



INDIA

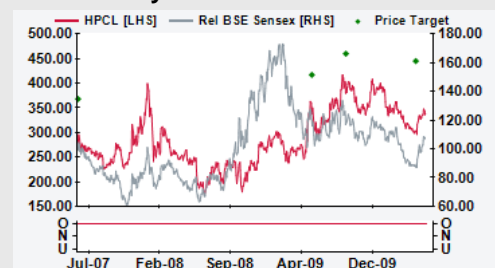
HPCL IN Outperform
Price 26 May 10 Rs338.80

12-month target	Rs	445.00
Upside/Downside	%	31.3
Valuation	Rs	445.00
- RNAV		
GICS sector		Energy
Market cap	Rsm	114,727
30-day avg turnover	US\$m	15.7
Market cap	US\$m	2,405
Number shares on issue	m	338.6

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	bn	1,125.2	1,423.9	1,490.4	1,602.1
EBIT	bn	25.6	20.1	26.5	27.3
EBIT growth	%	16.3	-21.6	31.6	3.2
Recurring profit	bn	24.2	25.9	28.9	31.4
Reported profit	bn	14.7	15.8	17.6	19.1
EPS rep	Rs	43.43	46.47	51.92	56.43
EPS rep growth	%	94.4	7.0	11.7	8.7
PER rep	x	7.8	7.3	6.5	6.0
Total DPS	Rs	14.08	15.03	16.80	18.26
Total div yield	%	4.2	4.4	5.0	5.4
ROA	%	5.1	3.9	4.9	4.8
ROE	%	12.6	12.4	12.8	12.7
EV/EBITDA	x	9.4	10.9	8.9	8.5
Net debt/equity	%	200.8	174.3	150.8	127.6
P/BV	x	0.9	0.9	0.8	0.7

HPCL IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2010
(all figures in INR unless noted)

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27 May 2010

Hindustan Petroleum

Back in the black

Event

- HPCL's Rs7.6bn 4QFY10 PAT is mildly below forecast. Government's (GOI) substantial cash reimbursement of Rs30bn enabled HPCL to swing back into the black. Sharp 24% MoM oil price drop has also enabled diesel margins to turn positive, enhancing likelihood of sector reforms. We feel HPCL presents compelling value (even under the prevalent worst-case scenario), in addition to multiple triggers. We re-affirm our OP rating and TP of Rs445/sh.

Impact

- Cash support assists 4Q PAT turnaround.** 4Q is always volatile as the GOI balances cash reimbursement to allow a bare minimum PAT of Rs 10-15bn. Cash compensation was two-fold; the upstream companies compensated Rs13.5bn and Gol's Rs30.3bn (in addition to Rs25bn during 9mFY10). Consequently, HPCL had to bear Rs13.2bn of the under-recoveries (Figs 2, 3).
- GRMs much improved due to robust auto-fuel cracks:** With gasoline and diesel cracks averaging in excess of US\$8.5/bbl, GRMs for even a simple refiner like HPCL averaged US\$3.3/bbl during 4Q, compared to a loss during 3Q. Refinery production was also up 5.7% QoQ as the Vizag refinery ramped up after a shutdown in the last quarter.
- Back in the black.** A sharp 24% MoM oil price drop has turned diesel margins to positive at Rs1.2/lt from a negative Rs 1.5/lt. Diesel is its largest product. Gasoline margins have also sharply gained by Rs 3.3/lt, but remain mildly -ve at Rs0.2/lt. Presently, crude oil break-even for diesel and gasoline stands at US\$74.5/bbl and US\$69.3/bbl respectively. Kerosene and LPG margins remain -ve at Rs 18.1/l and Rs 213/cyl respectively despite improvements.

Earnings and target price revision

- Minor adjustments to PAT; +1% in FY11E and -2% in FY12E

Price catalyst

- 12-month price target: Rs445.00 based on a RNAV methodology.
- Catalyst: Implementation of Kirit Parikh committee recommendations; progress of shifting of Mumbai refinery, and consequent land sale.

