

Market Strategy

OGRA Notifies Gas Price Hike for Captive Power Plants

27-Jan-2025

AHL Research

D: +92 21 38280283

UAN: +92 21 111 245 111, Ext: 248

F: +92 21 32420742

E: research@arifhabibltd.com



Best for Research: '24
Best for Diversity & Inclusion: '24
Best Investment Bank: '23



Best Securities House: '23
Best Investment Bank: '23



Best Brokerage House: '23 – '21
Best Corporate Finance House: '23 - '13
Best Economic Research House: : '23 – '21
Best Research Analyst: '22 – '20



Best Investment Bank: '22



Best Brokerage House: '23



Top 25 Companies
('17-'19)



Best Gender Equality Bond: '24
Best Equity Advisor: '21



Excellence Award Leading
Brokerage House for RDA '21

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	mmcf/d	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 (Engro, FFBL)	Feed	1,597	1,597	0.0%
	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

OGRA Notifies Gas Price Hike for Captive Power Plants

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.

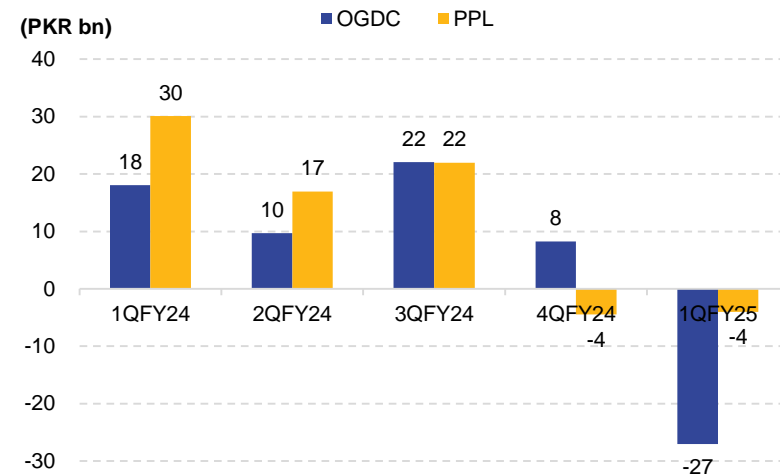
OMCs – PSO to get cash flow relief

- 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 in receivables



Source (s): Company Financials, AHL Research

OGRA Notifies Gas Price Hike for Captive Power Plants

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.

Analyst Certification and Disclaimer

Analyst Certification: The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

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)
SELL	Upside* of subject security(ies) is less than 0% from last closing of market price(s)

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

Disclaimer: This document has been prepared by Research analysts at Arif Habib Limited (AHL). This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, AHL does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. AHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, AHL is under no obligation to update or keep the information current. AHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his or her own advisors to determine the merits and risks of such investment. AHL or any of its affiliates shall not be in any way responsible for any loss or damage that may be arise to any person from any inadvertent error in the information contained in this report.

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.