US$3.76bn	96.20%	US$14.74mn
Market Cap.	Free Float	Avg. Daily Value traded

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Aldrees Petroleum & Transport

Margin revision remains the key

Neutral

Price Target (SAR): 150.0

Current (8th April 2025): 141.0
Upside/Downside: 6.4% above current

Valuation Multiples	24A	25E	26E
P/E (x)	41.7	34.6	30.5
P/B (x)	9.5	8.4	7.2
ROE (%)	24.9	25.7	25.5

Major Shareholders	% Ownership
No substantial shareholders (over 5%)	

Price Performance	1M	3M	YTD
Absolute	4.8%	8.8%	17.3%
Relative to TASI	9.1%	15.3%	23.4%

Financial Summary

(SARmn)	2024	2025E	2026E	2027E
Revenue	19,289	26,092	29,938	33,711
Revenue growth	30.0%	35.3%	14.7%	12.6%
Gross profit	811	1,001	1,141	1,291
Gross margin	4.2%	3.8%	3.8%	3.8%
EBITDA	1,103	1,264	1,416	1,574
EBITDA margin	5.7%	4.8%	4.7%	4.7%
Net profit	338	408	463	538
Net margin	1.8%	1.6%	1.5%	1.6%
EPS	3.38	4.08	4.63	5.38
DPS	2.00	2.00	2.00	2.69
Payout ratio	59.2%	49.1%	43.2%	50.0%
EV/EBITDA	10.8x	9.4x	8.4x	7.5x
P/E	41.7x	34.6x	30.5x	26.2x
RoE	24.9%	25.7%	25.5%	25.8%

Source: Company data, Al Rajhi Capital

Aldrees Petroleum continued its growth trajectory in FY24, with revenues increasing by 30.0% y-o-y to SAR 19,289mn while the bottom line jumped by 20.4% y-o-y to SAR 338mn. The company managed to add a whopping 200 stations in FY24, which led to total volume growth of 19.3% y-o-y. To put things into context, in the past three years, the company, on average, has managed to add ~102 stations per annum. Apart from this, the increase in revenues was also driven by a 53.3% hike in diesel prices at the start of FY24, which had a significant impact, as diesel makes up 39.8% of the total volume mix. The petroleum product margins are fixed by the regulators, and any increase in gross profitability is usually derived from increase in sales volume. Aldrees' gross profitability increased by 19.1% y-o-y, which was in line with their volume growth. The company follows prudent cash management policies, having significant investments in Sukuk, which further supported the bottom-line growth.

Going forward, Aldrees is targeting to achieve ~2,000 stations by 2030. Aldrees operates in a fragmented market which provides significant room to continue its expansion spree. The aggressive expansion strategy is also supported by the recent regulations requiring significant CAPEX to modernize the fuel stations. Remaining conservative, we have assumed 150 station additions p.a. till FY27e and assume Aldrees to reach a total 1,840 stations by FY30. Consequently, we expect the total fuel volume for the company to increase at a 5-year CAGR of ~13%. Apart from organic growth, Aldrees also provides exposure to any upward revision in petroleum margins as the current margins are well below the regional peers. We believe that a hike in margins, especially for petrol, is due, as the last revision was way back in FY18. Since then, persistent inflation and increased CAPEX requirements make a strong case for upward revision in margins. An increase of 1 halala in petrol margin increases our FY26E profit/valuation by 19/15% respectively. Similarly, a 1 halala increase in diesel margin increased FY26E profit/valuation by 13.4/11.4% respectively.

The stock is currently trading at a high P/E of 41.7/34.6x based on FY24/FY25E earnings. To arrive at the fair value, we incorporate 3 scenarios, including 1) the current margin scenario, 2) a 6 halalas hike in petrol margin, and 3) a 6 halalas hike in diesel margin. Assigning weights to each scenario, we arrive at our fair value of SAR 150/sh, providing an upside of 6.4% to the last close. Hence, we turn Neutral on the stock and recommend buying on dips, as the margin increase scenario provides significant upside.

