

BUY

TP: Rs 330 | ▲ 37%

PETRONET LNG

| Oil & Gas

| 12 November 2020

Margins buoyant, volumes normalise

Petronet LNG's (PLNG) Q2FY21 EBITDA outperformed our estimates at Rs 13.6bn (+17.5% YoY). Q2 highlights: (a) volumes beat expectations (+1.6% YoY), and (b) EBITDA/mmbtu surged to Rs 53.7 (+15.6% YoY). Utilisation at Dahej improved to 107%, recovering to pre-Covid levels. We raise FY21/FY22/FY23 earnings by 7%/2%/2% to factor in higher margins, despite trimming tariffs at Kochi. Our Sep'21 TP stands revised to Rs 330 (from Rs 310). Valuations look undemanding at 10.5x FY22E EPS.

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Volumes claw back to normal, outlook improving: Volumes across categories increased 34% QoQ to 254tbtu aided by a decline in LNG prices. While spot LNG prices have currently doubled to US\$ 7/mmbtu (from ~US\$ 3.5 in Q2), long-term prices remain benign at ~US\$ 5.6. Utilisation levels at Dahej/Kochi improved to 107%/17% in Q2. Kochi volumes could improve further from Q3 as GAIL commissions its Kochi-Mangaluru pipeline.

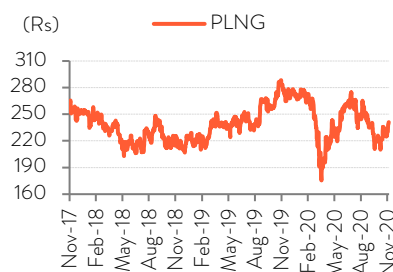
EBITDA margins buoyant: EBITDA/mmbtu outperformed at Rs 53.7 (+15.6% YoY), driven by scale advantage from higher utilisation levels. These margins could decline slightly in case of any downward revision in Kochi regasification tariffs. With negotiations on Kochi tariffs still underway, we factor in the uncertainty by cutting our base tariff estimate for the terminal to Rs 72/mmbtu (from Rs 83 earlier) from FY21.

High earnings visibility: PLNG's earnings visibility remains robust 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 ~2mtpa) through the addition of storage tanks and a jetty at Dahej terminal by FY23.

| | |
|------------------|----------------|
| Ticker/Price | PLNG IN/Rs 241 |
| Market cap | US\$ 4.9bn |
| Shares o/s | 1,500mn |
| 3M ADV | US\$ 13.1mn |
| 52wk high/low | Rs 285/Rs 170 |
| Promoter/FPI/DII | 50%/28%/22% |

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|---------|---------|---------|---------|---------|
| Total revenue (Rs mn) | 383,954 | 354,520 | 221,117 | 267,439 | 273,524 |
| EBITDA (Rs mn) | 32,935 | 39,895 | 45,020 | 52,445 | 56,892 |
| Adj. net profit (Rs mn) | 21,554 | 27,697 | 28,766 | 34,554 | 38,242 |
| Adj. EPS (Rs) | 14.4 | 18.5 | 19.2 | 23.0 | 25.5 |
| Adj. EPS growth (%) | 3.7 | 28.5 | 3.9 | 20.1 | 10.7 |
| Adj. ROAE (%) | 21.8 | 26.4 | 25.7 | 29.3 | 29.7 |
| Adj. P/E (x) | 16.8 | 13.0 | 12.6 | 10.5 | 9.5 |
| EV/EBITDA (x) | 11.4 | 8.9 | 7.5 | 6.1 | 5.5 |

