

Petronet LNG

Well placed to capitalise on opportunities

May 22, 2018

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Rating	BUY
Price	Rs211
Target Price	Rs300
Implied Upside	42.2%
Sensex	34,616
Nifty	10,517

(Prices as on May 22, 2018)

Trading data

Market Cap. (Rs bn)	316.3
Shares o/s (m)	1,500.0
3M Avg. Daily value (Rs m)	840.7

Major shareholders

Promoters	50.00%
Foreign	25.11%
Domestic Inst.	9.82%
Public & Other	15.07%

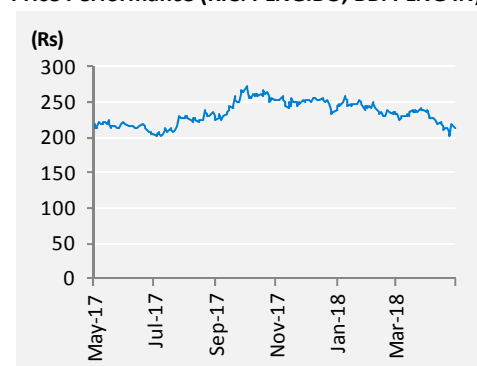
Stock Performance

(%)	1M	6M	12M
Absolute	(11.9)	(16.6)	(5.9)
Relative	(12.5)	(20.0)	(19.5)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	16.2	15.6	4.1
2020	20.2	17.9	12.9

Price Performance (RIC: PLNG.BO, BB: PLNG IN)



Source: Bloomberg

■ **Lower realisation, volume impact earnings:** Petronet LNG (PLNG) reported Q4FY18 EBITDA and PAT of Rs8.2bn (+33% YoY, -3% QoQ; PL e Rs9bn) and Rs5.2bn (+11% YoY, -1% QoQ; PL e Rs5.5bn), respectively. PLNG's total volumes were at 212tbtu (-5%QoQ) post restart of Dabhol LNG terminal in September. At the call, PLNG management clarified that demand momentum remains extremely strong from user industries like CGD, fertiliser and even power sector. Also, management sees no threat from new terminals like Mundra, Ennore etc given that PLNG remains the lowest cost terminal.

■ **Blended tariffs lower than expected:** PLNG's Q4 blended tariffs were at Rs46.6/tbtu (Rs44.9/tbtu in Q3; PL e 49) post increase in LT tariffs by 5%. Adjusted for contracted/service volumes, total spot volumes were limited at 7tbtu as off-takers increase their committed volumes.

■ **International diversification to aid future growth:** Management clarified that they are in advanced discussion with the Bangladesh (US\$1bn) and Sri Lanka (US\$300m) government to set up regasification units. However, timelines are not clear. PLNG management clarified that expansion on 2.5MTPA expansion at Dahej will be complete by June 2019 and tariffs are likely to be in line with current trend.

■ **Maintain estimates, reiterate, "BUY":** We maintain our FY19/20E earnings. PLNG is a play on India's rising LNG imports supported by benign spot LNG prices. We like PLNG's business model given high earnings visibility from India's growing reliance on imported LNG. Led by rising capacity and higher tariffs, we expect 20% earnings CAGR over FY18-20E with ROE of over 20%. Reiterate BUY with a DCF based PT of Rs300 (unchanged).

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	246,160	291,627	337,808	383,480
Growth (%)	(9.3)	18.5	15.8	13.5
EBITDA (Rs m)	25,922	32,694	36,738	43,593
PAT (Rs m)	17,056	20,987	24,350	30,373
EPS (Rs)	11.4	14.0	16.2	20.2
Growth (%)	86.7	23.0	16.0	24.7
Net DPS (Rs)	2.3	2.8	3.2	4.0

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	10.5	11.2	10.9	11.4
RoE (%)	23.2	24.5	24.4	24.9
RoCE (%)	20.6	24.5	24.1	24.9
EV / sales (x)	1.3	1.0	0.8	0.7
EV / EBITDA (x)	12.1	9.1	7.4	5.8
PE (x)	18.5	15.1	13.0	10.4
P / BV (x)	3.9	3.5	2.9	2.4
Net dividend yield (%)	1.1	1.3	1.5	1.9

