

Strategy

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Supreme Court announced GIDC verdict stating payment in full to Government

- ✓ As per media reports, the Supreme Court of Pakistan has finally laid out its judgment pertaining to Gas Infrastructure Cess (GIDC) whereby ordering the companies to pay a cumulative amount PKR 457bn.
- ✓ To recall, the GIDC was imposed back in 2011, on gas consumers in the industrial sector, to raise funds for construction of infrastructure projects such as the Iran-Pakistan pipeline, the Turkmenistan-Afghanistan-Pakistan-India pipeline, Liquefied Natural Gas (LNG) projects and other.
- ✓ The major impact of the cash outflow will occur upon the fertilizer sector that is expected to trigger a cumulative cash out flow of PKR 164.1bn.
- ✓ As per initial imprints of the judgment, federal government has been given a period of 6 months to collect and initiate work on North-South pipeline, and any of the two major pipelines namely Iran-pipeline (IP) and Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI).

Supreme Court of Pakistan announced GIDC verdict

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Exhibit: Total Collection of GIDC

in PKRbn	Accrued	Collected	Outstanding	Collected/ Accrued	Outstanding /Accrued
Fertiliser Feed (new)	68.3	1.1	67.1	2%	98%
KESC	40.4	3.9	36.5	10%	90%
Captive Power	119.2	17.5	101.7	15%	85%
CNG Region 1	53.4	11.8	41.7	22%	78%
CNG Region 2	48.1	13.2	34.9	27%	73%
General Industry	70.7	24.4	46.3	35%	65%
Fertiliser Fuel	31.8	15.2	16.6	48%	52%
Fertiliser Feed (old)	192.2	111.8	80.4	58%	42%
GENCO/WAPDA	67.3	44.8	22.6	66%	34%
IPPs	60.8	51.7	9.1	85%	15%
Total	752.3	295.4	456.9	39%	61%

Source: SC of Pakistan Judgment note

Fertiliser sector most impacted

The major impact of the cash outflow will be on fertilizer sector, triggering a cumulative cash out flow of PKR 164.1bn. It is pertinent to note that since the fertilizer sector had prudently recognized their respective GIDC liabilities over the years amounting to PKR 128bn out of total of PKR 292bn accrued, the

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decision will thus have no impact on companies' profitability and shall only result in settlement of past liabilities.

Company-wise we estimate Fauji Fertilizer (FFC) will be required to pay PKR ~63bn, followed by FFBL, EFERT and FATIMA.

Exhibit: GIDC Impact				
Company	Sector	Amount (PKR bn)	No of shares (bn)	Cash out flow Impact (PKR/share)
EFERT	Fertilizer	18.94	1.34	14.19
FFC	Fertilizer	62.54	1.27	49.16
FFBL	Fertilizer	22.20	0.93	23.77
FATIMA	Fertilizer	5.82	2.10	2.77
EPCL	Chemical	5.31	0.91	5.85
LOTCHEM	Chemical	3.02	1.51	1.99
GATM	Textile	2.73	0.43	6.38
MLCF	Cements	0.29	1.10	0.26
DGKC	Cements	1.10	0.44	2.51
LUCK	Cements	5.00	0.32	15.46
ISL	Steel	0.21	0.44	0.48
ASTL	Steel	0.33	0.30	1.11

Source: Company Financials, PSX, IGI Research

Payments to be collected in 24 months instalments while six month allowed to Government for initiating work on projects

As per initial imprints of the judgment, GIDC would be collected in 24 monthly installments while federal government has been given a period of 6 months to initiate work on North-South pipeline, and any of the two major pipelines namely Iran-pipeline (IP) and Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI). In case of failure to initiate work on the aforementioned projects, the judgment states that the GIDC Act-2015 would stand non-operational.

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