

Foundation Alert

SSGC: Analyst Briefing Key Takeaways

Event

- Sui Southern Gas Company Limited (SSGC PA) held its analyst briefing yesterday to discuss FY21 results and the outlook of the company. Following are the key takeaways of the briefing.
- The company is not under our formal coverage.

Impact

- The company posted PAT of Rs1.96bn (EPS: Rs2.2) in FY21 against loss of PKR 21.39bn (LPS: Rs24.8) in FY20 due to complete absorption of staggered losses in Jun'20 of Rs7.3bn and recognition of deferred tax assets.
- Total Turnover of the company increased by 7.8% YoY to Rs271bn in FY21 against Rs252bn in FY20.
- Unaccounted For Gas (UFG) losses decreased by 2% YoY to 15.31% in FY21 against 17.25% in FY20.
- In 1QFY22, company reported profit of Rs736mn (EPS: Rs0.84) against loss of Rs721mn (LPS: Rs0.82) in 1QFY21 as UFG losses decreased by 0.27% to 13.75%.
- Company's transmission/distribution network increased to 4,143/49,098km in 2022 from 4,030/46,210km in 2018 while number of customers grew to 3.2mn against 2.9mn during the same period.
- RLNG flows contribute 14% of total company's gas volumes against 17%/5%/7% in 2021/2020/2019.
- In 9MFY23, company sold 830mmcf of gas with domestic segment as the largest consumer with share of 39.8% followed by Captive power (share of 23.0%) and General industry (share of 19.2%).
- Company planned to reduce UFG to 45bcf by the end of FY23. UFG has been drastically reduced from 78bcf in last five years to 52bcf in FY22.
- To implement UFG reduction plan company is (1) establishing 22 zones for better network management, (2) automating TBS, (3) bringing unauthorized users to the network, (4) enhancing metering accuracy and EVC installation, (5) engaging third party contractors for pressure surveys and (5) conducting a door to door survey in Quetta which has resulted in saving of 5bcf.
- On directions of Ministry of Energy (MoE), settlement of admitted liabilities of Pakistan Steel Mills Limited (PSML) of Rs48bn, Principal and LPS, has been agreed between SSGC and PSML. Upon resolution, LPS will be accounted in the financial statements for which coordination is being made with OGRA to allow LPS as a non-operating income.
- On K-electric front, SSGC has given consent for going ahead with mediation agreement shared by MoE with all stakeholders in order to resolve KE's receivables and payables issues.
- On RLNG volume handling, management has shared that the company has a claim of Rs81bn on account of RLNG Volume handling up to FY22. This claim is in accordance with ECC Guideline to OGRA and pending OGRA appointed Consultant Report.
- At Jun 30'21, receivables on account of Tariff adjustment against Indigenous Gas stands at Rs208bn which is to be realized on increase in customer tariffs by OGRA.
- SSGC LPG (PVT) Limited terminal business market share/LPG sales increased to 64%/7% in 9MFY23.

Outlook

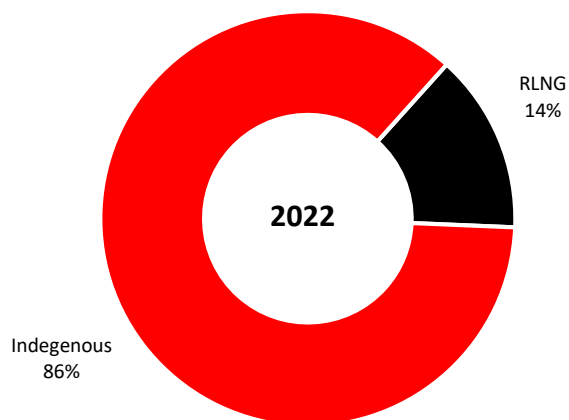
- The company is not under our formal coverage.

