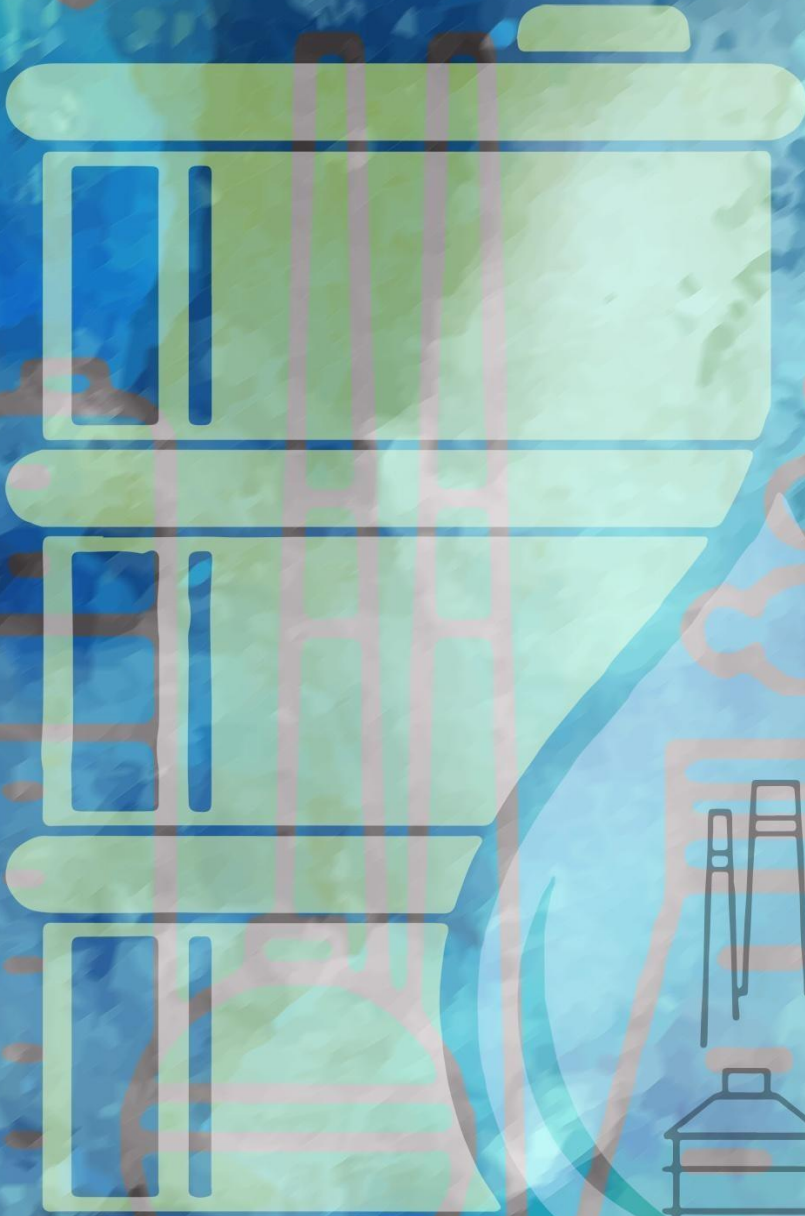


# Petronet LNG Ltd.



# Petronet LNG Ltd.

**Inventory losses knock off margins; long term story in-place**

CMP <b>INR 224</b>	Target <b>INR 317</b>	Potential Upside <b>41.5%</b>	Market Cap (INR Mn) <b>336,825</b>	Recommendation <b>BUY</b>	Sector <b>Oil &amp; Gas</b>
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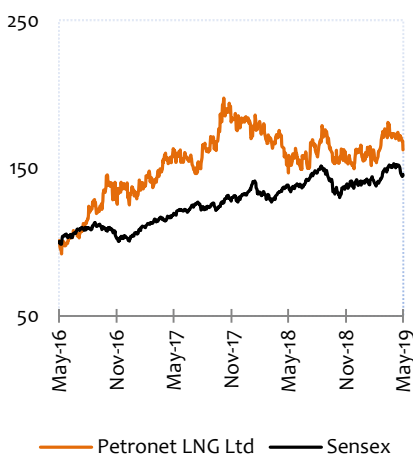
## Result highlights

