

ONGC

Refer to important disclosures at the end of this report

Gas realizations to follow rising oil prices; KG 98/2 ramp-up starts

CMP	Target Price
Rs 116 as of (May 18, 2021)	Rs 130 (■) 12 months
Rating	Upside
BUY (■)	11.8 %

- Oil prices near USD70/bbl and the rise in broader energy complex augur well for ONGC. Our FY22/23 earnings estimates and TP of Rs130 are based on assumption of USD55-56/bbl Brent prices, and hence they have a material upside.
- We estimate a 58% increase in the domestic gas price to USD2.8/mmbtu GCV in Oct'21 as global gas benchmarks strengthen. Current Alberta-Henry Hub rates at USD2.5-3.0/mmbtu and NBP near USD10 imply a spot realization of USD4.4/mmbtu for ONGC.
- ONGC's bidding for 2mmscmd of KG 98/2 gas is underway. While the current ceiling is USD3.6/mmbtu, we estimate it to jump to USD6-7/mmbtu in Oct'21 (closer to 10.5% of Brent slope sought) due to the rise in prices of alternate fuels (naphtha-FO) and LNG.
- The 2mmscmd first 98/2 bidding round is likely to be followed by a larger 5mmscmd round toward the year end, thereby adding over 10% to current output. Hence, ONGC could enter a cycle of production growth along with higher realization. Retain Buy (OW stance).

Oil prices firm near USD70/bbl on global recovery, OPEC+ discipline: Brent prices continue to hover near USD70/bbl, driven by the prospects of a global demand recovery and OPEC+'s production discipline. Positive near-term demand-supply balance with inventory destocking would provide support and unless the OPEC+ deal breaks down, a significant downside risk to oil prices is low. Our current Brent price assumption is USD55/56 for FY22/23, though there is an upside risk to the same. Every USD5/bbl increase in oil realization improves ONGC's FY22E EPS by Rs3 per share or 22%.

Broad-based increase in gas prices expected based on current formula: While we are cautiously optimistic on domestic gas pricing reforms, we estimate a 58% rise in formula prices due to the rise in global gas benchmarks. In fact current rates imply a USD4.4/mmbtu spot price, which is 2.5x of prevailing USD1.79/mmbtu, GCV. Rise in prices of alternate fuels like naphtha, FO and coal and LNG implies that deep water HP-HT ceiling should also increase from USD3.6/mmbtu to USD6-7/mmbtu, GCV in H2FY22. This would boost KG-DWN-98/2 gas realization for ONGC.

ONGC may see double-digit growth in gas output next year: ONGC's first tender of 2mmscmd of KG 98/2 gas is under bidding and supplies are expected to start by Jul'21. ONGC has sought 10.5% of Brent with a term of 3 to 5 years. As per media reports, this would be followed by a larger 5mmscmd offer by Dec'21. A total of 7mmscmd is over 10% of ONGC's current gas output, thereby leading to a sizeable production growth in CY22. ONGC has envisaged 15mmscmd of peak output from 98/2.

Valuation: We value ONGC's standalone business at 4x FY23E EV/EBITDA and listed investments at a 50% holdco discount to arrive at a TP of Rs130/sh.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Oil & Gas \(page 6\)](#)

Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	7.1	13.9
Consensus	12.9	13.1
Mean Consensus TP (12M)	Rs 129	

Stock Details

Bloomberg Code	ONGC IN
Face Value (Rs)	5
Shares outstanding (mn)	12,580
52 Week H/L	122 / 64
M Cap (Rs bn/USD bn)	1,461 / 20.00
Daily Avg Volume (nos.)	34,098,700
Daily Avg Turnover (US\$ mn)	51.6

