

UBS Investment Research

Hindustan Petroleum

Lower PT on possible refinery delay

■ Lower price target by 14% to Rs475; maintain Neutral rating

We lower our price target by 14% from Rs554 to Rs475 on a possible delay in the commissioning of the Bhatinda refinery (51% stake, 180kbpd, complexity >9). We had expected the Bhatinda refinery to be operational in the second quarter of FY11. However, we now think it will be delayed by 6-9 months and full-year production will occur in FY14 (previously forecast for FY13). We attribute the delay to slower execution.

■ Full capacity utilisation in FY14 versus our earlier estimate of FY13

HPCL expects the Bhatinda refinery, a joint venture between HPCL and Mittal Energy, to be mechanically complete by May 2011. Management has previously stated that they expect the refinery to be operational by September 2011. However, based on our analysis of recent industry newsletters and the history of these types of projects, we expect a substantial delay and assume it will be operational by March 2012. We expect the new refinery to earn US\$2-3/bbl higher gross refining margin (GRM) compared to HPCL's existing refineries.

■ Diesel deregulation another catalyst, but higher oil price is negative

We factor in diesel deregulation in FY12. However, this could be delayed if oil prices rise sharply. At this point, we prefer upstream (ONGC) over downstream. We believe there is near-term upside to the stock if the government hikes diesel prices by more than our expectation of 5-6%.

■ Valuation: lower price target to Rs475; maintain Neutral rating

We base our price target of Rs475 on 1.2x FY12E book. Earlier, we had ascribed a 40% premium to FY12E P/B (on deregulation and refinery commissioning in September 2011) and valued the stock at 1.4x FY12E P/B. We now value the stock at 1.2x FY12E P/B due to a possible delay in the refinery commissioning.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Net Income (UBS)	7,574	14,753	9,793	14,954	18,707
DACF	30,440	35,999	30,798	39,542	43,028
CEPS (UBS, Rs)	50.00	82.20	67.85	83.78	97.77
EPS (UBS, Rs)	22.37	43.57	28.83	44.03	55.08

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
Production (000 boe/d)	-	0	0	0	0
ROACE %	(66.2)	5.9	4.9	7.1	7.4
EV/DACF x	9.4	9.3	11.9	9.3	8.7
P/CFPS (UBS) x	5.6	4.2	6.2	5.0	4.3
PE (UBS) x	11.8	7.8	14.6	9.6	7.6

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs420.60 on 17 Dec 2010 23:39 SGT

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Global Equity Research

India

Oil Companies, Secondary

12-month rating **Neutral**
Unchanged

12m price target Rs475.00/US\$10.50
Prior: Rs554.00/US\$12.25

Price Rs420.60/US\$9.30

RIC: HPCL.BO BBG: HPCL IB

20 December 2010

Trading data (local/US\$)

52-wk range	Rs546.15-295.90/US\$12.03-6.65
Market cap.	Rs143bn/US\$3.15bn
Shares o/s	339m (ORD)
Free float	49%
Avg. daily volume ('000)	656
Avg. daily value (m)	Rs332.2

Balance sheet data 03/11E

Shareholders' equity	Rs129bn
P/BV (UBS)	0.0x
Net Cash (debt)	(Rs230bn)

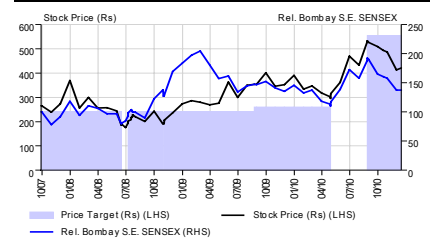
Forecast returns

Forecast price appreciation	+12.9%
Forecast dividend yield	4.2%
Forecast stock return	+17.1%
Market return assumption	13.0%
Forecast excess return	+4.1%

EPS (UBS, Rs)

	03/11E		Cons.	03/10 Actual
	From	To		
Q1	-	0.00	-	0.00
Q2E	-	0.00	-	0.00
Q3E	-	0.00	-	0.00
Q4E	-	0.00	-	0.00
03/11E	-	28.83	28.83	
03/12E	-	44.03	44.03	

Performance (Rs)



