

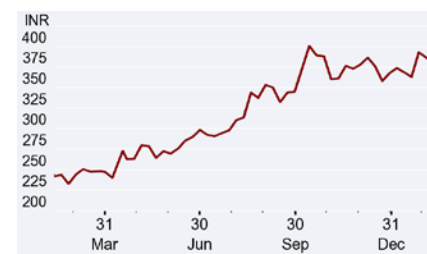
Petronet LNG (PLNG.BO)

Results: 3Q: EBITDA Expectedly Soft, But Volumes Surprise Positively

- **Citi's Take** — PLNG reported 3Q EBITDA at Rs6.1bn (-16% qoq), in line with our estimates. However, below the operating line, higher-than-expected other income and lower-than-expected interest costs led to PAT coming in at Rs4bn (-14% qoq), 15% ahead of our estimates. 9M EPS stands at Rs17/sh (+85% yoy).
- **Higher Dahej vols assuage concerns** — Volumes at Dahej (fully commissioned in Oct) came in at 3.68 MMT (up 2% qoq from 3.62 MMT in 2Q) vs. our expectation of a 4% qoq decline that corresponded with the sequential decline in India's LNG imports following the steep rise in spot LNG prices (India's imports declined from 4.84 MMT in 2Q to 4.61 MMT in 3Q). This implies Dahej gained mkt share (likely from Hazira), which is a positive surprise. The strong volumes should lay to rest our & investor concerns surrounding PLNG's volumes being impacted as a result of seemingly weak demand trends (see: [Dec LNG imports](#)) seen recently.
- **Dahej util. at 98% on its expanded capacity** — The full impact of the expanded Dahej capacity was felt in the qtr (storage tanks capitalised on Oct 17th). Notwithstanding our concerns, util. rose to 98% vs. 96% in 2Q. Dahej volumes are annualising 14.7 MMTPA based on 3Q volumes, which provides comfort that Dahej could be ≥ 100% utilised in FY18E when the full effect of the c15.75-16.75 MMTPA use-or-pay contracts should kick in. We look forward to mgmt. commentary on this as well as their broader growth outlook and capex/use of cash plans in their conference call scheduled tomorrow morning.
- **Implications** — We maintain Buy and remain positive on the long-term outlook for PLNG given use-or-pay contracts that are already in place for 90% of its eventual Dahej capacity of 17.5 MMTPA, which provide high visibility to our volume/EBITDA/EPS CAGR of 13%/21%/25% over FY16-20E. IGL, PLNG, and GSPL remain our preferred gas picks.

Buy	1
Price (13 Feb 17 15:30)	Rs381.80
Target price	Rs442.00
Expected share price return	15.8%
Expected dividend yield	0.9%
Expected total return	16.6%
Market Cap	Rs286,350M
	US\$4,283M

Price Performance (RIC: PLNG.BO, BB: PLNG IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2015A	8,825	11.77	24.0	32.4	5.0	16.5	0.5
2016A	9,140	12.19	3.6	31.3	4.5	15.2	0.7
2017E	14,912	19.88	63.1	19.2	3.8	21.3	0.8
2018E	16,556	22.07	11.0	17.3	3.2	20.0	0.9
2019E	19,741	26.32	19.2	14.5	2.7	20.2	1.0

Source: Powered by dataCentral

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3QFY17 Results

Figure 1. Petronet LNG: 3QFY17 Results (Rupees in Millions)

(year to 31-Mar)	3QFY16	2QFY17	3QFY17	% yoy	% qoq	Comments
Net Sales	51,460	66,144	62,993	22.4%	-4.8%	
Raw Material	47,165	57,613	55,569	17.8%	-3.5%	
Staff Cost	229	180	194	-15.1%	7.8%	
Other expenditure	1,225	1,086	1,159	-5.4%	6.7%	
EBITDA	2,841	7,264	6,071	113.7%	-16.4%	In line with estimates
<i>EBITDA Margin</i>	<i>5.5%</i>	<i>11.0%</i>	<i>9.6%</i>			
Interest	612	554	517	-15.6%	-6.8%	Lower than expected
Depreciation	807	860	1,009	25.0%	17.4%	Sequential increase due to full commissioning of Dahej expansion in Oct'16
Other Income	814	915	550	-32.4%	-39.9%	Higher than expected
PBT	2,236	6,765	5,095	127.8%	-24.7%	
Tax	527	2,170	1,121	112.6%	-48.4%	
<i>Tax rate</i>	<i>23.6%</i>	<i>32.1%</i>	<i>22.0%</i>			
PAT	1,709	4,596	3,975	132.5%	-13.5%	15% above estimates
EPS	2.3	6.1	5.3	132.5%	-13.5%	
Operational parameters						
DAHEJ cap. util.	108%	96%	98%			Above our 93% util.
KOCHI cap. util.	6.6%	7.1%	6.0%			
DAHEJ sales volumes (TBTUs)	58.8	123.7	112.3	91.1%	-9.2%	Sequential increase implies some mkt share gain, likely from Hazira
- ow LT	37.7	103.0	107.5	185.1%	4.4%	
- spot	21.1	20.7	4.8	-77.2%	-76.8%	Down qoq due to higher spot LNG prices
DAHEJ regas services (TBTUs)	79.5	60.7	75.3	-5.3%	24.0%	
DAHEJ total volumes (TBTUs)	138.2	184.4	187.6	35.7%	1.7%	
DAHEJ total volumes (MMT)	2.71	3.62	3.68	35.7%	1.7%	
KOCHI sales volumes (TBTUs)	4.21	4.50	3.80	-9.7%	-15.6%	
- ow LT	-	-	-			
- ow spot	4.21	4.50	3.80	-9.7%	-15.6%	
KOCHI regas services (TBTUs)	-	-	-			
KOCHI total volumes (TBTUs)	4.21	4.50	3.80	-9.7%	-15.6%	
KOCHI total volumes (MMT)	0.08	0.09	0.07	-9.7%	-15.6%	
Total volumes (TBTUs)	142.4	188.9	191.4	34.4%	1.3%	Above estimates
Total volumes (MMT)	2.79	3.70	3.75	34.4%	1.3%	

