

ONGC

Realisations recover slowly

Our REDUCE recommendation on ONGC with a price target of INR 70 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 59/bbl in FY20, given the weak global macro. Lower oil and gas realisations will drag profitability down for ONGC. In 2QFY21, revenue was ~4% below our expectations, owing to a lower-than-anticipated crude oil price realisation of USD 41.4/bbl (vs estimate USD 42.7/bbl). EBITDA in 2Q was in line with our estimates. APAT rose by ~55%, courtesy substantially higher-than-anticipated other income, and lower-than-anticipated interest cost.

- **Standalone financial performance:** Revenue for 2QFY21 stood at INR 169bn (-31/+30% YoY/QoQ). It fell YoY mainly due to lower crude realisation (-31% YoY). EBITDA fell by ~37% YoY to INR 84bn due to the trickle-down effect of lower revenue and higher operating expenses. APAT came to INR 29bn (vs INR 63/5bn in 2QFY20/1QFY21).
- **Standalone operational performance:** 2Q crude oil realisation was USD 41.4/bbl (USD 60.3/28.7 YoY/QoQ) whereas gas realisation was USD 2.5/mmbtu vs. USD 3.9/2.5 YoY/QoQ. Oil sales volumes were 5.1mmt, -6/-2% YoY/QoQ. Gas sales volumes were 4.6bcm, -7/+8% YoY/QoQ.
- **Call takeaways:** (1) OVL has signed a contract with FAR Senegal RSSD SA to acquire 13.67% participating interest in Exploitation Area (Sangomar Field), and 15% participating interest in Exploration Area under RSSD Production Sharing Contract, Offshore Senegal. (2) Capex target for FY21/22 is ~INR 320/300bn. (3) The Board has approved OMPL and MRPL merger.
- **Outlook for FY21/22 (standalone business)** We expect crude oil production volumes to remain subdued at 23.1mmt in FY21 and recover to 23.4mmt in FY22. Natural gas volumes should dip from 24.9bcm in FY20 to 23.7bcm in FY21 and recover to 25.4bcm in FY22. Oil prices should remain muted at USD 36/41 in FY21/22E vs. USD 59 in FY20, given weak global macro, despite production cut from OPEC and non-OPEC countries. Gas realisation should slide to USD 2.4/2.1 per mmbtu in FY21/22E (USD 3.9/mmbtu in FY20).
- **We value ONGC's standalone business at INR 47 and its investments at INR 23. The stock is currently trading at 10.8x FY22E EPS.**

Standalone Financial summary

YE March (INR bn)	2Q FY21	1Q FY21	QoQ (%)	2Q FY20	YoY (%)	FY20*	FY21E*	FY22E*	FY23E*
Revenues	169	130	30.0	245	(30.9)	4,250	3,279	3,707	4,084
EBITDA	84	59	42.8	133	(36.5)	612	409	522	605
APAT	29	5	480.2	63	(54.0)	181	31	82	109
AEPS (INR)	2.4	0.4	498.3	5.0	(52.6)	14.4	2.5	6.6	8.6
P/E (x)						4.9	28.7	10.8	8.2
EV/EBITDA (x)						3.3	6.1	4.8	4.0
RoE (%)						8.5	1.5	4.1	5.5

Source: Company, HSIE Research | *Consolidated

REDUCE

CMP (as on 17 Nov 2020)	INR 71
Target Price	INR 70
NIFTY	12,874

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 66	INR 70
EPS %	FY21E	FY22E
	0.00%	0.00%

KEY STOCK DATA

Bloomberg code	ONGC IN
No. of Shares (mn)	12,580
MCap (Rs bn) / (\$ mn)	897/12,048
6m avg traded value (Rs mn)	1,605
52 Week high / low	Rs 136/50

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.1)	(6.4)	(47.4)
Relative (%)	(26.1)	(47.7)	(56.3)

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	60.41	60.41
FIs & Local MFs	17.37	17.53
FPIs	8.10	7.69
Public & Others	14.12	14.37
Pledged Shares	0.00	0.00

Source : BSE

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Disclosure:

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