Stock Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Petronet LNG

Lacks near-term trigger; Cash utilisation a concern

Oil & Gas	Sharekhan code: PETRONET	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 229**	
Price Target: **Rs. 285**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

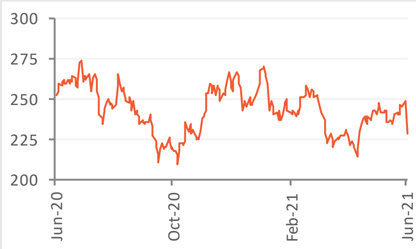
Company details

Market cap:	Rs. 34,283 cr
52-week high/low:	Rs. 280/207
NSE volume: (No of shares)	44.1 lakh
BSE code:	532522
NSE code:	PETRONET
Free float: (No of shares)	75.0 cr

Shareholding (%)

Promoters	50.0
FII	30.5
DII	6.3
Others	13.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5	-7	-10	-10
Relative to Sensex	-10	-9	-23	-61

Sharekhan Research, Bloomberg

Summary

- In-line operating profit at Rs. 1,091 crore (up 20.4% y-o-y) as volume of 218 tbtu meets our expectation. Adjusted PAT at Rs. 674 crore (up 20.6% y-o-y), marginally below our estimate due to lower other income.
- Near-term volume outlook remain muted due to lockdown, high spot LNG price and ramp-up of domestic gas production. Kochi terminal utilisation ramp-up expected to reach 30% (from 22% in Q4FY21) in the next six months.
- Massive capex plan of Rs. 18,000 crore over the next five years with 66% spending on new unestablished avenues such as LNG retailing stations (Rs. 8,000 crore) and compressed bio-gas plants (Rs. 4,000 crore), while benefits would be back-ended and could impact dividend payout going forward.
- However, valuation remains attractive at 9.7x its FY2023E EPS; and thus, we maintain our Buy rating on PLNG with a revised PT to Rs. 285 (lowered to reflect cut in earnings estimate given lower volume assumption).

Petronet LNG's (PLNG) Q4FY2021 operating profit at Rs. 1,091 crore (up 20.4% y-o-y; down 18.3% q-o-q) largely meets our estimate of Rs. 1,084 crore as re-gas volume at 218 tbtu (down 0.5% y-o-y; down 7.2% q-o-q) was in-line with our expectations. Dahej re-gas volume came in at 204 tbtu (down 1% y-o-y; down 8.1% q-o-q), with utilisation rate of 91.5%, while Kochi re-gas volume was at 14tbtu (up 7.7% q-o-q) with utilisation rate of 22%. PAT (adjusted for IND AS-116 impact of at Rs. 18 crore CSR expense of Rs. 56 crore and Rs. 4 crore inventory gain) at Rs. 675 crore (up 20.6% y-o-y; down 16.9% q-o-q) was marginally below our estimate of Rs. 689 crore due to lower other income (down 56% q-o-q due to lower dividend income). Near-term volume outlook remains weak, given impact on gas demand due to COVID-19 pandemic in Q1FY2022 (low Dahej utilisation of 88% currently) and high spot LNG price. Furthermore, management has indicated about massive capex plan of Rs. 18,000 crore over the next five years (Dahej capacity expansion to 22.5 mtpa, storage tanks, jetty, setting-up of LNG retailing station, and CBG plants) with majority of capex getting over by 2023-2025, thus benefit would also be back-ended and in long term. High capex intensity could result into lower dividend payout going forward. We have lowered our FY2022-FY2023 earnings estimate, as we have cut our re-gas volume assumption by 4%. Thus, we reduce our price target (PT) to Rs. 285, while we maintain our Buy rating, supported by attractive valuation of 9.7x its FY2023E EPS.

Key positives

- Marginal improvement in Kochi terminal utilisation rate to 22% versus 20.4% in Q3FY2021.

