

# Petronet LNG Ltd.



**RESULT UPDATE**

23<sup>rd</sup> May, 2018

# Petronet LNG Ltd.

**Strong performance on the back of volumes**

CMP <b>INR 213</b>	Target <b>INR 285</b>	Potential Upside <b>33.6%</b>	Market Cap (INR Mn) <b>315,900</b>	Recommendation <b>BUY</b>	Sector <b>Oil &amp; Gas</b>
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## Result highlights

Petronet LNG Ltd. (PLNG) reported a net sales of INR 86.3 bln (+11.3% QoQ, +35.7% YoY) due to higher volumes processed from the regasification capacity at the Dahej terminal and efficiency in operations. The company's overall volume processed for the quarter was 213 TBTU, a growth of 18% over FY17 out of which Dahej terminal operated at 109% of its nameplate capacity for the quarter producing 207 TBTU, a growth of 17% YoY. The gross Margins were impacted by 143 bps QoQ and 177 bps YoY to 11.5% due to higher gas prices resulting in higher RMAT (+38.4% YoY and 13.25 QoQ). Fall in the gross margins (-143 bps QoQ and 177 bps YoY) was negated by lower expenses for the quarter (-161 bps YoY) which resulted into a growth of 33.4% YoY into the operational performance. OPM fell by 16 bps YoY and 140 bps QoQ to 9.5%. Higher tax outgo (33.9% v/s 23.9% in Q4FY17) & lower other income (-31.4% YoY) impacted bottom-line to certain extent which was increased by 11% YoY to INR 5.2 bln. NPM fell by 134 bps YoY and 76 bps QoQ to 6.1%. The Board has also recommended a dividend of INR 4.5 per share.

## MARKET DATA

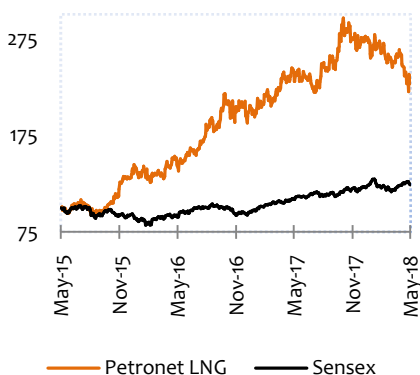
Shares outs (Mn)	1500
Equity Cap (INR Mn)	15000
Mkt Cap (INR Mn)	315900
52 Wk H/L (INR)	275/198
Volume Avg (3m K)	3798.7
Face Value (INR)	10
Bloomberg Code	PLNG IN

## KEY FINANCIALS

Particulars	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	2,71,334	2,46,160	3,05,986	4,13,804	4,19,215
EBITDA	15,863	25,923	33,124	45,202	45,793
PAT	9,278	17,231	21,104	28,499	28,984
EPS Diluted (Rs.)	6.19	11.49	14.07	19.00	19.32
OPM (%)	3.8%	5.8%	10.5%	10.8%	10.9%
NPM (%)	2.3%	3.4%	7.0%	6.9%	6.9%
P/E (x)	34.5	18.6	15.2	11.2	11.0

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



## Bright prospects from the Kochi terminal

The Kochi-Mangalore-Bangalore pipeline by GAIL is expected to come on-stream by December, 2018 post which we believe there will be a robust pick up in the volumes from the Kochi terminal thus increasing its capacity utilization. We expect the utilization levels to increase to ~35-40% from the current 9%. Post commissioning of the pipeline, the state would get domestic LNG at nearly half the existing price if it is connected to the national gas grid in Bangalore. In addition, there would be 3 major consumers in the Mangalore region – MRPL, OMPL and Mangalore Chemicals & Fertilizers. Among the three companies, the company expects to have an incremental volume of more than 1 MMTPA.

## Capacity addition to continue

With the capacity addition of the Dahej terminal to 17.5 MMTPA which also includes setting up a storage tank to help improve ease of operations for scheduling of ships expected to be commissioned in early 2019, we expect the company to continue focussing on capacity additions to make the most of the huge demand for LNG in the country.

