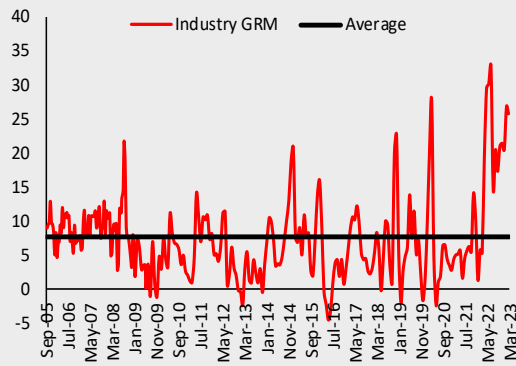


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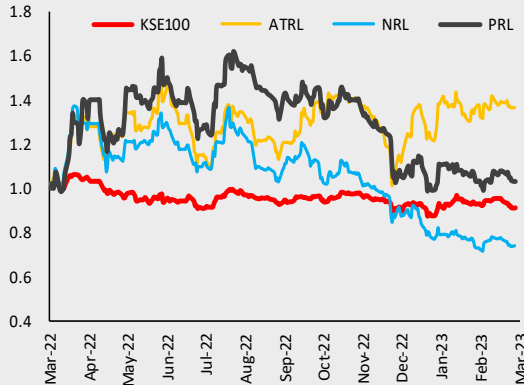


GRMs hitting new highs



Source: PD, OCAC, FSL research, Mar 2023

Price Performance vs KSE-100



Source: PSX, FSL research, Mar 2023

Analyst

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Foundation Securities (Pvt) Ltd
Monday, March 27, 2023

Pakistan Refineries

GRMs rise in 3QFY23

Event

▪ Refinery sectors performance would accelerate as GRMs for 3QFY23 are expected to clock in at ~US\$24/bbl compared to ~US\$20/bbl in 2QFY23. We attribute this to across the board incline in spreads on account of lower crude oil prices. Major thrust came from MS spreads which increased by 86% QoQ to ~US\$26/bbl in 3QFY23 (compared to ~US\$14/bbl in 2QFY23).

▪ We flag that exceptional depreciation of Rs-US\$ parity could substantially dent refineries profitability during 3QFY23.

Impact

▪ **Across the board incline in margins:** Based on increasing HSD/MS/FO margins, we anticipate local refinery dynamics would improve sequentially. As per our calculation, spreads on HSD are estimated to increase to ~US\$43/bbl in 3QFY23 compared to ~US\$41/bbl in 2QFY23. Whereas, spreads of MS are estimated to increase to ~US\$26/bbl in 3QFY23 compared to ~US\$14/bbl in 2QFY23. Spreads of FO climbed into positive territory at ~US\$1/bbl in 3QFY23 vs ~US\$-1/bbl in 2QFY23.

▪ Our estimated GRMs for 3QFY23 stand at ~US\$24/bbl versus ~US\$20/bbl in 2QFY23.

▪ **GRMs sustaining:** Refining spreads are sustaining due to (1) healthy demand despite concerns about the impact of slower economic growth in the US and Europe, (2) storm in US reduced operating capacity and therefore production of petroleum products, (3) refiners around the world are likely to do more maintenance this year than last, when they delayed it to cash in on record margins and (4) inventories of refined products remaining low.

▪ **Threat of exchange losses:** The weakening Rs-US\$ parity is expected to undo some of the impact of higher margins as Rupee has shed 14/32% against US\$ QoQ/YoY. We highlight that unfavorable movement in currency given economic crisis amid delay in receipt of IMF tranche would adversely impact profitability of local refineries.

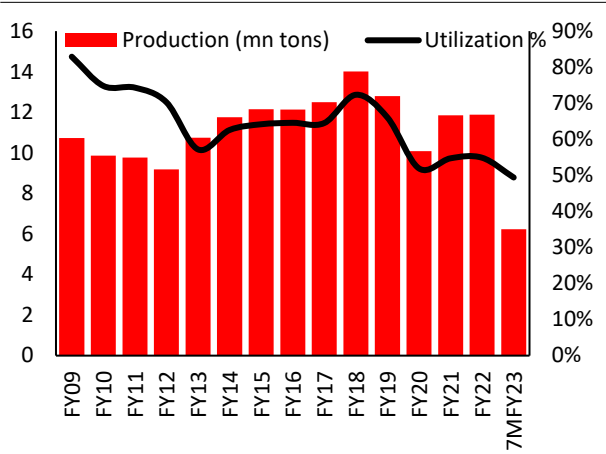
▪ **Player-wise performance:** On an individual basis, ATRL's GRMs work out at an average of ~US\$29/bbl in 3QFY23 versus ~US\$24/bbl in 2QFY23. Whereas, NRL GRMs are estimated to be ~US\$24/bbl in 3QFY23 against ~US\$20/bbl in 2QFY23. GRMs of PRL are expected to clock in at ~US\$24/bbl in 3QFY23 versus ~US\$20/bbl in 2QFY23.

Outlook

▪ Refineries are poised to post profits amid elevated GRMs. We expect monetary tightening in developed markets would cause economic slowdown causing demand destruction and pushing refined product prices lower. Resultantly, we expect GRMs would be driven back to lower LT average.

