

Petronet LNG

Rs69

High operational visibility

- Operational visibility boosted by long term supply and sales contracts; increase in volumes from Qatar by end of year
- Absence of marketing margin expected to be a drag on overall margin
- Kochi Terminal on schedule for Q1CY12; delay in commissioning of second jetty at Dahej not to affect volumes
- DCF value of Rs99/share. Valuation discount to peers likely to narrow; Maintain Buy

Higher operational visibility from long term contracts

Petronet LNG (PLL) remains the only company which has firm long term LNG supply commitment along with back to back sales arrangements providing higher operational visibility. PLL expects shipments of an additional 2.5mtpa (million metrics tonnes per annum) of long term LNG from Ras Gas Qatar to start by 30 December 2009. This will take total supply of long term LNG from RasGas Qatar to 7.5 mtpa. The company has also tied up 1.5mtpa of long term LNG starting 2014 from Gorgon LNG, Australia. The entire output from Gorgon field is likely to be placed with a domestic power utility.

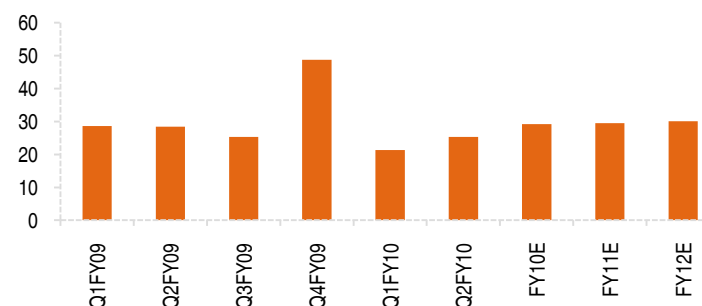
Volume growth to remain strong despite delay in second jetty at Dahej

The second jetty at Dahej, costing Rs9bn, is likely to be delayed by three to six months and be commissioned in FY12E. The delay does not affect our volume estimates (7.9mtpa in FY10E and 14.9 mtpa in FY14) as Dahej can handle 10.5 mtpa of LNG with a single jetty. The commissioning of Rs36bn greenfield 2.5mtpa LNG plant in Kochi is on schedule (Q1CY12). This would be well in time to receive LNG shipments from Gorgon. R-LNG fuelled 1,500MW power plant plans are in initial stages and have not been factored in our estimates.

Absence of marketing margin to reduce gross margin...

Gross margin per mmBtu (million British thermal units) has shown a declining trend over the last two quarters due to absence of marketing margin charged on spot cargos.

Exhibit 1: PLL's gross margin (Rs/mmBtu)



Source: Company, BRICS Research

KEY FINANCIALS	(Rs mn)				
Y/E 31 March	2007	2008	2009	2010E	2011E
Revenue	55,006	65,553	84,287	117,353	160,953
EBITDA	6,397	8,661	9,013	9,879	12,220
EBITDA margin (%)	11.6	13.2	10.7	8.4	7.6
PAT	3,133	4,747	5,184	4,852	6,002
FDEPS (Rs)	4.2	6.3	6.9	6.5	8.0
% growth	60.7	51.5	9.2	(6.4)	23.7
P/E (x)	16.5	10.9	10.0	10.7	8.6
ROCE (%)	15.6	19.5	15.4	12.5	12.8

Source: Company, BRICS Research Data

BUY

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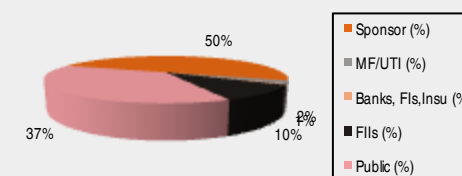
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KEY DATA

Bloomberg	PLNG@IN
Reuters	PLNG.BO
52-wk H/L(Rs)	82.4/30.4
6-m avg trd value	US\$1.8mn
Market cap	Rs51.7bn/US\$1.1bn
Shares o/s	750.0mn
Face value	Rs10

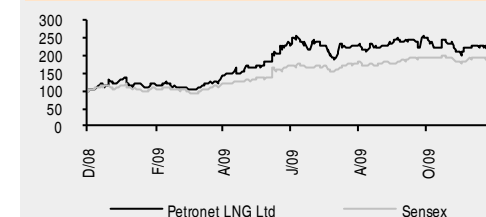
Source: Bloomberg

SHAREHOLDING (%)



Source: CMIE

PRICE PERFORMANCE



Source: Bloomberg

...Revising downwards FY10 and FY11 EPS estimates

We believe the company may find it difficult to levy marketing margin, given the spare capacity in re-gasification in India and moderate demand. We are thus revising our marketing margin estimates to nil (see Exhibit 2) v/s US\$0.125/mmBtu earlier. This results in -1.5% change in our FY10E EPS and -5.9% change in our FY11E EPS.

