

Petronet LNG Ltd (PETLNG)

Rs 81.8

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 88 to Rs 87
EPS (FY11E)	Changed from Rs 6.5 to Rs 6.3
EPS (FY12E)	Changed from Rs 6.9 to Rs 6.7
EPS (FY13E)	Changed from Rs 7.9 to Rs 7.7
RATING.....	Strong Buy to Add

Lower regasification margins dent profits...

Petronet LNG's results for Q4FY10 were below our estimates due to lower net regasification margins and lower-than-expected volumes for the quarter. Revenues declined 10.1% YoY from Rs 2654.9 crore in Q4FY09 to Rs 2385.5 crore in Q4FY10 on account of lower gas sales prices in absence of spot volumes. EBITDA for Q4FY10 declined 40.8% YoY to Rs 202.2 crore (I-direct estimate: Rs 239.4 crore) as against Rs 341.7 crore in Q4FY09 in the absence of marketing margins on spot volumes and lower net regasification margins. Reported net profit for Q4FY10 declined 52.4% YoY but increased 16.9% YoY to Rs 97.3 crore. We recommend an ADD rating on the stock with price target of Rs 87.

■ YoY increase of 11.3% in gas regasification volumes

Petronet LNG reported an 11.3% increase in gas regasification volume from 82.5 trillion British thermal unit (tbtu) in Q4CY09 to 91.8 tbtu in Q4CY10 due to commissioning of additional contracted gas volumes of 2.5 MMTPA (~32.5 tbtu for the quarter) from RasGas. We expect volumes to increase from 399.6 tbtu in FY10 to 459.3 tbtu and 508.8 tbtu in FY11E and FY12E, respectively, on account of an increase in spot volumes from Q3FY11E to the Pragati power plant.

■ Net regasification margins decline to Rs 26.6 per mmbtu

The blended net regasification margins declined from Rs 48.7 per mmbtu in Q4FY09 to Rs 26.6 per mmbtu in Q4FY10 in the absence of marketing margins on spot volumes in the current quarter. We expect margins to increase from Rs 24.6 per mmbtu in FY10 to Rs 26.4 and Rs 26.8 per mmbtu in FY11E and FY12E, respectively.

Valuation

Petronet LNG's business of receiving and regasification of LNG along with back-to-back long-term purchase and sales agreement offers lot of safety for investors. We have valued the stock based on DCF methodology (WACC - 10.5%, terminal growth -2%) to arrive at a target of Rs 87.

Exhibit 1: Performance Highlights

(Rs Crore)	Q4FY10A	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
Revenues	2385.5	2603.8	2654.9	2244.6	-10.1	6.3
EBITDA	202.2	239.4	341.7	208.8	-40.8	-3.1
EBITDA Margin (%)	8.5%	9.2%	12.9%	9.3%	-440 bps	-80 bps
Depreciation	45.6	47.6	25.3	46.6	80.4	-2.0
Interest	51.1	54.0	26.5	53.4	92.5	-4.3
Reported PAT	97.3	108.6	204.4	83.2	-52.4	16.9
EPS (Rs)	1.3	1.4	2.7	1.1	-52.4	16.9

Source: Company, ICICIdirect.com Research

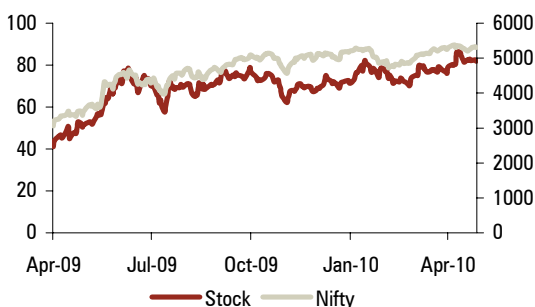
Rating matrix	
Rating	: Add
Target	: Rs 87
Target Period	: 12 months
Potential Upside	: 6%

Key Financials				
(Rs Crore)	FY10	FY11E	FY12E	FY13E
Revenues	10649.1	13831.8	18743.5	25558.8
EBITDA	846.4	1032.7	1138.5	1380.6
Net Profit	404.5	468.9	503.8	577.0

Valuation summary				
	FY10	FY11E	FY12E	FY13E
EPS (Rs)	5.4	6.3	6.7	7.7
PE (x)	15.2	13.1	12.2	10.6
Target PE (x)	15.2	13.1	12.2	10.6
EV to EBITDA (x)	9.5	8.8	8.6	6.7
Price to book (x)	2.7	2.4	2.2	1.9
RoNW (%)	18.1	18.6	17.8	18.1
RoCE (%)	15.5	14.5	14.0	16.1

Stock data	
Market Cap.	Rs 6135 Crore
Debt (FY09)	Rs 2281.7 Crore
Cash + Liq. Invsts (FY09)	Rs 930 Crore
EV	Rs 7486.7 Crore
52 week H/L	87 / 46.6
Equity capital	Rs 750 Crore
Face value	Rs 10
MF Holding (%)	4.3
FII Holding (%)	10.1

