

## Fuel Retail

**STRONG SELL: 12M TP @ 128.09**

### Valuation Summary (TTM)

Price (SAR)	168.00
PER TTM (x)	44.9
P/Book (x)	10.2
P/Sales (x)	0.8
EV/Sales (x)	1.2
EV/EBITDA (x)	17
Dividend Yield (%)	0.6
Free Float (%)	93%
Shares O/S (mn)	75
YTD Return (%)	-5%
Beta	1.0

(mn)	SAR	USD	
Market Cap	12,600	3,360	
Total Assets	16,532	4,408	
Price performance (%)	1M	3M	12M
Aldrees Petroleum	-7%	42%	111%
Tadawul All Share	-1%	10%	14%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR)	80,883	54,769	41,086
Avg Daily Volume (,000)	473	355	285
52 week	High	Low	CTL*
Price (SAR)	193.00	78.20	114.8

\* CTL is % change in CMP to 52wk low

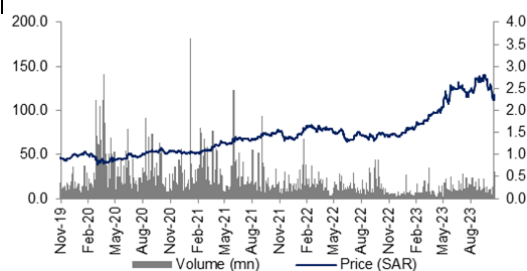
### Major shareholders

Al Drees Hamad Bin M	4%
Vanguard Group Inc/T	1.9%
BlackRock Inc	1.2%
Others	93.1%

### Other details

Exchange	Saudi Arabia
Sector	Oil&Gas
Index weight (%)	0.5%

Key ratios	2020	2021	2022
EPS (SAR)	1.62	2.36	3.22
BVPS (SAR)	11.90	13.27	14.79
DPS (SAR)	1.20	1.50	2.00
Payout ratio (%)	74%	64%	62%

