

Oil Marketing Sector - Growth story remains unhampered....

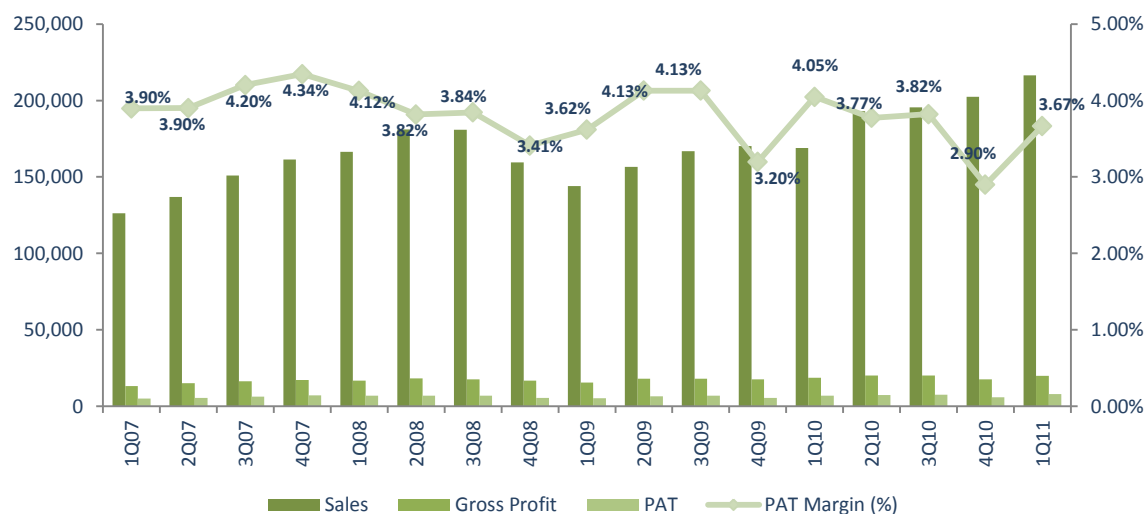
Sector growth continues to accelerate

The recovery signs of Oman economy which started off during the second half of 2010 continued during the last quarter, which we believe is on a progressive note. This in turn led to the growth momentum continuing in the Oil Marketing sector as the local economy growth improved on the back of robust Government spending measures. Overall segmental revenue which broke the RO 200 million revenue figures during Q4 2010 continued to accelerate.

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In line with our estimates, the growth momentum in the sector continued during Q1 2011 with the total revenue of the sector touched an all time high of RO 216 million as the four key business segments namely Retail, Commercial, Aviation and Lubricants reported stronger growth.

Graph 1: Oil Marketing Sector Performance - Quarterly Trend



Source: Company Reports, GBCM Research, Figures of Sales, Gross Profit, and PAT are in RO 000s

Robust performance continued: Oil marketing sector revenue during Q1 2011 witnessed a sturdy growth of 28% YoY to RO 216.4 million as against RO 168.8 million in the same period of last year. While on a QoQ basis, the sector revenue grew at a medium pace of 7.0%. In tandem with the growth momentum, the cost of sales too increased during the quarter due to which the gross margins of the sector fell by 180 bps to 9.2%. We believe a fierce competition in the commercial and aviation space is biting the margins for the quarter.

The sector reported its best ever quarterly profits. Profit after tax for Q1 stood at RO 7.934 million, a considerable increase of 16.1% on YoY basis. Despite increasing sales, PAT margins witnessed a fall by 40bps on YoY basis to 3.7%. On a QoQ basis, PAT margins increased by 77 bps.

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Retail Segment - On an uptrend: Opening up of the new Muscat Expressway, improved economic activity along with increase in automobile sales drove the sales volumes in the retail segment during the quarter. In addition to the prevailing high fuel prices in UAE has resulted in a significant improvement in the border fuel sales which has benefited the local players especially Al Maha Petro with its largest presence near the border areas.

