Day Break

Tuesday, 18 September 2018

Strategy

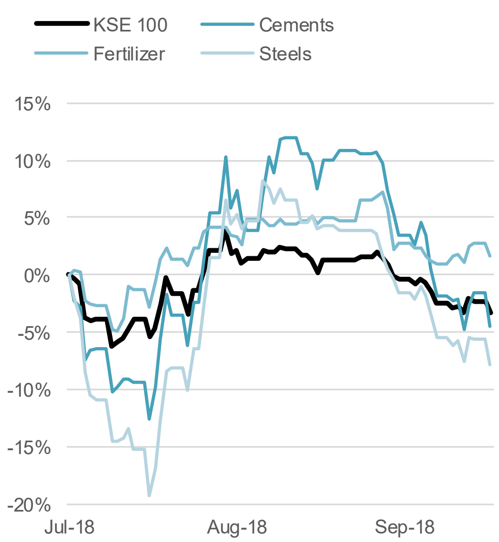
Exhibit: Proposed gas tariff for Domestic Consumers

		PKR/MMBTU		
	Users	**Old**	**New**	**%chg.**
upto 50m3	3.562	110	121	10%
"100	2.638	110	127	15%
"200	1.741	220	264	20%
"300	0.436	220	275	25%
"400	0.524	600	780	30%
"500	0.226	600	1,460	143%
>500	0.237	600	1,460	143%
wt. Average				**39%**

Exhibit: Proposed gas tariff for industrial Consumers

	PKR/MMBTU		
	Old	**New**	**%chg.**
Commercial	700	980	40%
Fertilizer (feed) - old	123	185	50%
Fertilizer (Fuel)	600	780	30%
General Industries & Captive	600	780	30%
Power	400	629	57%
Cement	750	975	30%
CNG	700	980	40%
Average			**40%**

Exhibit: Market performance



Source: Bloomberg, PSX, MoF, IGI Research

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Strategy

ECC Gives Way To Gas Price Hike; Muted Impact For Domestic Consumers, Variable Imapct For Industrial Units

- The Economic Coordination Committee (ECC) in its latest meeting pre-mini budget has considered the summary and proposals submitted by the Petroleum Division regarding 'Natural Gas Sale Price' for revision of sectoral gas sale prices.
- The said revision in gas price will have inflationary impact, whereby raising our intiail inflation estimates by 150-200bps to 7.5-8.5%, while fiscal beneifts remain limited
- Textiles sector will continue to enjoy old rates and proposal in place to provide sector with subsidize RLNG. Fertiliser sector is most affected through this decision, followed by chemicals. Cements and steels to remain relatively immune

ECC to okay gas price hike

The Economic Coordination Committee (ECC) in its latest meeting pre-mini budget has considered the summary and proposals submitted by the Petroleum Division regarding 'Natural Gas Sale Price' for revision of sectoral gas sale prices.

The recommendation by ministry of petroleum includes gas price hike for both domestic to industrial consumer. Price increase ranges from 30% to 57% for industrial while for domestic consumer changes in gas price range from 10% to 143%. Gas sale price for the registered manufacturers or exporters of five zero-rated sectors namely textiles, surgical goods, sports and leather industry remain immune to this price revision. The move is expected to reduce total shortfall at gas distribution companies from existing PKR 152bn to PKR 58bn.

Increase in domestic consumer gas prices would have an inflationary impact of ~1.0% with other major sectors to be affected are fertilizer and chemical. We expect fertilizer sector to pass on the impact of said gas tariff hike.

Effective increase for domestic consumer is about +39%, jacking up our inflation expectations by 150-200bps to +7.5-8.5% while fiscal benefits remain limited

Gas prices accounts for 1.58% of total consumer basket hence a +39% effective increase in gas tariff for domestic consumer will have negligible direct impact on overall price basket. However we expect second round effects of gas prices in wake of rising input costs. As a result our initial take on FY19 average headline inflation estimates were under 7% at 6.8%, with this rate hike we expect inflation to jack up by 150-200bps to +7.5-8.5%, as we incorporate an expected rise. Lower income group with limited disposal income is more senstivite to changes in cost of input and in partilcualry changes in gas prices. From fiscal side the govetment expects this move is likely to reduce companies shortfall by PKR 94bn, which with an expected PKR 38.5trn size economy in FY19 translates into a 25bps fiscal saving.

