

ONGC (ONGC IN)

Await clarity on subsidy burden...

INDIA | OIL & GAS | Quarterly Update

18 February 2015

Muted quarter: ONGC profit at Rs35.7bn (down 34.4% QoQ, 49.9% YoY) was significantly below our expectations led by lower than expected net realisation on account of relative higher ad-hoc subsidy burden. Subsidy sharing was higher at Rs94.6bn with net crude realisation at US\$35.6/bbl. We take limited cues from the current quarter performance, as we expect government to provide liberal subsidy sharing mechanism in favour of upstream companies going ahead. Dry-well write offs during Q3FY15 jumped to Rs24.8bn from Rs19.1bn in previous quarter and other income was flattish at Rs 13.8bn. Thus, higher subsidy sharing, higher dry well write offs and flattish other income led to a whopping 34.4% QoQ and 49.9% YoY decline in bottom-line at Rs35.7bn.

Crude oil production during the quarter jumped 2.9% QoQ at 6.6MMT (5.3MMT own + 0.952 JV + 0.360 condensate) vs. 6.426 MMT during Q1FY15. Gas production during the quarter increased from 5.676 BCM in Q2FY15 to 6.012 BCM in Q3FY15. Crude oil gross realisation fell to US\$76.0/bbl vs. US\$102.3/bbl in Q2FY15. Net realisation during the quarter declined to US\$35.6/bbls vs. US\$41.35/bbl (Q2FY15). Govt. is yet to finalize subsidy mechanism and hence upstream PSU were provided with ad-hoc subsidy during the quarter.

Management guides for own crude oil production of 23.5MMT and 24.03MMT for FY15 and FY16 respectively. Thus, 9mFY15 contributes 71% of the current yearly target. Management guides for own gas production of 24BCM and 25.3BCM for FY15 and FY16 respectively. Thus, 1HFY15 contributes 73.8% of the current yearly target. On JV front it guides oil production of 3.69/3.78MMT and gas production of 1.3/1.4bcm in FY15/FY16 respectively.

Clarity on subsidy holds the key, maintain Buy: We are reducing our earnings estimates factoring in lower realisation for OVL, domestic JVs (predominantly Rajasthan block operated by Cairn) due to decline in crude oil prices. Consequently, our earnings estimated stands reduced from Rs45.8/share to Rs 43.5/share for FY16 (reduction of 5%). As we were earlier building in gas price hike from FY16, the earnings impact of lower crude oil prices for FY15 is offset by higher gas prices for intermediate period.

Oil price in range of US\$60-70/bbls is likely to keep check on system under-recoveries as well as provide adequate incentive to upstream companies. We believe the recent bounce back in oil prices auger well for upstream PSU companies and acts as positive stock price catalyst from medium term perspective. A well spelt subsidy sharing mechanism linked to crude oil prices will provides required clarity over the earnings profile of ONGC for the medium term. We expect upstream companies to benefit from declining subsidies thereby we factor net realisation of ~US\$58/bbls for FY16. We remain positive on ONGC, maintain BUY with a revised target price of Rs 404/share (Rs438 earlier).

BUY (Maintain)

CMP RS 333

TARGET RS 404 (+21%)

COMPANY DATA

O/S SHARES (MN) :	8555
MARKET CAP (RSBN) :	2957
MARKET CAP (USDBN) :	47
52 - WK HI/LO (RS) :	472 / 271
LIQUIDITY 3M (USDMMN) :	27.6
PAR VALUE (RS) :	5

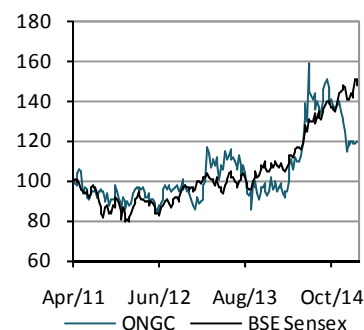
SHARE HOLDING PATTERN, %

PROMOTERS :	68.9
FII / NRI :	7.2
FI / MF :	10.3
NON PROMOTER CORP. HOLDINGS :	11.8
PUBLIC & OTHERS :	1.8

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-1.6	-12.4	25.3
REL TO BSE	-5.5	-14.6	-14.8

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15E	FY16E	FY17E
Net Sales	1,605	1,596	1,815
EBIDTA	577	643	691
Net Profit	227	286	319
EPS, Rs	26.5	33.5	37.3
PER, x	12.6	10.0	8.9
EV/EBIDTA, x	5.4	4.8	4.4
P/BV, x	1.5	1.4	1.3
ROE, %	12.2	14.0	14.0
Debt/Equity (%)	23.7	20.9	18.4

Source: PhillipCapital India Research Est.

