

Gujarat State Petronet GUJS IN

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India
Utilities

Change in Recommendation
11 May 2009

SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: **↑**

- Above consensus on earnings on higher annual volume estimates.
- We calculate tariffs as per new regulations starting FY10.

Net Profit 10 INR1.25b
..... (From INR1.20b)

Diff from Consensus .. 11.6%
Consensus (mean) INR1.12b
Consensus (momentum) **↑**

Target Price INR48.00
..... (Unchanged)

Diff from Consensus .. 15.1%
Consensus (median) INR41.69
Consensus (momentum) **↑**

Current Price INR47.95
Upside/ (Downside) 0.1%

HOLD
(From Buy)

Recs in the Market

Positive **10**
Neutral **2**
Negative **5**
Consensus (momentum) **↑**

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Upside from exponential increase in gas transmission and new regulations priced in; downgrade to HOLD.
- Modeling in newer tariff norms as well as 30% PBT contribution to charity.
- Our TP of INR48 is based on 7x FY11E EBITDA discounted at 16.5% cost of equity.

Positives priced in

Target price achieved, downgrade to HOLD
GSPL's shares have rallied 42.9% year to date compared to 23.1% for the Sensex. We downgrade the shares of GSPL to HOLD as the stock trades at our TP. We had expected GSPL's volumes to triple by FY11 driving a 22.5% growth in EBITDA in FY08-FY11 as gas supplies commenced from RIL's KG Basin gas fields. We had also expected GSPL's returns to improve with the implementation of new tariff regulations. We believe that the recent rally in GSPL's share price factors in the substantial rise in gas transmission volumes and the potential improvement in the company's returns from new tariff regulations.

No respite from charity contribution

We are currently assuming 30% contribution of GSPL's pre-tax profits for charity projects in Gujarat from FY10 onward. The company did not make any contribution in FY09 as the Gujarat government had not identified projects eligible for contribution. Management indicated that the company will need to take shareholder approval again for contributing 30% of its pre tax profits in FY10. There would be a 17.3% upside to our FY10 EBITDA if there is no contribution to charity.

Contract with RIL - a minor positive

Press reports indicate that Reliance Industries Limited (RIL) has contracted with Shell to purchase 4mmscmd of Re gasified- Liquefied natural Gas (RLNG) for two months in 1QFY10. GSPL will transport this gas from Hazira to RIL's Jamnagar. We factor in the additional volume of 4mmscmd for a period of two months leading to 1.6% increase in our FY10 EBITDA estimate.

Maintain TP of INR 48 per share

We value GSPL's shares at an FY11 EV/EBITDA multiple of 7.0x to arrive at a price of INR55. We discount this at 16.5% cost of equity to arrive at TP of INR48 per share. GSPL's shares are currently trading 8.1x our FY10 EBITDA estimates compared to the peer group median at 6.5x. The premium is justified by higher expected growth in GSPL's EBITDA from rising gas transmission volumes.

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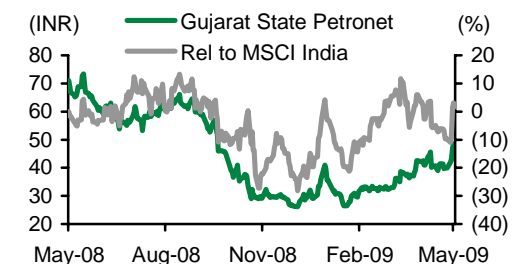
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Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	4,179	4,784	6,104	8,783
Reported net profit	999	1,144	1,249	1,899
Recurring net profit	999	1,144	1,249	1,899
Previous rec net profit	999	1,144	1,200	1,905
Chg from previous (%)	—	—	4.1	(0.3)
Recurring EPS (INR)	1.81	2.04	2.22	3.38
Prev rec EPS (INR)	1.81	2.04	2.13	3.39
Rec EPS growth (%)	10.3	12.5	9.1	52.1
Recurring P/E (x)	26.5	23.6	21.6	14.2
Dividend yield (%)	1.2	1.5	2.3	2.3
EV/EBITDA (x)	9.2	8.4	8.1	6.1
Price/book (x)	2.4	2.2	2.1	1.9
ROE (%)	9.5	9.7	10.0	14.2
Net debt/equity (%)	62.2	81.9	99.3	112.0