Source: Company Reports, Citi Research

Petronet LNG

Valuation

Our target price for PLNG of Rs442 is based on our DCF-based fair value estimate for Sep-17E. We use a DCF-based valuation, as we think it captures the value of the projects over their lifetime, especially given that PLNG's near-term cash flow is affected by its expansion. In our DCF analysis, we use explicit forecasts for four years (till FY20E), one more annual 5% hike in Dahej regas tariff, long-term volumes of 18.4 MMTPA (17.0 MMT at Dahej, 1.5 MMT at Kochi), a terminal growth rate of 4.0%, and a WACC of 9.8% (based on risk-free rate of 7.0%, cost of debt of 9.5%, target D/V of 0.33, beta of 0.8x, market risk premium of 6.0%). Our valuation includes contribution from the successive 5 MMTPA & 2.5 MMTPA Dahej brownfield expansions but does not include any contribution from the 5 MMTPA greenfield Gangavaram terminal which is still on hold.

Risks

Key downside risks that could mean the PLNG stock does not reach our target price include: 1) No more Dahej tariff hikes; 2) No resolution on the Kochi pipeline connectivity issues; 3) The company being forced by the gov't to resort to higher-than-expected tariff cuts to supply LNG to power companies; 4) Meaningful progress on imports via transnational pipelines (IPI, TAPI, etc.); 5) Take-or-pay issues arising from the Gorgon contract, which is slated to commence in Jan'17, or from offtakers like GAIL, etc. refusing to honour their use-or-pay commitments.

Gujarat State Petronet (GSPT.BO; Rs163.00; 1; 13 Feb 17; 15:30)

Valuation

Our Rs199 target price for GSPL is based on: 1) Sep-17E DCF fair value of Rs170 for the existing Gujarat pipeline network with net debt adjusted for the debt on new pipelines, and 2) Rs29/sh contribution from GSPL's 25.8% stake in Gujarat Gas, based on a 25% discount to the latter's market price. We use DCF given the utility nature of the business with steady cash flows and to capture the value of the business over the longer term. Our valuation is based on 9% CAGR of volumes over FY16-20E (FY20E transported volumes of 33 mmscmd), explicit forecasts to FY20E, and a terminal growth rate of 3.5% thereafter. We use a WACC of 9.8% (risk-free 6.5%, risk premium 6.0%, beta of 0.7, cost of equity 10.7%, cost of debt 10.0%, target D/E of 0.3x).

Risks

The key downside risks to our investment thesis on GSPL are: 1) Further decline in domestic gas availability and/or delay in ramp up of new gas supplies; 2) Lower LNG offtake by RIL after the commencement of its petcoke gasifier; 3) Worsening of economics of LNG; 4) Project risk, as GSPL's pipeline network expansion is subject to time/cost over-runs that could impact earnings; and 5) Lower-than-expected revision in tariffs. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Indraprastha Gas (IGAS.BO; Rs1,014.75; 1; 13 Feb 17; 15:30)

Valuation

Our Rs1117 target price for IGL is based on our Sep-17E DCF value. We prefer to use DCF, as it captures the value of the projects over their lifetime. In our DCF analysis, we use explicit forecasts till FY19E, an intermediate growth rate of 7%/5% for FY20/21E. We use a WACC of 9.4% (stock beta of 0.6, risk-free rate of 6.5%, market risk premium of 6.0%, target D/E of 33%). Our target price also includes Rs111/sh value contribution from IGL's 50% stakes in city gas companies, which we value at 20x P/E. Our target price imputes a P/E of 20x FY19E consolidated earnings.

