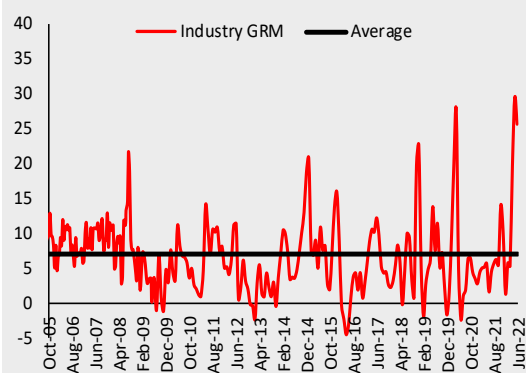


PAKISTAN

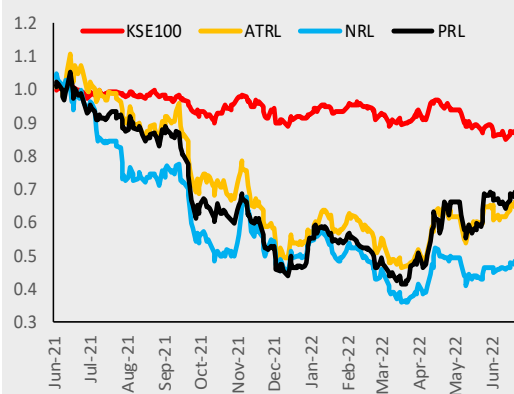


GRMs hitting new highs



Source: PD, OCAC, FSL research, Jun 2022

Price Performance vs KSE-100



Source: PSX, FSL research, Jun 2022

Analyst

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Tuesday, June 21, 2022

Pakistan Refineries

GRMs sustaining at record levels

Event

- Refinery sector would continue on higher trajectory given that GRMs for Jun'22 clocked in at ~US\$26/bbl resulting in average of ~US\$25/bbl in 4QFY22 versus average of ~US\$4/bbl in 3QFY22. We attribute this to widening spreads of HSD and MS to (1) European ban on imports of HSD and crude from Russia, (2) depleting inventory and (3) shortage of refining capacity.

- We highlight that risk to our call comes from higher than expected forex losses associated with exceptional Rs-US\$ depreciation recently.

Impact

- Margins of value added products push refinery margins higher:** Based on widening spreads of HSD and MS, we anticipate sequential improvement in the local refinery dynamics. As per our calculation, the spreads on HSD stand at ~US\$57/bbl in Jun'22 resulting in average of ~US\$49/bbl in 4QFY22 versus ~US\$12/bbl in 3QFY22. Whereas spreads on MS has widened to ~US\$42/bbl in Jun'22 resulting in average of ~US\$30/bbl in 4QFY22 versus ~US\$14/bbl in 3QFY22.

- Our estimated GRMs for Jun'22 stand at ~US\$26/bbl resulting in average of ~US\$25/bbl in 4QFY22 versus average of ~US\$4/bbl in 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.

- Threat of exchange losses:** The weakening Rs-US\$ parity is expected to undo some of the impact of the said. Rs has shed 5.6/12.5% against US\$ so far in Jun'22/4QFY22 (versus 3.7% in 3QFY22). We highlight that further unfavorable movement in currency given economic headwinds amid delay in resumption of IMF program would adversely impact profitability of local refineries.

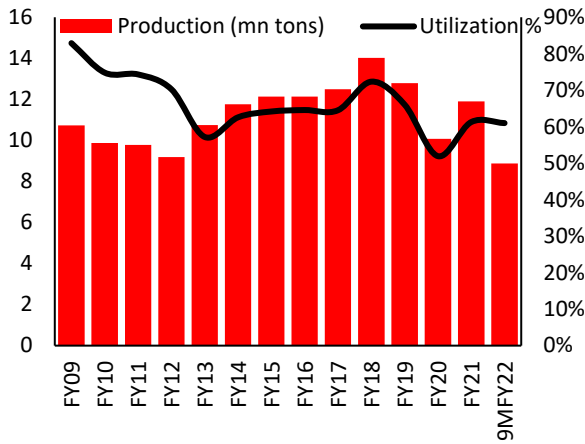
- Player-wise performance:** On an individual basis, ATRL's GRMs work out at an average of ~US\$26/26/bbl in Jun'22/4QFY22 versus ~US\$8/bbl in 3QFY22. Whereas, NRL GRMs are estimated to be ~US\$28/27/bbl in Jun'22/4QFY22 against ~US\$6/bbl in 3QFY22. PRL would be particularly advantaged with GRMs at ~US\$28/27/bbl in May'22/4QFY22 versus ~US\$6/bbl in 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. Risk to our call comes from monetary tightening in developed markets which could tip those economies into recession causing demand destruction and pushing crude oil prices lower. Resultantly, we expect GRMs would be driven back to lower LT average.