Sources: Gujarat State Petronet; BNP Paribas estimates

Share Price Daily vs MSCI India



Next results/event	May 2009
Market cap (USD m)	554
3m avg daily turnover (USD m)	2.4
Free float (%)	51
Major shareholder	GSPL (38%)
12m high/low (INR)	73.75/26.05
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

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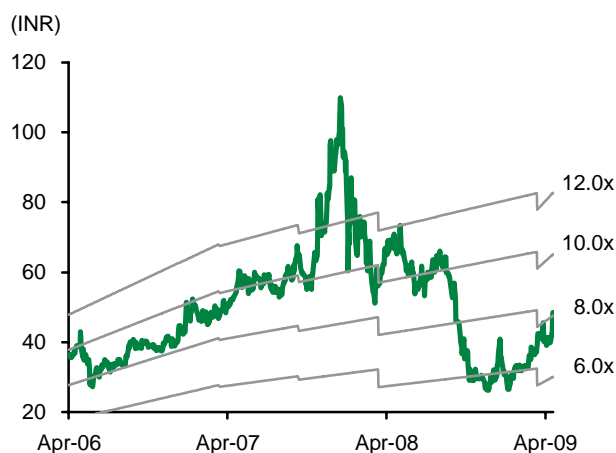
Exhibit 1: Changes In Volume Estimates

Year	Volumes			EBITDA		
	Previous (mmscmd)	Current (mmscmd)	Change (%)	Previous (INR m)	Current (INR m)	Change (%)
2009E	15.46	15.46	—	4,199	4,199	—
2010E	31.47	32.14	2.1	4,622	4,697	1.6
2011E	46.24	46.24	—	6,708	6,698	(0.1)

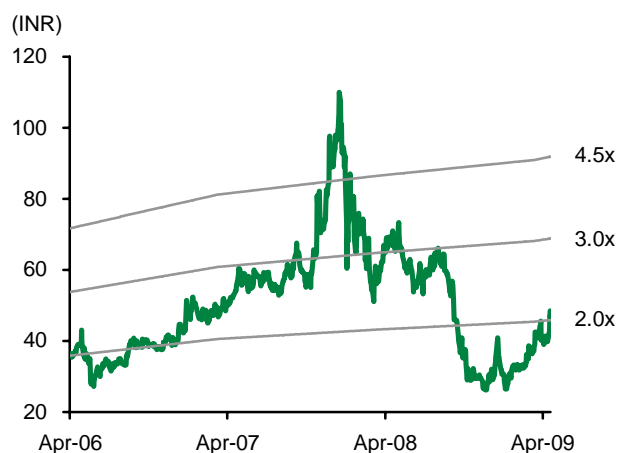
Source: BNP Paribas estimates

Exhibit 2: Relative Valuation

Company	BBG code	Share price (LC)	Market cap (USD b)	EV/EBITDA			P/BV			ROE		
				'09E (x)	'10E (x)	'11E (x)	'09E (x)	'10E (x)	'11E (x)	'09E (%)	'10E (%)	'11E (%)
Gujarat State Petronet ^{^*}	GUJS IN	47.95	0.55	8.4	8.1	6.1	2.2	2.1	1.9	9.7	10.0	14.2
GAIL ^{^*}	GAIL IN	261.65	6.73	7.0	6.5	6.1	2.2	2.0	1.8	23.1	19.9	17.1
Copano Energy LLC	CPNO US	14.98	0.97	5.7	5.7	4.9	1.6	1.4	1.3	6.0	4.7	6.0
Buckeye Partners LP	BPL US	40.02	2.06	11.5	10.4	9.9	1.6	1.6	1.6	16.3	15.2	13.9
Holly Energy Partners	HEP US	27.11	0.50	5.5	5.2	5.0	1.0	1.0	0.9	nm	nm	nm
Duncan Energy Partners	DEP US	18.78	1.08	20.2	19.0	15.8	0.3	0.3	0.3	5.5	nm	nm
Median (Excluding – GSPL)				7.0	6.5	6.1	1.6	1.4	1.3	9.4	15.2	13.9

