

Petronet LNG Ltd.

3QFY11: Robust volumes drive earnings beat;
Maintain OW

- 3QFY11 result beats the street, maintain OW:** Petronet LNG reported 3Q earnings of Rs1.7bn (up 30% sequentially), ahead of our and street estimates, driven by robust volumes. We maintain our Overweight rating, and raise our Sep-11 PT to Rs160, on higher volume growth expectations.
- Volume growth robust:** Volumes were up 20% sequentially, to 119.7TBTUs, as PLNG was able to continue bringing in spot LNG cargos, with the KG-D6 production cap continuing. In addition, the commissioning of GAIL's new pipeline systems should enable PLNG to continue to bring in additional volumes – we adjust our volume estimates for FY11/12 higher, to 8.5/9.5 mmtpa respectively.
- Additional medium-term supplies tied up:** PLNG has signed a 2-year contract to import 1.1mmtpa of LNG in addition to the current 7.5mmtpa long-term supply. The Kochi terminal remains on track, and we expect volumes to flow from FY13.
- Margins aided by marketing income:** PLNG margins showed an increase this quarter, as the company is able to levy additional marketing margins on its spot volumes. We estimate marketing margins in the range of Rs8-12/mmbtu on spot volumes.
- Stock impact/earnings changes:** We expect continuing volume strength to underpin stock performance. We adjust our FY11/12 earnings ~15-18% to capture PLNG's higher volume growth trajectory.
- Maintain Overweight:** We maintain our Overweight rating, and adjust our Sep-11 price target to Rs160. Our PT is 3 stage DCF based, with 8% interim growth followed by a 3% terminal growth rate. Key risks to our call are project delays at Kochi, and lower than projected LNG volumes.

Overweight

PLNG.BO, PLNG IN

Price: Rs127.05

▲ **Price Target: Rs160.00**
Previous: Rs145.00

India

Natural Gas

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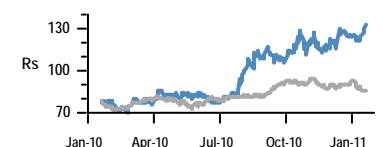
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J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	5.5%	3.4%	10.8%	67.5%
Rel	13.2%	8.0%	15.8%	59.0%

Company data

52 Wk Range	136.2 - 69
Market cap (Rs mn)	99,263
Market cap (US\$ mn)	2,184
Share O/S (mn)	750
Free Float (%)	34.8%
Ave. daily volume	2.9
Ave. daily Value (Rs mn)	7.7
Exchange rate	45.5
Index (SENSEX)	18,978
Year-end	March

Source: Bloomberg

Petronet LNG earnings results summary (Bloomberg: PLNG IN Reuters: PLNG.BO)

Rs millions (per sh. data in Rs)	This period	JPM est.	Year ago	% Y/Y	Last period	% Q/Q
Volumes (TBTU)	119.7	110.5	95.2	26%	99.8	20%
Implied regas margins (Rs/mmbtu)	34.8	33.0	27.9	25%	32.9	6%
EBITDA (US\$/mmbtu)	0.70	0.63	0.53	32%	0.59	19%
Sales	36,276	33,880	22,446	62%	30,577	19%
Operating profit	3,456	3,120	2,088	66%	2,716	27%
Net profit	1,708	1,508	832	105%	1,311	30%
EPS (Rs)	2.28	2.01	1.11	105%	1.75	30%

Source: Company data, J.P. Morgan estimates.

Earnings revision and valuation

	2011E	2012E
Old EPS (Rs)	6.3	7.3
New EPS (Rs)	7.3	8.6
% change	15%	18%
P/E (x)	18.1	15.4
ROE (%)	22.5%	22.6%
P/B (x)	3.7	3.2
Sep-11 fair value	160.0	

See page 5 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

PLNG owns and operates a 12.5mtpa (45mmcmd) LNG terminal in Dahej on India's west coast. PLNG gets a fixed rupee denominated re-gassification charge for receiving and regassification of LNG sourced from RasGas (Qatar); it has a committed offtake agreement. It is also putting up a 5mmt regassification terminal at Kochi.

P&L sensitivity metrics (FY12E)

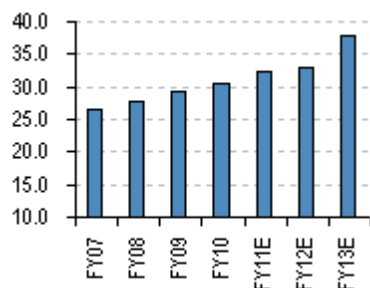
	EBITDA impact (%)	EPS impact (%)
Regas volumes		
Impact of each 0.5mtpa	-5.6%	-8.5%
Regas margins		
10% lower Regas margins	-11%	-17%

Source: J.P.Morgan estimates

Price target and valuation analysis

Our Sep-11 PT is at Rs 160/share based on DCF fair value estimate. The DCF estimate assumes 3% terminal growth. We assume a beta of 1.1, risk-free rate of 8%, market risk premium of 6.0%, and cost of debt of 9.5% to arrive at a WACC of 12.1%.

