

Q2FY20E Metals Earnings Preview



BP WEALTH

Metals | Earnings Preview

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Subdued Q2 metal prices and demand to impact Operational Performance

The domestic steel sector witnessed challenging Q2 with demand growth slipping to 1.7% YoY in August 2019 compared to 6.4% YoY in April 2019. This, coupled with a sharp fall in steel prices due to trade war resulted in INR 3500 – INR 3800/t impacting profitability for all major companies in Q2. Consequently, raw material prices have also fallen sharply, but the benefit would flow in Q3FY20E onwards. We expect blended steel realizations to be lower by INR 3500-3800/t while aluminium/copper average LME were lower by 2%/12%/5% YoY. We believe owing to monsoons, steel sector seasonally have weaker Q2 demand and 2HFY20 is expected to be better than 1HFY20 from pickup in infrastructure activities. Metals overall would witness worse performance in this quarter, causing EBITDA to fall by 34.7% QoQ and 43.4% YoY. Going forward, the outcome of US-China trade negotiations would trigger the future trajectory of global metal sector.

Coal India

For Q2FY20, Coal India reported offtake of 122.5 million tonne (MT), down 10.8% YoY. Production for the quarter was impacted by heavy rainfall in its mines. Hence, We expect the topline to decrease 11.5% YoY to INR 193.7 bn. Due to lower volumes and higher costs, EBITDA/t is expected to fall by 51% QoQ to Rs265/t. We expect PAT to fall by 46.7% QoQ and 20.1% YoY.

Hindalco

We expect the market slowdown and decline in aluminium prices to have pressure on overall performance of the company. We believe due lower to alumina prices and higher volume (standalone + utkal) Revenue to grow by 2.0% QoQ and -5.4% YoY to INR 102.5 bn and EBITDA to grow by 11.8% QoQ and -26.5% YoY to INR 8 bn. PAT is expected to bumper growth of 165.5% QoQ and -68.3% YoY due to lower base on account of maintenance shutdown last quarter. Novelis for Q2FY20 is expected to report FRP shipments of ~820 KT and EBITDA/t of \$415/t.

MOIL

We expect Revenue to decline by 28.2% YoY and 8.3%QoQ to INR 2569 mn and EBITDA down by 45.3% YoY and 27.9%QoQ to INR 799.8 mn due to decrease in selling price, lower sales volume and higher cost of production. Subsequently, Net Profit is likely to be at INR 811.8 down by 22.8% YoY and 10.5% QoQ benefitting from lower tax expenses.

NALCO

We expect Revenue for Q2FY20 to be INR 21.1 bn up 1.6% QoQ and -30.4% YoY, while EBITDA at INR 1.6 bn down by 20.9% QoQ and -80.1% YoY due to aluminium LME prices down by USD 27/t QoQ to USD 1765/t and alumina prices declined by 18% QoQ to USD 302/t which is also offsetted by increase in sales volume. PAT is expected to fall lower at INR 10 million by 10% YoY due to shift in tax rate to 25.2%.

NMDC

NMDC reported subdued sales volume of 5.9MT for Q2FY20 down 12.4% YoY and 29.7% QoQ, which is lowest in past several quarters due to Donaimalai issue. We expect Revenue to decline by 7.4% YoY and 30.8% QoQ to INR 22.5 bn while EBITDA down by 10.9% YoY and 39.9% QoQ due to lower sales volume partly offset by higher realization. Net Profit is expected to be at INR 10.2 bn up 60.1% YoY due to higher tax base previous year.

JSPL

JSPL for Q2FY20 reported a 1.46 million tonnes from domestic operations, up 10.6% YoY. Due to lower realization and higher sales volume, we expect revenue to report INR 92.3 bn down by 7.2% QoQ and 7.6% YoY. Consol EBITDA to remain subdued at INR 17.0 bn down 21.4% QoQ and 22.7% YoY due to steel realization down by INR 2000/t QoQ and sluggish power demand from states. We expect JSPL to report loss in Q2 of INR 3.8 bn due higher depreciation and interest cost.

Tata Steel

Tata Steel for Q2FY20 reported a 4.14 million tonnes (provisional) from India business, down 4.5% YoY whereas overseas sales volume remained almost flat. We expect Revenue of INR 344.6 bn decline by 4.1% QoQ and 20.9% YoY while EBITDA of INR 41.8 bn down by 22.2% QoQ and 53.1% YoY due to lower realizations and higher cost. Owing to squeeze in margins, we expect EBITDA/t of INR 5947/t compared to INR 13040/t last year. Net Profit is likely to be dried up at INR 2.9 bn down 58.4% QoQ and 91.7% YoY due to higher depreciation and interest cost.

JSW Steel

Lower steel prices and steel volume down by 8% YoY to 3.85MT are likely to dampen revenue and EBITDA for Q2FY20. We expect Revenue at INR 181.2 bn down by 15.9%YoY and 8.5% QoQ while EBITDA at INR 29.6 bn down by 39.5% YoY and 20.1% QoQ. EBITDA/ton for the quarter is likely to be around INR 7727/ton compared to INR 11736/ton last year down by 34.1%YoY. Net profit is likely to be INR 5.4 bn down 74.5% YoY and 47.2% QoQ due to higher interest cost and depreciation expenses.

