

**India**

September 07, 2021 - 1:24 PM

**HOLD** (no change)

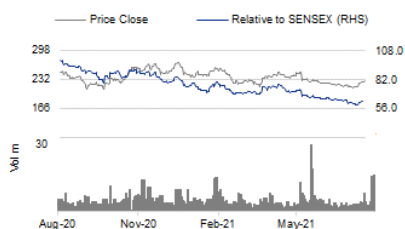
Consensus ratings\*: Buy 27 Hold 11 Sell 0

Current price:	Rs231
Target price:	Rs240
Previous target:	Rs240
Up/downside:	3.9%
InCred Research / Consensus:	-13.0%
Reuters:	PLNG.NS
Bloomberg:	PLNG IN
Market cap:	US\$4,729m Rs345,750m
Average daily turnover:	US\$13.4m Rs981.6m
Current shares o/s:	1,500.0m
Free float:	50.0%

\*Source: Bloomberg

**Key financial forecast**

	Mar-22F	Mar-23F	Mar-24F
Net Profit (Rsm)	29,174	31,520	34,082
Core EPS (Rs)	19.45	21.01	22.72
Core EPS Growth	(0.7%)	8.0%	8.1%
FD Core P/E	18.73	20.24	21.88
Recurring ROE	23.2%	22.4%	21.7%
P/BV (x)	2.60	2.33	2.09
DPS (Rs)	10.00	11.00	12.00
Dividend Yield	4.12%	4.60%	5.03%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	6.7	(5.9)	1.1
Relative (%)	(0.7)	(15.5)	(33.3)

**Major shareholders**

	% held
BPCL/GAIL/IOC/ONGC each	12.5
Government of Singapore	3.9
Kotak Asset Management	2.1

**Analyst(s)**

**Avadhoot SABNIS**  
T (91) 22 4161 1542  
E avadhoot.sabnis@incredcapital.com

# Petronet LNG

## Petchem foray?

- PLNG's just released annual report talks of a major diversification move to set up a petrochemical complex based on imported propane at Dahej.
- While management states it is preliminary, any move into petchem would be viewed negatively by investors, in our view.
- We retain Hold and TP of Rs240 (2.4x Mar23F P/BV, 22.4% ROE in FY23F).

### FY21 annual report mentions petchem project for the first time

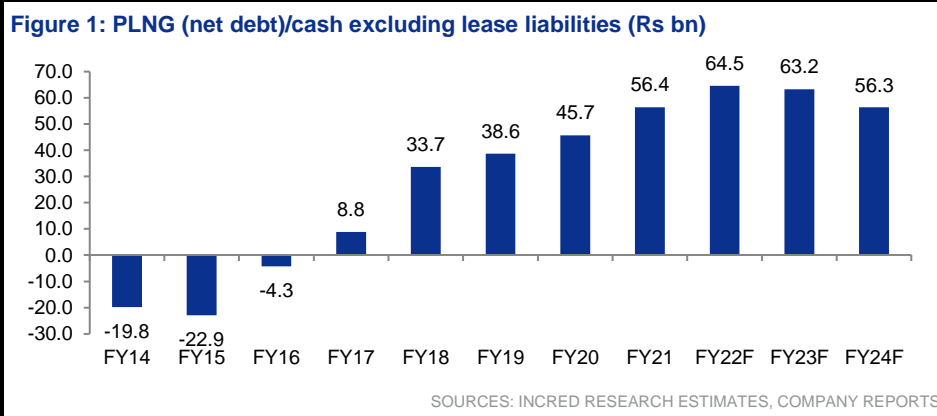
- While declaring 4QFY21 results, PLNG lowered its FY21 dividend payout to 59% (compared to 70% in FY19 and FY20) citing an unexpectedly large capex plan of Rs183bn over the next 4-5 years. This prompted us to downgrade the stock from Add to Hold – please see our note [Dividend visibility disappears](#). In the subsequent interaction post 1QFY22 results, PLNG sought to downplay the capex plans stating that the ultimate capex will depend on the outcome of initial pilot projects in areas like LNG retailing.
- In its FY21 annual report, under the title of new business initiatives in the Director's report, the company has stated it "... is embarking on a major diversification drive to broad base its business activity and is exploring to have an ethane/propane import facility at Dahej terminal. Your company has also planned setting up a petrochemical complex based on imported propane at Dahej LNG terminal. The foray into petrochemicals would be a forward integration of our strategy as the same planned to get synchronized with our upcoming third jetty project and available land bank at Dahej."
- A foray into petchem was never mentioned in any of the earlier investor interactions. When asked to comment, management has stated that the interest in petchem was preliminary and any final investment would depend on the outcome of detailed feasibility studies. If that is the case, we struggle to understand why tentative projects are being mentioned in the annual report. The annual report had no other 'new' information.