Action and recommendation

- Compelling valuations...** We believe HPCL presents deep value at a valuation of 0.9x PBV and 7.0x FY11E PER, with one of India's highest dividend yield's of 4.4%. This is under the prevalent worst-case scenario of controlled pricing.
- ...with multiple triggers.** Given the sharp recent fall in oil prices and the government's recent gas price reforms, the probability of downstream oil sector reforms has improved. We believe HPCL's earnings could nearly double if oil product prices are freed. Furthermore, if HPCL's proposal of shifting Mumbai refinery and consequent land sale is accepted by the government, the stock price could rise significantly.

Fig 1 Key financials of 4QFY10 results

(Rsmn)	4QFY10	4QFY09	YoY (%)	3QFY10	QoQ (%)
Net Sales	315,584	251,542	25.5%	278,742	13.2%
Expenditure	-300,074	-197,168	52.2%	-275,198	9.0%
EBITDA	15,510	54,374	-71.5%	3,544	337.6%
Depreciation	-3,175	-2,545	24.8%	-3,007	5.6%
Other Income	2,079	4,263	-51.2%	2,250	-7.6%
EBIT	14,414	56,092	-74.3%	2,787	417.2%
Interest	-1,640	-3,779	-56.6%	-2,202	-25.5%
PBT	12,811	52,313	-75.5%	585	2089.9%
PBT (excl. exceptional items)	12,774	52,313	-75.6%	585	2083.6%
Tax	-5,236	-2,659	96.9%	-271	1832.1%
PAT (recurring)	7,538	49,654	-84.8%	314	2300.6%
PAT (reported)	7,575	51,040	-85.2%	314	2312.4%

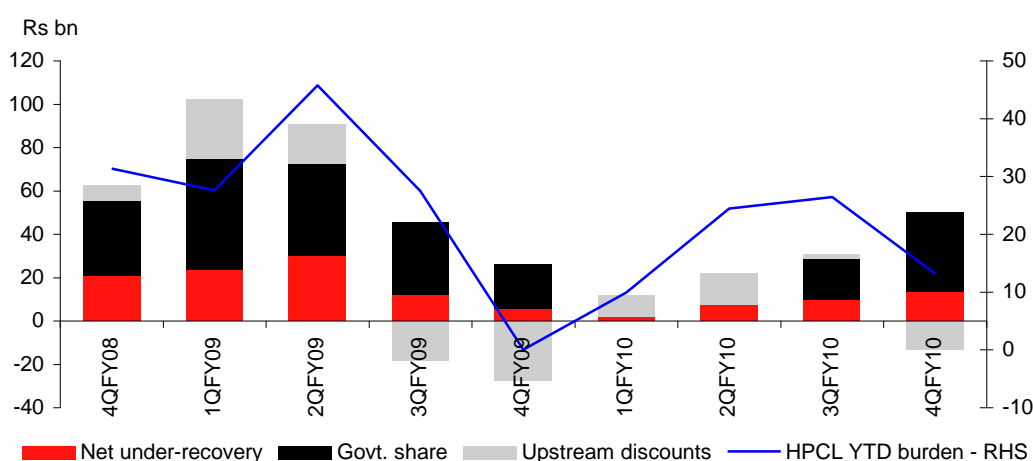
Source: Company data, Macquarie Research, May 2010

Fig 2 Gross under-recovery of Rs36.9bn for 4QFY10

Under-recovery (Rs bn)	1QFY10	2QFY10	3QFY10	4QFY10
on auto-fuels (gasoline/diesel)	1.74	7.62	9.63	13.49
on cooking-fuels (kerosene/LPG)	9.90	14.53	20.97	23.43
Gross under-recovery	11.64	22.15	30.60	36.92
Sharing				
by upstream (discounts on crude/LPG)	1.74	7.62	9.63	13.49
by Gol (oil bonds/cash)	0.00	0.00	18.97	36.66
by HPCL (net under-recovery)	9.90	14.53	2.00	-13.23
by HPCL (YTD burden)	9.90	24.43	26.43	13.20
Upstream YTD (% of total)	14.9%	27.7%	29.5%	32.1%
Govt YTD (% of total)	0.0%	0.0%	29.5%	54.9%
Downstream YTD (% of total)	85.1%	72.3%	41.1%	13.0%

