SELL (Downgrade from REDUCE)

CMP: **INR 351** Target Price: **INR 270** ▼ -23%

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24 July 2024

India | Equity Research | Q1FY25 results review

Petronet LNG

Oil & Gas

Moderate LNG prices, inventory gains and UoP fulfilment volumes drive a strong Q1

Petronet LNG (PLNG) has reported 32% YoY (42% QoQ) improvement in EBITDA to INR 15.6bn and 45/55% YoY/QoQ rise in adjusted PAT to INR 11.4bn. Volume of 248tbtu at Dahej reached an 11-quarter high, driven by softer LNG prices and additional ~11tbtu taken by an off taker in lieu of fulfilment of pending UoP obligations. Additionally, INR 2.6bn of inventory gains (offset by UoP provision related write off of INR 1.9bn) also boosted earnings in Q1. Moderate LNG prices, expansion of Dahej by 5mt by end-FY25 and Kochi-Bengaluru pipeline by end-CY24 are positives. However, lower earnings momentum for the rest of FY25 (refer Page 2), sharply higher capex, falling return ratios and low single digit EPS CAGR over FY25-27E may dampen the prospects. Downgrade to **SELL.**

Volume recovers to 11-quarter high on lower prices, UOP backfill

Dahej's long-term volume was up 8% YoY (-9% QoQ) to 97tbtu while service volume, at 144btu, was up a sharp 17/33% YoY/QoQ, driven by a sharp moderation in spot LNG prices in Q1, sharply higher gas fired power demand and ~11tbtu additional volume via fulfilment of pending Use or Pay (UOP) obligations. Spot cargoes were at 7tbtu. While Kochi's volume of 14tbtu remained modest, the imminent completion of the second leg of Kochi-Mangalore-Bengaluru pipeline and softer LNG prices should drive volume higher over the next 12–18 months. However, we believe Q1 is likely to be the peak quarter for FY25, driven by i) normalisation of power demand from Q2, ii) USD 2-3/MMbtu increase seen in spot LNG prices and uncertain UOP-related uptick for the rest of FY25.

Steady growth over FY25-27E

Nearly 170-190mt of global liquefaction capacity addition over the next 4-5 years creates a comfortable supply surplus and should support utilisation at Dahej post capacity expansion to ~22.5mt by the end of FY25. The capacity expansion globally also coincides with the imminent completion of the Kochi-Bengaluru leg of Kochi offtake pipelines. Overall, barring any further disruption from Russia, volumes and supplies should remain at comfortable levels.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	5,27,293	6,18,565	7,18,916	8,05,033
EBITDA	52,055	58,697	62,498	64,071
EBITDA %	9.9	9.5	8.7	8.0
Net Profit	36,524	40,752	42,547	42,248
EPS (INR)	24.3	27.2	28.4	28.2
EPS % Chg YoY	9.8	11.6	4.4	(0.7)
P/E (x)	14.4	12.9	12.4	12.4
EV/EBITDA (x)	9.3	8.1	7.6	7.5
RoCE (Pre-tax) (%)	22.7	23.1	22.0	20.0
RoE (%)	22.4	22.1	20.7	18.7

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Market Data

Market Cap (INR)	526bn
Market Cap (USD)	6,282mn
Bloomberg Code	PLNG IN
Reuters Code	PLNG.BO
52-week Range (INR)	359 /187
Free Float (%)	50.0
ADTV-3M (mn) (USD)	22.9

Price Performance (%)	3m	6m	12m
Absolute	17.3	34.7	62.3
Relative to Sensex	8.8	21.9	41.6

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue	3.4	2.2	2.6
EBITDA	0.3	(0.9)	(0.5)
EPS	(1.2)	(3.0)	(2.6)

Previous Reports

24-05-2024: Q4FY24 results review

31-01-2024: Q3FY24 results review

Why are we still negative?

With the sharply improved LNG pricing environment, 5mt capacity expansion at Dahej by end-FY25 and the visibility of completion of Kochi–Bengaluru pipeline by end-CY24, available capacity may improve materially for PLNG by FY26E. Coupled with sharply rising gas demand in the country, volumes/earnings for PLNG should rise steadily. However, despite the near-term momentum and macro, we still believe risk reward is unfavourable for PLNG from an 18-month perspective.

