

Sector Report

Al Maha Petroleum Marketing	HOLD
12M Price Target (RO)	1.037
CMP (RO)	0.940
Potential Upside (%)	10.3%
Market Cap (RO mn)	64.86
P/B (FY23E)	1.5x
P/E (FY23E)	8.0x
EV/EBITDA (FY23E)	4.8x
Dividend Yield (FY22E)	10.6%
ROE (FY23E)	18.9%

Oman Oil Marketing	STRONG BUY
12M Price Target (RO)	1.793
CMP (RO)	0.900
Potential Upside (%)	99.3%
Market Cap (RO mn)	58.05
P/B (FY23E)	0.7x
P/E (FY23E)	6.3x
EV/EBITDA (FY23E)	1.8x
Dividend Yield (FY22E)	4.4%
ROE (FY23E)	10.7%

Shell Oman Marketing	BUY
12M Price Target (RO)	1.066
CMP (RO)	0.868
Potential Upside (%)	22.8%
Market Cap (RO mn)	86.8
P/B (FY23E)	1.5x
P/E (FY23E)	12.3x
EV/EBITDA (FY23E)	4.4x
Dividend Yield (FY22E)	5.2%
ROE (FY23E)	12.1%

Oman Oil Marketing Sector

The story of Oil Marketing Companies (OMCs) in Oman revolves around the level of motor and jet fuel consumption in the country. We are optimistic on this sector as we believe the ghosts of the past are behind us and we look forward to a fiscally surplus economy waking up to major project outlays; the ripple effect of which should trickle down to the population with more jobs being created leading to further improvements in already high standards of living. The enhanced income in the hands of young, affluent and educated citizens should get converted to more cars on the roads and longer miles driven in them. The anticipated economic expansion paves way for influx of foreigners as expatriate employees and tourists. We expect the demand from various strata of economy to improve further from here in the future, driven primarily by a new upward cycle in oil prices. Further, the high levels of FCF generation capability of these companies, low leverage levels, limited competition, minimal supply side issues, commodity nature of business, all paves way for high operating leverage for OMCs. This, in turn, leads to high dividend payout making OMCs an attractive sector to consider for both income and growth oriented investors.

The median age of population in Oman is 32, with 65% people in the working group (20-60yrs). This we believe is an irreversible long-term trend that augurs well for the retail consumption story in Oman. As more people get employed, their need for goods and services will find exponential growth, personal transport being at the top of the list. There is clear evidence of recovery from the aberration witnessed during covid. Road traffic is steadily reverting to pre-pandemic levels and consumption trends in fuel retailing looks positive going forward. However, we note the valuations of OMCs still hovering near the trough levels seen at the peak of the pandemic.

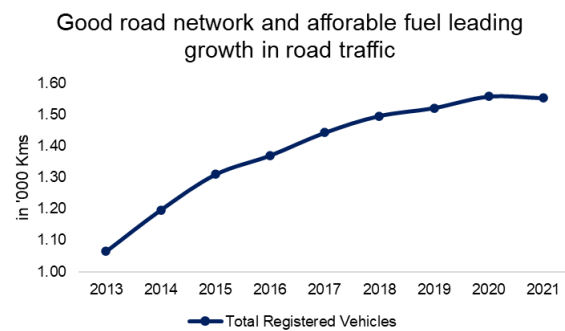
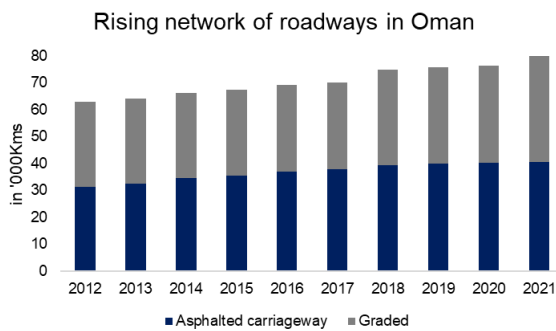
Attempts made at refurbishing filling stations by introducing additional activities such as convenience stores, QSR, EV charging, warehousing, alternate fuelling etc. will help diversifying revenue streams for OMCs. The case for business makeover of fuel retailing a global phenomenon, and we believe Oman is no different to embrace this change. We believe the industry is in the cusp of a transformation, and we are optimistic that the way ahead will be positive.

Presence of an excellent road network, increased travel by young population, government's thrust on tourism sector development, and the absence of efficient public transport are strong reasons for rise in personal transport demand, which paves way for our positive outlook on the sector. Further, the GDP growth would result in higher movement of goods which in turn will result in more demand for fuel.

We reinitiate coverage on all 3 OMCs. These three companies may appear similar in operations from outside, but they all follow different paths, and have different growth strategies. We have brought out these granular changes and provided our recommendation based on the management capabilities, volume growth trends, expansion plans and future outlook of these companies. We reinitiate Al Maha Petroleum at HOLD; we see multi bagger opportunity in Oman Oil Marketing, and rate it a STRONG BUY; while Shell Oman Marketing is rated a BUY.

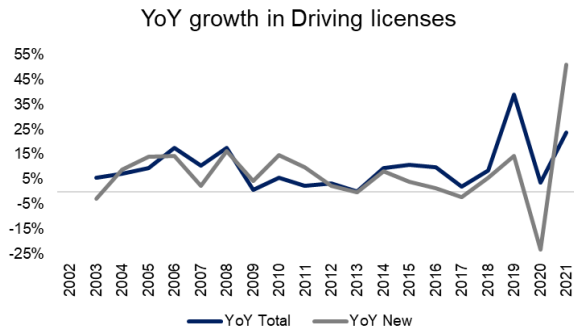
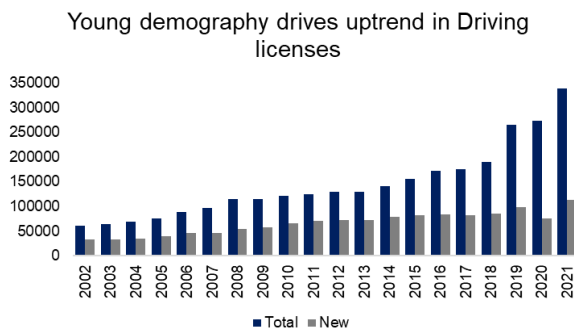
Gauging the uptick in retail consumption demand: The number of vehicles plying on the road and the number of road users make up the source of primary demand for OMCs. We estimate the recovery in demand for petroleum products based on these two primary metrics.

Oman is a country well connected by roads with nearly 80,000kms of road network including highways covering an area of over 300k sq.km. It is imperative that every house owns a four-wheeler to commute as public transportation is yet to develop and cities and towns are far apart. The relatively lower cost of fuel also makes road transport an affordable option. The total registered vehicles have been growing at the rate of 2.9% CAGR (2015-21) and currently Oman has over 1.56mn registered vehicles. Given the growth in population, we estimate the number of registered vehicles to grow at the same or faster rate going forward.



Source: NCSI and US Research

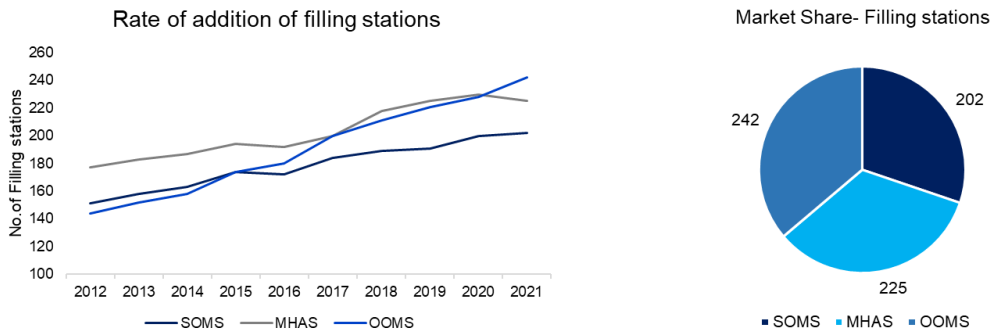
Another important metric that supports the case for rising road traffic, is the increasing number of driving licenses issued by the authorities. The country is blessed with a young population, and this has led to a growth in the number of licenses by 13.8% CAGR 2015-21. The year 2021 witnessed the highest ever driving license given in a single year at 113,742. More than 54% of the Omani citizens are below the age of 24 years i.e., approximately 1.5mn people, out of which 1.1mn are below 14 years of age. This is a significant part of the population who would require driving licenses and we expect this latent demand to spur road traffic going forward.



Source: NCSI and US Research

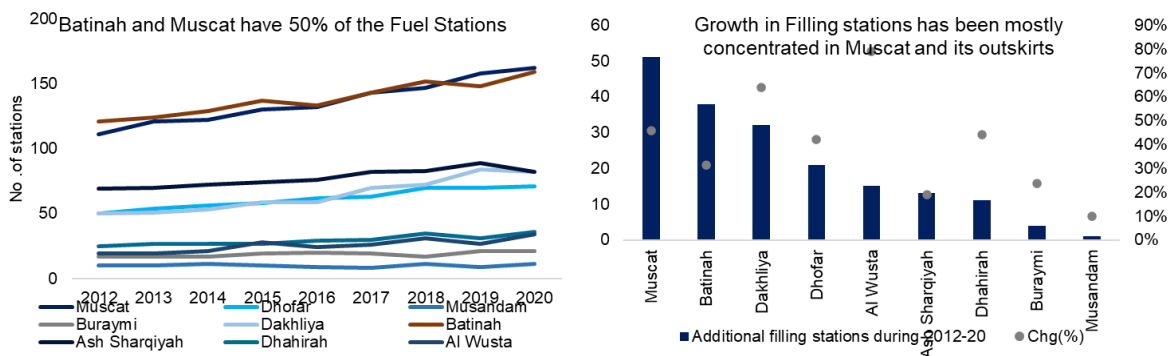
Measured growth underlines the size and scale of the industry going forward: The trend of adding filling stations depend on newer roads/highways as well as higher inherent demand in

volumes from existing stations. The country had 672 filling stations in 2021, that cover the length and breadth of the country. While Shell Oman Marketing (SOMS) had the first mover advantage, it is no longer the leader in the sector. Both Oman Oil Marketing (OOMS) and Al Maha Petroleum (MHAS) have taken over SOMS's market share over the years with their aggressive plans. As of 2021, SOMS had 202 filling stations, while MHAS and OOMS had 225 and 242 respectively. OOMS has also expanded its operations to Tanzania and KSA installing 11 filling stations in these countries till FY21.

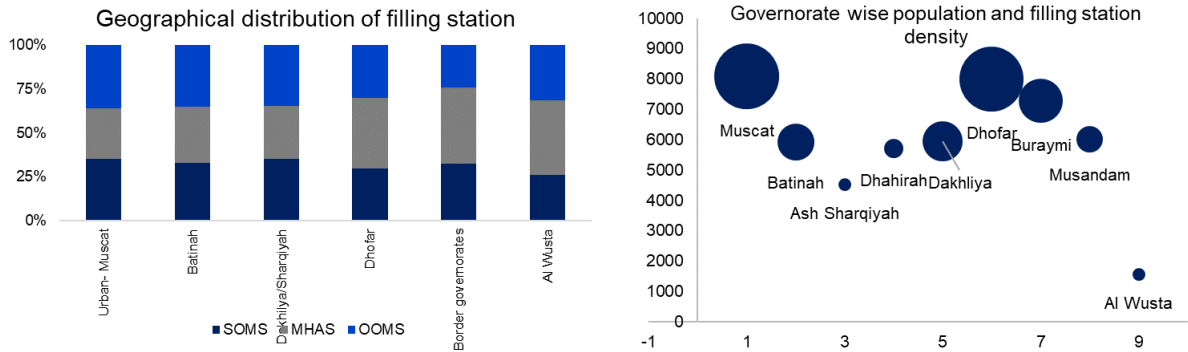


Source: NCSI and US Research

Oman is divided into 9 governorates. Urban (Muscat) and semi urban (Batinah) regions adjoining Muscat contribute nearly half of the number of filling stations in the country. While Muscat has the natural advantage of being the capital, Batinah has a significant population due to the industrial complexes situated at Sohar. If we include nearby Dakhilyah and Sharqiyah, the north of the country in and around Muscat covers nearly 75% of the total filling stations in the country. Dhofar has witnessed gradual volume increase in the number of stations added, but its still much below the northern urban/semi urban areas. OMCs have been evincing interest in Duqm (Al Wusta) considering the buoyancy in industrial activities, however on ground, we are still witnessing capacities at a low base (34 as of FY20). Musandam and Dahirah are border areas which benefit from the fuel price differential, favourable to Oman, however local demand remains low due to the sparse population in these areas. While top 3 regions – Muscat, Batinah and Dakhilyah/Sharqiyah are almost equally shared between the OMCs. MHAS has a higher share in the border regions, Dhofar and Duqm.

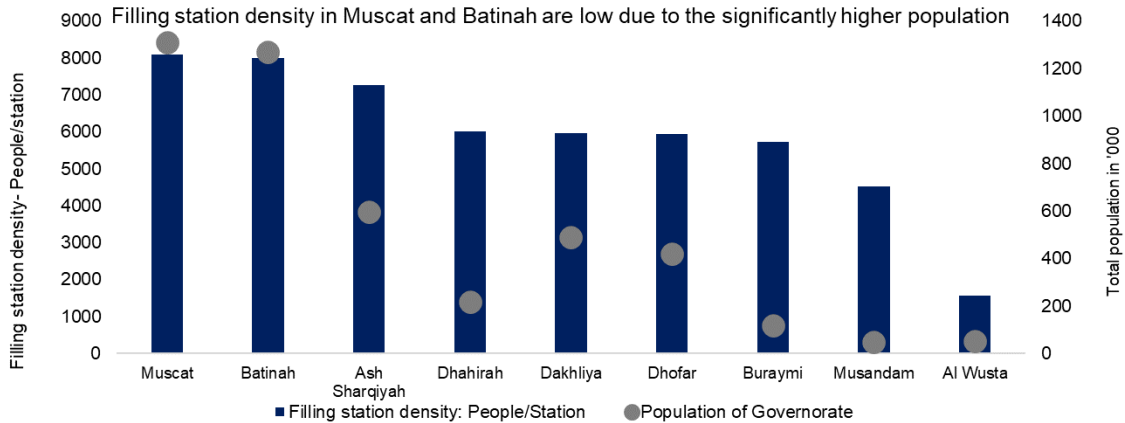


Source: NCSI and US Research



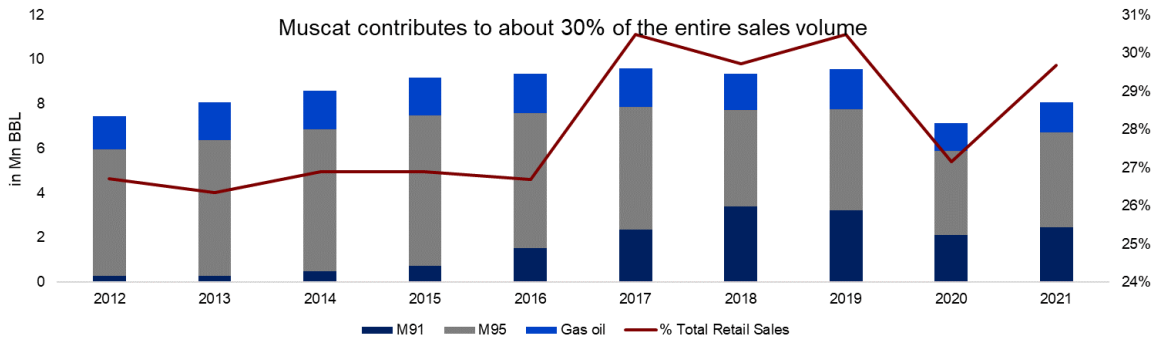
Source: Company reports, NSCI and US Research

In terms of per capita density of filling stations, Muscat region which has a population of 1.3mn (28% of total population) has 168 filling stations (25% of overall number of stations) as of 2021 translating into one filling station for about 8088 people. The region has a volume contribution of 30% of the overall sales. Batinah is a close second with a population of 1.27mn and density of 7996 people per station. To put it in perspective, the population density of Muscat is the highest at 328 people/sqkm, while Batinah is at 95 people/sqkm. Other governorates in the country, despite being much larger are sparsely populated.



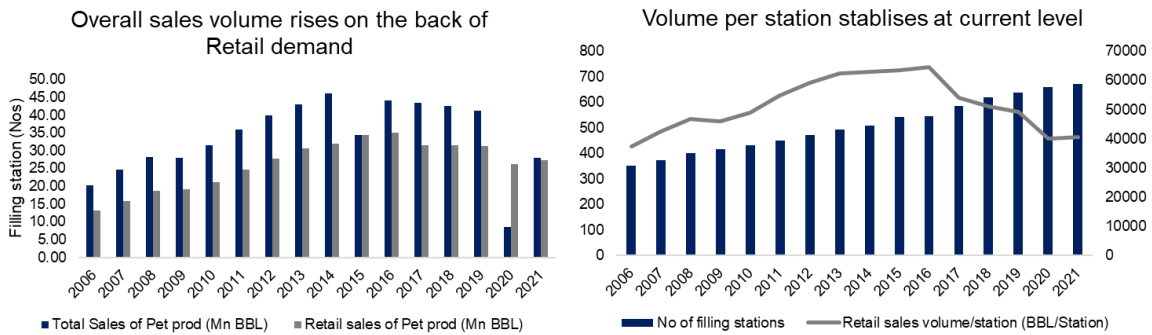
Source: NSCI and US Research

OMCs have followed the population trend to add their filling stations and hence it is an important metric to gauge the future scope of the sector and its volumes. Over 51 filling stations have been installed over the last decade in Muscat region while Batinah witnessed 38 new stations i.e New to industry (NTIs). Out of the total 197 NTIs, over the last decade, nearly half of them, 98 belong to OOMS and 51 from SOMS and 48 MHAS.



Source: NCSI and US Research

We are positive on the volume growth that is expected in the sector from the retail consumption. Going forward, all OMCs are expected to take a measured approach in adding stations. All the three OMCs have clearly articulated that their priority is to first bring the existing fuel stations to a level of acceptable profitability before aggressively engaging on NTIs. Once volume growth stabilizes at a higher level over the next couple of years, we may witness a more rapid addition of fuel stations. OOMS is likely to be an outlier with aggressive growth plans being outlined by its promoter OQ.

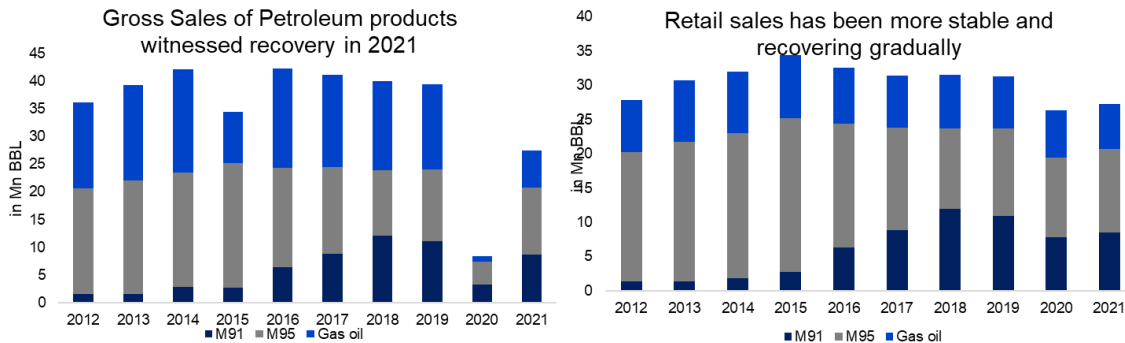


Source: NCSI and US Research

Total sales volume of petroleum products distributed by Oil Marketing Companies (OMCs) stood at ~28mn bbl/year. Retail sales contributed to ~ 52% of the overall sales of petroleum products by the OMCs in 2002, this has increased to 76% in 2019 and hit a high of 98% in 2021, a clear indicator of rising retail demand. While retail demand has held steady even during Covid, commercial demand sunk to the bottom in 2020 with a volume de-growth of nearly 80%. Both retail and commercial segments are getting back to normalcy as indicated by the volumes in 2021 and 2022.

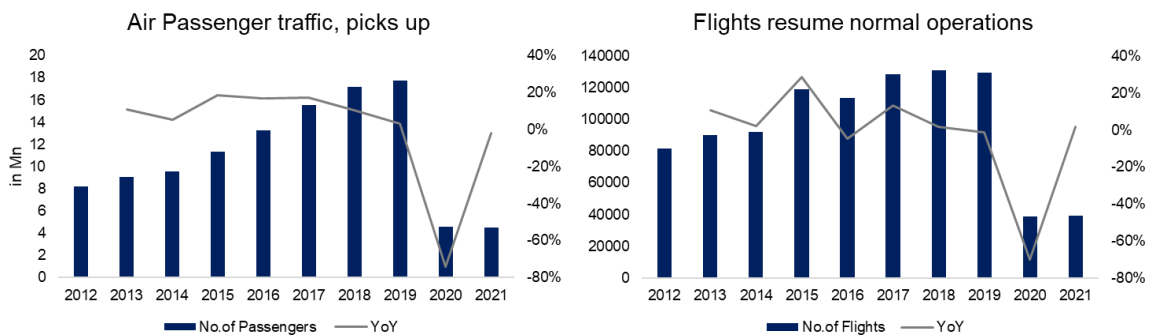
New road projects envisaged will require additional filling stations. OMCs in the past have together been adding on an average 30-40 filling stations yearly and we expect going forward, 20-30 NTIs for the next five years which will entail an additional 100-125 filling stations by FY25e taking the total filling stations to 770-800. Again, OOMS might grow faster than expected considering international growth plans also taking shape. The expected upcycle in the economy and the buoyancy that follows, enable us to believe that a moderate growth of 2% in the retail sales volume per filling station from the current level. This will lead to our base case estimate of 6.2% CAGR (2019-25e) growth in

overall retail sales volume of petroleum products in the country. We expect this to translate into a revenue growth of 17.79% (2021-25e) for the sector.



Source: NCSI and US Research

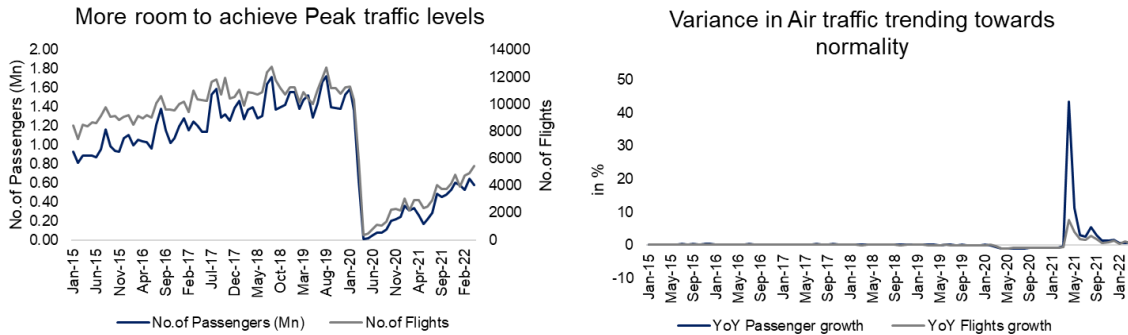
Air traffic gliding back to normal: Aviation fuel is another important product supplied by OMCs. Air traffic had hit an all-time high in 2019, just prior to covid, with 17.40mn passengers being ferried by over 129k flights. This had dropped to 4.5mn passengers in 2020 and 2021. The latest air traffic numbers of 2022 provide optimism to the sector, data available till Apr 2022 indicate an 83% jump in the air passengers compared to the same period the previous year and we expect it to touch at least 10mn by end of the year. This translates into a monthly passenger traffic of 550k passengers/month. This is still less than half the level in 2019 when the number was over 1.5mn/month. We expect the monthly traffic to double from current levels by 2023 and reach the 2019 levels providing a pick-up in demand for OMCs. We expect air traffic to grow at a CAGR of 12% over 2022-25e. However, it is important to note that these aviation contracts are highly competitive and are short term in nature (1-3yrs). The local airlines Oman Air contract forms the bulk of the business, and it is rotated between the three OMCs.



