

RESULTS REVIEW

Petronet LNG Ltd.

ACCUMULATE

Analyst

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Nifty: 8,080; Sensex: 26,228

CMP	Rs353
Target Price	Rs385
Potential Upside/Downside	+9%

Key Stock Data

Sector	Oil and Gas
Bloomberg / Reuters PLNG IN / PLNG.BO	
Shares o/s (mn)	750
Market cap. (Rsmn)	264,600
Market cap. (US\$ mn)	3,903
3-m daily average vol.	128,803

Price Performance

52-week high/low	Rs411/204
-1m	-3m
Absolute (%)	(12)
Rel to Sensex (%)	(8)
	10
	70
	16
	68

Shareholding Pattern (%)

Promoters	50.0
FIIs/NRIs/OCBs/GDR	21.7
MFs/Banks/FIs	16.0
Public & Others	12.3

Relative to Sensex



Source: Capitaline

Strong volume growth boosted earnings

Summary

Petronet LNG (PLNG) came out with yet another stellar performance in Q2FY17, propelled by better than expected volume and margins on spot cargoes. Revenue decreased 12.3% YoY to Rs66 bn (due to lower gas price), EBITDA increased 55.6% to highest ever Rs7.3 bn and net profit increased 85% to Rs4.6 bn (IDBlest Rs3.6 bn). Total volume increased significantly 20.6% YoY/12.3% QoQ to 188.9tbtu (including 4.5tbtu in Kochi). Out of which 103tbtu is long term, 20.7tbtu spot and 60.7tbtu is tolling volume. Calculated margin for short term/spot cargoes comes at Rs55/mmtbu compared to Rs17 in Q2FY16. Average realisation came at US\$7.4/mmbtu compared to US\$13.2/mmbtu in Q2FY17. Other income also includes Rs400-500 mn of marked-to-market adjustment for few of its investment in line with Ind-AS.

New long term contract for expanded capacity at Dahej kicked off from Oct'16 which is expected to take full capacity by end of FY17. The management has guided that H2FY17 volume should be better than H1FY17 with the new contracts. Also, they have awarded EPC contract for regasification units to expand further from 15mtpa to 17.5mtpa, which is likely to complete in three years. We are raising our Dahej volume estimate for FY17 to 695tbtu from 636tbtu and keeping unchanged for FY18 at 748tbtu. Therefore we are raising our EBITDA/PAT estimates by 18%/20% for FY17 and keeping unchanged for FY18. We are keeping our target price unchanged at Rs385, based on 16x FY18E EPS. Maintain ACCUMULATE.

Result Highlights and Investment Rationale

■ Highest-ever volume surprised positively

Revenue decreased 12.3% YoY to Rs66 bn due to lower realization which dropped to US\$7.4/mmbtu compared to US\$13.2/mmbtu in Q2FY17. Total volume increased significantly 20.6% YoY/12.3% QoQ to 188.9tbtu (including 4.5tbtu in Kochi). Out of which 103tbtu is long term, 20.7tbtu spot and 60.7tbtu is tolling volume.

■ Increased tolling volume and higher margin from spot boosted operating profit

PLNG's EBITDA increased 55.6% YoY to Rs7.3 bn, came above estimate due to higher-than expected volume and margin from spot cargoes. Calculated margin for spot cargoes comes at Rs55/mmtbu compared to Rs17 in Q2FY16. Also, due to higher tolling volume, EBITDA margin expanded 480bps YoY to 11%.

■ Higher other income due to one-off boosted PAT

The company's interest expense decreased 9.4% due to lower debt burden and other income increased 154% to Rs915 mn, which includes Rs400-500 mn of marked-to-market adjustment for few of its investment in line with Ind-AS. Consequently, net profit increased 84.7% YoY to Rs4.6 bn in Q2FY17.

Financial snapshot

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY15	395,010	14,390	3.6	8,825	11.8	30.0	19.8	16.5	15.0
FY16	272,230	16,455	6.0	9,285	12.4	28.5	17.3	16.0	13.6
FY17E	263,491	26,747	10.2	15,511	20.7	17.1	10.6	24.6	18.9
FY18E	274,004	30,913	11.3	18,152	24.2	14.6	9.2	25.0	18.3

Source: Company; IDBI Capital Research

■ **Concall details**

- New long term contract for expanded capacity at Dahej kicked off from Oct'16 which is expected to take full capacity by end of FY17.
- The management has guided that H2FY17 volume should be better than H1FY17 with the new contracts.
- Also, they have awarded EPC contract for regasification units to expand further from 15mtpa to 17.5mtpa, which is likely to complete in three years.
- Volume may take some hit in subsequent quarter as Dabhol terminal started from Oct'16.
- First cargo from Gorgon project would start come in Jan'17 and second in Mar'17. Full volume of 1.44mtpa would start from July'17. Almost 40-50% of the capacity may get consumed in Kochi (Post expansion of Kochi refinery which would increase the gas usage from current 0.5mmscmd to around 2mmscmd). Rest would be utilized to Dahej.
- GAIL has awarded contract for one spread out of five spread of Kochi-Mangalore pipeline and second is likely to be awarded in Dec'16. Difficult to give any guidance on the start of the project.

