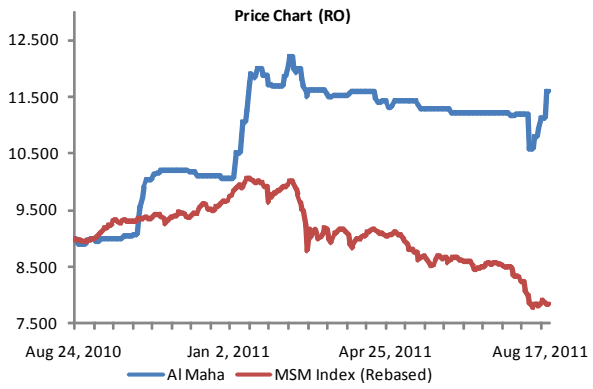
August 24, 2011

Al Maha Petroleum Products Marketing Co. (SAOG)

Rating: Accumulate

H1 2011 – Update

MSM Ticker	MHAS
Reuters Ticker	MAHA.OM
Sector	Oil Marketing
CMP (RO)	11.600
Target Price (RO)	**13.049**
Upside	**12.5%**
52-wk high/low	12.220/8.400
YTD Performance	15.4%
YTD Traded Volume	425,930
Market Cap. (RO 000)	80,040
Shares Outstanding (000)	6,900



Review

- Aggregate sales for six months ended 30th June 2011 noted a 22.4% increase (*y-o-y*) to reach RO. 128.91 million from RO. 105.33 million posted during the same period last year. Q-o-Q sales figure has noted a 8.9% improvement. Y-o-Y Sales increase of nearly RO. 23.58 million stems from increase in retail, commercial and aviation fuel sales.
- Retail business notes improvement during the quarter owing largely to increase in the company's network presence, which now stands at 169. The company has added 6 new fuel stations during the last 12 months.
- Gross profit notes marginal improvement during H1 2011 and now stands at RO 11.2 million over RO 10.7 million posted in H1 2010 (y-o-y). This was mainly due to the better operational efficiency.
- The net income for H1 2011 stands at RO. 4.34 million, a growth of 21.7% (*y-o-y*) over RO. 3.56 million recorded in H1 2010. The net margin for the period stood at 3.36%. Despite being lower to the corresponding period of last year, the margin was supported by a 152.3% increase in other income which comprised largely of lease income on the office building, filling stations & car wash centers.

Outlook & Recommendations

- Aggregate sales expected to reach around RO. 252.12 million for the year ending December 31, 2011, an increase of 14.7%, *y-o-y*. Bottom line is expected to improve by 12.6% (y-o-y) during the year 2011 to reach RO. 7.53 million.
- We assign **Accumulate** rating to the stock for the short term with 2011 revised target price of **RO 13.049/share.**

Financial Summary

(RO 000)	H1 '11	H1 '10	*% Chg. (YoY)*	12M '10	12M '09	*% Chg. (YoY)*
Revenue	128,911	105,334	*22.4%*	219,786	170,995	*28.5%*
EBIT	4,991	4,053	*23.1%*	7,597	6,415	*18.4%*
EBITDA	5,942	5,142	*15.6%*	9,783	8,304	*17.8%*
Net Profit	4,341	3,568	*21.7%*	6,690	5,670	*18.0%*
EBIT margin	3.9%	3.8%	-	3.5%	3.8%	-
EBITDA margin	4.6%	4.9%	-	4.5%	4.9%	-
Net margin	3.4%	3.4%	-	3.0%	3.3%	-
Basic EPS	0.629	0.517	*21.7%*	0.970	0.822	*18.0%*
P/E (x)	9.2	11.2	-	12.0	14.1	-
BVS	4.668	4.287	*8.9%*	4.739	4.320	*9.7%*
P/BV (x)	2.5	2.7	-	2.4	2.7	-
DPS	-	-	-	0.700	0.550	*27.3%*
Div. Yld*	-	-	-	6.0%	4.7%	-

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Operational Review

Site additions take retail network to 169

For H1 2011 the company reported better performance across all its operating segments comprising of Retail, Commercial and Aviation. The improving local economy and the Government committed focus on infrastructure expenditure are key drivers. The company has been to capitalize well the additional fuel needs of the sultanate.