Commercial Segment - Growth remains intact: Government continuing thrust on projects spending in the infrastructure and construction segments has benefitted the commercial segment. Total projects announced by the government during 2010 stood at RO 2.982 billion (*Source: Tender Board*). While the projects announced during Q1 2011 stood intact at RO 586.9 million as compared to the corresponding period of the previous year. The growth trend continued with the recent commercial contract awardance to Oman Oil Marketing worth RO 29 million for supply of fuel to Rural Area Electricity Co.

Aviation Segment – Less impact despite political unrest: Despite events in MENA region and Japan, the air line industry in Oman remained majorly unaffected. As per Oman Airports Management Co, the total passenger traffic through Muscat International Airport has increased by 16% on YoY basis during the Q1 2011. The increase in traffic is attributed to the increase in the number of flights by airlines, such as Oman Air and Air Arabia. As per IATA, the RPK (*Revenue Passenger Kilometers*) increased 8.4% and the ASK (*Available Seat Kilometers*) jumped by 10.4% during Q1 2011 in the Middle East as against the Industry growth of 5.9% and 8.9% respectively.

Lubricant Segment: Despite high crude oil prices, the demand for the lubricants has remained intact. However the increasing base oil price has weighed on the margins of this particular segment during the quarter.

Outlook - Sector on a growth path: On a conservative note, GBCM Research anticipate the sector to pursue growth similar to that of Oman's economy. The rolling out of new retail stations, improving automobile sales, inflow of expats and tourists is set to drive the retail segment in forthcoming quarters. Awardance of project by the government has remained intact till May 2011 as compared to previous year but any shift in the Government focus towards spending may have an impact on the commercial segment.

Aviation sector growth is expected to be driven by improved air traffic on the back of increasing presence of new airlines along with increase in the number of flights by existing carriers. Oil marketing companies would continue to feel the heat on the Lubricant segment till the price of crude oil in the international market softens. Currently the price of crude oil in the international market trades at \$100/bbl- NYMEX Crude and \$115/bbl- Brent Crude. **Overall we anticipate the sector towards reporting a consistent revenue growth moving ahead.**

Oil Marketing Sector: Valuation Metrics

Company	CMP	Rating	Fair Value	Upside/ (Downside)	FY11E	
					PE	P/BV
Shell Oman	2.378	Neutral	2.291	(3.7%)	15.9	7.5
Al Maha Petroleum	11.284	Accumulate	13.304	17.9%	10.2	2.2
Oman Oil Marketing	1.401	Neutral	1.454	3.8%	12.0	2.7

Source: Company Reports, Bloomberg, GBCM Research Estimates

Shell Oman Marketing - Leading the growth

Closing Price: RO 2.378

Recommendation: Neutral

Fair Value: RO 2.291

Downside: -3.7%

Q1 2011 Results - In line with our estimates

Revenue hits new high: Shell Oman surpassed its earlier revenue record of RO 90.506 million (Q3 2008) and touched a new level of RO 91.844 million on the back of improvement in its retail, commercial, aviation and lubricants segment. Revenue for Q1 2011 grew by 22% annually and 9% sequentially to RO 91.844 million. The company has not disclosed the segmental revenue break up for the period.

Growth on a mixed note: The retail sales of the company witnessed a considerable jump on the back of improvement in the industrial growth coupled with the opening of new roads (esp. Muscat Expressway) in the country. The contribution from the Aviation segment too surged up on the back of higher off take from the customers. While the contribution from the commercial grew marginally as the addition of contracts in the segment was minor for the company.

As per the company, the revenue from Marine Fuel segment has shown a moderate growth for the quarter. In the lubricant segment, despite volume growth, an increase in base oil price weighed the margins on the back of high crude oil price in the international market.

Graph 2: Sales Growth Trend - Quarterly



Source: Company Reports, GBCM Research; Figures of Sales and Gross Profit are in RO 000s

Higher cost of sales weighs on gross margins: The Company posted a gross profit of RO 9.321 million during Q1 2011 a modest increase of 10% on QoQ basis and the gross profit margins narrowed by 100 bps on YoY to 10.1% and remained muted on QoQ basis. While the operating margins of the company improved marginally by 130bps to 6.0% on account of lower admin & general expenses, which decreased by 15% on QoQ basis.

