16 May 2019

4QFY19 Results Update | Sector: Oil & Gas

Petronet LNG

BSE SENSEX	S&P CNX
37,393	11,257
Bloomberg	PLNG IN
Equity Shares (m)	1,500
M.Cap.(INRb)/(USDb)	336.8 / 4.8
52-Week Range (INR)	255 / 197
1, 6, 12 Rel. Per (%)	-2/-1/5
12M Avg Val (INR M)	733
Free float (%)	50.0

Financials & Valuations(INR b)

Y/E March	2019	2020E	2021E
Sales	384.0	426.3	523.2
EBITDA	32.9	41.2	48.8
Adj. PAT	21.6	27.7	32.6
Adj. EPS (INR)	14.4	18.5	21.7
EPS Gr. (%)	3.7	28.5	17.6
BV/Sh.(INR)	67.1	72.6	79.2
RoE (%)	21.8	26.4	28.6
RoCE (%)	21.5	26.3	28.5
Payout (%)	68.0	70.0	70.0
Valuation			
P/E (x)	15.6	12.1	10.3
P/BV (x)	3.3	3.1	2.8
EV/EBITDA (x)	9.3	7.3	5.9
Div. Yield (%)	4.0	4.8	5.6

Estimate change

TP change

Rating change

CMP: INR224 TP: INR300 (+34%) Buy

LNG spot prices hit hard, EBITDA miss on inventory markdown

- 4QFY19 PAT missed est. by 21% at INR4.4b (-16% YoY, -22% QoQ), while EBIDTA too missed est. by ~27% at INR6.3b (-24% YoY, -26% QoQ), led by inventory markdown of INR1,190m.
- Spot LNG price for PLNG declined to USD4.3/mmbtu from USD8.3/mmbtu leading to inventory loss.
- 4QFY19 volumes were ~2% lower than est. at 205.1tbtu (-4% YoY, +1% QoQ), while FY19 volumes were at ~844tbtu (v/s 847tbtu in FY18). Volume loss was a seasonal effect due to shutdown of (a) refineries at Panipat and Koyali, (b) fertilizer plants.
- For the quarter, utilization at Dahej stood at 104% (108% in FY19; flat YoY in FY18); while utilization at Kochi increased to 11% (10% in FY19; 12% in FY18).
- Re-gas tariff charges for the quarter were ~USD0.7/mmbtu at Dahej and ~USD1.4/mmbtu at Kochi.
- Company plans to set up two more tanks (in addition to six currently) at Dahej, increasing throughput to ~19.5mtpa over the next 2-3 years.
- Capex for the year stood at INR4.5b with guidance of INR6b for FY20.

Valuation and view

- For FY19, EBITDA came in at INR32.9b (flat YoY v/s INR33.1b in FY18), while PAT stood at INR21.6b (+3.7% YoY v/s INR20.8b in FY18) due to higher other income.
- We assume total volume growth of ~7%/~9% in FY20/21 with competition concerns having subsided and delays in ramp-up of domestic gas production.
- The stock trades at 12.1x FY20E EPS of INR18.5. Modeling in capex guidance of INR6b for FY20 in line with the company's guidance, we value PLNG on DCF (WACC: 12.0%, TGR: 3%) to arrive at fair value of INR300 (from INR315). Reiterate **Buy**, with an implied upside of ~34% to the current market price.

