

Oil Marketing

BUY: 12M TP@RO 2.640

Valuation Summary (TTM)

CMP (RO)	2.362
Upside	12%
PER (x)	15.5
P/B (x)	9.4
P/S (x)	0.6
EV/EBITDA	11.1
Div Yield	5.5
Free Float(%)	34.0
Shares O/S(m)	100.0
Beta	0.4

(Mn)	OMR	USD
MarketCap	236	614
EV	241	627

Price Performance (%)

	1M	3M	12M
Shell Oman	-1%	-2%	24%
MSM30	-5%	-10%	-11%

Average Daily Turnover ("000)

	1D	10D	3M
Volume(shares)	N/A	91	18

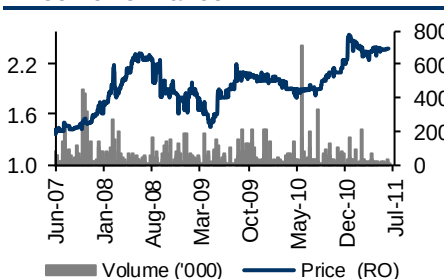
52 Week	High	Low	CTL*
Price (RO)	2.585	1.825	29%
MSM30 Index	7,052	5,651	0%

*CTL is %change in Current to 52Wk Low

Major Shareholders

BVLitch en Kracht	20%
Shell Overseas Investment BV	20%

Price Performance



Other details

Report Purpose: Update Report

Exchange: MSM

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Data updated as of Aug 7, 2011

Shell Oman Marketing: Fueling growth

We remain convinced on the story of Shell Oman owing to improved directions in revenue growth and suggest an overall earnings upside in 2011E. We recommend a "BUY" rating on the stock with 12 month target price of RO 2.640 per share, a potential upside of 12% from current levels. Shell Oman trades at a PER of 14.1x to its 2012E EPS offering a discount to its historical 12-month average PER multiples of 15.7x, thus eluding the dilemma over premium to its peers. Nonetheless, the largest player in the market is likely to command a premium valuation over peers and does not remain in the tight spot over the long term.

Investment Rationale: Our key arguments on the "BUY" rating

- Potential EPS upside of 12% in 2011E
- Superior margin player, commands 80 bps excess margin to peers
- Dividend payout at 93%; likelihood of litigation claim to flow to FCFE
- Strong 1H11 results shows clear guidance to our forecasts

Potential EPS upside of 12% in 2011E: We forecast revenue CAGR of 8.2% CAGR for 2010A-13E owing to robust growth in the retail segment driven by new site additions and growth in Average Throughput (ATP) volumes. The macro drivers continues to support fuel consumption spending in Oman with double digit growth in vehicle registrations and recovery in aviation traffic leading to overall improvement in the sector. We expect EPS to have an upside of 12% in 2011E leading to high FCFE. Shell Oman has fuel stations in key locations and has the largest market share in terms of revenue and earnings, which we believe is attractive.

Superior Margins compared to peers: Shell Oman has the highest margin among the Oil Marketing Companies (OMC), which we consider as the advantage of a strong market positioning and product mix. It maintained an average of 4.2% net margin over the past six years and commands a 50 bps premium to industry and 70-80 bps excess margins over peers, which is lucrative in a volume based oil marketing sector. We forecast margins at 4.1% over the forecast period considering the competition, but the excess margin gap to continue among the OMC's owing to varied product mix and operational efficiency.

Dividend payout to be 93% in 2011E and likely to yield 6.18% at current levels: Shell Oman has the highest payout ratio in the OMC sector and expected to maintain consistency in their dividend payouts. It has paid dividends with an average payout ratio of 93% over the past two years, with 2010 dividend being RO 0.130 per share. We expect Shell Oman to pay RO 0.146 per share for 2011E and expect litigation claims of RO 2 million, if any, to flow back to FCFE, which is the near term driver for the stock.

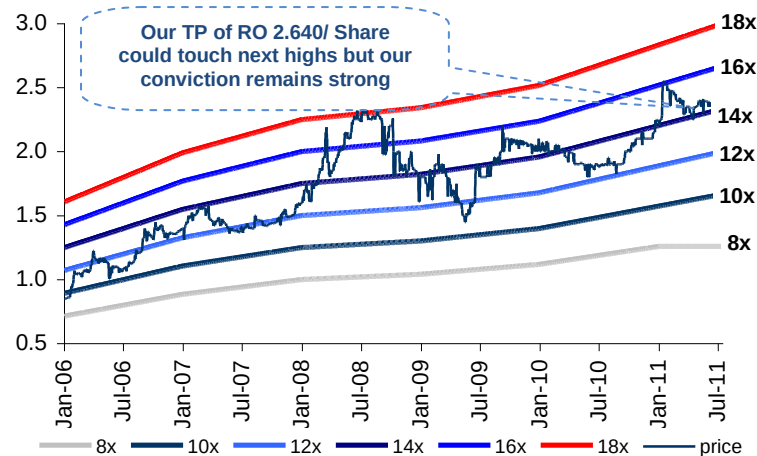
1H11 results performance shows clear directions to our forecasts: Shell Oman reported 18% growth in revenue in 1H11 to RO 185.4 million from RO 156.3 million in 1H10 on higher ATP volumes and new commercial contracts. The operating profit margins stood at 4.9%, while net margin stood at 4.3% as of 1H11. Shell Oman reported a net income growth of 9.5% YoY in 1H11 to RO 7.92 million from RO 7.23 million in 1H10.

	2008A	2009A	2010A	2011E	2012E	2013E
Revenue	326.4	298.4	323.6	355.7	383.8	409.6
EBITDA	20.0	18.2	19.3	21.3	22.6	23.8
Net Profit	15.4	13.0	14.0	15.7	16.7	17.5
EPS (RO)	0.154	0.130	0.140	0.157	0.167	0.175
PER (x)	15.4	18.1	16.9	15.0	14.1	13.5
EV/EBITDA (x)	12.0	13.2	12.5	11.2	10.6	10.1

Source: Company data, US Research and Thomson Reuters

Valuation Snapshot and Investment Rationale: BUY with 12 Month Target Price of RO 2.640/Share

1 Yr Fwd PER band chart: Stock trades cheaper @ 14x to 2011E EPS



Key Modeling Assumptions

Core Forecasting Assumptions	We have modeled our key assumptions based on incremental spending on new sites, increasing ATP volumes and growth in average revenue per site for retail segment. We have assumed high growth in the lubricant business and lowered our growth forecasts on aviation business. Our cost and capex assumptions are moderate matching historical trends and believe Shell Oman is likely to retain superior margins.
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BBB -Bull-Base-Bear case approach on valuation

Bull Case	Our Bull case derive a valuation of RO 2.989 per share implying a 27% upside from current levels, with revenue CAGR of 10.3% for 2010-13E and terminal growth rate assumed at 2.5%. We have modeled higher sales assuming incremental market share in retail and growth in new site additions, apart from lower costs and margin expansion.
Base Case	Our Base case derive a valuation of RO 2.724 per share, implying an upside of 15%. We have assumed a revenue CAGR of 8.2% and EPS CAGR of 7.8% for forecast period, assuming a terminal growth rate of 2%. We have modeled growth in site additions, improvement in revenue per unit and high growth in lubricant business.
Bear Case	Our Bear case derive a valuation of RO 1.955 per share and have assumed low revenue CAGR of 6.4% on lowering aviation business, assuming terminal growth rate of 1%. We have modeled lower realization from new sites as market becomes competitive and lowering market share in the lubricant segment.

Valuation Method	Price	Weight
Discounted Cash Flow Method	2.724	60%
PER Multiple Based Method	2.455	20%
Dividend Discount Model	2.570	20%
Weighted share price	2.640	100%

Key Investment Arguments

- We forecast revenue CAGR of 8.2% during 2010A-13E to RO410 million in 2013E from RO 324 million in 2010A primarily driven by the retail and lubricant segment. The aviation segment is likely to face stiff competition but commercial sales are likely to improve upon new contract additions.
- Retail segment contributes 52% of total revenue and we forecast this to increase to 54% in 2013E. This is mainly driven by the retail segment growth upon robust ATP volumes. We expect the average revenue per site to grow at 5% on an average till 2013E upon incremental revenue growth from "Select" stores and overall revenue upon new site additions. The budgeted spending on roads and growth in vehicle registrations and driving license issuances are likely to create a positive impact on retail segment, which we believe are the key drivers of the retail segment growth.
- The commercial segment is expected to witness improvement upon new contract additions as a result of strong infrastructure spending in the country, improved industrial production and further due to improvement in marine traffic.
- The lubricant segment continues to have a higher market share among peer group, hence expected to register a growth of 12.6% CAGR over the forecast period.
- We expect aviation business to improve despite loss of Oman Air aviation contract but expect to pick up on improved aviation traffic driven by increased influx of tourists and domestic passenger volumes in the country.
- Shell Oman has superior margins in the industry and has the highest market share by earnings and revenue. We forecast Shell Oman's margins to have a marginal impact, but likely to retain around 4.2% for forecast period.
- We forecast an EPS CAGR of 7.8% during 2010A-13E and expect to have a dividend payout of 93% in 2011E, which could yield at 6.18% at current levels.
- We are also optimistic owing to the probable impact of legal suit with Al Maha Marketing, a claim amount of RO 2.1 million.
- Our DCF based valuation implies a fair value of RO 2.724/Share, while PER based valuation suggests value per share of RO 2.455 and DDM at RO 2.570. The blended DCF-DDM-Relative valuation that we arrived is at RO 2.640/Share implying an upside potential of 12% from current levels.

