

Petronet LNG

BSE SENSEX
37,020

S&P CNX
10,902



Stock Info

Bloomberg	PLNG IN
Equity Shares (m)	1,500
M.Cap.(INRb)/(USD\$b)	394.7 / 5.1
52-Week Range (INR)	296 / 171
1, 6, 12 Rel. Per (%)	-10/8/10
12M Avg Val (INR M)	842
Free float (%)	50.0

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Financials Snapshot (INR b)

Y/E March	2020	2021E	2022E
Sales	354.5	294.4	376.3
EBITDA	39.9	46.7	50.7
Adj. PAT	27.7	28.7	31.9
Adj. EPS (INR)	18.5	19.2	21.3
EPS Gr. (%)	28.5	3.7	11.0
BV/Sh.(INR)	73.0	78.8	85.1

Ratios

Net D:E	-0.4	-0.5	-0.6
RoE (%)	26.4	25.2	26.0
RoCE (%)	25.4	22.1	23.8
Payout (%)	43.2	70.0	70.0

Valuation

P/E (x)	14.3	13.8	12.4
P/BV (x)	3.6	3.4	3.1
EV/EBITDA (x)	9.7	8.0	7.1
Div. Yield (%)	2.7	4.2	4.7
FCF Yield (%)	7.2	7.7	9.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	50.0	50.0	50.0
DII	7.8	9.2	11.0
FII	29.3	28.6	25.7
Others	12.9	12.2	13.3

FII Includes depository receipts

CMP: INR263

TP: INR336 (+28%)

Buy

PLNG – Clarity affords focus

We hosted a two-day roadshow with Petronet LNG (PLNG) to understand the company's future plans. The lucidity of the Tellurian deal (expression of unattractive investment) and long-term growth concerns (addressed by the Gopalpur and Sri Lanka terminals, and ssLNG) underpin our conviction in the company; we reiterate it as our top pick in the midcap space, with TP of INR336. Here are some key insights:

Tellurian deal – interest in procuring LT gas at spot rates

- The Tellurian deal officially expired on 31st May'20; however, PLNG is still evaluating the deal, more as a commitment toward procuring Long-Term (LT) gas at cheaper spot-linked prices.
- PLNG specified that in the current environment of cheaper global gas prices (owing to the huge supply glut); low priced LNG is also available without making upstream investment.
- PLNG has received positive responses for its LT commitment of gas off-take (~1mmtpa) linked to spot prices; the company's board is deliberating on this, and a decision is expected within the next five to six months.
- PLNG reiterated that it had never marketed volumes and would not do so in future either; thus, it plans to sign back-to-back contracts only.

Eastern coast (Gopalpur) terminal – already approved by the board

- PLNG is considering to set up an LNG terminal in Gopalpur (Odisha), connected to the Jagdishpur–Haldia–Bokaro–Dhamra Pipeline (JHBDPL ~100km away); this would be the biggest beneficiary of new-age CGD gas demand in eastern India.
- This LNG project would strategically place PLNG (providing access to the western–southern– eastern coasts), aiding the benefit of gas swapping as the CGD network expands in the country. It would further facilitate the supply of gas to participants (consumers) on recently launched gas exchanges by delivering gas in various proximities.
- The feasibility study for the project is complete, and the company is currently in the process of determining whether to set up a land-based terminal or floating (FSRU) terminal; the decision is expected in another three to four months.
- Around 5mmtpa capacity for the land terminal would incur capex of USD700–800m, while FSRU would incur only half the cost (but would have higher opex).

Near-term capex plans – to assure growth

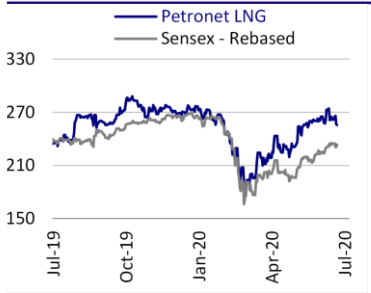
- **Dahej – USD350m for tanks and jetty expansion:** Two more tanks and a jetty are being developed at Dahej (in addition to the existing six tanks and two jetties); completion is targeted by the end of 2023 / FY24. With the introduction of the third jetty, Dahej is expected to serve as a full-fledged LNG hub on the western coast.