Standalone - Quarterly Earning Model **(INR Million)**

Y/E March	FY18				FY19				FY18	FY19	FY19	Var. v/s
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est.
Net Sales	**64,351**	**77,702**	**77,571**	**86,362**	**91,692**	**1,07,453**	**1,00,977**	**83,832**	**3,05,986**	**3,83,954**	**99,609**	**-16%**
YoY Change (%)	20.6	17.5	23.1	35.7	42.5	38.3	30.2	-2.9	24.3	25.5	15.3	
Total Expenditure	56,909	68,715	69,097	78,142	82,347	98,616	92,497	77,560	2,72,863	3,51,020	91,050	-15%
EBITDA	**7,442**	**8,987**	**8,474**	**8,221**	**9,344**	**8,837**	**8,481**	**6,272**	**33,124**	**32,935**	**8,558**	**-27%**
Margins (%)	11.6	11.6	10.9	9.5	10.2	8.2	8.4	7.5	10.8	8.6	8.6	
Depreciation	1,027	1,039	1,039	1,013	1,022	1,037	1,037	1,016	4,117	4,112	1,070	-5%
Interest	465	465	367	335	300	249	215	225	1,630	989	196	15%
Other Income	707	1,019	414	1,034	990	1,115	884	1,514	3,174	4,503	1,037	46%
PBT	**6,658**	**8,504**	**7,482**	**7,908**	**9,012**	**8,666**	**8,113**	**6,545**	**30,551**	**32,336**	**8,329**	**-21%**
Tax	2,282	2,616	2,194	2,681	3,142	3,037	2,460	2,143	9,773	10,782	2,748	-22%
Rate (%)	34.3	30.8	29.3	33.9	34.9	35.0	30.3	32.7	32.0	33.3	33.0	
Adj PAT	**4,376**	**5,888**	**5,288**	**5,227**	**5,870**	**5,629**	**5,653**	**4,402**	**20,778**	**21,554**	**5,580**	**-21%**
YoY Change (%)	15.8	28.1	33.0	11.0	34.1	-4.4	6.9	-15.8	21.8	3.7	6.8	
Margins (%)	6.8	7.6	6.8	6.1	6.4	5.2	5.6	5.3	6.8	5.6	5.6	
Key Assumptions												
Total Volumes (Tbtu)	191.7	220.0	223.0	212.7	220.2	217.0	202.0	205.1	847.4	844.3	210.0	-2%

E: MOFSL Estimates

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Key Highlights

- Throughput volumes for the quarter at Dahej were ~198tbtu (820tbtu for FY19) and Kochi was ~7.1tbtu (24tbtu for FY19).
- Long-term contract at Dahej declined to ~100tbtu (v/s 115tbtu in 4QFY18 and 109tbtu in 3QFY19), while spot/short-term volumes increased ~3tbtu QoQ to ~7tbtu (flat YoY).
- Long-term contract at Kochi increased to ~7tbtu (v/s 5.8tbtu in 4QFY18 and 5tbtu in 3QFY19), while spot/short-term volumes increased ~0.1tbtu QoQ (flat YoY).
- Utilization at Dahej stood at 104% (v/s 109% in 4QFY18 and 104% in 3QFY19), and at 108% in FY19 (flat YoY).
- Utilization at Kochi increased to 11% (v/s 9% in 4QFY18 and 8% in 3QFY19), and at ~10% in FY19 (down from 12% in FY18).
- Company proposed a dividend of INR4.5/share for the quarter, totaling to INR9/share for FY19 (~70% payout).

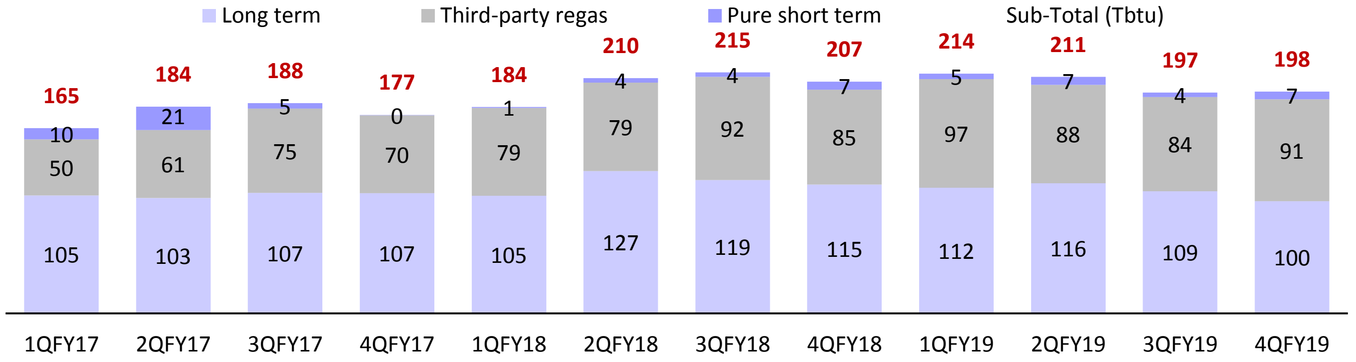
Dahej and Kochi for FY20/21

- Incremental gas demand in India will be a function of liquid v/s gas economics; take-or-pay contracts offer earnings certainty for PLNG.
- Dahej continues to enjoy >100% utilization with ~16mmt (RasGas: 8.5, others: 7.25) long-term take-or-pay contracts.
- The company doesn't have any "take-or-pay" contract tied for the additional 2.5mtpa capacity expected to be commissioned in the month of June'19.
- An increase in short-term contracts could niggle in inventory gain/loss going forward, in line with global spot price behavior.
- Kochi-Mangalore pipeline is expected to be completed by June-end, post which we expect ~20% utilization at Kochi in FY21, with ~40% utilization by FY22.