Source: NCSI and US Research

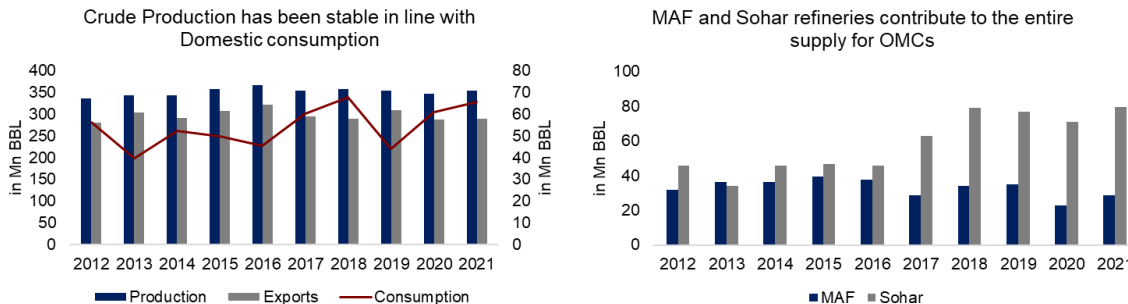
While currently the aviation segment contributes only about 10% of the overall revenues for these companies, the segment is at an inflexion point. We expect the efforts by the government to promote tourism to start paying off soon. Projects worth USD 1.7bn are in different stages of execution. Tourism growth coupled with improvements in the business scenario will result in a higher air traffic to and from the country. We believe the aviation segment has hit bottom and volume trend could

only get better from here on. As normalization of the air traffic resumes, we expect the 2019 highs to be surpassed.



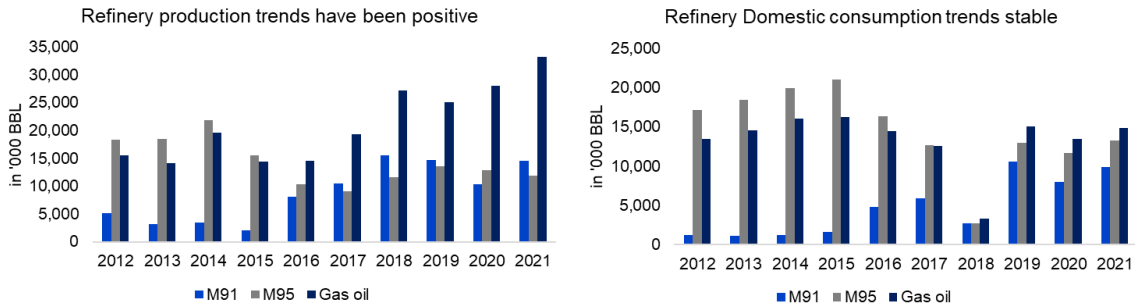
Source: NCSI and US Research

Refinery production trend is a key indicator of rising demand: OQ which owns both the refineries Mina Al Fahal and Sohar Refinery is the sole supplier of various petroleum products to the OMCs. Production has been stable and increasing over the last five years at the rate of 4.4% CAGR (2016-21). Gasoline and Gasoil, accounts to nearly 80% of total volumes sold, jet fuel accounts to 10%, while other accessories add to the rest. The Government ensures there is no supply side risks and sales take place at a pre-defined markup cost to the OMCs. This keeps the cost and margin for OMCs controlled and the price of fuel to the retail population regulated.



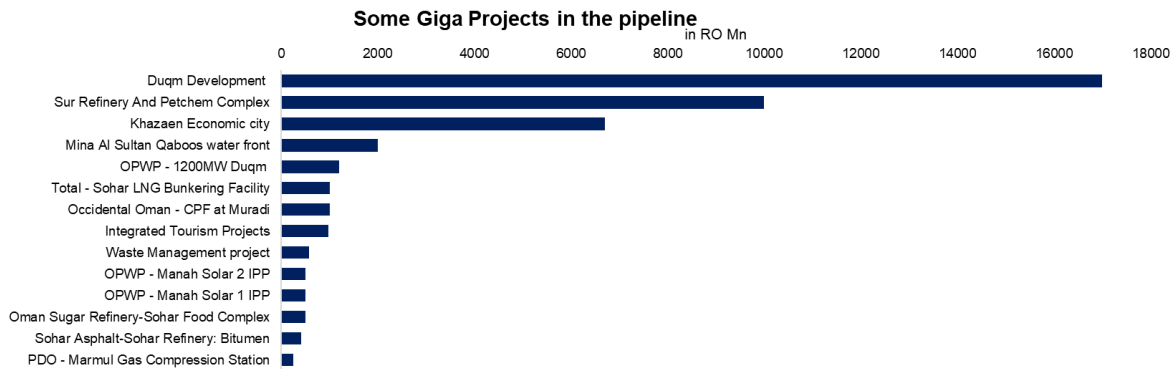
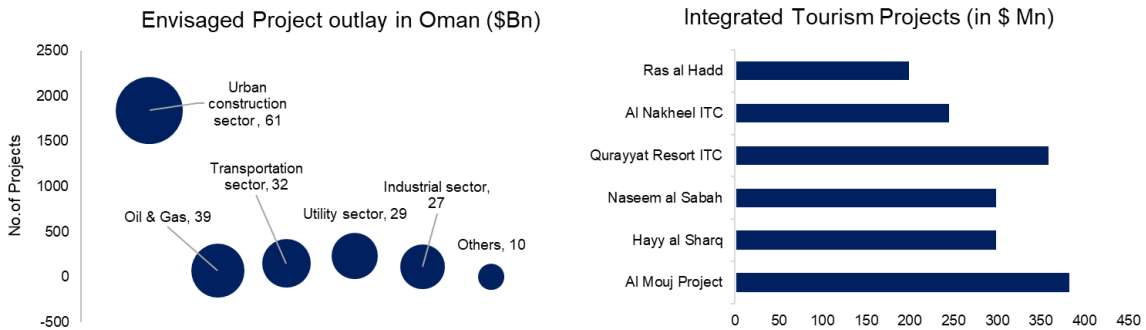
Source: NCSI and US Research

In terms of volumes Gas oil or diesel have witnessed the highest CAGR growth of 17% during the last five years. The current production of Gas oil is about 33mn bbl. The growth in Gas Oil is a clear indicator of commercial activity picking up in the country and we consider this with optimism. Petrol/Gasoline production in 2021 was at 26Mn bbl, growth has been moderate and stable at 7.5% during the period from 2016-22. In our base case we forecast the overall production from the refineries in the range of 4.5% over the period from 2022-25e.



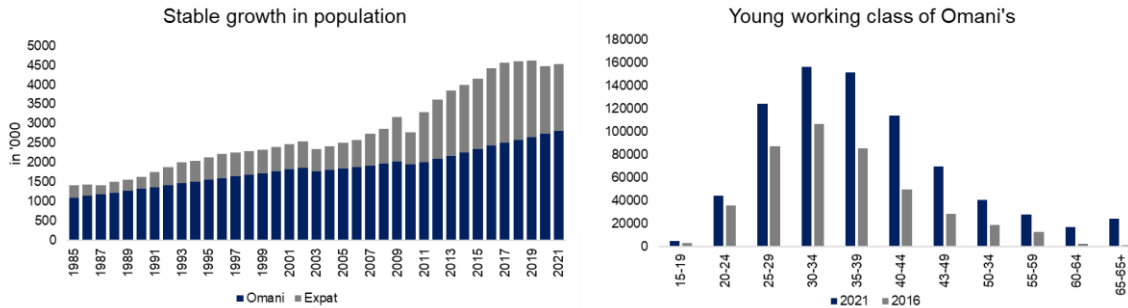
Source: NCSI, US Research

Macro trends provide adequate support and confidence: The above trends in road and air traffic are strongly backed by macro tailwinds currently ensuing in the economy. After a long hiatus the economy has jumped back to surplus. Rising and stable oil prices has augured well as additional revenues generated is moving into productive projects. These projects are significantly large and can be termed as Giga projects aimed at providing a push to the private sector and job creation. Majority of these jobs are in urban development where new infrastructure needs to be created and old ones replaced. Nearly USD 200bn worth of projects has been envisaged in the country over the next decade.



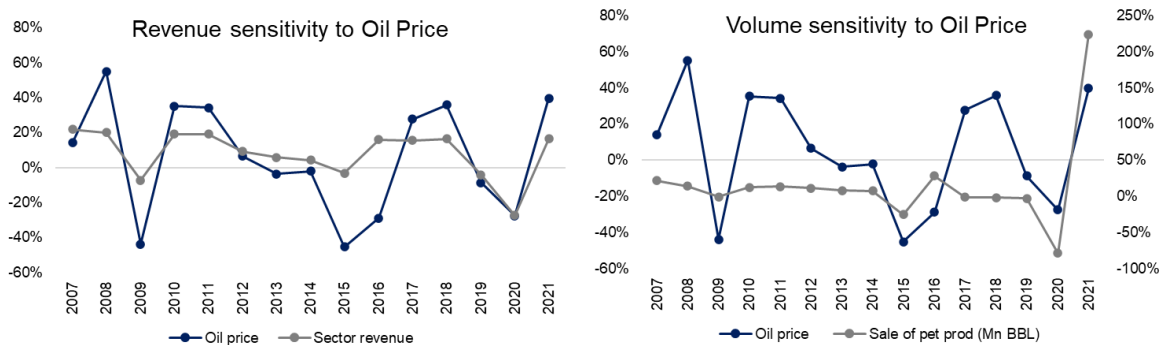
Source: MEED, Media, US Research

Population growth, age and rising salaries will drive long term consumption demand: Oman has a total population of 5.1mn people including expats. Growth trends in Omani population have been stable over the long term at the rate of 2.6% CAGR (1985-2021), while expats have grown by 4.7% during the same period. With a median population of 32, Oman has a 94% of people in the working group (20-60yrs). This we believe is an irreversible long-term trend that augurs well for the retail consumption story in Oman. As more people get employed, their need for goods and services will find exponential growth, personal transport being at the top of the list.



Source: NCSI, US Research

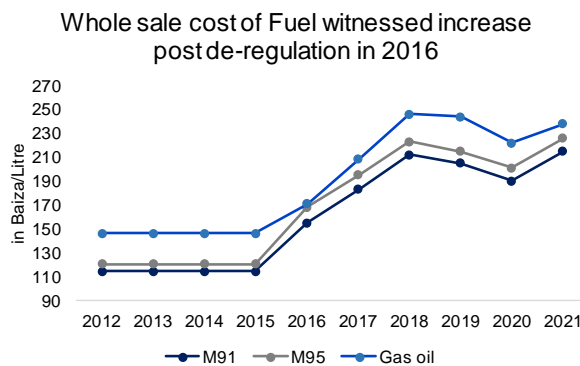
Oil price sensitivity to revenue positively correlated: Long-term data suggest positive correlation between oil price, revenue and volume. Oman being an oil dependent economy will witness significant buoyancy in an upcycle leading to enhanced activities in the transportation, logistics, tourism segments. All of these have fuel requirements giving fillip to the volume irrespective of the higher cost of fuel thereby translating into higher revenues of OMCs. We are optimistic on this sector on this basic premise and expect the heightened economic activity to trigger volume growth over the next five years.



Source: Company report, US Research

Deregulation of Fuel price in 2016, leads to permanent changes in the industry: Post the oil price slump in 2014, the fiscal situation of Oman went into the negative territory with a deficit of RO 3.4Bn. Tough, permanent and prudent measures were warranted to over-come the severe strain caused by volatility and dependency in commodity prices. The government proactively started the reforms in early 2016 by introducing taxes on certain products, cutting down subsidies and rationalizing expenditure. The first of the many steps taken by the government was to deregulate oil prices, a measure that was already taken by some of the regional peers. While short term inflationary pressures were felt, this major step prevented excess subsidy outflow in times of crisis. Oman was spending nearly RO 1.8bn yearly, in the form of exemptions and subsidies in 2015, which included subsidies for petroleum products, interest subsidy for housing loans, electricity water and other essential item subsidies; out of which direct fuel subsidies accounted for RO 580mn. Following these measures subsidies reduced by 64% towards the end of 2016.

Petrol prices were increased by 36-40% in 2016, while diesel rose by 17%. There was an increase of about 18% in the following two years till 2019, which took petrol prices higher by 85% from its legacy price of 120bz in 2016 and diesel prices rose by 68% from its erstwhile price of 146bz in 2016. Rising prices also created a shift in demand for the type of fuel. Users started moving towards lower grade M91 instead of the superior M95. In 2015 M91 accounted for only 11% of the total gasoline production, while it was at 55% in 2021. In terms of domestic consumption, M91 was only 7% in 2015 which rose to 42% in 2021.

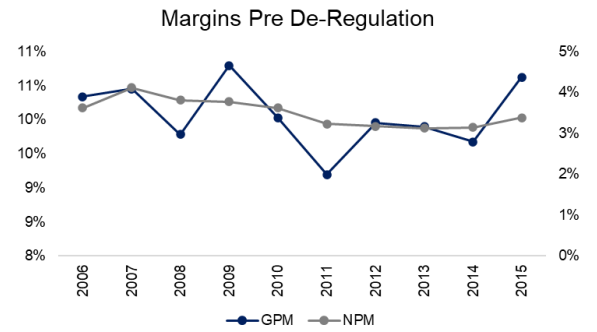
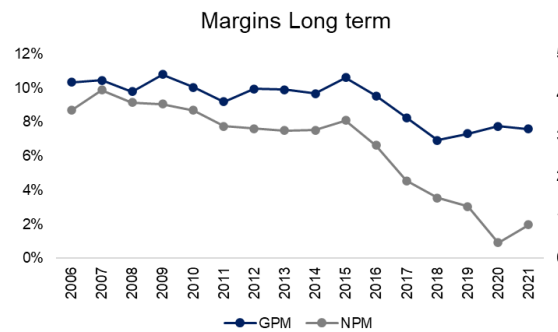
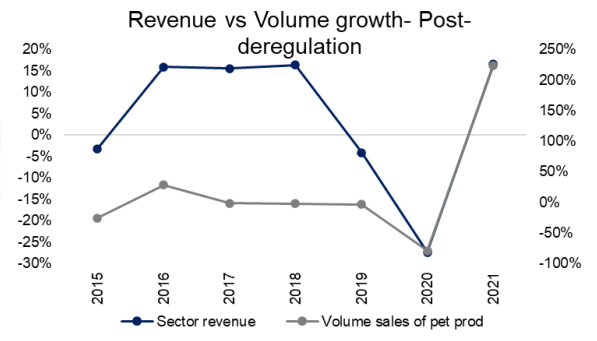
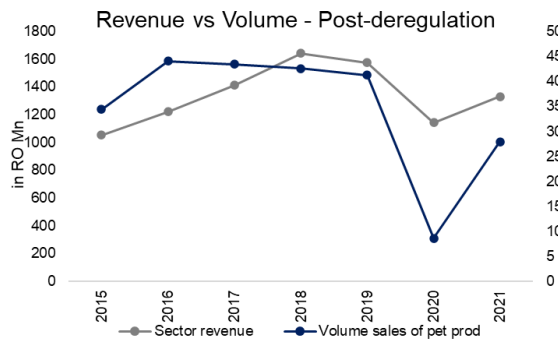
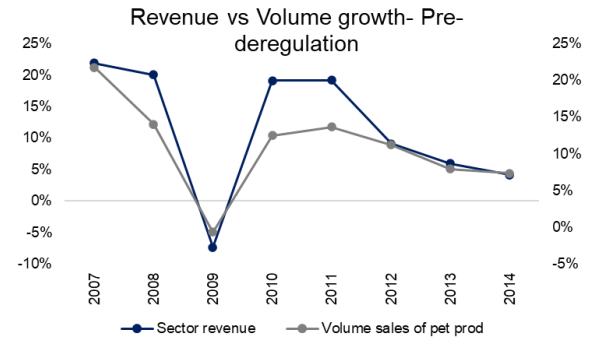
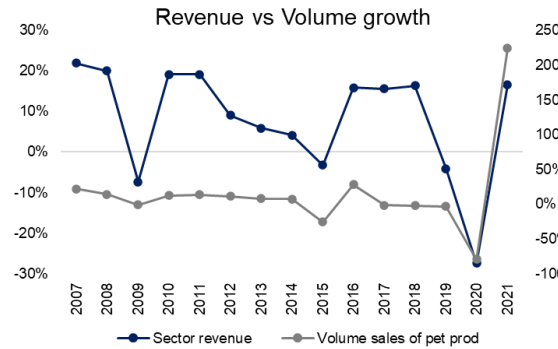
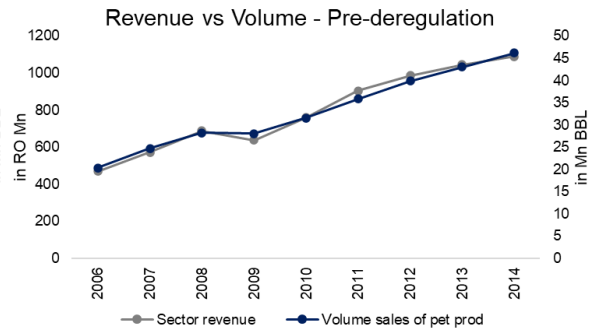
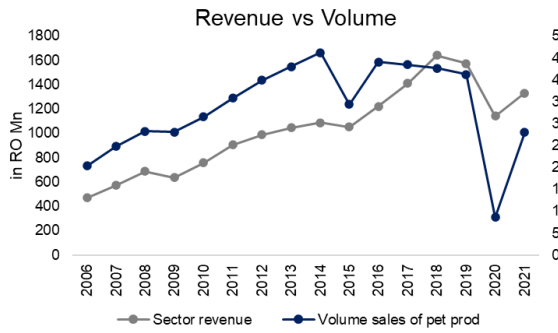


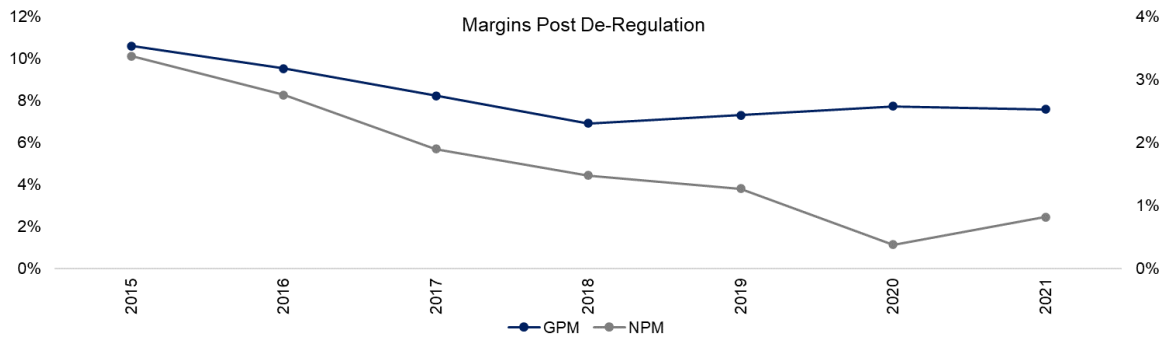
Change in Fuel cost post deregulation in 2016

Type	M90	M95	Diesel
Wholesale	0.113	0.128	0.133
Retail	0.130	0.145	0.146
Mark up	0.017	0.017	0.013
Margins	15.0%	13.3%	9.8%

Source: NCSI, US Research

Deregulation caused a gradual decline of gross, operating and EBIDTA margins for the companies. Shell Oman Marketing (SOMS) took the biggest hit in gross margins by 400bps from 2015-21, while operating and EBIDTA margins declined by over 300bps. Net margins have stabilized for all three OMCs and thinned down to 0.7-0.9% in 2021.





Source: NCSI, US Research

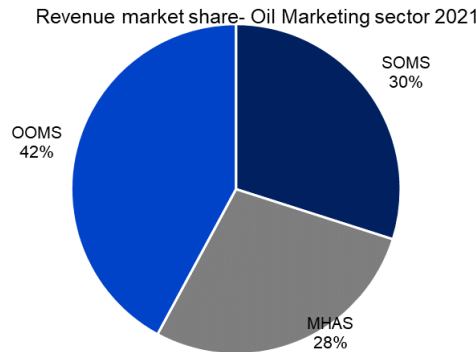
Oman has not been alone in this experience of deregulation. Neighbouring GCC countries have witnessed similar situations and price increases from 2015-16 have been much sharper. This is also the case with other international countries. We believe, holding on to subsidies is unviable economically and not sustainable. This may bring in short term benefits but will certainly create long term damages in a progressive economy.

USD/ltr	Date of event	Pre-deregulation	Latest cost	Chg (%)
Oman	1/Jan/16	0.312	0.621	99%
UAE	1/Aug/15	0.485	0.900	86%
KSA	28/Dec/15	0.130	0.620	377%
Kuwait	1/Sep/16	0.230	0.341	48%
Qatar	1/May/16	0.270	0.577	114%
Bahrain	12/Jan/16	0.200	0.531	166%

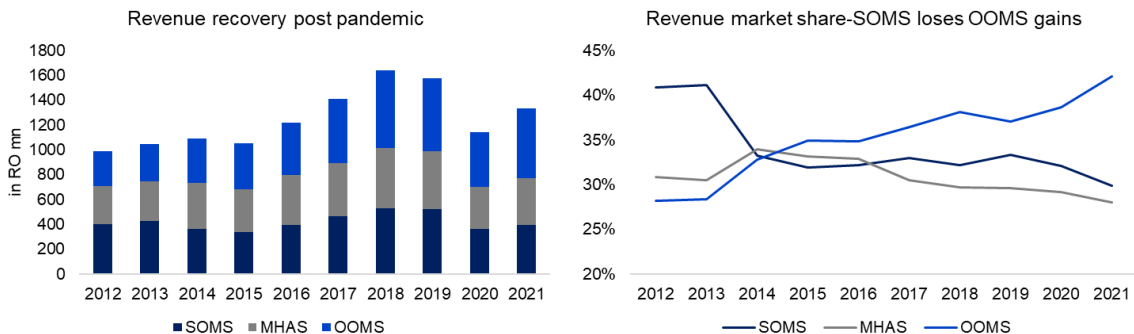
Source: US research

Market share and Key players

Oil Marketing sector is an oligopolistic one in Oman with only three players. While Shell Oman Marketing (SOMS) was the incumbent for a very long time thanks to its early mover advantage, Oman Oil Marketing (OOMS) and Al Maha Petroleum (MHAS) have caught up quite well. Currently these three companies together share a revenue of RO 1.3Bn as of FY21. Industry growth over the decade has been at 3.4% CAGR (FY12-21).

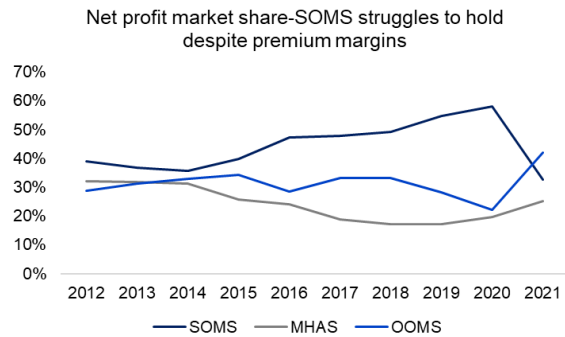


Oil Marketing was one of the sectors that were worst affected recently due to the lock-down imposed during covid. Revenues declined by about 30% during FY20 and Net profits were down by nearly 80% in during the year. If we were to consider the period prior to covid the industry growth rate was at 6.9% (FY12-19). The revival in 2021 was significant as the industry revenues increased by 16.5% and net profits were up by 150%. We are positive on the way forward as we believe retail consumption is back, jobs are being created and the economy is opening to new projects especially in the infrastructure and tourism segments. Based on this premise we expect revenue growth for the sector to normalize and increase at a 17.79% (2021-25e) and net profit to grow by 27.69%(2021-25e).



