

# Chennai Petroleum Corporation Ltd (Q3 FY08)

January 25, 2008

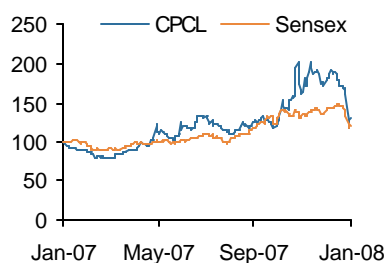
## Stock data

Sensex:	17,222
CMP (Rs):	297
Target price (Rs):	420
Upside (%):	41.4
52 Week h/l (Rs):	490/173
Market cap (Rs cr)	4,425
6m Avg vol BSE&NSE ('000 nos):	471.3
No of o/s shares (mn):	149
FV (Rs):	10
Bloomberg code:	MRL IN
Reuters code:	CHPC.BO
BSE code:	500110
NSE code:	CHENNPETRO

## Shareholding pattern

December 2007	(%)
Promoters	67.3
FIs & institutions	25.5
Non promoter corp hold	3.0
Public & others	4.2

## Share price trend



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- ↗ Throughput decline on account of a planned shutdown.
- ↗ Strong refining margins at US\$8.75/bbl on back global cues and inventory gains.
- ↗ Refining margins to remain strong over the next couple of years.
- ↗ Maintain our BUY recommendation with a target price of Rs420

## Results table

	Q3 FY08	Q3 FY07	Growth (%)
Net sales	70,609	58,985	19.7
Expenditure	(66,497)	(57,767)	15.1
Operating profit	4,112	1,218	237.5
Other income	421	152	176.1
Interest	(409)	(412)	(0.7)
Depreciation	(603)	(586)	2.9
PBT	3,521	373	844.9
Tax	(1,264)	(129)	879.4
PAT	2,256	243	826.6
Equity	1,490	1,490	
OPM (%)	5.8	2.1	
EPS annualized (Rs)	60.6	6.5	

Source: Company, India Infoline Research

## Higher realizations offset decline in volumes

During Q3 FY08 Chennai Petroleum Corporation Ltd (CPCL) reported 19.7% yoy growth in net sales to Rs70bn. The jump was despite 11% yoy fall in throughput to 2.3mn tons. The fall in throughput was on account of a 22 day planned shutdown of the crude distillation unit. However, higher realizations, on back of surging crude prices, helped offset the loss in volumes.

## Record GRMs translate into 370bps jump in operating margins

CPCL reported a 237.5% yoy jump in operating profit and 370bps surge in operating margins. The robustness was primarily driven by US\$6.1/bbl yoy increase in GRMs to US\$8.75/bbl. The jump in refining margins was on back of rise in crack spreads in the Asia Pacific region, especially so for gasoline and jet kero. CPCL's margin got a further boost from Rs2.1bn inventory gains in Q3 FY08 as compared to inventory losses of Rs1bn in Q3 FY07. Strong operating profit growth coupled with 176% yoy jump in other income (provisioning for rupee appreciation on dollar denominated loans) resulted into 826.6% yoy jump in net profit to Rs2.2bn for Q3 FY08.

## Cost analysis

As % of sales	Q3 FY08	Q3 FY07	Inc/Dec (%)
Raw Material	87.1	93.2	(6.0)
Purchase	4.7	1.9	2.8
Staff cost	0.4	0.5	(0.1)
Other Expenses	1.9	2.3	(0.4)
Total Expenditure	94.2	97.9	(3.8)

