Aldrees Petroleum
Oil and Gas – Industrial
ALDREES AB: Saudi Arabia
21 January 2021

Al Rajhi Capital

US$1.032bn	100%	US$4.216mn
Market cap	Free float	Avg. daily volume

Target price	78.00	18% over current
Current price	66.00	as at 20/1/2021

Research Department
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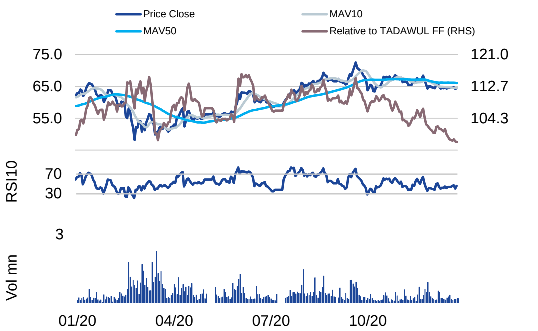
Existing rating

Underweight | Neutral | **Overweight**

Performance



Source: Bloomberg

Earnings

	2020	2021E	2022E
Revenue	4,974	6,456	7,137
Y-o-Y	-12%	30%	11%
Gross Profit	326	433	528
Gross Margin	7%	7%	7%
Operating Profit	188	243	324
Operating Margin	4%	4%	5%
Net Profit	121	135	209
Y-o-Y	-58%	11%	55%
Net Margin	2%	2%	3%
EPS (SAR)	2.02	2.24	3.48
P/E (curr)	33.0x	29.7x	19.2x
P/E (Target)	38.2x	34.4x	22.2x

Source: Company data, Al Rajhi Capital

Aldrees Petroleum

Recovery underway; Maintain OW

Aldrees reported a decent set of numbers as Q4 2020 earnings beat our estimates of SAR35mn. The net profit dropped 83% y-o-y mainly due to a high base effect in Q4 2019 resulting due to retroactive implementation of increased gasoline margin in Q4 2019 (the gasoline margin was hiked retroactively 67% from August 2018 and the impact was recorded in Q4 2019 gross profit and other income). The fuel volume improved mainly due to new store expansion as Aldrees opened 62 new gas stations in 2020. The overall revenue dropped ~5% y-o-y due to lower gasoline prices which anyway don't impact margins as gross margins are based on fuel volumes.

Earnings overview: The consolidated top-line declined 5% y-o-y to SAR1.497bn in Q4 2020, the fuel revenue dropped 4.2% y-o-y to SAR1.45bn due to drop in fuel prices, the transportation segment revenue fell 22% y-o-y to SAR73mn likely due to maintenance shutdown in Ma'aden and slowdown in railway-related business. The throughput per station declined 6% y-o-y but improved 4% Q-O-Q to SAR2,633 litres. The gross margin improved 31bps q-o-q due to volume growth while the operating income fell 68% y-o-y due to a higher base effect in Q4 2019. The net income declined 83% y-o-y to SAR40mn but increased 7% Q-O-Q due to increase in fuel volume growth. The overall net profit in FY 2020 was negatively impacted by higher interest expense arising due to the implementation of IFRS 16 and unrealized loss due to investment revaluation at fair value through profit and loss (the amount isn't disclosed yet). The company announced a dividend of SAR1/sh for FY 2020 and a bonus share of 1:4 to increase the capital to SAR750mn from SAR600mn to fund the expansion plans, this is subject to approval in the general assembly, the record date for dividends have not been announced yet.

