

India

Underweight (no change)

Highlighted Companies

Coal India

ADD, TP Rs233, Rs187 close

Even after taking International Energy Agency's aggressive coal consumption fall projection, we project a very thin surplus in global market in CY23F and a deficit in CY24F/25F.

Tata Steel

REDUCE, TP Rs750, Rs1255 close

We expect the company to fare well based on its value-added offerings but see its profitability falling, leading to a 1% EBITDA CAGR over FY21-24F.

UltraTech Cement Ltd

ADD, TP Rs8798, Rs6017 close

The stock trades at an EV/EBITDA multiple of 15.2x/13.1x FY23F/FY24F, respectively. We maintain Add rating with a TP of Rs8,798 based on 15.5x Dec 2023F.

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Coal India	8.18	6.12	5.96
Tata Steel	5.21	15.52	13.68
UltraTech Cement Ltd	26.21	20.8	17.77

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Coal India	2.68	2.13	1.75
Tata Steel	1.5	1.41	1.31
UltraTech Cement Ltd	3.55	3.17	2.82

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Coal India	6.7%	6.7%	6.7%
Tata Steel	1.99%	1.99%	1.99%
UltraTech Cement Ltd	0.92%	1.16%	1.36%

Commodities - Overall

Don't bet against sovereign

- Commodity prices are rising assuming zero intervention by sovereign nations. While peace is the ultimate solution, fiat money is a quick fix.
- Gas and oil prices may remain high (assuming the West has no lever against OPEC), but inflation will be controlled as subsidization of energy is highly likely.
- Retain Reduce rating on Tata Steel, JSPL, JSW Steel and Nalco. Coal India is our top Add.

Energy-intensive commodities will fall as EU braces for policy action

While in the long term (more than five years), Europe and rest of the world can devise a way away for Russian oil and gas, peace is the only way out in the near to medium term. It appears that Europe will subsidize the power bills of homes and industries. Hence, while energy prices may remain high, inflation may not. While it will lead to big money printing, which traditional free-market economists don't prescribe, it will surely lead to a moderating inflation trajectory. At the risk of sounding too radical, sovereign nations may present a scenario where oil and gas prices remain high, but they are absorbed at individual country levels and the masses don't feel the pain. While in India, we have seen it often, maybe it's the time for the western world's tryst with socialist policies. Stay away from commodities which were inflating because of rising energy costs. Europe, as a consolidated entity, is still very powerful and can force changes in the world order as well as energy supply from elsewhere (apart from Russia).

Coking coal prices are on a tear and are unlikely to cool too much

Unlike thermal coal, coking trade market is dominated by four nations - 1) Russia (32 mt), 2) Australia (165mt), 3) Indonesia (25mt), and 4) USA (41mt) in 2021. Russia is banned from the market and Australia cannot ramp up production as it has done miniscule investment in mining (Please see our report). Consequently, while it will certainly fall from US\$700/t level, it can remain elevated for a long time. Thermal coal is also on the boil, but as Europe starts increasing its mining production it will cool off. Europe can increase its coal production by 200mt and thermal power plant capacity by 57GW in the short term (9-12 months). Please note EU has retired ~100GW of coal-fired plants after 2005, out of which 57GW of plants were retired after 2016. These 57GW of power plants can come online after refurbishment, which can reduce EU gas requirement by 125bn cubic metres.

Retain Reduce on Nalco and steel firms; Coal India is our top Add

At current spot prices of steel and coking coal, even Tata Steel cannot make positive EBITDA. Market assumes 1) steel prices will go up, and 2) coking coal will fall. While we agree with the latter, we don't see hard coking coal prices falling below US\$500/t. Also, it's a matter of time when Russia and China will ink yuan-rouble swap pact for commodities. What a turn of events it has been, now that China can become one of the lower-cost producers of steel and can get cheap gas as well. Remember, Russia has 115bcm liquification & China has 142bcm of regassification capacity. At fixed prices for gas, China can produce best quality sponge iron, be environment friendly and EU will carbonize!

