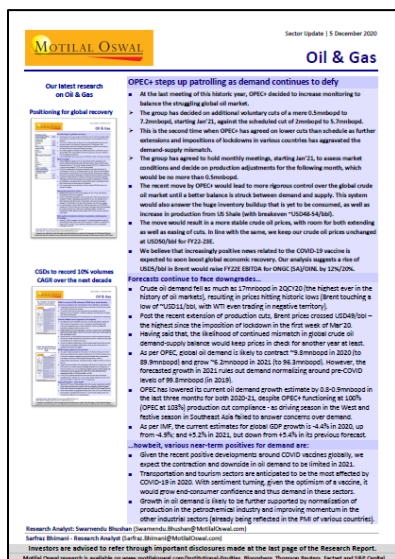


Our earlier report: OPEC+ steps up patrolling as demand continues to defy



OPEC+ meeting – Saudi turns messiah once again...

- New Year 2021 starts on a higher note for crude oil prices as OPEC+ further increases production cuts by 1mnbpod (to ~8.1mnbpod) for Feb and Mar'21.
- The group has locked in production quotas for 1QCY21 (with Mar'21 quotas similar to Feb'21); the next meeting is scheduled on 4th Mar'21 to set production quotas for April.
- OPEC+, in its first monthly meeting of 2021 (to decide on additional incremental cuts of 0.5mnbpod for the following month), ended up deepening the cuts further in the wake of a) further lockdowns, b) concerns over a second wave / a new strain of COVID, and c) huge inventory buildup across the globe.
- Saudi Arabia solely extended its hand to take voluntary cuts of an additional 1mnbpod over Feb–Mar (to ~2.9mnbpod). On the other hand, Russia and Kazakhstan were each allowed to ease cuts by a total of 75kbpod for Feb–Mar'21. Other OPEC+ members would continue to produce at the same levels as in Jan'21 (refer to Exhibit 8).
- As highlighted in our recent report [OPEC+ steps up patrolling as demand continues to defy](#), demand concerns continue to dampen the global crude oil market.
- We continue to believe the concerns highlighted by OPEC+ are legitimate and in line with our thesis. Thus, we keep our crude oil prices unchanged at USD50/bbl for FY22–23. Also, US shale production would increase as oil prices turn stable around USD50–60/bbl, theoretically capping global crude oil prices.
- The forward Brent price curve reflects a backwardation, with prices of USD51–53/bbl.
- Nonetheless, our analysis suggests a rise of USD5/bbl in Brent would raise FY22 EBITDA for ONGC (SA) / Oil India by 11%/18%.

...but for how long against Russia?

- During the concluded meeting, Russia was in favor of easing production cuts by the scheduled 0.5mnbpod for Feb'21.
- Looking into the past, Russia has always been keen on enjoying the better share of the global crude oil market. Even in the last quarter of 2020, Russia's compliance with agreed cuts was ~95% v/s OPEC's compliance of ~103% (Saudi: ~100%; UAE: highest at 115–130%).
- Rising concerns over the same, along with questions over disparity among the OPEC+ members (as Russia and Kazakhstan are allowed to increase their production), may result in lower compliance by other OPEC+ members.
- Case in point – around the same time last year, due to Russia's disagreement, Saudi increased its production from <10mnbpod to >13mnbpod within just over a couple of weeks. In this tussle, Russia announced that it would increase production by 0.5mnbpod on its already high production rates (~11.5mnbpod at the time).

US shale operations to spike

- As crude oil prices rise, the economies of US shale producers turn favorable as they achieve oil price breakeven of USD48–54/bbl.
- Since the last meeting of OPEC+ at the start of Dec'20, the US rig count jumped by 9% MoM to 351 rigs on the last day of 2020 (Dec'20 Brent oil price averaged ~USD50/bbl; up~17% MoM).
- US production was down ~15% YoY (~1.9mnbpod lower) in Dec'2020, with the US rig count down ~56% YoY. As crude oil prices turn more stable around current levels (USD50–60/bbl), we expect more rigs to come on-stream.
- OPEC expects total US crude production at 11.4mnbpod in 2021 – ~0.5mnbpod higher than current levels.

