

Indian Gas Sector

Alert: Jan LNG Imports Hit a New YTD Low, But Likely Due To Temporary Factors

- **LNG imports down 14% MoM** — India's LNG imports fell further sequentially, with Jan imports coming in at 1.24 MMT (new FY17TD low), down 14% MoM from 1.44 MMT in Dec (29% below the Sep peak). We would view this as a blip, and expect the reversal of temporary factors and the recent correction in spot LNG prices (see [LNG Price Correction Should Help Revive Falling Imports](#)) to help reverse this trend. FY17 imports are currently annualising 18.5 MMT (+15% yoy).
- **Temporary dip in demand** — We believe that the particularly sharp sequential decline in Jan was caused by temporary factors which should normalise going forward. Per GSPL mgmt, there was lower supply from RasGas for a couple of weeks in Jan, driven by the latter exercising some sequencing flexibility (ostensibly to capitalise from higher spot prices), but this has subsequently normalised. The seasonal spike in spot LNG prices (to >\$9 levels in Jan) has also started reversing (now <\$8), which could also help revive spot demand.
- **Increased visibility for PLNG** — On the [3Q Conf. Call](#), mgmt. stated that total Dahej vols could rise to 16.15 MMT in FY18E (RasGas: 8.5, tolling: 6.25, Torrent: 0.5, Gorgon vols diverted from Kochi: 0.9). This was a +ve surprise and lends visibility to our forecasts of 14.1/15.2/16.0/16.1 MMT over FY17/18/19/20E at Dahej, which also drove a recent upgrade in our TP on the stock to Rs481.
- **GSPL volume drivers** — Per mgmt, GSPL's vols have recovered from c22-23 mmscmd a few weeks back (caused by the aforementioned RasGas disruption) to c25-26mmscmd currently (3Q: 26.2). Volume drivers going fwd include: **1)** RIL's guidance of higher LNG requirement post its ROGC commissioning (Jun-Q start-up) and also readying its refineries at Jamnagar to accept ethane imports (from its import facilities at Dahej), **2)** Cairn's plans to raise prod'n from their RDG field in Rajasthan from c1 to c3 mmscmd, for which GSPL is constructing pipeline connectivity, and **3)** contribution from the upcoming Mundra terminal (likely end-FY18E start-up). [Likely tariff upside](#) is another key trigger for the stock.
- **IGL's industrial vols should pick up** — Recent press reports indicate that the SC has asked the gov't to ban the usage of polluting industrial fuels such as petcoke/FO in the NCR (see: [Court Asks Gov't to Ban FO/Petcoke in NCR](#)). In the case of such a ban, IGL's ind./comm. vols (~11% of total), which have already started picking up, could witness a further uptick by c0.1-0.2 mmscmd (~2-4% of total) per mgmt. We maintain Buy on the stock (see: [Multiple Growth Drivers Still in Place](#)).
- **Remain positive on the LNG value chain** — We remain positive on the Indian gas sector with PLNG, GSPL, IGL as our preferred picks.

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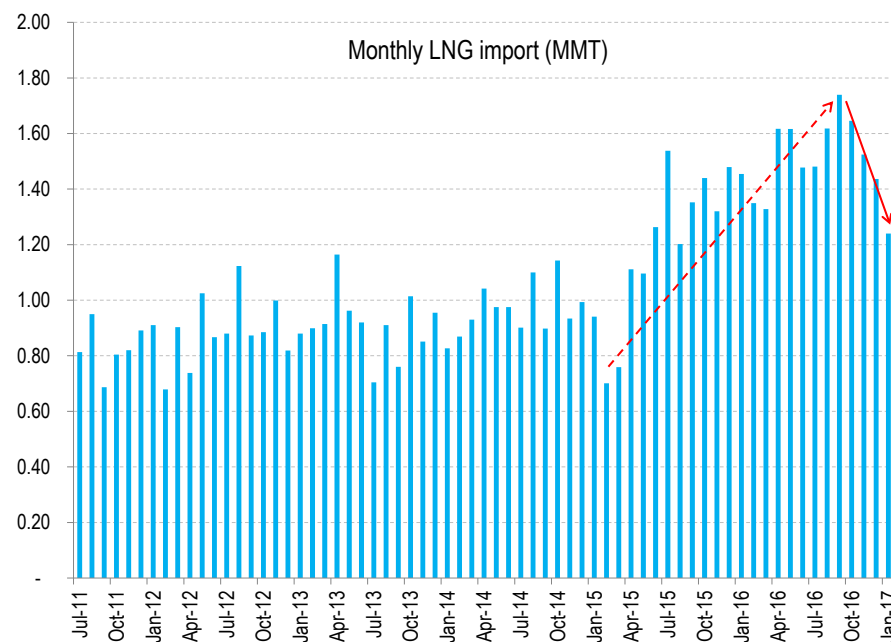
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Figure 1. India's monthly LNG imports (MMT)



Source: PPAC, Citi Research

Figure 2. Indian Gas Companies Valuation

Company	RIC Code	Rating	M-Cap (US\$m)	Sh Price 21-Feb-17	Target Price	ETR %	P/E (x) FY18E	P/E (x) FY19E	P/B (x) FY18E	P/B (x) FY19E	EV/EBITDA (x) FY18E	EV/EBITDA (x) FY19E	Div. Yield FY18E	RoE FY18E	EPS Cagr (%) FY16-19E
Petronet LNG	PLNG.BO	1	4,481	400	481	21.9%	17.3	14.8	3.5	3.1	10.3	8.7	1.7%	21.9%	30.6%
GSPL	GSPT.BO	1	1,349	160	199	25.5%	14.0	10.9	1.9	1.7	7.8	6.1	1.4%	14.0%	23.2%
Indraprastha Gas	IGAS.BO	1	2,189	1,047	1,117	7.4%	20.7*	19.0*	4.3	3.7	12.9	11.8	0.8%	20.4%	18.3%
Mahanagar Gas	MGAS.BO	2	1,300	882	769	-10.5%	21.4	20.0	4.7	4.3	12.4	11.4	2.3%	22.8%	12.0%
GAIL	GAIL.BO	3	9,925	524	388	-24.4%	14.5	15.8	1.8	1.7	9.2	9.8	1.7%	13.1%	22.1%

Source: Powered by dataCentral. *Consolidated. Closing prices as of 21 February 2017

Also mentioned: Cairn India (CAIL.BO; Rs292.85; 1; 21 Feb 17; 15:30); (RELI.BO; Rs1,088.25; 1; 21 Feb 17; 15:30)

Appendix A-1

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