

Company Flash

11 March 2008 | 5 pages

Gujarat State Petronet (GSPT.BO)

Citi India Conference 2008: Day 1 Takeaways

- Conference takeaways** — GSPL spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- Growth plans** — GSPL is in the midst of expanding its pipeline network in Gujarat incurring an estimated capex of ~Rs20bn (to be funded through debt and internal accruals). Construction of the pipeline for carrying RIL's gas from Bharuch to Jamnagar is on track (to be commissioned by 2Q FY09E). GSPL is also looking at expanding to other states such as Rajasthan, Maharashtra, and TN, though these would also be driven by how the regulatory environment pans out. It is also indirectly participating in city gas projects (~25 potential cities) through equity investments in group companies, GSPC Gas and Sabarmati Gas.
- Gas volumes remain robust** — Current gas volumes are trending between 18-20 mmscmd (PLNG and Shell together account for nearly 80%). Volume growth in FY09 (expected to increase to ~35 mmscmd) would be driven by: (1) volumes to Torrent Power from 1QFY09 and (2) volumes to RIL (Jamnagar) plant from 2Q/3QFY09. With PMT volumes constituting <1.5 mmscmd, the impact of these volumes ceasing to flow through GSPL's network looks manageable.
- Regulatory environment should provide growth opportunities** — Though draft guidelines for gas transmission have been issued, regulations will probably take around 5-6 months to be finalized. Regulations should not have a significant impact on tariffs, while potential opening up of the sector by allowing for bidding of new pipelines should provide a meaningful growth opportunity for established and experienced players like GSPL.

Buy/Low Risk	1L
Price (11 Mar 08)	Rs68.15
Target price	Rs104.00
Expected share price return	52.6%
Expected dividend yield	0.6%
Expected total return	53.2%
Market Cap	Rs38,301M US\$948M

Price Performance (RIC: GSPT.BO, BB: GUJS IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	467	1.04	95.1	65.5	4.1	7.1	0.4
2007A	894	1.65	58.4	41.4	3.8	9.5	0.7
2008E	806	1.46	-11.4	46.7	3.4	7.7	0.6
2009E	1,263	2.25	54.1	30.3	3.2	10.8	1.0
2010E	1,894	3.37	50.0	20.2	2.9	14.9	1.5

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Gujarat State Petronet

Company description

GSPL is a gas transmission company with a network of pipelines in the western Indian state of Gujarat. The company has a gas transmission network comprising over 1,100 kms of pipelines connecting Hazira, Vadodara, Ahmedabad, Kalol, Himmatnagar, Mehsana, Rajkot, and Vapi. GSPL's network connects all the major supply sources in Gujarat to important consumption centres in the state and currently transports c.16mmscmd of gas.

Investment strategy

We rate Gujarat State Petronet as Buy/Low Risk (1L). GSPL has seized the opportunity for setting up an "open access" pipeline network in India's most vibrant gas market, Gujarat. Gujarat has the advantage of being the landfall point of gas from India's western offshore fields (the largest source of gas for India) as well as having two LNG receiving terminals. The state is also among the most industrialized regions in India with a large presence of energy-intensive industries in addition to traditional gas-using industries. GSPL's parent, Gujarat State Petroleum Corporation, has played and continues to play an important role as an aggregator of gas demand and supplies.

Valuation

Our target price of Rs104 is based on our DCF fair value for Mar-09E. Our DCF is based on gas volumes tied up with Reliance (11-20mmscmd) and announced capex plans (Rs26bn over FY08-10E). We use DCF to value the company given the utility nature of the business, which ensures steady cash flows. Discounted cash flows also capture the value of the business over a longer term. Our DCF valuation is based on five years of explicit forecasts, 27% CAGR of committed volumes over FY07-12E, FY12E volumes of 54mmscmd, and terminal growth of 3%. We use a WACC of 9.7% (risk free 8.0%, risk premium 6.0%, beta of 0.85, target D/E of 50%). Also, on a price/cash earnings basis, we think GSPL is at a justifiable premium to other gas utilities (13x FY10E) given our high growth expectations of its gas transmission business (EPS CAGR of 27% over FY07-10E). We prefer P/CEPS to the more traditional P/E multiple as a valuation benchmark given GSPL's aggressive depreciation policy.

Risks

We assign a Low Risk rating to GSPL as opposed to the Medium Risk suggested by our quantitative risk-rating system as improved visibility of gas supplies will likely ensure high utilization of the company's pipelines even after its ongoing expansions. The key downside risks to our target price include: 1) Government regulation of gas pipeline tariffs - with the setting up of the Petroleum and Natural Gas Regulatory Board, pipeline tariffs could come under scrutiny; 2) Gas supplies - we assume a 27% CAGR in gas volumes for GSPL. If supplies are lower than our expectations, this could impact earnings and valuations; 3) Project risk - GSPL is implementing expansion of its pipeline network that is subject to time and cost over-runs that could impact earnings. If any of these factors has a greater impact than we expect, the stock could have difficulty achieving our target price.

Appendix A-1

Analyst Certification

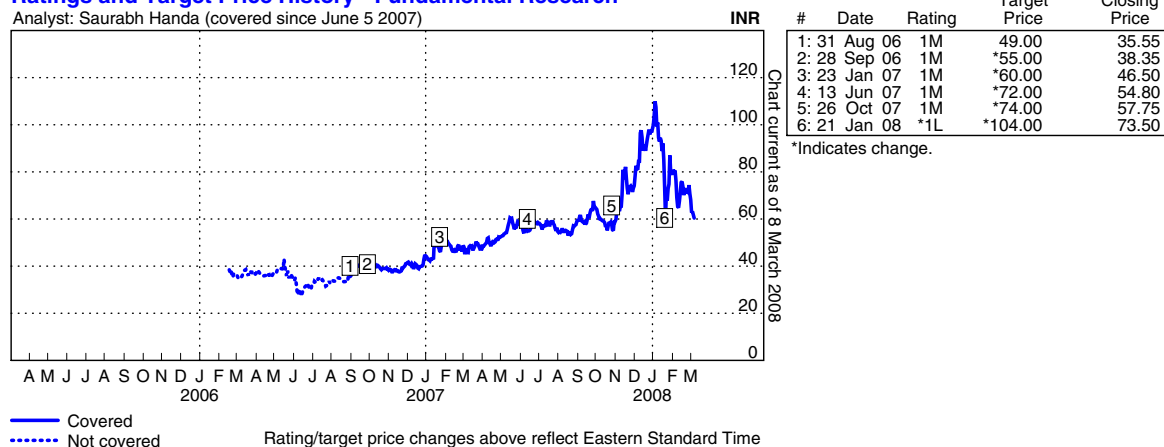
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Gujarat State Petronet (GSPT.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Saurabh Handa (covered since June 5 2007)



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