

**I** India

December 16, 2021 - 2:30 PM

**Overweight** (no change)

**Highlighted Companies**

**GAIL India**

**ADD, TP Rs180, Rs132 close**

We value GAIL at Rs180, 1.3x Sep FY23F P/BV, 12.3% ROE in FY23F. We see potential for a positive earnings surprise as global oil/gas prices have been trending above our estimates.

**Petronet LNG**

**HOLD, TP Rs240, Rs221 close**

We value PLNG at Rs240, 2.3x Sep FY23F P/BV, 21.7% ROE in FY23F. Medium-term growth prospects are limited due to a sharp increase in domestic gas production and rise in regas terminal capacity.

**Summary Valuation Metrics**

P/E (x)	Mar22-F	Mar23-F	Mar24-F
GAIL India	6.56	7.43	7.47
Petronet LNG	11.26	10.57	9.74

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
GAIL India	1.01	0.95	0.89
Petronet LNG	2.52	2.23	2

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
GAIL India	5.68%	4.92%	4.92%
Petronet LNG	4.75%	4.34%	5.25%

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# Gas Transmission & Dist

## Gas trading opportunities still robust

- Spot prices in Europe and Asia have jumped by 15-25% to US\$38/mmbtu following renewed uncertainty on Nord Stream 2 pipeline.
- On the other hand, Henry Hub prices are down to US\$4/mmbtu from earlier highs of US\$5-6/mmbtu, increasing potential gas trading opportunities.
- Reiterate Add on GAIL (TP Rs180) and Hold on Petronet LNG (TP Rs240).

### Gap between HH and Asia/Europe spot prices remains high

- On 13 Dec 2021, Germany's new foreign minister stated that Russia's Nord Stream 2 pipeline could not be permitted in its current form because it did not comply with EU law. News reports earlier had stated that Germany had agreed with the US to halt any gas purchase from the pipeline if Russia went ahead with a Ukraine invasion.
- Given the risk of lower future gas supplies, spot gas prices in Europe have jumped and Asia has followed. Prices touched new highs recently of about US\$38/mmbtu compared to earlier prices of US\$33/mmbtu in Asia and around US\$30/mmbtu in UK/Europe.
- On the other hand, US Henry Hub (HH) prices have lost their winter premium and corrected to around US\$4/mmbtu from earlier highs of US\$5-6/mmbtu in Sep/Oct 2021. This correction follows higher-than-expected inventory storage levels on the back of milder winter and robust domestic gas production.

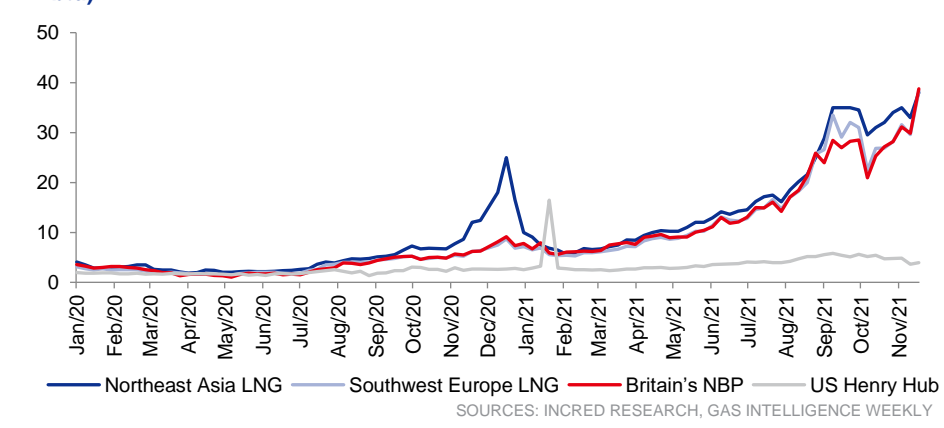
### Scope for elevated gas trading margins for GAIL

- GAIL buys 5.8mt of LNG at HH-linked prices and sells it at Ras Gas (RG) contract pricing (oil linked) largely in India and at global gas prices in other markets. The recent spurt in global gas prices has thus created an opportunity for GAIL to make exceptional trading margins on its US contracts. In fact, it reported a record EBIT of Rs10.8bn in trading in 2QFY22 (compared to Rs3bn-4bn gain in the prior two quarters).
- Recent global gas price movements suggest that the potential for these trading gains has not diminished. While crude oil prices have come off from their highs (which will impact RG LNG pricing), HH prices have also declined and the gap between spot Asia/Europe and HH has increased.
- Even the futures curve for Asia/Europe indicates that while prices will moderate from current highs post winter, they will remain elevated in the medium term (relative to historical levels), offering potential for robust trading margins.

### GAIL's stock price has been weak despite the trading opportunity

- Commodity price movements in recent months indicate that GAIL could continue to provide upside on its trading profits. We model annual EBIT of Rs19bn-30bn over FY22F-24F in trading which could prove conservative. So we reiterate our Add rating and Rs180 TP.
- Our Hold rating on PLNG reflects lack of growth on LNG imports due to high spot gas prices (short term) and rising domestic gas production (medium term).

**Figure 1: Asia/Europe spot gas prices have risen while US HH has weakened (US\$/mmbtu)**



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#### Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

<b>Score Range:</b>	90 - 100	80 - 89	70 - 79	Below 70	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A

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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

### Recommendation Framework

#### Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	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:

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

#### Country Ratings

Definition:

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