

**BUY**

TP: Rs 310 | ▲ 22%

**PETRONET LNG**

| Oil &amp; Gas

| 18 August 2020

## Margins improve, volume outlook brightens

Petronet LNG's (PLNG) Q1FY20 EBITDA was in line at Rs 9bn (-11% YoY), with low volumes (-16% YoY) being compensated by higher EBITDA/ mmbtu at Rs 48 (+5.7% YoY). Utilisation levels at Dahej have rebounded to ~103% currently, implying a better earnings outlook from Q2. The demand outlook is robust as LNG prices remain attractive given benign oil prices. On rollover to Sep'21, we revise our TP to Rs 310 (from Rs 305). Valuations look undemanding at 11.3x FY22E EPS on healthy earnings visibility.

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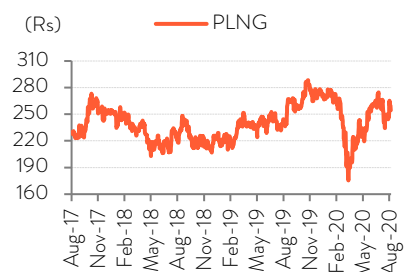
**Volumes claw back to normalcy, outlook improving:** PLNG's current utilisation at Dahej remains at >100% as LNG consumption has picked up, driven by the power and fertiliser sectors. Utilisation at Kochi has currently improved to ~17% and PLNG is negotiating re-gas tariffs with buyers. Long-term contract volumes remained muted at 86tbtu (-19.6% YoY) in Q1 as the pricing gap with spot LNG stayed high. While PLNG couldn't garner much spot volumes of its own, its service volumes remained relatively robust due to low spot LNG prices.

Ticker/Price	PLNG IN/Rs 254
Market cap	US\$ 5.1bn
Shares o/s	1,500mn
3M ADV	US\$ 13.0mn
52wk high/low	Rs 299/Rs 170
Promoter/FPI/DII	50%/29%/21%

Source: NSE

**EBITDA margins normalise:** EBITDA/mmbtu outperformed at Rs 48 (+5.7% YoY), driven entirely by contracted volumes (considering spot volumes were marginal). Uncertainty persists over Kochi terminal tariffs though management hinted that negotiations for tariffs (currently at Rs 83.2/mmbtu) are underway. EBITDA margins could improve in Q2 as volumes gain traction.

## STOCK PERFORMANCE



Source: NSE

**High earnings visibility:** PLNG's earnings visibility remains buoyant backed by long-term contracts and expected volume ramp-up at Kochi. Low LNG prices offer a robust outlook on LNG demand, especially from the power sector.

Further, the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks and a jetty at Dahej terminal by FY23.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	383,954	354,520	220,228	268,526	274,690
EBITDA (Rs mn)	32,935	39,895	43,138	52,314	56,598
Adj. net profit (Rs mn)	21,554	27,697	26,817	33,844	37,449
Adj. EPS (Rs)	14.4	18.5	17.9	22.6	25.0
Adj. EPS growth (%)	3.7	28.5	(3.2)	26.2	10.7
Adj. ROAE (%)	21.6	26.5	24.5	29.5	29.8
Adj. P/E (x)	17.7	13.8	14.2	11.3	10.2
EV/EBITDA (x)	12.0	9.4	8.2	6.6	5.9

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

Y/E March	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Net sales</b>	<b>48,836</b>	<b>86,134</b>	<b>(43.3)</b>	<b>85,672</b>	<b>(43.0)</b>
Cost of Goods	38,365	74,182	(48.3)	74,360	(48.4)
% of sales	78.6	86.1	-	86.8	-
Other expenditure	1,371	1,714	(20.0)	4,337	(68.4)
% of sales	2.8	2.0	-	5.1	-
<b>EBITDA</b>	<b>9,099</b>	<b>10,239</b>	<b>(11.1)</b>	<b>6,975</b>	<b>30.5</b>
EBITDA margin (%)	18.6	11.9	-	8.1	-
<b>EBITDA/mmbtu (Rs)</b>	<b>47.9</b>	<b>45.3</b>	<b>5.7</b>	<b>31.9</b>	<b>50.4</b>
Blended margin (Rs/mmbtu)	55.1	52.9	4.2	51.7	6.7
Depreciation & amortization	1,936	1,899	1.9	1,942	(0.3)
Interest	881	1,005	(12.3)	1,035	(14.9)
Other income	684	1,044	(34.5)	865	(20.9)
<b>PBT</b>	<b>6,966</b>	<b>8,379</b>	<b>(16.9)</b>	<b>4,863</b>	<b>43.3</b>
Provision for tax	1,764	2,777	(36.5)	1,272	38.6
Effective tax rate	25.3	33.1	-	26.2	-
<b>Reported PAT</b>	<b>5,202</b>	<b>5,603</b>	<b>(7.1)</b>	<b>3,590</b>	<b>44.9</b>
NPM (%)	10.7	6.5	-	4.2	-
<b>Reported EPS</b>	<b>3.5</b>	<b>3.7</b>	<b>(7.1)</b>	<b>2.4</b>	<b>44.9</b>

