

29 May 2019

Petronet LNG – BUY

CMP :Rs.246.0
Target Price :Rs.278.0
Upside : 13%+
Stop Loss :Rs.227.0 (Closingbasis)

Investment Thesis

Recently, the stock price of Petronet LNG Ltd. (Petronet LNG) corrected by ~18% from 52-week high of Rs.299.00 despite the company reported good set of numbers in the recent quarters.

Petronet LNG is one of the fastest growing companies in the Indian energy sector. However, its revenue declined significantly in FY16 mainly due to decline in prices of LNG globally while Petronet LNG's long-term contract price remained elevated leading to lower off take by customers and increase in regas service cargoes. The company has re-negotiated its old long-term contracts and signed another deal with RasGas, Qatar for 1 MMTPA for a period of about 12 years from 2016 to 2028. The volumes under this contract have been sold to GAIL, IOCL, BPCL and GSPC and supplies have started w.e.f. January, 2016. In terms of profitability, Petronet LNG has reported improvement in EBITDA margins from mid-single digits in FY16 to nearly double digits in FY18 and FY19. The improvement in margins was due to higher volumes processed owing to increase in the regasification capacity of the Dahej Terminal and better efficiency in operations.

Petronet LNG's Kochi terminal is expected to witness an increase in utilization post the completion of Kochi-Mangalore pipeline. However, due to the delay in execution, pipeline's entire stretch will now be completed by October 2019 and may receive additional ~1 mmtpa of gas over a period of time and not immediately. On the capacity expansion front, the company's Dahej terminal's 2.5 mmtpa expansion has been completed in June. The Dahej terminal is booked for 7.5 mmtpa under RasGas long term volumes while an additional 8.25 mmtpa is booked as regasification capacity, thus providing visibility to long term volumes.

Financials

- During the past 5 years, revenue of Petronet LNG grew at a CAGR of 0.3% while PAT grew at a CAGR of 25.7% in the same period.

Consol. (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	246,160	305,986	383,954	441,547	507,780
EBITDA	25,923	33,124	32,935	37,875	43,556
% growth	63.4	27.8	-0.6	15.0	15.0
PAT	17,231	21,104	22,306	25,808	29,834
EPS (INR)	11.5	14.1	14.9	17.2	19.9
P/E (x)	22.4	18.3	17.3	14.9	12.9
RoE (%)	19.3%	21.5%	21.8%	23.2%	24.7%

- Petronet LNG has reported 6.1% YoY decline in revenue in Q4FY19 to Rs.86,134mn on account of lower volumes of long term contracted LNG sales in the quarter.

Stock Data

Market Cap (Rs. Mn)	3,85,800
Market Cap (\$ Mn)	5,433.8
Shares O/S (in Mn)	1,500.0
Avg. Volume (3 month)	27,71,000
52-Week Range (Rs.)	299/ 203

Shareholding Pattern

Promoters	50.00%
FIIIs	26.98%
Institutions	10.28%
Others (incl. body corporate)	12.74%

Performance (%)	1M	6M	1Yr
Absolute	-3.1%	7.2%	21.3%
BSE 500	1.7%	-4.7%	6.9%

Key Ratios

Div Yield	3.9%
TTM PE	18.1x
ROE	21.8%
TTM EPS (Rs.)	14.9/-

- Total sales volumes of Petronet LNG increased by 2.6% YoY in Q4FY19 to 226tbtu due to higher demand from the Power and City Gas Distribution (CGD) sector.
- EBITDA margins of Petronet LNG are not comparable to the previous quarter as the company adopted Ind-AS 116. Hence, adjusted EBIT of the company on a like-to-like basis is only comparable. EBIT was marginally higher at Rs.8,340mn as against Rs.8,322mn in Q4FY18.

Key Business Highlights

- Petronet LNG formed as a Joint Venture by the Government of India to import LNG and set up LNG terminals in the country. It has set up the country's first LNG receiving and regasification terminal at Dahej, Gujarat and another terminal at Kochi, Kerala.
- Petronet LNG's Dahej terminal has a nominal capacity of 17.5 MMTPA whereas the Kochi terminal has a capacity of 5 MMTPA. It is also exploring suitable opportunities within and outside India to expand its business presence.
- Petronet LNG is currently looking for new business initiatives like automotive fuel for heavy duty trucks by setting up LNG dispensing stations on major highways to expand its business.

