

BUY

TP: Rs 400 | ▲ 40%

PETRONET LNG

Oil & Gas

30 October 2019

Volumes and margins surge

Petronet LNG's (PLNG) Q2FY20 EBITDA surged to Rs 11.6bn (+31% YoY), as volumes rose to 250tbtu (+15% YoY, +11% QoQ). Despite capacity expansion, Dahej terminal utilisation has scaled up to 108%. EBITDA/mmbtu increased to Rs 46.4 (+14% YoY, 2.5% QoQ) on advantages of scale, trending well above estimates. We upgrade FY21/FY22 EPS by 18%/3% on higher margins and volumes. Our FY20 earnings upgrade (+23%) is driven by tax adjustments. Maintain BUY with a revised Sep'20 TP of Rs 400 (vs. Rs 380).

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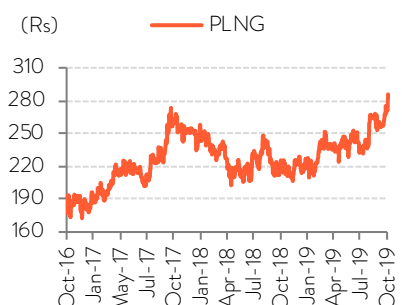
Buoyant volume outlook: PLNG's Q2 volumes beat estimates following a surge in service volumes (129tbtu, +47% YoY), while spot LNG offtake remained muted at 7tbtu. Management clarified that long-term volume offtake remains stable (both from Qatar and Australia), despite the wide price gap between spot and long-term contracts. Management expects to sustain Dahej terminal utilisation at >100% levels, while the Kochi terminal could ramp up from Q4FY20 after commissioning of the Kochi-Mangalore pipeline by GAIL.

Ticker/Price	PLNG IN/Rs 286
Market cap	US\$ 6.0bn
Shares o/s	1,500mn
3M ADV	US\$ 13.6mn
52wk high/low	Rs 299/Rs 203
Promoter/FPI/DII	50%/27%/23%

Source: NSE

EBITDA margins improve on high utilisation: EBITDA/ mmbtu swelled 14% YoY to Rs 46.4 led by a surge in utilisation levels at Dahej and lower operating costs following a crash in spot LNG prices. However, margins may reduce or at best stay at current levels in H2FY20 as there could be some volume loss to the Dabhol terminal (which resumes post monsoon). Management indicated that Kochi tariffs could be revised down by ~25% from FY21 on assurance of higher offtake (~40% as per our analysis).

STOCK PERFORMANCE



Source: NSE

Maintain BUY: PLNG's earnings visibility remains buoyant backed by >100% utilisation at Dahej, while the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks by FY23.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	305,986	383,954	405,806	491,243	494,655
EBITDA (Rs mn)	33,124	32,935	45,420	51,364	53,226
Adj. net profit (Rs mn)	20,779	21,554	32,617	35,664	37,994
Adj. EPS (Rs)	13.9	14.4	21.7	23.8	25.3
Adj. EPS growth (%)	21.8	3.7	51.3	9.3	6.5
Adj. ROAE (%)	23.3	21.6	29.9	28.9	27.0
Adj. P/E (x)	20.6	19.9	13.1	12.0	11.3
EV/EBITDA (x)	13.5	13.2	9.0	7.7	7.2

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Net sales	93,612	1,07,453	(12.9)	86,134	8.7	1,79,746	1,99,145	(9.7)
Cost of Goods	80,229	96,950	(17.2)	74,182	8.2	1,54,411	1,77,794	(13.2)
% of sales	85.7	90.2	-	86.1	-	85.9	89.3	-
Other expenditure	1,778	1,666	6.7	1,714	3.7	3,492	3,170	10.1
% of sales	1.9	1.6	-	2.0	-	1.9	1.6	-
EBITDA	11,605	8,837	31.3	10,239	13.3	21,844	18,181	20.1
EBITDA margin (%)	12.4	8.2	-	11.9	-	12.2	9.1	-
EBITDA/mmbtu (Rs)	46.4	40.7	14.0	45.3	2.5	45.9	41.6	10.4
Blended margin (Rs/mmbtu)	53.5	48.4	10.6	52.9	1.2	53.2	48.8	9.0
Depreciation & amortization	1,960	1,037	89.0	1,899	3.2	3,859	2,059	87.4
Interest	1,051	249	322.4	1,005	4.6	2,057	549	274.9
Other income	975	1,115	(12.5)	1,044	(6.6)	2,019	2,105	(4.1)
Exceptional item (as reported)	721	-	-	-	-	-	-	-
PBT	8,848	8,666	2.1	8,379	5.6	17,948	17,678	1.5
Provision for tax	(2,184)	3,037	(171.9)	2,777	(178.6)	593	6,179	(90.4)
Effective tax rate	(24.7)	35.0	-	33.1	-	3.3	35.0	-
Adj. PAT	11,031	5,629	96.0	5,603	96.9	17,355	11,499	50.9
NPM (%)	11.8	5.2	-	6.5	-	9.7	5.8	-
Adj. EPS	7.4	3.8	96.0	3.7	96.9	11.6	7.7	50.9

