

# Day Break

Friday, 24 April 2020

## COMPANY UPDATE

### Mari Petroleum Company Limited

Oil &amp; Gas Exploration Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	1,609.2
Last Closing: 23-Apr-20	1,080.8
Upside (%):	48.9
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	8M

#### Market Data

Bloomberg Tkr.	MARI PA
Shares (mn)	133.4
Free Float Shares (mn)	26.7
Free Float Shares (%)	20.0%
Market Cap (PKRbn   USDmn)	144.2   934.2
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return (24.3)	5.6 (7.5)
Lo 831.0	831.0 830.0
Hi 1,454.5	1,454.5 1,454.5

#### Key Company Financials

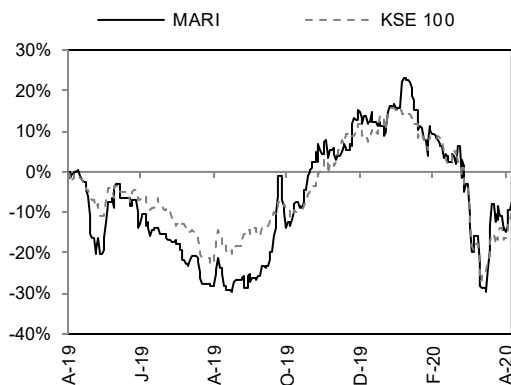
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	59.4	63.9	60.0	64.3
Net Income	24.3	27.4	24.4	26.7
EPS (PKR)	182.4	205.1	182.9	200.1
DPS (PKR)	6.0	6.0	6.0	6.0
Total Assets	220.1	237.4	234.7	229.4
Total Equity	63.6	91.5	115.1	141.0

#### Key Financial Ratios

ROE (%)	46.8	46.9	35.3	23.6
P/E (x)	5.9	5.3	5.9	5.4
P/B (x)	3.6	2.3	1.6	1.3
DY (%)	0.6	0.6	0.6	0.6

#### Relative Price Performance



Source: Bloomberg, PSX &amp; IGI Research

#### Abdullah Farhan

Analyst

Abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

## Oil & Gas Exploration Companies

### MARI: Higher gas production and weaker PKR to lift 3QFY20 EPS to PKR 58.03 up by +35%YoY

- ✓ Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 28th Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 7.74bn (EPS PKR 58.03), up by +35%YoY,
- ✓ We estimate incline in earnings on the back a) 11%YoY PKR depreciation despite 15%YoY drop in oil prices, b) higher gas production from Mari field and, c) higher other income amid elevated mark-up income,
- ✓ On quarterly basis, earnings are expected to increase by +6%QoQ on the back of higher gas production despite 11%QoQ drop in oil prices and average exchange rate appreciation by 1%QoQ,
- ✓ We recommend a 'BUY' stance on MARI with our Dec-20 target price of PKR 1,609/share offering 49% upside from last close. The company is currently trading at FY21 P/E of 5.9x.

#### Earnings to clock in at PKR 58.03/share for 3QFY20, up by +35%YoY

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 28<sup>th</sup> Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 7.74bn (EPS PKR 58.03), up by +35%YoY, compared to PKR 5.75bn (EPS PKR 43.11) in the same period last year. We estimate incline in earnings on the back a) 11%YoY PKR depreciation despite 15%YoY drop in oil prices, b) higher gas production from Mari field and, c) higher other income amid elevated mark-up income. Exploration cost is expected to rise by +89%YoY likely due to higher seismic data acquisition with no dry well cost incurred. This brings total profitability for 9MFY20E to PKR 22.49bn (EPS PKR 168.59) compared to PKR 16.81 (EPS PKR 126.0) in the same period last year.

#### Higher gas production to lift EPS on quarterly basis despite lower oil prices

On quarterly basis, earnings are expected to increase by +6%QoQ on the back of higher gas production despite 11%QoQ drop in oil prices and average exchange rate appreciation by 1%QoQ.

