Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 31.12
Updated Mar 08, 2023

High Risk

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

Source: Morningstar

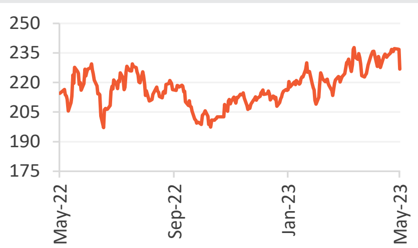
Company details

Market cap:	Rs. 34,013 cr
52-week high/low:	Rs. 242/196
NSE volume: (No of shares)	21.6 lakh
BSE code:	532522
NSE code:	PETRONET
Free float: (No of shares)	75.0 cr

Shareholding (%)

Promoters	50.0
FII	34.8
DII	4.6
Others	10.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.8	8.5	7.8	5.7
Relative to Sensex	3.5	1.5	1.3	10.9

Sharekhan Research, Bloomberg

Petronet LNG

One-off impacted Q4; low LNG price improves outlook

Oil & Gas	Sharekhan code: PETRONET

Reco/View: Buy	↔	CMP: Rs. 227	Price Target: Rs. 265	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- For Q4FY2022, PLNG's adjusted operating profit of Rs. 998 crore, up 21% q-o-q, was below our estimate due to higher opex and lower inventory gain of Rs. 22 crore. Total re-gas volume of 184 tbtu (up 10% q-o-q) was 4% above our estimate of 177 tbtu.
- Dahej terminal utilisation improved to 77% (versus 69% in Q3FY2023) with re-gas volume up 11% q-o-q to 171 tbtu. Kochi volume was flat q-o-q at 13 tbtu (utilisation of 20%).
- The recent sharp fall in spot LNG price has improved the re-gas volume outlook, which is reflected in the sharp improvement in Dahej utilisation to 97% in April 2023. Management also expects Kochi utilisation to improve to 35-50% post the completion of Kochi-Mangalore pipeline by November 2023 and ramp-up of Gorgon volume.
- We maintain our Buy rating on PLNG with a revised PT of Rs. 265. The valuation of 9.5x/8.1x its FY2024E/FY2025E EPS is attractive and stock offers healthy dividend yield of 4-5%.

Petronet LNG's (PLNG) Q4FY2023 adjusted standalone operating profit of Rs. 998 crore (down 27.8% y-o-y; up 20.8% q-o-q), which was 5% lower than our estimate of Rs. 1,052 crore due to higher-than-expected operating cost and lower inventory gain of Rs. 22 crore (versus Rs. 95 crore in Q3FY2023). Trading margin stood at Rs. 73 crore in Q4FY2023 versus Rs. 25 crore in Q3FY2023. We have adjusted the reported operating profit of Rs. 943 crore for one-time exceptional arbitration-related provision of Rs. 55 crore. Dahej re-gas volume stood at 171 tbtu (down 3.9% y-o-y; up 11% q-o-q) with utilisation of 77% (versus 69% in Q3FY23), while Kochi volume was flat q-o-q at 13 tbtu with utilisation of 20%. PAT (adjusted for arbitration-related provision) stood at Rs. 656 crore (down 28.2% y-o-y; up 34% q-o-q), marginally above our estimate of Rs. 638 crore as the miss in operating profit was offset by substantially higher other income of Rs. 154 crore (up 80% y-o-y).

Key positives

- Dahej utilisation improved to 77% in Q4FY2023 versus 69% in Q3FY2023.
- The company declared final dividend of Rs. 3/share and is, thus, taking FY2023 DPS to Rs. 10/share (implies yield of 4.4%).

Key negatives

- Higher-than-expected operating expenses (up 21% q-o-q).