A considerable improvement in the cash flows post FY19 can be potentially utilized to seize new opportunities including acquiring equity stake in the Mundra or Ennore terminal.

## MARKET INFO

SENSEX	34651
NIFTY	10537

## SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	50	50	50
FIIIs	25.11	25.58	21.83
DIIIs	9.82	9.69	12.74
Others	15.07	14.74	15.42
Total	100	100	100

17.0%

Revenues CAGR between FY 18 and FY 20E

17.6%

EBITDA between FY 18 and FY 20E

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## Petronet LNG Ltd.

In addition, the company currently has both its terminal on the west coast. The company is looking to have at least a 25% stake in the Ennore terminal and a potential acquisition will give the company access on the east coast as well as there are many terminals coming on the west. Moreover, the management has stated that the saving from having a terminal on the west coast would be \$1/mmbtu, 13% less than the price on the west coast as it would cost less to source gas from the east coast terminals.

### Valuation & Outlook:

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. We have revised our estimates to factor in the increasing volumes from the Dahej terminal and increasing ramp-up from the Kochi terminal. We expect revenues to grow at a CAGR of 17% over FY18-20E and EBITDA to grow at a CAGR of 17.6% over FY18-20E. At a CMP of INR 213.2 PLNG is trading at an attractive valuation of 11.2x FY19E EPS and 11.0x FY20E EPS. We valued the company by assigning a P/E multiple of 15x on the FY19E EPS of INR 19.0 and arrived at a target price of INR 285 (potential upside – 33.6%). **We maintain BUY rating on the stock.**

### QUARTERLY PERFORMANCE

Particulars (INR Mn)	Q4FY18	Q3FY18	Q4FY17	Q-o-Q (%)	Y-o-Y (%)
<b>Revenue from operations</b>	<b>86,362</b>	<b>77,571</b>	<b>63,651</b>	<b>11.3%</b>	<b>35.7%</b>
Cost of Materials Consumed	76,449	67,559	55,220	13.2%	38.4%
Gross Profit	9,914	10,011	8,431	-1.0%	17.6%
Gross Profit Margin (%)	11.5%	12.9%	13.2%	-143 bps	-177 bps
Employee benefit expense	254	197	181	29.0%	40.2%
Other expenses	1,439	1,341	2,086	7.3%	-31.0%
Total Operating Expenditure	1,693	1,538	2,267	10.1%	-25.3%
<b>EBITDA</b>	<b>8,221</b>	<b>8,474</b>	<b>6,163</b>	<b>-3.0%</b>	<b>33.4%</b>
<b>EBITDA Margin (%)</b>	<b>9.5%</b>	<b>10.9%</b>	<b>9.7%</b>	<b>-140 bps</b>	<b>-16 bps</b>
Depreciation and Amortization Expense	1,013	1,039	1,016	-2.5%	-0.4%
EBIT	7,208	7,435	5,147	-3.0%	40.0%
Finance Cost	335	367	469	-8.7%	-28.7%
Other Income	1,034	414	1,508	149.8%	-31.4%
Profit before Tax (PBT)	7,908	7,482	6,186	5.7%	27.8%
Tax Expense	2,681	2,194	1,478	22.2%	81.4%
<b>Profit after Tax (PAT)</b>	<b>5,227</b>	<b>5,288</b>	<b>4,708</b>	<b>-1.2%</b>	<b>11.0%</b>
<b>Net Profit Margin (%)</b>	<b>6.1%</b>	<b>6.8%</b>	<b>7.4%</b>	<b>-76 bps</b>	<b>-134 bps</b>
<b>EPS Basic (INR)</b>	<b>3.48</b>	<b>3.53</b>	<b>3.14</b>	<b>-1.2%</b>	<b>11.0%</b>

