

Flash Note

Thursday, 11 August 2016

Oil & Gas Exploration Companies

MARI: Better Pricing Incentives Diluted Higher Exploration Cost

- Mari Petroleum Company Limited's (MARI) earnings plunged by 1%YoY to PKR 2.16bn (EPS PKR 19.60) in 4QFY16 as compared to PKR 2.19bn (EPS PKR 19.89) in the corresponding period last year. Total earnings for FY16 stand at PKR 6.05bn (EPS PKR 54.89) as compared to PKR 5.65bn (EPS PKR 51.25) in the same period last year.
- Company announced cash dividend of PKR 2.10/share along with the result, taking cumulative dividends for FY16 to PKR 5.10/share.
- Company's revenues increased by +6%YoY to PKR 6.27bn in 4QFY16 owing to higher prices for Mari gas field under revised GPA and incremental production priced under Petroleum Policy 2012.
- Exploration expenses augmented massively by +23%YoY in 4QFY16 to PKR 1.3bn, owing to aggressive exploration activity in Mari field.
- The company likely incurred higher expense on Mari seismic unit in 4QFY16 resulting in other expense of PKR 443mn as compared to PKR 35mn other income in the same period last year. For FY16, other income leaped up massively by 9.7xYoY to PKR 587mn owing to higher income from Mari seismic unit.
- Effective tax rate for FY16 dropped by 600bps to 8% owing to utilization of deferred tax asset.

Recommendation

We currently have a "BUY" call on MARI with our Dec-16 TP of PKR 1,286/share, offering +29% upside from its last closing of PKR 1,001/share. The company is currently trading at a FY17E P/E of 11.1x.

Exhibit: Financial Highlights

PKRmn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Net Sales	6,268	5,922	6%	21,713	19,376	12%
Royalty	794	760	5%	2,750	2,519	9%
Operating Exp	1,621	1,617	0%	5,791	5,396	7%
Exploration Exp	1,319	1,068	23%	6,462	3,194	102%
Gross Profit	2,327	2,308	1%	6,208	7,768	-20%
Other Income	(443)	35	na	587	55	967%
EBIT	1,884	2,343	-20%	6,795	7,823	-13%
Finance Income	31	517	-94%	341	517	-34%
Finance Cost	(633)	349	na	574	1,788	-68%
PBT	2,548	2,511	1%	6,561	6,552	0%
PAT	2,161	2,193	-1%	6,051	5,650	7%
EPS (PKR)	19.60	19.89		54.89	51.25	
DPS (PKR)	2.10	5.22		5.10	5.22	

Source: IGI Research and Company Financials

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Analyst Certification

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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):

- Asset Based Valuation

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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