

Petronet LNG

BSE SENSEX

43,600

S&P CNX

12,772



Bloomberg	PLNG IN
Equity Shares (m)	1,500
M.Cap.(INRb)/(USDb)	380.7 / 5.2
52-Week Range (INR)	284 / 171
1, 6, 12 Rel. Per (%)	6/-31/-14
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

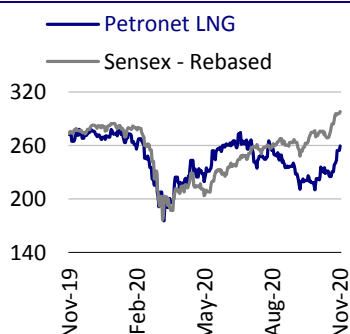
Valuations

P/E (x)	14.0	14.0	12.1
P/BV (x)	3.5	3.3	3.0
EV/EBITDA (x)	9.4	8.1	6.9
Div. Yield (%)	4.8	4.2	4.8
FCF Yield (%)	7.3	7.6	9.7

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

Stock Performance (1-year)

CMP: INR254
TP: INR335 (+32%)
Buy
Back-to-back contracts – Back bone of the company

- In this report, we look back at the performance of PLNG's Dahej terminal in light of various expansions since the commissioning of the terminal in 2004.
- PLNG is a JV of four PSU companies (GAIL, BPCL, IOCL, ONGC) constituting 50% of the total equity shareholding, with the remaining stake held by the public.
- These promoters are also its downstream marketers, with over 90% of gas offtake through them.
- PLNG has two trading take or pay contracts – 7.5mmt of RasGas (till 2028) and 1.44mmt of Gorgon (till 2035), with 8.25mmt of tolling use or pay contract (on which the company only earns regasification margins).
- PLNG has been able to quickly ramp-up utilization rates post every expansion (as highlighted in Exhibit 1) owing to these long-term commitments by promoters (refer Exhibit 2). These transactions have been in place since the commissioning of the Dahej terminal and are conducted at arm's length.
- Dahej is further expanding to 19.5mmtpa (over next 2-3 years) from 17.5mmtpa at present. We believe the company would be able to achieve optimal utilization rates even at higher capacity owing to its location and infrastructural leverage, along with downstream contracts/marketing abilities of its promoters.
- As guided by one of its promoters – GAIL, commissioning of three fertilizer plants along the Jagdishpur-Haldia-Bokaro-Dhamra pipeline (JHBDPL) and connectivity to refiners on Urja-Ganga pipeline would aid GAIL in de-risking US HH contracts by bringing ~10mmcmd of volumes currently sold abroad to India.
- Being of the opinion that promoter-led offtake would continue to aid strong utilization rates at Dahej, we reiterate a Buy.

Dahej terminal – Hercules lifting the company ([click here for report](#))

- As highlighted in our recent report (link above), Dahej terminal is likely to emerge as the key beneficiary of increasing LNG imports in lieu of poor domestic gas production.
- The company is setting up two additional tanks and a jetty at Dahej (in addition to the existing six tanks and two jetties). The tanks are in the tendering phase, whereas land study for a jetty are going on.
- **The seventh tank would fuel expansion by 2mmtpa; while another tank and third jetty would serve as a full-fledged LNG hub on the West coast.**
- The Kochi-Mangalore pipeline is complete and commissioning of the same is expected by end of Nov'20 or early Dec'20.
- Kochi terminal is currently operating ~17% (i.e. 0.85mmtpa) utilization rate. Mangalore has a volume potential of ~1.2mmtpa as there are 7-8 CGD GAs on this pipeline along with industrial clusters.
- Thus, the volumes at Kochi terminal should reach ~2mmtpa (i.e. ~40% utilization rate) over the next 5-6 months.
- Currently, ~0.85mmt of Gorgon's LT volumes comes to the Dahej terminal. As Kochi ramp-ups, the idea could be to explore cheaper spot gas first. Thus, current Gorgon volumes at Dahej may not go to Kochi immediately.

