

RESULTS FLASH

EQUITIES RESEARCH

PLNG IN PETRONET LNG

INDIA / OIL & GAS

HOLD

TARGET INR171.00
CLOSE INR161.45
UP/DOWNSIDE +5.9%

HOW WE DIFFER FROM THE STREET

	BNPP	Consensus	% Diff
Target Price (INR)	171.00	176.78	(3.3)
EPS 2012 (INR)	12.52	11.95	4.7
EPS 2013 (INR)	12.67	12.69	(0.1)
	Positive	Neutral	Negative
Market Recs	32	10	9

INDUSTRY OUTLOOK ↔

Earnings surprise, a hat-trick

RESULTS REVIEW

Marketing margins and volume continue to beat expectations

Reported PAT, at INR2.6b, was above market expectations, on the back of better marketing margins (we estimate USD1/mmbtu for 1H) and higher utilization (averaged 106% for 1HFY11). Higher other expenses included a notional forex loss of INR530m, excluding which operating margins were in line q-q. For 1H, PLNG sourced 6 spot cargoes vs. FY12 guidance of 10.

SUMMARY

Marketing margins may not be as strong as 1H

Asia LNG FOB discount to liquid fuels, adjusted for energy parity, has shrunk sharply, due to a rise in LNG prices post the Japan earthquake and recent inventory stocking for the upcoming winter (Exhibit 2). But, we see minimal risk to FY12E utilization of 105% (as 90% offtake is secured, and ~65% of spot volume guidance already achieved in 1H, Exhibit 1).

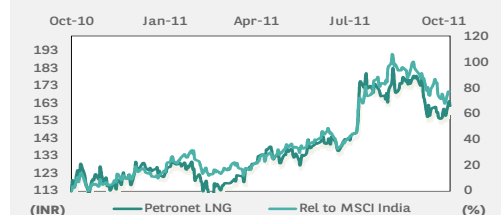
VALUATION

Very strong 1HFY12 to buffer 2HFY12E earnings weakness; HOLD

We see minimal downside risk to the conservative BNPP/consensus FY12 estimates, given the strong 1H results. PLNG has achieved ~56% of our FY12E earnings, offering a buffer to any weakness in trading margins in 2H. The stock trades at 13x FY13E (in line with the Indian gas utilities), and we expect it to perform in line with the market. We estimate EPS impact of ~2% and ~10% respectively for every 1% hit in utilization and 25cents correction in trading margins. Upside risk: incremental secure term contract (PLNG said it is considering stakes in upcoming LNG projects in Australia and is continuing to hold talks with Qatar). Downside risk: delay in Kochi LNG and steep contraction in trading margins.

KEY STOCK DATA

YE Mar (INR m)	2012E	2013E	2014E
Revenue	203,612	267,482	358,863
Rec. net profit	9,391	9,499	11,448
Recurring EPS (INR)	12.52	12.67	15.26
Chg. In EPS est. (%)	N/A	N/A	N/A
EPS growth (%)	51.6	1.2	20.5
Recurring P/E (x)	12.9	12.7	10.6
Dividend yield (%)	1.2	1.2	1.2
EV/EBITDA (x)	8.5	7.5	6.0
Price/book (x)	3.5	2.9	2.3
Net debt/Equity (%)	49.7	45.1	16.4
ROE (%)	30.7	24.8	24.3



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(9.1)	10.6	29.5
Relative to country (%)	(8.2)	20.4	48.7
Next results	January 2012		
Mkt cap (USD m)	2,456		
3m avg daily turnover (USD m)	12.8		
Free float (%)	50		
Major shareholder	ONGC, GAIL, IOC, BPCL (12.5% each) (50%)		
12m high/low (INR)	182.95/107.45		
3m historic vol. (%)	38.2		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	750		

