Materials

4QFY18E Results Preview

12 Apr 2018

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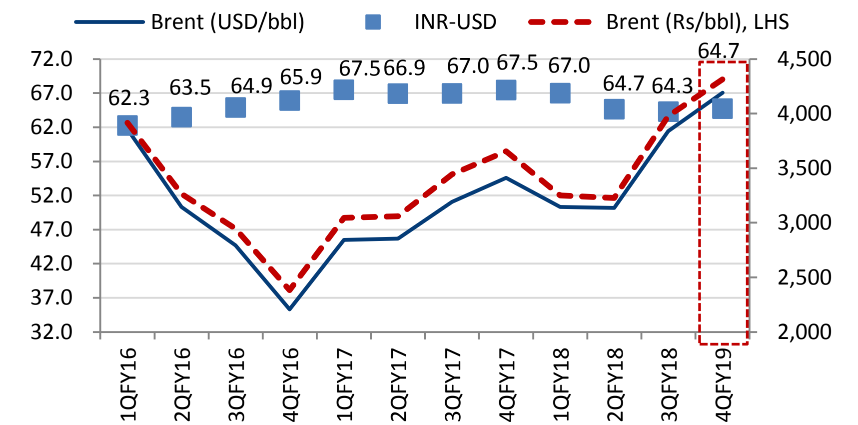
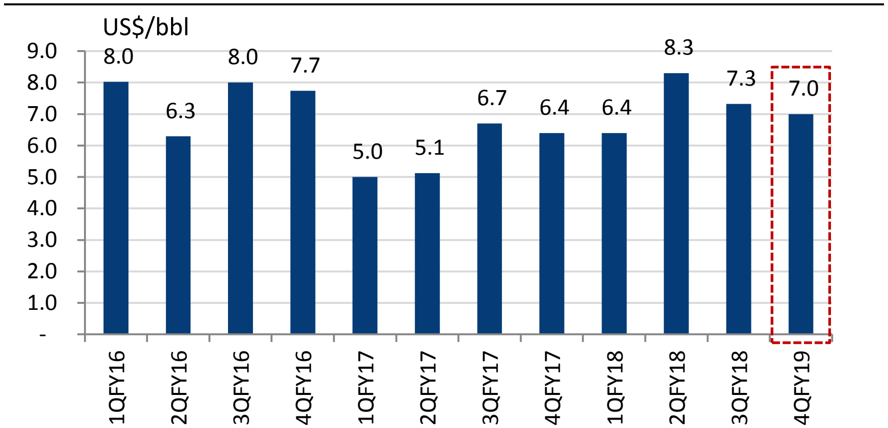
Oil & Gas: Crude oil up, GRMs down

- **Crude prices:** Brent has jumped 9% QoQ and 23% YoY to USD 67.1/bbl in 4QFY18. We expect inventory gains of ~USD 0.5 to 1.2/bbls) to downstream companies.
- **GRM:** Singapore complex GRM was USD 7/bbl (-4.4% QoQ, +9.4% YoY) in 4QFY18. Strong margins in Gasoil at USD 14.7/bbl (+12% QoQ, +24% YoY) and Jet Kero at USD 15/bbl (+10% QoQ, +29% YoY) have partially negated the weakness in Gasoline margins which was down 3.6% QoQ and 10% YoY to USD 13.4/bbl and Fuel Oil margins which was down 29% QoQ and 51% YoY.
- **Downstream:** OMCs did not pass on the full impact of rising oil prices in 3QFY18 to auto fuel consumers (likely on account of state elections), compressing marketing margins. But they have hiked prices in 4Q to restore marketing margins. Blended marketing margins were up 6.3-6.5% QoQ to Rs 3/litre. Strong marketing margins and inventory gains are likely to offset for lower refining margins during the quarter.
- **Upstream players:** The supply cut by OPEC and non-OPEC countries (excluding US), will provide strength to crude prices. However, strong shale oil supplies from US will provide a cap on crude prices. We thus expect oil price to remain range bound. In Q4, ONGC's and OIL's earnings are driven by higher crude oil realisation (we have not factored in subsidy sharing) and dividend income.
- **RIL:** Standalone PAT to increase by 0.7% QoQ to Rs 85.16bn owing to increase in petchem volumes (+8% QoQ) led by ramp of ROGC unit.
- **Gas players**
  - **IGL:** 12% YoY volume growth led by 20% growth from PNG segment. We expect EBITDA margin of Rs5.9/scm (+60 bps YoY).
  - **MGL:** 7% YoY volume growth led by 8.4% volume growth from Domestic PNG segment. We expect EBITDA margin of Rs 7.4/scm (+44 bps YoY).
  - **Petronet LNG:** We expect 10.5% YoY increase in volumes to 199tbtu. We have assumed 5% escalation in regasification tariffs. Dahej and Kochi regasification charges are Rs 47/mmbtu and Rs 79.2/mmbtu respectively.

