

SELL
TP: INR 165.00
▲ 2.2%

Petronet LNG

PLNG IN

PAT beats estimates; but future earnings outlook muted

PLNG posted Q3 PAT at Rs 3.18bn above our/street estimates due to a) higher volumes of 140tbtus and b) healthy mktg margins on short/spot volumes. Other highlights: a) commissioning of Kochi terminal by Mar'13 with lower utilization in FY14 (0.5mmtpa), b) completion of second jetty at Dahej terminal by Mar'14 and expansion by early 2016 (10 to 15mmtpa) c) GSPC contracted 2.25mmtpa in PLNG's expanded capacity for 20yrs. Maintain SELL in light of limited visibility on Kochi terminal utilization.

- ➔ **Q3 earnings healthy but FY14 outlook muted:** Q3PAT at Rs3.18bn was ahead of our estimates of Rs2.9bn on account of higher than estimated volumes processed (140tbtus) and a higher share of short term, PLNG-marketed, volume of 30.5tbtus in the sales mix, where PLNG earned a healthy mktg. margin of US\$0.4/mmbtu. The earnings outlook for FY14 remains muted on lower utilization of Kochi terminal (Mar '13) in light of limited connectivity and undeveloped markets as GAIL's Kochi-Mangalore-Bangalore P/L is not likely to be commissioned before end of 2013.
- ➔ **Dahej terminal capacity expansion as per schedule:** While second jetty is expected to be ready by Mar'14, the Dahej's capacity expansion is expected to complete by early 2016. GSPC has already contracted 2.25mmtpa of the same for 20 years.
- ➔ **Dahej utilization to remain healthy in FY14:** Besides long term volumes, PLNG has already contracted 16/12 slots to GAIL/GSPC for short-term/spot volumes, leaving ~25slots for PLNG
- ➔ **Maintain SELL with revised TP of Rs 165; Prefer GAIL over PLNG:** On back of (a) muted earnings outlook for FY14 and (b) commissioning of Dabhol terminal (Jan 13) and expansion of Shell's Hazira (Q3-Q4CY13) will increase bargaining power for GAIL/GSPL in terms of short/spot LNG sourcing. We revise our TP to Rs165/sh (Rs 160/sh earlier) as we roll our estimates forward to Dec13.

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	1,31,973	2,26,959	3,25,024	3,61,821	3,95,184
EBITDA (INR mln)	12,163	18,292	21,274	22,991	23,813
Adjusted net profit (INR mln)	6,196	10,575	11,577	11,192	11,510
Adjusted EPS (INR)	8.3	14.1	15.4	14.9	15.3
Adjusted EPS growth (%)	53.2	70.7	9.5	(3.3)	2.8
DPS (INR)	2.0	2.5	2.5	2.5	2.5
ROIC (%)	15.5	20.9	18.7	15.4	14.1
Adjusted ROAE (%)	22.2	30.6	26.6	21.2	18.6
Adjusted P/E (x)	14.7	11.9	10.5	10.8	10.5
EV/EBITDA (x)	9.1	7.9	6.9	6.5	6.2
P/BV (x)	3.0	3.2	2.5	2.1	1.8

Source: Company, Bloomberg, RCML Research

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PRICE CLOSE (11 Jan 13)

INR 161.45

MARKET CAP

INR 1,21,088 mln

USD 2,211 mln

SHARES O/S

750.0 mln

FREE FLOAT

50.0%

3M AVG DAILY VOLUME./VALUE

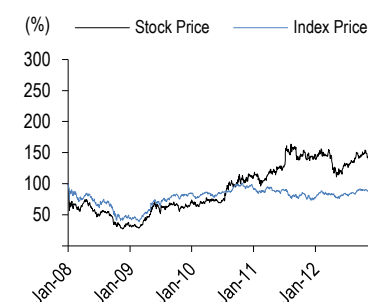
1.2 mln/ USD 3.6 mln

52 WK HIGH

INR 174.85

52 WK LOW

INR 124.35





Q3FY13- Result review

Q3 beats estimates but outlook for FY14 is muted

Fig 1 - Comparison with estimates

(Rs mn)	Actual	Estimate	% Variance
Revenue	84,228	80,295	4.9
EBITDA	5,289	4,830	9.5
Adj net income	3,185	2,892	10.1
FDEPS (Rs)	4.2	3.9	10.0

