

BHARAT PETROLEUM CORP

OIL & GAS

16 FEB 2018

Quarterly Update

HOLD

Target Price: Rs 460

Marketing sales improve; maintain HOLD

PAT at Rs 21.4 bn was below our estimate of Rs 26 bn, as marketing business underperformed. GRM remained flat QoQ at USD 7.9/bl (our estimate: USD 7.3/bl), while core GRM fell USD 1.6/bl to USD 4.9/bl, vs. USD 0.8/bl decline in benchmark Singapore complex GRM. Clean marketing margin fell 19% to Rs 3,661/tn on non-inclusion of petroleum products in GST and cut in excise duty.

Change estimates: We have tweaked our FY18-20 estimates to reflect FY18TD performance, marginally higher GRM (Kochi expansion has stabilized), higher marketing volumes (8% QoQ increase in Q3) and lower marketing margin (in rising crude price scenario). TP rose to Rs 460 (Rs 450 earlier), as we roll over SOTP valuation to FY20E. Maintain **HOLD**. At CMP, BPCL trades adequately at 11x FY20E EPS.

CMP : Rs 475
Potential Upside : -3%

MARKET DATA

No. of Shares : 2,169 mn
Free Float : 46%
Market Cap : Rs 1,030 bn
52-week High / Low : Rs 550 / Rs 400
Avg. Daily vol. (6mth) : 4.0 mn shares
Bloomberg Code : BPCL IB Equity
Promoters Holding : 54%
FII / DII : 22% / 9%

Operational highlights from the quarter

- ♦ **GRM** at USD 7.9/bl was above our estimate of USD 7.3/bl, as BPCL reported higher inventory gains of Rs 10 bn (vs. our estimate of Rs 6.5 bn and Rs 5 bn in Q2) supported by ~19% QoQ rise in crude price and gains spill over from Q2. **Core GRM** for 9MFY18 was USD 6.1/bl; USD 0.3/bl below Singapore Complex GRM over same period. Throughput increased 4% QoQ to 7.3 mnte, as Kochi Refinery expansion gets stabilized
- ♦ **Petroleum products'** sale was up 8% QoQ supported by 13/9% increase in diesel/other product sales, while petrol sales remained flat. Clean marketing margin (excl. inventory gains of Rs. 5.6 bn) fell 19% QoQ to Rs 3,661/tn, as BPCL was impacted by non-inclusion of petroleum products in GST and cut in excise duty, similar to other OMCs. Going forward, we expect BPCL's marketing volumes to get boost from expansion of Kochi Refinery as well
- ♦ **Distillate yield** fell to 82.8% (vs. 85.3% in Q2). **Debt position** improved to Rs 158 bn (-13% QoQ, -2.5% YoY)

Financial summary (Standalone)

Y/E March	FY17	FY18E	FY19E	FY20E
Sales (Rs bn)	2,022	2,292	2,633	2,846
Adj PAT (Rs bn)	80	70	91	95
Con. EPS* (Rs)	-	37.9	43.4	45.1
EPS (Rs)	37.1	32.3	42.1	43.7
Change YOY (%)	13.9	(12.9)	30.5	3.7
P/E (x)	12.8	14.7	11.3	10.9
RoE (%)	28.4	23.3	28.1	26.8
RoCE (%)	23.7	19.7	22.5	21.7
EV/EBITDA (x)	10.9	11.2	9.2	8.2
DPS (Rs)	21.7	19.4	25.3	26.2

Source: *Consensus broker estimates, Company, Axis Capital

Prices as on Feb 9, 2018

Key drivers

	FY17	FY18E	FY19E	FY20E
Throughput (mnte)	25.4	28.0	30.3	32.4
GRMs (USD/bl)	5.3	6.7	6.6	6.6
Mktg volume (mnte)	40.2	43.4	45.5	47.8
Mktg mgn (Rs/te)	4,151	4,171	4,832	5,213

