

# Mari Petroleum Company Limited - (MARI)

## Improving Cash Flow and Production Catalysts may trigger a stock rerating

We initiate our coverage on Mari Petroleum (MARI) with a Jun24 target of PkR 2,770/sh, offering an upside of 80%. MARI stands as our top pick in the E&P space, underpinned by its stellar growth trajectory and robust cash flows, a high reserve replacement ratio with a healthy reserve life, limited exposure to circular debt, and planned international offshore expansion. Moreover, the stock offers an organic hedge against macroeconomic volatility through its USD-linked revenues and cash-rich balance sheet.

### Stellar growth trajectory supported by enhanced exploration activities:

Mari Petroleum offers the highest growth trajectory in Pakistan's E&P space with a two-year earnings CAGR of 23% to PkR 84.9bn (EPS: PkR 636.0) by FY25. Recent developments have allowed MARI to enhance its production flows and benefit from improved pricing. Its USD 250mn investment in developing the Sachal Gas Processing Complex (SPGC) has allowed MARI to further tap into its low btu reserves from Mari deep fields. The gas is converted into pipeline quality and benefits from PP-12's pricing.

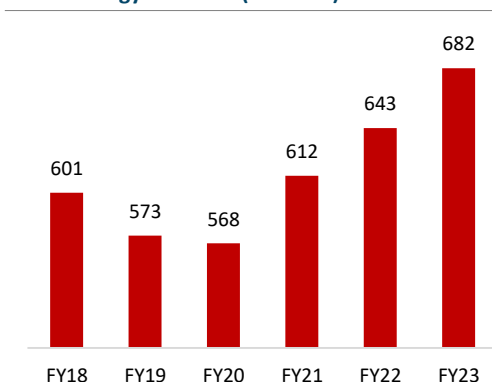
Moreover, MARI's management remains optimistic about the company's prospects in Ghazij Reservoir, Waziristan Block, and HRL Reservoir via horizontal wells. Overall, the management projects that **MARI's gas flows will cross the 900mmcf in FY24**, up from an average of 740mmcf witnessed during the past five years.

**Limited exposure to circular debt:** Unlike other energy exploration companies, Mari Petroleum remained relatively insulated from circular debt because of limited sales to the Sui utilities. Historically, over 90% of MARI's sales were targeted to the fertilizer sector. Recently, however, the company's sales to Sui utilities increased to PkR 54bn (+94% YoY), constituting 33% of its gross sales in FY23. Given the cash flow concerns of the Sui companies, Mari Petroleum saw its overdue balance rise by PkR 21bn in FY23, comprising 14% of its overall sales. Going forward, efforts to improve the energy chain cash flows through gas price hikes will likely limit the buildup of the overdue balance.

**One of the highest reserve replacement ratios in the industry:** Mari Petroleum boasts one of the highest reserve replacement ratios (RRR) in the industry, clocking in at 114% in FY23. The company's insulation from the circular debt has allowed MARI to benefit from a healthy cash flow generation, enabling it to focus on enhancing its exploration activities. Since FY19, the company doubled its exploration licenses to 34 and its area to 68k km<sup>2</sup>.

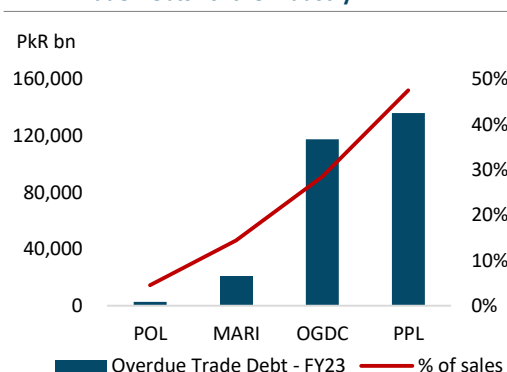
Monday, October 30, 2023

MARI Energy Reserves (MMBOE)



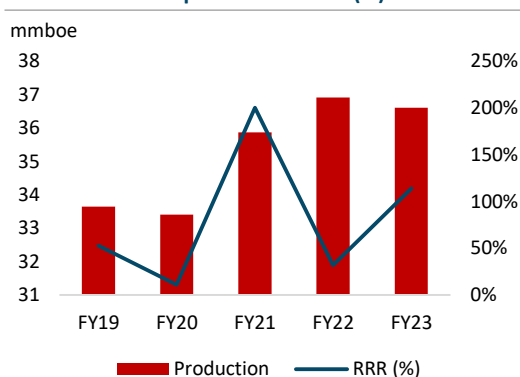
Source: Company Accounts, BMA Research

MARI Trade Debts vs. the Industry



Source: Company Accounts, BMA Research

MARI Reserve Replacement Ratio (%)



Source: Company Accounts, PPIs, BMA Research

**Yusuf Rahman**

Head of Research

Tel: 111-262-111 Ext. 2056

E-mail: yusuf.rahman@bmacapital.com

**BMA Capital Management Ltd.**

**Focus on revenue diversification:** Mari Petroleum has focused on diversifying its revenue stream. The company has incorporated Mari Mining Company to identify avenues for mining, even partnering with Barrick Gold for strategic collaboration. Notably, the company has secured a mining license for mineral exploration in Baluchistan.

Moreover, MARI, along with a consortium of three other oil & gas companies, were awarded offshore blocks in Abu Dhabi. The consortium has plans to invest over USD 300mn for exploratory activities over a 6k km<sup>2</sup> area. The drilling of the first appraised well is anticipated during 1Q2024. We haven't incorporated these two developments in our projections, given the lack of clarity on their potential timelines and success ratio.