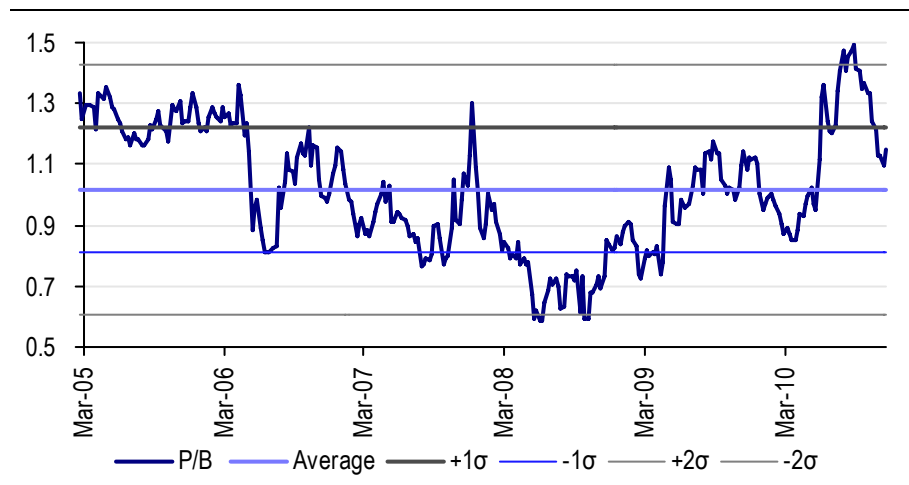
Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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Chart 1: P/BV band chart- still some downside left



Note: Weekly price data is updated till week ending 19 December 2010.

Source: UBS

Valuation tables

Table 1: Asia oil and chemical universe – share performance

Company 17 Dec 10	Ticker	Rating	Price	Price	TP	Mkt Cap	-1W	Absolute Performance (%)				
								-1M	-3M	-6M	-12M	
India												
Cairn India Limited	CAIL.BO	Neutral	INR	330	375	13.8	0.3	0.7	-3.6	7.5	21.8	
Oil & Natural Gas Corporation	ONGC.BO	Buy	INR	1329	1600	62.9	0.6	2.8	-5.0	12.2	10.8	
Reliance Industries	RELI.BO	Neutral	INR	1056	1150	76.7	3.1	2.5	2.8	-1.4	2.1	
Hindustan Petroleum	HPCL.BO	Neutral	INR	421	554	3.2	4.7	-8.6	-21.2	22.6	11.8	
Indian Oil Corp.	IOC.BO	Neutral	INR	378	430	20.3	3.1	-2.9	-11.6	12.3	23.7	
Bharat Petroleum Corporation	BPCL.BO	Sell	INR	700	703	5.6	2.9	-3.3	-8.3	30.6	17.0	
Essar Oil	ESRO.BO	Buy	INR	131	175	3.9	1.9	-4.5	-1.0	2.2	-3.2	
GAIL (India) Ltd.	GAIL.BO	Buy	INR	499	580	14.0	1.1	1.7	3.7	5.1	21.4	
BSE Sensex							1.8	0.0	1.4	12.8	17.6	
Simple Average							2.2	-1.3	-4.7	11.5	13.7	
Taiwan												
Formosa Chemicals & Fibre	1326.TW	Buy	TWD	97.4	115	17.5	4.3	7.2	29.2	30.2	42.0	
Formosa Petrochemical Corporation	6505.TW	Neutral	TWD	91.3	86.0	27.4	2.0	8.7	18.3	10.7	12.4	
Formosa Plastics	1301.TW	Buy	TWD	97.3	110	19.9	4.6	9.0	29.9	42.0	48.5	
Nan Ya Plastics	1303.TW	Buy	TWD	71.4	84.0	17.7	0.8	0.3	6.3	28.6	28.9	
Simple Average							2.9	6.3	20.9	27.9	33.0	
China												
CNOOC	0883.HK	Neutral	HKD	17.6	20.0	98.8	-2.5	6.9	19.7	31.3	46.1	
