

# MARI

## MARI - 6MFY20 Result Review: BUY Stance Maintained

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MARI has announced its 2QFY20 result where it posted profit after tax of Rs 14.7bn (EPS: Rs 110.55) in 6MFY20 as compared to profit after tax of Rs 11.1bn (EPS: Rs 82.89) in same period last year, up by 33.4% YoY.

The company has posted the revenue of Rs 34.5bn against Rs 28.9bn in SPLY, recording a growth of 19.2% YoY. We note that this growth is attributed to the hike in wellhead gas price of MARI field and depreciation of PKR against USD during the period.

Operating cost has been increased by 13.4% YoY to Rs 6.4bn as compared to Rs 5.7bn during SPLY. However, the operating cost to sales ratio has been declined by 1 ppt. Furthermore, the exploration cost has been increased by 39% YoY to Rs 3.5bn as compared to Rs 2.5bn during SPLY on account of the activities related to the collection of seismic data from new fields.

Finance cost has been increased by 99.3% YoY to Rs 492mn due to higher provision of decommissioning cost. Contrarily, the finance income has massively been increased by 400% YoY to Rs 2.6bn on account of higher interest rates.

Lastly, lower effective taxation of 29.7% in 6MFY20 as compared to 32.7% during SPLY also contributed in the upsurge of the eps.

MARI is currently trading at FY20E PE of 6.55x. We maintain our **BUY** stance on the script with a DCF based Dec-20 TP of Rs 1,835 which provides an upside potential of 27%. To recall, the dividend is capped till Jun 2024 under the new crude oil linked pricing formula.

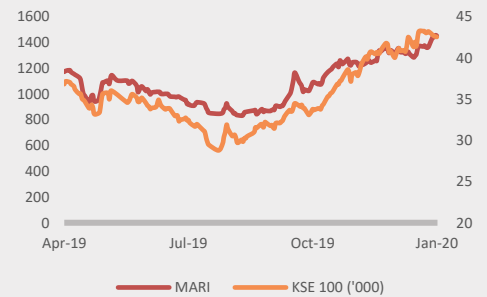
Rupees' millions	2QFY20	2QFY19	YoY	6MFY20	6MFY19	YoY
Net Sales	16,702	14,646	14.0% ▲	34,551	28,987	19.2% ▲
Operating Cost	-3,158	-2,889	9.3% ▲	-6,412	-5,657	13.4% ▲
Exploration Cost	-1,469	-971	51.3% ▲	-3,512	-2,527	39.0% ▲
Other Charges	-708	-612	15.6% ▲	-1,517	-1,199	26.5% ▲
<b>Operating Profit</b>	<b>9,142</b>	<b>8,449</b>	<b>8.2% ▲</b>	<b>18,916</b>	<b>16,170</b>	<b>17.0% ▲</b>
Finance Income	1,379	336	310.4% ▲	2,562	512	400.4% ▲
Finance cost	-243	-51	377.3% ▲	-492	-247	99.3% ▲
Profit Before Taxation	10,278	8,734	17.7% ▲	20,987	16,435	27.7% ▲
Taxation	-2,993	-2,818	6.2% ▲	-6,239	-5,377	16.0% ▲
<b>Profit After Taxation</b>	<b>7,285</b>	<b>5,916</b>	<b>23.1% ▲</b>	<b>14,748</b>	<b>11,058</b>	<b>33.4% ▲</b>
<b>Earnings Per Share</b>	<b>54.61</b>	<b>44.35</b>	<b>23.1% ▲</b>	<b>110.55</b>	<b>82.89</b>	<b>33.4% ▲</b>
<b>Dividend</b>	<b>4.10</b>	<b>4.00</b>		<b>4.10</b>	<b>4.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Operating Cost to Sales	-18.9%	-19.7%	0.8% ▼	-18.6%	-19.5%	1.0% ▼
Exploration Cost to Sales	-8.8%	-6.6%	2.2% ▲	-10.2%	-8.7%	1.4% ▲
Other Charges to Sales	-4.2%	-4.2%	0.1% ▲	-4.4%	-4.1%	0.3% ▲
Effective Taxation	-29.1%	-32.3%	3.1% ▼	-29.7%	-32.7%	3.0% ▼
<b>Net Margin</b>	<b>43.6%</b>	<b>40.4%</b>	<b>3.2% ▲</b>	<b>42.7%</b>	<b>38.1%</b>	<b>4.5% ▲</b>

Source: ACPL Research, Company Financials

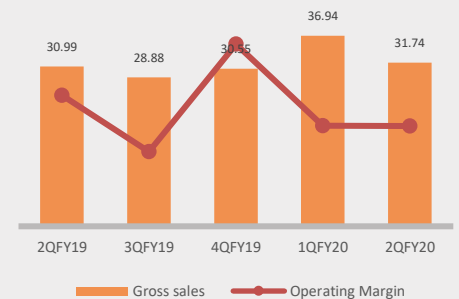
### Key Statistics

Symbol	MARI
TP - Dec 20	1,835.00
LDCP	1,449.67
Upside (%)	26.58
Free Float ('mn)	27
Market Cap. (Rs.'mn)	193,390

