

REDUCE

TP: Rs 460 | ▼ 2%

**BHARAT PETROLEUM
CORP**

| Oil & Gas

| 14 February 2020

Pricing in stake sale

BPCL's Q3FY20 EBITDA at Rs 27bn (up 3.6x YoY) outperformed estimates on higher GRMs (US\$ 2.2/bbl ex-inventory). Marketing segment EBITDA – inferred after factoring in GRM data – was above our estimate at Rs 23bn (+67% YoY). We revise FY20/FY21/FY22 earnings by –7%/+10%/+11% on lower GRMs and higher marketing profits; rolling valuations over, we arrive at a revised Mar'21 TP of Rs 460 (from Rs 490). Valuations at 8.8x FY22E EBITDA price in the government's potential stake sale. We see better value in other OMCs (IOCL).

Rohit Ahuja | Harleen Manglani

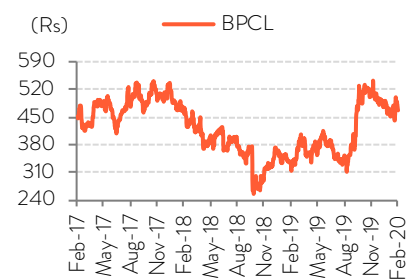
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GRMs beat estimates: BPCL's GRMs came in ahead of expectations at US\$ 2.2/bbl (ex-inventory gains of US\$ 1/bbl), beating the Singapore benchmark. But with anticipated IMO-led upsides still some time away and **recent concerns over oil demand** amid the coronavirus epidemic, we cut GRM estimates for FY20-FY22 by US\$ 0.5-1/bbl. Valuations for BPCL's refining business consequently decline to Rs 290/sh (from Rs 389) as we also lower our target multiple to 6x FY22E EBITDA (from 7x).

Ticker/Price	BPCL IN/Rs 469
Market cap	US\$ 12.9bn
Shares o/s	1,967mn
3M ADV	US\$ 47.8mn
52wk high/low	Rs 549/Rs 308
Promoter/FPI/DII	53%/14%/33%

Source: NSE

Marketing business earnings outperform: Q3 marketing business earnings (implied from GRM data) beat estimates at Rs 23bn (~Rs 1,862/mt, ex-Rs 820mn inventory gains). The recent decline in oil price offers comfort but uncertainty remains given the recurring political compulsions (such as state elections). Marketing volumes were in line at 11mmt (+3.3% YoY, outpacing industry growth of 1.8%), with market share gains in ATF and other industrial products. We raise marketing EBITDA estimates to ~Rs 1,900/mt (from Rs 1,700), which increases our valuation for the business to Rs 251 (from Rs 186).

STOCK PERFORMANCE

Source: NSE

Maintain REDUCE: At 8.8x FY22E EBITDA, BPCL's valuations are at a significant premium to its OMC peers. Cash from the Numaligarh refinery sale could be used for debt reduction (instead of dividend payouts).

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	2,357,698	2,982,256	3,109,670	3,735,442	3,974,068
EBITDA (Rs mn)	151,727	151,122	115,825	140,702	154,854
Adj. net profit (Rs mn)	97,919	85,278	90,089	105,390	112,757
Adj. EPS (Rs)	49.8	43.4	45.8	53.6	57.3
Adj. EPS growth (%)	3.0	(12.9)	5.6	17.0	7.0
Adj. ROAE (%)	29.0	21.8	20.4	21.3	20.3
Adj. P/E (x)	9.4	10.8	10.2	8.8	8.2
EV/EBITDA (x)	7.8	8.4	11.4	9.4	8.8

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net sales	747,324	791,688	(5.6)	643,408	16.2	2,153,911	2,231,574	(3.5)
EBITDA	27,030	7,374	266.6	23,749	13.8	72,577	70,320	3.2
EBITDA margin (%)	3.6	0.9	-	3.7	-	3.4	3.2	-
Depreciation and amortisation	9,731	7,781	25.1	9,523	2.2	28,395	22,744	24.8
Interest	5,121	3,369	52.0	6,388	(19.8)	16,033	9,664	65.9
Other income	5,148	9,672	(46.8)	8,713	(40.9)	19,246	20,532	(6.3)
PBT	17,326	5,895	193.9	16,551	4.7	47,395	58,445	(18.9)
Provision for tax	4,724	944	400.6	(533)	(985.8)	6,957	18,374	(62.1)
Effective tax rate	27.26	16.01	-	(3.22)	-	14.68	31.44	-
Minority share in profit / loss	-	-	-	-	-	-	-	-
PAT (reported)	12,602	4,951	154.5	17,085	(26.2)	40,438	40,071	0.9
Exceptional item (adj-post tax)	-	-	-	-	-	-	-	-
PAT (adj.)	12,602	12,187	3.4	11,281	11.7	40,438	40,071	0.9
Adj. EPS (Rs)	6.41	6.20	3.4	5.74	11.7	20.56	20.37	0.9
Reported GRMs (US\$/bbl)	3.23	2.78	16.2	3.38	(4.4)	3.15	5.25	(40.0)
Refining throughput (mmt)	8.41	7.49	12.3	7.66	9.8	23.52	22.88	2.8
Market sales (mmt)	12.34	11.46	7.7	10.81	14.2	32.38	32.46	(0.2)