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

| Y/E March (Rs mn) | Q2FY21 | Q2FY20 | YoY (%) | Q1FY21 | QoQ (%) | H1FY21 | H1FY20 | YoY (%) |
|-----------------------------|---------------|---------------|---------------|---------------|-------------|----------------|----------------|---------------|
| Net sales | 62,358 | 93,612 | (33.4) | 48,836 | 27.7 | 111,194 | 179,746 | (38.1) |
| Cost of Goods | 47,199 | 80,229 | (41.2) | 38,365 | 23.0 | 85,565 | 154,411 | (44.6) |
| % of sales | 75.7 | 85.7 | - | 78.6 | - | 77.0 | 85.9 | - |
| Other expenditure | 1,526 | 1,778 | (14.1) | 1,371 | 11.3 | 2,897 | 3,492 | (17.0) |
| % of sales | 2.4 | 1.9 | - | 2.8 | - | 2.6 | 1.9 | - |
| EBITDA | 13,632 | 11,605 | 17.5 | 9,099 | 49.8 | 22,732 | 21,844 | 4.1 |
| EBITDA margin (%) | 21.9 | 12.4 | - | 18.6 | - | 20.4 | 12.2 | - |
| EBITDA/mmbtu (Rs) | 53.7 | 46.4 | 15.6 | 47.9 | 12.1 | 51.2 | 45.9 | 11.6 |
| Blended margin (Rs/mmbtu) | 59.7 | 53.5 | 11.5 | 55.1 | 8.3 | 57.7 | 53.2 | 8.4 |
| Depreciation & amortization | 1,952 | 1,960 | (0.4) | 1,936 | 0.8 | 3,888 | 3,859 | 0.7 |
| Interest | 850 | 1,051 | (19.1) | 881 | (3.5) | 1,732 | 2,057 | (15.8) |
| Other income | 1,596 | 975 | 63.6 | 684 | 133.3 | 2,279 | 2,019 | 12.9 |
| PBT | 12,426 | 8,848 | 40.4 | 6,966 | 78.4 | 19,392 | 17,227 | 12.6 |
| Provision for tax | 3,153 | (2,184) | (244.4) | 1,764 | 78.8 | 4,916 | 593 | 729.2 |
| Effective tax rate | 25.4 | (24.7) | - | 25.3 | - | 25.4 | 3.4 | - |
| Reported PAT | 9,273 | 11,031 | (15.9) | 5,202 | 78.2 | 14,475 | 16,634 | (13.0) |
| NPM (%) | 14.9 | 11.8 | - | 10.7 | - | 13.0 | 9.3 | - |
| Reported EPS | 6.2 | 7.4 | (15.9) | 3.5 | 78.2 | 9.7 | 11.1 | (13.0) |