Key negatives

- The decline in Dahej terminal utilisation at 91.5% versus 99.5% in Q3FY2021.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 285: We have lowered our FY2022-FY2023E earnings estimate on account of 4% cut in volume assumption. We believe any improvement in volume is solely dependent upon potential higher utilisation for Kochi terminal, while Dahej utilisation is likely to remain lower at 95% in near term, given high spot LNG price and likely ramp-up of domestic gas production. Moreover, PLNG's capex intensity is expected to increase, while any benefits would be only back-ended in the long term and could also result in lower dividend payout. Valuation remains attractive at 9.7x its FY2023E EPS and, thus, we maintain our Buy rating on PLNG, but cut our PT to Rs. 285 (to reflect lower earnings).

Key risk

Lower-than-expected re-gas volumes at Dahej terminal in case of any weakness in LNG demand amid COVID-19, spike in LNG price, and any further delay in the ramp-up of utilisation rate at Kochi terminal due to pipeline connectivity issues.

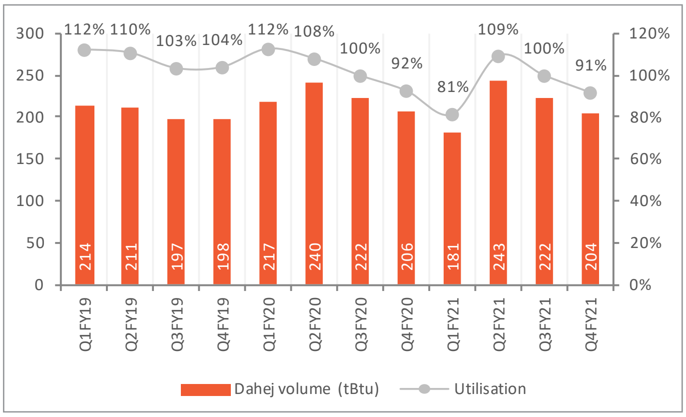
Valuation (Standalone) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	35,452	26,023	33,348	40,129
OPM (%)	11.3	18.1	14.7	13.5
Adjusted PAT	2,852	2,938	3,154	3,534
% YoY growth	*24.5*	*3.0*	*7.4*	*12.0*
Adjusted EPS (Rs)	19.0	19.6	21.0	23.6
P/E (x)	12.0	11.7	10.9	9.7
P/B (x)	3.1	2.9	2.8	2.4
EV/EBITDA (x)	7.5	6.1	5.7	4.8
RoNW (%)	27.1	26.0	26.4	26.4
RoCE (%)	24.9	26.0	26.3	27.1

Source: Company; Sharekhan estimates

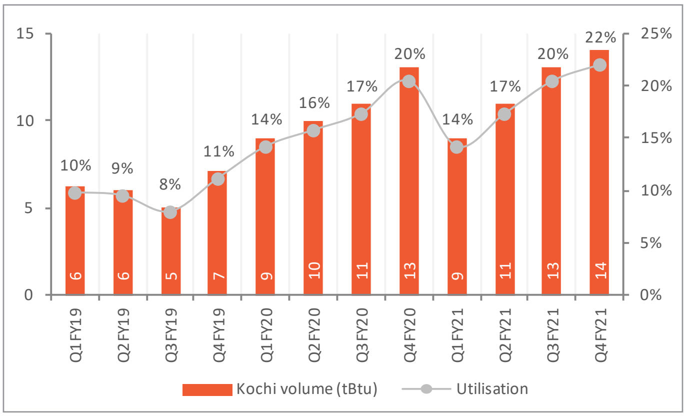
In-line operational performance; PAT marginally below estimates due to lower other income: PLNG's Q4FY2021 operating profit at Rs. 1,091 crore (up 20.4% y-o-y; down 18.3% q-o-q) largely meets our estimate of Rs. 1,084 crore as re-gas volume at 218 tbtu (down 0.5% y-o-y; down 7.2% q-o-q) was in-line with our expectations. Dahej re-gas volume came in at 204 tbtu (down 1% y-o-y; down 8.1% q-o-q), with utilisation rate of 91.5%, while Kochi re-gas volume was at 14tbtu (up 7.7% q-o-q) with utilisation rate of 22%. PAT (adjusted for IND AS-116 impact of at Rs. 18 crore CSR expense of Rs. 56 crore and Rs. 4 crore inventory gain) at Rs. 675 crore (up 20.6% y-o-y; down 16.9% q-o-q) was marginally below our estimate of Rs. 689 crore due to lower other income (down 56% q-o-q due to lower dividend income).