Price movement (Stock vs. Nifty)



Analyst's name

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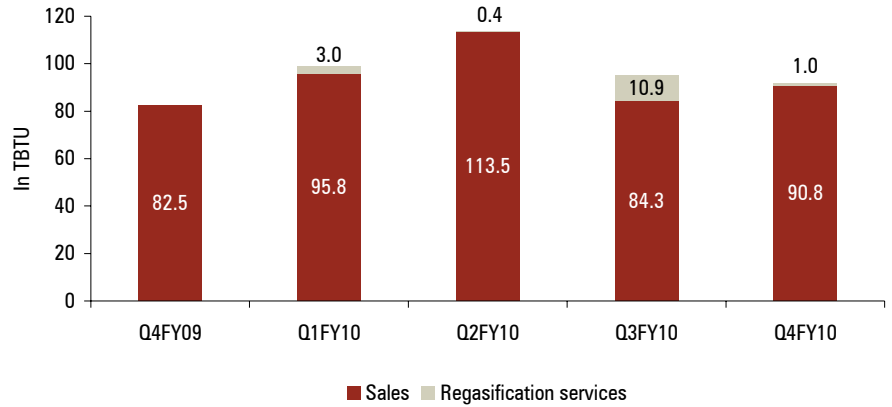
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Result Analysis

Revenues declined from Rs 2654.9 crore in Q4FY09 to Rs 2385.5 crore in Q4FY10 on account of an 18.6% YoY decline in the gas sales prices in the absence of spot volumes. This was slightly offset by an 11.3% YoY increase in gas regasification volumes. The profitability declined by 52.4% YoY from Rs 204.4 crore in Q4FY09 to Rs 97.3 crore in Q4FY10 on higher interest and depreciation costs and lower net regasification margins.

Exhibit 2: Gas regasification volume

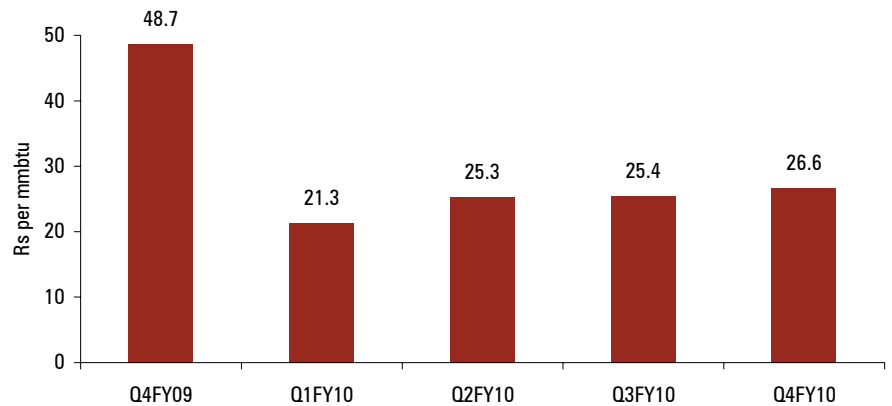
Gas regasification volumes increased 11.3% YoY from 82.5 tbtu in Q4FY09 to 91.8 tbtu in Q4FY10 on commissioning of additional contracted volumes from RasGas



Source: Company, ICICIdirect.com Research

Exhibit 3: Net regasification margins

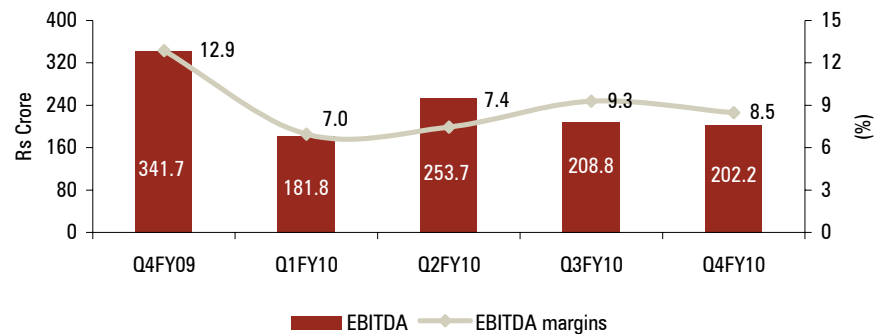
Net regasification margins declined YoY to Rs 26.6 per mmbtu in the absence of marketing margin on spot volumes. However, they improved QoQ on account of an increase in regasification tariffs



Source: Company, ICICIdirect.com Research

Exhibit 4: Petronet LNG EBITDA, EBITDA margin

The EBITDA for Q4FY10 declined to Rs 202.2 crore on lower net regasification margins and absence of marketing margins on spot volumes in the current quarter



Source: Company, ICICIdirect.com Research

Exhibit 5: P/L A/c (Rs Crore)

