

# Petronet LNG

Refer to important disclosures at the end of this report

## Beyond expectation

- Result is above our and consensus estimates owing to better-than-expected volume. EBITDA came in at Rs7.4bn (up 20.7% qoq) vs our estimate of Rs6.7bn, while PAT was higher than expectation at Rs4.4bn (down 7% qoq) vs our estimate of Rs4bn.
- In Q1FY18, overall utilization for Dahej terminal stood at c97%. While long-term volume declined by 2% qoq to 104.8tbu (including 10.4tbu of Gorgon) due to quarterly fluctuation, third party regasification volume jumped 13% qoq to 78.6tbu, implying strong offtake by tolling parties. Spot LNG volume remained minuscule at 0.8tbu. Overall Dahej volume rose by 4% qoq to 184.1tbu.
- Kochi utilisation came in at c12%, an improvement qoq on account of higher offtake from Kochi refinery (which consumed 1.8-2mmscmd). Expect incremental 1mnt of volume with the commencement of Kochi-Mangalore pipeline.
- Overall these are strong set of numbers. Therefore, with no change in estimates, we maintain our BUY rating with TP of Rs258. We believe that the company is in a safe zone at least for a couple of years despite incremental LNG capacity and rising domestic gas production.

### Key takeaway from PLNG concall

- On Gorgon volume** – Total of ~4 cargoes in this quarter implies 11.2tbu of volume. Going forward, run-rate will remain ~4.5 cargoes on quarterly basis.
- On Kochi terminal** - Kochi terminal utilization is at 12.7% currently. It will be steady over a period of years, but is expected to pick up post the completion of the Kochi-Mangalore pipeline (Dec'18). Demand in the Mangalore region is c1mnt to start with. Currently, FACT consumes c0.8mmscmd while Kochi refinery offtake is c1.8-2mmscmd, and is expected to rise to 2.5mmscmd from FY19. The Kochi LNG terminal's operating profit stood at Rs490mn in Q1FY18 versus Rs245mn in Q1FY17.
- On Dahej terminal** – Current utilization is at 97% and is expected to reach 100% in the coming quarter.
- On Bangladesh terminal** – Proposed Bangladesh venture is at a mature state, as the company is more actively engaged.
- On GST** - Natural gas remains outside the GST purview as of now and there is no clarification on it being part of GST in future. But, it can be a game-changer for the natural gas sector although there is no clarity on its addition.
- Financial details** – Long-term debt stands at ~Rs23bn and cash at Rs30bn as of now. Employee cost had a one-off amounting to Rs70-80mn.
- Outlook and valuation** - We maintain our BUY rating with TP of Rs258. We believe that the company is in a safe zone at least for a couple of years despite incremental LNG capacity and rising domestic gas production. Currently, the stock trades at 14x FY19 EPS.

### Financial Snapshot (Standalone)

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	395,010	271,334	265,825	344,447	411,491
EBITDA	14,390	15,586	25,626	32,705	36,736
EBITDA margin (%)	3.6	5.7	9.6	9.5	8.9
APAT	7,302	9,065	14,903	19,922	22,799
EPS (Rs)	9.7	12.1	19.9	26.6	30.4
EPS (% chg)	2.6	24.1	64.4	33.7	14.4
ROE (%)	13.7	15.0	21.3	23.4	21.9
P/E (x)	43.8	35.2	21.4	16.0	14.0
EV/EBITDA (x)	23.5	20.4	12.4	9.1	7.5
P/BV (x)	2.8	2.5	2.1	1.7	1.4

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 211</b> as of (8/10/2017)	<b>Rs 258 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>21 %</b>

### Change in Estimates

EPS Chg FY18E/FY19E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	13.0	15.2
Consensus	12.6	14.6
Mean Consensus TP (12M)	Rs 227	