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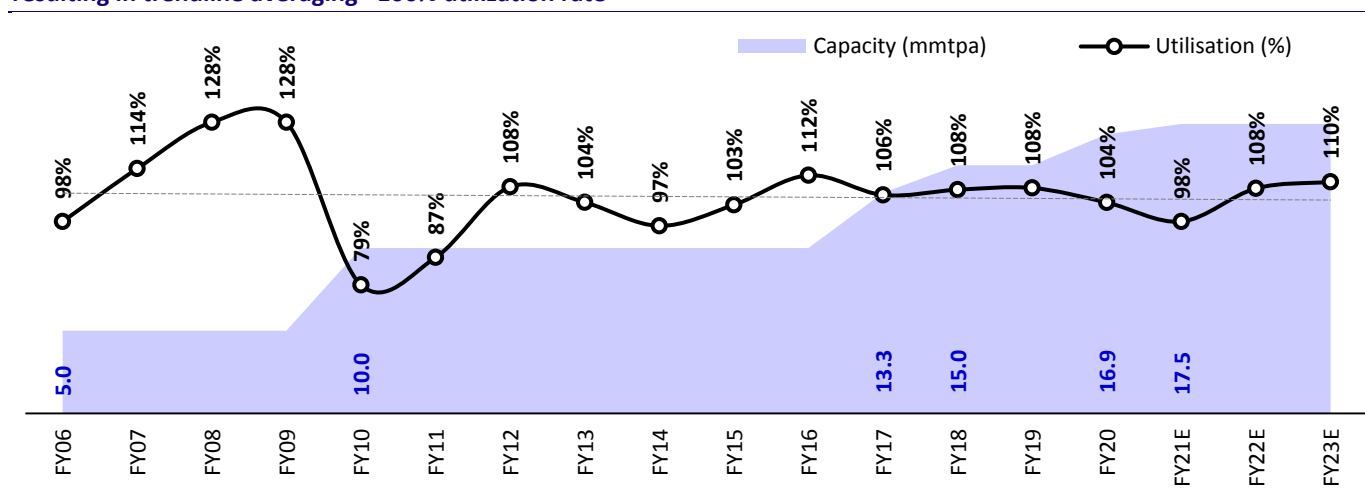
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Moreover, 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.

Valuation and recommendation

- The board has declared a special interim dividend of INR8/share (v/s INR12.5/share in FY20) and the management suggests it would maintain a dividend payout of over 70% until there is further clarity/affirmation on its capex plans.
 - Assuming a development phase for the next 2-3 years for existing or new capex to be announced, current EBIDTA/PAT is likely to clock 11%/8% CAGR to INR55-35b. Assuming ~70% payout (v/s 74% in FY20), the dividend should be ~INR11-14/share, resulting in 5-6% return to shareholders (*refer exhibit 7*).
 - On the conservative side, we have not factored in 5% tariff escalation at Dahej and Kochi for FY22-23E (*refer exhibit 8*). If we inculcate the same, FY22E/FY23E EPS climbs by 6%/12%, leading to an upward revision in our TP to INR335.
- In a recent [media interview](#), Tellurian's Chairman Charif Souki said, "We view a MoU as a moral commitment, but we're no longer looking for moral commitments. We are looking for real commitments, so we will no longer agree to do MoUs."
- 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.
- 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 (in next 5-6 years). Also, NGT's actions against severely/critically polluted industrial clusters would lead to higher adoption of gas from industries.
- The company has entered into a 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 South India. ssLNG has potential of 8-10mmtpa over the next 8-10 years. However, the key to this segment is the initial development of infrastructure to aid larger adoption in vehicles.
- Return profile for the company remains strong with a RoE/RoCE at 24-27%/21-25% for FY21-23E. The stock trades at 12.1x FY22E EPS of INR21.3 and 6.9x FY22E EV/EBITDA. We value PLNG on a DCF basis to arrive at a fair value of INR335. Reiterate Buy.

