

BUY

TP: Rs 315 | ▲ 41%

PETRONET LNG

Oil & Gas

16 May 2019

Margin blip; may normalise from Q1FY20

Petronet LNG (PLNG) reported below-expected Q4FY19 adjusted earnings of Rs 5.2bn (-1% YoY). Key Q4 highlights: (a) volumes below estimates at 205tbtu (-3.6% YoY) on lower long-term contracts, (b) one-off inventory loss of Rs 1.2bn led to below-estimated EBITDA of Rs 6.3bn (-24% YoY). We trim FY20/FY21 earnings by 3.5% each to build in higher costs while maintaining volume estimates, and roll over to a revised Mar'20 TP of Rs 315 (from Rs 325). Maintain BUY on better near-term earnings growth visibility.

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

Volumes slip but outlook buoyant: PLNG's Q4 volumes remained depressed at 205tbtu as long-term contract volumes declined to 107tbtu (-11.4% YoY, -6% QoQ) due to maintenance operations at some refineries and fertiliser plants. Regasification volumes at 91tbtu (+7.4% YoY, +8.3% QoQ) were in line.

Spot volumes could rise substantially from Q2FY20 as the 2.5mmtpa expansion at Dahej will be commissioned in Jun'19 (may offer additional marketing margins). PLNG plans to unlock another 2mmtpa of capacity at Dahej in phases from 2021, through two storage tanks (~Rs 6bn capex). Kochi volumes are expected to ramp up to 1.2mmtpa in FY20 and further up to 2mmtpa by FY21, assuming the Kochi-Mangalore pipeline is commissioned by end-H1FY20.

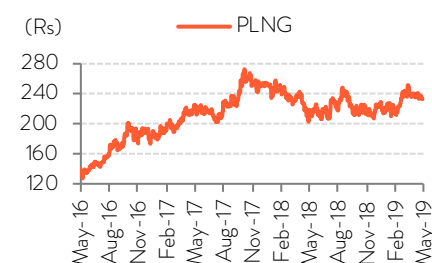
EBITDA trend may normalise from Q1FY20: We estimate a ~Rs 3bn extraordinary hit from unsold spot volumes in Q4FY19 (including a Rs 1.2bn inventory loss). About 70% of this charge could be reversed in Q1FY20, boosting EBITDA to ~Rs 2.5bn, and EBITDA margins to >Rs45/mmbtu.

Maintain BUY: We trim FY20/FY21 earnings by ~3.5% each on higher costs and move to a Mar'20 TP of Rs 315 (from Rs 325). PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ ROE.

Ticker/Price	PLNG IN/Rs 224
Market cap	US\$ 4.8bn
Shares o/s	1,500mn
3M ADV	US\$ 9.2mn
52wk high/low	Rs 255/Rs 202
Promoter/FPI/DII	50%/26%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	17,057	20,779	21,554	28,410	33,179
Adj. EPS (Rs)	11.4	13.9	14.4	18.9	22.1
Adj. EPS growth (%)	86.8	21.8	3.7	31.8	16.8
Adj. ROAE (%)	23.2	23.3	21.6	26.3	27.4
Adj. P/E (x)	19.7	16.2	15.6	11.8	10.1
EV/EBITDA (x)	13.1	10.7	10.4	7.4	6.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	FY19	FY18	YoY (%)
Net sales	83,832	86,362	(2.9)	1,00,977	(17.0)	3,83,954	3,05,986	25.5
Cost of Goods	75,387	76,449	(1.4)	90,989	(17.1)	3,44,170	2,66,902	28.9
% of sales	89.9	88.5	-	90.1	-	89.6	87.2	-
Other expenditure	2,173	1,693	28.3	1,507	44.2	6,850	5,961	14.9
% of sales	2.6	2.0	-	1.5	-	1.8	1.9	-
EBITDA	6,272	8,221	(23.7)	8,481	(26.0)	32,935	33,124	(0.6)
EBITDA margin (%)	7.5	9.5	-	8.4	-	8.6	10.8	-
EBITDA/mmbtu (Rs)	33.0	38.6	(14.6)	42.0	(21.4)	39.0	39.1	(0.2)
Blended margin (Rs/mmbtu)	44.4	46.6	(4.7)	49.4	(10.1)	47.1	46.1	2.2
Depreciation & amortization	1,016	1,013	0.3	1,037	(2.0)	4,112	4,117	(0.1)
Interest	225	335	(32.7)	215	4.5	989	1,630	(39.3)
Other income	1,514	1,034	46.4	884	71.2	4,503	3,174	41.9
PBT	6,545	7,908	(17.2)	8,113	(19.3)	32,336	30,551	5.8
Provision for tax	2,143	2,681	(20.1)	2,460	(12.9)	10,782	9,773	10.3
Effective tax rate	32.7	33.9	-	30.3	-	33.3	32.0	-
PAT	5,175	5,227	(1.0)	5,653	(8.4)	22,328	20,779	7.5
NPM (%)	6.2	6.1	-	5.6	-	5.8	6.8	-
EPS (Rs)	3.5	3.5	(1.0)	3.8	(8.4)	14.9	13.9	7.5

