

Petronet LNG

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR244
TP: INR335 (+38%)
Buy

Dahej – top performer; Special dividend rewards shareholders

- PLNG continues to outperform volume estimates. 2QFY21 volumes were better than estimated (at 254tbtu, +5% est.) and led to an EBITDA beat due to inventory gain. This was owing to sharp increase in spot prices during the quarter.
- We expect LNG imports to increase further as demand from CGDs and other segments normalize in 3Q-4QFY21. This should be aided further by continued strong demand from the power sector and new fertilizer plants coming up in FY22.
- Also, the NGT's actions against severely/critically polluted industrial clusters would lead to higher adoption of gas from industries.
- Further, PLNG continues to reiterate that the MoU with Tellurian (final decision expected in FY21) is non-binding in nature and the IRR benchmark for the company stands at 16%. However, the bigger question is whether the investment is required at all. The market has changed considerably now and people are not keen on investments in such projects because there is no dearth of gas right now.
- The company believes that utilization levels at Dahej terminal could be at current levels even 4-5 years down the line because of back-to-back tie-ups despite competition coming in. Threat to the Dahej terminal is the least as it is connected by four pipelines and offers competitive tariffs. 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.
- The board has declared a special interim dividend of INR8/share (v/s INR12.5/share in FY20) and the company suggests it would keep rewarding investors until there is further clarity/affirmation on capex plans.
- Capex in 1HFY21 stood at INR150m. For 2HFY21, capex is expected at INR1.05b. Dahej re-gas charges are expected to rise by 5% from 2021. Maintain Buy.

Beat on volumes; Dahej utilization better than est. at 110%

- EBITDA for the quarter stood at INR13.6b (v/s est. +21%; +17% YoY). EBITDA was higher than estimate, led by inventory gain of INR700m due to sharp movement of USD3/mmbtu in spot prices.
- PBT (before extra-ordinary expenses) stood at INR12.4b (v/s est. +35%; +30% YoY), led by higher other income. Other income included forex gain of INR770m and others of INR80m. Reported PAT stood at INR9.3b (v/s est. +35%; -22% YoY, due to DTL benefits in 2QFY20).

Total volumes were slightly better than est. at 254tbtu (v/s est. +5%; +2% YoY)

- Dahej utilization was better than est. at 110% (v/s est. 103%; 109% in 2QFY20). However, the company believes it will normalize to ~100% as other terminals have started operating at higher utilization rates post monsoons.
- Kochi utilization was lower than est. at 17% (v/s est. of 21%; 16% in 2QFY20).

Bloomberg	PLNG IN
Equity Shares (m)	1,500
M.Cap.(INRb)/(USDb)	365.4 / 4.8
52-Week Range (INR)	285 / 171
1, 6, 12 Rel. Per (%)	5/-33/-21
12M Avg Val (INR M)	862

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	354.5	274.3	376.3
EBITDA	39.9	45.5	50.7
Adj. PAT	27.7	27.7	31.9
Adj. EPS (INR)	18.5	18.5	21.3
EPS Gr. (%)	28.5	0.1	15.1
BV/Sh.(INR)	73.0	78.6	84.9

Ratios

Net D:E	-0.4	-0.5	-0.6
RoE (%)	26.4	24.4	26.0
RoCE (%)	25.4	21.3	23.6
Payout (%)	73.8	70.0	70.0

Valuations

P/E (x)	13.1	13.1	11.4
P/BV (x)	3.3	3.1	2.8
EV/EBITDA (x)	8.8	7.5	6.5
Div. Yield (%)	5.2	4.4	5.1
FCF Yield (%)	7.8	8.1	10.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	50.0	50.0	50.0
DII	8.4	7.9	10.0
FII	28.1	29.2	27.2
Others	13.5	13.0	12.8

FII Includes depository receipts

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- **For 1HFY21**, EBITDA stood at INR22.7b (+4% YoY), with PBT (before extra-ordinary expenses) at INR19.4b (+13% YoY). Adj. PAT stood at INR14.5b (-17% YoY due to DTL benefits last year).
- Total volumes stood at 444tbtu (-7% YoY), with average utilization of 96% at Dahej (v/s 111% in 1HFY20) and of 16% at Kochi (v/s 15% in 1HFY20).

