Mari Petroleum Company Limited (MARI):
Tapping new avenues to sustain growth

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Prices as of 7th December, 2021

Recommend 'BUY' with a PT of PKR 2,199/share

- We re-initiate our coverage on Mari Petroleum Company (MARI) with a June-22 PT of 2,199/share, providing an upside of 35% along with a dividend yield of 8.9%.
- Majority owned by Fauji Foundation, MARI is one of the largest gas producers in Pakistan with 'Mari' field being its biggest asset, constituting ~92% of the company's total revenue. In FY21, MARI's total share in Pakistan's oil/ gas production stood at ~2.5%/21.3%, respectively.
- Our liking for MARI emanates from:
  - Higher international oil prices driven by rising demand and PKR devaluation against USD are accretive to earnings, with bottomline likely to grow at a CAGR of 7% over next 5 years.
  - Incremental production of 150 mmcfd of processed gas from GTH project.
  - Least impacted by the circular debt issue amongst peers as most of its gas sale is to the fertilizer sector.
  - Early removal of dividend cap along with strong cash position leads to higher payouts with our payout ratio forecast to be around 50%.
  - Potential diversification into new regions and businesses.
- The key downside risks to our investment case are 1) Concentration risk due to high dependency on Mari gas field, 2) Low production from Mari HRL reservoir, and 3) Lower than estimated life of main reserves.
- We recommend 'BUY' on MARI at current levels. The stock is trading at FY22 PE and P/BV of 5.6x and 1.6x, respectively.

Key Data	
PSX Ticker	MARI
Bloomberg Ticker	MARI:PA
Reuters Ticker	MARI:KA
Target Price (PKR)	2,199
Current Price (PKR)	1,625
Upside/(Downside) (%)	35%
Dividend Yield (%)	8.9%
Total Return (%)	44%
12-month High (PKR)	1,807
12-month Low (PKR)	1,255
Outstanding Shares (mn)	133
Market Cap (PKR mn)	216,716
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	182.4	227.3	235.7	290.9	309.2	329.9
EPS Growth	58%	25%	4%	23%	6%	7%
DPS	5.5	6.6	141.0	145.0	155.0	165.0
PER	8.9	7.1	6.9	5.6	5.3	4.9
Div. Yield	0.3%	0.4%	8.7%	8.9%	9.5%	10.2%
EV/EBITDA	4.4	3.9	3.5	2.4	2.1	1.8
P/BV	3.1	2.3	1.9	1.6	1.4	1.2
ROE	46.9%	38.7%	30.2%	31.0%	28.3%	26.3%

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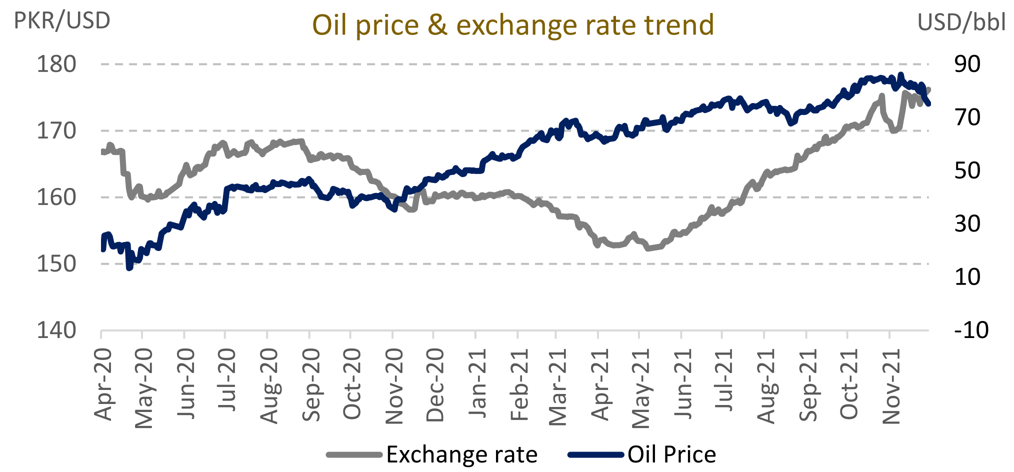
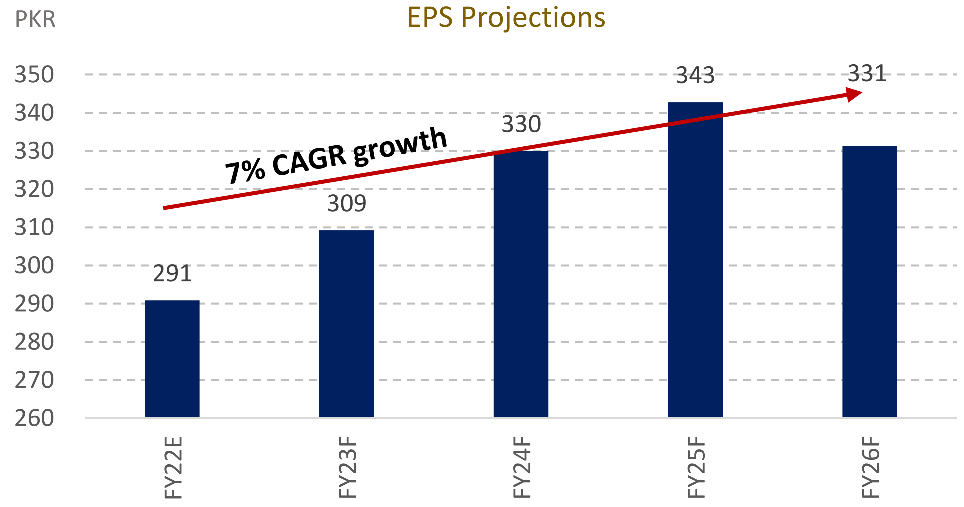
Earnings to grow at a CAGR of 7% during next 5 years

