

BUY

TP: Rs 330 | ▲ 57%

PETRONET LNG

Oil & Gas

15 April 2020

Resilient earnings from long-term contracts

Our recent interaction with the Petronet LNG (PLNG) management deepens confidence in our core investment thesis of (a) faster recovery in utilisation levels at Dahej post lifting of the economic shutdown – as most of its consumers fall under the essential category; and (b) improved demand outlook from H2FY21 led by CGD, fertilisers and power, triggered by sustained low LNG prices (see [Feb gas consumption surges](#)). In the current uncertain climate, PLNG's ~16mtpa of long-term contracts limit earnings downside risks. Maintain BUY.

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Low LNG prices buoy volume outlook: The recent crash in oil prices will ensure that all LNG prices align to ~US\$ 3/mmbtu levels by 20 May. If this price shift were to also align with lifting of the Covid-19 lockdown in India (staggered easing of restrictions announced from 20 April), we could see a strong V-shaped recovery in RLNG offtake from PLNG's Dahej terminal from Q2FY21.

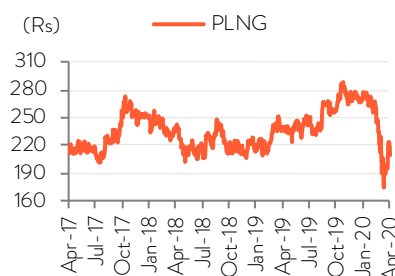
Contracts limit downside risk to earnings: Even if economic disruptions were to continue beyond Q1FY21, PLNG's ~16mtpa of long-term regasification contracts limit the downside risks to its earnings. The company's plans to unlock another 2mtpa of capacity at Dahej remain on track – this would be done in phases from 2021, through rollout of two storage tanks by FY23 (~Rs 6bn capex) and a third jetty by FY24. Beyond the existing ~16mtpa of long-term contracts, PLNG has short-term contracts with OPAL (~0.5mtpa) and Essar (~0.3mtpa), yielding ~18mtpa of volume visibility at Dahej. Kochi ramp-up to 1.5-2.2mtpa is likely in H2FY21 post Kochi-Mangalore pipeline commissioning.

Maintain BUY: PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ ROE expected over FY20-FY22. Existing volume contracts alleviate risks from competition.

Ticker/Price	PLNG IN/Rs 210
Market cap	US\$ 4.1bn
Shares o/s	1,500mn
3M ADV	US\$ 10.2mn
52wk high/low	Rs 299/Rs 170
Promoter/FPI/DII	50%/27%/23%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	305,986	383,954	369,032	282,380	285,793
EBITDA (Rs mn)	33,124	32,935	45,578	52,216	54,078
Adj. net profit (Rs mn)	20,779	21,554	32,693	36,040	38,205
Adj. EPS (Rs)	13.9	14.4	21.8	24.0	25.5
Adj. EPS growth (%)	21.8	3.7	51.7	10.2	6.0
Adj. ROAE (%)	23.3	21.6	30.0	29.2	27.1
Adj. P/E (x)	15.2	14.6	9.6	8.7	8.2
EV/EBITDA (x)	9.9	9.9	6.8	5.6	5.1

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – LONG-TERM CONTRACT PROFILE AT DAHEJ

Company	(mmtpa)
Long-term contracts (Ras Gas sourcing)	7.50
GAIL	4.50
IOCL	2.30
BPCL	0.80
Use-or-Pay contracts (i.e. service contracts)	8.00
GSPC (phase 1)	1.25
GAIL	2.50
GSPC	1.00
IOCL	1.50
BPCL	1.00
Torrent power	0.75
Total contracts	15.50

Source: Industry, Source: BOBCAPS Research

Valuation methodology

We maintain our Mar'21 DCF-based target price of Rs 330. PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ ROE expected over FY20-FY22. Reiterate BUY.

FIG 2 – VALUATION SNAPSHOT

Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	227,282	28,283	255,565
Terminal value (Rs mn)	172,161	15,525	187,686
EV (Rs mn)	399,443	43,807	443,251
EV (Rs/share)	266	29	296
Add: Net cash, other investments (Rs mn)			53,869
Equity value (Rs mn)			497,119
Equity value (Rs/share)			330

Source: BOBCAPS Research

FIG 3 – VALUATION SENSITIVITY

		Cost of Equity (%)				
		(Rs)	7.5	8.5	9.5	10.5
Terminal growth (%)	(2)	369	338	312	290	271
	(1)	384	349	321	297	276
	0	402	363	330	305	283
	1	426	380	344	315	290
	2	456	402	360	327	299
	(Rs)					

