

Day Break

Thursday, 02 November 2017

COMPANY UPDATE

MARI PETROLEUM COMPANY LIMITED

OIL & GAS EXPLORATION COMPANIES

| | |
|------------------------|--------------------------------------------|
| Recommendation | BUY |
| Target Price: | 2,208.9 |
| Last Closing: 1-Nov-17 | 1,521.1 |
| Upside: | 45.2 |
| Valuation Methodology: | Reserve based - Discounted Cash Flow (DCF) |
| Time Horizon: | Jun-18 |

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) | 167.7 1,591.6 |
| Exchange | KSE100 |

| | | | |
|--------------------|---------|---------|---------|
| Price Info. | 90D | 180D | 365D |
| Abs. Return | (16.6) | (10.1) | 45.3 |
| Lo | 1,409.0 | 1,409.0 | 964.9 |
| Hi | 1,809.4 | 1,809.4 | 1,809.4 |

Key Company Financials

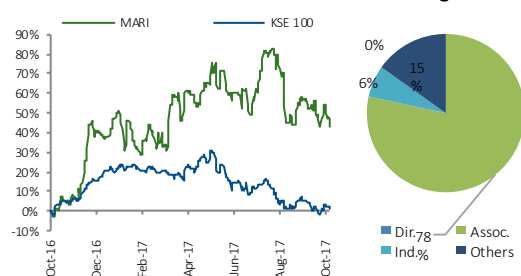
Period End: Jun

| PKRbn | FY16A | FY17A | FY18E | FY19F |
|---------------|-------|-------|-------|-------|
| Total Revenue | 21.7 | 33.4 | 38.7 | 49.4 |
| Net Income | 6.1 | 9.1 | 15.5 | 21.3 |
| EPS (PKR) | 54.9 | 82.9 | 140.2 | 192.8 |
| DPS (PKR) | 5.1 | 5.6 | 5.6 | 6.0 |
| Total Assets | 59.6 | 80.9 | 116.2 | 152.1 |
| Total Equity | 17.0 | 15.7 | 29.8 | 50.4 |

Key Financial Ratios

| | | | | |
|---------|------|------|------|------|
| ROE (%) | 35.7 | 58.2 | 51.9 | 42.2 |
| P/E (x) | 27.7 | 18.4 | 10.8 | 7.9 |
| P/B (x) | 9.9 | 10.7 | 5.6 | 3.3 |
| 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, PSX & IGI Research

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Oil & Gas – Exploration Companies

MARI: Earnings Revised on Discovery in Mari Lease from Tipu-01; 'BUY' Intact

- We have revised our earnings for MARI by +11%/12%/13% for FY19/FY20/FY21F after incorporating recent discovery from Tipu-01 (Mari field) as reported by the company in its 1QFY18 financial report. As a result, we have revised upward our target price for MARI by +4% to PKR 2,209/share;
- We attribute this substantial earnings growth to a) +5%YoY higher gas production to 710mmcf led by increased production from Mari field, b) incremental gas production (Mari field) from benchmark of 525mmcf priced under Petroleum Policy 2012 (PP12), c) +17%YoY increase in oil prices, and d) unwinding of wellhead price discount for Mari field;
- We have revised upward our earnings estimates by 11%-13% and our target price by +4% (previously PKR 2,138/share) after incorporating full year financial statements. Thus, we maintain our "BUY" call on MARI with our Jun-18 target price of PKR 2,209/share, offering +45% upside from its last closing.

Earnings revised on discovery from Tipu-01 (Mari Lease); 'BUY' intact

We have revised our earnings for Mari Petroleum Company Limited's (MARI) by +11%/12%/13% for FY19/FY20/FY21F after incorporating recent discovery from Tipu-01 (Mari field) as reported by the company in its 1QFY18 financial report. The initial testing revealed flows of 15.5mmcf of gas at a pressure of 2,153 PSI and 21.4mmcf at a pressure of 2,635 PSI. We expect the production commencement from the field in FY19 having an annualized EPS impact of PKR 9-10/share. We have also tweaked our earnings estimate for FY18 to account for lower exploration expense and higher tax rate. As a result, we have revised upward our target price for MARI by +4% to PKR 2,209/share. We recommend a 'BUY' call on the scrip offering +45% upside from its last close.

EPS for 1QFY18 reported at PKR 32.77, up by +31%YoY

MARI announced financial result for 1QFY18 with earnings clocking in at PKR 3.5bn (EPS PKR 31.30) up by +31%YoY as compared to PKR 2.8bn (EPS PKR 25.09) in the same period last year. We attribute this substantial earnings growth to a) +4%YoY higher gas production to 703mmcf led by increased production from Mari field (up by +4%YoY to 668mmcf), b) incremental gas production (Mari field) from benchmark of 525mmcf priced under Petroleum Policy 2012 (PP12), c) +17%YoY increase in oil prices, d) unwinding of wellhead price discount for Mari field (from a discount of 33.5% in 1HFY17 to 20.10% in 1HFY18) and, e) 48%YoY decline in exploration cost in the absence of dry well cost.