Source: RCML Research, Company

PAT beats estimates on higher processed LNG volume at 140tbtus against 135tbtus estimated

Fig 2 - Quarterly earnings snapshot

(Rs mn)	Q3FY13	Q3FY12	% Chg YoY	Q2FY13	% Chg QoQ
Revenue	84,228	63,303	33.1	75,486	11.6
Expenditure	78,939	58,222	35.6	70,302	12.3
Operating profit	5,289	5,081	4.1	5,184	2.0
Other income	149	164	(9.1)	248	(39.8)
Interest	291	393	(25.8)	317	(8.0)
Depreciation	472	463	1.9	467	0.9
PBT	4,675	4,389	6.5	4,648	0.6
Tax	1,490	1,435	3.8	1,500	(0.7)
PAT	3,185	2,954	7.8	3,148	1.2
EBITDA margin (%)	6%	8%	(21.8)	7%	(8.6)
FDEPS (Rs)	4.2	3.9	7.8	4.2	1.2

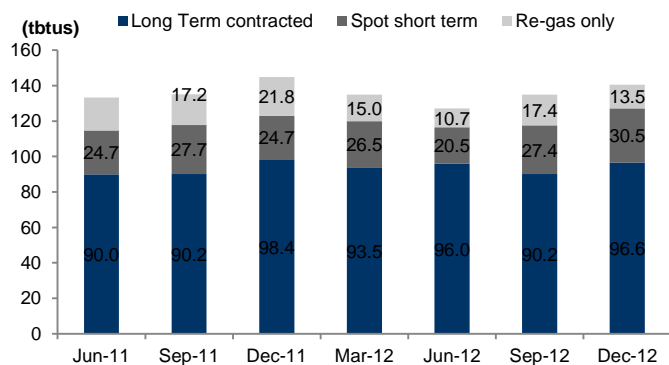
Source: RCML Research, Company

Fig 3 - Operational highlights

	Q3FY13	Q3FY12	% Chg YoY	Q2FY13	% Chg QoQ
Total Volumes(mmtpa)	2.7	2.8	(3.4)	2.6	3.7
Long Term (mmtpa)	1.9	1.9	(1.8)	1.8	7.1
Short Term/spot (mmtpa)	0.6	0.5	23.5	0.5	11.3
Re-gas only (mmtpa)	0.3	0.4	(38.0)	0.3	(22.4)
Opr. Profit /mmbtu	37.8	35.1	7.8	38.4	(1.6)
Implied Marketing Margins (US\$/mmbtu)	0.40	0.41	(2.4)	0.60	(33.3)

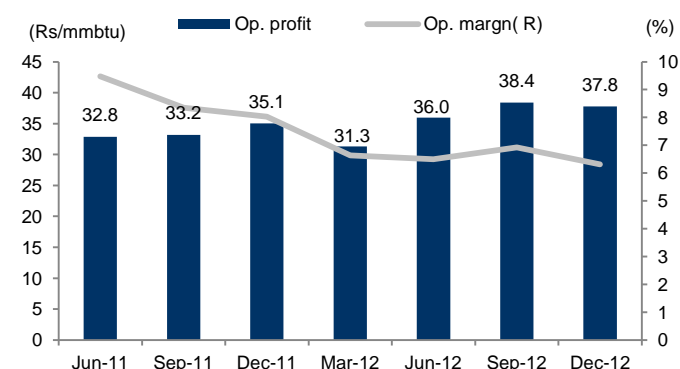
Source: RCML Research, Company

Fig 4 - Break-up of re-gas volumes



Source: RCML Research, Company

Fig 5 - Sequential operating profits and margins



Source: RCML Research, Company



Valuation

Maintain SELL with a revised TP of Rs165/sh

Fig 6 - DCF based SOTP valuation

	Rs mn
Dahej Terminal	1,13,293
Kochi Terminal	39,568
Aggregate EV (1,52,861
Less: Debt	29,302
Taregt M-Cap	1,23,558
No of Shares (mn)	750
Target Price (Rs/sh)	165

