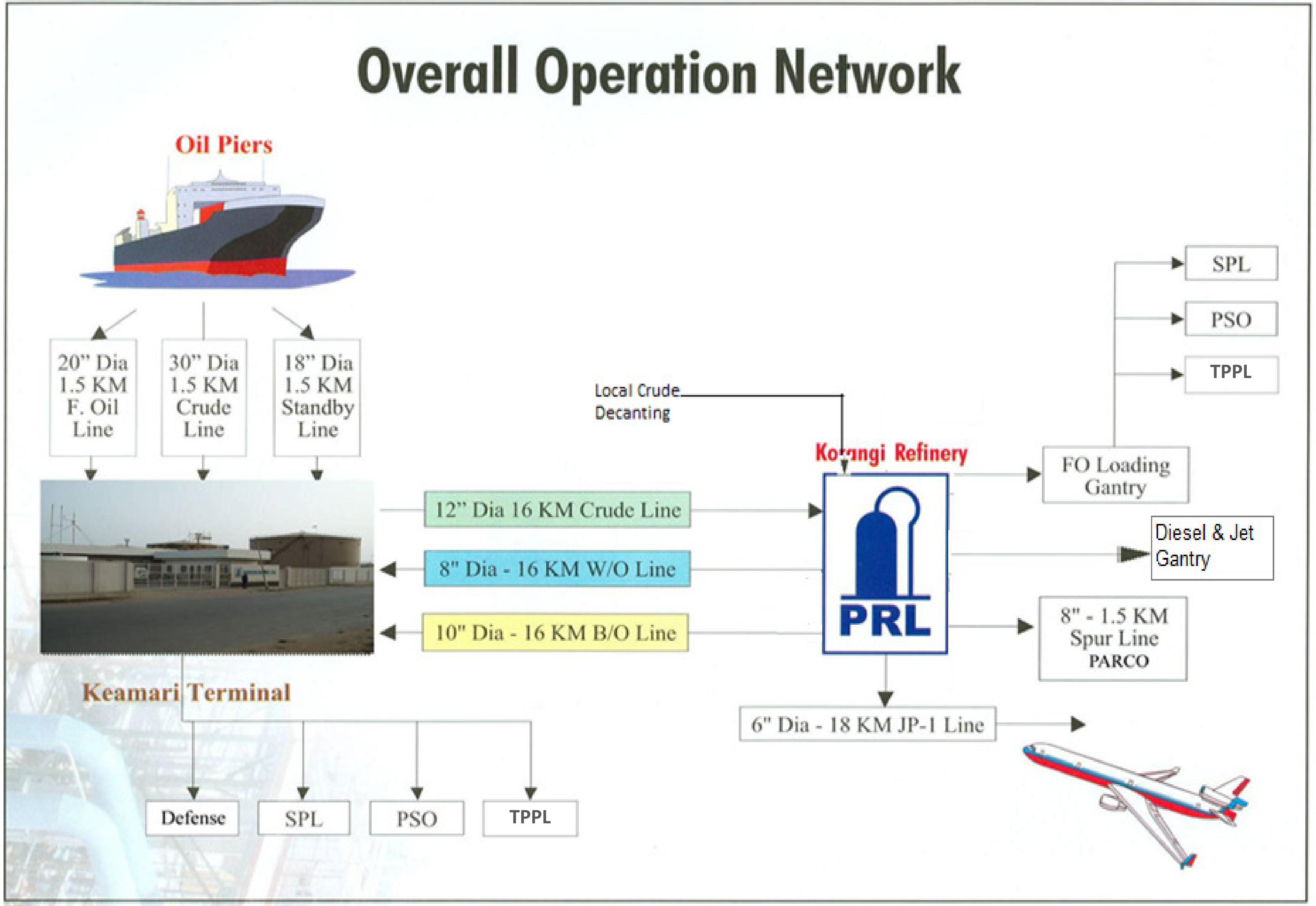
Pakistan Refinery Limited

Corporate Briefing Session
For year ended June 30, 2020

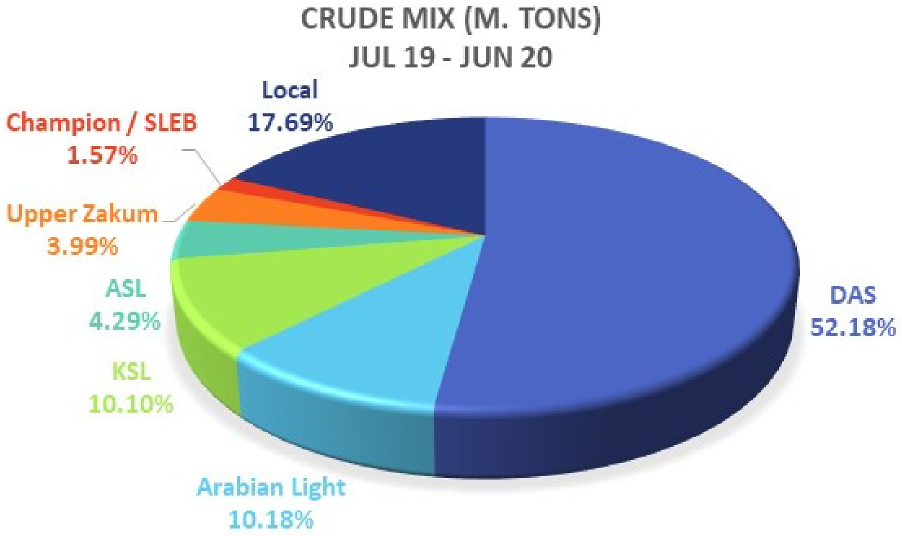
Table of contents

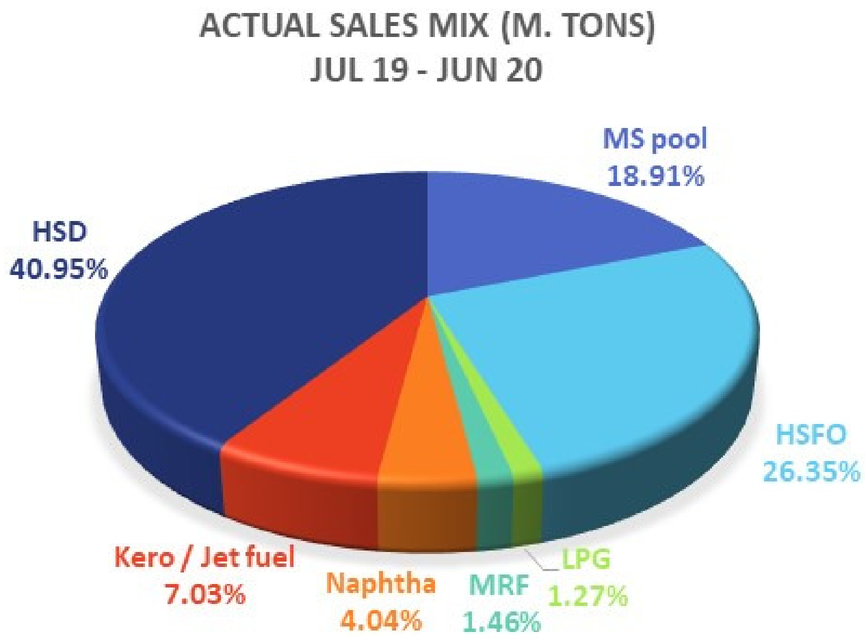
Table of contents

PRL Network Diagram

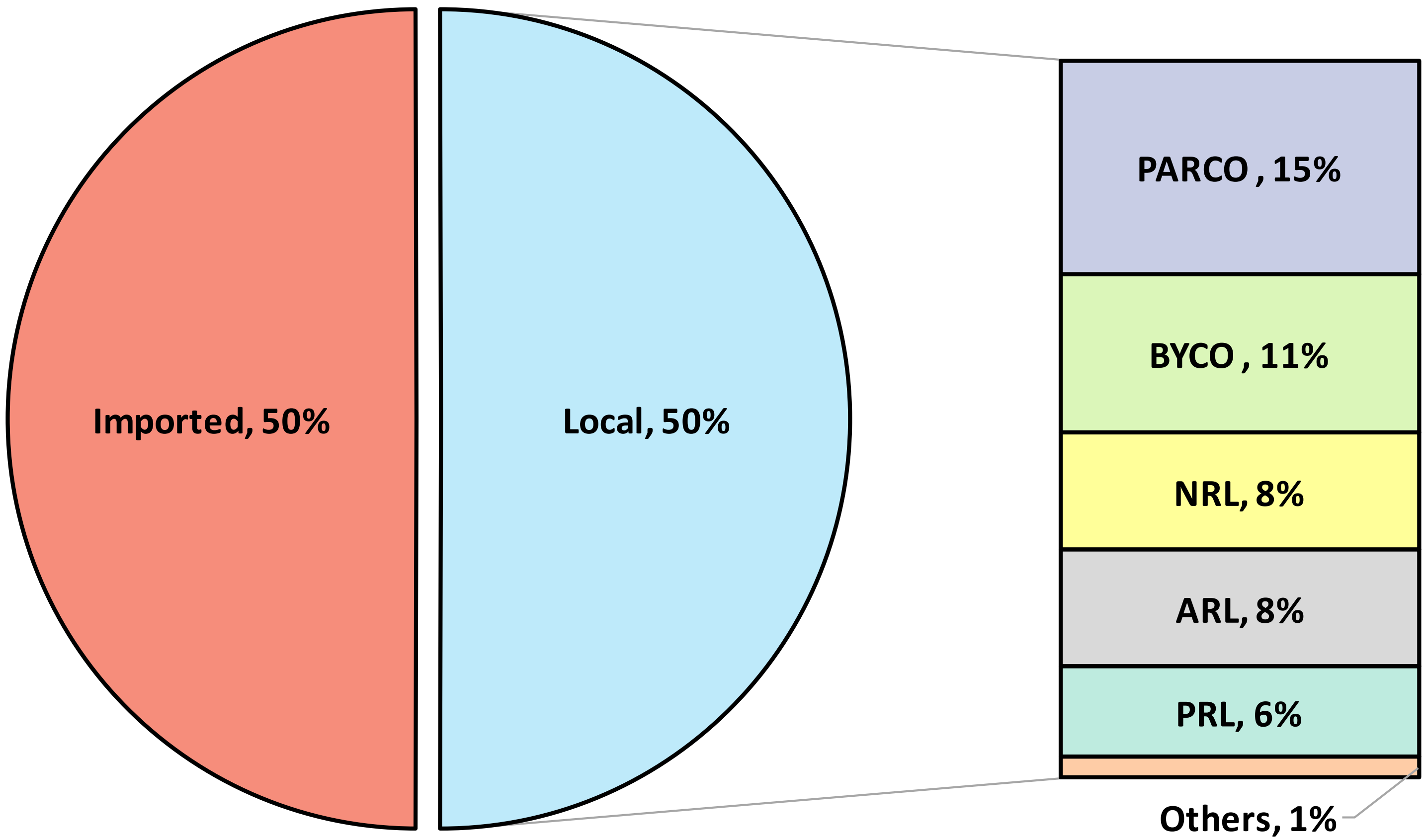


Crude and Product Mix





Petroleum Products Market share 2019-20



Source: OCAC Oil Book 2019-20

Table of contents

Statement of profit / loss account

	2020	2019
	(Rupees in thousand)	
Revenue from contracts with customers	**90,524,260**	115,740,971
Cost of sales	**(94,892,607)**	(118,915,466)
Gross loss	**(4,368,347)**	(3,174,495)
Distribution costs	**(206,096)**	(250,171)
Administrative expenses	**(459,767)**	(485,457)
Loss allowance on trade receivables	**-**	(121,939)
Other operating expenses	**(43,038)**	(23,763)
Other income	**163,901**	267,304
Operating loss	**(4,913,347)**	(3,788,521)
Finance cost	**(1,995,012)**	(1,442,624)
Share of net gain / (loss) of associate accounted for using the equity method	**3,258**	(13,963)
Loss before income tax	**(6,905,101)**	(5,245,108)
Income tax expense	**(685,625)**	(576,015)
Loss for the year	**(7,590,726)**	(5,821,123)
		(Restated)
Loss per share - basic and diluted	**(Rs. 17.74)**	(Rs. 13.68)

