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## Saudi Arabian Gasoline Retailers

### Margin uplift supports performance as COVID-19 impact subsides

Consumers | Saudi Arabia

Initiation of Coverage | Sector Note

4 May 2020

#### Aldrees

|                    |                      |
|--------------------|----------------------|
| Rating: <b>Buy</b> | FV: SAR71            |
| Upside: 22%        | MKT price: SAR 58.2  |
| Free float: 96.2%  | MKT cap: SAR 3,492mn |

\*as of 30 April 2020

#### SASCO

|                    |                       |
|--------------------|-----------------------|
| Rating: <b>Buy</b> | FV: SAR31             |
| Upside: 21%        | MKT price: SAR 25.8   |
| Free float: 88%    | MKT cap: SAR 1,551mn. |

\*as of 30 April 2020

#### We initiate coverage on Aldrees and SASCO; favor Aldrees on compelling valuation

The recent 67% uplift in gasoline retailer margins to SAR0.15 from the long fixed margin of SAR0.09 since 2006 on 91-octane and 95-octane fuel came as a direct step to combat mounting cost pressures and entice foreign investor appetite to the gasoline retailer industry. We initiate coverage on Saudi Arabia's two gasoline retailers: Aldrees with a FV of SAR71/share and a Buy rating and SASCO with a FV of SAR31/share and a Buy rating. Being among the 20 qualified gasoline retailers by the Saudi Ministry of Municipal and Rural Affairs (MOMRA), we expect both Aldrees (5% market share in terms of stations) and SASCO (2% market share) to record a 5-year core earnings CAGR of c8% and c14%, respectively. We favor Aldrees for its wider scale, stronger operating margins, and compelling valuation (2020e PE of 19.1x) versus SASCO (44.2x). Yet, we expect SASCO's PE to converge to 12.1x, close to Aldrees' multiple, by the end of the forecast period, on an expected double-digit earnings CAGR.

#### COVID-19 repercussions to hit 2020e, but expect strong rebound in 2021e

In our view, the wide quarantine measures imposed during March and April, in addition to the current suspension of pilgrimage and the Hajj will take a toll on the throughput/station for both Aldrees and SASCO, dragging it to drop c10% y-o-y in 2020e versus growth of c6% in 2019 for each. Consequently, we expect core earnings to drop c18% y-o-y for Aldrees and c47% y-o-y for SASCO in 2020e. However, we expect a solid rebound in 2021e for both companies by c47% y-o-y and c89% y-o-y, respectively.

#### OPEC+ deal to end oil price war; upward revision of gasoline prices on the cards

While per liter margins are fixed in absolute terms at SAR0.15, the earnings of Aldrees and SASCO are vulnerable, to a lesser extent, to a monthly revision of Saudi gasoline prices (earnings decline c0.5% for every 1% increase in octane prices). On 8 April 2020, Saudi Arabia reduced the prices of 91-octane and 95-octane fuel by c16% and c28%, respectively, in its monthly gasoline price revision. This came following the oil price war that erupted amid widespread lower demand for oil on the COVID-19 outbreak, which drove later OPEC+ members to pull off a historic deal to cut global petroleum output by nearly a tenth throughout the months of May and June. This should provide slight elevation in oil prices supported by expected demand recovery within the coming few months. Accordingly, we expect a subsequent upward revision of Saudi gasoline prices starting July, under the monthly revision mechanism implemented starting February 2020.

#### New qualification measures to drive growing consolidation wave supported by margin uplift

Due to the higher cost of compliance of the new measures imposed by MOMRA under the Masar program to ensure higher quality service of fuel-operating companies, the government has permitted only 20 companies, out of the widely fragmented Saudi gasoline market, to continue to operate under the recently amended bylaws. The Saudi Ministry of Energy (MOE) raised absolute margins of qualified operators for both octane and diesel products to SAR0.15/liter (up c67%) and SAR0.05/liter (up c43%), respectively, starting 23 August 2018. The new measures imposed have driven a recent wave of consolidation, luring direct investment in the industry by not only local investors but also foreign counterparts. In this regard, Saudi Aramco and Total jointly acquired Tas'helat Marketing Company (TMC) and Sahel Transport Company (STC) (with a 3% market share) and plan to invest around USD1bn over the next 6 years in fuel-operating companies. Also the UAE's ENOC plans to expand its fuel retail network in Saudi Arabia to 45 service stations by 2023 up from 16 stations currently. Moreover, UAE-based ADNOC entered the Saudi market in 2018, currently operating 2 stations.

|  |           |
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| 2. Saudi Automotive Services Company (SASCO)                                     | 18        |

## I. Investment thesis and key risks

### Initiate coverage on Saudi gasoline retailers; Aldrees offers compelling valuation and SASCO to exhibit double-digit growth

We initiate coverage on two Saudi gasoline retailers, namely Aldrees, and SASCO. We have Buy ratings on both names given the recent market sell off.

Saudi Arabia enjoys healthy demand drivers for the gasoline retail industry, backed by its healthy demographics, extensive geographical reach, and minimal available public transportation, along with low level of motorization rates in the kingdom compared to other countries with similar GDP/capita. This is in addition to the government lifting the ban on women driving, the wide infrastructure spending on its road networks, and the restoration of the level of foreign employment. We expect throughput/station to decline c10% in 2020e given the wide quarantine measures imposed by the kingdom during March and April as well as the suspension of the pilgrimage, with growth to resume in 2021e, driving top line to grow at a 2020–24 CAGR of c15% for Aldrees and c17% for SASCO.

While margins for the non-fuel segments (such as transportation) for the companies under coverage are close to 7x higher than the margins of the fuel retail segment, revenue sustainability of the non-fuel segment is difficult to assure as it is subject to contract terminations and risk of renewals.

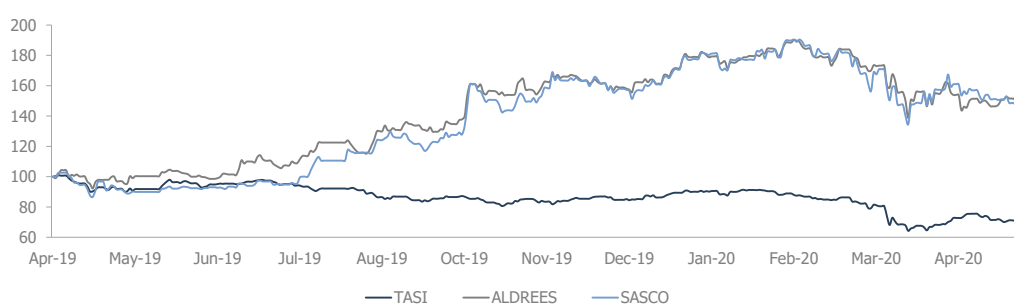
We favor Aldrees for its wider scaler, stronger operating margins, higher FCF and compelling valuation (2020e PE of 19.1x) versus SASCO (44.2x). However we expect SASCO's PE to converge to 12.1x, close to Aldrees' multiple, by the end of the forecast period, on expected double-digit earnings CAGR.

Figure 1: Companies' main highlights

|                                      | Aldrees  | SASCO   |
|--------------------------------------|--|---|
| Main activities                      | (i) Owning, operating, and leasing gas stations, and workshops, (ii) Transportation segment offers transport of fuel, liquefied chemicals, and grains besides offering on-site and off-site logistics services, custom clearances, and warehouse lease and management. | (i) Owning, operating, and leasing gas station, stores, and workshops, (ii) Transporting fuel and cargo, (iii) Operating motels, (iv) Importing and selling spare parts, and (v) Issuing cross-border documentation for travelling trucks and international driving licenses for travelling citizens. |
| Market share (FY19)                  | 5%   | 2%  |
| Number of stations (FY19)            | 482  | 198   |
| Fuel gross margin (FY19)             | 6.4%   | 5.8%  |
| Number of trucks and trailers (FY19) | 3,645  | 270   |
| Transportation gross margin (FY19)   | 31.9%  | 29.5%   |

Source: Company disclosures

Figure 2: 52-week share price performance (rebased)



Source: Bloomberg

|         | YTD  |
|---------|------|
| TASI    | -15% |
| Aldrees | -6%  |
| SASCO   | -12% |

**Saudi Arabia provides ample growth opportunities, despite key challenges such as:**

**1. Possible resumption of lockdown measures post the holy month of Ramadan could further drag station throughput in 2020**

To limit the spread of COVID-19, Saudi Arabia has imposed curfew measures across the kingdom since the virus outbreak including:

- A 24-hour daily curfew in Mecca and Medina (effective 2 April), and in Riyadh, Tabuk, Dammam, Dhahran, and Hofuf and throughout the governorates of Jeddah, Taif, Qatif, and Khobar (effective 6 April). This was imposed until the partial lifting of the lockdown from 9:00AM to 5:00PM starting 26 April through 13 May, while keeping a 24-hour curfew in Mecca and adjacent neighborhoods.
- Suspensions of domestic flights, trains, buses, and taxis, effective 21 March until further notice. Commercial transport trains and cargo ships continue to operate normally.
- The kingdom banned residents from entering or exiting Riyadh, Mecca, and Medina effective 26 March.
- The current suspension of pilgrimage and the Hajj.

Extension of these curfew measures post the holy month of Ramadan could further drag down our overall throughput/station beyond the c10% y-o-y estimated decline in 2020e.

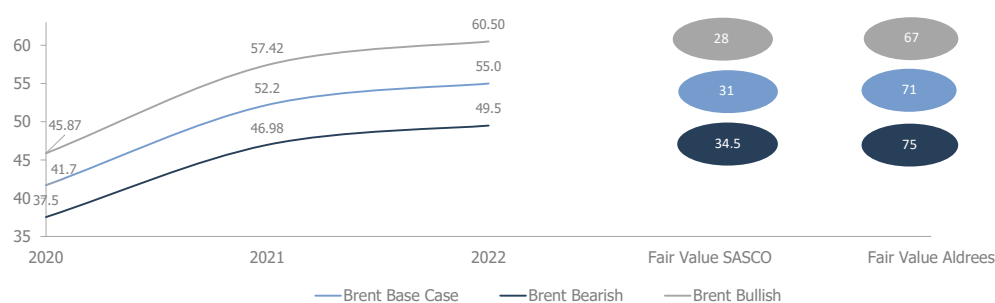
(To see full regulation measures imposed by the kingdom, please refer to our Macro & Strategy note entitled Earth takes a Breather, corporates take a hit by clicking here.)

**2. Potential Rebounding of Brent prices to likely reflect in higher octane prices going forward**

Global demand for oil has sharply contracted amid lockdowns and stalled industrial activity, driven by the onset of COVID-19 at the beginning of the year in China and elsewhere in the world by March 2020. This, besides the supply glut and the long standoff between Saudi Arabia and Russia over supply cuts, caused a devastating oil price war to erupt. This drove OPEC+ members to strike a historic deal, by virtue of which, 9.7 million barrels per day are cut starting May 1st, and will extend through the end of June. Nonetheless, Saudi Arabia and Kuwait started cutting production prior to the deadline of May 1st in response to market conditions. Accordingly, we expect slight elevation in oil prices on potential supply cuts and expected demand recovery within the coming few months. This in our view will drive the Saudi government to gradually revise Octane prices higher in its monthly revisions starting July. We expect prices of Octane 91 and Octane 95 to grow at a 5-year CAGR of 6% and 3%, respectively over 2019-2024e.

We run a sensitivity analysis to detect the impact of changes of gasoline prices on our FV of both companies, assuming all other factors remain constant. While per liter margins are fixed in absolute terms at SAR0.15, earnings of Aldrees and SASCO are vulnerable, to a lesser extent, to the monthly revision of Saudi gasoline prices (earnings decline 0.5% for every 1% increase in octane prices).

