

Petronet LNG Ltd.



Petronet LNG Ltd.

Stellar performance in terms of volumes

CMP INR 269	Target INR 480	Potential Upside 78.4%	Market Cap (INR Mn) 390,225	Recommendation BUY	Sector Oil & Gas
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Result highlights

Petronet LNG Ltd. (PLNG) reported profit of INR 5,888 Mn in Q2FY18 as compared to 4,376 Mn in Q1FY18. It was up 34.6% QoQ and 28.1% on YoY basis. The significant improvement was entirely driven by volume surprise which was 15% higher QoQ. Net profit was up QoQ on account of increase in both Dahej and Kochi volumes which have reported record volumes at 210 TBTU and 10 TBTU respectively.

MARKET DATA

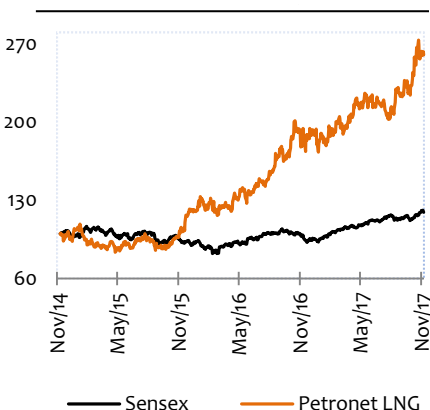
Shares outs (Mn)	1500
Equity Cap (INR Mn)	15000
Mkt Cap (INR Mn)	390225
52 Wk H/L (INR)	275/163
Volume Avg (3m K)	4282.2
Face Value (INR)	10
Bloomberg Code	PLNG IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	3,96,270	2,71,334	2,46,160	3,35,491	4,13,804	4,19,227
EBITDA	15,177	15,863	25,923	38,799	47,856	48,483
PAT	9,048	9,278	17,231	23,538	28,686	28,108
EPS Diluted (Rs.)	12.06	12.37	22.98	31.38	38.24	37.48
OPM (%)	3.83%	5.85%	10.53%	11.56%	11.56%	11.56%
NPM (%)	2.28%	3.42%	7.00%	7.02%	6.93%	6.70%
P/E (x)	21.57	21.03	11.32	8.29	6.80	6.94

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Improved Kochi Terminal Utilization

The Kochi terminal has delivered improved performance in this quarter at 10 TBTU – a 15% capacity utilization as compared 12% capacity utilization. Volumes are expected to remain on similar levels until the commissioning of the Kochi Mangalore Bangalore pipeline which is expected to be operational by December, 2018.

Lower cost strategy helps to remain competitive

The capital cost of the Dahej terminal to remain competitive in the light of new terminals.

Capacity addition to continue

With the expansion of the Dahej terminal (10+5+2.5) to be commissioned in the in the next year, we expect the company to continue focusing on capacity addition to make the most of the opportunity to meet the LNG demand pushed by the government through policy measures.

Valuation & Recommendation:

We believe that a gradual ramp up of the domestic gas processed, expansion of the Dahej terminal and improvement in the Kochi terminal volumes post completion of the Kochi Mangalore pipeline will be the key triggers of the company in the coming quarters which help to significantly improve the top-line and profitability of the company. At a CMP of INR 261, the stock is trading at 6.80x of its FY19E earnings and at 6.94x of its FY20E earnings. We recommend a BUY rating with a target price of +INR 480 (upside – 78.4%).

MARKET INFO

SENSEX	33251
NIFTY	10309

SHARE HOLDING PATTERN (%)

Particulars	Sep 17	Jun 17	Mar 17
Promoters	50	50	50
FIIIs	21.83	22.33	19.43
DIIIs	12.74	12.05	7.7
Others	15.42	15.63	22.88
Total	100	100	100

18.9%

Revenues CAGR between FY 17 and FY 20E

22.7%

EBITDA between FY 17 and FY 20E

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Operating Metrics & key comments

- Volume Break up (Dahej & Kochi):** Total volumes were up 14.76% QoQ and 16.46% YoY mainly due to increase in Long Term and Tolling volumes.
- A decline can be seen in the contribution of spot volumes for the Dahej Terminal. The volumes have been driven primarily from the Long Term contracts which have moved up significantly from 104.8 TBTU in the previous quarter to 127 TBTU in the current quarter.

