

MHAS/Q22008

### Al Maha Petroleum Products Marketing (SAOG)

Company	Al Maha Petroleum
Ticker	MHAS
Established	Jul. 2004
Industry	Oil Marketing
Share outstanding (000)	6,900
Mkt Cap. (RO '000)	127,402

Current Price (RO)	18.464
52-week high (RO)	19.041
52-week low (RO)	9.800
52-week volume (000)	2,055
2007 stock performance	57.4%
YTD stock performance	38.0%

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### Al Maha Petroleum Products Marketing:

*Empowered by Retail & Commercial business growth.*

#### Highlights:

- Company achieves 34% increase (y-o-y) in sales during the first half of 2008 to RO. 104.3 million.
- Retail business still the major contributor for Al Maha. High sales volume during H1 2008 owing to increased fuel stations presence during the period from July 2007 to June 2008.
- The Bulk of Infrastructure, Tourism and real estate projects taking place augur well for the company's bulk supply business.
- Aviation business continued to record low volumes during the period due to substantial drop in Gulf Air operations at Muscat International Airport.
- Gross margins for H1 2008 under pressure at 10.1% (H1 2007: 10.9%).
- Net profit reported solid growth of 40.9% (y-o-y) during the first half to RO. 4.4 million.
- Al Maha signs lubricants supply agreement with Towell Auto Centre to supply TOTAL products exclusively across all its outlets in the country.
- Construction of the new head office completed in May 2008 with 3-stories ready to be leased to Blue City for an initial 3-year period at annual rent of RO. 352.8k as per their agreement.
- Outlook for Oil marketing activities positive for year 2008 due to the expansionary nature of economy (increase vehicle imports, mega infrastructure development).

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## Year 2007 Highlights

### Operations

The Retail business continues to serve as a major source of revenue for the company. The recent past has seen the company making aggressive strides in this area via its site development plans. With over 150 stations, the company boasts the largest fuel network in the country. The growth in the Retail business is powered primarily from increased vehicle presence on the roads pertaining to retail and institutions. The Commercial Business is another area which witnesses strong growth owing primarily to the developments in infrastructure. The Aviation segment has been under pressure for the current year with the reduction in Gulf operations resulting in loss of volumes. The segment is characterized by yearly tendering.

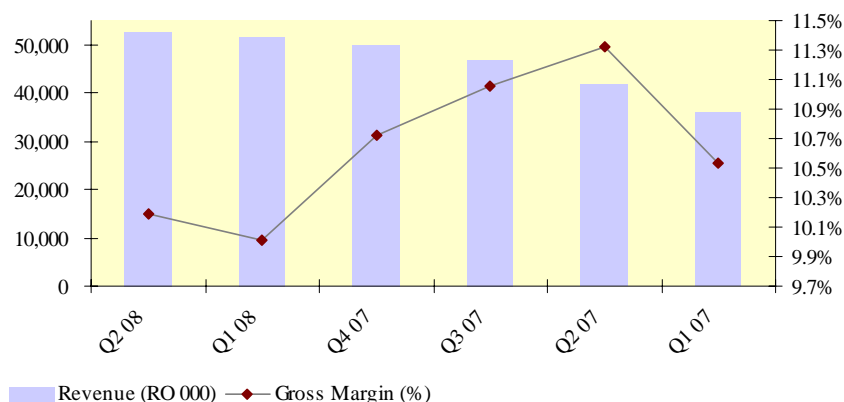
### Revenues & Profitability: An overview

Total revenues for the half year reached **RO 104.3 million**, up by **33.9%** compare to **RO 77.9 million** registered in the corresponding period last year. This growth was attributable primarily to high sales volume in retail segment as well as the supply of bulk fuels to large infrastructure, tourism and other projects. The recent three months ended with a revenue achievement of RO. 52.6 million.

The Company has managed to achieve a gross profit of **RO. 10.5 million** relative to **RO 8.5 million** accomplished the same period last year. However, the company's H1 2008 margins have eroded due to the general inflationary pressures faced by the country. The gross margin stands at **10.1%** which is lower to 10.9% reported in H1 2007.

Net profit after tax for the six months ended on 31<sup>st</sup> June 2008 was attractive at **RO 4.37 million**, a growth of **40.9%**.

Quarterly Revenues vs. Gross Margins: Al Maha



Company increased its market share

### Major Developments

On 12 of May 2008 Al Maha Petroleum Products Marketing Co. has signed lubricants supply agreement with Towell Auto Centre LLC. Based on the agreement, Al Maha will purchase lubricants (TOTAL trademark lubricants) from Towell Auto Centre LLC in order to market such products through its network of filling stations and to its industrial customers. Al Maha will supply Total engine oils products, including the Total Quartz range of SL grade premium petrol engine oils, exclusively in all their outlets. Total engine oils offer customers greater mileage, cooler engine and extended engine life.