**Figure 3: Different scenarios for Brent assumptions (USD/barrel) and its impact on FV (SAR/share)**



\*Brent prices in USD/barrel  
Source: Bloomberg, Beltone Estimates

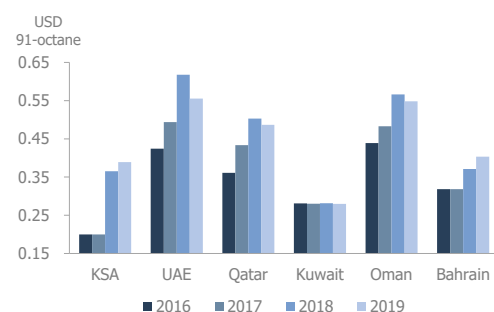
Figure 4: Different scenarios for Brent prices and its impact on 91-octane and 95-Octane and per share FV

|                           | 2020        | 2021        | 2022        | 2023        | 2024        | Aldrees | SASCO    |
|---------------------------|-------------|-------------|-------------|-------------|-------------|---------|----------|
| <b>Bearish scenario</b>   |             |             |             |             |             |         |          |
| <b>Brent (USD/barrel)</b> | <b>37.5</b> | <b>47.0</b> | <b>49.5</b> | <b>54.0</b> | <b>58.5</b> |         |          |
| 91-octane (SAR/liter)     | 1.3         | 1.3         | 1.4         | 1.5         | 1.7         | FV      | FV       |
| 95-octane (SAR/liter)     | 1.5         | 1.7         | 1.8         | 2.0         | 2.1         | SAR 75  | SAR 34.5 |
| Diesel (SAR/liter)        | 0.4         | 0.4         | 0.4         | 0.4         | 0.4         |         |          |
| <b>Base case</b>          |             |             |             |             |             |         |          |
| <b>Brent (USD/barrel)</b> | <b>41.7</b> | <b>52.2</b> | <b>55.0</b> | <b>60.0</b> | <b>65.0</b> |         |          |
| 91-octane (SAR/liter)     | 1.4         | 1.5         | 1.6         | 1.7         | 1.9         | FV      | FV       |
| 95-octane (SAR/liter)     | 1.7         | 1.9         | 2.0         | 2.2         | 2.4         | SAR 71  | SAR 31   |
| Diesel (SAR/liter)        | 0.4         | 0.4         | 0.4         | 0.4         | 0.4         |         |          |
| <b>Bullish scenario</b>   |             |             |             |             |             |         |          |
| <b>Brent (USD/barrel)</b> | <b>45.9</b> | <b>57.4</b> | <b>60.5</b> | <b>66.0</b> | <b>71.5</b> |         |          |
| 91-octane (SAR/liter)     | 1.5         | 1.6         | 1.7         | 1.9         | 2.0         | FV      | FV       |
| 95-octane (SAR/liter)     | 1.9         | 2.1         | 2.2         | 2.4         | 2.6         | SAR 67  | SAR 28   |
| Diesel (SAR/liter)        | 0.4         | 0.4         | 0.4         | 0.4         | 0.4         |         |          |

\* Octane and diesel prices are ex-vat  
 Source: Bloomberg, Beltone Estimates,

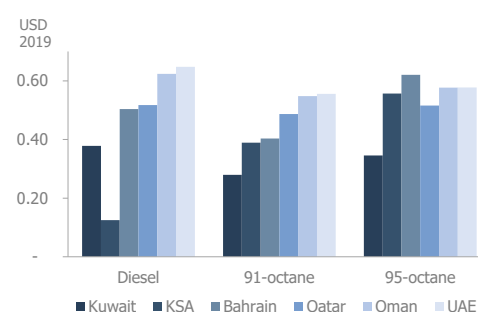
Also, given that Saudi Arabia’s octane and diesel retail prices are lower when compared with regional peers, we believe it is more likely that gasoline prices will be revised higher.

Figure 5: While most GCC countries have phased out subsidies on gasoline over the last few years...



Source: Official media sources

Figure 6: ...gasoline prices in Saudi Arabia are one of the lowest in the GCC



Source: Official media sources

3. **Less frequent margin revisions of gasoline retailers**

Saudi Arabia recently raised gasoline retailer margins to SAR0.15/liter, the first since 2006, as a direct step to combat mounting cost pressures and entice foreign investor appetite to the gasoline retailer industry. Based on our calculations, gas-operating stations could barely breakeven before the latest margin lift on high cost pressures related to labor employment, lease expenses, and cost of compliance to the new measures. Accordingly, we believe more frequent margin revisions of gasoline operators are essential to compensate retailers for ongoing rising costs. Compared to neighboring markets, gasoline retailer margins are currently an average 11% of selling prices in Saudi Arabia, compared to 15% in the UAE and 5% in Qatar.

4. **Development of mass transportation**

Saudi Arabia has started developing integrated and modern public transportation systems across major cities, starting with Riyadh, with a 6-line metro and bus rapid transit (BRT) lines to be launched towards the end of 2020.

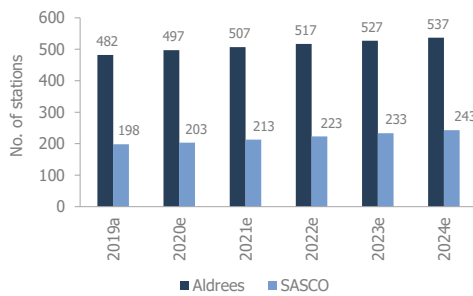
5. **Growing use of electric vehicles and hydrogen-based engines**

Under the Saudi Vision 2030, the Saudi government is promoting a shift towards the adoption of hydrogen-based engines and electric vehicles. The transportation sector in Saudi Arabia uses nearly a quarter of its total energy, with consumption levels projected to rise in the coming years. Electric vehicles would help meet the goal of cutting reliance on oil, increasing energy efficiency of cars, and reducing pollution. The number of electric vehicles in the kingdom is quite limited for the time being.

## II. Operational and comparative analysis

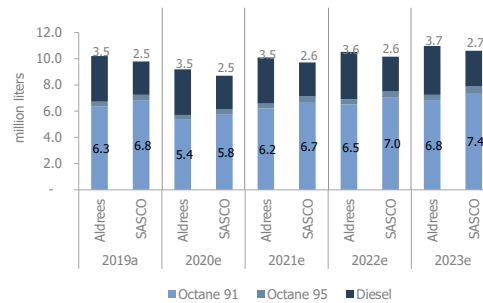
We favor Aldrees on its fundamentals given its wider scale, stronger margins, and higher FCFF yield.

Figure 7: Number of gasoline stations of Aldrees is double SASCO's...



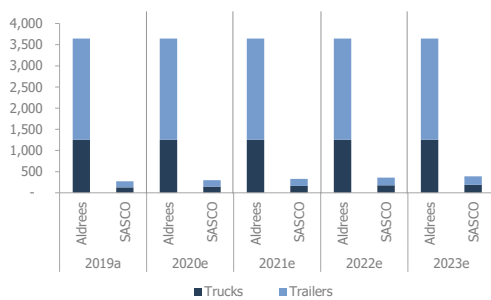
Source: Company disclosures, Beltone estimates

Figure 8: with equal throughput per station (mn liters); SASCO has lower Diesel contribution



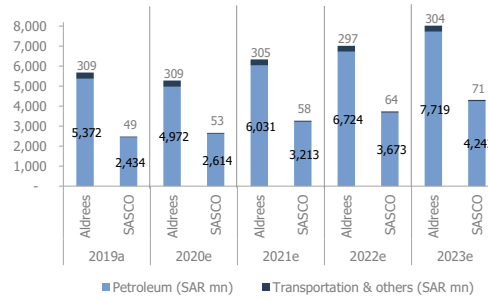
Source: Company disclosures, Beltone estimates

Figure 9: Aldrees' transportation fleet is stronger



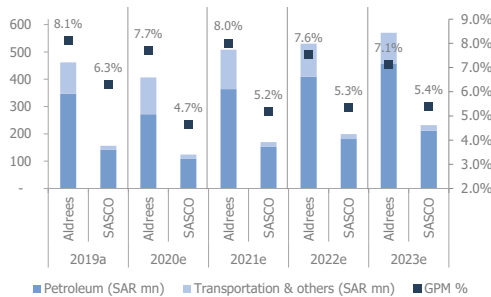
Source: Company disclosures, Beltone estimates

Figure 10: Revenues of SASCO are expected to grow at a 5-year CAGR of 14% vs Aldrees of 10%



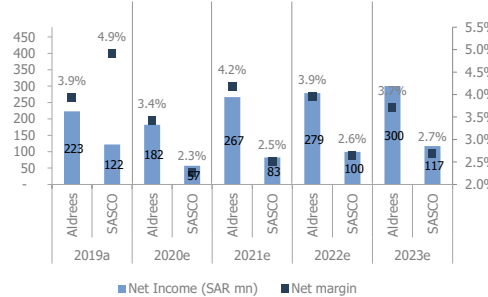
Source: Company disclosures, Beltone estimates

Figure 11: Non-fuel business of Aldrees drives higher Gross margins (including depreciation)...



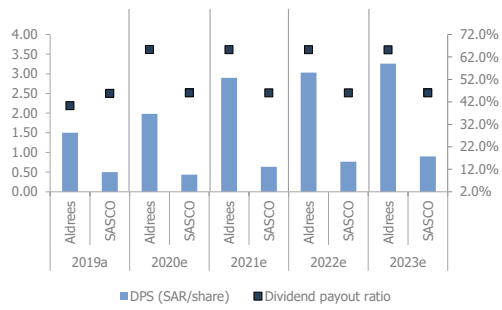
Source: Company disclosures, Beltone estimates

Figure 12: ...which ultimately fuels higher earnings growth



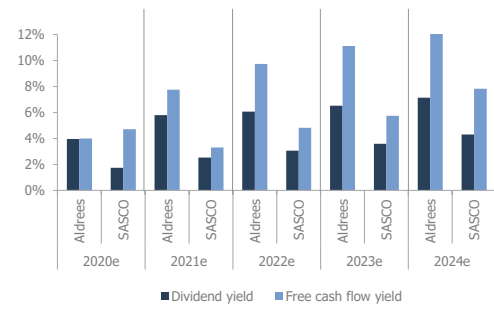
Source: Company disclosures, Beltone estimates

**Figure 13: We expect Aldrees to have a higher payout ratio...**



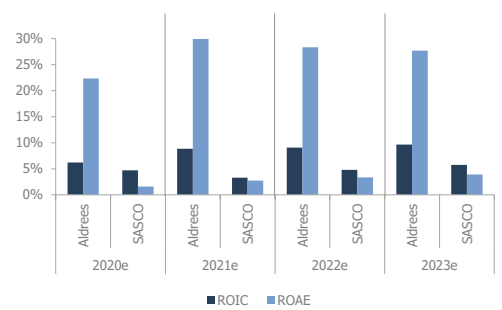
Source: Company disclosures, Beltone estimates

**Figure 14: ...providing decent dividend yield**



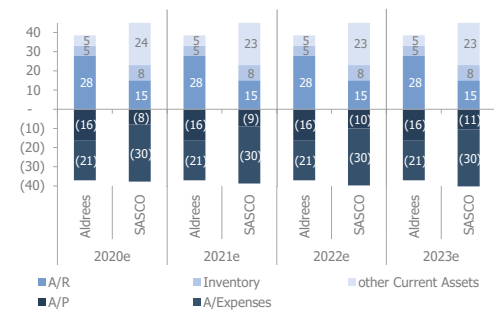
Source: Company disclosures, Beltone estimates