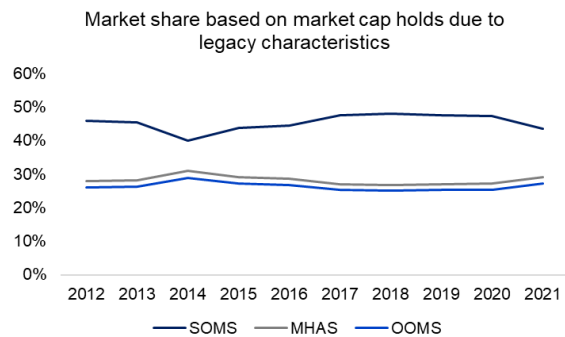
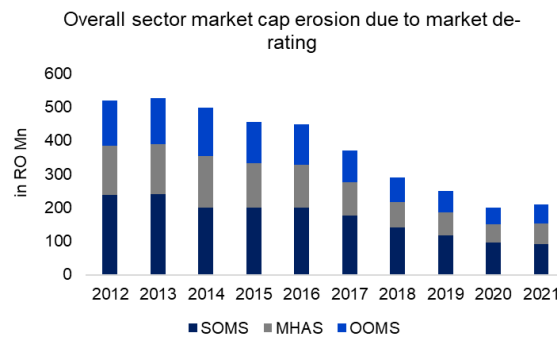
Source: Company reports, US Research

Post the Oil imbroglio in 2014, there were some regulatory changes that were introduced that weakened the margins in the sector. The sector witnessed a decline in their operating and net margins. Net income margins dropped by half the level in 2017 as compared to the level in 2016 to about 2%.



Source: Company reports, US Research

Due to the changes that were implemented there has been as a significant erosion of market cap and downward rating of the sector. The sector that had enjoyed a market cap RO 520mn in 2012 has halved to RO 210mn in 2021. However, despite the overall erosion in valuation, SOMS continues to hold premium due to its legacy as the incumbent, international parentage, and of the mix in its offerings.

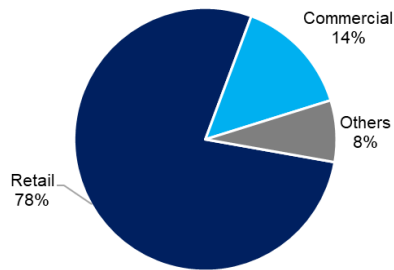


Source: Company reports, US Research

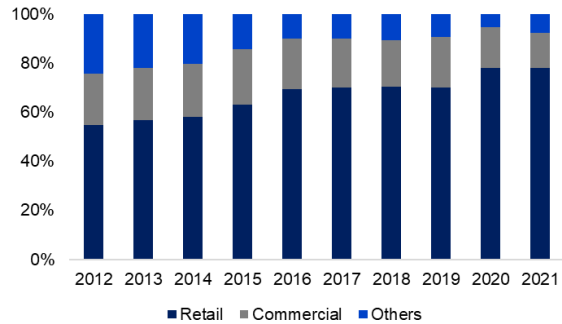
Revenue mix

The revenue mix of the companies in the sector is broadly divided into three – Retail, Commercial and Others. Retail occupies the largest chunk of the sector and includes passenger vehicles and other road transport commuters. Commercial segment is a B2B segment which includes the distribution of diesel for industrial purposes, manufacturing sector, rigs, power generation and commercial vehicles. It also includes the sale of fuel from certain project-based engagements. Supply of fuel to the Aviation sector, lubricants and other accessories are clubbed under Others.

Segment wise exposure (FY21)



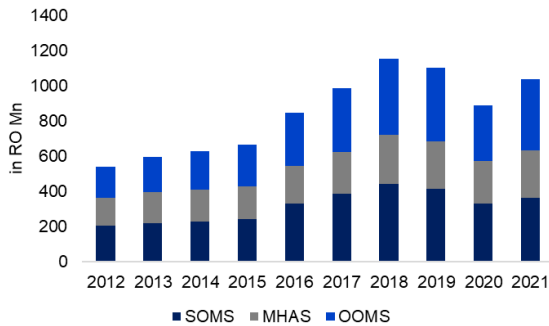
Segment wise revenue contribution



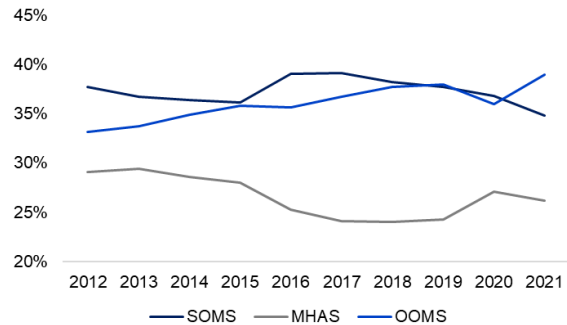
Source: Company reports, US Research

The Retail segment has generally been a stable part of the business with a gradual improvement in revenues. The dependency on road transport, affordability of multiple vehicles per family, long distance of commute and influx of expat population have been some of the major reasons for the growth. Retail revenues for the industry has grown at the rate of 7.5% CAGR (2012-21) despite the blip in FY20. OOMS has been the biggest benefactor with a growth rate of 9.4% during the period. It has now achieved market leadership with a share of 39% in retail during 2021. As of 2021, OOMS has 11 international filling stations. The total filling stations in the country stood at 672 in 2021.

Retail segment the driver of growth

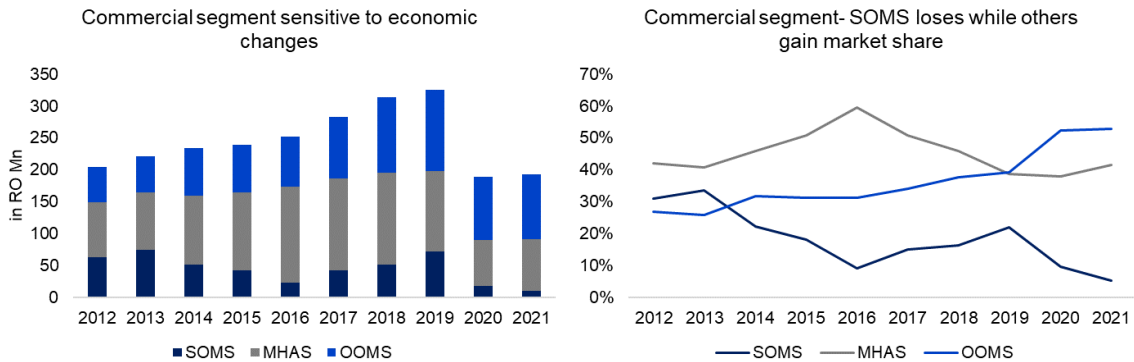


Retail segment- market share



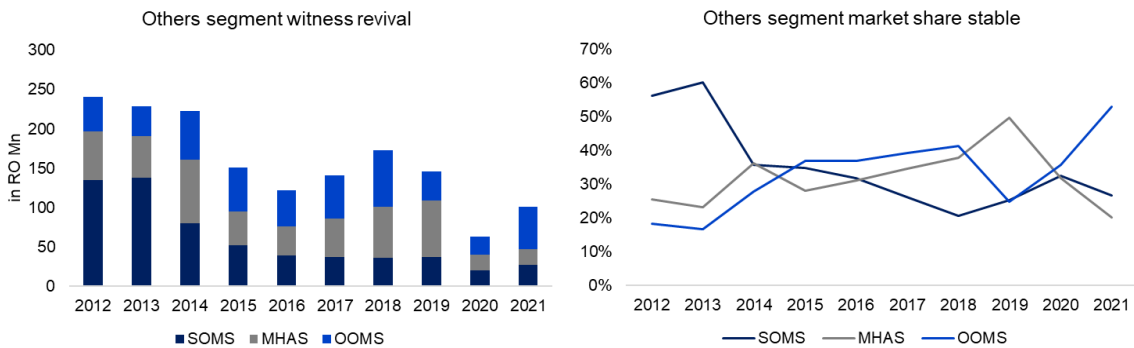
Source: Company reports, US Research

The commercial segment relies totally on the economic activities in the country and growth of industries. This B2B segment is yet to revive from the impact of the pandemic. Revenues from this segment declined by over 40% in 2020. While MHAS and OOMS revenues from this segment have stabilized around the 2020 range, SOMS witnessed most severe hit in 2020 of 75% and a further decline of 43% in 2021. However, we believe this could be the dark horse that will provide the much-needed impetus for growth in the sector, as contracts get re-negotiated and overall volume growth improves on the back of economic buoyancy. We expect this segment to start contributing about 20% to the sector revenues going forward vs the current 14%.



Source: Company reports, US Research

The Aviation segment is another important growth driver that was stalled in last two years. With revival of tourism and regular traffic back on track this segment will witness normalization. While Commercial Flights form the largest part of this business, additionally volume uptick is contributed from Cargo flights, Air force and PDO. Sale of lubricants are also part of the segment where brand plays a critical role. SOMS continues to be the undisputed leader both globally and locally in this space. However, the contribution of this segment is less than 10% to the overall revenues and volumes are lumpy especially in the aviation segment. Oman air contracts are rolled over every two years amongst the three players. While we are optimistic on overall growth that will be witnessed from this segment especially on the back of uptick from the aviation sector, we do not expect a significant markup due to the low base.

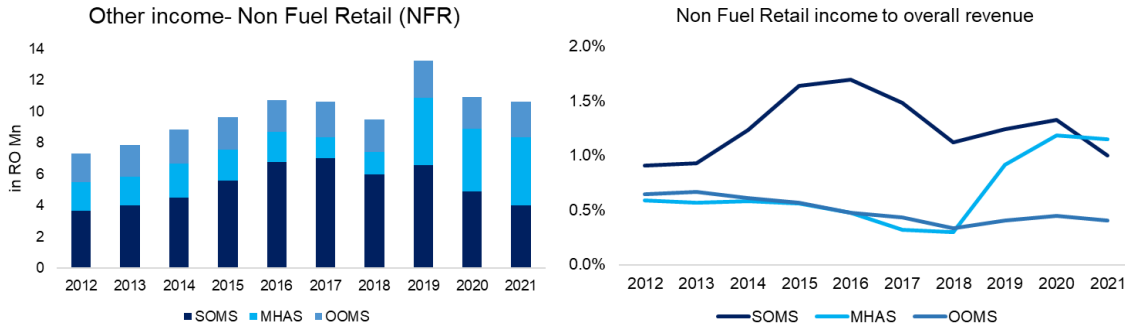


Source: Company reports, US Research

Other headline numbers – Non-Fuel Retail

The Oil marketing companies have installed convenience stores within the vicinity of their petrol stations which add to the overall revenue. Despite its miniscule contribution to the revenue, all the players consider this Non-Fuel Retailing segment (NFR) to be a high priority area as it draws customers for their main business of fuel retailing. The convenience stores are being converted into experience stores with significant efforts on re-branding. Leasing of property also forms a part of this business, OOMS has been actively seeking to rent out many of its properties adjoining its petrol stations. Providing space to Quick Service Restaurants (QSR) is also a tried and tested way to bring customers into their courtyards. Loyalty cards, prepaid vouchers, B2B fuel cards are also provided

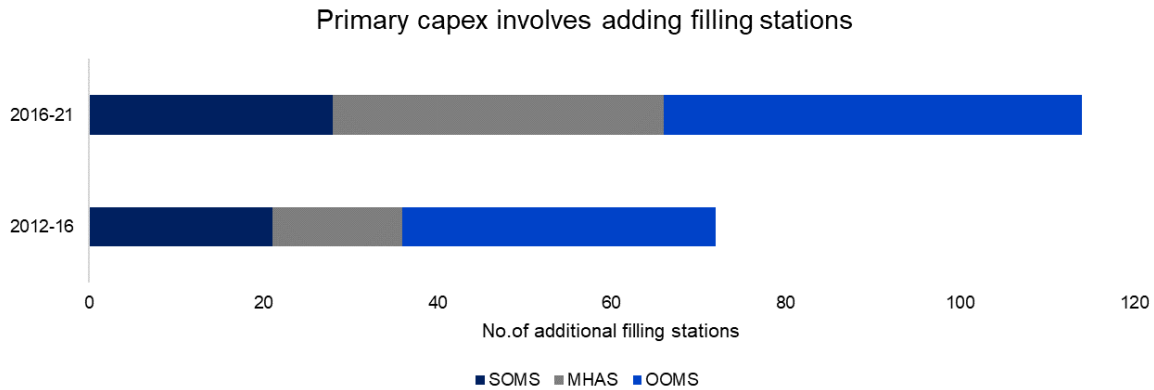
to customers to improve the convenience of transaction and build a brand of choice. We expect this emphasis on NFR to continue and enable higher volume growth for all players.



Source: Company reports, US Research

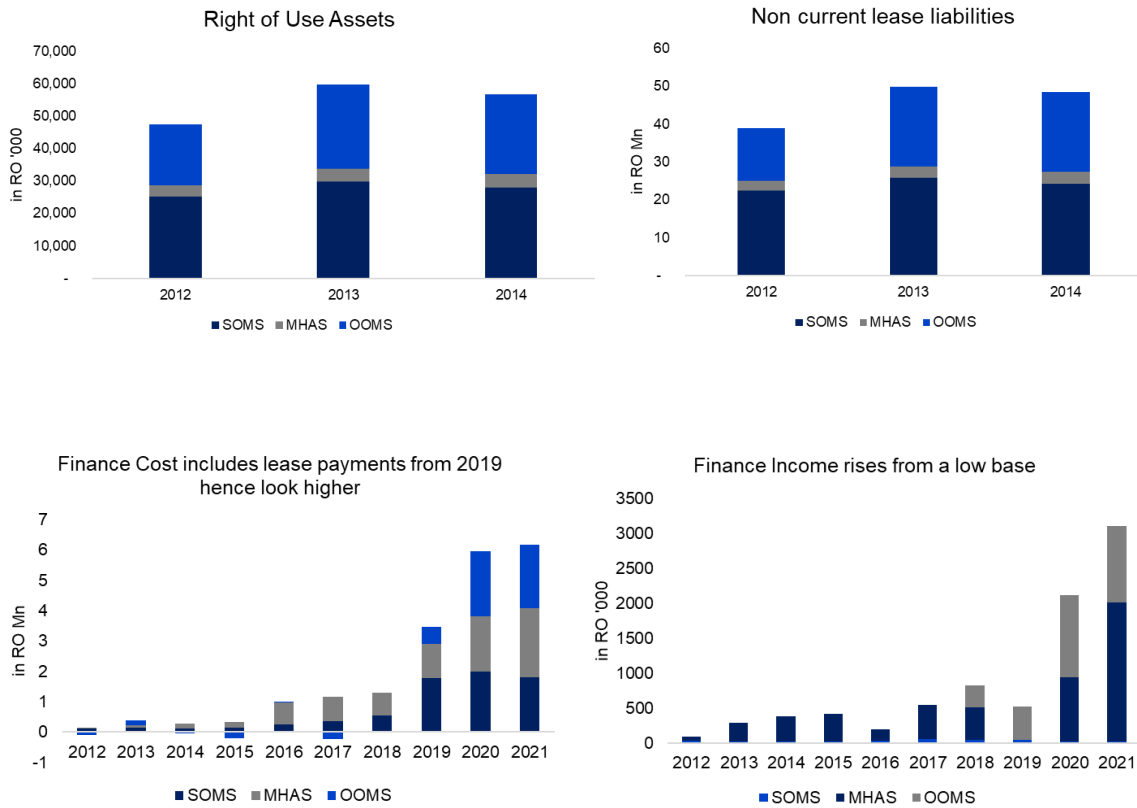
Capex, Lease assets and Debt

The erstwhile business model of OMCs encompassed an asset light, debt free and cash rich balance sheet. However, post the 2014 crisis, followed by deregulation of fuel price, the business model of the OMCs underwent some changes. Margins have declined, cash outflow has fallen, and demand moderated. However, OMCs have played it proactively by utilizing the opportunity to build capacity. Together, the three OMCs had put up 72 filling stations during the period from 2012-16, post 2016 over the next five years they added 125 filling stations. New stations have come up primarily in Muscat and the semi urban regions surrounding it. We expect the run rate to continue at a measured pace and overall number of filling stations to reach 770-800 by 2025e.



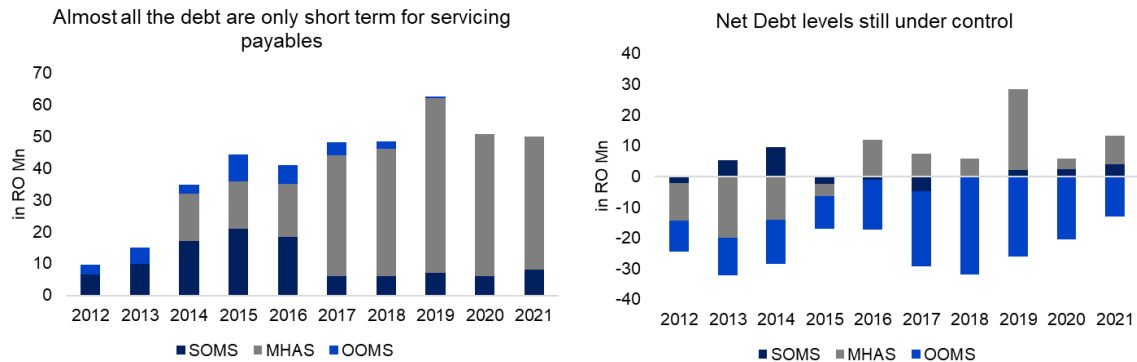
Source: Company reports, US Research

As per the latest IFRS regulatory changes, companies had to report leased assets and their related liabilities from 2019 onwards. Hence, we observe the same being included separately in the balance sheet of the OMCs. Similarly, inclusion of interest on leasing liabilities has taken the finance cost higher for the OMCs. Finance income does not form a significant part of the income statement and primarily includes interest from cash deposits.



Source: Company reports, US Research

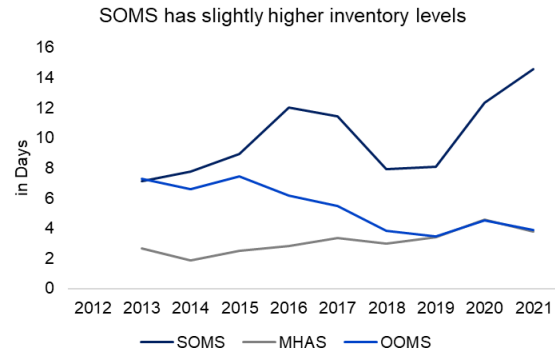
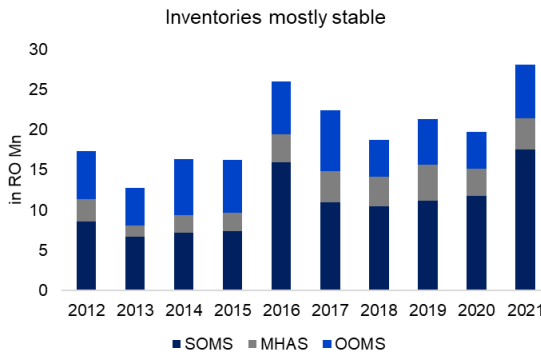
Most OMCs have borrowed for servicing the payables and these debts are short term in nature with very low cost of interest, backed by the cash generation from business. MHAS has had a higher debt level compared to peers; net debt is manageable for all 3 OMCs.



Source: Company reports, US Research

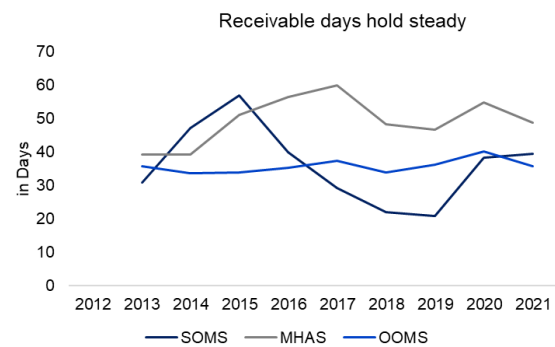
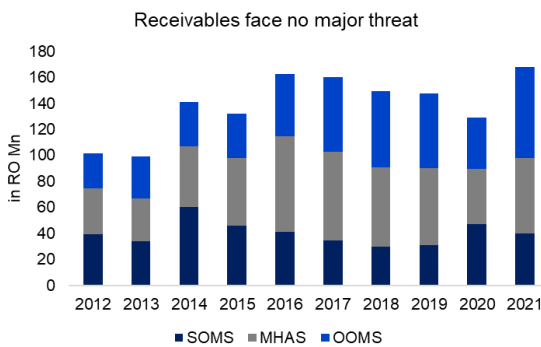
Operating efficiencies

Inventory levels are generally stable and depend on the demand. OMCs have not faced any supply side issues from refineries. SOMS had proactively taken up higher inventory to shore up in case of a pandemic like situation arises, hence it has witnessed a rising level compared to peers.

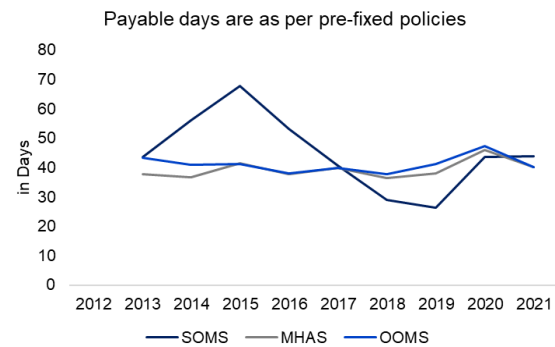
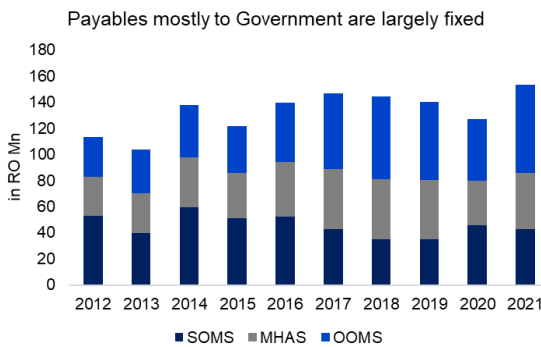


Source: Company reports, US Research

Since the process followed by all OMCs in terms of procurement and contract conditions are nearly the same, the receivable and payable days are similar. The sector is attractive due to its low cash conversion cycle. Demand beyond a threshold creates high cash generation for the companies and we envisage the threshold to be achieved from 2023 onwards.

