

## Stock outlook remains healthy, upgrade to BUY

Oil &amp; Gas ▶ Company Update ▶ October 2, 2024

TARGET PRICE (Rs): 425

We upgrade PLNG to BUY from Add and raise our TP by 16% to Rs425/sh. We reiterate our positive view on the back of a steady outlook and attractive valuation. While the high Dahej utilization of Q1, driven by the power sector has cooled-off, we believe ~100% utilization is achievable for remainder of the fiscal. The commencement and ramp up of Exxon's second 1.2mmtpa term contract with higher Kochi tariff in FY26-27, leads to our EPS increasing 7-9% for that period. PLNG's tariff outlook following QatarGas renewal in CY28 has been a concern with offtakers seeking downward adjustments. However, the management has reiterated any cut won't be material and minority shareholder interests would be protected. We build in reasonable assumptions, but still see value in the stock. We value PLNG at 15x Sep-26E EPS (vs DCF earlier).

## Petronet LNG: Financial Snapshot (Standalone)

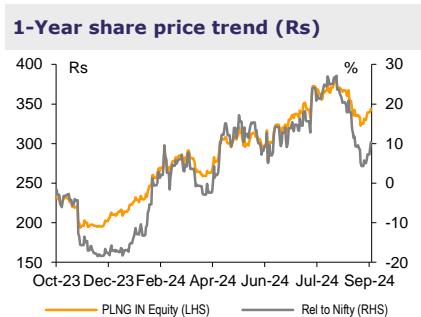
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	590,504	521,184	552,408	595,182	653,910
EBITDA	40,966	48,648	52,841	58,297	63,386
Adj. PAT	26,132	32,822	37,140	40,817	44,093
Adj. EPS (Rs)	17.4	21.9	24.8	27.2	29.4
EBITDA margin (%)	6.9	9.3	9.6	9.8	9.7
EBITDA growth (%)	(15.0)	18.8	8.6	10.3	8.7
Adj. EPS growth (%)	(3.4)	9.1	(6.9)	10.3	15.2
RoE (%)	12.5	18.4	23.8	23.4	21.1
RoIC (%)	14.9	24.7	36.7	35.1	30.7
P/E (x)	19.8	15.7	13.9	12.6	11.7
EV/EBITDA (x)	11.9	9.4	8.6	7.5	6.7
P/B (x)	3.5	3.0	2.7	2.4	2.2
FCFF yield (%)	3.0	8.8	3.5	4.9	5.6

Source: Company, Emkay Research

Target Price – 12M	Sep-25
Change in TP (%)	16.2
Current Reco.	BUY
Previous Reco.	ADD
Upside/(Downside) (%)	23.4
CMP (01-Oct-24) (Rs)	344.1

Stock Data	Ticker
52-week High (Rs)	385
52-week Low (Rs)	187
Shares outstanding (mn)	1,500.0
Market-cap (Rs bn)	516
Market-cap (USD mn)	6,158
Net-debt, FY25E (Rs mn)	-64,040
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	1,494.3
ADTV-3M (USD mn)	17.8
Free float (%)	50.0
Nifty-50	25,797
INR/USD	83.8
Shareholding, Jun-24	
Promoters (%)	50.0
FPIs/MFs (%)	25.6/12.9

Price Performance			
(%)	1M	3M	12M
Absolute	(6.3)	3.1	48.6
Rel. to Nifty	(8.4)	(3.5)	13.1



## Steady core performance; Exxon supplies to ramp up from FY26E

Against >110% capacity utilization of Dahej terminal in Q1FY25, Q2 would be seasonally weaker, but we expect a utilization closer to 100%, which implies a full year run-rate of >100%. Kochi is also expected to see ramp up from Mangalore customers. Hence, our FY25E EPS outlook is intact and we have increased it by a slight 3%. In FY26-27, Exxon's 1.2mmtpa second contract would commence (0.5/1.2mmtpa FY26/27), while Dahej expansion of 5mmtpa would also be commissioned. This should lead to volume growth continuing for PLNG with Exxon volumes clocking higher Kochi terminal tariffs. We, therefore, raise our FY26/27E EPS by 7%/9%.

