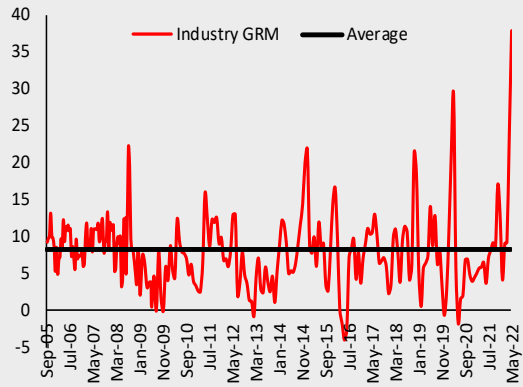


PAKISTAN

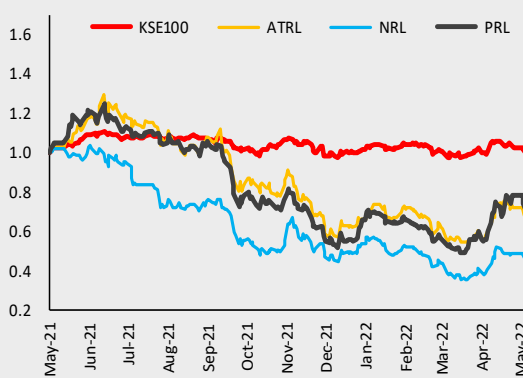


GRMs hitting new highs



Source: PD, OCAC, FSL research, May 2022

Price Performance vs KSE-100



Source: PSX, FSL research, May 2022

Analyst

Zeeshan Azhar zeeshan@fs.com.pk
 +92 213 5612290 Ext 331

Foundation Securities (Pvt) Ltd
 Thursday, May 19, 2022

Pakistan Refineries

GRMs hit ~US\$37/bbl!

Event

▪ Refinery sector looks poised to witness improved performance, as GRMs for May'22 clock in at ~US\$37/bbl versus average of ~US\$24/7/bbl in Apr'22/3QFY22. We attribute this to widening spreads on HSD and FO to (1) depleting inventory, (2) shortage of refining capacity and (3) European ban on imports of HSD and crude from Russia.

▪ Risk to our call comes from higher than expected forex losses associated with exceptional Rs-US\$ depreciation.

Impact

▪ **Local refineries on a roll:** Based on widening spreads of HSD and FO, we anticipate sequential improvement in the local refinery dynamics. As per our calculation, the spreads on HSD stand at ~US\$65/bbl in May'22 versus ~US\$41/16/bbl in Apr'22/3QFY22, whereas spreads on FO has widened to ~US\$8/bbl in May'22 versus ~US\$1/-12/bbl in Apr'22/3QFY22.

▪ Our estimated GRMs for May'22 stand at ~US\$37/bbl versus ~US\$24/7/bbl estimated for Apr'22/3QFY22.

▪ **High diesel GRMs amid war in Europe:** HSD spread has widened due to (1) strong rebound in diesel demand which has depleted global inventories to 30 year lows, (2) US and allies tapping strategic crude oil reserves but negligible strategic reserves exist of refined products, (3) shutting down of refineries in US and Europe during COVID amid longer term trend of declining refinery capacity given environmental concerns and (4) lack of European refining capacity amid European ban on purchase of Russian HSD.

▪ **Exchange losses to bite:** The weakening Rs-US\$ parity is expected to undo some of the impact of the said. Rs has shed 5.5/0.7% against US\$ so far in May'22/Apr'22 (versus 4.2% in 3QFY22), we highlight that further unfavorable movement in currency over the remaining period of 4QFY22 given uncertainty on economic and political front would adversely impact profitability.

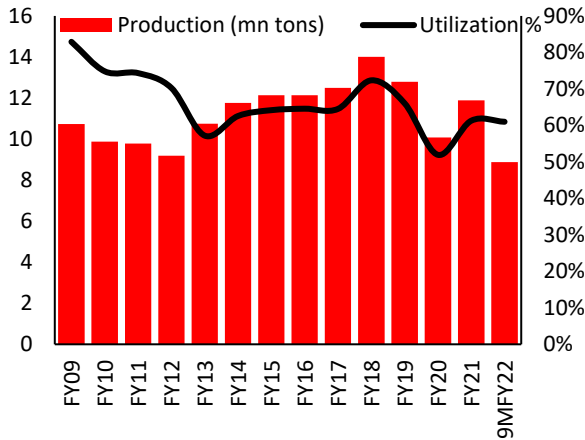
▪ **Player-wise performance:** On an individual basis, ATRL's GRMs work out at an average of ~US\$31/bbl in May'22 versus ~US\$21/6/bbl in Apr'22/3QFY22. Whereas, NRL GRMs are estimated to be ~US\$38/bbl in May'22 against ~US\$23/7/bbl in Apr'22/3QFY22. PRL would be particularly advantaged with GRMs at ~US\$37/bbl in May'22 versus ~US\$23/7/bbl in Apr'22/3QFY22. However, NRL GRMs may vary due to its lube segment.

Outlook

▪ Refineries are poised to post stellar profitability amid elevated GRMs after patchy performance over recent years. Further conviction to our call comes from re-emergence of COVID in China and ensuing lockdowns which would suppress oil prices and could pull GRMs further upward amid underlying shortage of refined product due to war in Europe.