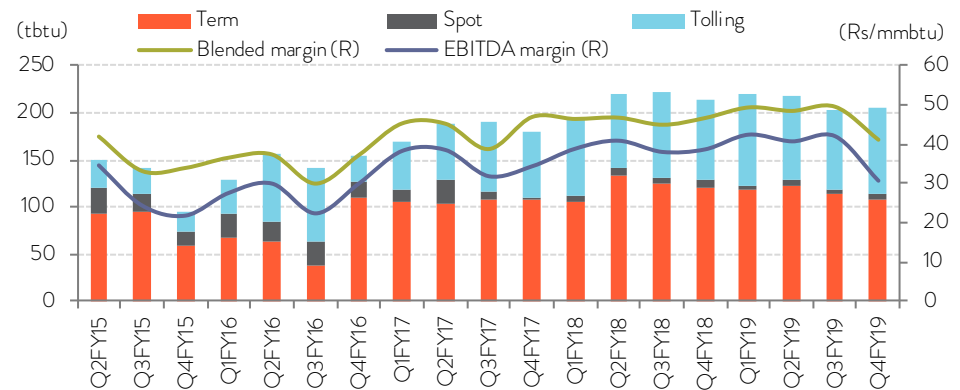
Source: Company, BOBCAPS Research

FIG 2 – VOLUME PROFILE

(tbtu)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	FY19	FY18	YoY (%)
Long-term contracts	107	121	(11.4)	114	(6.1)	461	463	(0.4)
Dahej	100	115	(13.0)	109	(8.3)	437	442	(1.1)
Kochi	7	6	20.7	5	40.0	24	21	-
Spot contracts	7	7	(2.1)	4	74.9	23	44	(46.8)
Dahej	7	7	(1.4)	4	75.0	23	23	-
Kochi	0	0	(50.0)	0	66.7	0	21	(98.6)
Regasification services	91	85	7.4	84	8.3	360	312	15.4
Dahej	91	85	7.4	84	8.3	360	312	15.4
Kochi	-	-	-	-	-	-	-	-
Total volumes	205	213	(3.6)	202	1.5	844	819	3.1
Dahej	198	207	(4.3)	197	0.5	820	777	5.5
Kochi	7	6	19.5	5	40.2	24	42	(41.6)

Source: Company, BOBCAPS Research

FIG 3 – OPERATING TRENDS: VOLUMES AND MARGINS



Source: Company, BOBCAPS Research

Earnings call highlights

Dahej terminal

- Expansion at Dahej from 15mmtpa to 17.5mmtpa is on schedule and the added capacity is expected to become operational by Jun'19.
- PLNG took a 5% hike in regasification tariffs at Dahej/Kochi in Jan'19/Apr'19.
- The company intends to add a jetty and storage tank at Dahej which could be commissioned over 3-4 years, besides unlocking another 2-3mmtpa of capacity in phases from 2020 (apart from the ongoing 2.5mmtpa expansion).
- Management reiterated that it sees no risk from upcoming rival capacities as competitors would find it difficult to match PLNG's tariffs at Dahej.

Kochi terminal

- The company expects the Kochi-Mangalore pipeline to be completed by Jun'19.
- Once this pipeline is ready, management expects volumes to improve to 1.2mmtpa in FY20 and further to ~2mmtpa by FY21.

Other highlights

- PLNG intends to invest in integrated liquefaction upstream projects (most likely in the US) that could offer the company a gas price range suitable to sell gas volumes in India at US\$ 6-7/mmbtu.
- Discussions for a Sri Lankan floating storage regasification unit (FSRU) are on, with investment toward this project expected at Rs 20bn.
- Planned capex for FY19 is Rs 4.4bn, which could rise to Rs 6bn if two storage tanks at Dahej are added in (ex-planned capex on international projects).
- Dividend payout would be decided based on the quantum of incremental investment plans (no cap on payout specified currently).

