

Stock Update

Weak Dahej utilisation; limited competition & strong LNG demand to aid volume growth

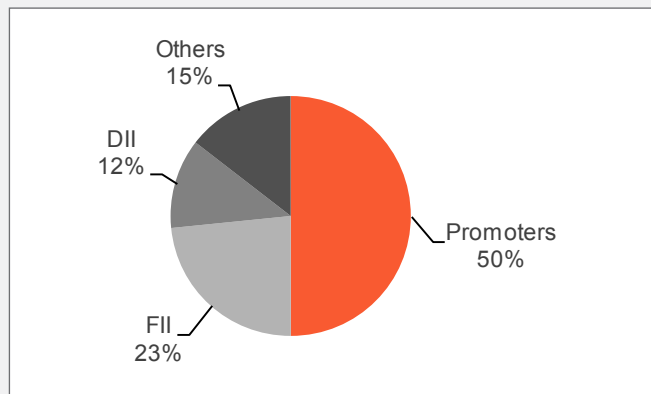
Petronet LNG

Reco: Buy | CMP: Rs221

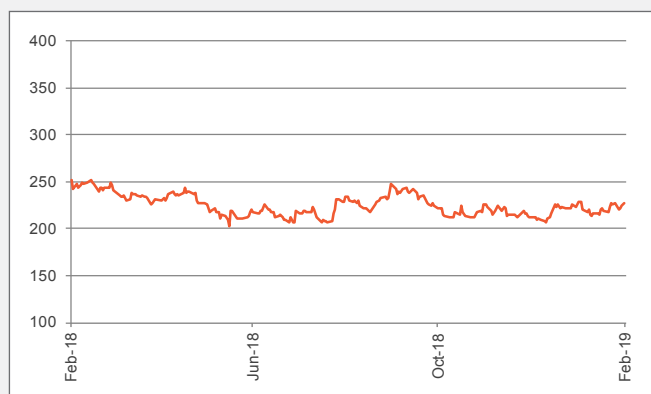
Company details

Price target:	Rs270
Market cap:	Rs33,180 cr
52-week high/low:	Rs259/202
NSE volume: (No of shares)	29.4 lakh
BSE code:	532522
NSE code:	PETRONET
Sharekhan code:	PETRONET
Free float: (No of shares)	75.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.6	3.5	3.8	-6.6
Relative to Sensex	1.0	-1.8	7.2	-8.5

Key points

- Operating profit above our estimate on account of lower opex and ETR; Dahej utilisation disappoints at 103%:** Petronet LNG (PLNG) reported operating profit of Rs. 848 crore (flat y-o-y, down 5.8% q-o-q) for Q3FY2019, above our estimate of Rs. 812 crore. The beat was on the account of lower-than-expected employee cost and other expenses partially offset by lower than expected utilization rate at its Dajej terminal at 103% (vs our expectation of 107%). Dahej re-gas volumes declined 8.4% y-o-y (down 6.6% q-o-q) at 197 trillion British thermal units (tBtu), lower than our estimate of 204tBtu. The decline in the volume was on the account of lower LNG demand from the power sector. The Kochi terminal volume stood at 5tBtu (down 37.1% y-o-y; down 16.4% q-o-q). The Profit after tax (PAT) increased by 6.9% y-o-y (down 1.5% q-o-q) to Rs. 565 crore, above our estimate of Rs. 540 crore due to a higher than expected operating profit and lower than expected effective tax rate (ETR) at 30.3% (vs our assumption of 32%).
- Dahej expansion on track but ramp-up to require some time; completion of Kochi-Mangalore pipeline section delayed to June-2019:** The management has indicated that the Dahej expansion to 17.5mmt is on track for completion by June-2019 (in fact PLNG is ahead of schedule) but hinted that the ramp-up to full utilization would require few months. The guidance on completion of construction work on Kochi-Mangalore pipeline section has been delayed to May to June-2019 vs the earlier guidance of February-2019. With regards to the overseas foray, the management has indicated that proposed investment for 7.5mtpa LNG terminal at Bangladesh would have to be reassessed due to the change in the current location of Kutubdia Island. PLNG also plans to add a storage tank and jetty over next three years, which is likely to add ~2mtpa in capacity. PLNG plans to participate in the 10th city gas bidding round and is also looking for investment in the US upstream sector and LNG terminal if they are able to bring gas at \$6/ mmbtu to India.