Risks

Key downside risks to our investment thesis on IGL are: (1) Inability to increase CNG/PNG prices leading to margin compression; (2) Lower-than-expected conversion of vehicles to CNG and/or penetration of PNG resulting in lower-than-expected volume growth; and (3) A change in gov't policy that reduces the company's allocation of cheaper domestic gas. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Appendix A-1

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Indraprastha Gas (IGAS.BO)

Ratings and Target Price History Fundamental Research

Analyst: Saurabh Handa



	Date	Rating	Target Price	Closing Price
1	22-May-14 19:33:33	*1	*372.00	326.65
2	11-Sep-14 05:42:42	1	*450.00	409.80
3	12-Feb-15 15:57:15	*3	*422.00	429.55
4	05-Aug-15 19:20:31	*1	*571.00	479.85
5	07-Aug-15 02:55:19	1	*572.00	493.80

	Date	Rating	Target Price	Closing Price
6	26-Aug-15 08:52:53	1	*561.00	458.35
7	13-Jan-16 15:55:59	1	*680.00	573.80
8	11-Feb-16 11:34:21	1	*632.00	527.85
9	15-May-16 17:19:53	1	*654.00	567.50
10	02-Aug-16 01:25:32	1	*741.00	644.95

	Date	Rating	Target Price	Closing Price
11	22-Aug-16 13:41:22	1	*832.00	729.15
12	12-Sep-16 01:51:51	1	*876.00	749.20
13	16-Nov-16 12:08:34	1	*976.00	822.10
14	28-Nov-16 04:14:55	1	*968.00	838.40
15	30-Jan-17 08:59:22	1	*1,117.00	960.75

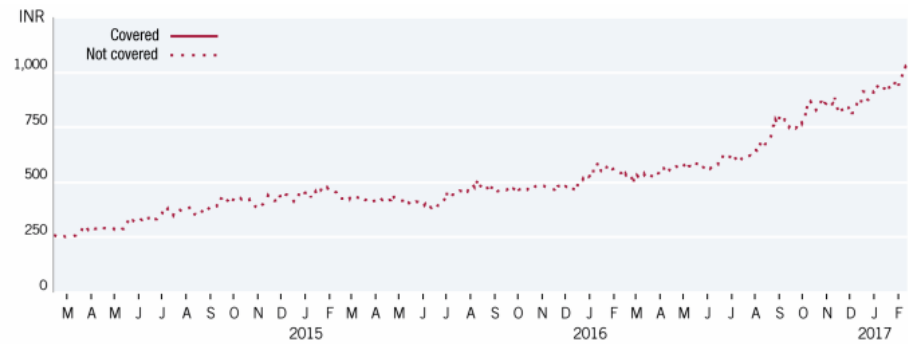
*Indicates Change

Rating/target price changes above reflect Eastern Time

Indraprastha Gas (IGAS.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Saurabh Handa



*Indicates Change

Gujarat State Petronet (GSPT.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Saurabh Handa



	Date	Rating	Target Price	Closing Price
1	22-May-14 19:33:33	1	*98.00	81.25
2	10-Nov-14 17:31:33	1	*113.00	99.80
3	05-Jan-15 18:08:25	1	*167.00	122.15
4	09-Aug-15 17:21:39	1	*160.00	125.05

	Date	Rating	Target Price	Closing Price
5	03-Sep-15 03:29:55	1	*157.00	119.80
6	04-Feb-16 19:04:16	1	*167.00	135.70
7	19-May-16 15:48:55	1	*163.00	135.90
8	11-Sep-16 17:53:16	1	*191.00	157.40

	Date	Rating	Target Price	Closing Price
9	30-Nov-16 08:58:42	1	*197.00	157.35
10	06-Feb-17 10:19:51	1	*199.00	156.20

*Indicates Change

Gujarat State Petronet (GSPT.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Saurabh Handa



*Indicates Change

Petronet LNG (PLNG.BO)

Ratings and Target Price History

Fundamental Research

Analyst: Saurabh Handa



	Date	Rating	Target Price	Closing Price
1	01-May-14 11:16:10	2	*151.00	145.05
2	22-May-14 19:33:33	2	*164.00	158.80
3	11-Jul-14 03:21:06	*3	*165.00	174.00
4	11-May-15 07:29:04	*1	*221.00	175.30

*Indicates Change

	Date	Rating	Target Price	Closing Price
5	19-Oct-15 12:06:13	1	*261.00	191.05
6	05-Jan-16 15:34:15	1	*303.00	260.05
7	11-Feb-16 02:51:12	1	*307.00	245.65
8	17-May-16 22:36:43	1	*334.00	279.60

	Date	Rating	Target Price	Closing Price
9	16-Aug-16 00:49:37	1	*362.00	320.40
10	06-Sep-16 11:34:07	1	*422.00	356.40
11	18-Nov-16 04:04:14	1	*450.00	376.45
12	28-Nov-16 04:33:35	1	*442.00	370.15

Rating/target price changes above reflect Eastern Time

Petronet LNG (PLNG.BO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Saurabh Handa



	Date	Rating	Target Price	Closing Price
1	13-Mar-14 06:57:20	*REM LP		

*Indicates Change

Rating/target price changes above reflect Eastern Time

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Citigroup Global Markets India Private Limited

Saurabh Handa; Sohini Banerjee

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