

Petronet LNG

BUY

INDUSTRY	OIL & GAS
CMP (as on 10 May 2017)	Rs 433
Target Price	Rs 485
Nifty	9,407
Sensex	30,248
KEY STOCK DATA	
Bloomberg	PLNG IN
No. of Shares (mn)	750
MCap (Rs bn) / (US\$ mn)	325/5,024
6m avg traded value (Rs mn)	807
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 455/250
	3M 6M 12M
Absolute (%)	13.7 11.6 56.7
Relative (%)	6.9 1.7 39.3
SHAREHOLDING PATTERN (%)	
Promoters	50.00
FIs & Local MFs	7.69
FPIs	19.43
Public & Others	22.88
Source : BSE	

Volumes Key driver

Petronet LNG (PLNG) reported strong numbers in 4QFY17. EBITDA came in at Rs 6.2bn (+24% YoY), led by higher volumes (+17%). Consequently, APAT was at Rs 4.7bn (+92%), owing to higher 'other income' and lower tax.

FY17 proved to be a good year for PLNG, led by (1) Favourable negotiations with RasGas, (2) Strong demand at lower RLNG prices, (3) Decline in domestic gas production and (4) Absence of spare LNG capacity with other players. PLNG's location is a big advantage, as the Dahej terminal is the least expensive facility. This will give PLNG pricing power over the new plants (GSPC Mundra in FY18 and IOC Ennore in FY19). PLNG has commissioned an incremental capacity of 5 mtpa at Dahej in Oct-16. Offtake agreements for the new capacity are in place, with flexibility given to offtakers in the initial period. We have assumed capacity utilisation of ~60/90% for the new facility in FY18/19.

Post the volume ramp-up in Dahej, core RoCE will be 20%+, despite Kochi operating at only ~10% utilisation. PLNG is exploring growth opportunities in Bangladesh and Sri Lanka. Keeping in mind the bitter experience in Kochi, we are confident that capital

Financial Summary (Standalone)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17P	FY18E	FY19E
Net Sales	63,651	60,653	4.9	62,993	1.0	271,334	246,160	350,058	439,502
EBITDA	6,163	4,965	24.1	6,071	1.5	15,863	25,923	30,193	35,763
APAT	4,708	2,453	91.9	3,975	18.4	9,133	17,057	19,442	22,674
Diluted EPS (Rs)	6.3	3.3	91.9	5.3	18.4	12.2	22.7	25.9	30.2
P/E (x)						35.6	19.0	16.7	14.3
P/Cash EPS (x)						26.3	15.7	13.7	11.9
RoE (%)						14.8	23.2	22.1	21.9

Source: Company, HDFC sec Inst Research

allocation will be prudent. Our TP is Rs 485/sh (16x of FY19E EPS). Maintain BUY.

Highlights of the quarter

- **Dahej:** Volumes were 177 tbtu (+19% YoY). LT volumes were 107 tbtu (-2%), spot 0.4 (-97%) and tolling 70 (+162%). Regas margins were at Rs 42.6/mmbtu (flat YoY) and spot margins (computed) are not comparable, owing to lower volumes in spot.
- **Kochi:** Volumes remain muted at 2.9 tbtu (-43% YoY, capacity util. ~6%). Regas margin was ~Rs 70/mmbtu. Volumes will pick up post the commissioning of the Kochi-Mangalore-Bangalore pipeline.
- **Spare capacity to benefit from lower domestic output:** Increase in capacity from 10 to 15 mtpa at Dahej was fully commissioned in Oct-16. Offtake agreements are in place. The co. plans to increase the capacity further by 2.5 mtpa. We do not expect a major increase in domestic gas volumes over the next two years.
- **Near-term outlook:** We expect volumes to remain strong in the coming quarters, led by incremental volumes from the expanded capacity.