Exhibit 2: FY10 and FY11 EPS estimates revised downwards on absence of marketing margin

	FY10E EPS	FY11E EPS
Marketing margin at US\$0.12/mmBtu	6.6	8.5
Zero Marketing Margin	6.5	8
Change in EPS(%)	-1.5	-5.9

Source: Company, BRICS Research

We are factoring in continuation of current re-gasification tariff structure (which has 5% annual escalation) for the first 6.3mmtpa of volumes with 25% lower charge for additional volumes. The structure results in 1.3% increase in tariff for FY10, a 1.9% increase in FY11E followed by 4% annual increase thereafter (see Exhibit 3). Our re-gasification tariff estimates are conservative as the company has reiterated that contracts signed with IOC, GAIL, and BPCL are applicable for 7.5mmtpa of output.

Exhibit 3: Tariff estimates

	FY09	FY10E	FY11E	FY12E
Regassification Charges (Rs/mmbtu)	29.9	30.3	30.8	32.1
Growth(%)		1.3	1.9	4.0

Source: Company, BRICS Research

LNG to remain important part of India energy mix; prices competitive with RIL gas till at least FY11

We believe LNG is here to stay as part of India's energy basket in the foreseeable future (see Exhibit 4) as there is a clear demand-supply mismatch even after taking into account supplies from other domestic players.

Exhibit 4: Demand and supply for gas excluding LNG (in mmscm)

	FY08	FY09	FY10E	FY11E	FY12E	FY13E
ONGC+OIL	57.3	58.4	55.7	54.7	51.1	51.1
RIL, KG Basin	0	40	70	90	90	120
GSPC, KG Basin	0	0	0	0	1	7
Pvt/JV-Others	23.3	21.6	20.3	18.4	17.2	17.2
Total Domestic Supply (excluding LNG)	80.5	120	146	163.1	159.3	195.3
Total Domestic Demand	179.2	196.6	225.5	262.1	279.4	280.4
Shortfall/ LNG Potential	-98.6	-76.7	-79.6	-99	-120.1	-85.1
LNG Potential (mmtpa)	24.7	19.2	19.9	24.7	30	21.3

Source: Planning Commission, Company Reports, BRICS Research

Also, PLL's contracted volumes are competitive as compared to RIL's KG basin gas at least through FY11E (see Exhibit 5).

Exhibit 5: PLL's long term contracted gas price (USD/mmBtu) at different JCC prices

JCC prices		FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
JCC (US\$/bbl)	80	4.2	5.8	7.4	9	10.5	10.9
	70	4	5.3	6.7	8	9.3	9.6
	60	3.8	4.8	5.9	7	8	8.3
	50	3.6	4.4	5.2	6	6.7	6.9
	40	3.4	3.9	4.4	5	5.5	5.6
LNG cheaper than RIL gas		LNG = RIL gas		LNG costlier than RIL gas			

Source: Bloomberg, Company, BRICS Research

DCF value of Rs99 per share

We value PLL at Rs99 per share on DCF basis, which implies 44% upside potential. The sensitivity of NAV to changes in volume and re-gasification tariff assumptions from our base case is shown below. (See Exhibit 6)

Exhibit 6: Sensitivity of DCF value to changes in volumes and tariffs

Tariff Deviation	Volume Deviation		
	0%	-5%	-10%
0%	99	91	83
-5%	87	80	72
-10%	76	69	62

Source: BRICS Research

Valuation discount to peers likely to narrow; Maintain Buy

The stock trades at 10.6x FY10 and 8.6x FY11 EPS - discount to peers (see Exhibit 7). We believe the valuation discount is largely due to stagnant earnings growth for FY10E. However, we expect earnings growth of 24% in FY11 and 5.5% in FY12. Given the resumption of growth, we expect the multiples to move in line with peers. Maintain BUY.

Exhibit 7: PLL's Peer Valuations

	CMP (Rs)	Net Sales		Net Profit		EPS (Rs)		ROE (%)		P/E (x)		EV/EBITDA (x)	
		FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
GAIL	429	248580	257852	27118	26538	21.4	20.9	17.4	15	20	21	15.9	15.1
GSPL	102	10785	12721	4108	4904	7.3	8.7	29.5	27.3	13.9	11.6	7.8	6.4
Gujarat Gas	238	14922	16851	1569	2027	12.2	15.8	19.7	21.3	19.5	15.1	8.8	8.2
IGL	178	11797	13206	2404	2791	17.2	19.9	31.5	29.8	10.4	8.9	5.6	4.9
PLNG	69	117353	160953	4852	6002	6.5	8.0	20.8	21.4	10.7	8.6	8.8	7.6

Source: BRICS Research

INCOME STATEMENT (CONSOLIDATED)

