

# Day Break

Thursday, 23 January 2020

## COMPANY UPDATE

### Mari Petroleum Company Limited

Oil & Gas Exploration Companies

Recommendation		BUY
Target Price:	Dec/20	1,774.9
Last Closing:	22-Jan-20	1,454.5
Upside:		22.0
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)	
Time Horizon:		11M
Market Data		
Bloomberg Tkr.		MARI PA
Shares (mn)		133.4
Free Float Shares (mn)		26.7
Free Float Shares (%)		20.0%
Market Cap (PKRbn   USDmn)	194.0	1,253.3
Exchange		KSE 100
Price Info.		
	90D	06M
Abs. Return	25.7	38.7
Lo	1,015.4	830.0
Hi	1,374.2	1,374.2

### Key Company Financials

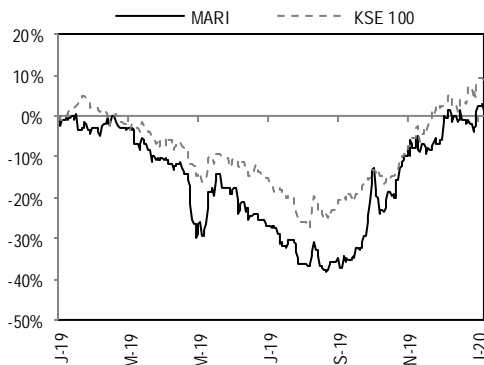
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	59.4	71.0	75.7	75.1
Net Income	24.3	31.7	32.6	32.6
EPS (PKR)	182.4	237.8	244.7	244.3
DPS (PKR)	6.0	6.5	6.6	6.7
Total Assets	220.1	255.3	258.1	259.0
Total Equity	63.6	95.9	127.7	159.5

### Key Financial Ratios

ROE (%)	46.8	46.9	39.8	29.2
P/E (x)	8.0	6.1	5.9	6.0
P/B (x)	4.8	3.1	2.0	1.5
DY (%)	0.4	0.4	0.5	0.5

### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Oil & Gas Exploration Companies

### MARI: PKR depreciation and higher well head gas price for Mari field to lift 2QFY20 EPS by +8%YoY

- ✓ Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 24th Jan-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 6.37bn (EPS PKR 47.71), up by +8%YoY,
- ✓ We estimate incline in earnings on the back a) 16%YoY depreciation of PKR against greenback despite 5%YoY drop in oil prices, b) higher wellhead gas price for Mari field and, c) higher other income on account of increased income on bank deposit and short term investments,
- ✓ On quarterly basis, earnings are expected to drop by 15%QoQ on the back of 21%QoQ drop in revenues led by 11%QoQ drop in Mari gas field production,
- ✓ We recommend a 'BUY' stance on MARI with our Dec-20 target price of PKR 1,774.9/share offering 22% upside from last close. The company is currently trading at FY20 P/E of 6.1x.

### Earnings to clock in at PKR 47.71/share for 2QFY20, up by +8%YoY

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 24<sup>th</sup> Jan-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 6.37bn (EPS PKR 47.71), up by +8%YoY, compared to PKR 5.92bn (EPS PKR 44.35) in the same period last year. We estimate incline in earnings on the back a) 16%YoY depreciation of PKR against greenback despite 5%YoY drop in oil prices, b) higher wellhead gas price for Mari field reaching 100% of the applicable price and, c) higher other income on account of increased income on bank deposit and short term investments. However exploration cost is likely to remain high due to increased prospecting expense in Bannu West, Kalchas and Block-28 blocks which is expected to limit earnings growth during 2QFY20. To note, MARI did not incur any dry well cost during the quarter.

