

# Petronet LNG

## Positive surprise on volume

Our BUY recommendation on PLNG with a price target of INR 291 is premised on robust volume offtake in FY21/22E as (1) benign LNG prices will ensure high LNG imports, in turn allowing full utilisation at Dahej on its expanded capacity, (2) completion of the Kochi-Mangalore pipeline by 2HFY21 would subsequently raise utilisation at the Kochi terminal, and (3) healthy free cash flows of INR67bn over FY21E and FY22E cumulatively. 1Q EBITDA was 44% above estimates, led by an 18% beat on total volumes.

- Financial performance:** 1Q EBITDA came to INR 9bn, a jump of +30% QoQ, on account of 75% QoQ lower operating expenditure (opex) at INR 1bn. 4Q opex was higher than usual, courtesy the impact of Ind AS 116 and donation to the PM Cares fund. EBITDA declined 11% YoY with 16% lower volume offtake and decline in admin, travel, repairs and maintenance expenses. Calculated marketing margin was INR 576mn (HSIE INR 450mn).
- Terminal-wise performance:** Utilisation at Dahej/Kochi stood at 81/14% in 1QFY21 vs 92/20% in 4QFY20 and 114/14% in 1QFY20. Services volumes at Dahej dipped 5/11% QoQ/YoY to 2.0mmt (100tbttu) indicating that the lockdown impacted demand in 1QFY21. Although spot volumes were low (2% of Dahej volumes vs 3/2% QoQ/YoY), we suspect that these will rise with (1) spare capacity availability after Kochi terminals' volumes are shifted back, and (2) persistently low LNG prices. We expect its gradual ramp-up post commissioning of the Kochi-Mangalore pipeline in 2HFY21.
- Call takeaways:** (1) Utilisation at Dahej and Kochi has bounced back to 100-103% and 17-18% in 2Q. (2) Capex plans of INR 3.5bn for FY21. Of this, INR 0.5-1bn should be paid for capacity augmentation at Dahej via the addition of two tanks. (3) The company is in talks with CGD companies and OMCs for LNG dispensing stations, however, permissions take time. PLNG has planned to set up 50/300/1,000 stations in 3 phases; original timeline for phase I, FY21.
- DCF-based valuation:** Our target price is INR 291 based on Mar-22E cash flows (WACC 11%, terminal growth rate 3%). The stock is trading at 12.6x FY22E EPS.

### Financial summary

YE Mar (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19	FY20P	FY21E	FY22E
Net Sales	49	86	(43.0)	86	(43.3)	384	355	242	335
EBITDA	9	7	30.5	10	(11.1)	33	40	40	49
APAT	5	4	44.9	6	(7.1)	22	28	23	31
Adj. EPS (INR/sh)	3.5	2.4	44.9	3.7	(7.1)	14.4	18.3	15.5	20.5
P/E (x)						18.0	14.1	16.7	12.6
EV/EBITDA(x)						11.0	8.6	8.3	6.5
RoE (%)						21.8	26.2	20.8	26.3

Source: Company, HSIE Research

### Change in estimates

	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch
EBITDA (INR bn)	39.6	39.6	-	49.3	49.3	-
EPS (INR/sh)	15.5	15.5	-	20.5	20.5	-

Source: Company, HSIE Research

## BUY

CMP (as on 18 Aug 2020)	INR 258
Target Price	INR 291
NIFTY	11,385

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 291	INR 291
EPS %	FY21E	FY22E
	0.0%	0.0%

### KEY STOCK DATA

Bloomberg code	PLNG IN
No. of Shares (mn)	1,500
MCap (Rs bn) / (\$ mn)	387/5,187
6m avg traded value (Rs mn)	948
52 Week high / low	Rs 296/170

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.6	(0.7)	9.0
Relative (%)	(10.7)	5.1	5.9

### SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	50.00	50.00
FIs & Local MFs	7.80	7.85
FPIs	29.31	28.15
Public & Others	12.89	13.00
Pledged Shares	0.00	0.00

Source : BSE

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