Petronet LNG

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Accumulate

Result Update

Higher volumes due to more efficient operations and demand returning to Pre Covid levels, long-term outlook better as LNG infra is gaining momentum. Maintain Accumulate

- PLL Q2FY21 numbers were ahead of our estimates due to resurgence in demand and Dahej terminal running at 100% plus capacity utilization.
- Revenue grew 27.7% QoQ, driven by the highest ever recorded volume. Operating profit rose 50% QoQ, due to cost efficiencies and higher utilization, and net profitability grew on account of higher Other income.
- The overall volumes were 254 TBTU in Q2FY21. Volume at Dahej was higher, due to addition of nameplate capacity of 2.5 MMTPA and shut down of the Dabhol terminal during the monsoons.
- Given gradual capacity addition and increase in re-gasification margins, PLL is likely to benefit from the gas demand evolution in India. PLL is also poised to benefit from the uptick in gas demand and the setting up of small scale LNG stations which will consume 8-9 MMTPA of LNG.
- However, Q1FY21 was a low volume quarter, which have now recovered in Q2 with 100% plus capacity utilization, with industries starting up and higher offtake of gas from CGD, Power and other industries. We believe the stock should be re-rated, after the completion of pipelines for the Kochi terminal. We maintain our Accumulate rating with a DCF-based target price of Rs. 287.

Dahej – high capacity utilization continues

In Q2FY21, the Dahej terminal processed LNG quantity of 243 tbtu running at a capacity utilization of 109%. However, with enhanced capacity of 2.5 MMTPA, opening up of economy and demand increase from industries, currently Dahej terminal continues to run at 100% plus capacity utilisation. PLL may experience a marginal de-growth in volume sequentially after the Dabhol terminal is operational after the monsoon as Dahej volumes will move to Dabhol. PLL plans to add two storage tanks in Dahej by the end of FY23 with a cost of Rs. 12,000, which will increase the capacity of the Dahej terminal to 19.5 MMTPA and an additional Jetty at Dahej at a cost of Rs. 13,000 Mn. Dahej terminal utilization has returned to pre Covid levels and is operating at a capacity utilization of 100% and is expected to run at 100% plus capacity utilization for rest of FY21.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	62,358	93,612	(33.4)	48,836	27.7
Total Expense	48,726	82,007	(40.6)	39,736	22.6
EBITDA	13,632	11,605	17.5	9,099	49.8
Depreciation	1,952	1,960	(0.4)	1,936	0.8
EBIT	11,680	9,645	21.1	7,164	63.1
Other Income	1,596	975	63.6	684	133.3
Interest	850	1,051	(19.1)	881	(3.5)
EBT	12,426	8,848	40.4	6,966	78.4
Tax	3,153	(2,184)	(244.4)	1,764	78.8
RPAT	9,273	11,031	(15.9)	5,202	78.2
APAT	9,273	11,031	(15.9)	5,202	78.2
			(bps)		(bps)
Gross Margin (%)	24.3	14.3	1001	21.4	287
EBITDA Margin (%)	21.9	12.4	946	18.6	323
NPM (%)	14.9	11.8	309	10.7	422
Tax Rate (%)	25.4	(24.7)	5005	25.3	5
EBIT Margin (%)	18.7	10.3	843	14.7	406

CMP	Rs 241
Target / Upside	Rs 287 / 19%
NIFTY	12,749

Scrip Details

Equity / FV	Rs 15,000mn / Rs
Market Cap	Rs 361bn
	USD 5bn
52-week High/Low	Rs 285/ 170
Avg. Volume (no)	4,140,550
Bloom Code	PLNG IN

Price Performance	1M	3M	12M
Absolute (%)	10	(7)	(15)
Rel to NIFTY (%)	3	(20)	(23)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	50.0	50.0	50.0
MF/Banks/FIs	10.3	10.3	8.4
FIIs	27.4	27.4	28.5
Public / Others	12.3	12.3	13.1

