

Retail Equity Research

Petronet LNG Limited

Oil, Gas & Consumable Fuels

BSE CODE: 532522

NSE CODE: PETRONET

Bloomberg CODE: PLNG:IN

SENSEX: 43,600

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 254

TARGET Rs. 327

RETURN 29% ↑

(Closing: 19-11-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Sequential improvement in demand..

Petronet LNG was formed by the Indian government to import liquefied natural gas (LNG) and set up LNG terminals in India. The company operates two regasification terminals situated in Dahej (17.5 MMTPA installed capacity) and Kochi (5 MMTPA).

- Q2FY21 sales were down 33.4% YoY to Rs. 6,236cr. The company registered adjusted PAT decline of 20.8% YoY, reaching Rs. 919cr.
- EBITDA margin improved by 950bps YoY to 21.9%, primarily due to reduction in operating cost and effective commercial planning.
- Petronet LNG's volume demand reaching pre-COVID levels, improvement in operational efficiency, and commissioning of the Kochi-Mangalore pipeline will boost performance in upcoming quarters. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 327 based on 15.0x FY22E adj. EPS.

Operational efficiency improved operating margins

PLNG's Q2FY21 revenue fell 33.4% YoY to Rs. 6,236cr (+27.7% QoQ), on lower gas prices partially offset by increase in LNG volumes processed (1.6% YoY to 254 TBTUs). Dahej terminal processed 243 TBTUs, a rise of 1.3% YoY. On sequential basis, total throughput processed increased by 33.7% and Dahej terminal throughput rose 34.3%, with increase in demand to pre-COVID levels and strong operation efficiency. EBITDA increased 17.5% YoY to Rs. 1,363cr along with margin expansion of 950bps YoY to 21.9%, driven by decline in cost of sales as a percentage of sales by 10pps YoY (inventory impact of Rs. 60cr from the rise in spot prices by US\$ 3). However, PAT reduced 15.6% YoY to Rs. 919cr, owing to higher corporate taxes of Rs. 315cr (vs. Rs. 218cr of tax benefit in Q2FY20), partially aided by increase in other income by 60.3% YoY to Rs. 142cr.

Key concall highlights

- Dahej terminal operated at 109% compared to 81% in Q1FY21 and Kochi terminal operated at 17% during the quarter.
- The company declared special interim dividend of Rs. 8.0 per share compared to Rs. 5.5 per share in Q2FY20.
- Regasification revenue rose 7.4% YoY to Rs. 678cr (+35.6% QoQ), driven by strong volume growth.
- The company has planned maintenance activities in 2HFY21 and operating expenses are expected to be same as 1HFY21 in the remainder of the year.

Petronet LNG future plans

Petronet LNG is planning to expand its Dahej terminal capacity to 19.5 MMTA in next 3-4 years to increase the volume, as currently the terminal is operating at more than 100% capacity. GAIL has completed the Kochi-Mangalore pipeline project of 540m stretch. This will allow PLNG to increase capacity utilization to 25-30% after the commissioning as around 4.5 MMTPA of capacity remains idle.

Valuation

From Q2FY21 the demand from refining, fertilizers, and other segments has started increasing, gradually reaching pre-COVID levels. GAIL completed Kochi-Mangalore pipeline, which will boost the company's utilization rate and operational efficiency. Moreover, Dahej terminal has also now started operations at full capacity. Hence, we reiterate our BUY rating on the stock with a target price of Rs. 327, based on 15.0x FY22E adj. EPS.

