Mari Petroleum (MARI)

Dismantling of Gas Price Formula Unlocking Value

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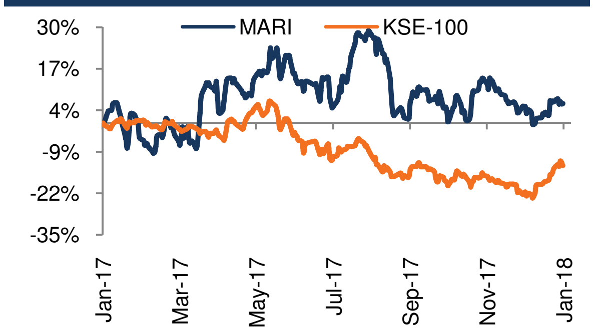
Executive Summary

Executive Summary

- **Investment thesis:** We initiate coverage on Mari Petroleum (MARI), Pakistan's fourth largest Exploration & Production (E&P) company and third largest gas producer, with a 'Buy' recommendation and DCF based target price of Rs2,134/share. Our thesis is based on MARI's 1) dismantling of GPA (Gas Price Agreement) and its replacement with an international crude oil price-linked market oriented formula, based on Petroleum Policy (PP) 2001, 2) incremental production (over a set benchmark) to be priced under high yielding PP2012, 3) significant revision in 2P (Proved & Probable) gas reserves and 4) new discoveries (Tipu-1, Shaheen-1 and Shahbaz-1 finds), falling under PP2012 and farm-in opportunities. These will serve to boost MARI's revenues and earnings at 3-Year (FY17-20) CAGR of 30% and 44%. On EV/BOE basis, MARI trades at attractive US$42/BOE vs. Topline E&P Universe avg. of US$71/BOE.
- **From regulated returns to market based price regime:** In 2014, the Govt. dismantled MARI's pricing mechanism for wellhead gas prices (that limited the company's growth) which was replaced with a crude price linked formula, in-line with the industry practice.

KATS Code	MARI
Bloomberg Code	MARI PA
Reuters Code	MGAS.KA
Market Price	Rs1489.71
Market Cap	Rs164.2bn/US$1.5bn
Free float Market Cap	Rs32.8bn/US$297.1mn
1-Yr Avg. Daily Vol.	40,912
1-Yr Avg. Daily Val. (mn)	Rs61.8/US$0.6
1-Yr High/ Low	Rs1,809.4/1,270.4
Estimated free float	20%
Share outstanding (mn)	110.25
Index weight	1.58%

MARI vs KSE-100 Index



Source: Pakistan Stock Exchange (PSX)

Executive Summary

Under the new pricing mechanism (effective from FY15), Mari gas field prices (Mari field is ~95% of the company's total gas production and ~93% of total revenue) are now linked to Arab Light Crude price (providing higher price than previous cost plus formula that was effective till FY14) with gradual unwinding of wellhead gas price discount, on semiannual basis. This entitles company for higher prices every 6 months till Jan 2019.

- **Incremental production to fetch higher pricing:** The Govt. also approved higher price for Mari gas field for incremental production; exceeding by 10% from benchmark 525mmcfd. This higher price (unlike the crude oil price regime approved in place of cost plus formula for Mari gas field) is based on PP2012 without any discount (providing ~3.6x higher wellhead gas price vs. current price). In FY18, we expect MARI to achieve incremental production of 136mmcfd from Mari gas field, boosting revenues by a considerable 31% and adding 61% to MARI's bottom-line.
- **Reserves revised up 61%:** Another catalyst for MARI is significant revision in its gas reserves, as reported by the company in its latest annual filing. According to the data, gas reserves of MARI fields were revised up by 61% to 5,308 Billion Cubic Feet (BCF) vs. reserves level in Jun 2016. Resultantly, MARI fields' 2P reserves life were substantially increased from 14 years to 22 years, implying that the company can sustain its current gas production level for the next 22 years.

Executive Summary

- **Investment in power plant:** As per our channel checks, the company is eying an investment in a gas fired power plant (with expected capacity of 400-500MW), which would result in fixed returns for the company. The project as of last information was under feasibility status and the company is most likely awaiting regulatory approvals. Any development on this project will be positive as it will help diversify the company's bottom line going forward, we believe.
- **Risk:** We flag 1) inability to meet set benchmark of incremental production (levels exceeding by 10% from benchmark 525mmcfd gas) to avail higher pricing, 2) slowdown in demand from Fertilizer sector (~80% of fertilizer production depends on gas supplied by MARI) and 3) lower than anticipated international oil prices and 4) delay in settlement of the company's dues by its customers, due to circular debt issue (power sector) thereby affecting the company's liquidity as key risks for MARI.

MARI: Key Numbers

	FY16A	FY17A	FY18E	FY19F	FY20F
EPS	50.6	82.9	165.6	204.8	247.3
Earnings Growth	-1%	64%	100%	24%	21%
PE at Rs1490	29.1x	17.8x	8.9x	7.2x	6.0x
Dividend Yield	0.3%	0.4%	0.4%	0.4%	0.4%
ROE	33%	36%	42%	35%	30%
PBV	9.7x	6.4x	3.8x	2.5x	1.8x

Source: Company Accounts, Topline Research

Company Overview

About The Company

- MARI is a major producer of natural gas and currently holds around 17% market share in Pakistan; it's Mari field is the largest gas producing field in the Country. MARI has grown from the sale of natural gas from an inherited field, to the exploration, production and sale of gas, oil and other petroleum products from a number of fields in all the provinces of Pakistan. The company was originally owned by Stanvac Petroleum Project (a joint venture formed in 1957 between Government of Pakistan (GoP) and M/s Esso Eastern Incorporated, having 49% and 51% stake, respectively).
- In 1983, Esso Eastern sold its entire share to the Fauji Foundation and subsequently a wholly owned public limited company with Fauji Foundation, Government of Pakistan and Oil & Gas Development Company (OGDC) was formed, having 40%, 40% and 20% shareholding, respectively. In 1994, the Government divested 50% of its shares and the company became listed on all the stock exchanges of Pakistan.
- The company is making significant contributions towards the Country's development by providing raw material to the fertilizer industry; ~80% of fertilizer production depends on gas supplied by MARI. Other than supplying gas to fertilizer sector, the company provides gas to power generation and gas distribution companies, while crude oil and condensate are supplied to refineries for further processing.
- The company also provides seismic data acquisition, seismic data processing, drilling rigs and allied services on commercial basis.

Previous GPA till FY14 was based on Fixed Return Formula

- MARI was previously getting wellhead gas price on cost plus basis, which was effective till FY14. Wellhead gas pricing under this method was based on a fixed return to shareholders and restricted MARI's ability to avail higher profitability amid rising oil prices.
- Further, to undertake exploration, appraisal & development activities outside Mari field, budget was restricted to US$20mn/annum or 30% of annual gross sales revenue, whichever is less. Though the ceiling was enhanced by US$5mn/annum (starting from Jan 2012) to gradually achieve the revised limit of US$40mn/annum over a period of four years, the ceiling restricted the company's exploratory activities.
- To address this concern, the company approached the Govt. for replacement of its cost plus mechanism with a market oriented crude oil linked wellhead gas pricing formula in line with industry practice. To highlight, the Govt. already replaced a similar cost plus mechanism of Pakistan Petroleum Limited (PPL) for Sui & Kandhkot fields by allowing a formula for determination of wellhead price linked with crude oil price with discounts.
- MARI achieved a major milestone when Economic Coordination Committee (ECC) approved dismantling of Mari GPA and its replacement with an international crude oil price in Nov 2014 (effective from FY15 onwards).

Revised GPA from FY15 linked with International Oil Prices

- As per revised GPA, Mari gas field prices (Mari field is ~94% of the company's total gas production and ~93% of total revenue) now fall under PP2001 (providing higher price than previous cost plus formula effective till FY14) with certain stated layers of discount, to be reduced on semiannual basis, till Jan 2019. It was also approved that for the next 10 years (till 2024), dividend distribution would continue to be in-line with cost plus formula (~Rs5-5.5/share) and profit would be reinvested for exploration and development activities in Mari as well as outside Mari field.