Valuation (x)

	FY21E	FY22E	FY23E
P/E	12.0	10.1	8.9
EV/EBITDA	7.2	6.0	5.0
ROE (%)	26.2	28.0	28.1
RoACE (%)	26.9	28.3	28.4

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	300,747	339,844	390,821
EBITDA	46,715	53,680	60,547
PAT	30,093	35,679	40,444
EPS (Rs.)	20.1	23.8	27.0

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Kochi's low utilization continues to drag

Kochi terminal operated at a capacity utilization of 17% in Q2FY21 with volumes processed around 11 tbtu. The low utilization was due to the lack of pipeline connectivity. The Kochi-Mangalore section pipeline is expected to be ready by end of November 2020, after which 30%-35% capacity ramp up is expected. Also Kochi-Bangalore pipeline once finalized will further increase utilization levels. The capacity utilization of the Kochi terminal after completion should boost earnings.

Cash annuity model – looking for new avenues

We have long-term positive view on the stock, as additional capacity of 2.5 MMTPA was added in June 2019 in the Dahej terminal and the completion of the pipeline connectivity in the Kochi terminal will resolve gas evacuation issues. The continuous increase in re-gasification margins every year will enable PLL to maintain its growth trajectory. The regasification margins are likely to sustain, and volumes will see an uptrend in the long term. PLL is generating significant cash and have plans to set up small scale LNG station which will further boost the LNG usage by 8-9 MMTPA on which they can earn marketing margins. They also have expansion plans in place over the next few years by investments in Sri Lanka, setting up a terminal in East coast of India and further expansion of Dahej terminal by adding 2 more storage tanks and a jetty. The risk to our analysis is any dilution in return ratios from this investment. LNG to be used as an automotive fuel is the next big thing for India which will further boost earnings.

Exhibit 1: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	62,358	66,203	(5.8)	
EBITDA	13,632	11,320	20.4	Higher utilisation due to resurgence of demand and higher operating efficiencies.
EBITDA Margin (%)	21.9	17.1	476	
PAT	9,273	6,920	34.0	Higher other income

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	300,747	318,438	(5.6)	339,844	359,835	(5.6)
EBITDA	46,715	33,910	37.8	53,680	39,211	36.9
EBITDA Margin (%)	15.5	10.6	488.4	15.8	10.9	489.9
PAT	30,093	20,136	49.4	35,679	24,851	43.6
EPS (Rs)	20.1	13.4	49.4	23.8	16.6	43.6

Source: Company, DART

Key Highlights

- Revenue decreased by 33.4% on a YoY basis to Rs. 62.4 bn. On a sequential basis, there was a growth of 27.7%.
- De-Growth in raw material cost was at 41.2% on a YoY basis to Rs. 47.2 bn. On a sequential basis, it was a growth of 23%
- There was a growth in employee cost of 26.2% on a YoY basis and de-growth of 6% on a sequential basis to Rs. 338 mn.
- Other expenditure decreased by 21.3% on a YoY basis to Rs. 1,188 mn. Sequentially it was up 17.5%.
- Operating profit was at Rs. 13,632 mn in Q2FY21 as compared to Rs. 11,605 mn in Q2FY20.
- Depreciation was flat sequentially to Rs. 1,952 mn
- Other income was at Rs. 1,596 mn which was a growth of 63.6% on a YoY basis and of 133% on QoQ basis.
- Net profit was at Rs. 9,273 mn in Q2FY21 as compared to Rs. 11,031 mn in Q2FY20, showing a de-growth of 15.9% YoY and growth of 78.2% sequentially.

