

Energy

All eyes on Q3 result

Summary

Crude oil price improved: Bullish sentiments remained in crude oil prices on the back of demand recovery, rollout of Covid vaccine and lower production from OPEC. Brent crude oil price rose by 15.2% MoM to average US\$49.8/bbl in Dec'20. US total rig counts increased to 351 at the end of Dec'20 from 320 at the end of Nov'20, though significantly lower compared to 830 rigs in same period last year. Though, demand has improved sharply from its lows but fresh round of lockdown and new traces of Covid raises concern. OPEC+ has eased production cuts from 7.7mbpd to 7.2mbpd from January 2021 onwards and would continue to ease 0.5mbpd every month over the next three months. In addition to that, Saudi Arabia will make additional, voluntary oil output cuts of 1mbpd in February and March to hold output steady. We maintain our bearish view on crude oil price owing to higher growth in renewable energy, higher penetration in EVs and higher supply from non-OPEC.

OPEC production rises led by Libya: OPEC's production showed a slight improvement and rose by 0.8% MoM in Dec'20 to 25.5mbpd (24.7mbpd in Oct'20). Production from Libya increased 11% MoM to 1.2mbpd in December. However, Saudi Arabia and Iraq outputs were largely flattish MoM. OPEC has decided to increase the production by 0.5mbpd over the next 4 months. However, Saudi Arabia announced to cut the production by nearly 1mbpd in Feb and Mar'20 in order to boost prices which are likely to benefit US which is continuously gaining market share.

GRM flattish: Singapore GRM remained flattish for the month of December to average US\$1.0/bbl. Cracks recovered marginally across all products except Fuel oil which saw a significant fall. Gas Oil and Jet Kero cracks improved to US\$5.2/4/bbl in Dec'20 vs US\$4.6/2.5/bbl in Nov'20. Gasoline and Naphtha cracks also increased modestly to US\$ +0.25/- 1.2/bbl vs US\$-0.8/-1.8/bbl, respectively. However, Fuel Oil weakened to a -US\$5.7/bbl in Dec'20 from a -US\$3.1/bbl in Nov'20. US refinery utilization improved marginally MoM to 79.1% vs 77.2% in Nov'20, still lower than five year average of 91.1%.

Q3FY21 preview: Higher crude oil and spot LNG prices are likely to result in inventory gains for refineries and Gas companies like PLNG and GAIL. Further, strong petrochemical margin is expected to boost result for RIL, IOC and GAIL. Further, sequential growth in GRM is expected to further boost downstream's profits. Overall, we expect strong result from GAIL and RIL while a decent show from OMCs.

RIL, HPCL and GSPL remain top picks: Higher hydrocarbon prices are likely to result in inventory gains for all the companies especially refineries like RIL, IOC, BPCL and HPCL. Our calculation suggests that marketing margin for petrol and diesel contracted MoM by 50p/ltr on petrol and 20p/ltr in Dec'20 to Rs4.1/ltr and Rs2.6/ltr respectively, which is still higher compared to last three years average. On natural gas front, spot LNG crossed US\$10/mmbtu on the back of strong demand from Asian countries and supply concern from Australia, which is positive for GAIL. Also, imported volume remained strong led by strong recovery from power, fertilizers and CGD business. Our top-picks remain as GSPL, RIL and HPCL.

Exhibit 1: Recommendation snapshot

| Companies | CMP (Rs) | TP (Rs) | Recommendation | Mkt Cap (Rs mn) | Revenue (Rs mn) | | EPS (Rs) | | P/E (x) | | EV/EBITDA (x) | | RoE (%) | RoCE (%) |
|--------------------------|-------------|------------|----------------|--------------------|-----------------|-----------|----------|-------|---------|-------|---------------|-------|---------|----------|
| | | | | | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E | FY22E | FY22E |
| Reliance Industries | 1,966 | 2,468 | BUY | 12,463,341 | 5,824,059 | 6,551,428 | 87.3 | 105.9 | 22.4 | 18.5 | 10.4 | 8.4 | 9.1 | 10.0 |
| Oil & Natural Gas Corp | 95 | 85 | BUY | 1,194,498 | 724,611 | 806,427 | 7.5 | 8.2 | 12.3 | 11.2 | 4.8 | 4.3 | 5.1 | 3.7 |
| Indian Oil Corporation | 93 | 86 | ACCUMULATE | 875,517 | 4,231,243 | 5,137,558 | 12.8 | 12.6 | 7.1 | 7.3 | 7.4 | 7.4 | 10.9 | 7.6 |
| Bharat Petroleum Corp | 392 | 412 | BUY | 849,913 | 2,411,289 | 2,986,550 | 33.6 | 34.8 | 12.2 | 11.8 | 9.5 | 9.0 | 16.1 | 9.4 |
| Gail India | 129 | 109 | BUY | 583,387 | 644,697 | 684,316 | 12.2 | 12.8 | 10.0 | 9.6 | 7.1 | 6.4 | 11.1 | 9.1 |
| Petronet LNG | 256 | 282 | BUY | 384,675 | 368,147 | 360,683 | 19.8 | 22.2 | 13.5 | 12.0 | 7.5 | 6.7 | 27.5 | 24.3 |
| Hindustan Petroleum Corp | 223 | 253 | BUY | 339,128 | 2,384,011 | 2,908,622 | 39.0 | 38.9 | 5.6 | 5.6 | 6.4 | 6.8 | 15.8 | 5.8 |
| Gujarat State Petronet | 217 | 306 | BUY | 122,462 | 28,613 | 31,449 | 24.0 | 27.5 | 9.3 | 8.1 | 5.9 | 4.8 | 16.8 | 19.3 |
| Oil India | 112 | 90 | HOLD | 121,399 | 91,554 | 99,245 | 10.3 | 10.7 | 10.5 | 10.2 | 7.9 | 7.4 | 4.6 | 1.6 |

