

Oil marketing_Q3FY2010 update

November 03, 2010

Fuel distribution

Macro recovery continues

The latest monthly bulletin from the Ministry of National Economy continues to paint a picture of moderate economic growth accompanied by subdued inflation. The generally improved economic environment, both in Oman and internationally, is supplemented in Oman by its advantage of being able to boost the economy through government spending without running up debt. The oil price to date this year has averaged USD76/barrel (Bloomberg Arabian Gulf Oman Crude Oil Spot Price) comfortably above the government's budget figure of USD50/barrel. A lot of government spending is seen in the market with RO 3,016 million announced tenders till October 2010. The government budget for 2011 would be at \$58/bbl compared to \$50/bbl in 2010 16% higher.

Oil marketing sector reported revenues of RO 195.8 million for Q3 2010 which is higher 1.3% qoq and 17.1 yoy. Gross profit grew 0.7% qoq and 8.3% yoy to RO 19.93 million. EBITDA stood at RO 9.86 million with a growth of 1.2% qoq and 5.3% yoy. The consolidated PAT came at RO 7.47 million, higher 2.6% qoq and 8.5% yoy. 9MFY2010 revenues grew 19.1% to RO 558 million compared to the corresponding period last year. The sector net profit for 9MFY2010 grew 16.2% to RO 21.58 million. The sector showed stability in profit margins compared to previous quarter. GPM stood at 10.2% and NPM came at 3.8%.

Fuels prices in UAE have been increased in Q2 and Q3 this year and local fuel stations near borders enjoyed healthy demand for their products. However, there is a limited quota for sales in fuel stations near borders. Every year the local companies provide their volume requirements to local refinery and get a supply as per that plan. There will be no visible impact on the sector business since the size of the quota is nominal.

Uniform selling price structure based on international Jet A1 prices has been applied starting from 1st January 2010. The new pricing method will increase the prices and companies will carry over the additional costs to the costumers. So, we don't expect to see significant impact on the bottom line.

CMP

Shell Oman	2.101
Al Maha	10.199
Oman Oil	1.175

Target price Dec'11

Shell Oman	2.143
Al Maha	13.500
Oman Oil	1.154

Consolidated Income Statement

RO mn	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	QoQ	YoY	RO mn	9MFY09	9MFY10	chg%
Revenues	157.08	167.15	170.73	169.16	193.36	195.81	1.3%	17.1%	Revenues	468.65	558.33	19.1%
COGS	138.70	148.75	152.82	150.86	173.56	175.88	1.3%	18.2%	COGS	416.15	500.30	20.2%
GP	18.38	18.39	17.91	18.30	19.80	19.93	0.7%	8.3%	GP	52.50	58.03	10.5%
GP%	11.7%	11.0%	10.5%	10.8%	10.2%	10.2%			GP%	11.2%	10.4%	
SG&A	10.67	10.26	11.47	10.27	11.34	11.26	-0.8%	9.7%	SG&A	30.05	32.87	9.4%
EBITDA	9.01	9.36	7.70	9.15	9.74	9.86	1.2%	5.3%	EBITDA	25.55	28.75	12.5%
EBITDA%	5.7%	5.6%	4.5%	5.4%	5.0%	5.0%			EBITDA%	5.5%	5.1%	
PBT	7.35	7.83	6.22	7.80	8.26	8.50	2.8%	8.5%	PBT	21.10	24.55	16.4%
Tax	0.88	0.95	0.75	0.96	0.98	1.02	3.6%	7.9%	Tax	2.53	2.97	17.2%
PAT	6.47	6.89	5.46	6.83	7.28	7.47	2.6%	8.5%	PAT	18.57	21.58	16.2%
NPM	4.1%	4.1%	3.2%	4.0%	3.8%	3.8%			NPM	4.0%	3.9%	

Nasser Al-Harthy
Nassersh@bankmuscat.com
 968 2476 7186

Shell Oman Marketing

Shell Oman Marketing reported strong results for Q3 2010 with revenues of RO 82.9 million, higher 2.0% qoq and 7.8% yoy. 9MFY10 revenues were 10% higher compared to the corresponding period last year. Gross Profit for the quarter grew 0.8% qoq and 5.1% yoy to RO 9.01 million. PAT came at RO 4.06 million with a growth of 10.2% qoq and yoy, the highest in the company history. 9MFY10 PAT continued to deliver healthy growth and increased by 11.3% to RO 11.28 million.