Net sales came in at INR 83.8 bn (-17.0% YoY, -2.9% QoQ) from lower volumes processed at 205 TBTU (-3.75% QoQ) on account of lower supplies to fertilizer plants due to shut down during the quarter. Operational performance was impacted due to heavy inventory losses to the tune of INR 1.19 bn for the quarter due to declining gas prices during Q4 resulting into a lower OPM at 7.5% (-204 bps YoY, -92 bps QoQ). EBITDA came in at INR 6.2 bn (-23.7% YoY, -26% QoQ). Despite higher other income (+46.4% YoY, +71.2% QoQ) and lower finance cost YoY (-32.7%) while only slightly up 4.5% QoQ, PAT was down to INR 4.4 bn (-15.8% YoY, -22.1% QoQ). NPM was down 80 bps YoY and 35 bps QoQ to 5.3%. The Board has declared dividend of INR 4.50/share on a FV of INR 10 subject to shareholders approval.

## MARKET DATA

Shares outs (Mn)	1500
Equity Cap (INR Mn)	15000
Mkt Cap (INR Mn)	336825
52 Wk H/L (INR)	255/202
Volume Avg (3m K)	2855
Face Value (INR)	10
Bloomberg Code	PLNG IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	37393
NIFTY	11257

## KEY FINANCIALS

Particulars (INR mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	2,46,160	3,05,986	3,83,954	4,24,779	4,63,973
EBITDA	25,923	33,124	32,935	36,436	39,798
PAT	17,231	21,104	22,306	25,600	28,701
EPS Diluted (Rs.)	11.49	14.07	14.87	17.07	19.13
OPM (%)	10.5%	10.8%	8.6%	8.6%	8.6%
NPM (%)	7.0%	6.9%	5.8%	6.0%	6.2%
P/E (x)	19.5	15.9	15.1	13.1	11.7

Source: Company, KRChoksey Research

## Significant inventory losses hit margins

PLNG reported notional inventory losses of INR 119 crores as benchmark spot gas prices fell nearly 50% from \$8.5/mmbtu to \$4.3/mmbtu, well below long-term gas contract prices of \$8-8/mmbtu. Spot LNG prices have remained weak due to increasing capacity additions coming in, including from the US leading to global oversupply. Lower gas prices will give thrust to overall LNG consumption, especially from fertilizers and CGD operators leading to higher CNG/PNG consumption.

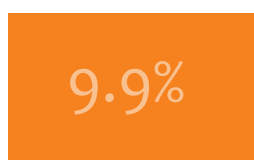
## Decline in volumes for Q4; Dahej expansion and Kochi pipeline to provide uptick in volumes

Total volumes processed came at 205 TBTU (213 TBTU in Q4FY18 and 202 TBTU in Q3FY18), attributed to lower supplies to fertilizer plants which had a shutdown during Q4. In addition, IOC's Panipath and Koyali refinery also had planned shutdown resulting in lower offtake. Dahej terminal operated at 104% capacity processing 199 TBTU (-3.86% YoY, +1.0% QoQ), while Kochi operated at 10% utilization (6 TBTU) in the absence of pipeline connectivity issues. On average, the Dahej terminal has been running at ~105% of its capacity with long-term take-or-pay contracts. The on-going expansion of 2.5 MMPTA could provide some room to PLNG to supply volumes on spot-basis. Despite the upcoming terminals at Ennore and Mundra, the Dahej facility continues to be competitive given its strong pipeline connectivity thereby being a low-cost re-gasifier which would give it an edge over other players. The upcoming capacity at the terminal will further improve earnings prospects for PLNG.

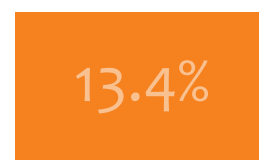
We expect volumes to grow with the on-stream of Mangalore-Kochi pipeline being operational in June enhancing Kochi utilization (expected to rise to 1.5 MMTPA from 0.5 MMTPA currently). Higher utilization could help support market by passing on commercial relief to off takers from Kochi which currently has higher tariffs (currently at INR 104.5/mmbtu v/s Dahej: INR 49.6/mmbtu). We expect volumes to grow at a CAGR of 8% for FY19-21E.

