

Retail Equity Research

Petronet LNG Limited

Oil, Gas & Consumable Fuels

BSE CODE: 532522

NSE CODE: PETRONET

Bloomberg CODE: PLNG:IN

SENSEX: 59,500

BUY

12 Months Investment Period Rating as per Mid Cap

CMP Rs. 219 TARGET Rs. 260 RETURN 19% ↑
(Closing: 30-01-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Margins boosted by cost optimization

Petronet LNG Ltd., ("Petronet") was formed by the Indian government to import liquefied natural gas (LNG) and set up LNG terminals in India. The company operates two regasification terminals, situated in Dahej (17.5 MMTPA installed capacity) and Kochi (5 MMTPA).

- Petronet's consolidated revenue grew 25.2% YoY to Rs. 15,776cr in Q3FY23, primarily due to higher realisation and recognition of Rs. 849cr 'use or pay charges.'
- Due to solid cost optimization strategies, EBITDA margin expanded sequentially to 10.6% in Q3FY23 from 7.3% in Q2FY23.
- Although the worldwide macro uncertainties could affect the company's performance matrix in the short term, robust deal book, better cost optimization, capacity expansion, enhanced utilisation and improved supply chain are expected to offset the situation. Hence, we remain positive on the stock and reiterate our BUY rating with a revised target price of Rs. 260 based on 10x FY25E adjusted EPS.

Capacity expansion to drive future growth...

In Q3FY23, Petronet's revenue increased 25.2% YoY to Rs. 15,776cr (-1.3% QoQ), despite 19.7% YoY volume degradation to 167 trillion British Thermal Units (TBTU). The Dahej terminal processed 154 TBTU of liquefied natural gas (LNG) in Q3FY23 vs. 182 TBTU in Q2FY23 and 196 TBTU in Q3FY22, showcasing low current demand. At the same time, the Kochi terminal remained strong and processed 13TBTU vs. 10 TBTU in Q2FY23 and 12TBTU in Q3FY22. Due to high spot LNG prices, the company's volume of LNG processed, and utilization levels declined. For the nine months to December 2022, volume processed stood at 567 TBTU, compared with 657 TBTU for the same period a year ago. The company has continued to increase its capacity at its Dahej and Gopalpur terminals with a positive demand outlook. The company has planned to have capex of about Rs. 13,000cr to Rs. 14,000cr, expecting the board approval in next six months.

Key concall highlights

- The company is expected to increase its processing capacity by nine million tonne (mt), including 5 mt at the Dahej terminal in the next two years and 4 mt at the Gopalpur terminal in the next three years.
- Petronet's management anticipates higher volume demand in the upcoming quarter, supported by expected LNG prices between \$16-\$20 per million British thermal units (mmBtu).
- Management expects capacity utilisation to be about 80%-90% in the near term, while it is currently at 81%.

Strong sequential margin recovery

Due to solid cost optimization strategies, the EBITDA margin expanded sequentially to 10.6% in Q3FY23 (-310 bps YoY) from 7.3% in Q2FY23. Net profit margin expanded 267 bps QoQ (-162bps YoY) to 7.6%. PAT increased 52.3% QoQ (+3.2% YoY) to Rs 1,196cr, registering the highest-ever profit after tax in trading history, mainly due to high other incomes (+127% YoY) and 'use or pay charges' recognized in Q3FY23.

Valuation

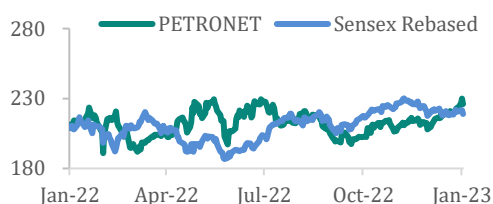
Petronet successfully delivered its all-time high PAT disregarding inflated LNG prices and weak demand in international markets. We expect Petronet to deliver strong financial results through better cost-optimisation, capacity expansion, enhanced utilisation and improved global demand. We, therefore, reiterate our BUY rating on the stock with a rolled forward target price of Rs. 260 based on 10x FY25E adjusted EPS.