Earnings growth continued: Shell Oman posted a quarterly profit of RO 4.022 million which surged by 14% YoY and 49% QoQ. During the period under review the PAT margins too widened by 120 bps (QoQ) to 4.4% and contracted by 30 bps on YoY basis.

Graph 3: Net Profit Vs Net Profit Margins (%) Trend



Source: Company Reports, GBCM Research; Figures of Net Profit is in RO 000s

Outlook: The retail segment contribution from the existing as well as the new fuel stations are expected grow further on the back of perk up in automobile sales due to increase in spending power of the people in addition to unveiling of new roads. With a handful of contract in the aviation segment, the company is likely to enjoy the revenue inflow from the segment.

While the commercial segment growth will be spurred by Government as well as private sector project spending initiatives in segments such as airports, ports, infrastructure etc. As the company caters premium segment in the Lubricant sector, the demand for the same is likely to continue throughout the year.

At the current market price the stock is trading at 15.9X of 2011E EPS of 0.149 baiza. We reiterate our **'Neutral'** rating on the stock with a target value of **RO 2.291** (Target Price arrived based on DDM and PE valuation). We expect the company to pay FY11E cash dividends of RO 0.137, providing yield of 5.8% making the stock an attractive dividend play.

(The stock price has flared up 6.8% since the beginning of the year.)

Financial Highlights

Period Ended (In RO 000s)	Q1 2010	Q1 2011	(%)	FY09	FY10	(%)
Sales	75,065	91,844	22.4%	298,351	323,604	8.5%
Total Expenditure	66,747	82,523	23.6%	265,622	288,849	8.7%
Gross Profit	8,318	9,321	12.1%	32,729	34,755	6.2%
GPM (%)	11.1%	10.1%		11.0%	10.7%	
Admin & Gen expenses	3,467	3,854	11.2%	14,498	15,501	6.9%
PBIDT	4,851	5,467	12.7%	18,231	19,254	5.6%
OPM (%)	6.5%	6.0%		6.1%	5.9%	
PAT	3,535	4,022	13.8%	13,021	13,991	7.4%
PAT Margin (%)	4.7%	4.4%		4.4%	4.3%	

