JULY 30, 2018

PETRONET LNG LTD (PLNG)

Result Update

PRICE RS.231 | TARGET RS.267 | BUY

All is well: Strong operating performance is backed by higher RLNG off-take from both Dahej and Kochi terminals, contractual escalation in tariffs and better operational efficiency. The company has bid for seven city gas licenses and expects city gas foray to boost Kochi LNG plant capacity usage. We expect robust near-term growth as Kochi ramps up and Dahej expands nameplate capacity by 8%.

Stock Details

Market cap (Rs mn)	:	347550
52-wk Hi/Lo (Rs)	:	276 / 198
Face Value (Rs)	:	10
3M Avg. daily volume	:	4,000,535
Shares o/s (m)	:	1500

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	309,160	378,137	423,651
Growth (%)	23.8	22.3	12.0
EBITDA	36,296	41,496	46,485
EBITDA margin (%)	11.7	11.0	11.0
PAT	21,103	24,210	27,833
EPS	14.1	16.1	18.6
EPS Growth (%)	24.0	15.0	15.0
BV (Rs/share)	65	75	85
Dividend/share (Rs)	4.5	5.5	7.0
ROE (%)	22.1	22.0	22.0
ROCE (%)	18.5	20.7	22.2
P/E (x)	16.4	14.3	12.4
EV/EBITDA (x)	9.9	8.1	6.8
P/BV (x)	3.5	3.1	2.7

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	50.0	50.0	50.0
FII	25.1	25.2	25.6
DII	9.8	9.7	9.7
Others	15.1	15.1	14.7

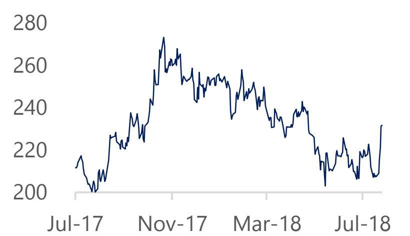
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Petronet LNG	12.1	1.8	(5.0)
Nifty	5.7	5.5	1.9

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Key Highlights

- PLNG's Q1FY19 result is better than our expectation. PAT for Q1FY19 was at Rs.5.87 bn up 12% qoq on account of higher volumes and better efficiency in operations. The Company reported quarterly EPS of Rs.3.91.
- In Q1FY19, PLNG's Dahej terminal operated higher at 111% of its name plate capacity and processed LNG quantities of 214 TBTUs, 3% qoq and 16% yoy. Similarly, Kochi terminal supplied 6 TBTUs of LNG, marginally better qoq basis, with utilization increasing to 10% in Q1FY19 from 9% in Q4FY18. We expect short-term volumes to increase in the near term led by higher off-take from BPCL's Kochi refinery (from ~2 mmscmd to 2.7 mmscmd).
- **Expansion Plans:** The company has submitted a plan to build 7.5 mmtpa terminal in Bangladesh with an investment of ~US$ 1 bn.
- Dahej capacity expansion from 15.0 mmtpa to 17.5 mtpa is expected to be completed by June 2019.
- The Company has reiterated that Kochi pipeline would be commissioned by Dec'18. However, for the Bangalore

Valuation & outlook

We expect PLNG to report an EPS of Rs.16.1/18.6 for FY19E/FY20E, respectively. At CMP, we believe that the stock is attractively valued at 12.4x FY20E earnings. We recommend BUY (earlier ACCUMULATE) rating on the stock with a revised price target of Rs.267/- including equity value of 26% stake in Dahej Port. We expect FY19E to be better driven by acceleration in volume growth, supported by expansion.

Quarterly performance table

Particulars (Rs Mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Income from ops	**91,692**	**86,362**	**64,351**	**42**	**6**
Total Expenditure	82,347	78,142	56,909	45	5
EBIDTA	**9,344**	**8,221**	**7,442**	**26**	**14**
Depreciation	1022	1,013	1027	(0)	1
EBIT	**8,322**	**7,208**	**6,415**	**30**	**15**
Other income	990	1,034	707	40	(4)
Interest-net	300	335	465	(35)	(10)
PBT	**9,012**	**7908**	**6,658**	**35**	**14**
Tax	3,142	2,681	2,282	38	17
PAT	**5,870**	**5,227**	**4,376**	**34**	**12**
Basic EPS	3.91	3.48	2.92	34.1	12.3

Source: Company.

