REP-300

Market Strategy

OGRA Notifies Gas Price Hike for Captive Power Plants

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OGRA Notifies Gas Price Hike for Captive Power Plants

- The Oil and Gas Regulatory Authority (OGRA) has notified the gas tariff increase for consumers of SNGP and SSGC.
- The gas tariff revision aligns with the IMF's conditions, specifically targeting an increase in the gas price for captive gas consumers. The gas prices for all other sectors have remained unchanged.
- We have estimated the revenue impact of the said increase and our working suggests that the revised gas prices would create a positive GDS of PKR 148bn/annum and for five months it would be PKR 62bn.

Exhibit: Revenue Requirements and Expected Revenue Collection

		SSGC	SNGP	Total
Total Revenue requirement (ERR FY25)	PKR mn	319,781	527,548	847,329
Gas Volumes	mmcf	320,785	325,217	646,002
Gas Volumes	bbtu	311,161	311,867	623,028
Gas Volumes	mmcfd	879	891	1,770
Revenue (annual) post tariff increase	PKR mn	995,599		
Total Revenue requirement (ERR FY25)	PKR mn	847,329		
Surplus/(deficit)	PKR mn	148,270		

Source (s): OGRA, AHL Research

- The captive gas prices have increased from PKR 3,000/mmbtu to PKR 3,500/mmbtu. Assuming 30% efficiency, the cost of captive electricity generation will increase from PKR 34.12/KWh to PKR 39.81/KWh. Even with this increase, captive generation costs is still lower than the grid electricity cost, which is PKR 41.61/KWh (inclusive of all levies and excluding GST). However, if we assume levy of 5% on gas sale price resulting in the total gas price of PKR 3,675/mmbtu, the cost of captive generation (PKR 41.65/KWh) would match the grid electricity cost.

Exhibit: OGRA Notifies Gas Price Hike

PKR/MMBTU		Old	New	Change
Domestic				
Protected				
Up to 0.25 hm3		200	200	0.0%
Up to 0.50 hm3		250	250	0.0%
Up to 0.60 hm3		300	300	0.0%
Up to 0.90 hm3		350	350	0.0%
Non-Protected				
Up to 0.25 hm3		500	500	0.0%
Up to 0.6 hm3		850	850	0.0%
Up to 1.0 hm3		1,250	1,250	0.0%
Up to 1.5 hm3		1,450	1,450	0.0%
Up to 2.0 hm3		1,900	1,900	0.0%
Up to 3.0 hm3		3,300	3,300	0.0%
Up to 4.0 hm3		3,800	3,800	0.0%
Above 4.0 hm3		4,200	4,200	0.0%
Bulk		**2,900**	**2,900**	**0.0%**
Special Commercial (Roti Tandoor)		**700**	**700**	**0.0%**
Commercial		**3,900**	**3,900**	**0.0%**
Power		**1,050**	**1,050**	**0.0%**
Fertilizer	Feed	**1,597**	**1,597**	**0.0%**
(Engro, FFBL)	Fuel	**1,597**	**1,597**	**0.0%**
Industry (Process)		**2,150**	**2,150**	**0.0%**
Industry (Captive)		**3,000**	**3,500**	**16.7%**
Cement		**4,400**	**4,400**	**0.0%**
CNG		**3,750**	**3,750**	**0.0%**

Source (s): OGRA, AHL Research

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Sectoral Impact

Exploration and Production and Gas utilities – Positive for cash flow

- The revision in consumer gas prices will further curb the gas circular debt of E&P companies and of domestic gas utilities (SNGP, SSGC).
- Hence, a hike in gas prices will be positive for these companies, as it will improve the cash flows, increasing pay-outs going forward.
- The revision in the gas price resulted in decline in the receivables of OGDC and PPL to PKR 608bn in Sep’24 (PKR 635bn in Jun’24) and PKR 574bn in Sep’24 (PKR 578bn in Jun’24), respectively.
- It is important to mention that 5-year average gas revenue of OGDC and PPL has a respective 42% and 64% contribution to the total revenue.

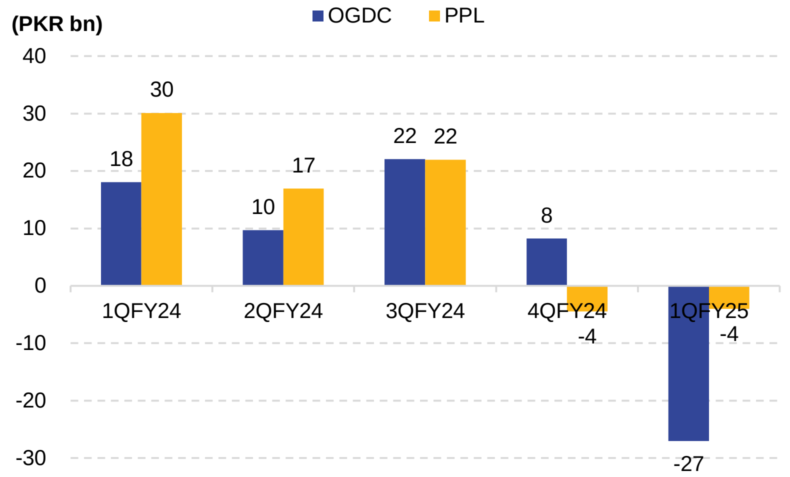
OMCs – PSO to get cash flow relief

- PSO supplies RLNG to the industrial sector, which during the winter is shifted to domestic sector leading to an increase in price differential.
- Therefore, the higher GDS alongside fixed charges (increased in previous gas tariff hike) would help the government to reduce the circular debt of the RLNG chain and could be used to settle price differential.

Cement – Prices may increase by ~PKR 15/bag

- Gas tariff for cement players using captive power plants has increased to PKR 3,500/mmbtu (PKR 3,675/mmbtu inclusive of 5% levy) from the current PKR 3,000/mmbtu.
- Our workings suggest that LUCK will have to raise prices by ~PKR 15/bag to completely pass on the impact of higher gas prices.

Figure: Change is receivables



Source (s): Company Financials, AHL Research

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Steel – Muted impact amid dependency on alternatives

- Gas tariff for industries (non-exports) has been raised to PKR 3,500/mmbtu.
- Usage of gas by long steel players (manufacturers of rebars: ASTL and MUGHAL) during the reheating process is very low.
- The steel manufacturers are mostly relying on FO for power generation, therefore, the impact would be muted, we view.

Chemical – Earnings erosion likely

- We anticipate that the potential gas price hike will have a negative impact of PKR 0.41/share (-13%) and PKR 0.40/share (-14%) on an annualized basis on EPCL and LOTCHEM, respectively.

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2025 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between 0% and +15% from last closing of market price(s)
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Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

Disclosure required under Research Analyst Regulations, 2015:

In order to avoid any conflict of interest, we hereby disclosed that;

Arif Habib Limited (AHL) has a shareholding in BOP, FABL, HBL, HUBC, LOTCHEM, MLCF and NBP.