	Q4FY10	Percent. (%)	Q4FY09	Percent. (%)
Revenues	2385.5	100.0	2654.9	100.0
Consumption of raw materials	2141.3	89.8	2253.3	84.9
Employee Costs	8.1	0.3	8.4	0.3
Other Expenditure	33.9	1.4	51.5	1.9
Total Expenditure	2183.3	91.5	2313.2	87.1
EBITDA	202.2	8.5	341.7	12.9
Depreciation	45.6	1.9	25.3	1.0
EBIT	156.6	6.6	316.4	11.9
Interest	51.1	2.1	26.5	1.0
Other Inc /Exp /Extra Ordinary Item	33.2	1.4	19.9	0.8
PBT	138.6	5.8	309.8	11.7
Total Tax	41.4	1.7	105.5	4.0
PAT	97.3	4.1	204.4	7.7

Source: Company, ICICIdirect.com Research

Outlook and valuations

Petronet LNG's business of receiving and regasification of LNG along with back-to-back long-term purchase and sales agreement offers a lot of safety for investors. We expect volumes to increase from 399.6 tbtu in FY10 to 459.3 tbtu and 508.8 tbtu in FY11E and FY12E, respectively, on account of an increase in spot volumes from Q3FY11E to Pragati power plant. The net regasification margin is also expected to increase from Rs 24.6 per mmbtu in FY10 to Rs 26.4 per mmbtu and Rs 26.8 per mmbtu in FY11E and FY12E, respectively, on account of an increase in regasification tariffs in the last quarter. The stock is trading at 10.6x FY13E EPS of Rs 7.7. We have valued the stock based on the DCF methodology (WACC – 10.5%, terminal growth -2%) to arrive at a target price of Rs 87.

Exhibit 6: Valuation Table

Year	Sales (Rs Crore)	Sales Gr. (%)	EPS (Rs)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	8428.7	28.6	6.9	9.5	11.8	8.6	26.1	18.7
FY10E	10649.1	26.3	5.4	-22.0	15.2	9.5	18.1	15.5
FY11E	13831.8	29.9	6.3	15.9	13.1	8.8	18.6	14.5
FY12E	18743.5	35.5	6.7	7.4	12.2	8.6	17.8	14.0
FY13E	25558.8	36.4	7.7	14.5	10.6	6.7	18.1	16.1

Source: ICICIdirect.com Research

Exhibit 7: DCF based valuation

WACC	10.5%
Present Value of Cash Flows till FY14E	953.9
Terminal Growth Rate	2.0%
Terminal Value	14277.4
Present Value of Terminal Cash Flows	8673.8
Total Present Value of the Firm	9627.7
Less: Net Debt (FY11E)	3081.7
Total Present Value of Equity	6546.0
Number of Outstanding shares (In Crore)	75.0
DCF (Rs per share)	87

Source: ICICIdirect.com Research

The profit declined 52.4% YoY to Rs 97.3 crore mainly on account of lower net regasification margins and also on account of higher interest and depreciation costs on commissioning of a new terminal of 5 MMTPA in Dahej

Exhibit 8: Sensitivity Analysis

		WACC				
		9.5%	10.0%	10.5%	11.0%	11.5%
Terminal	1.0%	92	82	74	66	59
	1.5%	100	89	80	72	64
	2.0%	109	97	87	78	69
	2.5%	120	106	95	84	75
Growth Rate	3.0%	132	117	104	92	82

Source: ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Gujarat Gas			Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GUJGAS CMP	282.0 CY08	1301.3	12.4	11.3	15.3	22.3	26.7
	Target	286.0 CY09	1419.7	13.5	20.9	12.9	22.4	29.8
		CY10E	1742.7	19.7	14.3	8.7	26.0	36.4
MCap	3616.7 Upside (%)	1.4 CY11E	1863.0	22.1	12.8	7.8	23.8	32.1
Guj. State Petronet Ltd			Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GSPL CMP	95.0 FY09	487.5	2.2	43.3	15.3	10.2	10.8
	Target	99.0 FY10E	1009.3	7.5	12.6	7.0	26.6	24.4
MCap	5340.1 Upside (%)	4.2 FY11E	1034.1	6.4	14.9	7.1	19.1	19.6
Indraprastha Gas Ltd			Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	INDGAS CMP	231 FY09	857.1	12.3	18.7	10.1	25.2	34.7
	Target	219 FY10E	1089.2	16.0	14.4	7.8	26.9	38.5
MCap	3234.0 Upside (%)	-5.2 FY11E	1367.7	16.6	13.9	7.1	23.5	33.4
Petronet LNG Ltd			Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	PETLNG CMP	81.8 FY09	8428.7	6.9	11.8	8.6	26.1	18.7
	Target	87.0 FY10E	10649.1	5.4	15.2	9.5	18.1	15.5
		FY11E	13831.8	6.3	13.1	8.8	18.6	14.5
		FY12E	18743.5	6.7	12.2	8.6	17.8	14.0
MCap	6135.0 Upside (%)	6.4 FY13E	25558.8	7.7	10.6	6.7	18.1	16.1

RATING RATIONALE

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Strong Buy: 20% or more;

Buy: Between 10% and 20%;

Add: Up to 10%;

Reduce: Up to -10%

Sell: -10% or more;

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