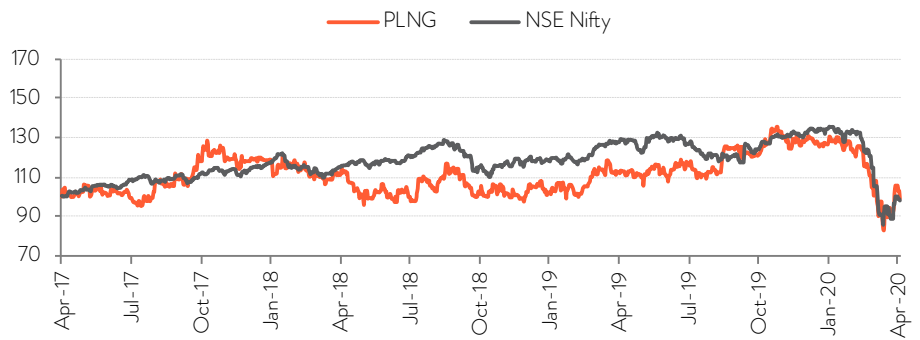
Source: BOBCAPS Research

FIG 4 – KEY ASSUMPTIONS

	FY20E	FY21E	FY22E
Dahej terminal			
Volumes (mmtpa)	18.0	19.0	19.3
Re-gas tariffs (Rs/mmbtu)	49.9	52.4	54.3
Kochi terminal			
Volumes (mmtpa)	1.30	1.20	2.20
Re-gas tariffs (Rs/mmbtu)	89.2	80.2	76.2
Total volumes (mmtpa)	19.3	20.2	21.5
Blended EBITDA (Rs/mmbtu)	44.2	46.6	51.8
Blended re-gas tariffs (Rs/mmbtu)	51.9	55.4	62.0

Source: BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Regulatory risks:** The regasification tariffs charged by PLNG are currently not regulated by PNGRB. Any move by the government to regulate tariffs can lead to a sharp de-rating of the stock.
- **Competition from other regasification terminals:** About 20mmtpa of regasification capacities are likely to come up across India over the next 3-5 years. The closest terminal to Dahej is Mundra (GSPC-Adani JV) in Gujarat, has become operational in FY20. PLNG may have to compete for incremental contracts if it expands Dahej capacity to 20mmtpa. While current contracts fully hedge PLNG against competition, growth in volumes over the long term could be at risk.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	305,986	383,954	369,032	282,380	285,793
EBITDA	33,124	32,935	45,578	52,216	54,078
Depreciation	(4,117)	(4,112)	(7,712)	(8,095)	(8,479)
EBIT	29,007	28,822	37,866	44,121	45,600
Net interest income/(expenses)	(1,630)	(989)	(1,429)	(1,564)	(669)
Other income/(expenses)	3,174	4,503	4,428	5,625	6,146
EBT	30,551	32,336	40,866	48,182	51,076
Income taxes	(9,773)	(10,782)	(8,173)	(12,142)	(12,871)
Reported net profit	20,779	21,554	32,693	36,040	38,205
Adjusted net profit	20,779	21,554	32,693	36,040	38,205

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	15,699	12,952	20,187	12,430	12,430
Other current liabilities	18,422	11,724	18,081	12,394	12,477
Provisions	199	278	278	278	278
Debt funds	14,531	11,873	19,873	14,873	0
Other liabilities	10,482	13,029	13,309	13,589	13,869
Equity capital	15,000	15,000	15,000	15,000	15,000
Reserves & surplus	82,205	87,305	100,872	115,829	136,154
Shareholders' fund	97,205	102,305	115,872	130,829	151,154
Total liabilities and equities	156,537	152,161	187,601	184,393	190,209
Cash and cash eq.	8,625	29,603	52,104	60,408	68,393
Accounts receivables	16,505	13,825	21,034	16,012	16,261
Inventories	4,911	5,694	7,732	6,667	6,667
Other current assets	2,775	3,230	4,269	3,551	3,587
Investments	41,222	18,033	21,638	19,127	19,251
Net fixed assets	80,296	78,295	80,423	78,228	75,649
CWIP	2,203	3,482	400	400	400
Total assets	156,537	152,161	187,601	184,393	190,209