Sources: Bloomberg consensus; BNP Paribas estimates



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19 OCTOBER 2011

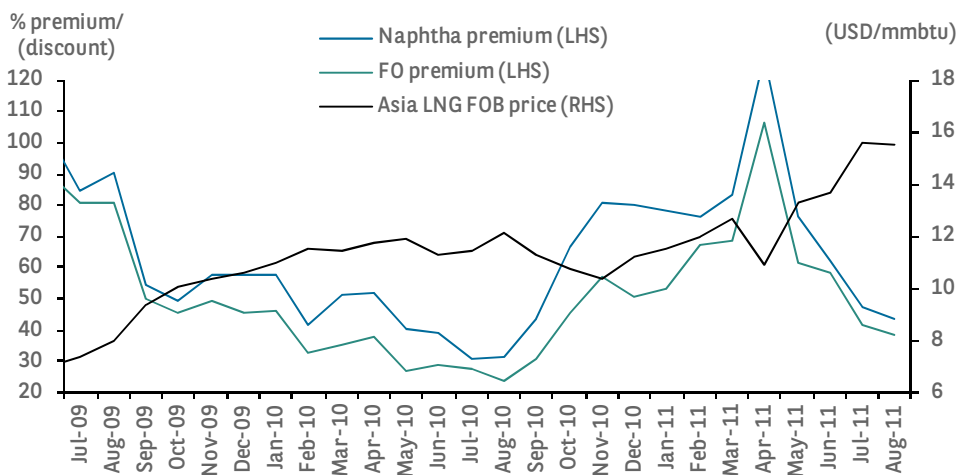
Earnings momentum may not be sustained, but we don't expect earnings cuts

EXHIBIT 1: Petronet LNG looks well on track to achieve >105% utilization for FY12E

Contract	Volumes		1HFY12 Achieved in 1H (%)	Comments	Risk to estimate	Marketing margins	
	(m tonnes of LNG)	(m tonnes of LNG)				1H average USD/mmbtu	Downside risk
Qatar - Ras gas	7.50	3.49	46.5	In 2H, Rasgas will make up for low volumes in 1HFY12	NA, secure contract	NA	NA
PLNG - short term contract	1.50	0.75	50.0	Approximately at run-rate of 2 cargoes per month	NA, secure contract	1.00	Yes
PLNG - spot guidance (FY12)	0.63	0.38	60.0	Sourced 6 cargoes in 1H; Guidance of 10 spot cargoes for FY12	Very low	1.00	Yes
Regas services (GAIL/GSPC)	1.00	0.69	68.8	Includes GAIL's Marubeni contract at 2 cargoes per quarter	Very low	NA	NA

Sources: Company data; BNP Paribas estimates

EXHIBIT 2: Crude prices key for pricing advantage to sustain



Though current Asian spot LNG price is at >USD18/mmbtu, we observe that PLNG has sourced most of its spot volumes for 3QFY12 at ~USD15-16/mmbtu, ~16% below the spot price