Economics of petrochemical project is unfavourable, with our estimates suggesting a requirement of USD 800/t + EBITDA to achieve reasonable IRR from the project. This is extremely unlikely, given the last couple of years' average of USD 330-350/t being earned even by the most integrated player in the country.

Quarterly EPS momentum may slow down, due to i) USD 2-3/MMbtu price escalation in spot LNG prices, which could slow demand and trading gains, ii) lower power demand which has fuelled the sharp growth in gas demand over May-Jun'24, iii) sharply higher capex over H2, which could reflect in higher financing costs (guidance for INR 35bn capex in FY25 vs only INR 3bn in Q1).

Overall FY25-27E EPS growth may be muted. Our revised estimates, factoring in steady growth in utilisation of the expanded capacity and margins similar to the strong levels being seen in FY25E still drive a muted CAGR of ~3% in EBITDA and 1-2% in EPS over FY25-27E.

Return ratios to compress, RoE/RoCE of 22/23%, respectively, in FY24 should drop to ~19% levels by FY27E, driven by slow EPS growth and very high capex which could take longer to deliver returns.

On balance, PLNG is looking at muted EPS growth of ~1.2% (EPS CAGR FY25-27E), strong cashflow (aggregate OpCF of INR 143.4bn over FY25-27E) and reasonable dividend yield (estimated at ~4% over FY25-27E). All of this, however, gets counterbalanced by valuations of 12.4x FY26E PER (higher end of 5-year average) and 2.4x P/BV (also above 5-year average) which appears like a risky bet on diversification at a scale at which PLNG has not operated before. The 30% run up in the stock price over the last 6 months offers a good opportunity to exit the stock. Downgrade to **SELL (from *Reduce*).**

Key risks

Upside risks: Stronger utilisation, sharp reduction in LNG prices, favourable extension of the RasGas contract.

Downside risks: Higher disruption in Russian supplies, slower execution of expansion plans.

Takeaways from Q1FY25 concall

Quarterly performance

- Dahej throughput for Q1FY25 was 248tbtu vs 219tbtu in Q4FY24 and 217tbtu in Q1FY24, an increase of 13% QoQ and 14% YoY. Dahej utilisation in Q1FY25 was 109% vs 97% in Q4FY24 and 96% in Q1FY24.
- Achieved highest-ever PBT in Q1 in the history of PLNG.
- Other expenditure for Q1FY25 includes provision of INR 1.3bn towards user or pay charges and 0.6bn of reversals (volume shortfall booked by one of the customers).
- Regas service income was INR 8.5bn.
- The IND-AS (positive) impact on gross margin was INR 1,610mn, with forex loss of INR 10mn, other expenses of INR 100mn, depreciation and finance cost of INR 830mn and INR 640mn, respectively.
- Inventory gain was INR 2.6bn and trading gain was INR 0.6bn.
- Gorgon volume at Dahej was 5.22tbtu.

UoP

- The company has reversed Use or Pay charges (UoP) to the extent of INR 630mn provision as equivalent volume was booked from one of the customers of 11tbtu. As per settlement mechanism, shortfall volume for CY21 and CY22 can be booked by Dec'24 and Dec 25, respectively, at prevailing regasification tariff.
- Out of total UoP settlement dues of INR 18bn (CY21, CY22 and CY23), provision to the extent of INR 5bn has been made. Bank guarantees have been received for INR 3.7bn and INR 8.0bn for UoP dues of CY21 and CY22. The company is pursuing with off takers to pay CY23 charges. The settlement agreement is applicable for CY21 and CY22 dues as volumes were impacted on account of Covid-19 and Russian Ukraine war. Total volume shortfall for CY21 and CY22 was 4.3mtpa.
- UoP is due from 5 customers.
- Most players like GAIL, GSPC are running as per annual delivery plan (ADP) in FY25E. The management expects after Sept'24, players should bring additional cargoes apart from annual commitment to fulfill the shortfall.

Capex

- Petrochem project is progressing well and contract has been awarded to licensor for PP and PDHPP projects. Environment clearance is also in place. The project would be financed by 70:30 debt:equity and the company should be able to arrange the line of credit from banks in next 2-3 months. The capex for first year would be 20%, 30% for second year and more in third year.
- Dahej expansion of 5mtpa is likely to be completed by Mar'25. Total capex for this project is INR 5.7bn vs greenfield project cost of INR 50bn for similar set up. Payback period for 5mtpa capacity at Dahej is less than 3 years.
- Management has guided for capex of INR 35bn for FY25 and has spent INR 3bn in Q1FY25.