The company reported higher retail fuel volumes in 9MFY10 compared to 9MFY09. The company plans to expand retail sites with a number of new sites which is in line with previous years. Also, the company focuses on product differentiation by providing better mileage fuel campaign. The company succeeded in minimizing the impact of losing Oman Air's contract and reported a growth in aviation business bottom line. The growth was due to the expansion in profitability margins with the company targeting profitable contracts. The company signed an agreement with Sohar Industrial Port Company to set up the port's first bunker operation for marine fuel. The company expects this project contribute in company revenues in 2011.

GPM stood at 10.9% in Q3 2010 compared to 11.0% for Q2 2010 and 11.1% for Q2 2009. EBITDA margin increased to 6.5% compared to 6.2% in Q2 2010 due to the efficient cost management. PAT margin expanded 40 bps to 4.9%, the highest among oil marketing companies. 9MFY10 GPM stabilized at 11.0% compared to 11.3% in 9MFY09. 9MFY10 EBITDA margin fell to 6.4% in compared to 6.5% last year. PAT margin stood at 4.7%.

We expect the company to report FY10 revenues of RO 323.6 million. We revise PAT estimate from RO 13.8 million to RO 15.1 million due to the continued strong results. At RO 2.101 the stock trades at 14x FY10 and 12.7x FY11 earnings. Based on 11% cost of equity and 3% terminal growth our DCF model throws a Dec '11 target price of R.O 2.143/share. We recommend a **HOLD** on the stock.

Al Maha Petroleum

Al Maha Petroleum reported revenues of RO 55.9 million, lower 0.9% qoq and higher 23.6% yoy. The yearly growth is attributed mainly to non-retail volume which has picked up. Net Profit for Q3 is RO 1.84mn which is higher 12% yoy and lower 0.6% qoq. The financials showed slight improvement in gross profit margin from 9.6% in Q2FY2010 to 9.8% in Q3FY2010. EBITDA margin was at 3.7% and NPM stood at 3.3%.

On the retail side, the company has opened 3 more petrol stations since October 2009 which helped to increase the retail volumes. Al Maha currently has 164 fuel stations and currently there are 6 new filling stations under construction.

In April Al Maha has reached an agreement with Talal Al Zawawi Enterprises to end their retail shops contract. However, Al Maha Currently has an agreement with Al Fair which is currently operating 14 retail shops and planning to open another 27 new retail shops by year end at Al Maha's stations. The Aviation volume has picked up supported by Oman Air's contract which started in March 2010. The contract accounts for around 4% of company's volumes. However, the contract has resulted in pressure on profit margins.

The company announced in May that it has won a two year contract to supply diesel to power station located in Rural Area Electricity Company. The value of the tender is RO 13.7mn.

The stock trades at 9.9x FY10 earnings and 8.7x FY11 earnings. We maintain our target price of RO 13.500 on the stock. We use 12% cost of equity and 3% terminal growth in our DCF model. We maintain **BUY** on the stock

Oman Oil Marketing

Oman Oil Marketing reported revenues of RO 56.62 million which are higher 2.2% qoq and 26.8% yoy due to the favorable economic conditions. However, the quarterly comparison shows a drop of 2.4% in gross profit to RO 5.02 million. Also, PAT came at RO 1.57 million, lower 9.8% qoq and higher 0.7% yoy.

The margin has been squeezed more in Q3 due to higher growth in non-retail volumes. The GP margin fell to 8.9% in Q3FY2010 compared to 9.3% in Q2FY2010. PAT margin declined this quarter to 2.8% compared to 3.1% in previous quarter.

The retail business witnessed opening 4 new fuel stations this year leading to improvements in sales. We believe the company's new strategy of opening their new sites in strategic places will continue to push the retail volume and will continue to improve average throughput. Commercial business grew 20% growth. The company secured two new aviation fuel contracts with Pakistan International Airlines and Bangladesh Airlines for a period of one year starting from 1st October 2010. The company stated both contracts will contribute 6% to volumes for aviation sector.