### Petchem foray unlikely to be viewed positively

- PLNG's existing regas terminals generate significant free cash flow. With low growth prospects in this field, use of cash is a dominant stock price driver, in our view. Management guidance on its capex plans have been unclear and this is clearly demonstrated by the latest disclosure on possible foray into petchem. Given the nature of the petchem industry (large capex outlays on even single projects with returns dependent on the commodity cycles), we believe that PLNG's plans would be viewed negatively and the stock would struggle to perform if capex guidance remains hazy.

### Retain Hold rating and Rs240 TP

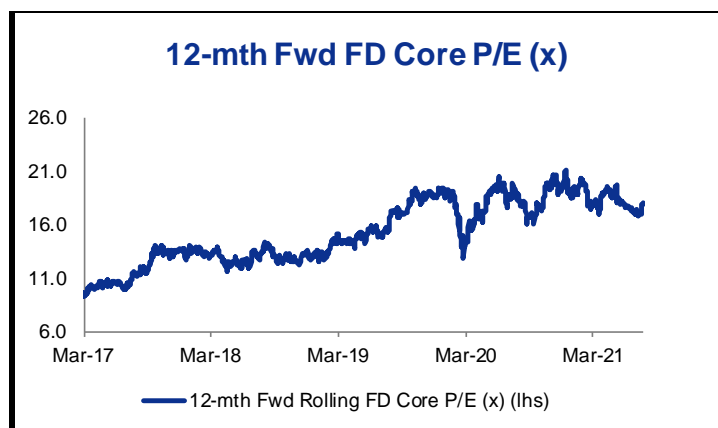
- Our Hold rating reflects lack of growth on LNG imports due to high spot gas prices (short term) and rising domestic gas production (medium term). Upside could come from any drop in domestic gas production while recent disputes on tariff and take-or-pay dues working against PLNG would be the main risks. Unrelated capex could now be termed as new risk.



## BY THE NUMBERS

Profit & Loss				
(Rs mn)	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>Total Net Revenues</b>	<b>260,229</b>	<b>359,416</b>	<b>338,624</b>	<b>346,729</b>
<b>Gross Profit</b>	<b>53,414</b>	<b>52,780</b>	<b>56,287</b>	<b>59,979</b>
<b>Operating EBITDA</b>	<b>46,995</b>	<b>46,125</b>	<b>49,357</b>	<b>52,725</b>
Depreciation And Amortisation	(7,841)	(7,855)	(8,005)	(8,005)
<b>Operating EBIT</b>	<b>39,154</b>	<b>38,269</b>	<b>41,352</b>	<b>44,720</b>
Financial Income/(Expense)	(3,360)	(3,331)	(3,306)	(3,280)
Pretax Income/(Loss) from Assoc.	189	200	200	200
Non-Operating Income/(Expense)	3,591	3,798	3,826	3,857
<b>Profit Before Tax (pre-EI)</b>	<b>39,575</b>	<b>38,936</b>	<b>42,072</b>	<b>45,496</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>39,575</b>	<b>38,936</b>	<b>42,072</b>	<b>45,496</b>
Taxation	(10,183)	(9,761)	(10,552)	(11,415)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>29,392</b>	<b>29,174</b>	<b>31,520</b>	<b>34,082</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>29,392</b>	<b>29,174</b>	<b>31,520</b>	<b>34,082</b>
Recurring Net Profit	29,392	29,174	31,520	34,082
<b>Fully Diluted Recurring Net Profit</b>	<b>29,392</b>	<b>29,174</b>	<b>31,520</b>	<b>34,082</b>