* Year ending March for India; For US estimates are for immediate previous year ending December
Sources: Bloomberg; [^] BNP Paribas estimates**Exhibit 3: NTM Rolling EV/EBITDA Valuation**

Sources: Datastream; BNP Paribas estimates

Exhibit 4: NTM Rolling P/BV Valuation

Sources: Datastream; BNP Paribas estimates

FINANCIAL STATEMENTS

Gujarat State Petronet

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	3,176	4,179	4,784	6,104	8,783
Cost of sales ex depreciation	(203)	(127)	(110)	-	-
Gross profit ex depreciation	2,973	4,052	4,673	6,104	8,783
Other operating income	-	-	-	-	-
Operating costs	(296)	(408)	(474)	(1,407)	(2,085)
Operating EBITDA	2,677	3,645	4,199	4,697	6,698
Depreciation	(1,026)	(1,632)	(1,758)	(1,963)	(2,494)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	1,651	2,013	2,441	2,734	4,204
Net financing costs	(282)	(521)	(672)	(842)	(1,282)
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	3	-	-	-	-
Profit before tax	1,373	1,491	1,768	1,892	2,922
Tax	(479)	(492)	(624)	(643)	(1,023)
Profit after tax	894	999	1,144	1,249	1,899
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	894	999	1,144	1,249	1,899
Non recurring items & goodwill (net)	(5)	-	-	-	-
Recurring net profit	889	999	1,144	1,249	1,899
Per share (INR)					
Recurring EPS *	1.64	1.81	2.04	2.22	3.38
Reported EPS	1.65	1.81	2.04	2.22	3.38
DPS	0.58	0.58	0.72	1.11	1.08
Growth					
Revenue (%)	20.5	31.6	14.5	27.6	43.9
Operating EBITDA (%)	37.9	36.1	15.2	11.9	42.6
Operating EBIT (%)	43.5	21.9	21.3	12.0	53.7
Recurring EPS (%)	38.5	10.3	12.5	9.1	52.1
Reported EPS (%)	39.0	9.8	12.5	9.1	52.1
Operating performance					
Gross margin inc depreciation (%)	61.3	57.9	60.9	na	na
Operating EBITDA margin (%)	84.3	87.2	87.8	77.0	76.3
Operating EBIT margin (%)	52.0	48.2	51.0	44.8	47.9
Net margin (%)	28.0	23.9	23.9	20.5	21.6
Effective tax rate (%)	34.9	33.0	35.3	34.0	35.0
Dividend payout on recurring profit (%)	35.7	32.3	35.5	49.8	32.1
Interest cover (x)	5.9	3.9	3.6	3.2	3.3
Inventory days	na	na	na	na	na
Debtor days	27.9	33.4	33.4	31.2	29.7
Creditor days	na	na	na	na	na
Operating ROIC (%)	7.0	7.1	7.2	7.1	9.3
Operating ROIC - WACC (%)	(6.8)	(6.7)	(6.6)	(6.7)	(4.5)
ROIC (%)	6.9	7.0	7.1	7.0	9.2
ROIC - WACC (%)	(6.9)	(6.8)	(6.7)	(6.8)	(4.6)
ROE (%)	9.5	9.5	9.7	10.0	14.2
ROA (%)	5.6	5.6	5.4	5.5	7.8

Projecting an increase in revenue from FY10, once KG Basin gas starts flowing in

Projecting a drop in margins beginning FY10, despite an increase in volumes, due to contribution of 30% of PBT to charity

* Pre exceptional, pre-goodwill and fully diluted

Key Assumptions (INR m)	2007A	2008A	2009E	2010E	2011E
Gas Transported (MMSCMD)	14.37	16.79	15.46	32.14	46.24
Gas Transportation Charges (INR /000' S)	605	680	848	520	520

