

Petronet LNG

BSE SENSEX
38,277

S&P CNX
11,498

CMP: INR238

TP: INR315(+33%)

Buy



Stock Info

| | |
|-----------------------|-------------|
| Bloomberg | PLNG IN |
| Equity Shares (m) | 1,500 |
| M.Cap.(INRb)/(USD\$b) | 356.9 / 5.1 |
| 52-Week Range (INR) | 255 / 197 |
| 1, 6, 12 Rel. Per (%) | 1/0/-1 |
| 12M Avg Val (INR M) | 740 |
| Free float (%) | 50.0 |

Financials Snapshot (INR b)

| Y/E March | 2019E | 2020E | 2021E |
|-------------|-------|-------|-------|
| Sales | 399.7 | 434.6 | 521.7 |
| EBITDA | 35.2 | 40.8 | 47.0 |
| Adj. PAT | 22.7 | 26.8 | 31.6 |
| Adj. EPS | 15.2 | 17.9 | 21.1 |
| EPS Gr. (%) | 9.4 | 17.9 | 18.0 |
| BV/Sh.(INR) | 71.1 | 78.5 | 87.3 |
| RoE (%) | 22.3 | 23.9 | 25.4 |
| RoCE (%) | 21.8 | 23.6 | 25.4 |
| Payout (%) | 58.5 | 58.5 | 58.5 |

Valuation

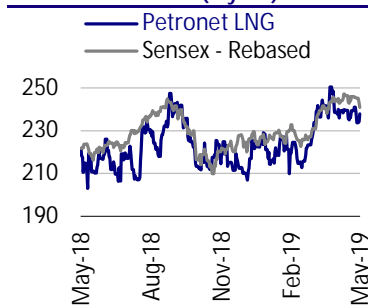
| | | | |
|------------|------|------|------|
| P/E (x) | 15.7 | 13.3 | 11.3 |
| P/BV (x) | 3.3 | 3.0 | 2.7 |
| EV/EBITDA | 9.8 | 8.2 | 6.7 |
| Div. Yield | 3.2 | 3.8 | 4.4 |

Shareholding pattern (%)

| As On | Mar-19 | Dec-18 | Mar-18 |
|----------|--------|--------|--------|
| Promoter | 50.0 | 50.0 | 50.0 |
| DII | 11.0 | 12.1 | 9.8 |
| FII | 25.7 | 23.4 | 25.1 |
| Others | 13.3 | 14.5 | 15.1 |

FII Includes depository receipts

Stock Performance (1-year)



Favorable spot prices may help, amid Dahej expansion

- Dahej is expanding from 15mmtpa to 17.5mmtpa capacity in few weeks. On the expanded capacity, utilization contracts are only for 15.75mmtpa.
- Spot LNG prices have declined to ~7% of Brent for future deliveries. Favorable low prices should enable PLNG to garner handsome marketing margins. Competition too remains weak. Reiterate Buy with target price of INR315.

Low spot LNG prices

- Amid capacity addition of 30mmt in 2019 against expected slowing demand, spot LNG prices have remained weak, trading at ~7% slope to Brent.
- In the recent past, PLNG had 'take-or-pay' utilization contracts for 15.75mmtpa on nameplate capacity of 15mmtpa, leaving hardly any scope for spot volumes.
- The upcoming expansion from 15mmtpa to 17.5mmtpa is likely to help PLNG gain handsomely in spot contracts.

