

# Day Break

Friday, 02 March 2018

## COMPANY UPDATE

### Mari Petroleum Company Limited

Oil &amp; Gas Exploration Companies

<b>Recommendation</b>	<b>BUY</b>		
Target Price:	2,094.1		
Last Closing: 1-Mar-18	1,440.1		
Upside:	45.4		
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)		
Time Horizon:	Dec-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)	158.8	1,433.4	
Exchange	KSE 100		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	2.1	(7.2)	16.1
Lo	1,398.4	1,398.4	1,290.0
Hi	1,595.5	1,683.2	1,809.4

### Key Company Financials

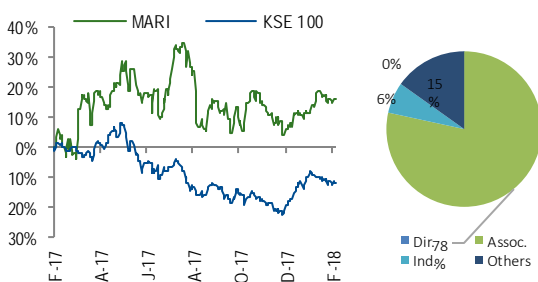
Period End: Jun

PKRbn	FY17A	FY18E	FY19F	FY20F
Total Revenue	33.4	40.1	50.5	53.0
Net Income	9.1	15.6	20.8	21.7
EPS (PKR)	82.9	141.5	188.7	197.3
DPS (PKR)	5.6	5.6	6.0	6.2
Total Assets	80.9	119.8	153.6	178.1
Total Equity	15.7	29.9	50.1	71.1

### Key Financial Ratios

ROE (%)	58.2	52.1	41.5	30.6
P/E (x)	17.4	10.2	7.6	7.3
P/B (x)	10.1	5.3	3.2	2.2
DY (%)	0.4	0.4	0.4	0.4

### 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 &amp; IGI Research

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## Oil & Gas Exploration Companies

### MARI: Lower production from HRL to have limited impact; 'BUY' Intact

- Mari Petroleum Company Limited (MARI) in its 2QFY18 reported that production capacity of Mari HRL field is expected to decline below 600mmcf after 2019.
- However, after the evaluation of the reservoir the company has worked out a counter measure to arrest the issue and plans to drill 19 development wells with an estimated cost of PKR 45mn in the next 16-20 months which will sustain the production from HRL reservoir at 610mmcf for the next 4-5 years.
- We have revised our investment case for MARI after incorporating 2QFY18 financial results and lower production estimates for Mari HRL field going forward as reported by MARI in 2QFY18 financial statements. To highlight, we had already incorporated gas price incentive on incremental production from HRL reservoir and not the entire Mari field.
- We still maintain MARI as our top pick in IGI E&P universe with our revised Dec-18 target price of PKR 2,094/share offering +45% upside from last close.

### Mari HRL production to drop while flows maybe sustained at 600-610mmcf

Mari Petroleum Company Limited (MARI) in its 2QFY18 reported that production capacity of Mari HRL field is expected to decline below 600mmcf after 2019. As a result of this updated production we have revised our investment case for MARI.

Current production from HRL reservoir stands at 630mmcf (contributing 90% of total production from Mari field and 71% of total gas reserves of Mari field) and under Petroleum Policy 2012 (PP12) incentive is offered PP12 wellhead gas price for 10% over and above benchmark production of 525mmcf.

However, after the evaluation of the reservoir the company has worked out a counter measure to arrest the issue and plans to drill 19 development wells with an estimated cost of USD 45mn (PKR 4.96bn) in the next 16-20 months which will sustain the production from HRL reservoir at 610mmcf for the next 4-5 years. The Company also plans to install wellhead facilities, debottlenecking of 20KM gathering pipeline infrastructure and up-gradation of manifolds at Mari field to sustain flows from Mari field.

### Capping production flows from Mari HRL at 610mmcf going forward

Current production from Mari field stands at 713mmcf and assuming 88%-90% of flows are from HRL, production from HRL reservoir is estimated between 627-641mmcf. We have revised down our production estimated from Mari HRL to 610mmcf for long term from previous 640mmcf. However, we still expect production from Mari deep and SML reservoir to increase bring total production from Mari field to 750mmcf by FY21 from current 713mmcf. However, decline in earnings to remain limited as price incentive benchmark for HRL was reduced down to 477.5mmcf (in 4QFY17) from 525mmcf during annual turnaround of customers' plants allowing for better availability of higher price.

### Capex of USD 45mn over the next 16-20 months should not be a concern

As reported the company would be needing an estimated amount of USD 45mn (or PKR 4.96bn assuming PKR 110.3/USD exchange rate) to conduct a capital expenditure which includes;

- Drilling of 19 development well,
- Installation of wellhead facilities,
- Debottlenecking of 20KM gathering pipeline infrastructure, and
- Up-gradation of manifolds at Mari field.

The company's management expects the investment would be made in the next 16-20 months before end of 2019. We estimate this capex requirement would have a minimum impact on company's earnings; decline of 0.5%/1.1%/1.9% for FY18/19/20F. In terms of financing, since company's dividend payout is capped, we view the company will be to finance the required capex easily through its operating cash flows.

### Earnings revised down on lower production estimate for Mari HRL field

We have revised our investment case for MARI after incorporating 2QFY18 financial results and lower production estimates for Mari HRL field going forward as reported by MARI in 2QFY18 financial statements. To highlight, we had already incorporated gas price incentive on incremental production from HRL reservoir only and not on the entire Mari field. As a result our earnings estimate for FY18/19/20F have been revised downwards by 6%/1%/16% leading to downgrade in our Dec-18 target price by 12% to PKR 2,094/share (previous PKR 2,382/share).

Exhibit:

#### Earnings estimate revised for MARI

PKR/share	FY18	FY19	FY20	TP
OLD EPS	150.8	191.0	235.7	2,382.2
Revised EPS	141.5	188.7	197.3	2,094.1
% Change	-6%	-1%	-16%	-12%

Source: IGI Research

### 'BUY' stance maintained

We still maintain MARI as our top pick in IGI E&P universe with our revised Dec-18 target price of PKR 2,094/share offering +45% upside from last close. MARI is currently trading at FY18E P/E of 10.2x and trades at lowest EV/BoE of USD 2.53/BoE among its peers. We base our investment case on 3Yr earnings CAGR of +34% during FY18-20F on the back of a) new discoveries coming online, b) stable oil price and PKR depreciation, c) unwinding of discount for Mari field which will gradually decrease every six months to reach 100% of gas price in FY19 and, d) higher gas price incentive under PP12 for Mari HRL field for incremental production over and above benchmark of 525mmcf.

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**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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