Pakistan Refinery Sector

Refineries: Margin Momentum Meets Policy Risk

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Refineries: Margin Momentum Meets Policy Risk

Refiners have been at the centre of investor attention lately, propelled by unusually strong GRMs, improving utilization and the long-anticipated prospect of plant upgrades. But with crude premiums climbing, HSD margins now fixed by policy, and a further potential spread cuts being discussed, the real question is how much of this earnings strength can hold — and which refiners are built to withstand what comes next. Across all these scenarios, we believe ATRL is best positioned.

Potential Fixed HSD Crack Reduction: Price Impact

- On 20-Aug-2026, the Government shifted to a Dubai crude + fixed HSD margin of USD 41.89/bbl to contain HSD prices, initially reducing the retail price by PKR 32.63/litre to PKR 363.06/litre. However, with Dubai crude rising from USD 89.46/bbl to USD 100/bbl, HSD prices have subsequently increased to PKR 385.95/litre under the daily pricing mechanism
- With HSD prices rising again, discussions have emerged around reducing the fixed HSD crack to USD 30/bbl. Based on our estimates, this could lower HSD prices by ~PKR 20.8/litre, further pressuring refinery margins, with high-HSD-throughput refiners, likely to face the largest earnings impact.
- The Government has also kept HSD customs duty at PKR 15.68/litre since 20-Jun-2026, below the effective 10% rate, as an additional measure to contain HSD prices amid elevated international crude prices.
- Against this backdrop, we have provided an ATRL (in our coverage) earnings sensitivity across different HSD crack spreads, including the potential USD 30/bbl scenario, to assess the impact of further margin compression on profitability.

Rising Crude Premiums: ATRL Best Positioned

- Moreover, crude premiums vary significantly by supplier and trader. Based on our channel checks, ARAMCO is currently offering negative premiums, while ADNOC is quoting premiums in the USD 5–15/bbl range, with other traders also charging higher premiums. Given that each refinery has a different mix of crude suppliers and traders, the impact of rising premiums is likely to vary across refiners. However, since ATRL procures crude locally, it is the best positioned refinery.

Exhibit: Fixed Spread (USD per bbl) at:

HSD	USD 41.69	USD 30
Gasoil Spot (USD/barrel)	148.39	136.5
Exchange Rate	277.59	277.59
C&F (PKR/LTR)	**259.06**	**238.31**
Custom Duty	15.68	15.68
Incidentals/Other Charges	0.12	0.12
Ex rate Adj	-	-
Ex Refinery	**274.9**	**254.11**

Source (s): OGRA, AHL research

In a nutshell

- Pakistan’s refinery sector is seeing a strong earnings recovery on elevated GRMs, improving utilization and refinery upgrades.
- However, rising crude premiums and HSD margin compression pose risks, with ATRL best positioned given its lower HSD exposure, local crude sourcing and strong balance sheet.

Refinery Sector
ATRL: Best Positioned Amid Margin Headwinds

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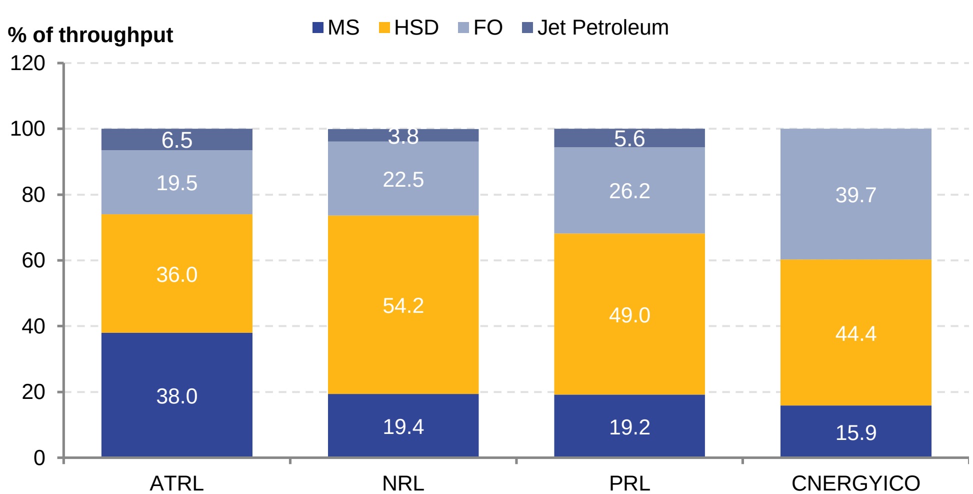
- Based on USD 10/barrel premium, our working indicates a weighted-average GRM of USD 16.59/bbl, down significantly from ~ USD 40/bbl in August .
- It is important to note that MS and HSD ex-refinery pricing incorporates product premiums rather than crude premiums. Currently, MS carries a USD 15.25/bbl premium, limiting the impact of higher crude premiums, whereas HSD carries a negative USD 1.50/bbl premium, which is unfavorable for refiners with higher HSD throughput and greater reliance on imported crude.
- Overall, ATRL appears best positioned given its lower HSD throughput and greater reliance on local crude, making it relatively less exposed to rising crude premiums and potential HSD margin compression. We forecast FY27 EPS of PKR 250.77/sh.
- During FY26, ATRL's balance sheet strengthened further, with its cash position reaching PKR 1,093/sh and book value per share at PKR 1,621. In 4QFY26, the company also recognized a PKR 7.8bn revaluation surplus (PKR 73/sh), further boosting its book value.
- As per our estimates, ATRL booked a similar reversal as NRL (mentioned later) of ~PKR 7.2bn pre-tax, implying an after-tax impact of ~PKR 41/sh. Adjusting for this, we estimate 4QFY26 EPS at ~PKR 95/sh and FY26 EPS at ~PKR 248/sh, while we forecast FY27 EPS at PKR 250.77/sh.

