

BUY

TP: Rs 255 | ▲ 22%

**GUJARAT STATE
PETRONET**

Oil & Gas

03 August 2019

Volume surge, low LNG prices buoy outlook – upgrade to BUY

Gujarat State Petronet's (GUJS) Q1FY20 earnings outperformed estimates at Rs 2.1bn (+43% YoY), bolstered by higher volumes of 38mmscmd (+5% YoY). Management has guided for a robust volume trend over FY20-FY22 marked by base sales at 38-40mmscmd levels (vs. 35mmscmd earlier). We raise FY20/FY21 earnings by 25%/8% on upbeat volumes. Our DCF-based TP moves to Rs 255 (from Rs 185) as we upgrade earnings, reduce cost of equity assumptions, and roll over to Sep'21 valuations. Upgrade to BUY (from ADD).

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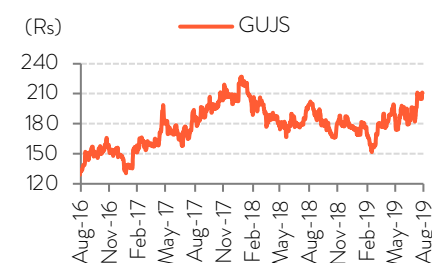
Volume surge, low LNG prices to sustain demand: Q1 volumes at 38mmscmd (+5% YoY) surpassed estimates following a surge in demand from CGD (10.3mmscmd, +41%) and other small industrial units (5.35mmscmd, +13%). Management indicated that current volumes are at ~40mmscmd led by higher consumption from the power segment on low spot LNG prices (~US\$ 4/mmmbtu).

Ticker/Price	GUJS IN/Rs 210
Market cap	US\$ 1.7bn
Shares o/s	564mn
3M ADV	US\$ 1.2mn
52wk high/low	Rs 217/Rs 149
Promoter/FPI/DII	38%/15%/47%

Source: NSE

While GUJS could see volume losses (4-5mmscmd) from commissioning of RIL's petcoke gasification plant, this can be bridged by incremental demand from power and CGD over FY20-FY21. The company's exclusive pipeline connectivity to new LNG terminals (Mundra from Sep'19 and Pipavav/Chhara over 2-3 years) gives it a supply advantage to tap more volumes.

STOCK PERFORMANCE



Source: NSE

Margins improve but could remain under pressure: Higher volumes (+18% QoQ) led to operating margin gains of 255bps QoQ to 78.4%. However, recent capacity augmentation to ~45mmscmd through compressors may keep margins in check.

Upgrade to BUY: Low LNG prices coupled with new LNG regasification capacities at Dahej and Mundra have favourably altered the volume outlook for GUJS over FY20-FY22. At 12.3x FY21E EPS, valuations thus look attractive.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	6,684	7,947	8,899	9,605	11,215
Adj. EPS (Rs)	11.9	14.1	15.8	17.0	19.9
Adj. EPS growth (%)	34.5	18.9	12.0	7.9	16.8
Adj. ROAE (%)	14.2	15.2	15.1	14.6	15.2
Adj. P/E (x)	17.7	14.9	13.3	12.3	10.5
EV/EBITDA (x)	10.2	9.5	8.7	8.6	7.4

