

FIRST LIGHT

19 August 2020

RESEARCH

Petronet LNG | Target: Rs 310 | +22% | BUY

Margins improve, volume outlook brightens

SUMMARY

Petronet LNG

Petronet LNG's (PLNG) Q1FY20 EBITDA was in line at Rs 9bn (-11% YoY), with low volumes (-16% YoY) being compensated by higher EBITDA/ mmbtu at Rs 48 (+5.7% YoY). Utilisation levels at Dahej have rebounded to ~103% currently, implying a better earnings outlook from Q2. The demand outlook is robust as LNG prices remain attractive given benign oil prices. On rollover to Sep'21, we revise our TP to Rs 310 (from Rs 305). Valuations look undemanding at 11.3x FY22E EPS on healthy earnings visibility.

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

TOP PICKS

LARGE-CAP IDEAS

| Company | Rating | Target |
|-------------------------------|--------|--------|
| Bajaj Finance | Buy | 4,000 |
| Cipla | Buy | 850 |
| GAIL | Buy | 155 |
| Petronet LNG | Buy | 310 |
| Tech Mahindra | Buy | 780 |

MID-CAP IDEAS

| Company | Rating | Target |
|----------------------------------|--------|--------|
| Alkem Labs | Buy | 3,600 |
| Chola Investment | Buy | 280 |
| Laurus Labs | Buy | 1,200 |
| Transport Corp | Buy | 270 |
| Mahanagar Gas | Sell | 750 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|----------------------------|---------------|------------|-------------|-------------|
| US 10Y yield (%) | 0.69 | (2bps) | 7bps | (92bps) |
| India 10Y yield (%) | 5.95 | 0bps | 14bps | (64bps) |
| USD/INR | 74.89 | 0 | 0.4 | (4.8) |
| Brent Crude (US\$/bbl) | 45.37 | 1.3 | 4.6 | (24.1) |
| Dow | 27,845 | (0.3) | 4.2 | 6.5 |
| Shanghai | 3,439 | 2.3 | 7.1 | 19.3 |
| Sensex | 38,051 | 0.5 | 4.3 | 1.7 |
| India FII (US\$ mn) | 14 Aug | MTD | CYTD | FYTD |
| FII-D | (83.2) | (46.4) | (14,574.1) | (4,814.6) |
| FII-E | (25.1) | 3,588.3 | 2,300.1 | 8,903.1 |

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



BUY

TP: Rs 310 | ▲ 22%

PETRONET LNG

| Oil & Gas

| 18 August 2020

Margins improve, volume outlook brightens

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Rohit Ahuja | Harleen Manglani

research@bobcaps.in

Volumes claw back to normalcy, outlook improving: PLNG's current utilisation at Dahej remains at >100% as LNG consumption has picked up, driven by the power and fertiliser sectors. Utilisation at Kochi has currently improved to ~17% and PLNG is negotiating re-gas tariffs with buyers. Long-term contract volumes remained muted at 86tbtu (-19.6% YoY) in Q1 as the pricing gap with spot LNG stayed high. While PLNG couldn't garner much spot volumes of its own, its service volumes remained relatively robust due to low spot LNG prices.

Ticker/Price PLNG IN/Rs 254

Market cap US\$ 5.1bn

Shares o/s 1,500mn

3M ADV US\$ 13.0mn

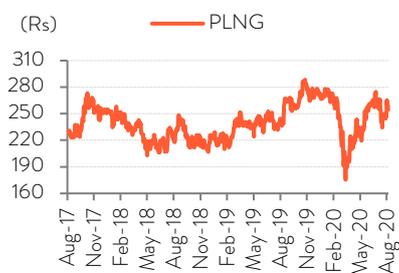
52wk high/low Rs 299/Rs 170

Promoter/FPI/DII 50%/29%/21%

Source: NSE

EBITDA margins normalise: EBITDA/mmbtu outperformed at Rs 48 (+5.7% YoY), driven entirely by contracted volumes (considering spot volumes were marginal). Uncertainty persists over Kochi terminal tariffs though management hinted that negotiations for tariffs (currently at Rs 83.2/mmbtu) are underway. EBITDA margins could improve in Q2 as volumes gain traction.

STOCK PERFORMANCE



Source: NSE

High earnings visibility: PLNG's earnings visibility remains buoyant backed by long-term contracts and expected volume ramp-up at Kochi. Low LNG prices offer a robust outlook on LNG demand, especially from the power sector.

Further, the company will continue to expand capacity (by ~2mtpa) through the addition of storage tanks and a jetty at Dahej terminal by FY23.

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20P | FY21E | FY22E | FY23E |
|-------------------------|---------|---------|---------|---------|---------|
| Total revenue (Rs mn) | 383,954 | 354,520 | 220,228 | 268,526 | 274,690 |
| EBITDA (Rs mn) | 32,935 | 39,895 | 43,138 | 52,314 | 56,598 |
| Adj. net profit (Rs mn) | 21,554 | 27,697 | 26,817 | 33,844 | 37,449 |
| Adj. EPS (Rs) | 14.4 | 18.5 | 17.9 | 22.6 | 25.0 |
| Adj. EPS growth (%) | 3.7 | 28.5 | (3.2) | 26.2 | 10.7 |
| Adj. ROAE (%) | 21.6 | 26.5 | 24.5 | 29.5 | 29.8 |
| Adj. P/E (x) | 17.7 | 13.8 | 14.2 | 11.3 | 10.2 |
| EV/EBITDA (x) | 12.0 | 9.4 | 8.2 | 6.6 | 5.9 |

Source: Company, BOBCAPS Research



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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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