May 3, 2012

Result Update

CMP : INR 135
Rating : Buy
Target : INR 195

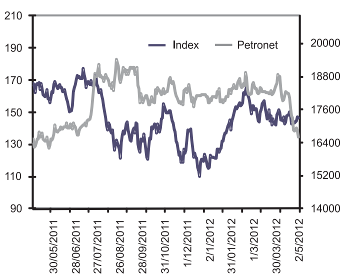
Petronet LNG

KEY DATA	
Market Cap (INR bn)	101.3
Market Cap (USD mn)	1910.4
52 WK High / Low	185 / 125
Avg Daily Volume (BSE)	294434
Face Value (INR)	10

BSE Sensex	17302
Nifty	5239
BSE Code	532522
NSE Code	PETRONET
Reuters Code	PLNG.BO
Bloomberg Code	PLNG IN

Shareholding %	2Q	3Q	4Q
Promoters	50.0	50.0	50.0
MF/Banks/Indian FIs	8.0	8.0	7.0
FII/ NRIs/ OCBs	25.0	25.0	25.0
Indian Public	17.0	17.0	18.0

Performance Chart



PRICE PERFORMANCE (%)

	3 M	6 M	12 M
Absolute	(19.5)	(17.2)	0.8
Relative	(18.8)	(16.3)	7.5

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The Q4FY12 results of Petronet LNG (PLNG) were below our estimates primarily on account of lower than expected regassification volume. In Q4 FY12, the PAT increased 18.8% Y-o-Y but declined 16.9% sequentially to Rs. 2.5 bn as against our expectations of Rs. 2.8 bn. For the quarter, the net sales increased 59.9% Y-o-Y and 0.7% sequentially to Rs. 63.8 bn driven by increase in volume and LNG prices.

Lower than expected volumes mars the results

As against our expectation of 147.4 TBTU of regassification volume the company regassified 134.9 TBTU. The sequential decline in regassification volume was on account of lesser off take from some fertilizer plants due to normal maintenance shut downs and lower demand from power plants. The long term volume declined 5.4% Y-o-Y and 4.6% sequentially to 93.5 TBTU while the tolling volume increased 10.4% Y-o-Y but declined 31.6% sequentially to 15 TBTU. PLNG's 7.5 mmtpa long term contract are on take or pay basis so the volume is likely to pick up in the coming quarters.

Gross margin declines as capacity utilizations comes down

The gross margin of the company came below expectations as the capacity utilization of the plant came down from ~ 115% in Q3 FY12 to ~106% in 4Q FY12, thus, impacting the efficiencies gains and a likely lower than expected marketing margin on the spot/short term cargoes. The increase in the spot LNG prices could put pressure on the company's ability to charge higher marketing margins.

PLNG will continue to benefit from the fall in the domestic gas production

With the domestic gas production on decline amid strong gas demand, LNG will hold key to plug the demand- supply deficit. PLNG already operates its Dahej terminal over 100% capacity utilization. The management maintained that the demand in Dahej region remains strong but the company is unable to meet the entire requirement on account of the capacity constraints. To cater to the demand, PLNG is increasing the Dahej plant capacity to 15 mmtpa. PLNG could operate the Dahej plant at a regassification capacity of 12.-12.5 mmt once the second jetty opens by FY14. Also, Kochi terminal is on track and is likely to get operational by the end of CY2012.

Valuations

We cut our FY13E and FY14E regassification volume assumption downwards at the Dahej terminal to 10.7 mmt and 11.4 mmt factoring in the lower capacity utilization. We lower our FY13E and FY14E EPS estimates to 13.1 and 15.1 respectively as against the earlier estimates of 14.9 and 15.8 respectively, to factor in the lower than expected capacity utilization at the Dahej terminal. The uncertainty over the regulation of LNG business (regassification and marketing margin) has led to the recent correction in the stock price. However the management reiterated that the LNG business does not fall under the purview of the regulator and, hence, the concerns are unwarranted. At CMP, PLNG is trading at 10.3x FY13E and 9.0x FY14E EPS of Rs. 13.1and Rs. 15.1 respectively and at an EV/EBIDTA of 7.5x FY13E and 5.9x FY14E. We maintain buy rating on PLNG with a revised DCF based target price of Rs.195 per share.

