DBS

India Equity Research | Oil & Gas
March 14, 2018
Company Update

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Petronet LNG

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Resilient business model at attractive valuation

CMP	Target Price
Rs 239 as of (3/13/2018)	Rs 305 (■) 12 months
Rating	**Upside**
BUY (■)	27.5 %

- We assume coverage on Petronet LNG Ltd (PLNG) with a BUY and TP of Rs305. PLNG is a low risk business model with Dahej terminal tied up near full capacity and annual regas tariff hikes providing income growth.
- Incremental growth is expected from 17.5mmtpa Phase III B Dahej expansion (expected in mid-CY19) and 1mmtpa ramp-up at Kochi (as GAIL's Mangalore pipeline is laid by FY19-end). Post the newly planned tank by FY21, Dahej can reach volume of 18mmtpa+.
- We estimate deficit gas supply in the medium term despite building 20-50% utilisation for 5 upcoming terminals. KG gas uptick is a risk but new demand can come from new CGD areas and possible power sector revival, as GoI targets to triple gas consumption.
- Business to throw significant cash of Rs20bn+ annually in FY19/20E, implying 5-6% FCFF yield. Although cash utilisation plans need more clarity on the back of limited capex, we expect higher dividend payout going forward.

Estimate 18% EPS CAGR over FY17-20E from Kochi ramp up, regas tariff hike

We estimate 18/13% EPS/EBITDA CAGR during FY17-20E, supported by volume from Kochi terminal ramp-up and consistent tariff hikes at Dahej. Dahej operated at 106% in 9MFY18 and we expect it to continue this utilisation levels despite the shift in Gorgon volume by FY20. Tolling has been robust, with 90% utilisation in 9MFY18. Our checks suggest that Indian Oil is looking to further book capacity in Phase III B at Dahej.

5% annual regas tariff escalation provides steady income growth

Regas tariff hike provides steady income growth to PLNG. While there has been periodic noise from PLNG's off-takers and promoters, management has reiterated that it's a part of RasGas contract (and other arrangements) and any change is unlikely at least before the end of CY28. Being a related party transaction, it can be a corporate governance issue. However, we have capped Kochi tariff from FY20 due to a high base, but it's also contractual.

Expect new terminals to clock 20-50% utilisation, low risk to Dahej

We note that among the new terminals, Ennore will be off-grid while Jafrabad/Dhamra (CY20/21 start) are expected to tie up 70-90% of capacity from strong parties like IOCL, GAIL, GSPC and BPCL, who have marketing as well as captive options. Only Mundra (to start by FY20) is untied and can lead to 0.4mmtpa diversion of GSPC's 2mmtpa tie-up in Dahej. However, IOCL could sign 1.25mmtpa soon, which will raise Mundra's utilisation to ~30% where it will be comfortable. We believe that Dahej will continue to be the cheapest and most efficient unit.

Assume coverage with BUY; TP at Rs305

We assume coverage on PLNG with Rs305 DCF-based TP, implying an attractive FY20 target PE of 17x on 20%+ ROE and 18% EPS CAGR. We estimate WACC/terminal growth of 10%/2% although overseas capex could be a growth trigger.

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	271,334	246,160	311,235	349,919	363,408
EBITDA	16,963	26,786	33,276	34,829	38,974
EBITDA Margin (%)	6.3	10.9	10.7	10.0	10.7
APAT	10,683	17,057	20,873	22,925	26,566
EPS (Rs)	7.1	11.4	13.9	15.3	17.7
EPS (% chg)	16.4	59.7	22.4	9.8	15.9
ROE (%)	17.4	23.2	23.6	22.1	22.0
P/E (x)	33.6	21.0	17.2	15.7	13.5
EV/EBITDA (x)	22.2	13.5	10.4	9.5	8.0
P/BV (x)	5.4	4.4	3.7	3.2	2.8

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY18E/FY19E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates	FY18E	FY19E
Emkay	13.9	15.3
Consensus	13.9	15.6
Mean Consensus TP (12M)		Rs 286

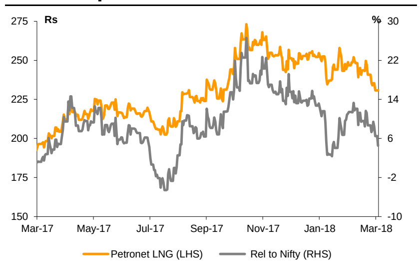
Stock Details	
Bloomberg Code	PLNG IN
Face Value (Rs)	10
Shares outstanding (mn)	1,500
52 Week H/L	276 / 190
M Cap (Rs bn/USD bn)	359 / 5.54
Daily Avg Volume (nos.)	4,153,562
Daily Avg Turnover (US$ mn)	15.8

Shareholding Pattern Dec '17	
Promoters	50.0%
FIIs	25.6%
DIIs	9.7%
Public and Others	14.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(2)	2	26
Rel. to Nifty	(3)	(4)	(1)	8

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Sabri Hazarika
sabri.hazarika@emkayglobal.com
66121282

PLNG's volume expected to expand from Dahej expansion and Kochi ramp-up

PLNG remains confident of finding demand for its Phase III B 2.5mmtpa expansion and post the Rs600mn additional tank can cross 18mmtpa in volume

As against a 20%+ yoy estimated volume growth in Dahej for FY18, we have built a modest 1% volume CAGR for the next 5 years to 17.2mmt or 98% utilisation of 17.5mmtpa expanded capacity (planned to be completed by FY20). PLNG remains confident of finding demand for its Phase III B 2.5mmtpa expansion at Dahej and post the Rs600mn additional tank (scheduled to be completed by FY21), Dahej volume can cross 18mmtpa without any additional capex. It remains open to re-enter the spot LNG market. Our channel checks further suggest that IOCL is in discussion to take additional capacity in Phase III B, which would raise utilisation certainty for Dahej.