Valuation and view

- We believe that the shift to gas economies for various units in India is constrained by the lack of gas availability and infrastructure for the same. However, with increased government impetus for revival of stranded power plants, rising spread of CGDs or building of cross-country pipelines, the advantage of customers shifting to gas would be more.
- PNGRB has allowed any entity to set up LNG station in any geographical area (GA) or anywhere else in the country to promote LNG as an alternative fuel for trucks. Small Scale LNG (ssLNG) has potential of 8-9mmtpa of LNG for trucks in the next 8-10 years.
- The three concerns on PLNG – (a) competition, (b) usage of cash (capex plans mentioned below) and (c) long-term growth – are well answered by the management (as mentioned above).
- On a conservative side, we have not factored in 5% tariff escalation at Dahej and Kochi for FY22-23E. If we inculcate the same, EPS for FY22E climbs up by 6% and for FY23 by 12%, leading to upward revision in TP to INR363.
- The stock trades at 11.4x FY22E EPS of INR21.3 and 6.5x FY22E EV/EBITDA, with expected EBITDA CAGR of ~11% over FY20-23E. We value PLNG on DCF basis to arrive at a fair value of INR335. Reiterate **Buy**.

Standalone – Quarterly Perf.

(INR M)

Y/E March	FY20				FY21				FY20	FY21E	FY21 Var. v/s	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE	Est.
Net Sales	86,134	93,612	89,102	85,672	48,836	62,358	1,04,857	58,276	3,54,520	2,74,327	63,820	-2%
YoY Change (%)	-6.1	-12.9	-11.8	2.2	-43.3	-33.4	17.7	-32.0	-7.7	-22.6	-31.8	
EBITDA	10,239	11,605	11,076	6,975	9,099	13,632	10,832	11,887	39,895	45,450	11,275	21%
Margins (%)	11.9	12.4	12.4	8.1	18.6	21.9	10.3	20.4	11.3	16.6	17.7	
Depreciation	1,899	1,960	1,960	1,942	1,936	1,952	2,048	2,256	7,761	8,191	2,048	-5%
Interest	1,005	1,051	940	1,035	881	850	995	1,255	4,032	3,982	995	-15%
Other Income	1,044	975	842	865	684	1,596	948	564	3,726	3,791	951	68%
Extra-Ord expense	0	721	0	0	0	0	0	0	721	0	0	
PBT	8,379	8,848	9,017	4,863	6,966	12,426	8,737	8,940	31,107	37,068	9,182	35%
Rate (%)	33.1	-24.7	25.1	26.2	25.3	25.4	25.2	24.9	13.3	25.2	25.2	
Reported PAT	5,603	11,031	6,752	3,590	5,202	9,273	6,535	6,717	26,976	27,727	6,868	35%
Adj PAT	5,603	11,752	6,752	3,590	5,202	9,273	6,535	6,717	27,697	27,727	6,868	35%
YoY Change (%)	-4.5	108.8	19.4	-18.4	-7.1	-21.1	-3.2	87.1	28.5	0.1	-41.6	
Margins (%)	6.5	12.6	7.6	4.2	10.7	14.9	6.2	11.5	7.8	10.1	10.8	
Key Assumptions												
Total Volumes (Tbtu)	226.0	250.0	233.0	219.0	190.0	254.0	232.5	241.0	928.0	917.5	241.1	5%

