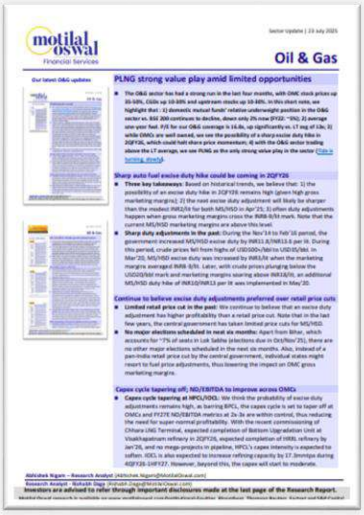
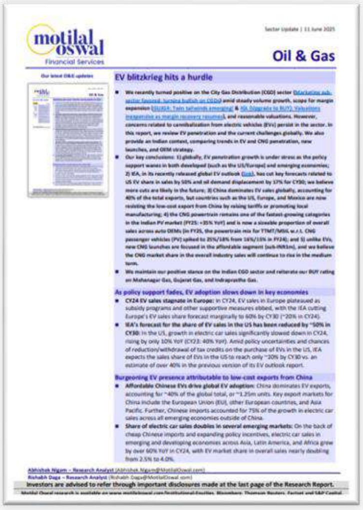
Oil & Gas

Our latest O&G updates



Oil & Gas

PLNG strong value play amid limited opportunities



Oil & Gas

EV blitzkrieg hits a hurdle

Beyond barrels: Seismic shifts in the O&G landscape!

In our previous note, we highlighted that valuations across the O&G sector were no longer inexpensive, with the sector trading at a one-year fwd. P/E of 16.8x (LT avg. of 13x). Since then, OMCs/CGDs/upstream stocks have corrected 5%-8%/2%-12%/5%-13%, and the sector now trades at 15.7x one-year fwd. P/E. In this brief update, we highlight that 1) China's oil demand is weakening, signaling a structural shift and pushing global oil demand growth below 1mb/d for the first time in the last decade outside of crisis years; 2) the International Energy Agency (IEA) projects strong supply growth of 2.7/2.1 mb/d in CY25/26, raising the risk of oversupply; 3) petchem, rather than gasoline or gasoil, is emerging as the main driver of oil demand; and 4) auto-fuel marketing margins are likely to remain strong, while CGDs could see an expansion in their EBITDA margins. A substantial weakening of the oil price outlook could extend the super-normal marketing margin cycle and simultaneously reduce input gas costs for CGD players. HPCL, MAHGL, and PLNG remain our preferred plays in the sector.

Structural shifts could keep oil demand lower for longer

- **Oil demand growth might fall ~30% short of the past decade's average in CY26-27:** Global oil markets are undergoing a structural shift as Chinese demand is losing momentum, a sharp contrast to the previous decade, when the country contributed 60% of the global increase in oil demand. With Chinese oil demand set to peak this decade amid EV adoption, LNG trucking, rail expansion, and economic rebalancing, IEA projects annual global demand growth of ~0.6-0.7 mb/d over CY25-CY27, below the ~1 mb/d average of the past decade.
- **Emerging economies to drive oil demand growth entirely:** IEA projects that incremental gains in oil demand will be entirely non-OECD-led, dominated by Asia Pacific contributing ~1mb/d over CY25-27, but still far behind China's earlier surge. Consumption in North America and Europe is set to decline ~0.5mb/d during CY25-27, led by structural weakness in gasoline and gasoil. This marks a decisive shift toward slower, emerging market–driven demand growth.

Amid slower demand, oil production set to reach record highs in CY25/26

- **IEA now estimates global oil supply to exceed demand by ~2/1.4 mb/d in CY25/26:** Global oil supply is set to increase by 2.7/2.1 mb/d in CY25/26, as non-OPEC+ supply growth remains strong, with the US, Brazil, Canada, Guyana, and Argentina producing at or near record highs. Non-OPEC+ output is projected to rise by 1.4/1 mb/d in CY25/26, broadly matched by OPEC+, which is expected to add 1.3/1 mb/d, respectively.
- **Upstream has remained our least preferred sector since Jun'24:** We recently downgraded ONGC and Oil India to Neutral as 1) possibilities of earnings cuts exist amid a weak crude price outlook, 2) benefits of increased new well gas proportion will be mostly offset by subdued gas realization amid a weaker crude oil price outlook, 3) the companies have struggled to increase production, and 4) rising exploration expenses resulting in higher well write-offs could dent earnings.