Exhibit 1: Dahej volume outlook

mmt	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY23E	FY29E/TY
RasGas Long Term	6.8	5.4	7.8	8.5	8.5	8.5	8.5	8.5
Gorgon Long Term			0.0	0.7	0.9	0.0		
3rd Party Regas/Tolling	2.1	4.1	4.7	6.5	6.5	7.4	8.0	8.4
GAIL				2.1	2.1	2.3		
IOCL				1.2	1.2	1.3		
BPCL				0.7	0.7	0.8		
GSPC				1.8	1.7	1.6		
Torrent				0.7	0.8	0.8		
Others				0.0	0.0	0.7		
Spot	1.4	1.5	0.7	0.3	0.3	0.5	0.7	0.7
Total Dahej Volumes	10.2	11.0	13.1	16.0	16.2	16.4	17.2	17.6
Capacity (mmtpa)	10.0	10.0	12.5	15.0	15.0	16.3	17.5	17.5
Utilisation	102%	110%	105%	107%	108%	101%	98%	101%

Source: Company, Emkay Research

The tolling capacities in Dahej are bounded by long-term contractual terms and though flexibility of up to 80% of booked capacity is allowed, the same has to be intimated before the calendar year starts. Some fixed charge would still be there. Therefore, risk of a fall in volume and the consequent drop in earnings is lower than expected. Against 2.5mmtpa capacity expansion by FY20, we build in ~1mmtpa additional volume in FY20, from tolling and spot.

Exhibit 2: Dahej tolling capacity and utilisation

Capacity Booked (mmtpa)		Utilisation of tolling capacity booked	
GAIL	2.3	Total Capacity Booked (9M)	5.5
IOCL	1.3	9MFY18 Tolled Volumes	4.9
BPCL	0.8	9M Utilisation	90%
GSPC	2.0	FY18E Utilisation	90%
Torrent	1.0	FY19E Utilisation	90%
Total	**7.3**	FY20E Utilisation (excl others)	92%

Source: Company, Emkay Research

While we build 15-16% utilisation for Kochi terminal in FY19, the same is expected to rise by 20-35% in FY20, as GAIL's Kochi-Mangalore pipeline gets completed by FY19 end. PLNG expects the same to be done by Q1CY19 though GAIL is more aggressive in its guidance (expects completion before the scheduled date of Dec'18). We have assumed 50% peak utilisation capacity for Kochi in our DCF calculation. Key customers in Mangalore are MRPL, MCFL and OMPL, who together can consume over 1mmtpa of LNG, besides other smaller customers along the pipeline route.

Exhibit 3: Kochi volume outlook

mmt	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY23E	FY29E/TY
Total Demand	0.1	0.2	0.3	0.6	0.8	1.7	2.4	2.5
Existing Areas	0.1	0.2	0.3	0.6	0.7	0.7		
Mangalore					0.1	1.0		
Others					0.1	0.1		
Supply	0.1	0.2	0.3	0.6	0.8	1.7	2.4	2.5
Gorgon Long Term				0.4	0.6	1.4	1.4	1.4
3rd Party Regas/Tolling	0.0		0.0	0.1	0.1	0.2	0.7	0.8
Spot	0.1	0.2	0.3	0.2	0.1	0.1	0.3	0.3
Capacity (mmtpa)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Utilisation	2%	4%	6%	13%	16%	35%	48%	50%

Source: Company, Emkay Research

Do not see any risk on Dahej tariff escalation at least till RasGas contracts expire

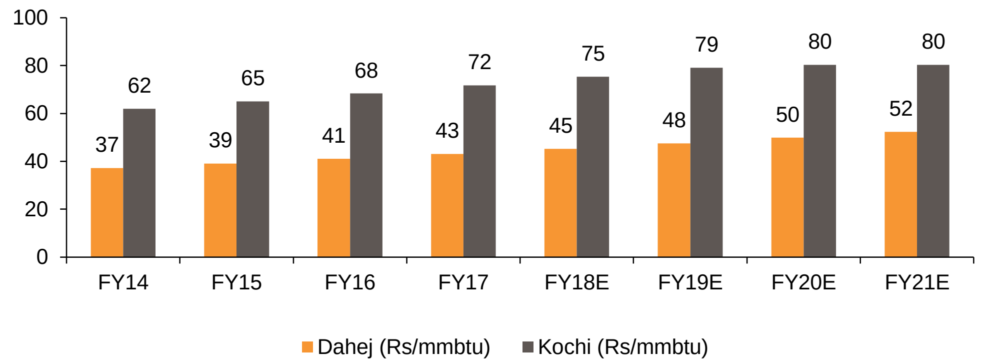
The 5% regas tariff escalation is an integral part of RasGas contract, which started from PLNG's inception way back in early 2000s

The 5% regas tariff escalation is an integral part of the RasGas contract, which started from PLNG's inception way back in early 2000s. The absolute amount pegged then was based on 16% equity IRR and the 5% annual escalation was to take care of inflation. We do not think that Dahej, which still is the cheapest terminal in the country, will face this risk due to following factors.

