

Sui Northern Gas Pipelines (SNGP)

2QFY18 EPS of Rs3.1, down 12%YoY; 1HFY18 EPS Rs6.1, up 7% YoY

Below Expectations

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Higher UFG deductions slows downs earnings

SNGP: Financial Highlights

Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Net Sales	110,844	77,861	42%	18%	204,523	152,313	34%
Gross Profit	6,648	2,869	132%	64%	10,710	6,719	59%
Other operating income	2,333	4,677	-50%	-26%	5,484	6,651	-18%
Operating expenses	3,918	2,752	42%	48%	6,567	5,223	26%
Operating Profit	5,063	4,794	6%	11%	9,626	8,146	18%
Finance cost	2,242	1,622	38%	23%	4,064	2,976	37%
Profit before tax	2,821	3,172	-11%	3%	5,562	5,171	8%
Profit after tax	1,941	2,204	-12%	1%	3,859	3,603	7%
EPS (Rs)	3.1	3.5			6.1	5.7	

Source: Company Accounts, Topline Research

- SNGP recorded earnings of Rs3.1/share during 2QFY18, down 12% YoY primarily on account of higher UFG deductions post announcement of new UFG benchmark for FY18. SNGP has prepared 2QFY18 accounts on the basis of 6.3% of UFG allowable benchmark which includes minimum benchmark and performance benchmark. This is slightly lower than the allowable benchmark in previous regime where SNGP enjoyed 6.5% UFG allowable benchmark (minimum benchmark: 4.5%, law & order benchmark: up to 2%).
- Our discussion with the management suggest that the company recorded actual UFG of 10.4%, which is 4.1% above the allowable benchmark during 2QFY18.

Higher UFG deductions slows down earnings

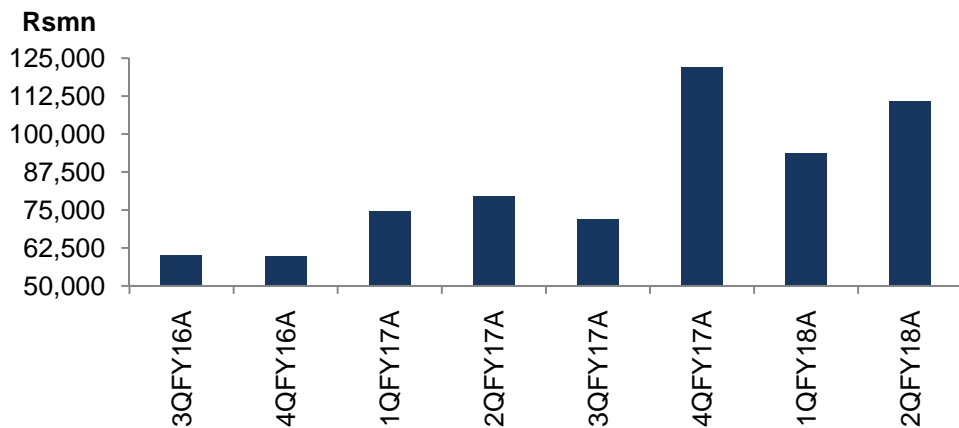
- Sales of the company improved by 42% in 2QFY18 driven by higher capex during the quarter on account of construction of RLNG pipeline II. SNGP has carried out capex of around Rs13bn during the quarter. SNGP operates on fixed return on asset formula hence its profitability is directly proportional to its assets expansions and status of UFG losses.
- Operating profits of the company only increased by 6% to Rs5bn as UFG deductions (disallowance) remained on higher side, we believe.
- Finance cost of the company increased by 38% to Rs2.2bn in 2QFY18 due to higher borrowings for RLNG capex, we believe.
- Delay in construction of LNG-III pipeline and increase in UFG, remains a key risks for SNGP.

