Petronet LNG PLNG.NS PLNG IN

OIL & GAS/CHEMICALS

NOMURA
EQUITY RESEARCH

Another good result – raising TP

Another upgrade; capacity add of ~80% in FY14F to drive growth from FY15F; Buy

January 14, 2013

Rating Remains	**Buy**
Target price Increased from 200	INR 225
Closing price January 11, 2013	INR 161
Potential upside	+35.5%

Action: Another solid quarter; raise earnings and TP to INR225

PLNG reported another strong quarterly result for 3QFY13, driven by marketing/efficiency gains. EPS of INR4.25 beat Bloomberg consensus/ our estimate by 7%/9%. Capacity utilisation remains high at 110% and earnings will likely get better in 4QFY13 given the increase in the re-gas tariff from 1 Jan. With reported 9M EPS at INR12.1, FY13 EPS will likely easily exceed INR16. We revise our FY13F EPS forecast to INR16.3. We think the street (Bloomberg consensus is at INR14.8) will follow. We view PLNG as a key stock to play the rising LNG import story. With the stock at 10x trailing P/E, valuation is undemanding, in our view. Maintain Buy.

Catalysts: 80% cap add in FY14; Kochi in 1Q and Dahej 2nd jetty in 4Q

The new 5mmtpa Kochi terminal starts in 1QFY14; ramp-up will likely be slow due to lagging downstream pipeline progress. The 2nd jetty at Dahej (to raise capacity by ~30% to 13mmtpa) will be completed in 4QFY14 and ramp-up will likely be immediate. A FY14F earnings decline (on interest/ depr charges for Kochi) is well known and factored in, but focus will likely soon shift to FY15F, when we expect the impact of the new capacities.

Model update; raise FY13-14F EPS by 10-16%; Buy with TP at INR225

We raise FY13F/FY14F EPS by 16%/10% as we align with reported 9M numbers and raise our marketing margin assumptions. With domestic gas volume declines continuing and LNG demand strong, we think marketing gains will remain high near term. After an EPS decline of 12% in FY14F, we see a sharp 33% increase in FY15F. We also roll-forward our DCF valuation to FY15F end. Maintain Buy.

31 Mar	FY12	FY13F		FY14F		FY15F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	226,959	321,168	313,702	419,875	401,469	558,147	468,481
Reported net profit (mn)	10,575	10,597	12,245	9,733	10,731	14,132	14,300
Normalised net profit (mn)	10,575	10,597	12,245	9,733	10,731	14,132	14,300
FD normalised EPS	14.10	14.13	16.33	12.98	14.31	18.84	19.07
FD norm. EPS growth (%)	70.7	0.2	15.8	-8.2	-12.4	45.2	33.3
FD normalised P/E (x)	11.4	N/A	9.9	N/A	11.3	N/A	8.5
EV/EBITDA (x)	7.9	N/A	7.8	N/A	7.5	N/A	6.3
Price/book (x)	3.4	N/A	2.7	N/A	2.3	N/A	1.8
Dividend yield (%)	1.5	N/A	1.5	N/A	1.5	N/A	1.9
ROE (%)	34.1	26.9	30.4	20.5	21.7	24.8	24.0
Net debt/equity (%)	65.1	76.5	83.0	93.8	86.9	102.5	91.3

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

Regulatory and policy headwinds continue to be the key overhang on the oil & gas sector.

Nomura vs consensus

Our revised FY13F EPS is 10% ahead of Bloomberg consensus. We think the street will revise numbers upwards. We remain more optimistic on business, and our TP is 25% ahead of consensus.