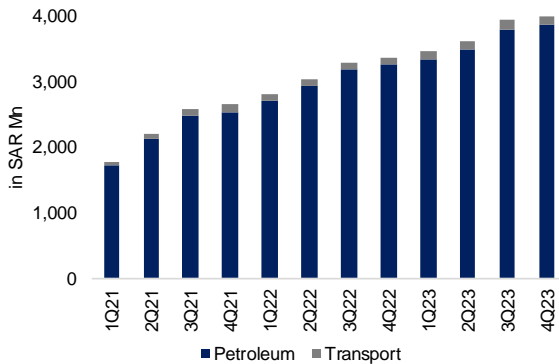


## Aldrees Petroleum – fully valued

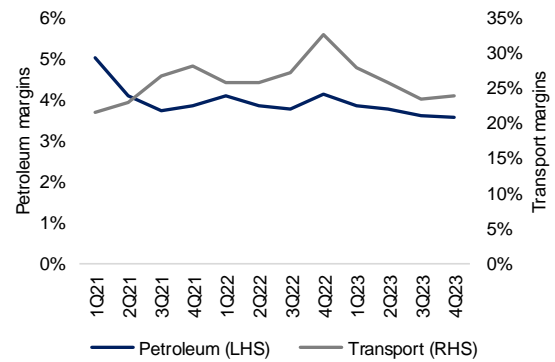
Aldrees reported 2023 consolidated revenue at SAR 14.8bn marginally below our expectations of SAR 14.9bn. Overall revenue grew by 20.1% YoY and for 4Q23 rose by 18.6% YoY. During the year revenue from petroleum services increased 19.9%, while transportation grew faster by 29.1% YoY. The contribution of petroleum continues to remain high at 97.6% in 2023 despite the faster growth from the transportation segment. The company added 110 fuel stations during the year taking the total tally to 850 and in line with its target of achieving 1,000 stations by 2025. We believe the target could be achieved much earlier considering the rapid rate at which the management has been moving. Majority of the stations are either under lease agreement or by way of a profit sharing mechanism with its owners hence the cash outflow is minimal. However, we expect the throughput of these new stations to be lower compared to existing ones and we have forecasted a slower increase in revenue over 2023-27e compared to the consensus. There has been significant impetus in the transportation business all through 2023, and the company has added another 220 vehicles to its fleet to service the additional demand. We expect the significant increase in industrial activity to continue especially from the food and chemical segments which will keep the transportation segment buoyant going forward as well. Rapid growth is however coming in at the cost of margins; the petroleum gross margins declined by 30bps YoY in 2023 to 3.7% while the transport margins declined by 290bps YoY to 25.1% for period. While operating expenses have remained flat, the finance cost has risen by 29.5% YoY on account of higher lease liabilities and an increase in the short term borrowings during the year. This has led to slightly lower net margins in 2023 at 1.9% (vs 20.0% in 2022)., The net income grew at 16.1% YoY to reach SAR 281mn in 2023, marginally below our estimate of SAR 278mn and much lower than the consensus. While we are positive on the company and the industry, we believe the stock price has moved beyond its intrinsic value and investors have been overly optimistic on the company. The high growth phase will taper down by 2024-25 and revenue growth will normalize at a higher level. It would be a challenge to maintain market share and operational profitability of over 1,000 outlets. Competition from players such as Adnoc Distribution are also increasing and the industry is gradually becoming organized unlike in the past. Based on the current results we have reduced our revenue growth projections to 9.8% CAGR (2023-27e) and expect net margins to hold at current levels, while net income is estimated to increase by 10.8% CAGR (2023-27e). We arrive at a target price of SAR 128.09/share which is 23.7% lower than the current price, hence revise our rating to **STRONG SELL**.

**Valuation:** Aldrees has been adding new sites on an aggressive scale since 2018, focused on capturing market share within KSA. The trucking business has also been on an upcycle post covid. The positive change has been reflected in the share price and it has moved higher by 6.7x since 2018 and doubled in a year. At current price the stock trades at 2024e PE of 40x, which is more than double that of industry mean. We believe the growth story of Aldrees has been fully discounted in the price and it is trading at significant premium to peers. We believe investors will move to other opportunities that available in the region which are valued much cheaper at the moment. We expect a re-rating on the stock downwards based on the plateauing revenue growth and decline in margins.

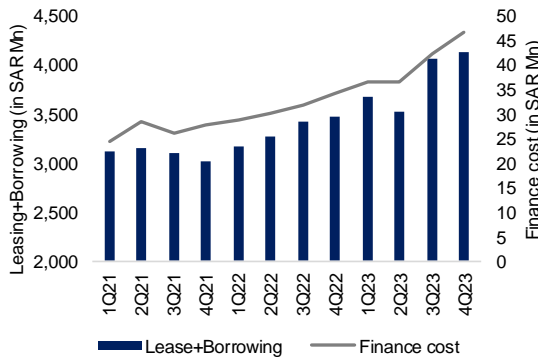
### Revenue growth at 20.1% YoY during 2023



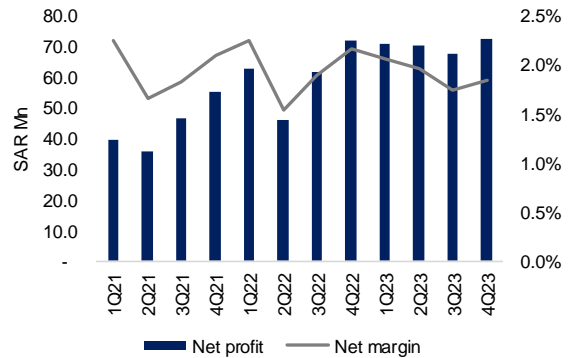
### Gross margins steady at current levels