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- We reiterate that the risks of crude oil prices falling below the USD65/bbl mark are mounting as OPEC+ strategy shifts from “managing” oil prices to “protecting market share”. We note that while OPEC+’s surplus crude oil production capacity has declined over the past year from a 30-month high of 6.3mb/d in Sep’24, it still remains high at ~4 mb/d. While we assume a crude oil price of USD65/bbl for FY26/FY27, the risk to this assumption remains elevated on the downside. Every USD1/bbl decline in crude oil price results in a 2%-4% cut in our FY27 SA PAT estimates for ONGC and OINL.

Structural shifts in the global oil market

- **Oil demand is increasingly decoupling from GDP** as substitution in transport and power offsets economic growth. Per capita fuel use has been trending lower across the OECD and several non-OECD economies despite rising incomes, reflecting efficiency gains and a shift toward less oil-intensive sectors. According to the IEA, vehicle miles traveled per capita in the US in CY24 remained nearly 5% lower than pre-GFC levels, even though GDP per capita rose by about 25% in real terms.
- **Chinese oil demand wanes as EV penetration increases:** As per IEA, Chinese fuel demand growth is slowing sharply as EV penetration, LNG trucking, and rapid rail expansion displace oil, avoiding ~1.2 mb/d since 2019 with a further ~2.5 mb/d expected by CY30.
- **Remote work alters gasoline demand trajectory:** Behavioral changes post-pandemic, notably work-from-home in the US, have permanently displaced ~1.2 mb/d of road fuel demand. After peaking at 60% during the 2020 lockdowns (vs. <10% pre-Covid), WFH has stabilized in the US at ~25–30% of paid workdays since 2022. Record-high office vacancy rates of 13.9% (up from 9.3% in 2019) further underscore this structural shift. Further, Japan and Korea face structural declines from aging demographics and efficient transport systems.
- **Petchem emerging as a key oil demand driver:** The increasing use of oil products as feedstock for plastics and synthetic fibers has reinforced petrochemicals’ position as the primary driver of oil demand growth in CY24, contributing nearly three-quarters of net growth. The IEA expects this trend to persist throughout the rest of the decade and beyond, with the share of petrochemical feedstocks in total oil consumption projected to rise to 17.4% by CY30 from 15.8% in CY23.
- Feedstock demand is set to reach 18.4 mb/d in CY30, up 2.1 mb/d from CY24 levels – comprising 10.2 mb/d of naphtha (+1.1 mb/d) and 8.2 mb/d of LPG/ ethane (+990 kb/d). The surge in LPG and ethane processing, particularly in the United States, has been supported by abundant NGL supply.

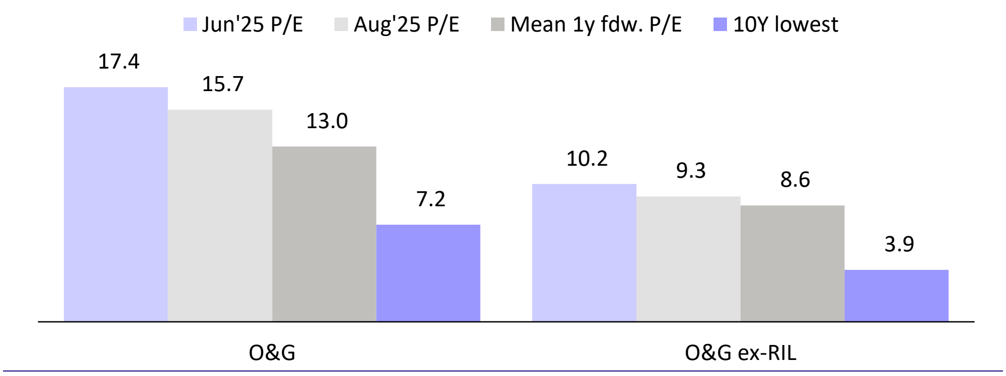
Era of margin expansion for OMCs and CGDs

- **OMCs:** A USD5/bbl decline in crude oil prices translates into a change of ~INR4/lit in marketing margins. While part of this benefit may be shared with the government (through excise duty hikes) or with consumers (via retail price cuts), MS/HSD marketing margins are likely to remain strong and well above the INR3.3/lit assumption, which we are building in.
- **CGDs:** As highlighted in our recent note (Twin emerging tailwinds for CGDs), we expect that a soft crude price outlook, coupled with a lower pricing slope for natural gas amid the upcoming LNG oversupply, will reduce gas costs. This should also ease concerns around the APM deallocation affecting margins.

