

Strategies for a changing refining outlook

ERTC

November 2020



Trends driving the downstream outlook



**Product
demand**



**Crude
quality**

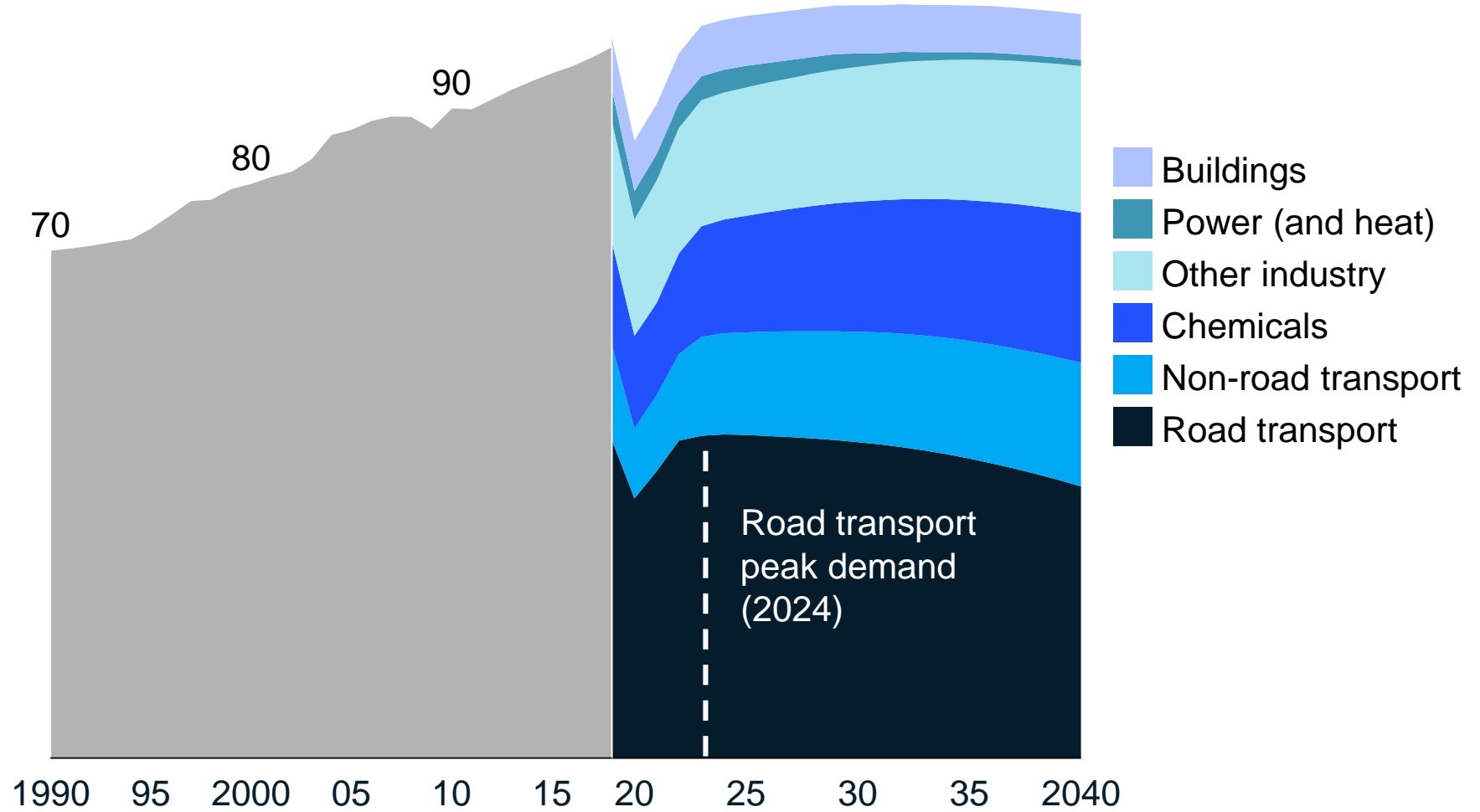


