

# Energy

## Higher oil price and lower GRM

### Summary

**Crude oil price improved:** Crude oil prices improved in the month of November on demand recovery and hopes on Covid-19 vaccine. Brent crude oil price rose by 6.8%% MoM to average US\$43.2/bbl in Nov'20. US total rig counts which touched a low of 244 rigs at mid-Aug'20 now increased to 320 at the end of Nov'20, though significantly lower compared to 830 rigs in same period last year. Though demand for crude oil has improved but still significantly lower vs its peak of ~100mbpd. Also, OPEC+ may look to extend production cut of 7.7mbpd in 2021 as well but higher supply from US, Iraq and Libya may keep prices low. We expect crude oil price to average to US\$40/bbl in FY21, US\$45 in FY22 and US\$50/bbl in FY23.

**OPEC production rises led by Libya:** OPEC's production improved by 2.2% MoM in Nov'20 to 25.2mbpd (24.3mbpd in Sept'20) as forecasted last month. Production from Libya increased to 1.05mbpd in November from 450kbpd in October. However, Saudi Arabia and Iraq outputs were largely flattish MoM. There are initial sign that OPEC+ may roll over current production cut of 7.7mbpd for another 3 months to Mar'21 as well compared to earlier guidance of 5.5mbpd from Jan'21.

**GRM faltered:** Singapore GRM remained in a very narrow range and fell to average US\$1.1/bbl in Nov'20 compared to US\$1.6/bbl in Oct'20. Cracks also fell during the month across all products with Gasoline and Naphtha cracks falling to negative US\$0.8/1.8/bbl in Nov'20 vs positive US\$3.5/2.5/bbl in Oct'20 on the back of rising Covid cases in US. Fuel Oil and Jet Kero cracks fell to US\$ -3.1/+2.5/bbl vs US\$ -1.74/+3.1/bbl. Gas Oil improved during the month to US\$4.6/bbl vs US\$3.7/bbl in Oct'20. US refinery utilization improved to 77% in November vs 75% in October much lower than five year average of 91.1%. Resurgence in Covid-19 cases in Europe and United States along with local lockdowns led to weakening of GRM.

**RIL, HPCL and GSPL remain top picks:** Recent PNGRB's notification on open access on CGD business is seen positive for CGD players as concern on immediate volume loss to OMCs is now out as current outlets would not be classified as third party. Further, unified tariff also came as revenue neutral for GAIL and GSPL. Marketing margin for petrol and diesel remained flattish on a MoM basis but it remains higher compared to its long term average. As per the news reports, three companies have submitted EOI for BPCL disinvestment where Apollo Global and Vedanta have given their confirmation. However, this is still lower compared to our earlier estimates and may have an impact on its valuation. On natural gas front, spot LNG has moved up and crossed US\$6/mmbtu on supply concern from Australia and higher demand which is positive for GAIL. Further, LNG volume remained higher which had touched at all-time high in Oct'20. Recently, we have seen strong uptick in PSU Company's valuation and GAIL, ONGC and Oil India achieved our target price. Our top-picks remain as GSPL, RIL and HPCL.

### Exhibit 1: Recommendation snapshot

Companies	CMP	TP	Recommendation	Mkt Cap (Rs mn)	Revenue (Rs mn)		EPS (Rs)		P/E (x)		EV/EBITDA (x)		RoE (%)	RoCE (%)
	(Rs)	(Rs)			FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY22E	FY22E
Reliance Industries Ltd	1,954	2,468	<b>BUY</b>	12,389,170	4,884,500	5,824,059	58.5	87.3	33.4	22.4	15.6	10.4	8.2	8.5
Oil & Natural Gas Corp	82	85	<b>BUY</b>	1,025,293	634,364	724,611	6.8	7.5	12.0	10.9	4.6	4.3	4.7	3.3
Bharat Petroleum Corp	379	412	<b>BUY</b>	822,472	1,840,966	2,411,289	30.1	33.6	11.8	10.5	9.1	8.0	17.2	9.7
Indian Oil Corporation	86	87	<b>ACCUMULATE</b>	807,735	3,187,814	4,231,243	10.8	12.8	8.0	6.7	8.0	7.2	11.7	7.9
Gail India	111	109	<b>BUY</b>	499,724	543,481	644,697	9.5	12.2	11.7	9.1	8.4	6.4	11.4	9.2
Petronet LNG	254	282	<b>BUY</b>	381,300	306,442	368,147	17.0	19.8	15.0	12.8	8.0	7.1	25.6	22.4
Hindustan Petroleum Corp	212	253	<b>BUY</b>	322,289	1,829,009	2,384,011	48.4	39.0	4.4	5.4	5.2	6.4	17.3	6.7
Gujarat State Petronet Ltd	228	306	<b>BUY</b>	128,556	24,883	28,613	19.5	24.0	11.7	9.5	7.8	6.1	16.6	18.7
Oil India	100	90	<b>HOLD</b>	108,332	80,604	91,554	8.3	10.3	12.0	9.7	9.0	7.5	4.5	1.6