Shareholding Pattern Mar '21

Promoters	60.4%
FII's	8.1%
DII's	17.5%
Public and Others	14.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	5	61	59
Rel. to Nifty	5	5	38	(7)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,096,546	962,136	682,911	857,688	903,980
EBITDA	514,482	414,509	263,140	375,874	402,634
EBITDA Margin (%)	46.9	43.1	38.5	43.8	44.5
APAT	272,569	172,377	89,645	175,494	187,381
EPS (Rs)	21.7	13.7	7.1	13.9	14.9
EPS (% chg)	38.0	(36.8)	(48.0)	95.8	6.8
ROE (%)	13.9	9.7	4.5	8.6	8.8
P/E (x)	5.4	8.5	16.3	8.3	7.8
EV/EBITDA (x)	3.2	4.1	6.3	4.4	3.9
P/BV (x)	0.7	0.8	0.7	0.7	0.7

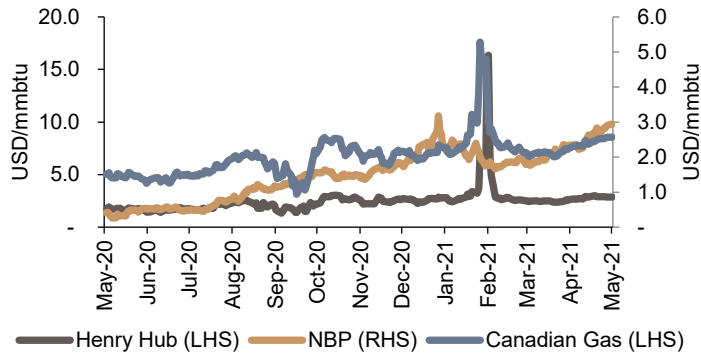
Source: Company, Emkay Research

Story in Charts

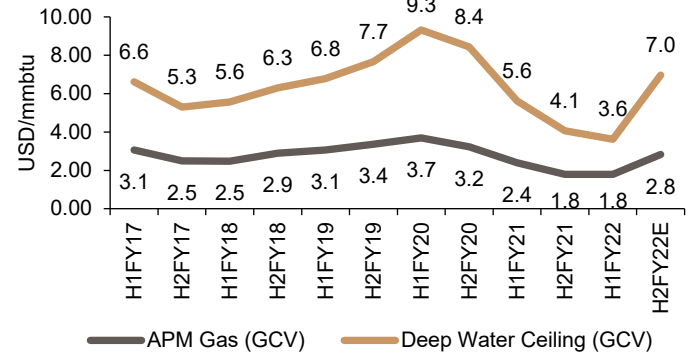
Exhibit 1: Spot benchmarks imply a domestic gas price of USD4.4/mmbtu GCV

USD/mmbtu	Volume Share	Netback
Henry Hub	43%	2.5
Canada	6%	2.0
NBP	31%	9.5
Russia	20%	1.0
Blended Domestic Gas Price		4.4

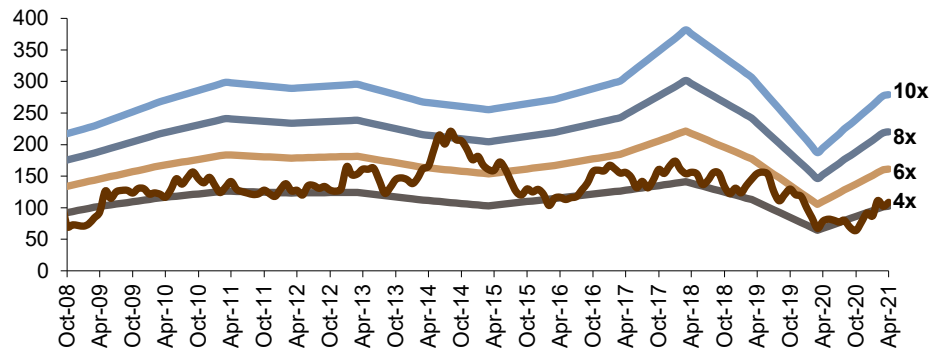
Source: BP, Bloomberg, Emkay Research

Exhibit 2: Benchmark gas prices have strengthened


Source: Bloomberg, Emkay Research

Exhibit 3: Domestic gas prices to rise 60-80% in 2HFY22


Source: PPAC, Emkay Research

Exhibit 4: EV/EBITDA Band Chart – ONGC's valuation is attractive


Source: Bloomberg, Emkay Research

Exhibit 5: Value of investments

Rs/sh/mn	Shares (mn)	Price	Value
MRPL - CMP	1,255	35	43,937
PLNG - CMP	188	240	45,000
IOCL - CMP	1,337	95	127,034
GAIL - CMP	217	130	28,236
HPCL - CMP	779	225	175,256
Total			419,463

