



## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	Green	↓	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated Jul 08, 2022

25.15

## Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

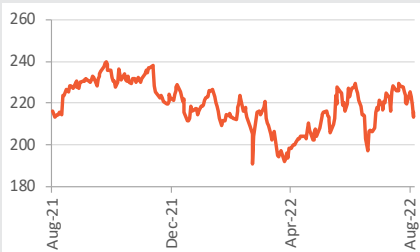
## Company details

Market cap:	Rs. 32,370 cr
52-week high/low:	Rs. 243 / 190
NSE volume: (No of shares)	25.8 lakh
BSE code:	532522
NSE code:	PETRONET
Free float: (No of shares)	75.0 cr

## Shareholding (%)

Promoters	50.0
FII	34.8
DII	2.9
Others	12.2

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-2	0	1	-0
Relative to Sensex	-11	-6	2	-8

Sharekhan Research, Bloomberg

## Petronet LNG

## Decent Q1 volume performance; attractive valuation

## Oil &amp; Gas

## Sharekhan code: PETRONET

Reco/View: Buy



CMP: Rs. 216

Price Target: Rs. 248



Upgrade



Maintain



Downgrade

## Summary

- Q1FY22 adjusted PAT of Rs. 779 crore declined by 19% q-o-q due to lower trading gain of Rs. 104 crore but was 10% above our estimate led by higher other income. We have adjusted reported PAT of Rs. 701 crore for Rs. 147 crore of forex losses & IND-AS adjustments and a Rs. 42 crore one-off receipt related to insurance.
- Dahej re-gas volume of 196 tBtu posted a decent recovery with growth of 10% q-o-q led by higher long-term/tolling re-gas volume of 101 tBtu/94 tBtu, up 4%/21% q-o-q. However, Kochi re-gas volume remained muted at 12 tBtu, flat q-o-q.
- Dahej utilisation would remain good in Q2FY23 as the Dabhol terminal is shut in monsoon due to break-water issues; Kochi ramp-up would depend upon normalization of spot LNG price. Dahej expansion on track to get completed in next 2-3 years.
- We maintain a Buy rating on Petronet LNG with a revised PT of Rs. 248 as valuation of 9.8x/9x FY23E/FY24E EPS is attractive given resilient earnings model and stock offers 4-5% dividend yield.

Petronet LNG's (PLNG's) Q1FY2023 standalone operating profit of Rs. 1,064 crore, down 23% q-o-q was below our estimate of Rs. 1,149 crore due to lower trading margins (Rs. 104 crore versus Rs. 396 crore in Q4FY22) and forex loss of Rs. 124 crore partially offset by higher inventory gain of Rs. 110 crore. Volume performance was in line with a 10% q-o-q rise in Dahej re-gas volume to 196 tBtu (utilization of 88% versus 80% in Q4FY22) and Kochi re-gas volume was flat q-o-q at 12 tBtu (utilization of 18.8%). Dahej long-term/tolling/spot re-gas volume stood at 101 tBtu/94 tBtu/1 tBtu. PAT (adjusted for negative IND-AS and forex loss impact of Rs. 147 crore and a Rs. 42 crore one-off insurance receipt) of Rs. 779 crore, down 15.9% q-o-q and beat our estimate of Rs. 711 crore led by higher other income.

## Key positives

- Dahej terminal witnessed 10% q-o-q rise in re-gas volume to 196 tBtu.

## Key negatives

- Kochi re-gas volume remain flat q-o-q at 12 tBtu due to elevated spot LNG price.

## Management Commentary

- Dahej terminal capex plan** – Two storage tanks (Rs. 1250 crore), jetty (Rs. 1700 crore) capacity expansion to 22.5mtpa (Rs. 570 crore) spread over 2-3 years. FY23 capex guidance of Rs. 1,200 crore.
- Kochi-Bangalore pipeline has 250 km of stretch pending between Coimbatore-Bangalore and the same would be completed in one year. Kochi terminal utilization would improve with normalization of spot LNG price (currently high at \$40/mmBtu).
- Expects four LNG retailing outlet in collaboration with IOCL in the next six months.
- Detailed feasibility report is still going for petchem project at Dahej and will go for the project only if IRR is 16-17%.
- RasGas contract is expiring in 2028 and a high level task force is negotiating the terms for contract extension by December 2023.
- PLNG plans to have 1 mtpa of additional LNG contracts for own requirement including that for small scale LNG.
- FSRU terminal at Gopalpur – Negotiation with Gopalpur Port Trust has largely been concluded and have assurance from Odisha government that terminal will continue even after expiry of lease agreement. Overall capex of Rs. 1,700 crore for the project. After agreement into a definitive agreement would look at board approval for capex.
- Dahej/Kochi tariff is at Rs. 57/Rs. 81 per mmBtu.