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Quarterly result analysis

- **Revenue and realization** – PLNG's revenue for Q1FY19 was at Rs.91.7 bn up 42%/6% yoy/qoq, respectively supported by both higher volumes and better realizations.
- In Q1FY19, PLNG has booked higher total volume throughput of 220 TBTUs, 3.3% qoq and 14.6% yoy. Dahej RLNG terminal operated at 111% capacity utilization (expanded capacity of 15 mmtpa) in Q1FY19. Kochi terminal operated lower at 10% capacity utilization in Q1FY19 due to lack of pipeline connectivity vs 12% capacity utilization in Q1FY18.
- **Raw material cost**: Raw material cost (RLNG) for Q1FY19 was at Rs.80.8 bn higher 46% yoy and 6% qoq. Raw material as a percentage of sales has decreased 40 bps qoq to 88.2%.
- **Net-back (Net revenue less raw material cost):** Net-back for Q1FY19 was at Rs.10.85 bn up 9% qoq and 22% yoy due to better realizations and higher RLNG off-take.
- **Staff cost:** Employee cost decreased meaningfully by 12% qoq (base effect) to Rs.224 mn (-16% yoy).
- **Other expenditure:** Other expenditure has decreased significantly 11% qoq to Rs.1.3 bn (+9% yoy). Other expenditure as a percentage of sales decreased 30 bps qoq to 1.4%.

Operational matrix

	Q1FY19	Q4FY18	Q1FY18	YoY (ppt)	QoQ (ppt)
Margin Ratio (%)					
EBITDA Margin	10.2	9.5	11.6	(1.4)	0.7
EBIT Margin	9.1	8.3	10.0	(0.9)	0.7
Adj PAT Margin	6.4	6.1	6.8	(0.4)	0.3
Other Income/PBT	11.0	13.1	10.6	3.5	(2.1)
Tax/PBT	34.9	33.9	34.3	0.0	1.0
Expenses (Rs. Mn)	**Q1FY19**	**Q4FY18**	**Q1FY18**	**YoY (%)**	**QoQ (%)**
Raw Material consumption	80,844	76,449	55,467	46	6
Staff costs	224	254	268	(16)	(12)
Other Expenditure	1280	1,439	1175	9	(11)
Total	82,347	78,142	56,909	45	5
Expenses Ratio (%)	**Q1FY19**	**Q4FY18**	**Q1FY18**	**YoY (%)**	**QoQ (%)**
RM to Sales	88.2	88.5	86.2	2.0	(0.4)
Staff to Sales	0.24	0.29	0.42	(0.2)	(0.0)
Other expenses to Sales	1.40	1.67	1.83	(0.4)	(0.3)

Source: company

- **Operating profit (Rs. Mn):** For Q1FY19, the operational profit increased 14% qoq to Rs.9.34 bn (+26% yoy). The company recorded higher EBIDTA margin of 10.2% increased 70 bps qoq.
- **Finance cost:** In Q1FY19, finance cost reduced 10% qoq to Rs.300 mn (-35% yoy) mainly due to debt repayment. Earlier, PLNG has replaced its rupee loan of ~Rs 10.32 bn (average cost 11% annually) with lower cost unsecured bonds of Rs 10 bn (~9% annually) placed in the Indian market. We expect interest cost to come down further due to debt reduction.
- **Depreciation charge:** In Q1FY19, PLNG's depreciation cost has increased marginally by 1% qoq to Rs.1.02 bn (flat on yoy).

