

**BUY**

TP: Rs 350 | ▲ 32%

**PETRONET LNG**

Oil &amp; Gas

09 September 2019

## Earnings outlook upbeat

Our recent meeting with the Petronet LNG (PLNG) management has reinforced our core investment thesis – (a) high utilisation levels at Dahej to sustain on low spot LNG prices; (b) demand climate improving, bolstered primarily by CGD (a key swing factor) and also fertilisers, as evident from recent macro data (see our report [Jul'19 natural gas consumption robust](#)); and (c) volume offtake at Kochi ramping up led by OMPL and MCPC in Oct'19, while the MRPL contract may start from Apr'20. Maintain BUY.

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**Buoyant volume outlook:** PLNG's incremental 2.5mtpa of capacity at Dahej is benefitting from current low spot LNG prices (~US\$ 3.5/mmbtu).

Management clarified that GAIL is able to sell LNG from long-term contracts despite the ~US\$ 8/mmbtu price, by blending with low-cost spot volumes.

PLNG is avoiding trading spot LNG in a weak price environment to limit inventory losses. The company plans to unlock another 2mtpa of capacity at Dahej in phases from 2021, through rollout of two storage tanks by FY23 (~Rs 6bn capex) and a third jetty by FY24.

Beyond the existing ~17mtpa 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 ~1.5mtpa/2.2mtpa is likely in FY20/FY21 post Kochi-Mangalore pipeline commissioning (by Dec'19).

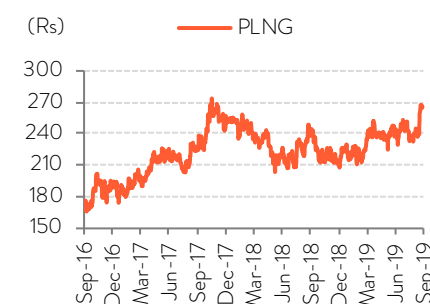
**Maintain BUY:** PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ ROE over FY20-FY22E. Existing volume contracts alleviate risks from competition. Instead, we see possibilities of a further delay in start-up of the Mundra LNG terminal, considering ongoing disputes between its promoters on regasification tariffs.

Ticker/Price	PLNG IN/Rs 265
Market cap	US\$ 5.5bn
Shares o/s	1,500mn
3M ADV	US\$ 9.5mn
52wk high/low	Rs 269/Rs 203
Promoter/FPI/DII	50%/26%/24%

Source: NSE



## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Total Revenue (Rs mn)	305,986	383,954	439,048	526,425	533,488
EBITDA (Rs mn)	33,124	32,935	44,312	49,662	55,192
Adj. net profit (Rs mn)	20,779	21,554	26,455	30,123	36,796
Adj. EPS (Rs)	13.9	14.4	17.6	20.1	24.5
Adj. EPS growth (%)	21.8	3.7	22.7	13.9	22.2
Adj. ROAE (%)	23.3	21.6	24.5	25.2	27.1
Adj. P/E (x)	19.1	18.5	15.0	13.2	10.8
EV/EBITDA (x)	12.6	12.3	8.6	7.5	6.6

