

Day Break

Wednesday, 05 September 2018

Strategy

Market

Proposed Gas rate hike to have negative implications on industries; Fertiliser and Chemicals to be most affected

- As per the news release, Prime Minister has given approval to increase gas price on average by 46%, which will now be submitted to Economic Coordination Committee (ECC) for final approval.
- As per the news report, consumer prices are expected to increase by up to +186%, while different tariff rates have been proposed for different industries.
- Fertilizer and Chemical to be most affected, while alternative fuel sources for Cements, Textiles will restrict overall negative impact

PM Okays Gas price hike

As per the news release, Prime Minister has given approval to increase gas price on average by 46%, which will now be submitted to Economic Coordination Committee (ECC) for final approval. The move comes shortly after the first ECC meeting held last week, wherein gas price increase was proposed by utility companies, SSGC and SNGPL to curb deficits and subsequently improve cash flows. As per the news report, consumer prices are expected to increase by up to +186%, while different tariff rates have been proposed for different industries.

The suggestive price increases are as follows:

Exhibit:

Gas price increase proposed

PKR/mmBtu	Current	New	% Change
Domestic Consumers	280	516	84%
First Slab	105	295	180%
Second Slab	210	589	180%
Third Slab	526	665	26%
Commercial (more than 300 units)	631	797	26%
Independent Power Producers (IPPs)	484	611	26%
Industrial consumers	484	611	26%
Cements	736	930	26%
CNG	650	822	26%
Fertilizer Fuel	600	758	26%
Fertilizer Feed (Old Plants)	123	156	27%
Captive Power Plants	568	718	26%

Source: Newspapers (The Dawn), IGI Research

Fertilizer neutral to Positive: EFERT and FATIMA to benefit most

For fertilizers the prescribed increase of +26%, an increase of PKR 33/160mmBtu for both feed/fuel gas prices, would clamp down profitability for fertilizer manufacturers.

Market consensus is that urea manufacturers will be fully able to pass-over the additional cost hike on retail consumer price by an average of PKR ~90/bag for urea. From individual company perspective this price increase will be positive for EFERT and FATIMA given provision of concessionary feed gas.

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For DAP producer FFBL, negative impact stands minimal since the company uses FFBL power company (coal power plant) for its fuel purpose.

Exhibit

Fertilisers EPS Impact of proposed gas rate hike and subsequent PKR 90/bag raise in retail prices

PKR/share	Without Retail price hike of PKR 90/bag	With Retail price hike of PKR 90/bag
EFERT	(0.92)	0.08
FFBL	(0.61)	(0.07)
FATIMA	(0.26)	(0.01)
FFC	(1.94)	(0.35)

Source: IGI Research, Company Accounts

Cements: Neutral except LUCK

The base price per mmBtu for use as kiln firing fuel for cement companies has been proposed to increase to PKR 948/mmBtu, up from existing rate of PKR 750/mmBtu. However, this will have no impact since all cement companies have employed coal fired kilns for their routine operations. The base price per mmBtu for gas based captive power plants has been proposed to increase to PKR 758/mmBtu, up from existing rate of PKR 600/mmBtu. This will have substantial impact over Companies producing electricity from gas based captive power plants.

Since, Punjab (north) based cement manufacturers are provided for with RLNG rather than system gas (to which the news reflects upon), DGKC, MLCF, FCCL, KOHC, PIOC and CHCC remain secure from this particular development.

On South side, ACPL and DGKC Hub plant also remain safe due to non-possession of gas based captive power plants, however LUCK South plant remains the most affected with an estimated impact of PKR 250mn (PKR 0.77/share) since it relies substantially over system gas for electricity generation.

Exhibit:

Source of energy for cement manufacturers

Company	Energy Source	Impact
LUCK (North and South)	Natural Gas / FO	PKR (250mn) or PKR 0.77/share
MLCF	Coal / National Grid / FO	Nil
KOHC	National Grid / FO	Nil
ACPL	National Grid	Nil
CHCC	National Grid / RLNG / FO	Nil
DGKC	National Grid / RLNG / FO	Nil
FCCL	National Grid / RLNG / FO	Nil
PIOC	National Grid	Nil

Source: IGI Research, Company Accounts

It is pertinent to mention that KOHC, ACPL, PIOC fulfill their requirements from the national grid. Though, the above hike in gas prices is likely to impact only LUCK, we believe the same would result in increase in WAPDA prices as well in the upcoming days consequently impacting national grid dependent Companies as well.

Other Sectors

- **IPPs:** Power sector will have neutral impact on as increase in gas prices are passed over to end consumer.

- **Textile:** Textile sector will have a neutral-negative impact due to alternative sources of fuel for power generation.
- **Chemical:** EPCL, DOL and LOTCHEM will have a negative impact due to rise in fuel and power cost.
- **Commercial Banks:** Higher gas rate leading will likely prompt earlier than expected rate tightening, benefiting banks NIMs.

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