OPTIMUS CAPITAL MANAGEMENT

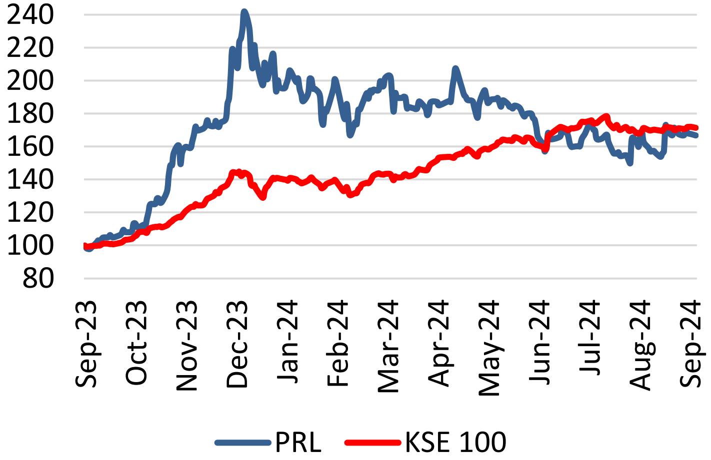
Pakistan Refinery Limited

Corporate Briefing Session FY23 – Key Takeaways

11 September 2024

- **FY23 result.** EPS: PKR 2.89 (-85% Y/Y) | DPS: PKR Nil (PKR Nil SPLY)
- **Earnings down Y/Y.** Earnings declined substantially by 85% Y/Y to PKR 1,823 MN in FY23, due to 1) Significant PKR/USD depreciation, resulting in exchange loss of PKR 7.2 BN vs PKR 4.2 BN in FY22, 2) Crude oil LC confirmation charges increased significantly to PKR 2.04 BN (average rate of 8%) against Rs. 223 MN (average rate of 0.5%) in FY22, 3) reduced HSFO demand, forcing company to export HSFO at a discount after a gap of 15 years resulting in a loss of PKR 2.91 BN, and 4) refinery expansion and upgrade project (REUP) FEED cost charged-out amounted to PKR 2.18 BN.
- **Refinery expansion and upgrade project.** REUP foresees 1) production of EURO V compliant HSD and MS, 2) installation of Deep Conversion Refinery Technology to eliminate production of HSFO, and 3) expansion of capacity from 50,000 bpd to 100,000 bpd.
- **PRL's FEED to complete soon.** The FEED study is anticipated to be completed by 2QFY25, according to management. Additionally, the EPC contract award and financial close are expected by 2QFY26, with production targeted for Dec-28. The refinery upgradation, requiring a USD 1.5 BN investment, will be financed through a combination of equity and debt, primarily denominated in dollars.
- **Budgetary changes.** The FY25 budget proposal suggests shifting POL products from zero-rated to exempt status, which would raise the REUP project cost from USD 1.5 BN to USD 1.75 BN, according to management. However, the company has raised the issue with the FBR and MOF and remains hopeful that the government will take corrective action.

Total Return Comparison



Source: Zakheera, Optimus Research

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- **Upgrade incentives**. Govt. has increased the upgrade return incentives from 25% to 27.5% of the project cost and extended the timeline from 6 to 7 years, with refineries concerns as the incentive was taxable. Currently, PRL retains 7.5% plus 2.5% CD for HSD, while the full 10% CD on MS is retained. The 2.5% on HSD and 10% on MS are placed in an escrow account for the upgrade project and can be withdrawn after the financial close. Post-upgrade, the 7.5% CD on HSD will be retained. Remaining 2.5% CD on HSD and 10% CD on MS will be transferred to IFEM, as was the previous practice.
- **Change in crude recipe.** Over the past few years, PRL has transitioned to lighter crude with lower sulfur content, which has improved the yield of MS/HSD from around 50% in FY18 to ~65% in FY23.

Earnings Snapshot

PKR MN	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22	Q/Q	Y/Y	FY23	FY22	Y/Y
Net sales	**71,956**	**59,555**	**57,238**	**73,111**	**79,678**	**21%**	**-10%**	**261,860**	**191,316**	**37%**
Cost of sales	70,830	55,090	57,134	71,506	68,012	29%	4%	254,560	171,044	49%
Gross profit	**1,126**	**4,465**	**104**	**1,605**	**11,666**	**-75%**	**-90%**	**7,300**	**20,272**	**-64%**
Selling/distribution expenses	209	126	90	77	82	66%	155%	502	321	56%
Administrative expenses	409	176	176	215	150	132%	173%	976	552	77%
Operating profit	**508**	**4,163**	**(162)**	**1,313**	**11,434**	**-88%**	**-96%**	**5,822**	**19,399**	**-70%**
Financial charges	889	1,881	664	632	465	-53%	91%	4,066	1,580	157%
Other income	1,774	574	1,008	710	383	209%	363%	4,066	535	660%
Other charges	2,123	197	14	108	1,876	978%	13%	2,442	2,433	0%
Share of associates' profit/(loss)	1	(7)	(4)	-	(4)	n.m	n.m	(10)	(4)	150%
Profit before tax	**(729)**	**2,652**	**164**	**1,283**	**9,472**	**n.m**	**n.m**	**3,370**	**15,917**	**-79%**
Taxation	(23)	881	433	256	2,315	n.m	n.m	1,547	3,345	-54%
Profit after tax	**(706)**	**1,771**	**(269)**	**1,027**	**7,157**	**n.m**	**n.m**	**1,823**	**12,572**	**-85%**
EPS	**(1.12)**	**2.81**	**(0.43)**	**1.63**	**11.36**			**2.89**	**19.96**	
DPS	**-**	**-**	**-**	**-**	**-**			**-**	**-**	
Gross Margin	2%	7%	0%	2%	15%			3%	11%	
Net Margin	-1%	3%	0%	1%	9%			1%	7%	
Effective Tax Rate	3%	33%	264%	20%	24%			46%	21%	

Source: Company Financials, Optimus Research

Analyst Certification

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