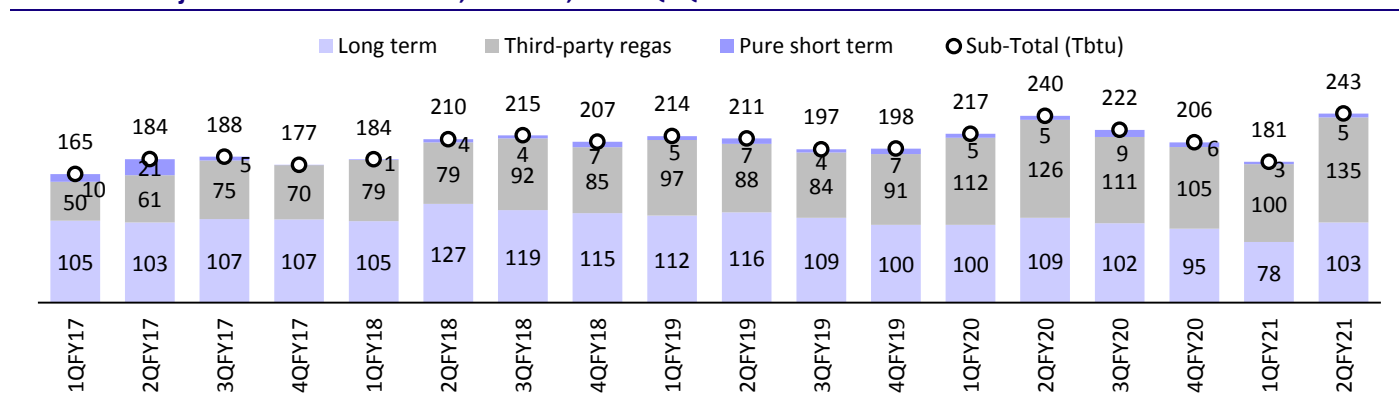
Exhibit 1: Petronet LNG - Key earnings model assumptions

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Key assumptions								
Exchange Rate (INR/USD)	65.5	67.1	64.4	70.0	70.9	74.9	75.8	75.8
Brent (USD/bbl)	47.5	49.0	57.6	70.1	61.2	40.4	50.0	50.0
Capacity (mmt)	15.0	18.3	20.0	20.0	21.9	22.5	22.5	22.5
Dahej terminal	10.0	13.3	15.0	15.0	16.9	17.5	17.5	17.5
Kochi terminal	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Capacity utilization (%)	77%	79%	84%	84%	84%	81%	93%	97%
Dahej terminal	112%	106%	108%	108%	104%	98%	108%	110%
Kochi terminal	6%	6%	12%	10%	17%	20%	40%	50%
Volume sold (mmtpa)	11.5	14.4	16.8	16.7	18.4	18.2	20.9	21.8
Dahej terminal	11.2	14.1	16.1	16.2	17.5	17.2	18.9	19.3
Kochi terminal	0.3	0.3	0.6	0.5	0.9	1.0	2.0	2.5

