

# FIRST LIGHT

19 August 2020

## RESEARCH

### Petronet LNG | Target: Rs 310 | +22% | BUY

Margins improve, volume outlook brightens

## SUMMARY

### Petronet LNG

Petronet LNG's (PLNG) Q1FY20 EBITDA was in line at Rs 9bn (-11% YoY), with low volumes (-16% YoY) being compensated by higher EBITDA/ mmbtu at Rs 48 (+5.7% YoY). Utilisation levels at Dahej have rebounded to ~103% currently, implying a better earnings outlook from Q2. The demand outlook is robust as LNG prices remain attractive given benign oil prices. On rollover to Sep'21, we revise our TP to Rs 310 (from Rs 305). Valuations look undemanding at 11.3x FY22E EPS on healthy earnings visibility.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	4,000
<a href="#">Cipla</a>	Buy	850
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	310
<a href="#">Tech Mahindra</a>	Buy	780

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Chola Investment</a>	Buy	280
<a href="#">Laurus Labs</a>	Buy	1,200
<a href="#">Transport Corp</a>	Buy	270
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.69	(2bps)	7bps	(92bps)
India 10Y yield (%)	5.95	0bps	14bps	(64bps)
USD/INR	74.89	0	0.4	(4.8)
Brent Crude (US\$/bbl)	45.37	1.3	4.6	(24.1)
Dow	27,845	(0.3)	4.2	6.5
Shanghai	3,439	2.3	7.1	19.3
Sensex	38,051	0.5	4.3	1.7
India FII (US\$ mn)	14 Aug	MTD	CYTD	FYTD
FII-D	(83.2)	(46.4)	(14,574.1)	(4,814.6)
FII-E	(25.1)	3,588.3	2,300.1	8,903.1

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**BUY**

TP: Rs 310 | ▲ 22%

**PETRONET LNG**

Oil & Gas

18 August 2020

## Margins improve, volume outlook brightens

**Petronet LNG's (PLNG) Q1FY20 EBITDA was in line at Rs 9bn (-11% YoY), with low volumes (-16% YoY) being compensated by higher EBITDA/ mmbtu at Rs 48 (+5.7% YoY). Utilisation levels at Dahej have rebounded to ~103% currently, implying a better earnings outlook from Q2. The demand outlook is robust as LNG prices remain attractive given benign oil prices. On rollover to Sep'21, we revise our TP to Rs 310 (from Rs 305). Valuations look undemanding at 11.3x FY22E EPS on healthy earnings visibility.**

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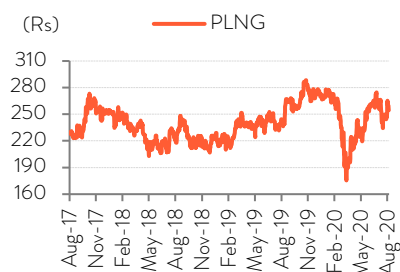
**Volumes claw back to normalcy, outlook improving:** PLNG's current utilisation at Dahej remains at >100% as LNG consumption has picked up, driven by the power and fertiliser sectors. Utilisation at Kochi has currently improved to ~17% and PLNG is negotiating re-gas tariffs with buyers. Long-term contract volumes remained muted at 86tbtu (-19.6% YoY) in Q1 as the pricing gap with spot LNG stayed high. While PLNG couldn't garner much spot volumes of its own, its service volumes remained relatively robust due to low spot LNG prices.

Ticker/Price	PLNG IN/Rs 254
Market cap	US\$ 5.1bn
Shares o/s	1,500mn
3M ADV	US\$ 13.0mn
52wk high/low	Rs 299/Rs 170
Promoter/FPI/DII	50%/29%/21%

Source: NSE

**EBITDA margins normalise:** EBITDA/mmbtu outperformed at Rs 48 (+5.7% YoY), driven entirely by contracted volumes (considering spot volumes were marginal). Uncertainty persists over Kochi terminal tariffs though management hinted that negotiations for tariffs (currently at Rs 83.2/mmbtu) are underway. EBITDA margins could improve in Q2 as volumes gain traction.

## STOCK PERFORMANCE



Source: NSE

**High earnings visibility:** PLNG's earnings visibility remains buoyant backed by long-term contracts and expected volume ramp-up at Kochi. Low LNG prices offer a robust outlook on LNG demand, especially from the power sector.

Further, the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks and a jetty at Dahej terminal by FY23.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	383,954	354,520	220,228	268,526	274,690
EBITDA (Rs mn)	32,935	39,895	43,138	52,314	56,598
Adj. net profit (Rs mn)	21,554	27,697	26,817	33,844	37,449
Adj. EPS (Rs)	14.4	18.5	17.9	22.6	25.0
Adj. EPS growth (%)	3.7	28.5	(3.2)	26.2	10.7
Adj. ROAE (%)	21.6	26.5	24.5	29.5	29.8
Adj. P/E (x)	17.7	13.8	14.2	11.3	10.2
EV/EBITDA (x)	12.0	9.4	8.2	6.6	5.9

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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