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

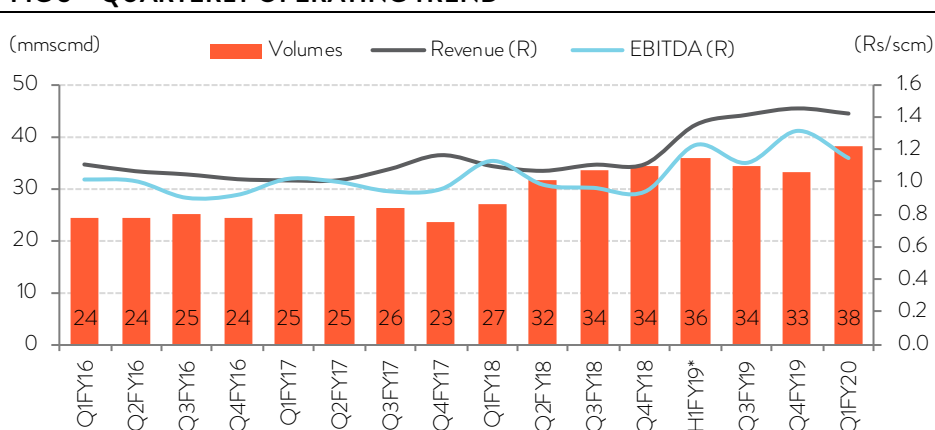
(Rs mn)	Q1Y20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Net sales	5,126	3,912	31.0	4,339	18.1
Employee costs	128	87	47.0	147	(13.1)
% of sales	2.5	2.2	-	3.4	-
Other expenditure	978	387	152.7	899	8.8
% of sales	19.1	9.9	-	20.7	-
EBITDA	4,020	3,438	16.9	3,293	22.1
EBITDA margin (%)	78.4	87.9	-	75.9	-
Depreciation	489	448	9.1	475	2.8
Interest	479	579	(17.3)	505	(5.1)
Other income	77	55	40.2	79	(3.2)
PBT	3,129	2,466	26.9	2,392	30.8
Provision for tax	1,068	1,021	4.6	859	24.4
effective tax rate	34.1	41.4	-	35.9	-
PAT (reported)	2,061	1,445	42.7	1,533	34.4
NPM (%)	40.2	36.9	-	35.3	-
Other comprehensive income	-	7.2	-	-	-
Total income	2,061	1,452	42.0	1,533	34.4
EPS (Rs)	3.66	2.56	42.7	2.72	34.4
Volumes (mmscm)	3,514	3,318	5.9	2,921	20.3
Volumes (mmscmd)	38.2	36.5	4.8	32.5	17.7
Tariffs (Rs/scm)	1.42	1.10	29.3	1.49	(4.6)

Source: Company, BOBCAPS Research

FIG 2 – VOLUME BREAKUP

Volumes (mmscmd)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
CGD	10.31	7.29	41.4	8.11	27.1
Refinery/Petchem	13.37	14.22	(6.0)	12.01	11.4
Fertiliser	3.82	4.38	(12.7)	4.22	(9.4)
Power	4.97	5.47	(9.2)	2.92	70.0
Others	5.35	4.74	12.8	4.87	9.9
Total	37.82	36.10	4.8	32.13	17.7

Source: BOBCAPS Research, Company

FIG 3 – QUARTERLY OPERATING TREND

Source: Company, BOBCAPS Research | *We have shown H1FY19 data as tariffs in Q2FY19 were adjusted retrospectively from Apr'18

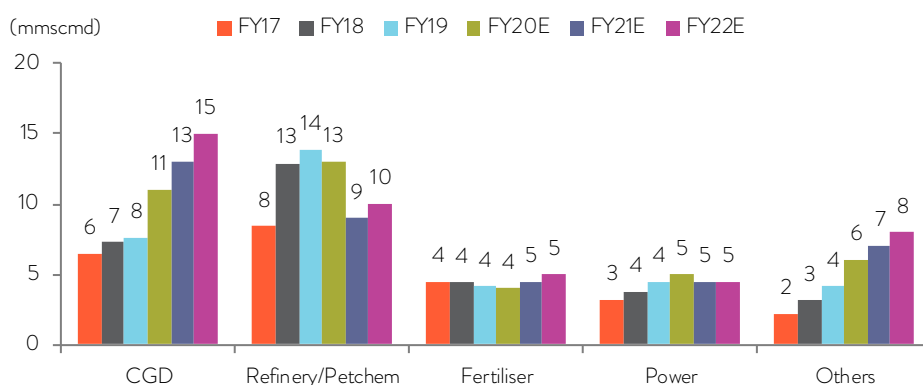
Valuation methodology

Management has guided for a robust volume trend over FY20-FY22 marked by base sales at 38-40mmscmd levels (vs. 35mmscmd earlier). We raise FY20/FY21 earnings estimates by 25%/8% on upbeat volumes. Our DCF-based target price moves to Rs 255 (from Rs 185) as we upgrade earnings, reduce cost of equity assumptions, and roll over to Sep'21 valuations. At 12.3x FY21E EPS, valuations look attractive. Upgrade to BUY (from ADD).

