

## Day Break

Thursday, 30 March 2017

## COMPANY UPDATE

## MARI PETROLEUM COMPANY LIMITED

OIL &amp; GAS EXPLORATION COMPANIES

<b>Recommendation</b>		<b>BUY</b>
Target Price		2,117.8
Last Closing	29-Mar-17	1,379.1
Upside		53.6

## 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)	152.0	1,450.6	
Exchange		KSE 100	
<b>Price Info.</b>	90D	180D	365D
Abs. Return	(0.2)	44.5	102.1
Lo	1,270.4	953.5	671.3
Hi	1,491.7	1,491.7	1,491.7

## Key Company Financials

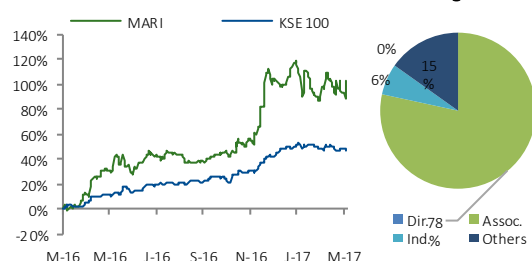
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	21.7	33.4	46.3	56.9
Net Income	6.05	10.0	14.9	19.6
EPS (PKR)	54.9	90.3	135.4	177.9
DPS (PKR)	5.1	5.6	6.1	6.4
Total Assets	59.6	80.9	105.9	131.7
Total Equity	17.0	15.7	30.0	48.9

## Key Financial Ratios

ROE (%)	35.7	63.4	49.8	40.1
P/E (x)	25.1	15.3	10.2	7.8
P/B (x)	9.0	9.7	5.1	3.1
DY (%)	0.4	0.4	0.4	0.5

## Relative Price Performance &amp; 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 &amp; IGI Research

## Abdullah Farhan

Research Analyst

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

## Oil &amp; Gas – Exploration Companies

## MARI: Mari Field Reserves up by +64% Since Jun-16, Maintaining a Strong “BUY”

- According to oil and gas reserves data published by Pakistan Petroleum Information Service (PPIS), Mari field reserves have surged by +64%YoY to 5,244bcf in Dec-16 compared to 3,205bcf reported in Jun-16.
- We have revised our investment case for MARI incorporating increased reserve base for Mari and Sujjal field along with improved production flows. As a result we now estimate, +65%YoY and +50%YoY growth in earnings for FY17E and FY18F to PKR 90.3 and 135.4/share respectively.
- We have strong “BUY” call on MARI with our Dec-17 target price of PKR 2,118/share, offering +54 % upside from its last closing. The company is currently trading at a FY17E and FY18F P/E of 15.3x and 10.2x, respectively.

## Mari field reserves up by +64% to 5,244bcf in Dec-16 compared to 3,205bcf reported in Jun-16

According to oil and gas reserves data published by Pakistan Petroleum Information Service (PPIS), Mari field reserves have surged by +64%YoY to 5,244bcf in Dec-16 compared to 3,205bcf reported in Jun-16. Moreover, Sujjal reserves have also been restated at 44.6bcf in Dec-16, up by 4.4x since last reported in Jun-16. The company's total gas reserves now stand at 5,322bcf in Dec-16 compared to 3,251bcf in Jun-16, with an estimated reserve life increasing from 14.1yrs to 23.1yrs. Total oil reserves are down by 11% to 1.63mnbbls compared to 1.83 in Jun-16, with an estimated reserve life of 7.3yrs.

## Investment case revised based on higher gas reserves and production flows

We have revised our investment case for MARI incorporating increased reserve base for Mari and Sujjal field along with improved production flows. As a result we now estimate, +65%YoY and +50%YoY growth in earnings for FY17E and FY18F to PKR 90.3 and 135.4/share respectively. We now have a strong “BUY” call on MARI with our Dec-17 target price of PKR 2,118/share offering an impressive +54% upside from its last closing of PKR 1,379/share. MARI revised P/E forward multiples for FY17E and FY18F comes at 15.3x and 10.2x, respectively.

