AlDrees Petroleum
Oil and Gas – Industrial
ALDREES AB: Saudi Arabia
03 February 2022

Al Rajhi Capital الراجحي المالية

US$1.576bn	100%	US$4.529mn
Market cap	Free float	Avg. daily volume

Target price	90.00	14.2% over current
Current price	78.80	as at 02/2/2022

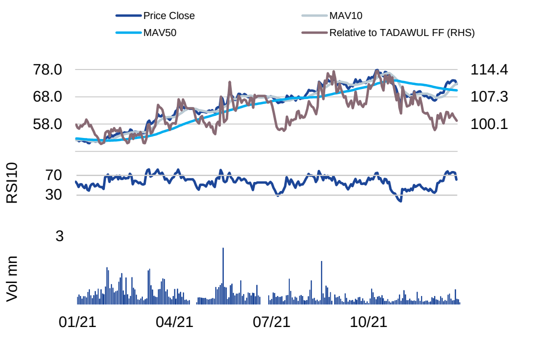
Research Department
Mazen AlSudairi
Tel +966 11 836 5468, alsudairim@alrajhi-capital.com

Existing rating

Underweight	Neutral	Overweight

Overweight

Performance



Source: Bloomberg

Earnings

(SAR mn)	2021A	2022E	2023E
Revenue	9,110	10,612	11,962
Revenue growth	83%	16%	13%
Gross profit	451	509	564
Gross margin	5%	5%	5%
EBITDA	666	748	855
EBITDA margin	7%	7%	7%
Net profit	177	209	256
Net margin	2%	2%	2%
EPS	2.36	2.79	3.41
DPS	1.50	1.60	1.95
Payout ratio	64%	57%	57%
EV/EBITDA	13.0x	12.1x	11.1x
P/E	33.4x	28.2x	23.1x
RoE	17.8%	19.3%	21.4%

Source: Company data, Al Rajhi Capital

AlDrees Petroleum

Capacity expansion to drive growth

Aldrees Q4 2021 top-line increased 75% y-o-y mainly due to higher fuel price (please note that since the gross margins are fixed, higher fuel prices don't benefit the company). The gross profit increased 21% y-o-y and 9% q-o-q but was below our expectations of SAR134mn, while the operating income increased 25% y-o-y and 14% q-o-q. Overall, net profit at SAR54mn came below our estimates of SAR58mn, mainly due to lower revenue compared to our forecasts. The overall gross margins diluted 220bps y-o-y to 4.9%, as cost of goods sold increased by 79% y-o-y. However, the margins improved 30 bps q-o-q. The company's market share stood at c.6%, in terms of number of stations, with more than 85% of the market being dominated by unorganized players. Aldrees has aggressive expansion plans to increase the number of stations to 1,000 by 2025e. Given the relatively lower penetration of the organised segment in fuel station, we see strong potential for growth. We also expect capex requirement to increase, as cost for modernization of stations increases; this is expected to create barriers to entry for new players. This in turn should benefit market leaders such as Aldrees, as it leads to consolidation in the industry. Growth in the transportation segment could face short term challenges, due to delay in the delivery of new vehicles, owing to constraints in supply. However, the segment will benefit, as schools reopen and school buses start operating. Saudization requirement will affect the whole sector, which in turn could give advantage to Aldrees. We also feel that the company has sufficient pricing power to pass on increase in costs, due to inflation. Overall, we increase our target price of the company to SAR90 per share, from the earlier target price of SAR83 per share, but maintain our rating at overweight.

Figure 1 Aldrees Q4 2021 earnings summary

(SARmn)	Q4 2021	Q4 2020	Q3 2021	% chg y-o-y	% chg q-oq	ARC Estimates
Revenue	2,620	1,497	2,556	75%	3%	2,694
Gross Profit	129	106	118	21%	9%	134
Gross Margin	5%	7%	5%	NA	NA	5%
Operating Profit	84	67	73	25%	14%	88
Net Profit	54	40	47	37%	14%	58

Source: Company data, Al Rajhi Capital

Valuation and risks: We continue to remain bullish on Aldrees as the company has strong expansion plans, though in the near term the margins are likely to remain volatile. However, this is expected to stabilize, as the new stations progresses. We value Aldrees using equal mix given to DCF, and PE based relative valuation. Our DCF based TP, based on 2% terminal growth and 8.28% WACC, is SAR91/sh, while PE based TP, based on 32x FY 2022e EPS, is SAR89/Sh. thus equal weighted TP stands at SAR90/sh. We remain "overweight" on Aldrees.

Key downside risk to our valuations:

1. Slower than expected ramp-up in new fuel stations
2. Delay in new stations maturing could impact margins and profitability of the company
3. Regulatory changes could impact capex requirement and the capital structure of the company
4. Increase in competition could impact the revenue and profitability of the company.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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Contact us

Mazen AlSudairi
Head of Research
Tel: +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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