## SHARE HOLDING PATTERN(%)

Particulars	Mar 19	Dec 18	Sep 18
Promoters	50	50	50
FIIIs	25.65	23.4	23.85
DIIIs	11.01	12.08	11.53
Others	13.34	14.51	14.63
Total	100	100	100



Revenues CAGR between FY 19 and FY 21E



PAT between FY 19 and FY 21E

## ANALYST

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## Petronet LNG Ltd.

### Other projects in the pipeline

Management indicated on their upcoming projects which include Sri Lanka's first LNG terminal project with a capex of \$350 mn to be executed over 1-2 years for which draft JV agreements have been submitted, though it may not be expected to commence in the short-term. It also looks at setting up a liquefaction terminal in the US to source gas at <6/mmbtu. On the domestic front, additional 2.5 MMTPA capacity at Dahej is expected to come on-stream by June'19 while it also plans to set up 2 tanks to ease operational flexibility. Capex guidance for FY20 is INR 6 bn while for FY21 is INR 13 bn which includes capex for setting up a 3<sup>rd</sup> Jetty at Dahej.

### Valuation & Outlook:

Despite a disappointing Q4, we remain positive on the long-term earnings outlook of PLNG. The incremental volumes from Dahej expansion and Kochi terminal towards H2FY20 along with its annual 5% hike could contribute to strong revenue growth. Additionally, the oversupply of NG may keep spot prices under pressure which could lead to higher demand from the currently sluggish power sector. The management is also looking at global opportunities and any scope can help in set avenues for higher growth. We expect revenues to grow at a CAGR of 9.9% over FY19-21E and EBITDA to grow at a CAGR of 13.4% over FY19-21E. At a CMP of INR 224, PLNG is trading at an attractive valuation of 13.1x FY20E EPS and 11.7x FY21E EPS. We maintain our P/E-based multiple target price of INR 317.0 (potential upside – 41.5%). **We maintain BUY rating on the stock.**

### QUARTERLY PERFORMANCE

Particulars (INR Mn)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q (%)	Y-o-Y (%)
<b>Revenue from operations</b>	<b>83,832</b>	<b>1,00,977</b>	<b>86,362</b>	<b>-17.0%</b>	<b>-2.9%</b>
Cost of Materials Consumed	75,387	90,989	76,449	-17.1%	-1.4%
Gross Profit	8,445	9,988	9,914	-15.4%	-14.8%
Gross Profit Margin (%)	10.1%	9.9%	11.5%	18 bps	-141 bps
Employee benefit expense	340	265	254	28.0%	33.9%
Other expenses	1,833	1,242	1,439	47.6%	27.4%
Total Operating Expenditure	2,173	1,507	1,693	44.2%	28.3%
<b>EBITDA</b>	<b>6,272</b>	<b>8,481</b>	<b>8,221</b>	<b>-26.0%</b>	<b>-23.7%</b>
<b>EBITDA Margin (%)</b>	<b>7.5%</b>	<b>8.4%</b>	<b>9.5%</b>	<b>-92 bps</b>	<b>-204 bps</b>
Depreciation	1,016	1,037	1,013	-2.0%	0.3%
EBIT	5,256	7,444	7,208	-29.4%	-27.1%
Finance Cost	225	215	335	4.5%	-32.7%
Other Income	1,514	884	1,034	71.2%	46.4%
<b>Profit before Tax (PBT)</b>	<b>6,545</b>	<b>8,113</b>	<b>7,908</b>	<b>-19.3%</b>	<b>-17.2%</b>
Tax Expense	2,143	2,460	2,681	-12.9%	-20.1%
<b>Profit after Tax (PAT)</b>	<b>4,402</b>	<b>5,653</b>	<b>5,227</b>	<b>-22.1%</b>	<b>-15.8%</b>
<b>Net Profit Margin (%)</b>	<b>5.3%</b>	<b>5.6%</b>	<b>6.1%</b>	<b>-35 bps</b>	<b>-80 bps</b>
<b>EPS Basic (INR)</b>	<b>2.93</b>	<b>3.77</b>	<b>3.48</b>		