**Figure 15: Overall, Aldrees generates a high ROIC and ROAE**



Source: Company disclosures, Beltone estimates

**Figure 16: Aldrees maintains a healthier ACC (days)**



Source: Company disclosures, Beltone estimates

## We favor Aldrees on comparative valuations as well

Figure 17: Aldrees and SASCO vs global peers' multiples

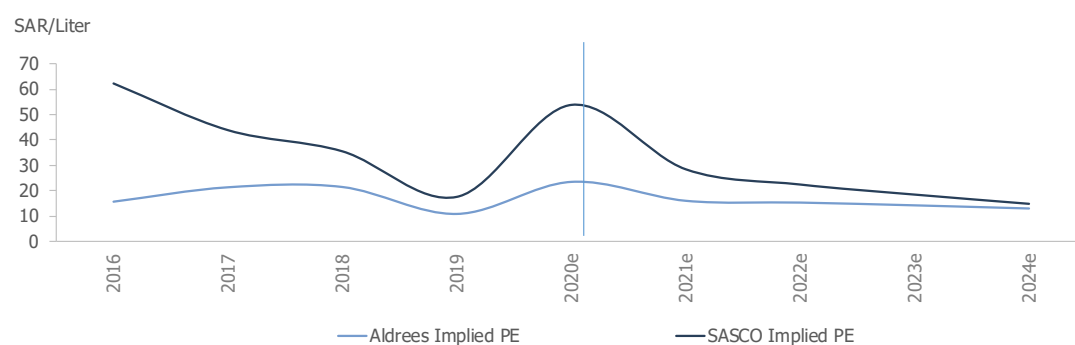
| Company name                   | Ticker       | Country       | MC<br>(MnUSD) | P/E         |             |             | P/BV       |            | EV/EBITDA  |            |            | EBITDA margin |             |             | Earnings CAGR |             | Dividend yield |             |
|--------------------------------|--------------|---------------|---------------|-------------|-------------|-------------|------------|------------|------------|------------|------------|---------------|-------------|-------------|---------------|-------------|----------------|-------------|
|                                |              |               |               | 2019        | 2020e       | 2021e       | 2020e      | 2021e      | 2019       | 2020e      | 2021e      | 2019          | 2020e       | 2021e       | 19/22         | 2019        | 2020e          | 2021e       |
| ABU DHABI NATIONAL OIL CO FO   | ADNOCDIST UH | UAE           | 9,359         | 15.0        | 14.6        | 13.4        | 9.9        | 9.5        | 11.9       | 12.2       | 11.0       | 13.7%         | 14.3%       | 14.4%       | 4.2%          | 6.7%        | 7.8%           | 7.8%        |
| QATAR FUEL QSC                 | QFLS QD      | Qatar         | 4,388         | 13.2        | 18.6        | 12.7        | N/A        | N/A        | 9.5        | 13.8       | 9.0        | 4.9%          | 4.4%        | 4.8%        | 1.3%          | 5.0%        | 5.0%           | 5.0%        |
| SUNOCO                         | SUN US       | United States | 2,254         | 7.8         | 9.5         | 7.9         | 2.9        | 3.2        | 8.1        | 8.3        | 7.8        | 3.9%          | 4.5%        | 4.3%        | 1.1%          | 13.9%       | 13.9%          | 13.9%       |
| AKRA                           | AKRA IJ      | Indonesia     | 522           | 9.8         | 9.3         | 8.3         | 0.9        | 0.8        | 8.8        | 7.9        | 7.1        | 6.6%          | 8.3%        | 8.5%        | 9.1%          | 5.2%        | 3.4%           | 3.9%        |
| CALTEX AUSTRALIA LTD           | CTX AU       | Australia     | 3,570         | 16.9        | 20.1        | 12.7        | 1.8        | 1.7        | 7.5        | 8.4        | 6.3        | 4.6%          | 4.6%        | 5.5%        | 16.3%         | 3.5%        | 3.0%           | 4.8%        |
| Z ENERGY LTD                   | ZEL NZ       | New Zealand   | 744           | 10.6        | 17.9        | 9.2         | 1.6        | 1.5        | 7.1        | 9.5        | 7.1        | 8.0%          | 8.1%        | 8.7%        | 6.5%          | 8.2%        | 6.0%           | 12.3%       |
| POLSKI KONCERN NAFTOWY ORLEN   | PKN PW       | Poland        | 6,183         | 5.5         | 14.0        | 7.5         | 0.7        | 0.6        | 3.4        | 5.2        | 3.6        | 8.7%          | 8.6%        | 9.5%        | -3.3%         | 5.9%        | 4.6%           | 4.8%        |
| PARKLAND FUEL CORP             | PKI CN       | Canada        | 3,021         | 15.5        | 53.0        | 17.2        | 2.4        | 2.8        | 6.5        | 9.1        | 7.3        | 6.9%          | 5.6%        | 6.2%        | -3.8%         | 3.9%        | 4.0%           | 4.0%        |
| PETRONAS DAGANGAN              | PETD MK      | Malaysia      | 4,626         | 21.7        | 27.8        | 22.9        | 3.3        | 3.1        | 10.5       | 12.2       | 10.7       | 5.5%          | 5.2%        | 5.5%        | -0.9%         | 3.5%        | 3.0%           | 3.4%        |
| <b>Peers average multiples</b> |              |               |               | <b>12.9</b> | <b>20.5</b> | <b>12.4</b> | <b>2.9</b> | <b>2.9</b> | <b>8.2</b> | <b>9.6</b> | <b>7.8</b> | <b>7.0%</b>   | <b>7.1%</b> | <b>7.5%</b> | <b>3.39%</b>  | <b>6.2%</b> | <b>5.6%</b>    | <b>6.7%</b> |
| Aldrees*                       | ALDREES AB   | KSA           | 904           | 15.6        | 19.1        | 13.1        | 4.1        | 3.7        | 8.9        | 9.4        | 8.0        | 10.9%         | 11.2%       | 10.9%       | 8%            | 2.6%        | 3.4%           | 5.0%        |
| SASCO*                         | SACO AB      | KSA           | 400           | 23.7        | 44.2        | 23.4        | 1.7        | 1.6        | 12.8       | 13.7       | 11.8       | 8.8%          | 8.0%        | 7.1%        | 6%            | 2.0%        | 1.7%           | 2.5%        |

\* Aldrees and SASCO earnings CAGR is based on core earnings

\*\* Closing price as of 30 April 2020

Source: Bloomberg, Beltone estimates

Figure 18: SASCO's implied PE will converge with Aldrees' by the end of the forecast period



\* From 2016-2019 is based on historical prices, and FV is used to calculate implied PE from 2020 and onwards

Source: Beltone estimates

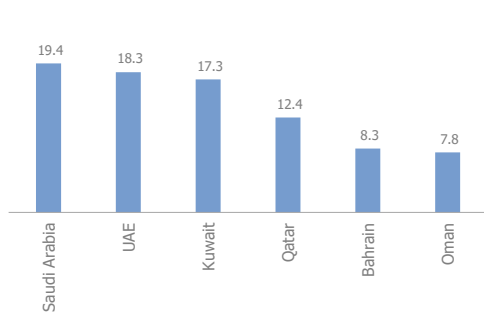


### III. Saudi Arabia’s solid demographics to provide healthy growth momentum

#### Largest market in the GCC with favorable demographics, extended landscape, and limited mass transportation

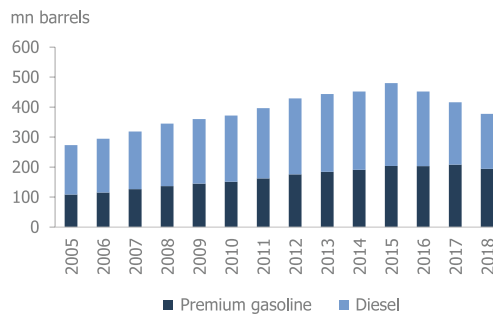
Spanning 2.15mn sqkm and home to over 33mn residents, Saudi Arabia represents the largest country in the GCC region with the highest per capita daily oil consumption, driven by the transportation segment, which represents a quarter of oil consumption in the country. On the global scale, Saudi Arabia ranks sixth for oil consumption, accounting for about 3.4% of the world’s total consumption of 97.1mn bpd. Transportation in Saudi Arabia relies mainly on light vehicles given the limited options for buses and other public transportation.

**Figure 19: Per capita daily oil consumption in the GCC (liters)**



Source: [www.worldometers.info](http://www.worldometers.info)

**Figure 20: Premium gasoline and diesel consumption in Saudi Arabia**

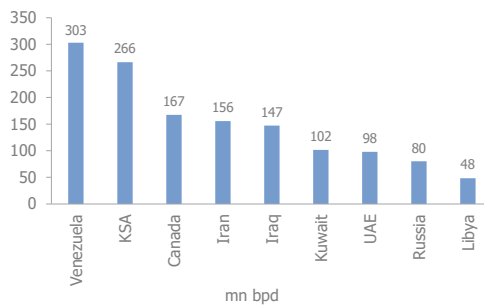


Source: Ministry of Energy, Industry and Mineral Resources

#### High oil reserves support the Kingdom economic strength and stability

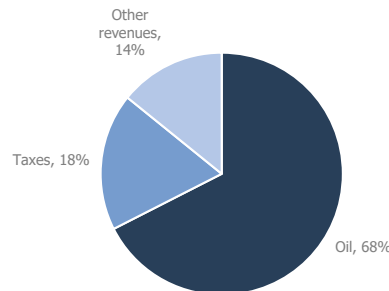
Saudi Arabia holds the second-largest proven oil reserve in the world, after Venezuela, making the country exceedingly reliant on oil proceeds. Being highly dependent on global prices as seen in FY15 has led the Saudi government to run into a budget deficit of SAR3.8mn after global oil prices fell over 35% y-o-y. In an effort to reduce its reliance on oil export proceeds and diversify its revenue base, the country has implemented imperative initiatives under the Saudi Vision 2030 program. Among the initiatives implemented were the imposition of levies on expats, value-added tax (VAT), and most importantly cutting gasoline subsidies.

**Figure 21: Strong oil reserves**



Source: US Energy Information Administration (EIA)

**Figure 22: Saudi Arabia state revenue breakdown**

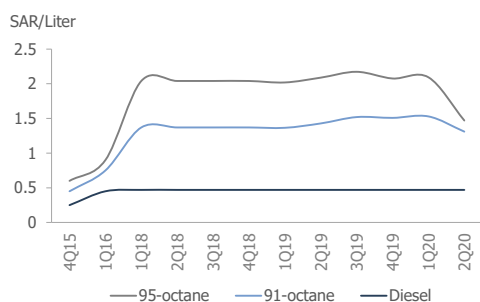


Source: Saudi Arabia Ministry of Finance

### Subsidy removal on oil prices under Saudi Vision 2030 program

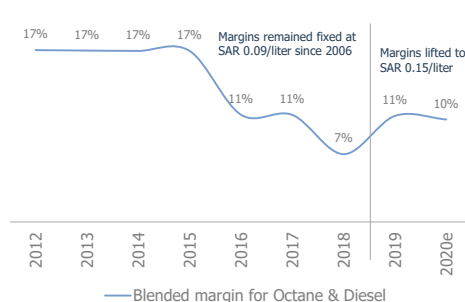
Gasoline prices (95-octane and 91-octane) were pegged at SAR0.60/liter and SAR0.45/liter, respectively, for a long time. It was not until January 2016 that the Saudi government decided to gradually phase out gasoline subsidies, resulting in the subsequent increases of 95-octane and 91-octane gasoline prices. Following the second price hike in 2018, the Saudi MOE announced a quarterly revision of local prices in coordination with global crude oil export prices. Later in February 2020, Saudi Aramco announced that prices would be reviewed on a monthly basis going forward.

**Figure 23: Gasoline price are now reviewed on a monthly basis**



Source: Saudi Aramco

**Figure 24: Government raised retailer margins in 2019 after consecutive increases in octane prices**

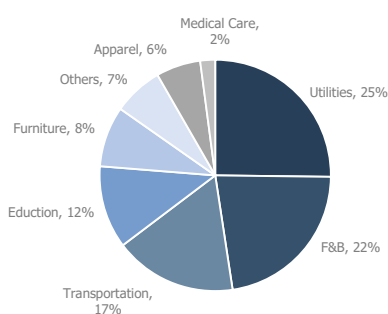


Source: Company reports, Beltone estimates

### New qualification measures rewarded by margin uplift

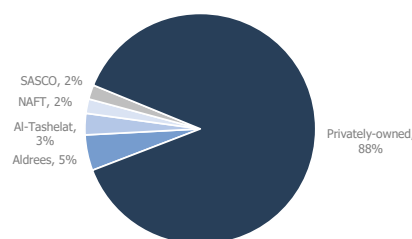
The fuel-stations market in Saudi Arabia is highly fragmented, with some 10,000 stations currently operating. The top 4 fuel stations hold 12% market share, while other small-scale operating companies (mostly privately-owned) have an 88% share. This has made it difficult for small-scale operators to comply with the state qualification measures imposed by the Saudi MOMRA under the Masar program to modernize gas stations and ensure higher quality of service to end-users starting 2016. Accordingly, the government qualified only 20 companies to operate and has raised the absolute margins of octane and diesel products to SAR0.15/liter and SAR0.05/liter, respectively, starting 23 August 2018. Over 83 stations have been shutdown in December 2019 on failure to comply with new regulations, according to reports.

**Figure 25: Expenses on utilities represents c25% of household expenditures**



Source: General Authority for Statistics.