Source: Company data, Macquarie Research, May 2010

Fig 3 Gol cash reimbursement a relief; Rs13.2bn under-recovery burden for FY10



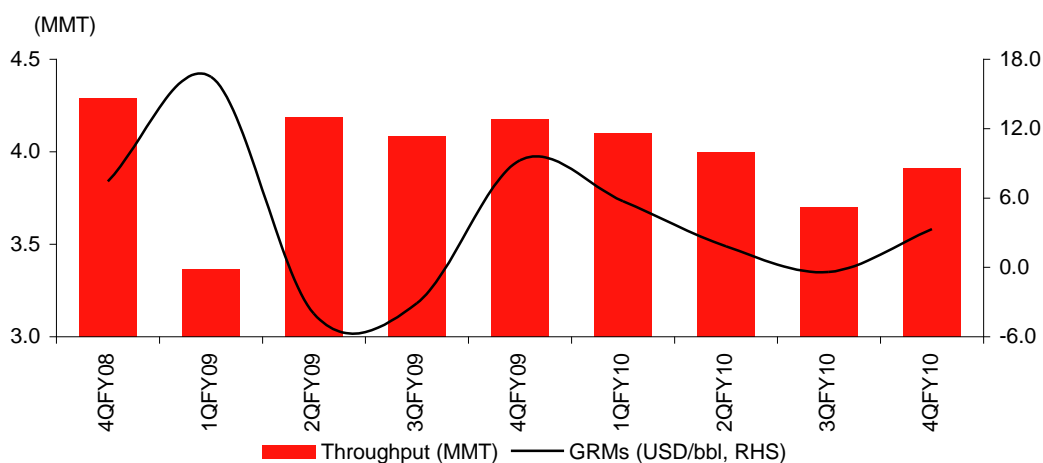
Source: Company data, Macquarie Research, May 2010

Fig 4 Key operating parameters announced in 4QFY10 results

	4QFY10	4QFY09	YoY (%)	3QFY10	QoQ (%)
Refinery Throughput (MMT)	3.9	4.2	-6.3%	3.7	5.7%
GRMs (USD/bbl, RHS)	3.3	9.3	-64.2%	-0.4	NM
Sales (MMT)	6.5	6.8	-4.7%	6.7	-2.3%
Pipeline throughput (MMT)	3.1	2.8	8.5%	2.9	7.0%

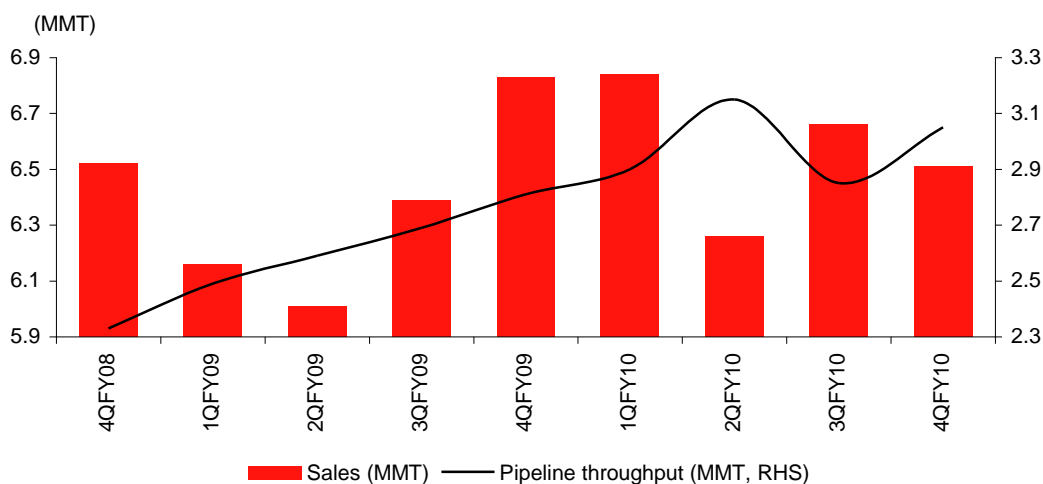
Source: Company data, Macquarie Research, May 2010

