

BUY

TP: Rs 360 | ▲ 22%

GUJARAT GAS

Oil & Gas

06 February 2020

Volumes and margins robust

Gujarat Gas (GUJGA) reported Q3FY20 earnings above estimates at Rs 1.96bn (+26% YoY). Key highlights: (a) volumes were marginally higher at 9.3mmscmd (+42% YoY), and (b) EBITDA margins beat estimates at Rs 4.3/scm (-19% YoY, flat QoQ). We raise FY21/FY22 earnings estimates by 5.7%/5.5% on a better operating margin outlook. Our Mar'21 TP improves to Rs 360 (from Rs 280) on higher long-term margins and lower cost of equity assumptions. Sustained low LNG prices augur well for margins.

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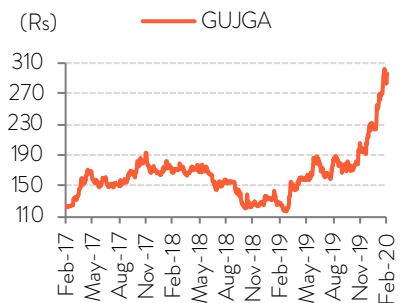
Buoyant volumes: GUJGA reported above-estimated volumes at 9.3mmscmd in Q3, retaining demand from Morbi (Gujarat). Management sees more volume potential from Morbi and expects to average at ~9.5mmscmd levels in Q4FY20. CNG volume growth at 6% YoY remains soft, but could improve as Gujarat State Transportation (GSRTC) has approved the induction of 1,000 CNG buses (250 in Q4). Over the long term, management expects most of the GSRTC's ~7,000 fleet of buses to be converted to CNG.

Ticker/Price	GUJGA IN/Rs 296
Market cap	US\$ 2.9bn
Shares o/s	688mn
3M ADV	US\$ 4.1mn
52wk high/low	Rs 308/Rs 115
Promoter/FPI/DII	61%/12%/27%

Source: NSE

Margins robust: EBITDA margins outperformed at Rs 4.3/scm in Q3 on tepid spot LNG prices (of ~US\$ 4.5/mmbtu). The recent decline in oil prices to <US\$ 60/bbl could bring about lower LNG prices in the near term. GUJGA's management expects EBITDA to sustain at ~Rs 5/scm levels, insulated from sharp variations in LNG prices as customers in Morbi have become more sticky post the court order banning ceramic units running on coal-based gasifiers.

STOCK PERFORMANCE



Source: NSE

Undemanding valuations: At 16x FY22E EPS, GUJGA's valuations have run up sharply, but still remain below CGD peers (~20x for IGL/MAHGL). Considering the company's resilient margins and high volume growth potential, we expected multiples to trend higher over the long term. Reiterate BUY.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	61,743	77,544	120,558	139,309	147,091
EBITDA (Rs mn)	8,951	9,836	15,593	19,249	20,210
Adj. net profit (Rs mn)	2,914	4,160	11,502	11,732	12,758
Adj. EPS (Rs)	4.2	6.0	16.7	17.0	18.5
Adj. EPS growth (%)	32.7	42.8	176.5	2.0	8.7
Adj. ROAE (%)	16.7	20.6	44.2	38.6	40.7
Adj. P/E (x)	70.0	49.0	17.7	17.4	16.0
EV/EBITDA (x)	25.0	22.9	14.3	11.4	10.7

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net sales	25,062	21,174	18.4	25,129	(0.3)	76,337	58,469	30.6
Gas Purchased	19,482	16,264	19.8	19,550	(0.3)	58,554	46,192	26.8
% of sales	77.7	76.8	-	77.8	-	76.7	79.0	-
Other expenditure	1,875	1,698	10.4	1,873	0.1	5,707	4,972	14.8
% of sales	7.5	8.0	-	7.5	-	7.5	8.5	-
EBITDA	3,705	3,212	15.4	3,706	(0.0)	12,076	7,305	65.3
EBITDA (Rs/scm)	4.3	5.3	(18.9)	4.3	0.2	4.7	4.0	18.7
EBITDA margin (%)	14.8	15.2	-	14.7	-	15.8	12.5	-
Depreciation and amortisation	795	728	9.2	802	(0.9)	2,375	2,158	10.1
Interest	465	485	(4.2)	528	(11.9)	1,502	1,465	2.5
Other income	186	154	20.6	237	(21.5)	648	926	(30.1)
PBT	2,632	2,154	22.2	2,614	0.7	8,847	4,609	92.0
Exceptional item (as reported)	-	-	-	-	-	0	-	-
Provision for tax	667	595	12.1	(2,559)	-	(627)	1,425	(144.0)
PAT (reported)	1,965	1,559	26.1	5,173	(62.0)	9,475	3,184	197.6
PAT (adjusted)	1,965	1,559	26.1	5,173	(62.0)	9,475	3,184	197.6
NPM (%)	7.8	7.4	-	20.6	-	12.4	5.4	-
EPS adj. (Rs)	2.9	2.3	26.1	7.5	(62.0)	13.8	4.6	197.6