- **Robust earnings momentum driven by oil rally and currency weakening**
  - As local E&Ps' revenues are USD denominated, higher international oil prices and currency devaluation bodes well for MARI.
  - International crude oil has rallied 2.4x since its bottom in April-20 post lifting of pandemic driven lockdowns followed by massive vaccination drive globally. Currently, the international crude oil is trading at USD 75/bbl, up from USD 22/bbl in April-20.
  - We expect crude oil to average USD 70/60 per barrel in FY22/23, however, our long term assumption is USD 55/bbl.
  - Furthermore, PKR has continued to slide during the same time period due to weakening macro economic factors. The PKR has devalued 6% since April-20 and 14% from its recent high of 155 in May-21. Burgeoning trade deficit and spiraling inflation is further pressurizing the FX and we expect PKR to depreciate 6% on average in FY22 and 4% annually in our investment horizon.
  - Resultantly, MARI's earnings are expected to post a CAGR of 7% in next 5 years (FY22-26). Incremental production from ongoing projects including GTH project will also support earnings growth (discussed later) and will compensate for declining oil price assumption - averaging USD 55/bbl beyond FY23.



Source: Investing & Akseer Research

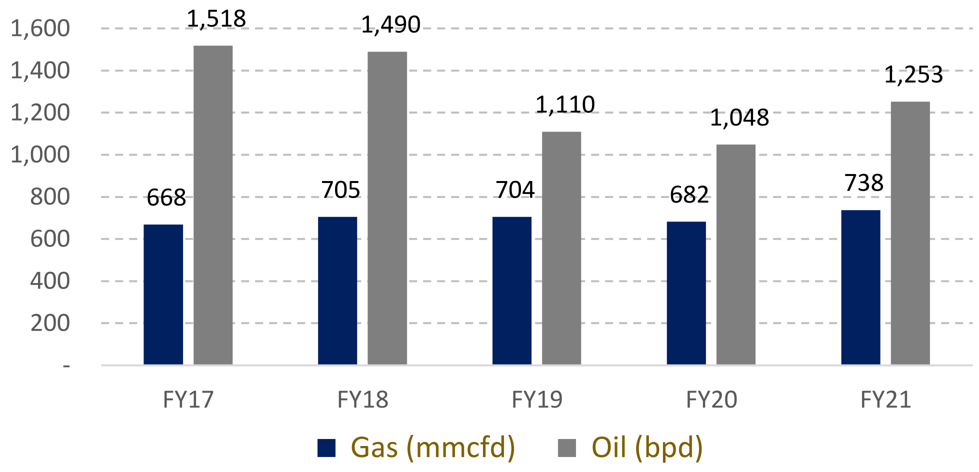


Source: Company Accounts & Akseer Research

Ongoing projects will be earnings accretive

- **GTH project to add 150mmcfd gas**
  - MARI started GTH project in Dec-20 which includes installation of greenfield gas processing plant for low BTU gas. This facility will process gas from Goru-B, Tipu and HRL reservoirs.
  - The company has adopted a phased approach for early monetization of the project. In 1st phase, 40mmcfd is expected to come online in 3QFY22. 2nd phase is expected to be completed in 4QFY22 and the last phase in 1QFY23.
  - According to the management, total processing capacity of the plant is 280mmcfd of raw gas, whereas processed gas will be approx. 150mmcfd.
  - This additional gas could be sold to fertilizer plants as well as to the national grid through SNGP. Furthermore, for the timely completion of the project, the company has planned to invest USD 250mn.
- **Mari revitalization project**
  - Mari gas field constitutes around 96% of the company's total gas production. Due to old infrastructure and the field being mature, the management has initiated a revitalization project to evaluate different options in order to enhance production from the main HRL reservoir.
  - We believe that this project will increase economic life of Mari gas field and help in managing natural depletion from its main HRL reservoir.