**Figure 26: Fragmented gasoline retailer market**



Source: Company reports

### Rising consolidation and FDI wave by local and foreign players

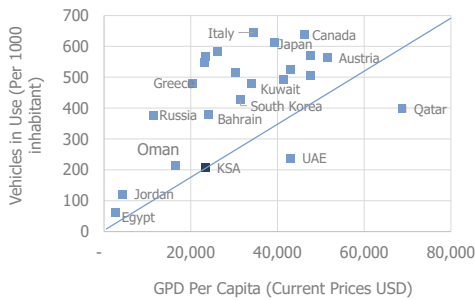
The new measures imposed have driven the recent wave of consolidation and lured direct investment in the industry not only by local investors but also foreign counterparts. In this regard, Saudi Aramco and Total jointly acquired Tas'helat Marketing Company (TMC) and Sahel Transport Company (STC) (with a 3% market share) and plan to invest around USD1bn over the next 6 years in fuel-operating companies. UAE-based ENOC entered the market in 2013 and aims to increase its retail fuel network in Saudi Arabia to 45 service stations by 2023 up from an existing 16 petrol stations, via operating existing fuel stations instead of entering in greenfield, which should save 30%–50% of the investment cost. Also, UAE-based ADNOC entered the market in 2018, operating 2 fuel stations currently.

**Growth drivers**

**Low motorization rate in Saudi Arabia and lifting ban on women driving to fuel automotive sales growth**

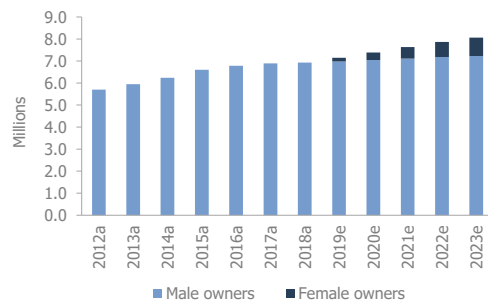
Saudi Arabia’s motorization rate, at 21%, one of the lowest in the MENA, should continue to grow on recovering foreign employment in 2019 and the lift of the ban on women driving starting June 2018. Close to 1mn women are expected to become driving motorists in the coming 3 years.

**Figure 27: Motorization rate in Saudi Arabia vs international countries**



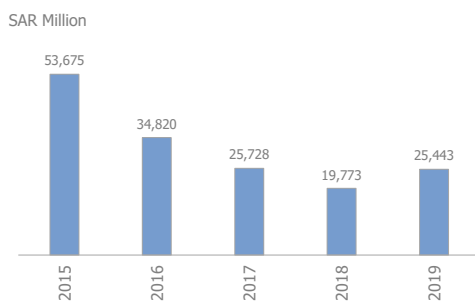
Source: [www.nationmaster.com](http://www.nationmaster.com).

**Figure 28: Growth in vehicles in use supported by addition of women to pool of motorists**



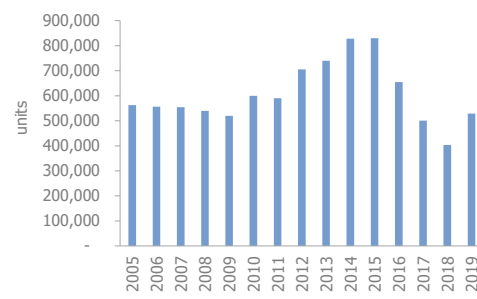
Source: Statista, Beltone estimates

**Figure 29: Imports of vehicles in KSA**



Source: Monthly Statistical Bulletin, SAMA

**Figure 30: Registration/sales of new vehicles (All types)**



Source: Organisation Internationale des Constructeurs d'Automobiles (OICA)

**Wide infrastructure spending in the kingdom**

The wide infrastructure spending in Saudi Arabia, with over 8 highway roads set to be established over the coming years, should drive the need for more qualified petrol stations to be in place, with priority for the highways connecting Riyadh and Damam and El Kassem and Medina. This in addition to the cross-country projects, such as the Saudi-Oman highway, Mashreq-Ghuwaifat international highway (UAE-Saudi Arabia), and the King Fahd causeway connecting Bahrain and Saudi Arabia. There is currently a change in the perception of gas stations now to a destination of services on major highways.

# Companies

**Rating: Buy**
**Fair value: SAR71**
**Market price: SAR 58.2**
**Upside: 22%**
**Ingy El-Diwany, CFA**

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## Aldrees Petroleum & Transport Services

### Favored on strong fundamentals and compelling valuation

Consumers | Saudi Arabia

Initiation of Coverage

4 May 2020

#### Initiate coverage with a FV of SAR71/share and a Buy rating

Having been in the retail fuel industry for close to 60 years, Aldrees has developed to become the largest retailer of gas stations in Saudi Arabia with a market share of 5% based on number of stations (482 stations) and 10% in terms of sales volumes. The company is engaged in 2 complementary segments, the cash generating fuel segment (c95% of net revenue) and the high margin transportation segment (c25% of total gross profit). In this regard, we value Aldrees using the sum-of-the parts (SOTP) valuation method, reaching a FV of SAR71/share, with our discounted cash flow (DCF) valuation yielding 22% upside given the recent market sell off, warranting a Buy rating.

#### Throughput/station to decline in 2020e amid imposed quarantine measures; transportation segment to remain solid; expect a rebound in 2021e

Amid the COVID-19 outbreak, the Saudi government has implemented strict curfew measures and lockdowns in major cities across the kingdom since late 1Q20, with the lockdown partially lifted starting 26 April through 13 May. We believe this should limit road traffic and accordingly pressure the throughput of Aldrees' 482 stations. That said, revenue of the fuel segment declined c80% y-o-y during April 2020. Also, the suspension of pilgrimages and the possible cancellation of the Hajj in 2020 could likely impact the throughput of gasoline stations in the Western Province (Mecca, Medina, and Jeddah) where c19% of the company's stations are located. Accordingly, we believe this will reflect on 7% lower y-o-y sales of Aldrees in 2020e. On the transportation front, the segment is expected to remain solid during the year given the existing contracts signed in the grains and the liquefied chemicals sectors. We expect core earnings to drop c18% y-o-y in 2020e, but we expect a c47% solid rebound in 2021e.

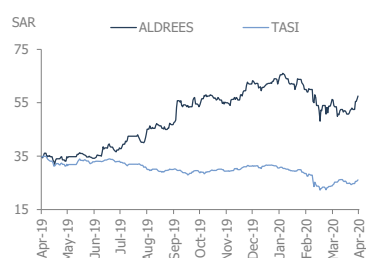
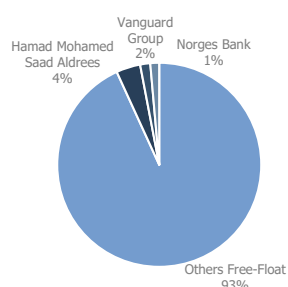
#### Rehabilitation and expansion plans to continue in 2020e, but at a slower pace

In compliance with the Saudi government's regulation measures, Aldrees had initially planned before the outbreak of COVID-19 to continue its rehabilitation plan in 2020, with 148 stations were expected to be renovated in 2020 with an expected CAPEX of SAR192mn, which would have brought total CAPEX spent on the rehabilitation plan since 2016 for its stations inside the cities and on the highways to SAR543mn. However, we believe given the lockdown imposed in the kingdom, the renovation plan will likely be altered and expanded over the coming 3 years, with an average of 45 stations renovated annually. We also expect a delay in the company's initial expansion plan of adding 50 stations this year, which we estimate will stand at 15 new stations in 2020e. This, in our view, is likely to be achievable in light of the potential freeing-up of cash on Aldrees' negotiations with Saudi Aramco to defer its monthly settlement bill from 30 days to 90 days.

#### Higher margins offset prevalent cost escalations; earnings to remain supported

The uplift in gasoline margins, which Aldrees accounted for retroactively starting 28 August 2018, based on the official decree released by MOMRA on 1 October 2019, drove 2019 earnings to grow 4.4x y-o-y. Given that Aldrees has not received the official declaration from Saudi Aramco on the volumes eligible for the higher margins, Aldrees booked provisions of SAR17.4mn in 4Q19 to offset any contingent liability that may arise. New gasoline margins have helped shore up overall margins after 2 consecutive years of margin decline on higher gasoline prices besides the high rent and labor costs. Going forward, we expect core earnings to grow at a 5-year CAGR of c8%, driven by a growing top line.

#### Shareholder structure



\*Closing as of 30 April 2020

#### Stock data

|                         |                  |
|-------------------------|------------------|
| Reuters                 | 4200.SE          |
| Bloomberg               | ALDREES AB       |
| Shares (mn)             | 60               |
| MKT cap (mn)            | SAR3,492/ USD931 |
| 3M avg. daily liquidity | USD7.4 mn        |
| 52-week high/low        | SAR66/SAR32      |
| Free float              | 96.2%            |

#### Main financial highlights (FY end December.)

| In SAR mn, unless otherwise stated | 2019a | 2020e | 2021e | 2022e |
|------------------------------------|-------|-------|-------|-------|
| Revenue                            | 5,681 | 5,281 | 6,336 | 7,020 |
| EBITDA                             | 619   | 590   | 692   | 713   |
| Recurring net income*              | 223   | 182   | 267   | 279   |
| EPS (SAR)*                         | 3.7   | 3.0   | 4.5   | 4.7   |
| P/E (x)*                           | 15.6  | 19.1  | 13.1  | 12.5  |
| EV/EBITDA (x)                      | 8.9   | 9.4   | 8.0   | 7.7   |
| Net debt (cash)/equity             | 2.6   | 2.4   | 2.2   | 1.9   |
| ROAE                               | 31.3% | 22.4% | 30.0% | 28.3% |

\*Based on core earnings (excluding appropriations and one-offs)

Source: Company, Beltone estimates

## Financial statement | FY end December (SARmn)

| Income statement              | 2019a      | 2020e      | 2021e      | 2022e      |
|-------------------------------|------------|------------|------------|------------|
| Total revenue                 | 5,681      | 5,281      | 6,336      | 7,020      |
| Operating costs               | (4,914)    | (4,550)    | (5,486)    | (6,137)    |
| <b>Gross profit</b>           | <b>767</b> | <b>731</b> | <b>851</b> | <b>883</b> |
| SG&A expenses                 | (148)      | (141)      | (159)      | (169)      |
| <b>EBITDA</b>                 | <b>619</b> | <b>590</b> | <b>692</b> | <b>713</b> |
| Depreciation and amortization | (305)      | (324)      | (343)      | (352)      |
| <b>Operating profit</b>       | <b>314</b> | <b>265</b> | <b>349</b> | <b>361</b> |
| Net financing income/(cost)   | (74)       | (78)       | (75)       | (75)       |
| Income from investments       | 2          | 1          | 1          | 1          |
| Other income/(expense)        | 66         | -          | -          | -          |
| <b>EBT</b>                    | <b>308</b> | <b>188</b> | <b>275</b> | <b>288</b> |
| Income taxes                  | (16)       | (5)        | (7)        | (7)        |
| <b>NPAT</b>                   | <b>292</b> | <b>183</b> | <b>268</b> | <b>280</b> |
| Appropriations                | (2)        | (2)        | (2)        | (2)        |
| <b>Net income</b>             | <b>290</b> | <b>181</b> | <b>266</b> | <b>278</b> |
| <b>Core earnings*</b>         | <b>223</b> | <b>182</b> | <b>267</b> | <b>279</b> |

| Balance sheet                         | 2019a        | 2020e        | 2021e        | 2022e        |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Cash and Equivalents                  | 98           | 23           | 55           | 44           |
| Accounts receivables                  | 390          | 405          | 486          | 539          |
| Inventory                             | 72           | 69           | 82           | 91           |
| Other assets                          | 152          | 142          | 170          | 188          |
| <b>Total current assets</b>           | <b>713</b>   | <b>638</b>   | <b>793</b>   | <b>862</b>   |
| Fixed assets                          | 1,090        | 1,148        | 1,204        | 1,215        |
| Investments in Joint Venture          | 27           | 27           | 27           | 27           |
| Deferred Costs                        | 12           | 8            | 4            | -            |
| Present value of Rights of Use Asset  | 1,743        | 1,796        | 1,830        | 1,868        |
| <b>Total non-current assets</b>       | <b>2,872</b> | <b>2,980</b> | <b>3,065</b> | <b>3,110</b> |
| <b>Total Assets</b>                   | <b>3,585</b> | <b>3,618</b> | <b>3,858</b> | <b>3,973</b> |
| Banks Short Term Borrowings           | 335          | 340          | 350          | 270          |
| CPLTD                                 | 71           | 45           | 15           | -            |
| CPLTD of Lease Liability              | 219          | 219          | 219          | 219          |
| Account payables                      | 226          | 211          | 252          | 281          |
| Creditors and other credit balances   | 401          | 409          | 519          | 564          |
| Total current liabilities             | 1,253        | 1,224        | 1,355        | 1,334        |
| Long Term Debt                        | 60           | 15           | -            | -            |
| Lease Liability                       | 1,424        | 1,468        | 1,499        | 1,539        |
| Provision for End of Service Benefits | 66           | 66           | 66           | 66           |
| <b>Total non-current liabilities</b>  | <b>1,550</b> | <b>1,549</b> | <b>1,565</b> | <b>1,605</b> |
| Paid-in Capital                       | 600          | 600          | 600          | 600          |
| Reserves                              | 66           | 66           | 66           | 66           |
| Retained Earnings                     | 117          | 180          | 272          | 369          |
| <b>Total equity</b>                   | <b>783</b>   | <b>845</b>   | <b>936</b>   | <b>1,032</b> |
| <b>Total liabilities and equity</b>   | <b>3,585</b> | <b>3,618</b> | <b>3,858</b> | <b>3,973</b> |

| Cash flow                 | 2019a | 2020e | 2021e | 2022e |
|---------------------------|-------|-------|-------|-------|
| Cash flow from operations | 536   | 471   | 584   | 618   |
| Cash flow from investing  | (160) | (432) | (428) | (397) |
| Cash flow from financing  | (324) | (114) | (124) | (232) |
| Change in cash            | 52    | (75)  | 32    | (11)  |

