

BUY

TP: Rs 330 | ▲ 36%

PETRONET LNG

Oil & Gas

12 February 2021

Valuations disconnected from fundamentals – maintain BUY

Petronet LNG's (PLNG) Q3FY21 EBITDA outperformed estimates at Rs 13.4bn (+21% YoY). Volumes were in line (+1% YoY) and EBITDA/mmbtu surged to Rs 56.8 (+20% YoY). Utilisation remains close to 100% at Dahej and is guided to improve to 30% at Kochi from Q4. With new pipelines connecting Kochi and improved LNG demand from the power sector, the volume outlook remains robust. On rollover to Mar'22, our TP remains at Rs 330. Valuations look undemanding at 9.5x FY23E EPS.

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Volume outlook improving: Q3 volumes were muted at 235tbtu (-7.5% QoQ), hit by the surge in LNG prices. Last month, spot LNG prices had risen to >US\$ 20/mmbtu (which has now normalised to ~US\$ 7 for Apr'21), but long-term prices remain benign at ~US\$ 7. PLNG's long-term contracts (from Dahej and Gorgon) have thus become extremely attractive. Kochi volumes could improve further from Q4 as GAIL has commissioned its Kochi-Mangaluru pipeline. PLNG plans to expand the Dahej capacity in two phases to 22.5mmt (from 17.5mmt) by FY24. It is also pursuing a new LNG import terminal at Gopalpur in the eastern Odisha state and looking at a floating terminal.

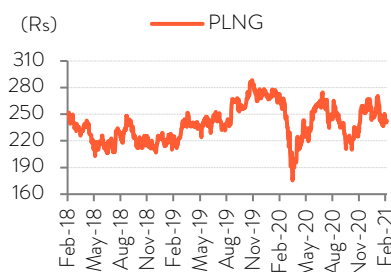
EBITDA margins improve: EBITDA/mmbtu outperformed at Rs 56.8 (+20% YoY) due to inventory gains and higher spot-LNG marketing margins. Q4 could be better given the steady LNG price rise and 5% annual hikes at Dahej.

High earnings visibility: PLNG's earnings visibility remains robust backed by long-term contracts and expected volume ramp-up at Kochi. Further, the company will continue to expand capacity (by ~4mmtpa) through the addition of storage tanks and a jetty at Dahej terminal over FY23-FY25. Negotiations for Kochi terminal tariffs are likely to be completed by Q4 which could ease some concerns over earnings growth.

Ticker/Price	PLNG IN/Rs 243
Market cap	US\$ 5.0bn
Shares o/s	1,500mn
3M ADV	US\$ 17.7mn
52wk high/low	Rs 281/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)	16.9	13.1	12.7	10.5	9.5
EV/EBITDA (x)	11.4	9.0	7.5	6.2	5.6

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net sales	73,282	89,102	(17.8)	62,358	17.5	184,476	268,849	(31.4)
Cost of Goods	58,434	76,189	(23.3)	47,199	23.8	143,998	230,600	(37.6)
% of sales	79.7	85.5	-	75.7	-	78.1	85.8	-
Other expenditure	1,496	1,838	(18.6)	1,526	(2.0)	4,393	5,329	(17.6)
% of sales	2.0	2.1	-	2.4	-	2.4	2.0	-
EBITDA	13,353	11,076	20.6	13,632	(2.0)	36,085	32,920	9.6
EBITDA margin (%)	18.2	12.4	-	21.9	-	19.6	12.2	-
EBITDA/mmbtu (Rs)	56.8	47.5	19.5	53.7	5.9	53.1	46.4	14.5
Blended margin (Rs/mmbtu)	63.2	55.4	14.0	59.7	5.9	59.6	53.9	10.5
Depn & amortization	1,925	1,952	(1.4)	1,952	(1.4)	5,813	5,811	0.0
Interest	815	940	(13.3)	850	(4.1)	2,547	2,997	(15.0)
Other income	997	842	18.4	1,419	(29.8)	3,099	2,771	11.9
PBT	11,610	9,025	28.6	12,249	(5.2)	30,825	26,162	17.8
Provision for tax	2,939	2,265	29.7	3,153	(6.8)	7,855	2,858	174.8
effective tax rate	25.3	25.1	-	25.7	-	25.5	10.9	-
Minority share in profit / loss	150	40	270.5	99	52.0	44	6	668.4
PAT	8,821	6,800	29.7	9,195	(4.1)	23,013	23,310	(1.3)
EPS (reported)	5.9	4.5	29.7	6.1	(4.1)	15.3	15.5	(1.3)

Source: Company, BOBCAPS Research

FIG 2 – VOLUMES

(tbtu)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Long-term contracts	121	111	9.0	111	9.0	318	332	(4.2)
Dahej	113	102	10.8	103	9.7	294	311	(5.5)
Kochi	8	9	(11.1)	8	-	24	21	14.3
Spot	7	11	(36.4)	8	(12.5)	22	24	(8.3)
Dahej	5	9	(44.4)	5	-	16	19	(15.8)
Kochi	2	2	-	3	(33.3)	6	5	20.0
Regasification services	107	111	(3.6)	135	(20.7)	342	353	(3.1)
Dahej	104	111	(6.3)	135	(23.0)	339	349	(2.9)
Kochi	3	-	-	-	-	3	4	(25.0)
Total volumes	235	233	0.9	254	(7.5)	682	709	(3.8)
Dahej	222	222	-	243	(8.6)	649	679	(4.4)
Kochi	13	11	18.2	11	18.2	33	30	10.0

Source: Company, BOBCAPS Research

Valuation methodology

Utilisation remains close to 100% at Dahej and is guided to improve to 30% at Kochi from Q4. With new pipelines connecting Kochi and improved LNG demand from the power sector, the volume outlook remains robust. On rollover to Mar'22, our target price remains at Rs 330. Valuations look undemanding at 9.5x FY23E EPS.