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Quarterly Results

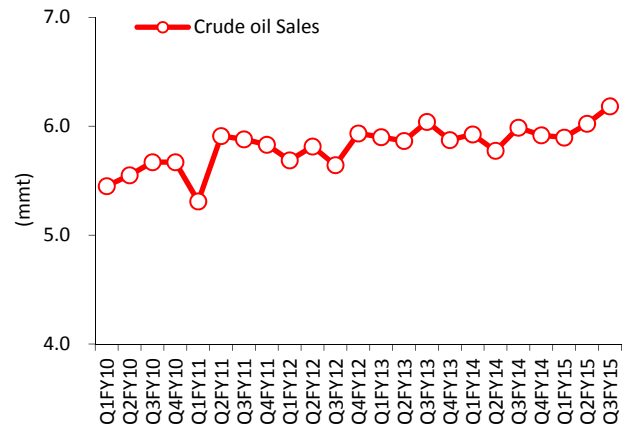
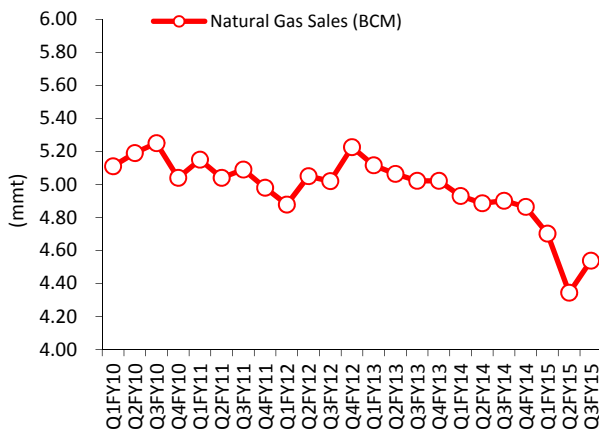
INR mn	Q3FY15	Q3FY14	YoY	9mFY15	9mFY14	YoY
Net Sales	189,245	232,477	(18.6)	610,326	647,780	(5.8)
Expenditure						
Raw material	2,548	1,248	104.2	5,441	3,227	68.6
Personnel cost	4,001	4,489	(10.9)	12,627	14,812	(14.8)
Statutory cost	53,126	57,502	(7.6)	165,894	171,464	(3.2)
Other operating expenses	33,519	31,281	7.2	95,893	116,331	(17.6)
Total Expenditure	93,194	94,519	(1.4)	279,855	305,835	(8.5)
EBITDA	96,051	137,958	(30.4)	330,471	341,945	(3.4)
Margin (%)	50.8	59.3		54.1	52.8	
Depreciation	58,150	43,990	32.2	165,710	127,969	29.5
EBIT	37,901	93,968	(59.7)	164,761	213,976	(23.0)
Interest	13	0		15	3	
Other Income	13,777	11,850	16.3	38,246	40,574	(5.7)
PBT	51,665	105,818	(51.2)	202,992	254,546	(20.3)
Total taxes	15,953	34,558	(53.8)	65,013	82,488	(21.2)
ETR (%)	30.9	32.7		32.0	32.4	(1.2)
PAT	35,712	71,260	(49.9)	137,979	172,058	(19.8)
Margin (%)	18.9	30.7		22.6	26.6	

Source: Company, PhillipCapital India Research

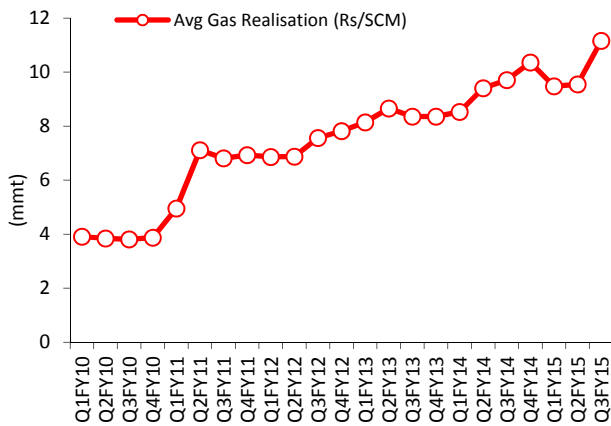
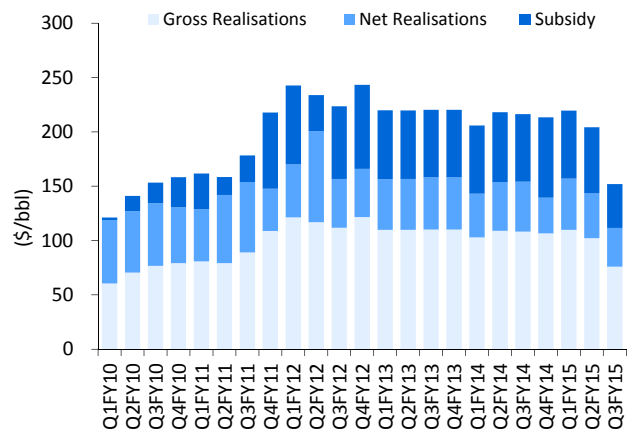
Key operating metrics