Source: Company, India Infoline Research

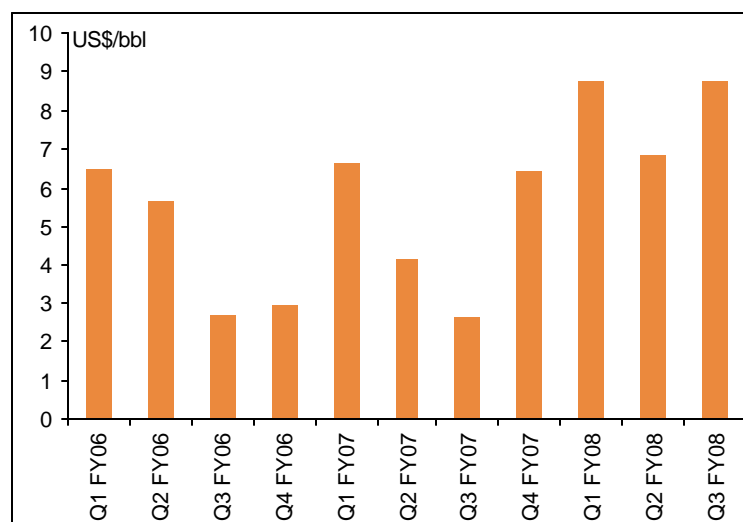
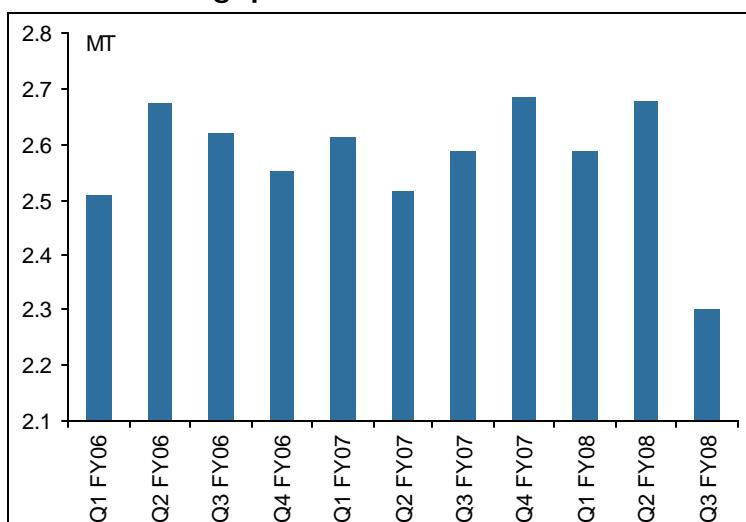
**Refining margins to remain strong till FY09**

Globally GRMs are expected to remain strong at the current levels (Q3 FY08 Singapore complex GRMs at US\$7.7/bbl). Going ahead, the demand for auto fuels will rise in line with strong economic growth and emission norms for the auto fuels are expected to get stricter. Further, CDU capacity additions will be ~1mn barrels per day against incremental demand for fuels at ~1.4mn barrels per day. Complex refiners could gain more as the light-heavy differential continues to strengthen.

**Grossly undervalued compared to peers, recommend a BUY**

EV/mmtpa for CPCL refinery is at Rs6,392 per MMTPA as compared to Rs14,774 per MMTPA for MRPL and Rs30,133 per MMTPA for RPL. Considering the fact that nelson complexity index for RPL is 14 and that for CPCL is 7 and there exists a hang of a merger with IOC for CPCL, even if we assume a 70% discount for CPCL's valuation, we derive a price of Rs450. Historically, the stock has traded in the range of 4-4.5x EV/EBIDTA. We believe that with robust refining margins trend the stock should trade at 5x EV/EBIDTA FY09E yielding a target price of Rs420. We recommend a BUY.

**Trend in throughput and GRMs for CPCL**



Source: Company, India Infoline Research

**Financials**

Period to	FY06	FY07	FY08E	FY09E	FY10E
Rs mn	(3)	(3)	(3)	(3)	(3)
Revenues	211,288	246,948	266,179	260,345	248,879
yoy growth (%)		16.9	7.8	(2.2)	(4.4)
Operating profit	10,831	12,472	18,268	16,236	12,853
OPM (%)	5.1	5.1	6.9	6.2	5.2
PAT	4,810	5,653	9,999	8,870	6,377
Pre-exceptional PAT	4,726	5,653	9,999	8,870	6,377
yoy growth (%)		17.5	76.9	(11.3)	(28.1)
EPS (Rs)	32.3	37.9	67.1	59.5	42.8
P/E (x)	9.2	7.8	4.4	5.0	6.9
P/BV (x)	1.9	1.7	1.3	1.1	1.0
EV/EBITDA (x)	6.5	4.9	3.3	3.3	4.1
ROE (%)	21.1	21.4	29.1	21.5	14.0
ROCE (%)	17.7	23.9	32.4	28.0	19.1

Source: Company, India Infoline Research

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