Source: Company, BOBCAPS Research

FIG 2 – OPERATIONAL PERFORMANCE

	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
GRM (US\$/bbl)	3.2	2.8	16.2	3.4	(4.4)	3.2	5.3	(40.0)
- Mumbai	3.6	2.7	32.1	3.7	(0.8)	3.5	5.4	(34.9)
- Kochi	2.9	2.8	1.8	3.1	(7.4)	2.7	5.1	(47.9)
Inventory gains/ (loss) (US\$/bbl)	1.03	(3.4)	-	(0.44)	-	(0.0)	0.7	105.6
Normalised GRMs (US\$/bbl)	2.20	6.1	(64.1)	3.82	(42.4)	3.2	4.5	(29.9)
- Mumbai	2.5	6.0	(59.2)	4.1	(40.5)	3.3	5.0	(34.7)
- Kochi	2.0	6.0	(67.5)	3.5	(44.0)	3.0	4.1	(28.4)
Crude throughput (MMT)	8.4	7.5	12.3	7.7	9.8	23.5	22.9	2.8
Adj. Refining EBITDA (Rs mn)	(0.3)	3.6	(108.3)	1.3	(122.7)	0.7	2.0	(66.3)
Total market sales (MT)	12.34	11.46	7.7	10.81	14.2	32.38	32.46	(0.2)
Market sales (MT) - Domestic	11.0	10.7	3.3	10.3	7.5	32.4	31.1	4.0
Market sales (MT) - Exports	1.32	0.79	67.1	0.56	135.7	-	1.33	(100.0)
Marketing EBITDA (Rs mn)	23,797	(6,625)	(459.2)	20,261	17.5	64,180	46,501	38.0
Marketing EBITDA (Rs/MT)	1,928	(578)	(433.6)	1,874	2.9	1,982	1,433	38.4
Marketing inventory gains/(loss) (Rs mn)	820	(20,410)	-	1,490	-	1,050	(980)	-
Adj Marketing EBITDA (Rs mn)	22,977	13,785	66.7	18,771	22.4	63,130	47,481	33.0
Adj Marketing EBITDA (Rs/MT)	1,862	1,203	54.8	1,736	7.2	1,950	1,463	33.3
Total reported EBITDA (Rs mn)	27,030	7,374	266.6	23,749	13.8	72,577	70,320	3.2

Source: Company, BOBCAPS Research

Valuation methodology

We revise FY20/FY21/FY22 earnings by -7%/+10%/+11% on lower GRMs and higher marketing profits; rolling valuations over, we arrive at a revised Mar'21 target price of Rs 460 (from Rs 490). Valuations at 8.8x FY22E EBITDA price in the government's potential stake sale. We see better value in other OMCs (such as IOCL).

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	3,132,627	3,109,670	(0.7)	3,753,071	3,735,442	(0.5)	3,983,018	3,974,068	(0.2)
EBITDA	124,241	115,825	(6.8)	126,821	140,702	10.9	140,169	154,854	10.5
EBITDA margin (%)	4.0	3.7	-	3.4	3.8	-	3.5	3.9	-
PAT	96,729	90,089	(6.9)	95,719	105,390	10.1	101,688	112,757	10.9
EPS (Rs)	49.2	45.8	(6.9)	48.7	53.6	10.1	51.7	57.3	10.9

Source: BOBCAPS Research

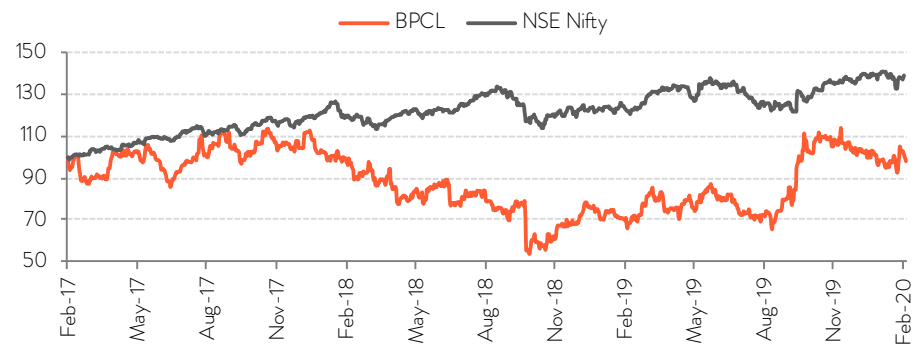
Our SOTP valuation is arrived at as follows:

- refining businesses valued at 6x FY22E EBITDA (from 7x),
- marketing business at 5x FY22E EBITDA,
- other investments in listed entities valued at 20% discount to CMP, and
- E&P business valued at an EV/boe of US\$ 1 and US\$ 4/boe for yet-to-be developed reserves in Mozambique and Brazil respectively. Note that execution troubles and low oil prices could extend the delays in production start-up to well beyond 2023.

FIG 4 – VALUATION SUMMARY

Business segments	EV (Rs/bn)	Value (Rs/share)	Comments
Refining			
Standalone	227	115	6x FY22E EBITDA
BORL refinery	170	86	6x FY22E EBITDA
Numaligarh	174	88	6x FY22E EBITDA
Marketing	494	251	5x FY22E EBITDA
Total core business	1,065	541	
Less: Net Debt	306	156	Adjusted for consolidation
Equity value of core business	759	386	
Total investments value	101	51	Investments in PLNG, OINL, IGL @ 20% discount to CMP
Total E&P	40	20	Brazil at EV/boe of US\$ 4, Mozambique at EV/boe of US\$ 1
Total equity value for BPCL	900	460	At 8x FY22E EPS

Source: BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- Global growth:** BPCL's valuations are highly sensitive to GRMs and marketing margins. An acceleration in global economies (and consequently the Indian economy) could lead to above-expected spreads and alter our valuation outlook.
- Crash in oil prices:** A crash in oil prices (to <US\$ 65/bbl levels) could provoke a change in government regulation on marketing margins for retail sales of petrol/diesel. This could drive upsides to our earnings and valuation outlook.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	2,357,698	2,982,256	3,109,670	3,735,442	3,974,068
EBITDA	151,727	151,122	115,825	140,702	154,854
Depreciation	(28,850)	(34,178)	(34,541)	(37,619)	(40,695)
EBIT	122,877	116,945	81,284	103,084	114,159
Net interest income/(expenses)	(11,857)	(17,640)	(17,855)	(20,892)	(24,710)
Other income/(expenses)	17,827	20,375	43,529	43,415	44,868
EBT	128,846	119,680	106,958	125,607	134,317
Income taxes	(43,816)	(43,775)	(27,037)	(32,203)	(34,816)
Min. int./Inc. from associates	12,889	9,373	10,168	11,986	13,256
Reported net profit	97,919	85,278	90,089	105,390	112,757
Adjusted net profit	97,919	85,278	90,089	105,390	112,757

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	132,319	173,847	206,388	248,976	265,065
Other current liabilities	220,330	211,450	261,313	246,586	295,201
Provisions	31,959	35,662	35,662	35,662	35,662
Debt funds	379,136	429,145	489,086	519,086	529,086
Other liabilities	55,224	67,920	67,914	67,908	67,902
Equity capital	19,669	19,669	19,669	19,669	19,669
Reserves & surplus	346,517	398,023	447,569	504,661	565,200
Shareholders' fund	366,186	417,692	467,238	524,330	584,869
Total liabilities and equities	1,204,206	1,356,417	1,548,301	1,663,248	1,798,485
Cash and cash eq.	13,539	6,625	97,966	43,634	53,737
Accounts receivables	52,048	69,063	57,757	69,459	73,914
Inventories	225,295	229,349	277,829	335,160	356,818
Other current assets	76,953	124,789	124,789	124,789	124,789
Investments	237,246	249,069	314,455	381,691	450,778
Net fixed assets	455,574	493,146	533,223	570,221	604,144
CWIP	98,754	141,547	99,452	95,465	91,477
Deferred tax assets, net	4,066	4,537	4,537	4,537	4,537
Other assets	40,732	38,293	38,293	38,293	38,293
Total assets	1,204,206	1,356,417	1,548,301	1,663,248	1,798,485