Valuation methodology

We estimate a ~Rs 3bn extraordinary hit from unsold spot volumes in Q4FY19 (including a Rs 1.2bn inventory loss). About 70% of this charge could be reversed in Q1FY20, boosting EBITDA to the extent of ~Rs 2.5bn.

We trim FY20/FY21 earnings by ~3.5% each on higher costs and roll over to a revised Mar'20 target price of Rs 315 (from Rs 325), arrived at using the DCF methodology. PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ expected ROE. Maintain BUY.

FIG 4 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	5,24,665	4,95,847	(5.5)	6,23,672	5,91,284	(5.2)
EBITDA	43,736	42,885	(1.9)	50,021	48,615	(2.8)
EBITDA margin (%)	8.3	8.6	-	8.0	8.2	-
PAT	29,426	28,410	(3.5)	34,396	33,179	(3.5)
PAT margin (%)	5.6	5.7	-	5.5	5.6	-
EPS (Rs)	19.6	18.9	(3.5)	22.9	22.1	(3.5)

Source: BOBCAPS Research, Company

FIG 5 – VALUATION SNAPSHOT

Particulars	Dahej terminal	Kochi terminal	Total
NPV of FCFE (Rs mn)	227,067	29,326	256,393
Terminal value (Rs mn)	164,352	15,663	180,015
EV (Rs mn)	391,419	44,989	436,408
EV (Rs/share)	261	30	291
Add: Net cash, other investments (Rs mn)			35,540
Equity value (Rs mn)			471,948
Equity value (Rs/share)			315

Source: BOBCAPS Research

FIG 6 – VALUATION SENSITIVITY

		Cost of Equity (%)				
		8.7	9.7	10.7	11.7	12.7
Terminal growth (%)	(Rs)					
	(2)	353	322	296	274	257
	(1)	373	337	308	284	263
	0	391	351	315	292	269
	1	415	368	332	302	277
	2	446	390	347	313	286

Source: BOBCAPS Research

FIG 7 – PLNG’S CURRENT CONTRACTS

Company	(mmtpa)
Take-or-Pay contracts	8.5
GAIL	5.1
IOCL	2.6
BPCL	0.9
Use-or-pay contracts	
GSPC	1.3
GAIL	2.5
GSPC	1.0
IOCL	1.5
BPCL	1.0
Torrent Power	0.8
Total	8.0

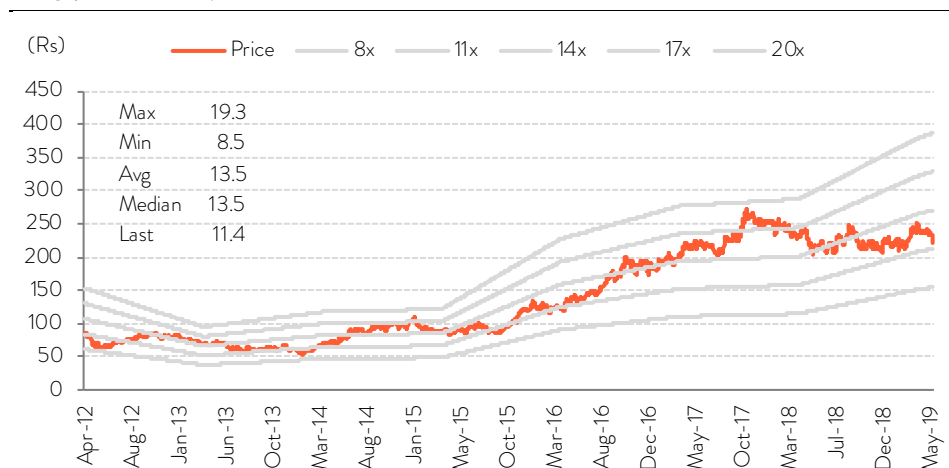
Source: Company, BOBCAPS Research

FIG 8 – KEY ASSUMPTIONS

	FY19P	FY20E	FY21E
Dahej terminal			
Volumes (mmtpa)	15.8	17.8	18.3
Re-gas tariffs (Rs/mmbtu)	47.5	49.9	52.4
Kochi terminal			
Volumes (mmtpa)	0.47	1.50	2.20
Re-gas tariffs (Rs/mmbtu)	78.1	76.1	79.9
Total volumes (mmtpa)	16.2	19.3	20.5
Blended EBITDA (Rs/mmbtu)	39.0	42.7	45.6
Blended re-gas tariffs (Rs/mmbtu)	47.1	50.8	55.2