Swarnendu Bhushan- Research Analyst (Swarnendu.Bhushan@MotilalOswal.com)

Sarfraz Bhimani - Research Analyst (Sarfraz.Bhimani@MotilalOswal.com)

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Stock Performance (1-year)

- **Eastern coast LNG terminal – USD700–800m:** ~100km away from Jagdishpur-Haldia pipeline.
- **Sri Lanka LNG terminal – USD175m (of the total 350m) in the near term:** With a change in the political scenario in the country, talks related to the LNG project have gained momentum. Also, the terminal would enjoy proximity to a power plant, aiding gas off-take and supporting utilization rates.
- **Small-scale LNG (ssLNG) stations on highways: USD100m (of the total USD500m) in two to three years** – PLNG plans to set up ~50 ssLNG stations on five highways over the next two to three years (under Phase I). It has entered into an MoU with GUJGA to set up five stations on the Delhi–Mumbai highway; IGL would also set up three stations on the highway, taking the total count to eight. Another MoU has been signed with IOC for setting up five LNG stations in southern India.
- **Until there is further clarity/affirmation on capex plans, the company guides to keep improving the dividend policy and payout (at ~70%).**

Dahej terminal – currently operates at ~107% utilization

- LNG imports have clearly led recovery post the easing of the lockdowns in India, with Dahej emerging as the biggest beneficiary.
- Utilization at Dahej, which plunged to ~60% of normal levels in Apr'20, has revived to ~107% currently (at par with its five-year average utilization rate on the expanded capacity; to 17.5mmtpa from 10mmtpa).
- Dahej has 16.6mmtpa of LT sourcing/utilization contracts (7.5 + 8.25 + 0.85 from Gorgon), while the rest is driven by strong Power sector demand. Off-takers have also been blending spot gas with LT contracts to balance prices, further aiding imports.
- Also, as Kochi ramps up, the idea could be to explore cheaper spot gas first; thus, the current Gorgon volumes at Dahej may not go to Kochi immediately.
- Dahej terminal's tariff still has huge scope for escalation as it stands lower (~INR10/mmbtu) than the next minimum gas tariff in the country.
- Status of force majeure invoked during the COVID-19 lockdown:
 - One cargo has already been moved out of the Gorgon volume.
 - While discussions are still ongoing for seven cargoes at Dahej, the company believes they should swing in favor of PLNG.

Kochi terminal: some delay in ramp-up owing to pipeline

- PLNG expects capacity utilization at Kochi to reach ~40% in the near term (we build it for FY22) as the Kochi–Mangalore pipeline is completed.
- Industrial demand in Mangalore is around 0.8–1.2mmtpa, while further growth could come from the proliferation of CGDs. PLNG expects overall demand from the CGD sector in the country to double after the gestation period of the 9–10th CGD round is over.
- Kochi's tariff in FY20 was revised down to INR79.14/mmbtu; for FY21, a 5% tariff increase has already been charged to off-takers (calculation based on long-term IRR up to 2035 for 1.44mmtpa of Gorgon volume).

Valuation and view – top pick in the midcap space

- The current low spot price environment bodes well for the government's plan to bring about major reforms in the Gas sector, including the revival of gas-based power plants.

- PLNG's three concerns – (a) competition, (b) usage of cash, and (c) long-term growth – have been well-answered by management (as highlighted above). Also, the National Green Tribunal (NGT)'s actions against severely/critically polluted industrial clusters could provide a huge boost to gas consumption in the country.
- The company had declared final dividend of INR7/share in FY20. We expect the dividend payout (~70%) to remain strong, presenting an attractive dividend yield of 4–5% over FY21–22E (with ROE of 25–26%).
- With the concerns related to Tellurian resolved and answers provided on long-term growth, the stock trades at a very appealing valuation of 12.4x FY22E EPS of INR21.3 and 7.1x FY22E EV/EBITDA, with an EBITDA CAGR of ~15% expected over FY20–22E. We value PLNG on DCF to arrive at a fair value of INR336. Reiterate Buy.

