

Petronet LNG

BSE SENSEX	S&P CNX	CMP: INR164	TP: INR185	Buy						
17,234	5,205									
Bloomberg	PLNG IN									
Equity Shares (m)	750.0									
52-Week Range (INR)	186/105									
1,6,12 Rel. Perf. (%)	-7/-3/36									
M.Cap. (INR b)	123.0									
M.Cap. (USD b)	2.5									
Year	Net Sales	PAT	Adj. EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
03/10A	106,491	4,045	5.4	-22.0	-	-	19.2	23.0	-	-
03/11A	132,888	6,973	9.3	72.4	17.6	4.6	28.4	20.8	1.2	12.1
03/12E	230,022	11,025	14.7	58.1	11.2	3.6	35.9	25.7	0.7	8.6
03/13E	271,898	10,650	14.2	-3.4	11.6	2.9	27.8	23.5	0.6	7.9

- Petronet LNG's 3QFY12 reported EBITDA of INR5b (+46% YoY, +12% QoQ) was ahead of estimates led by (1) higher volumes and (2) marketing margins. PAT stood at INR2.95b (+73% YoY, +13% QoQ). Variation at PAT level was higher than EBITDA primarily due to lower interest outgo INR345m (v/s est INR495m) led by INR5b debt repayment, partially compensated by lower other income at INR164m (v/s est INR200m) and higher effective tax rate at 32.7% (v/s est of 32.1%).
- Total gas sales in 3QFY12 stood at 145tbtu (+21% YoY and +7% QoQ) implying a capacity utilization of 115% and included 98tbtu of long-term, 25tbtu of spot and 22tbtu of re-gas services volumes.
- We compute marketing margins on spot volumes at ~INR35/mmbtu (similar to re-gas charges on long-term contracts).
- PLNG's Kochi terminal is on track to commission in 3QFY13. It indicated that post the pipeline connectivity to Bangalore in June 2013, volumes would ramp-up from the initial levels of 0.2-1mmtpa (BPCL's Kochi refinery and FACT's fertilizer plant). PLNG has finalized the location of its 5mmtpa East Coast terminal as Gangavaram in Andhra Pradesh, and is currently finalizing DFR (likely by March-12) and post that will go for board approval.
- We are increasing our FY12/FY13 EPS by ~7%/5% to INR14.7/14.2 led by higher utilization at Dahej. We model Dahej volumes at 11.1/11.2mmt (earlier at 10.7/11.1) in FY12/FY13 and Kochi volumes at 0.25/1.25mmt in FY13/FY14. Expect FY13 earnings to be lower than FY12: (1) Kochi terminal depreciation would start coming in, but corresponding revenue contribution would only start towards FY14, and (2) Lower marketing margin assumption at INR23/mmbtu v/s ~INR30/mmbtu in 9MFY12. The stock trades at 11.6x FY13E EPS of INR14.2/sh. We are reducing long term marketing margin to nil v/s earlier at INR20/mmbtu and hence maintain our target price of INR185 based on average of two valuation methodologies (1) P/E (13x FY13E EPS), and (2) DCF (INR185/sh). Maintain **Buy**.

Y/E March	Quarterly Performance								(INR Million)	
	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	25,260	30,577	36,276	39,860	46,233	53,669	63,303	66,818	131,973	230,022
Change (%)	-3.3	-10.2	61.6	0.7	83.0	75.5	74.5	0.7	23.9	74.3
EBITDA	2,477	2,716	3,456	3,513	4,381	4,483	5,032	4,963	12,163	18,860
% of Net Sales	9.8	8.9	9.5	8.8	9.5	8.4	7.9	7.4	9.2	8.2
Change (%)	36	7	66	74	77	65	46	41	43.7	55.1
Depreciation	461	466	465	455	458	463	463	468	1,847	1,851
Interest	498	495	507	431	464	458	345	337	1,931	1,604
Other Income	126	186	54	314	263	201	164	185	680	813
PBT	1,644	1,941	2,539	2,941	3,722	3,763	4,389	4,344	9,065	16,218
Tax	530	630	830	878	1,155	1,160	1,435	1,443	2,868	5,193
Rate (%)	32.2	32.5	32.7	29.9	31.0	30.8	32.7	33.2	31.6	32.0
PAT	1,114	1,311	1,709	2,063	2,567	2,603	2,954	2,901	6,197	11,025
Change (%)	7.8	8.7	105.4	112.0	130.5	98.5	72.9	40.6	53.2	77.9
Gas Volume (TBTU)	95.2	99.8	119.7	125.8	133.4	135.1	144.9	142.6	440.4	556.0

