

Earning Review

MARI: 4QFY21 EPS clocked in at Rs60.6, DPS Rs75.0

Event

- MARI Petroleum Limited (MARI) profitability clocked in at Rs60.6/sh, up 14.1%/10% YoY/QoQ during 4QFY21, cumulating into FY21 profitability of Rs235.7/sh, up 3.7% YoY.
- The result is accompanied with an interim cash payout of Rs75.0/sh, taking full year payout to Rs147.0.

Impact

- We attribute increase in profitability to lower exploration and prospecting expense and higher finance income.
- Revenue of the company declined by 4.4% YoY due to (1) reduced Arab light prices used for gas pricing indexation and (2) lower flows eligible for incremental pricing.
- Despite oil prices being up by ~4.6% YoY during 4QFY21, Arab Light prices used for gas pricing calculation are down by ~32% YoY. However, average well head gas prices are down by ~6% YoY due to rupee devaluation of ~3% YoY.
- Overall, gas production is up by ~6.8% YoY during 4QFY21 while flows eligible for incremental pricing are down by ~20.5% YoY given lower off-take from Fauji Fertilizer Company due to annual turnaround of its Goth Machi plant, as per our calculation. Furthermore, the impact of low offtakes by certain customers was reduced by supplying gas to Pak Arab Fertilizer Limited.
- Exploration and prospecting expenditure is down by 87.4% YoY to Rs569mn primarily because of reduced exploration activities amid subdued oil prices.
- Finance income of the company increased significantly by ~25.3% YoY to Rs1,343mn due to higher cash and short term investment.
- Company reported other income of Rs769mn during 4QFY21 against loss of Rs60mn in 4QFY20 on the back of profitability of Seismic, Drilling and Processing Units, in our view.

Outlook

- Enhanced probability of sustained and prolonged incentive flows post phase-X and laying of gas pipeline along with commencement of flows to Pak Arab fertilizer makes a strong investment case for the scrip. This would help company to achieve 5-Yr gas production CAGR of ~7% and thus compels us to have an "Outperform" stance with Dec-21 TP of Rs1,892.8/sh. Commencement of flows of Lower Goru B reservoir to SNGPL along with hitting reserves in Bannu West and Block-28 would provide further upside to our valuation.
- **Planning to enhance production from Goru-B reservoir:** Besides maintaining incentive flows with the help of 24km length of pipeline having capacity of 150mmcf/d, the same line could be used to offload flows of Mari Deep and Tipu wells after processing. Currently, preliminary discussions are under way with SNGPL and other customers for usage of these flows.
- **Peripheral exploration may yield significant results:** Company has started seismic and exploration activities in Bannu west and block-28 that has the potential for discoveries equivalent to Sui and Mari. Company has started drilling in the former on June 06'2021.

Fig 1: 4QFY20 Financial Highlights

	4QFY21	4QFY20	YoY	QoQ	FY21	FY20	YoY
Revenue	17,677	18,486	-4%	-6%	73,018	72,015	1%
Royalty	2,396	2,064	16%	1%	9,315	8,806	6%
Operating expenses	4,392	3,464	27%	6%	15,040	13,302	13%
Exploration and prospecting expenditure	569	4,519	-87%	-68%	4,544	10,258	-56%
Other charges	752	423	78%	1%	3,082	2,698	14%
Other income	769	(60)	na	na	264	340	-22%
Operating Profit	10,336	7,956	30%	6%	41,301	37,291	11%
Finance income	1,343	1,072	25%	65%	3,941	4,974	-21%
Finance cost	635	251	153%	182%	1,310	986	33%
PBT	11,044	8,777	26%	6%	43,931	41,279	6%
Tax	2,956	1,689	75%	-3%	12,486	10,967	14%
PAT	8,089	7,088	14%	10%	31,445	30,313	4%
EPS	60.6	53.1			235.7	227.2	
DPS	75.0	2.0			147.0	6.1	

Source: PSX, Foundation Research, August 2021

Analyst

Muhammad Awais Ashraf, CFA
+92 21 3561 2290-94

m.awais@fs.com.pk
Ext 338

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

If

Expected return >+10%

Expected return from -10% to +10%

Expected return <-10%

Outperform.

Neutral.

Underperform.