## Gas production from Mari is estimated to ramp up to 775mmcf by FY20

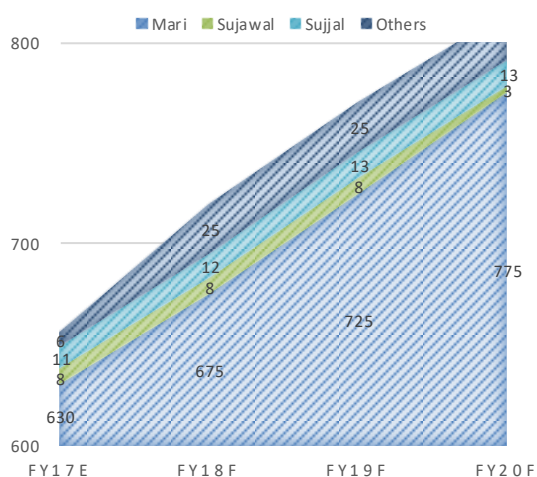
Current production from Mari field in 1HFY17 stands at 630mmcf which is +4% higher than FY16 production of 607mmcf. As per management, the company targets to increase production flows by 40mmcf to 647mmcf in FY17. However, with recent hike in reserve base of Mari field total production is expected to stretch to 775mmcf by FY20. We say this primarily due to a) incentive to avail higher pricing under Petroleum Policy 2012 (PP12) for incremental production over 525mmcf, and b) additional gas requirement to emanate from 440MW power plant to be set-up by MARI at Dharki (awaiting official notification for details).

**MARI oil and gas reserves and estimated life**

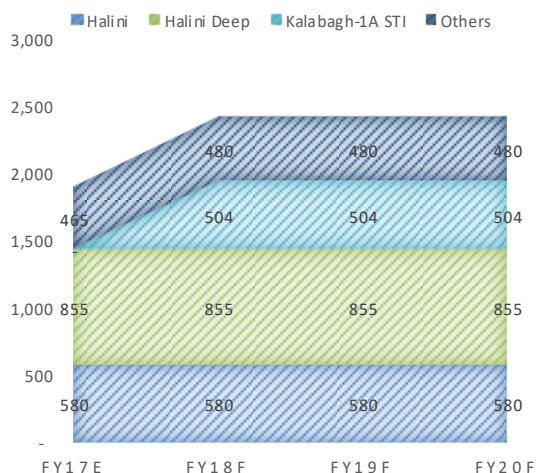
Gas Reserves	Bal FY.16 (tcf)	Bal Dec-16 (tcf)	% Change	Reserve Life (Yr)
Mari	3.20	5.24	64%	20
Zarghun South	0.02	0.02	-2%	16
Sujjal	0.01	0.04	343%	11
<b>Total Gas Res.</b>	<b>3.25</b>	<b>5.32</b>	<b>64%</b>	<b>19</b>

Oil Reserves	Bal FY.16 (mnbbbl)	Bal Dec-16 (mnbbbl)	% Change	Reserve Life (Yr)
Halini	1.69	1.47	-13%	7
Adam	0.14	0.15	9%	15
<b>Total Oil Res.</b>	<b>1.83</b>	<b>1.63</b>	<b>-11%</b>	<b>7</b>

**Total Gas Production (mmcf)**



**Total Oil Production (bopd)**



Source: Company Financials, PPIS & IGI Research

**Earnings and target price sensitivity to production flows from Mari field**

We expect the company to post 3yr CAGR of 33% from FY18F-FY20F based on production flows of 675mmcf/725mmcf/775mmcf in FY18/FY19/FY20. However, we have estimated a sensitivity of 20mmcf deviation from our base case assumption to earnings and target price. A 20mmcf shortfall from our base assumption in FY18/FY19/FY20 will result in drop in 3yr CAGR to 31%, while a 20mmcf increase in production from Mari field will augment 3yr CAGR in earnings to 36%.

Exhibit:

**EPS and Target Price Sensitivity to Mari Field Gas Production**

Scenarios	Mari Field Gas Production (mmcf)			EPS (PKR)			3Yr CAGR	TP
	FY18	FY19	FY20	FY18	FY19	FY20		
Bear 1	635	685	735	116.0	158.1	194.5	29%	1,981
Bear 2	655	705	755	125.7	168.0	204.8	31%	2,052
<b>Base</b>	<b>675</b>	<b>725</b>	<b>775</b>	<b>135.4</b>	<b>177.9</b>	<b>215.0</b>	<b>33%</b>	<b>2,118</b>
Bull 1	695	745	795	145.0	187.8	225.3	36%	2,173
Bull 2	715	765	815	154.7	197.7	235.5	38%	2,242

Source: IGI Research, TP=Target Price PKR (Dec-17)

**Recommendation**

We have strong **“BUY”** call on MARI with our Dec-17 target price of PKR 2,118/share, offering +54 % upside from its last closing. The company is currently trading at a FY17E and FY18F P/E of 15.3x and 10.2x, respectively.

## Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

**Disclaimer:** The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**Rating system:** IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

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.

IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	jawad.ameer@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	anjali.kukreja@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

#### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Phone: (92-992) 408243 - 44

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651

#### Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Radio  
Station, Mansehra Road, Abbottabad  
Phone: (+92-99) 2408243 - 44