**Revision in estimates** – We maintain our FY23-24 earnings estimates.

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 248:** P-LNG's earnings model is resilient to volatility in LNG prices given contracted LNG volume for Dahej terminal and the stock offers decent dividend yield of 4-5%. Moreover, the stock trades at attractive valuation of 9.8x/9x FY23E/FY24E EPS given earnings visibility and high RoE of 22%. Hence, we maintain a Buy rating on Petronet LNG with a revised PT of Rs. 248.

## Key Risks

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

## Valuation (Standalone)

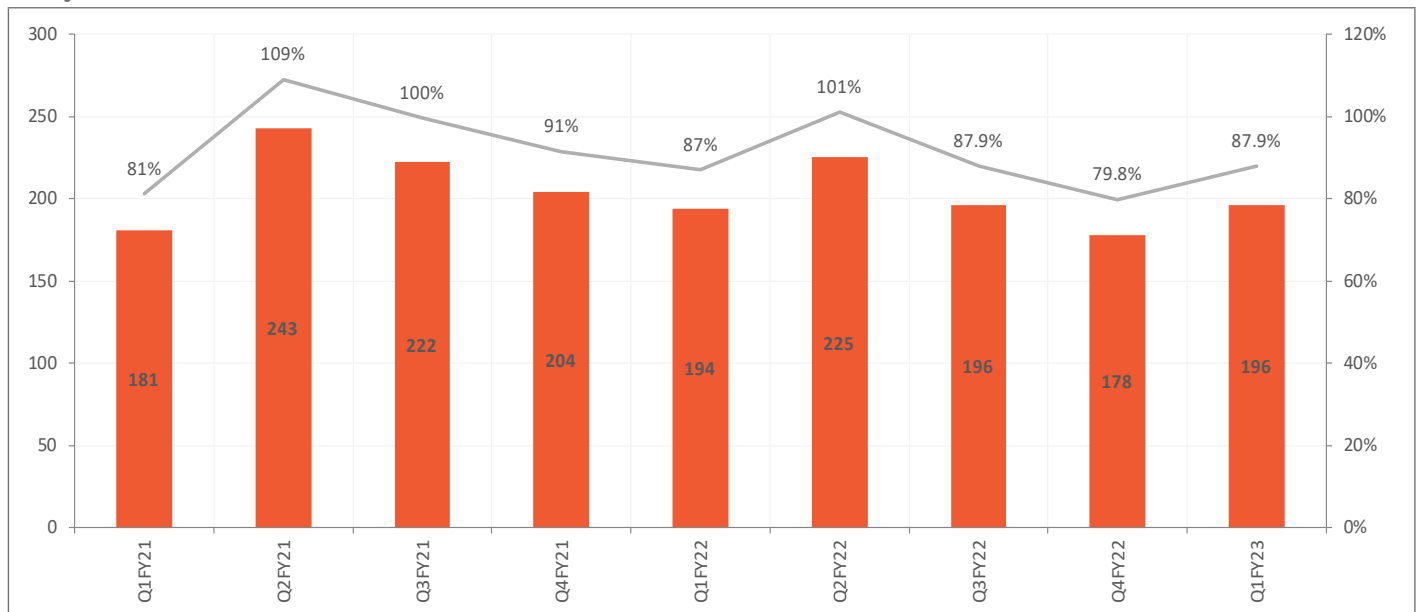
Particulars	FY21	FY22	FY23E	FY24E
Revenue	26,023	43,169	50,192	47,574
OPM (%)	18.1	12.2	10.3	11.8
Adjusted PAT	2,938	3,352	3,307	3,606
% YoY growth	3.0	14.1	-1.3	9.0
Adjusted EPS (Rs)	19.6	22.3	22.0	24.0
P/E (x)	11.0	9.7	9.8	9.0
P/B (x)	2.8	2.4	2.1	1.8
EV/EBITDA (x)	5.7	5.2	4.5	3.9
RoNW (%)	26.0	26.7	22.8	21.5
RoCE (%)	26.0	27.2	23.0	21.6

