

Market Strategy

Electricity tariff reduction brings respite

04-Apr-2025

REP-300

AHL Research

D: +92 21 32462742

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

Market Strategy

Electricity tariff reduction and its impact

The Government of Pakistan has announced a significant reduction in electricity tariffs to provide relief to both residential and commercial consumers.

Key Announcements:

- **Residential consumers:** Electricity rates will be reduced by PKR 7.41/kWh, bringing the new tariff down to PKR 34.37/kWh.
- **Industrial consumers:** A reduction of PKR 7.59/kWh has been introduced to lower energy costs for businesses.

This measure aims to alleviate the financial burden on industries heavily dependent on grid electricity and support overall economic growth.

Impact on listed companies:

- The reduction in electricity tariffs will be particularly beneficial for industries heavily reliant on grid power.
- Among the key beneficiaries, FCCL's earnings is expected to increase by PKR 0.45/share (8.1% of FY26 earnings), while KOHC is projected to gain PKR 4.65/share (6.7% of FY26 earnings).
- PIOC (PKR 1.33/share) and FCCL (PKR 0.38/share) also gain moderate benefits while MLCF (PKR 0.18/share) and CHCC (PKR 0.06/share) see minor relief primarily due to lower grid dependency.
- In the steel sector, our estimates suggest that per share impact on MUGHAL is expected to be around PKR 0.32/share.

Exhibit: Annualized impact of power tariff reduction

Company	Impact per share (PKR)
Cements	
CHCC	0.06
LUCK	0.00
BWCL	1.89
PIOC	1.33
MLCF	0.18
FCCL	0.38
KOHC	2.51
DGKC	0.00
Steel	
MUGHAL	0.32

Source: AHL Research

Market Strategy

Tariff cut breakdown

According to our estimates, the recent tariff cut announced by the government is supported by the following measures:

- **Termination of Power Purchase Agreements (PPAs):** In Oct'24, the government reached an agreement to terminate PPAs with five Independent Power Producers (IPPs), resulting in savings of PKR 60bn and a tariff reduction of PKR 0.57/kWh.
- **Shift from “Take or Pay” to “Take and Pay” Model:** Contracts with 18 IPPs have been renegotiated from the "take or pay" structure to a hybrid "take and pay" model. This is expected to generate savings of approximately PKR 72bn and has likely contributed to a tariff reduction of PKR 0.67/kWh.
- **Tariff Differential Subsidy (TDS):** Additional savings are anticipated from the reallocation of incremental Petroleum Development Levy (PDL) collections toward TDS, helping reduce the cost burden by PKR 1.71/kWh.
- **Quarterly Tariff Adjustment (QTA):** A further adjustment of around PKR 2/kWh is likely to be implemented in the last quarter of FY25 as part of QTA.
- **Fuel Cost Adjustments (FCA):** Fuel cost adjustments are expected to reduce tariffs by approximately PKR 1.4/kWh.

Taken together—with the inclusion of GST—the total reduction aligns with the overall tariff relief announced by the government of above PKR 7/unit. To note, the first three measures (PPAs termination, contract conversion, and TDS adjustments) are expected to offer a permanent relief of around PKR 3/unit, while the impact of QTA and FCA will become clearer over time depending on future adjustments.

Market Strategy

Tariff cut breakdown

Exhibit: Slab-wise breakdown

Industrial	Jun - 24 Rates	Current Rates	Reduction (Jun-24 vs Current)	Revised Rates	Reduction (Current vs Revised)	Total Reduction	
B1	58.3	47.7	(10.6)	40.0	(7.7)	(18.3)	(0.3)
B1 Peak	62.9	52.3	(10.6)	44.6	(7.7)	(18.3)	(0.3)
B1 Off Peak	55.8	45.2	(10.6)	37.5	(7.7)	(18.3)	(0.3)
B2	60.5	50.1	(10.5)	42.4	(7.7)	(18.2)	(0.3)
B2 - Tou (Peak)	62.8	52.2	(10.6)	44.5	(7.7)	(18.3)	(0.3)
B2 - Tou (Off - Peak)	59.2	48.7	(10.5)	41.1	(7.7)	(18.2)	(0.3)
B3 - Tou (Peak)	62.8	52.2	(10.6)	44.5	(7.7)	(18.3)	(0.3)
B3 - Tou (Off - Peak)	57.4	47.0	(10.4)	39.3	(7.7)	(18.1)	(0.3)
B4 - Tou (Peak)	62.8	52.2	(10.6)	44.5	(7.7)	(18.3)	(0.3)
B4 - Tou (Off - Peak)	57.1	46.6	(10.5)	38.9	(7.7)	(18.2)	(0.3)
Temporary Supply	59.7	59.6	(0.1)	51.9	(7.7)	(7.8)	(0.1)

Source: AHL Research

Exhibit: Slab-wise breakdown

	Consumer (Jun-24)		Units (FY-25 (P))		Jun - 24 Rates	Current Rates	Reduction (Jun-24 vs Current)		Revised Rates	Reduction (Current vs Revised)		Total Reduction	
Up to 50 units - Life Line	1,418,975	4%	270.0	0%	4.8	4.8	-	0%	4.8	-	0%	-	0%
51 - 100 units - Life Line	508,918	1%	505.0	0%	9.4	9.4	-	0%	9.4	-	0%	-	0%
01 - 100 units - Life Line	7,462,890	19%	11,787.0	10%	19.4	14.7	(4.7)	-24%	8.5	(6.1)	-32%	(10.9)	-56%
101 - 200 units - Life Line	10,257,189	25%	3,797.0	3%	22.2	17.7	(4.5)	-20%	11.5	(6.1)	-28%	(10.7)	-48%
Non-Protected < 300	10,123,533	25%	23,714.0	19%	42.1	41.3	(0.9)	-2%	34.0	(7.2)	-17%	(8.1)	-19%
Non-Protected > 300 & Tou	5,222,434	13%	17,984.0	15%	56.3	55.7	(0.6)	-1%	48.5	(7.2)	-13%	(7.8)	-14%
Domestic	34,993,939	87%	58,057.0	48%	39.3	38.3	(0.9)	-2%	31.6	(6.7)	-17%	(7.7)	-19%
Commercial	4,211,802	10%	9,787.0	8%	71.0	71.1	0.1	0%	62.5	(8.6)	-12%	(8.5)	-12%
General Services	251,861	1%	4,189.0	3%	57.2	56.7	(0.5)	-1%	49.5	(7.2)	-13%	(7.7)	-13%
Industrial	402,885	1%	32,042.0	26%	58.5	48.2	(10.3)	-18%	40.5	(7.7)	-13%	(18.0)	-31%
Bulk	4,538	0%	3,856.0	3%	57.8	55.1	(2.8)	-5%	47.9	(7.2)	-12%	(10.0)	-17%
Agriculture	382,619	1%	10,798.0	9%	43.4	41.8	(1.6)	-4%	34.6	(7.2)	-17%	(8.8)	-20%
Others (AJK, Public Lightening etc.)	13,895	0%	3,191.0	3%	57.1	39.7	(17.4)	-30%	32.7	(7.0)	-12%	(24.4)	-43%
National	40,261,539	100%	121,920.0	100%	48.7	45.1	(3.7)	-7%	37.6	(7.4)	-15%	(11.1)	-23%

Source: AHL Research

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 person engaged in providing non-research services has 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 from 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.