

Fuel retail

Shell Oman Marketing

Fuel revenue disappointing, NFR growth compensates partially: Shell Oman Marketing (SOMS) reported 1Q24 fuel revenue at RO 121.6mn which was 4.9% lower than our estimate of RO 127.9mn and lower by 1% YoY. Non Fuel revenue which has consistently improved post rationalization and refurbishment of stores held at RO 1.09mn, higher by 2.8% YoY and 13.1% QoQ. Together the gross revenue reported by SOMS during the quarter was RO 122.7mn which was flattish compared to the same period last year and lower by 6.2% QoQ. While we understand there is a seasonality involved in the business and the first quarters are generally softer than others, the reported revenue for 1Q24 has been a bit disappointing. Fuel revenue is the lowest since 1Q22 despite 9 new stations being added over the period. We believe this reflects the lower throughput in the newer stations and overall lull in demand across the industry.

Margins hold relatively well: SOMS reported steady margins during the quarter with operating expenses moving in line with the revenue. The previous quarter was marred by unexpected increase in cost due to the organization restructuring exercise undertaken by the management and investments made into future proofing the business. We do not expect this to continue and margins are likely to remain steady going forward. Management has also mentioned that it would be reversing provisions made on some receivables which may positively impact the income in 2024. SOMS has not been an aggressive player in the fuel retailing business with the slowest pace of station additions. The focus has clearly moved towards improving per station margins rather than growing the topline. This we believe is aided in the net margins during 1Q24 and the company has managed to report a higher than expected net profit of RO 827k compared to our estimate of RO 778k.

Expect improvement in profitability in 2024, retain TP of RO 0.950 per share: We believe the fuel retailing sector is moving through a transformative phase and changes in technology and variations in demand are affecting the business model. This is further accentuated by inflationary pressures and stress in margins. The variability of profits is on account of these changes and we believe this would continue till the new normal is established. We are optimistic on the improvement in profitability in 2024. However, the topline could remain languid considering the current trend in demand and higher supply from competition. Hence we conservatively estimate a top line growth of 5.6% for 2024 and a bottom line growth of 1.4%. At current price the stock trades at 2024 PE of 22.7x and we retain our HOLD rating with target price of RO 0.950 per share.

in RO '000	1Q24	1Q23	YoY (%)	4Q23	QoQ (%)	2024e	2023	YoY (%)
Revenue	121,623	122,791	-1.0%	129,881	-6.4%	548,722	519,466	5.6%
Other income	1,090	1,060	2.8%	964	13.1%	4,425	4,188	5.7%
Total revenue	122,713	123,851	-0.9%	130,845	-6.2%	553,147	523,654	5.6%
Total expenses	-121,886	-122,858	-0.8%	-131,035	-7.0%	-549,493	-520,051	5.7%
Profit after tax	827	993	-16.7%	-190	-535.3%	3,655	3,603	1.4%
NPM	0.7%	0.8%		-0.1%		0.7%	0.7%	
EPS (RO)	0.008	0.010	-16.7%	-0.002	-535.3%	0.037	0.036	1.4%

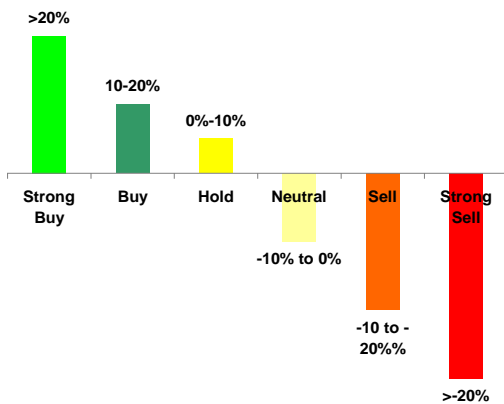
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Rating Criteria and Definitions

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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