On quarterly basis earnings witnessed a growth of +28%QoQ

On a quarterly basis, earnings augmented by +28%QoQ on the back of a) +2%QoQ rise in oil prices, b) +6%QoQ rise in gas production led by +5%QoQ increase in production from Mari field and, c) 81%QoQ drop in exploration expense in the absence of dry well cost. However, higher effective tax rate of 29% compared to 4% in 4QFY17 diluted earnings growth in 1QFY18.

Exhibit:

Financial Highlights

| PKRmn | 1QFY18 | 1QFY17 | YoY | 4QFY17 | QoQ |
|-----------------------|--------|--------|------|--------|------|
| Net Sales | 9,335 | 7,263 | 29% | 8,310 | 12% |
| Royalty | 1,187 | 909 | 31% | 1,056 | 12% |
| Operating Expense | 1,932 | 1,577 | 22% | 2,332 | -17% |
| Exploration Expense | 245 | 475 | -48% | 1,315 | -81% |
| Gross Profit | 5,626 | 4,015 | 40% | 3,418 | 65% |
| Other Income/(charge) | (359) | (37) | 869% | (387) | -7% |
| Finance Income | 119 | 34 | 252% | 65 | 85% |
| Finance Cost | 296 | 206 | 43% | 161 | 84% |
| PBT | 5,091 | 3,806 | 34% | 2,934 | 74% |
| PAT | 3,613 | 2,766 | 31% | 2,829 | 28% |
| EPS (PKR) | 32.77 | 25.09 | | 25.66 | |
| DPS (PKR) | - | - | | 2.20 | |

Source: IGI Research and Company Financials

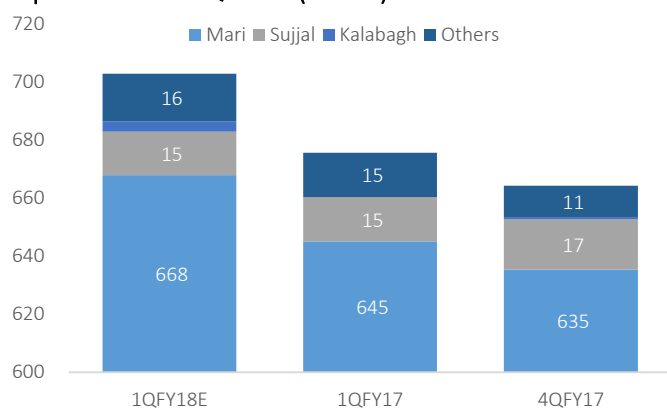
No of Shares: 110.25mn

Gas production from Mari field up by +5%YoY in 1QFY18

Gas production from Mari field increased by +4%YoY to 668mmcf in 1QFY18 compared to 645mmcf in the same period last year, leading to +5%YoY growth in total gas production (Mari field contributes nearly 96% of total gas production). On quarterly basis, gas offtake from Mari field was up by +5%QoQ on the back of higher demand upon successful installation of compressors at Guddu Power Plant during 4QFY17. Incremental production benchmark of 577.5mmcf was achieved throughout the quarter except for one day as a result of effective communication with other customers, despite two month shut down of Engro Fertilizer's (EFERT) Plant-I.

Exhibit:

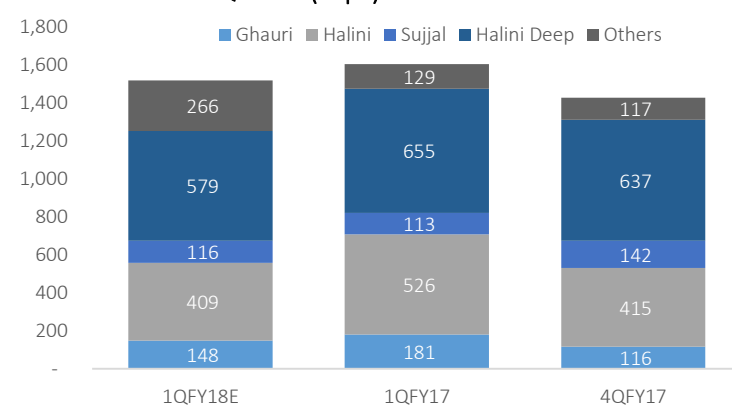
Gas production for 1QFY18 – (mmcf)



