MARI | Mari Petroleum Company Limited

Tuesday, November 12, 2024

INITIATING COVERAGE

We initiate coverage on Mari Petroleum Company Limited (MARI) with a target price of PkR534/share using a run-out DCF for the company's base reserves and implicit exploration option to reflect the company's future work program. Reserve Replacement Ratio (RRR) of 432% in 2024 has extended reserve life to 17yrs – the highest within our coverage cluster. RRR over the last five years has averaged over 100% supporting strong cash generation underpinning a focused exploration program over the next 5 years across a high impact license portfolio. Mari's gas allocations outside of the network have shielded the company from circular debt exposure and measures to enhance revenue through sustainability initiatives such as carbon offsets and diversification into data centers can provide upside risk to earnings outlook. We forecast a 5-year earnings CAGR of ~9% across our forecast range FY25-FY29. Over the past 12 months, MARI has outperformed the broader market by 17% and we believe outperformance is likely to continue as earnings reflect development monetization and reserve additions – Buy!

Extensive Development Program: MARI has undertaken a Swings Volume Project under key structures/formations across the MARI Development & Production Lease (MARI D&PL). The multi-faceted development program is curated for each formation and is leading to reserve upgrades/additions as well as enhancing production flow above concession benchmarks. Beyond sustaining production plateau with pressure enhancement and extending reserve life swing volumes produced over benchmark production targets generate reflective fiscal pricing under the Petroleum Policy (PP) – 12.

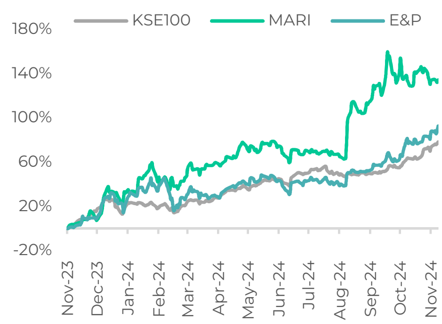
Exploration Drives Upside: We add an implicit exploration option to value MARI's targeted exploration program. Acquisition of potential high impact exploration acreage and an overall success ratio that averages ahead of the upstream sector supports our view. Exploration program over the next five years and proximity mapping the exploration license over high risk and high impact "Frontier" zones lends confidence in averaging out the company's RRR at 100% over the next 5 years. Our exploration option model adds PkR50/share and forms 9% of MARI's fair value at PkR534/share.

Diversification Drive: Mari is undertaking a carbon capture and storage facility to sequester CO_2 emissions from production in Mari Deep. While initial information remains limited we assume CO_2 will not be repurposed and approved credits generated will be traded in the voluntary carbon markets or through pre-assigned offtake agreements. Mari is also diversifying into high energy utilization data centers for AI/HPC to service the mining industry with a PkR10bn capital outlay. Mining is at the heart of the Government's SIFC to drive FDI. MARI's diversification drive remains outside of our base case earnings outlook but has upside risk.

Valuation and Price Performance: Our run-out DCF on base reserves + exploration option for MARI is PkR534/share offering an upside of 29% from current market price. Over the last 12 months MARI has outperformed the broader market and peer exploration companies by 17% and 25%, respectively. We expect MARI to continue outperforming peers with monetization of recent discoveries supporting earnings outlook as well as an exploration program that can deliver on future reserve upgrades.

MARI Performance	Buy
Price	413.50
Target price	534.0
Upside (%)	29.1
ADT Avg 1Y (000)	278.6
ADTV Avg 1Y (PKR mn)	292.2
ADTV Avg 1Y (USD mn)	1.1
Mkt Cap (PKR mn)	492,771.5
Share Capital (mn)	1,773.5

