

BUY

TP: Rs 350 | ▲ 31%

PETRONET LNG

Oil & Gas

23 September 2019

Concerns seem overstated on investments in Tellurian

We hosted an investor call with the Petronet LNG (PLNG) management to discuss its proposed investment in Tellurian Inc's Driftwood LNG project. PLNG clarified its intent to cap investment at US\$ 1bn (for access to ~2mmtpa volumes) vs. US\$ 2.5bn overall with JV partners. The company's ~US\$ 700mn cash pile implies that this four-year investment is unlikely to affect our dividend payout estimates (~50%). We believe undue pessimism is being built into valuations as this contract could be earnings accretive at US\$ 6/mmbtu of delivered gas price.

LNG supply at an attractive price: PLNG is eyeing an assured long-term delivered LNG price of ~US\$ 6/mmbtu to India, which would make the Tellurian contract commercially viable. Additionally, the company will endeavour to have back-to-back sales contracts in India for these LNG volumes (on the lines of RasGas), de-risking them completely. Pending finalisation of these pricing and sales terms, PLNG is unlikely to convert the current non-binding MoU with Tellurian into a firm sales purchase agreement.

US\$ 2.5bn investment with JV partners: PLNG will partner with one or two companies (as yet unnamed) for US\$ 2.5bn of investment in Tellurian's Driftwood project. If the company were to go it alone, management asserted that its investment is unlikely to exceed US\$ 1bn for ~2mmtpa of volume access. This assurance and PLNG's current US\$ 700mn cash pile alleviate concerns about the investment being a stretch on the balance sheet.

Ample demand to absorb incremental long-term LNG: Power and fertiliser companies – which harbour an estimated >50mmscmd or ~13mmtpa of potential demand – would be key target customers for this long-term LNG, if the deal were to assure a delivered LNG price of US\$ 6/mmbtu to India. PLNG's planned 2mmtpa expansion at the Dahej regasification capacity by 2022 would be a key facilitator for importing the LNG.

Project execution a primary risk: Tellurian's Driftwood LNG project is setting up a 27.6mmtpa liquefaction terminal in Louisiana, USA. This would be integrated with upstream assets (~15tcf reserves) and midstream pipeline infrastructure (~1,000km). The company aims to cap delivered cost of LNG (FoB) at ~US\$ 2.35/mmbtu in the US (see [Tellurian Corporate Presentation](#)), which carry execution risks in terms of timelines and costs.

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Ticker/Price	PLNG IN/Rs 266
Market cap	US\$ 5.6bn
Shares o/s	1,500mn
3M ADV	US\$ 10.0mn
52wk high/low	Rs 272/Rs 203
Promoter/FPI/DII	50%/26%/24%

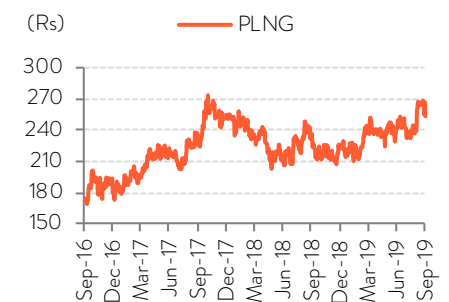
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	439,048	526,425	533,488
EBITDA (Rs mn)	44,312	49,662	55,192
Adj. net profit (Rs mn)	26,455	30,123	36,796
Adj. EPS (Rs)	17.6	20.1	24.5
Adj. EPS growth (%)	22.7	13.9	22.2
Adj. ROAE (%)	24.5	25.2	27.1
Adj. P/E (x)	15.1	13.3	10.9
EV/EBITDA (x)	8.6	7.6	6.7

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

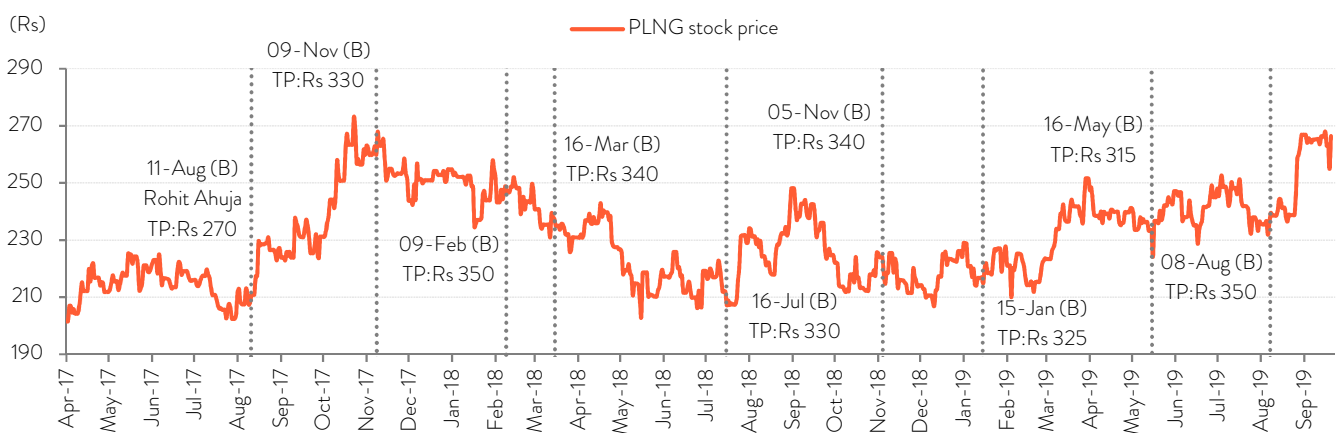
ADD – Expected return from >+5% to +15%

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: PETRONET LNG (PLNG IN)



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

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