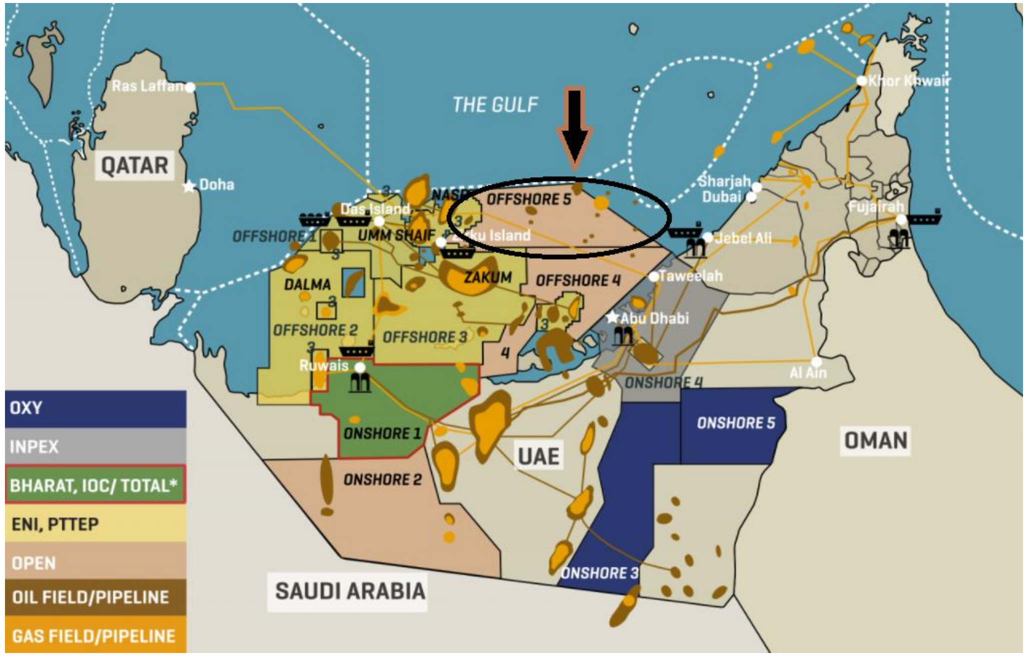
MARI Oil & Gas production



Source: Company Accounts & Akseer Research

Regional expansions & potential diversifications

- **Offshore block 5 in Abu Dhabi**
  - Recently, Pakistani E&P companies based consortium, including MARI with 25% stake, has been awarded offshore block 5 in Abu Dhabi. The consortium will invest USD 400mn in exploration in next 5 years through an SPV - Pakistan International Oil Limited. Due to the proximity to existing oil & gas fields, offshore block 5 has a promising potential.
  - Offshore block 5 covers an area of 6,222 km^2 and is located 100 km from the Abu Dhabi city. The consortium will explore for the hydrocarbons, and upon commercial discovery, will have the right to production concession for 35 years. Abu Dhabi National Oil Company (ADNOC) will also have an option to acquire 60% stake during the production phase.
- **Diversification into mining business**
  - MARI has ventured into the mining business through National Resource Private Limited (NRL), a consortium including local Pakistani business groups.
  - NRL has submitted a proposal to the government to develop Tanjeel and Reko Diq reserves in May-21, which is under study by the Balochistan government.
  - Reko Diq contains huge reserves of copper and gold and we believe that this project could be a game changer for the company once its legal case with Tethyan Copper Company settles and Balochistan govt. gives green signal for mining.