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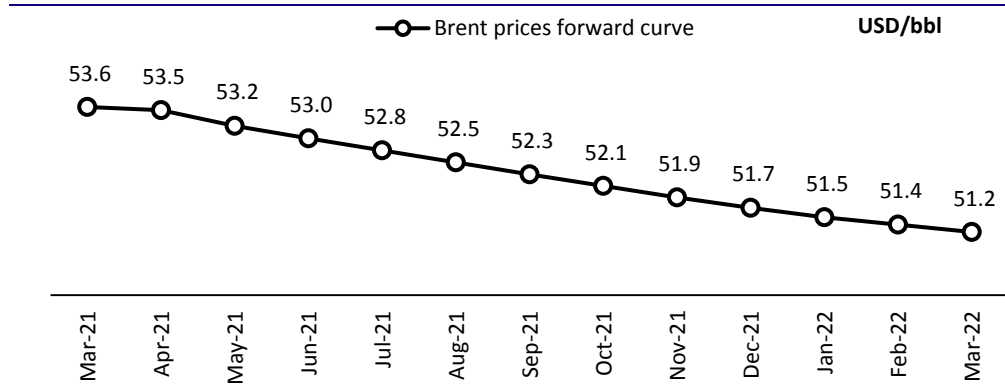
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Valuation and recommendation**ONGC – developing new fields is key**

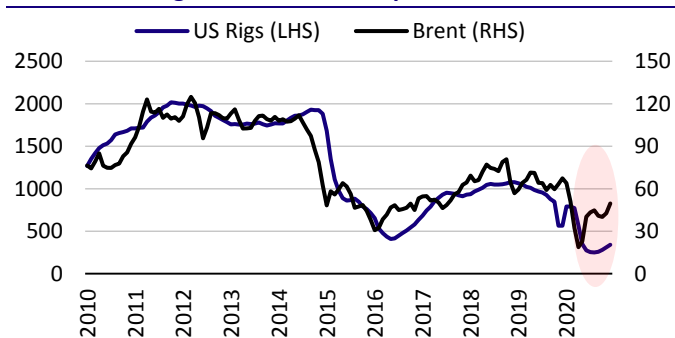
- Despite the delay, ONGC is expected to grow its gas production in FY22, with efforts to arrest the decline in oil production from age-old fields (accounting for 60–70% of total oil production).
- In FY20, ONGC made a total of 12 discoveries (seven onshore, five offshore), seven of which are prospects (three onshore, four offshore) and five are pools (four onshore, one offshore). The management has notified of seven new discoveries (four pools and three prospects) in FY21 thus far.
- We model in flattish oil production for the next two years, while we build a 14% gas production CAGR to 26.8bcm/30.8bcm for FY22/FY23E.
- The company is likely to generate FCF of INR554b (translating to FCF yield of ~45%), with dividend yield of ~5% over FY22–23.
- ONGC is trading at 3.4x FY23 EV/EBITDA and 4.9x FY23 P/E. We value the company at 10x Dec'22E adj. EPS of INR7.7 and add the value of investments to arrive at Target Price of INR110/share. Reiterate Buy.

Oil India – concerns over production declines continue

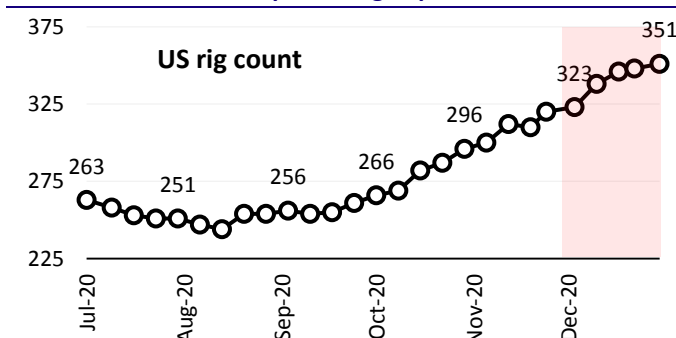
- We expect no incremental change in production volumes for both oil and gas in the near term. The company intends to increase gas production by ~5mmscmd over 2024–25 (from 7.5mmscmd currently), while arresting decline in oil production.
- We build in a ~3% per year increase in gas production (to ~2.9bcm) for FY23.
- Dividend yield appears attractive at 8–10% for FY22–23. The stock trades at 5.9x FY23E EPS of INR19.2. We use an SOTP-based fair value of 8x Dec'22E adj. EPS of INR15.2 and add the value of investments to arrive at Target Price of INR130. Maintain Buy.

