# FIRST LIGHT

22 December 2020

## RESEARCH

### BOB Economics Research | Market Outlook

Year of rollercoaster ride

### BOB Economics Research | Weekly Wrap

Risk-on sentiment improves

### Petronet LNG | Target: Rs 330 | +28% | BUY

At an inflection point

### PVR | Target: Rs 1,160 | –13% | REDUCE

Capital raise to bolster liquidity, new content sparks revival hopes

## SUMMARY

### India Economics: Market Outlook

2020 was one of the worst years for global economy but one of the best years for NASDAQ (5th highest since inception). Even in India, technology stocks outperformed. Global yields fell and commodity prices increased. US$ too fell. 2021 should see the trend continuing as pivot of growth shifts to Asia. Higher commodity prices will drive inflation up. India's retail inflation will remain above 4% and yields will inch up as RBI starts to withdraw liquidity support gradually (CRR cut upto Mar'21) and credit growth revives.

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### India Economics: Weekly Wrap

Global yields and equities rose on the back of US stimulus deal, launch of vaccine and US FOMC's upward revision to growth and inflation. DXY index fell to a 32-month low. GBP rose to two and a half year high. Central banks (Fed, BoJ, BoE) are likely to continue with expansionary policies. India's MPC too supported accommodative policy but magnitude of surplus liquidity may be brought down. India's retail inflation came down by 70bps MoM and tax collections are improving thus giving room to government to spend.

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## TOP PICKS

### LARGE-CAP IDEAS

| Company | Rating | Target |
|---|---|---|
| Cipla | Buy | 900 |
| GAIL | Buy | 155 |
| Petronet LNG | Buy | 330 |
| TCS | Buy | 3,180 |
| Tech Mahindra | Buy | 1,040 |

### MID-CAP IDEAS

| Company | Rating | Target |
|---|---|---|
| Alkem Labs | Buy | 3,600 |
| Greenply Industries | Buy | 150 |
| Laurus Labs | Buy | 410 |
| Transport Corp | Buy | 300 |
| Mahanagar Gas | Sell | 750 |

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|---|---|---|---|---|
| US 10Y yield (%) | 0.95 | 1bps | 9bps | (97bps) |
| India 10Y yield (%) | 5.96 | 1bps | 8bps | (64bps) |
| USD/INR | 52.26 | 1.5 | 19.5 | (21.0) |
| Brent Crude (US$/bbl) | 73.57 | 0 | 1.2 | (3.4) |
| Dow | 30,179 | (0.4) | 1.3 | 6.1 |
| Shanghai | 3,395 | (0.3) | 1.6 | 13.0 |
| Sensex | 46,961 | 0.2 | 6.8 | 12.7 |
| **India FII (US$ mn)** | **17 Dec** | **MTD** | **CYTD** | **FYTD** |
| FII-D | 45.5 | 808.8 | (13,810.4) | (4,050.9) |
| FII-E | 358.6 | 5,394.3 | 21,500.0 | 28,103.0 |

Source: Bank of Baroda Economics Research

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## Petronet LNG

Key takeaways from our recent interaction with the Petronet LNG (PLNG) management: (a) Volumes at Kochi to improve from Q4 FY21 on commissioning of the Kochi-Mangalore pipeline; (b) More preference for long-term LNG (as spot LNG prices surge to ~US$10/mmbtu) augurs well for PLNG's Dahej utilisation; and (c) management seems more aligned towards high dividend payouts, rather than investing in LNG supply chain, on LNG supply glut. Valuations looks extremely undemanding at 10x FY23E EPS. Maintain BUY.

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## PVR

PVR's (PVRL) board has recently approved a capital raising plan of upto Rs 8bn, through equity issuance, quasi-equity instruments, or debt instruments. This further bolsters PVRL's healthy liquidity position (Rs 5.5bn in Oct'20), and should hold the company in good stead, even if the elevated monthly cash burn of Rs 0.6-0.7bn continues for few more months. Occupancies have remained muted since resumption of operations, amidst lack of big-ticket releases. However, the upcoming film 'Wonder Woman 1984' has garnered positive response in social media, and generated advertiser interest and could be the much-needed commercial success for the industry. This, in turn, may prompt other movies to opt for theatrical releases. We retain our REDUCE rating with a Dec'21 TP of Rs 1,060 as rich valuations cap near-term upside.