### Stock Details

Bloomberg Code	PLNG IN
Face Value (Rs)	10
Shares outstanding (mn)	1,500
52 Week H/L	230 / 154
M Cap (Rs bn/USD bn)	317 / 4.98
Daily Avg Volume (nos.)	8,201,719
Daily Avg Turnover (US\$ mn)	27.5

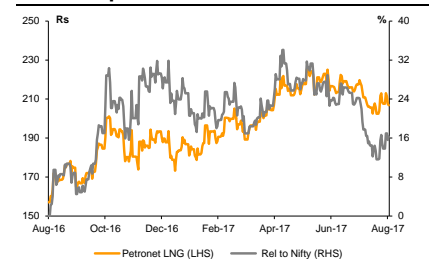
### Shareholding Pattern Jun '17

Promoters	50.0%
FIIIs	22.3%
DIIIs	12.1%
Public and Others	15.6%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(3)	(1)	13	36
<b>Rel. to Nifty</b>	(5)	(7)	-	19

### Relative price chart



Source: Bloomberg

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### Dhaval Joshi

dhaval.joshi@emkayglobal.com  
+91 22 66121282

**Exhibit 1: Actual Vs Estimates**

Rs mn.	Actual	Estimates	Consensus estimates (Bloomberg)	% Variation		Comment
				Emkay	Consensus	
Sales	64,351	74,823	64,463	-14.0	-0.2	
EBITDA	7,442	6,689	6,741	11.3	10.4	Higher than expected volume.
EBITDA margin (%)	11.6%	8.9%	10.5%	262.5%	110.8%	
PAT	4,376	4,058	4,317	7.8	1.4	

Source: Company, Emkay Research

**Exhibit 2: Quarterly Highlights**

Rs Mn.	Q1FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)	FY17	FY16	YoY (%)
<b>Revenue</b>	<b>53,373</b>	<b>63,651</b>	<b>64,351</b>	<b>20.6</b>	<b>1.1</b>	<b>246,160</b>	<b>271,334</b>	<b>-9.3</b>
<b>Expenditure</b>	<b>46,948</b>	<b>57,487</b>	<b>56,909</b>	<b>21.2</b>	<b>-1.0</b>	<b>162,750</b>	<b>255,748</b>	<b>-36.4</b>
as % of sales	88.0%	90.3%	88.4%			66.1%	94.3%	
Consumption of RM	45,768	55,220	55,467	21.2	0.4	214,169	250,757	-14.6
as % of sales	85.8%	86.8%	86.2%			87.0%	92.4%	
Employee Cost	183	181	268	46.5	48.0	739	717	3.0
as % of sales	0.3%	0.3%	0.4%			0.3%	0.3%	
Other expenditure	998	2,086	1,175	17.7	-43.7	5,330	4,275	24.7
as % of sales	1.9%	3.3%	1.8%			2.2%	1.6%	
<b>EBITDA</b>	<b>6,425</b>	<b>6,163</b>	<b>7,442</b>	<b>15.8</b>	<b>20.7</b>	<b>25,923</b>	<b>15,586</b>	<b>66.3</b>
Depreciation	806	1,016	1,027	27.4	1.0	3,691	3,216	14.8
<b>EBIT</b>	<b>5,619</b>	<b>5,147</b>	<b>6,415</b>	<b>14.2</b>	<b>24.6</b>	<b>22,232</b>	<b>12,370</b>	<b>79.7</b>
Other Income	494	1,508	707	43.2	-53.1	3,466	1,935	79.2
Interest	556	469	465	-16.5	-1.0	2,097	2,412	-13.1
<b>PBT</b>	<b>5,556</b>	<b>6,186</b>	<b>6,658</b>	<b>19.8</b>	<b>7.6</b>	<b>23,602</b>	<b>11,893</b>	<b>98.5</b>
Total Tax	1,777	1,478	2,282	28.4	54.4	6,545	3,551	84.3
<b>Adjusted PAT</b>	<b>3,779</b>	<b>4,708</b>	<b>4,376</b>	<b>15.8</b>	<b>-7.1</b>	<b>17,057</b>	<b>8,341</b>	<b>104.5</b>
(Profit)/loss from JV's/Ass/MI						-	-	
<b>APAT after MI</b>	<b>3,779</b>	<b>4,708</b>	<b>4,376</b>	<b>15.8</b>	<b>-7.1</b>	<b>17,057</b>	<b>8,341</b>	<b>104.5</b>
Extra ordinary items								
<b>Reported PAT</b>	<b>3,779</b>	<b>4,708</b>	<b>4,376</b>	<b>15.8</b>	<b>-7.1</b>	<b>17,057</b>	<b>9,065</b>	<b>88.2</b>
<b>Reported EPS</b>	<b>5.0</b>	<b>6.3</b>	<b>2.9</b>	<b>-42.1</b>	<b>-53.5</b>	<b>23</b>	<b>12</b>	<b>88.2</b>