Mari Wellhead Gas Price Under Revised GPA

	FY15A	FY16A	FY17A	FY18E	FY19F	FY20F
Arab Light Crude (US$/bbl)	72.5	40.7	48.7	53.7	57.5	62.7
Rs/US$	101.5	104.4	104.8	115.0	122.0	130.0
PP2001 gas price at 50% discount (US$/mmbtu)	1.9	1.5	1.4	1.5	1.5	1.6
Entitlement factor (avg.)	43%	56%	70%	83%	97%	100%
Final wellhead gas price (US$/mmbtu)	0.8	0.9	1.0	1.2	1.5	1.6

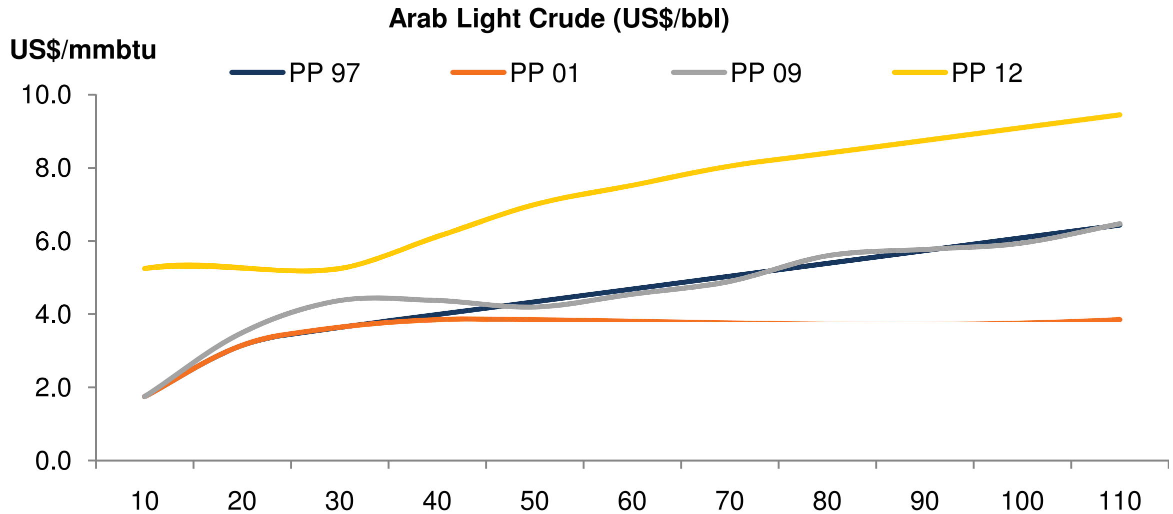
Source: Company Accounts, Topline Research

- MARI’s revenues have grown at 3-Year (FY15-17) CAGR of 24% thanks to dismantling of Mari GPA. This has also helped the company to beef-up its exploratory efforts as higher revenues have led to larger exploration budgets.

Incremental Production to be Priced Under Lucrative PP2012

- The company also received the Govt.'s approval for conversion of Mari Development & Production (D&P) lease to PP2012 in FY16, providing higher price for Mari gas field for incremental production (levels exceeding by 10% from benchmark 525mmcfd).
- This higher price (unlike the crude oil price regime approved in place of cost plus formula for Mari gas field) is based on PP2012 without any discount (providing ~3.6x higher wellhead gas price vs. current price).
- In FY18, we expect MARI to achieve incremental production of 136mmcfd from Mari gas field, boosting revenue by a considerable 31% and adding ~61% to MARI's bottom-line.

E&Ps: Well-head Gas Prices at Various Policies



Source: Oil & Gas Regulatory Authority (OGRA), Topline Research

Recoverable Gas Reserves up 61%

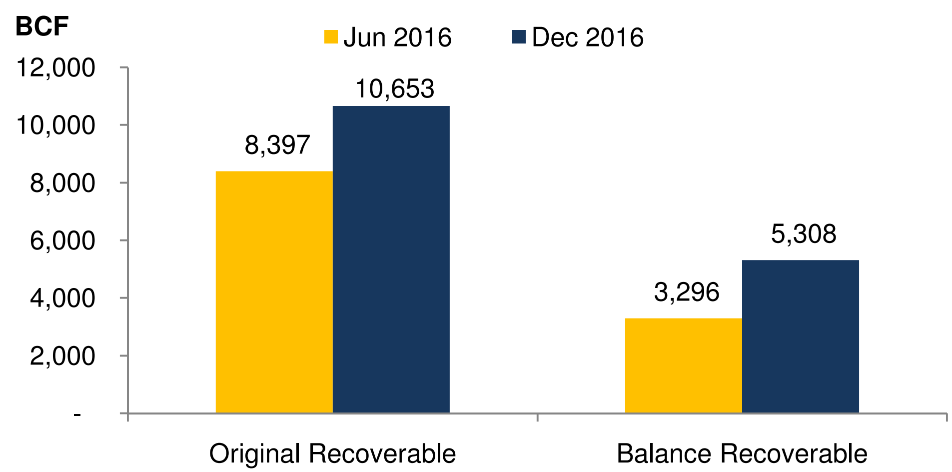
- Another catalyst for MARI was significant revision in its gas reserves in FY17, as reported by the company in its annual accounts. According to the data, recoverable gas reserves of MARI were revised up by 61% to 5,308BCF vs. reserves level seen in FY16. This was mainly attributable to considerable increase in Mari HRL gas reserves, up 74% to 3,678BCF thanks to the company's aggressive exploratory effort.
- Resultantly, MARI's gas reserves life were substantially increased from 14 to 22 years (based on FY17 average gas production flow of 668mmcfd), implying that the company can sustain its current gas production level for the next 22 years.

Mari Recoverable Reserves

Billion Cubic Feet (BCF)	FY17A	FY16A	Change
Mari HRL	3,678	2,116	74%
Mari PKL	4	5	-16%
Mari SML/SUL	13	15	-12%
Mari DeeP	1,490	1,069	39%
Zarghun South	67	69	-2%
Koonj	1	1	-55%
Sujjal	45	10	344%
Sujawal	10	11	-16%
Total	**5,308**	**3,296**	**61%**

Source: Company Accounts

MARI: Original vs. Recoverable Reserves

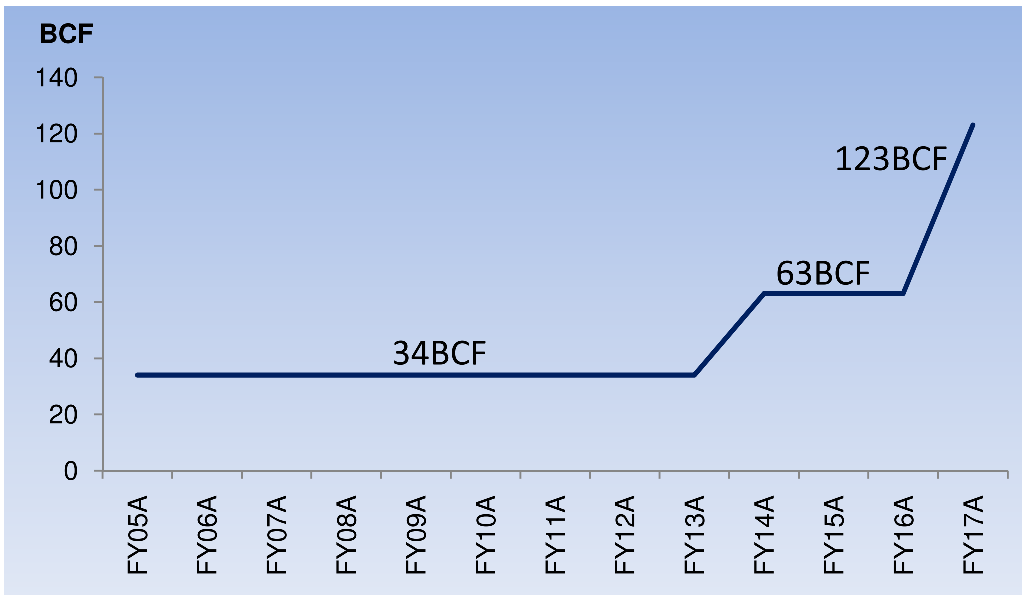


Source: Company Accounts

Over 60% Exploration Success Rate

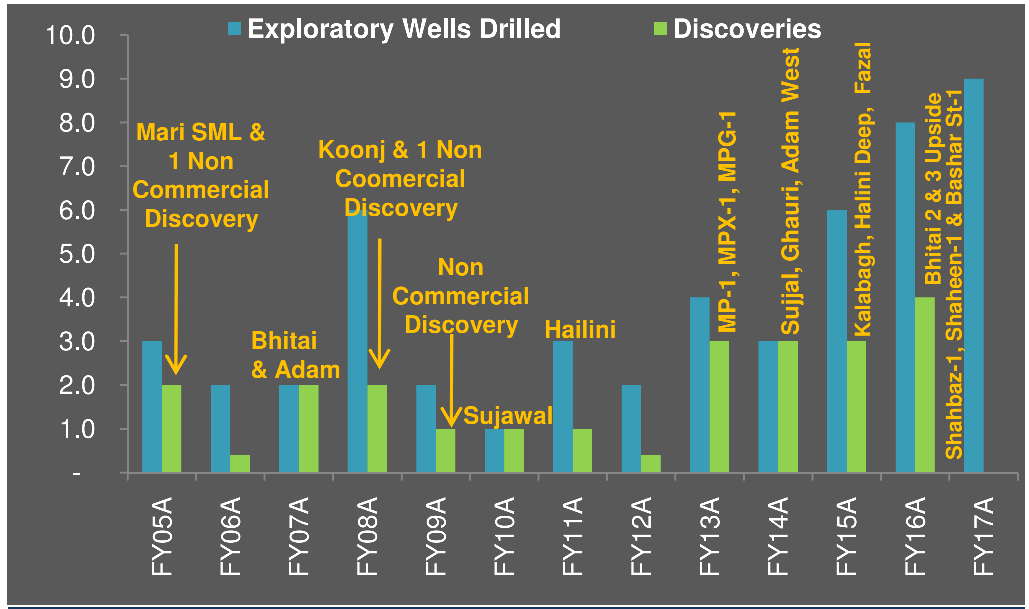
- The company has significantly beefed up its exploratory efforts post dismantling of its previous GPA. In FY17, the management allocated US$206mn exploration budget, which has now been enhanced by ~21% thanks to higher revenues.
- This improved budget has increased the drilling rate of MARI to 8-9 wells/annum (vs. 2-3 wells/annum in the past) with over 60% exploration success rate; considerably higher than domestic industry average of 33% and international industry avg. of 17%. Moreover, 123BCF of recoverable reserves with Reserve Replacement Ratio (RRR) of ~45% were added in FY17 vs. 25% or less in the previous years. To carry on its drilling momentum, MARI plans to drill a record 13 wells in its operated and non-operated blocks in FY18.

