INSTITUTIONAL RESEARCH

ONGC

Falling realisations drag revenue down!

Our REDUCE recommendation on ONGC with a price target of INR 78 is premised on (1) muted crude oil and gas realisations and (2) lack of production growth for oil. Despite production cuts from OPEC and non-OPEC countries, we expect oil prices to remain at USD 36/41 per barrel in FY21/22E vs. USD 63/bbl in FY20, given the weak global macros. Lower oil and gas realisations will drag down profitability for ONGC. In 1QFY21, revenue was ~8% below our expectations owing to a lower-than-anticipated crude oil price realisation of USD 28.7/bbl (vs est. USD 31.7/bbl). EBITDA was ~15% above our expectations due to lower-than-anticipated operating expenses and employee costs. However, APAT fell by ~36%, courtesy substantially lower-than-anticipated other income.

- **Standalone financial performance:** Revenue for 1QFY21 stood at INR 130bn (-51/-39% YoY/QoQ). Revenue fell mainly on account of a lower crude realisation (-57/-41% YoY/QoQ). EBITDA fell by 61/31% YoY/QoQ to INR 59bn due to the trickle-down effect of lower revenues. APAT came to INR 5bn (vs INR 59/-31bn in 1QFY20/4QFY20).
- **Standalone operational performance**: 1Q crude oil realisation was USD 28.7/bbl (USD 66.3/49.0 YoY/QoQ) whereas gas realisation was USD 2.5/mmbtu vs. USD 3.9/3.3 YoY/QoQ. Oil sales volumes were 5.2mmt, -2.6/-5.2% YoY/QoQ. Gas sales volumes were 4.2bcm, -15.2/-9.2% YoY/QoQ.
- **Outlook for FY21/22 (standalone business)**: We expect crude oil production volumes to remain subdued at 21.4mmt in FY21 and recovery to 22.8mmt in FY22. Natural gas volumes should dip from 19.4bcm in FY20 to 18.9bcm in FY21 and recover to 20.2bcm in FY22. Oil prices should remain muted at USD 36/41 vs. USD 59 in FY20, given weak global macros, despite production cut from OPEC and non-OPEC countries. Gas realisation should slide to USD 2.7/2.9 per mmbtu in FY21/22E (USD 3.9/mmbtu in FY20).
- **We value ONGC's standalone business at INR 54 and its investments at INR 24. The stock is currently trading at 9.7x FY22E EPS.**

Standalone Financial summary

YE March (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19*	FY20P*	FY21E*	FY22E*
Revenues	130	215	*(39.4)*	266	*(51.0)*	4,535	4,250	3,294	3,758
EBITDA	59	86	*(31.2)*	151	*(60.9)*	839	612	412	563
APAT	5	(31)	*(116.0)*	59	*(91.6)*	349	181	30	104
AEPS (INR)	0.4	(2.5)	*(116.0)*	4.7	*(91.6)*	27.7	14.4	2.4	8.3
P/E (x)						2.9	5.6	33.8	9.7
EV/EBITDA (x)						2.5	3.6	6.6	4.7
RoE (%)						16.5	8.5	1.4	5.1

Source: Company, HSIE Research | *Consolidated

Change in estimates (Consolidated)

	FY21E Old	FY21E New	*% Ch*	FY22E Old	FY22E New	*% Ch*
EBITDA (INR bn)	412	412	-	563	563	-
EPS (INR/sh)	2.4	2.4	-	8.3	8.3	-

Source: Company, HSIE Research

REDUCE

CMP *(as on 2 Sept 2020)*	**INR 80**
Target Price	**INR 78**
NIFTY	**11,535**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 78	INR 78
	FY21E	FY22E
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	ONGC IN
No. of Shares (mn)	12,580
MCap (Rs bn) / ($ mn)	1,010/13,803
6m avg traded value (Rs mn)	2,201
52 Week high / low	Rs 150/50

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	(4.7)	(9.9)	(33.7)
Relative (%)	(20.3)	(12.3)	(38.4)

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	60.41	60.41
FIs & Local MFs	17.87	17.37
FPIs	7.62	8.10
Public & Others	14.10	14.12
Pledged Shares	0.0	0.00

Source : BSE

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Disclosure:

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