

# Stock Update

## RIL-BP chalk out an aggressive investment plan

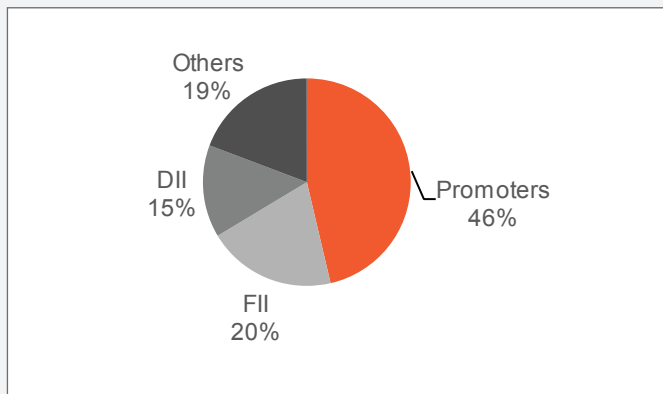
### Reliance Industries

Reco: Buy | CMP: Rs1,388

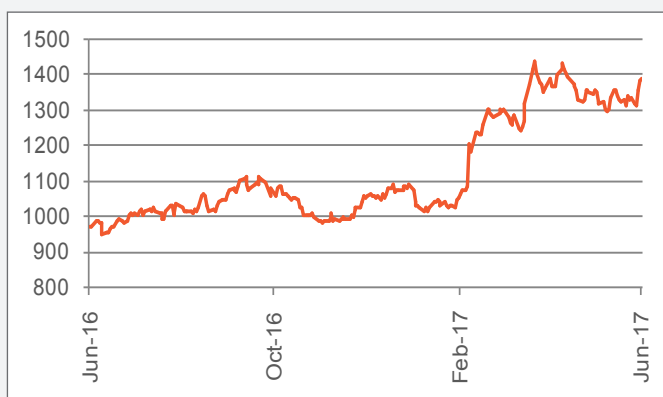
#### Company details

Price target:	Rs1,550
Market cap:	Rs451,229 cr
52-week high/low:	Rs1465/932
NSE volume: (No of shares)	46.8 lakh
BSE code:	500325
NSE code:	RELIANCE
Sharekhan code:	RELIANCE
Free float: (No of shares)	174.5 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	3.0	6.1	31.4	40.6
Relative to Sensex	0.1	0.0	11.5	19.3

Reliance Industries (RIL) and British Petroleum (BP) organised a press conference yesterday to discuss their vision on upstream business in India and also explore partnership opportunities in the downstream fuel retailing and other segments of energy value chain. We believe that the vision to invest Rs40,000 crore to ramp up production from KG basin fields is a step in right direction though the benefits of the same would be visible by FY2020 in RIL's financial performance. Thus, in the immediate term, the progress of Reliance Jio business along with the spreads in core petrochemical/refining business will be key drivers for the stock performance. We retain our Buy rating on the stock.

#### Key points

- Massive investment plan of Rs40,000 crore to revive KG basin gas production to 30-35mmscmd by 2020-2022:** Reliance Industries Limited (RIL) and British Petroleum (BP) plans to jointly develop three gas projects (R-Series, Satellite fields and D-55) in the Krishna-Godavari Basin at a total investment of \$6billion (Rs40,000 crore). The companies target total gas production of 30-35mmscmd from the three projects in a phased manner over 2020-2022. The companies would first develop R-Series fields, which are likely to commence production from 2020 with production of 12mmscmd and plans to submit field development plan for other two projects by end-2017. We view revival of investment in upstream business positively but the investment plan would be contingent to upwards revision in domestic gas prices for deep water blocks (currently at \$5.56/mmbtu on gross calorific value).
- Strategic co-operation now extended to downstream fuel retailing segment:** RIL and BP have also agreed to jointly explore both conventional fuel retailing (transportation and aviation fuel) and unconventional mobility solutions (addressing electrification of vehicles and disruptive mobility trends). The companies would jointly explore options to develop differentiated fuels and advanced low carbon energy solution in India. We highlight here that the companies are yet to provide specific roadmap for their downstream venture.

- ♦ **Outlook:** With \$20billion capex in petrochemical and refining largely completed and nearing the commissioning stage, we expect RIL's consolidated EBITDA to grow strongly at a 21% CAGR over FY2017-FY2019E. We expect RoGC, Petcoke Gasification and Ethane projects to add \$1.7billion (~Rs11,660 crore assuming Rs/USD rate of Rs67) in EBITDA in FY2019E. We maintain our positive view on refining margins over FY2018-19E, as the strong oil demand growth of 1.3mbpd (according to the International Energy Agency estimates) would help reduce excess gasoline and gasoil product inventory in the international markets.
- ♦ **Valuation:** We maintain our 'Buy' rating and target price of Rs1,550 on RIL as we wait for further clarity on capex timelines in the upstream business and likely revision in domestic gas prices so as to incorporate the impact in our valuation for RIL. The stock is trading at 13.7x FY2018E EPS and 11.6x FY2019E EPS.

## Valuations

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Net sales	375,435	276,544	305,382	348,371	364,417
Growth (%)	-13.6	-26.3	10.4	14.1	4.6
Operating profit	37,364	44,257	46,194	57,222	67,134
OPM (%)	10.0	16.0	15.1	16.4	18.4
Adj PAT	23,566	27,630	29,833	29,961	35,419
Adj. EPS (Rs)	79.9	93.7	101.2	101.6	120.1
YoY change (%)	4.8	17.2	8.0	0.4	18.2
P/E (x)	17.4	14.8	13.7	13.7	11.6
EV/EBIDTA (x)	15.1	12.7	12.2	9.9	8.4
Dividend yield (%)	0.7	0.8	0.8	0.8	0.8
RoCE (%)	8.8	9.0	9.3	9.2	9.9
RoNW (%)	10.8	11.3	11.2	10.1	10.8

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by BNP PARIBAS

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