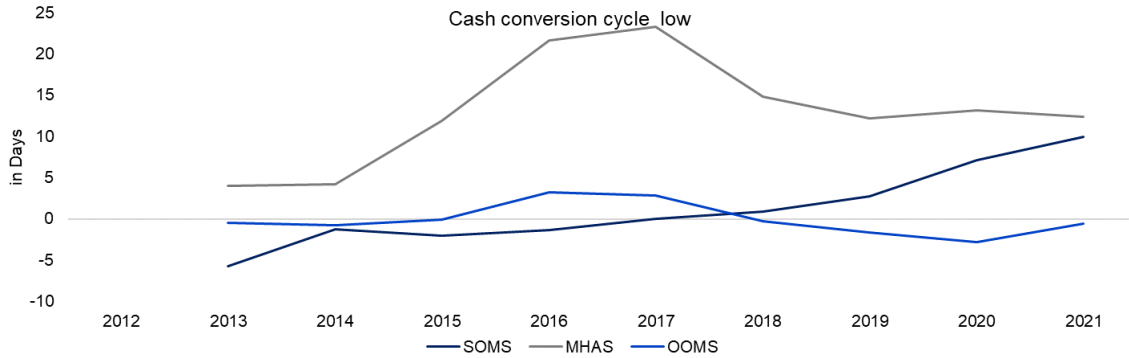


Source: Company reports, US Research



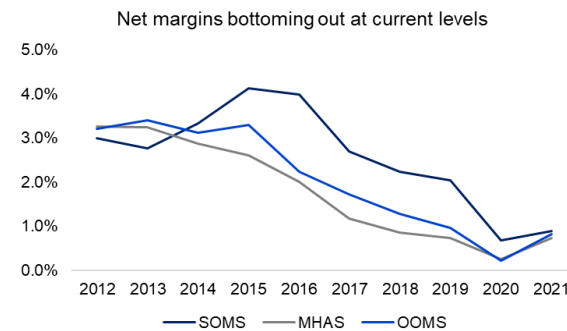
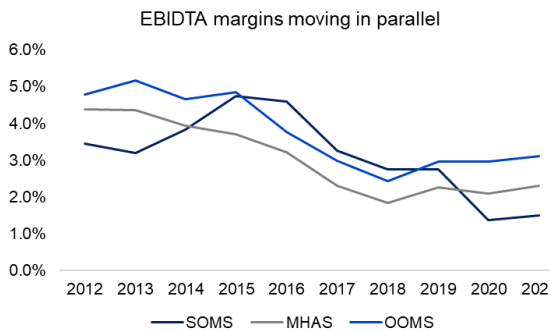
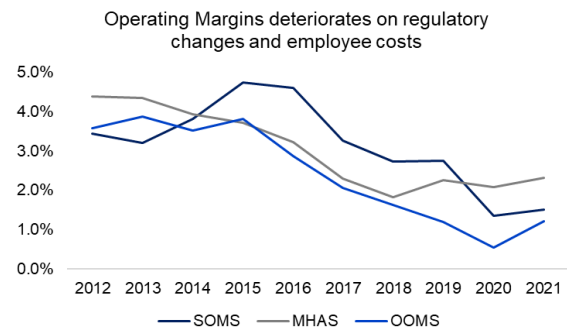
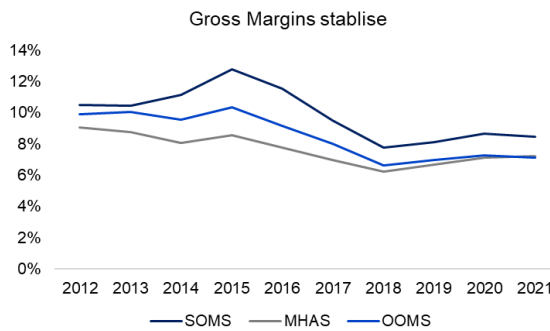
Source: Company reports, US Research

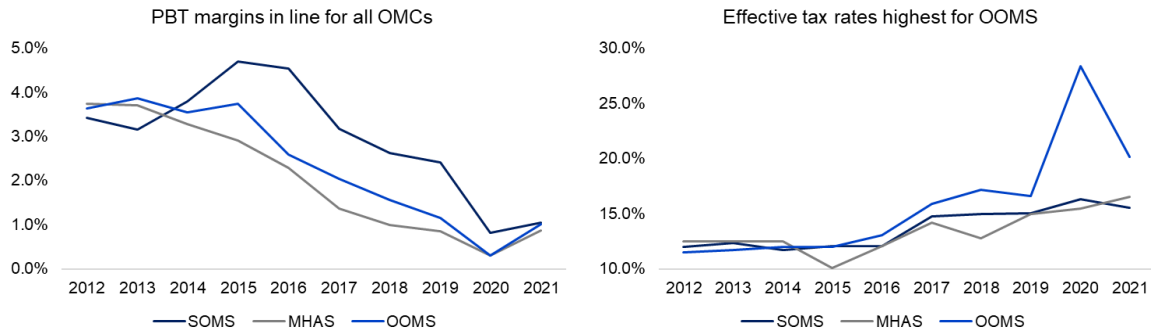
Cash conversion is higher for MHAS as the receivable days are slightly higher currently, while for SOMS the inventory levels are higher than peers. We expect both OMCs to witness lower cash conversion days going forward on normalization of operations and demand.



Source: Company reports, US Research

Gross profit margins (GPM) are dictated by the markup costs provided by the government and the OMCs have little say in them. Gross margins declined sharply post deregulations, however over the last three years we have witnessed stability in the range of 7-8.5%. The cost of goods sold which includes the cost of inventory also affect GPM. Operating margins (OPM) were primarily impacted by higher depreciation on account of lease properties and inflationary trends in salaries. OMCs have also invested in technologies to improve the customer service levels which has resulted in higher costs at the operating levels. OPM has halved for SOMS and OOMS while it has remained relatively stable for MHAS.

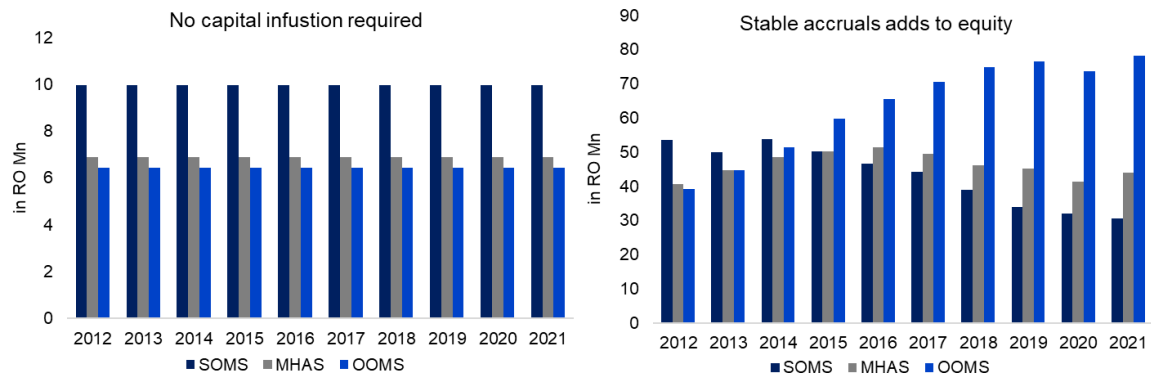




Source: Company reports, US Research

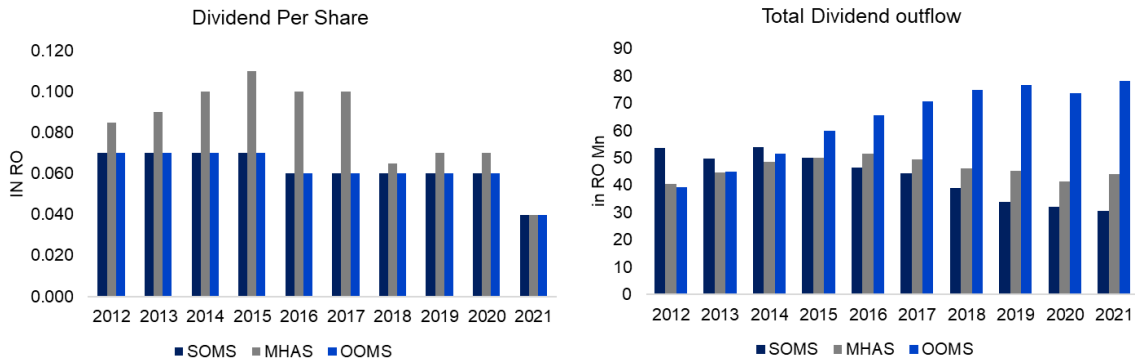
Share capital, retained earnings and dividends

Fuel retail is a cash generating business with capped margins. Companies build their profits by focusing on volumes on one side and controlling cost on the other. None of the companies have had the requirement to raise cash via equity as internal accruals were sufficient to run the operations and invest in capex. The stable equity profile built over accumulated retained earnings has provided adequate buffer for dividend pay-outs.



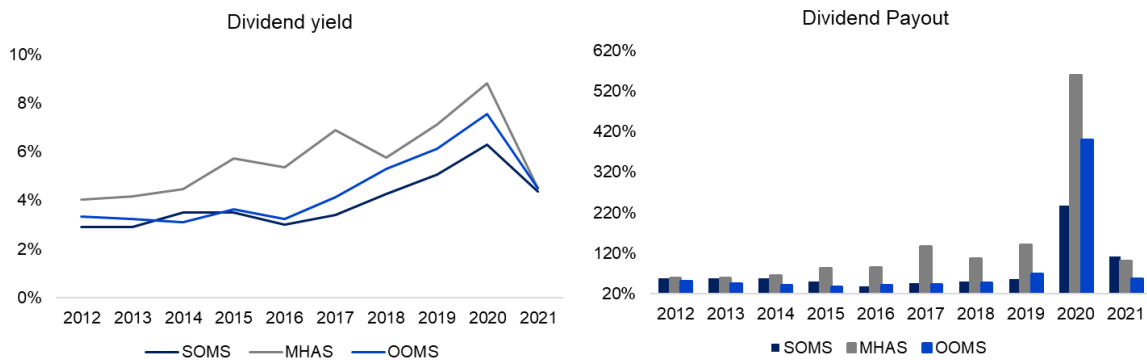
Source: Company reports, US Research

The sector has on an average paid out as dividend RO 14-15mn/year which has translated into a dividend pay-out of 60-80% and dividend yield in the range of 4.5-7%. 2020 turned out to be the year of highest pay out with SOMS giving out in excess of 200% as dividend, OOMS 400% and MHAS 560%. While this appears high, the aberration is due to the slump in profits/earnings during the year. All three companies maintained the similar Dividend per share (DPS) despite the decline in profits to entice shareholders. In 2021 however DPS was reduced to RO 0.040 translating to a Dividend yield of 4.5% across the board.



Source: Company reports, US Research

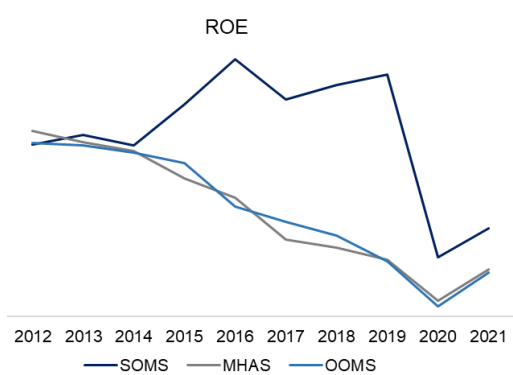
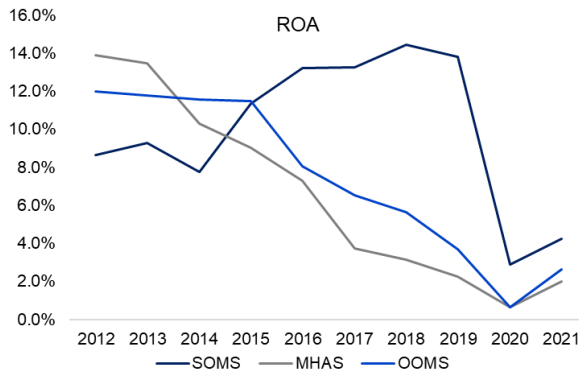
As growth picks up retained earnings will accumulate providing enough buffer to sustain the dividend pay-out at 60-70%. This will still provide a good cushion and protect the valuation on the downside. We see no requirement for any equity dilution going forward



Source: Company reports, US Research

Return ratios

The drop in margins, lower cash flows and rising debt levels have all led to a declining trend in return ratios. ROA has plunged from its peak level of ~14% to 4%, while ROE has slumped to 15% from ~30-35% levels. We do not expect to see the high levels of return ratios any time soon unless the government reverses its deregulation mechanism, which is most unlikely.



Source: Company reports, US Research

Peer comparison - Valuation matrix

Company	Country	CMP (LCL)	Price change YTD%	Market cap (LCL mn)	FY21 Revenue (LCL mn)	Revenue CAGR (FY21-24E)	FY21 Net income (LCL mn)	Net Income CAGR FY21-24E	FY22E P/E (x)	FY22E ROE (%)
Shell Oman	OM	0.884	-3.1%	88	402	12.2%	4	26.2%	13.6	11.5%
Oman Oil	OM	0.92	3.6%	59	563	25.5%	5	30.5%	6.6	11.0%
Al Maha	OM	0.92	34.5%	63	377	16.1%	3	46.6%	8.4	17.2%
Adnoc Distribution	UAE	4.56	9.4%	57,000	20,921	8.1%	2,252	-1.3%	21.7	81.2%
Qatar Fuel	Qatar	18.31	1.8%	18,205	19,531	14.2%	974	6.7%	15.5	12.6%
Aldrees	KSA	73.5	10.4%	5,513	9,110	19.4%	177	18.3%	22.5	23.0%

Source: Company reports, US Research, Bloomberg Professional®

The future of Fuel retailing in Oman: Fuel retailing is facing a host of challenges not only in Oman, but across the world. It was one of the worst affected industries in 2020 due to covid and related lockdowns. However, despite volumes getting back to normal, fuel retailers have been forced re-think the business model due to the following reasons:

1. Risk of alternate fuel such as Electric, Hydrogen, CNG take over
2. Rise in popularity of public transport will reduce the consumption of retail fuel
3. Deregulation of fuel price has compressed margins for the OMCs

These risks are real, and like in other parts of the world, OMCs in Oman are actively striving to face these threats head on. There appears a common theme across the industry, which is to build on the customer experience, gain loyalty and improve the non-fuel revenue. Fueling a vehicle was never considered a pleasant experience in the past, but a necessity; OMCs are working hard to create a paradigm shift in this thinking and bring change to the ecosystem.

Broadly some of the measures taken by OMCs in Oman-

- 1. Improvement in operational efficiency-** Extensive use of technology to manage filling stations, inventory management and employee cost is primal to the sustenance of OMCs. Since margins are capped, cost management is extremely essential. Our readings from the management interactions provides some clarity into this aspect. As mentioned earlier in the report, OMCs in Oman are taking measured steps to build on their filling station market share instead of placing rampant bets. NTI locations are based on the merit of their location and scope of forecourt offerings.
- 2. From selling commodity to providing experience-** All three OMCs have developed strategies to provide customers a better experience thereby attempting to retain their loyalty. Leveraging on data analytics to understand customer behavior, mobile platforms, easier payment options and quicker fueling make the event pleasant. Personalization and useful communication with customer, loyalty cards, programs and discounts are all methods followed to aggressively retain the customer base. This is the driving force behind the brands in a market such as Oman.
- 3. Alternative fueling options-** OMCs in Oman have started providing in its premises EV charging facilities. This is a trend witnessed globally and pioneered by Shell Global. Shell has ventured through tie ups into the EV charging space and currently offers about 60,000 charging stations which it expects to increase to 500k by 2025. Other alternates such as hydrogen, biofuels and CNG are also on offer and OMCs are looking to provide them as additional options.
- 4. Nonfuel revenues-** While the contribution of NFR is miniscule currently it enables the pull for the public. Attractive convenience stores, lounges, delivery services, last mile connectivity hubs, warehouses, restaurants, banking, car servicing etc. are some of the services that have been tried across the world. OMCs in Oman have already found success in some of the filling stations where they have engaged partners to provide some of these options. Maximizing the forecourt, developing franchising offers for the dealer network, building one's own convenience brand and providing the most appropriate product for the customer will be the challenge going forward.

We believe these steps will help reduce the volume dependency in the business for OMCs. There are several case studies from across the world which provide valuable insights on the successful business makeover of fuel retailing, and we believe Oman is no different to embrace change and will follow global trends. The industry is in the cusp of a transformation, and we are optimistic that the way ahead will be positive.



COMPANIES SECTION

Oil Marketing Companies

HOLD: 12M TP @ 1.037

Valuation Summary (TTM)

Price (RO)	0.940
PER TTM (x)	11.2
P/Book (x)	1.5
P/Sales (x)	0.1
EV/Sales (x)	0.1
EV/EBITDA (x)	5.6
Dividend Yield (%)	4.3
Free Float (%)	37%
Shares O/S (mn)	69
YTD Return (%)	33%
Beta	0.8

(mn)	OMR	USD	
Market Cap	63	165	
Enterprise value	69	180	
Price performance (%)	1M	3M	12M
Al Maha Petroleum Product	10%	15%	37%
MSX 30 Index	7%	4%	19%
MSX Services Sector Index	2%	-5%	-2%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	22	8	15
Avg Daily Volume (,000)	18	10	18

52 week	High	Low	CTL*
Price (RO)	0.940	0.608	51.3

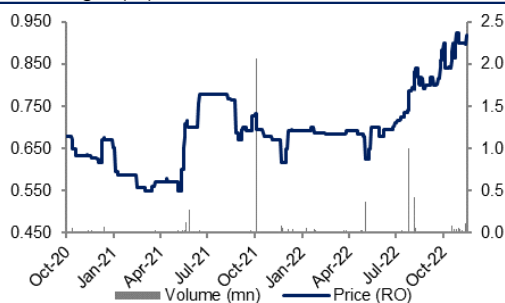
* CTL is % change in CMP to 52wk low

Major shareholders

ABS Lubricants	40.0%
Civil Pension Fund	13.2%
PASI	9.5%
Others	37.3%

Other details

Exchange	MSX
Sector	Oil&Gas
Index weight (%)	NA



Al Maha Petroleum Marketing (MHAS)

Al Maha Petroleum Products (MHAS) has been a consistent performer in the Oil Marketing sector. Revenue has grown in tandem with demand. Its focus on spreading into the semi-urban and rural areas has augured well in maintaining market share. As fuel retail volume gather pace, we expect revenue and profits to register 2021-25e CAGR of 14.5% and 36.3% respectively. A stable balance sheet with no long-term debt, good cash position, measured capex and high dividend yield will cushion valuations in this defensive sector. At current prices, the stock is trading at 2023e EV/EBITDA of 4.8x, P/E ratio of 8.0x and offers FY22E dividend yield of 10.6%. While we find these valuations as moderate, the scope for volume growth and stable profitability will provide impetus to the share price in the near term. Hence, we assign a HOLD rating with 12M target price of 1.037/share. Our Blended DCF - relative valuation approach offers upside potential of 10.3% and total return potential of 20.9% from current levels.

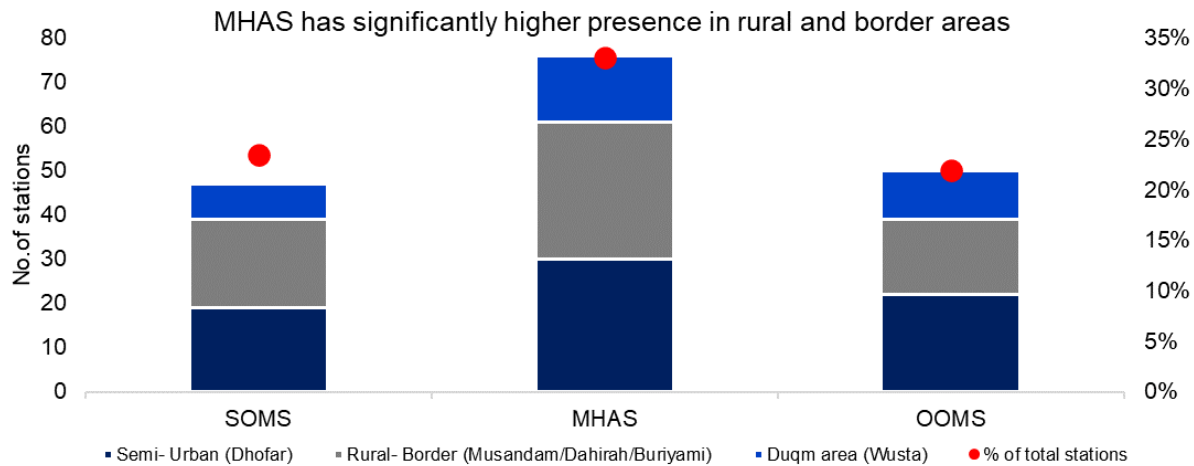
Rural and border area focus augurs well for stability in demand: MHAS has been a differentiator in focusing on the rural and border areas adjoining neighboring countries like UAE. This has worked in favour for the company by reducing volume volatility as those regions have always witnessed intrinsic demand from the local population. Border areas have found favour due to the significant price differential that exists between UAE and Oman. As long as this scenario persists the volume will remain stable from these filling stations. We expect the higher market share in semi-urban, rural and border areas to work in favour of MHAS going forward.

Growth to match industry levels and profitability in focus: MHAS has been a market performer in terms of growth. It has added filling stations in line with domestic demand and matched industry rate of growth. However, it has been a laggard in terms of profit per filling station. The management is cognizant of this fact and taking steps to resolve the same going forward. Such steps include refurbishing old stations, add new ones only in lucrative areas, introduce several schemes to entice customers, provide high quality products at convenience stores and finally use technology to improve efficiency and cost of operations. We believe the focus on profitability per station will be a game changer for the company and will warrant a re-rating in valuations as tangible results are visible. The changes planned are key monitorable and we remain watchful.

Higher contribution from commercial business to benefit in the upcycle: MHAS has the highest ratio of commercial business contribution to total revenue at ~20%. While this segment has been extremely competitive, in the current upcycle the demand on bulk fuel will increase and benefit players such as MHAS. We believe this will be the dark horse for the revenue growth and look forward optimistically

Valuation: The stock currently trades at a discount to its regional listed peers at 8.0x FY23E EPS. We expect the company to deliver sustainable EBIDTA margins in the range of 2.5% (2023-25E) and maintain its current financial discipline. The stock has been on an uptrend this year and has appreciated by 35% YTD. Our blended target price is at RO 1.037/share which is 10.3% from current levels, hence we reinstate our coverage with a HOLD rating.

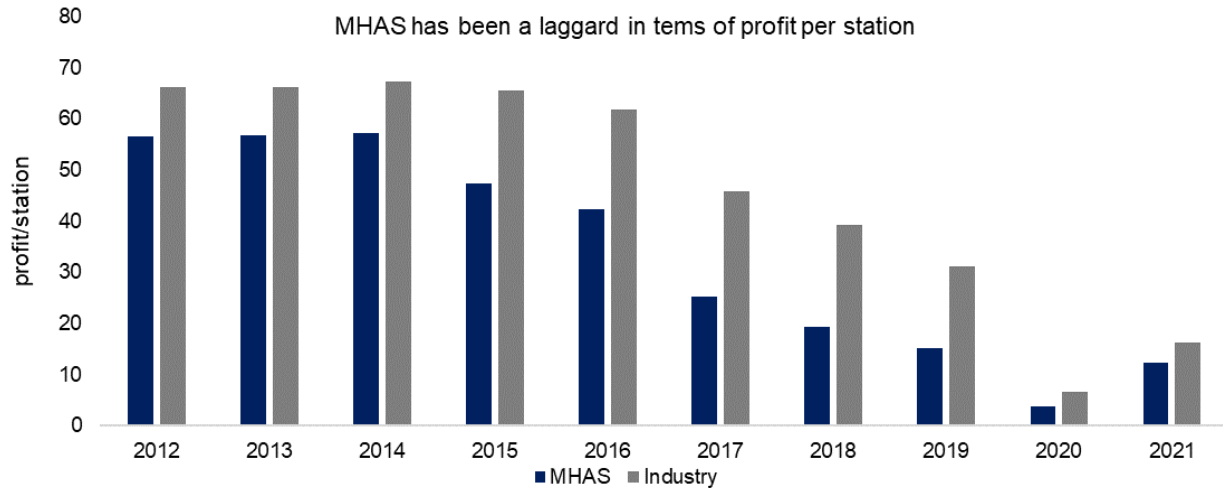
Rural and border area focus augurs well for stability in demand: MHAS has differentiated itself from competition by focusing on regions where other players seldom explored. MHAS has a much wider network in the rural, semi urban and border areas (~33% of total filling stations) and the benefits of which was felt during the pandemic times when intrinsic demand from these areas offset the loss in revenue from urban demand. The population of semi urban and rural areas consists predominantly of the Omani community where demand is stable. This is quite different in the urban locations where expats have a reasonable share making demand more volatile. The border area focus has also been favorable due to the price differential that exists between UAE and Oman. Price of diesel is currently higher by 45% in UAE as compared to Oman, while petrol is 38% higher. Most vehicles fill their tanks at the border outlets of MHAS before entering UAE or vice versa saving on transport costs significantly. We don't see this situation reversing any time soon and MHAS sets to gain as long as this persists.