Valuation and view

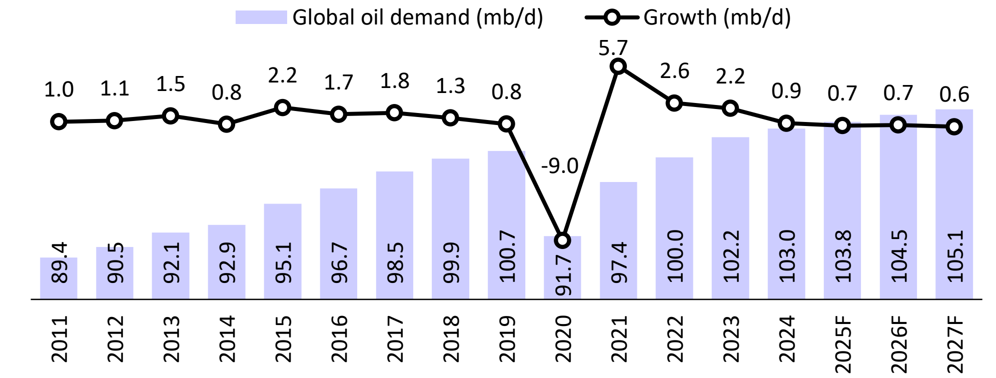
- **PLNG's valuations imply the stock is at a point of maximum pessimism:** PLNGtrades at ~9x FY27E EPS compared to its historical one-year forward P/E of 10.4x. Our DCF-based TP (WACC: 10.5%, TG = 2%) assumes a 10% tariff cut in FY28, followed by a 4% increase for both the terminals. While we have incorporated the full capex for the petchem plant, we value it conservatively at 0.5x FY29E P/B and discount this back to FY27E. In an extreme bear-case DCF scenario, we assume 0% terminal growth and no tariff hike after a 20% cut in FY28, implying a valuation of INR274/sh. At ~9x FY27E P/E and a ~4.3% dividend yield, we believe valuations are at the rock bottom. Reiterate BUY with a DCF-based TP of INR410.
- **MAHGL & HPCL:** We view HPCL and MAHGL as momentum plays and PLNG as a value play while we await better buying opportunities in the sector. **HPCL** remains our preferred pick among the three OMCs given its leverage towards marketing. We model a marketing margin of INR3.3/lit for both MS and HSD in FY26/27, while the current MS and HSD marketing margins are ~INR9.7/7 per lit. We view the following as key catalysts for the stock: 1) the de-merger and potential listing of the lubricant business, 2) the commissioning of its bottom upgrade unit in 2QFY26'end, and 3) the start of its Rajasthan refinery in FY26. **MAHGL:** We expect a 9% CAGR in volume over FY25-27, driven by multiple initiatives implemented by the company, such as collaborating with OEMs to drive conversions of commercial CNG vehicles and providing guaranteed price discounts to new I/C-PNG customers.

Exhibit 1: O&G sector's 1-year fwd. P/E valuation



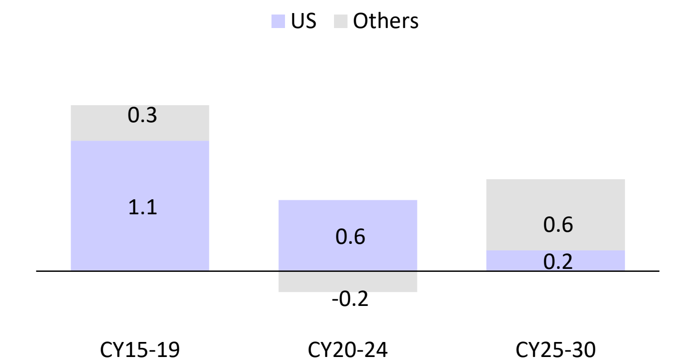
Source: Company, MOFSL

Exhibit 2: Oil demand growth might fall ~30% short of the past decade average in CY26-27



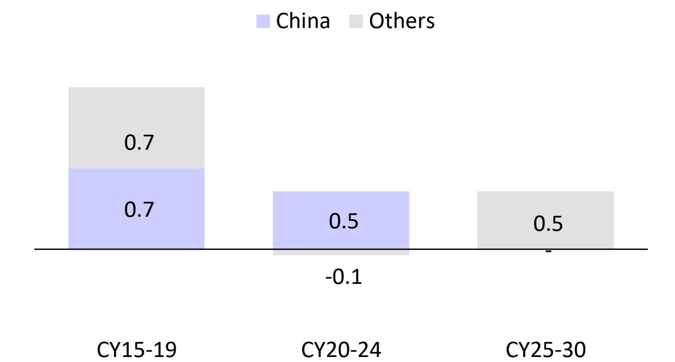
Source: IEA, MOFSL

Exhibit 3: US share in global oil supply growth falls (mb/d)



