

BUY

TP: Rs 305 | ▲ 18%

PETRONET LNG

Oil & Gas

30 June 2020

Margins outperform ex. one-offs

Petronet LNG's (PLNG) Q4FY20 EBITDA underperformed at Rs 7bn (+11% YoY) due to ~Rs 3bn in one-offs and low volumes (219tbtu, +7% YoY).

Excluding one-offs, EBITDA/mmbtu at Rs 44 (-7% QoQ) was ahead of estimates. Disruptions in Q1FY21 could be transient as utilisation levels have now normalised to 100% levels. We lower FY21/FY22 EPS estimates by 26%/13% as we factor in near-term volume disruptions, reducing our Mar'21 TP to Rs 305 (from Rs 330). At 11.7x FY22E EPS, risk-reward looks favourable.

Rohit Ahuja

research@bobcaps.in

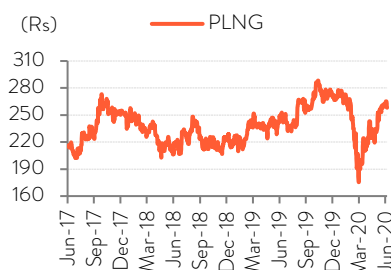
Quick recovery from Q2FY21: PLNG's Q4 volumes were below estimates due to sub-100% utilisation at Dahej. Long-term contract volumes at Dahej underperformed at 95tbtu (-5% YoY, -7% QoQ) due to lower offtake by take-or-pay customers. Spot and regas service volumes also disappointed despite the low LNG prices. Management expects Dahej terminal utilisation to return to >100% levels and the Kochi terminal to ramp up from Q1FY21 upon commissioning of the Kochi-Mangaluru pipeline by GAIL (expected by Jul'20).

Ticker/Price	PLNG IN/Rs 258
Market cap	US\$ 5.1bn
Shares o/s	1,500mn
3M ADV	US\$ 10.2mn
52wk high/low	Rs 299/Rs 170
Promoter/FPI/DII	50%/29%/21%

Source: NSE

EBITDA margins sustain: EBITDA/mmbtu adjusted for one-offs came in 5% ahead of estimates at Rs 44/mmbtu (+44% YoY). PLNG has raised Dahej tariffs by 5% from Jan'20 in line with its annual contract arrangements, leading to higher margins. Uncertainty on Kochi terminal tariffs persists (could be revised down by ~25% from FY21 on higher offtake).

STOCK PERFORMANCE



Source: NSE

Maintain BUY: PLNG's earnings visibility remains buoyant backed by long-term contracts, and expected volume ramp-up at Kochi. Low LNG prices offer buoyant outlook on LNG demand, especially from power sector. Additionally, 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	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	305,986	383,954	354,520	219,933	267,595
EBITDA (Rs mn)	33,124	32,935	39,895	42,843	51,383
Adj. net profit (Rs mn)	20,779	21,554	27,697	26,596	33,144
Adj. EPS (Rs)	13.9	14.4	18.5	17.7	22.1
Adj. EPS growth (%)	21.8	3.7	28.5	(4.0)	24.6
Adj. ROAE (%)	23.3	21.6	26.5	24.3	28.9
Adj. P/E (x)	18.6	18.0	14.0	14.6	11.7
EV/EBITDA (x)	12.0	12.1	9.6	8.4	6.8