- **Other income:** In Q1FY19, PLNG reported lower other income of Rs.990 mn down 4% qoq (base effect) but up 40% yoy. Other income mainly consist of dividend and interest income. In Q4FY18, company received higher dividend income.
- **Profit before tax (PBT):** PBT for Q1FY19 was at Rs.9 bn up 14% on sequential basis and 35% yoy. Sequential increase is on account of higher operating income and lower finance charges.
- **Income tax:** The Company paid tax of Rs.3.14 bn (at an average rate of 34.9% in Q1FY19 v/s 33.9% in Q4FY18 and 34.3% in Q1FY18). This includes deferred tax liability of Rs.1.2 bn.
- **PAT:** PAT for Q1FY19 was at Rs.5.87 bn up 12% qoq on account of higher volumes and better efficiency in operations. The Company reported quarterly EPS of Rs.3.91 and CEPS of Rs.4.59.

Key developments:

- The company has indicated that BPCL's Kochi plant can ramp-up RLNG consumption from ~2 mmscmd to 2.7 mmscmd, 35% increase.
- PLNG expects city gas foray to boost Kochi LNG plant capacity usage. The company has bid for 7 city gas licenses in ongoing auction.
- **RLNG terminal in Srilanka/Bangladesh:** The company has submitted it proposal to set-up RLNG terminal in Srilanka (Sri Lanka can accommodate 2 LNG terminals) and Bangladesh which will boost its earnings in the long-term.
- The company has submitted new plan to build 7.5 mtpa terminal in Bangladesh with an investment of ~US$ 1 bn.
- The company is also looking for upstream, liquefaction stakes in Mideast, Africa, USA.
- **Global expansion**: PLNG is considering for acquiring ~10% stake in a gas field in Qatar though this is at a nascent stage.
- The management highlighted that all its capacity is already tie-up on take-or-pay basis and tariffs are very competitive. Hence, doesn't see major threat from new terminals coming.

Maintain BUY

We expect PLNG to report an EPS of Rs.16.1/18.6 for FY19E/FY20E, respectively. At CMP, we believe that the stock is fairly valued at 12.4x FY20E earnings. We recommend BUY (earlier ACCUMULATE) rating on the stock with a revised price target of Rs.267/- including equity value of 26% stake in Dahej Port. We expect FY19E to be better driven by acceleration in volume growth, supported by expansion.

Key Risk and Concerns:

We believe the key risk to our valuation are as follows:

1. **Geo-political risk:** Any gas supply disruption from Qatar can have meaningful impact on the earnings. Though current situation is under control.
2. Availability of LNG at reasonable prices on a long term basis has remained a key worry.
3. **Regulatory risk:** Any capping of margins by PNGRB will negatively impact its earnings and growth. However, management has indicated that imported LNG does not fall under the preview of PNGRB.
4. Project execution risk.

Company background

Petronet LNG is India's largest importer of liquefied natural gas (LNG) at its Dahej plant. It has expanded the Dahej capacity to 15 mmtpa.

PLNG has a firm supply contract with Qatar's RasGas for 8.5 mmtpa for which it has a back-to-back sales contract. It also imports LNG on a spot basis depending on its ability to market the same in domestic market.

Similarly, it also imports cargos on behalf of other importers for a fee. The company charges regasification on processing of LNG, which are set to go up 5% every year in January.

Petronet LNG terminals

Dahej terminal expansion

LNG terminal at Kochi

Source: Company

Notes:

