

BUY

TP: Rs 400 | ▲ 52%

PETRONET LNG

Oil & Gas

11 February 2020

Margins improve, volumes underperform

Petronet LNG's (PLNG) Q3FY20 EBITDA surged to Rs 11bn (+31% YoY) on account of higher marketing margins on spot LNG. Volumes at 233tbtu (+15% YoY) were below estimates, but higher EBITDA/mmbtu (+2.4% QoQ) made up for the volume underperformance. The outlook on volumes remains buoyant given sustained low LNG prices and nearing commissioning of the Kochi-Mangaluru pipeline. At 11x FY22E EPS, risk-reward remains favourable. We roll forward to an unchanged Mar'21 TP of Rs 400.

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

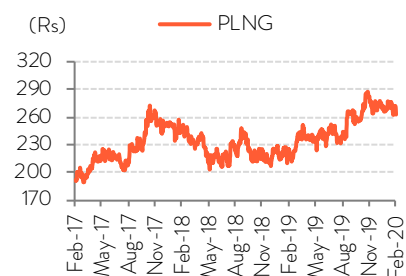
Seasonal volume blip, outlook buoyant: PLNG's Q3 volumes were below estimates due to sub-100% utilisation at Dahej (seasonality factors) and commencement of Dabhol operations. Spot LNG offtake at 11tbtu beat estimates, driven by low spot prices (<US\$ 3/mmbtu currently) due to the supply glut in the market. Management expects Dahej terminal utilisation to return to >100% levels, while the Kochi terminal could ramp up from Q1FY21 after commissioning of the Kochi-Mangaluru pipeline by GAIL (expected by Apr'20).

Ticker/Price	PLNG IN/Rs 264
Market cap	US\$ 5.5bn
Shares o/s	1,500mn
3M ADV	US\$ 8.0mn
52wk high/low	Rs 299/Rs 211
Promoter/FPI/DII	50%/27%/23%

Source: NSE

EBITDA margins improve on high utilisation: EBITDA/mmbtu was above estimates at Rs 47.5 led by higher margins on spot LNG volumes. PLNG has raised Dahej tariffs by 5% from Jan'20, in line with its annual contract arrangements – implying margins could sustain in Q4FY20. Uncertainty on Kochi terminal tariffs persists (could be revised down by ~25% from FY21 on higher offtake).

STOCK PERFORMANCE



Source: NSE

Maintain BUY: PLNG's earnings visibility remains buoyant backed by long term contracts 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)	19.0	18.3	12.1	11.1	10.4
EV/EBITDA (x)	12.3	12.4	8.6	7.2	6.7

Source: Company, BOBCAPS Research

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

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



FIG 1 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net sales	89,102	100,977	(11.8)	93,612	(4.8)	268,849	300,122	(10.4)
Cost of Goods	76,189	90,989	(16.3)	80,229	(5.0)	230,600	268,783	(14.2)
% of sales	85.5	90.1	-	85.7	-	85.8	89.6	-
Other expenditure	1,838	1,507	21.9	1,778	3.4	5,329	4,677	13.9
% of sales	2.1	1.5	-	1.9	-	2.0	1.6	-
EBITDA	11,076	8,481	30.6	11,605	(4.6)	32,920	26,662	23.5
EBITDA margin (%)	12.4	8.4	-	12.4	-	12.2	8.9	-
EBITDA/mmbtu (Rs)	47.5	42.0	13.2	46.4	2.4	46.4	41.7	11.3
Blended margin (Rs/mmbtu)	55.4	49.4	12.1	53.5	3.5	53.9	49.0	10.0
Depreciation & amortization	1,960	1,037	89.0	1,960	(0.0)	5,819	3,096	87.9
Interest	940	215	336.5	1,051	(10.6)	2,997	764	292.2
Other income	842	884	(4.8)	975	(13.7)	2,861	2,989	(4.3)
PBT	9,017	8,113	11.1	9,568	(5.8)	26,965	25,791	4.6
Provision for tax	2,265	2,460	(7.9)	(2,184)	(203.7)	2,858	8,638	(66.9)
Effective tax rate	25.1	30.3	-	(22.8)	-	10.6	33.5	-
Adj. PAT	6,752	5,653	19.4	11,031	(38.8)	23,386	17,152	36.3
NPM (%)	7.6	5.6	-	11.8	-	8.7	5.7	-
Adj. EPS	4.5	3.8	19.4	7.4	(38.8)	15.6	11.4	36.3