Y/E 31 March	2007	2008	2009	2010E	2011E
Revenue	55,006	65,553	84,287	117,353	160,953
Operating exp	48,609	56,892	75,274	107,473	148,733
EBITDA	6,397	8,661	9,013	9,879	12,220
Depreciation	1,020	1,022	1,025	1,481	1,978
EBIT	5,377	7,640	7,988	8,399	10,242
Other income	449	536	765	850	754
Interest paid	1,070	1,024	1,012	1,890	1,949
PBT	4,756	7,152	7,740	7,359	9,047
Tax	(1,623)	(2,405)	(2,556)	(2,507)	(3,045)
APAT	3,133	4,747	5,184	4,852	6,002
Minority interest	—	—	—	—	—
EO inc / (exp)	—	—	—	—	—
PAT	3,133	4,747	5,184	4,852	6,002
Shares o/s (mn nos)	—	—	—	—	—
Revenue growth (%)	43.4	19.2	28.6	39.2	37.2
PAT growth (%)	76.5	51.5	9.2	(6.4)	23.7
EBITDA margin (%)	11.6	13.2	10.7	8.4	7.6
FDEPS (Rs) recurring	4.2	6.3	6.9	6.5	8.0
FDEPS (Rs) reported	4.2	6.3	6.9	6.5	8.0

BALANCE SHEET (CONSOLIDATED)

Y/E 31 March	2007	2008	2009	2010E	2011E
Net fixed assets	21,273	26,293	33,156	52,754	62,767
Investments	2,780	5,473	3,043	3,043	3,043
Current assets	10,883	8,507	18,097	16,747	21,007
Inventories	2,099	909	3,856	4,506	5,454
Sundry debtors	3,313	3,330	6,712	7,844	9,493
Cash & bank balance	3,405	3,586	6,578	3,445	5,109
Loans & advances	2,051	640	783	783	783
Total assets	34,936	40,273	54,296	72,543	86,816
Networth	12,755	16,185	19,834	23,370	28,055
Share capital	7,500	7,500	7,500	7,500	7,500
Reserves & surplus	5,255	8,685	12,334	15,870	20,555
Minority interest	—	—	—	—	—
Total debt	13,832	15,776	22,817	38,404	46,588
Secured loans	13,832	15,776	22,817	35,404	43,588
Unsecured loans	—	—	—	3,000	3,000
Current liabilities & prov	5,877	5,619	8,922	8,017	9,421
Current liabilities	5,868	5,604	8,901	7,996	9,400
Provisions	9	16	21	21	21
Net deferred tax liab	2,472	2,692	2,722	2,752	2,752
Total liabilities	34,936	40,273	54,295	72,543	86,816

CASH FLOW STATEMENT (CONSOLIDATED)

Y/E 31 March	2007	2008	2009	2010E	2011E
Net Profit	3,133	4,747	5,184	4,852	6,002
Depreciation	1,020	1,022	1,025	1,481	1,978
Amortisation	—	—	—	—	—
Interest paid	1,070	1,024	1,012	1,890	1,949
Chg in working capital	(1,760)	2,870	(3,515)	(2,469)	(1,192)
Other op activities	1,624	2,405	2,556	2,507	3,045
Cash flow from op (a)	5,613	9,093	3,737	5,784	8,737
Capital expenditure	(3,665)	(6,042)	(7,887)	(21,078)	(11,991)
Chg in investments	(1,211)	(2,693)	2,431	—	—
Other investing act	—	—	—	—	—
Cash flow from inv. (b)	(4,876)	(8,735)	(5,456)	(21,078)	(11,991)
Free cash flow (a+b)	738	357	(1,719)	(15,295)	(3,255)
Equity raised/(repaid)	—	—	—	—	—
Debt raised/(repaid)	1,233	1,944	7,041	15,587	8,184
Interest paid	(1,070)	(1,024)	(1,012)	(1,890)	(1,949)
Dividend (incl. tax)	—	(1,097)	(1,097)	(1,536)	(1,316)
Other fin. activities	—	—	—	—	—
Cash flow from fin. (c)	163	(176)	4,932	12,162	4,919
Net chg in cash (a+b+c)	900	181	3,213	(3,133)	1,664

KEY RATIOS

Y/E 31 March	2007	2008	2009	2010E	2011E
Raw material to sales	0.9	0.8	0.9	0.9	0.9
SGA to sales	0.8	0.8	1.0	0.7	0.6
Effective tax rate	(34.1)	(33.6)	(33.0)	(34.1)	(33.7)
Dividend yield (%)	1.8	2.2	2.2	2.2	2.2
ROE (%)	24.6	29.3	26.1	20.8	21.4
ROCE (%)	15.6	19.5	15.4	12.5	12.8
Net debt/Equity (%)	0.8	0.8	0.8	1.5	1.5
PAT margin (%)	5.7	7.2	6.2	4.1	3.7
Inventory (days)	13.9	5.1	16.7	14.0	12.4
Payable (days)	24.0	22.2	28.3	23.1	20.1
Receivable (days)	22	19	29	24	22

VALUATIONS

Y/E 31 March	2007	2008	2009	2010E	2011E
EV/op. cash flow (x)	11.1	7.0	18.2	15.0	10.7
PER (x)	16.5	10.9	10.0	10.7	8.6
PCE (x)	12.5	9.0	8.3	8.2	6.5
Price/Book (x)	4.1	3.2	2.6	2.2	1.8
EV/EBITDA (x)	9.7	7.4	7.5	8.8	7.6

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