- It is contractually bounded at least till CY28 when RasGas contract expires.
- The prime off-takers are PLNG's co-promoters and hence any contractual breach or renegotiation can be a corporate governance issue in terms of related party.
- Since the US dollar has appreciated significantly, in USD terms, the CAGR has been only 2% since CY05. Hence, it cannot be perceived as a burden if the entire gas cost is considered in USD.
- PLNG's opex/mmbtu has grown at a 6% CAGR in the last 10 years, leading to inflationary impact on expenditure, which would justify the escalation.
- Other terminals, especially those with booked capacity (Jafrabad, Dhamra*) would operate at a higher tariff level vis-à-vis Dahej with 5% escalation ingrained there also.

We have built in 5% escalation in our DCF model for Dahej. However, we have capped Kochi from FY20 due to its high base, although it's also contractual. Our DCF calculation assumes a terminal growth rate of 2%, which incorporates some element of tariff hikes and realization of other opportunities like LNG for retail, small scale LNG etc in the standalone business.

Exhibit 4: PLNG's reags tariff outlook – expect Dahej hike to continue till RasGas contract expiry



Source: Company, Emkay Research

Exhibit 5: Capacity booked by various players in various terminals

mmtpa	Capacity	GAIL	GSPC	IOCL	BPCL	HPCL	Others*	Total	% Booked	Terminal key status
PLNG Dahej	15.0	7.0	2.3	3.8	1.8		1.0	15.8	105%	17.5mmtpa expansion by mid CY19
PLNG Kochi	5.0	0.4		0.4	0.6			1.4	29%	Mangalore pipeline by Q1CY19
Shell Hazira	5.0						2.8	2.8	55%	Expansion to 7.5mmtpa capacity was planned
GAIL Dabhol	5.0							0.0	0%	Breakwater needs 3yrs to construct
GSPC Mundra*	5.0			1.3				1.3	25%	Terminal ready, pipeline access by mid CY18
IOCL Ennore	5.0							0.0	0%	Expected by CY19 to be operational
Swan Jafrabad	5.0		1.5	1.0	1.0		1.0	4.5	90%	Expected by CY20
Adani Dhamra*	5.0	1.5		3.0				4.5	90%	Expected by CY21/22
HPCL Chhara	5.0							0.0	0%	Expected by CY21/22
Total	**55.0**	**8.9**	**3.8**	**9.4**	**3.3**	**0.0**	**4.8**	**30.2**	**55%**	

*Source: Company, Emkay Research *Mundra and Dhamra not finalized and under preliminary discussion; others include Torrent for Dahej, RIL for Hazira (expected to soon expire) and ONGC for Jafrabad*

Expect stable to healthy LNG supply demand scenario

We estimate gas demand to grow at 5-7% CAGR in the next 9-10 years with fertilizer, refineries, CGD and other sectors all expected to grow

We estimate gas demand to grow at 5-7% CAGR in the next 9-10 years with Fertilizers, Refineries, CGD and other sectors all expected to grow. In Fertilizers, we have built in ~15mmscmd growth in RLNG consumption from plants like Chambal's Kota expansion, FCI Ramagundam revival, Sindri-Barauni-Gorakhpur revival and MCFL-MFL-SPIC conversion.

Refinery demand is also expected to witness similar growth, as currently only 6 PSU refineries, namely Koyali, Mathura, Panipat, HPCL-BPCL Mumbai and Kochi are using LNG. Once Ennore LNG terminal is commissioned and pipelines like Kochi-Mangalore and Jagdishpur-Haldia are laid fully, gas supply to other units would commence. Further, refinery capacity expansion and BS-VI implementation would lead to higher gas consumption run-rate among the existing refineries.

We take in 10% yoy volume growth for the CGD sector, as major areas like Delhi and Gujarat clock double-digit run-rate and several cities (allocated up to the 8th Round of PNGRB bidding) ramp up, along with supplies to areas along the Jagdishpur-Haldia pipeline. Miscellaneous / other / industrial growth is also expected to be robust, as expansion of national gas grid connects new customers (Steel, Petchem etc). In Power sector, we build in a 2% demand CAGR on the back of higher share of Renewables, creating a situation for gas based power to meet peak requirement (due to sudden demand spurt from temperature change, grid instability etc) besides opportunities from CPPs.