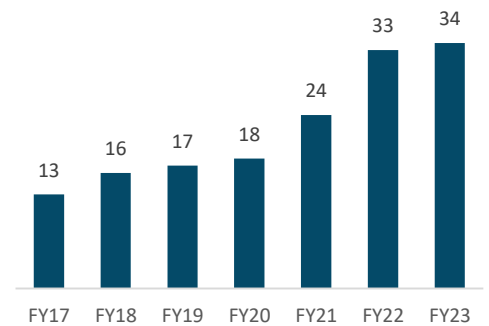
**Attractive valuations amidst a high growth trajectory:** Mari Petroleum is trading at an FY24/FY25 price multiple of 2.7x/2.4x. We believe the company warrants a higher valuation given its growth trajectory, robust balance sheet, improving cash generating capacity, and limited exposure to the circular debt. We have a **BUY** stance on the stock with a **target of PkR 2,770/sh, offering an upside of 80%** and an **dividend yield of 21% (FY25)**.

#### Mari Petroleum (MARI) Financial Report

PkR mn	FY21	FY22	FY23	FY24F	FY25F	FY26F
Revenues	73,018	95,134	145,770	199,856	216,567	222,786
Royalties	9,315	12,000	17,548	25,981	29,799	32,304
Exploration Cost	4,544	10,932	16,017	16,838	23,129	27,031
Fin. Income	3,941	4,483	9,075	11,893	15,293	14,496
PBT	43,931	52,116	85,847	127,980	130,539	129,090
PAT	31,445	33,063	56,129	78,068	84,851	83,908
EPS (PkR)	235.72	247.84	420.75	585.20	636.05	628.99
DPS (PkR)	124.00	124.00	147.00	204.00	318.00	377.00
Sales Growth (%)	1%	30%	53%	37%	8%	3%
Earnings Growth (%)	4%	5%	70%	39%	9%	-1%
PE (x)	6.58	6.25	3.68	2.65	2.44	2.46
Yield (%)	8.0%	8.0%	9.5%	13.2%	20.5%	24.3%
ROE (%)	27%	25%	35%	37%	33%	28%

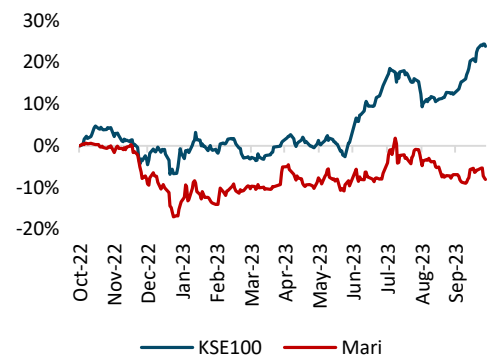
Source: BMA Research, Company Accounts

#### MARI Exploration Licences



Source: Company Accounts, BMA Research

#### MARI vs. KSE100 Index



Source: PSX, BMA Research

## Heightened focus on enhancing production flows and energy reserves

Mari Petroleum has increased its focus on enhancing its production flows and energy reserves. As mentioned, MARI’s average gas flows are slated to **cross 900mmcf in FY24** against 750mmcf witnessed SPLY, depicting an increase of 20% YoY. MARI stands as the only energy company with rising production levels compared to an **average annual attrition rate of 6%** for other energy companies.

**Exploration activities and capital expenditures witness a sharp rise:** MARI’s capital expenditures on exploration and development activities witnessed a sharp rise during recent years, as evident by major progress on several wells. Its annual investing activities rose by nearly 3.5x to PkR 42.2bn in FY23. Moreover, 75% of MARI’s operating cash flows was utilized towards exploration and capital expenditures, a considerable increase compared to 40% in FY20.

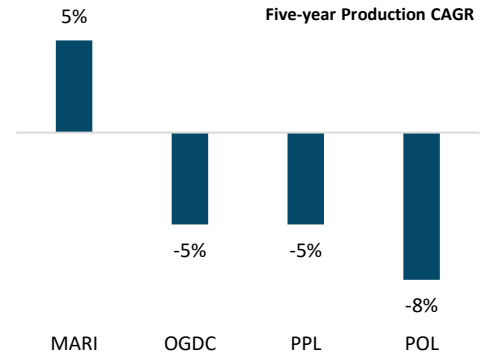
**One of the highest reserve life supported by heightened exploration activities:** Recent discoveries and well developments have enhanced Mari Petroleum’s reserves balance, which **witnessed an increase of 20%** over the past three years to 682MMBOE. Moreover, the company’s proven (2P) reserves stood at 577MMBOE, indicating a reserve life of 15 years at projected flows. In addition, the company’s signature Mari Field’s gas reserves of 4.3tcf indicates a **reserve life of 14 years at the projected flows**.

**Sachal Gas Processing Complex (SGPC) tapping into deeper formations:** MARI undertook the USD 250mn SGPC project to tap into its unrealized deeper formations. The project compresses low btu gas from the reservoir into pipeline quality. The compressed gas is sold to the SNGP network and benefits from significantly higher pricing. The compressors convert around 200mmcf of raw gas to **100mmcf of pipeline quality gas**. Notably, the updated agreement allows the company to **apply PP-12’s pricing, which is 3x the base rate**, on raw gas above 110mmcf.

**Swing compressors to ensure sustained flows:** Mari Petroleum also undertook the swing volumes project, which entailed swing compressors diverting undrawn gas allocated to the fertilizer and power industry towards SNGP’s network. Gas demand from the fertilizer and power sector remains volatile in certain months, especially during periods of plant maintenances and turnarounds. Historically, urea production registers a 10% decline during the first quarter of the calendar year because of planned maintenances.

