

Shell Oman Marketing – Q1FY11 update

Fuel distribution

Numbers Shell Oman Marketing reported growth in revenues of 8.8% qoq and 22.4% yoy to RO 91.8 million. EBITDA came at RO 5.5million which is higher 39.8% qoq and 13.7 yoy. PAT grew 48.6% qoq and 13.8% yoy to RO 4.02 million. The company witnessed expansion in profit margins for Q1FY11 due to the efficient management of selling, general and administrative expenses. SG&A expenses to sales were lower from 4.62% in Q1FY10 to 4.23% in Q1FY11. Q1FY11 EBITDA margin grew to 6.0% compared to 4.7% for Q4FY10, margin are usually lower in Q4. NPM grew 120bps to 4.4% in Q1FY11.

Retail volumes accounted for 75% of total volumes in FY2010. In Q1FY11 retail sales were higher compared to corresponding period last year. The growth was driven by higher volumes, network expansion and increasing road network. Average throughput remained the highest in the market with our estimated average throughput of 10MN lts for FY2010. We expect the company to deliver healthy growth in retail sector with the enhanced government spending and job creation. In addition, car imports increased 13.6% from 85K in FY2009 to 96K in FY2010.

Bulk fuel volumes represent 22% of total volumes in FY2010. Commercial fuel witnessed yearly growth in volumes. The company succeeded in servicing the current contracts. We expect the company expand further in this sector due to improvement in macro environment and strong tendering activity. Also, aviation sector volumes were higher in Q1FY11 with 5% increase in total flights in Muscat international airport for the first two months of current year compared to the same period last year. Currently Shell is the sole operator in Salalah airport.

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 the severe competition.

Valuation We expect the company to report FY11 revenues of RO 349.7 million and PAT of RO 15.4 million. At RO 2.345 the stock trades at 15.3x FY11 and 14.4x FY12 earnings. Based on 11% cost of equity and 3% terminal growth our DCF model throws a Dec '11 target price of R.O 2.306/share. Earnings yield at current price is 6.6% and the company usually pays out 100% of its profits. 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-10	Dec-10	Mar-11	QoQ	YoY
Revenues	68.52	72.05	76.91	80.92	75.07	81.24	82.90	84.40	91.84	8.8%	22.4%
EBITDA	3.95	5.06	5.09	4.11	4.85	5.03	5.43	3.95	5.52	39.8%	13.7%
EBITDA%	5.8%	7.0%	6.6%	5.1%	6.5%	6.2%	6.5%	4.7%	6.0%		
Interest	(0.15)	0.14	0.04	0.01	0.00	0.03	(0.00)	0.00	(0.00)		
Depreciation	0.83	0.85	0.85	0.87	0.82	0.82	0.81	0.87	0.95	9.2%	15.7%
PBT	3.26	4.07	4.19	3.25	4.03	4.18	4.62	3.07	4.57	48.8%	13.5%
Tax	0.39	0.49	0.51	0.39	0.49	0.49	0.55	0.37	0.55	50.4%	11.8%
PAT	2.87	3.59	3.69	2.86	3.54	3.69	4.06	2.71	4.02	48.6%	13.8%
EPS	0.029	0.036	0.037	0.029	0.035	0.037	0.041	0.027	0.040		
NPM	4.2%	5.0%	4.8%	3.5%	4.7%	4.5%	4.9%	3.2%	4.4%		

April 25, 2011
CMP: RO 2.345

Report Purpose

Q1FY11 update

Stock Details

Exchange / Code	MSM/SOMS
Bloomberg Code	SOMS OM
Equity Capital	RO 10mn
Face Value	0.100
52-Week H/L	2.6/1.8
Market Cap	RO 235mn

Shareholding Pattern

B. V. Dordtsche Petrulium Maatschapij	20%
Shell Overseas Investment	20%

Estimates	Old	Rev	Old	Rev
RO mn	2011	2011	2012	2012
Revenues	346.3	349.7	367.1	370.7
EBITDA	22.2	21.0	23.2	22
PAT	16.5	15.4	17.2	16

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RO mn	2010	2011E	2012E	2013E
Revenues	323.6	349.7	370.7	394.8
EBITDA	19.3	21.0	22.3	24.5
PAT	14.0	15.4	16.3	18.1
EBIT%	4.9%	5.0%	5.0%	5.2%
EBITDA%	5.9%	6.0%	6.0%	6.2%
PAT%	4.3%	4.4%	4.4%	4.6%
ROE%	47.7%	49.5%	50.7%	53.9%
ROCE%	53.3%	55.3%	56.7%	60.3%
EPS (RO)	0.140	0.154	0.163	0.181
PE (x)	16.8	15.3	14.4	13.0
BV (RO)	0.303	0.317	0.327	0.344
P/B	7.7	7.4	7.2	6.8
EV/EBITDA	11.8	10.5	9.8	8.8

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