Research analysts

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

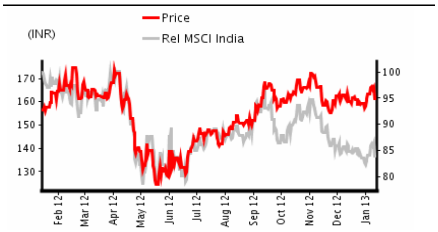
Key data on Petronet LNG

Income statement (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Revenue	**131,973**	**226,959**	**313,702**	**401,469**	**468,481**
Cost of goods sold	-118,012	-205,867	-290,300	-375,642	-435,588
Gross profit	**13,961**	**21,091**	**23,402**	**25,827**	**32,893**
SG&A	-3,645	-4,641	-5,036	-7,900	-9,276
Employee share expense	0	0	0	0	0
Operating profit	**10,316**	**16,451**	**18,366**	**17,928**	**23,617**
EBITDA	**12,163**	**18,292**	**20,234**	**22,280**	**28,632**
Depreciation	-1,847	-1,842	-1,867	-4,352	-5,015
Amortisation	0	0	0	0	0
EBIT	10,316	16,451	18,366	17,928	23,617
Net interest expense	-1,931	-1,774	-1,363	-3,227	-3,670
Associates & JCEs					
Other income	680	849	1,004	1,080	1,082
Earnings before tax	**9,064**	**15,525**	**18,007**	**15,781**	**21,029**
Income tax	-2,868	-4,950	-5,762	-5,050	-6,729
Net profit after tax	**6,196**	**10,575**	**12,245**	**10,731**	**14,300**
Minority interests	0	0	0	0	0
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**6,196**	**10,575**	**12,245**	**10,731**	**14,300**
Extraordinary items	0	0	0	0	0
Reported NPAT	**6,196**	**10,575**	**12,245**	**10,731**	**14,300**
Dividends	-1,743	-2,179	-2,179	-2,179	-2,615
Transfer to reserves	**4,453**	**8,396**	**10,066**	**8,552**	**11,685**
Valuation and ratio analysis					
Reported P/E (x)	19.5	11.4	9.9	11.3	8.5
Normalised P/E (x)	19.5	11.4	9.9	11.3	8.5
FD normalised P/E (x)	19.5	11.4	9.9	11.3	8.5
FD normalised P/E at price target (x)	27.2	16.0	13.8	15.7	11.8
Dividend yield (%)	1.2	1.5	1.5	1.5	1.9
Price/cashflow (x)	13.3	9.8	10.5	7.7	5.6
Price/book (x)	4.5	3.4	2.7	2.3	1.8
EV/EBITDA (x)	12.5	7.9	7.8	7.5	6.3
EV/EBIT (x)	14.7	8.8	8.6	9.4	7.7
Gross margin (%)	10.6	9.3	7.5	6.4	7.0
EBITDA margin (%)	9.2	8.1	6.4	5.5	6.1
EBIT margin (%)	7.8	7.2	5.9	4.5	5.0
Net margin (%)	4.7	4.7	3.9	2.7	3.1
Effective tax rate (%)	31.6	31.9	32.0	32.0	32.0
Dividend payout (%)	28.1	20.6	17.8	20.3	18.3
Capex to sales (%)	6.7	4.8	7.2	4.6	5.8
Capex to depreciation (x)	4.8	6.0	12.1	4.3	5.4
ROE (%)	25.2	34.1	30.4	21.7	24.0
ROA (pretax %)	16.0	21.2	19.1	14.7	15.9
Growth (%)					
Revenue	23.9	72.0	38.2	28.0	16.7
EBITDA	43.7	50.4	10.6	10.1	28.5
EBIT	50.5	59.5	11.6	-2.4	31.7
Normalised EPS	53.2	70.7	15.8	-12.4	33.3
Normalised FDEPS	53.2	70.7	15.8	-12.4	33.3
Per share					
Reported EPS (INR)	8.26	14.10	16.33	14.31	19.07
Norm EPS (INR)	8.26	14.10	16.33	14.31	19.07
Fully diluted norm EPS (INR)	8.26	14.10	16.33	14.31	19.07
Book value per share (INR)	35.74	46.93	60.35	71.75	87.33
DPS (INR)	2.00	2.50	2.50	2.50	3.00

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	0.2	0.2	-0.1
Absolute (USD)	-0.5	-3.5	-5.2
Relative to index	-1.1	-5.2	-22.9
Market cap (USDmn)	2,213.3		
Estimated free float (%)	50.0		
52-week range (INR)	180/122		
3-mth avg daily turnover (USDmn)	3.63		
Major shareholders (%)			
Gail(India) Ltd	12.5		
ONGC	12.5		

Source: Thomson Reuters, Nomura research

Notes

After two years of sharp growth (53% in FY11 and 71% in FY12) earnings look set to increase by a more moderate 16% in FY13F, and decline by 12% in FY14F before bouncing back sharply in FY15F

Cashflow (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
EBITDA	12,163	18,292	20,234	22,280	28,632
Change in working capital	-395	-547	-2,843	-1,376	-324
Other operating cashflow	-2,692	-5,361	-5,837	-5,138	-6,833
Cashflow from operations	**9,075**	**12,385**	**11,553**	**15,766**	**21,475**
Capital expenditure	-8,889	-10,980	-22,587	-18,557	-27,236
Free cashflow	**186**	**1,405**	**-11,033**	**-2,791**	**-5,761**
Reduction in investments	-6,263	10,250	-1,000	-2,000	-2,000
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	0	-1,535	-154	-169	-186
Addition in other LT liabilities	218	196	0	0	0
Adjustments	168	2,274	1,079	1,169	1,186
Cashflow after investing acts	**-5,690**	**12,589**	**-11,108**	**-3,791**	**-6,761**
Cash dividends	-1,531	-1,743	-2,179	-2,179	-2,615
Equity issue	0	0	0	0	0
Debt issue	7,163	411	7,527	9,213	14,800
Convertible debt issue					
Others	-1,806	-2,957	-1,363	-3,227	-3,670
Cashflow from financial acts	**3,826**	**-4,290**	**3,984**	**3,807**	**8,515**
Net cashflow	**-1,865**	**8,299**	**-7,124**	**16**	**1,754**
Beginning cash	3,405	1,540	9,839	2,715	2,731
Ending cash	1,540	9,839	2,715	2,731	4,485
Ending net debt	30,621	22,923	37,574	46,771	59,817

Source: Company data, Nomura estimates

Notes

Negative free cashflow in FY13-15F owing to ongoing expansion capex in the Dahej, Kochi and Gangavaram projects