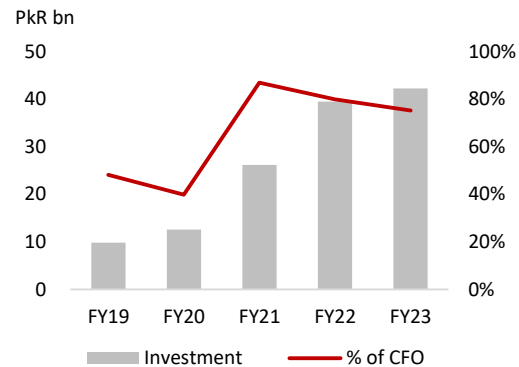
The swing compressors, whose capacity was recently enhanced to 68mmcf, **will enable MARI to sustain its flows** during periods of slow demand. Moreover, the diverted flows benefit from the significantly higher PP-12’s pricing.

Pakistan Energy Companies Production Growth



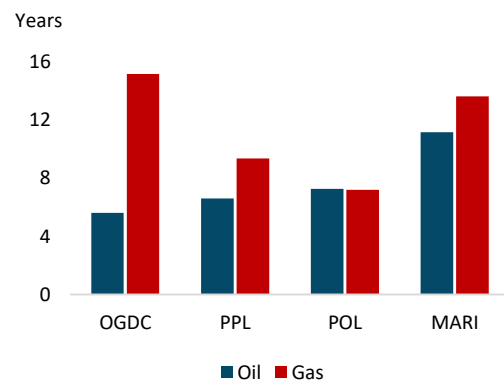
Source: Company Accounts, PPIS, BMA Research

Investment Activities on the Rise



Source: Company Accounts, BMA Research

Energy Companies – Estimated Reserve Life



Source: Company Accounts, BMA Research

**Ghazij reservoir discovery unlocking additional avenues for tapping into mature basins:** MARI's discovery of Ghazij-1 in 2QFY23 unlocked an additional avenue for tapping into mature basins in the Mari Field. Initial tests revealed that Mari Ghazij-1 has production flows of 10mmcf. Moreover, the company also successfully drilled Mari Ghazij-2 with flows of 11mmcf during 1QFY24. The company conveyed that it plans to capitalize on these discoveries and further appraise the Ghazij reservoir. The management remains confident of the reservoir's potential and is in process of **preparing a long-term development plan** for the field.

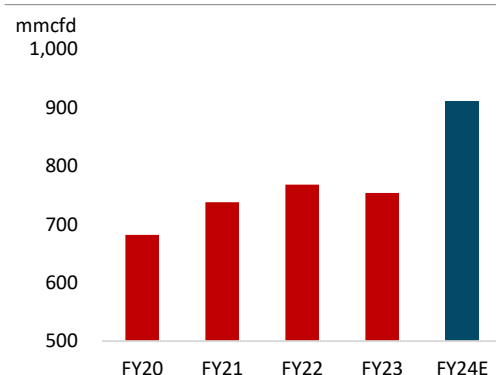
**Waziristan block another avenue for growth:** The company has enhanced its exploration activity in the Waziristan block. Its initial discovery of Shewa-1 (previously known as Bannu West) indicated gas flows of **50mmcf and oil flows of 300bopd in preliminary tests**. The field is projected to commence flows during the end of 2QFY24. The planned timeline, however, remains contingent upon the completion of the transmission pipeline by SNGP and a conducive security situation in the region. We estimate an **incremental annual earnings impact of PkR 51.2/sh** once the projected flows commence.

**Additional wells also being drilled in the region:** The company is also in the process of drilling additional wells in the Waziristan region. Shewa-2 is projected to commence flows from 4QFY24 and will contribute towards Shewa-1's processing volumes. Moreover, Spinwam-1 and Spinwam East are expected to be spud in 2QFY24 and 4QFY24, respectively.

**Horizontal wells to enhance HRL's production plateaus:** MARI was able to successfully implement the method of drilling a horizontal well. The method was adopted in the HRL reservoir to enhance its production plateaus and improve recovery via an increase in pressure flows. Moreover, the horizontal wells will enable a substantial reduction in exploration costs, with our **estimates suggesting around a 30% reduction in operating costs**.

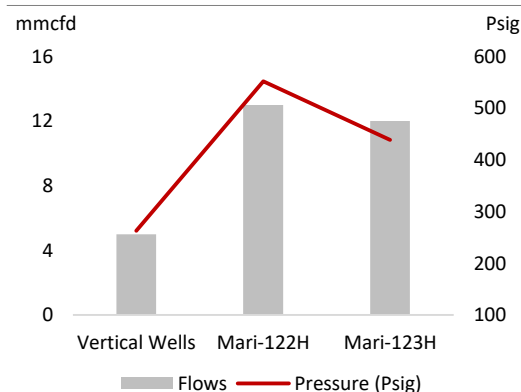
So far, the company has successfully drilled two horizontal wells, Mari-122-H and Mari 123-H, with plans to enhance total horizontal wells to five. The two horizontal wells have exhibited considerably higher wellhead pressure flows compared to other 'vertical wells'. As per the company, average flows of the horizontal wells stand at 13mmcf, **2.6 times higher** than the average vertical wells. Moreover, the average wellhead pressure stood nearly double at 500psig.

MARI Gas Production Flows



Source: Company Accounts, BMA Research

Horizontal vs. Vertical Wells



Source: Company Briefing, BMA Research

## Robust cash flows despite rising receivables

### Relative insulation from the circular debt supporting cash generation capacity:

While MARI remains concerned about its rising overdue receivables, which have **risen by over 90% YoY to PkR 42bn** as of Jun30'23, Mari Petroleum has remained relatively insulated from the circular debt. The bulk of its sales (>90%) were directed towards the fertilizer sector, which allows for high cash collection ratios. Consequently, MARI's overdue receivables balance stands significantly below other energy exploration companies affected by circular debt from gas sales.