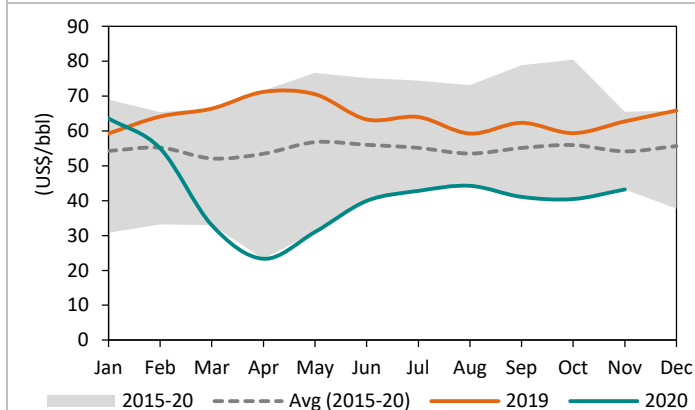
Source: IDBI Capital Research

## Key Highlights

### ■ Crude oil price rises in Nov '20 by 6.8% MoM

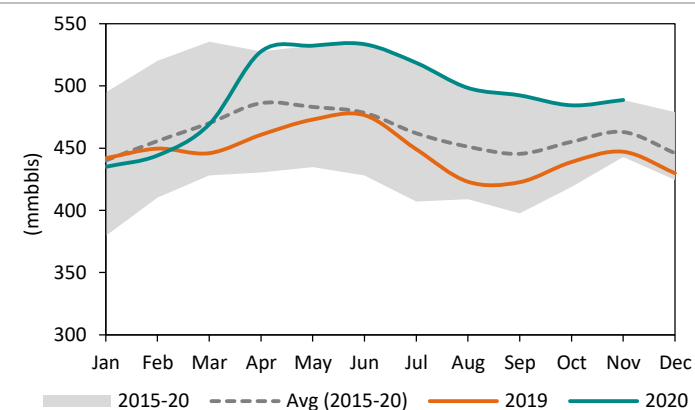
Crude oil prices saw a rise of 6.8% to US\$43.2 in November as demand recovers along with hopes of Covid-19 vaccine. OPEC+ has been due to ease existing production cuts by 2mbpd to 5.7mbpd from January 2021, But with demand still under pressure amid the coronavirus pandemic, OPEC+ is considering extending existing cuts of 7.7 mbpd, into the first 3-months of 2021, backed by Saudi Arabia. We expect crude oil price to remain in a range of US\$45-50/bbl in near term gradually improving to ~US\$55/bbl later in FY22.

**Exhibit 2: Crude rises in November by 6.8% MoM**

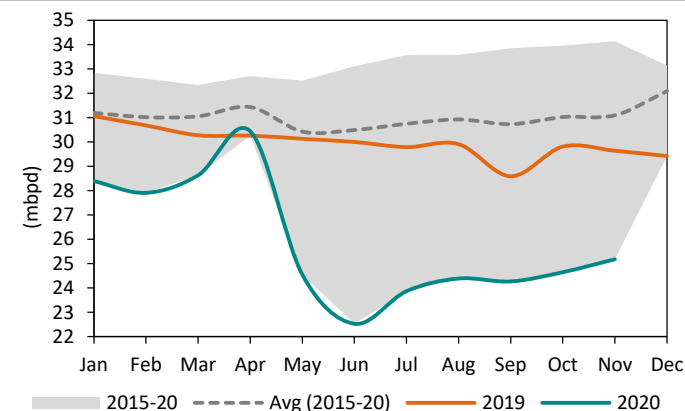


Source: Industry; IDBI Capital Research

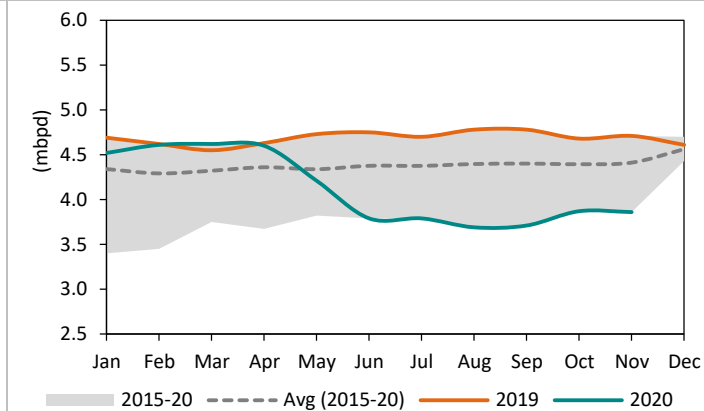
**Exhibit 3: US crude oil inventory rises**