MARI: Average Gas Reserve Addition



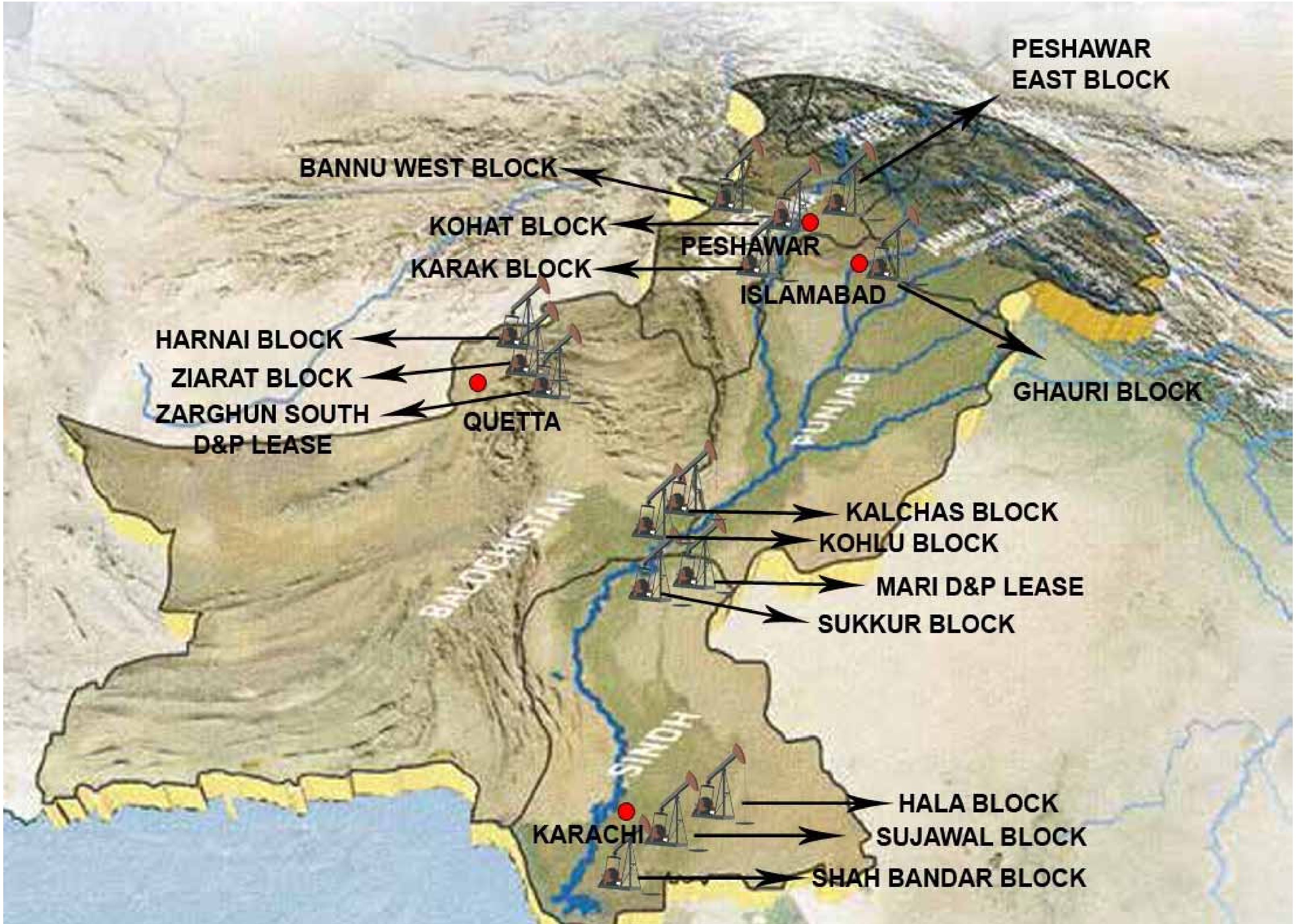
Source: Company Accounts

MARI: Exploratory Wells Drill & Discoveries



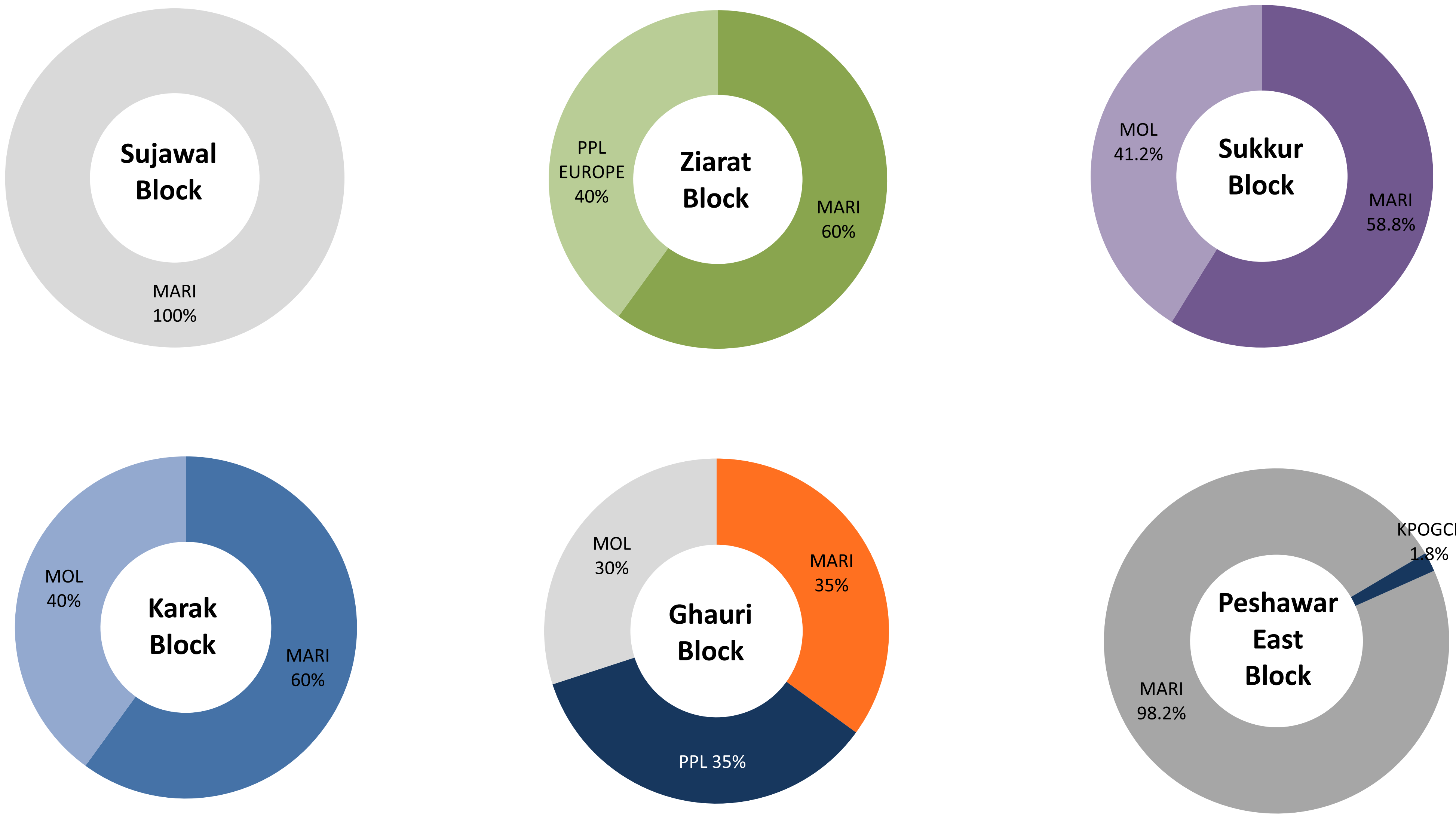
Source: Company Accounts

MARI Geographical Presence



Source: Company Accounts

MARI's Operated Blocks and D&P Leases with Working Interest



Source: Company Accounts

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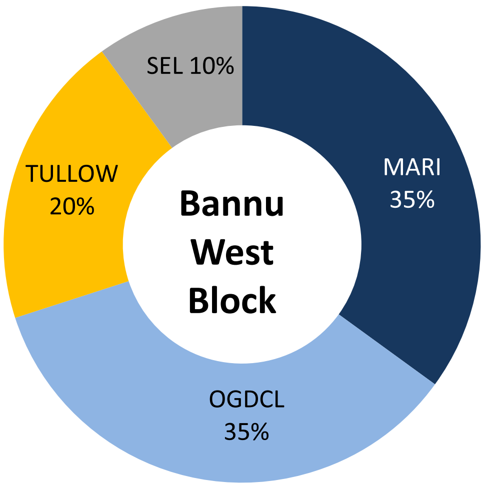