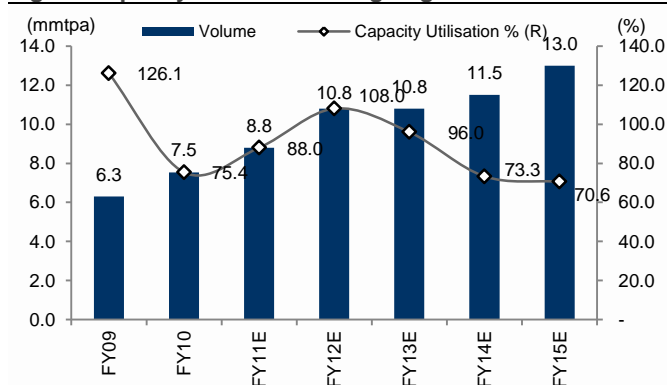
Source: RCML Research

Fig 7 - Key assumptions

	FY10	FY11	FY12	FY13E	FY14E	FY15E
Dahej LNG Terminal						
Re-gas volumes (MMT)	7.5	8.8	10.8	10.8	11	12
Re-gas charges (Rs/mmbtu)	25.6	32.5	34.1	35.8	37.6	38.6
Trading Margins (Rs/mmbtu)	-	-	-	22	21	10
Kochi LNG Terminal						
Re-gas volumes (MMT)	-	-	-	0	0.5	1.0
Re-gas charges(Rs/mmbtu)	-	-	-	0	55	50
Trading Margins (Rs/mmbtu)	-	-	-	0	5	5
Exchange Rate	47.5	46	48	54	54	50

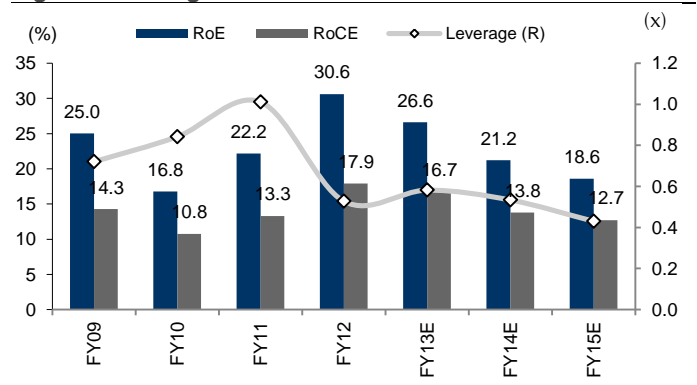
Source: RCML Research, Company

Fig 8 - Capacity utilization falls going forward



Source: RCML Research, Company

Fig 9 - Declining RoEs and RoCEs



Source: RCML Research, Company



Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	8.3	14.1	15.4	14.9	15.3
Adjusted EPS	8.3	14.1	15.4	14.9	15.3
DPS	2.0	2.5	2.5	2.5	2.5
BVPS	40.4	51.8	64.3	76.3	88.8

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	0.8	0.6	0.5	0.4	0.4
EV/EBITDA	9.1	7.9	6.9	6.5	6.2
Adjusted P/E	14.7	11.9	10.5	10.8	10.5
P/BV	3.0	3.2	2.5	2.1	1.8

