

Stock Update

Weak oil reserves and high capex in low oil and gas price environment

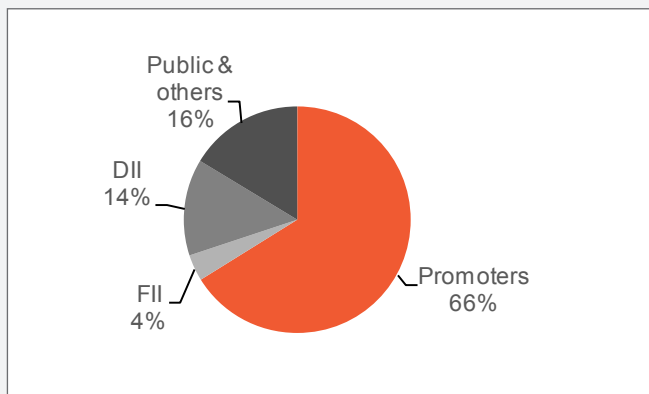
Oil India

Reco: Hold | CMP: Rs306

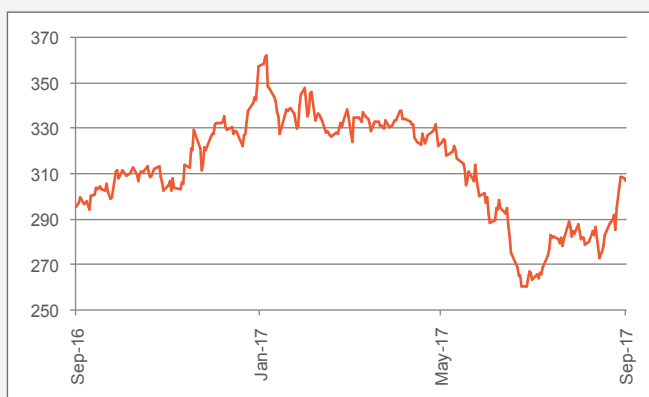
Company details

Price target:	Rs325
Market cap:	Rs23,122 cr
52-week high/low:	Rs367/258
NSE volume: (No of shares)	4.7 lakh
BSE code:	533106
NSE code:	OIL
Sharekhan code:	OIL
Free float: (No of shares)	25.63 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.6	2.3	-7.4	12.0
Relative to Sensex	10.3	0.1	-16.9	-0.8

Key points

- Weak domestic oil reserve profile is a cause of concern:** Oil India Limited's (OIL) domestic 1P reserves base for oil and gas at 29mmt and 77mmtoe (as on 31st March 2017), respectively, provides production visibility of around nine years for oil and ~26 years for gas at FY2017 production rate. In our view, weak oil reserve profile is a cause of concern in case OIL is unable to convert its 2P oil reserves of 79mmt to 1P reserves in the coming years. Moreover, the 2P reserve mix in favour of gas (accounts for 61% of overall 2P reserves of 203mtoe) is also unfavourable as development of gas reserves would be difficult in the weak domestic gas price environment (current gas price of \$2.48/mmbtu).
- Investment in Russian assets to add Rs.11/share to the valuation:** The consortium led by OIL had acquired stakes in two hydrocarbon fields in Russia in 2016, namely Vankor (23.9% stake for consideration of \$2 billion) and Taas Yuryakh (29.9% stake for consideration of \$1.12 billion). Vankor is producing field and OIL's share of 2P reserves is at 153mmbbls (million barrels) for oil and 0.25tcf (trillion cubic feet) for gas. OIL's share of 2P reserves in Taas Yuryakh field is at 100.37mmbbls for oil and 0.24tcf for gas. We value the Russian assets at EV/boe (barrels of oil equivalent) of \$3.5/boe and arrive at Rs.11/share contribution to our SoTP-based price target (PT) for OIL.
- Outlook – Muted earnings outlook and value destruction from Mozambique E&P investment to remain an overhang:** We continue to believe that range-bound oil prices, weak oil and gas production outlook (flat oil/gas production guidance at 3.33mmt/3bcm for FY2018), continued high capex plan of Rs.4,290 crore for FY2018 (similar to FY2017 level) and negative value accretion from investment in Mozambique E&P assets (not included in our PT), given low LNG prices, would remain an overhang on the stock in the near to medium term. Even fuel pricing reforms (monthly LPG and kerosene price hikes to eliminate the under-recoveries in a phased manner) are unlikely to result into meaningful earnings upgrade for OIL until there is sharp uptick in international oil prices.

- ♦ **Valuation – Maintain Hold with revised PT of Rs.325:** We maintain our FY2018 and FY2019 earnings estimates but increase our price target to Rs.325 to factor: 1) Rs.11/share value from investment in Vankor and Taas Yuryakh E&P assets and 2) higher value of investments (higher market value for OIL's 5% stake in Indian Oil Corporation and increased book value for

unlisted investments excluding Mozambique, as per FY2017 annual report). We maintain our Hold rating on OIL, given the muted earnings outlook (weak oil/gas realisation and production) and lower RoE of 7% over FY2018E-FY2019E. At the CMP, the stock trades at 11.3x FY2018E EPS and 10.7x FY2019E EPS.

Valuations (Standalone)

Particulars	Rs cr			
	FY2016	FY2017	FY2018E	FY2019E
Net sales	9,765	9,510	9,696	10,422
Growth (%)	0.2	-2.6	1.9	7.5
EBDITA	3,588	3,105	3,146	3,381
EBDITA margin (%)	36.7	32.6	32.5	32.4
Adjusted PAT	2,517	2,210	2,044	2,152
Growth (%)	0.3	-12.2	-7.5	5.3
EPS diluted (Rs)	33.3	29.2	27.0	28.4
PE (x)	9.2	10.5	11.3	10.7
P/BV (x)	0.7	0.8	0.8	0.8
EV/EBITDA (x)	2.6	1.6	2.1	2.0
EV/sales (x)	0.9	0.5	0.7	0.6
Div Yield (%)	3.9	3.2	4.4	4.7
ROE (%)	10.8	8.2	6.9	7.1
ROCE (%)	12.2	9.9	8.5	8.8

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