Fragmented market to support aggressive expansion strategy: The company has achieved its initial target of adding ~1,000 stations before the set time. Going forward, Aldrees is targeting to achieve ~2,000 stations by 2030. Aldrees operates in a fragmented market with small private players making up ~65.2% of all petrol stations. This provides significant room for Aldrees, the market leader, to continue its expansion spree. Historically, the company has managed to increase its market share from ~6.5% at the end of FY21 to ~10.5% as of FY24 end. The aggressive expansion strategy is also supported by the recent regulations which allow only qualified operators to run a fuel station coupled with significant CAPEX requirements to modernise the fuel stations. This is not feasible for small players operating on thin margins, resulting in massive shutdowns with the gap being filled by existing players. Hence, the current market environment is favourable for Aldrees to continue adding petrol stations. Remaining conservative, we have assumed 150 station additions p.a. until FY27E and assume Aldrees to reach a total of 1,840 stations by FY30E. Consequently, we expect the total fuel volume for the company to increase at a 5-year CAGR of ~13%.

Margin story provides significant upside: Aldrees also presents an opportunity for massive growth on the margin front. Since the issuance of new regulations, including the increased CAPEX requirements, speculation has been rife over an expected increase in petroleum margins. The current margins are well below the regional peers. We believe that a hike in margins, especially for petrol, is due, as the last revision was way back in FY18. Since then, persistent inflation and increased CAPEX requirements make a strong case for upward revision in margins. In addition, the annual hikes in diesel prices also supports the theory of an eventual increase in diesel margins. Our back-of-the-hand calculation indicates that an increase of 1 halala in petrol margins results in an upside of 19.2% to our FY26E earnings and an impact of 15.2% to our DCF-based valuation. Similarly, an increase of 1 halala in diesel margins provides an upside of 13.4% to our FY26E earnings and an impact of 11.4% to our DCF-based valuation. Below is the sensitivity table:

Figure 1 **Impact of 1 halala increase in margin**

Impact of 1 halala increase in margin	FY26E	Valuation
Petrol	19.2%	15.2%
Diesel	13.4%	11.4%

Source: Company Data, Al Rajhi Capital

Valuations: The stock is currently trading at a high P/E of 41.7/34.6x based on FY24/FY25E earnings. Elevated P/E is justified as the market is incorporating some of the upside from likely upward margin revision. Based on the current petroleum margins, we value Aldrees using an equal weight given to DCF and PE-based relative valuation. Our revised DCF-based TP, using 2.5% terminal growth and 8.7% WACC, is SAR 107/sh, while our PE-based TP, based on FY25E EPS, is SAR 122/sh, assuming a multiple of 30x. Thus, the equally weighted TP stands at SAR 115/sh, providing a downside of 18.4% to the last close.

Figure 2 **Base Valuation assuming no margin hike**

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (RO)
DCF	107	50%	53
Relative Valuation (PE)	122	50%	61
Fair Value (SAR)		**100%**	**115**
CMP (SAR)			141
Upside/(Downside)			-18.4%

Source: Company Data, Al Rajhi Capital

We highlight that there is no clarity on timing and quantity of margin increase. We assume 2 additional scenarios: 1) a 6 halalas hike in petrol margin, and 2) a 6 halalas hike in diesel margin. We assign weights to each of these scenarios to arrive at our fair value of SAR 150/sh, providing an upside of 6.4% to the last close. Hence, we turn Neutral on the stock and recommend buying on dips, as the margin increase scenario provides significant upside even at current levels. Below is the summary of our valuation:

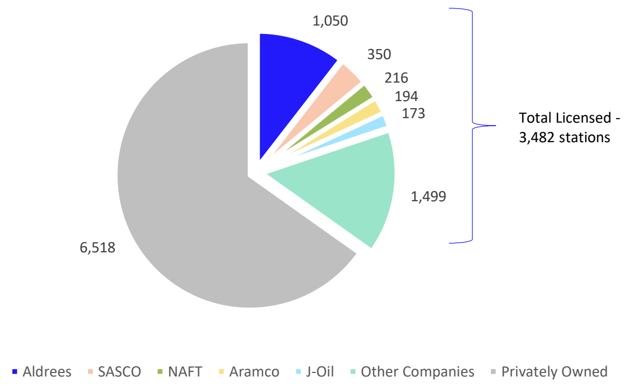
Figure 3 **Blended Valuation assuming margin hikes**

Methodology	Fair Value (SAR)	Weightage	Weighted value per share (RO)	Upside/Downside to Current Price
Current Scenario	115	60%	69	-18.4%
Petrol margin hike by 6 halalas	207	35%	72	46.7%
Diesel margin hike by 6 halalas	181	5%	9	28.4%
Fair Value (SAR)			**150.0**	
CMP (SAR)			141.0	
Upside/(Downside)			6.4%	