**Refining
investment**



Global demand peaks in the early 2030s

Global liquids demand by sector
Million barrels/day

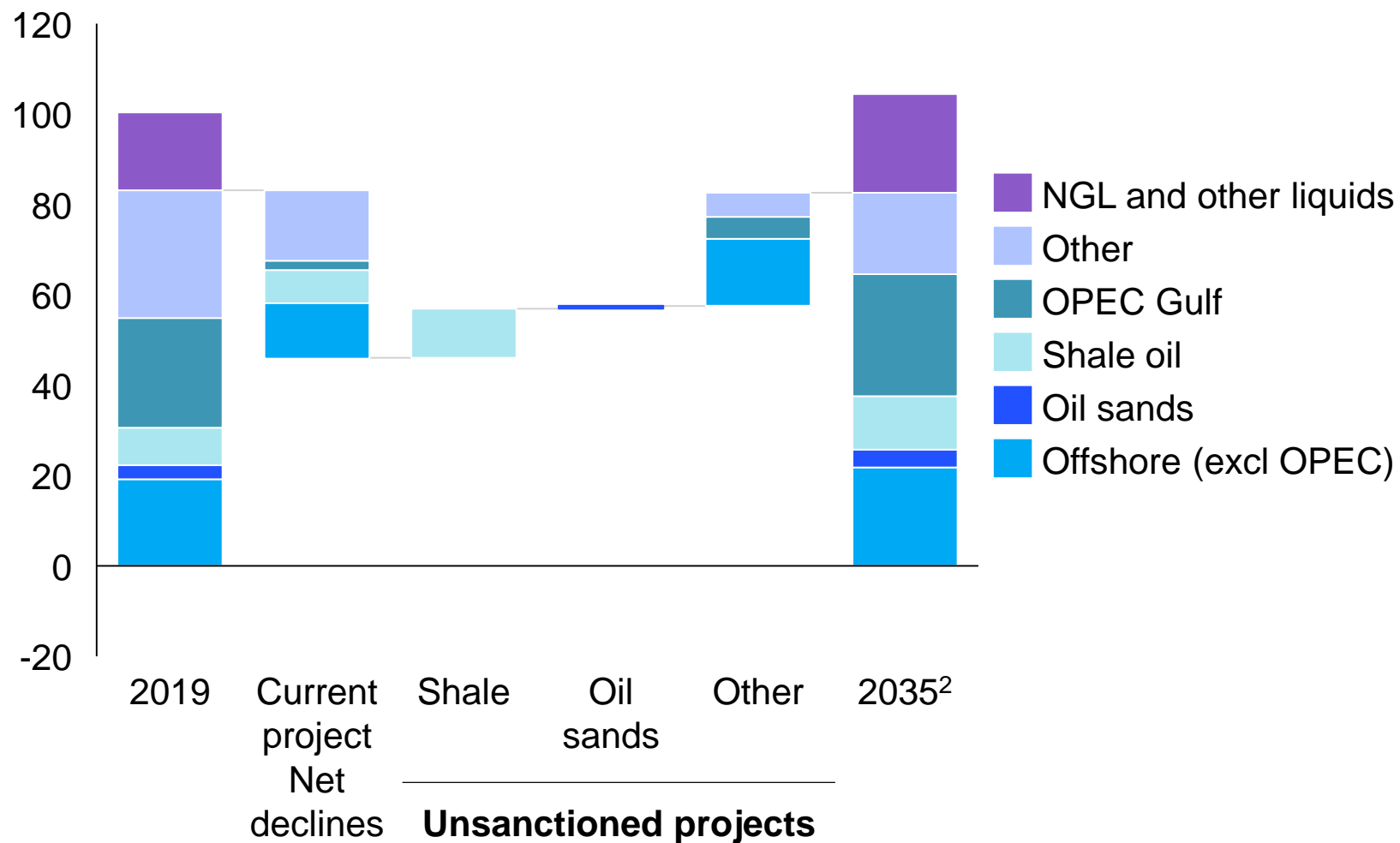




Changing crude quality