Satish Mishra

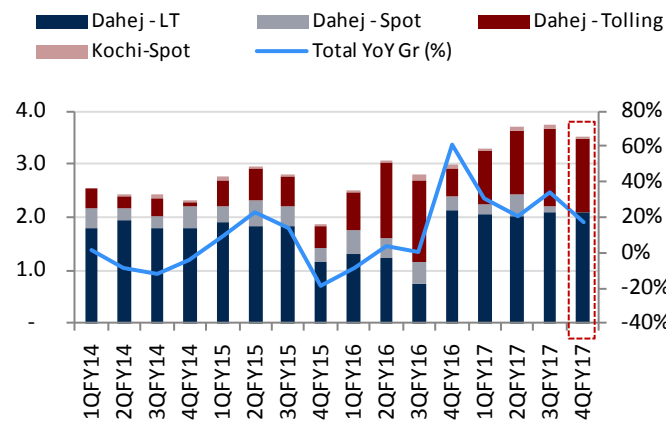
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Volumes (mnT)
Dahej LT: 2.1 (-2% YoY)
Dahej spot: 0.01 (-96%)
Dahej tolling: 1.4 (+162%)
Kochi: 0.03 (-72% YoY)
Volumes Trend

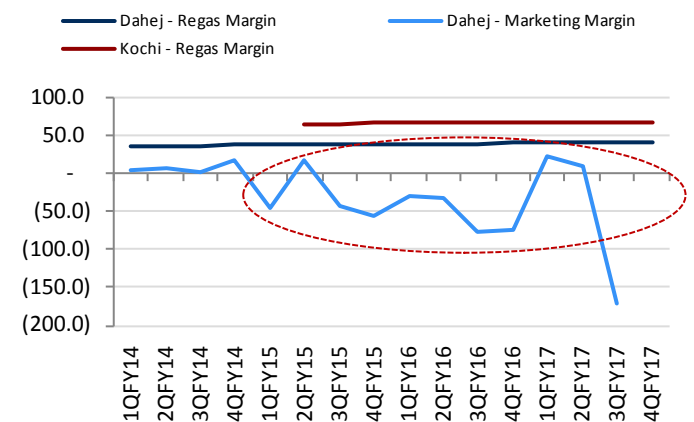
- Reduced gas prices boosted LT volumes.
- Kochi operating at capacity utilisation of ~6%.



Source: Company, HDFC sec Inst Research

Margins Trend

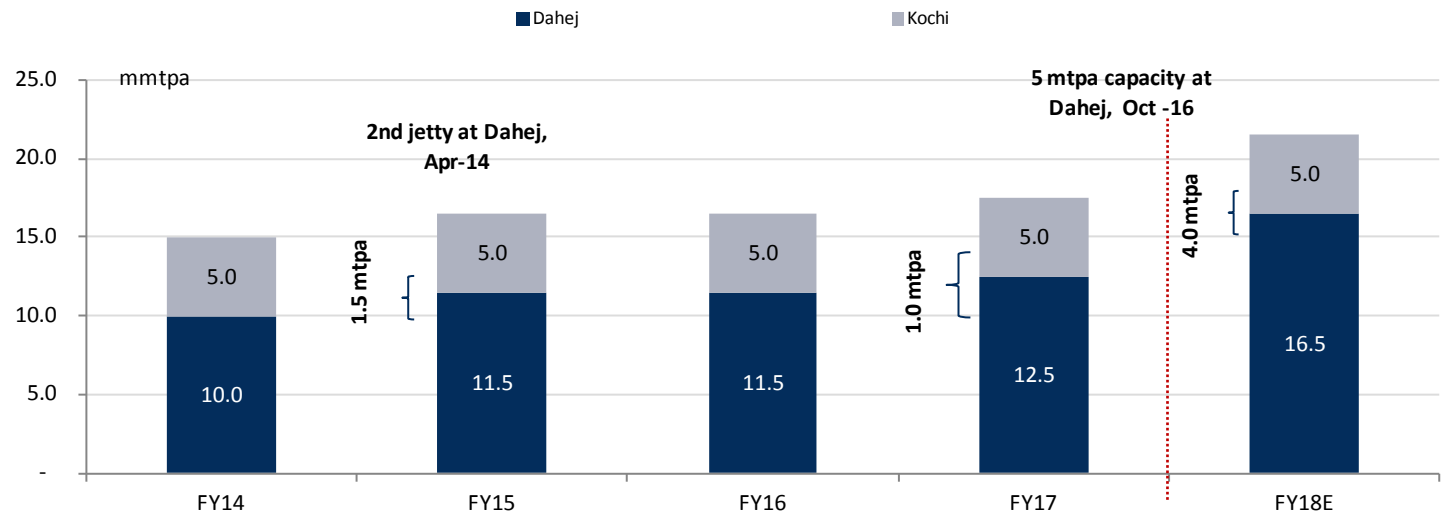
- Spot margins (computed) are not comparable, owing to lower volumes in spot.
- Regasification margins flat YoY and QoQ.



