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ONGC: Regaining lost ground

International crude oil prices, expected to stabilise around $60, is good news for ONGC.

With international crude oil prices firming up, analysts' interest in ONGC has also increased manifold. Its average realisation during the Oct-Dec quarter was at $43 per barrel. Therefore, the recent jump in crude oil prices is expected to benefit ONGC. The prices are expected to remain stable between $50 and $70 per barrel in the medium term because of actions by Opec+ countries. During its last meeting, Saudi Arabia had agreed to continue with its voluntary cut of one million barrels per day while other countries agreed not to increase production.

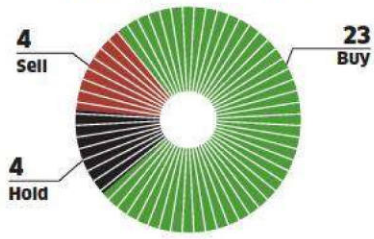
ONGC had not been able to increase its production meaningfully during the last 10 years which was the main concern of its investors. However, analysts say that it was able to maintain production levels, while other upstream oil companies could not do so and this resulted in the company's production share to jump to 70% from 53% 10 years back. While its crude oil production is expected to remain stagnant, ONGC is planning to ramp up its domestic gas production from around 0.3 mmscmd (Million Metric Standard Cubic Metres per Day) to 8-9 mmscmd in 2022-23 and 15 mmscmd by 2023-24.

The ONGC Videsh – Oil India supported onshore LNG development in Mozambique is progressing well. The Rovuma Offshore Area-1 project completed stage one recently and is now ready to receive project financing from its lenders.

Government meddling is the main headwind for companies from the oil and gas sector. Demands to include petroleum products under the GST regime are increasing. Though GST may not be implemented in petrol and diesel any time soon, it may be implemented for natural gas in near future. Analysts also expect the government to change the current domestic natural gas price anomaly, which is disincentivising domestic production in the coming years and provide ONGC with remunerative rates for its domestic natural gas.

ONGC's reasonable valuation is another factor attracting analysts to this counter. Investors need not be worried about its bloated trailing PE, which is placed at 141.6, because this high level is only due to low earnings in the last few quarters. Its earnings are expected to revive significantly (*see table*). The company is now valued only at 5.87 times its expected EPS in 2021-22. Its valuation is also at a lower level based on the other valuation parameters like PB, dividend yield, etc.

Analysts' views



ONGC's production share has jumped from 53% to 70% over 10 years and cincreasing international crude prices are expected to fuel its growth in the near term. The company's reasonable valuation is another factor which has made the company a favourite of analysts.

Selection Methodology: We pick up the stock that has shown the maximum increase in "consensus analyst rating" during the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (ie 5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search will be restricted to stocks with at least 10 analysts covering it. You can see similar consensus analyst rating changes during the last one week in ETW 50 table.

—Narendra Nathan

Fundamentals

	ACTUAL		C
	2019	2020	20
Revenue (₹ cr)	4,51,571	4,22,781	3,
Ebitda (₹ cr)	74,883	53,822	
Net profit (₹ cr)	28,807	4,331	
EPS (₹)	22.49	3.44	

Valuations

	PBV	PI
ONGC	0.62	141.
Oil India	0.44	4.4
GAIL (India)	1.17	6.8
Bharat Petroleum Corp	2.49	22.
Indian Oil Corporation	0.90	17.

Latest brokerage calls

RECO DATE	RESEARCH HOUSE	ADVI
16 March	HSBC	Buy
7 March	Goldman Sachs	Buy
6 March	BNP Paribas	Buy
5 March	JP Morgan	Overw
5 March	JM Financial	Buy

Relative performance

ONGC is compared with ET Oil & Gas. Stock p
normalised to a base of 100. Source