

BUY

TP: Rs 240 | ▲ 60%

OIL INDIA

Oil & Gas

12 August 2019

Low costs drive earnings, but volumes remain a drag

Oil India's (OINL) Q1 FY20 earnings at Rs 6.3bn (-11% YoY) was above estimates. Key highlights: (a) EBITDA at Rs13.5 bn (-4% YoY) was above estimates on low operating costs (at ~US\$7.7\$/bbl), (b) Oil (0.80 mmt, -1.6% YoY) and Gas (0.61 bcm, +2.7% YoY) sales volumes were in-line. However, we trim FY20/FY21 earnings by 19%/17.4% on cutting oil price estimates (US\$65/bbl and US\$70/bbl) and production estimates. Our TP gets revised to Rs 240 (as we also roll over to Sept'21 valuations).

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Low operating costs: OINL's operating costs came in much lower than estimates at US\$7.6/bbl (Vs est. US\$11/bbl). Costs seem to have normalized, leading us to lower FY20/21 cost estimates to US\$9/bbl and US\$9.5/bbl respectively (from ~US\$11).

Volumes remain a drag: OINL's oil production continues to decline (0.81 mmt, -3.7% YoY), while gas remains robust (0.71 bcm, 2.3%). It also continues to trend well below management's earlier guidance of oil production at 3.66mmt and gas production at 3.02bcm for FY20. Despite OINL garnering Oil price realisation at US\$66/bbl (at nil subsidies), and economics being in favour, continuous decline in production seems strange. Gas production however continues to buck the trend, while realisation too improved to Rs7.9/scm.

Undemanding valuations, maintain BUY: OINL's current valuations, at 4.5x FY21E, imply Brent at US\$ 45/bbl levels, offers an unjustifiably steep discount to spot oil prices (US\$ 59/bbl), considering it is now clear that the government is unlikely to burden PSU upstream companies with any subsidies. Additionally, dividend yields at ~8.5% for FY20E makes valuations look extremely attractive. OINL seems to be pricing in the worst case.

| | |
|------------------|----------------|
| Ticker/Price | OINL IN/Rs 150 |
| Market cap | US\$ 2.3bn |
| Shares o/s | 1,084mn |
| 3M ADV | US\$ 3.8mn |
| 52wk high/low | Rs 227/Rs 149 |
| Promoter/FPI/DII | 62%/5%/34% |

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19P | FY20E | FY21E | FY22E |
|-------------------------|--------|--------|--------|--------|--------|
| Adj. net profit (Rs mn) | 26,679 | 32,693 | 32,406 | 35,829 | 38,179 |
| Adj. EPS (Rs) | 23.5 | 28.8 | 29.9 | 33.0 | 35.2 |
| Adj. EPS growth (%) | 12.1 | 22.5 | 3.7 | 10.6 | 6.6 |
| Adj. ROAE (%) | 9.4 | 11.4 | 10.7 | 11.2 | 11.3 |
| Adj. P/E (x) | 6.4 | 5.2 | 5.0 | 4.5 | 4.3 |
| EV/EBITDA (x) | 4.6 | 3.7 | 3.7 | 3.5 | 3.3 |

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

| (Rs mn) | Q1FY20 | Q1FY19 | YoY (%) | Q4FY19 | QoQ (%) |
|-------------------------------|---------------|----------------|---------------|---------------|--------------|
| Net sales | 33,734 | 33,905 | (0.5) | 30,869 | 9.3 |
| Employee cost | 4,545 | 3,430 | 32.5 | 4,217 | 7.8 |
| % of sales | 13.5 | 10.1 | - | 13.7 | - |
| Other expenditure | 15,657 | 16,391 | (4.5) | 15,859 | (1.3) |
| % of sales | 46.4 | 48.3 | - | 51.4 | - |
| EBITDA | 13,532 | 14,084 | (3.9) | 10,793 | 25.4 |
| EBITDA margin (%) | 40.1 | 41.5 | - | 35.0 | - |
| Depreciation and amortisation | 3,994 | 3,372 | 18.4 | 4,241 | (5.8) |
| Interest | 1,235 | 1,124 | 9.8 | 1,198 | 3.1 |
| Other income | 1,227 | 1,268 | (3.2) | 4,192 | (70.7) |
| PBT | 9,530 | 10,855 | (12.2) | 9,546 | (0.2) |
| Provision for tax | 3,282 | 3,823 | 14.1 | 1,363 | 140.8 |
| Adj. PAT | 6,248 | 7,032 | (11.2) | 4,589 | 36.2 |
| Other comprehensive income | (3,107) | (9,018) | - | 14,233 | - |
| Total Income | 3,141 | (1,985) | - | 12,148 | 74.1 |
| NPM (%) | 18.5 | 20.7 | - | 14.9 | - |
| Adj. EPS (Rs) | 5.8 | 6.2 | (7.0) | 4.2 | 36.2 |

