STOCK UPDATE

November 29, 2010

OMAN OIL MARKETING CO. (OOMS) – Recommendation BUY,

Current Price RO 1.175, Target RO 1.800, Time Horizon: Within two years

INVESTMENT OPINION

Earnings and valuation of Oman Oil: The oil marketing sector is witnessing a healthy rebound in sales and earnings in 2010 driven by volume growth in all four business segments besides a higher price realization from oil price linked segments like jet fuel, kerosene and lubricants. Total industry sales increased 19% YoY while total industry earnings grew 16% YoY during 9M 2010 . Oman Oil reported a 26% YoY increase in sales while its net profit climbed nearly 31% YoY, reporting a faster growth than its industry. We expect Oman Oil to deliver a net profit of RO 6.49 million in 2010, which will be its highest ever profit so far and 21% higher YoY. The stock at its last traded price of RO 1.175 trades at 11.6x its 2010E EPS of RO 0.101. This is an attractive valuation given the fact that it is currently trading 35% below its 2008 peak of RO 1.800 whereas its profit in 2010 is very likely to exceed its 2008 net profit of RO 6.32 million. The stock is therefore available at a lower price purely because the Muscat market is currently trading at a much lower P/E multiple than it traded in mid-2008 at the peak of the oil boom rather than on lower earnings performance of the company. We therefore believe that it is a only a matter of time for the stock to reach at least its 2008 high of RO 1.800 (50% appreciation over the next 1-2 years) as it is on a steady path in terms of earnings growth.

9M 2010 YoY	Oman Oil	Shell Oman	Al Maha Petroleum	Industry
Sales	25.95%	9.99%	28.42%	19.19%
Net Profit	30.61%	11.26%	15.48%	16.22%

Source: Company Financial Statements

Oman Oil has been the fastest growing oil marketer by sales during 2008-10E: If the trend of sales during 2008-10E for the three oil marketers is observed, it is evident that Oman Oil has been able to win a larger market share ahead of competition. As its filling stations improve their per station throughput and depreciation as a percentage of sales declines over time, one can expect its profit to grow steadily in years ahead.

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Trend of Sales (RO'000)			
	FY 2008	FY 2009	FY 2010(E)
Shell Oman	326,367	298,351	318,940
Oman Oil	170,049	168,444	215,153
Al Maha Petroleum	191,658	170,995	214,949

Source: Company Financial Statements, FINCORP Investment Research

Medium-term growth drivers: Key drivers for Oman Oil stock over the medium-term include a sharp rebound in retail, aviation and lubricant volumes since H2 2009, a recovery in oil prices which improves realization of unregulated segments such as Jet fuel, lubricants and kerosene and an expected steady ROE of around 25% over the next three years.

Oil marketing companies are pleading the government to provide some relief to them on regulated fuel sales as their gross margin shrank following an increase in refined product sale prices by ORPC's Sohar Refinery in August 2009. If the government allows oil marketers to raise retail fuel prices to offset their higher costs, then Oman Oil would be the biggest beneficiary in our view.

The stock offers a dividend yield of around 3%, lower than that of its peers, Shell Oman and Al Maha but enjoys a higher average earnings growth rate of 13.8% compared to Al Maha's 8.8% and Shell Oman's 3.6% based on their sustainable ROE and earnings retention ratios.

	Shell Oman	Oman Oil	Al Maha
Est. Retention Ratio	8.0%	55.0%	35.0%
Est. ROAE	45.0%	25.0%	25.0%
Est. Earnings Growth Rate	**3.6%**	**13.8%**	**8.8%**