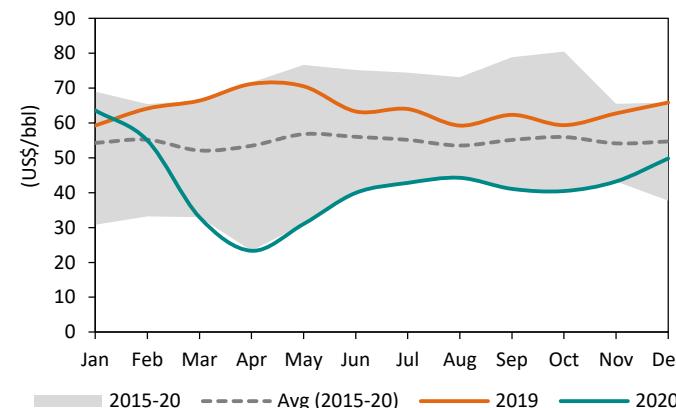
Source: IDBI Capital Research

Key Highlights

■ Crude oil price rises 15.2% MoM to US\$49.8/bbl

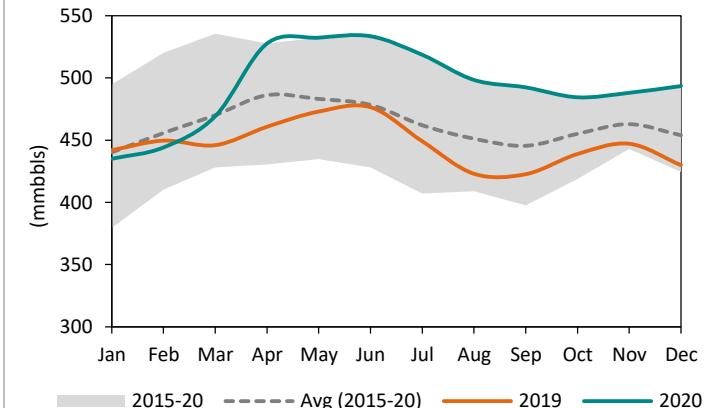
Crude oil prices saw a rise of 15.2% to US\$49.8 in December on the back of demand recovery, rollout of Covid vaccine and lower production from OPEC. Saudi Arabia will make additional, voluntary oil output cuts of 1mbpd in February and March to hold output steady amid concerns that new coronavirus lockdowns will hit demand. We maintain our bearish view on crude oil price owing to higher growth in renewable energy, higher penetration in EVs and higher supply from non-OPEC.

