

Petronet LNG (PETLNG)

₹ 220

Strong operational performance continues...

- Petronet LNG reported its Q2FY19 result, which were above our estimates on all fronts. The topline increased 38.3% YoY to ₹ 10745.3 crore above our estimates of ₹ 9945.9 crore mainly on account of higher LNG prices. The volumes remained flattish and came largely in line with our estimates at 217 tbtu (our estimates: 221.5 tbtu)
- EBITDA at ₹ 883.7 crore also came in above our estimates of ₹ 847.6 crore mainly on account of higher blending margins of ₹ 49.3/mmbtu (our estimate of ₹ 46/mmbtu) owing to higher spot margins as per our internal estimates & lower other expenses due to higher efficiencies
- On the profitability front, PAT during the quarter declined 4.4% YoY to ₹ 562.9 crore above our estimates of ₹ 524.6 crore. The upside in PAT was also contributed by higher-than-expected other income of ₹ 111.5 crore (our estimate: ₹ 72.8 crore)

Volume outlook remains positive

Petronet LNG continued to report stable volumes during the quarter. Total sales volumes in Q2FY19, which include long-term + spot/short-term + tolling, were at 217 tbtu in Q2FY19 compared to 220 tbtu in the last quarter. The capacity utilisation at Dahej terminal was at 110% with volumes at 211 tbtu of LNG in Q2FY19. Regasification volumes came in above our estimates at 88 tbtu (our estimates: 91.5 tbtu) with nil regas volumes at the Kochi terminal. The Kochi terminal's capacity utilisation remained at ~10% in Q2FY19. We lower our estimate total LNG volumes of 874.6 tbtu and 948.8 tbtu for FY19E and FY20E, respectively on account of delay in volume ramp-up from the Kochi terminal. On the profitability front, we estimate blended margins will continue to remain healthy at ₹ 48/mmbtu, ₹ 50.7/mmbtu in FY19E and FY20E, respectively.

Ramp up in Kochi utilisation key

Petronet's Kochi terminal, which is currently under-utilised on account of lack of pipeline connectivity, is expected to witness upside in its utilisation post the completion of Kochi-Mangalore pipeline. The execution of the pipeline is currently under way and the entire stretch is expected to be completed by March 2019. Going forward, the company could receive additional 1–1.5 mmtpa of gas when the pipeline work gets completed. On the capacity expansion front, the company expects Dahej terminal's expansion to get completed by June 2019. Currently, the Dahej terminal is booked for 7.5 MMTPA under RasGas long term volumes while an additional 8.25 MMTPA is booked as regasification capacity, taking the count to more than the current nameplate capacity of 15 MMT.

Primary LNG play in India

Petronet LNG provides comfort on the business model and remains a structural story of India's increasing gas demand. With India continuing to be significantly short of natural gas supply, Petronet LNG will benefit as the primary play on increasing usage of LNG. In the long term, we expect volumes to show stable growth and contribute to higher profitability. We value Petronet LNG at 16x FY20E EPS of ₹ 17.2 to arrive at a price target of ₹ 275 with a **BUY** rating.

Rating matrix	
Rating	: Buy
Target	: ₹ 275
Target Period	: 12 months
Potential Upside	: 25%

What's changed?	
Target	Changed from ₹ 285 to ₹ 275
EPS FY19E	Changed from ₹ 14.8 to ₹ 14.7
EPS FY20E	Changed at ₹ 17.9 to ₹ 17.2
Rating	Unchanged

Quarterly performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	10,745.3	7,770.2	38.3	9,169.2	17.2
EBITDA	883.7	898.7	(1.7)	934.4	(5.4)
EBITDA (%)	8.2	11.6	-334 bps	10.2	-197 bps
PAT	562.9	588.8	(4.4)	587.0	(4.1)

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Revenues	24,616.0	30,598.6	41,796.8	46,841.7
EBITDA	2,592.3	3,312.4	3,533.0	4,119.8
Net Profit	1,705.7	2,077.9	2,200.5	2,580.9
EPS (₹)	11.4	13.9	14.7	17.2

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	19.3	15.9	15.0	12.8
Target P/E	24.2	19.9	18.7	16.0
EV / EBITDA	13.5	10.2	9.4	7.7
P/BV	4.1	3.4	3.3	2.8
RoNW (%)	21.1	21.4	21.7	22.1
RoCE (%)	21.4	25.9	28.7	31.5

