

India

December 22, 2021 - 2:20 PM

**Overweight** (no change)

**Highlighted Companies**

**Bharat Petroleum**

**REDUCE, TP Rs375, Rs364 close**

We maintain our Reduce rating with TP of Rs375 based on Rs354 for core business (1.5x Sep 23F P/BV, 18% ROE in FY23F and Rs21 value for E&P). Timing of strategic sale will continue to disappoint, in our view.

**Hindustan Petroleum**

**HOLD, TP Rs305, Rs282 close**

We reiterate our Add rating with a TP of Rs305, which is based on 1x Sep 23F P/BV, 15% ROE in FY23F. Large off-balance sheet debt will likely keep valuations in check.

**Indian Oil Corp**

**ADD, TP Rs160, Rs110 close**

We reiterate our Add rating with a TP of Rs150, which is based on 1x Sep 23F P/BV, 15% ROE in FY23F. Near 9% dividend yield is the key rating catalyst.

**Summary Valuation Metrics**

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Bharat Petroleum	8.72	9.48	9.53
Hindustan Petroleum	5.99	5.88	5.74
Indian Oil Corp	4.4	5.28	4.83

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Bharat Petroleum	1.79	1.64	1.52
Hindustan Petroleum	0.99	0.89	0.81
Indian Oil Corp	0.8	0.74	0.69

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Bharat Petroleum	6.01%	5.41%	5.41%
Hindustan Petroleum	5%	4.97%	4.97%
Indian Oil Corp	10.96%	9.13%	10.05%

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# Oil & Gas Refinery

## Record marketing margins

- 3QFY22 auto fuel marketing margins (MMs) will be close to all-time high as domestic prices have remained unchanged despite lower global oil prices.
- Gross refining margins (GRMs) also recovered this month, implying that integrated profitability (GRM+MM) will be very robust this quarter.
- We retain Overweight on oil marketing companies (OMCs) with IOC as our top pick (TP Rs160).

### Record marketing margins

- While the OMCs generally change auto fuel prices daily to reflect global price movements, there are always some anomalies close to any major elections. On 4 Nov 2021 (when Brent crude was at US\$84/bbl), the government cut excise duties on auto fuels to lower the impact of higher global oil prices on Indian consumers. The OMCs immediately passed this on via lower retail prices, but have, since then, kept fuel prices constant (other than to reflect the state-level VAT change).
- With Brent oil correcting by nearly US\$10/bbl since then, MMs have risen sharply. We estimate the overall combined auto fuel MM at Rs8/l for Dec 2021 and just over Rs5/l in 3QFY22. These would be one of the highest levels of MMs, excluding the peak Covid months of Apr/May 2021 when margins were high to compensate for inventory losses.
- In our view, the OMCs have raised MMs just to provide a profitability buffer in the event of any rise in global prices in 4QFY22 when they may not be able to pass on the higher costs due to major state elections.
- On the flip side, if global oil prices continue to remain at current levels, then these high MMs could sustain for longer. In our view, it is possible that domestic retail prices would be ultimately cut, but probably closer to the election date.

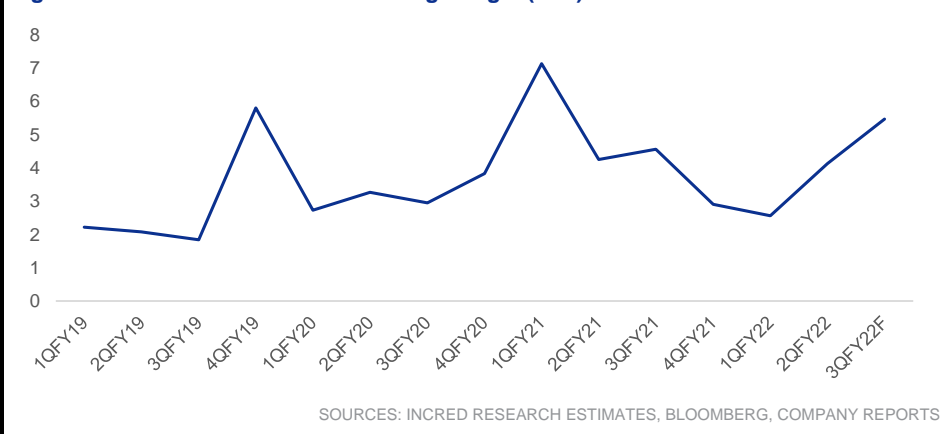
### Integrated margins at record levels as GRMs have also improved

- GRMs moved up sharply to highs in Oct 2021, moved down in Nov 2021 but climbed again in Dec 2021. We expect Singapore GRM to settle around US\$4/bbl in FY23F/24F which would be a big improvement over US\$2.1/bbl in the last four quarters, but lower than the US\$6-7/bbl over CY11-18. The upmove in Dec 2021, if sustained, would hence be a positive surprise. With refinery margins for both diesel and gasoline moving up, the rise in MMs is purely on account of the drop in crude oil prices.

