

**BUY**

TP: Rs 350 | ▲ 49%

**PETRONET LNG**

Oil & Gas

08 August 2019

## Margins normalise, volumes improve

**Petronet LNG (PLNG) reported a mixed Q1FY20 due to the new Ind-AS 116 lease standards, which led to higher EBITDA (Rs 10.3bn, +10% YoY) but lower PAT (Rs 5.6bn, -4.5% YoY). Volumes outperformed at 226tbtu (+2.6% YoY) on higher service offtake (+17% YoY). Excluding the new lease norms, per-unit EBITDA was in line at Rs 40/mmbtu and so was earnings at ~Rs 5.9bn. We trim FY20/FY21 EPS by 7%/9% to build in the Ind-AS 116 impact, and move forward to a revised Sep'20 TP of Rs 350 (from Rs 315).**

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

**Buoyant volume outlook:** PLNG's Q1 volumes beat estimates following a surge in service volumes (113tbtu, +16.5% YoY), while spot LNG offtake remained muted at 6tbtu despite spot prices crashing 27% QoQ. Spot contracts were avoided by the company in a falling price environment to limit inventory losses.

Ticker/Price	PLNG IN/Rs 236
Market cap	US\$ 5.0bn
Shares o/s	1,500mn
3M ADV	US\$ 9.5mn
52wk high/low	Rs 255/Rs 203
Promoter/FPI/DII	50%/26%/24%

Source: NSE

The incremental 2.5mtpa capacity at Dahej (commissioned in Jun'19) is operating at ~100%, benefitting from shutdown of the Dabhol LNG terminal (owned by GAIL) during the monsoons and low spot LNG prices. PLNG 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.

**EBITDA margins normalise; contracts lend floor to earnings:** EBITDA surged 44% QoQ to Rs 9bn or Rs 40/mmbtu (on excluding ~Rs 1.2bn gain from Ind-AS 116). 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 in Sep'19.

**Maintain BUY:** PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ ROE over FY20-FY22E.

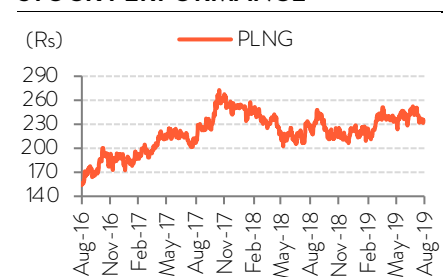


## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
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)	17.0	16.4	13.4	11.7	9.6
EV/EBITDA (x)	11.2	10.9	7.6	6.6	5.8

Source: Company, BOBCAPS Research

## STOCK PERFORMANCE



**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Net sales</b>	<b>86,134</b>	<b>91,692</b>	<b>(6.1)</b>	<b>83,832</b>	<b>2.7</b>
Cost of Goods	74,182	80,844	(8.2)	75,387	(1.6)
% of sales	86.1	88.2	-	89.9	-
Other expenditure	1,714	1,504	14.0	2,173	(21.1)
% of sales	2.0	1.6	-	2.6	-
<b>EBITDA</b>	<b>10,239</b>	<b>9,344</b>	<b>9.6</b>	<b>6,272</b>	<b>63.2</b>
EBITDA margin (%)	11.9	10.2	-	7.5	-
<b>EBITDA/mmbtu (Rs)</b>	<b>45.3</b>	<b>42.4</b>	<b>6.8</b>	<b>30.6</b>	<b>48.1</b>
Blended margin (Rs/mmbtu)	52.9	49.3	7.4	41.2	28.4
Depreciation & amortization	1,899	1,022	85.7	1,016	86.9
Interest	1,005	300	235.4	225	346.4
Other income	1,044	990	5.5	1,514	(31.0)
<b>PBT</b>	<b>8,379</b>	<b>9,012</b>	<b>(7.0)</b>	<b>6,545</b>	<b>28.0</b>
Provision for tax	2,777	3,142	(11.6)	2,143	29.6
Effective tax rate	33.1	34.9	-	32.7	-
<b>PAT</b>	<b>5,603</b>	<b>5,870</b>	<b>(4.5)</b>	<b>4,402</b>	<b>27.3</b>
NPM (%)	6.5	6.4	-	5.3	-
<b>EPS (Rs)</b>	<b>3.7</b>	<b>3.9</b>	<b>(4.5)</b>	<b>2.9</b>	<b>27.3</b>

