

## Petronet LNG Ltd (Q1 FY09)

July 22, 2008

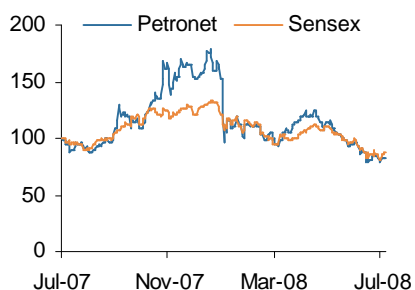
### Stock data

Sensex:	13,850
CMP (Rs):	55
Target price (Rs):	60
Upside (%):	9.3
52 Week h/l (Rs):	122/48
Market cap (Rs cr)	4,118
6m Avg vol BSE&NSE ('000 nos):	3,496
No of o/s shares (mn):	750
FV (Rs):	10
Bloomberg code:	PLNG IN
Reuters code:	PLNG.BO
BSE code:	532522
NSE code:	PETRONET

### Shareholding pattern

<b>June 2008</b>	<b>(%)</b>
Promoters	50.0
FII's & institutions	11.6
Non promoter corp hold	3.8
Others	34.6

### Share price trend



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- Net sales up only 6.1% to Rs16.5bn – below expectations as volumes remain flat
- Realizations hit as spot volumes decline
- OPM declines 156bps yoy and 61bps qoq
- Recommend Market Performer with a target of Rs60

### Result table

Period to	Q1 FY09	Q1 FY08	Growth
Rs mn	(3)	(3)	yoy (%)
Net sales	16,459	15,510	6.1
Total Expenditure	(14,541)	(13,461)	8.0
Operating Profit	1,918	2,049	(6.4)
Other Income	167	116	43.7
Interest	(251)	(257)	(2.3)
Depreciation	(255)	(254)	0.5
PBT	1,578	1,654	(4.6)
Tax	(522)	(574)	(9.1)
PAT	1,056	1,080	(2.2)
Equity	7,500	7,500	-
OPM(%)	11.7	13.2	-
NPM(%)	6.4	7.0	-
EPS Annualized Rs	5.6	5.8	-

Source: Company

### Net sales up on higher volumes

During Q1 FY09, Petronet LNG Ltd (PLL) reported a modest growth of 6.1% yoy (decline of 6.1% qoq) in net sales to Rs16.5bn, which was below our expectations. The under performance was on back of flat volumes yoy, which were down 1.3% qoq as spot volumes declined. Realizations in rupee terms were lower 4.9% qoq on account of lower contribution of spot volumes, which command higher price. However, on yoy basis realizations were higher by 5.8%.

### Operational parameters

	Q1 FY08	Q2 FY08	Q3 FY08	Q4 FY08	Q1 FY09
Sales Qty (TBTUs)	78.6	83.2	80.3	79.9	78.8
Realization (Rs)	197.3	200.8	197.0	219.5	208.8
Realization (\$)	4.9	5.0	4.9	5.5	5.0
Cost (Rs)	167.3	171.8	164.3	188.1	180.6
Cost (\$)	4.2	4.3	4.1	4.7	4.3

Source: Company, India Infoline Research

### OPM down 156bps yoy and 61bps qoq

OPM was down 156bps on a yoy basis and 61bps on a qoq basis to 11.7%. The margins were down as contribution of higher margin spot volumes declined. As a result, raw material cost as a percentage of sales was up 166bps yoy and 77bps qoq.

### Cost analysis

As % of Sales	Q1 FY08	Q2 FY08	Q3 FY08	Q4 FY08	Q1 FY09
Raw Material	84.8	85.6	83.4	85.7	86.5
Staff Cost	0.4	0.3	0.2	0.4	0.2
Other Expenditure	1.6	1.3	1.7	1.6	1.6
Total Expenditure	86.8	87.2	85.3	87.7	88.3

Source: Company, India Infoline Research

### Poor operating performance cause decline in PAT both on yoy and qoq basis

PLL reported a PAT of Rs1,056mn for Q1 FY09 which was down 12% qoq and 2.2% yoy. The decline was primarily on account of poor operational performance as operating profit declined by 6.4% yoy and 10.7% qoq. The fall would have been sharper had it not been for a 43.7% yoy jump in other income to Rs167mn.

### Outlook remains bleak

Although PLL is increasing its capacity at Dahej to 10mmtpa and Kochi terminal commences operations by FY11, the global outlook remains bleak for LNG players. The regasification capacity across the globe is likely to be three times that of liquefaction capacity over the next ten years. This would lead to a sharp rise in LNG prices removing the cost benefits for the end users. The company is planning to set up a power plant on LNG supplies but tying a long term contract on affordable prices for gas supplies is very difficult in the current global scenario. The company has indicated that it has agreed to sign a contract for 10-year supplies of 3.5mmtpa LNG. However, the pricing is still not certain. We recommend a Market Performer rating with a target price of Rs60, with an upside of 9.1%.

### Financials

y/e Mar, Rs m	FY06	FY07	FY08	FY09E	FY10E
Revenues	38,372	55,090	65,553	77,133	108,418
yoy growth (%)		43.6	19.0	17.7	40.6
Operating profit	4,882	6,481	8,661	8,858	8,634
OPM (%)	12.7	11.8	13.2	11.5	8.0
PAT	1,949	3,133	4,474	4,489	4,541
yoy growth (%)		60.7	42.8	0.3	1.2
EPS (Rs)	2.6	4.2	6.0	6.0	6.1
P/E (x)	21.2	13.2	9.2	9.2	9.1
P/BV (x)	3.8	3.2	2.4	1.9	1.6
EV/EBITDA (x)	10.5	8.0	6.2	5.7	5.2
ROE (%)	18.2	24.6	26.0	20.7	17.3
ROCE (%)	19.0	25.0	29.3	23.1	21.0

Source: Company, India Infoline Research

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