

Day Break

Wednesday, 17 October 2018

COMPANY UPDATE

Mari Petroleum Company Limited

Oil & Gas Exploration Companies

Recommendation	BUY		
Target Price:	1,910.5		
Last Closing: 16-Oct-18	1,400.4		
Upside:	36.4		
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)		
Time Horizon:	Jun-19		

Market Data

Bloomberg Tkr.	MARI PA		
Shares (mn)	121.3		
Free Float Shares (mn)	22.1		
Free Float Shares (%)	18.2%		
Market Cap (PKRbn USDmn)	169.8	1,295.3	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	16.3	6.0	10.3
Lo	1,270.7	1,248.1	1,248.1
Hi	1,477.5	1,477.5	1,477.5

Key Company Financials

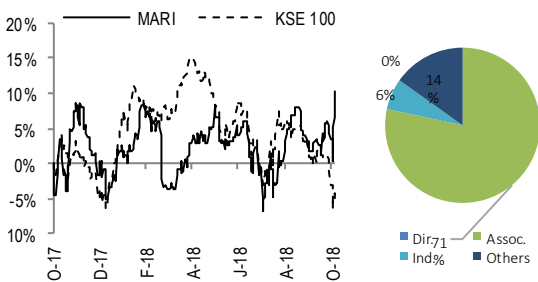
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	40.7	61.6	72.7	72.0
Net Income	15.4	24.6	29.8	28.9
EPS (PKR)	126.8	203.2	246.0	238.2
DPS (PKR)	6.0	6.3	6.7	6.7
Total Assets	80.9	144.2	161.4	207.5
Total Equity	40.2	53.6	82.6	110.7

Key Financial Ratios

ROE (%)	38.3	46.0	36.1	26.1
P/E (x)	11.0	6.9	5.7	5.9
P/B (x)	28.9	4.2	3.2	2.1
DY (%)	0.4	0.4	0.5	0.5

Relative Price Performance



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: Unwinding of discounts and weak PKR to lift earnings by +47%YoY for 1QFY19

- Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 18th Oct-18 to announce financial result for 1QFY19, where we expect the company to post earnings of PKR 5.30bn (EPS PKR 43.70), up by +47%YoY,
- We estimate incline in earnings on the back a) bi-annual unwinding of discounts to 93.3% of total wellhead gas price for Mari field, b) +51%YoY rise in oil prices and 17%YoY PKR depreciation against greenback and, c) +2%YoY rise in gas flows from Mari field,
- However, higher exploration cost on the back of dry well cost incurred at Qamar X-1 (35% stake) and higher prospecting expenditure in respect of Bannu West, is likely to restrict earnings growth in 1QFY19 despite macroeconomic tailwinds in favor,
- We have rolled over our target price for MARI to Jun-19 to PKR 1,910.5/share with a 'BUY' call on the Company, offering 36% downside from its last close.

Earnings to clock in at PKR 43.70/share for 1QFY19, up by +47%YoY

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 18th Oct-18 to announce financial result for 1QFY19, where we expect the company to post earnings of PKR 5.30bn (EPS PKR 43.70), up by +47%YoY, compared to PKR 3.61bn (EPS PKR 29.79) in the same period last year. We estimate incline in earnings on the back a) bi-annual unwinding of discounts to 93.3% of total wellhead gas price for Mari field, b) +51%YoY rise in oil prices and 17%YoY PKR depreciation against greenback and, c) +2%YoY rise in gas flows from Mari field. However, higher exploration cost on the back of dry well cost incurred at Qamar X-1 (35% stake) and higher prospecting expenditure in respect of Bannu West, is likely to restrict earnings growth in 1QFY19 despite macroeconomic tailwinds in favor .

On quarterly basis, earnings are expected to increase by +15%QoQ in the absence of lower dry well cost on Qamar X-01 and lower prospecting expense. Oil prices are up by +3%QoQ and PKR depreciation of +6%QoQ leads to further enhancement in revenues despite 4%QoQ drop in oil production. Further boost to earnings is foreseen to emanate from reduction in discount to wellhead gas price for Mari field effective from 1st Jul-18 along with +2%QoQ rise in production from Mari field.

Exhibit:

Financial Highlights

PKRmn	1QFY19E	1QFY18	YoY	4QFY18	QoQ
Net Sales	13,676	9,335	46%	12,085	13%
Royalty	1,742	1,187	47%	1,542	13%
Operating Expense	3,044	1,932	58%	2,998	2%
Exploration Expense	1,111	245	353%	2,052	-46%
Gross Profit	7,291	5,626	30%	5,114	43%
EBIT	7,353	5,268	40%	4,868	51%
Finance Income	133	119	11%	277	-52%
Finance Cost	223	296	-25%	(146)	-253%
PBT	7,262	5,091	43%	5,291	37%
PAT	5,299	3,613	47%	4,590	15%
EPS (PKR)	43.70	29.79		37.85	
DPS (PKR)	-	-		-	

Source: IGI Research and Company Financials

No of Shares: 121.28mn

Oil production down by 9%YoY and while gas production up by +2%YoY during 1QFY19

Oil production dropped by 9%YoY owing to lower production from Ghauri, Halini, Halini Deep and Kalabagh. Gas production is up by +2%YoY on the back of higher production from Mari field owing to addition of new discoveries in SML/SUL reservoirs. However, gas production from Sujawal, Sujjal and Kalabagh witnessed natural depletion leading to lower flows from the well.

Recommendation

We have rolled over our target price for MARI to Jun-19 to PKR 1,910.5/share with a 'BUY' call on the Company, offering 36% downside from its last close. The company is currently trading at FY19E P/E of 6.9x.

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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: Dec – 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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