

# Flash Note

Thursday, 04 February 2021

Oil & Gas - Exploration Companies

## Mari Petroleum Company Limited (MARI)

### ECC allows removal of dividend cap for MARI

- According to newsprint, Economic Coordination Committee (ECC) in its meeting held on 03<sup>rd</sup>-Feb-21 has allowed removal of dividend distribution cap on Mari Petroleum Company Limited (MARI).
- Removal of cap on dividend distribution would pave way for privatization of GoP's stake in MARI (18.4% or 24.5mn shares). Based on last closing price of PKR 1,533.98/share, the amount of GoP's stake in MARI stands at PKR 38bn or USD 235mn.
- Apart from GoP, Fauji Foundation and Oil & Gas Development Company (OGDC) hold 40% and 20% stake in MARI respectively.
- To note, MARI's Gas Price Agreement (GPA) allowed ROE based dividend distribution mechanism which was to remain in place till 2024. Under the distribution mechanism, payout was to be calculated at base rate of 30% ROE which would increase by 1% for every 20mmcf of incremental production over and above benchmark of 425mmcf. However, the return was capped which could not exceed 45%.
- We expect MARI to post EPS of PKR 226/share in FY21 while increasing to PKR 240/share by FY23. With healthy cash generation and no cash tied in circular debt, MARI's FCF yields stand at 14-15%. Furthermore, the Company has PKR 58bn (or PKR 435/share) in cash and cash equivalents as of Sep-20. Thus we expect, MARI's payout ratio to increase substantially which as of FY20 stood at mere 2.7%.
- Based on 50% payout ratio, MARI could distribute cash dividend of PKR 113/share for FY21.
- For **OGDC**, this would translate in to PKR 15bn (or PKR 0.7/share) based on 20% stake.
- We maintain MARI as our top pick with Dec-21 target price of PKR 1,991/share offering 30% upside from last close. MARI is currently trading at FY21/22 P/E of 6.8/6.4x.

#### Exhibit: Privatization proceeds based on VWAP

VWAP	PKR/Share	GoP Stake in MARI (mn shares)	Transaction Value (PKRmn)	Transaction Value (USDmn)*
3M	1,409	24.53	34,563	216
6M	1,392	24.53	34,146	213
9M	1,346	24.53	33,017	206
12M	1,272	24.53	31,202	195

Source: IGI Research, Bloomberg, \* Based on exchange rate of PKR 160

#### Analyst

Abdullah Farhan

[Abdullah.Farhan@igi.com.pk](mailto:Abdullah.Farhan@igi.com.pk)

Tel: (+92-21) 111-234-234 Ext.: 912

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**Research Analyst(s)**

Research Identity Number: BRP009

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## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Shumail Rauf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	shumail.rauf@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

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Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: www.igisecurities.com.pk

### Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,  
Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2  
Fax: (+92-21) 32429607

<p><b>Lahore Office</b> Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559</p>	<p><b>Islamabad Office</b> Mezzanine Floor, Office 5, 6 &amp; 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861</p>
<p><b>Faisalabad Office</b> Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815</p>	<p><b>Rahim Yar Khan Office</b> Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651</p>
<p><b>Multan Office</b> Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183</p>	

IGI Finex Securities Limited

### Research Analyst(s)

Research Identity Number: BRP009

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