LNG is natural gas in its highly compact liquid form. When natural gas is cooled to minus 260 degrees Fahrenheit (or minus 162 degrees Celcius), it is reduced to one six-hundredth of its original volume and becomes a clear, non-toxic liquid. LNG offers a safe and economical means for transporting natural gas over long distances to locations beyond the reach of pipelines. LNG is loaded on specialized ships and delivered to a regasification terminal where it is reheated, turned into gas and distributed to customers through a pipeline network.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**249,627**	**309,160**	**378,137**	**423,651**
% change YoY	(8.0)	23.8	22.3	12.0
EBITDA	**29,389**	**36,296**	**41,496**	**46,485**
% change YoY	83.1	23.5	14.3	12.0
Other Income	0	0	0	0
Depreciation	3,691	4,117	4,253	4,456
EBIT	**25,698**	**32,506**	**37,243**	**42,028**
% change YoY	78.6	26.5	14.6	12.8
Net interest	2,097	1,630	1,000	300
Profit before tax	**23,602**	**30,876**	**36,243**	**41,728**
% change YoY	96.6	30.8	17.4	15.1
Tax	6,545	9,773	12,033	13,896
as % of PBT	27.7	31.7	33.2	33.3
Profit after tax	**17,057**	**21,103**	**24,210**	**27,833**
Minority interest	0	0	0	0
Share of profit of associates	0	0	0	0
Net income	**17,057**	**21,103**	**24,210**	**27,833**
% change YoY	86.6	23.7	14.7	15.0
Shares outstanding (m)	750	1,500	1,500	1,500
EPS (reported) (Rs)	**11.4**	**14.1**	**16.1**	**18.6**
CEPS (Rs)	13.8	16.8	19.0	21.5
DPS (Rs)	2.5	4.5	5.5	7.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	3,273	8,625	10,217	30,760
Accounts receivable	12,108	16,505	18,648	19,732
Inventories	5,405	4,911	6,153	6,321
Loans and Adv & Others	3,438	2,775	3,019	3,180
Current assets	24,224	32,816	38,037	59,992
Misc exp.	0	0	0	0
LT investments	30,196	42,130	42,130	42,130
Net fixed assets	84,716	82,499	82,509	83,509
Total assets	**139,136**	**157,445**	**162,677**	**185,632**
Payables	9,446	15,699	16,541	19,966
Others	12,181	12,903	23,142	27,436
Current liabilities	21,627	28,602	39,683	47,402
Provisions	66	78	96	107
LT debt	28,358	20,170	0	0
Min. int and def tax liabilities	7,302	10,482	10,482	10,482
Equity	7,500	15,000	15,000	15,000
Reserves	74,284	83,113	97,416	112,641
Total liabilities	**139,136**	**157,445**	**162,677**	**185,632**
BVPS (Rs)	55	65	75	85

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	25,698	32,506	37,243	42,028
Add: Depreciation	3,691	4,117	4,253	4,456
Change in working capital	3,213	6,928	7,469	6,318
Chgs in other net current assets	-	-	-	-
Operating cash flow	32,602	43,550	48,965	52,803
Less: Interest	(2,097)	(1,630)	(1,000)	(300)
Less: Tax	(6,545)	(9,773)	(12,033)	(13,896)
Cash flow from operations	**23,960**	**32,147**	**35,932**	**38,607**
Less: Capex	(4,796)	(1,899)	(4,263)	(5,456)
(Inc)/dec in investments	(29,296)	(11,934)	-	-
Cash flow from investments	**(34,092)**	**(13,834)**	**(4,263)**	**(5,456)**
Others	5,463	3,329	-	0
Increase/(decrease) in debt	(9,381)	(8,188)	(20,170)	-
Proceeds from share premium	-	-	-	-
Dividends	(4,505)	(8,103)	(9,907)	(12,608)
Cash flow from financing	**(8,423)**	**(12,962)**	**(30,077)**	**(12,608)**
Opening cash	21,829	3,273	8,625	10,217
Closing cash	3,273	8,625	10,217	30,760

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	11.8	11.7	11.0	11.0
EBIT margin (%)	10.3	10.5	9.8	9.9
Net profit margin (%)	6.8	6.8	6.4	6.6
Receivables (days)	17.7	19.5	18.0	17.0
Inventory (days)	9.1	6.6	6.7	6.2
Sales/gross assets(x)	2.3	2.6	3.1	3.4
Interest coverage (x)	14.0	22.3	41.5	
Debt/equity ratio(x)	0.3	0.2	-	-
ROE (%)	22.7	22.1	22.0	22.0
ROCE (%)	17.1	18.5	20.7	22.2
EV/ Sales	1.5	1.2	0.9	0.7
EV/EBITDA	12.6	9.9	8.1	6.8
Price to earnings (P/E)	20.3	16.4	14.3	12.4
Price to book value (P/B)	4.2	3.5	3.1	2.7

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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