Conference Call Highlights

- In Q2FY21, total LNG processed was 254 tbtu, as against 190 tbtu in Q1FY21 and 250 tbtu in Q2FY20.
- Resurgence of demand to Pre Covid levels and robust operational efficiency led to growth in profitability.
- Regas service revenue for Q2FY21 was Rs. 6,780 mn as against Rs. 5,000 mn in Q1FY21 and Rs. 6,310 mn in Q2FY20. Regas revenue were up due to jump in regas volumes and surge of 5% in carrier charges.
- Capex spend for H1FY21 was Rs. 150 mn and planned capex for H2FY21 is Rs. 1,050 mn.
- Opex will be slightly higher in H2FY21 as compared to H1FY21 as major activities are shifted to second half of the year due to Pandemic.
- There was an inventory impact of Rs. 600 mn, as Spot prices were more than $3/mmbtu and rest were trading gains.
- PLL has a deal to purchase 7.5 mtpa of LNG from Qatar and 1.44 mtpa from Exxon Mobil Corp's Gorgon project in Australia.
- Spot LNG prices are currently high due to the surge in demand during winters, prices would drop to $4-$6/mmbtu after January.
- Will take 5% price escalation from Jan'21.
- Declared an interim dividend of Rs. 8/share.

Dahej Terminal:

- Dahej terminal processed LNG of 243 tbtu in Q2FY21 as against 181 tbtu in Q1FY21 and 240 tbtu in Q2FY20.
- Capacity utilisation was at 109% as against 81% in Q1FY21 and 108% in Q2FY20.
- Regas tariff at Dahej is Rs. 51.75/mmbtu which will increase to Rs. 54.34/mmbtu after escalation.

Kochi Terminal:

- Kochi terminal processed LNG of 11 tbtu in Q2FY21 as against 9 tbtu in Q1FY21 and 10 tbtu in Q2FY20.
- Capacity utilisation was at 17% as against 14% in Q1FY21 and 16% in Q2FY20.
- Regas tariffs are still under discussion.

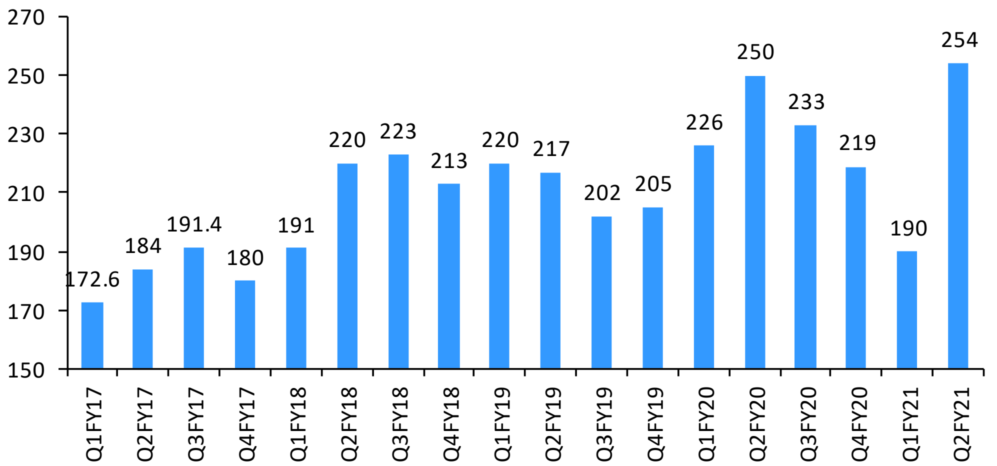
Major Ongoing Projects:

- Plans to add 2 additional tanks at Dahej which will take the capacity to 19.5 MMTPA over next 2 years with a capex of Rs. 12,000 mn. Orders will be placed by end of this year.
- 3rd Jetty at Dahej at a capex of Rs. 13,000 mn, which will take 2-3 years for completion.
- FSRU project at Sri Lanka. The project cost is $300 mn and will be undertaken after clearance from Sri Lankan Government.
- Plans to set up a terminal at East Coast of India at a cost of Rs. 40,000 mn.
- No progress on the Tellurian deal. It is a non-binding agreement and they are not keen on the deal as LNG is readily available.

