

## RESEARCH

### BOB Economics Research | Weekly Wrap

Equities surge higher on vaccine hopes

### ONGC | Target: Rs 104 | +43% | BUY

Worst appears priced in

### Logistics | Monthly Tracker

Broad-based recovery continues

## SUMMARY

### India Economics: Weekly Wrap

Global recovery strengthened further as seen in China's industrial production and Japan's Q3 GDP. However, Germany's ZEW survey points to a slowdown in the current quarter. Global equity markets continue to inch up on news of an effective vaccine. Global yields are reacting to rising Covid-19 cases in EU and US. On the domestic front too rising Covid-19 cases in North India pose a challenge to recovery. Inflation remains above RBI's upper band implying limited room for RBI to cut rates in this cycle.

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

## ONGC

ONGC's Q2FY21 EBITDA at Rs 84bn (-36% YoY) outperformed estimates on account of lower operating costs. Q2 highlights: (a) oil/gas production continued to decline (-2.7%/-6.2% YoY), (b) operating costs were in line at US\$ 6.2/bbl, and (c) oil price realisation reduced to US\$ 41.4/bbl (-31% YoY). We raise FY21/FY22/FY23 earnings by 85%/27%/20% to build in lower operating costs and better operating profits for OVL. Our Sep'21 TP changes to Rs 104 (vs. Rs 96). Probable improvement in gas pricing could lead to further rerating.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	900
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,180
<a href="#">Tech Mahindra</a>	Buy	980

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	410
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.91	1bps	16bps	(91bps)
India 10Y yield (%)	5.88	(3bps)	(2bps)	(64bps)
USD/INR	74.61	0.1	(1.8)	(3.9)
Brent Crude (US\$/bbl)	43.82	2.4	2.1	(29.8)
Dow	29,950	1.6	4.7	6.8
Shanghai	3,347	1.1	0.3	15.0
Sensex	43,443	0.2	6.5	7.6
India FII (US\$ mn)	12 Nov	MTD	CYTD	FYTD
FII-D	(42.7)	148.2	(14,081.5)	(4,322.0)
FII-E	478.1	4,156.3	10,702.8	17,305.7

Source: Bank of Baroda Economics Research

### BOBCAPS Research

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## Logistics: Monthly Tracker

After a sturdy Sep'20, most high frequency indicators continued on the path of recovery in October as well. Container rail traffic growth (+9% YoY) scaled a 24-month high while total rail freight maintained double-digit growth. The decline in major port cargo eased to 1% YoY and core EXIM was flat YoY (-0.1%). This indicates a healthy start to Q3FY21 for logistics companies under our coverage, though sustained manufacturing activity after the festive season is key for a full-fledged recovery. VRL Logistics is our top pick in the sector.

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

## WEEKLY WRAP

17 November 2020

## Equities surge higher on vaccine hopes

Global recovery strengthened further as seen in China's industrial production and Japan's Q3 GDP. However, Germany's ZEW survey points to a slowdown in the current quarter. Global equity markets continue to inch up on news of an effective vaccine. Global yields are reacting to rising Covid-19 cases in EU and US. On the domestic front too rising Covid-19 cases in North India pose a challenge to recovery. Inflation remains above RBI's upper band implying limited room for RBI to cut rates in this cycle.

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## Markets

- Bonds:** Germany's 10Y yield fell the most by 4bps (-0.55%) amidst rising Covid-19 cases and lockdown. US 10Y fell by 2bps (0.91%) as central bank officials warned of uncertainty surrounding growth outlook and rising Covid-19 cases. Oil prices rose by 3.3% (US\$ 44/bbl) on hope of vaccine driving growth higher. India's 10Y yield rose by 1bps (5.88%) due to higher CPI print in Oct'20. System liquidity surplus rose to Rs 5.2tn as on 13 Nov 2020 compared with Rs 5tn in the previous week.
- Currency:** Except INR, other global currencies closed higher against the dollar. DXY index fell by 0.1% in the week. Hopes hinged on an effective vaccine and possible agreement on UK-EU post Brexit deal. JPY gained the most, following positive GDP print for Q3CY20. INR depreciated by 0.3% in the week ending 13 Nov 2020. However, it is trading today in-line with other Asian currencies.
- Equity:** Except Shanghai Comp, global indices closed higher supported by US election results, expectation of a potential vaccine, anticipation of a trade deal between UK and EU post Brexit and signing of RCEP among 15 economies. Nikkei rose the most by 4.3% followed by FTSE (3.8%) and Dow (2.7%). Sensex rose by 3.7% supported by government's stimulus. Today it is trading at record high level.
- Upcoming key events:** Markets will see daily addition of Covid-19 cases and impact of lockdowns. In addition, US retail sales, industrial production and housing data will be released. Policy decisions in Thailand and Indonesia are also scheduled. On the domestic front, progress of Covid-19 cases in North India will be determinant of economic recovery.