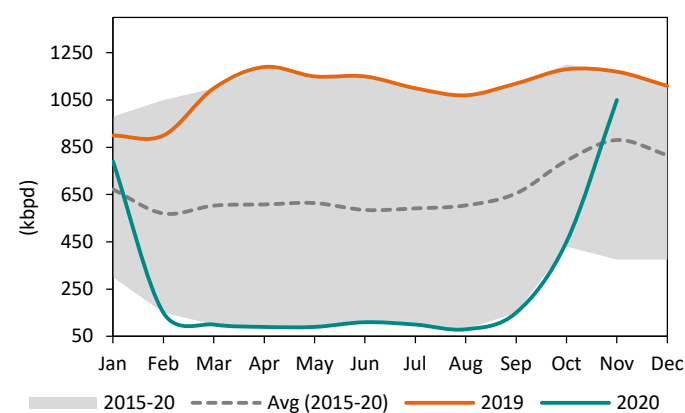
Source: Industry; IDBI Capital Research

**Exhibit 4: OPEC Production: Rises, led by Libya**


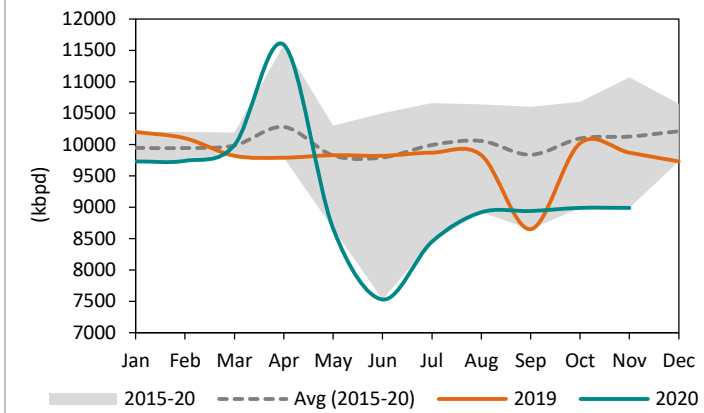
Source: Industry; IDBI Capital Research

**Exhibit 5: OPEC Production : Iraq**


Source: Industry; IDBI Capital Research

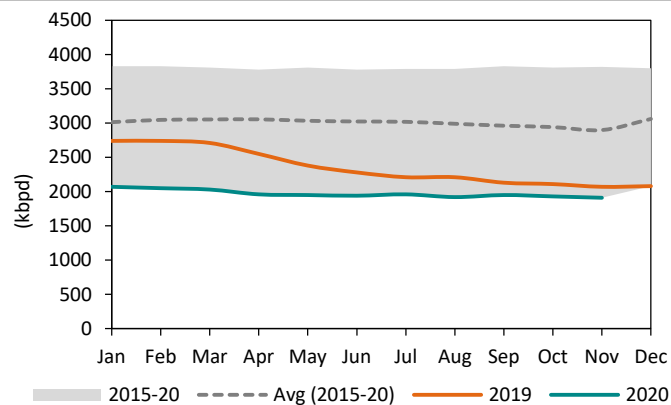
**Exhibit 6: OPEC Production : Libya**


Source: Industry; IDBI Capital Research

**Exhibit 7: OPEC Production: Saudi Arabia**


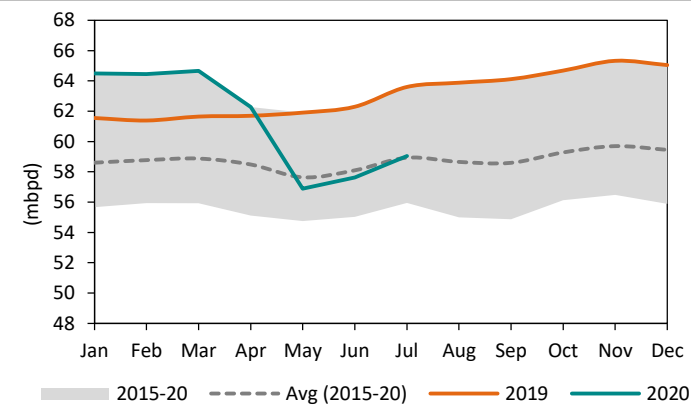
Source: Industry; IDBI Capital Research

Exhibit 8: OPEC Production : Iran



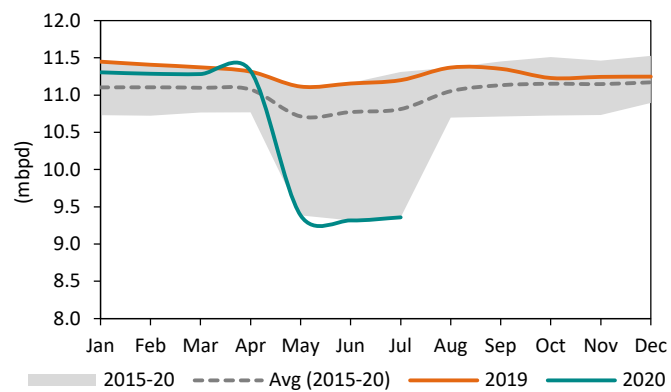
Source: Industry; IDBI Capital Research

Exhibit 9: Non-OPEC Production



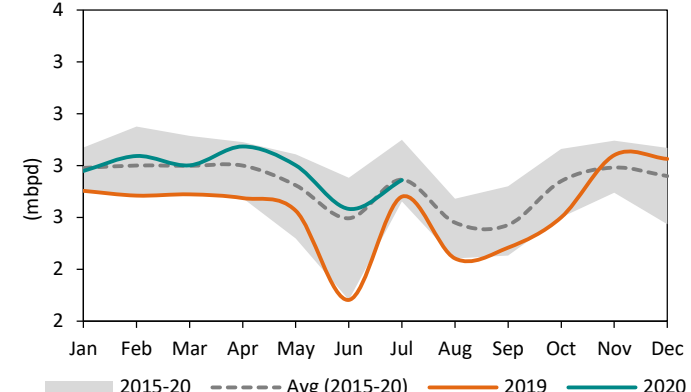
Source: Industry; IDBI Capital Research

Exhibit 10: Non-OPEC Production : Russia

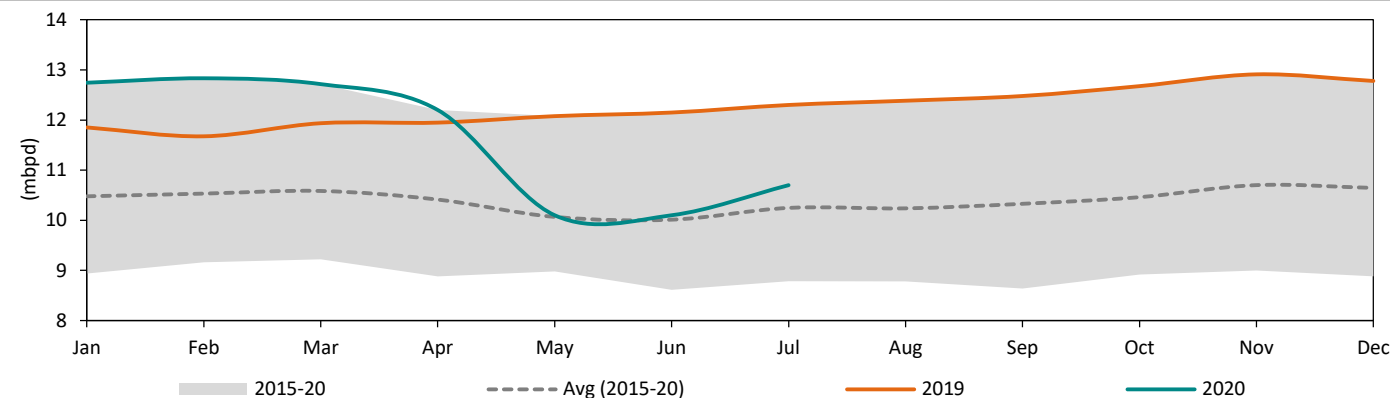


Source: Industry; IDBI Capital Research

Exhibit 11: Non-OPEC Production : North Sea