**Click here for the full report.**

## MARKET OUTLOOK

21 December 2020

# Year of rollercoaster ride

**2020 was one of the worst years for global economy but one of the best years for NASDAQ (5th highest since inception). Even in India, technology stocks outperformed. Global yields fell and commodity prices increased. US$ too fell. 2021 should see the trend continuing as pivot of growth shifts to Asia. Higher commodity prices will drive inflation up. India's retail inflation will remain above 4% and yields will inch up as RBI starts to withdraw liquidity support gradually (CRR cut upto Mar'21) and credit growth revives.**

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**What a year:** The 2020 pandemic, 9th since 1700, brought down global growth from 2.8% in 2019 to a contraction of 4.4%. Fiscal deficits expanded globally led by US at 19% and Europe at 10%. Central Banks stepped up stimulus by bringing rates to record lows and undertaking balance sheet expansion. US Fed increased its asset size by 14.8% of GDP in a year, and India by 6.7% (till Dec'20).

**Financial assets re-priced:** Portfolio allocations moved away from debt into equities in the US by more than US$ 200bn. US equity markets are higher in the year led by 40% return on the tech heavy NASDAQ index. Even in India, tech stocks have given a 39% return during the year. FPI inflows into Indian equity markets during CY20 are at US$ 21.5bn while debt outflows are US$ 13.8bn.

**Global yields at rock bottom:** As much as US$ 18tn of global debt are yielding a negative return. Junk bond yields in the US have fallen to lowest level since Feb'20. Even in India, RBI's liquidity support has worked wonders with spread of corporate bond yields over Gsec for prime borrowers falling to levels not seen since 2010. For AAA borrowers (3yr) spread over Gsec is now less than 20bps.

**What will change in 2021:** Global liquidity conditions are likely to remain accommodative, but yields may start to inch up as global growth revives. DXY index will continue to under-perform. Commodity prices will remain firm as Asia will continue to drive growth. Inflation will gradually inch up. Services inflation will pick up gradually. Equity markets will continue to inch up as growth revives.

**India's growth at 8.8% in FY22:** Led by revival in domestic consumption, India's growth will revive to 8.8% in FY22. Government's PLI scheme is positive for exports. So is flow of work to Indian IT firms. Inflation will remain a teething issue (4.5% in FY22 versus 6.5% in FY21) because of higher global commodity prices.

### KEY HIGHLIGHTS

- Global growth plunged, technology stocks outperformed
- Commodity prices inching up, US$ weak
- Yields fall globally, central banks to remain accommodative
- India and global growth to revive, PLI scheme and digitisation to benefit India

WEEKLY WRAP

21 December 2020

## Risk-on sentiment improves

**Global yields and equities rose on the back of US stimulus deal, launch of vaccine and US FOMC's upward revision to growth and inflation. DXY index fell to a 32-month low. GBP rose to two and a half year high. Central banks (Fed, BoJ, BoE) are likely to continue with expansionary policies. India's MPC too supported accommodative policy but magnitude of surplus liquidity may be brought down. India's retail inflation came down by 70bps MoM and tax collections are improving thus giving room to government to spend.**

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## Markets

- **Bonds:** UK 10Y yield rose the most by 8bps (0.25%) amidst final round of Brexit negotiations. US 10Y yield too rose by 5bps (0.95%) supported by US$ 900bn fiscal stimulus and US FOMCs upward revision of growth and inflation. Oil prices rose by 4.6% (US$ 52/bbl) with roll out of vaccine. India's 10Y yield closed flat at 5.96%. System liquidity surplus fell to Rs 4.6tn as on 18 Dec 2020 compared with Rs 6.2tn in the previous week.

- **Currency:** Global currencies gained amidst optimism over US fiscal stimulus and Brexit trade deal. DXY fell by 1.1% in the week to hover near a 32-month low with global risk sentiment improving. GBP rose by 2.3% to a more than two-and-a-half year high. INR appreciated by 0.1% in the week supported by foreign inflows of US$ 1.6bn even as oil prices rose by 4.6%.

