

Pakistan Refinery Sector

Concerns on protection to the sector

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NRL will be most affected if duties are reduced

- As per media reports, Standing committee of senate on petroleum have raised concern on deemed duty on diesel, that has been collected by refineries in Pakistan. The amount quoted in the meeting was reported at Rs500bn while we estimate the same amount to be around half of this.
- To recall, deemed duties was an incentive provided to refineries to upgrade their plants to produce higher grade and environmental friendly fuel. Currently refineries are receiving deemed duties of 7.5% on Hi Speed Diesel (HSD) of oil prices.
- Our talks with industry officials suggests that, desulphurization is ongoing process, which requires continuous investment to upgrade fuel quality, for which continuation of deemed duty is necessary.
- Deemed duties are part of ex refinery price formula and part of revenues for the company. Currently, this is being discussed in senate committee, however if government decides to lower deemed duties, following could be its company wise impact;

Earnings sensitivity on every 1% deemed duty reduction

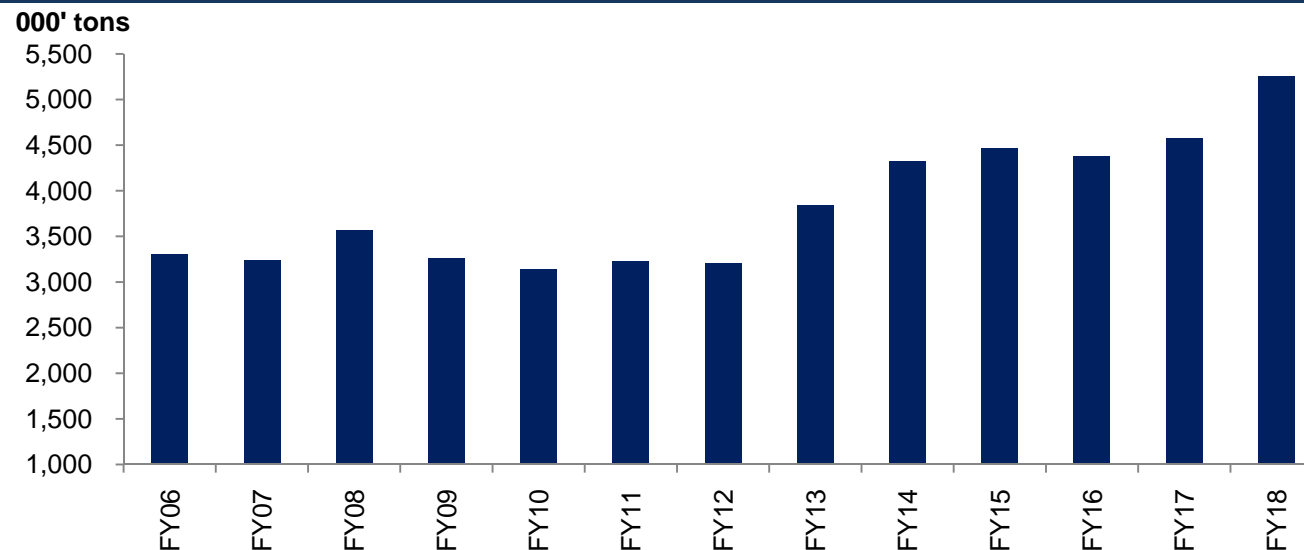
Impact Calculation	ATRL	NRL	PRL	BYCO
HSD Production (tons)	644,028	883,430	621,498	492,059
Oil (USD/bbl)	70	70	70	70
PKR/USD	124	124	124	124
Deemed Duty	1%	1%	1%	1%
After tax impact (Rsmn)	279	383	270	213
EPS Impact (Rs)	3.28	4.79	0.92	0.04

Source: Topline Research, Energy Year Book 2017

Desulphurization is already done by NRL and ATRL

- It is to be noted that refineries have already notified about successful up gradation of their plants. National Refinery (NRL) in its notice on Jun and Oct 2017 has informed about successful commissioning of its Diesel hydro desulphurization (DHDS) and isomerization unit respectively. While, ATRL did same a year earlier in July and Nov 2016. While BYCO Petroleum (BYCO) and Pakistan Refinery (PRL) have not yet notified about up gradation of desulphurization to exchange.
- Earlier, in last Economic coordination committee (ECC) meeting, concerns were also raised on export of urea where it was reported that Rs10bn windfall has been earned by urea manufacturers. We believe, similar news flow like this for Refineries are denting investor sentiments in these sectors and overall market.

Diesel Production in Pakistan



Source: OCAC

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