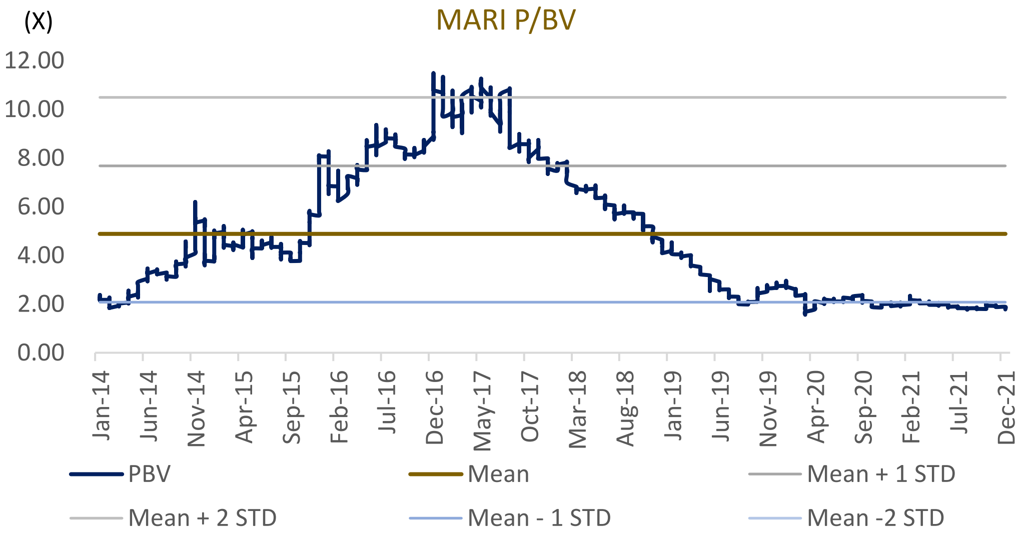
Source: Akseer Research

Removal of dividend cap has bolstered the payout

- **Dividend yield at par with peers**
  - Historically, MARI's dividend payout was governed by MARI GPA 1985 which required the company to pay minimum of 30% dividend capping at 45% according to increase in production.
  - In FY15, Economic Coordination Committee (ECC) dismantled the 1985 GPA (cost plus fixed return formula), implementing new 2015 GPA; however, dividend cap was kept intact till FY24.
  - In FY21, ECC removed the dividend cap on MARI. This early removal of dividend cap in Feb-21 (instead of FY24) enabled the company to pay an exceptional dividend of PKR 141/share in FY21.
  - Due to capping of the dividends, the stock price remained depressed despite 27% CAGR surge in the bottomline over FY18-FY21 (visible in the P/BV band) and hence the government decided to abolish the cap which could fetch attractive price in potential stake offloading.
  - Currently, MARI has cash and cash equivalents of ~PKR 42bn (PKR 316/share) sufficient to fulfill its future capex and working capital needs along with paying higher dividends.
  - We have assumed 50% dividend payout which comes around PKR 20bn in FY22, though, being a Fauji Group company, higher payout cannot be ruled out.
  - This also puts MARI at par with the peers in terms of dividend distribution. The forward dividend yield comes around 8.9%/9.5%/10.2% for FY22/23/24, respectively.

Fauji Group payout Ratio	FY16	FY17	FY18	FY19	FY20
FFC (CY)	85%	83%	78%	80%	68%
FFBL (CY)*	35%	79%	65%	0%	0%
FCCL (FY)**	69%	48%	40%	73%	0%

Source: Company Accounts, Akseer Research
** No payout due to losses during CY19 and CY20*
*** Retained due to COVID-19 led uncertain business environment in FY20*



Source: PSX, Company accounts, Akseer Research

EPS sensitivity (FY22) to Oil price and FX assumptions

		Oil Price USD/bbl					
		50	**60**	**70**	**80**	**90**	**100**
Exchange rate PKR/USD	**150**	241	254	268	280	291	303
	160	251	265	280	292	305	317
	170	261	276	291	305	318	331
	180	271	287	303	317	332	346
	190	281	298	315	330	345	360

Source: Company Accounts & Akseer Research

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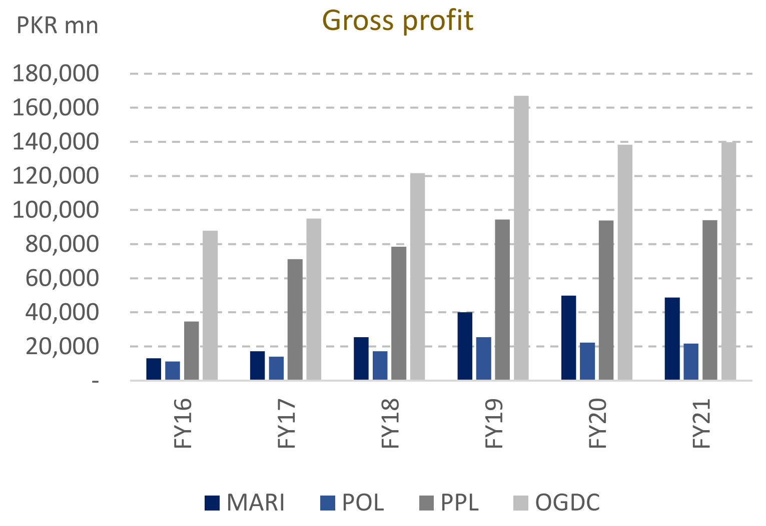
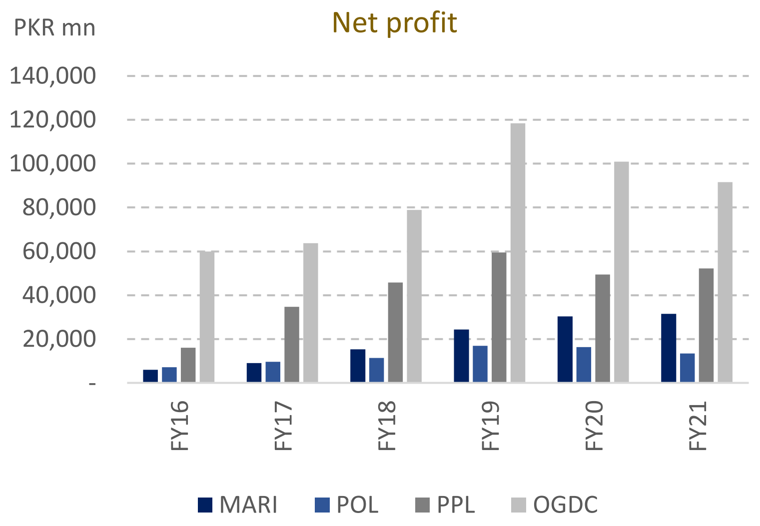
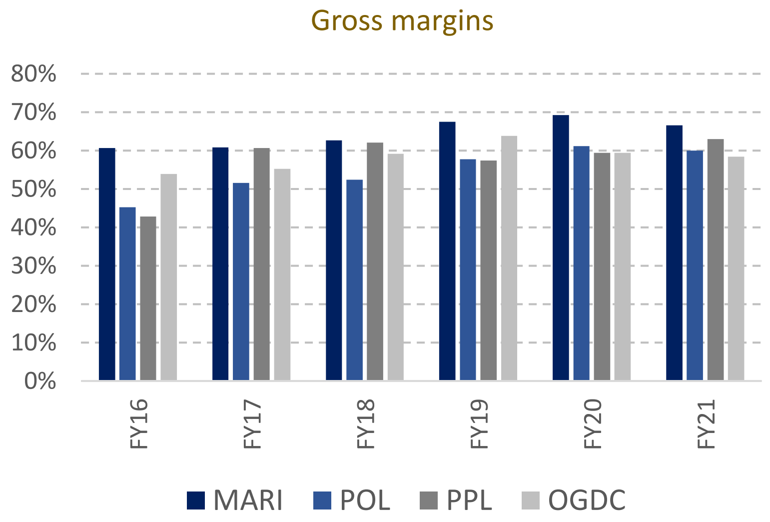
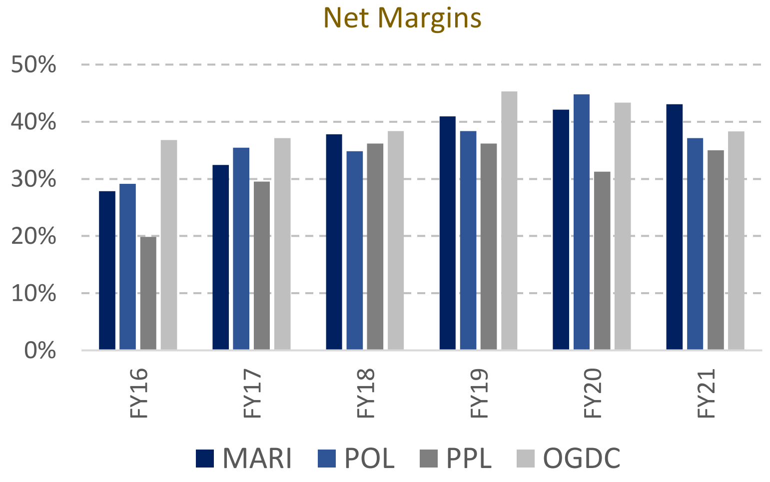
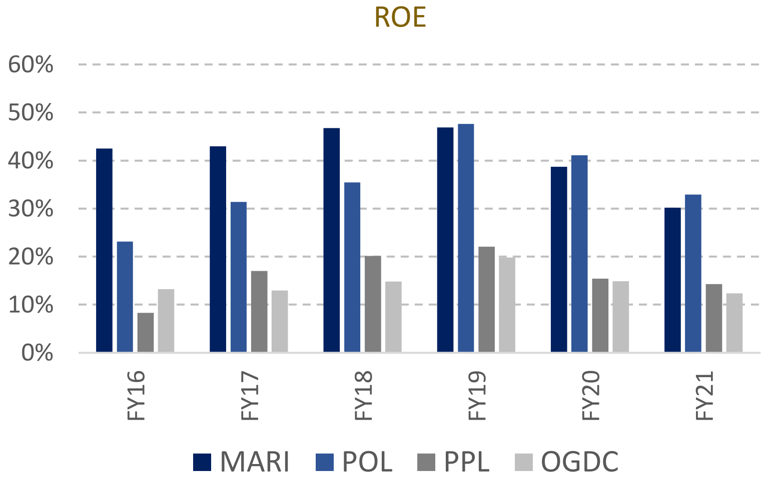
Peer comparison

