

Day Break

Thursday, 19 January 2017

COMPANY UPDATE

MARI PETROLEUM COMPANY LIMITED

OIL & GAS EXPLORATION COMPANIES

Recommendation **NEUTRAL**

Target Price		1,538.8
Last Closing	18-Jan-17	1,458.6
Upside		5.5

Market Data

Bloomberg Tkr.		MARI PA	
Shares (mn)		110.3	
Free Float Shares (mn)		22.1	
Free Float Shares (%)		20.0%	
Market Cap (PKRbn USDmn)	160.8	1,533.6	
Exchange		KSE 100	
Price Info.	90D	180D	365D
Abs. Return	47.0	48.1	144.5
Low	964.9	931.1	580.5
High	1,458.6	1,458.6	1,458.6

Key Company Financials

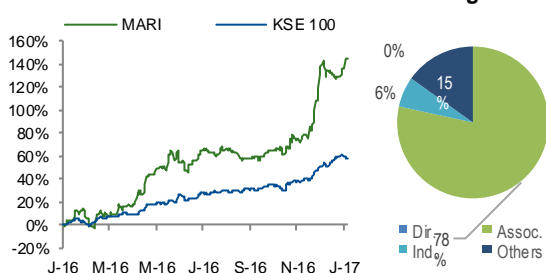
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	21.7	36.7	43.5	46.8
Net Income	6.05	11.5	14.7	16.4
EPS (PKR)	54.9	104.5	133.5	148.8
DPS (PKR)	5.1	5.8	5.9	5.9
Total Assets	59.6	87.3	111.1	130.1
Total Equity	17.0	17.3	31.3	47.1

Key Financial Ratios

ROE (%)	35.7	66.8	47.0	34.8
P/E (x)	26.6	14.0	10.9	9.8
P/B (x)	9.5	9.3	5.1	3.4
DY (%)	0.3	0.4	0.4	0.4

Relative Price Performance & Shareholding



About the Company

The Company is a public limited company incorporated in Pakistan in 1984. The principal activity of the company exploration, production and sale of hydrocarbons. The company was listed on all stock exchanges in Pakistan when GoP divested 50% of its stake to Fauji Foundation.

Source: Bloomberg, KSE 100 & IGI Research

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Oil & Gas – Exploration and Production

MARI: Earning to Clock in at PKR 20.3/share for 2QFY17

- Mari Petroleum Limited's (MARI) board meeting is scheduled on 20th Jan-17 to announce financial result for 2QFY17. We expect the company to report earnings of PKR 2.2bn (EPS PKR 20.3) up by +3.8x in 2QFY17
- Discount for conventional production up to 525mmcf from Mari field down to 33.5% from 46.9% in 2QFY16 leading to +34%YoY higher price for Mari field, while Oil production is expected to increase by +39%YoY to 1,445bopd and Gas production in estimated to inch up by +7%YoY to 630mmcf
- We maintain our "HOLD" call on MARI with our Dec-17 with target price of PKR 1,539/share, offering +6% upside from its last closing. The company is currently trading at a FY17E P/E of 13.0x and implied oil price of USD 37.1/bbl

Earnings to clock in at PKR 20.3/share in 2QFY17, up by +3.8x

Mari Petroleum Limited's (MARI) board meeting is scheduled on 20th Jan-17 to announce financial result for 2QFY17. We expect the company to report earnings of PKR 2.2bn (EPS PKR 20.3) up by +3.8x in 2QFY17 as compared to PKR 0.6bn (EPS PKR 5.3) in the same period last year. We attribute this substantial earnings growth to a) +19%YoY increase in oil prices, b) discount for conventional production up to 525mmcf from Mari field down to 33.5% from 46.9% in 2QFY16 leading to +34%YoY higher price for Mari field, and c) higher production of +6%YoY from Mari field priced under Petroleum Policy 2012 (PP12). Cumulative earnings for 1HFY17 is anticipated to clock in at 5.0bn (EPS PKR 45.4) as compared to PKR 2.1bn (EPS PKR 18.6) in the corresponding period last year. The company is expected to announce cash dividend of PKR 3.25/share as compared to PKR 3.0/share in the same period last year.