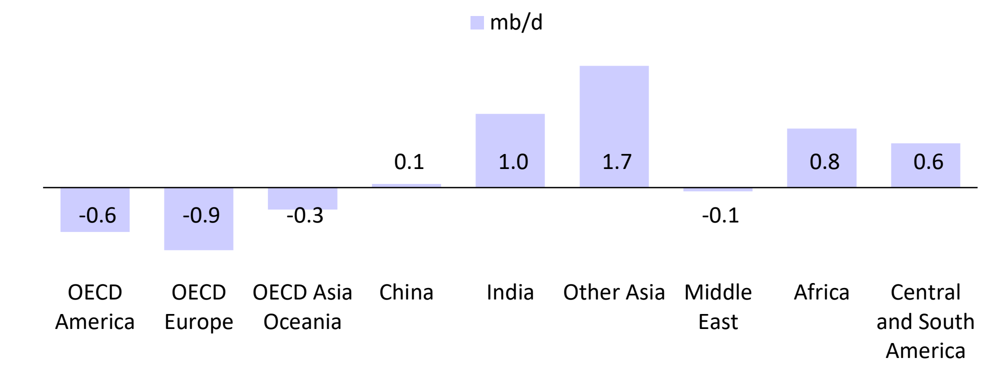
Source: IEA, MOFSL

Exhibit 4: Chinese oil demand growth wanes (mb/d)



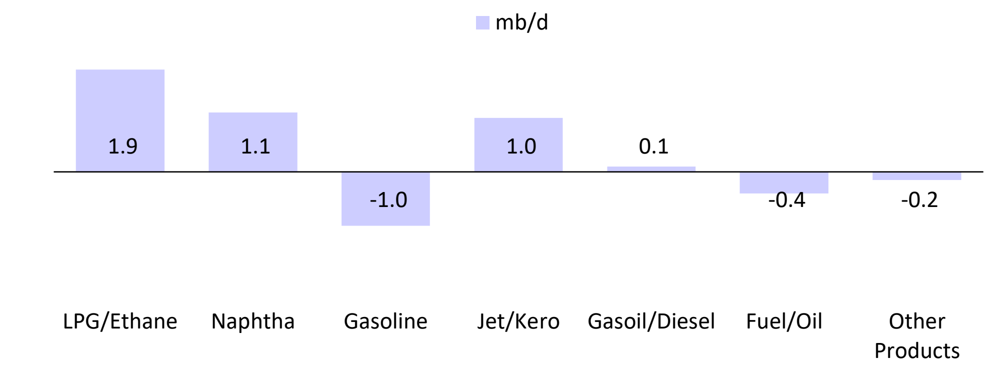
Source: IEA, MOFSL

Exhibit 5: Growth in world oil demand by selected counties and regions (CY24-30)



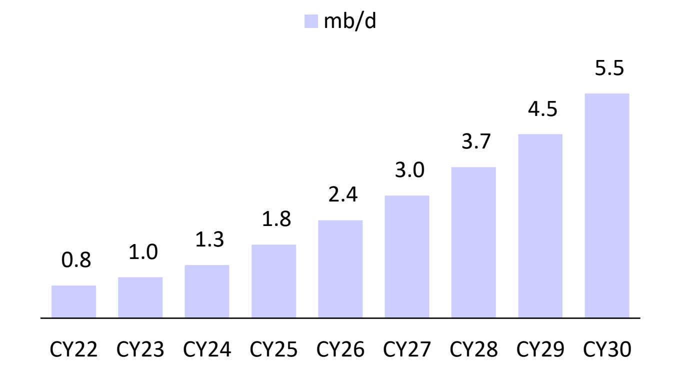
Source: IEA, MOFSL

Exhibit 6: Growth in world oil demand by product (CY24-30)