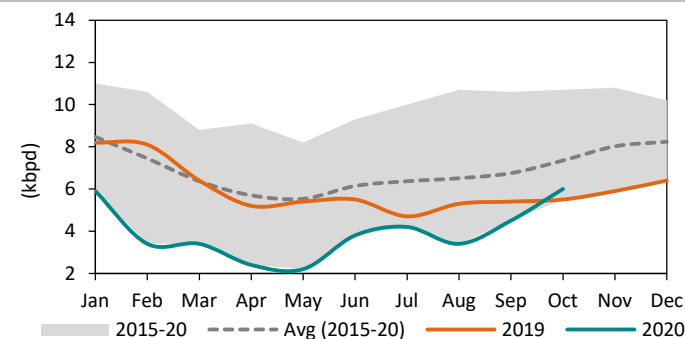
Source: Industry; IDBI Capital Research

**Exhibit 12: Non-OPEC Production : US production**


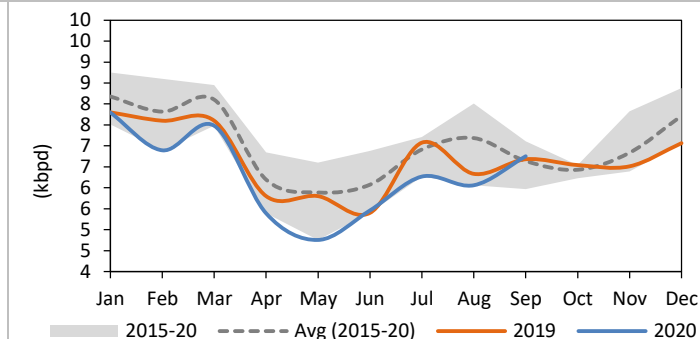
Source: Industry; IDBI Capital Research

### Spot LNG price rises sharply as demand improves

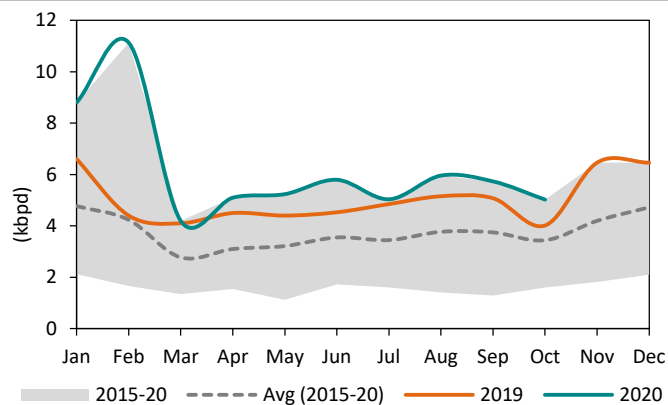
On natural gas space, LNG price (Japan spot LNG) improves by 33% in October to an average of US\$6/mmbtu and reached 8-month high amid supply concern at Australia Gorgon projects and rising demand from Asian countries. Further, 42.5mtpa of new liquefaction capacity got added in 2019 while 123.3mtpa of new liquefaction capacity was under construction and Final Investment Decision (FID) was sanctioned for 70.9mtpa. At the same time, 23.4mtpa of new regasification terminal was added in 2019 while 120.4mtpa of new regasification terminal was under construction. We expect gas glut situation to remain there for some time which would continue to keep spot LNG price on a lower side.

