Morgan Stanley | RESEARCH

EUROPE INSIGHT

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CEEMEA Refining

Running on Fumes?

Refining margins are normalising, and that should continue until 2025/26 as new capacity enters the market. Consensus, however, forecasts normalisation "too much, too fast", while valuation multiples are below the 15-year average. We initiate on Motor Oil, Tupras (OW), Orlen, HELLENiQ and MOL (EW).

Key Takeaways

- Margin normalisation is here: profitability is declining, with guidance and our estimates seeing that continue in 2024.
- However, we think consensus is too bearish. Global capacity growth is not expected to outpace demand growth by much. Delays/cancellations/outages can quickly tighten the market.
- Domestic proxies: correlation with local equity benchmarks is higher than with DM Europe refining peers..
- We prefer names with higher exposure to refining, solid FCF generation and capital returns: OW on Motor Oil and Tupras; Orlen (EW) is also worth tracking.
- Apart from margins, risks mainly arise from regulations and taxation. Recently, new taxes have been introduced / extended in Greece and Hungary.

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EEMEA - OIL & GAS

Europe
Industry View **No Rating**

Exhibit 1 : Morgan Stanley – CEEMEA Refining coverage

	Rating	Price Target	Upside (%)
Motor Oil	OW	EUR 29.0	28.0%
Tupras	OW	TRY 215.0	29.0%
Orlen	EW	PLN 74.0	14.0%
HELLENiQ	EW	EUR 8.0	8.0%
MOL	EW	HUF 3,357.0	17.0%

Source: FactSet, Morgan Stanley Research. Note: Priced at close on 18 July 2024.

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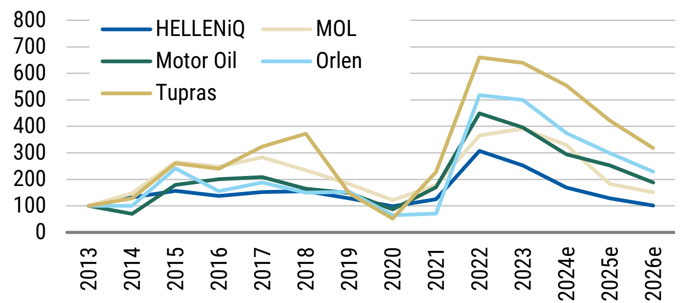
Key charts

Exhibit 2: Global refining capacity to expand in the coming years ... but not much in markets where the companies operate

	2022	2023	2024	2025	2026
Africa	-129	165	757	0	0
Central Asia	0	0	0	0	0
Eastern Asia	276	73	280	340	300
Eastern Europe	-364	82	60	0	0
LatAm/Caribbean	0	33	14	340	3
Middle East	122	826	248	85	120
North America	55	259	15	-221	0
Northern Europe	0	0	0	-136	0
Oceania	-135	0	0	0	0
South-eastern Asia	343	40	100	170	0
Southern Asia	0	14	195	286	180
Southern Europe	0	15	-84	0	0
Western Asia	0	0	0	30	0
Western Europe	0	0	0	-86	0

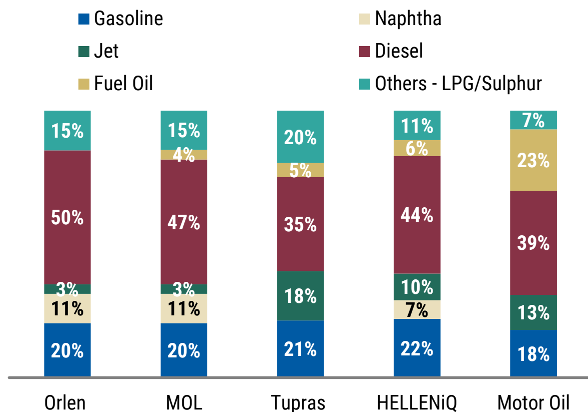
Source: S&P Platts (including forecasts), Morgan Stanley Research.

Exhibit 3: Margin normalisation in place. Regional dynamics may slow the process



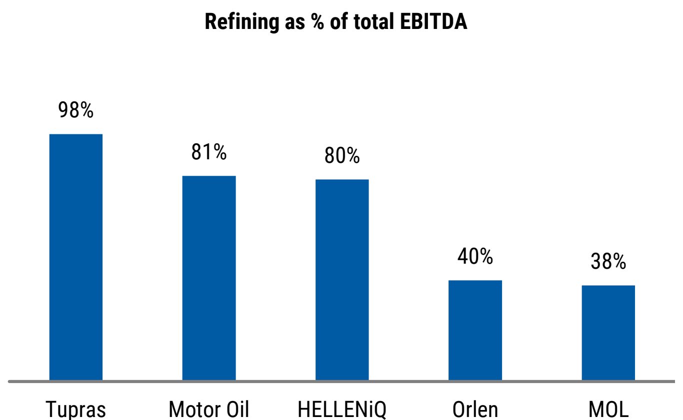
Source: Company data, Morgan Stanley Research estimates (e). Note: 2013 = 100.

Exhibit 4: Gasoline exposure does not vary much, but it does for diesel and jet fuel



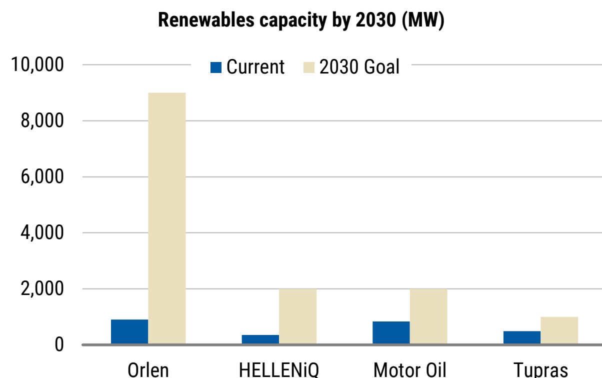
Source: Company data, Morgan Stanley Research. Note: Data for FY23.

Exhibit 5: Three 'pure plays', two 'integrated energy' names? Exposure to refining is quite different among the five companies



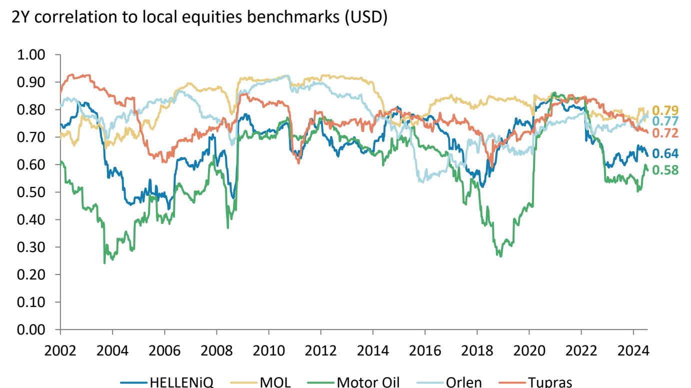
Source: Company data, Morgan Stanley Research. Note: Average FY21/22/23 data.

Exhibit 6: Renewables should become even more important throughout the decade



Source: Company data, Morgan Stanley Research.

Exhibit 7: What drives the stocks? Correlation with local equity benchmarks (below) is higher than with DM Europe peers



Note: Local equities benchmarks are FTSE/Athex Large Cap, WIG 20, BUX and BIST 30. Source: Datastream, Morgan Stanley Research.

Table of contents

Executive summary

Morgan Stanley CEEMEA Energy & Materials Coverage

Refining: Margin normalisation in motion. Timing and magnitude the key unknowns

It's not only about refining

The top-down view

Macro backdrop

HELLENiQ ENERGY: Positives fully valued

MOL: The macro play

Motor Oil: The quality play

Orlen: Work in progress – the one to watch

Tupras: The direct refining play

Company risk/reward profiles

Chart Pack I: Company/asset overview

Chart Pack II: Macro overview

Interactive Global Clean Energy Cost Map

Executive summary

Why should one invest in CEE refineries, especially while margins normalise? One might argue that demand for some fuels – particularly gasoline – will peak in the not too distant future, whereas investments in new segments – such as renewables – will hardly provide the same returns as the legacy assets.

We disagree with that view. Despite refining being a traditional commodity market, benefitting from the ease of transport for its products, the case for CEE is a lot more dependent on domestic dynamics. There is still money to be made in this sector, with the local/regional dynamics providing a supportive backdrop. Fuel demand should continue to expand throughout the decade across the markets covered by HELLENiQ, MOL, Motor Oil, Orlen and Tupras – the five companies on which we are initiating coverage. Equally, some of these markets do not have enough domestic capacity to supply the local demand. As such, the domestic assets are usually able to lock in premium prices for their volumes – i.e., by selling CFR/CIF (cost and freight / cost, insurance and freight) domestically, compared to FOB (free on board) internationally.

Refining margins are indeed normalising, and that is well known and understood by the market. Companies themselves are all guiding for declining annual refining margins in 2024. The trend should remain in 2025 as new capacity comes on-line and ramps up (Feeble Floor, Seasonal Tailwinds). However, we believe consensus is forecasting normalisation to be too harsh and too soon. As our colleagues discussed in a Global Idea note earlier this year, even small delays or cancellations of new projects may tighten the refining market again. That, coupled with the local dynamics (such as very contained capacity expansion in the region and its vicinities), supports our view that margins for the five companies will converge back to their historical levels by 2026. We are not arguing that investors should ignore the trend: as we have seen with normalisation cycles across other commodities we cover, stock performance tends to correlate with the overall margin cycle. However, being too bearish too early, we think, will likely result in investors giving up high-single-digit dividend yields, at a time when valuation is already depressed for most names, with EV/EBITDA multiples below their 15-year averages.

Also, lower funding costs and limited competition may provide solid returns on renewables projects. In Renewables Strike Back, our Clean Energy team recently that returns may be at an inflection point. Equally, lower funding costs (vs. the legacy businesses) and limited competition (in some cases) may lead to returns that are not much lower than those of refineries.

The greater relevance of local dynamics is also corroborated by looking at 20+ years of stock performance. Together with our CEEMEA equity strategists, we analysed the performance of the five stocks on which we initiate coverage compared to West European refineries and their local indices. Data show a tighter correlation with the indices than with their West European peers.

CEE refineries, then, provide an attractive backdrop for investors – particularly compared to the rest of our coverage across CEEMEA Energy and Materials. Motor Oil and Tupras are our favourite names in the segment, offering solid FCF generation, higher exposure to refining and discounted valuation. We think Orlen is another name to monitor, given the

ongoing turnaround new management is implementing; however, given the low visibility on such process, we rate the stock Equal-weight.

Normalisation in place – but not happening as fast as consensus expects

Refining margins benefitted in recent years from a strong recovery post-COVID, while supply was impacted by project delays/cancelations, logistics issues and geopolitics. Some of these factors are still in place but, as one would expect in a commodity market, mean reversion on refining margins has already started. Profitability normalisation for the five companies is an ongoing process and, based on the guidance, our assumptions and consensus, looks set to continue in 2024, 2025 and 2026.

Despite the agreement on the trajectory, we disagree with consensus on the magnitude of normalisation. Yes, new capacity has recently entered the market (and is ramping up) or should enter the market in the coming months. A few factors, however, should mitigate the impact from this, including i) logistics impacting feedstock availability (Iraq is an important supplier to the region, and shipping the Basra crude is now either more expensive and/or takes longer than in the past), ii) demand being relatively sticky and iii) the structural need to import fuel (mainly diesel) in many countries. That is also reflected in consensus expectations for the companies we cover, where we sit slightly ahead in 2025.

Exhibit 8: Expected new refining capacity (kbpd)

	2022	2023	2024	2025	2026
Africa	-129	165	757	0	0
Central Asia	0	0	0	0	0
Eastern Asia	276	73	280	340	300
Eastern Europe	-364	82	60	0	0
LatAm/Caribbean	0	33	14	340	3
Middle East	122	826	248	85	120
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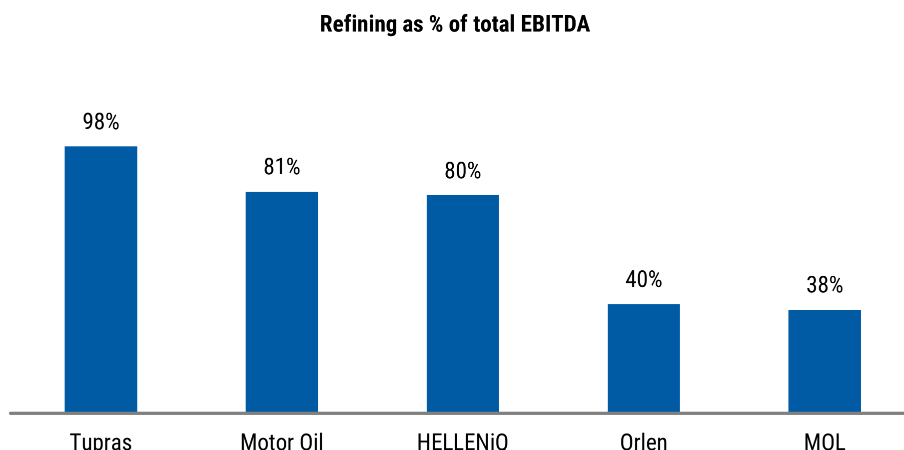
Southern Asia	0	14	195	286	180
Southern Europe	0	15	-84	0	0
Western Asia	0	0	0	30	0
Western Europe	0	0	0	-86	0

Source: S&P Platts (including forecasts), Morgan Stanley Research.

Diversification: at a tipping point for returns

Refining remains the most important earnings contributor for our five companies, with the exception of Orlen (Exhibit 9). But owing to long-term prospects of fuel demand growth decelerating (or peaking, as in the case of gasoline), companies have been diversifying into new segments.

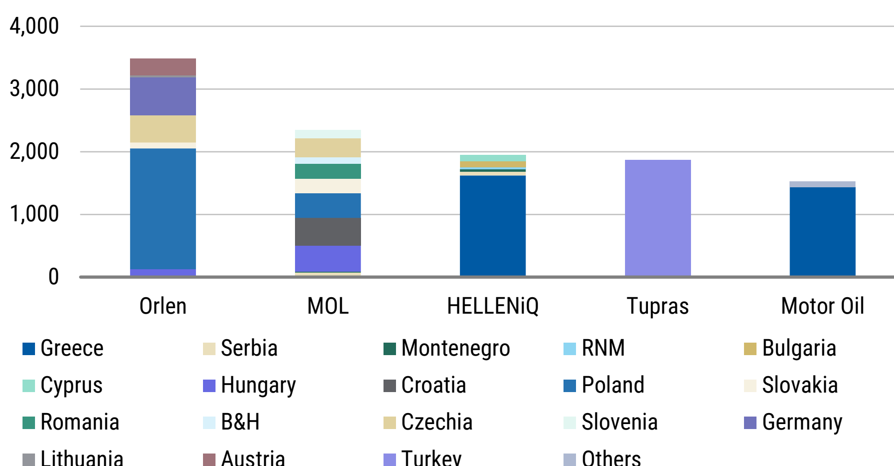
Exhibit 9: Three 'pure plays', two 'integrated energy' names? Exposure to refining is quite different among the five companies



Source: Company data, Morgan Stanley Research. Note: Average FY21/22/23 data.

For a couple of segments – upstream and downstream – we believe the move is more of further integration than diversification (one might even argue that moving into these segments is a way of guaranteeing feedstock or demand security). All five companies already have sizeable marketing operations, which, with the exception of Tupras, have a regional footprint (Exhibit 10). We believe continued gains in this segment to be marginal – markets do not leave much room for additional M&A or aggressive network increases, with gains instead likely to come from increased penetration of convenience stores.

Exhibit 10: Not a global play: fuel station operations are usually targeted at the home markets; but even international expansion tends to be focused on neighbouring countries



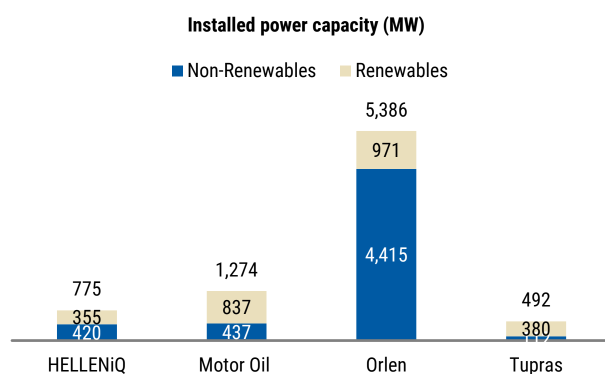
Source: Company data, Morgan Stanley Research. Note: 1Q24 data.

A segment that has been at the forefront of company investments is power generation, with a particular focus on renewables. Orlen has been ahead of the pack, and its 2030 Strategy aims for a meaningful expansion in both combined-cycle gas turbines (CCGT) and renewables capacity. HELLENiQ, Motor Oil and Tupras also aim to expand their renewables capacity throughout the decade, but a slower pace. One might query the

attractiveness of diversifying into renewables, given the return profile compared to the legacy businesses (refining, or upstream in some cases). As our colleagues covering Clean Energy discussed, the return profile of renewables (and consequently, the IRR-WACC spread) is improving (Exhibit 12). Also, the refining companies may access a wider (and more competitive) pool of capital to fund their renewables plans. And by funding projects at the asset level, increased leverage is also possible (Motor Oil, for example, targets leverage of <3.5x net debt/EBITDA in 2030, compared to 1.2x in FY23).

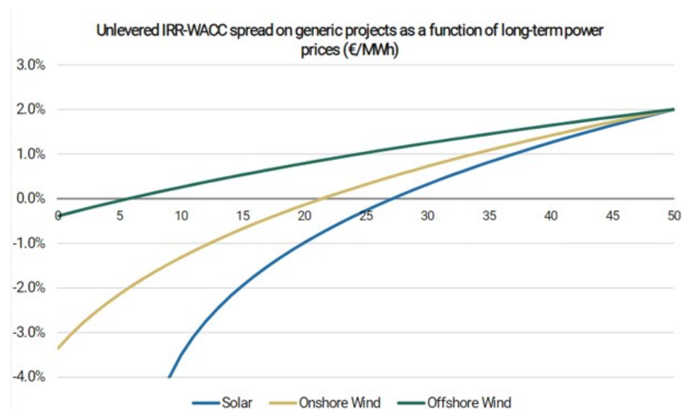
Lowering emissions is another factor driving expansion into renewables, and is key within the companies' long-term strategies (see Cracking the wind and the sun? below). These factors may result in the risk/return profile of renewables not being much below that of the legacy assets. Nonetheless, we see companies being conservative on their strategy to deploy capital into the segment and not aiming for growth at any cost, which we particularly welcome. Tupras, for example, targets refining to account for ~70% of EBITDA in 2031-35, compared to ~90% in 2022-30. Other companies follow a similar path, with their long-term strategic plans (usually to 2030) still factoring in refining being very relevant (if not *the* most relevant segment).

Exhibit 11: Orlen has the largest power generation capacity, but renewables are still not very relevant



Source: Company data, Morgan Stanley Research. Note: FY23 data.

Exhibit 12: We see IRR-WACC spreads on renewables projects as positive unless long-term power prices drop below €30/MWh



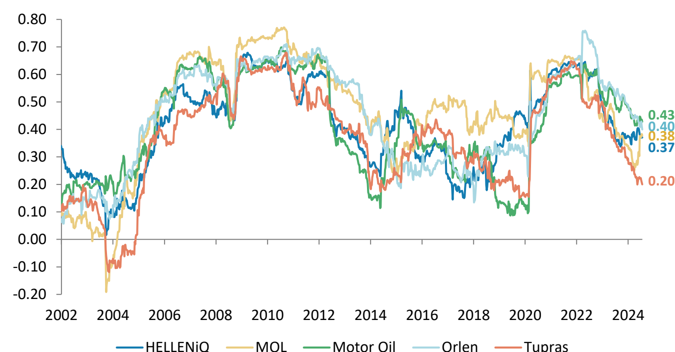
Source: Morgan Stanley Research estimates.

What drives stock performance?

Given the global nature of refining, we have tried to answer a fundamental question for the investment cases of the five companies: is stock performance influenced more by the overall performance of the refining sector or by local drivers? To understand that, our colleagues from the EEMEA Equity Strategy team ran data as far back as 2002, comparing the performance of the five stocks with i) West European refineries (a proxy for the sector) and ii) their respective country indices.

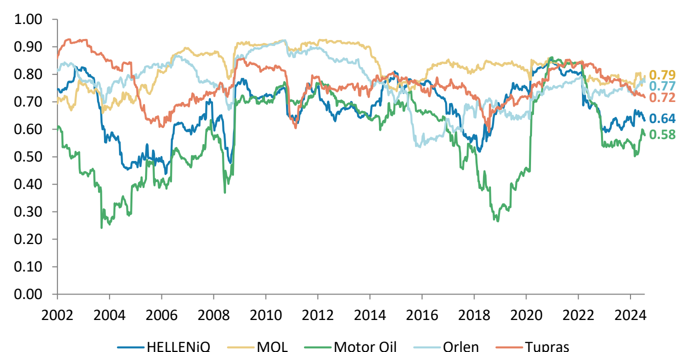
We would expect MOL to be tightly correlated with the Hungarian index (BUX), as its weight is about ~25% of the index. But to our surprise, the four other names also have a much higher correlation with their country indices than with the West European peers. That, in our view, indicates that global / Pan-European investors do not necessarily look at CEE names as part of their 'target basket' to gain exposure to the sector. The story of these five names is, in our view, a lot more about refining dynamics in CEE and the macro environment in each of the countries.

Exhibit 13: EM Europe refiners' correlation to Developed Europe refiners has been declining...



Note: European refiners are Repsol, Galp, Neste and OMV. Source: Datastream, Morgan Stanley Research.

Exhibit 14: ...and is noticeably lower than the correlation to local equities benchmarks



Note: Local equities benchmarks are FTSE/Athex Large Cap, WIG 20, BUX and BIST 30. Source: Datastream, Morgan Stanley Research.

Company-specific discussions

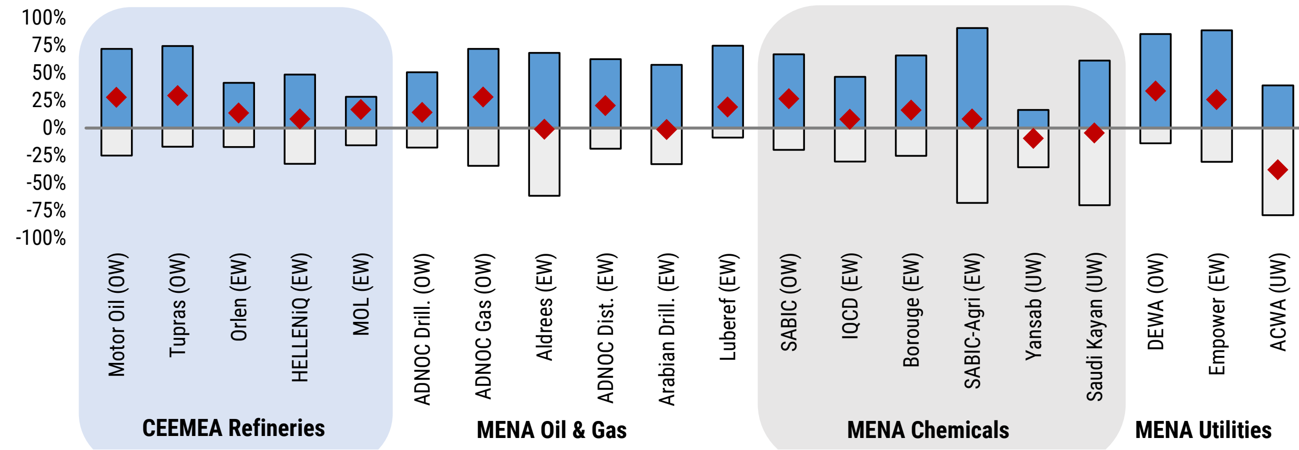
- **Motor Oil: The quality play (Overweight, PT €29, 28% upside):** Motor Oil is, in a sense, one of the simplest stories among our coverage (which we welcome): it operates one refinery in Greece, it has petrol stations, and it is expanding its renewables footprint. Even as transition investments accelerate throughout the decade, we believe the company should be able to pay a dividend yield of 7%. We also see Motor Oil as one of the quality plays in the sector, with management having a proven track-record. The recent pull-back on the stock, which we attribute mostly to the (unexpected) announcement of a solidarity tax for Greek refiners, provides an interesting entry point to the stock, in our view.
- **Tupras: The direct refining play (Overweight, PT TRY215, 29% upside):** Tupras has one of the most solid operations across CEE refineries. It benefits from Turkey having a structural deficit of diesel, while its business model provides a hedge against potential volatility in currency (as feedstock and products sold are denominated in hard currency). Even as the company aims to divert part of its capex to lower-emission products/segments (from ~40% in 2022-30 to ~70%), it still expects to pay 80% of its new income as dividends. Valuation also remains very discounted, with EV/EBITDA, P/E and P/B all trading around 1 standard deviation below their 15-year average.
- **Orlen: Work in progress – the one to watch (Equal-weight, PT PLN74, 14% upside):** In recent years, Orlen has transformed itself into an integrated energy company, mainly as a result of acquisitions (Energa, Grupa Lotos and PGNiG). With a new management in place, the company's strategy is being reviewed; initial indications are that it will be focused more on returns than expansion, and that planned investments are being reviewed. However, given low visibility currently, and our belief that there is limited scope to reduce capex in the short term, we stay on the sidelines and rate the stock Equal-weight. Among the Equal-weight rated names, though, we highlight Orlen as the name to watch, as the updated strategy has potential to unlock investor value.
- **HELLENiQ ENERGY: Positives fully valued (Equal-weight, PT €8.00, c.8% upside):** HELLENiQ benefits from most of the same drivers as Motor Oil – fuel demand in Greece remains solid, with aviation particularly strong, while

renewables targets are similar (~2GW by 2030). Trading liquidity has also improved since the controlling shareholders sold a block in December 2023. However, negative FCF generation in 2024/25 and lower dividend yield are the reasons for our relative Equal-weight stance.

- **MOL: The macro play (Equal-weight, PT HUF3,357, 17% upside):** MOL should post one of the strongest FCF yields within the coverage, we estimate, benefitting from the completion of its polyol plant. However, its dividend yield sits in the middle of the pack. In addition, given MOL's relevance within the local index (~25% weight), we believe it is the stock that is more influenced by flow dynamics into Hungary. Recent announcements on taxation in the sector are another reason why we are more cautious.

Morgan Stanley CEEMEA Energy & Materials Coverage

Exhibit 15: Morgan Stanley CEEMEA Energy and Materials: Comparative risk/reward



Source: FactSet, Morgan Stanley Research estimates. Note: Priced at close on 18 July 2024.

Exhibit 16: Morgan Stanley CEEMEA Energy and Materials: Comps

	Rating	Last Price	Price Target	Upside	Mkt Cap (US$mn)	P/E		EV/EBITDA		FCF yield (%)		Dividend yield (%)		Stock Return (in US$)				ADTV (US$mn)
						2024	2025	2024	2025	2024	2025	2024	2025	1M	3M	12M	YTD	90D
CEEMEA Refining																		
HELLENiQ Energy	EW	7.4	8.0	8%	2,470	10.0	8.7	4.3	5.6	13%	4%	8.1%	5.2%	-8%	-7%	-8%	1%	2
MOL	EW	2,876.0	3,357.0	17%	6,590	4.6	5.5	2.9	3.2	7%	9%	8.7%	9.1%	5%	-2%	-9%	-2%	4
Motor Oil	OW	22.7	29.0	28%	2,745	10.7	5.5	4.0	4.6	9%	13%	6.5%	7.3%	-7%	-11%	-3%	-6%	5
Orlen	EW	65.2	74.0	14%	19,273	6.9	5.2	3.7	3.0	-14%	-8%	6.6%	6.9%	4%	1%	-6%	0%	32
Tupras	OW	166.2	215.0	29%	9,685	6.8	7.7	4.1	3.8	2%	11%	11.7%	10.3%	-2%	-12%	51%	4%	137
MENA Chemicals																		
Borouge	EW	2.4	2.8	16%	19,804	22.8	16.3	11.5	9.1	8%	7%	6.6%	6.6%	1%	-2%	-12%	-2%	2
Industries Qatar	EW	13.1	14.0	7%	21,739	18.5	18.6	16.5	15.9	1%	2%	4.9%	4.8%	6%	5%	7%	0%	7
SABIC	OW	79.1	100.0	26%	63,267	30.7	19.8	9.9	7.8	0%	6%	4.3%	5.1%	8%	-2%	-7%	-6%	29
SABIC-Agri	EW	117.4	127.0	8%	14,900	15.9	14.9	10.6	9.6	6%	6%	5.1%	5.1%	7%	1%	-9%	-16%	15
Saudi Kayan	UW	8.6	8.0	-7%	3,443	NA	NA	9.9	7.8	5%	12%	NA	NA	5%	-10%	-33%	-24%	4
Yansab	UW	39.9	36.5	-9%	5,984	67.9	29.8	14.1	10.9	1%	6%	5.6%	6.3%	11%	8%	-12%	6%	7
MENA O&G																		
ADNOC Distribution	EW	3.6	4.3	20%	12,150	19.2	17.7	14.3	13.8	4%	4%	5.8%	5.8%	9%	3%	-10%	-4%	8
ADNOC Drilling	OW	4.4	5.0	13%	19,211	16.8	15.3	12.1	10.9	3%	8%	4.1%	4.5%	8%	9%	16%	16%	9
ADNOC Gas	OW	3.2	4.1	28%	67,077	14.1	14.3	8.6	9.1	8%	2%	5.7%	6.0%	6%	3%	-9%	4%	10
Aldrees	EW	117.0	116.5	0%	3,119	36.1	29.5	15.1	13.9	1%	-1%	0.6%	1.4%	-1%	-9%	28%	-13%	10
Arabian Drilling	EW	139.4	138.5	-1%	3,308	23.1	22.8	10.0	9.1	-9%	5%	3.6%	3.5%	9%	-11%	-12%	-28%	8
Luberef	EW	135.4	163.5	21%	6,092	16.9	15.4	13.7	12.3	7%	6%	5.9%	5.1%	2%	-10%	-6%	-5%	8
MENA Utilities																		
ACWA Power	UW	393.8	243.0	-38%	76,759	179.0	105.4	83.8	55.9	-1%	0%	0.2%	0.4%	18%	-10%	106%	53%	56
DEWA	OW	2.3	3.1	33%	31,718	16.9	17.4	10.0	9.7	4%	6%	5.4%	5.4%	3%	-4%	-14%	-6%	4
Empower	EW	1.6	2.0	23%	4,411	16.2	16.4	11.4	12.1	17%	-6%	5.2%	5.5%	5%	-1%	-16%	-4%	2

Source: FactSet, Morgan Stanley Research estimates. Note: Share prices as of 18 July 2024. NA = not applicable.

Exhibit 17: Global Refining: Comps

	Rating	Last Price	Price Target	Upside	Mkt Cap (US$mn)	P/E		EV/EBITDA		FCF yield (%)		Dividend yield (%)		Stock Return (in US$)				ADTV (US$mn)
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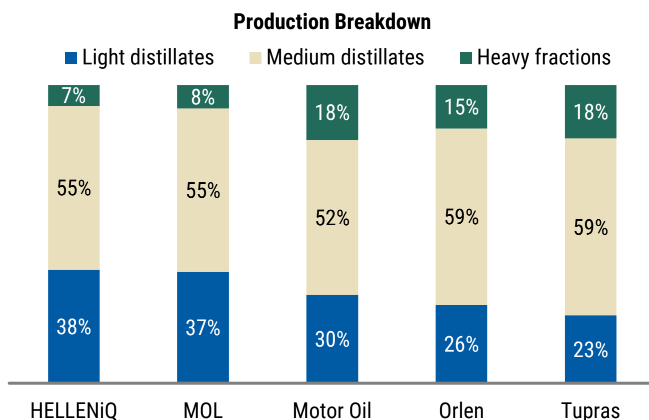
Motor Oil	OW	22.7	29.0	28%	2,745	10.7	5.5	4.0	4.6	9%	13%	7%	7%	-7%	-11%	-3%	-6%	5
Orlen	EW	65.2	74.0	14%	19,273	6.9	5.2	3.7	3.0	-14%	-8%	7%	7%	4%	1%	-6%	0%	32
Tupras	OW	166.2	215.0	29%	9,685	6.8	7.7	4.1	3.8	2%	11%	12%	10%	-2%	-12%	51%	4%	137
Europe Refining & Marketing																		
Galp	UW	18.8	18.4	-2%	15,762	13.0	15.3	5.0	5.2	4%	5%	3%	3%	1%	20%	64%	40%	30
Neste	EW	17.4	22.3	28%	14,539	14.7	11.8	8.5	6.8	0%	5%	3%	4%	2%	-29%	-53%	-46%	41
OMV	EW	39.5	46.1	17%	14,061	5.0	5.7	3.0	3.2	21%	21%	13%	13%	2%	-8%	-6%	-2%	19
Neste	EW	17.4	22.3	28%	14,539	14.7	11.8	8.5	6.8	0%	5%	3%	4%	2%	-29%	-53%	-46%	41
US Refining & Marketing																		
Delek US Holdings	UW	21.6	24.0	11%	1,385	NA	12.6	7.7	4.3	-7%	10%	5%	5%	-9%	-27%	-11%	-16%	23
HF Sinclair	OW	48.4	63.0	30%	9,544	15.3	9.2	7.0	5.4	7%	9%	4%	4%	-8%	-15%	1%	-13%	95
Marathon Petroleum	OW	165.2	195.0	18%	58,794	15.1	10.0	8.3	7.0	11%	16%	2%	2%	-5%	-16%	35%	11%	444
PBF Energy	EW	38.8	49.0	26%	4,798	18.8	6.4	5.6	3.5	2%	14%	3%	3%	-11%	-31%	-8%	-12%	87
Phillips 66	EW	138.5	150.0	8%	59,108	14.5	9.4	9.8	7.4	7%	9%	3%	3%	1%	-10%	34%	3%	333
Asia Refining & Marketing																		
AKR Corporindo Tbk PT	-	1,520.0	-	-	1,889	9.9	9.6	7.2	7.1	16%	14%	6%	7%	-2%	-18%	2%	-2%	3
Ampol	EW	33.4	36.0	8%	5,330	15.3	12.7	7.5	6.9	11%	6%	5%	6%	3%	-10%	8%	-8%	21
Bangchak Corporation	-	36.0	-	-	1,359	4.7	4.3	5.4	5.1	-24%	22%	7%	7%	0%	-15%	-12%	-21%	8
Bangchak Sriracha	-	8.6	-	-	823	7.7	5.9	#N/A	#N/A	46%	14%	4%	7%	-5%	-8%	-13%	-5%	1
Bharat Petroleum	OW	303.8	366.0	20%	15,743	8.5	7.1	5.9	5.1	18%	2%	3%	4%	1%	8%	62%	40%	3
China Petroleum & Chemical Co	OW	4.7	5.7	21%	99,843	7.6	8.0	4.7	4.8	22%	13%	9%	9%	4%	7%	7%	20%	71
Hengli Petrochemical	++	14.4	NA	NA	13,905	7.5	7.0	6.3	5.5	15%	22%	4%	7%	5%	-8%	-3%	8%	39
Hindustan Petroleum	OW	341.7	411.0	20%	8,683	6.3	5.7	5.7	5.1	11%	11%	5%	6%	1%	12%	77%	33%	2
Indian Oil Corp	OW	165.5	191.0	15%	27,912	8.0	6.9	4.8	4.2	29%	0%	7%	8%	0%	0%	69%	29%	4
IRPC PCL	EW	1.6	1.9	18%	906	6.8	9.0	6.4	6.4	3%	16%	5%	4%	2%	-14%	-34%	-22%	2
Petronas Dagangan Bhd	-	16.9	-	-	3,593	16.7	16.2	8.9	8.8	13%	7%	5%	5%	-4%	-21%	-26%	-24%	3
PTG Energy PCL	-	8.1	-	-	376	13.4	10.8	#N/A	#N/A	16%	21%	3%	4%	0%	-5%	-28%	-12%	1
PTT Global Chemicals	OW	27.5	50.0	82%	3,415	5.0	4.5	NA	NA	12%	29%	7%	9%	-2%	-25%	-31%	-30%	12
Reliance Industires	OW	3,110.3	3,417.0	10%	251,353	26.8	24.5	11.9	10.2	0%	0%	0%	0%	7%	8%	20%	22%	10
S-Oil	EW	68,800.0	72,000.0	5%	5,577	9.5	6.8	5.3	4.4	-3%	14%	2%	5%	3%	-10%	-10%	-8%	12
Star Petroleum	OW	8.5	12.1	42%	1,015	5.5	7.1	4.3	4.3	13%	27%	9%	7%	11%	5%	-1%	-1%	3
Thai Oil	OW	53.0	74.0	40%	3,261	6.1	3.7	7.3	4.2	-5%	19%	8%	14%	5%	-6%	7%	-6%	17
Viva Energy	EW	3.1	3.6	19%	3,162	10.2	10.0	5.7	5.5	17%	13%	7%	7%	-3%	-9%	0%	-12%	10

Source: FactSet, Morgan Stanley Research estimates. Note: FactSet consensus estimates for non-covered companies. Share prices as of 18 July 2024. ++ Stock Rating, Price Target, or Estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time. NA = not applicable.

Refining: Margin normalisation in motion. Timing and magnitude the key unknowns

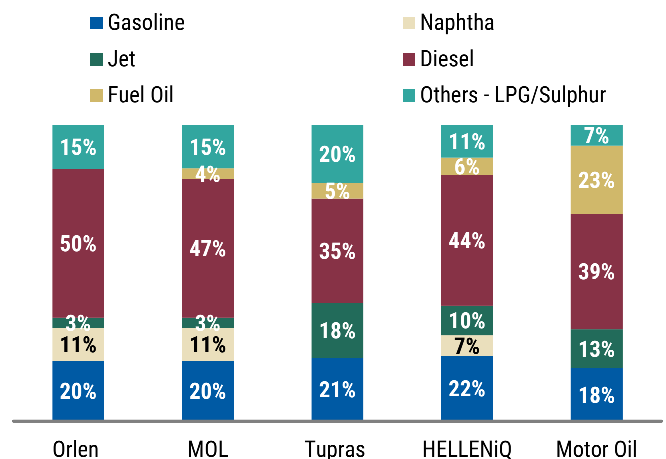
Refining shares the characteristics of the typical commodities segments: returns vary across the cycle, depending on supply and demand fundamentals. That is exacerbated by the lead time required for new capacity to come on-line and by refining sitting in the centre of the crude oil chain (i.e., it resembles petrochemicals or steel more than upstream O&G or mining). As such, its returns depend on dynamics on its main feedstock – crude oil – and on the product mix that a refinery produces. This mix is a result of the plant setup, defined when the plant was originally constructed (and/or later upgraded). Thus, barring subsequent changes in the original configuration, a given refinery has some flexibility in its crude mix and in its final product, but it can hardly radically shift this mix. As shown in Exhibit 18 and Exhibit 19 , the feedstock dynamics and product exposure may differ greatly among the five players: HELLENiQ produces a lot more diesel than Tupras; on the other hand, HELLENiQ, Orlen and MOL have lower production of jet fuel. Compared to their global peers, we also notice that the names under our coverage have similar exposure to diesel to that of Asian players (Exhibit 6).

Exhibit 18: Product exposure: HELLENiQ and MOL have the highest exposure to light distillates



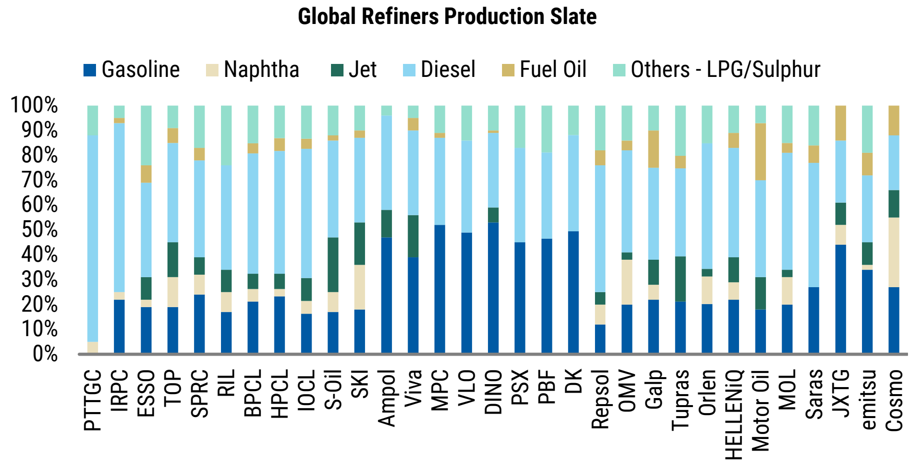
Source: Company data, Morgan Stanley Research. Note: Data for FY23.

Exhibit 19: Gasoline exposure does not vary much, but it does for diesel and jet fuel



Source: Company data, Morgan Stanley Research. Note: Data for FY23.

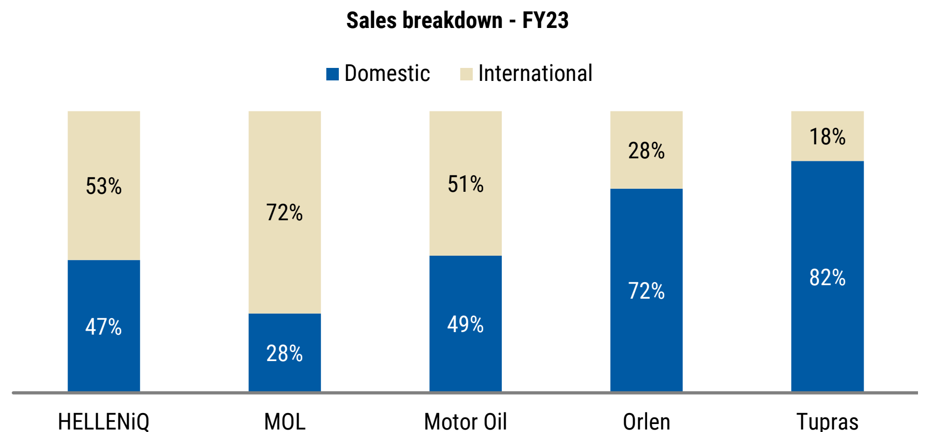
Exhibit 20:
Global refining: Asian refiners are more skewed towards diesel whereas US peers have a higher gasoline mix



Source: Company data, Morgan Stanley Research estimates. Note: Data for FY23.

Returns also depend on the domestic capacity of a given geography: that is particularly relevant for the markets of the five companies we are writing about here. If, in other geographies or markets we cover (petrochemicals in the Middle East, for example), domestic demand for products is limited and assets are mainly exported-focused, that does not apply to the CEEMEA refineries. Owing to a combination of sizeable domestic demand (relative to their installed capacity), often combined with lack of sufficient regional suppliers, the five companies are mainly exposed to the dynamics of the regional and domestic markets in which they are present. As such, even when refined products are exported, final destinations are mostly within the vicinity of their home markets.

Exhibit 21: Geographical exposure – even international may be considered 'quasi-domestic', as companies mainly export to neighbouring countries



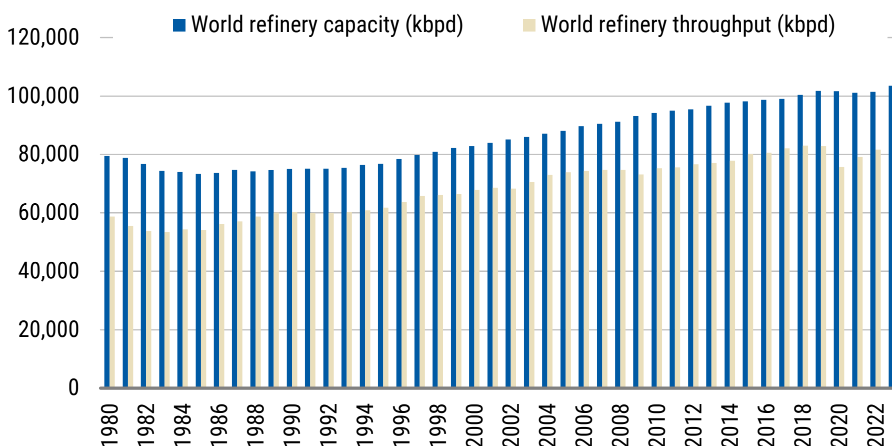
Source: Company data, Morgan Stanley Research.

Another story of capacity growth?

We have been arguing for the past 18 months that new capacity should weigh on the (expected) recovery in petrochemical margins. New supply is also a key theme within global refining. That is, however, where the similarities cease. Whereas for the petrochemical products we cover (mainly polyolefins and basic chemicals), new capacity is mostly a China story (as the country should account for about two-thirds of the net new capacity for polyolefins), in refining there are relevant new refineries starting in countries such as Mexico (Dos Bocas), Nigeria (Dangote) and Kuwait (Exhibit 25).

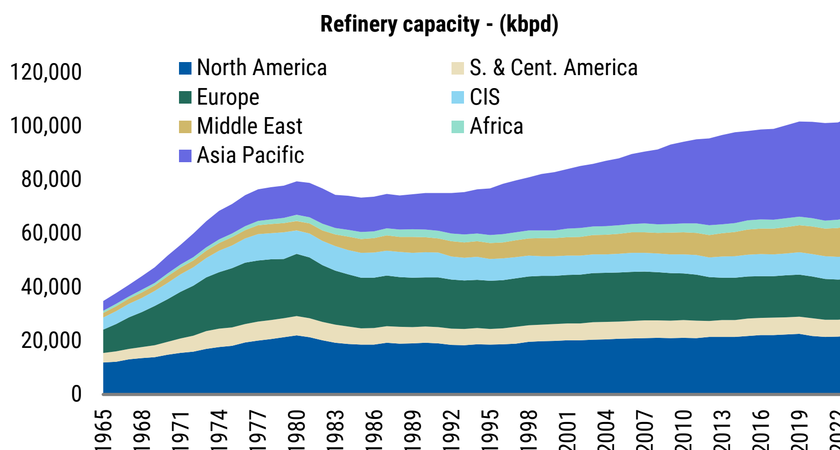
According to data from the Energy Institute Statistical Review of Energy, global refining capacity expanded by 9.3mbpd between 2010 and 2022 (Exhibit 22). Such growth, as shown in Exhibit 23 , was driven primarily by Asia (+7.0mbpd). Two of the regions that are relevant for the five companies we are writing about had mixed dynamics: Europe posted closures totalling 2.5mbpd, while the CIS countries expanded capacity by 1.3mbpd. Nonetheless, the net balance within the vicinity of CEE was of capacity reduction in the past decade or so.

Exhibit 22: Global refining capacity has consistently expanded through the past decades...



Source: The Energy Institute Statistical Review of World Energy, 2023; Morgan Stanley Research.

Exhibit 23: ...with new capacity in Asia Pacific more than offsetting declines in other regions



Source: The Energy Institute Statistical Review of World Energy, 2023; Morgan Stanley Research.

Looking ahead (Exhibit 24), we think global capacity will persist into 2025 and in 2026. As such, about 2.1mn bpd of incremental supply should enter the market in 2024/25, with another 0.6mn bpd scheduled for 2026. Within the regions close to our five companies, the supply outlook points to few (if any) expansions. S&P Platts expects no capacity expansion in Eastern Europe in 2025 and 2026, while the expected closures in Northern (-136kbpd) and Western (-86kbpd) Europe should be offset by capacity increases in the Middle East (+205kbpd).

Exhibit 24: Expected new refining capacity (kbpd)

	2022	2023	2024	2025	2026
Africa	-129	165	757	0	0
Central Asia	0	0	0	0	0
Eastern Asia	276	73	280	340	300
Eastern Europe	-364	82	60	0	0
LatAm/Caribbean	0	33	14	340	3
Middle East	122	826	248	85	120
North America	55	259	15	-221	0
Northern Europe	0	0	0	-136	0
Oceania	-135	0	0	0	0
South-eastern Asia	343	40	100	170	0
Southern Asia	0	14	195	286	180
Southern Europe	0	15	-84	0	0
Western Asia	0	0	0	30	0
Western Europe	0	0	0	-86	0

Source: S&P Platts forecasts, Morgan Stanley Research.

As our global colleagues wrote earlier this year (see An Extended Upcycle), although supply growth in 2024-25 is expected to outpace demand, it would not take much for the trend to reverse (project delays, slower than expected ramp-ups, etc). In the inaugural edition of the The Refined Products Manual, our commodities team explained that two of the main refineries that could influence refining fundamentals in the Atlantic basin – Dos Bocas in Mexico and Dangote in Nigeria – are still going through their respective ramp-up phases. The Mexican refinery should only reach full capacity by year-end 2026, while the one in Nigeria is set to be fully operational by 2Q25.