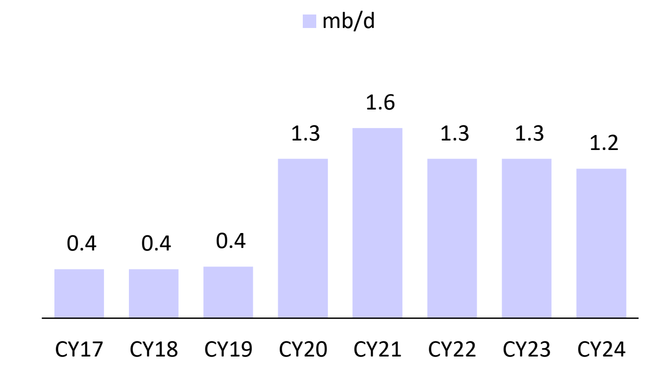
Source: IEA, MOFSL

Exhibit 7: Oil demand displaced by EVs



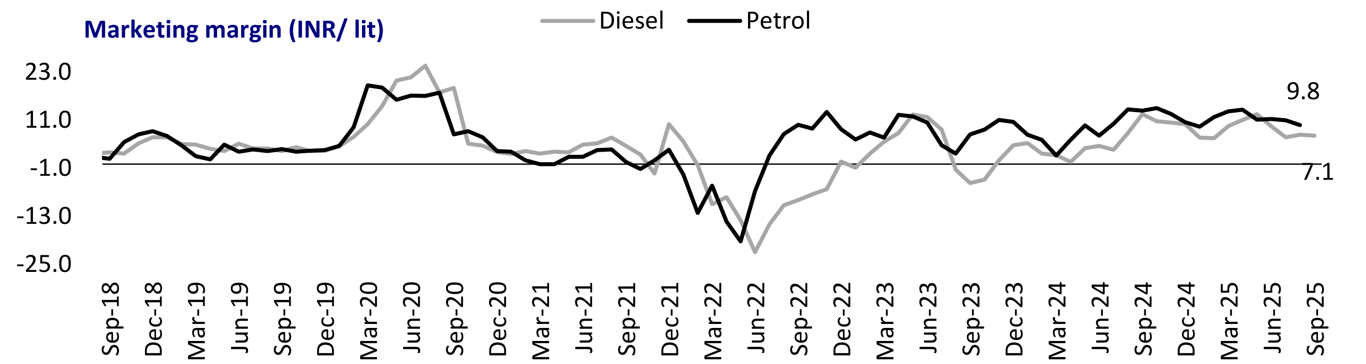
Source: IEA, MOFSL

Exhibit 8: Oil demand displaced by teleworking



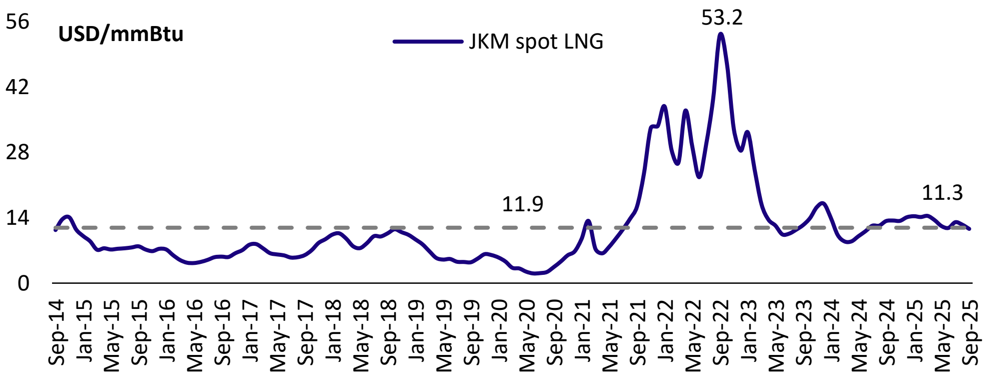
Source: IEA, MOFSL

Exhibit 9: MS/HS marketing margins remain strong



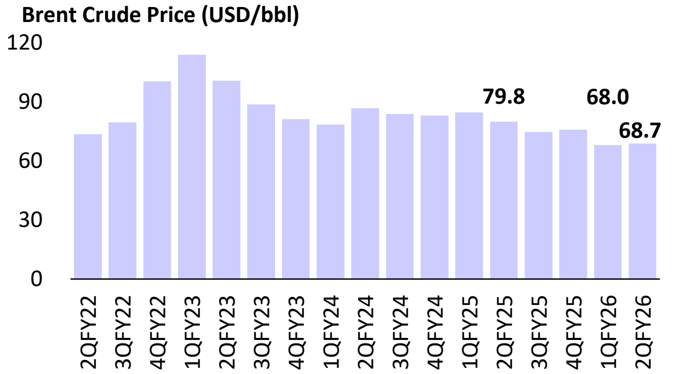
Source: Bloomberg, MOFSL

Exhibit 10: Spot LNG prices remain elevated



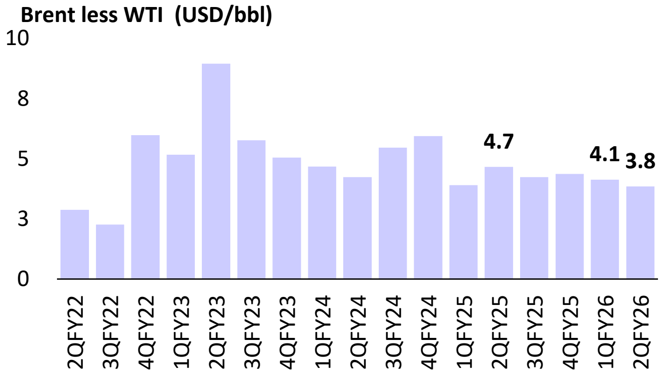
Source: Reuters, MOFSL

Exhibit 11: Brent crude price (USD/bbl)