PetroChina	0857.HK	Buy	HKD	9.6	12.0	227	-1.9	1.2	12.0	9.4	3.7	
Sinopec	0386.HK	Restricted	HKD	7.1	NA	78.9	-1.4	-1.3	8.6	13.5	6.6	
Simple Average							-2.0	2.3	13.4	18.1	18.8	
Korea												
SK Energy	096770.KS	Buy	KRW	177000	220000	14.2	3.5	6.6	22.1	69.4	60.2	
GS Holdings	078930.KS	Buy	KRW	66800	80000	5.4	2.3	-0.4	22.1	86.1	114	
S-Oil	010950.KS	Buy	KRW	87300	95000	8.5	-0.1	20.1	28.0	65.7	54.5	
LG Chemical	051910.KS	Buy	KRW	387500	490000	25.2	2.6	-0.8	18.9	27.3	73.0	
Simple Average							2.1	6.4	22.8	62.1	75.4	
Thailand												
PTT Exploration & Production	PTTE.BK	Neutral	THB	173	164	18.7	-3.6	-2.5	20.6	16.6	24.5	
PTT Public Company Ltd.	PTT.BK	Buy	THB	320	363	30.1	-1.2	1.3	12.3	27.5	40.4	
PTT Aromatics and Refining	PTTAR.BK	Neutral	THB	37.5	38.0	3.7	-2.0	5.6	48.5	44.2	57.6	
Thai Oil	TOP.BK	Buy	THB	72.0	80.0	4.9	0.0	20.5	42.6	62.7	71.4	
Siam Cement	SCC.BK	Buy	THB	340	425	13.5	-1.7	4.9	7.9	33.3	51.1	
PTT Chemical	PTTC.BK	Neutral	THB	146	165	7.2	-2.7	-9.9	23.7	36.4	109	
Simple Average							-1.9	3.3	25.9	36.8	59.1	
Australia												
Oil Search Limited	OSH.AX	Buy	AUD	7.0	9.1	9.1	-0.1	7.4	15.7	18.8	23.2	
Santos Limited	STO.AX	Buy	AUD	13.0	16.0	10.7	3.4	1.6	-1.0	-4.2	-6.4	
Woodside Petroleum Limited	WPL.AX	Buy	AUD	43.2	53.8	33.3	0.4	5.4	-1.4	-3.4	-7.6	
Caltex Australia Limited	CTX.AX	Neutral (CBE)	AUD	14.3	13.6	3.8	-0.7	9.3	14.3	27.5	71.8	
Simple Average							0.7	5.9	6.9	9.7	20.3	
Indonesia												
Medco Energi Internasional	MEDC.JK	Buy	IDR	3075	4800	1.0	-6.8	-15.8	-1.6	2.5	23.0	
Energi Mega Persada	ENRG.JK	Suspended	IDR	125	NA	0.2	-3.8	12.6	25.0	-3.8	-33.9	
Simple Average							-5.3	-1.6	11.7	-0.7	-5.4	