Exhibit 25:

Refinery capacity expansion

Atmospheric distillation, new projects and expansions (kb/d)

Country	Location	Owner/operator	Capacity
2024 - New facilities			
Nigeria	Lagos	Dangote Group	617.5
China	Yantai	Yulong Petrochemical	400.0
India	Barauni	Indian Oil Corp.	180.0
Ghana	Tema	Sentuo Group	40.0
Angola	Cabinda	Sonangol	30.0
Liberia	Monrovia	Conex Group JV Ltd.	9.5
Nigeria	Brass	Atlantic International Refineries & Petr. Ltd.	2.0
2024 - Expansion projects			
India	Visakhapatnam	Hindustan Petroleum	134.0
Indonesia	Balikpapan	Pertamina	100.0
Bahrain	Sitra	Bahrain Petroleum Co.	98.0
Iraq	Basrah	Iraq National Oil Co	70.0
Nigeria	Port Harcourt	NNPC	60.0
Russia	Afipsky	ForteInvest	60.0
Saudi Arabia	Al Jubail	SATORP	20.0
United States	Pasadena	Chevron	15.0
Argentina	Campana	Pan American Energy Group	14.0
2025 - New facilities			
Mexico	Tabasco	PEMEX	340.0
Azerbaijan	Baku	Heydar Aliev Refinery	150.0
United States	Belfield	Meridian Energy	49.5
Mongolia	Saishand	Mongolian Government	30.0
United Arab Emirates	Fujairah	Brooge Petroleum and Gas Investment Co.	25.0
2025 - Expansion projects			
China	Zhenhai	Zhenhai Refining and Chemical Co.Ltd.	220.0
India	Panipat	Indian Oil Corp.	200.0
Thailand	Sriracha	Thai Oil Company Ltd.	140.0
China	Ningbo	Ningbo Daxie Liwan Petrochemicals	120.0
India	Koyali	Indian Oil Corp.	86.0

Source: S&P Global Platts, Morgan Stanley Research

Outages – the other supply factor

While new capacity is the single most important indicator of supply behaviour when looking at the longer term, one cannot forget outages when analysing the shorter-term dynamics in the sector. This factor greatly influences margin dynamics, particularly in the case of non-planned outages.

Based on the charts below from The Refined Products Manual, despite 2024 having had more outages than in 2023, the overall number is still within the range witnessed in the past 10 years. This is mainly driven by few unplanned outages year to date (Exhibit 27), whereas planned outages have been on the higher side. But as discussed in that report,

outages in 3Q24 should be lower than the historical average across all regions (with the exception of India). None of the companies under our coverage has major planned outages scheduled for 2024, which should support utilisation rates at strong levels.

Exhibit 26:

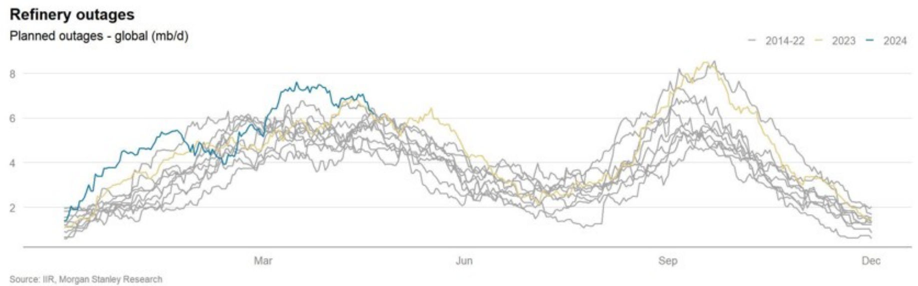


Exhibit 27:

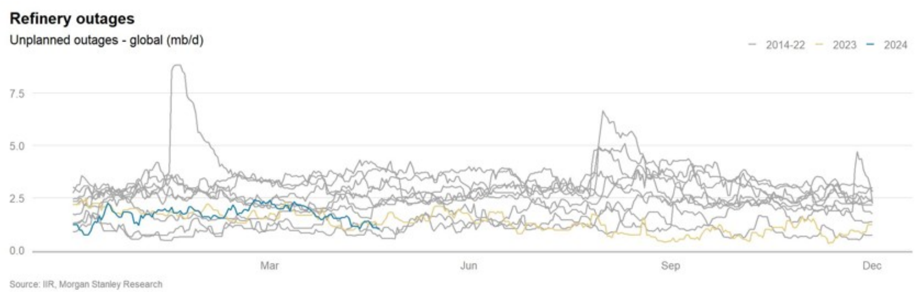
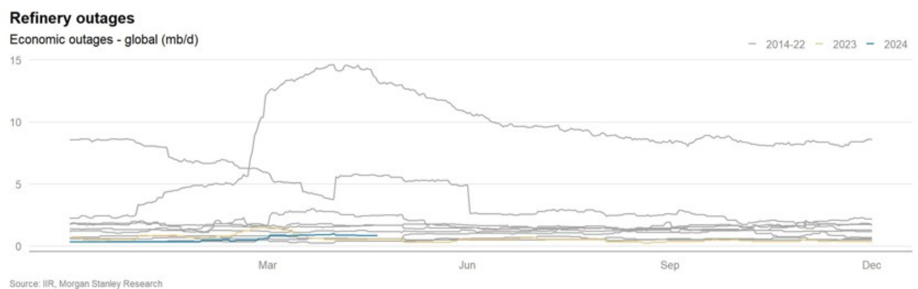


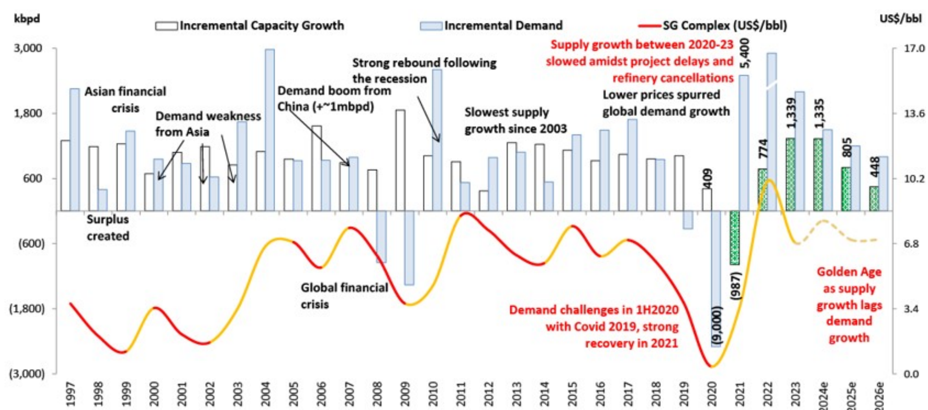
Exhibit 28:



Mean reversion in place – but how fast?

Refining margins benefitted in recent years from a combination of i) fuel demand post COVID pandemic, ii) project delays/cancellations and iii) geopolitical disruptions on both crude supply and a reshuffle of refining product trade routes. That drove margins to all-time highs globally, resulting in very strong profitability for the companies we cover.

Exhibit 29: The refining cycle: we estimate ~2.1mnbpd of incremental supply growth in 2024 and 2025 (vs. demand of ~2.7mnbpd); however, slippage of even one refinery in EMEA could shift the market into significant tightness



Source: Company data, Morgan Stanley Asia Energy Research estimates (e)

However, as one would expect in such a cyclical sector, as some of the short-term factors phase down and new capacity enters the market, refining margins are declining, with gasoline faring better (margins actually increasing in 2024). That's not new: the five companies have been reporting lower year-on-year profitability for a few quarters, and all guidance points to lower refining margins in 2024 vs 2023. Simultaneously, our (and consensus) expectations point to declining profitability on the refining segment for 2024 and 2025.

Exhibit 30:

Margin and crack spread forecasts

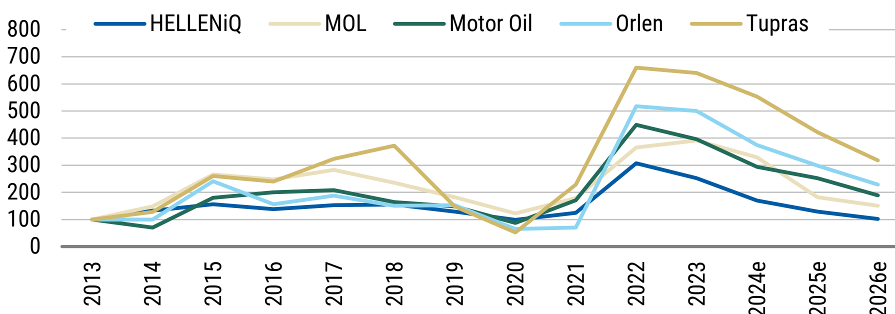
($/bbl)

date	Diesel vs Brent	Gasoline vs Brent	NW Europe complex margin
1Q23	32.5	19.7	21.1
2Q23	18.0	22.2	14.8
3Q23	33.0	26.5	22.0
4Q23	30.3	12.2	14.9
1Q24	28.5	16.4	16.9
2Q24e	18.6	22.2	13.5
3Q24e	21.0	24.0	17.0
4Q24e	20.0	20.0	15.0
1Q25e	19.0	16.0	13.2
2Q25e	18.0	16.0	12.8
3Q25e	16.0	16.0	12.0
4Q25e	16.0	14.0	11.2

Note: Diesel = ULSD 10ppmS FOB ARA Barge; Gasoline = Prem Unleaded Gasoline 10ppmS FOB AR Barge, Brent = Dated Brent; NWE margin is based on VISB/FCC/HCU configuration; 'e' = MS forecast

Source: S&P Global Platts, Morgan Stanley Research

Exhibit 31: Refining margins: normalisation in place, and should return to historical levels by 2026



Source: Company data, Morgan Stanley Research estimates (e). Note: 2013 = base 100.

The key factor – and where we believe there are some discrepancies on views – is how fast and how strong the normalisation will be. We noted above that, based on the current outlook for supply and demand expansion, any major outage or delay in new projects could easily tilt the market towards a tighter dynamic in the short term. In its latest outlook, Wood Mackenzie states that it sees refining reverting to historical levels by 2025. Our commodities team expects margins to increase in the coming months, due to seasonality (normally, demand expands by ~3.7mbpd between April and August on average), while low refining margins in some markets (topping in Asia) have been

bottoming out (that is, further declines could lead refineries to reduce their runs). However, our colleagues see margins (particularly in the Atlantic basin) under pressure in 2025 due to the new capacity (Exhibit 27) starting/ramping up, especially when demand growth comes mainly from the Pacific basin.

We incorporate these trends in our forecasts. Nonetheless, we assume full normalisation by 2026 and believe margins may remain slightly above historical average for CEE as i) logistics continue to impact feedstock availability (Iraq is a key supplier to the region, and shipping the Basra crude is now more expensive and/or lengthy than in the past), ii) demand being relatively sticky and iii) the structural need to import fuel (mainly diesel) in many countries. That is also reflected in the current consensus expectations for the companies we cover, where we sit slightly above consensus for 2025.

Global fundamentals, local dynamics

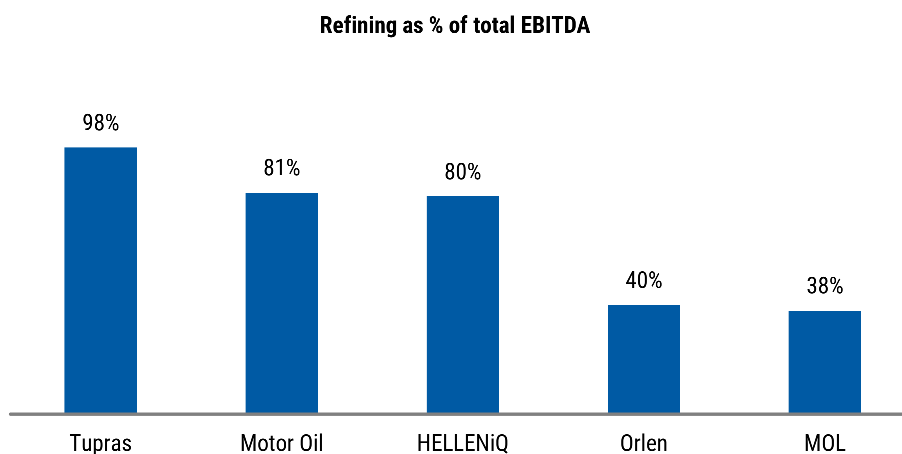
Refining is the quintessential commodity market – there is not much differentiation within the same product (apart from some specifications), while products are easily transportable from one region to another. Thus, despite the existence of important refining hubs where prices may vary (teh US, Northwest Europe, Singapore), price dynamics are nonetheless interlinked.

That is no different for CEE, which sits at the intersection of important refining centres (NW Europe, the Middle East and Russia). However, an important characteristic of the region is i) domestic capacity not being able to fully supply local demand and/or ii) exports tending to go to neighbouring countries. This dynamic has two important developments for the companies we cover. First, when competing with imported products, local producers tend to be able to obtain slighter better prices. That arises from the fact that, if exporting their production, they may have to do it based on FOB (free on board) prices, while if selling domestically that will be done at CIF (cost, insurance and freight). Second, the relative relevance of the domestic (or regional) markets of the five companies means they resemble domestic stories more than major players in the global traded refining markets (as in the case of the Middle Eastern petrochemical producers we cover). As a result, in addition to the global supply and demand fundamentals, factors such as domestic GDP, industrial production, disposable income, currency and inflation influence the demand and profitability for CEE refineries. That, we believe, may mitigate the impact from recent dynamics weighing on peer margins in other regions.

It's not only about refining

Counter-intuitively for a report on refining, the investment case for the five companies does not hinge solely on that segment. To a certain extent, all players have diversified their operations: in FY23, less than half of MOL's and Orlen's EBITDA came from refining (as we discuss above, Orlen has transformed itself from a refiner into an integrated energy company). And that trend, in our view, will not reverse any time soon. However, not all diversifications are born equal and the speed at which this process is taking place also varies.

Exhibit 32: Three 'pure plays', two 'integrated energy' companies? Exposure to refining is quite different among the five companies



Source: Company data, Morgan Stanley Research. Note: Average FY21/22/23 data.

The rationale for diversifying also differs among companies and segments. In summary, we see the companies expanding into other segments as i) demand for refined products – particularly gasoline – may peak at some point in the not too distant future, while ii) regulations become stricter and emissions-related costs higher. Other segments can then offer higher growth prospects and/or reduce carbon intensity. As for the 'standard' expansion, we see the key attractions coming from supply security and further downstream integration. An indication of the transformational aspect of the businesses can be seen in Motor Oil's investment thresholds: for fossil-based projects, management aims for a payback shorter than 5 years.

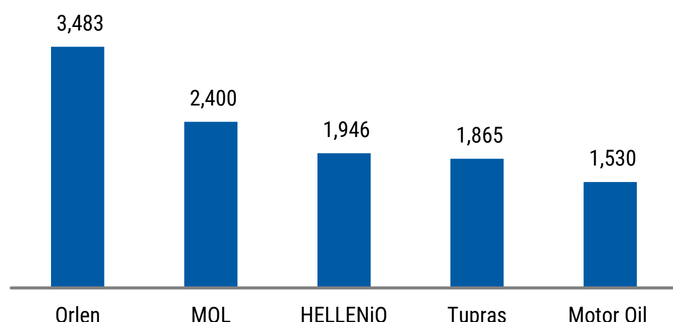
Diversification or integration?

Petrol stations: the natural path

One of the more obvious ways for a refinery to diversify is to integrate either upstream (i.e., buying stakes in O&G producing fields) or further downstream (into petrol stations and convenience stores). One may argue that this is more vertical integration than diversification. We disagree. Dynamics for petrol stations are completely different from those of operating a refinery: whereas the latter is commodity/industrial like, the former resembles retail.

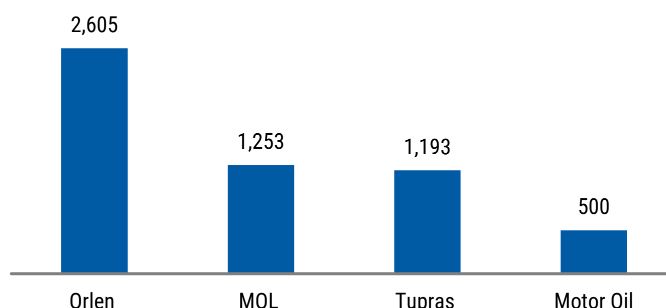
The five companies in this report already own petrol station operations (in Tupras' case, through a partnership in which it owns 41.7% of OPET). Orlen leads the pack, with 3.5k stations, with the other companies operating 1.5-2.4k stations. As important, this segment gives the companies some international diversification. Apart from Tupras – which only operates stations in Turkey – the other four all have stations in markets close to (but outside) their home turf.

Exhibit 33: Petrol stations: diversification or further integration?



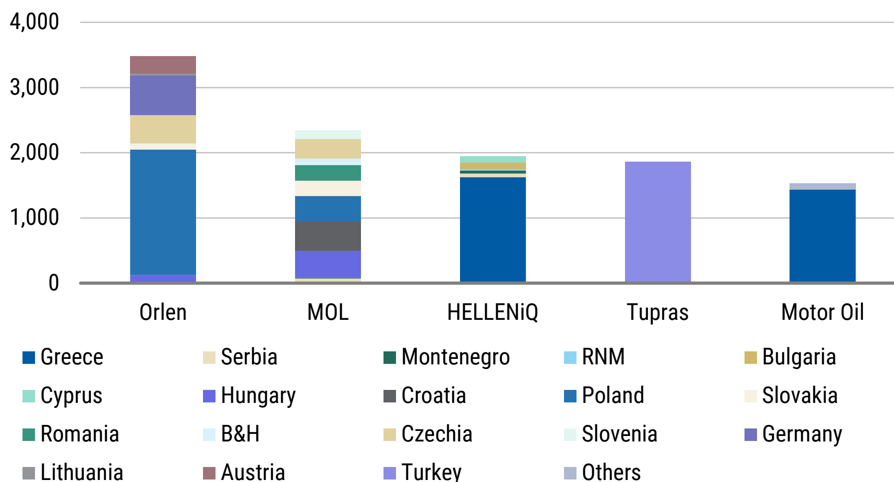
Source: Company data, Morgan Stanley Research. Note: 1Q24 data.

Exhibit 34: Penetration of non-fuel locations should expand in the coming years



Source: Company data, Morgan Stanley Research. Note: 1Q24 data.

Exhibit 35:
Fuel station network: footprint is focused mainly on neighbouring countries



Source: Company data, Morgan Stanley Research. Note: 1Q24 data.

What is the rationale for this geographic diversification, particularly given that petrol station businesses tend to operate almost exclusively within their domestic market (as we have discussed before in MENA – see Got Stations?)? Indeed, other markets, such as Brazil, where at some point several international/global players operated, have seen those operations subsequently consolidated by domestic players.

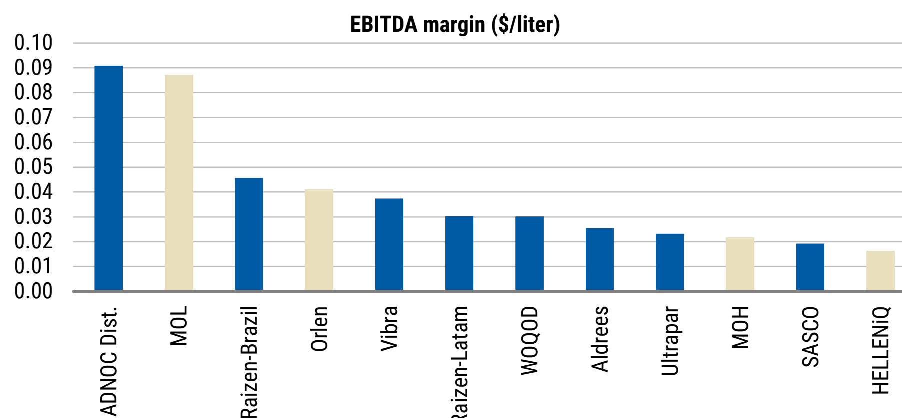
However, in the case of the CEE refiners, the situation is different. For instance, MOL and Orlen do operate refineries in more than one geography. Thus, they can be considered

local players for this purpose. With the Greek companies, the rationale is not much different: given where their international stations are located, they can supply the operations directly from their refineries in Greece, so in essence the petrol station operations are 'quasi-domestic'.

Moreover, companies have been active in i) deploying EV chargers and ii) launching convenience store operations, to expand the profitability of their consumer services operations yet further. Unsurprisingly, the number of convenience stores tracks that of petrol stations (so, Orlen has the highest number of convenience stores among the five companies).

Lastly, owning/operating petrol stations directly allows the refineries to cut out the middleman and internalise refining margins (even if not very high) within their own operations. Based on FY23 data, we estimate that CEE marketing profitability (measured as EBITDA $/l) is comparable to the average margin of EM players.

Exhibit 36: Retail profitability: CEE players roughly in line with LatAm and MENA peers



Source: Company data, Morgan Stanley Research. Note: FY23 data.

Upstream: feedstock security

Acquiring stakes in upstream blocks is another strategy deployed to diversify and further integrate. Unlike in petrol stations, not all companies have adopted such a strategy. Currently, Orlen and MOL have producing blocks, with upstream representing 4% and 32% of the respective EBITDA in FY23. HELLENiQ has stakes in five offshore blocks in Greece; during its most recent shareholders' meeting, the CEO mentioned that a final investment decision on whether to proceed with the exploration of such blocks would most likely be reached in 2025/26.

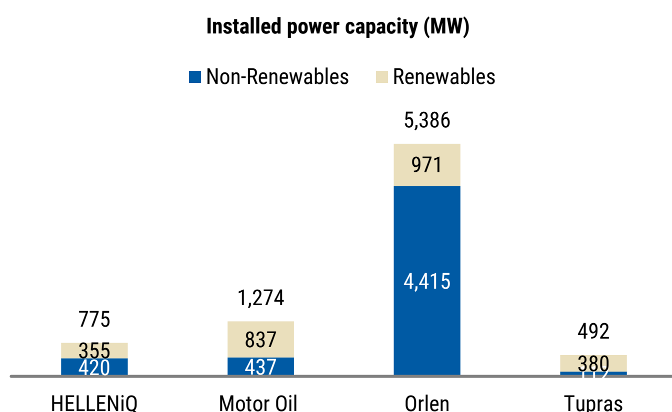
If one considers expansion into petrol stations as 'demand security', the main rationale for acquiring stakes in upstream blocks is 'feedstock security', with companies either i) guaranteeing part of the supply needed on their refineries or ii) hedging volatility in feedstock prices. Given Orlen's important oil and gas trading operations, having upstream exposure is of utmost importance to the company.

Cracking the wind and the sun?

Renewables power generation has been a particular focus for the five companies in recent years. As with petrol stations, in this segment domestic dynamics are quite different, owing to i) the regulatory landscape, ii) funding costs/availability, iii) competition and iv) expected returns. Our perception, however, is that despite the increased focus on renewables, given the geopolitical events in recent years and the consequent increase in energy prices, companies have also focused on energy security within their operating markets.

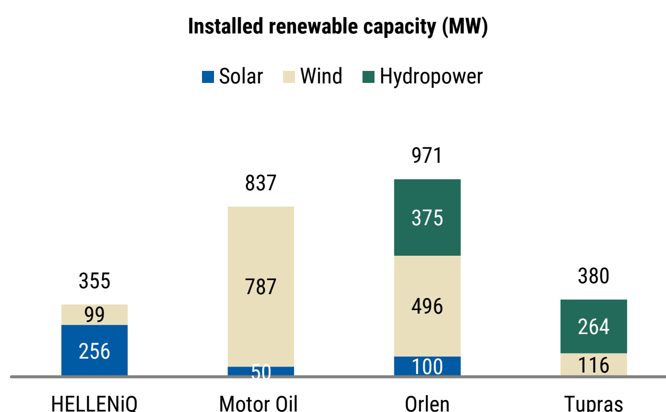
Orlen leads the way here, with a capacity of 971MW in FY23 (out of total power generation capacity of 5.4GW). The mix also differs among the companies: while Motor Oil and Orlen are mostly exposed to wind, HELLENiQ has most of its capacity (256MW out of 355MW) in solar, and Tupras in hydropower. But more than the current portfolio, companies have also stated that their renewables capacity should expand throughout the decade, with Orlen targeting 9GW by 2030, Tupras 1GW (and 2.5GW by 2025), and both Greek companies expecting to achieve installed capacity of 2GW over the same timeframe.

Exhibit 37: Generation growth should come from renewables, but thermal still plays an important role for most companies



Source: Company data, Morgan Stanley Research. Note: FY23 data.

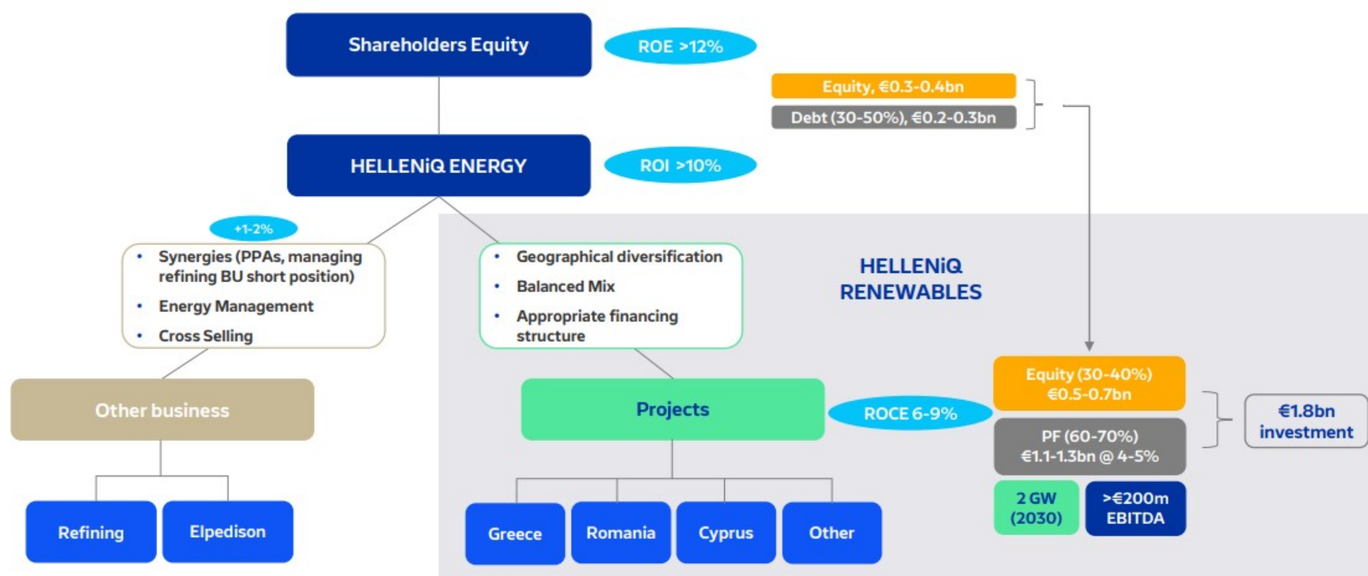
Exhibit 38: Not all renewables are born the same: technology exposure is very company-dependent



Source: Company data, Morgan Stanley Research. Note: FY23 data.

An important consideration in such expansion plans is how returns compare with those on the legacy assets. HELLENiQ, in its corporate presentation, outlines how it targets an ROE of over 12% at group level on renewables, and 6-9% at project level. The main components of such returns are i) the project level return and ii) the impact on leverage. Another point to consider is how much of the produced electricity will be available for sales into the grid / PPAs. Tupras, for example, plans to use most of its power for internal uses (green hydrogen, refinery needs, etc), with the balance sold to the market.

Exhibit 39: HELLENiQ: from project to company-level returns: leverage and attractive funding opportunities drive ROE >12% on renewables



Source: Company data.

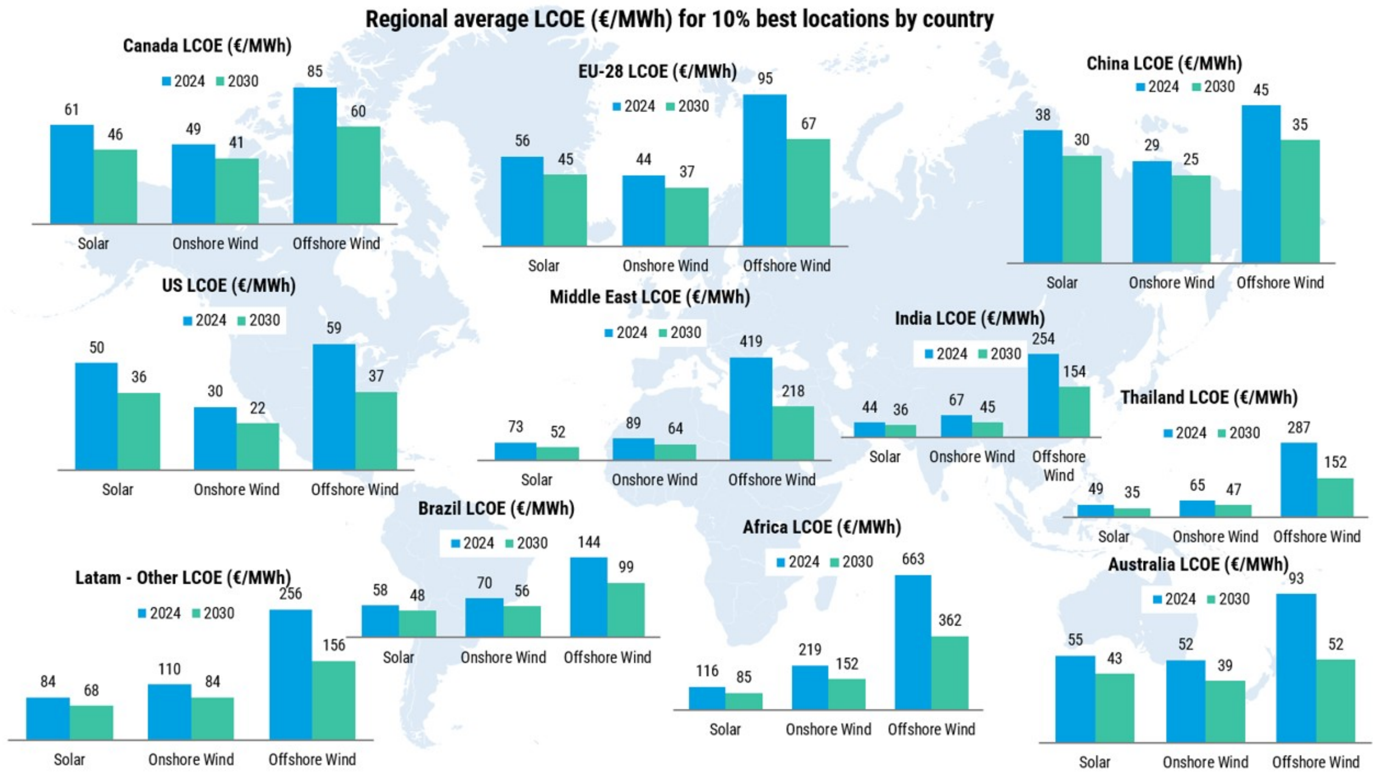
Returns: is it inflection time?

On project returns, we leverage the work done by Arthur Sitbon and Morgan Stanley's Global Clean Energy team in a recent Insight report (Renewables Strike Back). Exhibits 39-45 were all originally published in that note.

Our Clean Energy team has an out-of-consensus view on the valuation creation for wind and solar projects: after much volatility in preceding years, the levelised cost of energy (LCOE) has been stable since December 2023 (see their Interactive Global Clean Energy Cost Map at the back of this report). At the same time, pricing power has remained solid, benefitting the IRR-WACC spread. Of particular importance to the companies within our coverage is the IRR-WACC target uplift by EDP Renovaveis (covered by Arthur Sitbon), which is one of Motor Oil's partners on two upcoming wind projects in Greece, with expected COD dates of 2027 and 2028.

Our colleagues see three forces (3Ds) that should support value creation in renewables: i) discipline, ii) demand and iii) de-commoditisation. We believe the three forces also apply to the geographies we cover (CEE). An attractive market, in our view, is Greece: there has been considerable activity in the country through new projects and portfolio optimisation, from companies including Metlen (covered by Ioannis Masvoulas) and PPC (not covered). But at the same time, given the relative size of the Greek market, competition there remains mostly limited to local players, including HELLENiQ and Motor Oil, among others. That, in our opinion, is another factor supporting returns.

Exhibit 40: We see wind & solar as the cheapest source of incremental power generation in numerous regions and expect a further >30% average reduction in the cost of onshore wind & solar electricity by 2030 globally

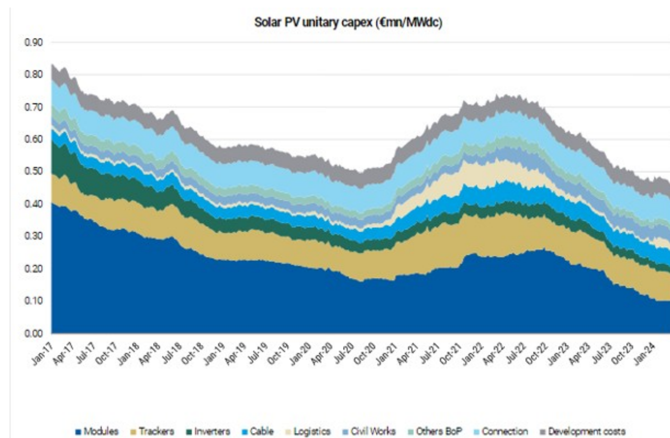


Source: Morgan Stanley Research estimates. Note: Extracted from Insight: Global Clean Energy – Renewables Strike Back (29 May 2024).

Of particular relevance, according to our Clean Energy colleagues, is the visibility that renewables provide for corporate offtakers (i.e., they can lock power prices through PPAs more easily than by looking to hedge prices for a similar duration) and the lower emissions.

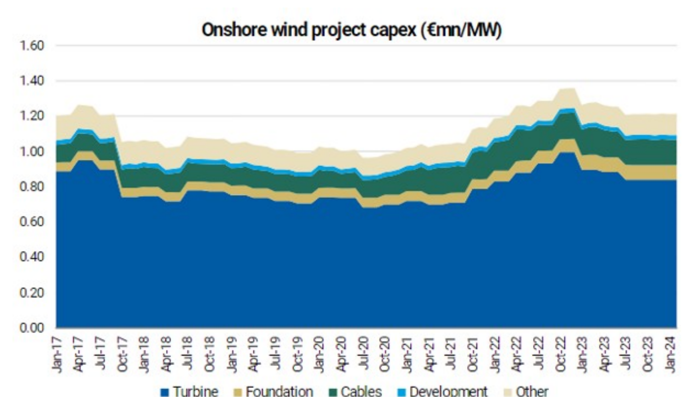
That said, the team estimates IRR-WACC spreads being positive with LT power prices above €30/MWh (Exhibit 43). That, we believe, is another factor supporting value creation for the refineries expanding into the segment.

Exhibit 41: Unitary solar PV capex levels have rapidly normalised



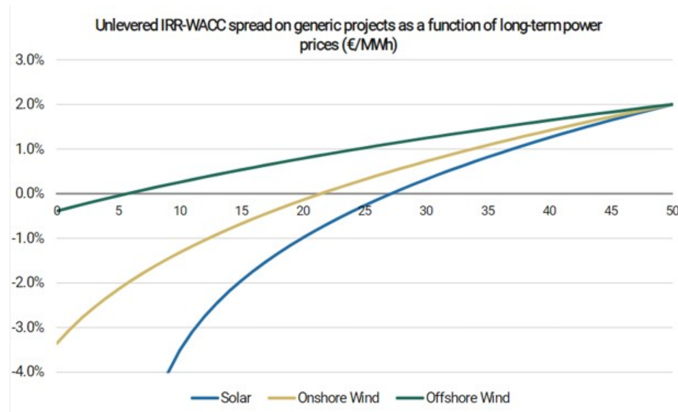
Source: Morgan Stanley Research estimates.

Exhibit 42: Onshore wind unitary capex levels are past the peak, but remain high



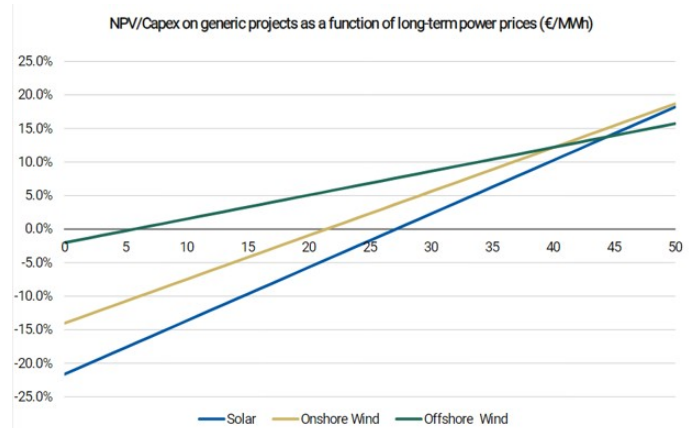
Source: Morgan Stanley Research estimates.

Exhibit 43: We see IRR-WACC spreads on renewables projects as positive unless long-term power prices drop below €30/MWh



Source: Morgan Stanley Research estimates.

Exhibit 44: We see risks of negative IRR-WACC spreads mainly focused on solar, and in particular in regions with high solar penetration (typically Iberia)

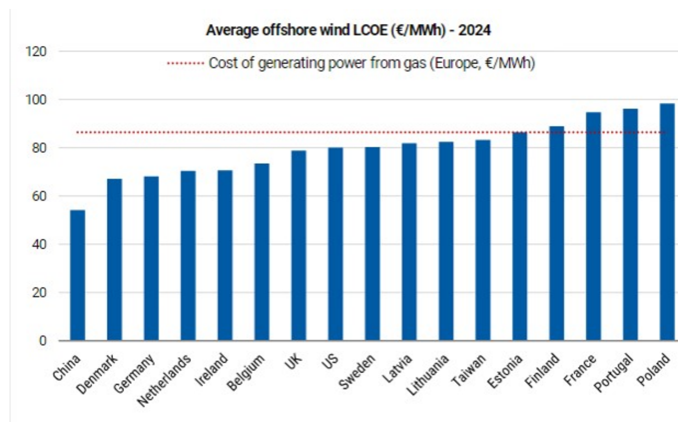


Source: Morgan Stanley Research estimates.

Offshore wind: more of a Poland/Orlen story

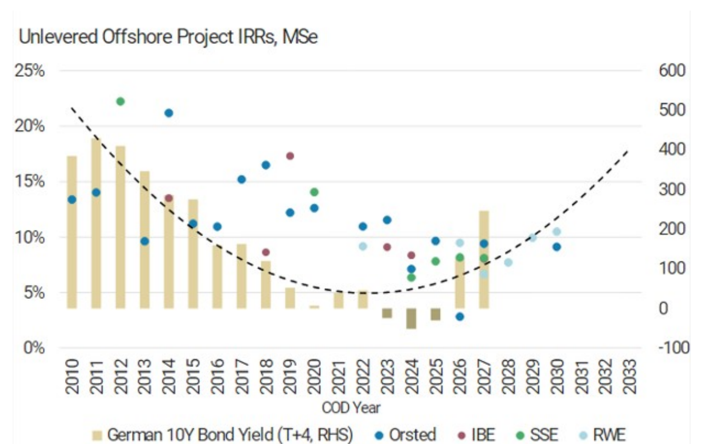
Despite recent challenges in specific projects, and with project costs remaining above pre-crisis levels, our Clean Energy colleagues believe we are past the trough on execution risks. As such, they estimate that offshore wind is competitive compared to gas power in Northern Europe. None of the five companies under our CEEMEA coverage currently has exposure to offshore wind within their renewables portfolio. Orlen, however, is developing a 1.2GW Baltic Power wind farm, with expected start-up by 2026. The company has also granted licences to build another five farms with combined capacity of 5.2GW.

Exhibit 45: We see >15 national markets globally where offshore wind power could be developed at a cost below €100/MWh



Source: Morgan Stanley Research estimates.

Exhibit 46: We see cyclical lows in IRR>WACC spreads for projects delivered by mid-decade, and a rebound afterwards as higher RFRs are passed through with a time lag



Source: Company data, FactSet, Morgan Stanley Research estimates (e).

The changing face of leverage

Expanding into renewables generation is not only about a different return profile for the refineries. Being able to use leverage at the project level, and benefitting from different funding providers (development banks, commercial banks, capital markets, etc), the refining operators are also able to transform how they approach leverage.

In addition to project-specific funding, we believe i) funding costs and ii) leverage ratios will also be impacted by an increased relevance of renewables generation within the refining companies' portfolios. On the former, companies benefit from access to competitive funding rates from mechanisms such as the EU Recovery Fund (in some geographies). One of the most relevant differences (compared to the 'legacy' business), however, lies on the funding structure. Renewables projects allow for higher leverage than what is usual in a refinery. And that has already started to influence companies' strategy: HELLENiQ, in its corporate presentation, states that it expects debt to total 60-70% of the planned 2GW renewables pipeline, and Motor Oil, in its 2030 strategy, expects renewables operating capacity of >2GW, with group leverage at <3.5x net debt/EBITDA (compared to FY23 at 1.2x).

Biofuels on the radar, but still not relevant

Increased relevance of biofuels is another trend affecting the five companies on which we launch coverage. Either targeting lowering emissions and/or driven by an evolving regulatory environment, the long-term strategies for all of the companies encompass some expansion on the production of biofuels – particularly hydrotreated vegetable oil (HVO) and sustainable aviation fuel (SAF). Differing from peers in other regions, we believe the CEEMEA companies are still cautious on the prospects (and economics) of such products: targets are mainly longer-term (2030 or so) and, in most cases, the planned capacity would not be very relevant compared to their total installed capacity (Exhibit 22). That should reduce concerns around the recent compression in renewable diesel margins (see Question of the Moment: What's Driving Renewable Diesel Price Weakness?). We do believe, however, that the discussion on expected returns from such investments may persist in the foreseeable future.

Exhibit 47: Biofuel targets

HELLENiQ
Develop a significant presence in biofuels
UCO co-processing unit (45 ktpa) at the Thessaloniki refinery in progress for the production of HVO
Development of new standalone SAF production unit at the Aspropyrgos refinery
MOL
Aim to expand its biofuel portfolio to meet the goals set by the EU Renewable Energy Directive
In 2023, first supply of aviation fuel blended with a significatn share of SAF, first time selling HVO in selected markets
Waste management expected to provide up to 1.5m tons of feedstock for energy industry by 2030
Motor Oil
Biofuels and e-fuels are a component of the low-carbon energy strategy
In Dec 2022, finalised acquisition of Elin Verd, a major domestic biodiesel producer
Development of 300,000 tpa biofeedstock pre-treatment facility and storage unit (2024 and beyond)
220 ktpa current biodiesel production capacity from co-processing biogenic feedstock
Orlen
Investments in HVO and bioethanol plants
>PLN15bn capex between 2023 and 2030 to expand biofuel production capacity
From 0.3 mtpa biofuel production capacity in 2023 to 3 mpta by 2030 (FAME, HVO)
Tupras
Focus: to become the lead SAF supplier in Turkey
Aim to process 400,000 tonnes of biofuel feedstock by 2030
Conversion of existing unit in Izmir to be finalised in 2026 with ~$230m capex
10% of jet fuel sales expected to be SAF by 2030
Triple its SAF production capacity by 2035 with front-loaded capex
$1,100m cumulative EBITDA by 2035, $600m cumulative capex

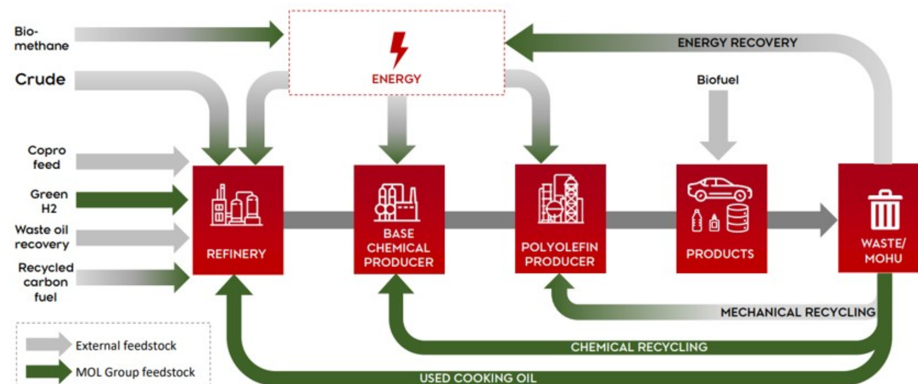
Source: Company data, Morgan Stanley Research.

Orlen has one of the biggest targets, aiming for a production capacity of 3mtpa by 2030, with expected capex of over PLN15bn to fund that. But as we discuss in the company section below, given the longer-term profile of the investments, we believe new management may be more conservative on the targets and look to optimise capex.

Tupras, on the other hand, is already setting the basis for its planned SAF project. In May, it entered into an agreement with a local agricultural supply chain company, Tiryaki Agro, such that, from January 2025, its trading arm will start trading the feedstock used on SAF production; and from January 2029, it has committed to acquire 300ktpa or feedstock for SAF, for a period of 10 years. This will cover two-thirds of Tupras' expected feedstock necessity (450ktpa). As for the plant itself, the final investment evaluation will be taken before the end of 2025. We do not assume any SAF capacity in our model. It is worth noting that the company expects SAF to account for 10% of all aviation volumes in the Turkish market by 2030.

MOL is following a different strategy. The company has been granted the concession for municipal waste collection in Hungary, valid as of 2024. Among the $900m in investments expected for this segment, it has included a waste-to-energy plant. More importantly, MOL expects to integrate the waste management operation within its refining system, and sees the potential for the waste management to provide up to 1.5mtpa of feedstock to its downstream segment (Exhibit 23). Within the same segment, in 2024 Motor Oil acquired Helector, a company providing waste management services in Greece. As for HELLENiQ, it is analysing a SAF project in Aspropyrgos (100ktpa), but that is still in pre-feasibility stage. Other projects include i) e-jet production (40ktpa), which has yet to be approved, and ii) a 45ktpa HVO co-processing unit in Thessaloniki.

Exhibit 48: MOL's biofuel plans are supported by the integration with its waste management segment



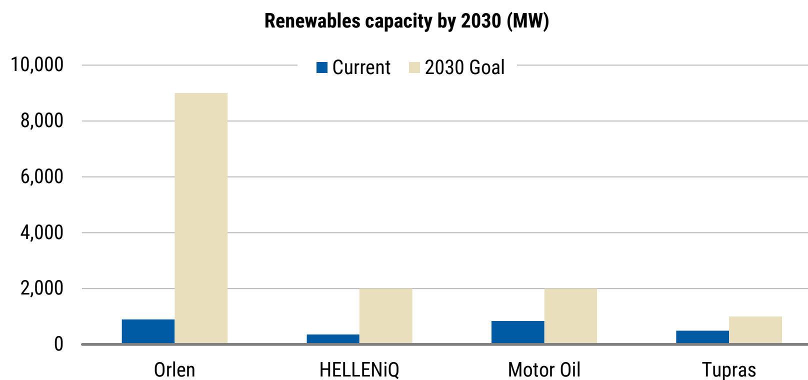
Source: Company data.

Focus on renewables plans

HELLENiQ, Motor Oil, Orlen and Tupras have been quite active on renewables (and in some cases, CCGT) power generation. As mentioned above, they plan to keep expanding generation capacity as part of their long-term strategy. The pace at which this will be done, however, is not uniform. Orlen has by far the greatest installed generation capacity among the four, and its 2030 strategy targets similar installed expansion in renewables (~4GW) to the combined planned capacity of HELLENiQ and Motor Oil by then (~2GW each). On top of that, Orlen also targets its CCGT expansion to reach ~4GW, while planning a small modular nuclear reactor with capacity of 300MW. But, as we discuss below (Orlen: Work in progress – the one to watch), we would not be surprised if this expansion were trimmed down by the new management. As for the others, while the installed capacity will continue to grow in the coming years – which may lead to changes in strategy, as we mentioned on capital structure, for example – we see the pace being a lot more contained, with refining remaining (by far) the most important segment and renewables investments being opportunistic.

Looking into 2030

Exhibit 49: Orlen is set to expand its renewables capacity the most by 2030



Source: Company data, Morgan Stanley Research.

Exhibit 50: HELLENiQ: 2030 strategy overview

	2023	2030
Scope 1&2 emissions		-30%
Renewables	356MW	2,000MW
Strengthen and decarbonise downstream business		
Expand downstream value chain into adjacent areas		
Diversify and scale up into green energy		

Source: Company data, Morgan Stanley Research.

Exhibit 51: MOL: 2030 strategy overview

	2023	2030
Low-carbon capex	<10%	30-40%
Scope 1&2 emissions		-25%
Renewable electricity consumption		2,500 GWh per year
Downstream EBITDA		Keep EBITDA above $1.2bn per annum in mid-cycle macro
Net cash margin within Europe		Keep the 1st quartile position of the Duna refinery and Slovnaft
Sustainable assets		Target 2nd quartile in Solomon Energy Intensity index
Waste management feedstock		>1m tons
Consumer services EBITDA ($m)		1,000
FCF in 5 years ($m)		2,900
Convenience sales increase (vs 2021)		183%
Fuel volume increase (vs 2021)		43%
Increase in active loyal customers (vs 2021)		100%
E&P production (mboepd)		90
E&P unit direct production cost $/boe		6-8
E&P organic capex $bn 2025-2030		2
Unit simplified FCF $/boe		20

Source: Company data, Morgan Stanley Research.

Exhibit 52: Motor Oil: 2030 strategy overview

	2023	2030
Energy transition investments (2022-2030) (€bn)	1.0	>2.5
Group EBITDA Non-Fossil (€m)	221	>40%
RES operating capacity	837MW	>2GW
RES EBITDA (€m)	111	>250
Charging points	1,021	>4000
Net debt/EBITDA	1.2x	<3.5
Scope 1&2 emissions		-30%
Scope 3 emissions		-25%

Source: Company data, Morgan Stanley Research.

Exhibit 53: Orlen: 2030 strategy overview

	2022	2030	Planned Capex 2023-30 (PLN bn)
Renewables (GW)	0.7	>9	>50
Biofuels (kt)	275	>3,000	>15
Biogas (bcm)	3	>1	>10
Renewable hydrogen (kt)	0	>130	>5
E-mobility (k charging points)	0.6	>10	>3
Gas production (bcm)	8	12	70
Share of specialty petrochemicals in the portfolio	16%	>25%	35
Refining capacities (m tonnes)	42	42	35
Gas-fired power (GW)	1.7	3.8	10
Fuel sales (k stations)	3.1	3.5	5

Source: Company data, Morgan Stanley Research.

