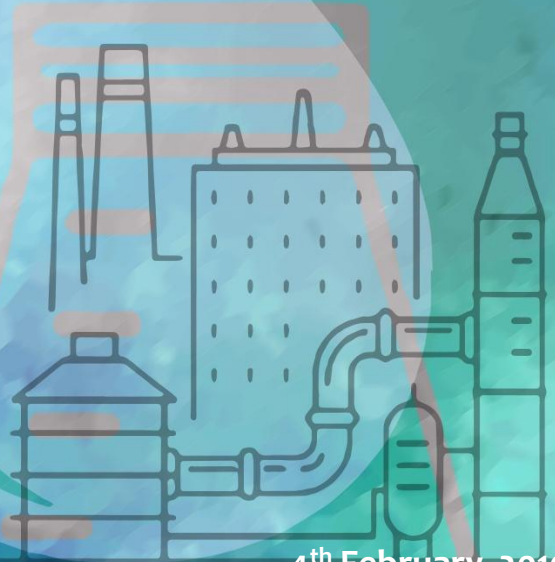


Petronet LNG Ltd.



RESULT UPDATE

4th February, 2019

Petronet LNG Ltd.

Average quarterly performance; long-term story remains intact

CMP INR 209	Target INR 317	Potential Upside 51.6%	Market Cap (INR Mn) 315,900	Recommendation BUY	Sector Oil & Gas
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Result highlights

Net sales came in at INR 100.9 bn (+30.2% YoY, -6.0% QoQ). Total volumes processed came in at 202 TBTU (217 TBTU in Q2FY19 and 223 TBTU in Q3FY18). Higher spot gas prices for the quarter resulting in higher RMAT (+34.7% YoY) impacted the gross margins on a YoY basis (-302 bps) to 9.9%. Employee expenses for the quarter increased by 34.9% YoY but declined by 38.2% QoQ. The YoY increase was partially negated by lower other expenses (-7.4% YoY) which resulted into an operational performance of 8.4% (-252 bps YoY, +17 bps QoQ). EBITDA came in at INR 8.48 bn (+0.1% YoY, -4.0% QoQ). Lower finance cost (-41.2% YoY) and higher other income (+113.6% YoY) contributed to improvement in the bottom-line performance which came to INR 5.65 bn (+6.9% YoY, +0.4% QoQ). Tax expense declined QoQ to 30.3% (35.0% in Q2FY19) due to tax holiday claimed by PLNG. NPM declined by 122 bps to 5.6% (+36 bps QoQ).

MARKET DATA

Shares outs (Mn)	1500
Equity Cap (INR Mn)	15000
Mkt Cap (INR Mn)	331800
52 Wk H/L (INR)	259/202
Volume Avg (3m K)	3041.1
Face Value (INR)	10
Bloomberg Code	PLNG IN

KEY FINANCIALS

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	2,71,334	2,46,160	3,05,986	4,28,082	5,25,076
EBITDA	15,863	25,923	33,124	37,409	44,100
PAT	9,278	17,231	21,104	24,895	29,708
EPS Diluted (INR)	6.19	11.49	14.07	16.60	19.81
OPM (%)	5.8%	10.5%	10.8%	8.7%	8.4%
NPM (%)	3.4%	7.0%	6.9%	5.8%	5.7%
P/E (x)	33.8	18.2	14.9	12.6	10.6

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Volumes on downside due to lower import of LNG

Volumes for the quarter came in at 202 TBTU (217 TBTU in Q2FY19 and 223 TBTU in Q3FY18). Lower volumes were attributed to lesser import of cargoes for LNG owing to lower demand from the power sector in Nov/Dec. Dahej terminal processed 197 TBTU at a capacity utilization of 110%, declining by 8.4% YoY and 6.6% QoQ. The decline in volumes was due to weak demand, however the management is confident of retaining its market share despite the upcoming Ennore or Mundra terminal being commissioned which are currently facing pipeline connectivity issues. The Dahej plant continues to be competitive due to its strong pipeline connectivity and lower re-gas tariffs along with committed off-takers for its LNG.

Kochi-Mangalore pipeline expected to be ready by June'19

The Kochi-Mangalore-Bangalore pipeline by GAIL is expected to come on-stream by June'19 post which full year utilization for Kochi terminal would reach to 1.5 MMTPA from 0.5 MMTPA currently. Major consumers for Kochi terminal include – Mangalore Chemicals and Fertilizers, MRPL and OMPL. Above this, it is expected to have an incremental volume of more than 1 MMTPA.