Petronet Regas margins (Rs/mmbtu)



Source: Company, J.P.Morgan estimates

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	7.3	7.2
FY12E	8.6	8.4

Source: Bloomberg, J.P.Morgan estimates

Risk free rate:	8.00%
Market risk premium:	6.00%
Beta:	1.1
Debt/equity:	30%
Cost of debt:	9.5%
Terminal "g":	3%

Our PT implies an FY12 P/E of 15.4x. We estimate a 19% earnings CAGR over FY10-13, as PLNG will continue to make up the shortfall between gas demand and domestic supply in India. The commissioning of the new terminal in Kochi will garner a new market with attractive margins. Key risks to our view are lower than expected volumes and project delays at Kochi.

Table 1: Petronet LNG 3Q earnings summary

(Rs mn)	3QFY10A	4QFY10A	1QFY11A	2QFY11A	3QFY11A	Y/Y	Q/Q
Net Sales	22,446	23,855	25,260	30,577	36,276	62%	19%
Raw Material	20,026	21,413	22,333	27,547	32,389	62%	18%
Staff Cost	41	81	73	53	57	39%	8%
Other expenditure	291	339	376	261	374	28%	43%
EBITDA	2,088	2,022	2,477	2,716	3,456	66%	27%
Interest	534	511	498	495	507	-5%	2%
Depreciation	466	456	461	466	465	0%	0%
Other Income	167	332	126	186	54	-68%	-71%
PBT	1,255	1,386	1,644	1,941	2,538	102%	31%
PAT	832	973	1,114	1,311	1,708	105%	30%

Source: Company reports.

Table 2: Petronet LNG DCF valuation

Rs mn	FY11E	FY12E	FY13E	FY14E	FY15E	Terminal cashflow (Mar-21)
EBITDA	12,454	14,338	20,203	30,305	35,732	
Cash Tax Payable	(2,313)	(2,723)	(2,893)	(5,919)	(7,530)	
Working Capital changes	(1,167)	135	(3,984)	(174)	7,806	
Capex	(21,739)	(26,100)	(3,000)	(3,000)	(3,000)	
Adj FCF	(12,766)	(14,349)	10,325	21,212	33,008	21,848
Terminal growth rate	3.0%					
WACC	12.1%					
DCF Valuation						
Net Present Value of explicit cashflows	61,343					
Net Present Value of Terminal Value (Mar-21)	101,665					
Enterprise Value	163,009					
Less: Net Debt (Mar11)	42,350					
Equity Value	120,659					
No. Shares (millions)	750					
Per Share Equity Value	161					

Source: J.P. Morgan estimates.

Petronet LNG Ltd.: Summary of Financials

Income Statement						Cash flow statement					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E	Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Revenues	84,287	106,029	155,389	202,129	282,873	EBIT	7,988	6,394	10,631	12,443	15,245
% change Y/Y	28.6%	25.8%	46.6%	30.1%	39.9%	Depr. & amortization	1,025	1,609	1,822	1,895	4,958
Gross Margin	12.5%	8.8%	9.0%	7.9%	7.8%	Change in working capital	-3,295	2,791	-1,167	135	-3,984
EBITDA	9,013	8,003	12,454	14,338	20,203	Taxes	-2526	-1410	-2313	-2723	-2893
% change Y/Y	4.1%	-11.2%	55.6%	15.1%	40.9%	Others	1,737	2,391	3,120	4,870	5,175
EBITDA Margin	10.7%	7.5%	8.0%	7.1%	7.1%	Cash flow from operations	2,944	8,985	6,602	13,902	8,413
EBIT	7,988	6,394	10,631	12,443	15,245	Capex	-7,886	-10,461	-21,739	-26,100	-3,000
% change Y/Y	4.6%	NM	66.3%	17.0%	22.5%	Disposal/(purchase)	-	-	-	-	-
EBIT Margin	9.5%	6.0%	6.8%	6.2%	5.4%	Free cash flow	-4,942	-1,476	-15,137	-12,198	5,413
Net Interest	-247	-1,612	-2,306	-	-	Equity raised/(repaid)	-0	-0	-0	-	-
Earnings before tax	7,740	5,995	8,260	9,724	10,333	Debt raised/(repaid)	7,041	2,181	12,402	22,600	-5,000
% change Y/Y	8.2%	-22.6%	37.8%	17.7%	6.3%	Other	-1,737	-2,391	-3,120	-4,870	-5,175
Tax	-2,556	-1,950	-2,775	-3,267	-3,472	Dividends paid	-1,536	-1,606	-1,939	-	-
as % of EBT	33.0%	32.5%	33.6%	33.6%	33.6%	Beginning cash	3,586	6,578	3,405	2,673	3,000
Net income (reported)	5,184	4,045	5,484	6,457	6,861	Ending cash	6,578	3,405	2,673	3,000	3,000
% change Y/Y	9.2%	-22.0%	35.6%	17.7%	6.3%	DPS	1.75	1.75	1.75	2.15	2.29
Shares outstanding	750	750	750	750	750						
EPS (reported)	6.91	5.39	7.31	8.61	9.15						
% change Y/Y	9.2%	(22.0%)	35.6%	17.7%	6.3%						