Exhibit 54: Tupras: Long-term strategy overview

	2017	Target
Average EBITDA $bn per annum (2035)		>1
Average capex $m per annum (2035)		350
ROACE		>25%
Net debt/EBITDA		<2.0x
Avg. dividend payout		80%
Scope1&2 emissions by 2030		-27%
Refining energy intensity by 2030	102.2	91.2
Sustainable refining cumulative EBITDA (2022-2035) ($ bn)		13.0
Sustainable refining capex (2022-2035) ($ bn)		2.3
SAF sales (% of total jet fuel) by 2030		10%
Biofuels cumulative EBITDA by 2030 ($m)		440
Biofuels cumulative capex by 2030 ($m)		230
Zero carbon electricity cumulative EBITDA by 2030 ($m)		250
Zero carbon electricity cumulative capex by 2030 ($m)		650
Renewables capacity by 2030 (MW)		1,000
Installed electrolyser capacity by 2030 (MW)		400
Hydrogen cumulative EBITDA by 2030 ($m)		35
Hydrogen cumulative capex by 2030 ($m)		690

Source: Company data, Morgan Stanley Research.

The top-down view

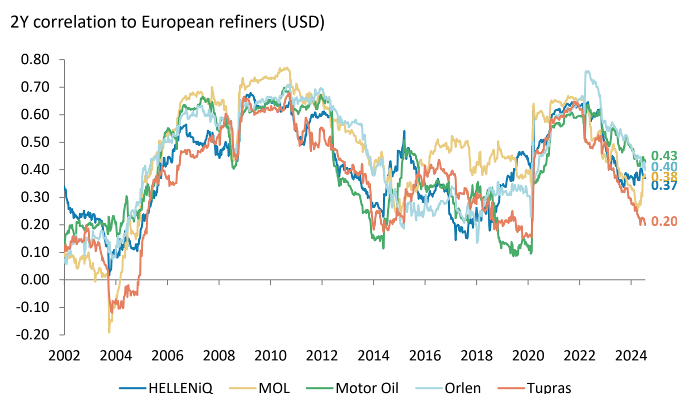
What drives the stocks?

The five CEE refineries are at the intersection of two investment themes: i) flows into refining names and ii) flows into their respective home markets. Finding out which factor is more relevant helps us address the most relevant question: what drives such stocks?

With the assistance of our EEMEA Equity Strategy team, we ran correlations between the performance of each of the five names against a basket of West European names (Exhibit 55): Galp, Neste, OMV and Repsol (all covered by Sasikanth Chilukuru). Our prior assumption was that, if the performance of CEE stocks were tightly correlated with that of the West European names, the sector would be more important than the geography. We then replicated this analysis, but replacing the West European basket with the respective index in which each of the companies is included.

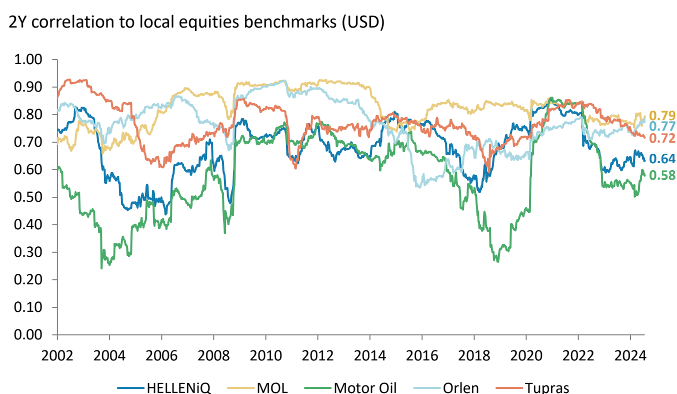
Given MOL's size within the Hungarian index (~25%), we expected its correlation with the index to be significantly higher than that with West European names. But to our surprise, we observed the same trend across *all* names. Results, we believe, indicate that domestic factors are of greater importance to the five names on which we are writing than the global / pan-European performance of refining stocks.

Exhibit 55: EM Europe refiners' correlation to Developed Europe refiners has been declining...



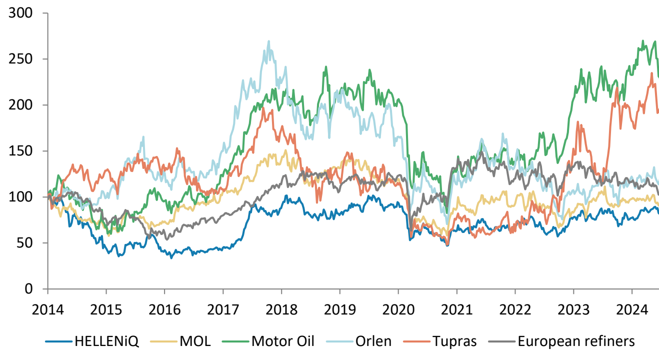
Note: European refiners are Repsol, Galp, Neste and OMV. Source: Datastream, Morgan Stanley Research

Exhibit 56: ...and is noticeably lower compared to correlation to local equities benchmarks



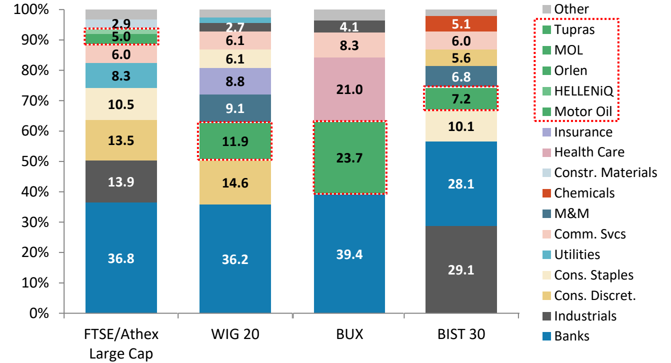
Note: Local equities benchmarks are FTSE/Athex Large Cap, WIG 20, BUX and BIST 30. Source: Datastream, Morgan Stanley Research

Exhibit 57: Over the past 10 years, only Motor Oil and Tupras have delivered noticeable gains, whereas other EM and DM Europe refiners showed muted to slightly negative returns



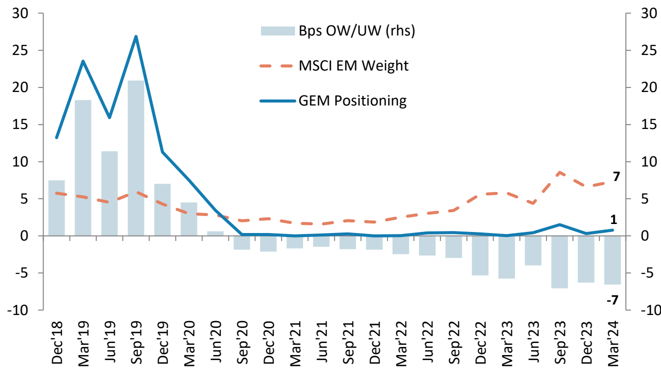
Note: European refiners are Repsol, Galp, Neste and OMV; free float market cap weighted performance.
Source: Datastream, Morgan Stanley Research

Exhibit 58: EM Europe refiners' weight in their respective local indices is not very high, apart from MOL, which accounts for almost ¼ of the BUX index



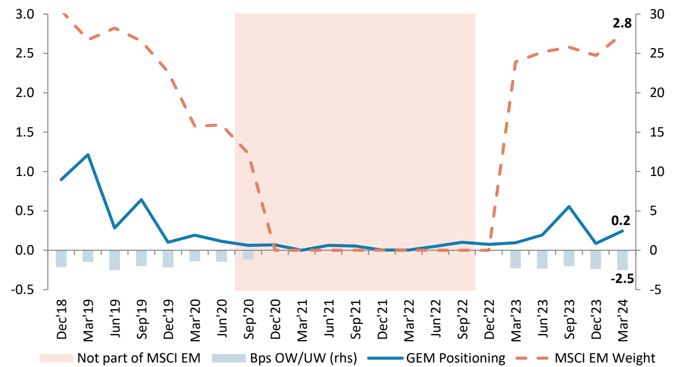
Source: Datastream, Morgan Stanley Research

Exhibit 59: Tupras: GEM funds have turned underweight the name since 3Q20, with the underweight size largely growing since then



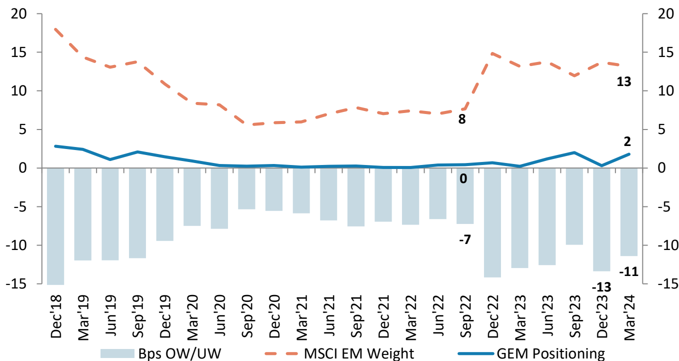
Note: Our sample group of GEM funds varies from month to month, so is not directly comparable though can serve as a rough guide of changing positioning over time. Source: FactSet, Morgan Stanley Research

Exhibit 60: Motor Oil: GEM funds are 3bp underweight the stock



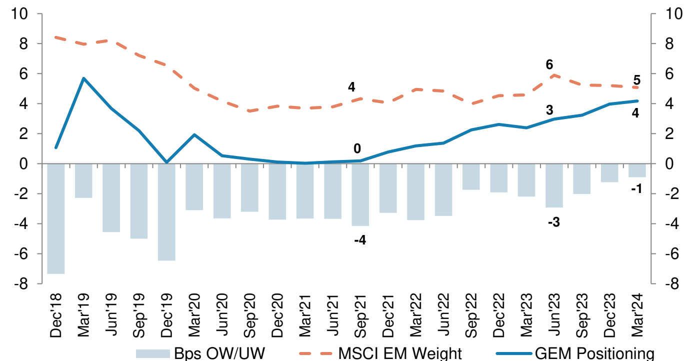
Note: Our sample group of GEM funds varies from month to month, so is not directly comparable though can serve as a rough guide of changing positioning over time. Source: FactSet, Morgan Stanley Research

Exhibit 61: Orlen: GEM funds' positioning in the stock is well below its weight in the MSCI EM index, with the underweight size being 11bp at end March 2024



Note: Our sample group of GEM funds varies from month to month, so is not directly comparable though can serve as a rough guide of changing positioning over time. Source: FactSet, Morgan Stanley Research

Exhibit 62: MOL: While GEM funds are underweight MOL, they have been adding exposure to it, with the underweight positioning narrowing to 1bp as of end March 2024



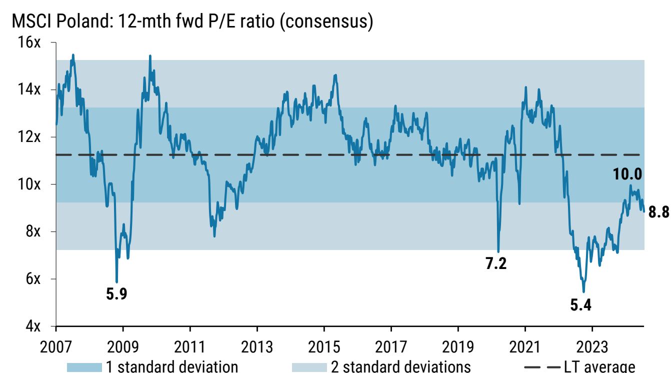
Note: Our sample group of GEM funds varies from month to month, so is not directly comparable though can serve as a rough guide of changing positioning over time. Source: FactSet, Morgan Stanley Research

EEMEA Equity Strategy: views across EM Europe

Matthew Nguyen, Regiane Yamanari

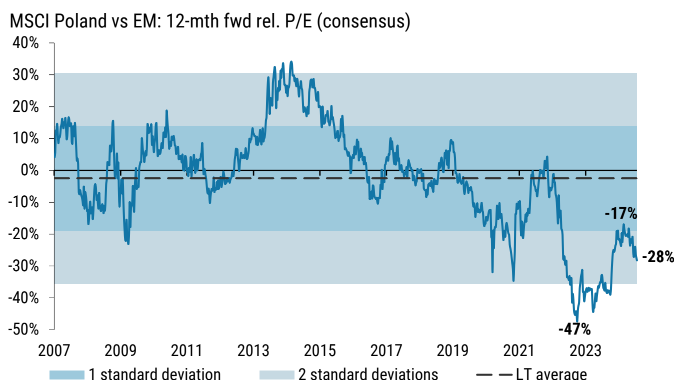
Within EEMEA, we are overweight Polish equities on the back of the structural shift brought about by the new government, while valuations remain attractive and long-term upside to earnings, we believe, is underappreciated (see Poland Equities and Economics: Structural Shift, Material Upside). Initial reform progress has been encouraging, with leadership overhauls at state-owned enterprises (SOEs) potentially leading to profitability improvements. Recent examples include KGHM, Pekao (see BNN Bloomberg), PKO BP (see PAP Biznes), PZU (see PAP Biznes) and Orlen. Orlen (13% of MSCI Poland) is one of the names to watch, as its upcoming strategy update has potential to unlock investor value (see the company section below). Within SOEs, we continue to recommend exposure to banks – as the outlook remains positive with rates higher for longer and a benign outlook for loan growth. Polish SOEs' NTM P/E remains undemanding at 7.1x, which is 34% below the long-term average, while the discount vs non-SOEs is at 51%. Re-rating of the SOE group to its long-term average NTM P/E would result in 52% upside, all else equal, while the overall MSCI Poland index would see 33% upside. Currently, MSCI Poland is trading at 8.8x NTM P/E, a discount to its own historical average in absolute (-21% or -1.2 standard deviations (SD)) and relative terms (-28% vs EM, or -1.6 SD). Finally, we note that GEM fund positioning in Polish equities has been rising since 2022, but mostly driven by exposure to consumer stocks, while 69% of funds still have zero exposure to Polish SOEs.

Exhibit 63: MSCI Poland is still trading at a discount to its own historical average in absolute and relative terms



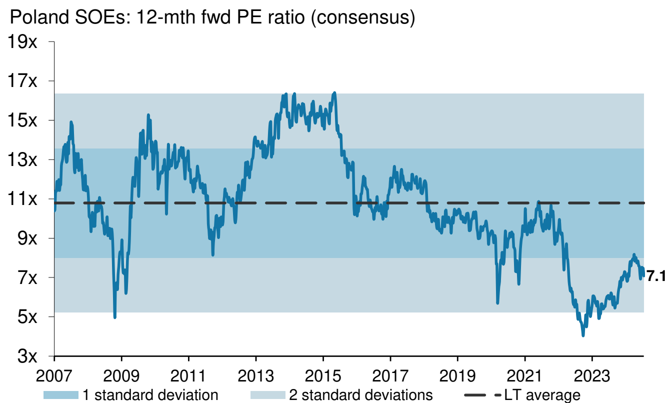
Source: Datastream, Morgan Stanley Research

Exhibit 64: A reversion to long-term average relative NTM P/E vs EM would result in 36% upside from current levels, all else equal



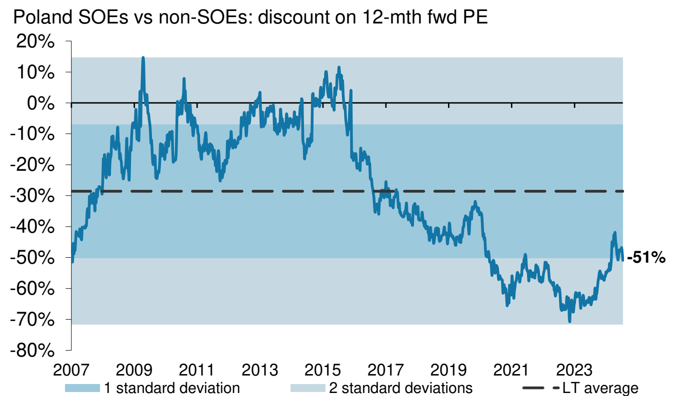
Source: Datastream, Morgan Stanley Research

Exhibit 65: A mean reversion of SOEs on a P/E basis to long-term average would result in 52% upside from current level, implying 33% upside for MSCI Poland



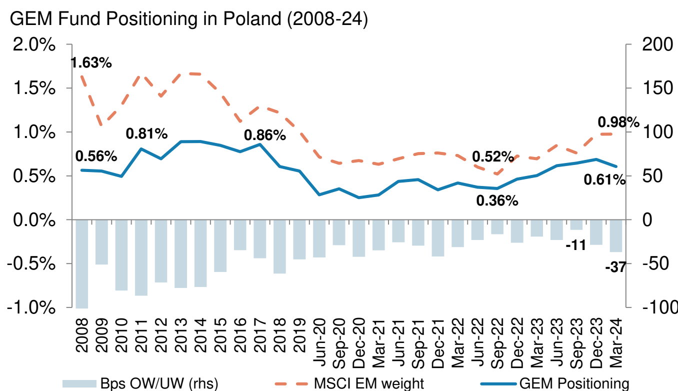
Source: Datastream, Morgan Stanley Research

Exhibit 66: The discount of the SOE group to non-SOE stocks is at 51%, 1.0 SD below the long-term average



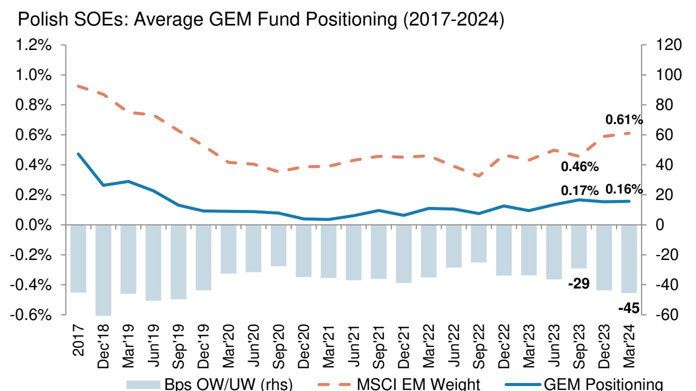
Source: Datastream, Morgan Stanley Research

Exhibit 67: GEM funds positioning on Polish equities has been rising since 2022...



Note: Our sample group of GEM funds varies month to month, so is not directly comparable, though it can serve as a rough guide of changing positioning over time. Source: FactSet, Morgan Stanley Research

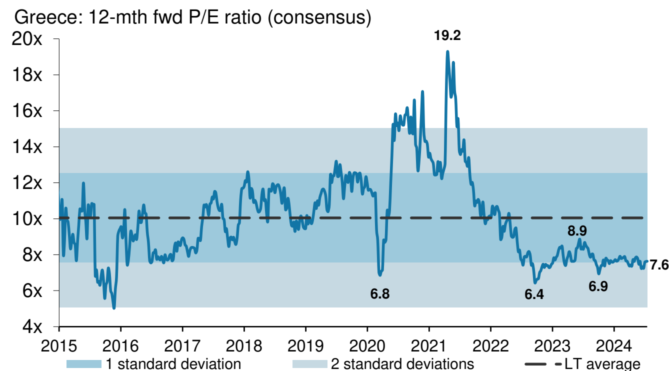
Exhibit 68: ...but has been driven predominantly by consumer stocks, while positioning in SOEs remains light



Note: Our sample group of GEM funds varies month to month, so is not directly comparable, though it can serve as a rough guide of changing positioning over time. Source: FactSet, Morgan Stanley Research

Greece is another preferred market in EM Europe where we are overweight. The market offers compelling valuations against a strong and resilient macro backdrop. MSCI Greece is trading at 7.6 NTM P/E, which has not moved much over the past nine months and is not too far from COVID pandemic lows, while the discount to EM and Developed Europe remains wide at 40% and 45%, respectively. Greek equities are offering 6.1% NTM DY, which is 2.2 SD above their long-term average. Similarly, Greece's implied CoE remains high at 13.2%, which is comparable to the levels (13.8%) seen 12 months before the country's first sovereign credit rating upgrade to Investment Grade (October 2023). Meanwhile, we expect positive earnings momentum to continue in Greece amid benign economic growth, supported by the implementation of the Recovery and Resilience Facility (RRF) funds, falling inflation and positive real income growth. Our European economists expect Greece to deliver GDP growth of 2.0% in 2024 and 2.3% in 2025, far outpacing that of the euro area (0.7% in 2024 and 1.2% in 2025).

Exhibit 69: On NTM P/E, Greece trades at 7.6x – still undemanding and not too far from COVID lows...



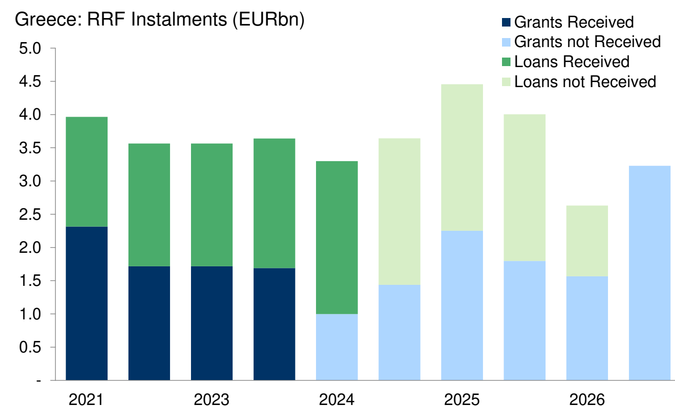
Source: Eikon and Morgan Stanley Research

Exhibit 70: ...with the discount to EM and Developed Europe remaining wide

	Relative to EM		Relative to Europe		Relative to CEE	
Valuation metric	**Current**	**S.D.**	**Current**	**S.D.**	**Current**	**S.D.**
NTM P/E	-40%	-1.4	-45%	-1.1	-12%	-0.2
NTM DY	114%	2.6	79%	2.5	18%	1.1
NTM PBV	-34%	1.4	-45%	1.4	-3%	1.4
NTM ROE	9%	1.9	-1%	2.0	10%	1.8

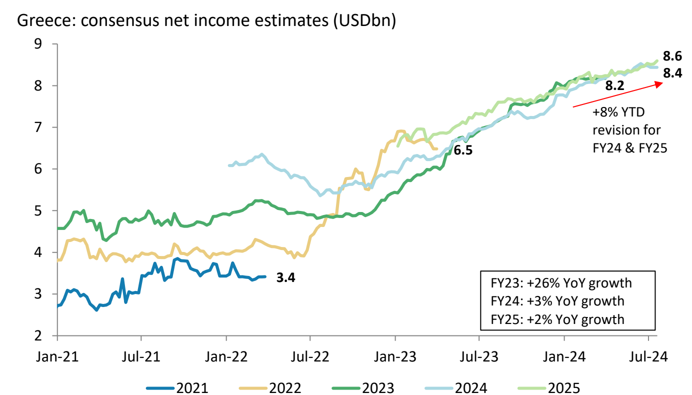
Source: IBES, Eikon, Datastream and Morgan Stanley Research

Exhibit 71: We expect implementation of RRF funds (of which almost half has been approved/disbursed)...



Source: European Commission, Morgan Stanley Research

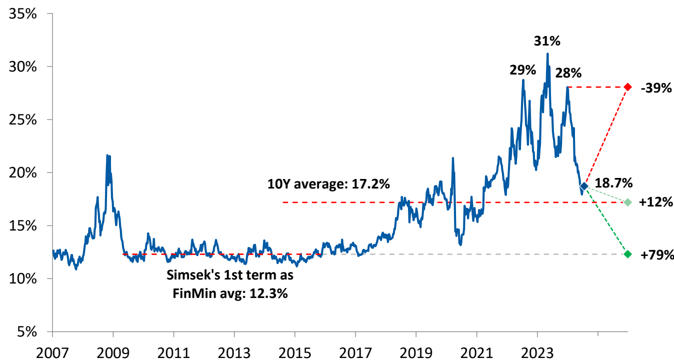
Exhibit 72: ...to support further positive momentum in Greek earnings



Source: Bloomberg, Morgan Stanley Research

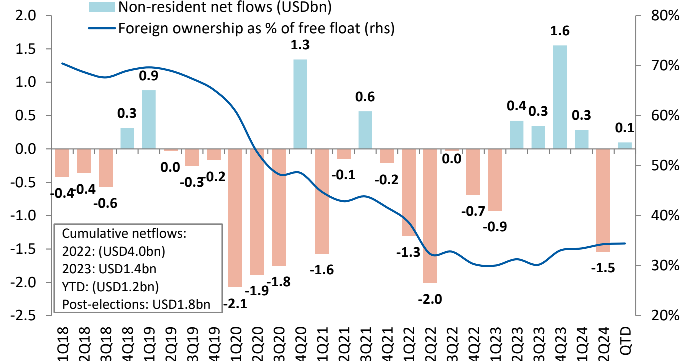
We are equal-weight Turkey, where upside remains but the macro set-up is now more challenging. We see risks to Turkish equities as broadly tilted upwards, but with increased volatility as the baton passes from monetary policy normalisation to fiscal consolidation. This implies a trickier balancing act for equities from an earnings growth perspective (see here and here). Given the relative attraction of local fixed income assets in such a set-up, as well as a potential tax on stock market gains and/or transactions (as flagged by Finance Minister Simsek in an interview with BloombergHT on 1st July), we also believe the next phase of the rally will rely on foreign inflows, which have been slow to arrive (net outflows of US$1.2bn YTD). Ultimately, we do expect the disinflation path to drive equities higher via a continued CoE normalisation, but see the pace of the rally slowing. Within Turkey, we prefer banks as a geared play on the economic rebalancing. Other domestics are likely to come under pressure from expected slowing domestic demand, while exporters are seeing negative impacts of real TRY appreciation, hurting their competitiveness.

Exhibit 73: The normalisation of implied CoE to the average during Finance Minister Simsek's first term as would result in material upside – all else being equal



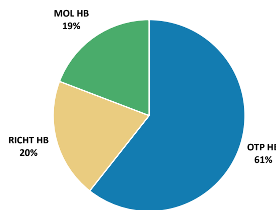
Note: Scenarios are calculated holding other parameters constant. Source: Bloomberg, Morgan Stanley Research

Exhibit 74: The recent rally in Turkish equities has been predominantly driven by local retail investors, while foreign flows have been weak this year



Note: QTD data as of 12th July 2024. Source: CBT, Haver Analytics, Bloomberg, Morgan Stanley Research

Exhibit 75: OTP makes up more than half of the MSCI Hungary index



Source: MSCI, Datastream, Morgan Stanley Research. Note: Share price for OTP Bank as of 19 July 2024: HUF18,620.

Last but not least, we are equal-weight Hungary. MSCI Hungary only has three stocks: OTP (61% of the index), MOL (19%) and Gedeon Richter (20%). Such a concentrated index composition makes MSCI Hungary an idiosyncratic bottom-up play. Both OTP and MOL are covered by MS Research and are rated Equal-weight, which leads to our being equal-weight Hungary.

Windfall taxes: are they here to stay?

One macro factor that has been leading several discussions in the energy sector is the imposition of windfall and other taxes in recent years. With the Russian/Ukraine conflict and the escalation in energy prices, several countries imposed extra taxes across the different chains in the energy sector and/or froze prices charged to fuel consumers.

The countries in which our companies are present were not immune to that. But as energy prices began to normalise, expectations were mainly that the extra taxes introduced in the past two years would be phased out. Recent announcements, however, have been surprising, particularly in Greece, where the government has announced a solidarity tax over the refineries' 2023 profits, which, it says, should total €300mn. The legislation submitted to Parliament (link) stipulates that refineries should pay a 33% rate on the profits 20% above the average profit over 2018-23. Payments will be done on 28 February 2025. Also (albeit less relevant for the two Greek companies on which we initiate coverage), the government has proposed a one-off tax on the "surplus profits" of natural gas fuelled power plants in July and August 2024 (see Greece is considering one-off tax on gas-fired power producers). To that, we also add the lack of visibility on when retail fuel prices will be unfrozen (our base case is that prices start to be readjusted in line with oil prices in 2025). In Hungary, too, the government has announced that it will continue with the windfall tax on sectors including energy. We believe that, relative to Greece, this announcement comes as less of a surprise. Nonetheless, such recent developments point to the ongoing risks of elevated taxation in the energy and refining sectors.

Macro backdrop

Poland and Hungary

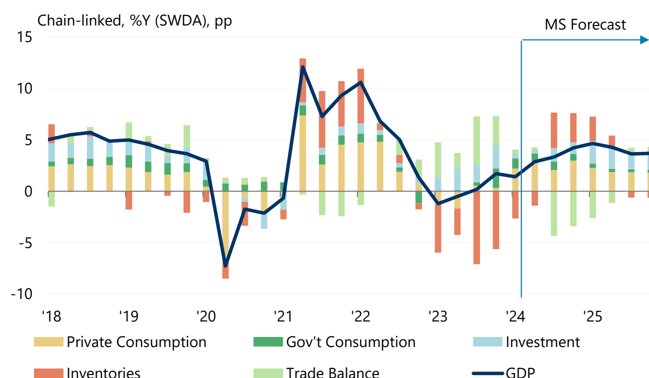
Georgi Deyanov

Poland to outperform peers: We believe Polish GDP growth should outperform peers, accelerating to 3%Y in 2024 and 4%Y in 2025, driven initially by robust domestic demand, while external demand recovers more visibly in 2025. We expect private consumption growth to accelerate in 2024 but see it stabilising in 2025 due to the lack of incremental consumer-friendly fiscal stimulus. Still, investment growth should accelerate further in 2025 owing to the positive impact of EU funds absorption first on public and subsequently on private investment.

External demand weakness to suppress Hungarian growth: We expect subdued external demand and public investment growth to translate into weak GDP growth at 2.2%Y in 2024. Yet, with the pick-up in external demand in 2025, we see exports growth boosting GDP growth to 3.5%Y. Private consumption has already been recovering for four quarters on a sequential basis, and we project it to be the main driver of economic growth this year, but we also see it moderating in 2025 as wage growth cools off. The weak investment growth reflects the government's fiscal consolidation efforts as it continues to struggle to unlock access to the RRF and the remainder of the frozen EU funds. As such, we expect imports demand to remain subdued and to result in a positive net exports contribution throughout the forecast horizon.

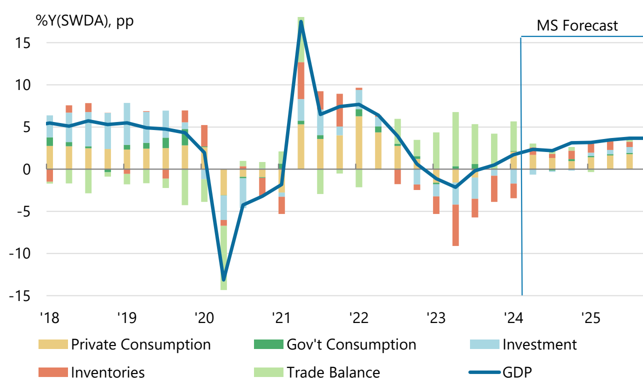
EU funds to boost Polish investment from 2025 onwards: Poland remains one of the main beneficiaries of the EU's cohesion policy and the more recent RRF. We expect the government to keep catching up on missed payments over the coming years, potentially resulting in a boost to net EU funds inflows to 4-6% of GDP from the current 2% of GDP. The improved EU funding will be reflected in accelerated public investment growth initially, with private investment also likely following subsequently. As such, we expect investment growth to become the main driver of GDP growth in 2025 and onwards. We see this increasing the resilience of the domestic growth cycle relative to the external one, as well as improving potential growth by 1-2pp over the medium term. The switch to an investment-led growth cycle should be particularly important in 2025, since we do not expect the government to deliver additional fiscal stimulus to consumers in early 2025.

Exhibit 76: Poland: consumer-led growth recovery in 2024 to transform into an investment-led one in 2025



Source: Haver Analytics, Morgan Stanley Research forecasts

Exhibit 77: Hungary: external demand weakness to suppress exports growth in 2024

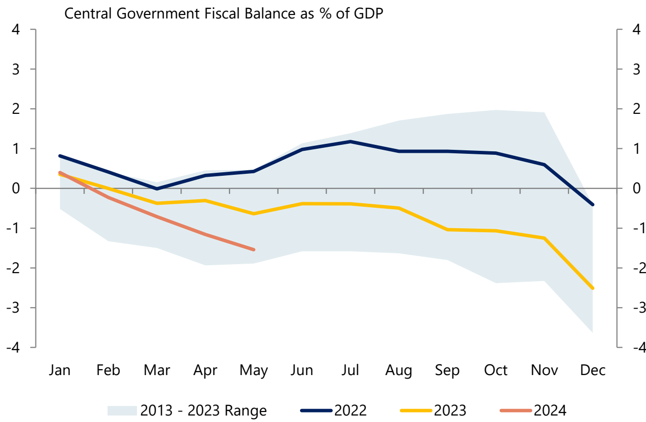


Source: Haver Analytics, Morgan Stanley Research forecasts

Poland's fiscal policy to remain expansionary: In our recent investor trip to the CE3 region, we found the predominant view on the ground to be that the Excessive Deficit Procedure (EDP) would limit the possibility of additional fiscal easing while the consolidation efforts would rely more on improving revenue growth and limiting energy subsidy costs. Yet, precise numbers are yet to be revealed by the government, with the publication in September of the four-year fiscal plan under the new European governance framework. We continue to expect the general government deficit to be consolidated by about 0.7pp of GDP in 2025. Risks of additional taxation remain moderate, as we believe the government would rather rely on improving GDP growth rather than on increasing taxes.

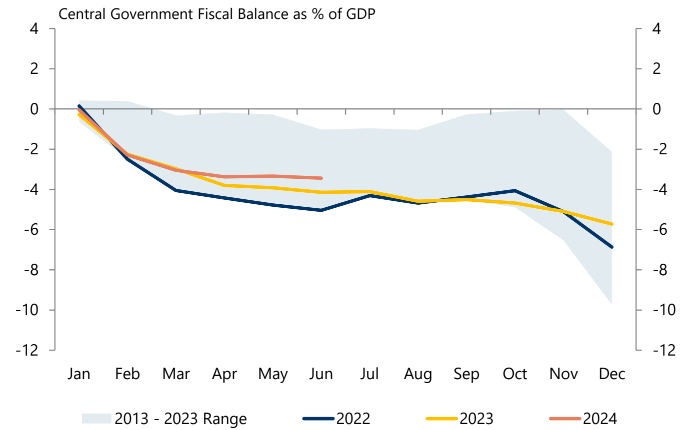
Fiscal consolidation remains top priority in Hungary: During our conversations with government officials on our CE3 investor trip, we understood that achieving this year's 4.5% of GDP deficit target in 2024 is of upmost priority. On the day of our visit, the government introduced additional tax measures on the banking sector, worth 0.5% of GDP, to achieve its goal. The package came on top of the investment savings one, introduced earlier this year, which was worth some 0.9% of GDP. More announcements are to come before November, when the government intends to present its 2025 budget draft. Moreover, the government seems to be aiming at a bigger-than-implied fiscal consolidation by the EDP to ensure its compliance with EU rules. Overall, the primary fiscal balance should be close to zero, while the fall in inflation and interest rates will lower debt servicing costs in 2025, helping the headline deficit to reach 3.7%. Finally, local analysts see the government striving to deliver on its fiscal targets, to open room for higher expenditures leading into the 2026 general elections. As such, we consider risks for additional tax increases over the coming couple of years to be elevated, especially for the energy sector.

Exhibit 78: Poland: fiscal performance to deteriorate in 2024



Source: Haver Analytics, Morgan Stanley Research

Exhibit 79: Hungary: fiscal consolidation already showing results



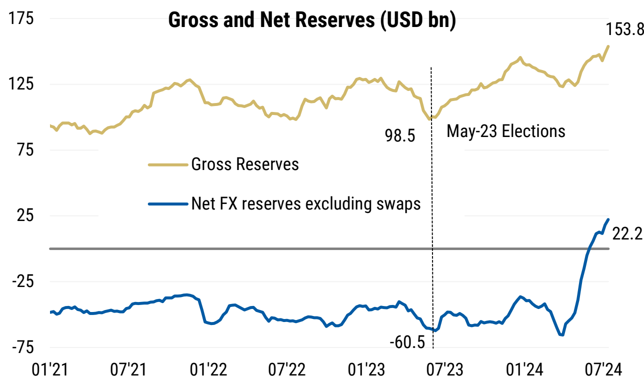
Source: Haver Analytics, Morgan Stanley Research

Turkey

Hande Kucuk

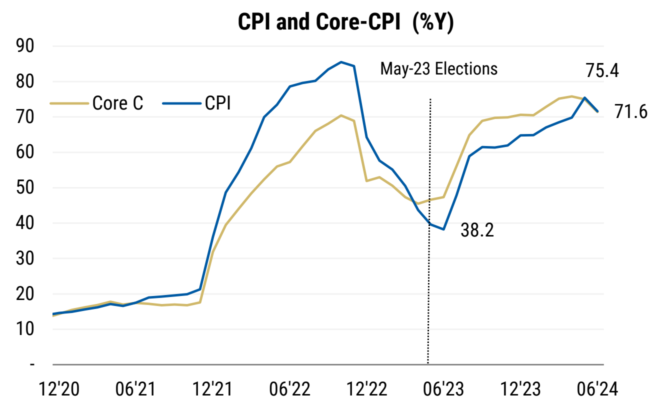
Turkey's policy pivot has laid the ground for macro stability: Turkey's pivot to a more conventional monetary policy framework post-May 2023 elections has significantly reduced macro stability risks related to twin deficits, leading to a notable improvement in risk premia and FX reserves (Exhibit 80). A tight monetary stance and removal of election uncertainty have supported de-dollarisation by locals, and attracted foreign inflows especially to fixed income assets, contributing to real appreciation of the Turkish lira. Moreover, domestic demand has shown signs of slowdown and disinflation has started, with the CPI posting the lowest monthly inflation rate in the past 13 months in June, bringing a decline in headline inflation to 71.6%Y from its peak of 75.4%Y in May (Exhibit 81).

Exhibit 80: Gross and net reserves stand notably higher relative to last year



Source: Haver Analytics, Morgan Stanley Research.

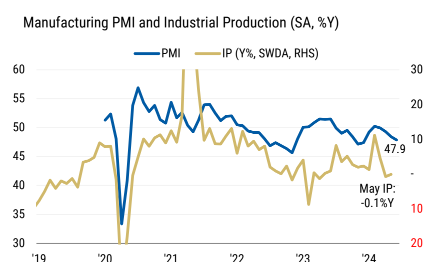
Exhibit 81: Inflation started to decline in June, from its 75.4% peak in May



Source: Haver Analytics, Morgan Stanley Research.

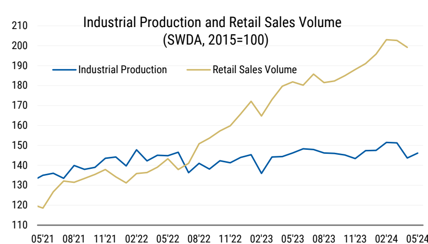
Slowdown in growth to support rebalancing and disinflation. Real GDP growth was strong in 1Q24, coming in at 2.4%Q and 5.7%Y, mainly stemming from accommodative fiscal and income policies ahead of the March municipal elections. But recent data show that economic activity has started to slow as of 2Q24 on the back of the additional monetary tightening steps in March, and election stimulus wearing off. Manufacturing sector PMIs remained below 50-threshold for a fourth consecutive month in June, while industrial production and retail sales growth contracted in 2Q24 as of May (Exhibit 82 and Exhibit 83). We expect private consumption to slow more materially in 1H24 as real disposable incomes come under pressure with a tighter fiscal-income policy mix, i.e. a new tax package in the pipeline, plus a flat minimum wage likely containing nominal wage growth in 2H24. Consumer confidence has recently declined on less optimistic expectations for financial situation and wage increases in the next 12 months (Exhibit 84).

Exhibit 82: PMI and IP



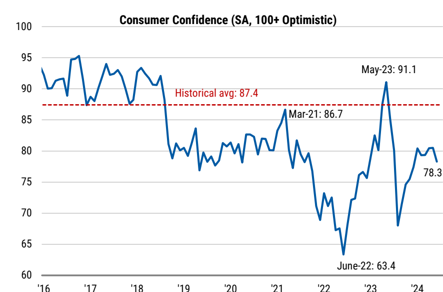
Source: Haver Analytics, Morgan Stanley Research.

Exhibit 83: Retail sales and IP



Source: Haver Analytics, Morgan Stanley Research.

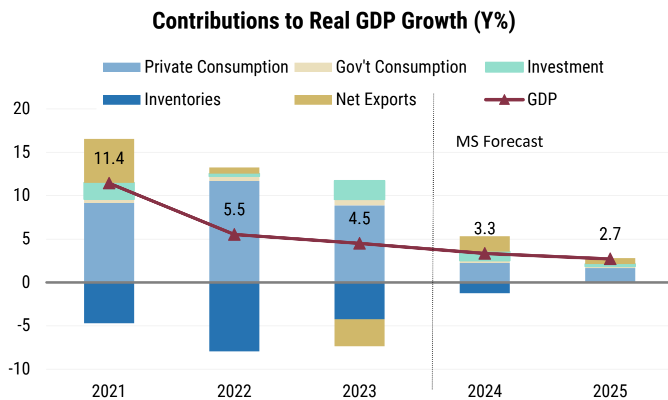
Exhibit 84: Consumer confidence



Source: Haver Analytics, Morgan Stanley Research.

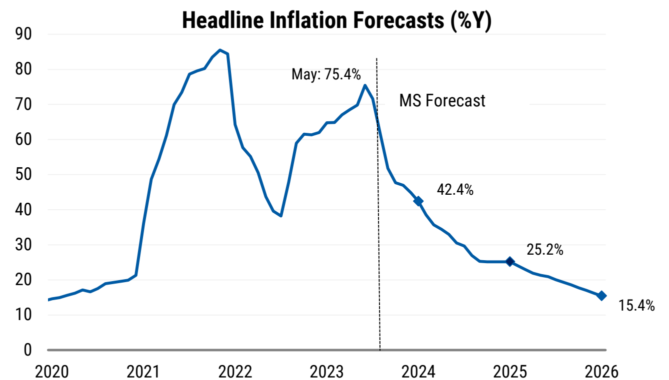
Base case – tight monetary policy, somewhat tighter fiscal and income policies. We expect the monetary stance to remain tighter for longer and fiscal and incomes policies to increase their support to disinflation, which implies lower growth both this year and next. We see growth slowing from 4.5%Y in 2023 to 3.3%Y this year and 2.7%Y next year as private consumption and investment growth slow on the back of a tighter macro policy mix (Exhibit 85). The projected slowdown in growth, real appreciation of the Turkish lira and a gradual improvement in inflation expectations are to support the decline in inflation to 42.4%Y at the end of 2024, and 25.2%Y at end-2025, reaching 15.4%Y by end-2026 as growth recovers back to its potential (Exhibit 86). We see the first rate cut in February 2025 following the resolution of uncertainty around the new year wage and price hikes, and expect rate cuts to continue in a way to normalise ex-post real policy rate around 3% in 2H25.

Exhibit 85: We expect growth to slow on the back of a tighter macro policy mix



Source: Haver Analytics, Morgan Stanley Research forecasts.

Exhibit 86: We expect a gradual disinflation to 25% by end-2025 and 15% by end-2026



Source: Haver Analytics, Morgan Stanley Research forecasts.

Alternative scenarios to highlight risks to the pace of disinflation (Exhibit 87). We provide two alternative scenarios conditional on the degree of political tolerance to slower growth and the strength of coordination between monetary, fiscal and income policies and progress on structural reforms (for more, see Turkey Banks, Economics, and Strategy: Rebalancing for Resilience, 14th June).

Bull case – faster disinflation/stronger policy coordination: Fiscal policy tightens more notably compared to our base case, with spending and tax measures holding the budget deficit/GDP ratio down at 4.9% this year and 3.2% next year (compared to 5.4% in 2024 and 3.8% in our base case), which restricts domestic demand further. Forward-looking price setting in public-sector wages and prices, and progress on structural reforms (including strengthening central bank independence), support a faster improvement in inflation expectations. We assume the CBT starts rate cuts earlier, in 4Q24, reaching 45% policy rate at year-end. With a more visible slowdown in growth, averaging 2.1%Y over 2024-25, inflation falls faster to 20%Y by end-2025 and 12%Y by end-2026, while growth recovers faster in 2026 to 4.8%Y.

Bear case – slower disinflation/weak policy coordination: Fiscal and income policies tighten less/remain accommodative, delaying the adjustment in domestic demand. Public-sector wage and price setting is backward-looking and monetary policy responds with a lag, keeping inflation and inflation expectations elevated. We assume policy rates remain higher for longer throughout the forecast horizon, but ex-post real rates remain lower relative to the base case. Growth is initially higher than in the base case (averaging 4%Y in 2024-25), but remains below potential in 2026 given persistent high inflation (38%Y in 2025 and 27%Y in 2026) and a weaker currency.

Exhibit 87: Macro forecast table: the pace of disinflation will likely depend on the degree of policy coordination, and tolerance for weaker growth

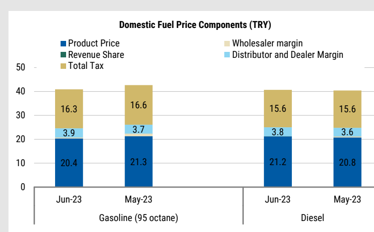
			Base Case			Bull Case: Stronger Policy Coordination/Faster Disinflation			Bear Case: Weak Policy Coordination/Slower Disinflation		
	2022	2023	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Real GDP (%Y)	5.5	4.5	3.3	2.7	4.3	2.5	1.8	4.8	4.3	3.6	3.3
CPI (avg,%Y)	72.3	53.9	57.7	29.2	19.5	57.2	24.8	15.4	62.0	40.6	31.2
CPI (eop,%Y)	64.3	64.8	42.4	25.2	15.4	41.0	19.5	12.3	51.0	37.5	26.9
Policy rate (eop, %)	9.0	42.5	50.0	28.0	17.0	45.0	24.0	15.0	50.0	40.0	28.0
Primary balance (% GDP)	1.1	-2.7	-2.5	-0.7	-0.5	-2.0	-0.2	0.5	-3.3	-1.5	-1.0
Budget balance (% GDP)	-1.0	-5.2	-5.4	-3.8	-3.3	-4.9	-3.2	-2.5	-6.4	-4.5	-3.8
C/A balance (% GDP)	-5.0	-4.1	-2.0	-1.8	-2.5	-1.8	-1.2	-3.0	-2.8	-2.7	-2.6
USD/TRY (eop)*			36.0	43.0	47.0	34.0	39.0	43.0	39.0	47.0	53.0
10 year yield*			25.0	20.0	15.0	22.0	17.0	12.0	32.0	27.0	22.0

Source: Haver Analytics, Morgan Stanley Research forecasts (E). * Based on our macro strategists' forecasts, see link here.

Fuel prices and inflation in Turkey

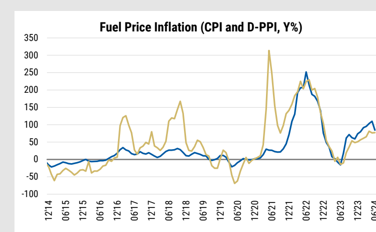
Fuel prices have large spillovers to the CPI through both direct and indirect impacts (CPI weight of fuel is currently 3.7%). Given Turkey's dependency on oil imports, prices of refined petroleum products under domestic PPI move in tandem with international oil prices and the exchange rate, but the pass-through to fuel prices (under the CPI) is around one-third, due mainly to the tax burden on fuel prices (Exhibit 89). Fuel taxation in Turkey has two main parts: a lump-sum special consumption tax per litre and a 20% VAT. According to a report by Turkey's energy regulator (EPDK), taxes make up around 39.84% of petroleum prices and 38.47% of diesel prices (compared to an EU-27 average of 53.84% and 49.01%, respectively) (Exhibit 88).

Exhibit 88: 39-40% of domestic fuel prices are tax



Source: EPDK June Price Report, Morgan Stanley Research.

Exhibit 89: Producer and consumer prices differ due to high weight of taxes on the consumer

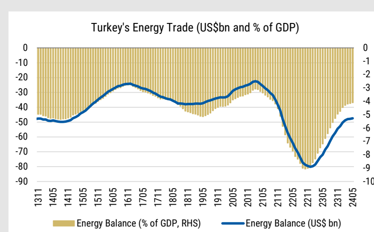


Source: Haver Analytics, Morgan Stanley Research.

While indirect taxes on fuel are an important revenue item for the central government, there have been periods during which the government forewent fuel taxes to help contain inflationary pressures. A case in point is the sliding scale system (applied between May 2018 and December 2021), which aimed to reduce the pass-through from oil prices and FX to fuel prices by lowering (increasing) lump-sum taxes on fuel during periods of increase (decrease) in the prices of imported oil.

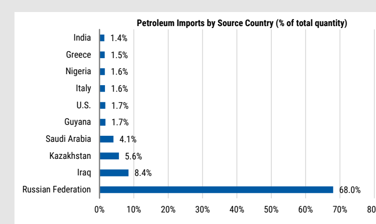
Despite disinflation being the main policy priority of the current economic programme, special consumption taxes on fuel prices have been indexed to past 6-month PPI inflation as of July 2023, to be adjusted twice a year in January and July, with a view to support tax revenues. This came from a need to contain the widening in budget deficit resulting from increased government spending related to earthquake reconstruction and election cycle, and was an important determinant of the rise in inflation last year (see CBT box for a decomposition). The government's new fiscal consolidation measures aim to increase corporate tax collection and decrease the reliance on indirect taxes such as on fuel.

