Flash Note: UFG RATIONALIZATION "A POSITIVE STEP FOR GAS UTLILITIES"

13 March, 2018

ABBASI SECURITIES

REP-091

- The government has decided in principle to increase gas prices by 5-7%, allowing additional revenue of Rs18bn to cover losses of the two gas utilities with retrospective effect from 2012-13. SNGPL will be given Rs6.5bn through 'retrospective application of UFG study' and SSGCL Rs11.26bn in the same manner after formal approval of ECC

- OGRA may finalize the provisional benchmarks set from 2012-13 to 2016-17 in line with proposal of the UFG study, the benchmark is set at 7.6% (fixed rate of 5% UFG plus 2.6% for local conditions) so as to ensure that gas companies continue to remain financially viable

- To recall that ECC has already approved the sovereign guarantee for 1.2bcfd RLNG III, which is expected to complete in FY20 (SNGP planned CAPEX is Rs100bn)

- We estimate post RLNG III SNGP earning to remain in the region Rs17.25/share. We have a buy call on SNGP with a target price of Rs159/share providing 38% upside on LDCP.

- **Key risk to our estimates**, i) adverse allocation of assets incase unbundling of Sui companies, ii) higher UFG losses than estimates, III) sharp increase in cost of gas and iv) earlier than expect implementation of lower return, v) price increase may be challenged in court of law

Research Department
021-111-555-275
research@abbasisecurities.com

- **Disclaimer** **REP-091**

Disclaimer: This document is prepared for information purposes only. The information and data on which this report is based are obtained from sources which we believe to be reliable but we do not guarantee that it is accurate or complete. This document does not take account of the investment and trading objectives, financial situation and particular needs of clients, who should seek further professional advice or rely upon their own judgment and acumen before making any investment / trading decision.

- **Analyst Certification**

The author(s) of this report hereby certifies(y) that this report accurately reflects his/their own independent opinions and views as of the time this report went into publication and that no part of his/their compensation was, is or will be affected by the recommendation(s) in this report. The research analyst or any of his/their close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or their close relatives have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or his/their close relatives have not traded in the subject security in the past 7 days and will not trade for 5 days post publication of the report.

- **Valuation Methodology**

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

· Comparable Method (P/E, P/B etc.)

· Discounted Cash flow Method

·Equity and Asset based valuation

- **Rating**
  - BUY Total return more than 20% from last closing of market price
  - HOLD Total return is in between 10% and 20% from last closing of market price
  - REDUCE Total return is less than 10% from last closing market price

ABBASI SECURITIES

Contact us:
Email: research@abbasisecurities.com
Website: www.abbasisecurities.com
Telephone: 111-555-275