Balance sheet						Ratio Analysis					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E	Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Cash and cash equivalents	6,578	3,405	2,673	3,000	3,000	EBITDA margin	10.7%	7.5%	8.0%	7.1%	7.1%
Accounts receivable	6,712	5,035	7,663	9,968	13,950	Operating margin	9.5%	6.0%	6.8%	6.2%	5.4%
Inventories	3,856	2,223	4,044	4,984	9,687	Net margin	6.2%	3.8%	3.5%	3.2%	2.4%
Others	952	1,554	1,630	1,710	1,794	Sales per share growth	28.6%	25.8%	46.6%	30.1%	39.9%
Current assets	18,097	12,216	16,010	19,662	28,431	Sales growth	28.6%	25.8%	46.6%	30.1%	39.9%
LT investments	-	-	-	-	-	Net profit growth	9.2%	-22.0%	35.6%	17.7%	6.3%
Net fixed assets	33,156	42,012	61,929	86,134	84,176	EPS growth	9.2%	(22.0%)	35.6%	17.7%	6.3%
Total Assets	45,373	50,609	67,427	95,146	95,586	Interest coverage (x)	36.47	4.96	5.40	-	-
Liabilities						Net debt to total capital	-	-	-	-	-
Short-term loans	-	-	-	-	-	Net debt to equity	-	-	-	-	-
Payables	-	-	-	-	-	Sales/assets	2.11	2.21	2.63	2.49	2.97
Others	-	-	-	-	-	Assets/equity	2.60	2.49	2.72	3.08	2.67
Total current liabilities	8,922	9,006	12,364	15,824	20,609	ROE	28.8%	19.2%	22.5%	22.6%	20.6%
Long-term debt	22,817	24,998	37,400	60,000	55,000	ROCE	21.4%	14.2%	19.1%	16.1%	16.8%
Other liabilities	2,722	3,262	3,725	4,269	4,848						
Total Liabilities	25,539	28,260	41,125	64,269	59,848						
Shareholders' equity	19,834	22,349	26,303	30,877	35,738						
BVPS	26.45	29.80	35.07	41.17	45.26						

Source: Company reports and J.P. Morgan estimates.

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 Petronet LNG Ltd. (PLNG.BO/Rs132.35/Overweight)

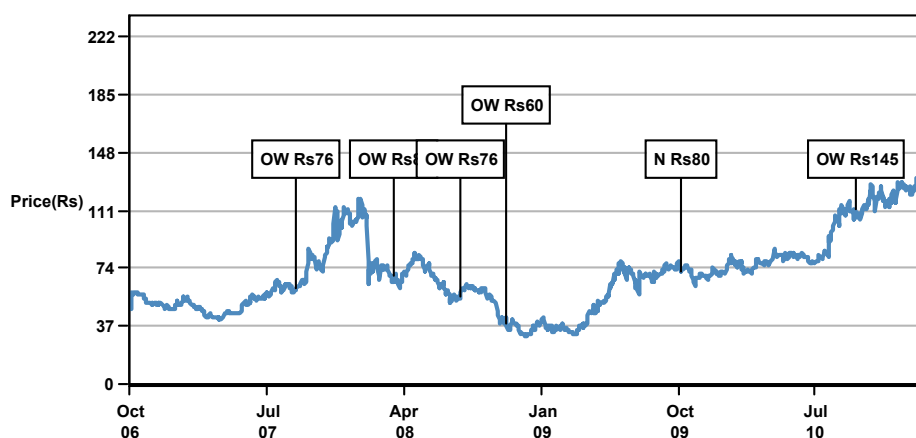
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Petronet LNG Ltd. (PLNG.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
31-Aug-07	OW	61.60	76.00
11-Mar-08	OW	69.40	85.00
21-Jul-08	OW	55.50	76.00
20-Oct-08	OW	39.10	60.00
07-Oct-09	N	72.55	80.00
21-Sep-10	OW	111.55	145.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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