## Investment summary

Established in 1962, Aldrees is considered the largest single gas station retailer in Saudi Arabia with a market share of 5% based on number of stations (482 stations) and 10% in terms of sales volumes. Aldrees is engaged in the fuel and transportation segments with the former segment generating c95% of total revenue in 2019 and c75% of gross profit. In the Fuel segment, Aldrees had 482 stations in 2019, 16 of which are owned and the remaining rented under revocable contracts with an average 10-year tenor. Over 20% of the lease contracts will be renewed within the coming 4 years. The stations are strategically located with more than half of them in the Central Province. Aldrees entered in the transportation segment originally as a complementary service to its gasoline station business, with almost 2% of the owned 1,255 trucks used to serve the fuel segment and the remaining fleet engaged in transporting liquefied chemicals and grains. Most of the contracts in the segment have a 3-5 year tenor while the Maaden SAR597mn contract has a tenor of 4 years, expiring in July 2021.

## Valuation methodology and risks

We have a Buy rating on Aldrees with a FV estimate of SAR71/share using a SOTP methodology with a 5-year DCF, discounted at a WACC of 7.2%, and a terminal growth rate of 2% for each of the fuel segment (65% of value) and the transportation segment (35%). Key downside risks to our forecasts include (i) escalating lease expenses of gasoline stations amid less frequent margin revisions by the kingdom, (ii) changes in consumption patterns in case of a prolonged quarantine measures amid the COVID-19 outbreak, and (iii) competition within the gasoline retailer industry.

| Main Ratios               | 2019a  | 2020e  | 2021e | 2022e |
|---------------------------|--------|--------|-------|-------|
| <b>Per-share data</b>     |        |        |       |       |
| EPS (SAR)*                | 3.7    | 3.0    | 4.5   | 4.7   |
| BVPS (SAR)                | 13.0   | 14.1   | 15.6  | 17.2  |
| DPS (SAR)                 | 1.5    | 2.0    | 2.9   | 3.0   |
| EV (SAR)                  | 91.7   | 92.6   | 92.0  | 91.3  |
| <b>Valuation data</b>     |        |        |       |       |
| Share Price               | 58     | 58     | 58    | 58    |
| P/E (x)*                  | 15.6   | 19.1   | 13.1  | 12.5  |
| P/BV (x)                  | 4.5    | 4.1    | 3.7   | 3.4   |
| Dividend yield            | 2.6%   | 3.4%   | 5.0%  | 5.2%  |
| FCF yield                 | 10.8%  | 1.1%   | 4.5%  | 6.3%  |
| EV/EBITDA (x)             | 8.9    | 9.4    | 8.0   | 7.7   |
| <b>Growth (y-o-y)</b>     |        |        |       |       |
| Revenue                   | 9.7%   | -7.0%  | 20.0% | 10.8% |
| EBITDA                    | 37.2%  | -4.7%  | 17.3% | 3.1%  |
| Earnings                  | 336.1% | -37.2% | 46.3% | 4.6%  |
| Recurring earnings*       | 251.5% | -18.3% | 46.5% | 4.6%  |
| <b>Profitability</b>      |        |        |       |       |
| Gross profit margin (GPM) | 13.5%  | 13.8%  | 13.4% | 12.6% |
| EBITDA margin             | 10.9%  | 11.2%  | 10.9% | 10.2% |
| EBIT margin               | 5.5%   | 5.0%   | 5.5%  | 5.1%  |
| Net profit margin (NPM)   | 3.9%   | 3.5%   | 4.2%  | 4.0%  |
| ROAA*                     | 6.4%   | 5.1%   | 7.1%  | 7.1%  |
| ROAE*                     | 31.3%  | 22.4%  | 30.0% | 28.3% |
| ROAIC*                    | 7.9%   | 6.2%   | 8.9%  | 9.1%  |
| <b>Leverage</b>           |        |        |       |       |
| Net debt/equity           | 2.6    | 2.4    | 2.2   | 1.9   |
| Net debt/EBITDA           | 3.2    | 3.5    | 2.9   | 2.8   |

\* Based on core net income (excluding appropriations and one-offs)

Source: Company, Beltone estimates

## I. Valuation

We have a Buy recommendation on Aldrees with a FV of SAR71/share, implying a 22% upside potential. We reach this value using a SOTP valuation methodology, where each of the fuel and the transportation segments are valued separately using a DCF model.

We utilize a WACC of 7.2% and a cost of equity of 8.5% derived from (i) a risk free rate of 2.9% (using a 7-year sovereign sukkuk yield after zakat), (ii) equity market risk premium (ERP) of 6.2% (US market risk premium plus an additional country risk premium), and (iii) a beta of 0.9. Our WACC calculations are based on a 63% weight of equity and 37% weight of debt and lease after accounting for IFRS 16 accounting standards. We also use a terminal growth rate of 2%.

Figure 1: Sum-of-the parts DCF valuation for Aldrees

| Discounted Cash Flow (SARmn)                  | 2020e        | 2021e            | 2022e        | 2023e        | 2024e        |
|---|--------------|------------------|--------------|--------------|--------------|
| <b>1. Fuel</b>                                |              |                  |              |              |              |
| NOPLAT  | 184          | 256              | 289          | 317          | 344          |
| BOD and employee remunerations                | (1)          | (1)              | (1)          | (1)          | (1)          |
| Depreciation and amortization                 | 277          | 293              | 301          | 310          | 322          |
| CAPEX   | (117)        | (126)            | (120)        | (98)         | (104)        |
| <b>Change in working capital</b>              | <b>(35)</b>  | <b>(26)</b>      | <b>(13)</b>  | <b>(20)</b>  | <b>(24)</b>  |
| <b>Change in capital leased assets</b>        | <b>(263)</b> | <b>(251)</b>     | <b>(258)</b> | <b>(262)</b> | <b>(267)</b> |
| <b>FCFF</b>                                   | <b>45</b>    | <b>145</b>       | <b>196</b>   | <b>245</b>   | <b>270</b>   |
| <b>Terminal Value</b>                         |              |                  |              |              | <b>5,331</b> |
| <b>PV OF FCFF</b>                             | <b>43</b>    | <b>129</b>       | <b>163</b>   | <b>190</b>   | <b>195</b>   |
| Sum of PV of FCFF                             | 721          |                  |              |              |              |
| PV of terminal value                          | 3,860        |                  |              |              |              |
| <b>Enterprise Value (EV)</b>                  | <b>4,581</b> |                  |              |              |              |
| Net cash (debt) (based on 31 Dec19)           | (1,816)      |                  |              |              |              |
| <b>Equity value of Petroleum segment</b>      | <b>2,765</b> |                  |              |              |              |
| <b>FV/share, SAR</b>                          | <b>46</b>    | <b>65% of FV</b> |              |              |              |
| <b>2. Transportation segment</b>              |              |                  |              |              |              |
| NOPLAT  | 77           | 86               | 65           | 58           | 59           |
| BOD and employee remunerations                | (1)          | (1)              | (1)          | (1)          | (1)          |
| Depreciation and amortization                 | 47           | 50               | 51           | 52           | 53           |
| CAPEX   | (46)         | (46)             | (19)         | (19)         | (20)         |
| Change in working capital                     | (2)          | (1)              | (1)          | (1)          | (1)          |
| <b>FCFF</b>                                   | <b>76</b>    | <b>88</b>        | <b>96</b>    | <b>89</b>    | <b>90</b>    |
| <b>Terminal Value</b>                         |              |                  |              |              | <b>1,777</b> |
| <b>PV OF FCFF</b>                             | <b>73</b>    | <b>79</b>        | <b>80</b>    | <b>69</b>    | <b>65</b>    |
| <b>Sum of PV of FCFF</b>                      | <b>366</b>   |                  |              |              |              |
| <b>PV of terminal value</b>                   | <b>1,287</b> |                  |              |              |              |
| <b>Enterprise value (EV)</b>                  | <b>1,653</b> |                  |              |              |              |
| Net cash (debt) (based on 31 Dec19)           | (168)        |                  |              |              |              |
| <b>Equity value of transportation segment</b> | <b>1,485</b> |                  |              |              |              |
| <b>FV/share, SAR</b>                          | <b>24</b>    | <b>35% of FV</b> |              |              |              |
| <b>Total equity value</b>                     | <b>4,251</b> |                  |              |              |              |
| Shares outstanding, mn                        | 60.0         |                  |              |              |              |
| <b>SOTP value per share, SAR</b>              | <b>71</b>    |                  |              |              |              |

Figure 2: Sensitivity of our FV to changes in the cost of equity and terminal growth rate

| Terminal growth rate | Cost of equity |       |       |       |       |       |
|----------------------|----------------|-------|-------|-------|-------|-------|
|                      | 71             | 6.5%  | 7.5%  | 8.5%  | 9.5%  | 10.5% |
| 0%                   | 45.7           | 45.7  | 45.7  | 45.7  | 45.6  | 45.6  |
| 1%                   | 56.2           | 56.2  | 56.2  | 56.2  | 56.2  | 56.2  |
| 2%                   | 70.9           | 70.8  | 70.8  | 70.8  | 70.8  | 70.8  |
| 3%                   | 92.5           | 92.5  | 92.5  | 92.5  | 92.5  | 92.5  |
| 4%                   | 127.8          | 127.8 | 127.8 | 127.8 | 127.8 | 127.8 |

Source: Beltone estimates

## II. Operations overview

---

### 1. Petrol division (95% of revenue)

#### Expected CAPEX of SAR117mn in 2020e to meet government's qualifications measures

Pursuant to the Saudi government regulation measures on gasoline retailers, Aldrees has spent some SAR351mn since 2016 as part of its rehabilitation plan for its stations inside the cities and on highways. This drove Aldrees to reduce the net number of its stations from 478 in 2014 to 445 in 2018. According to the company's initial plan, some 148 stations were slated for renovation in 2020 with an expected CAPEX of SAR192mn. However, given the lockdown imposed in the country, we assume the renovation plan will likely be altered and expanded over the coming 3 years, with an average of 45 stations renovated annually. Currently, 359 of Aldrees' stations have implemented the electronic fuel system (WAIE) program to allow for more control measures over payments, which the company considers a convenient and secure service for customers, especially governmental entities. WAIE allows for better services offered to the company's customers with a prepayment option to ensure cash availability to repay its monthly dues to Saudi Aramco. The company is also looking into adding electric car chargers at its stations as well as the addition of new mobile stations that could provide an additional revenue stream.