MARI vs KSE100



Source: PSX, Ktrade Research

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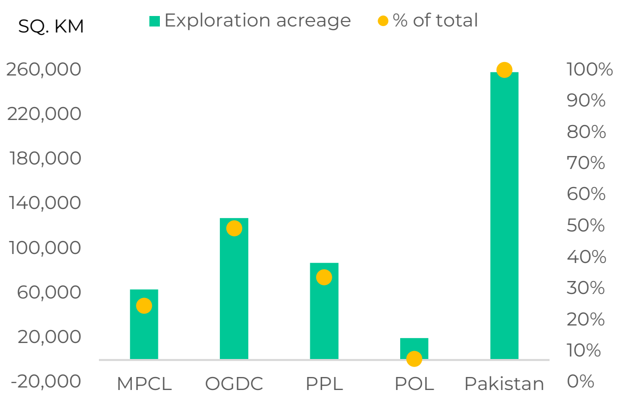
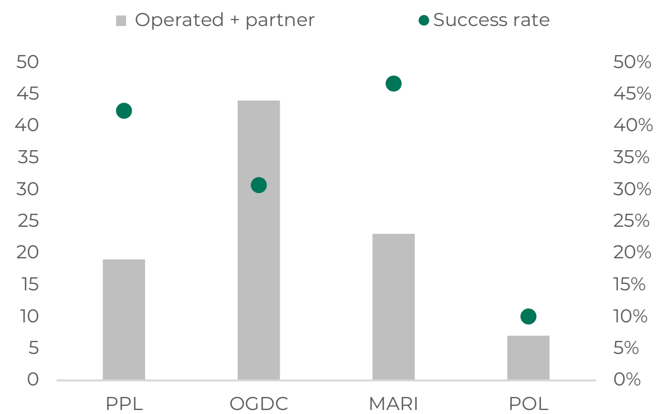
		MARI	OGDC	POL	PPL	Average
Rating		Buy		"Under review"		
Current price		410.00	183.22	576.67	147.62	
Number of shares (mn)		1,201	4,301	284	2,721	
Market cap (USDmn)		1,788	2,932	590	1,456	
3M ADVT (USDmn)		2.2	3.9	0.7	2.9	
Finding & Dev cost/bbl (US$)	2024a	1.4	6.4	-	15.7	5.9
Finding cost/bbl (US$)	2024a	0.7	3.1	-	7.0	2.7
Production cost/bbl (US$)	2024a	2.2	5.6	3.7	2.9	3.6
EV/BOE (US$)		38	34	25	23	
EBITDAX/BOE (US$)		11	20	25	18	
Reserves life (years)		17	14	5	10	
P/E (x)	2023a	8.9	3.7	4.5	4.2	5.3
	2024a	6.5	3.9	4.2	3.6	4.6
	2025e	6.7		"Under review"		6.7
	2026e	6.0				6.0
P/B (x)	2023a	3.0	0.8	2.4	0.8	1.7
	2024a	2.2	0.7	2.0	0.6	1.4
	2025e	2.0		"Under review"		2.0
	2026e	1.6				1.6
Dividend yield (%)	2023a	4%	4%	14%	2%	6%
	2024a	6%	5%	16%	4%	8%
	2025e	5%		"Under review"		5%
	2026e	6%				6%
EV/EBITDA (x)	2023a	5.0	1.8	1.1	1.3	2.3
	2024a	3.8	2.0	1.0	1.3	2.0
	2025e	2.2		"Under review"		2.2
	2026e	2.0				2.0
EV/EBITDAX (x)	2023a	4.2	1.7	1.0	1.2	2.0
	2024a	3.4	2.0	1.0	1.2	1.9
	2025e	2.1		"Under review"		2.1
	2026e	1.8				1.8
ROE (%)	2023a	33%	21%	54%	18%	32%
	2024a	34%	17%	47%	18%	29%
	2025e	29%		"Under review"		29%
	2026e	27%				27%
ROA (%)	2023a	22%	16%	23%	12%	18%
	2024a	22%	13%	22%	13%	18%
	2025e	19%		"Under review"		19%
	2026e	18%				18%
Earnings growth (%)	2023a	70%	68%	41%	83%	65%
	2024a	38%	-7%	7%	17%	14%
	2025e	-3%		"Under review"		-3%
	2026e	11%				11%
Production growth - Gas (%)	2023a	3%	-7%	-8%	1%	-3%
	2024a	14%	-6%	-5%	-13%	-2%
	2025e	6%		"Under review"		6%
	2026e	10%				10%
Production growth - Oil (%)	2023a	-17%	-8%	-9%	-3%	-9%
	2024a	-19%	2%	-5%	-5%	-7%
	2025e	67%		"Under review"		67%
	2026e	17%				17%

Chart Bank – Listed Exploration Sector

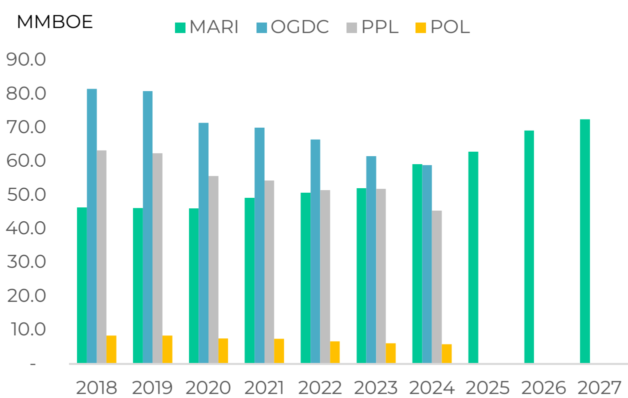
Exploration acreage held by four listed E&P companies in relation to total acreage under exploration. Nationwide – own operated + partner operated



Exploratory wells drilled over the last five years taken from PPIS/LMKR. Operated + Partner with average success rates for each company

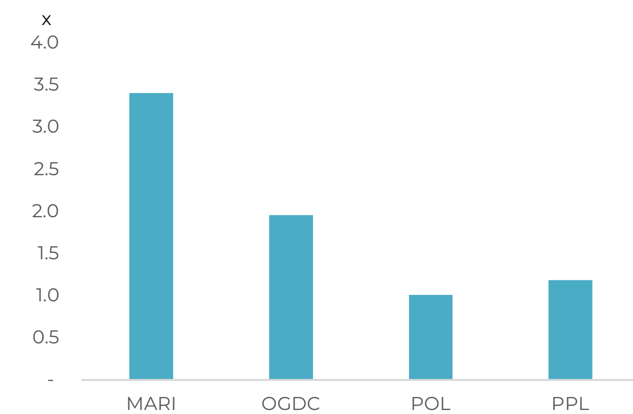


Production profile – Mari's production has shown consistent growth whereas peer group production has declined.