## Too much worry on long-term uncertainties, new triggers still present

There seem to be concerns wrt Dahej tariff adjustment and destination flexibility for offtakers after the QatarGas contract renewal in CY28. However, PLNG's management has reiterated any tweaking in tariffs would be minor and not affect minority shareholder interests (oftakers are also promoters for PLNG), and also that destination clause is within PLNG's own terminals (i.e. Dahej, Kochi, and Gopalpur) hence, there won't be any loss in business. We believe such long-term uncertainties are there in every business and need not be overplayed; positive triggers like LNG Retail and C2-C3 are also there.

## See value in stock under reasonably conservative assumptions

We note that PLNG has 7.5mmtpa of QatarGas contract, 8.25mmtpa of tolling and 2.6mmtpa of Exxon (Gorgon) contracts. Of this, the 7.5mmtpa has tariff adjustment risks while hikes should continue for the other two. Assuming a scenario where Kochi tariff is cut by ~10% in FY27 due to Exxon volumes and Dahej 7.5mmtpa is cut by 10% in FY29 along with a 2-3% annual tariff hike for the next 10 years, our DCF value for the stock still increases to Rs400/sh from Rs365/sh earlier. However, we move to a P/E-based valuation to cut overdependence on long-term DCF assumptions and value PLNG at 15x Sep-26E EPS to arrive at TP of Rs425/sh. We, therefore, upgrade PLNG to BUY from Add.

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**Exhibit 1: PLNG's tied up term volumes**

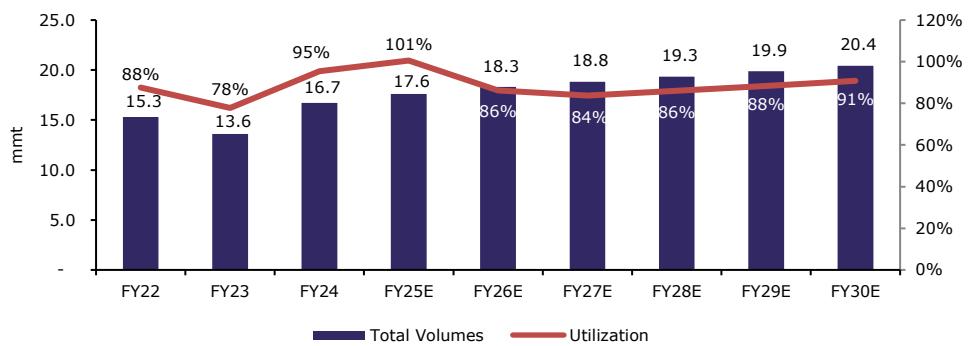
Term Contracts & Offtakers (mmtpa)	Total	GAIL	IOCL	BPCL
QatarGas, Expiry & Renewal (for 20 years) in 2028	7.50	4.50	2.25	0.75
ExxonMobil 1 (Gorgon/Portfolio), Expiry in 2035	1.43	0.43	0.57	0.43
ExxonMobil 2 (Gorgon/Portfolio), FY26 to FY40*	1.20	0.36	0.48	0.36
<b>Total</b>	<b>10.1</b>	<b>5.3</b>	<b>3.3</b>	<b>1.5</b>

Source: Company, Emkay Research; \*Note- Exxon 2 would start from 0.5mmtpa in FY26 and ramp up to 1.2mmtpa in FY27

