

**BUY**

TP: Rs 330 | ▲ 28%

**PETRONET LNG**

Oil &amp; Gas

21 December 2020

## At an inflection point

**Key takeaways from our recent interaction with the Petronet LNG (PLNG) management: (a) Volumes at Kochi to improve from Q4 FY21 on commissioning of the Kochi-Mangalore pipeline; (b) More preference for long-term LNG (as spot LNG prices surge to ~US\$10/mmbtu) augurs well for PLNG's Dahej utilisation; and (c) management seems more aligned towards high dividend payouts, rather than investing in LNG supply chain, on LNG supply glut. Valuations looks extremely undemanding at 10x FY23E EPS. Maintain BUY.**

**Volumes to improve from Q4:** Gail has commissioned the Kochi-Mangalore pipeline, with PLNG initiating some sales to MRPL refinery. Incrementally, Kochi ramp up is expected to add 1-1.4 mmtpa from FY22 (+5.6% YoY), which would be in-line with our estimates. PNGRB's proposed unified tariff for pipelines owned by GAIL may accelerate demand from the Kochi-Mangalore pipeline, once GAIL extends this pipeline to connect to the Dabhol-Bangalore network. Theoretically, this could entail a much larger customer based for the Kochi terminal, and ensure >50% utilisation over 3-4 years (against our estimates of max 45% utilisation from FY22).

**Surge in spot LNG prices:** Spot LNG prices have surged past US\$ 10/mmbtu recently (from ~US\$ 3.5 in Q2), while long-term LNG contract prices remain benign at US\$6-7/mmbtu. This would mean better demand for 10 mmt long-term contracted volumes by PLNG, may ensure >105% utilisation at Dahej.

**Valuations at an inflection point:** Considering MoU with Tellurium is unlikely to be extended, and the volume growth at Kochi from the commissioning of pipeline, valuations at 10x FY23E EPS looks ripe for a re-rating. PLNG's earnings visibility remains robust backed by long-term contracts.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	383,954	354,520	221,117	267,439	273,524
EBITDA (Rs mn)	32,935	39,895	45,020	52,445	56,892
Adj. net profit (Rs mn)	21,554	27,697	28,766	34,554	38,242
Adj. EPS (Rs)	14.4	18.5	19.2	23.0	25.5
Adj. EPS growth (%)	3.7	28.5	3.9	20.1	10.7
Adj. ROAE (%)	21.8	26.4	25.7	29.3	29.7
Adj. P/E (x)	17.9	14.0	13.4	11.2	10.1
EV/EBITDA (x)	12.1	9.5	8.0	6.6	6.0

Source: Company, BOBCAPS Research

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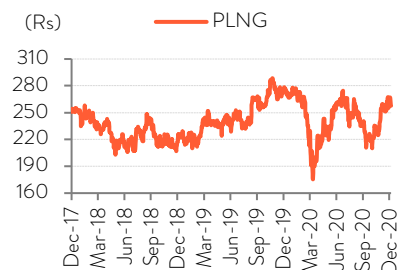
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Ticker/Price	PLNG IN/Rs 258
Market cap	US\$ 5.3bn
Shares o/s	1,500mn
3M ADV	US\$ 15.8mn
52wk high/low	Rs 282/Rs 170
Promoter/FPI/DII	50%/28%/22%