TOTAL Lubricants Middle East is part of the worldwide TOTAL Group: the fourth-largest, publicly traded integrated Oil & Gas Company in the world, the largest in Europe and the second largest in the Middle East. Present for over 25 years, TOTAL Lubricants is a leading player in the Middle East market.

### Outlook

The need for fuel is expected to remain high as the Oman economy is in its growth phase with several developmental projects underway. Al Maha strives to increase its fuel station presence for the current and future years as part of its pursuit to develop the retail business. Key developments would likely open opportunities for site additions.

The key participants in Oil marketing sector have all been affected by Gulf Air exit. However, new initiatives to develop tourism and attract tourists to the country would be likely growth proponent for the sector. The commercial segment is expected to capitalize from the fuelling demands of the current large scale projects in Oman. The company newly formed lubricants distribution relationship with Total Lubricants would help support the company development plans in this segment. Al Maha would also benefit from the 3-year lease contract with The Blue City which would yield annual rent of RO. 325K with the contract slated to begin in 2008.

Year 2008 is expected to yield good growth for Al Maha Petroleum with the top line expected to increase to nearly **RO. 212.7 million**. We expect the company to achieve lower margins during the current year owing to the inflationary pressures prevalent. The company is expected to make **RO. 8.98 million** in net profits by end of year 2008. We expect the company to maintain its solid track record of dividends going forward.

## Valuation & Recommendation

### Peer Group: Oil Marketing

In the sector, Al Maha is poised to be the second largest company in terms of aggregate assets at RO. 57.4 million. The company is likely to maintain its market share (based on aggregate sales) in the sector despite the solid competition.

Company	Assets* (RO 000)	Sales* (RO 000)	Mkt. Share (%)	Net Profit* (RO 000)	ROA (%)	ROE (%)
Al Maha	57,400	212,726	30%	8,981	15.6%	29.8%
Oman Oil Mktg.	44,302	177,853	25%	7,058	15.9%	32.4%
Shell Oman Mktg.	70,883	330,018	46%	12,866	18.2%	47.3%
<b>Total/Avg</b>	<b>172,585</b>	<b>720,597</b>	<b>100.0%</b>	<b>28,905</b>	<b>16.6%</b>	<b>36.5%</b>

The sector P/E works out to around **15.4 times**. At the current market price Al Maha's 2008 based P/E works out to nearly **14.2 times**, the lowest in the sector. The company offers adequate levels of dividend yields.

Company	CMP (RO)	Share Cap. (RO 000)	Mkt. Cap (RO 000)	EPS	P/E	Div. Yld (%)
Al Maha	18.464	6,900	127,402	1.302	14.2	4.33%
Oman Oil Mktg.	1.600	6,450	103,200	0.109	14.6	3.75%
Shell Oman Mktg.	2.251	10,000	225,100	0.129	17.5	5.55%
<b>Average</b>					<b>15.4</b>	<b>4.55%</b>

### Discounted Cash Flow

We have used the Discounted Cash Flow approach to determine the fair value of Al Maha stock. The operations of the company are assumed to grow in a reasonable manner in the near future. The Weighted Average Cost of Capital (WACC) for the exercise is presumed to be **12.0%** with a stock Beta of **0.67**. The perpetual growth rate is assumed at **3.5%** per annum. The below table summarized the details of the exercise:

#### DCF Exercise: Al Maha Petroleum

Present Value of FCF (RO 000)	34,880
Present Value of Terminal Value (RO 000)	108,490
Total Ent. Value (RO 000)	143,370
Adjustments (Debt etc.)	924
Value of Equity (RO 000)	142,446
No. of Shares (000)	6,900
<b>Fair Value/Share (RO)</b>	<b>20.644</b>

Based on our assumptions, the per share fair value of the Al Maha stock at the end of 2008 works out to **RO. 20.644**. The 2008E P/E is around 15.8 times at the fair value. The stock is still offering **12.0%** upside potential for the current year. As a result we recommend our investors to **accumulate** the stock as the expansion opportunities in the economy and the oil marketing sector shows potential signs for growth.