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	33,000.0
Total Debt (FY18) (₹ Crore)	1,496.6
Cash and Investments (FY18) (₹ Crore)	862.5
EV (₹ Crore)	33,634.1
52 week H/L	275/202
Equity capital (₹ Crore)	750.0
Face value (₹)	10.0

Price performance				
Return %	1M	3M	6M	12M
IGL	3.2	(15.1)	(13.8)	(20.9)
Petronet LNG	(2.4)	(5.3)	(3.6)	(14.5)
GAIL	(7.1)	(7.0)	6.4	(0.3)
Gujarat Gas	(1.7)	(19.7)	(30.0)	(31.5)

Research Analyst	
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Variance analysis

	Q2FY19	Q1FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
Total Revenues	10,745.3	9,945.9	7,770.2	38.3	9,169.2	17.2	Higher than estimated revenues mainly on account of higher regasification volumes
Raw materials costs	9,695.0	8,927.8	6,742.7	43.8	8,084.4	19.9	
Employees Cost	43.0	23.3	19.4	121.6	22.4	91.6	
Other Expenses	123.7	147.2	109.4	13.0	128.0	-3.4	
Total Expenditure	9,861.6	9,098.3	6,871.5	43.5	8,234.7	19.8	
EBITDA	883.7	847.6	898.7	-1.7	934.4	-5.4	Lower other expenses driven by higher efficiencies contributed to the expansion in margins
EBITDA margins (%)	8.2	8.5	11.6	-334 bps	10.2	-197 bps	
Depreciation	103.7	101.3	103.8	-0.1	102.2	1.4	
EBIT	780.0	746.3	794.9	-1.9	832.2	-6.3	
Interest	24.9	30.2	46.5	-46.4	30.0	-17.0	
Other Income	111.5	72.8	101.9	9.4	99.0	12.6	Other income includes higher income from investments and forex gains
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	866.6	788.9	850.4	1.9	901.2	-3.8	
Total Tax	303.7	264.3	261.6	16.1	314.2	-3.4	
PAT	562.9	524.6	588.8	-4.4	587.0	-4.1	Higher other income also contributed to higher profitability

Key Metrics

Sales volume (tbtu)	129.0	130.0	141.0	-8.5	123.2	4.7	
Regasification vol (tbtu)	88.0	91.5	79.0	11.4	97.0	-9.3	
Total Volumes (tbtu)	217.0	221.5	220.0	-1.4	220.2	-1.4	
Blended margin (₹/mmbtu)	48.9	46.0	46.7	4.7	49.3	-0.7	Margins higher than estimates mainly due to better spot volume margins

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			
	Old	New	% Change	Old	New	% Change	
Revenue	38,417.5	41,796.8	8.8	41,732.9	46,841.7	12.2	Higher revenue estimates due to upward revision in realisations
EBITDA	3,541.7	3,533.0	-0.2	4,168.7	4,119.8	-1.2	
EBITDA Margin (%)	9.2	8.5	-77 bps	10.0	8.8	-119 bps	
PAT	2,221.6	2,200.5	-0.9	2,680.0	2,580.9	-3.7	
EPS (₹)	14.8	14.7	-0.9	17.9	17.2	-3.7	

Source: Company, ICICI Direct Research

Assumptions

	Current				Earlier		
	FY17	FY18E	FY19E	FY20E	FY19E	FY20E	
Sales volume (tbtu)	471.2	511.1	512.6	554.8	522.4	567.8	
Regasification vol (tbtu)	257.2	336.2	362.0	394.0	362.5	394.0	
Total Volumes (tbtu)	728.3	847.4	874.6	948.8	884.9	961.8	Marginally reduce estimates due to delay in volume ramp up from Kochi
Blended Margin (₹/mmbtu)	43.9	46.1	48.0	50.7	47.8	51.2	

