PAKISTAN October 21, 2022

Earning Review

MARI: 1QFY23 EPS clocked in at Rs95.3, up 39.5% YoY

Event

- MARI Petroleum Limited (MARI) profitability clocked in at Rs95.3/sh, up 39.5%/2.3x YoY/QoQ in 1QFY23.

Impact

- We attribute increase in profitability to (1) higher gas prices and (2) elevated dollar indexation and (3) lower exploration expense.
- However, decline in gas flows due to lower offtake from fertilizer plants and higher tax expense has restricted the profitability growth.
- Oil prices are up by ~43%YoY during 1QFY23, in particular Arab Light prices used for gas pricing calculation are up by ~67%YoY.
- Overall, gas production is down by ~4.2% YoY during 1QFY23 and flows of MARI HRL entitle for incremental pricing are also down by ~2.2% YoY.
- Exploration and prospecting expenditure is down by 21.1% YoY to Rs1.38bn given unprecedented monsoon season this year despite company's aggressive plans to add more reserves besides attaining sustainability of existing flows.
- Company's other income is negative Rs463mn during 1QFY23 on the back of loss originated from Seismic, Drilling and Processing Units, in our view.
- Company booked share of loss in associate of Rs62.5mn due to operating expenses of Pakistan International Oil Limited (PIOL). To highlight, in FY22 MARI booked loss of Rs2.6bn due to expenses incurred for seismic purchase and signatory bonus related to investment made in 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.
- The tax charge for the quarter is Rs6.6bn which includes the provision for super tax at the rate of 4%.

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.

Fig 1: 1QFY23 Financial Highlights

	1QFY23	1QFY22	YoY	QoQ
Revenue	31,825	20,726	53.6%	16%
Royalty	4,004	2,640	51.7%	19%
Operating expenses	5,854	3,273	78.9%	5%
Exploration and prospecting expenditure	1,380	1,749	-21.1%	-78%
Other charges	1,319	788	67.3%	33%
Other income	(526)	32	na	269%
Operating Profit	18,743	12,308	52.3%	70%
Finance income	1,022	852	19.9%	-47%
Finance cost	440	99	343.3%	12%
PBT	**19,325**	**13,061**	**48.0%**	**54%**
Tax	6,610	3,949	67.4%	-5%
PAT	**12,715**	**9,112**	**39.5%**	**127%**
EPS	95.3	68.3		

Source: PSX. Foundation Research, October 2022

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Recommendations definitions

If

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