Exhibit 2: Crude rises in November by 15.2% MoM



Source: Industry; IDBI Capital Research

Exhibit 3: US crude oil inventory improves



Source: Industry; IDBI Capital Research

Exhibit 4: OPEC Production: Rises, led by Libya

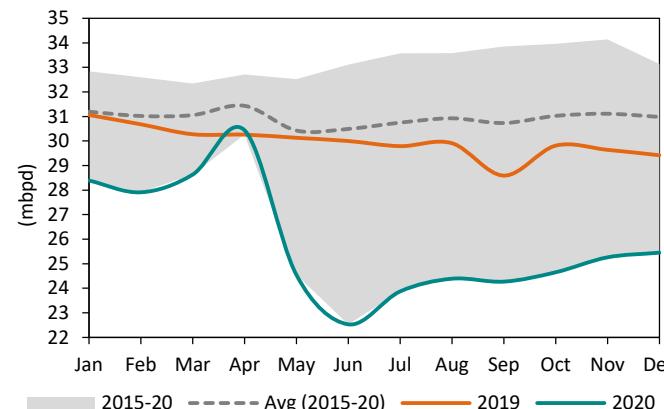


Exhibit 5: OPEC Production : Iraq

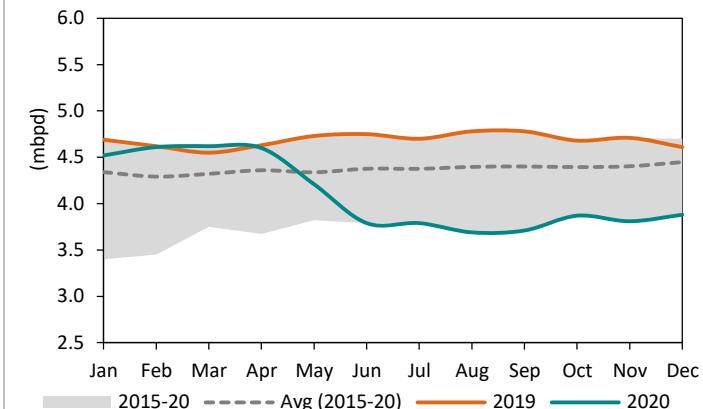


Exhibit 6: OPEC Production : Libya production at 7-year high

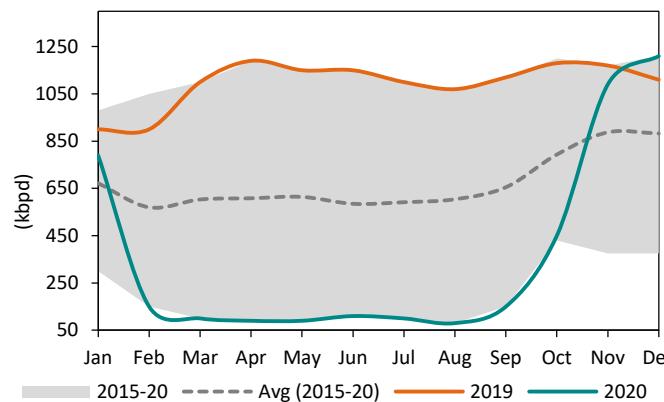


Exhibit 7: OPEC Production: Saudi Arabia

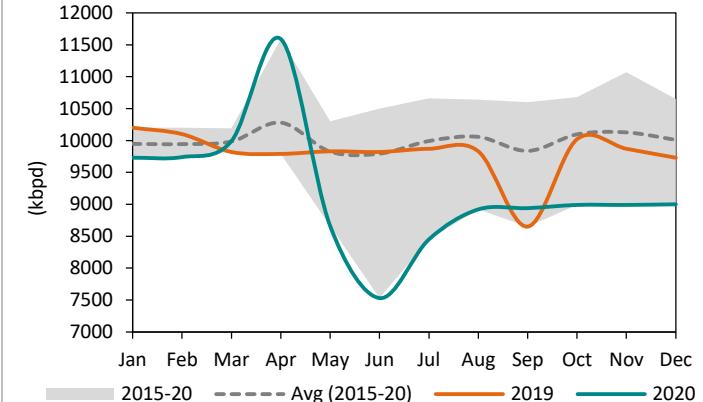
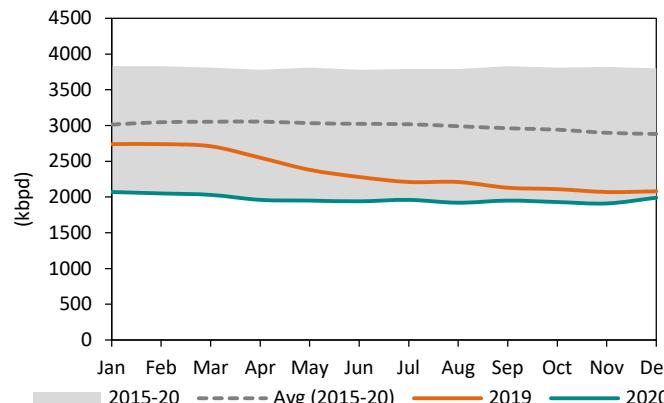
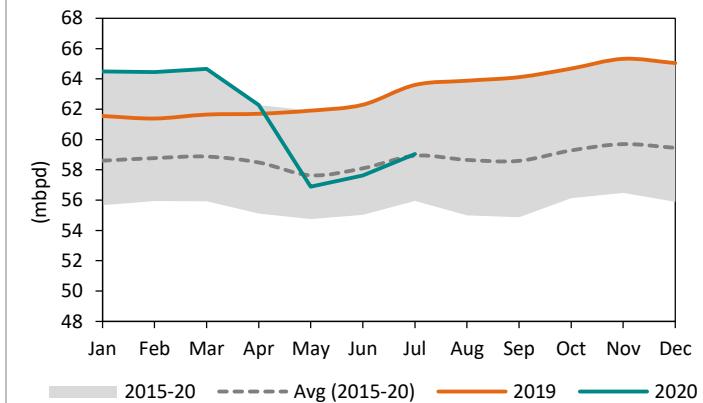