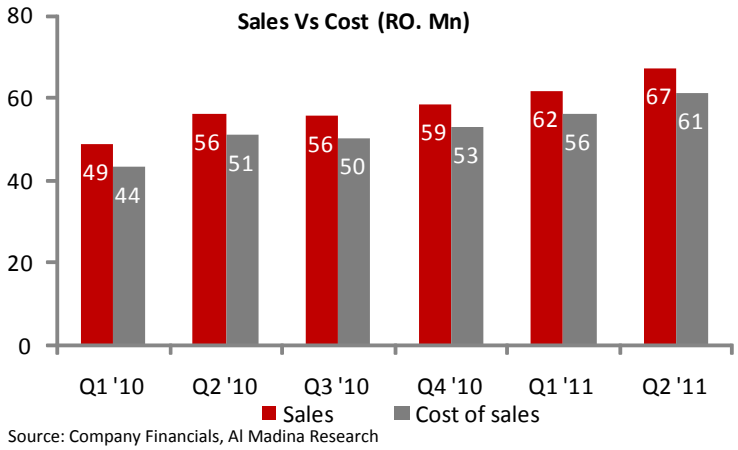
The company's retail network is vast at 169 fuel stations, with 6 new station additions during the span of last 12 months. Retail fuel volumes continue to note increase given the increased vehicular presence and the vast site presence of the company. The company has expanded its reach in the Aviation sector due in part to the major aviation contract from Oman Air (won during 1st quarter of 2010) which is valid till 31st March 2012. The Aviation sector continues to witness significant competition given the usual policy of several airlines to engage in yearly tendering for fuel supplies.

Given the increased government spending on infrastructural developments across the country, the company succeeded in securing some major contracts within the commercial segment for B2B fuels supplies. The segment caters to a diverse set of sectors of the economy such as utilities, construction and industries. Lubricants sales also showed an improved market condition during the last quarters.

Financial Overview

Sales note growth albeit at lower margins

During H1 2011, Al Maha reported total revenue to the tune of RO 128.91 million, versus RO. 105.33 million achieved during H1 2010, which reflects a growth of 22.4%.
As mentioned above improved sales are a result of the better performance of its operating segments. However, the gross profit margin over the same period underwent a marginal decline, due largely to intense competition noted in the sector especially in the Commercial and Aviation segments. The gross margin curtailed to just 8.7% during H1 2011 down from 10.2% reported during H1 2010.



Source: Company Financials, Al Madina Research

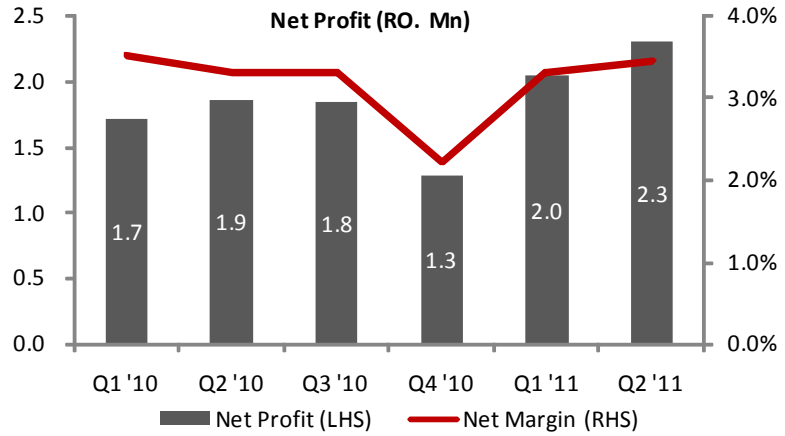
Costs, a key focus area

Direct costs, as reported under Cost of Sales have surged by 24.42% (*y-o-y*) to RO. 117.7 million as of H1 2011.

Admin. & selling expenses (excl. depreciation and transportation) stood reasonably lower by 1.62% (*y-o-y*) for the half year in review at RO. 4.24 million. The decrease came primarily from the lower maintenance & technical fees. Employee costs saw an increase of around 8.4% (*y-o-y*) and form the prime constituent of overall admin. & selling expenses at 29.9%. Overall the company seems to have done well in maintaining a competitive cost structure. However, distribution expenses witnessed a 19.2% increase (*y-o-y*), which seems mainly driven by the increased business volume handled during the period.