Source: Company, KRChoksey Research

### VOLUMES PERFORMANCE

Volumes in TBTU	Q4FY18	Q3FY18	Q4FY17	Q-o-Q (%)	Y-o-Y (%)
<b>Dahej Terminal Sales (TBTU)</b>					
<b>Sales (TBTU)</b>					
Long term	115	119	107.1	-3.4%	7.4%
Spot	7	4	0.4	75.0%	1650.0%
Service/Tolling	85	92	69.3	-7.6%	22.7%
<b>Total</b>	<b>207</b>	<b>215</b>	<b>176.8</b>	<b>-3.7%</b>	<b>17.1%</b>
<b>Kochi Terminal</b>					
<b>Sales (TBTU)</b>	<b>5.9</b>	<b>8</b>	<b>2.9</b>	<b>-26.3%</b>	<b>103.4%</b>
<b>Dahej + Kochi</b>	<b>212.9</b>	<b>223</b>	<b>179.7</b>	<b>-4.5%</b>	<b>18.5%</b>

Source: Company, KRChoksey Research

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### Concall Highlights:

- The company does not face any pressure of volumes being affected as other terminals like Ennore, Dhamra and Mundra come up. It has already tied in contracts with the buyers in a take-or-pay arrangement and for regas also the capacity has already been booked.
- Kochi production is slow as the Kochi-Bangalore pipeline is still to come up and likely to be installed and commissioned by December, 2018. After that also Kochi terminal will be able to perform on its own and generate profitability.
- Robust volume growth can be expected post the expansion of the Dahej terminal which is being expanded from 15 MMTPA to 17.5 MMTPA as they are able to offer the lowest regasification tariffs at the Dahej terminal.
- The company has already submitted a proposal to the Bangladesh govt for a land-based terminal and is awaiting the response so as to assure minimum revenues from the project by running the terminal at full capacity. As regards to the Sri Lanka project (FSRU), still in process of finalizing the details.
- The capacity for Sri Lanka is 2.5 MMTPA and 7 MMTPA for Bangladesh. The project cost for the Bangladesh project is USD 1 bln while for the Sri Lanka project it is USD 300 mln.
- Current volume off take from BPCL currently off take ~2 mmscmd which can go up to 2.5 mmscmd. OPAL currently off takes ~1.3-1.5 mmscmd which can go up to 1.5-1.7 mmscmd.
- No time frame still with respect to the Kochi-Mangalore-Bangalore pipeline as no clarity as yet from GAIL.
- A 5% hike in tariff has been implemented at the Kochi terminal.
- The company sees a huge potential in the CGD business especially after the 9th bidding round by PNGRB.
- Investments in Qatar are an integration exercise where as projects in Bangladesh and Sri Lanka are purely for expanding regasification infrastructure. It hopes to finalize the deals for the terminals in FY19.
- The Kochi terminal should see a ramp up of 3-3.5 MTPA post commissioning of Kochi-Mangalore-Bangalore pipeline.
- The tariff for the additional 2.5 MMTPA at the Dahej terminal would broadly be in-line with the existing tariffs of the Dahej terminal.
- Mundra terminal can be expected to commission in early 2019.
- The prime users of LNG at the Bangladesh project would be power plants where currently diesel is being used.
- Unless there are many major capex plans, the company will continue to pay out dividends in the same proportion as for FY18.
- The estimated capex for FY19 – INR 400 crores apart from investments from Sri Lanka and Bangladesh projects. Similar kind of capex can be expected for FY20.
- The strategy for the additional capacity expansion at Dahej would be to tie up for long-term contracts.
- The company also directly sells LNG to local customers near Kochi. In Dahej, it is currently done by IOC and BPCL. However, PLNG is also in talks with some customers. They expect to start one more customer in this quarter.
- EBITDA margins have declined as there was a rise in the employee costs which included a one-time incentive given to employees of INR 9-10 crore and there has also been some accounting adjustment in other expenses.
- The Qatar investment is in its initial stage. However, it would be an integrated project which could include liquefaction as well as E&P.
- Mundra terminal development will be phase wise and can be expected to be commissioned by March/June, 2019.

