

BSE SENSEX
35,650

S&P CNX
10,730

CMP: INR222 TP: INR317 (+43%)

Buy



Stock Info

Bloomberg	PLNG IN
Equity Shares (m)	1,500
M.Cap.(INRb)/(USD\$b)	333.7 / 4.8
52-Week Range (INR)	254 / 197
1, 6, 12 Rel. Per (%)	3/6/-17
12M Avg Val (INR M)	832
Free float (%)	50.0

Financials Snapshot (INR b)

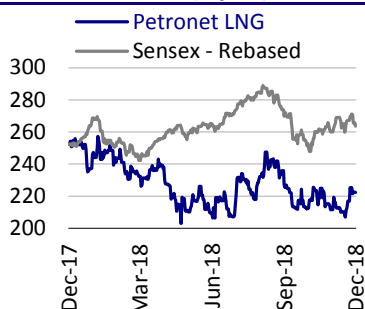
Y/E Mar	FY19E	FY20E	FY21E
Net Sales	380.4	475.1	507.9
EBITDA	35.0	42.4	45.8
PAT	22.5	27.9	30.9
EPS (INR)	15.0	18.6	20.6
Gr. (%)	8.4	23.7	10.7
BV/Sh (INR)	71.0	78.7	87.3
RoE (%)	22.1	24.8	24.8
RoCE (%)	21.4	24.5	24.7
P/E (x)	14.8	12.0	10.8
P/BV (x)	3.1	2.8	2.5
EV/EBITDA (x)	9.3	7.2	6.3
EV/Sales (x)	0.9	0.6	0.6

Shareholding pattern (%)

As On	Sep-18	Jun-18	Sep-17
Promoter	50.0	50.0	50.0
DII	11.5	11.7	12.8
FII	23.9	23.0	21.8
Others	14.6	15.3	15.4

FII Includes depository receipts

Stock Performance (1-year)



Utilization story playing out well

Increasing LNG glut to support prices

- According to International Gas Union (IGU), ~92mtpa of liquefaction capacity was under construction as of Mar'18, almost 31% of total trade in 2017.
- Consumption in Japan, the largest importer of LNG, is likely to decline. China and India are expected to be the major drivers of consumption.
- Higher incremental supply is likely to result in increasing glut, keeping LNG prices favorable.

Slope to remain favorable

- With a glut in natural gas production, the slope of Henry Hub to WTI has crashed from 13% to 6.5%.
- We expect a similar trend in spot LNG prices with expansion in global glut.
- Lower slope to oil would be beneficial for LNG consumers and, in turn, for PLNG.

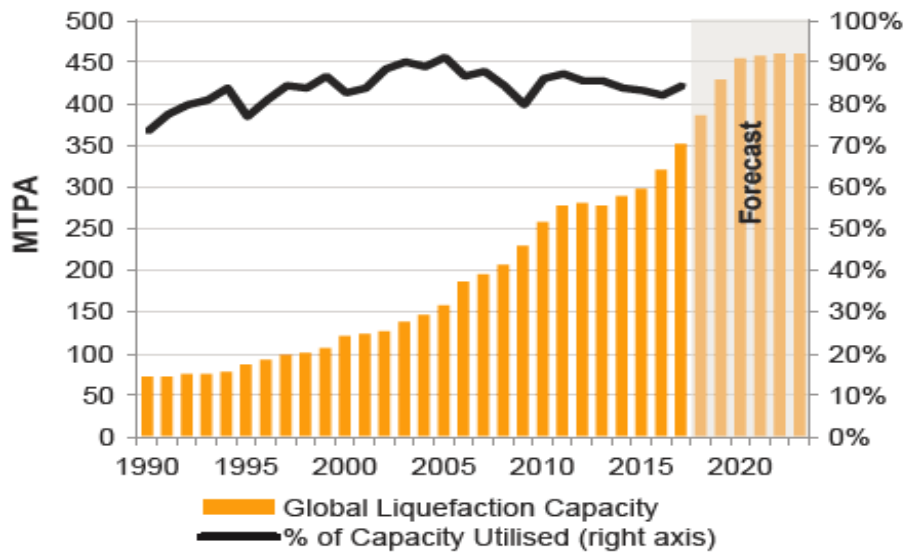
Competition to remain moderate

- Despite the inauguration of GSPC's Mundra LNG terminal, we have not seen any volume there so far.
- H-Energy's FSRU also appears delayed to mid-2019.
- Domestic gas production has also been lagging projections. Additionally, a significant amount of incremental gas production is expected to come from difficult fields (RIL's KG basin, ONGC's KG-DWN-98/2, ONGC's S1/Vashistha). These are expected to fetch a price that would be closer to LNG.