Revenue growth forecasted at 8.2% CAGR for 2010A-13E on strong retail growth and support from Aviation and Lubricant segment

Revenue growth forecasted at CAGR of 8.2% to RO 409.6 million in 2013E from RO 323.6 million in 2010A.

We forecast revenue CAGR of 8.2% for 2010A-14E to RO 409.6 million in 2013E from RO 323.6 million in 2010A. The key macro drivers for overall business are the budgeted spending on roads infrastructure, new driving licenses issuances, increasing influx of tourists and flight passenger volumes which will have an improvement in aviation traffic. Shell Oman's retail segment revenue is expected to grow at 9.4% in 2011E alone, which could drive overall revenue stream. We have forecasted a lower growth rate for commercial segment owing to stiff competition, but Lubricant segment is expected to perform better due to Shell Oman's product mix. We expect a lower growth rate from the aviation segment due to lower additions of high value customers in 2010-11E.

Figure:1 Revenue growth trends

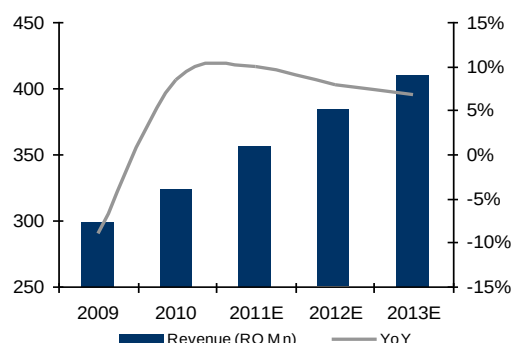
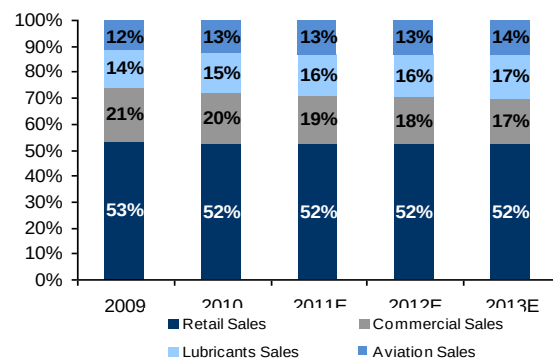


Figure:2 Segment Contribution trends



Source: Company data and US Research

Retail segment to be driven by increased fuel consumption spending in Oman

We expect addition of 4 new sites in 2011E and expect higher growth in Select stores segment

Retail segment is expected to grow by 9.4% in 2011E to RO 185.2 million from RO 169.6 million in 2010A. The key driver for such growth is the improving average revenue per site and higher revenue growth from the "Select" stores segment. Shell Oman operates fuel stations which are easily accessible within Muscat city and has the higher reach for customers compared to peers. It has a total of 143 fuel stations and 59 select stores as of 2010 and the same are located at prominent locations. It has added 5 new stations in 2010 and we forecast an addition of 4 new sites in 2011E. Shell Oman has added only one site in 1H11 taking the total to 144 fuel stations. The management has indicated that there are new sites which are yet to be operational and should be ready by 2H11, which we believe is a positive guidance to our forecasts. We expect volume growth to continue driven by macro related indicators such as driving license issuances and vehicle registrations.

Figure:3 Retail segment growth trends

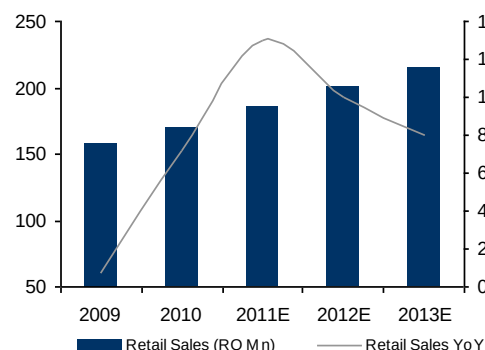
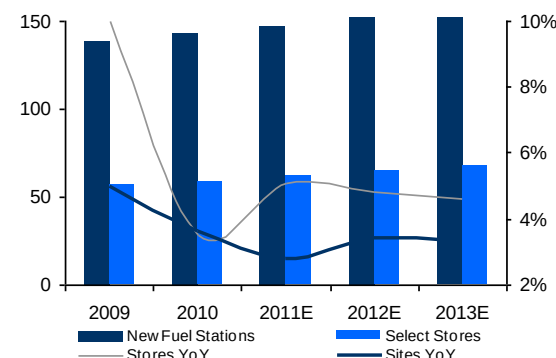


Figure:4 Fuel Stations and Stores growth



Source: Company data and US Research

Revenue per site set to improve upon new site additions and “Select” stores revenue

The Average revenue per site is set to improve leading to high margins from this segment

The average revenue per site increased by 3% in 2010A to RO 1.21 million and we expect this to grow by 5% over the next three years to reach 1.39 million in 2013E. We expect this on the backdrop of a robust pick up in revenues from “Select” Stores. “Select” stores continue to register robust growth in volume and we forecast this to grow to 68 stores by 2013E. Shell Oman’s ATP volumes are likely to improve going forward and has consistently performed above industry ATP volumes. Shell Oman on a historical basis reported 9.72 million liters in 2009 compared to industry ATP volumes of 7.5 million liters. We have not forecasted the ATP volumes due to lack of reporting in 2010, however 1H11 results gave us a good guidance in growth in ATP volumes.

Figure:5 Average Revenue per site

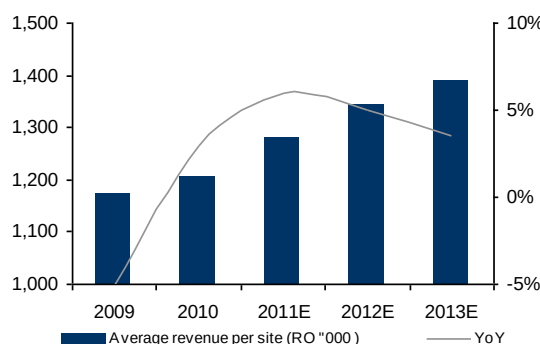
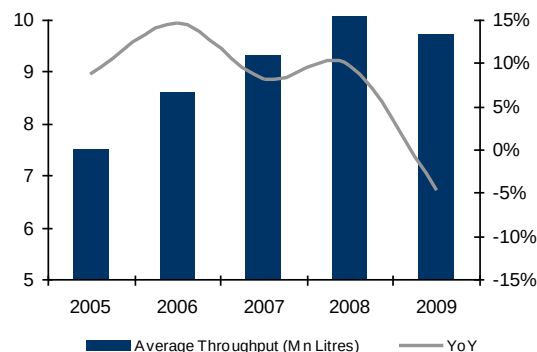


Figure:6 Average Throughput trends



Source: Company data and US Research

The improvement in driving license issuances remains a major indicator for Shell Oman’s retail segment and continues to be a clear reflector of overall volumes. Oman registered a growth in driving license issuances with a CAGR of 9% during 2001-10 to 119.6k from 55K in 2001, with 2010 growth at 4%. The licenses during the year were augmented by growth in vehicle imports, which grew by 14% in 2010 after a sharp dip in 2009 volumes. We expect fuel consumption spending volumes to grow, driven by new driving license issuances and vehicle registrations. We expect such dual drivers to transform to incremental ATP volumes. Oman’s economy continues to be under penetrated, when compared to other countries in terms of vehicle ownership. Nonetheless, the domestic population has a good proportion of people under the age group of 19, which shows potential for vehicle ownership, thus correlating such drivers to fuel consumption spending growth.

The improvement in driving licenses issuances and vehicle registration remains the long term driver

Figure:7 Driving Licenses Issued in Oman

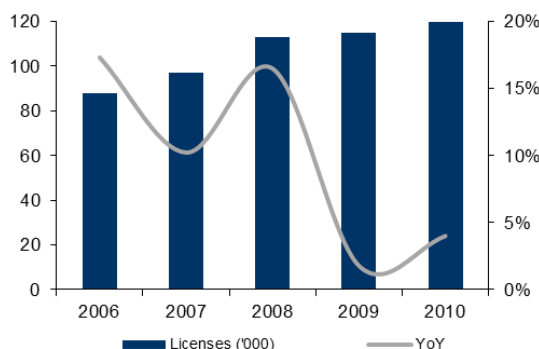
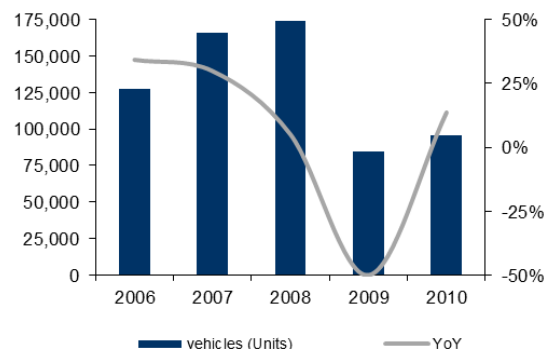


Figure:8 Vehicles Imports in Oman



Source: Company data and US Research

Aviation segment showing improvement on improved air traffic volumes in Oman

The flight traffic improvement is likely to benefit the Aviation segment

We forecast a lower growth rate of 16% in 2011E to RO 46.9 million despite loss of Oman Air Aviation contract, however overall volume growth remains attractive. Shell Oman has a client base including PDO, Royal Air Force and a host of other carriers including regional based Qatar Airways. We expect overall air traffic movement to improve as the region's airline sector is poised for growth. Oman's air traffic witnessed a 14% growth in Average (Landing and takeoff volumes) traffic to 33.6K flights as of 2010, while the long term growth witnessed a CAGR of 6% during 2001-10. We believe this segment is expected to grow upon volumes from low cost carriers and new additions from International carriers.