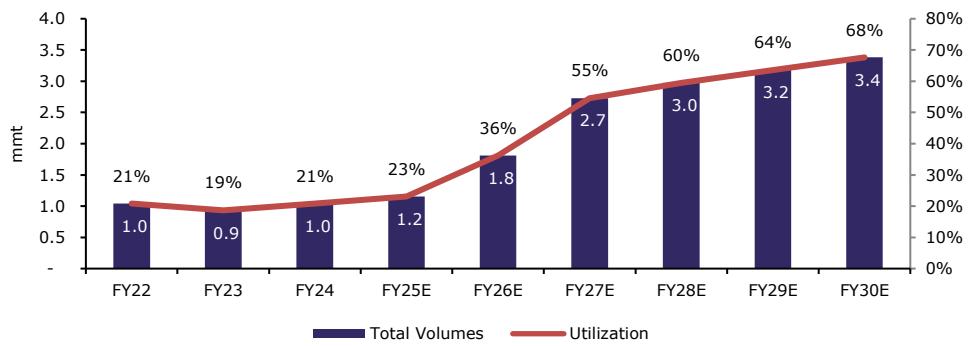
**Exhibit 2: PLNG's tied up tolling volumes**

Tolling Contracts & Offtakers (mmtpa)	Total	GAIL	IOCL	BPCL	GSPC	Torrent
Service, Expiry in 2036	8.25	2.50	1.50	1.00	2.25	1.00

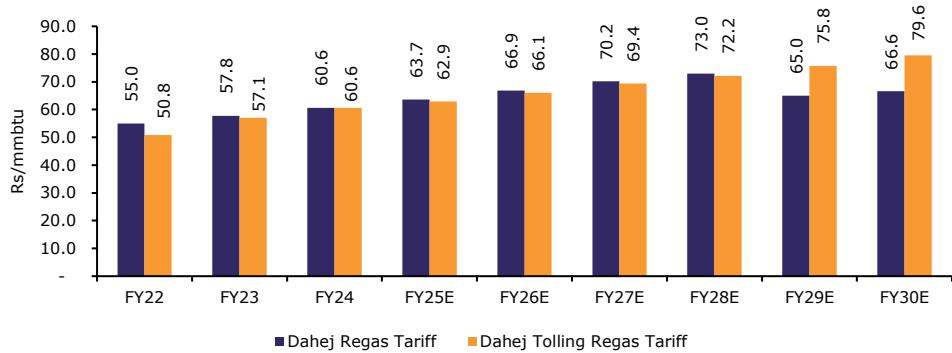
Source: Company, Emkay Research; \*Note- PLNG has 0.97mmtpa C2-C3 contract with OPaL for expiry in CY28

**Exhibit 3: Dahej volumes and utilization**

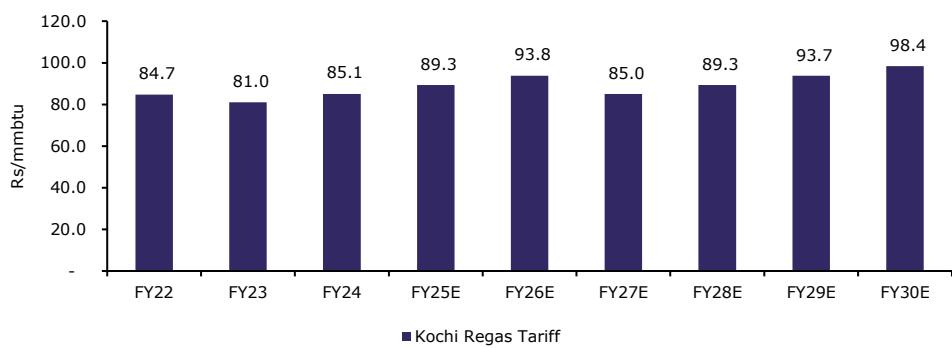
Source: Company, Emkay Research

**Exhibit 4: Kochi volumes and utilization (assuming all Exxon volumes flow through Kochi)**

Source: Company, Emkay Research

**Exhibit 5: Dahej terminal regas tariff assumptions for the medium to long term**

Source: Company, Emkay Research

**Exhibit 6: Kochi terminal regas tariff assumptions for the medium to long term**

Source: Company, Emkay Research

**Exhibit 7: Change in assumptions**

	FY25E			FY26E			FY27E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
EBITDA/mmbtu (Rs)	53.0	54.4	3%	53.8	56.0	4%	55.3	56.8	3%
Blended Regas Tariff (Rs/mmbtu)	70.5	71.7	2%	73.4	74.8	2%	75.3	74.1	-2%
Volumes (mmt)	18.8	18.8	0%	19.6	20.1	2%	20.4	21.6	6%
Growth	6%	6%	15bps	5%	7%	266bps	4%	7%	338bps