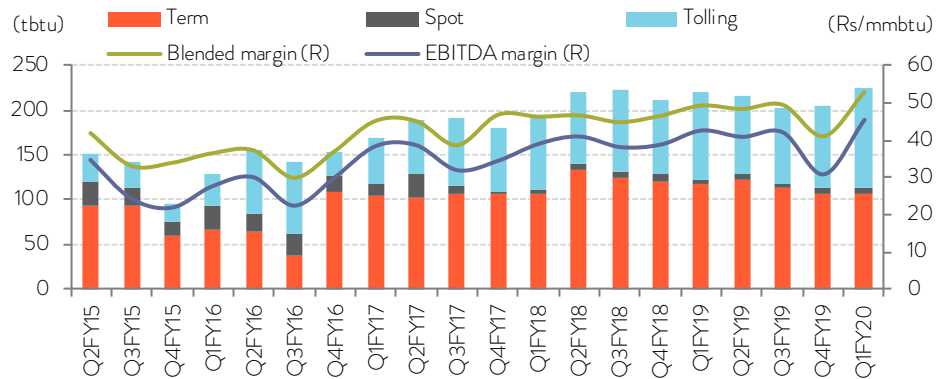
Source: Company, BOBCAPS Research

**FIG 2 – VOLUME PROFILE**

(tbtu)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Long-term contracts</b>	<b>107</b>	<b>118</b>	<b>(9.3)</b>	<b>107</b>	<b>-</b>
Dahej	100	112	(10.7)	100	-
Kochi	7	6	16.7	7	-
<b>Spot contracts</b>	<b>6</b>	<b>5</b>	<b>15.4</b>	<b>7</b>	<b>(14.9)</b>
Dahej	5	5	-	7	(28.6)
Kochi	1	0	400.0	0	1,900.0
<b>Regasification services</b>	<b>113</b>	<b>97</b>	<b>16.5</b>	<b>91</b>	<b>24.2</b>
Dahej	112	97	15.5	91	23.1
Kochi	1	-	-	-	-
<b>Total volumes</b>	<b>226</b>	<b>220</b>	<b>2.6</b>	<b>205</b>	<b>10.2</b>
<b>Dahej</b>	<b>217</b>	<b>214</b>	<b>1.4</b>	<b>198</b>	<b>9.6</b>
<b>Kochi</b>	<b>9</b>	<b>6</b>	<b>45.2</b>	<b>7</b>	<b>27.7</b>

Source: Company, BOBCAPS Research

**FIG 3 – OPERATING TRENDS: VOLUMES AND MARGINS**



Source: Company, BOBCAPS Research

### Earnings call highlights

#### Dahej terminal

- PLNG does not see the Mundra terminal as a threat to volumes, as GSPC has already tied up 2.25mmt of long-term contracts at the Dahej terminal.
- Regasification tariffs for RasGas LNG contract volumes (7.5mmtpa) are at ~Rs 49.5/mmbtu (~Rs 47/mmbtu for the remaining ~8.5mmtpa). Tariffs for the Gorgon contract (~1.4mmtpa, of which 0.5mmtpa is being consumed at Kochi) are at Rs 104/mmbtu.
- The company intends to add a jetty and storage tank at Dahej which could be commissioned over 3-4 years, besides unlocking another 2-3mmtpa of capacity in phases from 2020

#### Kochi terminal

- Management expects the Kochi-Mangalore pipeline to be completed by Sep'19. OMPL and MCPC are ready for gas offtake from the Kochi terminal in Oct'19, while MRPL may start from Apr'20. Once the pipeline is commissioned, management expects volumes to improve to 1.2mmtpa in FY20 and further to ~2mmtpa by FY21.
- PLNG took a 5% hike in regasification tariffs at Kochi in Apr'19.
- Current tariffs (at Rs 104/mmbtu) are based on the current capacity utilisation of ~10%. As utilisation improves on commissioning of the pipeline, there could be a downward revision in tariffs (extent of decline not clarified by management).
- Management does not see incremental domestic gas volumes of 30-40mmscmd coming from the east coast (RIL and ONGC) as a threat to Kochi volume improvement, as most of the domestic gas would be absorbed by standard gas-based power plants (primarily in Andhra Pradesh).

### Other highlights

- Adoption of Ind-AS 116 in Q1FY20 led to a >Rs 1.2bn increase in EBITDA, which was negated by a related rise in interest costs (Rs 800mn) and depreciation (Rs 880mn) – subsequently, PBT declined Rs 500mn. This trend will recur every quarter before tapering off by FY24-FY25.
- Last quarter's ~Rs 1.2bn inventory loss has not been reversed as spot LNG prices remain low (<US\$ 4/mmbtu).
- The lead time between landing of the cargo and it being regasified is as low as 1.2-1.3 days.
- PLNG currently has capex plans of ~Rs 5bn in FY20 and ~Rs 13bn over FY21/FY22.