Exhibit 8: OPEC Production : Iran



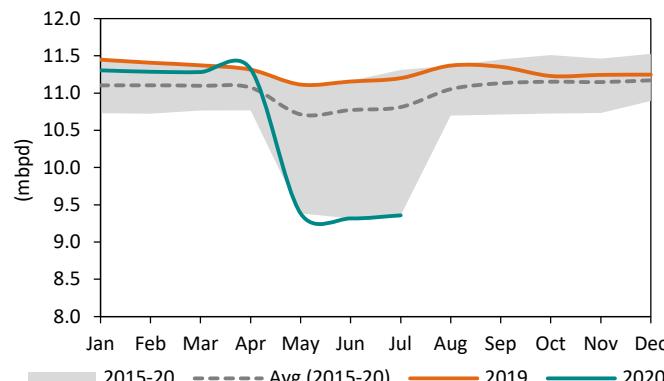
Source: Industry; IDBI Capital Research

Exhibit 9: Non-OPEC Production



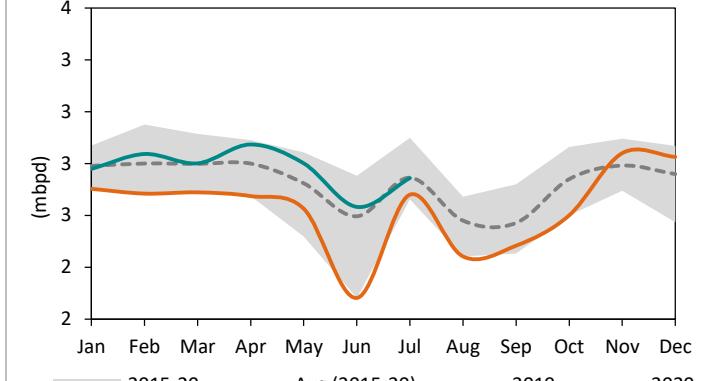
Source: Industry; IDBI Capital Research

Exhibit 10: Non-OPEC Production : Russia

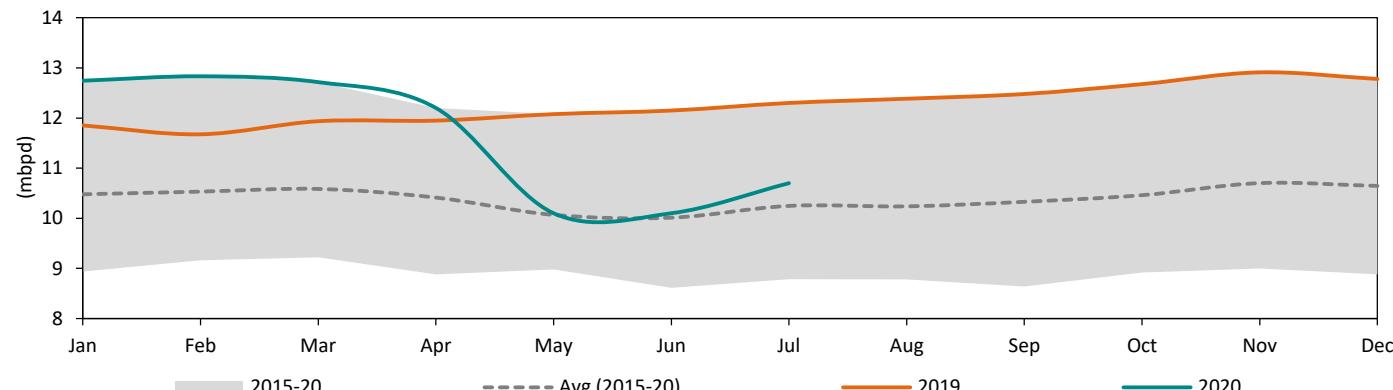


Source: Industry; IDBI Capital Research

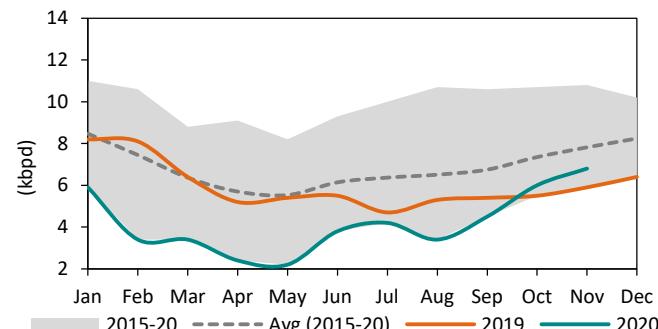
Exhibit 11: Non-OPEC Production : North Sea



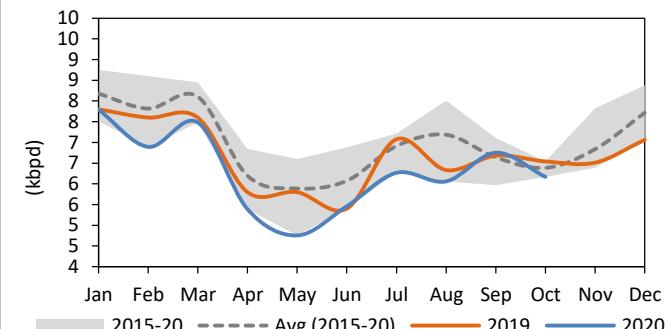
Source: Industry; IDBI Capital Research

Exhibit 12: Non-OPEC Production : US production

■ Spot LNG price rises to 20-month high on strong demand recovery

On natural gas space, LNG price (Japan spot LNG) improves by 13% in November to an average of US\$6.8/mmbtu and reached 20-month high amid strong demand from Asian countries and supply concern from Australia. 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: Falls 8.7% MoM