Financial highlights

- The events surrounding the Covid-19 pandemic (the virus) continue to evolve and impact local and global markets. The spread of the virus has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines and shutdowns. Consequently, economic conditions, including oil prices, have been increasingly volatile. The Company continued its operation despite lockdown of economic activities due to spread of Covid-19. The extent of the impact of the virus and the drop in the oil price on the operational and financial performance of the Company include the following:

  - decline in revenue and increase in inventory losses;

  - delay in finalization of issue of right shares;

  - relaxation in repayment terms in respect of long-term finance facilities was obtained; &

  - long term loan was obtained under the refinance scheme for payment of wages and salaries.

Financial highlights

- The Board of Directors in its meeting dated February 10, 2020 announced a Right issue at par value of Rs. 10 per share in the ratio of 1 right share for every 1 share held. The total size of the issue was Rs. 3.15 billion. To facilitate completion of right issue process in the challenging situation of Covid-19, PSO provided an undertaking that it will subscribe such portion of Class A shares (i.e. 40% of the total rights issue) which remains unsubscribed. This was accepted by the Securities and Exchange Commission of Pakistan (“SECP”), resultantly waiving the requirement of underwriting for the said right issue. Consequently, PSO paid for 22.46 million unsubscribed Class A shares subsequent to the year end, thereby increasing the shareholding from 60% to 63.56%. The right issue has been fully subscribed and the shares have been allotted subsequent the year end.

Financial highlights

- As already announced in Pakistan Stock Exchange, the Company in light of new operational strategy has undertaken various non-capex options which assist the Refinery to comply with the regulatory requirements but will also have a positive impact on the Company's profitability. These measures include:

  1) Sustained production of MS 92 RON and the ability to produce MS 95/97 RON has been achieved. This has already resulted in saving of RON differential price adjustment on MS which is paid to the Government, hence generating additional revenues.

  2) Changes in crude recipe and operational philosophy has enable the Refinery to produce EURO II compliant High Speed Diesel (HSD). This will make the Refinery compliant with the regulatory requirements and will also save price differential which the Company is required to pay to the Government due to production of HSD with higher Sulphur contents. It is to be noted that the Company has suffered cumulative Rs. 7.18 billion on account of HSD price differential since March 2013. The Refinery produced EURO II compliant HSD subsequent to year end with the revised crude recipe and is currently exploring long term arrangements with relevant crude suppliers to continue producing EURO II compliant HSD on a sustainable basis.

Financial highlights

3) The changes in crude recipe and operational philosophy made the Company the first refinery in Pakistan to produce IMO-2020 grade Marine Residual Fuel (MRF). MRF is a premium product and will add to the margins of the Company. The Company has already started production of MRF since June 2020, however, its sustained production is also tied with long term crude arrangements as explained above.

In addition, the Economic Coordination Committee of the Government of Pakistan (ECC) has approved a revised pricing mechanism effective March 1, 2020 whereby the Company will be able to recover a certain portion of exchange loss suffered on crude oil imports through pricing of MS and HSD. This will partly address the issue of exchange risk which the Company faces. The mechanism has been implemented from June 2020. Moreover, with the support of its parent company to uplift refined products and the availability of funded and unfunded credit facilities, the Company will be able to support its liquidity management efforts.