Cash Flow				
(Rs mn)	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>EBITDA</b>	<b>46,995</b>	<b>46,125</b>	<b>49,357</b>	<b>52,725</b>
Cash Flow from Invt. & Assoc.	3,780	3,998	4,026	4,057
Change In Working Capital	1,475	(3,325)	(1,576)	(2,115)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(3,360)	(3,331)	(3,306)	(3,280)
Tax Paid	(10,250)	(9,684)	(10,468)	(11,324)
<b>Cashflow From Operations</b>	<b>38,640</b>	<b>33,782</b>	<b>38,033</b>	<b>40,062</b>
Capex	701	(5,302)	(17,280)	(23,400)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments	(189)	(200)	(200)	(200)
Other Investing Cashflow				
<b>Cash Flow From Investing</b>	<b>512</b>	<b>(5,502)</b>	<b>(17,480)</b>	<b>(23,600)</b>
Debt Raised/(repaid)	(6,217)	(6,217)	(6,217)	(6,079)
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(22,500)	(14,250)	(15,900)	(17,400)
Preferred Dividends				
Other Financing Cashflow				
<b>Cash Flow From Financing</b>	<b>(28,717)</b>	<b>(20,467)</b>	<b>(22,117)</b>	<b>(23,479)</b>
Total Cash Generated	10,436	7,813	(1,563)	(7,016)
<b>Free Cashflow To Equity</b>	<b>32,936</b>	<b>22,063</b>	<b>14,337</b>	<b>10,384</b>
<b>Free Cashflow To Firm</b>	<b>42,512</b>	<b>31,611</b>	<b>23,859</b>	<b>19,742</b>



Balance Sheet				
(Rs mn)	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>Total Cash And Equivalents</b>	<b>57,102</b>	<b>64,915</b>	<b>63,352</b>	<b>56,335</b>
<b>Total Debtors</b>	<b>10,694</b>	<b>14,771</b>	<b>13,916</b>	<b>14,249</b>
Inventories	3,511	4,872	4,593	4,703
<b>Total Other Current Assets</b>	<b>6,467</b>	<b>7,074</b>	<b>7,741</b>	<b>8,475</b>
<b>Total Current Assets</b>	<b>77,775</b>	<b>91,631</b>	<b>89,602</b>	<b>83,762</b>
<b>Fixed Assets</b>	<b>103,386</b>	<b>100,833</b>	<b>110,108</b>	<b>125,502</b>
<b>Total Investments</b>	<b>3,513</b>	<b>3,713</b>	<b>3,913</b>	<b>4,113</b>
Intangible Assets				
<b>Total Other Non-Current Assets</b>	<b></b>	<b></b>	<b></b>	<b></b>
<b>Total Non-current Assets</b>	<b>106,899</b>	<b>104,546</b>	<b>114,020</b>	<b>129,615</b>
Short-term Debt				
<b>Current Portion of Long-Term Debt</b>	<b></b>	<b></b>	<b></b>	<b></b>
<b>Total Creditors</b>	<b>23,314</b>	<b>26,032</b>	<b>23,990</b>	<b>23,052</b>
Other Current Liabilities				
<b>Total Current Liabilities</b>	<b>23,314</b>	<b>26,032</b>	<b>23,990</b>	<b>23,052</b>
<b>Total Long-term Debt</b>	<b>34,115</b>	<b>27,898</b>	<b>21,682</b>	<b>15,603</b>
Hybrid Debt - Debt Component				
<b>Total Other Non-Current Liabilities</b>	<b></b>	<b></b>	<b></b>	<b></b>
<b>Total Non-current Liabilities</b>	<b>34,115</b>	<b>27,898</b>	<b>21,682</b>	<b>15,603</b>
<b>Total Provisions</b>	<b>9,146</b>	<b>9,223</b>	<b>9,307</b>	<b>9,397</b>
<b>Total Liabilities</b>	<b>66,574</b>	<b>63,153</b>	<b>54,978</b>	<b>48,052</b>
<b>Shareholders Equity</b>	<b>118,100</b>	<b>133,024</b>	<b>148,644</b>	<b>165,325</b>
Minority Interests				
<b>Total Equity</b>	<b>118,100</b>	<b>133,024</b>	<b>148,644</b>	<b>165,325</b>

Key Ratios				
	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	(26.6%)	38.1%	(5.8%)	2.4%
Operating EBITDA Growth	20.0%	(1.9%)	7.0%	6.8%
Operating EBITDA Margin	18.1%	12.8%	14.6%	15.2%
Net Cash Per Share (Rs)	15.32	24.68	27.78	27.15
BVPS (Rs)	78.73	88.68	99.10	110.22
Gross Interest Cover	11.65	11.49	12.51	13.63
Effective Tax Rate	25.7%	25.1%	25.1%	25.1%
Net Dividend Payout Ratio	76.6%	48.8%	50.4%	51.1%
Accounts Receivables Days	18.74	12.93	15.46	14.82
Inventory Days	7.34	4.99	6.12	5.92
Accounts Payables Days	45.21	29.37	32.33	29.94
ROIC (%)	29.1%	28.2%	27.5%	25.8%
ROCE (%)	26.6%	25.4%	25.9%	26.3%
Return On Average Assets	17.1%	16.6%	17.0%	17.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

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- CG Score 2020 from Thai Institute of Directors Association (IOD)

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#### Stock Ratings

Definition:

<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.