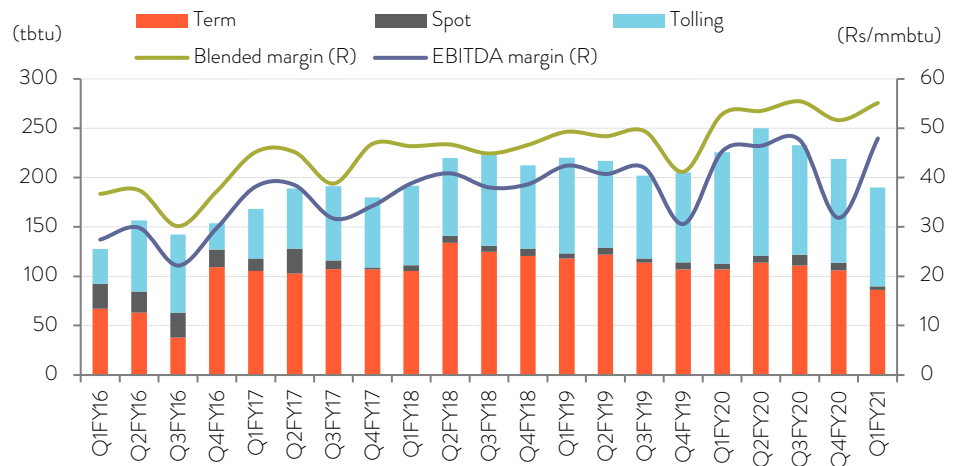
Source: Company, BOBCAPS Research

**FIG 2 – VOLUME PROFILE**

Volumes (tbtu)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Long-term contracts</b>	<b>86</b>	<b>107</b>	<b>(19.6)</b>	<b>106</b>	<b>(18.9)</b>
Dahej	78	100	(22.0)	95	(17.9)
Kochi	8	7	14.3	11	(27.3)
<b>Spot</b>	<b>4</b>	<b>6</b>	<b>(33.3)</b>	<b>8</b>	<b>(50.0)</b>
Dahej	3	5	-	6	-
Kochi	1	1	-	2	(50.0)
<b>Regasification services</b>	<b>100</b>	<b>113</b>	<b>(11.5)</b>	<b>105</b>	<b>(4.8)</b>
Dahej	100	112	(10.7)	105	(4.8)
Kochi	-	1	-	-	-
<b>Total volumes</b>	<b>190</b>	<b>226</b>	<b>(15.9)</b>	<b>219</b>	<b>(13.2)</b>
Dahej	181	217	(16.6)	206	(12.1)
Kochi	9	9	-	13	(30.8)

Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

### Earnings call highlights

- Due to the Ind-AS impact, PLNG had a Rs 1.8bn QoQ benefit which mainly offset operating expenses. Also, a couple of other expenses were one-off in the last quarter (CSR, inventory loss) which led to a better QoQ performance.
- The MoU with Tellurian is valid until the end of Dec’20. Management did not comment further on this matter.
- Capex for FY21 is planned at Rs 3.5bn. Further, two tanks (taking the total to eight) and a jetty (the third for the company) at Dahej terminal will incur capex of Rs 12bn and Rs 13bn respectively.
- Kochi terminal is expected to have 5% YoY escalation in tariffs, like Dahej. For FY21, tariff at this terminal is at Rs 83.1/mmbtu (after the 5% escalation). Management would like to retain this level of tariffs at Kochi.

## Valuation methodology

Utilisation levels at Dahej have rebounded to ~103% since June, implying a better earnings outlook from Q2FY21. The demand outlook is robust, especially from the power sector, as LNG prices remain attractive given benign oil prices.

At 11.3x FY22E EPS, 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. On rollover to Sep'21, we revise our target price to Rs 310 (from Rs 305). Maintain BUY.

