Aldrees Petroleum

Oil and Gas – Industrial
ALDREES AB: Saudi Arabia
09 August 2021

الراجحي المالية
Al Rajhi Capital

US$1.318bn	100%	US$6.87mn
Market cap	Free float	Avg. daily volume

Target price	83.00	26% over current
Current price	66.00	as at 8/8/2021

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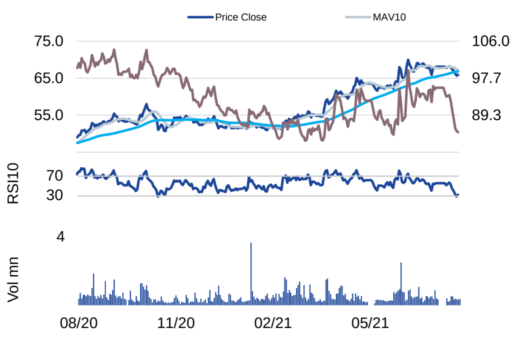
Existing rating

Underweight | Neutral | **Overweight**

Performance



Source: Bloomberg

Earnings

SARmn	2020	2021E	2022E
Revenue	4,974	8,195	9,594
Y-o-Y	-12%	65%	17%
Gross Profit	326	403	492
Gross Margin	7%	5%	5%
Operating Profit	188	255	340
Operating Margin	4%	3%	4%
Net Profit	121	140	224
Y-o-Y	-59%	15%	60%
Net Margin	2.4%	1.7%	2.3%
EPS (SAR)	1.62	1.86	2.98
P/E (Curr.)	32.1x	35.5x	22.2x
P/E (Target)	51.4x	44.6x	27.8x

Source: Company data, Al Rajhi Capital

Aldrees Petroleum

Remain bullish on expansion plans

Aldrees Q2 2021 top-line increased more than 3 times mainly due to higher fuel price (please note that since the gross margins are fixed higher fuel prices don't benefit the company). The gross profit increased 3% q-o-q but was below our expectations of SAR109mn; the operating income remained flat Q-O-Q. The overall net profit of SAR36mn came below our estimates of SAR43mn mainly due to lower gross margins compared to our forecasts. The company added net 16 stores during the quarter while the throughput per station increased 61% y-o-y to 2.6mn/station. The overall gross margins diluted 162bps y-o-y to 4.78% and 103 bps q-o-q due to increase in cost of goods sold (fuel and spare parts) by 27% q-o-q as against 24% rise in revenue q-o-q and increase in direct and indirect labour cost by 2.3% q-o-q. The company's market share stood at 5.68% in terms of number of stations with 87.57% market being dominated by unorganized players. Aldrees has aggressive expansion plans to increase the number of stations to 1000 by 2025e. We see the strong potential for market consolidation in this sector as the capex requirement for modernization of stations increases; this also creates barriers to entry for new players. This in turn should benefit market leaders such as Aldrees as it leads the consolidation in the industry.

Figure 1 Aldrees 2Q 2021 earnings summary

(SAR mn)	2Q 2021	2Q 2020	Y-o-Y	1Q 2021	Q-o-Q	ARC est	vs ARC
Revenue	2,173	719	202%	1,760	23%	1,900	14%
Gross profit	104	46	126%	101	3%	109	-5%
Gross margin	5%	6%		6%		6%	
Operating profit	63	7	755%	63	0%	65	-3%
Operating margin	3%	1%		4%		3%	
Net profit	36	14	150%	39	-9%	43	-16%
Net margin	2%	2%		2%		2%	

Source: Company data, Al Rajhi Capital

Petroleum segment: In petroleum segment, diesel volume grew 56% y-o-y to 561mn litres, petrol 95 volumes rose 185% y-o-y to 113mn litres and petrol 91 volumes grew 97% y-o-y to 876mn litres. Accordingly, total fuel volumes grew 84% y-o-y to 1.55bn litres in Q2 2021.

Transportation Segment: Net transportation segment revenue increased 8% y-o-y to SAR75mn. The gross margin for the segment increased ~700bps to 23% in Q2 2021, the operating income increased over 6x y-o-y to SAR5mn while net income also increased 6x y-o-y to SAR4.8mn in Q2 2021. Overall, in H1 2021 the fuel oil grew 44% y-o-y to SAR54mn while grains segment revenue almost doubled though on a low base to reach 15mn in H1 2021. On the flipside, the revenue from chemicals segment declined 28% y-o-y to SAR43mn in H1 2021.

Valuation and Outlook: We continue to remain bullish on Aldrees as the company has strong expansion plans, though in near term the margins are expected to remain volatile but will stabilize as the new stations progresses and automation of new stations ramps up. We value Aldrees using equal mix given to DCF, EV/EBITDA and PE based relative valuation. Our DCF based tp based on 2% terminal growth and 8.28% WACC is SAR96/sh while PE based tp based on 25x FY 2022e EPS is SAR75/Sh while EV/EBITDA based tp based on 13.3x FY 2022e EBITDA is SAR79/sh. thus equal weighted tp stands at SAR83/sh. We remain "overweight" on Aldrees.

Key Downside risks to our valuation:

1) Slower than expected ramp up of new stations will affect the overall revenue and profitability of the company, this will have a negative impact on our valuation.

2) The cost of operating stations will increase significantly with new station expansion; if the new stations do not mature within the normal time line then it will have a negative impact on margins and profitability. This in turn will have a negative impact on our valuation.

3) Any regulatory changes leading to rise in capex requirement might change the capital structure of the company with higher debt and higher interest expense. This in turn will have a downside risk to our valuations.

4) Increase in competition will have an adverse impact on company's top-line and our valuation.

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"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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