

Neutral

Price Target (SAR): 100.0

Current: 112.2
Upside/Downside: 10.9% below current

Valuation Multiples	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%

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 (↑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

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

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
<i>y-o-y growth</i>	20.6%	16.8%	13.5%
Cost of Sales	(14,201)	(16,591)	(18,807)
<i>y-o-y growth</i>	20.7%	16.8%	13.4%
Gross Income	695	813	941
<i>y-o-y growth</i>	16.9%	17.0%	15.7%
<i>margins</i>	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
<i>y-o-y growth</i>	19.2%	17.1%	17.0%
<i>margins</i>	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)
<i>tax rate</i>	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
<i>y-o-y growth</i>	16.1%	19.6%	21.6%
<i>margins</i>	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

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report.

Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

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

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi, CFA

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

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37