Exhibit 90: Turkey is a net importer of energy (long-term energy deficit/ GDP average at 4.7% of GDP)



Source: Haver Analytics, Morgan Stanley Research.

Exhibit 91: Turkey imports most of its petroleum from Russia, Iraq and Kazakhstan



Source:EPDK Petroleum Bulletin April, Morgan Stanley Research. Note: Data for Jan-April 2024.

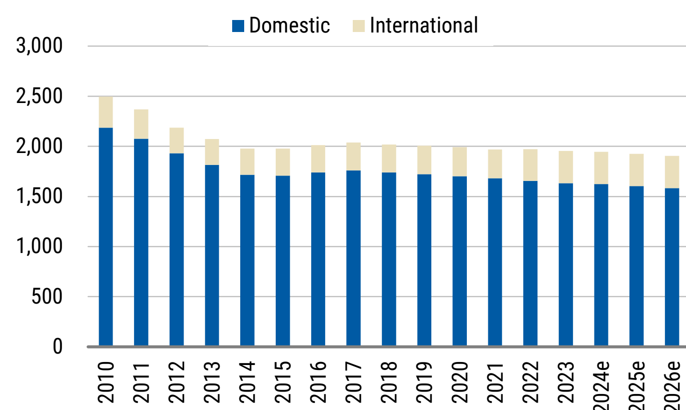
HELLENiQ ENERGY: Positives fully valued

Bottom line: HELLENiQ's investment case is supported by i) a leading presence in the Greek home market, both in refining and on fuel distribution; ii) strong fuel station network in neighbouring countries (323 stations in Cyprus, Montenegro, North Macedonia, Bulgaria and Serbia); and iii) expanding renewables generation capacity (~1GW in 2025 expanding to ~2GW by 2030, with a total pipeline of 4.3GW). We rate the stock Equal-weight as, despite multiples not looking expensive (2025e 5.6x EV/EBITDA, 5.2% dividend yield), we believe the outperformance versus Greek peer Motor Oil (5% YTD) leaves limited scope for upside (8.0% implied in our Dec-25 price target of €8.00) – hence our preference for Motor Oil.

Transformation in place…

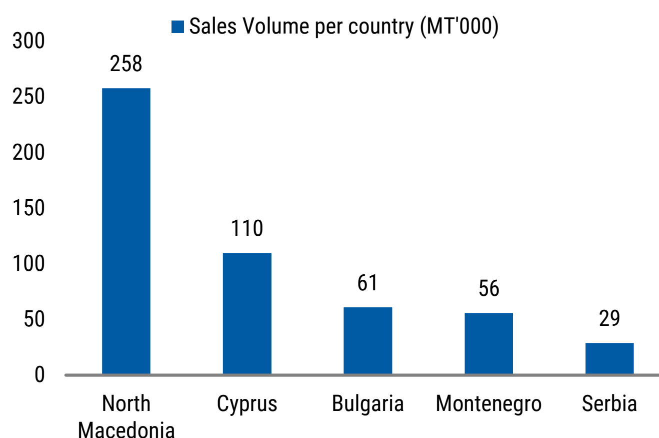
HELLENiQ's strategy continues to converge towards a downstream company, with an expanding footprint into other energy segments. It is investing in increasing polypropylene production capacity from 240ktpa to 300ktpa, benefitting from integration within its existing assets and, as a consequence, from feedstock availability. HELLENiQ also operates leading fuel retail outlets in Greece and neighbouring countries (Bulgaria, Cyprus, Montenegro, North Macedonia and Serbia), with a total of 1,946 stations. Doing so allows the company to sell ~35% of its fuel production throughout its own network.

Exhibit 92: Retail footprint: optimisation of the network in Greece should continue



Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 93: North Macedonia accounts for half of international volumes



Source: Company data, Morgan Stanley Research. Note: FY23 data.

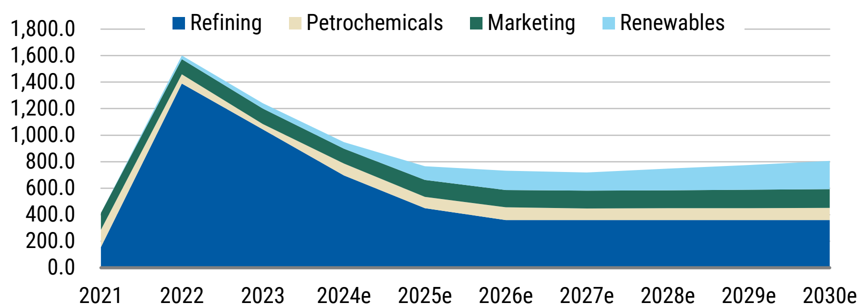
The main expansion driver, however, is renewables. HELLENiQ currently operates 382MW of (mainly solar) projects. Projects under construction / in advanced development point to such capacity expanding to ~1GW by the end of 2025, with the company forecasting installed capacity to reach 2GW by 2030 (we assume 2.0GW). If such growth is achieved, the renewables segment is expected to generated over €200mn in EBITDA per year post 2030 (we model €221.7mn in 2031). Additionally, HELLENiQ's total pipeline of potential

projects amounts to 4.3GW (Exhibit 101) – but most of that capacity is in very early development stages, so we do not include it in our base case. There is also the optionality of HELLENiQ's upstream blocks in offshore Greece – however, such assets are in an even more incipient development stage, with HELLENiQ still to decide whether or not it will proceed with drilling.

…but refining should remain the most relevant business in the next decade

We forecast consolidated EBITDA to reach €849.0mn in 2030, compared to €666.7mn in 2021 (pre the spike in refining margins). That compares with HELLENiQ's target of EBITDA expanding 40-50% in the medium term versus historical mid-cycle levels. But even as the company expands its cash generation sources (i.e., it expects renewables share on consolidated EBITDA to reach ~20% in the medium term from ~5% historically), we expect refining and trading to remain the most relevant segment in the foreseeable future (Exhibit 94), representing roughly 42% of consolidated EBITDA by 2030. As such, together with Tupras and Motor Oil, HELLENiQ is one of the most 'pure plays' on refining and downstream among the companies we cover.

Exhibit 94: Refining/trading to remain the most relevant EBITDA contributor

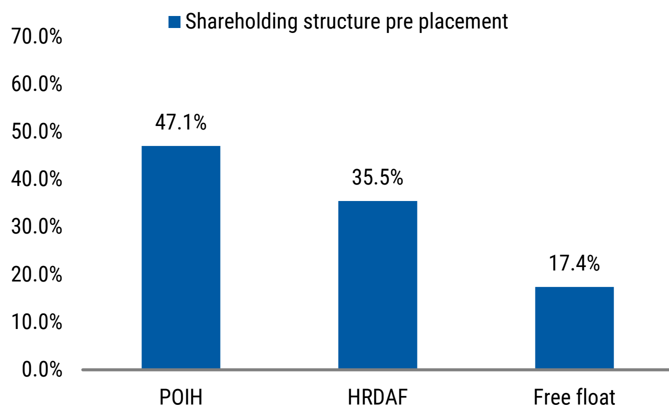


Source: Company data, Morgan Stanley Research estimates (e)

Liquidity matters (and may also explain stock outperformance)

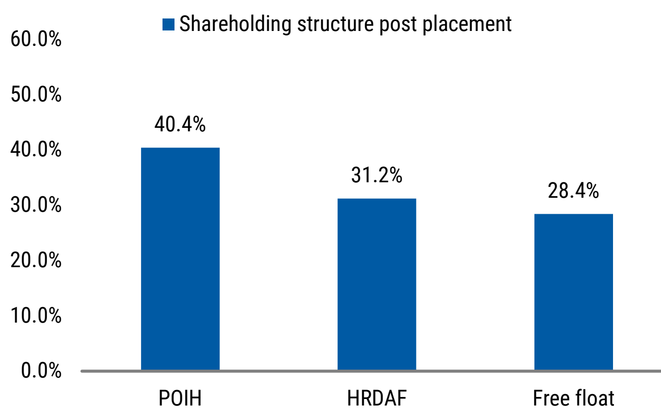
HELLENiQ's free float increased from 17.4% to 28.4% in December 2023, after its two controlling shareholders (POIH and the Greek state, through HRADF) sold 3.6mn shares through a secondary offering. Most of the share came from POIH, with its stake declining from 47.1% to 40.4% (Exhibit 95 and Exhibit 96).

Exhibit 95: Ownership structure pre-secondary offering



Source: Company data, Morgan Stanley Research.

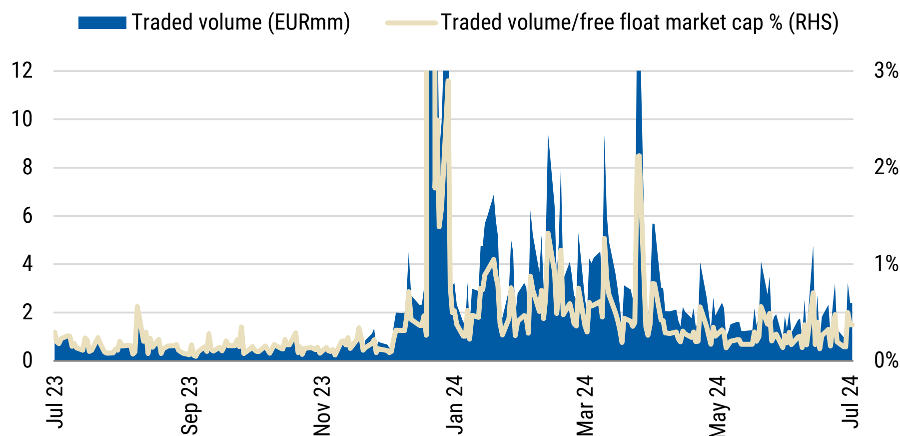
Exhibit 96: Post the offer, free float increased to 28.4% of total shares



Source: Company data, Morgan Stanley Research.

As one might expect, the stock's liquidity has increased post the offer. In the 90 days prior to the offer, HELLENiQ shares were trading an average of €1mn per day. Since then, ADTV has increased to €4mn (Exhibit 97).

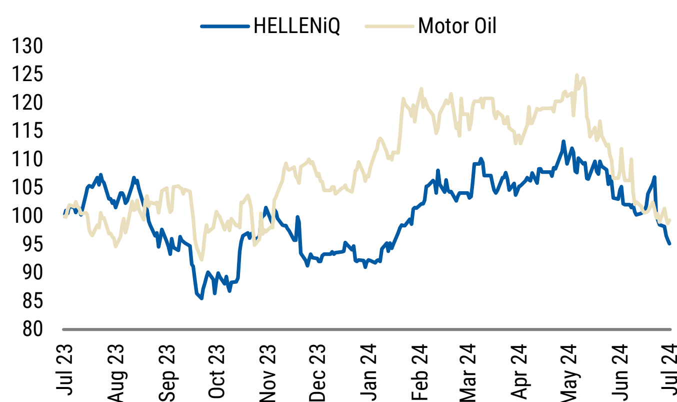
Exhibit 97: Stock liquidity has increased since the secondary offering on 7 December 2023



Source: FactSet, Morgan Stanley Research.

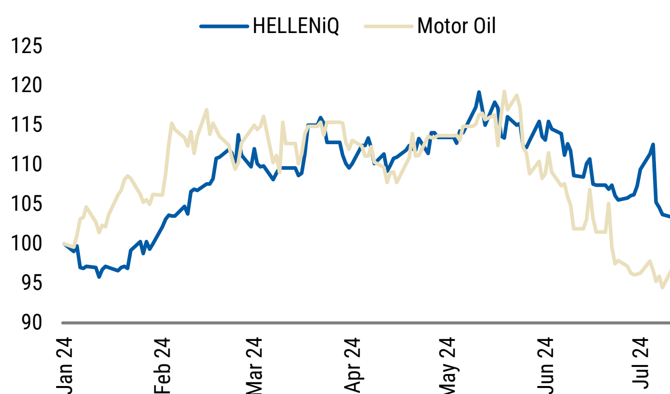
A consequence of the increased liquidity, we believe, is the outperformance of HELLENiQ's shares over Motor Oil, particularly as liquidity was significantly lower than that of its peers (it is still lower, but the gap has narrowed). Whereas in the past year Motor Oil has outperformed HELLENiQ by 4.1%, year-to-date HELLENiQ is outperforming its peer by 5.4%.

Exhibit 98: HELLENiQ has underperformed Motor Oil by ~4% in the past year...



Source: FactSet, Morgan Stanley Research.

Exhibit 99: ...but YTD HELLENiQ is outperforming by 5%. Increased ADTV is one reason, we believe



Source: FactSet, Morgan Stanley Research.

Valuation parameters

- **Refining:** There is no expansion on HELLENiQ's total refining capacity. We assume a sustainable utilisation rate of 94.2% in 2024 and 95.0% from 2025 onwards. We expect indicative margins to decline to $5.4/bbl in 2025 and $4.2/bbl in 2026, and assume blended crude differential of $1.9/bbl.
- **Petrochemicals:** Polypropylene capacity is set to expand to 300ktpa (from 240ktpa) as part of HELLENiQ's capex plans. We assume full capacity in 2026/27. We then assume consolidated PP utilisation rate of 95%, roughly in line with the historical figures. Based on CMA and Platts forecasts for propane and polypropylene, margins should remain under pressure in the coming years, likely bottoming in 2027.
- **Marketing:** We forecast the domestic and international networks separately. On the domestic front, we see the company rationalising its footprint and focusing on the most profitable stations. As such, we forecast the network contracting by about 100 stations until 2030 and average throughput per station expanding by about 0.5x GDP growth. Aviation, on the other hand, should continue to perform strongly (even if decelerating compared to current levels), expanding 12.7% y/y in 2024, 7.0% y/y in 2025 and 5.0% y/y in 2026, benefitting from a strong tourism flow. We model the international network to remain flat at 323 stations, with average throughput per station expanding ~2% p.a and then converging to 1.3%. We do not expect any real expansion in EBITDA/litre margins.
- **Renewables:** In our base case, HELLENiQ's renewables capacity expands in line with management guidance of ~1.1GW by 2025 and 2GW by 2030. We assume long-term power prices of €70/MWh, as we do for Motor Oil.
- **Others:** Consolidated capex should reach €400mn p.a. between 2024 and 2027, €350mn until 2030 and €300mn p.a. thereafter, we estimate. We assume a dividend payout of 45%, implying a yield of 8.1% in 2024 and 5.2% in 2025.

What's not in the numbers?

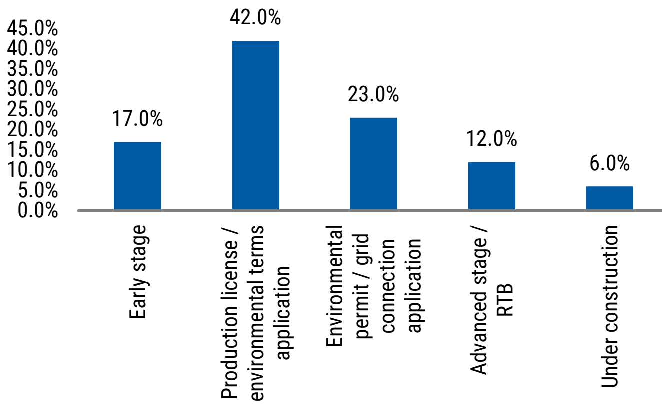
The two main factors we have not included in our estimates are i) potential development of upstream blocks in which HELLENiQ holds stakes and ii) growth in renewables capacity above the 2GW target by 2030. On the first, HELLENiQ holds stakes in 5 offshore blocks in Greece, totalling 54k square metres (Exhibit 100), with two of the blocks being owned in partnership with ExxonMobil (covered by Devin McDermott). HELLENiQ and partners have conducted seismic analysis in all licensed plots. Management has stated that it will decide whether or not to drill exploration wells in 2024-25, which could result in drilling stating in 2025-26. Given the very early stage of this exploration programme, and the many moving parts (whether seismic results will support a drilling campaign; results of the drilling campaign; required capex; expected returns), we believe it is still too early even to add potential contribution of upstream in our bull case.

Exhibit 100: HELLENiQ upstream blocks

Source: Company data

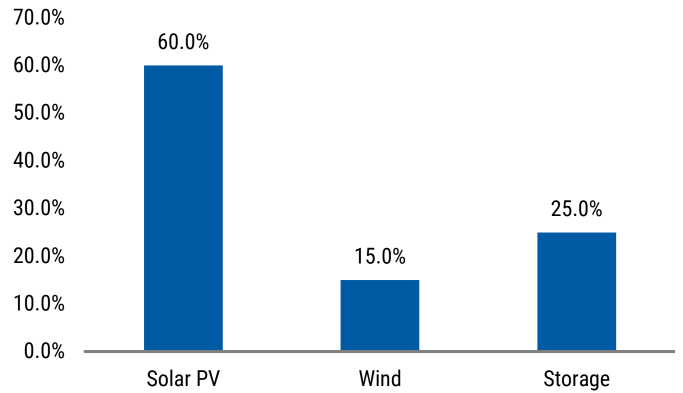
We also do not assume the renewables development above the company's guidance of 2GW. One might argue that this is too conservative, as HELLENiQ currently has a pipeline of 4.3GW. However, owing to the very early development stage of this pipeline (only 6% being constructed, with another 12% in advanced stage), we believe that is the most appropriate approach. In our base case for HELLENiQ, we assume the full pipeline is developed in the next 10 years.

Exhibit 101: Most of HELLENiQ's renewables pipeline is still in early stages of development...



Source: Company data, Morgan Stanley Research.

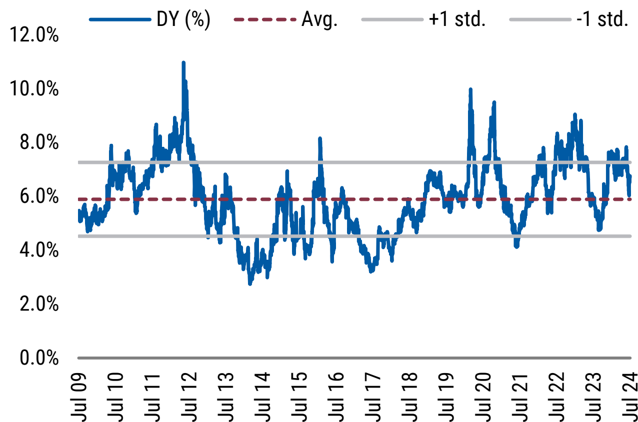
Exhibit 102: ...with solar PV expected to remain the most relevant technology if (when) this pipeline is developed



Source: Company data, Morgan Stanley Research.

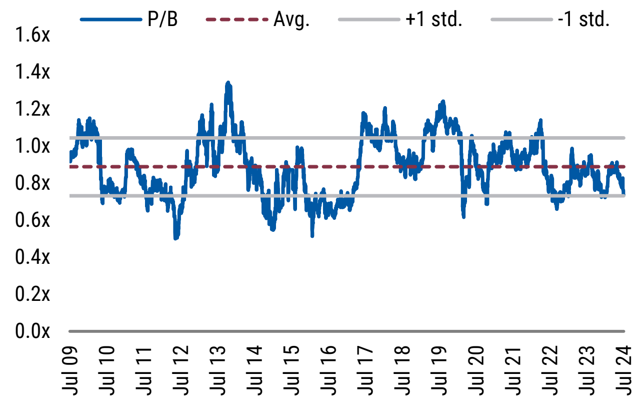
Trading multiples

Exhibit 103: HELLENiQ: forward EV/EBITDA



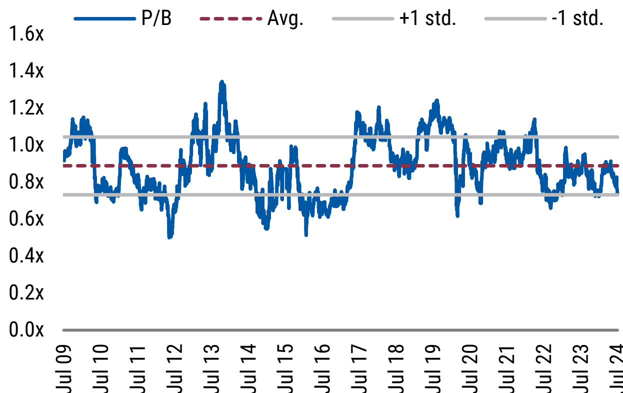
Source: FactSet, Morgan Stanley Research.

Exhibit 104: HELLENiQ: forward P/E



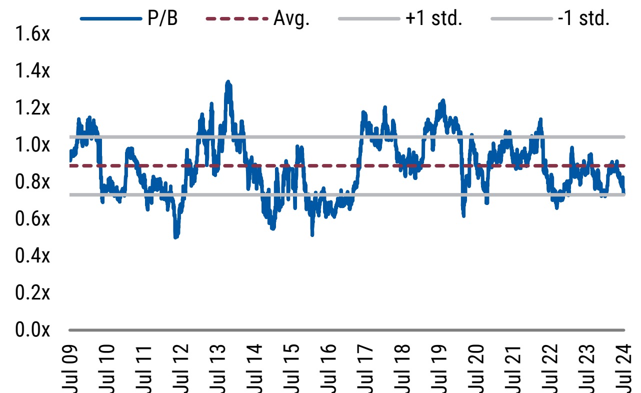
Source: FactSet, Morgan Stanley Research.

Exhibit 105: HELLENiQ: forward dividend yield (%)



Source: FactSet, Morgan Stanley Research.

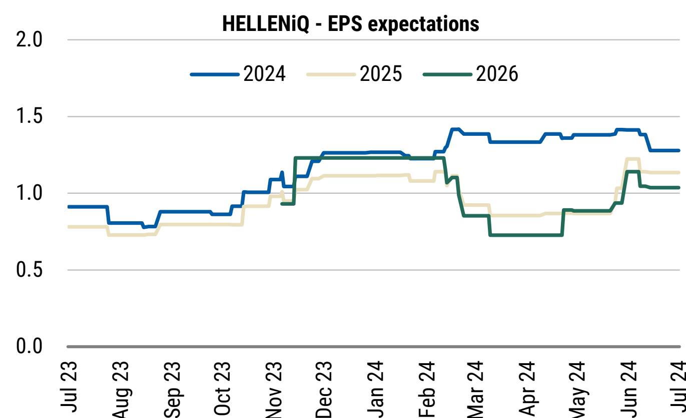
Exhibit 106: HELLENiQ: price-to-book ratio



Source: FactSet, Morgan Stanley Research.

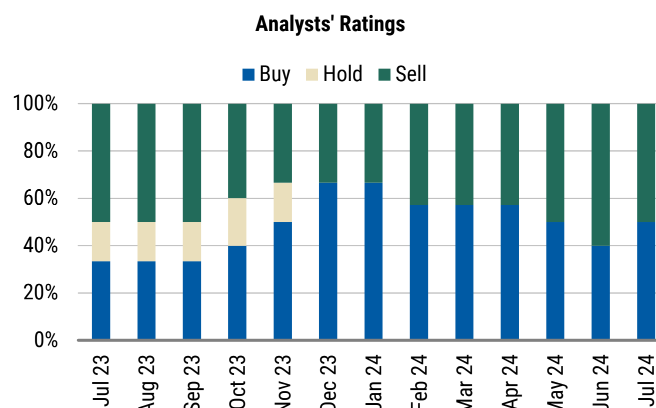
Consensus overview

Exhibit 107: EPS outlook



Source: FactSet, Morgan Stanley Research.

Exhibit 108: Rating distribution



Source: FactSet, Morgan Stanley Research.

Financial statements

Exhibit 109: Operational outlook

	2021	2022	2023	2024e	2025e	2026e
Refining						
Net Production (MT)	14,352	12,954	14,635	18,634	14,709	14,709
Net Sales (MT)	14,775	14,273	15,446	15,592	15,445	15,445
Refining margin	4.3	18.4	17.1	11.7	8.9	7.0
EBITDA	156.0	1,389.0	1,043.0	696.4	448.8	360.5
Marketing						
Number of stations	1,682	1,655	1,631	1,623	1,603	1,583
Total volumes	3,367	3,958	3,867	3,934	3,974	4,006
EBITDA	127	114	117	113	128	131
Renewables						
Production (GWh)	56.0	472.0	658.0	761.8	1,601.5	2,227.8
EBITDA	0.1	27.7	41.0	48.3	103.1	146.3

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 110: Income statement

	2021	2022	2023	2024e	2025e	2026e
Net revenues	9,222.2	14,508.1	12,803.1	12,886.3	11,989.0	11,509.2
Direct cost	-8,079.9	-12,258.7	-11,133.8	-11,486.6	-10,853.9	-10,424.1
Gross profit	**1,142.3**	**2,249.4**	**1,669.3**	**1,399.8**	**1,135.1**	**1,085.1**
SG&A	-475.6	-516.5	-592.0	-401.8	-327.9	-313.5
EBITDA	**666.7**	**1,732.9**	**1,077.3**	**998.0**	**807.2**	**771.7**
Depreciation and amortization	-266.4	-320.2	-341.0	-347.3	-351.2	-358.8
EBIT	**400.3**	**1,412.6**	**736.2**	**650.7**	**456.0**	**412.9**
Other income	0.0	0.0	0.0	0.0	0.0	0.0
Financial results	-89.9	-111.7	-136.4	-111.6	-113.4	-117.3
Results in associates	96.66	120.042	4.272	-8.868747961	-6.214514146	-5.626957365
EBT	**407.1**	**1,421.0**	**604.1**	**530.3**	**336.3**	**289.9**
Income tax	-65.9	-526.0	-123.5	-302.7	-74.0	-63.8
Non-controlling interest	-3.7	-5.5	-2.9	-0.3	-1.3	-1.1
Net income	**337.4**	**889.5**	**477.7**	**227.3**	**261.0**	**225.0**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 111: Balance sheet

	2021	2022	2023	2024e	2025e	2026e
ST assets	**3,235.0**	**3,612.4**	**3,340.1**	**3,048.4**	**2,707.7**	**2,710.1**
Cash and equivalents	1,052.6	900.2	919.5	437.1	242.3	339.9
ST investments	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	694.6	866.1	881.0	848.6	791.6	760.0
Inventories	1,379.1	1,826.2	1,472.5	1,693.8	1,604.9	1,541.4
Other ST assets	108.6	19.9	67.1	68.9	68.9	68.9
LT assets	**4,405.7**	**4,949.6**	**4,768.2**	**4,974.3**	**5,123.1**	**5,164.3**
Investments in associates / JVs	313.7	402.1	404.7	401.7	401.7	401.7
PP&E	3,484.8	3,639.0	3,643.0	3,841.3	4,053.2	4,149.2
Right-of-use assets	228.4	233.1	232.2	202.5	167.1	137.8
Intangibles	228.7	518.1	333.7	368.7	341.0	315.5
Other LT assets	150.1	157.2	154.6	160.1	160.1	160.1
Assets held for sale	191.6	0.0	0.0	0.0	0.0	0.0
TOTAL ASSETS	**7,832.2**	**8,562.0**	**8,108.3**	**8,022.7**	**7,830.8**	**7,874.4**
ST liabilities	**3,658.5**	**3,787.0**	**3,180.5**	**3,257.6**	**2,986.7**	**2,921.6**
ST Debt	1,474.5	1,409.3	1,158.5	1,075.5	1,075.5	1,075.5
ST Lease liabilities	29.5	30.4	32.2	30.8	30.8	30.8
Accounts payable	2,146.6	1,836.0	1,598.7	1,733.0	1,642.0	1,577.0
Other ST liabilities	8.0	511.4	391.0	418.4	238.4	238.4
LT liabilities	**2,044.7**	**2,047.6**	**1,981.4**	**1,762.3**	**1,762.3**	**1,762.3**
LT Debt	1,516.5	1,433.0	1,388.0	1,153.8	1,153.8	1,153.8
LT Lease obligations	172.3	177.7	182.3	183.4	183.4	183.4
Employee benefits	210.7	175.5	176.3	177.3	177.3	177.3
Other LT liabilities	145.1	261.3	234.8	247.8	247.8	247.8
Equity	**2,064.7**	**2,659.7**	**2,879.5**	**2,935.5**	**3,013.3**	**3,120.8**
Minorities	**64.4**	**67.7**	**66.9**	**67.2**	**68.5**	**69.7**
TOTAL LIABILITIES + EQUITY	**7,832.2**	**8,562.0**	**8,108.3**	**8,022.7**	**7,830.8**	**7,874.4**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 112: Cash flow statement

	2021	2022	2023	2024e	2025e	2026e
Net income	337.4	889.5	477.7	227.3	261.0	225.0
D&A	266.4	320.2	341.0	347.3	351.2	358.8
Minorities	3.7	5.5	2.9	0.3	1.3	1.1
Change in WK	-247.5	-929.2	101.6	-54.6	54.9	30.2
Other ST assets/liabilities	-60.6	592.1	-167.5	25.5	-180.0	0.0
CFO	**299.5**	**878.1**	**755.7**	**545.8**	**488.4**	**615.1**
Short-term investments	0.0	0.0	0.0	0.0	0.0	0.0
Investments in associates and JVs	102.8	-88.4	-2.6	3.1	0.0	0.0
Capex	-400.4	-512.2	-291.0	-500.0	-500.0	-400.0
Other non-current assets	68.7	73.8	-23.0	8.5	0.0	0.0
CFI	**-228.9**	**-526.7**	**-316.7**	**-488.5**	**-500.0**	**-400.0**
Change in debt	115.8	-142.3	-289.4	-317.6	0.0	0.0
Acquisition of non-controlling stakes	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-30.6	-244.5	-229.2	-275.1	-183.3	-117.5
Equity issuance	0.0	0.0	0.0	0.0	0.0	0.0
Share buyback	0.0	0.0	0.0	0.0	0.0	0.0
CFF	**85.2**	**-386.9**	**-518.6**	**-592.6**	**-183.3**	**-117.5**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 113: Key metrics – returns profile

	2021	2022	2023	2024e	2025e	2026e
ROA	4.6%	10.9%	5.7%	2.8%	5.3%	4.8%
ROE	17.5%	37.7%	17.2%	7.8%	8.8%	7.3%
ROIC	8.5%	19.7%	12.3%	5.8%	7.0%	6.2%
Net debt / EBITDA	3.2x	1.2x	1.7x	2.0x	2.7x	2.7x

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 114: Key metrics – trading multiples

	2021	2022	2023	2024e	2025e	2026e
P/E	6.7x	2.5x	4.7x	10.0x	8.7x	10.1x
EV/EBITDA	6.7x	2.6x	3.9x	4.3x	5.6x	5.8x
P/B	1.1x	0.9x	0.8x	0.8x	0.8x	0.7x
Dividend yield	0.0%	15.5%	12.1%	8.1%	5.2%	4.5%
FCF yield	-3.1%	-0.9%	32.0%	13.3%	3.6%	13.7%

Source: Company data, Morgan Stanley Research estimates (e)

Board of directors / management team

Exhibit 115: Board of Directors

Ioannis Papathanassiou	Chair - non-executive member
Andreas Shiamishis	CEO - Executive member
Georgios Alexopoulos	Deputy CEO - Executive member
Iordanis Aivazis	Senior Indipendent Director - Indipendent non-executive member
Theodoros-Achilleas Vardas	Non-executive member
Nikolaos Vrettos	Indipendent non-executive member
Anastasia (Natasha) Martseki	Non-executive member
Alexandros Mataxas	Non-executive member
Lorraine Scaramanga	Indipendent non-executive member
Panagiotis (Takis) Tridimas	Indipendent non-executive member
Alkiviades Psarras	Non-executive member

Source: Company data, Morgan Stanley Research.

Exhibit 116: Management team

Ioannis Apsouris	Group Legal Services General Manager
Georgios Dimogiorgas	Refineries General Manager
Aggelos Kokotos	Group Internal Audit General Manager
Leonidas Kovaios	Group IT & Digital Transormation General Manager
Kostantinos Panas	Oil Products Supply & Trading General Manager
Alexandros Tzadimas	Group Human Resources & Administrative Services General Manager
Vasileios Tsaitas	Group CFO

Source: Company data, Morgan Stanley Research.

Ownership structure

Exhibit 117: Ownership structure

	Stake (%)
POIH	40.4%
HRDAF (Greek State)	31.2%
Free float	28.4%

Source: Company data, Morgan Stanley Research. Note: Data as at July 2024.

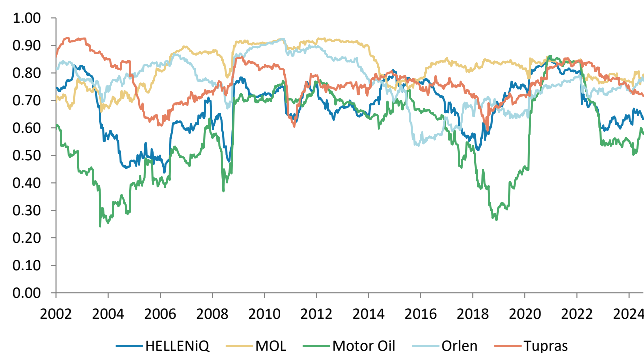
MOL: The macro play

Bottom line: MOL's free cash flow generation should improve post completion of the polyols plant in 2025 (total capex of $1.5bn), supporting strong FCF yields (8.8% in 2025e, 8.5% in 2026e). Equally, trading multiples for the shares remain at multi-year lows. MOL, however, has one of the highest correlations with the local equity indices among the companies we cover, given its weight (~25%). That, we believe, makes it more of a macro play in Hungary. Lastly, uncertainty related to windfall taxes in the country makes us more cautious on the stock, despite the 17% implied upside to our Dec-25 price target of HUF3,357/share. Thus, we rate MOL Equal-weight.

The highest macro exposed play

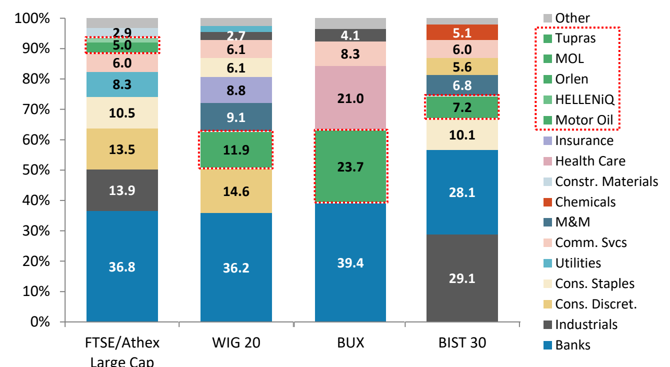
Accounting for about a quarter of the Hungarian equities index (BUX), it is not surprising that MOL has one of the highest correlations with the index performance compared to the other companies. Moreover, MOL has a high correlation to OTP, which accounts for ~40% of BUX and ~60% of MSCI Hungary. That, we believe, leads investors to mainly consider the macro factors within the country when analysing MOL's investment case (in some cases, to the detriment of refining fundamentals). Thus, it is unsurprising that MOL's trading multiples are all at multi-year lows (see Exhibit 124 , Exhibit 125 and Exhibit 127) while the implied cost of equity in Hungary is above its historical average (Exhibit 121).

Exhibit 118: MOL has one of the highest correlations with the local equities benchmark...



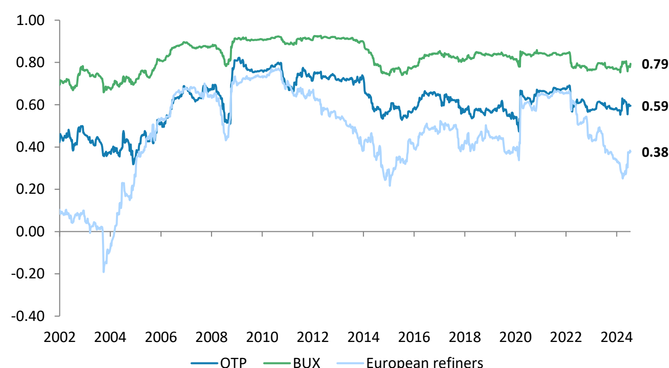
Note: Local equities benchmarks are FTSE/Athex Large Cap, WIG 20, BUX and BIST 30; Source: Datastream, Morgan Stanley Research

Exhibit 119: ...in part owing to its weight in the index far outpacing that of other refineries in the region...



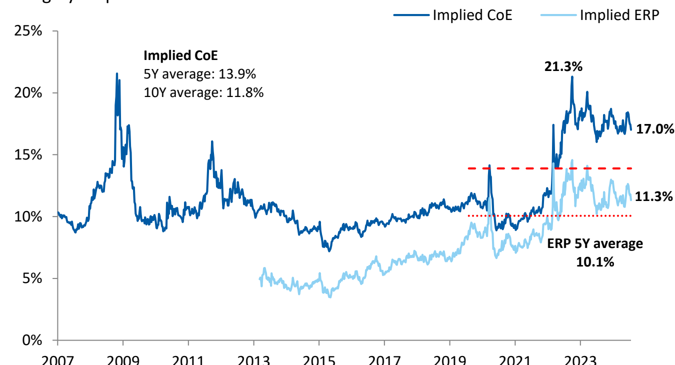
Source: Datastream, Morgan Stanley Research

Exhibit 120: ...but also due to its high correlation to OTP (~40% of BUX index and ~60% of MSCI Hungary)



Source: Datastream, Morgan Stanley Research

Exhibit 121: Hungary's implied CoE remains high at 17.0%



Note: Implied ERP = Implied CoE minus Risk-free Rate; Risk-free Rate = UST 10Y yield adjusted by country risk, measured by OAS spread; Source: Bloomberg, Morgan Stanley Research

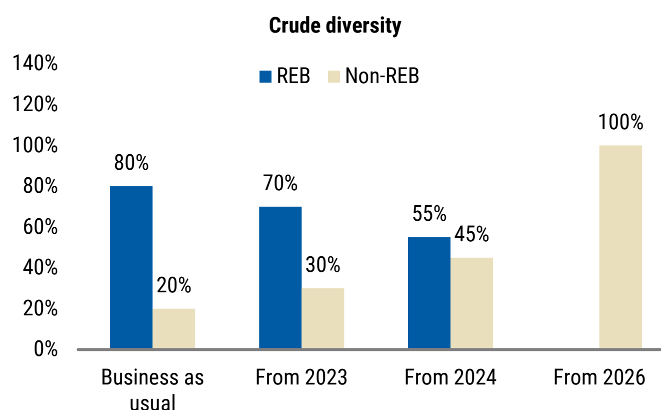
One factor that may raise concerns on the macro front is taxation of energy companies. Hungary was one of the countries to impose windfall taxes on energy companies (among other sectors) in recent years. Then, in July 2024, the government announced that energy would be among the sectors affected by a new round of taxes, suggesting a tighter range for Urals-Brent spread (previously, anything above the spread of $7.5/bbl was taxed at a 95% rate; it has now declined to $5/bbl). There is still uncertainty on the recently announced taxes (timing, rates, etc), which we believe adds a layer of uncertainty to the investment thesis. To be conservative, our base case does not assume the latest taxation expires.

Additionally, the exposure to Russian crude may make some investors reluctant on the story. Two of MOL's refineries – Danube (Hungary) and Bratislava (Slovakia) – are landlocked, developed to process oil from Russia (Exhibit 122). Even before the Russian/ Ukraine conflict started, they could process up to 35% of crude from other sources, by using the Adriatic pipeline. Since then, MOL has increased the share of non-Russian oil (Exhibit 123), but it is still the source of most of its crude. The company estimates the required investments to fully diversify away from Russian crude at $500-700mn, but up to this moment it still not yet approved the projects. However, as recently as last week, the topic has regained prominence: a number of news outlets (e.g. *Politico*, 20 July) have reported that, in the wake of Ukrainian measures regarding Russian oil being transported through pipelines in the country, Hungary is facing difficulties on receiving crude from Lukoil.

Exhibit 122: MOL refining footprint

Source: Company data.

Exhibit 123: MOL has increased the share of non-Russian oil and believes it may be able to fully reduce its exposure by 2026



Source: Company data, Morgan Stanley Research

Macro > micro?

Such macro factors outweigh the positive micro developments on MOL. Post completion of the polyols plant (in 2025), which requires capex of $1.5bn, MOL's capex should enter into a steady state. Apart from the potential investments to cut off its dependence on Russian crude, there are no specific projects that, of themselves, may demand elevated capex. Management expects total capex of $11.6bn over 2025-30 ($5.3bn in downstream, $2.0bn in E&P), with $6.5bn aimed at maintenance and sustainability of current operations. That, in our forecasts, implies MOL having one of the highest free cash flow yields among the CEE refiners, at 7.0% in 2025 and 8.8% in 2026.

Valuation parameters

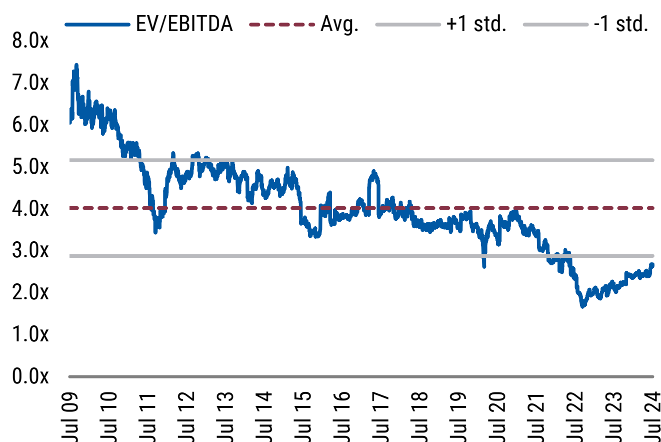
- **Upstream:** We model depletion of 3% p.a. starting in 2027. As for realised prices, we forecast a $5/bbl differential to Brent prices for oil production and the differential for gas over the benchmark to remain at current levels. Given the decline in production, we do not expect opex per barrel to improve from current levels ($6/bbl).
- **Downstream:** We forecast sustainable utilisation rate at 90% for MOL's refineries; we see margin normalisation continuing in 2024 ($7.6/bbl), 2025 ($4.2/bbl) and 2026 ($3.5/bbl). We assume petrochemicals margins remain under pressure, based on CMA and Platts price forecasts. The main change on MOL's petrochemical business is the conclusion of the polyols plant, which we assume fully contributes to 2026 performance.
- **Consumer services:** We expect consolidated volumes to increase at a 3% CAGR in 2023-30. The number of convenience stores reaches 1.8k in 2030, from 1.3k in 2023, adding another layer to the growth in consumer services. That should boost margins in the sector: we see the EBITDA margin expanding 94bps on 2023-30.
- **Others:** Capex should reach close to $2bn p.a. between 2025 and 2030, we estimate. As for dividends, we assume that the base dividend (HUF 250/share) increases by 5% p.a.

What's not in the numbers?

We have not included the waste management segment in our base case forecasts. MOL does operate the concession within the sector (contract started in July 2023); however, this new operation is very incipient (even within the sector in Hungary, as MOL is the first operator), with lots of moving parts. The company plans to invest ~$0.9bn in this business over 2025-30, but there is little visibility on revenue ramp-up and returns. Thus, at the moment, we see waste management more as an upside risk for the investment case. Another factor not in our base is a normalisation of taxation in the sector. Given the recent announcements on taxes for energy companies remaining in 2024, we take a prudent approach and assume taxes remain at current levels.

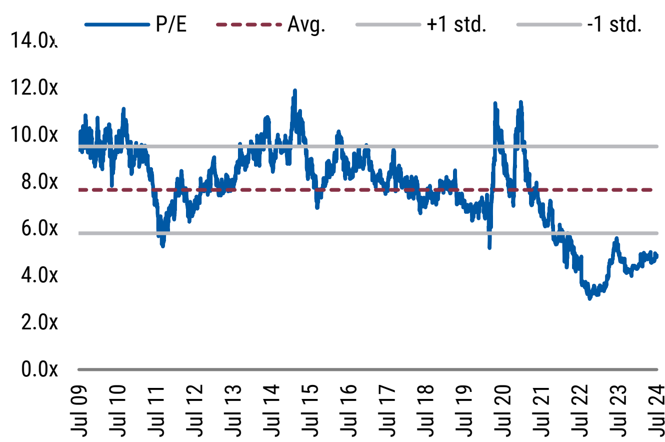
Trading multiples

Exhibit 124: MOL: forward EV/EBITDA



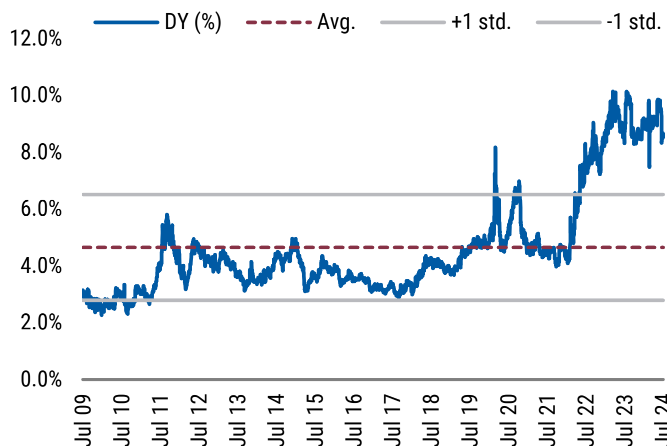
Source: FactSet, Morgan Stanley Research.

Exhibit 125: MOL: forward P/E



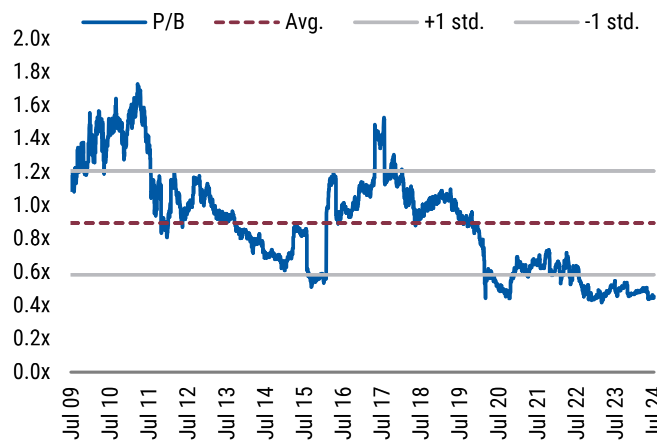
Source: FactSet, Morgan Stanley Research.

Exhibit 126: MOL: forward dividend yield (%)



Source: FactSet, Morgan Stanley Research.

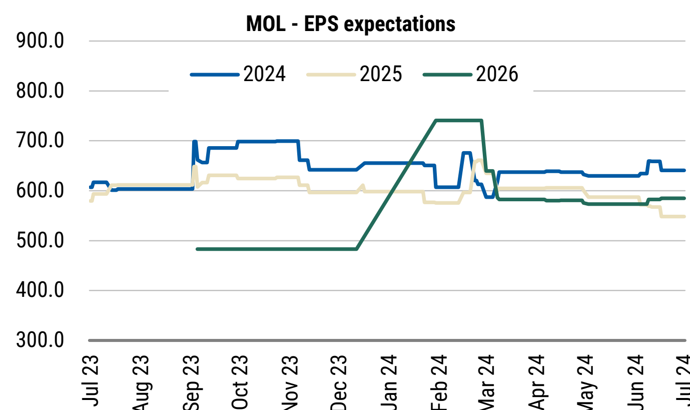
Exhibit 127: MOL: price-to-book ratio



Source: FactSet, Morgan Stanley Research.

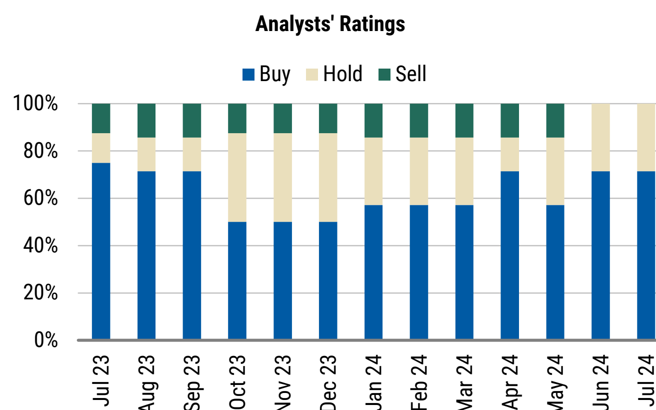
Consensus overview

Exhibit 128: EPS outlook



Source: FactSet, Morgan Stanley Research.

Exhibit 129: Ratings distribution



Source: FactSet, Morgan Stanley Research.