**BUY**

TP: Rs 104 | ▲ 43%

**ONGC**

Oil & Gas

17 November 2020

## Worst appears priced in

**ONGC's Q2FY21 EBITDA at Rs 84bn (-36% YoY) outperformed estimates on account of lower operating costs. Q2 highlights: (a) oil/gas production continued to decline (-2.7%/-6.2% YoY), (b) operating costs were in line at US\$ 6.2/bbl, and (c) oil price realisation reduced to US\$ 41.4/bbl (-31% YoY). We raise FY21/FY22/FY23 earnings by 85%/27%/20% to build in lower operating costs and better operating profits for OVL. Our Sep'21 TP changes to Rs 104 (vs. Rs 96). Probable improvement in gas pricing could lead to further rerating.**

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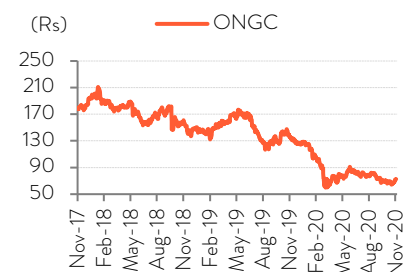
**Production remains a drag:** Oil and gas production continued to decline as fields remained impacted by delays in workover operations and as domestic gas demand reduced (mostly from the CGD segment). Production could return to normal in H2FY21 once demand revives. Concerns over incremental gas production from new fields such as KG-98/2 remain as the pandemic has disrupted development plans. Management will provide revised guidance on production ramp-up over the next few weeks.

Ticker/Price	ONGC IN/Rs 73
Market cap	US\$ 12.3bn
Shares o/s	12,580mn
3M ADV	US\$ 19.8mn
52wk high/low	Rs 139/Rs 50
Promoter/FPI/DII	60%/8%/32%

Source: NSE

**Management striving for higher gas price:** ONGC's management continues to pursue a higher price for APM gas in an effort to staunch the profit bleed (operating costs at >US\$ 3/mmbtu for APM gas). The recent price revision to US\$ 1.8/mmbtu (at a deep discount to ~US\$ 5/mmbtu for RasGas LNG) makes it unviable to pursue incremental investments for production ramp-up.

## STOCK PERFORMANCE



Source: NSE

**Worst seems priced in:** The stock's underperformance despite the recent rise in oil prices provides valuation comfort, especially with the decline in operating costs. With oil prices remaining robust, we find risk-reward favourable and upgrade earnings estimates. As cash flows improve coupled with a decline in leverage, we see a strong probability of either higher dividend payout or buybacks.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	4,534,606	4,250,014	2,913,433	3,634,289	4,579,124
EBITDA (Rs mn)	838,648	611,687	441,878	527,455	654,196
Adj. net profit (Rs mn)	348,309	168,256	109,668	161,321	222,463
Adj. EPS (Rs)	27.7	13.4	8.7	12.8	17.7
Adj. EPS growth (%)	51.6	(51.7)	(34.8)	47.1	37.9
Adj. ROAE (%)	16.4	7.9	5.2	7.2	9.4
Adj. P/E (x)	2.6	5.4	8.3	5.7	4.1
EV/EBITDA (x)	2.0	3.1	4.4	3.6	2.9

Source: Company, BOBCAPS Research



## Broad-based recovery continues

After a sturdy Sep'20, most high frequency indicators continued on the path of recovery in October as well. Container rail traffic growth (+9% YoY) scaled a 24-month high while total rail freight maintained double-digit growth. The decline in major port cargo eased to 1% YoY and core EXIM was flat YoY (-0.1%). This indicates a healthy start to Q3FY21 for logistics companies under our coverage, though sustained manufacturing activity after the festive season is key for a full-fledged recovery. VRL Logistics is our top pick in the sector.

Sayan Das Sharma

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**Container rail traffic scales multi-month high:** Container freight carried by the Indian Railways (IR) grew at 9.3% YoY in Oct'20 (7.5% YoY in Sep'20), the fastest pace since Oct'18. EXIM volume growth ticked up to 8% YoY, while domestic volumes maintained a double-digit growth trajectory (+16% YoY). This strong recovery augurs well for container rail operators such as Container Corp and Gateway Distriparks. However, the MoM rise in EXIM container rail volume (+2%) was lower than container traffic growth at major ports (+4% MoM on tonnage), indicating slight sequential moderation in market share for rail.

## RECOMMENDATION SNAPSHOT

Ticker	Rating
AGLL IN	ADD
CCRI IN	SELL
MAHLOG IN	BUY
TCIEXP IN	BUY
TRPC IN	BUY
VRLL IN	BUY

**Rail freight volumes sustain momentum:** Total freight carried by IR grew 15% YoY for the second successive month. Growth was broad-based across commodities, with foodgrains (+71% YoY), cement (+26%), and fertilisers (+24%) leading the way.

**Cargo decline at major ports slows:** Cargo at major ports continued to decline, albeit at a slower rate of 1% YoY (+5% MoM) vs. 2% YoY in Sep'20. Mormugao (+46% YoY), Kolkata (+17% YoY), Paradip (+11%) and New Mangalore (+8%) led growth, whereas volumes plunged YoY at Mumbai (-25% YoY), Ennore (-23%), Tuticorin (-20%) and Cochin (-10%) ports. All commodities, barring POL products (-23% YoY), registered YoY growth in volumes, led by iron ore (+33% YoY), coking coal (+25%) and fertilisers (+21%). Container volumes grew 6%/8% YoY in tonnage/TEU terms.

**Core EXIM recovering, e-way bill generation robust:** Core EXIM (non-oil, non-gold merchandise trade) was flat YoY (-0.1%) vs. -3% in Sep'20, driven by core exports (+6.5%). The fall in core imports also eased to 5% YoY, after seven consecutive months of double-digit declines. Total e-way bills generated jumped 21% YoY to 64mn in Oct'20 – the highest on record.



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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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