Mari Petroleum Co. (MARI)

2QFY18 EPS Rs29, +73% YoY (-11% QoQ); Cash dividend of Rs3.5/share

Below expectations

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Higher gas price boost revenues

MARI: Financial Highlights							
Rsmn	**2QFY18**	**2QFY17**	**YoY**	**QoQ**	**1HFY18**	**1HFY17**	**YoY**
Net Sales	8,682	5,797	50%	-7%	18,017	13,060	38%
Royalty	1,101	725	52%	-7%	2,288	1,633	40%
Operating Expenses	2,730	1,925	42%	41%	4,662	3,514	33%
Exploration & Prospecting Exp.	1,110	423	163%	353%	1,356	897.94	51%
Other Charges	315	118	168%	-9%	660	405	63%
Other Income	667	(94)	NM	NM	308	(120)	-357%
Operating Profit	4,091	2,512	63%	-22%	9,359	6,490	44%
Finance Income	184	54	243%	55%	304	79	282%
Finance Cost	313	208	50%	6%	609	406	50%
Profit before Tax	3,963	2,357	68%	-22%	9,054	6,163	47%
Taxation	760	511	49%	-49%	2,238	1,551	44%
Profit after Tax	3,202	1,846	73%	-11%	6,815	4,612	48%
EPS	**29.0**	**16.7**			**61.8**	**41.8**	

Source: PSX, Topline Research

- MARI reported earnings of Rs3.2bn (EPS Rs29/share) in 2QFY18, up 73% YoY, slightly below expectations due to higher expenses.
- Revenues registered a considerable growth of 50% YoY during the outgoing quarter thanks to 1) higher Arab Light oil prices, up 25%, 2) unwinding of entitlement factor of Mari gas field price (~80% in 2HFY18 vs. ~67% in 2HFY17), 3) higher gas production from Mari field, up ~3% to ~632mmcfd and 3) higher price benefit on incremental production (production exceeding 10% from 525mmcfd is eligible for higher pricing under PP2012) in 2QFY18.

Higher gas price boost revenues

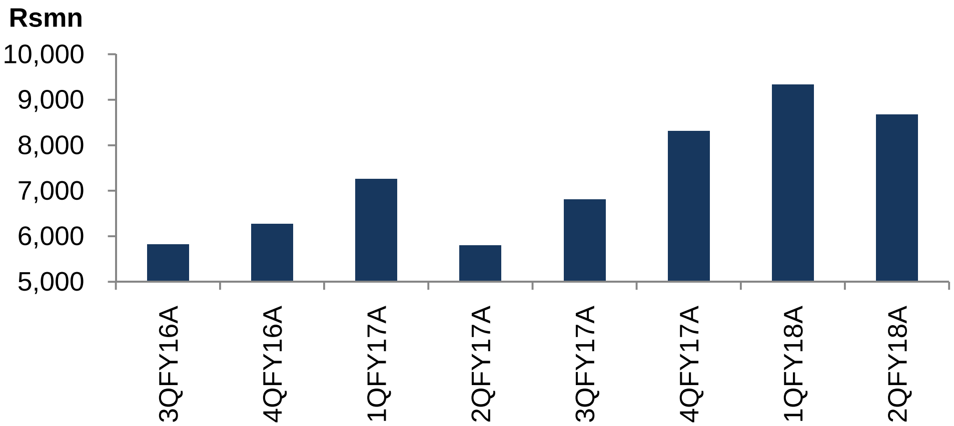
- Operating charges grew by 42% YoY to Rs2.7bn in 2QFY18.
- MARI booked exploration expenses of Rs1.1bn, up 2.6x during the outgoing quarter. On sequential basis, exploration expenditures were up 4.5x.
- We flag 1) inability to meet set benchmark of incremental production (levels exceeding by 10% from benchmark 525mmcfd gas) to avail higher pricing, 2) slowdown in demand from Fertilizer sector (~80% of fertilizer production depends on gas supplied by MARI), 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

	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	22.0	35.8	51.3	50.6	82.9
Earnings Growth	0%	63%	43%	-1%	64%
PE at Rs1541.6	70.2	43.1	30.1	30.5	18.6
Dividend Yield	2%	0%	0%	0%	0%
ROE	18%	23%	49%	33%	36%
PBV	12.5	10.1	14.8	10.0	6.7

