

Flash Note

Tuesday, 31 October 2017

Oil & Gas – Exploration Companies

MARI: Pricing incentives and production growth from Mari field led to +31%YoY accretion in EPS to PKR 32.77 in 1QFY18

- Mari Petroleum Company Limited (MARI) announced financial result for 1QFY18 with earnings clocking in at PKR 3.61bn (EPS PKR 32.77) up by +31%YoY as compared to PKR 2.77bn (EPS PKR 25.09) in the same period last year likely on the back of a) +5%YoY higher gas production from Mari field, b) +17%YoY rise in oil prices and c) 48%YoY decline in exploration cost.
- Revenues for 1QFY18 increased by +29%YoY to PKR 9.34bn as compared to PKR 7.26bn in the corresponding period last year, likely on the back of a) higher production from Mari field and unwinding of discount on wellhead gas price for Mari field, b) +17%YoY rise in oil price and, c) Petroleum Policy 2012 (PP12) price incentive for incremental production and lower benchmark during annual turn-around of customers plant.
- Operating cost increased by +22%YoY to PKR 1.93bn during 1QFY18 as compared to PKR 1.58bn recorded in the same period last year.
- Exploration cost declined by 48%YoY to PKR 0.25bn during 1QFY18, likely in the absence of dry well cost and lower seismic activity.
- However, Mari continued to record other loss mainly owing to lower income from Mari Seismic Unit (MSU) leading to a other loss of PKR 0.36bn during 1QFY18 compared to other loss of PKR 0.04bn in the same period last year.
- Effective tax rate stood at 29% during 1QFY18 compared to a 27% in the corresponding period last year.
- We maintain our **“BUY”** call on MARI with our Jun-18 price target of PKR 2,138/share, offering +51% upside from its last closing. The company is currently trading at a FY18E P/E of 10.8x.

Exhibit:

MARI Financial Highlights

PKRmn	1QFY18	1QFY17	YoY	4QFY17	QoQ
Net Sales	9,335	7,263	29%	8,310	12%
Royalty	1,187	909	31%	1,056	12%
Operating Expense	1,932	1,577	22%	2,332	-17%
Exploration Expense	245	475	-48%	1,315	-81%
Gross Profit	5,626	4,015	40%	3,418	65%
Other Income	(359)	(37)	869%	(387)	-7%
EBIT	5,268	3,978	32%	3,031	74%
Finance Income	119	34	252%	65	85%
Finance Cost	296	206	43%	161	84%
PBT	5,091	3,806	34%	2,934	74%
PAT	3,613	2,766	31%	2,829	28%
EPS (PKR)	32.77	25.09		25.66	
DPS (PKR)	-	-		2.20	

Source: IGI Research and Company Financials

No of Shares: 110.25mn

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Jun – 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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Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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