

Mari Petroleum Company Limited
Result Review

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

Pakistan Research

FY22 EPS clocks in at PKR 247.8, up 5.1% YoY; DPS at PKR 62.0

- MARI announced its FY22 financial results today where the company posted an EPS of PKR 247.8, up 5.1% YoY. Along with the result, MARI announced a final cash dividend of PKR 62.0/share, taking the cumulative dividend for FY22 to PKR 124.0/share.
- Net sales increased by 30% YoY to PKR 95.1bn during FY22, compared to PKR 73.0bn in FY21. This is mainly on account of 71% YoY higher oil prices and 10% YoY PKR devaluation. Furthermore, MARI's gas production also increased by 5.0% YoY during FY22.
- Exploration cost went up by 141% YoY to PKR 10.9bn 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 remained 36.6% compared to 28.4% in SPLY, which restricted the bottom-line growth. Higher tax expense is due to 10% super tax charged during FY22.
- On a quarterly basis, MARI posted an EPS of PKR 42.0, down 31% YoY. This decline in earnings is mainly attributed to 10.3x higher exploration cost and charging super tax expense at once in 4Q.
- We have a 'BUY' stance on MARI. Our Dec-22 price target (PT) of PKR 2,281/share provides an upside of 34% along with a dividend yield of 7.3%.

Key Data

PSX Ticker	MARI
Target Price (PKR)	2,281
Current Price (PKR)	1,704
Upside/(Downside) (%)	+ 34%
Dividend Yield (%)	7.3%
Total Return (%)	+ 41%
12-month High (PKR)	1,815
12-month Low (PKR)	1,475
Outstanding Shares (mn)	133
Market Cap (PKR mn)	227,294
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Sales	17,677	27,517	56%	73,018	95,134	30%
Operating expenses	4,392	5,581	27%	15,040	17,403	16%
Royalties	2,396	3,356	40%	9,315	12,000	29%
Gross profit	10,889	18,581	71%	48,663	65,732	35%
Exploration expenditure	569	6,413	1026%	4,544	10,932	141%
Other income	817	(97)	-112%	312	48	-85%
Finance Cost	635	392	-38%	1,310	980	-25%
Other Expenses	752	993	32%	3,082	3,623	18%
Profit before tax	11,044	12,585	14%	43,931	52,116	19%
Taxation	2,956	6,982	136%	12,486	19,053	53%
Profit after tax	8,089	5,604	-31%	31,445	33,063	5%
EPS	60.6	42.0	-31%	235.7	247.8	5%
DPS	75.0	62.0		141.0	124.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
EPS	182.4	227.3	235.7	247.8	391.0	357.9
EPS Growth	58%	25%	4%	5%	58%	-8%
DPS	5.5	6.6	141.0	124.0	196.0	179.0
PER	9.3	7.5	7.2	6.9	4.4	4.8
Dividend Yield	0.3%	0.4%	8.3%	7.3%	11.5%	10.5%
EV/EBITDA	4.7	4.1	3.7	2.7	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%	28.8%	35.8%	27.9%

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 34% along with a dividend yield of 7.3%. 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	FY22A	FY23F	FY24F
Net sales	59,448	72,026	73,018	95,134	128,322	120,694
Field Expenditures	11,713	13,302	15,040	17,403	22,354	22,904
Royalties	7,575	8,806	9,315	12,000	16,370	15,397
Operating Profit	33,743	37,303	41,349	51,226	78,179	70,920
Other income	2,059	5,314	4,253	4,531	5,708	5,802
Other charges	2,436	2,698	3,082	3,623	5,133	4,828
Finance cost	768	986	1,310	980	2,284	2,010
Profit before tax	34,708	41,291	43,931	52,116	81,505	74,611
Taxation	10,381	10,967	12,486	19,053	29,342	26,860
Profit after tax	24,327	30,324	31,445	33,063	52,163	47,751

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	94,532	129,433	141,595
Total Assets	92,499	126,145	150,386	176,773	228,704	264,191
Non-Current liabilities	10,058	10,342	11,172	19,625	27,636	25,334
Current liabilities	18,835	22,653	23,681	24,637	42,072	55,506
Total Liabilities	28,893	32,996	34,853	44,263	69,708	80,840
Equity	63,607	93,149	115,534	132,510	158,996	183,351
Total Equity & liabilities	92,499	126,145	150,386	176,773	228,704	264,191

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	24,327	30,324	31,445	33,063	52,163	47,751
Non-cash charges	2,579	3,304	3,758	5,503	6,511	7,847
Operating Cash flows	22,882	31,489	32,537	14,653	75,201	66,272
FCFF	13,199	24,504	8,269	(2,254)	53,141	36,407
Net borrowings	(119)	-	-	-	-	-
FCFE	12,542	23,781	7,331	(2,448)	51,680	35,121
Net change in cash	11,630	22,999	(1,729)	(18,534)	26,002	11,725
Closing cash	27,336	50,334	48,605	30,071	56,073	67,799

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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