- **Equity:** Barring FTSE, global indices ended higher as macro data shows recovery sustaining and central banks (Fed, BoE, BoJ) reiterated monetary stimulus is required to support growth. US fiscal deal also helped. Dax surged by 3.9% followed by Sensex (1.9%). The gain in domestic market was led by durables and cap goods and was the 7th weekly gain in a row.

- **Covid-19 tracker:** Global cases rose by 4.6mn in the week ending 18 Dec 2020 compared with 5.2mn in the previous week, led by US and Europe. India added 208k cases this week compared with 189k in earlier week.

- **Upcoming key events:** Markets await US and UK GDP, consumer confidence index for US and Germany and policy decision of Bank of Thailand. UK's new restrictions too will play out. On domestic front, markets will react to RBI minutes and progress of Covid-19 cases.

**BUY**
TP: Rs 330 | ⮝ 28%

**PETRONET LNG** | Oil & Gas | 21 December 2020

## At an inflection point

**Key takeaways from our recent interaction with the Petronet LNG (PLNG) management: (a) Volumes at Kochi to improve from Q4 FY21 on commissioning of the Kochi-Mangalore pipeline; (b) More preference for long-term LNG (as spot LNG prices surge to ~US$10/mmbtu) augurs well for PLNG's Dahej utilisation; and (c) management seems more aligned towards high dividend payouts, rather than investing in LNG supply chain, on LNG supply glut. Valuations looks extremely undemanding at 10x FY23E EPS. Maintain BUY.**

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**Volumes to improve from Q4:** Gail has commissioned the Kochi-Mangalore pipeline, with PLNG initiating some sales to MRPL refinery. Incrementally, Kochi ramp up is expected to add 1-1.4 mmtpa from FY22 (+5.6% YoY), which would be in-line with our estimates. PNGRB"s proposed unified tariff for pipelines owned by GAIL may accelerate demand from the Kochi-Mangalore pipeline, once GAIL extends this pipeline to connect to the Dabhol-Bangalore network. Theoretically, this could entail a much larger customer based for the Kochi terminal, and ensure >50% utilisation over 3-4 years (against our estimates of max 45% utilisation from FY22).

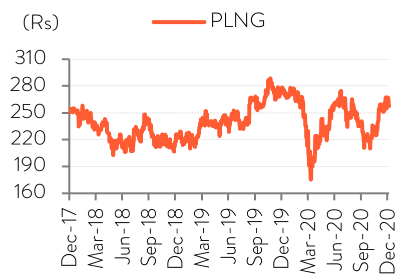
**Surge in spot LNG prices:** Spot LNG prices have surged past US$ 10/mmbtu recently (from ~US$ 3.5 in Q2), while long-term LNG contract prices remain benign at US$6-7/mmbtu. This would mean better demand for 10 mmt long-term contracted volumes by PLNG, may ensure >105% utilisation at Dahej.

**Valuations at an inflection point:** Considering MoU with Tellurium is unlikely to be extended, and the volume growth at Kochi from the commissioning of pipeline, valuations at 10x FY23E EPS looks ripe for a re-rating. PLNG's earnings visibility remains robust backed by long-term contracts.

| | |
|---|---|
| Ticker/Price | PLNG IN/Rs 258 |
| Market cap | US$ 5.3bn |
| Shares o/s | 1,500mn |
| 3M ADV | US$ 15.8mn |
| 52wk high/low | Rs 282/Rs 170 |
| Promoter/FPI/DII | 50%/28%/22% |

Source: NSE

### STOCK PERFORMANCE




Source: NSE

### KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Total revenue (Rs mn) | 383,954 | 354,520 | 221,117 | 267,439 | 273,524 |
| EBITDA (Rs mn) | 32,935 | 39,895 | 45,020 | 52,445 | 56,892 |
| Adj. net profit (Rs mn) | 21,554 | 27,697 | 28,766 | 34,554 | 38,242 |
| Adj. EPS (Rs) | 14.4 | 18.5 | 19.2 | 23.0 | 25.5 |
| Adj. EPS growth (%) | 3.7 | 28.5 | 3.9 | 20.1 | 10.7 |
| Adj. ROAE (%) | 21.8 | 26.4 | 25.7 | 29.3 | 29.7 |
| Adj. P/E (x) | 17.9 | 14.0 | 13.4 | 11.2 | 10.1 |
| EV/EBITDA (x) | 12.1 | 9.5 | 8.0 | 6.6 | 6.0 |

