

Oil&Gas

Company Overview

Oil and Natural Gas Corporation Limited specializes in the exploration and production of crude oil and gas. ONGC is the largest crude oil and natural gas Company in India, contributing around 75 per cent to Indian domestic production. The Company has joint ventures in oil fields in Vietnam, Norway, Egypt, Tunisia, Iran and Australia.

Investment Rationale

KG98/2 block to commence gas production from current month

Gas production is scheduled to start from 18th February from the KG-DWN-98/2 block. The production volumes are expected to get streamlined in about 6 months' time and this should help improve the overall production levels from FY21 onwards. However, management has not provided any guidance on the volumes as of now.

Volatility in Crude prices and Production cut to impact in near term

The Crude oil prices remained weak throughout the year, and the recent Coronavirus outbreak has made the markets more volatile. Total crude oil production during the quarter dropped 3.5% YoY to 5.823 mmt and total gas production stood at 6.173 bcm (vs. 6.691 in Q3FY19). Average Brent crude prices remained largely stable during Q3FY20, which resulted in net realisations at US\$59.7/bbl. In the ongoing quarter global crude oil prices declined sharply after the Coronavirus outbreak and other geopolitical events. Nil subsidy last year and the recent decline in oil prices makes us believe there would be nil subsidy.

Valuation and Outlook

The crude oil prices are expected to remain volatile in the short-term due to the coronavirus outbreak. The production uptick is expected once the output from K98/2 block is normalized. We recommend BUY rating on the stock with a target price of INR 77 based on SOTP methodology. We value core business i.e. standalone & OVL at PE multiple of 3.5x FY22E earnings & investments at INR 20/share (50% discount to current MCap).

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	61
Target Price (INR)	77
NSE Symbol	ONGC
Bloomberg	ONGC.IN
Reuters	ONGC.BO

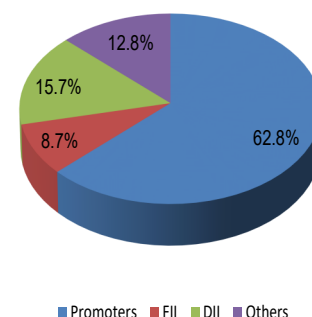
Key Data

Nifty	8,281
52WeekH/L(INR)	178/51
O/s Shares (Mn)	12580.3
Market Cap (INR bn)	757
Face Value (INR)	5

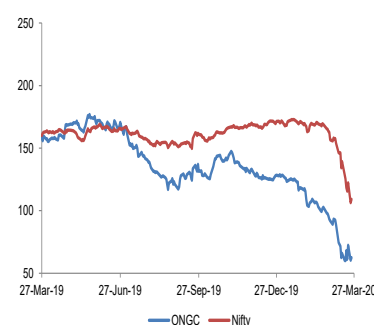
Average volume

3 months	32,467
6 months	21,258
1 year	17,140

Share Holding Pattern (%)



Relative Price Chart





Weekly Wealth

Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Total Income	85,004	1,09,654	98,680	1,00,122	1,03,626
<i>Revenue Growth (Y-o-Y)</i>	-74.4%	29.0%	-10.0%	1.5%	3.5%
Profit Before Tax	44,838	58,260	52,760	50,161	51,917
<i>Growth (Y-o-Y)</i>	-29.1%	29.9%	-9.44%	-4.93%	3.50%
Net Profit	19,945	26,715	21,830	19,924	20,518
<i>Net Profit Growth (Y-o-Y)</i>	-55.4%	33.9%	-18.3%	-8.7%	3.0%
EPS	15.9	21.2	17.4	15.8	16.3
<i>Diluted EPS Growth (Y-o-Y)</i>	-23.3%	33.9%	-18.3%	-8.7%	3.0%
Key Ratios					
EBIDTA (%)	52.7%	53.1%	53.5%	50.1%	50.1%
NPM (%)	23.5%	24.4%	22.1%	19.9%	19.8%
RoE (%)	10.3%	13.2%	10.0%	8.7%	8.4%
RoCE (%)	20.5%	25.9%	23.0%	21.1%	21.0%
Valuation Ratios					
P/E (x)	4.1x	3.0x	3.7x	4.1x	3.9x
EV/EBITDA	2.4x	1.8x	1.8x	1.7x	1.5x
P/BV (x)	0.4x	0.4x	0.4x	0.4x	0.3x
Market Cap. / Sales (x)	1.0x	0.7x	0.8x	0.8x	0.8x



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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil**Analyst (s) Certification:**

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