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

- cost of equity of 11.3% (from 12.3% earlier), terminal growth of 6% (from 5% earlier), and
- long-term tariffs at ~Rs 1.45/scm.

FIG 4 – VOLUME BREAKUP



Source: BOBCAPS Research, Company

FIG 5 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E
	Old	New	Var (%)	Old	New	Var (%)	
Revenue	18,368	20,704	12.7	19,958	20,722	3.8	23,871
EBITDA	13,664	16,302	19.3	14,985	15,960	6.5	18,116
PAT	7,149	8,899	24.5	8,888	9,605	8.1	11,215
EPS (Rs)	12.7	15.8	24.5	15.8	17.0	8.1	19.9
Volume (mmscmd)	34.6	39.0	12.7	36.6	38.0	3.8	42.5
Tariff (Rs/scm)	1.41	1.41	-	1.45	1.45	-	1.50

Source: BOBCAPS Research, Company

FIG 6 – VALUATION SUMMARY

Valuation type	Value (Rs mn)
PV of FCFE	20,333
PV of terminal value	88,332
Less: Net Debt*	(14,645)
Investments values	20,803
Equity value	144,113
Equity value (Rs/share)	255

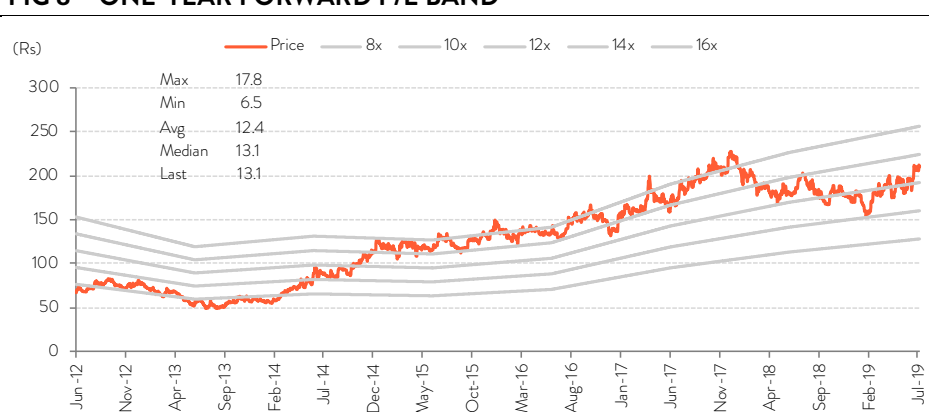
Source: BOBCAPS Research | *Adjusted for acquisition value of equity in Gujarat Gas

FIG 7 – FAIR VALUE SENSITIVITY TO TERMINAL GROWTH & COST OF EQUITY

Terminal growth (%)	Cost of Equity (%)				
	(Rs)	9.3	10.3	11.3	12.3
4	271	236	211	191	176
5	313	263	230	205	187
6	379	303	255	223	200
7	504	367	294	249	218
8	821	487	355	285	242