Valuation and view

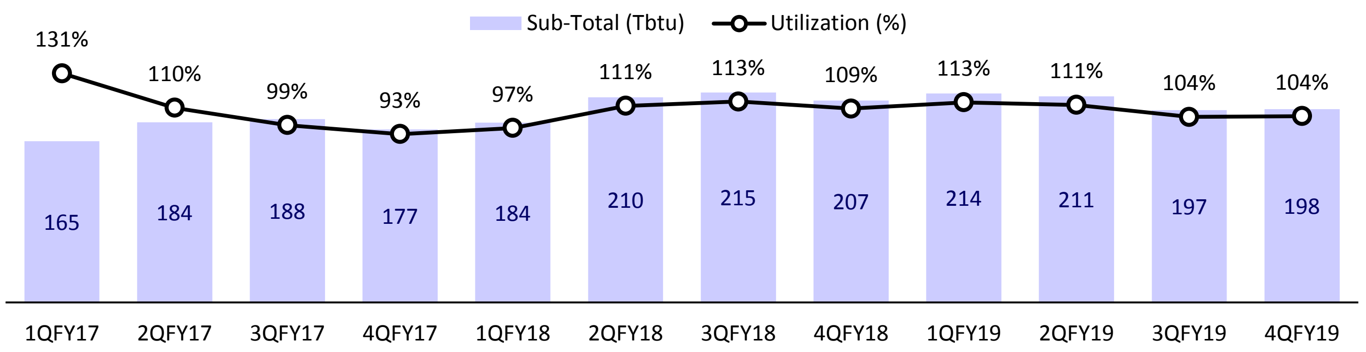
- Competition remains weak for PLNG; with continued delays in upcoming H-Energy's 4mmtpa Jaigarh FSRU and lack of volumes at GSPC-Adani's 5mmtpa Mundra LNG terminal.
- Domestic gas production failed to ramp up, with actual production over the past one year ~7% lower on an average than the estimates submitted to the ministry.
- Factoring in aforementioned volume positives, we expect total volume growth of ~7% at 17.8mmtpa in FY20 and ~9% at 19.5mmtpa in FY21 with improved utilization at both Dahej (for additional 2.5mmtpa) and Kochi. We expect EBITDA growth of ~25%/18% in FY20/21.
- Company guidance for capex stands at INR6b in FY20. Company expects capex of ~INR13b with introduction of a third jetty at Dahej (over next 3-4 years) and ~INR20b capex for setting up 2.5mtpa FSRu in Sri Lanka.
- We model in capex of INR6b (up from INR5b) for FY20 and INR5b (up from INR2.5b) in FY21.
- The stock trades at 12.1x FY20E EPS of INR18.5. We value PLNG on DCF (WACC: 12.0%, TGR: 3%) to arrive at a fair value of INR300, implying an upside of 34%. Reiterate **Buy**.