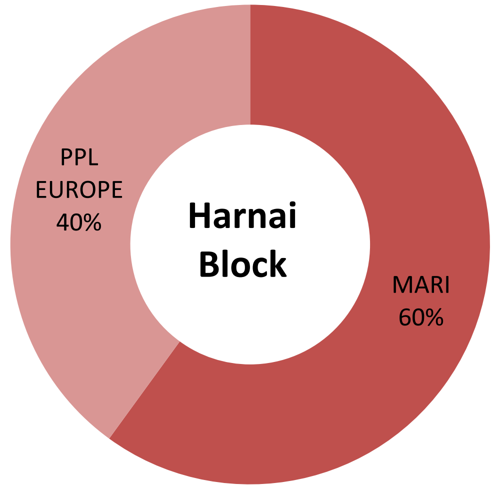
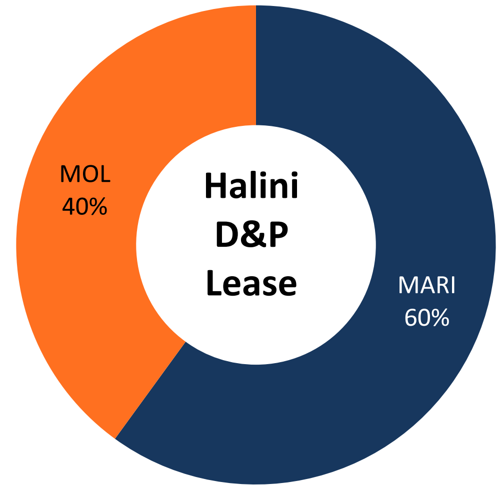
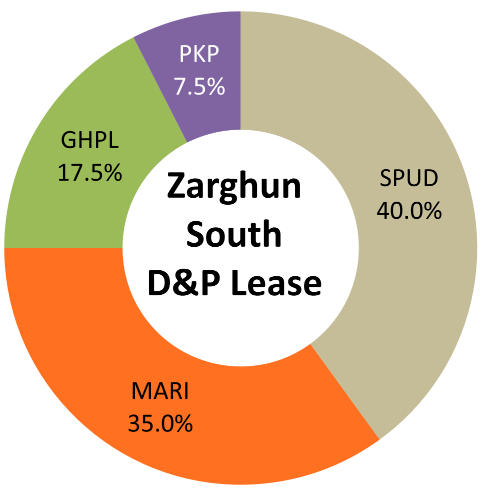
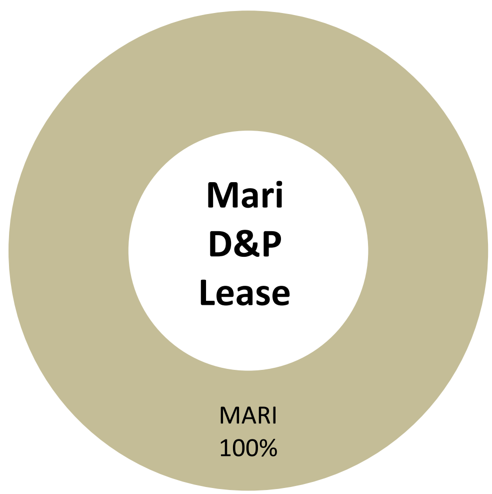
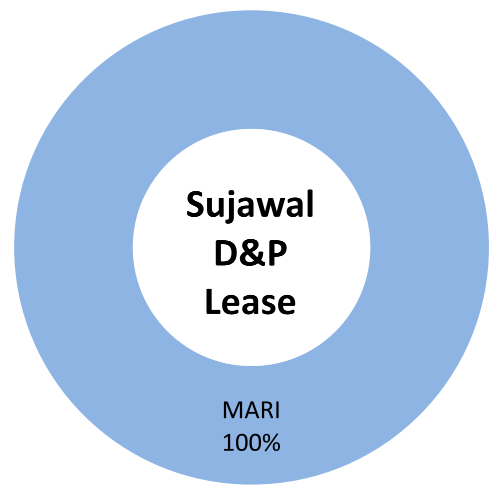






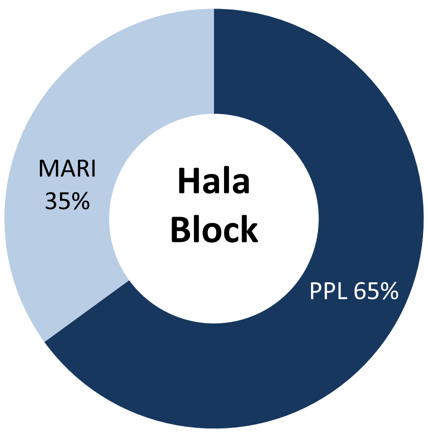


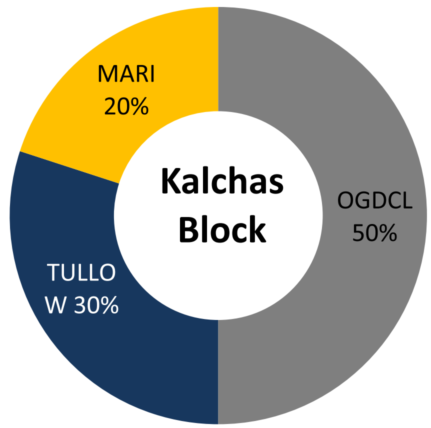


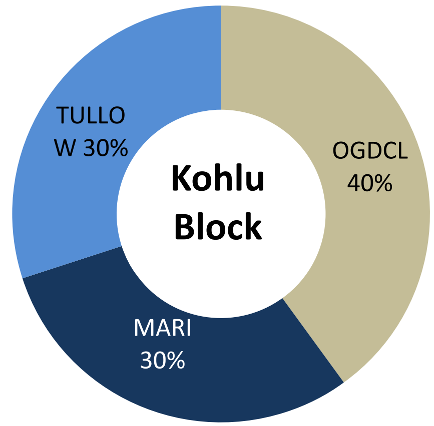


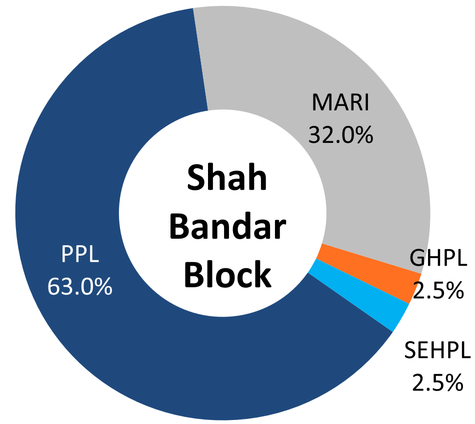
Source: Company Accounts

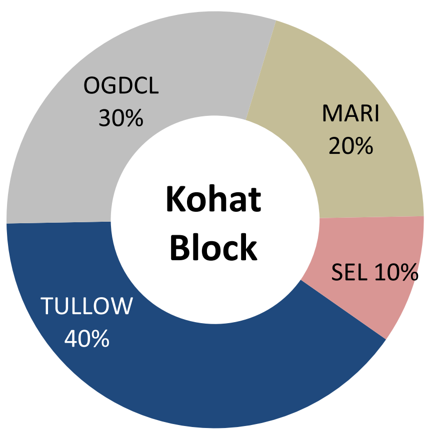
MARI's Non-Operated Blocks with Working Interest