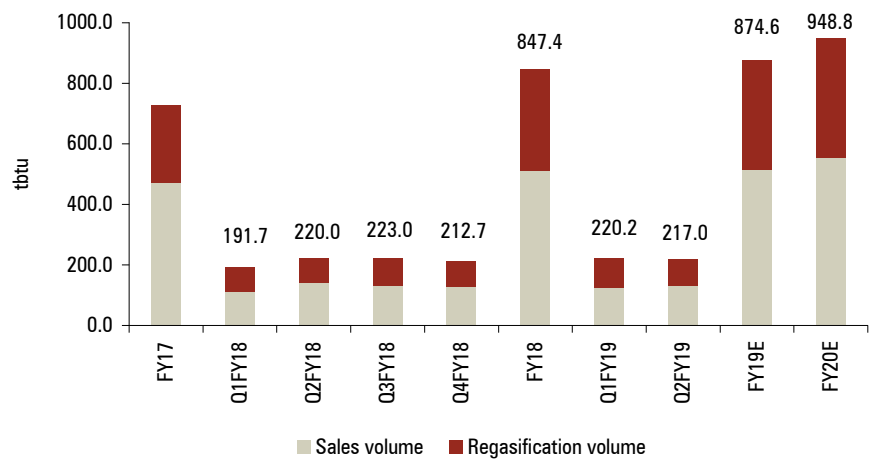
Source: Company, ICICI Direct Research

Company Analysis

Volume outlook remain positive

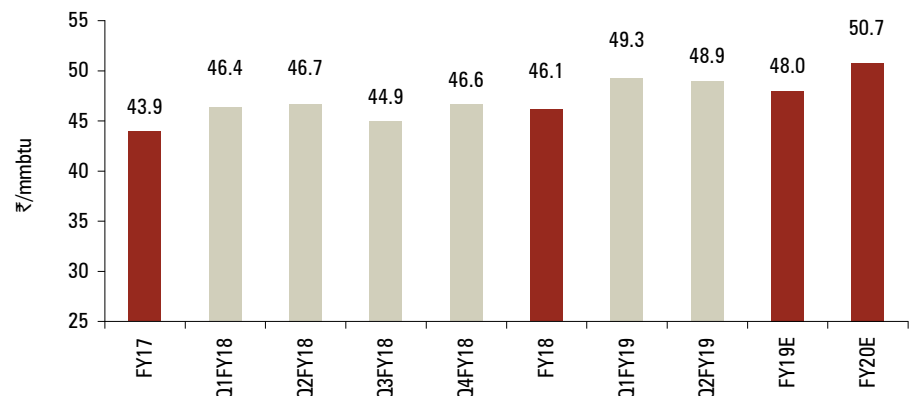
Petronet LNG continued to report stable volume during the quarter. The total sales volumes in Q2FY19, which include long-term + spot/short-term + tolling, were at 217 tbtu in Q2FY19 compared to 220 tbtu in the last quarter. The capacity utilisation at Dahej terminal was at 110% with volumes at 211 tbtu of LNG in Q2FY19. Regasification volumes came in above our estimates at 88 tbtu (our estimates: 91.5 tbtu) with nil regas volumes at the Kochi terminal. The Kochi terminal's capacity utilisation remained at ~10% in Q2FY19. We have lowered our estimate total LNG volumes of 874.6 tbtu and 948.8 tbtu for FY19E and FY20E, respectively on account of delay in volume ramp-up from the Kochi terminal. On the profitability front, we estimate blended margins will continue to remain healthy at ₹ 48/mmbtu, ₹ 50.7/mmbtu in FY19E and FY20E, respectively.

Exhibit 1: Volume trend



Source: Company, ICICI Direct Research

Exhibit 2: Margin trend



Source: Company, ICICI Direct Research

Focus on contracted & tolling volumes to reduce volatility

Of the fully commissioned Dahej 15 mmtpa capacity, 7.5 mmtpa has been booked under RasGas long term volumes while an additional 8.25 has been booked as regasification capacity, taking the count to more than the nameplate capacity of the Dahej plant.

Exhibit 3: Booked capacity

Booked capacity (mmtpa)	
GAIL	7.00
IOCL	3.75
BPCL	1.75
GSPC	2.25
Torrent Power	1.00
Total	15.75

Source: Company, ICICI Direct Research

The company has completed majority of the project of setting up additional capacity of 2.5 mmt at the Dahej terminal. The Dahej expansion to 17.5 mmtpa is expected to be completed by June 2019. The execution of the Kochi-Mangalore pipeline is currently under way and the entire stretch is expected to be completed by March 2019. Going forward, the company could receive additional 1–1.5 mmtpa of gas when the pipeline work gets completed.