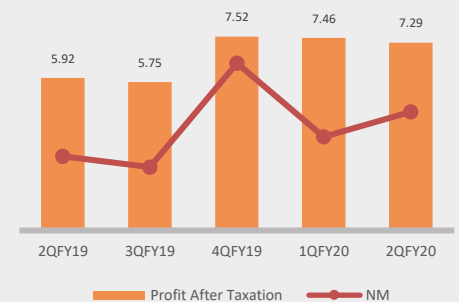
### MARI vs KSE 100



### Sales (Rs'bn) vs Operating Margin



### PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Gross sales	88,240	94,998	96,776	100,043	117,542	137,587	141,356	144,364	148,176
Gas development surcharge	-18,018	-25,860	-19,581	-11,030	-9,280	-17,886	-18,376	-18,767	-19,263
General sales tax	-12,371	-13,509	-13,746	-11,668	-12,098	-13,483	-13,853	-14,148	-14,521
Excise duty	-1,630	-1,694	-1,794	-1,907	-1,888	-1,789	-1,838	-1,877	-1,926
Gas infrastructure development	-36,050	-31,933	-33,480	-34,762	-34,827	-35,222	-36,187	-36,957	-37,933
Wind fall levy	-795	-288	0	0	0	0	0	0	0
(Deficit) / surplus under the Gas Price Agreement	0	0	0	0	0	0	0	0	0
<b>Net Sales</b>	<b>19,376</b>	<b>21,713</b>	<b>28,175</b>	<b>40,676</b>	<b>59,448</b>	<b>69,206</b>	<b>71,102</b>	<b>72,615</b>	<b>74,532</b>
Royalty	-2,519	-2,750	-3,584	-5,181	-7,575	-8,723	-8,962	-9,153	-9,394
Operating Expenses	-5,376	-5,791	-7,450	-9,985	-11,713	-12,851	-13,203	-13,484	-13,840
Exploration and prospecting expenditure	-3,194	-6,462	-3,881	-3,690	-4,308	-7,031	-6,091	-3,129	-3,212
Other Charges	-499	-502	-726	-1,448	-2,436	-3,041	-3,124	-3,190	-3,275
Other income / Expenses	35	587	-820	-207	326	316	325	332	341
<b>Profit from operations</b>	<b>7,823</b>	<b>6,795</b>	<b>11,715</b>	<b>20,166</b>	<b>33,743</b>	<b>37,878</b>	<b>40,048</b>	<b>43,991</b>	<b>45,153</b>
Finance Income	517	341	233	766	1,767	5,132	5,273	5,385	5,527
Finance Cost	-1,788	-574	-798	-640	-802	-911	-912	-912	-911
<b>Profit before income tax</b>	<b>6,552</b>	<b>6,561</b>	<b>11,149</b>	<b>20,292</b>	<b>34,708</b>	<b>42,099</b>	<b>44,408</b>	<b>48,465</b>	<b>49,768</b>
Income tax expense	-902	-510	-2,013	-4,917	-10,381	-12,592	-13,283	-14,496	-14,886
<b>Profit for the year</b>	<b>5,650</b>	<b>6,051</b>	<b>9,136</b>	<b>15,374</b>	<b>24,327</b>	<b>29,507</b>	<b>31,126</b>	<b>33,969</b>	<b>34,883</b>
EPS	42.4	45.4	68.5	115.2	182.4	221.2	233.3	254.6	261.5
EBITDA	6,647	5,360	10,170	18,526	31,744	35,568	37,377	40,903	41,579

