

US\$2.2bn
Market Cap.

96.2%
Free Float

US\$6.8mn
Avg. Daily Value traded

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Neutral

Price Target (SAR): 100.0

Current: 112.2

Upside/Downside: 10.9% below current

Valuation Multiples 23E 24E 25E

	23E	24E	25E
P/E (x)	30.0	25.1	20.6
P/B (x)	6.9	6.2	5.5
EV/EBITDA (x)	13.4	11.9	10.6

Major Shareholders % Ownership

Investment Advisor	62.25
Individual	37.65

Price Performance 1M 3M YTD

Absolute	-18.9%	-6.0%	51.4%
Relative to TASI	-14.4%	3.9%	51.5%

Earnings

(SARmn)	2022	2023E	2024E
Revenue	12,356	14,896	17,405
Revenue growth	35.6%	20.6%	16.8%
Gross profit	595	695	813
Gross margin	4.8%	4.7%	4.7%
EBITDA	771	899	1,013
EBITDA margin	6.2%	6.0%	5.8%
Net profit	242	281	336
Net margin	2.0%	1.9%	1.9%
EPS	3.22	3.74	4.48
DPS	2.00	2.25	2.69
Payout ratio	62.0%	60.0%	60.0%
EV/EBITDA	15.7x	13.4x	11.9x
P/E	34.8x	30.0x	25.1x
RoE	23.0%	24.1%	26.0%

Source: Company data, Al Rajhi Capital

Aldrees Petroleum and Transport

TP revised to SAR100/sh; downgrade to neutral

Aldrees has posted solid revenue growth of 21% YoY in 9M23, with the topline increasing to SAR10,882mn as against SAR9,024mn during the same period last year. The revenue growth was not only led by the addition of petrol stations ($\uparrow 14\%$ YoY) but also increased throughput per station, which was up by 2% YoY in 9M23. Consequently, the average revenue per station inched up by 5% YoY. The gross profit rose by 20% YoY to SAR508mn while the GP margins were recorded at 4.7%. The company faced some cost pressures, reducing operating margins to 2.9% as against our expectations of 3.0%. Hence, we revise our earnings down for FY23/24E by 4/6% to SAR3.7/4.5 per share. In addition, we roll forward our TP, increasing it by 6% to SAR100/sh. Since our last report (8th March 2023), where we reiterated our overweight stance, the stock has rallied by 65% to reach a high of SAR140/sh but has come under pressure recently and is down by 20% from its peak. We downgrade the stock to "Neutral" based on our TP. However, we highlight that any upward revision in margins will warrant a revision in our investment case. Going forward, Aldrees remains committed to increasing its total number of stations to 1,000 by 2025, after which we assume the company is likely to add 50 stations per year.

Figure 1 EPS & TP revision

	Previous	Current	Change
EPS 2023E	3.9	3.7	-4%
EPS 2024E	4.8	4.5	-6%
Target Price	94.0	100.0	6%

Source: Company data, Al Rajhi Capital

3Q23/9M23 Results: The group recently released its 3Q23 financial results, which showed a 9% y-o-y increase in their bottom line. However, it fell short of our and consensus estimates by more than 6% and saw a 3.7% q-o-q decline. During the first nine months of 2023, Aldrees experienced robust growth in its top line, with a 21% increase, and its net income also saw a significant 23% rise. In this sector, gross margins are subject to regulation, and the average gross margin for the first nine months of the year stood at 4.7%. This is slightly lower than the gross margins of 4.8% in FY22 and 5.0% in FY21. Notably, in the last five years, the group's gross margins reached their peak at 8.3% in FY20.

Figure 2 Earnings Summary Q3 2023

SARmn	Q3 2023	Q3 2022	y-o-y	Q2 2023	q-o-q	9M23	9M22	y-o-y
Revenue	3,883	3,256	19%	3,581	8%	10,882	9,024	21%
Gross Profit	176	150	17%	169	4%	508	423	20%
Gross Margin	4.5%	4.6%		4.7%		4.7%	4.7%	
Operating Profit	106	93	14%	105	2%	317	261	22%
Operating Margin	2.7%	2.9%		2.9%		2.9%	2.9%	
Net Profit	68	62	9%	70	-4%	208	170	23%
Net Margin	1.7%	1.9%		2.0%		1.9%	1.9%	

Source: Company data, Al Rajhi Capital

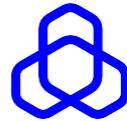
Valuations: We value Aldrees using an equal weight given to DCF and PE-based relative valuation. The equally weighted TP stands at SAR100/sh, providing a downside of 10.9% to the last close. In addition, the stock provides a dividend yield of 3%. We downgrade Aldrees from "Overweight" to "Neutral".