Source: Company, HDFC sec Inst Research

Capacity Build-up Plan

- 5 mtpa got commissioned in Oct-16
- Additional 2.5 mmtpa LNG capacity at Dahej expected in FY19/20
- 5 mtpa LNG capacity at Gangavaram (AP) is expected in FY19/20



Source: Company, HDFC sec Inst Research

Revenue growth was driven by higher volumes (+17%)

Higher gross margins (13% vs 9% YoY) led to EBITDA of Rs 6.2bn

Tax rate was lower, owing to Dahej expansion benefit

Quarterly Financials Snapshot (Standalone)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	63,651	60,653	4.9	62,993	1.0
Material Expenses	55,220	54,927	0.5	55,569	(0.6)
Employee Expenses	181	188	(3.7)	194	(6.9)
Other Operating Expenses	2,086	573	264.1	1,159	80.0
EBITDA	6,163	4,965	24.1	6,071	1.5
Depreciation	1,016	800	27.0	1,009	0.7
EBIT	5,147	4,164	23.6	5,062	1.7
Other Income (Including EO Items)	1,508	(26)	NA	550	174.0
Interest Cost	469	535	(12.3)	517	(9.2)
PBT	6,186	3,603	71.7	5,095	21.4
Tax	1,478	1,150	28.5	1,121	31.9
RPAT	4,708	2,453	91.9	3,975	18.4
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	4,708	2,453	91.9	3,975	18.4
AEPS	6.3	3.3	91.9	5.3	18.4

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Raw Material As % Of Revenues	86.8	90.6	(381)	88.2	(146)
Employee Expenses As % Of Revenues	0.3	0.3	(3)	0.3	(2)
Other Operating Exp % Of Revenues	3.3	0.9	233	1.8	144
EBITDA Margin (%)	9.7	8.2	150	9.6	5
Net Profit Margin (%)	7.4	4.0	335	6.3	109
Tax Rate (%)	23.9	31.9	(802)	22.0	190

Source: Company, HDFC sec Inst Research

Offtake for LT RLNG was strong , post reduction in prices

Volatility in marketing margins continues

Quarterly Operational Data

	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
TOTAL Volume (tbtu)	180.0	153.6	17.2	191.4	(6.0)
Dahej					
Long-term Volumes	107.1	109.4	(2.1)	107.5	(0.4)
Spot Volumes	0.4	12.5	(96.9)	4.8	(91.9)
Tolling Volumes	69.6	26.5	162.3	75.3	(7.5)
Total Volume (tbtu)	177.1	148.5	19.3	187.6	(5.6)
Regasification Margin (Rs/mmbtu)	42.6	42.6	-	42.6	-
Marketing Margin (Rs/mmbtu)	NA	(75.0)	-	(170.5)	-
Spot Margin (Rs/mmbtu)	NA	(32.5)	-	(127.9)	-
Kochi					
Long-term Vol (tbtu)	-	-	-	-	-
Spot Vol (tbtu)	1.4	5.1	(71.8)	3.8	(62.1)
Tolling Vol (tbtu)	1.5	-	NA	-	NA
Total Volume (tbtu)	2.9	5.1	(43.3)	3.8	(23.9)
Regasification Margin (Rs/mmbtu)	68.4	68.4	-	68.4	-
Marketing Margin (Rs/mmbtu)	-	-	-	-	-
Spot Margin (Rs/mmbtu)	68.4	68.4	-	68.4	-