Quarterly Result Analysis

(YE March 31) (Rs. bn)	Q4 FY12	Q4 FY11	% change Y-o-Y	Q3 FY12	% change Q-o-Q	FY12	FY11	% change Y-o-Y
Total Revenue	**63.8**	**39.9**	***59.9%***	**63.3**	***0.7%***	**227.0**	**132.0**	***72.0%***
Net Raw Materials	59.4	35.7	*66.2%*	57.0	*4.2%*	205.9	118.0	*74.4%*
Personnel Expenses	0.1	0.1	*-11.6%*	0.1	*68.5%*	0.3	0.3	*-2.6%*
Miscellaneous Expenses	0.6	0.5	*25.4%*	0.6	*4.1%*	2.6	1.5	*75.1%*
Total Cost	**60.1**	**36.3**	***65.4%***	**57.6**	***4.3%***	**208.8**	**119.8**	***74.3%***
EBIDTA	**3.65**	**3.52**	***3.9%***	**5.7**	***-35.4%***	**18.2**	**12.2**	***49.5%***
Less: Depreciation	0.5	0.5	*0.8%*	0.5	*-1.0%*	1.8	1.8	*-0.3%*
EBIT	**3.2**	**3.1**	***4.4%***	**5.2**	***-38.5%***	**16.3**	**10.3**	***58.4%***
Less: Interest	0.34	0.44	*-21.5%*	0.39	*-12.9%*	1.66	1.93	*-14.3%*
Other Income	0.2	0.2	*-3.1%*	0.2	*34.8%*	0.8	0.5	*57.4%*
Extraordinary (Income)/Expenses	0.6	0.1		-0.6		0.0	0.1	
PBT	**3.7**	**2.9**	***24%***	**4.4**	***-16.8%***	**15.5**	**9.1**	***71.3%***
Less: Total Tax	1.2	0.9	*36.7%*	1.4	*-16.4%*	5.0	2.9	*72.6%*
Profit After Tax	**2.5**	**2.1**	***18.8%***	**3.0**	***-17.0%***	**10.6**	**6.2**	***70.7%***
Adj. no. of Shares Outstanding (bn)	0.75	0.75		0.75		0.75	0.75	
Diluted EPS (In. Rs.)	3.27	2.75	*18.8%*	3.9	*-16.9%*	14.1	8.3	*70.7%*

Margin Analysis			Change in Bps		Change in Bps			Change in Bps
EBIDTA Margin (%)	5.7%	8.8%	*(309.1)*	8.9%	*(320.5)*	8.0%	9.2%	*(120.6)*
EBIT (%)	5.0%	7.7%	*(267.0)*	8.2%	*(319.2)*	7.2%	7.8%	*(61.8)*
PBT Margin (%)	5.7%	7.4%	*(165.1)*	6.9%	*(120.6)*	6.8%	6.9%	*(2.7)*
NPM (%)	3.8%	5.2%	*(133.1)*	4.7%	*(82.1)*	4.7%	4.7%	*(3.4)*
Effective Tax Rate (%)	32.9%	29.9%	*301.1*	32.7%	*16.9*	31.9%	31.6%	*23.8*

NA - Not Applicable

- In Q4 FY12, PLNG's regassification volume increased 7.3% Y-o-Y but declined 6.9% sequentially to 134.9 TBTU, the sequential decline on account of lesser off take from consumers. The sequential decline in regassification volume, on account of lesser off take from some fertilizer plants due to normal maintenance shut downs and power plants. The management was of the view that the 21.1% Y-o-Y and 7.3% sequential increase in the regassification volume to 145 TBtu in the Q3 FY12 was due to exceptional performance in the quarter.

- The gross margin of the company declined sequentially to Rs. 36.8 per mmbtu, despite the annual 5% increase in the regassification tariffs. The internal efficiencies of the plant depends on the capacity utilization of the plant, which declined resulting in lower efficiencies gains, thus, impacting the gross margins of the company. Also, higher LNG prices could have put pressure on the company's ability to charge a higher marketing margin.

- In Q4 FY12, PLNG revenue increased 59.9% Y-o-Y and 0.7% sequentially, with the Y-o-Y increase driven by increase in the regassification volume and LNG prices.

- The EBIDTA of the company increased 3.9% Y-o-Y to Rs. 3.65 bn however declined 35.4% sequentially to Rs. 3.65 bn with the sequential decline being driven by the decrease in the gross margin of the company.

- In the quarter, PLNG PAT increased 18.8% Y-o-Y but declined 16.9% sequentially to Rs.2.5 bn, on account of lower EBIDTA margin. For FY12, the PAT of the company increased 70.7% Y-o-Y to Rs. 10.6 bn on account of increase in the regassification volume coupled with increase in the regassification and marketing margin of the company.