Source: Company, KRChokseyResearch

### VOLUMES PERFORMANCE

Particulars	Q4FY18	Q3FY19	Q4FY19	YoY (%)	QoQ (%)
<b>Dahej</b>					
Long term	115	109	102	-11.3%	-6.4%
Spot/Short term	7	4	6	-14.3%	50.0%
Service/Tolling/Third Party	85	84	91	7.1%	8.3%
<b>Total</b>	<b>207</b>	<b>197</b>	<b>199</b>	<b>-3.9%</b>	<b>1.0%</b>
<b>Kochi</b>					
Long term	5.8	5	5.97	2.9%	19.4%
Spot/Short term	0.1	0.03	0.03	-70.0%	0.0%
Service/Tolling/Third Party	0	0	0		
<b>Total</b>	<b>5.9</b>	<b>5.03</b>	<b>6</b>	<b>1.7%</b>	<b>19.3%</b>
<b>Dahej + Kochi</b>	<b>212.9</b>	<b>202.03</b>	<b>205</b>	<b>-3.7%</b>	<b>1.5%</b>

Source: Company, KRChokseyResearch

#### ANALYST

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## Petronet LNG Ltd.

### Q4FY19 Concall Highlights:

- Total LNG processed – 844 TBTU in FY19 v/s 848 TBTU in FY18.
- Highest ever LNG processed in Dahej for FY19 – 820 TBTU against 816 TBTU in FY18.
- In Q4FY19 - Dahej volumes - 199 TBTU (197 in Q3FY19, 207 in Q4FY18). Total volumes - 205 TBTU (202 in Q3FY19, 213 in Q4FY18).
- PAT has been affected due to lower gas prices which was \$8.5/mmbtu in Q3FY19 to \$4.3/mmbtu in Q4FY19. So far not sold the inventory hence has an opportunity to realize at higher prices. Spot gas prices have bottomed out and may not fall below these levels.
- The inventory loss of INR 119 crores is notional loss to be accounted for under INDAS2 because of decline in spot prices. Since 31st Mar, prices have recovered close to \$5.3 hence recovered ~25 crs of notional loss.
- Volume growth for FY20 – there is always a seasonal variation, in March 20 there had been some fertilizer plants shutdown, also IOC's Panipath & Koyali refinery had shutdown, hence decline in volumes for the quarter.
- Net cash in hand – INR 4,575 crores
- Kochi pipeline is expected to be completed by June'19. Current Kochi terminal utilization stands at 10% which will enhance to 30% post pipeline commissioning. 30% utilization should be expected by end of FY20.
- Dahej 2.5 MMTPA expansion to be commissioned by June'19.
- Taken 5% tariff hike for the year. Current tariff Kochi – INR 104.5/mmbtu, Dahej – INR 49.6/mmbtu.
- Projects in pipeline - Sri Lanka FSRU terminal – draft agreements for JV have been submitted to build a 2.5 MMTPA liquefaction terminal at a cost of \$300 mn (INR 20 bn).
- There has been some issue where project is being awarded through tendering process, however EoI has been submitted. PLNG is not keen if it is not G2G basis as various sovereign guarantees are required.
- In discussion for Liquefaction terminal in the US, but still not finalized – primary objective for such project is to procure gas at attractive and fixed costs <\$6/mmbtu. Wellhead gas price in US costs ~25 cents and will be attractive to procure it even at \$1-2/mmbtu, willing to enter into such LT contract of 15-20 years.
- Domestic projects – plans to put up 2 tanks at Dahej terminal (6 at present) for flexibility in operations; approved by board but still under tendering; project to complete in 2-3 years.
- Capex for FY19 - INR 443 crores. Excluding international projects – capex for FY20E: INR 600 crores, FY21E: INR 1,300 crores including capex for setting up 3rd jetty.
- Regas service income for Q4 - INR 437 crores.
- Even with Mundra and Ennore terminal coming up, PLNG has LT contracts and sees opportunities from increasing NG consumption, including that from CGD projects in next 5-8 years and power plants with 25 GW which are currently stranded/operating at low levels with govt policy support. Likely consumption to increase from 6 MMTPA to 27 MMTPA (25 mmscmd to 100 mmscmd).
- Though spot prices are lower than LT contract prices, do not see any push back in gas prices in LT contracts. Replacement seen for liquid fuels.
- Contract with RasGas till 2027 and with Exxon Mobil till 2028.