Surge in other income boost net profit

During the half year ended 30th June 2011, the company earned a net profit of RO. 4.34 million versus RO. 3.56 million earned during H1 2010, which reflects a 21.7% increase on a *y-o-y* basis. A major factor behind the improved net profit figure is the notable surge in other income for the period. Other income surged by more than 152% on a *y-o-y* basis during the period given the higher rental income earned on the convenience stores (Souk) and lease income on filling stations/car wash centers.



Source: Company Financials, Al Madina Research

The net margin stood at 3.4% during the first half, which is at par to 3.4% attained during H1 2010. Net margin has been sustained mainly due to the higher other income.

Balance Sheet depicts strength

For the 6M ended 30th June 2011, the company's aggregate assets stand at RO. 59.62 million, an increase of 5.94% from year 2010 end and 13.19% on a y-o-y basis.
Among assets, fixed assets (comprising PPE) account for the 32.7% of total assets at RO. 19.54 million. Receivables & prepayments have increased by RO. 10 million as a result of the increase in sales noted during H1 2011 and account for 53.86% of total assets. The cash balance stands sound at RO. 3.46 million or 5.8% of aggregate assets.

Total liabilities for the period stand at RO. 27.416 million, up by 18.69% compared to the H1 2010. Trade & other payables have noted a 19% upside for the current year upto 30th June to reach RO. 27.2 million. Total shareholder's equity stands at RO. 32.21 million for the period.

Outlook

Economic growth to fuel performance

We believe prospects are strong for the company in the short to mid-term given improved economic growth and aggressive infrastructure development activities.

Oman has laid out an ambitious development plan as part of its Eight Five Year Plan (2011-2015) with a total commitment towards investment expenditure at RO. 12.6 billion. Of this, the bulk portion is dedicated towards infrastructure development involving new roads, airports, seaports. We believe the spillover effect with this kind of development is positive for the oil marketing business. In addition, the Government's initiative to improve the level of employment among citizens, given the recent unrest, would likely improve the spending habits and be a booster for the company's growth.

For year 2011, we expect the company to achieve revenues to the tune of **RO. 252.1 million** a **14.7%** growth (*y-o-y*) on the previous year achievement of RO. 219.7 million. The growth is largely a function of improved economic prospects we see in the local economy going forward. In particular we see decent short term growth potential in the Commercial and Aviation sectors. However, we expect that the fierce prevailing competition in the sector would likely curtail margins for year 2011. We expect the net profit to reach **RO. 7.53 million** for the year ending 2011.

Valuation & Recommendation

We have carried out a hybrid valuation approach for Al Maha comprising of Discounted Cash Flow, Dividend Discount Model and Peer group analysis. We have arrived at a Cost of Equity (COE) at 9.6%. The Beta we use is 0.7 derived via regression analysis. The risk free rate (rf) and risk premium is taken at 4% and 8.0% respectively. We assume a terminal growth rate of 2.0% as part of closure to the valuation.

Based on our DCF workings, the total equity value works out to RO. 93.08 Million. Therefore, the fair value per share for Al Maha Petroleum Products Marketing Co. SAOG for the year 2011 works out to **RO. 13.491/share**.

For our valuation using the Dividend Discount Model, we forecast dividend growth rate of 5.7% (CAGR) from 2010-2015E and a terminal rate of 2.00% thereafter. Based on this, the fair value for Al Maha Petroleum Products Marketing Co. SAOG for the year 2011 works out to **RO. 12.21/share**.

The TTM P/E (based on June 2011 results) of the Oil Market sector works out to 13.7 times. We, however, are conservatively applying a forward P/E of 13.0 times on our projections for year 2011. Based on this, the fair value per share for Al Maha Petroleum Products Marketing Co. SAOG for the year 2011 works out to **RO. 14.200/share**.

Technique	Target Price (RO/Share)	Weightage	Value Contribution
DCF	13.49	50.0%	6.745
DDM	12.21	40.0%	4.884
P/E (13x)	14.20	10.0%	1.420
Fair Value (RO/Share)			**13.049**

We arrive at a blended fair value/share of **RO. 13.049** for year 2011 (2.9% upside to our previous target price of RO. 12.681). This represents an upside of **12.5%** on the current market price of RO. 11.600/share with a 2011E forward P/E of 12.0 times. We reiterate our rating on the stock to **Accumulate** for the short term. We believe the stock positions well for the value investor.