Global liquids supply growth, 2019 to 2035

Million barrels/day

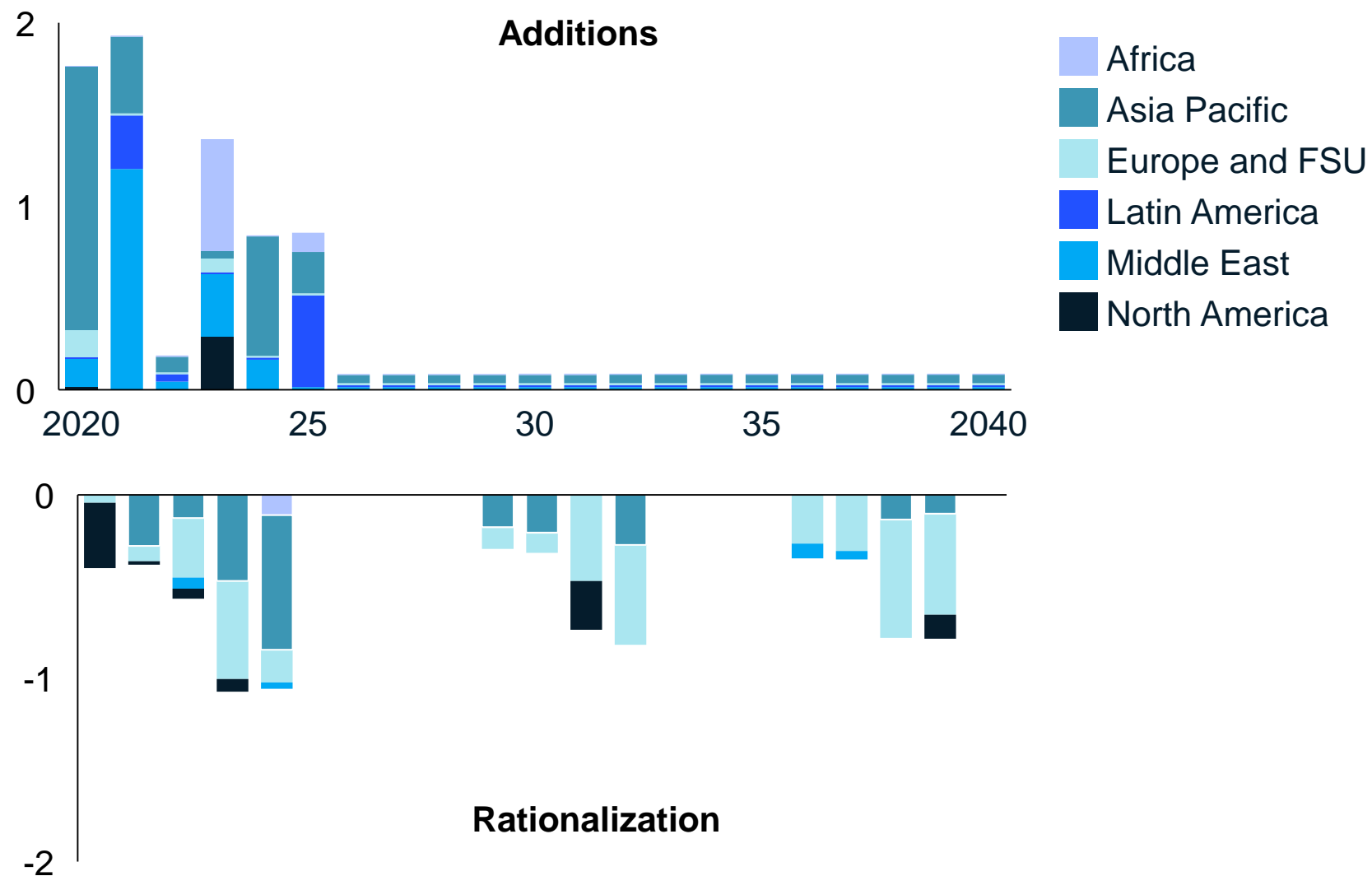




Refining headed towards structural oversupply

Distillation capacity by region, annual change