- In the quarter, the effective tax rate of the company increased 301bps Y-o-Y and 16.9 bps sequentially to 32.9%.

Capital expenditure

For FY13E, the company has planned capex of Rs. 15 bn, Rs. 12bn for the Kochi plant and Rs. 3 bn for the second jetty at the Dahej terminal. For FY14E, the company could spend ~ Rs. 3 -4 bn for the second jetty at the Dahej terminal.

Kochi terminal on track

PLNG has a capital expenditure of Rs. 44 bn and the company has already spent Rs. 32 bn on the Kochi terminal. The terminal is likely to go on operation by December 2012. For FY14, the company expects the Kochi terminal volume of ~ 1-1.5 mmt. The company expects the initial volume form the terminal would be low on account of nascent market conditions but expects the ramp up of the volume to 5 mmt before FY16.

Second jetty at Dahej

PLNG regassification capacity is expected to go up to 12.-12.5 mmt when the second jetty becomes operational. Presently, the company is not able to meet the entire demand on account of the capacity constraint. With the increase in operable capacity after the commissioning of the second jetty, the company could cater to the demand - supply gap.

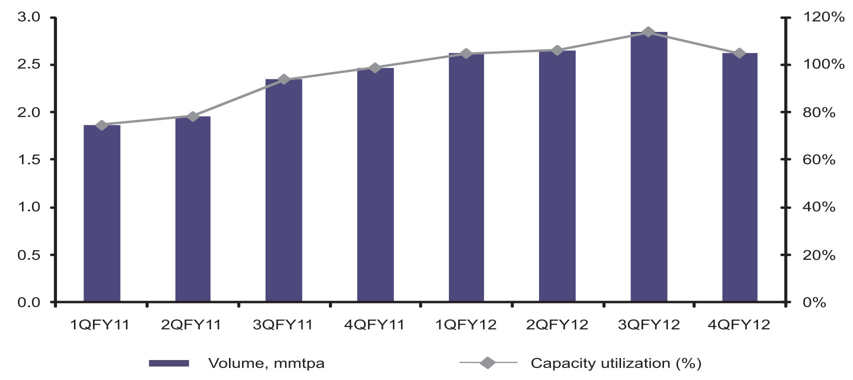
Dahej capacity expansion

For the additional 5 mmt expansion at the Dahej terminal, the company is expected to sign contracts with GAIL and GSPC in the near term.

Management reiterated that LNG business does not fall under regulatory domain

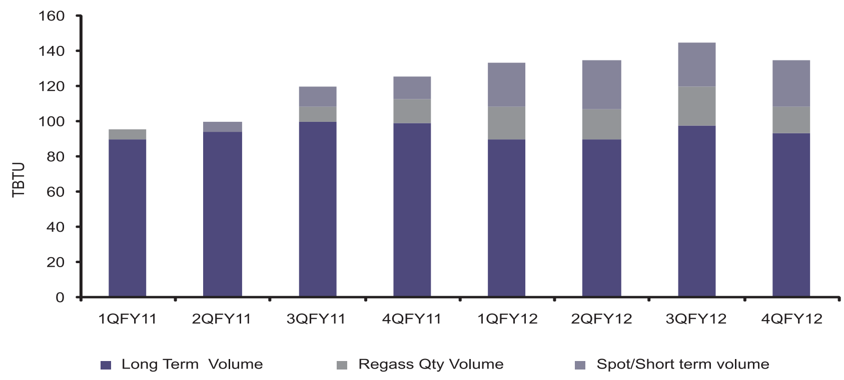
PNGRB has the right to register the LNG terminals. However, the company's management was of the view that the LNG prices, regassification charges and marketing margins would not come under the purview of PNGRB. PLNG does not charge marketing margin on long term and tolling volume. The company charges marketing margin on spot volumes. Thus, we believe that the present concerns over the marketing margins regulations are unwarranted.