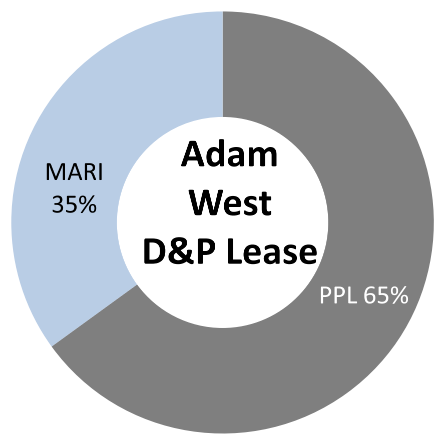


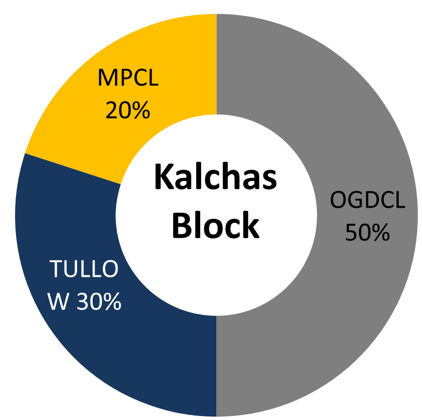








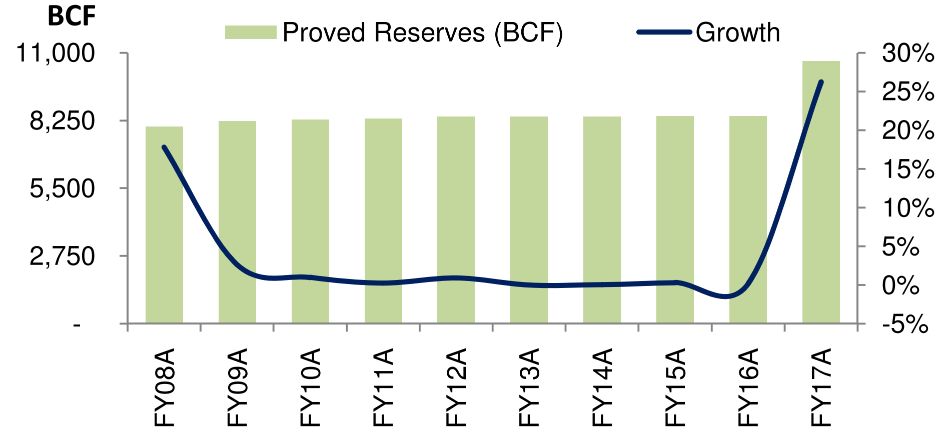




Source: Company Accounts

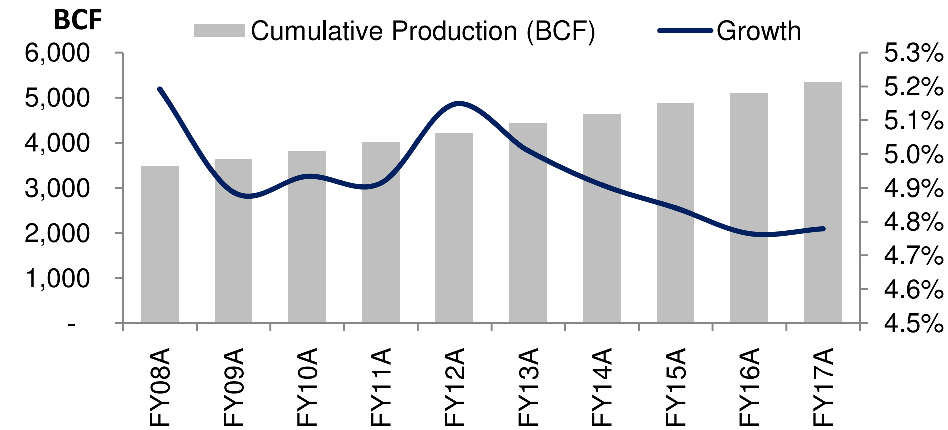
MARI's 10-Year Gas Statistics at a Glance

MARI: Original Recoverable Reserves



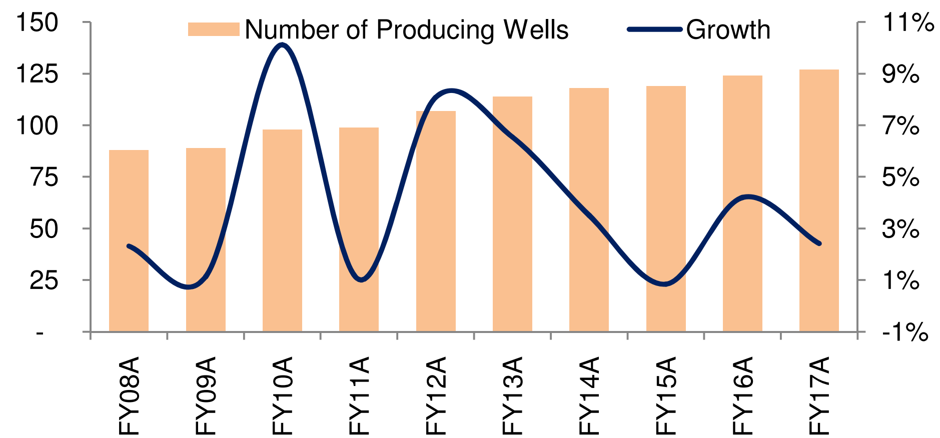
Source: Company Accounts, Topline Research

MARI: Cumulative Production



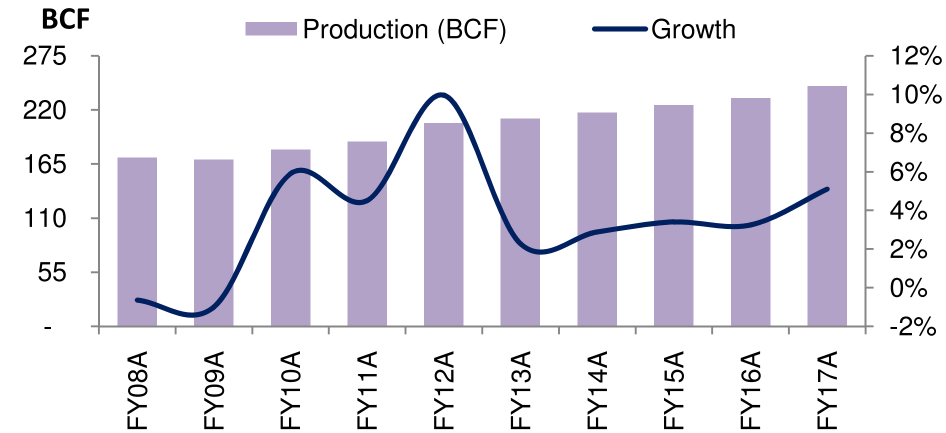
Source: Company Accounts, Topline Research

MARI: Number of Producing Wells



Source: Company Accounts, Topline Research

MARI: Annual Production



Source: Company Accounts, Topline Research

Eight (8) Wells Drilled in FY17

Operated Blocks			
Well	**Type**	**Block / Field**	**Status**
Shahbaz-1	Exploratory well	Mari Field	Gas discovery
Shaheen-1	Exploratory well	Mari Field	Gas discovery
Bhitai-2	Appraisal well	Mari Field	Gas producer
Bhitai-3	Appraisal well	Mari Field	Gas producer
Sujawal Deep-1	Exploratory well	Sujawal block	Dry well
Aqeeq-1	Exploratory well	Sujawal block	Gas/Condensate discovery
ZS-3	Development well	Zarghun Field	Gas producer

Non Operated Blocks			
Well	**Type**	**Block / Field**	**Status**
Bashar X-1	Exploratory well	Hala block	Gas discovery
Zarbab-1	Exploratory well	Hala block	Spudded on June 27, 2017

Source: Company Accounts, Topline Research

Thirteen (13) Wells Planned For FY18

Operated Blocks

Well	Type	Block / Field	Firm / Contingent
Tipu-1	Exploratory	Mari Field	Firm Planned Well
Shaheen	Appraisal	Mari Field	Firm Planned Well
MD - 16	Appraisal	Mari Field	Firm Planned Well
Bhitai-5	Development	Mari Field	Firm Planned Well
Prospect-3 (L.Goru)	Exploratory	Mari Field	Contingent Well
PKL	Exploratory	Mari Field	Contingent Well
Dharian-1	Exploratory	Ghauri	Firm Planned Well
Surghar-1	Exploratory	Karak	Firm Planned Well
Bolan East	Exploratory	Ziarat	Firm Planned Well

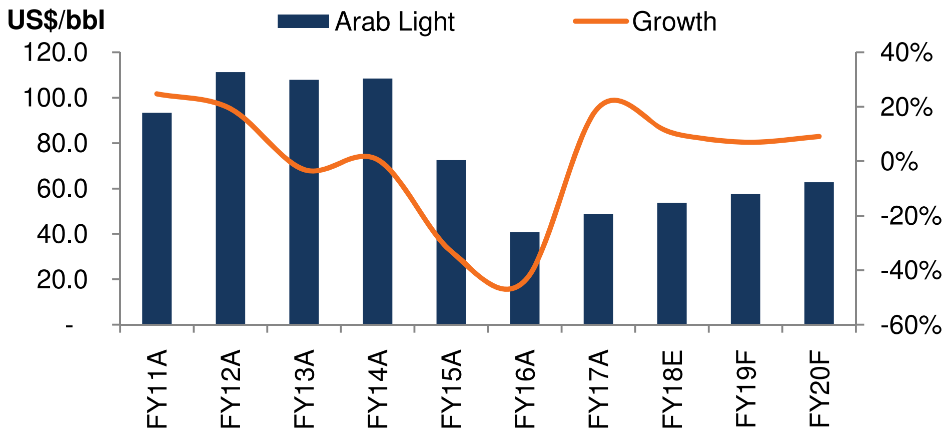
Non Operated Blocks

Well	Type	Block / Field	Firm / Contingent
Kohat	Exploratory	Kohat	Contingent Well
Zarbab X-1	Exploratory	Hala	Firm Planned Well
Qamar X-1	Exploratory	Hala	Firm Planned Well
Shah Bandar X-1	Exploratory	Shah Bandar	Firm Planned Well