Price performance



Exhibit 1: Quarterly highlights

(Rs mn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Profit & Losses					
Total Income	535,427	570,365	571,322	533,252	606,164
Raw material costs	463,946	504,765	517,643	456,201	530,337
Gross profit	71,481	65,599	53,679	77,051	75,826
Employee Expenses	6,819	9,568	8,087	8,887	7,766
Other Expenses (excl FX gains)	31,498	29,109	33,278	32,888	36,178
Operating expenses	38,316	38,677	41,365	41,775	43,944
EBITDA	33,165	26,923	12,315	35,276	31,882
Depreciation	4,836	5,238	5,892	6,406	6,774
EBIT	28,329	21,684	6,423	28,870	25,108
Other Income	5,511	6,624	6,502	8,004	7,274
Extraordinary income	-	(4,800)	-	-	-
Interest	1,349	1,475	1,789	2,348	2,002
PBT	32,491	22,033	11,136	34,526	30,380
Total tax	9,771	3,616	3,690	10,952	8,943
PAT	22,719	18,417	7,446	23,574	21,437
Extra-ordinary Items	-	(3,168)	-	-	-
PAT (Adjusted)	22,719	21,585	7,446	23,574	21,437

Segmental Analysis
Refining segment

Crude throughput (mnte)	6.8	6.0	6.4	7.0	7.3
GRM, reported (US\$ /bl)	5.9	6.0	4.9	8.0	7.9
Refining gross profit (Rs mn)	19,763	17,759	14,795	26,279	27,226

Marketing segment

Petroleum product sale (mnte)	10.510	10.070	10.530	10.370	11.230
Marketing margins (incl IG) - Rs/tn	4,746	4,568	3,518	4,719	4,164
Marketing margins (clean) - Rs/tn	4,113	4,169	4,213	4,540	3,661

Source: Company, Axis Capital

Exhibit 2: SoTP

	Valuation base		Multiple (x)		Enterprise Value	
	Matrix	Value	Multiple	Value (x)	(Rs bn)	(Rs/sh)
Business segments						
Refining business	EBITDA (Rs mn)	77,125	EV/EBITDA	5.0	386	178
Marketing business	EBITDA (Rs mn)	69,811	EV/EBITDA	6.0	419	193
Pipeline business	EBITDA (Rs mn)	6,142	EV/EBITDA	7.0	43	20
Total (a)				5.5	847	391
Investments						
E&P exposure (BPRL)	Recent deal value	183,380	Val discount	25%	138	63
Numaligardh Ref.	EBITDA (Rs mn)	19,511	EV/EBITDA	5.0	90	42
Bina Refinery	Investment (Rs mn)	24,743	P/BV	1.8	43	20
OIL stake	NoSH (mn)	18	20% disc to CMP	284	5	2
Indraprastha Gas	NoSH (mn)	158	20% disc to CMP	232	37	17
Petronet LNG	NoSH (mn)	188	20% disc to CMP	197	37	17
Other investments	Investment (Rs mn)	23,086	P/BV	1.0	23	11
Total (b)					373	172
Total Enterprise Value (a+b)					1,220	562
Less: Net debt					225	104
Total Equity Value					995	459

Source: Company, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	2,022	2,292	2,633	2,846
Other operating income	-	-	-	-
Total operating income	2,022	2,292	2,633	2,846
Cost of goods sold	(1,764)	(2,019)	(2,308)	(2,485)
Gross profit	259	273	325	361
<i>Gross margin (%)</i>	<i>12.8</i>	<i>11.9</i>	<i>12.3</i>	<i>12.7</i>
Total operating expenses	(150)	(167)	(194)	(208)
EBITDA	108	106	131	153
<i>EBITDA margin (%)</i>	<i>5.4</i>	<i>4.6</i>	<i>5.0</i>	<i>5.4</i>
Depreciation	(19)	(26)	(25)	(28)
EBIT	89	80	106	125
Net interest	(5)	(8)	(7)	(8)
Other income	26	30	32	18
Profit before tax	110	102	131	135
Total taxation	(30)	(32)	(39)	(41)
<i>Tax rate (%)</i>	<i>27.2</i>	<i>31.3</i>	<i>30.0</i>	<i>30.0</i>
Profit after tax	80	70	91	95
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	80	70	91	95
<i>Adj. PAT margin (%)</i>	<i>4.0</i>	<i>3.1</i>	<i>3.5</i>	<i>3.3</i>
Net non-recurring items	-	-	-	-
Reported net profit	80	70	91	95