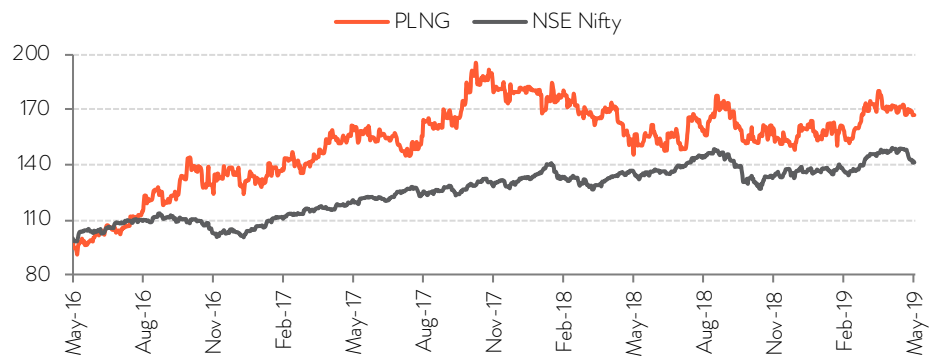
Source: BOBCAPS Research

FIG 9 – P/E BAND



Source: BOBCAPS Research, Company

FIG 10 – 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, expected to be 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)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	2,46,160	3,05,986	3,83,954	4,95,847	5,91,284
EBITDA	25,923	33,124	32,935	42,885	48,615
EBIT	22,232	29,007	28,822	38,547	44,168
Net interest income/(expenses)	(2,097)	(1,630)	(989)	(527)	0
Other income/(expenses)	3,466	3,174	4,503	3,759	4,624
EBT	23,602	30,551	32,336	41,779	48,792
Income taxes	(6,545)	(9,773)	(10,782)	(13,369)	(15,613)
Reported net profit	17,057	20,779	21,554	28,410	33,179
Adjusted net profit	17,057	20,779	21,554	28,410	33,179

Balance Sheet

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Accounts payables	9,446	15,699	12,952	25,920	27,607
Other current liabilities	17,702	18,422	11,724	25,605	29,609
Provisions	723	199	278	278	278
Debt funds	22,180	14,531	11,873	0	0
Other liabilities	7,302	10,482	13,029	13,309	13,589
Equity capital	7,500	15,000	15,000	15,000	15,000
Reserves & surplus	73,439	82,205	87,305	99,095	1,12,864
Shareholders' fund	80,939	97,205	1,02,305	1,14,095	1,27,864
Total liabilities and equities	1,38,291	1,56,537	1,52,161	1,79,208	1,98,948
Cash and cash eq.	3,273	8,625	29,603	30,609	42,763
Accounts receivables	12,108	16,505	13,825	28,300	33,649
Inventories	5,405	4,911	5,694	8,519	8,750
Other current assets	3,438	2,775	3,230	5,312	6,090
Investments	29,351	41,222	18,033	25,271	27,945
Net fixed assets	84,230	80,296	78,295	80,797	79,351
CWIP	486	2,203	3,482	400	400
Total assets	1,38,291	1,56,537	1,52,161	1,79,208	1,98,947

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Net income + Depreciation	20,744	24,777	25,667	32,747	37,626
Changes in working capital	(1,248)	3,210	(7,924)	7,468	(668)
Other operating cash flows	(2,050)	6	(1,955)	(3,479)	(4,344)
Cash flow from operations	17,445	27,993	15,788	36,736	32,614
Capital expenditures	(33,244)	(13,653)	19,799	(10,996)	(5,674)
Other investing cash flows	3,466	3,174	4,503	3,759	4,624
Cash flow from investing	(29,778)	(10,479)	24,302	(7,238)	(1,050)
Equities issued/Others	0	7,500	0	0	0
Debt raised/repaid	(3,966)	(7,650)	(2,658)	(11,873)	0
Dividends paid	(4,513)	(7,898)	(17,550)	(16,620)	(19,410)
Other financing cash flows	2,256	(4,115)	1,096	0	0
Cash flow from financing	(6,223)	(12,162)	(19,112)	(28,492)	(19,410)
Changes in cash and cash eq.	(18,556)	5,352	20,978	1,006	12,154
Closing cash and cash eq.	3,273	8,625	29,603	30,609	42,763

