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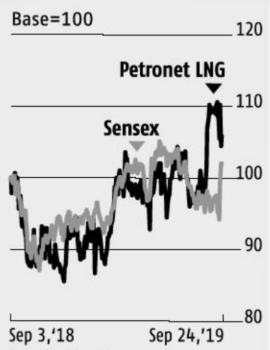
Petronet LNG allays Street's concerns on US investments

Details regarding size of Tellurian deal set to be finalised by March



Compiled by BS Research Bureau

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Petronet LNG's clarification regarding its non-binding memorandum of understanding (MoU) with Tellurian Inc of the US, for gas supplies, has allayed some concerns on its proposed hydrocarbon investments in the world's largest economy. The stock trimmed Monday's losses and closed 1.31 per cent up on Tuesday.

Analysts feel that prima facie the company may not proceed with the investment, in absence of gas offtake and other financial assurances from its domestic promoters.

Nonetheless, the Street will remain watchful till finalisation of the deal, which is expected by March 2020.

The company's non-binding MoU, envisaging a liquefied natural gas (LNG) purchase contract of up to 5 million tonnes per annum (MTPA), would mean investments of up to $2.5 billion (analysts estimate that the right to lift 1 MTPA of gas requires an upfront equity investment of $500 million).

Analysts said that Petronet's FY19 net worth stood at just $1.4 billion, and its annual operating cash-flows are close to $500 million. This implies that if Petronet decides to invest on its own, any commitment of offtake greater than 1-2 MTPA could be a stress on its balance sheet.

The company, in a call with analysts, clarified that it would enter into a definitive contract only if it gets back-to-back deals with its customers, either of its promoters (Bharat Petroleum, Indian Oil, ONGC and GAIL), or with other buyers.

A 100 per cent back-to-back LNG purchase contract would also mean no apparent pricing risk, feel analysts.

However, in the absence of any participation from the affiliates, Petronet may contract (for supply) of 1-2 MTPA of LNG and limit its investment to $0.5-1.0 billion.

It already had cash of $0.5 billion as of end-FY19, point out analysts at Reliance Securities.

On the positive side, the price of gas sourced from its proposed venture with Tellurian is likely to be lower than Henry Hub prices.

Rising supplies will be used to meet India's growing gas demand and would also ensure supply security for Petronet after the expiry of its contracts with Qatar-based RasGas.

Meanwhile, factoring in Petronet's consistent growth and accruing gains from the cut in the corporation tax rate, its stock scaled a 52-week high on Friday.

Analysts at Antique Stock Broking and Reliance Securities maintain their 'hold' rating, with target price of ₹272-275 for the stock, currently trading at ₹256. The consensus target price, as per *Bloomberg*, stands at ₹292.

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The Expenditure

Capex by State-run oil companies in April-Aug 2019-20 (in ₹Crore)

	Annual Target	April-August	% of target in*
MRPL	818	553	68
HPCL	9,500	4,780	50
ONGC VIDESH	5,161	2,245	43
BPCL	7,900	2,860	36
CPCL	1,105	393	36
IOC	25,084	8,173	33
OIL INDIA	4,105	1,149	28
ONGC	32,921	8,778	27
GAIL	5,339	1,344	25
NUMALIGARH REFINERY	455	54	12
ENGINEERS INDIA LTD	1212	41	3
TOTAL	**93,599**	**30,370**	**32**

*April-Aug