Exhibit 1: Back-to-back contracts have aided PLNG to quickly achieve optimal utilization post every expansion at Dahej; resulting in trendline averaging ~106% utilization rate



Source: Company, MOFSL

Exhibit 2: Snapshot of PLNG's long-term contracts

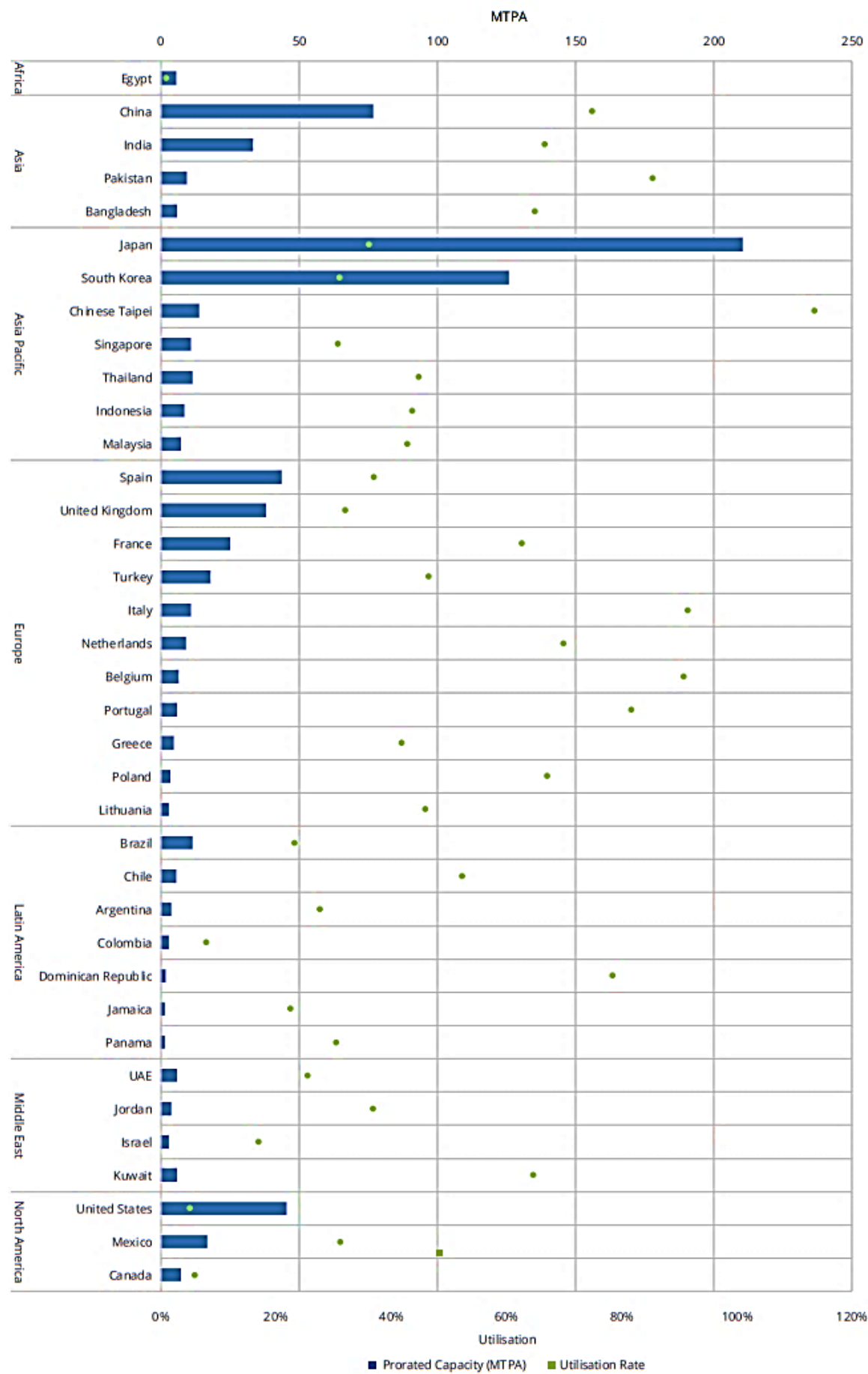
	Offtake ratio	mmtpa
Dahej - RasGas contract (expiry in 2028)		
GAIL	60%	4.5
IOCL	30%	2.3
BPCL	10%	0.8
Kochi - Gorgon contract (expiry in 2035)		
GAIL	30%	0.4
IOCL	30%	0.4
BPCL	40%	0.6
Total long-term contract		
		8.9
Total tolling (use or pay) contracts (expiry in 2035)		8.3
Total take or pay contracts		17.2