Exhibit 1: Brent price forward curve is in backwardation with prices around USD51–53/bbl

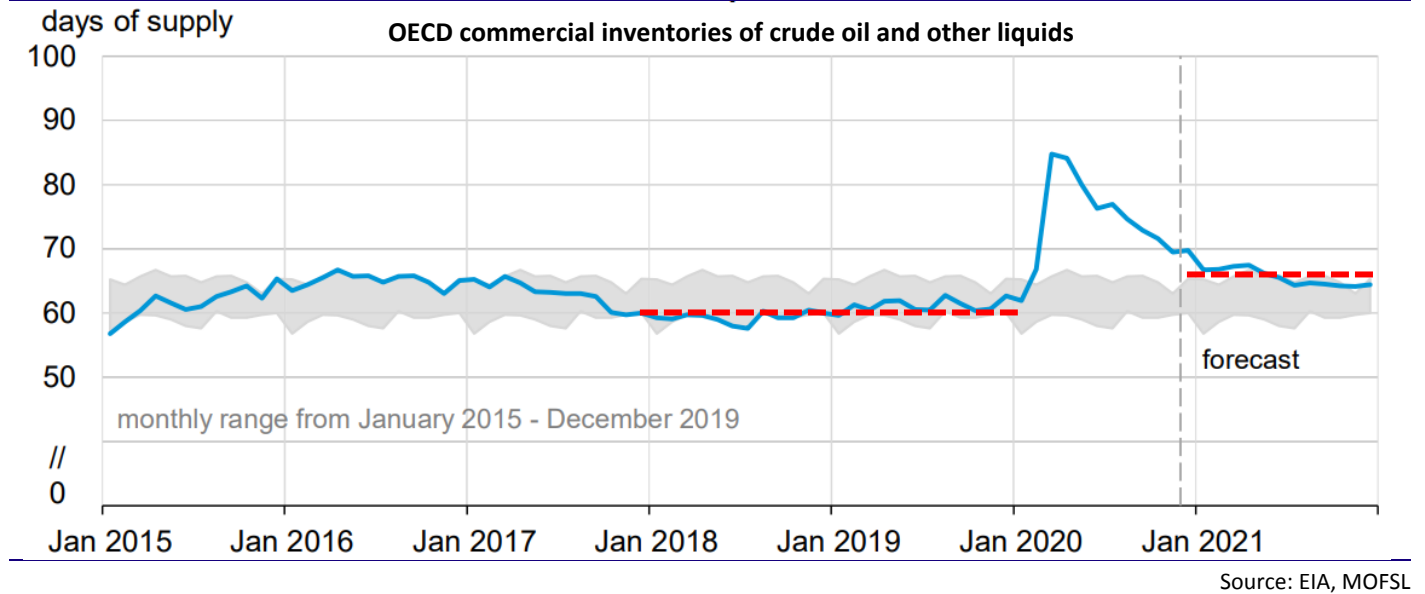
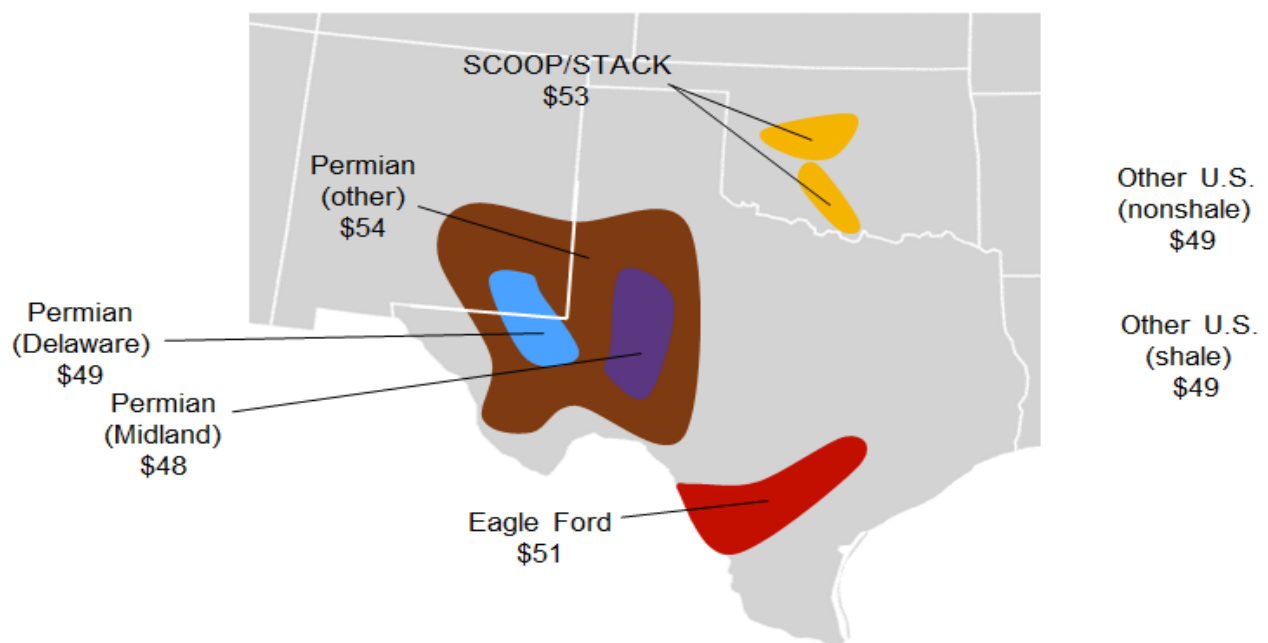
Source: Bloomberg, MOFSL

