

Oil Marketing Sector - Oman

Defensive bet in volatile times...



Oil Marketing Sector in Oman – Defensive bet in volatile times

- Oman Oil Marketing remains our favorite pick
- Al Maha Petro provides strong case of valuation
- Shell Oman to provide consistent dividend yield

August 14, 2010

Oil Marketing Sector in Oman - Rationale to Initiate coverage...

During the prevailing volatile epoch in equity markets, the long term investors remain baffled to pump in new funds in the listed equities space. It is noteworthy that capital protection has become paramount among investors rather than looking for capital enhancement during these turbulent times. The investing strategy has tilted in favour of long term investment and expects to play prudent approach as the thumb rule moving forward.

Towards this initiative, GBCM research has identified Oman's Oil Marketing Sector as a defensive bet and also provides much needed solace throughout the market instability period. As compared to other sectors, Oil marketing segment remains as a stable Industry with the presence of low beta stocks. The sector also provides strong entry barriers on back of higher capital requirements, government policy and prevailing economies of scale.

We also believe that the presence of favorable Demographics in Oman along with strong Fiscal Spending to aid stable and steady economic growth in the coming years. The continuing emphasis on employment generation among local population (*Refer FY2010 Oman Budget*) could lead to improved demand, healthy domestic savings and consumption mix. The continuance of Government spending on infrastructure development mainly into Airports, Seaports, Roads and other infrastructure to augment consistent revenue growth for the local companies.

As per GBCM research estimates, Oman Economy (*nominal GDP*) in FY2010E is expected to grow by about 23.6% YoY to RO 21.918 billion (*Assuming oil price average at \$70/barrel and Production at \$820K bpd*) owing to presence of incremental oil production activities along with the presence of higher oil prices during the current fiscal. We believe the listed players in oil marketing companies would be the direct beneficiaries of the domestic economic revival.

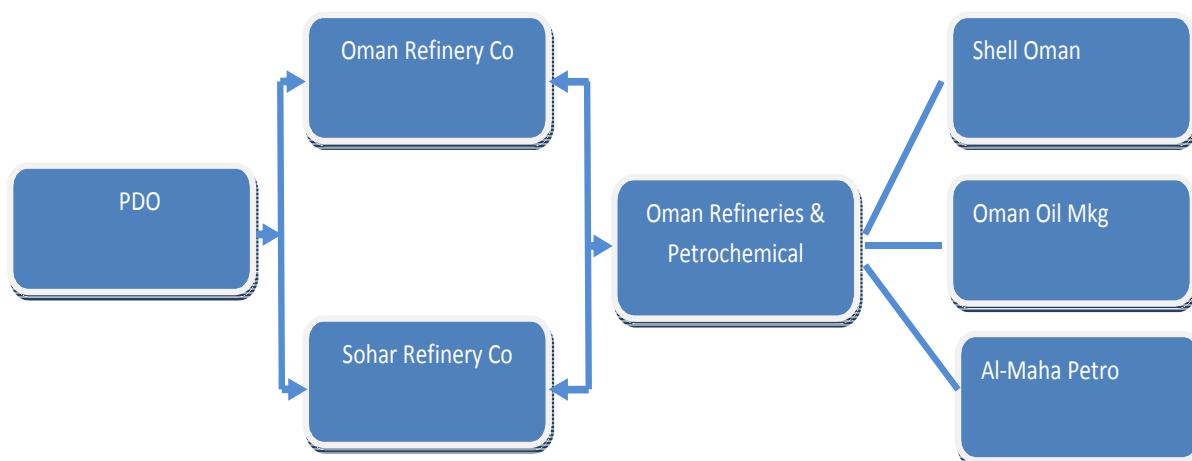
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Company	CMP	Rating	Beta	Fair Value	Upside	FY10E		
						PE	P/BV	Dividend Yield
Shell Oman	1.909	Accumulate	0.583	2.111	10.6%	13.4	6.5	6.9%
Oman Oil	0.988	Buy	0.638	1.202	21.6%	9.0	2.2	5.3%
Al Maha Petroleum	8.993	Buy	0.581	12.869	43.1%	8.5	1.9	6.7%

Source: Company Reports, Bloomberg, GBCM Research Estimates

Oil Marketing Companies – The Supply Chain



Oman Refineries and Petrochemical Company is the single supply source of petroleum products in the Sultanate of Oman. These products are created out of Omani crude oil, which is received from Petroleum Development Oman (PDO) and supplied after refining, to the marketing companies.

Daily Crude Production

In Million BBL	Total Production	Total Export
2004	285.4	263.6
2005	282.8	262.1
2006	269.2	233.1
2007	259.3	222.0
2008	244.9	216.7
2009	296.6	242.9
Q1 2010	76.9	65.8

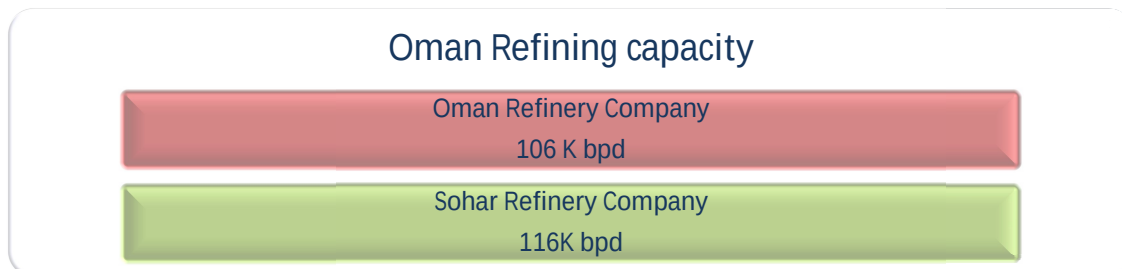
Source: MoNE; GBCM Research

Oman Refinery Company

Oman Refineries and Petrochemicals Company LLC (ORPC) is a limited liability Company established on 23 September 2007, on merger of Sohar Refinery Company LLC into Oman Refinery Company LLC. To ensure that the country's needs of light products are met, the first Refinery in Oman, the Mina Al-Fahal Refinery (MAF), commenced its operations in 1982 with an initial design capacity of 50,000 bpd by utilizing Omani crude oil.

The Refinery later increased its capacity gradually to 80,000 bpd by the year 1987 and then to 85,000 bpd by 2001. Today, the MAF Refinery processes 106,000 bpd after a major turnaround, inspection and revamp project which took place in April 2007.

Twenty four years after the commissioning of the first Refinery in Oman, Sohar Refinery was commissioned in 2006 with a capacity of 116,000 bpd. Today ORPC's total process capacity stands at 222,000 bpd.



SOURCE: MoNE; GBCM Research

Sohar Refinery Company

The Sohar Refinery Company was set up in 2003 to construct commission and operate a new grass roots refinery in Sohar (250km northwest of the capital Muscat). The company is 20% owned by the Oman Oil Company and 80% by the Government of Oman. The Refinery was designed to process a mixed feedstock of Oman crude oil and atmospheric residue from the Oman Refining Company. During late 2007, Oman Refineries and Petrochemical Co was incorporated to represent the merged entity. Recently Oman has announced that it will spend \$300 million on increasing capacity at its Sohar refinery. The refinery's capacity would be increased to 190,000 bpd from the current capacity of 116,000 bpd and the up gradation is expected to get completed by 2013.

Oil Marketing Companies

There are three major local marketing companies (listed) in Oman who takes Mogas, Kerosene (Jet fuel) and Diesel from the Refinery and markets in the domestic market:

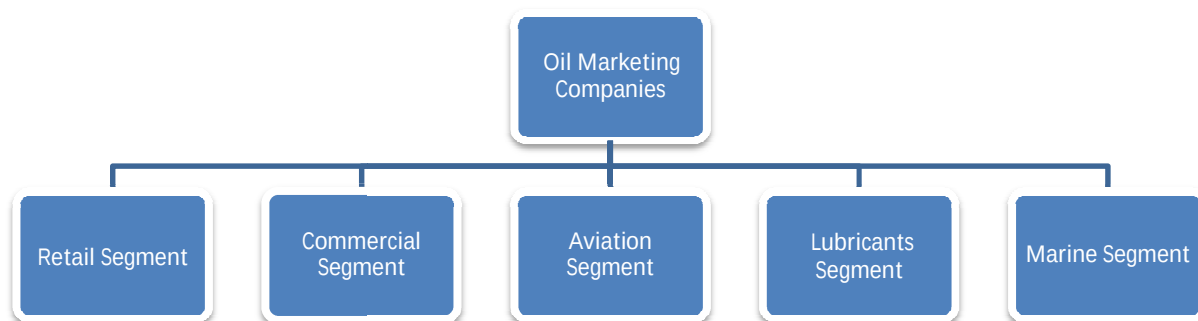
- Shell Oman Marketing Company
- Al Maha Petroleum Marketing Company
- Oman Oil Marketing Company

Together as of June 2010, these three companies have 419 retail pumps in Oman, with Al Maha having the largest network of 163 pumps.

All three companies participate and compete fiercely in the retail segment, commercial segment, aviation segment and the lubricant segment too. Lubricants market is dominated by unorganized players which are fragmented with over 30 players including many brands of UAE origin. Shell Oman has a distinct advantage in the lubricant segment as it is the only company in Oman with its own blending plant.

Oil Marketing Companies - Business Model

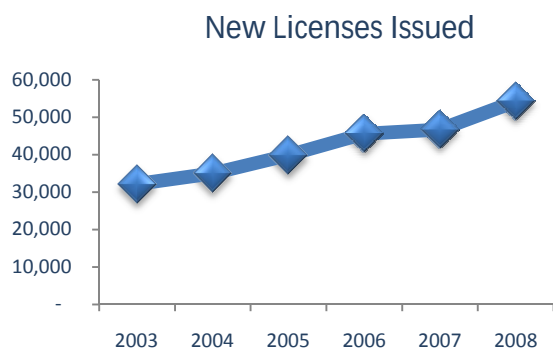
The Oil Marketing Companies in Oman operate in 5 distinct segments.



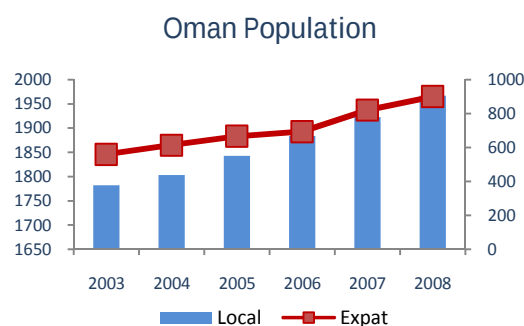
Segmental Performance

Retail Segment – Steady growth to continue

The retail segment acts as the backbone of the Oil Marketing Companies (OMC). The growth of the retail segment is directly correlated with the growth in the automobile and tourism industry. Except during the financial crisis which erupted during 2008-09, there has been considerable growth in the automobile sector on account of raising expat population coupled with growing economy combined with influx of tourists in the past.

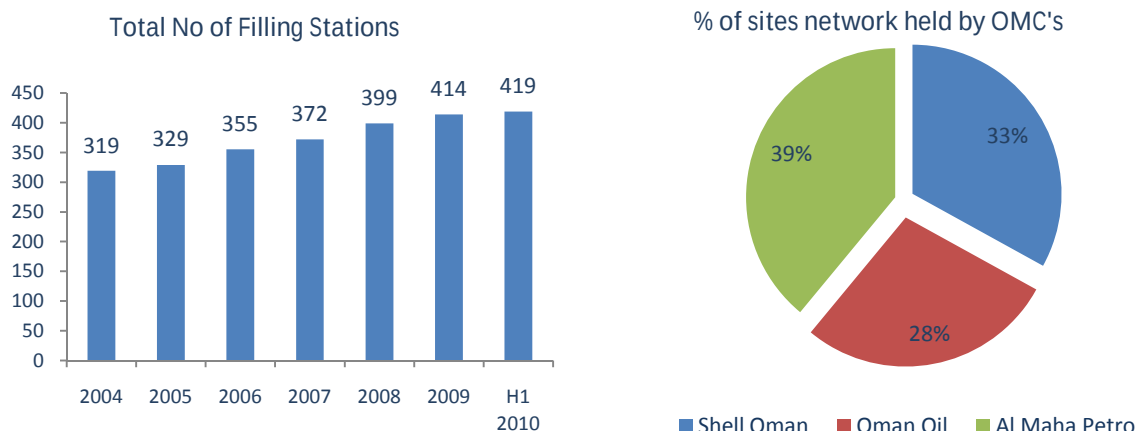


Source: Mone Oman; GBCM Research



Source: Mone Oman; GBCM Research

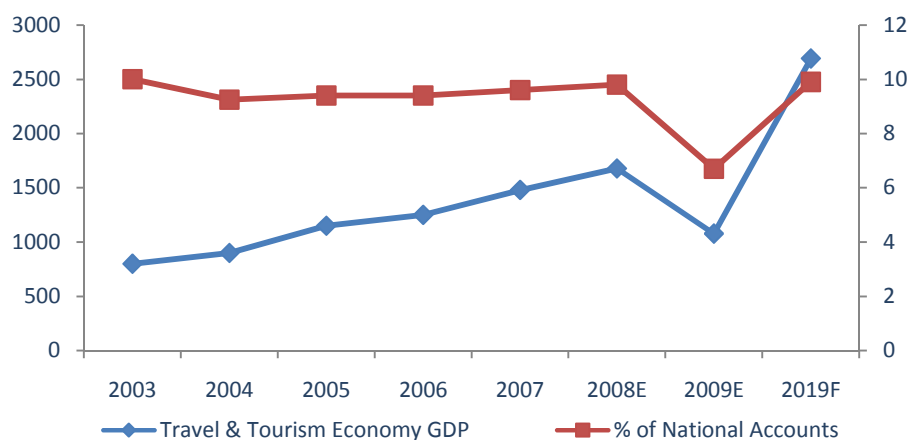
Apart from the above creation of new zones like Sohar SEZ, Duqm free zone and Salalah free zone under the Industrial development plan has bolstered the OMC's to roll out new filling stations across the nation. The total filling stations in the country has grown to 419 during H1 2010 from 319 during 2004.



Source: Company; GBCM Research

Hitherto, Oman has been oil based economy and is trying to transform itself into a multifaceted economy by diversifying into various industries. Oman is showing haste to develop tourism sector which has become an important and sustainable socio-economic sector of Oman. With its abundant natural beauty, Oman is attracting tourists across the globe and is becoming one of the favored tourist destinations in the region.

Oman-bound tourism likely to grow 6.7% CAGR during 2009- 2019E



Source: WTTC, GBCM Research

The World Travel & Trade Council (WTTC) has ranked Oman No: 1 in terms of growth among 12 Middle East countries. As per WTTC, the Travel & Tourism (T&T) Industry in Oman is expected to contribute directly 1.6% to Gross Domestic Product (GDP) in 2009 (RO 254 mn), rising in nominal terms to RO 665 mn (2.5% of total) by 2019.

The creation of new industrial zones and development of the tourism sector is expected to generate employment opportunities for the young Oman population which in turn would lead to continuing growth in the automobile sales. We believe the influx of tourist's arrival coupled with increasing demand for new vehicles to augment sales growth in the retail segment.

Commercial Segment – Government project spending to aid growth

The commercial segment is one among the fiercely competitive segment as OMC's are selected through tender process. OMC's cater their customers according to their customized needs and logistics requirements. Earlier, the high level of government spending in the development of infrastructure, construction (roads, ports, housing, airports, etc) and tourism related projects due to the windfall gains from the crude oil prices as well as the private sectors projects had benefitted the commercial business. High contribution from the government as well as private projects fuelled growth in the commercial segment. However the economic crisis during 2008 stalled some of the government as well as private sector projects due to liquidity issues. Though, Omani Government has continued its aggressive tendering process towards infrastructure development over the last two years.

Key Ongoing Projects in Oman

Project Name	Contract Value (USD million)	Status	Completion Date
Al Madinah Real Estate - Tilal Al Khuwair	100	Construction - Execution	In Progress
Muscat Municipality - Al Amerat to Quriyat Rd.	179	Construction - Execution	In Progress
Muscat Municipality - Wadi Adai Al Amerat Road	147	Construction - Execution	In Progress
Oman MTC - Muscat Int'l Airport Expansion - Civil Works Package	600	Construction - Tendering & Bidding	2010
Oman MTC - Muscat Int'l Airport Expansion - Passenger Terminal Package	600	Construction - Tendering & Bidding	2010
Duqm Free Trade Zone and Industrial Area	150	Design	2010
Oman MTC - Ras Al Hadd Airport	150	Construction - Tendering & Bidding	2010
Oman - Salalah to Thumrait Road Dualisation	124	Construction - Execution	2010
Muscat Municipality - Al Amerat to Bausher Road	65	Construction - Awarded	2010
Duqm Port - Ship Repair Yard and Dry Dock Complex	422	Construction - Execution	2011
Oman - Hasik to Shuwaymiah Highway	178	Construction - Execution	2011
Duqm Port - Marine Works	1,356	Executed	2012
Muscat Sultan Qaboos Port Expansion	390	Study	2012
Oman MTC - Sohar Airport	300	EPC - Bid Evaluation	2012
Oman MTC - Al Duqm Airport - Package 1	75	Construction - Execution	2012
Oman - Batinah Coastal Road	27	Construction - Tendering & Bidding	2012
The Wave, Muscat - Infrastructure	4,000	Construction - Execution	2013
Source: Zawya, Meed			

Worth of projects awarded by Tender board

Year	RO Mn
June 2009-Dec 2009	1,710
Till June 2010	1,752

Source: Tender Board Oman, GBCM Research

With the year 2010 being the last epoch of the Seventh Five-Year Plan, Oman government continues its aggressive fiscal spending towards the Construction and Infrastructure projects, which serves the national economy, to an extent of additional allocation of about RO 4.456 billion in current fiscal year (Source: MoNE, Oman Budget 2010). While the private investors, are yet to spread their wings back. We believe that aggressive steps taken by the government in order to improve the infrastructure in the country is bound to benefit the OMC's in the forthcoming quarters.

Aviation – Airports Expansion program to aid growth

Industry: Middle East traffic figures have continued to soar according to the latest figures announced by IATA. As per IATA's international scheduled traffic results for Jun 2010, the Middle East tops second in terms of performance with 18.0% increase in passenger traffic and a 39.6% increase in freight movements. Middle East growth of 18.0% can be related to the strength of Asia and the ability of Middle East carriers to facilitate connection traffic to the other regions through Middle Eastern hubs.

Continued Traffic Improvement

Jun 2010 Vs Jun 2009	RPK Growth	ASK Growth	PLF	FTK Growth	AFTK Growth
Middle East	18.0%	13.1%	76.6	39.6%	17.9%
Industry	11.9%	5.9%	79.8	26.5%	12.2%
YTD 2010 vs. YTD 2009	RPK Growth	ASK Growth	PLF	FTK Growth	AFTK Growth
Middle East	20.1%	13.2%	75.0	34.1%	15.8%
Industry	7.9%	2.0%	77.1	28.3%	6.8%

Source: IATA

Note: RPK: Revenue Passenger Kilometres measures actual passenger traffic; ASK: Available Seat Kilometres measures available passenger capacity; PLF: Passenger Load Factor is % of ASKs used.

As per Omani Directorate general of safety and Aviation, Oman have witnessed an increase in passenger traffic during the H1FY10, the total number of passengers at Muscat International Airport has increased by 29% to 2.723 million passengers during the first six months of 2010 from 2.111 million passengers for the same period last year. This is on account of airlines increasing flight operations in Oman.

The aviation sector's fortune is always linked with number of flights landing and fuelling in the Sultanate, which in turn is associated with the development of tourism as an industry and the general level of economic activity in Oman. OMC does secure contracts through tender process. Apart from domestic and international airlines, OMC's also caters to Petroleum development of Oman, Royal Air Force of Oman (RAFO).

Moving forward, post completion of the new international airports at Salalah and Muscat International Airports, the demand for the Jet fuel market is expected to grow as more new airlines would be allowed to operate. The opening up of new regional airports in Oman would also in turn increase the demand of jet fuel in the coming years. However, this sector is fiercely competitive as each market player will try to develop its market share.

At the same time Oman's thrust on tourism sector and various investors across the globe eyeing Oman as a favored destination for trade and development may keep up the aviation sector to grow at the pace of the economy.

Lubricant Segment – Budding area

The Lubricant sector business is a high volume and a low profitable one. As mentioned earlier, the market is fragmented with over 30 players including many brands of UAE origin. The fierce competition in the sector restricts the companies' ability to adjust prices freely in the market. However, well established brands enjoy certain degree of customer loyalty and as such, the sector remains a profitable one for the companies. Shell Oman has a distinct advantage in the Lubricant sector as it is the only company in Oman with its own blending plant.

Marine Business Unit – Long term growth potential

The tourism sector has become a key strand in Oman's economic diversification strategy which in turn has resulted in more tourism development projects like Blue City, Yetti, Jebel Sifah, Salalah Beach and the government's ferry services in the region. This is sure to improve the water based tourism in the country. However this is in nascent stages of development.

Key Issues faced by the Sector:

License fee – Impact seen during 2009

Starting 2009, all the Oil Marketing Companies (OMC) in Oman is paying a license fee of 0.004 bz for every one rial earned. Earlier these OMC's were paying a flat and a fixed license fee to the Government. The new rule is sure to bite the margins of the OMC's significantly as it is applicable to all segments viz Retail, Commercial, Aviation and Lubricants. This is because the prices in retail and commercial segments are determined by the OMC's themselves while the aviation and lubricant segment prices are influenced by the International market prices.

Particulars (RO 000's)	Shell Oman	Oman Oil	Al Maha Petro
FY09 - Revenue #	298,351	168,444	170,955
License fee			
Old	1,000	250	150
New	1,193	674	684
Additional Burden	193	424	534

Source: GBCM Research; # Revenue figures pertains to 2009

We believe that OMC's are not in a position to pass on the costs to the customers and we expect the new fee calculation to have a moderate impact on the retail and commercial segment while the impact on the aviation as well as on the lubricant segment to be substantial. This was clearly visible in the 2009 results of the OMC's especially in companies like Oman oil and Al Maha petroleum.

Sohar Refinery price rise – Marginal impact to be seen moving ahead

During August 2009 Oman Refineries & Petrochemicals Co. LLC has increased the purchase prices of petroleum products from Sohar Refinery which may result in increasing the cost of sales in turn affecting the net profit. However, we believe that the impact of price revision in Sohar refinery would have a marginal impact on the margins of the listed companies owing to lower off-take from this refinery (about 20% of the total output of Sohar refinery is used for local consumption).

Shell Oman Marketing - Earnings growth remains intact...

Closing Price: RO 1.909

Recommendation: Accumulate

Fair Value: RO 2.111

Upside: 10.6%

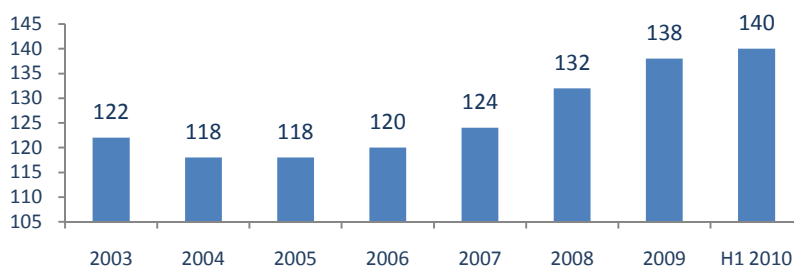
Introduction:

Established in the year 1958, Shell Marketing Ltd became a public limited company in the year 1997 and was renamed as Shell Oman Marketing Co SAOG. With its strong brand value and better supply chain management the company remains as the market leader in Oman.

Retail Segment:

Though the company has lower filling stations (about 140 stations) as compared to Al Maha Petro, the location of the filling stations and the brand value is bound to drive growth for this segment moving forward. The company introduced improved shell super petrol during 2009 and we expect the same to boost the sales going forward.

Filling Stations



Source: Company, GBCM Research

The average through put touched 10.2 million litres per site in 2008 and dropped to 9.7 million litres per site in 2009 on the back of economic downturn. We expect the ATP to grow @ CAGR 6% during 2009-2012 augmented by increasing demand for new vehicles and influx of tourists. While we expect the Sohar refinery price increase to have a marginal impact on the margins front as the supply from this refinery forms ~10-15% of the total supply. For H1 2010 the retail sector volume has increased by 8% YoY. On the whole we see a sizeable growth for Shell in the retail segment.

Commercial Segment:

The high level of government spending in the development of infrastructure, construction and tourism related projects have continued to benefit the commercial business segment. With crude oil prices staying above the budgeted price of \$50/bbl in 2010 has facilitated the government to ahead with major infrastructure projects in the country and has announced projects to an extent of RO 3.5 billion in last one year through official tender board. The healthy growth in economic activity, specifically in sectors like Construction, Transport, Infrastructure, utilities etc. is expected to drive demand for commercial fuels.

We expect Shell Oman Marketing's commercial segment to grow at a CAGR (2009 -2012) of 13.9%. During the first half of 2010, the company had secured major projects from existing and new customers mainly in the infrastructure development project sector.

Aviation Segment:

Till 2009 the company remained as the market leader in this segment. Losing of Oman Air contract to its key competitors Oman Oil marketing and Al Maha Petro has pushed down the contribution from this segment nearly by 4%. At the same time the company has potential contracts from Fly Dubai, Aviation services Management, Air India, Qatar Airways, RAFO and PDO. As per IATA, the Middle East aviation sector is showing an outstanding performance in terms of increase in passenger traffic compared to its global peers which in turn results in hasty industry growth and expects the segment to contribute significantly to the topline.



Source: Company, GBCM Research

We foresee a moderate contribution from the aviation segment as the company has potential contracts to supply aviation fuel to Air India (two years), Fly Dubai (for two years), Qatar airways (for one year) and to RAFO and PDO for nearly three years. On the adverse side, we expect the loss of Oman Air contract to competitors to hit the top-line significantly during the current year.

Lubricant Segment:

Shell Oman, with its only blending unit in Oman has seen healthy growth in lubricant sales, which continues to be a low margin- high volume business. The company focuses on both exports and local market. During Q2 2010 this segment has shown a remarkable increase in sales volume in local as well as in export by ~18% on a YoY basis. We expect the volumes to improve significantly during the year backed by increased domestic as well as export market demand.

Outlook and Valuation:

Shell Oman Marketing is expected to maintain its leadership in the segments in terms of better supply chain management. Revenue is expected to grow by 10.2% CAGR (2009-2012E), bolstered by favorable demographics, emphasis on infrastructure development and the thrust on the non-oil sector. With improved efficiency and cost controlled mechanism, we expect the company to maintain the margins at current levels (H1 2010- Net margins: 4.5%).

FY10E we expect the company to post a net profit of RO 14.279 million an increase of 9.7% on YoY basis and to declare a dividend of 0.131 baizas, providing a dividend yield of 6.9% at the current levels. Based on the DDM valuation the fair value works out to RO 2.159. While under the PE model we have assumed a 14x on FY10E EPS which yields a fair value of RO 1.909. Overall Weighted Average Fair value per share is RO 2.111, an upside of 10.6% from the current levels. Hence we recommend an Accumulate rating on the stock.

Financial Highlights

Shell Oman Marketing: Income Statement

In RO 000's	2007	2008	2009	2010 E	2011 E	2012 E
Revenue	247,854	326,367	298,351	313,950	354,306	399,813
Cost of Sales	221,492	296,083	265,622	279,416	315,332	355,833
Gross Profit	26,362	30,284	32,729	34,535	38,974	43,979
EBITDA	15,203	17,143	18,231	19,779	22,321	24,788
Depreciation	2,519	2,837	3,392	3,510	3,706	3,902
EBIT	12,595	14,283	14,833	16,269	18,615	20,886
PBT	12,534	14,212	14,793	16,226	18,572	20,857
Income Tax Expense	1,472	1,708	1,772	1,947	2,229	2,503
Net Profit	11,062	12,504	13,021	14,279	16,343	18,355

Source: Company Reports; GBCM Research

Shell Oman Marketing: Balance Sheet Statement

In RO 000's	2007	2008	2009	2010 E	2011 E	2012 E
Property, Plant & Eqpt	13,223	15,980	17,278	16,298	15,132	12,270
Inventories	13,710	12,000	12,764	15,310	17,278	19,498
Receivables and Prepayments	22,738	20,341	22,421	25,804	29,121	32,861
Cash at Bank and in Hand	8,744	9,992	7,688	7,679	9,144	12,293
Total Assets	58,556	58,403	60,254	65,091	70,675	76,922
Payable and Accruals	27,110	28,908	29,068	30,621	34,557	38,995
Total Current Liabilities	33,241	31,584	31,914	35,609	39,885	44,663
Share Capital	10,000	10,000	10,000	10,000	10,000	10,000
Legal Reserve	3,587	3,587	3,587	3,587	3,587	3,587
Retained Earnings	11,728	13,232	14,753	15,895	17,203	18,671
Total Liability & Equity	58,556	58,403	60,254	65,091	70,675	76,922

Source: Company Reports; GBCM Research

Shell Oman Marketing: Ratio Analysis

	2007	2008	2009	2010 E	2011 E	2012 E
Margins (%)						
Gross Profit Margin (%)	10.6%	9.3%	11.0%	11.0%	11.0%	11.0%
EBITDA Margin (%)	6.1%	5.3%	6.1%	6.3%	6.3%	6.2%
EBIT Margin (%)	5.1%	4.4%	5.0%	5.2%	5.3%	5.2%
Net Profit Margin (%)	4.5%	3.8%	4.4%	4.5%	4.6%	4.6%
Per Share Ratio - RO						
EPS	0.111	0.125	0.130	0.143	0.163	0.184
BVPS	0.253	0.268	0.283	0.295	0.308	0.323
EV Per Share	1.862	1.809	1.832	1.852	1.838	1.806
DPS	0.110	0.115	0.120	0.131	0.150	0.169
Profitability Ratio (%)						
RoE	43.7%	46.6%	45.9%	48.4%	53.1%	56.9%
RoAE	45.6%	48.0%	47.2%	49.4%	54.2%	58.2%
RoA	18.9%	21.4%	21.6%	21.9%	23.1%	23.9%
RoAA	19.8%	21.4%	21.9%	22.8%	24.1%	24.9%
Valuation (On CMP)						
PE	17.3	15.3	14.7	13.4	11.7	10.4
PBV	7.5	7.1	6.7	6.5	6.2	5.9
Div Yield	5.8%	6.0%	6.3%	6.9%	7.9%	8.8%
EV/EBITDA	12.2	10.6	10.0	9.4	8.2	7.3
Working Capital Ratios - Days						
Debtors turnover	33	23	27	30	30	30
Creditors turnover	45	36	40	40	40	40
Inventory turnover	23	15	18	20	20	20
Leverage Ratios - (X)						
Total Debt to Equity	0.2	0.0	0.0	0.1	0.1	0.1
Current Ratio	1.4	1.3	1.3	1.4	1.4	1.4
Source; GBCM Research Estimates						

Oman Oil Marketing - On a Growth Trajectory

Closing Price: RO 0.988

Recommendation: BUY

Fair Value: RO 1.202

Upside: 21.6%

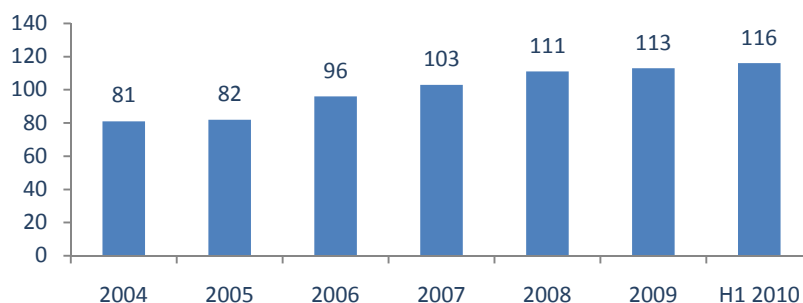
Introduction:

The company was formed in the year 2003 following the acquisition of majority share of British petroleum Oman by Oman oil Company.

Retail Segment:

The youngest among OMC's has 116 outlets across the sultanate and is on an expansion spree with an objective to open ~7 to 8 outlets every year. The Average Through put per site increased from 5.3 million litres in 2006 to 8.0 million litres in 2009. Going forward we expect the ATP to grow at a CAGR of 5%. The company is also aggressive in expanding the convenience stores business which grew significantly with 11 new stores opened in 2009, taking the total to 62 convenience stores. The company claims that the popularity of these convenience stores as a one-stop-shop centre has served more than ten million customers.

Filling Stations



Source: Company, GBCM Research

During Q2 2010 the retail segment witnessed a commendable growth by which the volume increased by more than 10% YoY. We expect a considerable growth from the retail segment in the medium to long term as company is aggressively expanding its retail outlets. The key concern in this segment is increasing competition from the peers as well as a price rise by Sohar refinery which may impact margins. But the company claims that since the supply from the Sohar refinery forms 10-15% of the total supply, the impact of the same on the margins is insignificant.

Commercial Segment:

The performance of this segment is directly correlated with the growth in the economy. We believe government's announcements of projects through tender board to an extent of ~RO 3.5 billion in last one year will act as a catalyst for this sector. Last year the company secured a contract with Rural Area Electricity Company (RAECO) for a period of two years commencing 1st June 2009 to 31st May 2011. Furthermore the company secured a contract for supply of bunker fuel to The National Ferry Company. During Q2 2010 the sales volume in this segment has shown positive sign as it has grown by 26% YoY on the back of new contracts. We believe the announcements of new projects by the government are expected to give major relief to the commercial segment going forward.

Aviation Segment:

In recent times the aviation segment of the company has outperformed as compared to its local peers as the company secured major contracts from the local as well as global airliners. Oman Oil is currently supplying 60% of the fuel needs of Oman Air (the national carrier) for two years, started the supply of fuel to Turkish airways and Air Arabia during 2009, also supply of around 800,000 litres over a year to Kuwait Airways, Saudi Airlines, Tunis Airline & Alia Jordanian, supply volume of nearly 5.9 million litres to Thai Airways and supply of jet fuel to Ruslan International Airlines (Volga Dnepr), the world's leading heavy air cargo charter specialists for a period of one year.



Source: Company, GBCM Research

During Q22010 the aviation business unit witnessed an exceptional growth in terms of volume which increased by more than 60% whilst market share at Muscat International Airport grew by more than 50% as well. This is at the back of securing 60% of Oman Air fuel requirement along with continuous supply to Ministry of Defense has also contributed positively to the performance of the segment. We expect the contribution from this segment to increase to 26% going forward bolstered by above contracts. In addition we believe unveiling of new routes along with new aircrafts by Oman air will result in huge consumption of fuel which in turn is expected to benefit Oman Oil.

Lubricant Segment:

Oman oil competes in one of the most highly fragmented segment. Apart from selling BP and Castrol products, the company is selling its own products under the brand name "Optima" and "Maxima". The company is exporting its products to Yemen, Jordan, Sudan and Iraq since the product launch. During 2009 the company spread its wings to Kuwait and UAE markets. The company is also exploring Asian and African countries to market its products.

During 2009 the company secured new businesses to supply lubes to Reliance rigs, Sea and land rigs Weatherford rigs, Komatsu Genuine Oil and Majan Mining. During Q2 2010 this segment has shown a commendable increase in sales volume by 13% on a YoY basis. We expect sales volume to improve considerably as the demand recuperates in the domestic as well as in the export markets.

Outlook and Valuation:

In the short term, we expect the company to focus on capacity addition which is likely to prove fruitful in the long run. Similarly, the new contracts under the aviation segment are expected to contribute considerably to the topline during the current year.

Oman oil is expected report a net profit of RO 6.701 million for FY 2010E, an increase of 25% on YoY basis. In the same time, we expect the company to declare a dividend of 0.050 baizas, which provides a dividend yield of 5.3% at the current levels.

At the current levels, the stock trades at 9.0X of FY10E EPS. Based on the DCF valuation the fair value works out to RO 1.156. While under the PE model we have assumed a 12x on FY10E EPS which yields a fair value of RO 1.247. Overall Weighted Average Fair value per share is RO 1.202, an upside of 21.6% from the current levels hence we recommend BUY rating on the stock.

Financial Highlights

Oman Oil Marketing Company: Income Statement

In RO 000's	2007	2008	2009	2010 E	2011 E	2012 E
Revenue	152,664	170,049	168,444	206,355	228,353	223,853
Cost of Sales	137,781	152,911	151,037	185,513	205,289	201,244
Gross Profit	14,882	17,138	17,408	20,842	23,064	22,609
EBITDA	8,354	9,406	8,636	10,524	11,646	11,416
Depreciation	1,735	2,007	2,453	2,709	2,999	3,288
EBIT	6,619	7,398	6,182	7,815	8,647	8,128
Income Tax Expense / (write back)	761	882	738	914	1,020	957
Net Profit	5,681	6,323	5,360	6,701	7,478	7,021

Source: Company Reports; GBCM Research Estimates

Oman Oil Marketing Company: Balance Sheet Statement

In RO 000's	2007	2008	2009	2010 E	2011 E	2012 E
Non Current Assets	12,685	17,611	18,132	21,418	22,169	22,631
Inventories	3,430	4,284	5,281	5,654	6,256	6,133
Trade and other receivables	15,319	16,806	17,911	22,614	25,025	24,532
Cash and cash equivalents	5,997	1,848	7,993	7,188	10,002	12,760
Total Assets	37,432	40,550	49,317	56,874	63,453	66,055
Trade and other payables	17,596	17,034	18,357	22,614	25,025	24,532
Current Liabilities	19,058	19,000	24,668	27,621	30,061	29,375
Share capital	6,450	6,450	6,450	6,450	6,450	6,450
Statutory reserve	2,150	2,150	2,150	2,150	2,150	2,150
Retained earnings	9,176	12,435	15,538	19,982	24,108	27,390
Equity	17,776	21,035	24,138	28,582	32,708	35,990
Total Liabilities and Equity	37,432	40,550	49,317	56,874	63,453	66,055

Source: Company Reports; GBCM Research Estimates

Oman Oil Marketing Company: Ratio Analysis

	2007	2008	2009	2010 E	2011 E	2012 E
Margins (%)						
Gross Profit Margin (%)	10.8%	11.2%	11.5%	11.2%	11.2%	11.2%
EBITDA Margin (%)	5.5%	5.5%	5.1%	5.1%	5.1%	5.1%
EBIT Margin (%)	4.3%	4.4%	3.7%	3.8%	3.8%	3.6%
Net Profit Margin (%)	3.7%	3.7%	3.2%	3.2%	3.3%	3.1%
Per Share Ratio - RO						
EPS	0.088	0.098	0.083	0.104	0.116	0.109
BVPS	0.276	0.326	0.374	0.443	0.507	0.558
EV Per Share	0.895	0.959	0.942	0.923	0.879	0.837
DPS	0.048	0.035	0.035	0.052	0.058	0.054
Profitability Ratio (%)						
RoE	32.0%	30.1%	22.2%	23.4%	22.9%	19.5%
RoAE	34.5%	32.6%	23.7%	25.4%	24.4%	20.4%
RoA	15.2%	15.6%	10.9%	11.8%	11.8%	10.6%
RoAA	16.2%	16.2%	11.9%	12.6%	12.4%	10.8%
Valuation (On CMP)						
PE	11.2	9.6	11.3	9.0	8.1	8.6
PBV	3.6	3.0	2.6	2.2	1.9	1.8
Div Yield	4.8%	3.5%	3.5%	5.3%	5.9%	5.5%
EV/EBITDA	6.9	6.6	7.0	5.7	4.9	4.7
Working Capital Ratios - Days						
Debtors turnover	37	36	39	40	40	40
Creditors turnover	47	41	44	40	40	40
Inventory turnover	9	10	13	10	10	10
Leverage Ratios - (X)						
Total Debt to Equity	1.1	0.9	1.0	1.0	0.9	0.8
Current Ratio	1.3	1.2	1.3	1.3	1.4	1.5
Source: GBCM Research Estimates						

Al Maha Petroleum - Attractive Valuations

Closing Price: RO 8.993

Recommendation: BUY

Fair Value: RO 12.869

Upside: 43.1%

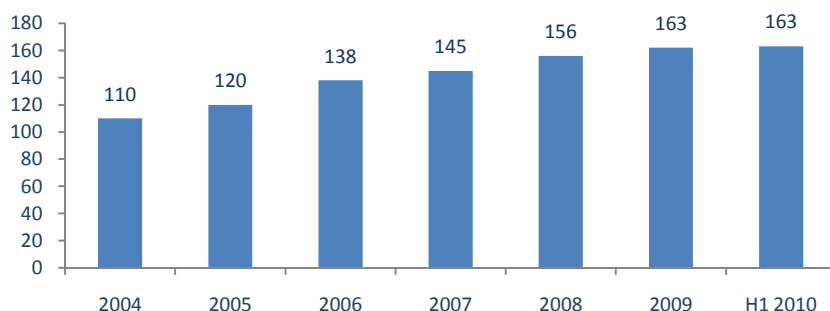
Introduction:

Al Maha Petroleum Products Marketing Company was established by virtue of a Royal Decree in June 1993. Before it came into existence, Al Maha Marketing Division was a part of the Oman Refinery Company as a marketing Division. It handled the distribution of Petroleum Products. In September 1999, the Al Maha Marketing Division was formally separated from Oman Refinery Company and established as an independent entity Al Maha Petroleum Products Marketing Company SAOG to exclusively distribute Petroleum Products.

Retail Segment:

Al Maha is a front runner in terms of its extensive retail network and its strategy of aggressive expansion policy has increased the fuel station to an extent of 163 stations across the nation and before the end of the year it expects to open another 6 filling stations. With the fuel rates in Dubai remaining higher as compared to Oman, the filling stations of Al Maha Petro especially along the border area witnessed a huge consumption. With the government amending a fixed quota system for diesel sold along the border areas during 2009, the company witnessed a moderate downfall in sales in terms of volume as well as value during last fiscal year.

Filling Stations



Source: Company, GBCM Research

Influx of tourist's arrival coupled with increasing demand for new vehicles and extensive presence through its network in the country to augment growth in the retail segment and we expect revenue from Retail Segment to grow at a CAGR of 9% during 2008-2012E. On a flip side we expect the retail segment margins to feel a moderate heat on the back of rise in Sohar refinery prices.

Earlier Al Maha Petro had entered an agreement with Talal Al Zawawi Enterprises LLC to run and operate convenience stores (Souk). Recently Al Maha Petroleum terminated the agreement with Talal Al Zawawi Enterprises and further entered into an agreement with Al Fair which is currently in the process of opening retail shops at various Al Maha filling stations. The company is projecting to open 41 shops by the end of the current year, and most of these shops will be operated 24x7.

Commercial Segment:

Al Maha Petro engages in bulk sales contractual arrangement to meet the fuel requirement of government and commercial organizations i.e., power stations, desalination plants, transport companies, contracting companies and oil services companies. In the current fiscal, the company has secured a contract from RAECO to supply diesel for a period of two years. Entering into an agreement with TOTAL, one of the world's leading lubricant manufacturing companies has proved prudent as it has resulted in enhancement of revenue from sale of lubricants mainly in the commercial sector.

Healthy growth in economic activity, specifically in sectors like Construction, Transport, Infrastructure, Utilities etc. on account of recent announcements made by the government to execute projects worth RO 3.5 billion is expected to drive demand for commercial fuels. The company has witnessed a rebound in the sales volume during H1 2010. But the detail of the same has not been disclosed.

Aviation Segment:

Apart from Lubricants, Aviation segment was the least contributor to the topline. But during the current year the contribution from this segment is expected to leap up espoused by new contracts. The company secured key contract from Oman Air (40 % of its total requirement) for a period of two years to supply aviation fuel. We also believe that unveiling of new routes along with new aircrafts by Oman air will result in huge consumption of fuel which in turn is expected to benefit Al Maha.

Lubricant Segment:

Al Maha is engaged in marketing of some well known lubricants brands through the filling stations network. Though the contribution of lubricant unit in Al Maha's top line is so far negligible, Al Maha has plans to augment revenue in the lubricants segment aggressively with the marketing of well known lubricant products in future. Given the competition that exists in this segment combined with the challenges of rising base oil prices, we have assumed that the segment's contribution to the top line of the company will remain insignificant.

Outlook and Valuation:

Revenue during the current fiscal year is expected to grow by 20% supported by increasing automobile sales, influx of tourists, government thrust on the infrastructure and improving aviation fuel sales which makes the stock attractive. At the current levels, the stock trades at P/E (FY10E) of 8.5X.

During the current year, the company is expected report a net profit of RO 7.298 million and we expect the company to declare a dividend of RO 0.600 per share which provides a dividend yield of 6.7%. The company continues to reward investors in the form of higher dividends.

Based on the DCF valuation the fair value works out to RO 12.945. While under the PE model we have assumed a 12x on FY10E EPS which yields a fair value of RO 12.692. Overall Weighted Average Fair value per share is RO 12.869, an upside of 43.1% from the current levels hence we recommend a 'BUY' rating on the stock.

Financial Highlights

Al Maha Petroleum Products - Income Statement

In RO 000's	2007	2008	2009	2010 E	2011 E	2012 E
Revenue	174,795	191,658	170,995	204,366	231,338	221,874
Cost of Sale	155,715	171,531	152,228	182,499	206,585	198,134
Gross Profit	19,080	20,127	18,768	21,867	24,753	23,741
EBITDA	8,982	9,938	8,303	10,350	11,656	10,918
Depn & Amort.	1,415	1,590	1,888	2,057	2,226	2,394
EBIT	7,567	8,349	6,414	8,293	9,430	8,524
Income tax	945	1,008	769	995	1,141	1,031
Net profit for the year	6,712	7,349	5,670	7,298	8,289	7,492

Source: Company Reports; GBCM Research Estimates

Al Maha Petroleum Products - Balance Sheet Statement

In RO 000's	2007	2008	2009	2010 E	2011 E	2012 E
Total non-current assets	16,324	19,382	20,178	20,620	20,894	21,000
Inventories	1,583	2,775	2,499	3,000	3,396	3,257
Receivables and prepayments	17,245	17,719	18,081	22,396	25,352	24,315
Cash at bank and in hand	11,498	6,747	8,584	9,609	12,753	16,607
Total assets	46,650	46,623	49,341	55,625	62,396	65,179
Share capital	6,000	6,900	6,900	6,900	6,900	6,900
Legal reserve	2,000	2,300	2,300	2,300	2,300	2,300
Retained earnings	13,470	17,219	19,440	22,942	27,091	30,444
Total equity	22,636	27,585	29,806	33,308	37,457	40,810
Total non-current liabilities	434	105	120	121	123	124
Trade payables	18,159	13,086	14,176	16,500	18,678	17,913
Total equity and liabilities	46,650	46,623	49,342	55,625	62,396	65,179

Source: Company Reports; GBCM Research Estimates

Al Maha Petroleum Products: Ratio Analysis

	2007	2008	2009	2010 E	2011 E	2012 E
Margins (%)						
Gross Profit Margin (%)	10.9%	10.5%	11.0%	10.7%	10.7%	10.7%
EBITDA Margin (%)	5.1%	5.2%	4.9%	5.1%	5.0%	4.9%
EBIT Margin (%)	4.3%	4.4%	3.8%	4.1%	4.1%	3.8%
Net Profit Margin (%)	3.8%	3.8%	3.3%	3.6%	3.6%	3.4%
Per Share Ratio - RO						
EPS	1.119	1.065	0.822	1.058	1.201	1.086
BVPS	3.773	3.998	4.320	4.827	5.429	5.914
EV Per Share	7.231	8.015	7.749	7.600	7.145	6.586
DPS	0.400	0.500	0.550	0.600	0.600	0.600
Profitability Ratio (%)						
RoE	29.7%	26.6%	19.0%	21.9%	22.1%	18.4%
RoAE	32.9%	29.3%	19.8%	23.1%	23.4%	19.1%
RoA	14.4%	15.8%	11.5%	13.1%	13.3%	11.5%
RoAA	16.6%	15.8%	11.8%	13.9%	14.0%	11.7%
Valuation (On CMP)						
PE	8.0	8.4	10.9	8.5	7.5	8.3
PBV	2.4	2.2	2.1	1.9	1.7	1.5
Div Yield	4.4%	5.6%	6.1%	6.7%	6.7%	6.7%
EV/EBITDA	4.8	5.6	6.4	5.1	4.2	4.2
Working Capital Ratios - Days						
Debtors turnover	36	34	39	40	40	40
Creditors turnover	43	28	34	35	35	35
Inventory turnover	4	6	6	6	6	6
Leverage Ratios - (X)						
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.4	1.5	1.6	1.7	1.8
Source: GBCM Research Estimates						

Sector Outlook – Defensive sector for long term investors

On an Overall basis, GBCM Research recommends a long term Positive view on the sector growth mainly on the back of steady growth in retail segment, increment commercial volumes and expectations of volume augmentation in Aviation sector. We also expect the sector to report stable and constituent earnings growth on the back of favorable demographics, expectations of economic recovery, continuance in Government spending and enhancement of private sector activity. We anticipate the local credit appetite to pickup beginning Q4FY10 and anticipate double digit credit growth for FY2011E mainly stimulated by Government project spending along with fresh industry capex cycle.

On the back of expectations of improved economic activities in Oman along with incremental Government spending, we expect the Oil marketing segment to witness robust growth going forward. The listed players in the Oil marketing segment provide investors with consistent higher dividends and also act as a defensive bet in the challenging times.

In this context, GBCM Research has initiated coverage on the Oman's Oil Marketing Companies (listed). Oman oil marketing remains as our favorite pick as the company is poised to post a strong earnings growth going forward followed by Al Maha Petroleum, which is trading at attractive valuations. And the last but not the least, Shell Oman Marketing has always been a strong cash flow story and also consistently rewards the shareholders in the form of rich dividends.

Stock Rating Methodology:

Buy - Upside more than 20%

Accumulate - Upside between 10% and 20%

Neutral - Upside or downside less than 10%

Reduce - Downside between 10% and 20%

Sell- Downside more than 20%

Not Rated - Stocks not in regular research coverage

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