- ◆ **Outlook – long term volume growth remain intact given strong LNG demand and limited competition from new terminals; re-gas tariff hike showcases strong competitive position:** Given the Government's thrust to increase share of gas to 15% in India's energy mix (from 6% currently) and delay in the ramp-up of the domestic gas production in the near to medium term bodes well for strong LNG demand in the country. Moreover, we do not expect any significant competition from Mundra LNG terminal as it is expected to operate on spot volumes in the near to medium term. Hence, we remain optimistic about the long term volume growth prospects for PLNG and model 9% volume CAGR over FY2019E-FY2021E. The volume growth would be driven by capacity expansion at Dahej to 17.5 mmt by June 2019 (from 15 mmt currently) and ramp up of utilisation at Kochi terminal to ~30% in FY2021E (factored in delay in ramp-up of utilisation given delay in pipeline construction). Moreover, PLNG's 5% annual escalation in re-gas tariff at Dahej

terminal with effect from January 01, 2019 showcases its strong competitive positioning (lowest re-gas tariff in the industry and strong connectivity to pipelines).

- ◆ **Valuation – Maintain Buy with unchanged price target of Rs. 270:** We have increased our FY2019E EPS to reflect beat in Q3FY2019 earnings but lower our FY2020E EPS to factor lower volumes at Kochi (due to delay in completion of Kochi-Mangalore pipeline section) and Dahej terminal (factor in some ramp-up time for 2.5mtpa expansion). We have also introduced our FY2021E EPS of Rs18.6. We maintain our Buy rating with unchanged price target of Rs270 (14.5x FY2021E EPS) given earnings growth visibility (11% CAGR over FY2019E-FY2021E), healthy RoE of ~21% and attractive valuation of 13.4x FY2020E EPS and 11.9x FY2021E EPS.
- ◆ **Key risks to our PT and rating:** Delay in capacity expansion at Dahej and lower-than-expected Kochi utilisation rate.

Results

Particulars	Rs cr				
	Q3FY19	Q3FY18	YoY %	Q2FY19	QoQ %
Net Sales	10,098	7,757	30.2	10,745	-6.0
Total Expenditure	9,250	6,910	33.9	9,862	-6.2
Reported operating profit	848	847	0.1	884	-4.0
Adjusted operating profit	848	847	0.1	901	-5.8
Other Income	88	41	113.6	111	-20.7
Interest	22	37	-41.2	25	-13.5
Depreciation	104	104	-0.2	104	0.0
Reported PBT	811	748	8.4	867	-6.4
Exceptional income/(expense)	0	0		-17	
Adjusted PBT	811	748	8.4	884	-8.2
Tax	246	219	12.1	304	-19.0
RPAT	565	529	6.9	563	0.4
Adjusted PAT	565	529	6.9	574	-1.5
Equity Cap (cr)	150	150		150	
Reported EPS (Rs)	3.8	3.5	6.9	3.8	0.4
Adjusted EPS	3.8	3.5	6.9	3.8	-1.5
Margins (%)			BPS		BPS
OPM	8.4	10.9	-252	8.2	17
Effective tax rate	30.3	29.3	99	35.0	-472
NPM	5.6	6.8	-122	5.2	36

Operating performance

Particulars	Rs cr				
	Q3FY19	Q3FY18	YoY %	Q2FY19	QoQ %
Capacity utilisation – Dahej (%)	103.0	112.5	-941	110.4	-732
Capacity utilisation – Kochi (%)	7.9	12.6	-466	9.4	-155
Total volume (TBTU)	202.0	223.0	-9.4	217.0	-6.9
Long term volume – Dahej	109.0	119.0	-8.4	116.0	-6.0
Tolling volume – Dahej	84.0	92.0	-8.7	88.0	-4.5
Spot volume – Dahej	4.0	4.0	0.0	7.0	-42.9
Total Dahej volume (TBTU)	197.0	215.0	-8.4	211.0	-6.6
Long term volume - Kochi	5.0	8.0	-37.1	6.0	-16.4
Spot volume - Kochi	0.0	0.0		0.0	
Total Kochi volume (TBTU)	5.0	8.0	-37.1	6.0	-16.4

Valuations					Rs cr
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Revenue	24,616	30,599	39,976	47,075	51,817
Operating profit	2,592	3,312	3,535	3,953	4,435
OPM (%)	10.5	10.8	8.8	8.4	8.6
Adjusted PAT	1,706	2,078	2,263	2,485	2,795
% YoY growth	86.8	21.8	8.9	9.8	12.5
Adjusted EPS (Rs)	11.4	13.9	15.1	16.6	18.6
P/E (x)	19.5	16.0	14.7	13.4	11.9
P/B (x)	4.1	3.4	3.0	2.6	2.3
EV/EBITDA (x)	12.2	8.8	7.8	6.5	5.3
RoNW (%)	23.2	23.3	21.7	20.8	20.5
RoCE (%)	22.8	26.3	26.0	25.8	26.0

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