

OIL & GAS

02 April 2020

Feb'20 natural gas consumption surges

Low prices lead to surge in consumption: Natural gas consumption in Feb'20 increased 10% YoY to 160mmscmd as offtake climbed across sectors (except power) – fertiliser (47mmscmd, +9% YoY), CGD (30.4mmscmd, +17% YoY), and other industrials (52.9mmscmd, +13.7% YoY). Power sector consumption was flat YoY at 29mmscmd.

CGD was the biggest swing factor, improving by 4.4mmscmd YoY (largely driven by small industrials in Gujarat). However, the Covid-19-led economic shutdown from Mar'20 could erode gas consumption significantly in Q1FY21 (depending on how long the shutdown stretches beyond April).

LNG prices across contracts to align with spot: Given current Brent oil prices of US\$ 25/bbl, long-term LNG contract rates from Qatar and Australia are expected to crash by May'20, aligning closer than they have in a long time to the already-depressed spot LNG rate (<US\$ 3/mmbtu currently). The availability of new R-LNG capacities at Dahej (+2.5mmtpa) and Mundra (+5mmtpa) offers more flexibility to LNG buyers for spot imports. Low prices could lead to better consumption from the power sector in Q2FY21.

Domestic gas production declines: Gas production dropped 12% YoY to 81mmscmd during Feb'20, affected by the decline in output from ONGC and private players to 64.5mmscmd (-5.4mmscmd YoY) and 9.3mmscmd (-5mmscmd YoY) respectively. This trend would worsen in Q1FY21 as demand disruption due to the economic shutdown deepens.

FIG 1 – GAS CONSUMPTION BREAKDOWN

(mmscmd)	Feb'20	Feb'19	YoY (%)	Jan'20	MoM (%)
Fertiliser	47.3	43.4	8.9	47.0	0.6
Power	29.0	29.0	(0.0)	26.1	11.1
CGD	30.4	26.0	16.9	30.2	0.8
Other Industrials:	52.9	46.6	13.7	49.5	7.0
Refineries	24.2	18.8	29.1	20.9	15.6
Petrochemicals	10.0	9.5	5.6	9.5	5.4
Miscellaneous	18.7	18.3	2.0	19.0	(1.8)
Total	159.7	145.0	10.1	152.8	4.5

Source: PPAC, BOBCAPS Research

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KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
GAIL IN	76	140	BUY
PLNG IN	200	330	BUY
IGL IN	393	433	BUY
MAHGL IN	815	750	ADD
GUJS IN	181	275	BUY
GUJGA IN	228	265	BUY

Price & Target in Rupees

GAS CONSUMPTION

(mmscmd)	Feb'20	Feb'19	YoY (%)
Fertiliser			
Domestic	16.5	16.9	(2.0)
R-LNG	30.8	26.6	15.9
Total	47.3	43.4	8.9
Power			
Domestic	19.6	24.8	(20.8)
R-LNG	9.4	4.2	122.0
Total	29.0	29.0	(0.0)
CGD			
Domestic	16.9	15.5	8.8
R-LNG	13.6	10.5	29.0
Total	30.4	26.0	16.9
Other Industrials			
Domestic	11.5	14.4	(20.2)
R-LNG	41.4	32.1	28.8
Total	52.9	46.6	13.7
Total Consumption	159.7	145.0	10.1
Total R-LNG	95.2	73.5	29.5
Total Domestic	64.5	71.6	(9.9)

Source: PPAC, 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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