Valuation

- With well-connected pipeline and economies of scale, Petronet LNG has improved the capacity utilization of Dahej terminal and made it cost effective compared to competitors. It is currently handling 80% of India's total LNG import and Petronet LNG is expanded its capacity by additional 2.5 MMTPA in June 2019. It is also setting up a 3rd terminal with an initial capacity of 5 MMTPA at Gangavaram port, Andhra Pradesh, which is expected to become operational by 2022. Given the strong outlook for Natural Gas demand, the upcoming capacity expansion plan will help Petronet LNG in the longer term. We expect Dahej volumes to increase to 16.5 MMTPA by FY21E.
- Petronet LNG has plan out a capex plan of Rs.120bn for the next seven years, out of which, ~Rs.50bn will be towards development of a new terminal at Gangavaram and ~Rs.70bn for CGD if it wins licenses in seven cities in southern India. Petronet LNG has ~Rs.50bn as Cash & Current Investments on its balance sheet. In addition, it generates annual retained earnings (earning after dividend payment) of more than Rs.20bn, which is expected to grow at a CAGR of ~15% over the period of FY19-25E, which could accumulate the sum of Rs.200bn during the similar period. We believe, despite heavy capex of Rs.120bn, Petronet LNG will continue to remain a net cash company.
- Despite the upcoming terminals at Ennore and Mundra, the Dahej facility of Petronet LNG continues to be competitive given its strong pipeline connectivity thereby being a low-cost re-gasifier which would give it an edge over other players. The upcoming capacity at the terminal will further improve earnings prospects for Petronet LNG.
- With one of the fastest growing companies in the Indian energy sector, increase in utilization post the completion of Kochi-Mangalore pipeline, setting up a 3rd terminal with an initial capacity of 5 MMTPA and internal accruals to fund planned capex plan, we value Petronet LNG at 15.5x FY21E EPS of Rs.19.90 to arrive at target price of Rs.278.00, an upside of ~13%.

Risk & Concern

- Petronet LNG is exposed to macro-economic situations in domestic markets, any economic slowdown may impact its future growth.
- Any adverse fluctuation in natural gas prices may negatively impact the margin of Petronet LNG.
- Petronet LNG is also exposed to foreign exchange risks, any adverse movement in major currencies may affect margin of the company.

Graphs & Charts

Figure 1: Net Sales Trend

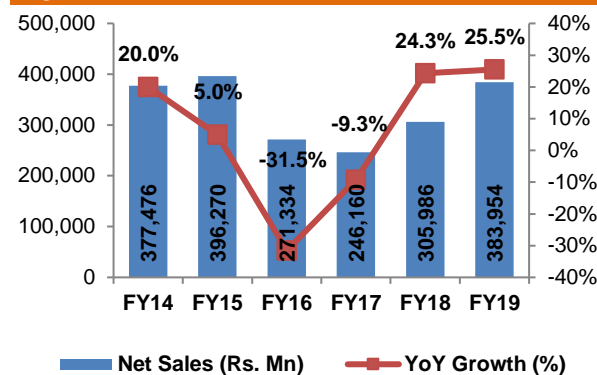


Figure 2: EBITDA & EBITDA Margin Trend

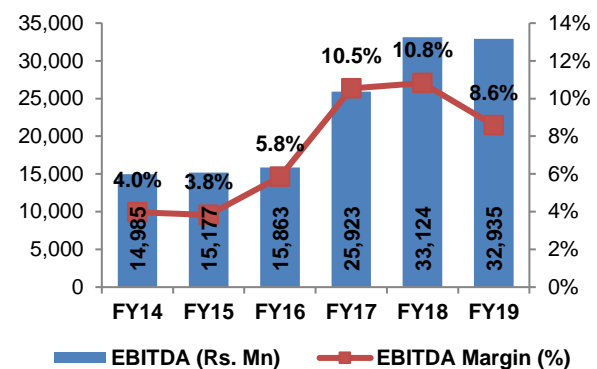


Figure 3: PAT Trend

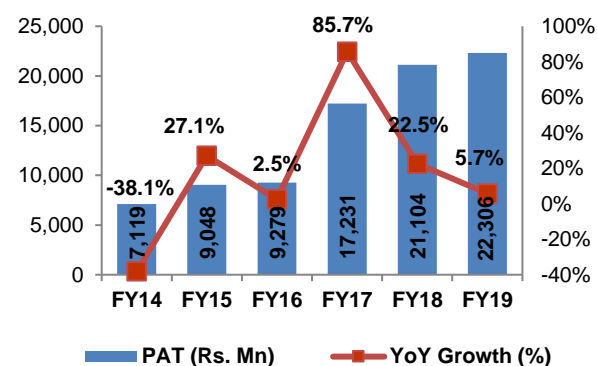
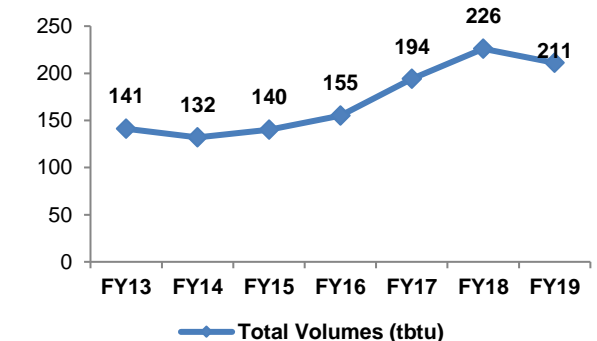


Figure 4: Total Volumes Trend



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