Source: Company Data, Al Rajhi Capital

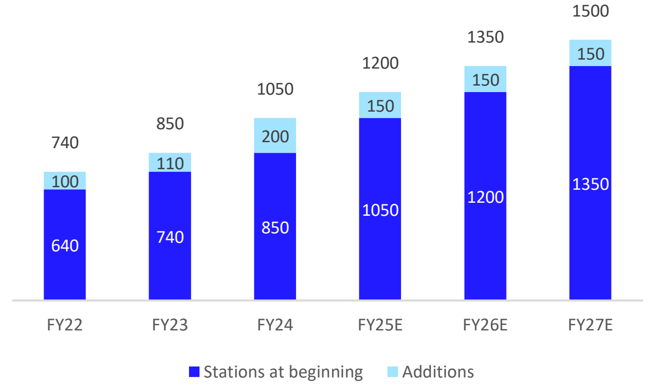
Key downside risks include: i) Slower than expected ramp-up in new fuel stations; ii) Slowdown in station addition; iii) Significant decline in throughput per station; iv) Further regulatory changes that could impact capex requirements for stations; v) Delay in margin hike and vi) An increase in competition that could impact market share growth as well as profitability of the company.

Figure 4 **Gas stations Kingdom wide (KSA)**



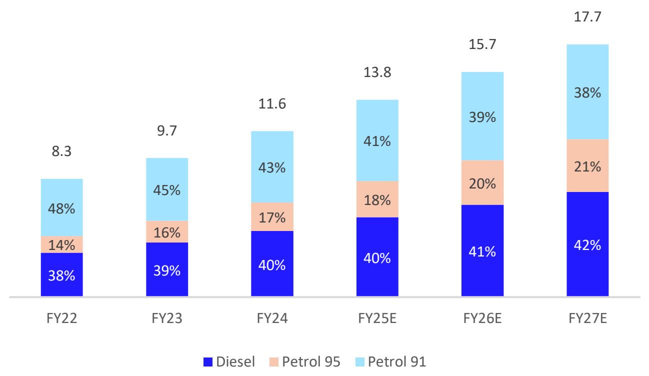
Source: Bloomberg, Al Rajhi Capital

Figure 5 **Total Stations and additions**



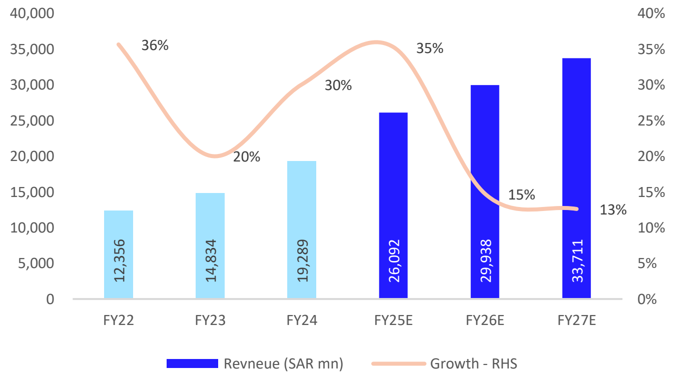
Source: Company Data, Al Rajhi Capital

Figure 6 **Volume Mix (tn ltr)**



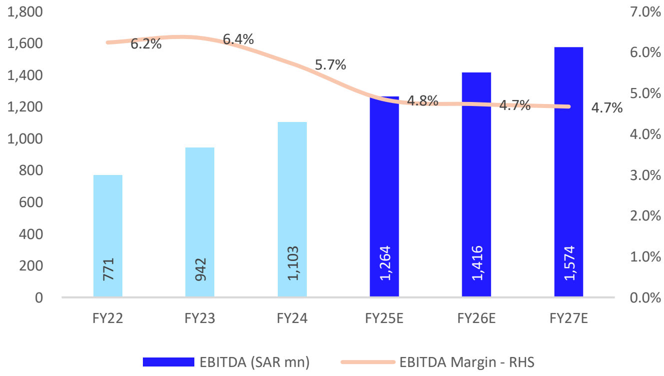
Source: Bloomberg, Al Rajhi Capital

Figure 7 **Revenue trend over the years**



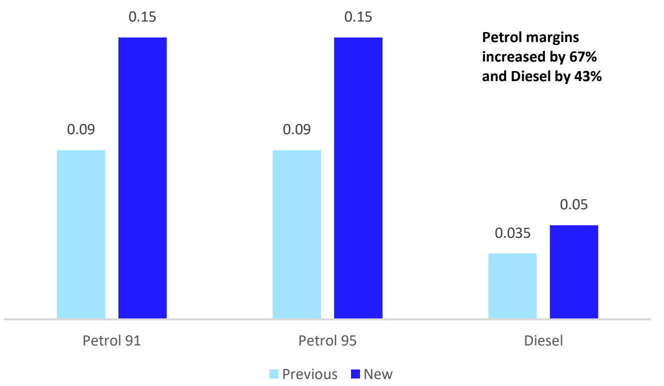
Source: Company Data, Al Rajhi Capital

Figure 8 **EBITDA trend over the years**



Source: Bloomberg, Al Rajhi Capital

Figure 9 **Margin hike in FY18**



Source: Company Data, Al Rajhi Capital

Financials

Figure 10 **Income Statement**

Income Statement (SAR mn)	2024	2025E	2026E	2027E
Sales	19,289	26,092	29,938	33,711
y-o-y growth	*30.0%*	*35.3%*	*14.7%*	*12.6%*
Cost of Sales	(18,477)	(25,091)	(28,797)	(32,420)
y-o-y growth	*30.6%*	*35.8%*	*14.8%*	*12.6%*
Gross Income	**811**	**1,001**	**1,141**	**1,291**
y-o-y growth	*19.1%*	*23.4%*	*14.0%*	*13.2%*
margins	*4.2%*	*3.8%*	*3.8%*	*3.8%*
Employee Costs	(236)	(313)	(359)	(405)
Selling and distribution expenses	(5)	(5)	(6)	(6)
Administrative expenses	(57)	(65)	(75)	(84)
Operating Income	**535**	**639**	**723**	**817**
y-o-y growth	*22.3%*	*19.5%*	*13.1%*	*13.1%*
margins	*2.8%*	*2.4%*	*2.4%*	*2.4%*
Investments and other	20	27	27	27
Financing Expense	(210)	(251)	(277)	(295)
Income from Affiliate	2	2	2	2