Exhibit 2: US rig count has seen a spike...

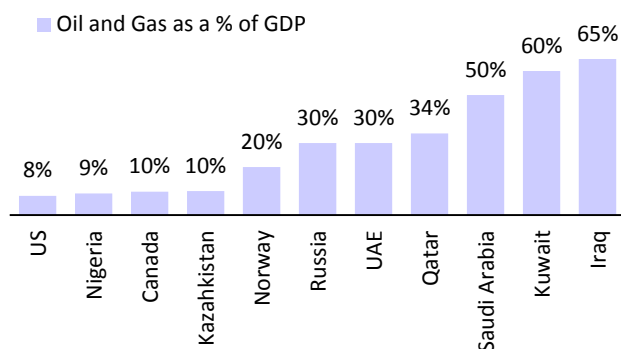
Source: Bakerhughes, MOFSL

Exhibit 3: ...as crude oil prices edge up to USD50/bbl

Source: Bakerhughes, MOFSL

Exhibit 4: Global inventories to remain high in 2021 as well (average of ~65 days in 2021 v/s ~60 days over 2018–19)**Exhibit 5: US breakeven oil prices range at USD48–54/bbl**

Source: EIA, Federal Reserve Bank of Dallas, MOFSL

Exhibit 6: GCC countries have higher % of O&G in GDP

Source: Saudi Arabia MoF, MOFSL

Exhibit 7: Budget breakeven of crude oil prices – for GCC

Country	Break-even Oil Price
Nigeria	144
Bahrain	96
Saudi Arabia	91
Oman	82
Kuwait	68
Abu Dhabi	65
Qatar	55

Source: Fitch Ratings, MOFSL

Exhibit 8: OPEC+ production cut quotas for the first quarter of 2021 – Saudi agrees for additional 1mnbpd cuts, while Russia and Kazakhstan were each allowed to ease cuts by a total of 65kbpd/10kbpd for Feb–Mar’21

OPEC	Ref level	Jan cut	Jan quota	Feb cuts	Feb Quota	Mar cuts	Mar Quota
Algeria	1.06	0.18	0.88	0.18	0.88	0.18	0.88
Angola	1.53	0.26	1.27	0.26	1.27	0.26	1.27
Rep of Congo	0.33	0.06	0.27	0.06	0.27	0.06	0.27
Equatorial Guinea	0.13	0.02	0.11	0.02	0.11	0.02	0.11
Gabon	0.19	0.03	0.16	0.03	0.16	0.03	0.16
Iran	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Iraq	4.65	0.80	3.86	0.80	3.86	0.80	3.86
Kuwait	2.81	0.48	2.33	0.48	2.33	0.48	2.33
Libya	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Nigeria	1.83	0.31	1.52	0.31	1.52	0.31	1.52
Saudi Arabia	11.00	1.88	9.12	2.88	8.12	2.88	8.12
UAE	3.17	0.54	2.63	0.54	2.63	0.54	2.63
Venezuela	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Total OPEC	26.68	4.56	22.12	5.56	21.12	5.56	21.12
Non OPEC							
Azerbaijan	0.72	0.12	0.60	0.12	0.60	0.12	0.60
Bahrain	0.21	0.04	0.17	0.04	0.17	0.04	0.17
Brunei	0.10	0.02	0.09	0.02	0.09	0.02	0.09
Kazakhstan	1.71	0.29	1.42	0.28	1.43	0.27	1.44
Malaysia	0.60	0.10	0.49	0.10	0.49	0.10	0.49
Mexico	1.75	0.00	1.75	0.00	1.75	0.00	1.75
Oman	0.88	0.15	0.73	0.15	0.73	0.15	0.73
Russia	11.00	1.88	9.12	1.82	9.18	1.75	9.25
Sudan	0.08	0.01	0.06	0.01	0.06	0.01	0.06
South Sudan	0.13	0.02	0.11	0.02	0.11	0.02	0.11
Total Non OPEC	17.17	2.64	14.53	2.56	14.61	2.49	14.68
Total OPEC+	43.85	7.20	36.65	8.13	35.73	8.05	35.80