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net sales	85,672	83,832	2.2	89,102	(3.9)	354,520	383,954	(7.7)
Cost of Goods	74,360	75,387	(1.4)	76,189	(2.4)	304,959	344,170	(11.4)
% of sales	86.8	89.9	-	85.5	-	86.0	89.6	-
Other expenditure	4,337	2,173	99.6	1,838	136.0	9,666	6,850	41.1
% of sales	5.1	2.6	-	2.1	-	2.7	1.8	-
EBITDA	6,975	6,272	11.2	11,076	(37.0)	39,895	32,935	21.1
EBITDA margin (%)	8.1	7.5	-	12.4	-	11.3	8.6	-
EBITDA/mmbtu (Rs)	31.9	30.6	4.1	47.5	(33.0)	43.0	39.0	10.2
Blended margin (Rs/mmbtu)	51.7	41.2	25.4	55.4	(6.8)	53.4	47.1	13.3
Depreciation & amortization	1,942	1,016	91.2	1,960	(0.9)	7,761	4,112	88.7
Interest	1,035	225	359.7	940	10.1	4,032	989	307.6
Other income	865	1,514	(42.9)	842	2.8	3,726	4,503	(17.3)
PBT	4,863	6,545	(25.7)	9,017	(46.1)	31,827	32,336	(1.6)
Provision for tax	1,272	2,143	(40.6)	2,265	(43.8)	4,131	10,782	(61.7)
Effective tax rate	26.2	32.7	-	25.1	-	13.0	33.3	-
Reported PAT	3,590	4,402	(18.4)	6,752	(46.8)	27,697	21,554	28.5
NPM (%)	4.2	5.3	-	7.6	-	7.8	5.6	-
Reported EPS	2.4	2.9	(18.4)	4.5	(46.8)	18.5	14.4	28.5

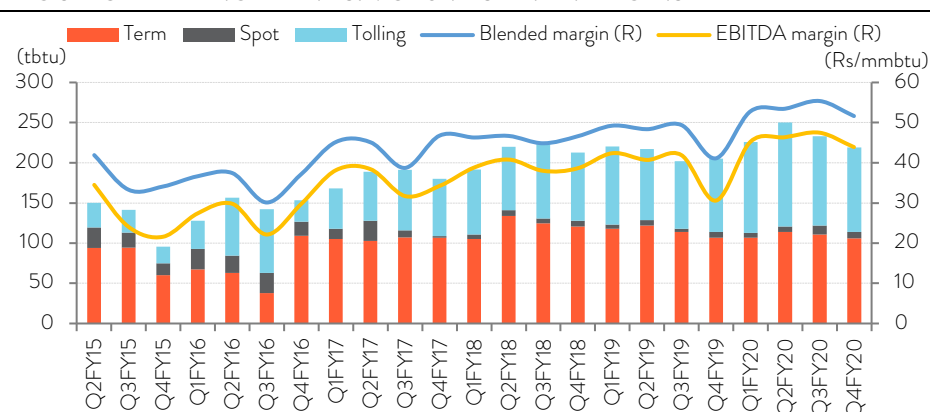
Source: Company, BOBCAPS Research

FIG 2 – VOLUME PROFILE

Volumes (tbtu)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Long-term contracts	106	107	(0.9)	111	(4.5)	438	461	(5.0)
Dahej	95	100	(5.0)	102	(6.9)	406	437	(7.1)
Kochi	11	7	57.1	9	22.2	32	24	-
Spot contracts	8	7	13.5	11	(27.3)	32	23	37.3
Dahej	6	7	-	9	-	25	23	8.7
Kochi	2	0	-	2	-	7	0	-
Regasification services	105	91	15.4	111	(5.4)	458	360	27.2
Dahej	105	91	15.4	111	(5.4)	454	360	26.1
Kochi	-	-	-	-	-	4	-	-
Total volumes	219	205	6.8	233	(6.0)	928	844	9.9
Dahej	206	198	4.0	222	(7.2)	885	820	7.9
Kochi	13	7	84.4	11	18.2	43	24	77.0

