

Investors in for long winter amid oil & gas perfect storm

Present-day output cut insignificant to move needle on oil prices, but output cuts may push up prices: Analysts

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The oil and gas sector is going through a perfect storm, with investors eyeing a cold winter. On Monday, the Organization of the Petroleum Exporting Countries (Opec) and its allies (Opec+), led by Russia, agreed to cut output by 100,000 barrels per day (bpd) for October.

This will amount to 0.1 per cent of global demand, and is aimed at bolstering prices that have slid on fears of economic slowdown. It reverses an increase in supply by a similar amount last month.

While analysts said the current output cut is insignificant to move the needle on oil prices, they cautioned that more output cuts in future may push oil prices higher, impacting India in the long run. "The key takeaway from the Opec+ meeting is that the group is ready to cut output to support prices. In the event of any sharp slowdown in the global economy, Opec+ will step up its effort to push prices," said Dayanand Mittal, research analyst, JM Financial Institutional Securities.

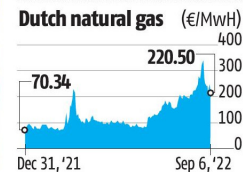
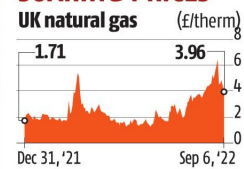
According to government estimates, every \$1 per barrel increase in crude oil price impacts India's current account deficit (CAD) by around \$1 billion since the country meets over 85 per cent of its crude oil demand via imports. V K Vijayakumar, chief investment strategist at Geojit Financial Services, meanwhile, remained hopeful that India may be able to finance CAD of 2.5 per cent on the back of robust foreign portfolio investments — as long as oil prices hold at current levels. He suggested investors stay away from both upstream and downstream oil com

Soaring gas prices

European gas prices skyrocketed as much as 30 per cent higher on Monday, with the benchmark gas price surging as high as €272 per megawatt hour, after Russia said one of its main gas supply pipelines to



SOARING PRICES



| | CALL | Ebitda margin | |
|------------------------|--------|---------------|--------------|
| | | Q1FY23 (%) | Q2FY23E* (%) |
| Gujarat Gas | Buy | 6.1 | 8.2 |
| Indraprastha Gas | Buy | 6.2 | 5.0 |
| Mahanagar Gas | Buy | 2.9 | 1.8 |
| Petronet LNG | Reduce | 10.6 | 10.0 |
| Gujarat State Petronet | Buy | 3.6 | 2.9 |
| GAIL (India) | Buy | 43.7 | 39.7 |

*E: Estimates

Source: ICICI Securities

Europe — Nord Stream 1 — would stay shut indefinitely.

Nearer home, spot liquefied natural gas (LNG) prices in Asia touched a record high of \$70 per metric million British thermal unit (mmBtu) last week — a threefold increase in three months.

Given the ballooning global prices, analysts at ICICI Securities see downside risks to margin estimates for listed players for the rest of 2022-23 (FY23). "Assuming a high spot LNG price range of \$40-45 per mmBtu for the second half (H2) of FY23, and limited options to pass through in the absence of any petrol/diesel price hike, the earnings before interest, tax, depreciation, and amortisation (Ebitda) per standard cubic metre of gas for Indraprastha Gas (IGL)/Mahanagar Gas (MGL) can reduce 20-38 per cent; for Gujarat Gas (GGL), it can rise 35 per cent in FY23. For GAIL (India), Gujarat State Petronet (GSPL), and Petronet LNG, lower volumes and/or higher costs can reduce Ebitda by 6-20 per cent," said ICICI Securities.

The average gas costs for city gas distribution (CGD) players remained muted in the January-March quarter of 2021-22

and increased 25 per cent quarter-on-quarter in the first quarter of FY23 amid reduction in domestic gas allocation over the past six months and record rise in spot LNG prices over the same period.

CGD companies have raised compressed natural gas (CNG) prices by 50-70 per cent since October 1, 2021. Analysts said a further hike in domestic gas price to \$10 per mmBtu for H2FY23 might push CGD companies to hike CNG price by another 25 per cent, or about ₹20 per kilo, which will erode the competitiveness of CNG and impact near-term volume growth/margin.

ICICI Securities has a 'buy' rating on IGL, MGL, GGL, GAIL (India), and GSPL, and a 'reduce' rating on Petronet LNG.

JM Financial, too, maintains 'buy' on IGL and MGL due to robust pricing power and steady volume growth story. "Notwithstanding high spot LNG price posing a risk to GGL's margin/volume, we reiterate 'buy' on the stock as we expect its volume growth momentum to sustain in the medium to long term, led by rise in gas use by industrial consumers," observed the brokerage.