Source: Company, MOFSL

PLNG - Capex guidance and key developments

- **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 end of FY23/FY24.
- **East coast LNG terminal – USD700–800m:** Around 100km away from Jagdishpur Haldia pipeline, the East coast (Gopalpur) terminal – already approved by the board –would be the biggest beneficiary of new age CGD gas demand in that region. This LNG project would strategically place PLNG (providing access to the western-southern-eastern coasts) and aid in gas swapping as the CGD network expands in the country. It would further facilitate the supply of gas to participants (consumers) on recently launched exchanges by delivering gas in various proximities.
- **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 support utilization rates.
- **Small-scale LNG (ssLNG) stations on highways:** PLNG plans to set up ~50 ssLNG stations on five highways over the next 2-3 years (under Phase I) at a cost of USD100m (of the total USD500m).

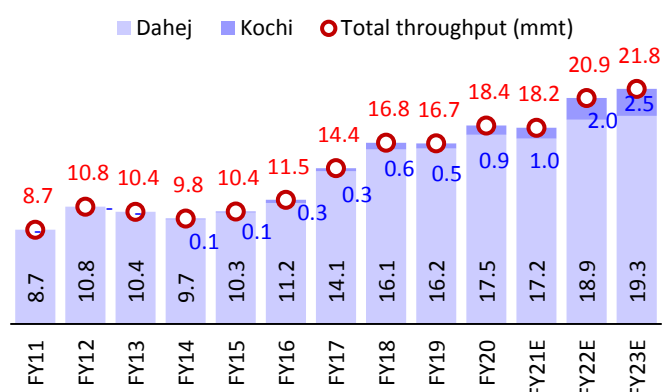
Exhibit 3: Global country-wise regasification capacity and utilization rates