Exhibit: Who's Most Exposed to HSD — FY27td Mix by Refinery



Source (s): OCAC, AHL Research

The ATRL Angle

7.8 bn (PKR 73/sh) revaluation surplus
Surplus on revaluation now stands at PKR 63bn as of FY26

PKR 250.77
ATRL FY27e EPS forecast

PKR 1,093/sh
ATRL FY26 cash position/shr

PKR 1,621/sh
ATRL FY26 BVPS

Refinery Sector
Spread Sensitivity on ATRL

Exhibit: Spread sensitivity on ATRL

HSD	For the month of Sep'26								
HSD Spread (USD/barrel)	**30.00**	**35.00**	**41.89**	**45.00**	**50.00**	**55.00**	**60.00**	**65.00**	**70.00**
HSD Spread (PKR/ltr)	53	62	74	80	89	97	106	115	124
HSD Spread (PKR/ton)	63,456	74,032	88,605	95,184	105,760	116,335	126,911	137,487	148,063
Sales (Sep) - tons	49,805	49,805	49,805	49,805	49,805	49,805	49,805	49,805	49,805
HSD Spread (PKR mn)	3,160	3,687	4,413	4,741	5,267	5,794	6,321	6,848	7,374
Tax rate	37%	37%	37%	37%	37%	37%	37%	37%	37%
HSD Spread After tax (PKR mn)	1,991	2,323	2,780	2,987	3,318	3,650	3,982	4,314	4,646
HSD Spread After tax (PKR/sh)	**18.68**	**21.79**	**26.08**	**28.01**	**31.13**	**34.24**	**37.35**	**40.46**	**43.58**
MS	**For the month of Sep'26**								
MS Spread (USD/barrel)	**2.50**	**5.00**	**7.50**	**10.00**	**12.50**	**15.00**	**17.50**	**20.00**	**22.50**
MS Spread (PKR/ltr)	4	9	13	18	22	26	31	35	40
MS Spread (PKR/ton)	5,996	11,992	17,989	23,985	29,981	35,977	41,973	47,969	53,966
Sales (Sep) - tons	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000
MS Spread (PKR mn)	210	420	630	839	1,049	1,259	1,469	1,679	1,889
Tax rate	37%	37%	37%	37%	37%	37%	37%	37%	37%
MS Spread After tax (PKR mn)	132	264	397	529	661	793	926	1,058	1,190
MS Spread After tax (PKR/sh)	**1.24**	**2.48**	**3.72**	**4.96**	**6.20**	**7.44**	**8.68**	**9.92**	**11.16**
Total impact	**For the month of Sep'26**								
HSD impact before tax (PKR mn)	3,160	3,687	4,413	4,741	5,267	5,794	6,321	6,848	7,374
MS impact before tax (PKR mn)	132	264	397	529	661	793	926	1,058	1,190
Total impact before tax (PKR mn)	3,293	3,952	4,810	5,269	5,928	6,587	7,246	7,905	8,564
Effective tax	37%	37%	37%	37%	37%	37%	37%	37%	37%
Total impact after tax (PKR mn)	**2,074**	**2,489**	**3,030**	**3,320**	**3,735**	**4,150**	**4,565**	**4,980**	**5,395**
EPS	**19.46**	**23.35**	**28.42**	**31.14**	**35.03**	**38.93**	**42.82**	**46.71**	**50.61**