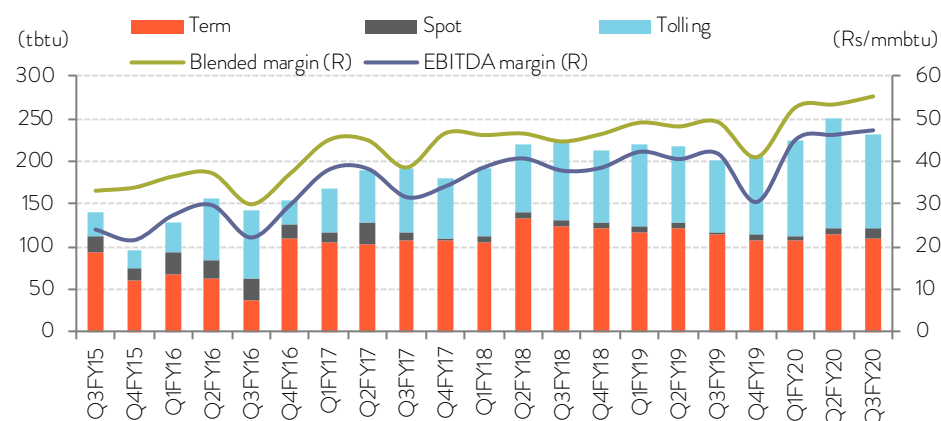
Source: Company, BOBCAPS Research

FIG 2 – VOLUME PROFILE

Volumes (tbtu)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Long-term contracts	111	114	(2.6)	114	(2.6)	332	354	(6.2)
Dahej	102	109	(6.4)	109	(6.4)	311	337	(7.7)
Kochi	9	5	80.0	5	80.0	21	17	-
Spot contracts	11	4	173.0	7	57.1	24	16	47.7
Dahej	9	4	125.0	5	80.0	19	16	18.8
Kochi	2	0	-	2	-	5	0	-
Regasification services	111	84	32.1	129	(14.0)	353	269	31.2
Dahej	111	84	32.1	126	(11.9)	349	269	29.7
Kochi	-	-	-	3	-	4	-	-
Total volumes	233	202	15.3	250	(6.8)	709	639	10.9
Dahej	222	197	12.7	240	(7.5)	679	622	9.2
Kochi	11	5	118.7	10	10.0	30	17	73.9

Source: Company, BOBCAPS Research

FIG 3 – OPERATING TRENDS: VOLUMES AND MARGINS



Source: Company, BOBCAPS Research

Valuation methodology

The outlook on PLNG’s volumes remains buoyant given sustained low LNG prices and nearing commissioning of the Kochi-Mangaluru pipeline by GAIL (expected by Apr’20). At 11x FY22E EPS, risk-reward remains favourable. We roll forward to an unchanged Mar’21 target price of Rs 400. Maintain BUY.

FIG 4 – VALUATION SNAPSHOT

Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	244,957	30,706	275,663
Terminal value (Rs mn)	250,423	22,894	273,317
EV (Rs mn)	495,380	53,600	548,980
EV (Rs/share)	330	36	366
Add: Net cash, other investments (Rs mn)			55,535
Equity value (Rs mn)			604,500
Equity value (Rs/share)			400

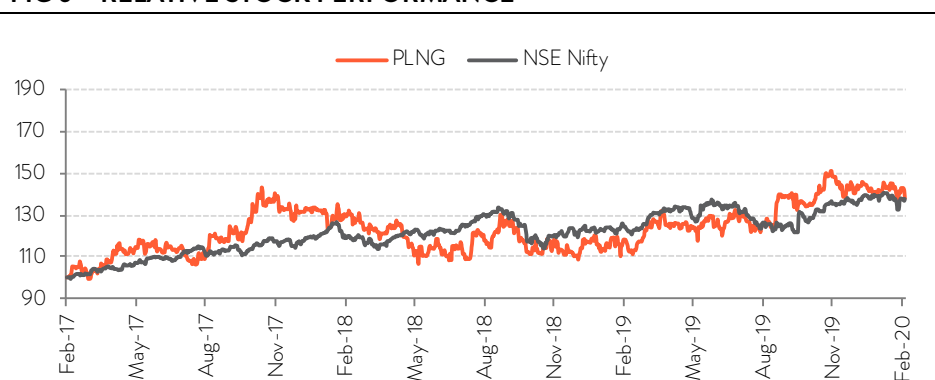
Source: BOBCAPS Research

FIG 5 – 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 6 – 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	1.3	1.1	1.0	0.8	0.7
EV/EBITDA	12.3	12.4	8.6	7.2	6.7
Adjusted P/E	19.0	18.3	12.1	11.1	10.4
P/BV	4.1	3.9	3.4	3.0	2.6

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

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

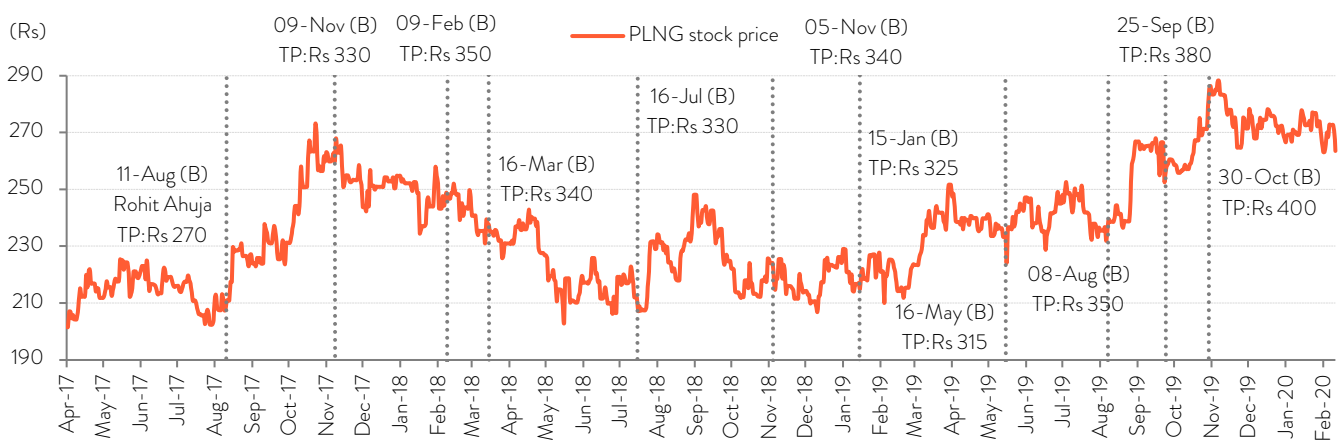
ADD – Expected return from >+5% to +15%

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

Rating distribution

As of 31 January 2020, out of 85 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 18 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.