Source: Reuters, UBS estimates

Table 2: Asia oil and chemical – valuation:

Company 17 Dec 10	P/E (x)			EPSG (%)			EV/EBITDA (x)			Yields (%)			P/B (x)			ROE (%)			Net Debt/Equity (%)		
	10E	11E	12E	10E	11E	12E	10E	11E	12E	10E	11E	12E	10E	11E	12E	10E	11E	12E	10E	11E	12E
India																					
Cairn India Limited	10.7	6.4	6.9	454	67.2	-6.8	7.8	4.7	4.6	1.9	3.1	2.9	1.6	1.4	1.2	16.3	23.3	18.6	15.4	-0.6	-15.1
Oil & Natural Gas Corporation	13.3	11.1	10.0	10.4	19.5	11.3	5.8	5.0	4.5	3.8	4.5	5.0	2.6	2.3	2.0	19.9	21.0	20.6	-9.6	-3.4	-6.4
Reliance Industries	15.5	15.5	13.4	-17.2	-0.2	15.9	9.3	8.8	7.3	0.7	0.8	0.9	2.2	2.0	1.8	14.8	13.0	13.5	24.2	14.1	5.1
Hindustan Petroleum	14.6	9.6	7.6	-33.8	52.7	25.1	13.8	10.3	9.3	2.7	4.2	5.2	1.0	1.0	0.9	7.8	11.2	13.1	178	171	166
Indian Oil Corp.	11.1	10.2	10.4	-23.4	9.1	-2.1	9.0	7.7	7.8	3.6	3.9	3.8	0.0	0.0	0.0	14.9	14.9	13.4	NA	NA	NA
Bharat Petroleum Corporation	19.8	12.6	12.1	-21.8	57.0	4.6	16.3	10.1	9.7	2.0	3.2	3.3	1.6	1.5	1.4	8.8	12.9	12.5	110	99.3	93.0
Essar Oil	40.9	21.8	9.5	1,092	87.1	130.1	11.8	8.2	5.1	0.0	0.0	0.0	3.2	2.8	2.2	8.1	13.7	25.7	134.7	99.6	43.8
GAIL (India) Ltd.	13.5	17.4	14.5	17.7	9.1	20.3	8.1	11.6	9.4	2.1	2.9	3.5	2.5	3.3	3.0	20.0	19.5	21.5	4.9	9.1	-1.1
Simple average	17.4	13.1	10.5	185	37.7	24.8	10.2	8.3	7.2	2.1	2.8	3.1	1.8	1.8	1.6	13.8	16.2	17.4	65.4	55.6	40.7
Taiwan																					
Formosa Chemicals & Fibre	13.1	11.8	11.0	43.1	11.4	6.9	10.6	9.1	8.4	6.5	7.2	7.7	2.1	2.0	1.9	17.6	18.6	19.1	4.8	-0.5	-5.9
Formosa Petrochemical Corporation	24.6	22.3	19.2	-19.4	10.1	16.6	18.8	17.5	15.2	3.3	3.6	4.2	3.7	3.6	3.4	15.2	16.4	18.2	52.0	44.8	39.2
Formosa Plastics	14.1	12.4	11.4	53.1	14.2	8.9	9.3	8.2	7.5	5.7	6.5	7.0	2.5	2.3	2.2	18.0	19.2	19.8	-5.8	-10.4	-14.8
Nan Ya Plastics	14.4	12.1	12.4	137	19.1	-2.1	12.1	10.2	9.1	5.6	6.6	6.5	1.9	1.8	1.8	14.8	16.4	15.4	15.2	11.8	10.9
Simple average	16.6	14.6	13.5	53.4	13.7	7.6	12.7	11.2	10.1	5.2	6.0	6.4	2.6	2.4	2.3	16.4	17.7	18.1	16.6	11.4	7.3
China																					
CNOOC	12.1	10.8	10.2	87.6	10.0	6.5	6.3	5.8	5.6	2.9	3.2	3.4	3.5	2.9	2.4	30.5	29.1	25.8	-5.9	-7.0	-7.8
PetroChina	11.5	9.5	8.5	29.7	19.0	11.6	6.6	5.9	5.6	3.9	4.8	5.3	1.7	1.5	1.4	15.2	16.5	16.8	23.9	34.3	39.2
Sinopec	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Simple average	11.8	10.1	9.3	58.7	14.5	9.0	6.5	5.9	5.6	3.4	4.0	4.3	2.6	2.2	1.9	22.8	22.8	21.3	9.0	13.7	15.7
