

SSGC sensitivity on 'proposed' gas price increase as per media reports...

Tuesday, 14 January 2025

Media reports on gas price increase for captive plants...

We are seeing latest developments in gas utility viz. Sui Southern Gas (SSGC). The reports in the section of media suggest that there is a debate to increase gas price especially for the captive power users. Though it could be negative for industries whose captive power plants are receiving gas.

However, this could ostensibly at the behest of International Monetary Fund (IMF) insinuations wherein Oil & Gas Regulatory Authority (OGRA) has the final say before government could increase gas prices.

As per media reports, the proposed tariff adjustment reflects the challenges pertains to the energy sector wherein a 25.7% increase along was quoted in the section of the media for captive power plants alone.

Story of impending gas price...

Hence we have carried out a sensitivity on SSGC; if it gets this price increase 'benefit'. SSGC supplies comprises 44.3% usage for domestic consumers, 22.5% for captive power users & 20.3% bound for industries (processing). This accounts to 87.1% of the total gas supplies. Hence this is considered a major development in SSGC.

Sensitivity...Talk of increase from PKR 3000/mmcf in case of captive power plants

Just recently, OGRA has notified changes in gas prices bound for domestic protected users of SSGC (picture affixed). This seems a big raise in prices for protected users. Also now there is a talk in the media of gas price increase for captive power plants to the extent of 25.7% from the prevailing PKR 3000/mmcf.

We did a sensitivity in SSGC on the capacity utilization basis. For instance, if the utilization level is taken at 50% (FY23: 59.08%) then SSGC can still post EPS of ~PKR 15.6/sh considering net margin of 3% as a proxy on profits (1QFY24 reported: 5.8%).

1QFY24 result outlook... 'Turnaround' | PE 2.6x

In 1QFY24 SSGC posted net profit of PKR 4.15 bn and a subsequent EPS of PKR 4.72/sh. This entails turnaround story of SSGC wherein the gas utility depicts FY24 PE of 2.6x.

FY24	mmcf	HM3
SSGC Capacity	990,610	279,092,975
Utilisation	50%	50%
SSGC Utilisation	495,305.00	139,546,487.50
Market Price	42/sh	
No of Share	880,916,309	

FY24E		
SSGC Capacity	990,610	MMCF
EPS Sensitivity on Utilisation Basis		
Utilisation	EPS	P/E
40%	13.05	3.07
45%	14.3	2.80
50%	15.56	2.57
55%	16.81	2.38
60%	18.07	2.21

SSGC's total capacity is 990,610 mmcf. The domestic consumers of this sales mix is 44.3% and the other biggest consumer is captive power plants which is 22.5%.

SSGC tariff adjustment presents a rosy figure...

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SSGC equity turned positive...

The above-mentioned means SSGC financials may have revitalized. For instance, we have immediately seen SSGC shareholders equity figure has turned 'positive' i.e. ~PKR 1.5bn in its 1QFY24 accounts, an indeed heartening news for investor community.

FY23 results recap...4Q recurring EPS was 'positive' i.e. PKR 17.88/sh

SSGC was able to post a recoup in profitability from earlier losses. For instance 4QFY23 Loss Per Share (LPS) was decreased in a big way.

During 9MFY23 the LPS was PKR 19.7/sh wherein in 4QFY23 the reported EPS was PKR 17.88/sh. This has turned things very positive for the gas utility which is mainly due to revision of tariff adjustments changes in the SSGC filing to PSX.

UFG factor...it may not pose any pressure on upcoming EPS as and when announced

The Unaccounted for gas (UFG) losses is a major factor in SSGC accounts over the years. It means SSGC could not recover much from its gas supply losses especially from Balochistan province. Now there is major turnaround in this picture.

As per the corporate briefing (CBS) notes, SSGC management is projecting 5- 6% UFG losses if supplies to the restive province viz. Balochistan is set aside.

- The biggest issue is unaccounted for gas (UFG) which the company was facing and they were bound to get it decreased as per OGRA guidelines. They have cut their losses on UFG and the benchmark which is set by OGRA is 7.6%.
- Also Karachi region UFG loss is below 6%.
- Interior Sindh UFG percentage reduced to 9.2% from 16.7% and Balochistan reduced to 48% from 56%.
- Hence 'SSGC CBS' is reporting significant improvement on the count of UFG. This entails enhanced earning outlook for SSGC from FY25 onwards.
- We believe that their may be less pressure on following quarterly EPS as and when OGRA vet their financials in the post 1QFY24 results.

