06/05/2017 **Petronet LNG Ltd.** **Target Price Rs.541.00**

Company Details

CMP:	Rs.443.10
Face value:	Rs.10.00
Market cap:	Rs.33232 Crs.
EPS	Rs.22.74
52 week high:	Rs.458.80
52 week low:	Rs.254.20
BSE Code:	532522
NSE Code:	PETRONET
Sector	Gases & Fuels

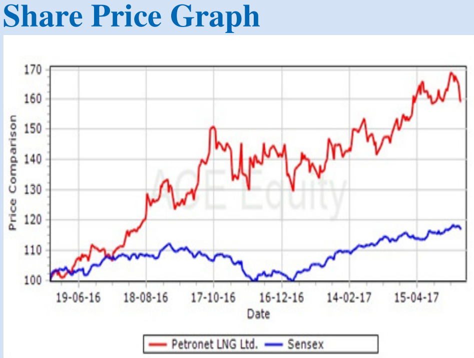
Financial Highlights (YoY)

Rs. in crores			
	FY17	FY16	% Var
Net Sales	24,616.03	27,133.42	(9.28)
Total Expend	22,023.76	25,547.17	(13.79)
PBDIT	2,592.27	1,586.25	63.42
Op.Profit	2,938.91	1,759.59	67.02
OPM (%)	11.94	6.48	84.10
PBT	2,360.19	1,199.24	96.81
PAT	1,705.67	913.26	86.77
EPS (Rs.)	22.74	12.18	86.77
Equity	750.00	750.00	-

Q4FY17 vs. Q4FY16

Rs. in crores			
	Q4FY17	Q4FY16	% Var
Net Sales	6,365.05	6,065.25	4.94
Total Expendit	5,748.72	5,568.80	3.23
PBDIT	616.33	496.45	24.15
Op.Profit	767.10	493.83	55.34
OPM (%)	12.05	8.14	48.02
PBT	618.56	360.29	71.68
PAT	470.79	245.31	91.92
EPS (Rs.)	6.28	3.27	91.92

Share Price Graph



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Company Background

Petronet LNG Ltd., a Delhi-based Company incorporated in 1998, is engaged in the import, re-gasification and supply of Liquefied Natural Gas (LNG) in India. The GAIL (India), ONGC, IOCL and BPCL formed Petronet LNG Limited as a Joint Venture company. It has a strategic partnership with France based gas company, GDF SUEZ for the supply of LNG in India. It owns and operates a LNG re-gasification terminal with a capacity of 15 Metric Million Tonne per Annum (MMTPA) at Dahej in the state of Gujarat and Kochi terminal with a capacity of 5 MMTPA. The Company has entered into sale and purchase agreement (SPA) with Ras Laffan Liquefied Natural Gas Company, Qatar for supply of LNG to India. It has India's first and largest LNG supply terminal located at Dahej.

Financial Performance

The net sales of the Company at Rs.24616.03 crores during FY17 are down by 9.3% due to subsidy on sale of imported LNG to power companies but PAT at Rs.1705.67 crores is up by 86.8% compared to that for FY16 on account of higher volumes processed because of the increase in the Regasification capacity, post expansion of the Dahej Terminal and better efficiency achieved in the operations. The operating profit margin has improved from 6.5% for FY16 to 11.9% during FY17. The EPS, on face value of Rs.10, has improved from Rs.12.18 for FY16 to Rs.22.74 for FY17. **The Company had recommended dividend of 50% for FY17 against 25% FY16.**

The net sales and PAT of the Company at Rs.6365.05 and Rs.470.79 crores during Q4FY17 are up by 4.9% and 91.9%, respectively, compared to those during Q4FY16. It operating profit margin has improved from 8.1% during Q4FY16 to 12% during Q4FY17. The EPS has improved from Rs.3.27 for Q4FY16 to Rs.6.28 for Q4FY17.

Investment Rationale

- India is striving to grow its natural gas use and shift away from oil and coal for power and industry. **As the Government acknowledged it as a next-generation, cheaper and less polluting fossil fuel** and emphasis on to improve India's gas import infrastructure to meet demand. India's oil ministry is planning to invest up to $15 billion in developing pipelines and setting up LNG terminals over the next five years.
- **India's LNG demand is anticipated to increase from 17 MMTPA in 2015 to 81 MMTPA by 2025, registering a CAGR of 16.89% during 2015-2025.** As on date, India is the 4th largest LNG importer and its import capacity is expected to double to 45 MMTPA over the next four years on the back of higher consumption from power, fertilizer, petrochemicals sectors and city gas stations.
- **Its realization value and margins are likely to improve further on the back of removal of subsidies gas to power companies and forex gain on rupee appreciation as the Company is largest importer of LNG Gas.**
- The Company continues to remain a very attractive business, which amidst low oil prices, can continue to surprise on the upside from both utilisation and earnings perspective. It has been able to take the **5% escalation in re-gas margin for 2017**. For the Dahej expansion, it has already built a clause for a 5% hike in re-gas margins annually and confident that they shall be allowed an escalation for its existing Dahej capacity as well. This along with volume growth augurs well for the earnings outlook.
- **The Progress on the Kochi-Mangalore-Bangalore pipeline** remains a key catalyst for the Company. GAIL (India) recently announced that it has awarded 3 of 4 sections of the Kochi-Mangalore pipeline and expects to award the last section by July. The pipeline is scheduled to be completed by end of 2018. New investments in Bangladesh and Sri Lanka are other potential catalysts for the Company.
- **The Board of Directors has recommended a bonus issue of 1:1 and dividend of Rs.5 per equity share on face value of Rs 10 each for FY17 subject to the approval of the shareholders.**
- The promoters hold 50% equity capital of the Company, followed by institutions that hold 37.1% the balance 12.9% shares are held by the public.

Concerns

Slowdown in economy, inability to take 5% escalation in re-gas margin annually, increase in crude oil price, delay in pipeline connectivity on Kochi terminal and exchange rate fluctuations are some of the concerns.

Valuation

The share of the Company is trading at a lower P/E of 15.6x on estimated EPS of Rs.28 for FY18E against that of sector at 16.5x. Keeping in view the positive outlook for natural gas energy sector, increasing demand for LNG, improved financial performance of the Company during FY17, highest ever capacity utilization, higher OPM, progress on the Kochi-Mangalore-Bangalore pipeline, 5% escalation in re-gas margin annually, **trading-cum-bonus & dividend** and lower PE ratio, we recommend a buy on the share of this Company with an expected price appreciation of **about 22%** over the next 12 months.