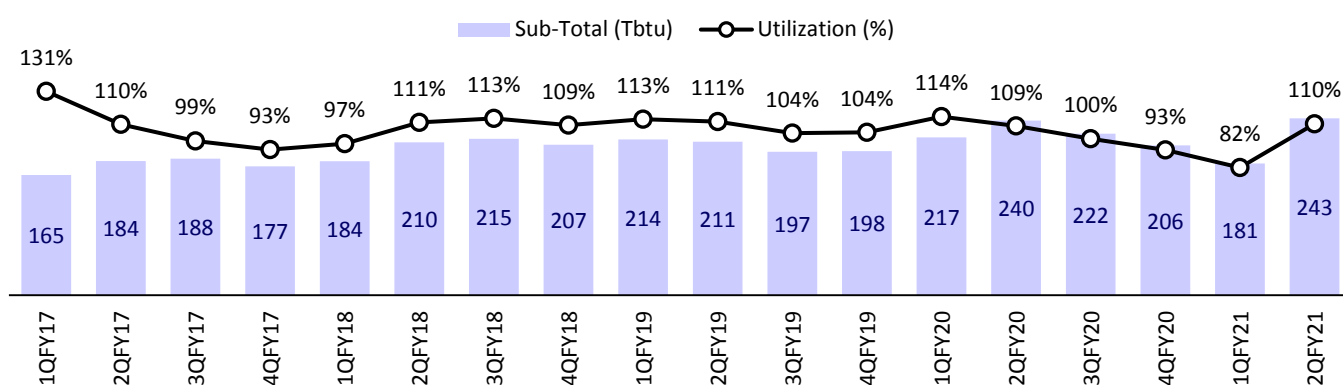
Source: Company, MOFSL

Capex guidance

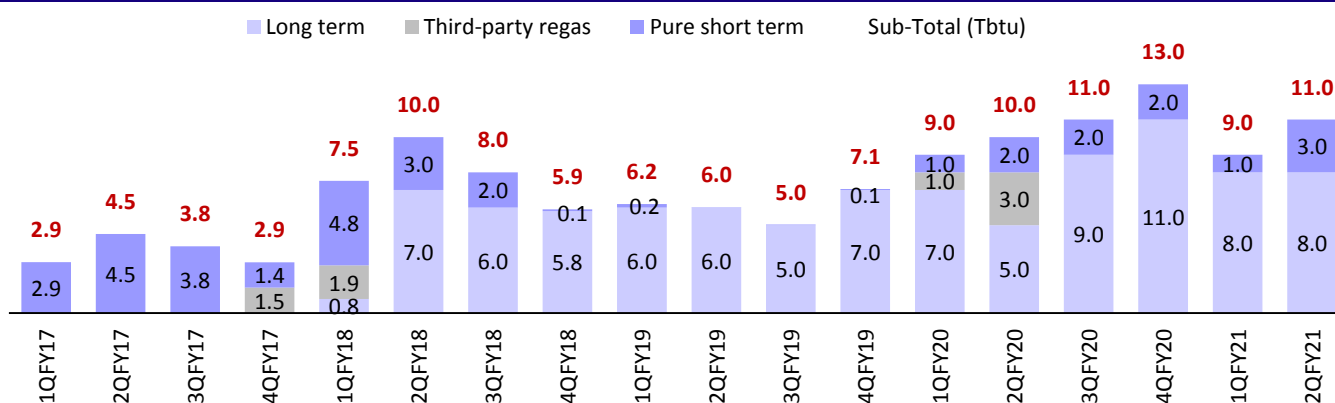
- **Dahej – USD350m for tanks and jetty expansion:**
 - Two more tanks and a jetty are being developed at Dahej (in addition to the existing six tanks and two jetties); completion is targeted for end-2023/FY24E.
 - With the introduction of the third jetty, Dahej is expected to serve as a full-fledged LNG hub on the western coast.
- **Eastern coast LNG terminal – USD700–800m:** ~100km away from Jagdishpur Haldia pipeline. The company is currently evaluating the prospects of the terminal (in terms of demand, etc.).
- **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 2-3 years – PLNG plans to set up ~50 ssLNG stations on five highways over the next 2-3 years (under Phase I). It has entered into 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%).**