Exhibit 6: Medium to longer term Indian gas demand-supply estimates

mmscmd	FY18P	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Demand											
Fertiliser	42.9	43.5	46.5	49.3	52.1	55.0	55.5	56.1	56.7	57.2	57.8
Power	32.0	34.0	35.0	35.7	36.4	37.1	37.9	38.6	39.4	40.2	41.0
CGD	23.4	25.7	28.3	31.1	34.3	37.7	41.5	45.6	50.2	55.2	60.7
Refinery	19.8	17.0	23.6	26.6	29.6	30.7	31.0	31.3	31.6	31.9	32.2
Petchem	11.1	7.0	7.4	8.1	8.9	9.3	9.8	10.3	10.8	11.4	11.9
Miscellaneous	18.8	20.7	22.7	25.0	27.5	30.3	33.3	36.6	40.3	44.3	48.8
Total	**148.0**	**148.0**	**163.5**	**175.8**	**188.8**	**200.1**	**208.9**	**218.5**	**228.9**	**240.2**	**252.4**
Growth		***0%***	***10%***	***8%***	***7%***	***6%***	***4%***	***5%***	***5%***	***5%***	***5%***
Supply											
ONGC	51.5	55.6	57.8	56.6	55.5	54.4	53.3	52.3	51.2	50.2	49.2
OIL	7.1	6.9	7.1	7.2	7.4	7.5	7.7	7.8	8.0	8.1	8.3
KG-D6	5.2	4.2	3.1	2.0	1.0	0.5	0.2	0.0	0.0	0.0	0.0
PMT	4.9	4.6	4.4	4.3	4.2	4.0	3.9	3.8	3.7	3.6	3.5
Others	3.0	4.5	5.4	5.9	5.6	5.3	5.1	4.8	4.6	4.4	4.1
Total Domestic Gas	**71.7**	**75.8**	**77.8**	**76.1**	**73.7**	**71.8**	**70.2**	**68.7**	**67.5**	**66.3**	**65.1**
PLNG Dahej	59.8	58.7	59.5	60.9	61.6	62.4	63.1	63.8	63.8	63.8	63.8
PLNG Kochi	2.5	2.9	6.2	7.3	8.0	8.7	9.1	9.1	9.1	9.1	9.1
Shell Hazira	10.9	7.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
GAIL Dabhol	3.1	3.0	3.0	5.4	9.1	12.7	13.6	13.7	13.9	14.0	14.1
GSPC Mundra			3.7	5.1	6.3	7.0	7.7	8.4	9.3	10.2	11.2
IOCL Ennore			3.6	4.5	5.4	5.7	6.0	6.3	6.6	6.9	7.3
Swan Jafrabad				3.3	6.5	9.8	13.1	13.2	13.3	13.4	13.6
Adani Dhamra				0.0	3.3	6.5	9.8	13.1	13.2	13.3	13.4
HPCL Chhara					1.8	3.6	5.4	5.7	6.0	6.3	6.6
Total LNG	**76.3**	**71.9**	**81.4**	**91.9**	**107.5**	**121.8**	**133.1**	**138.7**	**140.6**	**142.5**	**144.6**
Total Gas Supply	**148.0**	**147.6**	**159.2**	**168.0**	**181.2**	**193.6**	**203.3**	**207.4**	**208.0**	**208.8**	**209.7**
Demand-Supply	**0.0**	**0.3**	**4.3**	**7.8**	**7.6**	**6.5**	**5.6**	**11.1**	**20.9**	**31.4**	**42.7**
LNG Terminal Utilisation											
PLNG Dahej	110%	108%	109%	96%	97%	98%	99%	101%	101%	101%	101%
PLNG Kochi	14%	16%	34%	40%	44%	48%	50%	50%	50%	50%	50%
Shell Hazira	60%	40%	30%	30%	30%	30%	30%	30%	30%	30%	30%
GAIL Dabhol	17%	17%	17%	30%	50%	70%	75%	76%	77%	77%	78%
GSPC Mundra			21%	28%	35%	39%	42%	47%	51%	56%	62%
IOCL Ennore			20%	25%	30%	32%	33%	35%	36%	38%	40%
Swan Jafrabad				18%	36%	54%	72%	73%	73%	74%	75%
Adani Dhamra				0%	18%	36%	54%	72%	73%	73%	74%
HPCL Chhara					10%	20%	30%	32%	33%	35%	36%

Source: Company, PPAC, Emkay Research

On the supply side, we estimate domestic gas availability to increase by 4-5mmscmd till FY20/21, as ramp-up by ONGC's existing fields like Vashistha/S1 and Daman, and other assets like Cairn Rajasthan etc is partially offset by fall in KG-D6 output. However, beyond that, existing assets would see a natural decline. We have however not built in ~50mmscmd of new gas supplies planned by RIL and ONGC from their KG deepwater fields from FY20 onwards.

R-LNG supplies are expected to grow steadily after some decline in FY19 from RIL's petcoke project

R-LNG supplies are expected to grow steadily after some decline in FY19 (owing to RIL's Petcoke project), as existing terminals like Dahej, Kochi and Dabhol ramp up. But, Hazira could see a significant fall in utilisation to 30% levels, as RIL's volume drops. With media reports alluding to a demerger of Dabhol LNG terminal and Ratnagiri power plant (approved by NCLAT), GAIL is likely to go ahead with the breakwater facility, which would take ~3 years to construct. This will increase the effective capacity of the Dabhol LNG terminal from the current 2mmtpa to 5mmtpa with all year round operability.

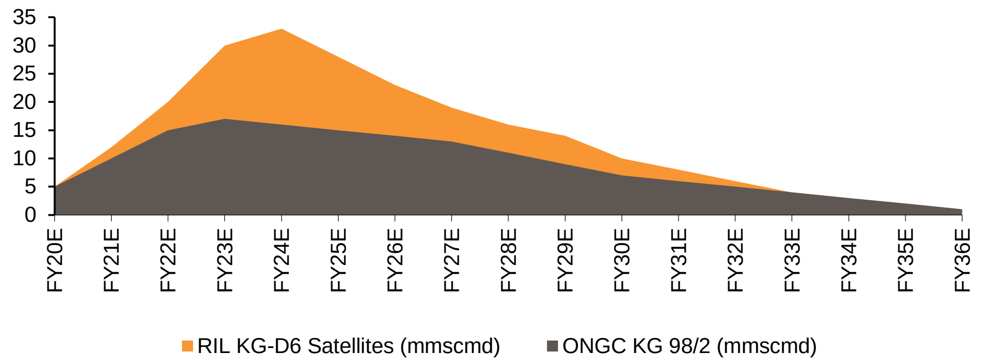
We note that under the above scenario, demand supply could be largely balanced next year due to ONGC's output growth

Among the new terminals, Mundra is expected to start from FY20, as we build in 7-8 months of stabilization while Ennore would also be ready by that time. However, sale is likely to be constrained to nearby areas due to lack of trunk pipeline connectivity. Large customers include CPCL Chennai/Manali refinery and fertilizer plants of Madras Refineries (MRL) and SPIC, which currently run on liquid fuel. Jafrabad is scheduled to start by CY20/FY21 while we expect Dhamra and Chhara to start operations from FY22. We have built up steady ramp-up from a low base for all the terminals despite Jafrabad having almost 90% of capacity booked and Dhamra also expected to attain similar utilisation (as some flexibility on ramp-up is expected). However, we have not assumed H Energy's Jaigarh (commissioning planned in CY18-end) and Digha (CY20/21) terminals, Kakinada FSRU and Krishnapatnam in our estimates due to lack of off-take commitments for the former two and uncertainty on the latter.