Iran, Libya and Venezuela are exempted from OPEC cuts Source: OPEC, S&P Platts, MOFSL

Exhibit 9: OPEC further revises down estimate for global oil demand growth by 0.35mnbpd in 2021, taking the total downward revision in the last three months of 2020 to ~1.2mnbpd

World oil demand	2019	2020	growth	%	1Q21	2Q21	3Q21	4Q21	2021	growth	%
Americas	25.7	22.9	-2.8	-11%	24.3	24.9	23.9	24.8	24.5	1.6	7%
of which US	20.9	18.7	-2.2	-10%	19.9	20.3	19.5	20.3	20.0	1.3	7%
Europe	14.3	12.3	-1.9	-14%	12.4	13.5	13.4	12.7	13.0	0.7	6%
Asia Pacific	7.8	7.1	-0.7	-9%	7.6	7.3	7.2	7.5	7.4	0.3	5%
Total OECD	47.7	42.3	-5.5	-11%	44.3	45.6	44.6	44.9	44.8	2.6	6%
China	13.3	12.8	-0.5	-4%	12.3	13.9	14.7	14.7	13.9	1.1	9%
India	4.8	4.1	-0.7	-14%	4.9	4.2	4.8	5.0	4.7	0.6	14%
Other Asia	9.0	8.2	-0.8	-9%	8.3	9.0	8.6	8.8	8.7	0.5	6%
Latin Am	6.6	6.0	-0.6	-9%	6.2	6.3	6.4	6.3	6.3	0.3	5%
Middle East	8.2	7.6	-0.6	-8%	8.1	7.6	8.3	7.8	7.9	0.4	5%
Africa	4.5	4.1	-0.3	-8%	4.5	4.0	4.2	4.4	4.3	0.2	4%
Eurasia	5.6	4.9	-0.7	-12%	5.4	5.2	5.1	5.4	5.3	0.3	7%
of which Russia	3.6	3.2	-0.4	-11%	3.6	3.4	3.4	3.4	3.4	0.2	6%
of which other eurasia	2.0	1.7	-0.3	-15%	1.9	1.8	1.8	2.0	1.9	0.1	8%
Total Non-OECD	52.0	47.8	-4.3	-8%	49.7	50.1	52.0	52.4	51.1	3.3	7%
Total World	99.8	90.0	-9.7	-10%	94.0	95.7	96.6	97.3	95.9	5.9	7%

Source: OPEC, MOFSL

ONGC – financial summary and assumptions (TP INR110)

Exhibit 10: Key assumptions

Year End: March 31 (INR m)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Exchange Rate (INR/USD)	65.5	67.1	64.5	70.0	70.9	74.4	73.5	73.5
APM Gas Price (USD/mmbtu)	4.7	3.1	3.0	3.5	3.8	2.3	2.4	3.0
Brent crude price (USD/bbl)	47.6	48.6	57.6	70.1	61.2	41.7	50.0	50.0
Production Details (mmtoe)								
Domestic Oil Prodn (mmt)	25.9	25.5	26.2	24.2	23.4	23.0	24.0	24.0
Domestic Gas Prodn (bcm)	22.5	23.3	25.6	25.8	24.9	23.6	26.8	30.8
Domestic Prodn (mmtoe)	48.5	48.8	51.8	50.0	48.3	46.6	50.8	54.8
OVL Production (mmtoe)	8.9	12.8	14.2	14.8	14.7	13.5	14.5	14.5
Group Production (mmtoe)	57.4	61.6	66.0	64.9	62.9	60.1	65.3	69.3
Subsidy Sharing (INR b)								
ONGC Subsidy	17	0	0	0	0	0	0	0
Oil Price Realization (USD/bbl)								
Gross	48.6	50.2	57.4	68.9	58.8	41.1	50.0	50.0
Upstream Discount	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net	46.8	50.2	57.4	68.9	58.8	41.1	50.0	50.0