Source (s): AHL research

NRL's Annual Report Key Takeaways

- During FY26, the Government revised the HSD pricing mechanism several times, including changes to pricing frequency and its linkage with international crude prices. NRL was also required to pay PKR 1.82bn to PSO as an HSD premium differential, negatively impacting NRL's realized margins, while likely providing a cash-flow benefit to PSO; other refineries may have faced similar payments.
- Management optimized crude sourcing and product yields, prioritizing higher-margin HSD/MS while reducing FO output, and diversified supplies through local crude, ADNOC and ARAMCO via Yanbu. This ensured largely uninterrupted operations during the Middle East conflict, although higher freight/war-risk costs and limited availability of lighter crude pressured HSD yields.
- **Policy and accounting-related charges were a major drag on FY26 earnings.**
- Post year-end, the Government amended the Brownfield Refining Policy, reducing HSD deemed duty by 2.5% from Oct'24 until execution of the upgrade agreement, required within 45 days of notification. However, NRL had completed signing formalities in Mar'24, well ahead of the earlier deadline, as acknowledged by OGRA, and had already made a significant pre-investment in 2017 for Euro-V HSD production, strengthening its case against the deemed-duty reduction.
- **While management believes it has a strong legal basis to contest the applicability of the 2.5% reduction, it has charged off ~PKR 8.2bn (gross) up to June 30, 2026, subject to the related tax impact, and recognized a PKR 6.18bn liability, net of tax, as differential deemed duty payable to the Refinery Upgradation Account.**
- Nevertheless, NRL plans to challenge the deemed-duty surrender, citing delays arising from sector-wide discussions with the government, which could provide a potential upside if resolved favorably.
- **Separately, the company wrote off PKR 6.72bn of crude-oil customs duty receivables attributable to deregulated products and discontinued further recognition due to the absence of a confirmed government reimbursement mechanism, resulting in a cumulative financial impact of ~PKR 13.5bn during FY26.**
- Under the customs-duty mechanism, refineries pay customs duty on imported crude oil but recover a portion through regulated product prices, 2.5% on HSD and 10% on MS with the resulting difference potentially recoverable from the government through the OGRA mechanism.
- Introduced following the imposition of customs duty on imported crude in 2015 and later incorporated into the Brownfield Refining Policy, the mechanism allowed unrecovered duty to be settled through the OGRA-controlled joint escrow account. Accordingly, NRL recognized PKR 6.72bn as a customs-duty receivable for Apr'24–Jun'25, which was submitted to OGRA and subsequently raised with the Petroleum Division. However, in the absence of a government notification confirming reimbursement, NRL deemed recovery uncertain and wrote off the PKR 6.72bn receivable in FY26.

Refinery upgrade details

Refinery upgrade details

- The Brownfield Refining Policy remains the key structural catalyst, providing incremental deemed-duty incentives of 2.5% on HSD and 10% on MS, with the incremental amount ring-fenced in the Refinery Upgradation Account to fund up to 27.5% of upgrade project costs.
- The policy also provides reimbursement of crude customs duty through IFEM, reimbursement of certain sales-tax claims and exemptions on upgrade equipment and materials.

Following discussions, the Federal Cabinet ratified the CCoE decision, with key amendments including:

- Refineries shall sign upgrade agreements with the Ministry of Energy (Petroleum Division), instead of OGRA, within 45 days rather than 60 days.
- Incremental incentives shall be deposited into the Refinery Upgradation Account maintained by the Petroleum Division instead of escrow accounts with OGRA
- Policy implementation and monitoring functions shall be transferred from OGRA to the Petroleum Division.
- If an upgrade project is operationalized within three years, the refinery may avail an additional incentive equivalent to 0.5 percent of the capped limit for every year saved;
- Upgrade project completion timeline shall be reduced to five years plus a one-year cure period, with a one percent reduction in incentive.
- Federal government may consider an extension of one year beyond the cure period, subject to justification.
- Licences of refineries that fail to commission upgraded projects within the specified timeline, with a maximum period of 5+1 years, shall be liable to be revoked by the competent authority.
- Refineries that fail to execute UAs by October 1, 2026, shall deposit the deemed duty above 5 percent on HSD into the Refinery Upgradation Account, starting from the date of signing of the UA, with the transfer to be completed by June 30, 2027.
- Deemed duty on HSD shall be reduced to 2.5 percent for refineries that do sign the UA by October 1, 2026, and further reduced to zero by November 15, 2026.
- No international arbitration shall be allowed without Cabinet approval; and
- Missing definitions shall be added to the policy to ensure unambiguous interpretation.

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2026 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -5% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -5% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk