

Oil and Natural Gas Corporation

Analyst meet take-aways - ALERT

Neutral

ONGC.BO, ONGC IN

Price: Rs1,182.35

02 June 2010

- Reform agenda dominates:** Management was upbeat on expectations of at least partial reforms on fuel pricing being carried out post the EGoM meeting on June 7. On ONGC's recommendation, the Kirit Parikh committee had suggested a sliding scale for upstream subsidy sharing, based on the crude price (see table below).
- Aggressive production targets:** Management guided for ~12% growth in production in FY13 (flat through FY11/12) – we believe this could be a little aggressive, as it builds in no decline in ONGC's older producing fields, and incremental production from newly developed marginal fields.
- Deepwater exploration picking up:** ONGC has allocated ~40% of capex towards exploratory activities. While ONGC has registered 10 discoveries in the deepwater KG basin block, non-availability of deepwater rigs hampered the drilling of appraisal wells. They now have 2 deepwater rigs operational in the KG basin, with a 3rd rig to be available from December.
- Venezuela to produce from 2013:** Management indicated that the Carabobo project in Venezuela would start production in 2013 – and that it would be viable at crude levels above \$60/bbl.
- Sensitivity to reform:** Implementation of the sliding scale proposed by the Kirit Parikh Committee will be very positive for ONGC, with a +30% impact on operating profitability. We have been more constructive on ONGC with the positive stance of the government on gas price reform. However, a full implementation of Kirit Parikh recommendations is unlikely in our view. Maintain Neutral.

Exploration & Production

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Table 1: Sliding scale for upstream subsidy suggested by ONGC

Price range (\$/bbl)	Rate of tax (% of incremental price)
60-70	20%
70-80	40%
80-90	60%
Above 90	80%

Source: Gol

Table 2: Sensitivity to sliding scale subsidy sharing at \$80/bbl crude

	FY11	FY12
EBITDA (Rs mn)	613,512	630,267
% change	28%	31%
Net Profit (RS mn)	324,252	343,145
% change	39%	44%

Source: J.P. Morgan estimates.

See page 2 for analyst certification and important disclosures, including non-US analyst disclosures.

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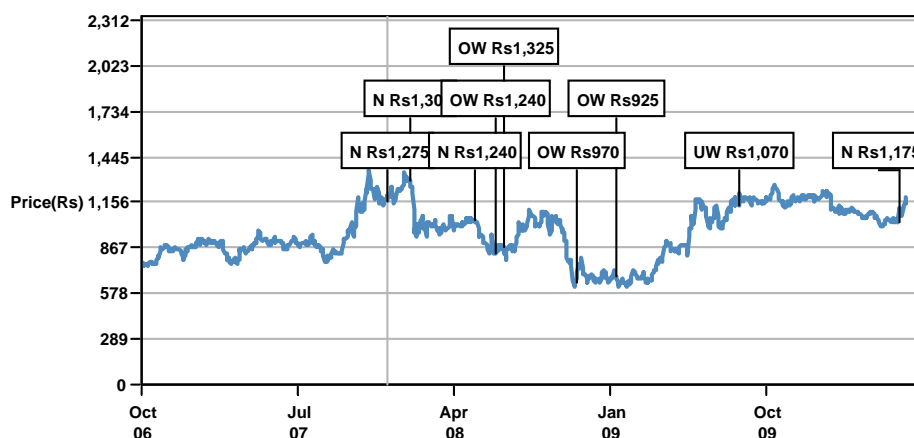
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Oil and Natural Gas Corporation (ONGC.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
05-Dec-07	N	1156.70	1275.00
15-Jan-08	N	1289.80	1300.00
06-May-08	N	1039.00	1240.00
11-Jun-08	OW	831.25	1240.00
27-Jun-08	OW	870.35	1325.00
31-Oct-08	OW	650.05	970.00
08-Jan-09	OW	690.20	925.00
13-Aug-09	UW	1130.55	1070.00
20-May-10	N	1025.10	1175.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage May 18, 2004 - Jul 01, 2004, and Oct 13, 2005 - Dec 05, 2007. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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