

# Aldrees Petroleum

Oil & Gas - Industrial  
ALDREES AB: Saudi Arabia  
8 March 2023



<b>US\$1.708bn</b>	<b>96.20%</b>	<b>US\$3.51mn</b>
<b>Market Cap</b>	<b>Free Float</b>	<b>Avg. Daily Volume</b>

**Target price** 94.00 **11% above current**  
**Current price** 85.00 **as at 07/03/2023**

Research Department  
**Danish Kazmi, CFA**

Tel +966 11 828 4653, [KazmiD@alrajhi-capital.com](mailto:KazmiD@alrajhi-capital.com)

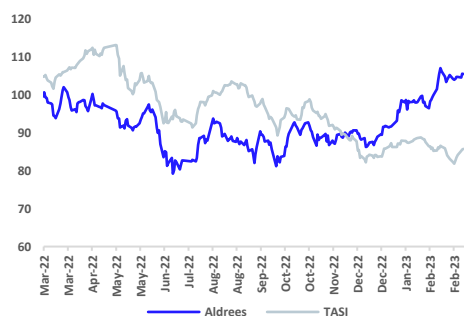
Existing rating

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

## Aldrees Petroleum

### TP revised to SAR94/sh; maintain Overweight

#### Performance (Rebased to 100)



#### Earnings

(SARmn)	2022	2023E	2024E
Revenue	12,356	14,501	16,788
Revenue growth	35.6%	17.4%	15.8%
Gross profit	595	692	813
Gross margin	4.8%	4.8%	4.8%
EBITDA	771	905	1,027
EBITDA margin	6.2%	6.2%	6.1%
Net profit	242	291	356
Net margin	2.0%	2.0%	2.1%
EPS	3.22	3.88	4.75
DPS	2.00	2.33	2.85
Payout ratio	62.0%	60.0%	60.0%
EV/EBITDA	13.4x	11.4x	10.1x
P/E	23.3x	19.3x	15.8x
RoE	21.8%	23.7%	26.0%

Source: Company data, Al Rajhi Capital.

Aldrees Petroleum ended FY2022 on a high note, managing to add 100 more stations to its portfolio and taking the total tally to 740 stations. Total volumes increased by 27% YoY, led by a jump of 25% in petrol sales, while diesel sales increased by 32%. The company managed to further increase its market share to 7.4% vs. 6.4% in 2021. As per our calculations, throughput per station for diesel and petrol 95 rose by 14 and 78%, respectively, while dropping by 4% YoY for petrol 91. Going forward, we remain positive on the company's ability to reach its target of 1,000 stations by FY2025e, beyond which we assume that the company will manage to add 50 stations each year. We believe that in FY2023, the company will manage to add another 100 stations, boosting its revenue and profitability. Rising finance costs will likely put pressure on the bottom line; however, investment income from sukuk (effective rate: 5.3%) will provide some respite. We expect total fuel volume to grow at a CAGR of 12% from FY22-27e, while net profit is expected to grow by 18% during the same period.

Hence, we update our investment case and increase our FY23e EPS by 8%, respectively. Moreover, we increase our TP by 11% to SAR94/sh, which provides an upside of 10% to the last close. Even though the stock has rallied 15% YTD, we maintain our overweight rating on the stock. Our liking for the stock stems from multiple factors, including: 1) management's aggressive expansion plan to reach 1,000 stations by FY2025e; 2) continuous growth in fuel volume supported by increased tourism; and 3) a low cash conversion cycle helping the company to limit its borrowing requirements.