Company Data

Market Cap (cr)	Rs. 33,068		
Enterprise Value (cr)	Rs. 31,489		
Outstanding Shares (cr)	150.0		
Free Float	50.0%		
Dividend Yield	4.7%		
52 week high	Rs. 232		
52 week low	Rs. 190		
6m average volume	84,490		
Beta	0.5		
Face value	Rs. 10		
Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	50.0	50.0	50.0
FII's	34.8	33.3	33.2
MFs/Insti	2.9	5.6	5.8
Public	9.8	10.8	10.7
Others	2.5	0.3	0.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	11.5%	-0.7%	7.0%
Absolute Sensex	1.1%	8.0%	4.1%
Relative Return*	10.4%	-8.7%	2.9%

*over or under performance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Sales	54,392	55,480	56,590
Growth (%)	26.0	2.0	2.0
EBITDA	5,499	5,881	6,089
EBITDA Margin (%)	10.1	10.6	10.8
Adj. PAT	3,534	3,799	3,896
Growth (%)	2.8	7.5	2.6
Adj. EPS	23.6	25.3	26.0
Growth (%)	2.8	7.5	2.6
P/E	9.6	8.9	8.7
P/B	2.2	1.8	1.6
EV/EBITDA	5.7	5.1	4.6
ROE (%)	22.6	20.7	18.4
D/E	0.2	0.2	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs. cr.)	Q3FY23	Q3FY22	YoY Growth (%)	Q2FY23	QoQ Growth (%)	9MFY23	9MFY22	YoY Growth (%)
Revenue	15,776	12,597	25.2	15,986	(1.3)	46,025	32,008	43.8
EBITDA	1,675	1,732	<i>(3.3)</i>	1,173	<i>42.8</i>	3,911	4,080	<i>(4.1)</i>
EBITDA margins	10.6	13.7	(310bps)	7.3	330bps	8.5	12.7	(420bps)
Depreciation	192	194	(0.7)	192	0.1	576	579	(0.5)
EBIT	1,483	1,538	<i>(3.6)</i>	980	<i>51.2</i>	3,336	3,501	<i>(4.7)</i>
Interest	81	78	4.9	81	0.3	240	237	1.4
Other Income	200	88	127.4	136	47.1	502	269	86.4
Share of profit from Associate	20.5	16.1	27.2	48.1	(57.3)	110.4	53	108
PBT	1,601	1,549	<i>3.4</i>	1,035	<i>54.7</i>	3,598	3,534	<i>1.8</i>
Tax	405	389	4.0	250	62.3	891	886	0.5
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	1,196	1,159	<i>3.2</i>	786	<i>52.3</i>	2,707	2,647	<i>2.3</i>
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	1,196	1,159	<i>3.2</i>	786	<i>52.3</i>	2,707	2,647	<i>2.3</i>
No. of shares	150.0	150.0	-	150.0	-	150.0	150.0	-
Adj. EPS (Rs.)	8.0	7.7	<i>3.2</i>	5.2	<i>52.3</i>	18.0	17.6	<i>2.3</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Revenue	44,655	45,548	54,392	55,480	56,590	21.8	21.8
EBITDA	5,046	5,329	5,499	5,881	6,089	9	10.4
Margins (%)	11.3	11.7	10.1	10.6	10.8	(120bps)	(110bps)
Adj. PAT	3,259	3,465	3,534	3,799	3,896	8.4	9.6
Adj. EPS	21.7	23.1	23.6	25.3	26.0	8.4	9.6

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	26,023	43,169	54,392	55,480	56,590
% change	(26.6)	65.9	26.0	2.0	2.0
EBITDA	4,700	5,249	5,499	5,881	6,089
% change	17.8	11.7	4.8	6.9	3.5
Depreciation	784	768	788	828	936
EBIT	3,915	4,480	4,711	5,053	5,153
Interest	336	317	303	296	289
Other Income	378	396	304	308	330
PBT	3,958	4,559	4,712	5,065	5,194
% change	27.0	15.2	3.4	7.5	2.6
Tax	1,018	1,121	1,178	1,266	1,299
Tax Rate (%)	25.7	24.6	25.0	25.0	25.0
Reported PAT	2,939	3,438	3,534	3,799	3,896
Adj*	-	-	-	-	-
Adj PAT	2,939	3,438	3,534	3,799	3,896
% change	5.9	17.0	2.8	7.5	2.6
No. of shares (cr)	150.0	150.0	150.0	150.0	150.0
Adj EPS (Rs.)	19.6	22.9	23.6	25.3	26.0
% change	5.9	17.0	2.8	7.5	2.6
DPS (Rs.)	15.0	10.5	7.1	7.6	7.8
CEPS (Rs.)	24.8	28.0	28.8	30.8	32.2