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL VOLUME BREAKUP

Volumes (mmscmd)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
CNG Volume (mmscm)	139	131	6.1	136	2.2	410	387	5.9
PNG Volume (mmscm)	718	472	52.1	723	(0.7)	2,139	1,415	51.2
Domestic	53	50	6.0	50	6.0	148	138	7.2
Industrial	654	412	58.7	663	(1.4)	1,961	1,247	57.3
Commercial	11	10	10.0	10	10.0	30	30	-
Total Volume (mmscm)	857	603	42.1	859	(0.2)	2,549	1,802	41.5
Total Volume (mmscmd)	9.3	6.6	42.2	9.3	(0.2)	9.3	6.7	39.3

Source: Company, BOBCAPS Research

Valuation methodology

At 16x FY22E EPS, GUJGA's valuations have run up sharply, but still remain below its CGD peers (~20x for IGL/MAHGL). Considering the company's resilient margins and high volume growth potential, we expected multiples to trend higher over the long term.

We raise FY21/FY22 earnings estimates by 5.7%/5.5% on a better operating margin outlook. Our Mar'21 target price improves to Rs 360 (from Rs 280) on higher long-term margins and lower cost of equity assumptions. Sustained low LNG prices augur well for margins. Reiterate BUY.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Gross Revenue	122,708	122,708	-	140,905	141,747	0.6	148,890.7	149,775	0.6
EBITDA	15,593	15,593	-	18,407	19,249	4.6	19,326.3	20,210	4.6
EBITDA margin (%)	12.7	12.7	-	13.1	13.6	-	13.0	13.5	-
PAT	11,502	11,502	-	11,103	11,732	5.7	12,097.0	12,758	5.5
PAT margin (%)	9.4	9.4	-	7.9	8.3	-	8.1	8.5	-
EPS (Rs)	16.7	16.7	-	16.1	17.0	5.7	17.6	18.5	5.5
Volumes (mmscmd)	9.5	9.5	-	10.1	10.1	-	10.7	10.7	-

Source: Company, BOBCAPS Research

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

- Cost of equity of 11.2% (from 11.4%) and terminal growth of 5%
- Long-term average EBITDA margins at Rs 5/scm

FIG 4 – VALUATION SUMMARY

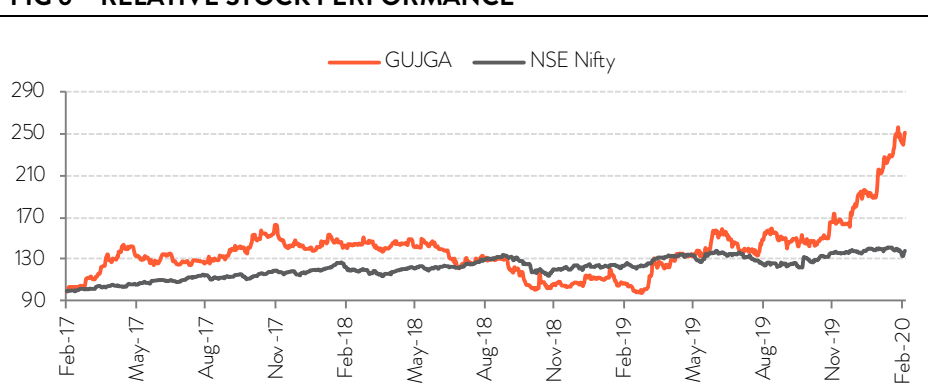
Valuation type	Value (Rs mn)
PV of FCFE	96,289
PV of terminal value	167,717
Less: Net Debt (FY19)	(17,623)
Equity value	246,384
Equity value (Rs/share)	360

Source: BOBCAPS Research

FIG 5 – FAIR VALUE SENSITIVITY TO TERMINAL GROWTH & COST OF EQUITY

Terminal growth (%)	Cost of Equity (%)				
	(Rs)	9.2	10.2	11.2	12.2
3	408	346	298	261	231
4	463	382	324	280	245
5	543	433	358	303	262
6	674	507	405	335	285
7	925	629	474	379	314

Source: BOBCAPS Research

FIG 6 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Downside risks to our estimates include:

- lower-than-expected margins over FY20-FY22 which could change our valuation outlook for GUJGA,
- below-expected volume growth, and
- change in PNGRB regulations or an adverse court order (against the NGT ruling for ceramic units), which could alter our volume growth outlook.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	61,743	77,544	120,558	139,309	147,091
EBITDA	8,951	9,836	15,593	19,249	20,210
Depreciation	(2,718)	(2,880)	(3,026)	(3,195)	(3,308)
EBIT	6,232	6,956	12,567	16,054	16,903
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	11,760	15,685	17,057
Income taxes	(1,715)	(1,768)	(259)	(3,953)	(4,298)
Reported net profit	2,914	4,160	11,502	11,732	12,758
Adjusted net profit	2,914	4,160	11,502	11,732	12,758