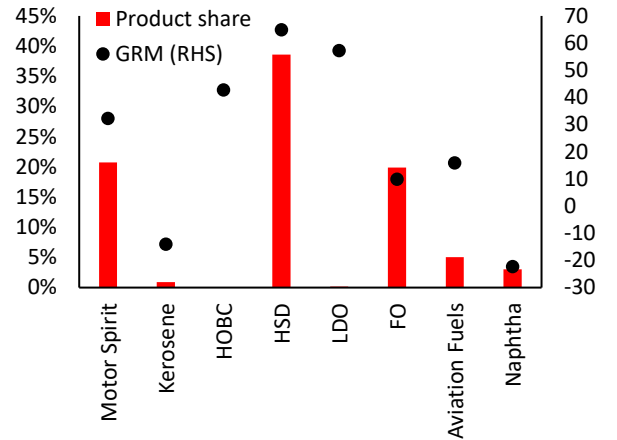
▪ While we reserve our judgment on sector's long-term outlook, we believe new refinery policy would go a long way in improving sectors dynamics. However, success remains largely dependent on the movement of prices of value-added products.

Fig 1: Refineries utilization stabilizing at ~61%...



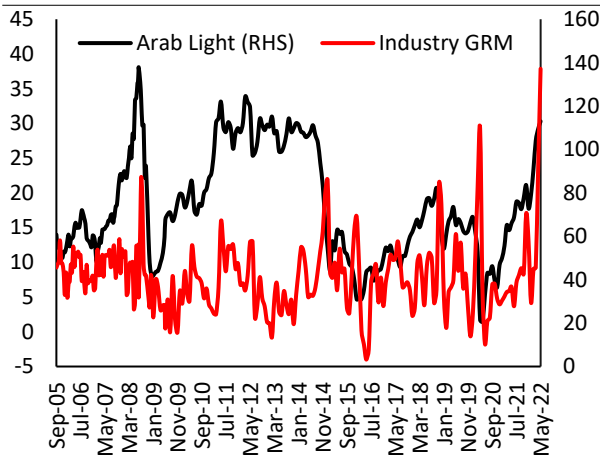
Source: PD, OCAC, FSL Research, May 2022

Fig 2: Product slate and GRMs (US\$/bbl)...



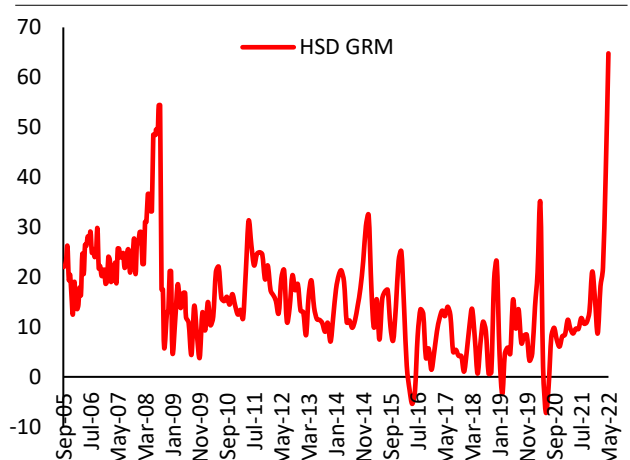
Source: PD, OCAC, FSL Research, May 2022

Fig 3: Oil prices supporting GRM highs (US\$/bbl)...



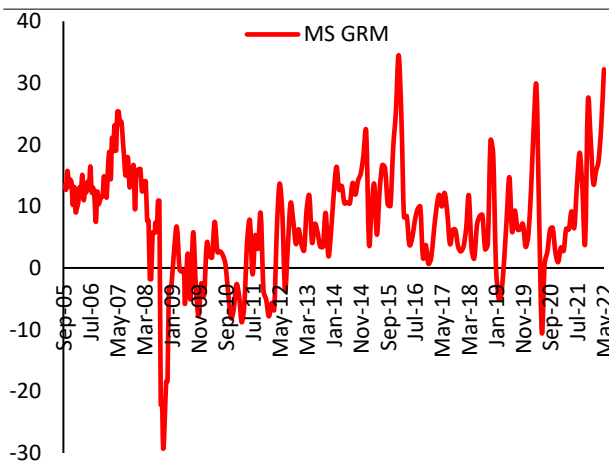
Source: PD, FSL Research, May 2022

Fig 4: GRM on HSD jumped to ~US\$65/bbl



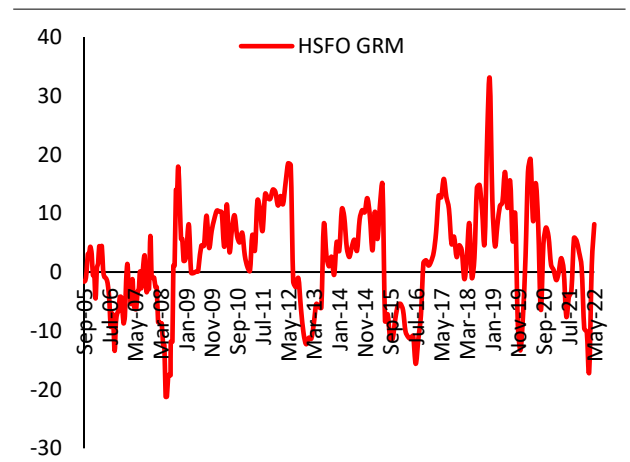
Source: PD, FSL Research, May 2022

Fig 5: GRM on MS nearing recent peaks (US\$/bbl)



Source: PD, FSL Research, May 2022

Fig 6: GRM on FO improving recently (US\$/bbl)...



Source: PD, FSL Research, May 2022

Acronyms

FO	Furnace Oil
GRM	Gross Refining Margins
HSD	High Speed Diesel
MS	Motor Spirit (also known as gasoline or petrol)

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.