

Pakistan Strategy

Govt. approves higher gas prices in a much anticipated move

Topline Research

research@topline.com.pk

Tel: +9221-35303330, Ext: 133

Topline Securities, Pakistan

www.jamapunji.pk

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Gas prices for industry to increase by 30-57%

- In a much awaited move, Economic coordination committee (ECC) has approved increase of gas prices, where the proposal is to raise industrial gas prices (Commercial, Fertilizer, General Industrial & Captive, Power, Cement, CNG) by 30-57% while domestic consumer gas prices are proposed to be increased by average 22%. For domestic consumers, the Govt. has proposed to create 7 slabs as opposed to earlier 3 slabs.
- Despite lower than anticipated increase in gas prices (earlier there were media reports that the Govt. is mulling to raise gas prices by average 46%), this is a bold step by the new government and is largely positive for the overall economy as it is anticipated to reduce revenues shortfall of Sui companies from Rs152bn to Rs58bn as per Govt. estimates. This could reduce fiscal deficit by 25-30bps.
- Gas price for lowest domestic slab (up to 50 cubic meters) will face gas price increase of 10% (gas bill to increase to Rs275 from Rs252). This segment represents 38% of consumers on system based gas.
- Further, gas prices for second lowest slab (up to 100 cubic meters) will increase by 15% (gas bill to increase to Rs551 from Rs480).

Proposed 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: ECC notice/briefing

Industrial consumers gas price increase

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

Source: ECC notice/briefing

Inflationary impact of around 20-25bps

- This 10-15% increase in gas prices for domestic consumers will have inflationary impact of 20-25bps on CPI. To note, there were earlier media reports of increasing gas prices by ~186% for lowest slab consumer, having CPI impact of 250bps.
- Among sectors, Fertilizer feed gas is increased by 50% to Rs185/mmbtu. While fuel price is increased by 40% 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 exporters of five zero rated sectors will remain unchanged at Rs600/mmbtu. We consider this as a non-event for textile sector while investors' sentiments will be generally positive.
- Gas prices for cement sector will be increased by 30% to Rs975/mmbtu. We expect negative bottom-line impact of 5-10% on select cement manufacturers.
- Furthermore, these gas prices are subject to approval of cabinet and its effective date will be decided by cabinet.

Potential 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 expected 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	Neutral	Increase in gas prices will be somehow 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 40-50% hike in gas tariff, companies will have to increase urea prices by Rs130/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, EPCL, and SPL will be materially impacted as their revenues are indexed to international commodity prices (PTA and PVC). Any hike in gas prices will difficult to pas on. A 40% increase in gas prices can have negative impact of around ~5-15% on earnings of chemical sector.
Textile	Neutral	ECC has not increased gas prices by exporters of five zero rated sectors. There cost will remain same at Rs600/mmbtu.

Source: Company Accounts, Topline Research

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