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	124,647	119,456	124,630	143,008	153,452
Changes in working capital	(24,095)	(30,585)	45,228	(41,171)	38,592
Other operating cash flows	(3,151)	(7,679)	(43,535)	(43,422)	(44,875)
Cash flow from operations	97,401	81,192	126,323	58,416	147,169
Capital expenditures	(75,770)	(114,543)	(32,523)	(70,630)	(70,630)
Change in investments	(23,974)	(11,823)	(65,386)	(67,236)	(69,086)
Other investing cash flows	17,827	20,375	43,529	43,415	44,868
Cash flow from investing	(81,917)	(105,991)	(54,380)	(94,451)	(94,848)
Equities issued/Others	6,556	0	0	0	0
Debt raised/repaid	19,672	50,009	59,941	30,000	10,000
Dividends paid	(52,880)	(43,724)	(40,543)	(48,298)	(52,218)
Other financing cash flows	5,862	11,601	0	0	0
Cash flow from financing	(20,790)	17,886	19,398	(18,298)	(42,218)
Changes in cash and cash eq.	(5,307)	(6,913)	91,341	(54,332)	10,103
Closing cash and cash eq.	13,539	6,625	97,966	43,634	53,737

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	49.8	43.4	45.8	53.6	57.3
Adjusted EPS	49.8	43.4	45.8	53.6	57.3
Dividend per share	23.2	19.0	17.6	21.0	22.7
Book value per share	186.2	212.4	237.6	266.6	297.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	0.5	0.4	0.4	0.4	0.3
EV/EBITDA	7.8	8.4	11.4	9.4	8.8
Adjusted P/E	9.4	10.8	10.2	8.8	8.2
P/BV	2.5	2.2	2.0	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	76.0	71.3	84.2	83.9	83.9
Interest burden (PBT/EBIT)	104.9	102.3	131.6	121.8	117.7
EBIT margin (EBIT/Revenue)	5.2	3.9	2.6	2.8	2.9
Asset turnover (Revenue/Avg TA)	205.5	232.9	214.1	232.6	229.6
Leverage (Avg TA/Avg Equity)	3.4	3.3	3.3	3.2	3.1
Adjusted ROAE	29.0	21.8	20.4	21.3	20.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	17.2	26.5	4.3	20.1	6.4
EBITDA	10.4	(0.4)	(23.4)	21.5	10.1
Adjusted EPS	3.0	(12.9)	5.6	17.0	7.0
Profitability & Return ratios (%)					
EBITDA margin	6.4	5.1	3.7	3.8	3.9
EBIT margin	5.2	3.9	2.6	2.8	2.9
Adjusted profit margin	4.2	2.9	2.9	2.8	2.8
Adjusted ROAE	29.0	21.8	20.4	21.3	20.3
ROCE	11.2	9.1	6.6	7.5	7.7
Working capital days (days)					
Receivables	8	7	7	6	7
Inventory	39	32	32	32	34
Payables	20	20	23	23	25
Ratios (x)					
Gross asset turnover	3.3	3.7	3.5	3.9	3.8
Current ratio	0.8	0.8	0.9	0.8	0.8
Net interest coverage ratio	10.4	6.6	4.6	4.9	4.6
Adjusted debt/equity	1.0	1.0	0.8	0.9	0.8

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

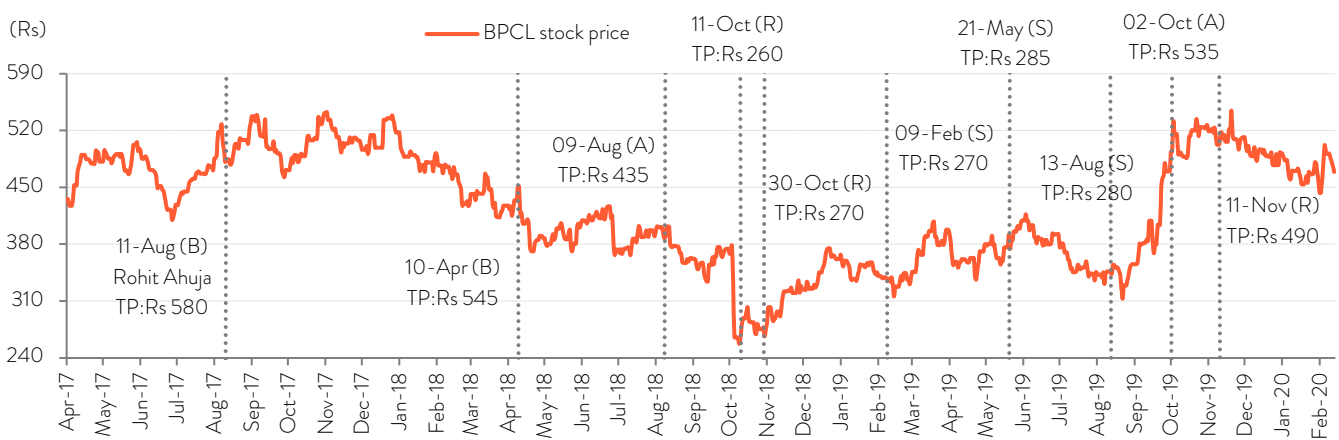
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: BHARAT PETROLEUM CORP (BPCL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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