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## Financials:

### INCOME STATEMENT (CONSOLIDATED)

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operations</b>	<b>2,71,334</b>	<b>2,46,160</b>	<b>3,05,986</b>	<b>4,03,169</b>	<b>4,59,352</b>
Cost of Materials consumed	2,50,757	2,14,169	2,66,902	3,56,888	4,06,621
Employee benefit expenses	711	739	912	1,184	1,349
Other expenses	4,005	5,330	5,049	6,720	7,656
Total Operating Expense	2,55,472	2,20,238	2,72,863	3,64,792	4,15,627
<b>EBITDA</b>	<b>15,863</b>	<b>25,923</b>	<b>33,124</b>	<b>38,377</b>	<b>43,725</b>
<b>EBITDA Margin (%)</b>	<b>5.8%</b>	<b>10.5%</b>	<b>10.8%</b>	<b>9.5%</b>	<b>9.5%</b>
Depreciation	3,216	3,691	4,117	3,689	3,567
EBIT	12,647	22,232	29,007	34,688	40,158
Finance Cost	2,388	2,097	1,630	1,625	1,649
Other Income	1,733	3,466	3,174	3,475	3,807
Profit before Tax (PBT) before exceptional items	11,992	23,602	30,551	36,538	42,316
Share of profit of associates & JVs	146	175	326	0	0
Profit before Tax (PBT)	12,138	23,777	30,877	36,538	42,316
Total Tax expense	2,860	6,545	9,773	12,387	14,346
<b>Profit after Tax (PAT)</b>	<b>9,278</b>	<b>17,231</b>	<b>21,104</b>	<b>24,151</b>	<b>27,970</b>
<b>PAT Margin (%)</b>	<b>3.4%</b>	<b>7.0%</b>	<b>6.9%</b>	<b>6.0%</b>	<b>6.1%</b>
<b>EPS Basic (INR)</b>	<b>6.19</b>	<b>11.49</b>	<b>14.07</b>	<b>16.10</b>	<b>18.65</b>

Source: Company, KRChoksey Research

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# Petronet LNG Ltd.

## BALANCE SHEET (CONSOLIDATED)

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	7,500	7,500	15,000	15,000	15,000
Reserves and surplus	59,125	74,284	83,113	97,951	1,15,136
Total Equity	66,625	81,784	98,113	1,12,951	1,30,136
<b>Non-current liabilities</b>					
Long term borrowings	22,329	14,500	7,334	7,701	8,086
Long term provisions	56	66	78	103	117
Deferred & other non-current liabilities	19,886	21,159	23,318	27,395	29,752
<b>Total non-current liabilities</b>	<b>42,271</b>	<b>35,725</b>	<b>30,730</b>	<b>35,199</b>	<b>37,955</b>
<b>Current liabilities</b>					
Financial Liabilities	13,173	18,294	24,013	30,837	35,135
Short term provisions	99	95	121	159	182
Other Current liabilities	2,580	3,238	4,468	5,887	6,707
<b>Total current liabilities</b>	<b>15,851</b>	<b>21,627</b>	<b>28,602</b>	<b>36,884</b>	<b>42,023</b>
<b>SOURCES OF FUNDS</b>	<b>1,24,746</b>	<b>1,39,136</b>	<b>1,57,445</b>	<b>1,85,034</b>	<b>2,10,115</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Net Block	83,610	84,716	82,499	83,810	81,040
Investment in JVs	1,385	2,489	2,552	2,552	2,552
Financial Assets	2,909	1,955	1,325	1,325	1,325
Other non-current assets	983	950	799	799	799
<b>Total non-current assets</b>	<b>88,887</b>	<b>90,110</b>	<b>87,175</b>	<b>88,486</b>	<b>85,716</b>
<b>Current Assets</b>					
Inventories	2,461	5,405	4,911	7,732	9,167
Financial Assets	9,960	39,882	56,166	63,505	68,492
Cash and cash equivalents	21,767	3,210	8,553	24,468	45,779
Other current assets	1,671	530	640	843	960
<b>Total current assets</b>	<b>35,859</b>	<b>49,026</b>	<b>70,270</b>	<b>96,548</b>	<b>1,24,399</b>
<b>APPLICATION OF FUNDS</b>	<b>1,24,746</b>	<b>1,39,136</b>	<b>1,57,445</b>	<b>1,85,034</b>	<b>2,10,115</b>