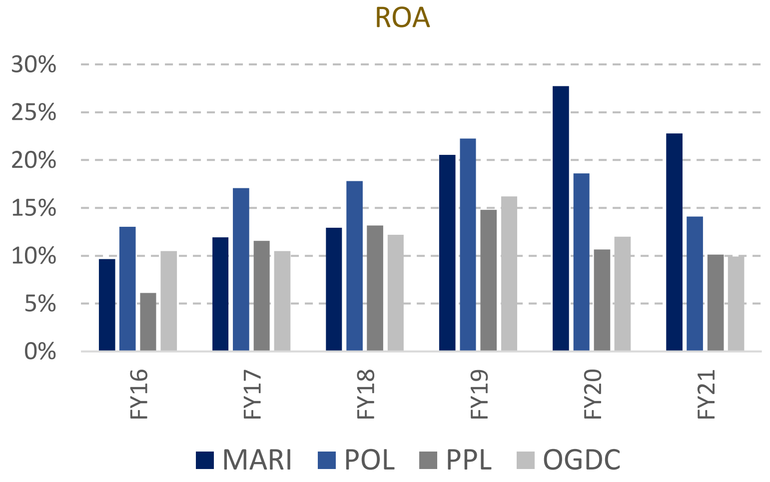












Source: Company Accounts & Akseer Research

Risk - Return Profile

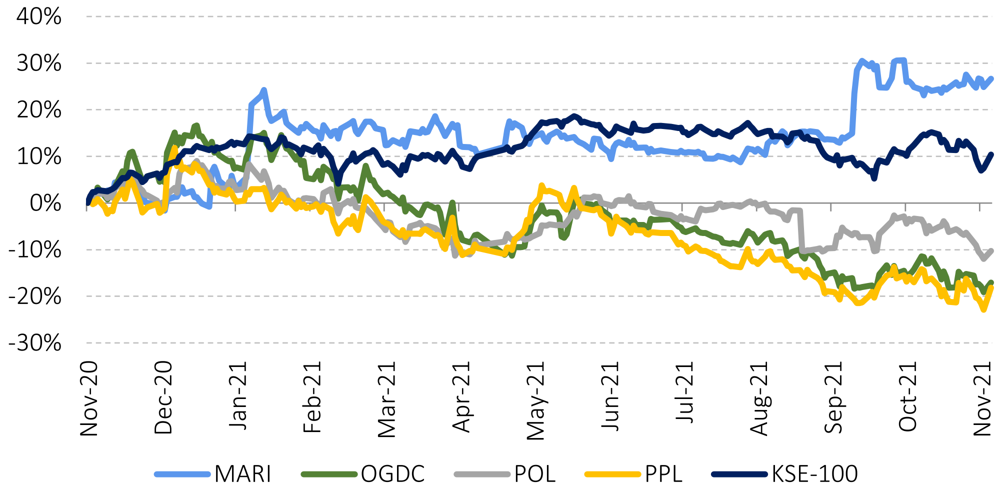
- **Valuation Basis**
  - Our PT for Mari Petroleum Company Limited (MARI) has been computed using reserve based free cash flow to equity (FCFE) method. We have used a risk-free rate of 12%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18%.
- **Investment Thesis**
  - Our investment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

1) Continued production from HRL to provide impetus to earnings,
2) Currency devaluation along with high oil prices to provide support to earnings, and
3) Diversification plans to reduce reliance on core operations.

- **Risks**
  - Key risks to our investment thesis are

1) Volatility in oil prices,
2) Appreciation in PKR against USD,
3) lower than expected production from Mari HRL reservoir,
4) higher number of dry wells, and
5) lower than estimated life of main reserves.

Relative Price Performance



Comparative Ratios (FY21)	MARI	POL	PPL	OGDC
EPS	235.7	47.1	19.2	21.3
DPS	141.0	50.0	3.5	6.9
Dividend yield	8.7%	14.3%	4.5%	8.2%
Gross margin	61%	45%	43%	54%
Net Margin	28%	29%	20%	37%
PER	6.9	7.4	4.1	4.0
PBV	1.9	2.5	0.5	0.5