Conference call highlights

- PLL has submitted its final proposal to the Bangladesh government with respect to the new LNG terminal and is awaiting a response
- The LNG terminal capacity at Bangladesh is 7.5 MMTPA and the planned cost for the project is ~US\$1 billion
- The company is targeting 16% post tax IRR for its new investments
- The progress on the front of Sri Lankan LNG terminal is slow and will take more time for the final agreement
- Dahej terminal is on track and is expected to get completed by June 2019
- Petronet has plans to bring LNG as a transportation fuel and will be coming out with concrete plans in coming quarters
- Petronet is looking forward to set up 20 LNG stations to promote LNG as a transportation fuel

Outlook & valuation

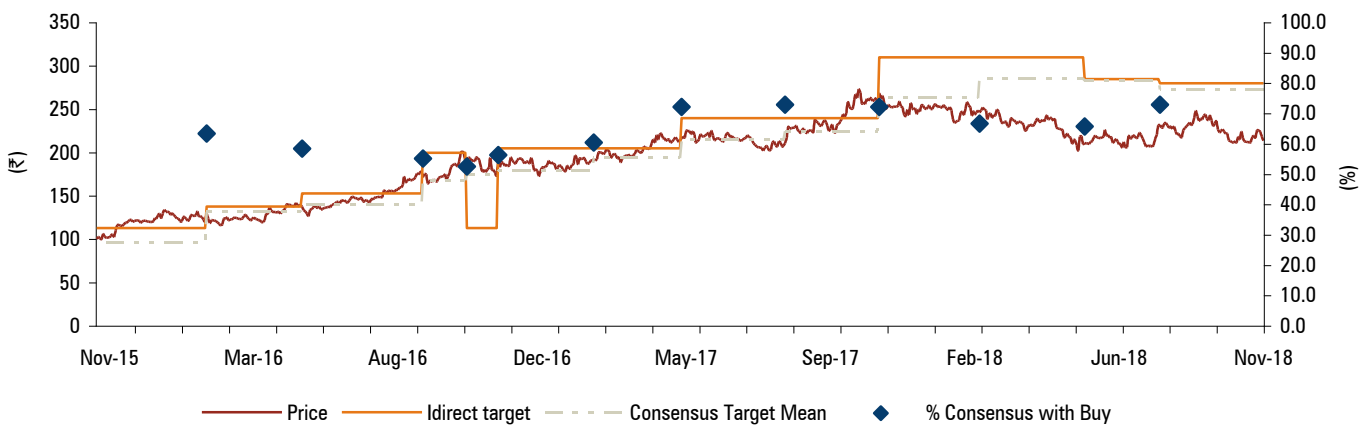
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Exhibit 4: Valuations

Year	Sales (₹ Crore)	Sales Gr (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	24,616.0	-9.3	11.4	86.6	21.4	14.8	21.1	21.4
FY18	30,598.6	24.3	13.9	21.8	15.9	10.2	21.4	25.9
FY19E	41,796.8	36.6	14.7	5.9	15.0	9.4	21.7	28.7
FY20E	46,841.7	12.1	17.2	17.3	12.8	7.7	22.1	31.5

Source: Company, ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
May-09	LNG demand stable in spite of the start of production from Reliance KG basin
Aug-10	Production from Reliance KG D6 basin declines, pushing up demand for spot LNG
Jul-11	Reliance production from KG basin declines significantly, which increased demand for short-term and spot LNG. Improved results also due to higher margins on short term and spot LNG
Apr-12	Results of Petronet LNG were below market expectations on account of lower margins on short-term and spot volumes. The company felt the impact of high LNG prices on its bottomline
May-13	Kochi terminal gets ready but delay in construction of Phase-II of Kochi-Mangalore-Bangalore pipeline would lead to lower capacity utilisation for the terminal
Dec-13	Fears of a further delay in construction of Phase-II of Kochi-Mangalore-Bangalore pipeline
Apr-14	Company reports better-than-expected blended margins due to higher-than-expected short-term/spot volumes
Apr-15	Crude oil prices decline, leading to lower offtake of long term contractual LNG, impacting Q4FY15 profitability
Jan-16	Announces modified RasGas-Petronet LNG long term deal

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Change (m)
1	GAIL (India) Ltd	30/Sep/18	12.5	187.5	0.0
2	Indian Oil Corpn Ltd	30/Sep/18	12.5	187.5	0.0
3	Oil and Natural Gas Corporation Ltd	30/Sep/18	12.5	187.5	0.0
4	Bharat Petroleum Corporation Ltd	30/Sep/18	12.5	187.5	0.0
5	HDFC Asset Management Co., Ltd.	30/Sep/18	1.6	23.4	22.9
6	Fidelity Management & Research Company	30/Sep/18	1.5	23.1	0.0
7	Capital World Investors	30/Sep/18	1.5	22.9	4.2
8	Franklin Templeton Asset Management (India) Pvt. Ltd.	30/Sep/18	1.5	22.7	6.8
9	Kotak Mahindra Asset Management Company Ltd.	30/Sep/18	1.5	22.5	2.5
10	Motilal Oswal Asset Management Company Ltd.	30/Sep/18	1.5	22.1	-0.2

