

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).

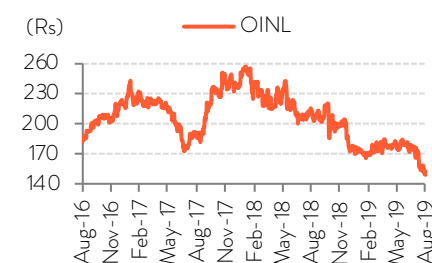
Volumes remain a drag: OINL's oil production continues to decline (0.81 mmt, -3.7% YoY), while gas remains robust (0.71 bcm, 2.3%). It also continues to trend well below management's earlier guidance of oil production at 3.66mmt and gas production at 3.02bcm for FY20. Despite OINL garnering Oil price 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

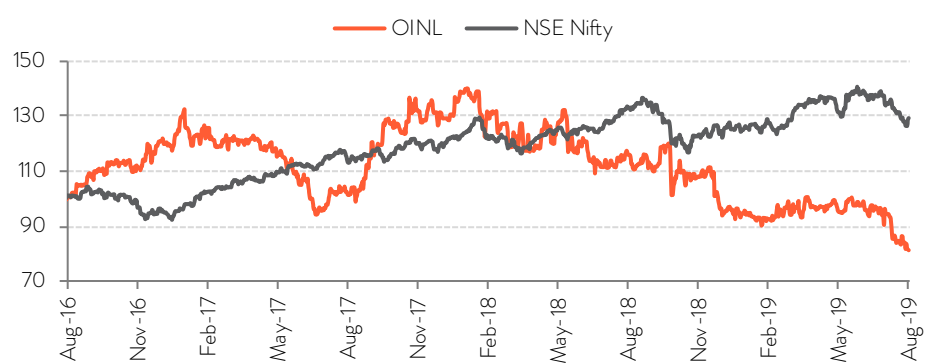
Particulars	Value (Rs mn)	Value (Rs/sh)	Comments
Core business value	181,896	160	3.5x Sept'21E cash earnings
Reserve upsides	56,516	50	Overall EV/boe of US\$ 2/bbl on P2 potential reserves net to OINL (Area 1 Mozambique and Tomsk region)
LPG business EV	8,658	8	6x Sept'21E EBITDA
Transportation Business 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%

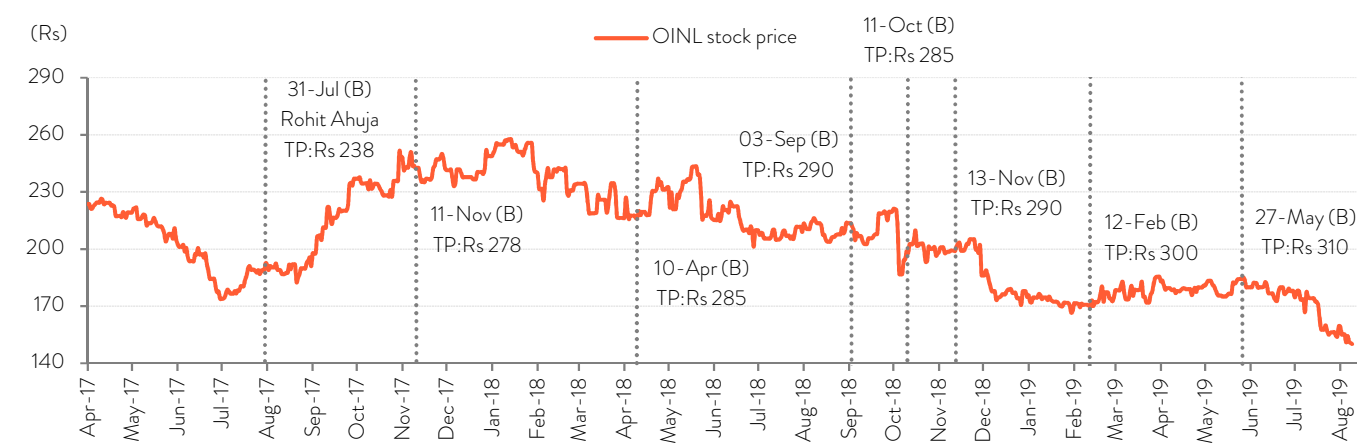
ADD – Expected return from >+5% to +15%

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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