Source: Company, BOBCAPS Research

FIG 3 – OPERATING TRENDS: VOLUMES AND MARGINS



Source: Company, BOBCAPS Research

Earnings call highlights

- Negotiations on pricing of the long-term LNG contract with Qatar are still underway. Management felt it would be premature to comment on the matter.
- Gross margins at Dahej reduced by (1) Rs 0.33bn due to lower volumes, (2) Rs 0.31bn due to inventory losses, and (3) Rs 0.15bn due to lower trading margins on spot volumes.
- Capacity utilisation would be 35-40% once the Kochi-Mangaluru pipeline is commissioned by July.
- Average marketing margin on spot volumes is ~US\$ 0.3/mmbtu.
- Capex for FY20 stood at Rs 1bn. Planned outlay for FY21 is Rs 3.48bn – this includes Rs 1.26bn for small-scale LNG (LNG stations, etc.), Rs 0.6bn for two storage tanks at Dahej terminal, Rs 0.7bn for the corporate office being built in Delhi, and the remaining for other miscellaneous expenditure
- Other projects that PLNG is looking at are a regasification terminal on the east coast in the next 3-4 years, two additional tanks and a jetty at Dahej terminal costing Rs 14bn and Rs 12bn-13bn respectively, and a project in Sri Lanka worth US\$ 300mn, if cleared by the Sri Lankan government.
- PNGRB recently issued a statement permitting any party to set up LNG dispensing stations regardless of whether they are authorised for the geographical area (GA). PLNG sees this as an opportunity.
- The company has signed an MoU with Gujarat Gas to set up five LNG dispensing stations along the Delhi-Mumbai highway. Indraprastha Gas has three such stations on the same highway, taking the total to eight.
- **Contract types:** With Take-or-Pay contracts, companies take an advance payment and permit the customer to offtake the gas at a later date at the price prevailing at the time of delivery. Regasification charges will be taken into P&L when the customer is serviced. With Use-or-Pay contracts, advances are not taken and the customer has to pay for the quantity contracted regardless of having taken delivery of the gas or not.

Valuation methodology

Disruptions in Q1FY21 could be transient as utilisation levels have now normalised to 100% levels. We lower FY21/FY22 EPS estimates by 26%/ 13% as we factor in near-term volume disruptions, reducing our Mar'21 target price on PLNG to Rs 305 (from Rs 330). At 11.7x FY22E EPS, risk-reward looks favourable.

FIG 4 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	283,714	219,933	(22.5)	307,734.5	267,595	(13.0)
EBITDA	54,411	42,843	(21.3)	58,063.1	51,383	(11.5)
EBITDA margin (%)	19.2	19.5		18.9	19.2	
PAT	36,000	26,596	(26.1)	38,250	33,144	(13.3)
EPS (Rs)	24.0	17.7	(26.1)	25.5	22.1	(13.3)

Source: BOBCAPS Research

PLNG's earnings visibility remains upbeat backed by long-term contracts and expected volume ramp-up at Kochi. Low LNG prices offer a buoyant outlook on LNG demand, especially from the power sector. Additionally, the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks and a jetty at Dahej terminal by FY23. Maintain BUY.

FIG 5 – VALUATION SNAPSHOT

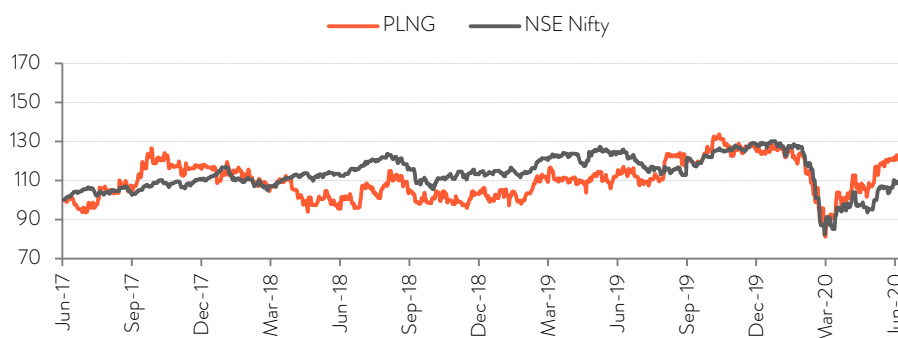
Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	216,837	27,096	243,933
Terminal value (Rs mn)	164,941	14,229	179,170
EV (Rs mn)	381,778	41,325	423,103
EV (Rs/share)	255	28	282
Add: Net cash, other investments (Rs mn)			37,552
Equity value (Rs mn)			460,600
Equity value (Rs/share)			305