Volumes in TBTU	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Dahej Terminal						
Sales (TBTU)						
Long term	105.3	103	107.5	107.1	104.8	127
Spot	9.9	20.7	4.8	0.4	0.8	4
Tolling	50.1	60.7	75.3	69.3	78.6	79
Total	165.3	184.4	187.6	176.8	184.2	210
Kochi Terminal						
Sales (TBTU)	2.9	4.5	3.8	2.9	7.5	10
Dahej + Kochi	168.2	188.9	191.4	179.7	191.7	220.0

Source: Company, KRChoksey Research

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Concall Highlights:

- The significant increase in the PAT has been mainly due to increase in the volume growth at a total of 220 TBTU – 15% up QoQ and 16% up YoY. The production for the gas volumes for the quarter has been the highest. It has also been the highest for both the terminals – 210 TBTU for the Dahej terminal (2.2% up QoQ) and 10 TBTU for the Kochi terminal (25% up QoQ).
- The expansion plan for the Dahej terminal is in process and is as per schedule. The incremental capacity is likely to become operational by Q1FY19.
- The current utilization for the Kochi terminal stood at 15% which has improved from the previous utilization rates of 12% in Q1FY18 and 6% in Q4FY17. The company will be able to maintain the current utilization rate of 15.5% and a substantial jump in the utilization rate can only be expected to see in the last quarter of FY19.
- The company's tax rate can be expected to be between 30-34%. The company does not longer fall under the MAT tax applicability.
- With respect to the Gorgon renegotiation, the process of renegotiation is still on and the company is in the stage of finalization which is likely to be concluded by the end of this quarter.
- About 10-11 TBTU each in Q1 and Q2 of FY18 of the Gorgon volumes have flown to the Dahej Terminal.
- The timeline of the Kochi- Mangalore-Bangalore pipeline is maintained at December, 2018 as opposed to media reports of any political disruptions.
- The company is working to expand and grow organically as well as in-organically. If there is an opportunity to buy any terminals, the company would definitely like to get involved.
- According to the company the government has taken a lot of policy measures which are expected to improve gas usage in the country. Even with competition being built for the setting up of new terminals, PLNG, being an old player in the business does not expect any hit on the performance.
- The company currently has 3 long-term contracts. The first two being the RasGas to import 7.5 MT and 1.0MT of gas and the third being with Mobil Australia to import 1.44 MT of gas. There are two aspects to the long-term contracts – first is the base quantity that the company has to take over a period of time. The second being the amount of volumes that has flexibility that is decided over the period of operation.
- While the spot LNG prices have surged significantly, the company believes that the contract prices are linked to oil prices and does not expect to see any impact on the volumes.
- As the government and the Central Ministry of Transportation comes out with policy measures to promote the use of LNG as an alternate fuel, the company is positive that such initiatives will help the company to increase the use of LNG in buses, trucks and other vehicles and thus the company can grow and expand gradually due to higher demand.
- The current debt as at the end of Q2FY18 stood at INR 2,021 Crore and cash in hand (including short-term investments) stood at INR 3,815 Crore.