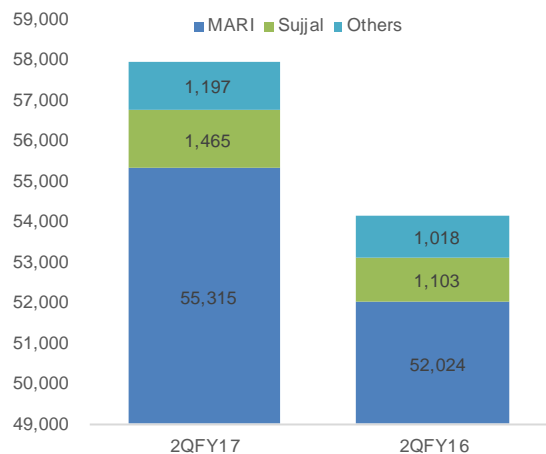
Discount closing in to reach 33.5% of wellhead price for Mari Field

Discount to wellhead price under PP01 is reducing every six month for Mari field reaching 33.5% for 1HFY17 as compared to 46.9% in the same period last year. Resultantly, wellhead price for production up to 525mmcf is up by +34%YoY in 2QFY17.

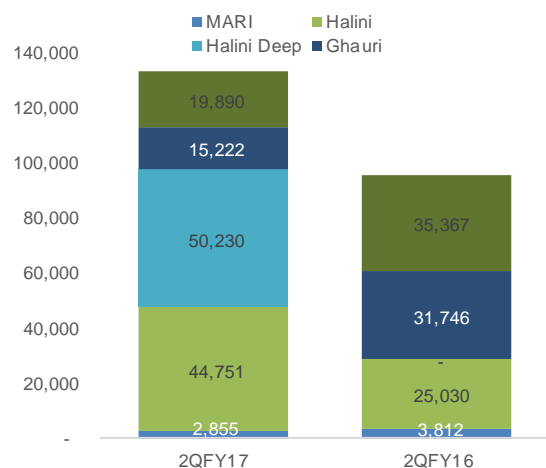
Oil and gas production up by +7%YoY and +39%YoY in 2QFY17

Oil production is expected to increase by +39%YoY to 1,445bopd in 2QFY17 on the back of production commencement from Halini Deep-1 to the tune of 546bopd. Gas production in estimated to inch up by +7%YoY to 630mmcf owing to higher production from Mari field, up by +6%YoY during 2QFY17.

Total Gas Production in 2QFY17



Total Oil Production in 2QFY17



Recommendation

We maintain our "HOLD" call on MARI with our Dec-17 with target price of PKR 1,539/share, offering +6% upside from its last closing. The company is currently trading at a FY17E P/E of 13.0x and implied oil price of USD 37.1/bbl.

Exhibit:

Financial Highlights

PKR'mn	2QFY17E	2QFY16	YoY	1HFY17E	1HFY16	YoY
Net Sales	7,131	4,448	60%	14,394	9,627	-50%
Royalty	903	567	59%	1,812	1,228	-50%
Operating Exp	1,426	1,404	2%	3,003	2,725	-53%
Exploration Exp	1,656	1,901	-13%	2,131	3,344	-22%
Gross Profit	2,981	530	462%	6,996	2,163	-57%
Other Income	97	390	-75%	60	698	61%
EBIT	3,078	921	234%	7,056	2,861	-56%
Finance Income	190	80	139%	224	206	-15%
Finance Cost	194	380	-49%	400	808	-52%
PBT	3,074	620	396%	6,880	2,259	-55%
PAT	2,242	585	283%	5,008	2,054	-55%
EPS (PKR)	20.34	5.31		45.42	18.63	
DPS (PKR)	3.25	3.00		3.25	3.00	

Source: IGI Research and Company Financials

Source: Company Financials, PPIS & IGI Research

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec - 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

(Reserve Based DCF Valuation)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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