Crude And Currency Movement



Singapore Complex GRM



Source: Bloomberg, Industry reports, HDFC sec Inst Research

4QFY18E: Good upstream, bad downstream

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Reliance Industries	**AVERAGE**	▪ GRM should be at ~USD 11.4/bbl (vs 11.6 in 3QFY18). ▪ Higher petchem earnings owing to ramp in production from ROGC and Px plants.	▪ Commissioning of Petcoke gasification project. ▪ Update on R- cluster development .
ONGC	**VERY GOOD**	▪ Crude prices were up 9.1% QoQ while domestic oil production was down 1.3% QoQ in 4QFY18. ▪ Gas production was down 4% QoQ due to lower production from WO16 cluster and no production from B127. ▪ No subsidy sharing by the company.	▪ Commentary on gas volume ramp-up from Western offshore fields, C-series. ▪ Current status of KG-DWN-98/2 development.
Indian Oil Corporation	**AVERAGE**	▪ Core GRM should be USD 7.0/bbl and crude inventory gain should be USD 1.2/bbl. ▪ Refinery crude throughput likely to be 17.6 mmt v/s 18.2mmt in 3QFY18, which was impacted due to planned shutdown of Paradeep refinery . ▪ Marketing volumes are likely to go down by 2% QoQ to 21.1mmt while blended marketing margin should go up by 6.3% QoQ to Rs3.3/litre.	▪ Guidance on future capex. ▪ Status of Ennore LNG terminal project and clarity on LNG tie up with suppliers and customers. ▪ Progress of PP project at Paradeep.

4QFY18E: Good upstream, bad downstream

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
BPCL	**GOOD**	▪ Core GRM should be USD 6.3/bbl and crude inventory gain should be USD 0.5/bbl. ▪ Refinery crude throughput likely to be 7.7mmt v/s 7.3mmt in 3QFY18 owing to increase in crude throughput at Kochi refinery post capacity addition. ▪ Marketing volumes are likely to go down by 1% QoQ to 11.1mmt and marketing margin is likely to go up by 9% QoQ to Rs3.3/litre.	▪ Stabilisation of Kochi refinery. ▪ Guidance on future capex. ▪ Clarity on Mozambique upstream development.
HPCL	**AVERAGE**	▪ Core GRM should be USD 6/bbl and crude inventory gain should be USD 0.5/bbl. ▪ Refinery crude throughput likely to be 4.6mmt v/s 4.5mt in 3QFY18. ▪ Marketing volumes were down 0.5% QoQ to 9.22mmt while blended marketing margin was up 6.5% QoQ to Rs3/litre.	▪ Current status of Visakh refinery expansion project. ▪ Guidance on future capex.
Petronet LNG	**AVERAGE**	▪ Dahej volumes should be at 191 tbtu (+10.8% YoY, -10.7% QoQ) and Kochi volumes at 8tbtu (+176% YoY, flattish QoQ). ▪ Marketing margins are expected to be at Rs 430mn on traded volumes.	▪ Clarity on Kochi-Mangalore pipeline completion. ▪ Status of 2.5 mmtpa Dahej expansion project.