**Exhibit 13: Spot LNG prices – Japan contracted improves**


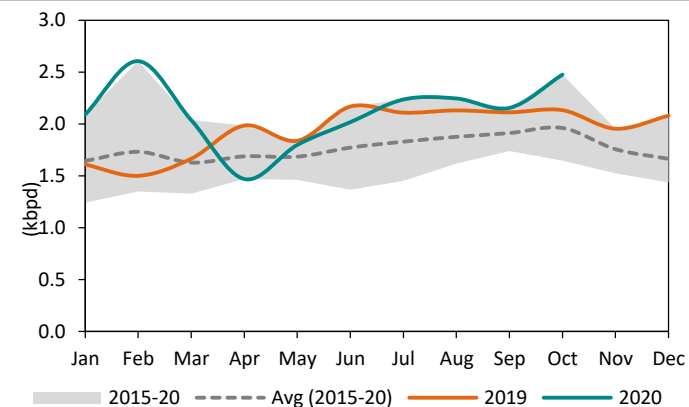
Source: Industry; IDBI Capital Research

**Exhibit 14: Japan Imports: rises 11% MoM**


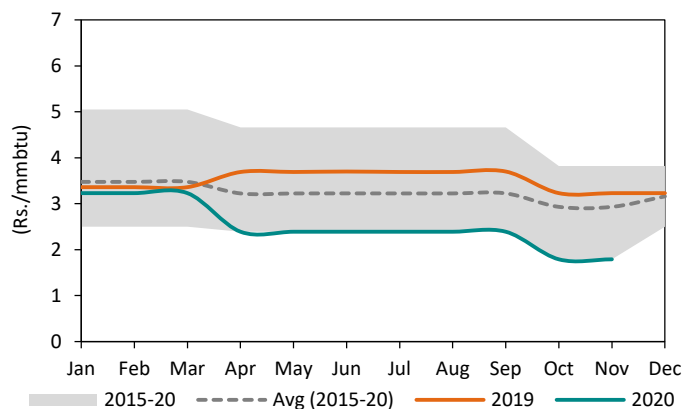
Source: Industry; IDBI Capital Research

**Exhibit 15: China Imports: Falls 12.4% MoM**


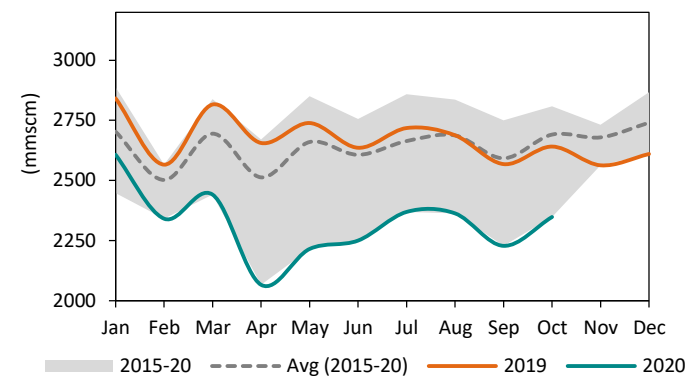
Source: Industry; IDBI Capital Research

**Exhibit 16: India Imports: Rises 15% MoM**


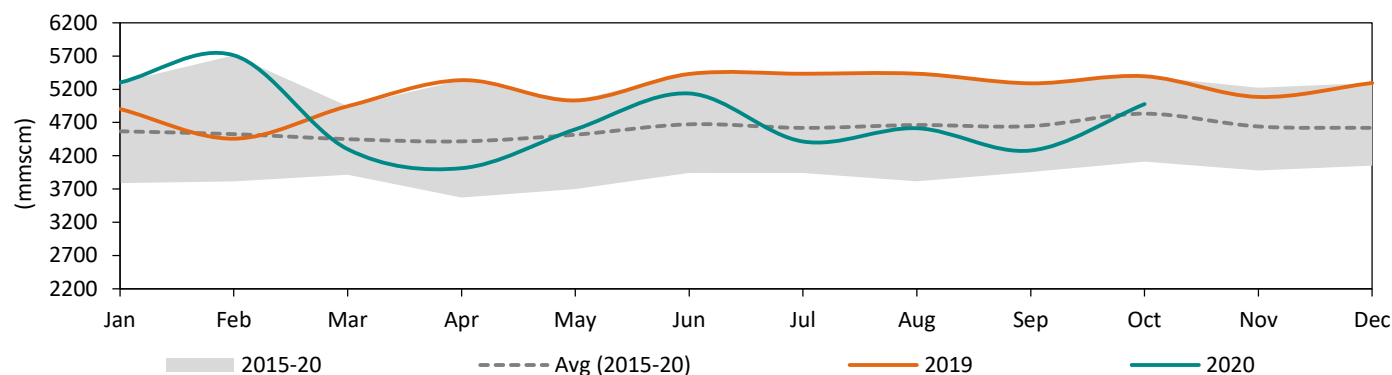
Source: Industry; IDBI Capital Research

**Exhibit 17: Gas Prices in India**


Source: Industry; IDBI Capital Research

**Exhibit 18: Domestic gas production: Improves 5.4% MoM**


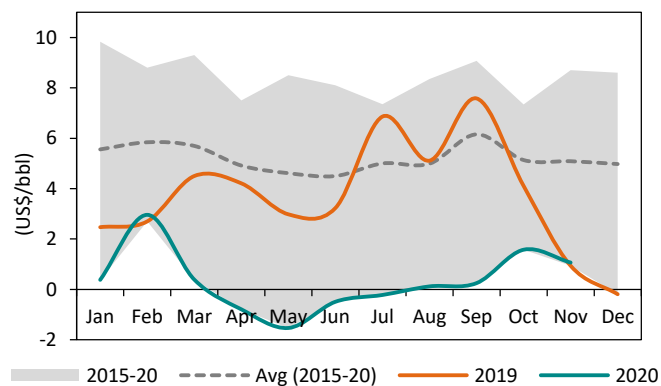
Source: Industry; IDBI Capital Research

**Exhibit 19: Gas Consumption in India: Improves 16% MoM**


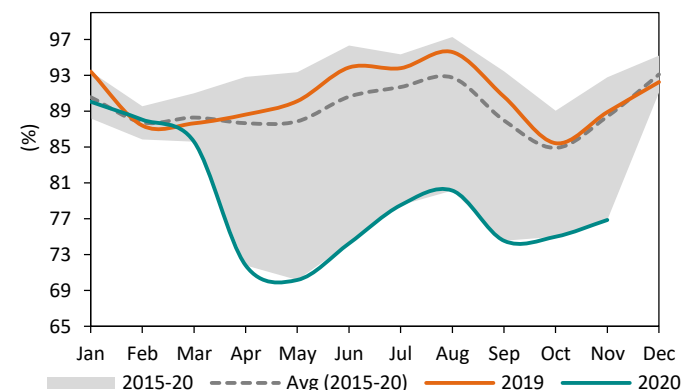
Source: Industry; IDBI Capital Research

■ **GRM falls to US\$1.1/bbl and breaks 5-months recovery streak; US refinery utilization level flattish**

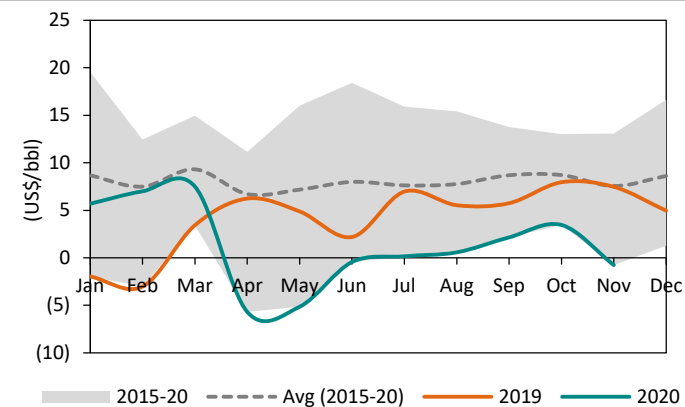
Singapore GRM fell during the month and averaged to US\$1.07/bbl compared to US\$1.58/bbl in Oct'20. Cracks also fell during the month across all products with Gasoline and Naphtha cracks falling to negative US\$0.77/1.79/bbl in Nov'20 vs positive US\$3.46/2.52/bbl in Oct'20. Fuel Oil and Jet Kero cracks fell to US\$ -3.1/+2.5/bbl vs US\$ -1.74/+3.1/bbl. Gas Oil improved during the month to US\$4.6/bbl vs US\$3.7/bbl in Oct'20. US refinery utilization improved to 77% in November vs 75% in October.

