

Day Break

Tuesday, 09 August 2016

Company Update

Mari Petroleum Company Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price	1,286.1
Last Closing	976.4
Upside	32%

Market Data

Bloomberg Tkr.	MARI PA
Shares (mn)	110.3
Market Cap (PKRbn USDmn)	107.6 1,029.4
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	13.8	43.6	115.5
Low	846.7	580.5	363.2
High	997.9	997.9	997.9

Key Company Financials

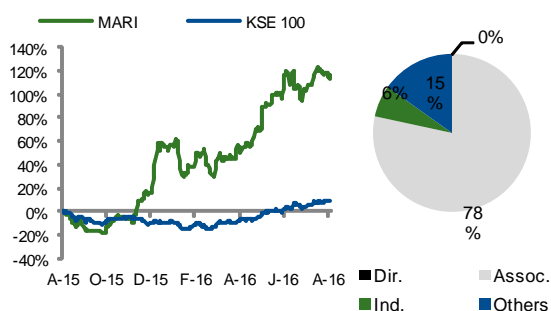
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	19.4	23.1	31.3	38.2
Net Income	5.7	5.8	9.7	12.7
EPS (PKR)	51.3	52.6	88.4	115.1
DPS (PKR)	5.2	5.4	17.7	47.7
Total Assets	65.7	75.1	85.9	105.0
Total Equity	11.5	19.6	25.9	34.6

Key Financial Ratios

ROE (%)	49%	30%	38%	37%
P/E (x)	19.1	18.6	11.0	8.5
P/B (x)	9.4	5.5	4.2	3.1
DY (%)	0.5	0.6	1.8	4.9

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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Mari Petroleum Company Limited Pricing Incentives and Halini Deep to Drag Earnings to PKR 17.49/share

- Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 11th Aug-16, where we expect the company to post earnings of PKR 1.9bn (EPS PKR 17.49) down by 12%YoY in 4QFY16 as compared to PKR 2.2bn (EPS PKR 19.89) in the same period last year.
- Going forward, we expect better performance on the back of a) higher price for Mari gas field as discount decreases every six months to Petroleum Policy 2001, b) increased production from Mari gas field to be priced under Petroleum Policy 2012 and, c) additional production from Halini Deep-01, Kalabagh-1A and Fazl X-1.
- The scrip is currently trading at FY17E P/E multiple of 11.0x. With our Dec-16 TP of PKR 1,286/share, the stock offers upside of +32%, hence we maintain 'BUY' call on the scrip.

Earnings to Clock in at PKR 17.49/share in 4QFY16

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 11th Aug-16, where we expect the company to post earnings of PKR 1.9bn (EPS PKR 17.49) down by 12%YoY in 4QFY16 as compared to PKR 2.2bn (EPS PKR 19.89) in the same period last year. Revenues are estimated to surge by +31%YoY to PKR 7.7bn owing to higher oil/gas production and higher price incentive for Mari field under Petroleum Policy 2012 for incremental production. However, decline in earnings is primarily attributable to higher tax charge during 4QFY16. We expect the company to provide further clarity on redemption of preference share which was approved in EoGM held on 23rd Jun-16.

Profitability in FY16 is estimated to grow by +3%YoY to PKR 10.5bn (EPS PKR 38.64). Along with the result, we expect the company to pay cash dividend of PKR 2.40/share in 4QFY16, taking total dividends for FY16 to PKR 5.40/share.

Exhibit: MARI Production

	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Oil (bbls)	169,308	136,153	24%	477,653	414,433	15%
Gas (mmcf)	59,218	56,358	5%	227,964	224,700	1%

Source: IGI Research and Company Financials

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Higher Production on the back of Increased Output from Mari Field

Oil production increased by +24%YoY to 1,840bopd in 4QFY16 from 1,480bopd in the same period last year, owing to commencement of production from Halini Deep in May-16. Gas production increased by +5%YoY to 644mmcf from 613mmcf in the same period last year owing to higher production from Mari field, Sujjawal and Zarghun South.

Exhibit: Financial Highlights

PKRmn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Net Sales	7,732	5,922	31%	23,177	19,376	20%
Royalty	1,057	760	39%	3,013	2,519	20%
Operating Exp	2,102	1,617	30%	6,272	5,396	16%
Exploration Exp	1,503	1,068	41%	6,646	3,194	108%
Gross Profit	2,769	2,308	20%	6,649	7,768	-14%
Other Income	319	35	815%	1,349	55	2352%
EBIT	3,087	2,343	32%	7,999	7,823	2%
Finance Income	174	517	-66%	483	517	-7%
Finance Cost	418	349	20%	1,625	1,788	-9%
PBT	2,843	2,511	13%	6,857	6,552	5%
PAT	1,928	2,193	-12%	5,819	5,650	3%
EPS (PKR)	17.49	19.89		52.78	51.25	
DPS (PKR)	2.40	5.22		5.40	5.22	

Source: IGI Research and Company Financials

Outlook

Going forward, we expect better performance on the back of a) higher price for Mari gas field as discount decreases every six months to Petroleum Policy 2001, b) increased production from Mari gas field to be priced under Petroleum Policy 2012 and, c) additional production from Halini Deep-01, Kalabagh-1A and Fazl X-1. Moreover, we expect the company to pay out higher dividend from FY18, post redemption of preference share in Jun-16.

Recommendation

The scrip is currently trading at FY17E P/E multiple of 11.0x. With our Dec-16 TP of PKR 1,286/share, the stock offers upside of +32%, hence we maintain 'BUY' call on the scrip.

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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.

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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 return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Reserve based Discounted Cash Flow (DCF)

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

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