Source: Company, Emkay Research

**Exhibit 8: Change in estimates**

(Rs bn)	FY25E			FY26E			FY27E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
Revenue	573.3	552.4	-4%	588.4	595.2	1%	606.3	653.9	8%
EBITDA	51.8	52.8	2%	54.9	58.3	6%	58.6	63.4	8%
EBITDA margin	9.0%	9.6%	54bps	9.3%	9.8%	46bps	9.7%	9.7%	4bps
PAT	36.2	37.1	3%	38.3	40.8	7%	40.6	44.1	9%
EPS (Rs)	24.1	24.8	3%	25.5	27.2	7%	27.1	29.4	9%

Source: Company, Emkay Research

**Exhibit 9: Valuation (Sep-26E earnings)**

Rs/share	FY23	FY24	FY25E	FY26E	FY27E
Standalone EPS	17.4	21.9	24.8	27.2	29.4
Target PE Multiple (x)					15.0
<b>Target Price (Sep-2025)</b>					<b>425</b>

Source: Company, Emkay Research

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## Petronet LNG: Standalone Financials and Valuations

### Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>590,504</b>	<b>521,184</b>	<b>552,408</b>	<b>595,182</b>	<b>653,910</b>
Revenue growth (%)	38.2	(11.7)	6.0	7.7	9.9
<b>EBITDA</b>	<b>40,966</b>	<b>48,648</b>	<b>52,841</b>	<b>58,297</b>	<b>63,386</b>
EBITDA growth (%)	(15.0)	18.8	8.6	10.3	8.7
Depreciation & Amortization	7,644	7,766	8,069	9,611	11,120
<b>EBIT</b>	<b>33,323</b>	<b>40,882</b>	<b>44,772</b>	<b>48,687</b>	<b>52,266</b>
EBIT growth (%)	(17.8)	22.7	9.5	8.7	7.4
Other operating income	0	0	0	0	0
Other income	4,943	6,167	7,658	9,049	10,248
Financial expense	3,305	2,897	2,777	3,167	3,566
<b>PBT</b>	<b>34,961</b>	<b>44,153</b>	<b>49,653</b>	<b>54,569</b>	<b>58,947</b>
Extraordinary items	8,385	3,417	(5,644)	(6,049)	(3,050)
Taxes	10,946	12,208	11,090	12,227	14,086
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>32,399</b>	<b>35,362</b>	<b>32,918</b>	<b>36,293</b>	<b>41,811</b>
PAT growth (%)	(3.4)	9.1	(6.9)	10.3	15.2
<b>Adjusted PAT</b>	<b>26,132</b>	<b>32,822</b>	<b>37,140</b>	<b>40,817</b>	<b>44,093</b>
<b>Diluted EPS (Rs)</b>	<b>17.4</b>	<b>21.9</b>	<b>24.8</b>	<b>27.2</b>	<b>29.4</b>
Diluted EPS growth (%)	(3.4)	9.1	(6.9)	10.3	15.2
<b>DPS (Rs)</b>	<b>10.0</b>	<b>10.0</b>	<b>8.8</b>	<b>9.7</b>	<b>11.1</b>
<b>Dividend payout (%)</b>	<b>46.3</b>	<b>42.4</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>
EBITDA margin (%)	6.9	9.3	9.6	9.8	9.7
EBIT margin (%)	5.6	7.8	8.1	8.2	8.0
Effective tax rate (%)	49.2	33.4	13.8	14.1	20.0
<b>NOPLAT (pre-IndAS)</b>	<b>16,916</b>	<b>27,226</b>	<b>38,578</b>	<b>41,814</b>	<b>41,799</b>
Shares outstanding (mn)	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0

