INSTITUTIONAL RESEARCH

Oil & Gas

4QFY17E Results Preview

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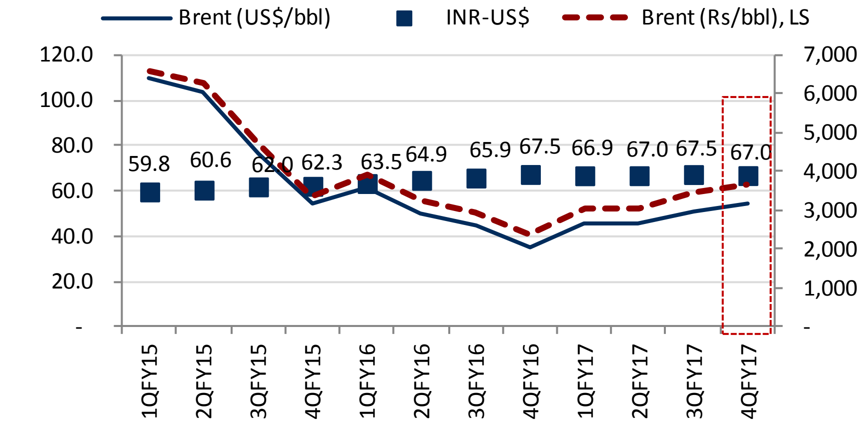
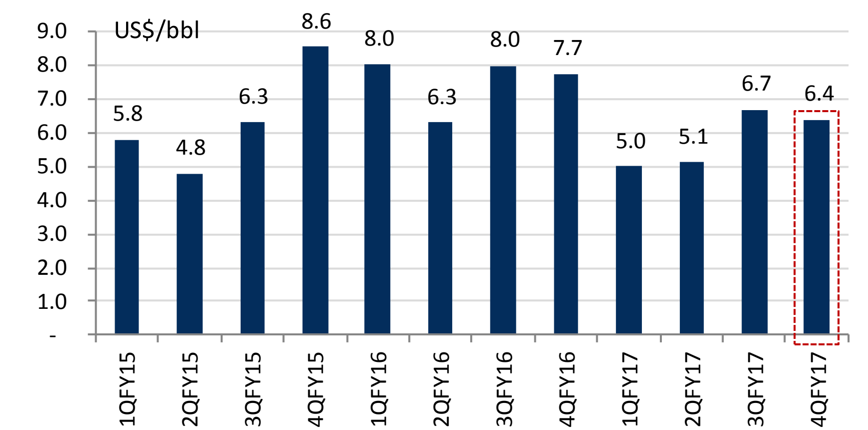
4QFY17E: Mixed Performance

- **Top picks:** GAIL is our top pick. Higher petchem volumes, lower gas prices and rising gas volumes will improve profitability.
- **Steady crude prices:** Crude prices remain strong on the back of continuation of supply cuts by OPEC and non-OPEC countries (excluding the US). Oil prices rose by 7% QoQ to USD 54.6/bbl in 4QFY17. We expect no major impact on inventory in Q4.
- **Stable GRM:** Strong margins in light distillates have partially negated the weakness in middle and heavy distillates. Singapore complex GRM was USD 6.4/bbl (-4% QoQ) in Q4. A strengthening INR (+1% QoQ vs. USD) will further negatively impact the refining earnings.
- **Downstream:** Results will be weak sequentially, led by (1) A fall in GRM, (2) Strong INR, and (3) Absence of huge inventory gains that OMCs enjoyed in 3QFY17. **Our top pick is IOC.**
- **Upstream players:** Oil prices remain strong. However, domestic natural gas prices were muted. Volumes will be flat for ONGC and Oil India. We expect crude prices to remain range-bound at ~USD 55/bbl. We see potential in both ONGC and OIL, if crude prices remain stable. **We are upgrading ONGC and Oil India to BUY.**
- **RIL:** The performance of the refining and petchem segments will be strong. However, post the recent rally in stocks, we see a limited upside. It is very difficult to ascertain returns on the huge investments made in the telecom space. **We downgrade RIL to NEUTRAL.**
- **Gas players**
  - **GAIL:** The company will benefit from higher gas volumes and improving profits in the petchem and LPG segments.
  - **IGL:** We expect flat QoQ performance.
  - **Petronet LNG:** We expect a sequential flat performance.

Crude And Currency Movement



Singapore Complex GRM



Source: Bloomberg, Industry reports, HDFC sec Inst Research

4QFY17E: Mixed Performance

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Reliance Industries	**AVERAGE**	▪ GRM should be at ~USD 10.5/bbl (vs 10.8 QoQ) ▪ Petrochemical volumes should increase QoQ. Petchem margins will remain healthy	▪ Clarity on project commissioning schedule ▪ Clarity on telecom venture
ONGC	**GOOD**	▪ Volumes will be flat ▪ Crude prices are up 54% YoY and gas prices are down 35% YoY ▪ We expect subsidy sharing to be nil	▪ Commentary on volume ramp-up ▪ Guidance on future capex ▪ Outlook on OVL performance and acquisition plans
Indian Oil Corporation	**AVERAGE**	▪ Results are not comparable owing to inventory, forex and under-recovery impact ▪ GRM should be ~USD 4.0/bbl ▪ Higher interest/depreciation costs (Paradeep ref.)	▪ Status of Paradeep refinery capacity utilisation ▪ Commentary on petchem margins ▪ Guidance on future capex
BPCL	**BAD**	▪ GRM should be ~USD 4.5/bbl ▪ Interest costs will remain muted ▪ There should be no sharing of subsidy	▪ Clarity on Mozambique upstream development ▪ Guidance on future capex ▪ Outlook on GRM
GAIL India	**VERY GOOD**	▪ Gas volumes will be strong at ~103 mmscmd (+3% YoY), led by increased RLNG volumes ▪ Petchem profitability will be strong ,owing to higher volumes and margins	▪ Opex in petchem with increasing utilisation ▪ Clarity on pipeline tariff increase ▪ Guidance on future capex
HPCL	**BAD**	▪ Results are not comparable owing to inventory, forex and under-recovery impact ▪ GRM should be ~USD 6.5/bbl led by inventory gains ▪ There should be no sharing of subsidy	▪ Clarity on marketing margin expansion ▪ Guidance on future capex