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Figure 1: Dutch TTF prices have started to cool off



Don't bet against sovereign

European gas availability is a problem that can be resolved by coal

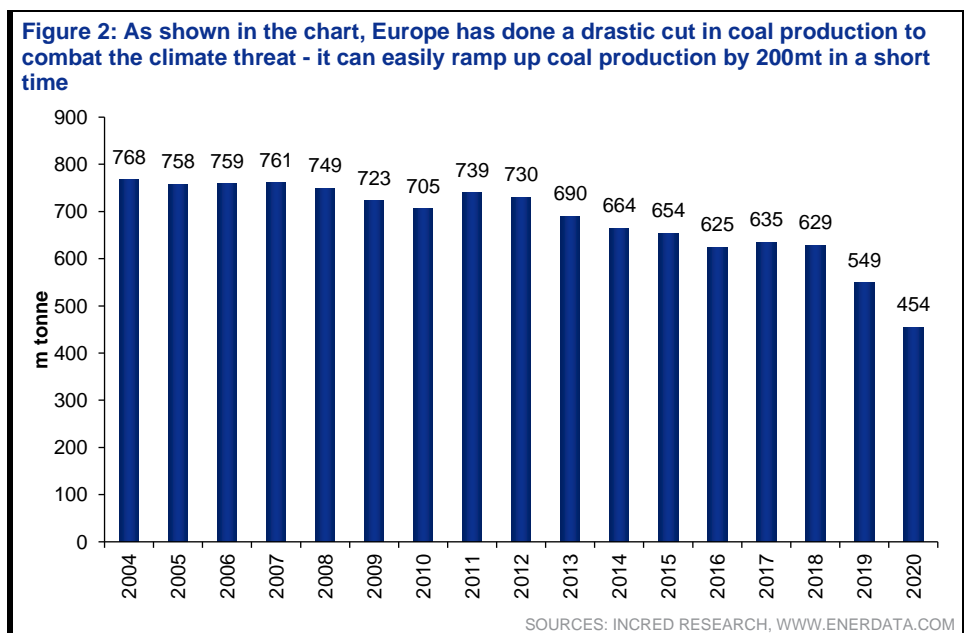
European gas availability is a big problem, but much of it can be resolved by coal usage. European climate change chief had indicated in this direction some time back. Europe used to produce around 800mt of thermal coal and can easily revert to the same over six-to-nine months' timeframe. Please remember gas and renewable solutions will take time and they cannot happen over a shorter time frame.

Europe is resorting to coal usage >

EU Green Deal chief made a recent statement ([Link here](#)). The summary of the statement is as follows: *"The EU's Green Deal chief said countries planning to burn coal as an alternative to Russian gas could do so in line with the EU's climate goals. "There are no taboos in this situation," Frans Timmermans told the BBC Radio 4 Today program on Thursday, 3rd Jan 2022. The EU, and many of its member countries, have strongly backed natural gas as a stepping stone as it seeks to cut the use of coal, the most polluting fossil fuel, and move toward renewables. Just a month ago, much to the chagrin of campaigners, the European Commission defined gas as a sustainable investment."*

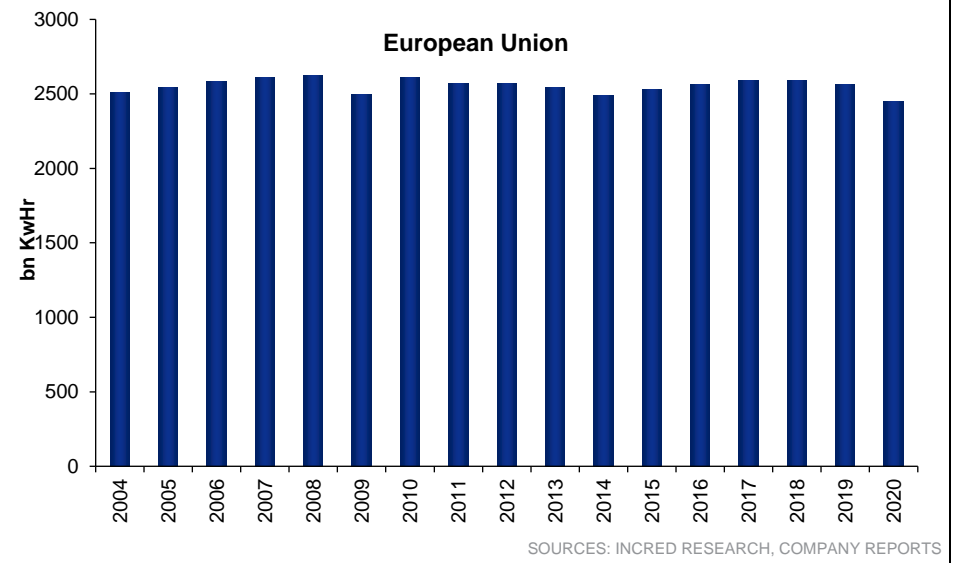
How much and how soon Europe can increase coal production? 200mt/annum increase over six-to-nine months >

Reducing coal production was a conscious decision taken by Europe as it was not running out of coal as such. Please see the chart below.