Dahej terminal volume and utilisation



Source: Company, Sharekhan Research

Kochi terminal volume and utilisation trend



Source: Company, Sharekhan Research

Q4FY2021 results conference call highlights

- **Massive capex plan over five years but benefits to be back ended –** Management has guided for huge capex of ~Rs. 18,000 crore plus over the next five years. This capex plan includes investment of: 1) Rs. 1,240 crore for two storage tanks at Dahej terminal, 2) Rs. 1,700 crore a jetty at Dahej terminal, 3) Rs. 220 crore for Dahej terminal capacity expansion to 20 mtpa, 4) Rs. 890 crore for phase two expansion at Dahej terminal to 22.5mtpa, 5) Rs. 8,000 crore for setting up 1,000 LNG retailing station over the next five years, 6) Rs. 4,000 crore for setting up 100 compressed bio gas (CBG) plants, and 7) Rs. 1,540 crore for new LNG terminal at east coast of India, and 8) Rs. 700 crore for storage tank at Kochi terminal. Capex spending for FY2022E/FY2023E is estimated at Rs. 530 crore/Rs. 1,000 crore.

- **LNG dispensing infrastructure development update –** From earlier stance of collaboration with OMCs/CGD companies, management now plans to build its own LNG retailing stations with capex plan of Rs. 8,000 crore over the next five years and aims to set-up 1,000 stations (capex of Rs. 8 crore/station). Management expects 3 million tonne-3.5 million tonne volume opportunity from 1,000 stations and sees good margins as LNG prices are 30-40% cheaper than diesel prices. The company has plans to set-up 25-30 LNG stations in the initial years.

- **Compressed bio gas (CBG) –** The company has signed a non-binding agreement with Ministry of Petroleum and Natural Gas for setting up 100 compressed bio gas (CBG) plants. This would entail capex plan of Rs. 4,000 crore. The company has received letter of intent from 11 entities to purchase CBG at a government determined price of Rs. 46/kg ($11-12/mmbtu), which seems reasonable for better margin on CBG.

- **Q1FY2022 volume outlook –** Management indicated that near-term LNG demand would get impacted due to high spot LNG price ($10.5/mmbtu) and ramp-up in domestic gas production. Moreover, the recent lockdown has impacted LNG volumes at Dahej terminal during April 2021-May 2021 and the terminal is operating at 88% utilisation currently.

- **Kochi terminal volume ramp-up guidance –** Kochi terminal utilisation is expected to reach 30% in the next six months period. Near demand has been impacted due to high spot LNG price as fertilizer plants connected to Kochi terminal cannot operate above $8/mmbtu LNG price. Management has guided that pipeline section to Bangalore would be completed in the next one years and would further improve Kochi terminal utilisation rate.
- **Kochi re-gas tariff update –** The company is doing discussion with off-takers and expects decision on the same in Q1FY2022. Kochi re-gas tariff is at Rs. 83.1/mmbtu post 5% tariff hike from April 2021. LNG off-takers are asking for Kochi re-gas tariff equal to Dahej Tariff but the same is not possible until there is significant ramp-up in the utilisation rate.
- The company diverted nine cargos from Gorgon to Dahej terminal. Re-gas income stood at ~Rs. 2,300 crore in FY2021.