The stock trades at 11.8x FY10 earnings and 10.4x FY11 earnings. Based on 12% cost of equity and 3% terminal growth our DCF model throws a target price of RO 1.154/share. We recommend a **HOLD** on the stock.

Shell Oman Marketing

RO mn	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-09	QoQ	YoY
Revenues	68.52	72.05	76.91	80.92	75.07	81.24	82.90	2.0%	7.8%
COGS	61.26	63.39	68.34	72.71	66.75	72.30	73.89	2.2%	8.1%
GP	7.26	8.65	8.57	8.22	8.32	8.93	9.01	0.8%	5.1%
GP%	10.6%	12.0%	11.1%	10.2%	11.1%	11.0%	10.9%		
SG&A	3.32	3.60	3.48	4.11	3.47	3.90	3.58	-8.3%	3.0%
EBITDA	3.95	5.06	5.09	4.11	4.85	5.03	5.43	7.9%	6.6%
EBITDA%	5.8%	7.0%	6.6%	5.1%	6.5%	6.2%	6.5%		
Tax	0.39	0.49	0.51	0.39	0.49	0.49	0.55	12.1%	8.8%
PAT	2.87	3.59	3.69	2.86	3.54	3.69	4.06	10.2%	10.2%
EPS	0.029	0.036	0.037	0.029	0.035	0.037	0.041	10.2%	10.2%
NPM	4.2%	5.0%	4.8%	3.5%	4.7%	4.5%	4.9%		

RO mn	9MFY09	9MFY10	chg%
Revenues	217.48	239.21	10.0%
COGS	192.99	212.95	10.3%
GP	24.48	26.26	7.3%
GP%	11.3%	11.0%	
SG&A	10.39	10.95	5.4%
EBITDA	14.09	15.31	8.6%
EBITDA%	6.5%	6.4%	
Tax	1.39	1.54	11.0%
PAT	10.14	11.28	11.3%
EPS	0.101	0.113	11.3%
NPM	4.7%	4.7%	

Al Maha Petroleum

Ro mn	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	QoQ	YoY
Revenues	37.8	42.5	45.2	45.5	49.0	56.4	55.9	-0.9%	23.6%
COGS	33.5	37.6	40.3	40.8	43.6	51.0	50.4	-1.2%	25.0%
GP	4.2	4.9	4.9	4.7	5.3	5.4	5.5		
GPM	11.2%	11.5%	10.8%	10.4%	10.9%	9.6%	9.8%		
SG&A	3.1	3.2	3.2	3.8	3.6	3.5	3.7	4.6%	12.6%
EBITDA	1.4	2.0	1.9	1.1	2.0	2.1	2.1	-0.4%	12.2%
EBITDA %	3.7%	4.8%	4.1%	2.5%	4.0%	3.7%	3.7%		
PBT	1.4	2.0	1.9	1.1	2.0	2.1	2.1	-0.6%	12.0%
Tax	0.17	0.24	0.22	0.14	0.26	0.25	0.25	-0.4%	12.5%
PAT	1.26	1.78	1.64	0.99	1.72	1.85	1.84	-0.6%	12.0%
NPM	3.3%	4.2%	3.6%	2.2%	3.5%	3.3%	3.3%		

RO mn	9MFY09	9MFY10	chg%
Revenues	125.5	161.2	28.4%
COGS	111.5	145.0	30.1%
GP	14.1	16.2	
GPM	11.2%	10.1%	
SG&A	9.5	10.7	13.1%
EBITDA	5.3	6.1	16.0%
EBITDA %	4.2%	3.8%	
PBT	5.3	6.2	16.0%
Tax	0.63	0.76	20.2%
PAT	4.68	5.41	15.5%
NPM	3.7%	3.4%	

