

GAIL
Rs.257
BUY

September 22, 2006
Sensex: 12,274



- As on day average prices for Polyethylene (PE, contributing 22% of the EBITDA) are up 20% compared to FY06 average and 12-13% higher than Q1FY07. Current earning assumptions for FY07 are based on marginal (2-3%) increase in realization in prices. We expect the year to end at 8-9% increase in realization for FY07.
- Similarly LPG (contributing 15% to EBITDA) prices are 10% higher than last year average while the earnings assumptions for FY07 are based on (1-2%) increase in realizations. We expect the year to end at 6-7% increase in realization for FY07.
- Moreover the consensus estimates for subsidy sharing have assumed almost 20-30% higher than in FY06 to Rs 12.5-14.0bn. The fact of matter is GAIL's FY06 sharing was 10% lower than FY05 while the overall losses for marketing companies were 70% higher.

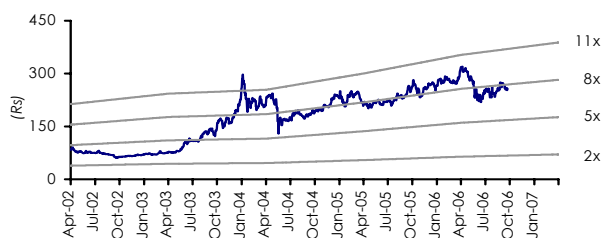
Although the overall marketing losses on HSD, LPG and SKO remains on higher side (40-50%) as compared to FY06, but there is a strong case for GAIL that the subsidy amount will remain at last year level of Rs 10.6bn (Rs 2.5bn in Q1FY07).

- Based on these assumptions we expect at least 15% surprise to Rs 27 (consensus, bloomberg estimates) for FY07.
- Moreover the stock price have inherent value of Rs 50/share for its holdings in ONGC and other investments. While Cash in the books is almost 45-50/share.

Valuation

- At CMP stock trades at 8.0x FY07 and 5.0x (adjusted for investment and cash value) with attractive dividend yield of 4.2%. We recommend BUY on stock with target price of Rs 310.

1 yr. Forward PE Band Chart



Key Financials

	FY05	FY06	FY07E	FY08E
Sales	135,914	163,513	187,713	206,284
EBITDA	36,030	34,979	41,218	46,576
PAT	19,539	23,101	27,110	29,850
EPS (Rs)	23.1	27.3	32.1	35.3
PER (x)	11.1	9.4	8.0	7.3
Dividend Yield (%)	-	-	4.2	-

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INDIA

Oil & Petrochemicals

Reuters: GAIL.BO/NS
Bloomberg: GAIL IN

Trading/Execution Data

Listing	NSE, BSE
Shares in issue	845m
Avg. Daily Vol.	1.3M
Free Float	36.5%
F&O Contract	YES

Major Inst. Holders

Templeton
Aberdeen
Oppenheimer
Source: Bloomberg

Stock Performance (%)

Absolute (%)	
1 M	0.2
3 M	11.0
12 M	(1.4)
Relative (%)	
1 M	(4.9)
3 M	(9.0)
12 M	(44.0)

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