#### Exhibit: MARI Financial Highlights

PKRmn	3QFY20E	3QFY19	YoY	9MFY20E	9MFY19	YoY
Net Sales	16,965	14,521	17%	51,516	43,507	18%
Royalty	2,162	1,837	18%	6,516	5,522	18%
Operating Expense	2,945	3,329	-12%	9,358	8,985	4%
Exploration Cost	1,754	927	89%	5,265	3,527	49%
Gross Profit	9,409	7,889	19%	28,164	23,734	19%
EBIT	9,796	7,585	29%	28,713	23,755	21%
Finance Income	1,334	539	148%	3,896	1,282	204%
Finance Cost	239	159	51%	731	636	15%
PBT	10,891	7,965	37%	31,878	24,400	31%
PAT	7,742	5,751	35%	22,490	16,809	34%
EPS (PKR)	58.03	43.11		168.59	126.00	
DPS (PKR)	-	-		4.10	4.00	

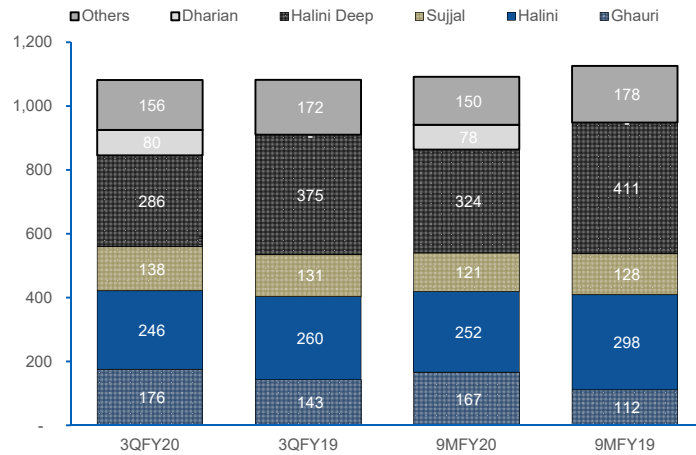
Source: IGI Research and Company Financials No of Shares: 133.40mn

### Gas production up by +8%YoY while oil production remained flat during 3QFY20

Total gas production for the Company increased by +8%YoY on the back of higher production from Mari field. This brings total gas production for 9MFY20 to 686mmcf down by 2%YoY. Oil production remained flat on account of lower production from Halini and Halini Deep which was compensated by commencement of production from Dharian field. This brings total oil production to 1,082bopd down by 3%YoY for 9MFY20.

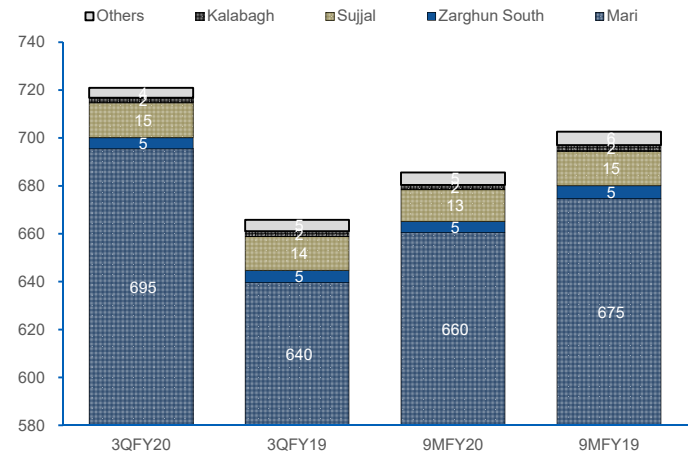
#### Exhibit: MARI oil production (bopd)

Oil production remained flat due to inclusion of Dharian field



#### Exhibit: MARI gas production (mmcf)

Gas production increased owing to higher production from Mari gas field



### Recommendation

We recommend a ‘BUY’ stance on MARI with our Dec-20 target price of PKR 1,609/share offering 49% upside from last close. The company is currently trading at FY21 P/E of 5.9x.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Time Horizon:** Dec – 2020

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):  
(Discounted Cash Flow)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

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IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

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**Jama Punji**  
 سرمایہ کاری سمجھداری کے ساتھ  
<http://www.jamapunji.pk>

## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: www.igisecurities.com.pk

### Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,  
Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2  
Fax: (+92-21) 32429607

<b>Lahore Office</b> Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	<b>Islamabad Office</b> Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
<b>Faisalabad Office</b> Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	<b>Rahim Yar Khan Office</b> Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
<b>Multan Office</b> Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited

### Research Analyst(s)

Research Identity Number: BRP009

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