Source: Company, HDFC sec Inst Research

Peer Valuations

	Mcap (Rs bn)	CMP (Rs/sh)	Rating*	TP (Rs/sh)*	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Reliance Industries	4,420	1,360	NEU	1,375	96.7	111.5	126.3	14.1	12.2	10.8	1.5	1.4	1.2	11.6	11.9	12.2
ONGC	2,411	188	BUY	228	14.2	15.3	16.8	13.2	12.3	11.2	1.5	1.4	1.3	11.7	12.0	12.4
Indian Oil Corp	2,144	441	BUY	425	39.5	41.1	40.3	11.2	10.7	10.9	2.6	2.2	2.0	24.4	22.3	19.3
BPCL	1,053	728	NEU	730	52.1	54.1	60.7	14.0	13.5	12.0	3.4	3.1	2.7	26.1	24.1	23.8
Gail India	706	418	BUY	450	22.2	29.3	31.1	18.8	14.3	13.4	2.1	2.0	1.8	11.8	14.4	14.0
HPCL	539	530	BUY	650	54.5	53.9	51.9	9.7	9.8	10.2	2.7	2.4	2.2	28.8	25.8	22.5
Petronet LNG	325	433	BUY	485	22.7	25.9	30.2	19.1	16.7	14.3	4.0	3.4	2.9	23.2	22.1	21.9
OIL India	260	325	BUY	370	26.0	25.8	25.8	12.5	12.6	12.6	1.1	1.1	1.0	9.2	8.8	8.5
Indraprastha Gas	143	1,020	BUY	1,227	40.9	45.1	50.7	25.0	22.6	20.1	5.0	4.3	3.7	21.7	20.4	19.7

Source: Company, HDFC sec Inst Research, *As per previous published report

Dahej volumes will be strong, led by lower gas price

We don't expect a sharp recovery in Kochi's volumes in the next year

Have built-in no marketing margins in the spot business

No major change in estimates

Assumptions

	FY11	FY12	FY13	FY14	FY15	FY16	FY17P	FY18E	FY19E
Volumes (mmt)									
Dahej	8.5	10.7	10.3	9.6	10.2	11.1	14.0	15.7	17.3
Long/Medium Term	7.5	7.3	7.4	7.3	6.8	5.4	8.3	10.7	13.2
Spot	0.5	2.0	2.0	1.2	1.4	1.5	0.7	1.0	1.1
Tolling	0.5	1.4	0.9	1.0	2.1	4.2	5.0	4.0	3.0
Kochi	-	-	-	0.1	0.1	0.3	0.3	0.6	1.2
Long/Medium Term	-	-	-	-	-	-	-	-	-
Spot	-	-	-	0.1	0.1	0.3	0.2	0.4	1.0
Tolling	-	-	-	0.0	0.0	-	0.0	0.2	0.2
Grand Total	8.5	10.7	10.3	9.7	10.3	11.4	14.3	16.3	18.5

Margins (Rs/mmbtu)

Dahej

Regasification	32.1	33.8	35.4	37.2	39.1	41.0	43.1	45.2	47.5
Marketing	14.8	33.0	49.4	33.8	(0.8)	(33.9)	38.6	20.0	15.0
Spot Total	47.0	66.7	84.8	71.1	38.3	7.1	81.7	65.2	62.5

Kochi

Regasification	-	-	-	63.0	65.1	68.4	68.4	68.4	68.4
Marketing	-	-	-	-	-	-	-	-	-
Spot Total	-	-	-	63.0	65.1	68.4	68.4	68.4	68.4

Average Prices (\$/mmbtu)

Gas Cost	6.2	9.0	11.1	13.4	14.5	10.3	6.8	7.6	7.6
Realisation	7.0	9.8	12.0	14.1	14.6	11.0	7.7	8.3	8.4
INR-US\$	45.6	47.9	54.4	60.5	61.2	65.8	66.0	66.0	66.0

Source: HDFC sec Inst Research

Change In Estimates

(Rs bn)	FY18E Old	FY18E New	% change	FY19E Old	FY19E New	% change
Revenue	359,674	350,058	(2.7)	449,138	439,502	(2.1)
EBITDA	30,724	30,193	(1.7)	36,680	35,763	(2.5)
PAT	18,979	19,442	2.4	22,690	22,674	(0.1)
EPS (Rs/sh)	25.3	25.9	2.4	30.3	30.2	(0.1)

