



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	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jun 08, 2023

31.12

High Risk

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

Source: Morningstar

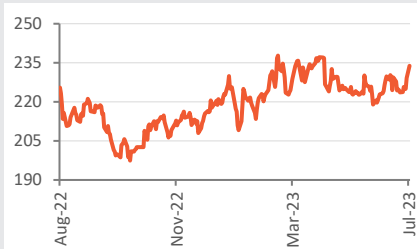
Company details

Market cap:	Rs. 35,070 cr
52-week high/low:	Rs. 242 / 196
NSE volume: (No of shares)	22.3 lakh
BSE code:	532522
NSE code:	PETRONET
Free float: (No of shares)	75.0 cr

Shareholding (%)

Promoters	50.0
FII	34.3
DII	5.0
Others	10.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5	2	8	4
Relative to Sensex	-2	-11	-3	-11

Sharekhan Research, Bloomberg

Petronet LNG

Volume gush powers strong Q1

Oil & Gas

Sharekhan code: PETRONET

Reco/View: Buy



CMP: Rs. 234

Price Target: Rs. 265



Upgrade



Maintain



Downgrade

Summary

- Q1 operating profit grew strongly by 25% q-o-q to Rs. 1,182 crore (in-line) led by robust Dahej re-gas volume growth of 27% q-o-q, partially offset by lower trading margin/inventory gains. Adjusted PAT of Rs. 790 crore (up 23% q-o-q) was 5% above estimate on higher other income and lower interest cost.
- Dahej terminal's utilisation improved 97% in Q1FY24 (versus 77% in Q4FY23) with re-gas volume of 217 tbtu (up 11%/27% y-o-y/q-o-q) while Kochi terminal's utilization was flat q-o-q at 20%.
- Fall in spot LNG price bodes well for sustained strong volume recovery in the coming quarters. Dahej capacity expansion to 22.5 mtpa remains on track. We expect a healthy PAT CAGR of 14% over FY23-25E along with strong RoE of 22%.
- We maintain our Buy rating on P-LNG with an unchanged PT of Rs. 265. The valuation of 9.8x/8.4x its FY2024E/FY2025E EPS is attractive considering earnings growth visibility and stock offers healthy dividend yield of 4-5%.

Petronet LNG's (PLNG) reported strong Q1FY24 performance with 11%/25% y-o-y/q-o-q increase in standalone operating profit to Rs. 1,182 crore (in-line) led by improvement in Dahej terminal's re-gas volume partially offset by lower trading margin/inventory gain of Rs. 13 crore/Rs. 15 crore versus Rs. 73 crore/Rs. 22 crore in Q4FY23. Dahej re-gas volume of 217 tbtu (up 10.7% y-o-y; up 26.9% q-o-q) was 5% above our estimate of 207 tbtu and the terminal operated at a higher utilization of 97% in Q1FY24 (versus 88% in Q1FY23 and 77% in Q4FY23). Strong Dahej terminal volumes were led by sharp recovery in tolling volume to 123 tbtu (versus only 60 tbtu in Q4FY23) while long-term/spot volume stood at 90 tbtu/4 tbtu as compared to 108 tbtu/3 tbtu in Q4FY23. Higher Dahej volume was also supported by closure of Dabhol terminal due to break-water issues in monsoon. Kochi re-gas volume stood at 13 tbtu (flat q-o-q) with a utilisation of 20%. PAT stood at Rs. 790 crore (up 18% y-o-y; up 23% q-o-q), above our estimate of Rs. 751 crore led by higher other income and lower interest costs.

Key positives

- Beat of 5% in Dahej re-gas volume at 217 tbtu, up 27% q-o-q.

Key negatives

- Kochi terminal's utilization remained flat q-o-q despite lower spot LNG price.

Management Commentary

- Management does not see volume impact from resolution of Break-water issues at The Dabhol LNG terminal, as GAIL has a volume commitment of 4.5 mtpa (2.5 mtpa long term + 2.5 re-gas volume).
- Petchem project** – A consultant is preparing a detailed feasibility report and is in the process for selecting a licensor. The process would take 5-6 months before going for board approval.
- P-LNG is following up with customers for recovery of use-or-pay charges. Some clients have recognised the liability in their books and deducted TDS.
- Dahej capacity expansion to 22.5 mtpa is as per schedule and more than 50% work on tanks has been completed. P-LNG is firm to set-up a FSRU based terminal on East coast of India.
- Spot LNG prices would remain at \$10-11/mmBtu in near term and bodes well for re-gas volumes.
- Other updates** – 1) LNG station outlook improves with lower spot LNG price and expect 4 LNG dispensing station to start soon, 2) Kochi-Bangalore pipeline expected to get completed by Nov'24, 3) expects to finalise extension of gas supply contract with Qatar by December 2023.