### 2. Transportation segment (5% of revenue)

#### High concentration in Maaden contract; likely renewal upon contract termination

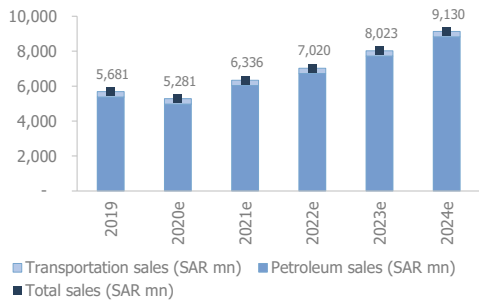
The company's transportation segment is engaged in a wide array of commodity transport, with 40% of revenue generated from the 4-year, SAR597mn contract signed with Maaden that expires in July 2021. Aldrees established 300 tanks designed specifically to fulfill the contract, with 120 double stainless steel tanks to transfer molten sulphur from Saudi Aramco's factories in the Eastern Province to Maaden Waad Al Shamal Phosphate Company, and to transfer phosphoric acid from Waad A Shamal to Ras al-Khair Industrial City utilizing 178 double-driver tanks to enjoy the high margins. According to Maaden's policy, 25% of the volumes of molten sulphur and phosphoric acid should be transferred through Aldrees, with the balance to be transferred through the Saudi railway, which is a cheaper mean of transportation. According to the contract, Aldrees charges Maaden a monthly standby penalty of SAR18k for a maximum of 12 months for the unutilized trucks. Aldrees' management expects the contract to be renewed upon its expiration, though at relatively lower terms. Despite market competition, Aldrees' tanks have better specs than its competitors, with thermal insulation systems, double thickness, and a 31-ton load compared to local peers' 24-ton load steel tanks.

#### An estimated SAR50mn bill to comply with Saudi Aramco's requirement to convert fuel transportation tanks to aluminum

Saudi Aramco is requiring all fuel steel transportation tanks to be converted to aluminium by 2023, which is safer, lighter, and less likely to crack. Based on the company's guidance of a SAR230k CAPEX per tank, we believe that Aldrees will have to spend close to SAR50mn on renewing its fuel tanks.

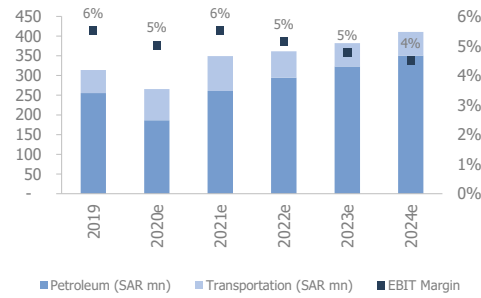


**Figure 3: Revenue expected to grow at 2019–24 CAGR of c10%**



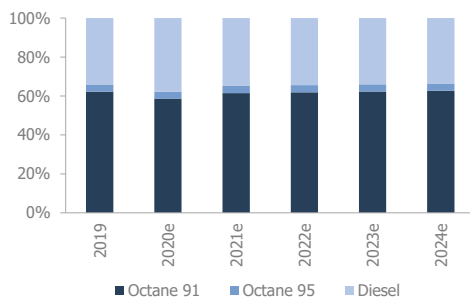
Source: Company Disclosure, Beltone estimates

**Figure 4: EBIT to grow at a 2019–24 CAGR of c6%**



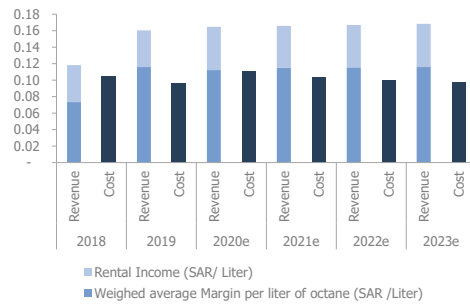
Source: Company Disclosure, Beltone estimates

**Figure 5: Volume breakdown (% of total)**



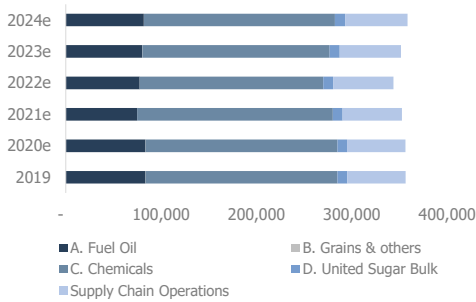
Source: Company Disclosure, Beltone estimates

**Figure 6: Rental income to offset mounting cost/liter**



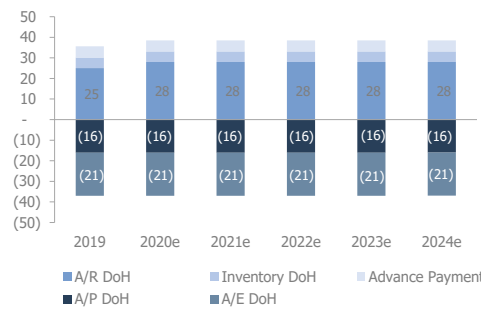
Source: Company Disclosure, Beltone estimates

**Figure 7: Transportation revenue to stabilize (SAR 000)**



Source: Company Disclosure, Beltone estimates

**Figure 8: Asset conversion cycle is balanced (days)**



Source: Company Disclosure, Beltone estimates

**Rating: Buy**
**Fair value: SAR31**
**Market price: SAR25.8**
**Upside: 21%**
**Mohamed Hamza**

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## Saudi Automotive Services Company (SASCO)

### Fuel station expansions to drive strong growth profile

Consumers | Saudi Arabia

Initiation of Coverage

4 May 2020

#### Initiate coverage with a FV of SAR31/share and a Buy recommendation

With a 2% market share in terms of number of stations, SASCO's core business evolves around fuel refilling services (198 stations) and store management (80 stores). Collectively, both constitute c98% of FY19 sales. Additionally, SASCO owns diversified and higher margin business segments that include (i) transportation fleet management (1.2% of FY19 sales), (ii) hospitality management (0.2% of FY19 sales), and (iii) travel document issuance (0.4% of FY19 sales). Using a SOTP approach, we arrive at a FV estimate of SAR31.0/share, which translates to c21% upside and a Buy recommendation.

#### Margin relief subdued by COVID-19 impact; FY21e to see the light

Following years of lower operational margins, SASCO was selected as one of the 20 companies authorized by MOMRA to continue operating under its recently amended bylaws in February 2020. These measures were required to ease off pressure on gas station retailers' margins as well as enhance client experience. Consequently, we believe SASCO will greatly benefit as fuel sales will continue to dominate revenue growth, attributed by the increased number of unqualified stations leased to SASCO. However due to the widespread of COVID-19 in March 2020, household movement was limited to certain curfew hours and in some cases complete lockdowns have caused gas stations to shut down temporarily. As a result, we believe SASCO will take a hit in FY20e as fuel sales drop c5% y-o-y on the back of c11% y-o-y drop in station throughput. Going forward, as the pandemic fades, we believe sales will pick up pace at a CAGR of c19% from FY20–24e. Our growth assumption entails number of operating stations will potentially reach 243 in FY24e, up from 198 in FY19. On a group level, we project core earnings will fall c47% y-o-y in FY20e, however press forward with a c89% y-o-y surge in FY21e.

#### Revenue diversification goes hand-in-hand with core business

By virtue of the strategic partnership signed with multinational and local establishments that specialize in managing restaurants and maintenance workshops, we believe SASCO will focus on inaugurating more stores in the coming period. As for non-fuel operations, we expect SASCO's high margin transportation segment to continue supporting overall GPM (with an average GPM of over 30% between 2017 and 2019). We believe the company's transportation revenue will grow at a 5-year CAGR of c10%, driven by the expected expansion of its fleet reaching 205 trucks and 215 trailers by FY24e, up from 127 trucks and 143 trailers in FY19. Meanwhile, SASCO's other revenue segments, which include hospitality management and issuance of cross-border documentation, will be greatly impacted in FY20e as a result of the spread of COVID-19 before potentially normalizing in the following years.

#### CAPEX heavily linked to station expansions

With over c68% of CAPEX allocated to new station leases and building improvements over our forecast horizon, we believe our estimates are in line with SASCO's strategy to add 5 new stations in FY20 and 10 new stations annually from 2021–24. As a result, SASCO should maintain a CAPEX/sales ratio of 1.9% on average, while retaining a debt/equity average of c50% from FY20–24e given the company's capital structure, on our numbers.

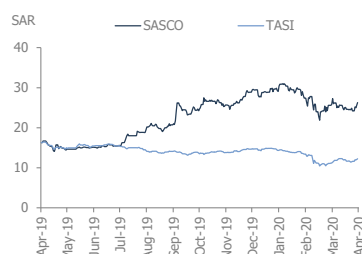
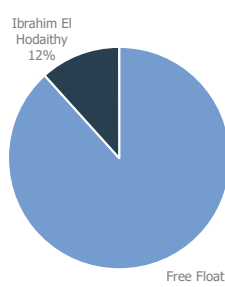
#### Main financial highlights (FY end December.)

| In SAR mn, unless otherwise stated | 2019a | 2020e | 2021e | 2022e |
|------------------------------------|-------|-------|-------|-------|
| Revenue                            | 2,483 | 2,491 | 3,045 | 3,477 |
| EBITDA                             | 217   | 201   | 239   | 268   |
| Recurring net income*              | 65    | 35    | 66    | 84    |
| EPS (SAR)*                         | 1.1   | 0.6   | 1.1   | 1.4   |
| P/E (x)*                           | 23.6  | 44.2  | 23.4  | 18.4  |
| EV/EBITDA (x)                      | 12.9  | 13.8  | 11.6  | 10.2  |
| Net debt (cash)/equity             | 1.5   | 1.4   | 1.3   | 1.2   |
| ROAE*                              | 8.2%  | 4.0%  | 7.3%  | 8.8%  |

\*Based on core net attributable income (excluding appropriations, one-offs and volatile expenses)

Source: Company, Beltone estimates

#### Shareholder structure



\*Closing as of 30 April 2020

#### Stock data

|                         |                           |
|-------------------------|---------------------------|
| Reuters                 | 4050.SE                   |
| Bloomberg               | SACO AB                   |
| Shares                  | 60 mn                     |
| MKT cap (mn)            | SAR1,548 mn/<br>USD414 mn |
| 3M avg. daily liquidity | USD 3.5 mn                |
| 52-week high/low        | SAR31.0/SAR14.1           |
| Free float              | 88%                       |

## Financial statement | FY end December (SARmn)

| Income statement                     | 2019a      | 2020e      | 2021e      | 2022e      |
|--------------------------------------|------------|------------|------------|------------|
| Total revenue                        | 2,483      | 2,491      | 3,045      | 3,477      |
| Operating costs                      | (2,211)    | (2,235)    | (2,739)    | (3,132)    |
| <b>Gross profit</b>                  | <b>272</b> | <b>255</b> | <b>306</b> | <b>344</b> |
| SG&A expenses                        | (55)       | (55)       | (67)       | (77)       |
| <b>EBITDA</b>                        | <b>217</b> | <b>201</b> | <b>239</b> | <b>268</b> |
| Depreciation and amortization        | (115)      | (131)      | (136)      | (145)      |
| <b>Operating profit</b>              | <b>102</b> | <b>70</b>  | <b>103</b> | <b>123</b> |
| Net financing income/(cost)          | (33)       | (8)        | (7)        | (7)        |
| Income from investments              | 22         | 22         | 22         | 22         |
| Other income/(expense)               | 34         | -          | -          | -          |
| <b>EBT</b>                           | <b>125</b> | <b>83</b>  | <b>118</b> | <b>139</b> |
| Income taxes                         | (3)        | (1)        | (2)        | (3)        |
| <b>NPAT</b>                          | <b>122</b> | <b>82</b>  | <b>116</b> | <b>136</b> |
| Appropriations                       | -          | -          | -          | -          |
| <b>Net attributable income</b>       | <b>122</b> | <b>82</b>  | <b>116</b> | <b>136</b> |
| <b>Core net attributable income*</b> | <b>65</b>  | <b>35</b>  | <b>66</b>  | <b>84</b>  |

