Reliance Petroleum Ltd.

Estimate Change **NEUTRAL**

Equity | India | Oil Refining & Marketing
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Early commissioning key to further upside

Merrill Lynch

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16-17% upgrade in FY09-FY11E earnings but retain Neutral

Reliance Petroleum's (RPL) refinery construction is progressing well. Reliance Industries (RIL) meanwhile is turning in a stellar refinery performance, which has prompted us to upgrade RPL's refining margin by 9% and its FY09-FY11E earnings by 16-17%. RPL's PE based valuation works out to Rs92/share, which offers 15% potential upside. There are also other potential upsides, which are not factored in. However the main trigger for more upside in the next 12 months is the refinery starting before schedule, which is not certain. We remain Neutral on RPL.

More upside possible to RPL's refining margin and earnings

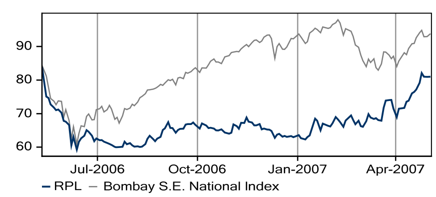
We have assumed RPL's refining margin being US$1.5-2/bbl higher than RIL's and RIL's margin being higher than Singapore also by US$1.5-2/bbl in FY09-FY11E. However, RIL's average premium to Singapore margins in the last five quarters was much higher, at US$3.3/bbl. RPL could attain an additional premium of US$2/bbl to RIL's margin due to higher exports to the US than RIL, which we have not factored in. RPL could get commissioned 3-6 months ahead of schedule, which could mean FY09E EPS is Rs5.4-9.4 vis-à-vis base case of Rs1.9.

Valuation conservative as potential upsides not factored in

Our theoretical fair value for RPL may prove to be conservative as several potential upsides are not factored in. Even if some of the potential upsides to refining margin discussed above materialize, valuation would be higher. RPL could be expected to enjoy a higher multiple than 10.0x (Caltex Australia at 14.6x 2009E) assumed by us if Chevron exercises its option to hike its stake in RPL to 29%. Big upside is possible in 12-18 months if Chevron hikes its stake in RPL within 12 months driven by RPL's refinery starting six months before schedule. RPL could trade at 12-13x FY09E EPS of Rs9.4/share in that scenario.

Stock Data

Price	Rs80.60
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs51.00-Rs101.95
Mrkt Val / Shares Out (mn)	US$8,877 / 4,500.0
Average Daily Volume	2,485,172
ML Symbol / Exchange	RPLUF / BSE
Bloomberg / Reuters	RPET IN / RPET.BO
ROE (2007E)	0%
Net Dbt to Eqty (Mar-2006A)	-14.3%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	10.0%



Estimates (Mar)

(Rs)	2007E	2008E	2009E	2010E	2011E
Net Income (Adjusted - mn)	0	0	8,553	52,283	43,792
EPS	0	0	1.90	11.62	9.73
EPS Change (YoY)	NA	NA	NA	511.3%	-16.2%
Dividend / Share	0	0	0.190	2.90	2.43
Free Cash Flow / Share	(13.55)	(27.78)	(8.39)	10.85	11.01

Valuation (Mar)

	2007E	2008E	2009E	2010E	2011E
P/E	NA	NA	42.40x	6.94x	8.28x
Dividend Yield	0%	0%	0.236%	3.60%	3.02%
EV / EBITDA*	NA	NA	37.98x	6.65x	7.78x
Free Cash Flow Yield*	-16.81%	-34.46%	-10.41%	13.46%	13.66%

* For full definitions of *iQmethod* SM measures, see page 12.

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iQprofile SM Reliance Petroleum Ltd.

