

Sector: Oil & Gas

Target Price	Rs70
Marketcap (bn)	Rs40.5/US\$0.9
52-week range	68/36
Shares in issue (mn)	750.0
6-mon avg daily vol (no of shares)	583,693
6-mon avg daily vol (mn)	Rs31.5/US\$0.7
Bloomberg	PLNG IN
BSE Sensex	14283
Website	www.petronetlng.com

Shareholding Pattern (%)

Promoters	50.0
GDF International	10.0
FII's	15.1
Banks/MFs/FIs	0.3
Others	24.6

(As of 31 December 2006)

Price Performance (%)

	1M	3M	12M
Absolute	11.9	(5.0)	(18.8)
Relative*	5.9	(18.2)	(66.2)

*To the BSE Sensex

Relative Performance



(As of 25 January 2007)

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Volumes surge

Petronet LNG (PLL) has posted a 53% rise in topline at Rs15.8 bn and 72% rise in bottomline at Rs8.5 bn for 3Q FY07, well above our expectation. Higher than expected volumes arriving from Qatar and four spot cargoes led this surge in earnings for PLL. We believe these volumes would be maintained in 4Q FY07 and expect this trend to continue for next 4-5 quarters. These arrivals of spot cargoes depress operating margins (without impacting the bottomline) as they are traded at market rates (US\$8-9/mmbtu) against the fixed price contracted volumes from RasGas (US\$3-3.5/mmbtu), whereas the regassification margins for the company remains static (i.e.Rs27 per mmbtu). However, the bottomline is not impacted as the cost is completely passed on to the offtakers (IOC, BPCL and GAIL).

PLL is currently trading at 14.0x FY07E EPS of Rs3.8 and 11.7x FY08E EPS of Rs4.6. Citing better than expected outlook for volumes going forward, we have upgraded our earnings estimate for Petronet by 8-18% for FY07E-FY09E. Based on our upgraded earnings, we expect PLL to clock 25% CAGR growth in revenues over FY06-09E and 33% CAGR growth in PAT over the same period. Accordingly, we have upgraded our DCF based price target (10.4% WACC and 2% terminal growth) to Rs70 from Rs66. Considering the 3x volume expansion by FY10, evolving gas markets in India, low risk business model, and backing of strong promoters, we reiterate a Buy

Highlights

- Higher than expected volumes:** PLL has posted 79.5 TBTU volumes in 3Q FY07, much higher than our expectation of 74 TBTU, led by four spot cargoes and higher than expected volumes from RasGas. This has led to 53% YoY growth in revenues at Rs15.8 bn. The company's regasification margins too have been revised at Rs27.4/mmbtu from January 2007, compared to Rs26 earlier. We believe this surge in volumes would continue over next 4-5 quarters and have accordingly upgraded our volume estimates for PLL by 5-10%, leading to a 8-18% upside in earnings. We now expect PLL to clock Rs3.8, Rs4.6 and Rs4.9 (earlier Rs3.6, Rs3.8 and Rs4.5) for FY07E, FY08E and FY09E respectively.

Exhibit 1: Key financials

(Rs mn)

Y/E March	FY06	FY07E	FY08E	FY09E
Net Sales	38,372	55,190	60,195	75,185
EBITDA	4,883	6,244	7,262	7,916
EBITDA (%)	12.7	11.3	12.1	10.5
PAT	1,951	2,883	3,473	3,680
NPM (%)	5.1	5.2	5.8	4.9
EPS (Rs)	2.6	3.8	4.6	4.9
CEPS (Rs)	3.9	5.2	6.0	6.5
ROCE (%)	16.6	17.9	14.3	11.9
RONW (%)	18.2	21.9	21.7	19.5
PE (x)	20.8	14.0	11.7	11.0
EV/EBITDA (x)	8.8	7.3	8.0	8.8

Source: Company, ASK Raymond James. Note: Valuations as of 25 January 2007.

- **Future supplies on verge of being tied up:** Ensuring a long-term gas supply contract for the additional capacities (from 5 MMTPA to 15 MMTPA) was one of the key concerns till now. However, as per the management they are at an advanced stage of finalizing a contract (probably with Australia for 2.5 mmtpa and Qatar for 5 mmtpa) to ensure a long-term gas supply for the additional capacities both at Dahej and Kochin.
- **Earnings upgrade inevitable:** Citing better than expected volumes and upward revision of regasification margins, we have accordingly upgraded our earnings estimated. Based on this, we have arrived at our DCF based target price of Rs70 (10.4% WACC and 2% terminal growth) and reiterate Buy on PLL.

Exhibit 2: DCF valuation**(Rs mn)**

Particular	Value
PV of FCFF during the explicit forecast period	11,551
PV of Terminal value	53,778
Enterprise value (EV)	65,329
Less: Debt	15,959
Add: Cash	3,491
Value to shareholders	52,862
No of Shares (mn)	750.0
Value per share (Rs)	70

Source: ASK Raymond James.

Exhibit 3: Quarterly financials**(Rs mn)**

	3Q FY07	3Q FY06	% chg	9M FY07	9M FY06	% chg
Total Sales	15,760	10,297	53.1	39,701	28,954	37.1
Cost of goods sold	13,677	8,786	55.7	34,267	24,826	38.0
Staff Cost	26	30	(14.1)	91	84	9.0
Other Expenditure	323	263	22.9	854	615	38.8
Total Expenditure	14,026	9,080	54.5	35,212	25,525	37.9
EBITDA	1,733	1,217	42.4	4,489	3,428	30.9
EBITDA margin (%)	11.0	11.8		11.3	11.8	
Other Income	88	57	52.7	217	127	70.8
Interest	276	267	3.2	811	851	-4.7
Depreciation	257	254	1.1	769	758	1.3
PBT	1,288	753	71.1	3,127	1,946	60.7
Tax	437	256	70.4	1,054	658	60.2
Tax rate (%)	33.9	34.1		33.7	33.8	
PAT	851	496	71.5	2,072	1,288	60.9
Equity shares (mn)	750.0	750.0		750.0	750.0	
EPS (Rs)	1.1	0.7		2.8	1.7	

Source: Company data, ASK Raymond James

Exhibit 4: Expenses as a % of sales

	3Q FY07	3Q FY06	9M FY07	9M FY06
Cost of goods sold	86.8	85.3	87.6	85.7
Staff Cost	0.2	0.3	0.2	0.3
Other Expenditure	2.1	2.55	1.63	2.13
Total Expenditure	89.0	88.2	89.5	88.2

Source: Company data, ASK Raymond James.

Exhibit 5: Volume break-up for the quarter

	3Q FY07	3Q FY06	% chg	9M FY07	9M FY06	% chg
Sales Qty (TBTU)	67.5	65.0	3.9	213.7	186.4	14.6
% tot vol	84.9			90.0		
Spot cargo (TBTU)	12.0	0.0		20.6	0.0	
% tot vol	15.1			8.7		
Regasified Qty (TBTU)	-			3.2		
Total Quantity (TBTU)	79.5	65.0	22.3	216.9	186.4	16.3

Source: Company data, ASK Raymond James.

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