Margins (%)			(bps)	(bps)			(bps)	
EBIDTA	12.0	9.7	11.6	232.0	4.6	10.5	5.7	478.7
EBIT	10.5	8.1	10.0	204.3	5.1	9.0	4.6	447.3
EBT	10.4	9.7	10.3	392.0	162.9	9.6	4.4	520.5
PAT	7.1	7.4	6.8	345.2	108.7	6.9	3.3	358.8
Effective Tax rate	32.0	23.9	34.3	-806.9	189.7	27.7	29.9	-212.9

Source: Company, Emkay Research

**Exhibit 3: Volume Break-up**

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Long-term volume	105.3	103.0	107.5	99.1	104.8
Regasification volume	50.1	60.7	75.3	69.6	78.6
Spot volume	9.9	20.7	4.8	0.4	0.8
<b>Total Volume - TBTU</b>	<b>165.2</b>	<b>184.4</b>	<b>187.6</b>	<b>169.1</b>	<b>184.1</b>
<b>% Change QoQ</b>	<b>11.3</b>	<b>11.6</b>	<b>1.7</b>	<b>-9.9</b>	<b>8.9</b>
<b>For Kochi – Volume - TBTU</b>					
Long-term volume	0	0	0	8	0.8
Regasification volume	0	0	0	1.45	1.91
Spot volume	2.9	4.5	3.8	1.44	4.81
<b>Total Kochi Volume</b>	<b>2.9</b>	<b>4.5</b>	<b>3.8</b>	<b>10.9</b>	<b>7.5</b>
<b>Total PLNG Volume</b>	<b>168.1</b>	<b>188.9</b>	<b>191.4</b>	<b>180.0</b>	<b>191.7</b>
Dahej - Regasification charges(Rs/mmbtu)	42.6	42.6	42.6	44.70	44.70
Kochi- Regasification charges(Rs/mmbtu)	71.8	71.8	71.8	75.37	75.37