Source: NSE

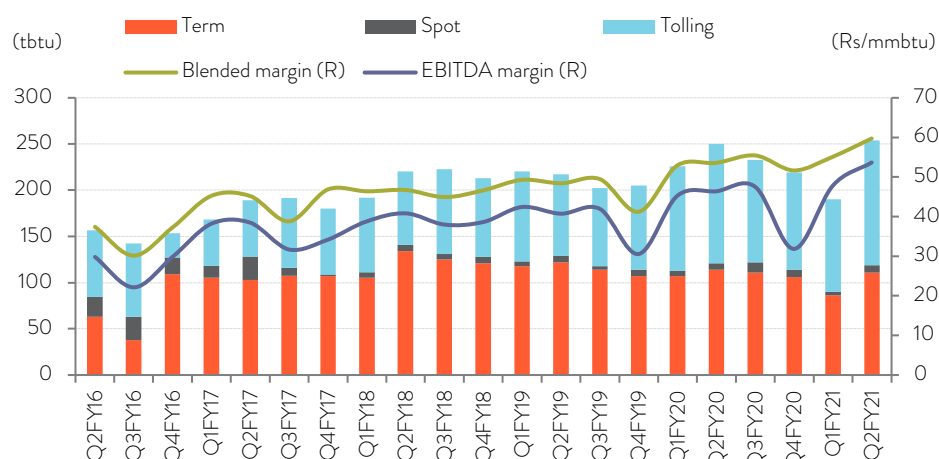
## STOCK PERFORMANCE



Source: NSE



**FIG 1 – OPERATING TRENDS: VOLUMES AND MARGINS**



Source: Company, BOBCAPS Research

**FIG 2 – KEY ASSUMPTIONS**

	FY21E	FY22E	FY23E
<b>Dahej terminal</b>			
Volumes (mmtpa)	17.0	18.8	18.8
Re-gas tariffs (Rs/mmbtu)	52.5	54.0	56.7
<b>Kochi terminal</b>			
Volumes (mmtpa)	0.8	2.2	2.2
Re-gas tariffs (Rs/mmbtu)	72.3	75.8	79.6
<b>Total volumes (mmtpa)</b>	<b>17.8</b>	<b>21.0</b>	<b>21.0</b>
Blended EBITDA (Rs/mmbtu)	46.2	47.1	51.8
Blended re-gas tariffs (Rs/mmbtu)	56.1	57.9	63.5

Source: BOBCAPS Research

### Valuation methodology

Kochi volumes could improve further from Q4 as GAIL commissions its Kochi-Mangaluru pipeline. But with negotiations on tariffs still underway, we factored in this uncertainty by assuming base tariff estimate for the Kochi terminal at Rs 72/mmbtu (from Rs 83 currently) from FY21. Our Sep'21 target price remains unchanged at Rs 330.

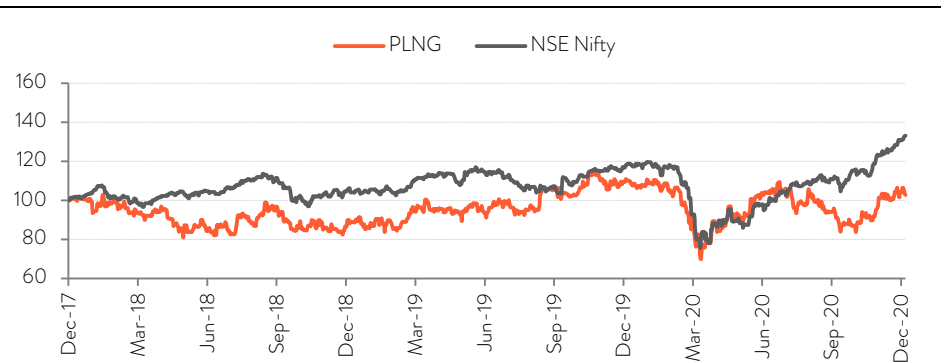
At 10x FY23E EPS, PLNG's valuations look undemanding considering healthy earnings visibility, backed by long-term contracts and expected volume ramp-up at Kochi. Further, the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks and a jetty at Dahej terminal by FY23. Maintain BUY.