### FIG 4 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Var (%)	Old	New	Var (%)	New
Revenue	219,933	220,228	0.1	267,595.2	268,526	0.3	274,690
EBITDA	42,843	43,138	0.7	51,383.2	52,314	1.8	56,598
EBITDA margin (%)	19.5	19.6	-	19.2	19.5	-	20.6
PAT	26,596	26,817	0.8	33,144	33,844	2.1	37,449
PAT margin (%)	12.1	12.2	-	12.4	12.6	-	13.6
EPS (Rs)	17.7	17.9	0.8	22.1	22.6	2.1	25.0

Source: BOBCAPS Research

### FIG 5 – VALUATION SNAPSHOT

Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	203,677	28,951	232,628
Terminal value (Rs mn)	173,573	20,367	193,940
EV (Rs mn)	377,250	49,318	426,568
<b>EV (Rs/share)</b>	<b>251</b>	<b>33</b>	<b>284</b>
Add: Net cash, other investments (Rs mn)			37,552
<b>Equity value (Rs mn)</b>			<b>464,120</b>
<b>Equity value (Rs/share)</b>			<b>310</b>

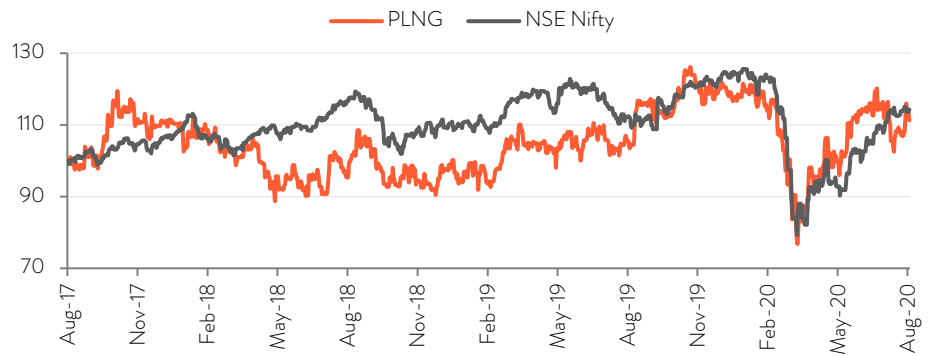
Source: BOBCAPS Research

### FIG 6 – 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)	82	86.1	90.4
<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

**FIG 7 – 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 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	FY20P	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>383,954</b>	<b>354,520</b>	<b>220,228</b>	<b>268,526</b>	<b>274,690</b>
EBITDA	32,935	39,895	43,138	52,314	56,598
Depreciation	(4,112)	(7,761)	(10,132)	(10,504)	(10,887)
EBIT	28,822	32,133	33,006	41,810	45,710
Net interest income/(expenses)	(989)	(4,032)	(747)	(261)	0
Other income/(expenses)	4,503	3,726	3,593	3,697	4,355
EBT	32,336	31,827	35,851	45,246	50,066
Income taxes	(10,782)	(4,131)	(9,035)	(11,402)	(12,617)
<b>Reported net profit</b>	<b>21,554</b>	<b>27,697</b>	<b>26,817</b>	<b>33,844</b>	<b>37,449</b>
<b>Adjusted net profit</b>	<b>21,554</b>	<b>27,697</b>	<b>26,817</b>	<b>33,844</b>	<b>37,449</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	12,952	11,661	12,430	12,430	12,430
Other current liabilities	11,724	12,394	9,785	11,496	11,596
Provisions	278	330	330	330	330
Debt funds	11,873	10,802	5,802	0	0
Other liabilities	13,029	43,580	40,521	37,462	34,403
Equity capital	15,000	15,000	15,000	15,000	15,000
Reserves & surplus	87,305	91,919	96,773	102,898	118,440
Shareholders' fund	102,305	106,919	111,773	117,898	133,440
<b>Total liabilities and equities</b>	<b>152,161</b>	<b>185,685</b>	<b>180,640</b>	<b>179,615</b>	<b>192,198</b>
Cash and cash eq.	29,603	44,320	48,474	47,475	64,464
Accounts receivables	13,825	16,026	12,484	15,267	15,620
Inventories	5,694	4,809	6,667	6,667	6,667
Other current assets	3,230	4,565	3,053	3,458	3,508
Investments	18,033	4,034	2,263	3,655	3,831
Net fixed assets	78,295	111,884	107,299	102,695	97,707
CWIP	3,482	47	400	400	400
<b>Total assets</b>	<b>152,161</b>	<b>185,685</b>	<b>180,640</b>	<b>179,615</b>	<b>192,198</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	25,667	35,458	36,949	44,348	48,336
Changes in working capital	(7,924)	(3,221)	1,356	(1,477)	(303)
Other operating cash flows	(1,955)	(6,566)	(3,313)	(3,417)	(3,588)
<b>Cash flow from operations</b>	<b>15,788</b>	<b>25,671</b>	<b>34,992</b>	<b>39,454</b>	<b>44,445</b>
Capital expenditures	19,799	(23,917)	(4,129)	(7,291)	(6,077)
Other investing cash flows	4,503	3,726	3,593	3,697	4,355
<b>Cash flow from investing</b>	<b>24,302</b>	<b>(20,191)</b>	<b>(536)</b>	<b>(3,595)</b>	<b>(1,722)</b>
Debt raised/repaid	(2,658)	32,319	(8,339)	(9,141)	(3,339)
Dividends paid	(17,550)	(21,938)	(21,963)	(27,718)	(21,908)
Other financing cash flows	1,096	(424)	0	0	0
<b>Cash flow from financing</b>	<b>(19,112)</b>	<b>9,958</b>	<b>(30,302)</b>	<b>(36,859)</b>	<b>(25,247)</b>
<b>Changes in cash and cash eq.</b>	<b>20,978</b>	<b>15,438</b>	<b>4,154</b>	<b>(999)</b>	<b>17,477</b>
<b>Closing cash and cash eq.</b>	<b>29,603</b>	<b>45,041</b>	<b>48,474</b>	<b>47,475</b>	<b>64,951</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	14.4	18.5	17.9	22.6	25.0
Adjusted EPS	14.4	18.5	17.9	22.6	25.0
Dividend per share	10.0	12.5	12.5	15.8	12.5
Book value per share	68.2	71.3	74.5	78.6	89.0

