

Oil & Gas

Positive news flow for gas industry continues...

Summary

- **Petronet LNG is re-negotiating the long term LNG contract with ExxonMobil which is expected to improve visibility on its volume and likely to benefit the gas users by around ~Rs4.7 bn a year.**
- **Kochi-terminal utilisation set to improve from FY20 post completion of Kochi-Mangalore-Bangalore Pipeline and lower gas costs. Also, successful re-negotiation of LNG contracts from Rasgas (FY16) and ExxonMobil improves hope for GAIL's US LNG contract.**
- **Raising TP for PLNG and GAIL to Rs264 and Rs455, respectively. Maintain BUY on both.**

Re-negotiation of LNG deal with ExxonMobil a positive for gas industries in India

Petronet LNG (PLNG) stated that they are actively re-negotiating the long term LNG contract with ExxonMobil. Earlier, the company had a purchase agreement for 1.44mmt per year of LNG contract at a price of 14.5% of six-months average price of Brent on FOB basis. At current price of crude oil price of ~US\$50/bbl, it comes to nearly US\$7.25/mmbtu excluding other costs like shipping, import duty and insurance. Delivered price, as per the current contract comes near to ~US\$8.5-9/mmbtu.

However, the company is under-renegotiation of the long term contract as currently spot LNG prices are hovering at around US\$5-5.5/mmbtu, making the long term gas coming from Gorgon projects un-competitive. According to news reports, LNG prices may get re-negotiated to 13.9% of the delivered crude oil price which would bring down the gas price by about US\$1-1.25/mmbtu which would make it more competitive. With US\$1/mmbtu drop in price, yearly benefits for users are likely to be about Rs4.7 bn.

Such deal improves hopes for other US-LNG contracts for GAIL

GAIL, BPCL and IOC are the off-taker for the gas coming from Gorgon projects which started flowing from early CY17. As, all gas utilities companies operates at a fixed re-gasification/marketing charges basis, lower gas cost is not expected to impact its earnings significantly. However, viability increases significantly due to lower gas cost and thus visibility of volumes. Also, GAIL has entered with 5.8mmt contracts with US starting from 2018. However, after successful re-negotiation of deals with RasGas, Qatar and ExxonMobil, hope for new deal for US LNG contracts also goes up.

Utilisation at Kochi terminal set to improve from FY20

GAIL is implementing its Kochi-Mangalore-Bangalore pipeline which is expected to complete by end 2018. With the new contract and higher LNG volume on long-term, utilisation at Kochi is set to improve for PLNG, which is currently operating at less than 10% of utilisation.

Raising TP for PLNG and GAIL to Rs264 and Rs455; Maintain BUY on both

Higher utilisation at Kochi, better operating leverage, capacity expansion at Dahej from 15 to 17.5mmt and implementation of LNG terminal at Bangladesh and Sri Lanka are few positive trigger for PLNG's long term growth. We are raising our TP to **Rs264** (P/E multiple of 20x on FY19E) from earlier Rs238. Further, GAIL is likely to benefit from higher gas volume in India including both domestic and LNG import, lower gas cost to augment growth at its petchem and LHC business and robust petchem margin. We are raising our TP to **Rs455** from earlier Rs427. PLNG/GAIL is trading at a P/E multiple of 17x/13.5x and P/BV of 3.8x/1.6x, respectively. **Maintain BUY on both PLNG and GAIL.**

Financial Summary (GAIL India)

