Topline SECURITIES

# Pakistan Equity

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## Investor Connect 2026 – Karachi

## SSGC: Better regulatory environment to support earnings outlook

## LOTCHEM: Building a more Integrated Chemical business

CFA Society Pakistan
Best Brokerage House
2016, 2017, FY20 (Winner)
FY22 & FY25 (Runner Up)

EUROMONEY
Best Brokerage House
2025

COUNTRY AWARDS FOR ACHIEVEMENT 2018 FinanceAsia
Best Brokerage House
2018, 2019 & 2020

ASIAMONEY
Best Local Brokerage House
Brokers Poll 2016 to 2023

2019 International Finance Brokerage Awards
Best Research House 2019,
2020, 2023 & 2025

Asian Awards 2019 The Asset Triple A
Best Brokerage House
2021

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# Sui Southern Gas Company (SSGC) - Key Takeaways

- Topline Securities organized the Pakistan Investor Connect Conference, where Sui Southern Gas (SSGC) was one of the key participating companies. The session was led by SSGC's Managing Director, Mr. Amin Rajput, who shared the company's operational updates, financial position, and outlook.
- Management expects the JJVL project to generate Rs2.0–2.5bn in annual revenue. Under OGRA regulations, 50% of this revenue will be recognized as non-operating income, directly boosting the company's bottom line. Other non-operating income includes earnings from the Engro LNG Terminal @ ~US$0.025/MMBtu of RLNG regasified at Terminal.
- The company plans to undertake Rs30bn of CAPEX annually over the next three years, primarily for the rehabilitation and replacement of its gas distribution network. Given the lack of major gas discoveries in Sindh and Balochistan and no major projects of Transmission, the investment is aimed at improving system reliability, reducing Unaccounted-for-Gas (UFG) losses, and enhancing gas supply efficiency.
- Management reiterated its focus on increasing supplies to bulk industrial consumers to improve operational efficiency and reduce UFG. The company is in the process of finalizing the Gas Sale Agreements with K-Electric and National Steel Complex to supply around 90 and 45 MMcfd of gas, respectively. As bulk consumers typically have minimal UFG losses, 100% recovery and increasing their share in the customer mix is expected to improve overall system efficiency.
- Management also discussed changes in gas allocations to the fertilizer sector. FFBL, which currently receives 35 to 60 MMcfd for DAP and Urea production from SSGC, will instead receive these volumes from Mari Energies under a gas swap arrangement between MARI, SNGPL and SSGC. The impact on earnings is expected to be largely offset by higher gas sales to the National Steel Complex, where industrial gas tariffs are higher than those applicable to fertilizer sector.
- Regarding the latest KPMG study for UFG benchmark, management stated that the proposed UFG benchmark starts at 6.5% and gradually declines to 5.5% over a five-year period. Losses arising from exceptional circumstances, such as terrorism and adverse law-and-order conditions, will be benchmarked separately and eventually benchmark is expected to set at 8.1%. While RLNG-related UFG is not expected to qualify as a pass-through under the proposed framework.
- Management highlighted that the regulatory environment has improved under the IMF program, with more timely decisions on revenue requirements. The company expects its Final Revenue Requirement (FRR) for FY26 to be determined by Oct-2026. Regarding the Estimated Revenue Requirement (ERR) for FY2026-27, management stated that based on OGRA determination, the government decided to maintain gas tariffs unchanged to preserve overall tariff stability.
- Management also highlighted that a portion of finance costs was previously allowed in tariff determinations due to delays in the finalization of the Estimated Revenue Requirement (ERR). However, as ERR determinations have been finalized on a timely basis over the past two to three years, there are less chances that OGRA will allow finance cost.