Balance sheet (INRmn)

As at 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Cash & equivalents	1,540	9,839	2,715	2,731	4,485
Marketable securities	10,915	499	1,499	3,499	5,499
Accounts receivable	8,472	12,859	15,570	19,960	23,185
Inventories	2,480	7,124	9,881	12,666	14,713
Other current assets	1,383	1,240	1,364	1,500	1,650
Total current assets	**24,790**	**31,560**	**31,029**	**40,356**	**49,532**
LT investments	733	900	900	900	900
Fixed assets	49,053	58,115	78,834	93,039	115,260
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	0	1,535	1,689	1,858	2,043
Total assets	**74,577**	**92,110**	**112,452**	**136,153**	**167,735**
Short-term debt	0	3,420	3,922	4,422	4,922
Accounts payable	10,348	18,235	20,760	24,949	27,276
Other current liabilities	1,786	2,240	2,464	4,210	6,981
Total current liabilities	**12,134**	**23,895**	**27,146**	**33,582**	**39,180**
Long-term debt	32,161	29,342	36,366	45,080	59,380
Convertible debt	0	0	0	0	0
Other LT liabilities	3,480	3,676	3,676	3,676	3,676
Total liabilities	**47,775**	**56,913**	**67,188**	**82,337**	**102,235**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	7,500	7,500	7,500	7,500	7,500
Retained earnings	17,747	26,143	36,209	44,761	56,446
Proposed dividends	0	0	0	0	0
Other equity and reserves	1,555	1,555	1,555	1,555	1,555
Total shareholders' equity	**26,802**	**35,198**	**45,263**	**53,816**	**65,500**
Total equity & liabilities	**74,577**	**92,110**	**112,452**	**136,153**	**167,735**
Liquidity (x)					
Current ratio	2.04	1.32	1.14	1.20	1.26
Interest cover	5.3	9.3	13.5	5.6	6.4
Leverage					
Net debt/EBITDA (x)	2.52	1.25	1.86	2.10	2.09
Net debt/equity (%)	114.3	65.1	83.0	86.9	91.3
Activity (days)					
Days receivable	18.7	17.2	16.5	16.2	16.8
Days inventory	7.3	8.5	10.7	11.0	11.5
Days payable	27.5	25.4	24.5	22.2	21.9
Cash cycle	-1.6	0.3	2.7	4.9	6.4

Source: Company data, Nomura estimates

Notes

Despite rising debt, we expect debt-to-equity to remain at moderate levels

3QFY13 result and con-call highlights

Strong 3QFY13 result

- Reported PAT at INR3.18bn (9% ahead of our estimate and 7% ahead of Bloomberg consensus) – the company's highest ever quarterly profit.
- Throughput of 141tn btu, implying 110% capacity utilisation – the 7th successive quarter of 100%-plus capacity utilisation.
- The earnings surprises keep coming, owing to efficiency gains (on account of higher utilisation) and marketing gains (ability to extract high margins due to strong LNG demand and declining domestic production).
- With domestic volume declines continuing and limited new LNG capacity additions, we think demand for LNG will remain strong and the company will continue to report high efficiency/marketing gains, in near term.
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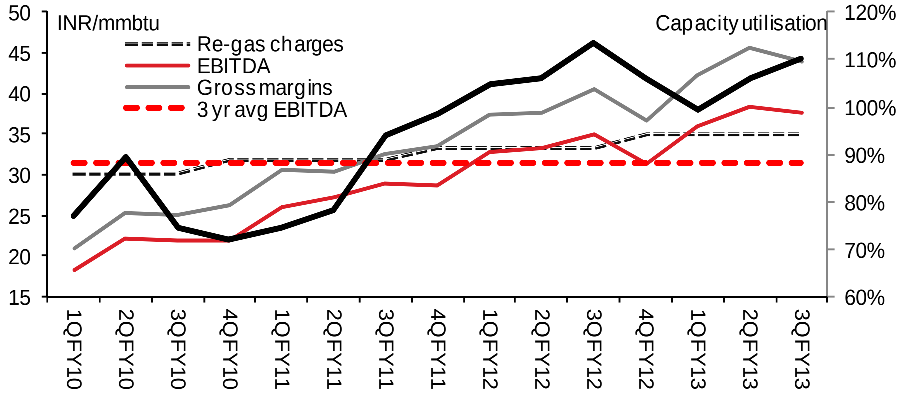
Fig. 1: Realised margins remain high due to marketing / efficiency gains

100%-plus utilisation leading to efficiency gains; strong demand enabling high marketing margins



Source: Company data, Nomura research

Con-call highlights

Kochi terminal:

- Targeting to commission in April 2013 but ramp-up likely to be slow due to delays in downstream pipeline completions.
- For phase-1 (45km pipeline completed), the key customers are FACT (current demand 1.2 mmscmd) and BPCL's Kochi refinery (0.5 mmscmd).
- The company expects key downstream pipeline by early 2014 – we think delays are likely here due to delay in getting right of use for pipeline laying.
- The company expects that utilisation could reach at least 40% in FY15/FY16 at Kochi.
- We are conservative in our ramp-up assumptions, and assume utilisation of 12%/25%/40% for FY14F/FY15F/FY16F.