E: MOSL Estimates

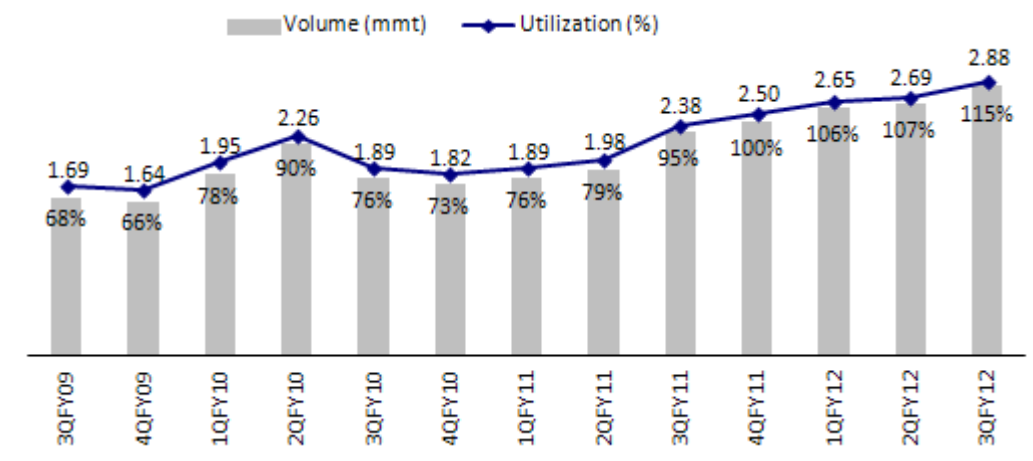
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Capacity utilization at 115%; volumes up QoQ despite continuous higher spot LNG prices

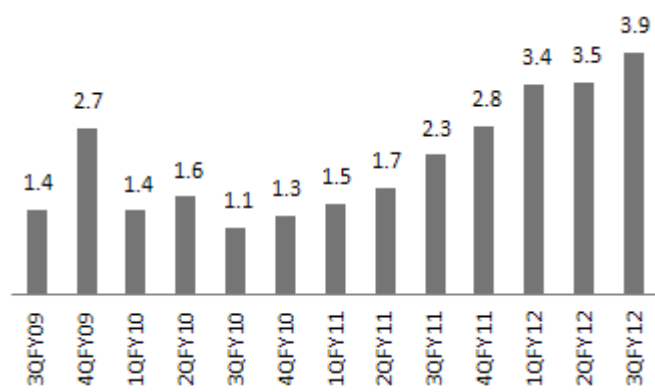
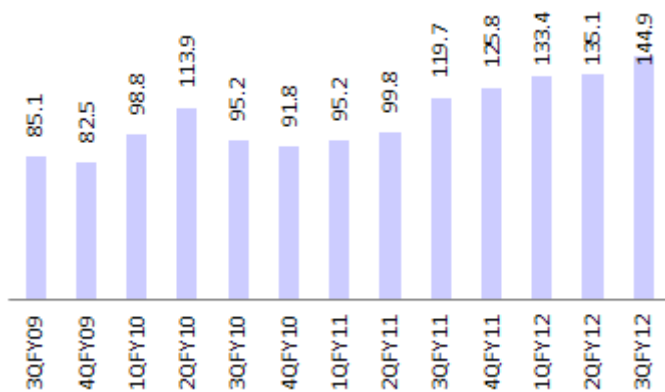
As against our estimate of 135tbtu, re-gasified volumes in 3QFY12 stood at 145tbtu (2.88mmt) v/s 119.7tbtu (2.4mmt) in 3QFY11 and 135tbtu (2.69mmt) in 2QFY12. On an annualized basis, 3Q volumes stood at ~11.5mmt. Out of total 45 cargoes imported, 32 were long term, 9 were of spot and 4 of regas services. Long-term volume was higher at 103tbtu compared to average 92tbtu in 1HFY12 and is expected to do ~92tbtu in 4QFY12 to complete tied-up volume of 7.5mmtpa.

Capacity utilization had increased to 115% during the quarter



3QFY12 EPS at INR3.9; annualized EPS of INR15.8 (our est of INR14.7)

Re-gasification volumes increased QoQ (tbtu)



Source: Company/MOSL

Strong marketing margins on short-term cargoes continue

As per our calculations, Petronet has earned marketing margins of ~INR35/mmbtu on its spot cargoes over and above its base re-gasification charges of INR33.34/mmbtu. Continued demand-supply gap in India will help Petronet LNG maintain its marketing margin trend in future.