Profit & Loss Account

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Revenue	548,877	485,720	518,808	542,067
<i>Growth (%)</i>	<i>(9.6)</i>	<i>(11.5)</i>	<i>6.8</i>	<i>4.5</i>
EBITDA	50,949	65,942	74,552	78,924
<i>Growth (%)</i>	<i>(9.8)</i>	<i>29.4</i>	<i>13.1</i>	<i>5.9</i>
Depreciation & Amortisation	18,509	15,430	16,599	17,318
EBIT	32,440	50,512	57,953	61,606
<i>Growth (%)</i>	<i>(23.1)</i>	<i>55.7</i>	<i>14.7</i>	<i>6.3</i>
Interest	9,809	5,110	8,722	7,737
Other income	8,291	12,171	12,581	13,839
EBT	30,922	57,573	61,812	67,707
Income taxes	10,441	18,094	19,426	21,279
<i>Effective tax rate (%)</i>	<i>33.8</i>	<i>31.4</i>	<i>31.4</i>	<i>31.4</i>
Min int / inc from assoc	2,035	(5,740)	1,000	1,095
Reported net income	22,516	33,739	43,386	47,524
Adjustments	-	2,107	-	-
Adjusted net income	22,516	31,633	43,386	47,524
<i>Growth (%)</i>	<i>(27.3)</i>	<i>40.5</i>	<i>37.2</i>	<i>9.5</i>
Shares outstanding (mn)	1,691.3	1,691.3	1,691.3	1,691.3
Adjusted EPS (Rs)	13.3	18.7	25.7	28.1
<i>Growth (%)</i>	<i>(27.3)</i>	<i>40.5</i>	<i>37.2</i>	<i>9.5</i>
<i>DPS (Rs)</i>	<i>11.0</i>	<i>11.5</i>	<i>12.0</i>	<i>12.5</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net income + Depreciation	41,025	49,169	59,985	64,842
Non-cash adjustments	48,254	52,240	1,780	6,336
Changes in working capital	9,642	(8,983)	4,706	3,308
Cashflow from operations	98,920	92,426	66,471	74,487
Capital expenditure	(55,694)	(17,000)	(20,000)	(30,000)
Change in investments	394	-	-	-
Other investing cashflow	-	-	-	-
Cashflow from investing	(55,299)	(17,000)	(20,000)	(30,000)
Issue of equity	-	-	-	-
Issue/repay debt	(12,897)	(6,000)	(15,000)	(15,000)
Dividends paid	(22,325)	(23,340)	(24,355)	(25,370)
Other financing cashflow	-	-	-	-
Change in cash & cash eq	8,399	46,086	7,116	4,117
Closing cash & cash eq	23,981	70,068	77,184	81,301

Balance Sheet

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Cash and cash eq	23,982	70,068	77,184	81,301
Accounts receivable	28,727	25,422	27,153	28,371
Inventories	22,053	19,516	20,845	21,780
Others current assets	110,643	97,912	104,582	109,271
Investments	13,590	13,590	13,590	13,590
Gross fixed assets	655,304	672,304	692,304	722,304
Net fixed assets	442,615	439,513	441,646	452,426
CWIP	67,027	67,027	67,027	67,027
Intangible assets	1,263	1,263	1,263	1,263
Deferred tax assets, net	(43,208)	(80,448)	(86,371)	(94,609)
Total assets	666,691	653,862	666,919	680,419
Accounts payable	30,849	27,300	29,159	30,467
Other current liabilities	97,999	86,723	92,630	96,783
Provisions	20,880	18,477	19,736	20,621
Debt funds	146,369	140,369	125,369	110,369
Other liabilities	16,632	16,632	16,632	16,632
Equity capital	16,913	16,913	16,913	16,913
Reserves & surplus	337,049	347,449	366,480	388,635
Shareholder's funds	353,962	364,362	383,393	405,548
Total liabilities	666,691	653,862	666,919	680,419
BVPS (Rs)	209.3	215.4	226.7	239.8

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY16	FY17	FY18E	FY19E
Profitability & Return ratios (%)				
<i>EBITDA margin</i>	9.3	13.6	14.4	14.6
<i>EBIT margin</i>	5.9	10.4	11.2	11.4
<i>Net profit margin</i>	4.1	6.5	8.4	8.8
<i>ROE</i>	6.5	8.8	11.6	12.0
<i>ROCE</i>	6.3	7.1	9.9	10.4
Working Capital & Liquidity Ratios				
Receivables (days)	20	20	18	19
Inventory (days)	19	20	18	19
Payables (days)	27	28	26	26
Current ratio (x)	1	2	2	2
Quick ratio (x)	0	1	1	1
Turnover & Leverage ratios (x)				
Gross asset turnover	0.9	0.7	0.8	0.8
Total asset turnover	0.8	0.7	0.8	0.8
Interest coverage ratio	3.3	9.9	6.6	8.0
Adjusted debt/equity	0.4	0.4	0.3	0.3
Valuation ratios (x)				
EV/Sales	1.3	1.5	1.4	1.3
EV/EBITDA	14.0	10.8	9.6	9.0
P/E	28.5	20.3	14.8	13.5
P/BV	1.8	1.8	1.7	1.6

Financial Summary (Petronet LNG)