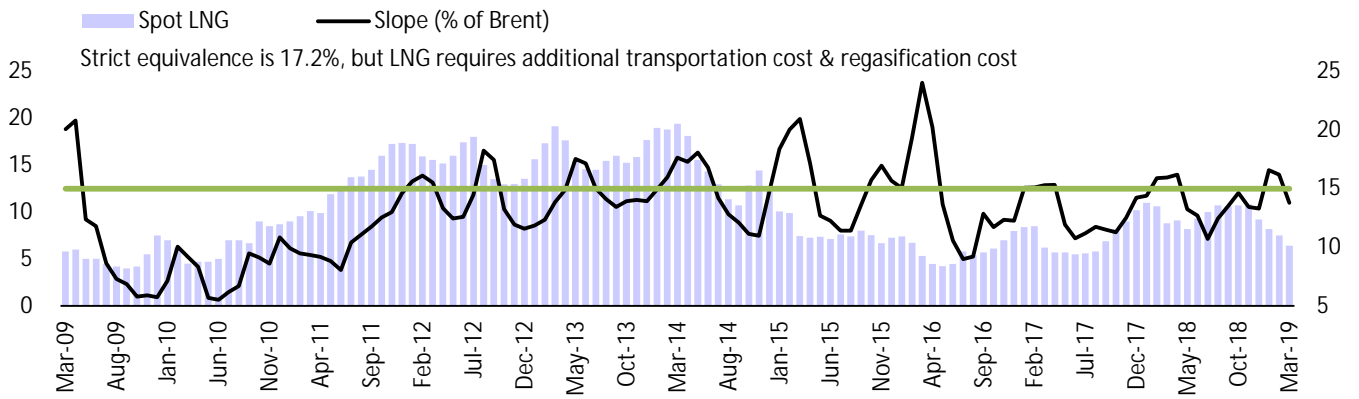
Competition remains weak

- The GSPC-Adani's 5mmtpa Mundra LNG terminal was inaugurated in Sep'18. But, due to some reasons, the terminal is yet to be commissioned.
- Domestic gas production remains behind schedule. For the past one year, actual production has been ~7% lower on an average than the estimates submitted to the ministry.
- There is not much progress in H-Energy's 4mmtpa Jaigarh FSRU. IOCL's Ennore LNG terminal has been commissioned, but it serves a completely virgin area and is not a threat to PLNG.

Valuation and recommendation

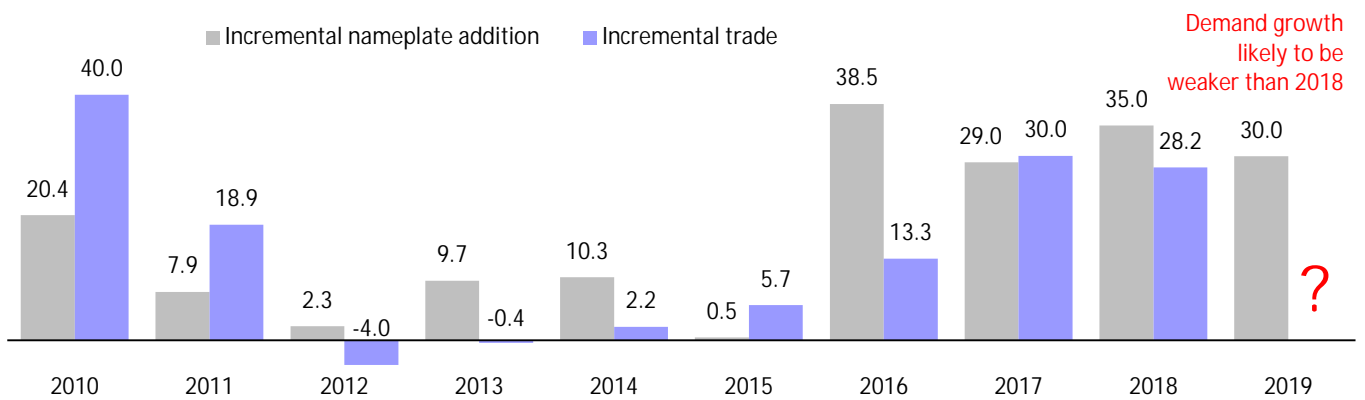
- Spot LNG prices have weakened amid rising supply glut. We expect downward pressure to remain with mega expansions like Mozambique, Canada, Qatar and Russia in the offing.
- Cash utilization remains a challenge though. None of the major projects are expected to commence any time sooner. Management has guided that it may not expose itself to upstream, which is a cause of constant worry for investors.
- In the meantime, we expect dividend payout to remain strong. The stock trades at 11.3x FY21 EPS of INR21.1 and 6.7x FY21 EV/EBITDA.
- We value the stock using DCF (WACC: 12%, terminal growth: 3%). With a target price of INR315, we reiterate **Buy** on PLNG.