Financial highlights

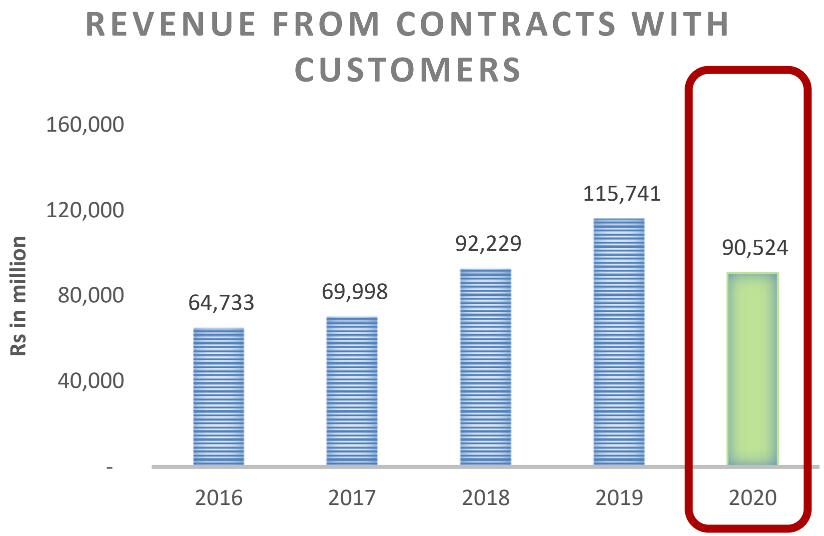
- Petroleum products' prices continued to decline during the year and after the onset of the impacts of Covid-19 plunged sharply before recovering to some extent towards the end of the year. This resulted in huge inventory losses suffered by the Company during the year.

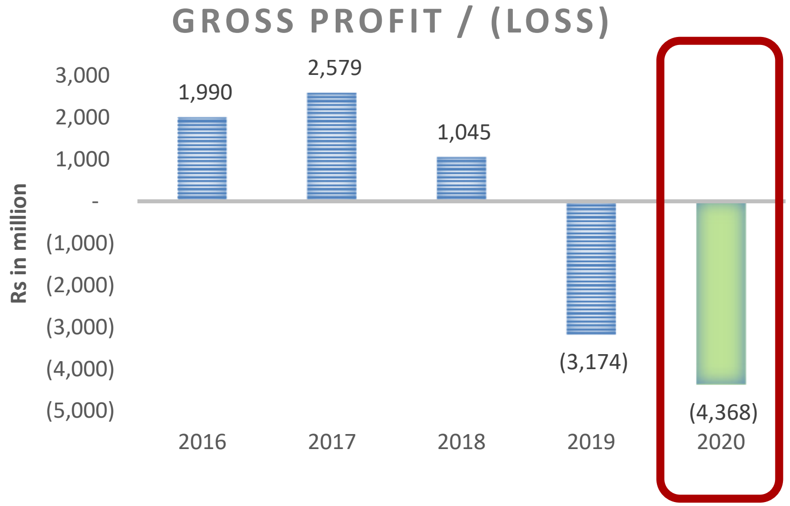
- Under the policy framework for up-gradation and expansion of refinery projects issued by the Ministry of Energy on March 27, 2013, refineries were required to install Diesel Hydrodesulphurisation Unit (DHDS) by June 30, 2017 to produce EURO II compliant HSD and in case of non-compliance, the ex-refinery price of HSD based on Import Parity Pricing (IPP) formula would be downward adjusted / reduced due to higher Sulphur content. The Company has not set up DHDS project to date to produce EURO II compliant HSD during the year, and therefore, was subjected to downward adjustment of its HSD pricing causing loss of Rs. 1.03 billion (2019: Rs. 1.15 billion).