Valuation and view

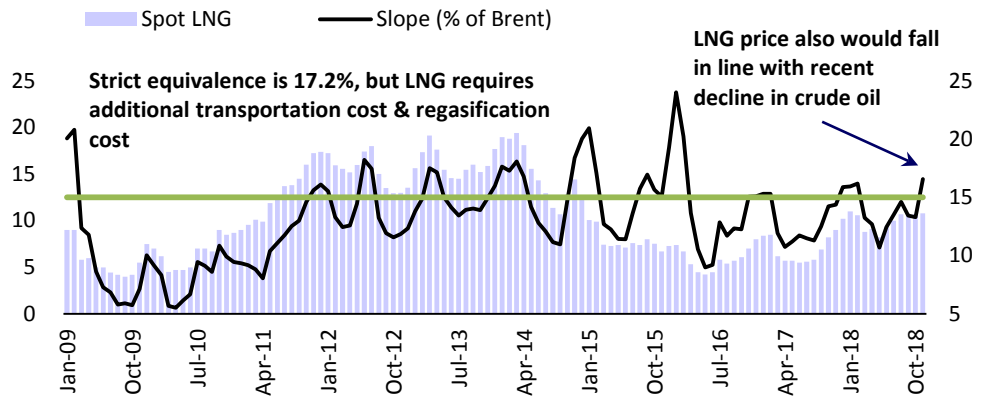
- The stock is trading at 11.1x Dec'20 EPS of INR20.1 and 6.6x Dec'20 EV/EBITDA. We value the stock using DCF (WACC of 12%, terminal growth of 3%). With a target price of INR317, we reiterate our **Buy** rating on the stock.
- Key triggers to watch out: (i) progress on the completion of Kochi-Mangalore pipeline, (ii) ramp-up of domestic gas production and (iii) progress of Dahej expansion from 15mtpa to 17.5mtpa. Deployment of cash remains a challenge in the absence of commensurate imminent projects. However, management has shown prudence in terms of shortlisting of prospective projects. Dividend payout is also likely to remain high in the absence of imminent cash outgo on projects.

Exhibit 1: Global liquefaction capacity



Source: IGU

Exhibit 2: LNG prices to be favorable to oil-based alternatives



Source: Company, MOSL

Valuation and view

Reiterate Buy with a target price of INR317

- **Strong earnings visibility:** Visibility on PLNG's medium/long-term earnings has improved with (a) the huge gas demand-supply gap in India, (b) volume growth, driven by gradual capacity addition and (c) earnings growth boosted by annual re-gas charge escalation to protect IRR.
- **Poor competition from existing/upcoming terminals:** We believe that the existing Dabhol and Hazira terminals would remain underutilized, while the upcoming Mundra and Ennore terminals would face pipeline issues. H-Energy's FSRU has also been delayed to mid-2019.
- **LNG prices to correct:** We believe that LNG prices would remain structurally weak for a long time, even if oil prices were to rise, due to 92mtpa of LNG liquefaction capacity under various stages of construction v/s global LNG trade of 293mmt in 2017.
- **Valuation:** The stock is trading at 11.1x FY20E EPS of INR20.1 and 6.6x FY20E EV/EBITDA. We value the stock using DCF (WACC of 12%, terminal growth of 3%). With a target price of IN317, we reiterate our **Buy** rating on the stock.

Exhibit 3: PLNG – Key assumptions

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Exchange Rate (INR/USD)	45.5	47.9	54.5	60.6	61.4	65.5	67.1	64.4	70.4	73.1	74.2
Brent (USD/bbl)	86.7	114.5	110.5	107.6	85.5	47.5	49.0	57.6	69.4	70.0	70.0
Dahej terminal	10.0	10.0	10.0	10.0	10.0	10.0	13.3	15.0	15.6	17.5	17.5
Kochi terminal				5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Dahej terminal	87%	108%	104%	97%	103%	112%	106%	108%	105%	96%	100%
Kochi terminal				2%	2%	6%	6%	12%	12%	40%	40%
Volume sold (mtpa)	8.7	10.8	10.4	9.8	10.4	11.5	14.4	16.8	17.0	18.8	19.5
Dahej terminal	8.7	10.8	10.4	9.7	10.3	11.2	14.1	16.1	16.4	16.8	17.5
Kochi terminal	-	-	-	0.1	0.1	0.3	0.3	0.6	0.6	2.0	2.0
Re-gassification charges (INR/mmBtu)											
Dahej terminal	32.2	33.8	35.5	37.2	39.1	41.0	43.1	45.2	47.5	49.9	52.4
YoY (%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Kochi terminal				62.0	65.1	68.4	71.8	75.4	79.1	79.1	79.1
YoY (%)					5.0%	5.0%	5.0%	5.0%	5.0%	0.0%	0.0%
EPS (INR)	4.1	7.1	7.7	4.7	5.9	6.1	11.4	13.9	15.0	18.6	20.6

Source: Company, MOSL

Exhibit 4: We value PLNG on DCF methodology

PLNG - DCF Valuation	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
PLNG EBITDA (INRm)	33,124	34,988	42,435	45,832	49,118	51,252	52,908	52,731
Depreciation	4,117	4,273	4,580	4,828	4,968	5,042	5,093	5,139
EBIT	29,007	30,715	37,855	41,004	44,151	46,210	47,815	47,592
Tax rate (%)	32	34	33	33	33	33	33	33
Capital expenditure	1,899	10,000	5,000	2,500	1,000	1,000	1,000	1,000
Change in WC	-10,407	-4,213	-5,363	-1,859	-14,058	-3,045	-1,574	0
FCFF (INRm)	32,352	18,755	30,128	31,536	47,474	37,909	37,559	35,883
PV(FCFF)			29,280	27,342	36,720	26,158	23,120	19,705

Source: Company

Exhibit 5: DCF Valuation - For 12M Forward

Terminal cash flow (INRm)	35,883
Terminal growth rate	3.0%
Terminal value (INRm)	4,06,425
PV (Terminal Value)	2,50,183
PV	1,62,325
Enterprise value (INRm)	4,12,509
Net debt (INRm)	-62,725
Equity value (INRm)	4,75,234
Target price (INR)	317

Source: Company, MOSL

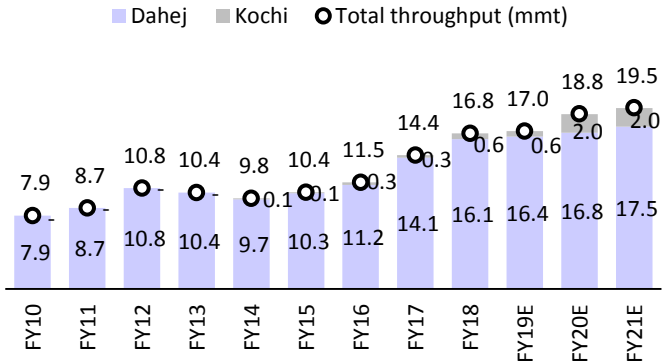
Exhibit 6: WACC Calculation

Debt/Equity	7.5%
Tax rate	34%
Risk free rate	7.4%
Beta	0.84
Market risk premium	13.5%
Cost of equity	12.5%
Cost of debt	7.9%
WACC	12.0%

Source: Company, MOSL

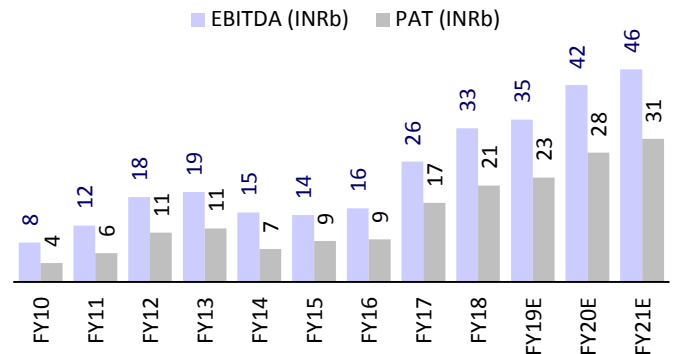
Story in charts

Exhibit 7: Volume growth led by capacity ramp-up



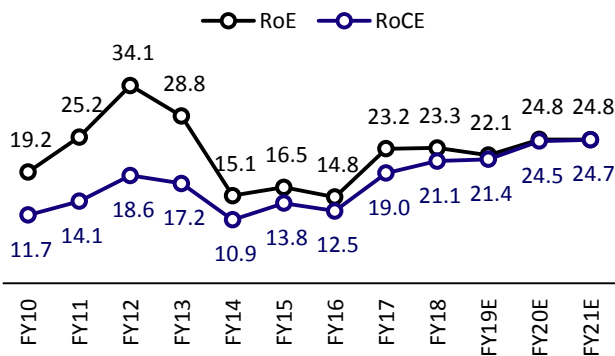
Source: Bloomberg, Platts, MOSL

Exhibit 8: EBITDA and PAT to improve



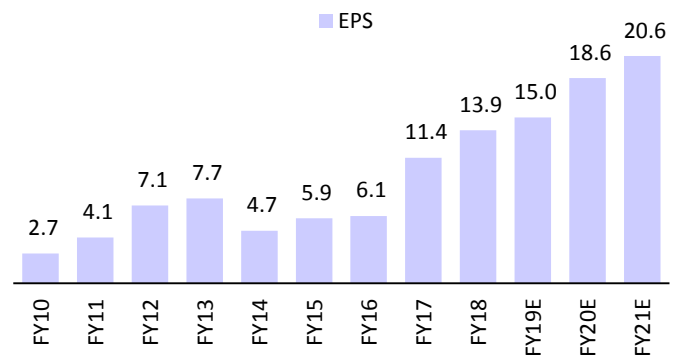
Source: Company, MOSL

Exhibit 9: Return ratios to improve



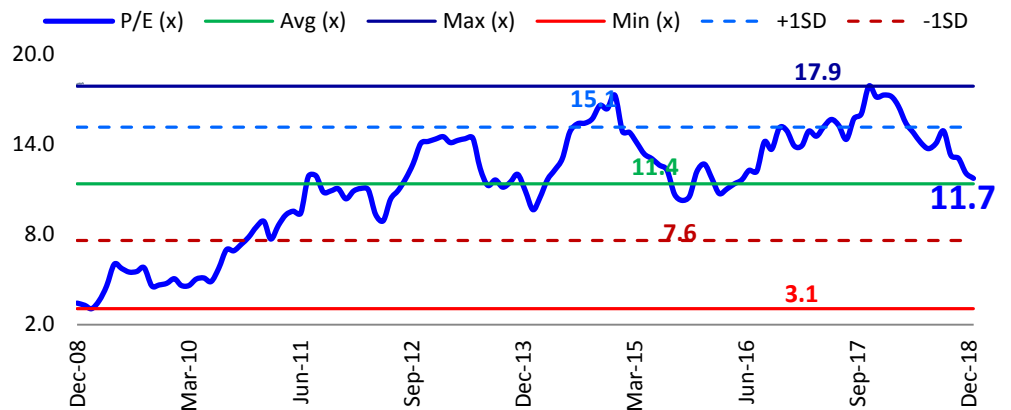
Source: Company, MOSL

Exhibit 10: Expect PLNG to report ~14% EPS CAGR over FY18-21E



Source: IGU, MOSL

Exhibit 11: 1Y Fwd Petronet LNG P/E



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	3,14,674	3,77,476	3,95,010	2,71,334	2,46,160	3,05,986	3,80,386	4,75,094	5,07,917
Change (%)	38.6	20.0	4.6	-31.3	-9.3	24.3	24.3	24.9	6.9
Raw Materials	2,92,119	3,58,495	3,76,109	2,50,757	2,14,169	2,66,902	3,38,571	4,24,618	4,53,580
Employees Cost	370	466	571	711	739	912	1,049	1,206	1,327
Other Expenses	2,819	3,530	3,940	4,005	5,330	5,049	5,765	6,835	7,179
Total Expenditure	2,95,309	3,62,491	3,80,620	2,55,472	2,20,238	2,72,863	3,45,385	4,32,659	4,62,086
% of Sales	93.8	96.0	96.4	94.2	89.5	89.2	90.8	91.1	91.0
EBITDA	19,366	14,984	14,390	15,863	25,923	33,124	35,001	42,435	45,832
Margin (%)	6.2	4.0	3.6	5.8	10.5	10.8	9.2	8.9	9.0
Depreciation	1,866	3,081	3,154	3,216	3,691	4,117	4,273	4,580	4,828
EBIT	17,500	11,903	11,236	12,647	22,232	29,007	30,728	37,855	41,004
Int. and Finance Charges	1,184	2,196	2,935	2,388	2,097	1,630	589	203	37
Other Income	887	838	1,548	1,733	3,466	3,174	3,984	4,230	5,298
PBT bef. EO Exp.	17,203	10,545	9,849	11,992	23,602	30,551	34,123	41,883	46,265
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	17,203	10,545	9,849	11,992	23,602	30,551	34,123	41,883	46,265
Total Tax	5,710	3,426	1,024	2,860	6,545	9,773	11,606	14,018	15,406
Tax Rate (%)	33.2	32.5	10.4	23.8	27.7	32.0	34.0	33.5	33.3
Reported PAT	11,493	7,119	8,825	9,133	17,057	20,779	22,517	27,864	30,858
Adjusted PAT	11,493	7,119	8,825	9,133	17,057	20,779	22,517	27,864	30,858
Change (%)	8.7	-38.1	24.0	3.5	86.8	21.8	8.4	23.7	10.7
Margin (%)	3.7	1.9	2.2	3.4	6.9	6.8	5.9	5.9	6.1

Standalone - Balance Sheet

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	7,500	7,500	7,500	7,500	7,500	15,000	15,000	15,000	15,000
Total Reserves	36,997	42,361	49,386	58,640	73,439	82,205	91,549	1,03,113	1,15,919
Net Worth	44,497	49,861	56,886	66,140	80,939	97,205	1,06,549	1,18,113	1,30,919
Total Loans	30,342	32,669	26,541	26,146	22,180	7,334	3,334	334	334
Deferred Tax Liabilities	3,910	5,530	7,270	5,886	7,302	10,482	10,482	10,482	10,482
Capital Employed	78,749	88,061	90,697	98,171	1,10,421	1,15,021	1,20,365	1,28,929	1,41,735
Gross Block	35,796	77,946	87,869	71,321	91,134	91,316	98,078	1,04,931	1,09,051
Less: Accum. Deprn.	12,217	15,295	18,443	3,216	6,903	11,020	15,293	19,873	24,701
Net Fixed Assets	23,579	62,650	69,426	68,105	84,230	80,296	82,785	85,057	84,350
Capital WIP	43,305	8,799	7,469	15,505	486	2,203	5,441	3,588	1,968
Total Investments	1,399	1,399	900	900	29,351	41,223	41,223	41,223	41,223
Curr. Assets, Loans&Adv.	42,546	46,278	33,441	39,751	24,224	32,815	42,528	63,522	83,109
Inventory	10,366	9,557	8,826	2,461	5,405	4,911	6,105	7,625	8,152
Account Receivables	16,898	20,157	13,428	9,885	12,108	16,505	20,518	25,627	27,397
Cash and Bank Balance	12,685	12,327	3,621	21,829	3,273	8,625	12,456	25,963	42,956
Loans and Advances	2,596	4,237	7,566	5,576	3,438	2,774	3,448	4,307	4,604
Curr. Liability & Prov.	32,080	31,066	20,538	26,090	27,870	41,517	51,611	64,461	68,915
Account Payables	25,320	20,482	5,969	8,695	9,952	15,699	19,516	24,375	26,059
Other Current Liabilities	4,460	7,855	12,584	17,241	17,758	25,619	31,848	39,777	42,525
Provisions	2,299	2,729	1,985	155	160	199	248	309	330
Net Current Assets	10,466	15,212	12,903	13,661	-3,646	-8,702	-9,084	-940	14,195
Appl. of Funds	78,749	88,061	90,697	98,171	1,10,421	1,15,021	1,20,365	1,28,929	1,41,735

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)									
EPS	7.7	4.7	5.9	6.1	11.4	13.9	15.0	18.6	20.6
Cash EPS	8.9	6.8	8.0	8.2	13.8	16.6	17.9	21.6	23.8
BV/Share	29.7	33.2	37.9	44.1	54.0	64.8	71.0	78.7	87.3
DPS	1.3	1.0	1.0	1.3	2.5	4.5	7.5	9.3	10.3
Payout (%)	19.1	24.7	20.4	23.9	25.7	38.0	58.5	58.5	58.5
Valuation (x)									
P/E			37.7	36.5	19.5	16.0	14.8	12.0	10.8
Cash P/E			27.8	27.0	16.1	13.4	12.4	10.3	9.3
P/BV			5.9	5.0	4.1	3.4	3.1	2.8	2.5
EV/Sales			0.9	1.2	1.4	1.1	0.9	0.6	0.6
EV/EBITDA			24.7	21.3	13.6	10.0	9.3	7.2	6.3
Dividend Yield (%)	0.6	0.5	0.5	0.6	1.1	2.0	3.4	4.2	4.6
FCF per share	5.0	-0.6	-0.9	12.3	10.7	24.4	14.0	21.9	23.4
Return Ratios (%)									
RoE	28.8	15.1	16.5	14.8	23.2	23.3	22.1	24.8	24.8
RoCE	17.2	10.9	13.8	12.5	19.0	21.1	21.4	24.5	24.7
RoIC	47.9	18.5	14.0	13.9	23.4	28.1	32.6	42.2	48.1
Working Capital Ratios									
Fixed Asset Turnover (x)	8.8	4.8	4.5	3.8	2.7	3.4	3.9	4.5	4.7
Asset Turnover (x)	4.0	4.3	4.4	2.8	2.2	2.7	3.2	3.7	3.6
Inventory (Days)	12	9	8	3	8	6	6	6	6
Debtor (Days)	20	19	12	13	18	20	20	20	20
Creditor (Days)	29	20	6	12	15	19	19	19	19
Leverage Ratio (x)									
Current Ratio	1.3	1.5	1.6	1.5	0.9	0.8	0.8	1.0	1.2
Interest Cover Ratio	14.8	5.4	3.8	5.3	10.6	17.8	52.2	186.9	1,111.2
Net Debt/Equity	0.4	0.4	0.4	0.1	-0.1	-0.4	-0.5	-0.6	-0.6

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	17,203	10,545	9,849	11,992	23,602	30,551	34,123	41,883	46,265
Depreciation	1,866	3,081	3,154	3,216	3,691	4,117	4,273	4,580	4,828
Deferred tax	280	1,620	1,740	-1,384	1,416	3,180	0	0	0
Direct Taxes Paid	-5,710	-3,426	-1,024	-2,860	-6,545	-9,773	-11,606	-14,018	-15,406
(Inc)/Dec in Wkg. Capital	4,456	-5,104	-6,397	17,450	-1,248	10,407	4,213	5,363	1,859
CF from Op. Activity	18,095	6,716	7,322	28,414	20,915	38,482	31,004	37,808	37,545
(Inc)/Dec in FA & CWIP	-10,635	-7,647	-8,599	-9,931	-4,796	-1,899	-10,000	-5,000	-2,500
Free Cash Flow	7,460	-931	-1,277	18,483	16,119	36,583	21,004	32,808	35,045
(Pur)/Sale of Investments	0	0	499	0	-28,451	-11,872	0	0	0
CF from Inv. Activity	-10,635	-7,647	-8,100	-9,931	-33,248	-13,772	-10,000	-5,000	-2,500
Inc / (Dec) in Debt	-2,420	2,328	-6,128	-396	-3,966	-14,846	-4,000	-3,000	0
Dividends Paid (incl.tax)	-2,194	-1,755	-1,800	-2,180	-4,388	-7,898	-13,173	-16,301	0
Others	0	0	0	2,301	2,130	3,385	0	0	-18,052
CF from Fin. Activity	-4,614	573	-7,928	-275	-6,223	-19,359	-17,173	-19,301	-18,052
Inc / (Dec) in Cash	2,846	-358	-8,706	18,208	-18,556	5,352	3,831	13,507	16,993
Add: Opening Balance	9,839	12,685	12,327	3,621	21,829	3,273	8,625	12,456	25,963
Closing Balance	12,685	12,327	3,621	21,829	3,273	8,625	12,456	25,963	42,956

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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