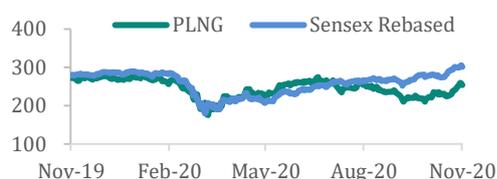
Company Data

Market Cap (cr)	Rs. 38,070
Enterprise Value (cr)	Rs. 35,990
Outstanding Shares (cr)	150.0
Free Float	50.0%
Dividend Yield	2.8%
52 week high	Rs. 284
52 week low	Rs. 171
6m average volume (lac)	1.6
Beta	0.5
Face value	Rs. 10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	50.0	50.0	50.0
FII's	29.3	29.2	28.1
MFs/Insti	7.8	7.9	8.4
Public	9.6	9.5	10.2
Others	3.3	3.5	3.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-0.5%	13.3%	-6.7%
Absolute Sensex	12.9%	44.4%	7.7%
Relative Return*	-13.4%	-31.1%	-14.4%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	35,452	27,653	35,948
Growth (%)	(7.7)	(22.0)	30.0
EBITDA	3,989	4,480	4,961
EBITDA Margin (%)	11.3	16.2	13.8
Adj. PAT	2,775	2,838	3,270
Growth (%)	24.4	2.3	15.2
Adj. EPS	18.5	18.9	21.8
Growth (%)	24.4	2.3	15.2
P/E	10.8	13.4	11.6
P/B	2.7	2.9	2.6
EV/EBITDA	7.3	8.0	6.9
ROE (%)	24.3	22.0	22.7
D/E	0.3	0.2	0.2

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	6,236	9,361	(33.4)	4,884	27.7	11,119	17,975	(38.1)
EBITDA	1,363	1,160	17.5	910	49.8	2,273	2,184	4.1
EBITDA margins	21.9	12.4	950bps	18.6	330bps	20.4	12.2	820bps
Depreciation	195	196	(0.4)	194	0.8	389	386	0.7
EBIT	1,168	964	21.1	716	63.1	1,884	1,798	4.8
Interest	85	105	(19.1)	88	(3.5)	173	206	(15.8)
Other Income	142	89	60.3	68	n.m.	210	193	9.0
Exceptional Items	-	(72)	n.m.	-	n.m.	-	(72)	n.m.
PBT	1,235	871	41.8	676	82.6	1,911	1,710	11.7
Tax	315	(218)	n.m.	176	78.8	492	59	729.2
Share of profit from Associate	10	2	489.8	(20)	n.m.	(11)	27	n.m.
Minority Interest	-	-	n.m.	-	n.m.	-	-	n.m.
Reported PAT	919	1,089	(15.6)	500	84.0	1,419	1,651	(14.0)
Adjustments	-	72	n.m.	-	n.m.	-	72	n.m.
Adj. PAT	919	1,161	(20.8)	500	84.0	1,419	1,723	(17.6)
No. of shares	150.0	150.0	-	150.0	-	150.0	150.0	-
Adj. EPS (Rs.)	6.1	7.7	(20.8)	3.3	84.0	9.5	11.5	(17.6)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	31,907	36,757	27,653	35,948	(13.3)	(2.2)
EBITDA	4,355	4,962	4,480	4,961	2.9	(0)
Margins (%)	13.7	13.5	16.2	13.8	250bps	30bps
Adj. PAT	2,713	3,212	2,838	3,270	4.6	1.8
Adj. EPS	18.1	21.4	18.9	21.8	4.6	1.8

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	30,599	38,395	35,452	27,653	35,948
% change	24.3	25.5	(7.7)	(22.0)	30.0
EBITDA	3,312	3,293	3,989	4,480	4,961
% change	27.8	(0.6)	21.1	12.3	10.7
Depreciation	412	411	776	774	785
EBIT	2,901	2,882	3,213	3,706	4,176
Interest	163	99	403	349	286
Other Income	317	525	306	436	480
PBT	3,055	3,309	3,116	3,793	4,370
% change	28.5	8.3	(5.8)	21.7	15.2
Tax	977	1,078	413	955	1,100
Tax Rate (%)	32.0	32.6	13.3	25.2	25.2
Reported PAT	2,078	2,231	2,703	2,838	3,270
Adj*	-	-	72	-	-
Adj PAT	2,078	2,231	2,775	2,838	3,270
% change	21.8	7.3	24.4	2.3	15.2
No. of shares (cr)	150.0	150.0	150.0	150.0	150.0
Adj EPS (Rs.)	13.8	14.9	18.5	18.9	21.8
% change	(39.1)	7.4	24.4	2.3	15.2
DPS (Rs.)	4.5	4.5	7.0	12.0	14.0
CEPS (Rs.)	16.6	17.6	23.7	24.1	27.0