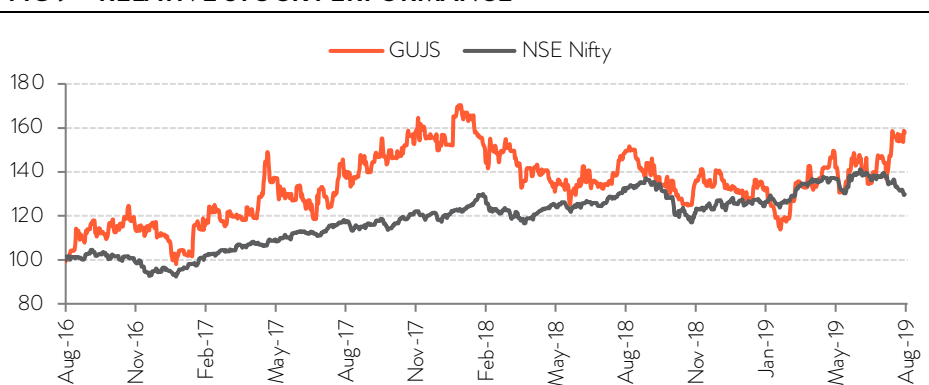
Source: BOBCAPS Research

FIG 8 – ONE-YEAR FORWARD P/E BAND



Source: BOBCAPS Research, Company

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Regulations:** GUJS’s pipeline tariffs are regulated by PNGRB. Any reduction in tariffs on account of a change in guidelines could severely hit earnings.
- **Below-expected volume growth:** It can take longer than expected for GUJS to make up for the loss of 4-5mmscmd of volumes from RIL (post commissioning of the latter’s petcoke gasification plant), which could affect near-term earnings.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Total revenue	13,317	18,773	20,704	20,722	23,871
EBITDA	11,478	15,426	16,302	15,960	18,116
EBIT	9,728	13,626	14,299	13,803	15,799
Net interest income/(expenses)	(354)	(2,192)	(1,929)	(1,682)	(1,467)
Other income/(expenses)	735	594	1,113	1,601	1,690
EBT	10,108	12,028	13,483	13,721	16,022
Income taxes	(3,424)	(4,081)	(4,584)	(4,116)	(4,807)
Reported net profit	6,684	7,947	8,899	9,605	11,215
Adjusted net profit	6,684	7,947	8,899	9,605	11,215

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Accounts payables	185	238	288	289	332
Other current liabilities	1,455	533	533	533	533
Provisions	138	216	216	216	216
Debt funds	32,189	25,846	22,372	19,674	17,013
Other liabilities	5,133	5,492	5,786	6,085	6,435
Equity capital	5,638	5,638	5,638	5,638	5,638
Reserves & surplus	43,723	49,762	56,557	63,907	72,490
Shareholders' fund	49,362	55,401	62,195	69,546	78,128
Total liabilities and equities	88,462	87,726	91,391	96,342	102,657
Cash and cash eq.	3,645	1,583	2,630	4,762	7,763
Accounts receivables	1,235	2,081	1,914	1,916	2,207
Inventories	1,235	1,279	1,914	1,915	2,206
Other current assets	143	172	278	278	278
Investments	42,054	42,772	42,036	42,036	42,036
Net fixed assets	31,142	35,524	38,257	41,045	43,747
CWIP	8,959	4,194	4,361	4,390	4,419
Total assets	88,413	87,605	91,391	96,342	102,657

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Net income + Depreciation	8,434	9,746	10,902	11,763	13,533
Changes in working capital	1,100	(1,599)	(418)	(3)	(538)
Other operating cash flows	(469)	(352)	(819)	(1,301)	(1,341)
Cash flow from operations	9,064	7,796	9,665	10,458	11,653
Capital expenditures	(3,330)	(1,417)	(4,903)	(4,974)	(5,049)
Change in investments	(34,399)	(718)	735	0	0
Other investing cash flows	703	522	1,113	1,601	1,690
Cash flow from investing	(37,026)	(1,613)	(3,055)	(3,374)	(3,358)
Equities issued/Others	2	0	0	0	0
Debt raised/repaid	25,883	(6,343)	(3,474)	(2,698)	(2,661)
Dividends paid	(1,128)	(1,319)	(2,089)	(2,255)	(2,633)
Other financing cash flows	(1,177)	0	0	0	0
Cash flow from financing	23,581	(7,662)	(5,563)	(4,953)	(5,294)
Changes in cash and cash eq.	(4,381)	(1,480)	1,048	2,132	3,001
Closing cash and cash eq.	3,646	2,166	2,630	4,762	7,763