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Financials:

INCOME STATEMENT (STANDALONE)

Particulars (INR Million)	Q2FY18	Q1FY18	Q2FY17	Q-o-Q (%)	YoY (%)
Revenue from operations	77,702	66,144	64,351	17.5%	20.7%
Cost of Materials Consumed	67,427	57,613	55,467	17.0%	21.6%
Employee benefit expense	194	180	268	7.8%	-27.6%
Other expenses	1,094	1,086	1,175	0.7%	-6.9%
Total Expenditure	68,715	58,880	56,909	16.7%	20.7%
EBITDA	8,987	7,264	7,442	23.7%	20.8%
EBITDA Margin (%)	11.60%	11.00%	11.60%		
Depreciation & Amortization Expense	1,039	860	1,027	20.8%	1.2%
EBIT	7,949	6,405	6,415	24.1%	23.9%
Finance Cost	465	554	465	-16.1%	0.0%
Other Income	1,019	915	707	11.4%	44.1%
Profit before exceptional items and tax	8,504	6,765	6,658	25.7%	27.7%
Exceptional Items	-	-	-		
Profit before Tax (PBT)	8,504	6,765	6,658	25.7%	27.7%
Tax Expense	2,616	2,170	2,282	20.6%	14.6%
Profit after Tax (PAT)	5,888	4,596	4,376	28.1%	34.6%
Net Profit Margin (%)	7.60%	6.90%	6.80%		
EPS Basic (INR)	3.93	3.06	2.92		

Source: Company, KRChoksey Research

INCOME STATEMENT (CONSOLIDATED)

Particulars (INR Million)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue from Operations	3,96,270	2,71,334	2,46,160	3,35,491	4,13,804	4,19,227
Cost of material consumed	3,76,109	2,50,757	2,14,169	2,89,173	3,56,674	3,61,348
Employee benefit expenses	598	711	739	1,396	1,722	1,745
Other expenses	4,386	4,005	5,330	6,123	7,553	7,652
Total Operating Expense	3,81,093	2,55,472	2,20,238	2,96,692	3,65,949	3,70,744
EBITDA	15,177	15,863	25,923	38,799	47,856	48,483
Depreciation	3,291	3,216	3,691	3,898	4,678	5,613
EBIT	11,886	12,647	22,232	34,901	43,178	42,870
Finance Cost	3,078	2,388	2,097	2,570	3,030	3,618
Other Income	1,564	1,733	3,466	3,480	3,496	3,512
Profit before Tax (PBT) before exceptional items	10,372	11,992	23,602	35,812	43,644	42,765
Share of profit of equity-accounted investees	-	146	175	-	-	-
Profit before Tax (PBT)	10,372	12,138	23,777	35,812	43,644	42,765
Total Tax expense	1,324	2,860	6,545	12,274	14,959	14,657
Profit after Tax (PAT)	9,048	9,278	17,231	23,538	28,686	28,108
EPS (INR)	12.06	12.37	22.98	31.38	38.25	37.48

Source: Company, KRChoksey Research

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BALANCE SHEET

Particulars (INR Million)	FY15	FY16	FY17	FY18E	FY19E	FY20E
EQUITY AND LIABILITIES						
Share capital	7,500	7,500	7,500	7,500	7,500	7,500
Reserves and surplus	51,652	59,125	74,284	97,821	1,26,507	1,54,615
Total Equity	59,152	66,625	81,784	1,05,321	1,34,007	1,62,115
Non-current liabilities						
Long term borrowings	25,687	22,329	14,500	18,000	21,000	25,000
Long term provisions	43	56	66	66	66	66
Deferred tax liabilities (net)	4,933	5,886	7,302	9,952	12,275	12,435
Other non-current liabilities	9,000	14,000	13,858	18,886	23,295	23,600
Total non-current liabilities	39,662	42,271	35,725	46,904	56,635	61,101
Current liabilities						
Financial Liabilities	10,094	13,173	18,294	24,813	30,605	31,006
Other Current liabilities	2,751	2,326	2,676	3,647	4,498	4,557
Short term provisions	93	99	95	95	95	95
Current tax liabilities (net)	80	253	562	767	945	958
Total current liabilities	13,019	15,851	21,627	29,321	36,143	36,616
SOURCES OF FUNDS	1,11,833	1,24,746	1,39,136	1,81,546	2,26,786	2,59,832
ASSETS						
Non-current assets						
Property, plant & equipment	69,320	68,037	84,185	1,02,681	1,23,217	1,47,861
Capital work in progress	7,469	15,505	486	3,276	3,931	4,717
Intangible assets	106	69	45	72	83	96
Investments accounted for using equity method	1,235	1,385	2,489	3,392	4,184	4,238
Financial Assets	2,989	2,909	1,955	2,069	2,190	2,319
Other non-current assets	3,025	983	950	960	975	990
Total non-current assets	84,144	88,887	90,110	1,12,450	1,34,580	1,60,222
Current Assets						
Inventories	8,826	2,461	5,405	7,298	9,002	9,120
Current Investments	-	-	27,707	27,707	27,707	27,707
Trade receivables	13427.7	9885.2	12107.9	16501.8	20353.8	20620.6
Cash and cash equivalents	3558.3	21767.1	3209.9	16799.9	34184.3	41192.4
Bank Balances other than above	62.6	61.8	63.5	63.5	63.5	63.5
Other current financial assets	3.7	12.6	2.8	3.8	4.71	4.77
Current Tax Assets (net)	1,056	1,321	281	383	472	479
Other current assets	754	350	249	339	418	424
Total current assets	27,689	35,859	49,026	69,096	92,206	99,610
APPLICATION OF FUNDS	1,11,833	1,24,746	1,39,136	1,81,546	2,26,786	2,59,832

