

BUY

TP: Rs 250 | ▲ 53%

GUJARAT GAS

| Oil & Gas

| 30 July 2019

Volumes and margins surge

Gujarat Gas (GUJGA) reported Q1FY20 earnings well above estimates at Rs 2.3bn (+93% YoY, +2x QoQ), backed by strong volumes of 9.15mmscmd (+42% YoY) and expanded EBITDA margins of Rs 5.6/scm (+32% YoY, +29% QoQ). Considering these volumes now form a new higher base for growth, we raise FY20/FY21 earnings estimates by ~20% each. Our DCF-based TP increases to Rs 250 (from Rs 205) on earnings revision, lower cost of equity and rollover to Sep'21 valuations.

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Buoyant volume outlook: GUJGA's volumes beat estimates at 9.15mmscmd due to higher sales in Morbi, Gujarat, aided by the National Green Tribunal's (NGT) recent order directing ceramic units in the district to dismantle their coal gasifiers and switch them over to LNG/PNG. GUJGA's management sees more demand potential from Morbi and hence expects even higher volumes in the coming quarters (at 9.5-10mmscmd levels). Although ceramic units have challenged this order in higher courts, we believe their options are limited considering the stringent legal stand on pollution control.

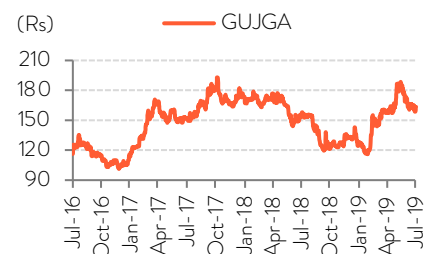
Margins surge: EBITDA margins outperformed at Rs 5.6/scm in Q1FY20, buoyed by the crash in spot LNG prices (-27% QoQ to US\$ 4.5/mmbtu). Coupled with the recent upswing in volumes, GUJGA gained from improved operating leverage. This should help the company address the issue of low ROCE, which we expect will rise from 12% in FY19 to 23%/24.5% in FY21/FY22.

Undemanding valuations: At 11x FY21E EPS, valuations remain one of the lowest among CGD peers (~16x for Indraprastha Gas/Mahanagar Gas). This gap may now be bridged given the recent spike in volumes and margins. GUJGA remains one of our top picks among CGD players as it carries significant potential for earnings upgrades.

Ticker/Price	GUJGA IN/Rs 164
Market cap	US\$ 1.6bn
Shares o/s	688mn
3M ADV	US\$ 1.0mn
52wk high/low	Rs 194/Rs 115
Promoter/FPI/DII	61%/12%/27%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	2,914	4,160	8,192	10,291	11,198
Adj. EPS (Rs)	4.2	6.0	11.9	14.9	16.3
Adj. EPS growth (%)	32.7	42.8	96.9	25.6	8.8
Adj. ROAE (%)	16.7	20.6	33.9	38.7	40.6
Adj. P/E (x)	38.7	27.1	13.8	10.9	10.1
EV/EBITDA (x)	15.1	13.6	8.2	6.8	6.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Net sales	26,146	17,651	48.1	19,076	37.1
Gas purchased	19,522	13,504	44.6	14,638	33.4
% of sales	74.7	76.5	-	76.7	-
Other expenditure	1,960	1,662	17.9	1,896	3.3
% of sales	7.5	9.4	-	9.9	-
EBITDA	4,665	2,486	87.7	2,541	83.6
EBITDA (Rs/scm)	5.6	4.2	32.0	4.3	28.9
EBITDA margin (%)	17.8	14.1	-	13.3	-
Depreciation	779	707	10.2	722	7.8
Interest	510	486	4.9	497	2.5
Other income	225	584	(61.5)	187	20.5
PBT	3,602	1,878	91.8	1,508	138.8
Provision for tax	1,265	664	90.6	343	268.7
PAT	2,337	1,214	92.5	1,165	100.5
NPM (%)	8.9	6.9	-	6.1	-
EPS (Rs)	3.4	1.8	92.5	1.7	100.5