Key Income Statement Data (Mar)	2007E	2008E	2009E	2010E	2011E
(Rs Millions)					
Sales	0	0	97,737	513,520	535,071
Gross Profit	0	0	16,729	96,082	86,874
Sell General & Admin Expense	0	0	(4,108)	(23,970)	(25,227)
Operating Profit	0	0	9,977	58,519	47,790
Net Interest & Other Income	0	0	(1,087)	(4,256)	(2,139)
Associates	0	0	0	0	0
Pretax Income	0	0	8,890	54,263	45,651
Tax (expense) / Benefit	0	0	(337)	(1,980)	(1,859)
Net Income (Adjusted)	0	0	8,553	52,283	43,792
Average Fully Diluted Shares Outstanding	4,500	4,500	4,500	4,500	4,500
Key Cash Flow Statement Data					
Net Income (Reported)	0	0	8,553	52,283	43,792
Depreciation & Amortization	0	0	2,644	13,592	13,857
Change in Working Capital	0	0	2,820	(12,045)	(4,964)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	0	0	(7,320)	1,980	1,859
Cash Flow from Operations	0	0	6,698	55,810	54,544
Capital Expenditure	(60,964)	(125,000)	(44,460)	(7,000)	(5,000)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(60,964)	(125,000)	(44,460)	(7,000)	(5,000)
Shares Issue / (Repurchase)	103,500	0	0	0	0
Cost of Dividends Paid	0	0	(964)	(14,737)	(12,344)
Cash Flow from Financing	103,500	79,000	42,096	(41,737)	(44,344)
Free Cash Flow	(60,964)	(125,000)	(37,762)	48,810	49,544
Net Debt	(47,046)	77,954	116,681	82,608	45,408
Change in Net Debt	(42,536)	125,000	38,726	(34,072)	(37,200)
Key Balance Sheet Data					
Property, Plant & Equipment	80,000	205,000	246,816	240,223	231,366
Other Non-Current Assets	7,985	7,985	7,985	7,985	7,985
Trade Receivables	0	0	8,033	42,207	43,978
Cash & Equivalents	47,046	1,046	5,379	12,452	17,652
Other Current Assets	2	2	13,329	32,155	33,719
Total Assets	135,033	214,033	281,543	335,022	334,700
Long-Term Debt	0	79,000	114,460	87,460	55,460
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	0	0	7,600	7,600	7,600
Other Current Liabilities	59	59	16,919	59,853	60,083
Total Liabilities	59	79,059	138,979	154,913	123,143
Total Equity	134,974	134,974	142,563	180,109	211,557
Total Equity & Liabilities	135,033	214,033	281,543	335,022	334,700
iQmethod **SM - Bus Performance***					
Return On Capital Employed	0%	0%	3.9%	20.0%	16.1%
Return On Equity	0%	0%	6.2%	32.4%	22.4%
Operating Margin	NA	NA	10.2%	11.4%	8.9%
EBITDA Margin	NA	NA	12.9%	14.0%	11.5%
iQmethod **SM - Quality of Earnings***					
Cash Realization Ratio	NA	NA	0.8x	1.1x	1.2x
Asset Replacement Ratio	NA	NA	16.8x	0.5x	0.4x
Tax Rate (Reported)	NA	NA	3.8%	3.6%	4.1%
Net Debt-to-Equity Ratio	-34.9%	57.8%	81.8%	45.9%	21.5%
Interest Cover	NA	NA	6.3x	8.3x	9.3x
Key Metrics					

* For full definitions of *iQmethod* SM measures, see page 12.

Company Description

Reliance Petroleum, a 75%-owned subsidiary of Reliance Industries, is building a 0.58mn bpd refinery & 0.9mtpa polypropylene plant in the Jamnagar, Gujarat, Special Economic Zone. (Total cost is about US$6bn.) Scheduled to start operations in December 2008, the refinery will have a Nelson complexity index of 14 & will process crudes with an avg API gravity of 24. Diesel & gasoline will make up 75% of its output, which will be largely exported.

Stock Data

Price to Book Value	2.5x

Earnings upgrade

16-17% upgrade in FY09-FY11E earnings

We have upgraded RPL's earnings for FY09E-FY11E by 16-17% (see Table 1). FY09E is expected to be the first year of operations for RPL's refinery. We have assumed it will operate for a little over three months in FY09E.

Table 1: Upgrade in RPL's EPS estimates

Rs/share	FY09E	FY10E	FY11E
Revised	1.9	11.6	9.7
Earlier	1.6	10.0	8.3
Upgrade	17%	16%	17%

Source: DSP Merrill Lynch

Refining margin upgrade drives earnings upgrade

The upgrade in earnings estimates has been driven by 9% increase in RPL's FY09E-FY11E refining margins forecast (see Table 2).

