

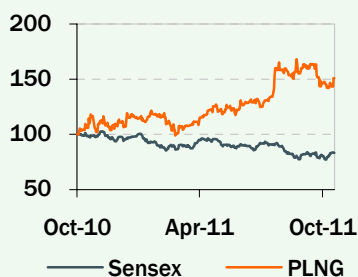


# Petronet LNG

 Relative to sector: **Underperformer**
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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

 No. of shares : 750 mn  
 Market cap : Rs 121 bn  
 52 week high/low : Rs 186/ Rs 105  
 Avg. daily vol. (6mth) : 2.7 mn shares  
 Bloomberg code : PLNG IB  
 Reuters code : PLNG.BO

Shareholding (%)	Sep-11	QoQ chg
Promoters	50.0	0.0
FIs	14.7	2.4
MFs / UTI	7.9	(1.2)
Banks / FIs	0.1	(0.0)
Others	27.3	(1.1)

## Financial Summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2010	106,491	4,045	-	5.4	(22.0)	-	19.2	17.4	-	2.0
2011	131,973	6,196	-	8.3	53.2	-	25.2	20.7	-	2.3
2012E	168,694	10,021	12.0	13.4	61.7	12.1	33.0	23.7	8.8	3.9
2013E	200,492	9,318	12.7	12.4	(7.0)	13.0	25.1	20.0	8.0	3.6

Source: \* Consensus broker estimates, Company, ENAM estimates

## VOLUMES SURPRISE AGAIN; LONG TERM RISK INTACT

Petronet LNG (PLNG) reported PAT of Rs 2.6 bn vs. our and consensus estimates of Rs 2.4 bn, led by higher than expected gas volumes of 135 tbtu (106% capacity utilization) vs. our estimate of 129 tbtu and Q1FY12 volumes of 133 tbtu. Mgmt has indicated that the co. would be able to sustain volumes at 105% utilization despite lower consumption from refineries due to higher prices.

## Volumes surprise positively; raise estimates

Despite higher LNG prices and lower consumption from refineries, PLNG clocked LNG volumes at 135.1 tbtu (up 2% QoQ). Given management expectations of maintaining LNG volumes in H2, we raise our FY12/FY13 utilization rate assumption to 105% leading to 4-10% increase in our EPS. We also raise our fair value to Rs 145 (from Rs 140 previously).

## Kochi terminal on track; PLNG capacity seen at 25 mn tn

Kochi terminal start-up is expected by end-CY12. Management has further indicated a ramp-up of capacity to 5mn tn (peak capacity) in 3 years. With Dahej capacity to be expanded to 17 mnte, Kochi to 5 mnte and a new terminal on the East-Coast, PLNG's capacity would reach ~25 mn tn over the next 5 years.

## Maintain SELL as competition threat looms large

LNG prices are expected to come off due to incremental supplies from US, Australia and Oman. This would threaten PLNG, as it has tied up gas at 15% crude linkage in Kochi for 25 years. With major LNG consumers setting up captive LNG terminals, competition is expected to threaten PLNG in the long-term, despite good earnings traction in the medium term. We remain cautious on the stock due to long-term risks and high RoCEs. We expect competition to drive PLNG promoters to have a re-look at PLNG's regas margins, which would impact its profitability.

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-11	Sep-10	% Chg	Jun-11	% Chg	Mar-12E	Mar-11	% Chg
<b>Net Sales</b>	<b>53,669</b>	<b>30,577</b>	<b>75.5</b>	<b>46,233</b>	<b>16.1</b>	<b>168,694</b>	<b>131,973</b>	<b>27.8</b>
<b>EBIDTA</b>	<b>4,484</b>	<b>2,716</b>	<b>65.1</b>	<b>4,381</b>	<b>2.3</b>	<b>17,738</b>	<b>12,163</b>	<b>45.8</b>
Other income	201	186	8.2	263	(23.4)	822	680	21.0
<b>PBIDT</b>	<b>4,685</b>	<b>2,902</b>	<b>61.4</b>	<b>4,644</b>	<b>0.9</b>	<b>18,560</b>	<b>12,842</b>	<b>44.5</b>
Depreciation	463	466	(0.7)	458	1.1	1,963	1,847	6.3
Interest	458	495	(7.4)	464	(1.2)	1,938	1,931	0.3
<b>PBT</b>	<b>3,763</b>	<b>1,941</b>	<b>93.9</b>	<b>3,722</b>	<b>1.1</b>	<b>14,659</b>	<b>9,064</b>	<b>61.7</b>
Tax	1,160	630	84.1	1,155	0.4	4,638	2,868	61.7
<b>PAT</b>	<b>2,603</b>	<b>1,311</b>	<b>98.5</b>	<b>2,567</b>	<b>1.4</b>	<b>10,021</b>	<b>6,196</b>	<b>61.7</b>
No. of shares (mn)	750	750	-	750	-	750	750	-
EBIDTA margin (%)	8.4	8.9	-	9.5	-	10.5	9.2	-
PBIDT margin (%)	8.7	9.5	-	10.0	-	11.0	9.7	-
<b>EPS - annualized (Rs.)</b>	<b>13.9</b>	<b>7.0</b>	<b>98.5</b>	<b>13.7</b>	<b>1.4</b>	<b>13.4</b>	<b>8.3</b>	<b>61.7</b>