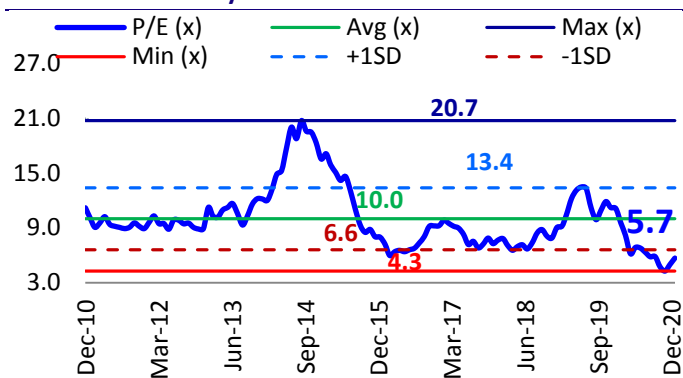
Source: Company, MOFSL

Exhibit 11: Key assumptions

Y/E March	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Sales	1,357	3,257	3,622	4,537	4,250	3,014	3,866	3,965
EBITDA	452	580	644	840	612	450	570	605
Adj. PAT	174	288	259	349	168	142	236	251
Adj. EPS (INR)	13.6	22.4	20.2	27.2	13.1	11.1	18.4	19.5
EPS Gr. (%)	-5.0	64.9	-9.9	34.6	-51.8	-15.4	65.9	6.2
BV/Sh.(INR)	154.1	151.5	158.0	169.0	161.3	168.6	182.0	196.2
Ratios								
Net D:E	0.1	0.3	0.5	0.4	0.5	0.5	0.4	0.3
RoE (%)	9.2	14.7	13.0	16.6	7.9	6.7	10.5	10.3
RoCE (%)	8.3	11.1	9.2	11.3	6.3	5.3	7.8	7.9
Payout (%)	66.8	36.0	38.0	31.3	66.9	29.9	26.9	27.5
Valuations								
P/E (x)	7.1	4.3	4.8	3.5	7.3	8.7	5.2	4.9
P/BV (x)	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	3.2	3.2	3.4	2.6	3.6	5.3	3.9	3.4
Div. Yield (%)	5.9	7.2	6.9	7.1	5.2	2.8	4.4	4.8
FCF Yield (%)	25.3	20.7	23.6	29.0	24.2	-5.4	24.1	20.9

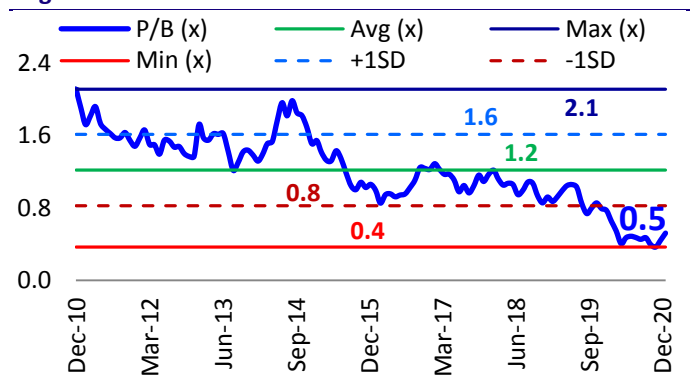
Source: Company, MOFSL

Exhibit 12: ONGC 1 year forward PE trades at ~43% and...



Source: Company, MOFSL

Exhibit 13: ...PB trades at ~58% discount to its long-term avg.



