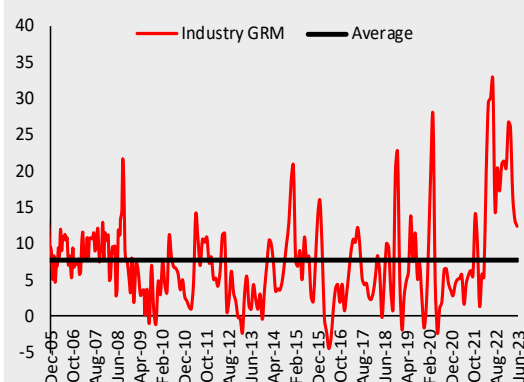


PAKISTAN

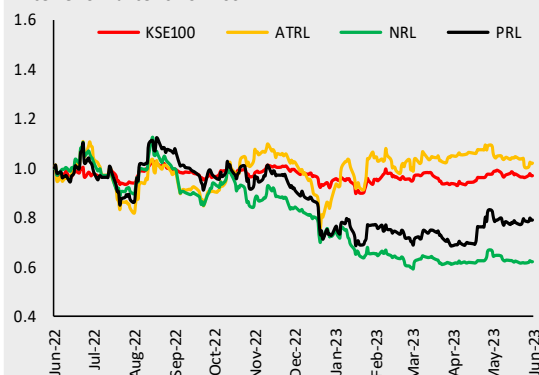


GRMs hitting new highs



Source: PD, OCAC, FSL research, Jun 2023

Price Performance vs KSE-100



Source: PSX, FSL research, Jun 2023

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Foundation Securities (Pvt) Ltd
Thursday, June 1, 2023

Pakistan Refineries

GRMs fall during June

Event

Refinery sectors performance would dampen as GRMs for the first two weeks of Jun'23 are estimated at ~US\$12/bbl compared to ~US\$13/17/24/bbl in May'23/Apr'23/3QFY23. We attribute this to decline in spreads of MS/HSD by 10/15% MoM during first two weeks of Jun'23. Whereas, spreads of FO inclined by 31% MoM in first two weeks of Jun'23.

Impact

Decline in MS/HSD margins: Based on declining MS/HSD margins, we anticipate local refinery dynamics would deteriorate sequentially. As per our calculation, spreads on MS are estimated to decline to ~US\$27/bbl during the first two weeks of Jun'23 compared to ~US\$29/26/26/bbl in May'23/Apr'23/3QFY23. Spreads of HSD are estimated to decrease to ~US\$23/bbl during the first two weeks of Jun'23 compared to ~US\$27/35/47/bbl in May'23/Apr'23/3QFY23. Whereas, spreads of FO bucked the trend and are estimated to increase to ~US\$-11/bbl during the first two weeks of Jun'23 vs ~US\$-16/-12/1/bbl in May'23/Apr'23/3QFY23. Our estimated GRMs for the first two weeks of Jun'23 stand at ~US\$12/bbl versus ~US\$13/17/24/bbl in May'23/Apr'23/3QFY23.

Threat of exchange losses: Rs-US\$ parity has remained stable in 4QFY23TD. However, we highlight that unfavorable movement in currency given financial and economic crisis could adversely impact sector's profitability.

Russian crude to arrive soon: Pakistan has agreed under a G2G deal to purchase Russian Ural crude at a discounted price with imports expected to reach 100K barrels per day (crude imports average ~156k barrels per day during 10MFY23). A test shipment of 750K barrels is expected to arrive by early June and would be refined, initially by PRL, followed by PARCO and other refineries.

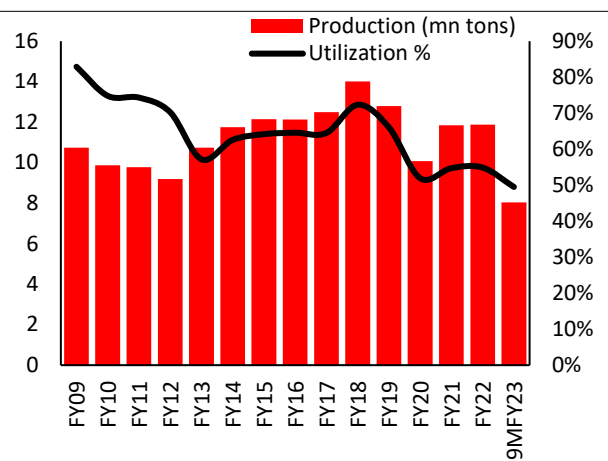
Import of Russian crude by Pakistan faces three challenges, namely, (1) it runs the risk of US sanctions if the commercial terms are not disclosed, (2) Pakistani refineries are not accustomed to refining hard Russian crude which may produce an unfavorable mix vs Arabian crude, and (3) ~3x higher transportation cost compared to Arabian crude.

Player-wise performance: On an individual basis, ATRL's GRMs work out at an average of ~US\$20/bbl in Jun'23 versus ~US\$21/21/29/bbl in May'23/Apr'23/3QFY23. Whereas, NRL GRMs are estimated to be ~US\$11/bbl in May'23 against ~US\$12/16/24/bbl in May'23/Apr'23/3QFY23. GRMs of PRL are expected to clock in at ~US\$12/bbl in May'23 versus ~US\$12/16/24/bbl in May'23/Apr'23/3QFY23.

