

Pick of the week



BPCL

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 370

Target Price

₹ 440

Potential Upside

23.3%

Investment Argument

- BPCL's normalized results were well above KIE's estimates in 4QFY20 led by higher realized refining and marketing margins; reported results were marred by large inventory/forex loss.
- BPCL's normalized EBITDA, adjusted for adverse inventory/forex movement, was well above KIE's estimate at Rs.54.9 bn in Q4FY20, reflecting higher realized margins for refining and marketing segments.
- In FY20, normalized refining margins increased modestly to USD 4.2/bbl while marketing margins increased modestly by 2% yoy. Company's domestic volumes remained steady at 43.1 mn tons; exports increased modestly to 2.6 mn tons from 1.9 mn tons in FY10.
- In FY20, consolidated net income was higher at Rs36.6 bn (EPS of Rs15.6), including Rs15 bn of profits from NRL and higher contribution from IGL/PLNG, which was offset by net loss of Rs8 bn reported by BORL.
- Company management expects daily auto retail fuel price revision may restart soon, once low-cost inventory gets utilized with demand reverting to normalcy (~70% currently). Capex will likely be lower around Rs. 80 bn in FY21 and propylene derivatives petchem project at Kochi is mechanically complete, although commissioning is delayed.
- KIE expects standalone EPS of Rs25.7 (-24%) in FY21 and Rs33 (-7%) in FY22 factoring in lockdown-related impact on volumes & margins and other minor changes. KIE retains BUY on the stock with a SoTP-based fair value of Rs440.