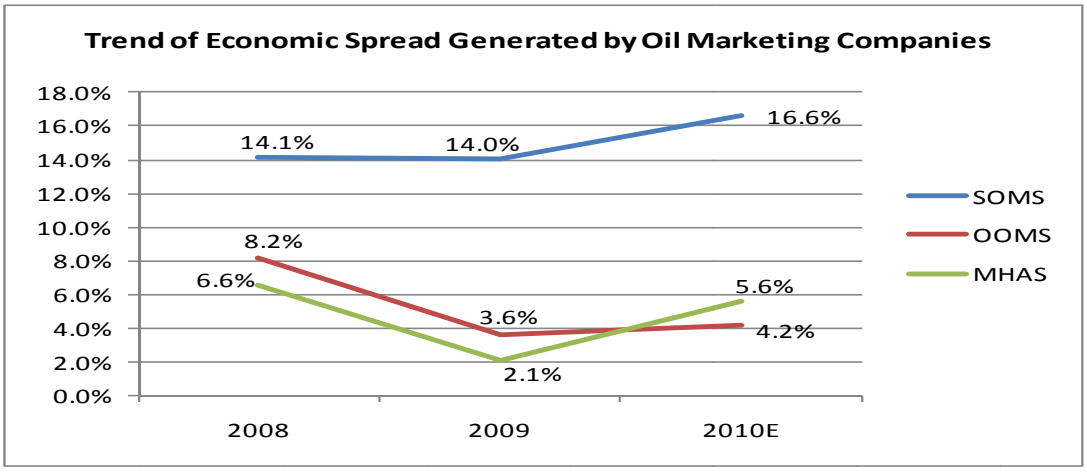
Source: Company Financial Statements, FINCORP Investment Research

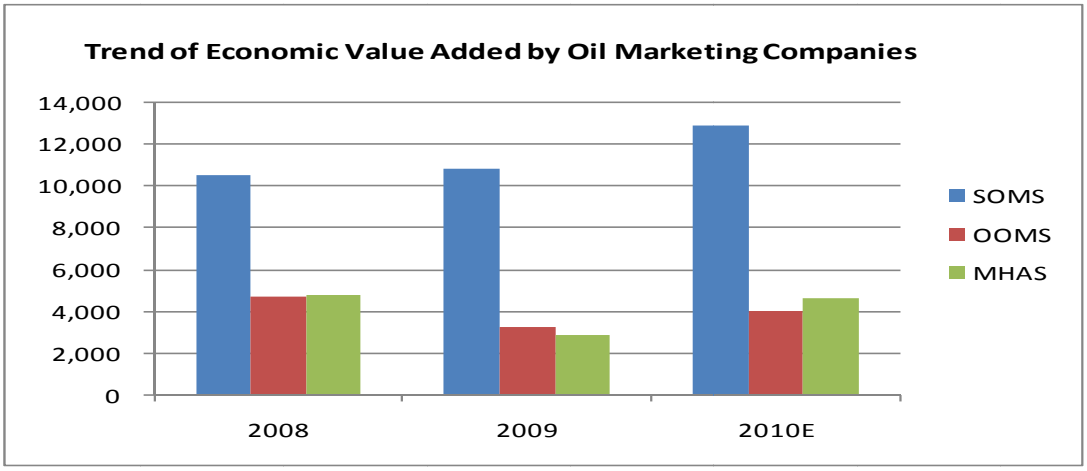
Higher reinvestment rate compared to its peers and a healthy ROE: Oman Oil has been paying a lower dividend payout ratio than its peers as it is ploughing back a larger portion of its earnings each year into its operations. This is a sensible move given that the company is able to generate an average ROIC of 12.6% against its average WACC of 6.9% during 2007-10E resulting in an average ROE of 27% which is good.