Outlook

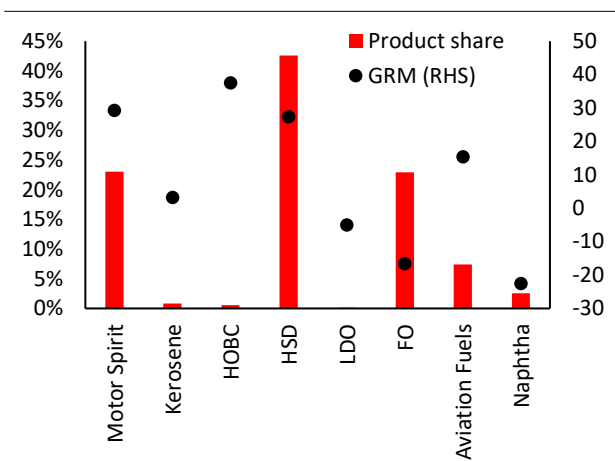
Refineries are poised to post profits amid positive GRMs. We expect monetary tightening in developed markets would cause economic slowdown causing demand destruction and pushing refined product prices lower. Resultantly, we expect a continuation of downtrend in GRMs towards lower LT avg. Sector's LT outlook hinges on new refinery policy and de-regulation of petroleum product prices. Whereas, in ST, economic slowdown would continue causing a reduction in sales of petroleum products (↓24% YoY in 10MFY23) and would impinge on domestic refineries which is reflected in their lower utilization rates, down to 50% in 9MFY23 vs 55% in FY22.

Fig 1: Refineries utilization at ~50%...



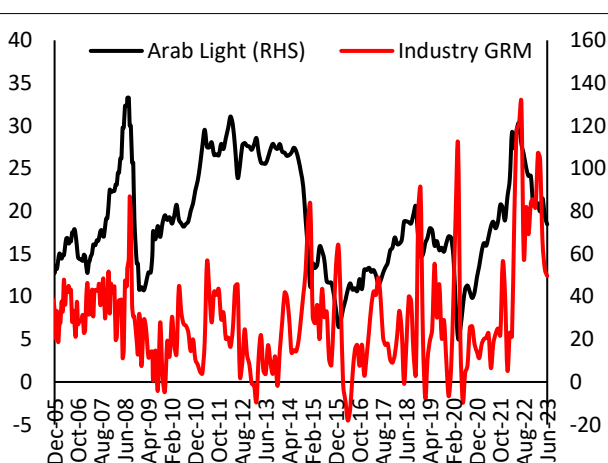
Source: PD, OCAC, FSL Research, Jun 2023

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



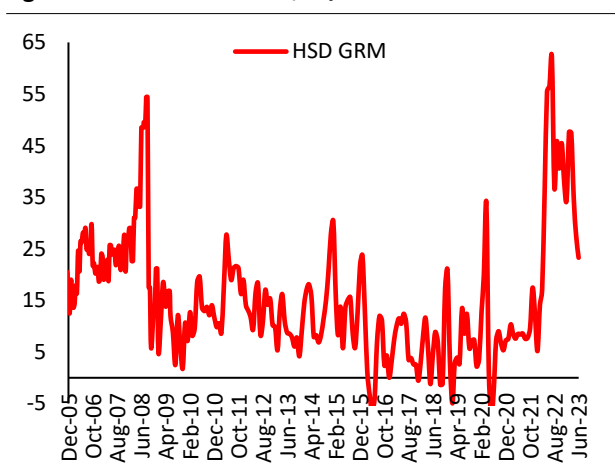
Source: PD, OCAC, FSL Research, Jun 2023

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



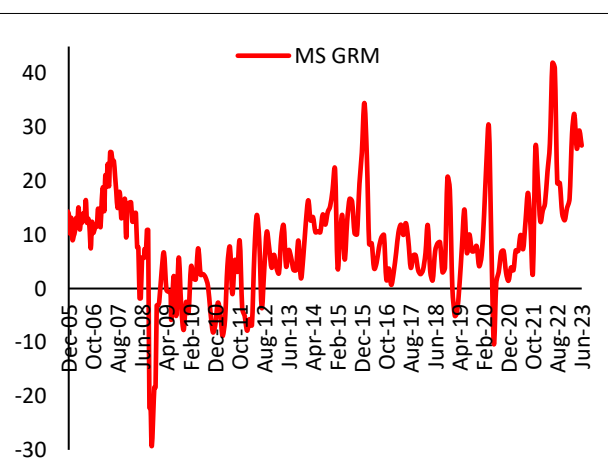
Source: PD, FSL Research, Jun 2023

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



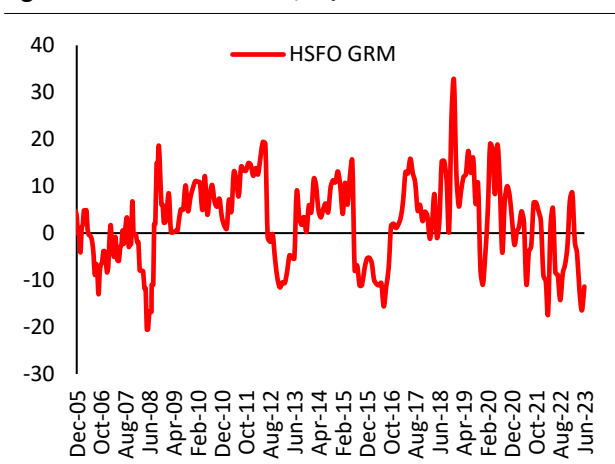
Source: PD, FSL Research, Jun 2023

Fig 5: MS GRM declined to ~US\$27/bb in Jun'23



Source: PD, FSL Research, Jun 2023

Fig 6: FO GRM rose to -US\$11/bbl in Jun'23



Source: PD, FSL Research, Jun 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.