We hence note that under the above scenario, demand supply could be largely balanced next year due to ONGC's output growth. Still, FY20 onwards, demand would exceed supplies even as new terminals operate at 20-50% capacity utilisation.

As mentioned earlier, in our supply estimates, we have not assumed ~50mmscmd of additional domestic gas planned to be produced by RIL and ONGC from their deepwater KG basin assets, namely KG-D6 R Series/OFDP-SAT/Other Satellites/MJ1 and KG DWN 98/2 Cluster II. Development plans are currently on, with approved FDP and tendering underway. As per the guided schedule, RIL would start with 12mmscmd output from its R Series field by FY20, which would be followed by an additional 20mmscmd from other fields, leading to total 30-35mmscmd gas production by FY23. ONGC has indicated a plateaued production level of 17mmscmd with FY20 preliminary gas production guidance at 12-13mmscmd. However, based on the latest filings, the same is likely to be delayed.

Exhibit 7: RIL-ONGC's KG deepwater gas output trajectory (3/2tcf of recoverable reserves built)



Source: Company, Emkay Research

Among the challenges to be faced by these supplies, high pipeline transportation cost will be the key one, for sales in the northern markets (where LNG is mostly consumed). While bid-based pricing mechanism makes it difficult to predict the gas price of KG deepwater fields, companies have indicated US$6/mmbtu as the target price. However, if transmission through three pipeline networks are considered, namely GAIL KG basin network, RGTIL's East West pipeline and Dahej Uran Dabhol Panvel/GSPL Gujarat Grid/DVPL Phase 2, the delivered price of this gas would cross US$8/mmbtu.

With 7-8 years of peak/plateau production expected from these fields, assuming 2-3tcf of recoverable reserves, it seems unlikely that customers will default on the long-term LNG GSPAs. Therefore, this gas would probably have to seek out newer markets.

Exhibit 8: GoI aims to more than double share of gas in India's energy basket

mmtoe	CY16	CY22E
Oil	213	269
Gas	45	155
Coal	412	521
Others	54	96
Total	**724**	**1,041**
Share in Primary Energy Basket		
Oil	29%	26%
Gas	6%	15%
Coal	57%	50%
Renewables	7%	9%
Total	**100%**	**100%**
Gas in (mmscmd)	**137**	**471**
CAGR-6yrs		23%

Source: BP, Emkay Research

We believe there are avenues for this 50mmscmd of additional gas to be consumed as Government aims to raise share of natural gas in India's primary energy basket to 15% from current 6-7% in next 5-7 years

We believe there are avenues for this 50mmscmd of additional gas to be consumed as Government of India (GoI) aims to raise share of natural gas in India's primary energy basket to 15% from current 6-7% in next 5-7 years which implies over 330mmscmd of additional gas usage to 470mmscmd. Although a seemingly impossible task, with allocation of 86 CGD geographical areas currently put under the 9th Round of PNGRB bidding, if 0.5mmscmd/GA volume is achieved in 5-7 years, 40mmscmd+ of gas could get consumed. Besides, the stranded gas-based power plants are another option value. Hence, policy measures could be taken in this regard. There could also be higher demand from new pipelines, particularly from industries, which our demand estimates have not been able to capture scientifically.

Expect LNG economics to be favorable notwithstanding temporary seasonality

Exhibit 9: LNG versus alternative liquid fuel economics (including relevant regas charge)

US$/mmbtu	FY16	FY17	FY18E	FY19E	FY20E
Brent (US$/bbl)	47.5	49.0	57.5	65.0	66.0
Brent	8.2	8.4	9.9	11.2	11.4
Naphtha	9.2	8.9	10.7	12.2	12.4
FO	6.1	6.6	8.2	9.5	9.6
Henry Hub Gas	2.4	2.7	3.0	3.0	3.0
RasGas Term LNG	13.2	7.6	8.7	9.7	9.9
Gorgon Term LNG			9.4	10.5	10.8
GAIL US Term LNG				9.2	9.3
Singapore Spot LNG	7.4	6.9	8.4	9.5	9.6
Slope to Brent	13.5%	12.1%	12.9%	13.0%	13.0%

Source: Bloomberg, Company, Emkay Research

We expect gas-to-oil economics to be stable for term LNG contracts like RasGas, as ex-terminal price (net of taxes) would be similar to FO at US$65/bbl Brent price assumed by us in FY19. Due to high Kochi regas tariff, Gorgon is more expensive. However, due to smaller quantity it can still be utilized in Refineries, Fertilizer plants, industries etc in Karnataka and Kerala, and can be blended with spot LNG also. While spot LNG prices in FY18 have spiked towards 2HFY18, driven by a severe winter seasonality besides sharp demand growth from China on the back of its massive anti-pollution drive, we still believe that on an annualized basis, its average should be US$8-9/mmbtu (13% slope), which is at par with FO. Compared to FO, if supply infrastructure is available, we believe gas consumption would grow, the latter being a clean and green fuel supported by GoI and other statutory authorities (including courts).