**Better cash generation on all metrics:** The company's overdue trade debts of PkR 42bn stand at 17% of its assets, considerably below OGDC's 36% and PPL's 58%. Moreover, MARI's incremental overdue balance in FY23 stood at 14% of its gross sales, lower than OGDC's 28% and PPL's 48%. In addition, MARI's cash flow from operations (CFO) in FY23 registered at **100% of its profits**, compared with OGDC's 12% and PPL's 13% during the same period.

### MARI's cash collection better on all metrics (FY23)

Stock	Trade Debt	Trade Debt*	CFO
	% of Assets	% of Sales	% of PAT
MARI	17%	14%	100%
OGDC	36%	28%	12%
PPL	58%	48%	13%

Source: Company Accounts, BMA Research

\*Incremental Overdue Balance in FY23

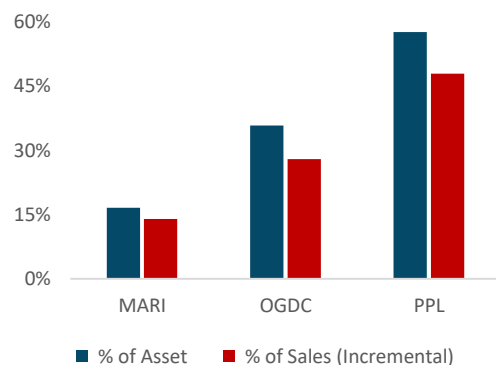
**Rising sales to SNGPL should not be a cause of concern:** The company's sales to SNGP have been on a sharp rise since the installation of SGPC and swing compressors. Notably, **MARI's sales to SNGP constituted 29% of its total sales** in FY23, up from negligible levels in FY21. We anticipate the figure to rise even further once flows commence from the company's wells in its Waziristan block. We, however, believe that MARI's cash collection from the Sui Utilities is likely to improve, driven by anticipated developments in Pakistan's energy space, particularly the approved gas price hike.

### The proposed gas price hike\* to improve cash collection from SNGPL:

The Pakistan's government is in the final stages of approving the long-overdue gas price hike. Based on the proposed tariff hike and the increase in household gas meter rentals, the government aims to plug the differential between the Sui Utilities' cost of procuring gas and their selling prices. This tariff differential is the primary contributor towards the circular debt and is reportedly **hovering above the PkR 1.0bn for the two Sui utilities**. Based on our analysis, the **proposed tariff hike would adequately cover the cost differential** emanating from domestic gas sales and imported RLNG sales.

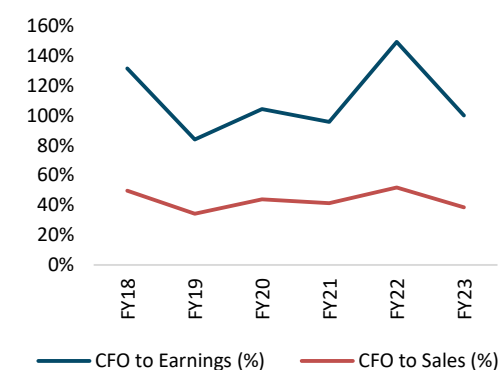
\*see annexure on page 11 for analysis on circular debt

### Overdue Trade Debts vs. Assets & Sales (FY23)



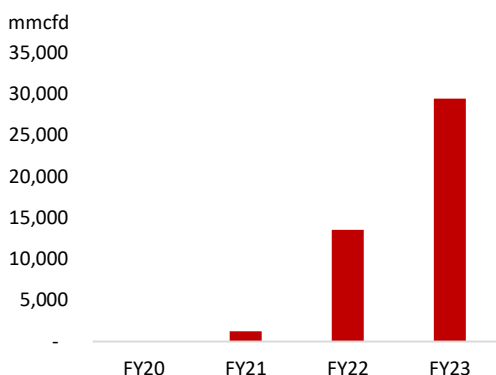
Source: Company Accounts, BMA Research

### MARI's CFO to Earnings and Sales Ratio (%)



Source: Company Accounts, BMA Research

### Gas Sales to SNGPL



Source: Company Accounts, BMA Research

### Gas tariff hike for the Fertilizer Sector to further improve cash flows:

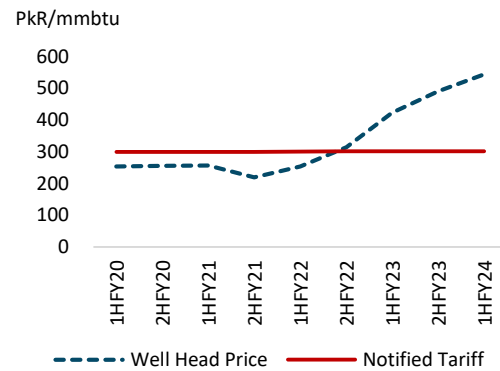
The fertilizer sector’s feed gas tariff of PkR 302/mmbtu from the Mari field was last revised in Sep 2020. Since then, the wellhead gas price for the Mari field has surged by 113% to PkR 545/mmbtu presently, creating a negative differential for MARI. During FY23, the **pricing differential with the government registered at PkR 14.8bn**, of which PkR 3.7bn remained outstanding.

The latest news reports suggest that the feed gas rate for fertilizer companies would be **hiked to PkR 580/mmbtu**. This increase in tariff would offset the hike in wellhead gas prices, ending the negative differential from the sale of gas to the fertilizer industry.