Source: BOBCAPS Research

FIG 6 – KEY ASSUMPTIONS

	FY21E	FY22E
Dahej terminal		
Volumes (mmtpa)	17.0	18.8
Re-gas tariffs (Rs/mmbtu)	52.5	54.0
Kochi terminal		
Volumes (mmtpa)	0.8	2.2
Re-gas tariffs (Rs/mmbtu)	79.0	79.0
Total volumes (mmtpa)	17.8	21.0
Blended EBITDA (Rs/mmbtu)	46.2	47.1
Blended re-gas tariffs (Rs/mmbtu)	55.7	57.0

Source: BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- Regulatory risks:** The regasification tariffs charged by PLNG are currently not regulated by PNGRB. Any move by the government to regulate tariffs can lead to a sharp de-rating of the stock.
- Competition from other regasification terminals:** About 20mmtpa of regasification capacities are likely to come up across India over the next 3-5 years. The closest terminal to Dahej is Mundra (GSPC-Adani JV) in Gujarat, that has become operational in FY20. PLNG may have to compete for incremental contracts if it expands Dahej capacity to 20mmtpa. While current contracts fully hedge PLNG against competition, growth in volumes over the long term could be at risk.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	305,986	383,954	354,520	219,933	267,595
EBITDA	33,124	32,935	39,895	42,843	51,383
Depreciation	(4,117)	(4,112)	(7,761)	(10,132)	(10,504)
EBIT	29,007	28,822	32,133	32,711	40,879
Net interest income/(expenses)	(1,630)	(989)	(4,032)	(747)	(261)
Other income/(expenses)	3,174	4,503	3,726	3,592	3,692
EBT	30,551	32,336	31,827	35,556	44,310
Income taxes	(9,773)	(10,782)	(4,131)	(8,960)	(11,166)
Reported net profit	20,779	21,554	27,697	26,596	33,144
Adjusted net profit	20,779	21,554	27,697	26,596	33,144

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	15,699	12,952	11,661	12,430	12,430
Other current liabilities	18,422	11,724	12,394	9,785	11,496
Provisions	199	278	330	330	330
Debt funds	14,531	11,873	10,802	5,802	0
Other liabilities	10,482	13,029	43,580	40,521	37,462
Equity capital	15,000	15,000	15,000	15,000	15,000
Reserves & surplus	82,205	87,305	91,919	96,733	102,732
Shareholders' fund	97,205	102,305	106,919	111,733	117,732
Total liabilities and equities	156,537	152,161	185,685	180,600	179,448
Cash and cash eq.	8,625	29,603	44,320	48,460	47,392
Accounts receivables	16,505	13,825	16,026	12,468	15,216
Inventories	4,911	5,694	4,809	6,667	6,667
Other current assets	2,775	3,230	4,565	3,051	3,450
Investments	41,222	18,033	4,034	2,255	3,629
Net fixed assets	80,296	78,295	111,884	107,299	102,695
CWIP	2,203	3,482	47	400	400
Total assets	156,537	152,161	185,685	180,600	179,448

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	24,777	25,667	35,458	36,728	43,648
Changes in working capital	3,210	(7,924)	(3,221)	1,375	(1,437)
Other operating cash flows	6	(1,955)	(6,566)	(3,312)	(3,412)
Cash flow from operations	27,993	15,788	25,671	34,790	38,799
Capital expenditures	(13,653)	19,799	(23,917)	(4,121)	(7,274)
Other investing cash flows	3,174	4,503	3,726	3,592	3,692
Cash flow from investing	(10,479)	24,302	(20,191)	(529)	(3,582)
Equities issued/Others	7,500	0	0	0	0
Debt raised/repaid	(7,650)	(2,658)	32,319	(8,339)	(9,141)
Dividends paid	(7,898)	(17,550)	(21,938)	(21,782)	(27,145)
Other financing cash flows	(4,115)	1,096	(424)	0	0
Cash flow from financing	(12,162)	(19,112)	9,958	(30,121)	(36,286)
Changes in cash and cash eq.	5,352	20,978	15,438	4,140	(1,068)
Closing cash and cash eq.	8,625	29,603	45,041	48,460	47,392

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	13.9	14.4	18.5	17.7	22.1
Adjusted EPS	13.9	14.4	18.5	17.7	22.1
Dividend per share	4.5	10.0	12.5	12.4	15.5
Book value per share	64.8	68.2	71.3	74.5	78.5