**FIG 3 – VALUATION SNAPSHOT**

Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	215,989	24,368	240,357
Terminal value (Rs mn)	198,939	17,665	216,604
EV (Rs mn)	414,928	42,033	456,961
<b>EV (Rs/share)</b>	<b>251</b>	<b>28</b>	<b>305</b>
Add: Net cash, other investments (Rs mn)			37,552
<b>Equity value (Rs mn)</b>			<b>434,514</b>
<b>Equity value (Rs/share)</b>			<b>330</b>

Source: BOBCAPS Research

**FIG 4 – 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 derating 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 that 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)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>383,954</b>	<b>354,520</b>	<b>221,117</b>	<b>267,439</b>	<b>273,524</b>
EBITDA	32,935	39,895	45,020	52,445	56,892
Depreciation	(4,112)	(7,761)	(10,034)	(10,374)	(10,822)
EBIT	28,822	32,133	34,986	42,071	46,070
Net interest income/(expenses)	(989)	(4,032)	(737)	(258)	0
Other income/(expenses)	4,503	3,726	4,208	4,381	5,056
EBT	32,336	31,827	38,457	46,195	51,126
Income taxes	(10,782)	(4,131)	(9,691)	(11,641)	(12,884)
<b>Reported net profit</b>	<b>21,554</b>	<b>27,697</b>	<b>28,766</b>	<b>34,554</b>	<b>38,242</b>
<b>Adjusted net profit</b>	<b>21,554</b>	<b>27,697</b>	<b>28,766</b>	<b>34,554</b>	<b>38,242</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	12,952	11,661	12,430	12,430	12,430
Other current liabilities	11,724	12,394	9,732	11,431	11,519
Provisions	278	330	330	330	330
Debt funds	11,873	10,802	5,802	0	0
Other liabilities	13,029	40,967	37,908	34,849	31,790
Equity capital	15,000	15,000	15,000	15,000	15,000
Reserves & surplus	85,661	94,530	99,736	105,991	121,861
Shareholders' fund	100,661	109,530	114,736	120,991	136,861
<b>Total liabilities and equities</b>	<b>150,517</b>	<b>185,683</b>	<b>180,937</b>	<b>180,030</b>	<b>192,929</b>
Cash and cash eq.	29,603	44,320	51,699	48,809	66,057
Accounts receivables	13,825	16,026	12,470	15,178	15,527
Inventories	5,694	4,809	6,667	6,667	6,667
Other current assets	3,230	4,565	3,051	3,445	3,495
Investments	18,033	4,034	2,256	3,611	3,785
Net fixed assets	76,651	111,882	104,394	101,921	96,998
CWIP	3,482	47	400	400	400
<b>Total assets</b>	<b>150,517</b>	<b>185,683</b>	<b>180,937</b>	<b>180,030</b>	<b>192,929</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	25,667	35,458	38,800	44,927	49,065
Changes in working capital	(7,924)	(3,221)	1,319	(1,403)	(311)
Other operating cash flows	(1,955)	(9,179)	(3,928)	(4,101)	(4,289)
<b>Cash flow from operations</b>	<b>15,788</b>	<b>23,058</b>	<b>36,191</b>	<b>39,424</b>	<b>44,464</b>
Capital expenditures	21,443	(25,558)	(1,122)	(9,254)	(6,074)
Other investing cash flows	4,503	3,726	4,208	4,381	5,056
<b>Cash flow from investing</b>	<b>25,946</b>	<b>(21,833)</b>	<b>3,086</b>	<b>(4,873)</b>	<b>(1,018)</b>
Debt raised/repaid	(2,658)	32,319	(8,339)	(9,141)	(3,339)
Dividends paid	(17,550)	(21,938)	(23,559)	(28,299)	(22,372)
Other financing cash flows	(548)	(424)	0	0	0
<b>Cash flow from financing</b>	<b>(20,756)</b>	<b>9,958</b>	<b>(31,898)</b>	<b>(37,440)</b>	<b>(25,711)</b>
<b>Changes in cash and cash eq.</b>	<b>20,978</b>	<b>11,183</b>	<b>7,379</b>	<b>(2,890)</b>	<b>17,735</b>
<b>Closing cash and cash eq.</b>	<b>29,603</b>	<b>40,786</b>	<b>51,699</b>	<b>48,809</b>	<b>66,544</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	14.4	18.5	19.2	23.0	25.5
Adjusted EPS	14.4	18.5	19.2	23.0	25.5
Dividend per share	10.0	12.5	13.4	16.1	12.7
Book value per share	67.1	73.0	76.5	80.7	91.2

