

## Flash Note: Proposed Bulk Electricity Tariff Hike and Impact on Dhaka Electric Supply Company Limited (DSE: DESCO)

As per recent news sources, Bangladesh Power Development Board (BPDB) has submitted a proposal to the Bangladesh Energy Regulatory Commission (BERC) to increase bulk electricity tariff by BDT 0.81 per unit or 18.12% (approx.) to reduce its substantial loss.

For more, news link: <http://www.banglanews24.com/en/fullnews/bn/100398>

### Analyst's Note:

- In general, bulk tariff hike increases the cost of electricity purchase of electricity distribution companies as those have to purchase electricity from BPDB at bulk tariff.
- **If BERC does not 100% pass through the increased bulk tariff through retail tariff hike, gross margin of the electricity distribution companies may erode, in consequence.**
- Historically, gross margin of a listed electricity distribution company namely, DESCO, came down from a robust 27.4%\* (2010) and 28.4%\* (2011) to a meager 7.1%\* (2013) **due to unfavorable bulk and retail tariff revision for electricity distribution companies.**
- On a quarterly observation from recent periods, gross margin touched as low as 2.3% (Q3 2014) and EBITDA margin was suffering at -5.5% (Q3 2014). Following figures can portray gross and EBITDA margin of the recent periods –

Profitability Ratio/ Year	Q1, 2014	Q2, 2014	Q3, 2014	1H, 2014	9M, 2014	2013
Gross Margin*	7.1%	8.8%	2.3%	7.8%	6.3%	7.1%
EBITDA Margin	2.9%	-1.4%	-5.5%	1.0%	-0.8%	1.3%

Source: Financial statements of DESCO, Research, IDLCIL

- However, we may follow both bulk and retail tariff revision more closely, in coming day, to get better insight whether the revision (if any) is in favor of electricity distribution companies, like DESCO, for an informed investment decision making.

\*excluding operating depreciation and expenditures.

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