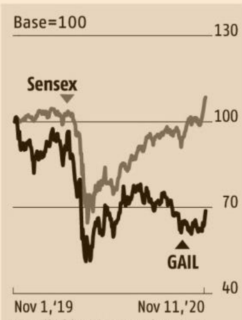
GAIL fuels Street sentiment with Q2 comeback

Growth prospects, fair valuations offer good entry point



Compiled by BS Research Bureau

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The gradual improvement in GAIL's performance following the easing of lockdowns — evident from its September quarter (Q2) results — has spurred Street sentiment. The GAIL stock has gained over 4 per cent in two sessions after the results announcement.

The company, operating India's largest pipeline network for gas transmission, is seen as a major beneficiary of an uptick in domestic gas demand. Growing city gas distribution, and rising demand for cleaner and cost-effective fuel from automobiles and industrial sectors, will improve it's transmission and trading volumes.

In Q1, the lockdown had impacted volumes and gas trading revenues, while lower gas prices raised concerns over the placement of its high-priced imported gas contracts. Similarly, lower petrochemical prices, too, played spoilsport.

GAIL, however, saw a gradual rebound in Q2, with higher gas transmission volumes and a better performance in the petchem segment. Gas transmission volumes jumped 18 per cent sequentially to 106 mmscmd (million standard cubic feet per day), crossing the FY20 average.

The segment's operating profit surged 42.4 per cent sequentially, and 27 per cent year-on-year (YoY). Completion of the Kochi-Mangaluru gas pipeline in November should aid volume growth in the near term, while expansion in East India (completion by FY22-23) will improve long-term prospects.

Gas trading, however, remains under pressure. Volumes were 6 per cent lower YoY, with operating loss coming in at ₹364 crore. Nevertheless, the loss narrowed from ₹545 crore in Q1, thanks to rising global spot prices.

With demand improving, GAIL received 20 LNG cargoes in Q2 (including six that it sold outside India). Despite concerns over placement of high-priced imported gas contracts, the re-starting of domestic fertiliser plants should help.

Analysts expect the commissioning of Gorakhpur, Sindri and Barauni (pre-commissioning by end-CY21) plants, along with demand from refineries (connected to Urjan-Ganga pipeline) to increase gas sales by 11 mmscmd, thereby improving placement of imported gas.

The petchem segment, too, registered a 22 per cent sequential and 3 per cent YoY rise in sales volume. While realisations were flat sequentially, lower gas prices aided margins, which helped the segment return to profits.

Other segments such as liquid hydrocarbons and LPG saw better utilisation and profitability. Therefore, adjusted net profit increased 4.3 per cent to ₹1,240 crore despite consolidated revenue falling 24 per cent YoY.

Analysts maintain their positive stance on GAIL, consdiering growth prospects and cheap valuations. With seven new pipelines to start by FY23, transmission volumes are seen rising 35-40 mmscmd (35 per cent).

Trading at a 50 per cent discount to its long-term 1-year forward P/E of 13.2x, it is an excellent opportunity, says Motilal Oswal Securities.

ONGC eyes stake in $4bn Senegal field in distress sale

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New Delhi: ONGC Videsh has entered into a definitive agreement to buy cash-strapped Australian company FAR's stake in the $4.2-billion Rufisque-Sangomar offshore oil project of Senegal, marking its bid to buy into an asset in a distress sale prompted by the oil price crash.

Whether ONGC Videsh succeeds in breaking a four-year-long hiatus in acquisitions will depend on Woodside Energy, an Australian pioneer in LNG (liquefied natural gas) and the operator of the Sangomar project, waiving its first right of refusal in the 30 days. Woodside has 68% stake in the project.

On Wednesday, ONGC Videsh said the definitive agreement is for buying FAR Senegal SSD SA's 13.6% stake in the "exploitation area" (Sangomar project) and 15% in the "remaining contract area" (exploration area) of what is officially identified as Rufisque, Sangomar Offshore and Sangomar Deep Offshore block. FAR is selling out to get out of a financial corner after defaulting on cash call for the project as its debt financing fell through in the wake of the oil price crash. Capricorn Senegal, a subsidiary of Scottish explorer Cairn Energy, and Senegal's national oil company Petrosen are the other partners in the block, besides FAR and Woodside.

Though ONGC Videsh did not give financial details, sources in the know said the buyout will cost about $111 million, including reimbursing FAR's share of development cost since January. FAR is also likely to get over $50 million in three years after oil production starts. Total investment involved, including the development cost until the First Oil, is expected to be around $600 million.

The deal size, sources said, indicates more than 60% discount to Russian major LukOil's offer for acquiring Cairn Energy's 36.4% stake for $400 million in August, which Woodside pre-empted by matching the offer. Analysts reckon Sangomar could hold more than 5-billion barrels of oil, with the initial development set to recover about 230-million barrels.

GAIL Q2 net rises 16% to ₹1,240cr

New Delhi: State-run gas utility GAIL has posted a net profit of Rs 1,240 crore in the quarter-ended September, marking more than 16% increase from Rs 1,064 crore in the year-ago period on the back of growth in all segments of the company's business. TNN