Others

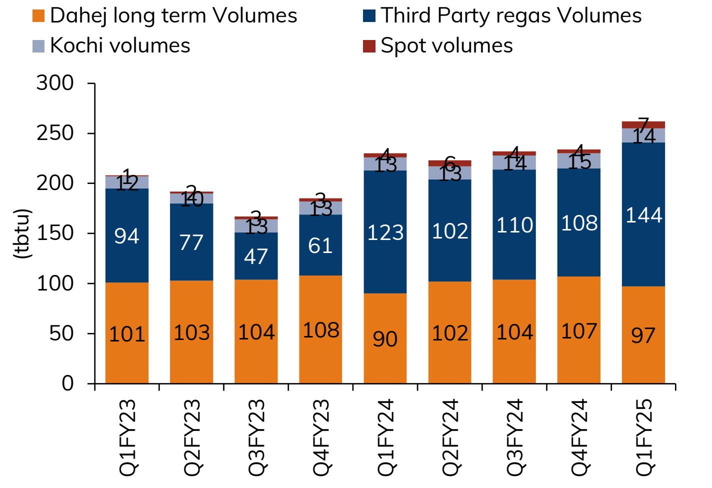
- The company is in discussions with off takers for back-to-back contract for additional capacity. It believes capacity should not remain idle for a long time due to moderate LNG prices, and also, a lot of global LNG capacity is likely to come onstream in next 2-3 years, which should keep LNG prices under pressure.
- The company has long-term volume commitment of 15.5mtpa. PLNG has evacuation capacity of 35mtpa and better pipeline connectivity while other terminals have connectivity issue which should keep competition limited.
- Capacity utilisation for Jul'24 was ~100% as power demand has come off.
- Dabhol terminal would not be operating in Q2FY25.

Exhibit 1: Q1FY25 result snapshot

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net Sales	**1,34,151**	**1,16,561**	**15.1**	**1,37,932**	**(2.7)**
EBITDA	15,630	11,818	32.3	11,040	41.6
EBITDA (INR/mmbtu)	59.7	51.4	16.1	47.2	26.4
Reported PAT	11,416	7,899	44.5	7,376	54.8
Adjusted PAT	**11,416**	**7,899**	**44.5**	**7,376**	**54.8**
EPS (INR)	7.6	5.3	44.5	4.9	54.8
Dahej Sales (tbtus)	248	217	14.3	219	13.2
Other income	2,181	1,467	48.7	1,568	39.1
Depreciation	1,946	1,919	1.4	1,944	0.1
Interest paid	667	746	(10.5)	708	(5.7)
Gross margins (INR/mmbtu)	89.4	59.6	49.9	54.3	64.6
Kochi (tbtu)	14.0	13.0	7.7	15.0	(6.7)
Total volume (tbtu)	**262.0**	**230.0**	**13.9**	**234.0**	**12.0**
Gross margins mns	10,552	6,382	65.3	6,847	54.1