Table 2: Upgrade in RPL's GRM estimates

US$/bbl	FY09E	FY10E	FY11E
Revised	11.3	10.3	8.6
Earlier	10.4	9.4	7.9
Upgrade	9%	9%	9%

Source: DSP Merrill Lynch

Higher premium of RPL's refining margin to Singapore margin expected

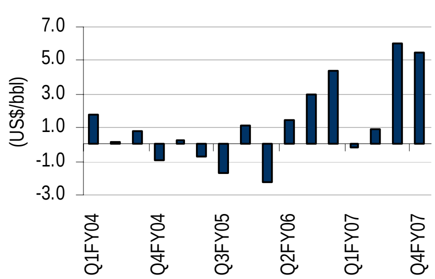
The upgrade in RPL's refining margin forecast has been mainly made as its premium to Singapore refining margin is now expected to be higher than earlier. We expect its premium to Singapore refining margin to be US$3.1-4.0/bbl in FY09-FY11E vis-à-vis US$2.4-3.1/bbl expected earlier (see Table 3).

Table 3: Higher premium to Singapore margin expected now

US$/bbl	FY09E	FY10E	FY11E
Premium of RPL's refining margin to Singapore			
Revised estimate	4.0	3.7	3.1
Earlier estimate	3.1	2.9	2.4
Change	0.9	0.8	0.7

Source: DSP Merrill Lynch

Chart 1: Premium of RIL to Singapore GRM



Source: Petroleum Argus, DSP Merrill Lynch

RIL's stellar refining performance in last 15 months prompted upgrade

The premium of RPL's refining margin to Singapore margin is due to the following factors

- Premium to Singapore refining margin of RIL's existing refinery
- Premium of RPL's refining margin to RIL's due to its ability to process heavier crude (API of 24 as against API of 28 for RIL's refinery)
- Premium of RPL's refining margin to RIL's due to its superior product slate. RPL's refinery will have a higher proportion of lucrative transportation fuels than RIL's refinery. It will not produce any LPG and naphtha.

We had earlier assumed that refining margin premium of RIL's existing refinery to Singapore refining margins would be US$1.1/bbl in FY09E. We are now assuming this premium will be US$2/bbl. This upgrade has been driven by RIL's stellar refining margin performance in the last 15 months. Its premium to

Singapore margins has been US$3.3/bbl on average in this period.

Table 4: RPL's revised refining margin build-up

US$/bbl	FY09E	FY10E	FY11E
Singapore refining margin	7.3	6.6	5.5
Premium to Singapore margin due to			
RIL's premium to Singapore margin	2.0	1.8	1.5
RPL's ability to process heavier crude than RIL	0.5	0.5	0.4
RPL's superior product slate vis-à-vis RIL	1.5	1.4	1.2
	4.0	3.7	3.1
RPL's refining margin	11.3	10.3	8.6

Source: DSP Merrill Lynch

Our forecast assumes that premium to Singapore refining margins will also shrink in line with Singapore refining margins. Therefore as Singapore margins weaken to US$5.5/bbl from US$7.3/bbl, the premium will also contract to US$3.1/bbl from US$4.0/bbl.

Potential higher premium from more sales in the US not factored in

A larger proportion of RPL's products are likely to be sold in the US than RIL's products. Gasoline and alkylates (gasoline additives), which are mainly targeted at the US market, are expected to account for 38% of RPL's product slate as against just 11% of RIL's product slate. Gasoline realization will be higher in the US than in Asia even after adjusting for additional freight incurred for transportation to the US. While calculating RPL's premium to RIL's refining margin due to superior product slate we have not considered this factor.

Premium from higher US sales could be US$2/bbl

Our calculations suggest that the premium RPL could attain over RIL's refining margin due to a higher proportion of US sales could be US$2/bbl (see Table 5).

Table 5: Upside of RPL's refining margins over RIL's due to more US sales

US$/bbl	2Q 2006	3Q 2006	4Q 2006	1Q 2007	Average
New York Harbour Gasoline price	100.6	94.4	73.7	76.7	86.4
Gasoline Mid east Gulf price	81.1	74.1	61.7	65.6	70.6
Premium of US New York gasoline price	19.5	20.3	12.0	11.2	15.8
Less: Freight from India to US East coast (US$/bbl)	8.4	8.4	8.4	8.4	8.4
Premium of US price-net of freight	11.1	12.0	3.7	2.8	7.4
Upside of RPL's GRM over that of RIL	3.0	3.2	1.0	0.8	2.0

Source: Petroleum Argus, DSP Merrill Lynch

Our calculations are based on average data over the last 12 months. The average premium of US gasoline price works out to US$15.8/bbl, while average freight is estimated at US$8.4/bbl. Freight to the US East coast is assumed to be US$0.2/gallon (ie US$8.4/bbl) given that freight from the Mediterranean region to US east coast of US$0.15/gallon. The average premium of US gasoline price net of additional freight thus works out to US$7.4/bbl. RPL can make this higher premium on the extent to which its US exports (38%) exceed RIL's (11%), i.e. on 27% of its product slate.