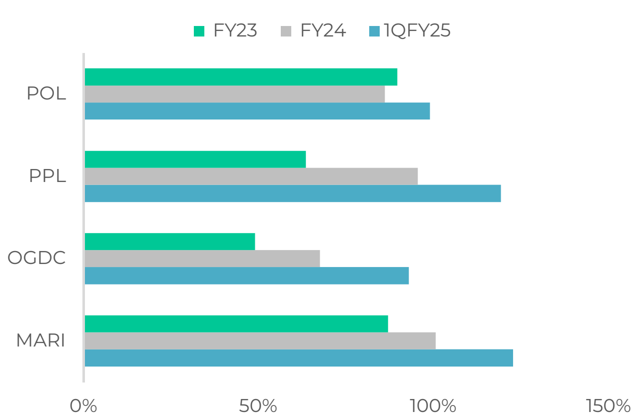


*assumed 1,000 btu/scf

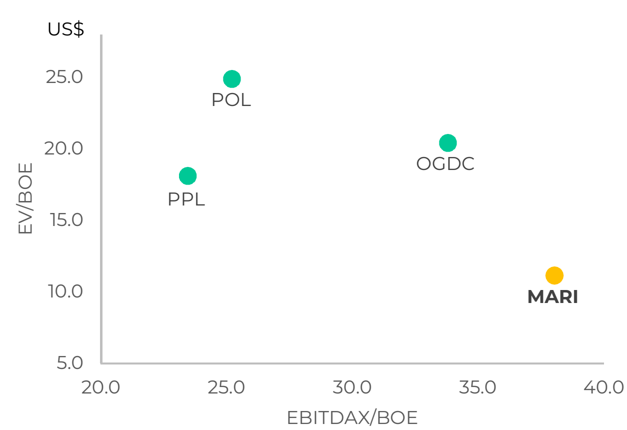
EV/EBITDAX – Mari trades at a higher multiple compared to peers which we believe is due to its higher exploratory success rate



Mari has achieved close to 100% cash collection during a given period compared to peers – lower exposure to circular debt – Peer group cash collection is improving



EV/BOE vs EBITDAX/BOE – Mari's EV/BOE is at a discount to peers - EBITDAX/BOE is higher reflecting a exploration success



Source: LNKR, PPIS, Company Accounts, Ktrade Research

Extensive Development Program: MARI has undertaken a Swings Volume Project under key structures/formations across the MARI Development & Production Lease (MARI D&PL). The multi-faceted development program is curated for each formation and is leading to reserve upgrades/additions as well as enhancing production flow above concession benchmarks. Beyond sustaining production plateau with pressure enhancement and extending reserve life swing volumes produced over benchmark production targets generate reflective fiscal pricing under the Petroleum Policy (PP) – 12.

"The multi-faceted development program is curated for each formation and is leading to reserve upgrades/additions as well as enhancing production flow above concession benchmarks."

Horizontal Drilling Program: MARI has completed a horizontal drilling program undertaken in Habib Rahi Limestone (HRL) at MARI D&PL. The project targets increasing company's production levels as part of the production plateau enhancement project undertaken jointly with fertilizer companies on MARI's network. The project will control depleting pressure from the maturing Habib Rahi Limestone (HRL) field and accelerate production through development. Swing volumes undrawn by the fertilizer sector are shifted to the Sui network generating increased revenues through higher wellhead prices under PP-12. These incremental volumes are realized with flow rates exceeding base production of 525mmcfd by at least 10% with realized gas pricing at 2x over base production wellhead price which is at a 50% discount to PP-01 pricing.

HRL - Well	Lease	Formation	Testing Date	Depth (vertical/horizontal) "m"	Gas Flow Rate "mmcfd"	EPS Impact (PkR/sh)*	Reserves – Jun'24
122H	Mari	HRL	Oct'22	1,550/530	21	2.7	HRL - 3,132BCF
123H			July'23	1,846/900	20	3	
124H			Dec'23	1,740/750	17	2.5	
125H			Oct'24	N/A	13	2	
126H			Oct'24	N/A	12.5	2	

Source: Company Accounts, PPIS, Ktrade Research

Based on PP-12 pricing

Mari Deep (Goru-B) Development In addition to incremental production incentive from the HRL reservoir, the company is also working on the Mari Deep formation. Development and appraisal work has been undertaken to to generate higher wellhead price under PP-12. Excess production over 110mmcfd base benchmark by atleast 10% is eligible to for 2x higher wellhead price over base price. Volumes undrawn by Foundation Power Dharki Company Limited (FPDCL) are sold to SNGPL after processing at the Sachal Gas Processing Complex (SGPC) which was set up to convert low BTU gas from the reservoir into pipeline quality. SGPC volumes have reached 108mmcfd in the last fiscal year through development work in the field generating higher reviews.

Wells	Lease	Formation	Testing Date	Depth (vertical/horizontal) "m"	Gas Flow Rate "mmcfd"	Oil Flow Rate "bopd"	Choke Size	EPS Impact (PkR/sh)*	Reserves – Jun'24
MD-20	Mari	HRL	Feb'24	2,975	19	8.3	40/64	1.9	Mari Deep - 747BCF
MD-23			Drilling in progress						

Source: Company Accounts, PPIS, Ktrade Research

Ghazij Formation Appraisal: MARI completed the Ghazij Appraisal Program in FY24 leading to a net reserve addition of ~793bcf or 15.5% of Jun'24 end reserves. Ghazij formation is the third largest reservoir in Mari's portfolio with the first phase of development adding a cumulative ~25mmcfd to the company's production profile. We expect production upside from Ghazij with one development well currently under testing with similar production flows from wells Ghazij 1-5 and 7.

MARI has also discovered oil flows from an exploratory well at Ghazij (Shawal) with potential for further oil discoveries in the region. Initial testing at Shawal-1 produced a flow rate of 1,040 bopd with 2.5mmcfd of associated gas leading to an EPS impact of PkR3.0/share or 4.8% of FY25 earnings. To further test the structure company commenced drilling of an appraisal well at Shawal-2 showcasing potential in the block for further oil discoveries however initial testing confirmed 10mmcfd gas flow rate.