Korea																					
SK Energy	12.0	10.4	9.1	101	14.9	14.5	6.7	5.7	5.2	1.2	2.4	2.7	1.8	1.6	1.4	16.4	16.5	16.7	63.2	51.9	38.0
GS Holdings	7.8	9.5	9.1	60.4	-17.9	4.5	1.8	1.5	0.7	1.5	2.9	3.1	1.3	1.2	1.1	18.0	13.0	12.4	10.2	7.7	6.1
S-Oil	22.3	13.9	11.3	98.0	61.1	22.6	12.8	9.4	8.0	1.5	3.1	5.8	2.3	2.1	2.0	10.8	16.1	18.3	38.9	38.7	36.1
LG Chemical	11.6	10.1	9.1	39.8	15.2	11.0	8.0	6.7	5.8	2.2	2.5	2.8	3.5	2.8	2.3	32.0	29.3	26.4	9.6	3.4	0.8
Simple Average	13.4	11.0	9.6	74.8	18.3	13.2	7.3	5.8	4.9	1.6	2.7	3.6	2.2	1.9	1.7	19.3	18.7	18.5	30.5	25.4	20.3
Thailand																					
PTT Exploration & Production	16.3	13.5	10.8	56.6	20.5	24.6	5.2	4.2	3.7	1.7	2.6	3.2	3.3	2.9	2.4	22.1	22.7	24.3	7.0	16.4	13.0
PTT Public Company Ltd.	13.7	10.6	9.1	32.3	8.5	16.8	6.2	5.2	4.6	2.9	3.4	4.1	1.9	1.7	1.5	17.3	16.8	17.6	49.0	52.7	44.1
PTT Aromatics and Refining	32.9	22.2	18.5	-63.1	48.3	20.2	15.0	12.9	11.8	3.7	1.4	2.0	1.9	1.8	1.7	5.6	8.2	9.3	128	119	111
Thai Oil	21.4	13.7	12.6	-30.5	27.4	9.5	10.9	8.0	7.0	2.2	3.1	3.3	2.0	1.9	1.7	12.1	14.3	14.4	33.6	13.7	-0.7
Siam Cement	15.7	12.9	10.7	9.7	18.4	21.1	10.3	7.7	6.3	2.9	3.5	4.5	3.4	3.0	2.6	23.9	24.7	26.1	130	105	78.6
PTT Chemical	20.7	12.2	10.7	54.2	70.1	14.2	10.7	7.9	7.2	1.3	1.9	3.3	2.0	1.8	1.6	10.2	15.7	16.1	24.7	9.1	-4.2
Simple Average	20.1	14.2	12.0	9.9	32.2	17.7	9.7	7.6	6.8	2.5	2.6	3.4	2.4	2.2	1.9	15.2	17.1	18.0	62.1	52.6	40.3
Australia																					
Oil Search Limited	71.9	58.1	72.0	-19.2	29.4	-19.3	29.5	25.9	34.8	0.6	0.6	0.6	3.4	3.2	3.2	4.6	5.7	4.4	-15.8	26.1	60.9
Santos Limited	30.3	31.0	37.1	61.0	-54.1	-16.5	7.8	7.4	9.3	2.9	2.3	2.3	1.4	1.4	1.4	10.3	4.6	3.9	-25.1	-2.8	21.9
Woodside Petroleum Limited	21.8	24.3	14.3	-17.1	-15.9	70.4	12.2	12.0	7.3	2.3	2.2	4.0	2.6	2.4	2.3	14.1	10.3	16.5	32.7	39.8	22.5
Caltex Australia Limited	12.4	12.8	11.9	-6.4	13.0	-2.3	6.2	6.3	5.9	4.0	3.9	4.3	1.3	1.2	1.1	9.8	10.5	9.8	17.4	15.5	13.3
Simple Average	34.1	31.5	33.8	4.6	-6.9	8.1	13.9	12.9	14.4	2.4	2.3	2.8	2.2	2.1	2.0	9.7	7.8	8.6	2.3	19.7	29.6
Indonesia																					
Medco Energi Internasional	26.8	20.1	16.0	87.1	34.0	25.2	8.3	7.8	6.1	3.3	0.8	1.9	1.2	1.2	1.1	4.8	5.8	7.0	131	128	136
Energi Mega Persada	23.7	9.9	9.9	NA	138	0.2	9.1	7.1	6.9	0.0	0.0	0.0	0.5	0.5	0.5	2.1	4.8	4.6	187	192	190
Simple Average	25.2	15.0	13.0	87.1	86.1	12.7	8.7	7.4	6.5	1.6	0.4	0.9	0.8	0.8	0.8	3.5	5.3	5.8	159	160	163