Source: Company; Sharekhan estimates

## Q1 adjusted PAT beats estimate; Dahej utilization recovers strongly

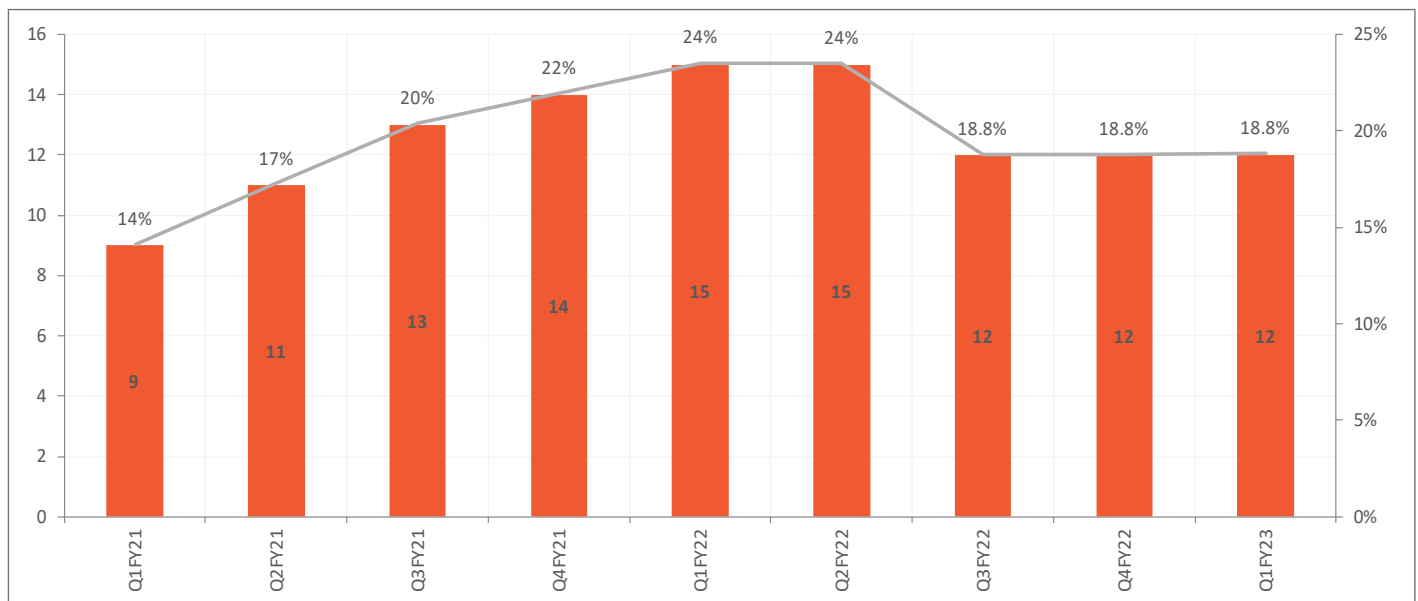
Q1FY2023 standalone operating profit of Rs. 1,064 crore, down 23% q-o-q was below our estimate of Rs. 1,149 crore due to lower trading margins (Rs. 104 crore versus Rs. 396 crore in Q4FY22) and forex loss of Rs. 124 crore partially offset by higher inventory gain of Rs. 110 crore. Volume performance was in line with a 10% q-o-q rise in Dahej re-gas volume to 196 tBtu (utilization of 88% versus 80% in Q4FY22) and Kochi re-gas volume was flat q-o-q at 12 tBtu (utilization of 18.8%). Dahej long-term/tolling/spot re-gas volume stood at 101 tBtu/94 tBtu/1 tBtu. PAT (adjusted for negative IND-AS and forex loss impact of Rs. 147 crore and a Rs. 42 crore one-off insurance receipt) of Rs. 779 crore, down 15.9% q-o-q and beat our estimate of Rs. 711 crore led by higher other income.

### Dahej terminal volume and utilisation



Source: Company, Sharekhan Research

### Kochi terminal volume and utilisation trend



Source: Company, Sharekhan Research

## Results (Standalone)

	Rs cr				
Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Net Sales	14,264	8,598	65.9	11,160	27.8
Total Expenditure	13,199	7,544	75.0	9,991	32.1
<b>Reported operating profit</b>	<b>1,064</b>	<b>1,054</b>	<b>1.0</b>	<b>1,169</b>	<b>-9.0</b>
<b>Adjusted operating profit</b>	<b>1,064</b>	<b>1,054</b>	<b>1.0</b>	<b>1,383</b>	<b>-23.0</b>
Other Income	142	69	106.9	85	66.3
Interest	78	80	-2.7	80	-3.0
Depreciation	191	192	-0.2	190	0.8
<b>Reported PBT</b>	<b>937</b>	<b>851</b>	<b>10.1</b>	<b>984</b>	<b>-4.8</b>
Exceptional income/(expense)	-105	-53	NA	-281	NA
<b>Adjusted PBT</b>	<b>1,042</b>	<b>904</b>	<b>15.3</b>	<b>1,265</b>	<b>-17.6</b>
Tax	236	216	9.6	234	0.8
Reported PAT	701	636	10.3	750	-6.6
<b>Adjusted PAT</b>	<b>779</b>	<b>675</b>	<b>15.4</b>	<b>964</b>	<b>-19.2</b>
Equity Cap (cr)	150	150		150	
Reported EPS (Rs. )	4.7	4.2	10.3	5.0	-6.6
Adjusted EPS	5.2	4.5	15.4	6.4	-19.2
<b>Margins(%)</b>			<b>BPS</b>		<b>BPS</b>
Adjusted OPM	7.5	12.3	-480	12.4	-493
Effective tax rate	25.2	25.3	-12	23.8	141
Adjusted NPM	5.5	7.9	-239	8.6	-318