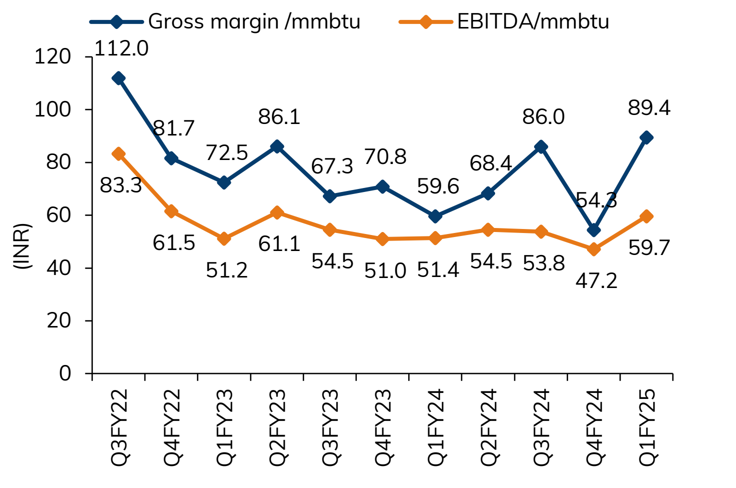
Source: Company data, I-Sec research

Exhibit 2: Strong volume in Q1FY25



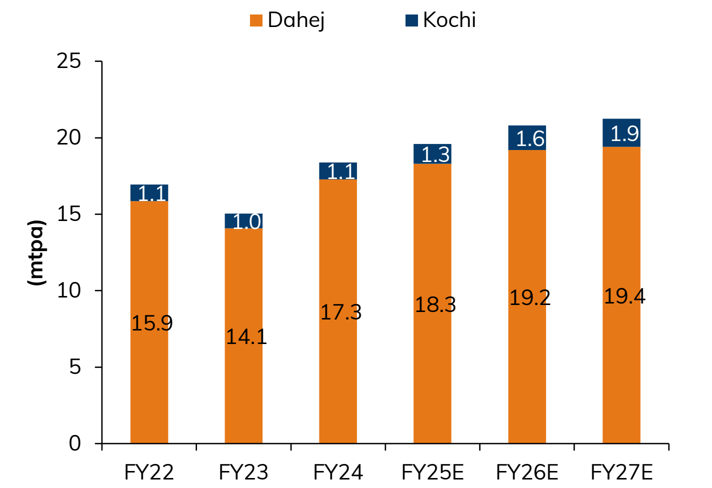
Source: Company data, I-Sec research

Exhibit 3: Tariffs – gross margin improved in Q1FY25



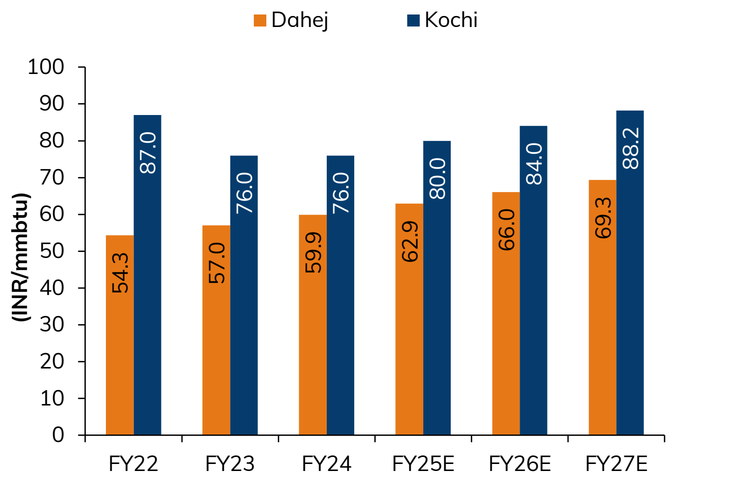
Source: Company data, I-Sec research

Exhibit 4: Volumes likely to improve over FY25-27E



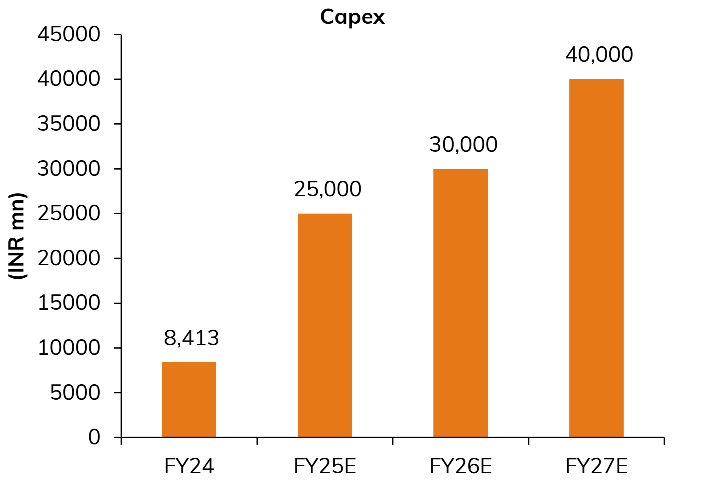
Source: Company data, I-Sec research

Exhibit 5: Blended tariffs may improve



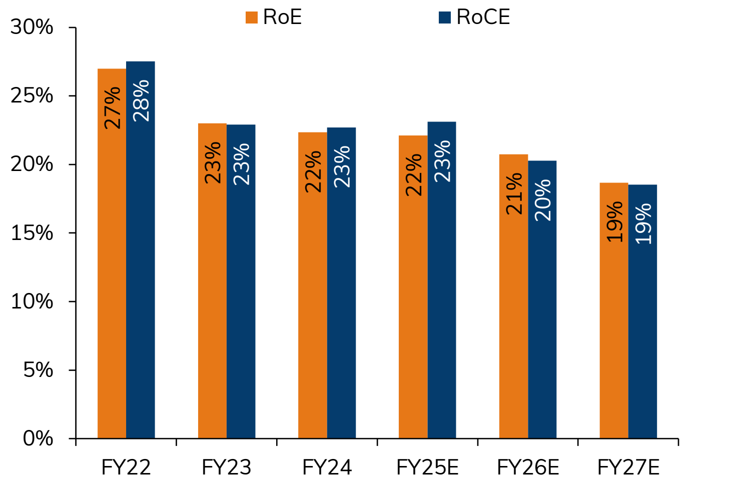
Source: Company data, I-Sec research

Exhibit 6: FY25-27E capex likely to grow materially



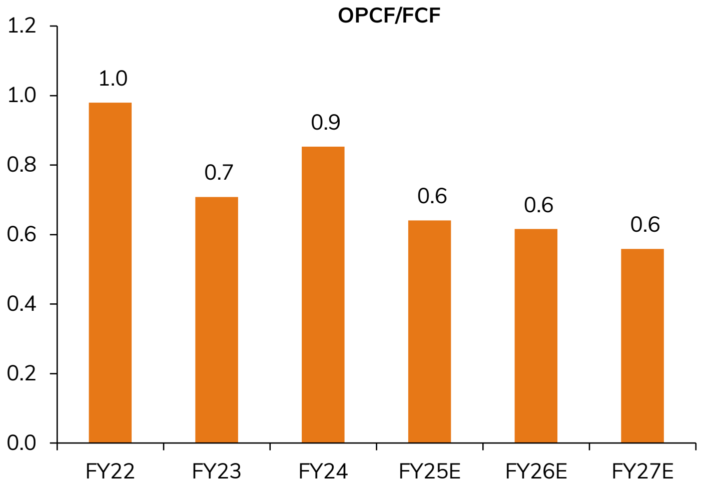
Source: Company data, I-Sec research

