



## Cairn India – The cheapest barrel in the Asia Oil & Gas space

Recommendation	BUY
Current Market Price (Rs.)	228.75
Target Price (Rs.)	339.00

We have analysed the potential of Cairn India Limited on the basis of its declared reserves including EOR (Enhanced Oil Recovery) reserves, 1P (estimated proved) reserves and 2P (estimated proved plus probable) reserves and our conclusion is that the stock is grossly undervalued at the current market rate. **We recommend a 'Buy' in the stock with a target price of Rs.339.**

The analysis is based on assuming crude oil price of \$90 per barrel for CY-08, CY-09 and CY-10 and a discount of 10% in the selling price of the company. The long term crude price is assumed at \$75 per barrel.

Using a common valuation methodology for E&P (exploration and production) companies in India, China and Thailand, the analysis brought out that Cairn India is one of the cheapest barrels in Asia with stock prices at its trough and its growth prospects are extremely bright. While Cairn is traded at a 7 P/E multiple of the projected earnings for CY-10, many of its Asian peers are trading at a P/E of 9. Oil and gas stocks in the US and the EU were traded at a P/E of 6-8 during 1998 –2001.

The company holds substantial oil reserves and this will act as the catalyst for future growth. Cairn has undeveloped oil reserves of 1.7 boe (barrel of oil equivalent) in the Rajasthan block and 1 billion boe of un-risked oil reserves outside Rajasthan. A conservative 10% recovery of these reserves with a reasonable margin (we expect \$11 per barrel) may add substantially to the revenue and profitability of the company. This may add Rs.62 to a share.

We believe that the actual recovery rate would be better at 20% for the gross hydrocarbon reserves of 2 billion boe, as the huge EOR (enhanced energy recovery) potential remains untapped. The management has already reported a 15% increase in recovery through EOR as against their earlier guidance of 10%. This may add another Rs.24 a share.

### **Disclosures**

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