Source: Emkay Research, Company

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Revenue</b>	<b>395,010</b>	<b>271,334</b>	<b>265,825</b>	<b>344,447</b>	<b>411,491</b>
<b>Expenditure</b>	<b>380,620</b>	<b>255,748</b>	<b>240,199</b>	<b>311,742</b>	<b>374,754</b>
<b>EBITDA</b>	<b>14,390</b>	<b>15,586</b>	<b>25,626</b>	<b>32,705</b>	<b>36,736</b>
Depreciation	3,154	3,216	3,606	3,915	4,421
<b>EBIT</b>	<b>11,236</b>	<b>12,370</b>	<b>22,020</b>	<b>28,790</b>	<b>32,315</b>
Other Income	1,548	1,935	2,308	2,160	2,340
Interest expenses	2,935	2,412	2,219	1,653	1,128
<b>PBT</b>	<b>9,849</b>	<b>11,893</b>	<b>22,110</b>	<b>29,297</b>	<b>33,527</b>
Tax	2,547	2,827	7,207	9,375	10,729
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>7,302</b>	<b>9,065</b>	<b>14,903</b>	<b>19,922</b>	<b>22,799</b>
<b>Adjusted PAT</b>	<b>7,302</b>	<b>9,065</b>	<b>14,903</b>	<b>19,922</b>	<b>22,799</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	7,500	7,500	7,500	7,500	7,500
Reserves & surplus	49,386	56,264	68,974	86,702	106,868
<b>Net worth</b>	<b>56,886</b>	<b>63,764</b>	<b>76,474</b>	<b>94,202</b>	<b>114,368</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>23,738</b>	<b>20,610</b>	<b>17,738</b>	<b>15,738</b>	<b>10,738</b>
Net deferred tax liability	7,270	8,710	8,710	8,710	8,710
<b>Total Liabilities</b>	<b>87,894</b>	<b>93,084</b>	<b>102,922</b>	<b>118,650</b>	<b>133,816</b>
<b>Net block</b>	<b>69,426</b>	<b>68,105</b>	<b>85,615</b>	<b>82,699</b>	<b>79,778</b>
<b>Investment</b>	<b>900</b>	<b>900</b>	<b>900</b>	<b>900</b>	<b>900</b>
<b>Current Assets</b>	<b>33,392</b>	<b>39,970</b>	<b>43,849</b>	<b>68,887</b>	<b>88,810</b>
Cash & bank balance	3,641	21,829	17,882	37,125	53,041
Other Current Assets	4	33	32	41	49
<b>Current liabilities &amp; Provision</b>	<b>23,292</b>	<b>31,396</b>	<b>27,998</b>	<b>36,392</b>	<b>44,227</b>
<b>Net current assets</b>	<b>10,100</b>	<b>8,574</b>	<b>15,851</b>	<b>32,495</b>	<b>44,583</b>
Misc. exp	0	0	87	87	87
<b>Total Assets</b>	<b>87,894</b>	<b>93,084</b>	<b>102,922</b>	<b>118,650</b>	<b>133,816</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
PBT (Ex-Other income) (NI+Dep)	9,849	11,893	22,110	29,297	33,527
Other Non-Cash items	2900	2,438	-1382	-3807	-5179
Chg in working cap	(4,451)	19,323	(11,224)	2,599	3,828
Operating Cashflow	8,298	33,654	9,504	28,089	32,176
Capital expenditure	(8,279)	(9,724)	(6,080)	(3,000)	(7,500)
Free Cash Flow	19	23,930	3,424	25,089	24,676
Investments	499	0	0	0	0
Other Investing Cash Flow	1,126	1,186	0	0	0
Investing Cashflow	(6,654)	(8,539)	(6,080)	(3,000)	(7,500)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(6,128)	(2,803)	(2,872)	(2,000)	(5,000)
Dividend paid (incl tax)	(1,755)	(1,805)	(2,194)	(2,194)	(2,633)
Other Financing Cash Flow	-2457	-2386	-2218	-1652	-1127
Financing Cashflow	(10,340)	(6,994)	(7,284)	(5,846)	(8,760)
Net chg in cash	(8,696)	18,122	(3,860)	19,243	15,916
Opening cash position	12,275	3,558	21,742	17,882	37,125
Closing cash position	3,578	21,680	17,882	37,125	53,041

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	3.6	5.7	9.6	9.5	8.9
EBIT Margin	2.8	4.6	8.3	8.4	7.9
Effective Tax Rate	25.9	23.8	32.6	32.0	32.0
Net Margin	1.8	3.3	5.6	5.8	5.5
ROCE	14.8	15.8	24.8	28.0	27.5
ROE	13.7	15.0	21.3	23.4	21.9
RoIC	16.3	18.9	31.8	35.6	43.3

<b>Per Share Data (Rs)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
EPS	9.7	12.1	19.9	26.6	30.4
CEPS	13.9	16.4	24.7	31.8	36.3
BVPS	75.8	85.0	101.8	125.5	152.4
DPS	2.0	2.5	2.5	2.5	3.0