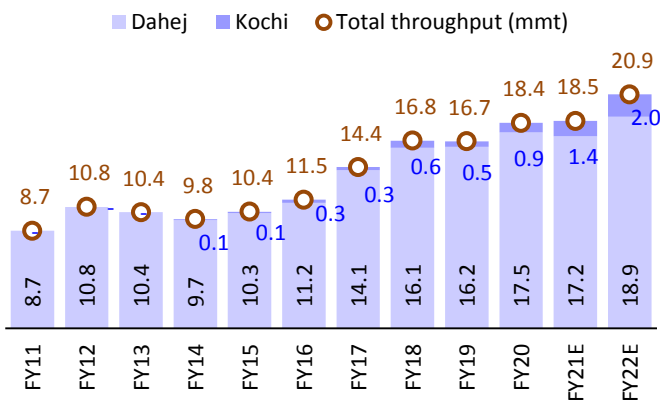
Exhibit 1: Key assumptions

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Key assumptions								
Exchange Rate (INR/USD)	61.4	65.5	67.1	64.4	70.0	70.9	74.9	75.8
Brent (USD/bbl)	85.5	47.5	49.0	57.6	70.1	61.2	40.4	50.0
Capacity (mmt)	15.0	15.0	18.3	20.0	20.0	21.9	22.5	22.5
Dahej terminal	10.0	10.0	13.3	15.0	15.0	16.9	17.5	17.5
Kochi terminal	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Capacity utilization (%)	69%	77%	79%	84%	84%	84%	82%	93%
Dahej terminal	103%	112%	106%	108%	108%	104%	98%	108%
Kochi terminal	2%	6%	6%	12%	10%	17%	28%	40%
Volume sold (mmtpa)	10.4	11.5	14.4	16.8	16.7	18.4	18.5	20.9
Dahej terminal	10.3	11.2	14.1	16.1	16.2	17.5	17.2	18.9
Kochi terminal	0.1	0.3	0.3	0.6	0.5	0.9	1.4	2.0
Re-gasification charges (INR/mmBtu)								
Dahej terminal	39.1	41.0	43.1	45.2	47.5	49.9	52.4	52.4
YoY (%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	0.0%
Kochi terminal	65.1	68.4	71.8	75.4	75.4	79.1	79.1	79.1
YoY (%)	5.0%	5.0%	5.0%	5.0%	0.0%	5.0%	0.0%	0.0%