Exhibit 1: Dahej total volume at 198tbtu, -4% YoY, +1% QoQ



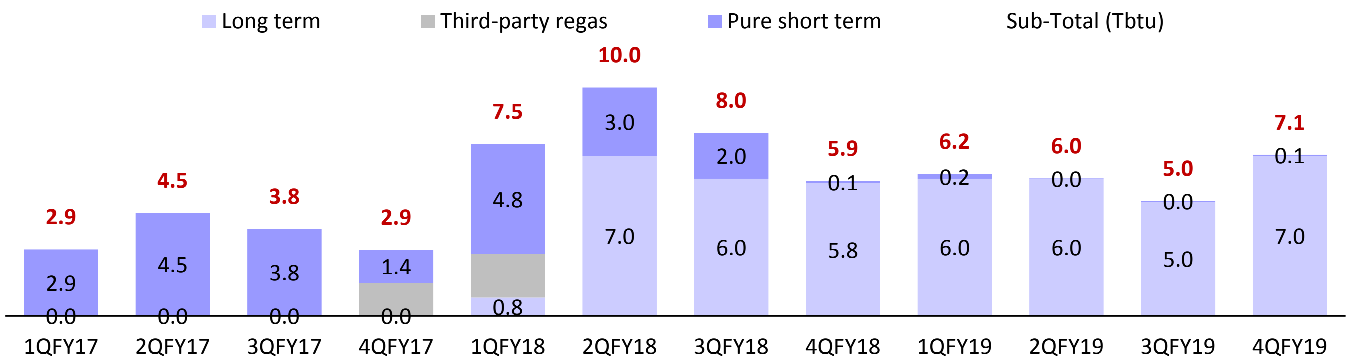
Source: Company, MOFSL

Exhibit 2: Dahej terminal utilization at 104% in 4QFY19



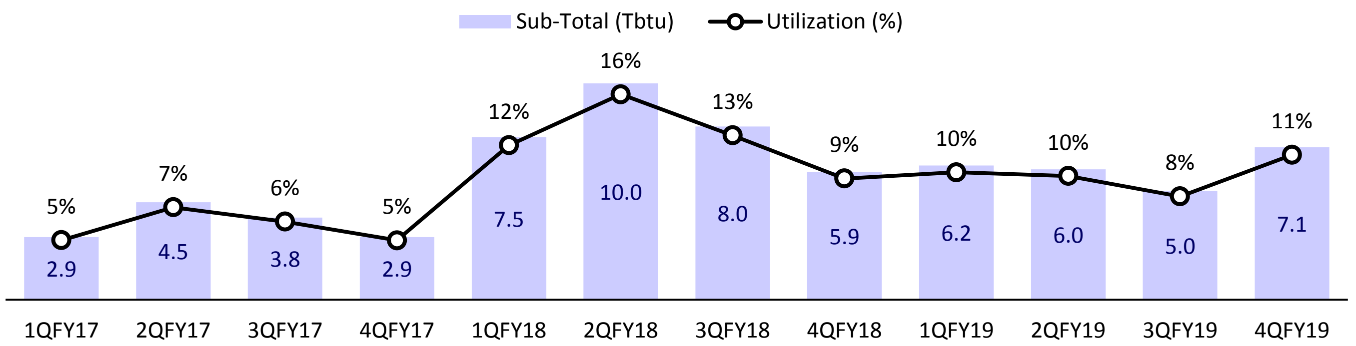
Source: Company, MOFSL

Exhibit 3: Kochi volume at 7.1tbtu, +19% YoY, +40% QoQ



Source: Company, MOFSL

Exhibit 4: Kochi terminal utilization at 11% in 4QFY19



Source: Company, MOFSL

Exhibit 5: Petronet LNG - Key earnings model assumptions

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Key assumptions								
Exchange Rate (INR/USD)	60.6	61.4	65.5	67.1	64.4	70.0	71.8	73.6
Brent (USD/bbl)	107.6	85.5	47.5	49.0	57.6	70.1	70.0	70.0
Capacity (mmt)	**15.0**	**15.0**	**15.0**	**18.3**	**20.0**	**20.0**	**22.5**	**22.5**
Dahej terminal	10.0	10.0	10.0	13.3	15.0	15.0	17.5	17.5
Kochi terminal	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Capacity utilization (%)	**65%**	**69%**	**77%**	**79%**	**84%**	**84%**	**79%**	**87%**
Dahej terminal	97%	103%	112%	106%	108%	108%	96%	100%
Kochi terminal	2%	2%	6%	6%	12%	10%	20%	40%
Volume sold (mmtpa)	**9.8**	**10.4**	**11.5**	**14.4**	**16.8**	**16.7**	**17.8**	**19.5**
Dahej terminal	9.7	10.3	11.2	14.1	16.1	16.2	16.8	17.5
Kochi terminal	0.1	0.1	0.3	0.3	0.6	0.5	1.0	2.0

Source: Company, MOFSL

Exhibit 6: DCF fair value of INR300 (WACC: 12.0%, TGR: 3%)

PLNG - DCF Valuation	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
PLNG EBITDA (INRm)	**33,124**	**32,935**	**41,165**	**48,755**	**51,366**	**55,603**	**55,466**	**57,316**
Depreciation	4,117	4,112	4,260	4,502	4,697	4,828	4,904	4,955
EBIT	**29,007**	**28,822**	**36,904**	**44,252**	**46,669**	**50,775**	**50,562**	**52,361**
Tax rate (%)	32	33	33	33	33	33	33	33
Capital expenditure	1,899	1,746	6,000	4,000	3,000	1,000	1,000	1,000
Change in WC	-10,407	12,731	-507	-1,160	-500	-730	0	-250
FCFF (INRm)	**32,352**	**8,847**	**23,448**	**31,179**	**33,325**	**38,425**	**37,629**	**39,129**
PV(FCFF)			**23,448**	**27,833**	**26,557**	**27,336**	**23,897**	**22,184**

