

Day Break

Wednesday, 19 August 2020

COMPANY UPDATE

Mari Petroleum Company Limited

Oil & Gas Exploration Companies

Recommendation		BUY
Target Price:	Dec/20	1,819.8
Last Closing:	18-Aug-20	1,347.5
Upside (%):		35.1
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)	
Time Horizon:		4M

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)	179.8 1,164.8		
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	9.1	5.3	60.6
Lo	1,206.3	831.0	830.0
Hi	1,374.1	1,374.1	1,454.5

Key Company Financials

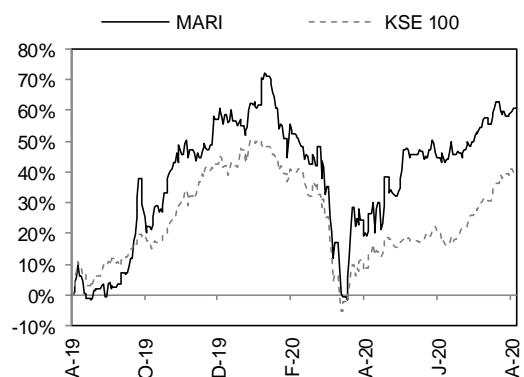
Period End: Jun

PKRbn	2019a	2020e	2021f	2022f
Total Revenue	59.4	67.8	64.9	68.5
Net Income	24.3	29.9	26.7	28.7
EPS (PKR)	182.4	224.4	200.5	215.2
DPS (PKR)	6.0	6.3	6.0	6.0
Total Assets	220.1	240.4	239.8	240.1
Total Equity	63.6	93.3	119.3	147.2

Key Financial Ratios

ROE (%)	46.8	46.9	38.1	25.2
P/E (x)	7.4	6.0	6.7	6.3
P/B (x)	4.5	2.8	1.9	1.5
DY (%)	0.4	0.5	0.4	0.4

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

MARI: Lower oil prices and higher exploration cost to drag 4QFY20 EPS to PKR 50.26 down by 11%YoY

- ✓ Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 20th Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 6.70bn (EPS PKR 50.26), down by 11% YoY,
- ✓ We estimate decline in earnings on the back a) 61% YoY drop in oil price despite 11% YoY PKR depreciation, b) lower gas production from Mari field and 4% YoY decline in oil production and, c) higher exploration cost likely due to higher seismic data acquisition with no dry well cost incurred,
- ✓ On quarterly basis, earnings are expected to drop by 21% QoQ on the back of 4% QoQ decline in gas production and 50% QoQ drop in oil prices,
- ✓ We recommend a 'BUY' stance on MARI with our Dec-20 target price of PKR 1,820/share offering 35% upside from last close.

Earnings to clock in at PKR 50.26/share for 4QFY20, down by 11%YoY

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 20th Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 6.70bn (EPS PKR 50.26), down by 11% YoY, compared to PKR 7.52bn (EPS PKR 56.35) in the same period last year. We estimate decline in earnings on the back a) 61% YoY drop in oil price despite 11% YoY PKR depreciation, b) lower gas production from Mari field and 4% YoY decline in oil production and, c) higher exploration cost likely due to higher seismic data acquisition with no dry well cost incurred. This brings total profitability for FY20E to PKR 29.93bn (EPS PKR 224.35), up by +23% YoY, compared to PKR 24.33bn (EPS PKR 182.36) in the same period last year. We expect MARI to announce cash dividend of PKR 2.20/share for 4QFY20 bringing total cash payout to PKR 6.30/share for FY20.