Source: PSX & Akseer Research

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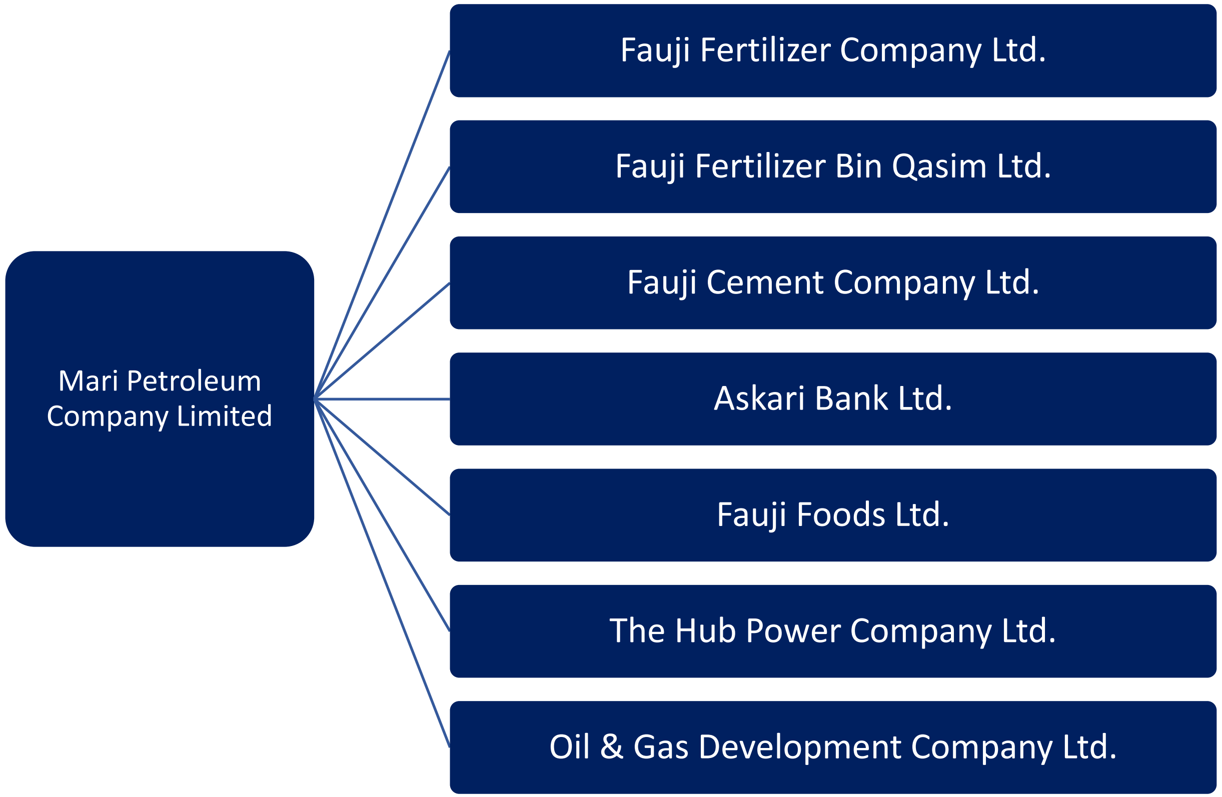
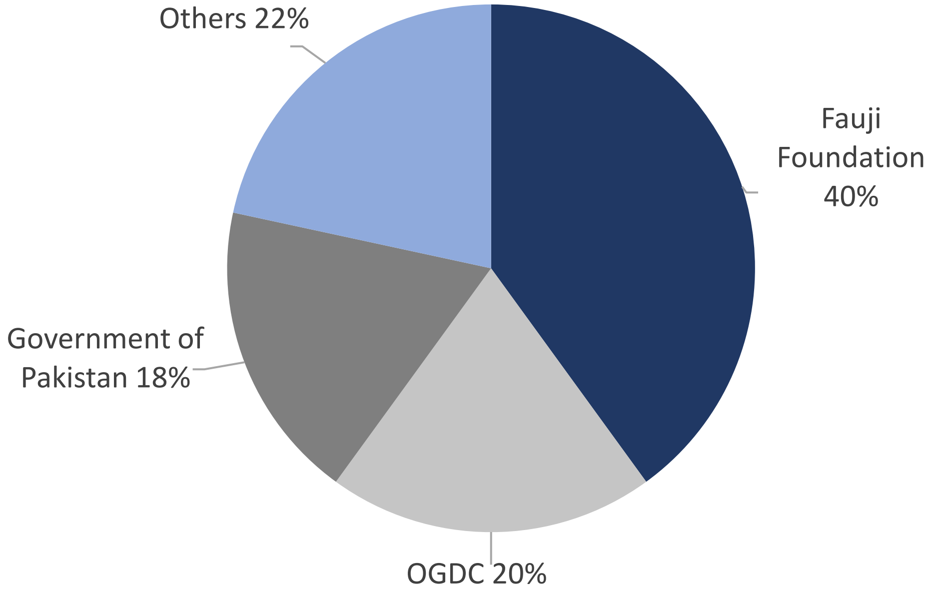
Company Overview

- **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%.