Dahej terminal expansion plans

On-going plan includes expansion to 17.5 MMTPA which is expected to be commissioned by June'19. The full throughput is expected in H2FY20 where the volumes are expected to be sold on spot-price basis and for which potential off-takers have already been approached. Capacity expansion plans also includes setting up a storage tank for scheduling of ships and for ease and flexibility in current operations. The management also indicated plans for further expansion to 19.5 MMTPA over 4-5 years.

MARKET INFO

SENSEX	36469
NIFTY	10894

SHARE HOLDING PATTERN (%)

Particulars	Dec 18	Sep 18	Jun 18
Promoters	50	50	50
FIIIs	23.4	23.85	23.03
DIIIs	12.08	11.53	11.68
Others	14.51	14.63	15.29
Total	100	100	100

31.0%

Revenues CAGR between FY 18 and FY 20E

18.6%

EBITDA between FY 18 and FY 20E

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Other projects in the pipeline

PLNG's projects in the pipeline includes setting up Sri Lanka's first LNG terminal project at Colombo with a capex of \$350 mn to be executed over a period of 1-2 years. The management also expressed its desire to come up with a terminal on the East coast in the future. As for its Bangladesh project, there has been a delay where feasibility study would have to be conducted again due to land availability issues. The prime users of LNG at the Bangladesh project would be power plants where currently diesel is being used.

Valuation & Outlook:

We are positive on the long-term outlook of PLNG. The Dahej capacity expansion is in progress and once fully commissioned along with the 5% annual hike in re-gas tariffs (w.e.f. January'19) will contribute to strong earnings performance. As for its Kochi terminal, we could expect softening of tariffs post the Kochi-Mangalore pipeline comes on-stream. Nevertheless, the increased volumes will contribute to higher profitability. These are expected to be key triggers for PLNG in the coming quarters which improve PLNG's business outlook and earnings visibility. We expect revenues to grow at a CAGR of 31.0% over FY18-20E and EBITDA to grow at a CAGR of 18.6% over FY18-20E. At a CMP of INR 209, PLNG is trading at an attractive valuation of 12.6x FY19E EPS and 10.6x FY20E EPS. We valued the company by assigning a P/E multiple of 16x on the FY20E EPS of INR 19.8 and arrived at a target price of INR 317.0 (potential upside – 51.6%) from our earlier estimate of INR 285. **We maintain BUY rating on the stock.**

QUARTERLY PERFORMANCE

Particulars (INR Mn)	Q3FY19	Q2FY19	Q3FY18	QoQ (%)	YoY (%)
Revenue from operations	1,00,977	1,07,453	77,571	-6.0%	30.2%
Cost of Materials Consumed	90,989	96,950	67,559	-6.1%	34.7%
Gross Profit	9,988	10,503	10,011	-4.9%	-0.2%
Gross Profit Margin (%)	9.9%	9.8%	12.9%	12 bps	-301 bps
Employee benefit expense	265	430	197	-38.2%	34.9%
Other expenses	1,242	1,237	1,341	0.4%	-7.4%
Total Operating Expenditure	1,507	1,666	1,538	-9.5%	-2.0%
EBITDA	8,481	8,837	8,474	-4.0%	0.1%
EBITDA Margin (%)	8.4%	8.2%	10.9%	17 bps	-252 bps
Depreciation and Amortization Expense	1,037	1,037	1,039	0.0%	-0.2%
EBIT	7,444	7,800	7,435	-4.6%	0.1%
Finance Cost	215	249	367	-13.5%	-41.2%
Other Income	884	1,115	414	-20.7%	113.6%
Profit before Tax (PBT)	8,113	8,666	7,482	-6.4%	8.4%
Tax Expense	2,460	3,037	2,194	-19.0%	12.1%
Profit after Tax (PAT)	5,653	5,629	5,288	0.4%	6.9%
Net Profit Margin (%)	5.6%	5.2%	6.8%	36 bps	-122 bps
EPS Basic (INR)	3.77	3.75	3.53		

Source: Company, KRChoksey Research

VOLUMES PERFORMANCE

Volumes (in TBTU)	Q3FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)
Dahej					
Long term	119	116	109	-8.4%	-6.0%
Spot/Short term	4	7	4	0.0%	-42.9%
Service/Tolling/Third Party	92	88	84	-8.7%	-4.5%
Total	215	211	197	-8.4%	-6.6%
Kochi					
Long term	6	6	5	-16.7%	-16.7%
Spot/Short term	2	0	0.03	-98.5%	NA
Service/Tolling/Third Party	0	0	0		
Total	8	6	5	-37.1%	-16.2%
Dahej + Kochi	223	217	202	-9.4%	-6.9%

Source: Company, KRChoksey Research

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Concall Highlights:

- Highest ever throughput of 639 TBTU for 9MFY19 (634 TBTU in 9MFY18).
- Highest ever 9M PBT at INR 25.7 bn as against INR 22.6 bn in 9MFY18, a growth of 14% YoY.
- PAT INR 17.2 bn in 9MFY19 INR 15.6 bn in 9MFY18, a growth of 10% YoY.
- For Q3FY19, PBT (INR 8.1 bn) has been lower QoQ but PAT (INR 5.6 bn) has been higher QoQ as PLNG has claimed tax holiday benefit under Section 80 IA to the extent of INR 113 crores and has given a benefit of INR 40 crores because of which tax expense has considerably reduced in the current quarter. The total annual figure for tax holiday is expected to be INR 150 crs.
- Kochi pipeline completion expected around May/June '19 as assured by GAIL, post which they will be enhancing utilization of Kochi terminal. Currently, it is 8-10% but post pipeline commissioning it can reach 1-1.2 MMTPA by FY20 (full utilization post FY20 - 1.5 MMTPA) from currently at 0.5 MMTPA.
- Consumers for LNG through Kochi-Mangalore pipeline would include Mangalore Chemicals & Fertilizers, MRPL and OMPL. Consumers could also include CGD companies when demand picks up.
- Dahej expansion project to 17.5 MMTPA to be commissioned by June'19. Based on same, they have reached various potential customers for taking the volumes. Full stabilization to come in H2FY20. They might look at further expansion to 19.5 MMTPA after 3-4 years.
- 5% tariff hike at Dahej plant has been effective from 1st Jan'19. There is a gap in the tariff being charged at Dahej and at Kochi. However, Kochi volumes are very less due to connectivity issues and hence, do not give much of a benefit if the tariffs are reduced. Post pipeline commissioning, there will be an increase in the Kochi terminal utilization and thus will be supporting the market to pass on any commercial relief.
- Sri Lanka project status - In progress – Advisors have been appointed submitted the term sheet for JV agreement and term sheet for gas sales agreement.
- Bangladesh: The land on which the plant was to be constructed has now been reserved for nation's naval base. Hence, some other island has been offered to PLNG for which feasibility study will be conducted again. PLNG not very keen to participate in any bidding process – will certainly go ahead with the project if directly awarded on govt-to-govt basis. Will definitely seek sovereign guarantees if project happens.
- Other opportunities - Currently, looking at a stake in a liquefaction terminal outside India (USA) and if gas is available at landed-cost \$6/mmbtu or less (current landed cost \$9-9.5/mmbtu for oil-linked LNG), then they can tie-up for that. In 3-4 years from now, it could be possible to bring LNG at a lower price.
- Another opportunity is to have a terminal as East-coast has only 1 terminal at Dhamra and connectivity issues are resolved post commissioning of the Jagdishput-Haldia-Bokaro-Dhamra (JHBD) pipeline. With respect to LNG, India is a growing market and opportunity will increase once connectivity issues are resolved.

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INCOME STATEMENT

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	2,71,334	2,46,160	3,05,986	4,28,082	5,25,076
Cost of Materials consumed	2,50,757	2,14,169	2,66,902	3,84,086	4,73,139
Employee benefit expenses	711	739	912	1,255	1,380
Other expenses	4,005	5,330	5,049	5,332	6,458
Total Operating Expense	2,55,472	2,20,238	2,72,863	3,90,673	4,80,976
EBITDA	15,863	25,923	33,124	37,409	44,100
EBITDA Margin (%)	5.8%	10.5%	10.8%	8.7%	8.4%
Depreciation	3,216	3,691	4,117	3,923	4,107
EBIT	12,647	22,232	29,007	33,486	39,993
Finance Cost	2,388	2,097	1,630	1,314	1,148
Other Income	1,733	3,466	3,174	4,703	5,158
Profit before Tax (PBT)	11,992	23,602	30,551	36,874	44,003
Share of profit of associates & JVs	146	175	326	372	443
Profit before Tax (PBT)	12,138	23,777	30,877	37,246	44,446
Total Tax expense	2,860	6,545	9,773	12,351	14,738
Profit after Tax (PAT)	9,278	17,231	21,104	24,895	29,708
PAT Margin (%)	3.4%	7.0%	6.9%	5.8%	5.7%
EPS Basic (INR)	6.19	11.49	14.07	16.60	19.81