Figure:9 Aviation Segment Sales

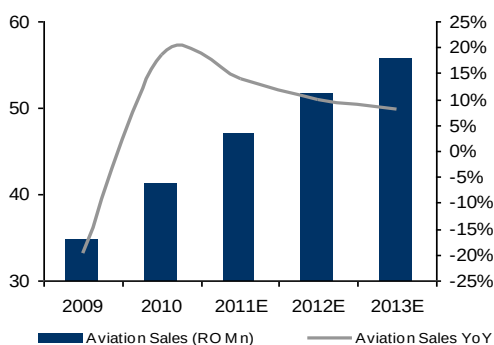
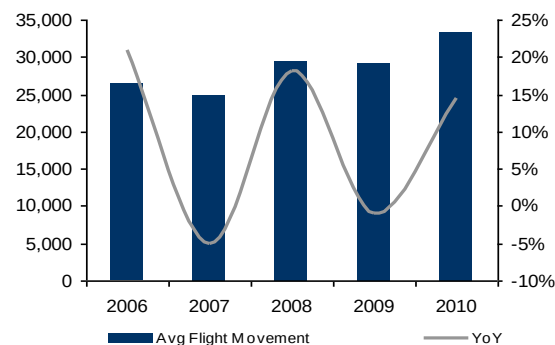


Figure:10 Air Traffic Movement



Source: Company data, OAMC and US Research

Commercial segment growth driven by new contracts and higher government spending

Shell secured new contracts in the commercial segment and expected to benefit going forward

The commercial segment contributes 19% of total revenue and expected to grow at 3% CAGR to RO 69.3 million in 2013E on robust government spending in Oman, particularly the 8th five year plan. The plan has envisaged spending worth RO 12 billion, including new and carry-forward projects over the next five years which we believe is a long term driver to this segment. The overall spending in projects related to commercial segment witnessed a higher allocation primarily, the expansion of roads, airports, sea ports which is likely to have a positive effect on the segment and also carries a higher allocation in total spending. Shell Oman won contracts in for bitumen supply in 1H11 from Muscat International Airport and believe such high value contracts is likely to support revenue growth in 2011-13E. We have forecasted this segment on a conservative basis currently due to nature of competitive tendering and intensified competition.

Figure:11 Commercial Segment sales

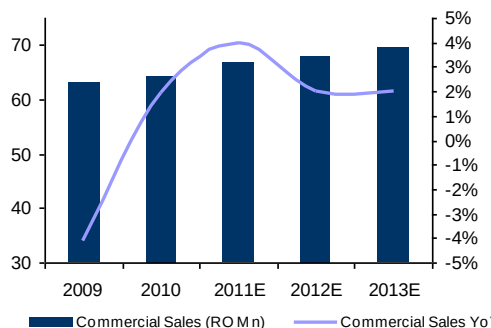
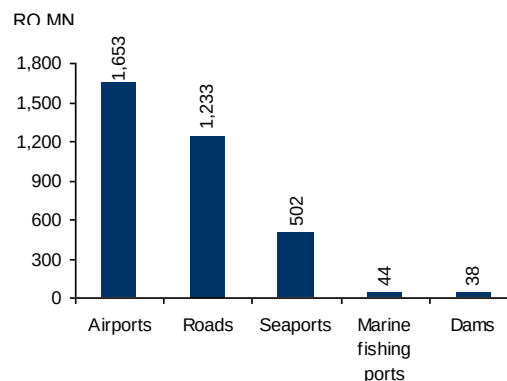


Figure:12 Major govt. spending allocations



Source: Company data, ONA and US Research

Lubricant segment aided by better product mix

Lubricant market is an unorganized sector, but Shell Oman expected to maintain market share

We expect lubricant segment to post a better than expected growth owing to continuous improvement in market share, in excess of 40%. Shell Oman continues to benefit due to robust supply chain through its blending plant and has a lower cost structure to peers. Our forecasts for 2011E is 16% to reach RO 56.5 million, while our long term forecast between 2012-13E is lowered to 10-11% considering the competition. We expect competition to intensify due to unorganized nature of lubricant business with over 30 players, primarily from UAE. However we expect Shell Oman to maintain its market share on product quality and rise in export growth.

Figure:13 Lubricant Sales growth

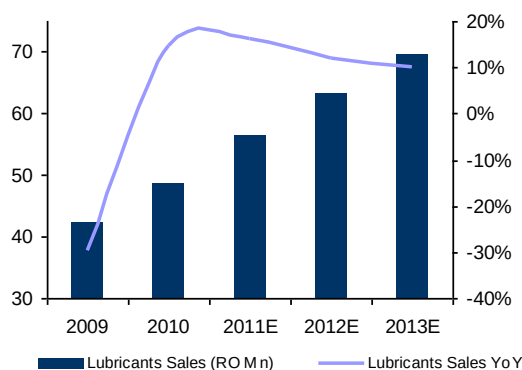
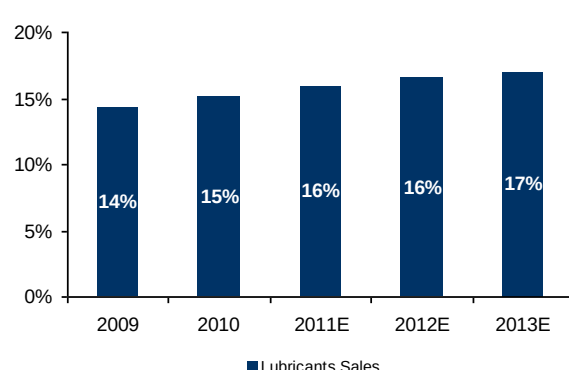


Figure:14 Lubricant contribution to total sales



Source: Company data and US Research

OMC's maintain a fixed margin based business, hence overall operational costs to remain at stabilized levels

Stabilized cost structure based on a historical trend and we forecast a stabilized trend

We expect Shell Oman to have higher operational efficiency due to its capability in maintaining cost pressures based on a historical trend. OMC's are required to pay 0.004 license fee for every one rial of revenue as per the new tariff structure from the government. We expect cost structure to become stabilized from 2011E due to higher growth in revenue which was not the case, when license fee was based on flat structure earlier. The tariff hike impact is likely to minimize in 2011-13E, as Shell Oman already averaged such cost pressures in 2009-10A. We forecast only moderate changes in cost due to its capability in cost optimization. We expect EBIT to grow at a CAGR of 9% during 2010A-013E to RO 19.8 million in 2013E and expect the margins to remain at around 5% levels. We expect Shell Oman to maintain higher margins than peers, hence expect profitability to remain at elevated levels than peers.

Figure:15 Cost structure trends

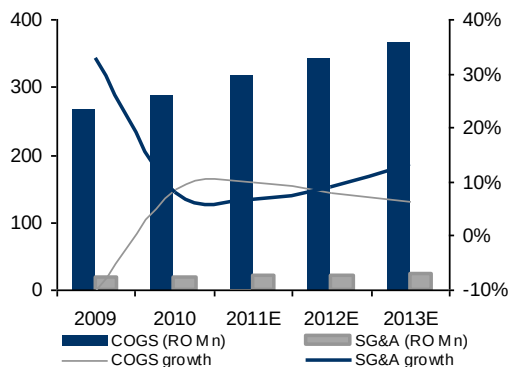
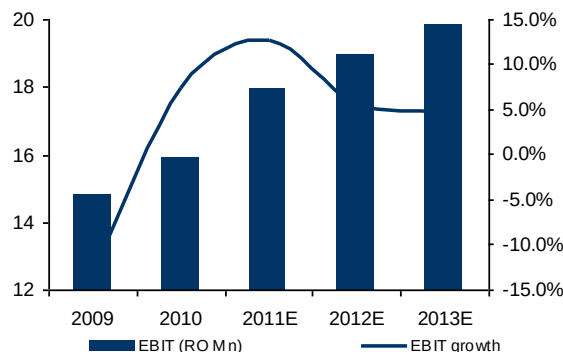


Figure:16 EBIT growth trends



Source: Company data and US Research

We forecast an EPS upside of 12% in 2011E on 1H11 result trends

EPS upside of 12% in 2011E can act as near term catalyst for the stock

We have forecasted 7.8% CAGR in net profit for 2010A-2013E to RO 17.5 million in 2013E owing to stabilized margin levels. We do not expect margins to decline further due to stable retail business and better product mix in other segments. Shell Oman has fewer history of one-off write downs, hence we have forecasted a clean EPS for 2011-13E. We have estimated a higher growth in EPS in 2011E to RO 0.157 due to improvement in retail and lubricant segment and further due to positive direction in 1H11.

