

Oil and Natural Gas Corporation

4Q10 results in line; focus on government policy -
ALERT

Neutral

ONGC.BO, ONGC IN

Price: Rs1,132.05

28 May 2010

- **ONGC results in line:** ONGC 4Q net profits of RS37.7bn (up 24% sequentially) were in line with estimates, post the reduction in subsidy burden due to additional contributions (Rs140bn) from the government.
- **Subsidy payout still high:** ONGC had a subsidy payout of Rs49.9bn in 4Q, up sharply over last quarter (43%) despite the government putting in a further RS140bn into the subsidy pie, reflecting elevated levels of subsidies on auto fuels with crude prices averaging US\$79.2/bbl in 4Q.
- **Dry wells drive exploration expenses:** Exploration-related expenses remained in line with 3Q levels, higher than seen in 1HFY10, with dry well write-offs a large contributor at Rs23.8bn.
- **Production drops, but...:** Crude production dropped 2% this fiscal quarter, with output from domestic fields continuing to decline. However, ONGC also reported its highest domestic reserve accretion in 20 years (reserve replacement of 1.73), which augurs well for the coming years.
- **Impact:** With the results largely in line with the Street and with APM gas prices hiked, focus will remain on the EGoM deliberations on the fuel price reform/subsidy sharing issue. We hold our constructive view of the same, and expect to see partial de-regulation on auto fuels, helping moderate subsidy payouts for the upstream companies.

Exploration & Production

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Table 1: ONGC 4Q earnings summary

Rs m	Mar'09	Jun'09	Sep' 09	Dec' 09	Mar'10	Y/Y (%)	Q/Q (%)
Net sales	138,336	149,454	151,916	155,061	160,022	16%	3%
Raw material cons	18,214	(91)	864	1,387	2,003	-89%	44%
Staff cost	(699)	2,512	2,847	3,047	2,661	-481%	-13%
Statutory levies	27,534	30,366	29,846	31,033	28,628	4%	-8%
Other expenditure	34,191	20,996	30,014	26,330	32,017	-6%	22%
Total Expenditure	(79,240)	(53,783)	(63,571)	(61,715)	(65,843)	-17%	7%
Operating profit	59,095	95,671	88,345	93,347	94,179	59%	1%
Interest	(136)	(61)	(35)	(29)	(561)	312%	1814%
Depreciation	(42,444)	(31,789)	(23,561)	(46,758)	(44,480)	5%	-5%
Other income	12,796	9,786	11,393	(301)	4,691	-63%	-1657%
Profit before tax	29,311	73,608	76,142	46,258	53,830	84%	16%
Reported Net Profit	22,068	49,289	50,896	30,536	37,763	71%	24%
Total Oil Sales (mmt)	5.57	5.45	5.55	5.67	5.67	2%	0%
Total Gas sales (bcm)	4.93	5.11	5.19	5.25	5.04	2%	-4%
Gross Realisation (US\$/bbl)	47.9	60.6	70.5	76.7	79.2	65%	3%
Subsidy discounts (US\$/bbl)	4.5	2.3	14.1	19.0	27.7	523%	46%
ONGC's net realisation (\$/bbl)	43.4	58.3	56.4	57.7	51.4	18%	-11%
ONGC Subsidy loss (Rs mn)	8,520	4,290	26,300	34,970	49,990	487%	43%

Source: Company reports.

See page 2 for analyst certification and important disclosures, including non-US analyst disclosures.

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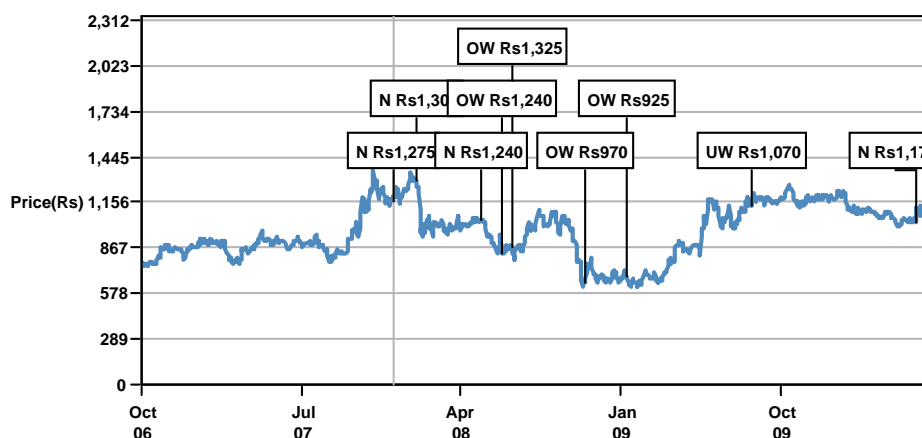
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Oil and Natural Gas Corporation (ONGC.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
05-Dec-07	N	1156.70	1275.00
15-Jan-08	N	1289.80	1300.00
06-May-08	N	1039.00	1240.00
11-Jun-08	OW	831.25	1240.00
27-Jun-08	OW	870.35	1325.00
31-Oct-08	OW	650.05	970.00
08-Jan-09	OW	690.20	925.00
13-Aug-09	UW	1130.55	1070.00
20-May-10	N	1025.10	1175.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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Asia Pacific Equity Research
28 May 2010

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