Source: HDFC sec Inst Research

Standalone Income Statement

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Revenues	395,010	271,334	246,160	350,058	439,502
Growth (%)	4.6	(31.3)	(9.3)	42.2	25.6
Raw Material	376,109	250,757	214,169	312,453	394,767
Employee Expenses	571	711	739	849	977
Other Operating Expenses	3,940	4,005	5,330	6,562	7,994
EBITDA	14,390	15,863	25,923	30,193	35,763
Growth (%)	(4.0)	10.2	63.4	16.5	18.4
EBIDTA Margin (%)	3.6	5.8	10.5	8.6	8.1
Depreciation	3,154	3,216	3,691	4,179	4,685
EBIT	11,236	12,647	22,232	26,014	31,079
Other Income	1,548	1,733	3,466	3,501	2,976
Finance Charges	2,935	2,388	2,097	1,540	1,430
PBT	9,849	11,992	23,602	27,975	32,625
Provision For Taxes	1,024	2,860	6,545	8,532	9,950
RPAT	8,825	9,133	17,057	19,442	22,674
Prior Period/EO Items	1,323	-	-	-	-
APAT	7,502	9,133	17,057	19,442	22,674
APAT Growth (%)	5.4	21.7	86.8	14.0	16.6
AEPS	10.0	12.2	22.7	25.9	30.2
EPS Growth %	5.4	21.7	86.8	14.0	16.6

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	7,500	7,500	7,500	7,500	7,500
Reserves And Surplus	49,386	58,640	73,439	87,792	104,587
Net Worth	56,886	66,140	80,939	95,292	112,087
Long Term Debt	23,738	22,329	14,500	13,500	12,500
Short Term Debt	2,803	2,803	2,803	2,803	2,803
Total Debt	26,541	25,132	17,303	16,303	15,303
Interest Free Advances	9,000	14,000	13,858	13,858	13,858
Long Term Provisions	43	56	66	66	66
Deferred Tax Liability	7,270	5,886	7,302	7,302	7,302
Total Liabilities	99,740	111,214	119,467	132,820	148,615
APPLICATION OF FUNDS					
Net fixed assets	69,426	68,105	84,230	80,851	101,966
Capital WIP	9,595	15,635	616	15,616	5,616
Investments	900	900	1,644	1,644	1,644
LT Loans & Advance and Others	4,682	3,762	2,775	2,775	2,775
Total Non-current Assets	84,603	88,402	89,265	100,885	112,001
Inventory	8,826	2,461	5,405	7,687	9,651
Debtors	13,428	9,885	12,108	17,218	21,618
Cash And Cash Equivalent	3,621	21,829	30,981	29,308	31,056
Loans And Advances	754	-	-	-	-
Other Current Assets	4	1,684	533	533	533
Total Current Assets	26,633	35,859	49,026	54,745	62,857
Creditors	3,209	7,721	9,446	13,433	16,865
Other Current Liabilities & Provns	8,287	5,326	9,378	9,378	9,378
Total Current Liabilities	11,496	13,048	18,824	22,811	26,243
Net Current Assets	15,138	22,811	30,202	31,935	36,614
Total Assets	99,740	111,214	119,467	132,820	148,615

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Reported PBT	9,849	11,992	23,602	27,975	32,625
Non-operating & EO Items	(1,101)	(1,733)	(3,466)	(3,501)	(2,976)
Interest Expenses	2,935	2,388	2,097	1,540	1,430
Depreciation	3,154	3,216	3,691	4,179	4,685
Working Capital Change	(10,451)	12,236	1,765	(3,405)	(2,931)
Tax Paid	(2,088)	(2,860)	(6,545)	(8,532)	(9,950)
OPERATING CASH FLOW (a)	2,298	25,238	21,142	18,256	22,882
Capex	(8,279)	(9,931)	(4,796)	(15,800)	(15,800)
Free Cash Flow (FCF)	(5,981)	15,307	16,346	2,456	7,082
Investments	-	(0)	(744)	-	-
Non-operating Income	1,548	1,733	3,466	3,501	2,976
Others	77	-	-	-	-
INVESTING CASH FLOW (b)	(6,654)	(8,198)	(2,074)	(12,299)	(12,824)
Debt Issuance/(Repaid)	(6,128)	(1,409)	(7,829)	(1,000)	(1,000)
Interest Expenses	(2,457)	(2,388)	(2,097)	(1,540)	(1,430)
FCFE	(14,566)	11,511	6,420	(84)	4,652
Share Capital Issuance	-	-	-	-	-
Dividend	(1,755)	(2,194)	(4,388)	(5,090)	(5,879)
Other Long-term Liabilities	6,000	5,000	(142)	-	-
FINANCING CASH FLOW (c)	(4,340)	(990)	(14,455)	(7,630)	(8,309)
NET CASH FLOW (a+b+c)	(8,696)	16,050	4,613	(1,673)	1,748
EO Items, Others	(509)	2,158	4,539	-	-
Closing Cash & Equivalents	3,621	21,829	30,981	29,308	31,056