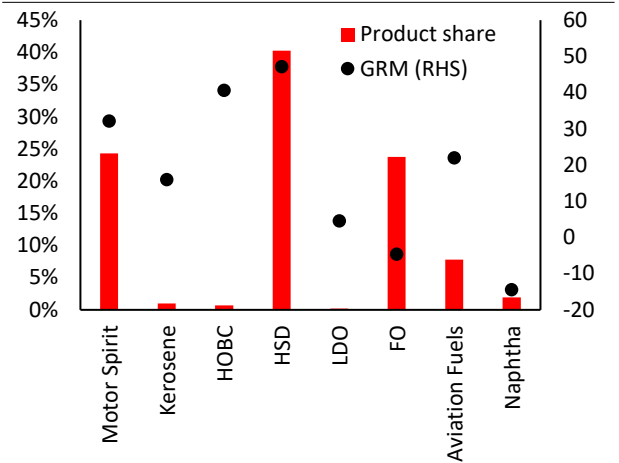
▪ Sector's long-term outlook hinges on new refinery policy and de-regulation of petroleum product prices. Whereas, in the short term, we believe economic slowdown would cause a reduction in consumption of petroleum products (down 19% YoY during 8MFY23) and would impinge on domestic refineries which is reflected in their lower utilization rates, down to 49% during 7MFY23 compared to 55% in FY22.

Fig 1: Refineries utilization at ~49%...



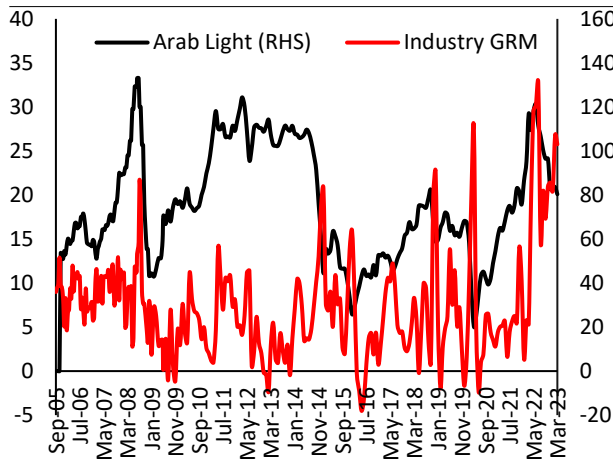
Source: PD, OCAC, FSL Research, Mar 2023

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



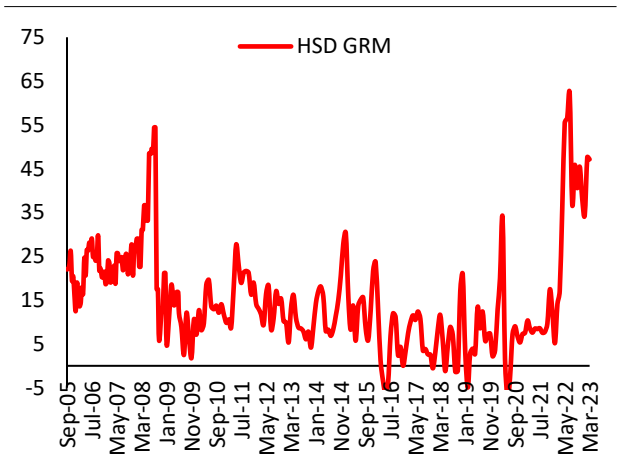
Source: PD, OCAC, FSL Research, Mar 2023

Fig 3: Oil prices sustaining high GRM (US\$/bbl)...



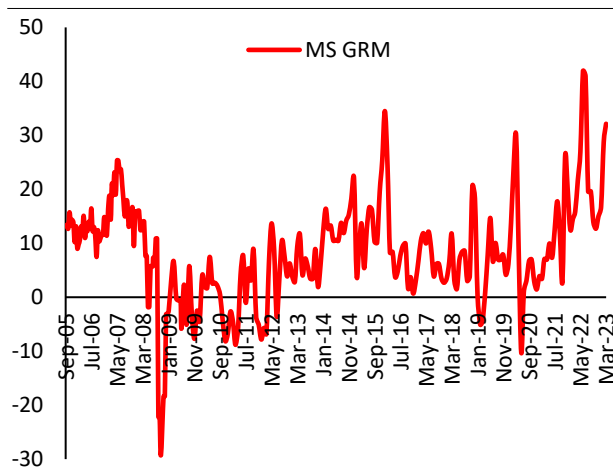
Source: PD, FSL Research, Mar 2023

Fig 4: GRM on HSD at ~US\$47/bbl in Mar'23



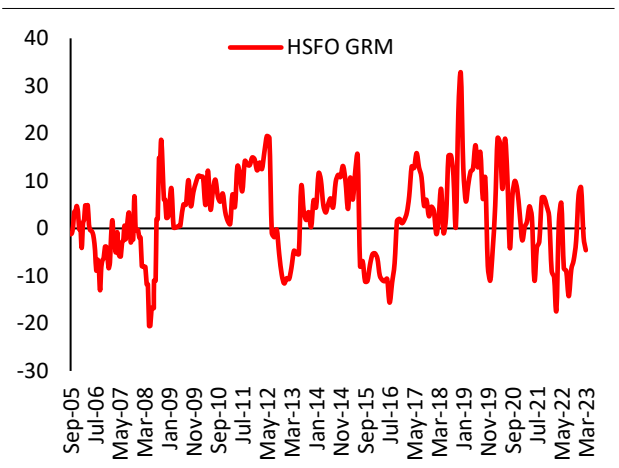
Source: PD, FSL Research, Mar 2023

Fig 5: MS GRM rose to ~US\$32/bb in Mar'23



Source: PD, FSL Research, Mar 2023

Fig 6: GRM on FO turned -ve in Mar'23 (US\$/bbl)...



Source: PD, FSL Research, Mar 2023

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.