■ **Revising estimates upwards for FY17 but unchanged for FY18; Maintain ACCUMULATE with TP of Rs385**

We are raising our Dahej volume estimate for FY17 to 695tbtu from 636tbtu and keeping unchanged for FY18 at 748tbtu. Therefore we are raising our EBITDA/PAT estimates by 18%/20% for FY17 and keeping unchanged for FY18. We are keeping our target price unchanged at Rs385, based on 16x FY18E EPS. Maintain **ACCUMULATE**.

Table: Actual vs estimates

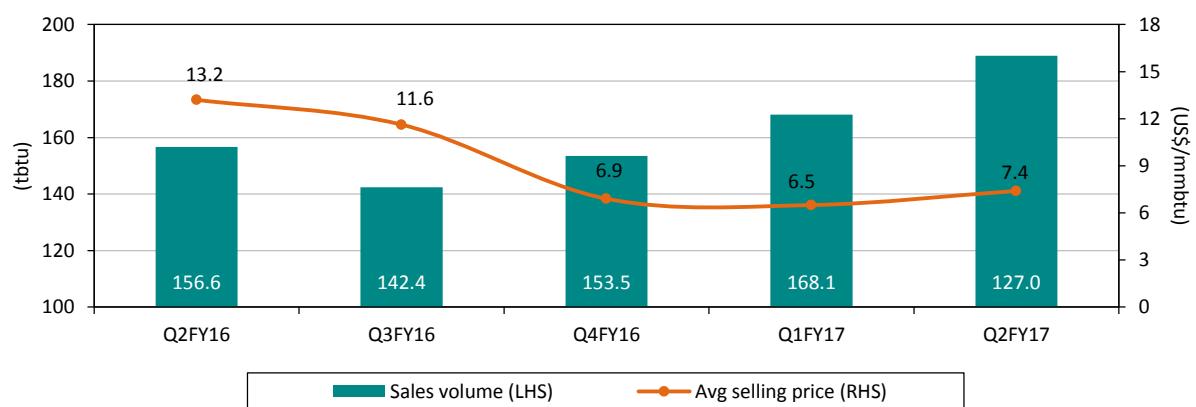
	Actual	Estimated	(Rs mn) % change
Net sales	66,144	55,948	18.2
EBITDA	7,264	6,091	19.3
EBITDA margin (%)	11.0	10.9	10bps
Adjusted PAT	4,596	3,572	28.7
FDEPS (Rs)	6.1	4.8	28.7

Source: IDBI Capital Research, Company

Table: Quarterly highlights

Year-end: March	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)
Net sales	66,144	75,450	(12.3)	53,373	23.9
Expenditure	58,880	70,781	(16.8)	46,948	25.4
EBITDA	7,264	4,668	55.6	6,425	13.1
EBITDA margin (%)	11.0	6.2	480	12.0	(105)
Other income	915	360	154.2	494	85.4
Interest	554	612	(9.4)	556	(0.4)
Depreciation	860	808	6.4	806	6.7
PBT	6,765	3,608	87.5	5,556	21.8
Tax	2,170	1,120	93.7	1,777	22.1
PAT	4,596	2,488	84.7	3,779	21.6
EPS (Rs)	6.1	3.3	84.7	5.0	21.6
Long term cargoes	103.0	63.0	63.5	105.3	(2.2)
Spot cargoes	25.2	21.5	17.0	12.8	96.9
Re-gas services	60.7	72.1	(15.8)	50.1	21.3
Total volumes	188.9	156.6	20.6	168.1	12.3

Source: Company; IDBI Capital Research

Figure: Volume and realization trend

Source: Company; IDBI Capital Research

Table: Our Assumption

	FY15	FY16	FY17E	FY18E
Dahej - throughput (tbtu)				
Long-term volume	345	277	425	425
Short-term/spot volume	72	75	50	10
Regas services	105	213	220	313
Total Dahej volume	521	566	695	748
% growth	5.8	8.7	22.8	7.6
Gross realisation (US\$/mmmbtu)	14.7	11.2	7.8	8.2
Dahej - Regasification margin (Rs/mmbtu)				
Regas margin - Long term	39.1	41.0	43.1	45.2
Regas/marketing margin - short term/spot	15.0	2.0	60.0	60.0
Regas margin - Tolling services	39.1	41.0	43.1	45.2
Kochi				
Spot volume	5	15	20	0
Gross realisation (US\$/mmmbtu)	16.9	8.9	7.9	9.6
Regas margin (Rs/mmbtu)	65.1	60	60	60
PLNG - combined				
Volume	526	581	715	788
Gross realisation (US\$/mmmbtu)	14.7	11.1	7.8	8.3
Exchange rate (Rs/US\$)	61.2	65.5	66.0	66.0
Brent crude oil price (US\$/bbl)	95	43	45	60