Sensitivity of earnings to premium to benchmark margins

RIL's refining margin has been at an average premium of US$3.3/bbl to Singapore complex refining margins in the last five quarters. The premium has been US$5.4-6/bbl in the last two quarters. In arriving at RPL's refining margin we have still assumed premium of RIL's refining margin to Singapore margin at US$2/bbl. If the premium is higher than US$2/bbl,

- RPL's FY09-FY11E refining margin will be 4-12% higher than base case
- RPL's FY09-FY11E EPS will be 8-21% higher than base case (see Table 6)

Table 6: Upside to refining margin and earnings if premium to Singapore margin is higher than assumed

Premium of RIL to Singapore margin	RPL's refining margin (US$/bbl)			RPL's EPS (Rs/share)		
US$/bbl	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E
2.0 (base case)	11.3	10.3	8.6	1.9	11.6	9.7
2.5	11.8	10.7	9.0	2.1	12.5	10.5
3.0	12.3	11.2	9.4	2.2	13.4	11.3
3.3	12.6	11.5	9.6	2.3	13.9	11.8
Upside vis-à-vis base case if premium to Singapore margin is						
2.5	4%	5%	5%	8%	8%	8%
3.0	9%	9%	9%	16%	15%	16%
3.3	11%	12%	12%	21%	20%	21%

Source: DSP Merrill Lynch

Higher EPS in FY09E if refinery starts earlier

50% project completion in 15 months

RPL's refinery is scheduled to start operations in December 2008, which is 36 months from start of construction in November 2005. RPL has in a recent press release said that 50% of the project work has been completed in 15 months.

Refinery commissioning 3-6 months before schedule not ruled out

There have been press reports citing company sources that RPL's refinery could get commissioned 6-9 months ahead of schedule, i.e. March-June 2008. Given the progress on the project to date, we think commissioning of the refinery 3-6 months before schedule (ie June-September 2008) cannot be ruled out.

FY09E EPS could be Rs5.4-9.4 as against Rs1.9 expected now

RPL's refinery would operate in FY09E for 6-9 months if it indeed starts commercial operations in June or September 2008. In that case its earnings would also be higher than our current forecast of Rs1.9/share. We estimate that RPL's FY09E earnings could be as high as Rs9.4/share if the refinery starts operations in June 2008. Its EPS could be Rs5.4/share if refinery operations start in September 2008.

Chevron may hike its stake in RPL to 29%

Hike linked to crude supply & product offtake agreements

International oil major Chevron currently holds a 5% equity stake in RPL, which it acquired in April 2006 from RIL at Rs60/share. RIL holds 75% equity stake in RPL. As per RPL's prospectus, Chevron has an option to raise its stake in RPL from 5% to 29%. This stake hike is dependent on whether Chevron and RPL sign

- 10-year crude supply agreement for up to 35% of spot crude purchases by RPL
- 10-year product offtake agreement for up to 45% of RPL's product slate

Time by which Chevron can take stake hike decision

Stake hike decision by July 2009 if refinery commissioned as scheduled

Chevron can hike its stake in RPL from 5% to 29% 39 months (three years and three months) after it took its 5% stake, i.e. by July 2009. Technically it could be a later date, as the other reference point is three months after the refinery has operated at 80% for 30 days. Thus, if RPL achieves this utilization rate only after April 2009, Chevron could hike its stake with three months thereof.

Chevron's stake in RPL may also go down to 0%

Chevron will sell 5% stake in RPL back to RIL if no agreements signed

Chevron has no intention of retaining its 5% stake in RPL if the crude supply and product offtake agreements are not signed. Chevron will sell its 5% stake in RPL back to RIL if the crude supply and product offtake agreements are not signed by

- July 2009 if the refinery has operated at 80% for 30 days before April 2009
- Three months after the refinery has operated at 80% for 30 days if this date is later than April 2009

Chevron will sell back its stake to RIL even if the refinery is not commissioned by December 2009.

Chevron's stake in RPL will either rise to 29% or go down to 0%

Thus, if Chevron increases its involvement with RPL by supplying crude and marketing its products then it wants a higher stake of 29%. However if crude supply and product offtake agreements cannot be reached, Chevron will sell its existing 5% stake back to RIL.