Revision in estimates – We maintain our FY2024-FY2025 earnings estimates.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 265: P-LNG's earnings model is resilient to volatility in LNG prices, given contracted LNG volume for Dahej terminal, and the stock offers a decent dividend yield of 4-5%. Moreover, the stock trades at an attractive valuation of 9.8x/8.4x its FY2024E/FY2025E EPS, given an earnings visibility and high RoE of 22%. Hence, we maintain our Buy rating on PLNG with an unchanged price target (PT) of Rs. 265.

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 (Consolidated)

Rs cr

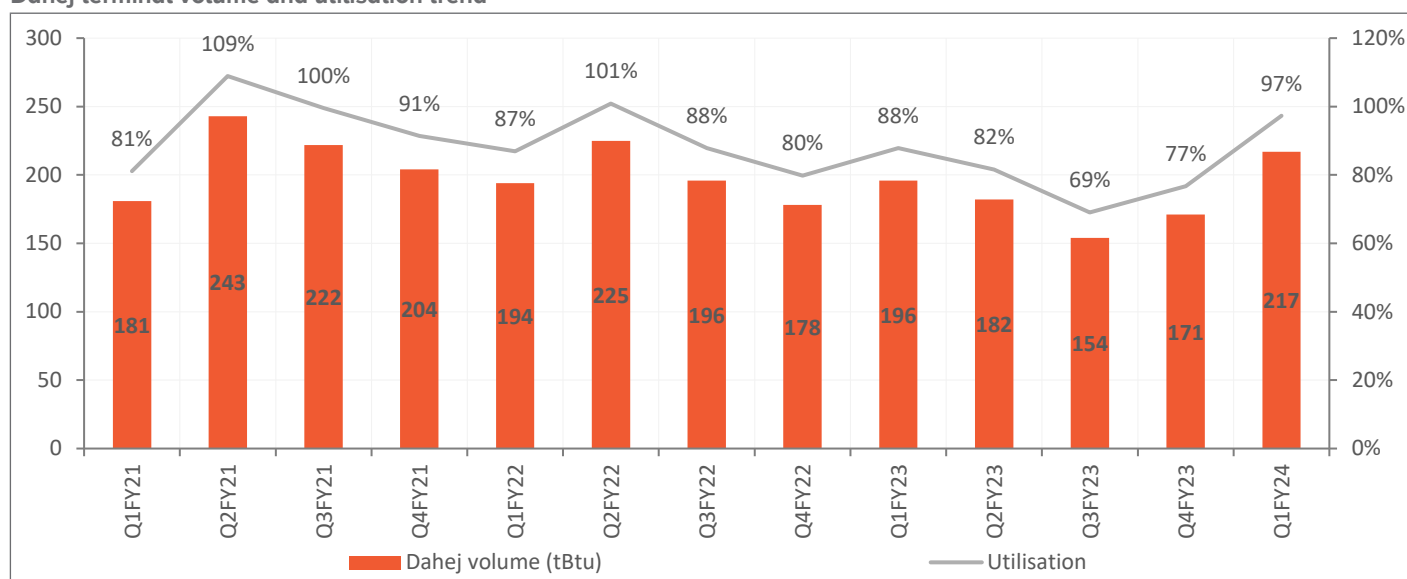
Particulars	FY22	FY23	FY24E	FY25E
Revenue	43,169	59,899	53,843	58,825
OPM (%)	12.2	8.1	10.0	10.4
Adjusted PAT	3,352	3,240	3,585	4,184
% YoY growth	14.1	-3.4	10.6	16.7
Adjusted EPS (Rs.)	22.3	21.6	23.9	27.9
P/E (x)	10.5	10.8	9.8	8.4
P/B (x)	2.6	2.3	2.0	1.8
EV/EBITDA (x)	5.7	5.9	4.8	3.8
RoNW (%)	26.7	22.8	22.3	22.5
RoCE (%)	27.2	24.7	25.2	27.7

