

# Stock Update

## Favourable LNG economics bode well for higher Dahej terminal utilisation

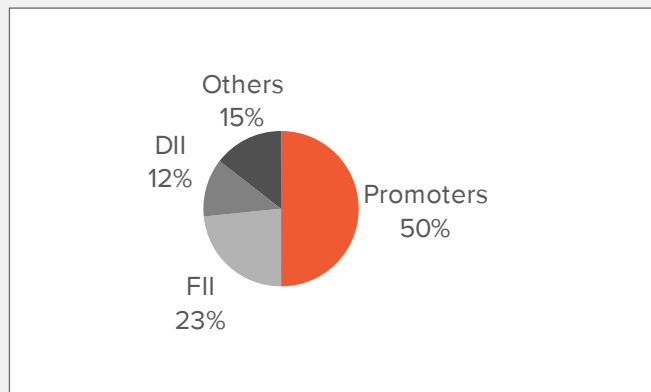
### Petronet LNG

Reco: Buy | CMP: Rs247

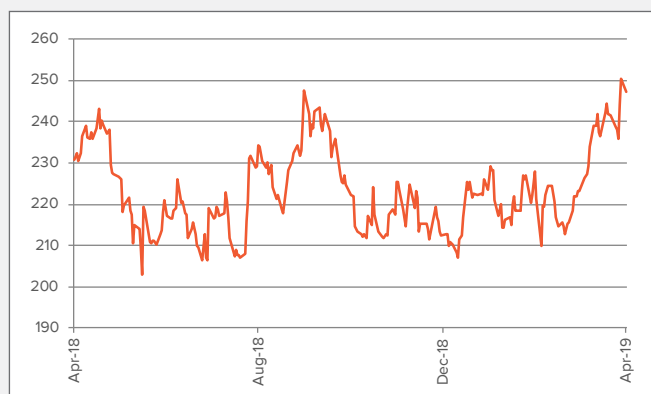
#### Company details

Price target:	Rs270
Market cap:	Rs37,095 cr
52-week high/low:	Rs255/202
NSE volume: (No of shares)	30.9 lakh
BSE code:	532522
NSE code:	PETRONET
Sharekhan code:	PETRONET
Free float: (No of shares)	75.0 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	12.5	12.2	14.8	13.8
Relative to Sensex	4.2	4.5	7.1	-4.2

#### Key points

- ♦ **Low LNG prices given supply glut bode well for higher utilisation for Petronet LNG over FY2020E-FY2021E:** Asian spot LNG price has recently declined sharply to \$5-6/mmbtu due to oversupplied market amid weaker demand on account of warmer-than-usual winters in Asia. On the contrary, price of fuel oil (FO) has also rallied sharply by 26% to \$415/mmt (\$9.8/mmbtu) in the past three months. Resultantly, both spot LNG and long-term contracted LNG price have turned cheaper than FO. This is expected to drive demand for LNG (especially from power, fertilizers, petrochemicals, refineries and industrial sectors) and, in turn, would aid volume growth and higher utilisation for Petronet LNG (PLNG). Additionally, we do not see any significant competition to Dahej terminal utilisation from incremental gas production (expected in the next 2-3 years) from domestic gas fields, as majority of higher gas production would come from deep-water/ultra deep-water/difficult blocks, which fetch premium gas price of ~\$9.32/mmbtu (as per media reports) and the same is higher than current LNG prices.
- ♦ **Strong free cashflow and limited capex in the near term could result in high dividend payout in FY2019E and FY2020E:** We expect PLNG to generate free cashflow (FCF) of ~Rs. 1,853 crore in FY2019E and ~Rs. 2,381 crore in FY2020E. Moreover, Dahej expansion by 2.5 mtpa is nearing completion and we do not see any significant capital expenditure envisaged by PLNG in FY2019E and FY2020E. Hence, in the absence of significant capex, management could increase dividend payout, resulting in higher dividend yield.
- ♦ **Outlook - Dahej expansion and Kochi ramp-up key catalysts for volume growth over FY2020E-FY2021E:** The likely completion of Dahej expansion to 17.5 mmt by June 2019 (in fact PLNG is ahead of schedule) and ramp-up of under-utilised Kochi terminal post the completion of construction work on Kochi-Mangalore pipeline section by May/June 2019 are key volume growth drivers for PLNG in H2FY2020E and FY2021E. We conservatively assume some ramp-up time for Dahej expansion and, thus, expect full utilisation by Q3FY2020E while we build gradual ramp-up of utilisation of Kochi terminal to 30% in FY2021E. Thus,

we model a 9% volume CAGR over FY2019E-FY2021E.

- ♦ **Valuation – Maintain Buy with unchanged PT of Rs. 270:** PLNG's stock price has rallied by ~11% in the past three months, given improved prospects for higher Dahej terminal utilisation supported by favourable LNG economics (which would aid in switching over to LNG from FO by the industrial sector). Moreover, with Dahej terminal expansion nearing completion and likely ramp-up of utilisation at loss-making Kochi terminal in H2FY2020, the company

provides decent volume growth visibility. Hence, we remain confident on earnings visibility (expect an 11% earnings CAGR over FY2019E-FY2021E) along with healthy RoE of ~21%. Thus, we maintain our Buy rating on PLNG with an unchanged price target (PT) of Rs. 270 (14.5x its FY2021E EPS). At the CMP, the stock is trading at 14.9x its FY2020E EPS and 13.3x its FY2021E EPS.

- ♦ **Key risks to our PT and rating:** Delay in capacity expansion at Dahej and lower-than-expected Kochi utilisation rate.

#### Valuations (Standalone)

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Revenue	24,616	30,599	39,976	47,075	51,817
Operating profit	2,592	3,312	3,535	3,953	4,435
OPM (%)	10.5	10.8	8.8	8.4	8.6
Adjusted PAT	1,706	2,078	2,263	2,485	2,795
% YoY growth	86.8	21.8	8.9	9.8	12.5
Adjusted EPS (Rs.)	11.4	13.9	15.1	16.6	18.6
P/E (x)	21.7	17.9	16.4	14.9	13.3
P/B (x)	4.6	3.8	3.3	2.9	2.5
EV/EBITDA (x)	13.7	10.0	8.9	7.5	6.2
RoNW (%)	23.2	23.3	21.7	20.8	20.5
RoCE (%)	22.8	26.3	26.0	25.8	26.0

Source: Company data; Sharekhan estimates

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by BNP PARIBAS

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