Exhibit 1: Spot prices have remained weak (USD/mmBtu)



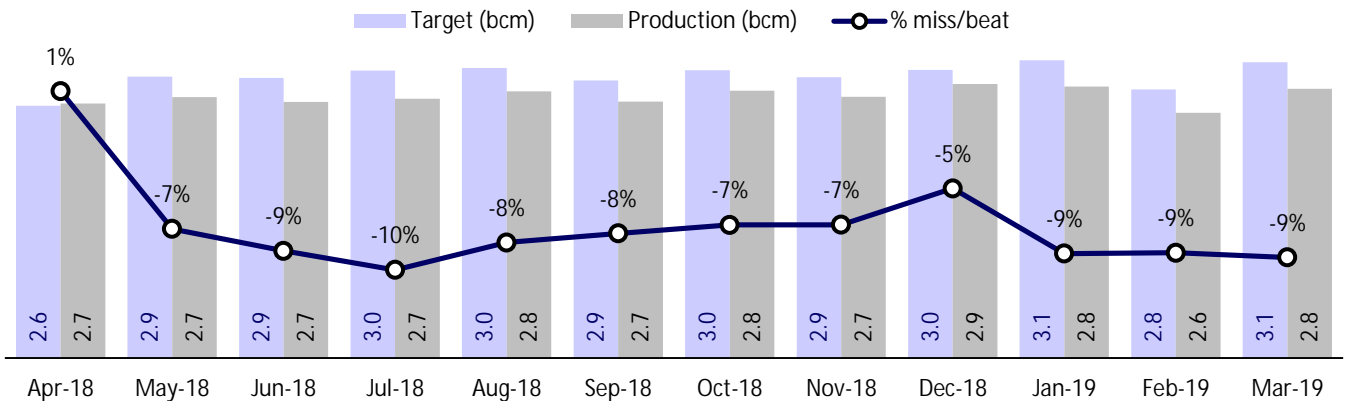
Source: Meti, Bloomberg, MOFSL

Exhibit 2: Supply glut likely to expand in 2019 (mmt)



Source: IGU, MOFSL

Exhibit 3: Domestic gas production remains behind schedule



Source: Ministry of Petroleum and Natural Gas, MOFSL

Exhibit 4: PLNG – Key assumptions

| Y/E March | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Key assumptions | | | | | | | | | | | |
| Exchange Rate (INR/USD) | 45.5 | 47.9 | 54.5 | 60.6 | 61.4 | 65.5 | 67.1 | 64.4 | 70.0 | 71.8 | 73.6 |
| Brent (USD/bbl) | 86.7 | 114.5 | 110.5 | 107.6 | 85.5 | 47.5 | 49.0 | 57.6 | 70.1 | 70.0 | 70.0 |
| Total Volume (mmtpa) | 8.7 | 10.8 | 10.4 | 9.8 | 10.4 | 11.5 | 14.4 | 16.8 | 16.8 | 18.1 | 19.5 |
| Dahej terminal | 8.7 | 10.8 | 10.4 | 9.7 | 10.3 | 11.2 | 14.1 | 16.1 | 16.4 | 16.8 | 17.5 |
| Kochi terminal | - | - | - | 0.1 | 0.1 | 0.3 | 0.3 | 0.6 | 0.5 | 1.3 | 2.0 |
| Re-gassification charges (INR/mmBtu) | | | | | | | | | | | |
| Dahej terminal | 32.2 | 33.8 | 35.5 | 37.2 | 39.1 | 41.0 | 43.1 | 45.2 | 47.5 | 49.9 | 52.4 |
| YoY (%) | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Kochi terminal | | | | 62.0 | 65.1 | 68.4 | 71.8 | 75.4 | 79.1 | 79.1 | 79.1 |
| YoY (%) | | | | | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 0.0% | 0.0% |