Note: ** The financial year for these companies start from 1 April to 31 March every year. Hence 2010E, 2011E and 2012E start from 1 April and include the first quarter of the following year also. Source: Reuters, UBS estimates

■ Hindustan Petroleum

Hindustan Petroleum Corporation Ltd (HPCL) is a 51.11% Government of India (GoI) owned enterprise. Its two main businesses are refining and marketing. It has a total refining capacity of 13mmtpa. While the marketing part of its business (diesel, LPG and kerosene) is regulated, its refining business is free market and tracks international trends.

■ Statement of Risk

For HPCL, we believe government intervention remains the biggest risk factor in putting a cap on product prices, i.e., LPG, kerosene, and diesel. A higher crude price without a corresponding rise in product prices at the retail level is another risk factor. Competition from the private sector is a threat in the medium term, in our view.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	51%	37%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	20%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

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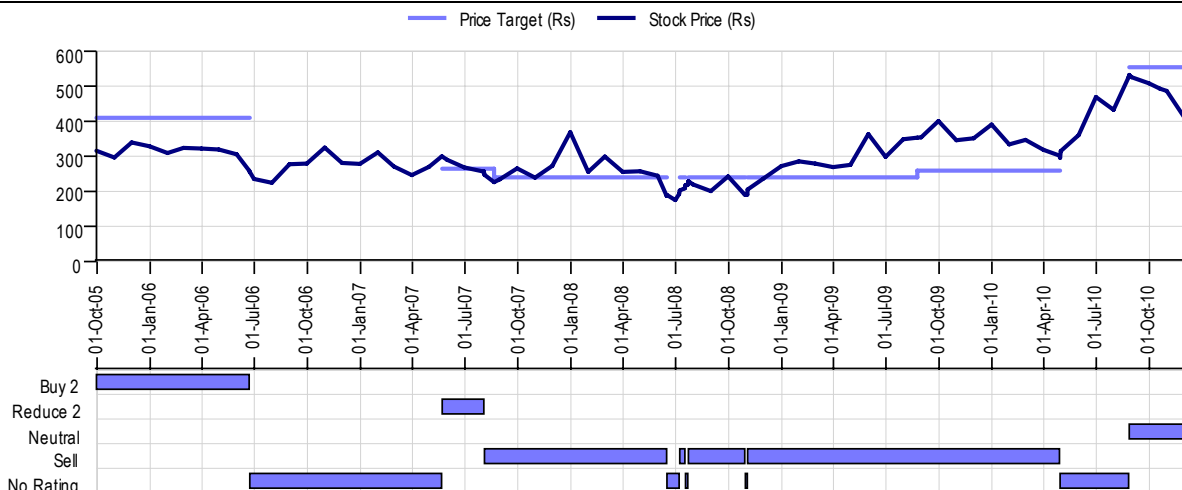
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Hindustan Petroleum	HPCL.BO	Neutral	N/A	Rs420.60	16 Dec 2010
Oil & Natural Gas Corporation	ONGC.BO	Buy	N/A	Rs1,329.10	16 Dec 2010

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

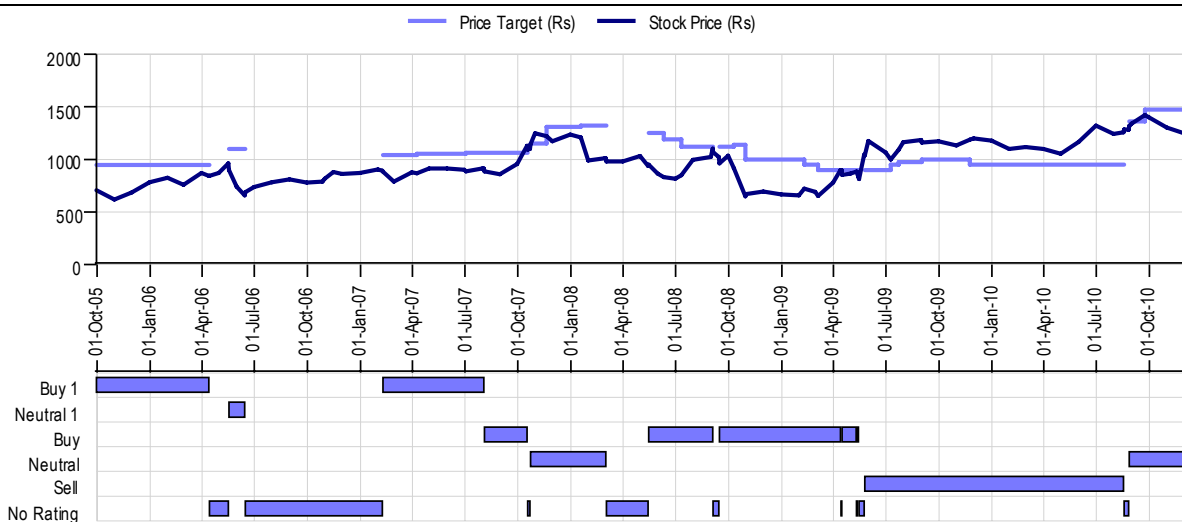
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Hindustan Petroleum (Rs)



Source: UBS; as of 16 Dec 2010

Oil & Natural Gas Corporation (Rs)



Source: UBS; as of 16 Dec 2010

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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