| Balance sheet                         | 2019a        | 2020e        | 2021e        | 2022e        |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Cash and equivalents                  | 65           | 50           | 64           | 123          |
| Accounts receivables                  | 102          | 103          | 126          | 143          |
| Inventory                             | 49           | 50           | 61           | 70           |
| Advance Payments                      | 172          | 164          | 192          | 219          |
| Other assets                          | 0            | 0            | 0            | 0            |
| <b>Total current assets</b>           | <b>389</b>   | <b>367</b>   | <b>443</b>   | <b>556</b>   |
| Fixed assets                          | 1,097        | 1,094        | 1,091        | 1,090        |
| Investments                           | 185          | 185          | 185          | 185          |
| Projects Under Construction           | 61           | 61           | 61           | 61           |
| Present value of Rights of Use Asset  | 720          | 733          | 780          | 824          |
| Other non-current assets              | 10           | 10           | 10           | 10           |
| <b>Total non-current assets</b>       | <b>2,072</b> | <b>2,081</b> | <b>2,127</b> | <b>2,169</b> |
| <b>Total Assets</b>                   | <b>2,461</b> | <b>2,448</b> | <b>2,570</b> | <b>2,725</b> |
| Banks Short Term Borrowings           | 105          | 105          | 129          | 147          |
| CPLTD                                 | 88           | 88           | 50           | 50           |
| CPLTD of Lease Liability              | 53           | 53           | 53           | 53           |
| Account payables                      | 45           | 51           | 70           | 88           |
| Creditors and other credit balances   | 231          | 232          | 279          | 314          |
| <b>Total current liabilities</b>      | <b>523</b>   | <b>530</b>   | <b>580</b>   | <b>652</b>   |
| Long Term Debt                        | 388          | 300          | 250          | 200          |
| Lease Liability                       | 684          | 721          | 795          | 871          |
| Provision for End of Service Benefits | 15           | 15           | 15           | 15           |
| <b>Total non-current liabilities</b>  | <b>1,087</b> | <b>1,036</b> | <b>1,060</b> | <b>1,085</b> |
| Paid-in Capital                       | 600          | 600          | 600          | 600          |
| Reserves                              | 56           | 56           | 56           | 56           |
| Unrealized Gain on Investments        | 127          | 127          | 127          | 127          |
| Retained Earnings                     | 69           | 100          | 148          | 205          |
| <b>Total equity</b>                   | <b>851</b>   | <b>882</b>   | <b>930</b>   | <b>987</b>   |
| <b>Total liabilities and equity</b>   | <b>2,461</b> | <b>2,448</b> | <b>2,570</b> | <b>2,725</b> |

| Cash flow                 | 2019a | 2020e | 2021e | 2022e |
|---------------------------|-------|-------|-------|-------|
| Cash flow from operations | 232   | 200   | 228   | 250   |
| Cash flow from investing  | (57)  | (50)  | (54)  | (58)  |
| Cash flow from financing  | (91)  | (167) | (158) | (133) |
| Change in cash            | 84    | (16)  | 16    | 59    |

## Investment summary

Operating in Saudi Arabia since 1982 in both fuel and non-fuel segments, SASCO ranks third with a market share of 2% in a fragmented market of over 10,000 fuel stations in the country. For the fuel segment (which constitutes over 98% of total FY19 revenue), SASCO operates and owns 198 state-of-the-art gas stations that provide fuel re-filling services and mini-supermarkets. Customers are also offered vehicle maintenance services in rented workshops within station premises. As for the non-fuel segment business (which constitutes over 2% of total FY19 revenue) SASCO operates a fleet of 270 trucks and trailers as of FY19 that transport water, fuel, and third-party cargo. In effort to diversify its business and utilize its wide-scale premises, SASCO added the management of 10 hotels and motels to its portfolio, which offer its traveling customers overnight stays and easy access to highways. Additionally, SASCO issues travel documents for transportation vehicles as well as international driving licenses for traveling residents. We expect the company's core earnings to grow at a 2019–24e CAGR of c14%, driven by (i) leased station additions as independent private fuel station owners fail to comply with MOMRA regulations to operation gas stations, leading them to lease their stations to approved companies such as SASCO, (ii) an increased fuel retail margin, which came into effect on February 2020, and (iii) maintaining higher-margin operations such as transportation, where average historical GPM recorded 30%.

## Valuation methodology and risks

We have a Buy rating on SASCO with a FV estimate of SAR31/share using a SOTP methodology with a 5-year DCF, discounted at a WACC of 5.8%, and a terminal growth rate of 2% for each of the fuel segment (89% of value) and the transportation and other segments (11%). Key downside risks to our forecasts include (i) escalating lease expenses of gasoline stations amid less frequent margin revisions by the kingdom, (ii) changes in consumption patterns in case of a prolonged quarantine measures amid the COVID-19 outbreak, and (iii) competition within the gasoline retailer industry.

| Main Ratios               | 2019a  | 2020e  | 2021e | 2022e |
|---------------------------|--------|--------|-------|-------|
| <b>Per-share data</b>     |        |        |       |       |
| EPS (SAR)*                | 1.1    | 0.6    | 1.1   | 1.4   |
| BVPS (SAR)                | 14.2   | 14.7   | 15.5  | 16.4  |
| DPS (SAR)                 | 0.5    | 0.4    | 0.7   | 0.8   |
| EV (SAR)                  | 46.3   | 45.7   | 45.6  | 45.4  |
| <b>Valuation data</b>     |        |        |       |       |
| Share Price               | 25.8   | 25.8   | 25.8  | 25.8  |
| P/E (x)*                  | 23.3   | 44.2   | 23.4  | 18.4  |
| P/BV (x)                  | 1.8    | 1.8    | 1.7   | 1.6   |
| Dividend yield            | 2.0%   | 1.7%   | 2.6%  | 3.2%  |
| FCF yield                 | 15.2%  | 9.8%   | 11.2% | 12.5% |
| EV/EBITDA (x)             | 12.8   | 13.8   | 11.6  | 10.2  |
| <b>Growth (y-o-y)</b>     |        |        |       |       |
| Revenue                   | 20.8%  | 0.3%   | 22.3% | 14.2% |
| EBITDA                    | 163.7% | -7.7%  | 19.1% | 12.2% |
| Earnings                  | 243.6% | -32.7% | 41.0% | 17.5% |
| Recurring earnings*       | 144.0% | -46.5% | 89.2% | 26.9% |
| <b>Profitability</b>      |        |        |       |       |
| Gross profit margin (GPM) | 11.0%  | 10.3%  | 10.0% | 9.9%  |
| EBITDA margin             | 8.8%   | 8.1%   | 7.8%  | 7.7%  |
| EBIT margin               | 4.1%   | 2.8%   | 3.4%  | 3.5%  |
| Net profit margin (NPM)   | 2.6%   | 1.4%   | 2.2%  | 2.4%  |
| ROAA*                     | 3.2%   | 1.4%   | 2.6%  | 3.2%  |
| ROAE*                     | 8.2%   | 4.0%   | 7.3%  | 8.8%  |
| ROAIC*                    | 3.8%   | 1.6%   | 3.0%  | 3.8%  |
| <b>Leverage</b>           |        |        |       |       |
| Net debt/equity           | 1.5    | 1.4    | 1.3   | 1.2   |
| Net debt/EBITDA           | 5.8    | 6.1    | 5.1   | 4.5   |

\* based on core attributable net income (excluding one-offs and volatile items)

Source: Company, Beltone estimates

## I. Valuation

We have a Buy rating on SASCO with a FV estimate of SAR31/share using a SOTP methodology, where each of the fuel (FV:SAR28) and the non-fuel segments (FV:SAR3) are valued separately using a DCF model. We utilize a WACC of 5.8% and a cost of equity of 6.6% derived from (i) a risk free rate of 2.9% derived from a 7-year sovereign sukuk yield after zakat, (ii) equity market risk premium (ERP) of 6.20%, and (iii) beta of 0.6. Our WACC calculations are based on a 55% weight of equity and 45% weight of debt and lease after accounting for IFRS 16 accounting standards. We also use a terminal growth rate of 2%.

Figure 1: SOTP DCF valuation for SASCO

| DCF (SAR mn)                       | 2020e        | 2021e     | 2022e     | 2023e     | 2024e      |  |
|------------------------------------|--------------|-----------|-----------|-----------|------------|--|
| <b>1. Fuel</b>                     |              |           |           |           |            |  |
| NOPAT                              | 63           | 96        | 115       | 134       | 162        |  |
| Depreciation and amortization      | 114          | 117       | 124       | 132       | 139        |  |
| CAPEX                              | (34)         | (37)      | (39)      | (42)      | (46)       |  |
| Change in working capital          | 13           | 3         | 0         | (4)       | 1          |  |
| Increase in capital lease assets   | (91)         | (127)     | (128)     | (134)     | (138)      |  |
| <b>FCFF</b>                        | <b>65</b>    | <b>52</b> | <b>71</b> | <b>86</b> | <b>118</b> |  |
| Terminal value                     |              |           |           |           | 3,128      |  |
| PV of FCFF                         | 62           | 47        | 61        | 70        | 91         |  |
| Sum of PV of FCFF                  | 332          |           |           |           |            |  |
| PV of terminal value               | 2,405        |           |           |           |            |  |
| EV                                 | 2,737        |           |           |           |            |  |
| Net debt(cash) (based on 31 Dec19) | 1,061        |           |           |           |            |  |
| Equity value of fuel segment       | 1,676        |           |           |           |            |  |
| FV/share, SAR                      | 28           | 89% of FV |           |           |            |  |
| <b>2. Non-fuel segment</b>         |              |           |           |           |            |  |
| NOPLAT                             | 6            | 5         | 6         | 7         | 7          |  |
| Depreciation and amortization      | 17           | 19        | 20        | 22        | 24         |  |
| CAPEX                              | (16)         | (17)      | (19)      | (21)      | (23)       |  |
| Change in working capital          | 1            | 0         | 0         | (0)       | 0          |  |
| <b>FCFF</b>                        | <b>8</b>     | <b>7</b>  | <b>7</b>  | <b>8</b>  | <b>9</b>   |  |
| Terminal value                     |              |           |           |           | 227        |  |
| PV of FCFF                         | 7            | 6         | 6         | 6         | 7          |  |
| Sum of PV of FCFF                  | 33           |           |           |           |            |  |
| PV of terminal value               | 174          |           |           |           |            |  |
| EV                                 | 207          |           |           |           |            |  |
| Net debt(cash) (based on 31 Dec19) | 7            |           |           |           |            |  |
| Equity value of non-fuel segment   | 200          |           |           |           |            |  |
| FV/share, SAR                      | 3            | 11% of FV |           |           |            |  |
| <b>Total equity value</b>          | <b>1,876</b> |           |           |           |            |  |
| Shares outstanding, mn             | 60           |           |           |           |            |  |
| <b>SOTP value per share, SAR</b>   | <b>31</b>    |           |           |           |            |  |

Figure 2: Sensitivity of our FV to changes in the cost of equity and terminal growth rate

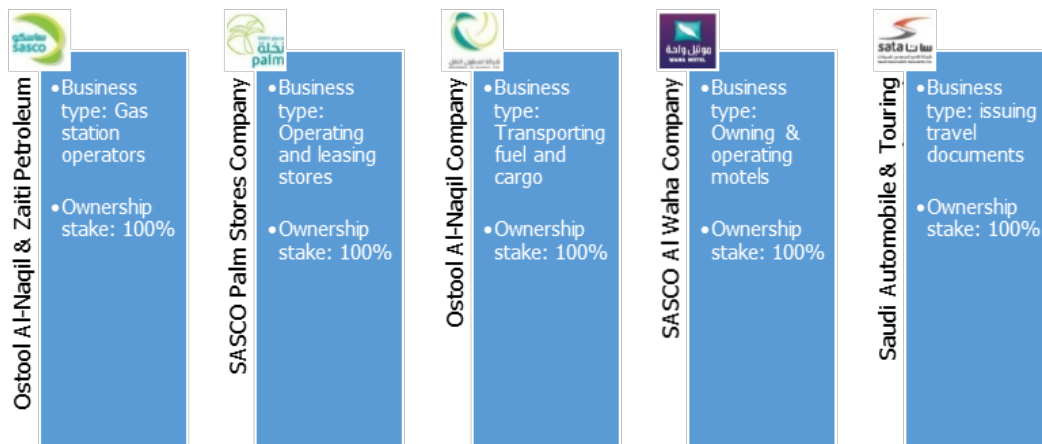
| Perpetual growth | Cost of equity |     |           |    |    |
|------------------|----------------|-----|-----------|----|----|
|                  | 5%             | 6%  | 7%        | 8% | 9% |
| 0%               | 22             | 19  | 16        | 14 | 12 |
| 1%               | 32             | 26  | 22        | 19 | 16 |
| 2%               | 48             | 38  | <b>31</b> | 26 | 22 |
| 3%               | 84             | 61  | 47        | 37 | 31 |
| 4%               | 213            | 118 | 79        | 58 | 45 |

Source: Beltone estimates

## II. Operations overview

Saudi Automotive Services Company (SASCO) was established in 1982. Its main activities include (i) owning, operating, and leasing gas stations, stores, and workshops, (ii) transporting fuel and cargo, (iii) operating motels, (iv) importing and selling spare parts, and (v) issuing cross-border documentation for traveling trucks and international driving licenses for traveling citizens. Each business segment falls under a subsidiary, with each fully owned by SASCO.

