

08 Feb 2012 - 07:42:17 PM IST

COMPANY ALERT

ONGC

3QFY12 results: Beats estimate on royalty reimbursement

Results

Buy

Reuters:ONGC.BO Exchange:BSE Ticker:ONGC

Price (INR)	286.65
Price target (INR)	345.00
52-week range (INR)	317.75 - 246.30
Market cap (USDm)	49,842
Shares outstanding (m)	8,555.6
Net debt/equity (%)	-28.4
Book value/share (INR)	154.68
Price/book (x)	1.9

FYE 3/31	2011A	2012E	2013E
Sales (INRm)	1,176,151	1,534,484	1,682,257
Net Profit (INRm)	224,559.3	271,073.0	291,838.9
DB EPS (INR)	26.25	31.68	34.11
PER (x)	11.6	9.0	8.4
Yield (net) (%)	2.9	3.5	3.8

ONGC reports INR67.4bn net profit, ahead of estimates

ONGC's Q3FY12 net profit of INR67.4bn (-5% YoY, -22% QoQ) was above our estimates on account of one time gain from Rajasthan royalty reimbursement. The royalty paid by ONGC for Cairn India's share of production from Rajasthan fields till Q2FY12 amounting to INR31.2bn was reimbursed during the quarter. Adjusted for this, the results were marginally below our estimates due to higher than expected dry well writeoff.

Subsidy burden for the quarter was higher at INR125.3bn (+197% YoY, +119% QoQ) as upstream sharing in the quarter was increased to 47% (9mFY12 at 38%) as against 33% in H1FY12 and our assumption of 42% for FY12. Consequently, net oil realisation during the quarter decreased to US\$45/bbl (-31% YoY, -46% QoQ). Depreciation was higher at IN45.3bn (+25% YoY, +38% QoQ) due to higher depletion charges and higher dry well writeoff. ONGC has started accounting for royalty on Rajasthan block as cost recoverable from Q3FY12 onwards.

While domestic oil production in the quarter was lower at 6.74 MMT (-4% YoY, -1% QoQ), gas production was marginally higher at 6.4bcm (+1% YoY).

Reiterate Buy rating on ONGC with a price target of INR345

We reiterate our Buy rating on ONGC as a key beneficiary of likely increase in subsidised fuel prices by the Government. Based on 42% upstream subsidy sharing, we estimate oil net realisation at US\$57/bbl in FY13 and US\$61/bbl in FY14 (as against last five years' range of US\$44-56/bbl). We expect ONGC's production growth to be driven by ramp-up in oil production at the Rajasthan block and production start-up from marginal fields. ONGC is trading at an EV/boe of US\$4.3/bbl which is a more than 40% discount to its regional peers.

INRm	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	YoY [%]	QoQ [%]
Net sales	208,042	161,079	164,019	229,254	185,171	(11.0)	(18.2)
EBITDA	135,316	79,723	94,700	144,686	110,508	(18.3)	(23.6)
Net profit	70,832	27,909	40,949	86,422	67,415	(4.8)	(22.0)
Subsidy contribution	42,225	121,350	120,463	57,137	125,363	196.9	119.4
Oil gross realisation (\$/bbl)	89.13	108.87	121.29	116.94	111.73	25.4	(4.5)
Oil net realisation (\$/bbl)	64.79	38.74	48.76	83.70	44.96	(30.6)	(46.3)
Physical production							
- Crude oil (mn te)	7.03	6.80	6.76	6.84	6.74	(4.1)	(1.4)
- Natural gas (bcm)	6.36	6.31	6.16	6.39	6.40	0.7	0.3

Source: Company data

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