### Exhibit: Financial Highlights

PKRmn	2QFY20E	2QFY19	YoY	1HFY20E	1HFY19	YoY
Net Sales	14,020	14,646	-4%	31,869	28,987	10%
Royalty	1,786	1,857	-4%	4,043	3,685	10%
Operating Expense	2,594	2,889	-10%	5,849	5,657	3%
Exploration Expense	1,568	971	62%	3,610	2,647	36%
Gross Profit	7,498	8,317	-10%	16,983	15,799	7%
EBIT	7,858	8,449	-7%	17,633	16,170	9%
Finance Income	1,237	336	268%	2,420	604	301%
Finance Cost	239	51	369%	488	338	44%
PBT	8,857	8,734	1%	19,565	16,435	19%
PAT	6,365	5,916	8%	13,828	11,058	25%
EPS (PKR)	47.71	44.35		103.66	82.89	
DPS (PKR)	4.00	4.00		4.00	4.00	

Source: IGI Research and Company Financials

No of Shares: 133.4mn

### Mari gas field production down substantially during 2QFY20

Total gas production for the Company fell down by 13%YoY on the back of nearly 13%YoY drop in flows from Mari gas field. This was primarily on the back of planned shut-down of FFC plant, lower offtake from FPDCL and reduced

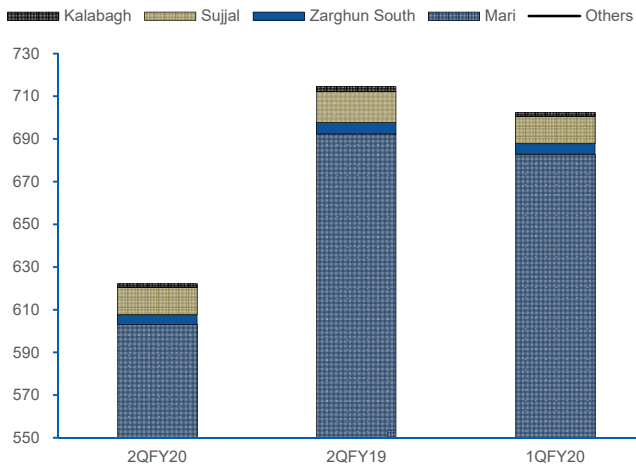
requirement from WAPDA. Although during planned shutdown of customer plant, Mari field benchmark production for Petroleum Policy 2012 (PP12) pricing is lower, but substantial drop in production is likely to reduce incremental production entitled for PP12 by 41%YoY (44%QoQ).

**Lower gas production to drag earnings down on quarterly basis**

On a quarterly basis, earnings are expected to drop by 15%QoQ on the back of 21%QoQ drop in revenues led by 11%QoQ drop in Mari gas field production. Oil production declined by 2%QoQ on the back of lower flows from Mari, Sujal and Dharian.

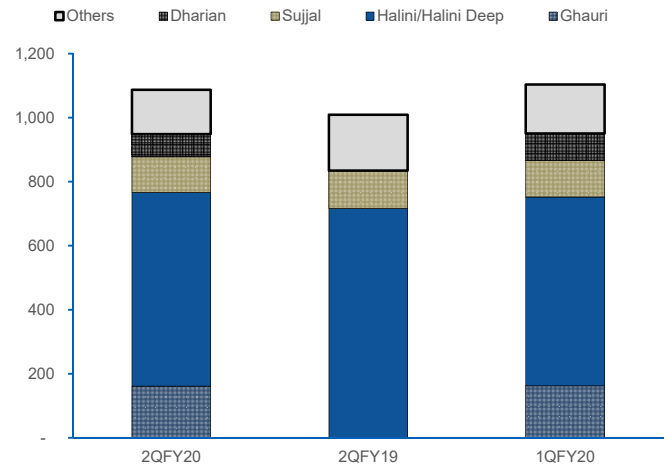
**Exhibit: MARI gas production (mmcf)**

Lower gas production from Mari field during 2QFY20 dragged total gas production



**Exhibit: MARI oil production (bopd)**

Oil production remained stable on the back of addition of Dharian oil discovery



**Recommendation**

We recommend a ‘BUY’ stance on MARI with our Dec-20 target price of PKR 1,774.9/share offering 22% upside from last close. The company is currently trading at FY20 P/E of 6.1x.

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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)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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**Time Horizon:** Dec – 2019

**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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