

Mari Petroleum Company Limited
Result Preview

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

Pakistan Research

FY22 EPS likely to clock in at PKR 252.6, up 7% YoY; DPS at PKR 65.0

- MARI's board meeting is scheduled on Aug 4, 2022, to consider FY22 financial results. We expect the company to post an EPS of PKR 252.6, up 7% YoY. Despite 71% YoY higher oil prices (averaging at USD 92/bbl) and 10% YoY PKR devaluation (averaging at PKR 178), earnings growth is likely to remain limited owing to 1) PKR 2.4bn loss pertaining to associate booked during the year and 2) higher tax expense owing to super tax. Along with the result, MARI is expected to announce a final cash dividend of PKR 65/share, taking the cumulative dividend for FY22 to PKR 127/share.
- Net sales are likely to clock in at PKR 97.7bn compared to PKR 73.0bn in SPLY, up 34% YoY. Oil production is expected to decline by 4.5% YoY, whereas gas production is likely to increase by 2% YoY on the back of enhanced flows from Mari field.
- Exploration cost is expected to go up by 29% YoY to PKR 5.8bn due to higher cost of dry wells booked during the year. Just to recall, MARI encountered a total of 4 dry wells during FY22 as compared to 2 dry wells in FY21.
- MARI's effective tax rate during FY22 is expected at 42% which will erode the bottom-line growth. This significant increase in tax expense is on the back of 10% super tax imposed on FY22 earnings.
- On a quarterly basis, MARI is expected to post an EPS of PKR 46.7, down 23% YoY. This decline in earnings is mainly attributed to higher exploration cost and imposition of super tax which will be charged in 4Q.
- We have a 'BUY' stance on MARI. Our Dec-22 price target (PT) of PKR 2,281/share provides an upside of 35% along with a dividend yield of 7.5%.

Key Data

PSX Ticker	MARI
Target Price (PKR)	2,281
Current Price (PKR)	1,696
Upside/(Downside) (%)	+ 35%
Dividend Yield (%)	7.5%
Total Return (%)	+ 42%
12-month High (PKR)	1,815
12-month Low (PKR)	1,475
Outstanding Shares (mn)	133
Market Cap (PKR mn)	226,244
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Sales	17,677	30,129	70%	73,018	97,746	34%
Operating expenses	4,392	5,955	36%	15,040	17,777	18%
Royalties	2,396	3,826	60%	9,315	12,470	34%
Gross profit	10,889	20,349	87%	48,663	67,500	39%
Exploration expenditure	569	1,325	133%	4,544	5,843	29%
Other income	817	182	-78%	312	328	5%
Finance Cost	635	782	23%	1,310	1,370	5%
Other Expenses	752	1,280	70%	3,082	3,910	27%
Profit before tax	11,044	18,559	68%	43,931	58,090	32%
Taxation	2,956	12,326	317%	12,486	24,398	95%
Profit after tax	8,089	6,233	-23%	31,445	33,692	7%
EPS	60.6	46.7	-23%	235.7	252.6	7%
DPS	75.0	65.0		141.0	127.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	182.4	227.3	235.7	252.6	392.4	359.4
EPS Growth	58%	25%	4%	7%	55%	-8%
DPS	5.5	6.6	141.0	127.0	196.0	180.0
PER	9.3	7.5	7.2	6.7	4.3	4.7
Dividend Yield	0.3%	0.4%	8.3%	7.5%	11.6%	10.6%
EV/EBITDA	4.6	4.1	3.7	2.4	1.5	1.5
P/B	3.2	2.4	2.0	1.7	1.4	1.2
ROE	46.9%	38.7%	30.2%	29.1%	35.9%	28.0%

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 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on MARI. Our Dec-22 price target (PT) of PKR 2,281/share provides an upside of 35% along with a dividend yield of 7.5%. 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	97,746	128,322	120,694
Field Expenditures	11,713	13,302	15,040	17,777	22,354	22,904
Royalties	7,575	8,806	9,315	12,470	16,370	15,397
Operating Profit	33,743	37,303	41,349	58,074	78,472	71,228
Other income	2,059	5,314	4,253	4,165	6,002	6,110
Other charges	2,436	2,698	3,082	3,910	5,133	4,828
Finance cost	768	986	1,310	1,370	2,284	2,010
Profit before tax	34,708	41,291	43,931	58,090	81,798	74,919
Taxation	10,381	10,967	12,486	24,398	29,447	26,971
Profit after tax	24,327	30,324	31,445	33,692	52,351	47,948

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	35,560	39,203	43,585
Non-Current Assets	36,407	42,165	64,924	82,241	99,271	122,596
Current assets	56,092	83,980	85,463	95,152	129,850	142,075
Total Assets	92,499	126,145	150,386	177,394	229,121	264,672
Non-Current liabilities	10,058	10,342	11,172	19,625	27,636	25,334
Current liabilities	18,835	22,653	23,681	25,029	42,072	55,506
Total Liabilities	28,893	32,996	34,853	44,654	69,708	80,840
Equity	63,607	93,149	115,534	132,740	159,413	183,832
Total Equity & liabilities	92,499	126,145	150,386	177,394	229,121	264,672

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	24,327	30,324	31,445	33,692	52,351	47,948
Non cash Charges	2,579	3,304	3,758	5,503	6,511	7,847
Operating Cash flows	22,882	31,489	32,537	15,102	75,569	66,469
FCFF	13,199	24,504	8,269	(1,579)	53,510	36,604
Net borrowings	(119)	-	-	-	-	-
FCFE	12,542	23,781	7,331	(1,999)	52,048	35,318
Net change in cash	11,630	22,999	(1,729)	(18,486)	26,371	11,789
Closing cash	27,336	50,334	48,605	30,119	56,490	68,279

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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