Exhibit 7: Return ratios to moderate



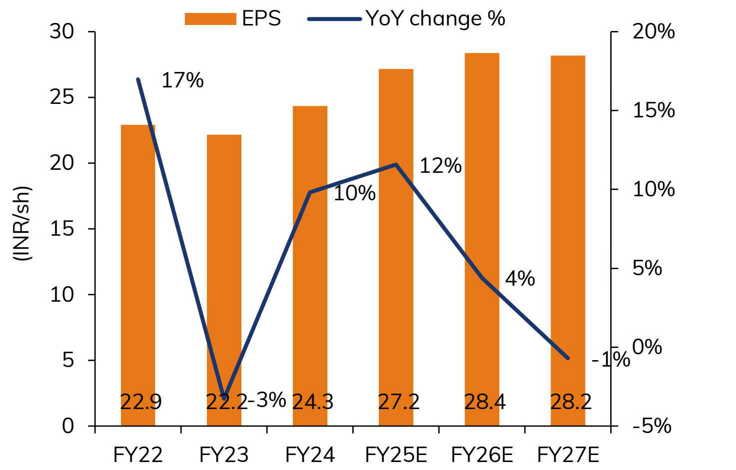
Source: Company data, I-Sec research

Exhibit 8: OpCF/FCF to remain at comfortable levels



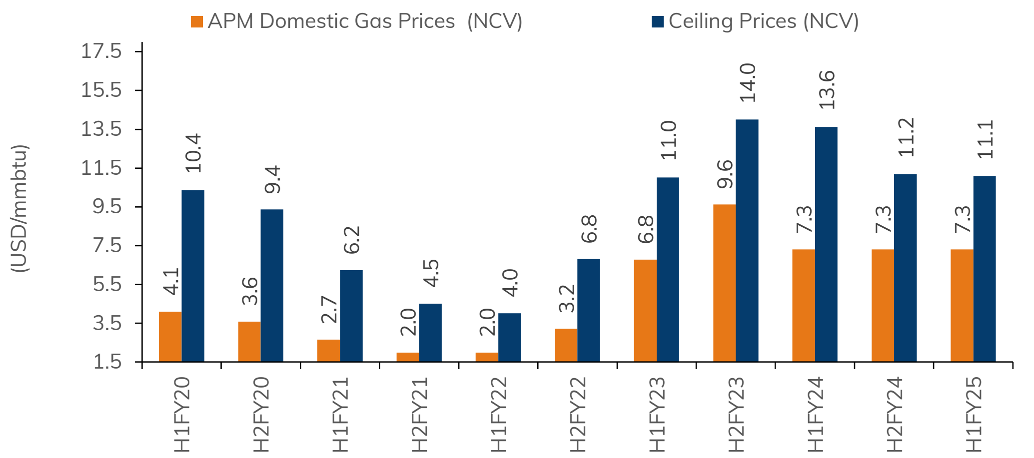
Source: Company data, I-Sec research

Exhibit 9: Earnings to grow at 1.8% CAGR over FY25-27E



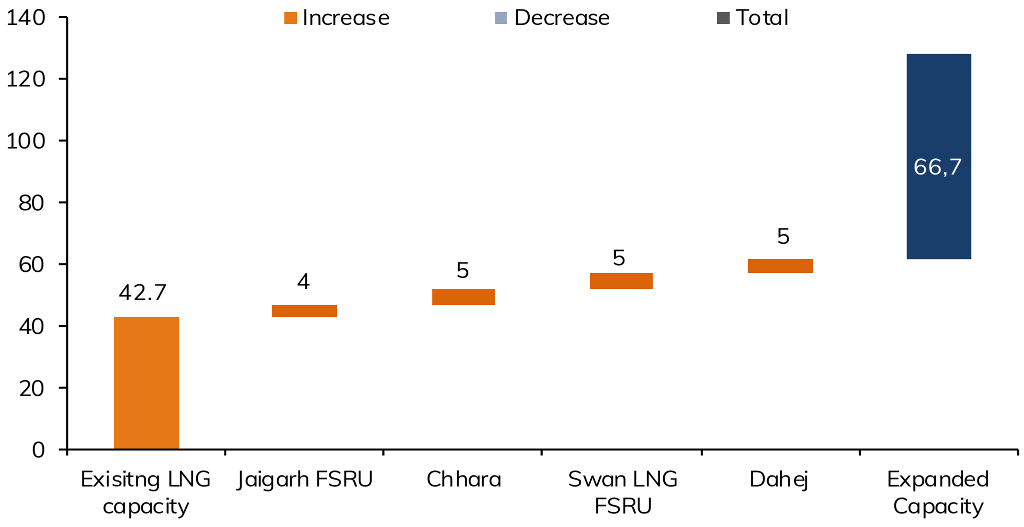
Source: Company data, I-Sec research

Exhibit 10: APM gas price capped at USD 6.5/mmbtu and HPHT gas price remained muted for H1FY25 vs H2FY24



Source: Company data, I-Sec research

Exhibit 11: LNG capacity envisaged to reach 66.7mtpa by FY26E



Source: PPAC, Company data, I-Sec research

Exhibit 12: Petchem expansion estimates – very aggressive assumptions feeding into PLNG targeted EBITDA from this project