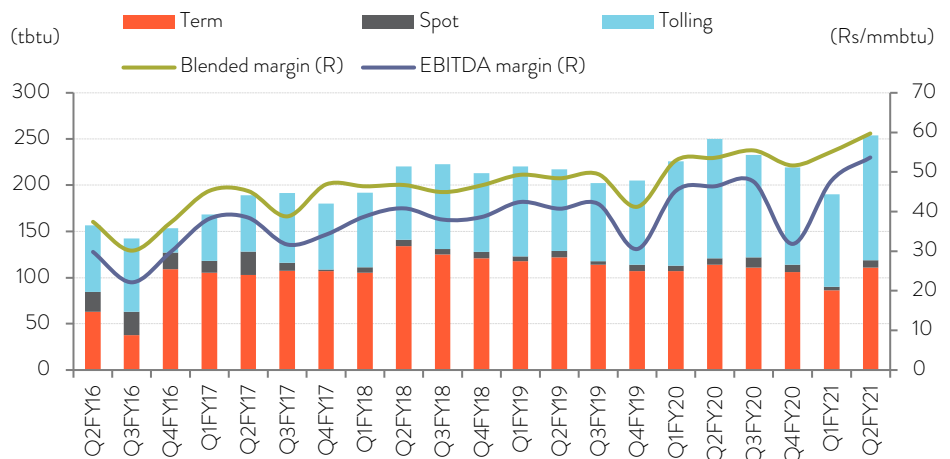
Source: Company, BOBCAPS Research

FIG 2 – VOLUME PROFILE

| Volumes (tbtu) | Q2FY21 | Q2FY20 | YoY (%) | Q1FY21 | QoQ (%) | H1FY21 | H1FY20 | YoY (%) |
|--------------------------------|------------|------------|--------------|------------|--------------|------------|------------|---------------|
| Long term contracts | 111 | 114 | (2.6) | 86 | 29.1 | 197 | 221 | (10.9) |
| Dahej | 103 | 109 | (5.5) | 78 | 32.1 | 181 | 209 | (13.4) |
| Kochi | 8 | 5 | 60.0 | 8 | - | 16 | 12 | 33.3 |
| Spot | 8 | 7 | 14.3 | 4 | 100.0 | 15 | 13 | 15.4 |
| Dahej | 5 | 5 | - | 3 | 66.7 | 11 | 10 | 10.0 |
| Kochi | 3 | 2 | 50.0 | 1 | 200.0 | 4 | 3 | 33.3 |
| Regasification services | 135 | 129 | 4.7 | 100 | 35.0 | 235 | 242 | (2.9) |
| Dahej | 135 | 126 | 7.1 | 100 | 35.0 | 235 | 238 | (1.3) |
| Kochi | - | 3 | - | - | - | - | 4 | - |
| Total Volumes | 254 | 250 | 1.6 | 190 | 33.7 | 447 | 476 | (6.1) |
| Dahej | 243 | 240 | 1.3 | 181 | 34.3 | 427 | 457 | (6.6) |
| Kochi | 11 | 10 | 10.0 | 9 | 22.2 | 20 | 19 | 5.3 |

Source: Company, BOBCAPS Research

FIG 3 – OPERATING TRENDS: VOLUMES AND MARGINS



Source: Company, BOBCAPS Research

Earnings call highlights

- PLNG intends to maintain high dividend payout (Rs 8/sh interim dividends announced).
- The Tellurian deal has made no progress as it always was a non-binding agreement. Additionally, with the LNG market in the midst of a supply glut, management does not see the benefit of entering into a long-term agreement for now.
- Management continues to evaluate new projects on the east coast, in Sri Lanka and Bangladesh. However, the current priority would be to ramp up Kochi volumes. Capex for H2FY21 is likely to be at Rs 1.1bn.
- GAIL plans to extend the Kochi-Mangaluru pipeline to Bengaluru over 3-4 years, raising the long-term volumes prospects for PLNG' Kochi terminal.
- Kochi tariffs are being renegotiated and could need Board intervention to arrive at a consensus. However, tariffs are unlikely to fall below Rs 75/mmbtu, per management calculations.
- Operating costs in H2FY21 are likely to be at the same level or marginally higher than H1.
- Gorgon volumes at Dahej terminal stood at 7.5tbtu in Q2.

Valuation methodology

Utilisation levels at PLNG’s Dahej/Kochi terminals improved to 107%/17% in Q2FY21. Kochi volumes could improve further from Q3 as GAIL commissions its Kochi-Mangaluru pipeline. But with negotiations on tariffs still underway, we factor in the uncertainty by cutting our base tariff estimate for the Kochi terminal to Rs 72/mmbtu (from Rs 83 earlier) from FY21. We raise FY21/FY22/FY23 earnings estimates by 7%/2%/2% to factor in higher margins, despite trimming tariff assumptions. Our Sep’21 target price stands revised to Rs 330 (from Rs 310).

At 10.5x FY22E EPS, PLNG’s 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. Maintain BUY.

FIG 4 – REVISED ESTIMATES

| (Rs mn) | FY21E | | | FY22E | | | FY23E | | |
|-------------------|---------|---------|---------|-----------|---------|---------|---------|---------|---------|
| | Old | New | Var (%) | Old | New | Var (%) | Old | New | Var (%) |
| Revenue | 220,228 | 221,117 | 0.4 | 268,525.9 | 267,439 | (0.4) | 274,690 | 273,524 | (0.4) |
| EBITDA | 43,138 | 45,020 | 4.4 | 52,313.9 | 52,445 | 0.3 | 56,598 | 56,892 | 0.5 |
| EBITDA margin (%) | 19.6 | 20.4 | - | 19.5 | 19.6 | - | 20.6 | 20.8 | - |
| PAT | 26,817 | 28,766 | 7.3 | 33,844 | 34,554 | 2.1 | 37,449 | 38,242 | 2.1 |
| PAT margin (%) | 12.2 | 13.0 | - | 12.6 | 12.9 | - | 13.6 | 14.0 | - |
| EPS (Rs) | 17.9 | 19.2 | 7.3 | 22.6 | 23.0 | 2.1 | 25.0 | 25.5 | 2.1 |