Source: Company Accounts, Topline Research

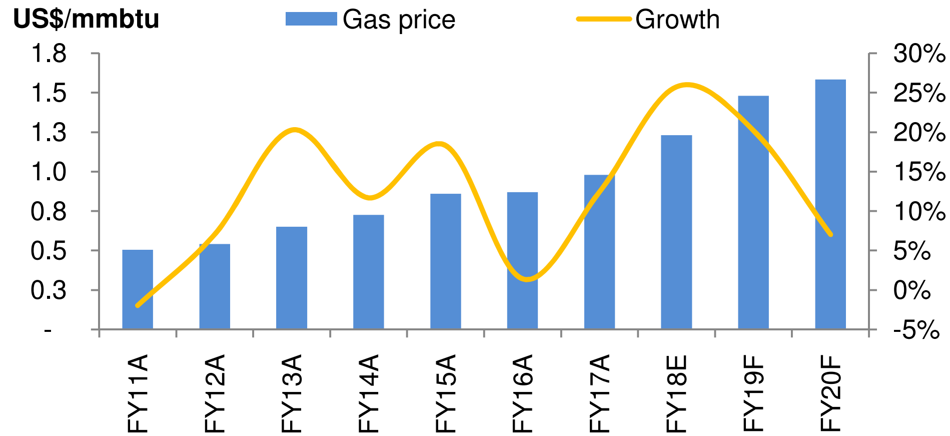
Higher Oil Prices and Unwinding of Discount to Boost Earnings

Higher Oil Prices to Support Growth



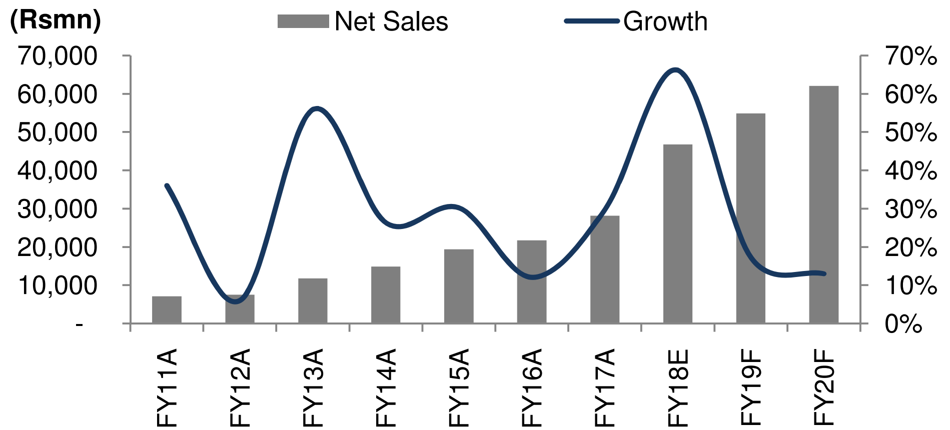
Source: Company Accounts, Topline Research

Unwinding of Mari Field Gas Price Discount



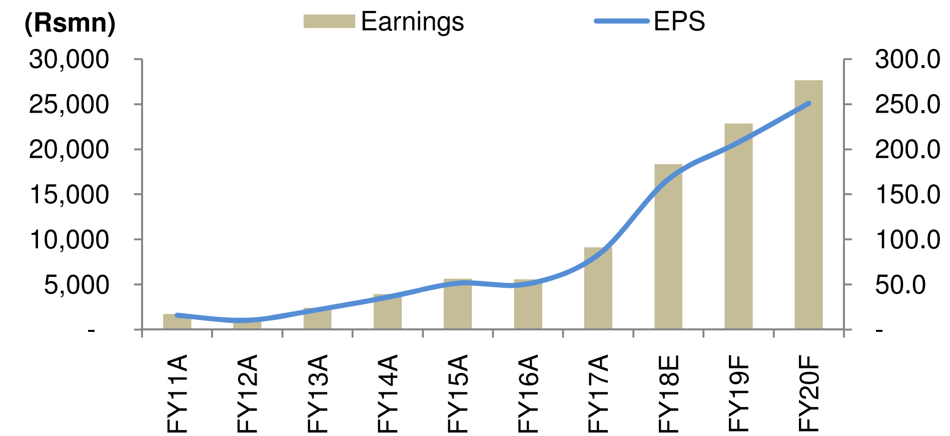
Source: Company Accounts, Topline Research

MARI: Revenues to Grow at 3-Year CAGR of 30%



Source: Company Accounts, Topline Research

MARI: Earnings to Grow at 3-Year CAGR of 44%



Source: Company Accounts, Topline Research

Valuation: DCF Based Value of Rs2,134 (Provides 44% Upside)

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2P Reserve Discounted Cash Flow Valuation

Rsmn	FY18E	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31-38F
Profit Before Tax	25,097	30,974	37,272	39,700	40,813	36,446	38,177	40,081	41,965	43,950	46,049	48,253	51,225	541,305
Exploration Cost	4,968	5,229	5,531	5,735	5,936	6,136	6,336	6,536	6,738	6,942	7,149	7,361	7,577	69,209
Depreciation	1,559	1,779	1,890	2,010	2,069	2,106	2,109	2,090	2,048	1,990	1,917	1,832	1,736	11,003
Financial Charges	107	324	548	783	1,054	1,377	1,621	1,852	2,090	2,353	2,645	2,969	3,327	45,957
EBITDAX	**31,732**	**38,306**	**45,242**	**48,227**	**49,872**	**46,065**	**48,242**	**50,558**	**52,841**	**55,235**	**57,760**	**60,413**	**63,864**	**667,474**
Net Chg in Working Capital	(1,952)	(1,487)	(1,624)	(1,162)	(996)	74	(1,046)	(1,082)	(1,118)	(1,156)	(1,195)	(1,234)	(1,275)	(11,832)
Net Capital Expenditure	(7,258)	(7,144)	(6,817)	(6,394)	(5,847)	(5,328)	(4,835)	(4,367)	(3,922)	(3,500)	(3,100)	(2,721)	(2,361)	(10,520)
Taxes Payable	(6,841)	(8,389)	(10,005)	(10,655)	(10,955)	(9,876)	(10,310)	(10,779)	(11,235)	(11,710)	(12,208)	(12,728)	(13,437)	(138,219)
Net Debt	236	(827)	(927)	(927)	(927)	(927)	(827)	-	-	-	-	-	-	-
Free Cash Flow 2P Reserves	**15,917**	**20,458**	**25,869**	**29,089**	**31,147**	**30,007**	**31,224**	**34,331**	**36,565**	**38,869**	**41,258**	**43,730**	**46,792**	**500,778**
NPV of 2P Reserves	15,006	16,918	18,760	18,504	17,380	14,687	13,401	12,925	12,076	11,260	10,481	9,745	9,146	54,437
NPV of 2P	**234,726**													
Shares Outstanding (mn)	110													
Value Per Share	**2,134**													

Source: Topline Research **Required Return=14%**

Regional Comparison

TOPLINE

Key Numbers: FY19F

Name	Country	Bloomberg Ticker	Mkt. Cap. (US$ mn)	PE (x)	DY (%)
MEDCO ENERGI INTERNASIONAL T	Indonesia	MEDC IJ	1,456	6.3	1.2
MARI PETROLEUM CO LTD*	Pakistan	MARI PA	1,483	7.2	0.3
HIBISCUS PETROLEUM BHD	Malaysia	HIBI MK	435	7.4	-
OIL & GAS DEVELOPMENT CO LTD*	Pakistan	OGDC PA	6,496	8.3	4.7
PAKISTAN OILFIELDS LTD*	Pakistan	POL PA	1,306	8.6	9.3
PAKISTAN PETROLEUM LTD*	Pakistan	PPL PA	3,752	8.6	5.6
GREAT EASTERN ENERG-GDR REGS	India	GEEC LN	124	9.1	-
OIL & NATURAL GAS CORP LTD	India	ONGC IN	40,511	9.7	4.0
OIL INDIA LTD	India	OINL IN	4,304	9.9	4.5
CNOOC LTD	China	883 HK	71,335	11.7	4.3
PTT EXPLOR & PROD PUBLIC CO	Thailand	PTTEP TB	13,803	14.2	3.3
SHANDONG XINCHAO ENERGY CO-A	China	600777 CH	4,008	15.6	0.3
REACH ENERGY BHD	Malaysia	REB MK	148	16.1	-
GEO-JADE PETROLEUM CORP-A	China	600759 CH	1,614	21.7	-
SINO GAS & ENERGY HOLDINGS L	China	SEH AU	292	42.2	-
Average				**13.1**	**2.5**