Price for stake hike or for sale back of stake to RIL

Stake hike at 5% discount to market price but stake sale at Rs60/share

The price Chevron has to pay to buy a 24% stake in RPL from RIL is 5% below the then market price of RPL as per RPL's prospectus. However, if Chevron sells its 5% stake back to RIL, it will be at Rs60/share, i.e., the same price at which Chevron bought it from RIL.

At RPL's current price of Rs80/share, stake hike to cost Chevron US$2bn

At RPL's current price of Rs80, Chevron would have to pay Rs82bn (US$2bn) at Rs76/share (5% discount to market price) to RIL to hike its stake by 24%. If Chevron sells the 5% stake back to RIL, RIL will have to pay Rs13.5bn (US$330m) to Chevron.

Early commissioning may hasten Chevron's decision

Chevron may hike in 12 months if start six months before schedule

As discussed, RPL's refinery may start 3-6 months ahead of the scheduled date of December 2008. RPL will have nine months of operation in FY09E if the refinery starts six months ahead of schedule. RPL's FY09E EPS could be an estimated Rs9.4/share in this scenario. Chevron may exercise its stake hike option well before the July 2009 deadline in that case. This is because the later Chevron hikes its stake in RPL it may have to pay a higher price for the stake hike.

Valuation and rating

PE based fair value on base case at Rs92/share

Our PE based valuation of RPL is based on 10.0x FY10E earnings as discounted back to now. FY10E will be RPL's first full year of operations. We expect RPL's FY10E earnings to be Rs11.6/share and its fair value works out to Rs116/share assuming an earnings multiple of 10.0x. Discounting the fair value back by two years to now works out to Rs92/share.

Asia Pacific refining universe trading at 9.6x 2009E (ie FY10E)

Asia Pacific refiners covered by us are trading at 9.6x 2009E. We believe that RPL deserves a PE multiple of at least 10.0x. RPL will be one of the most complex refiners in Asia. RIL's excellent track record in refining in terms of capacity utilization and refining margins bodes well for RPL.

Fair value will be higher if RPL's premium to Singapore margins is higher

RPL's PE based theoretical fair value would be higher if RPL's premium to Singapore refining margin is higher than the US$3.7/bbl assumed by us in FY10E. RPL's refining margin premium could be higher than assumed by us if

- RIL's premium to Singapore margin is higher than US$1.8/bbl assumed by us in FY10E. Note that RIL's average premium to Singapore margin is US$3.3/bbl in the last five quarters.

- RPL attains a higher premium to RIL's refining margin than US$1.9/bbl assumed by us in FY10E. As discussed, RPL could earn higher premium to RIL's refining margin due to its higher proportion of US sales. This could boost RPL's refining margin by US$2/bbl.

Thus, in the best case scenario of RPL attaining refining margin of US$14/bbl (ie US$7.4/bbl premium to Singapore), the FY10E earnings based theoretical fair value could be as much as Rs148/share. This assumes RIL's refining margin being US$3.3/bbl premium to Singapore margin and RPL's refining margin being US$4/bbl premium to RIL's refining margin.

Table 7: Upside to RPL's PE based fair value if its FY10E refining margin is higher than expected

RPL FY10E refining margin US$/bbl	RPL's premium to Singapore margin US$/bbl	FY10E EPS Rs/share	Fair value in end-FY09E Rs/share	Fair value now Rs/share
10.3 (base case)	3.7	11.6	116	92
10.7	4.2	12.5	125	99
11.2	4.6	13.4	134	106
11.6	5.1	14.3	143	113
12.1	5.5	15.2	152	120
12.6	6.0	16.0	160	127
13.0	6.5	16.9	169	134
13.5	6.9	17.8	178	141
14.0	7.4	18.7	187	148

Source: DSP Merrill Lynch

DCF based fair value on base case at Rs65/share

RPL's DCF-based fair value based on our base case assumptions works out to Rs65/share. Our base case assumptions are

- RPL starts operations in December 2008

- It attains 95% capacity utilization in FY10E its first full year of operations and 100% in FY11E

- Long term Singapore complex refining margin is US$5.5/bbl from FY11E and Singapore margin is US$7.3/bbl in FY09E and US$6.6/bbl in FY10E

- RPL attains premium of US$3.1/bbl to Singapore refining margin in the long term with its refining margin being US$8.6/bbl. Its refining margin is US$11.6/bbl in FY09E and US$10.3/bbl in FY10E

Upside to RPL's DCF based fair value if long term premium is higher

RPL's DCF based theoretical fair value would be higher than that in the base case if its premium to Singapore margin in the long term is higher than the US$3.1/bbl assumed by us. RPL's fair value will rise by Rs7/share for every US$0.5/bbl rise in premium to Singapore refining margin over our base case assumption of US$3.1/bbl. Thus if RPL can sustain a premium of US$5.1/bbl over Singapore refining margins in the long term its fair value would be Rs92/share.