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	9.2	8.1	6.5	6.4	6.0
EBIT margin	7.8	7.2	5.8	5.2	4.9
Adjusted profit margin	4.7	4.7	3.6	3.1	2.9
Adjusted ROAE	22.2	30.6	26.6	21.2	18.6
ROCE	12.5	17.0	15.9	13.2	12.1
YoY Growth (%)					
Revenue	23.9	72.0	43.2	11.3	9.2
EBITDA	43.7	50.4	16.3	8.1	3.6
Adjusted EPS	53.2	70.7	9.5	(3.3)	2.8
Invested capital	17.9	17.6	29.1	15.3	8.5
Working Capital & Liquidity Ratios					
Receivables (days)	19	17	18	20	20
Inventory (days)	7	8	10	10	10
Payables (days)	27	20	19	21	21
Current ratio (x)	1.1	1.4	1.4	1.4	1.5
Quick ratio (x)	0.9	1.1	1.1	1.1	1.2
Turnover & Leverage Ratios (x)					
Gross asset turnover	3.7	6.4	5.6	4.4	4.5
Total asset turnover	2.0	2.7	3.1	2.9	2.9
Net interest coverage ratio	5.3	9.3	8.3	7.0	6.8
Adjusted debt/equity	1.1	0.8	0.8	0.8	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	68.4	68.1	66.0	66.0	66.0
Interest burden (PBT/EBIT)	87.9	94.4	93.1	90.5	90.7
EBIT margin (EBIT/Revenue)	7.8	7.2	5.8	5.2	4.9
Asset turnover (Revenue/Avg TA)	196.7	272.3	311.1	290.2	285.5
Leverage (Avg TA/Avg equities)	240.1	241.2	240.0	236.5	223.6
Adjusted ROAE	22.2	30.6	26.6	21.2	18.6



Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Total revenue	1,31,973	2,26,959	3,25,024	3,61,821	3,95,184
EBITDA	12,163	18,292	21,274	22,991	23,813
EBIT	10,316	16,451	18,831	18,730	19,217
Net interest income/(expenses)	(1,931)	(1,774)	(2,259)	(2,675)	(2,805)
Other income/(expenses)	680	849	966	901	1,024
Exceptional items	0	0	0	0	n.a.
EBT	9,064	15,525	17,538	16,955	17,436
Income taxes	(2,868)	(4,950)	(5,961)	(5,763)	(5,927)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	6,196	10,575	11,577	11,192	11,510
Adjustments	0	0	0	0	0
Adjusted net profit	6,196	10,575	11,577	11,192	11,510

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	10,348	12,686	18,700	20,817	22,737
Other current liabilities	0	0	0	0	0
Provisions	1,786	10,257	10,770	11,309	11,874
Debt funds	32,161	30,340	39,161	43,161	43,161
Other liabilities	0	0	0	0	0
Equity capital	7,500	7,500	7,500	7,500	7,500
Reserves & surplus	22,782	31,328	40,726	49,739	59,070
Shareholders' fund	30,282	38,828	48,226	57,239	66,570
Total liabilities and equities	74,577	92,110	1,16,858	1,32,527	1,44,343
Cash and cash eq.	1,540	9,839	11,109	12,609	14,525
Accounts receivables	8,472	12,859	18,700	20,817	22,737
Inventories	2,480	7,124	8,905	9,913	10,827
Other current assets	1,383	2,775	2,914	3,060	3,213
Investments	11,649	1,399	1,489	1,539	1,590
Net fixed assets	27,024	25,215	68,441	65,590	72,451
CWIP	22,029	32,900	5,300	19,000	19,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	74,576	92,110	1,16,858	1,32,527	1,44,343

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	8,043	12,417	14,020	15,453	16,105
Interest expenses	1,931	1,774	2,259	2,675	2,805
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(426)	386	(1,234)	(615)	(502)
Other operating cash flows	218	150	0	0	0
Cash flow from operations	9,766	14,727	15,045	17,513	18,409
Capital expenditures	(8,888)	(10,904)	(18,070)	(15,109)	(11,456)
Change in investments	(6,263)	10,250	(90)	(50)	(52)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(15,150)	(654)	(18,160)	(15,159)	(11,508)
Equities issued	0	0	0	0	0
Debt raised/repaid	7,163	(1,822)	8,822	4,000	0
Interest expenses	(1,931)	(1,774)	(2,259)	(2,675)	(2,805)
Dividends paid	(1,743)	(2,179)	(2,179)	(2,179)	(2,179)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	3,489	(5,775)	4,384	(854)	(4,984)
Changes in cash and cash eq	(1,896)	8,299	1,270	1,500	1,916
Closing cash and cash eq	1,540	9,839	11,109	12,609	14,525

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