Source: Company Data; PL Research

PLNG concall highlights

- Company mentioned that demand remains very strong despite jump in LNG prices. All sectors like CGD, power and fertiliser remain the key customers. PLNG sees no threat to demand from new terminals in Mundra, Ennore etc.
- For Q4, the company processed ~24tbtu from Gorgon of which 17 was processed in Dahej while balance was processed in Kochi.
- Advanced discussions are currently on to set up regassification terminal in Bangladesh and Sri Lanka. For Bangladesh, company is looking for assurances on revenues and company is looking for capex of US\$1bn. In Sri Lanka, company is in the process of finalising the details and capex will be US\$300m.
- Management expects Kochi Mangalore pipeline to be completed latest by December 2018. They expect incremental demand of 1MTPA from MRPL and MCF. Besides, they also expect higher LNG usage by Kochi refinery and FACT to add 0.75MTPA demand.
- Company clarified that the Mundra LNG terminal is likely to be commissioned by early 2019. However, they don't anticipate any demand threat given rising gas demand in the country.

Exhibit 1: Q4FY18 Result Overview (Rs m)

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
Sales	86,362	60,381	43.0	77,571	305,986	234,621	30.4
Regassification services	-	3,270	NA	-	-	11,540	NA
Net sales	86,362	63,651	35.7	77,571	305,986	246,161	24.3
Total expenditure	78,142	57,487	35.9	69,097	272,863	220,237	23.9
Raw material	76,449	55,220	38.4	67,559	266,902	214,169	24.6
Staff cost	254	181	40.2	197	912	739	23.5
Other expenditure	1,439	2,086	(31.0)	1,341	5,049	5,330	(5.3)
Forex	-	-	-	-	-	-	-
Operating profit	8,221	6,164	33.4	8,474	33,124	25,924	27.8
Other income	1,034	1,508	(31.4)	414	3,174	3,467	(8.4)
Interest	335	469	(28.7)	367	1,630	2,097	(22.3)
Depreciation	1,013	1,016	(0.4)	1,039	4,117	3,691	11.5
PBT	7,908	6,186	27.8	7,482	30,551	23,603	29.4
Tax	2,681	1,478	81.4	2,194	9,773	6,546	49.3
<i>Tax rate (%)</i>	<i>33.9</i>	<i>23.9</i>		<i>29.3</i>	<i>32.0</i>	<i>27.7</i>	
Net profit	5,227	4,708	11.0	5,288	20,778	17,057	21.8

Source: Company Data, PL Research

Exhibit 2: PLNG volume and margin details

Dahej (tbtu)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Contract	103	107	107	105	116	119	115
GAIL/GSPC- tolling	61	75	69	79	79	92	85
Spot (marketed by PLNG)	21	5	0.4	0.8	4.0	4.0	7.0
Kochi (tbtu)	4.5	3.8	2.9	7.5	10.0	8.0	6.0
Total	189	191	180	180	209	223	212
Blended Regas charge (Rs/tbtu)	45.2	38.8	46.8	46.4	49.2	44.9	46.6

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	246,160	291,627	337,808	383,480
Raw Material Expenses	182,581	217,839	253,814	287,011
Gross Profit	63,579	73,789	83,994	96,469
Employee Cost	739	849	977	1,074
Other Expenses	36,918	40,246	46,279	51,802
EBITDA	25,922	32,694	36,738	43,593
Depr. & Amortization	3,691	4,224	4,272	4,640
Net Interest	2,097	950	383	—
Other Income	3,466	2,039	2,703	6,379
Profit before Tax	23,602	29,559	34,786	45,332
Total Tax	6,545	8,572	10,436	14,960
Profit after Tax	17,056	20,987	24,350	30,373
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	17,056	20,987	24,350	30,373
Avg. Shares O/S (m)	1,500.0	1,500.0	1,500.0	1,500.0
EPS (Rs.)	11.4	14.0	16.2	20.2