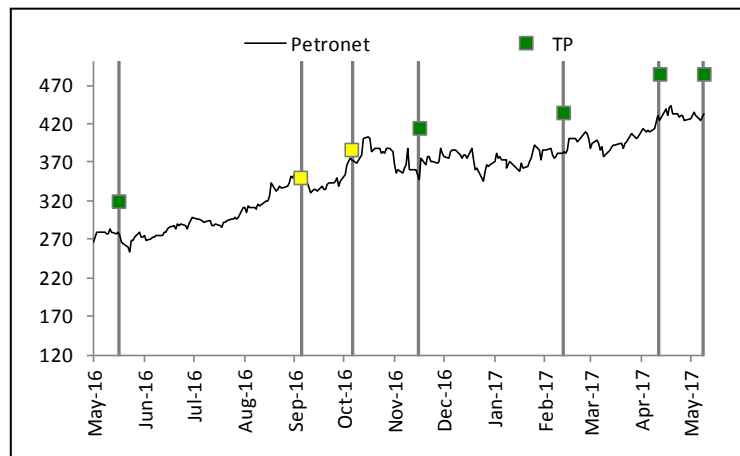
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY15	FY16	FY17P	FY18E	FY19E
PROFITABILITY %					
EBIDTA Margin	3.6	5.8	10.5	8.6	8.1
EBIT Margin	2.8	4.7	9.0	7.4	7.1
APAT Margin	1.9	3.4	6.9	5.6	5.2
RoE	14.1	14.8	23.2	22.1	21.9
RoCE	11.0	10.7	16.5	16.6	17.2
Core RoCE	11.7	12.4	20.9	21.6	22.6
EFFICIENCY					
Tax Rate %	10.4	23.8	27.7	30.5	30.5
Fixed Asset Turnover (x)	4.8	3.1	2.5	3.2	3.6
Inventory (days)	8	3	8	8	8
Debtor (days)	12	13	18	18	18
Other Current Assets (days)	1	2	1	1	0
Payables (days)	3	10	14	14	14
Other Curr Liab & Prov (days)	8	7	14	10	8
Cash Conversion Cycle (days)	11	1	(1)	3	5
Net Debt/EBIDTA (x)	1.6	0.2	(0.5)	(0.4)	(0.4)
Net D/E	0.4	0.0	(0.2)	(0.1)	(0.1)
Interest Coverage	4.4	6.0	12.3	19.2	23.8
PER SHARE					
EPS (Rs)	10.0	12.2	22.7	25.9	30.2
CEPS (Rs)	16.0	16.5	27.7	31.5	36.5
BV (Rs)	75.8	88.2	107.9	127.1	149.4
DPS (Rs)	2.0	2.5	5.0	5.8	6.7
VALUATION					
P/E (x)	43.3	35.6	19.0	16.7	14.3
P/Cash EPS (x)	27.1	26.3	15.7	13.7	11.9
P/BV (x)	5.7	4.9	4.0	3.4	2.9
EV/EBIDTA (x)	24.2	20.7	12.0	10.3	8.6
EV/Revenue (x)	0.9	1.2	1.3	0.9	0.7
Dividend Yield (%)	0.5	0.6	1.2	1.3	1.5
OCF/EV	0.7	7.7	6.8	5.9	7.4
FCFF/EV	(1.7)	4.7	5.3	0.8	2.3
FCFE/M CAP	(4.5)	3.5	2.0	(0.0)	1.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
17-May-16	279	BUY	320
7-Sep-16	356	NEU	350
7-Oct-16	373	NEU	385
18-Nov-16	348	BUY	415
14-Feb-17	382	BUY	435
13-Apr-17	430	BUY	485
10-May-17	433	BUY	485

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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