### Cash payouts likely to rise following improvements in cash flows:

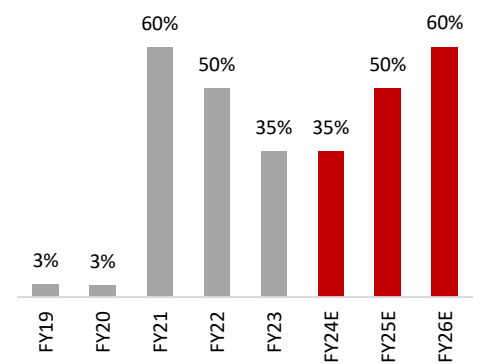
Following the removal of its dividend cap, MARI’s cash payout ratio increased to 60% in FY21 from 3% a year prior. Subsequent payout ratios, however, continue to decline with **FY23’s figure falling to 35%**. The fall can be contributed to stuck cash on gas sales to SNGP and heightened exploration activities. While exploration activities are anticipated to remain elevated, given the company’s development plans, we foresee improved cash collection from the company’s sales to SNGP. Consequently, we see the **company’s cash payout ratio improving to 50% by FY25 and 60% onwards**.

Mari Field Price (Base) vs. Gas Tariff (Feed)



Source: OGRA, BMA Research

MARI Cash Dividend Payout Ratio (%)



Source: Company Accounts, BMA Research

## A strong hedge against macroeconomic volatility

**A hedge against Pak Rupee Volatility:** Mari Petroleum’s revenues are linked to the US Dollar through its pricing structure, allowing for an effective hedge against fluctuations in the Pak Rupee’s value. Mari Petroleum’s revenues have found considerable support from the Pak Rupees devaluation over the recent years.

**Oil-linked revenues through its pricing structure:** MARI petroleum also offers oil-linked revenues through its gas pricing structure, which is linked to a basket of crude oil, predominantly originating from the Middle East. Moreover, the company’s main Mari field benefits from PP-12’s pricing on flows exceeding 525mmcf/d, significantly enhancing the pricing and reducing the discount on these incremental flows. The following table provides an overview of the company’s earnings based on a range of global crude oil prices.

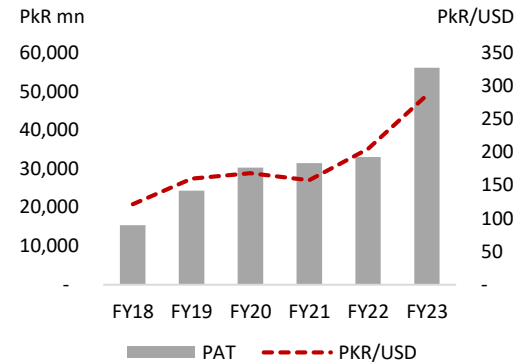
### MARI's Earnings Sensitivity to the Crude Oil Price

Oil USD/bbl	FY25 Projections			FY26 Projections		
	EPS (Pkr)	DPS (Pkr)	Yield (%)	EPS (Pkr)	DPS (Pkr)	Yield (%)
60	585.41	292.00	19%	588.13	352.00	23%
70	622.78	311.00	20%	627.82	376.00	24%
80	648.89	324.00	21%	655.45	393.00	26%
90	675.01	337.00	22%	683.44	410.00	27%
100	701.06	350.00	23%	710.88	426.00	28%
110	726.74	363.00	24%	737.98	442.00	29%

Source: BMA Research

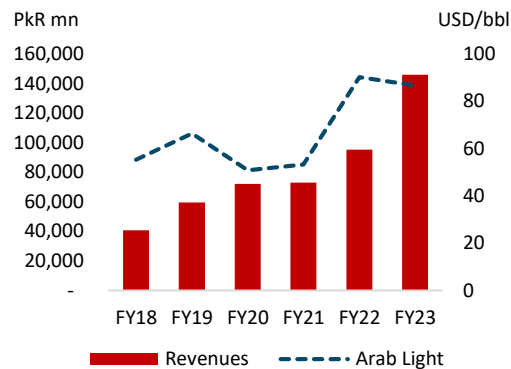
**Insulated against interest rate movements:** Robust cashflow generation has enabled MARI to remain essentially debt-free and build up a healthy cash reserve. Presently, the **company’s net cash and short-term investment balance stands at Pkr 41bn (EPS: Pkr 307/sh)**. This fact not only insulates the company’s profitability from movements in the interest rates but also enables a healthy stream of treasury income. For FY24, we estimate the company’s treasury income to rise to Pkr 12.0bn, supported by a higher cash balance.

### Pkr/USD parity and MARI’s profits



Source: Company Accounts, SBP, BMA Research

### Global Arab Light Prices and Revenues



Source: Company Accounts, Bloomberg, BMA Research

## Deep-value play given a robust growth trajectory and improvement in cash flows

Mari Petroleum’s profits have witnessed a stellar earnings growth trajectory over the past 10 years, **with its profits rising by 23x, depicting a CAGR of 37%**. The company’s profit growth has been a product of increased production flows, significantly higher pricing on incremental flows, and Pak Rupee weakness, enhancing the company’s USD-hedged revenues in PkR terms. Moreover, its two-year earnings **CAGR is projected at 23%**.

Given its growth trajectory, Mari Petroleum is trading at an undemanding FY24 price to earnings multiple of 2.8x, a discount of 30% to the KSE100’s multiple of 4.1x. Moreover, MARI is trading at a 60% discount to its five-year average price multiple of 6.8x.