Source: Company, MOFSL

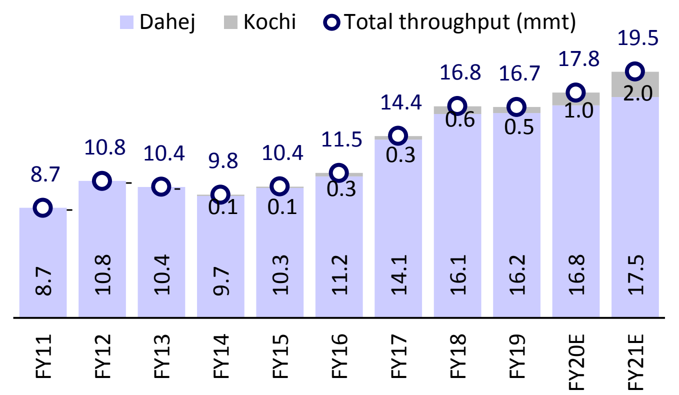
Exhibit 7: DCF valuation - Valued at FY12

Terminal cash flow (INRm)	39,129
Terminal growth rate	3.0%
Terminal value (INRm)	4,46,849
PV (Terminal Value)	2,53,334
PV	1,51,255
Enterprise value (INRm)	4,04,589
Net debt (INRm)	-45,561
Equity value (INRm)	4,50,150
Target price (INR)	**300**

Source: Company, MOFSL

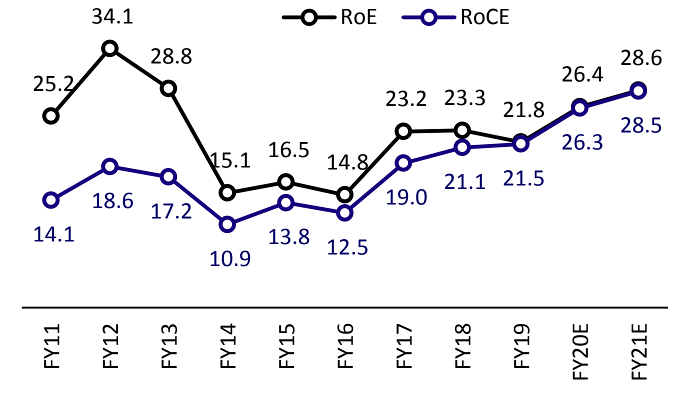
Story in charts

Exhibit 8: Volume growth led by capacity ramp-up



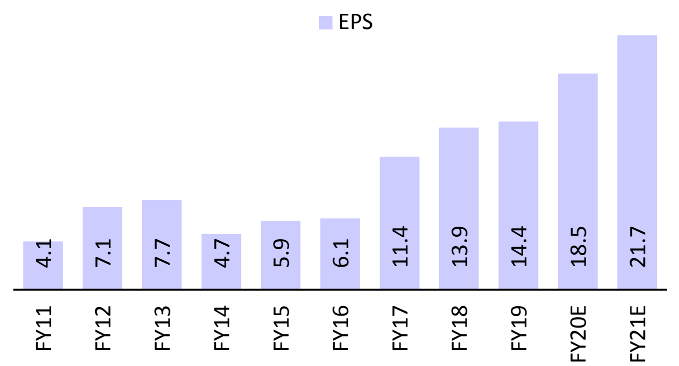
Source: Company, MOFSL

Exhibit 9: Stable return ratios



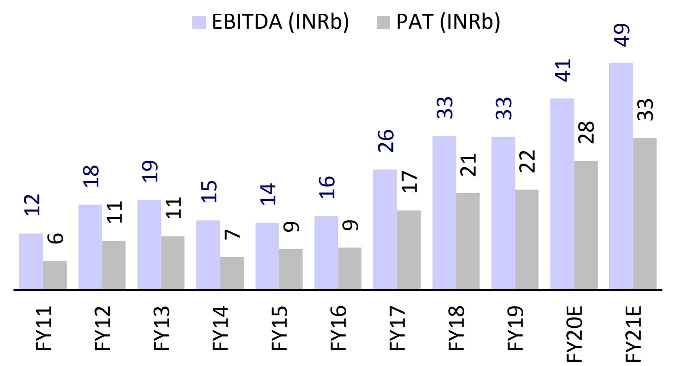
Source: Company, MOFSL

Exhibit 10: Strong EPS growth (INR)



