



**US\$1.500bn** Market cap  
**100%** Free float  
**US\$3.512mn** Avg. daily volume

Target price **85.00** +13% over current  
Current price **75.00** as at 2/8/2022

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Existing rating

**Underweight** **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2021	2022E	2023E
Revenue	9,110	13,060	15,187
Revenue growth	83.1%	43.4%	16.3%
Gross profit	451	543	650
Gross margin	5.0%	4.2%	4.3%
EBITDA	666	751	877
EBITDA margin	7.3%	5.8%	5.8%
Net profit	177	193	268
Net margin	1.9%	1.5%	1.8%
EPS	2.36	2.58	3.58
DPS	1.50	1.55	2.15
Payout ratio	63.6%	60.0%	60.0%
EV/EBITDA	14.4x	12.8x	10.9x
P/E	31.8x	29.1x	21.0x
RoE	17.8%	18.0%	22.7%

Source: Company data, Al Rajhi Capital

## AIDrees Petroleum

### Q2: Earnings miss; TP revises to SAR85/sh.

Aldrees reported Q2 top-line at SAR2,988mn (largely in line with our estimate), up by 7.5% q-o-q, mainly driven by a gain in the Petroleum division revenues, offsetting weak revenues of the Transport division. The Petroleum segment revenues (~98% of total) rose ~8% q-o-q, mainly driven by the increased number of stations and thereby higher fuel sales volume amid flat fuel prices. However, the Transport segment's revenues declined ~7% q-o-q, largely impacted by the reduction in sales of Saudi grains amid the Ukraine crisis, and overall slower activity due to the Ramadan season in Q2. Despite a healthy top-line, gross and operating profits remained mostly flat, slightly below our estimates. Accordingly, the corresponding margins came in 20-30bps lower than our expectations, which could be attributable to product mix change (the Transport division has higher gross margins while the Petroleum division's margin remains mostly fixed at the gross level). Further, the company incurred ~SAR6.3mn losses from an investment against SAR7.8mn gains on investment last quarter. Overall, net profit was reported at ~SAR46mn (-26% q-o-q), missing our estimate.

Going forward, we remain positive on the company, mainly due to i) its aggressive expansion plans (100 new stations annually; target to reach 1,000 stations by 2025), ii) growing market shares (6.98% in Q2 2022 vs 5.68% in Q2 2021) amid relatively lower penetration (~13.7% as of Q2 2022) of the organized segment in fuel station, iii) ability to pass on the higher diesel prices. However, we see a couple of headwinds for the company in the form of likely weak performance of the Transport division amid lower incoming ships due to the ongoing Russia-Ukraine conflict, losses of investment, and rising G&A expenses amid the Saudization pressure. Post Q2 earnings miss, we revise our target price to SAR85.0/sh. (SAR90.0 earlier) but remain "Overweight" on the stock.

Figure 1 Aldrees Q2 2022 results

(SAR mn)	Q2 2022	Q1 2022	Q2 2021	Q2 2020	ARC Est.	q-o-q	y-o-y	% ch vs 2020	vs ARC
Revenue	2,987.6	2,780.1	2,173.2	719.3	2,894.0	7.5%	37.5%	315.4%	3.2%
Gross Profit	136.5	136.2	103.9	46.0	141.8	0.2%	31.4%	196.6%	-3.7%
G. margin	4.6%	4.9%	4.8%	6.4%	4.9%				
Op. profit	83.4	84.2	63.6	7.4	87.7	-1.0%	31.1%	1030.8%	-4.9%
Op. margin	2.8%	3.0%	2.9%	1.0%	3.0%				
Net profit	45.9	62.4	36.0	14.4	59.3	-26.4%	27.5%	219.1%	-22.5%
Net margin	1.5%	2.2%	1.7%	2.0%	2.0%				

Source: Company data, Al Rajhi Capital.

**Valuation and risks:** We value Aldrees using an equal mix given to DCF, and PE-based relative valuation. Our DCF-based TP, using 2% terminal growth and 8.2% WACC, is ~SAR88/share, while PE-based TP, based on 27x FY 2022/23 EPS, is SAR83/share. Thus, equal-weighted TP stands at SAR85/sh (earlier SAR90/share). We remain "Overweight" on the stock.

Key downside risks to our valuations include a) slower than expected ramp-up in new fuel stations b) delay in new stations maturing could impact margins and profitability of the company c) regulatory changes could impact capex requirement and the capital structure of the company d) increase in competition could impact the revenue and profitability of the company.

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