Financial statements

Exhibit 130: Operational outlook

	2022	2023	2024e	2025e	2026e	2027e
Upstream						
Production (kboed)	82.8	80.3	80.2	79.0	76.0	72.6
EBITDA	2,212.1	1,026.4	1,001.9	914.4	803.7	771.9
Downstream						
Refining						
Production (KT)	14,911.0	15,209.3	13,349.3	15,433.4	15,433.4	15,391.3
Sales (KT)	17,693.0	17,759.5	16,891.7	19,528.8	19,528.8	19,475.4
Refining margin	8.4	9.0	7.6	4.2	3.5	3.5
EBITDA	2,127.1	1,375.3	1,278.6	1,042.7	1,174.4	1,180.0
Consumer services						
Number of stations	2,391.0	2,421.0	2,347.0	2,347.0	2,347.0	2,347.0
Volumes (MTk)	5,597.0	6,451.0	6,666.0	6,880.5	7,073.2	7,242.9
EBITDA	320.1	694.5	687.4	678.8	709.7	801.4

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 131: Income statement

	2022	2023	2024e	2025e	2026e	2027e
Net revenues	26,444.4	25,380.5	24,027.0	23,219.8	23,104.4	24,389.3
Direct cost	-18,675.1	-17,804.4	-17,578.6	-17,463.7	-17,237.3	-18,384.1
Gross profit	**7,769.3**	**7,576.0**	**6,448.4**	**5,756.2**	**5,867.1**	**6,005.2**
SG&A	-3,168.8	-4,340.4	-3,426.9	-3,059.0	-3,118.0	-3,191.4
EBITDA	**4,600.5**	**3,235.6**	**3,021.5**	**2,697.2**	**2,749.1**	**2,813.9**
Depreciation and amortization	-1,262.9	-1,337.4	-1,148.9	-1,181.3	-1,258.2	-1,327.4
EBIT	**3,337.7**	**1,898.2**	**1,872.7**	**1,515.9**	**1,491.0**	**1,486.5**
Other income	0.0	0.0	0.0	0.0	0.0	0.0
Financial results	-206.0	36.4	-136.1	-69.3	69.0	78.3
Results in associates	-77.0	2.4	21.5	17.4	17.1	17.0
EBT	**3,054.6**	**1,937.0**	**1,758.0**	**1,464.0**	**1,577.1**	**1,581.9**
Income tax	-1,223.4	-345.0	-447.2	-366.0	-347.0	-348.0
Non-controlling interest	-169.4	-106.7	-65.4	-54.9	-61.5	-61.7
Discontinued operations	607.5	-0.9	1.9	0.0	0.0	0.0
Net income	**2,269.3**	**1,484.3**	**1,247.3**	**1,043.1**	**1,168.6**	**1,172.2**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 132: Balance sheet

	2022	2023	2024e	2025e	2026e	2027e
ST assets	**7,616.1**	**7,044.2**	**6,999.4**	**7,393.3**	**7,885.0**	**8,644.6**
Cash and equivalents	1,584.4	1,192.1	972.4	1,463.9	2,001.4	2,445.5
ST investments	19.4	10.9	13.0	13.0	13.0	13.0
Accounts receivable	2,479.5	2,768.4	2,848.4	2,760.3	2,746.6	2,899.3
Inventories	2,654.0	2,397.5	2,487.2	2,477.7	2,445.6	2,608.3
Other ST assets	878.7	675.5	678.4	678.4	678.4	678.4
LT assets	**13,591.6**	**15,190.8**	**15,439.1**	**16,207.8**	**16,899.7**	**17,522.3**
Investments in associates / JVs	507.9	589.4	590.0	590.0	590.0	590.0
PP&E	10,162.6	11,539.7	11,813.0	12,581.7	13,273.5	13,896.2
Intangibles	1,470.9	1,517.1	1,496.8	1,496.8	1,496.8	1,496.8
Other LT assets	1,450.2	1,544.7	1,539.4	1,539.4	1,539.4	1,539.4
Assets held for sale	0.1	0.0	0.0	0.0	0.0	0.0
TOTAL ASSETS	**21,207.9**	**22,235.1**	**22,438.6**	**23,601.2**	**24,784.7**	**26,166.9**
ST liabilities	**6,739.6**	**5,319.6**	**5,337.0**	**5,342.6**	**5,307.7**	**5,467.7**
ST Debt	1,247.6	535.2	617.1	632.2	629.4	626.7
ST Lease liabilities	5.8	0.0	0.0	0.0	0.0	0.0
Accounts payable	2,666.2	2,776.7	2,486.9	2,477.4	2,445.3	2,608.0
Other ST liabilities	2,820.0	2,007.7	2,233.0	2,233.0	2,233.0	2,233.0
LT liabilities	**3,787.6**	**4,799.0**	**4,558.8**	**4,618.5**	**4,607.4**	**4,596.6**
LT Debt	1,731.3	2,635.9	2,434.6	2,494.3	2,483.3	2,472.4
LT Lease obligations	0.0	0.0	0.0	0.0	0.0	0.0
Employee benefits	0.0	0.0	0.0	0.0	0.0	0.0
Other LT liabilities	2,056.3	2,163.1	2,124.2	2,124.2	2,124.2	2,124.2
Equity	**9,671.4**	**11,075.5**	**11,459.8**	**12,502.2**	**13,670.1**	**14,841.5**
Minorities	**1,009.2**	**1,041.1**	**1,083.0**	**1,137.9**	**1,199.4**	**1,261.1**
TOTAL LIABILITIES + EQUITY	**21,207.9**	**22,235.1**	**22,438.6**	**23,601.2**	**24,784.7**	**26,166.9**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 133: Cash flow statement

	2022	2023	2024e	2025e	2026e	2027e
Net income	2,269.3	1,484.3	1,247.3	1,043.1	1,168.6	1,172.2
D&A	1,262.9	1,337.4	1,148.9	1,181.3	1,258.2	1,327.4
Minorities	169.4	106.7	65.4	54.9	61.5	61.7
Change in WK	-598.9	78.2	-459.6	88.1	13.7	-152.8
Other ST assets/liabilities	497.4	-609.1	222.3	0.0	0.0	0.0
CFO	**3,600.1**	**2,397.6**	**2,224.3**	**2,367.4**	**2,502.0**	**2,408.4**
Short-term investments	-16.8	8.6	-2.1	0.0	0.0	0.0
Investments in associates and JVs	184.2	-81.5	-0.7	0.0	0.0	0.0
Capex	-2,011.3	-1,766.7	-1,750.0	-1,950.0	-1,950.0	-1,950.0
Other non-current assets	-734.1	12.2	-33.5	0.0	0.0	0.0
CFI	**-2,578.1**	**-1,827.4**	**-1,786.3**	**-1,950.0**	**-1,950.0**	**-1,950.0**
Change in debt	-256.1	186.4	-87.5	0.0	0.0	0.0
Acquisition of non-controlling stakes	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-482.0	-669.0	-497.8	-0.7	-0.7	-0.7
Equity issuance	0.0	0.0	0.0	0.0	0.0	0.0
Share buyback	0.0	0.0	0.0	0.0	0.0	0.0
CFF	**-738.1**	**-482.6**	**-585.3**	**-0.7**	**-0.7**	**-0.7**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 134: Key metrics – returns profile

	2022	2023	2024e	2025e	2026e	2027e
ROA	11.0%	6.8%	5.6%	4.5%	4.8%	4.6%
ROE	25.0%	14.3%	11.1%	8.7%	8.9%	8.2%
ROIC	18.5%	12.9%	10.5%	8.2%	8.0%	7.7%
Net debt / EBITDA	0.3x	0.6x	0.7x	0.6x	0.4x	0.2x

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 135: Key metrics – trading multiples

	2022	2023	2024e	2025e	2026e	2027e
P/E	2.6x	3.8x	4.6x	5.5x	4.9x	4.9x
EV/EBITDA	1.8x	2.7x	2.9x	3.2x	2.9x	2.7x
P/B	0.6x	0.5x	0.5x	0.5x	0.4x	0.4x
Dividend yield	11.7%	9.4%	8.7%	9.1%	9.6%	10.1%
FCF yield	21.0%	19.8%	7.0%	8.8%	8.5%	6.7%

Source: Company data, Morgan Stanley Research estimates (e)

Board of directors / management team

Exhibit 136: Board of directors

Zslot Hernadi	Chair
Dr Sandor Csanyi	Director
Talal Al Awfi	Director
Dr Gyorgy Bacsa	Director
Zsigmond Jarai	Director
Prof. Janos Martonyi	Director
Jozsef Molnar	Director
Dr. Laszlo Parragh	Director
Dr. Anthony Radev	Director
Dr. Martin Roman	Director
Dr Oszkar Vilagi	Director

Source: Company data, Morgan Stanley Research.

Exhibit 137: Management team

Mr. Jozsef Molnar	Group CEO
Dr. Gyorgy Bacsa	Hungary COO
Mrs. Lana Faust Krizan	Group HR Senior Vice President
Peter Labancz	Vice president for Industrial and Corporate Services
Zsombor Marton	E&P Executive Vice President
Mr. Peter Ratatics	Group Consumer Services Vice President
Zsuzsanna Ortutay	President of Management Board of INA
Mr. Marek Senkovic	CEO & Head of Downstream of SLOVNAFT
Mr. Jozsef Simola	Group CFO
Mr. Gabriel Szabo	Group Downstream Executive Vice President

Source: Company data, Morgan Stanley Research

Ownership structure

Exhibit 138: Ownership structure

Shareholder	Stake %
MOL New Europe Foundation	10.49%
Maecenas Universitatis Corvini Foundation	10.00%
Mathias Corvinus Collegium Foundation	10.00%
MOL Plc SESOP Organizations	7.95%
OTP Bank Plc	4.89%
ING Bank NV	3.77%
Unicredit Bank AG	3.75%
Treasury shares	3.64%
Free float	45.51%

Source: Company data, Morgan Stanley Research. Note: Data as at July 2024.

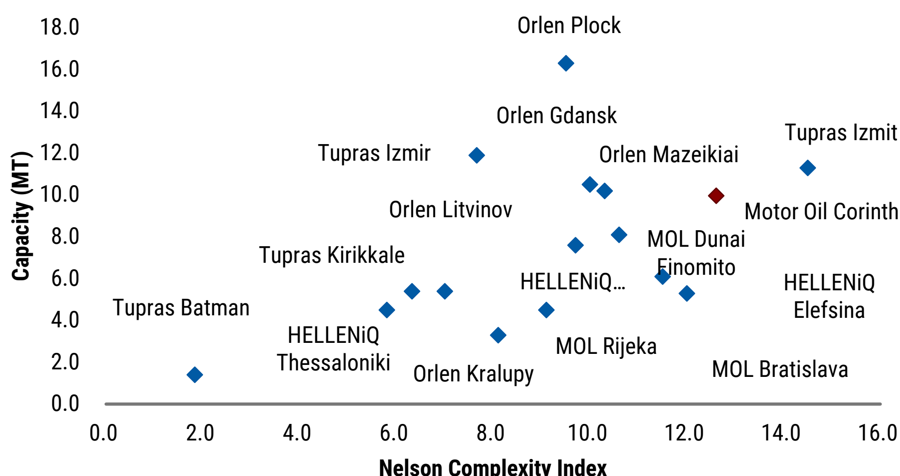
Motor Oil: The quality play

Bottom line: We view Motor Oil's exposure to refining – among the highest among the companies we cover – as a positive factor. Refining margins are normalising, but we see them returning to historical levels only by 2026. The company is expanding investments in renewables, aiming to more than double its installed capacity by 2GW. However, we see management remaining conservative, with capital allocation both on legacy assets (fossil fuel investments requiring a payback of <5 years) and on renewables (benefitting from project finance). Against this backdrop, we believe dividend distributions should not be impacted, with Motor Oil offering a dividend yield of 7.3% in 2025e and 5.1% in 2026e. With the stock trading at 4.0x 2024e and 4.6x 2025e EV/EBITDA, and 28% implied upside to our Dec-25 price target of €29, we rate the stock Overweight.

One asset, the main driver

Motor Oil's investment case has one big differential versus the other four companies: it operates a single asset – the Corinth refinery. With a Nelson Complexity Index of 12.61 (the second-largest among all the refineries we cover), the ~200kbpd asset accounts for 35% of Greece's refining capacity, and it should continue to drive most of Motor Oil's profits. That, we believe, reduces operational complexities compared with other companies operating multiple assets, in multiple locations (sometimes, different countries) and different configurations. Nonetheless, we acknowledge that operating a single asset exposes Motor Oil to risks not faced by the other companies – for instance, outages, unplanned maintenance or operational issues at the plant will likely impact the company in a much more relevant way than would be the case for players with a diversified asset footprint.

Exhibit 139: Motor Oil's refinery has the second-highest Nelson Complexity Index among the names we cover



Source: Company data, Morgan Stanley Research.

Despite strict investment thresholds (fossil-based projects must have a payback of less than 5 years), management expects consolidated capex of over €4bn in 2022-30 (including investments in renewables). Motor Oil's plans for the asset include a mix of product diversification (propylene capacity of 160ktpa) and lower-emission projects (300ktpa biofeedstock pre-treatment, carbon capture & storage (CCS), 60ktpa of low-carbon H2, 10ktpa of e-methanol).

That said, even with the expected investments, the current business is expected to remain the most relevant contributor to earnings – Motor Oil sees fossil products accounting for ~60% of group EBITDA by 2030. Thus, we would look at the case as a "refinery in transition… but still a refinery" – which we see as a positive, as the company can mitigate concerns with returns on renewables and other transition projects.

Evolving capital structure

As we explained above (see It's not only about refining), with companies shifting more investments towards renewables and lower-emission segments, their respective capital structures may also undergo a relevant transformation. In the last 6 years (excluding 2020), Motor Oil's leverage averaged 1.3x net debt/EBITDA – significantly lower than management's guidance of <3.5x in 2030. Why, one may ask, would management be more comfortable with higher leverage?

Project finance is a reason, we believe. As we have seen with other projects in the sector, companies are able to fund new projects at the project level, with loan-to-value (LTV) ratios of 70-75% being common and non-recurring to the project owners. That, coupled with attractive finance rates for renewables in Greece, helps narrow the returns on Motor Oil's legacy projects in renewables.

Valuation parameters

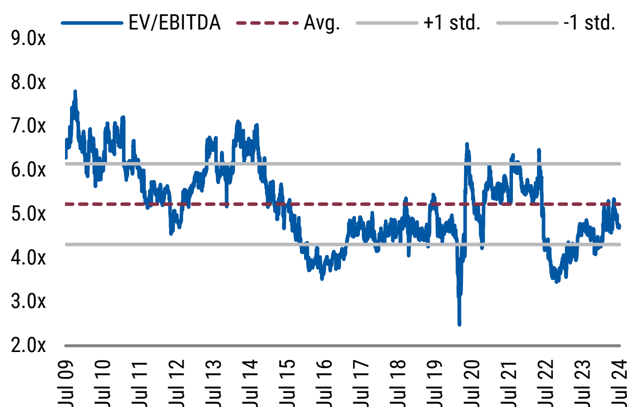
- **Refining:** Sales volumes should amount to 13.1mt in the foreseeable future. We model reported margins declining in 2025 (to $11.1/bbl) and 2026 (to $8.3/bbl). Motor Oil is in the process of building a 160kt propylene unit in its refinery, with construction expected to finish next year. We assume production from 2026 onwards.
- **Fuel marketing:** The total number of stations should remain flat. Average volumes per station, in our view, will continue to expand, but with the GDP multiplier decreasing (already below 1x in 2026). We see adjusted EBITDA margins (€/mt) flat in 2025, and then increasing in line with inflation.
- **Power & Gas:** Motor Oil has a well mapped growth trajectory for its renewables pipeline. We forecast it to expand from 839MW in 1Q24 to 2GW in 2030, with growth coming mainly from projects starting in 2026 and 2027. As with HELLENiQ, we assume a long-term energy price of €70/MWh.
- **Others:** We assume average capex of €300mn per year starting in 2026, post completion of the propylene unit. On dividends, we expect a payout ratio of 40%, implying a yield of 7.3% for 2025 and 5.1% for 2026.

What's not in the numbers?

Further expansion beyond 2GW in renewables capacity is not included in our base case. Motor Oil mentioned that its renewables platform has a development pipeline of 2.2GW. Given the current installed capacity, that implies ~51% of the pipeline being added to the 2030 goal. We also do not assume any benefits from a larger non-fuel retail segment within the fuel marketing business.

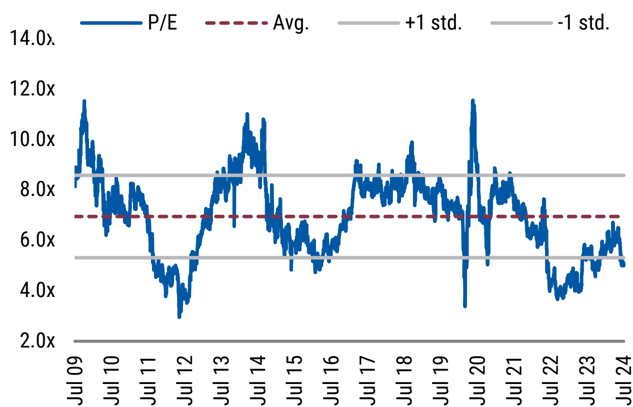
Trading multiples

Exhibit 140: Motor Oil: forward EV/EBITDA



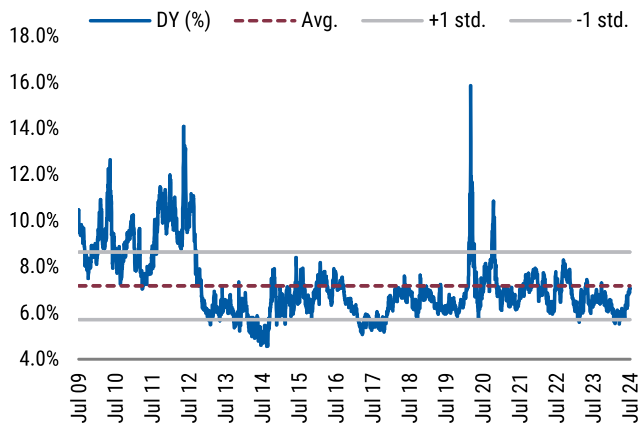
Source: FactSet, Morgan Stanley Research.

Exhibit 141: Motor Oil: forward P/E



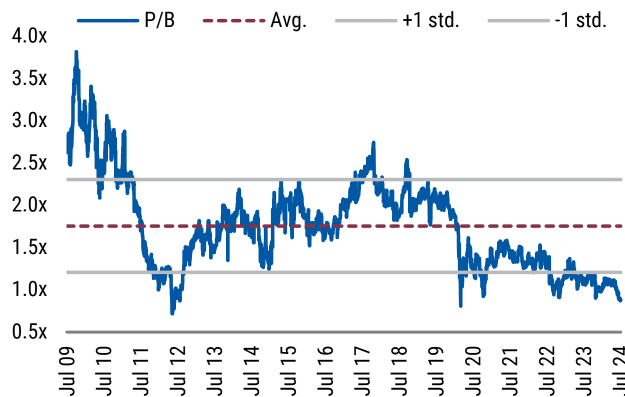
Source: FactSet, Morgan Stanley Research.

Exhibit 142: Motor Oil: forward dividend yield (%)



Source: FactSet, Morgan Stanley Research.

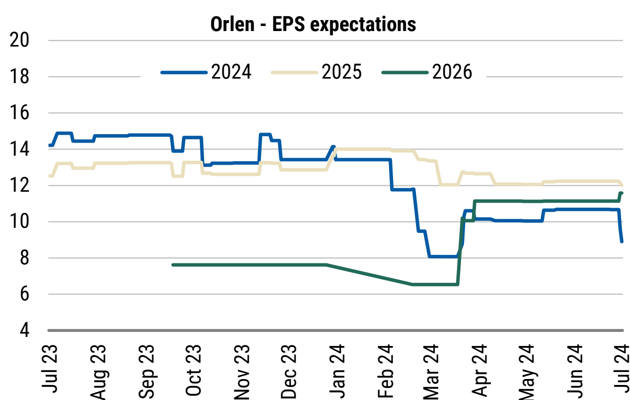
Exhibit 143: Motor Oil: price-to-book ratio



Source: FactSet, Morgan Stanley Research.

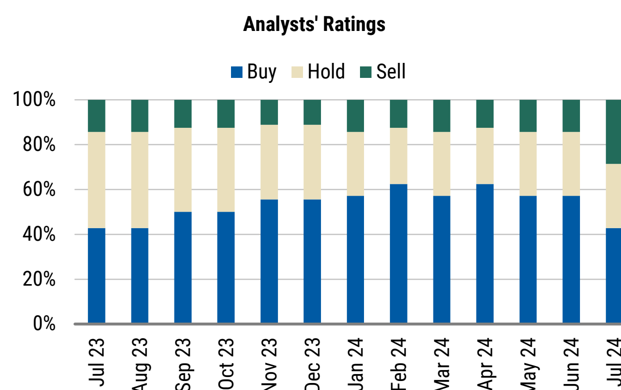
Consensus overview

Exhibit 144: EPS outlook



Source: FactSet, Morgan Stanley Research.

Exhibit 145: Ratings distribution



Source: FactSet, Morgan Stanley Research.

Financial statements

Exhibit 146: Operational outlook

	2022	2023	2024e	2025e	2026e
Refining					
Revenue	12,363.8	9,529.3	8,543.8	7,716.1	7,209.8
Opex	-11,002.8	-8,344.3	-7,712.5	-7,068.8	-6,790.1
EBITDA	1,361.0	1,185.0	831.3	647.3	419.7
EBITDA margin	11.0%	12.4%	9.7%	8.4%	5.8%
Sales (k MT)	13,992.0	13,411.0	12,598.4	12,420.6	12,420.6
Fuel Marketing					
Revenue	5,118.3	4,930.7	4,921.9	5,503.6	5,308.7
EBITDA	128.3	99.1	74.8	95.0	98.3
EBITDA margin	2.5%	2.0%	1.5%	1.7%	1.9%
Sales (k MT)	3,517.0	3,948.0	3,933.0	3,998.0	4,052.6
Throughput per station	6.3	7.1	7.0	7.2	7.3
Power & Gas					
Revenue	1,239.6	817.7	704.6	719.6	989.3
EBITDA	136.0	169.5	165.7	179.9	247.3
EBITDA margin	11.0%	20.7%	23.5%	25.0%	25.0%
RES operating capacity (MW, eop)	772.0	839.0	839.0	862.0	1,162.0
RES power production (GWh)	613.4	1,642.3	1,824.0	1,774.5	2,392.1

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 147: Income statement

	2021	2022	2023	2024e	2025e	2026e	2027e
Net revenues	10,266.6	16,630.9	13,316.7	11,727.9	11,536.7	11,179.7	11,881.5
Direct cost	-9,436.9	-14,445.3	-11,482.0	-10,245.8	-10,235.2	-10,099.6	-10,736.3
Gross profit	**829.7**	**2,185.5**	**1,834.8**	**1,482.1**	**1,301.6**	**1,080.1**	**1,145.2**
SG&A	-340.2	-492.6	-451.5	-344.3	-322.4	-267.5	-283.7
EBITDA	**489.6**	**1,692.9**	**1,383.2**	**1,137.8**	**979.2**	**812.6**	**861.5**
Depreciation and amortization	-169.2	-180.5	-247.1	-238.5	-240.5	-247.2	-253.7
EBIT	**320.4**	**1,512.4**	**1,136.1**	**899.3**	**738.7**	**565.4**	**607.9**
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial results	-80.2	-98.4	-103.6	-170.0	-163.3	-162.0	-157.1
Results in associates	18.0	143.4	5.9	6.0	5.0	3.8	4.1
EBT	**258.2**	**1,557.5**	**1,038.5**	**735.4**	**580.3**	**407.2**	**454.9**
Income tax	-55.8	-590.2	-231.8	-503.1	-127.7	-89.6	-100.1
Non-controlling interest	-0.5	0.8	-1.0	-1.7	-2.3	-1.6	-1.8
Net income	**201.8**	**968.0**	**805.7**	**230.7**	**450.4**	**316.0**	**353.0**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 148: Balance sheet

	2021	2022	2023	2024e	2025e	2026e	2027e
ST assets	**2,342.6**	**3,228.4**	**3,351.2**	**3,044.3**	**3,054.1**	**3,087.8**	**3,283.9**
Cash and equivalents	656.7	1,199.2	1,322.3	839.3	862.2	943.5	1,007.1
ST investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	832.5	1,022.1	980.0	1,095.2	1,080.3	1,046.9	1,112.6
Inventories	684.4	994.8	1,031.2	1,073.2	1,075.0	1,060.8	1,127.7
Other ST assets	169.1	12.3	17.7	36.6	36.6	36.6	36.6
LT assets	**2,490.1**	**3,969.5**	**4,222.0**	**4,320.8**	**4,430.3**	**4,533.0**	**4,629.4**
Investments in associates / JVs	70.4	400.9	423.6	429.8	429.8	429.8	429.8
PP&E	1,759.3	2,341.0	2,482.1	2,633.9	2,773.2	2,901.3	3,019.2
Right-of-use assets	212.6	205.0	226.7	198.9	169.0	143.7	122.1
Intangibles	352.5	864.3	881.4	872.7	872.7	872.7	872.7
Other LT assets	95.3	158.2	208.1	185.6	185.6	185.6	185.6
Assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL ASSETS	**4,832.7**	**7,197.9**	**7,573.2**	**7,365.1**	**7,484.4**	**7,620.8**	**7,913.3**
ST liabilities	**1,503.9**	**2,110.9**	**1,791.0**	**1,718.0**	**1,549.9**	**1,535.4**	**1,603.3**
ST Debt	167.7	381.1	188.0	244.8	244.8	244.8	244.8
ST Lease liabilities	28.8	25.0	29.3	29.7	29.7	29.7	29.7
Accounts payable	1,090.0	1,119.9	1,302.5	1,088.4	1,090.3	1,075.8	1,143.7
Other ST liabilities	217.4	584.9	271.1	355.1	185.1	185.1	185.1
LT liabilities	**2,138.0**	**2,949.0**	**3,010.8**	**2,963.7**	**2,963.7**	**2,963.7**	**2,963.7**
LT Debt	1,734.9	2,383.5	2,429.1	2,384.8	2,384.8	2,384.8	2,384.8
LT Lease obligations	175.3	172.8	193.4	189.9	189.9	189.9	189.9
Employee benefits	46.4	22.2	21.9	21.4	21.4	21.4	21.4
Other LT liabilities	181.4	370.6	366.5	367.6	367.6	367.6	367.6
Equity	**1,180.7**	**2,042.9**	**2,664.2**	**2,649.5**	**2,934.7**	**3,084.0**	**3,306.9**
Minorities	**10.2**	**95.1**	**107.2**	**33.9**	**36.1**	**37.7**	**39.5**
TOTAL LIABILITIES + EQUITY	**4,832.7**	**7,197.9**	**7,573.2**	**7,365.1**	**7,484.4**	**7,620.8**	**7,913.3**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 149: Cash flow statement

	2021	2022	2023	2024e	2025e	2026e	2027e
Net income	201.8	968.0	805.7	230.7	450.4	316.0	353.0
D&A	169.2	180.5	247.1	238.5	240.5	247.2	253.7
Minorities	0.5	-0.8	1.0	1.7	2.3	1.6	1.8
Change in WK	-117.1	-470.1	188.4	-371.3	14.9	33.2	-64.8
Other ST assets/liabilities	44.0	524.2	-319.2	65.1	-170.0	0.0	0.0
CFO	**298.5**	**1,201.8**	**923.0**	**164.6**	**538.1**	**598.1**	**543.7**
Short-term investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments in associates and JVs	-8.9	-330.6	-22.7	-6.2	0.0	0.0	0.0
Capex	-322.3	-257.6	-318.1	-350.0	-350.0	-350.0	-350.0
Other non-current assets	42.1	102.2	-54.3	23.1	0.0	0.0	0.0
CFI	**-289.1**	**-486.0**	**-395.0**	**-333.1**	**-350.0**	**-350.0**	**-350.0**
Change in debt	598.4	855.7	-122.6	9.5	0.0	0.0	0.0
Acquisition of non-controlling stakes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-22.1	-120.9	-173.7	-191.7	-165.2	-166.7	-130.1
Equity issuance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share buyback	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CFF	**576.3**	**734.8**	**-296.3**	**-182.2**	**-165.2**	**-166.7**	**-130.1**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 150: Key metrics – returns profile

	2022	2023	2024e	2025e	2026e
ROA	16.1%	10.9%	3.1%	6.1%	4.2%
ROE	60.1%	34.2%	8.7%	16.1%	10.5%
ROIC	29.2%	22.1%	6.4%	12.0%	8.9%
Net debt / EBITDA	1.0x	1.1x	1.8x	2.0x	2.3x

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 151: Key metrics – trading multiples

	2022	2023	2024e	2025e	2026e
P/E	2.5x	3.1x	10.7x	5.5x	7.8x
EV/EBITDA	2.5x	3.0x	4.0x	4.6x	5.4x
P/B	1.2x	0.9x	0.9x	0.8x	0.8x
Dividend yield	7.0%	7.9%	6.5%	7.3%	5.1%
FCF yield	25.7%	40.8%	8.9%	12.7%	15.1%

Source: Company data, Morgan Stanley Research estimates (e)

Board of directors / management team

Exhibit 152: Board of Directors

Vardi J. Vardinoyannis	Chair
Ioannis V. Vardinoyannis	Vice Chair & CEO
Ioannis N. Kosmodakis	Deputy CEO
Petros Tz. Tzannetakis	Deputy CEO
Nikolaos Th. Vardinoyannis	Director
Niki D. Stoufi	Director
Panayotis j. Constantaras	Director
Rania N-P Ekaterinari	Director
Dimitors-Antonios A. Anifantakis	Director

Source: Company data, Morgan Stanley Research.

Exhibit 153: Management team

Yannis V. Vardinoyannis	CEO
Ioannis Kosmadakis	Deputy CEO
Petros Tzannetakis	Deputy CEO
Michael Stiakakis	General Manager of Fuels Refining & Trading
Ioannis Kioufis	Refinery General Manager
Alkhas Khametov	General Manager of Supply & Trading
Manos Christeas	General Manager of Finance
Theofanis Voutsaras	General Manager of Human Resources
Georgios Triantafyllou	General Manager of Strategy
Nikos Giannakakis	Information Technology Manager - Chief Information Officer
Loukas Tripelopoulos	Finance General Manager of commercial subsidiaries
Ioannis Kalogirou	General Manager of Commercial Subsidiaries
George I. Prousanidis	General Counsel & Secretary of the Board
Dimitrios Kontaxis	General Manager of Waste Management Businesses

Source: Company data, Morgan Stanley Research.

Ownership structure

Exhibit 154: Ownership structure

Shareholder	Stake %
Petroventure Holdings Limited	40.00%
Motor Oil Holdings Ltd	0.97%
Treasury Stock	2.41%
Free float	56.62%

Source: Company data, Morgan Stanley Research. Note: Data as at July 2024.

Orlen: Work in progress – the one to watch

Bottom line: The crux of Orlen's investment case is the updated strategy that new management is set to announce by year-end. Initial indications have been encouraging, pointing to a greater focus on returns and on capital allocation. New capex plans (to be announced in the coming weeks) and the updated strategy (by year-end) may even offset the margin normalisation plan. However, there is low visibility on plans and on the value drivers, and limited scope for meaningful reduction in capex in the short term. Low leverage, we believe, may also limit returns to equity investors arising from a potential turnaround. That supports a more balanced view on the stock. Orlen trades at 3.6x/3.1x 2024/25e EV/EBITDA and a dividend yield of 6.6%/6.9%. With the stock offering 14.0% potential upside to our PLN74 Dec-25 price target, we rate it Equal-weight. Among our Equal-weight names, Orlen is the one we think investors should keep on their radar, given upcoming developments on its turnaround.

From downstream to a leading integrated player…

Starting in 2018, Orlen has expanded from a (mainly) refining company into a fuel integrated energy leader in Central and Eastern Europe. This growth has been achieved by the consolidation of other leading Polish energy companies, including Lotos (2018), Energa (2020) and PGNiG (2020), These assets were complementary to Orlen's original focus, and enabled the company to accelerate growth in different segments: upstream (PGNiG and Lotos), refining (Lotos), power generation (PGNiG and Energa), electricity and gas distribution (PGNiG and Energa) and retail (PGNiG, Energa and Lotos). Over the period, the company's profit centres have completely changed: whereas in 2019, refining accounted for 31% of Orlen's consolidated EBITDA, it accounted for 15% in 2023. Expansion was not limited to M&A in energy-related sectors: Orlen also announced expansion projects, such as the Olefins III, and acquired media assets (Polska Press in 2020). While expansion has provided wider exposure to different sectors (and, one may argue, helps reduce earnings volatility), it has also added a lot more complexity to the company's operations – and, to a certain extent, to how investors analyse the case. Equally, the expansion phase may have brought questions on capital allocation targets, and what other assets, segments or countries could Orlen target next.

…but relevant expansion seems to be over: all eyes on the strategy update

As a consequence of the reforms being implemented since the parliamentary elections in 2023 (for further info, see Poland Equities and Economics: Structural Shift, Material Upside), the Polish government appointed a new management team for Orlen. An updated strategy is still in the works, which, according to company comments on the latest earnings call, should be presented by year-end. Initial indications, including a recent interview with CEO Ireneusz Fąfara in the Financial Times, indicate that the order of the day is to focus on operations and to rein in capital spending. In the same interview, the CEO mentioned that Orlen planned to divest the media assets bought in 2020. During a

press conference (link), Mr. Fąfara stated that Orlen may provide new capex plans in July. Among the current projects, he highlighted the Olefins III project, which had an original capex budget of PLN13bn but is now running closer to PLN25bn.

A new strategy, we believe, should not encompass major changes to Orlen's current structure. As the CEO noted in the FT interview, the acquisition of Lotos is "irreversible". Looking at Orlen's 2030 plans, we believe the main impact could be felt on projects that have not yet started construction, or on projects with higher expected investments – particularly based on new technologies. As such, we would not be surprised if the plans for a nuclear reactor (SMR) were restructured or even cancelled. Based on the slides used during the 1Q24 earnings call, one of the pillars for the current management is "prudent growth". In short, we do not expect Orlen to return to its origins as mainly a refining company; however, inorganic growth and the pace of new projects may be (a lot) more muted, with returns prioritised over growth.

Initial indications are positive. But shorter term, impact may be more noticeable on lower risk premium

The initial indications are positive, but the short-term impact on financials may be limited: significantly reducing capex from ongoing projects is very challenging, while the scope for a more disciplined capital deployment strategy may only be ascertained in the medium term. For 2024, as an example, we assume capex of PLN36.0bn, compared to management's guidance of PLN38bn. Also, low leverage (0.01x net debt/EBITDA as of 1Q24) limits the potential benefits from improved operations (so in effect, the turnaround would be focused on improving operations rather than reducing leverage and strengthening the balance sheet).

We view the planned divestment of the media assets as positive too, but as Mr. Fąfara highlighted during the FT interview, it will not be imminent, as Orlen is still working to restructure the assets. In the short term, the one factor that may benefit from ongoing reforms is a reduction in the risk perception on Orlen. Our fair value increases by 10% for each 1% decline in its discount rate, 21% for each 1x increase in the EV/EBITDA target multiple.

Valuation parameters

- **Upstream:** Benefitting from Norwegian volumes, we expect consolidated production to expand 10% in 2025 and 5% in 2026. We then model production plateauing in 2027, and assume an average decline of ~5% p.a. from 2028 (ex-Norway; 2% p.a. in Norway), mainly affected by the depletion of the company's Polish reserves.
- **Refining:** Average utilisation should stabilise at ~90% for the foreseeable future, we estimate. Refining margins should decline from $17/bbl in 2023 to $12.7/bbl in 2024, $10.2/bbl in 2025 and $7.8/bbl in 2026.
- **Petrochemicals:** We model production volumes at ~4.8mtpa in 2024, and then remaining close to these levels in the coming years until the Olefins III project comes on-line (~5.9mtpa thereafter). We base our chemicals prices on CMA (petrochemicals) and CRU (fertilisers) forecasts, which point to economics for European producers still under pressure from high energy costs.

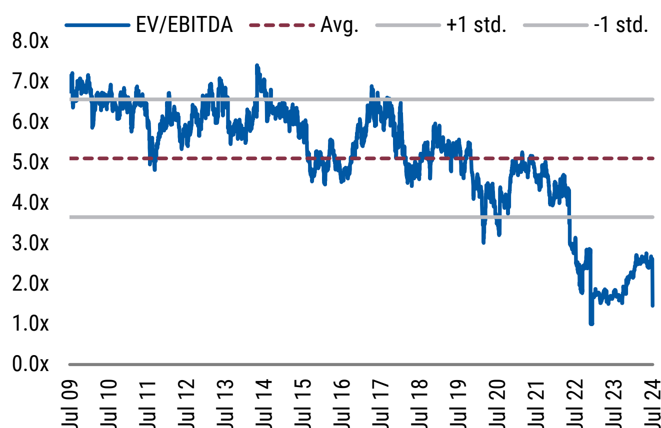
- **Retail:** Orlen's station network will remain at 3.2k stations, based on our forecasts, driven, we believe, by presence in some mature markets and/or leadership position in other markets limiting potential M&A (as done in the past). We assume throughput per station grows roughly in line with GDP in 2025, then decelerates to stable volumes later during the decade.
- **Gas:** For the distribution segment, our estimates are based on the regulatory asset base (PLN20.7bn) and allowed returns (7.5%). As for the remaining segments, we forecast lower profitability owing to lower natural gas prices.
- **Energy:** Power generation capacity should reach 6.8GW by 2030, driven mostly by the Baltic offshore wind farm. As a result, we see power generation volumes expanding to 21.4TWh during the same time frame, from 16.9TWh in 2023. Lastly, on the distribution segment, our estimates are based on Energa's regulatory returns (RAB: PLN15,516mn and WACC of 10.48%).
- **Others:** Consolidated capex should reach PLN36bn in 2024, PLN38bn in 2025 and PLN32bn in 2026. We then assume normalised capex of PLN30bn from 2027 on. As for dividends, we expect Orlen to pay PLN4.3/share in 2025, with DPS then increasing by 5% p.a.; that implies a yield of 6.6% in 2024 and 6.9% in 2025.

What's not in the numbers?

Given the low visibility on management's new strategy, we model Orlen assuming a 'business as usual' outlook. Thus, no benefits from asset divestments or a more conservative capital allocation strategy are embedded in our numbers. At this stage, we believe this also applies to consensus and to buy-side expectations, based on the magnitude of Orlen's original investment plans.

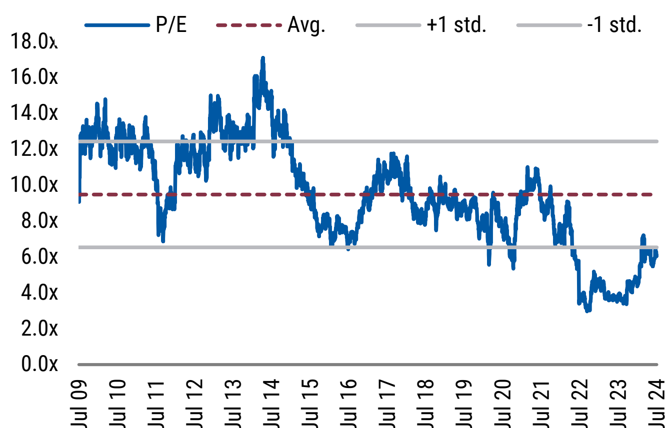
Trading multiples

Exhibit 155: Orlen: forward EV/EBITDA



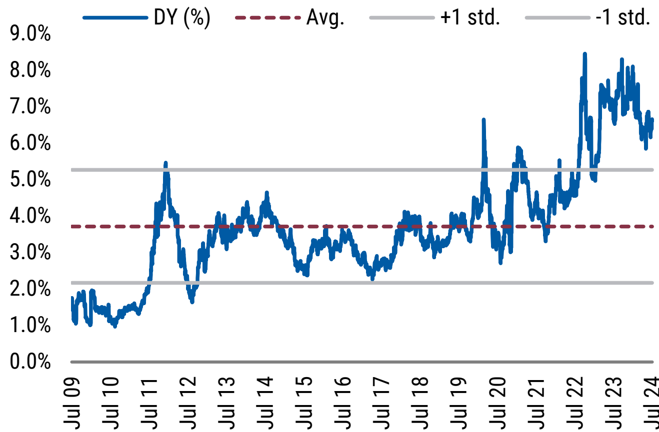
Source: FactSet, Morgan Stanley Research.

Exhibit 156: Orlen: forward P/E



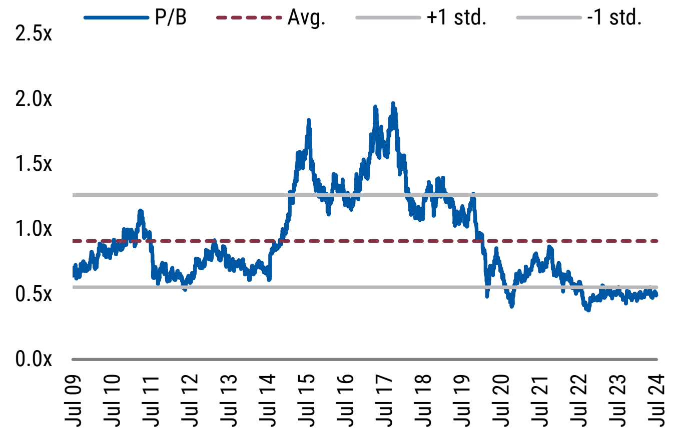
Source: FactSet, Morgan Stanley Research.

Exhibit 157: Orlen: forward dividend yield (%)



Source: FactSet, Morgan Stanley Research.

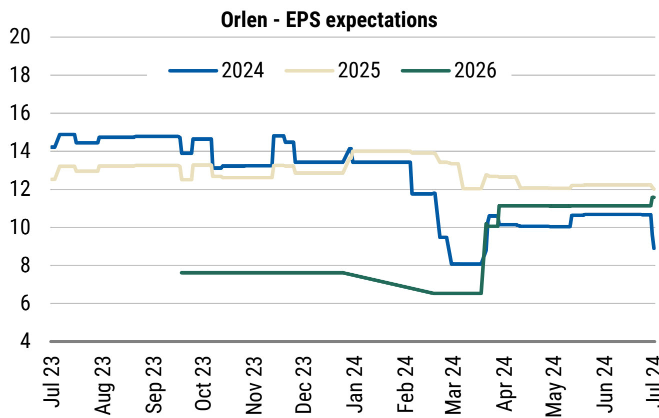
Exhibit 158: Orlen: price-to-book ratio



Source: FactSet, Morgan Stanley Research.

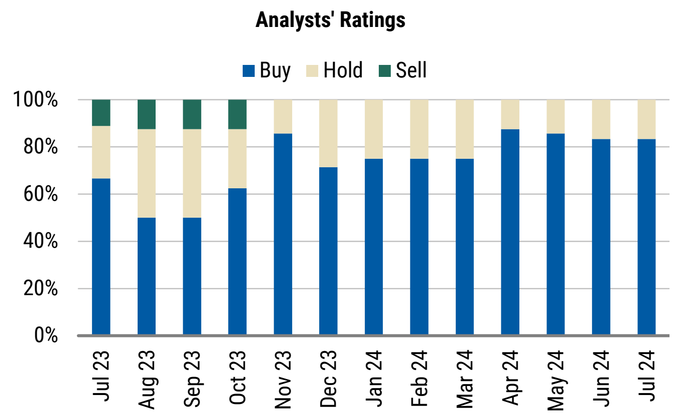
Consensus overview

Exhibit 159: EPS outlook



Source: FactSet, Morgan Stanley Research.

Exhibit 160: Ratings distribution



Source: FactSet, Morgan Stanley Research.

Financial statements

Exhibit 161: Operational outlook

	2021	2022	2023	2024e	2025e	2026e
Refining						
Production (mtons)	26.6	32.9	35.7	35.4	35.7	35.7
Sales (mtons)	48.8	60.9	65.9	59.0	59.6	59.6
Refining margin	2.4	17.6	17.0	12.7	10.2	7.8
EBITDA (LIFO)	3,604.0	17,647.0	10,424.0	7,584.3	5,480.2	2,637.9
Upstream						
Production (kboe)	0.0	0.0	173.1	212.8	234.0	245.7
Sales (kboe)	0.0	0.0	230.2	368.0	90.1	94.6
EBITDA	1,305	7,767	-234	-5,638	8,267	7,947
Petrochemical						
Production (ktpa)	5,169.0	4,978.0	4,363.0	4,790.0	4,790.0	4,790.0
Sales (ktpa)	4,906.0	5,013.0	4,379.0	4,668.0	4,790.0	4,790.0
EBITDA (LIFO)	4,325.0	3,282.0	-512.0	-184.2	2,207.7	2,701.1
Retail						
Number of stations	2,881	3,097	3,170	3,217	3,217	3,217
Volumes (MTk)	8,974.0	9,352.0	10,205.0	11,086.3	11,476.1	11,778.7
EBITDA	2,850.0	2,757.0	2,120.0	2,262.9	2,136.2	2,119.7
Energy						
Volumes (TWh)						
Generation	11.4	12.5	16.9	19.3	18.3	18.3
Distribution	0.0	0.0	22.8	23.8	24.7	25.5
EBITDA	3,603.0	3,695.0	3,964.0	5,089.9	4,903.5	5,132.3
Gas						
Volumes (TWh)						
Trading	0.0	346.8	296.1	291.6	277.0	263.1
Distribution	0.0	125.9	124.8	126.3	126.3	126.3
EBITDA	0.0	6,001.0	32,473.0	20,054.3	15,738.3	13,342.8

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 162: Income statement

	2021	2022	2023	2024e	2025e	2026e
Net revenues	131,341.0	282,415.0	364,200.0	311,150.1	290,921.1	269,484.7
Direct cost	-105,448.0	-217,038.0	-293,932.0	-261,069.6	-226,307.3	-210,442.6
Gross profit	**25,893.0**	**65,377.0**	**70,268.0**	**50,080.5**	**64,613.8**	**59,042.1**
SG&A	-6,682.0	-9,303.0	-24,671.0	-20,803.9	-26,134.3	-23,880.7
EBITDA	**19,211.0**	**56,074.0**	**45,597.0**	**29,276.6**	**38,479.6**	**35,161.4**
Depreciation and amortization	-5,341.0	-7,724.0	-13,085.0	-13,654.3	-14,876.4	-17,073.1
EBIT	**13,870.0**	**48,350.0**	**32,512.0**	**15,622.3**	**23,603.2**	**18,088.3**
Other income	-8.0	-14.0	-50.0	-33.0	0.0	0.0
Financial results	-179.0	-505.0	2,162.0	579.4	-2,516.0	-3,560.8
EBT	**13,683.0**	**47,831.0**	**34,624.0**	**16,168.8**	**21,087.2**	**14,527.4**
Income tax	-2,495.0	-8,012.0	-9,881.0	-5,198.1	-6,326.2	-4,358.2
Non-controlling interest	-66.0	-142.0	-12.0	-60.9	-73.8	-50.8
Net income	**11,122.0**	**39,677.0**	**24,731.0**	**10,909.7**	**14,687.2**	**10,118.4**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 163: Balance sheet

	2021	2022	2023	2024e	2025e	2026e
ST assets	**38,048.0**	**138,795.0**	**93,141.0**	**81,096.6**	**72,858.2**	**70,984.5**
Cash and equivalents	2,896.0	21,046.0	13,282.0	2,887.2	1,290.6	4,089.2
ST investments	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	15,041.0	37,934.0	39,722.0	39,455.5	36,991.4	34,265.7
Inventories	18,410.0	44,304.0	32,794.0	31,944.8	27,767.1	25,820.6
Other ST assets	1,701.0	35,511.0	7,343.0	6,809.0	6,809.0	6,809.0
LT assets	**68,706.0**	**174,379.0**	**170,795.0**	**195,797.7**	**218,921.3**	**233,848.2**
Investments in associates / JVs	1,125.0	3,390.0	2,170.0	2,136.0	2,136.0	2,136.0
PP&E	55,379.0	136,383.0	134,685.0	156,593.7	179,717.3	194,644.2
Right-of-use assets	5,586.0	12,438.0	13,486.0	13,931.0	13,931.0	13,931.0
Intangibles	4,829.0	11,192.0	14,150.0	16,418.0	16,418.0	16,418.0
Other LT assets	1,787.0	10,976.0	6,304.0	6,719.0	6,719.0	6,719.0
Assets held for sale	0.0	3.0	242.0	244.0	244.0	244.0
TOTAL ASSETS	**106,754.0**	**313,177.0**	**264,178.0**	**277,138.3**	**292,023.5**	**305,076.7**
ST liabilities	**30,293.0**	**122,810.0**	**69,382.0**	**69,085.6**	**64,965.9**	**63,724.6**
ST Debt	1,429.0	7,252.0	4,496.0	1,698.2	2,243.5	2,796.6
ST Lease liabilities	679.0	1,405.0	1,386.0	2,153.9	2,845.5	3,547.0
Accounts payable	19,811.0	40,217.0	41,509.0	40,959.6	35,602.9	33,107.1
Other ST liabilities	8,374.0	73,936.0	21,991.0	24,274.0	24,274.0	24,274.0
LT liabilities	**23,883.0**	**47,257.0**	**41,616.0**	**50,957.9**	**60,193.8**	**69,560.8**
LT Debt	13,742.0	11,973.0	10,671.0	15,423.7	20,376.4	25,399.5
LT Lease obligations	4,876.0	8,131.0	9,343.0	13,338.3	17,621.4	21,965.3
Employee benefits	0.0	0.0	0.0	0.0	0.0	0.0
Other LT liabilities	5,265.0	27,153.0	21,602.0	22,196.0	22,196.0	22,196.0
Equity	**51,707.0**	**142,070.0**	**152,082.0**	**155,939.8**	**165,635.0**	**170,511.7**
Minorities	**871.0**	**1,040.0**	**1,098.0**	**1,154.9**	**1,228.7**	**1,279.6**
TOTAL LIABILITIES + EQUITY	**106,754.0**	**313,177.0**	**264,178.0**	**277,138.3**	**292,023.5**	**305,076.7**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 164: Cash flow statement

	2021	2022	2023	2024e	2025e	2026e
Net income	11,122.0	39,677.0	24,731.0	10,909.7	14,687.2	10,118.4
D&A	5,341.0	7,724.0	13,085.0	13,654.3	14,876.4	17,073.1
Minorities	66.0	142.0	12.0	60.9	73.8	50.8
Change in WK	-5,744.0	-28,381.0	11,014.0	566.2	1,285.1	2,176.4
Other ST assets/liabilities	4,827.0	31,752.0	-23,777.0	2,817.0	0.0	0.0
CFO	**15,612.0**	**50,914.0**	**25,065.0**	**28,008.1**	**30,922.6**	**29,418.7**
Short-term investments	0.0	0.0	0.0	0.0	0.0	0.0
Investments in associates and JVs	-367.0	-2,265.0	1,220.0	34.0	0.0	0.0
Capex	-9,890.0	-19,629.0	-32,422.0	-36,000.0	-38,000.0	-32,000.0
Other non-current assets	-25.0	12,699.0	-879.0	179.0	0.0	0.0
CFI	**-10,282.0**	**-9,195.0**	**-32,081.0**	**-35,787.0**	**-38,000.0**	**-32,000.0**
Change in debt	1,152.0	8,035.0	-2,865.0	7,438.0	10,000.0	10,000.0
Acquisition of non-controlling stakes	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-1,498.0	-1,500.0	-6,385.0	-4,817.9	-4,992.1	-5,241.7
Equity issuance	0.0	0.0	0.0	0.0	0.0	0.0
Share buyback	0.0	0.0	0.0	0.0	0.0	0.0
CFF	**-346.0**	**6,535.0**	**-9,250.0**	**2,620.1**	**5,007.9**	**4,758.3**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 165: Key metrics – returns profile

	2021	2022	2023	2024e	2025e	2026e
ROA	11.7%	18.9%	8.6%	3.6%	12.0%	7.8%
ROE	12.1%	38.9%	16.6%	6.6%	9.1%	6.0%
ROIC	17.5%	36.7%	14.8%	6.1%	8.4%	5.9%
Net debt / EBITDA	0.9x	0.1x	0.3x	1.0x	1.1x	1.4x

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 166: Key metrics – trading multiples

	2021	2022	2023	2024e	2025e	2026e
P/E	6.8x	1.9x	3.1x	6.9x	5.2x	7.5x
EV/EBITDA	4.9x	1.5x	2.0x	3.6x	3.1x	3.6x
P/B	1.5x	0.5x	0.5x	0.5x	0.5x	0.4x
Dividend yield	2.0%	8.4%	6.4%	6.6%	6.9%	7.3%
FCF yield	-0.8%	-8.5%	19.1%	-14.3%	-7.0%	-0.1%

Source: Company data, Morgan Stanley Research estimates (e)

Board of directors / management team

Exhibit 167: Board of directors

Wojciech Popiolek	Chairman
Michal Gajdus	Vice-Chairman
Katarzyna Lobos	Secretary
Ewa Gasiorek	Indipendent Member
Kazimierz Mordaszewski	Member
Mikolaj Pietrzak	Indipendent Member
Tomasz Zielinski	Member

Source: Company data, Morgan Stanley Research

Exhibit 168: Management team

Ireneusz Fafara	President of the Management Board, CEO
Witold Literacki	Vice-president of the Management Board, Corporate Affairs
Magdalena Bartos	Vice-president of the Management Board, Financials
Robert Soszynski	Vice-president of the Management Board, Strategy and Sustainable Development
Ireneusz Sitarski	Vice-president of the Management Board, Retail Sales
Wieslaw Prugar	Vice-president of the Management Board, Upstream
Artur Osuchowski	Vice-president of the Management Board, Energy and energy transformation

Source: Company data, Morgan Stanley Research

Ownership structure

Exhibit 169: Ownership structure

Shareholder	Stake %
State Treasury	49.9%
Nationale-Nederlanden OFE	5.8%
Free float	44.3%

Source: Company data, Morgan Stanley Research. Note: Data as at July 2024.