Source: Company, KRChoksey Research

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
Equity					
Share capital	7,500	7,500	15,000	15,000	15,000
Reserves and surplus	59,125	74,284	83,113	98,409	1,16,661
Total Equity	66,625	81,784	98,113	1,13,409	1,31,661
Non-current liabilities					
Long term borrowings	22,329	14,500	7,334	6,601	5,941
Long term provisions	56	66	78	109	134
Deferred & other non-current liabilities	19,886	21,159	23,318	28,440	32,509
Total non-current liabilities	42,271	35,725	30,730	35,150	38,584
Current liabilities					
Financial Liabilities	13,173	18,294	24,013	32,743	40,162
Short term provisions	99	95	121	169	208
Other Current liabilities	2,580	3,238	4,468	6,251	7,667
Total current liabilities	15,851	21,627	28,602	39,163	48,036
SOURCES OF FUNDS	1,24,746	1,39,136	1,57,445	1,87,721	2,18,281
ASSETS					
Non-current assets					
Net Block	83,610	84,716	82,499	89,126	93,295
Investment in JVs	1,385	2,489	2,552	2,552	2,552
Financial Assets	2,909	1,955	1,325	1,380	1,438
Other non-current assets	983	950	799	799	799
Total non-current assets	88,887	90,110	87,175	93,857	98,084
Current Assets					
Inventories	2,461	5,405	4,911	8,210	10,479
Financial Assets	9,898	39,818	56,094	68,620	78,156
Cash and Bank balances	21,829	3,273	8,625	16,139	30,465
Other current assets	1,671	530	640	895	1,098
Total current assets	35,859	49,026	70,270	93,864	1,20,197
APPLICATION OF FUNDS	1,24,746	1,39,136	1,57,445	1,87,721	2,18,281

Source: Company, KRChoksey Research

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CASH FLOW STATEMENT (CONSOLIDATED)

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
Profit before Tax (PBT)	12,138	23,777	30,877	37,246	44,446
Operating profit before working capital changes	16,397	27,728	39,987	42,483	49,701
Cash generated from/(used in) operations	35,737	24,456	33,950	42,062	50,603
Less: Income Tax Paid (net of refunds)	-1,997	-3,780	-9,773	-12,351	-14,738
Net Cash generated from/(used in) operating activities	33,740	20,676	24,177	29,712	35,864
Net Cash Used In Investing Activities	-8,538	-31,751	-1,900	-10,551	-8,275
Net Cash Used in Financing Activities	-6,994	-7,482	-16,934	-11,647	-13,263
Net Increase/(Decrease) in Cash and Cash Equivalents	18,209	-18,557	5,343	7,514	14,326
Cash and Cash Eq. at the beg. of the year	3,558	21,767	3,210	8,553	16,067
Cash and Cash Eq. at the end of the year	21,767	3,210	8,553	16,067	30,393
Add: Bank balance	62	64	72	72	72
Cash & Bank balance	21,829	3,273	8,625	16,139	30,465

Source: Company, KRChoksey Research

RATIOS

Particulars	FY16	FY17	FY18	FY19E	FY20E
<u>Profitability</u>					
Return on Assets (%)	7.4%	12.4%	13.4%	13.3%	13.6%
Return on Capital (%)	14.2%	23.1%	27.5%	27.9%	29.1%
Return on Equity (%)	13.9%	21.1%	21.5%	22.0%	22.6%
<u>Margin Trend</u>					
Gross Margin (%)	7.6%	13.0%	12.8%	10.3%	9.9%
EBITDA Margin (%)	5.8%	10.5%	10.8%	8.7%	8.4%
Net Margin (%)	3.4%	7.0%	6.9%	5.8%	5.7%
<u>Liquidity</u>					
Current Ratio	2.3	2.3	2.5	2.4	2.5
Quick Ratio	2.0	0.7	0.9	1.0	1.2
Debtor Days	13	18	20	18	18
Inventory Days	3	8	6	7	7
Creditor Days	10	14	19	18	18
Working Capital Days	6	12	7	7	7
<u>Solvency</u>					
Total Debt / Equity	0.3	0.2	0.1	0.1	0.0
Interest Coverage	5	11	18	25	35
<u>Valuation Ratios</u>					
EV/EBITDA	19.8	12.5	9.4	8.1	6.6
P/E	33.8	18.2	14.9	12.6	10.6
P/B	4.7	3.8	3.2	2.8	2.4

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
04-Feb-19	209	317	BUY	Buy	More than 15%
23-May-18	213	285	BUY		
09-FEB-18	248	480	BUY	Accumulate	5% – 15%
09-Nov-17	269	480	BUY		
18-Nov-16	347	400	BUY	Hold	0 – 5%
07-Sep-16	357	397	ACCUMULATE		
17-May-16	276	330	BUY	Reduce	-5% – 0
11-Feb-16	251	280	ACCUMULATE		
20-Oct-15	191	218	ACCUMULATE	Sell	Less than – 5%
31-July-15	195	200	HOLD		

ANALYST CERTIFICATION:

I, Neha Raichura (CFA Level III Cleared, M.Com), research analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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