

Day Break

Friday, 05 May 2017

COMPANY UPDATE

MARI PETROLEUM COMPANY LIMITED
OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY
Target Price:	2,090.2
Last Closing:	4-May-17 1,531.0
Upside:	36.5
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)	168.8 1,610.7
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	17.1 6.7 19.8
Lo	1,270.4 1,448.1 1,290.0
Hi	1,599.7 1,599.7 1,599.7

Key Company Financials

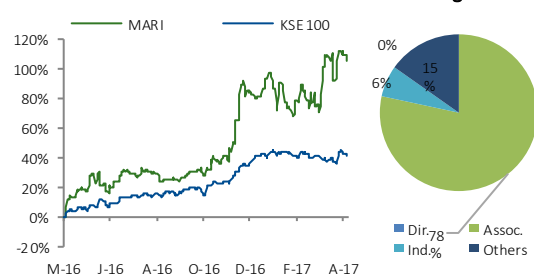
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	21.7	27.3	46.3	57.0
Net Income	6.05	8.4	17.5	22.5
EPS (PKR)	54.9	76.6	158.6	204.3
DPS (PKR)	5.1	5.6	6.1	6.4
Total Assets	59.6	67.1	100.0	126.8
Total Equity	17.0	14.2	31.0	52.8

Key Financial Ratios

ROE (%)	35.7	59.5	56.4	42.6
P/E (x)	27.9	20.0	9.7	7.5
P/B (x)	9.9	11.9	5.4	3.2
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

Abdullah Farhan

Research Analyst

abdullah.farhan@igi.com.pk

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

Oil & Gas – Exploration Companies

MARI: Lower Production from Mari and Higher Tax Dragged Down Profitability During 3QFY17

- Mari Petroleum Company Limited's (MARI) reported earnings of PKR 1.69bn (EPS PKR 15.37) down by 8%YoY in 3QFY17 as compared to PKR 1.84bn (EPS PKR 16.66) in the same period last year.
- Average daily production from Mari field stood at 573.36mmcfcd during 3QFY17 as a result company managed to secure incentive price for 83 days out of 90 days of the quarter. The committee approved the relaxation of threshold production limit from 577.5 MMSCFD to 525 MMSCFD during planned ATA of any customer provided such number of days shall not exceed 26% of total production days per year.
- We have revised down our earnings estimate for MARI by 5%-15% during FY17E-FY25F based on lower production from Mari field resulting in loss of incentive price. As a result we have revised down our Target price by 1% to PKR 2,090/share, maintaining "BUY" call on MARI, offering +37% upside from its last closing.

Earnings reported at PKR 15.37/share in 3QFY17, down by 8%YoY

Mari Petroleum Company Limited's (MARI) reported earnings of PKR 1.69bn (EPS PKR 15.37) down by 8%YoY in 3QFY17 as compared to PKR 1.84bn (EPS PKR 16.66) in the same period last year. We attribute this decline in earnings to lower production from Mari HRL reservoir as a result of emergency EFL plant shut-down and Annual Turn Around of FCCL's plant along with higher tax rate of 17.4% against tax benefit of 5% recorded in the same period last year. Cumulative earnings for 9MFY17 stands at PKR 6.31bn (EPS PKR 57.21) compared to PKR 3.89bn (EPS PKR 35.29) in the corresponding period last year.

Exhibit:

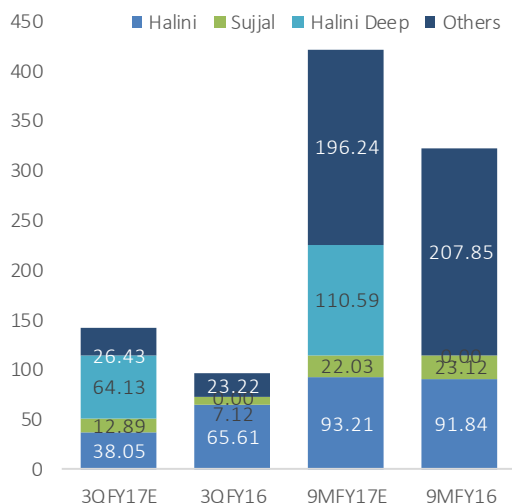
Financial Highlights

PKRmn	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Net Sales	6,806	5,818	17%	19,866	15,445	29%
Royalty	894	727	23%	2,528	1,956	29%
Operating Exp	1,615	1,445	12%	5,118	4,170	23%
Exploration Exp	1,667	1,799	-7%	2,565	5,143	-50%
Gross Profit	2,496	1,718	45%	9,117	3,881	135%
Other Income/(exp)	(302)	333	-191%	(433)	1,030	-142%
Finance Income	82	103	-21%	168	309	-46%
Finance Cost	224	399	-44%	637	1,207	-47%
PBT	2,053	1,755	17%	8,216	4,013	105%
PAT	1,695	1,837	-8%	6,307	3,891	62%
EPS (PKR)	15.37	16.66		57.21	35.29	
DPS (PKR)	-	-		3.00	3.00	

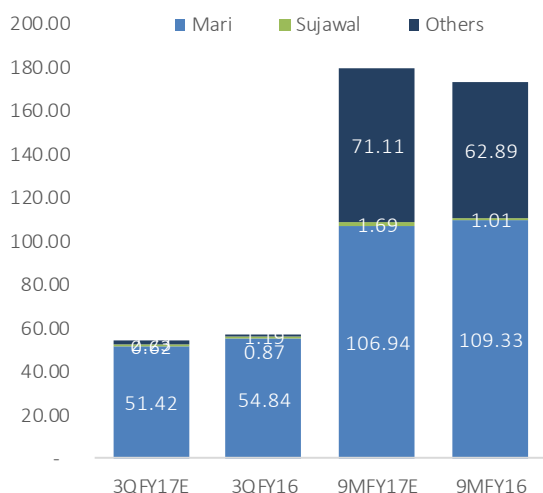
Source: IGI Research and Company Financials

No of Shares: 110.25mn

Total Oil Production in 3QFY17 (000'bbls)



Total Gas Production in 3QFY17 (000'mmcf)



Lower flows from Mari field owing to emergency shut-down of EFL plant and Annual turnaround of FCC's plant

Average daily production from Mari field stood at 573.36mmcf during 3QFY17 as a result company managed to secure incentive price for 83 days out of 90 days of the quarter. Lower production was due to shut-down of FCC plant owing to Annual Turn-Around (ATA) and emergency shut-down of EFL plant. As a result topline increased by just +17%YoY despite a) unbundling of discount for Mari field from 01-Jan-2017 (73.2% as compared to 59.8% in 3QFY16), b) +79%YoY increase in oil price, and c) increased oil production.

Benchmark for price incentive lowered to 525mmcf from 577.5mmcf during period of plant's annual turn-around of any customer

As a result of lower demand from customers owing to ATA of plants, the company took the matter to DGPC to lower the threshold for incentive price under Petroleum Policy 2012 (PP12) to 525mmcf from currently 577.5mmcf during the ATA period of customers. The DGPC referred the case to "Removal of Difficulties and Addressing of Anomalies Committee". After continuous efforts, the meeting was convened and the minutes of meeting were circulated on March 28, 2017 whereby the committee approved the relaxation of threshold production limit from 577.5 MMSCFD to 525 MMSCFD during planned ATA of any customer provided such number of days shall not exceed 26% of total production days per year. The aforesaid approval is expected reduce the risk of losing the higher price incentive resulting in lower profitability.

Outlook

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 as Mari field reserves have surged by +64%YoY 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). Moreover, Sujjal reserves have also been restated at 44.6bcf in Dec-16, up by +4.4x since last reported in Jun-16. As a result, we expect production from Mari field to reach 775mmcf by FY20 with demand emanating from 50mmcf additional gas allocated by GoP to TPS Guddu and 26mmcf to Engro Fertilizer, while further gas requirement to emanate from 440MW power plant to be set-up by MARI at Daharki (awaiting official notification for details). Additional flows of 10% or more from benchmark of 525mmcf from Mari field will be priced under Petroleum Policy 2012 implying 5x higher gas price from current price for Mari field.

Recommendation

We have revised down our earnings estimate for MARI by 5%-15% during FY17E-FY25F based on lower production from Mari field resulting in loss of incentive price. As a result we have revised down our Target price by 1% to PKR 2,090/share, maintaining "BUY" call on MARI, offering +37% upside from its last closing. The company is currently trading at a FY17E P/E of 20.0x.

Source: Company Financials, PPIS & IGI Research

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

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 ShoppingCenter , Opp. Radio
Station, MansehraRoad, Abbottabad
Phone: (+92-99) 2408243 - 44