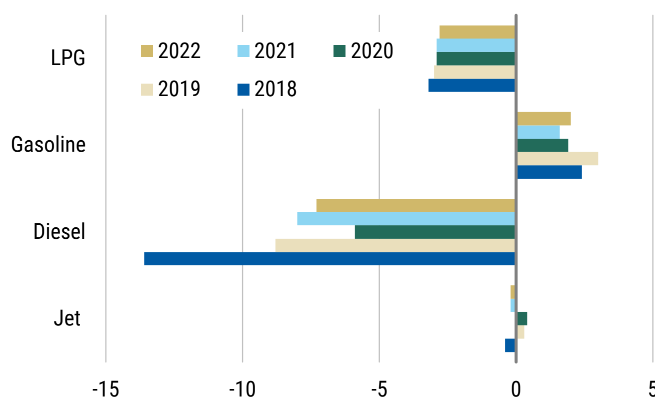
Tupras: The direct refining play

Bottom line: Tupras offers the highest exposure to refining among the five names covered in this report. It benefits from a structural deficit for products including diesel and LPG in Turkey, and domestic demand that still should expand throughout the decade. Increased investments will flow through lower emission / energy transition businesses, but the investment case will remain dependent on refining for the foreseeable future, we believe. That provides a supportive backdrop for capital returns, with management expecting an average payout of 80% to 2035. We see 29% potential upside to our Dec-25 price target of TRY215, and Tupras trading at 2024/25e EV/EBITDA of 4.1x and 3.8x and offering a dividend yield of 11.7% and 10.3%. That, we believe, supports an Overweight rating.

It's all about refining at Tupras...

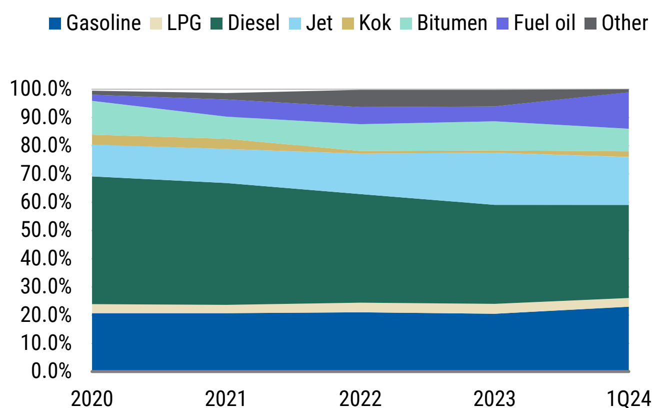
Simply put, Tupras is *the* refining play in CEEMEA. 98% of its FY23 EBITDA comes from refining, far outpacing the other four companies we cover in this report. Thus, if one is looking for refinery exposure, look no further: Tupras is the one vehicle. Similar to other companies in the sector, profitability reflects the normalisation in refining margins. The trend, however, should be partially mitigated by a structural deficit for diesel and LPG in Turkey. For the former, demand has hovered around 24-26mt in the recent past, with imports accounting for ~7mt per year during the past 3 years. As for LPG, annual demand is around 4mt, with imports supplying close to 3mt. That works almost as a 'captive market' for Tupras, reducing the incentive to ship its products outside Turkey. No surprise, domestic revenues account for 80% of total revenues for the company.

Exhibit 170: Turkey has a structural need to import diesel and LPG (mt)...



Source: Company data, Morgan Stanley Research

Exhibit 171: ...with both products accounting for ~40% of its' output

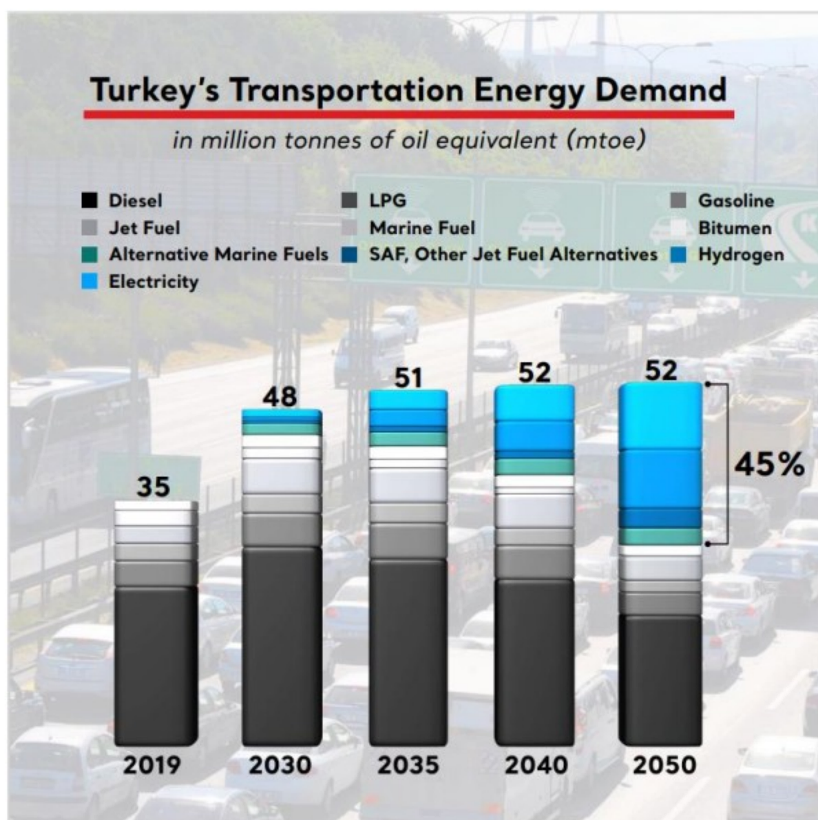


Source: Company data, Morgan Stanley Research

Two other benefits arise from the structural diesel deficit. First, electrifying the diesel demand is more challenging than it is with electric/light-passenger vehicles. On Tupras' long-term expectations, demand for diesel should continue to grow throughout the

decade. On gasoline, for example, the company believes that electric vehicles should account for the lion's share of sales in the early 2030s. The other aspect benefitting domestic producers is that they should be able to collect a small premium when selling to the domestic market, compared to exports (CIF vs. FOB, for example).

Exhibit 172: Tupras expects fossil-fuel consumption to peak in 2030 in Turkey, but thinks the peak is likely to be delayed for diesel as opposed to gasoline, given challenges in electrifying the diesel demand



Source: Company data.

Set against the backdrop of normalising margins, we model EBITDA (in USD) declining by 44% in 2024, 8.7% in 2025 and reaching $1.2bn in 2026; that implies Tupras trading at 4.1x 2024e and 3.8x 2025e EV/EBITDA, compared to their 15-historical average of 6.3x.

…and should remain about refining

A changing landscape for fuel consumption in Turkey has direct implications for Tupras' strategy and investment plans. As such, whereas between 2022 and 2030 ~60% of the consolidated capex should be directed at refining and ~40% to green initiatives (SAF, zero-carbon electricity, green H2), over 2031-35 management expects the ratios to pretty much invert to ~30% and 70%, respectively. Despite that, it expects sustainable refining to account for ~90% of EBITDA until 2030 (we assume 80%), and for that to decline to ~70%. That, in our view, reflects a cautious management approach towards i) visibility on electrification within Tupras' key markets, particularly in Turkey and ii) returns that may be achieved on investments far from its traditional business. Thus, while Tupras is currently the most direct play on refining among the companies we cover, a similar dynamic may prevail in the medium and long term – and we see that as positive.

Macro matters

Refining companies (especially within the regions we cover) sit at the intersection of different sectors. They are exposed to the domestic environment, as their domestic market tends to be more important than exports. However, they have little (if any) pricing power, so an improvement in domestic demand mainly translates into higher volumes sold domestically. At the same time, despite exporting part of their production, most of the costs (i.e., feedstocks including crude and other products) are denominated in hard currency. As such, refining companies could also be seen as exporters – but subject to lower impacts from currency volatility.

For Turkey, one concern could be how the next phase of the macro environment (from monetary normalisation to fiscal consolidation) will impact Tupras. Based on April data, demand for diesel, jet fuel and gasoline are up 3.7%/5.6%/21.4% year on year, with LPG down 7.8% y/y in the first four months of the year. Thus, a deceleration in PMI and/or concerns about a consumption slowdown have not translated into lower fuel demand. And as stated before, diesel and LPG demand for the domestic producer (such as Tupras) tends to be more resilient owing to a lack of domestic supply. As for taxes, there have no extra taxes have been announced for the refining sector recently (as we have seen in Greece and Hungary).

Valuation parameters

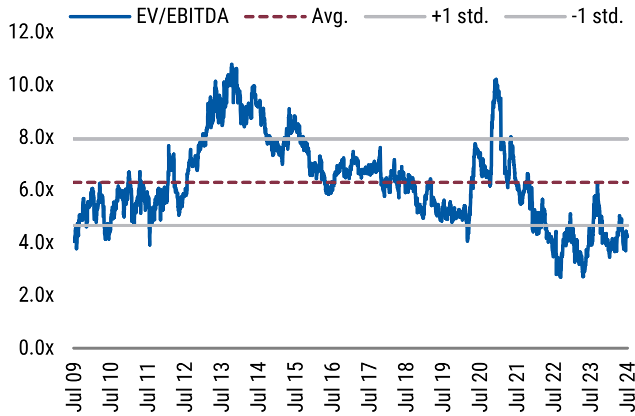
- **Refining:** We assume utilisation rates stabilise at ~95%. But as Tupras' trading operations continue to expand, we expect total sales to increase by ~500kbpd per year in the next 3 years. That implies sales plateauing at ~34mt from 2026 onward. We forecast margins to normalise in 2024 and 2025, similar to the other companies, but only returning to the historical average in 2026.
- **Power:** Tupras' medium/long-term targets for power generation are mainly related to its green hydrogen plans. As such, we do not model any further capacity expansion from the current levels, with power remaining a small contributor to the consolidated company.
- **Others:** We forecast capex of $500mn in 2024, $350mn per year until 2030 and $400mn p.a. thereafter. Dividend payments remain an important factor within the Tupras story. As such, even as it expands investments within transition / lower-emission segments, the company plans to disburse 80% of its net profit as dividends. That translates into a dividend yield of 11.7% in 2024 and 10.3% in 2025, on our estimates.

What is not in the numbers?

Capacity expansion is the main factor not in our base case. We set our capex estimates on Tupras' $350mn annual plan; however, we believe it may be mainly related to decarbonisation segments and lower-emission products. As mentioned above, the main growth driver in the next couple of years lies in Tupras' trading arm and its implications for product sales. We do not forecast anything above and beyond that, particularly related to expanded capacity.

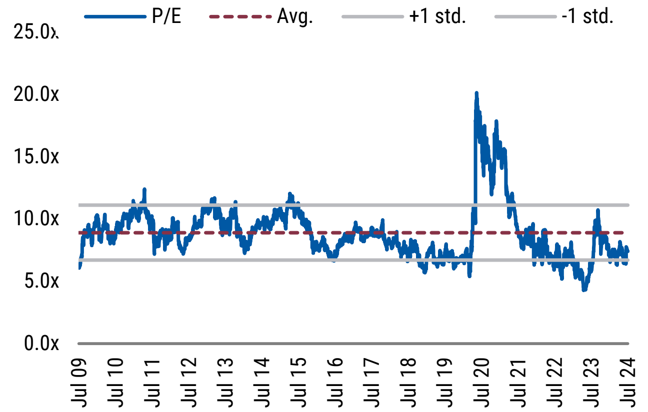
Trading multiples

Exhibit 173: Tupras: forward EV/EBITDA



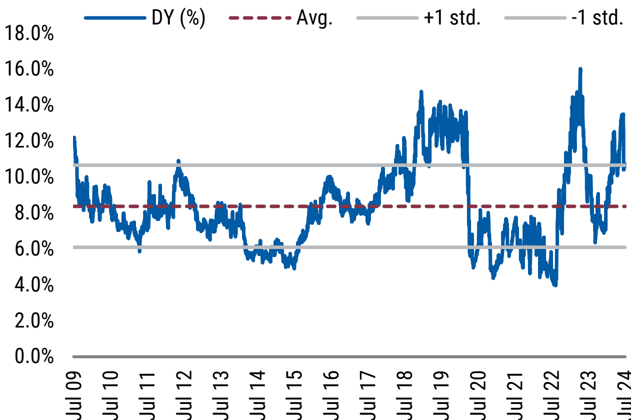
Source: FactSet, Morgan Stanley Research.

Exhibit 174: Tupras: forward P/E



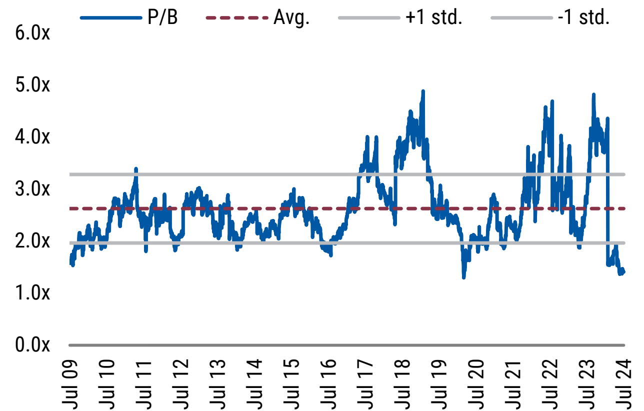
Source: FactSet, Morgan Stanley Research.

Exhibit 175: Tupras: forward dividend yield (%)



Source: FactSet, Morgan Stanley Research.

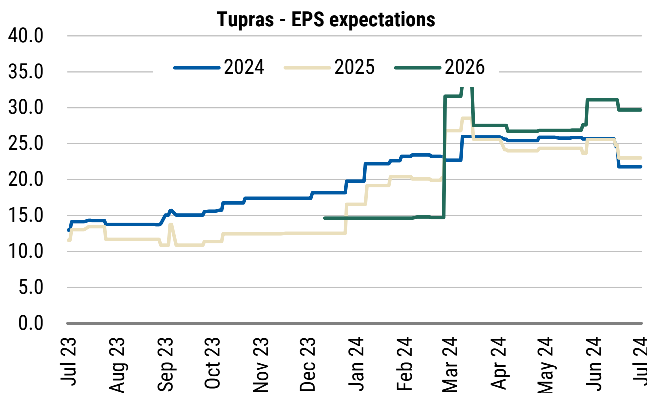
Exhibit 176: Tupras: price-to-book ratio



Source: FactSet, Morgan Stanley Research.

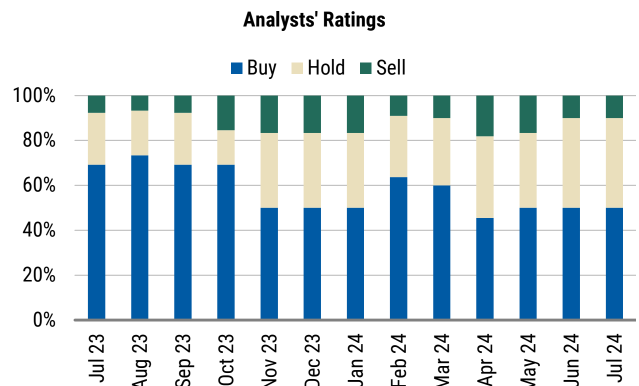
Consensus overview

Exhibit 177: EPS outlook



Source: FactSet, Morgan Stanley Research.

Exhibit 178: Ratings distribution



Source: FactSet, Morgan Stanley Research.

Financial statements

Exhibit 179: Operational outlook

	2021	2022	2023	2024e	2025e	2026e
Refining						
Production (MT)	25,000.0	26,100.0	25,000.0	26,186.9	28,500.0	28,500.0
Sales (MT)	27,600.0	29,474.3	30,108.3	29,998.4	32,868.4	33,418.9
Refining margin	5.7	16.5	16.0	13.8	10.5	7.9
EBIT	44.9	2,592.6	2,872.9	1,517.3	1,305.0	855.3
Power						
Generation (GWh)	0.0	1451.0	1334.0	1210.5	1571.5	1900.0
EBIT	30.1	77.6	90.2	119.2	157.0	187.9

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 180: Income statement

	2021	2022	2023	2024e	2025e	2026e
Net revenues	16,256.7	29,100.5	27,114.5	24,649.3	24,930.3	23,656.0
Direct cost	-14,563.5	-25,328.7	-22,560.2	-21,126.6	-21,815.7	-21,273.2
Gross profit	**1,693.2**	**3,771.8**	**4,554.3**	**3,522.7**	**3,114.6**	**2,382.9**
SG&A	-1,480.6	-1,042.7	-1,413.3	-1,764.4	-1,509.3	-1,154.7
EBITDA	**212.6**	**2,729.1**	**3,141.0**	**1,758.3**	**1,605.3**	**1,228.1**
Depreciation and amortization	-88.3	-57.3	-220.8	-268.1	-274.0	-278.1
EBIT	**124.4**	**2,671.9**	**2,920.2**	**1,490.2**	**1,331.3**	**950.0**
Other income	9.7	3.6	-409.2	-181.3	0.0	0.0
Financial results	27.4	-379.8	-216.9	189.4	-46.6	4.7
Results in associates	61.1	22.3	45.9	9.1	0.0	0.0
EBT	**222.5**	**2,317.9**	**2,340.0**	**1,507.4**	**1,284.7**	**954.7**
Income tax	131.5	62.7	-213.1	-192.4	-128.5	-95.5
Non-controlling interest	-12.4	-13.1	-12.4	-9.6	-5.8	-4.3
Net income	**341.6**	**2,367.5**	**2,114.5**	**1,305.5**	**1,150.4**	**854.9**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 181: Balance sheet

	2021	2022	2023	2024e	2025e	2026e
ST assets	**4,927.0**	**6,395.0**	**6,810.8**	**7,208.4**	**8,339.2**	**9,006.2**
Cash and equivalents	1,536.2	2,544.7	3,295.2	2,948.1	3,985.0	4,778.7
ST investments	0.0	114.1	23.8	126.8	126.8	126.8
Accounts receivable	1,017.9	1,144.1	1,369.3	1,409.3	1,429.3	1,356.2
Inventories	1,788.9	1,925.6	1,505.5	2,084.4	2,158.3	2,104.6
Other ST assets	584.0	666.5	617.0	639.9	639.9	639.9
LT assets	**2,794.2**	**2,627.3**	**5,608.6**	**6,146.6**	**6,222.7**	**6,301.9**
Investments in associates / JVs	161.9	158.3	280.8	281.8	281.8	281.8
PP&E	1,979.6	1,757.8	4,531.7	4,981.2	5,057.2	5,136.4
Right-of-use assets	13.7	11.7	23.4	23.8	23.8	23.8
Intangibles	5.0	29.7	144.1	150.3	150.3	150.3
Other LT assets	633.9	669.8	628.5	709.5	709.5	709.5
TOTAL ASSETS	**7,721.2**	**9,022.3**	**12,419.4**	**13,355.1**	**14,561.9**	**15,308.1**
ST liabilities	**4,819.5**	**4,214.6**	**5,257.4**	**5,315.4**	**5,373.0**	**5,263.5**
ST Debt	858.4	640.7	1,014.7	1,032.6	977.1	949.7
ST Lease liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	3,291.0	2,815.2	3,316.7	3,189.6	3,302.6	3,220.5
Other ST liabilities	670.1	758.7	925.9	1,093.3	1,093.3	1,093.3
LT liabilities	**1,559.2**	**1,218.6**	**290.6**	**242.0**	**235.0**	**231.5**
LT Debt	1,522.5	1,136.5	181.4	130.1	123.1	119.7
LT Lease obligations	0.0	0.0	0.0	0.0	0.0	0.0
Employee benefits	33.7	63.6	70.2	68.4	68.4	68.4
Other LT liabilities	3.0	18.5	38.9	43.4	43.4	43.4
Equity	**1,322.1**	**3,565.4**	**6,797.7**	**7,709.3**	**8,859.7**	**9,714.6**
Minorities	**20.4**	**23.6**	**73.7**	**88.4**	**94.1**	**98.4**
TOTAL LIABILITIES + EQUITY	**7,721.2**	**9,022.3**	**12,419.4**	**13,355.1**	**14,561.9**	**15,308.1**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 182: Cash flow statement

	2021	2022	2023e	2024e	2025e	2025e
Net income	341.6	2,367.5	2,114.5	1,305.5	1,150.4	854.9
D&A	88.3	57.3	220.8	268.1	274.0	278.1
Minorities	12.4	13.1	12.4	9.6	5.8	4.3
Change in WK	-148.2	-738.8	696.5	-746.1	19.2	44.6
Other ST assets/liabilities	-492.5	6.1	216.8	144.5	0.0	0.0
CFO	**-198.3**	**1,705.2**	**3,261.0**	**981.6**	**1,449.4**	**1,181.9**
Short-term investments	0.0	-114.1	90.3	-103.0	0.0	0.0
Investments in associates and JVs	16.6	3.6	-122.6	-1.0	0.0	0.0
Capex	-145.3	-162.8	-483.4	-500.0	-350.0	-357.4
Other non-current assets	294.7	9.5	68.3	-78.3	0.0	0.0
CFI	**165.9**	**-263.7**	**-447.3**	**-682.3**	**-350.0**	**-357.4**
Change in debt	-1,553.9	-603.6	-581.1	7.5	0.0	0.0
Acquisition of non-controlling stakes	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-2.5	-2.1	-1,440.7	-620.0	0.0	0.0
Equity issuance	0.0	0.0	0.0	0.0	0.0	0.0
Share buyback	0.0	0.0	0.0	0.0	0.0	0.0
CFF	**-1,556.4**	**-605.8**	**-2,021.8**	**-612.5**	**0.0**	**0.0**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 183: Key metrics – returns profile

	2021	2022	2023	2024e	2025e	2026e
ROA	4.3%	28.3%	19.7%	8.7%	20.6%	15.4%
ROE	23.9%	96.9%	40.8%	18.0%	13.9%	9.2%
ROIC	8.0%	110.5%	70.8%	24.5%	20.1%	14.3%
Net debt / EBITDA	4.0x	-0.3x	-0.7x	-1.0x	-1.8x	-3.0x

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 184: Key metrics – trading multiples

	2021	2022	2023	2024e	2025e	2026e
P/E	937.4x	135.3x	4.2x	6.8x	7.7x	10.4x
EV/EBITDA	1510.0x	117.1x	2.2x	4.1x	3.8x	4.3x
P/B	242.2x	89.8x	1.3x	1.2x	1.0x	0.9x
Dividend yield	0.0%	0.1%	9.3%	11.7%	10.3%	7.7%
FCF yield	0.0%	0.4%	29.5%	1.6%	10.6%	7.6%

Source: Company data, Morgan Stanley Research estimates (e)

Board of directors / management team

Exhibit 185: Board of directors

Omer M. Koç	Chair
Ali Y. Koç	Vice Chair
Rahmi Koç	Director
Semahat S. Arsel	Director
Levent Cakiroglu	Director
Erol Memioglu	Director
Yagiz Eyuboglu	Director
Zekeriya Kaya	Director
Ayse Canan Ediboglu	Director
Muharrem Hilmi Kayhan	Director
Kamil Omer Bozer	Director
Yunus Elitas	Director

Source: Company data, Morgan Stanley Research.

Exhibit 186: Management team

Ibrahim Yelmenoglu	General Manager
Dogan Korkmaz	Assistant General Manager (Financial)
Levent Zagra	Assistant General Manager (Investments & Planning)
Atilla Ulusu	Assistant General Manager (Sales & Marketing)
Murat Simsek	Assistant General Manager (Technical)
Sarp Yeletaysi	Assistant General Manager (Crude Oil Supply & Foreign Trade)
Onder Korkmaz	Assistant General Manager (Human Resources)
Arda Yildirim	Izmit Refinery Manager
Volkan Demirtas	Izmir Refinery Manager
Tolga Temur	Kirikkale Refinery Manager
Ahmet Cemil Karaoguz	Batman Refinery Manager

Source: Company data, Morgan Stanley Research.

Ownership structure

Exhibit 187: Ownership structure

Shareholder	Stake %
Enerji Yatirimlari A.S.	46.4%
Koç Holding and other Koç	6.8%
Free float	46.8%

Source: Company data, Morgan Stanley Research. Note: Koç Holding owns 77% of Enerji Yatirimlari A.S. Note: Data as at July 2024.

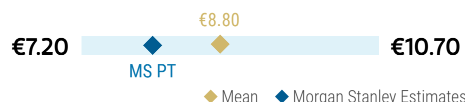
Risk Reward – HELLENiQ ENERGY Holdings SA (HEPr.AT)

Solid fundamentals reflected in stock outperformance

PRICE TARGET €8.00

Our Dec-25 price target is a 50%/50% blend of EV/EBITDA and DCF. We apply a multiple of 6.0x to estimated 2026 EBITDA – similar to HELLENiQ's historical average, as we expect refining margins to normalise by then. Our 10-year DCF assumes a WACC of 9.0% (in EUR terms) and a terminal growth rate of 1%.

Consensus Price Target Distribution

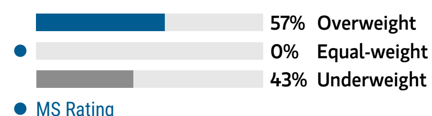


Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

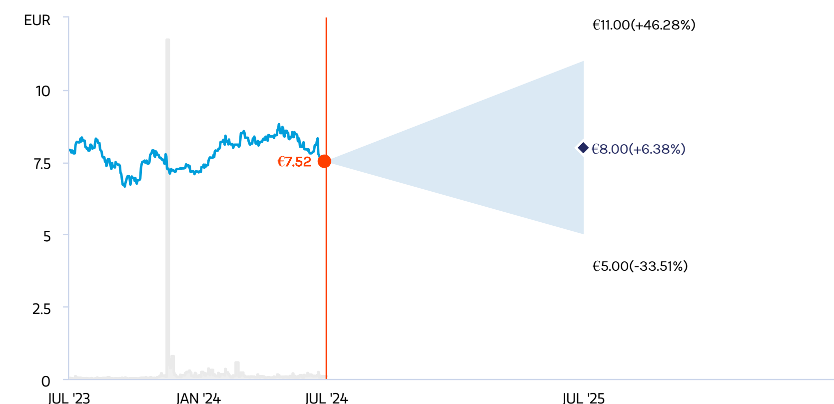
HELLENiQ offers the second-largest relative exposure to refining across our coverage, combined with well delineated plans to invest in renewables generation and a supportive macro environment in Greece. YTD, however, the stock has outperformed the 4 other refining names we cover, leaving limited room for further outperformance, in our view – hence our Equal-weight rating.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



Key: Historical Stock Performance, Current Stock Price, Price Target

Source: Refinitiv, Morgan Stanley Research

BULL CASE €11.00

Margins supported by improving fundamentals

In our bull case, refining margins perform better than expected, not converging towards their historical levels until 2027. Polypropylene spreads post a meaningful inflection from current levels.

BASE CASE €8.00

Margin normalisation in place

Our base case for HELLENiQ assumes a gradual normalisation in refining margins, with margins back to historical levels by 2026. Despite seeing petrochemical margins at trough levels, global fundamentals may cap a meaningful inflection on margins.

BEAR CASE €5.00

Lower margins, higher taxes

In our bear case, new capacity weighs more heavily on refining margins than expected, with full normalisation by FY25 and a further decline in 2026 and 2027. Polypropylene profitability also contracts as new plants start up in other regions. The solidarity tax announced in 2024 is also applied in 2025.

Risk Reward – HELLENiQ ENERGY Holdings SA (HEPr.AT)

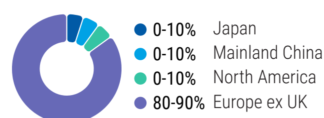
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Gross production	16,220	16,297	16,024	16,024
Refining margin	17.1	11.7	8.9	7.0
Petchem production	275	292	284	348
Marketing volumes	3,867	3,934	3,974	4,006
RES operating capacity	356	581	1,081	1,231

INVESTMENT DRIVERS

- Refining margins
- Fuel demand in Greece
- Capital allocation
- Utilisation rates

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Refining margins prove to be more resilient than expected
- Lower expansion in global refining capacity
- Higher utilisation rates

RISKS TO DOWNSIDE

- Lower than expected returns on renewables
- Deterioration in refining margins
- Dividend payments below MSe and consensus expectations
- Faster penetration of EVs, weighing on gasoline demand

OWNERSHIP POSITIONING

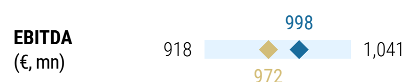
HF Sector Long/Short Ratio	1.9%
HF Sector Net Exposure	2.2x

Source: Morgan Stanley Prime Brokerage. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

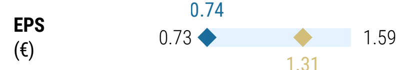
MS ESTIMATES VS. CONSENSUS

FY 2024e

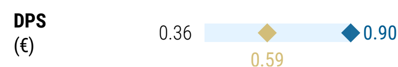
EBITDA (€, mn)



EPS (€)



DPS (€)



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

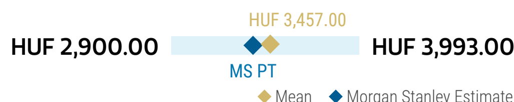
Risk Reward – MOL Magyar Olajes Gazipari Nyrt (MOLB.BU)

Valuation gap to peers, but catalysts lacking

PRICE TARGET HUF 3,357.00

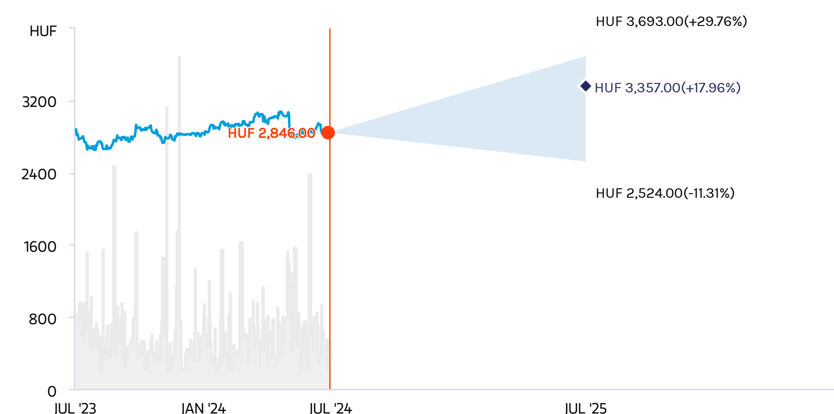
Our Dec-25 price target is a 50%/50% blend of EV/EBITDA and DCF. We apply a multiple of 3.5x to estimated 2026 EBITDA – similar to MOL's historical average, as we expect refining margins to normalise by then. Our 10-year DCF assumes a WACC of 9.3% (in USD terms) and a terminal growth rate of 1%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



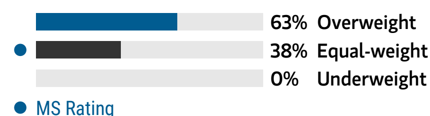
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

With MOL aiming to finalise its polyol plant in 2025, the FCF profile should greatly improve owing to capex reduction and EBITDA contribution. The stock trades at a discount to its own historical averages and to CEE peers, but we see few catalysts that could help this gap to narrow.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

BULL CASE HUF 3,693.00

Higher DPS supported by better margins

Our bull case sees a meaningful tightening in the global refining market, with margin normalisation taking a lot longer to materialise (2027). Petrochemical margins also sharply rebound. The improved FCF generation supports stronger dividend payments.

BASE CASE HUF 3,357.00

Refining margins normalise, polyols plant starts

In our base case, we see new refining capacity entering the market in the foreseeable future, which should continue to drive margin normalisation. We assume margins reach historical levels by 2026. As for petrochemicals, we model margins inflecting in 2024 and 2025, but not significantly.

BEAR CASE HUF 2,524.00

Still a challenging macro environment

Our bear case assumes that global refining fundamentals become loose, with margins returning to historical levels in FY25 and contracting further in 2026 and 2027. We also assume that petrochemical margins decline from current (low) levels. Equally, we model that windfall taxes / fees remain.

Risk Reward – MOL Magyar Olajes Gazipari Nyrt (MOLB.BU)

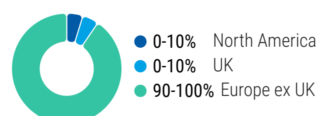
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
O&G production	80	80	79	76
Refining sales	17,759	16,892	19,529	19,529
Petrochemical sales	1,200	1,047	1,024	1,224
Marketing sales	6,451	6,666	6,881	7,073

INVESTMENT DRIVERS

- Refining margins
- Petrochemical margins
- FX
- Crude differential

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 MOST | 3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Expected new refining capacity taking longer to start / ramp up
- Relevant rebound in petrochemical margins
- Higher dividend payments post completion of the polyol plant

RISKS TO DOWNSIDE

- Further tax announcements
- Deterioration in refining margins
- Worsening in crude differentials

OWNERSHIP POSITIONING

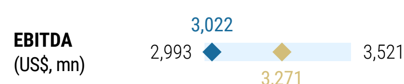
HF Sector Long/Short Ratio	1.9%
HF Sector Net Exposure	2.2x

Source: Morgan Stanley Prime Brokerage. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

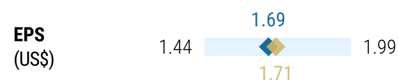
MS ESTIMATES VS. CONSENSUS

FY 2024e

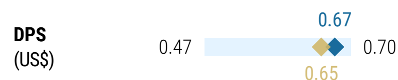
EBITDA (US$, mn)



EPS (US$)



DPS (US$)



Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

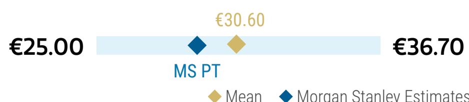
Risk Reward – Motor Oil Hellas Corinth Refineries SA (MORr.AT)

Quality play, supportive backdrop

PRICE TARGET €29.00

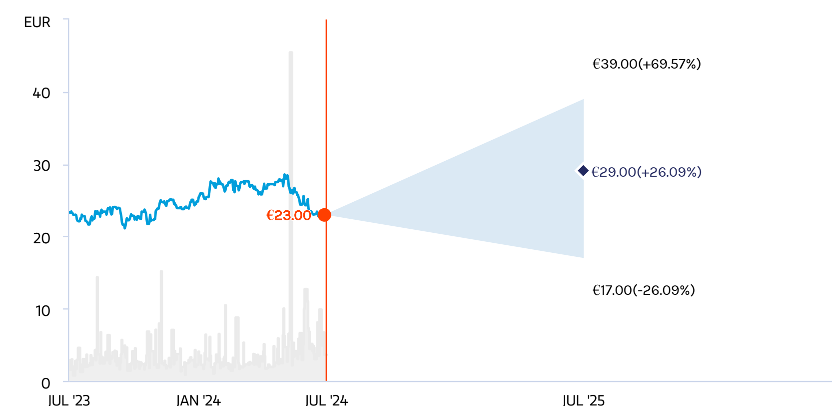
Our Dec-25 price target is a 50%/50% blend of EV/EBITDA and DCF. We apply a multiple of 5.5x to estimated 2026 EBITDA – similar to Motor Oil's historical average, as we expect refining margins to normalise by then. Our 10-year DCF assumes a WACC (in EUR terms) of 9.4% and a terminal growth rate of 1%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



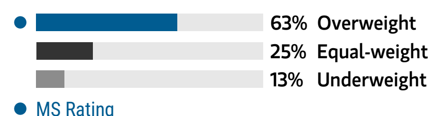
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

We see Motor Oil as the quality play in the sector. It doesn't have the highest relative exposure to refining among the names we cover, but we see it benefitting from i) operating a single, high-quality asset, ii) a solid balance sheet that can fund its 2030 strategy, while iii) still paying a solid dividend yield to investors (2024/25e 6.5%/7.3%).

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

BULL CASE €39.00

All about (higher) dividends

In our bull case, Motor Oil benefits from tighter refining and petrochemical fundamentals. That implies refining margins remaining above historical levels for longer. Equally, there should be a more pronounced rebound in propylene margins. Supported by stronger FCF, we assume the dividend payout increases to 60%.

BASE CASE €29.00

Refining margins continue to normalise

Our base case assumes that new refining capacity to drive a normalisation in margins until 2026. FCF may benefit from the completion of the company's propylene capacity (we assume a slight inflection in petrochemical margins). We model a dividend payout of ~40% for the foreseeable future.

BEAR CASE €17.00

Quicker margin normalisation

In the bear case, refining margins normalise in FY25 and decline further in 2026 and 2027. The solidarity tax announced in 2024 is also applied in 2025. Polypropylene margins decline from current levels, as the global supply/demand proves challenging.

Risk Reward – Motor Oil Hellas Corinth Refineries SA (MORr.AT)

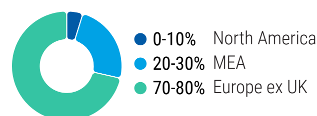
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Production	12,004	11,471	11,291	11,291
Refining margin	17.7	12.4	10.2	7.4
Marketing volumes	3,948	3,933	3,998	4,053
RES operating capacity	839	839	862	1,162

INVESTMENT DRIVERS

- Refining margins
- Fuel demand in Greece
- Dividend announcements
- Utilisation rates

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Refining margins proving more resilient than expected
- Stronger aviation activation driving demand for jet fuel
- Increase in dividend payout compared to recent years

RISKS TO DOWNSIDE

- Increase in capex intensity on renewables projects
- Faster penetration of EVs, weighing on gasoline demand
- Worsening market fundamentals impacting refining margins

OWNERSHIP POSITIONING

HF Sector Long/Short Ratio	1.9%
HF Sector Net Exposure	2.2x

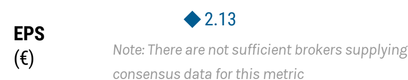
Source: Morgan Stanley Prime Brokerage. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

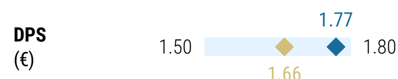
FY 2024e

EBITDA (€, mn)

EPS (€)



DPS (€)



Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

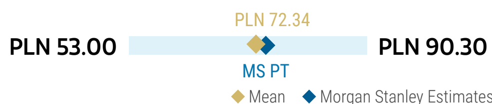
Risk Reward – Orlen SA (PKN.WA)

Reforms in motion

PRICE TARGET PLN 74.00

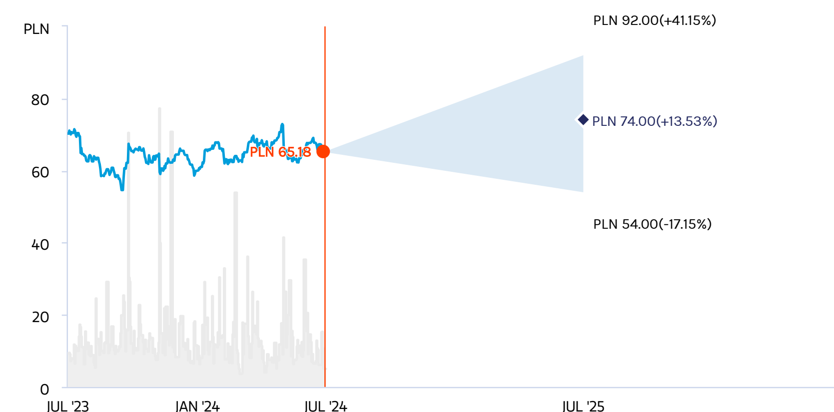
Our Dec-25 price target is a 50%/50% blend of EV/EBITDA and DCF. We apply a multiple of 5.0x to estimated 2026 EBITDA – similar to Orlen's historical average, as we expect refining margins to normalise by then. Our 10-year DCF assumes a WACC of 9.4% and a terminal growth rate of 1%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



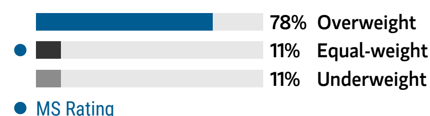
Key: Historical Stock Performance, Current Stock Price, Price Target

Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

Orlen has transformed itself into an integrated energy company in recent years, post the acquisition of Lotos and PGNiG. New management has stated that the previous strategy will be replaced or updated, and we believe this could result in to a greater focus on returns than on growth at any price. While capex and strategy announcements are the relevant drivers, visibility is still low on what may actually be announced. This supports a more cautious view on the stock, in our view, although among our Equal-weight rated refinery names, we think Orlen is the one to watch.

Consensus Rating Distribution



MS Rating

Source: Refinitiv, Morgan Stanley Research

BULL CASE PLN 92.00

Higher margins + lower capex = stronger dividends

Our bull case is that refining margins remain above historical levels for the foreseeable future, owing to tighter-than-expected fundamentals. We assume that petrochemical margins improve from 2025 onwards, while new management is able to reduce capex even further. The improved outlook supports stronger dividend payments.

BASE CASE PLN 74.00

Margin normalisation, clearer capital allocation

Our base case is that refining fully normalises by 2026, whereas petrochemical profitability remains close to current levels. As part of the updated strategy, we reduce capex intensity post 2026, as we expect new management to be stricter with capital allocation.

BEAR CASE PLN 54.00

Reforms, but against a challenging macro backdrop

Our bear case assumes that margins fully normalise by FY25 and decline further in 2026 and in 2027, while the performance in petrochemicals deteriorates further. We also assume the performance on gas segment weakens, while consolidated capex intensity remains close to current levels.

Risk Reward – Orlen SA (PKN.WA)

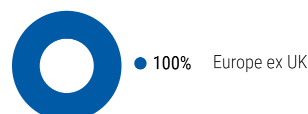
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Refining sales	66	59	60	60
Refining margins	18.6	12.6	11.1	8.5
Upstream production	173	213	234	246
Electricity capacity	5.5	5.6	5.6	5.6
Gas sales	0	0	0	0

INVESTMENT DRIVERS

- Refining margins
- Petrochemical margins
- Upstream production and realised prices
- Volumes / margins on gas trading
- Capital allocation / strategy update

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- More resilient refining margins
- Stricter capital allocation resulting in higher than expected cut in capex
- Improved FCF generation supporting increased dividend payments

RISKS TO DOWNSIDE

- Capex not being reduced
- Deterioration in refining margins occurring earlier than expected
- Petrochemical margins deteriorating further from current levels

OWNERSHIP POSITIONING

HF Sector Long/Short Ratio	1.9%
HF Sector Net Exposure	2.2x

Source: Morgan Stanley Prime Brokerage. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY 2024e

EBITDA (PLN, mn)

EPS (PLN)

DPS (PLN)

Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Orlen SA (PKN.WA)

SUSTAINABILITY AND ESG

Our ESG R/R tile includes data from FactSet, as well as, data from our proprietary HER score and Sustainable Solutions Interactive tool.

FactSet, a third party vendor, developed FactSet's SFDR Principal Adverse Impacts (PAI) data specifically to support compliant Sustainable Finance Disclosure Regulation (SFDR) reporting. FactSet collects PAI metrics from publicly available company disclosures, then standardizes the company-reported information to allow for easy comparison across companies. Specifically, FactSet converts nonconforming data points to standardized units as required by SFDR, like gigawatt hours, metric tons of CO2e, Tons and anti-corruption fines paid in EUR.

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ALL METRICS OVER TIME

Environment	Unit	Dec' 20	Dec' 21	Dec' 22
Total GHG emissions	Metric ton CO2 e	16,994,122	101,585,181	130,164,438
Total GHG emissions/ Enterprise value (EV)	Metric ton per EUR million EV	1,720	8,720	5,799
Total amount of hazardous waste generated (including radioactive waste, if reported)	Tonnes	81,295	-	-
Governance				
Average Tenure of Board	Number	0	0	0
Board Independent Directors	Percentage	0	0	0
Board gender diversity	Ratio	-	3:6	-

Source: FactSet, Morgan Stanley Research

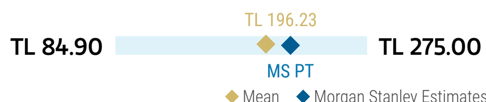
Risk Reward – Turkiye Petrol Rafinerileri AS (TUPRS.IS)

Looking for refining exposure?

PRICE TARGET TL 215.00

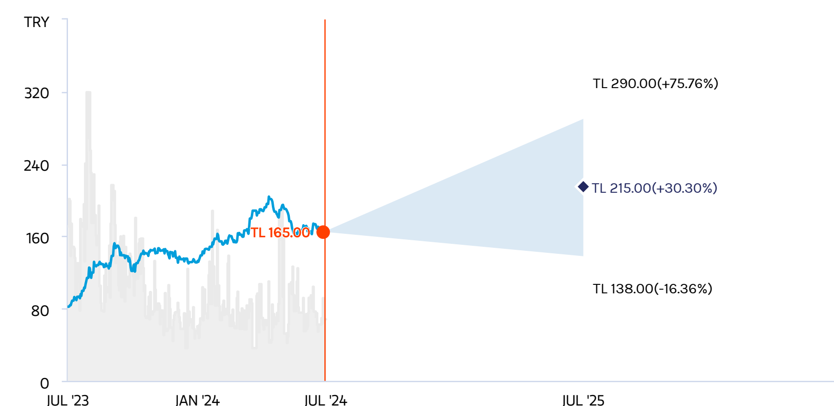
Our Dec-25 price target is a 50%/50% blend of EV/EBITDA and DCF. We apply a multiple of 6.5x to estimated 2026 EBITDA – similar to Tupras's historical average, as we expect refining margins to normalise by then. Our 10-year DCF assumes a WACC of 12.6% (in USD terms) and a terminal growth rate of 1%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



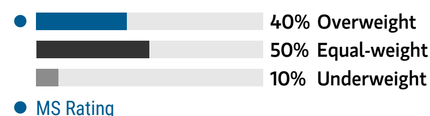
Key: Historical Stock Performance, Current Stock Price, Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

Tupras offers the highest relative exposure to refining among the five companies we cover in the sector. It also benefits from Turkey's diesel demand being higher than domestic production, resulting in demand being 'sticky' and Tupras being able to sell at higher prices than in international markets. In addition, the company's exposure to domestic demand benefits from an improved macro picture in Turkey. Lastly, an attractive dividend yield of 11.7%/10.3% for 2024/25e is another reason underpinning our Overweight rating.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

BULL CASE TL 290.00

Higher margins for longer

Our bull case assumes delays in new refining projects supporting stronger margins globally, with normalisation proving much slower than expected. We also assume stronger power generation deployment.