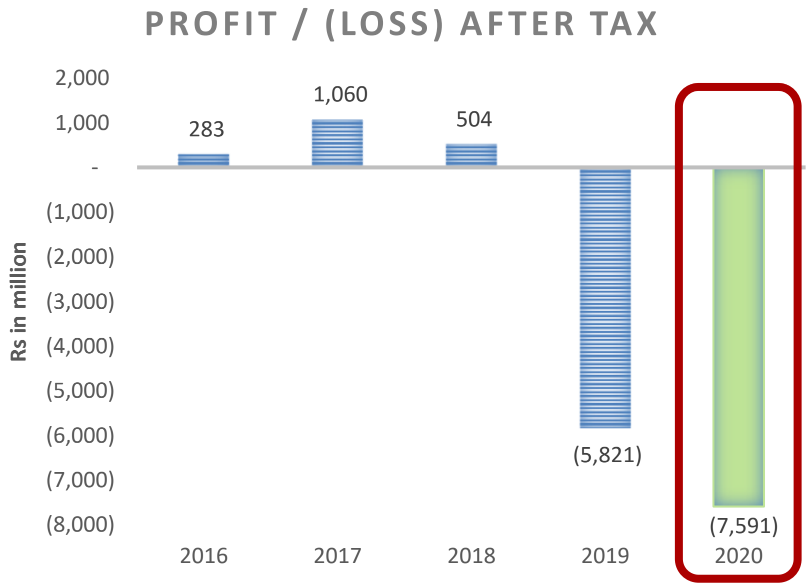
Financial highlights

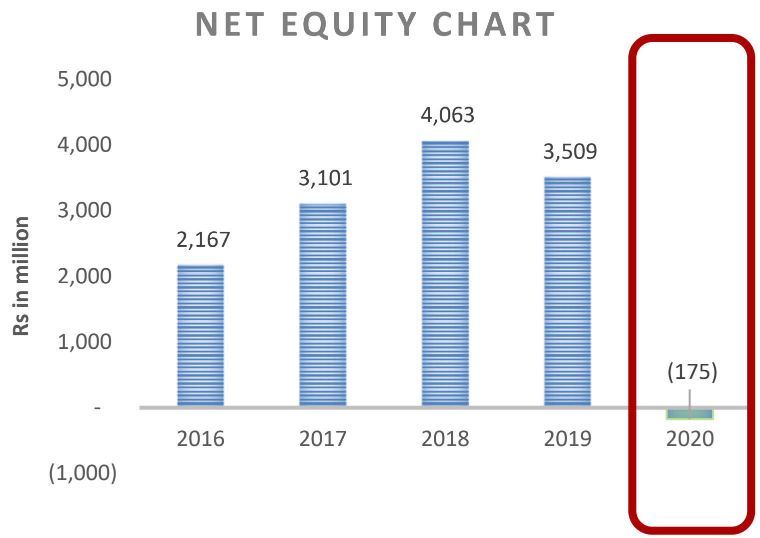
- The Company adopted stringent controls over cash flow and liquidity management which remained under pressure due to losses suffered by the Company. The Company's running finance and short term loan facilities increased to Rs. 16.45 billion as compared to Rs. 15.55 billion in the comparative period. Further, during the year, the State Bank of Pakistan issued directives to defer principal payments of long term loans as an incentive to the industrial sector during the Covid-19 pandemic. The Company availed the facilities and deferred long term loans amounting to Rs. 4.1 billion by one year. In addition, the State Bank of Pakistan also introduced payroll refinance scheme at reduced mark-up rates to address economic hardships faced by the businesses. The Company availed this facility also and borrowed Rs. 132 million up to June 30, 2020 on reduced mark-up.