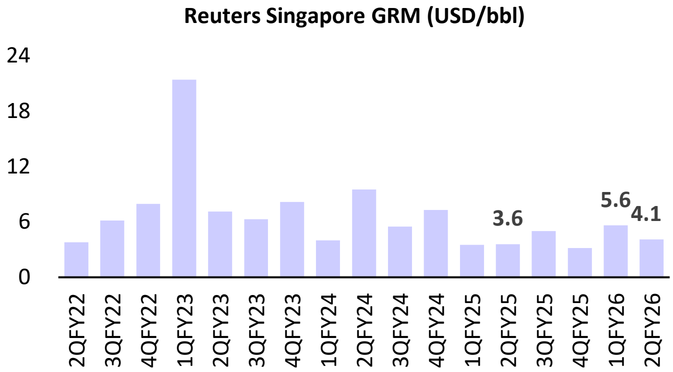
Source: Reuters, MOFSL

Exhibit 12: Brent less WTI (USD/bbl)



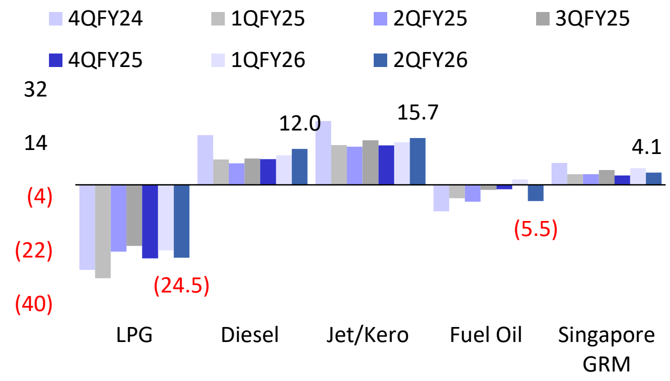
Source: Reuters, MOFSL

Exhibit 13: Singapore GRM (USD/bbl)



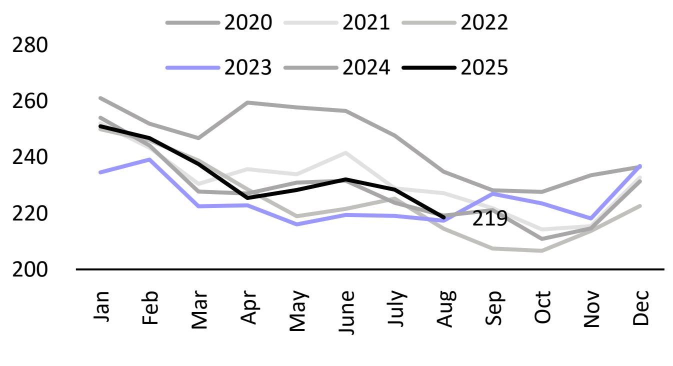
Source: Reuters, MOFSL

Exhibit 14: Various product cracks over Dubai crude (USD/bbl)



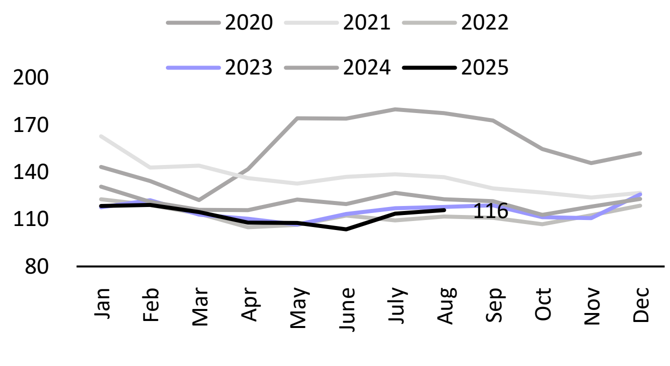
Source: Reuters, MOFSL

Exhibit 15: US gasoline inventory (mb)



