The Pakistan Credit Rating Agency Limited

PRESS RELEASE

06-Apr-2020

PACRA COMMENTS | CORONAVIRUS | REFINERIES

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 170 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
ENERGY	REFINERIES
SIZE	- Turnover of the sector: ~ PKR 900bln (FY19), ~ PKR 720bln (FY18) - Volume handled in FY19: ~11mln MTs of Petroleum Products (POL) i.e. ~55% of POL demand in the country is met through local refineries - Contribution to GDP: ~2%
NUMBER OF PLAYERS	- 5 refineries: 4 listed on the PSX and 1 Public Unlisted Company
PACRA PENETRATION	- PACRA rates 4 refineries - Turnover of the entities rated by PACRA in FY19: ~ PKR 800bln (~89% of total sector turnover)
IMPACT	- Steep drop in international crude prices: Brent crude has fallen to as low as $27.2/bbl on 31st March, 2020 from $57.2/bbl on 31st January, 2020. Substantial adjustment on crude inventory cost to result in refineries bearing losses - Reduced offtake from Oil Marketing Companies (OMCs) has compelled the refineries to either shut down completely or adjust their throughputs downwards. The collapsed demand has emerged as a consequence of economic meltdown and preference of imported refined products by OMCs to avail price advantage. On the other hand, refineries need to operate at an optimum throughput capacity to remain profitable - Limited storage capacities are available with the refineries to counter the reduced demand menace. Stock accumulation of refined products in addition to furnace oil inventory is adding to the woes. At the same time, unsold inventory of OMCs is also building up as demand halts amidst lockdown creating stock management issues throughout the oil supply chain. Refineries and OMCs hold approx. 1.9mln MTs and 1.7mln MTs of storage capacities respectively. Total borrowing book of the Refinery Sector stood at ~ PKR 75bln (End-Sep'19). - Recent weakening of PKR against USD amid the COVID-19 outbreak bears a further negative impact on refinery margins - Energizing FO consumption may relieve the industry to a certain extent as recent cut in FO price, in line with crude, may be of benefit to the consuming (power) sector. However, power sector dynamics, LNG substitution in light of its import contracts and rising share of coal in the energy mix are the key determinants here - Government directive to the OMCs to halt import of refined products and increase their offtake from refineries would keep the industry functional and combat stock management issues

CONTACT

saniya.tauseef@pacra.com
+92-42-35869504
www.pacra.com.pk