

Mari Petroleum Company Limited
Result Review

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

Pakistan Research

2QFY22 EPS settled in at PKR 56.0, up 2% YoY

- MARI announced its 2QFY22 financial result today, where the company posted an EPS of PKR 56.0, up 2% YoY. The result is below our expectation mainly on account of PKR 2.4bn loss in associate booked during the period. This takes 1HFY22 earnings to PKR 124.21/share, up 1% YoY. Along with the result, MARI announced an interim cash dividend of PKR 62/share.
- MARI's net sales increased by 15% YoY to PKR 21.6bn during 2QFY22, mainly due to higher oil price and PKR devaluation. Furthermore, expected 4% YoY growth in hydrocarbon production also supported the topline growth.
- Exploration cost declined by 50% YoY to PKR 895mn in 2Q mainly due to absence of dry well cost and limited seismic activity. Just to recall, MARI booked dry well cost of PKR 629mn in corresponding period last year.
- Royalties increased by 16% YoY during 2Q whereas, effective tax rate remained 35% as compared to 29% in SPLY, restricting the earnings growth.
- We have a "BUY" stance on the stock with our Dec-22 price target (PT) of PKR 2,428/share, which provides an upside of 42% along with a dividend yield of 8.4%.

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 Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Sales	18,847	21,692	15%	39,220	42,418	8%
Operating expenses	4,141	4,105	-1%	7,164	7,377	3%
Royalties	2,361	2,746	16%	4,900	5,386	10%
Gross profit	12,345	14,841	20%	27,155	29,654	9%
Exploration expenditure	1,807	895	-50%	3,027	2,644	-13%
Other income	(3)	161	NM	(510)	179	Nm
Finance Cost	225	244	8%	450	343	-24%
Other Expenses	744	811	9%	1,652	1,600	-3%
Profit before tax	10,380	11,481	11%	23,266	24,528	5%
Taxation	3,045	4,010	32%	6,865	7,958	16%
Profit after tax	7,335	7,471	2%	16,401	16,570	1%
EPS	54.98	56.00	2%	122.95	124.21	1%
DPS	6.00	62.00		6.00	62.00	

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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JV employs a three -tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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