Source: Company reports and US Research

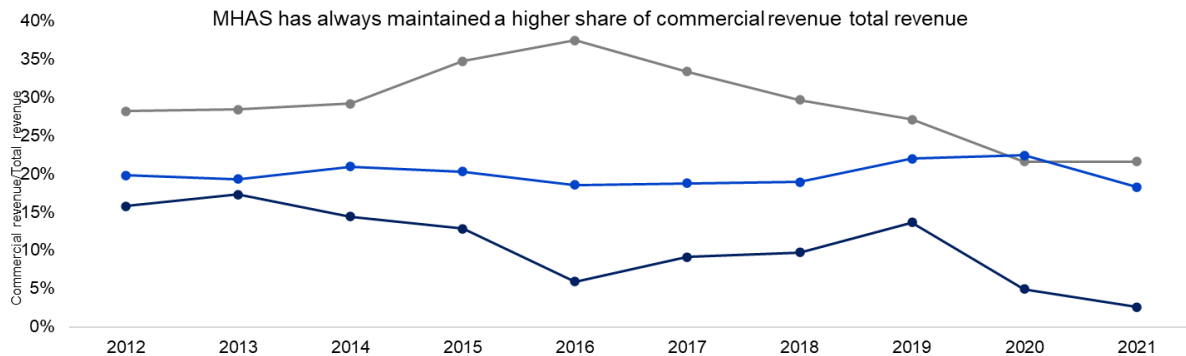
Growth to match industry level trends and profitability in focus: MHAS has been a consistent performer, matching industry level growth, neither being very aggressive like OOMS nor lagging the market like SOMS. Its measured approach brings consistency in operations and provides comfort to investors. With a reasonable brand built over the past three decades, it has turned its focus on profitability. MHAS has been an under performer in terms of profit per station and the current strategy looks to address this issue. The company is currently focusing on refurbishing its old filling stations and optimizing the rest to enhance profit per station.

NFR is being taken up seriously and will contribute to the bottom line going forward. “Noor Express” is the branded convenience store that will open up at most locations of MHAS providing customers with the required products. Other services are being pursued to entice customers to use the forecourt and create a loyal base for services such as EV charging, car servicing, loyalty cards etc.



Source: Company reports and US Research

Higher contribution from commercial business will benefit in the upcycle: Commercial business includes dealing in bulk fuel supplies which entail government, manufacturing, utilities, marine etc. MHAS has maintained a higher share of commercial business compared to industry and this will augur well in times of economy buoyancy such as now. Most of the commercial contracts are long term for periods ranging from 5-10years.

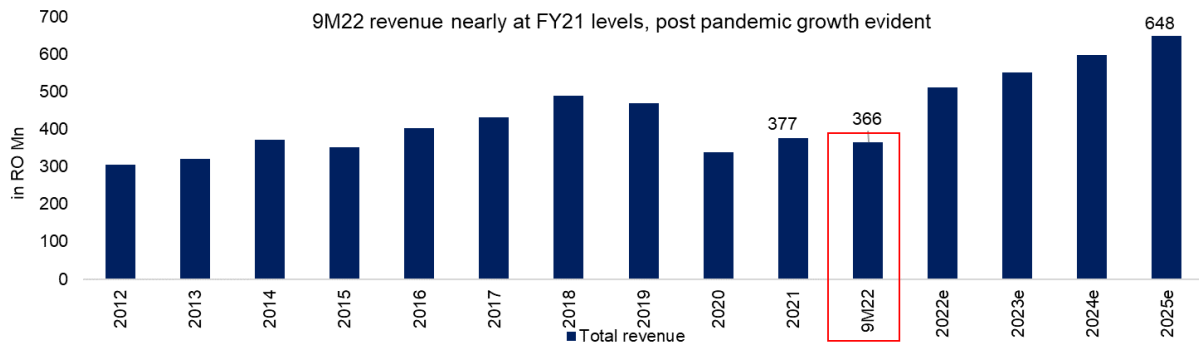


Source: Company reports and US Research

MHAS supplies fuel to all the oil fields in Oman. It has entered into a JV with Chevron to supply fuel to international airlines for 10yrs. Other contracts with Ministry of Defense, Petroleum Development of Oman and Oxy are between 5-10yrs. The company recently received the coveted Muscat International Airport project for supplying and maintaining the fuel farm at the airport. It had earlier signed a contract with i6 group for using the world’s first end to end aviation fuel management platform “Fusion 6” for real-time visibility and management of ground fueling operations. MHAS recently received a tender award from one of the government entities for supplying oil and lubricants for a period of three years with a contract value is RO 1.3mn. MHAS also received permit for providing ship bunkering services at Duqm port in September 2022. All these contracts’ points to the strengths that the company enjoys in the commercial segment. We expect significant benefits that could accrue going forward and further strengthen the company’s offering from such contracts in the commercial segment.

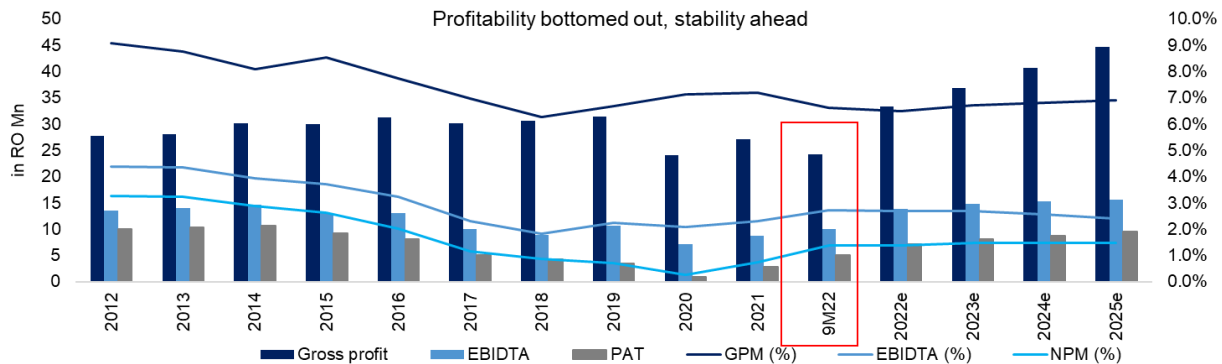
Financials on an upbeat supported by volume uptick: The normalization of economic scenario and revival in demand has worked well for MHAS as it has for the industry. MHAS revenue for the 9M22 period

was reported at RO362mn which was nearly as much as the full year revenue of the previous year 2021. With one more quarter to go we expect full year 2022e revenue to reach RO 507mn which would be the all-time highest revenue reached by the company in its history. We expect revenue to grow at a CAGR of 14.5% during 2021-25e and reach RO 641 mn by 2025e.



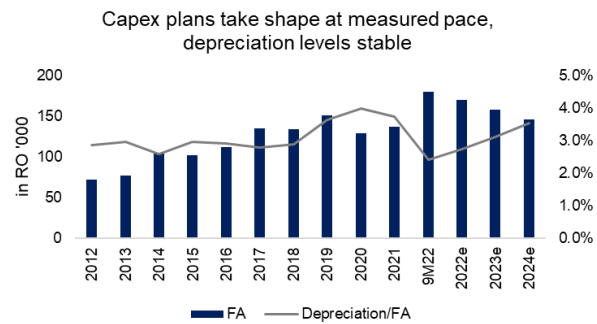
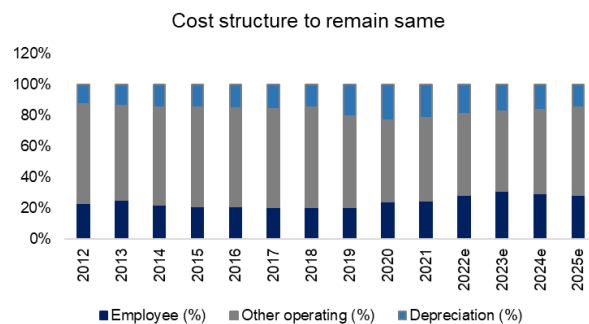
Source: Company reports and US Research

Revenue growth will drive profitability as economies of scale will kick in. While MHAS intends to add new stations, profit/station is also expected to increase. We factor this into our assumptions and our base case gross profit growth for 2021-25e is in line with top line growth at 13.3%. EBIDTA margins are expected to hold steady at 2.5% while net margin will improve to 1.5%. We expect net income at RO9.5mn by 2025e, this would be at a growth of 36.3% CAGR (2021-25e).



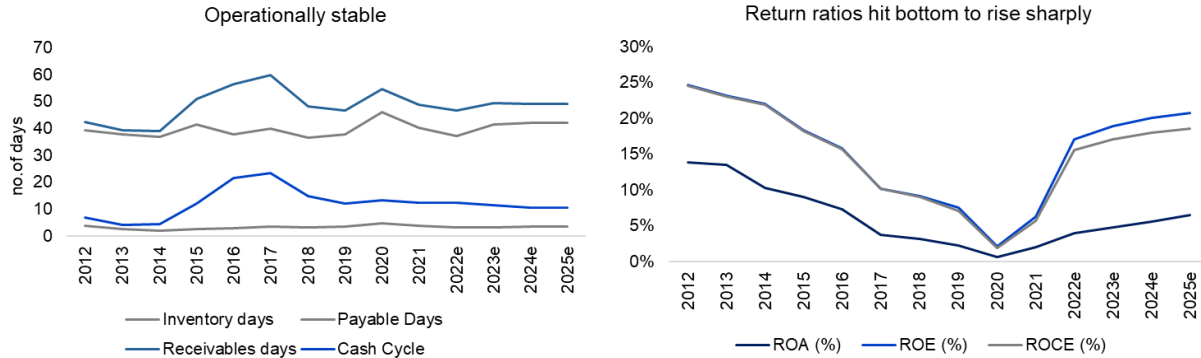
Source: Company reports and US Research

No major changes in the cost structure is expected and expenses are most likely to move in line with revenue growth. Capex will move at a measured pace based on availability of lucrative sites and possibilities of using the forecourt.



Source: Company reports and US Research

No major hurdles in terms of supply, payables or receivables are expected. Cash conversion cycle is low and would remain in the similar trend going forward. Volume growth driven profits will increase the return ratios that have hit a bottom in FY20. We expect dividend payout in the range of 60-70% translating into dividend per share value of 0.075-0.09 in FY23-25e. The adequate cash reserves and high accruals will be sufficient to maintain this level of dividend. At current price the dividend yield will be 7-8% for FY23-25e.



Source: Company reports and US Research

9M22 results above expectations: MHAS reported robust growth numbers for 9M22 as revenue increased by 34.5% during the period to reach RO 365mn compared to RO 272mn in the same period last year. The third quarter also witnessed a robust growth of 42.6% indicating strong revival in volumes. Gross profit growth was at 21.6% for 9M22 as expansion and higher fuel inventories cost had a one-off impact. Management has mentioned that it is on a modernization drive to refurbish filling stations that are older than 20yrs and modifying others to include service stations, convenience stores, grocery, daily needs, and several other products and services for vehicles and customers. The management expects margins to remain around current levels as operations normalize and costs are brought under control. Short term borrowings were incurred during the quarter to service the payables, these are backed by cash collateral hence have been raised at very low finance cost.

MHAs has added 22 filling stations this year taking the total number to 248. Border stations have benefited from price differential this year along with the Khareef seasons which witnessed higher throughput from the Dhofar region. Several commercial agreements have been put in place and old ones continue on a long-term basis. Net profit for 9M22 came in at RO 5.01mn higher by 142% compared to the same period last year and nearly double the full year profit of 2021. For the third quarter net profit was at RO 2.39mn higher by 128% due to the low base effect. We expect this growth trend to continue going forward on account of rising volumes and higher economic activity.

Our blended DCF - Relative valuation approach resulted in fair value per share of RO 1.037 for Al Maha Petroleum Products: We have valued MHAS using a blended DCF – relative valuation model. For the DCF valuation, we have used cost of equity of 13.1% and WACC of 11.0%. We further assumed the company’s FCFF to grow at 1.5% per annum beyond the forecast period. Based on these assumptions we have arrived at enterprise value of RO 79.4mn for the company, which translates into an equity valuation of RO 70.1mn or RO 0.1.016/share. Our DCF valuation of Al Maha implies upside potential of 8.1% from current levels. At the DCF target price the stock would be valued at FY23E EV/EBIDTA of 5.3x and PE of 8.7x.

We have also valued MAHS through relative valuation approach, using Price-Earnings multiple and EV/EBITDA multiple. On a PE valuation basis MHAS has been trading at discount to the sector average multiples due to its lower profitability and smaller size. We have applied target PE multiple of 10x which translated into equity value of RO 80.7mn and RO 1.169/share. We also valued the company using target EV/EBITDA multiple of 5x to arrive at an equity value of RO 65.2mn, or RO 0.946/share.

Our blended valuation was arrived after applying 50% weight to DCF, and equal weights of 25% each to P/E based valuation and EV/EBITDA based valuation approaches respectively. Our weighted average blended DCF – relative valuation resulted in 12M target price of RO 1.037/share for Al Maha Marketing, which offers potential upside returns of 10.3% from current levels.

We note that the name had a good run-up of 35% over the past 5 months, supported by 3Q22 earnings boost. We reinitiate our coverage of the name with 12M target price of RO 1.037 and HOLD rating, based on our expectations of increasing trend in volume growth and stable profitability going forward.

DCF Valuation	2021	2022E	2023E	2024E	2025E	Valuation parameters	
NOPLAT (RO ,000)	3,058	8,060	8,704	8,781	8,852	Risk free rate	6.0%
Depreciation (RO ,000)	5,111	4,323	4,632	4,901	5,139	Equity risk premium	9.0%
Capex (RO ,000)	1,521	-3,750	-5,000	-5,000	-5,000	Beta	0.788
Change in WC (RO ,000)	-7,563	-2,456	1,116	-1,804	-1,971	Cost of equity	13.1%
FCFF (RO ,000)	14,211	6,177	9,452	6,878	7,019	Cost of debt	5.7%
PV of FCFF (RO ,000)		6,136	8,456	5,542	5,093	Corporate tax rate	15.0%
PV of Terminal Value (RO ,000)					54,213	After tax cost of debt	4.9%
Enterprise Value (RO ,000)					79,440	Target debt	25.0%
Net debt (RO ,000)					9,094	Target equity	75.0%
End of service benefits (RO ,000)					228	WACC	11.0%
Value of equity (RO ,000)					70,118	Terminal growth rate	1.5%
No of shares (,000)					69,000		
Value per share (RO)					1.016		
CMP					0.940		
Upside/downside (%)					8.1%		

EV/EBITDA Valuation	
Target EV/EBITDA Multiple (x)	5.0
EBITDA 2023E (RO ,000)	14,872
Target Enterprise Value (RO ,000)	74,359
Less: Net Debt (RO ,000)	9,094
Target Equity Value (RO ,000)	65,265
EV/EBITDA Target Price (RO)	0.946
CMP	0.940
Upside/downside	0.6%

PE Valuation	
Target P/E Multiple (x)	10.0
Profit after tax 2023E (RO ,000)	8,066
Target market cap (RO ,000)	80,660
No of shares (,000)	69,000
Value per share (RO)	1.169
CMP	0.940
Upside/downside	24.4%

12M Blended Fair Value per share of RO 1.037

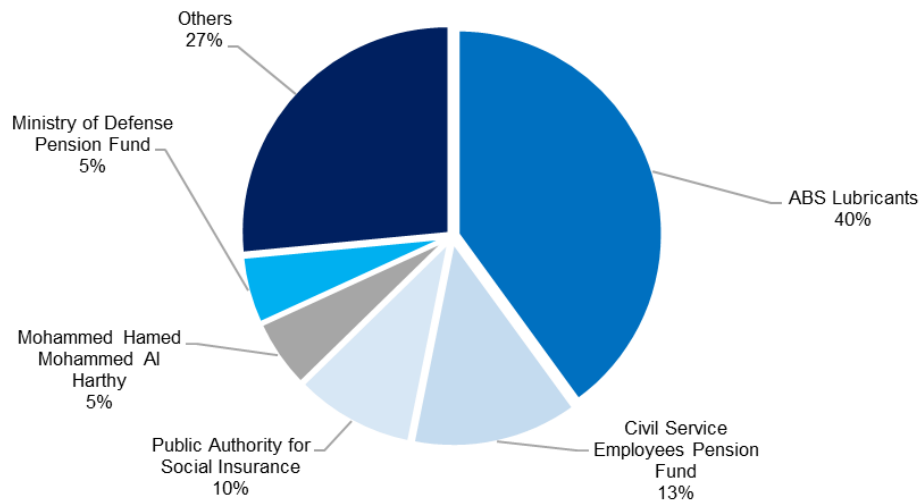
Summary of Valuations	Assigned Weight (%)	Component TP (RO)	Blended Target Price (RO)
DCF	50%	1.016	
EV/EBITDA	25%	0.946	1.037
PE	25%	1.169	
CMP			0.940
Return potential (%)			10.3%

Key downside risks to our view: (i) A slow and protracted economic recovery; (ii) Slower than anticipated new site additions; and (iii) prolonged decline in oil price.

About AI Maha Petroleum Products Marketing

AI Maha Petroleum Products Marketing (MHAS) was incorporated in 1993 as the second OMC in the country. Initially started by the government, the stake was later divested to ABS Lubricants group of Abu Dhabi. ABS currently holds 40% of the shares in the company and government related entities have 28%. Retail contributes 73% of the total revenue which comes from the 248 filling stations that the company manages across the length and breadth of the country. Commercial tie ups with the government departments, ministries and other commercial customers in all sectors contribute to 21% of the topline. The lubricants and non-fuel retail revenue add to the remaining 6%. AI Maha along with Noor Shopping has installed convenience stores under the name “Noor Express” which provides additional shopping experience to customers.

Shareholding pattern of AI Maha Marketing



BOARD OF DIRECTORS

S.NO	NAME	POSITION
1	Brigadier Saif Salim Saif Al-Harthy	Chairman
2	H.H Sheikh Zayed Bin Sultan Bin Khalifa Al Nahyan	Deputy Chairman
3	Ibrahim Mohammed Hamed Al Harthi	Director
4	Mohammed Saif Muaded Al Harthi	Director
5	Nabil Hamed Zahran Al Mahrouqi	Director
6	Sultan Khalifa Saleh Al-Tai	Director
7	Abdullah Mohammed Ali Al Mamari	Director

Source: MSX, US Research

Income Statement (in RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue	465,914	333,762	372,907	507,139	545,302	591,357	641,539
Other income	4,305	3,991	4,332	4,946	5,508	5,973	6,480
Total revenue	470,219	337,753	377,239	512,085	550,810	597,330	648,019
SG&A expenses	438,829	313,673	350,067	478,799	513,906	556,711	603,306
Gross profit	31,390	24,080	27,172	33,286	36,904	40,618	44,713
Employee benefit expense	5,377	5,406	5,829	6,401	8,262	8,960	9,720
Depreciation	5,465	5,153	5,111	4,323	4,632	4,901	5,139
Other operating expenses	15,411	11,606	12,627	11,778	13,770	16,427	19,441
Operating profit	5,137	1,915	3,605	9,482	10,239	10,331	10,414
EBIDTA	10,602	7,068	8,716	13,805	14,872	15,232	15,552
Finance income	-	-916	-1,985	-1,411	-1,500	-1,600	-1,800
Finance costs	1,128	1,810	2,283	2,587	2,250	1,585	1,011
Operating expense	27,381	23,059	23,865	24,979	27,415	30,272	33,510
Profit before tax	4,009	1,021	3,307	8,306	9,489	10,346	11,203
Taxation	601	158	547	1,209	1,423	1,552	1,680
Net Profit	3,408	863	2,760	7,097	8,066	8,794	9,523

Balance Sheet (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
PPE	31,079	30,366	28,859	28,203	27,922	27,514	26,981
Right of use asset	3,515	4,072	4,058	4,140	4,789	5,296	5,691
Investment in associates	635	588	541	506	506	506	506
Investment in JV	1,026	3,708	3,353	2,822	2,822	2,822	2,822
Deferred tax assets	2,157	2,387	2,722	3,229	3,229	3,229	3,229
Total non-current assets	38,412	41,121	39,533	38,901	39,268	39,367	39,228
Current Inventories	4,522	3,383	3,878	4,115	5,139	5,567	6,033
Trade and current receivables	58,925	42,301	58,428	72,448	77,113	83,626	90,723
Cash and bank balance	28,722	41,234	32,906	62,534	46,234	26,850	7,811
Other current non-financial assets	-	1,159	1,952	1,952	1,952	1,952	1,952
Total current assets	112,169	88,077	97,164	141,049	130,439	117,995	106,519
Total Assets	150,581	129,198	136,697	179,950	169,707	157,362	145,748
Share capital	6,900	6,900	6,900	6,900	6,900	6,900	6,900
Other reserves	4,404	4,404	4,404	4,404	4,404	4,404	4,404
Retained earnings	33,999	30,032	32,792	30,229	31,395	32,599	34,532
Total equity	45,303	41,336	44,096	41,533	42,699	43,903	45,836
Total equity	45,303	41,336	44,096	41,533	42,699	43,903	45,836
End of service benefits	333	211	199	228	228	228	228
Lease liabilities	2,631	2,946	3,174	3,726	4,310	4,766	5,122
Total non-current liabilities	2,964	5,379	4,158	4,032	4,538	4,994	5,350
Trade and other payables	45,228	34,003	43,062	54,863	61,669	66,805	72,397
Current portion of borrowings	55,032	44,731	42,000	73,430	53,430	33,430	13,430
Lease liabilities	1,025	1,329	1,156	3,688	4,617	5,243	5,496
Contract liabilities	112	2,032	1,343	1,449	1,652	1,792	1,944
Tax liabilities	917	388	882	955	1,102	1,195	1,296
Total current liabilities	102,314	82,483	88,443	134,385	122,470	108,465	94,562
Total liabilities	105,278	87,862	92,601	138,417	127,008	113,459	99,912
Total equity and liabilities	150,581	129,198	136,697	179,950	169,707	157,362	145,748

Cash Flow (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
Cash from operations	10,489	12,763	-615	6,378	11,564	10,307	11,679
Investing cash flow	-24,179	7,531	8,423	1,984	1,132	1,501	1,939
Financing cash flow	8,011	-17,782	-6,136	20,995	-30,066	-31,719	-31,745
Change in cash	-5,679	2,512	1,672	29,628	-16,300	-19,384	-19,039
Beginning cash	34,401	28,722	31,234	32,906	62,534	46,234	26,850
Ending cash	28,722	31,234	32,906	62,534	46,234	26,850	7,811