Management Commentary

- Dahej utilisation improved to 97% in April 2023, supported by sharp $10-11/mmbtu.
- Kochi utilisation can increase to 35-40% post the completion of Kochi-Bangalore pipeline (expected by November 2023) and to ~50% with a further ramp-up of Gorgon volume to 0.6-1.2 mtpa over 2026-2028.
- PLNG is following up with customers for recovery of use-or-pay charges. Some clients have recognised the liability in their books.
- Dahej expansion is as per schedule, with tank construction going on (incurred capex of Rs. 740 crore out of total capex of Rs. 1,250 crore). Jetty capex is Rs. 1,650 crore and Rs. 570 crore for capacity expansion to 22.5mtpa (in two phases).
- Gopalpur Terminal (FSRU) capex of Rs. 3,300 crore. In case it is unable to procure FSRU, PLNG will go for land-based terminal.
- Petchem plant – DRF has been prepared and is in the process of selecting a licensor. The petchem project cost is estimated at Rs. 14,000 crore.
- Other updates – 1) The company will maintain the current dividend payout ratio, 2) FY2024 capex guidance of Rs. 1,700 crore, 3) Plans to set-up 4-5 CBG stations, 4) LNG station outlook improves with lower spot LNG price, and 5) Continued discussion with RasGas to extend gas supply contract beyond 2028.

Revision in estimates: We have fine-tuned our FY2024-FY2025 earnings estimates to factor in FY2023 P&L and balance sheet numbers.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 265: PLNG's earnings model is resilient to volatility in LNG prices, given contracted LNG volume for Dahej terminal, and as the stock offers a decent dividend yield of 4-5%. Moreover, the stock trades at an attractive valuation of 9.5x/8.1x its FY2024E/FY2025E EPS, given earnings visibility and high RoE of 22%. Hence, we maintain our Buy rating on PLNG with a revised price target (PT) of Rs. 265 (rollover of PE multiple to FY2025E EPS).

Key Risks

Lower-than-expected re-gas volumes at Dahej terminal in case of any weakness in LNG demand amid volatile spot 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	FY22	FY23	FY24E	FY25E
Revenue	43,169	59,899	53,843	58,825
OPM (%)	12.2	8.1	10.0	10.4
Adjusted PAT	3,352	3,240	3,585	4,184
% YoY growth	14.1	-3.4	10.6	16.7
Adjusted EPS (Rs.)	22.3	21.6	23.9	27.9
P/E (x)	10.1	10.5	9.5	8.1
P/B (x)	2.5	2.3	2.0	1.7
EV/EBITDA (x)	5.5	5.6	4.6	3.6
RoNW (%)	26.7	22.8	22.3	22.5
RoCE (%)	27.2	24.7	25.2	27.7

Source: Company; Sharekhan estimates

Stock Update
Result Update

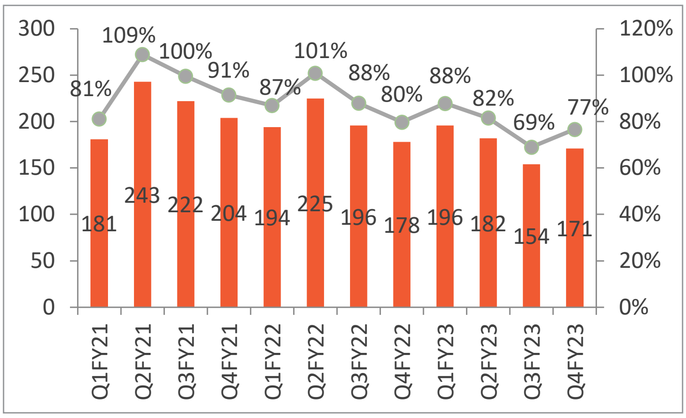
Q4 missed the mark due to higher opex; Dahej utilisation improves to 77%

