

Petronet LNG

INR: 39.1

Lower volumes hit performance

BUY



**Snapshot:** Net sales declined 0.9% y-o-y to Rs 1654.9 crore in Q2FY09. EBITDA registered a decline of 15.0% y-o-y to Rs 182.3 crore & PAT decline by 10.5% y-o-y to Rs 103.4 crore.

**Decline in Volume** – Volume declined 9.9% y-o-y and 3.9% q-o-q to 75.0 TBTUs due to reduction in spot volume and technical problem at Dahej, which resolved only in 1<sup>st</sup> week of October. However revenue was above our expectation to Rs 1,654.9 crore due to higher gas prices. Realisation improved 8.5% y-o-y and 3.2% q-o-q to Rs 217.8/mmbtu. With the removal of technical problem at Dahej, we expect volume to improve in Q3. Spot cargoes will continue to drive volume growth until a long-term agreement is signed.

**EBITDA under pressure-** Lower spot volumes, adverse exchange rate movement and Lower regasification charges (Rs 28.1/mmbtu) reduced EBITDA to Rs 182.3 crore, decline of 15% y-o-y.

**Falling profitability will continue-** Net profit declined 10.5% y-o-y to Rs 103.4 crore for the company owing to lower taxes and higher other income. Effective tax rate drop 272bps y-o-y to 31.1% which restricted decline in PAT.

### Valuations & Views

We expect Petronet to face many headwinds due to expected jump in cheap domestic gas production from KG field, tight global-demand supply, delay in sourcing long-term gas, re-pricing of LNG from Rasgas, declining regasification charges and execution risk associated with Kochi terminal. However, at the same time the current valuations are not factoring future growth from capacity expansion.

At the CMP of Rs 39.1, Petronet LNG is trading at 6.4x its TTM earnings and 6.3x its FY09E EPS of Rs 6.2. We maintain a buy on the stock with target price of Rs 48. At the target price the stock would be valued at 6.8x its FY10E EPS of Rs 7.0, and 1.5x P/BV.

### Key Financials

	FY07	FY08	FY09E	FY10E
Revenue	5,509	6,555	6,799	10,878
EBITDA	649	866	884	1096
Net Profit	315	475	458	527
EPS	4.2	6.3	6.1	7.0
EPS Growth	61.3%	50.9%	-3.4%	14.9%
P/E	9.3	6.2	6.4	5.6
P/BV	2.3	1.8	1.6	1.5
RoE	24.7%	29.3%	25.5%	26.7%
EV/EBITDA	5.7	4.8	6.2	5.7
Div Yield	3.2%	3.8%	3.8%	4.5%

### Price Outlook (INR): 48

#### Market Data

20<sup>th</sup> October, 2008

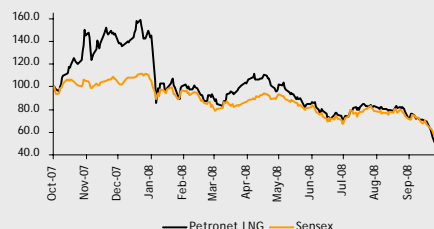
Shares outs (Cr)	75.0
Equity Cap	750
Mkt Cap (Rs. Cr)	2,932
52 Wk H/L (Rs)	121.9/35.9
Avg Vol (1yr Avg)	15,00,497
Face Value (Rs)	10
Bloomberg Code	PLNG IN

#### Market Info:

Sensex: 10,223

Nifty: 3122

#### Price Performance



— Petronet LNG — Sensex

Source: BSE, KRC Research

#### Share Holding pattern (%)

Particulars	30/9	30/6	Chg
Promoter	50.0	50.0	-
Institutions	1.8	1.8	-
FII	10.2	9.8	0.4
Other Corp Holding	3.4	3.8	(0.4)
Public	34.6	34.6	0.6
Total	100.0	100.0	-

Source: Company, KRC Research

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Petronet LNG

Q2FY09 Result (Rs In Crore)

	2Q08	1Q09	2Q09	QoQ	YoY	Comment
<b>Total Volume (TBTU)</b>	<b>83.2</b>	<b>78.0</b>	<b>75.0</b>	-3.9%	-9.9%	Lower volume due to technical problem in high pressure pump at dahej. Volume lower than our expectation of 76 TBTUs
<b>Revenue</b>	<b>1670.5</b>	<b>1645.9</b>	<b>1654.9</b>	<b>0.6%</b>	<b>-0.9%</b>	High gas prices in the quarter boosted the volume. Average Sales realization was Rs. 217.8/mbtu compared to Rs 211/mbtu in Q1FY09
Raw Material Consumed	1429.9	1423.1	1441.6	1.3%	0.8%	
Employee Cost	4.2	3.9	3.6	-6.5%	-14.7%	
Other expenses	22.1	27.1	27.4	1.1%	24.2%	
Total expenditure	1456.2	1454.1	1472.6	1.3%	1.1%	
<b>EBITDA</b>	<b>214.3</b>	<b>191.8</b>	<b>182.3</b>	<b>-4.9%</b>	<b>-15.0%</b>	Lower regasification charges & adverse exchange movement and in-line with our EBITDA estimate of Rs 183 crore
Interest	26.1	25.1	24.1	-3.9%	-7.5%	Expect higher interest cost to higher after three-yearly reset
Depreciation	25.8	25.5	25.8	1.2%	0.3%	
Other income	12.1	16.7	17.8	6.7%	46.4%	Higher other income pulled the PAT above our estimate
Profit before tax	174.7	157.8	150.1	-4.9%	-14.1%	
Income tax	59.2	52.2	46.8	-10.4%	-21.0%	
<b>Net income</b>	<b>115.5</b>	<b>105.7</b>	<b>103.4</b>	<b>-2.2%</b>	<b>-10.5%</b>	Higher other income and lower taxes saved the day
EPS - basic	1.54	1.41	1.38	-2.2%	-10.5%	
EBITDA margin	12.8%	11.7%	11.0%	-64 bps	-182 bps	
Effective Tax Rate	33.9%	33.0%	31.1%	-190 bps	-272 bps	Lower tax rate pulled the EPS
Net Profit Margin	6.9%	6.4%	6.2%	-17 bps	-67 bps	

Source: Company, KRC Research

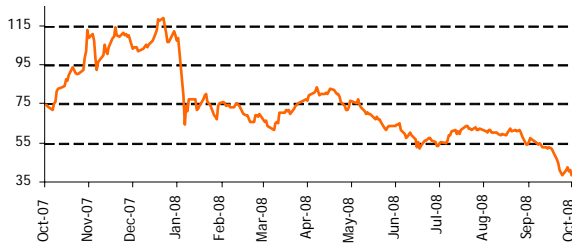
Quarterly Trend

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	Comments
Total Volume (TBTUs)	78.6	83.2	80.3	79.9	78.0	75.0	
Realization Prices (Rs/mmbtu)	197.3	200.8	197.0	219.5	211.0	217.8	
Regasification Charges (Rs/mmbtu)	30.0	28.9	32.7	31.4	28.6	28.1	Declining trend in regasification charges

Source: Company, KRC Research

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**Petronet LNG**



Rating	In next 12 months, expected to :
<b>Buy</b>	Appreciate over 15%
<b>Accumulate/Hold</b>	Appreciate upto 15%
<b>Reduce</b>	Depreciate upto 10%
<b>Sell</b>	Depreciate over 10%

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