Per Share

Y/E 31 Mar (Rs)	FY17A	FY18A	FY19E	FY20E	FY21E
Reported EPS	11.4	13.9	14.4	18.9	22.1
Adjusted EPS	11.4	13.9	14.4	18.9	22.1
Dividend per share	2.5	4.5	10.0	9.5	11.1
Book value per share	54.0	64.8	68.2	76.1	85.2

Valuations Ratios

Y/E 31 Mar (x)	FY17A	FY18A	FY19E	FY20E	FY21E
EV/Sales	1.4	1.2	0.9	0.6	0.5
EV/EBITDA	13.1	10.7	10.4	7.4	6.3
Adjusted P/E	19.7	16.2	15.6	11.8	10.1
P/BV	4.2	3.5	3.3	2.9	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY17A	FY18A	FY19E	FY20E	FY21E
Tax burden (Net profit/PBT)	72.3	68.0	66.7	68.0	68.0
Interest burden (PBT/EBIT)	106.2	105.3	112.2	108.4	110.5
EBIT margin (EBIT/Revenue)	9.0	9.5	7.5	7.8	7.5
Asset turnover (Revenue/Avg TA)	187.5	207.6	248.8	299.3	312.7
Leverage (Avg TA/Avg Equity)	1.8	1.7	1.5	1.5	1.6
Adjusted ROAE	23.2	23.3	21.6	26.3	27.4

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

Ratio Analysis

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
YoY growth (%)					
Revenue	(9.3)	24.3	25.5	29.1	19.2
EBITDA	63.4	27.8	(0.6)	30.2	13.4
Adjusted EPS	86.8	21.8	3.7	31.8	16.8
Profitability & Return ratios (%)					
EBITDA margin	10.5	10.8	8.6	8.6	8.2
EBIT margin	9.0	9.5	7.5	7.8	7.5
Adjusted profit margin	6.9	6.8	5.6	5.7	5.6
Adjusted ROAE	23.2	23.3	21.6	26.3	27.4
ROCE	16.4	18.4	17.0	23.0	24.8
Working capital days (days)					
Receivables	16	17	14	16	19
Inventory	7	7	6	6	6
Payables	14	17	15	16	18
Ratios (x)					
Gross asset turnover	2.5	2.8	3.5	4.3	4.9
Current ratio	0.9	1.0	2.1	1.4	1.6
Net interest coverage ratio	10.6	17.8	29.1	73.1	0
Adjusted debt/equity	0.2	0.1	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

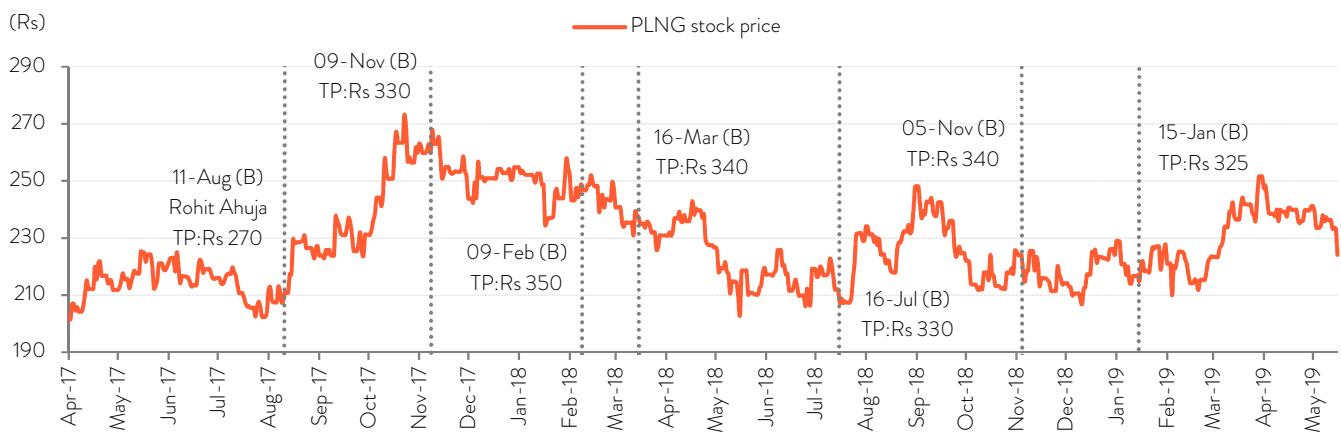
ADD – Expected return from >+5% to +15%

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)

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



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

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