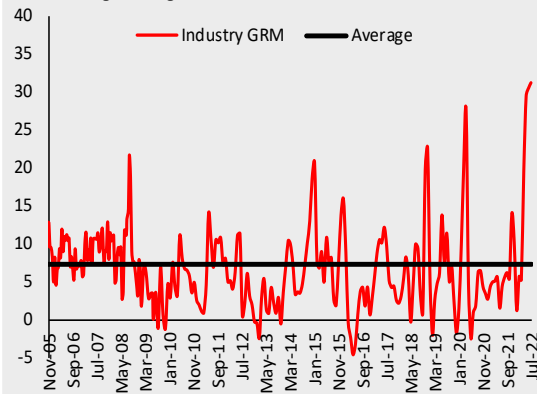


PAKISTAN

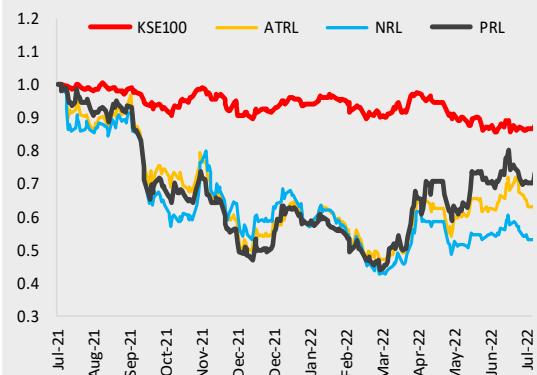


GRMs hitting new highs



Source: PD, OCAC, FSL research, Jul 2022

Price Performance vs KSE-100



Source: PSX, FSL research, Jul 2022

Analyst

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Foundation Securities (Pvt) Ltd
 Tuesday, July 19, 2022

Pakistan Refineries

GRMs remain elevated in July

Event

▪ Refinery sectors performance would remain in the limelight as GRMs for Jul’22 are expected to clock in at ~US\$31/bbl compared to average of ~US\$27/4/bbl in 4QFY22/3QFY22. We attribute this to widening spreads of MS and HSD to (1) European ban on imports of HSD and crude from Russia, (2) depleting inventory and (3) shortage of refining capacity. Risk to our call comes from higher than expected forex losses associated with exceptional Rs-US\$ depreciation.

Impact

▪ **High refinery margins stem from value added products:** 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 are expected to stand at ~US\$65/bbl in Jul’22 versus average of ~US\$49/12/bbl in 4QFY22/3QFY22. Whereas spreads on MS are expected to widen to ~US\$44/bbl in Jul’22 compared to average of ~US\$30/14/bbl in 4QFY22/3QFY22.

▪ Our estimated GRMs for Jul’22 stand at ~US\$31/bbl versus average of ~US\$27/4/bbl in 4QFY22/3QFY22.

▪ **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 higher margins. Rs has shed 5.4/15.8/18.5% against US\$ during MTD/3M/6M. We highlight that further unfavorable movement in currency given economic headwinds amid political uncertainty would adversely impact profitability of local refineries.

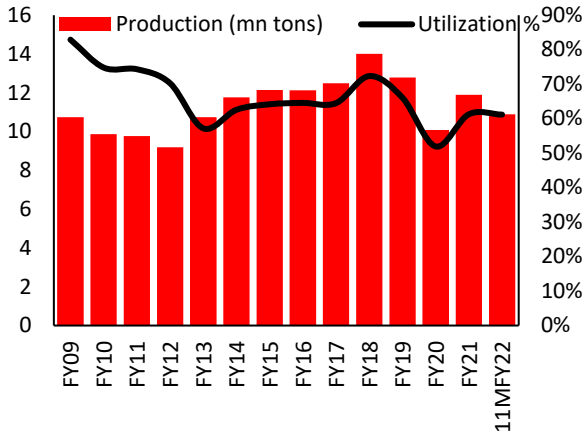
▪ **Player-wise performance:** On an individual basis, ATRL’s GRMs work out at an average of ~US\$33/bbl in Jul’22 versus ~US\$26/8/bbl in 4QFY22/3QFY22. Whereas, NRL GRMs are estimated to be ~US\$34/bbl in Jul’22 against ~US\$27/6/bbl in 4QFY22/3QFY22. GRMs of PRL are expected to clock in at ~US\$34/bbl in Jul’22 versus ~US\$27/6/bbl in 4QFY22/3QFY22.

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. Moreover, supply glut and low consumption in Asian MS/HSD markets would result in declining regional refining margins. However, increasing premium on supplies to Pakistan may dilute some of the impact.