We believe a major downside risk to our valuation is the recent Court of Appeal verdict (27th June 2011) in the case against Shell Oman Marketing, where the court decided that Al Maha is liable to pay a total settlement amount of RO. 2.1 million. Al Maha has appealed the ruling before the Supreme Court which has set a date of 12th September 2011 to consider the appeal. As such we have not accounted for this one-time event in our forecasts. The company has increased allocation to its special reserve to RO. 2.1 million.

Financials

Income Statement

(RO 000)	2009	2010	2011E	2012E	2013E
Revenue	170,995	219,786	252,127	259,342	275,840
Cost of sales	(152,228)	(198,086)	(228,931)	(235,872)	(251,566)
Gross profit	**18,768**	**21,699**	**23,196**	**23,470**	**24,274**
Other income	837	856	1,926	2,115	2,254
Depreciation	(1,888)	(2,186)	(2,134)	(2,129)	(2,158)
Selling & administration expenses	(8,304)	(9,428)	(10,312)	(10,592)	(10,946)
Distribution expenses	(3,092)	(3,495)	(4,084)	(4,149)	(4,373)
Result from operating activities	**6,415**	**7,597**	**8,588**	**8,713**	**9,050**
Finance income	52	54	69	94	111
Finance charges	(27)	(25)	(20)	(20)	(15)
Profit before income tax	**6,439**	**7,627**	**8,637**	**8,787**	**9,146**
Income tax expense	(769)	(936)	(1,103)	(1,101)	(1,134)
Net profit for the year	**5,670**	**6,690**	**7,534**	**7,686**	**8,012**

Balance Sheet

(RO '000)	2009	2010	2011E	2012E	2013E
Assets					
Property, plant and equipment	20,178	19,764	19,725	20,090	20,927
Total non-Current Assets	**20,178**	**19,764**	**19,725**	**20,090**	**20,927**
Inventories	2,499	2,155	3,232	2,665	3,471
Receivables and prepayments	18,081	26,161	31,468	32,174	33,896
Cash at bank and in hand	8,584	8,199	12,695	13,475	15,394
Total Current Assets	**29,163**	**36,514**	**47,395**	**48,313**	**52,761**
Total Assets	**49,341**	**56,279**	**67,120**	**68,403**	**73,688**
Shareholder's Equity					
Share capital	6,900	6,900	6,900	6,900	6,900
Legal reserve	2,300	2,300	2,300	2,300	2,300
Special reserve	1,166	1,166	2,104	2,104	2,104
Retained earnings	19,440	22,335	24,101	26,267	28,586
Total Equity	**29,805**	**32,700**	**35,405**	**37,571**	**39,890**
Liabilities					
Employees' end of service benefits	120	141	157	167	201
Total non-Current Liabilities	**120**	**141**	**157**	**167**	**201**
Income tax payable	795	912	1,033	1,051	1,094
Payables and accruals	18,621	22,526	30,525	29,614	32,503
Total Current Liabilities	**19,416**	**23,438**	**31,558**	**30,665**	**33,597**
Total Equity and Liabilities	**49,341**	**56,279**	**67,120**	**68,403**	**73,688**

Cash Flow Statement

(RO 000)	2009	2010	2011 E	2012 E	2013 E
Profit before income tax	**6,439**	**7,627**	**8,637**	**8,787**	**9,146**
Net cash from operating activities	7,924	5,129	11,355	8,702	10,498
Net cash used in investing activities	-2,637	-1,719	-2,029	-2,402	-2,886
Net cash used in financing activities	-3,450	-3,795	-4,830	-5,520	-5,693
Net (decrease) increase in cash and cash equivalents	1,837	-385	4,496	780	1,920
Cash and cash equivalents at the beginning of the year	6,747	8,584	8,199	12,695	13,475
Cash and cash equivalents at the end of the year	**8,584**	**8,199**	**12,695**	**13,475**	**15,394**

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Al Madina Research: Rating Methodology

Rating	Explanation
Buy	Capital gain of >20% to the CMP.
Accumulate	Capital gain in the range of 10%-20% to the CMP.
Hold	Capital gain in the range of 0%-10% to the CMP.
Reduce	Capital depreciation in the range of 0%-10% to the CMP.
Sell	Capital depreciation of >10% to the CMP.
Time Horizon	**Explanation**
Short Term	Period of upto one (1) year from date of recommendation.
Mid Term	Period of 1-3 years from date of recommendation.
Long Term	Period of >3 years from date of recommendation.

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