Source: Company, BOBCAPS Research

FIG 2 – PRODUCTION DETAILS

| | Q1FY20 | Q1FY19 | YoY (%) | Q4FY19 | QoQ (%) |
|----------------------|-------------|-------------|--------------|-------------|------------|
| Oil (mmt) | 0.81 | 0.84 | (3.7) | 0.79 | 3.6 |
| Gas (bcm) | 0.71 | 0.70 | 2.3 | 0.70 | 1.3 |
| Total (mmtoe) | 1.53 | 1.54 | (1.0) | 1.49 | 2.5 |

Source: Company, BOBCAPS Research

FIG 3 – VOLUME AND REALISATION SNAPSHOT

| | Q1FY20 | Q1FY19 | YoY (%) | Q4FY19 | QoQ (%) |
|----------------------------|--------|--------|---------|--------|---------|
| Crude Oil | | | | | |
| Sales Volume (mmt) | 0.80 | 0.81 | (1.6) | 0.78 | 2.7 |
| Revenues (Rs mn) | 26,042 | 27,673 | (5.9) | 23,914 | 8.9 |
| Oil realisation (US\$/bbl) | 66.1 | 71.8 | (7.9) | 61.6 | 7.4 |
| Natural Gas | | | | | |
| Sales Volume (bcm) | 0.61 | 0.60 | 2.7 | 0.62 | (1.1) |
| Revenues (Rs mn) | 4,851 | 3,646 | 33.0 | 4,487 | 8.1 |
| Gas realisation (Rs/scm) | 7.91 | 6.11 | 29.6 | 7.24 | 9.3 |
| Volume (mmscmd) | 6.66 | 6.49 | 2.7 | 6.81 | (2.2) |

Source: Company, BOBCAPS Research

Valuation methodology

However, we trim FY20/FY21 earnings by 19%/17.4% on cutting oil price estimates (US\$65/bbl and US\$70/bbl) and production estimates. We introduce FY22 estimates, factoring oil prices at US\$75/bbl, leading to earnings at Rs35/sh (+6.6% YoY). Our TP gets revised to Rs 240 (as we also roll over to Sept'21 valuations). OINL's current valuations, at 4.5x FY21E, imply Brent at US\$ 45/bbl levels, offers an unjustifiably steep discount to spot oil prices (US\$ 59/bbl). Additionally, dividend yields at ~8.5% for FY20E makes valuations look extremely attractive. OINL seems to be pricing in the worst case

We arrive at our SOTP-based target price as follows:

- Consolidated cash earnings valued at 3.5x Sept'21E,
- Reserve upsides from high-potential international E&P assets (Mozambique) valued at an EV/boe of US\$ 2/bbl (adjusted for debt, especially Mozambique),
- Numaligarh refinery (26% stake) valued at 6x Sept'21E EBITDA,
- LPG production and transportation businesses 6x Sept'21E EBITDA, and
- Investment in IOCL valued at 20% discount to CMP (net of costs).