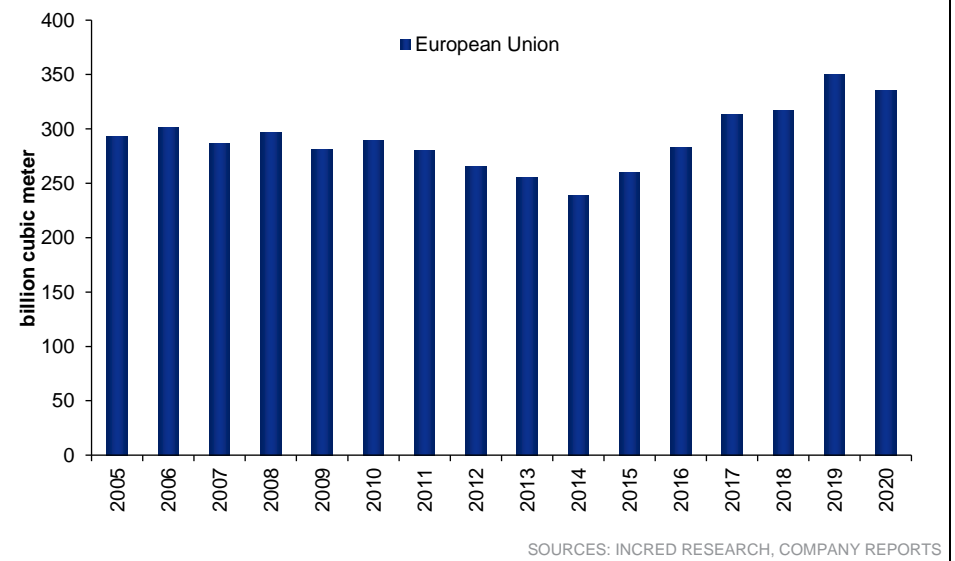
European power consumption is 2,500bn KwHr and is ~21% of total energy consumption ➤

Figure 3: EU power consumption is nearly 2,500bn KwHr



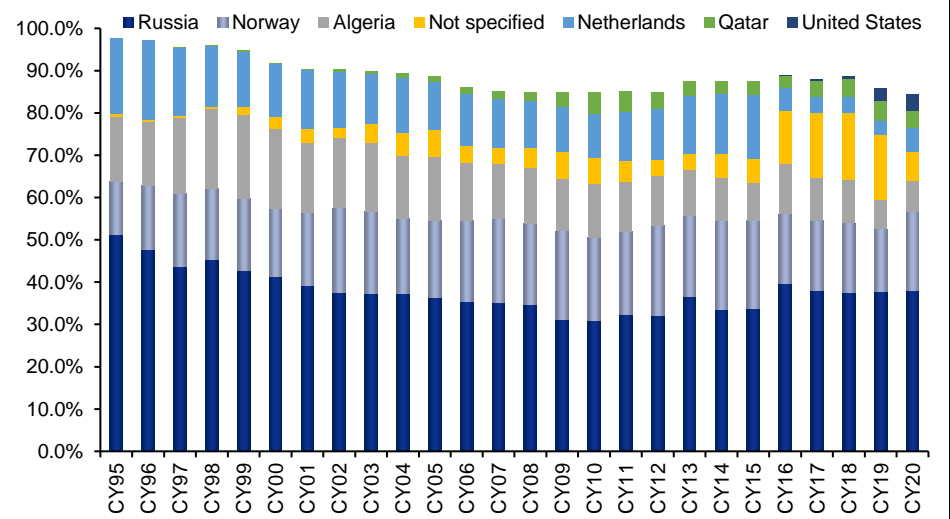
Gas is used for heating as well as power production in Europe. Europe is a net importer of gas ➤