Source: Company, MOFSL

Exhibit 5: We value PLNG on DCF methodology

| PLNG - DCF Valuation | FY18 | FY19E | FY20E | FY21E | FY22E | FY23E | FY24E | FY25E |
|----------------------|---------|--------|--------|--------|--------|--------|--------|--------|
| PLNG EBITDA (INRm) | 33,124 | 35,205 | 40,797 | 46,961 | 50,331 | 52,512 | 54,180 | 53,980 |
| Depreciation | 4,117 | 4,167 | 4,466 | 4,708 | 4,844 | 4,916 | 4,966 | 5,011 |
| EBIT | 29,007 | 31,038 | 36,331 | 42,253 | 45,487 | 47,596 | 49,214 | 48,969 |
| Tax rate (%) | 32 | 33 | 33 | 33 | 33 | 33 | 33 | 33 |
| Capital expenditure | 1,899 | 10,000 | 5,000 | 2,500 | 1,000 | 1,000 | 1,000 | 1,000 |
| Change in WC | -10,407 | -5,308 | -1,973 | -4,935 | -2,419 | -2,272 | -1,175 | 0 |
| FCFF (INRm) | 32,352 | 20,155 | 25,602 | 35,326 | 36,602 | 37,935 | 37,966 | 36,674 |
| PV(FCFF) | | | 24,885 | 30,653 | 28,353 | 26,233 | 23,437 | 20,210 |

Exhibit 6: DCF Valuation - For 12M Forward

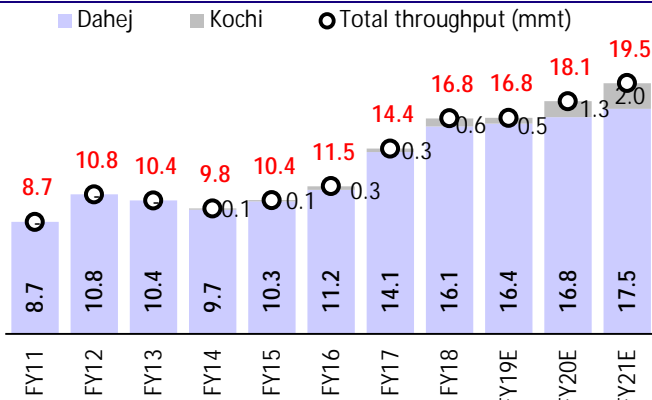
| | |
|---------------------------|----------|
| Terminal cash flow (INRm) | 36,674 |
| Terminal growth rate | 3.0% |
| Terminal value (INRm) | 4,18,822 |
| PV (Terminal Value) | 2,58,546 |
| PV | 1,53,772 |
| Enterprise value (INRm) | 4,12,319 |
| Net debt (INRm) | -60,844 |
| Equity value (INRm) | 4,73,163 |
| Target price (INR) | 315 |
| WACC | 12.0% |

Valuation and view

- n Expanding LNG glut in the near term would result in low LNG prices. Higher adoption from industries would aid volume growth for PLNG.
- n We believe that due to the Kochi-Mangalore pipeline and Dahej expansion, PLNG's total volume could grow by ~8% in FY20/21. We expect EBITDA growth of ~16% in FY20/21.
- n The stock is currently trading at 11.3x FY21 EPS of INR21.1 and 6.7x EV/EBITDA. Return ratios are likely to stand at ~22-25% in FY20/21. We value the stock at INR315, using DCF (WACC: 12%, terminal growth: 3%), we reiterate a **Buy** rating on the stock.