Source: Company, KRChoksey Research

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CASH FLOW STATEMENT

Particulars (INR Million)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profit before Tax (PBT):	10,372	12,138	23,777	35,812	43,644	42,765
Operating profit before working capital changes	15,639	15,743	29,098	42,279	51,352	51,995
Cash Generated from (/ used in) operations	11,210	35,083	25,826	50,145	58,253	52,338
Less: Income Tax Paid (net of refunds)	(2,203)	(1,997)	(3,780)	(12,274)	(14,959)	(14,657)
Net Cash generated from/(used in) operating activities	9,007	33,086	22,046	37,871	43,294	37,681
Net Cash Used In Investing Activities	(7,168)	(8,538)	(31,751)	(25,211)	(25,880)	(31,055)
Net Cash Used in Financing Activities	(10,575)	(6,994)	(7,482)	930	(30)	382
Net Increase/(Decrease) in Cash and Cash Equivalents	(8,736)	17,555	(17,187)	13,590	17,384	7,008
Cash and Cash Equivalents at the beginning of the year	12,312	3,558	21,767	3,210	16,800	34,184
Cash and Cash Equivalents at the end of the year	3,576	21,113	4,580	16,800	34,184	41,192

Source: Company, KRChoksey Research

RATIOS

Particulars (INR Million)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Adjusted EPS (INR)	12.06	12.37	22.98	31.38	38.25	37.48
EBITDA Margin (%)	3.8%	5.8%	10.5%	11.6%	11.6%	11.6%
EBIT Margin (%)	3.0%	4.7%	9.0%	10.4%	10.4%	10.2%
RoCE (%)	14.0%	14.2%	23.1%	28.3%	27.9%	22.9%
RoE (%)	15.3%	13.9%	21.1%	22.3%	21.4%	17.3%
Debt/Equity (x)	0.43	0.34	0.18	0.17	0.16	0.15
EV/EBITDA	14.31	12.33	7.96	5.06	3.80	3.69
P/E	21.57	21.03	11.32	8.29	6.80	6.94

Source: Company, KRChoksey Research

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Petronet LNG Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
09-Nov-17	269	480	BUY	Buy	More than 15%
18-Nov-16	347	400	BUY		
07-Sep-16	357	397	ACCUMULATE	Accumulate	5% – 15%
17-May-16	276	330	BUY	Hold	0 – 5%
11-Feb-16	251	280	ACCUMULATE		
20-Oct-15	191	218	ACCUMULATE	Reduce	-5% – 0
31-July-15	195	200	HOLD	Sell	Less than – 5%
6-May-15	175	180	HOLD		

ANALYST CERTIFICATION:

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