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE VOLUME BREAKUP

	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
CNG Volume (mmscm)	135	128	5.5	133	1.5
PNG Volume (mmscm)	698	458	52.4	452	54.4
Industrial	644	410	57.1	384	67.7
Domestic	45	39	15.4	57	(21.1)
Commercial	9	9	-	11	(18.2)
Total Volume (mmscm)	833	586	42.2	585	42.4
Total Volume (mmscmd)	9.2	6.4	42.2	6.5	40.8

Source: Company, BOBCAPS Research

Valuation methodology

Considering that Q1FY20 volumes of 9.2mmscmd now form a new higher base for growth, we raise FY20/FY21 earnings estimates for GUJGA by ~20% each. We also introduce FY22 forecasts, building in EPS of Rs 16.3 (+9% YoY). Our DCF-based target price increases to Rs 250 due to the revised earnings, lower cost of equity and rollover to Sep'21 valuations.

FIG 3 – REVISED ESTIMATES

Consolidated (Rs mn)	FY20E			FY21E			FY22E
	Old	New	Var (%)	Old	New	Var (%)	New
Gross revenue	107,956	124,340	15.2	123,802	142,619	15.2	150,690
EBITDA	14,112	15,881	12.5	16,537	18,698	13.1	19,621
EBITDA margin (%)	13.1	12.8	-	13.4	13.1	-	13.0
PAT	6,747	8,192	21.4	8,577	10,291	20.0	11,198
PAT margin (%)	6.2	6.6	-	6.9	7.2	-	7.4
EPS (Rs)	9.8	11.9	21.4	12.5	14.9	19.6	16.3
Volumes (mmscmd)	8.1	9.5	17.5	8.6	10.1	17.4	10.7

Source: BOBCAPS Research

At 11x FY21E EPS, valuations remain one of the lowest among CGD peers (~16x for Indraprastha Gas/Mahanagar Gas). This gap may now be bridged given the recent spike in volumes and margins. GUJGA remains one of our top picks among CGD players as it carries significant potential for earnings upgrades.

Key assumptions for our DCF-based fair value are as under:

- Cost of equity of 11.4% (from 12.2% earlier) and terminal growth of 5% (from 6% earlier)
- Long-term average EBITDA margins of Rs 5/scm (from Rs 4.5 earlier)

FIG 4 – VALUATION SUMMARY

Valuation type	Value (Rs mn)
PV of FCFE	79,339
PV of terminal value	108,217
Less: Net Debt (FY19)	(17,623)
Equity value	169,933
Equity value (Rs/share)	250

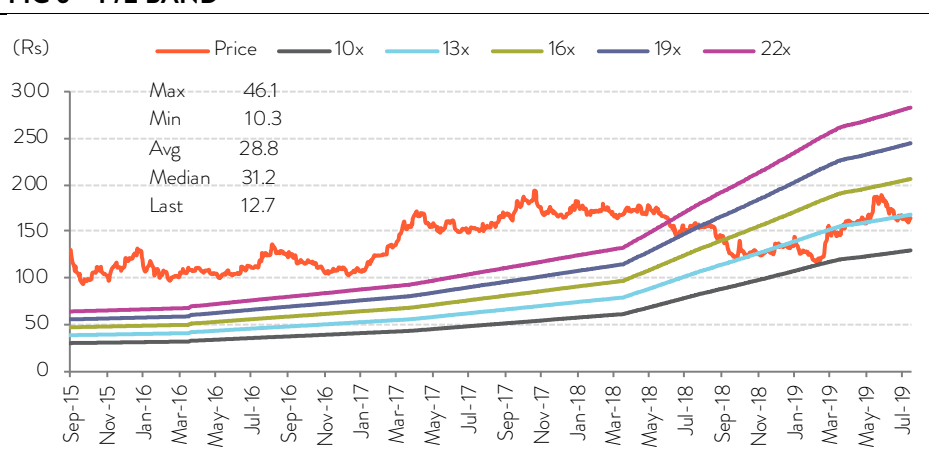
Source: BOBCAPS Research

FIG 5 – FAIR VALUE SENSITIVITY

Terminal growth (%)	Cost of Equity (%)					
	(Rs)	9.4	10.4	11.4	12.4	13.4
3	288	244	210	183	161	
4	323	267	226	194	170	
5	373	298	250	209	181	
6	452	344	276	229	194	
7	597	417	318	255	212	