Source: Company; Sharekhan Research

## Operating performance

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Capacity utilisation – Dahej (%)	87.87	87.0	90	79.8	807
Capacity utilisation – Kochi (%)	18.8	23.5	-471	18.83	0
<b>Total volume (TBTU)</b>	<b>208.0</b>	<b>209.0</b>	<b>-0.5</b>	<b>190.0</b>	<b>9.5</b>
Long term volume – Dahej	101.0	89.0	13.5	97.0	4.1
Tolling volume – Dahej	94.0	99.0	-5.1	78.0	20.5
Spot volume – Dahej	1.0	6.0	-83.3	3.0	-66.7
<b>Total Dahej volume (TBTU)</b>	<b>196.0</b>	<b>194.0</b>	<b>1.0</b>	<b>178.0</b>	<b>10.1</b>
Long term volume – Kochi	12.0	11.0	9.1	12.0	0.0
Tolling volume – Dahej	0.0	2.0	NA	0.0	NA
Spot volume – Dahej	0.0	2.0	NA	0.0	NA
<b>Total Kochi volume (TBTU)</b>	<b>12.0</b>	<b>15.0</b>	<b>-20.0</b>	<b>12.0</b>	<b>0.0</b>
<b>Total volume (TBTU)</b>	<b>208.0</b>	<b>209.0</b>	<b>-0.5</b>	<b>190.0</b>	<b>9.5</b>

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – High spot LNG price a near term volume concern, but long term growth is intact

Spot LNG prices are at an elevated level of \$40/mmBtu due to geopolitical tensions and near key concern for gas demand from price sensitive sector like power and industrial PNG. We thus expect muted volume growth in the near term and a recovery would hinge upon normalization of spot LNG price. Having said that, we expect strong long-term volume growth opportunity for gas utilities (such as P-LNG) supported by robust gas demand outlook led by: 1) higher demand from CGD, and fertiliser sectors, 2) regulatory push to switch to gas from polluting industrial/auto fuels and 3) the government's aim to increase share of gas in India's overall energy mix to 15% by 2030. Hence, we believe that the long-term LNG demand outlook for India remains intact.

### ■ Company Outlook – Muted near-term earnings growth outlook

Long-term LNG demand story remains intact and P-LNG would benefit from further capacity expansions at the Dahej terminal to 22.5 mtpa in the next 3-4 years. However, lower Kochi terminal's utilisation is a concern and thus we expect muted 4% PAT CAGR over FY22-24E as volume growth would be visible post FY24 only.

### ■ Valuation – Maintain Buy on P-LNG with a revised PT of Rs. 248

P-LNG's earnings model is resilient to volatility in LNG prices given contracted LNG volume for Dahej terminal and the stock offers decent dividend yield of 4-5%. Moreover, the stock trades at attractive valuation of 9.8x/9x FY23E/FY24E EPS given earnings visibility and high RoE of 22%. Hence, we maintain a Buy rating on Petronet LNG with a revised PT of Rs. 248.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

## About company

P-LNG was incorporated in April 1998. P-LNG 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 22.5 mmt in the next 3-4 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

The sharp recovery in re-gas volume at Dahej terminal provides earnings visibility in the current uncertain times. The company's plan to expand Dahej terminal's capacity to 22.5 mmt over the next 3-4 year and ramp-up of utilisation rate for Kochi terminal would drive volume growth. Moreover, P-LNG would be able to take 5% re-gas tariff escalation for its Dahej terminal on a regular basis as it enjoys a competitive edge as compared to other LNG import terminals given its low re-gas tariff and long-term contracted volume with a 'use or pay' clause. P-LNG's valuation is also attractive with strong RoE of 27%, FCF yield of 9%, and dividend yield of 5%.

## 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
Akshay Kumar Singh	Managing Director & CEO
VK Mishra	Director - Finance

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FRM LLC	4.49
2	Republic of Singapore	3.56
3	Kotak Mahindra Asset Management Co Ltd	2.27
4	T Rowe Price Group	2.25
5	BlackRock Inc	2.15
6	Vanguard Group Inc	1.66
7	Fidelity Investment Trust	1.51
8	Lazard Ltd	1.03
9	JPMorgan Chase & Co	1.01
10	Dimensional Fund Advisors LP	0.98

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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