Figure 4: EU net gas imports touched 335bn cubic metres in 2020; Russia exports almost 200bn cubic metres of gas to EU



Importance of Russia for meeting EU gas requirement has been increasing over time ➤

Figure 5: Russia met approximately 38% of EU's gas requirement in CY20



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Russia supplies gas through two major pipelines – Nord Stream 1 and Yamal Europe pipelines which pass through Ukraine ➤

Figure 6: Nord Stream pipeline has yet not come on stream, and Yamal Europe pipeline passes through Ukraine; Ukrainian section contributes 40bn cubic metres of gas

The most important gas pipelines in Europe



Source: European Network of Transmission System Operators for Gas

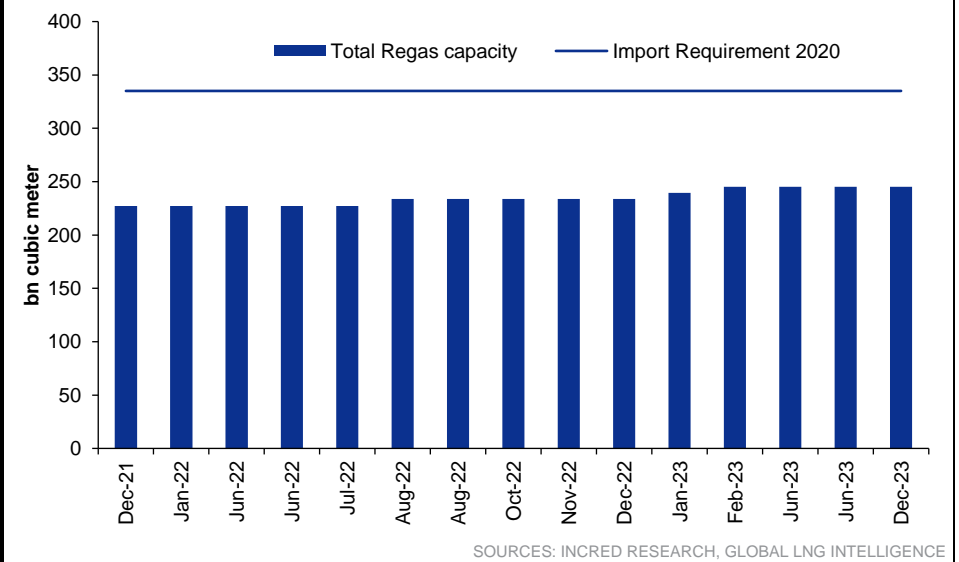


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Europe doesn't have sufficient regasification capacity to stop Russian gas inflow ➤

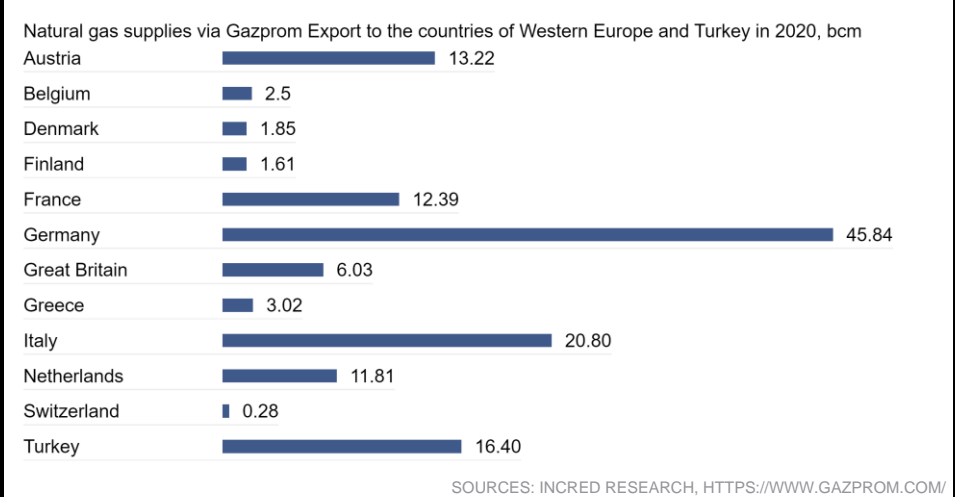
While global LNG market itself works on long-term contracts and most of the cargos are normally tied up well in advance. But let's assume that USA reneges all its long-term contracts and comes to the help of its long-term ally (which it will not for sure) then also Europe doesn't have enough regasification capacity. Cross-Atlantic pipeline is a possibility but can take years.

