

Pick of the week



Gujarat Gas Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 235

Target Price

₹ 269

Potential Upside

14.47%

Investment Argument

- As per Petroleum Planning & Analysis Cell, the government has reduced the domestic natural gas price by 26% to a record low of US\$2.39 per million British thermal units on gross calorific value and will be applicable for H1FY21.
- Also, due to the global gas demand-supply mismatch the natural gas price has corrected meaningfully which bodes well for gas demand revival. Additionally, the regulatory push for less polluting fuels more so in case of Gujarat will also support gas demand for GGCL.
- Notably, Natural gas prices (raw material) and margin have strong co-relationship. The fall in domestic gas prices augurs well for local end consumers and CGD sector like Gujarat Gas. This will help in demand revival and support margin improvement. CNG is a strong profitable segment given uninterrupted supply of cheap domestic gas.
- We remain optimistic and expect that the near-term pressure on gas volumes due to the lock-down to be temporary and volume growth to normalize. There are multiple drivers to support demand revival such as regulatory push to curb pollution, competitiveness of CNG versus petrol and the government's target to boost the share of gas in India's energy mix to ~15% by 2025 from 6%.
- Given strong thrust on less polluting fuels (post NGT order), we expect gas volume off-take to improve post removal of lock-down. We expect GGCL to report an EPS of Rs.13.03 in FY21E and Rs.15.8 in FY22E. We now recommend BUY on the stock. We maintain our positive view on GGCL with a PE multiple based price target of Rs.269/share. Additionally, strong free cash flow and healthy return ratios also provide high comfort.