Particulars	Units	
Investment	INR mn	2,06,850
Capacity	mt	0.75
EBITDA (RIL estimated Petchem EBITDA at ~USD 250-270/t)	USD/t	400
EBITDA	USD mn	300
EBITDA	INR mn	25,050
Depreciation (5%)	INR mn	10,343
EBIT	INR mn	14,708
ROCE (Pre-Tax)	INR mn	7.1%
For ROCE (Pre-Tax) of 20%	20%	
EBITDA has to be	USD/t	826
EBITDA targeted by PLNG	INR mn	41,370

Source: Bloomberg, I-Sec research

Valuation: Downgrade to **SELL**; target price of INR 270

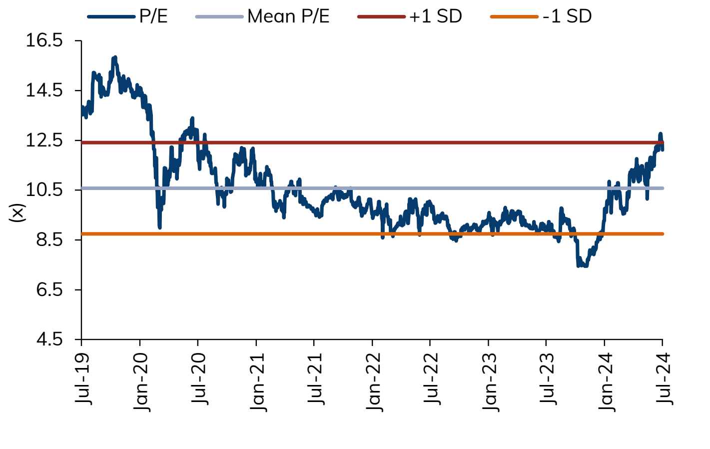
We value PLNG as per DCF methodology, using a WACC of 11.5%, DER of 15%, long term Dahej utilisation assumption of 100% and terminal growth rate of 4.7%. This leads to our target price of INR 270, ~23% downside from CMP.