LNG Transportation:

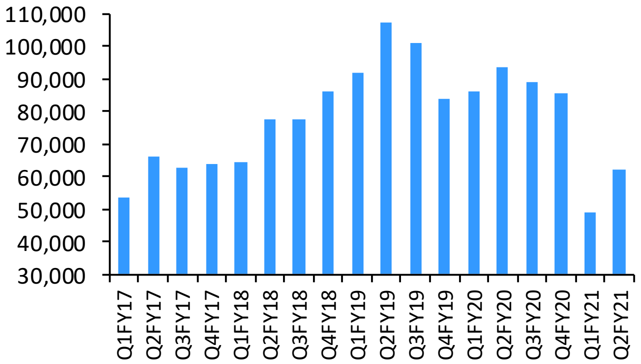
- Signed an agreement with Gujarat Gas.
- They will set up 5 stations very soon and rest 19 station need further approval. They are in discussion with CGD companies and OMC's.
- They do not plan to get into the retail segment. Seeking B2B segment by selling LNG to CGD and OMC's.

Exhibit 3: Volume (tbtu)



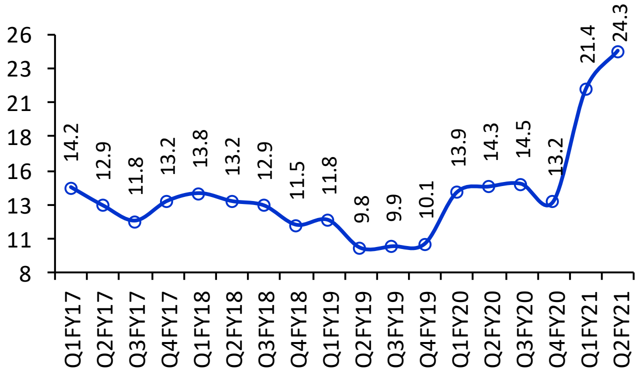
Source: Company, DART

Exhibit 4: Revenue (Rs Mn)



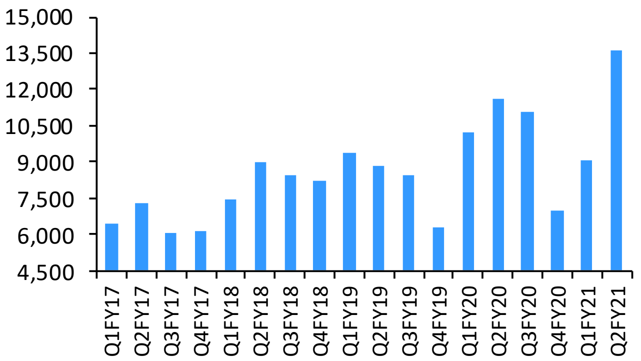
Source: Company, DART

Exhibit 5: Gross Margin (%)



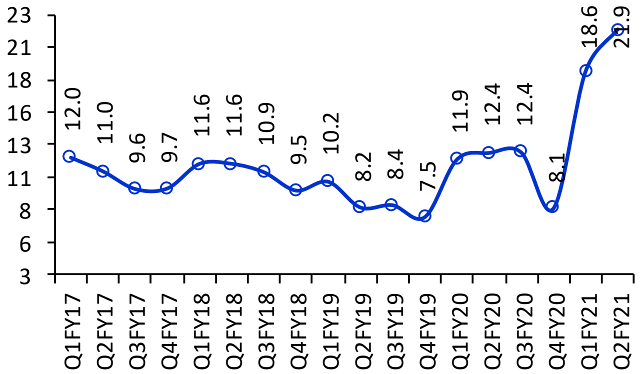
Source: Company, DART

Exhibit 6: Operating Profit (Rs Mn)



