

Day Break

Monday, 30 October 2017

COMPANY UPDATE

MARI PETROLEUM COMPANY LIMITED

OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY		
Target Price:	2,137.6		
Last Closing:	27-Oct-17	1,415.8	
Upside:	51.0		
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)	156.1	1,481.4	
Exchange	KSE 100		

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

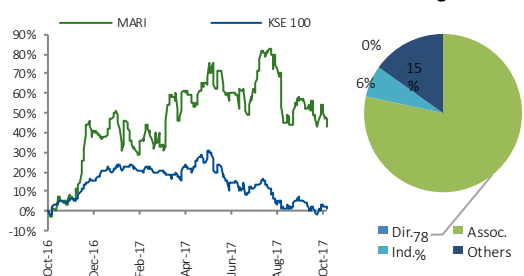
Period End: Jun

PKRbn	FY16A	FY17A	FY18E	FY19F
Total Revenue	21.7	33.4	38.7	47.9
Net Income	6.1	9.1	14.5	19.2
EPS (PKR)	54.9	82.9	131.3	174.0
DPS (PKR)	5.1	5.6	5.6	5.9
Total Assets	59.6	80.9	117.0	147.0
Total Equity	17.0	15.7	28.8	47.3

Key Financial Ratios

ROE (%)	35.7	58.2	50.3	40.5
P/E (x)	25.8	17.1	10.8	8.1
P/B (x)	9.2	9.9	5.4	3.3
DY (%)	0.4	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: Pricing and production incentives for Mari field to lift EPS by +25%YoY to PKR 31.30 in 1QFY18

- Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 31st Oct-17 to announce financial result for 1QFY18. We expect the company to report earnings of PKR 3.5bn (EPS PKR 31.30) up by +25%YoY
- 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 maintain our "BUY" call on MARI with our Jun-18 target price of PKR 2,138/share, offering +51% upside from its last closing. The company is currently trading at a FY18E P/E of 10.8x.

Earnings to clock in at PKR 31.30/share in 1QFY18, up by +25%YoY

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 31st Oct-17 to announce financial result for 1QFY18. We expect the company to report earnings of PKR 3.5bn (EPS PKR 31.30) up by +25%YoY in 1QFY18 as compared to PKR 2.8bn (EPS PKR 25.09) in the same period last year. We attribute this substantial earnings growth to a) +5%YoY higher gas production to 710mmcf led by increased production from Mari field (up by +5%YoY to 679mmcf), 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 (from a discount of 33.5% in 1HFY17 to 20.10% in 1HFY18).

Earnings to jump up by +22% on quarterly basis

On a quarterly basis, earnings are expected to grow by +22%QoQ on the back of a) +2%QoQ rise in oil prices, b) +7%QoQ rise in gas production led by +7%QoQ increase in production from Mari field and, c) 29%QoQ drop in exploration expense in the absence of dry well cost. Higher effective tax rate of 20% compared to 4% in 4QFY17 is expected to dilute earnings growth in 1QFY18.

Exhibit:

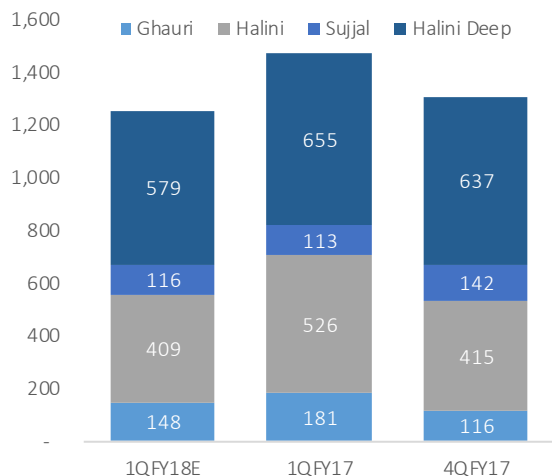
MARI Financial Highlights

PKRmn	1QFY18E	1QFY17	YoY	4QFY17	QoQ
Net Sales	9,129	7,263	26%	8,310	10%
Royalty	1,161	909	28%	1,056	10%
Operating Expense	2,300	1,577	46%	2,332	-1%
Exploration Expense	940	475	98%	1,315	-29%
Gross Profit	4,492	4,015	12%	3,418	31%
Finance Cost	183	206	-11%	161	13%
PBT	4,304	3,806	13%	2,934	47%
PAT	3,450	2,766	25%	2,829	22%
EPS (PKR)	31.30	25.09		25.66	
DPS (PKR)	-	-		2.20	

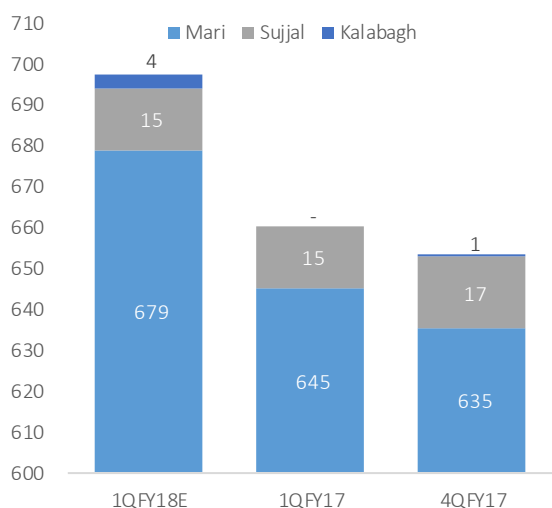
Source: IGI Research and Company Financials

No of Shares: 110.25mn

Oil Production for 1QFY18 - (bopd)



Gas production for 1QFY18 - (mmcf)



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

Gas production from Mari field increased by +5%YoY to 679mmcf 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 +7%QoQ on the back of higher demand upon successful installation of compressors at Guddu Power Plant during 4QFY17.

Unwinding of wellhead gas price discount for Mari field and lower benchmark during plant closures to drive profitability

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 expected to increase 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). The aforesaid approval is expected to reduce the risk of losing higher price incentive resulting in lower profitability.

Recommendation

We have revised upward our earnings estimates by 2% - 5% and our target price by +4% (previously PKR 2,059/share) after incorporating full year financial statements. Thus, we maintain our **“BUY”** call on MARI with our Jun-18 target price of PKR 2,138/share, offering +51% upside from its last closing. The company is currently trading at a FY18E P/E of 10.8x.

Source: Company Financials, IGI Research, PPIS

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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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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

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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