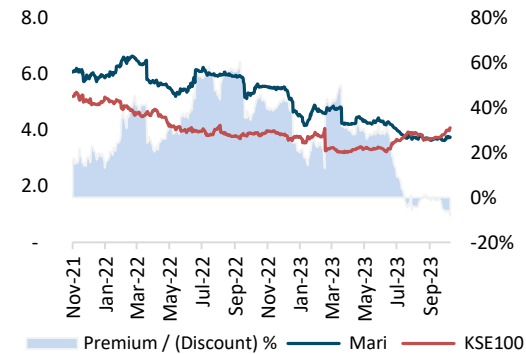
**Significant discount to regional multiples as well:** MARI’s multiples also remain significantly below regional peers despite a high profitability growth trajectory. Notably, the company’s multiples trade at an 85% discount to India’s, 83% to Vietnam’s and 74% to Thailand’s PE multiples. Moreover, MARI’s discount to the energy companies in recently defaulted Sri Lanka stand at 66%.

**Energy companies’ valuations likely to catch up as structural issues alleviated:** Since the oil price crash at the initial stages of the COVID-19 pandemic, Pakistan’s oil & gas exploration companies have underperformed the broader market. Most notably, the PSX’s OGTI Index (an index of energy exploration companies) has provided a **return of 18% over the 3.5 year period** compared to the KSE100 index’s return of 82%.

**Oil & Gas sector’s profitability growth rate, however, paralleled the broader index:** Since FY20, the bottom-line profits of Pakistan’s energy companies have **surged by 110% (three-year CAGR: 28%)**, roughly in-line with the KSE100 Index’s (ex-oil & gas sector) profit growth of 120% (three-year CAGR: 30%). As mentioned, steps taken to alleviate the energy chain’s issues will likely enable the sector to converge towards its fair value.

**Underperformance significant compared to international energy companies:** When compared to international energy companies, the Pakistan Oil & Gas sector’s underperformance is significantly amplified as the **S&P Energy index has provided a return of 291%** within the same timeframe.

MARI PE Multiples vs. KSE100 Index



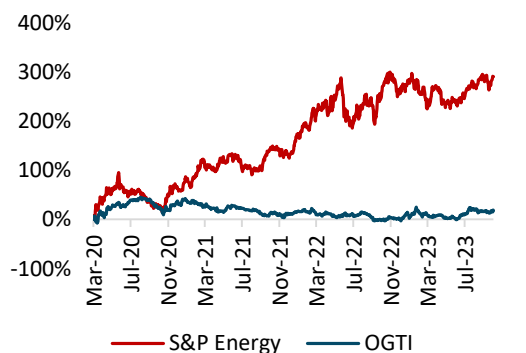
Source: Company Accounts, BMA Research

Regional Energy Stock Multiples

Country	PE (x)
<b>MARI</b>	<b>2.9</b>
Egypt	6.5
Turkey	8.2
Sri Lanka	8.6
Thailand	11.3
Vietnam	17.2
India	19.3

Source: Bloomberg, BMA Research

OGTI Index vs S&P Energy Index



Source: PSX, BMA Research

## Key Assumptions

### Global Crude Oil Prices

For FY24, we project oil prices to average around the **USD 80/bbl** against USD 87/bbl the year prior. We anticipate a decline in crude oil on account of a likely increase in supply levels. OPEC+ production cuts are estimated to conclude on December 2023. Moreover, production levels of non-OPEC countries are expected to increase further. Most notably the oil output of the US is expected to inch forward to record-high levels and likely sustain above the 13.0mn bpd mark.

Our **long-term assumption for oil stands at USD 60/bbl**. We see a continuous decline in the demand for oil, driven by the pace of **technological advancements in EV technology**. Increasing affordability of EVs and considerably lower running cost have caused EV sales to surge over the past few years, with the current year witnessing global EV sales rising by 40%. Given that nearly 50% of oil is consumed by road vehicles, higher EV adoption may considerably dent global oil demand. Estimates suggest that EVs may **displace 2.0mnbpd of oil demand by 2025 and 5.0mnbpd by 2030**.

#### EVs adoption fast rising

Country	Growth (YoY)
India	66%
NA	50%
China	37%
EU	28%
<b>Global</b>	<b>40%</b>

Source: News Sources, BMA Research

#### Oil Price Assumption (USD/bbl)

FY22	FY23	FY24E	FY25F	FY26F	FY27F	Long-term
90.0	86.7	80.0	75.0	70.0	65.0	60.0

Source: Bloomberg, BMA Research

### PkR/USD parity

For FY24, we see the PkR/USD parity averaging 295 and see the Pak Rupee closing at 310 by June 2024. Despite recent strength in the currency driven by administrative efforts, we see the trend reversing soon. Higher imports led by easing of restrictions and a high external debt servicing burden will continue to exert pressure on the Pak Rupee. From FY25 onwards, we see the Pak Rupee maintaining its REER, **implying an annual depreciation of 4.0-5.0% against the US Dollar**.

### Interest Rates

We see interest rates tapering off by March 2024, during which we see the policy rate reduced by 200bps to 20%. We anticipate another 200bps cut by the end of the fiscal year, bringing interest rates down to 18%. Our stance of monetary easing is largely underpinned by a lower CPI figure because of a high inflation base.

## About the Company

### Principal Activity

Mari Petroleum, is in the activity of hydrocarbon production through active exploration and drilling activities. Recent months saw MARI achieve record levels of production, taking its market share in gas sales to 27%. Notably, MARI is the largest supplier of gas to the fertilizer industry.