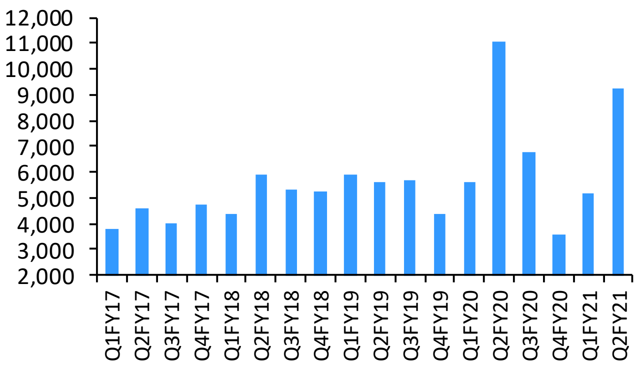
Source: Company, DART

Exhibit 7: OPM (%)



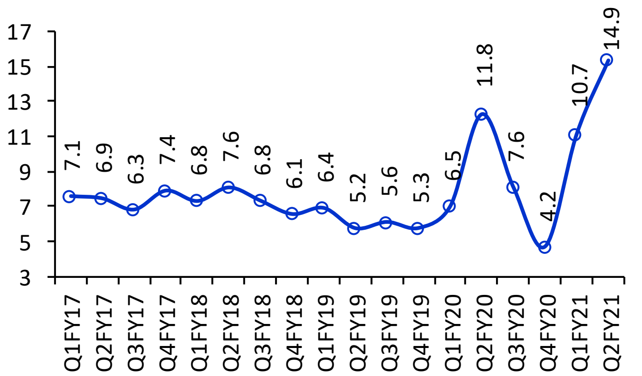
Source: Company, DART

Exhibit 8: Net Profit (Rs Mn)



Source: Company, DART

Exhibit 9: NPM (%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**354,520**	**300,747**	**339,844**	**390,821**
Total Expense	**314,625**	**254,033**	**286,164**	**330,274**
COGS	304,959	243,968	275,683	319,793
Employees Cost	1,258	1,320	1,387	1,387
Other expenses	8,408	8,745	9,094	9,094
EBIDTA	**39,895**	**46,715**	**53,680**	**60,547**
Depreciation	7,761	7,500	7,500	7,500
EBIT	**32,133**	**39,215**	**46,180**	**53,047**
Interest	4,032	3,500	3,500	4,000
Other Income	3,726	4,500	5,000	5,000
Exc. / E.O. items	721	0	0	0
EBT	**31,107**	**40,215**	**47,680**	**54,047**
Tax	4,131	10,122	12,001	13,604
RPAT	26,976	30,093	35,679	40,444
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**26,976**	**30,093**	**35,679**	**40,444**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	15,000	15,000	15,000	15,000
Minority Interest	0	0	0	0
Reserves & Surplus	94,530	105,152	119,411	138,255
Net Worth	**109,530**	**120,152**	**134,411**	**153,255**
Total Debt	644	700	800	800
Net Deferred Tax Liability	8,883	9,949	11,143	12,480
Total Capital Employed	**119,057**	**130,801**	**146,354**	**166,535**
Applications of Funds				
Net Block	**111,882**	**107,382**	**103,382**	**100,882**
CWIP	47	1,000	1,000	1,000
Investments	3,491	8,000	10,000	10,000
Current Assets, Loans & Advances	**71,570**	**51,336**	**68,899**	**91,580**
Inventories	4,809	5,768	6,518	7,495
Receivables	16,026	14,831	16,759	19,273
Cash and Bank Balances	44,320	24,193	38,751	57,597
Loans and Advances	6,014	6,134	6,441	6,763
Other Current Assets	402	410	430	452
Less: Current Liabilities & Provisions	**67,933**	**36,917**	**36,927**	**36,927**
Payables	16,332	17,148	18,520	20,002
Other Current Liabilities	51,601	19,769	18,407	16,925
sub total				
Net Current Assets	3,637	14,419	31,972	54,653
Total Assets	**119,057**	**130,801**	**146,354**	**166,535**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	14.0	18.9	18.9	18.2
EBIDTA Margin	11.3	15.5	15.8	15.5
EBIT Margin	9.1	13.0	13.6	13.6
Tax rate	13.3	25.2	25.2	25.2
Net Profit Margin	7.6	10.0	10.5	10.3
(B) As Percentage of Net Sales (%)				
COGS	86.0	81.1	81.1	81.8
Employee	0.4	0.4	0.4	0.4
Other	2.4	2.9	2.7	2.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	8.0	11.2	13.2	13.3
Inventory days	5	7	7	7
Debtors days	16	18	18	18
Average Cost of Debt	487.0	520.9	466.7	500.0
Payable days	17	21	20	19
Working Capital days	4	17	34	51
FA T/O	3.2	2.8	3.3	3.9
(D) Measures of Investment				
AEPS (Rs)	18.0	20.1	23.8	27.0
CEPS (Rs)	23.2	25.1	28.8	32.0
DPS (Rs)	12.5	11.0	12.0	12.0
Dividend Payout (%)	69.5	54.8	50.4	44.5
BVPS (Rs)	73.0	80.1	89.6	102.2
RoANW (%)	25.7	26.2	28.0	28.1
RoACE (%)	27.1	26.9	28.3	28.4
RoAIC (%)	40.1	43.2	43.1	49.0
(E) Valuation Ratios				
CMP (Rs)	241	241	241	241
P/E	13.4	12.0	10.1	8.9
Mcap (Rs Mn)	361,425	361,425	361,425	361,425
MCap/ Sales	1.0	1.2	1.1	0.9
EV	317,749	337,932	323,474	304,628
EV/Sales	0.9	1.1	1.0	0.8
EV/EBITDA	8.0	7.2	6.0	5.0
P/BV	3.3	3.0	2.7	2.4
Dividend Yield (%)	5.2	4.6	5.0	5.0
(F) Growth Rate (%)				
Revenue	(7.7)	(15.2)	13.0	15.0
EBITDA	21.1	17.1	14.9	12.8
EBIT	11.5	22.0	17.8	14.9
PBT	(3.8)	29.3	18.6	13.4
APAT	25.2	11.6	18.6	13.4
EPS	25.2	11.6	18.6	13.4