	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15
Gross crude oil realisation (USD/bbl)	108	107	110	102	76
Subsidy discount (USD/bbl)	46	33	47	61	40
Net crude oil realisation (USD/bbl)	62	74	63	41	36
Subsidy share (Rs bn)	138	138	132	136	95
Production volume					
Crude oil (mn metric tons)	7	6.1	5.5	6.1	6.3
Gas (bn cubic metre)	6	6.2	6.4	5.7	6.0
Sales volume					
Crude oil (mn metric tons)	6	5.9	5.9	6.0	6.2
Gas (bn cubic metre)	5	4.9	4.7	4.3	4.5
Rs/USD rate	62	62	59	61	62
Net Realisation (Rs/bbl)	2,860	2,037	2,818	2,505	2,205

Source: Company, PhillipCapital India Research

Stable output: Crude oil sales increases, natural gas sales subdued


Source: Company, PhillipCapital India Research

Gas realisations remains rises post price hike

Net realisation declined QoQ


Source: Company, PhillipCapital India Research

Key Operating Parameters (Standalone)

Rs mn	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15
Nom. Block Gross Realisations	103	109	108	107	110	102	76
Nom. Block Net Realisations	40	45	46	33	47	41	36
Subsidy	63	64	62	74	63	61	40
Net Realisations Rs. bbl	2,248	2,786	2,860	2,037	2,818	2,505	2,205
Subsidy Rs. bn	126	138	138	138	132	136	95
Crude oil Prodn (MMT)	6.5	6.5	7	6.1	5.5	6.1	6.3
Crude oil Sales (MMT)	5.9	5.8	6	5.9	5.9	6.0	6.2
VAP Products (MMT)	0.7	0.7	1	0.7	0.7	1.5	1.5
Natural Gas Prodn (BCM)	6.2	6.2	6	6.2	6.4	5.7	6.0
Natural Gas Sales (BCM)	4.9	4.9	5	4.9	4.7	4.3	4.5
Natural Gas (Rs./SCM)	8.5	9.4	10	10.4	9.5	9.5	11.2
Exchange Rate Re/USD	56	62	62	62	59	61	61

Source: Company, PhillipCapital India Research

Sum of parts Valuation

Particulars	Rs	Comment
ONGC Standalone EV	305	5x FY16E EBITDA
ONGC Videsh EV (2P Reserves)	82	EV/boe of USD6.5/bbls for oil and US\$2/bbls for gas
Mozambique gas block EV	21	EV/Boe of US\$3.25/bbls
MRPL EV	17	5x FY16E EBITDA
Total EV of ONGC	425	
Less: Consolidated net debt (FY15E)	31	
Equity value of business	393	
Add: Investments	11	At 20% Market price
Indian Oil Corp.	7	At 20% Market price
GAIL	2	At 20% Market price
Petronet LNG	2	At 20% Market price
Target Price	404	

Source: Company, PhillipCapital India Research Estimates

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Net sales	1,744,771	1,604,877	1,596,011	1,815,359
Growth, %	7	-8	-1	14
Total income	1,744,771	1,604,877	1,596,011	1,815,359
Raw material expenses	-675,575	-569,831	-466,748	-609,175
Employee expenses	-25,309	-22,059	-23,037	-24,952
Other Operating expenses	-461,756	-435,927	-462,761	-490,654
EBITDA (Core)	582,131	577,060	643,465	690,578
Growth, %	6.1	(0.9)	11.5	7.3
Margin, %	33.4	36.0	40.3	38.0
Depreciation	-250,690	-276,912	-254,630	-254,019
EBIT	331,440	300,148	388,835	436,560
Growth, %	4.4	(9.4)	29.5	12.3
Margin, %	19.0	18.7	24.4	24.0
Interest paid	-6,243	-12,780	-14,112	-13,262
Other Non-Operating Income	68,937	56,217	55,470	55,470
Pre-tax profit	394,252	341,131	430,193	478,768
Tax provided	-127,604	-112,284	-139,369	-155,569
Profit after tax	266,648	228,847	290,824	323,199
Others (Minorities, Associates)	-1,583	-2,266	-4,607	-4,398
Net Profit	265,065	226,581	286,217	318,801
Growth, %	9.4	(14.5)	26.3	11.4
Net Profit (adjusted)	265,065	226,581	286,217	318,801
Unadj. shares (m)	8,555	8,555	8,555	8,555
Wtd avg shares (m)	8,555	8,555	8,555	8,555