Domestic gas scarcity to benefit PLNG

Post strong performance in 1HFY12, PLNG's 3Q earnings is a reiteration of strong gas demand in India irrespective of LNG prices. RIL's KG-D6 production has fallen below 40mmscmd and is not expected to ramp up before FY14. Even production from other

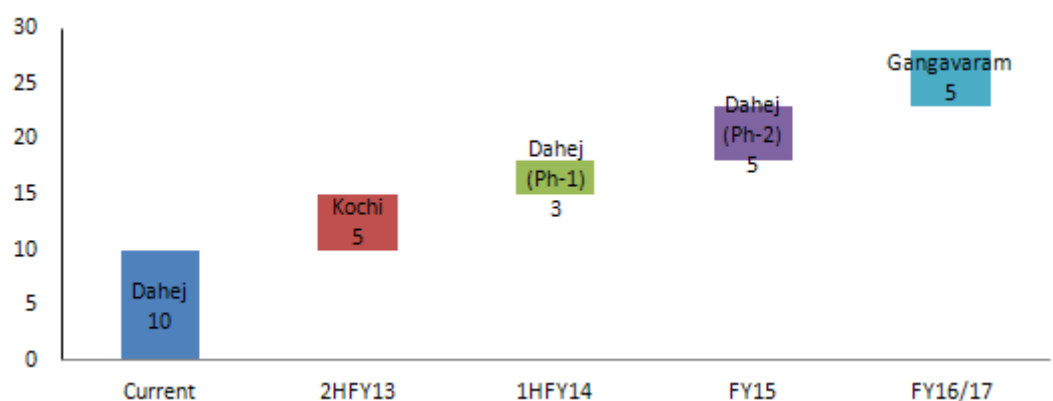
domestic fields is either flat or increasing at a very small pace. We believe this situation augurs well for Petronet, as imported LNG will be needed to meet the domestic shortfall. Management indicated that it would continue to run its plant at current implied annual capacity of 11.5mtpa, and that it is not witnessing any decline in demand even at high LNG prices. For Kochi terminal, starting in 3QFY13, management guided for initial offtake at 1-1.5mmt and full ramp-up to 5mmt in 2-3 years.

Expansion projects highlights

- **Core business focus to continue; capacity to expand from 10 to 28mtpa:** Management believes that the upcoming gas grid in the country will further boost demand for RLNG. Buoyed by the significant gas demand in India, PLNG plans to eventually expand its capacity from current 10 to 28mtpa (Dahej: 10+2.5+5, Kochi: 5 and East Coast: 5).

 1. **Kochi terminal completion on track:** Kochi terminal is 94-95% complete and is on track to commission in 3QFY13. Petronet has spent INR29b so far of the planned capex of INR42b. Management guides for 16% IRR for its contracts at Kochi terminal.
 2. **Tied-up with GAIL and GSPC for new Dahej capacity:** The work on 2nd Jetty in Dahej which will increase capacity to 13mtpa (capex of INR9b) is scheduled to complete in 4QCY13. Petronet has tied-up 2.5 and 1mtpa of its new capacity with GAIL and GSPC, respectively. GAIL and GSPC, in turn, will make equity investment and the advances will be adjusted against regas charges for quantity processed for them. Management indicated it can start vaporizer early as it takes 24-30 months for construction compared to storage tanks which take 36 months. Management plans to increase the Dahej capacity further by 5mtpa to 18mtpa by 2014; the indicated capex stands at USD500m.
 3. **New terminal to come up at Gangavaram near Vizag:** Petronet LNG has finalized the location of its 5mtpa East Coast terminal as Gangavaram in Andhra Pradesh. The DFR (detailed feasibility report) is expected to be completed by April and then the project will go to board approvals for FID (final investment decision). Management has indicated that it generally take 6 months for EPC contracting after board approvals and terminal can be completed in 36 months as has been done at Dahej.

Capacity to expand to 28mtpa by FY16/17



Source: Company/MOSL

Valuation and View

- **New capacities, favorable policies to be the next earnings driver:** We believe Kochi ramp-up and 2nd jetty commissioning at Dahej would be the next growth drivers as (1) PLNG's Dahej utilization of 115% offers a little chance of further meaningful increase and (2) while, on the re-gas tariff side company has taken its annual 5% increase in Jan-12 (already factored in our numbers). Our current Kochi volumes assumption is conservative at 0.25/1mmt in FY13/FY14; benign spot LNG prices could provide upside to these numbers. We continue to remain positive from the long-term perspective given continued demand-supply gap in India. Over the long term, the likely decisions like 1) gas to be made "declared goods", and 2) elimination of import duty (current 5% v/s 0% for crude) will increase viability for customers and help expand the LNG business in India.
- **Upgrading earnings:** We are increasing our FY12/FY13 EPS by ~7%/5% to INR14.7/14.2 led by higher utilization at Dahej. We model Dahej volumes at 11.1/11.2mmt (earlier at 10.7/11.1) in FY12/FY13 and Kochi volumes at 0.25/1.25mmt in FY13/FY14. Expect FY13 earnings to be lower than FY12: (1) Kochi terminal depreciation would start coming in, but corresponding revenue contribution would only start towards FY14, and (2) Lower marketing margin assumption at INR23/mmbtu v/s ~INR30/mmbtu in 9MFY12.
- **Maintain Buy:** Though, some concerns have emerged on the likely control of marketing margins, we believe that (1) the exercise to be carried out by PNGRB is unlikely to be completed in near term and (2) ambiguity remains on whether the margins on imported gas can be controlled by govt. The stock trades at 11.6x FY13E EPS of INR14.2/sh. We are reducing long term marketing margin to nil v/s earlier at INR20/mmbtu and hence maintain our target price of INR185 based on average of two valuation methodologies (1) P/E (13x FY13E EPS), and (2) DCF (INR185/sh). **Maintain Buy.**