Revenue By Division (INR m)	2007A	2008A	2009E	2010E	2011E
Gas Transportation	3,176	4,179	4,784	6,104	8,783

Sources: Gujarat State Petronet; BNP Paribas estimates

Cash Flow (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring net profit	889	999	1,144	1,249	1,899
Depreciation	1,026	1,632	1,758	1,963	2,494
Associates & minorities	-	-	-	-	-
Other non-cash items	30	30	30	30	3
Recurring cash flow	1,945	2,661	2,933	3,242	4,397
Change in working capital	(1,058)	2,460	(389)	(352)	(3,857)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(4,404)	(5,863)	(5,000)	(5,000)	(3,000)
Free cash flow to equity	(3,517)	(742)	(2,456)	(2,110)	(2,461)
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	(318)	(329)	(407)	(622)	(609)
Non recurring cash flows	-	(356)	-	-	-
Net cash flow	(3,834)	(1,426)	(2,863)	(2,731)	(3,070)
Equity finance	8	1,080	1	0	-
Debt finance	2,852	1,022	2,770	2,770	1,370
Movement in cash	(974)	676	(92)	39	(1,700)

Debt to fund 70% of capex

Per share (INR)					
Recurring cash flow per share	3.59	4.82	5.22	5.77	7.82
FCF to equity per share	(6.48)	(1.34)	(4.37)	(3.75)	(4.38)

Balance Sheet (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Working capital assets	2,126	2,928	3,431	4,303	6,042
Working capital liabilities	(1,353)	(4,199)	(4,233)	(4,636)	(2,423)
Net working capital	773	(1,272)	(802)	(332)	3,620
Tangible fixed assets	17,029	21,259	24,501	27,538	28,044
Operating invested capital	17,802	19,988	23,698	27,205	31,663
Goodwill	-	-	-	-	-
Other intangible assets	93	63	33	3	-
Investments	-	356	356	356	356
Other assets	-	-	-	-	-
Invested capital	17,895	20,407	24,087	27,564	32,019
Cash & equivalents	(1,811)	(2,569)	(2,477)	(2,516)	(816)
Short term debt	-	-	-	-	-
Long term debt *	8,638	9,660	12,430	15,200	16,570
Net debt	6,827	7,091	9,953	12,684	15,754
Deferred tax	917	999	999	999	999
Other liabilities	492	907	988	1,106	1,200
Total equity	9,659	11,410	12,148	12,775	14,065
Minority interests	-	-	-	-	-
Invested capital	17,895	20,407	24,087	27,564	32,019

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

Per share (INR)					
Book value per share	17.80	20.30	21.61	22.73	25.02
Tangible book value per share	17.62	20.19	21.55	22.72	25.02

Financial strength					
Net debt/equity (%)	70.7	62.2	81.9	99.3	112.0
Net debt/total assets (%)	32.4	26.1	32.3	36.5	44.7
Current ratio (x)	2.9	1.3	1.4	1.5	2.8
CF interest cover (x)	4.1	10.8	4.8	4.4	1.4

Valuation					
	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	29.2	26.5	23.6	21.6	14.2
Recurring P/E @ target price (x) *	29.3	26.5	23.6	21.6	14.2
Reported P/E (x)	29.1	26.5	23.6	21.6	14.2
Dividend yield (%)	1.2	1.2	1.5	2.3	2.3
P/CF (x)	13.4	9.9	9.2	8.3	6.1
P/FCF (x)	neg	neg	neg	neg	neg
Price/book (x)	2.7	2.4	2.2	2.1	1.9
Price/tangible book (x)	2.7	2.4	2.2	2.1	1.9
EV/EBITDA (x) **	11.6	9.2	8.4	8.1	6.1
EV/EBITDA @ target price (x) **	11.6	9.2	8.5	8.2	6.2
EV/invested capital (x)	1.8	1.7	1.5	1.4	1.3

* Pre exceptional, pre-goodwill and fully diluted

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

Sources: Gujarat State Petronet; BNP Paribas estimates

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All share prices are as at market close on 8 May 2009 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*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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