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Page No. 9, Size:(19.66)cms X (10.60)cms.

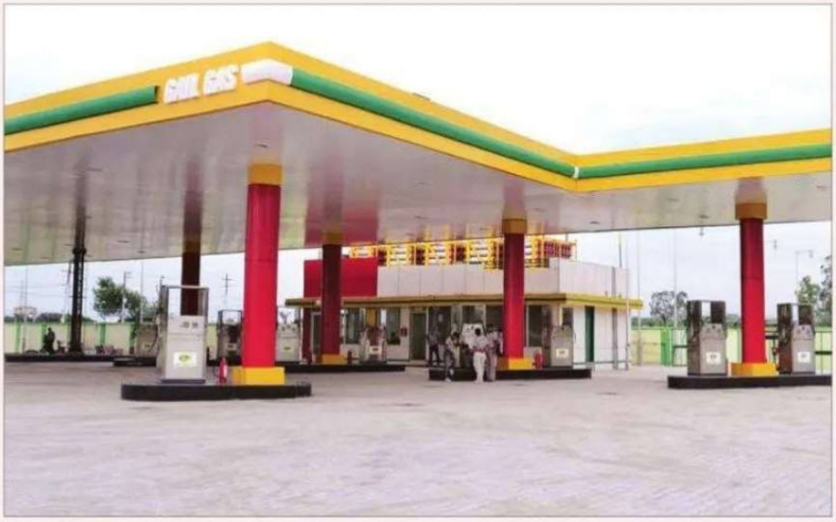
Year-end Mar 31	FY19	FY20F		FY21F		FY22F	
(₹)	Actual	Old	New	Old	New	Old	New
Revenue (bn)	751	745	747	838	800	962	904
Reported net profit (bn)	60	51	50	65	44	77	52
Normalised net profit (bn)	60	51	50	65	44	77	52
FD normalised EPS	13.36	11.32	10.99	14.45	9.76	17.10	11.46
FD norm. EPS growth (%)	30.5	-15.3	-17.7	27.6	-11.2	18.3	17.4
FD normalised P/E (x)	5.8	11.2	7.1	8.8	8.0	7.4	6.8
EV/Ebitda (x)	3.8	7.4	4.8	6.1	6.7	5.1	5.9
Price/book (x)	0.8	1.2	0.8	1.1	0.8	1.0	0.7
Dividend yield (%)	5.1	-	10.7	-	6.3	-	6.6
ROE (%)	14.3	11.3	11.2	13.5	9.6	14.6	10.7
Net debt/equity (%)	net cash	3.6	5.2	9.6	17.7	8.6	22.9

Source: Company data, Nomura estimates

GAIL RATING: BUY

Valuations factor in the worst

FY20e EPS down 3% and FY21/22e EPS cut by 33%; TP reduced to ₹140 from ₹190; 'Buy' maintained



SINCE THE DISAPPOINTING Integrated HVJ tariff order on 4-June-19, GAIL's share price has de-rated significantly (-57% since end-May vs. NIFTY -23%). The stock was also hit by weak gas demand/low spot LNG prices impacting gas marketing, continued petchem losses and market concerns on its unbundling. The steep decline in oil prices weakens the earnings outlook for petchem/liquid hydrocarbon (LHC) segments, as revenue declines may not be offset by lower feedstock costs. Petchem will remain in losses, but LHC should be relatively better. Market concerns also rise for gas marketing, especially on Henry Hub-linked volumes that are sold on oil linkage basis, despite GAIL hedging part of the exposure. But, we believe gas marketing is unlikely to be in losses even if oil prices remain at ~$35/bbl.

Worst seems priced in; but stock needs a few catalysts in current volatile scenario

While lower oil prices are a negative, after the sharp de-rating, we note valuations are compelling. Adjusted for equity investments of ₹32/sh, GAIL trades at just ₹46/share (4x FY22F P/E), lower than ₹89/sh that we ascribe to the transmission segment. We highlight that GoI is keen on promoting gas and raising its share in the energy basket from 6% to 15%. To achieve this, GAIL will be a key vehicle (transports over 3/4th of the gas, and along with its subsidiaries, has the largest investment in the city gas space). The stock needs a few catalysts like rational and non-additive tariffs, inclusion of gas in GST and policy moves to revive stranded gas based power. But, progress on these factors has been slow.

Cut TP to ₹140 (from ₹190)

Due to our lower commodity price assumption, we cut our petchem, LPG and marketing segment earnings. We also assume 8% cut in tariff due to lower tax rate. We cut our earnings by 3% for FY20F, and by 33% for FY21/22F. After 18% EPS decline in FY20F, we expect a further 11% decline in FY21F, and 17% recovery in FY22F. We roll forward our SOTP-based TP to March 2022 (Sept 2021 earlier, EV/Ebitda multiple unchanged). Our revised TP of ₹140 implies ~80% upside. The stock trades at 6.8x FY22F P/E.

NOMURA