Our Key Assumptions

	FY09	FY10	FY11	FY12E	FY13E	FY14E	FY15E
Exchange Rate (INR/USD)	46.1	47.6	45.5	47.6	50.0	48.0	47.0
Capacity (mmt)	5.0	10.0	10.0	10.0	15.0	18.0	18.0
Dahej Volume	6.4	7.9	8.8	11.1	11.2	12.2	13.0
Kochi Volume					0.3	1.3	2.5
Total (mmt)	6.4	7.9	8.8	11.1	11.5	13.5	15.5
Utilization rate (%)	128	79	88	111	76	75	86
Re-gassification Charges (INR/mmbtu)							
Dahej							
Long term	29.5	30.9	32.5	34.1	35.8	35.8	35.8
Chg (%)	4.8	4.7	5.0	5.0	5.0	0.0	0.0
Short term	10.9	55.8	61.1	58.8	55.8	40.8	35.8
Kochi							
Long term					50.0	50.0	50.0
Chg (%)						0.0	0.0
Short term					50.0	50.0	50.0
Average	32.8	23.5	31.7	37.3	43.5	44.1	39.8
EPS (INR)	6.9	5.4	9.3	14.7	14.2	14.8	15.3

Source: Company/MOSL

Petronet LNG: an investment profile

Company description

Petronet LNG was formed as a joint venture by the government of India to import LNG and set up LNG terminals in India. Each promoter, GAIL, ONGC, IOCL and BPCL, holds 12.5% stake in Petronet. The company owns India's first LNG receiving and re-gasification terminal of 5mmtpa at Dahej commissioned in Feb-04 and is setting up 5mmtpa terminal at Kochi. It has a long-term contract of 7.5mmtpa with Ras Gas Qatar tied back-to-back with customers in India.

Key investment arguments

- Petronet has been increasing re-gasification charges by 5% every year leading to a stable income stream.
- It also earns premium margins on short term contracts enabling it to make 25% RoE.
- Its new terminal at Kochi is expected to get operational by FY13 and can be the next growth driver for the company.
- Petronet plans to add 8mmtpa capacity at Dahej and is finalizing DFR (likely by March-12) of its 5mmtpa capacity new terminal at Gangavaram in Andhra Pradesh.

Key investments risks

- The long term gas sourcing is only from Ras gas Qatar, which is a notional risk.

- Petronet LNG's business is currently not governed by any regulation. Recently, concerns have emerged on the likely control of marketing margins. If this happens, it could pose a risk to its earnings.

Recent developments

- Finalized the location of its 5mmtpa East Coast terminal at Gangavaram in Andhra Pradesh, and is currently finalizing DFR (likely by March-12).
- In January 2012, Petronet increased its regasification charges by 5%.

Valuation and view

- The stock trades at 11.6x FY13E EPS of INR14.2.
- Our target for Petronet is INR185/sh based on average of DCF and PE methodology. Maintain **Buy**.

Sector view

- Decline in the KG-D6 gas supply and delay in the likely increase augurs well for the LNG terminals in the country.
- We expect gas supply in India to remain constrained in coming years, thereby benefitting the LNG importers like Petronet LNG.

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
164	185	12.8	Buy

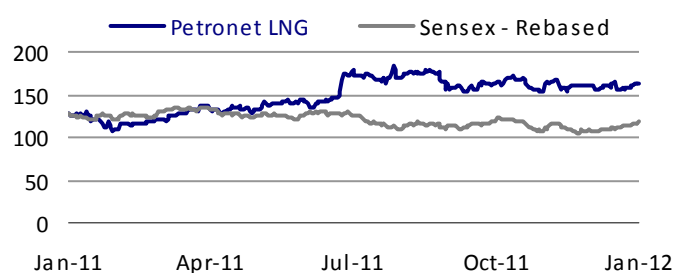
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	14.7	13.0	13.5
FY13	14.2	13.5	5.4

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	50.0	50.0	50.0
Domestic Inst	7.9	7.9	10.4
Foreign	25.0	25.2	21.4
Others	17.1	16.9	18.2

Stock performance (1 year)



N O T E S

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Petronet LNG

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