Ratio Analysis	2019	2020	2021	2022E	2023E	2024E	2025E
Per share							
EPS (RO)	0.049	0.013	0.040	0.103	0.117	0.127	0.138
BVPS (RO)	0.657	0.599	0.639	0.602	0.619	0.636	0.664
DPS (RO)	0.070	-	0.040	0.100	0.100	0.110	0.110
FCF per share (RO)	-0.198	0.294	0.113	0.121	0.184	0.171	0.197
Valuation Ratios							
Market Cap (RO ,000)	67,620	54,648	61,272	64,860	64,860	64,860	64,860
EV (RO,000)	93,930	58,145	70,366	75,756	72,056	71,440	70,479
P/E (x)	18.6	73.6	23.0	9.1	8.0	7.4	6.8
EV/EBITDA (x)	8.9	8.2	8.1	5.5	4.8	4.7	4.5
Price/Book (x)	1.4	1.5	1.4	1.6	1.5	1.5	1.4
Dividend Yield (%)	7.1%	0.0%	4.5%	10.6%	10.6%	11.7%	11.7%
Price to sales (x)	0.14	0.16	0.16	0.13	0.12	0.11	0.10
EV to sales (x)	0.20	0.17	0.19	0.15	0.13	0.12	0.11
Liquidity							
Cash Ratio (x)	0.3	0.3	0.5	0.4	0.5	0.4	0.2
Current Ratio (x)	1.1	1.1	1.1	1.0	1.1	1.1	1.1
Quick Ratio (x)	1.1	1.0	1.1	1.0	1.0	1.0	1.1
Return Ratios							
ROA (%)	2.3%	0.7%	2.0%	3.9%	4.8%	5.6%	6.5%
ROE (%)	7.5%	2.1%	6.3%	17.1%	18.9%	20.0%	20.8%
ROCE (%)	7.1%	1.8%	5.7%	15.6%	17.1%	18.0%	18.6%
Cash Cycle							
Inventory turnover (x)	107	79	96	120	111	104	104
Accounts Payable turnover (x)	10	8	9	10	9	9	9
Receivables turnover (x)	8	7	7	8	7	7	7
Inventory days	3	5	4	3	3	4	4
Payable Days	38	46	40	37	41	42	42
Receivables days	47	55	49	47	50	49	49
Cash Cycle	12	13	12	12	11	11	11
Profitability Ratio							
Gross Margins (%)	6.7%	7.1%	7.2%	6.5%	6.7%	6.8%	6.9%
EBITDA Margins (%)	2.3%	2.1%	2.3%	2.7%	2.7%	2.6%	2.4%
PBT Margins (%)	0.9%	0.3%	0.9%	1.6%	1.7%	1.7%	1.7%
Net Margins (%)	0.7%	0.3%	0.7%	1.4%	1.5%	1.5%	1.5%
Effective Tax Rate (%)	15.0%	15.5%	16.5%	14.6%	15.0%	15.0%	15.0%
Leverage							
Total Debt (RO ,000)	55,032	44,731	42,000	73,430	53,430	33,430	13,430
Net Debt (RO ,000)	26,310	3,497	9,094	10,896	7,196	6,580	5,619
Debt/Capital (x)	8.0	6.5	6.1	10.6	7.7	4.8	1.9
Debt/Total Assets (x)	0.4	0.3	0.3	0.5	0.3	0.2	0.1
Debt/Equity (x)	0.6	0.1	0.2	0.3	0.2	0.1	0.1

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Oil Marketing Companies

STRONG BUY: 12M TP @ 1.793

Valuation Summary (TTM)

Price (RO)	0.900
PER TTM (x)	8.3
P/Book (x)	0.7
P/Sales (x)	0.1
EV/Sales (x)	0.1
EV/EBITDA (x)	3.6
Dividend Yield (%)	4.4
Free Float (%)	31%
Shares O/S (mn)	61
YTD Return (%)	0%
Beta	0.8

(mn)	OMR	USD
Market Cap	56	145
Enterprise value	76	196

Price performance (%)

	1M	3M	12M
Oman Oil Marketing Co	-2%	-10%	0%
MSX 30 Index	7%	4%	19%
MSX Services Sector Index	2%	-5%	-2%

Trading liquidity (,000)

	1M	3M	6M
Avg daily turnover (RO ,000)	1	7	10
Avg Daily Volume (,000)	1	8	11

52 week

	High	Low	CTL*
Price (RO)	1.020	0.800	12.5

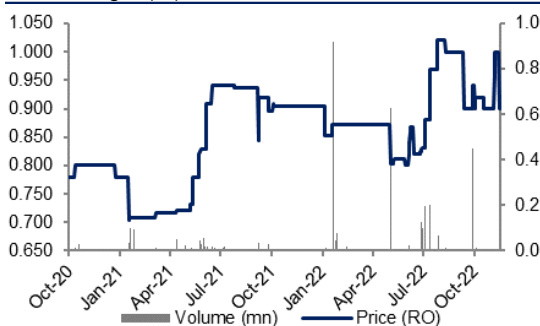
* CTL is % change in CMP to 52wk low

Major shareholders

OQ SAOC	49.0%
Civil Pension Fund	13.1%
PASI	7.2%
Others	30.7%

Other details

Exchange	MSX
Sector	Oil&Gas
Index weight (%)	NA



Oman Oil Marketing (OOMS)

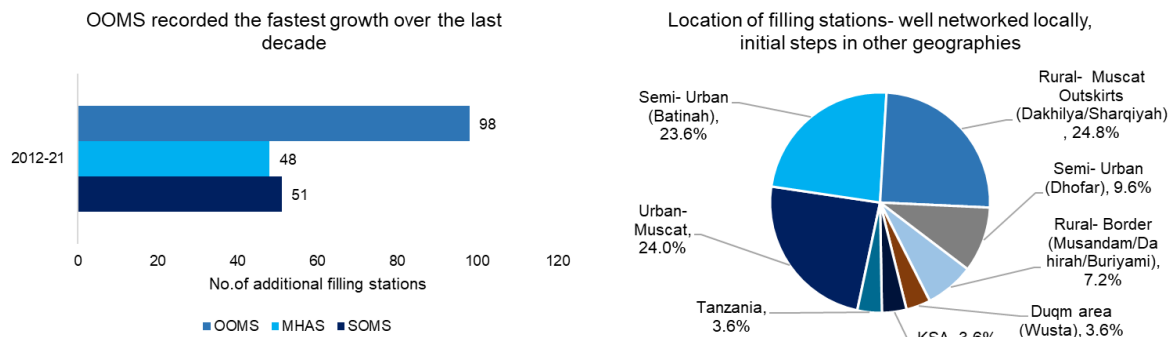
OOMS was a late comer in the oil marketing sector having started operations in 2003. Today it has become the market leader with 242 filling stations and a revenue of RO 560mn. The company has also set up 18 stations internationally in KSA and Tanzania and more in the pipeline. We expect fuel retail volumes to surpass 2019 levels by 2023, thanks to the revival of economic growth, job creation initiatives, government focus on manufacturing and favourable demographic structure. OOMS will be the biggest beneficiary of this buoyancy with maximum share of the market. We expect FY21-25E revenue growth of 23.8% per annum. In our base case we expect gross margins to settle at current levels and net income will reach RO 11.8mn by FY25E. This would translate into a bottom line CAGR of 27.0% between the same period. With a solid parentage that provides impetus for growth, OOMS is in a sweet spot and ready to capitalize on the diversified market opportunity ahead. A disciplined balance sheet, stable business model, recurring cash flow, reasonable dividend payout, and very cheap valuations make OOMS an attractive opportunity. At current prices, the stock is trading at FY22E EV/EBITDA of 2.13x, P/E ratio of 7.1x. We find these valuations extremely low considering the growth prospectus of the company and the upcoming benefits of the change in trajectory, and see multi bagger opportunity in the name. Our Blended DCF - Relative valuation resulted in 12M target price of RO 1.793/share offering 100% return potential over the next 12 months. We rate the stock a STRONG BUY with target price of RO 1.793.

Well established network and high market share auger well in upcycle: OOMS is the current market leader with 42% revenue market share. It has grown at the fastest pace among the OMCs, over the last decade with over 100 filling stations being installed. OQ (erstwhile Oman Oil Company), the promoter of OOMS, hopes to achieve its target of supplying to nearly 2500 filling stations by 2030. This it intends to achieve by either acquiring or organically growing its existing fuel retailing portfolio. We are optimistic based on this long-term plan provided by OQ and hope that the growth trend for OOMS will only get better from hereon. OOMS has strategically ventured outside Oman into KSA and Tanzania. It has put up a total of 9 filling stations in KSA and 9 in Tanzania, and has licenses to double this number in the future. We believe 2022 is only a starting point, OOMS along with group company Haas Petroleum is looking to gather significant market share in Africa going forward. As the Omani market for fuel retailing gets crowded, we believe this is the right time to experiment with the international strategy and OOMS is likely to find success in its endeavor backed by OQ.

New revenue streams, branding, NFR to drive revenue growth: OOMS has played by the book and has added several additional features to its filling stations such as convenience stores, QSR, EV charging, car servicing, alternate fuel etc. to generate non-fuel revenue and retain market share. It has been at the forefront of introducing several new brands to the Omani market such as Debonair Pizza, Café Amazon, Steers burgers etc. Optimal usage of the forecourt as a fuel station to generate additional revenue and provide customer delight has proved to be successful strategy pursued by several fuel retailers across the world.

Valuation: OOMS currently trades at 6.3x FY23E EPS. We expect the company to deliver sustainable EBITDA margins in the range of 2.5% (FY23-25e) and maintain its current balance sheet discipline. We believe the company warrants a major re-rating based on the stupendous volume growth prospects. We reinstate coverage with STRONG BUY and a target price of 1.793 which is +99% from its current price.

Well established network, high market share, promoter push augur well in upcycle: OOMS is a quasi-government entity that has been aggressively competing with the private players such as Shell Oman and Al Maha which were established much earlier. OOMS currently serves about 155k motorists on a daily basis through its 242 filling stations (as of 2021) in the country and 18 internationally. OOMS filling stations are spread across the country both in rural and urban areas. It is currently the market leader with a revenue market share of 42% (in 2021).



Source: Company reports and US Research

OOMS witnessed the fastest addition of filling stations in the last decade compared to peers. It has put up nearly 100 filling stations while others have added less than half of that number. The aggressive addition of filling stations is part of a larger plan by the parent refiner OQ (formerly known as Oman Oil Company). The parent OQ has developed a 2030 strategy in which they have emphasized fuel retailing as one of the three strategic initiatives for growth. The long-term retail strategy has been developed in order to support OQ's margins as OQ supplies the entire fuel requirement of OOMS. As part of the strategy, OQ plans to invest \$1.5bn by 2030 and establish either organically or inorganically about 2500 filling stations with more than 134k b/d of retail volumes. OQ currently has presence in 12 countries and manages over 345 outlets (including 120 of HASS petroleum, which was purchased recently and focused on Africa).

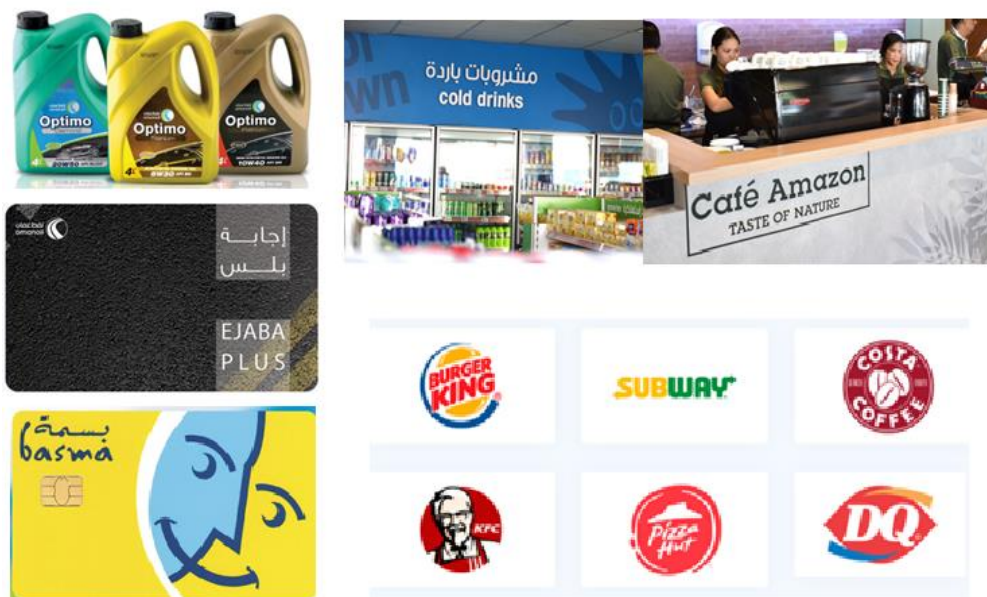
We are extremely positive based on this premise and expected target of OQ to add nearly 7x the current capacities by 2030. We expect OOMS to have significant share of this expanded pie and be the natural winner of this intended footprint growth as can be witnessed recently. The benefit of higher market share resulted in a steep revival of revenue in 2022 (revenue grew by 52% during 9M22 vs same period previous year). OOMS will be the biggest beneficiary of the improvement in volumes which will be aided by the general buoyancy in the economy coupled with rising demand from a young affluent population.

New streams of non-fuel revenue to help retain customers add to topline: Like many other OMCs OOMS has also looked to append their topline with non-fuel revenues. Recent developments in the company and partnerships that it has been building indicate this trend. OOMS has been offering bunkering services at all the seaports for local as well as international vessels. It has signed a cooperation agreement with Singapore based O Bunkering to promote marine bunkering services in the Port of Duqm. MT Bravo which has a capacity of 10,000 Tons has been allocated to provide high quality very low sulfur fuel oil (VLSFO) to vessels embarking from the port.

Lube business is highly commoditized, and margins have been lower than five years ago. However as per management commentary this is a high-volume business and can be sold easier than fuel retailing. With significant addition of filling stations over the next decade, the lube business will bring

in additional source of revenue. The business focuses on building the OOMS brand locally as well as internationally. Recently OOMS opened its 30th LubExpress center in Oman through which it intends to become a one stop shop facility for car servicing. OOMS has ten LubExpress centers internationally in countries such as Kenya, Bahrain, Bangladesh and Egypt.

Another strategy followed to improve the non-fuel retail has been to introduce famous brands into the forecourt. Recently OOMS introduced a South African brand Debonair's Pizza at its Sultan Qaboos University outlet. It also opened the second Steers brand of burgers in the same outlet. In 2018, Thai-based coffee-house Café Amazon was introduced as part of its Quick Service Restaurant (QSR) portfolio. The forecourt also hosts several other facilities such as ATM, pharmacies, Ahlain stores and Car care. Ahlain is a 24x7 convenience store located in 116 outlets across 5 regions providing over 2000 products. OOMS partnered with Omantel to provide the first AI and IOT based Ahlain smart store in the Middle east. OOMS hopes to achieve customer delight by providing a different experience, while making fuel recharge a convenient process.

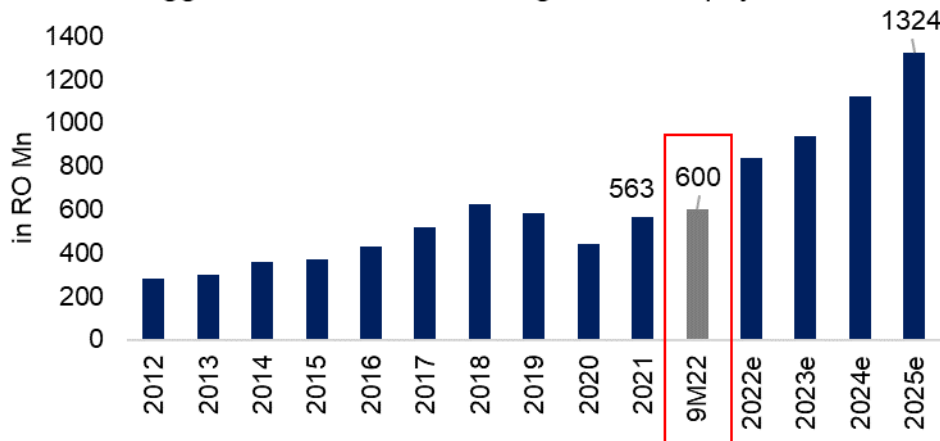


Source: www.oomco.com

OOMS hopes to capture the growing trend in renewable energy and has entered into agreements for EV charging stations and biodiesel in Oman. It has signed an agreement with Wakud LLC to roll out bio diesel fuel to customers in marine and commercial segments. With almost no sulfur, biodiesel is attractive to marine customers looking to abide by IMO standards and specifications for low sulfur fuel.

Revenue to grow fastest amongst peers: OOMS will witness the fastest growth in revenues over our forecast period compared all three OMCs. The market leadership position, quicker pace of adding stations, strategic intent of the promoter/management to grow multiple times over the next decade across geographies combined with demand that will surpass 2019 levels will keep OOMS in a sweet spot during this upcycle. We expect revenue to grow at CAGR 23.8% during the period FY21-25e.

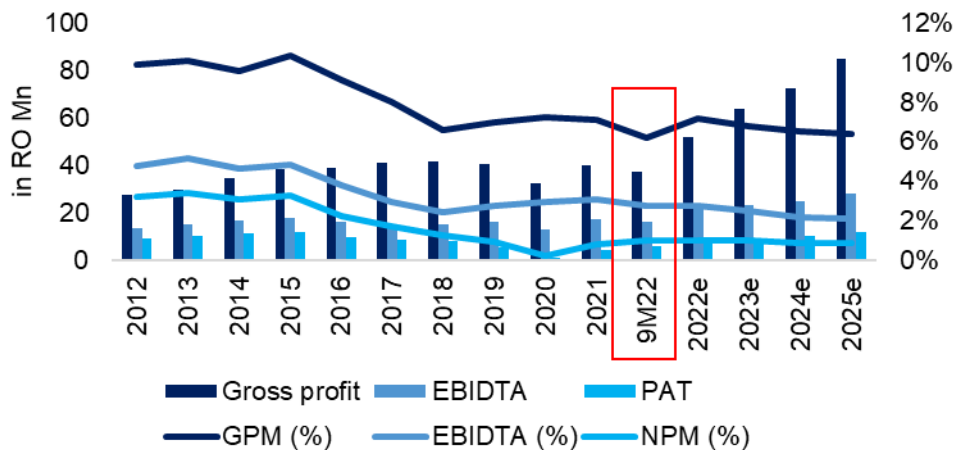
Existing infrastructure, international exposure, aggressive additions will auger well in upcycle



Source: Company reports and US Research

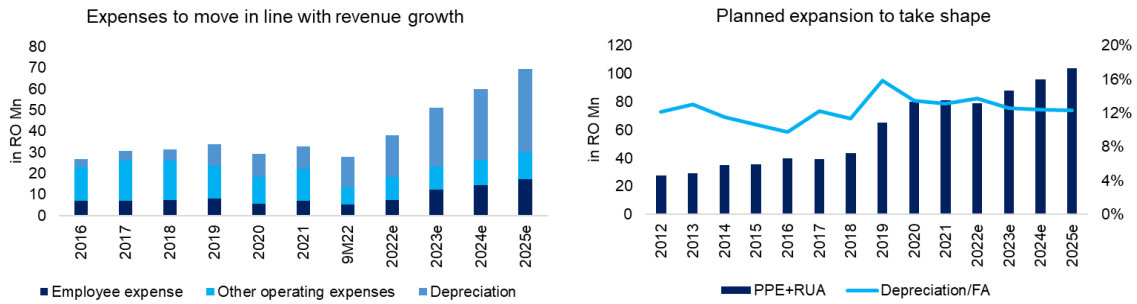
Gross profit and margins to remain stable: We have witnessed the rapid pace of filling stations coming up at a cost that has not affected the gross or EBIDTA margins in the past. We expect the same trend to continue going forward with gross margins holding steady around 6.5-7%, while EBIDTA margins will settle around 2.5%. We expect net margins to stabilise at 1%.

Volume driven profit growth evident



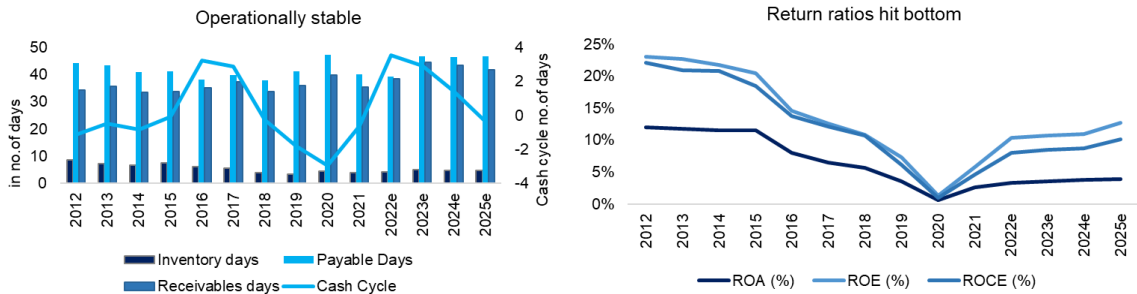
Source: Company reports and US Research

Expenses are a function of revenue growth and will move in line with the topline. Capex plans are likely to continue at the pace witnessed in the last decade in order to achieve the larger goal set by the promoter OQ.



Source: Company reports and US Research

The promoter OQ supplies the entire fuel to OOMS, hence operations are run efficiently and managed with little to no supply disruptions experienced thus far. Both payable and receivable days are maintained around 35-40 days. We expect the cash cycle to revert back to low single digits or negative as witnessed in 2018-21. Volume driven topline will lead to net income touching RO 11.9 mn translating into higher ROEs for the company. We believe the year 2021 to be the bottom and by 2025e ROE will touch 12.8%. With adequate equity reserves and normalized operations, OOMS should be able to pay out dividends in the range of RO 0.060-0.075 over the period 2022-25e. This will translate into a dividend yield of 6.5-8% by 2025e and a payout ratio of 40%.



Source: Company reports and US Research

9M22 update: OOMS reported a good third quarter with revenues increasing by 58.3% for 3Q22 compared to the same period last year. For 9M22 revenue increased by 51.7% to reach RO 597.9mn surpassing the full year revenue of FY21 which was RO 560.6mn. There is a clear trend in revival of demand and volume growth that has ensued. This augurs well for market leaders such as OOMS in this upcycle. OOMS has been the most aggressive player in the OMC segment with a market share of 42% and highest number of filling stations in the country numbering 242. OOMS has 18 filling stations internationally 9 in KSA and 9 in Tanzania which has also contributed to the topline growth. Gross profit for 3Q22 grew by 32.1% compared to same period previous year. Gross margins declined to 5.9% during the quarter compared to the previous levels of about 6%, this has been due to the rise in cost of goods sold by 60% for the quarter which primarily included the higher cost arising from purchasing fuel inventory and establishment of new filling stations. OOMS reported a net income for the 9M22 period at RO 6.08mn surpassing the full year FY21 net profit of RO 4.57mn indicating a YoY growth of 69.2%. EPS for 9M22 stood at RO 0.094. We are extremely optimistic on the growth prospectus of the company based on the robust 9M22 performance.

Our blended DCF- Relative valuation resulted in fair value per share of RO 1.793 for Oman Oil Marketing shares: We have valued OOMS based on a 4-year DCF model. The cost of equity used is 12.8% and the weighted average cost of capital is 12.3%. We are assuming a terminal growth rate of 1%. Based on our assumption we arrive at an enterprise value of RO 107mn for the company, which translates into an equity valuation of RO 117mn or RO 1.867/share. This provides a potential upside of 107% from current levels. At the DCF target price the stock would be valued at FY23 EV/EBIDTA of 4.5x and PE of 12.6x.

OOMS was also valued on a relative basis by comparing with its peers. On a PE basis at 11.5x target PE the stock is valued at RO 1.654/share. This we believe is a modest multiple considering the faster rate of growth expected in the top and bottom line compared to peers. On an EV/EBIDTA we value the company at a target EV/EBIDTA of 4.5x arriving at RO 1.803/share. On a blended basis combining DCF and Relative valuation approaches our target price for OOMS is RO 1.793/share which is 99% higher than the current market price.

We initiate coverage with a **STRONG BUY** rating on Oman Oil Marketing, based on the stupendous volume growth expected from expanded operations and parental support both locally and internationally.