PLNG capacity utilization declined sequentially to ~106%



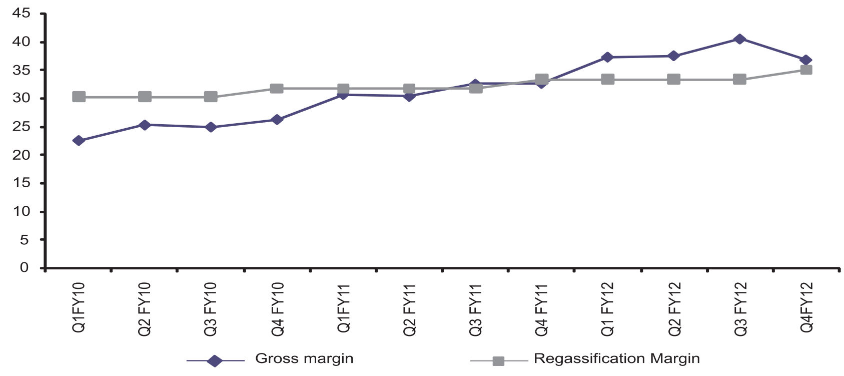
Source: Company, FQ Research

Long term volume declined sequentially to 93.5 TBTU



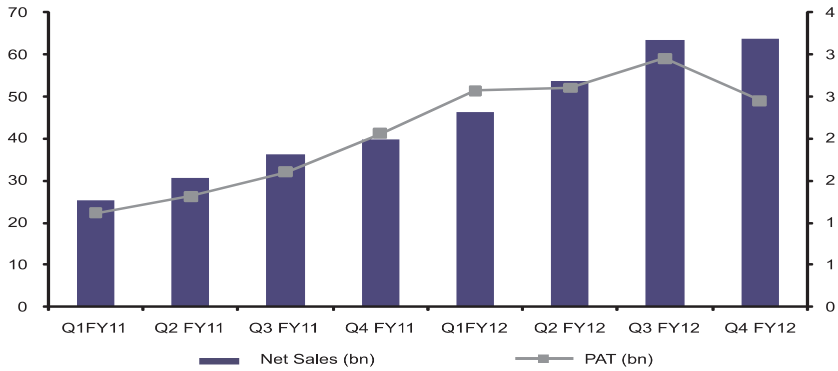
Source: Company, FQ Research

Gross margin declined despite increase in the regassification margin



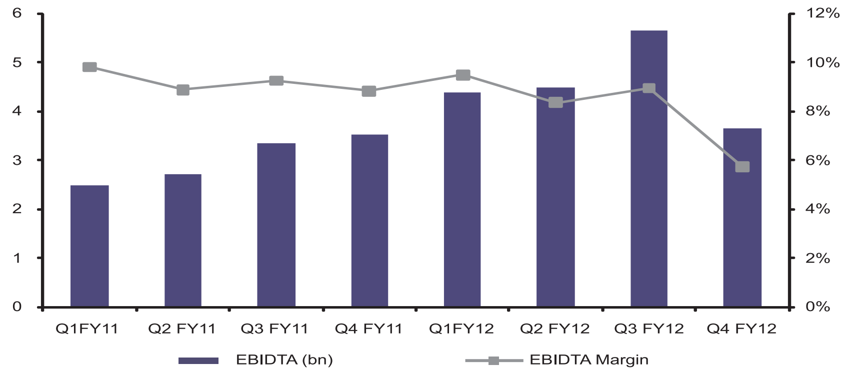
Source: Company, FQ Research

Net sales increased 59.9% Y-o-Y while PAT increased 18.8% Y-o-Y



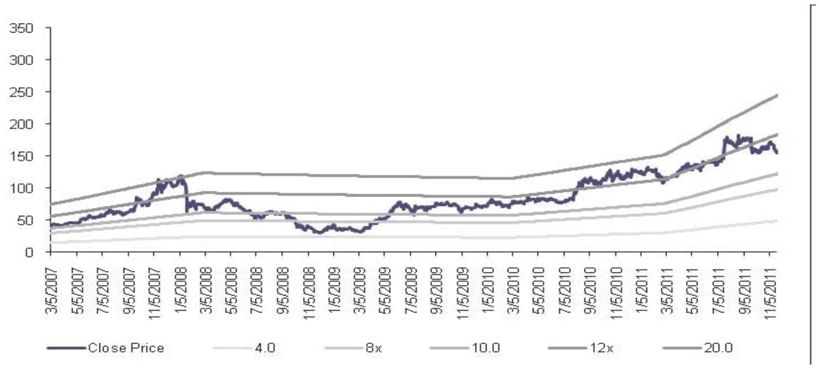
Source: Company, FQ Research

EBIDTA increased 3.9% Y-o-Y but declined 35.4% sequentially



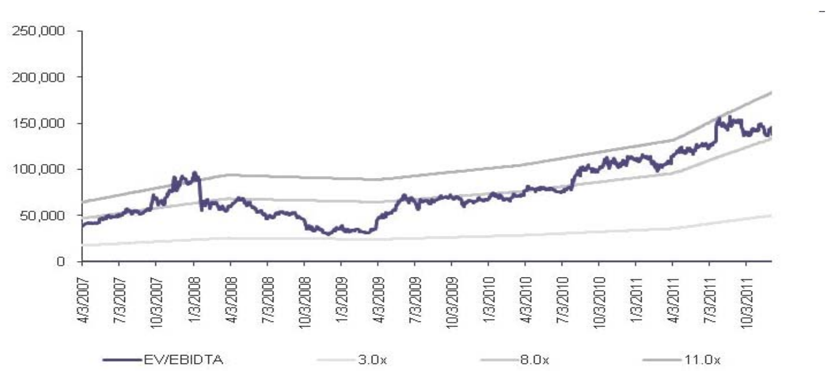
Source: Company, FQ Research

PLNG 1y forward PE band



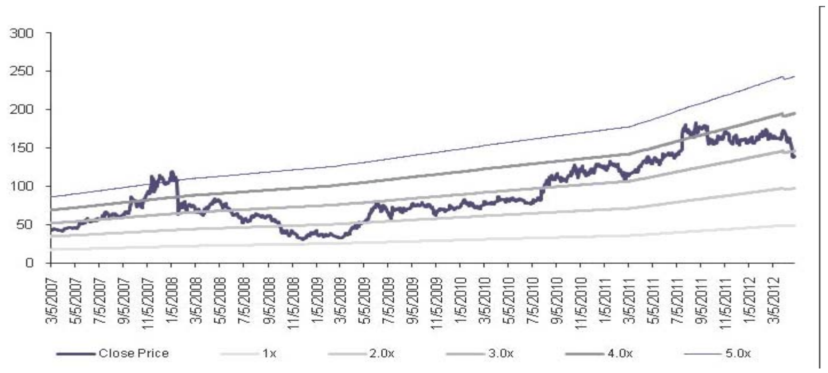
Source: Company, FQ Research

PLNG 1y forward EV/EBIDTA band



Source: Company, FQ Research

PLNG 1y forward P/BV band



Source: Company, FQ Research

Consolidated Financials

Profit and Loss Statement

Particulars (INR mn)	FY11	FY12	FY13E	FY14E
Total Revenues	**131,973**	**226,959**	**287,011**	**387,047**
Net Sales Growth (Y-oY)	23.9%	72.0%	26.5%	34.9%
Total Expenditure	**119,810**	**208,781**	**268,530**	**364,518**
EBIDTA	**12,163**	**18,177**	**18,481**	**22,529**
EBIDTA Margin (%)	**9.2%**	**8.0%**	**6.4%**	**5.8%**
EBIDTA Growth (Y-o-Y)	43.7%	49.5%	1.7%	21.9%
Other Income	680	849	907	1,594
Depreciation/Amortization	**1,847**	**1,842**	**2,650**	**4,561**
Interest	**1,931**	**1,657**	**2,033**	**2,710**
PBT	**9,064**	**15,527**	**14,705**	**16,852**
PBT Margin (%)	**6.9%**	**6.8%**	**5.1%**	**4.4%**
Net Profit	**6,196**	**10,577**	**9,852**	**11,291**
Net Profit Excl. extra-ordinaries	**6,196**	**10,577**	**9,852**	**11,291**