<b>Valuations (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
PER	43.8	35.2	21.4	16.0	14.0
P/CEPS	30.6	26.0	17.3	13.4	11.7
P/BV	5.6	5.0	4.2	3.4	2.8
EV / Sales	0.9	1.2	1.2	0.9	0.7
EV / EBITDA	23.5	20.4	12.4	9.1	7.5
Dividend Yield (%)	0.5	0.6	0.6	0.6	0.7

<b>Gearing Ratio (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt/ Equity	0.3	0.0	0.0	(0.2)	(0.4)
Net Debt/EBIDTA	1.3	(0.1)	0.0	(0.7)	(1.2)
Working Cap Cycle (days)	6.0	(17.8)	(2.8)	(4.9)	(7.5)

<b>Growth (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue	4.6	(31.3)	(2.0)	29.6	19.5
EBITDA	(4.0)	8.3	64.4	27.6	12.3
EBIT	(5.6)	10.1	78.0	30.7	12.2
PAT	2.6	24.1	64.4	33.7	14.4

<b>Quarterly (Rs mn)</b>	<b>Q1FY17</b>	<b>Q2FY17</b>	<b>Q3FY17</b>	<b>Q4FY17</b>	<b>Q1FY18</b>
Revenue	53,373	66,144	62,993	63,651	64,351
EBITDA	6,425	7,264	6,071	6,163	7,442
<b>EBITDA Margin (%)</b>	<b>12.0</b>	<b>11.0</b>	<b>9.6</b>	<b>9.7</b>	<b>11.6</b>
PAT	3,779	4,596	3,975	4,708	4,376
<b>EPS (Rs)</b>	<b>5.0</b>	<b>6.1</b>	<b>5.3</b>	<b>6.3</b>	<b>2.9</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>	<b>Mar-17</b>	<b>Jun-17</b>
Promoters	50.0	50.0	50.0	50.0	50.0
FIIIs	21.3	21.7	21.7	19.4	22.3
DIIIs	16.5	16.0	16.3	7.7	12.1
Public and Others	12.3	12.3	12.0	22.9	15.6

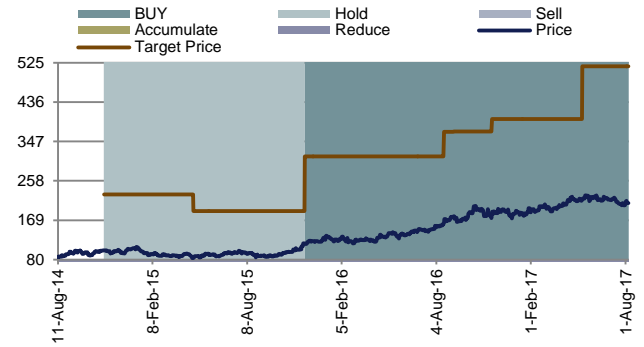
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
10-May-17	217	517	12m	Buy	Dhaval Joshi
14-Feb-17	192	398	12m	Buy	Dhaval Joshi
18-Nov-16	188	398	12m	Buy	Dhaval Joshi
6-Sep-16	178	370	12m	Buy	Dhaval Joshi
18-Aug-16	163	369	12m	Buy	Dhaval Joshi
2-Jun-16	137	313	12m	Buy	Dhaval Joshi
17-May-16	140	313	12m	Buy	Dhaval Joshi
11-Feb-16	123	313	12m	Buy	Dhaval Joshi
26-Nov-15	116	313	12m	Buy	Dhaval Joshi
20-Oct-15	96	190	12m	Hold	Dhaval Joshi
30-Jul-15	97	190	12m	Hold	Dhaval Joshi
27-Apr-15	85	190	12m	Hold	Dhaval Joshi
31-Mar-15	86	227	12m	Hold	Dhaval Joshi
5-Feb-15	92	227	12m	Hold	Dhaval Joshi
7-Nov-14	101	227	12m	Hold	Dhaval Joshi

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

### Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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