

PAKISTAN



Pakistan Strategy

OGRA amendments to reduce disparity among regions with improved cashflows

Event

▪ In a major development Senate of Pakistan has passed the Weighted Average Cost of Gas bill to address the issue of disparity in gas prices among same industries in different Provinces due to increasing share of RLNG amid decline in natural gas reserves. These amendments would improve cash flow position of the gas sector along with its optimal allocation.

Impact

▪ **RLNG included in national basket for determination of gas prices:** Senate has passed the Weighted Average Cost of Gas bills to amend the Oil and Gas Regulatory Ordinance 2002 to make provision for (1) inclusion of cost of RLNG in determining the gas price chargeable to end consumers, (2) OGRA, without holding a public hearing, would be able to revise the prescribed gas price if it is required to revised only on account of revision of well-head gas price and cost of RLNG, (3) Gov't to ensure that sales prices are not less than OGRA's determined revenue requirement of the licensee and (4) OGRA shall be able to set the sale price of RLNG for any licensee. The net effect of above amendments would be to allow the Govt to smoothly set the gas price for the end consumers without the need of cash subsidy and thus improve the cash flow position of gas sector along with better allocation of flows.

▪ **Required to increase gas prices by ~56% for FY22:** Mixing of LNG flows with well head gas prices would require to increase weighted average price for FY22 by ~55.8% to Rs971/mmbtu, as per our calculation. On the other hand, the same would reduce the average RLNG price by 37.2% from current 8MFY22 average of Rs2,350/mmbtu. We believe government would not increase the gas prices for domestic, fertilizer (particularly feed stock) and zero rated sectors given government priority to control inflation, ensure food security and promote exports.

▪ **Positive for E&P and Sui companies:** Optimal gas allocation without need of subsidy for diversion of RLNG flows to domestic sector would improve cash flow position of SNGPL, PSO, OGDC and PPL. Moreover, timely notifications to pass on the impact of change in RLNG and well head gas prices would curtail circular debt from piling.

▪ **Fertilizer to pass on the hike:** Fertilizer players would pass on the impact of increase in the prices of fertilizer feed and fuel gas prices given increased profitability of farmers and higher disparity between domestic and int'l prices, in our view. An increase of 55.8% in feed and fuel prices would have an EPS impact of Rs8.5/Rs7.0/Rs1.5 on FFC/EFERT/FFBL. This would require FFC to increase Urea prices by ~Rs340/bag to fully pass on the impact while have positive impact of Rs0.2 and Rs 0.4 on profitability of EFERT and FFBL.

▪ **Negative for Chemicals:** Profitability of EPCL/LOTCEHM would hit by ~Rs2.6/Rs0.6 in case of uniform increase. However, LOTCHEM would remain unaffected in case of no change of gas prices for zero rated sectors.

Outlook

▪ Amendments in OGRA regulations would allow gov't for optimal allocation without the need of cash subsidy and remove disparity in gas prices among similar sectors. Thus, improve cash flow position of gas producing and distributing companies.

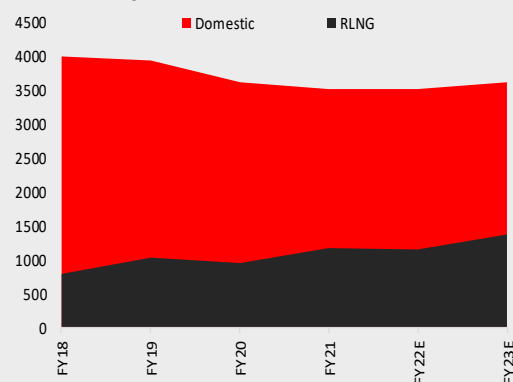
Current gas prices in Pakistan (Rs/mmbtu)