Source: Company, Emkay Research

Exhibit 6: SOTP valuation

Mar'23 Estimates (Rs bn)	Earnings/Value	Multiple (x)	EV/FV	Value/sh
Standalone				
EV/EBITDA Valuation	403	4.0	1,611	128
Less: Net Debt (Mar'22E End)			188	15
FV			1,423	113
Listed Investments - 50% Hair Cut	419	50%	210	17
Target Price			1,632	130

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,096,546	962,136	682,911	857,688	903,980
Expenditure	582,063	547,627	419,771	481,814	501,346
EBITDA	514,482	414,509	263,140	375,874	402,634
Depreciation	154,561	186,169	163,992	180,402	197,267
EBIT	359,921	228,340	99,148	195,472	205,367
Other Income	72,653	61,050	52,532	55,736	61,624
Interest expenses	24,921	28,237	17,882	16,589	16,483
PBT	407,653	261,154	133,799	234,618	250,509
Tax	132,645	69,241	44,925	59,124	63,128
Extraordinary Items	(7,362)	(57,467)	(12,380)	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	267,646	134,445	76,494	175,494	187,381
Adjusted PAT	272,569	172,377	89,645	175,494	187,381

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	62,902	62,902	62,902	62,902	62,902
Reserves & surplus	1,954,994	1,880,479	1,925,305	2,021,827	2,124,886
Net worth	2,017,896	1,943,381	1,988,206	2,084,728	2,187,787
Minority Interest	0	0	0	0	0
Loan Funds	215,936	237,757	220,000	195,000	125,000
Net deferred tax liability	274,261	263,441	259,816	256,118	252,347
Total Liabilities	2,508,093	2,444,579	2,468,022	2,535,847	2,565,134
Net block	1,219,357	1,276,991	1,320,506	1,376,445	1,409,733
Investment	1,143,770	1,057,702	1,061,036	1,064,403	1,067,804
Current Assets	283,451	269,860	204,102	238,938	253,388
Cash & bank balance	5,041	9,682	19,432	7,005	8,936
Other Current Assets	110,632	121,620	86,324	108,417	114,269
Current liabilities & Provision	488,988	522,229	483,500	513,476	539,023
Net current assets	(205,537)	(252,369)	(279,398)	(274,539)	(285,635)
Misc. exp	0	0	0	0	0
Total Assets	2,508,093	2,444,579	2,468,022	2,535,847	2,565,134

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	335,000	200,104	81,267	178,882	188,884
Other Non-Cash items	84,242	103,334	(12,380)	0	0
Chg in working cap	(32,636)	40,654	33,153	(20,984)	9,257
Operating Cashflow	423,038	577,853	238,870	295,647	348,642
Capital expenditure	(174,301)	(255,555)	(211,130)	(240,000)	(234,250)
Free Cash Flow	248,737	322,298	27,740	55,647	114,392
Investments	3,227	86,068	(3,334)	(3,367)	(3,401)
Other Investing Cash Flow	(127,406)	(237,303)	118	119	121
Investing Cashflow	(225,827)	(345,740)	(161,814)	(187,512)	(175,906)
Equity Capital Raised	(1,265)	0	0	0	0
Loans Taken / (Repaid)	(39,986)	21,821	(17,757)	(25,000)	(70,000)
Dividend paid (incl tax)	(40,220)	0	0	0	0
Other Financing Cash Flow	(95,905)	(221,055)	(31,668)	(78,973)	(84,321)
Financing Cashflow	(202,297)	(227,471)	(67,307)	(120,562)	(170,804)
Net chg in cash	(5,086)	4,642	9,750	(12,427)	1,932
Opening cash position	10,127	5,041	9,682	19,432	7,005
Closing cash position	5,041	9,682	19,432	7,005	8,936