Source: Company, BOBCAPS Research

FIG 5 – VALUATION SNAPSHOT

| Particulars | Dahej terminal | Kochi terminal | Total |
|--|----------------|----------------|----------------|
| NPV of FCFE (Rs mn) | 215,989 | 24,368 | 240,357 |
| Terminal value (Rs mn) | 198,939 | 17,665 | 216,604 |
| EV (Rs mn) | 414,928 | 42,033 | 456,961 |
| EV (Rs/share) | 251 | 28 | 305 |
| Add: Net cash, other investments (Rs mn) | | | 37,552 |
| Equity value (Rs mn) | | | 434,514 |
| Equity value (Rs/share) | | | 330 |

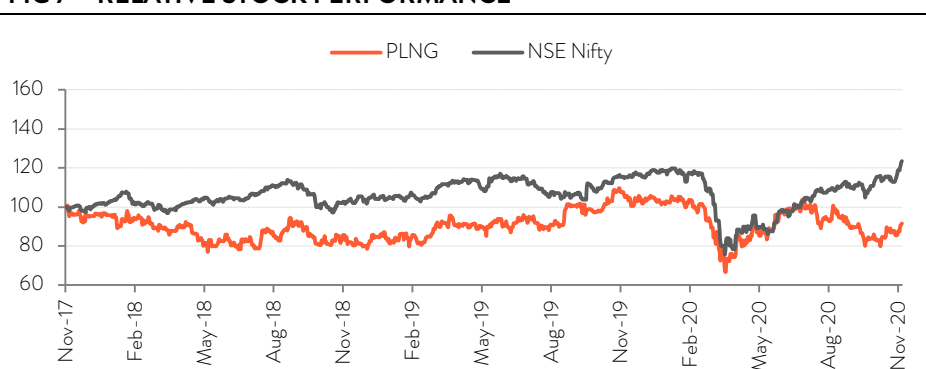
Source: BOBCAPS Research

FIG 6 – KEY ASSUMPTIONS

| | FY21E | FY22E | FY23E |
|-----------------------------------|-------------|-------------|-------------|
| Dahej terminal | | | |
| Volumes (mmtpa) | 17.0 | 18.8 | 18.8 |
| Re-gas tariffs (Rs/mmbtu) | 52.5 | 54.0 | 56.7 |
| Kochi terminal | | | |
| Volumes (mmtpa) | 0.8 | 2.2 | 2.2 |
| Re-gas tariffs (Rs/mmbtu) | 72.3 | 75.8 | 79.6 |
| Total volumes (mmtpa) | 17.8 | 21.0 | 21.0 |
| 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 derating 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 | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total revenue | 383,954 | 354,520 | 221,117 | 267,439 | 273,524 |
| EBITDA | 32,935 | 39,895 | 45,020 | 52,445 | 56,892 |
| Depreciation | (4,112) | (7,761) | (10,034) | (10,374) | (10,822) |
| EBIT | 28,822 | 32,133 | 34,986 | 42,071 | 46,070 |
| Net interest income/(expenses) | (989) | (4,032) | (737) | (258) | 0 |
| Other income/(expenses) | 4,503 | 3,726 | 4,208 | 4,381 | 5,056 |
| EBT | 32,336 | 31,827 | 38,457 | 46,195 | 51,126 |
| Income taxes | (10,782) | (4,131) | (9,691) | (11,641) | (12,884) |
| Reported net profit | 21,554 | 27,697 | 28,766 | 34,554 | 38,242 |
| Adjusted net profit | 21,554 | 27,697 | 28,766 | 34,554 | 38,242 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Accounts payables | 12,952 | 11,661 | 12,430 | 12,430 | 12,430 |
| Other current liabilities | 11,724 | 12,394 | 9,732 | 11,431 | 11,519 |
| Provisions | 278 | 330 | 330 | 330 | 330 |
| Debt funds | 11,873 | 10,802 | 5,802 | 0 | 0 |
| Other liabilities | 13,029 | 40,967 | 37,908 | 34,849 | 31,790 |
| Equity capital | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Reserves & surplus | 85,661 | 94,530 | 99,736 | 105,991 | 121,861 |
