

## ONGC and OIL India: Thematic Report

Recommendation: Buy

### Triggers

- Saudi Aramco IPO is likely to unfold value in most oil & Gas stocks globally.
- Most of the Oil Exploration companies are trading at steep discount to historical valuations for the obvious reasons of focus on EV and decline in crude oil prices. We believe the EV reality may take years to materialize. Both ONGC and Oil India are trading at steep discount to long term average price to earnings as shown in the table below.
- Both ONGC and Oil India is trading at a steep discount to long term price to book as shown in the table below.
- ROE of both ONGC and Oil India are at 14.4% and 11.2% respectively which makes it unreasonably low valuation for both the stocks, considering a moderate Return on Equity.
- Most interesting point is that Global Peers average PE based on current earnings is around 14, which makes the Indian counterparts unreasonably inexpensive. One reason for the steep discount to valuations is that both the Indian oil major is Public Sector Undertakings. The recent privatization drive of the Government may re-rate the Indian PSUs marginally.
- In the Indian market, valuations are highly polarized and we believe some convergence of valuations is likely to happen from high PE stocks to Low PE stocks, in which case both ONGC and Oil India may see buying.

### Key Data

PARTICULARS	ONGC	OIL INDIA
<b>PRICE DETAILS:</b>		
CMP (4th Nov)	147.4	170.25
Entry Level	CMP up to 140	CMP up to 160
Target Price	178	203
Period	3-6 months	3-6 months
Upside Potential	21%	20%
<b>VALUATION DETAILS:</b>		
Current TTM PE	5.74	5.64
10 yrs. Avg. PE	11.5	11.95
10 yrs. Avg P/B	1.51	1.19
Current P/B	0.84	0.63
Current ROE	14.40%	11.20%
<b>GLOBAL DETAILS:</b>		
Global Pears Average PE	13.73	14.44

Source: Bloomberg

### Outlook & Valuation

Indian Oil majors are trading at steep discount compared to global peers and also to its 10 years average PE and P/B. The steep discount is unreasonable. Saudi Aramco IPO is likely to unfold value in most Oil & Gas stocks globally.

For ONGC we are assigning a P/E of 7 to FY21E EPS of 25.48 to arrive at a **price target of INR178** & For Oil India we are assigning a P/E of 7 to FY21E EPS of 29.04 to arrive at a **price target of INR203** in the next 3-6 months.

### Risk

The result of this quarter for both of the companies may remain subdued YoY basis resulting some price correction. However, we expect the price correction is to be short lived and the desired price targets are likely to be achieved within 6 months time frame.

Brief Financials

ONGC(Con)	FY17	FY18	FY19	FY20E	FY21E
Revenue	323274.9	360643	451570.9	458250.3	495479.0
EBITDA	52958.3	57477.1	74797.9	76654.9	79791.1
EBITDA Margin	<b>16.4%</b>	<b>15.9%</b>	<b>16.6%</b>	<b>16.7%</b>	<b>16.1%</b>
PAT	24082.2	22350.4	28699.5	29324.3	30932.1
PAT Margin	<b>7.4%</b>	<b>6.2%</b>	<b>6.4%</b>	<b>6.4%</b>	<b>6.2%</b>
P/E	9.72	10.32	6.71	5.94	5.66
P/B	1.22	1.12	0.92	0.77	0.72

Oil India(Con)	FY17	FY18	FY19	FY20E	FY21E
Revenue	9232.4	10409.2	13405.4	12904.2	12825.7
EBITDA	3120.5	4040.6	5590.5	5136.1	4952.4
EBITDA Margin	<b>33.8%</b>	<b>38.8%</b>	<b>41.7%</b>	<b>39.8%</b>	<b>38.6%</b>
PAT	2421	2734.6	3972.6	3393.5	3300.6
PAT Margin	<b>26.2%</b>	<b>26.3%</b>	<b>29.6%</b>	<b>26.3%</b>	<b>25.7%</b>
P/E	16.76	9.05	6.48	5.62	5.8
P/B	0.91	0.56	0.69	0.61	0.58



ONGC 5 Yrs. Weekly Price Chart

Source: Bloomberg



Oil India 5 yrs. Weekly Price Chart

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