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19P	FY20E	FY21E	FY22E
Reported EPS	11.9	14.1	15.8	17.0	19.9
Adjusted EPS	11.9	14.1	15.8	17.0	19.9
Dividend per share	1.8	2.0	3.2	3.4	4.0
Book value per share	87.5	98.3	110.3	123.3	138.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19P	FY20E	FY21E	FY22E
EV/Sales	8.8	7.8	6.9	6.7	5.6
EV/EBITDA	10.2	9.5	8.7	8.6	7.4
Adjusted P/E	17.7	14.9	13.3	12.3	10.5
P/BV	2.4	2.1	1.9	1.7	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19P	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	66.1	66.1	66.0	70.0	70.0
Interest burden (PBT/EBIT)	103.9	88.3	94.3	99.4	101.4
EBIT margin (EBIT/Revenue)	73.0	72.6	69.1	66.6	66.2
Asset turnover (Revenue/Avg TA)	18.2	21.3	23.1	22.1	24.0
Leverage (Avg TA/Avg Equity)	1.6	1.7	1.5	1.4	1.3
Adjusted ROAE	14.2	15.2	15.1	14.6	15.2

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	29.6	41.0	10.3	0.1	15.2
EBITDA	29.2	34.4	5.7	(2.1)	13.5
Adjusted EPS	34.5	18.9	12.0	7.9	16.8
Profitability & Return ratios (%)					
EBITDA margin	86.2	82.2	78.7	77.0	75.9
EBIT margin	73.0	72.6	69.1	66.6	66.2
Adjusted profit margin	50.2	42.3	43.0	46.4	47.0
Adjusted ROAE	14.2	15.2	15.1	14.6	15.2
ROCE	9.7	11.1	11.4	11.1	12.0
Working capital days (days)					
Receivables	34	32	35	34	32
Inventory	306	170	157	174	152
Payables	32	23	22	22	20
Ratios (x)					
Gross asset turnover	0.2	0.3	0.3	0.3	0.3
Current ratio	0.4	0.4	6.5	8.6	11.5
Net interest coverage ratio	27.5	6.2	7.4	8.2	10.8
Adjusted debt/equity	0.6	0.4	0.3	0.2	0.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

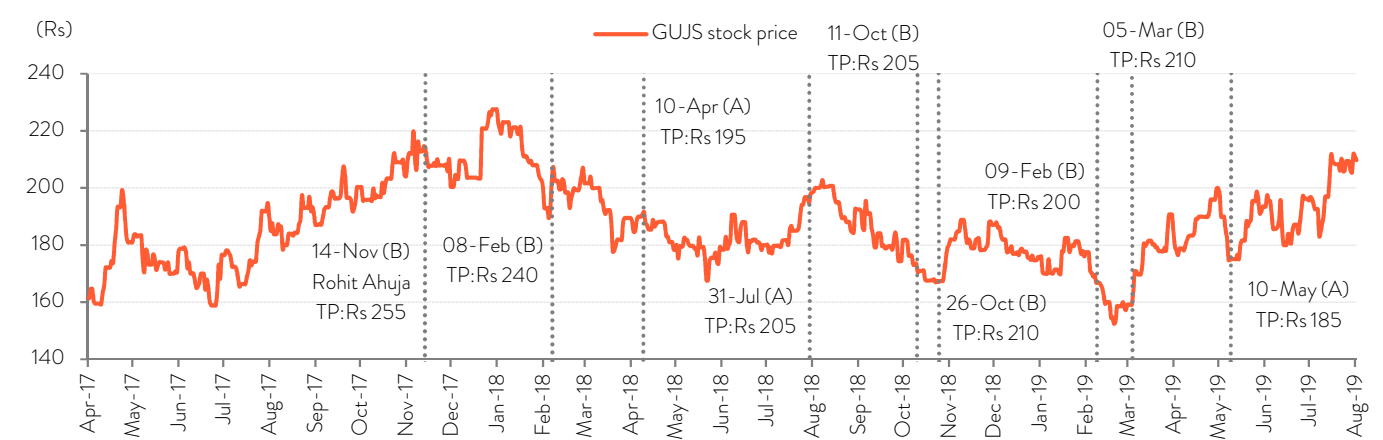
ADD – Expected return from >+5% to +15%

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 STATE PETRONET (GUJS IN)



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

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