Sources: Bloomberg; BNP Paribas

Financial statements

Petronet LNG

Profit and Loss (INRm)Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Revenue	106,490	131,057	203,612	267,482	358,863
Cost of sales ex depreciation	(96,648)	(118,012)	(187,604)	(249,242)	(336,158)
Gross profit ex depreciation	9,842	13,045	16,007	18,240	22,705
Other operating income	0	915	2,515	2,448	2,448
Operating costs	(1,379)	(1,798)	(1,972)	(2,110)	(2,577)
Operating EBITDA	8,464	12,163	16,551	18,578	22,576
Depreciation	(1,609)	(1,847)	(1,863)	(2,887)	(4,121)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	6,855	10,316	14,687	15,691	18,455
Net financing costs	(861)	(1,251)	(781)	(1,467)	(1,313)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	5,994	9,065	13,907	14,224	17,142
Tax	(1,950)	(2,868)	(4,516)	(4,725)	(5,694)
Profit after tax	4,044	6,197	9,391	9,499	11,448
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	4,044	6,197	9,391	9,499	11,448
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	4,044	6,197	9,391	9,499	11,448
Per share (INR)					
Recurring EPS *	5.39	8.26	12.52	12.67	15.26
Reported EPS	5.39	8.26	12.52	12.67	15.26
DPS	1.75	2.00	2.00	2.00	2.00
Growth					
Revenue (%)	26.3	23.1	55.4	31.4	34.2
Operating EBITDA (%)	(6.1)	43.7	36.1	12.3	21.5
Operating EBIT (%)	(14.2)	50.5	42.4	6.8	17.6
Recurring EPS (%)	(22.0)	53.2	51.6	1.2	20.5
Reported EPS (%)	(22.0)	53.2	51.6	1.2	20.5
Operating performance					
Gross margin inc depreciation (%)	7.7	8.5	6.9	5.7	5.2
Operating EBITDA margin (%)	7.9	9.3	8.1	6.9	6.3
Operating EBIT margin (%)	6.4	7.9	7.2	5.9	5.1
Net margin (%)	3.8	4.7	4.6	3.6	3.2
Effective tax rate (%)	32.5	31.6	32.5	33.2	33.2
Dividend payout on recurring profit (%)	32.5	24.2	16.0	15.8	13.1
Interest cover (x)	8.0	8.2	18.8	10.7	14.1
Inventory days	11.5	5.7	3.5	3.7	3.7
Debtor days	20.1	19.5	15.5	12.6	11.8
Creditor days	28.0	24.0	22.9	25.1	23.6
Operating ROIC (%)	17.6	23.1	30.2	28.5	30.9
Operating ROIC - WACC (%)	-	-	-	-	-
ROIC (%)	15.9	20.6	27.2	26.0	28.3
ROIC - WACC (%)	-	-	-	-	-
ROE (%)	19.2	25.2	30.7	24.8	24.3
ROA (%)	8.6	11.4	12.5	10.9	11.1

*Pre exceptional, pre-goodwill and fully diluted

Kochi expansion will drive 20% CAGR over FY11-14E. Potential surprise in Dahej utilization could provide earnings growth in FY13.

Sources: Petronet LNG; BNP Paribas estimates

Petronet LNG

Cash Flow (INRm)Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Recurring net profit	4,044	6,197	9,391	9,499	11,448
Depreciation	1,609	1,847	1,863	2,887	4,121
Associates & minorities	0	0	0	0	0
Other non-cash items	536	218	249	284	343
Recurring cash flow	6,189	8,261	11,503	12,671	15,912
Change in working capital	2,791	(2,315)	7,193	966	1,695
Capex - maintenance	0	0	0	0	0
Capex - new investment	(10,461)	(4,816)	(11,833)	(13,833)	(5,333)
Free cash flow to equity	(1,481)	1,130	6,862	(196)	12,273
Net acquisitions & disposals	0	0	0	0	0
Dividends paid	(1,530)	(1,749)	(1,749)	(1,749)	(1,749)
Non recurring cash flows	(2,344)	0	0	0	0
Net cash flow	(5,355)	(619)	5,113	(1,946)	10,524
Equity finance	0	0	0	0	0
Debt finance	2,181	5,764	5,518	5,829	(4,218)
Movement in cash	(3,173)	5,145	10,631	3,883	6,306

Per share (INR)					
Recurring cash flow per share	8.25	11.02	15.34	16.89	21.22
FCF to equity per share	(1.97)	1.51	9.15	(0.26)	16.36

Balance Sheet (INRm)Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Working capital assets	8,811	11,978	12,122	14,561	18,604
Working capital liabilities	(9,006)	(9,857)	(17,194)	(20,599)	(26,337)
Net working capital	(194)	2,121	(5,072)	(6,038)	(7,732)
Tangible fixed assets	42,012	44,982	54,952	65,898	67,110
Operating invested capital	41,818	47,102	49,880	59,860	59,378
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Investments	5,386	5,386	5,386	5,386	5,386
Other assets	0	0	0	0	0
Invested capital	47,204	52,489	55,266	65,246	64,764
Cash & equivalents	(3,405)	(8,550)	(19,181)	(23,064)	(29,370)
Short term debt	2,000	2,000	2,000	2,000	2,000
Long term debt *	22,998	28,762	34,280	40,109	35,891
Net debt	21,593	22,212	17,099	19,045	8,521
Deferred tax	3,262	3,480	3,729	4,013	4,356
Other liabilities	0	0	0	0	0
Total equity	22,349	26,796	34,438	42,188	51,887
Minority interests	0	0	0	0	0
Invested capital	47,204	52,489	55,266	65,246	64,764