Source: Company; IDBI Capital Research

Financial Summary

■ Profit & Loss Account (Rs mn)					■ Cash Flow Statement (Rs mn)				
Year-end: March	FY15	FY16	FY17E	FY18E	Year-end: March	FY15	FY16	FY17E	FY18E
Revenues	395,010	272,230	263,491	274,004	Net income + Depreciation	11,979	12,678	19,426	23,205
Growth (%)	4.6	(31.1)	(3.2)	4.0	Non-cash adjustments	1,138	(5,466)	(3,695)	(3,382)
EBITDA	14,390	16,455	26,747	30,913	Changes in working capital	(6,486)	14,586	(199)	239
Growth (%)	(4.0)	14.4	62.5	15.6	Cashflow from operations	6,631	21,797	15,532	20,061
Depreciation & amortisation	3,154	3,393	3,915	5,053	Capital expenditure	(8,552)	(3,765)	(5,888)	(9,996)
EBIT	11,236	13,063	22,832	25,860	Change in investments	499	-	-	-
Growth (%)	(5.6)	16.3	74.8	13.3	Cashflow from investing	(8,053)	(3,765)	(5,888)	(9,996)
Interest	2,935	2,552	2,399	2,181	Issue/repay debt	(5,227)	3,035	4,458	10,080
Other income	1,548	1,726	2,417	2,296	Dividends paid	(2,038)	(1,426)	(1,245)	(1,245)
EBT	9,849	12,237	22,850	25,975	Change in cash & cash eq	(8,686)	19,641	12,857	18,901
Income taxes	1,024	2,951	7,339	7,823	Closing cash & cash eq	3,641	23,282	36,140	55,041
Effective tax rate (%)	10.4	24.1	32.1	30.1					
Reported net income	8,825	9,285	15,511	18,152					
Growth (%)	24.0	5.2	67.1	17.0					
Shares outstanding (mn)	750.0	750.0	750.0	750.0					
Adjusted EPS (Rs)	11.8	12.4	20.7	24.2					
Growth (%)	24.0	5.2	67.1	17.0					
DPS (Rs)	2.0	2.0	2.0	2.0					
■ Balance Sheet (Rs mn)					■ Financial Ratios				
Year-end: March	FY15	FY16	FY17E	FY18E	Year-end: March	FY15	FY16	FY17E	FY18E
Cash and cash eq	3,641	23,282	36,140	55,041	Profitability & Return ratios (%)				
Accounts receivable	13,428	9,254	8,957	9,314	EBITDA margin	3.6	6.0	10.2	11.3
Inventories	8,826	2,497	2,417	2,513	EBIT margin	2.8	4.8	8.7	9.4
Others current assets	7,497	5,167	5,001	5,200	Net profit margin	2.2	3.4	5.9	6.6
Investments	900	900	900	900	ROE	16.5	16.0	24.6	25.0
Gross fixed assets	82,946	87,946	94,946	109,946	ROCE	15.0	13.6	18.9	18.3
Net fixed assets	64,544	66,250	69,335	79,282	Working capital & Liquidity ratios				
CWIP	12,351	11,116	10,004	5,000	Receivables (days)	16	15	13	12
Deferred tax assets, net	(7,270)	(7,882)	(10,167)	(12,765)	Inventory (days)	9	8	4	4
Total assets	103,917	110,584	122,586	144,486	Payables (days)	11	12	21	21
Accounts payable	3,209	13,608	13,171	13,696	Current ratio (x)	1.6	1.7	2.3	3.1
Other current liabilities	18,148	9,501	9,196	9,563	Quick ratio (x)	0.8	1.4	2.0	2.8
Provisions	1,936	1,755	1,755	1,755	Turnover & Leverage ratios (x)				
Debt funds	23,738	26,773	31,232	41,312	Gross asset turnover	4.9	3.2	2.9	2.7
Equity capital	7,500	7,500	7,500	7,500	Total asset turnover	3.6	2.5	2.3	2.1
Reserves & surplus	49,386	51,447	59,733	70,660	Interest coverage ratio	3.8	5.1	9.5	11.9
Shareholder's funds	56,886	58,947	67,233	78,160	Adjusted debt/equity	0.4	0.5	0.5	0.5
Total liabilities	103,917	110,584	122,586	144,486	Valuation ratios (x)				
BVPS (Rs)	75.8	78.6	89.6	104.2	EV/Sales	0.7	1.0	1.1	1.0
					EV/EBITDA	19.8	17.3	10.6	9.2
					P/E	30.0	28.5	17.1	14.6
					P/BV	4.7	4.5	3.9	3.4

Source: Company; IDBI Capital Research

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