

ONGC

Q1 FY07 results boosted by higher sales volumes

- ▶ **Result above expectations on account of higher crude sales, lower subsidies**
- ▶ **Our estimates for FY07 factor in higher crude sales than FY06. Remain Neutral with a notional target price of INR1,187**
- ▶ **Announcement of 1:2 bonus share a positive surprise**

Higher sales volumes boost profits 24% y-o-y

Provisional subsidy numbers marginally lower than expectations

ONGC has reported a 24% y-o-y increase in profits, higher than consensus (+11%) and our expectations (+14%). Figure 1 summarises the key financials.

Figure 1: Summary of ONGC's Q1 FY2007 standalone results

March YE	Q1 FY 2007	Q1 FY 2006	% Change
	INRm		
Net sales	146,028	108,697	34.3
EBDITA	81,094	61,051	32.8
EBDITA margin	55.5%	56.2%	
PBT	62,952	50,498	24.7
Recurring PAT	41,190	33,189	24.1
PAT	41,190	33,189	24.1
EPS (INR/Share)	28.9	23.3	24.1

Source: Company data

Key reasons for the results being above our and consensus expectation are

- ▶ Crude sales volumes at 6.1mmt were about 7.2% higher than our estimates at 5.7mmt. We had expected the sales volumes decline in the current quarter on account of the impact of the Mumbai High accident of Q2 FY06. Crude production has in fact remained flat at 6.48mmt for the quarter.
- ▶ The provisional subsidy burden for the quarter at INR51.2bn is about 5% lower than our estimate of INR53.9bn. At our estimates of INR53.9bn, the net profit would have been 19% y-o-y higher.

Stock data

Current price	Reuters	Bloomberg equity	Valuation range
INR 1,139	ONGC.BO	ONGC IN	INR1,080-1,294

Source: HSBC

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This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, that form part of it.

Depreciation for the quarter was higher than our estimate at INR22.3bn (65% y-o-y higher). Figure 2 summarises the key operation parameters of Q1 FY07 for ONGC.

Figure 2: Key financial and operation parameters for ONGC

INRm	Q1 FY 2007	Q1 FY 2006	% Change
Revenue including excise duty			
Crude	97,220	73,360	32.5
Gas	18,730	14,930	25.5
LPG	4,180	3,790	10.3
ARN	10,800	8,490	27.2
C2 C3	1,840	1,380	33.3
Others	13,993	7,586	84.5
	146,763	109,536	34.0
Sales			
Crude (mmt)	6.1	5.8	5.2
Gas (bcm)	5.3	5.1	3.5
LPG (mmt)	0.264	0.264	0.0
ARN (mmt)	0.383	0.410	(6.6)
C2 C3 (mmt)	0.118	0.125	(5.6)
Price realisation			
Crude (USD/bbl)	44.9	37.3	20.2
Gas (INR/tcm)	3,527	2,910	21.2
LPG (USD/tonne)	346.8	329.5	5.2
ARN (USD/tonne)	617.6	475.3	29.9
C2 C3 (USD/tonne)	341.5	253.4	34.8

Source: Company, HSBC estimates

We retain our earnings forecast for FY07e, maintaining our full year sales volume forecast of 25.1mmt and the subsidy burden of INR130bn at our crude price forecast of USD64/bbl for FY07e.

Valuation

We expect ONGC's consolidated FY07e recurring EPS to be INR136.8/share. Our forecast is based on HSBC Brent price forecast of USD64/bbl for the year ending March 2007. Our FY07e earnings growth would be capped by higher subsidy burden on account of auto-fuels. Our fair value range for ONGC is based on a sum-of-the-parts valuation comprising: DCF value of ONGC's oil and gas reserves, market price of ONGC's investment in equity of oil PSUs and ONGC's net cash at the end of FY05. Our notional target price is the mid-point of our fair value range. Our fair value range for ONGC is INR1,080-1,294/share. The upper end of the range is based on the assumption of the long-term Brent price of USD50/bbl while lower end assumes USD40/bbl. The notional target price is based on our long-term Brent price of USD45/bbl.

Risk to Valuation

- ▶ Regulatory risk due to the strong government influence on the distribution of subsidies between oil companies
- ▶ Predominantly an upstream company and so carries international crude price and domestic natural gas price movement risk.
- ▶ Change in petro-product pricing mechanism in India and thus the subsidy burden;
- ▶ Success in E&P activities.

Disclosure appendix

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This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website. Details of these short-term investment opportunities can be found under the Reports section of this website.

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Stock (vs Global sector universe of companies under coverage by sector team)

- ▶ Overweight (Buy)
- ▶ Neutral (Hold)
- ▶ Underweight (Sell)

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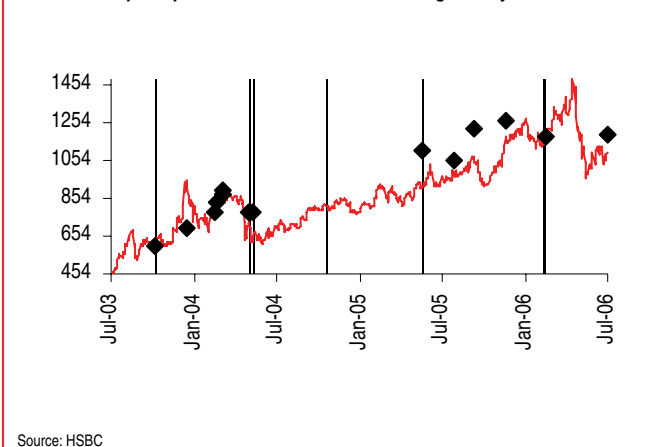
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Overweight (Buy)	47%	(18% of these provided with Investment Banking Services)
Neutral (Hold)	39%	(18% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(17% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

ONGC share price performance INR vs HSBC rating history



Rating & price target history

From	To	Date
Reduce	Hold	29 October 2003
Hold	Add	25 May 2004
Add	Buy	04 June 2004
Buy	N/R	15 November 2004
N/R	Overweight	13 June 2005
Overweight	Neutral	10 March 2006
Target price	Value	Date
Price 1	600.00	29 October 2003
Price 2	700.00	07 January 2004
Price 3	775.00	11 March 2004
Price 4	837.00	17 March 2004
Price 5	891.00	29 March 2004
Price 6	877.00	30 March 2004
Price 7	775.00	25 May 2004
Price 8	775.00	04 June 2004
Price 9	N/R	15 November 2004
Price 10	1109.00	13 June 2005
Price 11	1051.00	23 August 2005
Price 12	1219.00	04 October 2005
Price 13	1261.00	15 December 2005
Price 14	1181.00	10 March 2006
Price 15	1187.00	25 July 2006

Source: HSBC

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