Source: Bloomberg, Topline Research ***Topline E&P Universe**

Government Planning to Offload its Stake

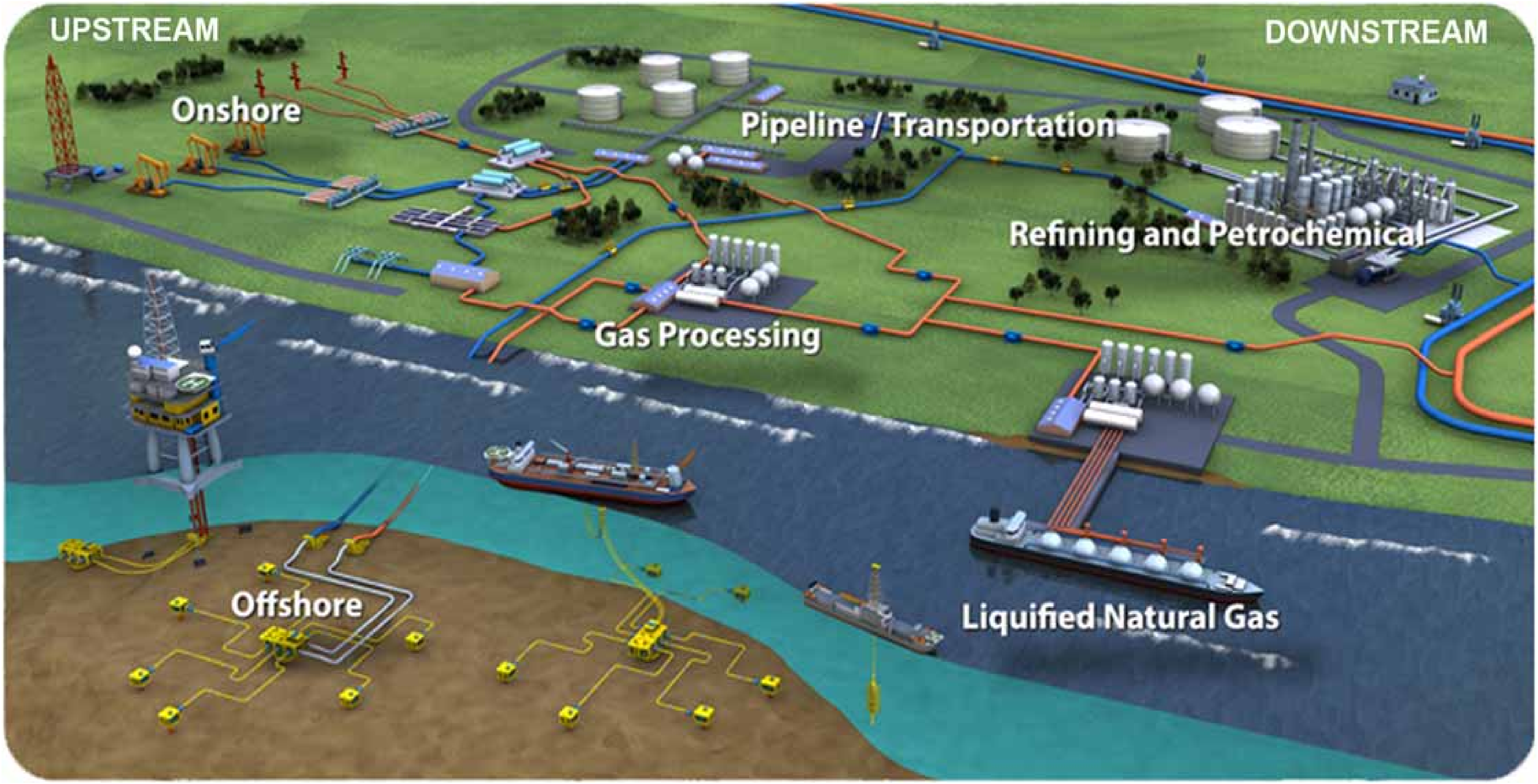
- The Government of Pakistan (GoP) is planning to sell its stake (18.39%; 20.27mn shares) in the company, which could potentially result in ~Rs30bn in revenues for GoP at current market price.
- The GoP is considering various options to divest its shareholding. Shares can therefore be either offered to the public through a Secondary Public Offering (SPO) or an offer to a local or foreign strategic investor could also be forthcoming. Sale of GoP stake can potentially increase the free float of MARI, which is currently only 22.05mn shares or 20.0% of outstanding shares.

Shareholding Pattern (as of Jun 2017)

	No. of Shares	% of Shares
Fauji Foundation	44,100,000	40.0%
OGDC	22,050,000	20.0%
Government	20,270,014	18.4%
Mutual Funds	11,066,996	10.0%
Local Individuals	4,147,190	3.8%
Non-Banking FIs	4,319,722	3.9%
Others	4,296,078	3.9%
Total	110,250,000	100%

Source: Company Accounts, Topline Research

Oil & Gas Industry Overview



Pakistan’s Oil & Gas Industry

- Pakistan's rapidly rising oil & gas demand has stimulated the need for large-scale exploration and expansion projects and investments to help boost oil and gas production. Currently, Pakistan is mainly dependent upon oil & gas for its energy generation. These two components of energy contribute 77.4% to the energy requirement of Pakistan.
- Domestic oil and condensate production which touched the 100,000bpd mark in 2014, currently stands at 93,000bpd, ~20% of Pakistan’s total demand. Although, there have been small scale oil and gas discoveries, no significant discovery has been made to reverse the downward trend. Pakistan's national oil reserves stood at 347bn barrels at end of Dec 2016, as per channel checks.
- Similarly, the forecast trajectory of natural gas volumes in terms of BOE although more than 7 times larger than oil, are not optimistic in the short term. Gas is the major source of energy in Pakistan with a well developed transmission infrastructure. The country’s gas production peaked at 4.3BCF per day (758K BOE per day) in 2012 and has since been in a declining phase, falling to around 4.0BCF per day by the end of 2014 and remains stagnated at levels of 3.9BCF today vs. Pakistan’s total gas demand of ~7BCF per day. The remaining recoverable gas reserves have also been sliding since peaking at 32.8 TCF in 2005 and stood at 21.2 TCF as of Dec 2016, as per channel checks.
- In order to promote LPG as a potential energy fuel, the Govt. of Pakistan deregulated the sector in 2000 to attract investment and give the LPG market a much needed boost. As a result, an investment of US$200mn has been made to develop LPG infrastructure.

Pakistan LNG Space

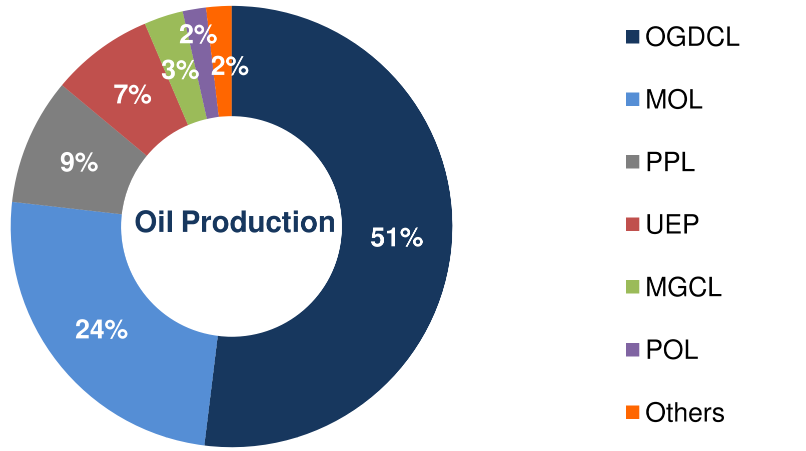
- Pakistan currently faces a gas short fall of over ~3BCF per day that is 75% of Pakistan's total gas production. In order to bridge this gap, government of Pakistan decided to import LNG in 2016. Pakistan State Oil (PSO) was nominated as the sole importer of LNG in Pakistan.
- PSO entered into Long term sale agreement (LSA) with Qatargas for import of LNG for 15-years. The pricing was set at 13.37% of average Brent prices of preceding 3-months. Pakistan initially started importing 500mmcfd of gas in FY16 which was later increased to 600mmcfd by the end of FY17.
- The imports were handled and re-gasified by Engro Elengy Terminal, Pakistan's first LNG terminal.
- The second LNG terminal 'Pakistan LNG Terminal' by Pakistan GasPort Consortium has also been inaugurated in Dec 2017 which will enable Pakistan to import another 600mmcfd of LNG. This will take our total LNG imports to 1,200mmcfd by the end of FY18, which makes around 30% of our total natural gas production.
- Government targets to double LNG imports to 2,400mmcfd by FY20 for which third LNG terminal is likely to be completed by FY19. Government has already mandated Sui companies to complete construction of RLNG III Pipeline within 2-2.5 years.
- Increasing imports of LNG could result in foreign exchange savings of US$1-1.5billion annually as it will likely replace expensive Furnace Oil. Furthermore, it could also bring down the overall cost of electricity generation in the country and improve its fuel mix.