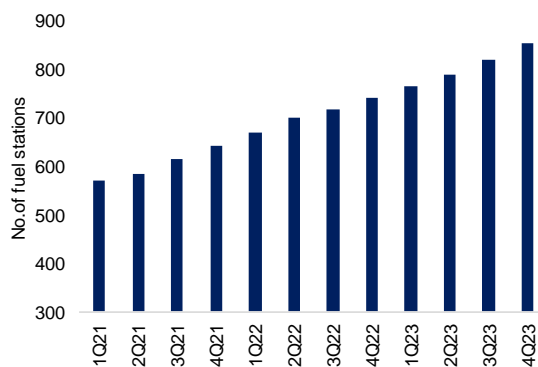
### Leverage largely related to leasing



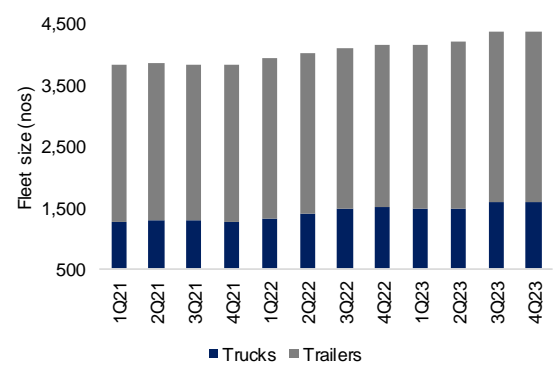
### Net profit rises above expectations



### 850 stations at the end of the year 2023



### Delivery of vehicles delays fleet growth



Income Statement (in SAR Mn)	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Revenue	4,974	9,110	12,356	14,834	17,700	19,482	20,491	21,553
Direct costs	-4,648	-8,658	-11,762	-14,153	-16,914	-18,615	-19,572	-20,579
<b>Gross profit</b>	<b>326</b>	<b>451</b>	<b>595</b>	<b>681</b>	<b>786</b>	<b>867</b>	<b>919</b>	<b>975</b>
Selling and marketing	-3	-5	-7	-5	-9	-10	-10	-11
General and Admin	-134	-163	-224	-255	-304	-335	-352	-370
Other income	19	1	8	7	13	13	13	13
<b>Operating profit</b>	<b>207</b>	<b>285</b>	<b>371</b>	<b>428</b>	<b>486</b>	<b>536</b>	<b>570</b>	<b>607</b>
<b>EBITDA</b>	<b>511</b>	<b>668</b>	<b>778</b>	<b>933</b>	<b>987</b>	<b>1,057</b>	<b>1,098</b>	<b>1,128</b>
Finance costs	-84	-106	-124	-161	-168	-176	-180	-184
Interest income from amortized cost	-1	-	2	9	5	5	5	5
Share of profit in JV	5	4	1	1	1	1	1	1
<b>Profit before tax</b>	<b>126</b>	<b>183</b>	<b>249</b>	<b>286</b>	<b>331</b>	<b>373</b>	<b>404</b>	<b>436</b>
Tax expense	-5	-6	-8	-5	-10	-11	-12	-13
<b>Net profit/(loss) for the period</b>	<b>121</b>	<b>177</b>	<b>242</b>	<b>281</b>	<b>321</b>	<b>362</b>	<b>392</b>	<b>423</b>