Exhibit 2: Dahej total volume at 243Tbtu, +1% YoY, +34% QoQ

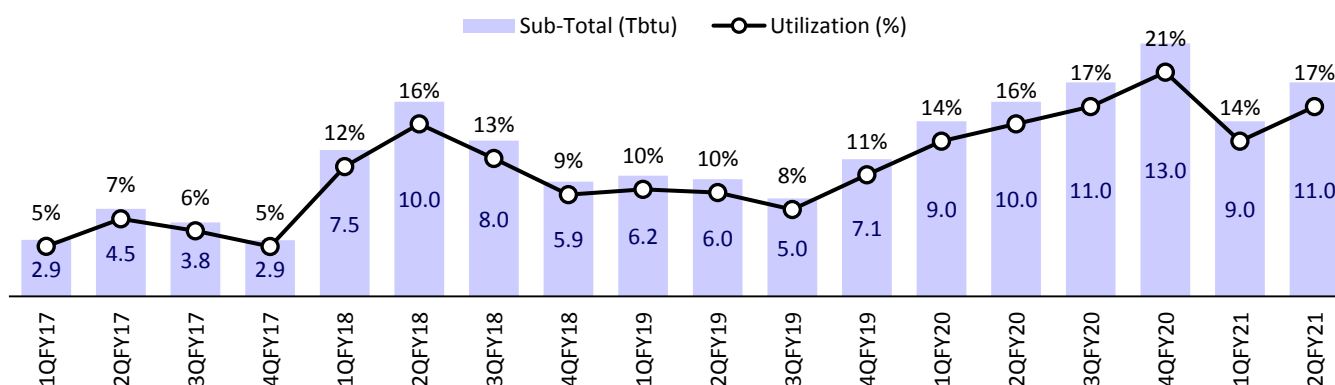
Source: Company, MOFSL

Exhibit 3: Dahej terminal utilization at 110% in 2QFY21

Source: Company, MOFSL

Exhibit 4: Kochi volume at 11tbtu, +10% YoY, +22% QoQ

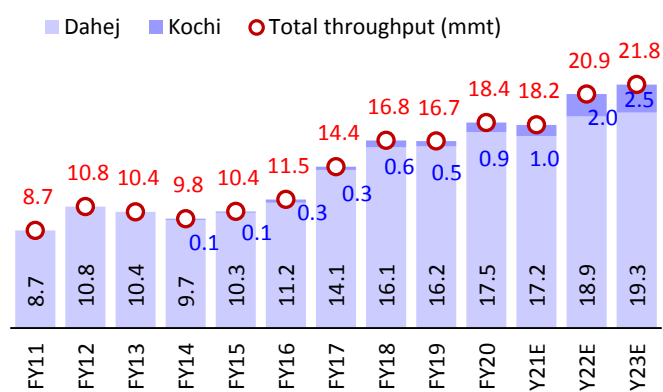
Source: Company, MOFSL

Exhibit 5: Kochi terminal utilization at 17% in 2QFY21

Source: Company, MOFSL

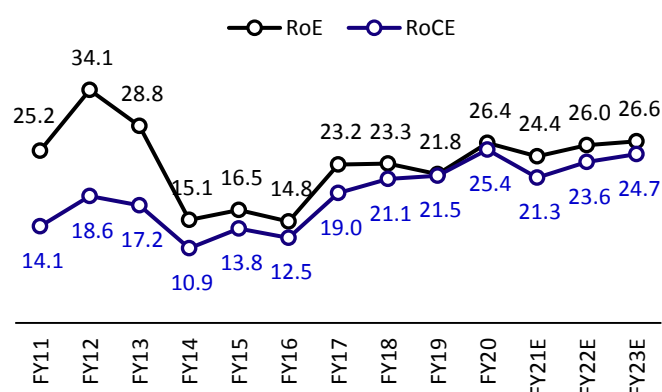
Story in charts

Exhibit 6: Volume growth led by capacity ramp-up



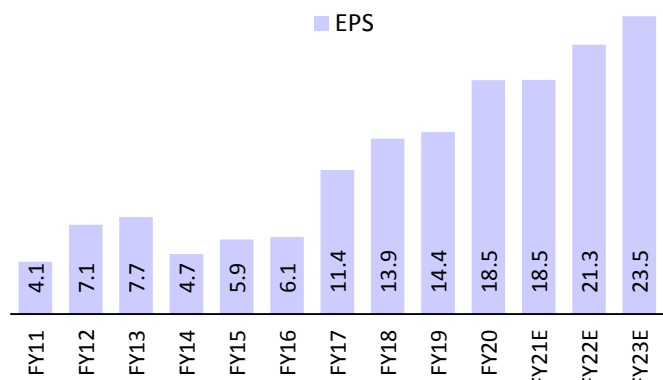
Source: Company, MOFSL

Exhibit 7: Stable return ratios



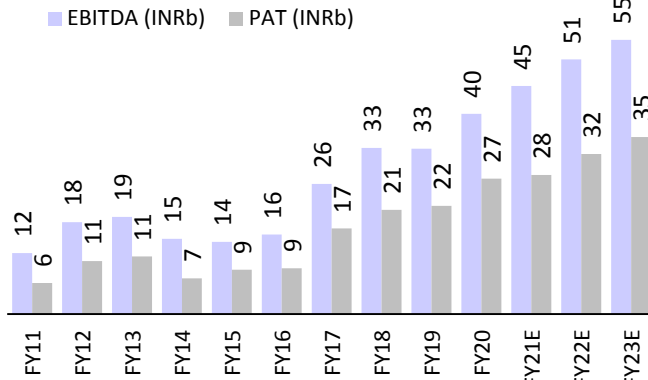
Source: Company, MOFSL

Exhibit 8: Strong EPS growth (INR)