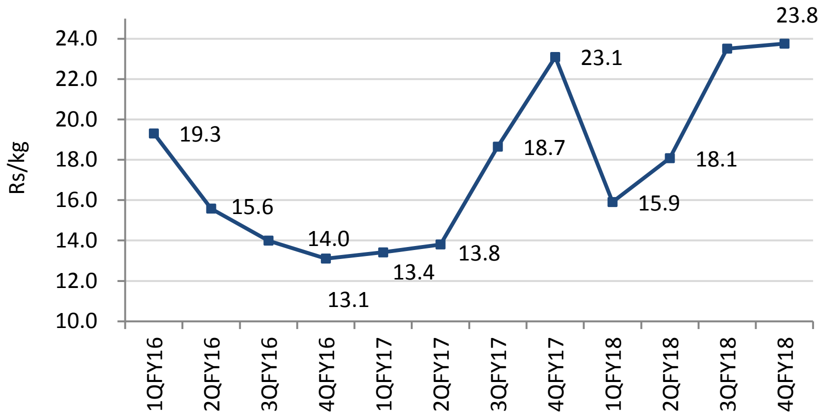
4QFY18E: Good upstream, bad downstream

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Oil India	**VERY GOOD**	▪ Crude oil realisation was up 9% and gas realisation was flattish QoQ. ▪ Gas production was up 2% QoQ. ▪ No subsidy sharing by the company.	▪ Update on development of block Area 1 Rovuma, Mozambique and LNG project. ▪ Guidance on future capex.
Indraprastha Gas	**GOOD**	▪ Volumes expected to be ~5.42mmscmd (12/3% YoY/QoQ), led by likely volume growth in PNG segment (20/5.7% YoY/QoQ). ▪ EBITDA margin is Rs 5.9/scm (+60 bps YoY).	▪ Volumes from new area Rewari. ▪ Timeline for rollout of network in Karnal. ▪ Addition of new buses by DTC and by private operators.
Mahanagar Gas	**GOOD**	▪ Volumes expected to be ~2.8mmscmd (7/2.4% YoY/QoQ), led by likely volume growth in Domestic PNG segment. ▪ EBITDA margin at Rs 7.4/scm (+44 bps YoY)	▪ Incremental volumes from Raigad area.
Asian Oilfield Services	**VERY GOOD**	▪ Pick up in execution of domestic seismic survey business in 4Q.	▪ The outlook for orders from ONGC and OIL under National Seismic Programme (NSP).