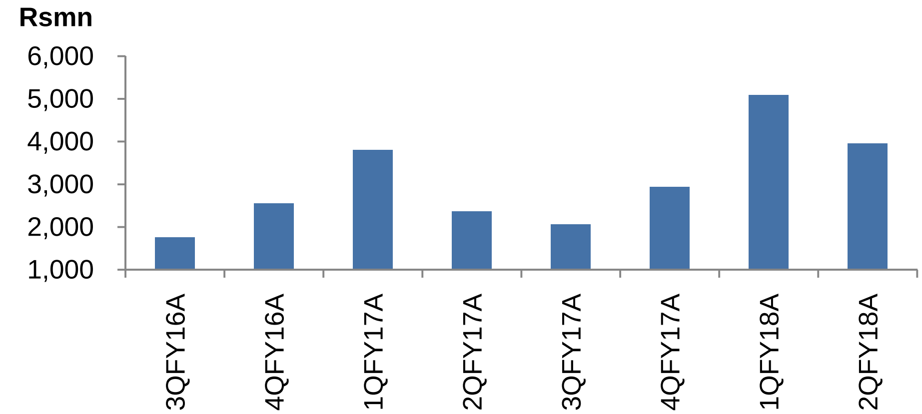
Source: Company Accounts, Topline Research

MARI: Quarterly Sales



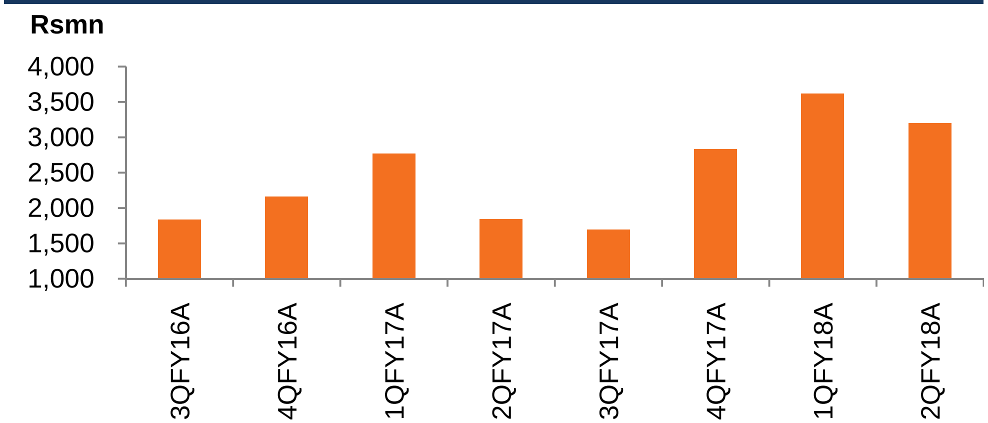
Source: Company Accounts, Topline Research

MARI: Quarterly Profit Before Tax



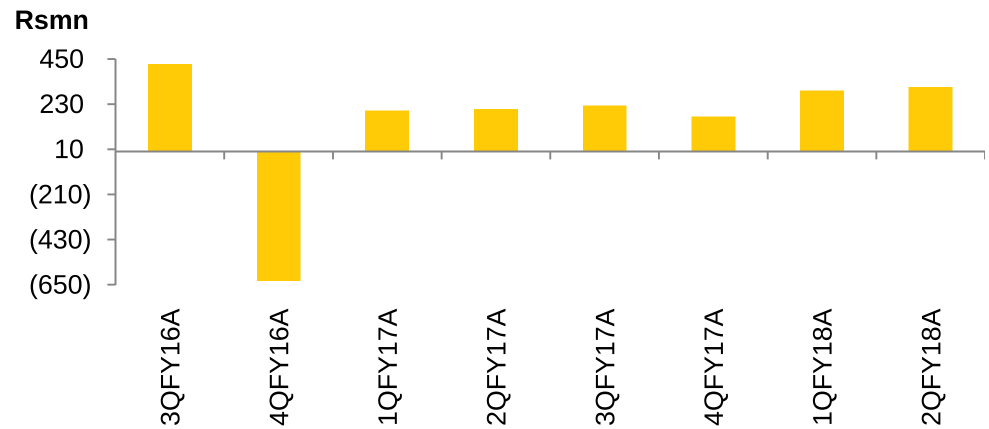
Source: Company Accounts, Topline Research

MARI: Quarterly Profit After Tax



Source: Company Accounts, Topline Research

MARI: Financial Expenses



Source: Company Accounts, Topline Research

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

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