### Key Products

**Gas and Oil condensate:** MARI primarily drills for gas and oil condensate. Its gas production has a comparatively low heating value at around 600mmbtu/mmcf, compelling the use of specialized equipment and machinery for proper utilization. The fertilizer sector is the primary user of MARI's low btu gas as it uses it for the production of Ammonia.

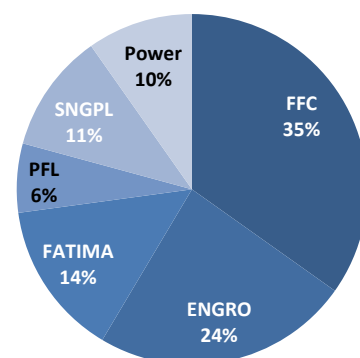
### Management Background

**Faheem Haider (MD & CEO):** He is the Managing Director & Chief Executive Officer of Mari Petroleum since August 2020. Mr. Haider is also Chairman of the Board of Foundation Solar Energy Limited (FSEL) and serving as a non-executive director on the boards of Pakistan International Oil Limited (UAE), and Fauji Akbar Portia Marine Terminal Limited.

He holds 30 years of international oil and gas industry experience in various technical and leadership roles. He has held resident roles in Pakistan, UK, Oman, Egypt and France, in addition to manage international E&P businesses (such as Union Texas Petroleum, OMV Pakistan Exploration GmbH, Helix RDS Limited UK, BG Group Plc UK) across mainland Europe, North Africa, South East Asia and Australia while based in London and Paris offices.

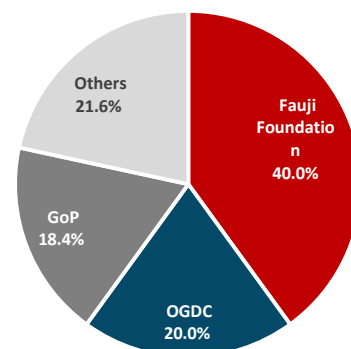
**Nabeel Rasheed (CFO):** Nabeel Rasheed is a fellow member of the Institute of Chartered Accountant of Pakistan and currently serving as Chief Financial Officer. He previously worked at Coral FLNG S.A as the Director of Finance and Control. He brings 15 years of experience and also holds a post graduate diploma in oil & gas law along with MBA in oil & gas management from Robert Gordon University

### Company Gas Sale Customers



Source: Company Accounts, BMA Research

### Shareholding Pattern



Source: Company Accounts, BMA Research

# ANNEXURE

## Gas Sector's Circular Debt Analysis

**Inadequate domestic gas tariff revisions generating a shortfall:** The gas sector's circular debt has been a significant issue over the past decade, driven primarily by the price differential between the cost of procuring gas and its selling price. Inadequate revisions in the gas tariff amidst escalating gas costs has created a large stock of a revenue shortfall from the two gas utility companies. As per OGRA's estimates, over the past ten years, the **revenue shortfall from the sale of indigenous gas has risen to PkR 878bn**. Moreover, the annual incremental shortfall in FY24 was **projected at PkR 185bn** on the prevalent tariff.

**RLNG diversion further adding to the sector's cash flow woes:** The shortage of indigenous gas compelled the government to divert a portion of expensive imported RLNG to the domestic sector. The revenue shortfall emanating from the diversion further contributed towards the sector's cash flow crunch. As per SNGP's latest financial report (June 2022), its incremental tariff differential **emanating from RLNG stood at PkR 115bn during FY22**. Given limited revisions in the domestic gas tariff, higher volumes of RLNG diversion as system gas, and increasing RLNG prices, we estimate that the **annual RLNG shortfall would stand at PkR 181bn** (see table on the right).

**Tariff hike proposal approved by the ECC:** The Economic Coordination Committee (ECC) has approved the proposed tariff structure to ensure the revenue requirements of the two Sui Utilities are met. Based on our assessment, the weighted average increase in the **domestic (residential) tariff** rate rose by nearly 100% to PkR 1,313/mmbtu for Sui Northern and PkR 1,078/mmbtu for Sui Southern.

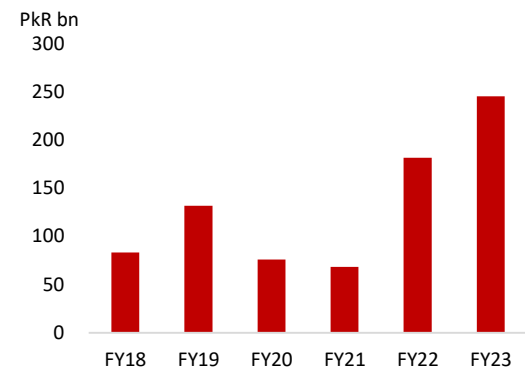
**Meter rentals also significantly increased:** The meter rentals of non-protected and the protected categories were also jacked up significantly. For protected gas users, the meter rent was increased by 40x to PkR 400/month. For the non-protected category, the rent was increased to PkR 1000 (+2.2x) for consumption up to 1.5hm<sup>3</sup> and PkR 2000 (+4.3x) for higher slabs. We expected an **incremental revenue collection of PkR 83bn** from the increase in the monthly rentals.