Figure 1 Earnings and Target price revision

FY23E	Previous	Current	Change
EPS	3.6	3.9	8.5%
Target Price	85	94	11%

Source: Al Rajhi Capital estimates

**Aldrees posts healthy earnings growth in FY22:** The company's revenues increased by 36% YoY in FY22, led by increased volume (27% YoY) coupled with higher fuel prices. The petroleum segment led the growth in revenues as the company managed to add 100 more fuel stations and improve its average revenue per station by 17% YoY. Gross profit rose by 32% YoY to SAR595mn, while GP margins clocked in at 4.8%, as opposed to 5.0% last year. Fuel product margins are fixed, hence all the growth in GP margin can be attributed to increased volumes as well as improvements in the transportation segment. Resultantly, the net profit jumped up by 37% YoY to SAR242mn (EPS: SAR3.22/sh) as against SAR177mn (EPS: SAR2.36/sh). In 4Q22, the company managed to add 24 fuel stations, driving up revenue by 2% QoQ while the gross profit increased by 14% QoQ to SAR 171mn. A healthy rise in gross profit can be associated with improvements in margins in both segments as well as increased contribution to gross profit by the higher margin transportation segment.

Figure 2 **FY22 earnings table**

SAR mn	4Q 2022	4Q 2021	YoY	3Q 2022	QoQ	FY22	FY21	YoY
Revenue	3,332	2,620	27%	3,256	2%	12,356	9,110	36%
Gross Profit	171	129	33%	150	14%	595	451	32%
Gross Margin	5.1%	4.9%		4.6%		4.8%	5.0%	
Operating Profit	102	83	23%	93	9%	363	283	28%
Operating Margin	3.1%	3.2%		2.9%		2.9%	3.1%	
Net Profit	72	54	33%	62	16%	242	177	37%
Net Margin	2.2%	2.1%		1.9%		2.0%	1.9%	

Source: Company data, Al Rajhi Capital

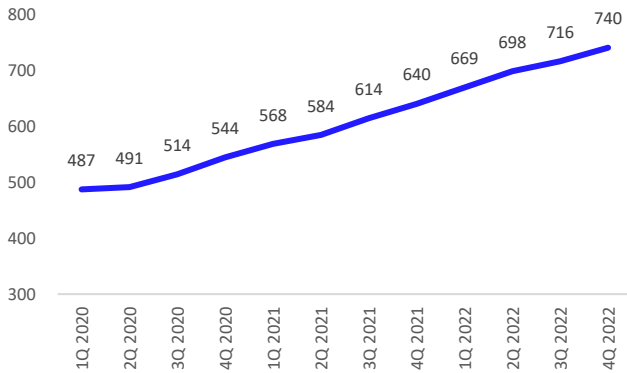
### Valuations:

We value Aldrees using an equal weight given to DCF and PE-based relative valuation. Our revised DCF-based TP, using 2% terminal growth and 8.3% WACC, is SAR96/sh, while our PE-based TP, based on FY23 EPS, is SAR93/sh. Thus, the equally weighted TP stands at SAR94/sh, providing an upside of 11% to the last close. In addition, the stock provides a dividend yield of 3%. Hence, we remain "Overweight" on the stock.

Key downside risks include: i) slower than expected ramp-up in new fuel stations; ii) a substantial rise in financing costs; iii) regulatory changes that could impact capex requirements for stations; and iv) an increase in competition that could impact market share growth as well as profitability of the company.