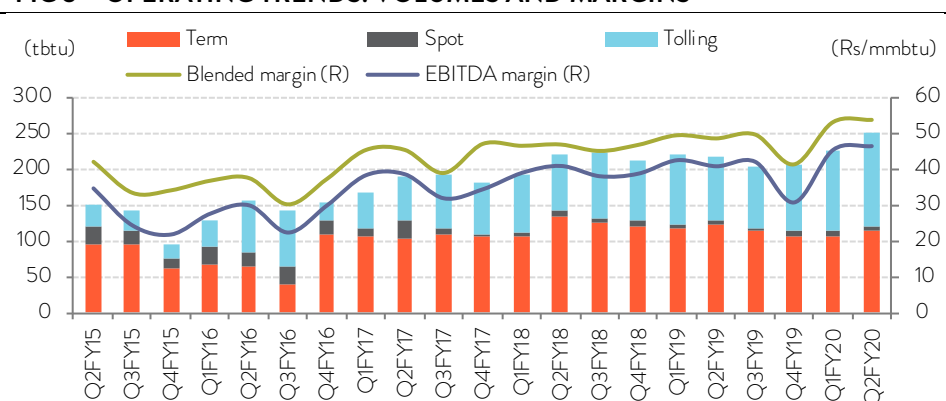
Source: Company, BOBCAPS Research

FIG 2 – VOLUME PROFILE

Volumes (tbtu)	Q2FY20	Q2FY19	YoY (%)	Q1FY20E	QoQ (%)	H1FY20	H1FY19	YoY (%)
Long-term contracts	114	122	(6.6)	107	6.5	221	240	(7.9)
Dahej	109	116	(6.0)	100	9.0	209	228	(8.3)
Kochi	5	6	(16.7)	7	(28.6)	12	12	-
Spot contracts	7	7	(0.3)	6	16.7	13	12	6.4
Dahej	5	7	(28.6)	5	-	10	12	(16.7)
Kochi	2	0	-	1	100.0	3	0	-
Regasification services	129	88	46.6	113	14.2	242	185	30.8
Dahej	126	88	43.2	112	12.5	238	185	28.6
Kochi	3	-	-	1	-	4	-	-
Total volumes	250	217	15.2	226	10.6	476	437	8.9
Dahej	240	211	13.7	217	10.6	457	425	7.5
Kochi	10	6	66.1	9	11.1	19	12	55.5

Source: Company, BOBCAPS Research

FIG 3 – OPERATING TRENDS: VOLUMES AND MARGINS



Source: Company, BOBCAPS Research

Earnings call highlights

Dahej terminal

- Regas tariffs for Q2FY20 stood at Rs 49.7/mmbtu and will be hiked 5% in January (as done every year).
- The capex plan toward new storage tanks will add 2mmtpa of capacity and is on track, being currently at the tendering stage. The tanks are to be commissioned by FY23.
- Inventory loss on spot LNG incurred in Q4FY19 may not be reversed as prices continue to trend lower.
- Management expects to sustain high utilisation levels (108%) at Dahej given the subdued spot LNG prices. Demand from the power sector could pick up.

Kochi terminal

- Management expects the Kochi–Mangalore pipeline to be completed by Dec'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, PLNG expects volumes to improve to 1.2mmtpa in FY20 and further to ~2mmtpa by FY21.
- The company took a 5% hike in regasification tariffs at Kochi in Apr'19.
- Current tariffs (at Rs 104/mmbtu) are based on current capacity utilisation of ~10%. As utilisation improves on commissioning of the pipeline, tariffs could be reset downward (by ~25% as per management)
- Management does not view the incremental domestic gas volumes of 30-40mmscmd 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

- PLNG's dividend policy assures a minimum payout based on 30% of earnings or 5% of net worth, whichever is higher.
- Capex for FY20 is pegged at ~Rs 4.5bn (Rs 1.5bn incurred in H1FY20).
- The Tellurian investment structure is likely to be finalised by Mar'20, though timelines could extend to June. An independent consultant has been appointed to evaluate the deal.

Valuation methodology

We upgrade our FY21/FY22 EPS estimates by 18%/3% on higher margins and volumes in Q2FY20. Our FY20 earnings upgrade (+23%) is driven by tax adjustments. Maintain BUY with a revised Sep'20 target price of Rs 400 (earlier Rs 380). PLNG's earnings visibility remains buoyant backed by >100% utilisation at Dahej, while the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks by FY23.

