

# Pakistan Strategy

**Govt. Finally Notifies the Much Awaited Hike in Gas Tariff**  
**Positive for Economy while Negative for Corporates**

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## Gas prices for five Zero rated export sectors remained unchanged

- Government on Oct 04, 2018 finally notified the increase in gas prices (which were approved on Sept 17, 2018), where the industrial gas prices (Commercial, Fertilizer, General Industrial & Captive, Power, Cement, CNG) are up by 30-57% while domestic consumer gas prices are increased by weighted average 22% (or by 10% to 143% varying on different consumable slabs). To note, the Govt. has created 7 slabs for consumers as opposed to earlier 3 slabs.
- We believe, this is a bold step by the new Govt. and is largely in favor of the economy as it is likely to reduce revenues shortfall of Sui companies from Rs152bn to Rs58bn as per Govt. estimates. Further, we expect this to reduce fiscal deficit by 25-30bps and increase CPI by 20-25bps.
- Prices for domestic consumers are increased based on their consumable slabs, where lowest consumption slab (up to 50 cubic meters) is increased by 10% and highest slab based on consumption is seeing increase of 143%.
- Notably, Gas prices for exporters of five zero rated sectors (including textile) are kept unchanged at Rs600/mmbtu. We consider this as a positive event for textile sector as the new Govt. has shown interest towards resolving the sector woes.

### Increase in gas prices slab wise (domestic)

Slab Cubic Meters	Increase
Up to 50	10%
Up to 100	15%
Up to 200	20%
Up to 300	25%
Up to 400	30%
Up to 500	143%
Above 500	143%

Source: OGRA

### Industrial consumers gas price increase

Consumers	Increase
Power	57%
Fertilizer Feed	50%
Commercial	40%
Fertilizer Fuel	30%
General Industrial and Captive	40%
CNG	40%
Cement	30%

Source: OGRA

## Fertilizer manufacturers need to increase urea prices by Rs120-130/bag



- Among sectors, Fertilizer feed gas is increased by 50% to Rs185/mmbtu. While fuel price is increased by 30% to Rs780/mmbtu. To pass on this cost, urea manufacturers will have to increase urea prices by Rs120-130/bag. To note, Engro Fertilizer (EFERT) and Fatima Fertilizer (FATIMA) will be least affected as their feed cost is based on concessionary pricing (US\$0.7/mmbtu).
- Gas prices for cement sector is increased by 30% to Rs975/mmbtu. We expect negative bottom-line impact of 5-10% on select cement manufacturers.

# Impact of hike in gas prices

## Gas Price Hike Impact on Select Sectors

Sector	Impact	Comment
Macro	Positive	Rationalization of gas allocation among industrial sectors which is likely to reduce fiscal deficit by 25-30bps. However, this could result in ~25bps uptick in inflation.
Banks	Positive	Higher gas prices will lead to higher inflation, thereby higher interest rates
Sui Companies	Positive	Increase in gas price is cash positive for Sui companies which will reduce GDS receivables of sui companies. Reduction in GDS receivables will have positive earnings impact of 2-3% on SNGP and SSGC.
Fertilizer	Negative	For 30-50% hike in gas tariff, companies will have to increase urea prices by Rs120-130/bag. EFERT and FATIMA will be least affected as their gas prices are based on concessionary rates and petroleum policy 2012. Given current headwinds in sector, we believe fertilizer producers will not be able to fully pass on this impact.
Cement	Negative	Given upcoming expansions and dull domestic demand, it will be difficult for Captive Power Plant producers to pass on any hike in gas prices. However, it is to be noted that Punjab cement producers are running their plant on RLNG (MLCF and DGKC) while LUCK is on domestic gas network. As per our calculations, a 30% increase in gas prices will have around 10% negative impact on LUCK's bottom-lines
Chemical	Negative	Companies like LOTCHEM, and EPCL will be materially impacted as their revenues are indexed to international commodity prices (PTA and PVC). A 40% increase in gas prices can have negative impact of around ~10-15% on earnings of LOTCHEM and EPCL. Further DOL and SPL are currently running on blended structure with 72% LNG and 28% natural gas. Any hike in gas prices will have negative impact of Rs0.2-0.5/share.
Textile	Positive	ECC has not increased gas prices for exporters of five zero rated sectors. Their cost will remain same at Rs600/mmbtu. While, its positive in terms of investors' sentiments

Source: Topline Research

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