

OIL & GAS

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Low spot prices make natural gas lucrative

Highest ever natural gas consumption in June: Natural gas consumption in June increased to 171.2mmscmd (+6% YoY, +9% MoM). Barring CGD (16.9mmscmd, -36% YoY) and petrochemicals (6.8mmscmd, -26% YoY), offtake surged across sectors, viz. fertiliser (52.5mmscmd, +24% YoY), refineries (32.4mmscmd, +48% YoY) and others (27.3mmscmd, +50% YoY). The power sector clocked 18% MoM growth to 35.4mmscmd as electricity demand rose to pre-Covid levels driven by rising industrial and economic activity.

Ample power is available at affordable prices as spot LNG prices remain low – this will assist the economic revival and growth (we highlighted this trend in our recent [Midcap Model Portfolio](#) update).

Fertiliser and refinery offtake surge: Fertiliser plants, the largest consumers of natural gas, continue to report high offtake – in keeping with our expectations. High agriculture output coupled with low spot LNG prices (gas being 75-80% of cost) would continue to fuel gas demand. In June, refinery consumption surged as natural gas was preferred over fuel oil due to low prices.

Domestic gas production declines: Gas production slipped 12% YoY to 75mmscmd in June, with the biggest decline of 29% YoY to 9.2mmscmd seen from private players. ONGC and Oil India also reduced output to 58.7mmscmd (-12% YoY) and 7.1mmscmd (-3% YoY) respectively. Despite recent optimistic management commentary from both companies on gas production in the next couple of years, we do not estimate any increase in domestic output due to unfavourable economics at current low gas prices.

FIG 1 – GAS CONSUMPTION TREND

(mmscmd)	June'20	June'19	YoY (%)	May'20	MoM (%)	Q1FY21	Q1FY20	YoY (%)
Fertiliser	52.5	42.3	24.1	50.7	3.5	48.7	40.2	21.1
Power	35.4	44.3	(20.1)	30.1	17.6	30.2	36.7	(17.7)
CGD	16.9	26.4	(35.9)	18.7	(9.5)	16.1	25.8	(37.6)
Other industrials:	66.5	49.3	34.9	57.6	15.3	57.8	48.6	18.9
Refineries	32.4	21.9	48.0	27.7	16.9	28.1	20.8	35.3
Petrochemicals	6.8	9.2	(25.7)	12.0	(43.1)	8.6	9.7	(11.2)
Miscellaneous	27.3	18.2	49.8	18.0	51.8	21.1	18.1	16.3
Total	171.2	162.2	5.6	157.1	9.0	152.9	151.4	1.0

Source: PPAC, BOBCAPS Research

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KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
PLNG IN	248	305	BUY
IGL IN	389	420	SELL
GUJGA IN	304	335	ADD
GUJS IN	199	310	BUY
MAHGL IN	985	710	SELL
GAIL IN	96	150	BUY

Price & Target in Rupees

GAS CONSUMPTION

(mmscmd)	Jun'20	Jun'19	YoY (%)
Fertiliser			
Domestic	23.3	16.6	40.1
R-LNG	29.2	25.6	13.8
Total	52.5	42.3	24.1
Power			
Domestic	23.6	21.4	10.6
R-LNG	11.7	22.9	(48.8)
Total	35.4	44.3	(20.1)
CGD			
Domestic	10.8	15.4	(30.2)
R-LNG	6.1	10.9	(43.9)
Total	16.9	26.4	(35.9)
Other Industrials			
Domestic	28.4	14.9	90.4
R-LNG	38.0	34.3	10.8
Total	66.5	49.3	34.9
Total Consumption	171.2	162.2	5.6
Total R-LNG	85.1	93.8	(9.3)
Total Domestic	86.1	68.4	26.0

Source: PPAC, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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