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	50.0	50.0	50.0	50.0	50.0
FII	21.8	25.6	25.1	23.0	23.9
DII	12.8	9.7	9.8	11.7	11.5
Others	15.4	14.7	15.1	15.3	14.6

Recent Activity

Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
T. Rowe Price International (UK) Ltd.	26.18	8.45	Fidelity Management & Research Company	-5.35	-1.73
The Vanguard Group, Inc.	6.08	1.96	IDFC Asset Management Company Private Limited	-3.89	-1.25
Candriam Belgium S.A.	5.27	1.70	Principal Global Investors (Equity)	-3.74	-1.17
Unigestion	2.67	0.76	Société Générale Gestion	-3.52	-1.10
Sydinvest	2.24	0.72	Ostrum Asset Management Asia Limited	-3.51	-1.08

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E
Revenue	24,616.0	30,598.6	41,796.8	46,841.7
Growth (%)	-9.3	24.3	36.6	12.1
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	21416.9	26690.2	37613.2	42027.3
Purchase of trading goods	0.0	0.0	0.0	0.0
Employee Costs	73.9	91.2	114.4	132.4
Other Expenditure	533.0	504.9	536.1	562.1
Op. Expenditure	22023.7	27286.3	38263.8	42721.8
EBITDA	2,592.3	3,312.4	3,533.0	4,119.8
Growth (%)	63.0	27.8	6.7	16.6
Depreciation	369.1	411.6	416.6	430.3
EBIT	2223.2	2900.7	3116.5	3689.6
Interest	209.7	163.0	102.7	56.3
Other Income	346.6	317.4	358.0	313.0
PBT	2360.2	3055.1	3371.7	3946.3
Growth (%)	96.6	29.4	10.4	17.0
Tax	654.5	977.3	1171.2	1365.4
Reported PAT	1,705.7	2,077.9	2,200.5	2,580.9
Growth (%)	86.6	21.8	5.9	17.3
EPS	11.4	13.9	14.7	17.2

Source: Company, ICICI Direct Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	1,705.7	2,077.9	2,200.5	2,580.9
Less: Dividend Paid	871.5	784.4	1,786.6	1,045.8
Add: Depreciation	369.1	411.6	416.6	430.3
Add: Others	141.6	318.0	100.0	100.0
Cash Profit	1,344.8	2,023.1	930.5	2,065.4
Increase/(Decrease) in CL	178.1	659.7	767.8	456.4
(Increase)/Decrease in CA	-3,073.6	-1,511.1	-894.6	-409.4
CF from Operating Activities	-1550.7	1171.8	803.6	2112.4
Purchase of Fixed Assets	479.6	189.9	411.3	422.0
(Inc)/Dec in Investments	-74.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	1.0
CF from Investing Activities	-554.0	-189.9	-411.3	-422.0
Inc/(Dec) in Loan Funds	-396.7	-780.2	-768.1	-693.2
Inc/(Dec) in Sh. Cap. & Res.	646.3	333.0	0.0	0.0
Others	0.0	0.0	0.0	1.0
CF from financing activities	249.6	-447.1	-768.1	-693.2
Change in cash Eq.	-1,855.1	534.7	-375.8	997.3
Op. Cash and cash Eq.	2,182.9	327.8	862.5	486.7
Cl. Cash and cash Eq.	327.8	862.5	486.7	1,483.9

Source: Company, ICICI Direct Research

Balance sheet				
₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E
Source of Funds				
Equity Capital	750.0	1,500.0	1,500.0	1,500.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	7,344.4	8,220.9	8,634.8	10,169.9
Shareholder's Fund	8,094.4	9,720.9	10,134.8	11,669.9
Loan Funds	2,276.7	1,496.6	728.5	35.3
Deferred Tax Liability	730.2	1,048.2	1,148.2	1,248.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	11,101.3	12,265.6	12,011.5	12,953.4
Application of Funds				
Gross Block	9,113.4	9,119.8	9,719.8	9,719.8
Less: Acc. Depreciation	690.3	1,090.2	1,495.4	1,913.7
Net Block	8,423.0	8,029.6	8,224.4	7,806.1
Capital WIP	48.5	220.3	20.3	430.3
Total Fixed Assets	8,471.6	8,249.9	8,244.7	8,236.4
Investments	164.4	164.4	164.4	164.4
Inventories	540.5	491.1	916.1	1,026.7
Debtor	1,210.8	1,650.5	2,061.2	2,310.0
Cash	327.8	862.5	486.7	1,483.9
Loan & Advance, Other CA	3,114.5	4,235.3	4,294.2	4,344.2
Total Current assets	5,193.6	7,239.4	7,758.2	9,164.9
Current Liabilities	2,656.0	3,368.1	4,007.9	4,491.7
Provisions	72.3	19.9	147.9	120.6
Total CL and Provisions	2,728.3	3,388.0	4,155.8	4,612.2
Net Working Capital	2,465.3	3,851.4	3,602.4	4,552.6
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	11,101.3	12,265.6	12,011.5	12,953.4