Figure 7: Total regasification capacity in EU is well short of the import requirement, which rules out avoidance of Russian gas



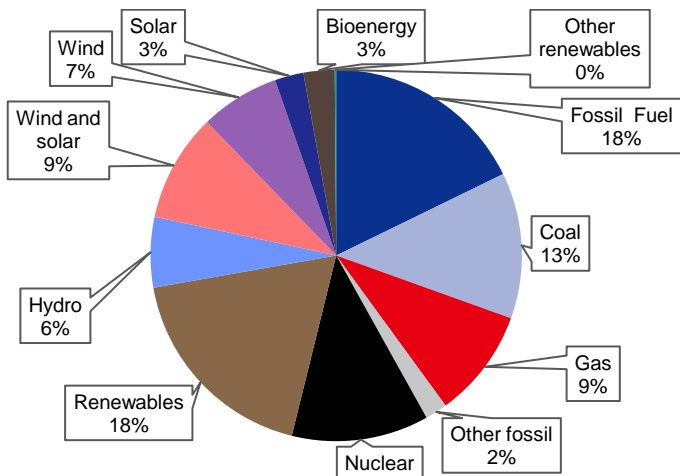
Within Europe, some countries are much more dependent on gas imports from Russia ➤

Figure 8: In Europe, Germany and Austria are biggest importers of gas from Russia



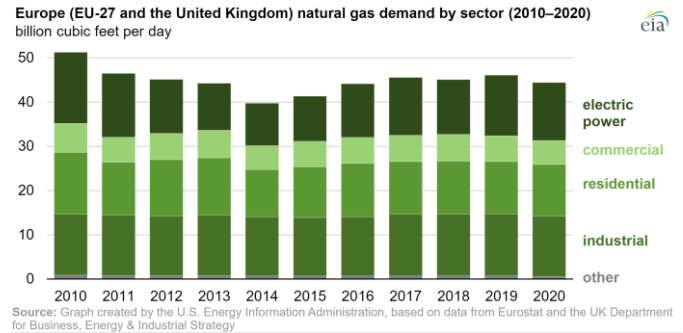
In Europe, gas is used for 9% of power generation and the rest for meeting heating requirements ➤

Figure 9: 9% of European power requirement is fulfilled by gas



SOURCES: INCRED RESEARCH, GLOBAL LNG

Figure 10: However, for EU, natural gas is critical for meeting domestic heating requirements



SOURCES: [HTTPS://WWW.EIA.GOV/TODAYINENERGY/DETAIL.PHP?ID=51258](https://www.eia.gov/todayinenergy/detail.php?id=51258) COMPANY REPORTS

200mt extra coal mining replaces 25% or 125bcm natural gas requirement of EU+UK ➤