Balance Sheet (in SAR Mn)	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Property, plant and equipment	1,177	1,297	1,559	1,890	2,014	2,075	1,980	1,880
Right-of-use assets	2,541	3,027	3,422	3,854	4,026	4,094	4,111	4,140
Other non current assets	22	33	178	283	282	282	282	282
<b>Total non-current assets</b>	<b>3,740</b>	<b>4,357</b>	<b>5,159</b>	<b>6,026</b>	<b>6,322</b>	<b>6,451</b>	<b>6,373</b>	<b>6,302</b>
Inventory	68	112	144	195	220	242	254	268
Trade and other current receivables	375	334	410	512	531	584	615	647
Other assets	203	359	455	541	797	877	1,127	1,616
Cash and bank balances	77	274	148	232	348	498	679	632
<b>Total current assets</b>	<b>723</b>	<b>1,079</b>	<b>1,156</b>	<b>1,480</b>	<b>1,895</b>	<b>2,201</b>	<b>2,675</b>	<b>3,163</b>
<b>TOTAL ASSETS</b>	<b>4,463</b>	<b>5,435</b>	<b>6,316</b>	<b>7,506</b>	<b>8,217</b>	<b>8,652</b>	<b>9,048</b>	<b>9,465</b>
Share capital	600	750	750	750	750	750	750	750
Statutory reserve	78	95	120	148	148	148	148	148
Retained earnings	215	150	240	338	479	632	788	957
<b>Net equity</b>	<b>892</b>	<b>995</b>	<b>1,109</b>	<b>1,236</b>	<b>1,376</b>	<b>1,530</b>	<b>1,686</b>	<b>1,855</b>
Lease liabilities	2,171	2,598	2,906	3,464	3,864	4,064	4,164	4,264
Borrowings	76	49	10	75	10	10	10	10
Prov employees' end of service benefit	74	91	111	124	152	168	176	185
<b>Total non-current liabilities</b>	<b>2,322</b>	<b>2,738</b>	<b>3,028</b>	<b>3,663</b>	<b>4,026</b>	<b>4,242</b>	<b>4,350</b>	<b>4,459</b>
Provision for Zakat	8	10	12	9	15	17	18	20
Lease liabilities	281	332	313	229	232	244	250	256
Accrued expenses	321	409	435	569	677	745	783	823
Trade and other payables	507	918	1,177	1,404	1,691	1,675	1,761	1,852
Borrowings	131	33	241	360	200	200	200	200
<b>Total current liabilities</b>	<b>1,248</b>	<b>1,702</b>	<b>2,179</b>	<b>2,607</b>	<b>2,815</b>	<b>2,881</b>	<b>3,012</b>	<b>3,151</b>
<b>Total liabilities</b>	<b>3,570</b>	<b>4,440</b>	<b>5,206</b>	<b>6,270</b>	<b>6,841</b>	<b>7,122</b>	<b>7,363</b>	<b>7,610</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,463</b>	<b>5,435</b>	<b>6,316</b>	<b>7,506</b>	<b>8,217</b>	<b>8,652</b>	<b>9,048</b>	<b>9,465</b>

Cash Flow (in SAR Mn)	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Cash from operations	711	899	716	974	1,242	971	1,147	1,180
Investing cash flow	-192	-242	-518	-573	-300	-250	-100	-100
Financing cash flow	-540	-460	-325	-317	-808	-421	-341	-361
Change in cash	-21	197	-127	84	117	150	181	-47
Beginning cash	98	77	274	147	231	348	498	679
<b>Ending cash</b>	<b>77</b>	<b>274</b>	<b>147</b>	<b>231</b>	<b>348</b>	<b>498</b>	<b>679</b>	<b>632</b>

