

# Day Break

Thursday, 09 July 2020

## COMPANY UPDATE

### Mari Petroleum Company Limited

Oil &amp; Gas Exploration Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	1,819.8
Last Closing: 8-Jul-20	1,267.4
Upside (%):	43.6
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	6M

#### 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)	169.1   1,095.6
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	13.5 (5.8) 21.6
Lo	1,005.5 831.0 830.0
Hi	1,270.2 1,454.5 1,454.5

#### Key Company Financials

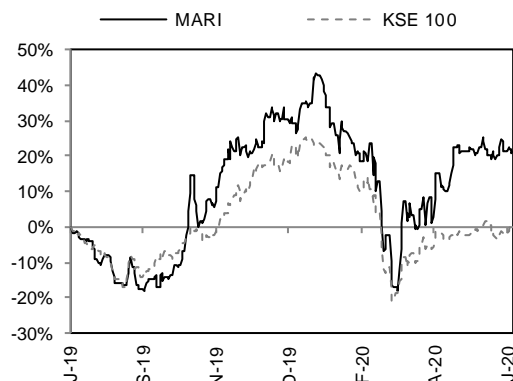
Period End: Jun

PKRbn	2019a	2020e	2021f	2022f
Total Revenue	59.4	64.5	64.9	68.5
Net Income	24.3	29.2	26.7	28.7
EPS (PKR)	182.4	218.8	200.5	215.2
DPS (PKR)	6.0	6.1	6.0	6.0
Total Assets	220.1	240.4	239.8	240.1
Total Equity	63.6	93.3	119.3	147.2

#### Key Financial Ratios

ROE (%)	46.8	46.9	37.2	25.2
P/E (x)	7.0	5.8	6.3	5.9
P/B (x)	4.2	2.7	1.8	1.4
DY (%)	0.5	0.5	0.5	0.5

#### Relative Price Performance



Source: Bloomberg, PSX &amp; IGI Research

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## Oil & Gas Exploration Companies

### MARI: Earnings Sustainability Cushioned By Less Susceptibility To Lockdown Disruptions And Volatile Oil Prices

- ✓ We have tweaked our earnings for Mari Petroleum Company Limited (MARI) by +7%-10% for FY20/21/22F after incorporating 9MFY20 financial result. We maintain our liking for the Company as Mari gas field production remained less impacted by Covid-19 lockdown disruption and demand slowdown whereas owing to higher gas contribution in total revenues MARI's earnings remained least impacted during 4QFY20,
- ✓ Furthermore, owing to substantial rise in circular debt, MARI remains least exposed to circular debt where all the receivable pile up relates to GIDC and is exactly matched by rise in payables to GoP,
- ✓ Our Dec-20 revised target price of PKR 1,820/share offers 44% upside from last close with FY21/22F P/E of 6.3/5.9x.

#### Limited earnings risk makes valuation attractive at current prices

We have tweaked our earnings for Mari Petroleum Company Limited (MARI) by +7%-10% for FY20/21/22F after incorporating 9MFY20 financial result. We maintain our liking for the Company as Mari gas field production remained less impacted by Covid-19 lockdown disruption and demand slowdown whereas owing to higher gas contribution in total revenues MARI's earnings remained least impacted during 4QFY20. Furthermore, owing to substantial rise in circular debt, MARI remains least exposed to circular debt where all the receivable pile up relates to GIDC and is exactly matched by rise in payables to GoP. Our Dec-20 revised target price of PKR 1,820/share offers 44% upside from last close with FY21/22F P/E of 6.3/5.9x.