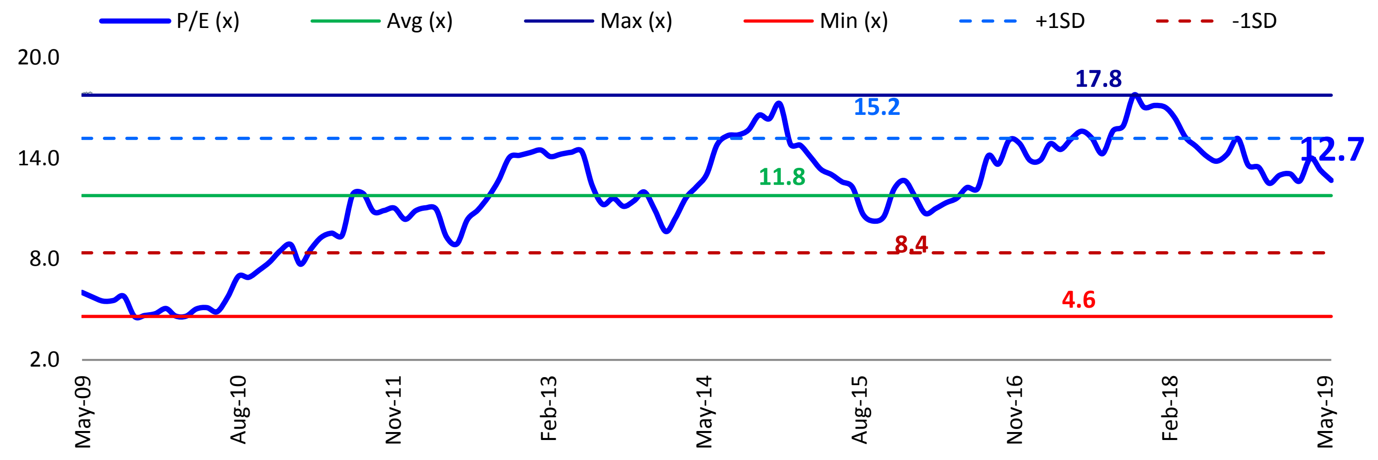
Source: Company, MOFSL

Exhibit 11: EBITDA/PAT to grow



Source: Company, MOFSL

Exhibit 12: 1-year forward P/E



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement (INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	**3,77,476**	**3,95,010**	**2,71,334**	**2,46,160**	**3,05,986**	**3,83,954**	**4,26,312**	**5,23,235**
Change (%)	20.0	4.6	-31.3	-9.3	24.3	25.5	11.0	22.7
EBITDA	**14,984**	**14,390**	**15,863**	**25,923**	**33,124**	**32,935**	**41,165**	**48,755**
Margin (%)	4.0	3.6	5.8	10.5	10.8	8.6	9.7	9.3
Depreciation	3,081	3,154	3,216	3,691	4,117	4,112	4,260	4,502
EBIT	**11,903**	**11,236**	**12,647**	**22,232**	**29,007**	**28,822**	**36,904**	**44,252**
Int. and Finance Charges	2,196	2,935	2,388	2,097	1,630	989	100	80
Other Income	838	1,548	1,733	3,466	3,174	4,503	4,615	4,681
PBT bef. EO Exp.	**10,545**	**9,849**	**11,992**	**23,602**	**30,551**	**32,336**	**41,420**	**48,853**
PBT after EO Exp.	**10,545**	**9,849**	**11,992**	**23,602**	**30,551**	**32,336**	**41,420**	**48,853**
Total Tax	3,426	1,024	2,860	6,545	9,773	10,782	13,720	16,268
Tax Rate (%)	32.5	10.4	23.8	27.7	32.0	33.3	33.1	33.3
Reported PAT	**7,119**	**8,825**	**9,133**	**17,057**	**20,779**	**21,554**	**27,700**	**32,585**
Adjusted PAT	**7,119**	**8,825**	**9,133**	**17,057**	**20,779**	**21,554**	**27,700**	**32,585**
Change (%)	-38.1	24.0	3.5	86.8	21.8	3.7	28.5	17.6
Margin (%)	1.9	2.2	3.4	6.9	6.8	5.6	6.5	6.2