Key Upside Risks:

1. The market chatter suggests that margin uplift is on the cards, but no further details are available. Aldrees is set to benefit significantly if margins are revised upwards. We believe that any margin increase is likely to be accompanied by increased CAPEX/station requirement. However, we await any development in this regard. For simplicity purposes, an increase in 1 halala margin for diesel increases our valuation by 12% while a similar increase in petrol margin increases our valuation by 19%.
2. Lastly, we have assumed Aldrees to reach c.1,000 stations by 2025, after which we have only added 50 stations per year. Any guidance by management above these numbers provides an upside risk to our investment thesis.

Key Downside Risks:

1. Slower than expected ramp-up in new fuel stations.
2. A substantial rise in financing costs.
3. Regulatory changes that could impact capex requirements for stations.
4. An increase in competition could impact market share growth as well as the profitability of the company.



Financials

Figure 3 Income Statement

Income Statement (SARmn)	2023E	2024E	2025E
Sales	14,896	17,405	19,748
y-o-y growth	20.6%	16.8%	13.5%
Cost of Sales	(14,201)	(16,591)	(18,807)
y-o-y growth	20.7%	16.8%	13.4%
Gross Income	695	813	941
y-o-y growth	16.9%	17.0%	15.7%
margins	4.7%	4.7%	4.8%
Employee Costs	(216)	(252)	(286)
Selling and distribution expenses	(9)	(10)	(12)
Administrative expenses	(38)	(44)	(50)
Operating Income	433	507	593
y-o-y growth	19.2%	17.1%	17.0%
margins	2.9%	2.9%	3.0%
Investments and other	8	8	8
Financing Expense	(161)	(179)	(191)
Income from Affiliate	1	1	2
Net income before tax	288	344	419
Zakat & Tax	(7)	(9)	(11)
tax rate	2.5%	2.5%	2.5%
Net Profit Before Minority Interest	281	336	408
Minority Interest (loss)/profit	0	0	0
Net Income	281	336	408
y-o-y growth	16.1%	19.6%	21.6%
margins	1.9%	1.9%	2.1%
EPS	3.7	4.5	5.4
DPS	2.2	2.7	3.3

Source: Al Rajhi Capital estimates

Figure 5 Cash Flow Statement

Cash Flow Statement (SARmn)	2023E	2024E	2025E
Net Cash Flows from Operating Activities	879	968	1,018
Cash Flows from Investing Activities	(343)	(354)	(366)
Cash Flows from Financing Activities	(651)	(592)	(642)
Net Change in cash & cash equivalents	(115)	22	10

Source: Al Rajhi Capital estimates

Figure 4 Balance sheet

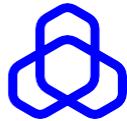
Balance Sheet (SARmn)	2023E	2024E	2025E
Cash & Cash Equivalents	34	55	65
Receivables, Net	490	572	649
Prepaid expenses and other assets	455	455	455
Inventory	156	182	206
Total Current Assets	1,134	1,264	1,375
Property and equipment	1,735	1,904	2,065
Right of Use Assets	3,655	3,867	4,059
Total Non-Current Assets	5,578	5,967	6,329
Total Assets	6,711	7,231	7,704
Liabilities and Equity			
Short-term Debt & Leases	554	654	754
Trade Payable	1,401	1,636	1,803
Accrued expenses and other liab.	449	449	449
Total Current Liabilities	2,404	2,740	3,007
Long-Term Debt & Leases	2,974	3,024	3,067
Others	111	111	111
Total Non-Current Liabilities	3,086	3,136	3,179
Total Liabilities	5,490	5,875	6,185
Total Equity	1,222	1,356	1,519
Minority Interest	0	0	0
Total Owners Equity	1,222	1,356	1,519
Total liabilities and equity	6,711	7,231	7,704

Source: Al Rajhi Capital estimates

Figure 6 Key Ratios

Ratios	2023E	2024E	2025E
ROCE	24%	26%	28%
ROA	4%	5%	5%
ROE	24%	26%	28%
Asset turnover	2.3x	2.5x	2.6x
P/E	30.0x	25.1x	20.6x
EV/EBITDA	13.4x	11.9x	10.6x
P/BV	6.9x	6.2x	5.5x
Dividend yield	2.0%	2.4%	2.9%

Source: Al Rajhi Capital estimates



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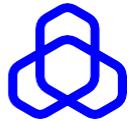
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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

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