## Valuation methodology

We trim FY20/FY21 earnings estimates by 7%/9% to build in the Ind-AS 116 impact, and roll forward to a revised Sep'20 DCF-based target price of Rs 350 (from Rs 315). PLNG's fundamentals remain sound with structural improvement in EBITDA/ mmbtu and 25%+ ROE over FY20-FY22E. Maintain BUY.

**FIG 4 – REVISED ESTIMATES**

(Rs mn)	FY20E			FY21E			FY22E
	Old	New	Var (%)	Old	New	Var (%)	New
Revenue	495,847	439,048	(11.5)	591,284	526,425	(11.0)	533,488
EBITDA	42,885	44,312	3.3	48,615	49,662	2.2	55,192
EBITDA margin (%)	8.6	10.1	-	8.2	9.4	-	10.3
PAT	28,410	26,455	(6.9)	33,179	30,123	(9.2)	36,796
PAT margin (%)	5.7	6.0	-	5.6	5.7	-	6.9
EPS (Rs)	18.9	17.6	(6.9)	22.1	20.1	(9.2)	24.5

Source: BOBCAPS Research

**FIG 5 – 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 6 – 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

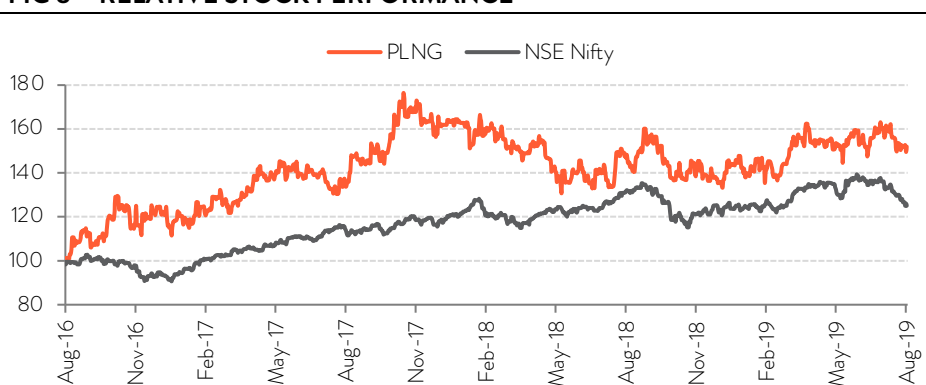
Source: BOBCAPS Research

**FIG 7 – 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 8 – 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, 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
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	1.2	0.9	0.8	0.6	0.6
EV/EBITDA	11.2	10.9	7.6	6.6	5.8
Adjusted P/E	17.0	16.4	13.4	11.7	9.6
P/BV	3.6	3.5	3.1	2.8	2.4

### 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

## Disclaimer

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

**BUY** – Expected return >+15%

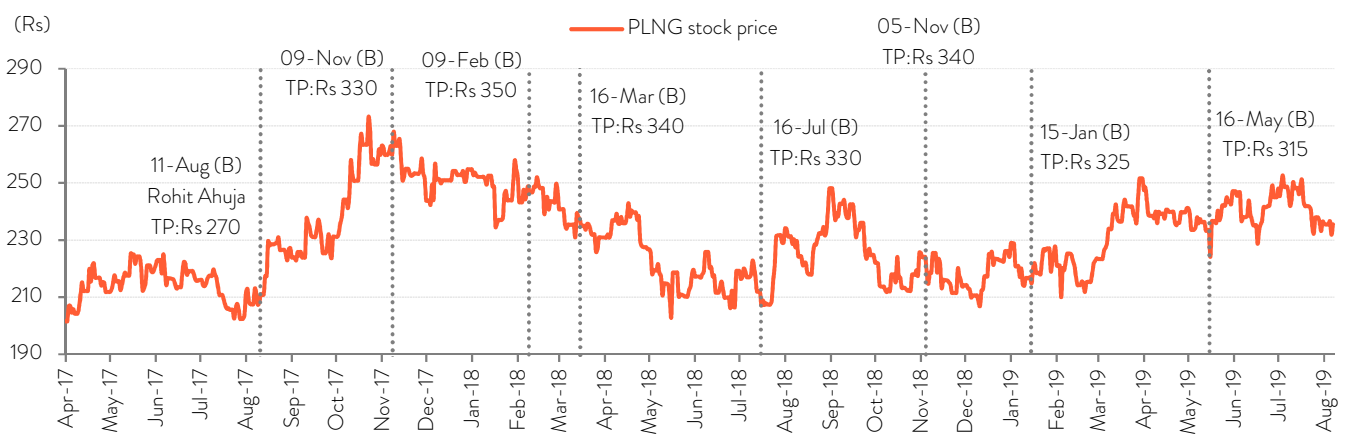
**ADD** – Expected return from >+5% to +15%

**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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