Source: IGU, MOFSL

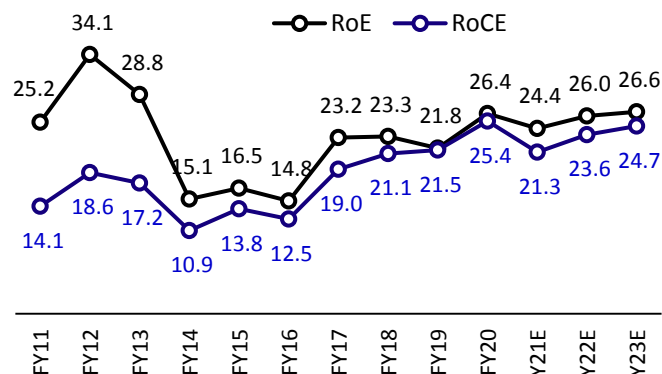
Story in charts

Exhibit 4: Volume growth led by capacity ramp-up



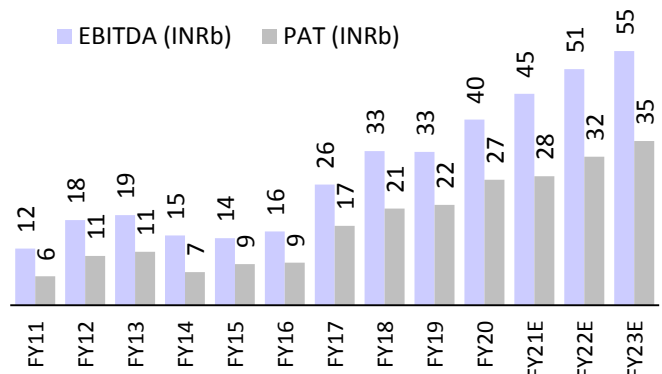
Source: Company, MOFSL

Exhibit 5: Stable return ratios



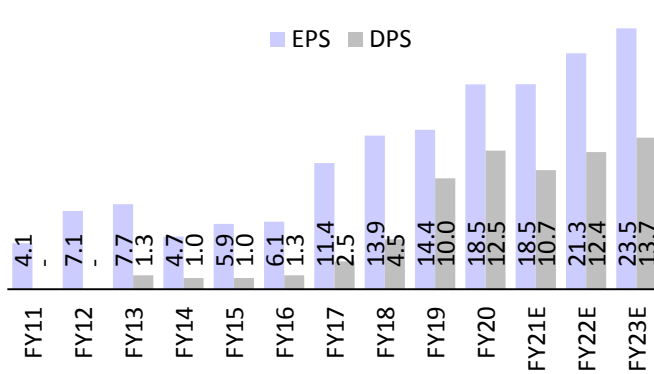
Source: Company, MOFSL

Exhibit 6: EBITDA/PAT to clock ~8-11% CAGR over FY20-23E



Source: Company, MOFSL

Exhibit 7: DPS to be ~INR11-14/share over next three years



Source: Company, MOFSL

Exhibit 8: Key assumptions

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Key assumptions									
Exchange Rate (INR/USD)	61.4	65.5	67.1	64.4	70.0	70.9	74.9	75.8	75.8
Brent (USD/bbl)	85.5	47.5	49.0	57.6	70.1	61.2	40.4	50.0	50.0
Capacity (mmt)	15.0	15.0	18.3	20.0	20.0	21.9	22.5	22.5	22.5
Dahej terminal	10.0	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	5.0
Capacity utilization (%)	69%	77%	79%	84%	84%	84%	81%	93%	97%
Dahej terminal	103%	112%	106%	108%	108%	104%	98%	108%	110%
Kochi terminal	2%	6%	6%	12%	10%	17%	20%	40%	50%
Volume sold (mmtpa)	10.4	11.5	14.4	16.8	16.7	18.4	18.2	20.9	21.8
Dahej terminal	10.3	11.2	14.1	16.1	16.2	17.5	17.2	18.9	19.3
Kochi terminal	0.1	0.3	0.3	0.6	0.5	0.9	1.0	2.0	2.5
Re-gassification charges (INR/mmBtu)									
Dahej terminal	39.1	41.0	43.1	45.2	47.5	49.9	52.4	52.4	52.4
YoY (%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	0.0%	0.0%
Kochi terminal	65.1	68.4	71.8	75.4	75.4	79.1	83.1	79.1	79.1
YoY (%)	5.0%	5.0%	5.0%	5.0%	0.0%	5.0%	5.0%	0.0%	0.0%

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
Provisions	155	160	199	278	330	255	350	377
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	42.4	22.7	18.6	18.0	14.0	14.0	12.1	11.0
Cash P/E	31.3	18.7	15.5	15.1	10.9	10.8	9.6	8.8
P/BV	5.9	4.8	4.0	3.8	3.5	3.3	3.0	2.8
EV/Sales	1.4	1.6	1.3	0.9	1.1	1.3	0.9	0.8
EV/EBITDA	24.7	15.7	11.6	10.9	9.4	8.1	6.9	6.2
Dividend Yield (%)	0.5	1.0	1.7	3.9	4.8	4.2	4.8	5.3
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
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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