Source: Industry; IDBI Capital Research

Exhibit 15: China Imports: Rises 32% MoM

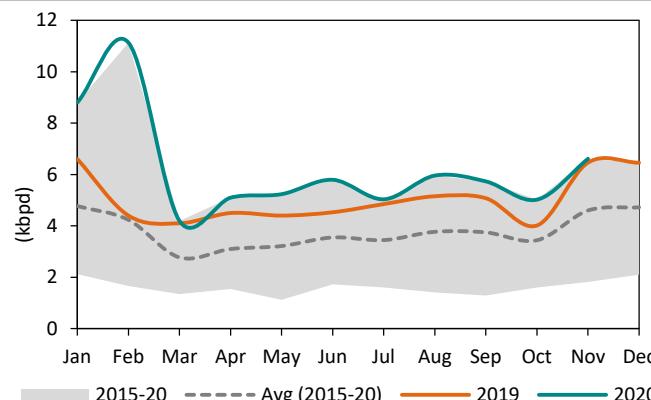


Exhibit 16: India Imports: Rises 15% MoM

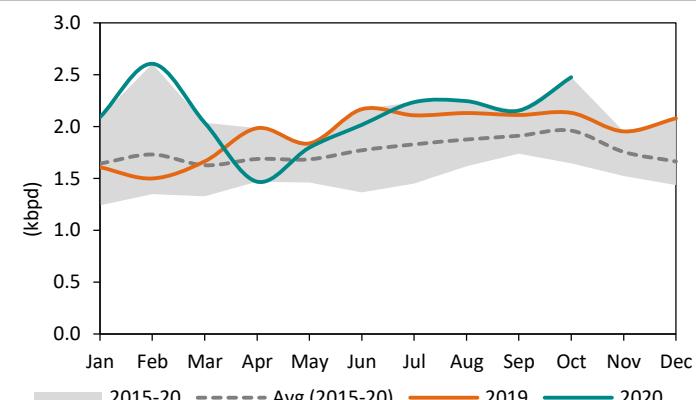


Exhibit 17: Gas Prices in India

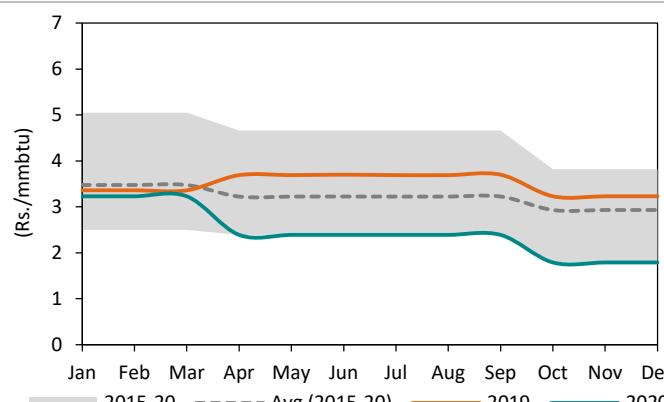


Exhibit 18: Domestic gas production: Remains flattish

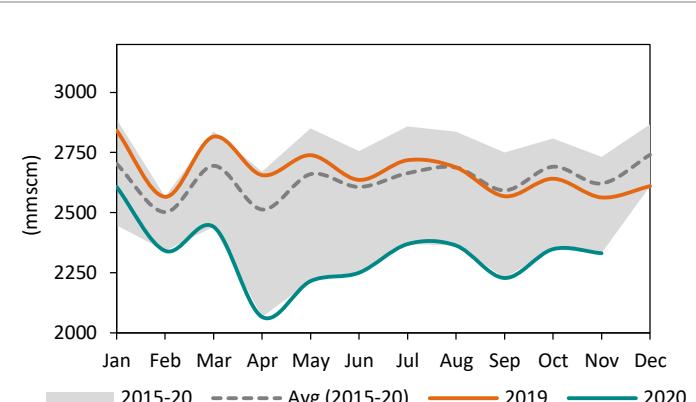
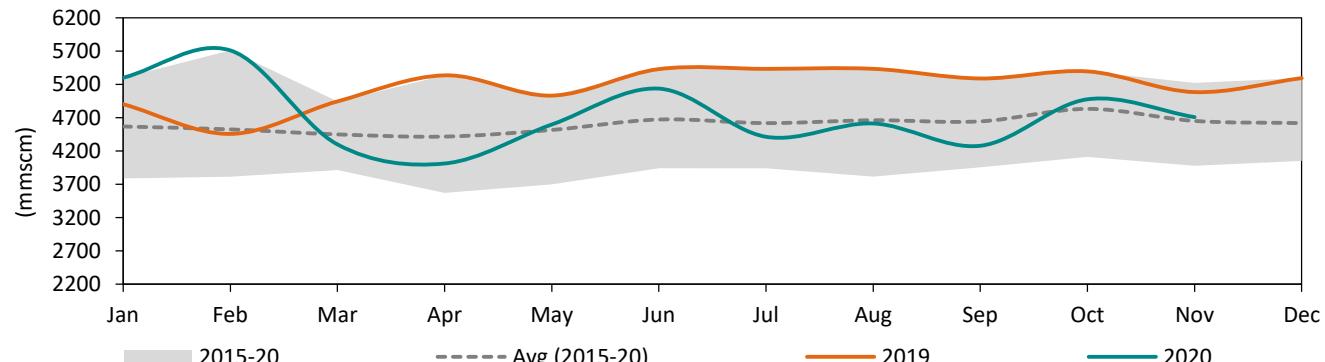


Exhibit 19: Gas Consumption in India: Falls 5.4% MoM

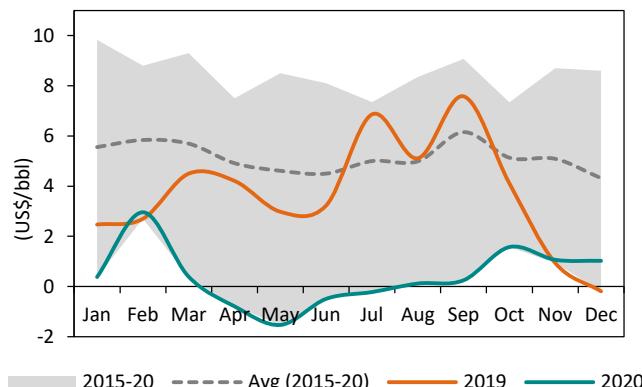


Source: Industry; IDBI Capital Research

- GRM remained flattish at US\$1.0/bbl in December; US refinery utilization levels improves to 79.1%

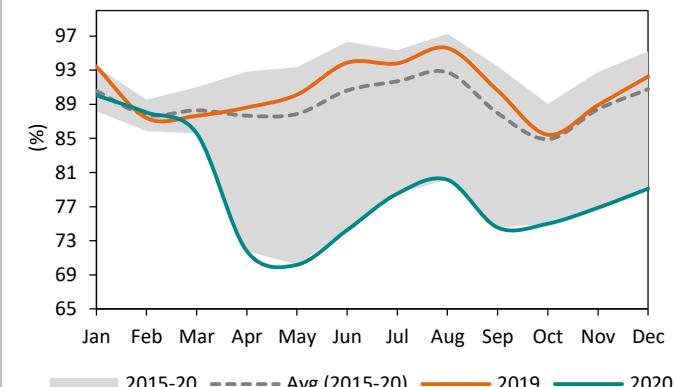
Singapore GRM remained flattish for the month of December to average MoM US\$1.0/bbl. Cracks recovered marginally across all products except Fuel oil which saw a significant fall. Gas Oil and Jet Kero cracks improved to US\$5.2/4/bbl in Dec'20 vs US\$4.6/2.5/bbl in Nov'20. Gasoline and Naphtha cracks also increased modestly to US\$ +0.25/- 1.2/bbl vs US\$-0.8/-1.8/bbl, respectively. However, Fuel Oil weakened to a -US\$5.7/bbl in Dec'20 from a -US\$3.1/bbl in Nov'20. US refinery utilization improved marginally MoM to 79.1% vs 77.2% in Nov'20, still lower than five year average of 91.1%.