Source: Company Reports, GBCM Research

Al Maha Petroleum - Secular growth story

Closing Price: RO 11.284

Recommendation: Accumulate

Fair Value: RO 13.304

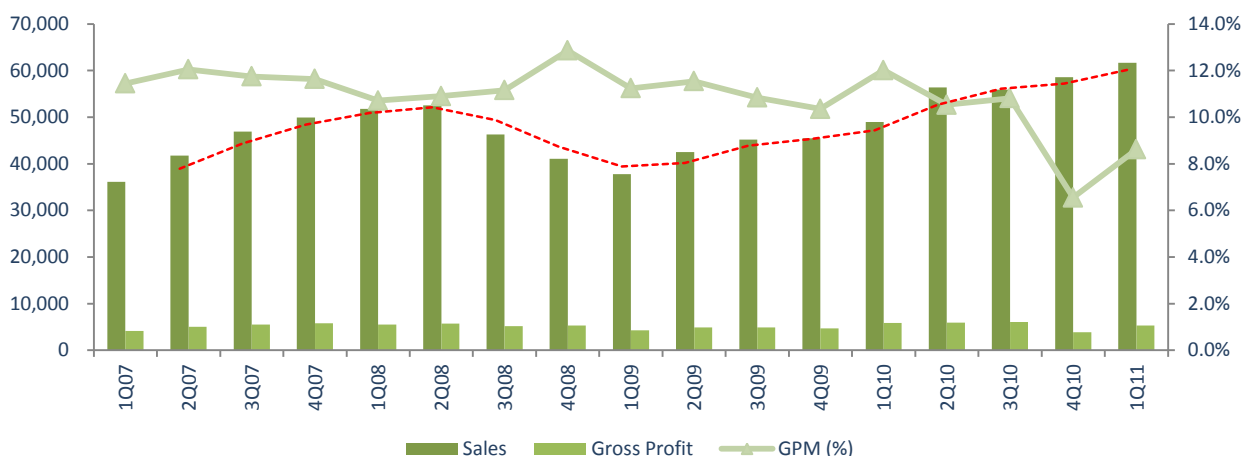
Upside: 17.9%

Q1 2011 Results - In line with our estimates

Record revenue ride continues: Al Maha continued its record revenue growth for the quarter and the sales for the fiscal Q1 2011 were up substantially by 26% on a YoY basis to RO 61.7 million, the same has increased 5% on a QoQ basis. The company has said that the surge in the revenue was on the back of increase in retail, commercial and aviation fuel sales.

Al Maha continued to benefit from the border sales as UAE had maintained its high fuel prices due to high crude price prevailing in the international market. Oman Air contract persistently contributed to the top line during the quarter under review, while the Government's continuous interest on the development of construction and infrastructure sector has benefitted the commercial segment.

Graph 4: Sales Growth Trend - Quarterly

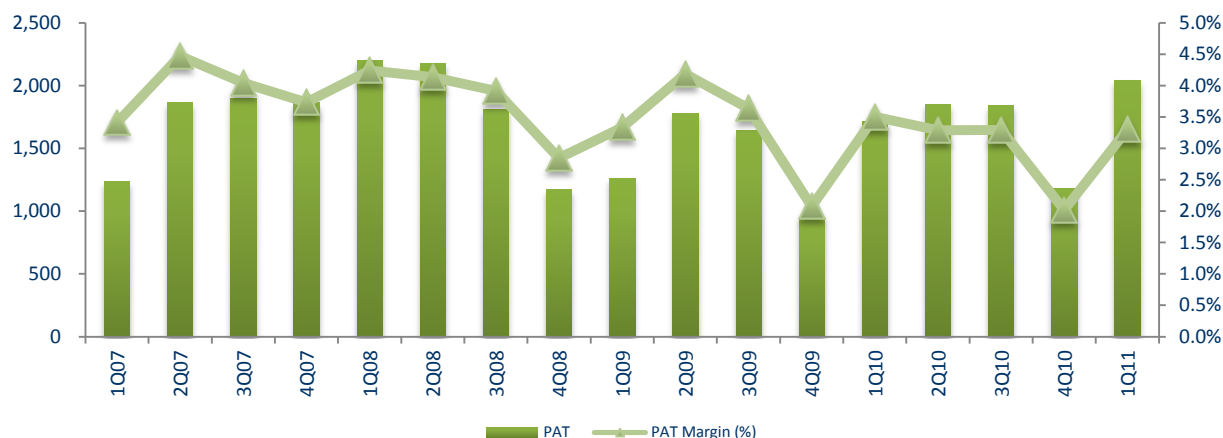


Source: Company Reports, GBCM Research; Figures of Sales and Gross Profit are in RO 000s

Gross margins tumbles: The Company reported a gross profit of RO 5.317 million a decrease of 10% YoY and an increase of 39% QoQ basis. This was on account of surge in the cost of sales by 31% on YoY and 3% QoQ basis. We believe an intense competition in the aviation and commercial segment would have put pressure on the gross margins during the quarter. The gross margins narrowed by 340 bps YoY and expanded 210 bps QoQ to 8.6%.

Increase in Other Income boosts Earnings: An inflow of additional income of RO 289K in the 'Other Income' augmented by increase in rental income of filling stations, convenience Stores (Souks) and Car wash centres, boosted the net profit during the quarter. The company reported a PAT of RO 2.039 million which increased by 19% YoY and 72% QoQ. The PAT margins stood at 3.3% as against 3.5% in Q1 2010 and 2.0% in Q4 2010.

Graph 5: Net Profit Vs Net Profit Margins (%) Trend



Source: Company Reports, GBCM Research; Figures of Net Profit is in RO 000s

Outlook: The Company had earlier stated (*Directors Report 2010*) that it will try to maximize the benefit from announced Government projects by mainly focusing on the commercial segment and retail segment by adding up more fuel stations along with the convenience stores.