#### Exhibit: Key Financial Highlights

		FY17A	FY18A	FY19A	FY20E	FY21F	FY22F
Oil price	USD/bbl	48.4	62.4	69.4	53.0	40.0	40.0
Exchange rate	PKR/USD	104.8	110.0	136.3	158.5	172.2	179.9
EPS	PKR	68.5	115.2	182.4	218.8	200.5	215.2
DPS	PKR	5.2	6.0	6.0	6.1	6.0	6.0

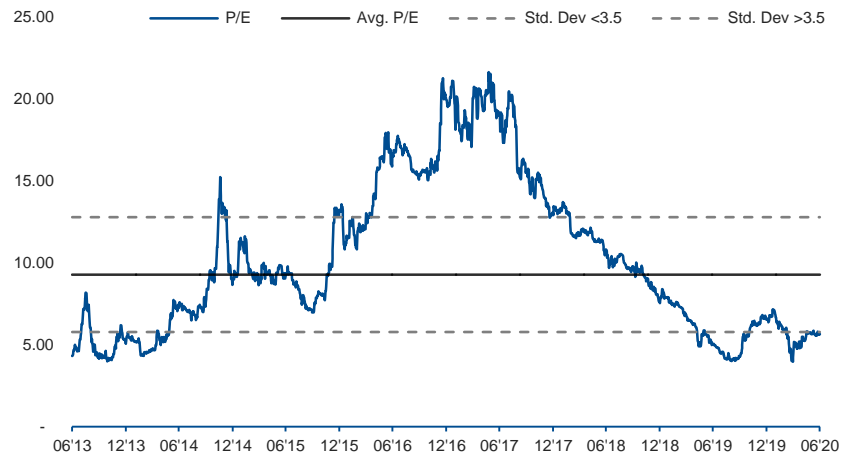
Source: IGI Research

### 1# Risk to earnings remain limited; fwd P/E of 5.9x trading below its historic mean of 9.3x

MARI is currently trading at FY21/22 P/E of 6.3/5.9x which is at a discount to current market multiple 6.7x and 7yr. average P/E of 9.3x. MARI is expected to post +21% YoY growth in FY20. However, post FY21 earnings are likely to sustain till FY23 on account of measures taken to arrest natural depletion at Mari field, whereas diversion of unutilized gas from Mari field on to SNGP network due to ATA or lower demand will also enable to achieve higher production under PP12 pricing.

**Exhibit: MARI historical P/E**

MARI trading at a discount of ~40% to its average historic P/E

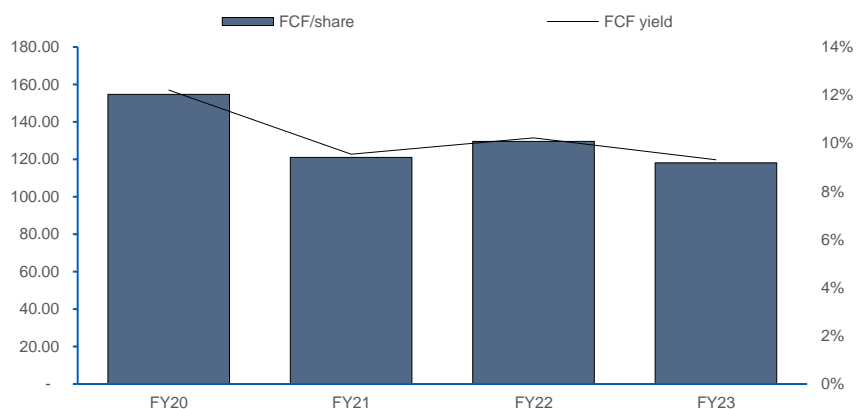


## 2# Healthy Cash Generation with No or Negligible Ties to Circular Debt

MARI remains least exposed to circular debt owing to majority of sales to fertilizer sector where receivables account for GIDC and GDS which is reflected as payable to GoP. Only PKR 32bn is tied to circular debt with regards to sales to power sector and SNGP/SSGC. Thus FCF yield for MARI is likely to average around 10%-11% during FY20/23F.