Profit & Loss Account

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Revenue	271,334	246,160	260,139	280,028
<i>Growth (%)</i>	<i>(31.3)</i>	<i>(9.3)</i>	<i>5.7</i>	<i>7.6</i>
EBITDA	15,560	25,923	30,598	32,656
<i>Growth (%)</i>	<i>8.1</i>	<i>66.6</i>	<i>18.0</i>	<i>6.7</i>
Depreciation & Amortisation	3,393	3,691	4,939	5,349
EBIT	12,168	22,232	25,659	27,307
<i>Growth (%)</i>	<i>8.3</i>	<i>82.7</i>	<i>15.4</i>	<i>6.4</i>
Interest	2,552	2,097	1,730	1,653
Other income	1,726	3,466	2,773	3,328
EBT	11,341	23,602	26,702	28,981
Income taxes	2,951	6,545	8,473	9,196
<i>Effective tax rate (%)</i>	<i>26.0</i>	<i>27.7</i>	<i>31.7</i>	<i>31.7</i>
Reported net income	8,390	17,057	18,229	19,785
Adjusted net income	8,390	17,057	18,229	19,785
<i>Growth (%)</i>	<i>(4.9)</i>	<i>103.3</i>	<i>6.9</i>	<i>8.5</i>
Shares outstanding (mn)	1,500.0	1,500.0	1,500.0	1,500.0
Adjusted EPS (Rs)	5.6	11.4	12.2	13.2
<i>Growth (%)</i>	<i>(4.9)</i>	<i>103.3</i>	<i>6.9</i>	<i>8.5</i>
<i>DPS (Rs)</i>	<i>2.5</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net income + Depreciation	11,606	20,748	23,168	25,135
Non-cash adjustments	671	6,418	(6,418)	(6,234)
Changes in working capital	19,323	17,187	(13,935)	(4)
Cashflow from operations	31,600	44,353	2,815	18,896
Capital expenditure	(9,724)	(5,643)	(14,469)	(10,000)
Change in investments	941	(28,431)	5,000	-
Cashflow from investing	(8,784)	(34,074)	(9,469)	(10,000)
Issue/repay debt	(2,803)	(20,110)	6,999	6,999
Dividends paid	(1,805)	(8,725)	552	(6,863)
Change in cash & cash eq	18,209	(18,556)	898	9,032
Closing cash & cash eq	21,829	3,273	4,171	13,204

Balance Sheet

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Cash and cash eq	21,829	3,273	4,171	13,204
Accounts receivable	9,885	12,108	12,795	13,774
Inventories	2,461	5,405	5,712	6,149
Others current assets	5,775	3,438	3,633	3,910
Investments	920	29,351	24,351	24,351
Gross fixed assets	89,754	110,370	120,370	130,370
Net fixed assets	68,105	84,185	89,245	93,895
CWIP	15,505	531	5,000	5,000
Deferred tax assets, net	(8,710)	(7,302)	(9,438)	(11,756)
Total assets	115,770	130,989	135,470	148,526
Accounts payable	7,721	9,446	13,003	13,997
Other current liabilities	7,090	25,382	9,079	9,773
Provisions	2,585	723	8,137	8,137
Debt funds	34,610	14,500	21,500	28,499
Equity capital	15,000	15,000	15,000	15,000
Reserves & surplus	48,764	65,939	68,751	73,119
Shareholder's funds	63,764	80,939	83,751	88,119
Total liabilities	115,770	130,989	135,470	148,526
BVPS (Rs)	42.5	54.0	55.8	58.7

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY16	FY17	FY18E	FY19E
Profitability & Return ratios (%)				
EBITDA margin	5.7	10.5	11.8	11.7
EBIT margin	4.5	9.0	9.9	9.8
Net profit margin	3.1	6.9	7.0	7.1
ROE	13.9	23.6	22.1	23.0
ROCE	11.1	19.3	19.5	19.0
Working Capital & Liquidity Ratios				
Receivables (days)	16	16	17	17
Inventory (days)	8	7	9	9
Payables (days)	8	15	18	20
Current ratio (x)	2.7	0.7	1.2	1.6
Quick ratio (x)	2.1	0.4	0.8	1.1
Turnover & Leverage ratios (x)				
Gross asset turnover	3.1	2.5	2.3	2.2
Total asset turnover	2.5	2.0	2.0	2.0
Interest coverage ratio	4.8	10.6	14.8	16.5
Adjusted debt/equity	0.5	0.2	0.3	0.3
Valuation ratios (x)				
EV/Sales	1.3	1.4	1.3	1.2
EV/EBITDA	22.3	13.4	11.3	10.6
P/E	40.0	19.7	18.4	17.0
P/BV	5.3	4.2	4.0	3.8



Notes

Dealing

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BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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