sep'20 TP of Rs 400 (vs. Rs 380).

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

Buoyant volume outlook: PLNG's Q2 volumes beat estimates following a surge in service volumes (129tbtu, +47% YoY), while spot LNG offtake remained muted at 7tbtu. Management clarified that long-term volume offtake remains stable (both from Qatar and Australia), despite the wide price gap between spot and long-term contracts. Management expects to sustain Dahej terminal utilisation at >100% levels, while the Kochi terminal could ramp up from Q4FY20 after commissioning of the Kochi-Mangalore pipeline by GAIL.

Ticker/Price	PLNG IN/Rs 286
Market cap	US\$ 6.0bn
Shares o/s	1,500mn
3M ADV	US\$ 13.6mn
52wk high/low	Rs 299/Rs 203
Promoter/FPI/DII	50%/27%/23%

Source: NSE

EBITDA margins improve on high utilisation: EBITDA/ mmbtu swelled 14% YoY to Rs 46.4 led by a surge in utilisation levels at Dahej and lower operating costs following a crash in spot LNG prices. However, margins may reduce or at best stay at current levels in H2FY20 as there could be some volume loss to the Dabhol terminal (which resumes post monsoon). Management indicated that Kochi tariffs could be revised down by ~25% from FY21 on assurance of higher offtake (~40% as per our analysis).

STOCK PERFORMANCE



Maintain BUY: PLNG's earnings visibility remains buoyant backed by >100% utilisation at Dahej, while the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks by FY23.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	305,986	383,954	405,806	491,243	494,655
EBITDA (Rs mn)	33,124	32,935	45,420	51,364	53,226
Adj. net profit (Rs mn)	20,779	21,554	32,617	35,664	37,994
Adj. EPS (Rs)	13.9	14.4	21.7	23.8	25.3
Adj. EPS growth (%)	21.8	3.7	51.3	9.3	6.5
Adj. ROAE (%)	23.3	21.6	29.9	28.9	27.0
Adj. P/E (x)	20.6	19.9	13.1	12.0	11.3
EV/EBITDA (x)	13.5	13.2	9.0	7.7	7.2

Source: Company, BOBCAPS Research



Disclaimer

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)

Rating distribution

As of 30 September 2019, out of 77 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 47 have BUY ratings, 15 are rated ADD, 6 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.