Oman Oil Marketing

RO mn	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	QoQ	YoY
Revenues	37.79	42.08	44.65	43.92	44.80	55.41	56.62	2.2%	26.8%
COGS	33.91	37.68	40.09	39.36	40.50	50.27	51.60	2.6%	28.7%
GP	4.01	4.40	4.56	4.56	4.30	5.14	5.02	-2.4%	10.2%
GPM	10.6%	10.5%	10.2%	10.4%	9.6%	9.3%	8.9%		
SG&A	2.74	3.25	2.92	2.91	2.69	3.30	3.43	3.8%	17.3%
EBITDA	1.82	1.93	2.40	2.48	2.35	2.61	2.34	-10.5%	-2.8%
EBITDA%	4.8%	4.6%	5.4%	5.6%	5.2%	4.7%	4.1%		
PBT	1.23	1.25	1.77	1.85	1.80	1.98	1.79	-9.6%	0.9%
Tax	0.15	0.15	0.21	0.23	0.22	0.24	0.21	-9.9%	0.6%
PAT	1.08	1.10	1.56	1.62	1.58	1.74	1.57	-9.8%	0.7%
NPM	2.9%	2.6%	3.5%	3.7%	3.5%	3.1%	2.8%		

RO mn	9MFY09	9MFY10	chg%
Revenues	124.52	156.83	25.9%
COGS	111.68	142.37	27.5%
GP	12.96	14.47	11.6%
GPM	10.4%	9.2%	
SG&A	8.92	9.42	5.5%
EBITDA	6.16	7.30	18.4%
EBITDA%	4.9%	4.7%	
PBT	4.25	5.56	30.7%
Tax	0.51	0.67	30.6%
PAT	3.74	4.89	30.6%
NPM	3.0%	3.1%	

Shell Oman Marketing

RO mn	2009	2010E	2011E	2012E
Revenues	298.4	323.6	346.3	367.1
Gross profit	32.7	34.8	37.3	39.5
EBITDA	18.2	20.4	22.2	23.2
PAT	13.0	15.1	16.5	17.2
EBIT%	5.0%	5.3%	5.4%	5.3%
EBITDA%	6.1%	6.3%	6.4%	6.3%
PAT%	4.4%	4.7%	4.8%	4.7%
ROE%	47.2%	51.3%	53.0%	53.6%
ROCE%	52.8%	57.4%	59.4%	60.0%
EPS (RO)	0.130	0.151	0.165	0.172
PE (x)	16.1	14.0	12.7	12.2
BV (RO)	0.283	0.304	0.318	0.326
P/B	7.4	6.9	6.6	6.5
EV/EBITDA	11.1	9.7	8.7	8.2

Al Maha

RO mn	2009	2010E	2011E	2012E
Revenues	171.0	211.2	234.4	253.0
Gross profit	19.7	21.3	23.4	25.3
EBITDA	8.3	10.0	11.2	12.2
PAT	5.7	7.1	8.1	8.9
EBIT%	3.8%	3.8%	3.9%	4.0%
EBITDA%	4.9%	4.7%	4.8%	4.8%
PAT%	3.3%	3.4%	3.5%	3.5%
ROE%	19.8%	22.8%	24.0%	24.2%
ROCE%	22.3%	25.9%	27.3%	27.5%
EPS (RO)	0.822	1.028	1.174	1.288
PE (x)	12.4	9.9	8.7	7.9
BV (RO)	4.3	4.7	5.1	5.5
P/B	2.4	2.2	2.0	1.8
EV/EBITDA	7.5	6.1	5.5	4.8

Oman Oil Marketing

RO 'mn	2009	2010E	2011E	2012E
Revenues	168.4	206.9	225.6	242.9
Gross profit	17.4	19.7	21.9	23.6
EBITDA	8.6	10.1	11.3	12.2
PAT	5.4	6.4	7.3	7.8
EBIT%	3.7%	3.6%	3.7%	3.7%
EBITDA%	5.1%	4.9%	5.0%	5.0%
PAT%	3.2%	3.1%	3.2%	3.2%
ROE%	23.7%	25.0%	24.9%	23.7%
ROCE%	26.8%	28.2%	28.1%	26.8%
EPS (RO)	0.083	0.100	0.113	0.121
PE (x)	14.1	11.8	10.4	9.7
BV (RO)	0.374	0.424	0.480	0.541
P/B	3.1	2.8	2.4	2.2
EV/EBITDA	7.9	6.7	5.8	5.1

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