Exhibit 13: Valuation summary

	Assumption
Cost of equity	13.0%
Cost of Debt	9.1%
WACC	11.5%
Terminal Growth Rate	4.7%
Average NPV potential (INR mn)	4,04,716
Target Price (INR)	270
CMP	351
Upside/(Downside)	-23%

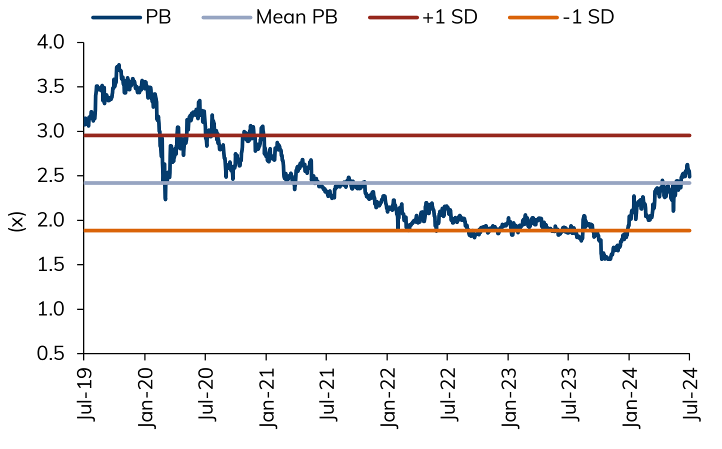
Source: Bloomberg, Company data

Exhibit 14: PLNG's P/E trading on upper end of band charts



Source: Company data, I-Sec research

Exhibit 15: PLNG's P/B trading near 5-year average band



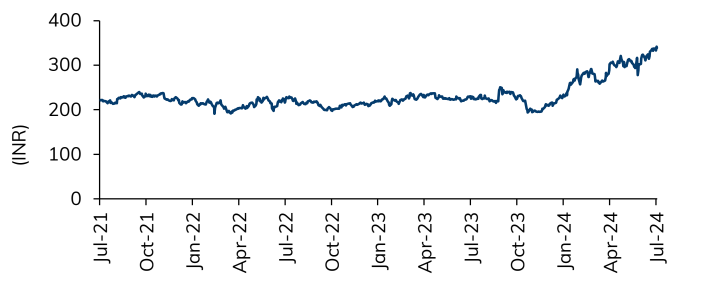
Source: Company data, I-Sec research

Exhibit 16: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	50.0	50.0	50.0
Institutional investors	37.8	37.6	37.6
MFs and others	9.9	10.5	12.0
FIs/Banks	1.7	0.0	0.0
Insurance	0.0	0.0	0.0
FIIs	26.2	26.1	25.6
Others	12.2	12.4	12.4

Source: Bloomberg

Exhibit 17: Price chart



Source: Bloomberg

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Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**5,27,293**	**6,18,565**	**7,18,916**	**8,05,033**
EBITDA	**52,055**	**58,697**	**62,498**	**64,071**
EBITDA Margin (%)	9.9	9.5	8.7	8.0
Depreciation & Amortization	7,766	9,259	10,999	13,319
EBIT	44,289	49,437	51,499	50,752
Interest expenditure	-	-	-	-
Other Non-operating Income	6,085	6,081	6,328	6,586
PBT	**47,477**	**52,856**	**55,254**	**54,856**
Profit / (Loss) from Associates	**1,254**	**1,200**	**1,200**	**1,200**
Less: Taxes	12,207	13,304	13,908	13,807
PAT	35,270	39,552	41,347	41,048
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**36,524**	**40,752**	**42,547**	**42,248**
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	**36,524**	**40,752**	**42,547**	**42,248**