Figure 3: SASCO's main business lines



Source: Company reports

### Fuel revenues (98% of FY19 revenue):

#### 1. Petrol division (89% of FY19 revenue)

In effort to consolidate a fragmented market of over 10,000 stations in Saudi Arabia, some c88% of which are privately owned, MOMRA is mandating gas station companies comply with regulations requiring fuel retailers to enhance quality and service to end users as well expand outreach to more secluded regions. We therefore expect the Saudi market to witness an increase in the number of new stations going forward, whether newly launched or renovated stations.

SASCO ranks third among local peers with a market share of 2%, and is one of 20 approved companies to increase its outreach as well as implement new margin increases (SAR0.15/liter for diesel products and SAR0.05/liter for diesel products). In line with market growth, SASCO has increased its number of sites in FY19 to 198 stations from 166 stations in FY18 (+c19% y-o-y). Out of total sites, 40 stations are owned while the remaining 158 stations are non-owned (either leased or contracted from independent gas station owners through revenue-share agreements). We believe further additions will be supplemented with private gas station retailers required to partner or lease their stations to approved companies, such as SASCO, to continue operating. In February 2020, management announced that it renewed its qualification certificate with MOMRA, which we believe will support management's expansion plans to add 5 stations in FY20, increasing to 10 stations annually onwards with a dependency on leasing contracts.

In April 2020, SASCO was also awarded a 3-year contract worth SAR209mn to supply fuel and offer maintenance to the General Security's vehicles in Mecca, Jada, and Ta'if. That said, we expect fuel revenue to grow at a CAGR of c14% over our forecast horizon. Known for its low GPM (average of 4.6% from FY17–19), fuel-station revenue contributes c88% on average to total group revenue. Due to its significance to the company's future planning as a cash-generating segment, management continuously implements initiatives to raise quality and increase market share going forward.

## 2. Stores (9% of revenue)

SASCO also operates convenience stores under the SASCO Palm Stores (SPS) brand to serve customers while fueling their vehicles or waiting for maintenance work to be completed. To expand its reach, management also operates SPS outside gas station perimeters to act as a mini-supermarket for out-of-reach areas in the kingdom. As of the end of FY19, management increased the number of stores to 80 from 69 in FY18 (+c16% y-o-y), which has resulted in retail space increasing c6% y-o-y. In addition, the client basket grew from SAR21.04/customer in FY18 to SAR22.42/customer (+6.6% y-o-y) in FY19. Accordingly, revenue/sqm increased from SAR15,300 in FY18 to SAR47,600 in FY19. We project additional stores to be launched in the coming periods supported by the government's efforts to enhance quality and service of gas stations as well expand scope to more secluded regions, especially on highway roads. Second in line regarding revenue contribution, SPS contributes 10.6% on average to total group revenue, with GPM recording an average of 5.2% from FY17–19.

## Transportation and other revenue (2% of revenue):

### 1. Transportation segment (1.2% of FY19 revenue)

SASCO's highest margin contributor, Ostool Al-Naqil Company, offers fuel, water, and sewage transportation services to its own sites as well as serving retail and distribution businesses with fuel and cargo. With the majority of the segment's workforce being expatriate workers, the growth in liters transported dropped to single digits (+c8% y-o-y) in FY18 compared to c33% on average from FY14 to FY17. Management attributed the fall to lack of visa approvals in 2017 and 2018 as part of efforts to increase Saudi employment. However, due to increased demand for transportation services, showcased by SASCO's transportation units surpassing 15mn km in FY19 versus 14mn km in FY18 (+7.1% y-o-y), and return of entry visas for non-saudis in 2019, SASCO accumulated over 127 trucks (+c18% y-o-y) and 143 trailers (+c8% y-o-y) by 2019. With a CAPEX plan of 30 additional units per year (with an average cost of SAR285,000/ truck and SAR205,000/trailer), we believe trucks and trailers owned will reach 205 and 215, respectively, by FY24e, growing at a CAGR of 9.2% over our forecast horizon. As a result, we project revenue per unit to reach SAR231,000 by FY24e versus SAR212,000 in FY19, with GPM maintained at 26% on average as management has yet to announce any new contracts in the previous 2 years.

### 2. Hospitality (0.2% of FY19 revenue)

The Saudi government launched its new tourism program that includes permitting tourist visas to over 49 nationalities, marking a major shift from initially granting visas to exclusively to pilgrims, businesspersons, and expatriate workers. This comes in an effort to diversify the kingdom's economy, which is heavily reliant on crude oil, targeting to increase tourism revenue to 10% of GDP from current levels of 3%. This is supported by the Saudi Vision 2030 program, which entails the establishment of 144 new hotels and 56,106 rooms by 2021 and amassing 100mn annual visits by 2030. To coincide with its strategy to serve travellers, SASCO established Al-Waha Company to manage and operate 9 motels (Waha Motels), along with its sole hotel under the brand name of Super8. Al Waha Company's revenue growth of c40% y-o-y in FY19 as well as Super8 recording an occupancy rate of c92% by the end of FY19 suggests substantial development awaits in the coming period (par the impact of COVID-19), in our view. This coincides with Smith Travel Research's (STR), a leading provider of global hospitality sectors analytics, latest findings on Saudi hotels located in Jeddah and Riyadh as illustrated below:

Figure 4: Increased interest in Saudi hospitality market

| Indicators                          | Jeddah (as of Jan20)              | Riyadh (as of Oct19)              |
|-------------------------------------|-----------------------------------|-----------------------------------|
| Supply                              | +3.9% y-o-y                       | +15.2% y-o-y                      |
| Demand                              | +36.4% y-o-y                      | +34.7% y-o-y                      |
| Revenue per available room (RevPAR) | +19.6% y-o-y                      | +25.8% y-o-y                      |
| Occupancy Rate                      | 63.7%<br>(up from 32.4% in Jan19) | 76.2%<br>(up from 59.2% in Oct18) |

Source: Smith Travel Research

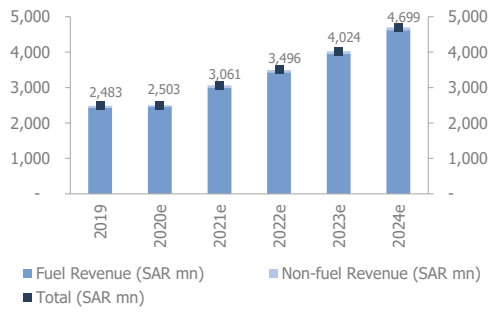
To profit from the increased interest in hotels, the company's management has shifted its focus to adding new hotels (bigger premises) versus motels (smaller premises). Accordingly, SASCO plans to establish a new 100-bed Super8 hotel (expected to be finalized by 2021). As a result, Al-Waha Company will record improved revenue as the number of beds/rooms increase as well as higher room rates recorded in Saudi Arabia. On the other hand, the government's announcement of a total lockdown due to the spread of COVID-19 will result in decreased occupancy rates in FY20 due to mass pilgrimage cancellations and continued travel restrictions, in our view. We believe both hotel and motel operations will recover by mid-FY21e to demonstrate higher occupancy rates, along with increased capacities for hotels as mentioned before.

### **3. Saudi Automobile & Touring Association (SATA) (0.2% of FY19 revenue)**

SATA was established to offer customs documents for vehicles departing from Saudi Arabia. To operate under international standards, SATA signed an agreement with the General Authority of Customs in October 2018 to operate under the TIR (Transports Internationaux Routiers) system, which is a universal customs transit system that permits ease of import delivery across road borders. In February 2020, SASCO announced that it had extended its customer base to other notable ports to include Al Batha, Al Khafji, Al Reqai, Hadithah, Halat Ammar, Jeddah Islamic, King Abdulaziz in Dammam, Duba and Riyadh Dry Port. Additionally, SASCO issues international driving permits for traveling residents through its operating outlets. Despite efforts to broaden its base, SATA's contribution to group revenue continues to be retained at 0.6% from 2018–19 due to (i) political restrictions with neighboring countries such as Yemen and (ii) increased competition from peer clubs. We believe SATA's marginal contribution will continue to be recorded in FY20e and FY21e as a result of (i) continued unrest from the Yemeni civil war and (ii) the recent COVID-19 outbreak, potentially halting residents' plan to travel abroad as well as leading to higher imposed restrictions on custom screenings.

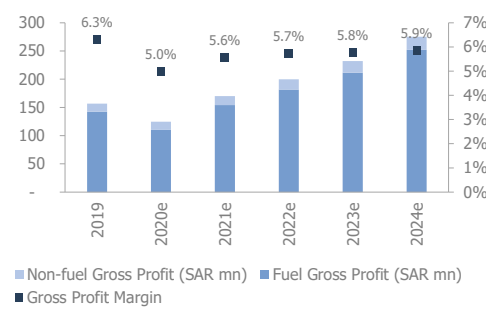


**Figure 5: Revenue expected to grow at a 2019–24 CAGR of c14%**



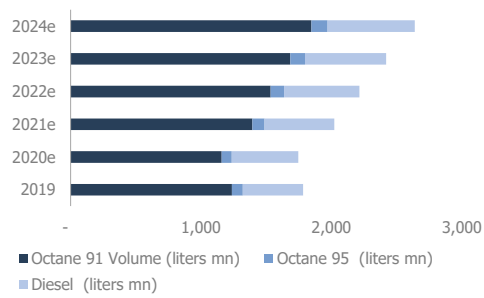
Source: Company disclosure, Beltone estimates

**Figure 6: Gross profit to grow at a 2019–24 CAGR of c12%**



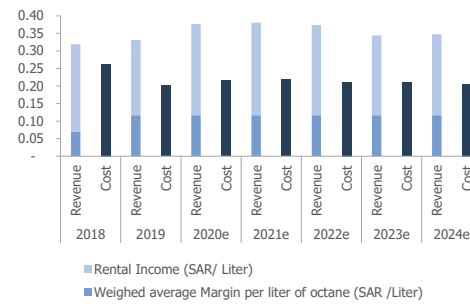
Source: Company disclosure, Beltone estimates

**Figure 7: Volumes breakdown**



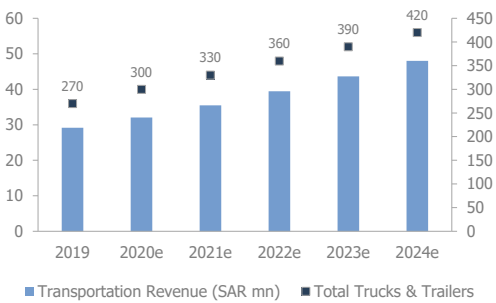
Source: Company disclosure, Beltone estimates

**Figure 8: Rental income to offset mounting cost/liter**



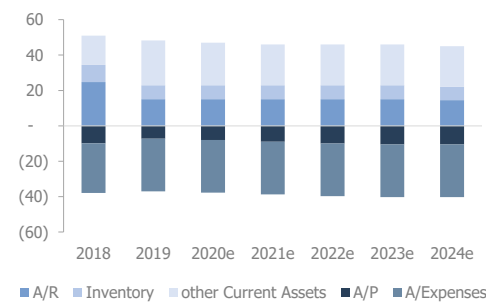
Source: Company disclosure, Beltone estimates

**Figure 9: Transportation revenue to grow in line with 30 annual vehicle additions**



Source: Company disclosure, Beltone estimates

**Figure 10: Stable working capital over our forecast horizon (days)**



Source: Company disclosure, Beltone estimates



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