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	24,604	26,920	29,777	35,776
C/F from Investing	(3,336)	(2,037)	(261)	(10,733)
C/F from Financing	(12,183)	(22,647)	(9,753)	(6,075)
Inc. / Dec. in Cash	9,086	2,236	19,764	18,968
Opening Cash	21,842	3,276	23,911	43,674
Closing Cash	3,276	23,911	43,674	62,642
FCFF	2,737	23,970	29,395	20,776
FCFE	(28,300)	27,970	24,894	20,776

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	(9.3)	18.5	15.8	13.5
EBITDA (%)	63.4	26.1	12.4	18.7
PAT (%)	86.7	23.0	16.0	24.7
EPS (%)	86.7	23.0	16.0	24.7
Profitability				
EBITDA Margin (%)	10.5	11.2	10.9	11.4
PAT Margin (%)	6.9	7.2	7.2	7.9
RoCE (%)	20.6	24.5	24.1	24.9
RoE (%)	23.2	24.5	24.4	24.9

Balance Sheet

Net Debt : Equity	—	(0.2)	(0.4)	(0.5)
Net Wrkng Cap. (days)	—	—	—	—

Valuation

PER (x)	18.5	15.1	13.0	10.4
P / B (x)	3.9	3.5	2.9	2.4
EV / EBITDA (x)	12.1	9.1	7.4	5.8
EV / Sales (x)	1.3	1.0	0.8	0.7

Earnings Quality

Eff. Tax Rate	27.7	29.0	30.0	33.0
Other Inc / PBT	14.7	6.9	7.8	14.1
Eff. Depr. Rate (%)	4.3	4.8	4.9	4.5
FCFE / PAT	(165.9)	133.3	102.2	68.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	80,939	90,229	109,709	134,007
Total Debt	500	4,500	—	—
Other Liabilities	2,904	8,780	10,519	12,786
Total Liabilities	84,343	103,509	120,228	146,793
Net Fixed Assets	78,954	78,245	75,972	84,333
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	5,389	25,264	44,256	62,460
Cash & Equivalents	3,276	23,911	43,674	62,642
Other Current Assets	23,805	27,040	30,325	33,575
Current Liabilities	21,692	25,687	29,744	33,757
Other Assets	—	—	—	—
Total Assets	84,343	103,509	120,228	146,793

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	64,351	77,702	77,571	86,362
EBITDA	7,442	8,987	8,474	8,221
% of revenue	11.6	11.6	10.9	9.5
Depr. & Amortization	1,027	1,039	1,039	1,013
Net Interest	465	465	367	335
Other Income	707	1,019	414	1,034
Profit before Tax	6,658	8,504	7,482	7,908
Total Tax	2,282	2,616	2,194	2,681
Profit after Tax	4,376	5,888	5,288	5,227
Adj. PAT	4,376	5,888	5,288	5,227

Key Operating Metrics

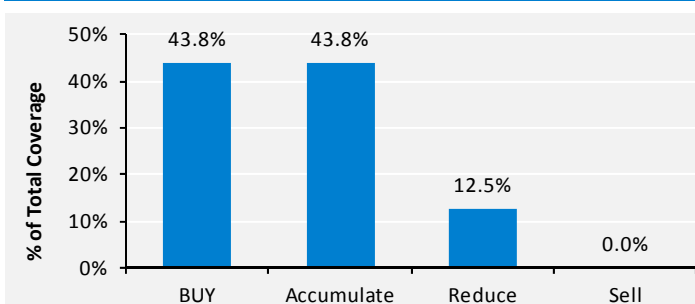
Y/e March	2017	2018	2019E	2020E
Dahej contract volume (MTPA)	13.00	14.75	15.75	16.75
Dahej spot volume (MTPA)	0.13	0.50	1.00	1.00
Kochi contract volume (MTPA)	—	0.20	0.50	1.00
Kochi spot volume (MTPA)	0.27	0.30	0.50	1.00
Dahej contract tariff (Rs/tbtu)	43.09	45.25	47.51	49.89
Dahej spot tariff (Rs/tbtu)	45.00	55.00	25.00	25.00
Kochi contract tariff (Rs/tbtu)	63.00	66.15	69.46	72.93

Source: Company Data, PL Research.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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