Interestingly, as per above mentioned oil & gas pricing, GAIL's US LNG contracts would be the cheapest delivered gas in India assuming that Henry Hub gas prices remain under US$3/mmbtu, which is quite possible as the current higher oil prices will encourage increased drilling activity in the US, resulting in higher associated gas supplies.

Henry Hub prices have remained under US$3/mmbtu for the most part of last two years, barring a few temporary seasonal spikes. Canadian gas prices have been even weaker at US$1-2/mmbtu.

Exhibit 10: IGU global LNG liquefaction capacity outlook

mmtpa	CY10	CY16	CY22E
Africa	61.2	68.3	70.7
Asia Pac	82.8	121.7	163.4
Europe	4.2	4.2	4.2
FSU	10.8	10.8	27.3
LatAm	19.8	19.8	19.8
NorthAm	1.5	10.5	66.6
MidEast	93.0	100.8	100.8
Total	**273.3**	**336.1**	**452.8**
Utilisation	82%	77%	101%
LNG Trade*	223.8	258.0	457.1
CAGR	10%	2%	10%

Source: IGU, Emkay Research

Based on IGU estimates, global LNG liquefaction capacity would grow from 336mmtpa in CY16 to 453mmtpa by CY22 with new projects planned in US, Australia and Russia

Based on IGU estimates, global LNG liquefaction capacity would grow from 336mmtpa in CY16 to 453mmtpa by CY22 with new projects planned in US, Australia and Russia. While historically, liquefaction capacity has remained much higher than LNG traded volumes, in CY16/17, volume growth was robust, driven by China. We note that if LNG trade grows at 10% CAGR (highly optimistic assumption) in the next 6 years, capacity utilisation would cross 100%. Hence, there is a case for LNG prices not falling back to the recent lows of US$4-5/mmbtu. However, by CY23/24, new projects like Qatar brownfield expansion, East Africa etc are expected to be commissioned. Therefore, we believe that a 13% average slope to oil price is a reasonable assumption from spot LNG, which is US$8-8.5/mmbtu DES.

As per our channel checks, Indian LNG demand for almost all sectors (except Fertilizers) is price elastic, with 10%+ demand growth at US$5-6/mmbtu spot LNG price, 5-7% at US$8-9/mmbtu and no demand growth at US$11-12/mmbtu. Hence, based on this checks and our LNG pricing assumptions, we remain comfortable with our 5-7% LNG demand CAGR estimate.

Multiple plans but no major capex, dividend payout may increase

We estimate PLNG to record significant FCF of Rs20bn+ annually in FY19/20, implying a 5-6% FCF yield

We estimate PLNG to record significant FCF of Rs20bn+ annually in FY19/20E, implying a 5-6% FCF yield. The company has indicated multiple capex plans from LNG terminals in neighboring countries to LNG retail and small scale options. However, many of these ventures are SPV-based with limited equity contribution. Hence, cash utilisation plans need more clarity on the back of limited financial capex. We expect higher dividend payout going forward.

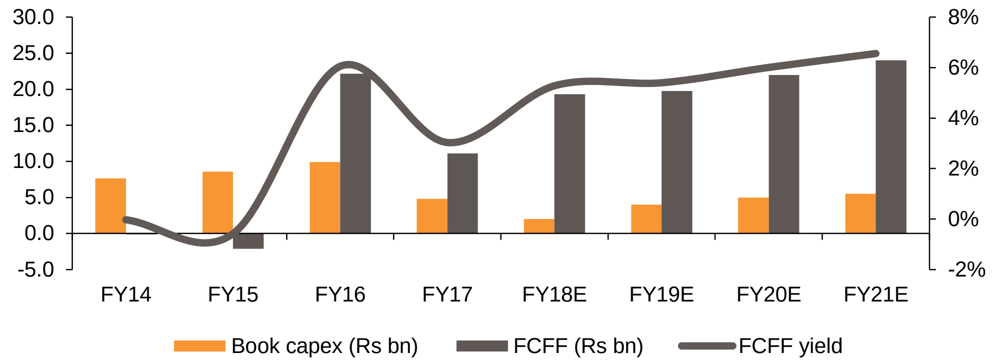
Exhibit 11: PLNG's capex plans

Sri Lanka FSRU	Discussion underway, to be finalised post DFR, not decided whether to rent or buy FSRU, US$300mn capex for 2.65mmtpa unit, 47.5% stake, 70:30 debt:equity, off-take guarantee compulsory to move ahead
Bangladesh Terminal	4th terminal in queue; 2FSRUs or 1 land based, have put proposal, under study; US$1bn capex for 7mmtpa+ unit with 85% stake of PLNG, off-take guarantee compulsory to move ahead, Bangladesh is a gas based economy
Stake in domestic terminals	Looking at Ennore LNG terminal, Mundra could also be a possibility besides other new terminals
Stake in Qatar liquefaction capacity expansion	Nothing decided, may look into it
LNG retail ecosystem*	LNG to be sold to CVs/buses; 4000kms Delhi Mumbai Bangalore Chennai highways identified; 20 outlets planned initially
Small scale LNG*	To have liquefaction plants near non connected gas fields like Focus Energy's Rajasthan, may bid for HELP assets

Source: Company, Emkay Research

** Capex in LNG retail and small scale plants to Rs 15bn cumulatively for PLNG over few years for 1mmtpa of LNG distribution*

