

# Stock Update

## No impact from proposed LNG terminal regulations by PNGRB

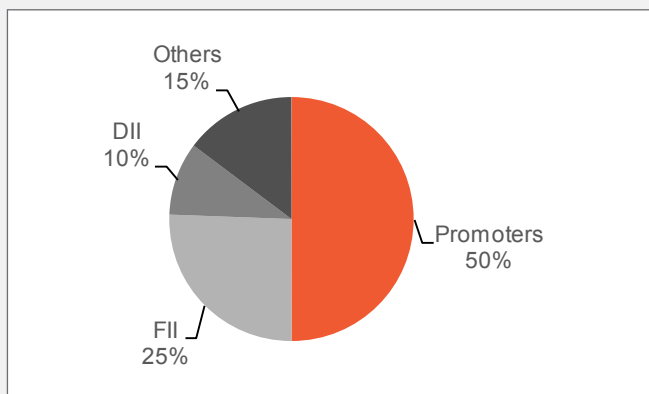
### Petronet LNG

Reco: Buy | CMP: Rs232

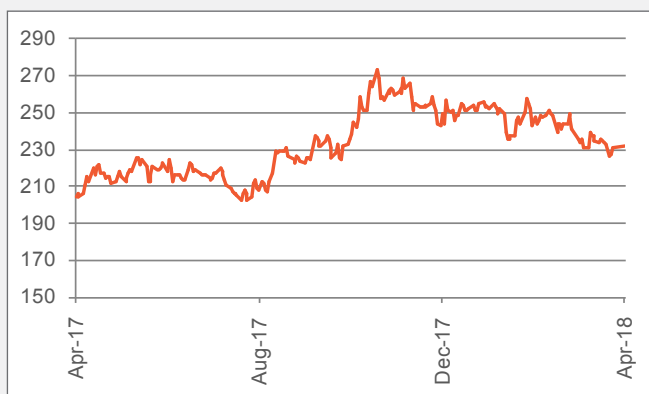
#### Company details

Price target:	Rs320
Market cap:	Rs34,860 cr
52-week high/low:	Rs275/198
NSE volume: (No of shares)	42.5 lakh
BSE code:	532522
NSE code:	PETRONET
Sharekhan code:	PETRONET
Free float: (No of shares)	75.0 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	-4.1	-8.6	-2.2	12.8
Relative to Sensex	-1.2	-6.2	-6.5	0.9

#### Key points

- ♦ **Event - PNGRB issues draft regulations for establishment and operation of LNG terminal:** Petroleum and Natural Gas Regulatory Board (PNGRB) draft regulations requires LNG terminal operators to register their LNG terminals with PNGRB, which would be valid for 25 years and extendable up to 10 years and offer 20% of short term (less than five years contracts) uncommitted re-gasification capacity or 0.5mmt, whichever is higher as common carrier capacity. Moreover the LNG terminal operator would have to furnish bank guarantee to PNGRB for an amount equal to 1% of the estimated project cost of the LNG terminal or Rs. 25 crore, whichever is less and would have to apply for separate registration for each terminal.
- ♦ **Impact analysis – Neutral for Petronet LNG as PNGRB draft regulation does not talk about regulating re-gas tariffs:** Petronet LNG would have to keep aside only 0.5mmt (given majority of its current 15mmt capacity is contracted) of re-gasification capacity for common carrier purpose as Dahej utilisation could be ramped up to 18mmt, post expansion to 17.5mmt, by June 2019. Kochi terminal has ample spare capacity as it is operating at only 13% utilisation and thus, capacity allocation for common carrier purpose would not be a difficult task. Hence, in our view, the draft LNG terminal regulations (if implemented) would be neutral for Petronet LNG as it has kept re-gas tariff untouched from any kind of regulations as of now.
- ♦ **Outlook – Strong volume growth outlook led by Dahej capacity addition and improving Kochi utilisation:** We believe the long-term volume growth outlook of PLNG remains robust. We expect 12% volume CAGR over FY2017-FY2020E on the back of capacity expansion at Dahej to 17.5mmt by June 2019 (from 15mmt currently) and ramp up of utilisation at Kochi terminal to 40% in FY2020E. Moreover, we expect PLNG will be able to take 5% annual escalation in the re-gas tariff given its strong competitive position (lowest re-gas tariff in industry and strong connectivity to pipelines).

- ♦ **Valuation – Maintain Buy with unchanged PT of Rs. 320:** We remain confident on earnings visibility for PLNG, given the rising share of contracted volume in the overall volume mix. Given our expectation of strong earnings CAGR of 18% over FY2017-FY2020E and a resilient return on equity (RoE) of 22-24%, we believe

that PLNG is trading at an attractive valuation of 15.5x FY2019E EPS and 12.3x FY2020E EPS. Thus, we maintain our Buy rating on the stock with unchanged target price of Rs. 320.

- ♦ **Key risks to our PT and rating:** Regulation of re-gas tariffs by PNGRB and lower-than-expected utilisation rate at Dahej and Kochi LNG terminals.

#### Valuations (standalone)

Particulars	Rs cr				
	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Revenue	27,133	24,616	30,364	33,636	42,606
Operating profit	1,586	2,592	3,416	3,530	4,332
OPM (%)	5.8	10.5	11.3	10.5	10.2
Adjusted PAT	913	1,706	2,167	2,255	2,823
% YoY growth	3.5	86.8	27.1	4.1	25.2
Adjusted EPS (Rs)	6.1	11.4	14.4	15.0	18.8
P/E (x)	38.2	20.4	16.1	15.5	12.3
P/B (x)	5.3	4.3	3.7	3.2	2.7
EV/EBITDA (x)	22.0	12.8	9.4	8.7	6.6
RoNW (%)	14.8	23.2	24.6	22.0	23.8
RoCE (%)	14.0	22.8	27.0	25.5	28.4

Source: Company data; Sharekhan estimates

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by BNP PARIBAS

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