

Mari Petroleum Company Limited
Result Preview

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

Pakistan Research

2QFY23 EPS likely to clock in at PKR 92.3, up 65% YoY, DPS at PKR 102.0

- MARI's board meeting is scheduled on January 26, 2023, to consider 2QFY23 financial results. We expect the company to post an EPS of PKR 92.3, up 65% YoY. This earnings growth is primarily due to 10% YoY higher oil prices (averaging at USD 88/bbl) and 22% YoY PKR devaluation (averaging at PKR 223). This will take 1HFY23 EPS to PKR 187.6, up 51% YoY. Along with the result, we expect MARI to announce an interim dividend of PKR 102/share.
- Net sales are likely to clock in at PKR 31.4bn compared to PKR 21.7bn in SPLY, up 45% YoY mainly due to higher oil and gas prices and PKR devaluation. The company's gas production is likely to decline by 4% YoY on the back of lower flows from Mari field. During the quarter, few of the fertilizer plants remained on ATA, hence gas offtake from MARI remained low.
- Exploration and prospecting expenses are expected to go up by 62% YoY to PKR 1.5bn due to aggressive exploration activity.
- We have a 'BUY' stance on MARI. Our Dec-23 price target (PT) of PKR 2,577/share provides an upside of 81% along with a dividend yield of 14.4%.

Key Data

PSX Ticker	MARI
Target Price (PKR)	2,577
Current Price (PKR)	1,420
Upside/(Downside) (%)	81%
Dividend Yield (%)	14.4%
Total Return (%)	96%
12-month High (PKR)	1,815
12-month Low (PKR)	1,385
Outstanding Shares (mn)	133
Market Cap (PKR mn)	189,420
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Sales	21,692	31,397	45%	42,418	63,222	49%
Operating expenses	4,105	6,079	48%	7,377	11,933	62%
Royalties	2,746	3,960	44%	5,386	7,964	48%
Gross profit	14,841	21,357	44%	29,654	43,325	46%
Exploration expenditure	895	1,454	62%	2,644	2,833	7%
Finance Cost	244	545	123%	343	985	187%
Profit before tax	11,481	18,711	63%	24,528	38,036	55%
Taxation	4,010	6,400	60%	7,958	13,010	63%
Profit after tax	7,471	12,311	65%	16,570	25,026	51%
EPS	56.0	92.3	65%	124.2	187.6	51%
DPS	62.0	102.0		62.0	102.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	227.3	235.7	247.8	408.2	500.0	461.4
EPS Growth	24.7%	3.7%	5.1%	64.7%	22.5%	-7.7%
DPS	6.6	141.0	124.0	204.0	250.0	231.0
PER	6.2	6.0	5.7	3.5	2.8	3.1
Dividend Yield	0.5%	9.9%	8.7%	14.4%	17.6%	16.3%
EV/EBITDA	3.2	2.9	2.5	1.4	1.0	1.0
P/B	2.0	1.6	1.4	1.2	1.0	0.8
ROE	38.7%	30.1%	26.8%	37.6%	38.0%	29.6%

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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on MARI. Our Dec-23 price target (PT) of PKR 2,461/share provides an upside of 81% along with a dividend yield of 14.4%. 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	72,026	73,018	95,134	138,426	163,920	157,491
Field Expenditures	13,302	15,040	17,403	25,774	28,739	27,688
Royalties	8,806	9,315	12,000	17,461	20,676	19,865
Operating Profit	37,303	41,349	51,226	79,500	96,968	91,367
Other income	5,314	4,253	4,531	3,756	4,821	2,458
Other charges	2,698	3,082	3,623	5,537	6,557	6,300
Finance cost	986	1,310	980	2,179	1,917	1,649
Profit before tax	41,291	43,931	52,116	81,279	99,562	91,864
Taxation	10,967	12,486	19,053	26,822	32,855	30,315
Profit after tax	30,324	31,445	33,063	54,457	66,706	61,549

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	22,208	37,673	60,441	78,742	100,304	124,866
Other LT assets	19,958	27,251	38,684	44,851	52,691	61,129
Non-Current Assets	42,165	64,924	99,125	123,593	152,995	185,995
Current assets	83,980	85,463	86,015	118,492	142,081	151,761
Total Assets	126,145	150,386	185,140	242,085	295,076	337,756
Non-Current liabilities	10,342	11,172	16,268	24,657	22,966	21,605
Current liabilities	22,653	23,681	38,013	58,855	79,695	92,504
Total Liabilities	32,996	34,853	54,281	83,512	102,661	114,109
Equity	93,149	115,534	130,859	158,573	192,414	223,647
Total Equity & liabilities	126,145	150,386	185,140	242,085	295,076	337,756

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	30,324	31,445	33,063	54,457	66,706	61,549
Non-cash Charges	3,304	3,758	4,064	5,878	7,144	8,570
Operating Cash flows	31,489	32,537	45,377	72,159	83,507	81,077
FCFF	24,504	8,269	10,558	43,285	48,260	40,627
Net borrowings	-	-	-	-	-	-
FCFE	23,781	7,331	10,688	41,797	46,975	39,522
Net change in cash	22,999	(1,729)	(7,049)	15,054	14,110	9,206
Closing cash	50,334	48,605	41,556	56,610	70,721	79,927

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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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