

Pakistan Energy Update



Thursday, July 25, 2024



Euromoney Market Leaders
Investment Banking (Notable) -
2022



Best Equity Market Consultants
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Most Innovative Corporate Finance
Advisory Firm - Pakistan 2022
Fastest Growing Asset Manager -
Pakistan 2022

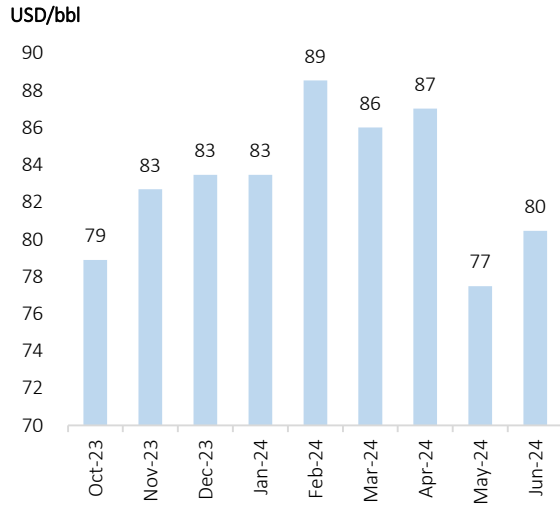


Best Brokerage House 2017
Best Brokerage House 2016 (Runner-up)
Best Analyst & Trader 2013 (Runner-up)



Sector Coverage of Bank,
Insurance, Power, Macroeconomics,
Small Caps, Materials
Runner Up

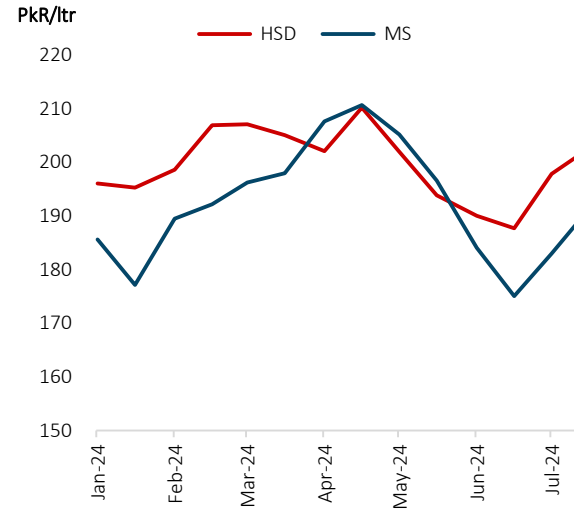
Global Crude on the Decline



Source: PBS, BMA Research

- Global crude oil prices have corrected recently with Brent losing around 8% of its value during July 2024, hovering around **USD 81/bbl**.
- The declining trend can be attributed to weak Chinese economic data. China's crude oil imports were notably down **11% YoY in June 2024**.
- Increasing talks of a ceasefire in The Middle Eastern conflict may further support the commodity's corrective spell.

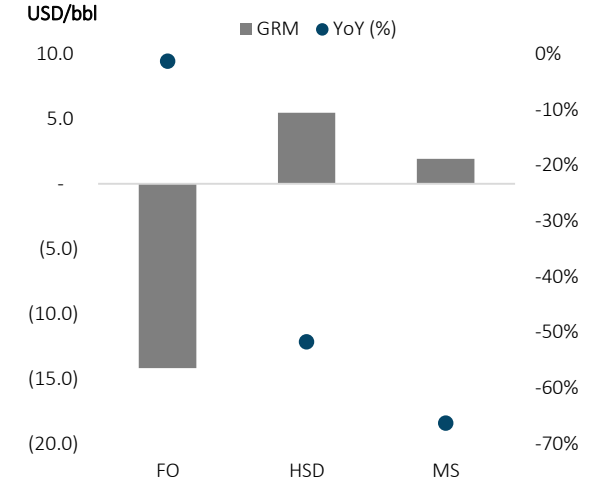
Ex-Refinery Prices to follow suit



Source: OGRA, BMA Research

- Global oil price correction over the past quarter saw domestic ex-refinery prices fall by **around PkR 30/liter**, supporting the country's disinflationary trend.
- June and July 2024 saw a recovery in global refined fuel prices, causing domestic prices to recover by around PkR 20/liter.
- Given the recent fall in crude oil prices, we anticipate the declining trend to resume. Based on our estimates, **HSD prices may fall by PkR 13.0/liter** and **MS prices may decline by 11.0/liter**.