Exhibit 20: GRM falls to US\$1.03/bbl, down 3.8% MoM



Source: Industry; IDBI Capital Research

Exhibit 21: US Refinery Utilization Improves



Source: Industry; IDBI Capital Research

Exhibit 22: Gasoline spread: Improves

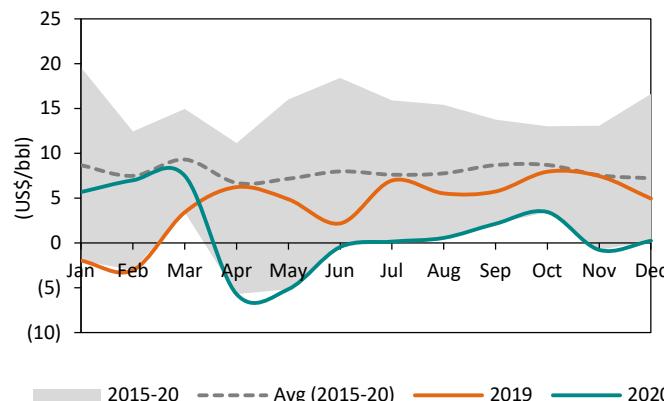


Exhibit 23: Naphtha Spread: Improves but still in negative territory

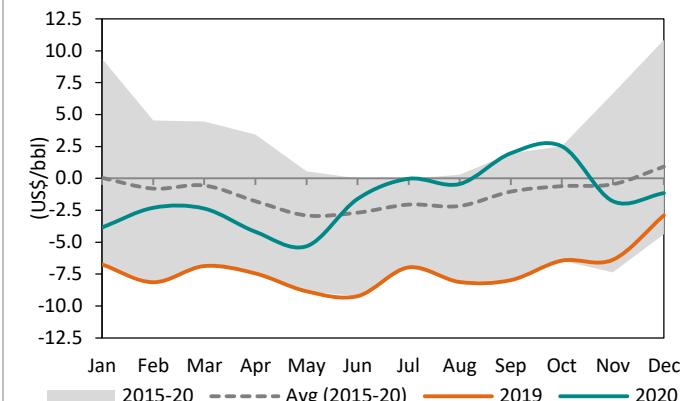


Exhibit 24: Jet Kero Spread: Rises 57% MoM

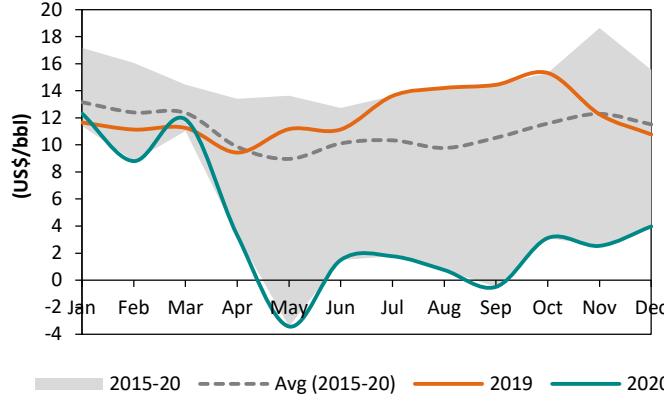
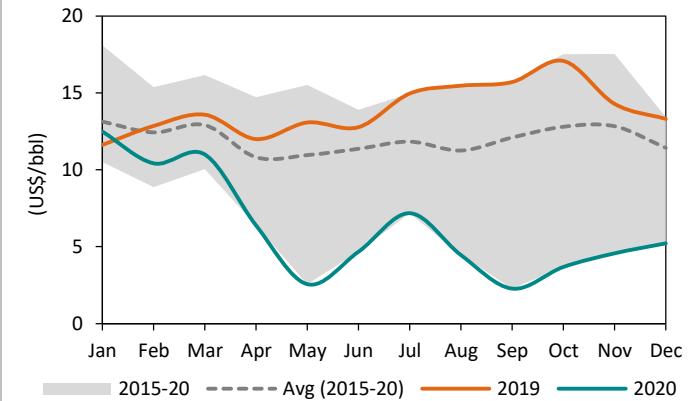


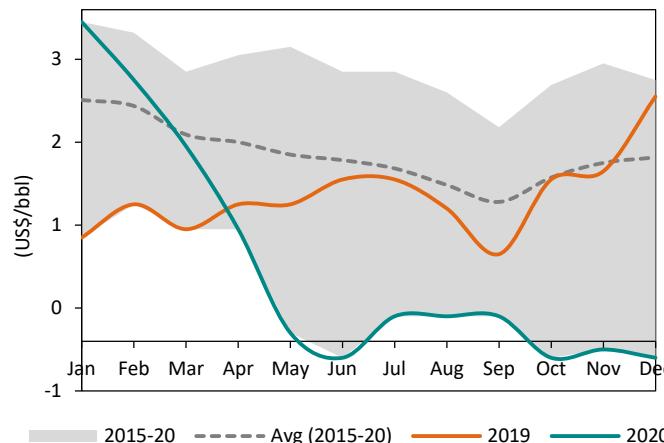
Exhibit 25: Gasoil Spread: Rises 14% MoM to US\$5.2/bbl



■ **L-H differential in negative territory, Dubai-Arab Heavy differential improves**

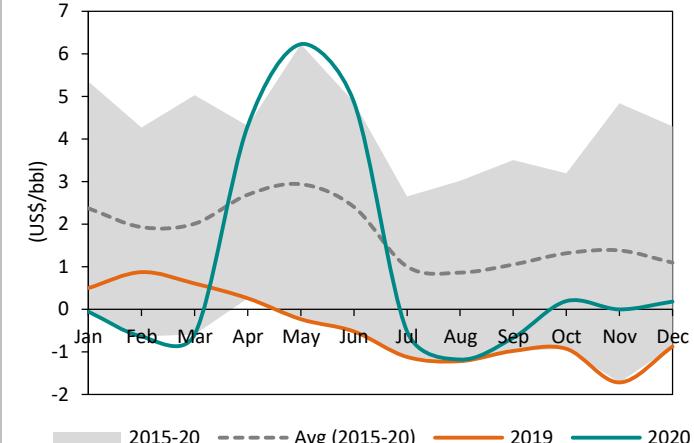
Arab Light-Arab Heavy differential remained in negative territory and averaged at negative US\$0.2/bbl in December from a negative US\$0.1/bbl MoM, while Dubai-Arab Heavy differential improves to US\$0.18/bbl in Dec'20 from zero in Nov'20. Further, INR exchange rate strengthened MoM to Rs73.6/US\$ in November vs Rs74.3/US\$ MoM.