Performance (%)	1m	3m	1Yr
Coal India	-4	-17	-31
Hindalco	-5	-5	-17
Moil	9	-11	-20
Nalco	-5	-16	-17
NMDC	18	-10	-13
JSPL	10	-27	-42
Tata Steel	-5	-25	-39
JSW steel	-2	-18	-42
Sail	-1	-28	-50
IGL	12	17	53
MGL	12	20	15
Gujarat Gas	-1	5	25

Our Top Picks:

⇒ Hindalco

⇒ JSPL

⇒ MGL

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SAIL

SAIL is likely to report sales volume of 3.2MT down 3% QoQ. Realisation to fall by INR 3523/t leading to fall in revenue by 19.6% YoY and 9.3% QoQ to INR 134.4 bn. Owing to decrease in realization and higher cost, EBITDA/t is expected to be down to INR 2089/t from INR 7320/t previous year whereas EBITDA is expected to decrease by 71.7%YoY and 57.7% QoQ to INR 6.6 bn. Interest cost is likely to rise due to increase in debt level leading to loss at PAT level to INR 5.2 bn.

Gas Utilities Outlook

India is aiming to double gas contribution in energy mix from 7% to 15% by FY2025. At present CGD authorisation has been given by PNGRB for 178 GAs covering approx 50% of India's population. With completion of 10th bidding round, CGD would be available in 228 GAs covering 70% of population. As per commitment by various entities 20 mn PNG connections and 3578 CNG stations for transport sector would be installed during a period of 8 years upto 31st March 2029, in addition to 58,177 inch km of steel pipeline. This would help to defuse infrastructure bottleneck and increase penetration.

IGL

IGL has excellent record of positive volume growth sequential quarterly basis. With continuous vehicle conversions and Delhi pollution issue, it is expected volume to grow by 10.5%YoY and revenue by 17.6% YoY and 6.1%QoQ to INR 16.7 bn. EBITDA is expected to be INR 3.6 bn up 19.4% YoY and 2.6% QoQ led by price hike and soft spot LNG prices. We expect PAT at INR 2.6 bn up 40% YoY over lower tax expenses.

MGL

MGL is expected to report revenue of INR 8106 mn up 7% QoQ and 16.4% YoY on account of price hike and stable volume growth of 5.5% YoY supported by continuous conversion rate of CNG vehicles. We expect EBITDA to improve to INR 2756 million up 24.4% YoY and -0.4% QoQ led by higher realization and soft spot LNG prices. PAT is expected to report INR 1891 million up 11.1% QoQ and 38.7% YoY over decrease in tax expenses.

Gujarat Gas

We expect revenue to increase by 21.5% YoY to INR 23.8 bn on account of higher volume from morbi. EBITDA growth is expected to be robust 109.6% YoY basis due to lower base last year but would decline by 27.8% QoQ as the company has reduced selling price to customers. Subsequently, we expect net profit to jump 328.2% YoY to INR 1.7 bn.

Summary Estimates (In mn)

Company	Revenue			YoY%		QoQ%	EBITDA			YoY%		QoQ%	PAT			YoY%		QoQ%
	Q2FY20E	Q2FY19	Q1FY20				Q2FY20E	Q2FY19	Q1FY20				Q2FY20E	Q2FY19	Q1FY20			
(In Mn)																		
JSPL	92,278	99,823	99,456	-7.6%	-7.2%		17,071	22,074	21,731	-22.7%	-21.4%		(3,879.0)	882.0	94.0	NA	NA	
JSW	181,261	215,520	198,120	-15.9%	-8.5%		29,675	49,060	37,160	-39.5%	-20.1%		5,423.0	21,260.0	10,280.0	-74.5%	-47.2%	
Tata Steel	344,593	435,441	359,471	-20.9%	-4.1%		41,810	89,195	53,769	-53.1%	-22.2%		2,910.0	34,894.0	7,000.0	-91.7%	-58.4%	
SAIL	134,484	167,180	148,200	-19.6%	-9.3%		6,685	23,650	15,819	-71.7%	-57.7%		(5,287.0)	5,760.0	688.0	NA	NA	
NMDC	22,583	24,379	32,637	-7.4%	-30.8%		11,227	12,594	18,668	-10.9%	-39.9%		10,189.0	6,365.0	11,794.0	60.1%	-13.6%	
MOIL	2,569	3,578	2,801	-28.2%	-8.3%		800	1,463	1,110	-45.3%	-27.9%		811.8	1,051.0	906.8	-22.8%	-10.5%	
COAL India	193,736	218,840	249,390	-11.5%	-22.3%		32,401	43,171	66,124	-24.9%	-51.0%		24,670.7	30,861.0	46,306.0	-20.1%	-46.7%	
NALCO	21,167	30,409	20,841	-30.4%	1.6%		1,696	8,509	2,144	-80.1%	-20.9%		875.0	8,246.0	1,477.0	-89.4%	-40.8%	
HINDALCO	102,509	108,330	100,547	-5.4%	2.0%		8,019	10,907	7,174	-26.5%	11.8%		977.0	3,086.0	368.0	-68.3%	165.5%	
IGL	16,719	14,215	15,761	17.6%	6.1%		3,678	3,080	3,585	19.4%	2.6%		2,621.8	1,873.0	2,184.0	40.0%	20.0%	
MGL	8,106	6,965	7,575	16.4%	7.0%		2,756	2,215	2,768	24.4%	-0.4%		1,891.3	1,364.0	1,702.0	38.7%	11.1%	
GGL	23,869	19,643	26,146	21.5%	-8.7%		3,369	1,607	4,665	109.6%	-27.8%		1,760.0	411.0	2,341.0	328.2%	-24.8%	

Source: Company, BP Equities Research



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