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
Book Value	54.0	64.8	67.6	77.8
Cash per share	2.2	5.7	3.2	9.9
EPS	11.4	13.9	14.7	17.2
Cash EPS	13.8	16.6	17.4	20.1
DPS	5.0	4.5	10.3	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	10.5	10.8	8.5	8.8
PAT Margin (%)	6.9	6.8	5.3	5.5
Fixed Asset Turnover (x)	2.9	3.7	5.1	5.7
Inventory Turnover (Days)	8.0	5.9	8.0	8.0
Debtor (Days)	18.0	19.7	18.0	18.0
Current Liabilities (Days)	39.4	40.2	35.0	35.0
Return Ratios (%)				
RoE	21.1	21.4	21.7	22.1
RoCE	21.4	25.9	28.7	31.5
RoIC	22.1	28.0	30.0	36.1
Valuation Ratios (x)				
PE	19.3	15.9	15.0	12.8
Price to Book Value	4.1	3.4	3.3	2.8
EV/EBITDA	13.5	10.2	9.4	7.7
EV/Sales	1.4	1.1	0.8	0.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.3	0.2	0.1	0.0
Interest Coverage (x)	10.6	17.8	30.3	65.6
Debt to EBITDA (x)	0.9	0.5	0.2	0.0
Current Ratio	1.9	2.1	1.9	2.0
Quick ratio	1.7	2.0	1.6	1.8

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Oil & Gas)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bharat Petroleum (BHAPET)	269	275	Hold	58,353	40.3	30.4	28.7	6.6	6.7	8.8	7.0	6.5	6.9	16.9	15.7	12.6	27.1	23.2	17.4
Castrol India (CASIND)	148	155	Hold	14,639	6.8	7.0	6.8	21.7	21.2	21.7	13.7	13.4	14.0	97.8	96.8	270.9	68.8	67.8	189.4
GAIL (India) (GAIL)	371	450	Buy	83,661	15.5	20.5	26.7	23.9	18.1	13.9	13.6	10.9	8.7	11.7	14.7	17.3	9.2	11.5	13.7
Gujarat Gas (GUJGA)	638	750	Buy	8,784	16.2	21.2	26.6	39.4	30.1	24.0	14.8	12.1	11.4	12.3	15.3	16.0	13.6	17.7	19.9
Gujarat State Petronet (GSPL)	183	200	Hold	10,309	8.8	11.9	15.8	20.8	15.4	11.6	12.3	11.9	7.8	13.8	11.6	17.3	11.0	13.2	15.4
Gulf Oil Lubricants (GULO)	703	910	Hold	3,485	23.7	31.9	34.7	29.7	22.1	22.1	18.7	14.5	12.1	32.5	31.5	35.3	34.2	33.9	30.3
Hindustan Petroleum (HINPET)	230	215	Hold	35,088	13.6	13.9	10.1	5.7	5.5	7.6	5.3	5.2	6.3	19.3	17.5	12.8	30.5	26.5	18.7
Indraprastha Gas (INDGAS)	253	295	Hold	17,710	8.2	9.6	10.1	31.0	26.4	25.1	17.7	15.4	14.5	27.2	26.5	24.3	19.5	19.1	17.6
Mahanagar Gas Ltd (MAHGAS)	854	995	Hold	8,436	39.8	48.4	50.7	21.4	17.7	16.9	12.9	10.7	9.8	29.8	31.9	30.0	21.4	22.8	21.5
Mangalore Refinery (MRPL)	82	95	Buy	14,372	20.8	12.8	9.9	3.9	6.4	8.3	4.5	3.7	3.1	21.6	23.2	17.1	36.2	14.6	15.0
Petronet LNG (PETLNG)	220	275	Buy	33,000	6.1	13.9	14.7	19.3	15.9	15.0	NA	NA	NA	21.4	25.9	28.7	21.1	21.4	21.7

Source: Company, ICICI Direct Research

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