PAKISTAN **January 24, 2022**

Earning Review

MARI: 2QFY22 EPS clocked in at Rs56.0, DPS Rs62.0

Event

- MARI Petroleum Limited (MARI) profitability clocked in at Rs56.0/sh, up 1.9% YoY, cumulating into 1HFY22 profitability of Rs124.2/sh, up 1.0% YoY.
- The result is accompanied with an interim cash payout of Rs62.0/sh.
- However, the result is below our expectation given share of loss in associate of Rs2.4bn booked on investment made in PIOL.

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 ~89%YoY during 2QFY22, in particular Arab Light prices used for gas pricing calculation are up by ~59%YoY.
- Overall, gas production is up by ~7.1% YoY during 2QFY22 and flows of MARI HRL entitle for incremental pricing are up by ~4.9% YoY.
- Exploration and prospecting expenditure is down by 50% YoY to Rs895mn despite company's aggressive plans to add more reserves besides attaining sustainability of existing flows.
- Company's other income is Rs161mn during 2QFY22 against loss of Rs3mn in 2QFY21 on the back of better performance of Seismic, Drilling and Processing Units, in our view.
- Company booked share of loss in associate of Rs2.4bn due to expenses incurred for seismic purchase and signatory bonus related to investment made in Pakistan International Oil Limited (PIOL).
- MARI has expanded its portfolio internationally and participated as a part of a consortium comprising of OGDC, PPL and Government Holdings (Private) Limited (GHPL) in recent Abu Dhabi offshore block auction. The consortium in which company was a part has been awarded the contract of Offshore Block 5 in Abu Dhabi.
- To highlight, Offshore Block 5 covers an area of 6,223 square kilometers and is located 100 kilometers northeast of Abu Dhabi city.

Outlook

- Materialization of lower Goru-B reserves, enhanced probability of continuation of flows on incremental pricing from HRL, immunity to circular debt, aggressive exploration drive in Hydrocarbon rich areas and expanding offshore compel us to have "Outperform" rating for the stock.
- Installation of GTH gas processing facility would enable the company to process 280mmcfd of gas in one years' time. Company is planning to add processed gas to the system in phased manner. In Phase-1, 40mmcfd of gas from Tipu would be added to the system by 3QFY22. Afterwards, in phase-2, Goru-B gas would be added to the system in 4QFY22. By Jul'22, the processing facility would be able to process unutilized volumes of HRL.
- Company has started seismic and exploration activities in Bannu west and block-28 that has the potential for discoveries equivalent to Sui and Mari. Drilling of first ever exploratory well in Bannu West in in progress while acquisition of seismic data has been completed for Block-28.

Fig 1: 2QFY22 Financial Highlights

	2QFY22	1QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Revenue	21,692	18,847	15.1%	4.7%	42,418	39,220	8.2%
Royalty	2,746	2,361	16.3%	4.0%	5,386	4,900	9.9%
Operating expenses	4,105	4,141	-0.9%	25.4%	7,377	7,164	3.0%
Exploration & prospecting exp.	895	1,807	-50.4%	-48.8%	2,644	3,027	-12.6%
Other charges	811	744	9.1%	2.9%	1,600	1,652	-3.2%
Other income	161	(3)	na	na	179	15	337.6%
Share of loss in associate	2,424	-	na	na	2,438	-	na
Operating Profit	**10,871**	**9,792**	**11.0%**	**-11.7%**	**23,178**	**21,966**	**5.5%**
Finance income	854	813	5.1%	0.2%	1,867	1,751	6.6%
Finance cost	244	225	8.2%	145.6%	490	450	8.9%
PBT	**11,481**	**10,380**	**10.6%**	**-12.1%**	**24,528**	**23,266**	**5.5%**
Tax	4,010	3,045	31.7%	1.5%	7,958	6,865	15.9%
PAT	**7,471**	**7,335**	**1.9%**	**-18.0%**	**16,570**	**16,401**	**1.0%**
EPS	**56.0**	**55.0**			**124.2**	**122.9**	

Source: PSX. Foundation Research, January 2022

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Important disclosures:

Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.