Figure:17 Net Profit Trends

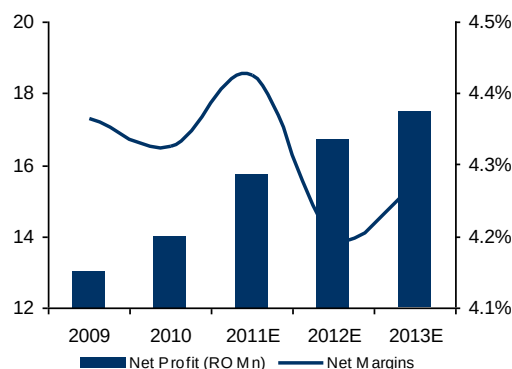
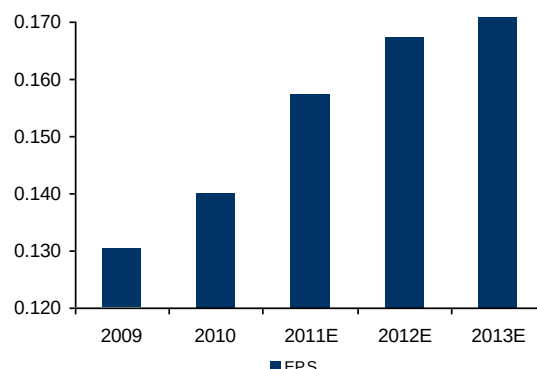


Figure:18 EPS growth trends



Source: Company data and US Research

Higher Free Cash Flow to Equity Holders in 2011E, hence absolute DPS at elevated levels.

High FCFE to be the key driver, while litigation claims would be a bonus

We expect Shell Oman to make a dividend payout at 93% levels during 2011-13E owing to higher FCF going forward. We expect capex to remain at stable levels considering moderate expansion plans in 2011E. The liquidity position remains at comfortable levels despite a 93% payout in 2010 and expect FCFF to remain at an average of 69% of Gross cash flow for 2011-13E. Shell Oman remains the most attractive in the OMC sector with a higher dividend payout ratio. We expect dividend payout at RO 0.146/share for 2011E, which is likely to yield at 6.18%.

Figure:19 Free Cash Flow trends (RO Mn)

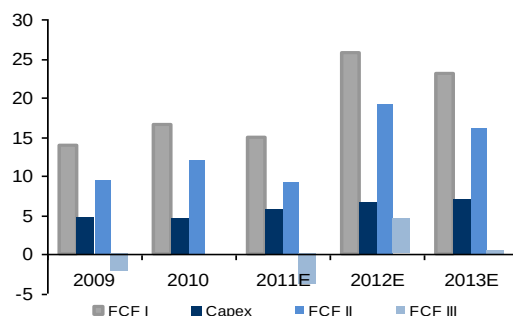
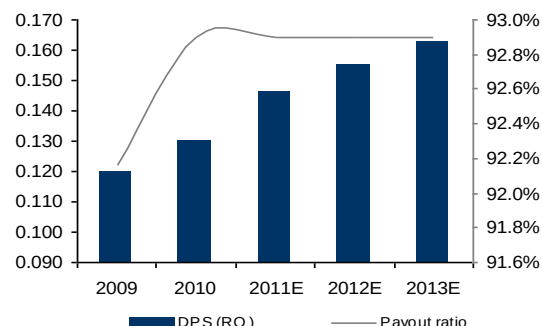


Figure:20 Dividend Payout trends



Source: Company data and US Research

Shell Oman won a legal case against Al Maha Petroleum Products Marketing Co as per the Court of Appeal's recent verdict in June. As per the ruling of the Court of Appeal, Al Maha was asked to pay a sum of RO 2.10 million to Shell Oman. However, Al Maha has announced that it appealed in the Supreme Court against this court decision, which is scheduled for Sep, 2011. We expect a favorable verdict for Shell Oman and a higher probability would likely result in additional positive cash flow of RO 0.021 per share. However we have not forecasted the same as the case is still pending in court.

Shell Oman's weighted DCF-Relative valuation shows an upside of 12% from current levels, hence a "BUY" rating

DCF value of
RO 2.724
poses an
upside of 15%

We have used a blended DCF-Gordon growth (DDM)-relative valuation approach to value Shell Oman and have arrived at a fair valuation in consistent with the current market risk levels, which we believe matches the investor risk appetite. The weights assigned for valuation are at 60% for DCF, 20% for Dividend Discount Model (DDM) and 20% for relative PER method. We have used Discounted Cash Flow (DCF) method using Bear-Base-Bull approach to list out possible upside or downside on our assumptions. We have arrived at fair value of RO 2.724 for the share, an upside of 15% using base case DCF. The DCF method was applied for forecasted FCF through 2011E-2014E. The cost of equity considered for valuation is 6.9% which is derived using risk free rate of 4%, risk premium of 7%, and beta of 0.41.

Figure:21 Discounted cash flow method assumptions and valuation assumptions

Discounted Cash Flow (RO ' 000)	2011E	2012E	2013E	2014E	Assumptions	
NOPLAT	15,806	16,684	17,445	18,237	WACC	6.8%
FCF	7,030	16,585	13,416	13,969	Cost of equity	6.9%
PV of FCF	6,579	15,017	11,369	11,079	Risk free rate	4%
Terminal Value				294,016	Market Return	11%
PV of TV				233,194	Beta	0.41
Value of the firm	277,238				After tax cost of debt	6.2%
Less: Net debt	4,800					
Value of equity	272,438					
DCF Value Per Share (RO)	2.724					

Source: US Research and company data

We have valued Shell Oman using Gordon Growth Model (DDM) and have arrived at a fair value of RO 2.570 per share. The PER based method was based on weight allocation of 25% for peer group, 50% for historical PER trend, 25% for smoothened PER bands leading to a valuation of RO 2.455, an upside of 4%. We have arrived at a sensitivity analysis, showing WACC and Terminal growth Sensitivity to stock price, denoting that stock price tends to have an average downside of 6% with WACC levels increasing from 6% to 8%, assuming same terminal growth rate. However, the trend reverses with stock price increasing on an average of 5% with every 0.25% increase in terminal growth rate, ranging between 0%-2.5%.

Figure:22 Sensitivity Analysis-WACC and Terminal growth rate

		Growth Rate										
		0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%
WACC	6.0%	2.237	2.322	2.414	2.516	2.628	2.752	2.889	3.043	3.215	3.411	3.635
	6.4%	2.121	2.196	2.277	2.366	2.462	2.568	2.685	2.814	2.958	3.120	3.302
	6.8%	2.009	2.075	2.146	2.222	2.305	2.396	2.495	2.604	2.724	2.857	3.005
	7.2%	1.929	1.988	2.052	2.121	2.195	2.275	2.363	2.458	2.563	2.679	2.806
	7.6%	1.848	1.901	1.958	2.019	2.085	2.157	2.233	2.317	2.408	2.507	2.617
	8.0%	1.775	1.823	1.875	1.930	1.989	2.052	2.120	2.194	2.273	2.360	2.455

Source: US Research

Risks to our rating:

Our forecasts and ratings are dependent on the success of new fuel stations, increased fuel consumption spending and stabilized tariff structure from the government. We remain cautious on any developments affecting our core assumptions which is likely to impact our rating and fair value. The recent litigation lawsuit of RO 2.1 million will have an upside risk on EPS and dividend forecasts, hence we advise investors to consider such risks before considering our rating.

Valuations looks justified, on forward PER discounts and Yield story

Shell Oman continues to trade at a discount to its 1-Year forward PER and entitles to a discount of 20% to its trailing 12 months PER. The 1 year forward PER continues to trade at a discount to long term average notifying a incremental spread to current and one year forward valuations. However Dividend Yield offered is trading lower to its long term average due to yields, which peaked to 9% during 2006. Shell Oman trades at 15.5x to its TTM earnings and traded at an average of 14.7x during the past six years.

Figure:23 1 Year Fwd and Historical PER

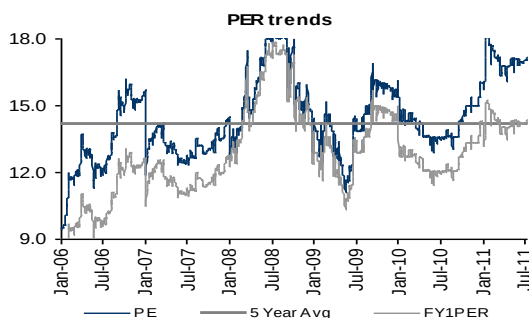
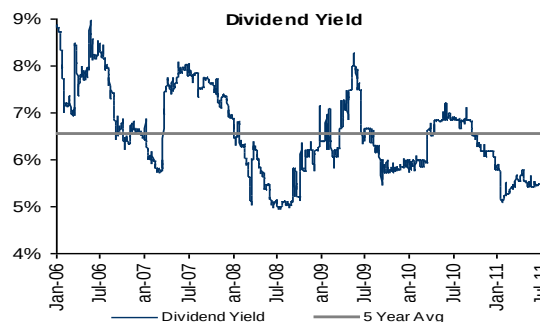