Exhibit 12: PLNG offers a stable FCF yield of 5-6%



Source: Company, Emkay Research

Exhibit 13: PLNG's dividend history

	FY12	FY13	FY14	FY15	FY16	FY17
Dividend (Rs/sh)	1.3	1.3	1.0	1.0	1.3	2.5
DPR	18%	16%	21%	17%	21%	22%
Dividend Yield	1%	1%	0%	0%	1%	1%

Source: Company, Emkay Research

Exhibit 14: Financials

Y/E, March 31, Std.	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues (Rs.mn)	395,010	271,334	246,160	311,235	349,919	363,408
EBITDA (Rs.mn)	14,740	16,963	26,786	33,276	34,829	38,974
Reported PAT (Rs.mn)	8,825	9,133	17,057	20,873	22,925	26,566
Adjusted PAT (Rs.mn)	6,927	9,209	16,049	20,873	22,925	26,566
Growth	*-3%*	*33%*	*74%*	*30%*	*10%*	*16%*
Adjusted EPS (Rs.)	4.6	6.1	10.7	13.9	15.3	17.7
PE (x)	52.8	39.7	22.8	17.5	16.0	13.8
PB (x)	6.4	5.5	4.5	3.8	3.3	2.8
EV/EBITDA (x)	26.4	21.8	13.3	10.3	9.4	8.0
RoE	16%	14%	21%	22%	20%	20%
RoCE	12%	12%	19%	22%	21%	21%
Gross Debt:Equity (x)	0.5	0.4	0.3	0.1	0.1	0.1
EBITDA/mmbtu (Rs.)	28.0	29.4	37.0	39.2	40.3	42.2
Volumes (mmt)	10.3	11.3	14.2	16.6	17.0	18.1
Growth	*7%*	*10%*	*26%*	*17%*	*2%*	*7%*

Source: Company, Emkay Research

Exhibit 15: DCF valuation

DCF Assumptions		FY20E (Rs.mn)	
Risk Free Rate	8.0%	**NPV Of FCF**	**201,194**
Risk Premium	5.0%	Terminal Value	563,106
Beta	0.7	PV Of TV	217,769
Cost Of Equity	11.7%	**Total Value**	**418,963**
Cost Of Debt	8.8%	Less: Net Debt (Y/E)	-38,877
Post Tax Cost Of Debt	5.9%	**Equity Value**	**457,839**
Average Debt:Equity Ratio	30.0%	No. Of Shares O/S (mn)	1,500
WACC	**10.0%**	**Target Price (Rs.)**	**305**
Terminal Growth Rate	2.0%		

Source: Company, Emkay Research

Exhibit 16: PE based valuation

Rs.	FY15	FY16	FY17	FY18E	FY19E	FY20E
EPS	4.6	6.1	10.7	13.9	15.3	17.7
Target Multiple (x)						17.2
DCF Target Price						**305**

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	**271,334**	**246,160**	**311,235**	**349,919**	**363,408**
Expenditure	**254,372**	**219,375**	**277,959**	**315,090**	**324,434**
EBITDA	**16,963**	**26,786**	**33,276**	**34,829**	**38,974**
Depreciation	3,216	3,691	4,173	4,268	4,424
EBIT	**13,747**	**23,095**	**29,102**	**30,561**	**34,550**
Other Income	2,183	2,603	3,166	4,704	5,961
Interest expenses	2,388	2,097	1,573	1,048	861
PBT	**13,542**	**23,602**	**30,695**	**34,216**	**39,650**
Tax	2,860	6,545	9,822	11,291	13,085
Extraordinary Items	(1,550)	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	**9,133**	**17,057**	**20,873**	**22,925**	**26,566**
Adjusted PAT	**10,683**	**17,057**	**20,873**	**22,925**	**26,566**

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	7,500	7,500	15,000	15,000	15,000
Reserves & surplus	58,640	73,439	80,800	96,848	115,125
Net worth	**66,140**	**80,939**	**95,800**	**111,848**	**130,125**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Loan Funds	**40,146**	**36,038**	**26,053**	**22,399**	**19,372**
Net deferred tax liability	5,886	7,302	8,732	10,177	11,637
Total Liabilities	**112,171**	**124,278**	**130,586**	**144,424**	**161,134**
Net block	**68,105**	**84,230**	**81,494**	**79,960**	**79,656**
Investment	**900**	**29,351**	**29,628**	**29,908**	**30,191**
Current Assets	**39,751**	**24,224**	**35,627**	**51,774**	**68,197**
Cash & bank balance	21,829	3,273	9,138	21,993	37,267
Other Current Assets	13	3	3	4	5
Current liabilities & Provision	**12,090**	**14,013**	**17,212**	**19,533**	**20,104**
Net current assets	**27,661**	**10,211**	**18,415**	**32,242**	**48,093**
Misc. exp	0	0	0	0	0
Total Assets	**112,171**	**124,278**	**130,586**	**144,424**	**161,134**