DCF Valuation	2021	2022E	2023E	2024E	2025E	Valuation parameters	
NOPLAT (RO ,000)	5,786	10,357	10,585	10,958	12,861	Risk free rate	6.0%
Depreciation (RO ,000)	10,693	10,831	10,831	11,081	11,888	Equity risk premium	9.0%
Capex (RO ,000)	-12,295	-8,374	-20,000	-20,000	-21,000	Beta	0.76
Change in WC (RO ,000)	-10,862	-9,463	6,294	-2,274	10,642	Cost of equity	12.8%
FCFF (RO ,000)		3,351	7,710	-236	14,391	Cost of debt	3.5%
PV of FCFF (RO ,000)		3,326	6,815	-186	10,085	Corporate tax rate	15.0%
PV of Terminal Value (RO ,000)					90,112	After tax cost of debt	3.0%
Enterprise Value (RO ,000)					110,153	Target debt	5%
Net debt (RO ,000)					-10,375	Target equity	95%
End of service benefits (RO ,000)					111	WACC	12.3%
Value of equity (RO ,000)					120,417	Terminal growth rate	1.0%
No of shares (,000)					64,500		
Value per share (RO)					1.867		
CMP					0.900		
Upside/downside (%)					107.4%		

Target EV/EBITDA Multiple (x)	4.5
EBITDA 2023E (RO ,000)	23,533
Target Enterprise Value (RO ,000)	105,899
Net Debt (RO ,000)	-10,375
Target Equity Value (RO ,000)	116,275
EV/EBITDA Target Price (RO)	1.803
CMP	0.900
Upside/downside	100.3%

PE Valuation	
Target P/E Multiple (x)	12.0
Profit after tax 2023E (RO ,000)	9,279
Target market cap (RO ,000)	111,347
No of shares (,000)	64,500
Value per share (RO)	1.726
CMP	0.900
Upside/downside	91.8%

12M Blended Fair Value per share of RO 1.793

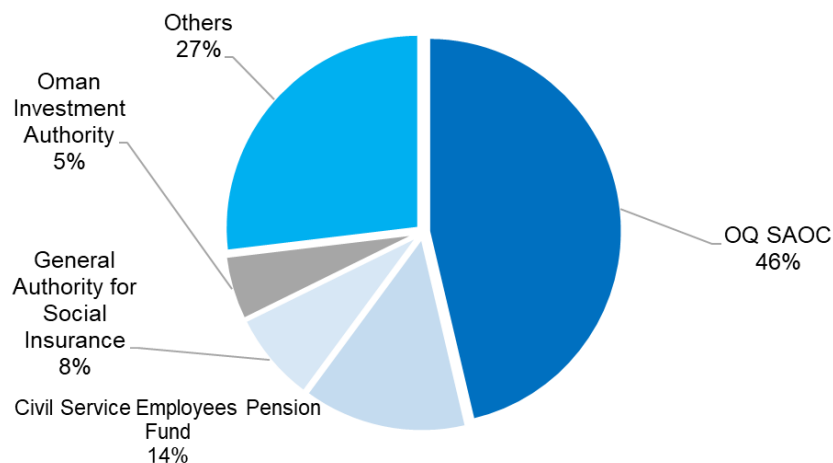
Summary of Valuations	Assigned Weight (%)	Component TP (RO)	Blended Target Price (RO)
DCF	48%	1.867	
EV/EBITDA	25%	1.803	1.793
PE	27%	1.654	
CMP			0.900
Return potential (%)			99.3%
Dividend yield (%)			4.4%
Total return potential (%)			103.7%

Key downside risks to our view: (i) A slow and protracted economic recovery; (ii) slower pace of project execution; (iii) Decrease in oil price

About Oman Oil Marketing Company

Oman Oil Marketing (OOMS) was established in 2003 as an addition to the vertical integration strategy of OQ refineries (erstwhile Oman Oil Company). OQ refineries is the government funded refinery which supplies the entire fuel requirement for OOMS. OOMS is involved in fuel retailing, Direct (bulk) fuel sales to Government and Commercial sectors, Lubricant sales and Aviation fuel supply. The retail segment operates 242 fuel stations and Ahlain stores which provide the non-fuel revenue. Additionally, some of the stations have car wash and lube change centers. While retail contributes to about 72% of the revenue commercial operations add 18% and 10% is derived from the lube sales, bunkering and related activities.

Shareholding pattern of Oman Oil Marketing



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Hilal Ali Saif Al Kharusi	Director	Non-Independent
2	Al Sayyida Rawan Ahmed Al-Said	Deputy Chairperson	Non-Independent
3	Amal Suhail Salim Bahwan Al Mukhaini	Director	Independent
4	Ahmed Tufail Al- Rahman	Director	Independent
5	Saleem Pir Bakhsh Al Raisi	Director	Independent
6	Mohammad Abubakar Al-Ghassani	Director	Independent
7	Moutaz Amur Mohamed Al Riyami	Director	Independent
8	Assilah Zaher Al Harthy	Director	Independent
9	Abdul Kader Darwish Al Balushi	Director	Independent

Source: MSX, US Research

Income Statement (in RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue	583,670	442,209	560,672	837,068	932,059	1,114,436	1,317,778
Other income	2,351	1,992	2,281	2,923	4,213	5,038	5,957
Total Revenue	586,020	444,201	562,953	839,991	936,272	1,119,473	1,323,735
Cost of Goods & Services	545,180	411,885	522,936	787,912	872,605	1,046,707	1,239,016
Gross profit	40,840	32,316	40,016	52,079	63,666	72,766	84,719
Employee benefit expense	7,971	5,739	7,010	7,560	12,172	14,553	17,209
Depreciation	10,356	10,759	10,693	10,831	11,081	11,888	12,846
Other operating expenses	15,521	12,665	15,135	19,740	27,962	33,433	39,533
Other gains	-	-771	-372	1,764	-	-	-
Operating profit	6,991	2,382	6,807	12,184	12,452	12,891	15,131
EBIDTA	16,328	13,141	17,500	23,016	23,533	24,780	27,977
Finance income	-476	-1,170	-1,099	-913	-1,000	-1,000	-1,000
Finance costs	553	2,142	2,098	2,491	1,854	1,196	1,259
Impairment provisions	100	35	76	80	-	-	-
Operating expense	34,097	30,196	33,913	41,615	52,068	60,070	69,847
Profit/Loss Before Tax	6,743	1,348	5,732	10,527	11,599	12,696	14,872
Taxation	1,120	383	1,156	2,105	2,320	2,539	2,974
Net Profit/Loss	5,623	966	4,576	8,421	9,279	10,157	11,898

Balance Sheet (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
PPE	46,496	54,135	56,774	54,890	63,451	71,262	78,323
Right to use asset	18,799	25,821	24,584	24,011	24,369	24,670	25,763
Deferred tax assets	831	1,051	1,143	1,143	1,143	1,143	1,143
Total Non-Current Assets	67,023	81,757	82,501	80,043	88,962	97,074	105,228
Current Inventories	5,651	4,519	6,651	11,258	12,172	14,553	17,209
Trade and current receivables	57,135	40,001	69,693	107,979	121,168	144,877	158,133
Cash and bank balance	26,655	20,501	12,874	50,375	36,284	13,645	18,149
Total current assets	89,441	65,021	89,218	169,612	169,623	173,075	193,491
Total Assets	156,465	146,778	172,171	250,027	258,585	270,150	298,719
Share capital	6,450	6,450	6,450	6,450	6,450	6,450	6,450
Other reserves	2,150	2,150	2,150	2,150	2,150	2,150	2,150
Retained earnings	67,958	64,993	69,569	72,831	78,240	84,526	84,526
Total equity attributable to owners of parent	76,558	73,593	78,169	81,431	86,840	93,126	93,126
Total equity	76,558	73,593	78,169	81,431	86,840	93,126	93,126
Non-current provisions for employee benefits	285	325	280	111	487	582	688
Non-current lease liabilities	13,833	21,218	21,072	22,854	21,977	22,777	23,977
Total non-current liabilities	14,119	21,543	21,351	22,966	22,463	23,359	24,665
Other current provisions	200	200	200	-	200	200	200
Trade and other current payables	60,009	46,927	67,889	101,319	121,715	145,532	172,086
Borrowings, current	578	-	-	40,000	20,000	-	-
Current lease liabilities	3,545	3,797	3,078	3,116	5,494	5,694	5,994
Current tax liabilities	1,455	717	1,352	1,196	1,873	2,239	2,647
Total current liabilities	65,788	51,641	72,650	145,631	149,282	153,665	180,927
Total liabilities	79,907	73,184	94,001	168,596	171,746	177,023	205,592
Total equity and liabilities	156,465	146,778	172,171	250,027	258,585	270,150	298,719

Cash Flow (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
Cash from operations	9,569	14,439	3,383	7,299	24,551	17,767	33,169
Investing cash flow	-8,143	-12,720	-285	-3,461	-14,000	-14,000	-14,000
Financing cash flow	-9,004	-7,873	-3,724	36,500	-24,000	-24,500	-5,000
Change in cash	-7,578	-6,154	-626	37,500	-14,092	-22,638	4,503
Beginning cash	27,233	19,655	13,501	12,875	50,375	36,284	13,645
Ending cash	19,655	13,501	12,875	50,375	36,284	13,645	18,149

Ratio Analysis	2019	2020	2021	2022E	2023E	2024E	2025E
Per share							
EPS (RO)	0.087	0.015	0.071	0.131	0.144	0.157	0.184
BVPS (RO)	1.187	1.141	1.212	1.262	1.346	1.444	1.444
DPS (RO)	0.060	-	0.040	0.040	0.060	0.060	0.075
FCF per share (RO)	0.022	0.027	0.048	0.060	0.164	0.058	0.297
Valuation Ratios							
Market Cap (RO ,000)	63,210	51,084	57,276	58,050	58,050	58,050	58,050
EV (RO,000)	37,134	30,583	44,402	47,675	41,766	44,405	39,901
P/E (x)	10.6	61.4	13.0	6.9	6.3	5.7	4.9
EV/EBITDA (x)	2.3	2.3	2.5	2.1	1.8	1.8	1.4
Price/Book (x)	0.8	0.8	0.8	0.7	0.7	0.6	0.6
Dividend Yield (%)	6.1%	0.0%	4.5%	4.4%	6.7%	6.7%	8.3%
Price to sales (x)	0.11	0.12	0.10	0.07	0.06	0.05	0.04
EV to sales (x)	0.06	0.07	0.08	0.06	0.04	0.04	0.03
Liquidity							
Cash Ratio (x)	0.4	0.4	0.4	0.2	0.3	0.2	0.1
Current Ratio (x)	1.4	1.3	1.2	1.2	1.1	1.1	1.1
Quick Ratio (x)	1.3	1.2	1.1	1.1	1.1	1.0	1.0
Return Ratios							
ROA (%)	3.6%	0.7%	2.7%	3.4%	3.6%	3.8%	4.0%
ROE (%)	7.3%	1.3%	5.9%	10.3%	10.7%	10.9%	12.8%
ROCE (%)	6.2%	1.0%	4.6%	8.1%	8.5%	8.7%	10.1%
Cash Cycle							
Inventory turnover (x)	106	81	94	88	74	78	78
Accounts Payable turnover (x)	9	8	9	9	8	8	8
Receivables turnover (x)	10	9	10	9	8	8	9
Inventory days	3	5	4	4	5	5	5
Payable Days	41	47	40	39	47	47	47
Receivables days	36	40	36	39	45	43	42
Cash Cycle	-2	-3	-1	4	3	1	-0
Profitability Ratio							
Gross Margins (%)	7.0%	7.3%	7.1%	7.2%	6.8%	6.5%	6.4%
EBITDA Margins (%)	2.8%	3.0%	3.1%	2.7%	2.5%	2.2%	2.1%
PBT Margins (%)	1.2%	0.3%	1.0%	1.3%	1.2%	1.1%	1.1%
Net Margins (%)	1.0%	0.2%	0.8%	1.0%	1.0%	0.9%	0.9%
Effective Tax Rate (%)	16.6%	28.4%	20.2%	20.0%	20.0%	20.0%	20.0%
Leverage							
Total Debt (RO ,000)	578	-	-	40,000	20,000	-	-
Net Debt (RO ,000)	-26,076	-20,501	-12,874	-10,375	-16,284	-13,645	-18,149
Debt/Capital (x)	0.1	-	-	6.2	3.1	-	-
Debt/Total Assets (x)	0.0	-	-	0.2	0.1	-	-
Debt/Equity (x)	-0.3	-0.3	-0.2	-0.1	-0.2	-0.1	-0.2

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Oil Marketing Companies

BUY: 12M TP @ 1.066

Valuation Summary (TTM)

Price (RO)	0.868
PER TTM (x)	16.9
P/Book (x)	1.6
P/Sales (x)	0.2
EV/Sales (x)	0.3
EV/EBITDA (x)	7.3
Dividend Yield (%)	4.1
Free Float (%)	32%
Shares O/S (mn)	95
YTD Return (%)	-6%
Beta	0.7

(mn)	OMR	USD	
Market Cap	88	228	
Enterprise value	122	317	
Price performance (%)	1M	3M	12M
Shell Oman Marketing Co S	6%	-4%	-6%
MSX 30 Index	7%	4%	19%
MSX Services Sector Index	2%	-5%	-2%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	1	12	17
Avg Daily Volume (,000)	3	14	19
52 week	High	Low	CTL*
Price (RO)	0.944	0.800	8.5

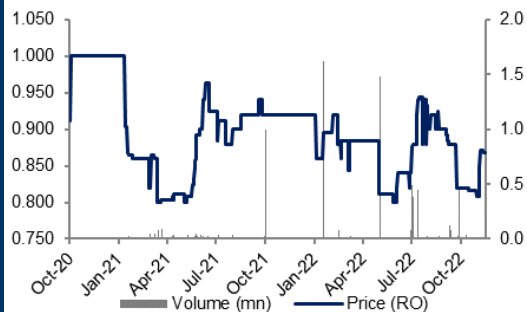
* CTL is % change in CMP to 52wk low

Major shareholders

Royal Dutch Shell Group	48.8%
Civil Pension Fund	9.9%
PASI	9.0%
Others	32.3%

Other details

Exchange	MSX
Sector	Oil&Gas
Index weight (%)	NA



Shell Oman Marketing (SOMS)

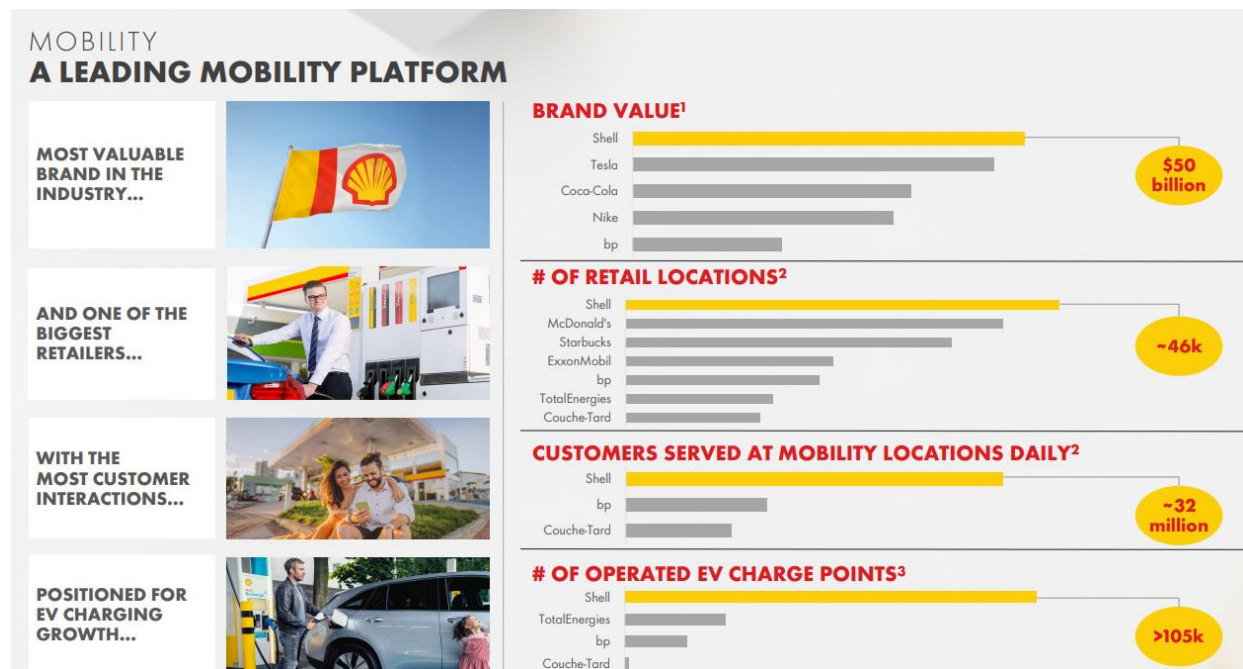
Shell Oman Marketing (SOMS) is the pioneer in fuel retailing in Oman. Backed by a global parentage, SOMS has served the country with the products, technology and customer service that are of global standards across its existence of 64 years. Fuel retailing is emerging from the abyss to reach levels prior to covid. We are witnessing strong signs of volume growth due to normalcy of operation and renewed buoyancy in the economy. We estimate Shell's revenue to grow at 17% CAGR over FY22-25e period. Measured capex, disciplined costs and use of technology will augur well for improved margins going forward. We estimate Shell to achieve FY22-25E EBITDA and net profit CAGR of 10.7% and 20.8% respectively. The low debt, high cash generation and established brand provides adequate cushion to the valuation. We expect SOMS to maintain a dividend pay out ratio of 70-80% as they have done in the past. This will translate into a dividend yield of 6-7% in FY23-25e at current prices. At current prices, the stock is trading at FY22e EV/EBITDA of 5.4x, and P/E ratio of 13.5x. We believe the current valuations do not reflect the expected volume growth and defensive nature of the business. We use DCF valuation method to arrive at a 12M target price of RO 1.066/share offering return potential of 22.8% from current levels. We rate the stock a BUY with target price of RO 1.066.

Strong parentage provides latest technology and brand advantage: Shell global is a world leader in the Oil & Gas segment. This is a major advantage to subsidiaries like SOMS. The latest technologies, product knowledge and operational efficiencies can be easily transferred to the Omani entity. Further, global brands are more favored for the trust in their high quality of products offered and customer service. Management bandwidth and balance sheet support are inherent in the culture of such multinational entities. We derive adequate comfort from this character of SOMS and are confident of the long-term sustainability of operations.

Measured addition of filling stations and focus on profitability: SOMS' focus on profitability rather than market share has worked well in times of stress. Undue strain on the balance sheet, significant cash outflow and additional overheads in operations have been avoided by SOMS over the period. This has helped SOMS maintain the profit per station always above industry levels. Hence, we have witnessed a premium for valuation compared to peers, despite loss of market share.

Valuation: SOMS currently trades at 12.3x FY23E EPS. We expect the company to deliver sustainable EBITDA margins in the range of 3.5% (FY23-25e) and maintain its current balance sheet discipline. We believe the company's shares offer a good mix of capital appreciation and steady stream of dividends. We reinstate our coverage on the stock with 12M weighted average target price of RO 1.066 and rate the stock a BUY. Our target price offers upside potential of 22.8% from current levels.

Strong parentage provides latest technology and brand advantage: Shell Plc the parent organization is a vertically integrated global leader in the Oil & Gas industry. The company is active in the areas of oil exploration, production, refining, transport, distribution, power generation and trading. With operations in over 99 countries and production of 3.7mn bbl/day capacity, it is truly a very well-known brand across the world. The parent has imbibed certain global standards based on its several years of operations which has been transpired to its subsidiaries across the world including Shell Oman. Shell globally manages over 46000 filling stations and serves 32mn customers daily. The operations of Shell in Oman has been since 1958 starting with supply of fuel and later associating with Petroleum Development of Oman (PDO) to build the Mina Al Fahal refinery.



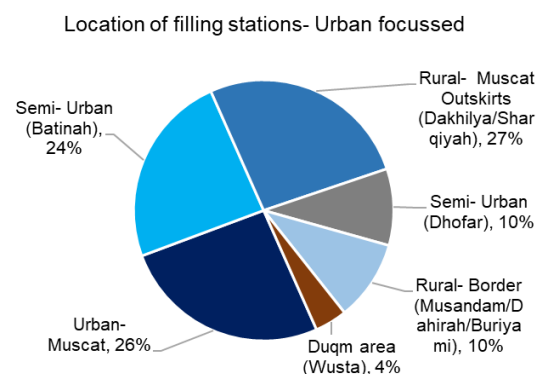
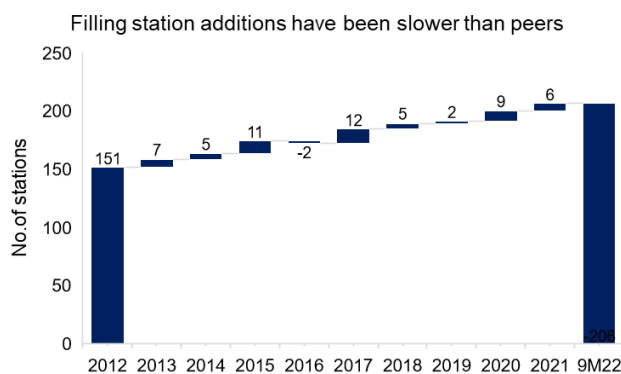
Source: www.shell.com

Having such a large parent comes with several advantages. Latest technologies, product knowledge and operational efficiencies are easily transferred to the Omani entity. Global brands are more favored for the trust in their high quality and customer service. Management bandwidth and balance sheet support are inherent in the culture of such multinational entities. We are confident that Shell Oman will be the pioneer to implement any change in global trends that may occur in future and deliver the latest products to the customers in Oman. There is little doubt on the sustainability of Shell Oman based on its global parentage and legacy of existence in the country.

Consolidating current market share focus on profitability and non-fuel revenue: SOMS installed its first 100 filling stations by 1990, however it has been slow in adding ever since, the 200th station was commission only after 30years in 2020. This has been due to three reasons- Firstly, opening the sector for competition which witnessed Al Maha Petroleum being incorporated in 1993 followed by Oman Oil Marketing in 2003. Secondly, SOMS as a deliberate strategy had been focusing only on the prime locations in the urban regions, while competitors spread out. The measured approach has led to loss of market share, but it has enabled the company achieve profitability consistently over the years even under severe stress. Thirdly, there is significant push

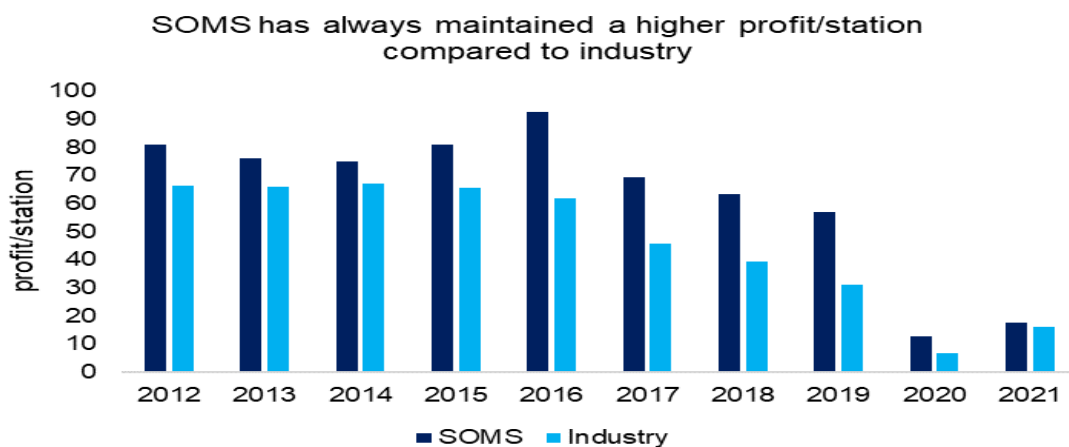
by Shell Global to become zero emission by 2030 which will mean moving into renewable sources such as EVs, biofuel, hydrogen related energy sources.

Globally Shell has taken up a net-zero emissions strategy which will mean reduction of emissions from own operations and from the fuels and other energy products sold to customers by 2030. Shell has declared that they have reached peak production in 2019 and oil production will reduce by 1-2% until 2030. It plans to invest more than \$1 bn every year in low-carbon energy sources such as EVs, hydrogen, biofuels and power generation from wind and solar. This would mean providing renewable energy for 50mn households and operating 2.5mn charging points for EVs, producing 8x more low carbon fuels, increasing the contribution of biofuels and hydrogen in the transport fuels to 10% from 3% currently.