FIG 4 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	4,39,048	4,05,806	(7.6)	5,26,425	4,91,243	(6.7)	5,33,488.3	4,94,655	(7.3)
EBITDA	44,312	45,420	2.5	49,662	51,364	3.4	55,191.6	53,226	(3.6)
EBITDA margin (%)	10.1	11.2	-	9.4	10.5	-	10.3	10.8	-
PAT	26,455	32,617	23.3	30,123	35,664	18.4	36,796.5	37,994	3.3
PAT margin (%)	6.0	8.0	-	5.7	7.3	-	6.9	7.7	-
EPS (Rs)	17.6	21.7	23.3	20.1	23.8	18.4	24.5	25.3	3.3

Source: Company, BOBCAPS Research

FIG 5 – VALUATION SNAPSHOT

Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	236,477	29,543	266,020
Terminal value (Rs mn)	251,266	22,971	274,236
EV (Rs mn)	487,743	52,513	540,256
EV (Rs/share)	325	35	360
Add: Net cash, other investments (Rs mn)			55,235
Equity value (Rs mn)			595,792
Equity value (Rs/share)			400

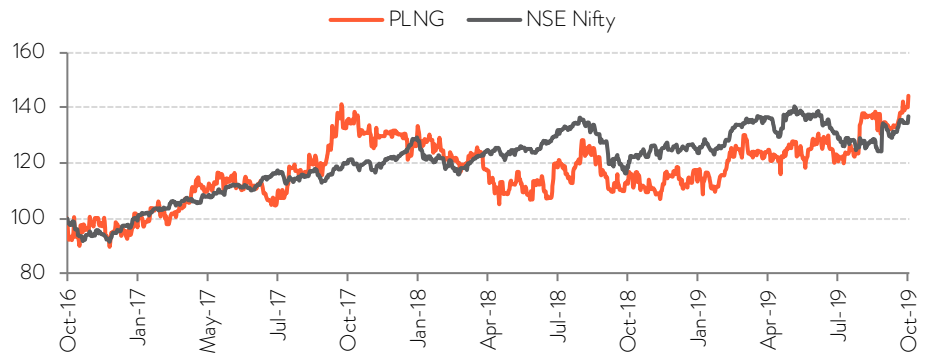
Source: BOBCAPS Research

FIG 6 – KEY ASSUMPTIONS

	FY20E	FY21E	FY22E
Dahej terminal			
Volumes (mmtpa)	18.0	19.0	19.3
Re-gas tariffs (Rs/mmbtu)	49.9	52.4	54.3
Kochi terminal			
Volumes (mmtpa)	1.50	2.20	2.20
Re-gas tariffs (Rs/mmbtu)	89.2	80.2	76.2
Total volumes (mmtpa)	19.3	21.0	21.5
Blended EBITDA (Rs/mmbtu)	44.2	46.6	51.8
Blended re-gas tariffs (Rs/mmbtu)	52.9	57.3	62.6

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, 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	FY19A	FY20E	FY21E	FY22E
Total revenue	305,986	383,954	405,806	491,243	494,655
EBITDA	33,124	32,935	45,420	51,364	53,226
Depreciation	(4,117)	(4,112)	(7,712)	(8,095)	(8,479)
EBIT	29,007	28,822	37,709	43,269	44,747
Net interest income/(expenses)	(1,630)	(989)	(1,429)	(1,564)	(669)
Other income/(expenses)	3,174	4,503	4,491	5,974	6,716
EBT	30,551	32,336	40,771	47,680	50,794
Income taxes	(9,773)	(10,782)	(8,154)	(12,015)	(12,800)
Reported net profit	20,779	21,554	32,617	35,664	37,994
Adjusted net profit	20,779	21,554	32,617	35,664	37,994

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	15,699	12,952	22,548	24,234	24,234
Other current liabilities	18,422	11,724	20,146	23,685	23,769
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	100,841	115,641	135,854
Shareholders' fund	97,205	102,305	115,841	130,641	150,854
Total liabilities and equities	156,537	152,161	191,995	207,301	213,005
Cash and cash eq.	8,625	29,603	52,720	62,113	69,986
Accounts receivables	16,505	13,825	23,136	27,923	28,172
Inventories	4,911	5,694	8,056	8,287	8,287
Other current assets	2,775	3,230	4,572	5,268	5,303
Investments	41,222	18,033	22,689	25,082	25,207
Net fixed assets	80,296	78,295	80,423	78,228	75,649
CWIP	2,203	3,482	400	400	400
Total assets	156,537	152,161	191,995	207,301	213,005

