

OIL & GAS

01 December 2020

Gas consumption surges

Consumption spikes on fertiliser plant offtake: Natural gas consumption surged to 160.5mmscmd in October (+5% YoY, +12.6% MoM), boosted by the industrials segment. Consumption from the fertiliser sector increased to 50mmscmd (+15% YoY), matched by other industrials at 51mmscmd (flat YoY). Power sector offtake declined to 31mmscmd (-35% MoM, +6.4% YoY) while CGD showed some recovery at 28mmscmd (+9% MoM, -3% YoY). This augurs well for our investment argument favouring B2B gas utilities such as GAIL, Petronet LNG and Gujarat State Petronet.

Industrials continue to take advantage of low prices: The industrials sector is driving gas consumption due to the decline in average gas prices – long-term LNG remains below US\$ 6/mmbtu while domestic gas prices were slashed by ~25% from Oct'20. The spike in spot LNG to >US\$ 7/mmbtu levels may impact consumption in certain pockets but the average gas price for industrials still trends ~20% lower YoY. LNG consumption at 103mmscmd (+27%) is close to all-time high, primarily led by low prices for long-term LNG contracts.

Domestic gas production recovers a bit: Gas production improved to 80.6mmscmd in October (+5% MoM). ONGC and Oil India's output increased to 63.4mmscmd (flat YoY, +6% MoM) and 7.4mmscmd (+10% YoY) respectively. Power and fertiliser would be key consumers of domestic gas over the next few months given low prices and could more than make up for any decline in consumption from CGD.

GAS CONSUMPTION TREND

| (mmscmd) | Oct'20 | Oct'19 | YoY (%) | Sep'20 | MoM (%) | H1FY21 | H1FY20 | YoY (%) |
|--------------------|--------------|--------------|------------|--------------|-------------|--------------|--------------|--------------|
| Fertiliser | 50.2 | 43.5 | 15.4 | 26.9 | 86.5 | 44.7 | 42.2 | 5.9 |
| Power | 31.1 | 29.2 | 6.4 | 47.5 | (34.6) | 33.5 | 33.4 | 0.3 |
| CGD | 28.4 | 29.2 | (3.0) | 26.1 | 8.5 | 18.6 | 28.0 | (33.5) |
| Other Industrials: | 51.0 | 51.3 | (0.6) | 42.1 | 21.2 | 52.2 | 50.6 | 3.1 |
| Refineries | 21.8 | 21.7 | 0.3 | 21.3 | 2.2 | 24.7 | 20.5 | 20.4 |
| Petrochemicals | 9.4 | 9.7 | (3.3) | 5.7 | 66.2 | 8.4 | 10.0 | (15.6) |
| Miscellaneous | 19.7 | 19.8 | (0.3) | 15.1 | 31.0 | 19.1 | 20.1 | (5.2) |
| Total | 160.5 | 153.2 | 4.8 | 142.6 | 12.6 | 149.0 | 154.2 | (3.4) |

Source: PPAC, BOBCAPS Research

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KEY RECOMMENDATIONS

| Ticker | Target | Rating |
|----------|--------|--------|
| PLNG IN | 330 | BUY |
| IGL IN | 565 | BUY |
| GUJGA IN | 400 | BUY |
| GUJS IN | 270 | BUY |
| MAHGL IN | 750 | SELL |
| GAIL IN | 155 | BUY |

Target in Rupees

GAS CONSUMPTION

| (mmscmd) | Oct'20 | Oct'19 | YoY (%) |
|--------------------------|--------------|--------------|---------------|
| Fertiliser | | | |
| Domestic | 13.4 | 19.3 | (30.8) |
| R-LNG | 36.8 | 24.2 | 52.1 |
| Total | 50.2 | 43.5 | 15.4 |
| Power | | | |
| Domestic | 18.6 | 21.2 | (12.0) |
| R-LNG | 12.4 | 8.0 | 233.9 |
| Total | 31.1 | 29.2 | 55.4 |
| CGD | | | |
| Domestic | 14.9 | 15.8 | (5.7) |
| R-LNG | 13.5 | 13.4 | 0.2 |
| Total | 28.4 | 29.2 | (3.0) |
| Other Industrials | | | |
| Domestic | 10.4 | 15.5 | (33.3) |
| R-LNG | 40.6 | 35.8 | 13.5 |
| Total | 51.0 | 51.3 | (0.6) |
| Total Consumption | 160.5 | 153.2 | 4.8 |
| Total Domestic | 57.3 | 71.8 | (20.3) |
| Total R-LNG | 103.3 | 81.4 | 26.9 |

Source: PPAC, BOBCAPS Research



Disclaimer

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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