#### Al Madina Research: Rating Methodology

Rating	Explanation
Buy	Capital gain of >20% to the CMP over the year.
Accumulate	Capital gain in the range of 10%-20% to the CMP over the year.
Hold	Capital gain in the range of 0%-10% to the CMP over the year.
Reduce	Capital likely to depreciate in the range of 0%-10% to the CMP over the year.
Sell	Capital likely to depreciate >10% to the CMP over the year.

Financial Ratios: Al Maha Petroleum	2012E	2011E	2010E	2009E	2008E	2007A	2006A	2005A
<b>Valuation</b>								
EPS (RO)	2.15	2.01	1.84	1.60	1.30	1.14	0.68	0.54
P/E (x)	8.7	9.3	10.1	11.6	14.3	16.3	27.3	34.1
BV/S (RO)	7.82	6.87	6.01	5.17	4.36	3.77	3.03	2.70
PBV (x)	2.4	2.7	3.1	3.6	4.3	4.9	6.1	6.9
SPS (RO)	42.08	40.07	37.81	34.68	30.83	29.13	20.58	15.78
P/SPS (x)	0.4	0.5	0.5	0.5	0.6	0.6	0.9	1.2
Share Capital (RO 000)	6,900	6,900	6,900	6,900	6,900	6,000	6,000	6,000
<b>Dividend Policy</b>								
Div/share (RO)	1.20	1.20	1.15	1.00	0.80	0.40	0.40	0.35
Div. Yld (%)	6.5%	6.5%	6.2%	5.4%	4.3%	2.2%	2.2%	1.9%
Payout (%)	55.8%	59.8%	62.4%	62.3%	61.5%	35.0%	58.7%	64.3%
<b>Profitability</b>								
ROE (%)	27.5%	29.2%	30.7%	31.0%	29.8%	30.3%	22.5%	20.2%
ROA (%)	17.5%	17.9%	18.2%	17.6%	15.6%	14.7%	12.0%	10.9%
OPM (%)	5.7%	5.6%	5.4%	5.2%	4.7%	4.4%	3.8%	3.8%
NPM (%)	5.1%	5.0%	4.9%	4.6%	4.2%	3.9%	3.3%	3.5%
<b>Activity</b>								
A/c Recv. Turnover (x)	12.4	12.4	12.3	12.0	11.6	11.4	10.8	9.1
A/c Pay. Turnover (x)	9.2	9.1	9.0	8.4	8.0	8.7	8.8	8.5
Inventory Turnover (x)	93.0	93.0	91.0	87.0	96.0	86.8	73.7	84.2

Source: Al Madina Research

Income Statement: Al Maha Petroleum (RO 000)	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Revenue	94,663	123,497	174,795	212,726	239,317	260,855	276,507	290,332
Cost of sales	(82,984)	(109,665)	(155,715)	(190,603)	(214,308)	(233,466)	(247,446)	(259,847)
<b>Gross profit</b>	<b>11,679</b>	<b>13,832</b>	<b>19,081</b>	<b>22,124</b>	<b>25,009</b>	<b>27,390</b>	<b>29,061</b>	<b>30,485</b>
Other income	431	661	405	561	699	717	677	677
(Loss)/profit on sale of property, plant and equipment	7	(40)	(23)	(20)	(18)	(15)	(10)	(10)
Depreciation	(1,204)	(1,196)	(1,415)	(1,601)	(1,777)	(1,874)	(1,949)	(2,023)
Selling & administration expenses	(5,727)	(6,613)	(7,637)	(7,679)	(7,778)	(7,878)	(7,963)	(8,013)
Distribution expenses	(1,622)	(1,932)	(2,743)	(3,340)	(3,781)	(4,135)	(4,341)	(4,529)
<b>Result from operating activities</b>	<b>3,564</b>	<b>4,712</b>	<b>7,667</b>	<b>10,045</b>	<b>12,354</b>	<b>14,205</b>	<b>15,474</b>	<b>16,587</b>
Finance income	98	144	167	151	158	166	173	180
Finance charges	(105)	(108)	(77)	(58)				
Share of (loss) profit of operational venture	125	(108)	50	75	75	100	100	100
<b>Profit before income tax</b>	<b>3,682</b>	<b>4,640</b>	<b>7,808</b>	<b>10,213</b>	<b>12,587</b>	<b>14,471</b>	<b>15,746</b>	<b>16,866</b>
Income tax expense	(413)	(552)	(945)	(1,232)	(1,519)	(1,747)	(1,902)	(2,037)
<b>Net profit for the year</b>	<b>3,268</b>	<b>4,088</b>	<b>6,863</b>	<b>8,981</b>	<b>11,068</b>	<b>12,724</b>	<b>13,845</b>	<b>14,829</b>

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