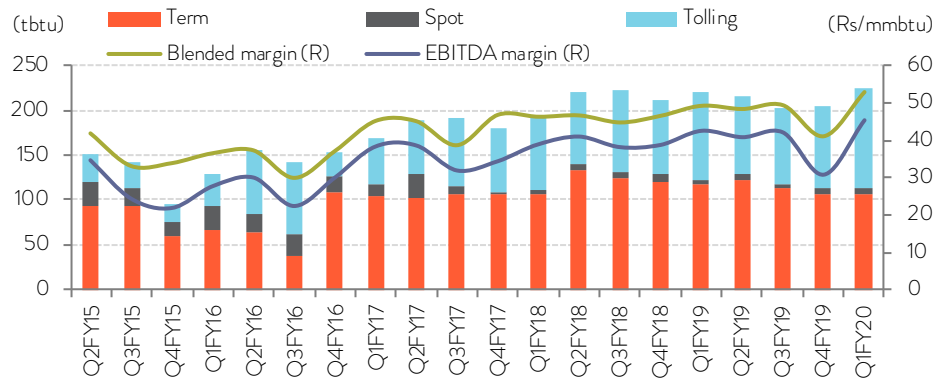
Source: Company, BOBCAPS Research

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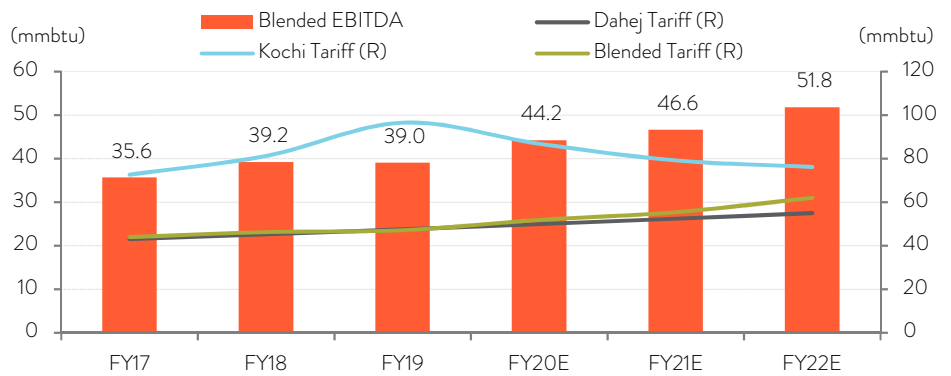


**FIG 1 – OPERATING TRENDS: VOLUMES AND MARGINS**



Source: Company, BOBCAPS Research

**FIG 2 – EBITDA VS. TARIFFS**



Source: Company, BOBCAPS Research

Despite decline in Kochi tariffs from FY20, blended EBITDA/unit still improves on higher volumes

Use-or-pay contracts form >50% of PLNG’s long-term contracts

Incremental 2.5mtpa capacity has mostly use-or-pay components as well

**FIG 3 – LONG-TERM CONTRACT PROFILE AT DAHEJ**

Company	(mtpa)
<b>Long-term contracts (Ras Gas sourcing)</b>	<b>7.50</b>
GAIL	4.5
IOCL	2.3
BPCL	0.8
<b>Use-or-Pay contracts (i.e. service contracts)</b>	<b>8.00</b>
GSPC (phase 1)	1.25
GAIL	2.50
GSPC	1
IOCL	1.50
BPCL	1.00
Torrent power	0.75
<b>Total contracts</b>	<b>15.50</b>

Source: Industry, Source: BOBCAPS Research

## Valuation methodology

We maintain our Sep'20 DCF-based target price of Rs 350. PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ ROE over FY20-FY22E. Reiterate BUY.

**FIG 4 – VALUATION SNAPSHOT**

Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	207,862	26,278	234,140
Terminal value (Rs mn)	239,754	19,348	259,102
EV (Rs mn)	447,616	45,627	493,242
<b>EV (Rs/share)</b>	<b>298</b>	<b>30</b>	<b>329</b>
Add: Net cash, other investments (Rs mn)			35,763
<b>Equity value (Rs mn)</b>			<b>529,000</b>
<b>Equity value (Rs/share)</b>			<b>350</b>

Source: BOBCAPS Research

**FIG 5 – VALUATION SENSITIVITY**

		Cost of Equity (%)				
		(Rs)	7.5	8.5	9.5	10.5
Terminal growth (%)	(2)	399	357	323	294	269
	(1)	423	375	336	304	277
	0	453	397	<b>350</b>	317	287
	1	493	425	373	332	299
	2	546	461	399	351	313