Fig 5 GRMs moving upwards; Refinery throughput increasing post Q3 shutdowns



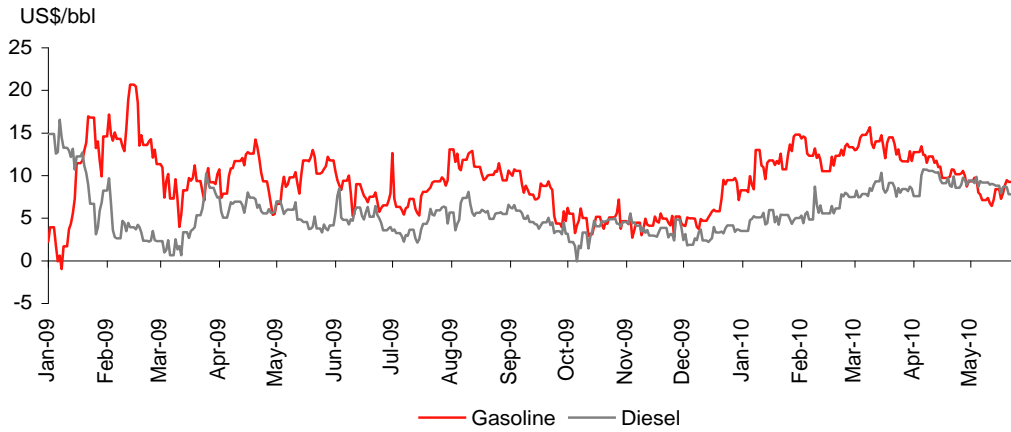
Source: Company data, Macquarie Research, May 2010

Fig 6 Sales down 2.3% QoQ; Pipeline throughput increased 7% QoQ



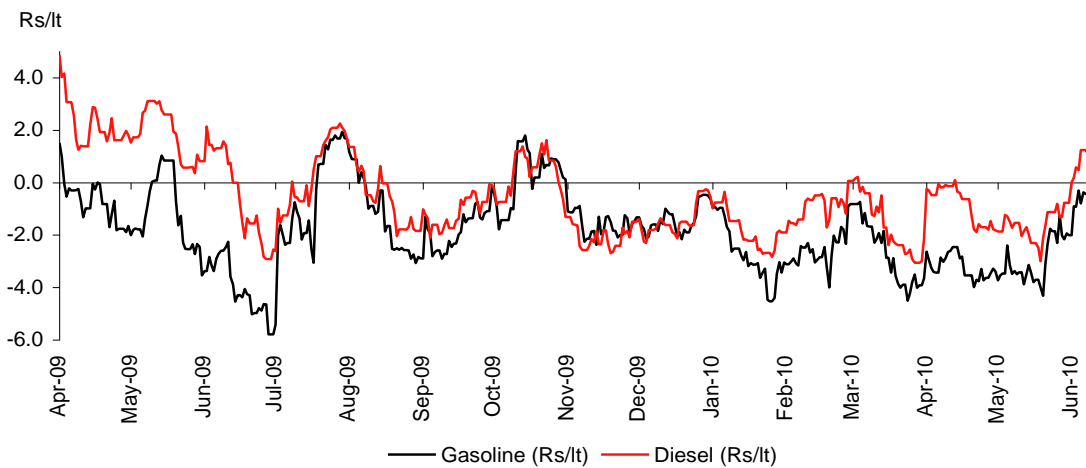
Source: Company data, Macquarie Research, May 2010

