

Mari Petroleum Company Limited

Result Preview

PSX: MARI Bloomberg: MARI:PA Reuters: MGAS: KA

Pakistan Research

2QFY22 EPS expected at PKR 69.3, up 26% YoY; DPS at PKR 48.0

- MARI's board meeting is scheduled today, to consider 2QFY22 financial results. We expect the company to post an EPS of PKR 69.3, up 26% YoY for 2QFY22, taking 1HFY22 EPS to PKR137.45, up 12% YoY. We also expect the company to announce an interim cash dividend of PKR 48/share. MARI paid total dividend of PKR 141/share in FY21 (post removal of dividend cap) translating into a pay-out ratio of 60%. We have assumed a pay-out ratio of 50% in FY22.
- Expected growth in 2QFY22 EPS can mainly be attributed to the 27% YoY increase in international crude oil prices, and 8% PKR devaluation. Hydrocarbon production is likely to grow 4% YoY during the quarter mainly on account of 6% YoY increase in production from Mari field. Operating expenses are likely to rise 16% YoY while royalty expense will likely rise 25% YoY.
- On sequential basis, MARI is expected to post earnings growth of 2% QoQ. Gas production is likely to have gone down by 3% QoQ which will be more than compensated by higher oil price and PKR devaluation.
- Our Dec-22 price target (PT) of PKR 2,428/share for MARI provides an upside of 42% along with a dividend yield of 8.4%. We have a 'BUY' stance on MARI, which is trading at FY22 PE and PBV of 6.0x and 1.7x, respectively.

Key Data

PSX Ticker	MARI
Target Price (PKR)	2,428
Current Price (PKR)	1,711
Upside/(Downside) (%)	+ 42%
Dividend Yield (%)	8.4%
Total Return (%)	+ 50%
12-month High (PKR)	1,807
12-month Low (PKR)	1,400
Outstanding Shares (mn)	133
Market Cap (PKR mn)	228,229
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY21	2QFY22E	YoY	1HFY21	1HFY22E	YoY
Sales	18,847	23,103	23%	39,220	43,829	12%
Operating expenses	4,141	4,798	16%	7,164	8,071	13%
Royalties	2,361	2,947	25%	4,900	5,587	14%
Gross profit	12,345	15,358	24%	27,155	30,171	11%
Exploration expenditure	1,807	1,471	-19%	3,027	3,220	6%
Other income	(3)	18	NM	(510)	37	Nm
Finance Cost	225	279	24%	450	378	-16%
Other Expenses	744	895	20%	1,652	1,683	2%
Profit before tax	10,380	13,585	31%	23,266	26,632	14%
Taxation	3,045	4,347	43%	6,865	8,296	21%
Profit after tax	7,335	9,238	26%	16,401	18,336	12%
EPS	54.98	69.25	26%	122.95	137.45	12%
DPS	6.00	48.00		6.00	48.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	182.4	227.3	235.7	287.0	305.5	329.8
EPS Growth	58%	25%	4%	22%	6%	8%
DPS	5.5	6.6	141.0	144.0	153.0	165.0
PER	9.4	7.5	7.3	6.0	5.6	5.2
Dividend Yield	0.3%	0.4%	8.2%	8.4%	8.9%	9.6%
EV/EBITDA	4.7	4.1	3.8	2.6	2.3	2.0
P/B	3.3	2.5	2.0	1.7	1.5	1.3
ROE	46.9%	38.7%	30.2%	30.6%	28.0%	26.4%

Source: Company Financials, Akseer Research

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Valuation Basis

Our PT for Mari Petroleum Company Limited (MARI) has been computed using reserve based free cash flow to equity (FCFE) method. We have used a risk-free rate of 12%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on MARI. Our Dec-22 price target (PT) of PKR 2,428/share provides an upside of 42% along with a dividend yield of 8.4%. Our investment case on MARI is based on (1) Continued production from HRL to provide impetus to earnings, (2) Currency devaluation along with high oil prices, and (3) Diversification plans to reduce reliance on core operations.

Risks

Key downside risks to our investment thesis are 1) lower than expected production from Mari HRL reservoir, 2) volatility in oil prices, and 3) lower than estimated life of main reserves.

Company Description

Mari Petroleum Company Limited (MARI) explores for, produces, and sells hydrocarbons - natural gas, crude oil, condensate, and LPG. It primarily manages Mari gas field located at Daharki, Sindh. The company was formerly known as Mari Gas Company Limited and renamed to Mari Petroleum Company Limited in November-12. It is headquartered in Islamabad, Pakistan. The company's majority shareholding is with Fauji Foundation at 40%, followed by OGDC at 20% and GoP at 18%.

Financial Highlights - MARI

Income Statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	59,448	72,026	73,018	96,271	98,080	102,702
Field Expenditures	11,713	13,302	15,040	19,192	20,414	20,711
Royalties	7,575	8,806	9,315	12,281	12,512	13,102
Operating Profit	33,743	37,303	41,349	55,389	55,561	59,089
Other income	2,059	5,314	4,253	4,386	4,704	5,702
Other charges	2,436	2,698	3,082	3,851	3,923	4,108
Finance cost	768	986	1,310	1,116	1,228	1,351
Profit before tax	34,708	41,291	43,931	58,283	58,645	63,031
Taxation	10,381	10,967	12,486	19,991	17,887	19,035
Profit after tax	24,327	30,324	31,445	38,292	40,758	43,996

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	16,176	22,208	37,673	46,681	60,068	79,012
Other LT assets	20,231	19,958	27,251	35,445	38,728	42,396
Non-Current Assets	36,407	42,165	64,924	82,126	98,796	121,408
Current assets	56,092	83,980	85,463	95,021	113,153	126,503
Total Assets	92,499	126,145	150,386	177,147	211,949	247,911
Non-Current liabilities	10,058	10,342	11,172	15,565	17,081	18,747
Current liabilities	18,835	22,653	23,681	26,510	38,980	50,808
Total Liabilities	28,893	32,996	34,853	42,075	56,061	69,555
Equity	63,607	93,149	115,534	135,071	155,888	178,356
Total Equity & liabilities	92,499	126,145	150,386	177,147	211,949	247,911

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	24,327	30,324	31,445	38,292	40,758	43,996
Non cash Charges	2,579	3,304	3,758	5,483	6,445	7,696
Operating Cash flows	22,882	31,489	32,537	17,426	59,147	62,042
FCFF	13,199	24,504	8,269	819	36,906	32,699
Net borrowings	(119)	-	-	-	-	-
FCFE	12,542	23,781	7,331	460	36,053	31,756
Net change in cash	11,630	22,999	(1,729)	(18,294)	16,111	10,228
Closing cash	27,336	50,334	48,605	30,311	46,422	56,651

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Hold	Between -5% and +15%
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