Source: Company, MOFSL

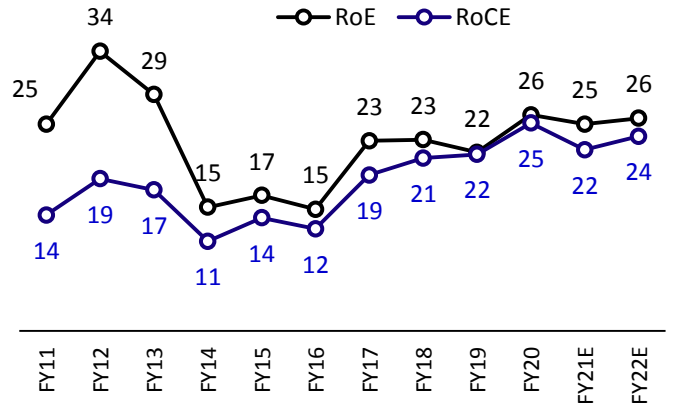
Story in charts

Exhibit 1: Volume growth led by capacity ramp-up



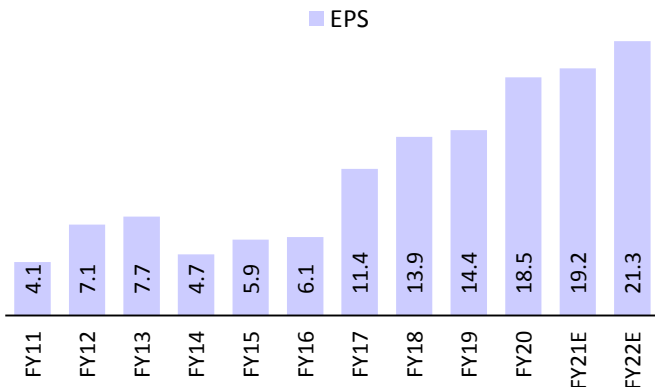
Source: Company, MOFSL

Exhibit 2: Stable return ratios



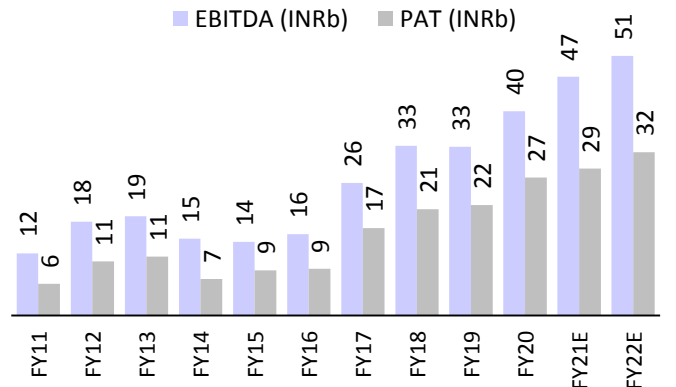
Source: Company, MOFSL

Exhibit 3: Strong EPS growth (INR)