Results Rs cr

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Net Sales	7,575	8,567	-11.6	7,328	3.4
Total Expenditure	6,484	7,870	-17.6	5,993	8.2
Reported operating profit	**1,091**	**698**	**56.4**	**1,335**	**-18.3**
Adjusted operating profit	**1,091**	**907**	**20.4**	**1,335**	**-18.3**
Other Income	49	86	-43.2	111	-55.7
Interest	81	104	-21.5	82	-0.3
Depreciation	203	194	4.4	192	5.4
PBT before one-time items	856	486	76.1	1,172	-27.0
One-time lease settlement for Kochi terminal	0	0		0	
Reported PBT	**856**	**486**	**76.1**	**1,172**	**-27.0**
Exceptional income/(expense)	-70	-271	NA	90	NA
Adjusted PBT	**926**	**757**	**22.3**	**1,082**	**-14.4**
Tax	233	127	82.9	294	-20.8
RPAT	623	359	73.6	878	-29.0
Adjusted PAT	**674**	**559**	**20.6**	**811**	**-16.9**
Equity Cap (cr)	150	150		150	
Reported EPS (Rs.)	4.2	2.4	73.6	5.9	-29.0
Adjusted EPS (Rs.)	4.5	3.7	20.6	5.4	-16.9
Margins (%)			***BPS***		***BPS***
Adjusted OPM	14.4	10.6	382	18.2	-382
Effective tax rate	27.2	26.2	102	25.1	212
NPM	8.9	6.5	238	11.1	-217

Source: Company; Sharekhan Research

Operating performance

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Capacity utilisation – Dahej (%)	91.5	92.4	-90	99.5	-807
Capacity utilisation – Kochi (%)	22.0	20.4	157	20.4	157
Total volume (TBTU)	**218.0**	**219.0**	**-0.5**	**235.0**	**-7.2**
Long term volume – Dahej	102.0	95.0	7.4	113.0	-9.7
Tolling volume – Dahej	97.0	105.0	-7.6	104.0	-6.7
Spot volume – Dahej	5.0	6.0	-16.7	5.0	0.0
Total Dahej volume (TBTU)	**204.0**	**206.0**	**-1.0**	**222.0**	**-8.1**
Long term volume – Kochi	11.0	11.0	0.0	8.0	37.5
Tolling volume – Dahej	1.0	1.0	NA	3.0	NA
Spot volume – Dahej	2.0	1.0	NA	2.0	NA
Total Kochi volume (TBTU)	**14.0**	**13.0**	**7.7**	**13.0**	**7.7**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Regulatory push to drive India's gas consumption

We expect strong long-term volume growth opportunity for gas utilities (such as PLNG) supported by robust gas demand outlook led by: 1) higher demand from power, CGD, and fertiliser sectors, 2) regulatory push to switch to gas from polluting industrial/auto fuels, and 3) government's aim to increase the share of gas in India's overall energy mix to 15% by 2025. Hence, we believe long-term LNG demand outlook for India remains intact.

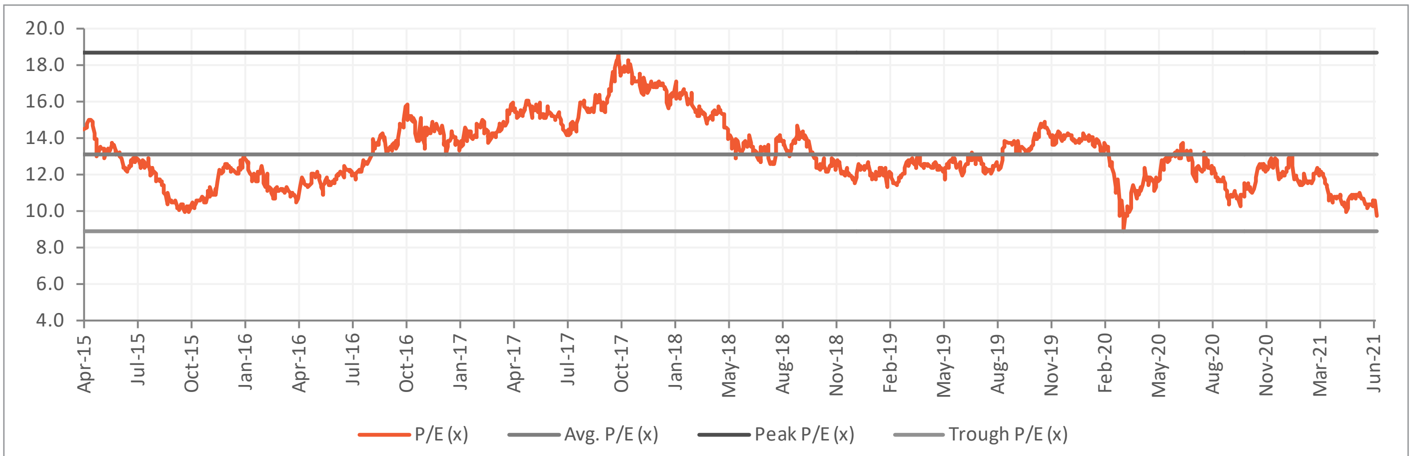
■ Company Outlook – Near term volume concern to continue; Long-term volume growth story intact

