12 November 2024
2QFY25 Results Update | Sector: Oil & Gas

ONGC

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	ONGC IN
Equity Shares (m)	12580
M.Cap.(INRb)/(USDb)	3223.1 / 38.2
52-Week Range (INR)	345 / 188
1, 6, 12 Rel. Per (%)	-8/-13/8
12M Avg Val (INR M)	5666

Financials & Valuations (consol) (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	6,018	5,865	5,976
EBITDA	1,000	1,136	1,136
Adj. PAT	513	588	620
Adj. EPS (INR)	41	47	49
EPS Gr. (%)	(12)	15	6
BV/Sh.(INR)	290	322	356
Ratios			
Net D:E	0.1	0.0	(0.1)
RoE (%)	14.5	15.0	14.2
RoCE (%)	12.5	13.9	13.9
Payout (%)	30.4	30.5	29.3
Valuations			
P/E (x)	6.3	5.5	5.2
P/BV (x)	0.9	0.8	0.7
EV/EBITDA (x)	3.8	2.9	2.5
Div. Yield (%)	4.7	5.4	5.5
FCF Yield (%)	17.5	22.4	23.4

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	58.9	58.9	58.9
DII	29.3	29.1	29.9
FII	8.1	8.6	8.4
Others	3.7	3.5	2.8

FII Includes depository receipts

CMP: INR256 TP: IN330 (+29%) Buy

Volume growth key catalyst in FY26

- ONGC's reported EBITDA stood at INR182b (flat YoY) in 2QFY25, in line with our estimate. PAT was 30% above our estimate, mainly aided by higher other income. In the conference call, the management highlighted that gas from new wells from nominated blocks will be priced at 12% slope to the Indian crude basket price. The management also expressed confidence that ONGC Petro-Additions Limited (OPaL) will see a turnaround in FY26 amid lower interest costs and lower-priced feedstock gas. While gas from KG 98/2 asset is set to ramp up by FY25 end, the management has reduced overall production volume guidance (standalone + JV) for FY26/FY27 to 44.9/46.2mmtoe (from 46.5/49mmtoe for FY26/FY27).
- As a result, we trim our volume assumptions in line with the updated guidance and update our model for lower profitability at key subsidiaries HPCL/MRPL, for which we cut our earnings estimates significantly (given weak refining margins and LPG related losses). Accordingly, we reduce our adjusted PAT estimates for FY25/FY26/FY27 by 9%/11%/11%.
- ONGC management expects total production volume (incl. JV) to rise by 11% over FY24-FY27 to 46.2mmtoe, mainly driven by KG-98/2 and Daman upside development. Gas production from the KG-98/2 asset, which will begin in 4QFY25, is expected to ramp up to 10mmscmd by FY25 end-1QFY26, while oil production is expected to ramp up to 45,000bopd by 4QFY25. ONGC expects capex to average INR360b from FY26.
- Other key takeaways from the conference call:
  - Effective 8th Aug'24, ~4.7mmscmd gas shall be sold at 12% of price of the Indian crude basket.
  - Current production from KG 98/2: oil – 25kb/d from 8 active wells; Gas – ~2.5mmscmd.
  - Additional 5mmscmd/4mmscmd gas shall be produced from Daman upside/DSF-II from 2HFY27.
- We value the standalone business at 8x Dec'26E adj. EPS of INR30 and add the value of investments to arrive at a TP of INR330, implying 29% potential upside. **We reiterate our BUY rating on the stock.**

EBITDA in line; PAT boosted by other income

- ONGC's reported 2QFY25 EBITDA (INR 182bn) was in line with our est. of INR184b. Crude oil/gas sales came in -1%/+2% vs. our estimate. ONGC reported that as of Oct'24, oil production from KG DWN-98/2 field has risen to ~25kb/d (1QFY25: 12kb/d), which should boost investor confidence in the company's ability to implement volume growth initiatives. ONGC's stock price has corrected ~25% in the past three months on concerns that crude oil prices may average lower than USD75/bbl in CY25.
- In 2QFY25, crude oil/gas sales came in line with our est. at 4.6mmt/3.9bcm. VAP sales stood at 608tmt (est. 836tmt).
- Reported oil realization was in line with our est. at USD78.3/bbl (-18% YoY).