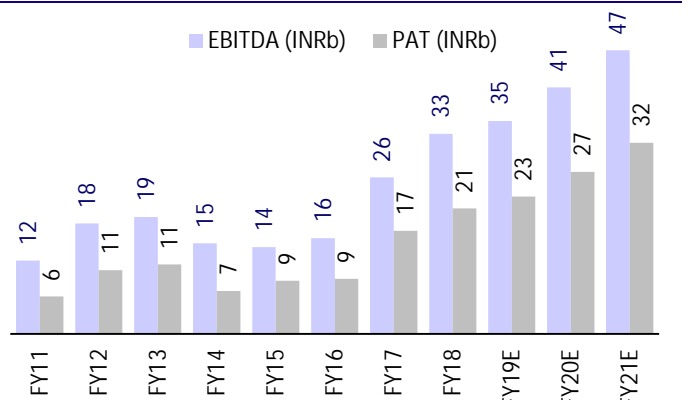
Story in charts

Exhibit 7: Volume growth led by capacity ramp-up



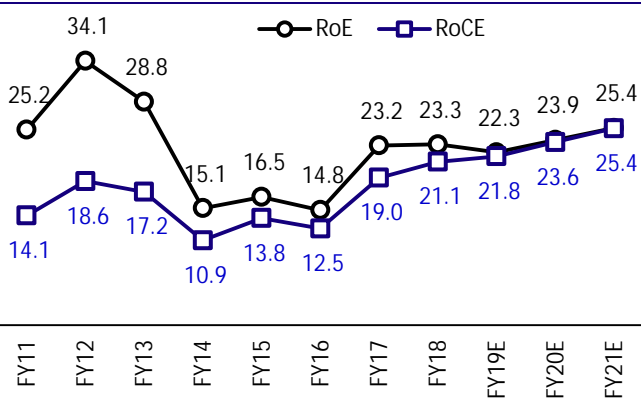
Source: Bloomberg, Platts, MOFSL

Exhibit 8: EBITDA & PAT to improve



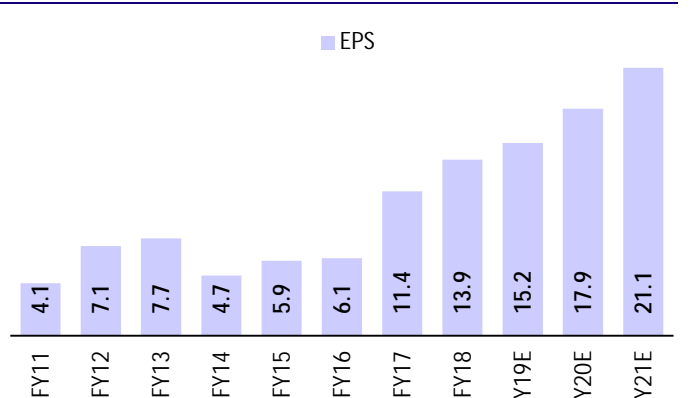
Source: Company, MOFSL

Exhibit 9: Return ratios to improve



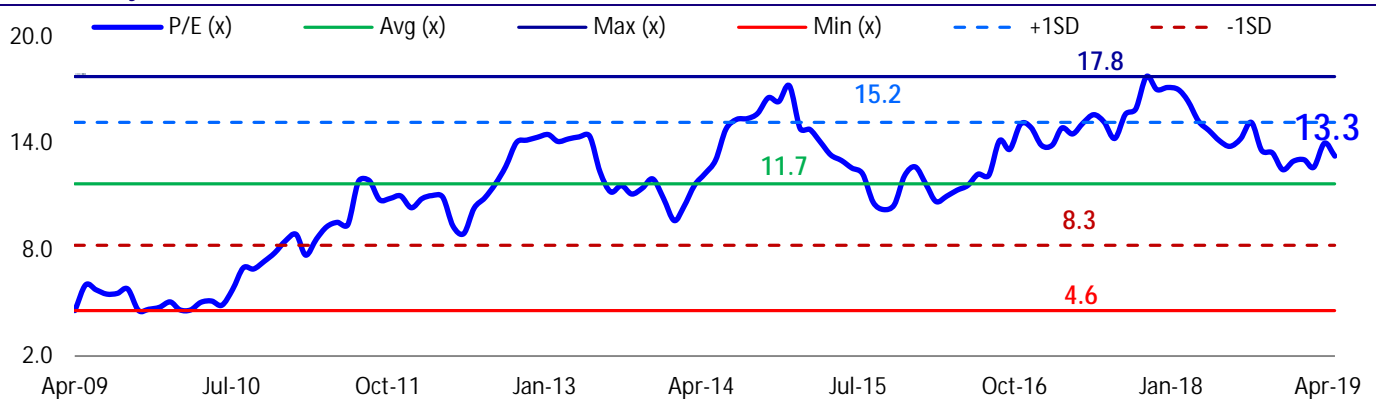
Source: Company, MOFSL

Exhibit 10: Expect ~15% EPS CAGR over FY18-21E



Source: IGU, MOFSL

Exhibit 11: 1-year forward Petronet LNG P/E



Source: Ministry of Petroleum and Natural Gas, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR Million)