Table: 1QFY22 Financial Highlights

Rs in mn	1QFY22	1QFY21	YoY	QoQ	FY21	FY20	YoY
Net Sales	93,042	76,792	21%	18%	296,129	290,240	2%
Cost of sales	89,573	77,470	16%	14%	301,879	307,291	-2%
Gross Profit	3,469	(678)	na	752%	(5,750)	(17,051)	-66%
Administrative and selling expenses	1,300	1,125	16%	28%	4,446	4,793	-7%
Other operating expenses	3,314	60	5385%	1043%	464	1,796	-74%
Impairment loss against financial assets	273	1,137	-76%	59%	2,229	3,604	-38%
Other income	3,978	3,864	3%	-1%	18,643	15,429	21%
Operating profit	2,559	864	196%	-13%	5,754	(11,814)	na
Finance cost	1,089	974	12%	-16%	4,619	7,235	-36%
Profit / (loss) before taxation	1,470	(111)	na	-10%	1,135	(19,049)	na
Taxation (Reversal)	734	610	20%	na	(820)	2,344	na
Net Profit / (loss)	736	(721)	na	-82%	1,956	(21,393)	na
EPS	0.84	(0.82)			2.22	(24.28)	

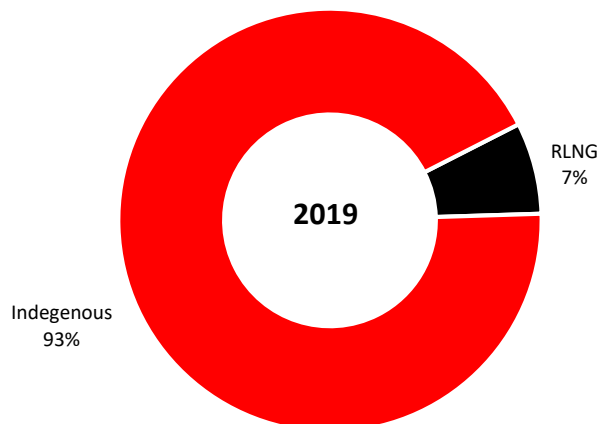
Source: Company account, Foundation Research, May 2023

Fig 1: RLNG share increased to 14% in 2022...



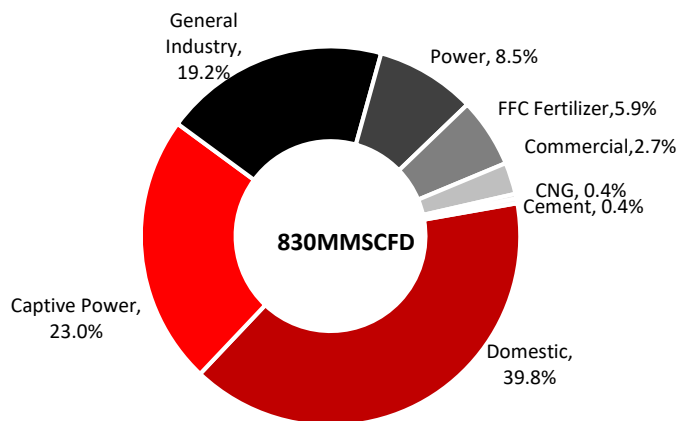
Source: PSX, Foundation Research, May 2023

Fig 2: ...from 7% in 2019



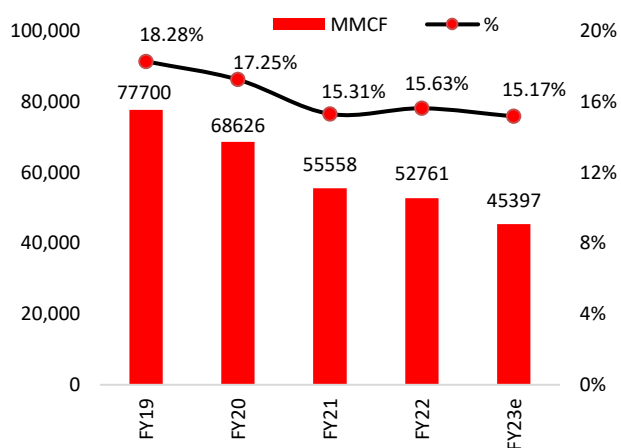
Source: PSX, Foundation Research, May 2023

Fig 3: Supplied 830mmcf in 9MFY23



Source: PSX, Foundation Research, May 2023

Fig 4: UFG losses targeted to reduce to 15.17%...



Source: PSX, Foundation Research, May 2023

Analyst

Foundation Research
+92 21 3561 2290-94

research@fs.com.pk
Ext: 313

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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