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Hold

Target price
Rs580.00

Price
Rs580.00

Equity | India | Energy

Flashnote

Bharat Petroleum

Comments from RBS India Access

BPCL management presented at RBS's India Access conference. The key takeaways are: 1) GOI decision on final share of FY11 under-recoveries to ensure adequate profitability for OMCs; 2) diesel decontrol could happen once oil prices subside; 3) Bina refinery to start commercial production by end March/April 2011.

Key highlights

- Management stated that the Government of India (GOI) would decide on the final share of under-recoveries at end FY11. The GOI would ensure that OMCs earn adequate profits to sustain investments required in the downstream industry.
- FY11 industry gross under-recoveries could be to the tune of Rs770bn-800bn. At a crude price of US\$110/bbl, gross industry under-recoveries would be Rs1,400-1,500bn p.a.
- Management is hopeful of diesel decontrol as and when international crude oil prices subside.
- Management stated that the Bina refinery (a 50:50 joint venture with Oman Oil) is mechanically complete and will start commercial production at end March/April 2011. The decision on the timing of IPO of Bina refinery would be taken keeping market conditions in mind. Oman Oil would sell a 24% stake in the IPO, thus BPCL stake would remain at 50% post the IPO.
- E&P- BPCL has stake in total 27 blocks- 9 domestic blocks and 18 outside India. The focus is currently on Brazil and Mozambique where commercially exploitable discoveries have been made. Quoting the operator (Anadarko), BPCL management has stated that gas discoveries in Mozambique (four discoveries till date) are sufficient to develop an LNG project. Further, management expects oil production from the Wahoo discovery (Brazil) to start in FY16. The 2011 drilling programme entails drilling 11 wells at a capex of Rs10bn (BPCL's share).
- BPCL management further stated that it would look to take operatorship of E&P blocks in future. Recently, it has taken joint operatorship in a block in Rajasthan "RJ-ONN-2005/1".
- As on date, BPCL has gross debt of Rs210bn, oil bonds of Rs80bn and Rs47bn for GOI compensation receivable for 9MFY11 under-recoveries.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Rsm)	1365571	1294763	1507738	1664663	1876014
EBITDA (Rsm)	44533	27754	42150	55596	62030
Reported net profit (Rsm)	6338	16187	16760	20370	25054
Normalised net profit (Rsm)	6338	16187	16760	20370	25054
Normalised EPS (Rs)	19.3	49.4	51.1	62.1	76.4
Dividend per share (Rs)	7.00	14.0	16.0	20.0	20.0
Dividend yield (%)	1.21	2.41	2.76	3.45	3.45
Normalised PE (x)	30.0	11.7	11.3	9.33	7.59
EV/EBITDA (x)	6.36	13.3	9.16	6.92	6.12
Price/book value (x)	1.45	1.35	1.25	1.14	1.04
ROIC (%)	9.81	3.98	5.20	6.52	7.17

Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

year to Mar, fully diluted

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Important disclosures can be found in the Disclosures Appendix.

Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	1365571	1294763	1507738	1664663	1876014
Cost of sales	-1235642	-1155755	-1363571	-1502335	-1704183
Operating costs	-85396	-111254	-102017	-106732	-109800
EBITDA	44533	27754	42150	55596	62030
DDA & Impairment (ex gw)	-12617	-13963	-16921	-20892	-22178
EBITA	31916	13791	25229	34704	39852
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	31916	13791	25229	34704	39852
Net interest	-24043	-10939	-11268	-15966	-15273
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	3473	24728	12471	14128	14736
Reported PTP	11346	27580	26432	32866	39314
Taxation	-4104	-10502	-9045	-11500	-13162
Minority interests	-903.7	-892.2	-627.1	-996.9	-1098
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	6338	16187	16760	20370	25054
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	6338	16187	16760	20370	25054