Million barrels/day



Implications for industry economics



**Refining
utilization**



**Market
margins**

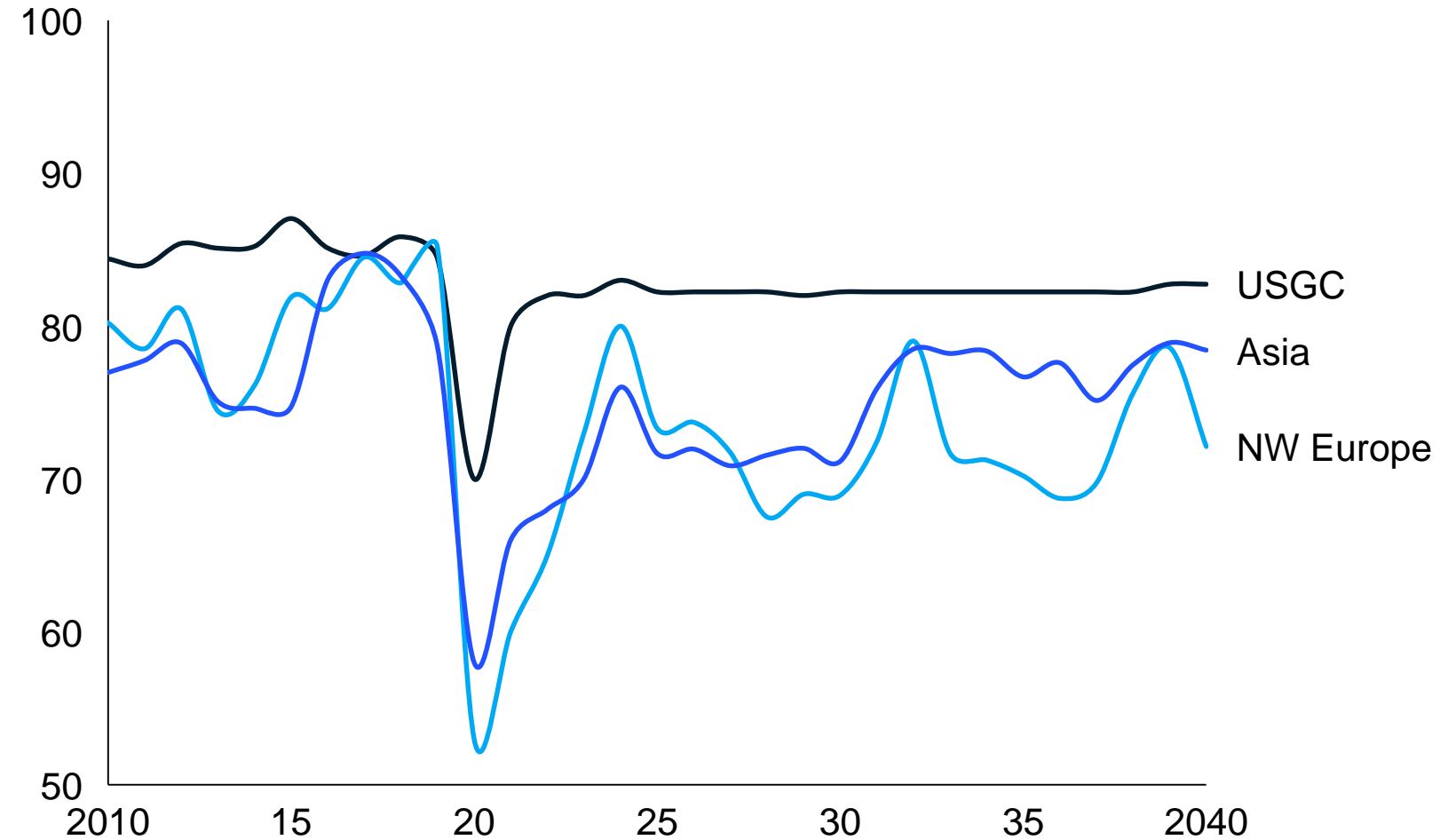


**Industry
profitability**



