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PLANTATION DRIVE– GAIL

GAIL participated in a mega plantation drive carried out by Central Public Sector Enterprises across the country. GAIL carried out plantation drives at its Pata and Vijaipur townships as well as other locations.

Decline in Henry Hub natural gas prices could improve profitability

MS, Jefferies Expect GAIL Shares to Rise, Margin Gains Likely

Our Bureau

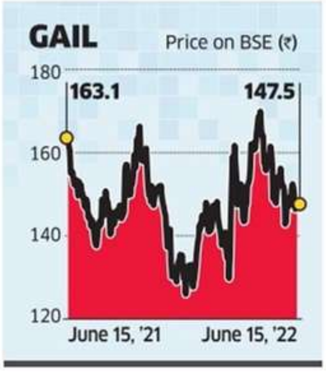
Mumbai: Analysts at Jefferies and Morgan Stanley are positive on GAIL as the decline in Henry Hub natural gas prices following a fire at Freeport LNG, one of the largest US operators of liquefied natural gas (LNG) export terminals, could boost the company's profitability.

"The decline in Henry Hub gas prices (due to local export capacity outage for the next three months) should be positive for GAIL as it expands marketing margins for 40% of the portfolio gas it imports from US," said Morgan Stanley in a note to clients. "We believe the share price will rise in absolute terms over the next 60 days." GAIL shares rose 0.5% to close at ₹147.70, off the day's high of ₹151.90.

'Fall in Henry Hub gas prices should be positive for GAIL as it expands marketing margins for 40% of the portfolio gas it imports from the US'

Freeport LNG's damage from last week's fire at its Texas plant would keep it fully offline until September with only partial operation through year end, according to Reuters.

"This has increased gas availability in US, softening prices while hardening prices in the European LNG market," said Jefferies in a client note. "This is a tailwind to GAIL's trading and petrochemical profitability in FY23E." Jefferies has a price target of ₹180 on the stock. Morgan Stanley's price target on the stock is ₹207.



GAIL's uncontracted Henry Hub-linked volumes will see sharp improvement in arbitrage as European and Asia LNG markets tighten owing to the supply loss, said Jefferies.

GAIL shares have risen 12.4% since January as against the 11% decline in the Nifty. Morgan Stanley said GAIL's valuation — measured by price to earnings (PE) ratio — at 8 times FY23 estimated earnings is not only attractive but also has the tailwind of an earnings upgrade cycle as clarity on certain pipeline tariffs emerges.

"Also, with domestic demand steadily improving with ramp up of fertilizer capacity domestically as well as higher LPG prices with strong oil prices should be supportive of earnings," the brokerage said.

Jefferies said valuations at one standard deviation is below the seven-year average PE ratio, which makes the risk-reward favorable. The stock also offers a 7% dividend yield, the brokerage said.