PLNG's earnings visibility remains robust backed by long-term contracts and expected volume ramp-up at Kochi. Further, the company will continue to expand capacity (by ~4mmtpa) through the addition of storage tanks and a jetty at Dahej terminal over FY23-FY25. Negotiations for Kochi terminal tariffs are likely to be completed by Q4 which could ease some concerns over earnings growth.

FIG 3 – VALUATION SNAPSHOT

Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	224,294	26,490	250,784
Terminal value (Rs mn)	189,354	16,814	206,168
EV (Rs mn)	413,648	43,304	456,962
EV (Rs/share)	276	29	305
Add: Net cash, other investments (Rs mn)			37,552
Equity value (Rs mn)			494,504
Equity value (Rs/share)			330

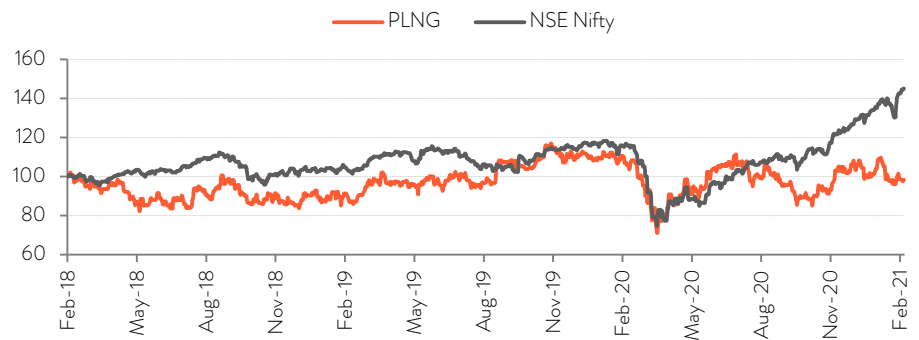
Source: BOBCAPS Research

FIG 4 – 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 5 – 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 21mmtpa. 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	1.2
EV/EBITDA	11.4	9.0	7.5	6.2	5.6
Adjusted P/E	16.9	13.1	12.7	10.5	9.5
P/BV	3.6	3.3	3.2	3.0	2.7

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%

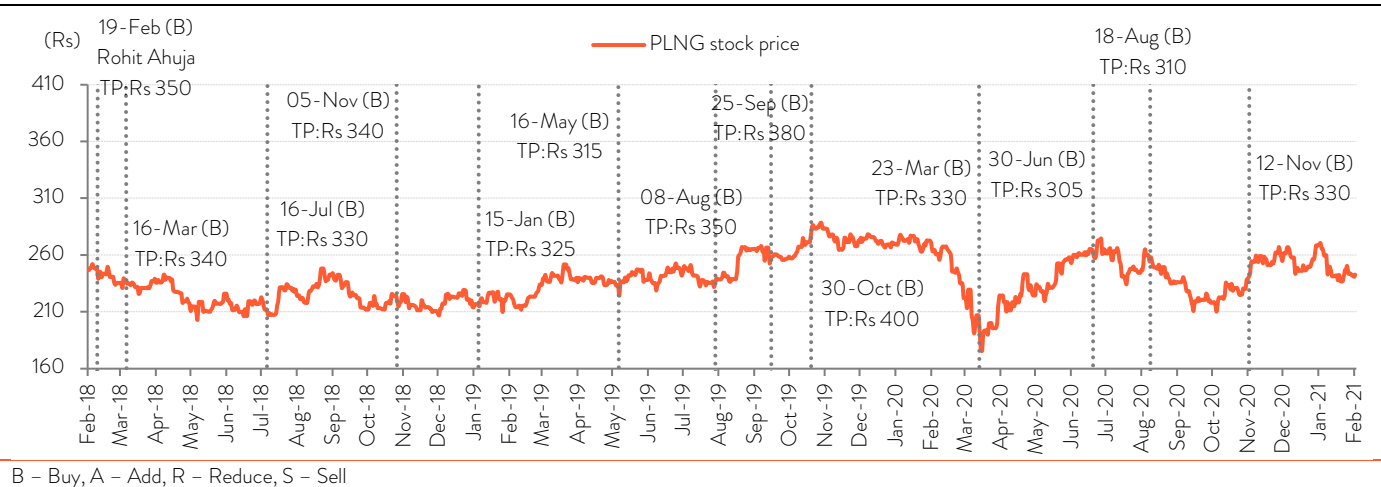
ADD – Expected return from >+5% to +15%

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)



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