



Gas Price Increase & Likely Implication

Topline Research
research@topline.com.pk
Tel: +9221-35303330
Topline Securities, Pakistan



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- Oil & Gas Regulatory Authority (OGRA) has issued Estimated Revenue Requirements (ERR) for Sui North (SNGP) and Sui South (SSGC) for FY19 notifying ~30% increase in prescribed gas prices for Fertilizer, General Industries, Independent Power Plants & Captive Power Plants. The regulator has also increased prescribed prices for domestic consumers by 300%.
- We believe that OGRA has only notified higher prescribed gas prices however the final authority of consumer gas price increase lies with Federal Government who may or may not approve raise gas prices. Since Dec 2016, when the last time consumer gas prices were notified, there has been no change in gas prices. However, if these gas prices are increased, we present below the following sector wise impact:
- **Gas Marketing:** Gas price hike will be Positive for both gas marketing companies, SSGC and SNGPL, due to improvement in cash flows.
- **Fertilizer Sector:** This development will be Neutral for the sector as we believe that companies will be able to pass it on. We estimate that Urea manufacturers will have to increase urea prices by Rs90-Rs100/bag. Engro Fertilizer (EFERT) and Fatima Fertilizer (FATIMA) is least effected due to its concessionary gas prices.

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- **Cement Sector:** Lucky Cement (LUCK), which is on the national grid, is likely to be Negatively affected from gas price hike and could have an earnings impact of 4-6%. Rest of the players will not be affected by the gas price hike as they either are on Regasified Liquefied Natural Gas (RLNG) or do not utilize gas for electricity generation.
- **Textile Sector:** Textile players that are using natural gas for their captive power plants, Gul Ahmed Textiles (GATM) among others, can be Negatively affected as we estimate 10%-20% earnings impact if gas price hike are not passed on.
- **Chemicals:** Engro Polymer (EPCL) and Lotte Chemical (LOTCHEM) will have a Negative earnings impact of 15-25% of the proposed gas price hike. Moreover, prices of their products are internationally linked and local companies likely to have very low ability to pass-on this higher cost.
- **Steel Sector:** We believe that this development is Negative for the sector as they will not be able to fully pass on the cost increase. We eye ~10% earnings impact on select steel manufacturers due to higher gas prices.

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