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	46.9	43.1	38.5	43.8	44.5
EBIT Margin	32.8	23.7	14.5	22.8	22.7
Effective Tax Rate	32.5	26.5	33.6	25.2	25.2
Net Margin	25.1	19.9	13.0	20.5	20.7
ROCE	17.4	11.7	6.2	10.0	10.5
ROE	13.9	9.7	4.5	8.6	8.8
RoIC	36.9	22.6	9.7	18.5	18.6

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	21.7	13.7	7.1	13.9	14.9
CEPS	34.1	30.1	20.1	28.3	30.6
BVPS	160.4	154.5	158.0	165.7	173.9
DPS	7.0	5.0	2.5	6.3	6.7

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	5.4	8.5	16.3	8.3	7.8
P/CEPS	3.4	3.9	5.8	4.1	3.8
P/BV	0.7	0.8	0.7	0.7	0.7
EV / Sales	1.5	1.8	2.4	1.9	1.8
EV / EBITDA	3.2	4.1	6.3	4.4	3.9
Dividend Yield (%)	6.0	4.3	2.2	5.4	5.8

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.1	0.1	0.1	0.1	0.1
Net Debt/EBIDTA	0.4	0.6	0.8	0.5	0.3
Working Cap Cycle (days)	(1.6)	3.2	2.3	5.1	4.7

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	29.0	(12.3)	(29.0)	25.6	5.4
EBITDA	38.0	(19.4)	(36.5)	42.8	7.1
EBIT	57.8	(36.6)	(56.6)	97.2	5.1
PAT	34.2	(49.8)	(43.1)	129.4	6.8

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	237,101	214,562	130,113	169,171	170,238
EBITDA	105,795	55,495	47,808	69,894	65,076
EBITDA Margin (%)	44.6	25.9	36.7	41.3	38.2
PAT	42,265	(30,983)	4,960	28,778	13,782
EPS (Rs)	3.4	(2.5)	0.4	2.3	1.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	60.4	60.4	60.4	60.4	60.4
FIIIs	7.6	8.1	7.7	7.7	8.1
DIIIs	17.9	17.4	17.5	17.7	17.5
Public and Others	14.1	14.1	14.4	14.2	14.0

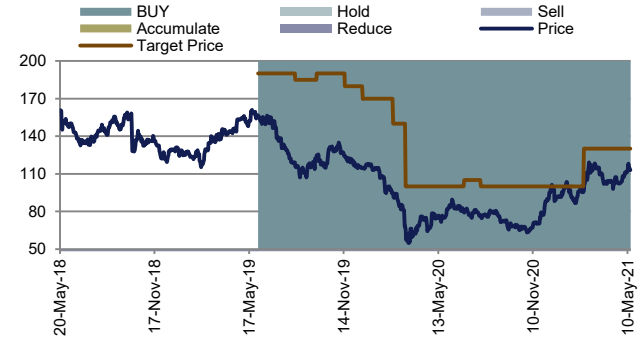
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Apr-21	102	130	12m	Buy	Sabri Hazarika
23-Mar-21	107	130	12m	Buy	Sabri Hazarika
18-Feb-21	111	130	12m	Buy	Sabri Hazarika
15-Feb-21	97	130	12m	Buy	Sabri Hazarika
6-Jan-21	95	100	12m	Buy	Sabri Hazarika
26-Nov-20	79	100	12m	Buy	Sabri Hazarika
17-Nov-20	70	100	12m	Buy	Sabri Hazarika
27-Oct-20	66	100	12m	Buy	Sabri Hazarika
28-Sep-20	71	100	12m	Buy	Sabri Hazarika
2-Aug-20	77	100	12m	Buy	Sabri Hazarika
1-Jul-20	79	105	12m	Buy	Sabri Hazarika
6-May-20	78	100	12m	Buy	Sabri Hazarika
11-Mar-20	66	100	12m	Buy	Sabri Hazarika
16-Feb-20	95	150	12m	Buy	Sabri Hazarika
24-Jan-20	108	170	12m	Buy	Sabri Hazarika
20-Dec-19	115	170	12m	Buy	Sabri Hazarika
4-Dec-19	119	180	12m	Buy	Sabri Hazarika
16-Nov-19	124	180	12m	Buy	Sabri Hazarika
25-Oct-19	128	190	12m	Buy	Sabri Hazarika
23-Sep-19	125	190	12m	Buy	Sabri Hazarika
13-Aug-19	116	185	12m	Buy	Sabri Hazarika
10-Jun-19	150	190	12m	Buy	Sabri Hazarika
3-Jun-19	157	190	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Oil & Gas



