PETRONET LNG

OIL & GAS

17 AUG 2017 Quarterly Update

BUY

Target Price: Rs 253

Kochi utilization to pick up

PLNG expects Kochi terminal's utilization at 15% in FY18 (6% in FY17), as gas off-take from FACT and Kochi refinery (together ~2.5 mmscmd) continues. The utilization may reach ~40% after completion of Kochi-Mangalore pipeline by Dec '18. Dahej terminal's utilization will remain 100%+ over FY18-20, as ~17 mntpa capacity is already pre-booked on take-or-pay terms. PLNG is actively engaged in bidding for a new LNG terminal in Bangladesh (total project cost at ~USD 1 bn).

Earnings growth to continue: We expect PLNG's EPS to rise 75% over FY17-20 (even on higher FY17 base) on capacity expansion at Dahej terminal and higher utilization at Kochi terminal. ~65% growth has negligible risk given already contracted volumes and mandatory 5% hike in re-gas tariffs. Valuation at 13x FY19E EPS is attractive given strong EPS growth and RoE/RoCE of 23-25% by FY19. **Maintain BUY.**

CMP	: Rs 207
Potential Upside	: 22%

MARKET DATA

No. of Shares	: 1,500 mn
Free Float	: 50%
Market Cap	: Rs 310 bn
52-week High / Low	: Rs 229 / Rs 154
Avg. Daily vol. (6mth)	: 6.5 mn shares
Bloomberg Code	: PLNG IB Equity
Promoters Holding	: 50%
FII / DII	: 22% / 12%

Conference call highlights

- **Kochi-Mangalore pipeline** is likely to be completed by Dec '18, which will link two anchor customers (MRPL/ MCF). PLNG expects gas demand at ~2 mntn (MRPL/MCF: 1.1 mntn; Kochi refinery: 0.7 mntn; FACT: 0.2 mntn)
- **Gorgon volumes**: PLNG received 11.2 tbtu of Gorgon volumes (10.4 tbtu at Dahej terminal and 0.8 tbtu at Kochi), on which it earned Kochi terminal's regasification tariffs (~75% higher than Dahej terminal's tariffs). Going forward, PLNG expects 4-5 cargos per quarter of Gorgon volumes to continue

Lower cost cuts competition risk from new LNG terminals

PLNG's Dahej terminal will remain competitive vs. new terminals (especially Mundra), as capital cost of Dahej's 15 mntpa capacity is lower than other terminals, which will enable PLNG to charge lower regas tariffs. For instance, to achieve 25% RoCE, Dahej terminal will require tariff of only Rs 30-36/mnbtu vs. Rs 60-77/mnbtu for a new terminal.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	271,334	246,160	248,697	264,506
Adj PAT (Rs mn)	9,133	17,057	19,425	23,619
Con. EPS* (Rs)	-	-	12.6	14.6
EPS (Rs)	6.1	11.4	12.9	15.7
Change YOY (%)	21.7	86.8	13.9	21.6
P/E (x)	34.0	18.2	16.0	13.1
RoE (%)	14.8	23.2	22.1	22.9
RoCE (%)	13.8	22.8	23.3	24.7
EV/E (x)	19.6	11.3	9.3	7.6
DPS (Rs)	1.3	2.5	3.2	3.9

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(tbtu)	FY17	FY18E	FY19E
Dahej volume	13.7	15.7	16.7
Kochi volume	0.4	0.3	0.5
Dahej mktg mgn (Rs/mnbtu)	32.0	15.0	15.0
Kochi regas mgn (Rs/mnbtu)	72.7	76.3	80.2

Price performance

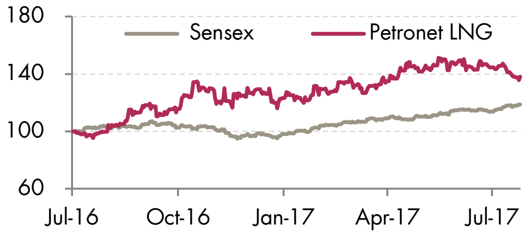

Exhibit 1: Result summary

(Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	YoY	QoQ
P&L							
Sales	**53,373**	**66,144**	**62,993**	**63,651**	**64,351**	**21%**	**1%**
Raw materials consumed	45,768	57,613	55,569	55,220	55,467	21%	0%
Gross profit	**7,606**	**8,531**	**7,424**	**8,431**	**8,884**	**17%**	**5%**
Staff cost	183	180	194	181	268	46%	48%
Other expenditure	998	1,086	1,159	2,086	1,175	18%	-44%
EBITDA	**6,425**	**7,264**	**6,071**	**6,163**	**7,442**	**16%**	**21%**
Interest	556	554	517	469	465	-17%	-1%
Depreciation	806	860	1,009	1,016	1,027	27%	1%
Other Income	494	915	550	1,508	707	43%	-53%
PBT	**5,556**	**6,765**	**5,095**	**6,186**	**6,658**	**20%**	**8%**
Tax	1,777	2,170	1,121	1,478	2,282	28%	54%
PAT	**3,779**	**4,596**	**3,975**	**4,708**	**4,376**	**16%**	**-7%**
Dahej Terminal							
Sales (Qty) (tBTUs)	**165.2**	**184.4**	**187.6**	**176.8**	**184.1**	**11%**	**4%**
Long-term	105.3	103.0	107.5	107.1	104.8	0%	-2%
Spot	9.9	20.7	4.8	0.4	0.8	-92%	92%
Tolling	50.1	60.7	75.3	69.3	78.6	57%	13%
Kochi Terminal							
Sales (Qty) (tBTUs)	**2.9**	**4.5**	**3.8**	**2.9**	**7.5**	**159%**	**160%**