Fig 7 Gasoline and Diesel cracks are ~ US\$9/bbl



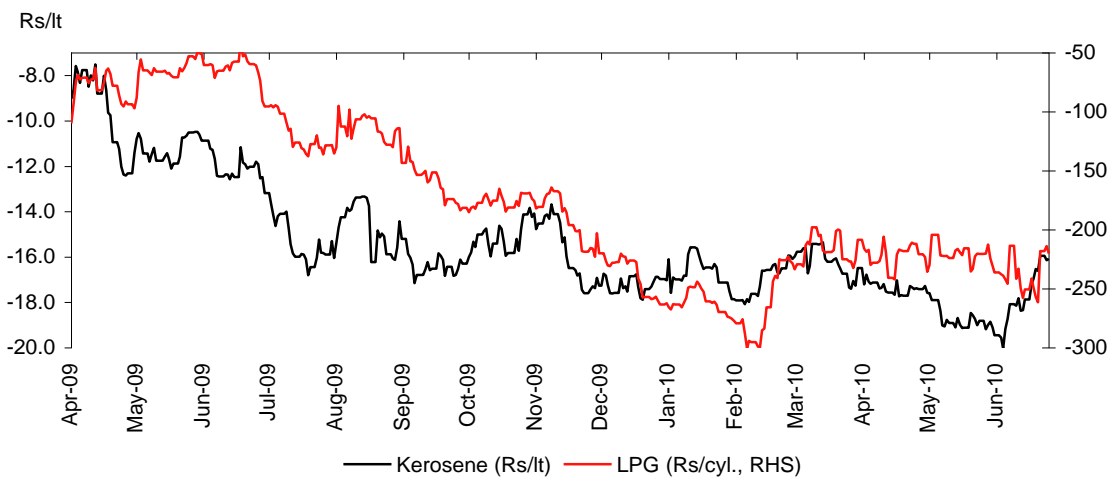
Source: Company data, Macquarie Research, May 2010

Fig 8 Gasoline -ve margins improve, diesel turns positive



Source: Company data, Macquarie Research, May 2010

Fig 9 Cooking fuel retail margins remain sharply -ve, despite sharp improvements



Source: Company data, Macquarie Research, May 2010

Hindustan Petroleum (HPCL IN, Outperform, Target Price: Rs445.00)