Dahej terminal:

- The 2nd jetty will likely be completed by end-2013 or early 2014. We think post the completion, Dahej throughput will increase from 11mmtpa now to 13mmtpa in FY15.
- Demand remains strong. The company does not see much impact of capacity expansion at the Hazira terminal and the recent commissioning of GAIL's Dabhol terminal.
- The company expects the second phase of 5mmtpa expansion to be completed in early 2016.
- It has already tied up 3.5mmtpa of capacity (2.5mmtpa with GAIL and 1mmtpa with GSPC) on a use-or-pay basis.
- The indicative starting tariff will be similar to the prevailing tariff for the current RasGas contract (current tariff plus 5% annual escalation). These contracts will also have 5%

annual 5% re-gas tariff escalation for the entire 20-year contract term. In addition, both GAIL and GSPC will provide advance payment @ INR2bn per mmtpa of annual capacity booked.

Gangavaram terminal:

- Board approval in place for the project.
- The project is targeted to be completed by end-2016. The company is also looking at an FSRU option, which could likely start by end-2014.

Fig. 2: Petronet LNG – 3QFY13 result

INRmn	3QFY12	1QFY13	2QFY13	3QFY13F	3QFY13A	y-y	q-q	9MFY12	9MFY13	y-y
Sales	62,576	69,929	74,879	81,221	83,753	34%	12%	161,279	228,561	42%
Regas services	726	375	607	643	475	-35%	-22%	1,926	1,457	-24%
Total sales	**63,303**	**70,304**	**75,486**	**81,863**	**84,228**	33%	12%	163,204	230,018	41%
Raw-material cons	57,006	64,328	70,647	76,173	78,089	37%	11%	146,474	213,064	45%
Staff Cost	64	71	87	90	76	19%	-12%	190	233	23%
Forex fluctuation	577	697	(1,141)	-	73			1,072	(372)	
Other Expenditure	575	637	710	725	701	22%	-1%	1,493	2,049	37%
Total Expenditure	58,222	65,733	70,302	76,988	78,939	36%	12%	149,229	214,974	44%
EBITDA	**5,080**	**4,571**	**5,184**	**4,875**	**5,289**	**4%**	**2%**	**13,975**	**15,044**	**8%**
Depreciation	463	459	467	470	472	2%	1%	1,384	1,398	1%
EBIT	**4,618**	**4,112**	**4,717**	**4,405**	**4,817**	**4%**	**2%**	**12,591**	**13,646**	**8%**
Interest	393	329	317	325	291	-26%	-8%	1,313	937	-29%
Other income	164	266	248	225	149	-9%	-40%	596	663	11%
Profit Before Tax	**4,389**	**4,048**	**4,648**	**4,305**	**4,675**	**7%**	**1%**	**11,874**	**13,371**	**13%**
Tax expense	1,435	1,340	1,500	1,391	1,490	4%	-1%	3,750	4,330	15%
Tax rate	33%	33%	32%	32%	32%			32%	32%	
PAT	**2,954**	**2,708**	**3,148**	**2,915**	**3,185**	**8%**	**1%**	**8,124**	**9,041**	**11%**
EPS	**3.94**	**3.61**	**4.20**	**3.89**	**4.25**	**8%**	**1%**	**10.8**	**12.1**	**11%**

Source: Company data, Nomura research

Fig. 3: Petronet LNG – Key operating matrix

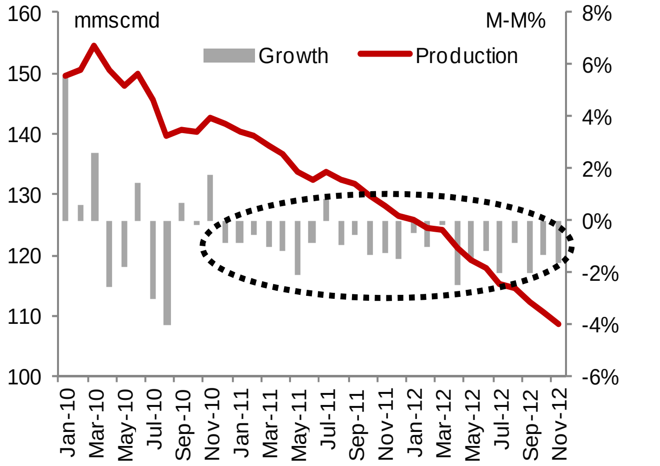
	3QFY12	1QFY13	2QFY13	3QFY13A	y-y	q-q	
Volume (TBTUs)							
Sales volume	123.2	116.3	117.6	127.1	3%	8%	LT - 96.6, spot/ST - 30.5
Re-gas services	21.8	10.7	17.4	13.5	-38%	-22%	
Total (tbtu)	**144.9**	**127.0**	**135.0**	**140.6**	-3%	4%	In line our est of 141 tbtus.
Total (mmt)	2.84	2.49	2.65	2.76	-3%	4%	
Cap Utilisation	114%	100%	106%	110%			another Q of 100%+ utilisation
Tariff (INR/mmbtu)							
Re-gas charge	33.4	35.0	35.0	35.0	5%	0%	
Sales Price	508.1	601.3	636.7	659.0	30%	3%	
Gas Pur Price	467.6	559.1	591.0	615.0	32%	4%	
Gross Margin	**40.5**	**42.2**	**45.7**	**44.0**	9%	-4%	
EBITDA	35.1	36.0	38.4	**37.6**	7%	-2%	

