

Mari Petroleum Company Limited
Result Review

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

Pakistan Research

1QFY23 EPS clocks in at PKR 95.3, up 40% YoY

- MARI announced its 1QFY23 financial results today where the company reported an EPS of PKR 95.3, up 40% YoY. This earnings growth is primarily due to 43% YoY higher oil prices and 27% YoY PKR devaluation. The result is broadly in line with our expectation.
- Net sales grew by 54% YoY to PKR 31.8bn compared to PKR 20.7bn in SPLY primarily on the back of higher oil and gas prices and PKR devaluation.
- Exploration and prospecting expenses declined by 21% YoY to PKR 1.4bn owing to absence of dry well during the quarter.
- The company's effective tax rate came in at 34% as against 30% in SPLY, restricting the bottomline growth.
- On a sequential basis, MARI's earnings grew 127% QoQ mainly due to low base effect as MARI booked a huge super tax expense and exploration cost in the previous quarter.
- We have a 'BUY' stance on MARI. Our Jun-23 price target (PT) of PKR 2,419/share provides an upside of 46% along with a dividend yield of 12.5%.

Key Data

PSX Ticker	MARI
Target Price (PKR)	2,419
Current Price (PKR)	1,660
Upside/(Downside) (%)	+ 46%
Dividend Yield (%)	12.5%
Total Return (%)	+ 58%
12-month High (PKR)	1,815
12-month Low (PKR)	1,535
Outstanding Shares (mn)	133
Market Cap (PKR mn)	221,429
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY22	1QFY23	YoY
Sales	20,726	31,825	54%
Operating expenses	3,273	5,854	79%
Royalties	2,640	4,004	52%
Gross profit	14,813	21,968	48%
Exploration expenditure	1,749	1,380	-21%
Other income	18	(463)	NA
Finance Cost	99	440	343%
Profit before tax	13,047	19,325	48%
Taxation	3,949	6,610	67%
Profit after tax	9,099	12,715	40%
EPS	68.2	95.3	40%
DPS	-	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	227.3	235.7	247.8	415.7	432.2	389.4
EPS Growth	25%	4%	5%	68%	4%	-10%
DPS	6.6	141.0	124.0	208.0	216.0	195.0
PER	7.3	7.0	6.7	4.0	3.8	4.3
Dividend Yield	0.4%	8.5%	7.5%	12.5%	13.0%	11.7%
EV/EBITDA	4.0	3.6	3.1	1.8	1.6	1.8
P/B	2.4	1.9	1.7	1.4	1.2	1.0
ROE	38.7%	30.1%	26.8%	38.3%	33.2%	25.8%

Source: Company Financials, Akseer Research

Aftab Awan
aftab.awan@alphacapital.com.pk

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 Jun-23 price target (PT) of PKR 2,419/share provides an upside of 46% along with a dividend yield of 12.5%. 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	72,026	73,018	95,134	137,942	144,125	133,934
Field Expenditures	13,302	15,040	17,403	26,254	26,256	24,425
Royalties	8,806	9,315	12,000	17,399	18,179	16,894
Operating Profit	37,303	41,349	51,226	79,641	84,607	77,159
Other income	5,314	4,253	4,531	5,410	3,470	2,134
Other charges	2,698	3,082	3,623	5,253	5,488	5,100
Finance cost	986	1,310	980	2,179	1,917	1,649
Profit before tax	41,291	43,931	52,116	82,773	86,059	77,540
Taxation	10,967	12,486	19,053	27,315	28,399	25,588
Profit after tax	30,324	31,445	33,063	55,458	57,659	51,952

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	22,208	37,673	60,441	81,658	108,747	142,723
Other LT assets	19,958	27,251	38,684	44,489	51,049	57,832
Non-Current Assets	42,165	64,924	99,125	126,148	159,796	200,555
Current assets	83,980	85,463	86,015	117,227	125,622	119,198
Total Assets	126,145	150,386	185,140	243,374	285,418	319,753
Non-Current liabilities	10,342	11,172	16,268	24,657	22,966	21,605
Current liabilities	22,653	23,681	38,013	59,677	74,081	83,340
Total Liabilities	32,996	34,853	54,281	84,334	97,047	104,945
Equity	93,149	115,534	130,859	159,040	188,370	214,809
Total Equity & liabilities	126,145	150,386	185,140	243,374	285,418	319,753

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	30,324	31,445	33,063	55,458	57,659	51,952
Non cash Charges	3,304	3,758	4,064	5,947	7,306	8,940
Operating Cash flows	31,489	32,537	45,377	81,833	73,476	68,858
FCFF	24,504	8,269	10,558	50,336	33,820	20,278
Net borrowings	-	-	-	-	-	-
FCFE	23,781	7,331	10,688	48,848	32,535	19,173
Net change in cash	22,999	(1,729)	(7,049)	21,572	4,205	(6,340)
Closing cash	50,334	48,605	41,556	63,128	67,333	60,993

Source: Company Accounts, Akseer Research

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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.

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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
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net