Source: Company, Emkay Research

### Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	34,961	44,153	49,653	54,569	58,947
Others (non-cash items)	10,176	7,619	3,188	3,729	4,438
Taxes paid	(12,386)	(12,373)	(11,930)	(13,075)	(14,943)
Change in NWC	(15,943)	5,909	(1,370)	(1,813)	(2,474)
<b>Operating cash flow</b>	<b>25,193</b>	<b>48,725</b>	<b>33,896</b>	<b>37,361</b>	<b>42,919</b>
Capital expenditure	(10,577)	(8,408)	(18,000)	(16,000)	(19,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	2,958	5,107	7,658	9,049	10,248
<b>Investing cash flow</b>	<b>(7,977)</b>	<b>(9,884)</b>	<b>(18,361)</b>	<b>(28,072)</b>	<b>(24,635)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(6,177)	(6,429)	4,500	8,500	10,400
Payment of lease liabilities	(5,947)	(6,429)	(6,429)	(6,429)	(6,429)
Interest paid	(253)	(116)	(2,777)	(3,167)	(3,566)
Dividend paid (incl tax)	(17,250)	(15,000)	(13,167)	(14,517)	(16,725)
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>(23,681)</b>	<b>(21,545)</b>	<b>(11,445)</b>	<b>(9,185)</b>	<b>(9,891)</b>
Net chg in Cash	(6,465)	17,297	4,090	104	8,393
OCF	25,193	48,725	33,896	37,361	42,919
Adj. OCF (w/o NWC chg.)	41,135	42,816	35,267	39,173	45,393
FCFF	14,616	40,317	15,896	21,361	23,919
FCFE	14,269	42,527	20,777	27,243	30,601
OCF/EBITDA (%)	61.5	100.2	64.1	64.1	67.7
FCFE/PAT (%)	44.0	120.3	63.1	75.1	73.2
<b>FCFF/NOPLAT (%)</b>	<b>86.4</b>	<b>148.1</b>	<b>41.2</b>	<b>51.1</b>	<b>57.2</b>

Source: Company, Emkay Research

### Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	15,000	15,000	15,000	15,000	15,000
Reserves & Surplus	134,347	154,628	174,379	196,155	221,242
<b>Net worth</b>	<b>149,347</b>	<b>169,628</b>	<b>189,379</b>	<b>211,155</b>	<b>236,242</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	7,031	6,172	5,332	4,484	3,627
<b>Total debt</b>	<b>40,874</b>	<b>36,529</b>	<b>41,330</b>	<b>50,134</b>	<b>60,840</b>
<b>Total liabilities &amp; equity</b>	<b>197,252</b>	<b>212,329</b>	<b>236,041</b>	<b>265,772</b>	<b>300,709</b>
Net tangible fixed assets	87,875	81,441	82,672	105,861	112,256
Net intangible assets	29	29	29	29	29
Net ROU assets	23,362	19,929	19,929	19,929	19,929
Capital WIP	11,259	15,524	24,224	7,424	8,909
Goodwill	0	0	0	0	0
Investments [JV/Associates]	3,864	3,198	11,058	32,018	47,738
<b>Cash &amp; equivalents</b>	<b>65,498</b>	<b>90,062</b>	<b>94,312</b>	<b>94,577</b>	<b>103,133</b>
Current assets (ex-cash)	56,161	60,506	64,217	69,280	76,344
Current Liab. & Prov.	27,433	38,430	40,470	43,416	47,701
<b>NWC (ex-cash)</b>	<b>28,728</b>	<b>22,076</b>	<b>23,747</b>	<b>25,863</b>	<b>28,644</b>
<b>Total assets</b>	<b>197,252</b>	<b>212,329</b>	<b>236,041</b>	<b>265,772</b>	<b>300,709</b>
Net debt	(28,488)	(56,731)	(64,040)	(76,461)	(90,031)
Capital employed	197,252	212,329	236,041	265,772	300,709
<b>Invested capital</b>	<b>116,631</b>	<b>103,545</b>	<b>106,447</b>	<b>131,753</b>	<b>140,929</b>
BVPS (Rs)	99.6	113.1	126.3	140.8	157.5
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(0.7)	(1.2)	(1.2)	(1.3)	(1.4)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
<b>RoCE (%)</b>	<b>20.0</b>	<b>23.0</b>	<b>23.4</b>	<b>23.0</b>	<b>22.1</b>