Source: Company data, Nomura research

LNG outlook keeps getting better

Fig. 4: Domestic volumes keep declining

Current KG-D6 volumes at 22mmscmd



Source: PPAC, Nomura Research

Fig. 5: NIKO estimates KG-D6 volumes will decline to 18mmscmd by FY15

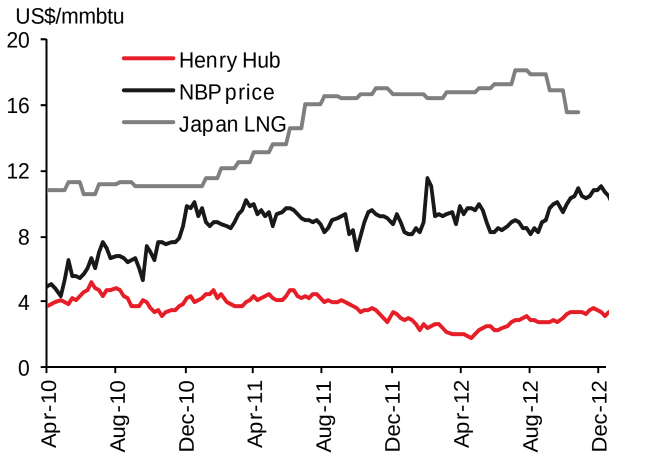
We think downside risks remain to the NIKO estimates

mmscmd	D1/D3/MA1	Satellite	Total
FY12	45		45
FY13F	28	–	28
FY14F	20	–	20
FY15F	18	–	18
FY16F	17	7	24
FY17F	14	23	37
FY18F	13	28	41
FY19F	11	23	34

Source: NIKO, Nomura estimates

Fig. 6: International gas price trends

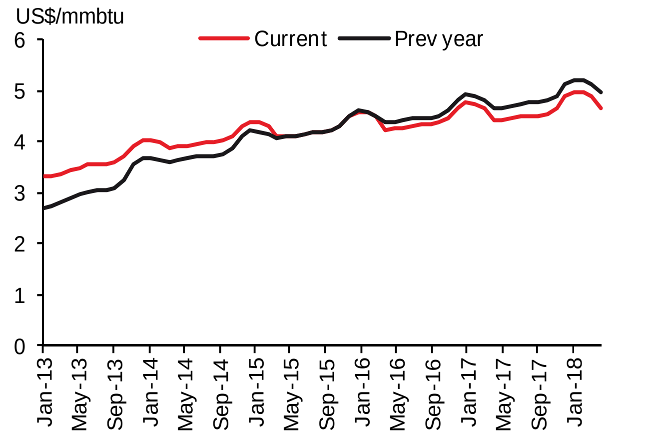
Despite recent increases, H-H prices are well below other gas prices



Source: Bloomberg, Nomura research

Fig. 7: Henry-Hub futures peg future gas prices at USD4-6

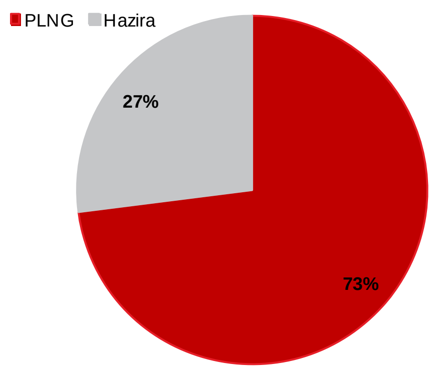
Supports brighter outlook for LNG imports