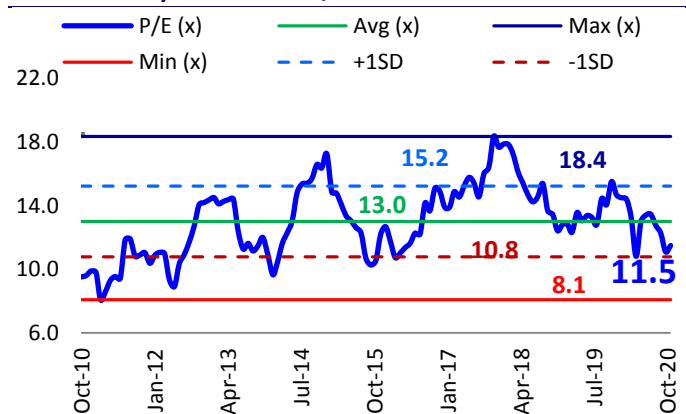
Source: Company, MOFSL

Exhibit 9: EBITDA/PAT to grow



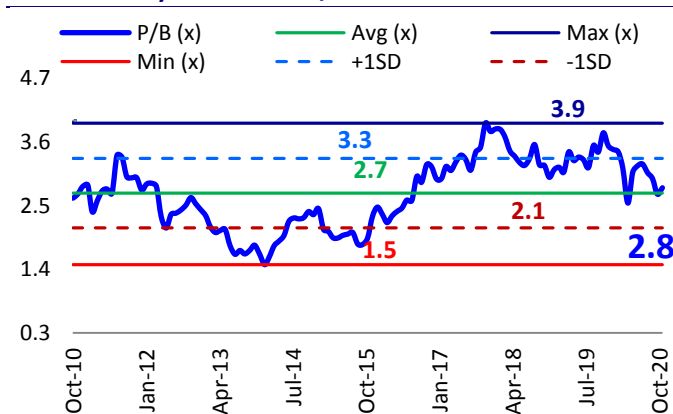
Source: Company, MOFSL

Exhibit 10: 1-year forward P/E – trades at 11.5x



Source: Company, MOFSL

Exhibit 11: 1-year forward P/B – trades at 2.8x



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	2,71,334	2,46,160	3,05,986	3,83,954	3,54,520	2,74,327	3,76,262	4,05,694
Change (%)	-31.3	-9.3	24.3	25.5	-7.7	-22.6	37.2	7.8
EBITDA	15,863	25,923	33,124	32,935	39,895	45,450	50,735	54,627
Margin (%)	5.8	10.5	10.8	8.6	11.3	16.6	13.5	13.5
Depreciation	3,216	3,691	4,117	4,112	7,761	8,191	8,476	8,858
EBIT	12,647	22,232	29,007	28,822	32,134	37,259	42,259	45,770
Int. and Finance Charges	2,388	2,097	1,630	989	4,032	3,982	3,676	3,137
Other Income	1,733	3,466	3,174	4,503	3,726	3,791	4,078	4,537
PBT bef. EO Exp.	11,992	23,602	30,551	32,336	31,827	37,068	42,662	47,170
EO Items	0	0	0	0	-721	0	0	0
PBT after EO Exp.	11,992	23,602	30,551	32,336	31,107	37,068	42,662	47,170
Total Tax	2,860	6,545	9,773	10,782	4,131	9,341	10,751	11,887
Tax Rate (%)	23.8	27.7	32.0	33.3	13.3	25.2	25.2	25.2
Reported PAT	9,133	17,057	20,779	21,554	26,976	27,727	31,911	35,283
Adjusted PAT	9,133	17,057	20,779	21,554	27,697	27,727	31,911	35,283
Change (%)	3.5	86.8	21.8	3.7	28.5	0.1	15.1	10.6
Margin (%)	3.4	6.9	6.8	5.6	7.8	10.1	8.5	8.7

Standalone - Balance Sheet

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	7,500	7,500	15,000	15,000	15,000	15,000	15,000	15,000