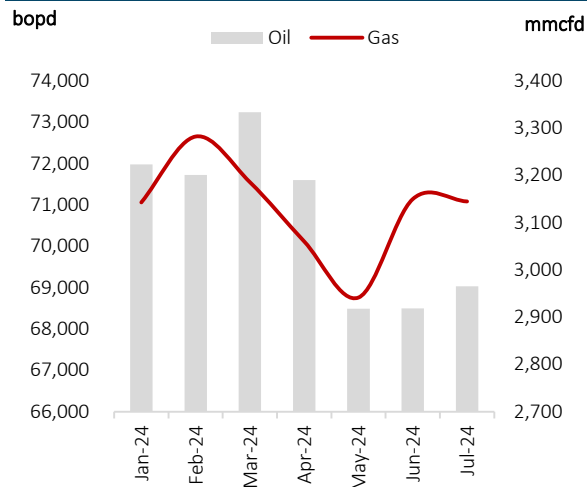
Refining Margins under Pressure



Source: BMA Research

- Gross Refining Margins (GRMs) have come under pressure during July 2024. Notably, MS margins turned red during the month but have since recovered to **around USD 2.0/bbl (-66% YoY)**
- HSD margins have also declined by around **55% YoY to USD 5.5/bbl**.
- FO margins continue to remain deep in the negatives, hovering around **USD -15/bbl**. Notably, Pakistan's refinery sectors continues to export the commodity at a loss because of low domestic demand.

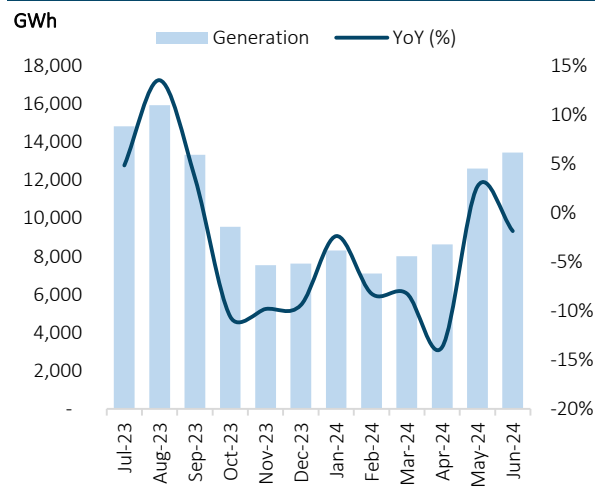
Domestic Hydrocarbon Flows slowing



Source: PPIS, BMA Research

- Domestic hydrocarbon flows continue to remain on the lower side with oil flows hovering **below the 70k bopd mark** and gas flows registering around the **3,100mmcf level**.
- Pakistan's hydrocarbon flows have continuously **witnessed an annual attrition rate of 6%**. The presence of the circular debt and the consequent cash flow issues have limited exploration activity from the sector.
- Given the recent gas-price hike, we foresee a resumption in exploration activity and a resultant increase in production flows.

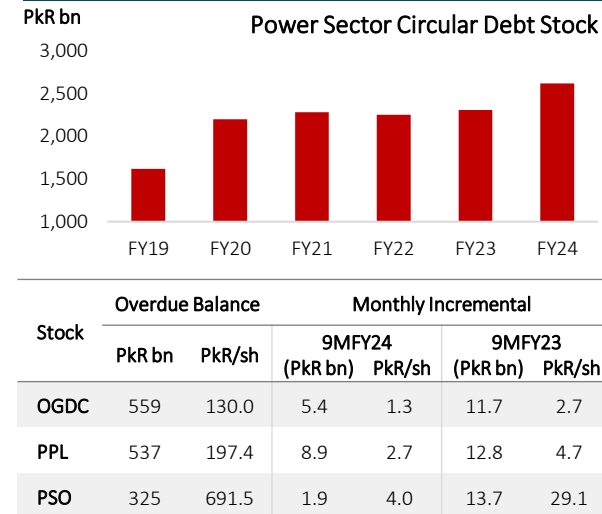
Seasonal Recovery in Generation



Source: NEPRA, BMA Research

- Pakistan's domestic electricity generation saw a seasonal recovery with **June 2024 witnessing production levels of around 13.5k GWh**.
- Overall generation during **FY24 registered a 2% YoY fall** because of the slowdown in economic activity and an increasing use of captive-based power plants.
- With another increase in the national grid tariff, and anticipation of another slow year, **we do not foresee any significant recovery in electricity generation in FY25**.

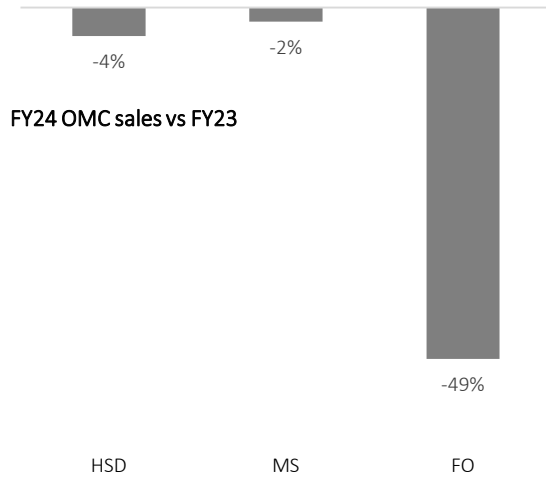
Circular Debt under control



Source: MoE, BMA Research

- Energy tariff hikes have significantly reduced the flow of circular debt over the recent months. Nevertheless, the outstanding stock of the **power sector's circular debt stands at PKR 2.6tn** because of past delays in tariff hikes.
- The gas-based circular debt also remains high with OGDC, PPL and PSO's overdue balance hovering around **the PKR 1.5tn mark from gas utilities**.
- The flow of gas-based circular debt has declined considerably after the tariff hikes (see table above for details).