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# Petronet LNG Ltd.

## INCOME STATEMENT

Particulars (INR mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operations</b>	<b>2,46,160</b>	<b>3,05,986</b>	<b>3,83,954</b>	<b>4,24,779</b>	<b>4,63,973</b>
Cost of Materials consumed	2,14,169	2,66,902	3,44,170	3,80,764	4,15,897
Employee benefit expenses	739	912	1,259	1,393	1,521
Other expenses	5,330	5,049	5,592	6,186	6,757
Total Operating Expense	2,20,238	2,72,863	3,51,020	3,88,343	4,24,175
<b>EBITDA</b>	<b>25,923</b>	<b>33,124</b>	<b>32,935</b>	<b>36,436</b>	<b>39,798</b>
<b>EBITDA Margin (%)</b>	<b>10.5%</b>	<b>10.8%</b>	<b>8.6%</b>	<b>8.6%</b>	<b>8.6%</b>
Depreciation	3,691	4,117	4,112	3,589	4,001
EBIT	22,232	29,007	28,822	32,847	35,797
Finance Cost	2,097	1,630	989	847	836
Other Income	3,466	3,174	4,458	4,717	5,139
Profit before Tax (PBT)	23,602	30,551	32,291	36,717	40,101
Share of profit of associates & JVs	175	326	796	905	989
<b>Profit before Tax (PBT)</b>	<b>23,777</b>	<b>30,877</b>	<b>33,087</b>	<b>37,622</b>	<b>41,090</b>
Total Tax expense	6,545	9,773	10,782	12,022	12,388
<b>Profit after Tax (PAT)</b>	<b>17,231</b>	<b>21,104</b>	<b>22,306</b>	<b>25,600</b>	<b>28,701</b>
<b>PAT Margin (%)</b>	<b>7.0%</b>	<b>6.9%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.2%</b>
<b>EPS Basic (INR)</b>	<b>11.49</b>	<b>14.07</b>	<b>14.87</b>	<b>17.07</b>	<b>19.13</b>

Source: Company, KRChokseyResearch

## BALANCE SHEET

Particulars (INR mn)	FY17	FY18	FY19	FY20E	FY21E
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	7,500	15,000	15,000	15,000	15,000
Reserves and surplus	74,284	83,113	87,306	1,03,222	1,21,066
<b>Total Equity</b>	<b>81,784</b>	<b>98,113</b>	<b>1,02,306</b>	<b>1,18,222</b>	<b>1,36,066</b>
<b>Non-current liabilities</b>					
Long term borrowings	14,500	7,334	1,012	911	820
Long term provisions	66	78	111	123	134
Deferred & other non-current liabilities	21,159	23,318	24,221	25,376	26,485
<b>Total non-current liabilities</b>	<b>35,725</b>	<b>30,730</b>	<b>25,344</b>	<b>26,409</b>	<b>27,438</b>
<b>Current liabilities</b>					
Financial Liabilities	18,294	24,013	19,806	21,548	23,536
Short term provisions	95	121	168	185	202
Other Current liabilities	3,238	4,468	4,870	5,388	5,885
<b>Total current liabilities</b>	<b>21,627</b>	<b>28,602</b>	<b>24,844</b>	<b>27,121</b>	<b>29,623</b>
<b>SOURCES OF FUNDS</b>	<b>1,39,136</b>	<b>1,57,445</b>	<b>1,52,493</b>	<b>1,71,752</b>	<b>1,93,128</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Net Block	84,716	82,499	80,133	83,060	92,579
Investment in JVs	2,489	2,552	3,289	3,289	3,289
Financial Assets	1,955	1,324	8,390	5,512	5,998
Other non-current assets	950	799	733	733	733
<b>Total non-current assets</b>	<b>90,110</b>	<b>87,174</b>	<b>92,544</b>	<b>92,594</b>	<b>1,02,599</b>
<b>Current Assets</b>					
Inventories	5,405	4,911	5,694	5,819	6,356
Financial Assets	39,818	56,094	23,810	42,537	46,462
Cash and Bank balances	3,273	8,625	29,603	29,871	36,694
Other current assets	530	641	842	931	1,017
<b>Total current assets</b>	<b>49,026</b>	<b>70,271</b>	<b>59,949</b>	<b>79,158</b>	<b>90,529</b>
<b>APPLICATION OF FUNDS</b>	<b>1,39,136</b>	<b>1,57,445</b>	<b>1,52,493</b>	<b>1,71,752</b>	<b>1,93,128</b>

Source: Company, KRChokseyResearch

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# Petronet LNG Ltd.