Source: BOBCAPS Research

FIG 6 – P/E BAND

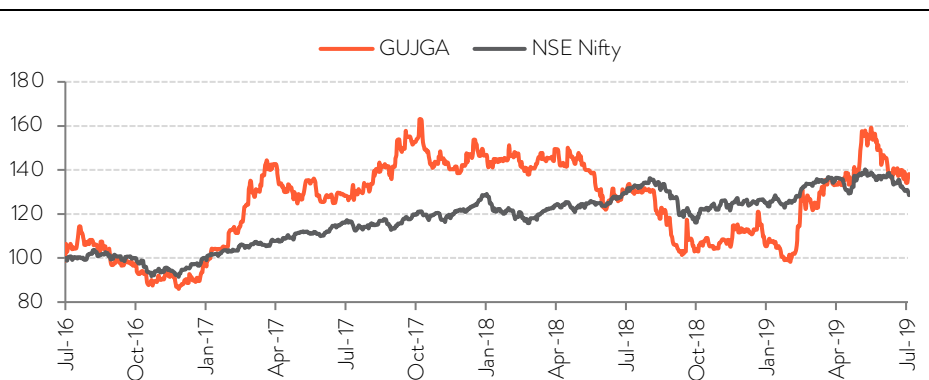


Source: NSE

Key risks

- Lower-than-expected margins over FY20-FY22 could affect our valuation outlook for GUJGA.
- Below-expected volume growth.
- Changes in PNGRB regulations or an adverse court order (against the NGT ruling for ceramic units) could alter our volume growth outlook.

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Total revenue	61,743	77,544	1,22,190	1,40,181	1,48,007
EBITDA	8,951	9,836	15,881	18,698	19,621
EBIT	6,232	6,956	12,854	15,503	16,313
Net interest income/(expenses)	(1,961)	(1,962)	(1,448)	(1,353)	(1,264)
Other income/(expenses)	357	1,113	642	984	1,417
Exceptional items	0	(179)	0	0	0
EBT	4,628	6,107	12,048	15,134	16,467
Income taxes	(1,715)	(1,768)	(3,855)	(4,843)	(5,269)
Reported net profit	2,914	4,160	8,192	10,291	11,198
Adjusted net profit	2,914	4,160	8,192	10,291	11,198

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Accounts payables	2,931	3,523	6,246	7,169	7,551
Other current liabilities	11,957	13,129	12,983	14,901	15,694
Provisions	49	83	83	83	83
Debt funds	22,143	20,892	19,640	18,389	17,138
Other liabilities	10,789	11,808	13,013	14,526	16,173
Equity capital	1,377	1,377	1,377	1,377	1,377
Reserves & surplus	17,087	20,463	25,078	25,351	27,037
Shareholders' fund	18,464	21,840	26,455	26,728	28,414
Total liabilities and equities	66,333	71,275	78,420	81,797	85,052
Cash and cash eq.	1,363	3,092	5,090	7,617	10,827
Accounts receivables	3,917	5,103	7,315	8,392	8,860
Inventories	568	694	974	1,117	1,180
Other current assets	3,906	3,742	3,759	3,764	3,766
Investments	161	177	197	217	237
Net fixed assets	50,940	53,347	55,620	55,225	54,718
CWIP	4,783	4,885	4,783	4,783	4,783
Intangible assets	0	4	4	4	4
Other assets	695	678	678	678	678
Total assets	66,333	71,722	78,420	81,797	85,052

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Net income + Depreciation	5,632	7,040	11,219	13,487	14,505
Changes in working capital	66	1,262	69	1,617	641
Other operating cash flows	249	(752)	563	529	229
Cash flow from operations	5,947	7,550	11,851	15,633	15,376
Capital expenditures	(3,665)	(5,409)	(5,218)	(2,820)	(2,820)
Other investing cash flows	357	1,113	642	984	1,417
Cash flow from investing	(3,308)	(4,296)	(4,577)	(1,836)	(1,403)
Debt raised/repaid	(844)	(1,251)	(1,251)	(1,251)	(1,251)
Dividends paid	(664)	(806)	(2,877)	(3,614)	(3,932)
Other financing cash flows	(376)	532	(3,716)	(4,874)	(5,580)
Cash flow from financing	(1,884)	(1,525)	(7,844)	(9,739)	(10,763)
Changes in cash and cash eq.	755	1,729	(570)	4,058	3,210
Closing cash and cash eq.	1,363	3,092	2,522	9,147	10,828