Source: Company reports and US Research

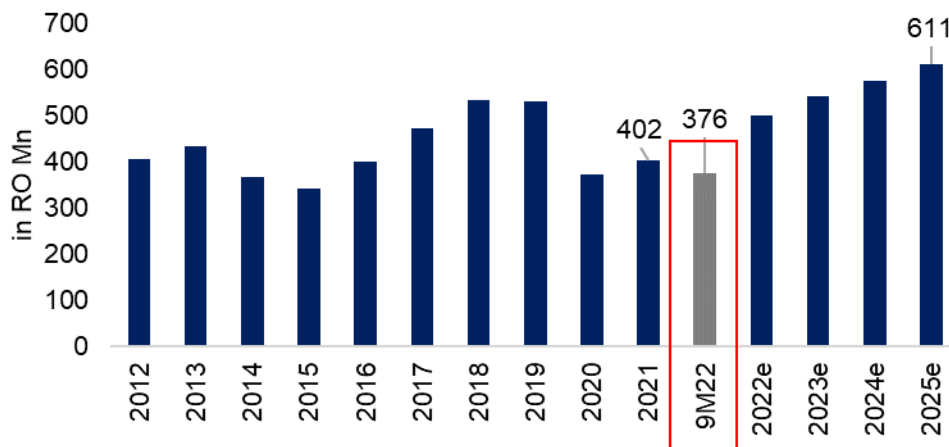
SOMS has followed the global trend to boost their non-fuel revenues such as creating EV charging points, re-furbishing the convenience stores, introducing shell cards and car service facilities. We expect this to work favorably in retaining customers and while diversifying the revenue stream.



Source: Company reports and US Research

Revenue growth to reach pre-covid levels this year as economy revives: SOMS revenues had grown consistently from FY15-19 at a CAGR of 11.8%. We expect on a base case basis a similar range going forward despite the upcoming buoyancy in the economy and additional filling stations. Though aviation doesn't form a major part of the business, we can expect an overall uptick in the segment along with the lubricant's portfolio. We estimate total revenue to reach RO 605mn from the RO 398mn in FY21 a CAGR of 11.02% (FY21-25e).

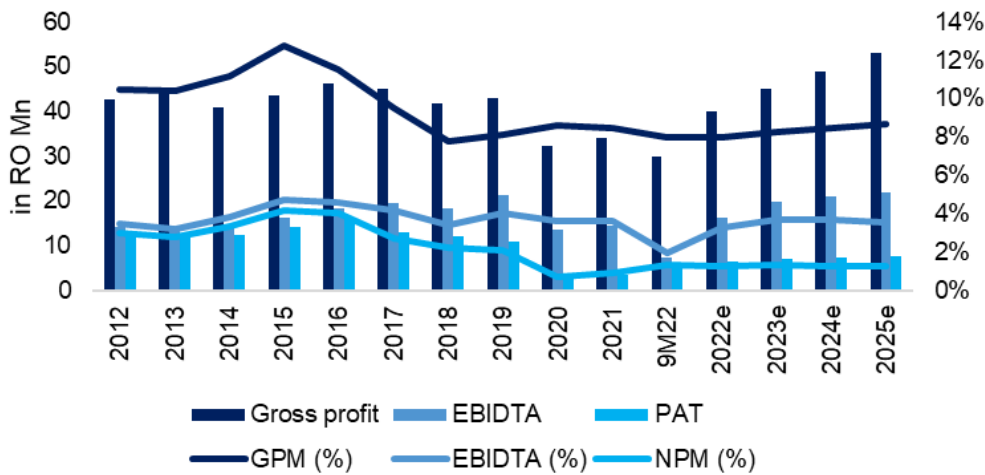
Revenue growth recovers post pandemic



Source: Company reports and US Research

Gross profit and margins to remain stable: Considering the highly regulated nature of the market and fixed margins in the industry, the only item that is internally manageable is the cost. We do not expect significant cost inflation considering the rising use of technology in operations, measured growth in capex and low interest costs. Gross margins have been stable around 8-8.5% since FY19 and we believe they will remain in the same range going forward. Net margins had hit a low of 0.69% in FY21 and we believe that it has bottomed out. Volume driven topline will provide the necessary impetus to the net profit, coupled with discipline in cost which will augur well for the net margins. We expect net margins to settle in the range of 1.2-1.3% going forward.

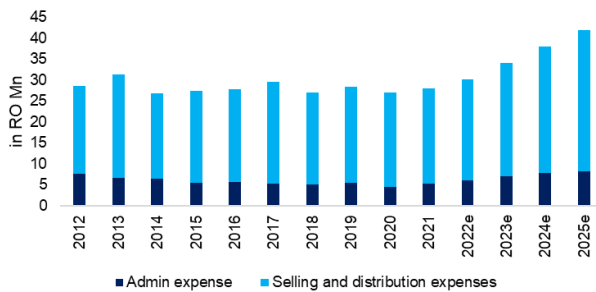
Volume driven topline will enhance profitability



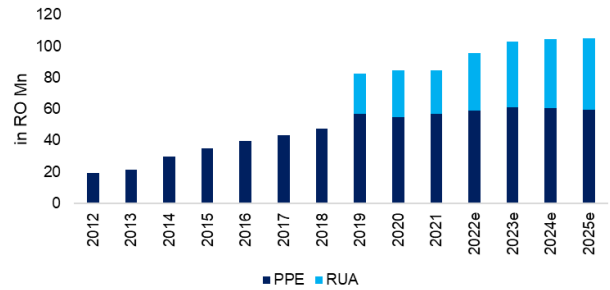
Source: Company reports and US Research

As volume growth precedes, the operating expenses will move along parallel not likely to exceed the budgeted levels. SOMS has not increased capex levels aggressively unlike its peers, and from the management commentary we do not expect it to do so in future as well.

Expenses will move in line with topline

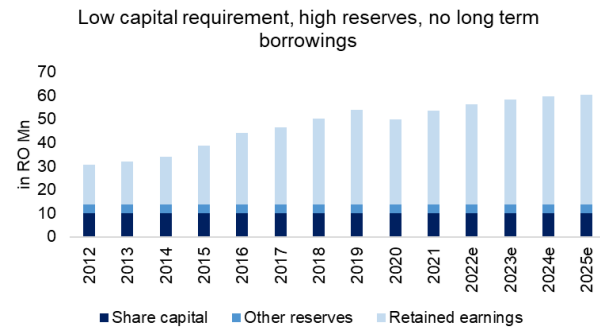
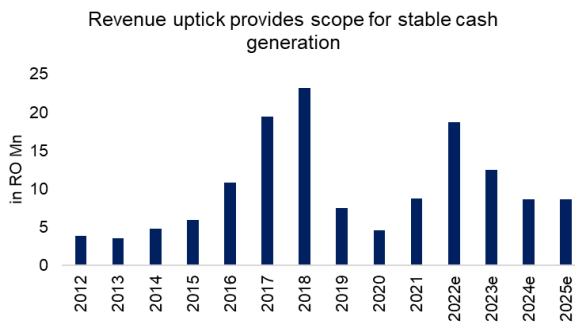


Capex at a measured pace



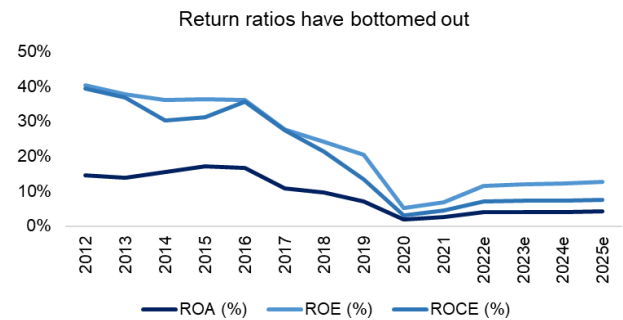
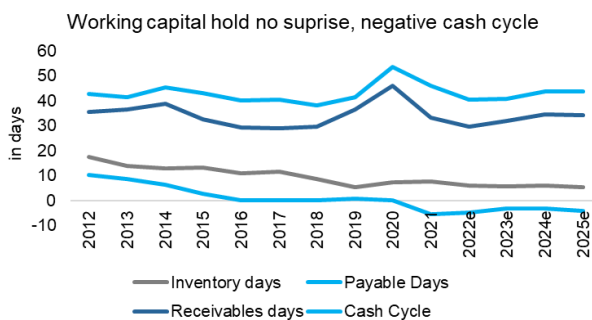
Source: Company reports and US Research

OMCs have a very short or negative cash cycle which makes the business very attractive. With almost zero payment defaults or delays the only factor to build cash is to bolster the volumes. As revenue is bolstered over the next few years, we expect SOMS to return back to cash rich status. SOMS has not infused any fresh equity and has enough accruals to carry the growth prospects and pay dividends.



Source: Company reports and US Research

We expect return ratios to revert from FY22 onwards after hitting a low in FY20. As per our estimates we expect ROE to stabilize at 12%. This will suffice to pay a dividend of RO 0.050-0.070 during FY23-25e translating into a payout ratio of 70-80%. At current prices the SOMS provides a dividend yield of 6-7% over FY23-25e.



Source: Company reports and US Research

Loss of aviation contract: SOMS had received a contract from Oman Air to supply 50% of its fuel requirement in FY19. The company recently announced that this contract will end in December this year. Aviation contributes only 2.5% of the overall revenue currently hence unlikely to have a significant impact on the overall financials of the company. SOMS has however expanded its operations in Duqm by commencing supply of aviation fuel at the Duqm Airport.

9M22 result update: Revenue grew by 32% in 3Q22 compared to the same period the previous year reaching RO 136mn. During the 9M22 period revenue growth came in at 29.6% indicating recovery this year. Gross profit growth was lower at 18% on account of higher inventory costs and higher technology spend. SOMS had in the past purchased inventory at a higher cost as a proactive measure in the event of supply shortages. SOMS also indicated that there has been significant increase in the technology spend and new features to improve customer experience will be launched soon. We find both these expenses are momentary and non-recurring, hence going forward Gross profit growth will be in line with revenue growth. SOMS managed to maintain operating expenses at similar levels to previous year thereby keeping the EBIDA margins around 2.1% for 3Q22 and 2.4% for 9M22. Finance cost witnessed an increase for the quarter due to a short-term borrowing of RO 10mn taken to manage the payables. This is likely to be paid back within the next 12 months. The

decline in Gross margins coupled with higher finance cost offset the gain in topline for the quarter. However, on a 9-month basis the company reported a bottom-line growth of 46% compared to the same period of the previous year. 9M22 EPS came in at RO0.050 and we expect the full year to close with a PAT of RO 6.4mn which would translate into an EPS of RO 0.065.

Our DCF valuation resulted in fair value per share of RO 1.066 for SOMS: We valued SOMS using 4-year DCF model by applying cost of equity of 12.6%, and Weighted Average Cost of Capital of 12.1%. We assumed the cash flows to grow at 1% per annum beyond forecast period. Our valuation resulted in Enterprise value of RO 103 million for the company, which translates to equity valuation of RO 105 million, or RO 1.066/Share. The valuation thus arrived offers upside potential of 20.9% from the current levels. At the DCF target price, the stock would be valued at FY23E EV/EBITDA of 5.17x and P/E of 14.9x.

DCF Valuation	2022E	2023E	2024E	2025E	Valuation parameters	
NOPLAT	8,485	9,205	9,296	9,613	Risk free rate	6.0%
Add: Depreciation	6,398	9,102	10,142	10,577	Equity risk premium	9.0%
Less: capex	-15,500	-15,000	-10,000	-10,000	Beta	0.73
Less: change in WC	-4,738	-44	-653	3,637	Cost of equity	12.6%
FCFF	-5,355	3,263	8,785	13,827	Cost of debt	3.5%
PV of FCFF	-5,316	2,890	6,941	9,747	Corporate tax rate	15.0%
PV of Terminal Value				88,765	After tax cost of debt	3.0%
Enterprise Value (,000)				103,027	Target debt	5%
Less net debt (,000)				-2,665	Target equity	95%
Less minorities & Pension liabilities (,000)				181	WACC	12.1%
Value of equity (,000)				105,511	Terminal growth rate	1.0%
No of shares (,000)				100,000		
Value per share (RO)				1.055		
CMP				0.868		
Upside/downside (%)				21.6%		

We reinitiate coverage with a BUY rating on Shell Oman Marketing Services, based on its potential for revenue growth, renewed focus on profitability leading to improvement in margins, and diversification of business streams.

EV/EBITDA Valuation	
Target EV/EBITDA Multiple (x)	5.5
EBITDA 2023E (RO ,000)	19,931
Target Enterprise Value (RO ,000)	109,623
Net Debt (RO ,000)	-
Target Equity Value (RO ,000)	109,623
EV/EBITDA Target Price (RO)	1.096
CMP	0.868
Upside/downside	26.3%

PE Valuation	
Target P/E Multiple (x)	15.0
Profit after tax 2023E (RO ,000)	7,047
Target market cap (RO ,000)	105,699
No of shares (,000)	100,000
Value per share (RO)	1.057
CMP	0.868
Upside/downside	21.8%

12M Blended Fair Value per share of RO 1.066

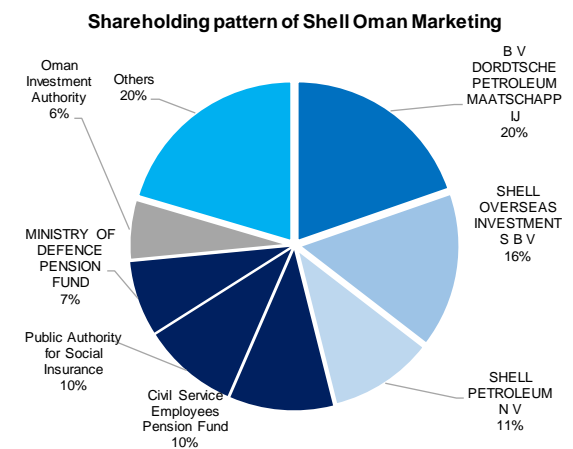
Summary of Valuations	Assigned Weight (%)	Component TP (RO)	Blended Target Price (RO)
DCF	50%	1.055	
EV/EBITDA	25%	1.096	1.066
PE	25%	1.057	
CMP			0.868
Return potential (%)			22.8%
Dividend yield (%)			5.2%
Total return potential (%)			28.0%

Key downside risks to our view: (i) A slow and protracted economic recovery; (ii) Slower than anticipated new site additions; and (iii) prolonged decline in oil price.

About Shell Oman Marketing Services

Operations of Shell in Oman started in 1958 with the first contract from PDO to supply oil to the Mina Al Fahal depot (not yet a refinery then). By 1976, Oman contributed the third largest throughput for a Shell station globally. Shell went on to become the sole supplier of both retail and aviation fuel in Oman till 1990s. A Lube oil blending plant was started in 1982 to produce variety of lubricants using Shell technology and to be sold in its brand name using Shell's network inside and outside Oman. As the country developed, the demand for fuel rose and Shell opened its 100th filling station in 1990. Shell was the first to conceptualize installation of convenience stores alongside the filling stations with the opening of "Select" stores. These were 24hour mid and large format stores that offered customers a quick, easy shopping experience.

Currently SOMS has 206 filling stations across the country with major concentration in the urban areas. The company employs 250 people with 97.6% omanisation. Retail fueling is the major revenue grosser contributing to 90% of the topline, while aviation and the lubricants business adding to the remaining. SOMS has given up market share to new players and created healthy marketplace for fuel retailing in Oman. Currently the company has a revenue market share of 30%. The company has come a long way and has been a vital part of the country's growth. The long association with PDO in the upstream process, well entrenched branding in the downstream retail segment and global parentage makes SOMS one of the most reliable longstanding companies in Oman.



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Walid Hadi	Chairman	Non-Independent
2	Bushra Al Maskari	Director	Non-Independent
3	Asma Humaid Al Ghabshi	Director	Non-Independent
4	Eric Greenlee	Director	Non-Independent
5	Faisal Waheed	Director	Non-Independent
6	Amr Ade	Director	Non-Independent
7	Richard Jory	Director	Non-Independent
8	Shabib Al Darmaki	Director	Independent
9	Sheikh Faisal Al Hashar	Director	Independent
10	Ishaq Al Mawali	Director	Independent
11	Ali Al Kharusi	Director	Independent
12	Juma Al Khamisi	Director	Independent
13	Ghalib Al Busaidi	Director	Independent

Source: MSX, US Research

Income Statement (in RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue	524,826	367,090	398,429	496,552	536,037	569,847	605,202
Other income	6,582	4,927	4,035	4,170	5,415	5,756	6,113
Total Revenue	531,408	372,017	402,464	500,722	541,451	575,603	611,316
Cost of Goods & Services	488,318	339,855	368,390	460,578	496,511	526,676	558,131
Gross profit	43,090	32,162	34,074	40,144	44,940	48,926	53,184
Admin expense	5,545	4,467	5,325	6,032	7,039	7,771	8,253
Selling and distribution expenses	22,899	22,643	22,705	24,129	27,073	30,219	33,622
Operating profit	14,646	5,052	6,044	9,982	10,829	10,936	11,309
EBIDTA	21,431	13,477	14,589	16,380	19,931	21,079	21,886
Finance income	-47	-26	-20	-22	-20	-20	-20
Finance costs	1,780	2,001	1,797	2,417	2,559	2,410	2,297
Operating expense	30,177	29,085	29,807	32,557	36,650	40,380	44,152
Profit/Loss Before Tax	12,913	3,077	4,267	7,587	8,290	8,546	9,032
Taxation	1,926	493	656	1,133	1,244	1,282	1,355
Net Profit/Loss	10,987	2,584	3,611	6,454	7,047	7,264	7,678

Balance Sheet (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
PPE	57,097	54,882	56,843	59,157	61,172	60,486	59,601
Right to use asset	25,249	29,755	27,986	36,569	41,912	44,021	45,469
Total Non-Current Assets	82,523	84,706	84,878	95,990	103,184	104,607	105,170
Current Inventories	7,202	6,646	8,551	6,854	8,937	8,427	8,372
Trade and current receivables	60,296	33,901	39,222	41,890	52,792	56,409	58,075
Cash and bank balance	7,513	4,607	8,796	16,780	12,061	8,426	8,698
Total current assets	75,011	45,154	56,569	65,524	73,790	73,262	75,145
Total Assets	157,534	129,860	141,447	161,514	176,974	177,869	180,315
Share capital	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Other reserves	3,587	3,587	3,587	3,587	3,587	3,587	3,587
Retained earnings	40,318	36,302	39,913	42,767	44,814	46,078	46,756
Total equity	53,905	49,889	53,500	56,354	58,401	59,665	60,343
Provisions for employee benefits	271	301	280	181	181	181	181
Borrowings	6,000	6,667	3,334	-	-	-	-
Non-current lease liabilities	22,463	25,770	24,216	33,158	37,721	39,619	40,922
Total non-current liabilities	28,854	32,789	27,868	33,339	37,902	39,800	41,103
Trade and other current payables	59,851	40,003	52,890	49,123	62,064	64,518	69,766
Borrowings, current	11,000	3,333	3,333	18,333	13,333	8,333	3,333
Current lease liabilities	1,923	3,375	3,063	3,279	4,191	4,402	4,547
Current tax liabilities	1,746	282	667	1,076	1,083	1,151	1,223
Total current liabilities	74,775	47,182	60,079	71,820	80,671	78,404	78,869
Total liabilities	103,629	79,971	87,947	105,159	118,573	118,204	119,972
Total equity and liabilities	157,534	129,860	141,447	161,514	176,974	177,869	180,315

Cash Flow (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E
Cash from operations	13,194	18,057	18,441	5,697	13,546	14,344	19,595
Investing cash flow	-13,822	-2,541	-5,334	-7,478	-7,480	-4,980	-4,980
Financing cash flow	-15,092	-18,422	-8,918	9,249	-7,559	-7,410	-7,297
Change in cash	-15,720	-2,906	4,189	7,984	-4,719	-3,635	272
Beginning cash	23,233	7,513	4,607	8,796	16,780	12,061	8,426
Ending cash	7,513	4,607	8,796	16,780	12,061	8,426	8,698

Ratio Analysis	2019	2020	2021	2022E	2023E	2024E	2025E
Per share							
EPS (RO)	0.110	0.026	0.036	0.065	0.070	0.073	0.077
BVPS (RO)	0.539	0.499	0.535	0.564	0.584	0.597	0.603
DPS (RO)	0.066	-	0.036	0.045	0.050	0.060	0.070
FCF per share (RO)	-0.006	0.155	0.131	-0.018	0.061	0.094	0.146
Valuation Ratios							
Market Cap (RO ,000)	118,500	95,200	91,200	86,800	86,800	86,800	86,800
EV (RO,000)	127,987	100,593	89,071	88,353	88,072	86,707	81,435
P/E (x)	7.5	31.7	22.7	13.4	12.3	11.9	11.3
EV/EBITDA (x)	6.0	7.5	6.1	5.4	4.4	4.1	3.7
Price/Book (x)	1.5	1.6	1.5	1.5	1.5	1.5	1.4
Dividend Yield (%)	5.6%	0.0%	3.9%	5.2%	5.8%	6.9%	8.1%
Price to sales (x)	0.22	0.26	0.23	0.17	0.16	0.15	0.14
EV to sales (x)	0.24	0.27	0.22	0.18	0.16	0.15	0.13
Liquidity							
Cash Ratio (x)	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Current Ratio (x)	1.0	1.0	0.9	0.9	0.9	0.9	1.0
Quick Ratio (x)	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Return Ratios							
ROA (%)	7.0%	2.0%	2.6%	4.0%	4.0%	4.1%	4.3%
ROE (%)	20.4%	5.2%	6.7%	11.5%	12.1%	12.2%	12.7%
ROCE (%)	13.3%	3.1%	4.4%	7.2%	7.3%	7.3%	7.6%
Cash Cycle							
Inventory turnover (x)	67	49	48	60	63	61	66
Accounts Payable turnover (x)	9	7	8	9	9	8	8
Receivables turnover (x)	10	8	11	12	11	11	11
Inventory days	5	7	8	6	6	6	5
Payable Days	41	54	46	40	41	44	44
Receivables days	37	46	33	30	32	35	34
Cash Cycle	1	0	-5	-5	-3	-3	-4
Profitability Ratio							
Gross Margins (%)	8.1%	8.6%	8.5%	8.0%	8.3%	8.5%	8.7%
EBITDA Margins (%)	4.0%	3.6%	3.6%	3.3%	3.7%	3.7%	3.6%
PBT Margins (%)	2.4%	0.8%	1.1%	1.5%	1.5%	1.5%	1.5%
Net Margins (%)	2.1%	0.7%	0.9%	1.3%	1.3%	1.3%	1.3%
Effective Tax Rate (%)	14.9%	16.0%	15.4%	14.9%	15.0%	15.0%	15.0%
Leverage							
Total Debt (RO ,000)	17,000	10,000	6,667	18,333	13,333	8,333	3,333
Net Debt (RO ,000)	9,487	5,393	-2,129	1,553	1,272	-93	-5,365
Debt/Capital (x)	1.7	1.0	0.7	1.8	1.3	0.8	0.3
Debt/Total Assets (x)	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Debt/Equity (x)	0.2	0.1	-0.0	0.0	0.0	-0.0	-0.1

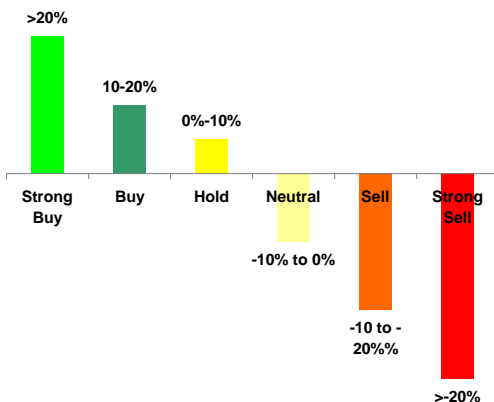
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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