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total Income from Operations | 3,77,476 | 3,95,010 | 2,71,334 | 2,46,160 | 3,05,986 | 3,99,731 | 4,34,577 | 5,21,731 |
| Change (%) | 20.0 | 4.6 | -31.3 | -9.3 | 24.3 | 30.6 | 8.7 | 20.1 |
| EBITDA | 14,984 | 14,390 | 15,863 | 25,923 | 33,124 | 35,220 | 40,797 | 46,961 |
| Margin (%) | 4.0 | 3.6 | 5.8 | 10.5 | 10.8 | 8.8 | 9.4 | 9.0 |
| Depreciation | 3,081 | 3,154 | 3,216 | 3,691 | 4,117 | 4,167 | 4,466 | 4,708 |
| EBIT | 11,903 | 11,236 | 12,647 | 22,232 | 29,007 | 31,054 | 36,331 | 42,253 |
| Int. and Finance Charges | 2,196 | 2,935 | 2,388 | 2,097 | 1,630 | 960 | 202 | 37 |
| Other Income | 838 | 1,548 | 1,733 | 3,466 | 3,174 | 4,026 | 4,168 | 5,212 |
| PBT after EO Exp. | 10,545 | 9,849 | 11,992 | 23,602 | 30,551 | 34,119 | 40,296 | 47,428 |
| Total Tax | 3,426 | 1,024 | 2,860 | 6,545 | 9,773 | 11,387 | 13,497 | 15,794 |
| Tax Rate (%) | 32.5 | 10.4 | 23.8 | 27.7 | 32.0 | 33.4 | 33.5 | 33.3 |
| Reported PAT | 7,119 | 8,825 | 9,133 | 17,057 | 20,779 | 22,732 | 26,800 | 31,635 |
| Adjusted PAT | 7,119 | 8,825 | 9,133 | 17,057 | 20,779 | 22,732 | 26,800 | 31,635 |
| Change (%) | -38.1 | 24.0 | 3.5 | 86.8 | 21.8 | 9.4 | 17.9 | 18.0 |
| Margin (%) | 1.9 | 2.2 | 3.4 | 6.9 | 6.8 | 5.7 | 6.2 | 6.1 |

Standalone - Balance Sheet

(INR Million)

