

Gas price revision; impact on fertilizer companies

Oil and Gas Regulatory Authority (OGRA) yesterday notified a gas prices increase of 18% effective January 1, 2010. Interestingly, the price revisions with regards to gas supplied from SSGC and SNGPL (suppliers to FFBL and Engro's new plant) have been incorporated in the notification while no information has been provided with regards to price revision for gas supplied by Mari Gas Company Limited (supplier to major fertilizer players, Engro and FFC). According to the notification, there has been no change to feedstock gas prices for FFBL which currently stand at Rs102.01/mmbtu. However, fuel stock gas prices have increased to Rs382.37/mmbtu (previously Rs324.3/mmbtu). We estimate a negative earnings impact Rs0.26 per share of this increase in fuel stock gas prices on FFBL earnings for 2010 which, inline with the historical trend, we believe will be passed on to the end consumers.

As no information is available on price revision for gas supplied by Mari Gas Company Limited, it is not possible to estimate any impact on Engro or FFC earnings. However, a similar increase in the fuel stock gas prices can dent earnings for the companies by Rs1.53 and Rs0.72 per share respectively.

Historically, we have seen fertilizer companies (due to their pricing power) pass down the incremental cost impact to end consumers. Hence, we expect FFBL to do the same which would result in Rs15 per bag increase in the urea and DAP prices. Interestingly though, since price revision for Mari Gas Company Limited is yet to be notified, any decision with regards to an increase in urea and DAP prices is likely to be deferred.

Currently, we have an 'Over-weight' stance on the fertilizer sector with Engro our top pick while we recommend a 'Hold' stance on FFC and FFBL.

Bilal Qamar
bilal.qamar@js.com
92 (21) 111-574-111(Ext. 3099)