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	24,777	25,667	40,405	44,135	46,684
Changes in working capital	3,210	(7,924)	3,305	(6,639)	(201)
Other operating cash flows	6	(1,955)	(4,148)	(5,345)	(5,866)
Cash flow from operations	27,993	15,788	39,561	32,152	40,617
Capital expenditures	(13,653)	19,799	(10,363)	(3,389)	(6,025)
Other investing cash flows	3,174	4,503	4,428	5,625	6,146
Cash flow from investing	(10,479)	24,302	(5,935)	2,236	121
Equities issued/Others	7,500	0	0	0	0
Debt raised/repaid	(7,650)	(2,658)	8,000	(5,000)	(14,873)
Dividends paid	(7,898)	(17,550)	(19,125)	(21,083)	(17,880)
Other financing cash flows	(4,115)	1,096	0	0	0
Cash flow from financing	(12,162)	(19,112)	(11,125)	(26,083)	(32,753)
Changes in cash and cash eq.	5,352	20,978	22,501	8,305	7,985
Closing cash and cash eq.	8,625	29,603	52,104	60,408	68,393

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	13.9	14.4	21.8	24.0	25.5
Adjusted EPS	13.9	14.4	21.8	24.0	25.5
Dividend per share	4.5	10.0	10.9	12.0	10.2
Book value per share	64.8	68.2	77.2	87.2	100.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.1	0.9	0.8	1.0	1.0
EV/EBITDA	9.9	9.9	6.8	5.6	5.1
Adjusted P/E	15.2	14.6	9.6	8.7	8.2
P/BV	3.2	3.1	2.7	2.4	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	68.0	66.7	80.0	74.8	74.8
Interest burden (PBT/EBIT)	105.3	112.2	107.9	109.2	112.0
EBIT margin (EBIT/Revenue)	9.5	7.5	10.3	15.6	16.0
Asset turnover (Revenue/Avg TA)	207.6	248.8	217.2	151.8	152.6
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.6	1.5	1.3
Adjusted ROAE	23.3	21.6	30.0	29.2	27.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	24.3	25.5	(3.9)	(23.5)	1.2
EBITDA	27.8	(0.6)	38.4	14.6	3.6
Adjusted EPS	21.8	3.7	51.7	10.2	6.0
Profitability & Return ratios (%)					
EBITDA margin	10.8	8.6	12.4	18.5	18.9
EBIT margin	9.5	7.5	10.3	15.6	16.0
Adjusted profit margin	6.8	5.6	8.9	12.8	13.4
Adjusted ROAE	23.3	21.6	30.0	29.2	27.1
ROCE	18.4	17.0	24.2	23.5	23.0
Working capital days (days)					
Receivables	17	14	17	24	21
Inventory	7	6	8	12	11
Payables	17	15	19	26	20
Ratios (x)					
Gross asset turnover	2.8	3.5	3.2	2.3	2.2
Current ratio	1.0	2.1	2.2	3.5	3.8
Net interest coverage ratio	17.8	29.1	26.5	28.2	68.1
Adjusted debt/equity	0.1	(0.2)	(0.3)	(0.3)	(0.5)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

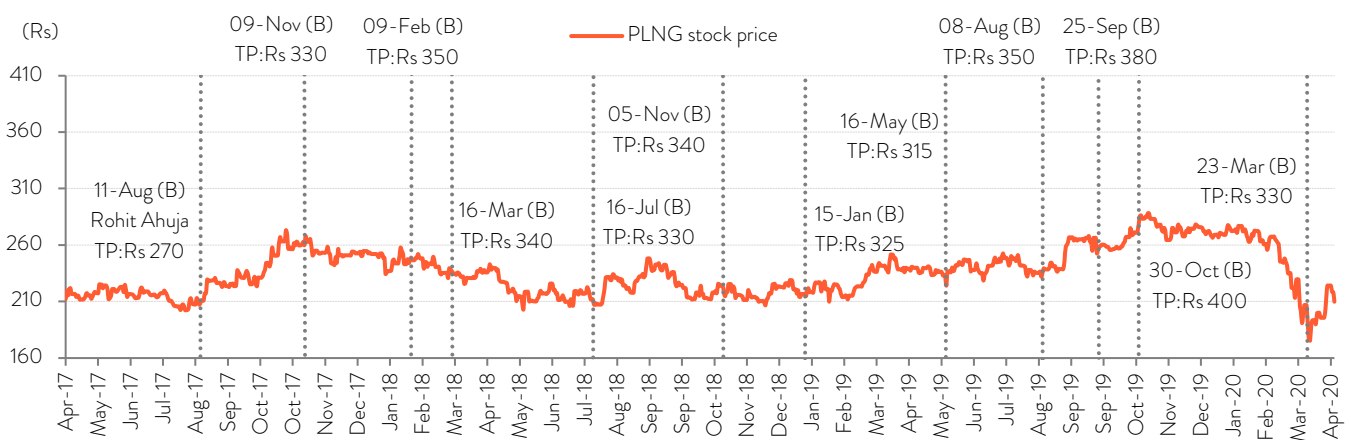
ADD – Expected return from >+5% to +15%

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: PETRONET LNG (PLNG IN)



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

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