PLNG's Q4FY2023 adjusted standalone operating profit of Rs. 998 crore (down 27.8% y-o-y; up 20.8% q-o-q) was 5% lower than our estimate of Rs. 1,052 crore due to higher-than-expected operating cost and lower inventory gain of Rs. 22 crore (versus Rs. 95 crore in Q3FY2023). Trading margin stood at Rs. 73 crore in Q4FY2023 versus Rs. 25 crore in Q3FY2023. We have adjusted the reported operating profit of Rs. 943 crore for one-time exceptional arbitration-related provision of Rs. 55 crore. Dahej re-gas volume stood at 171 tbtu (down 3.9% y-o-y; up 11% q-o-q) with utilization of 77% (versus 69% in Q3FY23), while Kochi volume was flat q-o-q at 13 tbtu, with utilisation of 21%. PAT (adjusted for arbitration-related provision) was at Rs. 656 crore (down 28.2% y-o-y; up 34% q-o-q), marginally above our estimate of Rs. 638 crore as the miss in operating profit was offset by substantially higher other income of Rs. 154 crore (up 80% y-o-y).

Q4FY2023 earnings call highlights

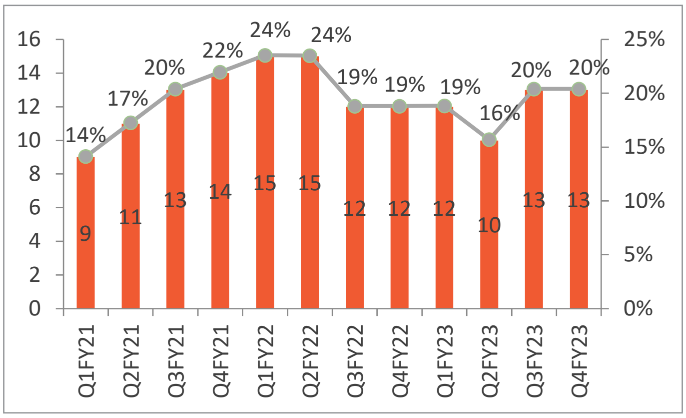
- **Dahej terminal utilisation improves:** With the recent sharp decline in spot LNG price to $10-11/mmbtu, the utilisation for Dahej terminal has improved substantially to 97% in April 2023. The company expects more volume to flow in to Dahej terminal, as GAIL's Dabhol terminal will remain closed in H1FY2024.
- **Dahej expansion plan on schedule:** Dahej expansion is going as per schedule. Dahej capex break-up – Rs. 1,250 crore (Rs. 740 crore already spent) for two storage tanks, Rs. 1,650 crore for jetty, and Rs. 570 crore for capacity expansion to 22.5mtpa.
- **Gopalpur FSRU update:** The east coast Gopalpur FSRU project would have an estimated capex of Rs. 3,300 crore. In case it is unable to procure FSRU, PLNG will go for land-based terminal.
- **Petchem/Biogas plant update** – DFR has been completed and PLNG is in the process to select a licensor. Capex for the petchem plant is estimated at Rs. 14,000 crore. PLNG is setting up 4-5 CBG plants.
- **Kochi terminal utilization** – Management indicated that GAIL's Kochi-Bangalore gas pipeline is expected to get completed by November 2023, post which Kochi terminal utilisation can go up to 35-40%. Moreover, with the ramp-up in Gorgon volume to 0.6-1.2mtpa over 2026-2028, Kochi utilisation would further improve to ~50%.
- **Capex guidance:** PLNG has guided for Rs. 1,700 crore of capex for FY2024.
- **Inventory and trading gains:** During Q4FY2023, inventory and trading gains were at Rs. 22 crore and Rs. 73 crore, respectively as compared to Rs. 95 crore/Rs. 25 crore in Q3FY2023.