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	1.0	1.1	1.6	1.3	1.2
EV/EBITDA	12.0	9.4	8.2	6.6	5.9
Adjusted P/E	17.7	13.8	14.2	11.3	10.2
P/BV	3.7	3.6	3.4	3.2	2.9

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	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	108.6	108.2	109.5
EBIT margin (EBIT/Revenue)	7.5	9.1	15.0	15.6	16.6
Asset turnover (Revenue/Avg TA)	248.8	209.9	120.2	149.1	147.8
Leverage (Avg TA/Avg Equity)	1.5	1.6	1.7	1.6	1.5
Adjusted ROAE	21.6	26.5	24.5	29.5	29.8

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	25.5	(7.7)	(37.9)	21.9	2.3
EBITDA	(0.6)	21.1	8.1	21.3	8.2
Adjusted EPS	3.7	28.5	(3.2)	26.2	10.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.6	11.3	19.6	19.5	20.6
EBIT margin	7.5	9.1	15.0	15.6	16.6
Adjusted profit margin	5.6	7.8	12.2	12.6	13.6
Adjusted ROAE	21.6	26.5	24.5	29.5	29.8
ROCE	17.0	24.1	21.0	26.6	27.2
<b>Working capital days (days)</b>					
Receivables	14	15	24	19	21
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	3.1	3.0	3.7
Net interest coverage ratio	29.1	8.0	44.2	160.1	-
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%

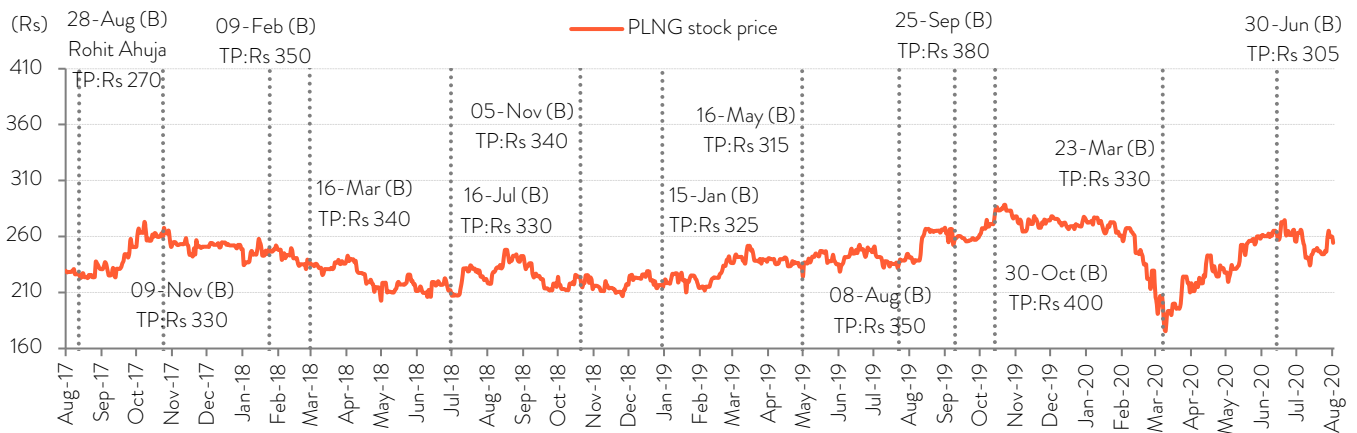
**ADD** – Expected return from >+5% to +15%

**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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