SNGP: Key Numbers

	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	(15.4)	(6.3)	(3.9)	0.2	13.6
Earnings Growth	NM	NM	NM	NM	NM
PE at Rs118.7	NM	NM	NM	591.0	8.5
Dividend Yield	0%	0%	0%	0%	5%
ROE	NM	NM	NM	3%	96%
PBV	7.3	12.0	20.5	16.4	8.2

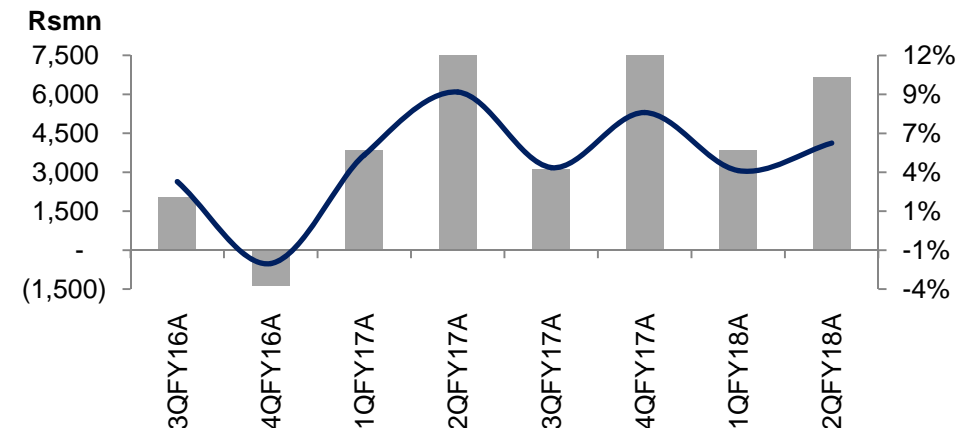
Source: Company Accounts, Topline Research

SNGP: Quarterly Sales



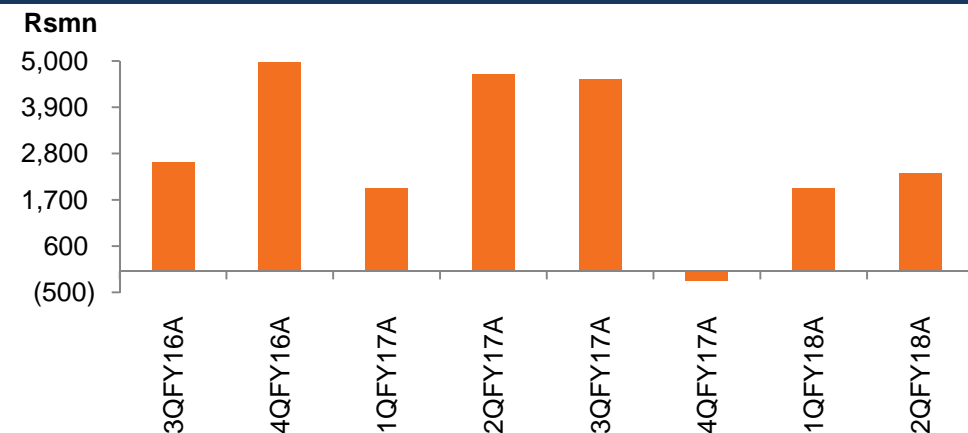
Source: Company Accounts, Topline Research

SNGP: Quarterly Gross Profit & Gross Margins



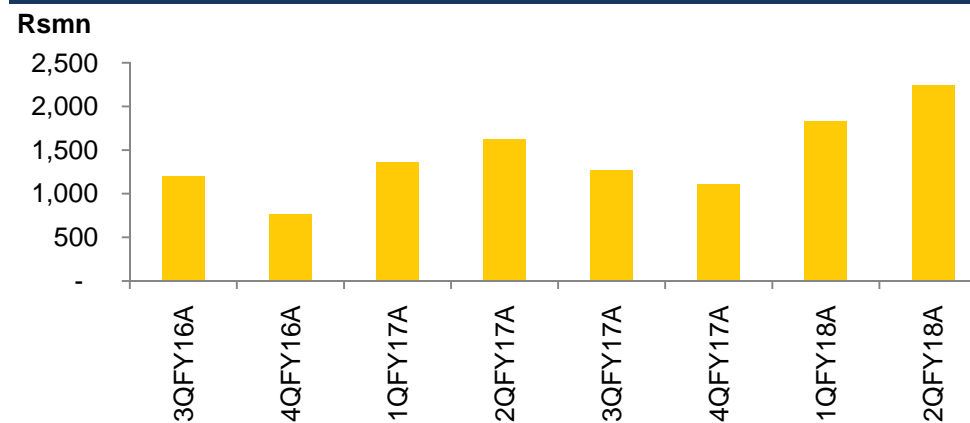
Source: Company Accounts, Topline Research

SNGP: Quarterly Other Income



Source: Company Accounts, Topline Research

SNGP: Quarterly Finance Cost



Source: Company Accounts, Topline Research

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