FIG 4 – REVISED ESTIMATES

| (Rs mn) | FY20E | | | FY21E | | | FY22E |
|-------------------|---------|---------|---------|---------|---------|---------|---------|
| | Old | New | Var (%) | Old | New | Var (%) | New |
| Revenue | 169,909 | 142,263 | (16.3) | 187,509 | 158,444 | (15.5) | 171,003 |
| EBITDA | 72,377 | 57,623 | (20.4) | 79,517 | 65,202 | (18.0) | 70,706 |
| EBITDA margin (%) | 42.6 | 40.5 | - | 42.4 | 41.2 | - | 41.3 |
| PAT | 41,946 | 32,406 | (22.7) | 45,408 | 35,829 | (21.1) | 38,179 |
| PAT margin (%) | 24.7 | 22.8 | - | 24.2 | 22.6 | - | 22.3 |
| EPS (Rs) | 37.0 | 29.9 | (19.1) | 40.0 | 33.0 | (17.4) | 35.2 |

Source: BOBCAPS Research

FIG 5 – VALUATION SUMMARY

| Particulars | Value (Rs mn) | Value (Rs/sh) | Comments |
|--------------------------------|----------------|---------------|--|
| Core business value | 181,896 | 160 | 3.5x Sept'21E cash earnings |
| Reserve upsides | 56,516 | 50 | Overall EV/boe of US\$ 2/bbl on P2 potential reserves net to OINL (Area 1 Mozambique and Tomsk region) |
| LPG business EV | 8,658 | 8 | 6x Sept'21E EBITDA |
| Transportation Business EV | 26,229 | 23 | 6x Sept'21E EBITDA |
| Investment in IOCL | 30,173 | 38 | 20% discount to CMP |
| Numaligarh refinery stake EV | 11,975 | 11 | 6x Sept'21E EBITDA |
| Net debt | 43,061 | 38 | Consolidated debt |
| OINL total equity value | 272,368 | 240 | Implies ~8x FY21E EPS @ US\$ 70/bbl |

Source: BOBCAPS Research

FIG 6 – KEY ASSUMPTIONS

| | FY20E | FY21E | FY21E |
|-----------------------------|-------|-------|-------|
| USD/INR | 72.0 | 74.0 | 74.0 |
| Crude oil prices (US\$/bbl) | 65.0 | 70.0 | 75.0 |
| Subsidy (Rs mn) | - | - | - |
| Oil production (mmt) | 3.32 | 3.35 | 3.39 |
| Gas production (bcm) | 2.84 | 2.88 | 2.91 |
| Gas prices (US\$/mmbtu) | 4.23 | 4.55 | 4.88 |

Source: BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key downside risks to our estimates are:

- lower-than-expected growth in oil and gas production, and
- above-expected subsidies, in the wake of rising oil prices, which could impact earnings and multiples.