Sector	Proposed gas prices	Comments	Sector Impact	PKR/share Impact	%age of annualised EPS
Fertilisers	For fertilizer sector, the gas price increase on average is 33% with base price of feed gas increased by 50% to PKR 185/mmBtu while on fuel the price hike is of 30% to PKR 780/mmBtu.	This may dampen the earnings of the sector, with FFC to suffer the most followed by EFERT, FFBL and then FATIMA. Resultantly, this will likely be curbed by price pass over on average by PKR (50-120)/bag on part by urea manufacturers. However, we expect government to provide subsidy in this regard so as to keep prices under control which are hovering around PKR 1,630-50/bag. As can be recalled, that the government planned to sell imported urea at a price of PKR 1,615/bag.	Neutral - Negative		
FFC				(2.99)	-25%
FFBL				(0.78)	-29%
EFERT				(0.85)	-7%
FATIMA				(0.24)	-4%
Cements	The base price per MMBtu for use as fuel for cement companies has been increased by 30% to PKR 975/MMBtu. Base price per MMBtu for captive power plants has been increase by 30% to PKR 780/MMBtu.	Increase in gas prices as fuel will have minimal impact since all cement companies have employed coal fired kilns for their routine operations. Major impact will however be borne by gas based power producers. North: Since, Punjab (north) based cement manufacturers are provided for with RLNG rather than system gas (to which the news reflects upon), DGKC, MLCF, FCCL and PIOC remain secure from this particular development. In Khyber Pakhtunkhwa (KPK), only LUCK and CHCC get affected from the hike since they have considerable gas based power plants installed on their sites, whereas KOHC doesn't have maintain one, thus secure. South: On South side, ACPL and DGKC Hub plant also remain safe due to non-possession of gas based captive power plants (they are sourced from the national grid), however LUCK South plant remains the most affected with an estimated impact of PKR 584mn (PKR 1.81/share) since it relies substantially over system gas for electricity generation.	Neutral	(1.81)	-4.90%
LUCK				nil	nil
MLCF				nil	nil
KOHC				nil	nil
ACPL				nil	nil
CHCC				(1.18)	-7.20%
DGKC				nil	nil
FCCL				nil	nil
PIOC				nil	nil
Steel	The base price per MMBtu for industrial requirements has been increased by 30% to PKR 780/MMBtu.	The impact of hike in gas prices to the steel sector is considered to be pretty minimal due to its price passing ability The use of gas in rebar production by Amreli Steel Limited (ASTL) is very low and is hence estimated to trigger an uptick of around PKR 400/ton in the cost structure, which we believe the Company would easily Passover. In flat steel producers, ISL will be impacted due to its use of gas based power plants for electricity generation requirements and will hence witness an increase of PKR ~250/ton in its cost structure. The same is expected to result in an equivalent sales price increase.	Neutral		
ASTL				(0.47)	-7%
ISL				(0.51)	-4%
Chemicals	The gas is utilized for fuel purposes for electricity generation. The proposed gas hike on fuel is PKR 780/MMBtu which previously was charged at PKR 600/MMBtu.	The impact is overall negative for the sector with gas being utilized primarily for fuel purposes under which the proposed increase is of 30% to PKR 780/mmbtu. For EPCL, in particular we estimate earnings to suffer a hit of PKR 0.7/share on annualized basis, with the impact to be offset by price pass-over. However, the company has to keep prices under check as international prices determine margins.	Neutral - Negative		
EPCL				(0.71)	-17%
Textiles	For textile it has been proposed to keep prices unchanged at PKR 700mmBTU. Moreover RLNG will also be provided on subsidised rates.	This should bode well for sector.	Neutral - Positive		

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