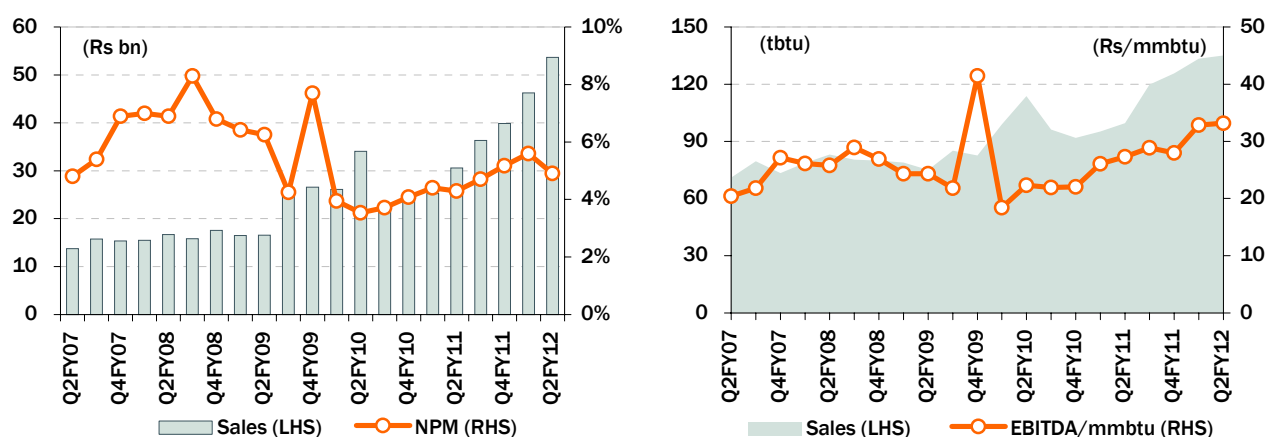
Source: Company, ENAM Research

## Quarterly operating details

	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
<b>Sales quantity (tBTUs)</b>	<b>113.8</b>	<b>95.2</b>	<b>91.8</b>	<b>95.1</b>	<b>99.5</b>	<b>119.7</b>	<b>125.8</b>	<b>133.4</b>	<b>135.1</b>
- Contracted sales volumes	113.5	84.3	90.8	89.5	99.2	111.1	112.1	114.6	117.9
- Tolling volumes	0.4	10.9	1.0	5.7	0.3	8.6	13.6	18.8	17.2
<b>Margins (Rs/mmbtu)</b>									
- Regas margins on LT volumes	25.3	25.0	28.9	30.7	30.5	32.5	32.7	37.3	42.1
- Tolling margins	15.3	28.9	57.5	31.8	32.8	31.7	33.3	33.3	33.3
- Marketing mgns on spot volumes	(7.0)	(16.5)	N.A.	N.A.	22.9	23.0	24.6	47.9	65.9

Source: Company, ENAM Research

## Quarterly trends in sales, margins and volumes



Source: Company, ENAM Research

## Analyst call Highlights

### Spot volumes not at risk due to change in consumer mix

PLNG's management has indicated that although gas off-take by refineries/power plants has declined in Sept' 11, the co. has managed to keep volumes intact due to higher off-take by other consumers such as CGD & industrials. Further, rising spot-LNG price would not impact PLNG's spot volumes as the company already have back-to-back tie-up till Dec' 11.

### Spot volumes to remain robust in Q3FY12

PLNG's Q2FY12 inventories spiked to Rs 5.3 bn (2.1x March-2011 levels) due to inventory of four spot-LNG cargos. However, the management has confirmed that they have already sold the four cargos; which would result in robust spot volumes in Q3FY12 as well.

### Dahej terminal to maintain utilization at 106%

The management was confident that given the continued strength in spot volumes and firm long-term off-take arrangement, PLNG could maintain capacity utilization at current levels of 106% through 2HFY12.

### Kochi to have lower capacity utilization initially; Targeting LFR users

The company has guided that the Kochi terminal is likely to exhibit capacity utilization of only 30-40% in FY14, with a target of achieving 100% utilization by FY16/17. PLNG would be focusing on Liquid Fuel Replacement (LFR) users as against powers/fertilizer users due to their higher acceptability of costlier LNG.