Exhibit 26: Arab Light-Arab Heavy differential deteriorates further



Source: Industry; IDBI Capital Research

Exhibit 27: Dubai-Arab Heavy improves



Source: Industry; IDBI Capital Research

■ **Petroleum products consumption remains flattish and down 3.5% YoY**

Total consumption was flattish and rose by 0.4% MoM to 17.83mmt and 3.5% below Nov'19 consumption. HSD/MS consumption rose by 0.7%/0.4% MoM. LPG sales degrew by 2.8% MoM. Petcoke rose by 0.6% MoM while Naphtha rose by 3.3%. ATF/Bitumen rose by 4.8%/4.5% to 372/692 tmt MoM respectively

Exhibit 28: LPG Consumption: Falls 2.8% MoM

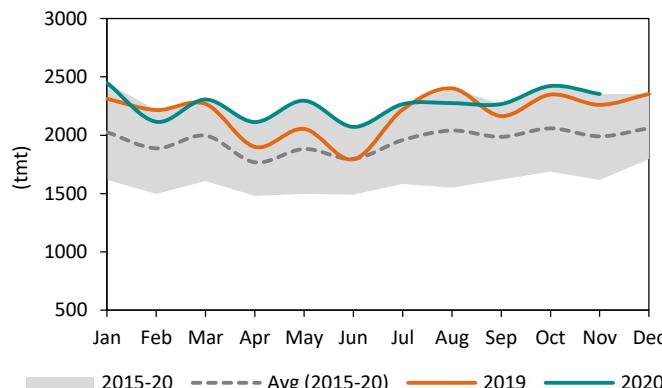


Exhibit 29: MS Consumption: Flattish

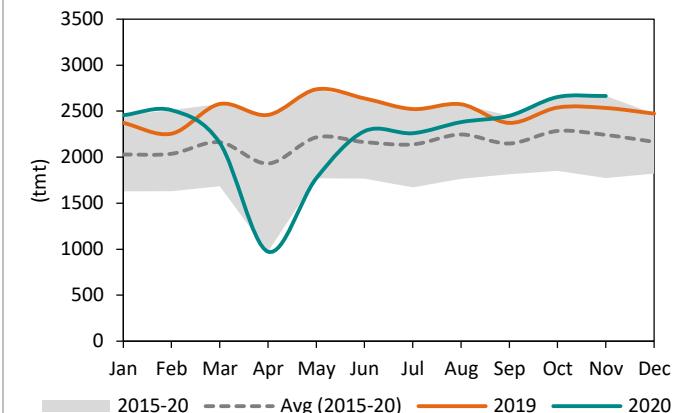


Exhibit 30: HSD Consumption: Flattish

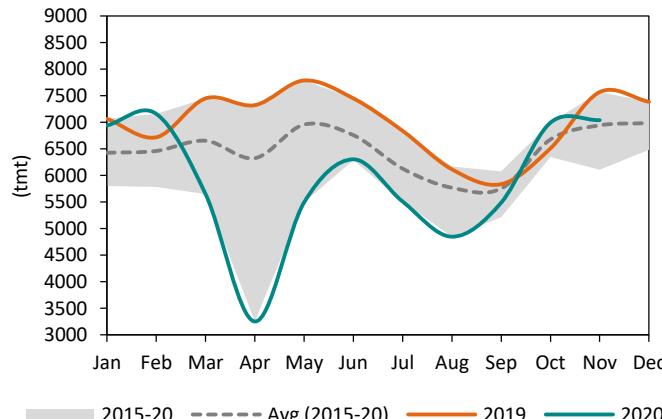


Exhibit 31: SKO Consumption: Rises 12% MoM

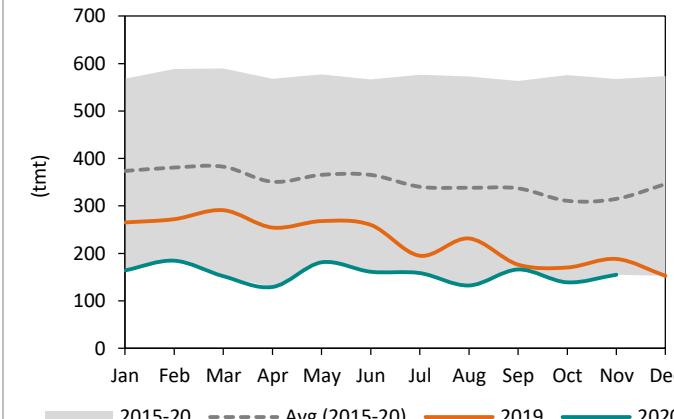
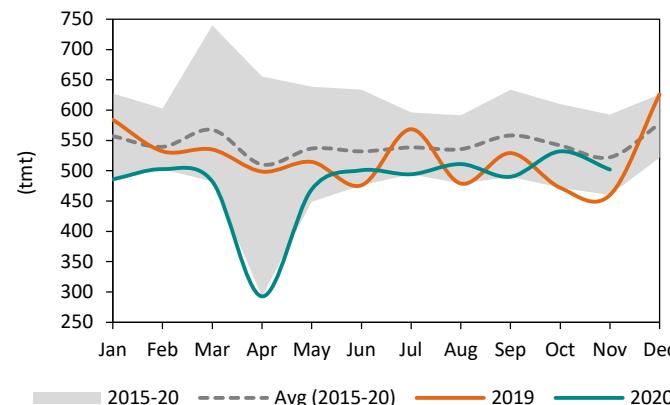
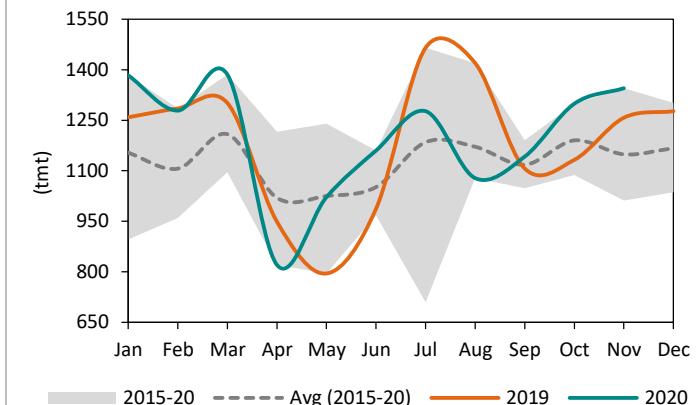