Source: Company data, RBS forecasts

year to Mar

Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	167979	111951	110738	111551	112470
Other current assets	157323	249777	246560	260224	281725
Tangible fixed assets	201957	241604	269875	281319	292076
Intang assets (incl gw)	7993	9658	6234	6766	4767
Oth non-curr assets	3405	9060	9236	9586	9836
Total assets	538657	622051	642643	669444	700873
Short term debt (2)	194124	194416	212599	211815	217435
Trade & oth current liab	123145	161678	155047	164611	180920
Long term debt (3)	47455	75936	74489	74590	64691
Oth non-current liab	33736	39246	38330	41442	43777
Total liabilities	398461	471275	480464	492457	506823
Total equity (incl min)	140197	150776	162178	176987	194049
Total liab & sh equity	538657	622051	642643	669444	700873
Net debt	73600	158400	176349	174853	169656

Source: Company data, RBS forecasts

year ended Mar

Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	44533	27754	42150	55596	62030
Change in working capital	17803	-38214	-6135	-3332	-5192
Net interest (pd) / rec	-20570	13789	1203	-1838	-537.8
Taxes paid	-6956	-13534	-7239	-9155	-10827
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	34811	-10205	29979	41271	45473
Capex (2)	-52152	-53209	-45191	-32336	-32936
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-8644	-7656	-4663	-350.0	-250.0
Cash flow from invest (3)	-60797	-60865	-49854	-32686	-33186
Incr / (decr) in equity	6725	-150.3	8342	0.00	0.00
Incr / (decr) in debt	81852	29703	17667	248.2	-3347
Ordinary dividend paid	-3229	-6400	-6449	-7090	-7090
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-496.2	-496.2	-496.3	-496.3	-496.3
Cash flow from fin (5)	84852	22657	19064	-7338	-10933
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	58866	-48413	-812.0	1248	1354
Equity FCF (1+2+4)	-17342	-63414	-15212	8936	12537

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Mar

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, A Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 07 Mar 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	766 (13)	493 (3)
Hold	428 (7)	234 (1)
Sell	118 (1)	64 (0)
Total (IB%)	1312 (10)	791 (2)

Source: RBS

Trading recommendations (as at 07 Mar 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	0 (0)	0 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	0 (0)	0 (0)

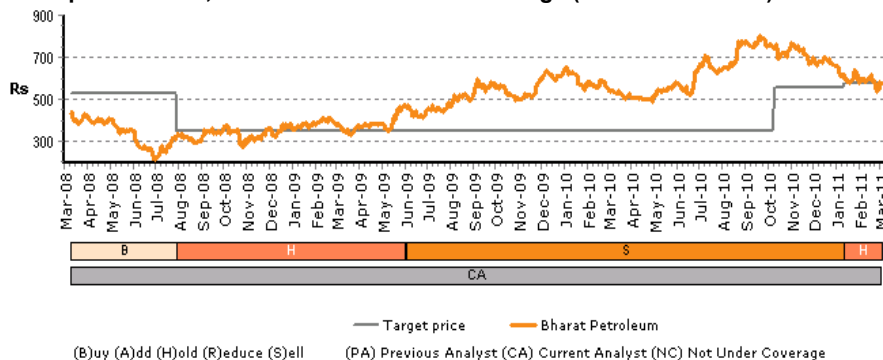
Source: RBS

Valuation and risks to target price

Bharat Petroleum (RIC: BPCL.BO, Rec: Hold, CP: Rs580.00, TP: Rs580.00): Key upside risks to our investment case and PB-based target price are: 1) deregulation in the pricing of retail products; and 2) the government providing a transparent mechanism for subsidy sharing. Downside risk would be if the government provides lower-than-expected subsidy support.

BPCL coverage data (BPCL.BO, BPCL IN)

Stock performance, recommendations and coverage (as at 07 Mar 2011)



Avadhoot Sabnis started covering this stock on 28 Nov 03. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: RBS

Price perf (at Close 04 Mar 2011)

	(1M)	(3M)	(12M)
Price (Rs)	588.5	673.8	534.9
Absolute (%)	-1.4	-13.9	8.4
Rel market (%)	-4.0	-7.0	-0.5
Rel sector (%)	-1.4	-15.7	3.1

Source: Bloomberg
Market: Sensex
Sector: Integrated Oil & Gas

Regulatory disclosures

None

Global disclaimer

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