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Wells	Lease	Formation	Testing Date	Depth	Gas Flow Rate "mmcfd"	Oil/Cond. Flow Rate "bopd"	Choke Size	EPS Impact (PkR/sh)	Reserves – Jun'24
Ghazij-1	Mari	Deep	Jan'23	1,015	8.5	-	64/64	1.4	789BCF
Ghazij-2			Oct'23	1,016	11.1	-	64/64	1.9	
Ghazij-3			-	1,006	4.8	-	-	0.8	
Ghazij-4			Jan'24	1,014	6.57	-	64/64	1.1	
Ghazij-5			April'24	1,483	10.5	-	64/64	1.8	
Ghazij-6			Side tracking						
Ghazij-7			Oct'24	1,622	11.7	-	-	2.1	
Shawal-01			April'24	1,136	2.5	1,040.00	32/64	3	Evaluation
Shawal-02			Oct'24	1,131	10	-	-	1.8	
Ghazij-8			Planned						
Ghazij-9			Drilling in Progress						

Source: Company Accounts, PPIS, Ktrade Research

Frontier Exploration: MARI has a 55% working interest in Waziristan Block where the company is running a joint exploration and appraisal program. MARI extended its appraisal well Shewa-2 to test additional zones versus a dual zone testing for exploratory well Shewa-1 in 2022. This has led to a reserve upgrade of 351bcf or 3.8% in gas reserves and 3.6mmbbl or 23.1% in oil reserves in Jun'24. Cumulative production flow of 70mmcfd is expected to be added to MARI's production profile in FY25. Both wells have been connected to Shewa-1 Early Production Facilities (EPF) with work on SNGPL pipeline completed earlier this fiscal year. Owing to the security challenges in Waziristan MARI has not provided an effective date for production commencement however our base case estimates expect production tie-in early next year.

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Wells	Lease	Testing Date	Gas Flow Rate "mmcfd"	Oil/Condensate Flow Rate "bopd"	EPS Impact (PkR/sh)	Reserves – Jun'24
Shewa-1	Waziristan	Jun'22	50	300	5.2	391BCF + 3.55MMBBL
Shewa-2		Jan'24	51	391	8.9	

Source: Company Accounts, PPIS, Ktrade Research

Flows to offset Lease Renewal Impact: MARI will payout an additional 15% royalty on the wellhead value of its D&P lease from Nov'24 onwards. The royalty charge is recurring taking MARI's effective royalty payment to ~25% as per our estimates. Post amendment in the PP-12 Policy, the government added an extension provision at a cost for a D&P field's lease until commercial viability of production. This entails an additional royalty payment of 15% annually on the lease's production in addition to the 12.5% royalty originally applicable. Effectively every E&P player post extension of their individual leases will be charged additional royalty which would have a negative earnings impact. The isolated impact from additional royalty charge is estimated at 17%-29% through forecast earnings range (FY25-FY29). However, we expect MARI's production to increase at a 3-year CAGR of 8.5% backed with relatively higher pricing to offset the impact

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Recent Discoveries Support Earnings Profile:

Well	Type of Well	Lease	Working interest	Gas Flow Rate "mmcfd"	Oil Flow Rate "bopd"	Testing Date	Depth "m"	Choke Size	EPS Impact (PkR/sh)
Jhim East-X1	Exploratory	Shah Bandar	32%	13.7	236	Nov'23		32/64	1.3
Adam-2	Development	Hala	35%	6.3	100	Feb'24		32/64	0.6
Togh-2	Development	Kohat	33%	10	-		2,600		1
Hilal-1	Rig workover	Mari	100%	2.3	-		-		0.5
Maiwand X-1 Dughan Rani Kot	Exploratory	Block 28	50%	4.14	-	Feb'24	2,516	64/64	0.9
PAB				0.79	-			48/64	
Mughal Kot Sandstone				1.11	-			48/64	
Mughal Kot Limestone				0.38	-			40/64	

Source: Company Accounts, PPIS, KTrade Research

Exploration Drives Upside: We add an implicit exploration option to value MARI's targeted exploration program. Acquisition of potential high impact exploration acreage and an overall success ratio that averages ahead of the upstream sector supports our view. Exploration program over the next five years and proximity mapping the exploration license over high risk and high impact "Frontier" zones lends confidence in averaging out the company's RRR at 100% over the next 5 years. Our exploration option model adds PkR50/share and forms 9% of MARI's fair value of PkR534/share.

Exploration Work Unit Distribution: MARI has acquired extensive acreage across "Frontier" regions Balochistan and KPK where previously sensitive security has limited exploration work. MARI's exploration license acreage has increased by over 60% in the last five years with ~45%-46% of the company's portfolio across high impact zones. We expect the company to complete its work unit program over the next five years which should bring capital outlay to ~US$700mn – which given its previous five year history is achievable in our view. We expect a reserve addition of ~248mmboe base case which covers our base reserve production profile over the next 5 years – leading to an RRR of 100%.

Estimated work units distribution across the company's exploration license portfolio – Work Units

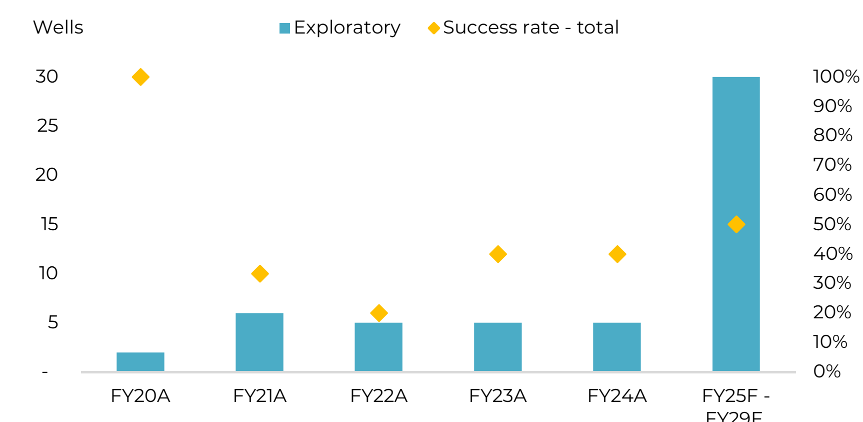
Proximity Mapping of Potential Reserve Size across MARI's exploration license portfolio - MMBOE