FY25E

SSGC Capacity	990,610	MMCF
SSGC Capacity		
EPS Sensitivity on Utilisation Basis		
Utilisation	EPS	P/E
40%	26.25	1.52
45%	29.34	1.36
50%	32.44	1.23
55%	35.31	1.13
60%	38.63	1.04

** We are assuming the rates for protected customers.

* (Ref: # OGRA-10-3(8)/2023)

*FOR PROTECTED CUSTOMERS		
Customers who had consumed 90 CM or less on an average during the last four winter months (Nov, Dec., Jan. and Feb.)		
Sr. #	Monthly Consumption (CMs)	Approximate Bill Amount (Rs.)
01.	20	650/-
02.	40	740/-
03.	60	930/-
04.	80	1,250/-
05.	90	1,350/-

*Protected Category to pay a fixed charge of Rs. 400/-

**Non-protected Category to pay a fixed charge of Rs. 1,000/- upto 150 CMs while Rs. 2,000/- for exceeding consumption of 150 CMs

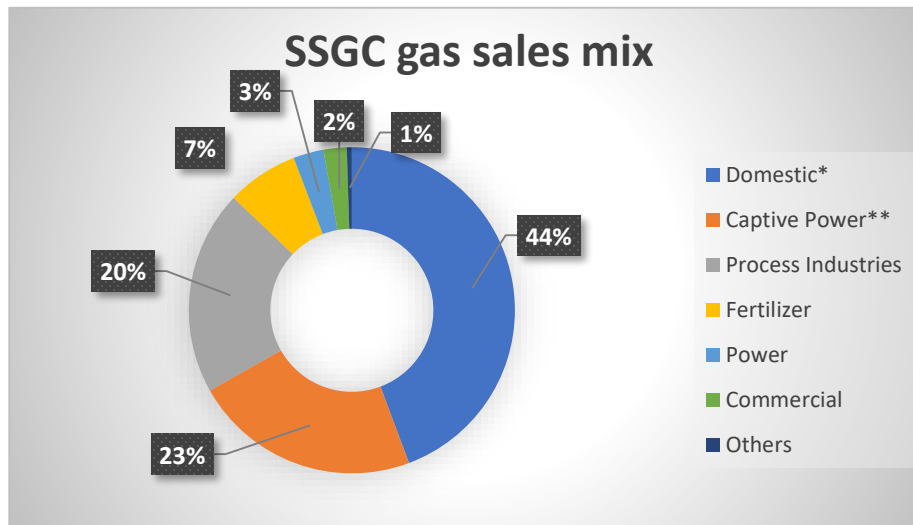
*** With effect from November 1, 2023

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SSGC management disclosed in published CBS that increase in gas prices helped the company to pay their debt and overdue debts to oil and gas exploration companies namely the E&P's viz Pakistan Petroleum (PPL) and Oil & Gas Development (OGDC). before that payments for E&P companies were 100%.

SSGC equity returned to positive in 1QFY24 after being negative from FY19. Hence we expect further improvement in equity in the upcoming years given specter of gas price increase. As for FY25, we see real benefit of price increase could come in shape of incremental increase in reported EPS. Only risk to our analogy is the time as and when results are reported at the behest of OGRA.



Source: SSGC Corporate briefing

PNL Account

PKR mn	1QFY24	1QFY23
Revenue	70,921	70,706
Tariff Adjustments	46,929	45,532
Net Sales	117,850	116,238
Cost of Sales	112,095	113,550
Gross Profit	5,755	2,688
Admin Exp	1,668	1,379
OPEX	1,458	7,471
Allow Credit Loss	401	432
	3,527	9,282
	2,228	(6,594)
Other Income	5,412	3,552
Finance Cost	3,243	1,649
PBT	4,397	(4,691)
Taxation	239	903
PAT/ LAT	4,158	(5,594)
EPS/ LPS	4.72	(6.35)

Source: Company books

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