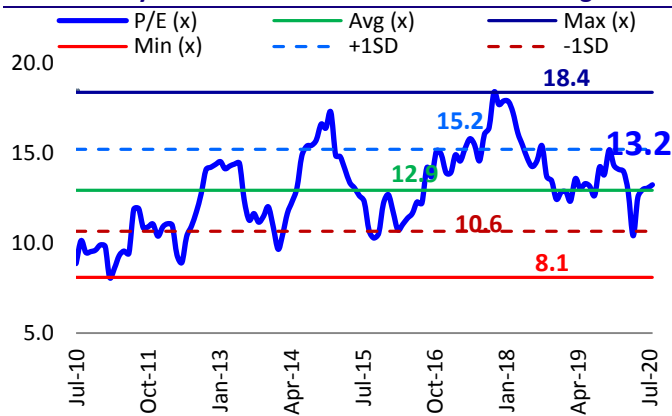
Source: Company, MOFSL

Exhibit 4: EBITDA/PAT to grow



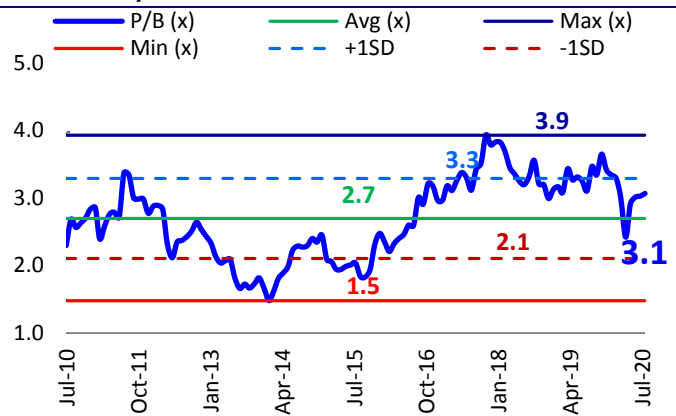
Source: Company, MOFSL

Exhibit 5: 1 year fwd PE – trades around its LT average



Source: Company, MOFSL

Exhibit 6: 1 year fwd PBV – trades at 3.1x



Source: Company, MOFSL

Financials and valuations

Standalone – Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	3,95,010	2,71,334	2,46,160	3,05,986	3,83,954	3,54,520	2,94,403	3,76,262
Change (%)	4.6	-31.3	-9.3	24.3	25.5	-7.7	-17.0	27.8
EBITDA	14,390	15,863	25,923	33,124	32,935	39,895	46,655	50,735
Margin (%)	3.6	5.8	10.5	10.8	8.6	11.3	15.8	13.5
Depreciation	3,154	3,216	3,691	4,117	4,112	7,761	8,191	8,476
EBIT	11,236	12,647	22,232	29,007	28,822	32,134	38,464	42,259
Int. and Finance Charges	2,935	2,388	2,097	1,630	989	4,032	4,288	4,166
Other Income	1,548	1,733	3,466	3,174	4,503	3,726	4,230	4,557
PBT bef. EO Exp.	9,849	11,992	23,602	30,551	32,336	31,827	38,406	42,650
EO Items	0	0	0	0	0	-721	0	0
PBT after EO Exp.	9,849	11,992	23,602	30,551	32,336	31,107	38,406	42,650
Total Tax	1,024	2,860	6,545	9,773	10,782	4,131	9,678	10,748
Tax Rate (%)	10.4	23.8	27.7	32.0	33.3	13.3	25.2	25.2
Reported PAT	8,825	9,133	17,057	20,779	21,554	26,976	28,728	31,902
Adjusted PAT	8,825	9,133	17,057	20,779	21,554	27,697	28,728	31,902
Change (%)	24.0	3.5	86.8	21.8	3.7	28.5	3.7	11.0
Margin (%)	2.2	3.4	6.9	6.8	5.6	7.8	9.8	8.5

Standalone – Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	7,500	7,500	7,500	15,000	15,000	15,000	15,000	15,000
Total Reserves	49,386	58,640	73,439	82,205	85,661	94,530	1,03,148	1,12,719
Net Worth	56,886	66,140	80,939	97,205	1,00,661	1,09,530	1,18,148	1,27,719
Total Loans	26,541	26,146	22,180	7,334	1,012	34,034	27,227	21,782
Deferred Tax Liabilities	7,270	5,886	7,302	10,482	13,360	8,883	8,883	8,883
Capital Employed	90,697	98,171	1,10,421	1,15,021	1,15,033	1,52,447	1,54,258	1,58,383
Gross Block	87,869	71,321	91,134	91,316	91,783	99,860	1,02,398	1,06,905
Less: Accum. Deprn.	18,443	3,216	6,903	11,020	15,132	22,894	31,085	39,561
Net Fixed Assets	69,426	68,105	84,230	80,296	76,651	76,967	71,313	67,344
Capital WIP	7,469	15,505	486	2,203	3,482	47	2,509	3,002
Total Investments	900	900	29,351	41,223	9,893	38,406	38,406	38,406
Curr. Assets, Loans&Adv.	33,441	39,751	24,224	32,815	60,823	71,570	70,715	86,293
Inventory	8,826	2,461	5,405	4,911	5,694	4,809	3,993	5,104
Account Receivables	13,428	9,885	12,108	16,505	14,335	16,427	13,642	17,435
Cash and Bank Balance	3,621	21,829	3,273	8,625	29,603	44,320	48,086	57,372
Loans and Advances	7,566	5,576	3,438	2,774	11,190	6,014	4,994	6,383
Curr. Liability & Prov.	20,538	26,090	27,870	41,517	35,815	34,543	28,685	36,661
Account Payables	5,969	8,695	9,952	15,699	12,952	11,661	9,683	12,376
Other Current Liabilities	12,584	17,241	17,758	25,619	22,585	22,552	18,728	23,935
Net Current Assets	12,903	13,661	-3,646	-8,702	25,007	37,028	42,030	49,632
Appl. of Funds	90,697	98,171	1,10,421	1,15,021	1,15,033	1,52,447	1,54,258	1,58,383