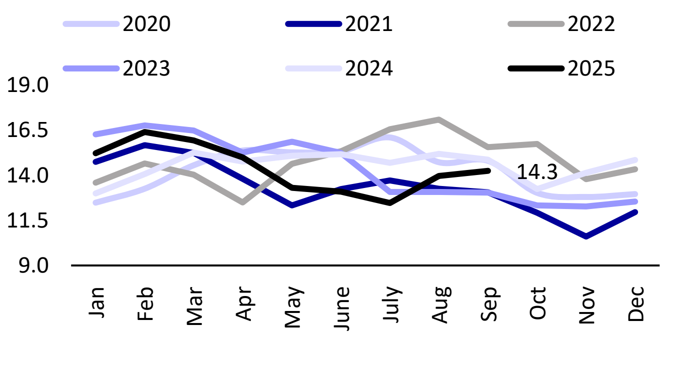
Source: Bloomberg, MOFSL

Exhibit 16: US gasoil inventory (mb)



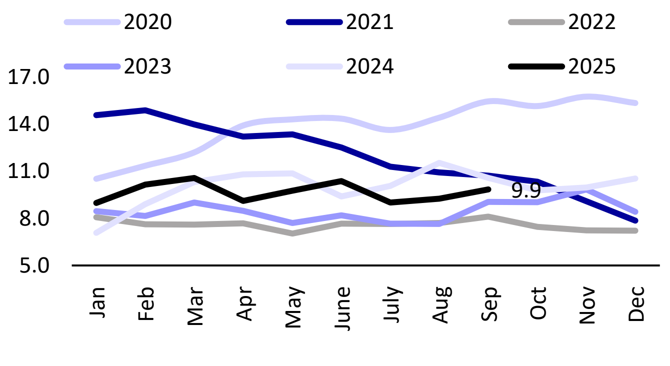
Source: Bloomberg, MOFSL

Exhibit 17: Singapore light distillate inventory (mb)



Source: Bloomberg, MOFSL

Exhibit 18: Singapore middle distillate inventory (mb)



Source: Bloomberg, MOFSL

Financials and valuations: PLNG (BUY | TP: INR410)

Key assumptions	FY25	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Volume sold (mmtpa)								
Dahej terminal	**17.3**	**17.3**	**18.3**	**18.9**	**19.5**	**20.1**	**20.6**	**21.2**
Terminal utilization	*99%*	*92%*	*81%*	*84%*	*87%*	*89%*	*92%*	*94%*
Kochi terminal	**1.2**	**1.3**	**1.3**	**1.4**	**1.7**	**1.9**	**2.1**	**2.4**
Terminal utilization	*23%*	*25%*	*25%*	*29%*	*34%*	*38%*	*43%*	*47%*
Total	**19.5**	**19.5**	**20.3**	**21.2**	**22.0**	**22.9**	**23.7**	**24.5**
Regas tariff (INR/mmbtu)								
Dahej terminal	63.7	66.9	70.2	63.2	65.7	68.3	71.1	73.9
YoY increase/(decrease)	*5%*	*5%*	*5%*	*-10%*	*4%*	*4%*	*4%*	*4%*
Kochi terminal	89.3	93.8	98.5	88.6	92.2	95.8	99.7	103.7
YoY increase/(decrease)	*5%*	*5%*	*5%*	*-10%*	*4%*	*4%*	*4%*	*4%*

Financial Snapshot (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Sales	384.0	354.5	260.2	431.7	599.0	527.3	509.8	495.2	521.7
EBITDA	32.9	39.9	47.0	52.5	48.6	52.1	55.2	56.7	67.0
Adj. PAT	21.6	27.6	29.5	33.5	32.4	35.4	39.3	39.1	46.4
Adj. EPS (INR)	14.4	18.4	19.7	22.3	21.6	23.6	26.2	26.1	30.9
EPS Gr. (%)	3.7	28.1	6.9	13.7	-3.4	9.1	11.0	-0.4	18.7
BV/Sh.(INR)	67.1	73.0	77.7	89.5	99.6	113.1	129.2	145.3	164.5
Ratios									
Net D:E	-0.3	-0.4	-0.4	-0.3	-0.4	-0.4	-0.5	-0.4	-0.3
RoE (%)	21.8	26.3	26.1	26.7	22.8	22.2	21.6	19.0	20.0
RoCE (%)	21.5	29.4	28.1	28.5	24.6	23.5	22.7	19.4	19.7
Payout (%)	74.9	73.8	58.5	51.5	46.3	42.4	38.2	38.2	38.2
Valuation									
P/E (x)	21.3	16.6	15.6	13.7	14.2	13.0	11.7	10.7	9.0
P/BV (x)	4.6	4.2	3.9	3.4	3.1	2.7	2.4	1.9	1.7
EV/EBITDA (x)	13.1	10.4	8.9	7.9	8.3	7.4	6.7	5.8	5.0
Div. Yield (%)	3.3	4.1	3.8	3.8	3.3	3.3	3.3	3.6	4.3

Financials and valuations: HPCL (BUY | TP: INR520)