Refinery utilization will cycle with falling demand and waves of rationalization

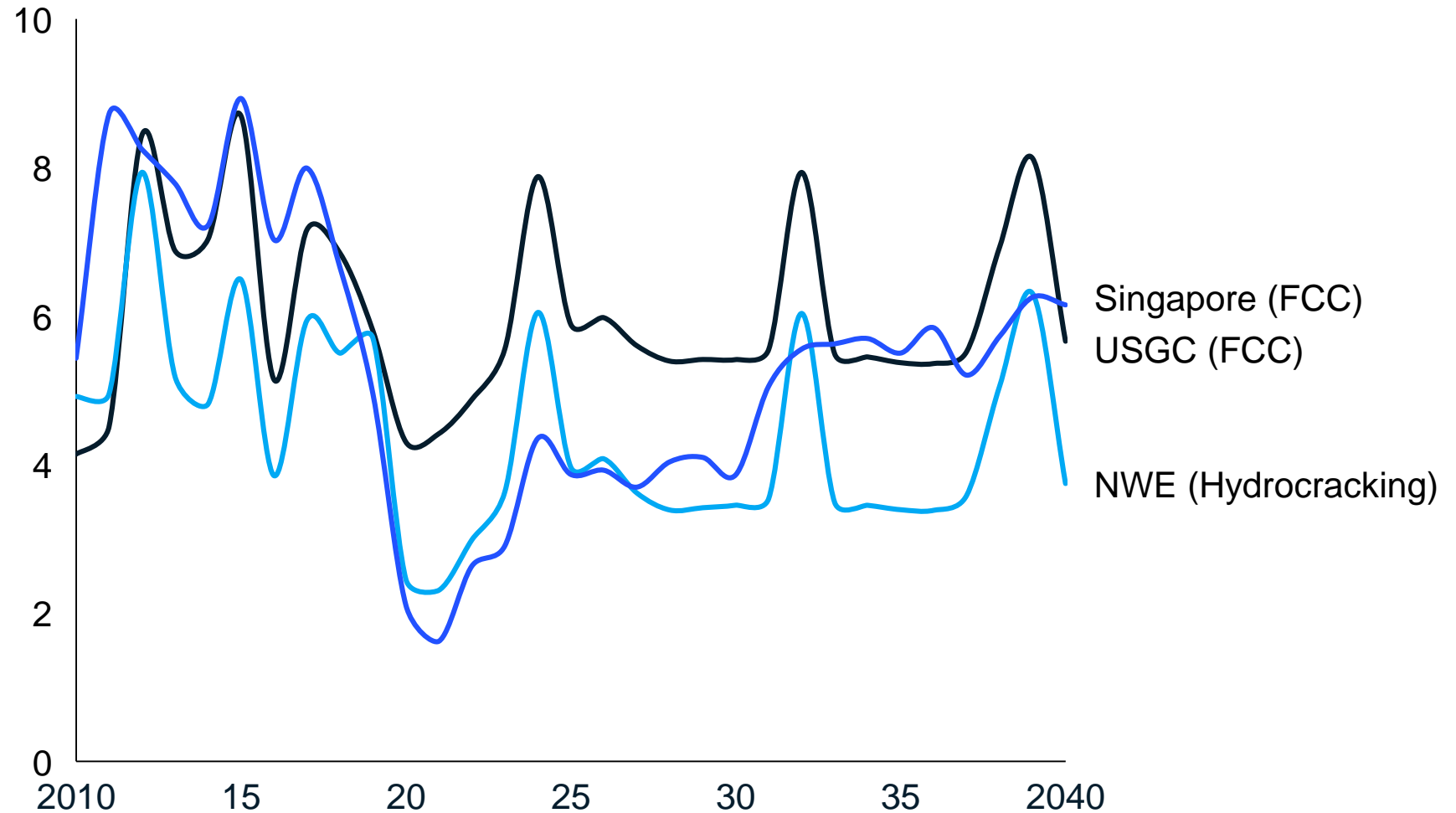
Regional refining hub utilization % of stream day capacity