Profitability of Pakistan's Listed E&P Companies in FY17

- **Profitability up 29% YoY:** During FY17 the profitability of the listed E&P companies depicted a surge of 29.1% YoY, clocking in at Rs120.5bn. The increase in earnings was due to a combination of higher prices and hydrocarbon production. Furthermore, oil and gas production of the listed E&P Companies improved by 9% and 3% YoY to 68,443bpd and 2,654mmcfd, respectively. PPL delivered the best earnings growth (107%) YoY led by retrospective impact of revised pricing of Sui field. While Oil and Gas Development Company (OGDC), Pakistan Oilfields (POL) and MARI depicted earnings growth of 6%, 18% and 51%, respectively as a result of the aforementioned reasons.
- **Oil Production up 8.5% YoY:** In FY17 oil production of listed E&P companies settled in at 68,443bpd, up by 8.5% YoY. The upturn in oil production can be credited to initiation of production from Mardankel and KPD-TAY coupled with improved production flows from Naspha, Adhi, Manzalai and Adhi among others. To further bifurcate, OGDC, PPL, POL recorded growth of 8%, whereas MARI's growth was 17% (highest amongst peers) driven by low base impact and higher production flows from MARI and Sujjal.
- **Gas Production up 2.6% YoY:** Whereas the uptick in gas production was a result of augmented production from Makori East, Mardankel, MARI, Adhi and Kandkhot. Pertinently, during FY17, MARI showed the highest oil production growth rate of 5% YoY, while PPL and POL recorded increase of 4%. However, OGDC's production remained flattish at 1,051mmcfd.

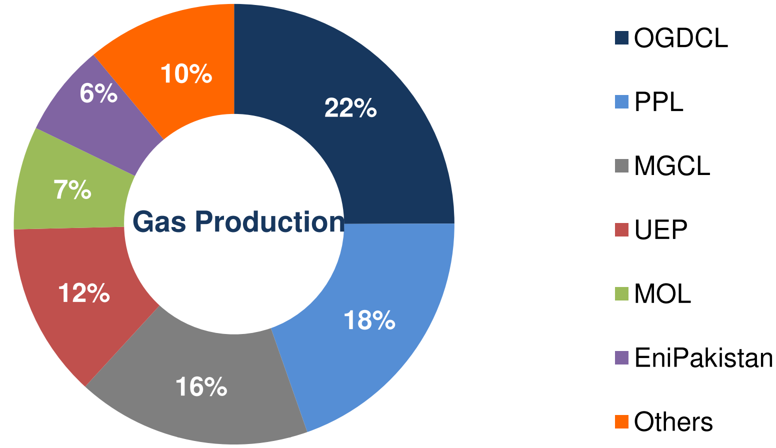
Pakistan E&P Sector at a Glance – FY17

Pakistan E&P: Oil Production



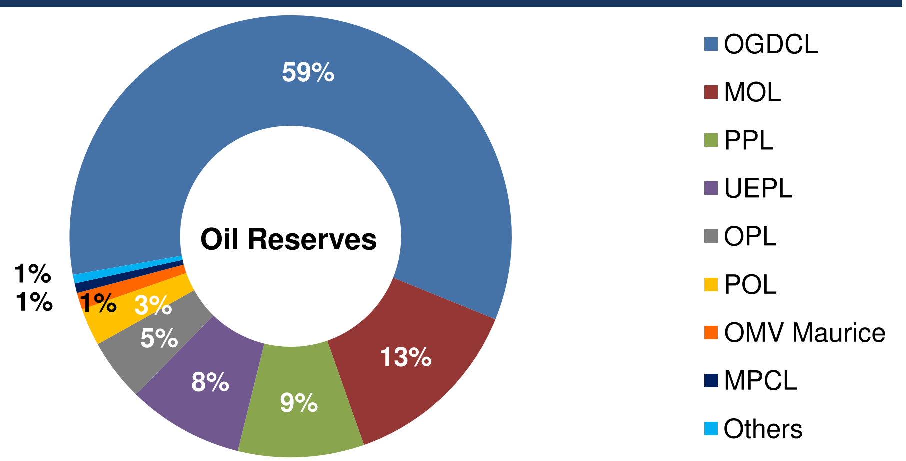
Source: Company Accounts, Topline Research

Pakistan E&P: Gas Production



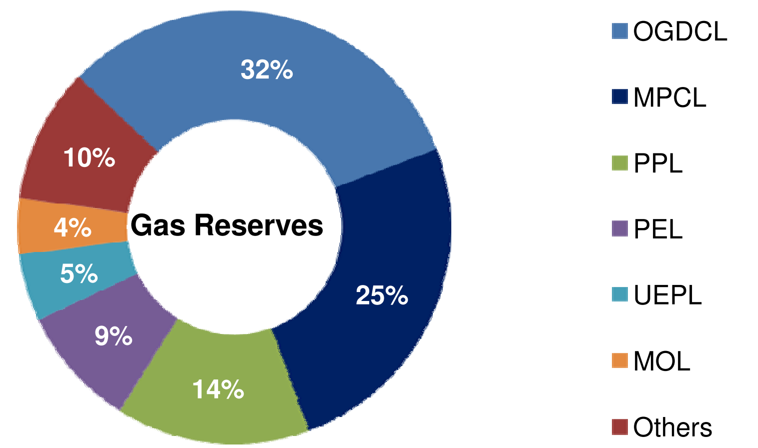
Source: Company Accounts, Topline Research

Pakistan E&P: Oil Reserves



Source: Company Accounts, Topline Research

Pakistan E&P: Gas Reserves



Source: Company Accounts, Topline Research

MARI: Financial Snapshot

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Income Statement					
Rsmn	**FY16A**	**FY17A**	**FY18E**	**FY19F**	**FY20F**
Net sales	21,713	28,175	46,814	54,903	62,041
Gross profit	18,963	24,592	40,860	47,920	54,150
Royalty	2,750	3,584	5,954	6,983	7,891
Operating expense	5,764	7,450	8,866	9,912	10,876
Exploration cost	6,462	3,881	4,968	5,229	5,531
Other income	341	233	635	1,422	2,795
Profit before tax	6,088	11,149	25,097	30,974	37,272
Profit After tax	5,578	9,136	18,257	22,584	27,268
EPS (Rs)	**50.6**	**82.9**	**165.6**	**204.8**	**247.3**

Source: Company Accounts, Topline Research

Balance Sheet					
Rsmn	**FY16A**	**FY17A**	**FY18E**	**FY19F**	**FY20F**
Non-Current Assets	26,832	28,291	33,198	37,699	41,644
Current Assets	32,727	65,304	116,061	149,976	187,320
Total Assets	**59,560**	**93,595**	**149,259**	**187,675**	**228,963**
Equity	16,966	25,538	43,221	65,232	91,927
Non-Current Liabilities	7,552	11,657	13,509	13,969	14,581
Current Liabilities	35,017	56,401	92,529	108,474	122,456
Total Equity & Liabilities	**59,535**	**93,595**	**149,259**	**187,675**	**228,963**

Source: Company Accounts, Topline Research

Assumptions					
	FY16A	**FY17A**	**FY18E**	**FY19F**	**FY20F**
Arab Light Crude (US$/bbl)	41	49	54	57	63
Rs/US$	40.7	48.7	53.7	57.5	62.7
Mari Field Gas Price (US$mmbtu)	0.9	1	1.2	1.5	1.6
Growth		12%	26%	20%	7%
Volume (boed)	115,643	120,452	126,329	126,190	126,599
Growth		4%	5%	0%	0%

Key Ratios					
Others					
Earnings Growth	-1%	64%	100%	24%	21%
PE at Rs1490	29.1x	17.8x	8.9x	7.2x	6.0x
Dividend Yield	0.3%	0.4%	0.4%	0.4%	0.4%
PBV	9.6	6.4	3.8	2.5	1.8
Gross Margin	87%	87%	87%	87%	87%
Net Margin	26%	32%	39%	41%	44%
Pretax margin	28%	40%	54%	56%	60%
Effective Tax Rate	8%	18%	27%	27%	27%
Return on Assets	9%	12%	15%	13%	13%
Debt to Equity	7%	20%	12%	7%	4%
Current Ratio	0.9	1.2	1.3	1.4	1.5
Quick Ratio	0.4	0.8	1.1	1.2	1.4

Source: Company Accounts, Topline Research

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Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

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Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

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