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Gross sales	25.2%	7.7%	1.9%	3.4%	17.5%	17.1%	2.7%	2.1%	2.6%
Gas development surcharge	-9.7%	43.5%	-24.3%	-43.7%	-15.9%	92.7%	2.7%	2.1%	2.6%
General sales tax	24.3%	9.2%	1.7%	-15.1%	3.7%	11.4%	2.7%	2.1%	2.6%
Excise duty	5.3%	3.9%	5.9%	6.2%	-1.0%	-5.3%	2.7%	2.1%	2.6%
Gas infrastructure development	51.9%	-11.4%	4.8%	3.8%	0.2%	1.1%	2.7%	2.1%	2.6%
Wind fall levy	53.9%	-63.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(Deficit) / surplus under the Gas Price Agreement	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Sales</b>	<b>30.2%</b>	<b>12.1%</b>	<b>29.8%</b>	<b>44.4%</b>	<b>46.1%</b>	<b>16.4%</b>	<b>2.7%</b>	<b>2.1%</b>	<b>2.6%</b>
Royalty	31.1%	9.2%	30.3%	44.6%	46.2%	15.2%	2.7%	2.1%	2.6%
Operating Expenses	-4.7%	7.7%	28.7%	34.0%	17.3%	9.7%	2.7%	2.1%	2.6%
Exploration and prospecting expenditure	2.5%	102.3%	-39.9%	-4.9%	16.8%	63.2%	-13.4%	-48.6%	2.6%
Other Charges	54.6%	0.6%	44.7%	99.3%	68.2%	24.8%	2.7%	2.1%	2.6%
Other income / Expenses	-95.8%	1573.5%	-239.7%	-74.8%	-257.7%	-3.0%	2.7%	2.1%	2.6%
<b>Profit from operations</b>	<b>66.0%</b>	<b>-13.1%</b>	<b>72.4%</b>	<b>72.1%</b>	<b>67.3%</b>	<b>12.3%</b>	<b>5.7%</b>	<b>9.8%</b>	<b>2.6%</b>
Finance Income	-21.0%	-34.1%	-31.6%	228.6%	130.8%	190.4%	2.7%	2.1%	2.6%
Finance Cost	80.9%	-67.9%	39.0%	-19.8%	25.3%	13.6%	0.1%	0.0%	0.0%
<b>Profit before income tax</b>	<b>49.7%</b>	<b>0.1%</b>	<b>69.9%</b>	<b>82.0%</b>	<b>71.0%</b>	<b>21.3%</b>	<b>5.5%</b>	<b>9.1%</b>	<b>2.7%</b>
Income tax expense	107.6%	-43.4%	294.8%	144.2%	111.1%	21.3%	5.5%	9.1%	2.7%
<b>Profit for the year</b>	<b>43.3%</b>	<b>7.1%</b>	<b>51.0%</b>	<b>68.3%</b>	<b>58.2%</b>	<b>21.3%</b>	<b>5.5%</b>	<b>9.1%</b>	<b>2.7%</b>
EPS	43.3%	7.1%	51.0%	68.3%	58.2%	21.3%	5.5%	9.1%	2.7%
EBITDA	78.9%	-19.4%	89.8%	82.2%	71.3%	12.0%	5.1%	9.4%	1.7%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	21.96	22.86	29.11	40.66	50.58	50.30	50.30	50.30	50.30
NP Margin	%	6.40	6.37	9.44	15.37	20.70	21.45	22.02	23.53	23.54
OP Margin	%	8.87	7.15	12.10	20.16	28.71	27.53	28.33	30.47	30.47
ROE	%	49.15	35.67	35.78	38.25	38.25	33.80	26.86	23.26	19.50
ROA	%	8.61	10.16	9.76	10.66	11.05	10.60	8.94	8.73	8.31
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.06	0.93	1.16	1.19	1.25	1.61	1.68	1.87	2.13
Quick	x	0.95	0.79	1.09	1.16	1.20	1.53	1.61	1.80	2.05
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Receivables Days		133.9	103.4	205.4	347.8	462.7	550.2	550.2	550.2	550.2
Payables Days		194.3	172.7	293.5	576.5	881.9	749.3	886.6	860.8	773.9
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
DPS		5.22	5.10	5.20	6.00	6.00	7.28	7.68	8.38	8.60
Div. Yield	%	0.36	0.35	0.36	0.41	0.41	0.50	0.53	0.58	0.59
Dividend Cover	x	8.1	8.9	13.2	19.2	30.4	30.4	30.4	30.4	30.4
Retention	%	-8.3	8.1	12.0	-2.6	4.3	4.3	4.3	4.3	4.3
Payout	%	108.3	91.9	88.0	102.6	95.7	95.7	95.7	95.7	95.7
No. of Shares	('m)	133.4	133.4	133.4	133.4	133.4	133.4	133.4	133.4	133.4
EPS		42.4	45.4	68.5	115.2	182.4	221.2	233.3	254.6	261.5
BVPS		86	127	191	301	477	654	869	1095	1341
P/E	x	34.23	31.96	21.17	12.58	7.95	6.55	6.21	5.69	5.54
Sales per share		145	163	211	305	881	1031	1060	1082	1111
P/BV	x	16.82	11.40	7.57	4.81	3.04	2.22	1.67	1.32	1.08
P/S	x	9.98	8.91	6.86	4.75	1.65	1.41	1.37	1.34	1.31
Solvency Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Total Debt to Equity	x	0.95	0.07	0.20	0.00	0.00	0.00	0.00	0.00	0.00
L.T Debt to Equity	x	0.81	0.06	0.16	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	5.43	4.66	12.43	14.97	32.72	44.29	47.21	49.71	54.16

Source: ACPL Research, Company Financials

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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