Exhibit: MARI Financial Highlights

PKRmn	4QFY20E	4QFY19	YoY	FY20E	FY19	YoY
Net Sales	14,311	15,941	-10%	67,839	59,448	14%
Royalty	1,823	2,053	-11%	8,565	7,575	13%
Operating Expense	2,629	2,728	-4%	12,467	11,713	6%
Exploration Expense	1,025	633	62%	6,764	4,308	57%
Gross Profit	8,118	9,830	-17%	37,053	33,417	11%
Other Income	392	158	148%	792	326	143%
EBIT	8,509	9,988	-15%	37,845	33,743	12%
Finance Income	1,180	453	160%	5,082	1,767	188%
PBT	9,451	10,308	-8%	41,953	34,708	21%
PAT	6,704	7,518	-11%	29,929	24,327	23%
EPS (PKR)	50.26	56.35		224.35	182.36	
DPS (PKR)	2.20	2.00		6.30	6.00	

Source: IGI Research and Company Financials No of Shares: 133.40mn

Lower gas production and oil prices to drag EPS on quarterly basis

On quarterly basis, earnings are expected to drop by 21% QoQ on the back of 4% QoQ decline in gas production and 50% QoQ drop in oil prices. However, earnings decline is likely to be limited by average exchange rate appreciation of 5% QoQ.

Gas production remained flat while oil production dropped by 4% YoY during 4QFY20

Total gas production for the Company remained flat despite 1% YoY drop in gas production from Mari field as flows from Zarghun South improved along with commencement of production from Fazl. As a result total gas production for FY20 is down by 1% YoY. Oil production declined by 4% YoY on account of lower production from Ghauri, Sujjal and Halini Deep which was compensated by commencement of production from Fazl field and higher production from Dharian. This brings total oil production to 1,087 bopd down by 3% YoY for FY20.

Exhibit: MARI oil production (bopd)

Oil production dropped due to

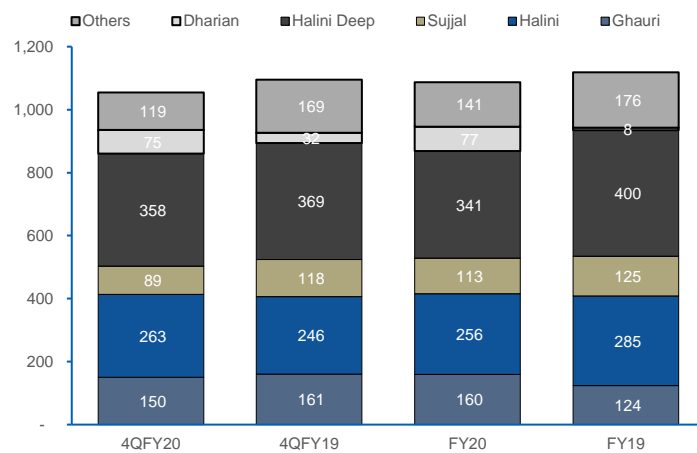
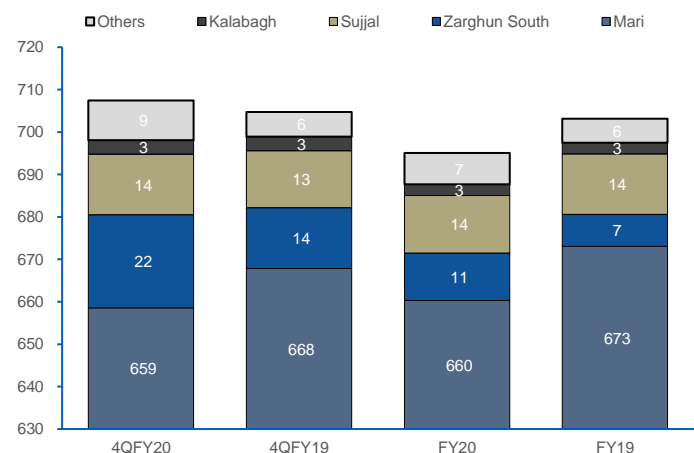


Exhibit: MARI gas production (mmcf)

Gas production remained flat owing to higher production from Zarghun South and addition of Fazl despite drop in production from Mari field



Recommendation

We recommend a ‘BUY’ stance on MARI with our Dec-20 target price of PKR 1,820/share offering 35% upside from last close. The company is currently trading at FY21 P/E of 6.7x.

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