The stock looks attractive at the current levels as the earnings are poised for a growth of 15% during the year as the company's retail, commercial, and aviation segment has set to progress. During the current year, we expect the company to report a net profit of RO 7.634 million.

At the current levels, the stock trades at P/E (FY11E) of 10.2X, which is discounted to the sectoral peers. We recommend an '**Accumulate**' rating on the stock with a target price of **RO 13.304** (*Target Price arrived based on DCF and PE valuation*), an upside of 17.9% from the current levels.

(We have revised our rating from Buy to Accumulate, as the stock price has flared up 12.3% since the beginning of the year.)

Financial Highlights

Period Ended (Figures in RO 000s)	Q1 2010	Q1 2011	(%)	FY09	FY10	(%)
Sales	48,952	61,700	26.0%	170,995	219,786	28.5%
Total Expenditure	43,072	56,383	30.9%	152,228	198,086	30.1%
Gross Profit	5,880	5,317	-9.6%	18,768	21,699	15.6%
GPM (%)	12.0%	8.6%		11.0%	9.9%	
Admin & Gen Expenses	3,561	2,968	-16.7%	11,396	12,923	13.4%
PBIDT	2,319	2,349	1.3%	8,303	9,783	17.8%
OPM (%)	4.7%	3.8%		4.9%	4.5%	
Depreciation	545	444	-18.5%	1,888	2,186	15.7%
Tax	257	353	37.4%	769	936	21.8%
PAT	1,715	2,039	18.9%	5,669	6,690	18.0%
PAT Margin (%)	3.5%	3.3%		3.3%	3.0%	

Source: Company Reports, GBCM Research

Oman Oil Marketing - Expansion led growth

Closing Price: RO 1.401

Recommendation: Neutral

Fair Value: RO 1.454

Upside: 3.8%

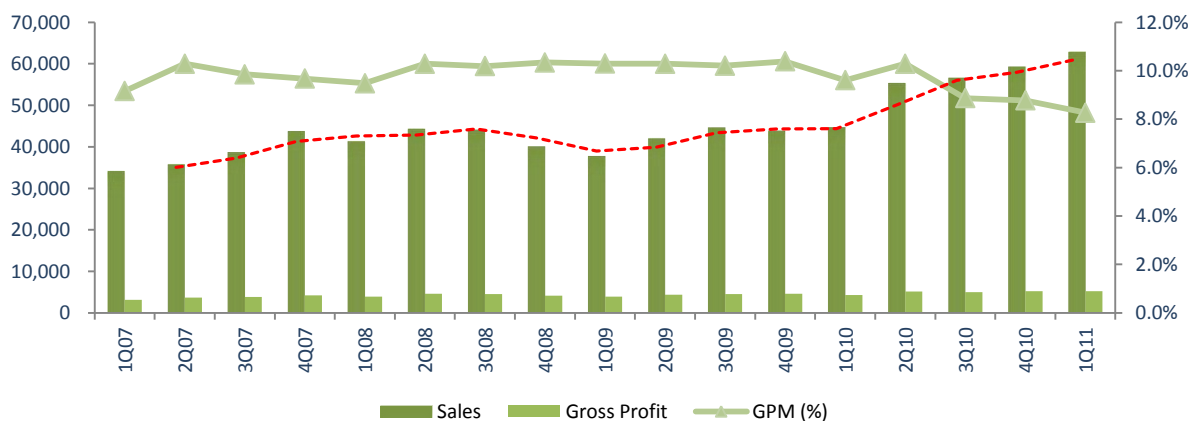
Q1 2011 Results - In line with our estimates

Revenue surges on increased contribution: The combined performance of the four segments boosted the revenue of the company during the quarter. Oman Oil Marketing too touched a new high in its revenue as the company posted RO 62.852 million for Q1 2011 an increase of 40% YoY and 6% QoQ.

The retail sector saw a YoY increase of 20% in its volume sales due to increased sales in existing as well as in the new stations rolled out during the previous year, revamped convenience stores, opening up of allied stores like Burger King in two of its retail stations, etc. The contribution from the commercial segment went up significantly owing to new contracts. The volume in the commercial segment grew by 23% YoY.