4QFY17E: Mixed Performance

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Petronet LNG	**GOOD**	▪ Dahej volumes should be robust at ~3.4 mnT (+13% YoY, -10% QoQ). ▪ Re-gasification margins will be higher by +5% YoY ▪ We expect spot margins of Rs 10/scm	▪ Clarity on offtake from expanded Dahej facility ▪ Clarity on Kochi-Mangalore-Bangalore pipeline
Oil India	**AVERAGE**	▪ Volumes will be flat ▪ Crude prices are up 54% YoY and gas prices are down 35% YoY ▪ We expect subsidy sharing to be nil	▪ Commentary on volume ramp-up ▪ Guidance on future capex and commentary on the recent E&P acquisitions
Indraprastha Gas	**GOOD**	▪ Volumes will be ~4.6 mmscmd (13/1% YoY/QoQ), led by both CNG and the industrial segments ▪ Strong EBITDA margin at Rs 5.8/scm (+12% YoY)	▪ Outlook on newer geographies ▪ Growth guidance

4QFY17E: Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS		
	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	QoQ (bps)	YoY (bps)	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	3Q FY17	4Q FY16
Reliance Industries	632.1	2.3	26.5	106.3	0.2	2.8	16.8	(34)	(388)	81.4	1.5	12.7	25.1	24.8	22.3
ONGC	202.4	1.1	24.7	104.1	0.4	66.0	51.4	(39)	1,279	50.0	15.0	21.1	3.9	3.4	3.2
Indian Oil Corp	986.6	6.0	22.6	68.6	(13.7)	69.7	7.0	(158)	193	33.0	(17.4)	165.9	6.8	8.2	2.6
BPCL	568.8	6.2	28.7	19.9	(39.9)	(42.8)	3.5	(269)	(439)	11.5	(49.3)	(54.8)	8.0	15.7	17.6
GAIL India	120.6	(0.6)	2.8	19.5	13.1	59.5	16.2	195	575	11.7	19.3	52.3	6.9	5.8	4.6
HPCL	559.9	15.3	32.7	20.1	(28.4)	(24.6)	3.6	(219)	(272)	10.2	(35.5)	(34.0)	10.1	15.6	15.3
Petronet LNG	56.6	(10.1)	(6.7)	6.1	0.5	33.1	10.8	113	322	3.9	(2.3)	59.8	5.2	5.3	3.2
Oil India	26.7	9.3	33.0	8.7	18.6	17.4	32.6	257	(432)	5.6	22.1	(10.4)	6.9	5.7	7.7
Indraprastha Gas	9.7	2.6	9.6	2.5	(0.6)	24.7	25.3	(80)	306	1.4	(1.8)	32.1	10.2	10.3	7.7
Aggregate Oil &Gas	**3,163.5**	**5.9**	**24.7**	**355.8**	**(7.2)**	**20.9**	**11.2**	**(159)**	**(35)**	**208.8**	**(6.0)**	**13.2**			

Source : Company, HDFC sec Inst Research

Peer Valuation

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Reliance Industries	4,387	1,354	NEU	1,225	91.2	103.2	117.7	14.8	13.1	11.5	1.7	1.5	1.3	11.7	12.0	12.3
ONGC	2,396	187	BUY	228	14.2	15.3	16.8	13.1	12.2	11.1	1.5	1.4	1.3	11.7	12.0	12.4
Indian Oil Corp	1,987	409	BUY	425	39.5	41.1	40.3	10.4	9.9	10.2	2.4	2.1	1.9	24.4	22.3	19.3
BPCL	1,037	717	NEU	730	52.1	54.1	60.7	13.8	13.3	11.8	3.4	3.0	2.6	26.1	24.1	23.8
GAIL India	640	378	BUY	450	22.2	29.3	31.1	17.1	12.9	12.2	1.9	1.8	1.6	11.8	14.4	14.0
HPCL	552	542	BUY	650	54.5	53.9	51.9	9.9	10.1	10.5	2.7	2.5	2.2	28.8	25.8	22.5
Petronet LNG	323	430	BUY	485	20.8	25.3	30.3	20.7	17.0	14.2	4.3	3.7	3.1	22.6	23.3	23.6
Oil India	267	334	BUY	370	26.0	25.8	25.8	12.8	12.9	12.9	1.2	1.1	1.1	9.2	8.8	8.5
Indraprastha Gas	145	1,036	BUY	1,227	40.9	45.0	50.7	25.3	23.0	20.4	5.1	4.3	3.7	21.7	20.4	19.7

Source : Company, HDFC sec Inst Research

Rating Definitions

BUY	:	Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	:	Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
SELL	:	Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

Disclosure:
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