

# Stock Update

Key beneficiary of strong LNG demand and low competition

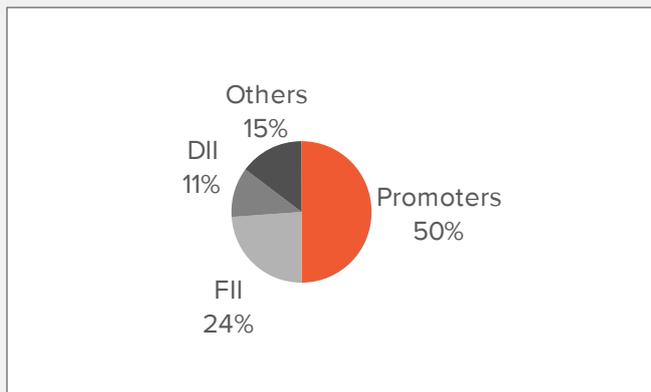
## Petronet LNG

Reco: Buy | CMP: Rs222

### Company details

Price target:	Rs270
Market cap:	Rs33,353 cr
52-week high/low:	Rs260/202
NSE volume: (No of shares)	30.3 lakh
BSE code:	532522
NSE code:	PETRONET
Sharekhan code:	PETRONET
Free float: (No of shares)	75.0 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	1.2	1.5	9.6	-8.5
Relative to Sensex	0.3	3.8	8.4	-13.7

### Key points

- Limited competition from new LNG terminals and huge gas demand-supply gap to ensure high utilisation for Dahej terminal:** We do not see any meaningful competition to Petronet LNG's (PLNG) Dahej terminal from GSPC's Mundra LNG terminal in Gujarat and IOCL's Ennore LNG terminal in Tamil Nadu, given its advantage of lower re-gas tariff, majority of Dahej terminal capacity being contracted and strong pipeline connectivity with high gas demand markets. Moreover, a significant portion of incremental domestic gas production is likely to come from difficult fields, which are expected to fetch higher gas price, expected to be much closer to spot LNG price in the medium to long term, as we expect LNG supply glut and lower slope to oil price would result in sustained low LNG price. Additionally, huge gas demand-supply gap in India has led to strong growth in LNG imports (up 8% y-o-y during April-November 2018, while domestic gas production declined by 1% y-o-y during the same period). Led by the above factors, we see strong tailwinds for higher LNG imports in India, which bodes well for PLNG. Thus, we continue to expect PLNG's Dahej terminal to operate above 100% capacity utilisation over FY2019E-FY2020E.
- Strong free cashflow and limited capex in the near term could result in high dividend payout in FY2019 and FY2020:** We expect PLNG to generate free cashflow of ~Rs. 1,848 crore in FY2019E and ~Rs. 2,692 crore in FY2020E. However, capex would be limited for Dahej terminal expansion, as the start of the investment in the overseas foray (Bangladesh and Sri Lanka) would take at least 12-24 months and would be contingent on terms with foreign governments. Hence, in the absence of significant capex, management could increase dividend payout, resulting in higher dividend yield.
- Outlook – Strong volume growth outlook led by capacity addition and improving Kochi utilisation:** We believe long-term volume growth outlook of PLNG remains robust. We expect a 9% volume CAGR over FY2018-FY2020E on account of capacity expansion at Dahej to 17.5 mmt by June 2019 (from 15 mmt currently) and ramp up of utilisation at Kochi terminal to ~30% in FY2020E. Moreover, we expect PLNG will be

able to take 5% annual escalation in re-gas tariff (with effect from January 2019), given its strong competitive position (lowest re-gas tariff in the industry and strong connectivity to pipelines).

- ◆ **Valuation – Maintain Buy with unchanged PT of Rs. 270:** We remain confident on the earnings visibility for PLNG, given the high share of contracted volume in the overall volume mix. Given our expectation of a strong earnings CAGR of 14% over FY2018-FY2020E

and a resilient return on equity (RoE) of 21-23%, we believe PLNG is trading at an attractive valuation of 15.5x its FY2019E EPS and 12.4x its FY2020E EPS. Thus, we maintain our Buy rating on the stock with unchanged price target (PT) of Rs. 270.

- ◆ **Key risks to our PT and rating:** Delay in capacity expansion at Dahej and lower-than-expected Kochi utilisation rate.

#### Valuation (Standalone)

Particulars	Rs cr				
	FY16	FY17	FY18	FY19E	FY20E
Revenue	27,133	24,616	30,599	41,106	51,511
Operating profit	1,586	2,592	3,312	3,499	4,325
OPM (%)	5.8	10.5	10.8	8.5	8.4
Adjusted PAT	913	1,706	2,078	2,147	2,698
% YoY growth	3.5	86.8	21.8	3.3	25.7
Adjusted EPS (Rs.)	6.1	11.4	13.9	14.3	18.0
P/E (x)	36.5	19.6	16.1	15.5	12.4
P/B (x)	5.0	4.1	3.4	3.0	2.6
EV/EBITDA (x)	21.1	12.2	8.8	8.0	6.0
RoNW (%)	14.8	23.2	23.3	20.6	22.6
RoCE (%)	14.0	22.8	26.3	25.1	28.0

Source: Company data; Sharekhan estimates

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