**Exhibit: MARI FCF/share and FCF yield**

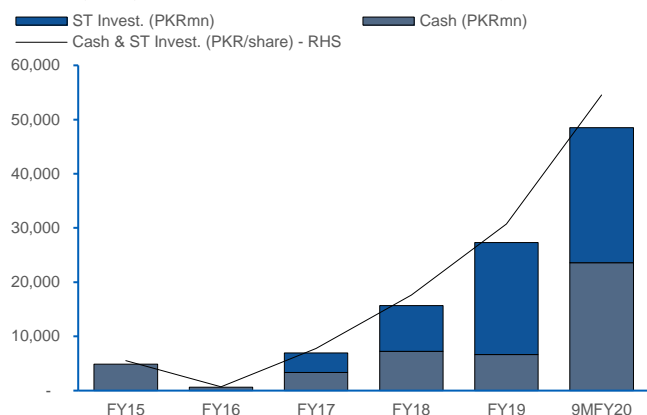
MARI's lower exposure to circular debt allows for better FCF yields among peers



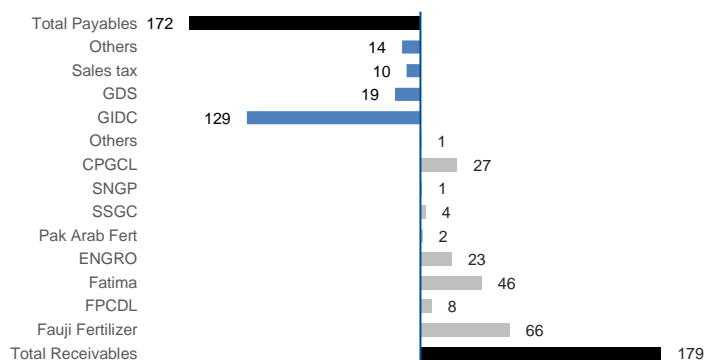
Whereas strong cash generation with minimum cash tied to circular debt allows MARI advantage over its peer for risk diversion against natural depletion of reserves and volatile oil prices through availability of cash to diversify vertically upwards in petroleum sector or horizontally. As a result, MARI now holds nearly PKR 364/share in cash and ST investments as at 9MFY20.

**Exhibit: MARI cash position**

MARI strong cash generation allows for risk diversion and cash availability for investments

**Exhibit: MARI Receivable and payable cash position (PKRbn)**

Payable and receivable mostly comprise of GIDC and GDS payments

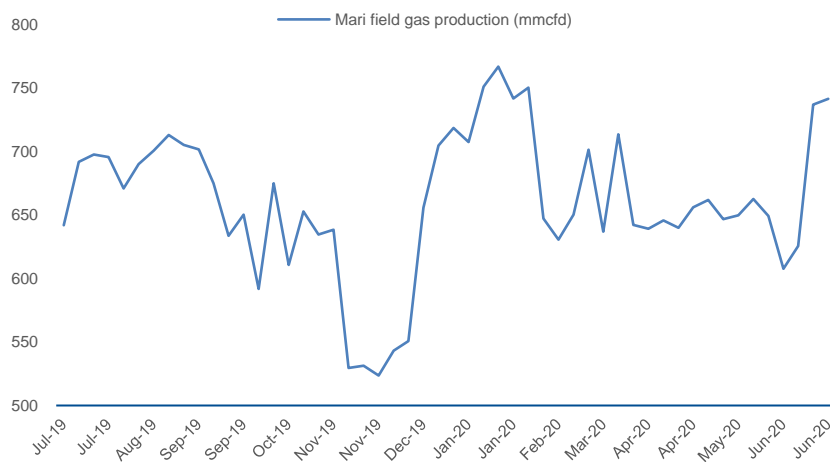


### 3# Production and Pricing Least Impacted By Lockdowns and Volatility in Oil Prices

MARI remained relatively immune to lockdown during 4QFY20 as production from Mari field only declined by 5.5%QoQ out of which FPDCL and WAPDA reduced offtake due to lower demand. Moreover, with nearly ~98% of revenues derived through gas production, MARI remains largely immune to volatility in oil prices as well. Having said that, Mari fields gas production is up by +5% during 2HFY20 compared to 1HFY20 owing to smart production management.

**Exhibit: Mari field gas production during 2HFY20 (mmcf/d)**

Mari field production averaged 5% higher during 2HFY20 compared to 1HFY20 despite lockdown in 4QFY20



## 4# Diversion of Gas Supply to SNGP Will Help Avoid Loss of Incremental Production

To mitigate the risk of natural decline in production of Mari field, the Company successfully drilled 19 development wells as planned before Dec-19 whereas second phase of debottlenecking of pipeline network is underway and expected to be completed by Aug/Sep-20. Though due to Covid-19, deliveries of additional pipelines faced delays however the management still expects the project to be completed well in time. Furthermore, to avoid loss of incremental production due to ATA of customer's plant or lower demand from WAPDA, MARI is underlying pipeline from Mari Daharki to National pipeline of SNGP with carrying capacity of 150mmcf/d expected to be completed by Dec-20. This would allow diversion of gas from Mari field to SNGP network to avoid loss of incremental production which is priced under PP12.