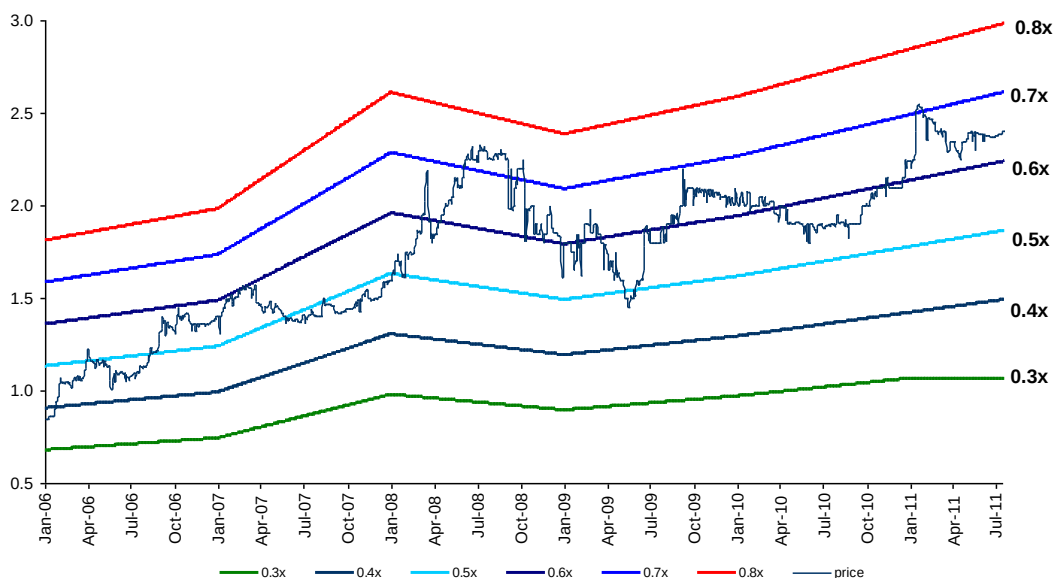
Figure:24 Dividend Yield trends



Source: Company data and US Research

We believe Shell Oman is likely to trade at a band of 15-16x going forward despite long term average of 13-14x indicate that valuations are not likely to recoup to historical levels, hence providing an option to accumulate at current levels. We believe with 2012E PER forecasted at 14.1x, we argue it's an opportunity to enter at these levels considering over all market risk and defensive investor perception circling the market on account of the anticipated global crisis. Additionally the prices to sales band for 2011E are also at lower levels implying attractive valuation, hence our base case argument looks valid for most of the relative valuation multiples. We argue Shell Oman valuation not to reverse beyond these levels, as historical trend suggests this to be the right opportunity.

Figure:25 Rolling 1 Year Forward Price to Sales Band Chart-2006-2011



Source: US Research, Zawya and Thomson Reuters

GCC peers not fully comparable, but domestically Shell Oman's valuation is convincing

We believe GCC peers are not fully comparable due to the nature of business model inherent in each country. We compared Qatar fuel, a monopolistic player in Qatar but not comparable due to varied product mix, while Kuwait based players differs due to the nature of cost structure. The recent relative valuation info suggests Shell Oman commanding a premium to peers on certain parameters but continues to portray as a defensive stock for investors, with its dividend yields trends and stable earning growth. We justify the case based on Shell Oman's domestic market share and superior margins story. Al Maha Petroleum traded lower to Shell Oman due to lower market share and lower revenue visibility with revenue per site far below Shell Oman's realization capability.

Figure:26 Relative Valuation across GCC companies

	Shell Oman Marketing	Al Maha Petroleum	Oman Oil Marketing	Qatar Fuel Company	Aldrees Petroleum	Oula Fuel marketing	Al Soor Fuel
Country	Oman	Oman	Oman	Qatar	Saudi	Kuwait	Kuwait
Currency	OMR	OMR	OMR	QAR	SAR	KWD	KWD
Price trends							
Price (Local CCY)	2.362	11.200	1.430	251	44	295	248
EV (Local CCY Mn)	241	74	80	8,286	1,293	117	97
Market Cap (Local CCY Mn)	236	77	92	10,432	1,100	107	82
Market Cap (USD Mn)	611	200	238	2,865	293	392	299
52 Week-High (Local CCY)	2.600	12.220	1.431	263	51	377	341
52 Week Low (Local CCY)	1.825	8.400	0.975	135	32.5	268	246
YTD	5%	11%	18%	31%	8%	18%	21%
12 Month Return	32%	33%	49%	93%	-2%	-2%	15%
Beta	0.41	0.74	0.45	0.65	0.94	0.89	0.72
Valuation							
EV/EBITDA(x)	10.9	6.9	10.1	7.8	9.8	25.9	18.5
EV/Sales (x)	0.6	0.3	0.3	1.0	0.8	1.1	0.9
PE Current(x)	15.3	10.4	11.4	9.5	12.8	31.0	20.7
P/E-Adjusted(x)	15.4	10.3	11.4	9.5	13.0	33.3	20.7
Dividend Yield (%)	5.5%	6.3%	3.1%	3.3%	4.5%	NA	NA
Price/Book (x)	8.9	2.4	2.9	2.7	2.8	2.5	2.1
Price/ Sales (x)	0.7	0.3	0.4	1.3	0.7	1.2	1.0
Leverage							
Net Debt/Equity (%)	19	-11	-25	-55	50	-34	-35
Payout Ratio (%)	84	65	35	32	58	-	-
Per Share							
Book Value/ Share (Local CCY)	0.253	4.668	0.468	9.996	1.595	0.182	0.185
EPS (TTM) (Local CCY)	0.147	1.083	0.119	2.786	0.347	0.014	0.019
Liquidity							
Asset Turnover (%)	6%	4%	4%	1%	2%	2%	2%
A/R turnover	15.0	7.6	10.0	4.4	16.9	24.7	22.9
Inventory Turnover	21.0	49.2	54.6	28.0	78.9	312.0	237.8
Quick ratio	80%	131%	122%	215%	77%	151%	198%
Cash Ratio	10%	13%	41%	118%	5%	121%	138%
Growth & Margins							
Earnings Growth	7%	20%	18%	27%	5%	-18%	-28%
Revenues Growth	12%	24%	32%	30%	15%	1%	-1%
ROA	22%	13%	12%	17%	11%	6%	8%
ROE	58%	23%	25%	28%	22%	8%	10%
EBIT Margin	5%	3%	3%	13%	6%	2%	4%
Pretax Margin	5%	4%	4%	13%	5%	4%	5%
Net Margin	4%	3%	3%	13%	5%	4%	5%

Source: US Research, Zawya and Thomson Reuters, CCY= currency, data as of Aug 7th

Figure:27 Profit and Loss Statement for 2009A-13E

Financial Year Ended Dec 31	2009	2010	2011E	2012E	2013E
P&L Statement (Fig in RO "000)					
Retail Sales	158,265	169,589	185,522	200,843	214,825
Commercial Sales	62,912	64,135	66,700	68,034	69,395
Lubricants Sales	42,412	48,669	56,456	63,231	69,554
Aviation Sales	34,762	41,214	46,984	51,682	55,817
Revenue	298,351	323,607	355,662	383,791	409,591
COGS	(266,062)	(288,849)	(317,606)	(342,917)	(364,987)
Gross Profit	32,289	34,758	38,056	40,874	44,604
Selling expenses	(12,595)	(13,280)	(14,404)	(15,390)	(16,384)
Operating and admin expenses	(4,861)	(5,546)	(5,691)	(6,524)	(8,397)
Operating Profit	14,833	15,932	17,961	18,959	19,824
Finance Income / net	(40)	(34)	(80)	45	50
Profit before Tax	14,793	15,898	17,881	19,004	19,874
Taxation	(1,772)	(1,904)	(2,146)	(2,281)	(2,385)
Net Profit	13,021	13,994	15,735	16,724	17,489
Basic EPS (RO)	0.130	0.140	0.157	0.167	0.175
DPS (RO)	0.120	0.130	0.146	0.155	0.162
EBITDA	18,227	19,259	21,342	22,607	23,758
Growth YoY					
Revenue	-9%	8%	10%	8%	7%
COGS	-10%	9%	10%	8%	6%
Gross Profit	7%	8%	9%	7%	9%
Selling expenses	44%	5%	8%	7%	6%
Operating and admin expenses	11%	14%	3%	15%	29%
Operating Profit	-13%	7%	13%	6%	5%
Finance Income / net	-44%	-15%	135%	-156%	11%
Profit before Tax	-13%	7%	12%	6%	5%
Taxation	4%	7%	13%	6%	5%
Net Profit	-15%	7%	12%	6%	5%
Common Size					
Revenue	100%	100%	100%	100%	100%
COGS	-89%	-89%	-89%	-89%	-89%
Gross Profit	11%	11%	11%	11%	11%
Selling expenses	-4%	-4%	-4%	-4%	-4%
Operating and admin expenses	-2%	-2%	-2%	-2%	-2%
Operating Profit	5%	5%	5%	5%	5%
Finance Income / net	0%	0%	0%	0%	0%
Profit before Tax	5%	5%	5%	5%	5%
Taxation	-1%	-1%	-1%	-1%	-1%
Net Profit	4%	4%	4%	4%	4%

Key Assumptions

- We have forecasted site addition to 4 units in 2011 E and assumed growth rate for average revenue.
- Fuels stations to reach to 157 by 2013E.
- Our forecasts remain moderate on aviation segment at 14% in 2011, while the long term CAGR remain at 11%.
- We have forecasted slight increase in employee costs.
- 2010A-13E average margins to remain at historical levels.
- EPS upside of 12% in 2011E and 20110A-13E CAGR of 7.8% remains the key catalyst for upward revision
- We have forecasted Dividend payout at 93% over 2011-13E
- Dividend assumed to be at RO 0.146 per share

