

Qatar Fuel Company (Woqod)

May 3, 2011
 CMP: QR 252
 Target price (Dec '11): QR 261

- Revenue growth of (+c24%, YoY) in 2010 after a decline of (-c18%, YoY) in 2009, was in line with our expectations.
- The company would benefit from the recent increase in prices of petroleum products in Qatar. Improvement in cash flows (Profits up by +c23% in 2010), healthy cash position (cQR 2.4 bn.; Q1 2011) and support from Qatar Petroleum gives leverage to pursue expansion plans.
- Based on our EPS estimates for 2011 the stock is currently trading at forward PE of c9.0x. We increase our target price to cQR 261 per share and recommend buying at lower levels.

Overview: Revenue (+c3% v/s BM estimates) and profit (+c0.25% v/s BM estimates) for 2010 has been in line with our estimates. Increase in volume of petroleum products along with higher prices and stable economic environment has been helping the revenue growth.

March 2011 result update: Revenues for the quarter ended March 2011 stood at cQR 2.28 billion (+c4% QoQ, +c38% YoY). Net income for Q1 2011 reached cQR 295 million (+c23% QoQ, +c6 % YoY). The net income in Q4 2010 was impacted on account of increase in provisions for litigation and impairment losses. However, we expect margins to move in a narrow range and remain stable on account of fixed tariff regime.

Increased prices of petroleum products during Q1 2011 would fuel in revenue growth and profits during 2011: Prices for Diesel (contributes c50-60% to the overall refined products sales) increased by c+43%, Super & Premium petrol prices saw a jump of c21% & 25% in the beginning of the year. On back of these increased prices we expect revenue to grow by c+26% and EBITDA +c8% during 2011. We expect margins to remain in a stable range going forward.

QR per litre	Old	New	% increase	% volume cont.
Super 97 Octane	0.80	1.00	25%	23%
Premium	0.70	0.85	21%	18%
Diesel	0.70	1.00	43%	59%
Kerosene	0.70	0.80	14%	0%

Source: Company report & Bank Muscat research

Investing in building infrastructure and looks to expand in other countries: As highlighted in our initiation report, Woqod aims to set up 50 to 75 petrol stations within Qatar over next few years. The Management indicated that 12 petrol stations are currently under construction phase and 4 petrol stations are in tendering process. The company has also announced its intention to open two new service centres and aims to leverage on its recent acquisition of Qatar Technical Inspection. Company is in foray for international expansion into Africa and other Middle East countries. It has signed distributors for lubricants in UAE and Iraq. The second phase of building pipeline infrastructure for transportation of Jet fuel is as per schedule. We do not see any evidence of stalling activity and expect company to benefit from these developments. The company plans to incur capital expenditure of cQR 950 million during 2011e.

Outlook: We expect the revenue for the current year (December 2011) to reach cQR 9.6 billion (+c26%, compared to FY 2010) and EPS to reach cQR 28.1 per share. Based on our EPS estimate for 2011E and 2012E the company is currently trading at PE multiple of c9.0x and c8.8x respectively. We increase our target price to cQR 261 per share on back of recent developments and recommend buying at lower levels as the company appears to be fairly valued at current levels.

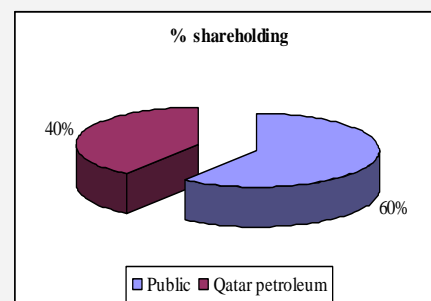
Recommendation

Hold

Stock Details

Exchange / Code	QFLS
Bloomberg Code	QFLS
Equity Capital	QAR 415.8 mn
Face Value	QAR 10
52-Week H/L	261/130.2
Market Cap	QAR 10.5 bn

Shareholding Pattern



Shantanu Sarkari
 Shantanu@bankmuscat.com
 971-42222267 (Ext: 206)

Disclosure

The author(s) certifies(y) that the opinion(s) on the subject security (ies) or issuer(s) and any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report. We also certify that neither the analyst nor his/her spouse or dependants (if relevant) hold any beneficial interest in the security (ies) mentioned in this report.

Disclaimer

This report is not directed to, or intended to or use by, any person or entity who is a citizen of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject BankMuscat (SAOG) to any registration or licensing requirements within such jurisdiction.

This report is provided for information purposes only. The report is based on information generally available and is deemed reliable but no assurance is given as to its accuracy or completeness. BankMuscat (SAOG) is not accountable for any decision based on the contents of this report. The investor will indemnify BankMuscat and its directors, officers, employees and staff against any loss or damage or other liabilities (including costs), which they may suffer as a result of reliance on such reports. Neither the information nor the opinions contained are to be construed as an offer to buy and sell securities mentioned above. This report is not to be relied upon in substitution for the exercise of independent judgment. Investors should judge the suitability of the securities to their needs.

BankMuscat makes no representation that the preparation or distribution of this report is in compliance with the legal requirements or regulations of any jurisdiction, and it disclaims all liability in case the preparation or distribution of this report is found to be non-compliant with any such legal requirements or regulations.

BankMuscat (SAOG), may to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of these securities referred to in this report, perform services for or solicit business from such issuers, and/or have position or effect transactions in the securities or option thereon. In addition, it may make markets in the securities mentioned in the material presented in the report. BankMuscat (SAOG) may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which they are based, before the material is published. BankMuscat (SAOG) may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the companies mentioned in this report.