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Equity Share Capital | 7,500 | 7,500 | 7,500 | 7,500 | 15,000 | 15,000 | 15,000 | 15,000 |
| Total Reserves | 42,361 | 49,386 | 58,640 | 73,439 | 82,205 | 91,639 | 1,02,761 | 1,15,889 |
| Net Worth | 49,861 | 56,886 | 66,140 | 80,939 | 97,205 | 1,06,639 | 1,17,761 | 1,30,889 |
| Total Loans | 32,669 | 26,541 | 26,146 | 22,180 | 7,334 | 3,334 | 334 | 334 |
| Deferred Tax Liabilities | 5,530 | 7,270 | 5,886 | 7,302 | 10,482 | 10,482 | 10,482 | 10,482 |
| Capital Employed | 88,061 | 90,697 | 98,171 | 1,10,421 | 1,15,021 | 1,20,454 | 1,28,576 | 1,41,705 |
| Gross Block | 77,946 | 87,869 | 71,321 | 91,134 | 91,316 | 98,078 | 1,04,931 | 1,09,051 |
| Less: Accum. Deprn. | 15,295 | 18,443 | 3,216 | 6,903 | 11,020 | 15,186 | 19,653 | 24,360 |
| Net Fixed Assets | 62,650 | 69,426 | 68,105 | 84,230 | 80,296 | 82,892 | 85,278 | 84,691 |
| Capital WIP | 8,799 | 7,469 | 15,505 | 486 | 2,203 | 5,441 | 3,588 | 1,968 |
| Total Investments | 1,399 | 900 | 900 | 29,351 | 41,223 | 41,223 | 41,223 | 41,223 |
| Curr. Assets, Loans&Adv. | 46,278 | 33,441 | 39,751 | 24,224 | 32,815 | 45,135 | 57,451 | 84,612 |
| Inventory | 9,557 | 8,826 | 2,461 | 5,405 | 4,911 | 6,416 | 6,975 | 8,374 |
| Account Receivables | 20,157 | 13,428 | 9,885 | 12,108 | 16,505 | 21,562 | 23,441 | 28,142 |
| Cash and Bank Balance | 12,327 | 3,621 | 21,829 | 3,273 | 8,625 | 13,534 | 23,096 | 43,367 |
| Loans and Advances | 4,237 | 7,566 | 5,576 | 3,438 | 2,774 | 3,624 | 3,939 | 4,730 |
| Curr. Liability & Prov. | 31,066 | 20,538 | 26,090 | 27,870 | 41,517 | 54,236 | 58,964 | 70,789 |
| Account Payables | 20,482 | 5,969 | 8,695 | 9,952 | 15,699 | 20,509 | 22,297 | 26,768 |
| Other Current Liabilities | 7,855 | 12,584 | 17,241 | 17,758 | 25,619 | 33,467 | 36,385 | 43,682 |
| Provisions | 2,729 | 1,985 | 155 | 160 | 199 | 260 | 283 | 339 |
| Net Current Assets | 15,212 | 12,903 | 13,661 | -3,646 | -8,702 | -9,101 | -1,513 | 13,823 |
| Appl. of Funds | 88,061 | 90,697 | 98,171 | 1,10,421 | 1,15,021 | 1,20,454 | 1,28,576 | 1,41,705 |

E: MOFSL Estimates

Financials and Valuations

Ratios

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------------|------|------|------|------|------|-------|-------|---------|
| Basic (INR) | | | | | | | | |
| EPS | 4.7 | 5.9 | 6.1 | 11.4 | 13.9 | 15.2 | 17.9 | 21.1 |
| Cash EPS | 6.8 | 8.0 | 8.2 | 13.8 | 16.6 | 17.9 | 20.8 | 24.2 |
| BV/Share | 33.2 | 37.9 | 44.1 | 54.0 | 64.8 | 71.1 | 78.5 | 87.3 |
| DPS | 1.0 | 1.0 | 1.3 | 2.5 | 4.5 | 7.6 | 8.9 | 10.5 |
| Payout (%) | 24.7 | 20.4 | 23.9 | 25.7 | 38.0 | 58.5 | 58.5 | 58.5 |
| Valuation (x) | | | | | | | | |
| P/E | | 40.5 | 39.1 | 20.9 | 17.2 | 15.7 | 13.3 | 11.3 |
| Cash P/E | | 29.8 | 28.9 | 17.2 | 14.3 | 13.3 | 11.4 | 9.8 |
| P/BV | | 6.3 | 5.4 | 4.4 | 3.7 | 3.3 | 3.0 | 2.7 |
| EV/Sales | | 1.0 | 1.3 | 1.5 | 1.2 | 0.9 | 0.8 | 0.6 |
| EV/EBITDA | | 26.4 | 22.8 | 14.5 | 10.7 | 9.8 | 8.2 | 6.7 |
| Dividend Yield (%) | 0.4 | 0.4 | 0.5 | 1.1 | 1.9 | 3.2 | 3.8 | 4.4 |
| FCF per share | -0.6 | -0.9 | 12.3 | 10.7 | 24.4 | 14.8 | 18.8 | 25.9 |
| Return Ratios (%) | | | | | | | | |
| RoE | 15.1 | 16.5 | 14.8 | 23.2 | 23.3 | 22.3 | 23.9 | 25.4 |
| RoCE | 10.9 | 13.8 | 12.5 | 19.0 | 21.1 | 21.8 | 23.6 | 25.4 |
| RoIC | 18.5 | 14.0 | 13.9 | 23.4 | 28.1 | 33.6 | 40.0 | 48.7 |
| Working Capital Ratios | | | | | | | | |
| Fixed Asset Turnover (x) | 4.8 | 4.5 | 3.8 | 2.7 | 3.4 | 4.1 | 4.1 | 4.8 |
| Asset Turnover (x) | 4.3 | 4.4 | 2.8 | 2.2 | 2.7 | 3.3 | 3.4 | 3.7 |
| Inventory (Days) | 9 | 8 | 3 | 8 | 6 | 6 | 6 | 6 |
| Debtor (Days) | 19 | 12 | 13 | 18 | 20 | 20 | 20 | 20 |
| Creditor (Days) | 20 | 6 | 12 | 15 | 19 | 19 | 19 | 19 |
| Leverage Ratio (x) | | | | | | | | |
| Current Ratio | 1.5 | 1.6 | 1.5 | 0.9 | 0.8 | 0.8 | 1.0 | 1.2 |
| Interest Cover Ratio | 5.4 | 3.8 | 5.3 | 10.6 | 17.8 | 32.3 | 180.1 | 1,149.7 |
| Net Debt/Equity | 0.4 | 0.4 | 0.1 | -0.1 | -0.4 | -0.5 | -0.5 | -0.6 |