Dahej terminal volume and utilisation trend



Source: Company, Sharekhan Research

Kochi terminal volume and utilisation trend



Source: Company, Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net Sales	13,874	11,160	24.3	15,776	-12.1
Total Expenditure	12,931	9,991	29.4	14,101	-8.3
Reported operating profit	**943**	**1,169**	**-19.3**	**1,675**	**-43.7**
Adjusted operating profit	**978**	**1,383**	**-29.3**	**826**	**18.4**
Other Income	154	85	80.4	184	-16.4
Interest	90	80	12.4	81	10.9
Depreciation	189	190	-0.6	192	-1.9
Reported PBT	**818**	**984**	**-16.9**	**1,586**	**-48.4**
Exceptional income/(expense)	-35	-214	NA	928	NA
Adjusted PBT	**853**	**1,198**	**-28.8**	**657**	**29.8**
Tax	204	234	-13.0	405	-49.7
Reported PAT	614	750	-18.1	1,181	-48.0
Adjusted PAT	**641**	**913**	**-29.9**	**489**	**30.9**
Equity Cap (cr)	150	150		150	
Reported EPS (Rs.)	4.1	5.0	-18.1	7.9	-48.0
Adjusted EPS	4.3	6.1	-29.9	3.3	30.9
Margins (%)			**BPS**		**BPS**
Adjusted OPM	7.0	12.4	-534	5.2	181
Effective tax rate	24.9	23.8	112	25.5	-63
NPM	4.6	8.2	-357	3.1	151

Source: Company, Sharekhan Research

Operating performance

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Capacity utilisation – Dahej (%)	76.7	87.9	-1121	69.0	762
Capacity utilisation – Kochi (%)	20.4	18.8	157	20.4	0
Total volume (tbtu)	**184.0**	**208.0**	**-11.5**	**167.0**	**10.2**
Long term volume – Dahej	108.0	117.0	-7.7	104.0	3.8
Tolling volume – Dahej	60.0	76.0	-21.1	47.0	27.7
Spot volume – Dahej	3.0	3.0	0.0	3.0	0.0
Total Dahej volume (tbtu)	**171.0**	**196.0**	**-12.8**	**154.0**	**11.0**
Long-term volume – Kochi	13.0	12.0	8.3	13.0	0.0
Tolling volume – Dahej	0.0	0.0	NA	0.0	NA
Spot volume – Dahej	0.0	0.0	NA	0.0	NA
Total Kochi volume	**13.0**	**12.0**	**8.3**	**13.0**	**0.0**
Total volume (tbtu)	**184.0**	**208.0**	**-11.5**	**167.0**	**10.2**

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Recent moderation in spot LNG price to improve volume visibility for gas utilities**

Spot LNG price has recently declined to $10-11/mmbtu, post a full year of volatile and continued high spot LNG price in CY2022 due to Russia-Ukraine crisis. The elevated spot LNG price has impacted LNG demand in India, which is also reflected in lower utilisation at LNG terminals in the country. However, the recent steep fall in spot LNG price if sustained and long-term domestic gas demand drivers (higher demand from CGD and fertiliser sectors and the government's aim to increase the share of gas in India's overall energy mix to 15% by 2030) would drive strong volume growth for over FY2024-FY2025 for gas utilities such as PLNG.