Source: Company, KRChoksey Research

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## CASH FLOW STATEMENT (CONSOLIDATED)

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
<b>Profit before Tax (PBT)</b>	<b>12,138</b>	<b>23,777</b>	<b>30,877</b>	<b>36,538</b>	<b>42,316</b>
Operating profit before working capital changes	16,397	27,728	39,987	41,852	47,532
Cash Generated from (/ used in) operations	35,737	24,456	33,950	43,873	48,503
Less: Income Tax Paid (net of refunds)	-1,997	-3,780	-9,773	-12,387	-14,346
Net Cash generated from/(used in) operating activities	33,740	20,676	24,177	31,486	34,158
Net Cash Used In Investing Activities	-8,538	-31,751	-1,900	-5,000	-797
Net Cash Used in Financing Activities	-6,994	-7,482	-16,934	-10,571	-12,049
<b>Net Increase/( Decrease ) in Cash and Cash Equivalents</b>	<b>18,209</b>	<b>-18,557</b>	<b>5,344</b>	<b>15,915</b>	<b>21,311</b>
<b>Cash and Cash Equivalents at the beginning of the year</b>	<b>3,558</b>	<b>21,767</b>	<b>3,210</b>	<b>8,553</b>	<b>24,468</b>
<b>Cash and Cash Equivalents at the end of the year</b>	<b>21,767</b>	<b>3,210</b>	<b>8,553</b>	<b>24,468</b>	<b>45,779</b>

Source: Company, KRChoksey Research

## RATIOS

Particulars	FY16	FY17	FY18	FY19E	FY20E
<b><u>Profitability</u></b>					
Return on Assets (%)	7.4%	12.4%	13.4%	13.1%	13.3%
Return on Capital (%)	14.2%	23.1%	27.5%	28.8%	29.1%
Return on Equity (%)	13.9%	21.1%	21.5%	21.4%	21.5%
<b><u>Margin Trend</u></b>					
Gross Margin (%)	7.6%	13.0%	12.8%	11.5%	11.5%
EBITDA Margin (%)	5.8%	10.5%	10.8%	9.5%	9.5%
Net Margin (%)	3.4%	7.0%	6.9%	6.0%	6.1%
<b><u>Liquidity</u></b>					
Current Ratio	2.3	2.3	2.5	2.6	3.0
Quick Ratio	2.0	0.7	0.9	1.2	1.6
Debtor Days	13	18	20	18	16
Inventory Days	3	8	6	7	7
Creditor Days	10	14	19	18	18
Working Capital Days	6	12	7	7	6
<b><u>Solvency</u></b>					
Total Debt / Equity	0.3	0.2	0.1	0.1	0.1
Interest Coverage	5	11	18	21	24
<b><u>Valuation Ratios</u></b>					
EV/EBITDA	20.2	12.8	9.6	7.9	6.5
P/E	34.5	18.6	15.2	13.2	11.4
P/B	4.8	3.9	3.3	2.8	2.5

Source: Company, KRChoksey Research

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Petronet LNG Ltd.

Petronet LNG Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
23-May-18	213	285	BUY	Buy	More than 15%
09-FEB-18	248	480	BUY		
09-Nov-17	269	480	BUY	Accumulate	5% – 15%
18-Nov-16	347	400	BUY		
07-Sep-16	357	397	ACCUMULATE	Hold	0 – 5%
17-May-16	276	330	BUY		
11-Feb-16	251	280	ACCUMULATE	Reduce	-5% – 0
20-Oct-15	191	218	ACCUMULATE		
31-July-15	195	200	HOLD	Sell	Less than – 5%

ANALYST CERTIFICATION:

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