### FY16E capacity seen at 25 mn tn

PLNG's management is expecting to achieve total re-gasification capacity of 25 mn tn backed by: (a) capacity expansions at Dahej (5 mn tn), (b) Kochi terminal (5 mn tn), and (c) new East-Coast terminal (5 mn tn)

- ❑ Kochi terminal construction is 90% complete and on-track for commissioning in Q4FY12
- ❑ Second jetty at Dahej terminal will be completed by Q3FY13
- ❑ Design Feasibility Report (DFR) for the East-Coast terminal has been prepared and the company is currently discussing with port authority to finalize the location

### Capex of Rs 25 bn lined-up for the next two years

The management has indicated that so far they have invested Rs 26 bn in Kochi terminal and planning to invest an additional Rs 16 bn in FY12. Further, the second jetty at Dahej terminal would require additional investment of Rs 9 bn going ahead. Dahej terminal's expansion to 17 mn tn would require an investment of US\$ 500-600 mn.

## Earnings revision

We have revised our FY12 & FY13 earnings estimates upwards by ~4-10% to incorporate: (a) higher volumes & capacity utilization through FY12/13E, and (b) higher gross & marketing margin assumptions. We continue to assume: (a) annual increase of 5% in re-gasification margins till CY13 and flat thereafter, and (b) Expansion of Dahej terminal to 17 MMTPA by FY16.

### PLNG: Earning Revision

(Rs mn)	Old		New		% change	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
EBITDA	15,354	18,793	17,738	19,870	15.5	5.7
Adj. PAT	9,127	8,996	10,021	9,318	9.8	3.6
EPS (Rs)	12.2	12.0	13.4	12.4	9.8	3.6

Source: ENAM Research

### PLNG: Dahej Operating Assumptions

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E
<b>Volumes (mmtpa)</b>									
Terminal capacity	11.5	11.5	11.5	11.5	11.5	11.5	17.0	17.0	17.0
LNG sold	7.7	8.5	9.1	9.1	9.4	9.4	11.9	14.8	14.8
Capacity utilisation (%)	66.8	73.6	79.0	79.0	81.6	81.6	69.7	87.2	87.2
<b>Margins (Rs/mmbtu)</b>									
Regasification margins	30.6	32.2	33.8	35.5	36.2	34.6	34.6	34.6	34.6
Marketing margins on spot sales	(17.6)	29.3	40.0	40.0	35.0	30.0	15.0	10.0	10.0
<b>Operational cost break-up (Rs/mmbtu)</b>									
Staff cost	0.5	0.7	0.8	0.9	1.0	1.2	1.2	1.1	1.3
Power, utilities and chemicals	1.2	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Insurance & other variable costs	1.1	1.3	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Other expenses	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.5	0.5

Source: Company, ENAM Research

### PLNG: Kochi Operating Assumptions

	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
<b>Volumes (mmtpa)</b>									
Terminal capacity	2.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
LNG sold	0.5	1.5	2.0	3.0	4.0	4.0	4.0	4.0	4.0
Capacity utilisation (%)	19.8	29.6	39.5	59.3	79.0	79.0	79.0	79.0	79.0
<b>Margins (Rs/mmbtu)</b>									
Regasification margins	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0
Marketing margins on spot sales	40.0	35.0	30.0	15.0	10.0	10.0	10.0	5.0	5.0
<b>Operational cost break-up (Rs/mmbtu)</b>									
Staff cost	8.3	3.3	2.9	2.3	2.0	2.4	2.8	3.3	3.9
Power, utilities and chemicals	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Insurance & other variable costs	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Other expenses	0.5	0.5	0.6	0.5	0.4	0.4	0.4	0.5	0.5

Source: Company, ENAM Research

## PLNG: Valuation

### Upgrading target price to Rs 145/sh

We have revised our target price upwards to Rs 145 (vs. Rs 140 earlier) to factor in higher volumes & margins. We have assumed: (a) Dahej re-gas margin to grow at 5% YoY till CY13 and flat thereafter, implying ROCE of 20% over the life of the terminal; (b) an increase in Dahej terminal capacity to 17 MMTPA by FY16; and (c) re-gasification margin of Rs 73/mmbtu for Kochi terminal, implying 16% ROCE over the life of the terminal.

