

BUY

TP: Rs 110 | ▲ 67%

ONGC

Oil & Gas

01 April 2020

Riding the storm

Key takeaways from our recent interaction with the ONGC management:

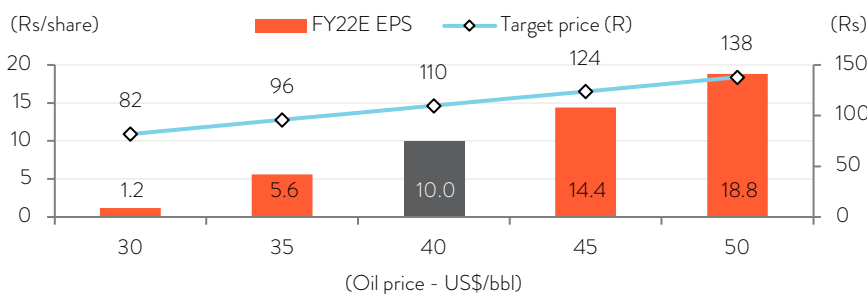
(a) operating costs for the core business remain in the comfort zone of ~US\$ 17/bbl, (b) the company will revisit its FY21 capex plans (~Rs 300bn) in Jun'20, and (c) gas production cuts are temporary as demand should recovery sharply once the economic lockdown is lifted. We believe ONGC's valuations factor in <US\$ 30/bbl Brent oil prices, offering favourable risk-reward.

Cash profits for core business look sustainable: ONGC's India business is likely to remain in the black at ~US\$ 6/boe EBITDA, as its operating costs decline to ~US\$ 17/boe on reduction in cess/royalty levies (~30% of oil revenues) at current oil prices. This implies the company will be able to sustain operating activities without major disruptions. OVL's operations may take a hit as costs for international assets average >US\$ 20/bbl.

Capex outlook could be revised in Jun'20: Management has guided for stable capex at Rs 300bn for FY21, but may revise this figure down if oil prices remain depressed until Jun'20. The company sees a strong case for oil to revert to normalised levels of >US\$ 50/bbl in H2FY21, once the world economy likely emerges from the Covid-19-induced shutdown.

No case for oil production cuts; gas demand to revive as soon as lockdown ends: India's domestic oil production constitutes <20% of its consumption; hence, the company sees no reason to cut output for now. However, gas production at Mumbai High was recently reduced by 5mmscmd owing to lower requirements from GAIL's customers amid reduced economic activity. With the 21% reduction in domestic gas prices to all-time lows of US\$ 2.3/mmbtu (GCV basis) for the Apr-Sept'20 period, ONGC anticipates a V-shaped recovery in gas consumption once the nationwide lockdown ends.

FIG 1 – VALUATION AND EARNINGS SENSITIVITY



Source: Company, BOBCAPS Research

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Ticker/Price	ONGC IN/Rs 66
Market cap	US\$ 11.0bn
Shares o/s	12,580mn
3M ADV	US\$ 34.6mn
52wk high/low	Rs 179/Rs 50
Promoter/FPI/DII	63%/9%/29%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	4,097,122	4,513,862	5,149,784
EBITDA (Rs mn)	638,284	314,511	477,618
Adj. net profit (Rs mn)	294,989	35,815	125,999
Adj. EPS (Rs)	23.4	2.8	10.0
Adj. EPS growth (%)	(15.3)	(87.9)	251.8
Adj. ROAE (%)	12.9	1.5	5.2
Adj. P/E (x)	2.8	23.1	6.6
EV/EBITDA (x)	2.8	5.7	4.0

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

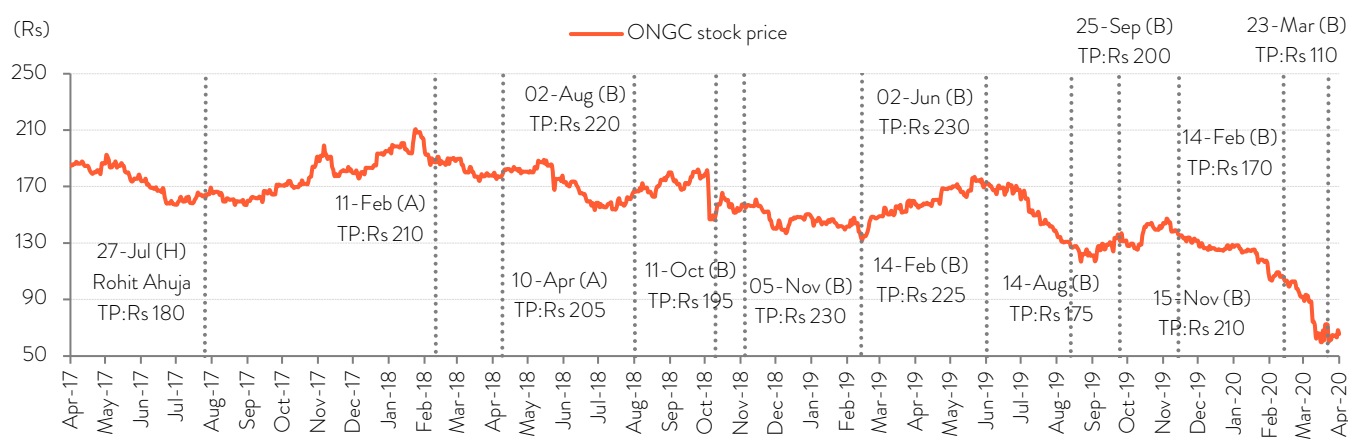
ADD – Expected return from >+5% to +15%

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: ONGC (ONGC IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell, H – Hold

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