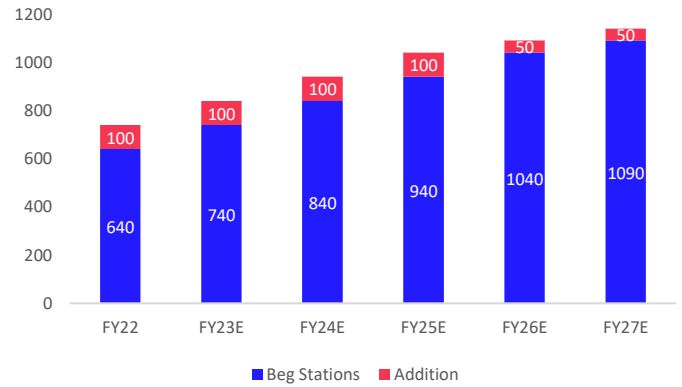


**Figure 3 Station Additions over the years**



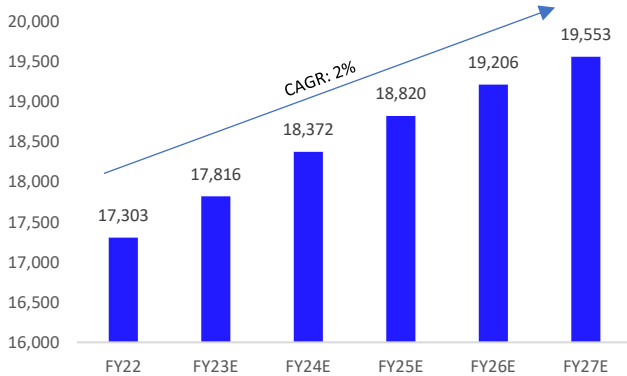
Source: Company Data, Al Rajhi Capital

**Figure 4 Station additions going forward**



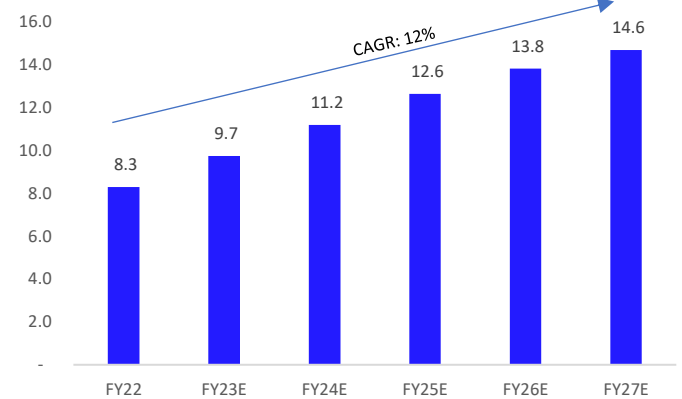
Source: Al Rajhi Capital estimates

**Figure 5 Average revenue per station (kSAR)**



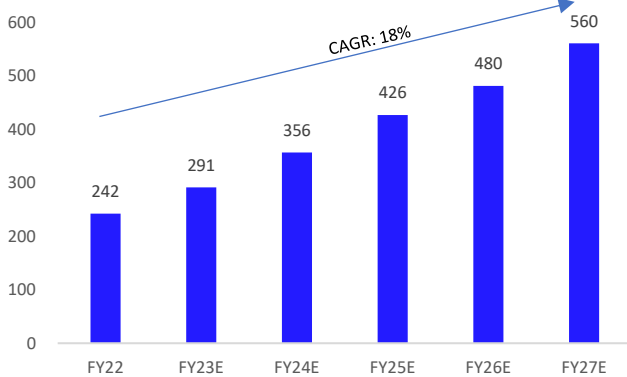
Source: Al Rajhi Capital estimates

**Figure 6 Volume to grow at a CAGR of 12% (bn ltr)**



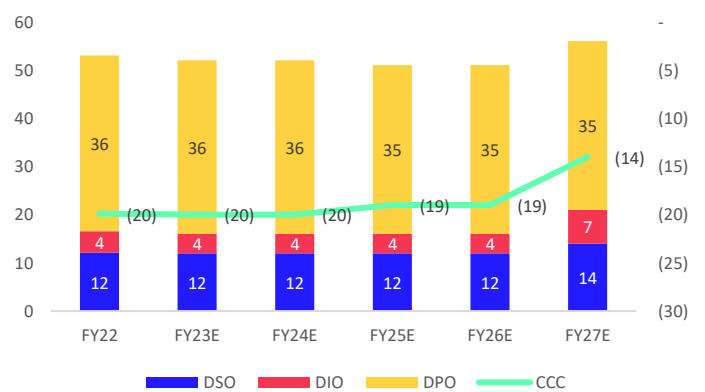
Source: Al Rajhi Capital estimates

**Figure 7 Net profit to keep growing (SAR mn)**



Source: Al Rajhi Capital estimates

**Figure 8 Cash conversion cycle**



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").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. 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. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

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 may not be an associated person of Rosenblatt Securities Inc. 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.

## Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein.

Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

## Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

## 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](mailto: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](mailto:research@alrajhi-capital.com)  
**Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37**