Quarterly Results					Profit & Loss						
		4Q/10A	1Q/11E	2Q/11E	3Q/11E	2010A	2011E	2012E	2013E		
Revenue	m	292,544	384,454	341,737	370,215	Revenue	m	1,125,169	1,423,903	1,490,382	1,602,132
Gross Profit	m	21,719	21,238	18,878	20,451	Gross Profit	m	83,534	78,658	90,466	94,691
Cost of Goods Sold	m	270,825	363,216	322,859	349,764	Cost of Goods Sold	m	1,041,634	1,345,244	1,399,916	1,507,441
EBITDA	m	9,919	8,895	7,906	8,565	EBITDA	m	38,148	32,944	40,233	42,014
Depreciation	m	3,251	3,467	3,082	3,339	Depreciation	m	12,505	12,842	13,782	14,722
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	6,667	5,428	4,824	5,227	EBIT	m	25,643	20,102	26,451	27,292
Net Interest Income	m	-2,424	-2,560	-2,276	-2,465	Net Interest Income	m	-9,321	-9,482	-13,423	-12,524
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	10	0	0	0	Exceptionals	m	10	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	2,037	4,117	3,659	3,964	Other Pre-Tax Income	m	7,835	15,247	15,872	16,644
Pre-Tax Profit	m	6,290	6,984	6,208	6,726	Pre-Tax Profit	m	24,166	25,867	28,900	31,412
Tax Expense	m	-2,455	-2,730	-2,427	-2,629	Tax Expense	m	-9,443	-10,112	-11,298	-12,280
Net Profit	m	3,835	4,254	3,781	4,096	Net Profit	m	14,723	15,755	17,602	19,132
Minority Interests	m	0	0	0	0	Minority Interests	m	1	0	0	0
Reported Earnings	m	3,835	4,254	3,781	4,096	Reported Earnings	m	14,724	15,755	17,602	19,132
Adjusted Earnings	m	3,826	4,254	3,781	4,096	Adjusted Earnings	m	14,714	15,755	17,602	19,132
EPS (rep)		11.31	12.55	11.15	12.08	EPS (rep)		43.43	46.47	51.92	56.43
EPS (adj)		11.28	12.55	11.15	12.08	EPS (adj)		43.40	46.47	51.92	56.43
EPS Growth yoy (adj)	%	92.9	7.1	11.7	16.0	EPS Growth (adj)	%	92.9	7.1	11.7	8.7
						PE (rep)	x	7.3	7.3	6.5	6.0
						PE (adj)	x	7.3	7.3	6.5	6.0
EBITDA Margin	%	3.4	2.3	2.3	2.3	Total DPS		14.08	15.03	16.80	18.26
EBIT Margin	%	2.3	1.4	1.4	1.4	Total Div Yield	%	4.4	4.4	5.0	5.4
Earnings Split	%	26.0	27.0	24.0	26.0	Weighted Average Shares	m	339	339	339	339
Revenue Growth	%	-12.8	26.6	32.1	37.1	Period End Shares	m	339	339	339	339
EBIT Growth	%	16.3	-21.6	-18.2	-15.1						
Profit and Loss Ratios					Cashflow Analysis						
		2010A	2011E	2012E	2013E		2010A	2011E	2012E	2013E	
Revenue Growth	%	-12.8	26.6	4.7	7.5	EBITDA	m	38,148	32,944	40,233	42,014
EBITDA Growth	%	16.6	-13.6	22.1	4.4	Tax Paid	m	-9,443	-10,112	-11,298	-12,280
EBIT Growth	%	16.3	-21.6	31.6	3.2	Chgs in Working Cap	m	-7,796	10,522	7,514	9,007
Gross Profit Margin	%	7.4	5.5	6.1	5.9	Net Interest Paid	m	-9,321	-9,482	-13,423	-12,524
EBITDA Margin	%	3.4	2.3	2.7	2.6	Other	m	2,838	3,037	3,393	3,688
EBIT Margin	%	2.3	1.4	1.8	1.7	Operating Cashflow	m	14,425	26,909	26,419	29,905
Net Profit Margin	%	1.3	1.1	1.2	1.2	Acquisitions	m	0	0	0	0
Payout Ratio	%	32.4	32.3	32.3	32.3	Capex	m	-33,500	-23,500	-23,500	-23,500
EV/EBITDA	x	9.2	10.9	8.9	8.5	Asset Sales	m	0	0	0	0
EV/EBIT	x	13.7	17.8	13.6	13.1	Other	m	7,835	15,247	15,872	16,644
						Investing Cashflow	m	-25,665	-8,253	-7,628	-6,856
Balance Sheet Ratios						Dividend (Ordinary)	m	-4,772	-5,097	-5,694	-6,189
ROE	%	12.6	12.4	12.8	12.7	Equity Raised	m	-0	-0	-0	-0
ROA	%	5.1	3.9	4.9	4.8	Debt Movements	m	10,000	0	0	0
ROIC	%	4.6	3.4	4.4	4.6	Other	m	-1	-0	0	-0
Net Debt/Equity	%	200.8	174.3	150.8	127.6	Financing Cashflow	m	5,226	-5,097	-5,694	-6,189
Interest Cover	x	2.8	2.1	2.0	2.2	Net Chg in Cash/Debt	m	-5,975	13,560	13,097	16,860
Price/Book	x	0.9	0.9	0.8	0.7	Free Cashflow	m	-19,075	3,409	2,919	6,405
Book Value per Share		358.1	389.6	424.7	462.9						
						Balance Sheet					
						2010A	2011E	2012E	2013E		
						Cash	m	6,787	20,347	33,444	50,305
						Receivables	m	24,431	27,849	28,990	30,400
						Inventories	m	88,564	100,952	105,088	110,201
						Investments	m	128,274	128,274	128,274	128,274
						Fixed Assets	m	212,164	222,822	232,541	241,319
						Intangibles	m	0	0	0	0
						Other Assets	m	45,310	35,310	25,310	15,310
						Total Assets	m	505,530	535,554	553,647	575,809
						Payables	m	52,376	68,704	71,495	77,026
						Short Term Debt	m	35,737	35,737	35,737	35,737
						Long Term Debt	m	214,875	214,875	214,875	214,875
						Provisions	m	12,371	12,371	12,371	12,371
						Other Liabilities	m	68,736	71,773	75,166	78,854
						Total Liabilities	m	384,094	403,459	409,644	418,862
						Shareholders' Funds	m	121,422	132,081	143,989	156,932
						Minority Interests	m	25	25	25	25
						Other	m	-11	-11	-11	-11
						Total S/H Equity	m	121,437	132,096	144,004	156,947
						Total Liab & S/H Funds	m	505,530	535,554	553,647	575,809

All figures in INR unless noted.

Source: Company data, Macquarie Research, May 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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