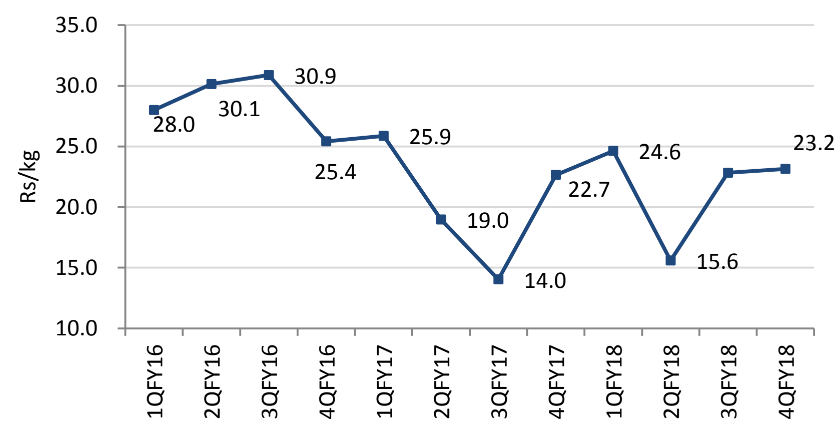
Chemicals: A steady quarter

- A slight recovery in the global agro-chemicals environment, anti-dumping duty safe guards implemented/proposed on DMAC, DMF and Mono Iso-Propyl Amine and recent capacity additions augur well for Amine companies in 4QFY18E. We are expecting a margin pressure owing to higher RM prices of Methanol (up by 3.0% YoY) to Rs 23.8/kg and Ammonia (up 2.0% YoY) to Rs 23.2/kg. However, since Amine companies remain net importers, we expect the margin pressure to be slightly off-set by an appreciating rupee (appreciated by 3.9% YoY, 0.6% QoQ).
- The government has imposed an anti dumping duty on Dimethylacetamide (DMAC) and Mono Iso-Propyl Amine (MIPA) on 20th March'18 and 21st March'18 respectively on Chinese and Turkish manufacturers. Balaji Amines has a capacity of 6,000 MTPA of DMAC and is expected to put up ~15,000 MTPA capacity of MIPA by FY21E. Alkyl Amines has a manufacturing capacity of ~2,500 MTPA of MIPA. The grossly under-utilised capacities are expected to ramp up owing to imposition of duties on cheap dumping. The government is also likely to implement an anti-dumping duty on Dimethylformaide, Balaji Amines has a capacity of 30,000 MTPA of DMF currently operating at ~20% utilization.
- Balaji Amines has expanded its capacity of Morpholine by 7,000 MTPA and Acetonitrile by ~5,000 MTPA in March'18, while Alkyl Amines has commissioned ~30,000 MTPA of Methyl Amine capacity at Dahej in February'18.
- We are expecting a volume growth of 12% for both Amine manufacturers, Sales/EBITDA/PAT growth of 9.2%/4.4%/27.6% YoY for Balaji Amines and expect Sales/EBITDA/PAT growth of 9.1%/14.4%/19.6% for Alkyl Amines.

Average Quarterly Methanol Prices



Average Quarterly Ammonia Prices



Source: Industry, HDFC sec Inst Research

4QFY18E: Balaji Amines to remain ahead of the curve…

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Balaji Amines	**GOOD**	▪ Balaji Amines is expected to witness a slight blip in EBITDA margins, we expect EBITDA margins to be at 19.7% (down 90 bps YoY) due to higher RM prices (Methanol) and other expenditure due to the on-going capex. ▪ We expect a PAT growth of 27.6% YoY to Rs 223 mn due to a relatively lower tax rate of 37.7% in 4QFY18E as against 45.0% in 4QFY17.	▪ Prices of Methanol, Ammonia and Ethanol. ▪ Anti Dumping duty on Dimethylformamide(DMF) and ramp up in DMF utilization. ▪ Execution of Mega status project which is expected to come on stream by FY21E.
Alkyl Amines	**GOOD**	▪ We do not expect margins to contract in the case of Alkyl Amines due to its efficient pass through model. We maintain our EBITDA margins at 16.9% up 80 bps YoY. ▪ We expect a PAT growth of 19.6% YoY to Rs 135 mn.	▪ Ramping up of Methyl Amine plant in Dahej. ▪ Entry into niche derivatives and value added products.