# Sui Southern Gas Company (SSGC) - Key Takeaways

- Commenting on circular debt, management stated that the government has taken steps to curb its accumulation, while SSGC continues to prioritize timely monthly payments to E&P companies despite ongoing cash flow constraints.
- Due to the ongoing regional conflict, the company's gas supply has also been affected. Prior to the conflict (up to Feb-26), total gas supply averaged 792mmcfd, including 90mmcfd of RLNG imports. Following the suspension of RLNG imports, total gas supply declined to ~624mmcfd, while new domestic RLNG connections were also suspended. Consequently, 4QFY26 UFG of Karachi is around 6% mainly due to lower domestic gas sales resulting from supply shortages and seasonal factors.
- Management stated that the implementation of the captive power gas levy has shifted ~100 MMcfd of captive power demand away from gas-based generation, reducing overall gas offtake. The company's current sales mix is evenly split between industrial and domestic consumers.
- Over the years, SSGC has significantly reduced UFG from 17.1% in FY19 to 12.1% in FY25, after peaking at 17.8% in FY22. Management noted that the remaining elevated UFG primarily stems from Balochistan, where gas demand rises during winter because of harsh weather conditions.
- Regarding the Iran–Pakistan gas pipeline, management emphasized that Pakistan should continue investing in domestic gas infrastructure, noting that reliance solely on LNG imports through Floating Storage and Regasification Units (FSRUs) cannot adequately meet the country's long-term energy requirements.

# Lotte Chemical Pakistan (LOTCHEM) - Key Takeaways

- Topline Securities organized the Investor Connect Conference, where Lotte Chemical (LOTCHEM) was one of the key participating companies. The session was led by LOTCHEM's CEO, Mr. Adnan Afridi, who shared the company's operational updates, financial position, and future outlook.
- The management presented its vision for diversification and greater sustainability within existing operations through cost optimization initiatives, including energy projects and process improvements; diversification through brownfield projects; and plans for various backward and forward integration initiatives. In addition, management discussed the rationale behind its interest in the Engro Polymers (EPCL) business. Management highlighted that some of these projects have already been executed, while others are at an advanced stage, with most of the remaining projects expected to be executed within the next 2 years.
- Management noted that the acquisition of EPCL will be an equity-based transaction as EPCL itself is levered company. The idea behind this acquisition is to achieve energy synergy as target company has significantly higher energy cost than current cost of LOTCHEM.
- LOTCHEM's average power tariff currently stands at Rs29/unit, down from Rs34/unit, translating into annual cost savings of up to Rs1bn. This is due to recent Govt. incentive package of lower incremental tariff. In comparison, EPCL's average tariff cost currently averages around Rs49/unit. Given their significantly higher consumption, post-merger synergies can reduce their annual energy costs by over Rs8-10bn.
- The supply of paraxylene has been constrained due to the ongoing conflict since it comes from the Middle East through the Strait of Hormuz. While alternative supplies can be sourced from Northeast Asia, freight costs are approximately twice as high, and delivery times are longer. Management is therefore exploring the possibility of partnering with refineries and other potential partners in Pakistan or nearby regions to establish a paraxylene plant.
- The company's ongoing energy initiatives, including BESS, the 6.5 MW solar plant, the azeotropic dehydration column, and the reactor project, are expected to further reduce annual energy costs by approximately 50%, translating into annual savings of up to Rs3.5bn. The BESS and solar plant are already operational, while the other projects are under development.
- The Anti-Dumping Duties (ADD) on Chinese PTA imports came into effect on a provisional basis in January 2026 and were subsequently finalized in June 2026 for a period of 5 years. According to management, the competitive position has improved following the imposition of ADD. Excluding the period prior to the imposition of ADD, Chinese PTA imports have largely been limited to imports under the Export Facilitation Scheme (EFS), to which ADD does not apply.
- Management commented that, in last few years PTA demand in Pakistan touched 800k tons (peak), while the capacity of LOTCHEM is 500k tons. In last few years demand has slightly declined. The demand from downstream side, i.e PET demand weakened mainly due to the boycott of Coca Cola and Pepsi.

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|---|---|
| Buy | Stock will outperform the average total return of stocks in universe |
| Neutral | Stock will perform in line with the average total return of stocks in universe |
| Sell | Stock will underperform the average total return of stocks in universe |

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| **Rating** | **Sector's Proposed Weight in Portfolio** |
|---|---|
| Over Weight | > Weight in KSE-100 Index |
| Market Weight | = Weight in KSE-100 Index |
| Under Weight | < Weight in KSE-100 Index |

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