	Min Reserves	Med Reserves	Max Reserves
Meeranpur	0.7	1.3	1.8
Taung	1.5	27.0	52.5
Kalchas South	29.3	472	916.3
Hala	0.9	15.6	30.6
Sui North	33.3	537.3	1,041
Kohlu	1.0	25.1	49.2
Nareli	1.3	32.6	64.0
Hanna	5.0	7.1	9.2
Block-28	1.6	41.8	82.0
Harnai	3.0	4.3	5.5
Kalat West	2.5	14.9	27.3
North Dhurnal	4.3	21.3	38.3
Mach	1.9	2.7	3.5
Wali West	10.6	107.8	205.1
Dadhar	1.9	11.3	20.7

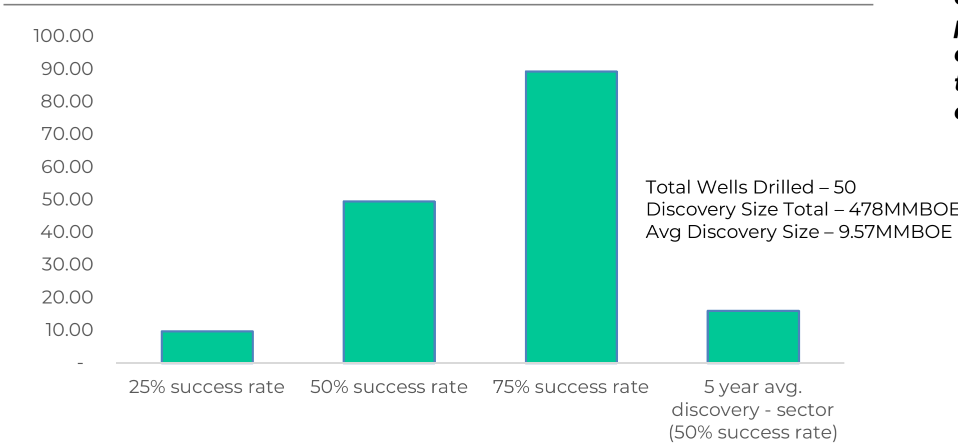
Exploration option: Our valuation of the exploration option is based on a wildcat drilling program and proximity mapping the work program with commercial reserves. This valuation is driven by the following factors:

- *Number of wells:* We estimate a wildcat program of thirty wells to be drilled over the course of the next five years based on work program disclosures relative to twenty-three exploratory wells drilled in the last five years – up ~30% from the past five year average. This is further supported by ~25,000 sq. kms additions to the exploration license portfolio between 2020 and 2024 spanning total acreage of ~63,000 sq. kms.
- *Success rate:* MARI is ahead of upstream peers with the success ratio of commercial finds at over ~40% over the past five years relative to 33% for the sector. We carry over MARI's success ratio in our exploration option model given focused and high impact license acquisitions. We expect reserve addition of ~248MMBOE over the next five years with RRR at 100%. We believe this is achievable with MARI averaging a RRR of 100%+ over the past five years where on average listed exploration companies have seen RRR fall sharply below ~100%.
- *Value per bbl:* Our run-out DCF values MARI base reserves at ~US$2.9/BOE on a 2P reserve base of 704MMBOE. We carry over the valuation to our exploration option reserves offsetting time to production with the discounted wellhead pricing value of MARI's base reserves.

MARI – Historic Exploration Success Rate



Exploration Option Sensitivity



Source: Company Accounts, PPIS, KTrade Research

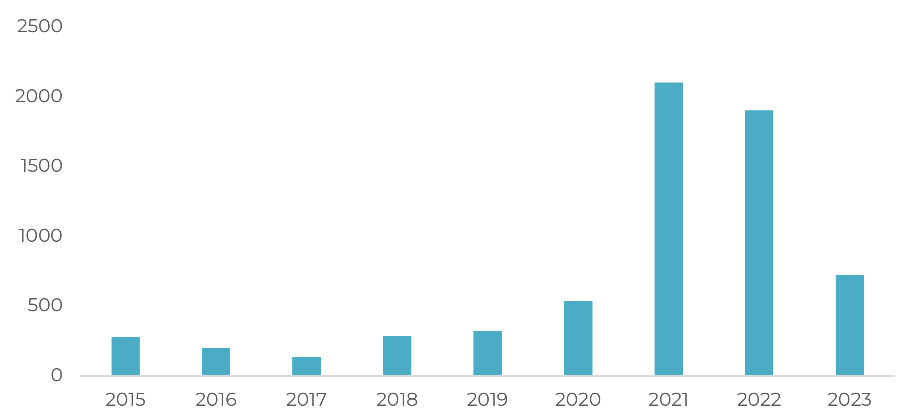
Pakistan's avg discovery size has fallen sharply over the past 5 years. As a result we believe proximity mapping adequately reflects the potential of MARI's exploration acreage leading to our base case exploration option value

Diversification Drive: Mari is undertaking a carbon capture and storage facility to sequester CO2 emissions from production in Mari Deep. While initial information remains limited we assume CO2 will not be repurposed and approved credits generated will be traded in the voluntary carbon markets or through pre-assigned offtake agreements. Mari is also diversifying into high energy utilization data centers for AI/HPC to service the mining industry with a PkR10bn capital outlay. Mining is at the heart of the Government's SIFC to drive FDI. MARI's diversification drive remains outside of our base case earnings outlook but has upside risk.