### **Better cash availability to allow for risk diversification of natural depletion and volatile oil price risk**

With huge cash generation and dividend cap till FY24, MARI is well poised to diversify its risks relating to natural decline in production and volatile oil prices. Thus MARI plans to invest in different projects along with acquisition of few strategic blocks where through a combined consortium of national oil companies MARI has submitted bid for acquisition of ADNOC offshore block-5. Furthermore, similar ADNOC MARI is expected to participate in acquisition of blocks on sale by ENI.

MARI also plans to enter in to mineral exploration where NRL has offered MARI to join the consortium in Reko Diq Copper and gold mining for which MARI is currently in the process of conducting further due diligence. MARI signed a confidentiality agreement with FFC regarding pre-Feasibility study of Thar Coal gasification project and to participate in bidding for Thar Coal Blocks. MPCL has applied two blocks for acquisition of exploration licenses for Copper and Gold in Baluchistan.

MARI further plans to participate in the upcoming bidding process for two RLNG based power plants being privatized by the GoP. Furthermore MARI has participate in acquisition of 49% stake in Frontier Oil Company which is undertaking the white oil pipeline project from Machike – Thalian - Taru Jabba.

Other projects under consideration by MARI also include investment in setting up power generation company and commercial production of food quality liquid carbon dioxide for sale to beverage industry.

## Current price warrants long term value play; ~44% upside

MARI remains of one of our preferred long term value play in E&P sector on account of healthy cash generation, least impacted by oil price volatility and remained highly immune to lockdowns amid Covid-19 outbreak. Thus we maintain a BUY stance on MARI with our Dec-20 target price of PKR 1,820/share (after incorporating recent interest rate cut) offering 44% upside from last close.

## 3q Financial Result

### MARI reported EPS of PKR 63.54 during 3QFY20, up by +47%YoY

MARI announced its financial results for 3QFY20 with earnings clocking in at PKR 8.48bn (EPS PKR 63.54) as compared to PKR 5.75bn (EPS PKR 43.11) in the same period last year, up by +47% YoY. This bring total earnings for 9MFY20 to PKR 23.23bn (EPS PKR 174.09) compared to PKR 16.81bn (EPS PKR 126.0) in the similar period last year. Substantial growth in earnings during 3QFY30 was primarily attributable to a) 1% YoY PKR depreciation despite 15% YoY drop in oil prices, b) higher other income amid elevated mark-up income and, c) increased gas production from Mari field leading to higher availability of incremental production priced under Petroleum Policy 2012 (PP12) due to lower benchmark of 477.5mmcf for HRL reserve during closure of customers plant..

#### Exhibit: MARI Financial Highlights

PKRmn	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	18,978	14,521	31%	53,529	43,507	23%
Royalty	2,387	1,837	30%	6,742	5,522	22%
Operating Expense	3,426	3,329	3%	9,838	8,985	9%
Exploration Expense	2,227	1,075	107%	5,739	3,675	56%
Gross Profit	10,180	7,741	32%	28,935	23,587	23%
Other Income	239	(157)	-253%	400	168	138%
EBIT	10,419	7,585	37%	29,335	23,755	23%
Finance Income	1,340	571	135%	3,902	1,314	197%
Finance Cost	243	191	27%	735	668	10%
PBT	11,516	7,965	45%	32,502	24,400	33%
PAT	8,477	5,751	47%	23,225	16,809	38%
EPS (PKR)	63.54	43.11		174.09	126.00	
DPS (PKR)	-	-		4.10	4.00	

Source: IGI Research and Company Financials

No of Shares: 133.40mn

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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)
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**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):  
(Reserve Based DCF Valuation)

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