Financial Snapshot									(INR b)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Sales	2,755	2,691	2,332	3,499	4,407	4,339	4,341	3,634	3,423
EBITDA	115	57	160	102	-72	249	166	222	203
Adj. PAT	67	36	107	73	-70	160	67	116	95
Adj. EPS (INR)	31	17	50	34	-33	75	32	55	45
EPS Gr. (%)	-7	-46	193	-32	PL	LP	-58	73	-18
BV/Sh.(INR)	143	146	179	195	152	220	240	288	331
Ratios									
Net D:E	0.8	1.3	1.1	1.1	2.1	1.3	1.3	1.0	0.8
RoE (%)	23.9	11.9	30.9	18.4	-19.0	40.4	13.7	20.7	14.5
RoCE (%)	12.9	12.0	14.9	8.3	-7.8	15.9	8.2	10.8	8.8
Payout (%)	43.0	76.0	30.3	27.2	0.0	27.9	33.2	30.6	28.2
Valuations									
P/E (x)	12.7	23.4	8.0	11.7	-12.2	5.3	12.6	7.3	8.9
P/BV (x)	2.8	2.7	2.2	2.1	2.6	1.8	1.7	1.4	1.2
EV/EBITDA (x)	9.6	22.0	8.0	12.7	-21.0	5.9	9.1	6.5	6.9
Div. Yield (%)	2.7	1.6	3.8	2.3	0.0	5.3	2.6	5.3	4.2
FCF Yield (%)	-3.2	-9.8	7.3	4.4	-15.0	16.3	5.6	17.3	12.8

Key Assumptions- HPCL

Particulars	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.8	84.6	86.0	86.2
Brent Crude (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.0	78.6	65.4	65.0
Market Sales (MMT)	38.7	39.6	36.6	39.1	43.5	46.8	49.8	51.8	53.9
YoY (%)	*5*	*2*	*(8)*	*7*	*11*	*8*	*6*	*4*	*4*
GRM (USD/bbl)	5.0	1.0	3.9	7.2	12.1	9.1	5.7	5.5	6.5
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	3.8	5.2	5.0
Prem/(disc) (USD/bbl)	*0*	*(2)*	*3*	*2*	*1*	*2*	*2*	*0.4*	*1.5*
Total Refinery throughput (MMT)	18.4	17.2	16.4	14.0	19.1	22.3	25.3	26.6	26.6
YoY (%)	*1%*	*-7%*	*-4%*	*-15%*	*37%*	*17%*	*13%*	*5%*	*0%*
Refining capacity utilization (%)	117%	109%	104%	88%	85%	91%	103%	109%	109%
Blended marketing margin incld inventory (INR/lit)	4.3	4.0	6.3	4.3	(0.8)	5.5	4.4	5.1	4.5
Consolidated EPS	**31.4**	**17.1**	**50.1**	**34.3**	**-32.8**	**75.2**	**31.6**	**54.7**	**44.8**

Financials and valuations: MAHGL (BUY | TP: INR1700)

Financial & Valuation Summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Sales	27.9	29.7	21.5	35.6	63.0	62.4	69.2	78.3	84.3
EBITDA	8.9	10.5	9.3	9.2	11.8	18.4	15.1	15.9	16.6
Adj. PAT	5.5	7.9	6.2	6.0	7.9	12.9	10.4	10.8	11.1
Adj. EPS (INR)	55.3	80.3	62.7	60.4	80.0	130.5	105.8	108.9	111.9
EPS Gr. (%)	14.3	45.2	-21.9	-3.6	32.3	63.2	-18.9	3.0	2.8
BV/Sh.(INR)	242.8	298.9	327.2	364.2	418.5	520.6	596.2	661.6	728.7
Ratios									
Net D:E	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0
RoE (%)	24.3	29.7	20.0	17.5	20.4	27.8	18.9	17.3	16.1
RoCE (%)	24.3	29.8	20.1	17.5	20.5	27.8	19.0	17.4	16.2
Payout (%)	43.5	52.4	36.7	38.1	32.5	40.0	28.4	40.0	40.0
Valuation									
P/E (x)	26.8	18.4	23.6	24.5	18.5	11.4	14.0	13.6	13.2
P/BV (x)	6.1	5.0	4.5	4.1	3.5	2.8	2.5	2.2	2.0
EV/EBITDA (x)	16.2	13.7	15.1	15.4	12.2	7.7	9.5	9.0	8.6
Div. Yield (%)	1.3	2.4	1.6	1.6	1.8	3.5	2.0	2.9	3.0
FCF Yield (%)	2.5	4.4	3.6	2.0	2.0	6.2	2.3	2.1	1.8

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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