FINANCIALS

Income Statement

| Y/E 31 Mar (Rs mn) | FY18A | FY19P | FY20E | FY21E | FY22E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total revenue | 106,565 | 137,350 | 142,263 | 158,444 | 171,003 |
| EBITDA | 41,013 | 54,838 | 57,623 | 65,202 | 70,706 |
| EBIT | 26,413 | 39,875 | 39,149 | 45,170 | 49,177 |
| Net interest income/(expenses) | (4,157) | (4,795) | (5,729) | (7,166) | (8,266) |
| Other income/(expenses) | 14,842 | 14,350 | 16,435 | 17,116 | 17,826 |
| Exceptional items | 0 | (10,267) | 0 | 0 | 0 |
| EBT | 37,098 | 49,430 | 49,856 | 55,121 | 58,737 |
| Income taxes | (10,419) | (13,261) | (17,450) | (19,292) | (20,558) |
| Reported net profit | 26,679 | 25,902 | 32,406 | 35,829 | 38,179 |
| Adjusted net profit | 26,679 | 32,693 | 32,406 | 35,829 | 38,179 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY18A | FY19P | FY20E | FY21E | FY22E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Accounts payables | 5,533 | 7,912 | 8,116 | 8,941 | 9,618 |
| Other current liabilities | 35,206 | 35,206 | 35,206 | 35,206 | 35,206 |
| Provisions | 12,464 | 15,824 | 16,232 | 17,882 | 19,235 |
| Debt funds | 73,656 | 63,656 | 63,656 | 79,656 | 85,656 |
| Other liabilities | 34,390 | 36,941 | 37,938 | 39,041 | 40,215 |
| Equity capital | 7,566 | 11,349 | 10,844 | 10,844 | 10,844 |
| Reserves & surplus | 271,528 | 284,539 | 300,816 | 318,813 | 337,990 |
| Shareholders' fund | 279,094 | 295,888 | 311,660 | 329,657 | 348,834 |
| Total liabilities and equities | 440,342 | 455,426 | 472,808 | 510,382 | 538,764 |
| Cash and cash eq. | 30,926 | 14,541 | 494 | 5,724 | 4,491 |
| Accounts receivables | 14,078 | 14,872 | 15,283 | 17,052 | 18,424 |
| Inventories | 10,783 | 16,359 | 16,811 | 18,757 | 20,266 |
| Other current assets | 27,221 | 27,221 | 27,221 | 27,221 | 27,221 |
| Investments | 227,856 | 227,856 | 227,856 | 227,856 | 227,856 |
| Net fixed assets | 102,720 | 121,289 | 138,717 | 158,894 | 178,678 |
| CWIP | 26,760 | 33,290 | 46,427 | 54,879 | 61,829 |
| Total assets | 440,342 | 455,426 | 472,808 | 510,382 | 538,764 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY18A | FY19P | FY20E | FY21E | FY22E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net income + Depreciation | 40,074 | 34,608 | 42,904 | 48,014 | 51,932 |
| Changes in working capital | 7,125 | (631) | (252) | (1,240) | (851) |
| Other operating cash flows | (11,247) | (1,532) | (15,438) | (16,014) | (16,651) |
| Cash flow from operations | 35,952 | 32,446 | 27,214 | 30,760 | 34,430 |
| Capital expenditures | (22,630) | (33,805) | (41,063) | (40,814) | (40,487) |
| Change in investments | (8,352) | 0 | 0 | 0 | 0 |
| Other investing cash flows | 14,842 | 14,350 | 16,435 | 17,116 | 17,826 |
| Cash flow from investing | (16,140) | (19,455) | (24,627) | (23,698) | (22,661) |
| Equities issued/Others | (449) | 3,783 | (505) | 0 | 0 |
| Debt raised/repaid | (15,820) | (10,000) | 0 | 16,000 | 6,000 |
| Dividends paid | (13,631) | (12,891) | (16,129) | (17,832) | (19,002) |
| Other financing cash flows | (9,583) | (10,267) | 0 | 0 | 0 |
| Cash flow from financing | (54,310) | (29,376) | (16,634) | (1,832) | (13,002) |
| Changes in cash and cash eq. | (34,498) | (16,385) | (14,047) | 5,230 | (1,233) |
| Closing cash and cash eq. | 30,926 | 14,541 | 494 | 5,724 | 4,491 |

Per Share

| Y/E 31 Mar (Rs) | FY18A | FY19P | FY20E | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 23.5 | 22.8 | 29.9 | 33.0 | 35.2 |
| Adjusted EPS | 23.5 | 28.8 | 29.9 | 33.0 | 35.2 |
| Dividend per share | 15.0 | 9.7 | 12.7 | 14.1 | 15.0 |
| Book value per share | 368.9 | 260.7 | 287.4 | 304.0 | 321.7 |

Valuations Ratios

| Y/E 31 Mar (x) | FY18A | FY19P | FY20E | FY21E | FY22E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 1.8 | 1.5 | 1.5 | 1.4 | 1.4 |
| EV/EBITDA | 4.6 | 3.7 | 3.7 | 3.5 | 3.3 |
| Adjusted P/E | 6.4 | 5.2 | 5.0 | 4.5 | 4.3 |
| P/BV | 0.4 | 0.6 | 0.5 | 0.5 | 0.5 |