Aviation continued to contribute to the top line in a considerable manner but at the same time there has been lower off take of fuel from certain existing customers during the quarter. In the lubricants segment, the company has the license to sell BP and Castrol lubricants in the local market and the contribution from the same has remained intact. In the export market, the company markets its own brand "OOMCO". Out of the seven niche export markets for Lubricants, Kuwait is performing well.

Graph 6: Sales Growth Trend – Quarterly



Source: Company Reports, GBCM Research; Figures of Sales and Gross Profit are in RO 000s

Margins drop despite revenue growth: The Company reported a gross profit of RO 5.194 million during the quarter which increased by 21% YoY basis and remained muted on QoQ basis. Gross profit margins too contracted by 130 bps to 8.3% on the back of increasing aviation segment contribution which is being considered as high volume low margin business.

Net profit fell sequentially: The net profit grew considerably 18% over the year-ago and declined by 5% over the previous sequential quarter to RO 1.873 million. Net profit margins dropped by 50 bps YoY and 30 bps QoQ to 3.0%.

Graph 7: Net Profit Vs Net Profit margins (Quarterly trend)



Source: Company Reports, GBCM Research; Figures of Net Profit is in RO 000s

Growth across key business segments to continue: Currently the total retail stations of the company as at end of Q1 2011 stands at 124. The company expects to open another 2 to 3 stations during Q2 2011. The recent policy measures with regard to creation of employment opportunities and increase in wages will have a medium term positive impact, as this will result in increase in automobile sales which inturn boost the demand in retail segment. Revenue from this segment is expected to grow in double digits in 2011E.

The company has adequate commercial projects in hand and is expected to contribute in a more considerable manner as compared to 2010. However we expect the announcement of big ticket projects may have a time lag, which can impact the new order additions in commercial segment.

Oman Oil remains the market leader in the Aviation segment with the presence of Oman Air Contract. Despite renewal in contracts, the company has witnessed lower off take by the customers during the Q1 2011. This is expected to continue in forthcoming quarters and will have a marginal impact to the bottom line. Demand in both the domestic and export market for Lubricants is expected remain intact during the year and the company expects a sufficient contribution from this segment.

Outlook: The Company is focusing on the capacity addition which is likely to prove fruitful in the medium to long term. Similarly, the aviation segment is expected to contribute considerably to the top line 2011, while the bottom-line contribution to remain lower on back of thin margins in these contracts. We also expect the increase in employee costs to have a marginal impact on the earnings of the company.

At the current levels, the stock trades at 12.0X of FY11E EPS. We revise our rating to **“Neutral”** on the stock with a target price of RO 1.454 (*Target Price arrived based on DDM and PE valuation*), an upside of 3.8% from the current levels.

(We have revised our rating from Accumulate to Neutral, as the stock price has flared up 15.3% since the beginning of the year.)

Financial Highlights

Period Ended (Figures in RO 000s)	Q1 2010	Q1 2011	(%)	FY09	FY10	(%)
Sales	44,801	62,852	40.3%	168,444	216,174	28.3%
Total Expenditure	40,496	57,658	42.4%	151,037	196,497	30.1%
Gross Profit	4,305	5,194	20.6%	17,408	19,677	13.0%
GPM (%)	9.6%	8.3%		10.3%	9.1%	
Admin & Gen Exps	2,125	2,639	24.2%	9,382	10,139	8.1%
PBIDT	2,180	2,554	17.2%	8,636	10,199	18.1%
OPM (%)	4.9%	4.1%		5.1%	4.7%	
Depreciation	560	651	16.3%	2,453	2,477	1.0%
PAT	1,582	1,873	18.4%	5,360	6,862	28.0%
PAT Margin (%)	3.5%	3.0%		3.2%	3.2%	

Source: Company Reports, GBCM Research

Stock Rating Methodology:

Buy - Upside more than 20%

Accumulate - Upside between 10% and 20%

Neutral - Upside or downside less than 10%

Reduce - Downside between 10% and 20%

Sell - Downside more than 20%

Not Rated - Stocks not in regular research coverage

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