Source: IGI Research, Company Financials, PPIS

Exhibit:

Oil Production for 1QFY18 – (bopd)



Unwinding of wellhead gas price discount for Mari field and lower benchmark during plant closures drove profitability in 1QFY18

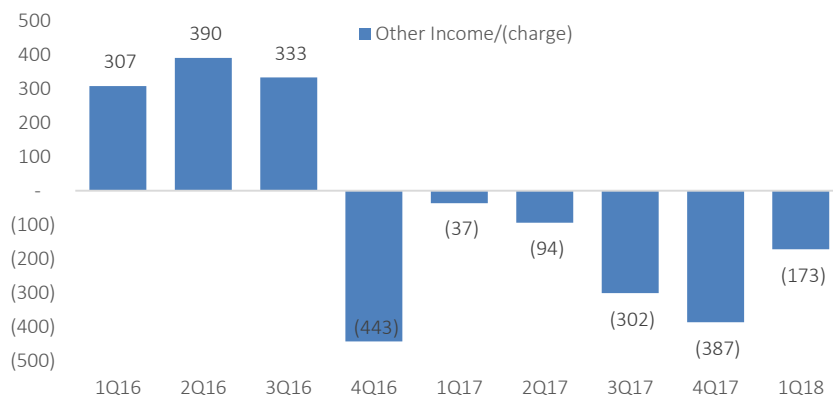
Wellhead gas price discount for Mari field decreased to 20.1% for 1HFY18 compared to 26.8% in 2HFY17. As a result, wellhead gas price for Mari field is increased by +9%QoQ. Moreover, benchmark for availability of PP12 price was lowered to 525mmcf from 578mmcf during planned ATA of any customer, provided such number of days shall not exceed 26% of total production days per year (effective from 4QFY17).

Company continues to book other charges as a result of lower or no income from Mari seismic unit (MSU) and Mari drilling unit (MDU)

The company booked ‘other charge’ of PKR 359mn in 1QFY18 compared to PKR 37mn in the same period last year. Increase in other charges was due to no income from MSU and MDU. To recall, the company booked PKR 2.8bn income in FY16 from MSU compared to PKR 259mn in FY17. However, MSU has commenced the work on project from end Aug-17 and new projects are also expected to start from Nov-17 onwards.

Exhibit:

MARI recording other charge since 4QFY16 due to lower income from MSU



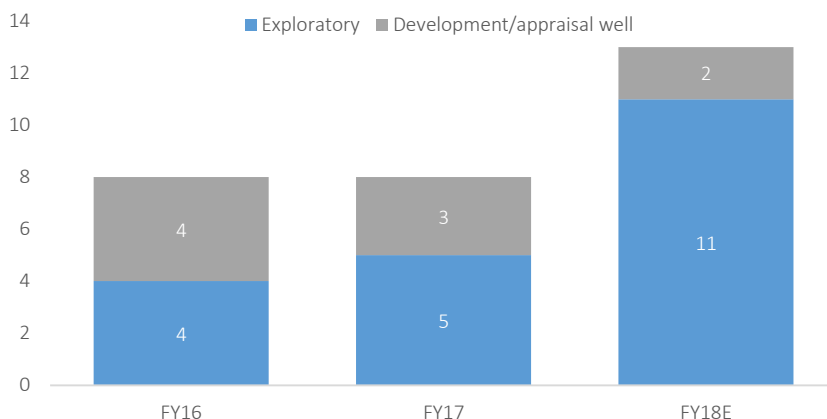
Source: IGI Research, Company Financials

Highest ever wells planned for FY18 including 11 exploratory and 2 development/appraisal well in operated/non-operated blocks

MARI has planned a record number of 13 wells in company operated and non-operated blocks for FY18 including 11 exploratory (7 company operated) and 2 development/appraisal well both company operated. To highlight, the company has already encountered a successful discovery from company operated exploratory well (Tipu-01). In addition, drilling in Azadi-01 (company operated exploratory well) is expected to be completed by Dec-17, while drilling in one appraisal and one development well is anticipated to be completed by Jan-18 and Feb-18, respectively.

Exhibit:

Highest ever wells planned by MARI for drilling in FY18



Source: IGI Research, Company Financials

Recommendation

We have revised upward our earnings estimates by 11%-13% and our target price by +4% (previously PKR 2,138/share) after incorporating recent discovery. Thus, we maintain our **“BUY”** call on MARI with our Jun-18 target price of PKR 2,209/share, offering +45% upside from its last closing. The company is currently trading at a FY18E P/E of 10.8x with a 3 Yr earning CAGR of 41% (FY18-FY20F).

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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) |
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Time Horizon: Jun – 2018

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)

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