DuPont Analysis

| Y/E 31 Mar (%) | FY18A | FY19P | FY20E | FY21E | FY22E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 71.9 | 83.5 | 65.0 | 65.0 | 65.0 |
| Interest burden (PBT/EBIT) | 140.5 | 98.2 | 127.3 | 122.0 | 119.4 |
| EBIT margin (EBIT/Revenue) | 24.8 | 29.0 | 27.5 | 28.5 | 28.8 |
| Asset turnover (Revenue/Avg TA) | 23.8 | 30.7 | 30.7 | 32.2 | 32.6 |
| Leverage (Avg TA/Avg Equity) | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 |
| Adjusted ROAE | 9.4 | 11.4 | 10.7 | 11.2 | 11.3 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

| Y/E 31 Mar | FY18A | FY19P | FY20E | FY21E | FY22E |
|--|-------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 12.1 | 28.9 | 3.6 | 11.4 | 7.9 |
| EBITDA | 21.5 | 33.7 | 5.1 | 13.2 | 8.4 |
| Adjusted EPS | 12.1 | 22.5 | 3.7 | 10.6 | 6.6 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 38.5 | 39.9 | 40.5 | 41.2 | 41.3 |
| EBIT margin | 24.8 | 29.0 | 27.5 | 28.5 | 28.8 |
| Adjusted profit margin | 25.0 | 23.8 | 22.8 | 22.6 | 22.3 |
| Adjusted ROAE | 9.4 | 11.4 | 10.7 | 11.2 | 11.3 |
| ROCE | 5.2 | 7.4 | 6.9 | 7.5 | 7.6 |
| Working capital days (days) | | | | | |
| Receivables | 41 | 38 | 39 | 37 | 38 |
| Inventory | 83 | 76 | 93 | 90 | 92 |
| Payables | 32 | 30 | 35 | 33 | 34 |
| Ratios (x) | | | | | |
| Gross asset turnover | 0.5 | 0.6 | 0.6 | 0.6 | 0.5 |
| Current ratio | 1.6 | 1.2 | 1.0 | 1.1 | 1.1 |
| Net interest coverage ratio | 6.4 | 8.3 | 6.8 | 6.3 | 5.9 |
| Adjusted debt/equity | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

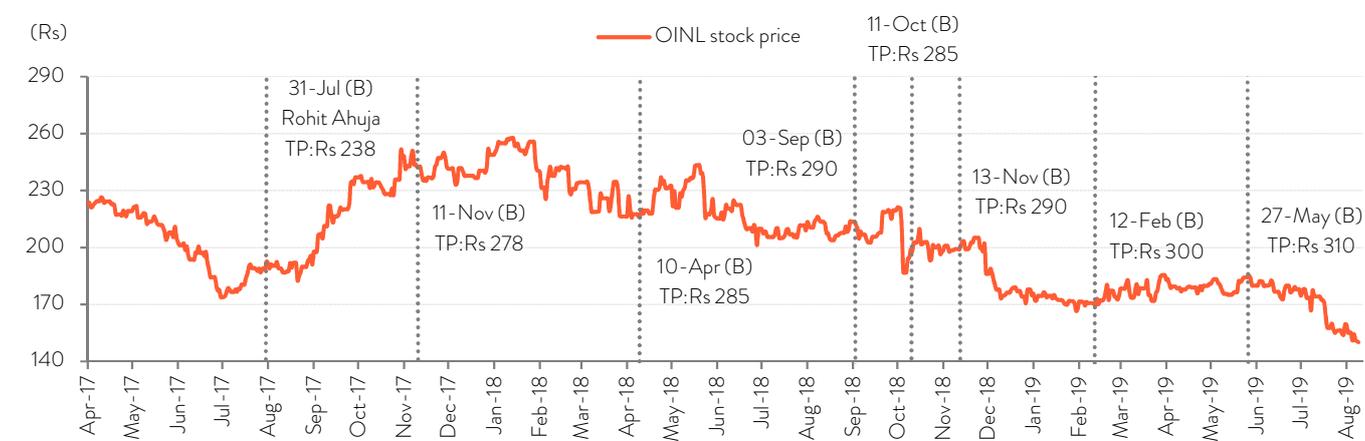
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: OIL INDIA (OINL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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