Ratios

Particulars	FY11	FY12	FY13E	FY14E
Valuation Ratio (x)				
P/E (x)	16.3	9.6	10.3	9.0
P/E Excl. Extra-ordinaries (x)	16.3	9.6	10.3	9.0
P/BV (x)	3.8	2.8	2.3	1.9
P/CEPS (x)	12.6	8.2	8.1	6.4
EV/EBITDA (x)	10.8	7.5	7.5	5.9
Market Cap. / Sales (x)	0.8	0.4	0.4	0.3
Div.Yield (%)	1%	1%	1%	1%
Leverage Ratios				
Debt/Equity (x)	1.2	1.1	1.0	0.9
Interest Coverage (x)	6.3	11.0	9.1	8.3
Per Share Data				
Diluted EPS	8.3	14.1	13.1	15.1
Diluted Cash EPS	8.3	14.1	13.1	15.1
Book Value Per share (Rs.)	35.7	47.8	59.0	72.0
Returns (%)				
RoE (%)	24.3%	33.0%	24.1%	22.6%
RoE (%)- Excl. extra-ordinaries	24.3%	33.0%	24.1%	22.6%
RoCE (%)	13.1%	16.5%	13.2%	13.3%
RoCE (%)-Excl. extra-ordinaries	13.1%	16.5%	13.2%	13.3%
Dividend Payout	28.1%	14.2%	15.2%	13.3%
Du-Pont Analysis				
EBIDTA/Sales (%)	9.2%	8.0%	6.4%	5.8%
Sales/Operating assets (x)	2.6	3.6	3.7	4.4
EBIDTA/Operating Assets (%)	24%	29%	24%	26%
Operating Assets/Net Assets (x)	0.9	0.9	0.9	0.9
Net Earnings/EBIDTA (%)	51%	58%	53%	50%
Net Assets/Net Worth (x)	2.2	2.2	2.1	2.0
RoE (%)	24%	33%	24%	23%
Margins (%)				
EBIDTA margin	9.2%	8.0%	6.4%	5.8%
PBT margin	6.9%	6.8%	5.1%	4.4%
PAT margin	4.7%	4.7%	3.4%	2.9%
Growth (%)				
Revenue	23.9%	72.0%	26.5%	34.9%
EBIDTA	43.7%	49.5%	1.7%	21.9%
PAT	53.2%	70.7%	-6.9%	14.6%
APAT	53.2%	70.7%	-6.9%	14.6%
Operating Cycle				
Debtors	24	24	24	24
Creditors	25	25	25	25
Inventory	8	6	6	6
Cash conversion Cycle	6	5	5	5

Balance Sheet

Particulars (INR mn)	FY11	FY12	FY13E	FY14E
Liabilities				
Equity Capital	7,500	7,500	7,500	7,500
Reserves & Surplus	19,302	28,379	36,731	46,522
Equity	**26,802**	**35,879**	**44,231**	**54,022**
Net Worth	**26,802**	**35,879**	**44,231**	**54,022**
Deferred tax liability	3,480	3,630	3,630	3,630
Total Loans	**32,161**	**38,161**	**43,161**	**47,161**
Capital Employed	**62,443**	**77,670**	**91,023**	**104,813**
Assets				
Gross Block	35,537	37,939	70,209	81,823
Less: Depreciation	8,513	10,355	13,004	17,565
Net Block	**27,024**	**27,584**	**57,205**	**64,258**
Capital WIP	22,029	32,627	13,357	10,743
Investments	**11,649**	**11,649**	**11,649**	**11,649**
Current Assets				
Inventories	2,480	3,432	4,414	5,992
Sundry Debtors	8,472	14,923	18,872	25,450
Cash and Bank Balance	1,540	3,955	6,483	14,911
Loans and Advances	1,336	1,915	2,396	3,196
Other Current Assets	47	113	144	194
Total Current Assets	**13,875**	**24,339**	**32,309**	**49,742**
Less:Current Liabilities & Provisions				
Sundry Creditors	8,318	14,300	18,392	24,967
Provisions	1,786	824	799	806
Other Current Liabilities	2,030	3,404	4,305	5,806
Total Current Liabilities & Provisions	**12,134**	**18,529**	**23,496**	**31,578**
Capital Applied	**62,443**	**77,670**	**91,023**	**104,813**

Cash Flow Statement

Particulars (INR mn)	FY11	FY12	FY13E	FY14E
EBITA	10,316	16,335	15,832	17,968
Less: Adjusted Taxes	3,264	5,208	5,224	5,929
NOPLAT	7,052	11,128	10,607	12,038
Plus: Depreciation	1,847	1,842	2,650	4,561
Gross Cashflow	8,899	12,970	13,257	16,599
Less: Increase in Working Capital	1,472	5,188	2,546	4,375
Operating Cashflow	7,427	7,781	10,711	12,224
Less: Net Capex	8,888	13,000	13,000	9,000
Less: Increase in Net Other Assets	(1,040)	(464)	(871)	(1,451)
FCF From Operation	(421)	(4,754)	(1,418)	4,675
FCF after Investment	(421)	(4,754)	(1,418)	4,675
Total FCF	(421)	(4,754)	(1,418)	4,675

Recommendation Summary

Event	Date	Price	Rating	Target
Initiating Coverage	06-03-2012	162	Buy	203
Result Update (Q4F12)	03-05-2012	135	Buy	195

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BUY	HOLD	SELL
More than 10% return	Between 5-10% return	Less than 5% return