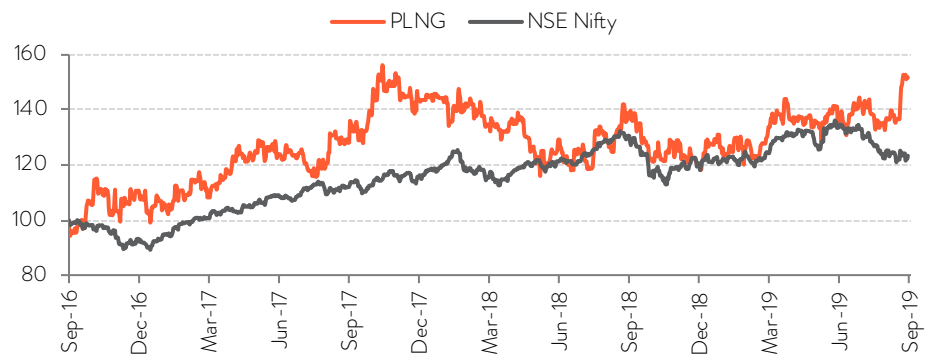
Source: BOBCAPS Research

**FIG 6 – KEY ASSUMPTIONS**

	FY20E	FY21E	FY22E
<b>Dahej terminal</b>			
Volumes (mmtpa)	19.3	20.5	20.5
Re-gas tariffs (Rs/mmbtu)	49.9	52.4	54.3
<b>Kochi terminal</b>			
Volumes (mmtpa)	1.50	2.20	2.20
Re-gas tariffs (Rs/mmbtu)	89.2	80.2	76.2
<b>Total volumes (mmtpa)</b>	<b>19.3</b>	<b>20.5</b>	<b>20.5</b>
<b>Blended EBITDA (Rs/mmbtu)</b>	<b>44.2</b>	<b>46.6</b>	<b>51.8</b>
<b>Blended re-gas tariffs (Rs/mmbtu)</b>	<b>51.9</b>	<b>55.4</b>	<b>62.0</b>

Source: BOBCAPS Research

**FIG 7 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

- **Widening price differential between long-term and spot LNG:** If spot prices sustain at <US\$ 4/mmbtu over the long term, PLNG may find it difficult to maintain sales under high-cost long-term contracts (~US\$ 8.1/mmbtu, ~55% of total volumes at Dahej and Kochi). These contracts may require price renegotiation, and delays therein could impact utilisation levels.
- **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, expected to be 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	FY19P	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>305,986</b>	<b>383,954</b>	<b>439,048</b>	<b>526,425</b>	<b>533,488</b>
EBITDA	33,124	32,935	44,312	49,662	55,192
Depreciation	(4,117)	(4,112)	(7,874)	(8,599)	(9,357)
EBIT	29,007	28,822	36,437	41,063	45,835
Net interest income/(expenses)	(1,630)	(989)	(1,746)	(1,911)	(818)
Other income/(expenses)	3,174	4,503	4,213	5,146	5,390
EBT	30,551	32,336	38,904	44,298	50,406
Income taxes	(9,773)	(10,782)	(12,449)	(14,175)	(13,610)
<b>Reported net profit</b>	<b>20,779</b>	<b>21,554</b>	<b>26,455</b>	<b>30,123</b>	<b>36,796</b>
<b>Adjusted net profit</b>	<b>20,779</b>	<b>21,554</b>	<b>26,455</b>	<b>30,123</b>	<b>36,796</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Accounts payables	15,699	12,952	22,548	24,234	24,234
Other current liabilities	18,422	11,724	22,314	26,014	26,097
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	98,283	110,784	130,360
Shareholders' fund	97,205	102,305	113,283	125,784	145,360
<b>Total liabilities and equities</b>	<b>156,537</b>	<b>152,161</b>	<b>191,605</b>	<b>204,773</b>	<b>209,839</b>
Cash and cash eq.	8,625	29,603	44,347	46,425	48,166
Accounts receivables	16,505	13,825	25,051	29,948	30,408
Inventories	4,911	5,694	8,056	8,287	8,287
Other current assets	2,775	3,230	4,845	5,557	5,622
Investments	41,222	18,033	23,646	26,095	26,325
Net fixed assets	80,296	78,295	85,261	88,062	90,630
CWIP	2,203	3,482	400	400	400
<b>Total assets</b>	<b>156,537</b>	<b>152,161</b>	<b>191,605</b>	<b>204,773</b>	<b>209,839</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Net income + Depreciation	24,777	25,667	34,329	38,722	46,154
Changes in working capital	3,210	(7,924)	4,983	(454)	(443)
Other operating cash flows	6	(1,955)	(3,933)	(4,866)	(5,110)
<b>Cash flow from operations</b>	<b>27,993</b>	<b>15,788</b>	<b>35,379</b>	<b>33,402</b>	<b>40,601</b>
Capital expenditures	(13,653)	19,799	(17,371)	(13,848)	(12,155)
Other investing cash flows	3,174	4,503	4,213	5,146	5,390
<b>Cash flow from investing</b>	<b>(10,479)</b>	<b>24,302</b>	<b>(13,159)</b>	<b>(8,703)</b>	<b>(6,766)</b>
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)	(15,476)	(17,622)	(17,221)
Other financing cash flows	(4,115)	1,096	0	0	0
<b>Cash flow from financing</b>	<b>(12,162)</b>	<b>(19,112)</b>	<b>(7,476)</b>	<b>(22,622)</b>	<b>(32,094)</b>
<b>Changes in cash and cash eq.</b>	<b>5,352</b>	<b>20,978</b>	<b>14,744</b>	<b>2,078</b>	<b>1,741</b>
<b>Closing cash and cash eq.</b>	<b>8,625</b>	<b>29,603</b>	<b>44,347</b>	<b>46,425</b>	<b>48,166</b>

