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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.

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Higher prices put a match to gas utility stocks

Pressure on volumes and margins notwithstanding, analysts positive on the sector

Compiled by BS Research Bureau

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A sharp rise in the price of natural gas has impacted the margins of downstream players. The domestic price of natural gas was reset in April to $6.1 per metric million British thermal units (mmBtu), from $2.9 per mmBtu in the earlier six-month period. There is a price ceiling of $9.92 per mmBtu for deepwater and ultra-deepwater gas - a hike from $6.13. The next reset will be in October.

For distributors, this influences margins. It may affect demand. Transporters are likely to continue using gas since the price equation is favourable in comparison to diesel, petrol. That demand will not be affected by price.

Domestic cooking gas users will also continue using gas in the absence of alternatives, but they may curtail use by shifting to electrical appliances if electrical power is cheaper.

Industrial demand has been negatively impacted. Gas-based power plants have essentially shut down. Other gas-dependent businesses like ceramic units in Gujarat's Morbi district have turned unprofitable.

The key market risks include lower-than-expected gas sales volume amid demand slowdown and a delay in the development of new gas sources, as well as sustained margin pressures due to persistently high prices. If there is a sharp decline in crude oil prices and lower refining margins by April/September, petrol and diesel may also become competitive versus gas for transport.

Share prices of gas distributors have fallen. Analysts have cut the earnings estimates for 2022-23 (FY23). For example, Gujarat Gas has seen a decline of 12 per cent in the past three months, while Indraprastha Gas (IGL) has dropped 7 per cent.

Mahanagar Gas has seen a price rise of 1.2 per cent.

GAIL (India) is down just 0.6 per cent.

The Nifty has fallen 5.8 per cent in this period.

Most analysts have a 'buy' recommendation on the sector.

Here are some brief notes. There's a target price of ₹630 on Gujarat Gas despite its need to source gas from spot liquefied natural gas markets, where prices are high. Gujarat Gas has seen a loss of demand in Morbi (some users have shifted to propane, which is a temporary fix since propane prices are also rising). This ₹630 target is on a discounted cash flow (DCF) basis. It assumes volumes will fall. It also assumes the assigned price-to-earnings would be 24-25x rather than the present-day 19-20x.

GAIL, which trades gas and also transports it, expects higher demand from the commissioning of fertiliser plants and ongoing refinery and petrochemical expansions, and the roll-out of city gas distribution. The management guidance includes capital expenditure (capex) of ₹7,500 crore in FY23 as part of a portfolio of projects which will absorb capex of ₹30,000 crore over the next three years. Given a valuation of the core business at 10x, the assumed 2023-24 earnings per share (EPS) of ₹17 and adding the value of investments held at ₹35, there's a target price of ₹205. EPS is expected to fall, perhaps by a third in FY23.

For Mahanagar Gas, the positives could be revival in compressed natural gas/piped natural gas volume in the longer term, coupled with decent cash flows, as well as strong earnings before interest, tax, depreciation, and amortisation margins. The valuation could be considered attractive, given the 35 per cent price retraction in the past 12 months.

IGL looks attractive since the transport sector offers mid-term growth opportunities. There is one 'buy' recommendation with a DCF-based target of ₹589. However, there could be a long-term threat to demand, if there's a big shift to electric mobility and green hydrogen.