"MARI is also planning diversification into high energy utilization data centers for AI/HPC to service the mining industry specifically. Mining is at the heart of the Government's SIFC to drive FDI."

Carbon trading: Mari has embarked on a sustainable mission to curb CO2 emissions and become compliant with a net-zero emitter target set under the Paris agreement. The project aims to capture CO2 from operations at SGPC with storage at Ranikot - identified as a suitable location. Management guidance issued over the FY24 Corporate Briefing Session (CBS) indicated at the possibility of CO2 liquification based on interests from some industries however the official stance adopted is to store CO2 permanently at Ranikot preventing release into the atmosphere. The project can provide the company an opportunity to generate verified carbon credits which equate to one credit per one ton of CO2 sequestered. Last fiscal year MARI reported 1.6mn tons of CO2 equivalent emissions and assuming a conservative 30% conversion into verified credits at a price of US$10/credit in the voluntary carbon market, we estimate a topline impact of PkR1.3bn annually (undiscounted). The voluntary carbon market is still relatively unstructured and with future regulation formation and improving awareness leading to social responsibility towards climate change should lead to a gradual increase in market size. In 2023 the average price of a credit ranged from ~US$30-50 subject to quality approvals by an independent third party verifier such as Verra or Gold standard. MARI's CO2 emissions project provides upside risk to our base case estimates.

Voluntary Carbon Credit Market Size – US$bn



Source: Company Accounts, PPIS, KTrade Research

MARI Revenue Sensitivity to Carbon Credit Sales - PkR "000"

	Conversion	20%	30%	40%	50%
US$ per credit	5	448,000	672,000	896,000	1,120,000
	10	896,000	1,344,000	1,792,000	2,240,000
	15	1,344,000	2,016,000	2,688,000	3,360,000
	20	1,792,000	2,688,000	3,584,000	4,480,000
	25	2,240,000	3,360,000	4,480,000	5,600,000

Data Centers Project: Furthering the diversification drive, MARI has set a capital outlay of PkR10bn for setting up a data center subsidiary to service the cloud computing, AI/HPC tech industries and the mining industry. Globally, an increasing trend shows companies building co-location data centers to rent out rack space for AI and high powered computing firms. However power requirements are high with data centers estimated to have consumed 1-2% of global power and poised to increase to 3-4% over the next few years. Our estimations from general market research indicate that based on a US$7mn to 12mn per MW of construction the company can aim to build center with 3MW of capacity on current exchange rate (not accounting for local land prices). Considering the need to supplement power demand data centers are gaining traction in Pakistan and we believe this may provide a sustainable revenue source ahead of MARI. However, with limited details we hold off on incorporating this diversification into our base case estimates.

Visible Trend for Exploration Companies: *Mara an energy sector solutions provider recently announced setting up of 25MW data center across wellheads in Texas and North Dakota aiming to utilize excess gas to power facility's operations and reduce methane emissions through controlled flaring at gas fields. This methodology captures and converts excess natural gas into economic value on-site while improving sustainability of production. This can also interlink with the creation of carbon credits via grid offsets through successful listing on the Verra Registry.*

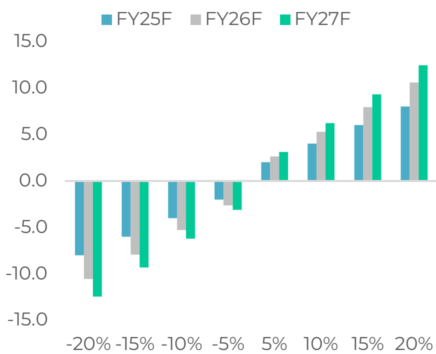
Mining is the Near Future: Mari incorporated a wholly owned subsidiary "Mari Mining Company Pvt. Limited" to take up minerals mining in a bid to diversify from its core oil and gas exploration business. The company was awarded two additional licenses (pending conditions fulfillment) EL322 and EL323 to mine gold and copper in Chagai district of Baluchistan. MARI has also applied for a lithium exploration license which will open up offtake channels from the formation of a potential battery sub sector. Total portfolio acreage is 1,500sq km where work is ongoing to fulfill conditions of licenses to initiate operations. Furthermore the company has plans to engage international mining companies. In our view with the potential setting up of a US$1bn fund by the GoP in partnership with the government of Kuwait, interest from Saudi Arabia and other GCC bilateral partners in Reko Diq and setting up of a mines and minerals department to autonomously deal with the mining business indicates a key focus sector going forward. Additionally the SIFC has placed immense importance in mining of copper, gold, chromite, coal as well as other minerals where Pakistan has ample reserves to cater to the global demand.

Risks to Thesis

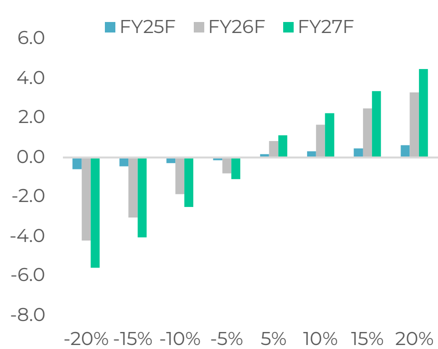
- **Crude Oil and Exchange Rate Volatility**

Even though Mari's revenues are gas-dominant with significantly lower oil price ceiling depleting gas reserves and significant discoveries of oil/condensates are gradually increasing oil price partiality which could impact revenues going forward in case oil prices decline. Our projections still incorporate significant gas-derived revenues due to sizeable reserves especially in the Mari D&P lease with lower oil ceiling based gas revenue contribution falling by 400ppts over the next five years. Exchange rate fluctuations can also provide upside/downside risk to the company earnings profile since gas/oil revenues are dollar indexed under petroleum policies.