Source: Company, BOBCAPS Research

**REDUCE**
TP: Rs 1,160 | ⮟ 13%

**PVR** | Media | 21 December 2020

# Capital raise to bolster liquidity, new content sparks revival hopes

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**Board approves fund raising plans:** PVR's (PVRL) board has approved its Rs 8bn of capital raising plan. The company has options to raise funds through the equity route - QIP, preferential allotment, or depository receipts, non-convertible debentures, or quasi-equity instruments such as foreign currency convertible bonds, in one or more tranches. This fund-raising plan comes on the heels of a Rs 5bn QIP in Oct'19 and Rs 3bn rights issue in Aug'20.

**Adequate liquidity:** This capital raise will further bolster PVRL's healthy liquidity position (Rs 5.5bn in Oct'20). Though monthly cash burn may have risen to ~Rs 0.6-0.7bn since resumption of screens (our est., vs. Rs 0.3bn in Q2FY21), this comfortable liquidity position should enable PVRL to sustain its operations for a few more quarters, even if normal occupancies remain elusive.

**Occupancies continue to languish…:** Though movie screens were allowed to resume operations from mid-Oct, lack of big-ticket releases and state-specific restrictions have kept footfalls at bay. Our interactions with industry incumbents indicate that footfalls remain below 20% of available capacity (<10% of total), which is also reflected in muted box-office collections of the few movies released in recent weeks – 'Suraj Pe Mangal Bhari' (~Rs 40mn), 'Tenet' (~Rs 110mn) and 'Indoo Ki Jawani' (~Rs 11mn in first week).

**…But fresh release spark hopes of revival:** The Indian box office could potentially get its first commercial success of the post-Covid era in 'Wonder Woman 1984', slated to release on 24 December. The movie has garnered mostly positive reviews from critiques globally, and generated interest in social media – it has received ~53k likes on BookMyShow so far, much higher than 'Tenet'. Media sources, too, highlight healthy advance bookings and a wider release for the film – 1,000+ screens vs. ~750 for 'Tenet'. Importantly, advertisers are also showing interest – PVRL has signed over 40 advertisers and expects to run 14 mins of ad during the screening of the film (vs. ~20mins pre-Covid) - as per a media article. If this film succeeds in the box office, it may prompt theatrical release of pending Bollywood and regional content.

**Long-term prospects in tact:** Notwithstanding near-term challenges, PVRL's prospects remain solid – leadership in Indian multiplex industry, premium positioning, and strong brand recall. However, we maintain our REDUCE rating with a Dec'21 TP of Rs 1,060 as immediate upside is limited on rich valuations.

| | |
|---|---|
| Ticker/Price | PVRL IN/Rs 1,336 |
| Market cap | US$ 995.5mn |
| Shares o/s | 55mn |
| 3M ADV | US$ 38.7mn |
| 52wk high/low | Rs 2,125/Rs 718 |
| Promoter/FPI/DII | 19%/35%/29% |

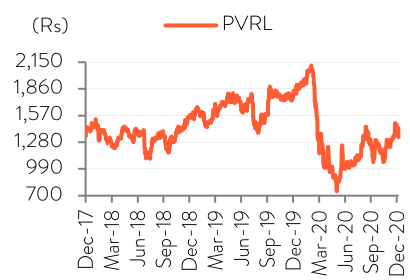
Source: NSE

## KEY FINANCIALS

| Y/E 31 Mar | FY21E | FY22E | FY23E |
|---|---|---|---|
| Total revenue (Rs mn) | 7,997 | 30,816 | 37,129 |
| EBITDA (Rs mn) | (2,013) | 9,630 | 12,450 |
| Adj. net profit (Rs mn) | (7,414) | 456 | 2,352 |
| Adj. EPS (Rs) | (134.4) | 8.3 | 42.6 |
| Adj. EPS growth (%) | (2815.7) | (106.2) | 415.3 |
| Adj. ROAE (%) | (71.4) | 4.2 | 18.7 |
| Adj. P/E (x) | (9.9) | 161.5 | 31.3 |
| EV/EBITDA (x) | (42.1) | 8.9 | 7.0 |

Source: Company, BOBCAPS Research

## STOCK PERFORMANCE




Source: NSE

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**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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