Source: Axis Capital, Company

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	271,334	246,160	248,697	264,506
Other operating income	-	-	-	-
Total operating income	**271,334**	**246,160**	**248,697**	**264,506**
Cost of goods sold	(250,757)	(214,169)	(212,031)	(222,653)
Gross profit	20,578	31,991	36,667	41,853
Gross margin (%)	*7.6*	*13.0*	*14.7*	*15.8*
Total operating expenses	(4,715)	(6,068)	(6,952)	(7,605)
EBITDA	**15,863**	**25,923**	**29,715**	**34,249**
EBITDA margin (%)	*5.8*	*10.5*	*11.9*	*12.9*
Depreciation	(3,216)	(3,691)	(3,820)	(4,082)
EBIT	**12,647**	**22,232**	**25,895**	**30,166**
Net interest	(2,388)	(2,097)	(1,952)	(1,807)
Other income	1,733	3,466	2,936	4,324
Profit before tax	**11,992**	**23,602**	**26,879**	**32,683**
Total taxation	(2,860)	(6,545)	(7,454)	(9,063)
Tax rate (%)	*23.8*	*27.7*	*27.7*	*27.7*
Profit after tax	9,133	17,057	19,425	23,619
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	9,133	17,057	19,425	23,619
Adj. PAT margin (%)	*3.4*	*6.9*	*7.8*	*8.9*
Net non-recurring items	-	-	-	-
Reported net profit	9,133	17,057	19,425	23,619

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	7,500	7,500	7,500	7,500
Reserves & surplus	58,640	73,439	87,220	103,976
Net worth	66,140	80,939	94,720	111,476
Borrowing	22,329	14,500	13,500	12,500
Other non-current liabilities	19,886	21,159	22,772	24,734
Total liabilities	**108,355**	**116,599**	**130,993**	**148,710**
Gross fixed assets	89,765	109,580	112,362	120,062
Less: Depreciation	(21,659)	(25,350)	(29,170)	(33,252)
Net fixed assets	68,105	84,230	83,192	86,810
Add: Capital WIP	15,505	486	3,826	576
Total fixed assets	83,610	84,716	87,018	87,386
Total Investment	900	1,644	1,644	1,644
Inventory	2,461	5,405	4,770	5,073
Debtors	9,885	12,108	7,495	7,971
Cash & bank	21,829	30,981	46,397	63,130
Loans & advances	3,892	2,905	4,088	4,348
Current liabilities	15,907	21,692	20,930	21,386
Net current assets	23,844	30,239	42,331	59,681
Other non-current assets	-	-	-	-
Total assets	**108,355**	**116,599**	**130,993**	**148,711**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	11,992	23,602	26,879	32,683
Depreciation & Amortisation	3,216	3,691	3,820	4,082
Chg in working capital	*16,246*	*2,757*	*3,324*	*(617)*
Cash flow from operations	**42,992**	**24,773**	**28,195**	**29,039**
Capital expenditure	*(9,931)*	*(4,796)*	*(6,122)*	*(4,450)*
Cash flow from investing	**(9,931)**	**(4,796)**	**(6,122)**	**(4,450)**
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	*(13,212)*	*(7,829)*	*(1,000)*	*(1,000)*
Dividend paid	*(2,194)*	*(4,358)*	*(5,644)*	*(6,863)*
Cash flow from financing	**(15,406)**	**(12,187)**	**(6,644)**	**(7,863)**
Net chg in cash	17,655	7,789	15,429	16,726

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	6.1	11.4	12.9	15.7
CEPS (Rs)	8.2	13.8	15.5	18.5
DPS (Rs)	1.3	2.5	3.2	3.9
Dividend payout ratio (%)	20.5	22.0	25.0	25.0
GROWTH				
Net sales (%)	(31.3)	(9.3)	1.0	6.4
EBITDA (%)	10.2	63.4	14.6	15.3
Adj net profit (%)	21.7	86.8	13.9	21.6
FDEPS (%)	21.7	86.8	13.9	21.6
PERFORMANCE				
RoE (%)	14.8	23.2	22.1	22.9
RoCE (%)	13.8	22.8	23.3	24.7
EFFICIENCY				
Asset turnover (x)	3.5	3.8	3.9	4.3
Sales/ total assets (x)	2.3	1.9	1.7	1.6
Working capital/ sales (x)	-	-	-	-
Receivable days	13.3	18.0	11.0	11.0
Inventory days	3.5	9.0	7.9	8.0
Payable days	11.0	15.7	14.5	14.5
FINANCIAL STABILITY				
Total debt/ equity (x)	0.4	0.2	0.2	0.1
Net debt/ equity (x)	-	(0.2)	(0.4)	(0.5)
Current ratio (x)	2.5	2.4	3.0	3.8
Interest cover (x)	5.3	10.6	13.3	16.7
VALUATION				
PE (x)	34.0	18.2	16.0	13.1
EV/ EBITDA (x)	19.6	11.3	9.3	7.6
EV/ Net sales (x)	1.1	1.2	1.1	1.0
PB (x)	4.7	3.8	3.3	2.8
Dividend yield (%)	0.6	1.2	1.6	1.9
Free cash flow yield (%)	10.7	6.4	7.1	7.9

Source: Company, Axis Capital

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