Financial highlights

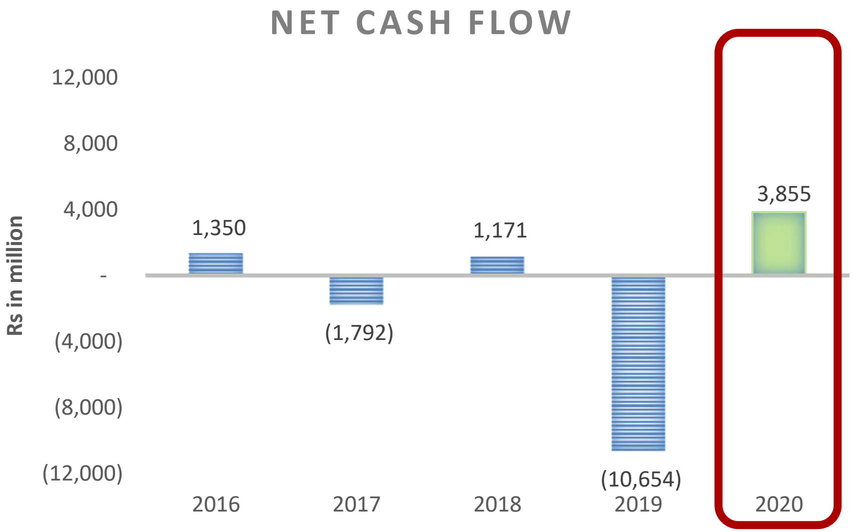


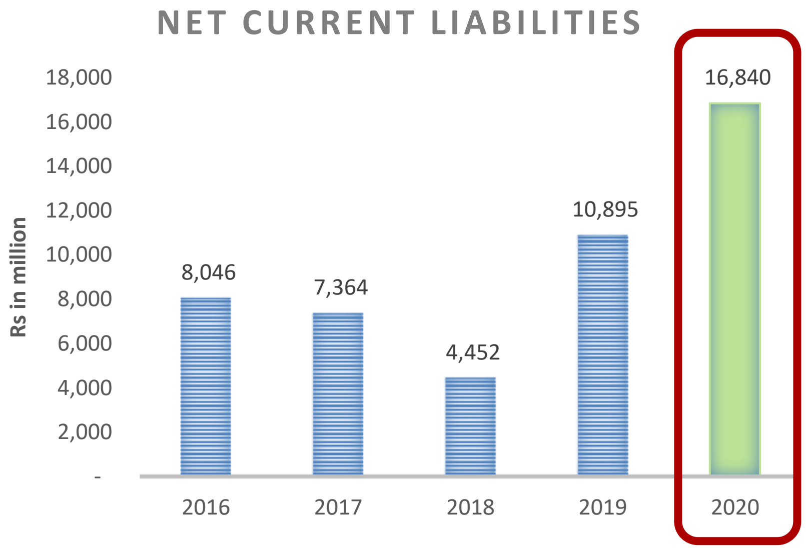


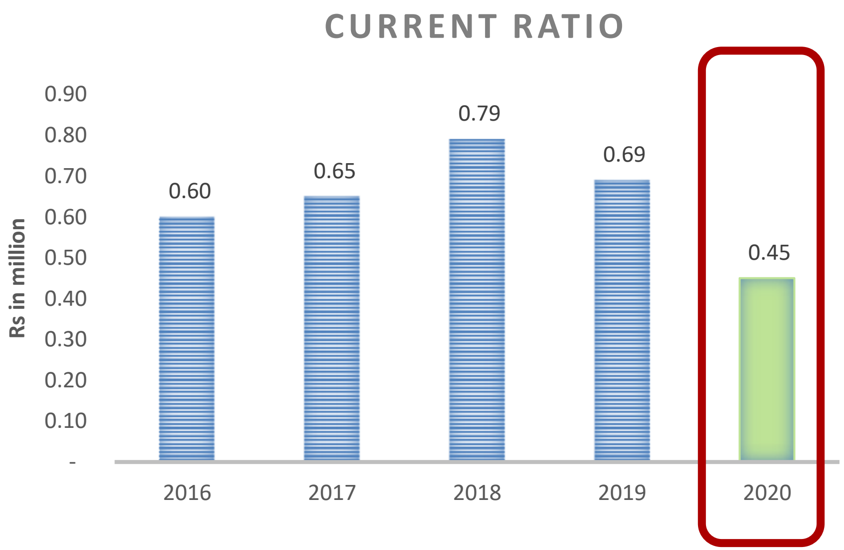




Financial highlights







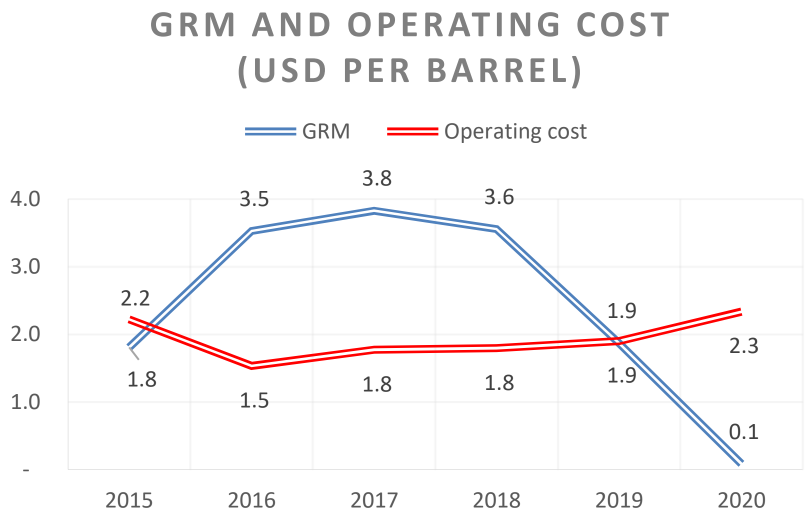


Table of contents

Principal risks and uncertainties

- The Refinery operates under policy framework of the Government of Pakistan (GoP). Further, the pricing of certain products is regulated / monitored by the Ministry of Energy (MoE) which are primarily on import parity pricing basis. Changes in international pricing of crude oil and refined petroleum products and local pricing mechanism by MoE may have a significant impact on the results of the Company.

- Specifications of Refinery's products are defined by the Government and Refinery is required to strictly comply with such specifications. Any change in these specifications may require the Refinery to make changes in operational parameters which in turn may have an adverse impact on the results of the Company. The Company has not installed DHDS to produce EURO II compliant HSD. Subsequent to the year end the Company produced EURO II complaint HSD through its altered operational philosophy but non-procurement of preferred crudes could result in production of non-compliant HSD, leading to downward adjustments in pricing of HSD and negatively impacting the results of the Company.

Principal risks and uncertainties

- The Company’s dependence on bank borrowings exposes it to liquidity and interest rate risks. Therefore, any increase in policy rates by SBP results in increase in finance cost and a negative impact on the results of the Company. Further, withdrawal of any major financing facility increases the liquidity risk.

Table of contents

PRL

Future prospects and risk mitigation measures