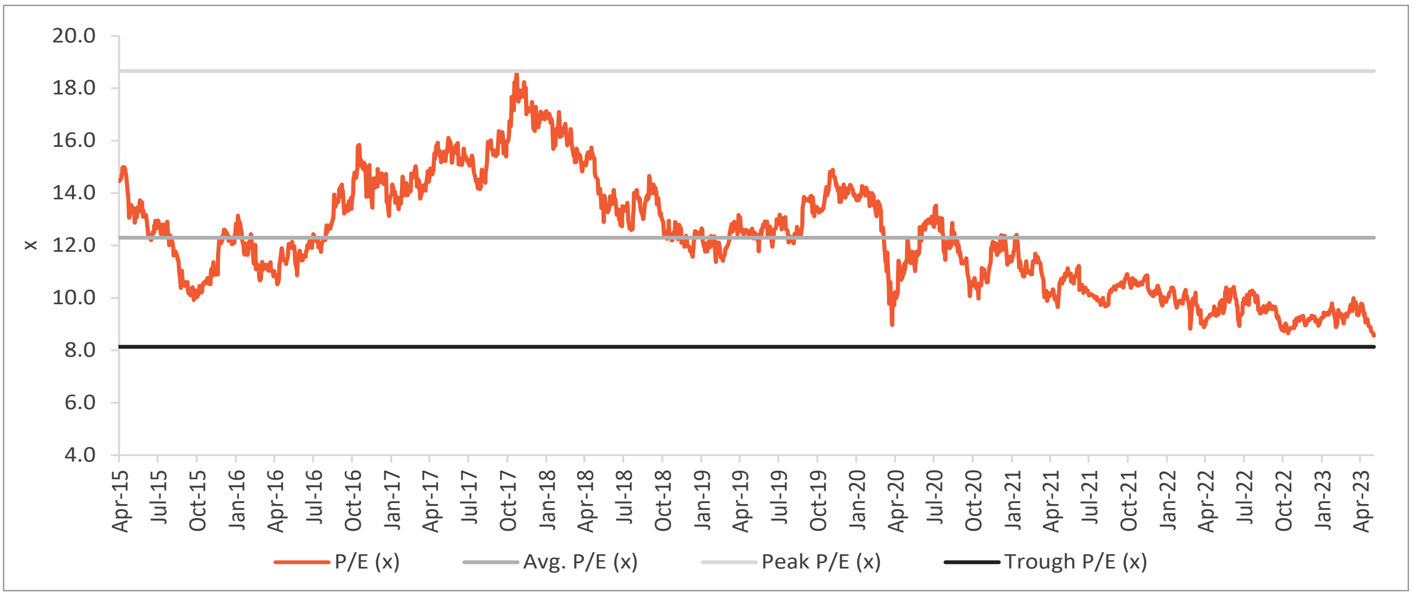
■ **Company outlook - Decent earnings growth visibility**

The long-term LNG demand story remains intact, and PLNG would benefit from further capacity expansions at the Dahej terminal to 22.5 mtpa in the next 3-4 years. However, the lower Kochi terminal's utilisation is a concern until the spot LNG price normalises. We expect a 14% PAT CAGR over FY1023-FY2025E, led by Dahej re-gas tariff hike and volume growth supported by capacity expansion.

■ **Valuation - Maintain Buy with a revised PT of Rs. 265**

PLNG's earnings model is resilient to volatility in LNG prices, given contracted LNG volume for Dahej terminal, and as the stock offers a decent dividend yield of 4-5%. Moreover, the stock trades at an attractive valuation of 9.5x/8.1x its FY2024E/FY2025E EPS, given earnings visibility and high RoE of 22%. Hence, we maintain our Buy rating on PLNG with a revised PT of Rs. 265 (rollover of PE multiple to FY2025E EPS).

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 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 fall in spot LNG price would drive volume recovery at Dahej terminal, which provides earnings visibility. The company's plan to expand Dahej terminal's capacity to 22.5 mmt over the next 3-4 years and ramp-up of utilisation rate for Kochi terminal would drive volume growth. Moreover, PLNG would be able to take 5% re-gas tariff escalation for its Dahej terminal regularly 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. PLNG's valuation is also attractive, with strong RoE of 22%, FCF yield of 8-9%, and dividend yield of 4-5%.

Key Risks

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

Additional Data

Key management personnel

Tarun Kapoor	Chairman
Akshay Kumar Singh	Managing Director and CEO
V.K. Mishra	Director – Finance

Source: BSE website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FMR LLC	4.05
2	Republic of Singapore	3.62
3	T Rowe Price Group Inc	3.5
4	Kotak Mahindra Asset Management Co	2.1
5	BlackRock Inc	2.06
6	Vanguard Group Inc/The	1.94
7	Fidelity Investment Trust	1.28
8	Lazard Ltd	0.99
9	JPMorgan Chase & Co	0.83
10	Seafarer Capital Partners LLC	0.78

Source: Bloomberg

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 detoriating 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

Sharekhan

by BNP PARIBAS

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

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