Exchange Rate Sensitivity



Oil Price Sensitivity



- **Mari D&P as the major revenue driver**

With the company's revenues highly concentrated from MARI D&P lease (~+95%) there's a dependency risk on one field. Since reserves are estimates any shifts in reserves estimations can affect company's production profile moving forward. However with the pressure enhancement facilities and horizontal drillings in HRL, SGPC processing of gas from MARI Deep, successful appraisals at Ghazij we believe this is gradually mitigated with additional/new zones added. Furthermore discoveries at Waziristan with Shewa and frontier blocks being scanned for activity can shield the company in the medium to long term in our view.

- **Agriculture and Power Sector Issues**

Since Mari caters to over 90% of the country's urea production and supplies low BTU gas to power consumers, this provides a risk to the company's production profile as is evident from recent past's low fertilizer offtakes.

- **RLNG Imports Offtake**

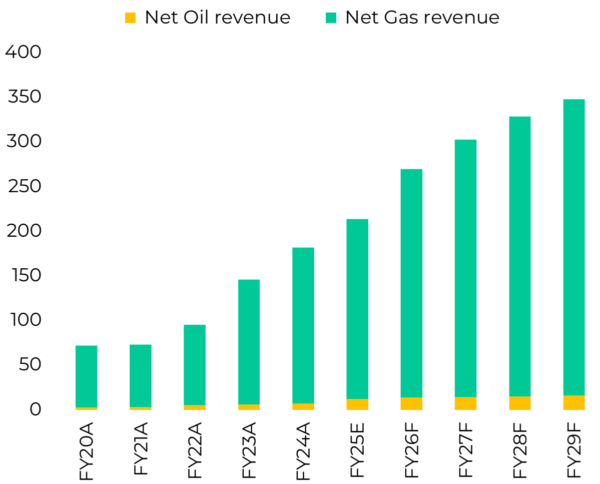
Any excess RLNG volumes are fed into the grid bottlenecking the transmission network where sales of E&Ps can be impacted as can be seen from the recent past. While MARI is relatively insulated with direct sales new discoveries are adding to dependence on grid network gradually increasing the risk.

- **Security Situation in Frontier Zones**

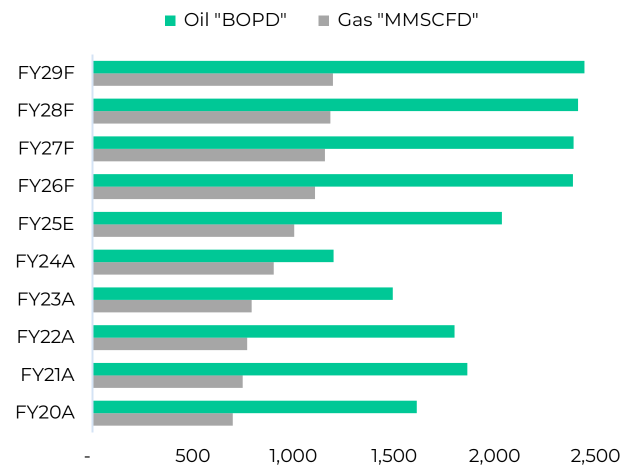
The sector has highlighted facing security issues at frontier areas where exploratory, development and production activities have faced curtailment recently. Engagement of LEAs is imperative and actually growing offsetting problems to a large extent. However this remains a risk moving forward with intervention from security agencies remaining integral.

MARI - Chart Bank

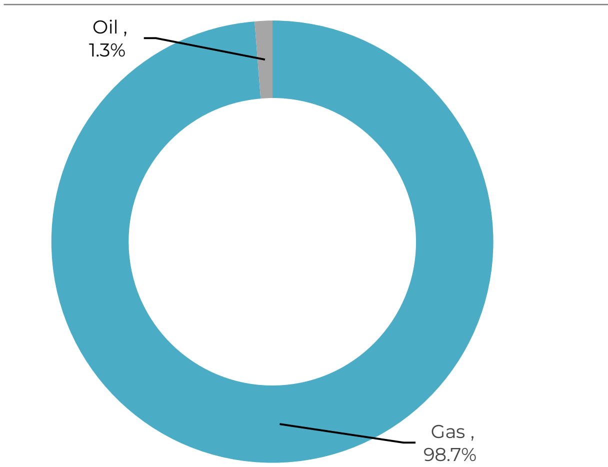
Net Revenue Breakdown - PkR "bn"