## CASH FLOW STATEMENT

Particulars (INR mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Profit before Tax (PBT)</b>	<b>23,777</b>	<b>30,877</b>	<b>33,087</b>	<b>37,622</b>	<b>41,090</b>
Operating profit before working capital changes	27,728	33,977	-908	42,059	45,926
Cash Generated from/(used in) operations	24,456	36,924	19,833	29,439	44,515
Less: Income Tax Paid (net of refunds)	-3,780	-6,968	-10,782	-12,022	-12,388
Net Cash generated from/(used in) operating activities	20,676	29,956	9,051	17,417	32,127
Net Cash Used In Investing Activities	-31,751	-11,266	-1,746	-6,517	-13,520
Net Cash Used in Financing Activities	-7,482	-13,347	-15,749	-10,632	-11,784
<b>Net Increase/( Decrease ) in Cash and Cash Equivalents</b>	<b>-18,557</b>	<b>5,343</b>	<b>-8,444</b>	<b>268</b>	<b>6,823</b>
<b>Cash &amp; Cash Equivalents at the beginning</b>	<b>21,767</b>	<b>3,210</b>	<b>7,043</b>	<b>2,266</b>	<b>2,534</b>
<b>Cash &amp; Cash Equivalents at the end</b>	<b>3,210</b>	<b>8,553</b>	<b>-1,401</b>	<b>2,534</b>	<b>9,357</b>
<b>Add: Bank balance</b>	<b>64</b>	<b>1,582</b>	<b>27,337</b>	<b>27,337</b>	<b>27,337</b>
<b>Cash &amp; Bank balance</b>	<b>3,273</b>	<b>10,135</b>	<b>25,936</b>	<b>29,871</b>	<b>36,694</b>

Source: Company, KRChokseyResearch

## RATIOS

Particulars	FY17	FY18	FY19	FY20E	FY21E
<b>Profitability</b>					
Return on Assets (%)	12.4%	13.4%	14.6%	14.9%	14.9%
Return on Capital (%)	23.1%	27.5%	27.9%	27.6%	26.2%
Return on Equity (%)	21.1%	21.5%	21.8%	21.7%	21.1%
<b>Margin Trend</b>					
Gross Margin (%)	13.0%	12.8%	10.4%	10.4%	10.4%
EBITDA Margin (%)	10.5%	10.8%	8.6%	8.6%	8.6%
Net Margin (%)	7.0%	6.9%	5.8%	6.0%	6.2%
<b>Liquidity</b>					
Current Ratio	2.3	2.5	2.4	2.9	3.1
Quick Ratio	0.7	0.9	1.7	1.7	1.8
Debtor Days	18	19	13	13	13
Inventory Days	8	6	5	5	5
Creditor Days	14	19	12	12	12
Working Capital Days	12	6	6	6	6
<b>Solvency</b>					
Total Debt / Equity	0.2	0.1	0.0	0.0	0.0
Interest Coverage	11	18	29	39	43
<b>Valuation Ratios</b>					
EV/EBITDA	12.8	9.9	9.3	8.4	7.5
P/E	19.5	15.9	15.1	13.1	11.7
P/B	4.1	3.4	3.3	2.8	2.5

Source: Company, KRChokseyResearch

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# Petronet LNG Ltd.

Petronet LNG Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
17-May-19	224	317	BUY	Buy	More than 15%
04-Feb-19	209	317	BUY		
23-May-18	213	285	BUY	Accumulate	5% – 15%
09-FEB-18	248	480	BUY		
09-Nov-17	269	480	BUY	Hold	0 – 5%
18-Nov-16	347	400	BUY		
07-Sep-16	357	397	ACCUMULATE	Reduce	-5% – 0
17-May-16	276	330	BUY		
11-Feb-16	251	280	ACCUMULATE	Sell	Less than – 5%
20-Oct-15	191	218	ACCUMULATE		

**ANALYST CERTIFICATION:**

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