

FIRST LIGHT

12 September 2019

RESEARCH

ONGC | Target: Rs 175 | +39% | BUY

Oil production targets ambitious

SUMMARY

ONGC

In a recent meeting, ONGC's management highlighted (a) its unchanged domestic gas production guidance at ~3mmcmd/year over FY20-FY25, and (b) expectations of sustained long-term growth in OVL production through added stake in the Vankor fields and start-up of the Mozambique project (by 2024-25). We maintain earnings estimates, factoring in oil prices at US\$ 65-75/bbl through to FY22. Our Sep'20 TP remains at Rs 175.

Valuations appear to be pricing in the worst case (~US\$ 50/bbl oil price) and offer favourable risk-reward.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

| Company | Rating | Target |
|-----------------------|--------|--------|
| Cipla | Buy | 595 |
| GAIL | Buy | 175 |
| ONGC | Buy | 175 |
| TCS | Add | 2,360 |
| HPCL | Sell | 200 |

MID-CAP IDEAS

| Company | Rating | Target |
|-------------------------------------|--------|--------|
| Balkrishna Ind | Buy | 1,290 |
| Future Supply | Buy | 715 |
| Greenply Industries | Buy | 195 |
| Laurus Labs | Buy | 480 |
| PNC Infratech | Buy | 250 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|------------------------|---------|---------|---------|----------|
| US 10Y yield (%) | 1.73 | 9bps | (1bps) | (124bps) |
| India 10Y yield (%) | 6.58 | (3bps) | 8bps | (160bps) |
| USD/INR | 71.71 | 0 | (1.3) | 1.4 |
| Brent Crude (US\$/bbl) | 62.38 | (0.3) | 6.6 | (21.1) |
| Dow | 26,909 | 0.3 | 2.4 | 3.6 |
| Shanghai | 3,021 | (0.1) | 8.9 | 13.4 |
| Sensex | 37,145 | 0.4 | (1.2) | (0.7) |
| India FII (US\$ mn) | 6 Sep | MTD | CYTD | FYTD |
| FII-D | 89.8 | 423.7 | 4,670.9 | 4,126.3 |
| FII-E | (174.5) | (845.4) | 6,360.7 | (484.5) |

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 175 | ▲ 39%

ONGC

| Oil & Gas

| 11 September 2019

Oil production targets ambitious

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Oil targets ambitious; gas outlook buoyant: Domestic oil production targets of 25.34mmt look challenging considering that ONGC has delivered a mere ~1% CAGR over the last five years. Management also hopes to raise gas production by ~30mmscmd (~10mmt) over 4-5 years, from development of fields in the KG basin and Mumbai High. We expect the rise in gas output witnessed in FY19 (+3.4mmscmd) to sustain until FY25 in the worst case. Management also anticipates an uptick in OVL's oil and gas production from additional buyouts in Vankor assets, start-up of oil production from South Sudan and development of the Mozambique project.

Value from subsidiaries: OPAL is guided to turn profitable in FY20 as utilisation improves to 100% (from ~68% YoY), with ~25% operating margins. OMPL's profitability is also expected to rise in FY20 led by better availability of naphtha and natural gas (once the Kochi-Mangalore pipeline commences).

Trading at distressed valuations: At 5.5x FY21E EPS, ONGC's valuation implies ~US\$ 45/bbl oil prices, an unjustifiably steep discount to prevailing Brent prices of US\$ 61/bbl. With ~6% dividend yield, risk-reward looks lucrative.

| | |
|------------------|----------------|
| Ticker/Price | ONGC IN/Rs 126 |
| Market cap | US\$ 22.1bn |
| Shares o/s | 12,580mn |
| 3M ADV | US\$ 23.1mn |
| 52wk high/low | Rs 185/Rs 116 |
| Promoter/FPI/DII | 64%/8%/28% |

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Total Revenue (Rs mn) | 3,622,462 | 4,534,606 | 4,636,467 | 5,498,962 | 6,068,100 |
| EBITDA (Rs mn) | 658,350 | 838,648 | 659,133 | 747,727 | 835,467 |
| Adj. net profit (Rs mn) | 234,323 | 348,309 | 241,255 | 294,220 | 337,747 |
| Adj. EPS (Rs) | 18.3 | 27.7 | 19.2 | 23.4 | 26.8 |
| Adj. EPS growth (%) | (3.5) | 51.6 | (30.7) | 22.0 | 14.8 |
| Adj. ROAE (%) | 11.8 | 16.4 | 10.6 | 12.2 | 13.2 |
| Adj. P/E (x) | 6.9 | 4.5 | 6.6 | 5.4 | 4.7 |
| EV/EBITDA (x) | 3.3 | 3.0 | 3.9 | 3.6 | 3.3 |

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)

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