Source: Company, MOFSL

Oil India – financial summary and assumptions (TP INR130)

Exhibit 14: Key assumptions

Year End: March 31 (INR m)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Exchange Rate (INR/USD)	65.4	67.1	64.5	64.5	64.5	74.4	73.5	74.5
APM Gas Price (USD/mmbtu)	4.7	3.0	3.0	3.5	3.8	2.3	2.4	3.0
Brent Crude Price (USD/bbl)	47.5	49.0	57.6	70.1	61.2	41.7	50.0	50.0
Production Details								
Oil (mmt)	3.25	3.28	3.39	3.32	3.11	2.80	2.94	3.09
Gas (bcm)	2.84	2.94	2.89	2.72	2.69	2.69	2.75	2.86
Total (mmtoe)	6.09	6.22	6.29	6.05	5.80	5.49	5.69	5.94
Subsidy Sharing (INRb)	2	-	-	-	-	-	-	-
Oil Price Realization (USD/bbl)								
Gross	46.4	47.4	55.7	68.5	60.8	41.7	50.0	50.0
Upstream Discount	1.0	-	-	-	-	-	-	-
Net	45.3	47.4	55.7	68.5	60.8	41.7	50.0	50.0

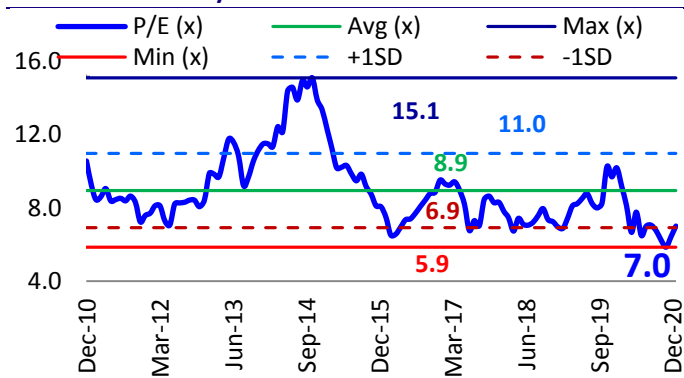
Source: Company, MOFSL

Exhibit 15: Key assumptions

y/e march (INR b)	2016	2017	2018	2019	2020	2021E	2022E	2022E
Sales	92.7	93.6	106.6	137.3	121.3	82.1	95.2	102.5
EBITDA	30.7	29.6	39.1	54.8	43.7	25.6	29.1	33.6
Adj. PAT	25.2	27.0	26.7	36.2	25.8	14.0	18.4	21.8
Adj. EPS (INR)	22.3	23.9	23.6	32.0	22.9	12.4	16.3	19.2
EPS Gr. (%)	14.9	7.2	-1.2	35.6	-28.6	-54.5	56.7	18.0
BV/Sh.(INR)	220.5	257.4	246.9	245.5	215.7	220.3	227.5	236.1
Ratios								
Net D:E	0.0	0.1	0.2	0.0	0.2	0.2	0.2	0.3
RoE (%)	9.4	5.7	9.4	9.3	9.9	4.8	7.3	8.3
RoCE (%)	4.1	3.5	4.8	6.8	3.6	1.6	2.6	3.2
Payout (%)	56.5	96.5	52.7	53.8	55.8	55.8	55.8	55.8
Valuations								
P/E (x)	5.1	4.7	4.8	3.5	4.9	9.1	6.9	5.9
P/BV (x)	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	3.9	5.1	4.4	2.5	4.1	7.2	6.6	5.8
Div. Yield (%)	8.5	9.7	9.1	9.1	9.4	5.1	8.1	9.5
FCF Yield (%)	7.3	-2.2	3.4	20.2	19.8	6.7	7.2	11.2

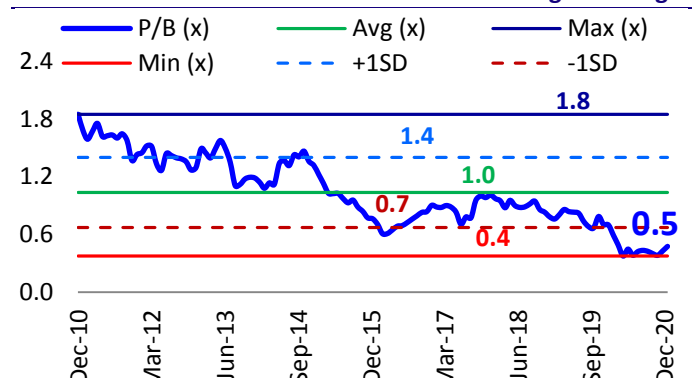
Source: Company, MOFSL

Exhibit 16: OINL 1 year forward PE trades at ~21% and...



Source: Company, MOFSL

Exhibit 17: ...PB trades at 50% discount to its long-term avg.



Source: Company, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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