**Exhibit 20: GRM falls to US\$1.07/bbl**


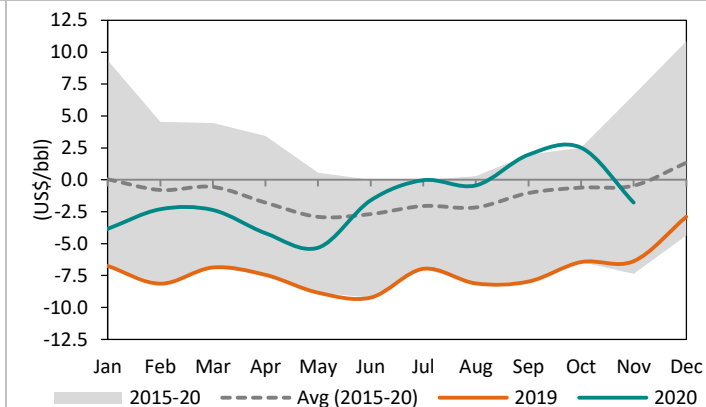
Source: Industry; IDBI Capital Research

**Exhibit 21: US Refinery Utilization Improves**


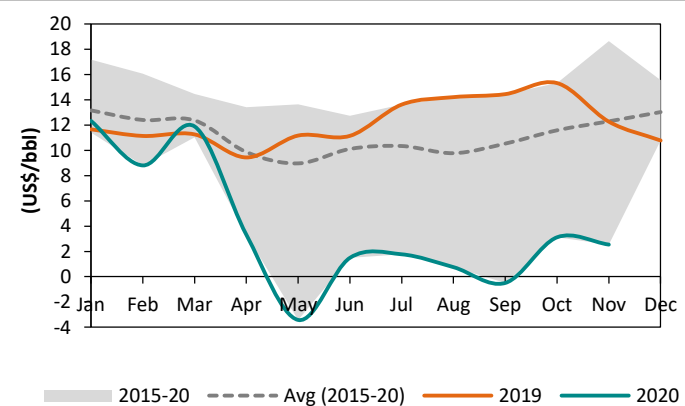
Source: Industry; IDBI Capital Research

**Exhibit 22: Gasoline spread: Falls back to negative**


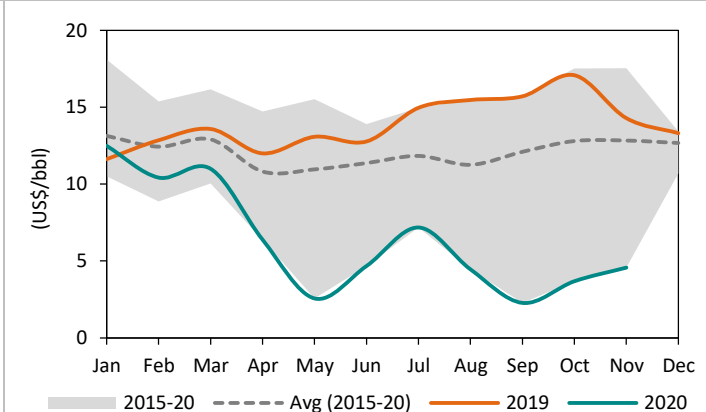
Source: Industry; IDBI Capital Research

**Exhibit 23: Naphtha Spread: Deteriorates**


Source: Industry; IDBI Capital Research

**Exhibit 24: Jet Kero Spread: Falls again after strong recovery**


Source: Industry; IDBI Capital Research

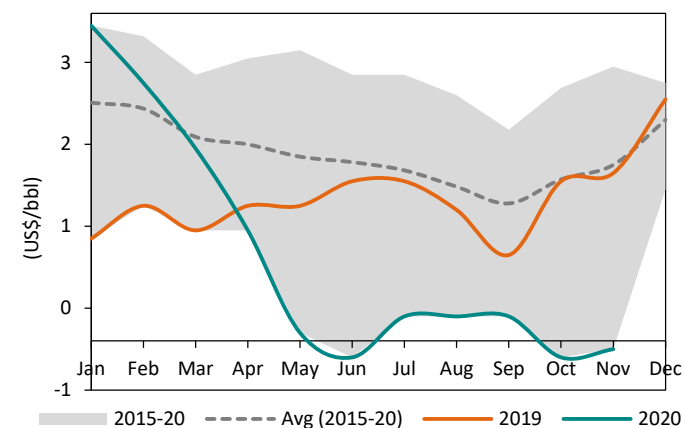
**Exhibit 25: Gasoil Spread: Improves further**


Source: Industry; IDBI Capital Research

■ L-H differential in negative territory, Dubai-Arab Heavy differential falls back to Zero

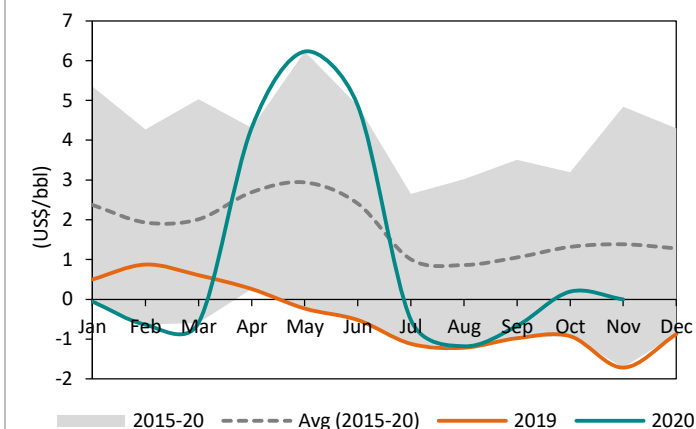
Arab Light-Arab Heavy differential remained in negative territory and averaged at negative US\$0.1/bbl in November from a negative US\$0.2/bbl MoM, while Dubai-Arab Heavy differential falls back to Zero against positive US\$0.19/bbl. Further, INR exchange rate weakened MoM to Rs74.3/US\$ in November vs Rs73.5/US\$ MoM.