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19P	FY20E	FY21E	FY22E
Reported EPS	13.9	14.4	17.6	20.1	24.5
Adjusted EPS	13.9	14.4	17.6	20.1	24.5
Dividend per share	4.5	10.0	8.8	10.0	9.8
Book value per share	64.8	68.2	75.5	83.9	96.9

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19P	FY20E	FY21E	FY22E
EV/Sales	1.4	1.1	0.9	0.7	0.7
EV/EBITDA	12.6	12.3	8.6	7.5	6.6
Adjusted P/E	19.1	18.5	15.0	13.2	10.8
P/BV	4.1	3.9	3.5	3.2	2.7

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19P	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	68.0	66.7	68.0	68.0	73.0
Interest burden (PBT/EBIT)	105.3	112.2	106.8	107.9	110.0
EBIT margin (EBIT/Revenue)	9.5	7.5	8.3	7.8	8.6
Asset turnover (Revenue/Avg TA)	207.6	248.8	255.4	265.6	257.3
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.6	1.7	1.5
Adjusted ROAE	23.3	21.6	24.5	25.2	27.1

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	24.3	25.5	14.3	19.9	1.3
EBITDA	27.8	(0.6)	34.5	12.1	11.1
Adjusted EPS	21.8	3.7	22.7	13.9	22.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.8	8.6	10.1	9.4	10.3
EBIT margin	9.5	7.5	8.3	7.8	8.6
Adjusted profit margin	6.8	5.6	6.0	5.7	6.9
Adjusted ROAE	23.3	21.6	24.5	25.2	27.1
ROCE	18.4	17.0	20.0	20.4	23.4
<b>Working capital days (days)</b>					
Receivables	17	14	16	19	21
Inventory	7	6	6	6	6
Payables	17	15	16	18	18
<b>Ratios (x)</b>					
Gross asset turnover	2.8	3.5	3.7	4.0	3.7
Current ratio	1.0	2.1	1.8	1.8	1.8
Net interest coverage ratio	17.8	29.1	20.9	21.5	56.0
Adjusted debt/equity	0.1	(0.2)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research

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

**BUY** – Expected return >+15%

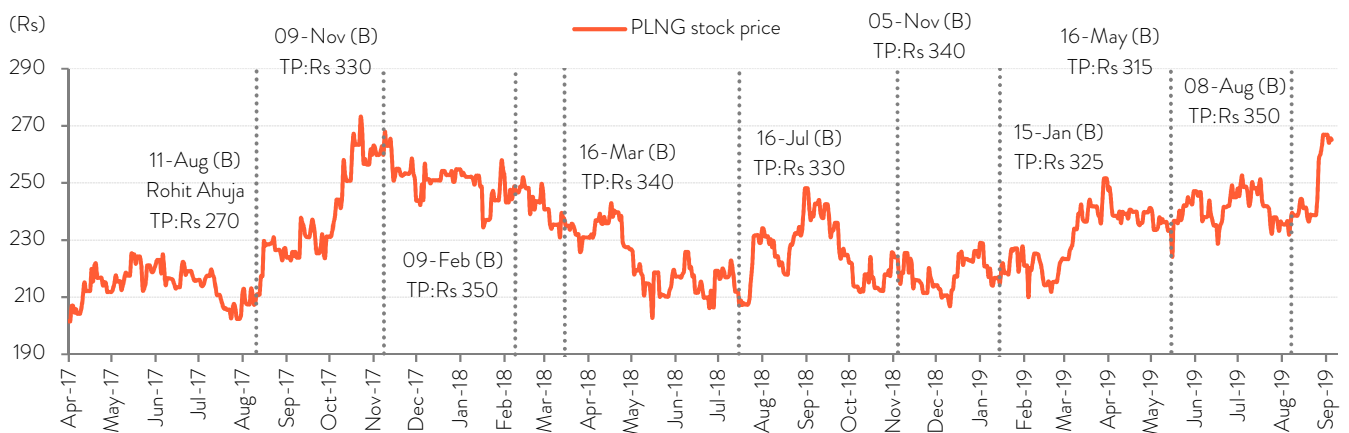
**ADD** – Expected return from >+5% to +15%

**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)

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

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