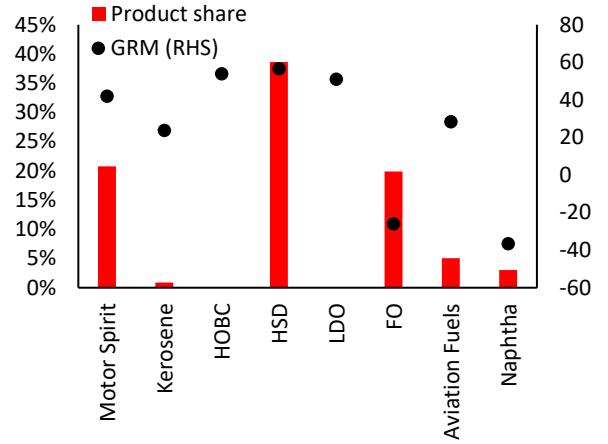
- While we reserve our judgment on sector's long-term outlook, we believe new refinery policy would go a long way in improving sectors dynamics. However, success remains largely dependent on the movement of prices of value-added products.

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



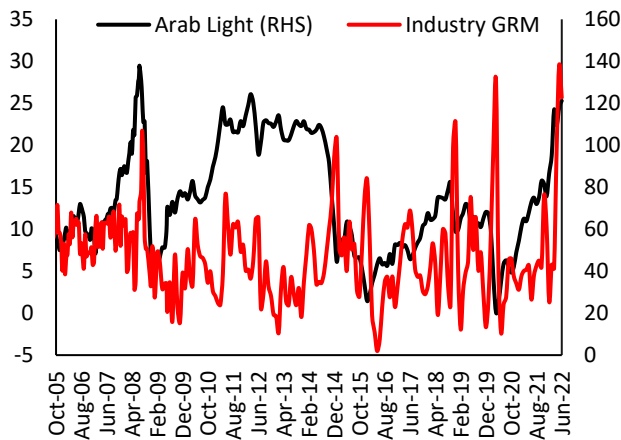
Source: PD, OCAC, FSL Research, Jun 2022

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



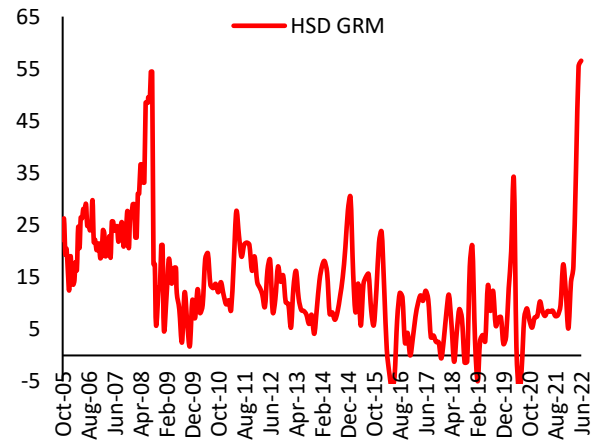
Source: PD, OCAC, FSL Research, Jun 2022

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



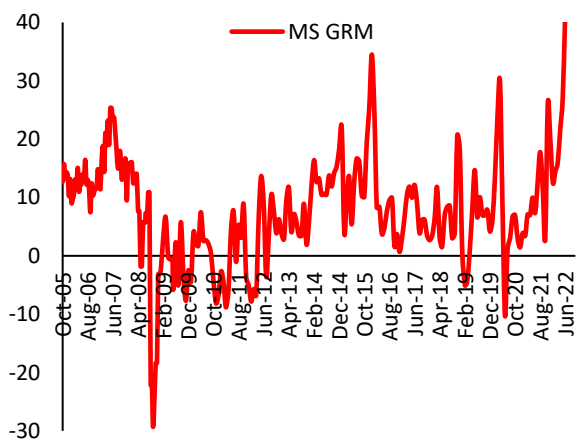
Source: PD, FSL Research, Jun 2022

Fig 4: GRM on HSD at ~US\$57/bbl



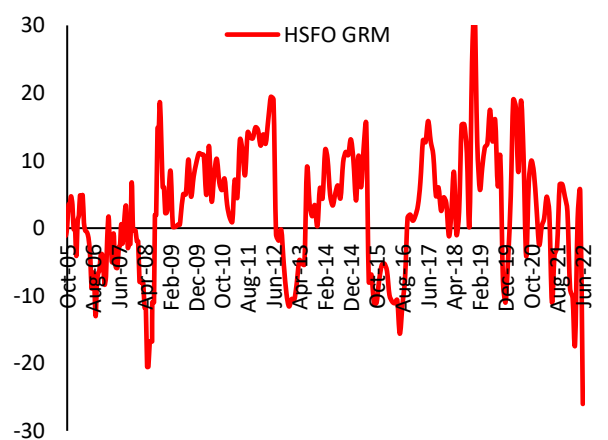
Source: PD, FSL Research, Jun 2022

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



Source: PD, FSL Research, Jun 2022

Fig 6: GRM on FO are negative (US\$/bbl)...



Source: PD, FSL Research, Jun 2022

Acronyms

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

Important disclosures:

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Recommendations definitions

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