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	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	9,103	10,672	12,377
Equity capital	1,377	1,377	1,377	1,377	1,377
Reserves & surplus	17,087	20,463	28,876	29,147	30,770
Shareholders' fund	18,464	21,840	30,253	30,523	32,147
Total liabilities and equities	66,333	71,275	78,309	81,738	84,990
Cash and cash eq.	1,363	3,092	5,090	7,617	10,827
Accounts receivables	3,917	5,103	7,217	8,339	8,805
Inventories	568	694	961	1,110	1,172
Other current assets	3,906	3,742	3,759	3,764	3,765
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	78,309	81,738	84,990

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	5,632	7,040	14,528	14,928	16,066
Changes in working capital	66	1,262	180	1,565	644
Other operating cash flows	249	(752)	(3,347)	584	288
Cash flow from operations	5,947	7,550	11,361	17,077	16,999
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)	(4,039)	(4,120)	(4,480)
Other financing cash flows	(376)	532	503	(6,907)	(6,140)
Cash flow from financing	(1,884)	(1,525)	(4,787)	(12,278)	(11,871)
Changes in cash and cash eq.	755	1,729	1,998	2,963	3,725
Closing cash and cash eq.	1,363	3,092	5,089	8,053	11,342

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	4.2	6.0	16.7	17.0	18.5
Adjusted EPS	4.2	6.0	16.7	17.0	18.5
Dividend per share	0.8	1.0	5.0	5.1	5.6
Book value per share	26.8	31.7	43.9	44.3	46.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.6	2.9	1.9	1.6	1.5
EV/EBITDA	25.0	22.9	14.3	11.4	10.7
Adjusted P/E	70.0	49.0	17.7	17.4	16.0
P/BV	11.0	9.3	6.7	6.7	6.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	63.0	70.2	97.8	74.8	74.8
Interest burden (PBT/EBIT)	74.3	85.2	93.6	97.7	100.9
EBIT margin (EBIT/Revenue)	10.1	9.0	10.4	11.5	11.5
Asset turnover (Revenue/Avg TA)	95.1	112.3	160.7	174.1	176.4
Leverage (Avg TA/Avg Equity)	3.7	3.4	2.9	2.6	2.7
Adjusted ROAE	16.7	20.6	44.2	38.6	40.7

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	21.2	25.6	55.5	15.6	5.6
EBITDA	20.4	9.9	58.5	23.4	5.0
Adjusted EPS	32.7	42.8	176.5	2.0	8.7
Profitability & Return ratios (%)					
EBITDA margin	14.5	12.7	12.9	13.8	13.7
EBIT margin	10.1	9.0	10.4	11.5	11.5
Adjusted profit margin	4.7	5.4	9.5	8.4	8.7
Adjusted ROAE	16.7	20.6	44.2	38.6	40.7
ROCE	9.8	11.7	26.5	24.3	25.8
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	1.8	1.9
Current ratio	0.7	0.8	0.9	0.9	1.1
Net interest coverage ratio	3.2	3.5	8.7	11.9	13.4
Adjusted debt/equity	1.1	0.8	0.5	0.4	0.2

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

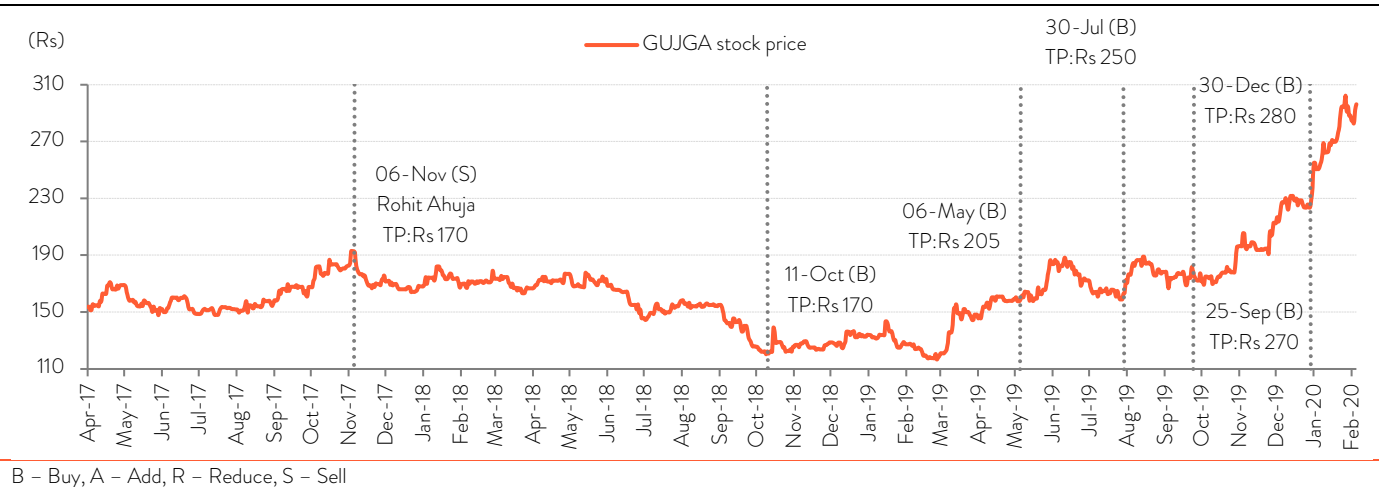
ADD – Expected return from >+5% to +15%

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)

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



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