Al Maha Petroleum – Q1FY11 update

Fuel distribution

April 28, 2011
CMP: RO 11.320

Margins under pressure as costs grew 29% and revenues grew 26%.
Al Maha Petroleum reported growth in revenues of 26% yoy and 5.3% qoq to RO 61.7mn which helped the company to register highest quarterly revenues in history. However, the gross profits declined slightly by 2.9% qoq to RO5.3mn. GP margin decreased to 8.6% in Q1FY11 compared to 9.3% in Q4FY10 as the company has seen a higher portion of growth in non retail volumes compared to the retail volumes which lead to pressure in the GP margin. We expect this to stabilize as retail volumes pick up sequentially.

PAT grew 19% yoy, largely due to higher other operating income
The profit for the quarter was RO 2.04mn, 59% higher yoy and 19% higher qoq driven by other operating income which has increased by RO 289k yoy. The profit margin has grown this quarter to 3.3% compared to 2.2% last quarter due to the increase in other income and the decline in the operating and administration expense which shows 23% decline qoq mainly due to the decline in technical fees, maintenance expenses and other expenses of company operated filling stations.

The Car wash (54% of Q1FY11 other income), rental income from leasing of head office space (19%) and convenience stores income (10%) is the primary source of other operating income. Moreover, the convenience stores income has come back after an earlier management contract to operate souks was terminated in April 2010. In addition, Al Fair started setting up shops at its pumps starting mid 2010, which is buoying other income. The Car wash and service centre income is growing as traffic grows and new pumps are being equipped.

Retail sales have shown 16% increase in FY2010 and the company stated that the growth in retail has continued in Q1FY11 due to the expansion in network where the company has added 4 more fuel stations since last April 2010 bringing the total retail stations to 167 at end of 2010. In addition, the length of asphalted roads has doubled in last five years and reached 26k kilometers at end of 2009 which helped to continue growth in the sector as the tender board announced tenders for road worth of RO 966mn in last two years. Moreover, car imports increased 10.7% from 24.6k in Q1FY2010 to 27.2k in Q1FY2011. The retail volumes accounted for 62% of total volumes in FY2010 and we expect the proportion at 61% in FY2011e due to the higher growth in non retail volumes.

Commercial fuel We expect the favorable government finances to enable a healthy level of government spending in the economy, thus supporting growth in bulk fuel volume (grew 30% in 2010). Moreover, the govt. tendering activity has increased to RO 3.7bn in FY2010 as compared to RO 2.9bn in FY09, registering a 41% increase over 2009. The company doesn't give the volume breakup on quarterly basis. We have estimated the full year growth in bulk fuel at 12%, which accounts for 81% of non retail volume.

Aviation sector has seen 107% increase in FY2010 as the numbers of flights in Muscat international airport has increased by 21% compared to FY2009 and 5% increase for the first two months of current year compared to the same period last year. We estimate slower growth in aviation volume in FY2011 to account for approximately 19% of the total non-retail volume.

Valuation We expect the company to report FY11 revenues of RO 247.6 million and PAT of RO 8.0 million. At RO 11.393 the stock trades at 9.7x FY11e and 8.8x FY12e earnings. Based on 12% cost of equity and 3% terminal growth our DCF model throws a Dec '11 target price of R.O 13.700. We recommend a **BUY** on the stock.

Report Purpose

Q1FY11 update

Stock Details

Exchange / Code	MSM/MHAS
Bloomberg Code	MHAS OM
Equity Capital	RO 6.9mn
Face Value	1.000
52-Week H/L	12.220/8.001
Market Cap	RO 78.61mn

Shareholding Pattern

ABS Lubricants	40%
Civil Service Employees Pension Fund	12%

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Al Maha Petroleum

Ro mn	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	QoQ	YoY
Revenues	37.8	42.5	45.2	45.5	49.0	56.4	55.9	58.6	61.7	5.3%	26.0%
Other income	0.21	0.28	0.21	0.23	0.18	0.20	0.25	0.38	0.47	23.4%	162.4%
Total Income	38.0	42.8	45.4	45.7	49.1	56.6	56.1	57.9	62.2	7.3%	26.5%
COGS	33.5	37.6	40.3	40.8	43.6	51.0	50.4	53.1	56.4	6.2%	29.3%
GP	4.2	4.9	4.9	4.7	5.3	5.4	5.5	5.5	5.3	-2.9%	-0.3%
GPM	11.2%	11.5%	10.8%	10.4%	10.9%	9.6%	9.8%	9.3%	8.6%		
SG&A	3.1	3.2	3.2	3.8	3.6	3.5	3.7	4.4	3.4	-22.5%	-4.2%
EBITDA	1.4	2.0	1.9	1.1	2.0	2.1	2.1	0.4	2.4	433.9%	21.5%
EBITDA %	3.7%	4.8%	4.1%	2.5%	4.0%	3.7%	3.7%	0.8%	3.8%		
Interest	-	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)		
Amortn	0.44	0.49	0.47	0.50	0.55	0.54	0.55	0.55	0.44		
PBT	1.4	2.0	1.9	1.1	2.0	2.1	2.1	1.5	2.4	64.3%	21.3%
Tax	0.17	0.24	0.22	0.14	0.26	0.25	0.25	0.17	0.35		
PAT	1.26	1.78	1.64	0.99	1.72	1.85	1.84	1.28	2.04	59.1%	18.9%
NPM	3.3%	4.2%	3.6%	2.2%	3.5%	3.3%	3.3%	2.2%	3.3%		

RO mn	2009	2010E	2011E	2012E
Revenues	171.0	219.8	247.6	256.5
Gross profit	19.7	22.7	22.5	0.0
EBITDA	8.3	9.8	11.1	12.1
PAT	5.7	6.7	8.1	8.9
EBIT%	3.8%	3.5%	3.7%	3.9%
EBITDA%	4.9%	4.5%	4.5%	4.7%
PAT%	3.3%	3.0%	3.3%	3.5%
ROE%	19.8%	21.4%	23.7%	23.9%
ROCE%	22.3%	24.2%	26.8%	27.1%
EPS (RO)	0.822	0.970	1.169	1.283
PE (x)	13.8	11.7	9.7	8.8
BV (RO)	4.3	4.7	5.1	5.6
P/B	2.6	2.4	2.2	2.0
EV/EBITDA	8.4	7.2	6.2	5.5

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