

## PAKISTAN



Gas prices	Existing	New	% Δ
Bulk Domestic	780	1,600	105%
Tandoor	697	697	0%
Fertilizer (Feed)	300	510	70%
Fertilizer (Fuel)	1,023	1,500	47%
IPPs	857	1,050	23%
Commercial	1,283	1,650	29%
CNG	1,360	1,805	33%
Cement	1,277	1,500	17%
<b>Non-Export Industry:</b>			
Process	1,054	1,200	14%
Captive Power	1,087	1,200	10%
<b>Export Industry:</b>			
Process	819	1,100	34%
Captive Power	852	1,100	29%
<b>Residential – Protected *</b>	<b>Existing</b>	<b>New</b>	<b>% Δ</b>
Up to 0.25 hm <sup>3</sup>	121	121	0%
Up to 0.5 hm <sup>3</sup>	121	150	24%
Up to 0.6 hm <sup>3</sup>	300	200	-33%
Up to 0.9 hm <sup>3</sup>	300	250	-17%
<b>Residential – Non-Protected *</b>			
Up to 1 hm <sup>3</sup>	300	400	33%
Up to 1.5 hm <sup>3</sup>	553	600	8%
Up to 2 hm <sup>3</sup>	553	800	45%
Up to 3 hm <sup>3</sup>	738	1,100	49%
Up to 4 hm <sup>3</sup>	1,107	2,000	81%
Above 4 hm <sup>3</sup>	1,460	3,100	112%

Source: Govt of Pakistan, Foundation Research, Feb 2023

\* Fixed charges of Rs50/500 from Protected/Non-Protected consumers

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# Pakistan Strategy

## ECC announces new gas prices to reduce buildup of circular debt

### Event

▪ In a major development Economic Coordination Committee of the Cabinet (ECC) has approved increase in gas prices for SSGC and SNGPL customers to comply with IMF demand to reduce buildup of circular debt. This would improve the cash flow position of SSGC, SNGPL, PSO, OGDC and PPL. We expect that fertilizer sector would pass on the impact while it would be negative for textile and chemical sectors.

### Impact

▪ **Gas prices increased to meet IMF conditionality:** The Economic Coordination Committee of the Cabinet (ECC) has approved increase in gas prices for SSGC and SNGPL customers to address the buildup of circular debt. This is one of the actions required by IMF to complete the 9<sup>th</sup> review of the IMF Extended Fund Facility which would unlock a US\$1.2bn tranche.

▪ The domestic sector gas prices have been increased by an average of 26%. Highest increase is for the Bulk sector with an increase in gas price of 105% from Rs780/mmbtu to Rs1600/mmbtu. Next highest increase is for the Fertilizer (Feed) sector with an increase of 70% to Rs510/mmbtu. Then for Fertilizer (Fuel) with an increase of 47% to Rs1500/mmbtu. Prices have also been increased for the Zero rated sector by 34% to Rs1100/mmbtu. CNG sector prices have increased by 33%. Commercial and Captive (zero rated) sectors gas price increase is 29% to Rs1650/1100/mmbtu. Cement sector prices have been jacked up by 17% to Rs1500/mmbtu. Gas prices for General industry have risen by 14/10% to Rs1200/mmbtu. Whereas, prices for Tandoor sector have remained unchanged.

▪ **Inflation to show modest jump:** The direct inflationary impact of this gas price hike would be 0.2% in the monthly reading for Feb'23. Whereas, indirect impact due to pass through to customers of various sectors would be felt over the course of next few months.

▪ **Positive for E&P and Sui companies:** This gas price increase would improve the cash flow position of SSGC, SNGPL, PSO, OGDC and PPL.

▪ **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 70/47% in feed/fuel prices would have an EPS impact of Rs7.7/Rs8.2/Rs1.9 on FFC/EFERT/FFBL. This would require FFC and EFERT to increase Urea prices by ~Rs340/bag and ~Rs400/bag to fully pass on the impact. This would have positive impact of ~Rs1.4 and Rs 0.3 on profitability of FFC and FFBL if fertilizer players increase prices by ~Rs400/bag.

▪ **Negative for Chemicals:** Profitability of EPCL/LOTCEHM would hit by ~Rs0.6/Rs0.4.

### Outlook

▪ Increase in gas prices would pave way for IMF program, thus bringing economic certainty and providing stability to currency. Reduction of circular debt would increase cash flows of Oil and Gas Exploration Companies, gas distribution companies and PSO without over-burdening the general industry and consumers.

**Table 1: Gas prices revision**

Rs per mmbtu	Current	Revised	% change
<b>Residential – Protected *</b>			
Up to 0.25 hm <sup>3</sup>	121	121	0%
Up to 0.5 hm <sup>3</sup>	121	150	24%
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Source: OGRA, Foundation Research, February 2023

\* Fixed charges of Rs50/500 from Residential Protected/Non-Protected consumers

**Table 2: Overdue receivables of E&P sector and PSO from Sui companies**

	Rs bn	Rs/sh
OGDC	334	78
PPL	375	138
PSO	306	651

Source: PSX, Foundation Research, February 2023

Table 3: Impact of Increase in gas prices

Sector/Stock	Impact	Severity	Neutralizing factor
<b>Fertilizer</b>			
FFC	-7.7	Low	Rs340/bag increase in Urea price
EFERT	-8.2	Low	Rs400/bag increase in Urea price
FFBL	-1.9	Low	Net beneficiary due to reliance on FPCL for fuel
<b>Chemical</b>			
EPCL	-0.6	High	Lower pricing power
LOTCHEM	-0.4	High	Lower pricing power
<b>Engineering</b>			
ISL	-0.1	Low	Rs120/ton increase in CRC price
<b>Cement</b>			
LUCK	-0.8	Low	Difficult to pass through due to economic slowdown
<b>Textile</b>			
NML	-1.1	High	Difficult to pass through impact to customers
NCL	-0.1	High	Difficult to pass through impact to customers
GATM	-1.1	High	Difficult to pass through impact to customers
ILP	-0.2	High	Difficult to pass through impact to customers

Source: Foundation Research, February 2023

**Abbreviations**

mmbtu million British Thermal Units

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