**Refining
margins will
average below
historical
levels**

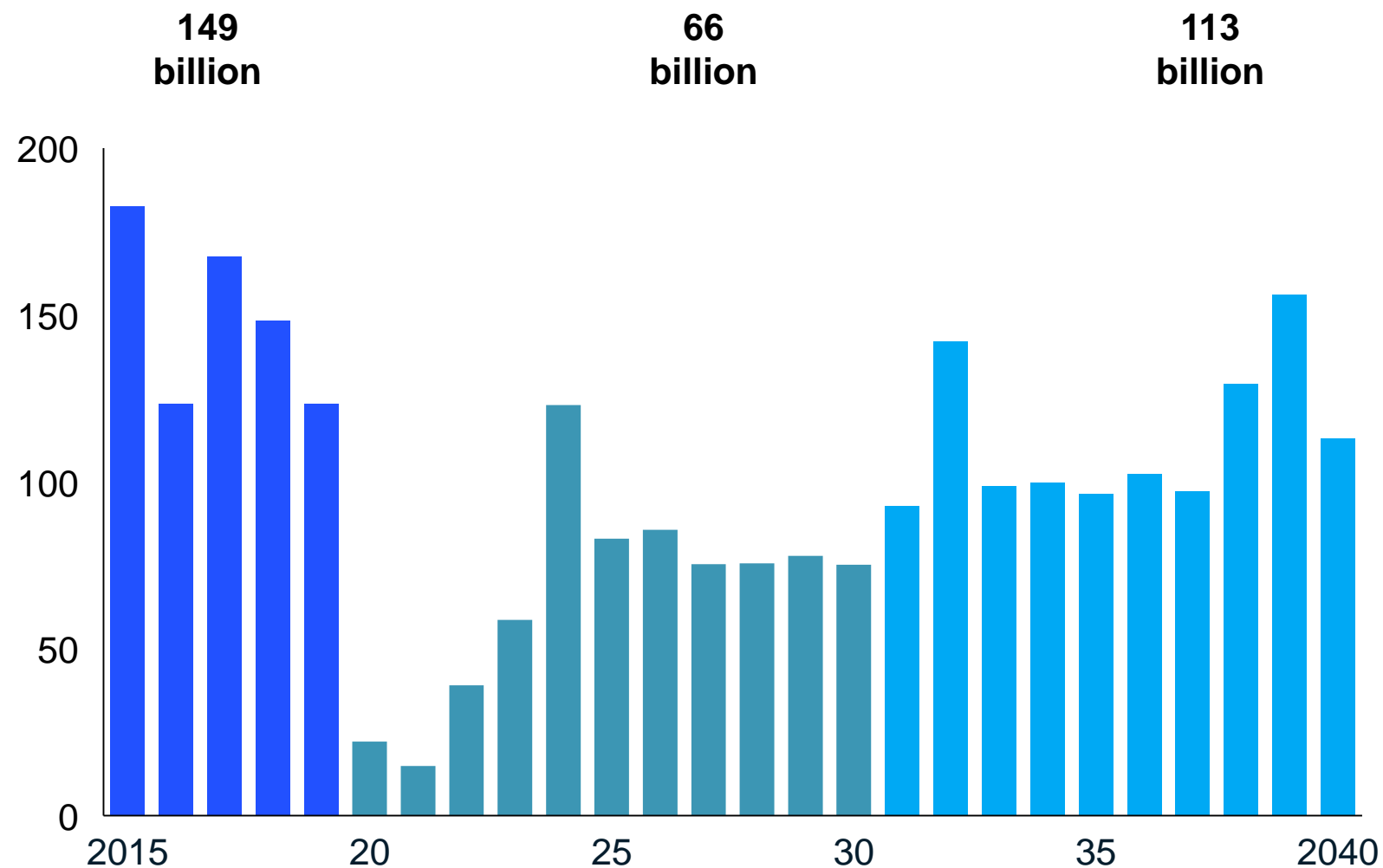
Hub market refining margins USD/barrel – variable cash