Source: Company; Sharekhan estimates

Strong Q1 performance led by higher Dahej terminal utilization

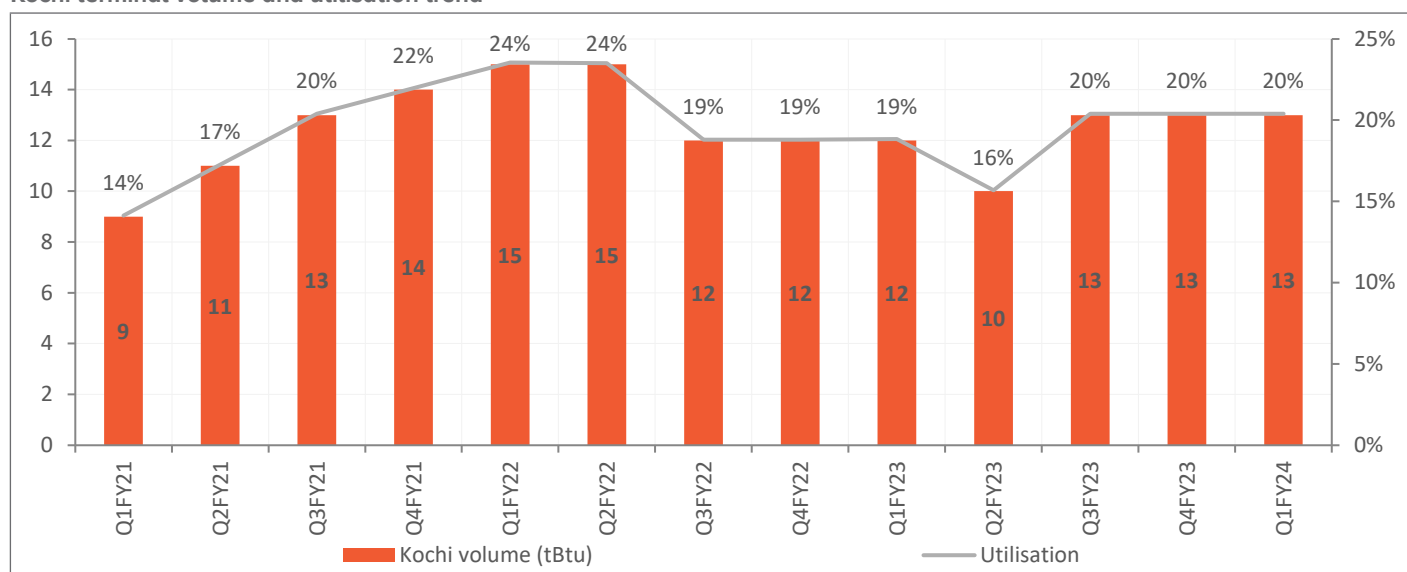
Q1FY24 performance was strong with an 11%/25% y-o-y/q-o-q rise in standalone operating profit to Rs. 1,182 crore (in-line) led by improvement in Dahej terminal's re-gas volume, which offsets lower trading margin/inventory gain of Rs. 13 crore/Rs. 15 crore versus Rs. 73 crore/Rs. 22 crore in Q4FY23. Dahej re-gas volume of 217 tbtu (up 10.7% y-o-y; up 26.9% q-o-q) was 5% above our estimate of 207 tbtu and the terminal operated at a higher utilization of 97% in Q1FY24 (versus 88% in Q1FY23 and 77% in Q4FY23). Strong Dahej terminal volumes were led sharp recovery in tolling volume to 123 tbtu (versus only 60 tbtu in Q4FY23) while long-term/spot volume stood at 90 tbtu/4 tbtu as compared to 108 tbtu/3 tbtu in Q4FY23. Higher Dahej volume was also supported by closure of Dabhol terminal due to break-water issues in monsoon. Kochi re-gas volume stood at 13 tbtu (flat q-o-q) with a utilisation of 20%. PAT stood at Rs. 790 crore (up 18% y-o-y; up 23% q-o-q), above our estimate of Rs. 751 crore led by higher other income and lower interest costs.

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	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	11,656	14,264	-18.3	13,874	-16.0
Total Expenditure	10,474	13,199	-20.6	12,931	-19.0
Reported operating profit	1,182	1,064	11.0	943	25.3
Adjusted operating profit	1,182	1,064	11.0	978	20.8
Other Income	147	142	3.5	154	-4.6
Interest	75	78	-4.2	90	-17.4
Depreciation	192	191	0.3	189	1.7
Reported PBT	1,062	937	13.3	818	29.8
Exceptional income/(expense)	0	42	NA	-35	NA
Adjusted PBT	1,062	895	18.7	853	24.5
Tax	272	236	15.3	204	33.6
Reported PAT	790	701	12.7	614	28.6
Adjusted PAT	790	669	18.0	641	23.3
Equity Cap (cr)	150	150		150	
Reported EPS (Rs.)	5.3	4.7	12.7	4.1	28.6
Adjusted EPS	5.3	4.5	18.0	4.3	23.3
Margins (%)			BPS		BPS
Adjusted OPM	10.1	7.5	268	7.0	309
Effective tax rate	25.6	25.2	43	24.9	72
NPM	6.8	4.7	208	4.6	216