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.0	1.1	1.6	1.3	1.2
EV/EBITDA	12.1	9.5	8.0	6.6	6.0
Adjusted P/E	17.9	14.0	13.4	11.2	10.1
P/BV	3.8	3.5	3.4	3.2	2.8

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	66.7	87.0	74.8	74.8	74.8
Interest burden (PBT/EBIT)	112.2	99.0	109.9	109.8	111.0
EBIT margin (EBIT/Revenue)	7.5	9.1	15.8	15.7	16.8
Asset turnover (Revenue/Avg TA)	250.1	210.9	120.6	148.2	146.7
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.6	1.5	1.4
Adjusted ROAE	21.8	26.4	25.7	29.3	29.7

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	25.5	(7.7)	(37.6)	20.9	2.3
EBITDA	(0.6)	21.1	12.8	16.5	8.5
Adjusted EPS	3.7	28.5	3.9	20.1	10.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.6	11.3	20.4	19.6	20.8
EBIT margin	7.5	9.1	15.8	15.7	16.8
Adjusted profit margin	5.6	7.8	13.0	12.9	14.0
Adjusted ROAE	21.8	26.4	25.7	29.3	29.7
ROCE	17.1	24.0	21.7	26.1	26.7
<b>Working capital days (days)</b>					
Receivables	14	15	24	19	20
Inventory	6	6	12	12	12
Payables	15	14	25	21	21
<b>Ratios (x)</b>					
Gross asset turnover	3.5	2.7	1.4	1.7	1.6
Current ratio	2.1	2.9	3.3	3.1	3.8
Net interest coverage ratio	29.1	8.0	47.5	163.3	0.0
Adjusted debt/equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

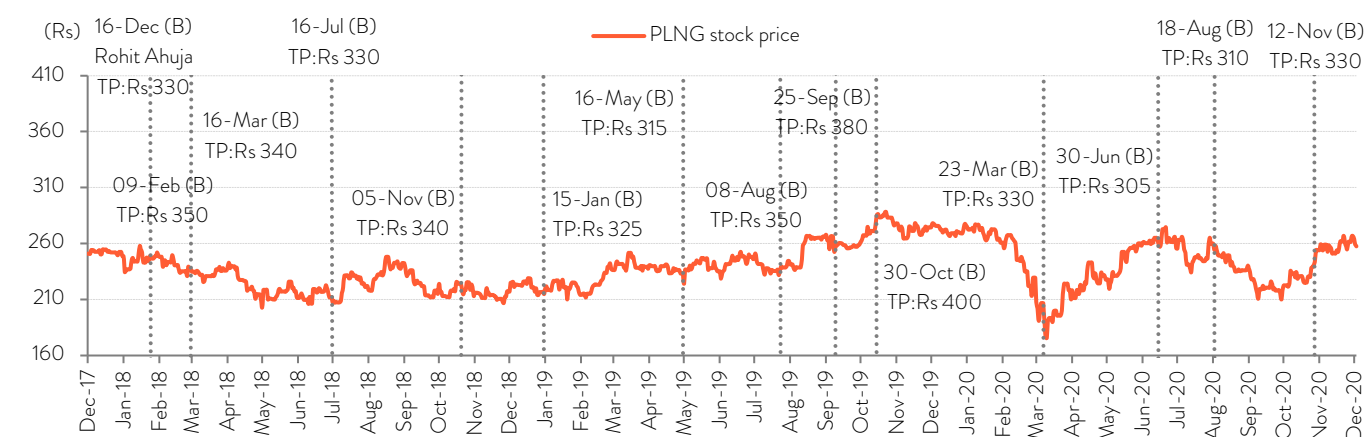
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): PETRONET LNG (PLNG IN)



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

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