Table 8: Upside to RPL's DCF based fair value if its long term premium to Singapore margins is higher than assumed

RPL's long term refining margin US$/bbl	RPL's premium to Singapore margin US$/bbl	RPL's DCF based fair value Rs/share
8.6 (base case)	3.1	65
9.1	3.6	72
9.6	4.1	79
10.1	4.6	85
10.6	5.1	92
11.1	5.6	99
11.6	6.1	105
12.1	6.6	112
12.6	7.1	118

Source: DSP Merrill Lynch

Remain Neutral on RPL

Positive triggers in RPL

RPL's stock price has appreciated by 29% y-t-d in 2007. This is despite RPL's refinery not having started operations. The positive sentiment in RPL is attributable to

- RIL's excellent refining margin performance in the last five quarters, with average premium to Singapore margins during this period being US$3.3/bbl
- 50% of RPL's construction work being completed in 15 months, which has led to the possibility that RPL's refinery may be commissioned 3-6 months ahead of the scheduled date of December 2008
- The possibility that Chevron may take a decision on raising its stake in RPL in the next 12 months especially if the refinery is commissioned six months ahead of schedule.
- Singapore refining margins have bounced back to be about US$8/bbl in 1Q 2007 after being weak at US$5.7/bbl in 4Q 2006

RPL's refining margin likely to be even higher than RIL

RPL's ability to process heavier crude than RIL and its superior product slate mean that RPL's refining margin is likely to be higher than RIL's. RPL selling a higher proportion of its products in the US than RIL could also mean it achieves higher refining margin than RIL.

Commissioning 6 months ahead of schedule may mean reasonable FY09E

RPL would have nine months of operation in FY09E if it is indeed commissioned six months ahead of schedule in June 2008. We estimate it could in that case attain earnings of Rs9.4/share in FY09E.

Chevron raising its stake in RPL may mean it enjoys a higher multiple

If and when Chevron raises its stake in RPL to 29%, it would become the only Indian refiner with a substantial stake by international oil major. This is likely to translate into

RPL enjoying an earnings multiple at the higher end of the Asia Pacific range for refiners. Caltex Australia has the highest earnings multiple in our Asia Pacific refiners universe, trading at 14.6x 2009E. Note that Chevron holds a 50% equity stake in Caltex Australia, whereas its holding in RPL will at most be 29%.

Table 9: Asia Pac refiners peer group valuation

	Recommendation		Price	Mkt Cap ($m)	P/E (x) 2006	2007E	2008E	2009E
BPCL	C-2-7	NEUTRAL	INR 346.6	3,047	34.1	8.6	8.1	9.5
Caltex Aust	B-2-7	NEUTRAL	AUD 24.2	5,386	15.2	13.0	14.6	14.6
Formosa Pet	C-2-7	NEUTRAL	NT$71.4	19,839	14.8	11.5	10.4	13.0
HPCL	C-1-7	BUY	INR 280.0	2,308	23.5	7.6	6.7	7.0
IOC	C-2-7	NEUTRAL	INR 448.6	12,743	11.7	13.2	9.2	10.0
Shell Refg	B-2-8	NEUTRAL	MYR 10.7	938	13.5	10.7	11.5	12.3
SK Corp	C-1-7	BUY	KRW 108,500	14,141	9.4	8.7	7.1	na
S-Oil	B-2-7	NEUTRAL	KRW 73,100	6,356	8.0	10.3	11.2	14.1
SPC	B-1-8	BUY	SGD 4.8	1,610	8.6	8.2	10.8	13.1
Thai Oil	C-1-8	BUY	THB 65.5	4,068	8.1	8.8	7.7	10.8
Weightd Avg					13.2	10.8	9.6	9.6

Source: Merrill Lynch estimates
Prices are as of May 4, 2007

Our base case valuation is conservative

Base case PE based fair value represents 15% upside potential

Our base theoretical fair value of RPL on a PE basis works out to Rs92/share, while that on a DCF basis works out to Rs65/share. Thus, the PE based base case fair value represents 15% potential upside. There is downside if RPL trades at its base case DCF based fair value. We however believe that closer to commissioning of the refinery RPL will trade at or above the PE based fair value.