BASE CASE TL 215.00

It's all about refining

Our base case assumes utilisation rates at ~95% in the coming years, and refining margins revert to historical levels in 2026. That allows Tupras to return most of its free cash flow by way of dividends, with an average yield of 8.2% over 2025-30.

BEAR CASE TL 138.00

Impact from new supply sooner than expected

In our bear case, new refining capacity enters the market without any delays, while outages come at lower levels than in the past. That leads to margins reaching their historical levels by FY25, and declining even further in 2026 and 2027.

Risk Reward – Turkiye Petrol Rafinerileri AS (TUPRS.IS)

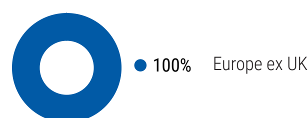
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Refining sales	30,108	29,998	32,868	33,419
Refining margin	0.0	11.9	8.5	5.9
Total power capacity	492	492	642	792

INVESTMENT DRIVERS

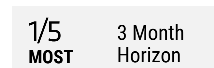
- Refining margins
- Utilisation rates
- Capital allocation
- Currency

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Delay in new refining capacity supporting refining margins above historical levels for longer
- Lower capex intensity
- Increased utilisation

RISKS TO DOWNSIDE

- No recovery in utilisation rates from 2025 onwards
- Refining margins normalising faster than expected
- Weaker fuel demand
- Faster penetration of EVs, weighing on gasoline demand

OWNERSHIP POSITIONING

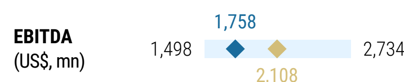
HF Sector Long/Short Ratio	1.9%
HF Sector Net Exposure	2.2x

Source: Morgan Stanley Prime Brokerage. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

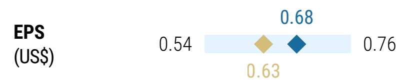
MS ESTIMATES VS. CONSENSUS

FY 2024e

EBITDA (US$, mn)



EPS (US$)



DPS (US$)

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Turkiye Petrol Rafinerileri AS (TUPRS.IS)

SUSTAINABILITY AND ESG

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ALL METRICS OVER TIME

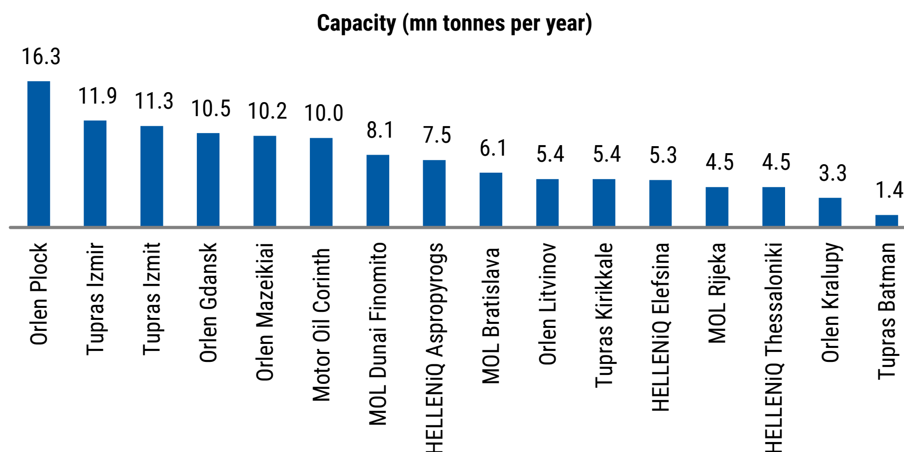
Environment	Unit	Dec' 20	Dec' 21	Dec' 22
Total GHG emissions	Metric ton CO2 e	-	5,923,761	6,452,273
Total GHG emissions/ Enterprise value (EV)	Metric ton per EUR million EV	-	1,184	720
Total amount of hazardous waste generated (including radioactive waste, if reported)	Tonnes	15,625	11,837	13,363
Governance				
Average Tenure of Board	Number	13.63	13.63	13.63
Board Independent Directors	Percentage	12.50	12.50	12.50
Board gender diversity	Ratio	2:9	2:9	2:9

Source: FactSet, Morgan Stanley Research

Chart Pack I: Company/asset overview

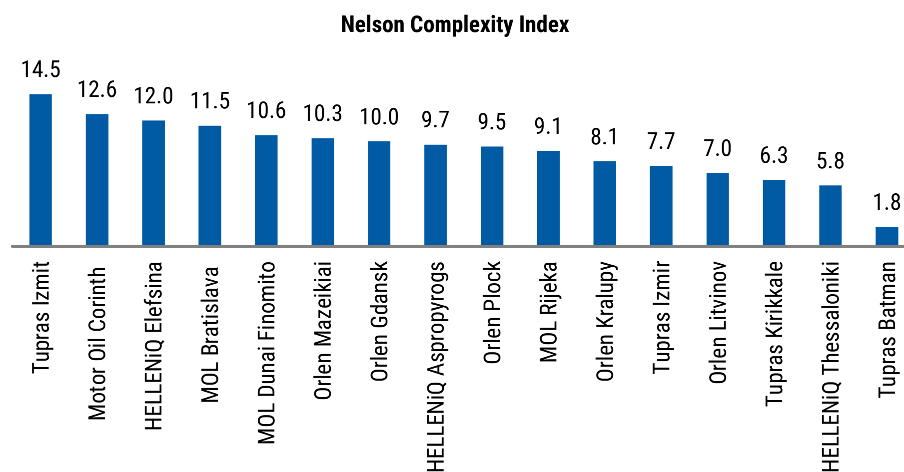
Side-by-side comparison

Exhibit 188: Orlen and Tupras operate the largest refineries within our coverage (mtpa)



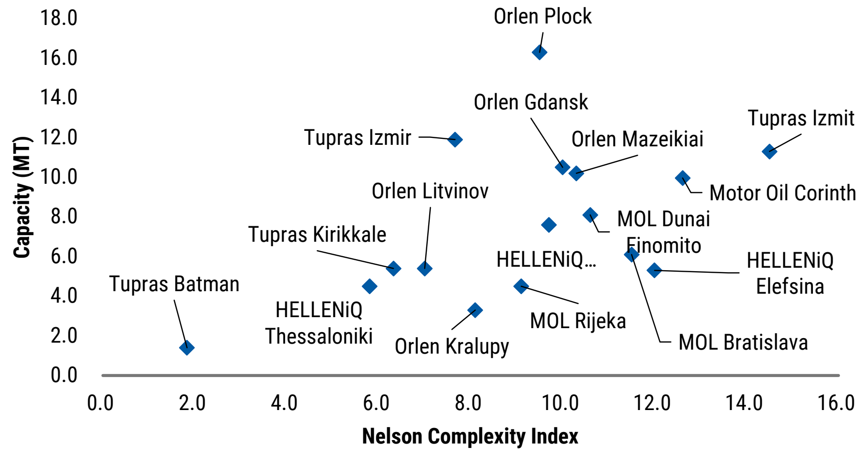
Source: Company data, Morgan Stanley Research. Note: Data as of July 2024.

Exhibit 189: Tupras Izmit refining has the highest complexity index, followed by Motor Oil



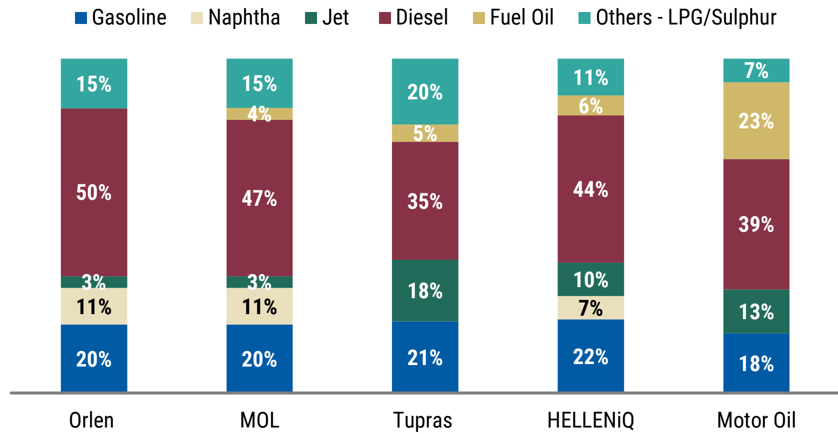
Source: Company data, Morgan Stanley Research. Note: Data as of July 2024.

Exhibit 190: Refining footprint overview



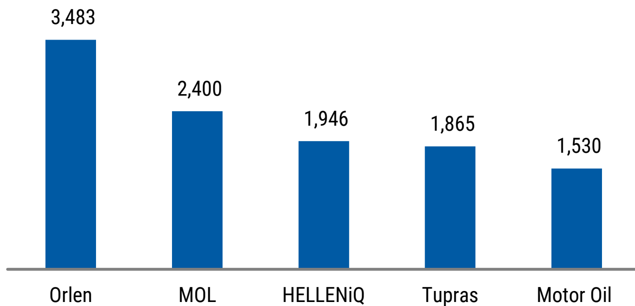
Source: Company data, Morgan Stanley Research. Note: Data as of July 2024.

Exhibit 191: Product yield: Tupras and Motor Oil have the lowest diesel exposures



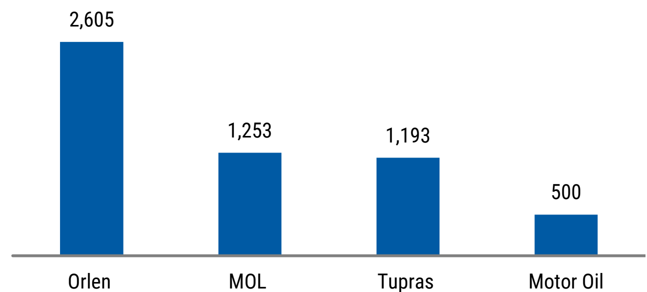
Source: Company data, Morgan Stanley Research. Note: Data as of July 2024.

Exhibit 192: Orlen operates the highest number of stations...



Source: Company data, Morgan Stanley Research. Note: 1Q24 data.

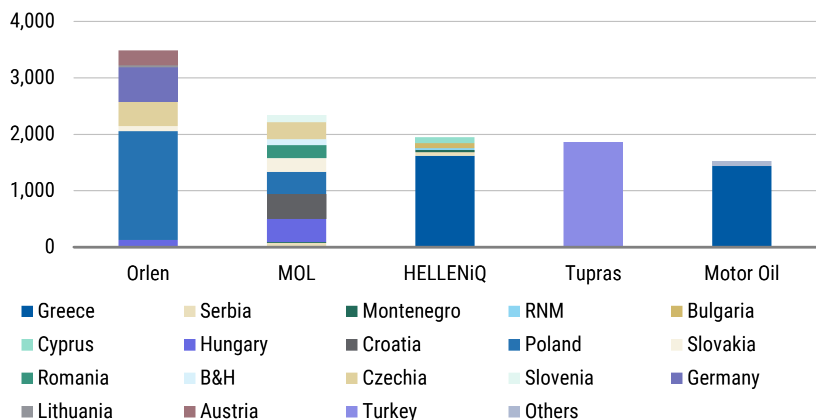
Exhibit 193: ...and, unsurprisingly, the largest number of non-fuel locations



Source: Company data, Morgan Stanley Research. Note: 1Q24 data.

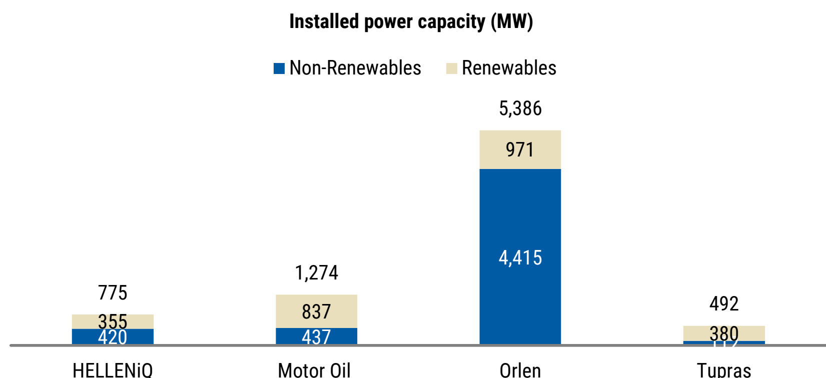
Exhibit 194:

Petrol station: geographic footprint



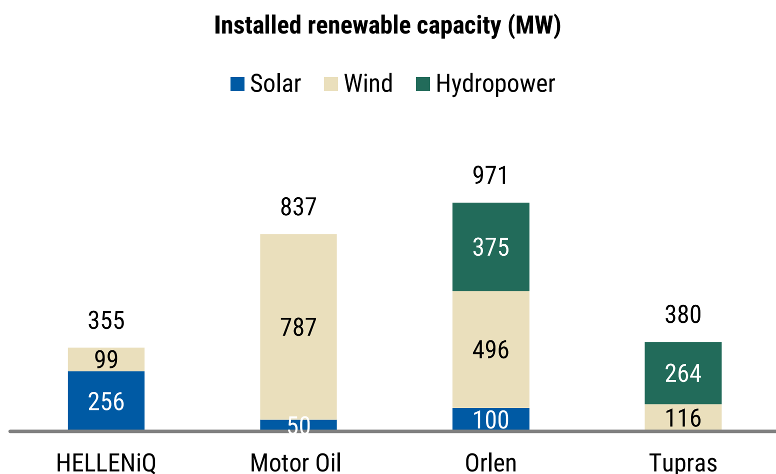
Source: Company data, Morgan Stanley Research. Note: 1Q24 data.

Exhibit 195: Orlen has the highest installed power generation capacity, mostly comprising conventional capacity



Source: Company data, Morgan Stanley Research. Note: FY23 data.

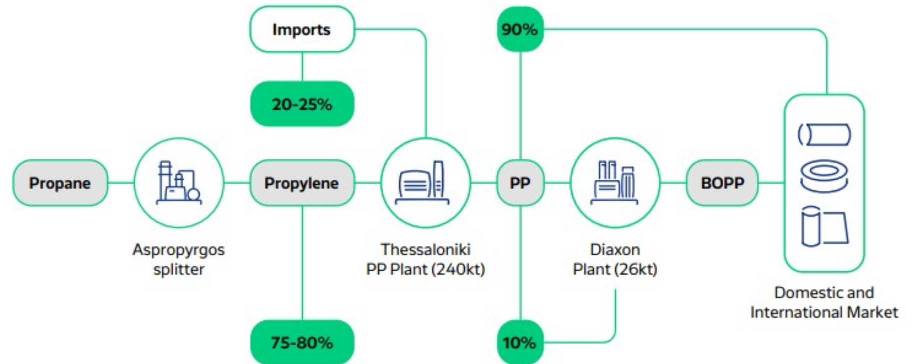
Exhibit 196: On renewables, Motor Oil's capacity is close to Orlen's. The composition differs, however, with Motor Oil largely exposed to onshore wind



Source: Company data, Morgan Stanley Research. Note: FY23 data.

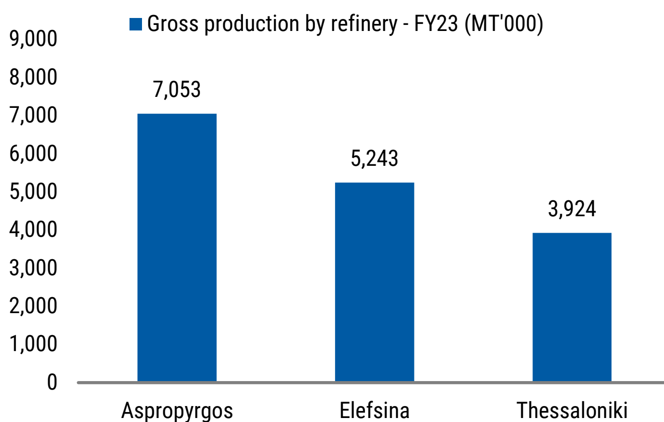
HELLENiQ

Exhibit 197: HELLENiQ's integration provides about 80% of the propylene needs



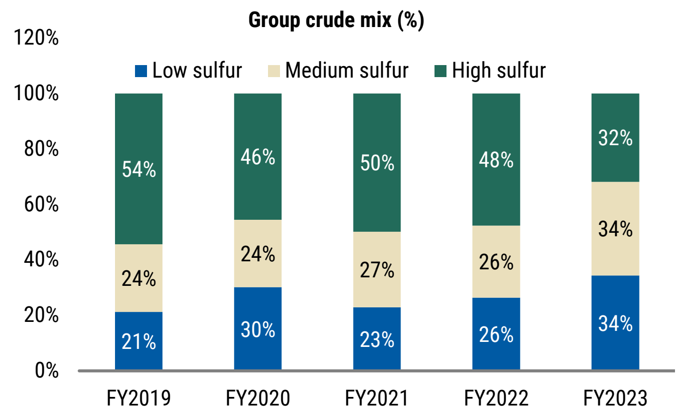
Source: HELLENiQ Corporate Presentation.

Exhibit 198: Most of HELLENiQ's production comes from the Aspropyrgos refinery



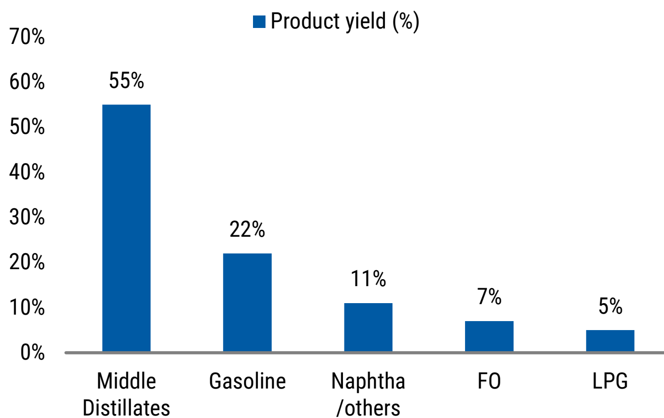
Source: Company data, Morgan Stanley Research.

Exhibit 199: The share of low sulphur increased in 2023 compared to the previous year



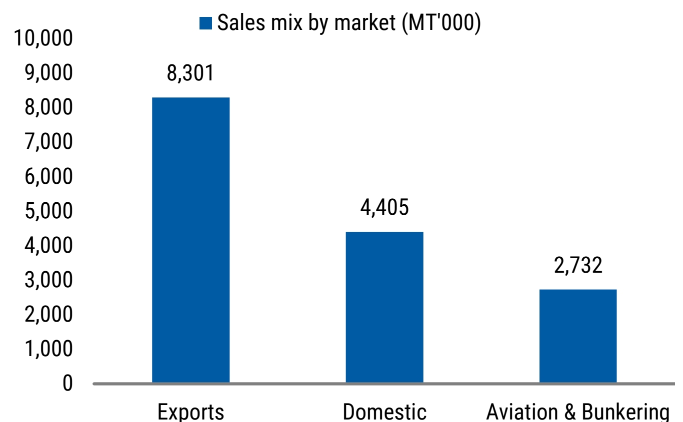
Source: Company data, Morgan Stanley Research.

Exhibit 200: Product yield: all about middle distillates...



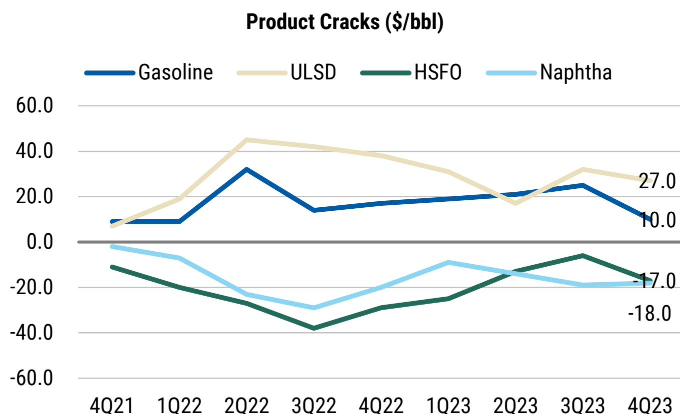
Source: Company data, Morgan Stanley Research. Note: Data as of FY23.

Exhibit 201: ...with most of the products exported to neighbouring markets



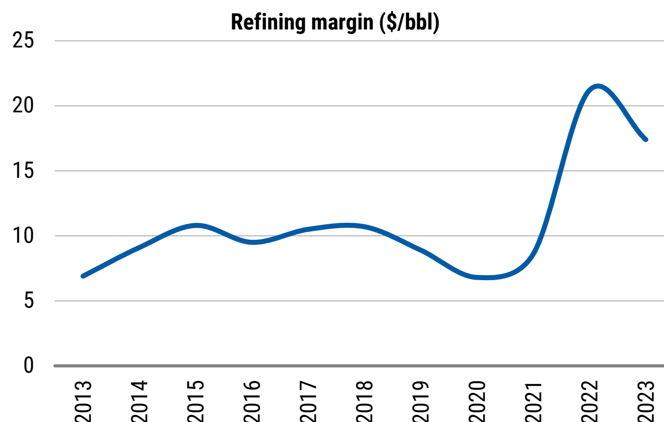
Source: Company data, Morgan Stanley Research. Note: Data as of FY23.

Exhibit 202: HELLENiQ's product crack overview



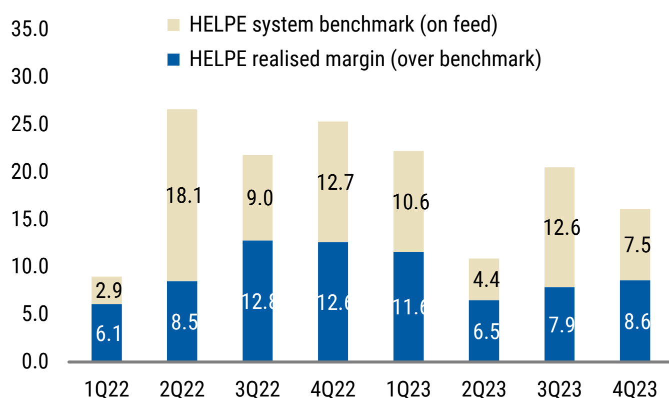
Source: Company data, Morgan Stanley Research.

Exhibit 203: HELLENIQ's margins are normalising and should continue to do so until 2026, we believe...



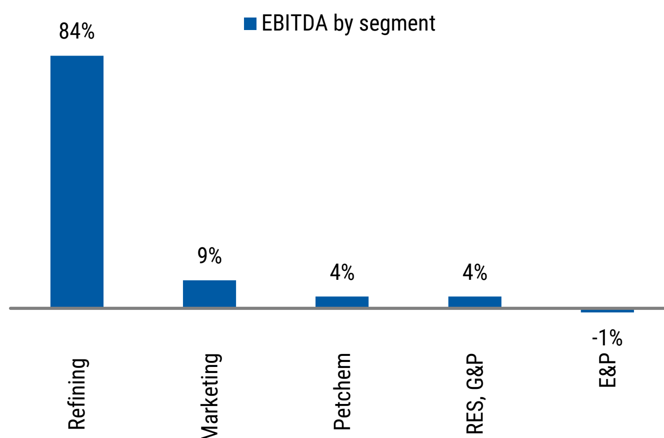
Source: Company data, Morgan Stanley Research.

Exhibit 204: ...while the premium over benchmark remains consistent with historical levels



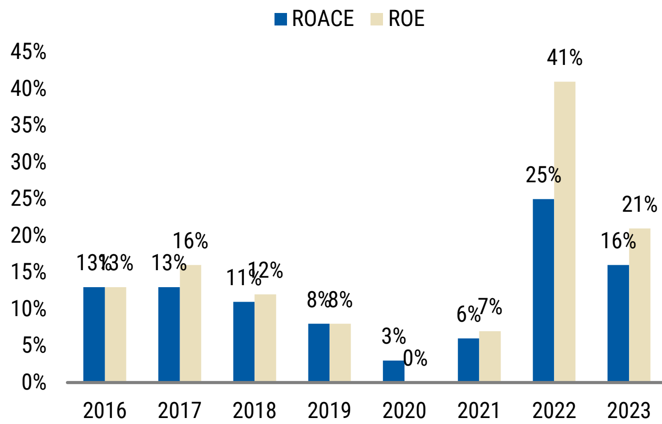
Source: Company data, Morgan Stanley Research.

Exhibit 205: Refining is by far the largest EBITDA contributor for HELLENIQ (FY23)



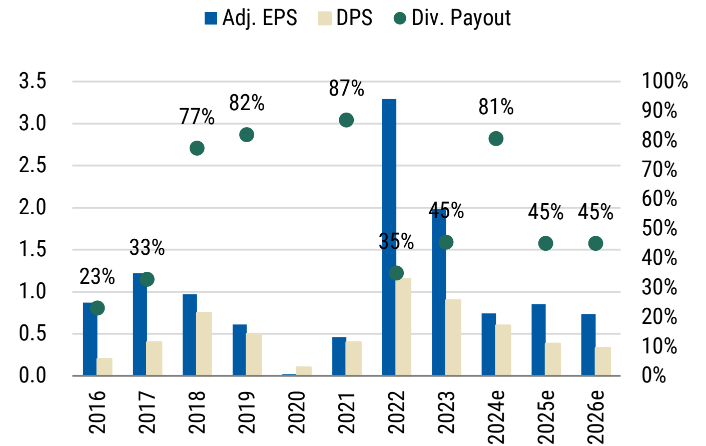
Source: Company data, Morgan Stanley Research.

Exhibit 206: 2022-23 returns were far higher than historical levels



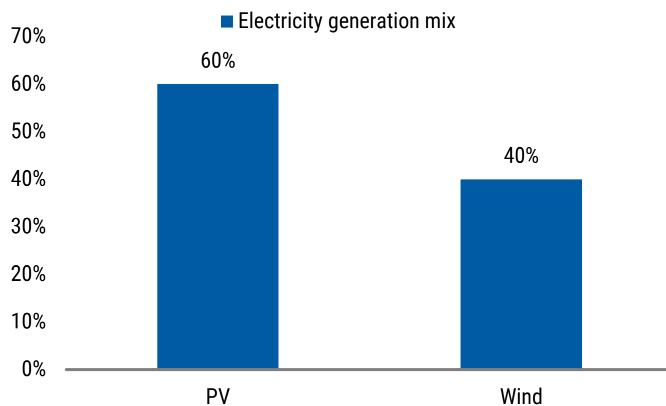
Source: Company data, Morgan Stanley Research.

Exhibit 207: DPS benefitted from increased profitability in 2022/23. We assume a 45% payout in the coming years



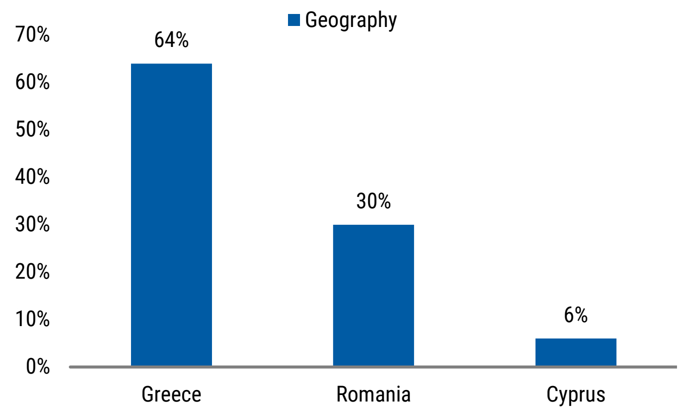
Source: Company data, Morgan Stanley Research estimates (e).

Exhibit 208: 60% of HELLENiQ's power generation comes from solar PV...



Source: Company data, Morgan Stanley Research. Note: Data as of FY23.

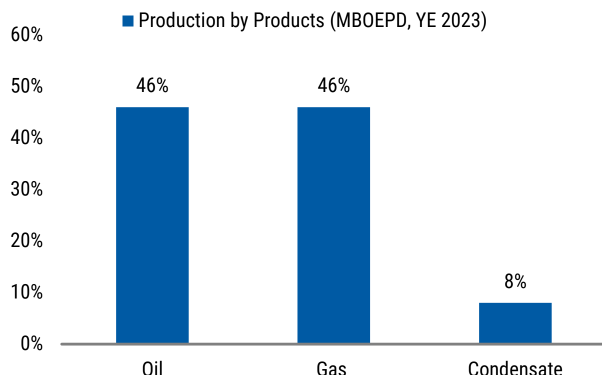
Exhibit 209: ...with Greece the most relevant market



Source: Company data, Morgan Stanley Research. Note: Data as of FY23.

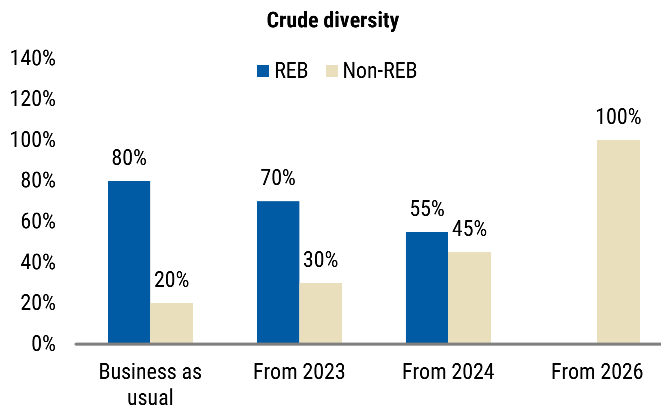
MOL

Exhibit 210: Upstream: production is fairly balanced between oil and gas



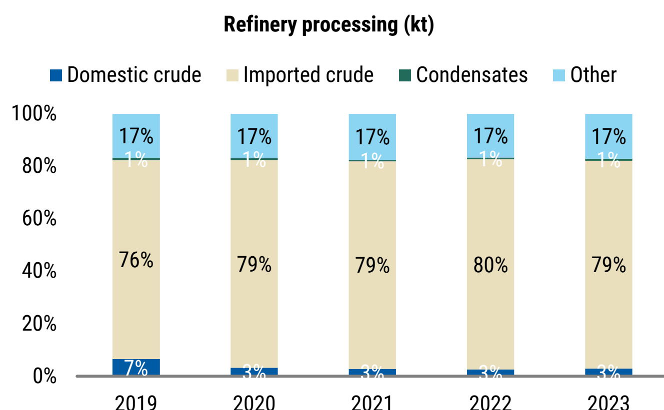
Source: Company data, Morgan Stanley Research.

Exhibit 211: MOL has increased the share of non-Russian oil, and may be able to fully reduce its exposure by 2026



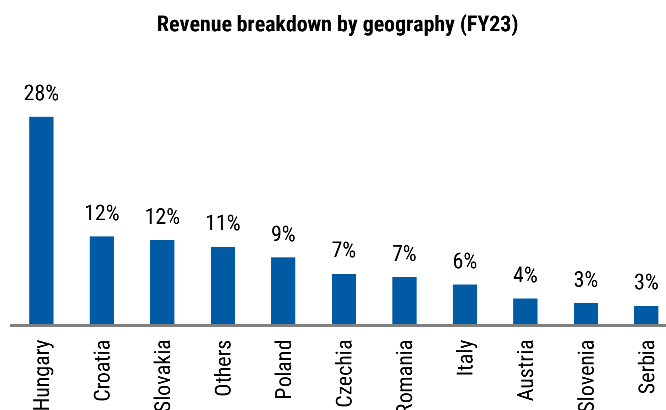
Source: Company data, Morgan Stanley Research.

Exhibit 212: MOL relies on imports for ~80% of its feedstock needs (FY23)



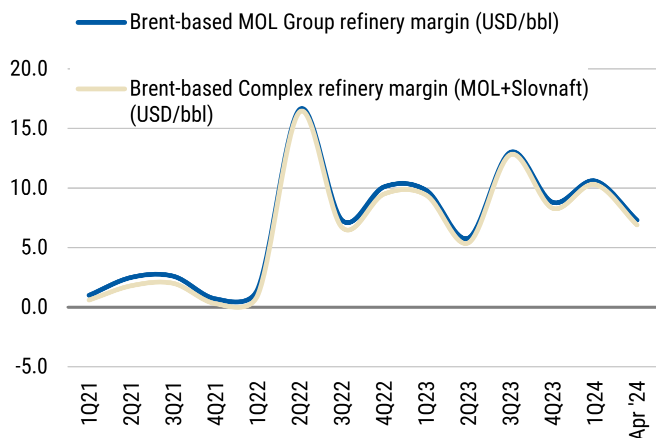
Source: Company data, Morgan Stanley Research.

Exhibit 213: Hungary is the most important market, but MOL's revenues mainly come from other CEE countries



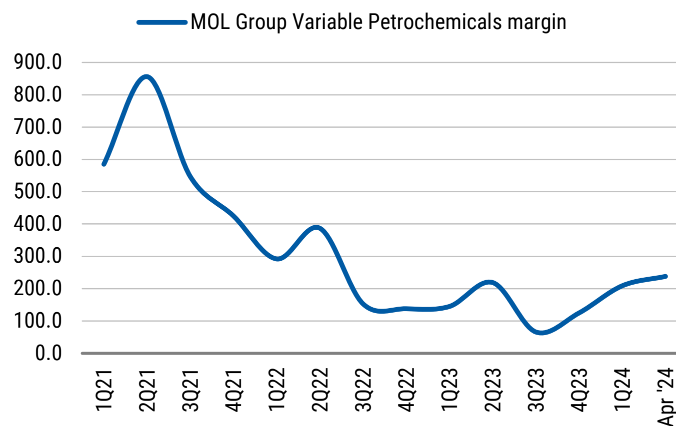
Source: Company data, Morgan Stanley Research.

Exhibit 214: Refining margin performance



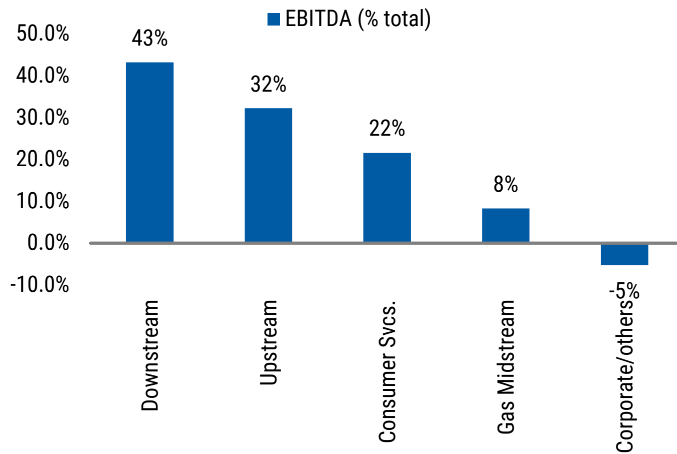
Source: Company data, Morgan Stanley Research.

Exhibit 215: MOL's petrochemical margin ($/t)



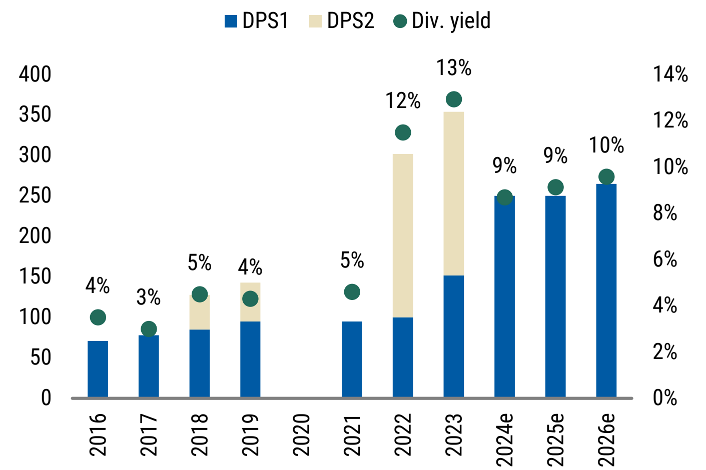
Source: Company data, Morgan Stanley Research.

Exhibit 216: EBITDA breakdown (FY23)



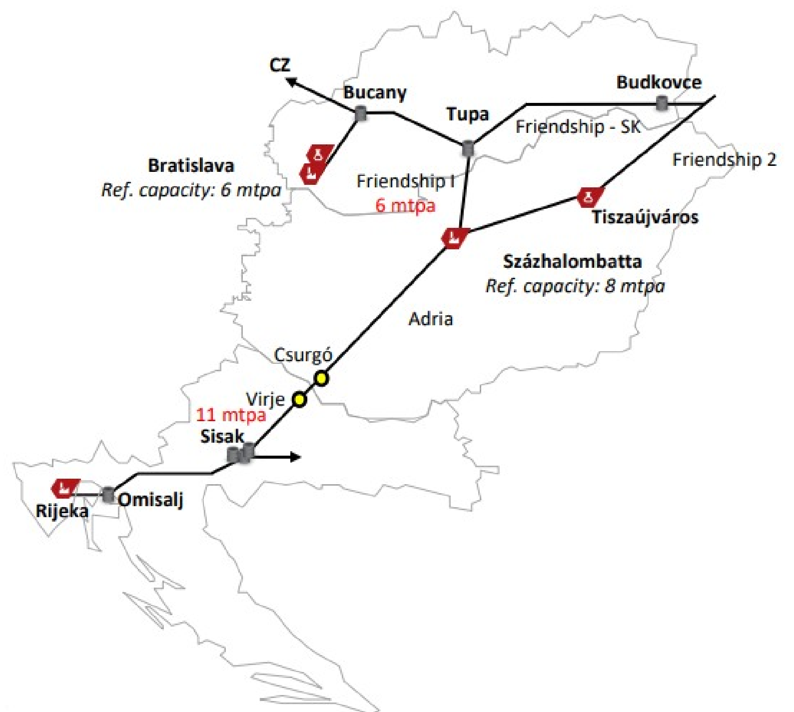
Source: Company data, Morgan Stanley Research.

Exhibit 217: Improved profitability allowed for extra dividends in 2022/23. We expect a gradual return to normalisation



Source: Company data, Morgan Stanley Research estimates (e).

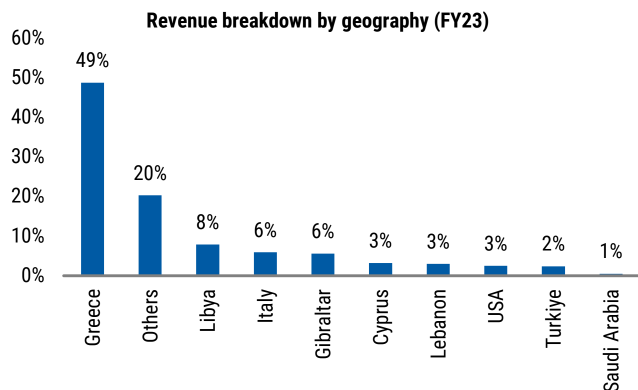
Exhibit 218:
MOL refining footprint



Source: MOL's Corporate Presentation.

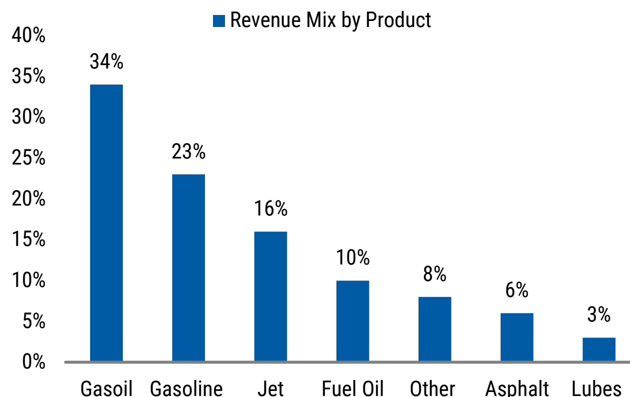
Motor Oil

Exhibit 219: Greece accounts for about half of Motor Oil's revenues



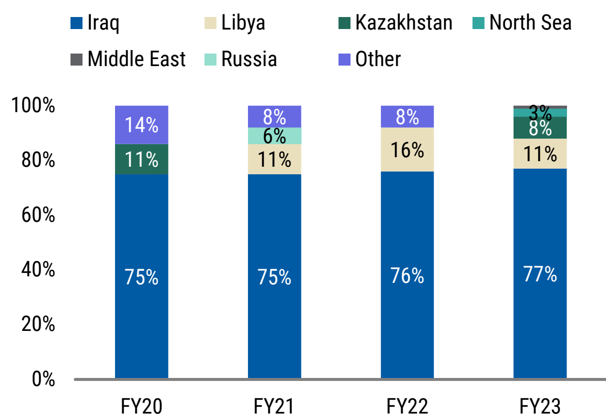
Source: Company data, Morgan Stanley Research.

Exhibit 220: Gasoil is the most relevant product, followed by gasoline and jet (FY23)



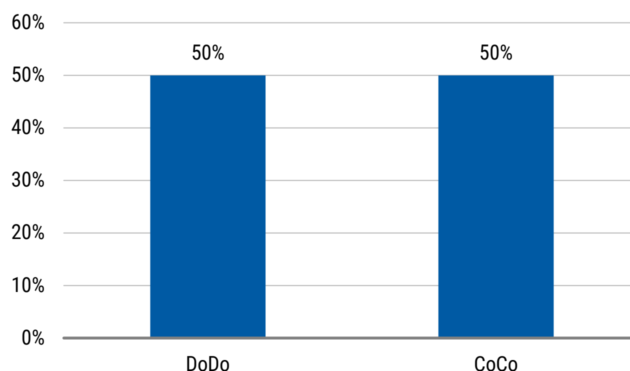
Source: Company data, Morgan Stanley Research.

Exhibit 221: Motor Oil sources about ¾ of its crude from Iraq



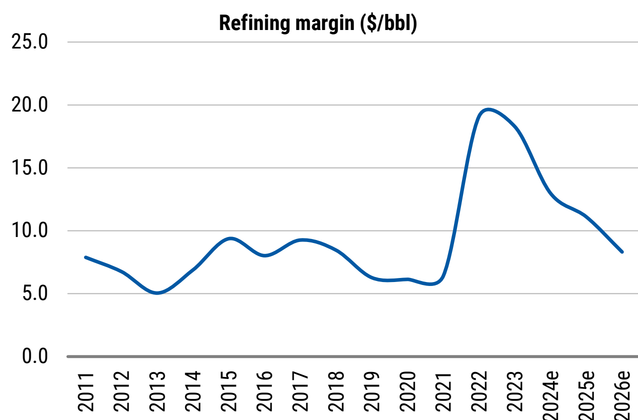
Source: Company data, Morgan Stanley Research.

Exhibit 222: Coral (Shell licensee): station ownership/operation breakdown



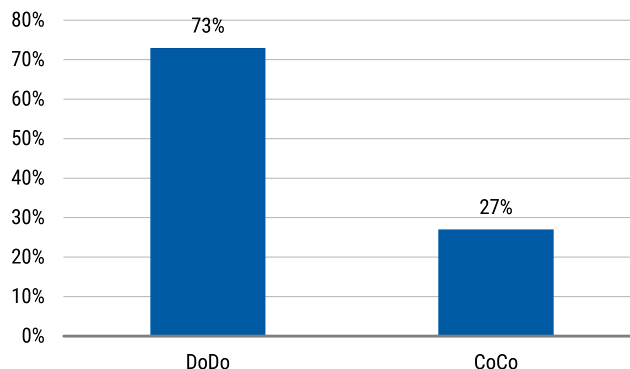
Source: Company data, Morgan Stanley Research. Note: DoDo = dealer owned, dealer operated; CoCo = company owned, company operated.

Exhibit 223: Motor Oil's refining margin: normalisation by 2026



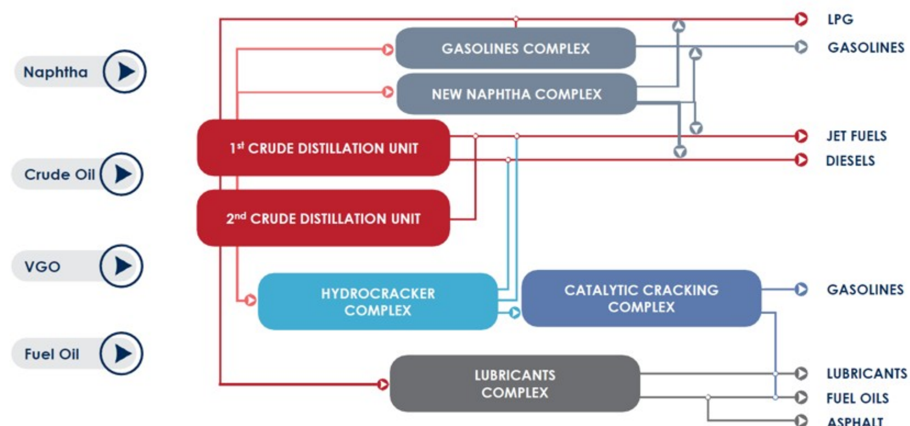
Source: Company data, Morgan Stanley Research estimates (e).

Exhibit 224: Avin: station ownership/operation breakdown



Source: Company data, Morgan Stanley Research. Note: DoDo = dealer owned, dealer operated; CoCo = company owned, company operated.

Exhibit 225:
Motor Oil's refining flow diagram



Source: Motor Oil's Corporate Presentation.

Orlen

Exhibit 226: Orlen's refining footprint and competitive environment

Source: Orlen 2023 Annual Report.

Exhibit 227: Overview of Orlen's logistics infrastructure

Source: Orlen 2023 Annual Report.

Exhibit 228: Orlen's power generation assets

ORLEN S.A.*
Total: 1,538 3,505

ENERGA Group
Total: 1,414 644

PGNiG Termika Group*
Total: 1,929 7,219

ORLEN Lietuva Group
Total: 160 960

ORLEN WIND 3 Group
Total: 252

ORLEN Unipetrol Group
Total: 106 883

ORLEN Południe Group
Total: 10 131

Anwil S.A.
Total: 93 532

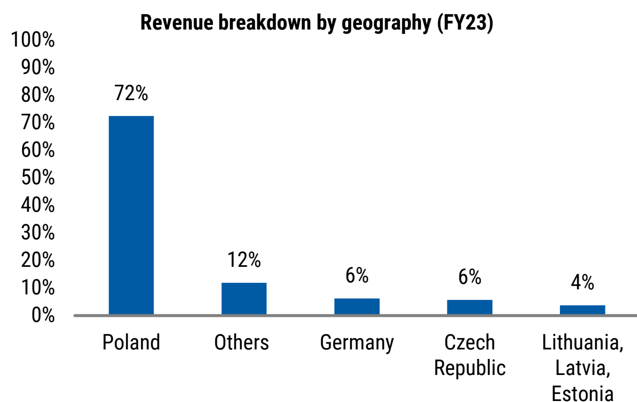
LOTOS Petrobaltic Group
Total: 11 33

ORLEN Upstream Group
Total: 17 1

- Wind farm
- Pumped-storage power plant
- Solar PV farm
- CHP plant
- Commercial power plant
- Heat plant
- Small hydroelectric power plant
- Large hydroelectric power plant
- Biomass-fired generation unit
- Coal
- Electricity distribution
- Electricity sold
- CCGT unit
- Gas-fired power plant
- Thermal capacity (MW)
- Electrical capacity (MW)

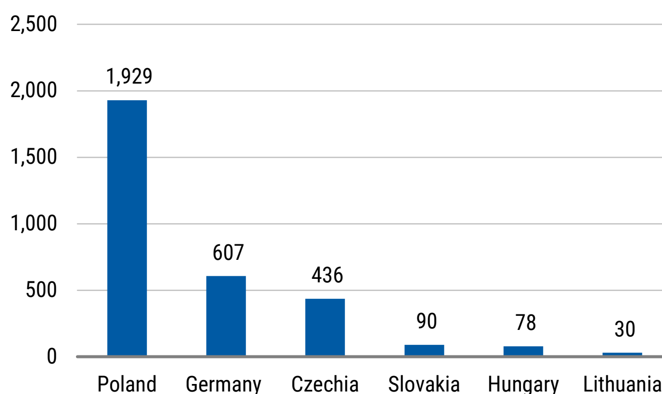
Source: Orlen 2023 Annual Report.

Exhibit 229: It's a Polish story: Orlen's home country accounts for 72% of its revenues



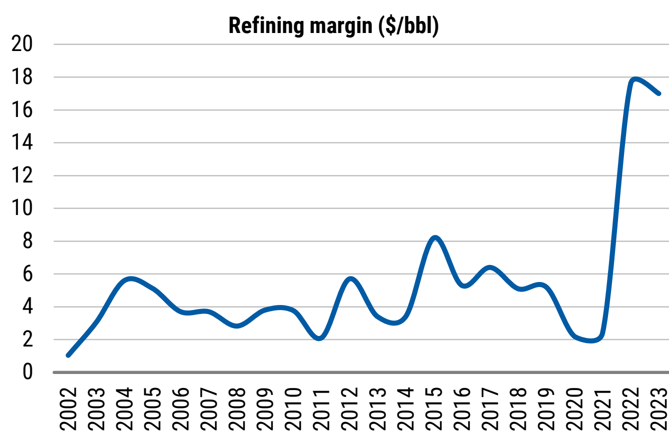
Source: Company data, Morgan Stanley Research.

Exhibit 230: Most of Orlen's fuel stations are located in Poland, followed by Germany



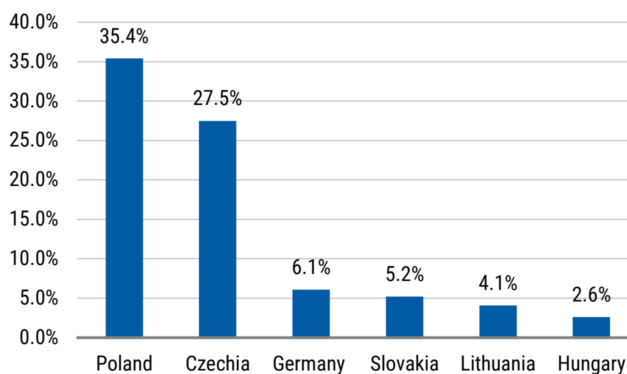
Source: Company data, Morgan Stanley Research.