Oman Oil Marketing Co						
RO '000	2005	2006	2007	2008	2009	2010E
Net Profit	3,222	4,016	5,681	6,323	5,360	6,483
Div Payout Ratio	90.10%	76.30%	53.90%	35.70%	42.10%	
Retention Ratio	9.90%	23.70%	46.10%	64.30%	57.90%	
Reinvested Earnings	319	952	2,619	4,066	3,103	
Net Capex	1,880	2,557	3,699	7,059	2,989	
Number of stations			103	111	113	122

Source: Company Financial Statements, FINCORP Investment Research

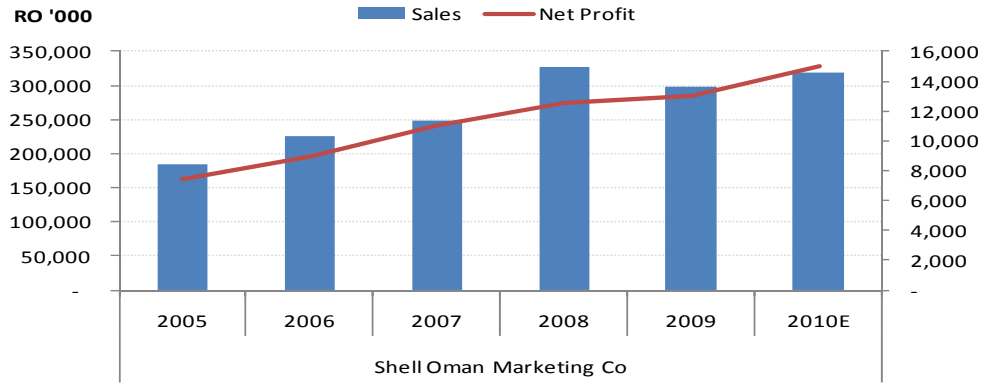
Comparision of oil marketers by economic spread and economic value added: Economic spread and economic value added are two key parameters to compare the true profitability of firms as they repesent their real earnings when adjusted for cost of capital. All the three oil marketing companies are making excess return over their WACC with Shell Oman leading the sector as shown below:

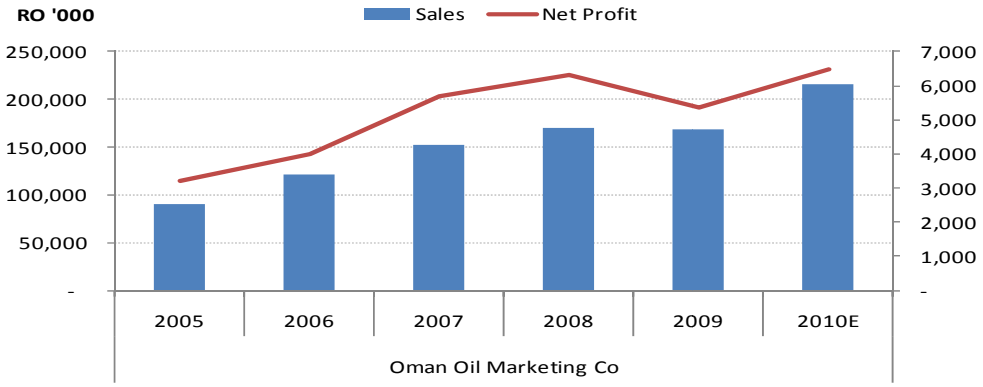


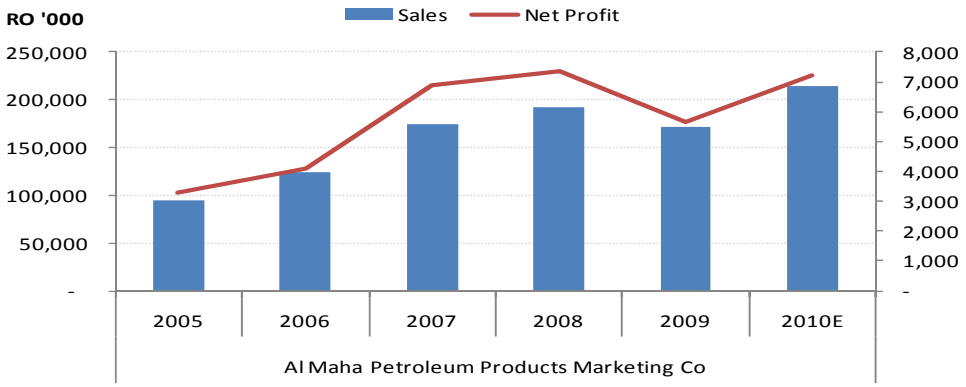


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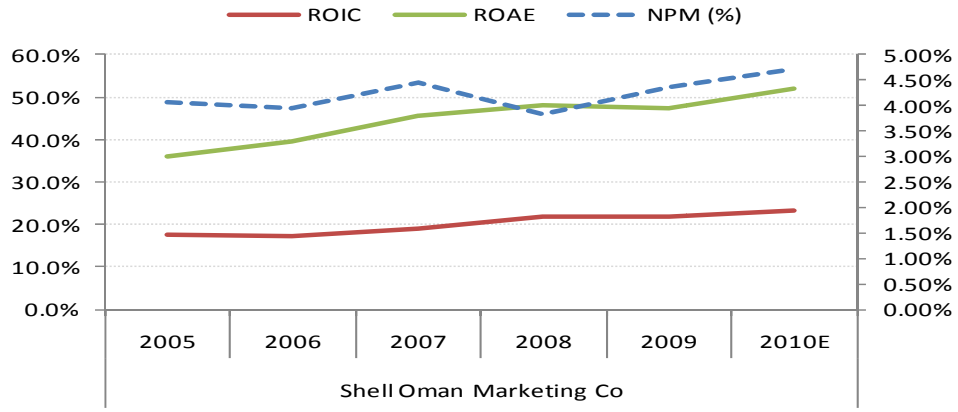
Peer comparision of oil marketing companies on key financial parameters:

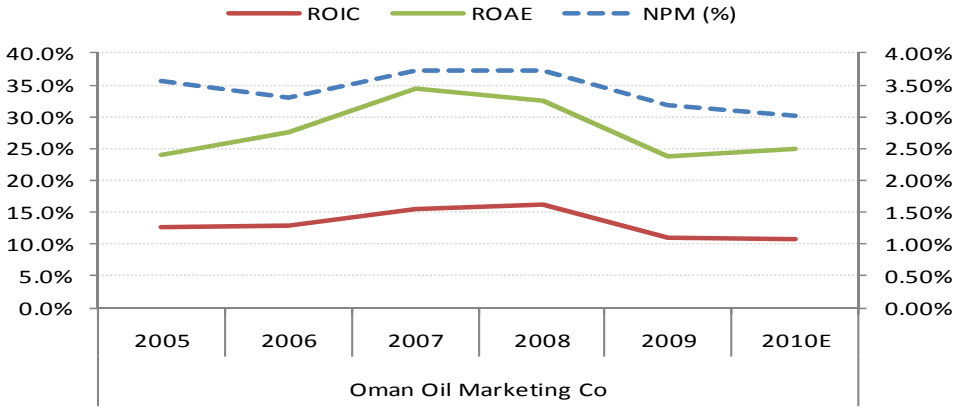


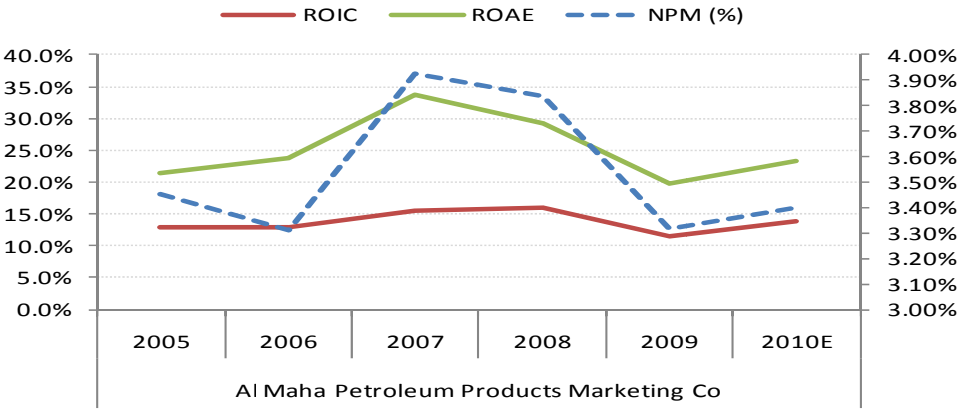




Source: Company Financial Statements, FINCORP Investment Research







Source: Company Financial Statements, FINCORP Investment Research

A BRIEF SUMMARY OF 9 MONTH 2010 PERFORMANCE OF OMAN OIL MARKETING CO.

Oman Oil reported a 25.9% YoY growth in sales revenues for the first nine months of 2010 to RO 156.8 million, while net profit rose 30.6% to RO 4.9 million due to higher sales volume during the period. The company's sales growth has been driven by improvement across its retail, commercial and aviation fuel segments. In the retail segment, the company added 4 new filling stations during the nine month period, even as new stations added last year started maturing and helped improve average sales per station. At the same time, the commercial business segment saw a 20% YoY volume growth year to date. In the aviation fuel segment, the company acquired new supply contracts this year, namely from Oman Air, Pakistan International Airlines, Bangladesh Airlines, and Ruslan International (Volga Dnepr).

In terms of margins, as expected, the company continued to witness some pressure due the new licensing fees set at 4% of annual sales along with an increase in purchase prices of products from Sohar refinery with effect from 1st Aug 2009. Gross margin for 9 months 2010 approximated 9.2% compared to 10.3% in FY 2009, while operating margin during the period was 3.5% as against 3.7% in FY 2009.

We are forecasting 2010 full year sales for OOMS to grow 27.7% to total RO 215.2 million, while net profit is likely to rise 20.9% to RO 6.48 million, driven by healthy top line growth. We expect the company to keep its dividend payout ratio around 40% in line with its 2009 distribution, which would imply an estimated dividend of 40 baizas per share in FY 2010.

(RO'000)	FY'07	FY'08	FY'09	FY'10 (E)	FY'11 (E)	FY'12 (E)
Total Sales Revenue	**152,664**	**170,049**	**168,444**	**215,153**	**247,426**	**272,169**
Cost of sales	(137,781)	(152,911)	(151,037)	(195,436)	(225,158)	(247,674)
Gross Profit	**14,882**	**17,138**	**17,408**	**19,718**	**22,268**	**24,495**
Gross Margin (%)	*9.7%*	*10.1%*	*10.3%*	*9.2%*	*9.0%*	*9.0%*
Operating expenses	(8,264)	(9,739)	(11,225)	(12,408)	(14,598)	(16,058)
Operating Profit	**6,619**	**7,398**	**6,182**	**7,310**	**7,670**	**8,437**
Operating Margin (%)	*4.3%*	*4.4%*	*3.7%*	*3.4%*	*3.1%*	*3.1%*
Share of income (loss) from JV	(54)	(102)	0	(10)	0	0
Net Interest Expense	(123)	(91)	(84)	67	(75)	(75)
Pre-tax Profit	**6,442**	**7,205**	**6,098**	**7,367**	**7,595**	**8,362**
Income Tax	(761)	(882)	(738)	(884)	(911)	(1,003)
Net Profit	**5,681**	**6,323**	**5,360**	**6,483**	**6,684**	**7,359**
Earnings Per Share (EPS)	0.088	0.098	0.083	0.101	0.104	0.114
EPS growth (%)	*42%*	*11%*	*-15%*	*21%*	*3%*	*10%*
Dividend Per Share (DPS)	0.048	0.035	0.035	0.040	0.041	0.046
Dividend Payout Ratio (%)	*54%*	*36%*	*42%*	*40%*	*40%*	*40%*

Source: Company Financial Statements, FINCORP Investment Research

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