Base case valuation does not factor in several potential upsides

Our base case PE as well as DCF based valuation does not factor in several potential upsides. RPL could achieve higher refining margins than assumed by us. Premium RPL is expected to achieve to Singapore margins has been broken into two parts – premium RIL will achieve to Singapore margins and premium RPL achieves. We believe that our assumption on RIL's premium to Singapore margins and RPL's premium to RIL's margins may prove to be conservative. The potential upsides, which valuation on both these measures does not factor in, are

- RIL has attained an average premium of US$3.3/bbl over Singapore margins in the last five quarters while our forecast assumes a premium of US$1.5-2.0/bbl in FY09-FY11E.
- RPL's refining margin could be higher than RIL's by US$2/bbl due to its higher proportion of sales in the US market. This premium is even after considering the higher freight to transport products to the US. This potential upside has not been built in to our refining margin forecast.
- RPL may start operations 3-6 months before the scheduled date of December 2008. This could mean much higher earnings in FY09E than the base case, especially if commissioned six months before schedule, and boost PE as well as DCF based valuation

Big upside potential if commissioning in June'08 and Chevron raises stake

A potential upside, which our PE based valuation does not factor in, is the high PE multiple RPL would enjoy if Chevron raises its stake from 5% to 29%. We think significant upside is possible in the next 12-18 months if Chevron raises its stake in the next twelve months driven by RPL's refinery starting six months before schedule. In that scenario, we estimate RPL's share price could touch Rs113-122/share, which is 12-13x FY09E EPS, which could be Rs9.4/share. The PE based fair value of RPL discounted to now would be Rs100-109/share in that case.

Retain Neutral rating

We remain neutral on RPL for now until we have clarity on issues such as whether

- Its refinery will be commissioned ahead of schedule
- It appears that Chevron will raise its equity stake in RPL to 29% in the next 12-15 months

It will also give us an opportunity to track RIL's refining margin performance vis-à-vis benchmark over a longer time frame to see if it can sustain recent premiums.

Analyst Certification

I, Vidyadhar Ginde, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

***iQ**method* SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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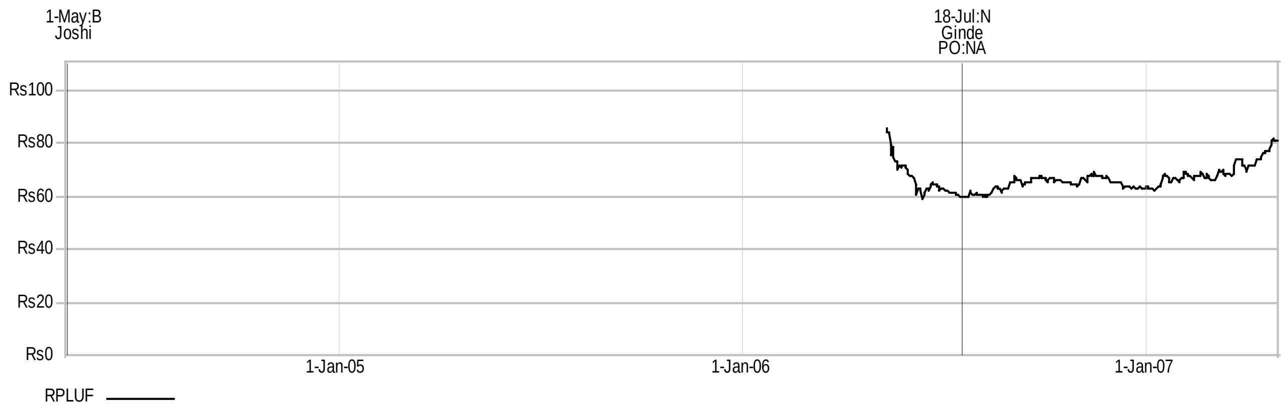
RPLUF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2007 or such later date as indicated.

Investment Rating Distribution: Energy Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	137	57.81%	Buy	48	41.03%
Neutral	92	38.82%	Neutral	24	30.38%
Sell	8	3.38%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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