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	1.3	1.0	1.1	1.6	1.3
EV/EBITDA	12.0	12.1	9.6	8.4	6.8
Adjusted P/E	18.6	18.0	14.0	14.6	11.7
P/BV	4.0	3.8	3.6	3.5	3.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	68.0	66.7	87.0	74.8	74.8
Interest burden (PBT/EBIT)	105.3	112.2	99.0	108.7	108.4
EBIT margin (EBIT/Revenue)	9.5	7.5	9.1	14.9	15.3
Asset turnover (Revenue/Avg TA)	207.6	248.8	209.9	120.1	148.6
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.6	1.7	1.6
Adjusted ROAE	23.3	21.6	26.5	24.3	28.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	24.3	25.5	(7.7)	(38.0)	21.7
EBITDA	27.8	(0.6)	21.1	7.4	19.9
Adjusted EPS	21.8	3.7	28.5	(4.0)	24.6
Profitability & Return ratios (%)					
EBITDA margin	10.8	8.6	11.3	19.5	19.2
EBIT margin	9.5	7.5	9.1	14.9	15.3
Adjusted profit margin	6.8	5.6	7.8	12.1	12.4
Adjusted ROAE	23.3	21.6	26.5	24.3	28.9
ROCE	18.4	17.0	24.1	20.8	26.0
Working capital days (days)					
Receivables	17	14	15	24	19
Inventory	7	6	6	12	12
Payables	17	15	14	25	21
Ratios (x)					
Gross asset turnover	2.8	3.5	2.7	1.4	1.7
Current ratio	1.0	2.1	2.9	3.1	3.0
Net interest coverage ratio	17.8	29.1	8.0	43.8	156.6
Adjusted debt/equity	0.1	(0.2)	(0.3)	(0.4)	(0.4)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

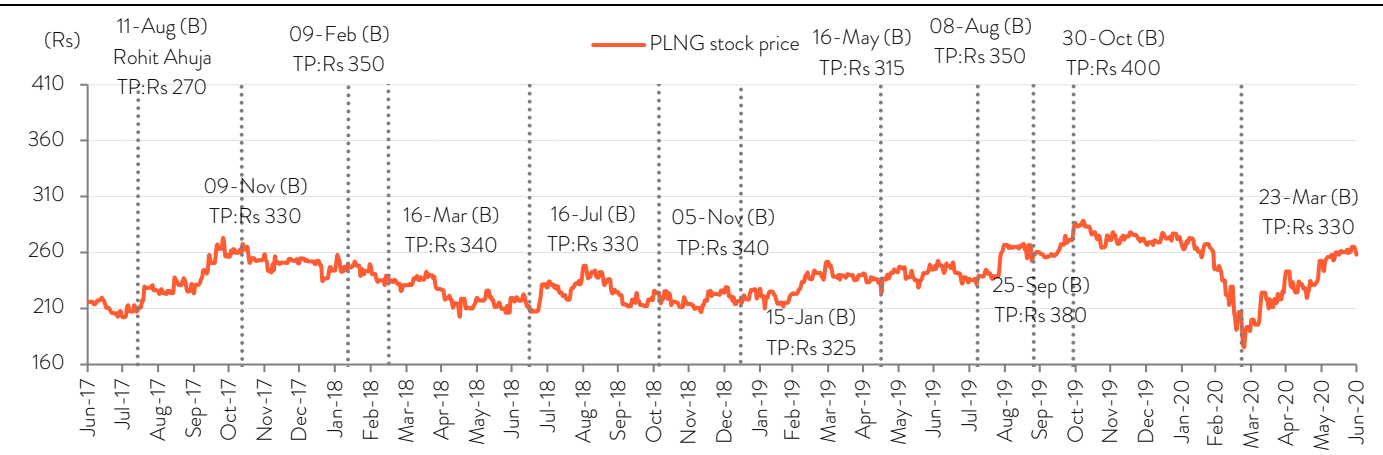
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: PETRONET LNG (PLNG IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

As of 31 May 2020, out of 92 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 55 have BUY ratings, 20 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.