* includes convertibles and preferred stock which is being treated as debt

Per share (INR)					
Book value per share	29.80	35.73	45.92	56.25	69.18
Tangible book value per share	29.80	35.73	45.92	56.25	69.18

Financial strength					
Net debt/equity (%)	96.6	82.9	49.7	45.1	16.4
Net debt/total assets (%)	36.2	31.3	18.7	17.5	7.1
Current ratio (x)	1.1	1.7	1.6	1.7	1.7
CF interest cover (x)	11.4	5.8	25.0	10.3	14.4

Leverage under control, even with ongoing major projects, Jetty II + Kochi expansion.

Valuation	2010A	2011A	2012E	2013E	2014E
Recurring P/E (x) *	29.9	19.5	12.9	12.7	10.6
Recurring P/E @ target price (x) *	31.7	20.7	13.7	13.5	11.2
Reported P/E (x)	29.9	19.5	12.9	12.7	10.6
Dividend yield (%)	1.1	1.2	1.2	1.2	1.2
P/CF (x)	19.6	14.7	10.5	9.6	7.6
P/FCF (x)	(81.8)	107.2	17.6	(616.3)	9.9
Price/book (x)	5.4	4.5	3.5	2.9	2.3
Price/tangible book (x)	5.4	4.5	3.5	2.9	2.3
EV/EBITDA (x) **	16.5	11.8	8.5	7.5	6.0
EV/EBITDA @ target price (x) **	17.4	12.3	8.9	7.9	6.3
EV/invested capital (x)	3.0	2.7	2.5	2.1	2.0

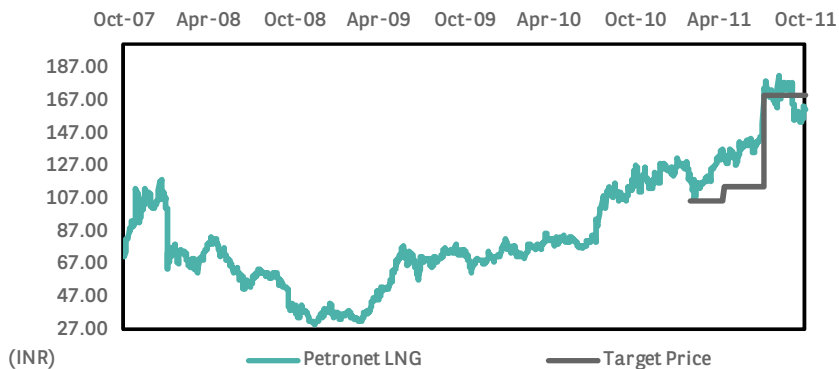
* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Petronet LNG; BNP Paribas estimates

History of change in investment rating and/or target price

Petronet LNG (PLNG IN)



Date	Reco	TP
14-Feb-11	REDUCE	106.00
22-Jul-11	HOLD	171.00

Sriram Ramesh started covering this stock from 15-Feb-2011

Price and TP are in local currency

Valuation and risks: Key downside risks to our P/E-based TP are a delay in pipeline completion (Kochi) 2. Upside risks are Incremental secure supply contracts, gas pooling, slowdown in domestic supply, and sustained pricing power

Source: Bloomberg, BNP Paribas

Disclaimers and Disclosures

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-	-

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Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

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** In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.*

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Buy	344	Buy	4.60
Hold	159	Hold	2.50
Reduce	54	Reduce	1.80

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