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Net inc. + Depn.	3,723	4,207	4,322	4,627	4,832
Non-cash adj.	95	(180)	285	143	100
Changes in W.C	(259)	(558)	3	(179)	(128)
C.F. Operation	3,559	3,469	4,609	4,591	4,804
Capital exp.	(73)	(72)	(1,822)	(1,859)	(1,896)
Change in inv.	(1,130)	572	(41)	(45)	(50)
Other invest.CF	275	(1,553)	221	243	267
C.F - Investment	(927)	(1,053)	(1,642)	(1,661)	(1,678)
Issue of equity	-	-	-	-	-
Issue/repay debt	(37)	(41)	(46)	(50)	(55)
Dividends paid	(2,245)	(1,575)	(1,575)	(1,060)	(1,140)
Other finance.CF	(477)	(595)	(303)	(322)	(326)
C.F - Finance	(2,759)	(2,211)	(1,923)	(1,433)	(1,521)
Chg. in cash	(127)	205	1,044	1,498	1,605
Closing cash	4,342	4,326	5,370	6,867	8,473

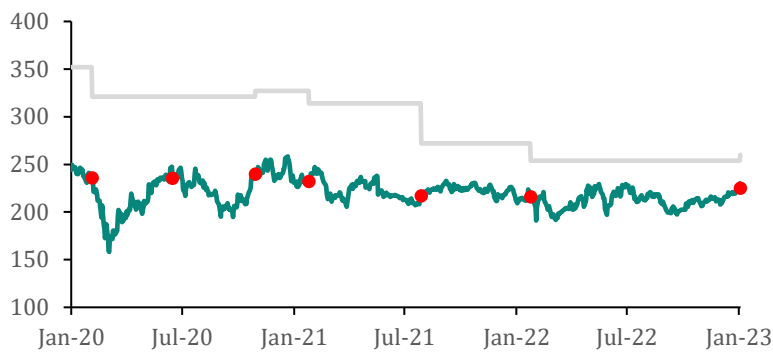
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	4,342	4,326	5,370	6,867	8,473
Accounts Receivable	1,875	2,684	3,225	3,390	3,560
Inventories	337	577	705	676	649
Other Cur. Assets	1,608	1,128	1,264	1,365	1,475
Investments	322	410	451	496	546
Gross Fixed Assets	9,266	9,338	11,161	13,019	14,915
Net Fixed Assets	6,915	6,478	7,508	8,533	9,488
CWIP	366	371	376	381	386
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	101	196	206	221	227
Other Assets	3,225	5,191	5,221	5,254	5,289
Total Assets	19,090	21,362	24,326	27,184	30,092
Current Liabilities	2,074	2,737	3,676	3,773	3,954
Provisions	31	58	59	60	62
Debt Funds	3,345	3,133	3,088	3,038	2,982
Other Liabilities	1,833	1,766	1,876	1,947	1,972
Equity Capital	1,500	1,500	1,500	1,500	1,500
Reserves & Surplus	10,307	12,168	14,127	16,866	19,622
Shareholder's Fund	11,807	13,668	15,627	18,366	21,122
Minority Interest	-	-	-	-	-
Total Liabilities	19,090	21,362	24,326	27,184	30,092
BVPS (Rs.)	79	91	104	122	141

RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	18.1%	12.2%	10.1%	10.6%	10.8%
EBIT margin (%)	15.0%	10.4%	8.7%	9.1%	9.1%
Net profit mgn.(%)	11.3%	8.0%	6.5%	6.8%	6.9%
ROE (%)	24.9%	25.2%	22.6%	20.7%	18.4%
ROCE (%)	25.8%	26.7%	25.2%	23.6%	21.4%
W.C & Liquidity					
Receivables (days)	25.9	22.4	21.3	22.0	22.6
Inventory (days)	5.9	5.6	5.3	5.0	4.7
Payables (days)	18.0	14.8	16.6	16.0	15.8
Current ratio (x)	3.9	3.2	2.9	3.3	3.6
Quick ratio (x)	3.7	2.9	2.6	3.0	3.3
Turnover & Leverage					
Gross asset T.O (x)	2.8	4.6	5.3	4.6	4.1
Total asset T.O (x)	1.4	2.1	2.4	2.2	2.0
Int. coverage ratio (x)	11.7	14.1	15.6	15.7	15.8
Adj. debt/equity (x)	0.3	0.2	0.2	0.2	0.1
Valuation					
EV/Sales (x)	1.2	0.6	0.6	0.5	0.5
EV/EBITDA (x)	6.6	5.3	5.7	5.1	4.6
P/E (x)	11.0	8.4	9.6	8.9	8.7
P/BV (x)	2.7	2.1	2.2	1.8	1.6

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
5-Nov-19	BUY	352
26-Feb-20	BUY	321
7-Jul-20	BUY	321
20-Nov-20	BUY	327
16-Feb-21	BUY	314
19-Aug-21	BUY	272
15-Feb-22	BUY	254
30-Jan-23	BUY	260

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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