Total Reserves	58,640	73,439	82,205	85,661	94,530	1,02,848	1,12,421	1,23,006
Net Worth	66,140	80,939	97,205	1,00,661	1,09,530	1,17,848	1,27,421	1,38,006
Total Loans	26,146	22,180	7,334	1,012	34,034	27,227	21,782	17,425
Deferred Tax Liabilities	5,886	7,302	10,482	13,360	8,883	8,883	8,883	8,883
Capital Employed	98,171	1,10,421	1,15,021	1,15,033	1,52,447	1,53,958	1,58,086	1,64,314
Gross Block	71,321	91,134	91,316	91,783	99,860	1,02,398	1,06,905	1,11,807
Less: Accum. Deprn.	3,216	6,903	11,020	15,132	22,894	31,085	39,561	48,419
Net Fixed Assets	68,105	84,230	80,296	76,651	76,967	71,313	67,344	63,388
Capital WIP	15,505	486	2,203	3,482	47	2,509	3,002	3,100
Total Investments	900	29,351	41,223	9,893	38,406	38,406	38,406	38,406
Curr. Assets, Loans&Adv.	39,751	24,224	32,815	60,823	71,570	68,459	85,996	98,949
Inventory	2,461	5,405	4,911	5,694	4,809	3,721	5,104	5,503
Account Receivables	9,885	12,108	16,505	14,335	16,427	12,711	17,435	18,799
Cash and Bank Balance	21,829	3,273	8,625	29,603	44,320	47,373	57,074	67,766
Loans and Advances	5,576	3,438	2,774	11,190	6,014	4,654	6,383	6,882
Curr. Liability & Prov.	26,090	27,870	41,517	35,815	34,543	26,729	36,661	39,529
Account Payables	8,695	9,952	15,699	12,952	11,661	9,023	12,376	13,344
Other Current Liabilities	17,241	17,758	25,619	22,585	22,552	17,451	23,935	25,808
Net Current Assets	13,661	-3,646	-8,702	25,007	37,028	41,730	49,334	59,420
Appl. of Funds	98,171	1,10,421	1,15,021	1,15,033	1,52,447	1,53,958	1,58,086	1,64,314