- **Associated Companies**



Shareholding Pattern



Financial Highlights

Income Statement (PKR mn)	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Sales	59,448	72,026	73,018	94,025	97,784	102,490
Operating Costs	11,713	13,302	15,040	19,063	20,011	20,681
Royalty	7,575	8,806	9,315	11,995	12,475	13,075
Exploration Costs	4,308	10,258	4,544	5,808	5,905	6,049
Other charges	2,436	2,698	3,082	3,761	3,911	4,100
Other income	326	340	312	328	344	361
Finance income	1,733	4,974	3,941	4,086	4,373	5,331
Finance cost	768	986	1,310	1,116	1,228	1,351
Profit Before Tax	**34,708**	**41,291**	**43,931**	**56,647**	**58,922**	**62,879**
Taxation	10,381	10,967	12,486	17,844	17,677	18,864
Net Profit	**24,327**	**30,324**	**31,445**	**38,803**	**41,246**	**44,016**
Ratios						
EPS	182.4	227.3	235.7	290.9	309.2	329.9
DPS	5.5	6.6	141.0	145.0	155.0	165.0
Payout Ratio	3%	3%	60%	50%	50%	50%

Source: Company Accounts & Akseer Research

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Financial Highlights

Balance Sheet (PKR mn)	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Trade debts	21,377	23,369	28,047	20,608	21,432	22,463
Cash	27,336	50,334	48,605	31,117	46,617	57,410
Other current assets	7,379	10,276	8,810	43,609	45,234	47,342
Current assets	**56,092**	**83,980**	**85,463**	**95,334**	**113,283**	**127,216**
PPE	16,176	22,208	37,673	46,681	60,068	79,012
Other non current assets	20,231	19,958	27,251	35,374	38,554	42,237
Total assets	**92,499**	**126,145**	**150,386**	**177,389**	**211,905**	**248,465**
Creditors	12,809	14,212	17,257	19,943	31,900	44,299
Provisions	5,985	8,398	6,305	6,305	6,305	6,305
Other current liabilities	40	44	119	126	132	139
Current liabilities	**18,835**	**22,653**	**23,681**	**26,374**	**38,338**	**50,743**
Deferred liabilities	10,058	10,342	11,172	15,191	16,707	18,373
Total liabilities	**28,893**	**32,996**	**34,853**	**41,940**	**55,418**	**69,490**
Reserves & Others	15,005	16,002	16,524	16,980	17,449	17,933
Profit & Loss Account	48,602	77,147	99,010	118,469	139,038	161,042
Total equity and liabilities	**92,499**	**126,145**	**150,386**	**177,389**	**211,905**	**248,465**
Ratios						
BVPS	524	698	866	1015	1173	1342
ROCE	20.13%	27.15%	22.16%	23.24%	20.76%	18.73%
ROA	20.56%	27.74%	22.78%	23.71%	21.21%	19.14%
ROE	46.87%	38.69%	30.18%	30.96%	28.29%	26.27%

Source: Company Accounts & Akseer Research

Financial Highlights

Cashflow Statement (PKR mn)	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	24,327	30,324	31,445	38,803	41,246	44,016
Depreciation	1,003	1,220	1,764	2,293	2,951	3,882
Amortization of E&D	1,576	2,084	1,994	3,181	3,472	3,795
Working capital	(4,024)	(2,140)	(2,666)	(25,993)	11,009	10,910
CFO	**22,882**	**31,489**	**32,537**	**18,284**	**58,679**	**62,602**
Interest	538	724	938	765	860	946
Capex	(10,222)	(7,708)	(25,206)	(17,259)	(22,971)	(30,281)
FCFF	**13,199**	**24,504**	**8,269**	**1,790**	**36,568**	**33,267**
Interest	(538)	(724)	(938)	(765)	(860)	(946)
Net borrowing	(119)	0	0	374	0	0
FCFE	**12,542**	**23,781**	**7,331**	**1,399**	**35,708**	**32,322**
Change in equity	(912)	(782)	(9,060)	(18,888)	(20,208)	(21,528)
Net Cashflow	11,630	22,999	(1,729)	(17,489)	15,500	10,794
Beginning Cash	15,706	27,336	50,334	48,605	31,117	46,617
Ending Cash	**27,336**	**50,334**	**48,605**	**31,117**	**46,617**	**57,410**

Source: Company Accounts & Akseer Research

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Disclosures and Disclaimer

Valuation Methodology

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.

Ratings Criteria

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts’ assumptions or a combination of these factors.

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The research analyst, denoted by ‘AC’ on the cover of this report, has also been involved in the preparation of this report, and is a member of the JV’s Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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