Source: Company data and US research

Figure:28 Balance Sheet and Cash flow for 2009A-13E

Financial Year Ended Dec 31	2009	2010	2011E	2012E	2013E
Balance Sheet (RO '000)					
Inventories	12,764	12,370	15,880	14,745	16,424
Trade & other receivables	22,421	29,910	36,100	37,228	38,911
Cash and bank balances	7,688	7,630	7,869	8,468	9,045
Total Current Assets	42,873	49,910	59,849	60,442	64,381
Property, Plant and equipment	17,278	18,338	18,421	18,971	19,634
Deferered Tax Assets	98	185	185	185	185
Total Non Current Assets	17,381	18,526	18,609	19,160	19,822
Total Assets	60,254	68,436	78,459	79,602	84,203
Borrowings	0	0	4,000	0	0
Trade and other payables	29,068	34,825	38,113	41,150	43,798
Income tax payable	1,791	1,991	1,991	1,991	1,991
provisions	537	701	701	701	701
Total Current Liabilities	31,396	37,517	44,805	43,842	46,490
Employees' end of service benefits	518	588	588	588	588
Non Current liabilities	518	588	588	588	588
Share Capital	10,000	10,000	10,000	10,000	10,000
Legal Reserve	3,587	3,587	3,587	3,587	3,587
Retained earnings	14,753	16,744	19,479	21,585	23,537
Total Network	28,340	30,331	33,066	35,172	37,124
Total Network And Liabilities	60,254	68,436	78,459	79,602	84,203
Common Size					
Inventories	21%	18%	20%	19%	20%
Trade & other receivables	37%	44%	46%	47%	46%
Cash and bank balances	13%	11%	10%	11%	11%
Total Current Assets	71%	73%	76%	76%	76%
Property, Plant and equipment	29%	27%	23%	24%	23%
Deferered Tax Assets	0%	0%	0%	0%	0%
Non Current Assets	29%	27%	24%	24%	24%
Total Assets	100%	100%	100%	100%	100%
Borrowings	0%	0%	5%	0%	0%
Trade and other payables	48%	51%	49%	52%	52%
Income tax payable	3%	3%	3%	3%	2%
provisions	1%	1%	1%	1%	1%
Total Current Liabilities	52%	55%	57%	55%	55%
Employees' end of service benefits	1%	1%	1%	1%	1%
Non Current liabilities	1%	1%	1%	1%	1%
Share Capital	17%	15%	13%	13%	12%
Legal Reserve	6%	5%	5%	5%	4%
Retained earnings	24%	24%	25%	27%	28%
Total Network	47%	44%	42%	44%	44%
Total Network And Liabilities	100%	100%	100%	100%	100%
Restated Cash Flow (RO '000)					
Gross Cash Flow	16,611	17,780	21,340	22,697	23,790
FCF I	13,962	16,512	14,927	25,741	23,076
FCF II	9,437	12,014	9,237	19,217	16,113
FCF III	(2,063)	14	(3,764)	4,599	577

Source: US Research

Key Assumptions

- Inventory levels as % of COGS maintained at historical levels except in 2012E
- We have assumed capex/ Sales at 1.7% on an average for the forecast period.
- We have forecasted debt of RO 4 million in 2011E considering 1H11 debt at RO 8.5 million.
- FCF II remains at 69% of Gross cash flow implying better liquidity.
- Dividend payout of RO14.6 million in 2011E leads to low FCF III in 2011E but expected to growth in 2012E.

Figure:29 Ratio Analysis for 2008A-13E

Financial Year Ended Dec 31	2008	2009	2010	2011E	2012E	2013E
Ratio Analysis						
<u>Profitability Ratio</u>						
Gross Margins	11%	9%	11%	11%	11%	11%
EBITDA Margins	7%	6%	6%	6%	6%	6%
EBIT Margins	6%	5%	5%	5%	5%	5%
Net Margins	6%	5%	4%	4%	4%	4%
<u>Capex</u>						
Capex/Sales	2%	2%	2%	1%	2%	2%
Capex/Depreciation	171%	198%	139%	136%	168%	179%
<u>Liquidity</u>						
Cash Ratio	28%	32%	24%	20%	18%	19%
Current Ratio	137%	136%	137%	133%	134%	138%
Quick Ratio	96%	98%	96%	100%	98%	104%
<u>Working Capital Efficiency</u>						
Inventory Turnover	12.8	18.0	18.2	25.0	17.9	20.9
Receivables Turnover	10.9	16.0	13.3	10.8	9.9	10.3
Payables Turnover	9.1	11.3	10.3	9.3	9.3	9.3
<u>Cash Cycle</u>						
Receivable Days	29	20	20	15	20	17
Inventory Days	33	23	27	34	37	35
Payable Days	40	32	36	39	39	39
<u>Risk Ratio</u>						
Pay out Ratio	80%	75%	92%	93%	93%	93%
Retention Ratio	20%	25%	8%	7%	7%	7%
<u>Returns Ratio</u>						
ROA	23%	26%	22%	20%	20%	21%
ROE	54%	57%	46%	46%	48%	48%
<u>Price Multiples</u>						
PE	17.3	15.4	18.1	16.9	15.0	14.1
PEG	0.3	1.2	-1.2	2.3	1.2	2.2
P/B	9.3	8.8	8.3	7.8	7.1	6.7
P/S	1.0	1.4	1.3	1.4	1.5	1.6
Dividend Yield	5%	5%	5%	6%	6%	7%
EV/EBITDA	12.8	11.3	12.5	11.9	10.9	10.1
EV/EBIT	15.0	13.2	15.4	14.3	12.9	12.0
<u>Turnover Ratio</u>						
Asset Turnover	4.20	5.59	4.95	4.73	4.53	4.82
Fixed Asset Turnover	18.74	20.42	17.27	17.65	19.31	20.23
<u>DUPONT Analysis</u>						
Total Asset to Equity	2.33	2.18	2.13	2.26	2.37	2.26
Net Income/Sales	0.06	0.05	0.04	0.04	0.04	0.04
Sales/Total Assets	4.20	5.59	4.95	4.73	4.53	4.82
Dupont ROE	54%	57%	46%	46%	48%	48%

Source: US Research

Company Profile

Shell Oman Marketing Company SAOG is an Oman-based joint stock company primarily engaged in the marketing and distribution of petroleum products and blending of lubricants. The Company is a member of the Royal Dutch Shell Group of Companies. It has a total of 288 employees as of 2010. Shell, initially established in 1958, Shell Marketing (Oman) Ltd became a public limited company in 1997 and was renamed Shell Oman Marketing Company SAOG.

Business segments

Shell Oman Operates in four segments mainly retail, aviation, commercial and lubricants. The retail segments operates it's 144 fuel stations and 54 Select stores which are located in various parts of the country, primarily Muscat. It accounts for 52% of total sales as of 2010 and sells in excess of 1.5 billion liters of retail fuel. Its lubricant segment manufactures lubricants through its oil blending plant, the sole blending plant in Oman with a capacity in excess of 80 million liters. It sells its products through its stations and dealers. The commercial segment markets and distributes transport fuel, marine fuel, industrial fuels, bitumen and other related chemicals and accounts for 20% of total revenue. The aviation sector accounts for 13% as of 2010 with jet fuel supply contracts as sole operator in Salalah airport and supply contracts with PDO, Royal Air Force, Air India, Fly Dubai, Qatar Airways and Shaheen air.

Financial performance

Shell Oman's revenue grew at a CAGR of 7.1% from RO 143 million to RO 324 million in 2010 which is consistent with economy growth rate and crude oil price realization growth for the country. Shell Oman maintained a net margin of 2% from 1998-2010, while margin stood at 3.4% during 2006-10 following the introduction of new product mix and growth in value chain since the introduction of new business segments. Shell Oman's bottom-line grew at a CAGR of 4.5% since 1997 to 2010, which implies a stable business model.

Figure:30 Key Profit and Loss statement for 1998-10

P&L (RO Mn)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Revenue	143	136	146	152	168	160	140	184	226	248	326	298	324
COGS	(122)	(117)	(129)	(136)	(149)	(141)	(123)	(167)	(206)	(224)	(299)	(266)	(289)
Gross Profit	21	19	17	16	19	19	16	17	20	24	27	32	35
Operating Profit	9.6	8.4	5.3	6.1	6.6	6.3	6.0	8.3	10.1	12.6	14.3	14.8	15.9
Net Profit	8.3	7.8	7.9	5.5	5.8	5.6	5.3	7.5	8.9	11.1	12.5	13.0	14.0
EPS (RO)	0.083	0.078	0.079	0.055	0.058	0.056	0.053	0.075	0.089	0.111	0.125	0.130	0.140
DPS (RO)	0.061	0.064	0.065	0.060	0.055	0.055	0.050	0.075	0.090	0.110	0.115	0.120	0.130
Growth													
Revenue		-5%	8%	4%	11%	-5%	-13%	31%	23%	9%	32%	-9%	8%
COGS		-4%	11%	6%	10%	-5%	-13%	35%	24%	9%	33%	-11%	9%
Gross Profit		-9%	-11%	-4%	15%	0%	-13%	3%	21%	16%	15%	18%	8%
Operating Profit		-12%	-37%	15%	8%	-4%	-6%	40%	22%	24%	13%	4%	7%
Net Profit		-6%	1%	-31%	6%	-4%	-5%	40%	20%	24%	13%	4%	7%
DPS		5%	2%	-8%	-8%	0%	-9%	50%	20%	22%	5%	4%	8%
Margins													
Gross Profit	6.5%	5.9%	5.3%	5.1%	5.8%	5.8%	5.1%	5.2%	6.3%	7.3%	8.5%	10.0%	10.7%
Operating Profit	3.0%	2.6%	1.6%	1.9%	2.0%	2.0%	1.8%	2.6%	3.1%	3.9%	4.4%	4.6%	4.9%
Net Profit	2.6%	2.4%	2.4%	1.7%	1.8%	1.7%	1.6%	2.3%	2.8%	3.4%	3.9%	4.0%	4.3%

Source: US Research and company data

Board Members

Shell Oman follows strong corporate governance standards with good proposition of executive and non-executive members. It has a total of ten directors in the list of directors of which five of them are independent directors, two executive directors and three non-executive directors. Shell Oman has four of its directors representing the Shell group. Additionally, Shell Oman has experienced management team with diverse experience in global markets, and expertise managing Shell group of companies across various countries.