Source: Bloomberg, Nomura Research

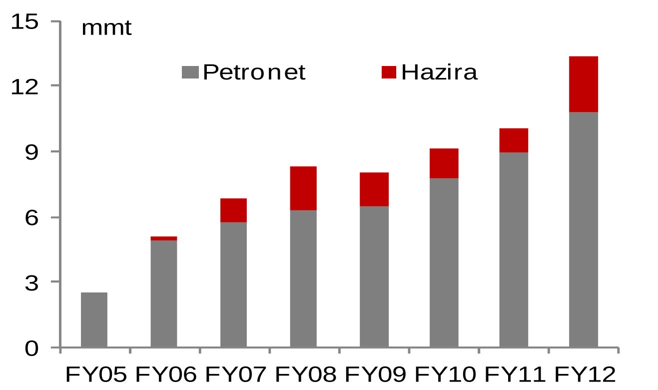
PLNG a key gateway for LNG imports

Fig. 8: PLNG accounts for ~73% of current LNG capacity…



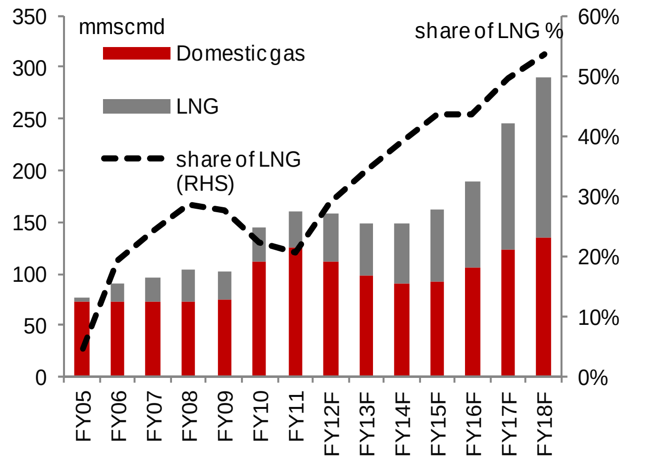
Source: Company data, Nomura Research

Fig. 9: ….and ~81% of FY12 LNG imports



Source: Company data, Nomura Research

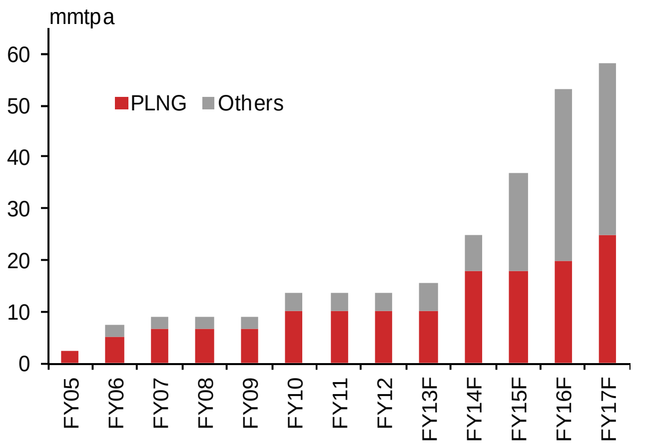
Fig. 10: Share of LNG in gas supply to increase sharply



Source: Company data, Nomura estimates

Fig. 11: PLNG will likely remain the key player in LNG

PLNG most advanced in terms of new capacities



Source: Company data, Infraline, Nomura research

Fig. 12: Petronet LNG – Status on capacity expansion

LNG terminals	(mmtpa)	(mmscmd)	Promoters	Comments
Existing				
Dahej (Gujarat)	10.0	35.8	Petronet LNG	- Expansion under way - 2nd jetty in 2HFY14 – capacity to increase to 13mmtpa - Adding 5mmtpa re-gas with two new tanks & addl re-gas facilities by early 2016. Nameplate capacity 15mmtpa, but likely to handle up to 18mmtpa
Under-construction				
Kochi	5.0	18.0	Petronet LNG	- Mechanically complete; commercial start by 1QFY14. - 1.5mmtpa LT contract with Gorgon, Australia
Proposed on East coast				
Gangavaram (Andhra Pradesh)	5.0	18.0	Petronet LNG	- Binding term-sheet signed with Gangavaram Port Ltd; - Detailed feasibility complete; Likely start in end 2016

Source: Company data, Infraline, Nomura research

Model update

Fig. 13: Key changes in our assumptions

We turn more optimistic on our near-term marketing margin assumptions

	FY10	FY11	FY12	FY13F		FY14F		FY15F	
				New	Old	New	Old	New	Old
Volumes (mmt)									
- Dahej	7.6	8.6	10.8	**10.7**	11.0	**11.0**	11.3	**13.0**	13.0
- Kochi				-	-	**0.6**	1.0	**1.3**	2.0
Total	7.6	8.6	10.8	**10.7**	11.0	**11.6**	12.3	**14.2**	15.0
Re-gas Tariffs (INR/mmbtu)									
- Dahej	30.6	32.2	33.8	**35.5**	35.5	**37.2**	37.2	**39.1**	39.1
- Kochi				**50**	50	**50**	50	**50**	50
Own Marketing									
Volume (mmt)	1.6	0.6	1.8	**1.9**	2.0	**2.3**	2.3	**3.1**	3.7
Gain (INR/mmbtu)	-8.2	42.3	46.6	**63.0**	35.0	**54.0**	35.0	**45.0**	35.0

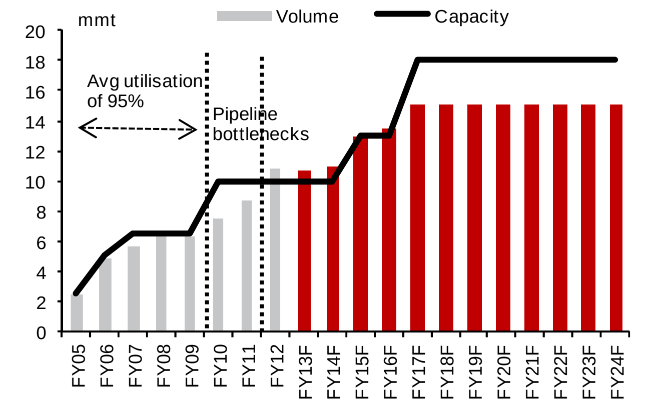
Source: Company data, Nomura estimates

We further cut our Kochi volume ramp-up assumption and assume only 25% utilisation in FY15.