### Impact of Higher Fixed Meter Rentals

Slabs	Customers mn	Hike PkR/mo	Impact PkR bn
Protected	3.97	390	19
Non-Protected - up to 1.50hm <sup>3</sup>	5.60	540	36
Non-Protected - Over 1.50hm <sup>3</sup>	1.51	1540	28
		<b>Total</b>	<b>83</b>

Source: OGRA, BMA Research

### Annual Revenue Shortfall – Indigenous Gas



Source: Company Accounts, BMA Research

### RLNG Projected Revenue Shortfall

RLNG with Brent @ USD 85/bbl	13.2
PkR/USD Parity	285
RLNG Cost (PkR/mmbtu)	3,762
RLNG Diversion (mcmfd)	160
Cost of Diverted RLNG (PkR mn)	219,701
Revenue Collection (PkR mn)	38,719
<b>RLNG Shortfall (PkR mn)</b>	<b>180,982</b>

Source: OGRA, BMA Research

Slabs	Existing Tariff PkR/mmbtu	Proposed Tariff PkR/mmbtu	% Δ
<b>Protected</b>			
up to 0.25hm <sup>3</sup>	121	121	0%
up to 0.50hm <sup>3</sup>	150	150	0%
up to 0.60hm <sup>3</sup>	200	200	0%
up to 0.90hm <sup>3</sup>	250	250	0%
<b>Non-Protected</b>			
up to 0.25hm <sup>3</sup>	200	300	50%
up to 0.60hm <sup>3</sup>	300	600	100%
up to 1.00hm <sup>3</sup>	400	1,000	150%
up to 1.50hm <sup>3</sup>	600	1,200	100%
up to 2.00hm <sup>3</sup>	800	1,600	100%
up to 3.00hm <sup>3</sup>	1,100	3,000	173%
up to 4.00hm <sup>3</sup>	2,000	3,500	75%
above 4.00hm <sup>3</sup>	3,100	4,000	29%
<b>Sui Northern</b>	<b>663</b>	<b>1,313</b>	<b>98%</b>
<b>Sui Southern</b>	<b>620</b>	<b>1,078</b>	<b>74%</b>

Source: OGRA, BMA Research

### Other industries and sectors will also witness a sharp gas tariff hike:

Other industries also witnessed a sharp increase in the base gas tariff to ensure a higher revenue collection. Based on our estimates, the weighted average gas tariff stands at PkR 1,439/mmbtu, an increase of 52% from the previous average tariff of PkR 945/mmbtu.

**Incremental revenues to plug the deficit:** We estimate incremental revenues of PkR 322bn from the hike in gas tariffs. Moreover, the increase in meter rent would enhance collections by an addition PkR 83bn, **taking total incremental revenues to PkR 405bn**. We see this hike plugging the projected revenue shortfall of PkR 366bn from the sale of indigenous gas (PkR 185bn) and RLNG diversion (PkR 181bn).

#### Gas Tariff Proposed

Sector	Existing Tariff PkR/mmbtu	Proposed Tariff PkR/mmbtu	% Δ
Domestic*	650	1,245	
Bulk	1,600	2,000	25%
Commercial	1,650	3,900	136%
Power	1,050	1,050	0%
Fertilizer - Feed	510	580	14%
Fertilizer - Fuel	1,500	1,580	5%
Cement	1,500	4,400	193%
General	1,200	2,600	117%
General - Export	1,100	2,050	86%
Captive	1,200	2,600	117%
Captive - Export	1,100	2,050	86%
CNG	1,805	4,400	144%
<b>Weighted Average</b>	<b>945</b>	<b>1,439</b>	<b>52%</b>

Source: OGRA, BMA Research

\* weighted average

### Improved cash collection and balance sheet of Sui Utilities:

Incremental revenues will likely enhance the cash collection and balance sheet of the Sui companies. Based on our estimates, the projected gas tariff hike will fully plug the tariff differential emanating from the sale of indigenous gas and RLNG diversion.

Notably, the three listed energy companies affected by the gas-based circular debt saw their overdue **receivables surge to PkR 942bn** as of June 30'23. We think Sui Utilities will be better positioned to clear their payables in a timely manner, allowing for a sharp improvement in the energy sector's collections.

Revenue Requirements (PkR bn)	
<b>Revenue Requirements*</b>	<b>697</b>
SSGC	358
SNGP	339
<b>Total Deficit</b>	<b>366</b>
Indigenous – Deficit	185
RLNG Diversion – Deficit	181
<b>Incremental Revenues</b>	<b>405</b>
Gas Hike	322
Meter Rentals	83
<b>Net Surplus / (Deficit)</b>	<b>39</b>

Source: OGRA, BMA Research

\* OGRA's Estimate

#### Overdue Trade Receivables – Gas Sector

Stock	Overdue Balance		Monthly Incremental	
	PkR bn	PkR/sh	PkR bn	PkR/sh
OGDC	411	95.53	8	1.88
PPL	489	179.79	12	4.55
MARI	42	316.59	2	12.57

Source: Company Accounts, BMA Research

## Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by BMA Capital Management Limited from publicly available information and sources that BMA Capital Management Limited believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of BMA Capital Management Limited gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of BMA Capital Management Limited has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of BMA Capital Management Limited. This research report may not be relied upon by any retail customers or person to whom this research report may not be provided by law. Unauthorized use or disclosure of this research report is strictly prohibited. Members of BMA Capital Management and/or their respective principals, directors, officers and employees may own, have positions or effect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. Investing in Pakistan involves a high degree of risk and many persons, physical and legal, may be restricted from dealing in the securities market of Pakistan. Investors should perform their own due diligence before investing. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations.

BMA Capital Management Limited and / or any of its affiliates, which operate outside Pakistan, do and seek to do business with the company(s) covered in this research document. Investors should consider this research report as only a single factor in making their investment decision. BMA Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

## Stock Rating

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. BMA Capital Limited uses a three tier rating system: i) Buy, ii) Neutral and iii) Underperform (new rating system effective Jan 1'18) with our rating being based on total stock returns versus BMA's index target return for the year. A table presenting BMA's rating definitions is given below:

### Old rating system

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)