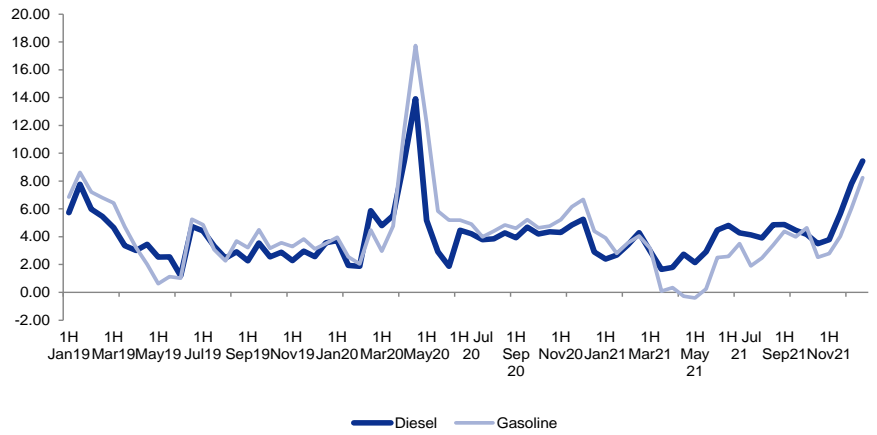
### Retain Add on IOC, Hold on HPCL and Reduce on BPCL

- We reiterate our Overweight stance on the sector as valuations have corrected despite integrated margins at record highs (more than compensating for the lower recovery in demand growth). We prefer IOC to HPCL. While both are at similar valuations, HPCL has large off-balance sheet debt in its joint ventures, which makes it riskier. BPCL's higher valuation reflects expectations of a successful strategic sale where we believe there could be a disappointing outcome and, hence, retain our Reduce rating.

**Figure 1: Combined auto fuel marketing margin (Rs/l)**

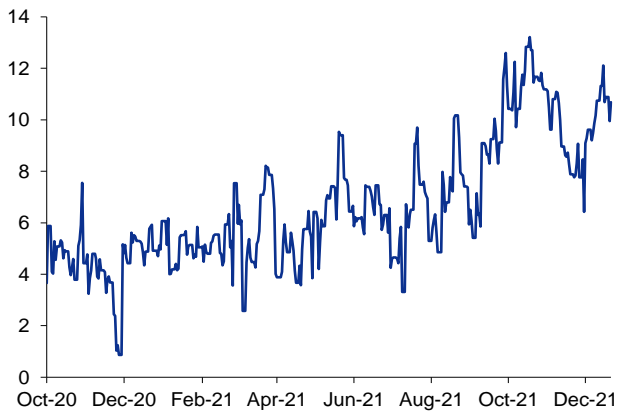


**Figure 2: Auto fuels marketing margin (Rs/l)**



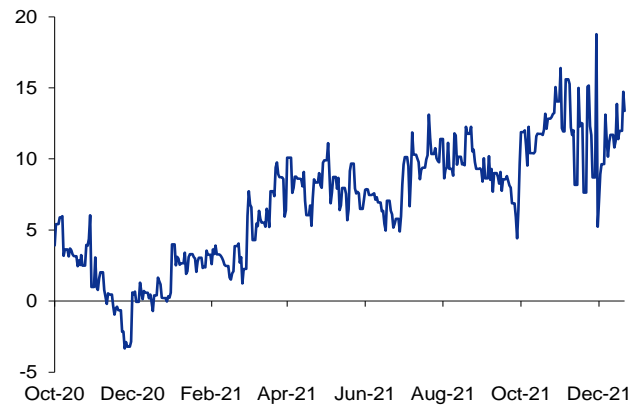
SOURCES: INCRED RESEARCH, BLOOMBERG, COMPANY REPORTS

**Figure 3: Diesel-Dubai (US\$/bbl)**



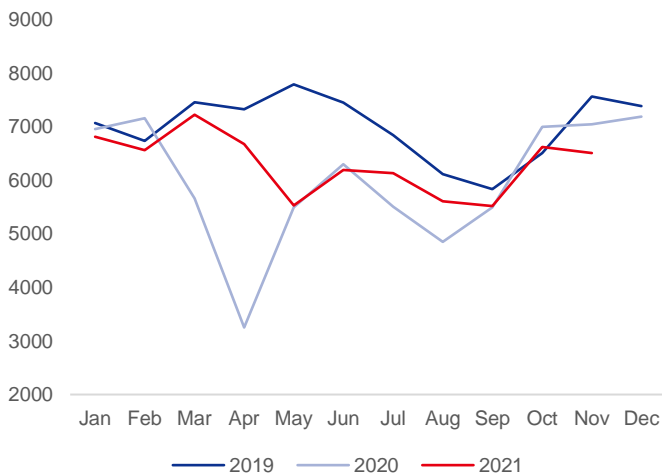
SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 4: Gasoline-Dubai (US\$/bbl)**



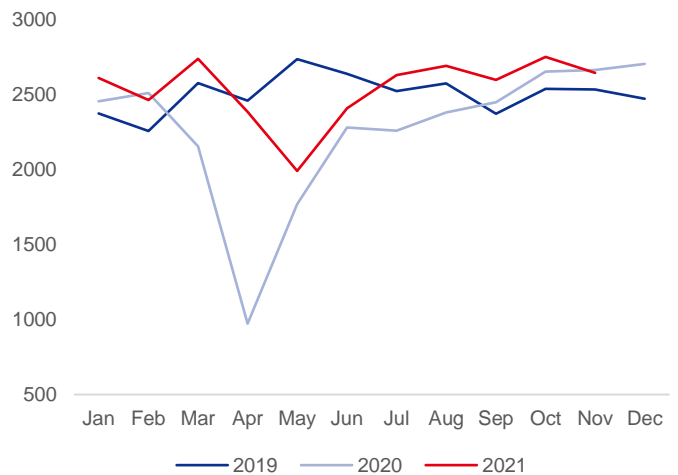
SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 5: India's monthly diesel demand ('000t)**



SOURCES: INCRED RESEARCH, PETROLEUM PLANNING & ANALYSIS CELL

**Figure 6: India's monthly gasoline demand ('000t)**



SOURCES: INCRED RESEARCH, PETROLEUM PLANNING & ANALYSIS CELL

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#### Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A

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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021**

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

**Recommendation Framework**

**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.