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Sector

Oil & Gas

Analyst bio

Sabri Hazarika holds an MBA and comes with 11 years of research experience. His team currently covers 12 stocks in the Indian Oil & Gas space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Oil & Gas	9.92	9.91	0%	0	100.00
BPCL	0.42	0.46	10%	4	4.68
GAIL	0.33	0.37	12%	4	3.68
Gujarat Gas	0.11	0.00	-100%	-11	0.00
Gujarat State Petronet	0.09	0.05	-46%	-4	0.51
Gulf Oil Lubricants	0.00	0.03	NA	3	0.30
HPCL	0.22	0.24	10%	2	2.40
Indian Oil	0.31	0.29	-5%	-2	2.92
Indraprastha Gas	0.21	0.23	11%	2	2.37
Petronet LNG	0.21	0.24	10%	2	2.37
Oil India	0.06	0.06	0%	0	0.56
ONGC	0.49	0.54	10%	5	5.47
Reliance Industries	7.48	7.41	-1%	-7	74.72
Cash	0.00	0.00	NA	0	0.03

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	18-May-20	17-Nov-20	15-Feb-21	16-Apr-21	17-May-21
EAP - Oil & Gas	100.0	90.3	121.0	127.0	122.8	126.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	90.2	120.1	126.2	122.1	125.4

*Performance measurement base date 1st April 2019

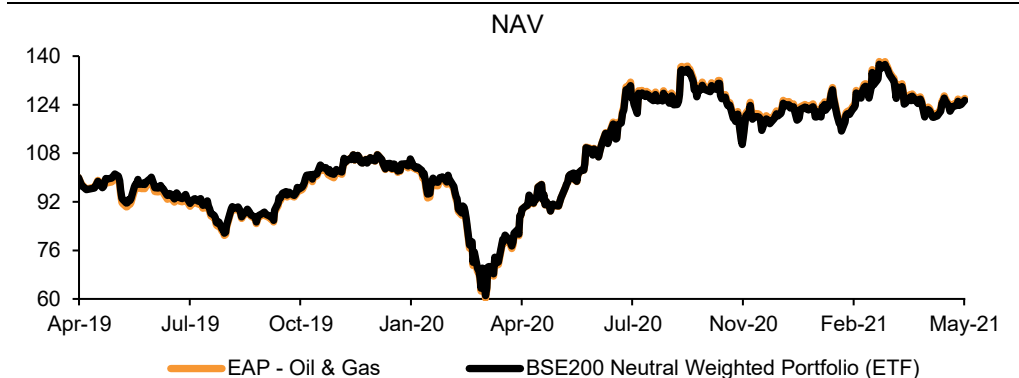
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Oil & Gas	2.7%	-0.7%	4.2%	39.7%
BSE200 Neutral Weighted Portfolio (ETF)	2.8%	-0.6%	4.5%	39.1%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 19 May 2021 04:06:36 (SGT)

Dissemination Date: 19 May 2021 04:07:36 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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