Source: Company, Emkay Research

### Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	19.8	15.7	13.9	12.6	11.7
P/CE(x)	20.3	13.9	10.1	9.1	8.9
P/B (x)	3.5	3.0	2.7	2.4	2.2
EV/Sales (x)	0.8	0.9	0.8	0.7	0.7
EV/EBITDA (x)	11.9	9.4	8.6	7.5	6.7
EV/EBIT(x)	14.6	11.2	10.1	9.0	8.2
EV/IC (x)	4.2	4.4	4.2	3.3	3.0
FCFF yield (%)	3.0	8.8	3.5	4.9	5.6
FCFE yield (%)	2.8	8.2	4.0	5.3	5.9
Dividend yield (%)	2.9	2.9	2.6	2.8	3.2
<b>DuPont-RoE split</b>					
Net profit margin (%)	3.0	5.6	7.7	7.9	7.2
Total asset turnover (x)	3.1	2.5	2.5	2.4	2.3
Assets/Equity (x)	1.4	1.3	1.2	1.3	1.3
<b>RoE (%)</b>	<b>12.5</b>	<b>18.4</b>	<b>23.8</b>	<b>23.4</b>	<b>21.1</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	2.9	5.2	7.0	7.0	6.4
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>14.9</b>	<b>24.7</b>	<b>36.7</b>	<b>35.1</b>	<b>30.7</b>
<b>Operating metrics</b>					
Core NWC days	19.7	13.5	13.6	13.6	13.8
<b>Total NWC days</b>	<b>19.7</b>	<b>13.5</b>	<b>13.6</b>	<b>13.6</b>	<b>13.8</b>
Fixed asset turnover	4.6	3.9	4.0	3.7	3.5
Opex-to-revenue (%)	1.7	1.5	1.9	2.0	2.0

Source: Company, Emkay Research

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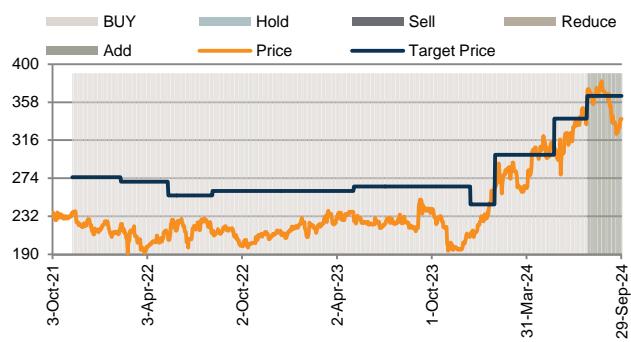
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## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
25-Jul-24	365	365	Add	Sabri Hazarika
23-May-24	308	340	Buy	Sabri Hazarika
30-Jan-24	268	300	Buy	Sabri Hazarika
03-Jan-24	228	245	Buy	Sabri Hazarika
14-Dec-23	212	245	Buy	Sabri Hazarika
30-Nov-23	203	265	Buy	Sabri Hazarika
01-Aug-23	234	265	Buy	Sabri Hazarika
04-May-23	227	265	Buy	Sabri Hazarika
21-Jan-23	223	260	Buy	Sabri Hazarika
10-Nov-22	213	260	Buy	Sabri Hazarika
06-Aug-22	216	260	Buy	Sabri Hazarika
13-May-22	206	255	Buy	Sabri Hazarika
11-Feb-22	224	270	Buy	Sabri Hazarika
23-Nov-21	224	275	Buy	Sabri Hazarika
10-Nov-21	235	275	Buy	Sabri Hazarika

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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