| Shareholders' fund | 100,661 | 109,530 | 114,736 | 120,991 | 136,861 |
| Total liabilities and equities | 150,517 | 185,683 | 180,937 | 180,030 | 192,929 |
| Cash and cash eq. | 29,603 | 44,320 | 51,699 | 48,809 | 66,057 |
| Accounts receivables | 13,825 | 16,026 | 12,470 | 15,178 | 15,527 |
| Inventories | 5,694 | 4,809 | 6,667 | 6,667 | 6,667 |
| Other current assets | 3,230 | 4,565 | 3,051 | 3,445 | 3,495 |
| Investments | 18,033 | 4,034 | 2,256 | 3,611 | 3,785 |
| Net fixed assets | 76,651 | 111,882 | 104,394 | 101,921 | 96,998 |
| CWIP | 3,482 | 47 | 400 | 400 | 400 |
| Total assets | 150,517 | 185,683 | 180,937 | 180,030 | 192,929 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net income + Depreciation | 25,667 | 35,458 | 38,800 | 44,927 | 49,065 |
| Changes in working capital | (7,924) | (3,221) | 1,319 | (1,403) | (311) |
| Other operating cash flows | (1,955) | (9,179) | (3,928) | (4,101) | (4,289) |
| Cash flow from operations | 15,788 | 23,058 | 36,191 | 39,424 | 44,464 |
| Capital expenditures | 21,443 | (25,558) | (1,122) | (9,254) | (6,074) |
| Other investing cash flows | 4,503 | 3,726 | 4,208 | 4,381 | 5,056 |
| Cash flow from investing | 25,946 | (21,833) | 3,086 | (4,873) | (1,018) |
| Debt raised/repaid | (2,658) | 32,319 | (8,339) | (9,141) | (3,339) |
| Dividends paid | (17,550) | (21,938) | (23,559) | (28,299) | (22,372) |
| Other financing cash flows | (548) | (424) | 0 | 0 | 0 |
| Cash flow from financing | (20,756) | 9,958 | (31,898) | (37,440) | (25,711) |
| Changes in cash and cash eq. | 20,978 | 11,183 | 7,379 | (2,890) | 17,735 |
| Closing cash and cash eq. | 29,603 | 40,786 | 51,699 | 48,809 | 66,544 |

Per Share

| Y/E 31 Mar (Rs) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 14.4 | 18.5 | 19.2 | 23.0 | 25.5 |
| Adjusted EPS | 14.4 | 18.5 | 19.2 | 23.0 | 25.5 |
| Dividend per share | 10.0 | 12.5 | 13.4 | 16.1 | 12.7 |
| Book value per share | 67.1 | 73.0 | 76.5 | 80.7 | 91.2 |

Valuations Ratios

| Y/E 31 Mar (x) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 1.0 | 1.0 | 1.5 | 1.2 | 1.1 |
| EV/EBITDA | 11.4 | 8.9 | 7.5 | 6.1 | 5.5 |
| Adjusted P/E | 16.8 | 13.0 | 12.6 | 10.5 | 9.5 |
| P/BV | 3.6 | 3.3 | 3.2 | 3.0 | 2.6 |