Net income before tax	**346**	**418**	**474**	**552**
Zakat & Tax	(8)	(10)	(11)	(13)
tax rate	*2.4%*	*2.4%*	*2.4%*	*2.4%*
Net Income	**338**	**408**	**463**	**538**
y-o-y growth	*20.4%*	*20.6%*	*13.6%*	*16.3%*
margins	*1.8%*	*1.6%*	*1.5%*	*1.6%*
EPS	3.38	4.08	4.63	5.38
DPS	2.00	2.00	2.00	2.69

Source: Al Rajhi Capital estimates

Figure 11 **Balance sheet**

Balance Sheet (SAR mn)	2024	2025E	2026E	2027E
Cash & Cash Equivalents	242	582	733	953
Receivables, Net	522	707	811	913
Prepaid expenses and other	627	627	627	627
Inventory	257	349	401	451
Total Current Assets	**1,648**	**2,265**	**2,572**	**2,944**
Property and equipment	2,122	2,427	2,702	2,944
Right of Use Assets	4,163	4,559	4,915	5,236
Total Non-Current Assets	**6,795**	**7,506**	**8,147**	**8,720**
Total Assets	**8,443**	**9,771**	**10,718**	**11,664**
Liabilities and Equity				
Short-term Debt & Leases	570	820	970	1,120
Trade Payable	1,801	2,475	2,840	3,198
Accrued expenses and other liab.	806	806	806	806
Total Current Liabilities	**3,177**	**4,101**	**4,616**	**5,124**
Long-Term Debt & Leases	3,628	3,824	3,993	4,162
Others	159	159	159	159
Total Non-Current Liabilities	**3,787**	**3,983**	**4,152**	**4,321**
Total Liabilities	**6,964**	**8,084**	**8,768**	**9,445**
Total Equity	**1,479**	**1,687**	**1,950**	**2,219**
Minority Interest	**0**	**0**	**0**	**0**
Total Owners Equity	**1,479**	**1,687**	**1,950**	**2,219**
Total Liabilities and equity	**8,443**	**9,771**	**10,718**	**11,664**

Source: Al Rajhi Capital estimates

Figure 12 **Key Ratios**

Ratios	2024	2025E	2026E	2027E
ROCE	25%	26%	25%	26%
ROA	4%	4%	5%	5%
ROE	25%	26%	25%	26%
Asset turnover	2.4x	2.9x	2.9x	3.0x
P/E	42.2x	35.0x	30.8x	26.5x
EV/EBITDA	10.8x	9.4x	8.4x	7.5x
P/BV	9.6x	8.5x	7.3x	6.4x
Dividend yield	1.4%	1.4%	1.4%	1.9%

Source: Al Rajhi Capital estimates

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