### PLNG: Base case valuation

	(Rs mn)	(Rs/share)	Remarks
Equity Value of Dahej	70,740	94	DCF
Equity Value of Kochi	29,236	39	DCF
Net cash	8,430	11	
Solid cargo port	900	1	Valued at cost
<b>Fair Value</b>	<b>109,307</b>	<b>145</b>	

Source: ENAM Research

## Company Financials

### Income statement

(Rs. mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
<b>Net sales</b>	<b>106,491</b>	<b>131,973</b>	<b>168,694</b>	<b>200,492</b>
Other operating income	0	0	0	0
<b>Total Income</b>	<b>106,491</b>	<b>131,973</b>	<b>168,694</b>	<b>200,492</b>
Cost of goods sold	97,576	119,230	150,284	179,918
Contribution (%)	9	11	12	11
Advt/Sales/Distrn O/H	451	580	672	704
<b>Operating Profit</b>	<b>8,465</b>	<b>12,163</b>	<b>17,738</b>	<b>19,870</b>
Other income	978	680	822	982
<b>PBIDT</b>	<b>9,443</b>	<b>12,842</b>	<b>18,560</b>	<b>20,852</b>
Depreciation	1,609	1,847	1,963	3,233
Interest	1,839	1,931	1,938	3,989
Other pretax	0	0	0	0
<b>Pre-tax profit</b>	<b>5,995</b>	<b>9,064</b>	<b>14,659</b>	<b>13,631</b>
Tax provision	1,950	2,868	4,638	4,313
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
<b>Adjusted PAT</b>	<b>4,045</b>	<b>6,196</b>	<b>10,021</b>	<b>9,318</b>
E/o income / (Expense)	0	0	0	0
<b>Reported PAT</b>	<b>4,045</b>	<b>6,196</b>	<b>10,021</b>	<b>9,318</b>

### Balance sheet

(Rs. mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
<b>Total assets</b>	<b>50,609</b>	<b>62,443</b>	<b>84,918</b>	<b>99,437</b>
Gross block	35,495	35,537	39,544	84,901
Net fixed assets	28,829	27,024	29,068	71,192
CWIP	13,184	22,029	37,213	2,733
Investments	677	733	733	733
Wkg. cap. (excl cash)	(194)	201	5,475	7,491
Cash / Bank balance	8,114	12,456	12,429	17,286
Others/Def tax assets	0	0	0	0
<b>Capital employed</b>	<b>50,609</b>	<b>62,443</b>	<b>84,918</b>	<b>99,437</b>
Equity capital	7,500	7,500	7,500	7,500
Reserves	14,849	19,302	26,391	32,984
Borrowings	24,998	32,161	47,194	54,793
Others	3,262	3,480	3,833	4,160

Source: Company, ENAM Research

### Key ratios

(%)

Y/E Mar	FY10	FY11	FY12E	FY13E
<b>Sales growth</b>	<b>26.3</b>	<b>23.9</b>	<b>27.8</b>	<b>18.8</b>
<b>OPM</b>	<b>7.9</b>	<b>9.2</b>	<b>10.5</b>	<b>9.9</b>
Oper. profit growth	(6.1)	43.7	45.8	12.0
COGS / Net sales	91.6	90.3	89.1	89.7
Overheads/Net sales	0.4	0.4	0.4	0.4
Depreciation / G. block	4.5	5.2	5.0	3.8
Effective interest rate	7.7	6.8	4.9	7.8
Net wkg.cap / Net sales	0.0	0.0	0.0	0.0
Net sales / Gr block (x)	3.9	3.7	4.5	3.2
Incremental RoCE	(18.7)	46.5	24.3	8.9
<b>RoCE</b>	<b>17.4</b>	<b>20.7</b>	<b>23.7</b>	<b>20.0</b>
Debt / equity (x)	1.1	1.2	1.4	1.4
Effective tax rate	32.5	31.6	31.6	31.6
<b>RoE</b>	<b>19.2</b>	<b>25.2</b>	<b>33.0</b>	<b>25.1</b>
Payout ratio (Div/NP)	37.8	28.1	29.3	29.3
<b>EPS (Rs.)</b>	<b>5.4</b>	<b>8.3</b>	<b>13.4</b>	<b>12.4</b>
EPS Growth	(22.0)	53.2	61.7	(7.0)
CEPS (Rs.)	7.5	10.7	16.0	16.7
DPS (Rs.)	2.0	2.3	3.9	3.6

### Cash-flow

(Rs. mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
<b>Sources</b>	<b>6,840</b>	<b>13,680</b>	<b>24,438</b>	<b>17,751</b>
Cash profit	5,649	8,043	11,984	12,550
(-) Dividends	1,531	1,743	2,931	2,725
Retained earnings	4,119	6,299	9,053	9,825
Issue of equity	0	0	0	0
Borrowings	2,181	7,163	15,033	7,598
Others	540	218	353	328
<b>Applications</b>	<b>6,840</b>	<b>13,680</b>	<b>24,438</b>	<b>17,751</b>
Capital expenditure	10,461	8,887	19,191	10,878
Investments	2,344	6,263	0	0
Net current assets	(2,791)	395	5,274	2,017
Change in cash	(3,173)	(1,865)	(26)	4,857

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