Figure 1 Summary of 4Q 2020 earnings

	4Q20	ARC est.	vsARC	3Q20	q-o-q	4Q19	y-o-y
Revenue	1,497	1,540	-3%	1,300	15%	1,582	-5%
Gross Profit	107	141	-25%	88	20%	264	-60%
G. Margin	7%	9%		7%		17%	
Op. profit	67	67	0%	62	8%	210	-68%
Op. margin	4%	4%		5%		13%	
Net profit	40	35	12%	37	7%	228	-83%
Net margin	2%	2%		3%		14%	

Source: Company data, Al Rajhi Capital

Outlook: Aldrees reported a fairly resilient performance even after significant headwinds in the form of lockdown, closure of schools, limited tourism, and Haj. We expect a steep recovery in the second half as re-opening of schools and lifting of ban on international traveling will be a catalyst for pick-up in fuel demand. We like Aldrees because margin increment has made the fuel business very attractive. The company's return metrics such as ROE and ROIC have improved significantly due to the new level of margins. With the overall gasoline market being fairly unorganized (88% of the total market) we see sufficient opportunities for re-investment of profits at current levels of ROIC (~12% for 2020e) thus maximizing value for the shareholders in the longer term.

We note the covid related disruptions have delayed the ramping up of new stations but we are optimistic on the full recovery in 2022e with 2021e as the transition year. At current levels stock is trading at 19X FY2022E earnings which we believe is cheap given the expansion opportunities.

Figure 2 Fuel volume

Ltrs	4Q20	3Q20	q-o-q	4Q19	y-o-y
Diesel	491,106	451,099	9%	444,666	10%
Petrol 95	71,619	58,804	22%	46,055	56%
Petrol 91	830,188	757,558	10%	801,126	4%

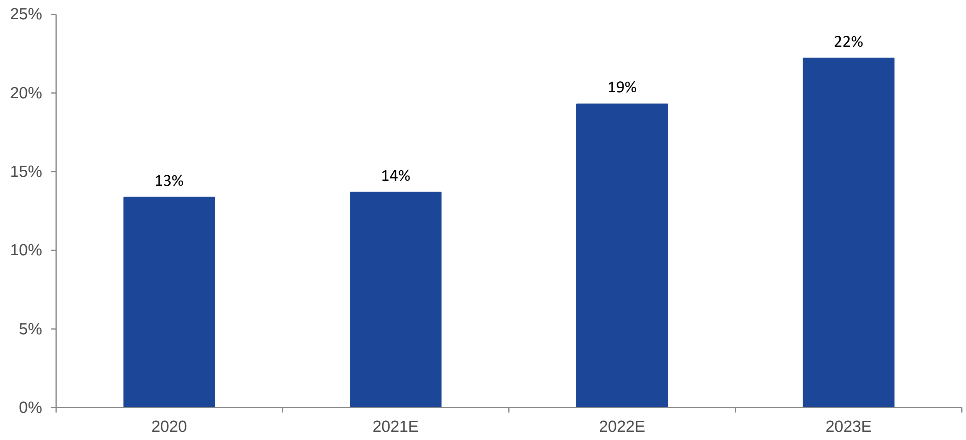
Source: Company data, Al Rajhi Capital

Figure 3 Throughput per station

Ltrs	4Q20	3Q20	q-o-q	4Q19	y-o-y
Diesel	948	898	6%	961	-1%
Petrol 95	138	117	18%	100	39%
Petrol 91	1,603	1,508	6%	1,732	-7%

Source: Company data, Al Rajhi Capital

Figure 4 Return on equity



Source: Company data, Al Rajhi Capital

Valuation: We value Aldrees using equal weight given to DCF, EV/EBITDA, and PE-based relative valuation. Our DCF based tp based on 2% terminal growth, 7.76% WACC is SAR78/Sh, EV/EBITDA tp based on 12.6x FY 2022e EBITDA is SAR78/sh while PE-based tp based on 22x FY2022e EPS is SAR78/sh. Thus equal-weighted target price stands at SAR78/sh, which indicates 18% upside from CMP of SAR66/Sh. We remain “overweight” on Aldrees.

Key Downside risk:

1) Slower than expected ramp-up of new fuel stations will have a negative impact on our valuations.

2)Slower than the expected resumption of Umrah and Hajj will have a negative impact on the revenue and our valuations.

3)Prolonged period of economic slowdown will impact the transportation segment revenue and our valuations.

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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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