

# Cheaper valuations compared to the Nifty and govt's focus on 'value maximisation' for these companies among key positives

## *Rerating of High-flying PSUs has Few More Legs: Jefferies*

### Our Bureau

**Mumbai:** Jefferies said the rerating in shares of public sector undertakings (PSUs) — the top performers in the past three months — has more legs citing cheaper valuations compared to the Nifty and the government's focus on 'value maximisation' for these companies. SBI, Coal India, and NTPC are its top picks among state-owned companies.

The price to earnings (PE) ratio — a popular valuation matrix — of the BSE PSU index still trades at a 40% discount to the Nifty, offering a 15% rerating potential, said the brokerage.

"Change of stance from the government towards 'value maximisation' for SOEs (state-owned enterprises) could take it above average," said Jefferies' analysts including Mahesh Nandurkar, Abhinav Sinha and Nishant Poddar in a client note.

The BSE PSU Index gained 3.42% on Wednesday, extending the bounce-back to the second straight day after dropping nearly 6% in the prior two trading sessions. Prior to the start of the PSU selloff on Friday, the index had advanced 19% this year as

against the 0.1% fall in the Nifty. Jefferies said profitability ratios for PSUs have rebounded. The return on equity of PSUs, which had dipped from 14-15% level to 4-6% due to PSU banks, has rebounded to 12-13% with profitability recovering. "Most PSUs have also seen large EPS (earnings per share) upgrades with notable exceptions being ONGC, Concor and BHEL," said the brokerage's analysts.

### PSU BANKS

Jefferies said that PSU banks' valuations have a rerating potential of 25-30%, compared to the valuations in 2006-12, when these lenders were in a similar phase of robust fundamentals and rising capex cycles.

### OIL PSUs

The government's decision to not slash auto fuel prices and the fall in crude oil prices have supported the rally in Oil pSUs, the brokerage said.

### POWER PSUs

Jefferies said NTPC and Power Grid Corp are likely to witness rerating while Coal India is expected to gain benefit from additional thermal capex, as a coal supplier for thermal plants.

## Valuation Upside

Upside in PSU stocks compared to their 2006-2012 average premium/(discount) over the Nifty

PSU Stock	Based on (premium over Nifty)	
	PE Discount	PB Discount
<b>FINANCIALS</b>		
SBI	70%	31%
PFC	70%	52%
REC	36%	25%
Canara Bank	31%	3%
PNB	-7%	22%
<b>OIL &amp; GAS</b>		
ONGC	110%	138%
HPCL	85%	-34%
BPCL	79%	-12%
Indian Oil	58%	4%
GAIL	55%	57%
<b>POWER</b>		
Coal India	109%	71%
Power Grid	70%	9%
NTPC	64%	39%
<b>INDUSTRIALS/DEFENCE</b>		
NHPC	19%	-29%
BEL	-40%	-55%
Concor	-41%	-26%
BHEL	-57%	104%

Source: Jefferies Report

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### **Petronet LNG executes contract for 7.5 MMTPA LNG with Qatar Energy**

Petronet LNG Limited (PLL), India's flagship LNG terminal owning company, has successfully concluded and executed LNG Sale & Purchase Agreement (LNG SPA) for purchase of around 7.5 MMTPA LNG with QatarEnergy on long-term basis today. This is pursuant to extension of an existing LNG SPA for LNG supply of around 7.5 MMTPA LNG Sale & Purchase Agreement on FOB basis, signed on 31st July 1999 for supplies till 2028. Under the new agreement, LNG supplies will be made on delivered (DES) basis commencing from 2028 till 2048. Similar to earlier agreement of 1999, the LNG volumes under the new SPA shall also be offtaken by GAIL (India) Limited (60%), Indian Oil Corporation Limited (30%) and Bharat Petroleum corporation Limited (10%) after regasification primarily from Dahej Terminal of PLL on substantially back to back basis.