

Earning Review

MARI: 1QFY22 EPS clocked in at Rs68.2, up 0.4% YoY

Event

- MARI Petroleum Limited (MARI) profitability clocked in at Rs68.2/sh, up 0.4% YoY.

Impact

- We attribute rise in profitability to (1) Higher gas flows particularly from MARI HRL and (2) higher Arab Light prices used for gas pricing.
- Oil prices are up by ~70%YoY during 1QFY22, in particular Arab Light prices used for gas pricing calculation are up by ~59%YoY. Despite higher Arab Light prices, average well head gas prices are down by ~1.7% YoY due to dollar devaluation of ~6% YoY.
- Overall, gas production is up by ~0.1% YoY during 1QFY22 while flows of MARI HRL entitle for incremental pricing are down by ~4% YoY given lower off-take by Engro Fertilizer plant due to Annual Turnaround of EnVen plant, as per our calculation.
- Exploration and prospecting expenditure is up by 43% YoY to Rs1.7bn given company's aggressive plans to add more reserves besides attaining sustainability of existing flows.
- Finance income of the company decreased ~9% YoY to Rs852mn as company has resumed dividend payment to its shareholders.
- Company's other income is Rs18mn during 1QFY22 against loss of Rs507mn in 1QFY21 on the back of better performance of Seismic, Drilling and Processing Units, in our view.

Outlook

- Enhanced probability due to 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 on the scrip. 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: 1QFY22 Financial Highlights

	1QFY22	1QFY21	YoY	QoQ
Revenue	20,726	20,373	1.7%	17.3%
Royalty	2,640	2,540	3.9%	10.2%
Operating expenses	3,273	3,023	8.3%	-25.5%
Exploration and prospecting expenditure	1,749	1,221	43.3%	207.2%
Other charges	788	908	-13.2%	4.8%
Other income	18	(507)	na	-97.6%
Operating Profit	12,294	12,174	1.0%	18.9%
Finance income	852	938	-9.1%	-36.6%
Finance cost	99	225	-55.9%	-84.4%
PBT	13,047	12,886	1.2%	18.1%
Tax	3,949	3,820	3.4%	33.6%
PAT	9,099	9,066	0.4%	12.5%
EPS	68.2	68.0		

Source: PSX. Foundation Research, October 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%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.