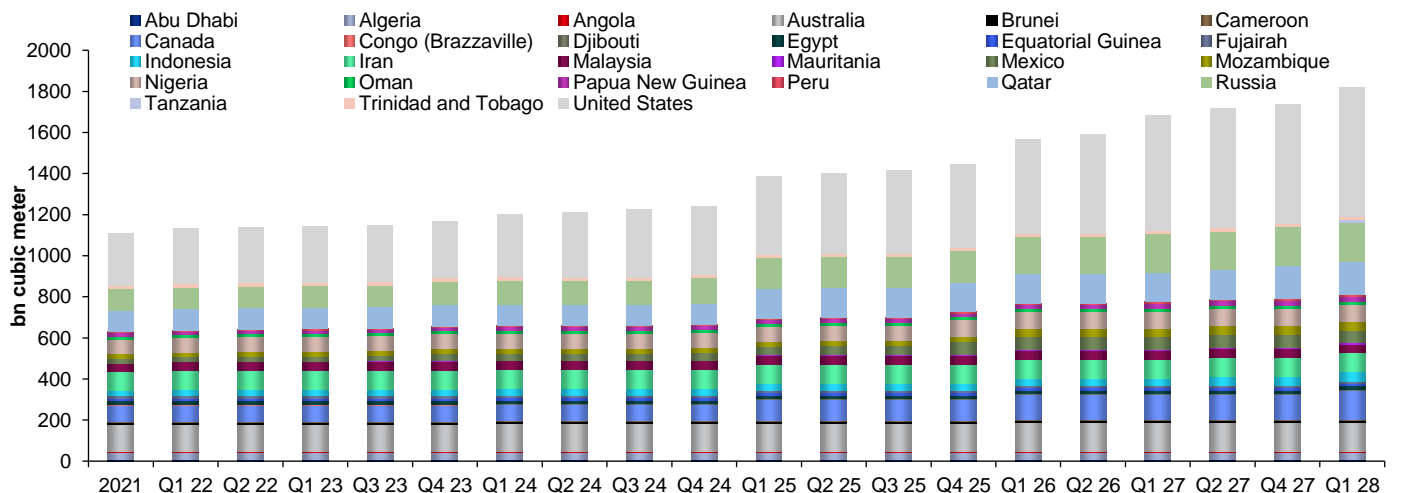
200mt coal can produce 400bn units of power or can fire ~51GW of thermal plants at 90% availability. The question is whether Europe has mothballed 51GW of coal-fired plants? The answer is yes. EU+ UK has approximately 121GW of operational coal plants and around 57GW of plants have been retired since 2016. These recently retired plants can easily replace 9% of gas power plants. Usage of coal will be polluting but will reduce gas dependency by ~125bn cubic metres.

Whether all of Europe's re-gas capacity has been utilized as of now? The answer is No ➤

Europe has around 227BCM re-gas facility whereas total imports of LNG in 2020 stood at 78 BCM. Hence, capacity utilisation of re-gas capacity was ~35%

But whether there is enough spare liquification capacity in the world? Yes, it's higher than LNG trade ➤

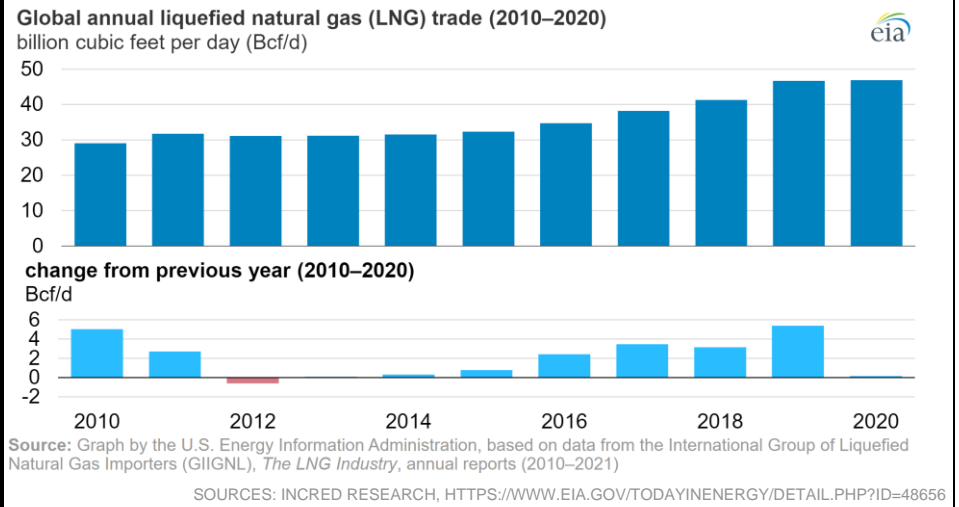
Figure 11: Global LNG liquification capacity currently is only 838bn cubic metres



SOURCES: INCRED RESEARCH, COMPANY REPORTS

However, against this liquification, global LNG trade is already high

Figure 12: Global LNG trade is nearing 500bn cubic metres per annum and so there is a possibility of increasing LNG trade, but it will take time



So while gas prices have to fall in the medium to long term, near-term subsidy may be needed for Europe ➤

All the demand-supply dynamics indicate that gas prices must fall in the medium to long term. However, in the near term, the problem is how to ride the pain, and subsidy is the only way out. Europe is coming with a bond sales programme to ride over war and energy crisis. It's a matter of speculation as to what purpose the bond proceeds will be used for and in what form EU central banks will expand their balance sheets. However, one thing is certain - they must subsidize energy prices or else Europe will go into a deep recession.

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	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)

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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.