Exhibit 231: Orlen's margins: normalisation in place



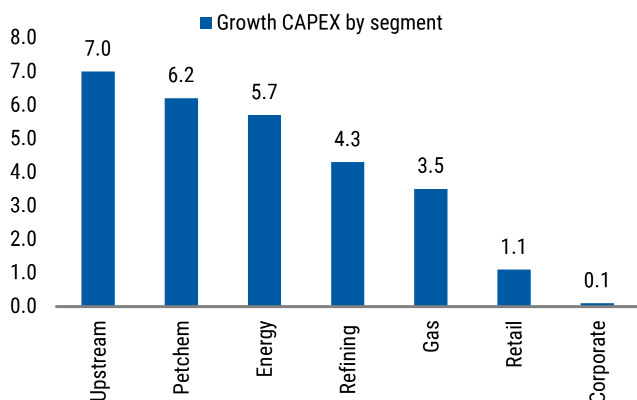
Source: Company data, Morgan Stanley Research.

Exhibit 232: Orlen's market share in Poland is the largest, followed by Czechia



Source: Company data, Morgan Stanley Research.

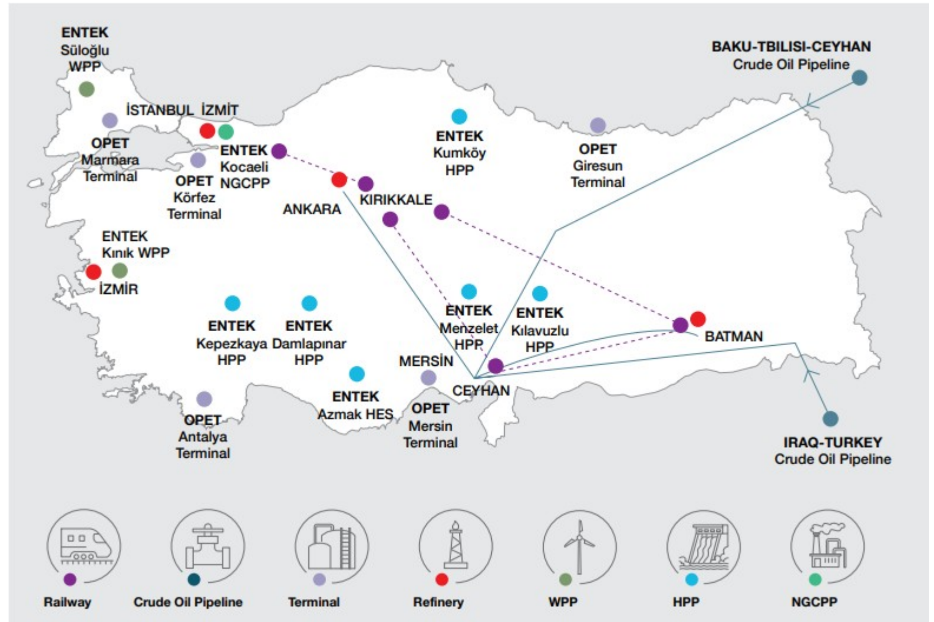
Exhibit 233: 2024 growth capex to be evenly distributed across Orlen's segments



Source: Company data, Morgan Stanley Research.

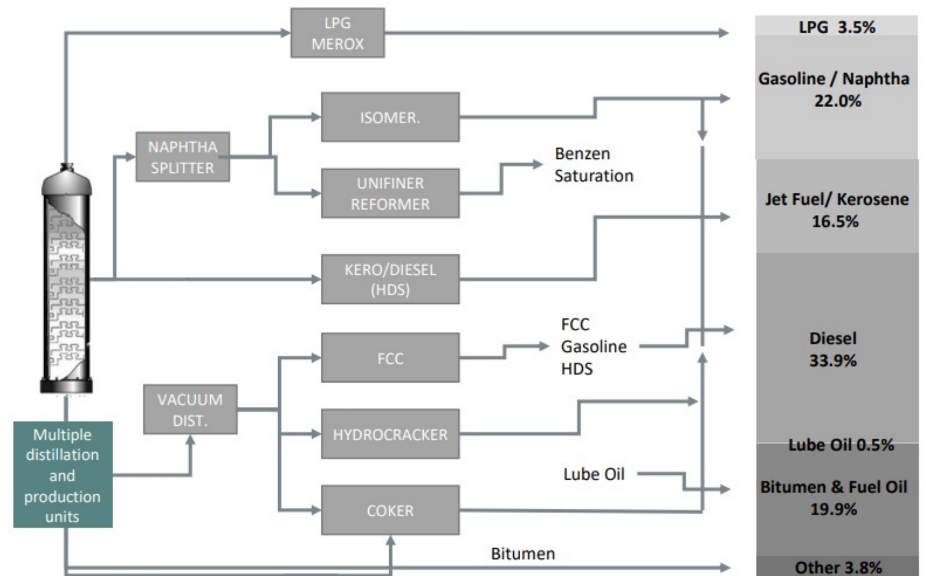
Tupras

Exhibit 234: Asset footprint



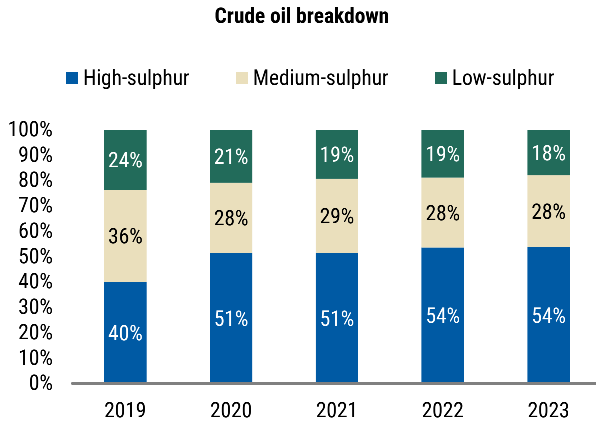
Source: Tupras 2023 Annual Report.

Exhibit 235: Tupras' refining flow diagram



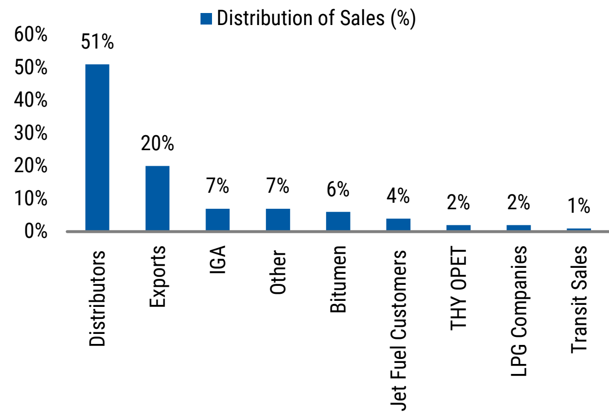
Source: Tupras Corporate Presentation.

Exhibit 236: Feedstock overview



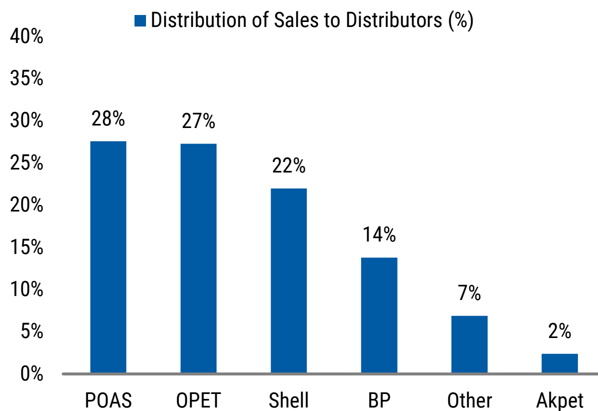
Source: Company data, Morgan Stanley Research.

Exhibit 237: Over half of Tupras' sales are to distributors...



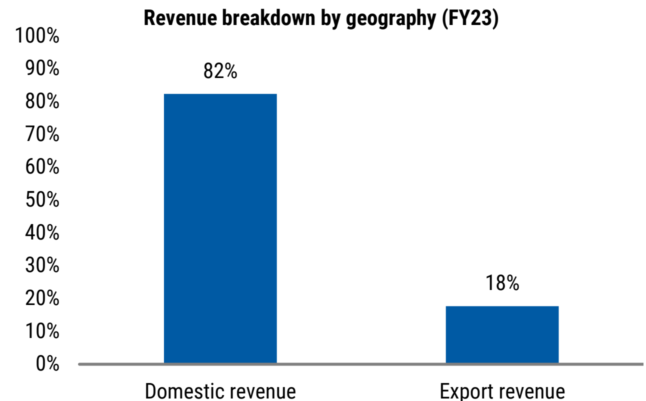
Source: Company data, Morgan Stanley Research. Note: FY23 data.

Exhibit 238: ...with OPET, in which it has a stake, being the second most relevant



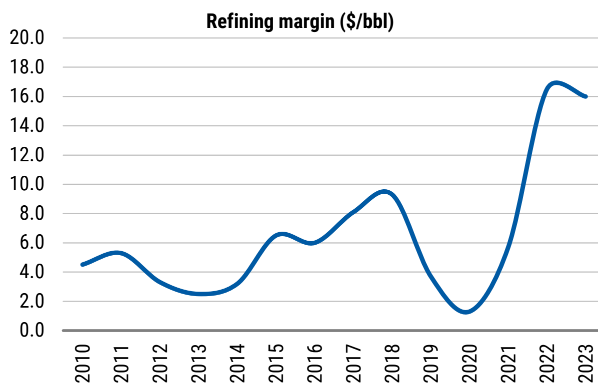
Source: Company data, Morgan Stanley Research. Note: FY23 data.

Exhibit 239: It's a Turkish story: the country accounts for 82% of Tupras' revenues



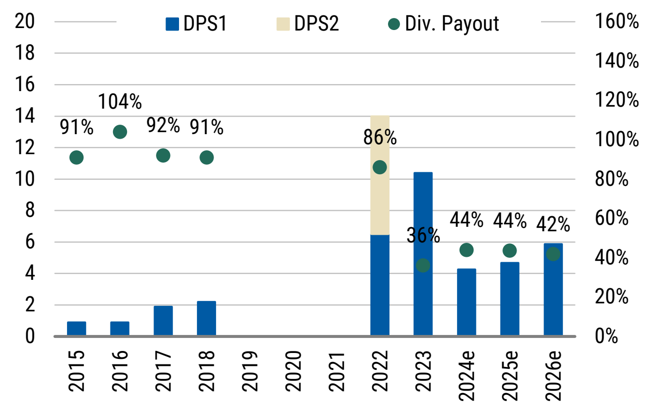
Source: Company data, Morgan Stanley Research. Note: FY23 data.

Exhibit 240: Refining margins are normalising after reaching all-time highs



Source: Company data, Morgan Stanley Research.

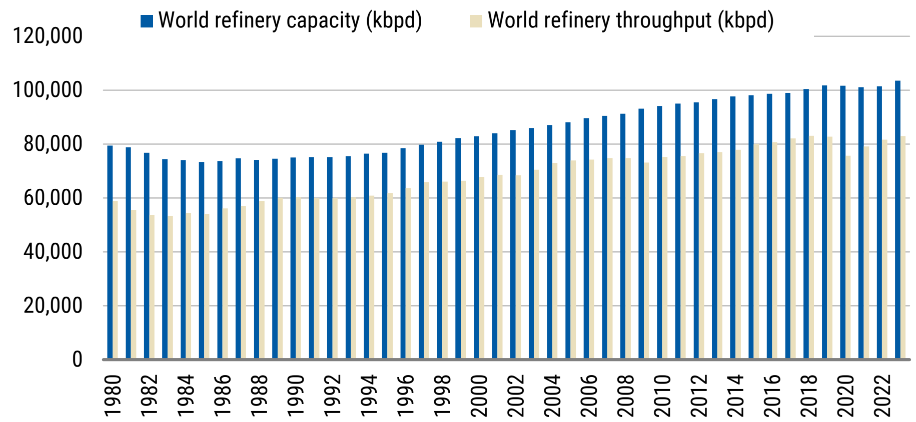
Exhibit 241: Improved profitability boosted dividend payments



Source: Company data, Morgan Stanley Research.

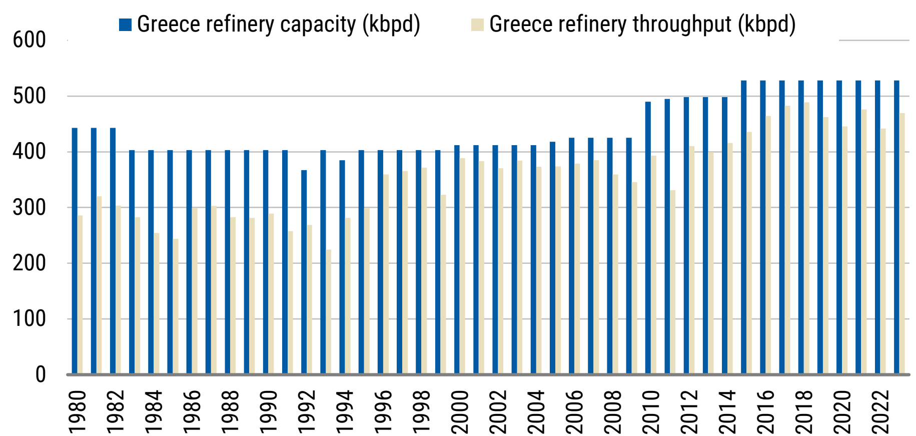
Chart Pack II: Macro overview

Exhibit 242: Refining capacity / throughput: global



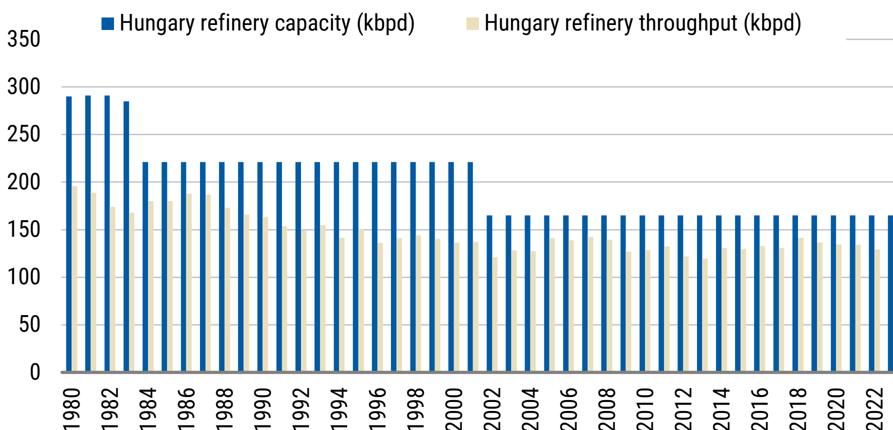
Source: The Energy Institute Statistical Review of World Energy (2023), Morgan Stanley Research.

Exhibit 243: Refining capacity / throughput: Greece



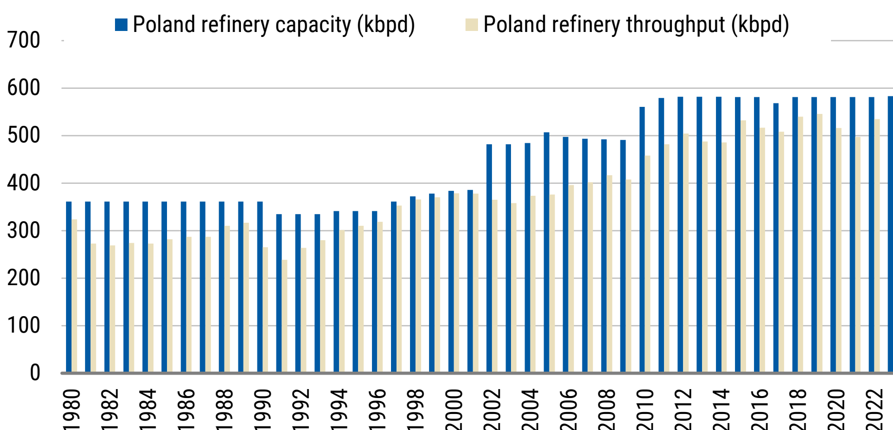
Source: The Energy Institute Statistical Review of World Energy (2023), Morgan Stanley Research.

Exhibit 244: Refining capacity / throughput: Hungary



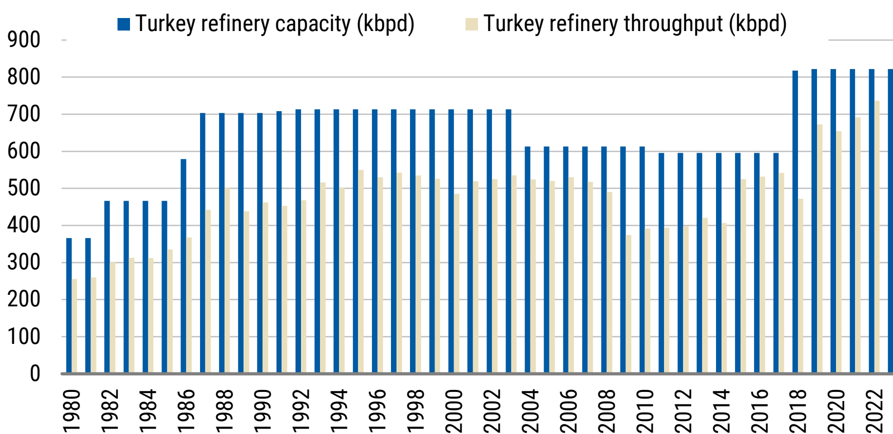
Source: The Energy Institute Statistical Review of World Energy (2023), Morgan Stanley Research.

Exhibit 245: Refining capacity / throughput: Poland



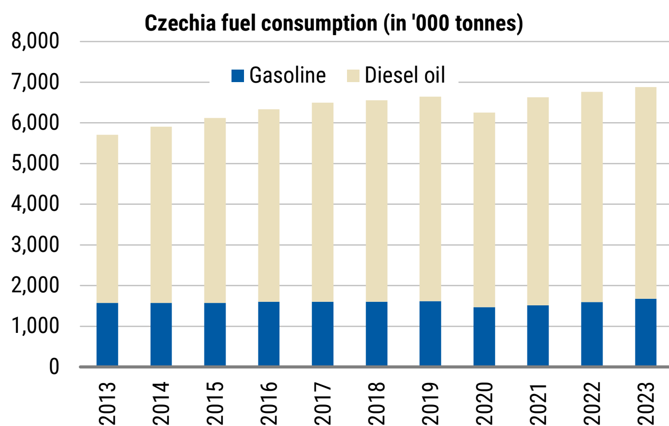
Source: The Energy Institute Statistical Review of World Energy (2023), Morgan Stanley Research.

Exhibit 246: Refining capacity / throughput: Turkey



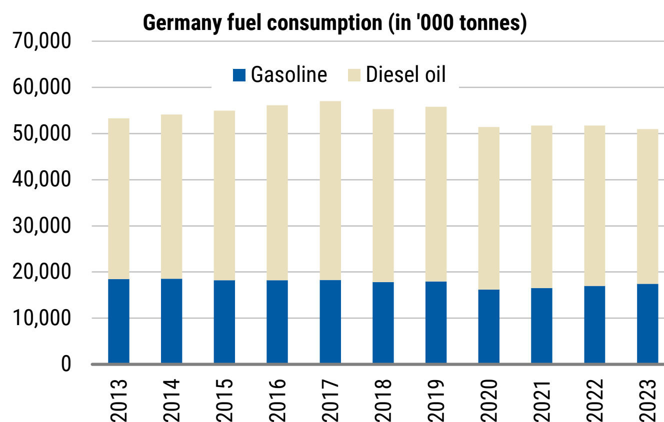
Source: The Energy Institute Statistical Review of World Energy (2023), Morgan Stanley Research.

Exhibit 247: Fuel market overview: Czechia



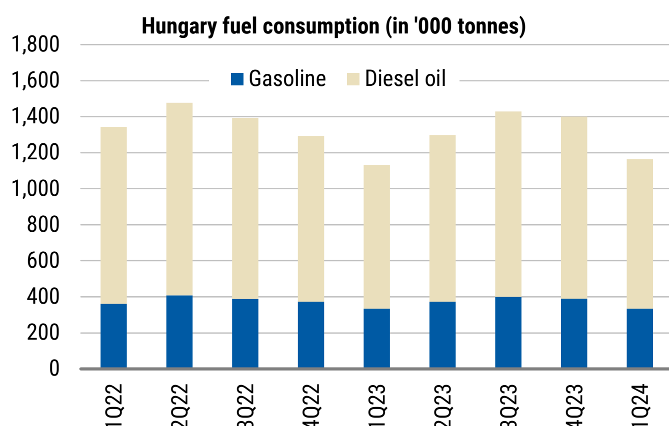
Source: Orlen, Morgan Stanley Research.

Exhibit 248: Fuel market overview: Germany



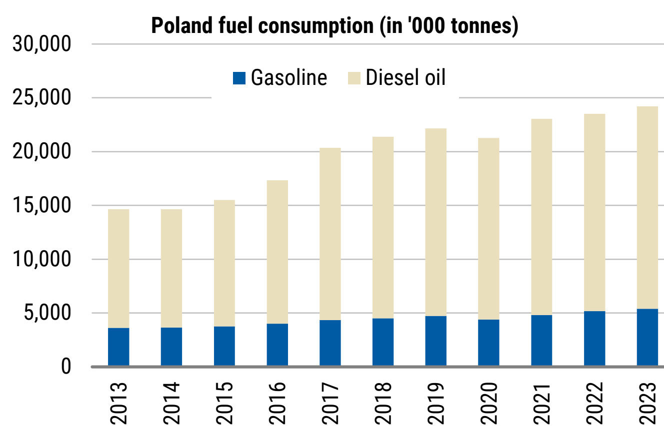
Source: Orlen, Morgan Stanley Research.

Exhibit 249: Fuel market overview: Hungary



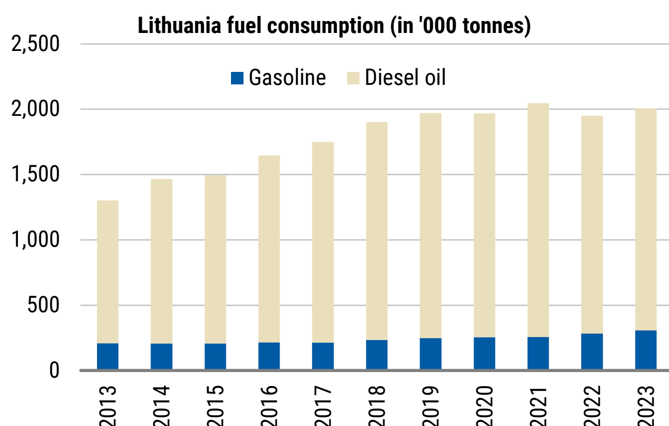
Source: Orlen, Morgan Stanley Research.

Exhibit 250: Fuel market overview: Poland



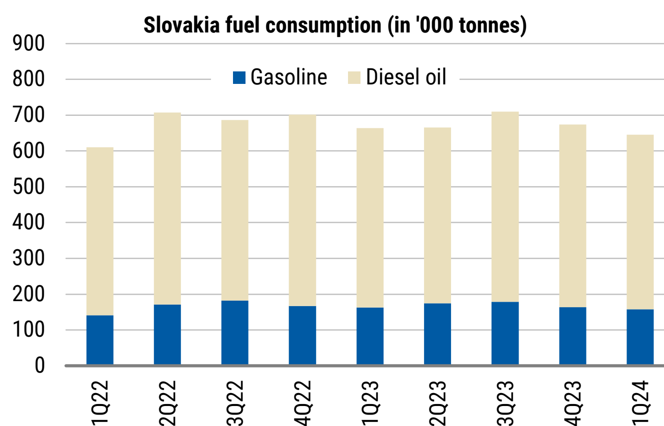
Source: Orlen, Morgan Stanley Research.

Exhibit 251: Fuel market overview: Lithuania



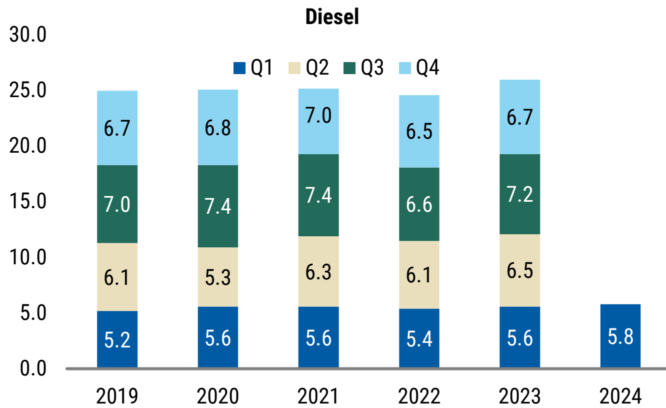
Source: Orlen, Morgan Stanley Research.

Exhibit 252: Fuel market overview: Slovakia



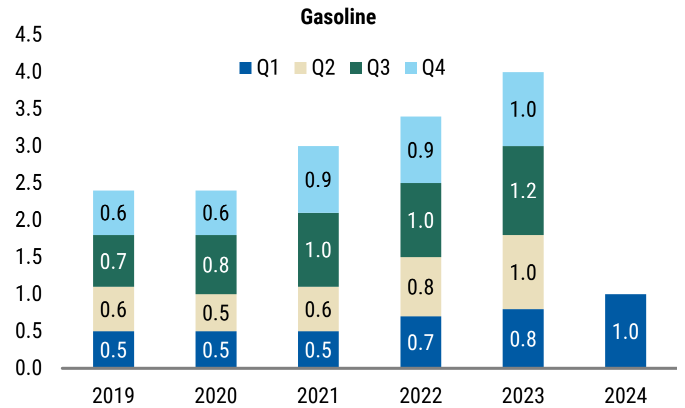
Source: Orlen, Morgan Stanley Research.

Exhibit 253: Turkey: fuel market overview – diesel (mt)



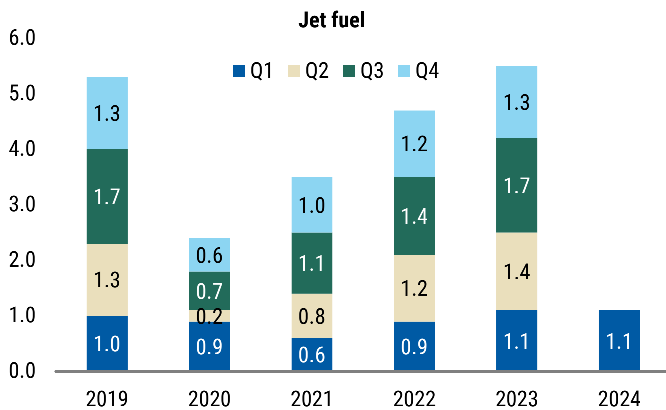
Source: Tupras, Morgan Stanley Research.

Exhibit 254: Turkey: fuel market overview – gasoline (mt)



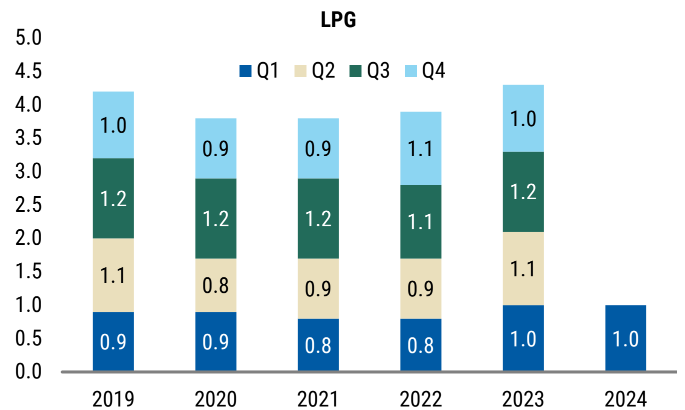
Source: Tupras, Morgan Stanley Research.

Exhibit 255: Turkey: fuel market overview – jet fuel (mt)



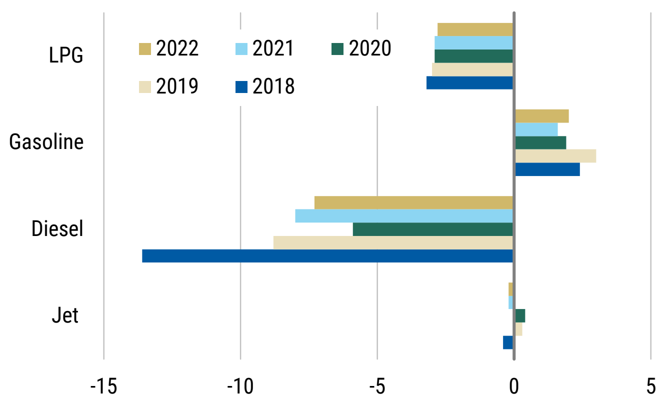
Source: Tupras, Morgan Stanley Research.

Exhibit 256: Turkey: fuel market overview – LPG (mt)



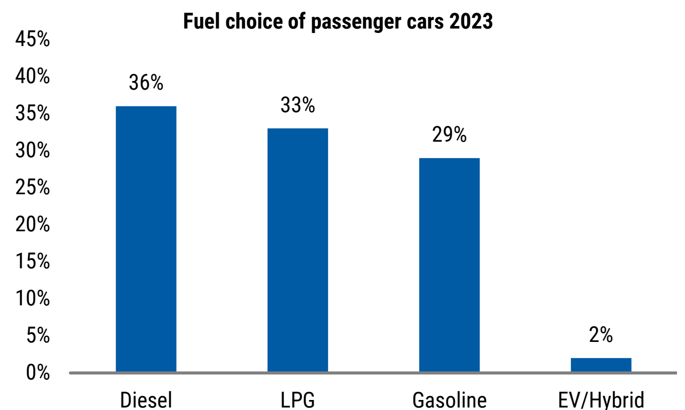
Source: Tupras, Morgan Stanley Research.

Exhibit 257: Turkey: fuel market overview – trade balance (mt)



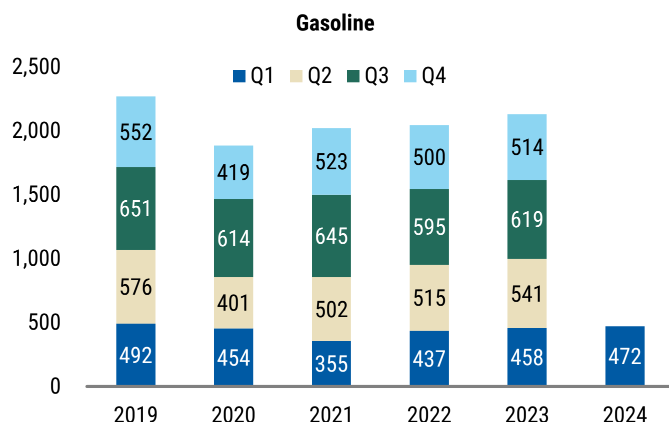
Source: Tupras, Morgan Stanley Research.

Exhibit 258: Turkey: fuel choice of passenger vehicles (FY23)



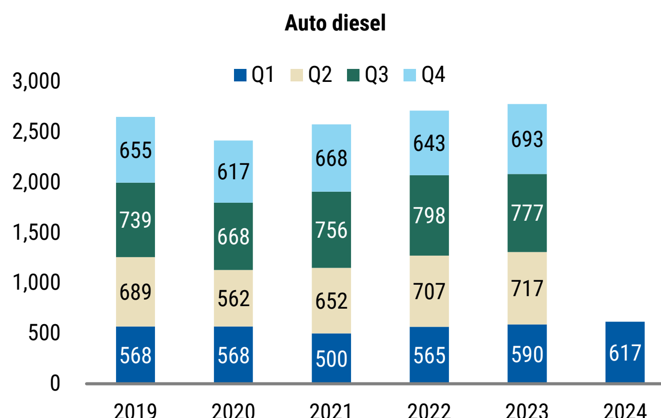
Source: Tupras, Morgan Stanley Research.

Exhibit 259: Greece: fuel market overview – gasoline (kt)



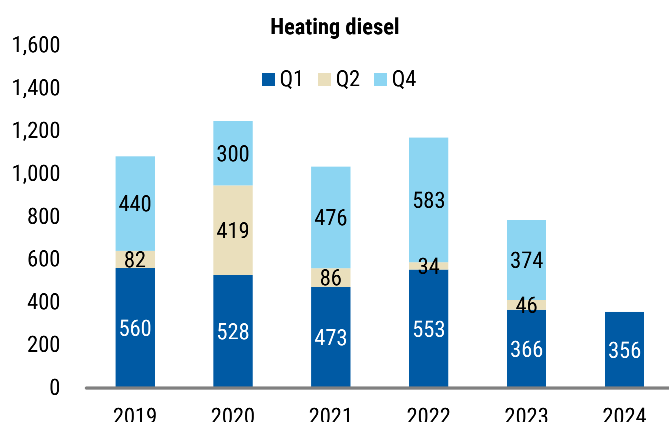
Source: Motor Oil, Morgan Stanley Research.

Exhibit 260: Greece: fuel market overview – auto diesel (kt)



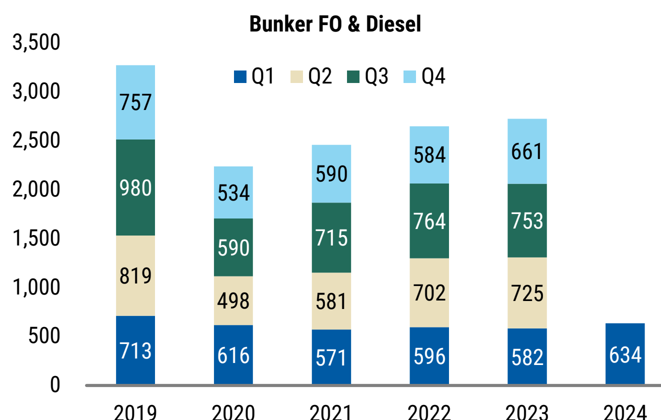
Source: Motor Oil, Morgan Stanley Research.

Exhibit 261: Greece: fuel market overview – heating diesel (kt)



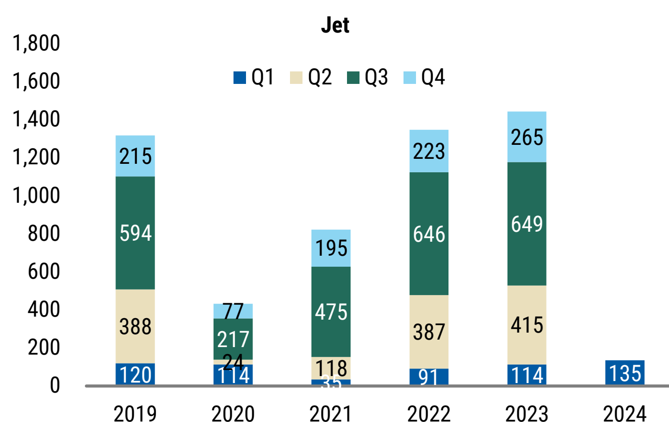
Source: Motor Oil, Morgan Stanley Research.

Exhibit 262: Greece: fuel market overview – bunker fuel oil / diesel (kt)



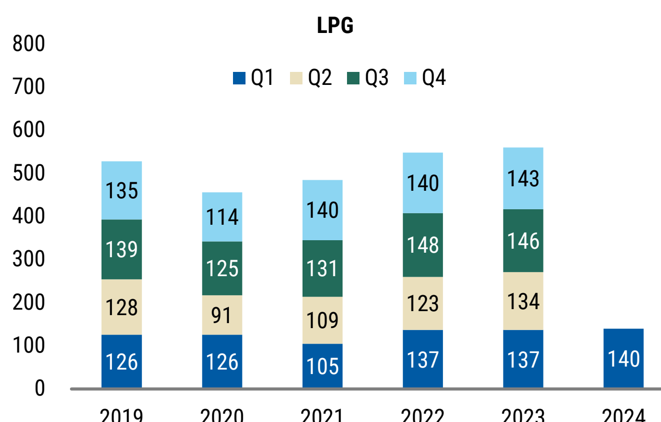
Source: Motor Oil, Morgan Stanley Research.

Exhibit 263: Greece: fuel market overview – jet (kt)



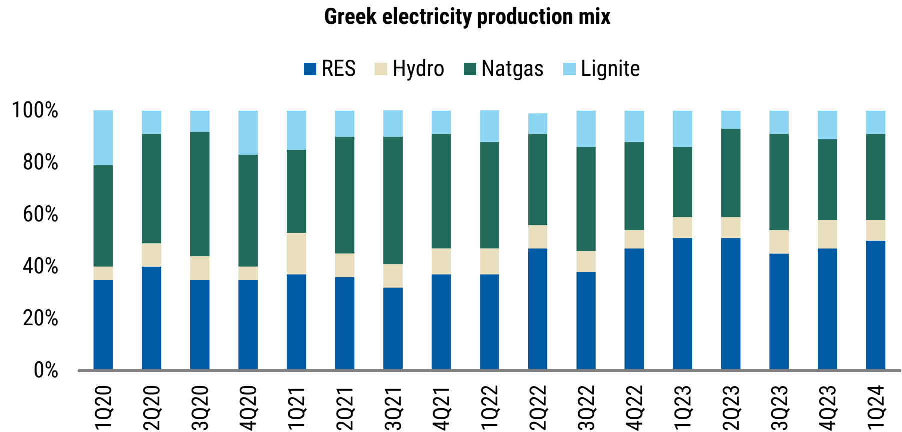
Source: Motor Oil, Morgan Stanley Research.

Exhibit 264: Greece: fuel market overview – LPG (kt)



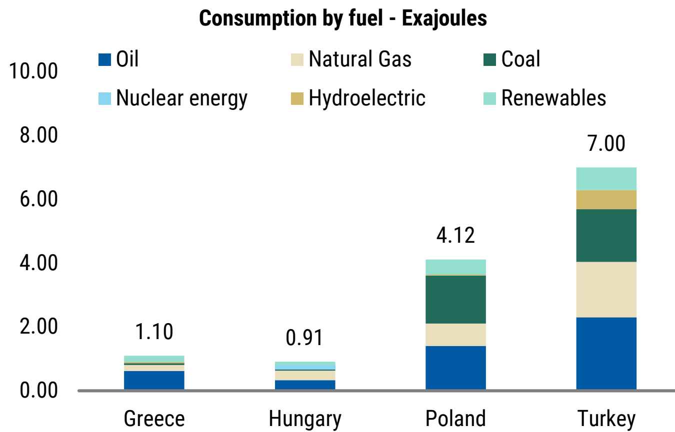
Source: Motor Oil, Morgan Stanley Research.

Exhibit 265:
Greek power generation mix



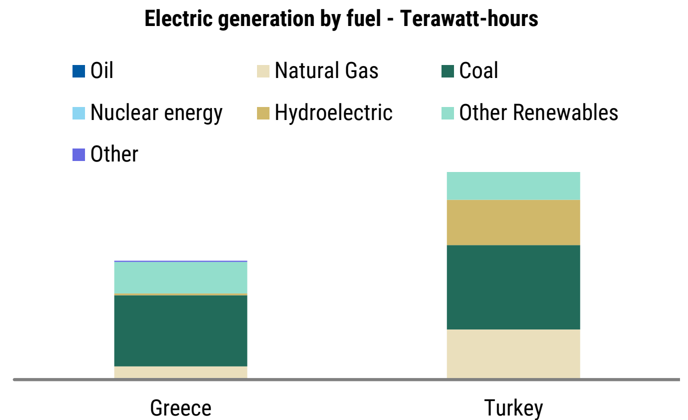
Source: Motor Oil, Morgan Stanley Research.

Exhibit 266: Consumption breakdown by type of fuel



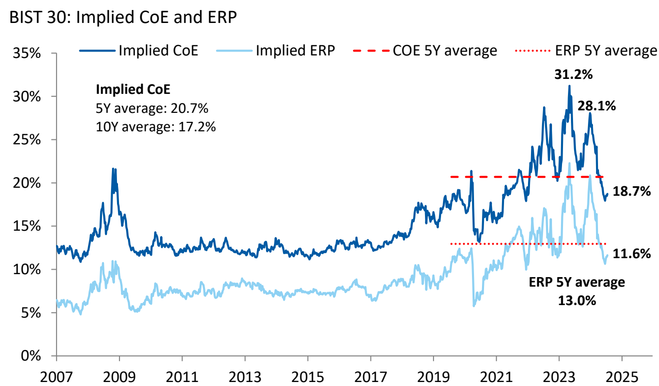
Source: The Energy Institute Statistical Review of World Energy (2023), Morgan Stanley Research.

Exhibit 267: Electric generation breakdown by type of fuel



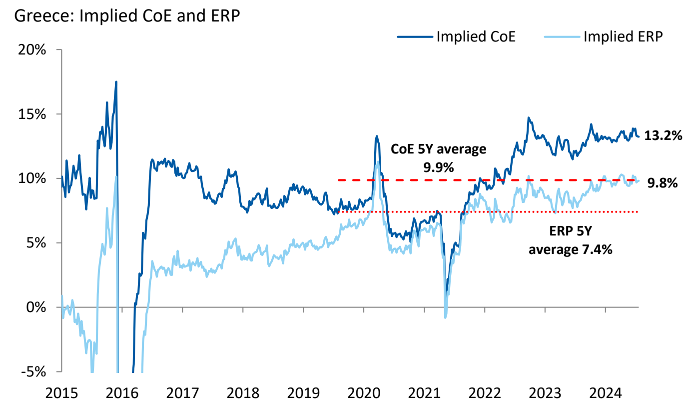
Source: The Energy Institute Statistical Review of World Energy (2023), Morgan Stanley Research.

Exhibit 268: Turkey's implied CoE has compressed 9pp YTD and is now just 1.5pp above its 10-year average



Note: Implied ERP = Implied CoE minus risk-free rate; risk-free rate = UST 10Y yield adjusted by country risk, measured by 10Y Z-spread. Source: Bloomberg, Morgan Stanley Research

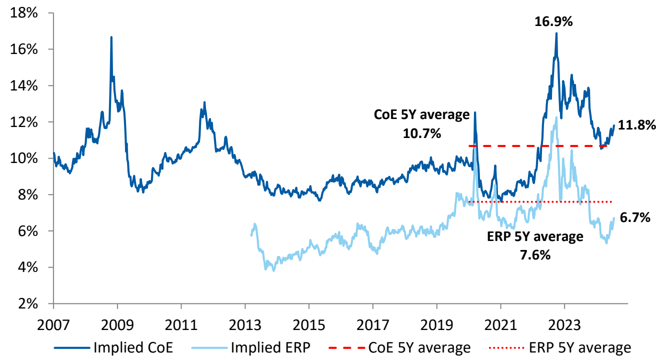
Exhibit 269: Greece's implied CoE remains elevated at 13%



Note: Implied ERP = Implied CoE minus risk-free rate; risk-free rate = 10Y local Greece yield. Source: Bloomberg, Morgan Stanley Research

Exhibit 270: Following the parliamentary elections, Poland's implied CoE narrowed to its 5-year average, but since Feb 2024 it has been widening again

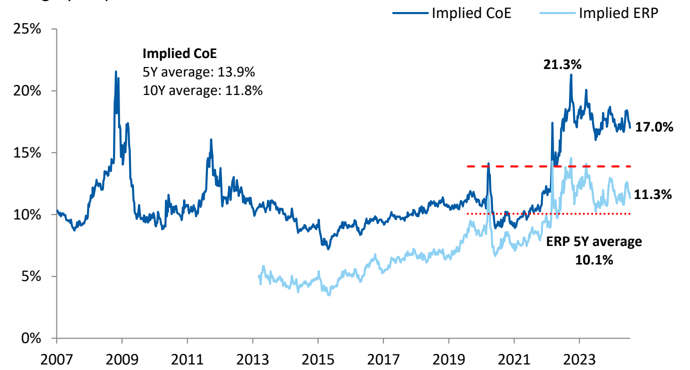
MSCI Poland: Implied CoE and ERP



Note: Implied ERP = Implied CoE minus risk-free rate; risk-free rate = UST 10Y yield adjusted by country risk, measured by OAS spread. Source: Bloomberg, Morgan Stanley Research

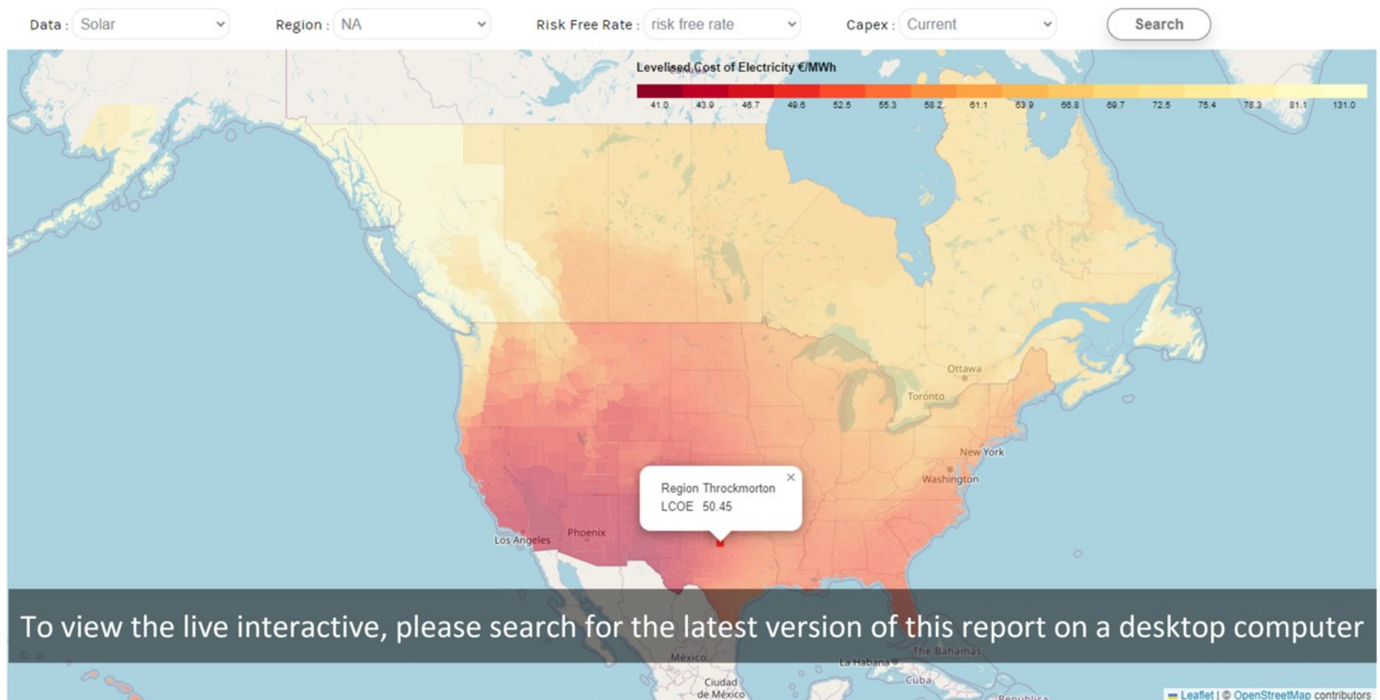
Exhibit 271: Hungary's implied CoE remains high at 17.0%

Hungary: Implied CoE and ERP



Note: Implied ERP = Implied CoE minus risk-free rate; risk-free rate = UST 10Y yield adjusted by country risk, measured by OAS spread. Source: Bloomberg, Morgan Stanley Research

Interactive Global Clean Energy Cost Map



Source: Morgan Stanley Research, Global Wind and Solar Atlas. Note: This map is extracted from a May 2024 Insight report by Morgan Stanley's Global Clean Energy entitled "Renewables Strike Back". The tool maps the levelised cost of electricity from solar, onshore wind and offshore wind across the world with a high level of granularity. The map is also interactive and offers the user the ability to use different risk-free rate and capex assumptions.

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Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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Global Stock Ratings Distribution

(as of June 30, 2024)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1440	38%	342	45%	24%	677	40%
Equal-weight/Hold	1741	46%	340	45%	20%	774	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	570	15%	71	9%	12%	224	13%
Total	3,754		753			1676	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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INDUSTRY COVERAGE: EEMEA - Oil & Gas

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/22/2024)
Ricardo Rezende, CFA		
Abu Dhabi National Oil Co Distribution (ADNOCDIST.AD)	E (01/18/2018)	AED 3.51
Adnoc Drilling Company PJSC (ADNOCDRILL.AD)	O (05/09/2023)	AED 4.37
ADNOC Gas Plc (ADNOCGAS.AD)	O (02/16/2024)	AED 3.20
Aldrees Petroleum & Transport Svcs. Co. (4200.SE)	E (01/05/2024)	SAR 118.00
Arabian Drilling Co (2381.SE)	E (05/09/2023)	SAR 139.40
HELLENiQ ENERGY Holdings SA (HEPr.AT)	E (07/22/2024)	€7.62
Luberef (2223.SE)	E (05/22/2023)	SAR 134.00
MOL Magyar Olajes Gazipari Nyrt (MOLB.BU)	E (07/22/2024)	HUF 2,840.00
Motor Oil Hellas Corinth Refineries SA (MORr.AT)	O (07/22/2024)	€23.58
Orlen SA (PKN.WA)	E (07/22/2024)	PLN 64.51
Turkiye Petrol Rafinerileri AS (TUPRS.IS)	O (07/22/2024)	TL 165.00

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