Source: Company; Sharekhan Research

Operating performance

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Capacity utilisation – Dahej (%)	97.3	87.9	941	76.7	2062
Capacity utilisation – Kochi (%)	20.4	18.8	157	20.4	0
Total volume (TBTU)	230.0	208.0	10.6	184.0	25.0
Long term volume – Dahej	90.0	101.0	-10.9	108.0	-16.7
Tolling volume – Dahej	123.0	94.0	30.9	60.0	105.0
Spot volume – Dahej	4.0	1.0	300.0	3.0	33.3
Total Dahej volume (TBTU)	217.0	196.0	10.7	171.0	26.9
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 (TBTU)	13.0	12.0	8.3	13.0	0.0

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 declined to \$16-20/mmBtu in January 2023, post a full year of volatile and continued high spot LNG price in CY2022 due to Russia-Ukraine crisis. High prices have impacted LNG demand in India, which is also reflected in lower utilisation at LNG terminals in the country. However, if the recent steep fall in spot LNG prices sustains and long-term domestic gas demand drivers stay intact (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), it would drive strong volume growth over FY2024-FY2025 for gas utilities such as P-LNG.

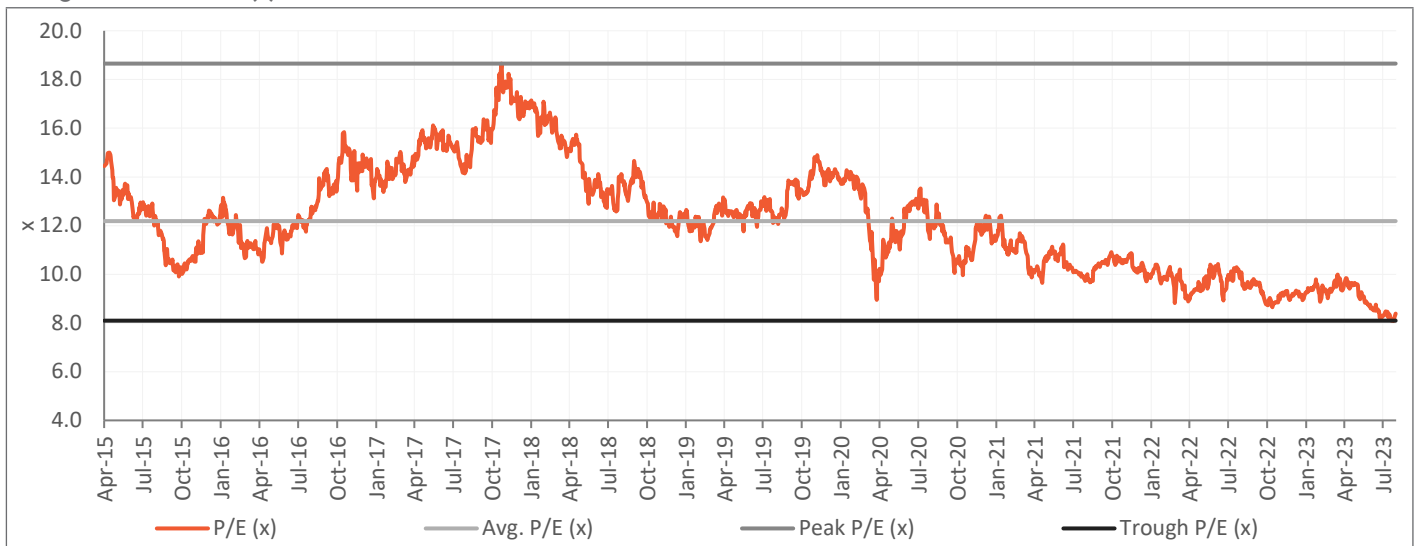
■ Company Outlook – Decent earnings growth visibility

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 Kochi terminal's lower utilisation is a concern. 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 an unchanged PT of Rs. 265

P-LNG's earnings model is resilient to volatility in LNG prices, given contracted LNG volume for Dahej terminal, and the stock offers a decent dividend yield of 4-5%. Moreover, the stock trades at an attractive valuation of 9.8x/8.4x its FY2024E/FY2025E EPS, given an earnings visibility and high RoE of 22%. Hence, we maintain our Buy rating on PLNG with an unchanged price target (PT) of Rs. 265.

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 a strong RoE of 22%, FCF yield of 9-10%, 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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FMR LLC	4.16
2	Republic of Singapore	3.62
3	T Rowe Price Group Inc	3.50
4	BlackRock Inc	2.14
5	Kotak Mahindra Asset Management Co	2.14
6	Fidelity Investment Trust	1.28
7	Vanguard Group Inc/The	1.15
8	Seafarer Capital Partners LLC	1.06
9	Lazard Ltd	0.99
10	Dimensional Fund Advisors LP	0.99

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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