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	2,490	2,642	3,479	3,612	4,055
Non-cash adj.	271	(366)	(360)	(1,015)	(20)
Changes in W.C	235	(135)	(256)	(81)	(199)
C.F. Operation	2,996	2,141	2,863	2,516	3,837
Capital exp.	(175)	(163)	(41)	(415)	(467)
Change in inv.	(951)	3,321	709	-	-
Other invest.CF	(1)	(3,230)	273	-	-
C.F - Investment	(1,127)	(72)	941	(415)	(467)
Issue of equity	-	-	-	-	-
Issue/repay debt	(705)	(620)	(632)	(220)	(310)
Dividends paid	(451)	(1,808)	(1,808)	(1,050)	(1,800)
Other finance.CF	(178)	(119)	(614)	-	-
C.F - Finance	(1,335)	(2,548)	(3,055)	(1,270)	(2,110)
Chg. in cash	534	(478)	749	831	1,259
Closing cash	863	2,960	4,432	5,263	6,522

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	863	2,960	4,432	5,263	6,522
Accounts Receivable	1,651	1,382	1,603	1,438	1,797
Inventories	491	569	481	676	870
Other Cur. Assets	4,023	1,050	533	1,279	1,345
Investments	164	329	332	332	332
Gross Fixed Assets	9,108	9,152	9,193	9,608	10,075
Net Fixed Assets	7,807	7,316	7,339	7,334	7,012
CWIP	220	348	357	362	367
Intangible Assets	2	1	0	0	0
Def. Tax (Net)	-	33	131	302	348
Other Assets	433	1,260	3,658	3,510	3,510
Total Assets	15,654	15,249	18,867	20,497	22,105
Current Liabilities	2,860	2,484	2,424	2,418	2,939
Provisions	8	11	15	16	17
Debt Funds	733	101	3,403	3,183	2,873
Other Liabilities	2,332	2,422	1,904	1,971	1,896
Equity Capital	1,500	1,500	1,500	1,500	1,500
Reserves & Surplus	8,220	8,731	9,621	11,409	12,879
Shareholder's Fund	9,720	10,231	11,121	12,909	14,379
Minority Interest	-	-	-	-	-
Total Liabilities	15,654	15,249	18,867	20,497	22,105
BVPS (Rs.)	65	68	74	86	96

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	10.8	8.6	11.3	16.2	13.8
EBIT margin (%)	9.5	7.5	9.1	13.4	11.6
Net profit mgn.(%)	6.8	5.8	7.6	10.3	9.1
ROE (%)	21.4	21.8	24.3	22.0	22.7
ROCE (%)	27.7	27.9	22.1	23.0	24.2
W.C & Liquidity					
Receivables (days)	19.4	13.0	16.3	18.7	18.0
Inventory (days)	6.6	6.0	5.7	10.8	10.4
Payables (days)	21.2	13.5	13.8	17.8	17.6
Current ratio (x)	2.5	2.4	2.9	3.6	3.6
Quick ratio (x)	2.3	2.1	2.6	3.2	3.2
Turnover & Leverage					
Gross asset T.O (x)	3.4	4.2	3.9	2.9	3.7
Total asset T.O (x)	2.1	2.5	2.1	1.4	1.7
Int. coverage ratio (x)	17.8	29.1	8.0	10.6	14.6
Adj. debt/equity (x)	0.1	0.0	0.3	0.2	0.2
Valuation					
EV/Sales (x)	1.1	0.9	0.8	1.3	1.0
EV/EBITDA (x)	10.0	10.3	7.3	8.0	6.9
P/E (x)	16.0	16.4	10.8	13.4	11.6
P/BV (x)	3.4	3.6	2.7	2.9	2.6

Recommendation Summary



Dates	Rating	Target
23-Aug-19	BUY	267
05-Nov-19	BUY	352
26-Feb-20	BUY	321
07-Jul-20	BUY	321
20-Nov-20	BUY	327

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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