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	5.9	6.1	11.4	13.9	14.4	18.5	19.2	21.3
Cash EPS	8.0	8.2	13.8	16.6	17.1	23.6	24.6	26.9
BV/Share	37.9	44.1	54.0	64.8	67.1	73.0	78.8	85.1
DPS	1.0	1.3	2.5	4.5	9.0	7.0	11.1	12.4
Payout (%)	20.4	23.9	25.7	38.0	68.0	43.2	70.0	70.0
Valuation (x)								
P/E	44.9	43.4	23.2	19.1	18.4	14.3	13.8	12.4
Cash P/E	33.1	32.1	19.1	15.9	15.4	11.2	10.7	9.8
P/BV	7.0	6.0	4.9	4.1	3.9	3.6	3.4	3.1
EV/Sales	1.1	1.5	1.7	1.3	1.0	1.1	1.3	1.0
EV/EBITDA	29.1	25.2	16.0	11.9	11.2	9.7	8.0	7.1
Dividend Yield (%)	0.4	0.5	0.9	1.7	3.4	2.7	4.2	4.7
FCF per share	-0.9	12.3	10.7	24.4	9.4	18.9	20.5	24.7
Return Ratios (%)								
RoE	16.5	14.8	23.2	23.3	21.8	26.4	25.2	26.0
RoCE	13.8	12.5	19.0	21.1	21.5	25.4	22.1	23.8
RoIC	14.0	13.9	23.4	28.1	28.5	39.3	42.6	50.6
Working Capital Ratios								
Fixed Asset Turnover (x)	4.5	3.8	2.7	3.4	4.2	3.6	2.9	3.5
Asset Turnover (x)	4.4	2.8	2.2	2.7	3.3	2.3	1.9	2.4
Inventory (Days)	8	3	8	6	5	5	5	5
Debtor (Days)	12	13	18	20	14	17	17	17
Creditor (Days)	6	12	15	19	12	12	12	12
Leverage Ratio (x)								
Current Ratio	1.6	1.5	0.9	0.8	1.7	2.1	2.5	2.4
Interest Cover Ratio	3.8	5.3	10.6	17.8	29.1	8.0	9.0	10.1
Net Debt/Equity	0.4	0.1	-0.1	-0.4	-0.4	-0.4	-0.5	-0.6

Standalone – Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	9,849	11,992	23,602	30,551	32,336	31,107	38,406	42,650
Depreciation	3,154	3,216	3,691	4,117	4,112	7,761	8,191	8,476
Deferred tax	1,740	-1,384	1,416	3,180	2,879	-4,477	0	0
Direct Taxes Paid	-1,024	-2,860	-6,545	-9,773	-10,782	-4,131	-9,678	-10,748
(Inc)/Dec in Wkg. Capital	-6,397	17,450	-1,248	10,407	-12,731	2,697	-1,237	1,684
CF from Op. Activity	7,322	28,414	20,915	38,482	15,814	32,957	35,682	42,062
(Inc)/Dec in FA & CWIP	-8,599	-9,931	-4,796	-1,899	-1,746	-4,642	-5,000	-5,000
Free Cash Flow	-1,277	18,483	16,119	36,583	14,068	28,315	30,682	37,062
(Pur)/Sale of Investments	499	0	-28,451	-11,872	31,331	-28,513	0	0
CF from Inv. Activity	-8,100	-9,931	-33,248	-13,772	29,584	-33,155	-5,000	-5,000
Inc / (Dec) in Debt	-6,128	-396	-3,966	-14,846	-6,322	33,022	-6,807	-5,445
Dividends Paid (incl.tax)	-1,800	-2,180	-4,388	-7,898	-14,648	-11,648	-20,109	-22,331
CF from Fin. Activity	-7,928	-275	-6,223	-19,359	-24,420	14,915	-26,916	-27,777
Inc / (Dec) in Cash	-8,706	18,208	-18,556	5,352	20,978	14,717	3,766	9,286
Add: Opening Balance	12,327	3,621	21,829	3,273	8,625	29,603	44,320	48,086
Closing Balance	3,621	21,829	3,273	8,625	29,603	44,320	48,086	57,372

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

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