PLNG's Dahej terminal utilisation rate reduced to 91.5% in Q4FY2021 due to lower LNG demand given high spot LNG price and ramp-up in domestic gas production. Even for Q1FY2022, we expect Dahej volumes to remain weak as the lockdown impacted gas demand in India. Having said that, long LNG demand story remained intact and PLNG could benefit from further capacity expansion at its Dahej terminal to 22.5mtpa in the next 3-4 years. This coupled with gradual ramp-up in Kochi terminal utilisation would aid to volume growth.

■ Valuation – Maintain Buy on PLNG with a revised PT of Rs. 285

We have lowered our FY2022-FY2023E earnings estimate on account of 4% cut in volume assumption. We believe any improvement in volume is solely dependent upon potential higher utilisation for Kochi terminal, while Dahej utilization is likely to remain lower at 95% in the near term, given high spot LNG price and likely ramp-up of domestic gas production. Moreover, PLNG's capex intensity is expected to increase while any benefits would be only back-ended; and in the long term, it could also result in lower dividend payout. Valuation remains attractive at 9.7x its FY2023E EPS; and thus, we maintain our Buy rating on PLNG but cut our PT to Rs. 285 (to reflect lower earnings).

One-year forward P/E (x) band



Source: Sharekhan Research

About company

PLNG was incorporated in April 1998. PLNG imports, re-gasifies, and markets liquefied natural gas (LNG) in India. The company owns and operates India's largest LNG terminal with a capacity of 17.5 mmt at Dahej (Gujarat) and 5 mmt at Kochi (Kerala). The company plans to further increase Dahej LNG terminal capacity to 19.5 mmt in the next 2-3 years. The company operates on a simple business model of charging re-gas margins on LNG volumes imported (both long-term and spot) through its terminals. The company earns additional marketing margins on spot volumes. The company's business is de-risked through back-to-back offtake contracts with customers.

Investment theme

PLNG has planned a massive capex of Rs. 18,000 crore to expand LNG terminal capacity at Dahej and venture in new avenues such as LNG retailing and CBG plants. These investments would help PLNG in the long term, but near-term volume growth outlook is muted until there is significant ramp-up of utilisation rate at Kochi terminal. PLNG's valuation remains attractive.

Key Risks

- Lower-than-expected re-gas volumes at the Dahej terminal in case of weak LNG demand amid COVID-19.
- Any further delay in the ramp-up of utilisation rate at the Kochi terminal due to pipeline connectivity issues.
- Non-revision of re-gas tariffs on a yearly basis.

Additional Data

Key management personnel

Tarun Kapoor	Chairman
VK Mishra	Managing Director & CEO
Rakesh Chawla	Director - Finance

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FMR LLC	3.5
2	BlackRock Inc.	3.2
3	Kotak Mahindra Asset Management Co. Ltd	2.7
4	Republic of Singapore	2.4
5	Kotak Flexicap Fund	2.1
6	Capital Group Cos Inc.	1.7
7	Fidelity Investment Trust	1.5
8	Vanguard Group Inc.	1.5
9	Dimensional Fund Advisors LP	0.9
10	JP Morgan Chase & Co.	0.8

Source: Bloomberg

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