DuPont Analysis

| Y/E 31 Mar (%) | FY19A | FY20A | 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 | 109.9 | 109.8 | 111.0 |
| EBIT margin (EBIT/Revenue) | 7.5 | 9.1 | 15.8 | 15.7 | 16.8 |
| Asset turnover (Revenue/Avg TA) | 250.1 | 210.9 | 120.6 | 148.2 | 146.7 |
| Leverage (Avg TA/Avg Equity) | 1.6 | 1.6 | 1.6 | 1.5 | 1.4 |
| Adjusted ROAE | 21.8 | 26.4 | 25.7 | 29.3 | 29.7 |

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

Ratio Analysis

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|--|-------|-------|--------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 25.5 | (7.7) | (37.6) | 20.9 | 2.3 |
| EBITDA | (0.6) | 21.1 | 12.8 | 16.5 | 8.5 |
| Adjusted EPS | 3.7 | 28.5 | 3.9 | 20.1 | 10.7 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 8.6 | 11.3 | 20.4 | 19.6 | 20.8 |
| EBIT margin | 7.5 | 9.1 | 15.8 | 15.7 | 16.8 |
| Adjusted profit margin | 5.6 | 7.8 | 13.0 | 12.9 | 14.0 |
| Adjusted ROAE | 21.8 | 26.4 | 25.7 | 29.3 | 29.7 |
| ROCE | 17.1 | 24.0 | 21.7 | 26.1 | 26.7 |
| Working capital days (days) | | | | | |
| Receivables | 14 | 15 | 24 | 19 | 20 |
| Inventory | 6 | 6 | 12 | 12 | 12 |
| Payables | 15 | 14 | 25 | 21 | 21 |
| Ratios (x) | | | | | |
| Gross asset turnover | 3.5 | 2.7 | 1.4 | 1.7 | 1.6 |
| Current ratio | 2.1 | 2.9 | 3.3 | 3.1 | 3.8 |
| Net interest coverage ratio | 29.1 | 8.0 | 47.5 | 163.3 | 0.0 |
| 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%

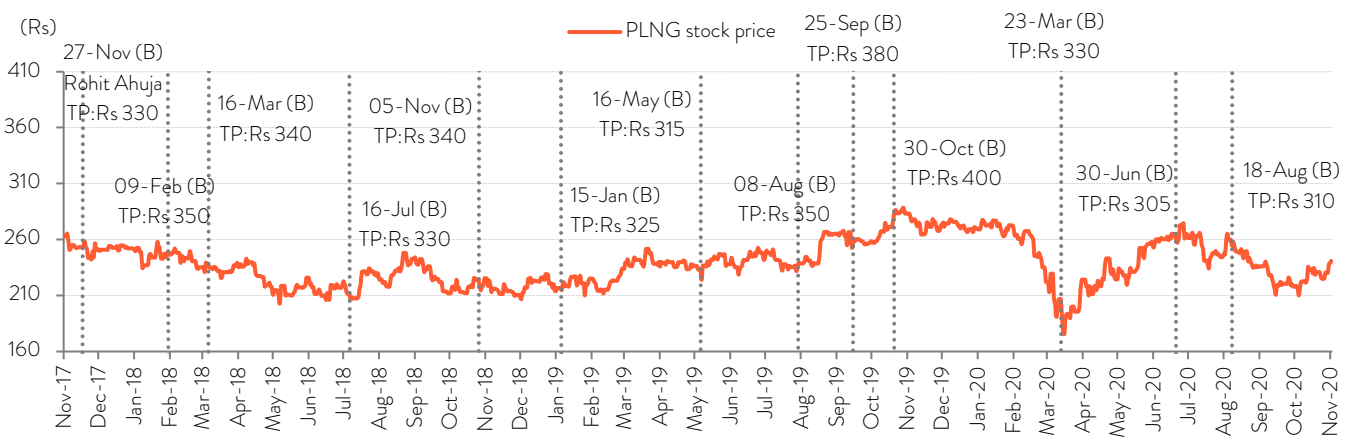
ADD – Expected return from >+5% to +15%

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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