Standalone - Cash Flow Statement

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|------------------------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| OP/(Loss) before Tax | 10,545 | 9,849 | 11,992 | 23,602 | 30,551 | 34,119 | 40,296 | 47,428 |
| Depreciation | 3,081 | 3,154 | 3,216 | 3,691 | 4,117 | 4,167 | 4,466 | 4,708 |
| Deferred tax | 1,620 | 1,740 | -1,384 | 1,416 | 3,180 | 0 | 0 | 0 |
| Direct Taxes Paid | -3,426 | -1,024 | -2,860 | -6,545 | -9,773 | -11,387 | -13,497 | -15,794 |
| (Inc)/Dec in Wkg. Capital | -5,104 | -6,397 | 17,450 | -1,248 | 10,407 | 5,308 | 1,973 | 4,935 |
| CF from Op. Activity | 6,716 | 7,322 | 28,414 | 20,915 | 38,482 | 32,207 | 33,239 | 41,278 |
| (Inc)/Dec in FA & CWIP | -7,647 | -8,599 | -9,931 | -4,796 | -1,899 | -10,000 | -5,000 | -2,500 |
| Free Cash Flow | -931 | -1,277 | 18,483 | 16,119 | 36,583 | 22,207 | 28,239 | 38,778 |
| (Pur)/Sale of Investments | 0 | 499 | 0 | -28,451 | -11,872 | 0 | 0 | 0 |
| CF from Inv. Activity | -7,647 | -8,100 | -9,931 | -33,248 | -13,772 | -10,000 | -5,000 | -2,500 |
| Issue of Shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inc / (Dec) in Debt | 2,328 | -6,128 | -396 | -3,966 | -14,846 | -4,000 | -3,000 | 0 |
| Dividends Paid (incl. tax) | -1,755 | -1,800 | -2,180 | -4,388 | -7,898 | -13,298 | -15,678 | 0 |
| Others | 0 | 0 | 2,301 | 2,130 | 3,385 | 0 | 0 | -18,506 |
| CF from Fin. Activity | 573 | -7,928 | -275 | -6,223 | -19,359 | -17,298 | -18,678 | -18,506 |
| Inc / (Dec) in Cash | -358 | -8,706 | 18,208 | -18,556 | 5,352 | 4,909 | 9,561 | 20,271 |
| Add: Opening Balance | 12,685 | 12,327 | 3,621 | 21,829 | 3,273 | 8,625 | 13,534 | 23,096 |
| Closing Balance | 12,327 | 3,621 | 21,829 | 3,273 | 8,625 | 13,534 | 23,096 | 43,367 |

E: MOFSL Estimates

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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