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EPS	6.1	11.4	13.9	14.4	18.5	18.5	21.3	23.5
Cash EPS	8.2	13.8	16.6	17.1	23.6	23.9	26.9	29.4
BV/Share	44.1	54.0	64.8	67.1	73.0	78.6	84.9	92.0
DPS	1.3	2.5	4.5	10.0	12.5	10.7	12.4	13.7
Payout (%)	23.9	25.7	38.0	74.9	73.8	70.0	70.0	70.0
Valuation (x)								
P/E	39.7	21.3	17.5	16.8	13.1	13.1	11.4	10.3
Cash P/E	29.4	17.5	14.6	14.1	10.2	10.1	9.0	8.2
P/BV	5.5	4.5	3.7	3.6	3.3	3.1	2.8	2.6
EV/Sales	1.4	1.6	1.2	0.9	1.0	1.2	0.9	0.8
EV/EBITDA	23.2	14.7	10.9	10.2	8.8	7.5	6.5	5.7
Dividend Yield (%)	0.5	1.0	1.9	4.1	5.2	4.4	5.1	5.6
FCF per share	12.3	10.7	24.4	9.4	18.9	19.5	25.0	26.5
Return Ratios (%)								
RoE	14.8	23.2	23.3	21.8	26.4	24.4	26.0	26.6
RoCE	12.5	19.0	21.1	21.5	25.4	21.3	23.6	24.7
RoIC	13.9	23.4	28.1	28.5	39.3	41.2	50.5	59.7
Working Capital Ratios								
Fixed Asset Turnover (x)	3.8	2.7	3.4	4.2	3.6	2.7	3.5	3.6
Asset Turnover (x)	2.8	2.2	2.7	3.3	2.3	1.8	2.4	2.5
Inventory (Days)	3	8	6	5	5	5	5	5
Debtor (Days)	13	18	20	14	17	17	17	17
Creditor (Days)	12	15	19	12	12	12	12	12
Leverage Ratio (x)								
Current Ratio	1.5	0.9	0.8	1.7	2.1	2.6	2.3	2.5
Interest Cover Ratio	5.3	10.6	17.8	29.1	8.0	9.4	11.5	14.6
Net Debt/Equity	0.1	-0.1	-0.4	-0.4	-0.4	-0.5	-0.6	-0.6

Standalone - Cash Flow Statement

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	11,992	23,602	30,551	32,336	31,107	37,068	42,662	47,170
Depreciation	3,216	3,691	4,117	4,112	7,761	8,191	8,476	8,858
Deferred tax	-1,384	1,416	3,180	2,879	-4,477	0	0	0
Direct Taxes Paid	-2,860	-6,545	-9,773	-10,782	-4,131	-9,341	-10,751	-11,887
(Inc)/Dec in Wkg. Capital	17,450	-1,248	10,407	-12,731	2,697	-1,650	2,097	605
CF from Op. Activity	28,414	20,915	38,482	15,814	32,957	34,269	42,484	44,746
(Inc)/Dec in FA & CWIP	-9,931	-4,796	-1,899	-1,746	-4,642	-5,000	-5,000	-5,000
Free Cash Flow	18,483	16,119	36,583	14,068	28,315	29,269	37,484	39,746
(Pur)/Sale of Investments	0	-28,451	-11,872	31,331	-28,513	0	0	0
CF from Inv. Activity	-9,931	-33,248	-13,772	29,584	-33,155	-5,000	-5,000	-5,000
Inc / (Dec) in Debt	-396	-3,966	-14,846	-6,322	33,022	-6,807	-5,445	-4,356
Dividends Paid (incl.tax)	-2,180	-4,388	-7,898	-16,148	-19,898	-19,409	-22,338	-24,698
CF from Fin. Activity	-275	-6,223	-19,359	-24,420	14,915	-26,216	-27,783	-29,055
Inc / (Dec) in Cash	18,208	-18,556	5,352	20,978	14,717	3,053	9,701	10,692
Add: Opening Balance	3,621	21,829	3,273	8,625	29,603	44,320	47,373	57,074
Closing Balance	21,829	3,273	8,625	29,603	44,320	47,373	57,074	67,766

E: MOFSL Estimates

NOTES

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 is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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