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	**11,359**	**20,999**	**27,529**	**29,512**	**33,689**
Other Non-Cash items	(565)	942	0	0	0
Chg in working cap	11,046	310	(909)	473	882
Operating Cashflow	**33,740**	**20,676**	**22,545**	**24,010**	**26,772**
Capital expenditure	(9,931)	(4,796)	(2,000)	(4,000)	(5,000)
Free Cash Flow	**23,809**	**15,879**	**20,545**	**20,010**	**21,772**
Investments	0	(28,451)	(277)	(280)	(283)
Other Investing Cash Flow	(811)	(1,105)	(7,500)	0	0
Investing Cashflow	**(8,559)**	**(31,749)**	**(6,611)**	**424**	**679**
Equity Capital Raised	0	0	7,500	0	0
Loans Taken / (Repaid)	4,604	(4,108)	(9,985)	(3,654)	(3,027)
Dividend paid (incl tax)	(1,805)	(2,257)	(6,011)	(6,877)	(8,288)
Other Financing Cash Flow	(7,405)	979	0	0	0
Financing Cashflow	**(6,994)**	**(7,482)**	**(10,069)**	**(11,580)**	**(12,176)**
Net chg in cash	**18,188**	**(18,556)**	**5,865**	**12,855**	**15,274**
Opening cash position	3,641	21,829	3,273	9,138	21,993
Closing cash position	**21,829**	**3,273**	**9,138**	**21,993**	**37,267**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	6.3	10.9	10.7	10.0	10.7
EBIT Margin	5.1	9.4	9.4	8.7	9.5
Effective Tax Rate	21.1	27.7	32.0	33.0	33.0
Net Margin	3.9	6.9	6.7	6.6	7.3
ROCE	15.0	21.7	25.3	25.6	26.5
ROE	17.4	23.2	23.6	22.1	22.0
RoIC	17.0	28.0	32.0	33.8	38.2

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	7.1	11.4	13.9	15.3	17.7
CEPS	9.3	13.8	16.7	18.1	20.7
BVPS	44.1	54.0	63.9	74.6	86.7
DPS	1.3	2.5	3.3	3.8	4.6

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	33.6	21.0	17.2	15.7	13.5
P/CEPS	25.8	17.3	14.3	13.2	11.6
P/BV	5.4	4.4	3.7	3.2	2.8
EV / Sales	1.4	1.5	1.1	0.9	0.9
EV / EBITDA	22.2	13.5	10.4	9.5	8.0
Dividend Yield (%)	0.5	1.0	1.4	1.6	1.9

Gearing Ratio (x)	FY16	FY17	FY18E	FY19E	FY20E
Net Debt/ Equity	0.3	0.0	(0.1)	(0.3)	(0.4)
Net Debt/EBIDTA	1.0	0.1	(0.4)	(0.8)	(1.2)
Working Cap Cycle (days)	7.8	10.3	10.9	10.7	10.9

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	(31.3)	(9.3)	26.4	12.4	3.9
EBITDA	15.1	57.9	24.2	4.7	11.9
EBIT	18.6	68.0	26.0	5.0	13.1
PAT	3.5	86.8	22.4	9.8	15.9

Quarterly (Rs mn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Revenue	62,993	63,651	64,351	77,702	77,571
EBITDA	6,071	7,038	7,517	8,987	8,474
EBITDA Margin (%)	**9.6**	**11.1**	**11.7**	**11.6**	**10.9**
PAT	3,975	4,708	4,451	5,888	5,288
EPS (Rs)	**2.6**	**3.1**	**3.0**	**3.9**	**3.5**

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Promoters	50.0	50.0	50.0	50.0	50.0
FIIs	21.7	19.4	22.3	21.8	25.6
DIIs	16.3	7.7	12.1	12.7	9.7
Public and Others	12.0	22.9	15.6	15.4	14.7

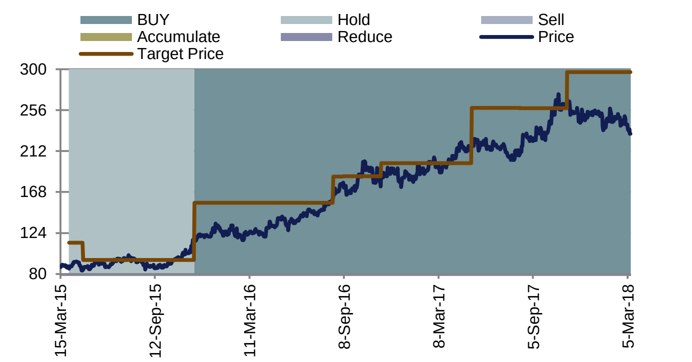
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
9-Nov-17	268	297	12m	Buy	Dhaval Joshi
11-Aug-17	211	258	12m	Buy	Dhaval Joshi
10-May-17	217	259	12m	Buy	Dhaval Joshi
14-Feb-17	192	199	12m	Buy	Dhaval Joshi
18-Nov-16	188	199	12m	Buy	Dhaval Joshi
6-Sep-16	178	185	12m	Buy	Dhaval Joshi
18-Aug-16	163	185	12m	Buy	Dhaval Joshi
2-Jun-16	137	157	12m	Buy	Dhaval Joshi
17-May-16	140	157	12m	Buy	Dhaval Joshi
11-Feb-16	123	157	12m	Buy	Dhaval Joshi
26-Nov-15	116	157	12m	Buy	Dhaval Joshi
20-Oct-15	96	95	12m	Hold	Dhaval Joshi
30-Jul-15	97	95	12m	Hold	Dhaval Joshi
27-Apr-15	85	95	12m	Hold	Dhaval Joshi
31-Mar-15	86	114	12m	Hold	Dhaval Joshi

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:
Dissemination Date:

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

SINGAPORE

DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard, Marina Bay Financial Centre Tower 3
Singapore 018982
Tel. 65-6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

THAILAND

DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Nagkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
JI. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel. 62 21 3003 4900
Fax: 62 21 3003 4943
e-mail: research@id.dbsvickers.com

Sabri Hazarika
sabri.hazarika@emkayglobal.com
66121282