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,28,941	1,35,032	1,38,801	1,33,588
of which cash & bank	74,142	76,943	77,662	71,437
Total Current Liabilities & Provisions	37,465	39,955	42,486	43,866
Net Current Assets	**91,476**	**95,077**	**96,314**	**89,723**
Other Non Current Assets	23,129	23,176	23,224	23,272
Net Fixed Assets	81,470	97,210	1,16,211	1,42,892
Other Fixed Assets	-	-	-	-
Capital Work in Progress	15,524	15,524	15,524	15,524
Non Investment	6,167	6,228	6,291	6,354
Current Investment	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	**2,17,765**	**2,37,215**	**2,57,564**	**2,77,764**
Liabilities				
Borrowings	**30,081**	**29,081**	**28,081**	**27,081**
Deferred Tax Liability	**6,165**	**6,165**	**6,165**	**6,165**
Lease Liability	30,081	29,081	28,081	27,081
Other Liabilities	7,418	7,492	7,567	7,642
Equity Share Capital	15,000	15,000	15,000	15,000
Reserves & Surplus*	1,59,101	1,79,477	2,00,751	2,21,875
Total Net Worth	**1,74,101**	**1,94,477**	**2,15,751**	**2,36,875**
Minority Interest	-	-	-	-
Total Liabilities	**2,17,765**	**2,37,215**	**2,57,564**	**2,77,764**

Source Company data, I-Sec research

Exhibit 20: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	1,25,320	1,42,897	1,37,932	1,34,151
% growth (YOY)	7.5%	14.0%	-3.5%	-2.7%
EBITDA	12,147	12,485	11,040	15,630
Margin %	9.7%	8.7%	8.0%	11.7%
Other Income	1,567	1,565	1,568	2,181
Extraordinaries				
Adjusted Net Profit	8,181	7,332	7,376	11,416

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash Flow from operation before working Capital	**55,179**	**58,697**	**62,498**	**64,071**
Working Capital Changes	5,906	(773)	(491)	395
Tax	(12,374)	(13,304)	(13,908)	(13,807)
Operating Cashflow	**48,711**	**44,620**	**48,099**	**50,659**
Capital Commitments	(8,413)	(25,000)	(30,000)	(40,000)
Free Cashflow	**40,298**	**19,620**	**18,099**	**10,659**
Others CFI	(1,470)	7,219	7,465	7,723
Cashflow from Investing Activities	**(9,883)**	**(17,781)**	**(22,535)**	**(32,277)**
Inc (Dec) in Borrowings	(6,429)	(1,000)	(1,000)	(1,000)
Interest Cost	(116)	(2,662)	(2,572)	(2,482)
Others	(15,000)	(20,376)	(21,273)	(21,124)
Cash flow from Financing Activities	**(21,545)**	**(24,038)**	**(24,846)**	**(24,607)**
Chg. in Cash & Bank balance	**17,284**	**2,801**	**719**	**(6,224)**
Closing cash & balance	74,142	76,943	77,662	71,437

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Recurring EPS	24.3	27.2	28.4	28.2
Diluted EPS	24.3	27.2	28.4	28.2
Recurring Cash EPS	29.5	33.3	35.7	37.0
Dividend per share (DPS)	10.0	13.6	14.2	14.1
Book Value per share (BV)	116.1	129.7	143.8	157.9
Dividend Payout (%)	41.1	50.0	50.0	50.0
Growth (%)				
Net Sales	(12.0)	17.3	16.2	12.0
EBITDA	7.2	12.8	6.5	2.5
EPS	9.8	11.6	4.4	(0.7)
Valuation Ratios (x)				
P/E	14.4	12.9	12.4	12.4
P/CEPS	11.9	10.5	9.8	9.5
P/BV	3.0	2.7	2.4	2.2
EV / EBITDA	9.3	8.1	7.6	7.5
EV / Operating Income	9.6	8.6	8.2	8.4
Dividend Yield (%)	2.9	3.9	4.0	4.0
Operating Ratios				
EBITDA Margins (%)	9.9	9.5	8.7	8.0
Effective Tax Rate (%)	25.7	25.2	25.2	25.2
Net Profit Margins (%)	6.9	6.6	5.9	5.2
NWC / Total Assets (%)	42.0	40.1	37.4	32.3
Fixed Asset Turnover (x)	3.9	4.2	4.1	3.8
Working Capital Days	13.5	13.7	12.0	10.5
Net Debt / Equity %	(25.3)	(24.6)	(23.0)	(18.7)
Profitability Ratios				
RoCE (%)	16.9	17.3	16.5	15.0
RoCE (Pre-tax) (%)	22.7	23.1	22.0	20.0
RoE (%)	22.4	22.1	20.7	18.7

Source Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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