We are more optimistic on marketing margin assumptions for Dahej.

Fig. 14: Dahej: Our LT utilisation is still conservative

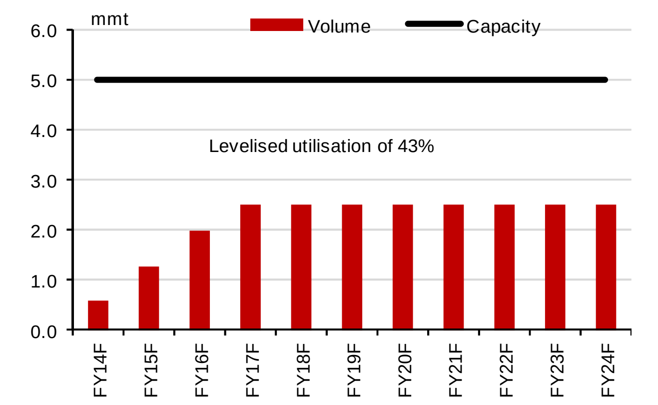
We assume a peak volume of only 15mmtpa.



Source: Company data, Nomura estimates

Fig. 15: Kochi: We assume peak utilisation of only 50%

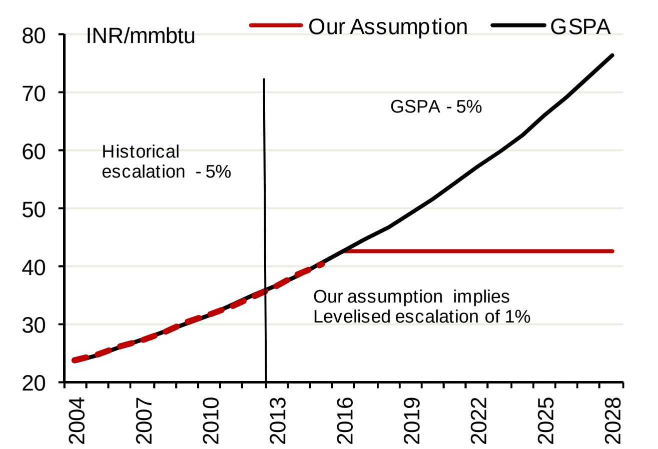
We assume Kochi commercial start-up in 1QFY14F



Source: Company data, Nomura estimates

Fig. 16: Dahej: We assume 5% escalation for 3 years only

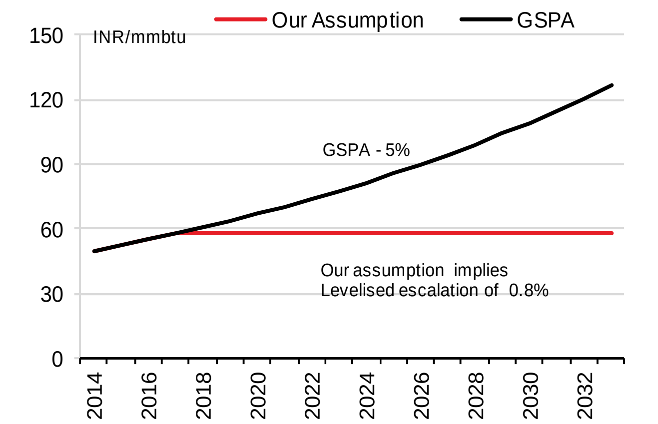
Recent GAIL/GSPC contracts also have 5% escalation clauses



Source: Company data, Nomura estimates

Fig. 17: Kochi: We assume a starting tariff of INR50/mmbtu

We also assume a 5% hike only for first three years



Source: Nomura estimates

Reiterate Buy with revised TP of INR225

We continue to use a discounted cashflow (DCF) methodology to value Petronet LNG. We assume a WACC of 11% and terminal growth of 1%. We roll forward our DCF valuation and cash flows are discounted back to FY15F (previously FY14F). Our revised target price is INR225. Our previous TP of INR200 was also based on DCF.

Key downside risks

- Lower-than-expected spot volumes could result in downside to our numbers.
- Delays in ramp-up at Dahej capacity and lower throughput than our expectation of 13mmtpa post commissioning of the second jetty.
- The Dahej off-take agreements provide for 5% annual rises in re-gasification charges. Conservatively, we assume a 5% tariff hike only for three year. Lower than our assumed tariff increase would be a negative.
- Delays in commissioning and slower than our anticipated ramp-up at Kochi terminal.