Figure:31 Board of Directors as of 1H11

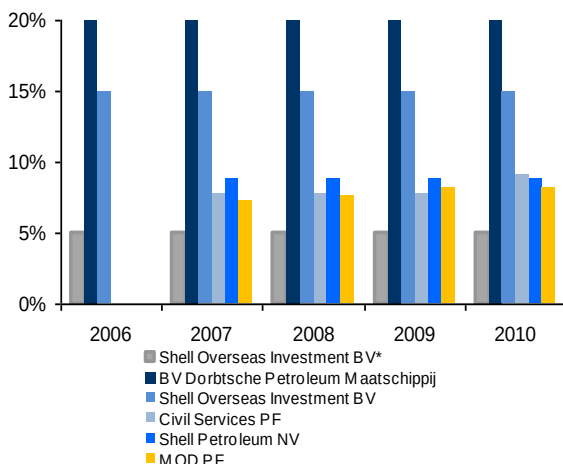
Name	Representation
John Blascos	Non-Executive Chairman of the Board Representing Shell Petroleum NV
Sarim Sheikh	Member of the Board, representing Shell Overseas Investment
Ghalib Faw zi Salim Al Busaidi	Non-Executive Independent Vice Chairman of the Board
Irshad Moussa Al Lawati	Non-Executive Member of the Board, representing BV Petroleum Assurantie Maatschappij
Shabib Mohammed Seif Al Darmaki	Non-Executive Independent Member of the Board
Atef Abdulhamid Ahmad Al Raisi	Non-Executive Independent Member of the Board
Abdulsalam M Abdullah Al Murshidi	Non-Executive Independent Member of the Board
Scott McDonald	Finance Director, Member of the Board
Saleh Nasser Juma Al Araimi	Finance Director, Member of the Board
Adil Al Raisi	Executive Member of the Board, representing Shell Gas BV, Managing Director & GM

Source: US Research and Company data

Shell Oman is the only OMC in the MSM30 with a weight of 6.15% with free float of 34%

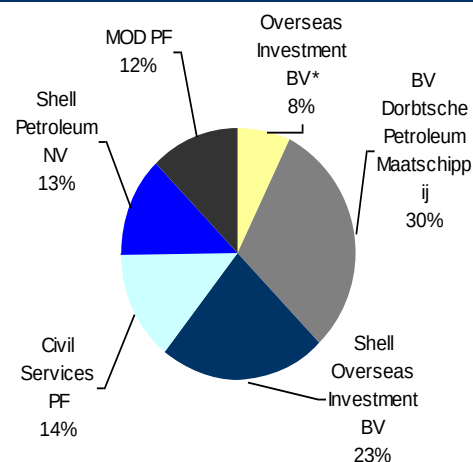
Shell Oman has a free float of 34% held by mix of retail and institutional investors and carries a weight of 6.15% in the MSM 30 index as of July 31, 2011. The royal Dutch Shell group of companies owns 49% through its five wholly owned subsidiaries, of which 43.8% are with normal voting rights and has another 5% with multi voting capacity (preferential shares). The rest 17.2% are held by domestic pension funds.

Figure:32 Shareholding during 2006-10



Source: US Research and Company data

Figure:33 Shareholding as of 1H11



Shell Oman's liquidity has improved significantly, with high turnover during 2009

Shell Oman's has improved its trading liquidity compared to other stocks in the index. Shell Oman act as safe investment at time of volatility in the broader market with a low beta of 0.41, and outperformed consistently (Fig:37) on a rebased basis and outperformed on a YTD basis with 5%, while MSM declined by 17% on a YTD basis.

Figure:34 Low, Hi and Closing with Liquidity

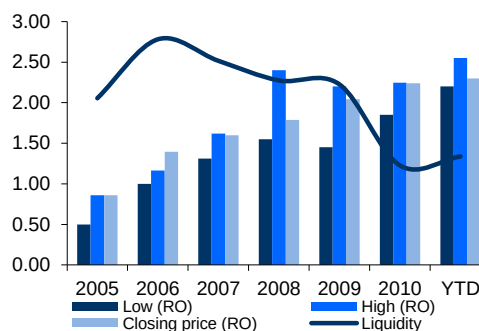
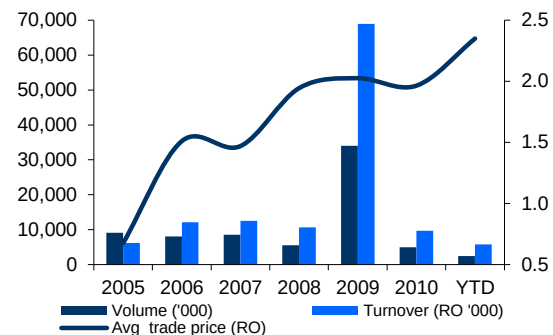


Figure:35 Yearly turnover and Volume



Source: US Research and Company data, Liquidity = No. of days traded in an year/ total number of trading days

News flows:

Shell Oman reports most of the events in the MSM and addresses the public media on a constant basis and reports operating levels metrics and business performance to investor community.

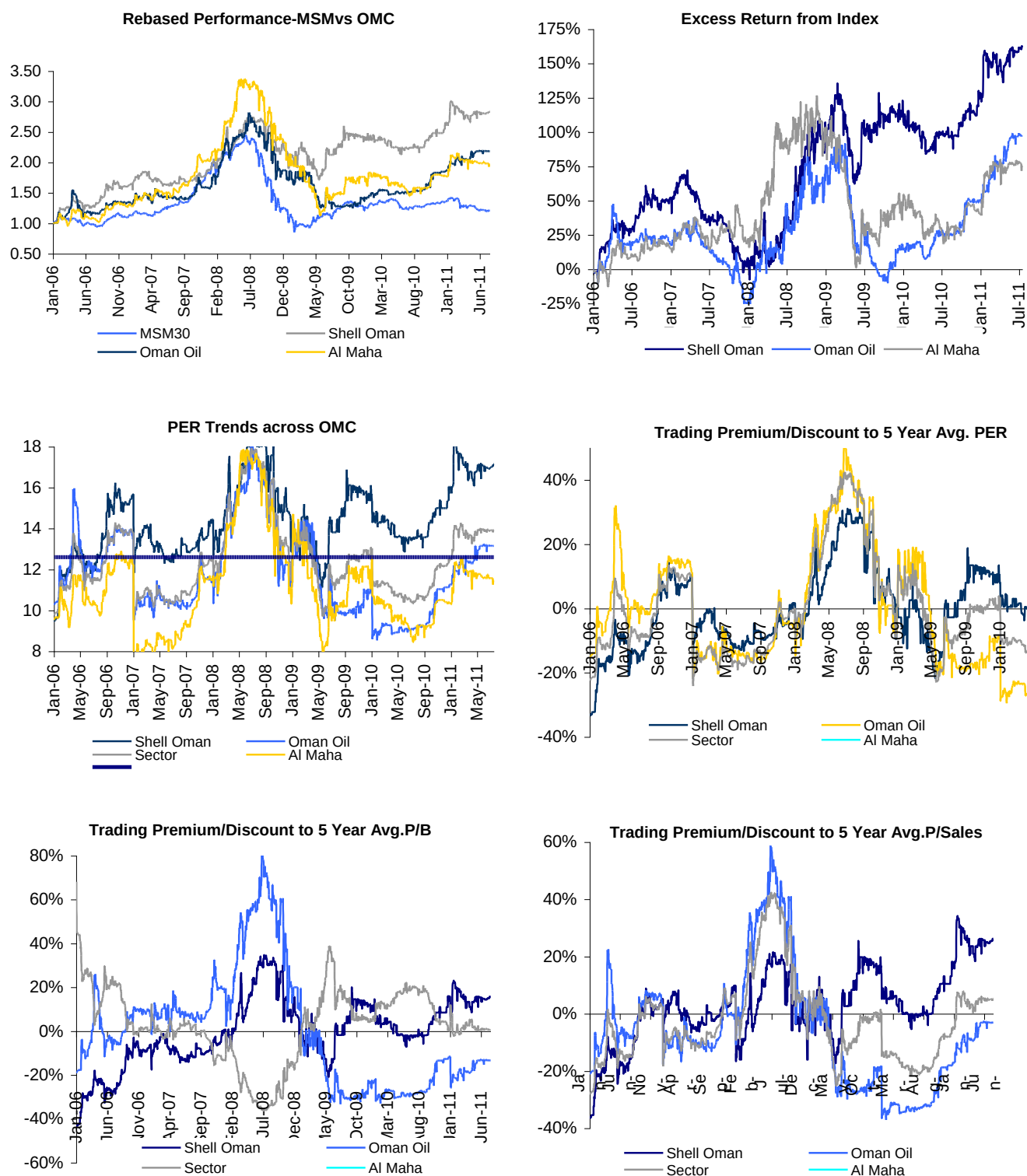
Figure:36 Key news items over the past five years