**Exhibit 26: Arab Light-Arab Heavy differential remains negative**



Source: Industry; IDBI Capital Research

**Exhibit 27: Dubai-Arab Heavy falls back to zero**

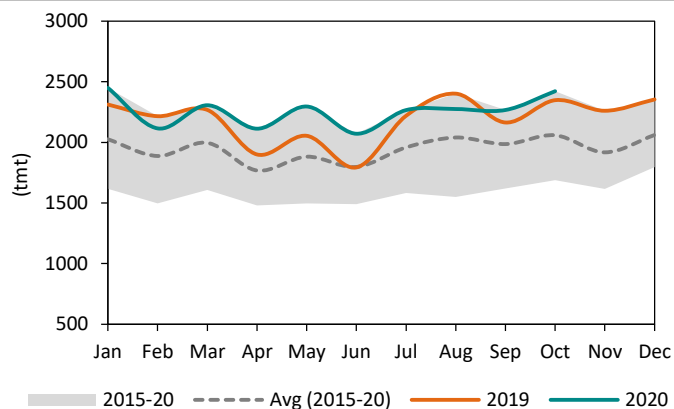


Source: Industry; IDBI Capital Research

### ■ Petroleum products consumption improves by 14.8% MoM led by HSD and MS

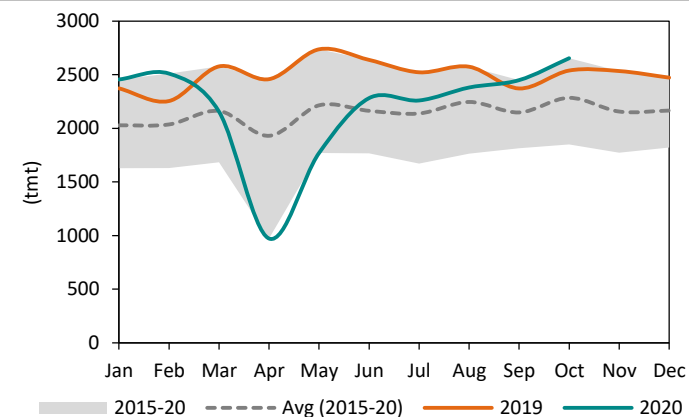
Total consumption rose by 14.8% MoM to 17.78mmt and 2.7% above Oct'19 consumption. This was led by rise in HSD/MS by 27.4%/8.3%MoM. LPG sales rose 6.8% MoM. Petcoke rose by 3.6% MoM while Naphtha rose by 13.7%. ATF/Bitumen rose by 13%/49% to 355/662 tmt MoM respectively.