Ratio Analysis	2020	2021	2022	2023	2024E	2025E	2026E	2027E
<b>Per Share</b>								
EPS (SAR)	2.02	2.36	3.22	3.71	4.28	4.83	5.22	5.64
BVPS (SAR)	14.87	13.27	14.79	16.48	18.35	20.40	22.48	24.73
DPS (SAR)	1.00	1.50	2.00	2.41	2.79	3.14	3.39	3.67
FCF per share (SAR)	8.65	8.76	5.31	5.34	12.56	9.62	13.96	14.40
<b>Valuation</b>								
Market Cap (SAR Mn)	3,114	5,010	5,580	13,305	12,555	12,555	12,555	12,555
EV (SAR Mn)	5,696	7,748	8,902	17,202	16,513	16,575	16,500	16,653
EBITDA (SAR Mn)	511	668	778	941	987	1,057	1,098	1,128
P/E (x)	25.7	28.3	23.1	47.8	39.1	34.7	32.1	29.7
EV/EBITDA (x)	11.2	11.6	11.4	18.3	16.7	15.7	15.0	14.8
Price/Book (x)	3.5	5.0	5.0	10.8	9.1	8.2	7.4	6.8
Dividend Yield (%)	1.9%	2.2%	2.7%	1.4%	1.7%	1.9%	2.0%	2.2%
Price to sales (x)	0.6	0.5	0.5	0.9	0.7	0.6	0.6	0.6
EV to sales (x)	1.1	0.9	0.7	1.1	0.9	0.9	0.8	0.8
<b>Liquidity</b>								
Cash Ratio (x)	0.06	0.16	0.07	0.09	0.12	0.17	0.23	0.20
Current Ratio (x)	0.58	0.63	0.53	0.57	0.67	0.76	0.89	1.00
Quick Ratio (x)	0.52	0.57	0.46	0.49	0.60	0.68	0.80	0.92
<b>Returns Ratio</b>								
ROA (%)	2.7%	3.3%	3.8%	3.7%	3.9%	4.2%	4.3%	4.5%
ROE (%)	13.6%	17.8%	21.8%	22.5%	23.3%	23.7%	23.2%	22.8%
ROCE (%)	3.8%	4.7%	5.8%	5.7%	5.9%	6.3%	6.5%	6.7%
<b>Cash Cycle</b>								
Receivables turnover (x)	13.2	27.1	30.0	28.9	33.3	33.3	33.3	33.3
Inventory turnover (x)	68.6	77.0	81.9	73.4	76.9	76.9	76.9	76.9
Accounts Payable turnover (x)	9.2	9.4	10.0	10.2	10.0	11.1	11.1	11.1
Receivables days	28	13	12	13	11	11	11	11
Inventory days	5	5	4	5	5	5	5	5
Payable Days	40	39	37	36	37	33	33	33
Cash Cycle	-7	-21	-20	-18	-21	-17	-17	-17
<b>Profitability Ratio</b>								
Net Margins (%)	2.4%	1.9%	2.0%	1.9%	1.8%	1.9%	1.9%	2.0%
EBITDA Margins (%)	10.3%	7.3%	6.3%	6.3%	5.6%	5.4%	5.4%	5.2%
PBT Margins (%)	2.5%	2.0%	2.0%	1.9%	1.9%	1.9%	2.0%	2.0%
EBIT Margins (%)	4.2%	3.1%	3.0%	2.9%	2.7%	2.7%	2.8%	2.8%
<b>Leverage</b>								
Total Debt (SAR Mn)	2,659	3,012	3,470	4,128	4,306	4,518	4,624	4,730
Net Debt (SAR Mn)	2,582	2,738	3,322	3,897	3,958	4,020	3,945	4,098
Debt/Total Assets (x)	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.5
Debt/Equity (x)	3.0	3.0	3.1	3.3	3.1	3.0	2.7	2.6

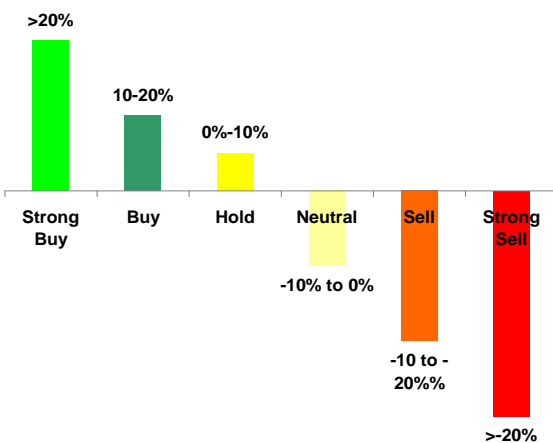
## Key contacts

### Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>Buy</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>Hold</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>Neutral</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
<b>Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
<b>Strong Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

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