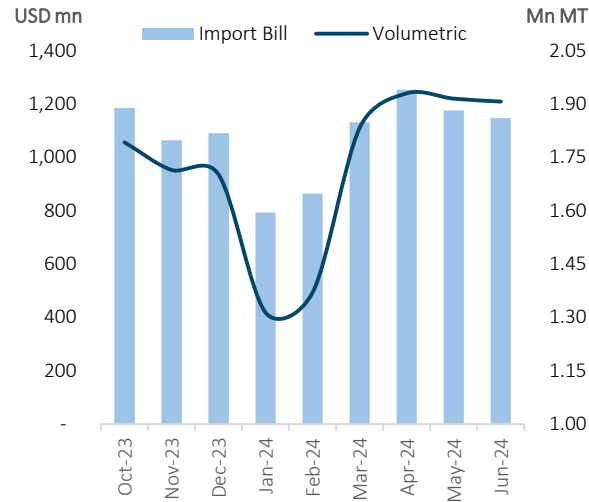
Domestic Petroleum Sales under Pressure



Source: OCAC, BMA Research

- Domestic OMC sales have been consistently under pressure because of the economic slowdown, increased smuggling and record-high prices.
- FY24 saw HSD and MS sales fall by 4% and 2%, respectively. Notably, when compared to FY22's figures, the decline registers **around 20% for HSD and 29% for MS**. FO sales have been on a consistent decline, falling by around 50% over the year.
- We do not see any significant recovery in OMC sales given the tough macroeconomic environment.

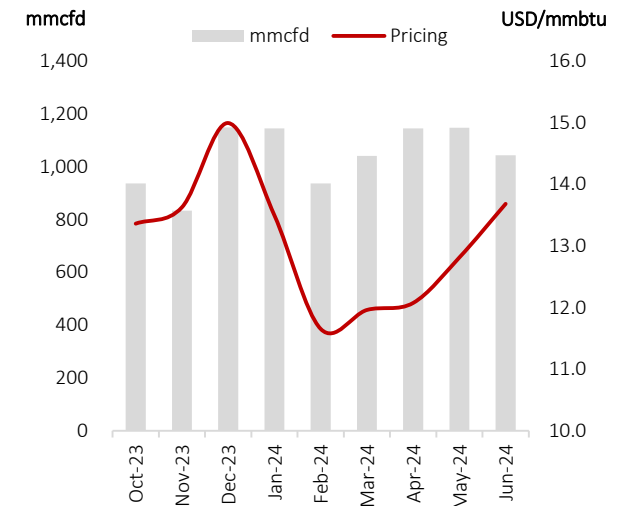
Oil imports remain stable



Source: PBS, BMA Research

- Since March 2024, Pakistan's monthly oil import bill is **hovering around the USD 1.2bn** mark and volumetric imports are registering **at the 2.0mn MT** mark.
- Pakistan's crude oil imports saw an increase of **around 17% YoY to 9.1mn MT (180k bopd)**, offsetting for the decline in domestic production levels. Refined fuel imports, however, fell by around 7% YoY, indicating increasing reliance on domestic refineries.
- Domestic HSD production was up by around 5% YoY and FO production levels rose by 8% YoY. MS, however was down 3% YoY.

RLNG Imports Picking Pace



Source: OGRA, BMA Research

- Pakistan's average RLNG imports increased by **around 9% to 1,033mmcf** in FY24. The increase can be credited to the decline in domestic gas production levels and the need to operate RLNG plants.
- RLNG rates, however, were down 12% YoY to around **USD 13.0/mmbtu**, led by the decline in global crude rates.

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Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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Tel: (052) 4260091-94

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The United Mall, Plot No. 74
Abdali Road, Multan
Tel: (061) 457 6611-15
Fax: (061) 457 6615

Sargodha Branch:

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Main Khushab Road, Near Allied Bank
Limited, Sargodha.
Tel: (048) 3767 817-18

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Mezzanine Floor, State Life Building #2,
Plot No. 833 Liaquat Road, Faisalabad.
Tel: (041) 2612261-5.

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Trust Plaza GT road Gujranwala.
Tel: (055) 3848501-05

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Tel: (0543) 553850, 0543-543720,0543-
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Tel: (091) 5274770-72

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