Year	Key News Items
2011	
Jun-11	Appeal court rules in favor of Shell Oman Marketing for RO 2 million litigation
Jun-11	Appointment of Mr Sarim Sheikh as new Director in place of Mr Zaiviji Ismail Bin Abdullah
Mar-11	Resolution Passed At Annual Ordinary General Meeting of Shell Oman Marketing Company SAOG
2010	
Sep-10	Appointment of New Managing Director Mr. Adil Ismail Abdullah Al-Raisi to replace Mr. Faisal Khamis Al Hashar
Jun-10	Shell Oman Wins a new Contract for Aviation Fuel for Shaheen Air and Air Cargo Chartering
Jun-10	Shell Oman has not faced any significant damages on account of Phet Cyclone
May-10	Muscat Commercial Court dismissed the case and awards in favor of Shell Oman Marketing Company SAOG
Apr-10	Shell Oman Wins 100% of Fuel Supply to Fly Dubai & Aviation Services Management
Mar-10	Legal Case Against Shell Oman Marketing Company SAOG for a claim of RO 26 million
Feb-10	Oman Air Supply Contract at Muscat International airport terminated, a volume loss of 113 million liters
Jan-10	Appointment of New Director, Wong Hong Zhou as Finance Director of the Company
Jan-10	Shell Oman Signs an Agreement with Sohar Industrial Port Company
2009	
Nov-09	Transfer of shares in Shell Oman Marketing Company SAOG as part of internal restructuring
Apr-09	New structure for Shell Oman's Board
2008	
Dec-08	Awarded contract with Qatar Air renewed for another year, with annual volume of 4 million liters
Dec-08	Shell Oman wins new aviation fuel supply contract with PDO for 6.5 million liters
Jun-08	Won a Contract for Royal Air Force of Oman till 2013
Sep-09	Received Contracts for OMAN AIR for 90 million liters
2007	
Jun-07	Normal operations resume at Shell Oman Marketing Company SAOG following Gonu cyclone
2006	
Feb-06	Stock Split Recommendation-Face value changed from RO 1 to RO 0.100

Source: US Research, MSM and Company data

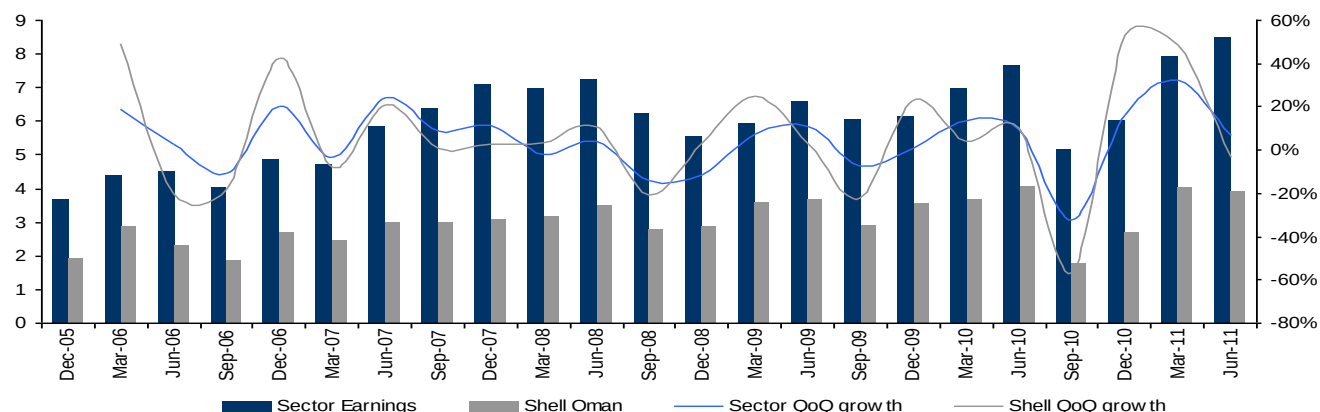
Appendix:

Figure:37 Relative valuation trends across OMC stocks and MSM Index



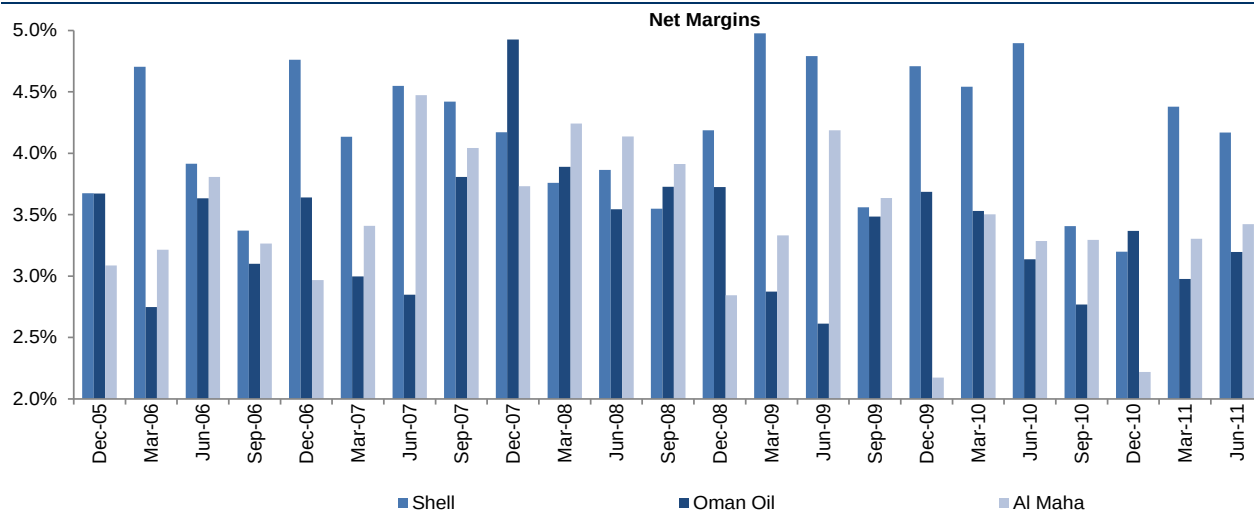
Source: US Research and Thomson Reuters

Figure:38 Revenue growth in the Sector VS Shell Oman Revenue growth



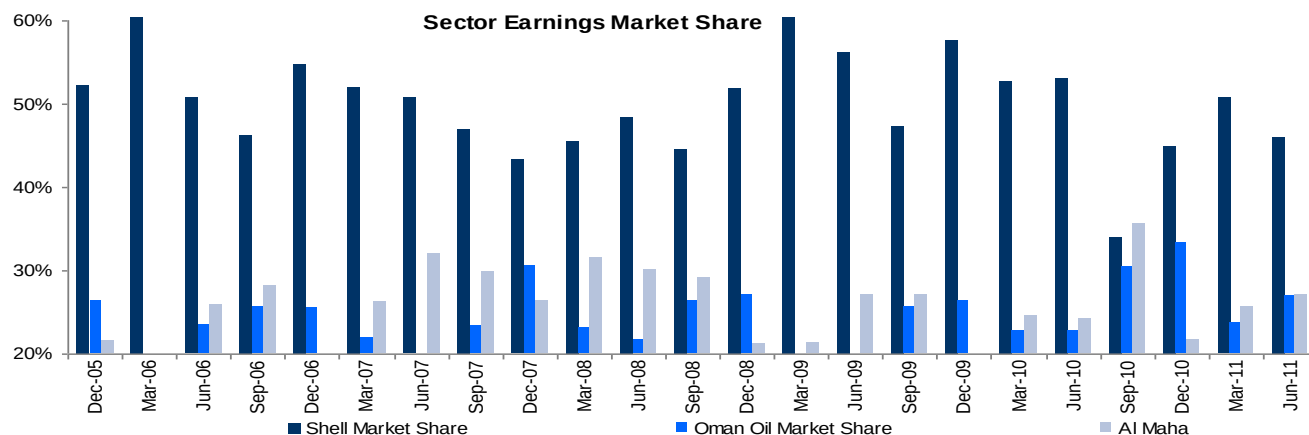
Source: US Research and company data

Figure:39 Net Margin trends across OMC on a QoQ basis



Source: US Research and company data

Figure:40 Market Share by earnings



Source: US Research and company data

Figure:41 Shell Oman's 1 Year forward EV/EBITDA band



Source: US Research and company data

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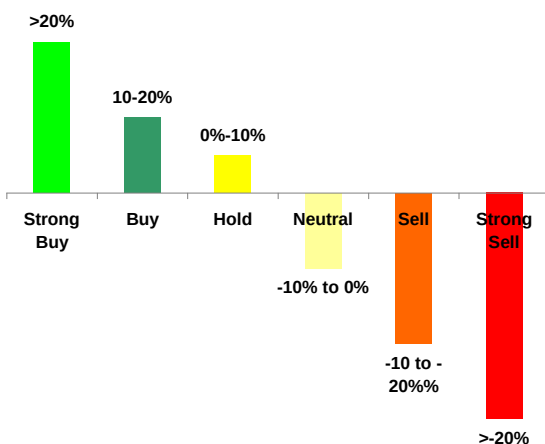
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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