Standalone - Balance Sheet (INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	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	85,661	93,971	1,03,746
Net Worth	**49,861**	**56,886**	**66,140**	**80,939**	**97,205**	**1,00,661**	**1,08,971**	**1,18,746**
Total Loans	32,669	26,541	26,146	22,180	7,334	1,012	810	648
Deferred Tax Liabilities	5,530	7,270	5,886	7,302	10,482	13,360	13,360	13,360
Capital Employed	**88,061**	**90,697**	**98,171**	**1,10,421**	**1,15,021**	**1,15,033**	**1,23,141**	**1,32,754**
Gross Block	77,946	87,869	71,321	91,134	91,316	91,783	97,569	1,02,526
Less: Accum. Deprn.	15,295	18,443	3,216	6,903	11,020	15,132	19,393	23,895
Net Fixed Assets	**62,650**	**69,426**	**68,105**	**84,230**	**80,296**	**76,651**	**78,176**	**78,631**
Capital WIP	8,799	7,469	15,505	486	2,203	3,482	3,696	2,739
Total Investments	**1,399**	**900**	**900**	**29,351**	**41,223**	**9,893**	**9,893**	**9,893**
Curr. Assets, Loans&Adv.	**46,278**	**33,441**	**39,751**	**24,224**	**32,815**	**60,823**	**71,142**	**90,299**
Inventory	9,557	8,826	2,461	5,405	4,911	5,694	6,323	7,760
Account Receivables	20,157	13,428	9,885	12,108	16,505	14,335	15,917	19,536
Cash and Bank Balance	12,327	3,621	21,829	3,273	8,625	29,603	36,478	47,754
Loans and Advances	4,237	7,566	5,576	3,438	2,774	11,190	12,425	15,249
Curr. Liability & Prov.	**31,066**	**20,538**	**26,090**	**27,870**	**41,517**	**35,815**	**39,766**	**48,807**
Account Payables	20,482	5,969	8,695	9,952	15,699	12,952	14,381	17,651
Other Current Liabilities	7,855	12,584	17,241	17,758	25,619	22,585	25,076	30,777
Provisions	2,729	1,985	155	160	199	278	309	379
Net Current Assets	**15,212**	**12,903**	**13,661**	**-3,646**	**-8,702**	**25,007**	**31,375**	**41,491**
Appl. of Funds	**88,061**	**90,697**	**98,171**	**1,10,421**	**1,15,021**	**1,15,033**	**1,23,141**	**1,32,754**

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
EPS	**4.7**	**5.9**	**6.1**	**11.4**	**13.9**	**14.4**	**18.5**	**21.7**
Cash EPS	6.8	8.0	8.2	13.8	16.6	17.1	21.3	24.7
BV/Share	33.2	37.9	44.1	54.0	64.8	67.1	72.6	79.2
DPS	1.0	1.0	1.3	2.5	4.5	9.0	10.7	12.6
Payout (%)	24.7	20.4	23.9	25.7	38.0	68.0	70.0	70.0
Valuation (x)								
P/E		38.1	36.8	19.7	16.2	15.6	12.1	10.3
Cash P/E		28.1	27.2	16.2	13.5	13.1	10.5	9.1
P/BV		5.9	5.1	4.2	3.5	3.3	3.1	2.8
EV/Sales		0.9	1.3	1.4	1.1	0.8	0.7	0.6
EV/EBITDA		25.0	21.5	13.7	10.1	9.3	7.3	5.9
Dividend Yield (%)	0.4	0.4	0.6	1.1	2.0	4.0	4.8	5.6
FCF per share	-0.6	-0.9	12.3	10.7	24.4	9.4	17.6	22.8
Return Ratios (%)								
RoE	15.1	16.5	14.8	23.2	23.3	21.8	26.4	28.6
RoCE	10.9	13.8	12.5	19.0	21.1	21.5	26.3	28.5
RoIC	18.5	14.0	13.9	23.4	28.1	28.5	34.0	40.6
Working Capital Ratios								
Fixed Asset Turnover (x)	4.8	4.5	3.8	2.7	3.4	4.2	4.4	5.1
Asset Turnover (x)	4.3	4.4	2.8	2.2	2.7	3.3	3.5	3.9
Inventory (Days)	9	8	3	8	6	5	5	5
Debtor (Days)	19	12	13	18	20	14	14	14
Creditor (Days)	20	6	12	15	19	12	12	12
Leverage Ratio (x)								
Current Ratio	1.5	1.6	1.5	0.9	0.8	1.7	1.8	1.9
Interest Cover Ratio	5.4	3.8	5.3	10.6	17.8	29.1	368.4	552.1
Net Debt/Equity	0.4	0.4	0.1	-0.1	-0.4	-0.4	-0.4	-0.5

