

Day Break

Wednesday, 26 July 2017

COMPANY UPDATE

MARI PETROLEUM COMPANY LIMITED

OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY
Target Price:	2,090.2
Last Closing: 25-Jul-17	1,600.7
Upside:	30.6
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Dec-17

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)	176.5 1,675.2
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	0.1 9.1 60.7
Lo	1,470.1 1,270.4 931.1
Hi	1,732.5 1,732.5 1,732.5

Key Company Financials

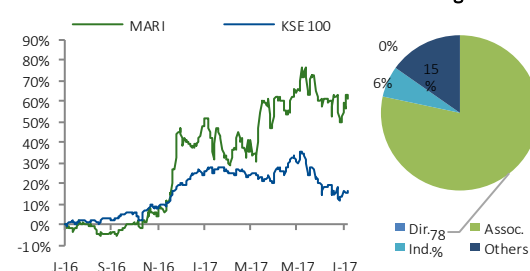
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	21.7	26.8	46.3	56.9
Net Income	6.05	8.7	14.9	19.6
EPS (PKR)	54.9	78.5	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	55.1	49.8	40.1
P/E (x)	29.2	20.4	11.8	9.0
P/B (x)	10.4	11.2	5.9	3.6
DY (%)	0.3	0.3	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 Companies

MARI: Improved flows, higher oil price and lower exploration cost to lift FY17 earnings to PKR 78.5/share, Up +43%YoY

- Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 27th Jul-17 to announce financial result for FY17. We expect the company to report earnings of PKR 8.66bn (EPS PKR 78.52) up by +43%YoY in FY17
- We attribute this substantial earnings growth to a) +4%YoY higher gas production to 658mmcf, b) 18%YoY increase in oil production, c) incremental gas production (Mari field) from benchmark of 525mmcf priced under Petroleum Policy 2012 (PP12), d) +19%YoY increase in oil prices, and e) unwinding of wellhead price discount for Mari field
- We maintain our "BUY" call on MARI with our Dec-17 target price of PKR 2,090/share, offering +30% upside from its last closing. The company is currently trading at a FY18E P/E of 11.8x.

Earnings to clock in at PKR 78.52/share in FY17, up by +43%YoY

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 27th Jul-17 to announce financial result for FY17. We expect the company to report earnings of PKR 8.66bn (EPS PKR 78.52) up by +43%YoY in FY17 as compared to PKR 6.05bn (EPS PKR 54.89) in the same period last year.

We attribute this substantial earnings growth to a) +4%YoY higher gas production to 658mmcf led by increased production from Mari field (up by +4%YoY to 628mmcf), b) +18%YoY increase in oil production mainly on the back of improved flows from Sujjal Field up by +19%YoY and production commencement of Halini Deep in May-16 (633bopd), c) incremental gas production (Mari field) from benchmark of 525mmcf priced under Petroleum Policy 2012 (PP12), d) +19%YoY increase in oil prices, and e) unwinding of wellhead price discount for Mari field (from a discount of 40.2% in FY16 to 26.8% in FY17). The company is expected to announce cash dividend of PKR 2.6/share taking FY17 dividend to PKR 5.6/share.

Earnings growth likely to emanate from lower exploration cost during 4QFY17

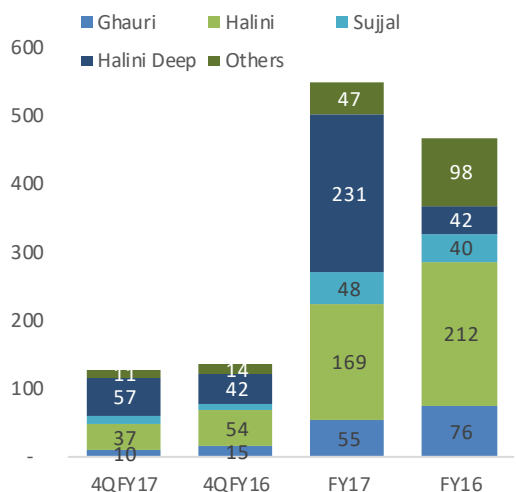
On quarterly basis, earnings are expected to grow by +9%YoY during 4QFY17 on the back of a) +16% increase in oil prices and b) 43%YoY decline in exploration cost in the absence of dry well cost and lower seismic activity. However, earnings growth is estimated to dilute on the back of lower oil and gas production which is down by 6%YoY and 1%YoY, respectively.

Oil and gas production up by +18%YoY and +4%YoY, respectively in FY17

Oil production is expected to increase by +18%YoY to 1,504bopd in FY17 on the back of production commencement Halini Deep-1 (633bopd) and +19%YoY higher production from Sujjal field. Gas production is estimated to increase by +4%YoY to 658mmcf owing to a) +4/+44mmcf increase in production from Mari/Sujjal field.

However, oil production during 4QFY17 declined by 6%YoY and 1%YoY owing to 33%YoY, 32%YoY and 51%YoY lower oil production from Ghauri, Halini and Sujawal, respectively. While gas production declined by 1%YoY on the back of 1%YoY drop in gas production from Mari field during 4QFY17.

Total Oil Production in FY17 (bbls)



Total Gas Production in FY17 (mmcf)

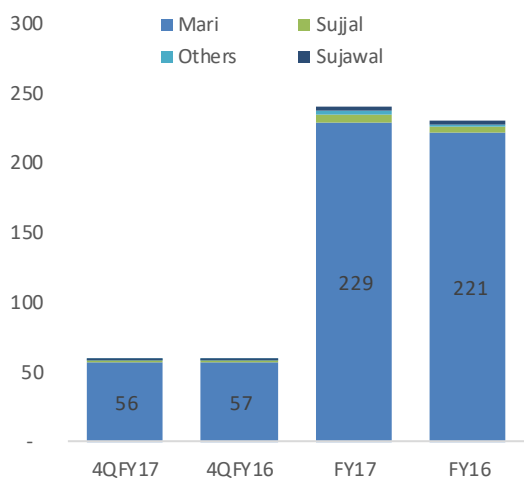


Exhibit:

Financial Highlights

PKRmn	4QFY17E	4QFY16	YoY	FY17E	FY16	YoY
Net Sales	6,936	6,268	11%	26,802	21,713	23%
Royalty	867	794	9%	3,395	2,750	23%
Operating Exp.	1,487	1,621	-8%	6,605	5,791	14%
Exploration Exp.	751	1,319	-43%	3,317	6,462	-49%
Gross Profit	3,463	2,327	49%	12,581	6,208	103%
Other Income	(43)	(443)	-90%	(476)	587	-181%
EBIT	3,420	1,884	82%	12,104	6,795	78%
Finance Income	36	31	16%	205	341	-40%
Finance Cost	317	(633)	-150%	954	574	66%
PBT	3,139	2,548	23%	11,355	6,561	73%
PAT	2,350	2,161	9%	8,657	6,051	43%
EPS (PKR)	21.31	19.60		78.52	54.89	
DPS (PKR)	2.60	2.10		5.60	5.10	

Source: IGI Research and Company Financials

No of Shares: 110.25mn

Recommendation

We maintain our **“BUY”** call on MARI with our Dec-17 target price of PKR 2,090/share, offering +30% upside from its last closing. The company is currently trading at a FY18E P/E of 11.8x.

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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: 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)

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