**Exhibit 28: LPG Consumption: Improves 6.8% MoM**



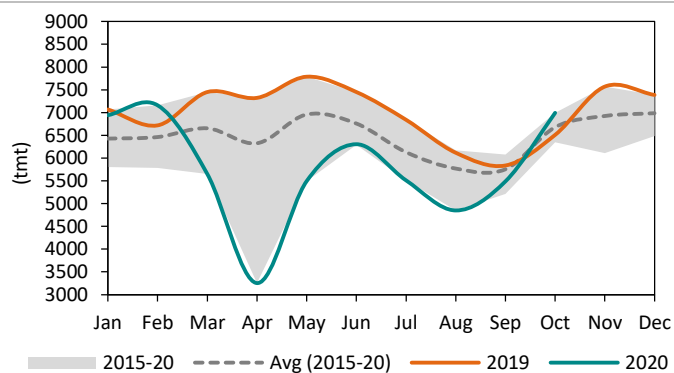
Source: Industry; IDBI Capital Research

**Exhibit 29: MS Consumption: Rises 8.3% MoM**



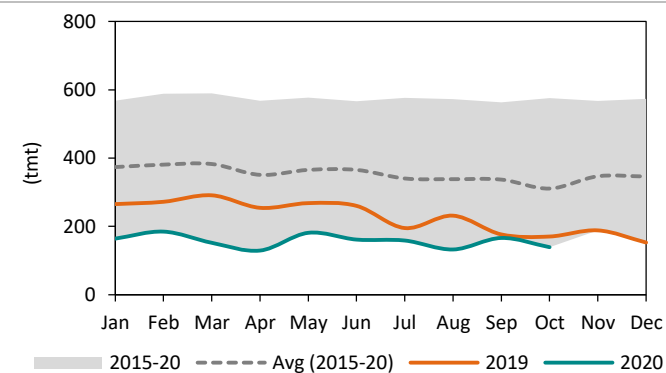
Source: Industry; IDBI Capital Research

**Exhibit 30: HSD Consumption: Sharply rises 27% MoM**

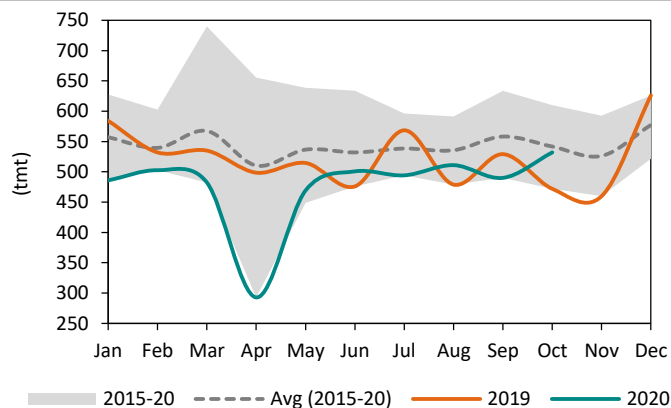


Source: Industry; IDBI Capital Research

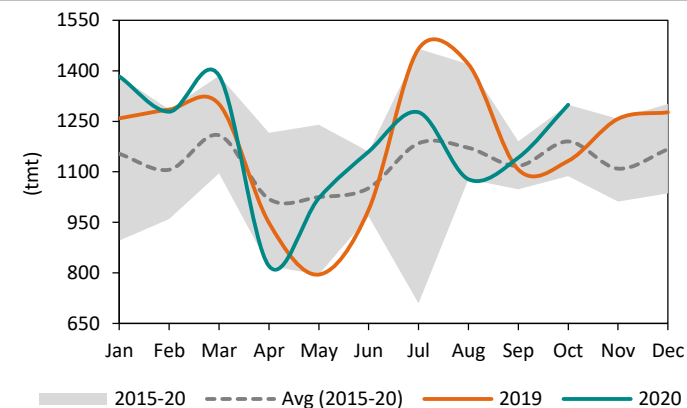
**Exhibit 31: SKO Consumption**



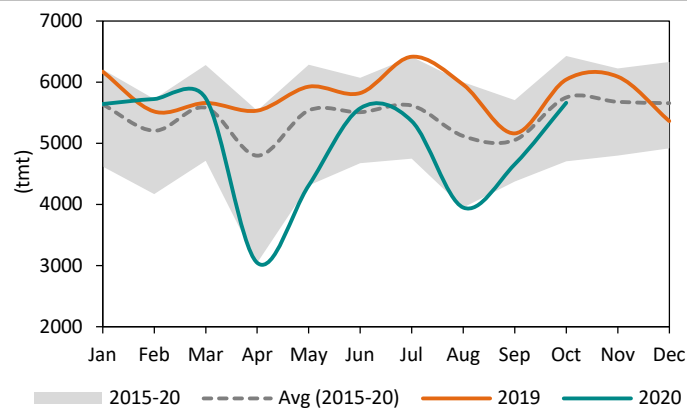
Source: Industry; IDBI Capital Research

**Exhibit 32: FO Consumption**


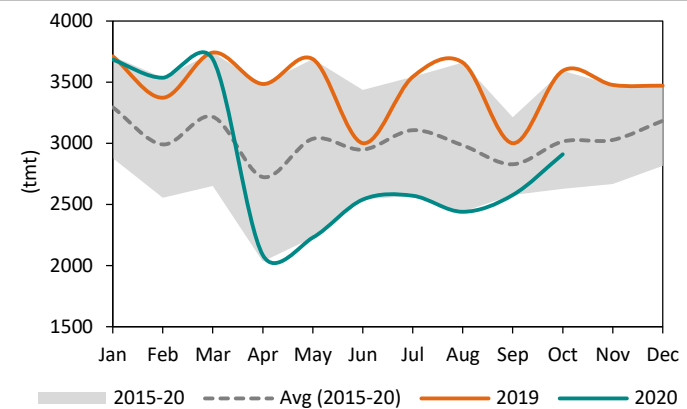
Source: Industry; IDBI Capital Research

**Exhibit 33: Naphtha Consumption: Improves 14% MoM**


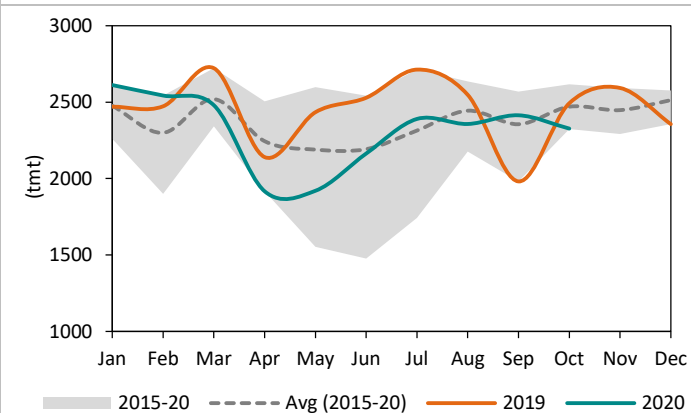
Source: Industry; IDBI Capital Research

**Exhibit 34: IOCL Crude Throughput**


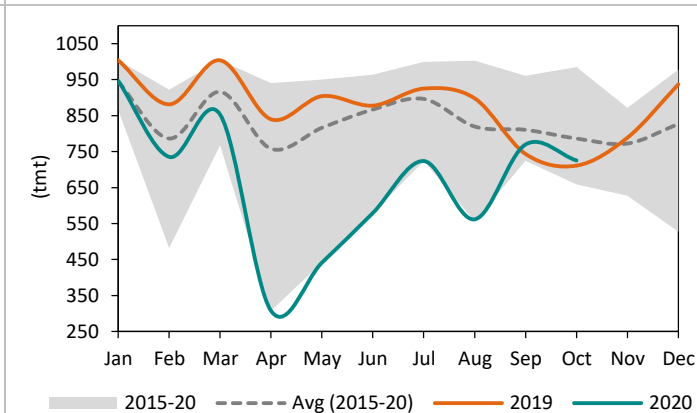
Source: Industry; IDBI Capital Research

**Exhibit 35: BPCL Crude Throughput**


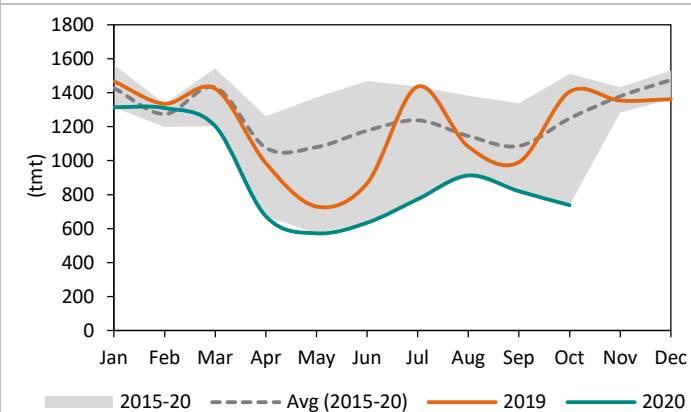
Source: Industry; IDBI Capital Research

**Exhibit 36: HPCL Crude Throughput**


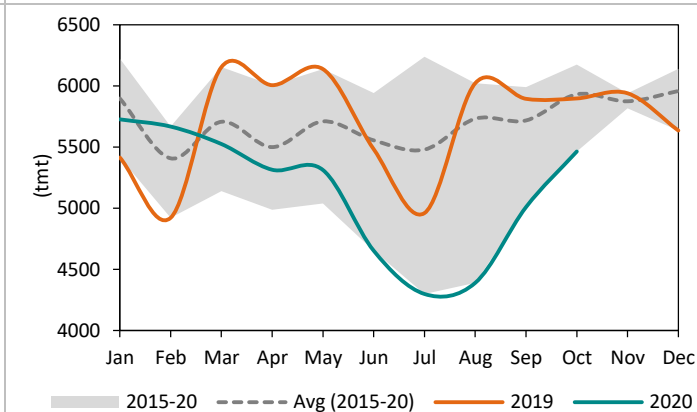
Source: Industry; IDBI Capital Research

**Exhibit 37: CPCL Crude Throughput**


Source: Industry; IDBI Capital Research

**Exhibit 38: MRPL Crude Throughput**


Source: Industry; IDBI Capital Research

**Exhibit 39: RIL Crude Throughput**


Source: Industry; IDBI Capital Research



# Notes

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