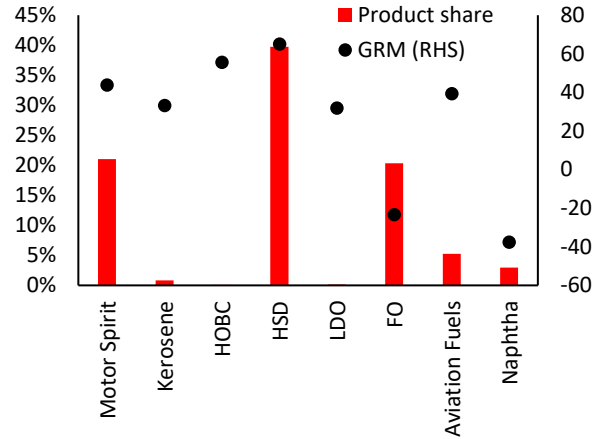
▪ While we reserve our judgment on sector’s long-term outlook, we believe new refinery policy would go a long way in improving sectors dynamics. However, success remains largely dependent on the movement of prices of value-added products.

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



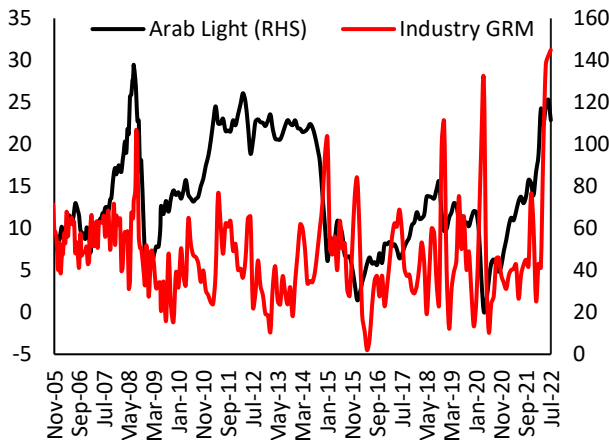
Source: PD, OCAC, FSL Research, Jul 2022

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



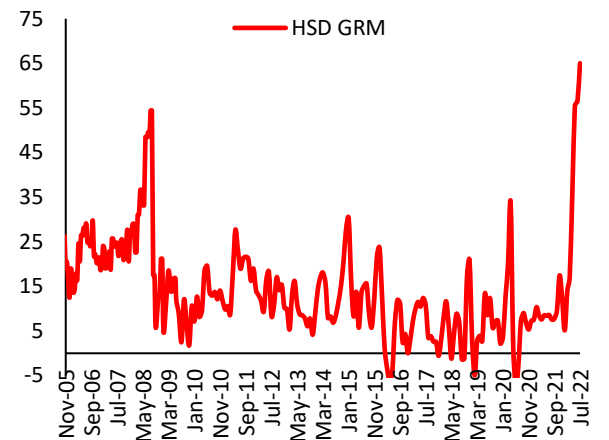
Source: PD, OCAC, FSL Research, Jul 2022

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



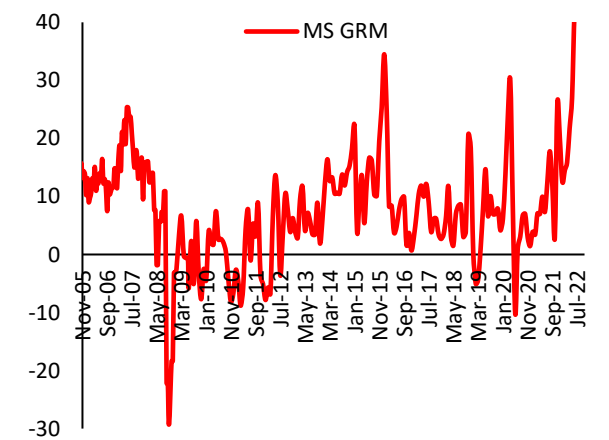
Source: PD, FSL Research, Jul 2022

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



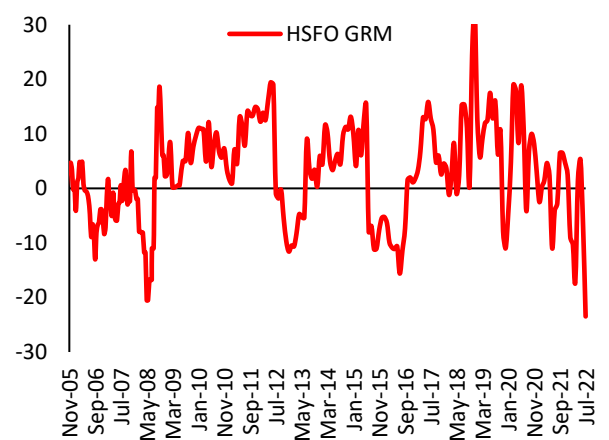
Source: PD, FSL Research, Jul 2022

Fig 5: GRM on MS at 17yr record highs (US\$/bbl)



Source: PD, FSL Research, Jul 2022

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



Source: PD, FSL Research, Jul 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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| | |
|-----------------------------------|---------------|
| If | |
| Expected return >+10% | Outperform. |
| Expected return from -10% to +10% | Neutral. |
| Expected return <-10% | Underperform. |