Standalone - Cash Flow Statement **(INR Million)**

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	10,545	9,849	11,992	23,602	30,551	32,336	41,420	48,853
Depreciation	3,081	3,154	3,216	3,691	4,117	4,112	4,260	4,502
Deferred tax	1,620	1,740	-1,384	1,416	3,180	2,879	0	0
Direct Taxes Paid	-3,426	-1,024	-2,860	-6,545	-9,773	-10,782	-13,720	-16,268
(Inc)/Dec in Wkg. Capital	-5,104	-6,397	17,450	-1,248	10,407	-12,731	507	1,160
CF from Op. Activity	**6,716**	**7,322**	**28,414**	**20,915**	**38,482**	**15,814**	**32,467**	**38,247**
(Inc)/Dec in FA & CWIP	-7,647	-8,599	-9,931	-4,796	-1,899	-1,746	-6,000	-4,000
Free Cash Flow	**-931**	**-1,277**	**18,483**	**16,119**	**36,583**	**14,068**	**26,467**	**34,247**
(Pur)/Sale of Investments	0	499	0	-28,451	-11,872	31,331	0	0
CF from Inv. Activity	**-7,647**	**-8,100**	**-9,931**	**-33,248**	**-13,772**	**29,584**	**-6,000**	**-4,000**
Issue of Shares	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	2,328	-6,128	-396	-3,966	-14,846	-6,322	-202	-162
Dividends Paid (incl.tax)	-1,755	-1,800	-2,180	-4,388	-7,898	-14,648	-19,390	0
Others	0	0	2,301	2,130	3,385	-3,451	0	-22,809
CF from Fin. Activity	**573**	**-7,928**	**-275**	**-6,223**	**-19,359**	**-24,420**	**-19,592**	**-22,971**
Inc / (Dec) in Cash	**-358**	**-8,706**	**18,208**	**-18,556**	**5,352**	**20,978**	**6,875**	**11,276**
Add: Opening Balance	12,685	12,327	3,621	21,829	3,273	8,625	29,603	36,478
Closing Balance	**12,327**	**3,621**	**21,829**	**3,273**	**8,625**	**29,603**	**36,478**	**47,754**

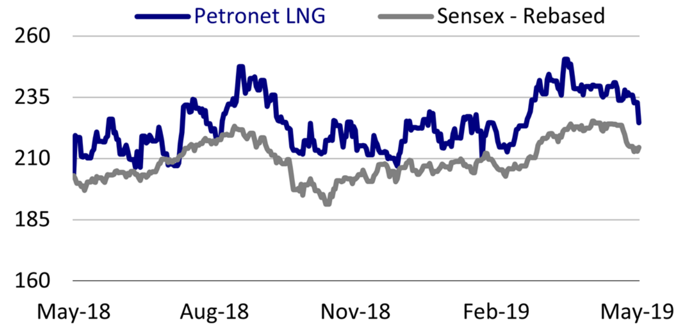
E: MOFSL Estimates

Corporate profile

Company description

Petronet LNG (PLNG) was formed as a joint venture by the government of India to import LNG and set up LNG terminals in India. Each promoter - GAIL, ONGC, IOCL and BPCL, holds 12.5% stake in PLNG. The company owns India's first LNG receiving and regasification terminal of 10mmtpa at Dahej and 5mmtpa terminal at Kochi commissioned in 2QFY14. It has a tied up long-term off-take contracts of 15.75mmtpa effective from its capacity expansion to 15mmtpa at Dahej in 2016.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	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

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
KOTAK EQUITY SAVINGS FUND	2.0
FRANKLIN INDIA EQUITY SAVINGS FUND	1.9
ADITYA BIRLA SUN LIFE TRUSTEE PRIVATE LIMITED A/C ADITYA BIRLA SUN LIFE CAPITAL PROTECTION ORIENTED	1.4
MOTILAL OSWAL MULTICAP 35 FUND	1.2
GOVERNMENT OF SINGAPORE	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
M M Kutty	Chairman
Prabhat Singh	Managing Director & CEO
Rajender Singh	Director (Technical)
Rajan Kapur	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Arun Kumar*	B C Tripathi
Jyoti Kiran Shukla*	Shashi Shankar
Siddharth Shekhar Singh*	Sidhartha Pradhan
Sunil Kumar Srivastava*	V K Mishra
D Rajkumar	Sanjiv Singh
	T Natarajan

*Independent

Exhibit 6: Auditors

Name	Type
A N Kukreja & Co	Secretarial Audit
K L Jaisingh & Co	Cost Auditor
T R Chadha & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY20	18.5	19.8	-6.7
FY21	21.7	21.1	2.8

Source: Bloomberg

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

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