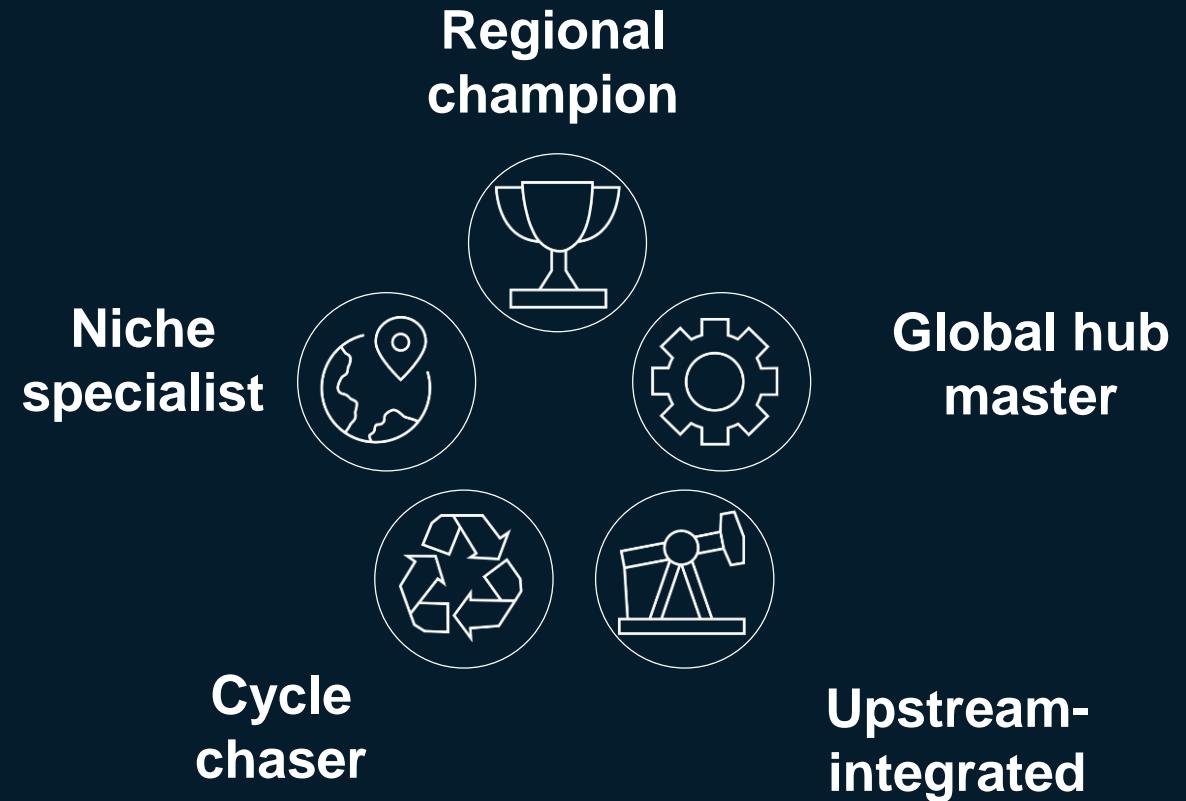


**Industry
value pools
will be lower
than in the
past**

Global refining value pool (EBITDA equivalent)
USD billion



Five archetypes for successful players





Regional champion

Focus on **one geography**

Develop **largest possible footprint**

Become a **regional ‘market master’** by understanding the winning fundamentals of that region

Selectively leverage **adjacent businesses** (eg petrochemicals, marketing, renewables)



Global hub master

Focus portfolio on **hub markets around the world**

Leverage advantages of **scale, complexity and petchem integration** provided in hub markets

Use as platform for **asset backed trading** business



Upstream- integrated

Maximize **upstream synergy value** with the downstream

- Avoid **market inefficiencies** in crude pricing
- Provide **stable crude diet** for refinery to invest around



Cycle chaser

Capture value that is created by **acquiring assets at low prices** at bottom of the cycle

Run very cheaply, with a focus on short-term opex minimization

Be ready to **sell at high prices** during the peak of the cycle



Niche specialist

Capture value from **structurally advantaged micro-markets**

- **Isolated geographies** with product premiums and crude discounts
- **Specialty products** with less commoditized market dynamics
- **Asset backed trading** leveraging natural short and longs of a refining position

McKinsey
& Company

Thank you