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Cash & bank	244,801	189,076	175,010	212,465
Debtors	160,284	176,585	174,952	193,470
Inventory	148,015	121,395	115,345	133,793
Loans & advances	170,408	169,639	168,980	169,555
Other current assets	9,996	30,481	30,481	30,481
Total current assets	733,503	687,176	664,767	739,764
Investments	47,459	47,459	47,459	47,459
Gross fixed assets	3,416,356	3,845,482	4,255,023	4,673,491
Less: Depreciation	-1,858,600	-2,070,601	-2,297,718	-2,535,712
Add: Capital WIP	538,270	377,221	402,221	427,221
Net fixed assets	2,096,026	2,152,102	2,359,526	2,565,000
Non-current assets	365,234	362,303	362,303	362,303
Total assets	3,249,108	3,255,926	3,440,941	3,721,412
Current liabilities	977,618	858,039	852,707	910,665
Total current liabilities	977,618	858,039	852,707	910,665
Non-current liabilities	520,855	511,222	501,222	491,222
Total liabilities	1,498,473	1,369,261	1,353,929	1,401,887
Paid-up capital	42,778	42,778	42,778	42,778
Reserves & surplus	1,678,732	1,812,495	2,008,235	2,236,350
Shareholders' equity	1,750,635	1,886,665	2,087,012	2,319,525
Total equity & liabilities	3,249,108	3,255,926	3,440,941	3,721,412

Source: Company, PhillipCapital India Research Estimates

Cash Flow

	FY14	FY15e	FY16e	FY17e
Pre-tax profit	394,252	341,131	430,193	478,768
Depreciation	250,690	276,912	254,630	254,019
Chg in working capital	53,111	-126,046	3,010	20,417
Total tax paid	-91,220	-109,724	-139,369	-155,569
Cash flow from operating activities	606,834	382,272	548,465	597,634
Capital expenditure	-699,667	-332,988	-462,054	-459,493
Chg in investments	-26,177	-	-	-
Cash flow from investing activities	-725,726	-332,988	-462,054	-459,493
Free cash flow	-118,893	49,285	86,411	138,141
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	228,381	-12,192	-10,000	-10,000
Dividend (incl. tax)	-95,084	-95,084	-95,084	-95,084
Cash flow from financing activities	141,373	-107,277	-105,084	-105,084
Net chg in cash	22,480	-57,992	-18,673	33,056

Valuation Ratios

	FY14	FY15e	FY16e	FY17e
Per Share data				
EPS (INR)	31.0	26.5	33.5	37.3
Growth, %	9.4	(14.5)	26.3	11.4
Book NAV/share (INR)	201.2	216.9	239.7	266.4
FDEPS (INR)	31.0	26.5	33.5	37.3
CEPS (INR)	60.3	58.9	63.2	67.0
CFPS (INR)	77.8	38.3	57.6	63.4
DPS (INR)	9.5	9.5	9.5	9.5
Return ratios				
Return on assets (%)	9.4	7.3	9.0	9.3
Return on equity (%)	15.4	12.2	14.0	14.0
Return on capital employed (%)	13.3	10.2	12.0	12.3
Turnover ratios				
Asset turnover (x)	1.1	0.9	0.8	0.8
Sales/Total assets (x)	0.6	0.5	0.5	0.5
Sales/Net FA (x)	0.9	0.8	0.7	0.7
Working capital/Sales (x)	(0.3)	(0.2)	(0.2)	(0.2)
Receivable days	33.5	40.2	40.0	38.9
Inventory days	31.0	27.6	26.4	26.9
Payable days	96.3	81.4	79.5	79.8
Working capital days	(102.3)	(81.9)	(83.0)	(77.1)
Liquidity ratios				
Current ratio (x)	0.8	0.8	0.8	0.8
Quick ratio (x)	0.6	0.7	0.6	0.7
Interest cover (x)	53.1	23.5	27.6	32.9
Dividend cover (x)	3.3	2.8	3.5	3.9
Total debt/Equity (%)	26.5	23.7	20.9	18.4
Net debt/Equity (%)	12.3	13.5	12.4	9.1
Valuation				
PER (x)	10.7	12.6	10.0	8.9
PEG (x) - y-o-y growth	1.1	(0.9)	0.4	0.8
Price/Book (x)	1.7	1.5	1.4	1.3
Yield (%)	2.9	2.9	2.9	2.9
EV/Net sales (x)	1.8	1.9	1.9	1.7
EV/EBITDA (x)	5.3	5.4	4.8	4.4
EV/EBIT (x)	9.2	10.3	8.0	7.0

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