4QFY18E: Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS		
	4Q FY18E	QoQ (%)	YoY (%)	4Q FY18E	QoQ (%)	YoY (%)	4Q FY18E	QoQ (bps)	YoY (bps)	4Q FY18E	QoQ (%)	YoY (%)	4Q FY18E	3Q FY18	4Q FY17
Reliance Industries	806.80	*10.1*	*20.2*	138.99	*1.1*	*23.2*	17.2	*(153.4)*	*42.8*	85.16	*0.7*	*4.5*	13.1	13.4	12.5
ONGC	244.47	*6.3*	*12.6*	125.45	*0.2*	*86.5*	51.3	*(315.1)*	*2,034.3*	54.14	*8.0*	*24.7*	4.2	3.9	3.4
Indian Oil Corp	1,177.95	*6.4*	*17.4*	83.08	*(37.4)*	*(24.7)*	7.1	*(493.7)*	*(394.1)*	48.63	*(38.3)*	*(43.8)*	5.1	8.3	9.1
BPCL	652.49	*7.6*	*14.4*	30.68	*(3.8)*	*38.7*	4.7	*(55.8)*	*82.3*	19.68	*(8.2)*	*6.9*	9.9	10.7	9.2
HPCL	622.49	*8.3*	*20.8*	26.81	*(15.1)*	*(7.1)*	4.3	*(118.9)*	*(129.5)*	16.42	*(15.8)*	*(9.7)*	10.8	12.8	11.9
Petronet LNG	89.26	*15.1*	*40.2*	6.47	*(23.6)*	*5.0*	7.3	*(367.0)*	*(242.9)*	3.85	*(27.2)*	*(18.2)*	2.6	3.5	3.1
Oil India	29.47	*3.3*	*17.3*	12.62	*3.0*	*NA*	42.8	*(11.2)*	*NA*	9.46	*34.1*	*193.1*	8.3	6.2	0.2
Indraprastha Gas	12.02	*1.5*	*20.0*	2.88	*9.3*	*25.3*	23.9	*171.3*	*101.9*	1.81	*8.9*	*34.8*	2.6	2.4	1.9
Mahanagar Gas	5.78	*(0.6)*	*10.0*	1.86	*(7.5)*	*13.9*	32.1	*(174.5)*	*109.6*	1.13	*(8.8)*	*13.8*	11.5	12.6	10.1
Asian Oil Field Services	1.06	*94.4*	*11.5*	0.59	*1,365.6*	*121.1*	55.7	*4,830.1*	*2,761.8*	0.33	*NA*	*38.5*	11.2	(0.3)	8.1
Aggregate Oil &Gas	**3,641.79**	***7.9***	***18.1***	**429.42**	***(11.3)***	***23.8***	**11.8**	***(255.9)***	***53.8***	**240.61**	***(10.8)***	***(5.8)***			
Balaji Amines	2,110	*(3.6)*	*9.2*	415	*(18.8)*	*4.4*	19.7	*(370)*	*(90)*	223	*(18.9)*	*27.6*	6.9	8.5	5.4
Alkyl Amines	1,430	*(6.6)*	*9.1*	242	*14.4*	*(9.4)*	16.9	*(50)*	*80*	135	*19.6*	*(10.0)*	6.6	7.3	5.5
Aggregate	**3,540**	***(4.8)***	***9.2***	**657**	***(15.6)***	***7.9***	**18.6**	***(230)***	***(10)***	**358**	***(15.7)***	***24.4***	**13.5**	***15.8***	***10.9***

Source : Company, HDFC sec Inst Research

Peer Valuation

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
						FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Reliance Industries	5,892.7	929	BUY	1,102	19	65.5	74.1	80.4	9.2	8.1	7.5	1.8	1.6	1.4	13.6	13.7	13.2
ONGC	2,335.7	182	BUY	290	59	16.1	22.1	23.2	10.1	7.4	7.0	1.2	1.1	1.0	10.9	14.0	13.8
Indian Oil Corp	1,592.6	168	BUY	252	50	22.1	23.5	24.7	5.9	5.6	5.3	1.5	1.3	1.1	20.0	19.2	17.8
BPCL	836.7	419	BUY	584	39	35.1	42.0	45.5	6.8	5.7	5.3	2.4	2.1	1.8	21.9	22.7	21.3
HPCL	515.6	338	BUY	458	35	36.3	30.4	29.3	5.5	6.5	6.7	2.3	2.0	1.8	25.9	19.4	16.7
Petronet LNG	369.0	246	BUY	303	23	12.9	13.6	16.9	18.3	17.4	14.0	3.9	3.3	2.8	22.0	19.6	20.7
Oil India	250.8	221	BUY	333	51	22.9	29.1	30.8	5.7	4.5	4.2	0.8	0.7	0.7	8.5	9.9	9.5
Indraprastha Gas	207.9	297	BUY	422	42	9.9	11.7	13.1	25.8	21.9	19.5	6.2	5.3	4.6	22.0	22.4	21.7
Mahanagar Gas	90.3	914	NEU	1,263	38	49.2	45.2	46.8	19.2	20.9	20.2	4.4	4.0	3.7	25.0	20.8	19.8
Asian Oil Field Services	5.7	193	NA	252	31	21.6	36.1	25.2	8.9	5.3	7.6	3.6	2.2	1.7	66.1	48.5	24.0
Balaji Amines	21.1	650	BUY	725	12	33.1	36.4	42.5	19.5	17.8	15.2	4.7	3.8	3.1	24.2	21.6	20.5
Alkyl Amines	12.9	630	BUY	710	13	27.2	29.4	32.1	23.2	21.4	19.6	4.5	3.9	3.4	20.9	19.4	18.4

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

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