Balance sheet (Rs bn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	13	13	13	13
Reserves & surplus	278	298	326	354
Net worth	291	312	339	367
Borrowing	211	236	266	276
Other non-current liabilities	35	35	35	35
Total liabilities	536	760	639	678
Gross fixed assets	587	662	752	812
Less: Depreciation	(253)	(279)	(304)	(331)
Net fixed assets	334	383	448	481
Add: Capital WIP	112	112	112	112
Total fixed assets	446	495	560	593
Total Investment	140	140	140	140
Inventory	198	224	258	279
Debtors	48	54	62	67
Cash & bank	1	23	36	(4)
Loans & advances	39	44	50	54
Current liabilities	377	430	488	463
Net current assets	(50)	(53)	(61)	(55)
Other non-current assets	-	-	-	-
Total assets	536	760	639	678

Source: Company, Axis Capital

Cash flow (Rs bn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	110	102	131	135
Depreciation & Amortisation	19	26	25	28
<i>Chg in working capital</i>	<i>(37)</i>	<i>26</i>	<i>20</i>	<i>(46)</i>
Cash flow from operations	71	122	137	77
<i>Capital expenditure</i>	<i>(90)</i>	<i>(75)</i>	<i>(90)</i>	<i>(60)</i>
Cash flow from investing	(118)	(75)	(90)	(60)
<i>Equity raised/ (repaid)</i>	<i>7</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>75</i>	<i>25</i>	<i>30</i>	<i>10</i>
<i>Dividend paid</i>	<i>(55)</i>	<i>(49)</i>	<i>(64)</i>	<i>(67)</i>
Cash flow from financing	26	(24)	(34)	(57)
Net chg in cash	(21)	22	13	(40)

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	37.1	32.3	42.1	43.7
CEPS (Rs)	45.8	44.2	53.6	56.4
DPS (Rs)	21.7	19.4	25.3	26.2
Dividend payout ratio (%)	58.5	60.0	60.0	60.0
GROWTH				
Net sales (%)	7.3	13.4	14.8	8.1
EBITDA (%)	(1.8)	(2.0)	23.6	16.7
Adj net profit (%)	13.9	(12.9)	30.5	3.7
FDEPS (%)	13.9	(12.9)	30.5	3.7
PERFORMANCE				
RoE (%)	28.4	23.3	28.1	26.8
RoCE (%)	23.7	19.7	22.5	21.7
EFFICIENCY				
Asset turnover (x)	5.0	5.0	5.4	5.1
Sales/ total assets (x)	2.4	2.4	2.5	2.5
Working capital/ sales (x)	-	-	-	-
Receivable days	8.6	8.6	8.6	8.6
Inventory days	37.8	37.5	37.6	37.8
Payable days	21.7	21.7	21.7	21.7
FINANCIAL STABILITY				
Total debt/ equity (x)	0.7	0.8	0.8	0.8
Net debt/ equity (x)	0.5	0.5	0.5	0.6
Current ratio (x)	0.9	0.9	0.9	0.9
Interest cover (x)	18.0	9.9	14.8	16.2
VALUATION				
PE (x)	12.8	14.7	11.3	10.9
EV/ EBITDA (x)	10.9	11.2	9.2	8.2
EV/ Net sales (x)	0.6	0.5	0.5	0.4
PB (x)	3.5	3.3	3.0	2.8
Dividend yield (%)	4.6	4.1	5.3	5.5
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

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