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	24,777	25,667	40,328	43,760	46,473
Changes in working capital	3,210	(7,924)	5,003	(489)	(201)
Other operating cash flows	6	(1,955)	(4,211)	(5,694)	(6,436)
Cash flow from operations	27,993	15,788	41,121	37,576	39,835
Capital expenditures	(13,653)	19,799	(11,414)	(8,294)	(6,025)
Other investing cash flows	3,174	4,503	4,491	5,974	6,716
Cash flow from investing	(10,479)	24,302	(6,923)	(2,319)	692
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)	(19,081)	(20,864)	(17,781)
Other financing cash flows	(4,115)	1,096	0	0	0
Cash flow from financing	(12,162)	(19,112)	(11,081)	(25,864)	(32,654)
Changes in cash and cash eq.	5,352	20,978	23,117	9,393	7,873
Closing cash and cash eq.	8,625	29,603	52,720	62,113	69,986

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	13.9	14.4	21.7	23.8	25.3
Adjusted EPS	13.9	14.4	21.7	23.8	25.3
Dividend per share	4.5	10.0	10.9	11.9	10.1
Book value per share	64.8	68.2	77.2	87.1	100.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.5	1.1	1.0	0.8	0.8
EV/EBITDA	13.5	13.2	9.0	7.7	7.2
Adjusted P/E	20.6	19.9	13.1	12.0	11.3
P/BV	4.4	4.2	3.7	3.3	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	68.0	66.7	80.0	74.8	74.8
Interest burden (PBT/EBIT)	105.3	112.2	108.1	110.2	113.5
EBIT margin (EBIT/Revenue)	9.5	7.5	9.3	8.8	9.0
Asset turnover (Revenue/Avg TA)	207.6	248.8	235.8	246.1	235.4
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.6	1.6	1.5
Adjusted ROAE	23.3	21.6	29.9	28.9	27.0

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	24.3	25.5	5.7	21.1	0.7
EBITDA	27.8	(0.6)	37.9	13.1	3.6
Adjusted EPS	21.8	3.7	51.3	9.3	6.5
Profitability & Return ratios (%)					
EBITDA margin	10.8	8.6	11.2	10.5	10.8
EBIT margin	9.5	7.5	9.3	8.8	9.0
Adjusted profit margin	6.8	5.6	8.0	7.3	7.7
Adjusted ROAE	23.3	21.6	29.9	28.9	27.0
ROCE	18.4	17.0	24.1	23.0	22.6
Working capital days (days)					
Receivables	17	14	17	19	21
Inventory	7	6	7	7	7
Payables	17	15	18	19	20
Ratios (x)					
Gross asset turnover	2.8	3.5	3.5	3.9	3.8
Current ratio	1.0	2.1	2.1	2.1	2.3
Net interest coverage ratio	17.8	29.1	26.4	27.7	66.9
Adjusted debt/equity	0.1	(0.2)	(0.3)	(0.4)	(0.5)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

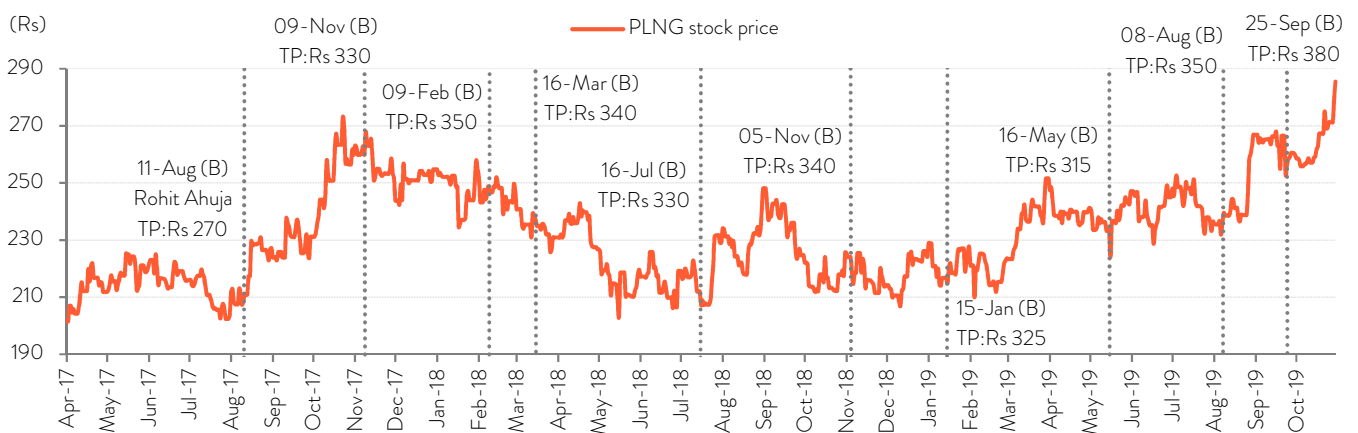
ADD – Expected return from >+5% to +15%

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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