- The Company has renewed its operational philosophy and is now exploring new avenues to make the Refinery sustainable through production of better margin products. In this regard, the Company is in contact with various crude suppliers to secure long term arrangements of suitable crudes that will not only allow production of premium products including production of EURO II compliant HSD but will also ensure sustainable profitability by making the production mix favourable.

- Further, the Company has deferred long term loans that will further support the Company in liquidity management. In addition, proceeds from Right Issue, completed subsequent to the year end, will also reduce the dependence on short term borrowings and will also reduce finance charges in subsequent years.

- The Company's sound cashflow cycle provides assurance to all financial institutions in continuing their support to the Company. During the year, the Company was able to increase its running finance facilities from banks to Rs. 9.45 billion from Rs. 8.55 billion last year. In addition, the Company has invoice discounting facilities from various banks amounting to Rs. 7 billion. These facilities depict the confidence of financial institutions on the repayment capacity of the Company and support the Company in its liquidity management

Future Outlook

- The Company has initiated the work on Refinery Upgrade Project including meeting regulatory requirements of installation of DHDS Unit to produce EURO II compliant HSD. This project has upgrade considerations also for changing the product slate to a more profitable mix; primarily to convert furnace oil into petrol and HSD. In addition, the project has been designed keeping future product specifications in consideration, therefore, the Refinery will be able to meet any future specifications by making minimal capital expenditure.

  As the detailed feasibility study with foreign consultant was already completed, during the year, the Board of Directors approved the Refinery Upgrade Project. Work on prequalification of Project Management Consultant and contractor for combined Front End Engineering Design (FEED) and Engineering, Procurement and Construction (EPC) contract is underway.

Thank you

Q & A