Fig. 18: PLNG – We roll forward our valuation to FY15F. Our DCF-based revised TP is INR225 (earlier INR200)

Valuation	FY15 end
Terminal Grow th rate	1%
WACC	11.2%
Valuation (INRmn)	
Discounted FCFF	130,848
Terminal cash flow	82,275
Enterprise Valuation	**213,123**
Net Debt (FY14end)	43,872
Implied Mcap	**169,251**
Value per share (INR)	226
Price Target (INR)	**225**

	FY12	FY13F	FY14F	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
LNG Volumes (MMT)														
- Dahej	10.8	10.7	11.0	13.0	13.5	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
- Kochi	0.0	0.0	0.6	1.3	2.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Re-gas tariff (INR/mmbtu)														
- Dahej	33.8	35.5	37.2	39.1	41.0	42.6	42.6	42.6	42.6	42.6	42.6	42.6	42.6	42.6
- Kochi	-	-	50.0	50.0	52.5	55.1	57.9	57.9	57.9	57.9	57.9	57.9	57.9	57.9
EBIT	**16,451**	**18,366**	**17,928**	**23,435**	**22,057**	**26,551**	**26,254**	**26,123**	**26,018**	**25,913**	**25,834**	**25,756**	**25,677**	**25,598**
FCFF				5,454	11,121	22,894	22,818	22,860	23,394	23,428	23,953	23,979	24,004	24,030
Discounted FCFF				**5,454**	**10,001**	**18,514**	**16,593**	**14,950**	**13,758**	**12,390**	**11,391**	**10,255**	**9,232**	**8,311**

Source: Nomura estimates

Fig. 19: Earnings sensitivity to key variables

High sensitivity of earning to both LNG volumes and re-gas tariffs

Changes in EPS	FY14F		FY15F	
Base EPS	**14.3**		**19.1**	
LT LNG volume (mmt)	7.5		7.5	
+ Increase of 1 mmt	**1.5**	**10.2%**	**1.5**	**8.1%**
PLNG's marketed volume (mmt)	2.3		3.1	
+ Increase of 1 mmt	**4.0**	**27.7%**	**3.6**	**19.0%**
Regas Charges (INR/mmbtu)	37.2		39.1	
-Cut by 5%	**-0.9**	**-6.6%**	**-1.2**	**-6.2%**
Marketing Margins (INR/mmbtu)	54.0		45.0	
+ Increase of INR 5	**0.5**	**3.8%**	**0.7**	**3.9%**

Source: Nomura estimates

Appendix A-1

Analyst Certification

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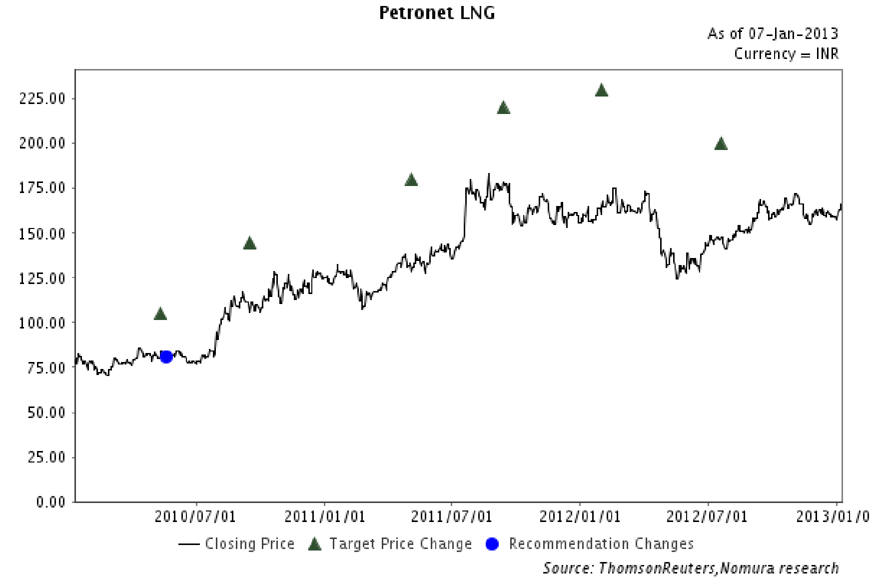
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Petronet LNG	PLNG IN	INR 161	11-Jan-2013	Buy	Not rated	

Petronet LNG (PLNG IN) **INR 161 (11-Jan-2013)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
19-Jul-12		200.00	147.70
31-Jan-12		230.00	164.70
12-Sep-11		220.00	178.35
05-May-11		180.00	128.75
15-Sep-10		145.00	106.95
11-May-10	Buy		84.35
11-May-10		105.00	84.35

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We use DCF methodology to value Petronet LNG. Based on a WACC of 11% and terminal growth of 1%, our DCF-based target price is INR225. Cash flows are discounted back to FY15F.

Risks that may impede the achievement of the target price Key downside risks: 1) Lower-than-expected spot volumes could result in downside to our numbers. 2)Delays in ramp-up at Dahej capacity and lower throughput than our expectation of 13mmtpa post second jetty commissioning. 3) The Dahej off-take agreements provide for 5% annual rises in the re-gasification charges. Conservatively, we assume a 5% tariff hike only for three year. Lower than our assumed tariff increase would be a negative. 4) Delays in commissioning and slower than our anticipated ramp-up at Kochi terminal.

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