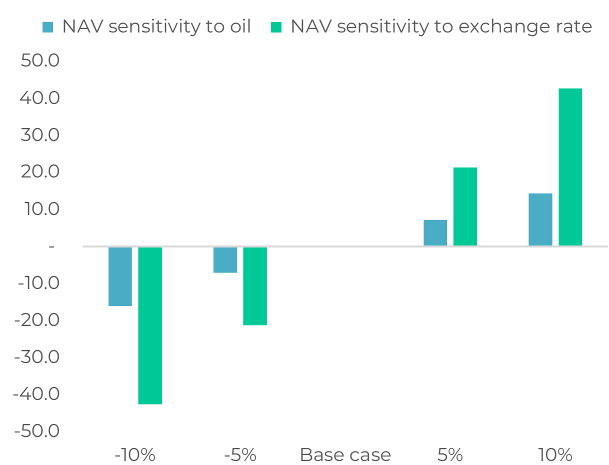
Oil and Gas Volumes



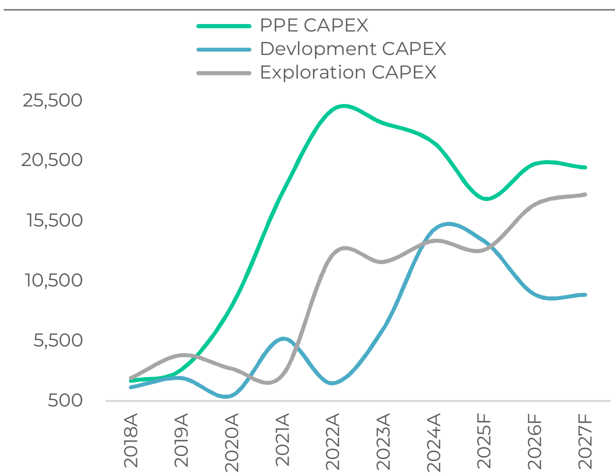
Jun'24 2P Reserves Split



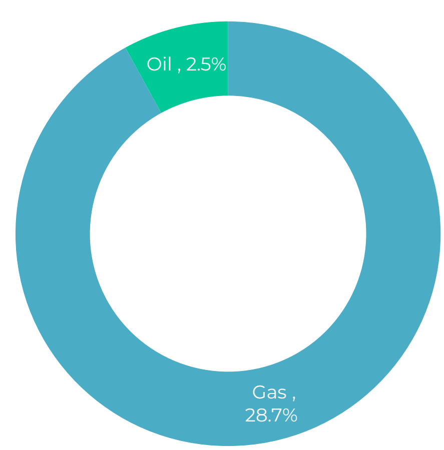
NAV Sensitivity



CAPEX Movement



Production Share



Source: Company Accounts, PPIS, KTrade Research

Valuation table

	FY23A	FY24A	FY25F	FY26F	FY27F
Revenue growth	53%	25%	11%	25%	13%
EPS "PkR"	46.7	64.4	62.4	69.1	78.6
EPS growth %	70%	38%	-3%	11%	14%
PER "x"	8.9	6.5	6.7	6.0	5.3
BV/share "PkR"	140.3	187.3	212.3	256.6	306.5
PBV "x"	3.0	2.2	2.0	1.6	1.4
ROE %	33%	34%	29%	27%	26%
ROA %	22%	22%	19%	18%	18%
DPS "PkR"	16.3	25.8	22.6	24.8	28.7
D/Y %	4%	6%	5%	6%	7%
Payout ratio %	35%	40%	36%	36%	37%
FCF/share	-	-	45.8	48.6	61.1

Profit & Loss Statement

	FY23A	FY24A	FY25F	FY26F	FY27F
Net revenue	145,770	181,829	201,058	250,690	282,722
Royalty	-17,549	-22,098	-39,809	-65,172	-74,214
Operating expense	-27,112	-35,904	-37,552	-47,454	-53,517
Exploration expense	-16,017	-12,924	-12,935	-15,487	-17,510
Operating profit	85,093	110,903	110,762	122,578	137,481
Finance income	9,075	9,209	12,534	12,747	15,874
Profit before tax	85,847	110,363	114,799	127,685	145,190
Profit after tax	56,129	77,288	74,904	82,995	94,374
EPS (Pre-dilution)	421	579	562	622	707
EPS (Post-dilution)	47	64	62	69	79
Share capital (Pre-dilution)	133	133	133	133	133
Share capital (Post-dilution)	1,201	1,201	1,201	1,201	1,201
EBITDA	94,010	122,408	123,413	137,570	156,005
EBITDAX	110,027	135,332	136,348	153,056	173,514

Balance Sheet

Assets	FY23A	FY24A	FY25F	FY26F	FY27F
Property, plant and equipment	81,736	97,355	107,812	120,279	131,614
Development and production assets	24,992	35,118	55,064	79,070	102,658
Exploration and evaluation assets	15,958	25,532	29,171	25,805	21,022
Total NCAs	**130,802**	**170,735**	**204,943**	**238,049**	**268,189**
Short term investments	9,197	22,676	41,253	54,074	70,880
Cash and bank balances	31,704	52,210	31,964	31,964	40,833
Total CAs	**123,795**	**175,837**	**180,938**	**213,910**	**247,914**
Total Assets	**254,597**	**346,572**	**385,882**	**451,959**	**516,104**
Total equity	**168,426**	**224,908**	**254,857**	**308,031**	**367,940**
Total LT liab	**23,535**	**58,718**	**67,176**	**67,092**	**67,007**
Total liabilities	**86,170**	**121,665**	**131,025**	**143,928**	**148,164**

Cashflow Statement

	FY23A	FY24A	FY25F	FY26F	FY27F
D&A	8,918	11,505	12,650	14,992	18,524
Working capital changes	-12,906	-18,814	-5,804	-7,163	-4,009
Operating cashflows	56,195	100,443	81,750	90,824	108,889
PPE CAPEX	-23,644	-22,014	-17,356	-20,248	-19,952
Development CAPEX	-6,514	-14,751	-13,820	-9,380	-9,351
Exploration CAPEX	-12,088	-13,846	-13,096	-16,860	-17,703
Cash & cash equivalents - EOP	40,901	74,886	73,217	86,038	111,713

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Rating Definitions:

•Outperform >18.5% potential upside

•Neutral: 12.5% to 18.5% potential upside

•Underperform <12.5% potential upside