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	28,631	10,269	44,784	49,351
CFI	9,410	2,078	(5,406)	(4,905)
CFF	(30,547)	2,086	(24,820)	(25,600)
FCFF	28,223	6,315	41,284	44,351
Opening Cash	2,266	9,760	24,193	38,751
Closing Cash	9,760	24,193	38,751	57,597

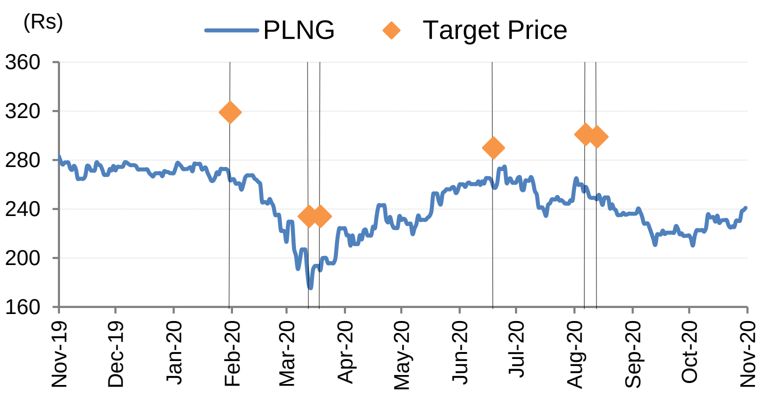
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Accumulate	319	264
Mar-20	Buy	234	177
Mar-20	Buy	234	190
Jun-20	Accumulate	290	258
Aug-20	Accumulate	301	258
Aug-20	Accumulate	299	248

Price as on recommendation date

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