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19P	FY20E	FY21E	FY22E
Reported EPS	4.2	6.0	11.9	14.9	16.3
Adjusted EPS	4.2	6.0	11.9	14.9	16.3
Dividend per share	0.8	1.0	3.6	4.5	4.9
Book value per share	26.8	31.7	38.4	38.8	41.3

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19P	FY20E	FY21E	FY22E
EV/Sales	2.2	1.7	1.1	0.9	0.8
EV/EBITDA	15.1	13.6	8.2	6.8	6.3
Adjusted P/E	38.7	27.1	13.8	10.9	10.1
P/BV	6.1	5.2	4.3	4.2	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19P	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	63.0	70.2	68.0	68.0	68.0
Interest burden (PBT/EBIT)	74.3	85.2	93.7	97.6	100.9
EBIT margin (EBIT/Revenue)	10.1	9.0	10.5	11.1	11.0
Asset turnover (Revenue/Avg TA)	95.1	112.3	162.8	175.0	177.4
Leverage (Avg TA/Avg Equity)	3.7	3.4	3.1	3.0	3.0
Adjusted ROAE	16.7	20.6	33.9	38.7	40.6

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	21.2	25.6	57.6	14.7	5.6
EBITDA	20.4	9.9	61.5	17.7	4.9
Adjusted EPS	32.7	42.8	96.9	25.6	8.8
Profitability & Return ratios (%)					
EBITDA margin	14.5	12.7	13.0	13.3	13.3
EBIT margin	10.1	9.0	10.5	11.1	11.0
Adjusted profit margin	4.7	5.4	6.7	7.3	7.6
Adjusted ROAE	16.7	20.6	33.9	38.7	40.6
ROCE	9.8	11.7	19.7	23.1	24.5
Working capital days (days)					
Receivables	22	21	19	20	21
Inventory	4	4	3	3	4
Payables	21	17	17	20	21
Ratios (x)					
Gross asset turnover	1.0	1.2	1.7	1.9	1.9
Current ratio	0.7	0.8	0.9	0.9	1.1
Net interest coverage ratio	3.2	3.5	8.9	11.5	12.9
Adjusted debt/equity	1.1	0.8	0.6	0.4	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

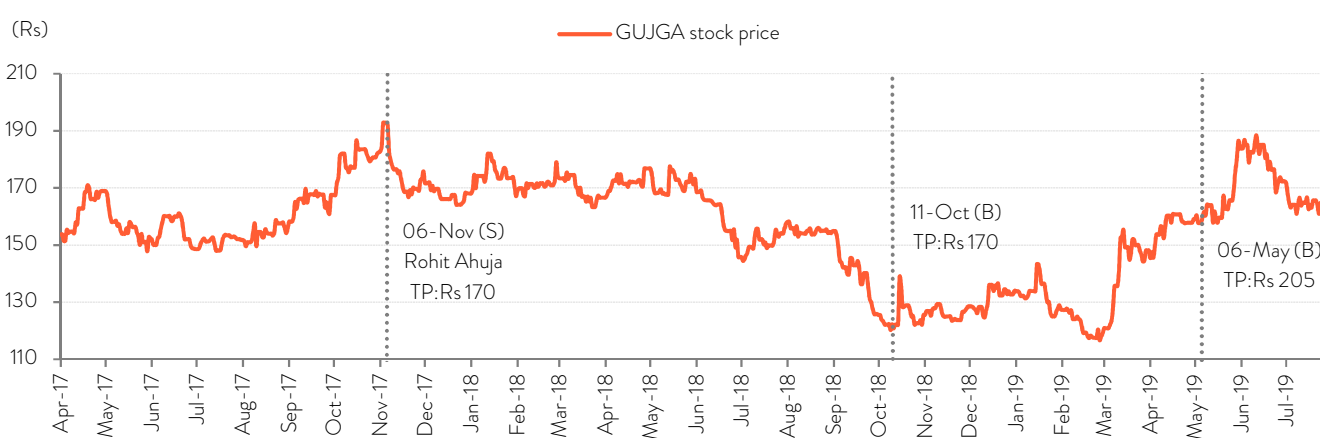
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: GUJARAT GAS (GUJGA IN)



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

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