Exhibit 32: FO Consumption: Falls 6% MoM



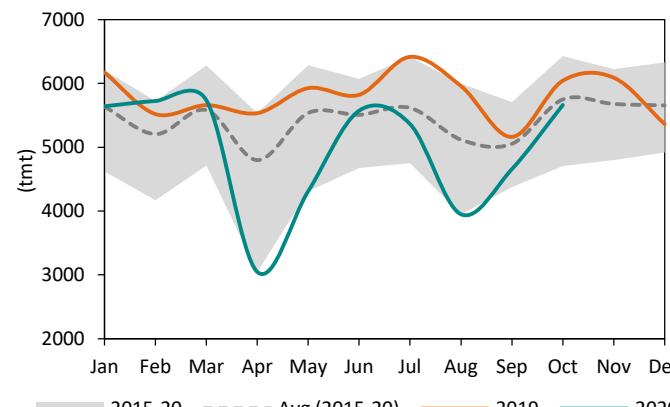
Source: Industry; IDBI Capital Research

Exhibit 33: Naphtha Consumption: Improves



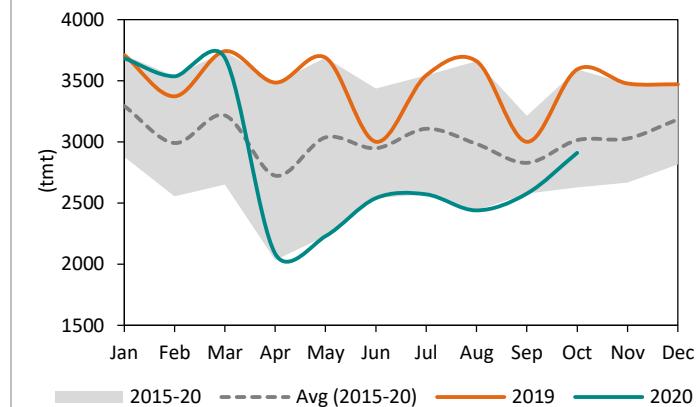
Source: Industry; IDBI Capital Research

Exhibit 34: IOCL Crude Throughput

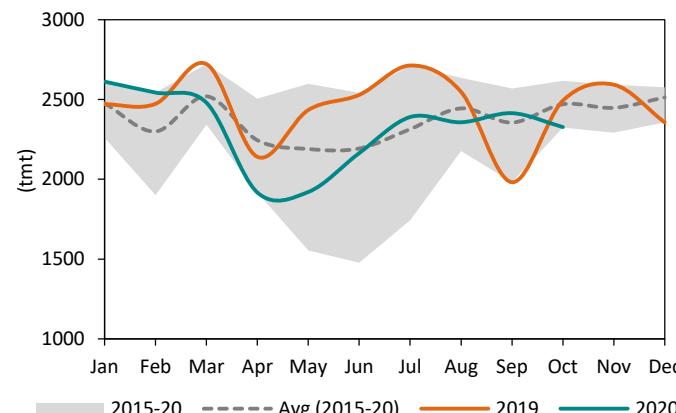


Source: Industry; IDBI Capital Research

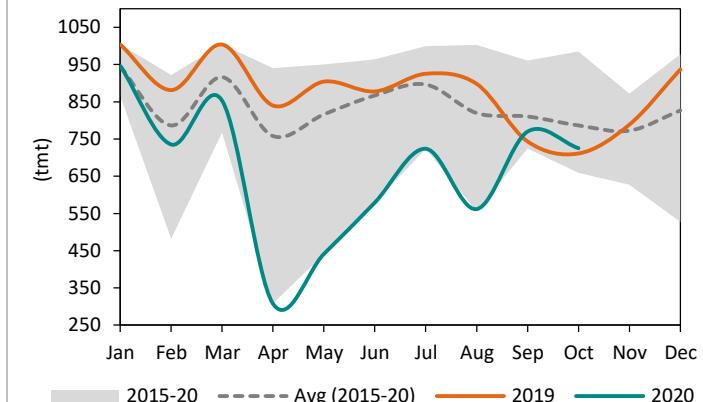
Exhibit 35: BPCL Crude Throughput



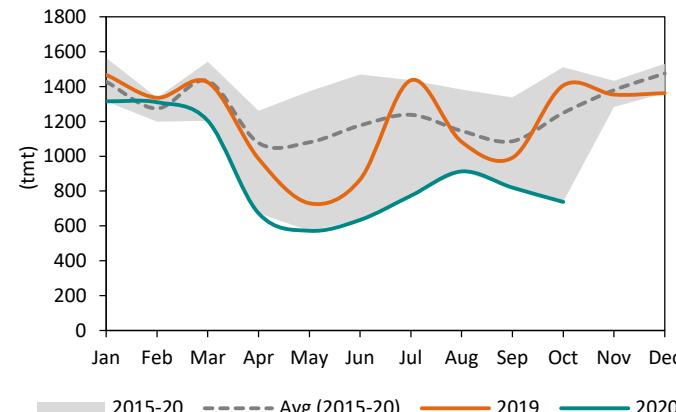
Source: Industry; IDBI Capital Research

Exhibit 36: HPCL Crude Throughput


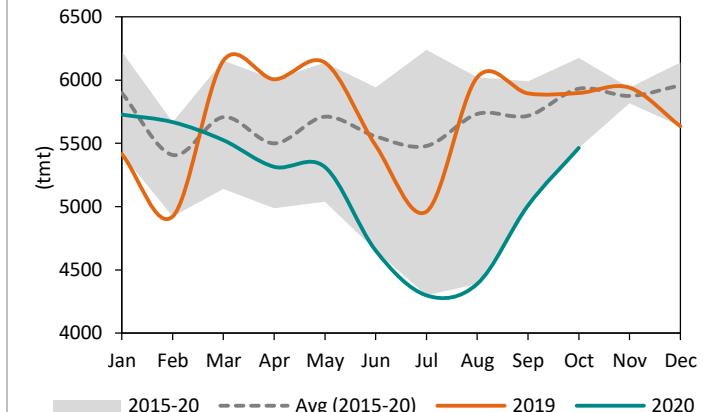
Source: Industry; IDBI Capital Research

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

Dealing

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