	Gas price
Commercial	1,283
General Industry	1,054
Export oriented (Industry)	819
Export oriented (Captive)	852
CNG region-I	1,371
CNG region-II	1,350
Cement	1,277
Fertilizer (feed)	302
Fertilizer (fuel)	1,023
Power (Wapda, KESC, IPP's)	857
Captive power	1,087

Domestic Consumer

	121
Up to 50m3	300
Up to 100m3	553
Up to 200m3	738
Up to 300m3	1,107
Up to 400m3	1,460

Mix of natural gas and RLNG in Pakistan



Source: OGRA, Foundation Research, February 2022

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 Monday, February 21, 2022

Table 01: Expected change in gas prices under different scenarios based on OGRA assumptions

Rs per mmbtu	Current	Case1	Case2	Case3
System average	623	903	930	971
Domestic	354	0.0%	30.0%	55.8%
Bulk Domestic	780	73.6%	66.9%	55.8%
Fertilizer (Feed)	300	0.0%	30.0%	55.8%
Fertilizer (Fuel)	1,023	73.6%	66.9%	55.8%
IPPs	857	73.6%	66.9%	55.8%
Commercial	1,283	73.6%	66.9%	55.8%
Gen. industry	1,054	73.6%	66.9%	55.8%
CNG	1,360	73.6%	66.9%	55.8%
Zero rated	819	0.0%	0.0%	55.8%
Captive Zero rated	852	0.0%	0.0%	55.8%
Cement	1,277	73.6%	66.9%	55.8%
Captive Power	1,087	73.6%	66.9%	55.8%
Current RLNG users				
IPPs	2,350	-36.7%	-39.1%	-43.2%
Gen. Industry	2,350	-22.1%	-25.1%	-30.1%
CNG	2,350	0.5%	-3.4%	-9.8%
Fertilizer	2,350	-24.4%	-27.3%	-32.2%

Source: OGRA, PPIS, Foundation Research, February 2022

Table 02: Overdue receivable of E&P sector and PSO from Sui companies

	Rs bn	Rs/sh
OGDC	267	62
PPL	260	96
PSO	116	246

Source: PSX, Foundation Research, February 2022

Table 03: Impact of Increase in gas prices

	Case 1	Case 2	Case 3		
Sector/Stock	Impact(Rs/sh)			Severity	Neutralizing factor
Economy					
Inflation	nill	32bps	60bps	Low	na
Fertilizer					
FFC	(5.3)	(7.2)	(8.5)	Low	Rs211/289/340/bag increase in Urea price in case 1/2/3
EFERT	(3.9)	(5.6)	(6.8)	Low	Rs199/278/332/bag increase in Urea price in case 1/2/3
FFBL	-	(0.8)	(1.5)	Low	Net beneficiary due to reliance on FPCL for fuel
Chemical					
EPCL	3.4	3.1	2.6	High	Lower pricing power
LOTICHEM	-	-	0.6	Low	Beneficiary of zero rated
Engineering					
ISL	(1.2)	(1.1)	(0.9)	Low	Rs1650/1500/1250/ton increase in CRC price
Cement					
LUCK	(16.2)	(14.7)	(12.3)	Low	Company is currently relying on FO
DGKC	(3.5)	(3.2)	(2.7)	Low	Company will shift to alternative fuels
CHCC	(1.5)	(1.4)	(1.2)	Low	Rs7/6/5/bag increase in cement prices
FCCL	(0.3)	(0.2)	(0.2)	Low	Rs8/8/6/bag increase in cement price
Textile					
NML			(1.9)	Low	Beneficiary of zero rated
NCL			(0.3)	Low	Beneficiary of zero rated
GATM			(1.8)	Low	Beneficiary of zero rated
ILP			(0.4)	Low	Beneficiary of zero rated

Source: Foundation Research, February 2022

Abbreviations

DAP	Di-Ammonium phosphate
PVC	Polyvinyl chloride
PTA	Purified terephthalic acid
mmbtu	million British Thermal Units
RLNG	Regasified liquefied Natural Gas
FO	Furnace oil

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.