Oman Oil Marketing – Q1FY11 update

Retail expansion in line with estimates, Commercial business potential growth driver

May 18, 2011
CMP: RO 1.401

Numbers Oman Oil Marketing reported growth in revenues of 5.9% qoq and 40.3% yoy to RO 62.852 million mainly due to the higher portion of growth in non retail volumes. However, the gross profits declined slightly by 0.3% qoq to RO5.19mn. GP margin decreased to 8.3% in Q1FY11 compared to 8.8% in Q4FY10 as costs grew 6.5% while revenues grew 5.9%. The company stated that the retail volumes have increased 20% yoy and bulk fuel by 23% yoy. The sequential growth of retail volumes could help the margin to stabilize at current level.

The profit for the quarter was RO 1.87mn, 18.4% higher yoy but 5.1% lower qoq. The profit margin has declined this quarter to 3.0% compared to 3.3% last quarter due to higher total operating cost which showed 6.2% increase in Q1FY11 compared to Q4FY10.

Retail sales accounted for 55% of total sales and grew by 11% in FY2010. In Q1FY11 retail volumes were higher 20% compared to corresponding period last year due to the expansion in network where the company has added 10 more fuel stations last year bringing the total filling stations to 124 at end of Q1-2011. As the company has the lowest number of fuel stations out of the three competitors, it is planning to add 8-10 new stations by end of the year and 15 more stations next year (new pump cost between RO 500K – RO 1.5mn). The company has already opened 2 stations in Q1FY11. We expect the company to deliver healthy growth in retail sector this year.

Non Retail Sector sales accounted for 45% of total sales and grew by 58% in FY2010. The commercial sales grew by 8% while total aviation and lubricant grew by 152% in FY2010. In Q1FY11, commercial volumes were higher 23% compared to corresponding period last year.

The new selling structure method which started last year based on international Jet A1 prices and the increase of oil prices has boosted revenues of the aviation segment. However we don't expect to see significant impact on the bottom line due to the fact that the company operates on per litre margin. However, the increase in base oil prices reduced the lubricants margin as the company could not pass on the price increase easily to customers due to severe competition.

Generally improved economic environment, both in Oman and internationally, has helped the country to boost the economy through government spending without running up debt. The oil price to date this year has averaged USD105.4/barrel (Bloomberg Arabian Gulf Oman Crude Oil Spot Price), comfortably above the government's budget figure of USD58/barrel (81% higher). A lot of government spending is seen in the market with RO 725 million of tender announcements till May 2011. We expect the company to expand further in the non retail sector due to improvement in macro environment and strong tendering activity. The company doesn't give the volume breakup on quarterly basis. We have built in full year growth in non retail volumes at 29%.

Valuation We expect the company to report FY11 revenues of RO 258.5 million and PAT of RO 7.8 million. At RO 1.401 the stock trades at 11.6x FY11e and 10.4x FY12e earnings. The 3 year average PE for the stock is 11.7x, we use a 50:50 blended PE and DCF valuation to arrive at our target price of RO 1.456. We use 12% cost of equity and 3% terminal growth in our DCF model. The management has indicated its willingness to maintain the dividend payout of 40%. We recommend a **HOLD** on the stock.

Report Purpose

Q1FY11 update

Stock Details

Exchange / Code	MSM/OOMS
Bloomberg Code	OOMS OM
Equity Capital	RO 64.5mn
Face Value	0.100
52-Week H/L	1.401/0.915
Market Cap	RO 90.36mn

Shareholding Pattern

Oman Oil Company SAOC	49%

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Oman Oil Marketing

RO '000	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Revenues	37,795	42,079	44,649	43,922	44,801	55,413	56,620	59,340	62,852
Yoy chg	-8.6%	-5.2%	1.1%	9.4%	18.5%	31.7%	26.8%	35.1%	40.3%
Qoq chg	-5.9%	11.3%	6.1%	-1.6%	2.0%	23.7%	2.2%	4.8%	5.9%
Other income	117	134	161	199	167	130	156	208	186
Total income	37,911	42,213	44,809	44,121	44,968	55,543	56,777	59,548	63,038
Cost of sales	33,905	37,679	40,091	39,361	40,496	50,269	51,601	54,131	57,658
GP	4,006	4,401	4,557	4,561	4,305	5,144	5,020	5,208	5,194
GPM	10.6%	10.5%	10.2%	10.4%	9.6%	9.3%	8.9%	8.8%	8.3%
Mktg dist admin exp	2,745	3,255	2,925	2,911	2,685	3,304	3,430	3,196	3,291
Total Expenditure	36,650	41,588	43,628	42,900	43,741	54,216	55,622	58,011	61,600
EBITDA	1,821	1,934	2,405	2,475	2,347	2,612	2,337	2,904	2,740
EBITDA%	4.8%	4.6%	5.4%	5.6%	5.2%	4.7%	4.1%	4.9%	4.4%
PBT	1,232	1,250	1,770	1,846	1,797	1,975	1,786	2,262	2,130
Tax	148	150	212	228	216	237	214	290	256
PAT	1,085	1,100	1,557	1,618	1,582	1,738	1,567	1,974	1,873
Qoq chg	-27.4%	1.5%	41.5%	3.9%	-2.2%	9.9%	-9.8%	26.0%	-5.1%
Yoy chg	-32.6%	-30.1%	-5.4%	8.3%	45.9%	58.0%	0.7%	22.0%	18.4%
NPM	2.9%	2.6%	3.5%	3.7%	3.5%	3.1%	2.8%	3.3%	3.0%

Oman Oil Marketing

RO 'mn	2009	2010E	2011E	2012E
Revenues	168.4	216.2	258.5	284.4
Gross profit	17.4	19.7	21.6	24.0
EBITDA	8.6	10.2	12.1	13.5
PAT	5.4	6.9	7.8	8.7
EBIT%	3.7%	3.6%	3.5%	3.5%
EBITDA%	5.1%	4.7%	4.7%	4.8%
PAT%	3.2%	3.2%	3.0%	3.0%
ROE%	23.7%	26.0%	25.3%	24.9%
ROCE%	26.8%	28.6%	28.7%	28.3%
EPS (RO)	0.083	0.107	0.120	0.134
PE (x)	16.9	13.1	11.6	10.4
BV (RO)	0.374	0.446	0.506	0.573
P/B	3.7	3.1	2.8	2.4
EV/EBITDA	9.6	7.3	6.4	5.5

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